

EDITORIAL

Inflation falls in the last part of the year

At the time of writing the Council of Ministers has just given the go ahead for the “stability law” (budget) for 2013.

This is good news for prices, because the ordinary and reduced rates for VAT will increase by only one percentage point in 2013 compared to the 2 points originally planned.

There are two changes for disposable household income: from 1st January 2013 the tax rate for the first two income brackets for IRPEF (personal income tax) will be reduced by one percentage point. It is a measure to support purchasing power in the lowest income brackets and which will also offer support to consumption.

Despite the inexorable reduction in household consumer spending over the last year, inflation has remained firmly pegged at over 3%.

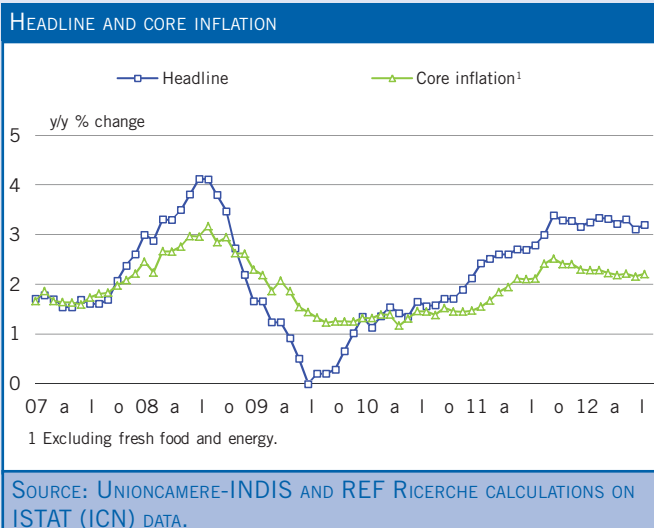
The fall in consumption, which on a chain-weighted basis will exceed 3% in 2010, is set against an increase in inflation by the same amount. Consumer spending is in decline in a combination in which higher prices are offset by lower quantities purchased. Waste is being reduced and larger purchases are being put off until things improve.

Prices are being fuelled by a mix of factors: higher indirect taxes (VAT and excise duties on fuels) are responsible for around one percentage point of growth in the consumer price index and the high oil prices have returned to 110 dollars per barrel due to growing geo-political instability in the Middle East. Public finance requirements and international energy policy issues (Germany and Japan have announced they are abandoning nuclear power) are to be added to the well-known price rigidity, a symptom of the low levels of competition on the domestic goods and services markets.

Prospects for inflation in the last few months of 2012 should tend towards a slowdown, but not without exceptions. Getting over the “hump” of the VAT and the excise duty increase in the autumn of 2011 should lead to a decrease in prices of manufactured goods (clothing, footwear, household utensils, automobiles, etc.) and energy, which are the sectors most affected by the autumn increases.

Foodstuff prices will move in the opposite direction, driven by a new acceleration in producer prices. The Special Focus Section in this edition analyses recent trends for costs in the food processing industry. A varied picture emerges here in which price recoveries along some supply chains, such as that for meat, should be offset by falls in other chains, such as oils and fats and milk derivatives.

The increase in local public sector tariffs, driven by prices for urban, extra urban and rail transport services and for drinking water is not coming to a halt.





DOMESTIC PRICES

WE ARE IN STAGFLATION:

PRICES ARE INCREASING

AND THE ECONOMY IS IN RECESSION

Consumer inflation has remained firmly pegged at over 3% since September 2011. The increase in retail prices began at the end of 2009 and has accelerated over the last year and a half as a result of action taken to consolidate public finances, continues to be associated with persistent difficulties for the Italian economy. Domestic output measured on a chain-weighted basis (i.e. at purchasing power parity) fell by 0.8% compared to the previous quarter and by 2.6% compared to the same quarter in 2011.

We are looking at the fourth consecutive quarterly fall. An idea of the magnitude of the recession in progress is gained by considering that it has returned to the same level as in the first half of 2009, following the bankruptcy of the investment bank Lehman Brothers and the financial crisis which resulted from it.

ITALY: BREAKDOWN OF INFLATION						
ANNUAL % CHANGE						
	Avg 2010	Avg 2011	Nov. 11/ Nov. 10	Jan. 12/ Jan. 11	Apr. 12/ Apr. 11	Aug. 12/ Aug. 11
Food	0.2	2.5	3.1	2.3	2.4	2.6
Processed food	0.5	2.3	3.2	3.2	3.0	2.5
Fish and seafood	1.8	5.3	6.0	4.6	2.9	1.3
Fruit and vegetables	-1.5	2.6	1.4	-4.1	-1.6	3.8
Industrial goods	1.1	1.4	2.0	2.0	2.0	1.8
Medical products	2.0	2.3	2.7	3.0	2.1	1.5
Clothing	0.9	1.7	3.0	3.1	3.2	3.1
Footwear	0.8	1.4	2.1	2.2	2.2	2.0
Furniture and furnishings	1.3	2.0	2.4	2.4	2.3	2.0
Household appliances	-0.6	-0.4	0.2	0.2	0.5	0.4
Radio, tv etc.	-3.3	-8.9	-10.2	-9.9	-9.4	-7.8
Photog. equip., optical instr.	0.6	0.8	1.0	1.1	1.3	1.2
Household goods	1.7	1.6	2.4	2.7	2.9	2.6
Tools and equip. for house	1.5	2.1	2.8	3.1	3.1	2.9
Products for personal care	0.9	1.1	1.6	1.7	1.9	1.9
Newspapers, books	1.4	1.7	1.7	2.1	1.8	1.9
CDs, magnetic tapes	-6.6	3.9	1.7	0.1	-7.1	-7.1
Games, toys, sport equip.	0.8	1.4	1.5	1.5	1.3	1.3
Miscellaneous goods	6.8	7.0	7.3	6.8	7.9	6.3
Motor cars and access.	1.0	2.3	2.7	2.0	1.6	1.6
Energy	4.2	11.2	13.7	15.5	15.6	13.4
Heating oil and fuels	11.1	14.6	16.2	16.3	17.2	13.3
Electricity and gas	-4.9	6.3	10.1	14.1	13.5	13.5
Services	1.8	2.3	2.2	2.0	2.0	2.1
Personal care, recreation	1.0	1.6	1.9	2.1	1.9	2.1
Housing	1.5	2.1	2.1	2.5	2.3	2.3
Transport	2.2	3.2	2.8	3.6	2.9	3.3
Health	1.7	1.9	1.9	1.8	1.9	1.8
Financial and n.e.c.	3.5	3.1	3.5	1.2	1.2	0.8
Restaurants and hotels	1.6	2.2	1.7	1.3	1.9	2.4
Regulated prices	1.4	2.1	2.4	1.7	1.0	1.7
Nationally	0.4	0.5	0.7	-0.3	-0.7	-0.1
Locally	2.9	4.1	4.0	3.9	3.1	4.2
Rents	2.6	1.6	1.8	2.2	2.7	2.8
Tobacco	3.3	4.1	7.0	7.2	9.3	7.2
All items	1.5	2.8	3.3	3.2	3.3	3.2
All items excluding fresh food and energy	1.4	2.0	2.5	2.3	2.2	2.2

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

FORECASTS

AUTUMN 2012: INFLATION FINALLY FALLS

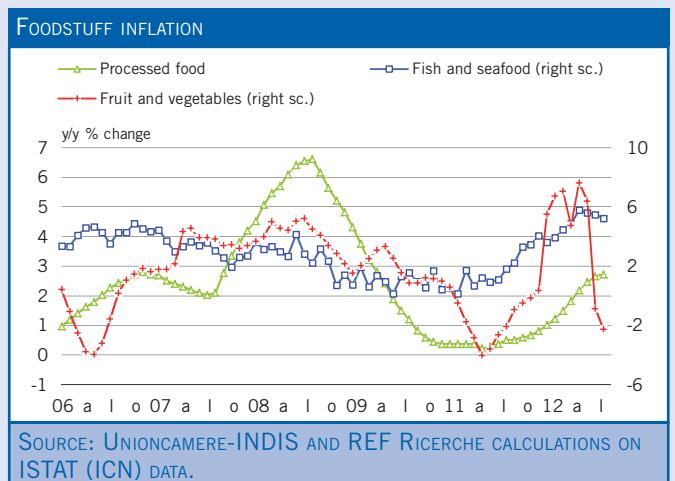
Inflation has grown at rates of over 3% for more than a year now in Italy. The deep recession in consumption does not seem to be affecting this trend. The response of prices to the business cycle is weak because goods and services markets are not competitive. The prospects for prices in coming months remain downwards, which should have a more incisive impact in the first months of 2013, when the weak prospects for domestic demand should prevail over nominal price rigidities. The adjustment by employment to the fall in output is expected to translate into an increase in the unemployment rate. Increases in wages should therefore continue to be moderate.

INFLATION IN ITALY: HISTORICAL DATA AND FORECASTS					
ANNUAL % CHANGE					
	2011 Avg	2012 Jul	2012 Aug	2012 Avg*	2013 Avg*
Consumer prices (ICN)					
Food	2.5	2.6	2.6	2.5	2.6
– ex fresh food	2.4	2.6	2.5	3.0	2.5
Non-energy industrial	0.7	2.0	1.8	1.7	1.5
Energy ¹	11.2	12.0	13.4	14.2	1.7
Services	2.3	1.8	2.1	2.0	2.2
Administered prices ²	5.9	1.5	1.7	1.5	1.6
Rents	1.7	2.8	2.8	2.8	2.8
All items	3.0	3.1	3.2	3.0	2.0
Ex energy	2.1	2.2	2.2	2.1	2.0
Ex fresh food & energy	2.1	2.2	2.2	2.2	1.9
* Forecasts.					
1 Including regulated energy prices (electricity, gas, etc.).					
2 Excluding energy (electricity, gas, etc.).					
SOURCE: UNIONCAMERE-INDIS AND REF RICERCHE CALCULATIONS ON ISTAT (ICN) DATA.					

FOODSTUFFS

STRONG INCREASES FOR FRUIT AND VEGETABLES AND RISES EXPECTED FOR FOOD PRICES

Pressures increased on food inflation in the middle of 2012, driven by fruit and vegetables in particular, due to unfavourable climatic events. In the processed food sector, the prices of packaged cured meat and dairy products were contained. Reports from retailers suggest that further increases are in the pipeline for some basic essential goods, including meat, which is being affected by increases in feedstuffs, and some fruit and vegetable products.

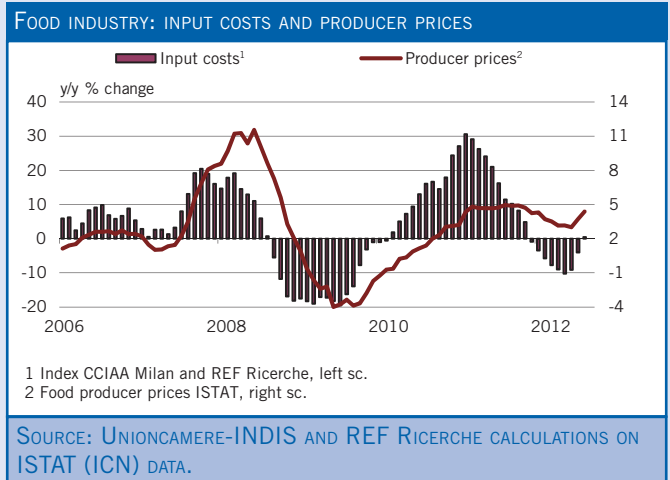




SPECIAL FOCUS FOODSTUFF SUPPLY CHAIN: MARGINS EXIST TO CONTAIN RECENT RAW MATERIAL INCREASES

Unfavourable climatic events over the summer generated a series of increases in international cereal prices. These increases were rapidly passed on to domestic markets, which signalled a series of pressures on semi-processed foodstuffs which could result in a further acceleration in prices further downstream on finished products and therefore on consumer prices.

A picture is emerging in which despite the recent pressures, although high, input costs for the foodstuff industry have returned to the levels already reached at the beginning of 2011. It seems reasonable to believe that although there are exceptions for some supply chains, margins exist to prevent producer inflation from accelerating further.



TARIFFS INFLATION FOR REGULATED PRICES REACHED 5%

Regulated prices accelerated again in the second quarter. They are being fuelled primarily by electricity tariffs driven by incentives for renewable energy and local public transport, which is being affected by cuts to transfers to local governments.

