

## EDITORIAL

Consumer inflation has risen to 1.5% year-on-year in recent months, following a gradual upwards path started in the second half of 2009 at a particularly low level.

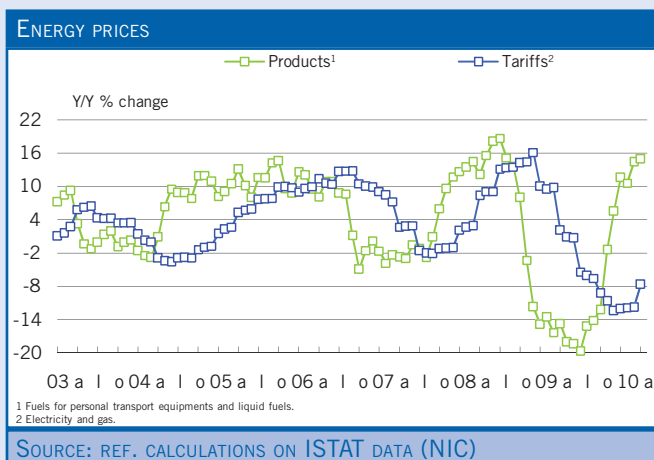
The trends that are driving prices are explained by two separate phenomena, which have different origins and are acting in opposing directions.

The first factor to consider is that of the influence exercised on inflation by the recovery of the international business cycle and by the rise in raw materials and oil prices in particular. Energy inflation is being pushed upwards by the effects of the initial impact of crude oil increases being passed on to consumer prices. The world growth scenario appears to be highly differentiated, with lively stimulation coming from emerging countries and a rather slow phase of recovery in industrialised countries which are suffering from a series of uncertainties over growth prospects associated with economic policy exit strategies. For Italy in particular, the path to recovery following the 2008-2009 crisis seems modest and will be affected by constraints on growth due to measures taken to cut back public spending contained in recent public finance legislation.

The second factor to consider, however, is connected with the growth scenario for the Italian economy and with developments concerning domestic demand variables.

Generally although the symptoms of increased inflation are still very small, the main fluctuations are the result of variations in raw materials prices more than anything else, while the indicators of core inflation are more stable due to the delays in which past falls in the prices of raw materials have affected industrial production costs and also to the consequences of the crisis in terms of weak end user demand and its negative repercussions on the labour market.

Part of the increase in unemployment that occurred in 2009 is being transferred to 2010, which will lead to a period of contained trends for wages. Available household income will be affected by this scenario with impacts on consumer spending. It is therefore expected that core inflation will continue to stabilise during the remaining part of the year, also because the weakness of domestic demand is making it difficult for firms to pass on increases in input prices to sales prices. The profit margins of firms will therefore continue to remain under pressure, since the increases in raw materials prices will offset the benefits obtained from contained labour costs.





# DOMESTIC PRICES

## CORE INFLATION IS AFFECTED BY THE WEAKNESS OF DEMAND

The return of inflation is continuing in the middle part of the year, rising to 1.5% annually in April. If it is considered that price trends were flat in the second half of the last year, then it can be seen that the recovery was not secondary in nature, despite the still rather low levels of inflation.

The acceleration in recent months is, however, almost entirely related to international growth variables, with raw materials and oil prices on the rise and the initial impact passed on to the energy component of the consumer price index. If, however, we look at core inflation, the trend has been more stable at below 1.5% for more than six months, after slowing in the first half of the last year. The picture is one in which weak domestic demand is suffering from difficulties on the labour market and firms have experienced a period of squeezed profit margins due to the increase in CLUP.

ITALY: BREAKDOWN OF INFLATION					
ANNUAL % CHANGE					
	Avg 2008	Avg 2009	Oct. 09/ Oct. 08	Jan. 10/ Jan. 09	Apr. 10/ Apr. 09
<b>Food</b>	<b>5.3</b>	<b>1.9</b>	<b>0.7</b>	<b>0.4</b>	<b>-0.1</b>
Processed food	5.7	1.9	0.6	0.4	0.4
Fish and seafood	2.7	1.0	0.6	0.5	0.7
Fruit and vegetables	4.1	1.8	1.2	0.6	-2.8
<b>Industrial goods</b>	<b>1.5</b>	<b>1.2</b>	<b>1.1</b>	<b>1.0</b>	<b>1.0</b>
Medical products	1.0	2.2	2.7	2.6	2.7
Clothing	1.7	1.2	1.0	0.8	0.8
Footwear	1.4	1.1	1.0	0.9	0.7
Furniture and furnishings	2.6	1.7	1.3	1.2	1.3
Household appliances	0.0	-0.2	-0.2	-0.2	-0.6
Radio, TV, etc.	-10.4	-6.6	-2.1	-4.9	-2.3
Photog. equip., optical instr.	1.5	1.2	1.0	0.7	0.5
Household goods	2.9	2.4	2.1	2.0	1.9
Tools and equip. for house	3.0	2.4	2.2	1.8	1.6
Products for personal care	1.7	1.7	1.5	1.3	1.0
Newspapers, books	2.2	2.2	2.1	2.7	2.2
CDs, magnetic tapes	-1.1	-6.9	-5.8	-10.5	-16.0
Games, toys, sport equip.	0.8	1.2	1.3	0.9	0.7
Miscellaneous goods	6.4	3.6	3.3	5.3	4.6
Motor cars and access.	1.6	1.4	0.8	0.4	0.6
<b>Energy</b>	<b>10.1</b>	<b>-8.9</b>	<b>-11.3</b>	<b>0.8</b>	<b>4.8</b>
Heating oil and fuels	10.4	-13.2	-12.3	11.6	15.0
Electricity and gas	9.9	-1.8	-9.3	-12.1	-7.7
<b>Services</b>	<b>3.2</b>	<b>1.7</b>	<b>1.4</b>	<b>1.7</b>	<b>2.1</b>
Personal care, recreation	1.4	1.9	1.6	1.3	0.9
Housing	4.8	2.3	2.1	2.0	1.3
Transport	6.0	1.3	0.8	0.9	3.9
Health	3.3	2.3	2.1	2.0	1.8
Financial and n.e.c.	1.7	2.6	2.9	4.0	3.5
Restaurants and hotels	2.6	1.2	1.0	1.5	1.6
<b>Regulated prices</b>	<b>0.3</b>	<b>1.4</b>	<b>1.6</b>	<b>2.0</b>	<b>1.3</b>
Nationally	-1.8	0.3	0.6	1.3	0.1
Locally	3.1	2.8	2.9	2.8	2.9
<b>Rents</b>	<b>2.6</b>	<b>3.1</b>	<b>2.8</b>	<b>2.6</b>	<b>2.9</b>
<b>Tobacco</b>	<b>4.3</b>	<b>4.1</b>	<b>2.9</b>	<b>5.4</b>	<b>2.5</b>
<b>All items</b>	<b>3.3</b>	<b>0.8</b>	<b>0.3</b>	<b>1.3</b>	<b>1.5</b>
<b>All items excluding fresh food and energy</b>	<b>2.7</b>	<b>1.6</b>	<b>1.3</b>	<b>1.3</b>	<b>1.4</b>

SOURCE: REF. CALCULATIONS ON ISTAT DATA (NIC)

# FORECASTS

## 2010 A YEAR OF MODERATION

The estimate for inflation for 2010 continues to be 1.5% with respect to the previous year.

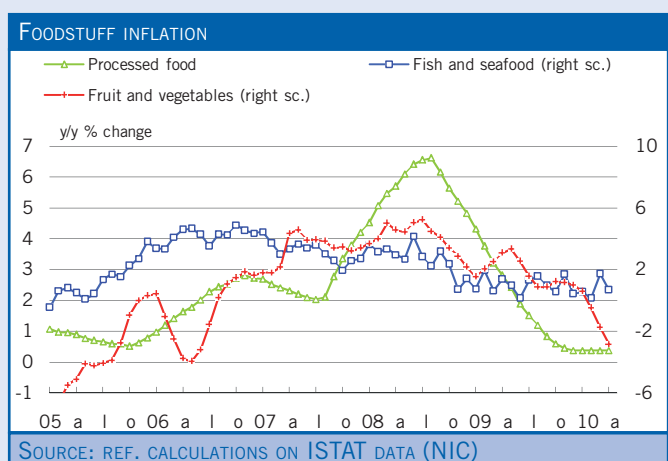
Price trends will continue along a moderately upwards path, driven mainly by pressures from international raw materials markets, while core inflation will continue to be affected by the weakness of domestic demand. Tariffs will be affected by some upward pressures linked to intervention in public finances, which will nevertheless tend to be offset by cuts in the prices of medicines.

INFLATION IN ITALY: HISTORICAL DATA AND FORECASTS				
ANNUAL % CHANGE				
	2008	2009	2010	2010
	Avg	Avg	Apr.	Avg*
<b>Consumer prices (NIC)</b>				
Food	5.4	1.8	-0.1	0.2
– ex fresh food	5.7	1.9	0.4	0.7
Non-energy industrial	1.5	1.1	1.0	1.0
Energy <sup>1</sup>	10.1	-8.9	4.8	3.7
Services	3.2	1.7	2.1	1.7
Administered prices <sup>2</sup>	0.3	1.4	1.3	1.2
Rents	2.6	3.1	2.9	2.7
<b>All items</b>	<b>3.3</b>	<b>0.8</b>	<b>1.5</b>	<b>1.5</b>
* Forecasts				
1 Including regulated energy prices (electricity, gas, etc.).				
2 Excluding energy (electricity, gas, etc.).				
SOURCE: REF. CALCULATIONS ON ISTAT DATA (NIC)				

# FOODSTUFFS

## FRESH FRUIT AND VEGETABLES PRICES ARE DRIVING FOODSTUFF INFLATION DOWNWARDS

Foodstuff inflation stood at -0.1% in April. Packaged foodstuffs, which were responsible for a gradual deceleration in prices in this sector for a long time, have been stable since November at 0.4% and the slide of foodstuff inflation into negative figures is entirely due to fresh fruit and vegetable prices.

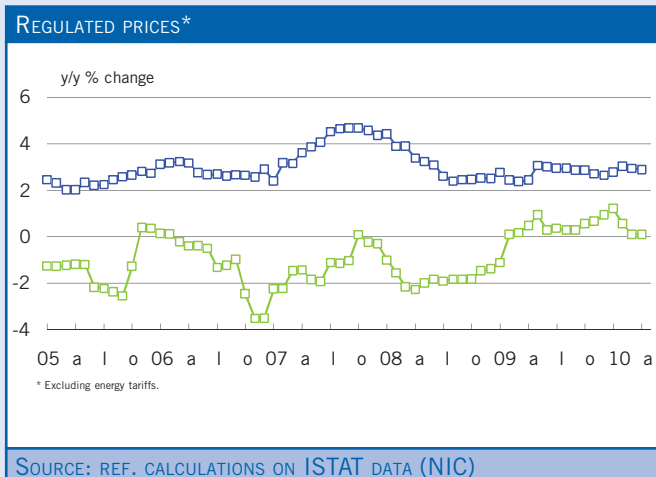




# TARIFFS

## NON-ENERGY TARIFF INFLATION IS SLOWING

*Inflation trends for non-energy tariffs slowed in the first few months of 2010, reflecting a decrease by more than one percentage point in nationally regulated tariffs and the stabilisation of locally regulated tariffs at around 3% annually.*



## SPECIAL FOCUS

### TARIFFS FOR ELECTRICITY SUPPLIES: 2010 A YEAR OF MODERATION

*Consumer inflation for electricity tariffs measured by the ISTAT (Italian national office for statistics) recorded a sharp slowdown in annual trends in 2009, followed by a period of deflation that began in the second quarter of 2009 and which continued into the first months of 2010. Spending on electricity also fell. The reasons for the phenomenon included the fall in oil prices until the beginning of 2009, the methods of supply employed by the Single Buyer for the protected market and intervention taken by the Electricity and Gas Authority on the terms and conditions of supply. The introduction of two rate time of use prices is planned from 1<sup>st</sup> July 2010 for domestic customers with electronic meters. It will cost more to consume electricity in the middle of the day, less in the evening and at weekends and on national holidays.*

