

Europe Flash

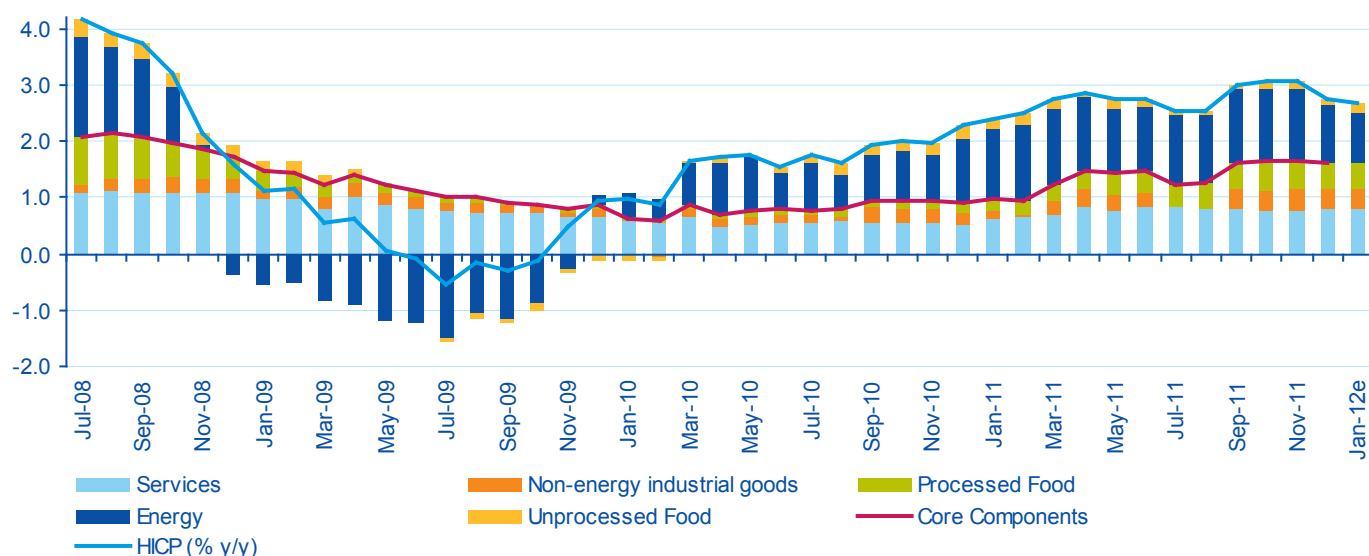
Eurozone flash inflation remained stable in January

Bottom line: Annual inflation stabilized in January against our forecast of a slight deceleration. Although detailed results are not yet available, our models suggest that this slight upward surprise should respond mainly to higher oil prices than incorporated in our update. We continue to see inflation moderating in coming months, although the slower slowdown in energy prices combined with the depreciation of the euro could result in inflation slightly above the ECB target at the end of Q1.

- According to Eurostat flash estimation, HICP inflation remained stable in January at 2.7% y/y,**
 against our expectation of a slightly deceleration (BBVA Research: 2.6% y/y; Consensus: 2.7% y/y). This slight innovation should come from the recent increase in oil prices, since including the latest information on gasoline prices, our models also forecast January's stabilization. In addition, the detailed results to be published on 29th February will also provide the revision of the weights of the components in the HICP basket, which may also partly explain the slight upward innovation observed in January.
- Core inflation should have also remained broadly stable around 1.9% y/y**
 Nevertheless, after the methodological change introduced in 2011 to assess the seasonality of this series, the uncertainty around forecasts of non-energy industrial inflation has increased, in particular in January due to winter sales. According to today's flash estimation, we think that annual inflation of these products should have slowed slightly, but a larger slowdown should not be ruled out.
- We expect inflation to slow further in coming months,**
 but a slower slowdown in oil prices that anticipated combined with the depreciation of the euro could result in inflation slightly above the ECB target at the end of Q1. In addition, potential hikes in both taxes and administered prices to meet fiscal targets pose upside risks to this scenario.

Chart 1

Eurozone. Annual HICP inflation rate. Contribution by component





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