

Europe Flash

Eurozone

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Economic Analysis

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Inflation upward surprise in November is confirmed

- **Both headline and core inflation stepped up in November, by 0.2pp to 0.9% y/y and 0.1pp to 1.1% y/y, respectively**

Underlying this month's increase was mainly a more moderate fall in energy prices (-1.1% y/y after -1.7% y/y in October that explained around 0.1pp of the increase), but also higher inflation in services (1.4% y/y after 1.2% y/y, while we were expecting 1.3%, which explained the remainder 0.1pp) that result in core inflation at 1.1% y/y (from 1% y/y in October), in line with our forecasts (see Table 2). The inflation rate of the remaining core components, both non-energy industrial goods and processed food, slowed marginally by around 0.1pp to 0.2% y/y and 2.0% y/y, respectively. Overall, the upward surprise in November is moderate, but nonetheless is good news as it counters fears of deflation triggered last month after October data.

- **Inflation is projected to increase somewhat in December, but it is likely to slow again early next year**

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. Nonetheless, the seasonality change in package holidays and hotels in Germany increases uncertainty around inflation performance, especially in services, next month. 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.

- **Across countries, the increase in inflation was widespread, except in Italy**

Among core countries, headline inflation increased markedly in Germany (by 0.4pp to 1.6% y/y), while it rose more moderately in France (+0.1pp to 0.8% y/y). In both countries, inflation of energy products was virtually flat, and thus the main difference between them stemmed from core inflation, which increased strongly in Germany (1.9% y/y from 1.4% y/y) driven by higher services prices (2.3% y/y after 1.4% y/y), while it accelerated only moderately in France (+0.1pp to 0.9%). In Spain, headline inflation increased by 0.3pp to 0.3% y/y due to the lower fall in energy prices, while core inflation remained stable at 0.3% y/y. In contrast, both headline and core inflation in Italy declined by 0.1pp to 0.7% y/y and 1.1% y/y, respectively, despite recent tax hikes and thus, showing further evidence that the weakness of domestic demand, along with internal adjustments, are likely to result in low inflation rates over next year in the periphery.

Table 1
Eurozone. HICP inflation rate

	% y/y		% m/m	
	October 2013	November 2013	October 2013	November 2013
HICP	0.7	0.9	-0.1	-0.1
Energy	-1.7	-1.1	-1.2	-0.8
Fresh Food	1.4	0.9	-0.5	0.1
Core excl. Fresh Food and Energy	1.0	1.1	0.1	0.0
Services	1.2	1.4	-0.3	-0.1
Non-Energy Industrial Goods	0.3	0.2	0.6	0.1
Processed Food	2.2	2.0	0.2	0.1

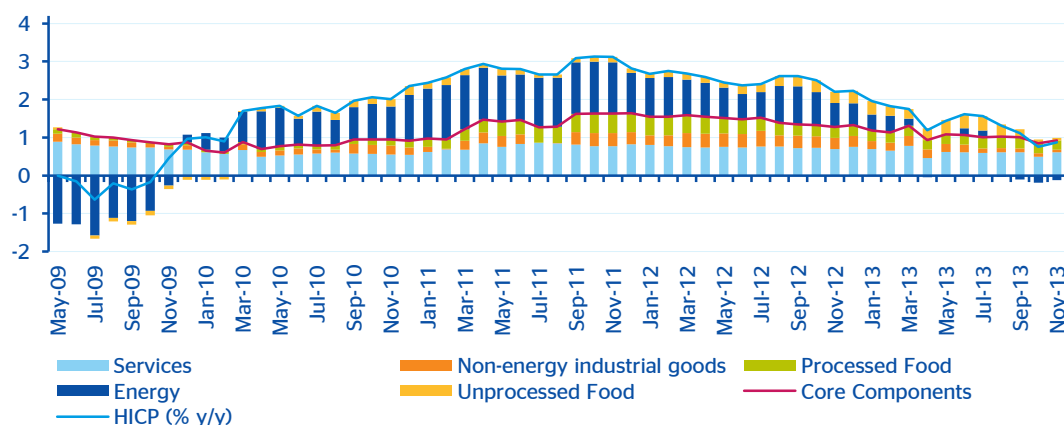
Source: Eurostat and BBVA Research

 Table 2
Annual HICP inflation rate: forecast evaluation

November 2013	Weight %	Forecast %	Observed %	Confidence Interval Forecast (*)
Headline	100.0	0.8	0.9	(0.6 ; 1.0)
Energy	10.96	-0.9	-1.1	(-1.4 ; -0.5)
Unprocessed food	7.35	1.0	0.9	(0.4 ; 1.5)
Excluding energy and unprocessed food	81.69	1.1	1.1	(0.9 ; 1.2)
Services	42.30	1.3	1.4	(1.1 ; 1.4)
Non-energy industrial goods	27.36	0.3	0.2	(0.1 ; 0.5)
Processed food	12.03	2.1	2.0	(2.0 ; 2.3)

(*) 80% confidence.

Source: Eurostat and BBVA Research

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


Source: Eurostat and BBVA Research

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