

# Europe Flash

## Eurozone HICP inflation, both headline and core, remained unchanged in November

**Bottom line:** Inflation remained stable at 3% in November, as expected, for the third month in a row and has probably reached its peak. Inflation will slow in December driven by the moderation in energy inflation, and will fall below 2% late in the first quarter of 2012. In general, inflationary pressures are expected to ease further in coming months due to the weakness of domestic demand, but several factors have appeared in recent weeks that could put a brake to this deceleration, i.e. the depreciation of the euro, along with a slowdown in oil prices, as well as potential hikes in both taxes and administered prices.

- Core inflation remained unchanged at 2% y/y in November,**  
in line with our forecasts (BBVA Research: 2.0% y/y), as price increases remained broadly stable across its components. In particular, inflation in services increased by less than 0.1pp to 1.9%, while inflation in both processed food and non-energy industrial goods remained stable. Overall, core inflation remained stable for the third month in a row, proving that the strong acceleration observed in September (+0.5pp) was mainly due to the effect of methodological changes, while inflationary pressures continue to ease.
- Inflation in more volatile components also remained broadly stable,**  
as slightly higher inflation in fresh food was practically offset by the marginally lower inflation in energy products. In particular, still high energy inflation continues to explain about half of the annual headline inflation rate, but the significant positive base effects of energy prices in coming months must underlie the projected slowdown in inflation over next months. Nevertheless, recent events, as the depreciation of the euro and the slow decline in oil prices, add more uncertainty around the speed at which these effects will materialize.
- We expect inflation to slow down in December,**  
by around 0.2-0.3pp due to favourable base effects in energy prices. This moderation path should continue at the beginning of 2012 with headline inflation reverting below the ECB target late in the first quarter. Regarding core inflation, we expect it to have remained broadly stable in December, and to moderate somewhat afterwards. Nonetheless, there is still high uncertainty around the forecast of industrial inflation this year, and thus around core inflation, given the limited information available on the new model to assess the seasonality of the series.

Table 1  
**Eurozone. Annual HICP inflation rate**

	% y/y		% m/m	
	Current	Previous	Current	Previous
<b>November 2011</b>				
<b>HICP</b>	<b>3.0</b>	<b>3.0</b>	<b>0.1</b>	<b>0.3</b>
<b>Energy</b>	12.3	12.4	0.7	0.6
<b>Fresh Food</b>	1.9	1.8	0.7	0.5
<b>Core excluding Fresh Food and</b>				
<b>Energy</b>	<b>2.0</b>	<b>2.0</b>	<b>0.0</b>	<b>0.3</b>
<b>Services</b>	1.9	1.8	-0.2	-0.1
<b>Non-Energy Industrial Goods</b>	1.3	1.3	0.1	0.7
<b>Processed Food</b>	4.3	4.3	0.3	0.5

Source: Eurostat and BBVA Research

Table 2

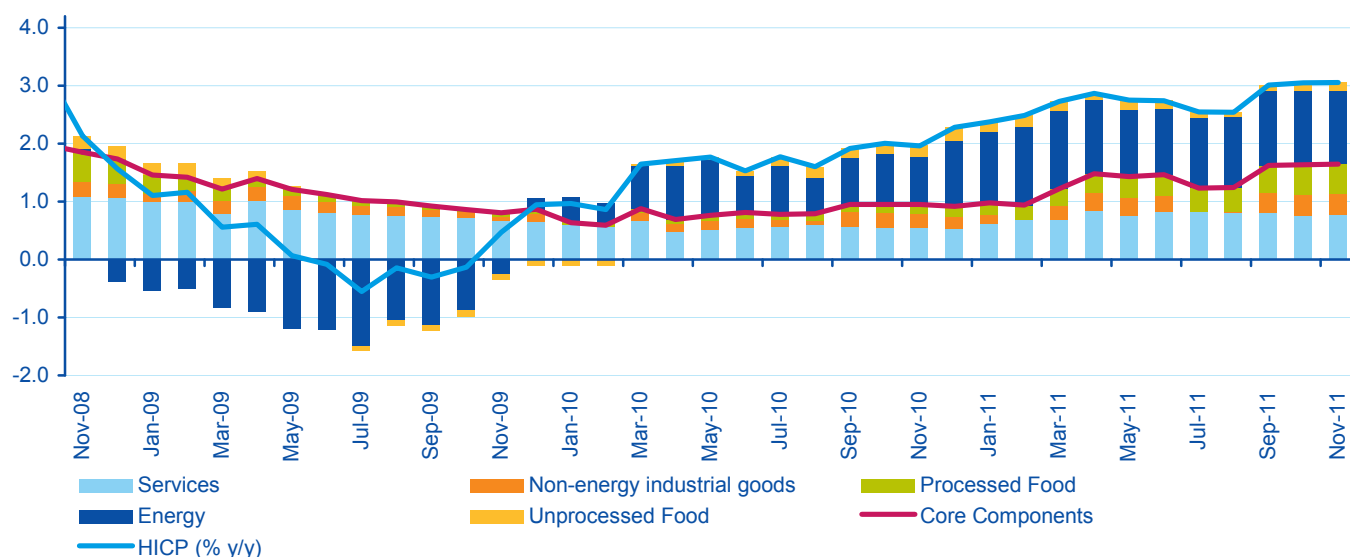
**HICP: Forecast evaluation**

November 2011	Weight %	Forecast %	Observed %	Confidence Interval Forecast (*)
<b>Headline</b>	<b>100.0</b>	2.99	3.04	( 2.8 ; 3.2 )
<b>Energy</b>	<b>10.33</b>	11.95	12.28	( 11.5 ; 12.4 )
<b>Unprocessed food</b>	<b>7.35</b>	1.58	1.89	( 1.0 ; 2.1 )
<b>Excluding energy and unprocessed food</b>	<b>82.29</b>	2.01	2.00	( 1.8 ; 2.2 )
<b>Services</b>	<b>41.43</b>	1.85	1.87	( 1.7 ; 2.0 )
<b>Non-energy industrial goods</b>	<b>28.91</b>	1.26	1.26	( 1.0 ; 1.5 )
<b>Processed food</b>	<b>11.95</b>	4.37	4.28	( 4.2 ; 4.5 )

(\*) 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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