

Europe Flash

Eurozone

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Economic Analysis

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Inflation up in June due to energy prices, but expected to moderate again

The inflation pace will remain below the ECB's target in 2H13 and 2014

- **Eurozone HICP inflation increased by 0.2pp to 1.6% y/y in June, in line with expectations**

Underlying this month's increase was mainly the higher inflation rate of energy products (1.6% y/y), after it was 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 of growth of energy prices a year ago. Inflation in the rest of components remained broadly stable (Table 1), in line with our projection (Table 2), resulting in unchanged core inflation at 1.3% y/y.

- **Headline inflation is expected to decline slightly in July to 1.5% y/y, moderating faster afterwards to hover around 1.3% y/y during 2H13**

The inflation decline projected for July responds to lower inflation in both energy and non-energy industrial goods. The former should be due to lower oil prices combined with a positive base effect, while the latter is explained by the increase in prices of these products a year ago that stemmed from tax hikes. As a result, core inflation is projected to slow slightly to 1.2% y/y. Thereafter, headline inflation should slow again to hover around 1.3% y/y throughout the year. Regarding core inflation, after some volatility stemming from changes in Easter last year, it could remain relatively stable around 1.3% y/y the rest of the year.

- **The increase of HICP inflation in June was also widespread across countries**

Country by country, the broad-based increase in energy prices was also reflected in a higher headline inflation rate, especially in Spain (+0.4pp to 2.2% y/y) and Germany (+0.3pp to 1.9% y/y), while the increase in French and Italian inflation was more moderate (+0.1pp to 1.0% y/y and 1.4% y/y, respectively). Nonetheless, the increase in German headline inflation was also due to higher core inflation (+0.2pp to 1.4% y/y), while the latter remained stable in both Spain (2.1% y/y) and France (0.7% y/y) and declined in Italy (-0.2pp to 1.2% y/y).

Table 1
Eurozone. Annual HICP inflation rate

	% y/y		% m/m	
	May 2013	June 2013	May 2013	June 2013
	HICP	1.4	1.6	0.1
Energy	-0.2	1.6	-1.2	0.1
Fresh Food	5.1	5.0	1.1	0.7
Core excluding Fresh Food and Energy	1.3	1.3	0.2	0.1
Services	1.5	1.4	0.3	0.3
Non-Energy Industrial Goods	0.8	0.7	0.0	-0.3
Processed Food	2.1	2.1	0.1	0.1

Source: Eurostat and BBVA Research

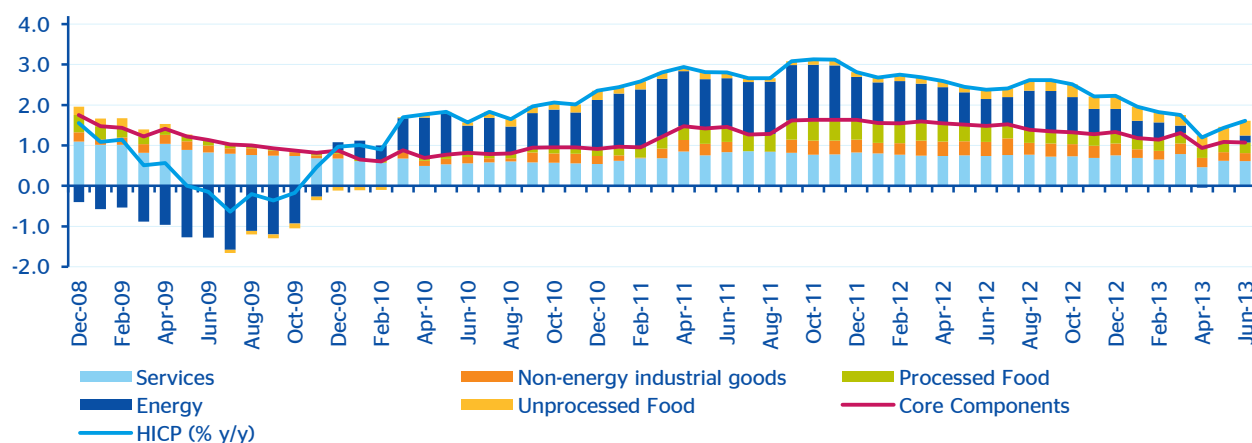
Table 2
HICP: Forecast evaluation

June 2013	Weight %	Forecast %	Observed %	Confidence Interval Forecast (*)
Headline	100.0	1.6	1.6 (1.4 ; 1.8)
Energy	10.96	1.6	1.6 (1.2 ; 2.1)
Unprocessed food	7.35	4.4	5.0 (3.8 ; 4.9)
Excluding energy and unprocessed food	81.69	1.3	1.3 (1.1 ; 1.5)
Services	42.30	1.4	1.4 (1.3 ; 1.6)
Non-energy industrial goods	27.36	0.7	0.7 (0.5 ; 0.9)
Processed food	12.03	2.2	2.1 (2.1 ; 2.3)

(*) 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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