

EDITORIAL

Inflation is on the march again in 2012: expensive crude oil and tax increases worse than the consumer crisis

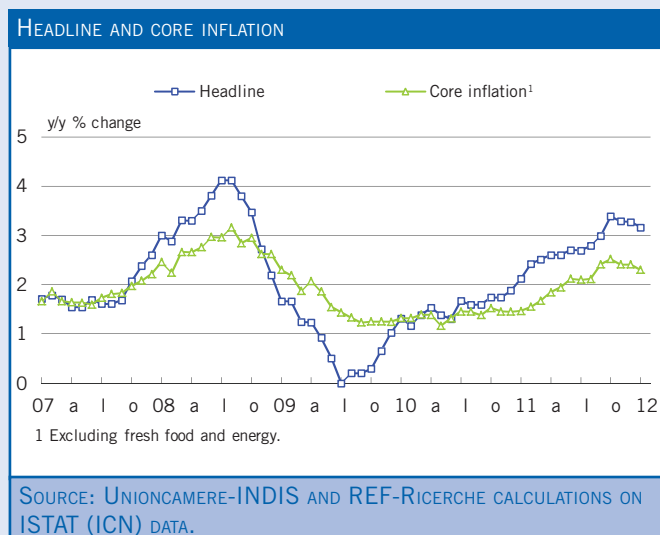
The year 2011 left a legacy of a return to consumer prices growing at a pace not seen for years. The year 2012 also opened with high inflation, an unexpected phenomenon in certain respects especially in the light of the worsening domestic consumption crisis. What is having an impact during this period is not so much the household consumer crisis as the increase in indirect taxation, VAT and excise duties on fuels and higher oil prices, which, quoted in euro, are reaching record highs. These will have an impact down the supply chain on industrial goods in coming months. Core inflation on the other hand gives indications of a very different nature. Net of the most volatile components of the basket, consumer inflation actually slowed between the end of 2011 and the beginning of 2012.

No signs are to be seen of any reversal of the trend for the new year, which according to our estimates should see average annual inflation of between 2.5% and 3%. In a context of high inflation and economic recession, real disposable income is therefore destined to fall, dragging down household consumption with it. The possible increase in VAT in the autumn of 2012, which will be triggered automatically in the absence of measures which will guarantee a balanced budget in 2013 through fiscal reforms, is tending to worsen the picture because it would cause a fall in disposable income and consumption again in 2013.

Further cause for concern is also given by trends for public sector tariffs, affected by public spending measures and cuts on transfers to local authorities. Inflation for foodstuff production also remains high, above all for essential goods. It should stand at over 4% in the middle of 2012, with high price conditions that have now lasted for over a year.

Finally this edition of *Tendenze dei prezzi* has three Special focus sections. The first gives an alternative interpretation of inflation, which uses a dual reclassification of the basket based on the nature of the relative markets and on the hierarchical positioning of goods and services on a personal need, value scale. The second introduces the subject of the new tax on waste (TARES) contained in the "Save Italy" decree, which should be levied from 2013. An analysis is given of the underlying principles and possible impacts on total tax revenues

and household spending. The third, prepared by the General Markets Department of the Ministry of Economic Development, presents the results of monitoring pump prices for fuels recorded on a daily basis on the Italian motorway network.





DOMESTIC PRICES

OIL AND INDIRECT TAXES ARE FUELLING CONSUMER PRICES

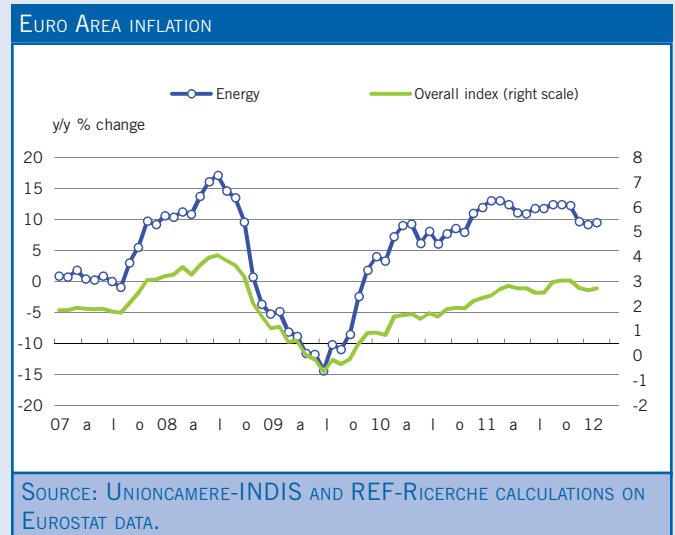
Inflation increased considerably in 2011, fuelled by raw materials prices and the increase in indirect taxation, notwithstanding stagnant household spending. The start of 2012 seems to be following along the same lines. The consequences of adverse climate conditions have been added to new soaring crude prices and a new increase in the VAT rate.

ITALY: BREAKDOWN OF INFLATION						
ANNUAL % CHANGE						
	Avg 2010	Avg 2011	Apr. 11/ Apr. 10	Aug. 11/ Aug. 10	Nov. 11/ Nov. 10	Jan. 12/ Jan. 11
Food	0.2	2.5	2.2	2.2	3.1	2.3
Processed food	0.5	2.3	1.8	2.7	3.2	3.2
Fish and seafood	1.8	5.3	4.9	5.2	6.0	4.6
Fruit and vegetables	-1.5	2.6	4.7	-2.2	1.4	-4.1
Industrial goods	1.1	1.4	1.2	1.0	2.0	2.0
Medical products	2.0	2.3	2.2	2.5	2.7	3.0
Clothing	0.9	1.7	1.3	1.3	3.0	3.1
Footwear	0.8	1.4	1.4	1.3	2.1	2.2
Furniture and furnishings	1.3	2.0	1.8	2.1	2.4	2.4
Household appliances	-0.6	-0.4	-0.6	-0.4	0.2	0.2
Radio, tv etc.	-3.3	-8.9	-9.6	-13.7	-10.2	-9.9
Photog. equip., optical instr.	0.6	0.8	0.7	0.7	1.0	1.1
Household goods	1.7	1.6	1.2	1.5	2.4	2.7
Tools and equip. for house	1.5	2.1	1.7	2.2	2.8	3.1
Products for personal care	0.9	1.1	0.9	1.0	1.6	1.7
Newspapers, books	1.4	1.7	1.6	2.5	1.7	2.1
CDs, magnetic tapes	-6.6	3.9	7.5	5.8	1.7	0.1
Games, toys, sport equip.	0.8	1.4	1.4	1.4	1.5	1.5
Miscellaneous goods	6.8	7.0	7.4	6.1	7.3	6.8
Motor cars and access.	1.0	2.3	2.4	2.1	2.7	2.0
Energy	4.2	11.2	10.7	11.8	13.7	15.5
Heating oil and fuels	11.1	14.6	14.2	15.5	16.2	16.3
Electricity and gas	-4.9	6.3	5.3	6.5	10.1	14.1
Services	1.8	2.3	2.3	2.8	2.2	2.0
Personal care, recreation	1.0	1.6	1.4	1.7	1.9	2.1
Housing	1.5	2.1	2.3	2.1	2.1	2.5
Transport	2.2	3.2	3.2	5.9	2.8	3.6
Health	1.7	1.9	1.7	2.1	1.9	1.8
Financial and n.e.c.	3.5	3.1	2.7	3.4	3.5	1.2
Restaurants and hotels	1.6	2.2	2.0	1.9	1.7	1.3
Regulated prices	1.4	2.1	2.4	1.5	2.4	1.7
Nationally	0.4	0.5	1.0	-0.6	0.7	-0.3
Locally	2.9	4.1	4.3	4.1	4.0	3.9
Rents	2.6	1.6	1.4	1.5	1.8	2.2
Tobacco	3.3	4.1	2.5	4.5	7.0	7.2
All items	1.5	2.8	2.6	2.8	3.3	3.2
All items excluding fresh food and energy	1.4	2.0	1.8	2.1	2.5	2.3

SOURCE: UNIONCAMERE-INDIS AND REF-RICERCHÉ CALCULATIONS ON ISTAT (ICN) DATA.

INTERNATIONAL PRICES CRISIS AND GROWTH OF PRICES IN THE EURO AREA

The year 2011 ended with a slowdown in world economic growth. The Euro Area performed in line with the trends in progress, but with a tendency for the gaps between the trends for different countries widening. Despite weak growth, inflation accelerated compared to the previous year, fuelled by higher raw materials prices. In this context, the different economic environments in European countries produced different results in terms of trends for inflation.



FOOD PRICES PRESSURES DID NOT SPARE FOODSTUFF INFLATION

Foodstuff inflation slowed at the beginning of the year. Once the impact of raw material prices had been absorbed, which had driven inflation in the sector to over the 3% level year-on-year in the spring of 2011, prices settled back in January to more moderate growth of 2.3%. Signs of a partial relaxation in inflationary pressures seen in the latest available figures are in fact the aggregate result of opposing trends of different strengths recorded for different groups of products in the foodstuff basket.

FOODSTUFFS: BREAKDOWN OF INFLATION

Department	ANNUAL % CHANGE					
	Avg 2010	Avg 2011	Apr. 11/ Apr. 10	Aug. 11/ Aug. 10	Nov. 11/ Nov. 10	Jan. 12/ Jan. 11
Processed food	0.5	2.3	1.8	2.7	3.3	3.2
Beverages	0.7	1.1	0.7	1.2	2.0	2.1
Packaged	0.3	2.5	1.7	3.0	3.7	3.7
Fresh food	0.7	3.5	3.1	4.1	4.1	3.8
Frozen food	-0.4	1.1	0.6	1.4	2.2	2.4
Pets food	1.8	1.3	1.0	1.2	2.3	2.4
Meat	0.5	1.9	1.6	2.0	2.5	2.5
Fish and seafoods	1.8	5.3	4.9	5.2	6.0	4.6
Fruit and vegetables	-1.5	2.6	4.7	-2.2	1.4	-4.1
Food and beverages	0.2	2.5	2.2	2.2	3.2	2.3

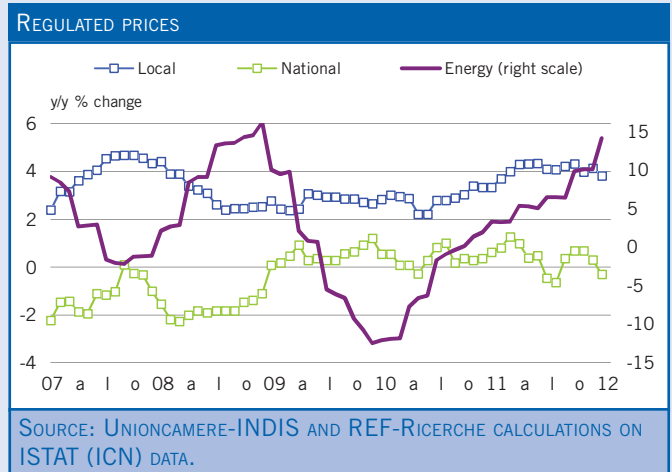
SOURCE: UNIONCAMERE-INDIS AND REF-RICERCHE CALCULATIONS ON ISTAT (ICN) DATA.



ADMINISTERED PRICES

TARIFF INFLATION CONTINUES TO BITE

Tariff inflation continues to race as it now moves towards year-on-year growth of 5%. It has been fuelled further since the beginning of the year as a result of increases in January in both national tariffs (motorway tolls and rail transport) and payments for local public sector services (pressures arose again on tariffs for water services). Electricity and natural gas were again affected by the impact of higher oil prices.



SPECIAL FOCUS

TARES: THE NEW TAX ON SOLID URBAN WASTE IS ARRIVING

All Italian municipalities must apply TARES, the new tax on solid urban waste and general municipal services, from 1st January 2013. Impacts will be seen on the organisational structure of municipalities and on costs for households and companies. The greatest impact will fall on large families in the municipalities in which TARSU (the current tax on urban waste collection) is levied.

