

Italian inflation edges up marginally in February

Volatile components such as energy and fresh food remain the key drivers, but stable core inflation suggests that the risks of a sharp acceleration in Italian inflation in a low growth environment remain low



Energy still in the driving seat and core inflation confirmed as stable

The preliminary release of Italian inflation in February shows a slight increase in the headline measure to 1.7% on the year (from 1.5% in January), in line with expectations.

According to Istat, the move was driven by an acceleration in regulated energy prices and fresh food, and a reduced deceleration in non-regulated energy prices which more than compensated for the deceleration in transport services, communication services and recreational services.

The core measure was stable at 1.8%, a level it has been hovering around since June 2024. Interestingly, the gap between services inflation (now at 2.4%) and goods inflation (at 1.2%) narrowed to 1.2% (from 1.9% in January).

Gas prices will remain relevant, but government steps might help to limit upside pressures

Looking ahead, over the rest of 2025 headline inflation remains exposed to multiple factors. Energy prices will be a key one. Given the direct link between gas prices and electricity bills, developments in TTF gas prices will play a relevant role. Should EU gas storage depletion concerns and some optimism about a possible end to the war in Ukraine balance out, the energy impact on inflation could remain limited to the next few months. The Italian government is about to approve a decree intended to soften the blow of energy prices on households and businesses. Should this include a temporary downward revision of VAT on electricity bills, it would further limit the scope for upward inflation pressure stemming from energy.

Too much uncertainty to pencil in a potential trade war impact

Another obvious source of uncertainty affecting the inflation profile relates to developments on the potential US-EU trade war front. Should President Trump decide to raise new tariffs on EU goods and the EU retaliate with similar measures, some upward pressure on Italian domestic prices could eventually emerge, more likely over the second half of the year. This is a factor that is not explicitly reflected in our current forecasts.

Businesses sending mixed signals about pricing intentions

Recent business surveys from the EU Commission signal mixed pricing intentions, with a slight acceleration in manufacturing and a slight deceleration in services in February. Businesses have been squeezing margins throughout 2024. It remains to be seen whether they will be able to afford more margin compression down the road, especially if the economy stagnates.

All in all, we continue to believe that Italian headline inflation will very gradually edge up throughout the year, possibly breaking above 2% over the last quarter of 2025. We confirm our current base case of average 2025 headline inflation at 1.8%.

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