

Eurozone | Inflation eases in June

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Inflation stood at 0.2% YoY in June, due to falling energy prices and the slowdown of inflation in services. This was reflected in a moderation of core inflation (-0.1pp) to 0.8% YoY

The general and the core index both decreased by one-tenth due to the moderation of services and falling energy prices

While we have yet to know the final data, the slowdown in inflation in June (-0.1pp to 0.2% YoY; BBVA Research: 0.3% YoY) responded to a further fall in the prices of energy products (-5.1% YoY from -4.8% YoY in May) and a moderation of inflation in unprocessed food (1.9% YoY after 2.1% YoY in May) and services (1% YoY after 1.3% YoY). The lower growth in prices of services reflects the surprise observed in domestic inflation data from Germany, that reduced by 0.6pp over the May data after the significant increase in prices of tour packages due to seasonal effects. On the other hand, the increase in prices of non-energy industrial goods (0.4% YoY after 0.2% YoY) and processed foods (0.7% YoY after 0.6% YoY) does not compensate for the aforementioned, causing the core index to ease by a tenth to 0.8% YoY (in line with expectations, BBVA Research: 0.8% YoY) (Figure 1).

Inflation will increase slightly in the coming months due to the most volatile components, while the core remains relatively stable

During the third quarter, our models indicate that inflation could increase slightly to around 0.5% YoY, while the core will remain relatively stable at around 0.8% YoY. However, the disappearance of base effects in energy prices later in the year could be reflected in a greater rise in inflation above 1% in December. However, the economic recovery is moderate and the absence of inflationary pressures makes us envisage an annual average inflation of 1.3% in 2016, after moving slightly above 0% this year.

Figure 1

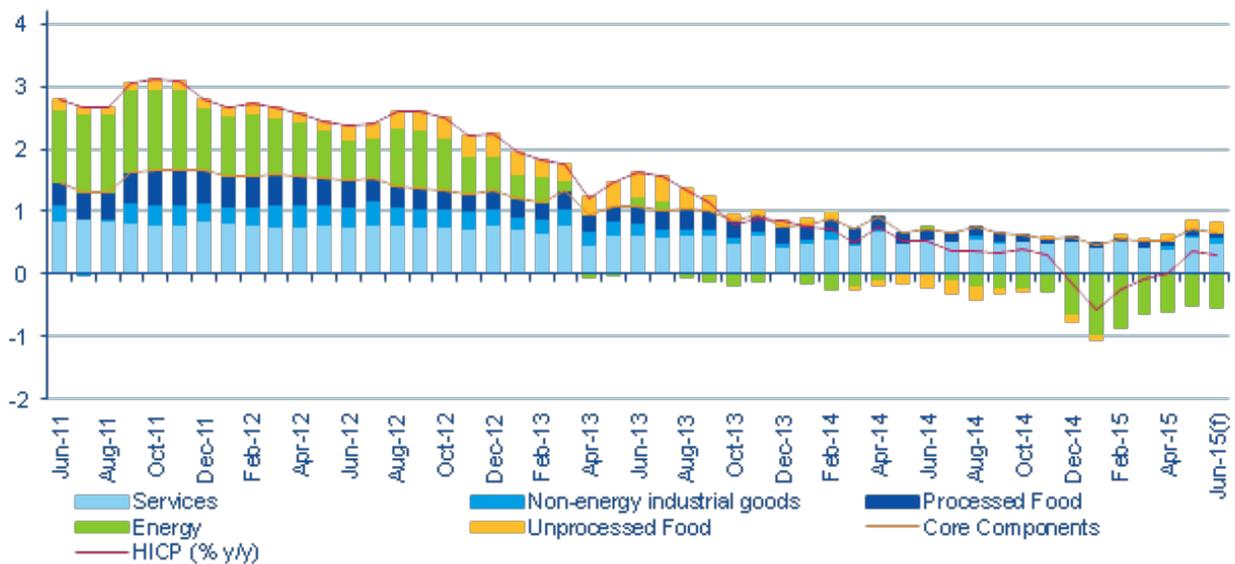
Eurozone. HCPI inflation (% YoY)

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

Source: Eurostat and BBVA Research

Figure 2

Eurozone. Annual HICP inflation rate. Contribution by component



Source: Eurostat and BBVA Research

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