

# Europe Flash

## Eurozone

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Economic Analysis

Europe Unit

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## Inflation increased in May driven by higher services prices

We expect higher inflation in June, but slowing again during the second half of the year

- **Both core and headline inflation increased by 0.2pp in May to 1.3% and 1.4% y/y, respectively**

Underlying this month's increase were mainly higher prices for services, which accelerated by 0.4pp to 1.5% y/y, more than expected (BBVA Research: 1.2% y/y), reflecting a larger than expected impact of the Easter calendar last year. Prices of both non-energy industrial goods and processed food grew at a steady pace (0.8% y/y and 2.1% y/y, respectively), in line with our forecast (Table 2). As a result, core inflation increased by 0.2pp to 1.3% y/y (BBVA Research: 1.2% y/y). Regarding prices of more volatile components, those of food prices accelerated (+0.9pp to 5.1% y/y), explaining less than 0.1pp of this month increase of headline inflation, while energy prices declined slightly again at a similar rate than that in April (-0.2% y/y).

- **Headline inflation is expected to increase further in June to 1.6% y/y, but to slow again during 2S13**

The inflation increase projected for June mainly reflects energy inflation reverting to positive rates, due not only to increasing oil prices, but also due to a positive base effect resulting from the significant moderation in the growth of energy prices a year ago. Thereafter, inflation should slow again, especially after July, to hover around 1.3% y/y throughout the year. Regarding core inflation, after some volatility stemming from changes in Easter regarding last year, it could remain relatively stable around 1.3% y/y the rest of the year.

- **The increase of HICP inflation in May was also widespread across countries, except Italy**

Country by country, the rebound of services prices was reflected in the acceleration of core inflation (mostly in Germany and Portugal), but also the strong increase in unprocessed food inflation contributed to higher headline inflation (Spain). Inflation in Italy followed a different pattern, with headline inflation remaining stable at 1.3% y/y and prices of core components increasing mildly.

Table 1  
**Eurozone. Annual HICP inflation rate**

	% y/y		% m/m	
	April 2013	May 2013	April 2013	May 2013
HICP	1.2	1.4	-0.1	0.1
Energy	-0.4	-0.2	-1.0	-1.2
Fresh Food	4.2	5.1	0.5	1.1
Core excluding Fresh Food and Energy	1.1	1.3	0.0	0.2
Services	1.1	1.5	-0.4	0.3
Non-Energy Industrial Goods	0.8	0.8	0.5	0.0
Processed Food	2.1	2.1	0.1	0.1

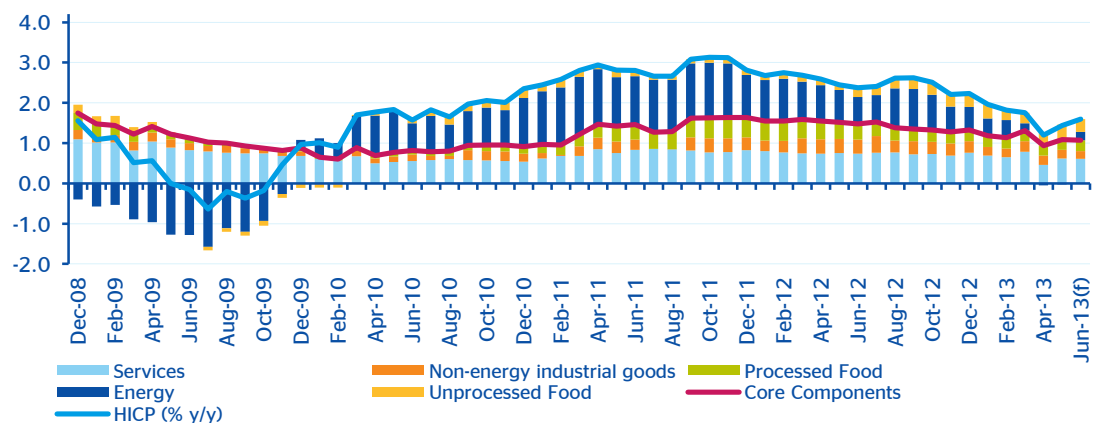
Source: Eurostat and BBVA Research

Table 2  
**HICP: Forecast evaluation**

May 2013	Weight %	Forecast %	Observed %	Confidence Interval Forecast (*)
Headline	100.0	1.4	1.4	( 1.2 ; 1.5 )
Energy	10.96	0.3	-0.2	( -0.2 ; 0.7 )
Unprocessed food	7.35	4.7	5.1	( 4.2 ; 5.3 )
Excluding energy and unprocessed food	81.69	1.2	1.3	( 1.0 ; 1.4 )
Services	42.30	1.2	1.5	( 1.1 ; 1.4 )
Non-energy industrial goods	27.36	0.8	0.8	( 0.6 ; 1.0 )
Processed food	12.03	2.1	2.1	( 1.9 ; 2.2 )

(\*) 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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