Italian inflation was stable in December

The December inflation report confirms that energy price base effects are still influencing headline inflation. With inflation in non-energy goods expected to be restrained by relatively weak demand, we anticipate a gradual rise in inflation towards the 2% mark throughout 2025

Favourable base effects on energy goods continue to fade

The preliminary estimate by Istat shows that Italian headline inflation was stable at 1.3% in December, only marginally softer than expected. This stability was due to slowing inflation in fresh food, durable goods, and recreational services, alongside rising inflation for regulated energy goods and a slower rate of disinflation for non-regulated energy goods. Core inflation edged down to 1.8% (from 1.9% in November).

The services-versus-goods angle shows a deceleration in services inflation and stability in goods inflation, with the spread between the two declining further to 2.4% (from 2.6% in November).

More should come as a consequence of recent gas price increases...

We see the December inflation stabilisation as a temporary stop along a very gradual upward path throughout 2025. The favourable base effect on energy goods is phasing out, and the recent acceleration in gas prices points to a continuation of this trend over the first quarter of the year as price pressures feed through to heating and electricity bills.

...but soft-ish demand conditions should contain the risk of widespread accelerations

However, given soft demand conditions in the economy, we do not believe that other goods and services will add to the inflation push for the time being. In particular, the ongoing deceleration in services inflation (at 2.6% in December) suggests that demand in the sector remains unspectacular and that firms are not yet daring to pass through rising wage costs (wage growth was 3.8% YoY in November).

Labour market data for November, also released earlier today by Istat, shows a small contraction in employment, providing fresh evidence that labour market resilience cannot ultimately disconnect from economic activity. Should this continue over the next few months, pressure on wages looks set to gradually ease over the second half of 2025.

We foresee a gradual increase in headline inflation

Whether businesses continue to refrain from passing through price pressures is uncertain; in December, business surveys signalled a small increase in future pricing intentions in both services and manufacturing.

For the time being, we still believe that the soft demand conditions will help contain price pressures. We are currently projecting a gradual increase in Italian headline inflation towards the 2% area by the end of the year, with average inflation over 2025 at 1.7%.

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