

# Europe Flash

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Economic Analysis

Europe

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## Eurozone inflation slowed, more than expected

Inflation is projected to increase slightly in coming months to around 1.4% y/y by year-end

- **Eurozone HICP inflation slowed by 0.2pp to 1.1% y/y in September, more than expected (BBVA Research: 1.25%; Consensus: 1.2%)**

According to the Eurostat flash estimate, the decline in inflation was widespread across components, except service prices, which increased by 0.1pp to 1.5% y/y as expected. Underlying this month slowdown were mainly lower energy prices (-0.9% y/y from -0.3% y/y), in line with our forecasts, but also the lower growth of prices of non-energy goods, which was a surprise to us (see Table 1). Finally, the decline in food inflation could have been somewhat larger than projected. All in all, core inflation is likely to have declined by around 0.1pp to 1.2% y/y.

- **The inflation pace will remain well below 2%**

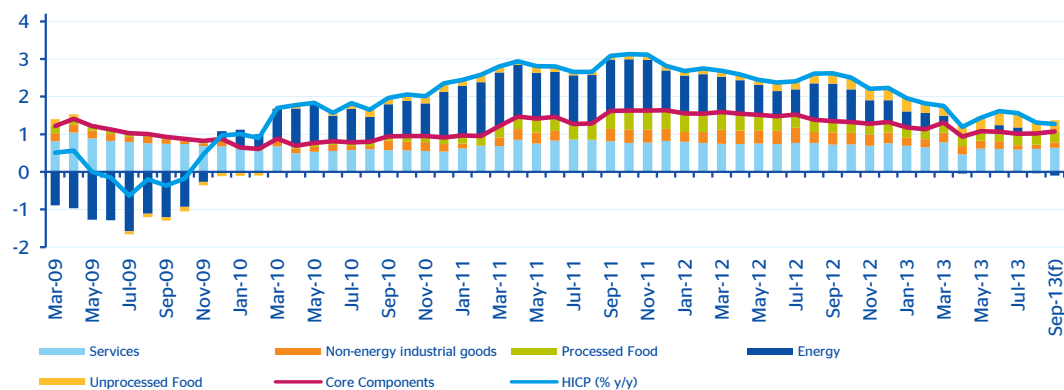
Although we update our models with the final figures (to be released on 16<sup>th</sup> October), our forecasts suggest that the headline profile could be somewhat more uneven by year-end, increasing slightly to around 1.4% in December (average of 1.5% for 2013 as a whole), partly reflecting a lower 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 remain broadly stable around 1.2% y/y in the last quarter of 2013 and over next year.

Table 1  
**Eurozone. Annual HICP inflation rate (% y/y)**

	Observed		Flash estimate	BBVA Research
	July 2013	August 2013	September 2013	September 2013
HICP	1.6	1.3	1.1	1.25
Energy	1.6	-0.3	-0.9	-0.90
Fresh Food	5.1	4.4		4.03
Core excluding Fresh Food and Energy	1.3	1.3		1.31
Services	1.4	1.4	1.5	1.52
Non-Energy Industrial Goods	0.4	0.4	0.3	0.50
Processed Food	2.5	2.5		2.43

Source: Eurostat and BBVA Research

Chart 1

**Eurozone. Annual HICP inflation rate. Contribution by component**


Source: Eurostat and BBVA Research

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