

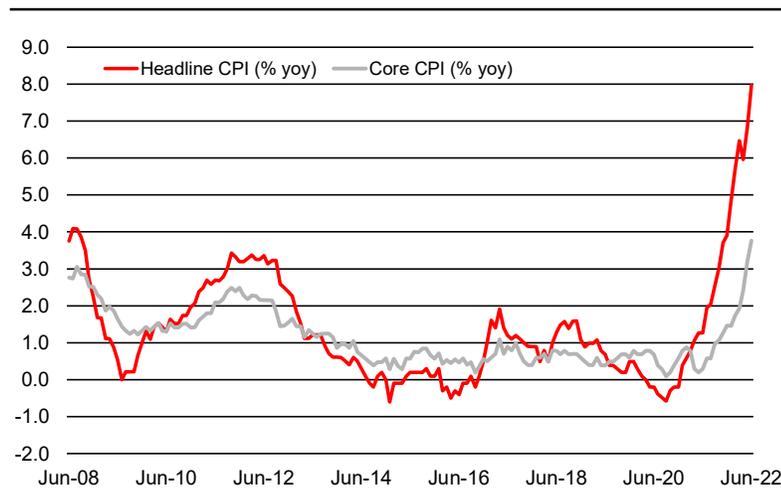
## Italy's inflation: up strongly due high energy prices and their effects

- Italian consumer-price inflation rose to 8.0% in June, from 6.8% in May. While it is still a preliminary estimate, the June inflation print was higher than expected (UniCredit: 7.6%; consensus: 7.4%) and marked its highest level since 1986.
- Energy prices have been the largest contributors to inflation, also in June, showing higher-than-expected increases, but core inflation (and, especially, services inflation) also rose. Food prices showed another strong increase, being up by 8.8% yoy in June. This increase was in line with our expectations.
- In terms of rising energy prices, their main driver has been the impact on motor-fuel prices of increasing oil prices. The price of Brent rose to about USD 117 per barrel, on average, in June amid market reactions to the approval of oil sanctions by the EU and the OPEC's inability to honor its production commitments. The government has recently allocated further resources to mitigate the increase in motor-fuel prices during the summer. Still, the volatility in oil prices induced by the Russia-Ukraine conflict leaves uncertainty regarding the future inflation path very high.
- Electricity and gas prices were up in June, mainly due to price increases in the non-regulated market. For the third quarter, the Regulatory Authority for Energy announced yesterday a 0.4% increase in electricity tariffs and stabilization of gas tariffs. This came after the government allocated further resources to mitigate the impact of high gas prices on the market. This should help control price increases in the coming months. According to the Regulatory Authority, without government intervention, electricity prices for households could rise by 15% and gas prices by 45% in the third quarter.
- With regard to other less-volatile components, there was another increase in prices for services in June. The main driver was a rise in prices in the hotel and restaurant categories and in air tariffs, which has proved stronger than we projected. This is mainly related to a positive impact on services spending of the lowering of pandemic restrictions during the spring. As a consequence, core inflation confirmed a strengthening of its path.
- We currently expect CPI inflation to be at 6.4% this year and 2.3% in 2023. The deceleration in energy prices that we project would start at the end of the year is still expected to prompt a decline in inflation in 2023.

In greater detail:

CPI inflation rose to 8.0% in June, from 6.8% in May. Headline CPI was up by a strong 1.2% mom, following a 0.8% mom increase in May. Core inflation rose to 3.8%, from 3.2% in May.

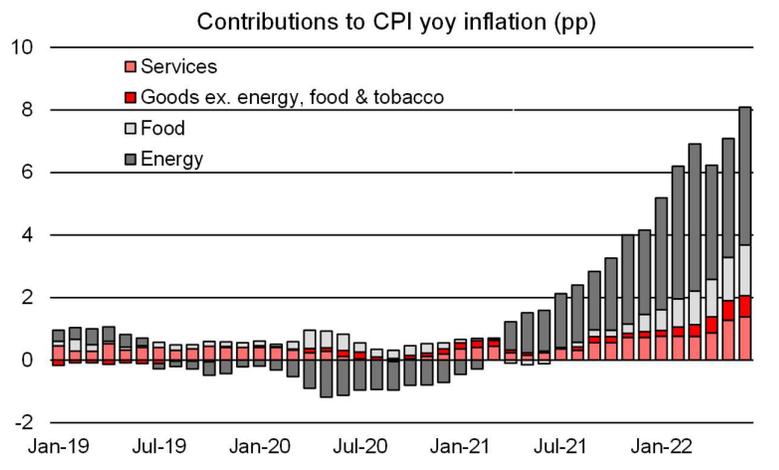
**CHART 1: CPI INFLATION IS STILL TRENDING HIGHER**



Source: Istat, UniCredit Research

The main contributions to inflation confirm that energy (and food) prices still account for more than two-thirds of the high level of inflation.

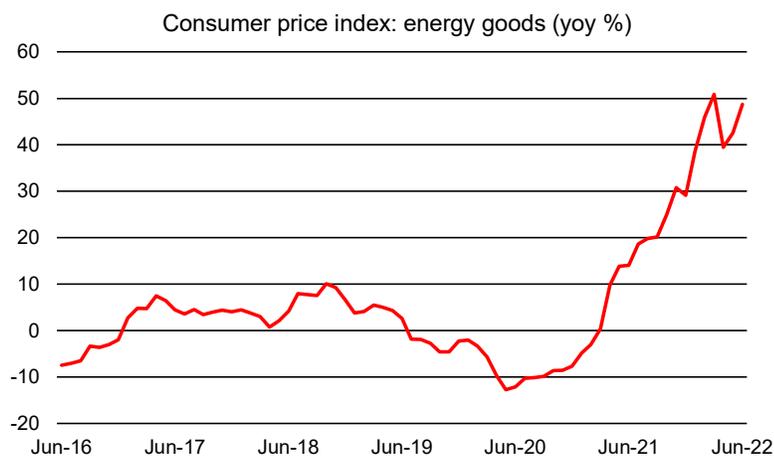
**CHART 2: ENERGY PRICES REMAIN THE MAIN DRIVER OF INFLATION UPLIFT**



Source: Istat, UniCredit Research

Energy prices were up by 48.7% yoy in June (increasing by 4.8% mom). This was mainly due to an increase in motor-fuel prices, which were up by 25.3% yoy (+9.8% mom). In addition, prices of electricity continued to rise in the non-regulated market, by 87.5% in June (+7.6% mom). The increase of both proved higher than we expected.

**CHART 3: ENERGY PRICES: STRONG DOUBLE-DIGIT GROWTH (AGAIN)**



Source: Istat, UniCredit Research

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