

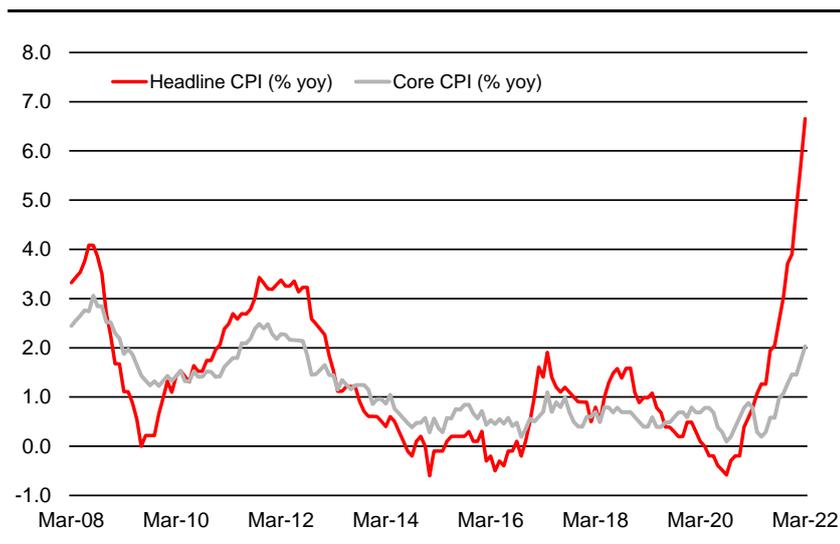
Italy: Another rise in inflation, mainly driven by the oil-price surge

- Italian CPI inflation has risen to 6.7% in March, from 5.7% in the previous month, according to Istat’s preliminary estimate, the highest reading since July 1991. The rise has mostly been driven by a further increase in energy and food prices, while core inflation has shown a more limited increase.
- The price category that has contributed the most to explaining the increase in March inflation is energy products, especially prices of energy in non-regulated market. This is mainly due to the surge in motor fuel prices caused by the significant increase in oil prices observed in March, which rose by 20% mom following the onset of the Russia-Ukraine conflict. The government intervened quickly to mitigate the impact of these increases, with a EUR 0.25 per liter reduction in the price of motor fuel for one month, beginning on 22 March. Still, its benefit will primarily be felt in April, while in our projections we are assuming a gradual phase-out in May.
- Electricity and gas prices have also increased further, especially gas in non-regulated markets. Despite the spikes due to the Russia-Ukraine crisis, the evolution of the market prices of natural gas in the first quarter proved to be more benign than initially feared. This will positively affect the price of electricity and gas bills for 2Q22, for which the Italian Authority for Energy has just announced a 10% qoq decline, also thanks to the relief provided by government support measures. This is good news as it represents a pause in the increase in prices for gas and electricity observed since 3Q21 that has strongly contributed to the rise in inflation so far.
- A look at the other price categories shows increases in prices of non-energy and non-food goods, while services inflation was unchanged in March (at 1.8% yoy, +0.3% mom). Prices of non-energy and non-food goods rose by 1.6% yoy (+0.6% mom), up from 1.1% yoy in February. Once again, this was mainly driven by a further rise in the prices of durable goods, which are probably the most affected by the ongoing increase in raw materials.
- Overall, we expect CPI inflation to rise to close to 6.0% in 2022 (from 1.9% in 2021) before declining to 1.6% in 2023.

In greater detail:

CPI has risen by 1.2% mom in March. The increase in prices of non-regulated energy products explains about 0.7pp of this monthly increase, while food prices have contributed 0.2pp. Core inflation was up by 0.5% mom, rising to 2.0% from 1.7% in February. It was broadly as expected and remains consistent with our expectation of a transitory increase in inflation this year.

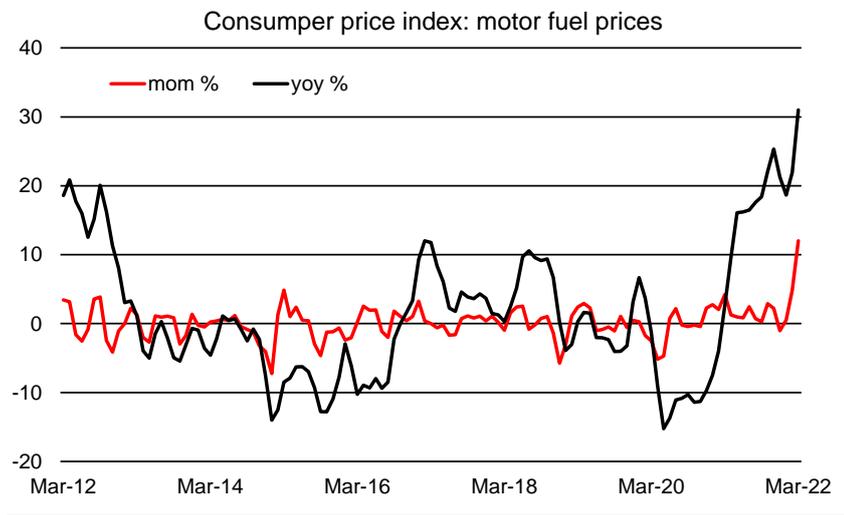
CHART 1: HEADLINE INFLATION HAS RISEN SHARPLY



Source: Istat, UniCredit Research

There has been a 12% mom spike in prices of motor fuel in March. While the second estimate may see some downward revisions, which might better capture the discounts that began on 22 March, we currently expect about 60% of the March increase to be corrected in April.

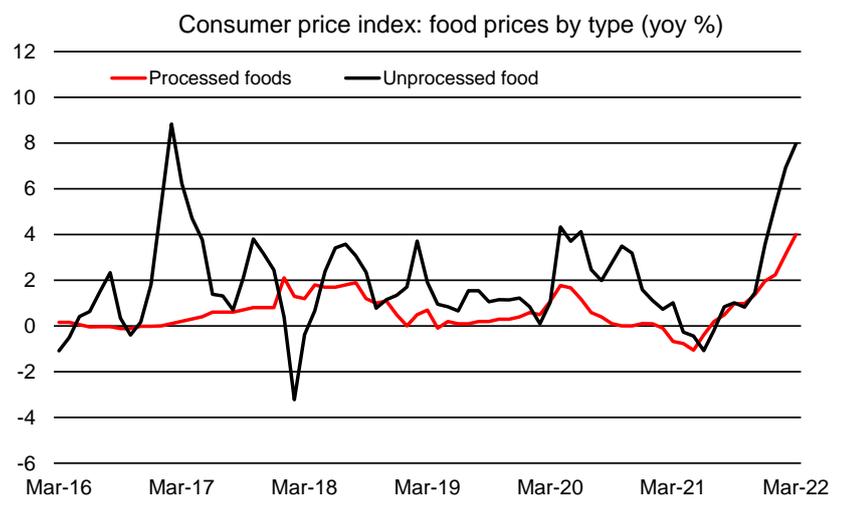
CHART 2: MOTOR FUEL PRICES HAVE SURGED DUE TO THE RUSSIA-UKRAINE CONFLICT



Source: Istat, UniCredit Research

The rise in energy costs and the ramifications of the Russia-Ukraine crisis are also putting both processed and unprocessed food prices under severe pressure.

CHART 3: FOOD PRICES HAVE RISEN FURTHER



Source: Istat, UniCredit Research

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This report was completed and first published on 31 March 2022 at 14:29.

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