

## Italian inflation edged up in January

Energy remains the key story, while inflation for non-energy goods and services remains stable. Weak demand and a cooling labour market are likely limiting price increases, which should help keep inflation pressures in check throughout the year



According to preliminary estimates by Istat, Italian inflation accelerated to 1.5% on the year (from 1.3% in December), slightly more than expected. At the heart of the acceleration were mostly regulated energy goods (at +27.8% from +12.7% YoY) and non-regulated energy goods (at -3% from -4.2% YoY) and, to a lesser extent, non-fresh food, which were only partly compensated by the deceleration in transport and communication services.

Core inflation was stable at 1.8% and the harmonised measure accelerated to 1.7% (from 1.4% in December)

As we have seen, the volatile energy components drive price dynamics. As expected, January data very likely picked up the impact of gas price tensions recorded over the last bout of 2024 on energy bills. Non-energy industrial goods were almost flat at -0.1% YoY as in December. Services inflation was also stable at 2.6%, possibly suggesting that underlying wage pressures are not accelerating.

Looking ahead, we believe the risks of a substantial upward inflation surprise for 2025 remain

limited, barring a continued acceleration in energy prices. The main components of PPI inflation continue pointing to non-energy goods price stabilisation rather than an acceleration. Poor demand conditions are likely inducing businesses to not pass through to consumers higher energy costs, for the time being. Developments in services, typically more labour-intensive, should more closely reflect wage developments, in turn tied to labour market developments. After two flat growth quarters, the labour market is starting to respond: no apparent job shedding, for the time being, but an increase in unemployment as more inactive people start looking for a job. A cooling labour market looks set to temper wage dynamics over time. Business surveys are showing that pricing intentions are zig-zagging horizontally both in manufacturing and services, with no evidence of an upward trend in the making.

All in all, notwithstanding today's slight upward surprise, we continue to believe that inflation is set to remain under control in Italy, and to trend towards the 2% area throughout the year. That being said, the external backdrop and the threat of tariffs from the US and possible retaliations, add uncertainty to our view, with upside risks.

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