

## Italian inflation resumes its declining path in May

The headline measure is still being driven by prices of energy-related goods. Interestingly, core inflation posted the second consecutive minor decline, but we don't expect it to accelerate in the short run



A market in Rome

### Energy still in the driving seat

The preliminary estimate of May's Italian inflation shows a resumption of the decline in the headline measure after April's rebound. Headline inflation was down to 7.6% in May (from 8.2% in April), driven mainly by a decline in the non-regulated energy component and, to a lower extent, by inflation declines in "other goods", transport services and non-fresh food, which more than compensated increases in fresh food (very likely weather related) and housing services.

### Expect a faster decline in goods inflation than in services

The decline in headline inflation, broadly in line with our expectations, confirms that the normalisation of the inflation path is a gradual one, notwithstanding recent sharp falls in the energy component driven by lower gas prices. The sharp decline in producer price inflation in April (down to -1.5YoY from +3.7% in March) suggests that a more marked decline in the goods price inflation is building in the pipeline, which might show up in the CPI components already in the third quarter. The deceleration in the services component looks set to be slower, also courtesy of a

prolonged re-opening effect which could intensify as we enter the hot tourism summer season.

The pricing intention components of business surveys seem to confirm such a pattern, with softening price increase intentions already in place for some months among manufacturers and only a tentative hint in of a decline among service providers in May.

## Tentative hints of a declining trend in the core measure

Interestingly, the core measure, which excludes energy and fresh food, was marginally down to 6.1% YoY in May (from 6.2% YoY in April), the second decline in a row. A tentative hint to a new trend, likely favoured by slowly adjusting wage dynamics.

## Consumption developments will affect the speed of the inflation decline

All in all, today's inflation release comforts our view that the declining path for inflation is set, but that will be a gradual one. As we have seen earlier today in the GDP release, Italian households have been reluctant to adjust down their consumption levels to unfavourable developments in disposable income. To be sure, resilient employment has helped weather the shock, but we suspect that the saving ratio has reached too low a level (around 5%) for Italian historical standards, which could prove hard to sustain. A marked deceleration in consumption might eventually kick start a more marked deceleration in the core component.

We are currently forecasting average Italian inflation at 6.3% in 2023 and 2.4% in 2024.

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