A modest increase in Italian inflation but substantial risks remain

The March 1.7% number is very much an energy and food story, partly compensated by a deceleration in tourism and leisure services. The pass-through of energy price pressure looks set to continue, pushing headline inflation above 2% in April

Shoppers in Milan

Inflation accelerates as energy push outweighs leisure and tourism drag

Italian inflation accelerated in March to 1.7% (from 1.5% in February), according to Istat preliminary data, slightly below expectations. Unsurprisingly, at the heart of the acceleration were regulated and non-regulated energy prices together with fresh food, which outweighed the deceleration in leisure, restaurants and accommodation services.

If the energy push is the inevitable consequence of the war in the Middle East on energy and fuel prices, the slowdown in the leisure and accommodation components likely reflects a normalisation of prices after the boost seen in February with the Milano-Cortina Winter Olympics. The latter disinflationary boost, which helped push core inflation back to 1.9% (from 2.4% in February), looks set to disappear in April.

Fuel push already there, electricity will accelerate soon

With the impact of the Middle East war hitting first international oil and gas prices, the shock has been apparent in the transportation component, where petrol and diesel fuel prices are nested, with a combined weight of more than 4% in the total inflation basket. Gas prices edged up 5.9% on the month, and electricity prices gained a meagre 0.5% on the month, a normal delay due to the price formation mechanism, but that will soon accelerate. Arera, the national energy and grid authority, pre-announced yesterday that energy bills for disadvantaged households will increase by 8% starting from the second quarter.

Pass-through unfolding for manufacturers, but little evidence of wage-price spiral

Looking ahead, it seems inevitable that pass-through will continue, particularly in sectors feeling the impact of the war on energy costs and supply chains. In the March manufacturing business survey, the pricing intention component accelerated markedly, reaching the highest level since March 2023. Pricing intentions in construction remained stable, but much of the acceleration had already occurred in the first two months of 2026, as costs had risen earlier.

For now, the good news comes from the service sector, where pricing intentions have remained stable, suggesting that, for the time being, the risk of a wage-price spiral remains low.

Headline inflation set to break above 2% in April

The acceleration in March inflation data is not surprising, given the ongoing war's impact on fuel and gas prices. It will filter through to energy bills soon, likely pushing headline inflation well above the 2% bar already in April. In non-extreme scenarios, inflation could hover in the 2%-3% band throughout the rest of the year, but the risk of it exceeding 3% is substantial.

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