

EDITORIAL

Expected growth in consumer inflation

After 2009 which saw falls in inflation down to near record lows, price trends started to accelerate again in 2010, ending the year at an average annual rate of 1.5%. This was almost twice the rate for the previous year, but certainly not high in historical terms.

The path was one of a gradual rise in inflation with a rise between January and December of a little more than half a percentage point. Signs were seen towards the end of the year of greater increases in prices with inflation reaching close to 2%.

The upward pressures on inflation that occurred over the year were associated mainly with first impact on consumer prices of the knock on effect of the rise in oil prices which, having returned to approximately 100 dollars per barrel, brought inflation for energy products up to over 10% at the end of the year.

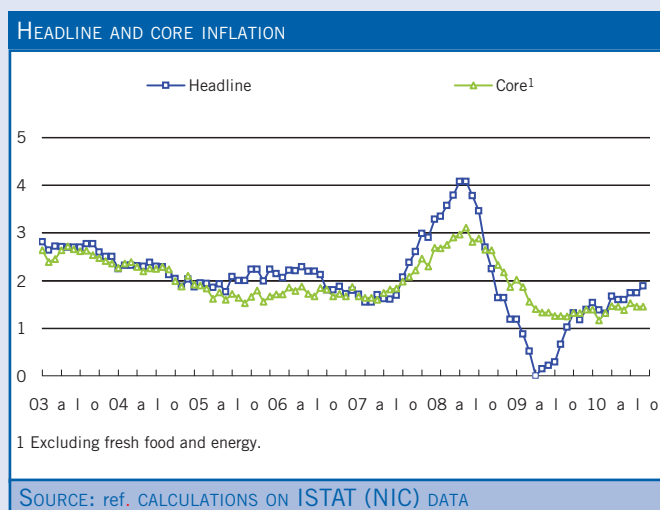
The prolonged slowdown in foodstuff prices came to an end during the course of the year, having lasted from the middle of 2008 until summer 2010. Once the fall was over, foodstuff inflation recovered over the second half by around half a percentage point to reach 0.9% year-on-year in December.

Core inflation also recorded fairly low growth from a historical viewpoint lying within a range of between 1.3% and 1.5%. Price trends for both non foodstuff goods and services were also fairly stable, a phenomenon resulting from the weakness of consumer demand and weaker householder income.

It was not until the last quarter of the year that diverging trends were seen with a slight acceleration in inflation for non foodstuff goods and a simultaneous slowdown in services inflation.

The price trends for 2011 are destined to continue upwards especially at the beginning of the year. Those sectors that will be subject to the greatest growth in inflation will again be those associated with the non core components of the price index, which are being affected by the scenario for raw materials which is overheating. Upward pressures on the domestic market will still be weak, given

the large amounts of unused output capacity, even if some signals of a recovery in producer prices exist due to increases in input costs. One area which is overheating is that of public sector tariffs, due to local authority cuts scheduled by the last minibudget with consequences which could be appreciable for local public services prices.





DOMESTIC PRICES

INFLATION RECOVERED IN 2010

Consumer inflation rose in 2010 recovering against an abnormally low level in 2009. The fluctuations in consumer prices were caused mainly by the effects of the fall and subsequent rise in oil prices which affected the trend for the energy component of inflation.

Core inflation was affected by weak consumer demand which is still suffering from the negative consequences of the labour market crisis which weakened householder income. That weakness seems to have had a greater impact on private sector services and non foodstuff goods.

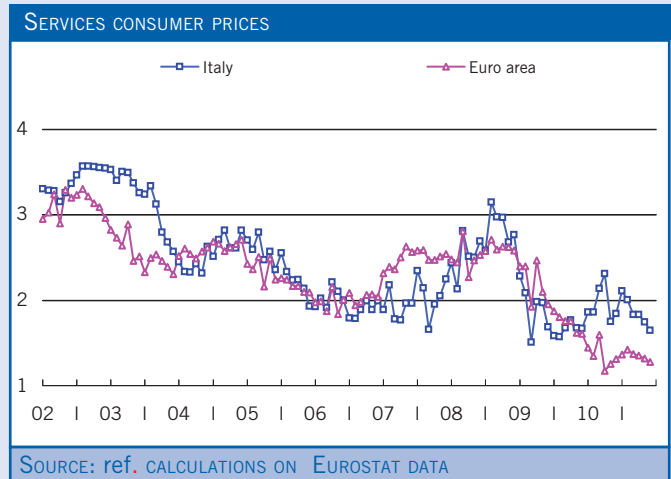
ITALY: BREAKDOWN OF INFLATION					
ANNUAL % CHANGE					
	Avg 2009	Avg 2010	Aug. 10/ Aug. 09	Oct. 10/ Oct. 09	Dec. 10/ Dec. 09
Food	1.9	0.2	0.2	0.5	0.9
Processed food	1.9	0.5	0.5	0.6	0.8
Fish and seafood	1.0	1.8	1.8	3.3	4.1
Fruit and vegetables	1.8	-1.5	-2.1	-0.5	0.4
Industrial goods	1.2	1.1	1.3	1.1	1.4
Medical products	2.2	2.0	1.4	1.6	1.6
Clothing	1.2	0.9	0.8	1.0	1.0
Footwear	1.1	0.8	0.9	0.6	0.6
Furniture and furnishings	1.7	1.3	1.2	1.5	1.5
Household appliances	-0.2	-0.6	-0.7	-0.7	-0.7
Radio, tv, etc.	-6.6	-3.3	-0.5	-4.7	-0.7
Photog. equip., optical instr.	1.2	0.6	0.7	0.8	1.0
Household goods	2.4	1.7	1.6	1.5	1.2
Tools and equip. for house	2.4	1.5	1.4	1.6	1.4
Products for personal care	1.7	0.9	0.8	0.8	0.7
Newspapers, books	2.2	1.4	0.0	0.4	0.4
CD, magnetic tapes	-6.9	-6.6	-0.3	-6.5	-0.5
Games, toys, sport equip.	1.2	0.8	0.8	1.1	1.1
Miscellaneous goods	3.6	6.8	8.1	8.8	7.9
Motor cars and access.	1.4	1.0	1.0	1.6	2.0
Energy	-8.9	4.2	4.2	6.1	7.6
Heating oil and fuels	-13.2	11.1	7.9	10.4	11.9
Electricity and gas	-1.8	-4.9	-0.9	0.1	1.9
Services	1.7	1.8	1.8	2.0	1.5
Personal care, recreation	1.9	1.0	0.9	0.9	0.9
Housing	2.3	1.5	1.5	1.6	1.5
Transport	1.3	2.2	2.5	1.6	1.1
Health	2.3	1.7	1.5	1.7	1.8
Financial and n.e.c.	2.6	3.5	3.5	3.5	3.1
Restaurants and hotels	1.2	1.6	1.5	2.2	1.5
Regulated prices	1.4	1.4	1.8	1.4	1.5
Nationally	0.3	0.4	1.0	0.4	0.4
Locally	2.8	2.9	2.8	3.0	3.3
Rents	3.1	2.6	2.5	2.0	2.4
Tobacco	4.1	3.3	2.8	4.9	2.5
All items	0.8	1.5	1.6	1.7	1.9
All items excluding fresh food and energy	1.6	1.4	1.5	1.5	1.5

SOURCE: ref. CALCULATIONS ON ISTAT DATA (NIC)

SPECIAL FOCUS

PRIVATE SECTOR SERVICES INFLATION IS SLOWING

Private sector services prices have recorded modest growth in recent years if considered in historical terms. This is common to both Italy and the major EU countries and the roots lie in the weakness of domestic demand and in the benefits brought by increased competition on domestic markets.



FORECASTS

A SLIGHT INCREASE EXPECTED IN INFLATION IN 2011

Inflation will accelerate further in 2011. The magnitude of the increase will, however, be much less than that seen in 2010. The trend will be driven by the prices of those components most exposed to increases in raw materials prices. Upward pressures from the domestic market will still be weak, given the large amounts of unused output capacity, even if some signals of a recovery in producer prices exist due to increases in input costs.

The scenario for both locally and centrally controlled tariffs will be hot, especially for road and rail transport.

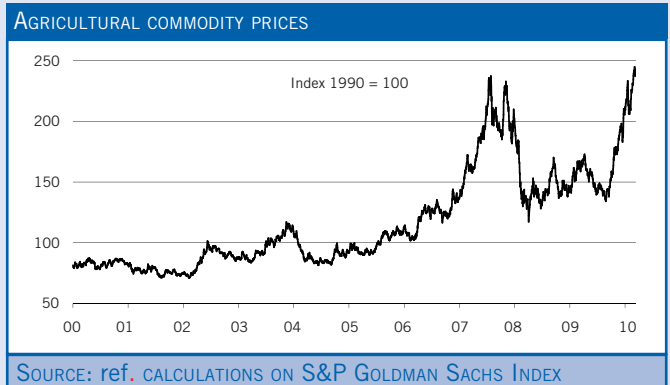
INFLATION IN ITALY: HISTORICAL DATA AND FORECASTS					
ANNUAL % CHANGE					
	2008 Avg	2009 Avg	2010 Avg	2010 Dec.	2011 Avg*
Consumer prices (NIC)					
Food	5.4	1.8	0.2	0.9	1.4
– ex fresh food	5.7	1.9	0.5	0.8	1.2
Non-energy industrial	1.5	1.1	1.1	1.4	1.5
Energy ¹	10.1	-8.9	4.2	7.6	2.5
Services	3.2	1.7	1.7	1.5	1.6
Administered prices ²	0.3	1.4	1.4	1.5	2.6
Rents	2.6	3.1	2.6	2.4	2.9
All items	3.3	0.8	1.5	1.9	1.7
* Forecasts.					
1 Including regulated energy prices (electricity, gas, etc.).					
2 Excluding energy (electricity, gas, etc.).					
SOURCE: ref. CALCULATIONS ON ISTAT DATA (NIC)					



FOODSTUFFS PROCESSED FRESH FOODSTUFFS AND FRUIT AND VEGETABLES ARE DRIVING THE PRICE RECOVERY

The slowdown that occurred in foodstuffs inflation between the middle of 2008 and the middle of 2010 finally came to an end. So after a slowdown lasting two years, foodstuffs inflation started to rise again. The rate of growth in prices was modest at the end of 2010 at around 1.1% year-on-year, but increasing rapidly. The recovery reflects the end of the deflationary trend for fruit and vegetables and also that of the slowdown in packaged foods, driven by processed fresh foods.

The trend is also destined to persist, given the pressures on agricultural raw materials prices which have appeared over the last six months.



TARIFFS TARIFFS ARE MOVING UPWARDS

The acceleration in tariff inflation is continuing. The recovery is being driven on the one hand by energy tariffs, due to increases in natural gas tariffs and on the other by locally administered tariffs with the continuation of the acceleration in integrated water services prices. The overall result is an upwards trend which is aligning overall tariff inflation with the trend for general consumer prices.

