

ECONOMIC PULSE

ITALY: THE SURGE IN INFLATION WILL CONTINUE

Inflation in Italy reached 6.7% y/y in March, the highest level since July 1991. In addition to the spectacular rise in energy prices (electricity, gas & fuel) – up 50.9% y/y – there are now significant increases in prices for food products (+5.8% y/y), furniture (+8% y/y), as well as for the hotels & restaurants sector (+4.6 % y/y). That said, two consumption items are still in deflationary territory: education (-0.5% y/y) and communication services (-2.9% y/y). Nonetheless, the hardest part has yet to come: the latest PMI survey for March showed once again a significant increase in input prices, which was the strongest on record (+6.7 points to 81.5). This will feed through to higher consumer prices: this PMI index is indeed very well correlated with the CPI.

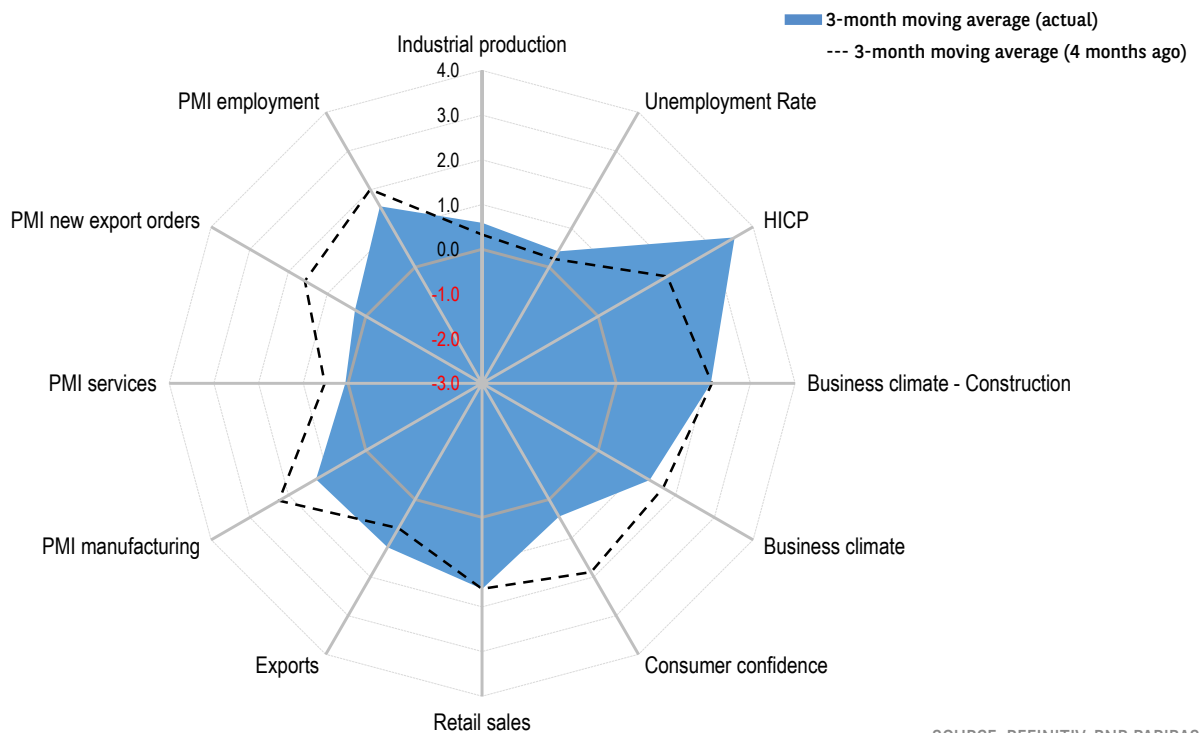
The sharp fall in household confidence in March perfectly illustrates the worries about the loss in purchasing power due to soaring inflation: in particular, the balance of opinion on the future financial situation plunged by 27.5 points in one month, a drop twice as marked as the previous record of April 2012 (-12.9 points). Despite this, household confidence remained slightly higher than in the spring of 2012, a period of recession corresponding to the sovereign debt crisis in the euro zone.

Given its dependence on Russian gas, Italy is very exposed to further retaliatory measures that Moscow may decide to impose on its gas deliveries to Europe. Prime Minister Mario Draghi is pushing to secure new sources of supply, notably from African countries. However, the benefit of this diversification will materialise only in the medium to long term.

That said, some parts of the transalpine economy are holding up well. Activity in the construction sector, which accounts for 5% of total value added, remains strong, although there are signs that it is starting to weaken. The business climate index for the sector fell sharply in March (-5.4 points, to 62.9) but February was a record. These rather encouraging figures follow a solid year in 2021: a 26% increase in residential investment was recorded in the country, which largely offset the contraction of 2020 (-7.7%).

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 +4. 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.

