

Europe Flash

Eurozone

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Economic Analysis

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Inflation down in August due to energy and fresh food prices, with core inflation unchanged

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

- **Eurozone HICP inflation slowed by 0.3pp to 1.3% y/y in August, somewhat more than in our projection (BBVA Research: 1.4% y/y)**

Underlying this month's decline was mainly the fall in the inflation rate of energy products (-0.4% y/y), after rising in the previous two months (1.6% y/y in both June and July), and in a lesser extent, the slowing inflation in non-processed food (4.4% y/y from 5.1% y/y in July). In particular, the former explained about 0.2pp of the HICP inflation slowdown, while the remainder 0.1pp was due to the latter. Regarding core inflation, it remained broadly unchanged at 1.3% y/y, against our forecast of a slight increase. We projected a slight raise in the inflation rate of non-energy industrial goods that should be offset by a similar decline in services inflation. However, all core components remained also unchanged at July's rates (see tables and graph below).

- **Headline inflation is expected to hover around 1.3% y/y in coming months and to remain well below the ECB's target in 2014**

We expect inflation to remain stable at 1.3% y/y in September, as somewhat lower inflation in more volatile components (energy and fresh food) is expected to be offset by slightly higher core inflation, especially in services and non-energy industrial goods. The headline inflation profile could be somewhat more uneven by year-end, increasing slightly to 1.5% y/y in December (1.5% for 2013 as a whole), partly reflecting a lower base effect of energy prices. This performance is expected to remain throughout 2014, but hovering around the projected annual inflation rate for next year (1.4%). In contrast, core inflation is expected to decline slightly again in the last quarter of 2013 (1.2% y/y), but remaining broadly stable around 1.2% y/y over next year.

- **The slowdown of HICP inflation in August was also widespread across countries**

Country by country, the broad-based decline in energy prices was also reflected in a lower headline inflation rate, especially in Spain (-0.3pp to 1.6% y/y) and Germany (-0.3pp to 1.6% y/y), while the decline in French was more moderate (-0.2pp to 1.0% y/y) and Italian inflation remained unchanged (1.2% y/y). In addition, core inflation stabilization was also widespread across countries. In September, the uncertainty about the evolution of inflation increases considerably resulting from the depletion of the impact of tax hikes a year ago, especially in Spain.

Table 1
Eurozone. HICP inflation rate

	% y/y		% m/m	
	July 2013	August 2013	July 2013	August 2013
HICP	1.6	1.3	-0.5	0.1
Energy	1.6	-0.3	0.8	0.5
Fresh Food	5.1	4.4	-1.0	-0.9
Core excluding Fresh Food and Energy	1.3	1.3	-0.7	0.2
Services	1.4	1.4	1.0	0.3
Non-Energy Industrial Goods	0.4	0.4	-3.7	0.0
Processed Food	2.5	2.5	0.4	0.1

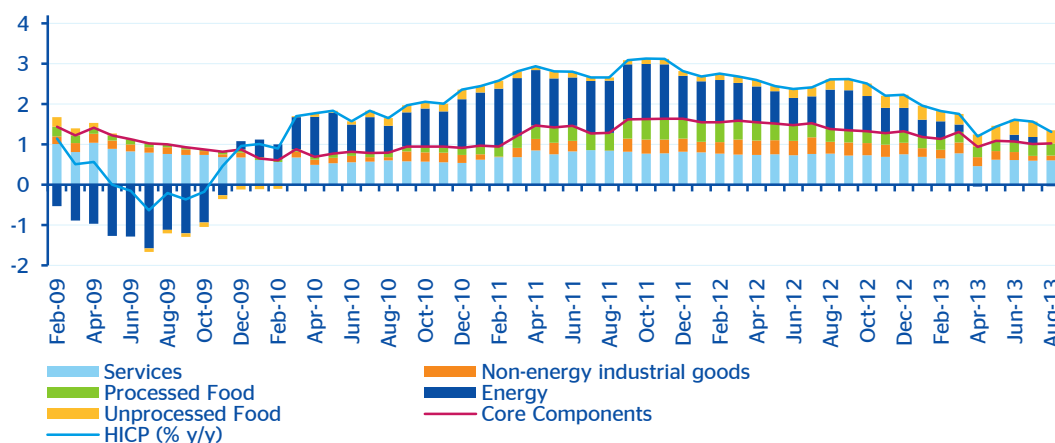
Source: Eurostat and BBVA Research

Table 2
Annual HICP inflation rate: forecast evaluation

August 2013	Weight %	Forecast %	Observed %	Confidence Interval Forecast (*)
Headline	100.0	1.4	1.3	(1.2; 1.6)
Energy	10.96	-0.6	-0.3	(-1.0; -0.1)
Unprocessed food	7.35	4.7	4.4	(4.1; 5.2)
Excluding energy and unprocessed food	81.69	1.4	1.3	(1.2; 1.5)
Services	42.30	1.4	1.4	(1.2; 1.5)
Non-energy industrial goods	27.36	0.7	0.4	(0.5; 1.0)
Processed food	12.03	2.5	2.5	(2.4; 2.7)

(*) 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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