

## Italian inflation only slightly down in December

The energy drive remains in place, and will soon reflect the phasing out of favourable administrative measures, pushing headline inflation slightly above the 2% threshold



### The disinflation path is still reflecting the vagaries of volatile energy and food components

The fast decline in headline inflation almost stopped in December. According to the preliminary release by Istat, in December the headline inflation rate came in at 0.6% year-on-year (from 0.7% in November), the slight decline coming from a downward push from the regulated energy component, recreational services and processed food, which more than compensated for upward moves from non-regulated energy goods and fresh food. Volatile components, and their relevant base effects, are still at the heart of headline inflation dynamics.

### Core inflation on a solid declining path

The goods vs services divide is shrinking but remained substantial in December, as goods inflation was confirmed to be in negative territory at -1.5% YoY (-1.4% in November) while services inflation eased to 3.3% YoY (from 3.7% YoY in November).

Core inflation, which excludes energy and fresh food, decelerated to 3.1% YoY (from 3.6% in November), confirming a solid downward trend. The contained hourly wage dynamic (at 2.7% in November) is likely helping in the process.

## Administrative and base effects to push inflation back above 2% soon

Looking ahead, over the next few months, headline inflation will continue to reflect energy price developments, which in turn are affected by the unfolding of past administrative measures introduced to ease the impact of the energy price spike on households' balance sheets. For instance, in the retail gas market in January, the VAT charged on gas will be restored to the normal 22% rate (from a temporary 5%) and other charges temporarily suspended will also be restored. Other prices such as motorway tolls will also be raised, contributing to the rise in the headline measure. We expect all this to push headline inflation above the 2% threshold by March, where it should stabilise for a few months. Risks to this profile include possible unfavourable geopolitical developments in the Red Sea and their impact on shipping costs. For the time being, we confirm our forecast for the average 2024 Italian inflation at 2.2%.

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