

Snap | 28 June 2023

ITALY

## Italian inflation plunges in June

The energy component remains the key driver in the slowing pace of Italian inflation. The drop in the core measure is also good news, with conditions emerging for a further decline over the summer months – although potential for renewed stickiness later down the line can't be ruled out just yet



### Energy still driving inflation down

Preliminary data for June confirms that Italian inflation is on a decelerating path. Headline inflation came in at 6.4% year-on-year (from 7.6% in May), dropping slightly more than expected. The decline was mainly driven by favourable base effects for energy goods (particularly the non-regulated component) and – to a smaller extent – by non-fresh food, transport services and recreational and cultural services. Goods inflation is decelerating quicker than services inflation.

Crucially, core inflation was also down to 5.6% (from 6% in May), the biggest monthly decline since February's peak. This possibly reflects contained wage dynamics over the first months of the year.

### **PPI declines and softening price increase intentions signal a further drop ahead**

Looking forward, declining pressures in the pipeline suggest that the deceleration in headline inflation will continue over the next few quarters. Thanks to the energy component, May's producer price inflation – a reliable leading indicator for consumer inflation – came in in negative territory for industry (-4.3% YoY), turned flat (+0.3% YoY) in construction, and also decelerated in services (+3.6% YoY). This pattern was confirmed by pricing intentions as reported in business surveys. We've seen a decelerating pattern in manufacturing since November 2022; the deceleration in services started in February this year and it's happening at a much faster pace.

### **Renewed stickiness could re-emerge**

Yesterday, the Italian government prolonged a package of support measures introduced to help households weather the energy shock until the end of September. These measures will partially affect prices through reduced VAT rates, and headline inflation should continue benefiting from favourable conditions over the summer months. This should also apply to core inflation. From October onwards, however, the possible elimination of temporary energy measures and more wage concessions could bring about some renewed stickiness in both headline and core inflation.

All in all, today's preliminary inflation release aligns with our projections and we're therefore sticking with our forecast of average headline inflation in the 6.5% area for 2023.

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