

## Italian inflation up marginally in October

Only a small uptick for inflation in October, against a backdrop of uncertain demand conditions. The gradual phasing out of energy base effects looks set to push headline inflation to the 1.5% area by year-end



### Food and regulated energy goods behind the small increase in inflation

The preliminary estimate by Istat shows that headline inflation increased marginally in October, reaching 0.9% (from 0.7% in September), in line with our forecasts. At the heart of the increase was higher food inflation and, to a lesser extent, the smaller disinflation in regulated energy goods, which outweighed the disinflationary push coming from non-regulated energy goods and recreational services. Core inflation stabilised at 1.8% on the year.

The services-versus-goods angle shows a deceleration in services inflation and an increase in goods inflation, with the spread between the two declining to 3.1% (from 3.7% in September).

## Phasing out of energy base effects should help push inflation to the 1.5% area by year-end

Italian inflation should have now passed the trough. The deflationary base effect on energy goods is expected to phase out over the coming months, but at a gradual pace. This will very much depend on developments in oil prices. If tail risks on the geopolitical front can be avoided, we might be in for a gradual increase of the energy component, which could help push headline inflation to the 1.5% area by year end.

The surprisingly soft GDP data in the third quarter, while difficult to interpret, signals nonetheless a lack of strength in domestic demand. Labour market data for September, also released earlier today by Istat, shows the first contraction of employment in four months, the first bit of evidence that labour market resilience cannot disconnect from economic activity. Should this continue over the next few months, pressure on wages, which expanded at a decent 3.7% yearly pace in September, looks set to ease, as the priority might shift from recovering purchasing power to preserving job security. This should also help contain the risk of a sharp acceleration in inflation over the next few months. A quick look at what business surveys are currently telling us about pricing developments shows a gradual decline in pricing intentions in services and a gradual increase in manufacturing, so no clear-cut common direction there.

## We confirm our forecast for average 2024 Italian inflation at 1%

All in all, October inflation data suggests that the inflation trough is behind us, yet the reflation phase looks set to be gradual, given an uncertain demand backdrop. We confirm our forecast for average 2024 Italian inflation at 1% and anticipate it to increase to 1.6% in 2025.

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