

EDITORIAL

Inflation falling in the last part of the year and the first half of 2013

Inflation is falling and households are recovering purchasing power.

Considered by itself, this is good news at the end of a year, 2012, in which household spending capacity reduced appreciably, squeezed by fiscal pressure which reached record high levels (due to the introduction of IMU, a municipal property tax on homes, increases in excise duties on fuels and the hike in the ordinary VAT rate to 21%). However the fundamentals which caused inflation to fall are not healthy.

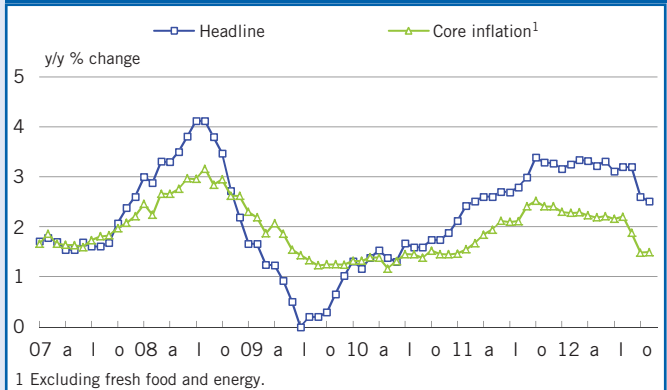
The duration and gravity of the crisis have resulted in a rapid deterioration of household assessments of present and future household and national budgets. Domestic consumption has suffered the most severe consequences with time rewinding in a manner never seen in previous periods of recession.

Per capita spending on food in 2012, calculated using a chain-weighted method, i.e. net of price increases, fell to levels last seen in 1979 and in 1986 for spending on clothes. New car registrations fared even worse, winding back to the end of the nineteen-seventies. In such a difficult context, 2013 will inevitably also be full of unknowns, with an election that is more uncertain than ever. Now that the period of technocrat government is over, the challenge to be faced by the new executive that will come into office in the spring will consist to a large extent of combining a programme to revive growth containing the necessary support for household purchasing power with action to balance government budgets (as we write, Parliament has just given the final approval to the legislative decree which will implement the reform to balance government budgets and which renders the amendment to article 81 of the Constitution operational). A glimmer of recovery may materialise towards the end of 2013, but much will depend on how much the pressure eases on the Italian sovereign debt market, which could then be followed by a relaxation of the credit squeeze, and on how much the national economy is driven by the exports, the only part at present which is showing signs of vitality.

Prices in the first half of the year will again see inflation falling rapidly, especially for industrial goods and with added uncertainty for consumer food prices. As documented by the Unioncamere-INDIS Observatory, the requests to raise prices made by industry to mass retailers suggest that new increases are in the offing should they be answered. Inflation will come under pressure again at the beginning of the summer 2013 when a further percentage point increase will be triggered on the ordinary VAT rate, raising it from 21% to 22% on 1st July.

Finally, this edition of *Tendenze dei prezzi* has two Special Focus Sections. The first illustrates a simulation of the impact of the new tax on urban refuse and on general municipal services (TARES tax), which comes into force from 2013. The second, by the Ministry of Economic Development, reports on some statistical notes about fuel prices and consumption.

HEADLINE AND CORE INFLATION



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



DOMESTIC PRICES

FALLING INFLATION IN THE AUTUMN

Changes occurred in the second half of 2012: inflation fell sharply after over a year and gave some respite to household purchasing power. Energy products and regulated tariffs continue to fuel consumer prices. The consumer crisis is hitting non-food products and services hardest.

ITALY: BREAKDOWN OF INFLATION

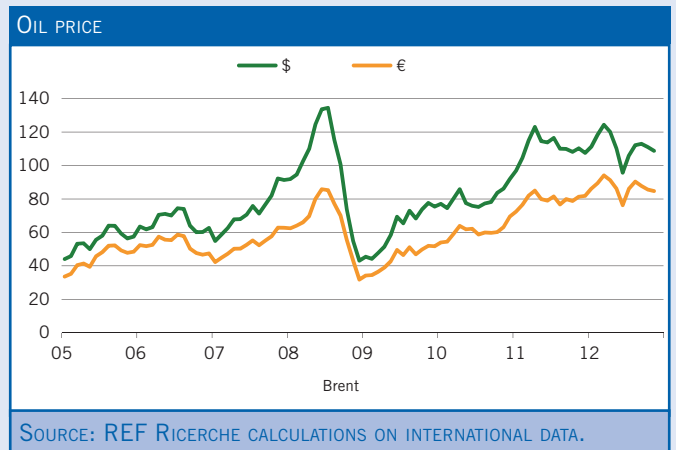
ANNUAL % CHANGE						
	Avg 2010	Avg 2011	Jan. 12/ Jan. 11	Apr. 12/ Apr. 11	Aug. 12/ Aug. 11	Nov. 12/ Nov. 11
Food	0.2	2.5	2.3	2.4	2.6	2.4
Processed food	0.5	2.3	3.2	3.0	2.5	2.2
Fish and seafood	1.8	5.3	4.6	2.9	1.3	-0.4
Fruit and vegetables	-1.5	2.6	-4.1	-1.6	3.8	3.6
Industrial goods	1.1	1.4	2.0	2.0	1.8	0.8
Medical products	2.0	2.3	3.0	2.1	1.5	1.2
Clothing	0.9	1.7	3.1	3.2	3.1	1.6
Footwear	0.8	1.4	2.2	2.2	2.0	1.3
Furniture and furnishings	1.3	2.0	2.4	2.3	2.0	1.4
Household appliances	-0.6	-0.4	0.2	0.5	0.4	-0.1
Radio, tv etc.	-3.3	-8.9	-9.9	-9.4	-7.8	-8.5
Photog. equip., optical instr.	0.6	0.8	1.1	1.3	1.2	1.0
Household goods	1.7	1.6	2.7	2.9	2.6	1.8
Tools and equip. for house	1.5	2.1	3.1	3.1	2.9	2.5
Products for personal care	0.9	1.1	1.7	1.9	1.9	1.5
Newspapers, books	1.4	1.7	2.1	1.8	1.9	1.3
CDs, DVDs	-6.6	3.9	0.1	-7.1	-7.1	-9.4
Games, toys, sport equip.	0.8	1.4	1.5	1.3	1.3	1.3
Miscellaneous goods	6.8	7.0	6.8	7.9	6.3	4.3
Motor cars and access.	1.0	2.3	2.0	1.6	1.6	0.0
Energy	4.2	11.2	15.5	15.6	13.4	11.6
Heating oil and fuels	11.1	14.6	16.3	17.2	13.3	11.5
Electricity and gas	-4.9	6.3	14.1	13.5	13.5	11.4
Services	1.8	2.3	2.0	2.0	2.1	1.5
Personal care, recreation	1.0	1.6	2.1	1.9	2.1	1.2
Housing	1.5	2.1	2.5	2.3	2.3	2.2
Transport	2.2	3.2	3.6	2.9	3.3	3.1
Health	1.7	1.9	1.8	1.9	1.8	1.5
Financial and n.e.c.	3.5	3.1	1.2	1.2	0.8	0.1
Restaurants and hotels	1.6	2.2	1.3	1.9	2.4	1.2
Regulated prices	1.4	2.1	1.7	1.0	1.7	1.5
Nationally	0.4	0.5	-0.3	-0.7	-0.1	-0.7
Locally	2.9	4.1	3.9	3.1	4.2	4.5
Rents	2.6	1.6	2.2	2.7	2.8	2.6
Tobacco	3.3	4.1	7.2	9.3	7.2	2.6
All items	1.5	2.8	3.2	3.3	3.2	2.5
All items excluding fresh food and energy	1.4	2.0	2.3	2.2	2.2	1.5

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

INTERNATIONAL PRICES

RAW MATERIALS: THE SLOWDOWN IN THE INTERNATIONAL BUSINESS CYCLE IS EASING PRESSURES

The second half of 2012 was a delicate period of change for supplier markets. The slowdown in the growth of BRIC countries reduced pressures on the demand side. Even though the international business cycle is weak and despite some reductions, the prices of the principal raw materials remain high. The causes of the high commodity prices include the continuing political instability in the Middle East, adverse weather in production regions, the huge amounts of liquidity in circulation and low levels of inventories.



FOODSTUFFS

DESPITE SOME FALLS, FOOD PRICE INFLATION IS HIGH. NEW PRICE RISES IN SIGHT

Despite some slight falls, food price inflation remains high. Fruit and vegetable prices rose sharply in the autumn, while growth in retail processed food prices slowed, although with exceptions and differences in individual sectors. Requests from industry to wholesalers and retailers suggest that new increases are in the pipeline for some basic essential goods, including meat (which is being affected by increases in feedstuffs), oil and wine.

FOODSTUFFS: BREAKDOWN OF INFLATION

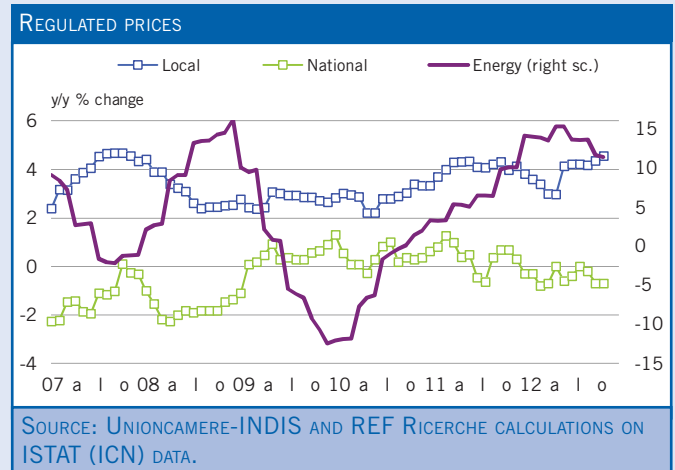
ANNUAL % CHANGE						
Department	Avg 2010	Avg 2011	Jan. 12/ Jan. 11	Apr. 12/ Apr. 11	Aug. 12/ Aug. 11	Nov. 12/ Nov. 11
Processed food	0.5	2.3	3.2	3.0	2.5	2.2
Beverages	0.7	1.1	2.1	2.6	2.9	2.4
Packaged	0.3	2.5	3.7	3.3	2.8	2.4
Fresh food	0.7	3.5	3.8	3.3	2.0	1.6
Frozen food	-0.4	1.1	2.4	2.4	2.4	2.0
Pets food	1.8	1.3	2.4	2.7	2.7	2.0
Meat	0.5	1.9	2.5	2.5	2.4	2.4
Fish and seafoods	1.8	5.3	4.6	2.9	1.3	-0.4
Fruit and vegetables	-1.5	2.6	-4.1	-1.6	3.8	3.6
Food and beverages	0.2	2.5	2.3	2.4	2.6	2.4

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



TARIFFS LOCAL AND ENERGY TARIFFS ARE DRIVING UP REGULATED PRICES

Tariff inflation is also continuing to drive up consumer prices. The increases which hit regulated electricity and natural gas tariffs are affecting this scenario, together with rises in local public service prices. Nationally controlled tariffs are more stable, with comforting signals arriving from the rail sector.



SPECIAL FOCUS THE IMPACT OF THE TARES TAX ON REFUSE COLLECTION AND DISPOSAL SPENDING FOR HOUSEHOLDS AND COMPANIES

The local public services sector is preparing for fundamental change in the new year. One of the most important changes to occur in 2013 will be the introduction of the new urban refuse tax (TARES tax), which municipalities will also use to finance other services. This special focus tries to quantify the impact that the new tariff system will have on households and companies.

MUNICIPALITIES WHICH APPLY WASTE DISPOSAL TAX TARSU: ESTIMATION OF INTRODUCTION OF TARES ON FAMILIES	
FULL COST RECOVERY, TARIFF CHARGE DISTRIBUTION, EXCLUDING FEE FOR INDIVISIBLE SERVICES	
Families	% change
1 member (50 sqm)	-2.8
3 members (100 sqm)	13.0
5 members (120 sqm)	29.8

SOURCE: UNIONCAMERE-INDIS AND REF RICERCHE CALCULATIONS.