

## EDITORIAL

### Falling inflation gives relief to families by increasing their purchasing power

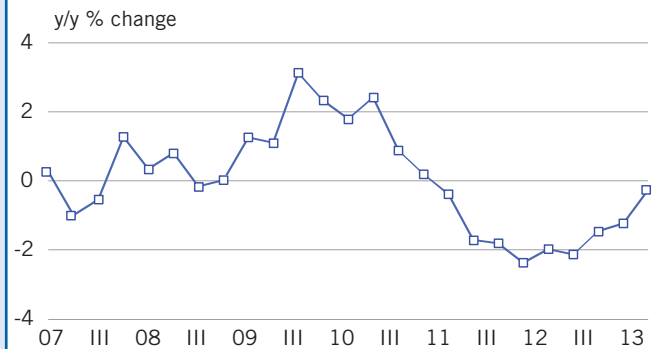
New features characterising the latest inflation figures can be found in this issue of *Tendenze dei prezzi*. ISTAT's most recent figures show how the deepest post-war recession characterising families' consumption has not yet come to an end. At the outset of 2013, consumption levels contracted for the 9<sup>th</sup> consecutive quarter. The drastic drop in consumption is the result of a strong decline in families' disposable income, which has been combined with increasing fiscal pressure, and matched with a fall in employment levels and the downsize of industrial production.

On a more positive note, inflation has fallen by 2 percentage points over the past twelve months, and has reached in spring 2013 an inflation rate of 1%. The low inflation rate will be able to counterbalance recent tax hikes, concerning the indirect VAT and fuel taxes, as well as cushioning the past increase in oil prices.

In the last few months, a falling inflation rate has helped families regaining some purchasing power: real wages are now stable, after having declined for two consecutive years, and families' income position has therefore improved, allowing further spending and increasing families' consumption possibilities. Families' confidence level has also become more stable in the last few months, with the exception of a confidence hike in June 2013, due to methodological changes in sampling techniques.

Some recent changes in economic fundamentals offer insights on the future inflation rate by lowering inflation expectations. One of the main factors in contributing to lower inflation expectations is the news that the Fed will reverse its monetary policy to a more conventional approach, and away from the unconventional quantitative easing employed since the start of the credit crunch. The policy change comes with surprise. The US is still far from its monetary target of an unemployment level below 6.5%, and its inflation rate is still below target. Nevertheless, price stability should ideally prevent the creation of asset price bubbles, as well as ensure steady prices for raw materials. In addition, the International Energy Agency has revealed that the US will become a net exporter of oil by the end of the decade, thanks to the flood of new shale production, which could increase global oil supply and positively affect fuel prices. Also upstream food prices are expected to grow at a lower rate in 2013-2014 compared to what was previously predicted. All these factors point towards a moderate inflation rate for the coming years 2013 and 2014 that should improve families' purchasing power, and regain what was lost in the past five years, which accounts to as much as 10%.

#### REAL WAGES



SOURCE: UNIONCAMERE-INDIS AND REF RICERCHE CALCULATIONS ON ISTAT (ICN) DATA.



# CONSUMER PRICE INDEX

## INFLATION IS FALLING, AND FAMILIES GAIN PURCHASING POWER

*Inflation has fallen significantly, and over the past few months inflation figures have decreased by half. In June 2013, the CPI stood at 1.2% compared to June 2012. Large part of the fall in inflation can be attributed to two factors: the decreasing price of electricity, gas, and in particular fuels over the last two years, and the decline in inflationary pressure coming from taxes, which have remained stable after the strong hikes in 2012. The slower growth of the CPI carries some good news: despite consumption levels have contracted over the last month, a fall in inflation will enable families to increase their purchasing power.*

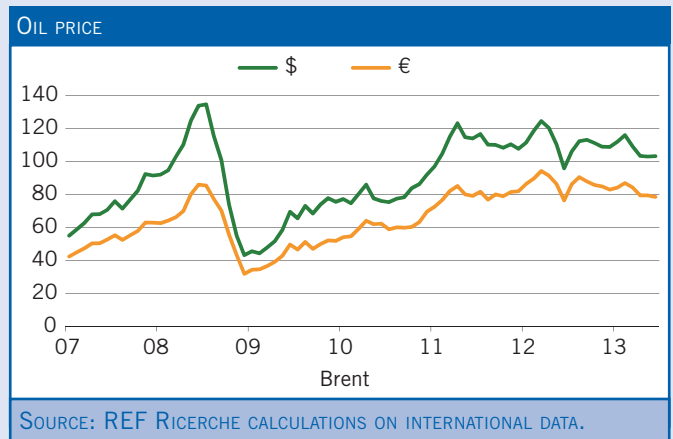
ITALY: BREAKDOWN OF INFLATION						
ANNUAL % CHANGE						
	Avg 2011	Avg 2012	Aug. 12/ Aug. 11	Nov. 12/ Nov. 11	Jan. 13/ Jan. 12	May 13/ May 12
<b>Food</b>	<b>2.5</b>	<b>2.6</b>	<b>2.6</b>	<b>2.4</b>	<b>3.1</b>	<b>3.0</b>
Processed food	2.3	2.7	2.5	2.2	2.2	2.0
Fish and seafood	5.3	2.0	1.3	-0.4	-0.2	-0.5
Fruit and vegetables	2.6	1.5	3.8	3.6	9.7	9.0
<b>Industrial goods</b>	<b>1.4</b>	<b>1.6</b>	<b>1.8</b>	<b>0.8</b>	<b>0.7</b>	<b>0.4</b>
Medical products	2.3	1.8	1.5	1.2	1.0	1.1
Clothing	1.7	2.7	3.1	1.6	1.4	0.7
Footwear	1.4	1.9	2.0	1.3	1.3	0.2
Furniture and furnishings	2.0	2.0	2.0	1.4	1.4	0.6
Household appliances	-0.4	0.3	0.4	-0.1	-0.2	-0.3
Radio, tv etc.	-8.9	-8.4	-7.8	-8.5	-8.0	-4.9
Photog. equip., optical instr.	0.8	1.1	1.2	1.0	0.8	0.6
Household goods	1.6	2.5	2.6	1.8	1.6	1.4
Tools and equip. for house	2.1	2.9	2.9	2.5	2.4	1.8
Products for personal care	1.1	1.8	1.9	1.5	1.4	1.3
Newspapers, books	1.7	1.8	1.9	1.3	0.6	1.9
CDs, DVDs	3.9	-5.5	-7.1	-9.4	-9.9	-3.5
Games, toys, sport equip.	1.4	1.3	1.3	1.3	1.4	1.2
Miscellaneous goods	7.0	6.2	6.3	4.3	3.9	0.7
Motor cars and access.	2.3	1.2	1.6	0.0	0.6	0.5
<b>Energy</b>	<b>11.2</b>	<b>13.9</b>	<b>13.4</b>	<b>11.6</b>	<b>5.5</b>	<b>-2.3</b>
Heating oil and fuels	14.6	14.3	13.3	11.5	3.5	-4.9
Electricity and gas	6.3	13.4	13.5	11.4	8.0	1.2
<b>Services</b>	<b>2.3</b>	<b>1.8</b>	<b>2.1</b>	<b>1.5</b>	<b>2.1</b>	<b>1.4</b>
Personal care, recreation	1.6	1.7	2.1	1.2	1.0	-1.2
Housing	2.1	2.3	2.3	2.2	2.0	1.6
Transport	3.2	3.3	3.3	3.1	3.6	3.4
Health	1.9	1.8	1.8	1.5	1.4	0.7
Financial and n.e.c.	3.1	0.8	0.8	0.1	2.8	2.3
Restaurants and hotels	2.2	1.5	2.4	1.2	1.7	1.6
<b>Regulated prices</b>	<b>2.1</b>	<b>1.5</b>	<b>1.7</b>	<b>1.5</b>	<b>1.8</b>	<b>2.7</b>
Nationally	0.5	-0.5	-0.1	-0.7	-0.3	1.2
Locally	4.1	4.0	4.2	4.5	4.9	4.6
<b>Rents</b>	<b>1.6</b>	<b>2.6</b>	<b>2.8</b>	<b>2.6</b>	<b>2.1</b>	<b>1.6</b>
<b>Tobacco</b>	<b>4.1</b>	<b>6.8</b>	<b>7.2</b>	<b>2.6</b>	<b>2.7</b>	<b>0.5</b>
<b>All items</b>	<b>2.8</b>	<b>3.0</b>	<b>3.2</b>	<b>2.5</b>	<b>2.2</b>	<b>1.1</b>
<b>All items excluding fresh food and energy</b>	<b>2.0</b>	<b>2.0</b>	<b>2.2</b>	<b>1.5</b>	<b>1.7</b>	<b>1.4</b>

SOURCE: UNIONCAMERE-INDIS AND REF RICERCHE CALCULATIONS ON ISTAT (ICN) DATA.

# RAW MATERIALS

## DRASTIC CHANGE IN RAW MATERIALS OUTLOOK: THE PRICE OF PETROL FALLS THANKS TO US ENTRY

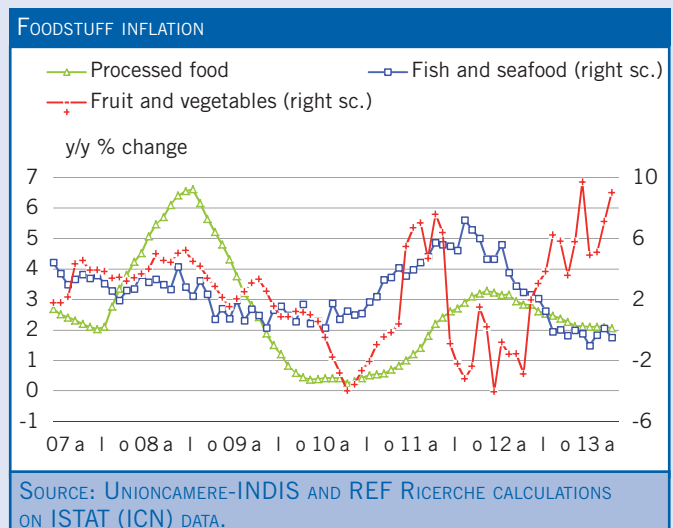
At the outset of 2013, the market for raw materials has undergone significant changes. For the first time in more than two years, the price of a barrel of Brent crude has fallen. The decrease in petrol price is largely explained by the US' increasing market share in global oil supply, which positively influenced global prices. Prices of raw materials used for food production and distribution have also decreased.



# FOOD AND NON-ALCOHOLIC BEVERAGES

## INFLATION REMAINS HIGH, UPWARD CONTRIBUTION COMES FROM FRUITS AND VEGETABLES

Inflation in the food sector has increased. The growth in food prices is largely driven by price rises in the retail market of fruits and vegetables, whose crops have been adversely affected by this year's bad and rainy spring. Wholesale distributors foresee a fall in inflation in the upstream food sector during the second half of 2013, which should also reduce inflation in the downstream retail market.

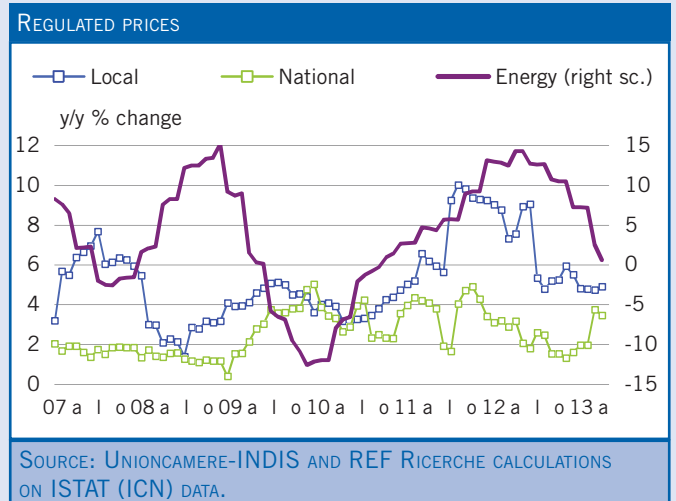




# TARIFFS

## INFLATION OF REGULATED GOODS AND SERVICES STANDS AT 3% (DESPITE FALLS IN ENERGY TARIFFS)

After a sustained period of steady inflation, the growth rate of tariffs has slowed down. By far the largest downward contribution comes from energy tariffs, namely those of electricity and natural gases, which were responsible for most of the past increase in inflation, and have in 2013 inverted their upward trend. The recent decrease of inflation concerning energy tariffs is due to the fall of international upstream fuel prices, combined with the AEEG's effective efforts to slow down price increases in the energy sector. On the other hand, the upward contribution to tariffs' inflation comes from nationally regulated goods and services, and public utilities, whose tariffs have increased as a result of Italy's fiscal correction.



## SPECIAL FOCUS

### THE IMPACT OF THE NEW SINGLE STANDARD TARIFF FOR LANDLINES

On the 1<sup>st</sup> of April, the major Italian operator, Telecom Italia, introduced a new standard tariff for landline calls. The new tariff reduces the fixed charge of a phone call, as well as the charges per minute when calling mobile numbers. Charges per minute towards other landline numbers have instead increased. Consumers who will be adversely affected by the new tariff, and whose phone charges will increase the most, are those who use their landline mainly to phone other landline numbers, with calls that last more than one minute. Such consumer profiles are usually associated with less informed and elderly users.

**TELECOM'S NEW STANDARD TARIFF**

	CALL CHARGE IN €C			
	Landline		Mobile	
	Fixed charge	Per minute charge	Fixed charge	Per minute charge
	€c	€c	€c	€c
Standard tariff	7.94	1.90	7.94	9.90
Standard single tariff <sup>1</sup>	5.00	5.00	5.00	5.00

<sup>1</sup> Introduced on the 1<sup>st</sup> of April 2013.

SOURCE: REF RICERCHE CALCULATIONS ON TELECOM'S DATA.