

Europe Flash

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Economic Analysis

Europe

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Eurozone inflation surprises on the downside in October

- **Eurozone HICP inflation slowed by 0.4pp to 0.7% y/y in October (BBVA Research: 0.9%; Consensus: 1.1%)**

According to the Eurostat flash estimate, the decline in inflation was mainly driven by a further drop in energy prices (-1.7% y/y) as well as a more moderate growth in food prices (decelerating by -0.7pp to 1.9% y/y), as expected, but also by slowing inflation in services (by -0.2pp to 1.2% y/y), in contrast with our expectations of stabilization. Overall, the price performance of the more volatile components (energy and fresh food) could explain around 0.2pp of the slowdown in headline inflation, while the remainder 0.2pp could be stemming from both lower growth in both services and processed food prices. As a result, core inflation is also likely to have declined to 1% y/y from 1.2% y/y in September.

- **The inflation is projected to increase slightly by year-end, hovering around 1% throughout the coming year**

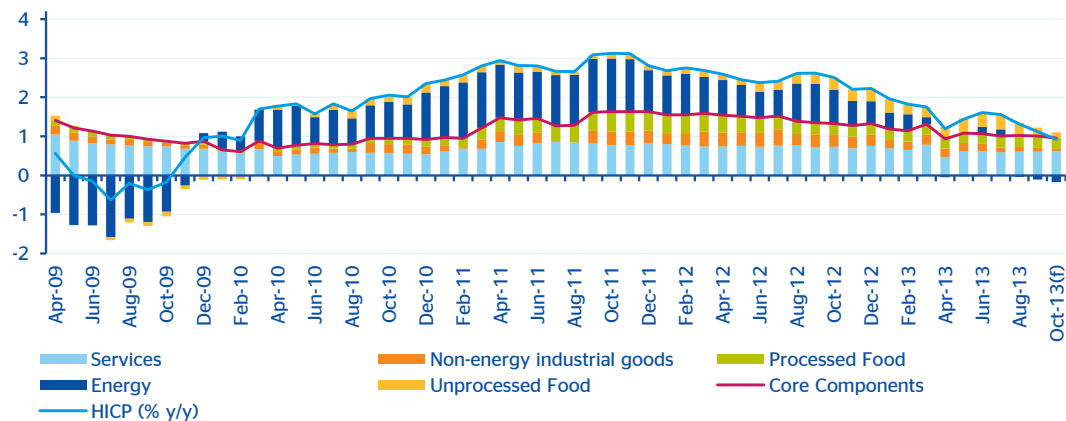
Although we will update our models with the final figures (to be released on 15th November), our forecasts suggest that the headline profile could be somewhat more uneven by year-end, increasing slightly by around 0.2pp in December, partly reflecting a lower base effect of energy prices. Nonetheless, recent negative surprises, mainly in more volatile components, pose some downside risks to our forecast for headline inflation for both 2013 and 2014, implying an annual average growth of around 0.1pp and 0.2pp lower, attaining 1.4% and 1.2%, respectively.

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

	Observed		Flash estimate	BBVA Research
	August 2013	September 2013	October 2013	October 2013
HICP	1.3	1.1	0.7	0.9
Energy	-0.3	-0.9	-1.7	-1.6
Fresh Food	4.4	2.9		2.0
Core excluding Fresh Food and Energy	1.3	1.2		1.2
Services	1.4	1.4	1.2	1.4
Non-Energy Industrial Goods	0.4	0.4	0.4	0.3
Processed Food	2.5	2.4		2.3

Source: Eurostat and BBVA Research

Chart 1

Eurozone. Annual HICP inflation rate. Contribution by component


Source: Eurostat and BBVA Research

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