

## Eurozone | Inflation remains stable in November and with downward surprises

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### Minimal drop in energy prices, but compensated by the moderation of core inflation

While we have yet to know the final data, Eurostat's flash estimate surprises on the downside, considering that inflation remained stable at 0.1% YoY in November (BBVA Research: 0.3% YoY; consensus: 0.2% YoY). The negative surprise comes from the core component, with lower growth in prices of services (-0.2pp to 1.1% YoY) and non-energy industrial goods (-0.1pp to 0.5% YoY), compared with our forecast of stabilisation. After the publication of the national data, the slowdown in core inflation does not appear widespread, but responds mainly to the sharp moderation of records in Italy, facing the probable stabilisation in Germany and Spain. Discounting the volatility of services inflation in recent months, it would have remained fluctuating around 1.1%, and a change is not seen in the trend. The smaller decline in energy prices was in line with expectations, given the anticipated base effect (Figure 1).

### Inflation should rebound from December on, but will remain clearly below the ECB's target in 2016

Despite today's negative surprise, the evolution of energy prices makes us continue to expect inflation to rebound in December (probably around 0.5pp) due to the disappearance of the base effects from energy prices (after the sharp fall in late 2014), although somewhat less than we anticipated earlier (0.6% versus 0.8% previously YoY). Nevertheless, inflation could reach an annual average of about 0.1% for the whole of 2015. Today's data put a slight downward bias on our forecasts for next year, as well as uncertainty on the prices of raw materials and exchange rate developments (linked to the decisions of other central banks). In short, next year inflation will remain at an average annual rate of around 1%.

Figure 1

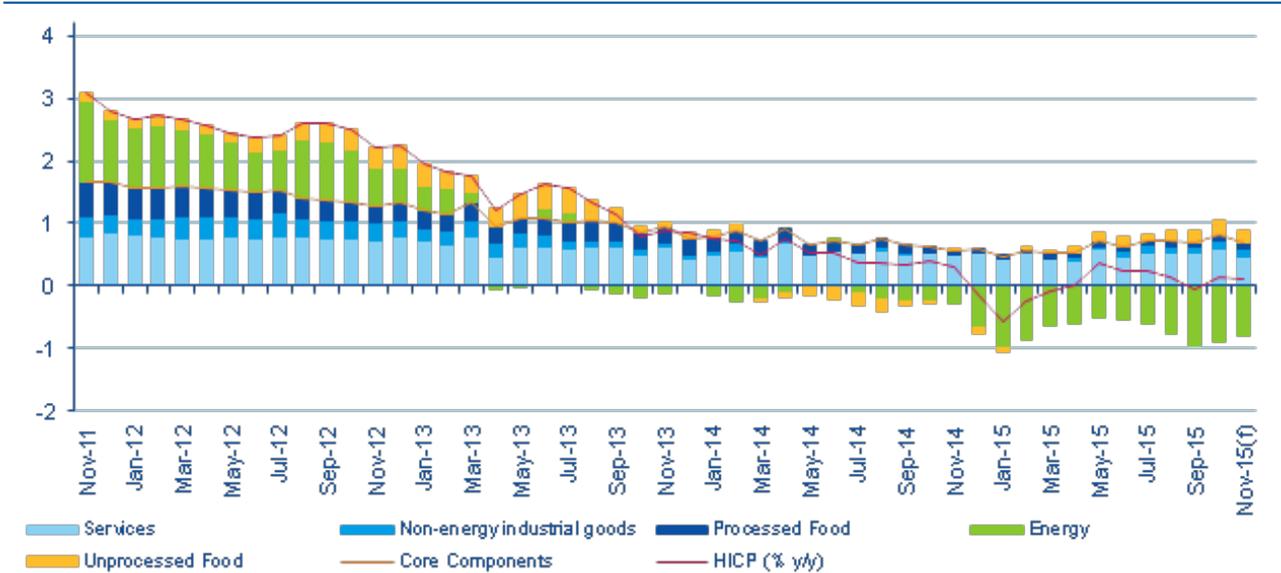
Eurozone. HCPI inflation (% YoY)

	Observed		November 2015	
	September 2015	October 2015	Flash Estimate	BBVA Research
HCPI	-0,1	0,1	0,1	0,3
Energy	-8,9	-8,5	-7,3	-7,3
Fresh Food	2,7	3,2	2,6	3,4
HCPI excluding energy and food	0,9	1,1	0,9	1,0
Core excluding Fresh Food and Energy	0,8	1,0	0,9	1,0
Services	1,2	1,3	1,1	1,3
Non-Energy Industrial Goods	0,3	0,6	0,5	0,6
Processed Food	0,6	0,6	0,7	0,7

Source: Eurostat and BBVA Research

Figure 2

Eurozone. Annual HICP inflation rate. Contribution by component



Source: Eurostat and BBVA Research