

Italian inflation softens again in April

The headline measure is still subject to volatility in energy goods and their base effects while the core measure continues its gradual easing. Even assuming a pick-up in inflation over the next few months, the average reading will likely end 2024 well below the 2% threshold



Italian inflation remains subdued in April, still exposed to the vagaries of energy prices. After temporarily accelerating in March on the back of a reduced disinflationary effect of energy goods, the non-regulated energy goods component acted the other way around this month. Together with transport services, they drove headline inflation down to 0.9% (from 1.2% in March), outweighing the inflationary push coming from tobacco, recreational and cultural services and regulated energy goods.

Core inflation, which excludes energy and fresh food, edged down marginally to 2.2% on the year (from 2.3% in March), resuming the downward trend temporarily interrupted in March.

Looking at the goods component in the non-energy domain, we note that inflation remains negative (-0.3% on the year) for durable goods and is decelerating (to 1.5% on the year) for both semi durables and non-durables. Inflation in services edged down to 2.9% (from 3% in March), confirming its relative stickiness.

The low April inflation reading and its breakdown suggest that consumer demand started the

second quarter on a soft footing. While a resilient labour market has clearly helped to support household balance sheets, wage growth at a yearly pace of 3% in the first quarter is not strong enough to compensate for the cumulated erosion of real disposable income suffered over the inflationary wave. The start of a rate cutting cycle by the European Central Bank will likely have a say in the process.

A gradual acceleration of the energy component driven by the fading favourable base effect could push the headline inflation measure towards 2% by the end of the year. We are currently forecasting average headline inflation at 1.5% in 2024, with downside risks.

The Italian part of eurozone inflation looks set to remain a useful handle for the ECB to decide its first rate cut in June.

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