

# Europe Flash

## Eurozone

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Economic Analysis

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The inflation surprise in October in the EZ was explained by service and food prices. Inflation is projected to increase slightly by year-end

- **Eurozone headline and core inflation slowed by 0.4pp and 0.2pp to 0.7% y/y and 1% y/y in October, respectively**

Underlying this month's decline were again falling energy prices (-1.7% y/y after -0.9% y/y in September), as expected, and the slowing inflation in both fresh (1.4% y/y from 2.9% y/y) and processed food (2.2% y/y after 2.4% y/y), more than projected. But the main surprise stemmed from service prices, which declined by 0.2pp to 1.2% y/y after having remained broadly stable over the past six months. All these components also explained the reduction of 0.4pp in headline inflation (both fresh and processed food explained around 0.14pp). Inflation in non-energy industrial goods remained broadly stable (0.3% y/y). Of the 0.2pp of surprise (to us, as the consensus was expecting unchanged inflation at 1.1%) in October, 0.1 can be attributed to inflation, and 0.1pp to food prices.

- **Headline inflation is likely to increase slightly in November, rising again later this year to around 1% y/y in December**

We expect inflation to increase in November to 0.8%/0.9% y/y from 0.7% y/y, somewhat lower than what we projected last month, mainly due to a larger drop in energy prices (in line with recent gasoline prices information) as well as a more moderate growth in prices of food and services. We now see inflation increasing slightly by year-end to 1% y/y in December (1.2% y/y expected last month), partly reflecting a lower base effect of energy prices. In contrast, we continue to expect core inflation to remain broadly stable at 1%/1.1% y/y the remainder of the year, being this performance widespread across its components.

- **Across countries, slowing inflation was widespread across countries, especially in the periphery**

In core countries, headline inflation declined by around 0.3/0.4pp (to 1.2% y/y in Germany and 0.7% y/y in France), while the decline in core inflation was more moderate (0.1pp to 1.4% and 0.8%, respectively). In Italy, both headline and core inflation remained relatively stable due to tax hikes (0.8% y/y and 1.2% y/y, respectively). In both Spain and Portugal, headline inflation slowed to 0% y/y, while core inflation remained positive (0.3% y/y and 0.5% y/y).

Table 1  
**Eurozone. HICP inflation rate**

	% y/y		% m/m	
	September 2013	October 2013	September 2013	October 2013
HICP	1.1	0.7	0.5	-0.1
Energy	-0.9	-1.7	0.5	-1.2
Fresh Food	2.9	1.4	-1.1	-0.5
Core excl. Fresh Food and Energy	1.2	1.0	0.6	0.1
Services	1.4	1.2	-0.9	-0.3
Non-Energy Industrial Goods	0.4	0.3	3.4	0.6
Processed Food	2.4	2.2	0.0	0.2

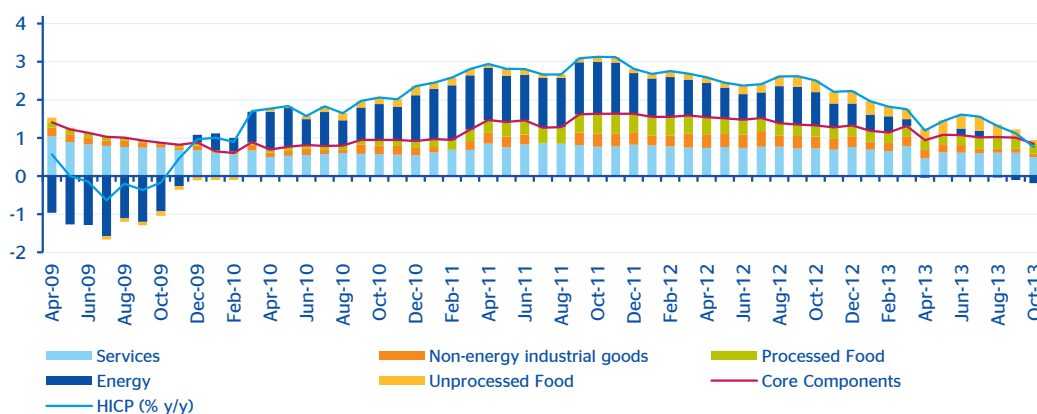
Source: Eurostat and BBVA Research

 Table 2  
**Annual HICP inflation rate: forecast evaluation**

November 2013	Weight %	Forecast %	Observed %	Confidence Interval Forecast (*)
Headline	100.0	0.9	0.7	(0.7 ; 1.1)
Energy	10.96	-1.7	-1.7	(-2.1 ; -1.2)
Unprocessed food	7.35	2.0	1.4	(1.4 ; 2.5)
Excluding energy and unprocessed food	81.69	1.2	1.0	(1.0 ; 1.3)
Services	42.30	1.4	1.2	(1.3 ; 1.6)
Non-energy industrial goods	27.36	0.3	0.3	(0.0 ; 0.5)
Processed food	12.03	2.3	2.2	(2.1 ; 2.4)

(\*) 80% confidence.

Source: Eurostat and BBVA Research

 Chart 1  
**Eurozone. Annual HICP inflation rate. Contribution by component**


Source: Eurostat and BBVA Research

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