Italian inflation continued to decelerate in September, if at a slower pace

The decelerating trend in inflation was still in place in September, but energy price tensions are slowing the pace of decline. October will show that there is still much noise in the numbers due to base effects. We confirm our 6.4% base case for 2023 HICP inflation

Energy not at the heart of the decline, at least for this month

The declining path of Italian inflation was confirmed in September but at a decelerating pace. According to the preliminary estimate released by Istat, the national statistical office, headline inflation declined to 5.3% (from 5.4% in August), in line with our forecasts. The core measure, which strips out energy and fresh food, fell to 4.6% (from 4.8% in August). The harmonised measure is up to 5.7% (from 5.5% in August). At the heart of the small CPI inflation decline was mainly a deceleration in the food and durable goods components, which compensated for the increase in non-regulated energy goods and transport services and the softening decline in regulated energy goods. The statistical carryover for 2023 headline inflation now stands at 5.7%.

Interestingly, while goods inflation decelerated further to 6% (from 6.3% in August), services inflation increased to 4.1% (from 3.6%), possibly suggesting that increasing wage pressures (at a non-accelerating 3% year-on-year in July) are somewhat filtering through. If confirmed , this could mark a decoupling between headline and core measures, the latter possibly proving stickier down the line.

Substantial base effects to play out in October

If in September the energy component was less of a driver, this should not be the case in October, when substantial energy-related base effects will kick in, notwithstanding ongoing pressure on refined energy products and gas prices. Arera, the national regulatory energy agency, announced yesterday that over the fourth quarter of 2023, regulated electricity prices will increase by 18.6% with respect to the previous quarter. Notwithstanding this, due to a favourable base effect, the price of regulated electricity will be down in the quarter by 57% from the same period of 2022. Administrative noise in energy price dynamics is not limited to electricity but extends to gas, where the Italian government has already refinanced the temporary cancellation of some structural costs and the reduction of VAT to 5% until the end of 2023. The energy base effect, by itself, might trim some two percentage points from October headline CPI inflation.

Inflation pipeline still conducive to further declines but at a softer pace after October

Looking at goods, the price pipeline continues to send comforting signals. Notwithstanding the energy hiccup, in August, PPI inflation was down to -12.2% on the year (from -10.2% in July). PPI inflation net of energy decelerated further to 0.6% (from 1.3% in July), preannouncing lower readings down the line in the goods sub-component of the CPI.

Encouraging signals coming from the PPI front are only partially reflected in stabilising pricing intentions as reported in September business confidence data. More encouragingly, the services part of the survey signals a resumption of the declining trend in pricing intentions after two consecutive increases. The sub-index fell again in September, hitting 3.6, the lowest level since October 2021. The deterioration in the economic environment is increasingly affecting the service sector, limiting businesses' pricing power. Whether this is sustainable will also depend on wage-cost developments. Here, indications are mixed. If some more wage concessions look likely in principle over the next few months, the first signals of less tight conditions in the labour market might help to limit the scope for further substantial acceleration.

All in all, we expect that after a big fall in October, due to a strong energy-related base effect, the inflation profile might flatten out for some months over the winter season. For the time being, we are happy to confirm our forecast for average CP inflation for 2023 at 6.4% YoY.

Author

Paolo Pizzoli
Senior Economist, Italy, Greece
paolo.pizzoli@ing.com