EDITORIAL

Inflation returns to over 1.5%

Italian inflation has risen modestly again in recent months, reaching more than one and a half percentage points over the summer period. This slight acceleration originated in a context in which foodstuffs inflation, having emerged from a slow period, is recording modest increases in prices, while after months of stability at around one percent, non foodstuffs inflation is showing signs of rising. A more careful examination within the general foodstuffs sector shows that on the whole those items driving increases are limited to a few specific sectors, in a framework of generally stable price movements, considerations which can also be considered valid for changes in private sector services prices. The only really divergent note with respect to these trends is that of the tariffs sector, which recorded an acceleration that is not secondary in recent months and which reflects increases in a large number of items. This context of weak inflationary pressures must be interpreted in terms of the weakness of domestic demand in 2010. Despite the non secondary recovery in GDP recorded in the first half, consumption has remained stagnant and this reduces the capacity of firms to pass on higher raw materials costs further down the supply chain, especially in a context of contained use of plant.

Moreover, the growth picture is not destined to change in 2011, since most of the domestic recovery is still dependent on foreign demand and signs of a weakness in the international economic situation are emerging in this respect. The year 2010 is therefore destined to end with average annual inflation of 1.5% with a few marginal signs of acceleration in the last quarter of the year, a trend which will continue during the course of next year. General price trends in 2011 will remain in line with those for this year at an average annual rate of 1.6%.

This issue of “Tendenze dei prezzi” has two special focus sections. The first presents the initiative commenced by the Milan Chamber of commerce, with the support of Unioncamere, which organised periodic monitoring of electricity prices paid by SMEs and will be extended from 2010 to include some regional *Unioni* and some other Chambers of commerce. The results of these initiatives will be used in the new networks of Chamber of commerce market price listings, designed to promote transparency in the contractual conditions for the supply of electricity and to monitor the development of the free market.

The second special focus section examines the monitoring of drinking water tariffs paid by households, in a context in which growth rates in prices are much higher than average inflation. These trends are to be seen alongside the reform of water services, one of the objectives of which is to commence industrial management of the service and to ensure that operating costs and investments are covered by tariff revenues. The analysis was conducted by looking at local areas and it tends to show the presence of a broad scatter of values for the main provincial capitals for both tariffs and levels of spending.

DOMESTIC PRICES
INFLATION ACCELERATING SLIGHTLY

Consumer inflation recently reached a little higher than 1.5%. It is still a fairly low figure, which nevertheless marks a slight acceleration compared to the picture seen in the first half of the year.
Although a variety of sectors moved in the same direction, pushing the general index upwards, more careful examination shows that inflationary pressure is still limited to a few non foodstuff goods sectors.
In this context the tariff sector is an exception to the rule, with an intensification of increases distributed among the different types of tariffs, both locally and nationally administrated.

ITALY: BREAKDOWN OF INFLATION

ANNUAL % CHANGE

	Avg 2008	Avg 2009	Feb. 09/ Feb. 08	May. 10/ May. 09	Aug. 10/ Aug. 09
Food	**5.3**	**1.9**	**0.2**	**-0.4**	**0.2**
Processed food	5.7	1.9	0.4	0.2	0.5
Fish and seafood	2.7	1.0	0.1	1.2	1.8
Fruit and vegetables	4.1	1.8	-0.5	-4.0	-2.1
Industrial goods	**1.5**	**1.2**	**1.0**	**1.0**	**1.3**
Medical products	1.0	2.2	2.8	2.1	1.4
Clothing	1.7	1.2	0.8	0.9	0.8
Footwear	1.4	1.1	1.1	0.9	0.9
Furniture and furnishings	2.6	1.7	1.2	1.2	1.2
Household appliances	0.0	-0.2	-0.3	-0.6	-0.7
Radio, TV, etc.	-10.4	-6.6	-2.3	-6.4	-0.5
Photog. equip., optical instr.	1.5	1.2	0.3	0.4	0.7
Household goods	2.9	2.4	2.0	1.8	1.6
Tools and equip. for house	3.0	2.4	1.6	1.5	1.4
Products for personal care	1.7	1.7	1.3	0.9	0.8
Newspapers, books	2.2	2.2	1.5	2.2	0.0
CDs, magnetic tapes	-1.1	-6.9	-8.7	-4.6	-0.3
Games, toys, sport equip.	0.8	1.2	0.7	0.7	0.8
Miscellaneous goods	6.4	3.6	4.1	6.5	8.1
Motor cars and access.	1.6	1.4	0.6	0.8	1.0
Energy	**10.1**	**-8.9**	**0.4**	**5.7**	**4.2**
Heating oil and fuels	10.4	-13.2	10.6	15.4	7.9
Electricity and gas	9.9	-1.8	-11.9	-6.6	-0.9
Services	**3.2**	**1.7**	**1.5**	**1.7**	**1.8**
Personal care, recreation	1.4	1.9	1.1	0.8	0.9
Housing	4.8	2.3	1.3	1.5	1.5
Transport	6.0	1.3	1.0	2.5	2.5
Health	3.3	2.3	1.8	1.5	1.5
Financial and n.e.c.	1.7	2.6	3.8	3.5	3.5
Restaurants and hotels	2.6	1.2	1.3	1.5	1.5
Regulated prices	**0.3**	**1.4**	**1.5**	**0.7**	**1.8**
Nationally	-1.8	0.3	0.6	-0.3	1.0
Locally	3.1	2.8	3.0	2.2	2.8
Rents	**2.6**	**3.1**	**2.9**	**2.9**	**2.5**
Tobacco	**4.3**	**4.1**	**3.9**	**2.5**	**2.8**
All items	**3.3**	**0.8**	**1.2**	**1.4**	**1.6**
All items excluding fresh food and energy	**2.7**	**1.6**	**1.3**	**1.2**	**1.5**

SOURCE: REF. CALCULATIONS ON ISTAT DATA (NIC)

INTERNATIONAL PRICES
GROWTH PROSPECTS ARE DRIVEN BY INTERNATIONAL PRICES

After the recovery in the world economy in 2009 and the first part of 2010, signs emerged during the summer which anticipated a certain slowdown in growth, especially in advanced economies. Over the last two years price trends for raw materials have coincided with those of the business cycle and the price levels have risen constantly. Nevertheless, recently raw materials markets seem to have suffered from prospects of weaker growth, with signs that they are stabilising. An exception to this is the grain sector, affected by events in the summer in Russian area. As concerns the outlook, internationally, with account taken for the business cycle, no particular upward pressures seem to be accumulating on consumer prices.

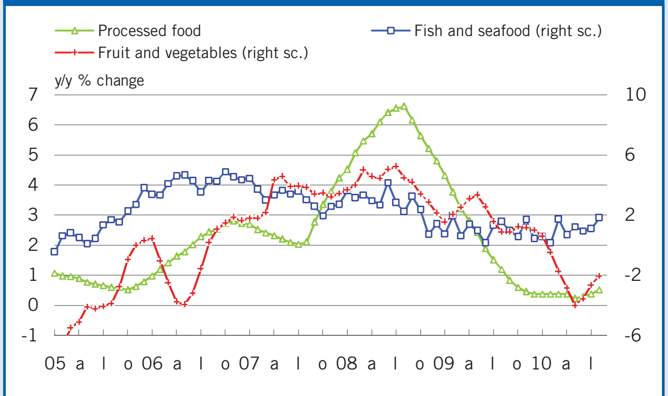
FOOD COMMODITY PRICES

SOURCE: REF. CALCULATIONS ON ISTAT DATA (NIC)

FOODSTUFFS
THE FALL IN FOODSTUFFS PRICES COMES TO A HALT

The fall in foodstuffs prices is coming to a halt and inflation for the sector amounted to 0.2% in August. This trend is seen in all sectors: fruit and vegetables has reduced its fall in prices, packaged goods are recording a gradual increase and fresh fish prices are increasing at a slightly higher rate.

FOODSTUFFS INFLATION

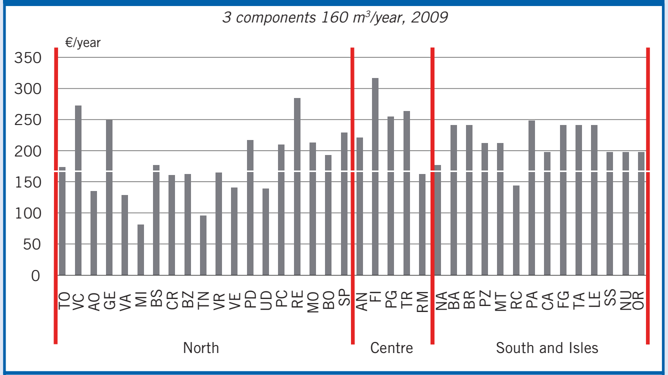


SOURCE: REF. CALCULATIONS ON ISTAT DATA (NIC)

SPECIAL FOCUS
WATER SERVICES

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 1st 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.

WATER SERVICES: ANNUAL COST *ALL INCLUSIVE*

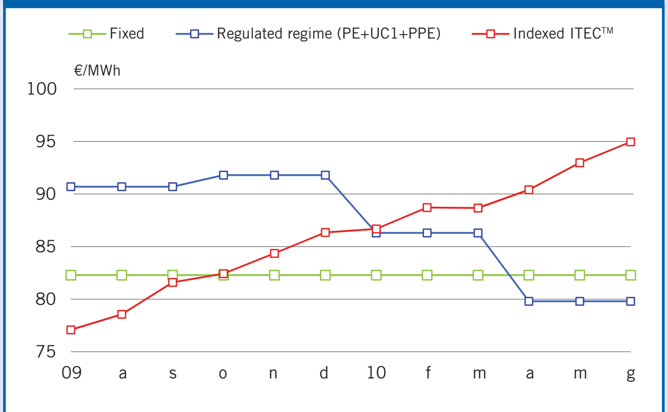


SOURCE: REF. CALCULATIONS ON UNIONCAMERE DATA (NIC)

SPECIAL FOCUS
ELECTRICITY PRICES FOR SMEs:
THE MARKET PRICE INDEX

According to Authority for Electricity and Gas statistics, as at 1st July 2010, more than ten years after the start of the liberalisation of the electricity market in Italy, 34% of firms were served by the free market (accounting for more than 80% of consumption). The Chamber of commerce system, taking its lead from the Milan Chamber of commerce prototype experiment in the measurement of wholesale prices, has introduced a periodic monitoring system for electricity prices paid by SMEs. The initiative offers a snapshot of the development of the most widespread contract practices and it quantifies the savings achieved from the free market compared to the "protected categories" regulated regime.

ELECTRICITY PRICES FOR SMEs (CONSUMPTION <300 MWh)



SOURCE: REF. CALCULATIONS ON CCIAA MILANO DATA