

Europe Flash

EZ inflation slowed in November driven by lower energy prices

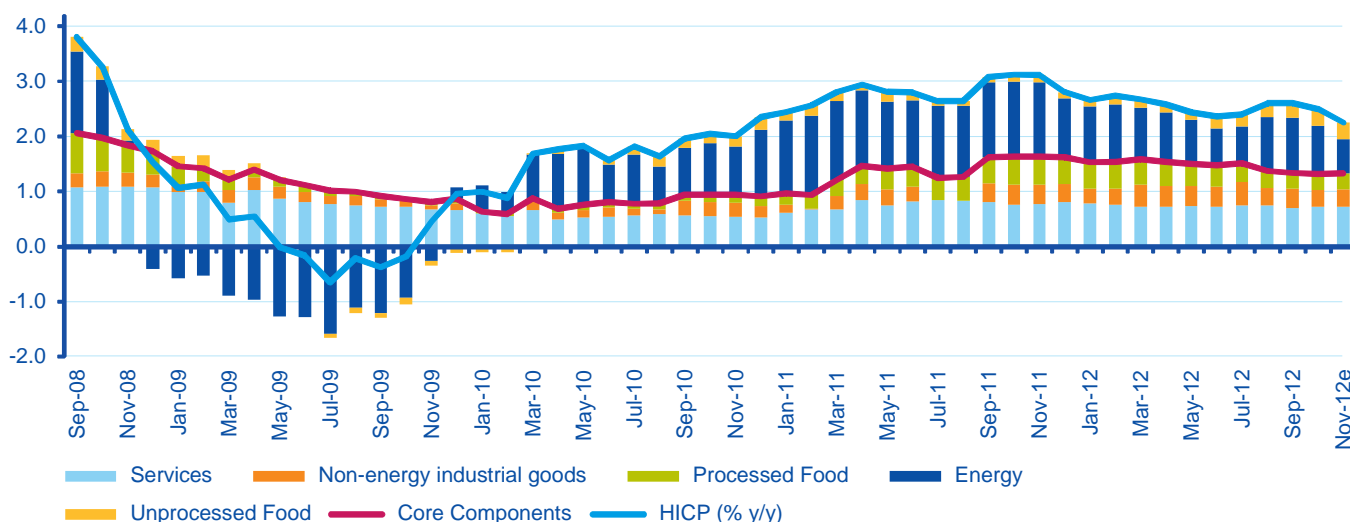
- According to Eurostat flash estimation, HICP inflation declined by 0.3pp to 2.2% y/y, in line with our below-consensus expectation (BBVA Research: 2.25% y/y; Consensus: 2.4% y/y)

According to Eurostat's flash estimate, November's slowdown was driven by the significant moderation in the growth of energy prices (from 8% y/y in October to 5.8%; BBVA Research: 5.7%). Regarding core components, both inflation of non-energy industrial goods (1.1% y/y; BBVA Research: 1.1%) and services (1.7% y/y; BBVA Research: 1.75%) remained stable, while the food inflation eased slightly (by -0.1pp to 3% y/y). Taking into account these figures and our forecasts, core inflation should have also remained unchanged at 1.6% y/y.

- Looking forward, headline inflation is expected to revert below the ECB's target during Q2 2013

We expect inflation to hover around 2.2% by year end, slowing more rapidly at the beginning of 2013 as a result of a significant base effect in energy prices after increasing sharply a year ago. In particular, headline inflation is likely to be slightly below the ECB's target by the second quarter. Thereafter, the slowdown of both core and headline inflation will be more sluggish.

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



Source: Eurostat and BBVA Research

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