Italian inflation stable in February

The rebound after December's trough is proving slow, helped by low raw energy prices. A gradual increase should unfold over the rest of the year as demand conditions will improve in the economy

In February, Italian inflation was stable at 0.8% on the year, slightly softer than consensus. February's reading confirms that the rebound after the December 2023 0.6% trough is a very slow one. The gap between services and goods inflation (-0.7%) and services inflation (2.9%) was stable at 3.6%.

At the heart of February's headline reading stands a negative contribution from fresh and non-fresh food, transport and recreational and housing services evening out with the push of less disinflationary regulated and non-regulated energy goods and of accelerating tobacco and communication services. The slightly negative surprise has likely to do with very benign developments in raw energy prices, which have smoothed the inflationary impact of expiring measures (VAT and other items in the energy bill) introduced in the past to help households and businesses weather the energy price shock.

Core inflation, which nets out energy and fresh food, was 2.4% YoY (from 2.7% in January), confirming that the uninterrupted downward trend, which began in April 2023 is still in place. So-called "shopping cart" inflation, which combines food, personal care goods and household care goods, has slowed to 3.7% YoY (from 5.1% in January). The latter fits with declining concerns about prospective inflation as stated in February's consumer confidence data.

Looking ahead, inflation developments will still be affected by base effects which have driven the energy component but will also reflect the underlying state of demand in the economy. Here, indications coming from survey data are not clear-cut, as yet. On the manufacturing front, more relevant for prospective goods price inflation, both the PMI and the EU Commission survey indicate persistently weak demand, but while the former projects slightly lower pricing strategies in response, the latter instead signals rising pricing intentions. Reading through the details of surveys, we infer that, for the time being, disruptions in the Red Sea are not yet substantially affecting pricing practices. But the risk remains that, should disruptions persist, a recovery in demand could turn out to be inflationary over the second half of 2024. On the services front, indications coming from surveys have been pointing to higher prices for two consecutive months now, possibly reflecting rising wage pressures.

Employment data for January, also released today, had the unemployment rate stable at 7.2%, resulting from a slight monthly contraction in both employment and unemployment, with the number of inactives slightly up. A still tight labour market but with some sense of fatigue could prevent excessive wage requests.

All in all, today's inflation release confirms that the disinflationary path is consolidating, temporarily helped by soft demand and contained energy prices. We currently forecast average 2024 Italian inflation at 1.9%. We foresee a gradual increase in headline inflation throughout the year and an acceleration over the last quarter due to energy base effects. The risks to our forecast lie to the downside.

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