

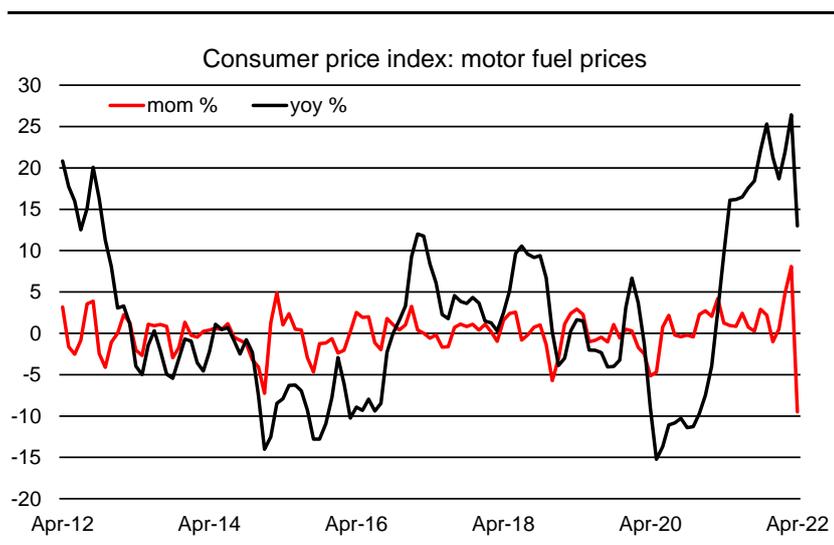
Italy: inflation eases in April, but the outlook is highly uncertain

- According to preliminary estimates, Italian consumer price inflation declined to 6.2% in April, from a downwardly revised 6.5% in March. April's decline interrupts a nine-month period of consecutive increases. CPI was up by 0.2% mom in April, from a 1.0% mom increase in March. The easing of inflation in April has been primarily driven by lower prices in energy products in both non-regulated and regulated markets.
- Following the increase in motor-fuel prices in March triggered by the surge in oil prices at the onset of the Russia-Ukraine conflict, a downward correction in April has been prompted by government intervention to reduce motor-fuel prices by EUR 0.25 per liter from 22 March. This factor mainly contributed to a decline in prices in the transport category. While it has still not been formally approved, it is likely that the reduction in motor-fuel prices will be extended until the end of 1H22.
- For 2Q22, the Regulatory Authority for Energy announced a 10% cut in electricity and gas tariffs, after a strong increase had been penciled in for 1Q22 (+55% and +42%, respectively). This was also partly due to the measures approved by the government to mitigate the increase in energy costs for the private sector. While the effect of the cut will be felt throughout the second quarter, due to potential spillover to non-regulated gas and electricity prices, the bulk of it materialized in April, with the prices of energy products in regulated markets down by 8.8%, compared to March.
- The April inflation report also shows further increases in food prices, which proved to be much stronger than expected. As we have argued in the past, this reflects indirect effects of high energy costs and the Russia-Ukraine conflict on food commodity prices. The indirect effects of higher commodity prices are also affecting prices of goods other than energy and food. Moreover, there has been a strong increase in services prices, mainly driven by a rise in air tariffs caused by the Easter holiday season. This upward movement in services prices related to transport is likely to correct in May. Overall, core CPI inflation rose above 2% for the first time in a decade to 2.5% in April from 1.9% in the previous month.
- We confirm our expectation of an increase in headline inflation to 5.8% in 2022, from 1.9% last year. Still, inflation projections for the coming months remain subject to uncertainty related to oil and gas supplies, especially after this week's news concerning Poland and Bulgaria.

In greater detail:

Motor fuel prices were down by 9.5% mom in April, compared to March, when they rose by 8.1% mom amid a surge in oil prices.

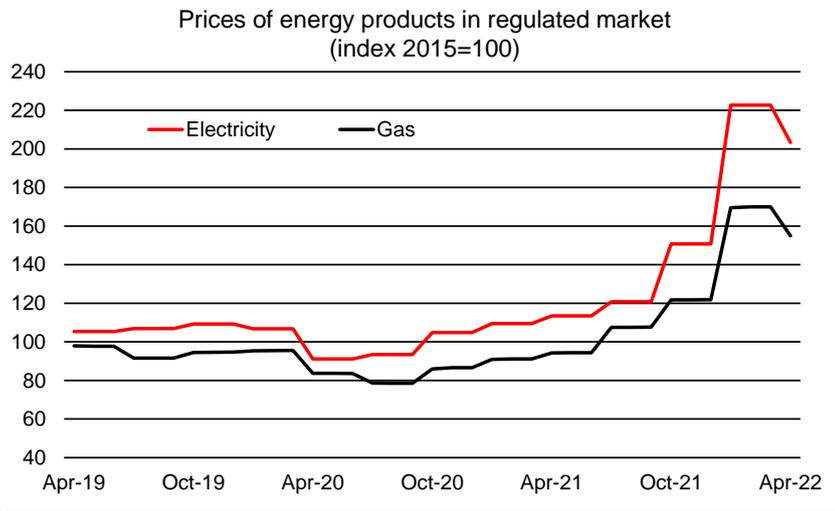
CHART 1: BIG CORRECTION IN MOTOR FUEL PRICES



Source: Istat, UniCredit Research

The decline in prices of energy products in regulated markets was the second largest driver of the inflation downward adjustment in April. Reflecting the change in regulated tariffs, gas prices were down by 8.8% mom and electricity prices by 8.7% mom in April.

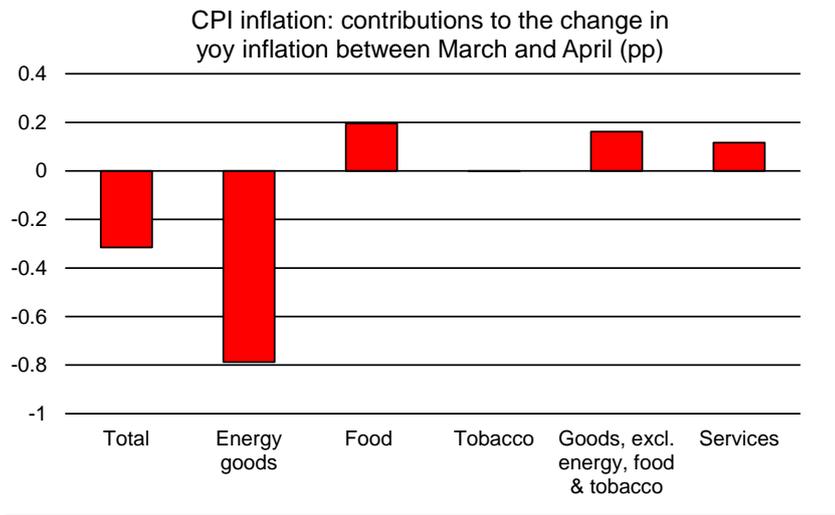
CHART 2: ENERGY BILLS - THE STRONG INCREASE THAT BEGAN IN JULY 2021 CAME TO A HALT



Source: Istat, UniCredit Research

The impact of the easing in prices of energy products on April inflation was partly offset by a strong increase in food prices (contributing around 0.2pp) and in the other goods and services (contributing around 0.2pp and 0.1pp, respectively).

CHART 3: STILL CONTAINED IMPACT FROM THE LESS VOLATIVE CPI COMPONENTS



Source: Istat, UniCredit Research

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This report was completed and first published on 29 April 2022 at 15:22.

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