

Macro Rapid Response

Inflation in line with expectations in both the Eurozone and Italy

Eurozone inflation rose in line with expectations by one-tenth of a percentage point to 2.9% year-on-year in July, driven by a rise in energy inflation. In our view, this figure does not change much for the ECB: even if there is a slight rise in August – albeit still driven by energy – the picture could still be consistent with a second ECB rate rise in September (unless international commodity prices fall sharply in the coming weeks). In Italy, inflation fell slightly in July, but could rise again in the coming months (peaking in the autumn).

Eurozone

In July, inflation in the eurozone rose in line with expectations to 2.9% y/y (+0.2% m/m) from 2.8% in June. **Core indices also rose by one-tenth of a percentage point:** the HICP excluding energy, food, alcohol and tobacco rose from 2.4% to 2.5%, whilst the measure excluding energy and fresh food rose from 2.1% to 2.2%.

- **Energy is once again the main driver of the rise**, showing a re-acceleration from 8.5% to 10% year-on-year (albeit below the February 2023 high of 10.8% reached between April and May); during the month, energy prices rose by +2.4% month-on-month: the end of fuel tax cuts in several countries (Germany in particular) contributed to these increases. We believe this component still has room to rise and may remain in double figures until February next year, given that recent price rises – particularly for gas – do not yet appear to have been fully passed on to consumer prices for gas and electricity.
- **Food inflation has slowed for the third month running**, from 1.5% to 1.2% year-on-year: this is the lowest level since June 2021. The slowdown is mainly driven by unprocessed food, which fell from 3.1% to 2.5% year-on-year (-0.7% month-on-month). Consumer prices in the food sector are lagging behind past falls in producer prices in the sector, but we expect to see a rise, driven by the indirect effects of higher energy prices, from September onwards.
- **Inflation on non-energy industrial goods rose moderately to 0.9%** year-on-year, returning to May's levels, following a slowdown to 0.7% year-on-year in June; over the month, prices fell by -2.2% m/m (as is usual during sales periods for clothing and footwear). This component could rise further in the coming months, driven by the lagged effects of the energy shock.
- **Finally, services showed a marginal pick-up to 3.3%** y/y following the slowdown to 3.2% in June (seasonal price rises of +1.1% m/m were recorded during the month). The increase is mainly due to France, where prices for accommodation and communication services rose (whilst services inflation fell in Germany). We expect the trend in services to remain largely unchanged in the coming months, as, on the one hand, services most sensitive to electricity and transport costs could see price rises, whilst, on the other, labour-intensive services should continue to benefit from the ongoing trend of wage moderation.
- **Among the major countries, Germany recorded an acceleration from 2.4% to 2.8%, France from 2% to 2.4% and Spain from 3.6% to 3.8%.**
- **This figure does not change much for the ECB**, which, between now and the next Governing Council meeting (on 16 September), will also have access to the August consumer price data (scheduled for 1 September). We believe that August is also likely to see a slight rise, although this will still be driven mainly by energy. **We expect inflation to peak between October and January, at 3.3-3.4%** – just slightly above the previous high reached in May. This outlook still seems consistent with a second ECB rate rise in September, barring a rapid fall in international commodity prices.

31 July 2026

Research Department

Macroeconomic Research

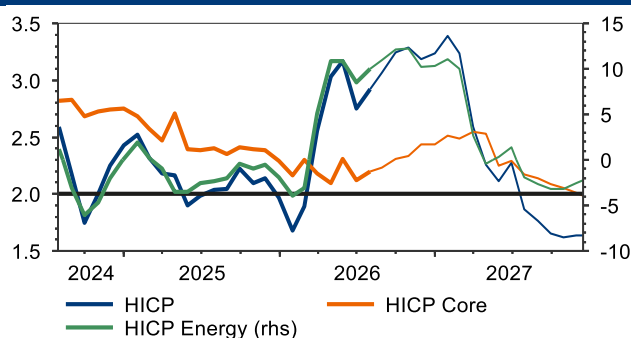
Paolo Mameli
Economist

Italy

In Italy, too, inflation was in line with expectations. The HICP fell from 3% to 2.9% year-on-year (+1% month-on-month), whilst the national NIC index fell from 3% to 2.8% year-on-year (+0.2% month-on-month).

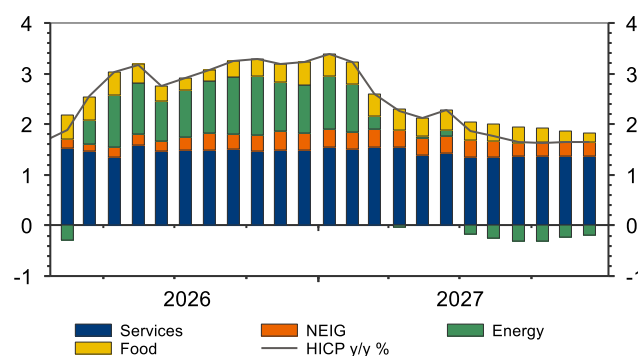
- Unlike in the rest of the Eurozone, energy prices, whilst rising over the month (on the NIC, +0.2% month-on-month), are slowing on an annual basis, to 10.8% from 13% in June. Further price rises were recorded for regulated energy products (notably +8.8% m/m and +22.1% y/y for gas in the protected market), whilst unregulated energy prices slowed. The year-on-year trend for motor fuels is also slowing, although prices fell significantly in the first half of the month and rose rapidly in the second half (which could be reflected in August's HICP).
- Still regarding the NIC, the year-on-year slowdown is mainly due to the components most closely linked to energy, namely "housing, water, electricity, gas and other fuels" (from 7.2% to 6.5% year-on-year) and transport (from 4.7% to 4.2% y/y), as well as financial and insurance services (from 4.3% to 1.9% y/y). By contrast, there was an acceleration in hotels and restaurants' services (from 2.9% to 3.3% y/y), whilst information and communication services returned to positive territory for the first time in almost three years (rising to 0.2% from -1.2% y/y).
- Still looking at the NIC, core inflation remained unchanged at 1.6% year-on-year, as did inflation for the so-called 'shopping basket' (at 1.3%), whilst inflation for frequently purchased goods slowed from 3.9% to 3.6%.
- In terms of the harmonised index, services remain stable at 2.5%, but core inflation has risen from 1.5% to 1.7% y/y, driven by non-energy goods (from 0.5% to 0.7% y/y).
- Looking ahead, Italian inflation also has further room to rise in the coming months, mainly because the recent increases in international natural gas prices have not yet been fully reflected in electricity and gas bills. This factor could push inflation up towards 4% in the final months of the year before falling back to around 3% by March 2027 and around 2% by June.

Fig. 1 – In the central scenario, both energy inflation and the headline index in the euro area still have room to rise



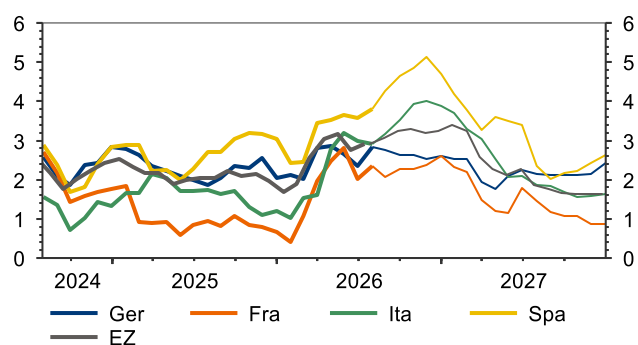
Source: Eurostat, Intesa Sanpaolo

Fig. 2 – Energy's contribution to the headline index is expected to be positive and substantial until the early months of 2027



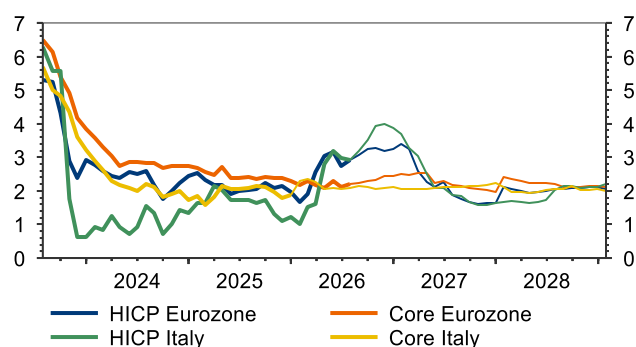
Source: Eurostat, Intesa Sanpaolo

Fig. 3 – HICP peaks could be higher in Spain than in other major eurozone countries



Source: Eurostat, Intesa Sanpaolo

Fig. 4 – In the baseline scenario, core inflation is expected to remain relatively subdued



Source: Eurostat, Intesa Sanpaolo

Appendix

Analyst Certification and Other Important Disclosures

The analysts drafting this report state that the opinions, forecasts, and estimates contained herein are the result of independent and subjective evaluation of the data and information obtained and no part of their compensation has been, is, or will be directly or indirectly linked to the views expressed.

This research has been prepared by Intesa Sanpaolo SpA and distributed by Intesa Sanpaolo SpA, Intesa Sanpaolo SpA-London Branch (a member of the London Stock Exchange) and Intesa Sanpaolo IMI Securities Corp. (a member of the NYSE and FINRA). Intesa Sanpaolo SpA accepts full responsibility for the contents of this report. Please also note that Intesa Sanpaolo SpA reserves the right to issue this document to its own clients. Intesa Sanpaolo SpA is authorised by the Banca d'Italia and is regulated by the Financial Conduct Authority in the conduct of designated investment business in the UK and by the SEC for the conduct of US business.

Opinions and estimates in this research are as at the date of this material and are subject to change without notice to the recipient. Information and opinions have been obtained from sources believed to be reliable, but no representation or warranty is made as to their accuracy or correctness.

This report has been prepared solely for information purposes and is not intended as an offer or solicitation with respect to the purchase or sale of any financial products. It should not be regarded as a substitute for the exercise of the recipient's own judgement. No Intesa Sanpaolo SpA entity accepts any liability whatsoever for any direct, consequential or indirect loss arising from any use of material contained in this report.

This document may only be reproduced or published with the name of Intesa Sanpaolo SpA.

This document has been prepared and issued for, and thereof is intended for use by, Companies which have suitable knowledge of financial markets, which are exposed to the volatility of interest rates, exchange rates and commodity prices and which are capable of evaluating risks independently.

Therefore, such materials may not be suitable for all investors and recipients are urged to seek the advice of their relationship manager/independent financial advisor for any necessary explanation of the contents thereof.

Person and residents in the UK: this document is not for distribution in the United Kingdom to persons who would be defined as private customers under rules of the FCA.

CH: This information is an advertisement in relation to the financial instruments discussed herein and is not a prospectus pursuant to the Swiss Financial Services Act ("FinSA") and no such prospectus has been or will be prepared for or in connection with such financial instruments. This information does not constitute an offer to sell nor a solicitation to buy such financial instruments.

The financial instruments may not be publicly offered, directly or indirectly, in Switzerland within the meaning of the FinSA and no application has or will be made to admit the financial instruments to trading on any trading venue (exchange or multilateral trading facility) in Switzerland. Neither this information nor any other offering or marketing material relating to the financial instruments may be publicly distributed or otherwise made publicly available in Switzerland.

US persons: this document is intended for distribution in the United States only to Major US Institutional Investors as defined in SEC Rule 15a-6. US Customers wishing to effect a transaction should do so only by contacting a representative at Intesa Sanpaolo IMI Securities Corp. in the US (see contact details below).

Intesa Sanpaolo SpA issues and circulates research to Major Institutional Investors in the USA only through Intesa Sanpaolo IMI Securities Corp., 1 William Street, New York, NY 10004, USA, Tel: (1) 212 326 1199.

Inducements in relation to research

Pursuant to the provisions of Delegated Directive (EU) 2017/593, this document can be qualified as an acceptable minor non-monetary benefit as it is:

- macro-economic analysis or Fixed Income, Currencies and Commodities material made openly available to the general public on the IMI Corporate & Investment Banking Division website (www.imi.intesasnpaolo.com) - Q&A on Investor Protection topics - ESMA 35-43-349, Question 8 & 9.

Method of distribution

This document is for the exclusive use of the recipient with whom it is shared by Intesa Sanpaolo SpA and may not be reproduced, redistributed, directly or indirectly, to third parties or published, in whole or in part, for any reason, without prior consent expressed by Intesa Sanpaolo SpA. The copyright and all other intellectual property rights on the data, information, opinions and assessments referred to in this information document are the exclusive domain of the Intesa Sanpaolo Banking Group, unless otherwise indicated. Such data, information, opinions and assessments cannot be the subject of further distribution or reproduction in any form and using any technique, even partially, except with express written consent by Intesa Sanpaolo SpA.

Persons who receive this document are obliged to comply with the above indications.

Valuation Methodology

Comments on macroeconomic data are prepared based on macroeconomic and market news and data available via information providers such as Bloomberg and LSEG Datastream. Macroeconomic, exchange rates and interest rate forecasts are prepared by the Intesa Sanpaolo SpA Research Department, using dedicated econometric models. Forecasts are obtained using analyses of historical statistical data series made available by the leading data providers and also on the basis of consensus data, taking account of appropriate connections between them.

Disclosure of potential conflicts of interest

Intesa Sanpaolo SpA and the other companies belonging to the Intesa Sanpaolo Banking Group (jointly also the "Intesa Sanpaolo Banking Group") have adopted written guidelines "Organisational, management and control model" pursuant to Legislative Decree 8 June, 2001 no. 231 (available at the Intesa Sanpaolo SpA website, webpage <https://group.intesasnpaolo.com/en/governance/leg-decree-231-2001>), setting forth practices and procedures, in accordance with applicable regulations by the competent Italian authorities and best international practice, including those known as Information Barriers, to restrict the flow of information, namely inside and/or confidential information, to prevent the misuse of such information and to prevent any conflicts of interest arising from the many activities of the Intesa Sanpaolo Banking Group which may adversely affect the interests of the customer in accordance with current regulations.

In particular, the description of the measures taken to manage interest and conflicts of interest – in accordance with Articles 5 and 6 of the Commission Delegated Regulation (EU) 2016/958 of 9 March 2016 supplementing Regulation (EU) No. 596/2014 of the European Parliament and of the Council with regard to regulatory technical standards for the technical arrangements for objective presentation of investment recommendations or other information recommending or suggesting an investment strategy and for disclosure of particular interests or indications of conflicts of interest as subsequently amended and supplemented, the FINRA Rules 2241 and 2242 as applicable, as well as the FCA Conduct of Business Sourcebook rules COBS 12.4 - between the Intesa Sanpaolo Banking Group and issuers of financial instruments, and their group companies, and referred to in research products produced by analysts at Intesa Sanpaolo SpA is available in the "Rules for Research" and in the extract of the "Corporate model on the management of inside information and conflicts of interest" published on the website of Intesa Sanpaolo SpA, webpage <https://group.intesasnpaolo.com/en/research/RegulatoryDisclosures>.

As for the disclosures, please note that one or more of the companies of Intesa Sanpaolo Banking Group:

- trade or may trade as a principal in the securities (or in related derivatives) that are the subject in this report;
- plan to solicit investment banking business or intend to seek compensations from the securities that are the subject of this report in the next three months.

Furthermore, in accordance with the aforesaid regulations, the specific company-related disclosures of the Intesa Sanpaolo Banking Group's interests and conflicts of interest are available through webpage <https://group.intesasnpaolo.com/en/research/RegulatoryDisclosures/archive-of-intesa-sanpaolo-group-s-conflicts-of-interest>.

The conflicts of interest published on the internet site are updated to at least the day before the publishing date of this report.

Intesa Sanpaolo SpA acts as market maker in the wholesale markets for the government securities of the main European countries and also acts as Government Bond Specialist, or in comparable roles, for the government securities issued, among others, by the Republic of Italy.

Intesa Sanpaolo SpA Research Department – Head of Research Gregorio De Felice

Macroeconomic Analysis

Luca Mezzomo (Head)

luca.mezzomo@intesasnpaolo.com

Macroeconomic Research

Paolo Mameli (Head)

Riccardo Bellesia

Mario Di Marcantonio

Alessia Gavazzi

Andrea Volpi

paolo.mameli@intesasnpaolo.com

riccardo.bellesia@intesasnpaolo.com

mario.dimarcantonio@intesasnpaolo.com

alessia.gavazzi@intesasnpaolo.com

andrea.volpi@intesasnpaolo.com