

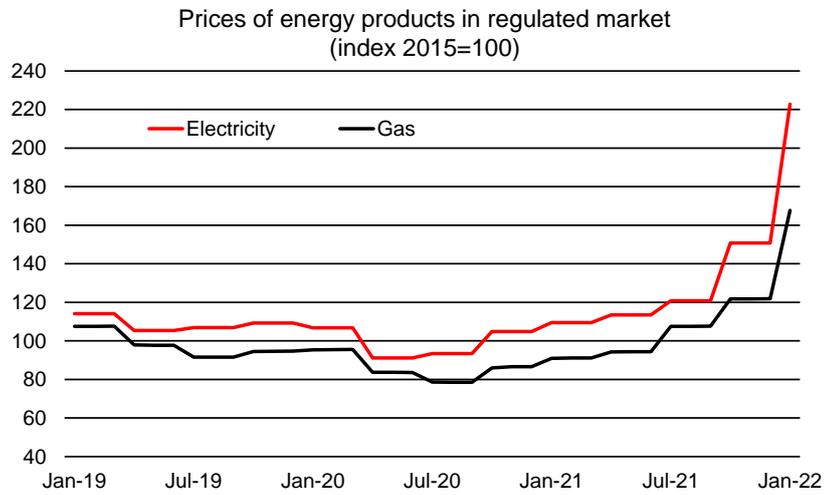
Italy: Inflation spike driven by surge in energy prices

- According to preliminary estimates, Italy's national CPI inflation rose to 4.8% in January (UniCredit: 4.4%; consensus: 3.8%), up by 0.9pp from December (3.9%). This is the highest reading in more than twenty-five years. January's FOI index, excluding tobacco, will be published with the CPI estimate released on 22 February, a little later in the month than usual. Still, we expect it to have increased by 4.9% compared to December 2021 and thus to come in at 107.9.
- On a monthly basis, national CPI rose by 1.6%. This is an unprecedented increase and follows an already high 0.5% mom increase, on average, in the previous three months. Unsurprisingly, the monthly CPI increase was driven by a surge in the prices of energy products in regulated markets (42.9% mom), reflecting the strong increase in tariffs announced for 1Q22 by the Regulatory Authority for Energy at the end of December. As a consequence, the price of energy products in regulated markets accounted for half of the 1.6% mom increase in the CPI. Upward pressure on energy products in non-regulated markets also pushed up energy prices, reflecting the around 15% rise in oil prices in the month of January and adding around 0.25pp to the monthly CPI increase. While in our inflation projections, we are penciling in some correction of this strong increase in energy products, especially in their seasonal component, the impact of the increase in geopolitical tensions on the evolution of natural gas makes this projection unusually uncertain, also given Italy's relatively large share of gas imports from Russia.
- The increase in January inflation was also driven by another strong and greater-than-expected increase in food prices, which were up 1.7% on a monthly basis. This component explains more than 0.3pp of the 1.6% monthly increase in the CPI. According to Istat, the increase was driven by both processed and unprocessed foods and, for the latter, especially fresh fruit and vegetables. Such a strong increase might also be ascribed to the increase in energy costs, with pressure from food prices having been accelerating in recent months. This is contributing to keeping the uncertainty of this component high, too.
- A look at the other price category confirms a mild increase in service prices. On the one hand, there was a greater increase in prices in the leisure and culture, and restaurant categories, but on the other hand, there was a severe decline in prices of transport services, also reflecting a limitation in mobility. As a whole, service prices increased by 0.2% mom, providing a marginal contribution (about 0.1pp) to the 1.6% mom increase in the CPI index. The rest of the impact came from prices of non-energy and non-food goods, which was up by 0.5% mom (contributing for around 0.15pp). This was mainly due to an increase in durable goods, which is also likely to have been affected by an increase in input costs.
- Core inflation confirmed a subdued dynamic, supporting expectations of a transitory increase in headline inflation, which should reverse before the end of the year. That said, geopolitical tensions increase uncertainty about how long the process of adjustment will take.

In greater detail:

The increase in CPI inflation observed in the last 6-8 months reflects the impact of the surge in prices for natural gas and the consequent increases in prices for regulated energy products.

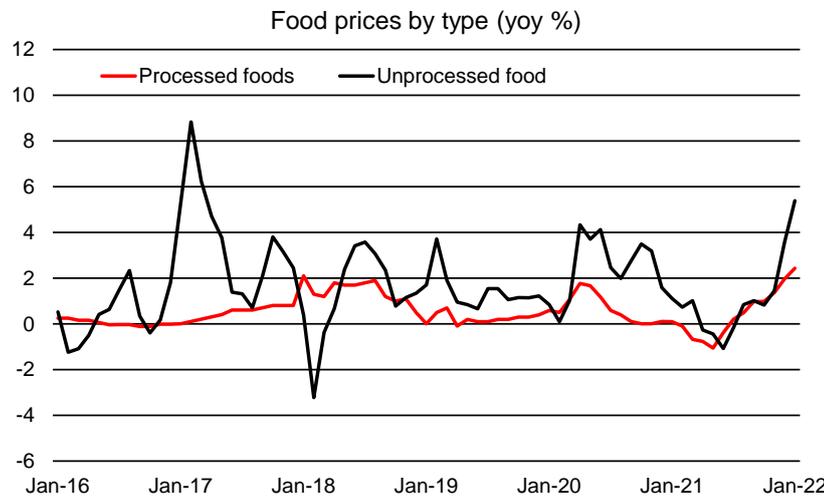
CHART 1: CLEAR IMPACT OF THE RISE IN NATURAL GAS PRICES



Source: Istat, UniCredit Research

The increase in headline inflation is also caused by pressure coming from food prices. Prices of unprocessed foods, in particular, were up by 5.4% yoy in January.

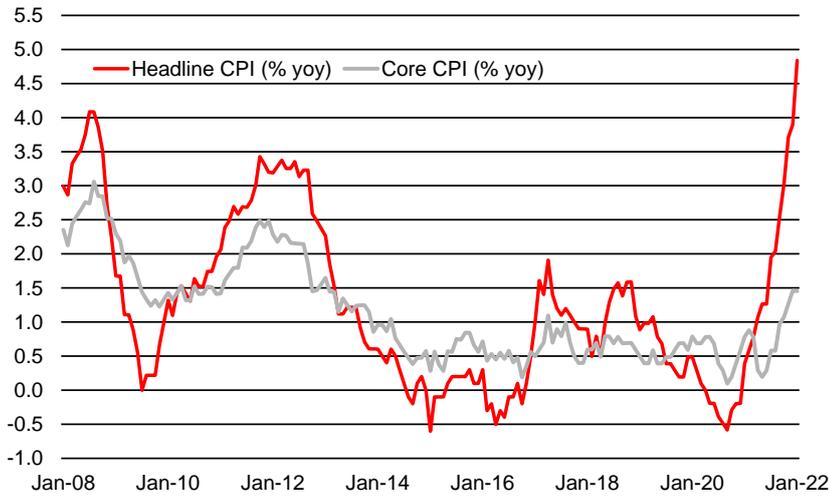
CHART 2: PRESSURE FROM FOOD PRICES IS ALSO RISING



Source: Istat, UniCredit Research

When we exclude the most volatile components related to energy and food, the increase in inflation appears much more muted. Core inflation stood at 1.5% in January.

CHART 3: GAP BETWEEN HEADLINE AND CORE INFLATION WIDENS FURTHER



Source: Istat, UniCredit Research

Dr. Loredana Maria Federico, Chief Italian Economist (UniCredit Bank, Milan)
+39 02 8862-0534
loredanamarca.federico@unicredit.eu

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UniCredit Research*

Macro Research



Marco Valli
Global Head of Research,
Chief European Economist
+39 02 8862-0537
marco.valli@unicredit.eu



Dr. Ingo Heimig
Head of Research Operations
& Regulatory Controls
+49 89 378-13952
ingo.heimig@unicredit.de

Head of Macro Research



Marco Valli
Global Head of Research,
Chief European Economist
+39 02 8862-0537
marco.valli@unicredit.eu

European Economics Research



Dr. Andreas Rees
Chief German Economist
+49 69 2717-2074
andreas.rees@unicredit.de



Dr. Loredana Federico
Chief Italian Economist
+39 02 8862-0534
loredanamaria.federico@unicredit.eu



Stefan Bruckbauer
Chief Austrian Economist
+43 50505-41951
stefan.bruckbauer@unicreditgroup.at



Tullia Bucco
Economist
+39 02 8862-0532
tullia.bucco@unicredit.eu



Edoardo Campanella
Economist
+39 02 8862-0522
edoardo.campanella@unicredit.eu



Walter Pudschedl
Economist
+43 50505-41957
walter.pudschedl@unicreditgroup.at



Chiara Silvestre
Economist
chiara.silvestre@unicredit.eu

International Economics Research



Daniel Vernazza, Ph.D.
Chief International Economist
+44 207 826-7805
daniel.vernazza@unicredit.eu

EEMEA Economics Research



Dan Bucsa
Chief CEE Economist
+44 207 826-7954
dan.bucsa@unicredit.eu



Gökçe Çelik
Senior CEE Economist
+44 207 826-6077
gokce.celik@unicredit.eu



Mauro Giorgio Marrano
Senior CEE Economist
+43 50505-82712
mauro.giorgiomarrano@unicredit.de



Artem Arkhipov
Head, Macroeconomic Analysis
and Research, Russia
+7 495 258-7258
artem.arkhipov@unicredit.ru



Hrvoje Dolenc
Chief Economist, Croatia
+385 1 6006-678
hrvoje.dolenc@unicreditgroup.zaba.hr



Dr. Ágnes Halász
Chief Economist, Head, Economics and
Strategic Analysis, Hungary
+36 1 301-1907
agnes.halasz@unicreditgroup.hu



Ľubomír Koršňák
Chief Economist, Slovakia
+421 2 4950 2427
lubomir.korsnak@unicreditgroup.sk



Anca Maria Negrescu
Senior Economist, Romania
+40 21 200-1377
anca.negrescu@unicredit.ro



Kristofor Pavlov
Chief Economist, Bulgaria
+359 2 923-2192
kristofor.pavlov@unicreditgroup.bg



Pavel Sobišek
Chief Economist, Czech Republic
+420 955 960-716
pavel.sobisek@unicreditgroup.cz

UniCredit Research, Corporate & Investment Banking, UniCredit Bank AG, Am Eisbach 4, D-80538 Munich, globalresearch@unicredit.de
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