Italian inflation accelerates again in June

The streak of upward inflation surprises continued in June, fuelled again by energy, in conjunction with other reopening-related factors. We expect the peak could be possibly reached over 3Q22, but risks lie to the upside

Inflation hits highest level since January 1986

In its preliminary estimate for June, Istat reported headline CPI inflation at 8% year-on-year (from 6.8% in May), the highest level since January 1986. Core inflation, which excludes energy and fresh food, also accelerated to 3.8% YoY (from 3.2% in May), confirming the ongoing pass-through of cost pressures in the pipeline.

Not just energy in the driving seat

To be sure, the main driver of the inflation rally remains the energy component, now driven by non-regulated energy goods (+39.9% YoY from 32.9% in May), as the regulated goods part stabilised at high levels (+64% YoY) thanks to past interventions by the government on fuel taxes and part of the fixed cost structure. As already seen over the past few months, energy cost pressures are feeding into other items in the consumption basket. Food prices continued accelerating (now at 9.1% from 7.4% in May), as did recreational services (at 5% from 4.4% in May) and transport services (at 7.2% from 6% in May).

More government action likely to cool down the energy push

Persistent tensions in the energy market remain a cause of concern. As past government administrative intervention has only served to slow down price growth, pressure to do more will likely mount. The government just approved the extension of energy tax and fixed cost cuts until the end of 3Q22, but this will likely be insufficient to prevent recent spikes in gas prices from hitting households and businesses. We expect this to put extra pressure on the European energy price cap debate.

Reopening effect now in full swing, possibly fuelled by tourism

Another takeaway from today's release is that the "reopening effect" seems to be running at full steam, possibly fuelled by the first full-scale tourism season in three years. Pressured by higher input costs, hotels and restaurants are revising up their price lists, possibly betting on an ongoing re-composition in consumption. We have some sympathy with this idea, which seems supported by details from the last consumer survey. No doubt households' real disposable income is under increasing pressure, and in uncertain times we don't believe they will rush to exhaust the residual pool of extra savings accrued during the pandemic years. However, acting under a constraint, they might modify their consumption patterns, temporarily switching out of durables into non-durables and services over the summer months.

Average 2022 headline inflation at 7% now likely, with upside risks

After June's release, the statistical carryover for 2022 headline inflation is now at 6.4% and for core inflation, 2.9%. After June's surprisingly strong data, we will inevitably revise upwards our inflation forecast for 2022. We tentatively assume that headline inflation will peak over the summer months and will decline only gradually starting in 4Q22, with an average inflation reading of around 7% in 2022. Needless to say, additional pressures on the energy front when the cold season arrives would add extra upside risks to this tentative profile.

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