

Europe Flash

HICP inflation remained stable at 2.6% y/y in September, while core inflation slowed by 0.1pp to 1.6% y/y

- **HICP inflation was revised down by 0.1pp from the flash estimate, in line with our previous forecast (BBVA Research: 2.6% y/y; Consensus: 2.4% y/y)**

The main difference with the preliminary estimate lies in the evolution of the components of core inflation, with a slowdown in services inflation and the acceleration in industrial prices. Overall, September's final figures showed further evidence that underlying the current high inflation rate was the performance of more volatile components, as energy inflation increased by 0.3pp to 9.1% y/y (BBVA Research: 8.7% y/y) and prices of fresh food grew at 3.7% y/y (BBVA Research: 3.4% y/y) from 3.5% in August.

- **Core inflation slowed by 0.1pp to 1.6% y/y in September, against our expectation of stabilization, offsetting higher prices of more volatile components**

Underlying this positive surprise was mainly the slowdown of services inflation that declined by 0.1pp to 1.7% y/y, in contrast to our estimation of a slight acceleration (BBVA Research: 1.9% y/y; Flash estimate: 2.0% y/y). Regarding the other components of core inflation, they evolved as expected, with inflation in non-energy industrial goods increasing by 0.1pp to 1.2% y/y (BBVA Research: 1.2% y/y; Flash estimate: 0.8% y/y), and inflation of processed food declining by 0.2pp to 2.5% y/y (BBVA Research: 2.4% y/y). As a result, the decline in core inflation (-0.1pp) offset the rebound in the more volatile component. Overall, September's figures did not show evidence of second-round effects, while the gloomy economic prospects for coming quarters combined with the continuing deterioration of labour market must put the brake on them in the short-term.

- **Headline inflation is expected to decline in October, driven by lower energy inflation**

Our updated forecasts, incorporating the latest information of fuel prices, suggest that energy inflation is likely to decline next month, while core inflation is set to remain relatively stable at 1.6% y/y. As a result, headline inflation is likely to decline between 0.1pp and 0.2pp.

- **Looking forward, we expect inflation to hover around 2.4% y/y during Q4**

Still high prices of oil Brent, combined with inflationary pressures stemming from higher indirect taxes in the periphery, suggest that inflation will slow sluggishly in coming months. Regarding core inflation, we expect it to remain broadly stable at 1.6% y/y over Q4.

Table 1

Eurozone. Annual HICP inflation rate

	% y/y		% m/m	
	August 2012	September 2012	August 2012	September 2012
HICP	2.6	2.6	0.4	0.7
Energy	8.9	9.1	2.4	1.1
Fresh Food	3.5	3.7	-0.3	0.4
Core excluding Fresh Food and Energy	1.7	1.6	0.2	0.7
Services	1.8	1.7	0.3	-0.9
Non-Energy Industrial Goods	1.1	1.2	0.0	3.5
Processed Food	2.7	2.5	0.1	0.1

Source: Eurostat and BBVA Research

Table 2

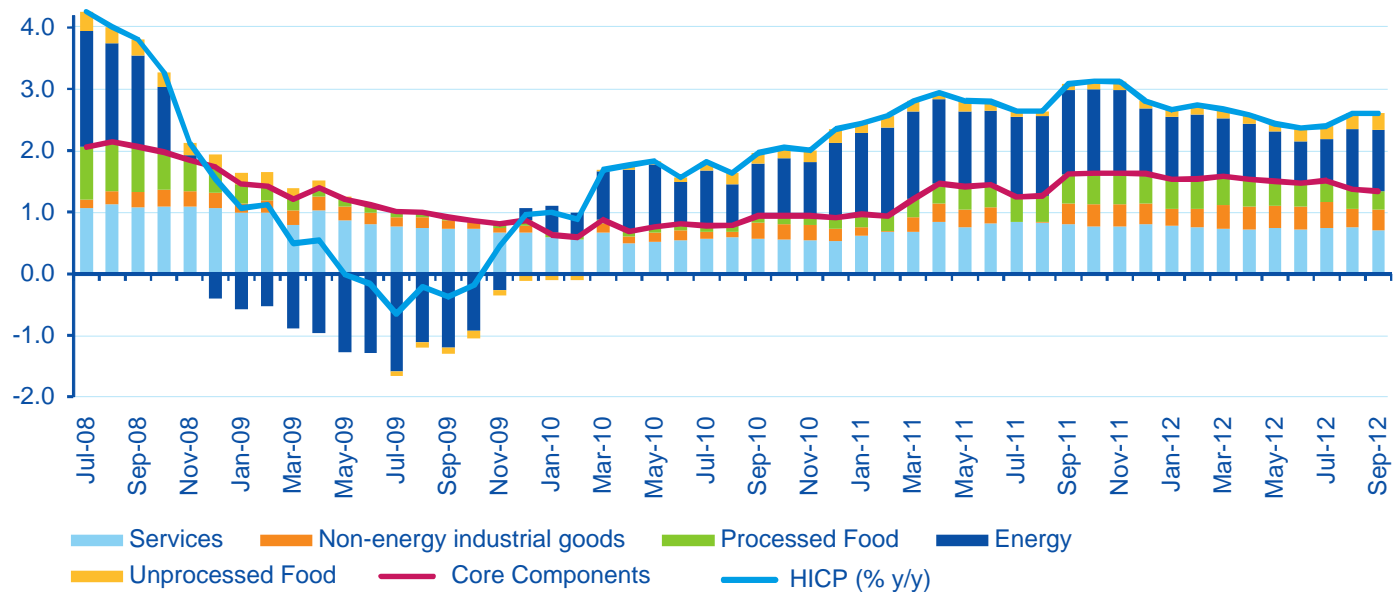
HICP: Forecast evaluation

September 2012	Weight %	Forecast %	Observed %	Confidence Interval Forecast (*)
Headline	100.0	2.6	2.6	(2.4 ; 2.8)
Energy	10.99	8.7	9.1	(8.3 ; 9.1)
Unprocessed food	7.22	3.4	3.7	(2.8 ; 3.9)
Excluding energy and unprocessed food	81.79	1.7	1.6	(1.5 ; 1.9)
Services	41.47	1.9	1.7	(1.8 ; 2.0)
Non-energy industrial goods	28.47	1.2	1.2	(0.9 ; 1.4)
Processed food	11.85	2.4	2.5	(2.3 ; 2.6)

(*) 80% confidence

Source: Eurostat and BBVA Research

Chart 1

Eurozone. Annual HICP inflation rate. Contribution by component

Source: Eurostat and BBVA Research

Miguel Jiménez
mjimenezg@bbva.com
+34 91 537 37 76

Agustín García Serrador
agustin.garcia@bbva.com
+34 91 374 79 38

Elvira Prades
elvira.prades@bbva.com
+34 91 537 79 36

Sonia López Senra
Sonia.lopez.senra@bbva.com
+34 91 537 79 36

BBVA RESEARCH



| Castellana 81, Floor 7, 28046 Madrid | Tel.: +34 91 374 60 00 | www.bbvaresearch.com

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