

## Italian inflation continued to rise in January

The rebound was smaller than expected and shows that the energy component and its powerful base effects are still decisive in setting the headline inflation profile. Today's release adds downside risks to our current forecast of 2.2% average inflation in 2024



The expected rebound in Italian headline inflation in January turned out to be smaller than expected. According to Istat's preliminary data, headline inflation came in at 0.8% in YoY terms (from 0.6 in December), below consensus.

The breakdown shows the inflation picture is becoming more complex. Energy remains the most powerful driver, with sharp yearly contractions in non-regulated (-21.2% YoY) and regulated energy goods (-21.4%). For the latter, we had expected the return to standard VAT rates and the re-introduction of some suspended general cost components would have pushed up inflation more, but the lower cost of the energy commodity apparently limited the push. Other items other than regulated energy goods also contributed to the increase in headline inflation. Only transport services & non-fresh food; housing services & durable goods provided a disinflationary push.

Consistently, the core inflation rate edged down for the ninth consecutive time to 2.8% (from 3.1%

in December), at a slightly decelerating pace.

The inflation profile will be crucially dominated by the evolution of energy goods and the phasing out of their favourable base effects. For the time being, notwithstanding increased transport costs linked to the Red Sea/Suez Canal developments, manufacturers have not signalled increasing intentions to raise prices. Should the disruption persist, however, some pass-through cannot be ruled out in the most exposed sectors. Services providers are showing stickier pricing intentions: the relevant indicator only marginally edged down in December. Wage growth developments will have a say in setting the service inflation trend.

Today's inflation release shows that the return of headline inflation in the 2% area could come later than expected, adding downside risks to our forecast of 2.2% average headline inflation for 2024.

## Author

### Paolo Pizzoli

Senior Economist, Italy, Greece

[paolo.pizzoli@ing.com](mailto:paolo.pizzoli@ing.com)

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