

EDITORIAL

Inflation and economic recession: Italian households in difficulty

The year 2012 is a fundamental turning point for the Italian economy. The completion of measures to put public sector finances in order and the reform processes launched by the technocrat government are having an impact on all the fundamentals of the economy and on inflation.

In actual fact, inflation remained high in the first part of the year, fuelled above all by indirect taxation and crude oil prices.

After accelerating last autumn as a result of the increase in VAT and other indirect taxes, consumer prices stabilised at year-on-year growth rates of greater than 3%. The difficulties of households are becoming more pressing, as they try to cope with a sharp fall in disposable income and an increase in unemployment. The size of the decline in consumer confidence, which reached record lows, suggests that a further contraction in consumption is about to occur.

Inflation has been driven by fuels and energy tariffs in recent months: high oil prices from last year have been added to by rises in excise duties (four increases in 2011 alone). The last measure in chronological order (€20 per thousand litres of unleaded petrol and diesel oil) was launched in the last few weeks to address the consequences of the earthquake which hit the Emilia area.

Further causes for concern come from tariff inflation, which continues to run at a fast pace, fuelled by increases in public transport tariffs and for some local public services (water and urban waste collection services).

Pressures are also being seen on food prices. According to Unioncamere-INDIS surveys, producer inflation trends are expected at year-on-year rates of over 3% even in the summer months.

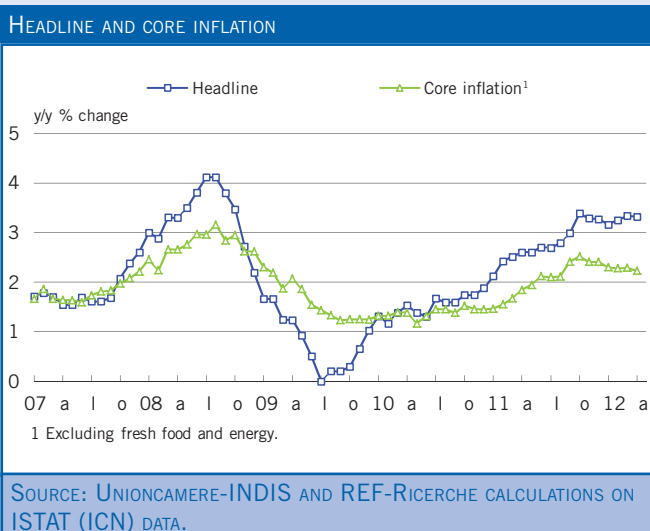
Prospects for the second half of the year are not easy to predict. The halt in the rise of crude oil prices recorded recently will be offset by the probable increase in VAT, which should come into effect from 1st October and further erode purchasing power with consequences for household consumer spending extending into 2013.

This edition of *Tendenze dei prezzi* has two special focus sections.

The first presents the results of an experimental monitoring initiative for a basket of basic essential and frequently purchased retail goods prices conducted by the Chamber of Commerce of Monza and Brianza. The broad range of information,

presented on a scale from the brand name to the store brand down to the first price of the generic product and the measurement of the frequency of promotions, constitutes information which increases awareness of the expected economic benefit of the research activity, favouring consumer empowerment.

The second special focus, provided by the Ministry for Economic Development – General Department for the Market, Competition and Consumers – presents the results of price monitoring at fuel pumps on Italian motorways.





DOMESTIC PRICES

2012: INFLATION OF 3.1%

AND PURCHASING POWER IN DECLINE

The first half of 2012 is a delicate period of change for the Italian economy. Inflation remains high, fuelled by oil prices and indirect taxation. The purchasing power of households is declining, eroded by increases in fuel prices. This is added to by uncertainty over the future, higher unemployment and difficulties in making ends meet with household budgets: a deadly cocktail for household spending.

ITALY: BREAKDOWN OF INFLATION						
ANNUAL % CHANGE						
	Avg 2010	Avg 2011	Aug. 11/ Aug. 10	Nov. 11/ Nov. 10	Jan. 12/ Jan. 11	Apr. 12/ Apr. 11
Food	0.2	2.5	2.2	3.1	2.3	2.4
Processed food	0.5	2.3	2.7	3.2	3.2	3.0
Fish and seafood	1.8	5.3	5.2	6.0	4.6	2.9
Fruit and vegetables	-1.5	2.6	-2.2	1.4	-4.1	-1.6
Industrial goods	1.1	1.4	1.0	2.0	2.0	2.0
Medical products	2.0	2.3	2.5	2.7	3.0	2.1
Clothing	0.9	1.7	1.3	3.0	3.1	3.2
Footwear	0.8	1.4	1.3	2.1	2.2	2.2
Furniture and furnishings	1.3	2.0	2.1	2.4	2.4	2.3
Household appliances	-0.6	-0.4	-0.4	0.2	0.2	0.5
Radio, tv etc.	-3.3	-8.9	-13.7	-10.2	-9.9	-9.4
Photog. equip., optical instr.	0.6	0.8	0.7	1.0	1.1	1.3
Household goods	1.7	1.6	1.5	2.4	2.7	2.9
Tools and equip. for house	1.5	2.1	2.2	2.8	3.1	3.1
Products for personal care	0.9	1.1	1.0	1.6	1.7	1.9
Newspapers, books	1.4	1.7	2.5	1.7	2.1	1.8
CDs, magnetic tapes	-6.6	3.9	5.8	1.7	0.1	-7.1
Games, toys, sport equip.	0.8	1.4	1.4	1.5	1.5	1.3
Miscellaneous goods	6.8	7.0	6.1	7.3	6.8	7.9
Motor cars and access.	1.0	2.3	2.1	2.7	2.0	1.6
Energy	4.2	11.2	11.8	13.7	15.5	15.6
Heating oil and fuels	11.1	14.6	15.5	16.2	16.3	17.2
Electricity and gas	-4.9	6.3	6.5	10.1	14.1	13.5
Services	1.8	2.3	2.8	2.2	2.0	2.0
Personal care, recreation	1.0	1.6	1.7	1.9	2.1	1.9
Housing	1.5	2.1	2.1	2.1	2.5	2.3
Transport	2.2	3.2	5.9	2.8	3.6	2.9
Health	1.7	1.9	2.1	1.9	1.8	1.9
Financial and n.e.c.	3.5	3.1	3.4	3.5	1.2	1.2
Restaurants and hotels	1.6	2.2	1.9	1.7	1.3	1.9
Regulated prices	1.4	2.1	1.5	2.4	1.7	1.0
Nationally	0.4	0.5	-0.6	0.7	-0.3	-0.7
Locally	2.9	4.1	4.1	4.0	3.9	3.1
Rents	2.6	1.6	1.5	1.8	2.2	2.7
Tobacco	3.3	4.1	4.5	7.0	7.2	9.3
All items	1.5	2.8	2.8	3.3	3.2	3.3
All items excluding fresh food and energy	1.4	2.0	2.1	2.5	2.3	2.2

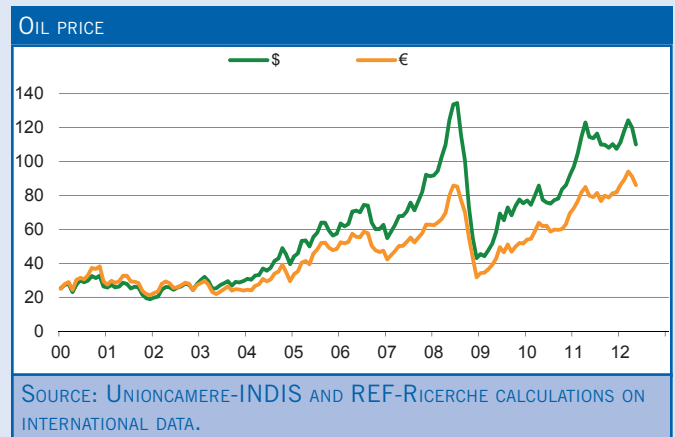
SOURCE: UNIONCAMERE-INDIS AND REF-RICERCHE CALCULATIONS ON ISTAT (ICN) DATA.

COMMODITY PRICES

UNCERTAINTIES OVER GROWTH ARE HOLDING COMMODITIES PRICES DOWN

Commodities prices fell in the first part of the year. Although prices still remain high from a historical viewpoint, the uncertainties over future world growth would suggest a downwards trend in prices.

Oil too, which had shown no signs of yielding until March of this year, has recently been effected by an environment of less pressure on prices. This is also the result of an improvement in the fundamentals, with a more reassuring scenario on the supply side with regard to the security of supplies. Prices of foodstuff commodities stabilised in the first part of the year, especially with regard to cereals, but the pressure on oilseed prices remains.



FOODSTUFFS

PROCESSED FOODSTUFFS: INFLATION IS STILL CLOSE TO 3%

Foodstuff inflation is going at two speeds: despite the exceptional events at the beginning of the year, fruit and vegetable prices are lower than those prevailing twelve months ago. The increases have hit primarily processed products, which are reflecting past increases in producer prices. Reports from retailers suggest that there are still some increases in the pipeline for some basic essential goods.

FOODSTUFFS: BREAKDOWN OF INFLATION						
ANNUAL % CHANGE						
Department	Avg 2010	Avg 2011	Aug. 11/ Aug. 10	Nov. 11/ Nov. 10	Jan. 12/ Jan. 11	Apr. 12/ Apr. 11
Processed food	0.5	2.3	2.7	3.3	3.2	3.0
Beverages	0.7	1.1	1.2	2.0	2.1	2.6
Packaged	0.3	2.5	3.0	3.7	3.7	3.3
Fresh food	0.7	3.5	4.1	4.1	3.8	3.3
Frozen food	-0.4	1.1	1.4	2.2	2.4	2.4
Pets food	1.8	1.3	1.2	2.3	2.4	2.7
Meat	0.5	1.9	2.0	2.5	2.5	2.5
Fish and seafoods	1.8	5.3	5.2	6.0	4.6	2.9
Fruit and vegetables	-1.5	2.6	-2.2	1.4	-4.1	-1.6
Food and beverages	0.2	2.5	2.2	3.2	2.3	2.4

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

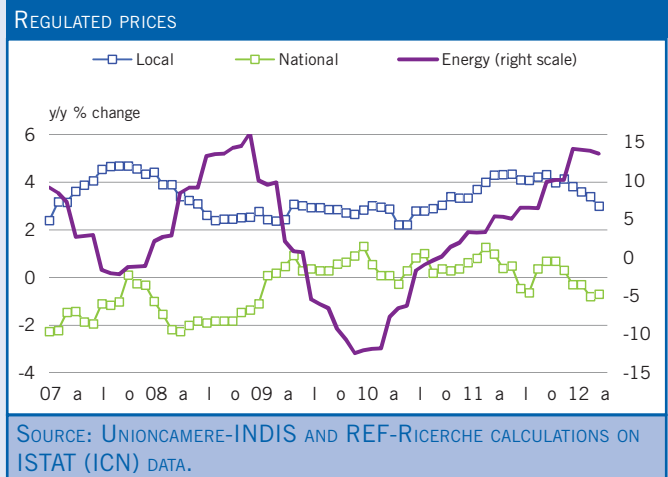


TARIFFS ENERGY TARIFFS ARE DRIVING TARIFF INFLATION

Tariff inflation slowed in the first part of the year. The rates of change are nevertheless still substantial if analysed on a historical basis. The increases are concentrated on energy tariffs which incorporate past rises in crude prices and updates by the sector regulator. Other areas that are overheating include drinking water and urban transport.

SPECIAL FOCUS THE POTENTIAL OF LOCAL PRICE OBSERVATORIES

One of the most important initiatives taken by Chambers of Commerce on the question of consumer prices is that of the activities of Local Price Observatories. A particular initiative was taken by the Chambers of Commerce of two provinces in Lombardy. These were not included in the official consumer price surveys of provincial capitals and in 2008 and 2010 they launched consumer price monitoring experiments conducted with technical support from REF Ricerche. These were two capital towns of provinces which were not involved in the calculation of consumer price indexes published monthly and for which no indicators existed for prices paid in those areas by households. The main objective of the projects was to provide cost of living indicators for the geographical areas in question.



PRICES AT LARGE DISTRIBUTION

Variables	Coefficients	Prob.
Constant		
C(1)	-2.01	0.00
Products		
04	3.08	0.00
06	3.78	0.00
07	1.89	0.00
08	3.60	0.00
09	1.75	0.00
10	1.75	0.00
12	2.56	0.00
13	2.88	0.00
15	3.59	0.00
16	2.36	0.00
18	3.54	0.00
19	1.65	0.00
20	4.56	0.00
21	3.54	0.00
22	1.45	0.00
23	1.13	0.00
24	3.34	0.00
25	1.10	0.00
26	2.55	0.00
27	2.06	0.00
Format		
Discount store	-0.25	0.00
Hypermarket	-0.11	0.00
Supermarket	-0.08	0.00
Traditional grocery store	0.07	0.00
Price scale		
Name brand	0.81	0.00
Store brand	0.40	0.00
Time		
T 7	-0.02	0.00
T 6	-0.04	0.00
T 5	-0.03	0.00
T 4	-0.02	0.00
T 3	-0.01	0.24
T 2	0.03	0.00
T 1	0.00	0.55
R-squared	0.98	

SOURCE: REF-RICERCHE CALCULATIONS.