

EDITORIAL

Inflation accelerates at the beginning of the year

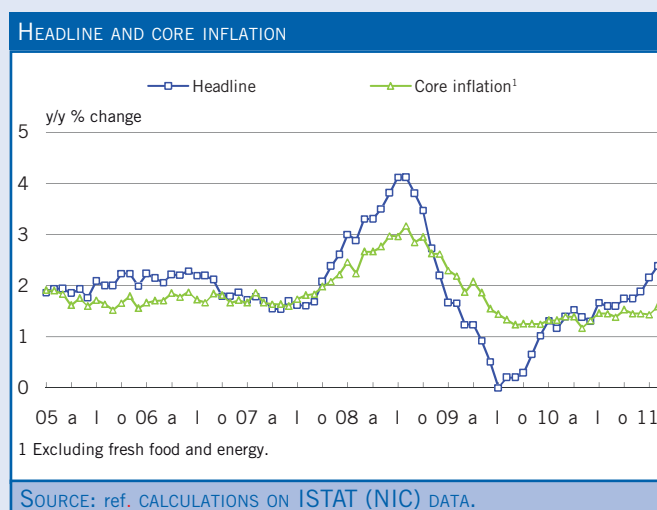
Consumer prices seem to have changed gear at the beginning of 2011, accelerating against a rising trend already in progress for some months. In February it came close to 2.5%, up from 1.9% at the end of 2010. It is a change of gear which reflects changes in the international scenario and the tensions that have materialised on raw materials markets in recent months. Higher international demand from Asian economies in particular, together with uncertainties over output levels, has pushed up both energy and foodstuffs prices.

What has affected consumer prices in recent months is therefore the direct impacts of higher raw materials costs which have been passed on to final consumer markets. The energy sector has suffered most with inflation that has now reached 10% year-on-year. Foodstuffs inflation is lower at a little higher than 2%, but it is also accelerating, mainly as a result of price rises for fresh produce.

The components of core inflation, however, are still behaving moderately, even if the first signals of a reversal of the trend in some non foodstuffs and non energy sectors are far from absent. In this respect, the picture is still driven by wage moderation and low domestic demand, which limits the possibilities for increases in consumer prices.

The outlook for the future, however, is destined to be dominated by pressures on raw materials markets which tend to be driving inflation, leading it to an annual average rate of 2.5% for 2011. The acceleration, however, should not trigger wage reactions and the most probable hypothesis is that price trends will slow again from 2012.

This edition of *Tendenze dei prezzi* contains two special focus sections. One gives a brief report on changes in the measurement of consumer prices introduced by ISTAT (National Office for Statistics) from January 2011. The second, on the other hand, offers some considerations on the variation in the prices paid by different industries for refuse collection services.





DOMESTIC PRICES

FOODSTUFFS AND ENERGY PRODUCTS

DRIVE CONSUMER INFLATION

The year 2011 commenced with an acceleration in consumer prices. The underlying causes of the rise in inflation to over 2% were the increases in fruit and vegetables, fuel and heating oils. The trend for core components of inflation remained moderate, even if some initial signals of a change are appearing for some non foodstuffs and energy sectors. Public sector tariffs are also accelerating.

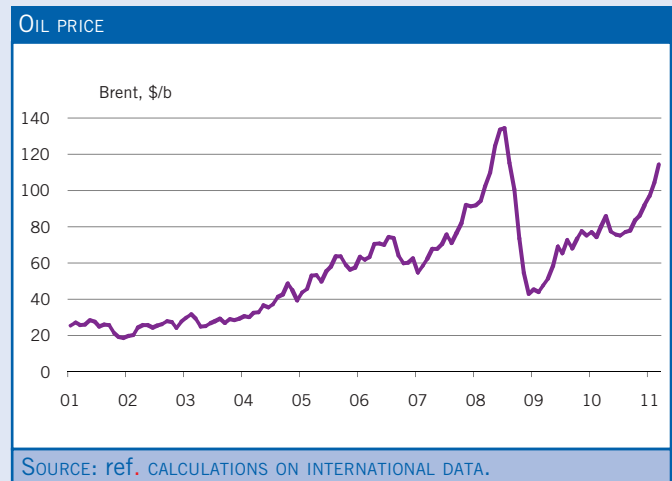
ITALY: BREAKDOWN OF INFLATION					
ANNUAL % CHANGE					
	Avg 2009	Avg 2010	Aug. 10/ Aug. 09	Dec. 10/ Dec. 09	Feb. 11/ Feb. 10
Food	1.9	0.2	0.2	0.9	2.0
Processed food	1.9	0.5	0.5	0.8	1.2
Fish and seafood	1.0	1.8	1.8	4.1	3.9
Fruit and vegetables	1.8	-1.5	-2.1	0.4	6.7
Industrial goods	1.2	1.1	1.3	1.4	1.2
Medical products	2.2	2.0	1.4	1.6	1.9
Clothing	1.2	0.9	0.8	1.0	1.0
Footwear	1.1	0.8	0.9	0.6	0.5
Furniture and furnishings	1.7	1.3	1.2	1.5	1.6
Household appliances	-0.2	-0.6	-0.7	-0.7	-0.6
Radio, tv, etc.	-6.6	-3.3	-0.5	-0.7	-4.9
Photog. equip., optical instr.	1.2	0.6	0.7	1.0	0.9
Household goods	2.4	1.7	1.6	1.2	1.2
Tools and equip. for house	2.4	1.5	1.4	1.4	1.4
Products for personal care	1.7	0.9	0.8	0.7	0.8
Newspapers, books	2.2	1.4	0.0	0.4	1.0
CD, magnetic tapes	-6.9	-6.6	-0.3	-0.5	-3.5
Games, toys, sport equip.	1.2	0.8	0.8	1.1	1.2
Miscellaneous goods	3.6	6.8	8.1	7.9	7.5
Motor cars and access.	1.4	1.0	1.0	2.0	2.2
Energy	-8.9	4.2	4.2	7.6	9.9
Heating oil and fuels	-13.2	11.1	7.9	11.9	14.6
Electricity and gas	-1.8	-4.9	-0.9	1.9	3.3
Services	1.7	1.8	1.8	1.5	1.8
Personal care, recreation	1.9	1.0	0.9	0.9	1.2
Housing	2.3	1.5	1.5	1.5	2.2
Transport	1.3	2.2	2.5	1.1	1.0
Health	2.3	1.7	1.5	1.8	1.8
Financial and n.e.c.	2.6	3.5	3.5	3.1	2.8
Restaurants and hotels	1.2	1.6	1.5	1.5	2.0
Regulated prices	1.4	1.4	1.8	1.5	2.0
Nationally	0.3	0.4	1.0	0.4	0.7
Locally	2.8	2.9	2.8	3.3	3.8
Rents	3.1	2.6	2.5	2.4	1.8
Tobacco	4.1	3.3	2.8	2.5	2.5
All items	0.8	1.5	1.6	1.9	2.4
All items excluding fresh food and energy	1.6	1.4	1.5	1.5	1.6

SOURCE: ref. CALCULATIONS ON ISTAT DATA (NIC).

INTERNATIONAL PRICES

THE RAW MATERIALS PRICE INCREASES ARE DOMINATING THE WORLD INFLATION SCENARIO

The second half of 2010 ended with slowdown in world growth, which does not seem to leave any room for improvement in the current year. Between the end of 2010 and the first few months of 2011 raw materials markets showed some signs of strengthening, in some cases apparently out of sync with the international business cycle. However, when the first performance indicators for 2011 became available, it was clear that the business cycle was strengthening, especially in Asian economies. Foodstuffs and energy markets are therefore reflecting the recovery by demand and also some pressures on the supply side, often related to the world geopolitical scenario.



FOODSTUFFS

PRESSURES ON FRESH PRODUCE PRICES ARE PUSHING UP FOODSTUFFS

Foodstuffs inflation is returning rapidly, with an acceleration of more than one percentage point in the quarter December 2010-February 2011. The increases are driven at present by fruit and vegetables prices which have increased year-on-year by more than 6%. The increases are being driven by the situation on the supply side of many agricultural products, in difficulty following unfavourable climatic trends. Inflation for packaged food has also started to rise due to pressures on raw materials markets, even if the greatest effects will only be seen in coming months.

FOODSTUFFS: BREAKDOWN OF INFLATION

ANNUAL % CHANGE					
Department	Avg 2009	Avg 2010	Aug.10/ Aug. 09	Dec. 10/ Dec-09	Feb. 11/ Feb .10
Processed food	1.9	0.5	0.5	0.8	1.2
Beverages	2.0	0.7	0.6	0.4	0.5
Packaged	2.5	0.3	0.4	0.5	1.1
Fresh food	1.1	0.7	1.0	2.0	2.4
Frozen food	1.0	-0.4	-0.3	-0.2	0.1
Pets food	3.5	1.8	1.4	0.8	0.9
Meat	1.8	0.5	0.4	0.9	1.2
Fish and seafood	1.0	1.8	1.8	4.1	3.9
Fruit and vegetables	1.8	-1.5	-2.1	0.4	6.7
Food and beverages	1.9	0.2	0.2	0.9	2.0

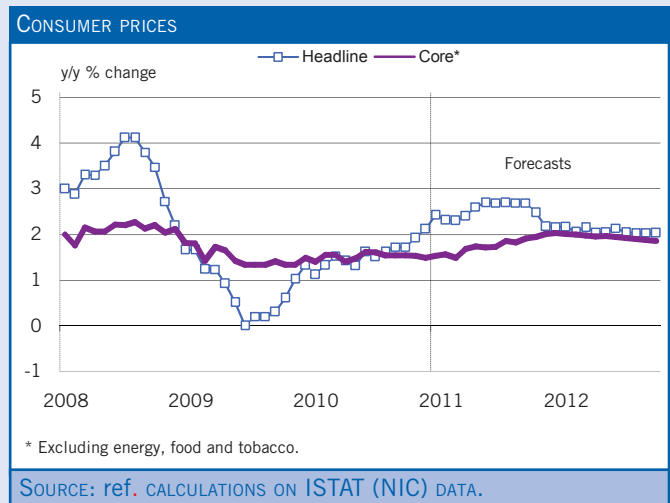
SOURCE: ref. CALCULATIONS ON ISTAT DATA (NIC).



FORECASTS

INFLATION IS ON THE MOVE AGAIN

Inflation in Italy is still driven by basic wage moderation and low domestic demand, which limit the possibilities for increases in consumer prices. However, pressures on raw materials markets are tending to fuel inflation, leading us to an average annual rate of 2.5%. The acceleration, however, should not trigger wage reactions and the most probable hypothesis is that price trends will slow again from 2012. The risks concern the possibility of increases in raw materials prices which may become greater during the year.



SPECIAL FOCUS

THE NEW METHODOLOGY FOR THE MEASUREMENT OF CONSUMER PRICE INDEXES

ISTAT updated its method of measuring consumer price indices from January 2011. One of the most important changes is the update of reference prices used for consumer price indexes, passing from the old 1995 to the new 2010 basis.

Furthermore, in addition to the normal activity performed to revise and update the basket, a more detailed classification of expenditure has been adopted together with a new method for the treatment of seasonal products.

	PRICE INDEXES 1995=100 AND 2010=100					
	Extra-vergin olive oil		Men shoes		National flight	
	1995=100	2010=100	1995=100	2010=100	1995=100	2010=100
Jan. 2010	138.3	101.5	152.2	99.6	147.6	102.0
Feb. 2010	138.2	101.4	152.2	99.6	129.8	89.7
Mar. 2010	138.2	101.4	152.3	99.7	132.9	91.8
Apr. 2010	137.5	100.9	152.6	99.9	166.9	115.3
May 2010	137.0	100.5	152.8	100.0	152.0	105.0
Jun. 2010	136.3	100.0	152.8	100.0	144.5	99.9
Jul. 2010	135.8	99.6	152.9	100.1	156.0	107.8
Aug. 2010	135.5	99.4	152.9	100.1	190.9	131.9
Sep. 2010	135.3	99.3	153.0	100.1	134.8	93.2
Oct. 2010	135.1	99.1	153.4	100.4	121.2	83.8
Nov. 2010	134.6	98.8	153.4	100.4	111.3	76.9
Dec. 2010	134.2	98.5	153.6	100.5	147.9	102.2
Average	136.3	100.0	152.8	100.0	144.7	100.0

SOURCE: ref. CALCULATIONS ON ISTAT (NIC) DATA.