

Europe Flash

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Economic Analysis

Europe

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Eurozone inflation slowed in January as expected

Moderation in energy prices was the main driver, but also in non-energy industrial goods

- **Eurozone HICP inflation declined by 0.2pp to 2% y/y in January, as expected (BBVA Research: 2%; Consensus: 2.2%)**

According to the Eurostat flash estimate, underlying this slowdown was mainly the moderation in inflation of both energy (3.9% y/y from 5.2% y/y) and non-energy industrial goods (0.8% y/y from 1.0% y/y), and to a lesser extent in services (1.7% y/y from 1.8% y/y). These figures imply that lower growth in energy prices contributed with -0.1pp to annual inflation rate, while the two mentioned core components drained the remainder -0.1pp.

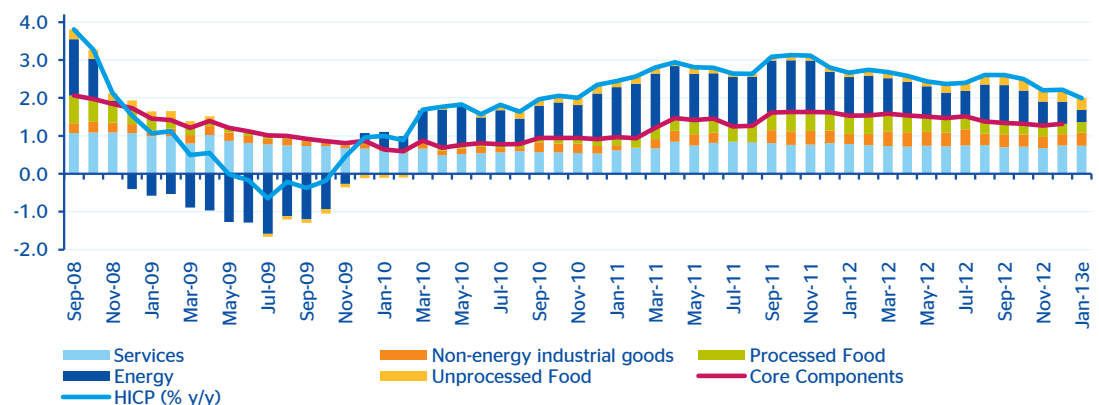
By components, today's figures are in line with our forecast, though the sales effect in January is likely to be somewhat stronger than anticipated, resulting in a slight decline in core inflation against our expectation (1.6% y/y) that remains stable.

- **Looking forward, inflation is likely to slow further and more rapidly up to April**

Without including the new weights of the basket (which, as always, have been changed in January) and new figures for January, our models suggest that this slowdown in early 2013 should be due to a significant base effect in energy prices, such that it could fall below the ECB's target during the first quarter of the year. Thereafter, headline inflation could increase slightly again but would hover around 1.6% y/y during the second half of the year. Core inflation is likely to remain more stable, fluctuating around the current rates all along this year.

Chart 1

Eurozone. Annual HICP inflation rate. Contribution by component



Source: Eurostat and BBVA Research

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