

Europe Flash

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Economic Analysis

Europe

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Eurozone inflation up due to energy prices, but expected to moderate again

After the expected 1.6% y/y this month, inflation should hover around 1.3% y/y for the rest of the year

- **Eurozone HICP inflation increased by 0.2pp to 1.6% y/y in June, in line with expectations (BBVA Research and Consensus: 1.6%)**

According to the Eurostat flash estimate, underlying this increase was mainly the higher inflation rate of energy products (1.6% y/y), after being negative in the previous two months (-0.4% y/y and -0.2% y/y in April and May, respectively). This was due not only to increasing energy prices, but also to a positive base effect resulting from the moderation in growth of energy prices a year ago. Overall, inflation in the rest of components remained broadly stable, in line with our projection. These figures suggest that core inflation should have remained unchanged at 1.3% y/y.

- **The inflation pace will remain well below the ECB's implicit target**

Although we update our models with the final figures (to be released on 16th July), we continue to expect inflation to slow in coming months, especially after July, and to remain around 1.3% in the second half of the year. Core inflation is also expected to remain relatively stable at around 1.3% during the rest of the year.

Table 1

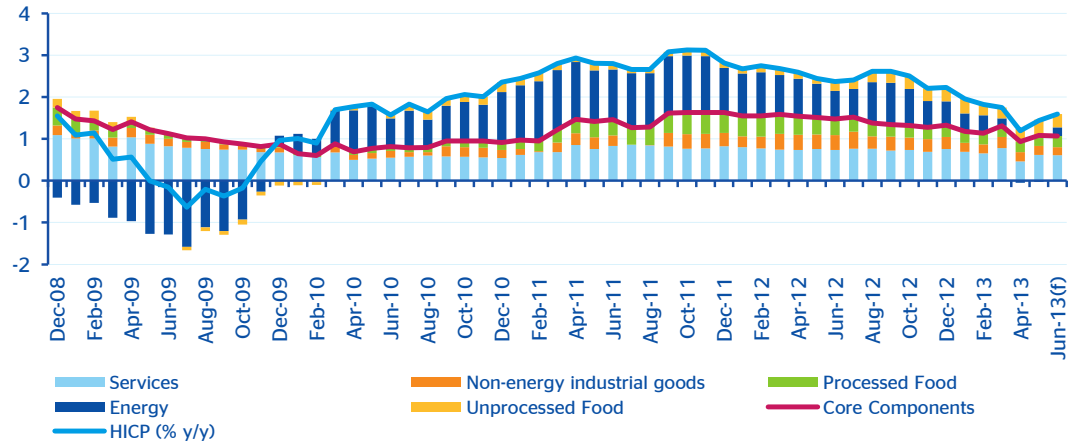
Eurozone. Annual HICP inflation rate (% y/y)

	Observed		Flash estimate	BBVA Research
	April 2013	May 2013	June 2013	June 2013
HICP	1.2	1.4	1.6	1.6
Energy	-0.4	-0.2	1.6	1.6
Fresh Food	4.2	5.1		4.4
Core excluding Fresh Food and Energy	1.1	1.3		1.3
Services	1.1	1.5	1.4	1.4
Non-Energy Industrial Goods	0.8	0.8	0.7	0.7
Processed Food	2.1	2.1		2.2

Source: Eurostat and BBVA Research

Chart 1

Eurozone. Annual HICP inflation rate. Contribution by component



Source: Eurostat and BBVA Research

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