

Eurozone | Core inflation rises and compensates for the drop in energy

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Further fall in energy prices, while non-energy industrial goods and services increase

While we have yet to know the final data, Eurostat's flash estimate confirms our expectations and shows that inflation remained stable at 0.2% YoY in July, since the intensification of the falling prices of energy products (-5.6% YoY from -5.1% YoY in June) and moderation in food, especially unprocessed (1.3% YoY after 1.9% YoY in June) was offset by the slight acceleration in the services component (1.2% YoY after 1.1% YoY) and non-energy industrial goods (0.5% YoY after 0.3% YoY) (Figure 1). Core inflation, therefore, accelerated by 0.1pp to 0.9% YoY, which could reflect improved domestic demand and some transfer of the depreciation of the euro over the past year.

Inflation could rebound later this year, but remaining well below the ECB's target in 2016

Today's data are in line with our scenario, according to which inflation would remain unchanged or would increase slightly during the third quarter, and it will not be until the final quarter that a major rally will be observed, to rates around 1%, due to the disappearance of the base effects of energy prices (after the sharp fall in late 2014), to reach an annual average of 0.3% for the whole of 2015. However, the recent trend in the prices of raw materials, especially oil, puts a downward bias on the path of inflation in the short term. For 2016, we continue to expect inflation to reach an annual average of 1.3%.

Figure 1

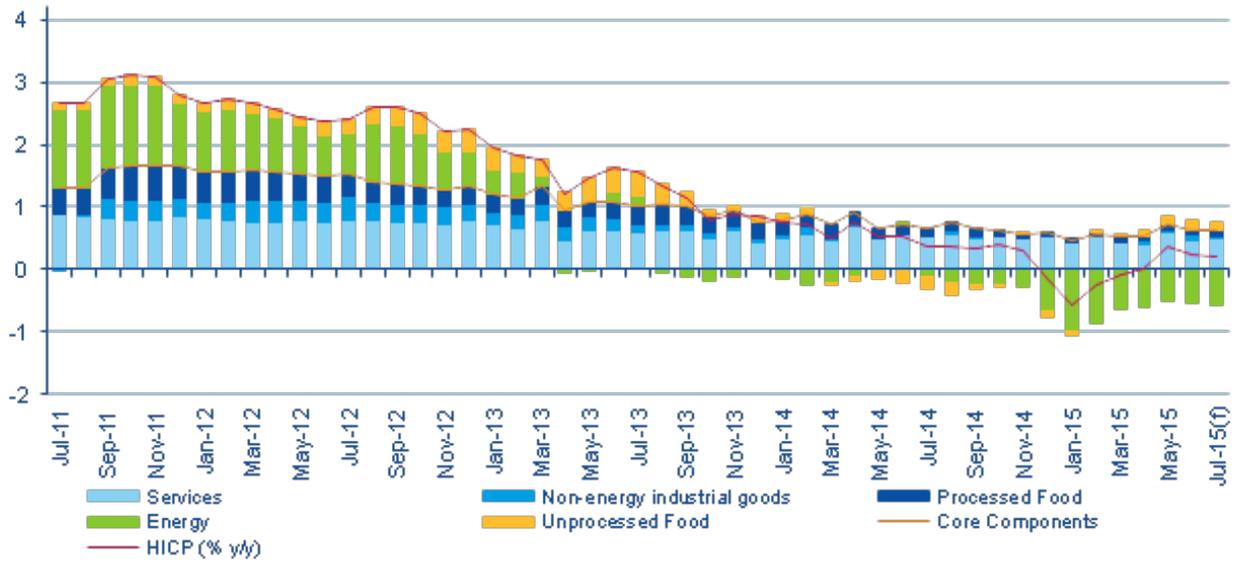
Eurozone. HCPI inflation (% YoY)

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

Source: Eurostat and BBVA Research

Figure 2

Eurozone. Annual HICP inflation rate. Contribution by component



Source: Eurostat and BBVA Research

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