

## EDITORIAL

# INFLATION 2008: WILL EDN AT 3%

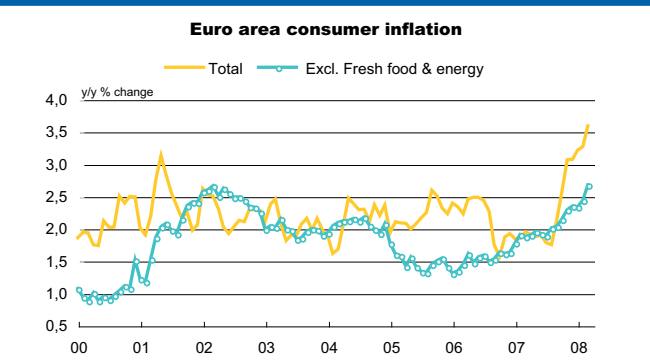
The new number of *Tendenze dei prezzi* reports that inflation has risen to higher than 3% after the moderate price trends seen in 2007. The acceleration was rather sudden and started to manifest last autumn. The trend not only affected Italy but also the entire euro area, which reached the highest level of inflation in the history of the single currency.

The simultaneousness of the phenomenon simply reflects the common cause which has been increasing pressure on prices in recent months. The prices of foodstuffs and energy products have in fact increased in all countries in the area. The rises in raw materials prices which are continuing to grow particularly strongly lie at the roots of these increases. Generally speaking the trend for commodities prices reflects the strong pressure from the rise in demand from emerging countries. With their entrance onto international trade markets a series of factors have affected the global economic scenario which were not present before, the most clamorous of which probably being the low cost of labour in large Asian countries.

The upwards shift in world demand is occurring gradually as demonstrated by the persistent growth in oil prices which have been increasing constantly since 2004. The same is also occurring on cereals markets. Markets are under pressure because it always requires time to increase the supply, which in this case is of oil. Its price therefore tends to increase as soon as markets start to encounter difficulties with price movements also amplified by speculative demand.

While until now rises in oil prices have been offset by the low cost of manufactured products, this has not been possible for foodstuffs because they are to a large extent domestically or at least EU produced and often highly perishable. Increases in cereals prices have spread along various packaged food supply chains because of the strong interdependence between agricultural markets. In fact cereals enter the livestock food chain and production costs in that sector have started to increase. The effects have also been felt on milk, cheeses, eggs, meat, bread and pasta.

### SERVICE PRODUCT CONSUMER INFLATION



SOURCE: REF CALCULATIONS ON ISTAT DATA



## INTERNATIONAL PRICES

### INFLATION AT RECORD HIGH LEVELS IN THE EURO AREA

European inflation has reached its highest level ever in the history of the single European currency at 3.6%. Foodstuffs and energy products lie at the basis of this acceleration suffering from the knock-on effect of increases in raw materials prices. The phenomenon has determined not only a rise in the index as a whole but also in core inflation. Generally speaking, however, all the increases seem to be attributable to oil and cereal prices without there being any evidence of a secondary impact on wages. In the future this will be one of the factors which will condition expectations.

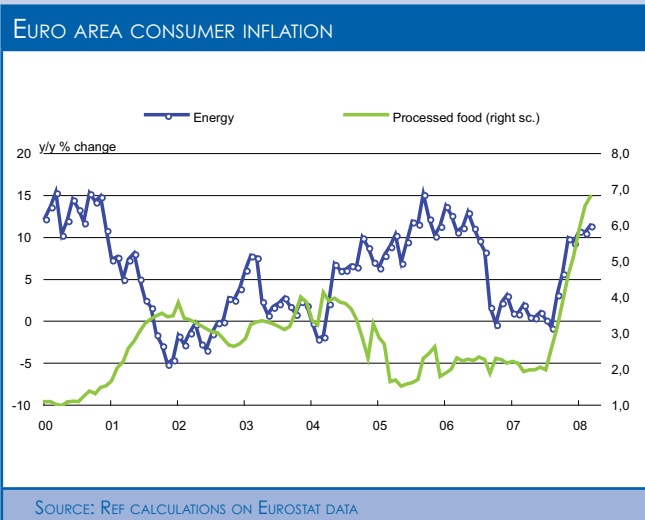
#### ITALY: BREAKDOWN OF INFLATION

Settori	ANNUAL % CHANGE				
	Avg 2006	Avg 2007	Oct-07/ Oct-06	Dec-07/ Dec-06	Mar-08/ Mar-07
<b>Food</b>	<b>1,7</b>	<b>2,8</b>	<b>3,3</b>	<b>4,0</b>	<b>5,3</b>
Processed food	2,0	2,7	3,3	4,2	5,5
Fish and seafood	4,2	3,2	2,0	2,7	3,3
Fruit and vegetables	-0,8	3,3	3,5	3,4	5,0
<b>Industrial goods</b>	<b>1,1</b>	<b>1,2</b>	<b>1,2</b>	<b>1,4</b>	<b>1,4</b>
Medical products	0,3	0,5	0,6	0,7	0,8
Clothing	1,3	1,4	1,5	1,6	1,7
Footwear	1,1	1,2	1,2	1,1	1,3
Furniture and furnishings	1,9	2,1	2,2	2,5	2,5
Household appliances	-1,0	-0,5	-0,3	-0,2	0,0
Radio, Tv, etc.	-9,3	-10,5	-11,1	-7,5	-8,8
Photog. equip., optical instr.	1,1	1,0	0,7	0,9	1,2
Household goods	1,5	2,5	2,6	2,5	2,6
Tools and equip. for house	2,1	3,0	3,1	3,0	2,9
Products for personal care	0,7	1,2	1,3	1,4	1,6
Newspapers, books	1,8	2,8	2,8	2,4	1,4
CD, magnetic tape	0,5	-0,2	-0,3	0,4	0,5
Games, toys, sport equip.	0,3	1,0	0,9	0,9	0,6
Miscellaneous goods	8,9	5,0	4,0	5,3	7,8
Motor cars and access.	1,7	1,7	1,6	1,5	1,1
<b>Energy</b>	<b>8,1</b>	<b>1,5</b>	<b>3,0</b>	<b>6,5</b>	<b>9,7</b>
Heating oil and fuels	6,1	0,7	6,0	11,7	14,4
Electricity and gas	10,8	1,9	-1,3	-1,1	2,9
<b>Services</b>	<b>2,3</b>	<b>2,0</b>	<b>2,0</b>	<b>2,2</b>	<b>3,3</b>
Personal care, recreation	1,5	-1,6	-2,4	-2,2	2,0
Housing	2,3	3,8	4,5	4,7	5,8
Transport	2,9	2,6	3,0	3,0	5,0
Health	2,3	2,6	2,7	2,7	3,1
Financial and n.e.c.	1,9	1,3	1,2	1,4	1,6
Restaurants and hotels	2,5	2,6	2,7	2,9	2,9
<b>Regulated prices</b>	<b>0,3</b>	<b>0,9</b>	<b>2,0</b>	<b>1,7</b>	<b>0,4</b>
Nationally	-1,2	-1,2	0,1	-0,3	-2,2
Locally	2,8	4,0	4,7	4,4	3,9
<b>Rents</b>	<b>2,5</b>	<b>2,4</b>	<b>2,3</b>	<b>2,3</b>	<b>2,1</b>
<b>Tobacco</b>	<b>6,3</b>	<b>4,2</b>	<b>2,7</b>	<b>2,7</b>	<b>2,8</b>
<b>All-items</b>	<b>2,1</b>	<b>1,8</b>	<b>2,1</b>	<b>2,6</b>	<b>3,3</b>
<b>All-items excluding fresh food and energy</b>	<b>1,7</b>	<b>1,8</b>	<b>2,0</b>	<b>2,2</b>	<b>2,7</b>

SOURCE: REF CALCULATIONS ON ISTAT DATA (NIC)

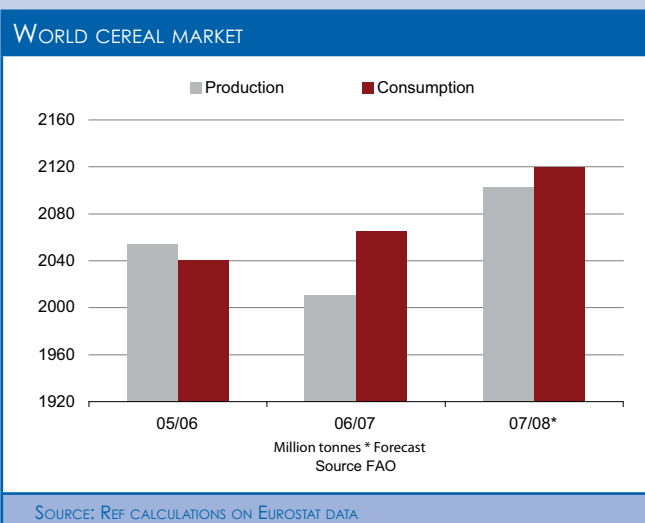
## SPECIAL FOCUS CONTINUED PRESSURE ON FOODSTUFF RAW MATERIALS

Agricultural raw materials markets are subject to a series of pressures which have pushed the main commodity prices up to record high levels. Prices are affected by a structural change in the demand which in the long term will lead to a revision of food consumption patterns among emerging populations and a consequent repositioning of the supply. Moreover, in the medium term, markets will encounter difficulties on the supply side in guaranteeing adequate levels of output in the presence of increased demand due to industrial uses of some cereals (maize in particular, used in the production of biofuels).



## DOMESTIC PRICES INFLATION TOWARDS 3.5%

Inflation reached 3.3% in March forced upwards by energy product and foodstuff prices. The trend changed suddenly last autumn when international prices of agricultural raw materials rose sharply pushing consumer prices up with them. The knock-on effect was rapid and the effects of high oil prices also emerged at the same time. Together they accounted for approximately 80% of the increase in inflation in the last half of the year. A further acceleration is not to be excluded.





# FORECASTS

## INFLATION OF GREATER THAN 3% ALSO IN THE MONTHS TO COME

The higher raw materials prices seen on international markets in recent months are destined to produce effects on price trends for the rest of the year. Rates of inflation higher than 3% will persist at least until the summer with the consequence that the forecast for average inflation in 2008 stands at 3%. The acceleration in foodstuffs and energy product inflation higher than trends for nominal wages is reducing the purchasing power of households and increasing the possible risk of higher wage claims today fuelling higher prices tomorrow.

INFLATION IN ITALY: HISTORICAL DATA AND FORECASTS

	ANNUAL % CHANGE				
	2005	2006	2007	2008	2008
	Avg	Avg	Avg	Mar	Avg (*)
<b>Consumer prices (NIC)</b>					
Food	0,1	1,7	2,8	5,3	4,5
- ex fresh food	2,3	2,0	2,7	5,5	5,4
Non-energy					
industrial	0,9	1,2	1,2	1,4	1,6
Energy <sup>(1)</sup>	8,2	2,8	2,8	9,7	7,1
Services	2,9	2,3	2,0	3,3	3,0
Admistrred prices <sup>(2)</sup>	0,0	0,3	0,8	0,4	0,5
Rents	2,4	2,5	2,4	2,1	2,1
All-items	1,9	2,1	1,8	3,3	3,0

(\*) Forecasts  
 (1) Including regulated energy prices (electricity, gas, etc.)  
 (2) Excluding energy (electricity, gas, etc.)

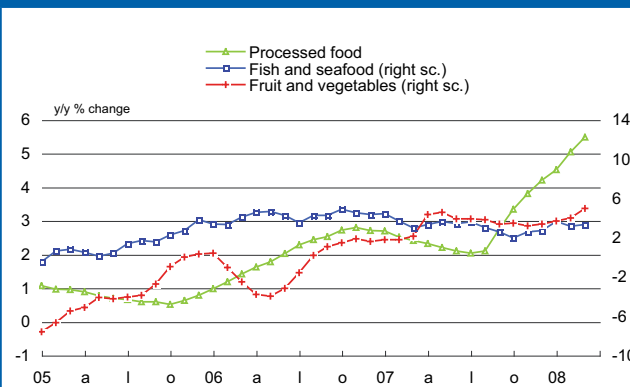
SOURCE: REF CALCULATIONS ON ISTAT DATA (NIC)

# FOODSTUFFS

## PRESSURE ON FOODSTUFF SUPPLY CHAINS

Foodstuff inflation is experiencing a phase of significant inflation not seen for some time. The strong growth in cereals prices on international markets lies behind the increases and it has affected price trends on a number of traditionally "short" packaged food chains in which the cost of the raw materials accounts for a large percentage of the end consumer price. The knock-on effect occurred so rapidly that consumer price trends aligned with those of the production prices back up the chain. At the same time the higher production prices tend to suggest that retail distribution margins are being compressed.

FOODSTUFF INFLATION



SOURCE: REF CALCULATIONS ON INTERNATIONAL