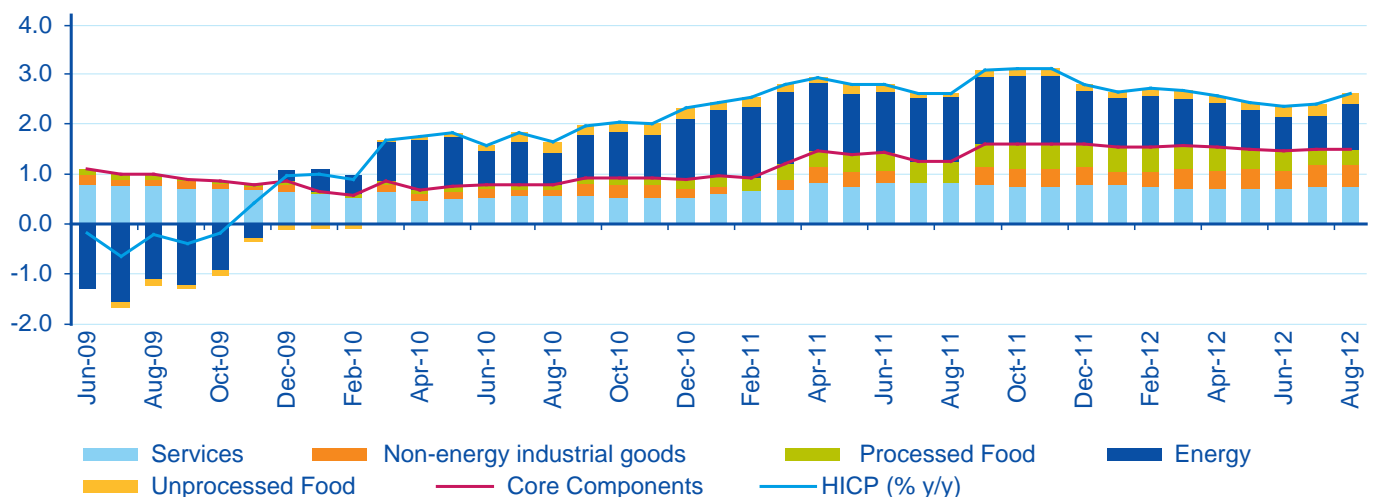


Europe Flash

Higher than expected EZ inflation in August, due to energy prices

- According to Eurostat flash estimation, HICP inflation increased by 0.2pp to 2.6% y/y, somewhat more than expected (BBVA Research: 2.5% y/y; Consensus: 2.4% y/y).** Although Eurostat has not released the detailed breakdown, our models suggested that August's acceleration is explained by higher energy prices, and today's data combined with recent sharp increase in fuel prices seem to confirm it. In particular, taking into account fuel prices in our models, these would have projected even a somewhat larger acceleration in August, so that core inflation is likely to have remained stable, as projected, or even have declined slightly.
- Looking forward, we no longer expect inflation to revert to 2% during the rest of 2012.** Higher prices of oil Brent than previously anticipated, combined with inflationary pressures stemming from higher indirect taxes in the periphery, suggest that inflation will not slow steadily to revert to ECB's target by end-year, as projected previously, but will remain relatively stable at current levels in coming months.
- Still, we think that inflation pressures will remain subdued.** Given the gloomy economic outlook for H212 combined with the continuing deterioration of the labour market, we think that potential second-round effects are very limited, being somewhat more likely in core countries.

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



Source: Eurostat and BBVA Research

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