

Europe Flash

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Economic Analysis

Europe

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Eurozone inflation increased in November slightly more than expected

- **Eurozone HICP inflation stepped up by 0.2pp to 0.9% y/y in November, somewhat more than expected (BBVA Research and Consensus: 0.8%)**

According to the Eurostat flash estimate, the increase in inflation was mainly driven by a more moderate fall in energy prices (-1.1% y/y after -1.7% y/y in October), but also by higher inflation in services (1.5% y/y after 1.2% y/y, while we were expecting 1.3%) that could result in core inflation at 1.1% y/y (from 1% y/y in October). The inflation rate of the remaining core components, both non-energy industrial goods and processed food, should have remained broadly stable. Overall, the upward surprise in November is moderate and was partly expected after the German and Spanish data were released earlier in the week, but nonetheless is good news as it counters fears of deflation triggered last month in some quarters after the October data.

- **The inflation is projected to increase somewhat in December, but it is likely to slow again early next year, hovering slightly above 1% the rest of the year**

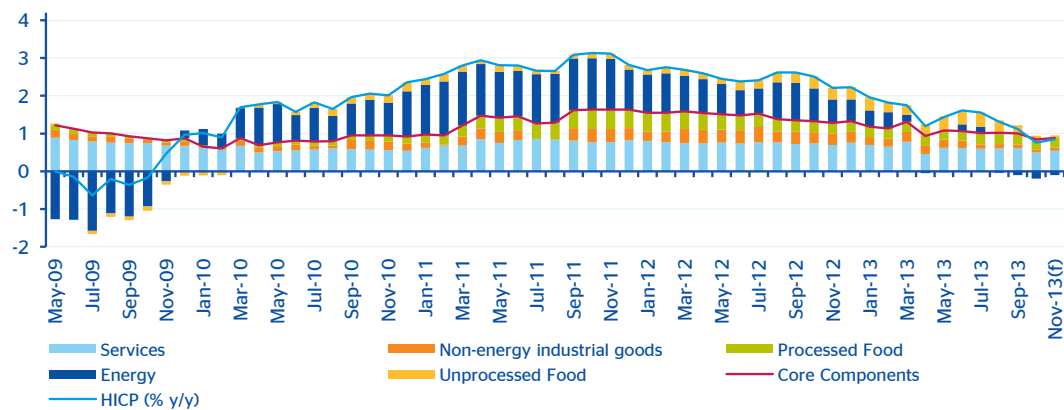
Although we will update our models with the final figures (to be released on 17th December), we see inflation increasing again to about 1% y/y in December, partly reflecting a lower base effect of energy prices, while core inflation is likely to remain unchanged. The downward surprises of previous months – in September and, especially, in October – tilt to the downside our official forecast for average inflation next year (1.4%) to rates closer but slightly above 1%, but we continue to think that a strong disinflationary process is unlikely throughout next year.

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

	Observed		Flash estimate	BBVA Research
	September 2013	October 2013	November 2013	November 2013
HICP	1.1	0.7	0.9	0.8
Energy	-0.9	-1.7	-1.1	-0.9
Fresh Food	2.9	1.4		1.0
Core excluding Fresh Food and Energy	1.2	1.0		1.1
Services	1.4	1.2	1.5	1.3
Non-Energy Industrial Goods	0.4	0.3	0.3	0.3
Processed Food	2.4	2.2		2.1

Source: Eurostat and BBVA Research

Chart 1

Eurozone. Annual HICP inflation rate. Contribution by component


Source: Eurostat and BBVA Research

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