

Europe Flash

Madrid, 28 February 2014
Economic Analysis

Europe

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Eurozone inflation remained stable in February

We continue to see the disinflation process reversing after March, though inflation will remain low

- **Eurozone inflation remained unchanged at 0.8% y/y in February, against expectations (BBVA Research: 0.6%; Consensus: 0.7%)**

According to the Eurostat flash estimate, inflation of both non-energy industrial goods, especially, and services increased in February (by 0,4pp to 0.6% y/y and by 0.1pp to 1.3% y/y) and they pushed inflation excluding energy and food up by 0.2pp to 1% y/y, against our expectations of stabilization (see Table 1). In addition, this offset the fall in energy prices and the slight moderation in food inflation. These figures suggest that core inflation could have increased slightly in February after being at 1% y/y in January.

- **Inflation is projected to slow slightly in March to increase again afterwards, especially at the end of the year, to be above 1% y/y**

Although we will update our models with the final figures (to be released on 17th March), we see inflation declining slightly in March (by around 0,1pp) as a reflection of the change in the calendar effect of the Easter holidays, although partly offset by a lower fall in energy prices. Inflation should continue to tick up in the second quarter by around 0,3pp to around 0.9% y/y and will remain relatively stable until the last quarter of the year, when it might return to rates above 1% y/y.

- **The process of disinflation is likely to stop after March, though inflation will continue to be relatively low and below the ECB's reference value**

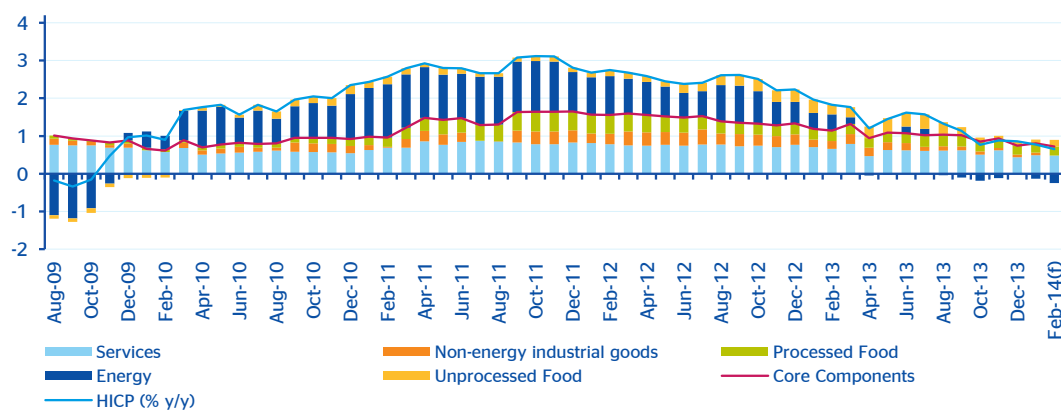
February upward surprise partly offset the downward surprises observed in previous months, as core inflation remained more resilient than expected. This could help to dispel fears about the intensity and nature of the disinflationary process and its possible adverse effect on inflation expectations. We continue to think that it is unlikely that disinflation will continue after March, and that a scenario of low and stable rates of inflation around 0.9% y/y is more likely as the recovery in domestic demand takes hold. These are the values that we have observed since 2Q13 for inflation excluding the impact of higher taxes on prices.

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

	Observed		Flash estimate	BBVA Research
	December 2013	January 2014	February 2014	February 2014
HICP	0.8	0.8	0.8	0.6
Energy	0.0	-1.2	-2.2	-2.3
Fresh Food	1.5	1.3		1.3
HICP excluding energy and food	0.7	0.8	1.0	0.8
Core excluding Fresh Food and Energy	0.9	1.0		0.9
Services	1.0	1.2	1.3	1.1
Non-Energy Industrial Goods	0.3	0.2	0.6	0.0
Processed Food	2.0	2.0		2.0

Source: Eurostat and BBVA Research

Chart 1
Eurozone. Annual HICP inflation rate. Contribution by component



Source: Eurostat and BBVA Research

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