

Europe Flash

Madrid, 7 January 2014
Economic Analysis

Europe

Miguel Jiménez
Chief Economist
mjimenezg@bbva.com

Agustín García Serrador
Senior Economist
agustin.garcia@bbva.com

Diego Torres Torres
Economist
diego.torres.torres@bbva.com

Massimo Trento
massimo.trento@bbva.com

Negative surprise to Eurozone inflation in December driven by service prices

- **Eurozone inflation declined by 0.1pp to 0.8% y/y in December, against expectations (BBVA Research: 1.0%; Consensus: 0.9%)**

According to the Eurostat flash estimate, the decline in inflation was mainly driven by slowing inflation in services (1% y/y after 1.4% y/y in November; BBVA Research: 1.5% y/y), which should explain practically all the downward surprise to our forecast (around 0.2pp). Nonetheless, we already highlighted last month that the seasonality changes in package holidays and hotels in Germany would increase uncertainty around inflation performance in services in December. Regarding the rest of core components, inflation of non-energy industrial good remained stable at 0.2% y/y, while energy inflation remained flat, in line with our forecasts (see Table 1). Overall, these figures suggest that core inflation could have slowed by around 0.2pp to 0.9% y/y in December (BBVA Research: 1.1% y/y). As a result, both core and headline inflation could average at around 1.3% y/y for 2013 as a whole.

- **Inflation is projected to slow slightly over 1Q14 to increase again afterwards, especially at the end of the year to around 1.4% y/y**

Although we will update our models with the final figures (to be released on 16th January), we see inflation declining slightly over 1Q14, partly reflecting a lower base effect of energy prices, while core inflation is likely to hover around 1% y/y. The surprising fall in inflation in October inflation was partially compensated in November, but now we have again a negative surprise. Still, we think that the slow but positive growth numbers expected for coming months imply that a strong disinflationary process is unlikely throughout next year.

Table 1

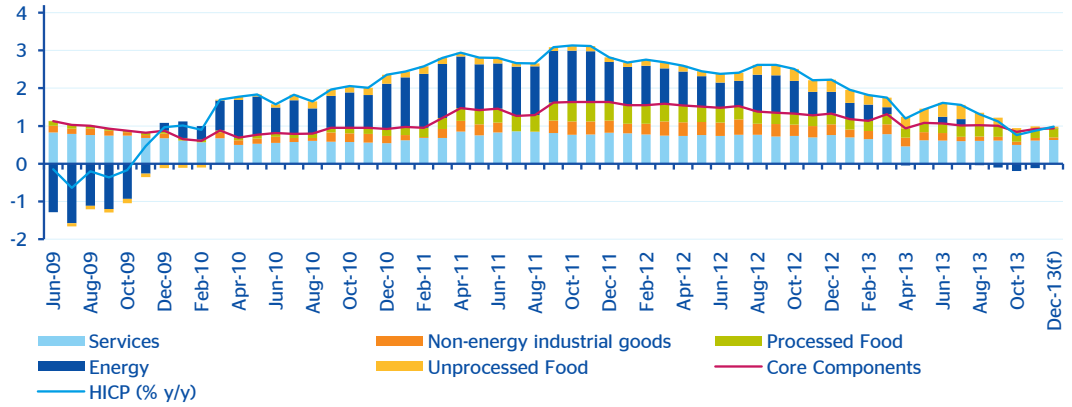
Eurozone. Annual HICP inflation rate (% y/y)

	Observed		Flash estimate	BBVA Research
	October 2013	November 2013	December 2013	December 2013
HICP	0.7	0.9	0.8	1.0
Energy	-1.7	-1.1	0.0	0.0
Fresh Food	1.4	0.9		0.6
Core excluding Fresh Food and Energy	1.0	1.1		1.1
Services	1.2	1.4	1.0	1.5
Non-Energy Industrial Goods	0.3	0.2	0.2	0.3
Processed Food	2.2	2.0		2.0

Source: Eurostat and BBVA Research

Chart 1

Eurozone. Annual HICP inflation rate. Contribution by component



Source: Eurostat and BBVA Research

DISCLAIMER

This document has been prepared by BBVA Research Department, it is provided for information purposes only and expresses data, opinions or estimations regarding the date of issue of the report, prepared by BBVA or obtained from or based on sources we consider to be reliable, and have not been independently verified by BBVA. Therefore, BBVA offers no warranty, either express or implicit, regarding its accuracy, integrity or correctness.

Estimations this document may contain have been undertaken according to generally accepted methodologies and should be considered as forecasts or projections. Results obtained in the past, either positive or negative, are no guarantee of future performance.

This document and its contents are subject to changes without prior notice depending on variables such as the economic context or market fluctuations. BBVA is not responsible for updating these contents or for giving notice of such changes.

BBVA accepts no liability for any loss, direct or indirect, that may result from the use of this document or its contents.

This document and its contents do not constitute an offer, invitation or solicitation to purchase, divest or enter into any interest in financial assets or instruments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

In regard to investment in financial assets related to economic variables this document may cover, readers should be aware that under no circumstances should they base their investment decisions in the information contained in this document. Those persons or entities offering investment products to these potential investors are legally required to provide the information needed for them to take an appropriate investment decision.

The content of this document is protected by intellectual property laws. It is forbidden its reproduction, transformation, distribution, public communication, making available, extraction, reuse, forwarding or use of any nature by any means or process, except in cases where it is legally permitted or expressly authorized by BBVA.