

Italian inflation ticks up in July on the back of energy base effects

This month's uptick in inflation is not surprising given lingering base effects in Italy. This will likely continue over the next few months, pushing headline inflation to the 2% area by the end of the year



Energy goods base effects still determining the profile for headline inflation

Headline inflation increased slightly more than expected to 1.3% in July (from 0.8% in June), according to the Italian Statistical Office's preliminary estimate. The increase was mainly due to the acceleration in prices of regulated energy goods and in a reduced yearly decline for non-regulated energy goods. Tobacco and recreational services also played a part in pushing up inflation. All of these factors outweighed the disinflationary drag coming from food and durable goods.

Core inflation, which strips out energy and fresh food, was stable at 1.9% on the year and its statistical carryover for 2024 now sits at 2%, right in line with the European Central Bank's inflation target.

Inflation still decelerating for most goods, and selectively up in services

A quick look at inflation by product type shows that the inflationary push in goods (-0.1% from -0.7% in June) was fully determined by the energy component; for durables, semi-durables and non-durables, yearly inflation decelerated. For services, the slight uptick in inflation (to 3% from 2.8% in June) was mostly due to the recreational component, possibly linked to the summer season. This suggests that there was no broad-based push originating from wage dynamics as of yet.

Headline inflation looks set to reach the 2% are by the end of the year

Today's release confirms that base effects mainly related to energy goods are still proving the main driver of headline Italian inflation dynamics. As these play out over the next few months, the temporary undershooting of Italian inflation with respect to the wider euro area peers looks set to fade.

We expect headline inflation to reach back to the 2% area over the fourth quarter of 2024. For the time being, we're sticking to our forecast of average headline inflation at 1.2% in 2024, with slight upside risks should wage pressures prove stickier than expected over the next few months.

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