

## Italian inflation falls slightly

Italian headline inflation dropped to 1.1% in August. Base effects related to energy goods remain a key driver there. Other factors, such as wage growth, might help push it up gradually over the rest of the year



Shoppers at a Gucci store in Bologna

No big surprises from August preliminary Italian inflation data, just released by Istat. The headline measure softened to 1.1% (from 1.3%) on the year, still mostly affected by energy-related base effects. The August decline resulted from a fall in inflation in non-regulated energy goods and durable goods, outweighing the acceleration in regulated energy goods, transport services, and non-fresh food.

The gap between goods inflation (at -0.5% from -0.1%) and services inflation (at 3.2% from 3%) widened in August, bringing about a small uptick in core inflation to 2% (from 1.9%). Better demand conditions in the service sector than in manufacturing are a possible explanation.

Looking ahead, available forward-looking indicators are sending mixed signals. Over the last couple of months, business surveys have indicated a tentative bottoming out, admittedly from low levels, of manufacturers' selling price expectations over a three-month horizon in contrast with a continued decline with service providers. A tentative and extremely partial explanation might have to do with softer domestic demand for tourism services. Wage developments look set to remain a relevant variable for inflation developments over the next few quarters, as a good chunk of expired

contracts is still up for renewal. In June, hourly wages grew at a 3.6% yearly pace.

It seems reasonable to expect that this aggregate measure will move up over the second half of 2024, contributing to bringing headline inflation gradually up as we approach the end of the year. The resilience in the labour market, confirmed earlier today by Istat with the decline of the unemployment rate to 6.5% (from 6.9%) in July, seems to support this view.

All in all, we believe that Italian inflation will inch up towards the 2% area by Christmas, without actually reaching it, and that average 2024 inflation will settle in the 1.2% area.

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