

# Italian headline inflation continues to slow

Headline inflation in Italy fell in February, but core inflation continues to accelerate



## Headline inflation decelerates to 9.3%, driven by energy

According to preliminary data from the Italian National Institute of Statistics, headline inflation for February came in at 9.3% (from 10% in January) and the harmonised measure at 9.9% (from 10.7% in January), in line with our forecasts, confirming that the disinflationary process is still in place. At the heart of the deceleration in the headline measure was, as in January, the energy component (both regulated and non-regulated), which more than compensated for increasing price pressures in food, tobacco and recreation and transport services.

The decision to update retail gas price bills on a monthly basis (previously it was done on a quarterly basis) has made the transmission of wholesale market developments faster than in the past. February data reflected the decline in wholesale gas prices, the key parameter for determining monthly gas price dynamics.

## Core inflation accelerates, showing that pass-through is still in place

Crucially, core inflation, which excludes energy and fresh food, inched up at an accelerating pace, reaching 6.4% (from 6% in January). Clearly, the pass-through of past energy price pressures has not finished, and some core inflation stickiness seems highly likely. The acceleration in services inflation suggests that transmission has still some way to go. With wage inflation also still very low – in the 1.5% area – and a relatively tight labour market in January, it seems reasonable to expect that upward adjustments over the next few months will also put upward pressures on costs.

## An inflation shift from goods to services

Looking ahead, we believe that the divergence between decelerating headline inflation and stickiness in core inflation will persist over the first half of the year. The energy disinflation looks set to continue in March, when the last leg of the decline in gas prices will show up in monthly bills, and in April when the quarterly adjustment of electricity prices will also incorporate lower generation costs. At the same time, the pass-through will likely continue, particularly in the service sectors. February business surveys showed a deceleration in surcharges on output prices in the industrial domain, but there have been no signals as of yet of a deceleration in services. The shift in the consumption pattern towards services is also possibly supporting such a pricing pattern.

All in all, today's release holds few surprises. The disinflationary process continues, but the peak in core reflation is not yet in sight. Italian inflation does not offer the European Central Bank any reason to change its monetary tightening plans.

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