

Italian inflation remains stable

The slowdown in energy prices was offset by rising costs in food and certain services, leaving headline inflation unchanged. Given the current subdued economic environment, we expect inflation to hover around current levels, with a temporary deceleration likely



Italy's updated third-quarter data seems to indicate a gradual exit from stagnation

Both headline and core inflation were stable in July

According to the flash estimate by Istat, Italian CPI inflation was stable at 1.7% in July, in line with our above consensus call. The acceleration in food and some services prices balanced out the deceleration in regulated and non-regulated energy prices, and in recreational and cultural services, leaving headline inflation unchanged.

The core measure, which excludes energy and fresh food, was also stable at 2% on the year. Both services and goods inflation slowed, though the gap between them widened slightly to 1.9% in July.

Stagnating economy and decelerating wage growth are capping short-term upside risks

Against a backdrop of economic stagnation, a relatively strong euro, and with an EU-US trade deal which does not seem to foresee retaliatory tariffs from the EU, we see little reason for an

imminent re-acceleration of inflation. The energy component quickly reversed the spike triggered by US strikes on Iran's nuclear facilities, and current soft demand conditions are keeping gas prices under pressure, for now.

Wage growth, the most powerful fuel for services' inflation, is also decelerating. According to Istat data, in June, contractual hourly wages increased by 2.7% on the year (from 3.4% in May), and with almost 90% of contracts in the services domain set to remain in place over the next six months, chances of accelerations in the short term are very low. Responses on pricing intentions in recent business surveys seem to confirm this. Both in industry and in services, pricing intentions have been stabilising, signalling a prudent pricing approach.

Inflation to remain below 2% for the rest of the year

All in all, July preliminary inflation data confirms that inflation is stabilising well below 2%. We do not see relevant fundamental upside risks over the next few months and we might see a temporary deceleration. For the whole of 2025, we confirm our forecast for Italian average inflation at 1.7%.

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