

ECONOMIC PULSE

ITALY: INFLATION ACCELERATES FURTHER

Italy is facing an unprecedented and widespread surge in inflation and is unlikely to escape falling into recession this winter. Even though real GDP surprised on the upside in Q3 (+0.5% q/q according to initial estimates by the Italian National Institute of Statistics (Istat)), the barometer clearly indicates that the economic outlook is getting gloomier. Consumer confidence indices are leaving no doubts about the current direction of travel: the financial situation index (next 12 months) plunged to record lows in October, falling below the previous record set in June 2012, during the sovereign debt crisis in Europe. Turning to the business sector, industrial production is plateauing due to the energy crisis and the ongoing supply shortages in many sectors. The PMI for new manufacturing orders also fell to its lowest point since April 2009, if we exclude the trough recorded during the first lockdown.

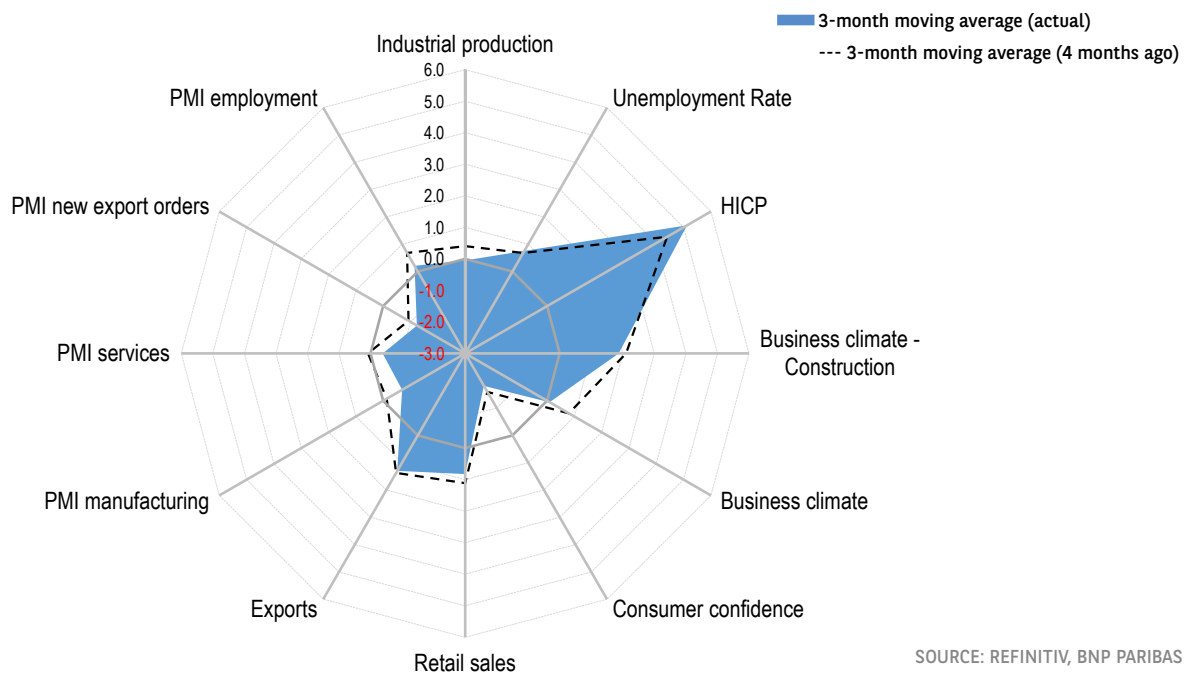
Harmonised inflation (HICP) jumped from 9.4% in September to 12.6% in October, which was 2 percentage points above the eurozone average. Energy prices mainly contributed to the rise in inflation in October, having soared 72.4% versus 41.2% in September. However, if the energy component of HICP is excluded, Italy's consumer prices grew at a slower rate than the eurozone, at 6.4% y/y compared to 6.9% y/y.

In response to the energy crisis, the new administration led by Giorgia Meloni is set to unveil the budget for 2023, which is expected to include over EUR 30 billion in additional public spending in order to fund support for households and businesses. Italian Finance Minister Giancarlo Giorgetti has already announced a major 7.3% pensions increase in 2023.

However, the government is walking a tightrope. It must strike a balance between strengthened measures to support the economy (which are needed and were promised during the election campaign) and market risks resulting from public finances deteriorating excessively. Sovereign interest rates on long-term Italian bonds, as well as yield spreads with the German Bund, have fallen since the end of October, but Italian government debt issuance will once again be high in 2023. The weight of debt servicing should therefore rise over the next year.

Guillaume Derrien

ITALY: QUARTERLY CHANGES



SOURCE: REFINITIV, BNP PARIBAS

The indicators in the radar are all transformed into 'z-scores' (deviations from the long-term average, as standard deviations). These z-scores have mean zero and their values are between -3 and +6. In the radar chart, the blue area shows the actual conditions of economic activity. It is compared with the situation four months earlier (dotted-line). An expansion of the blue area compared to the dotted area signals an increase in the variable.

