

Europe Flash

Eurozone: Inflation stepped up in February, while activity contraction took its toll in the labour market

Eurozone inflation increased by 0.1pp to 2.7% y/y in February, against our expectation of stabilization, suggesting that moderation in inflation could be slower than anticipated, driven by the recent increase in oil prices but also by the stabilization of some components of core prices. As mentioned yesterday in our flash on final January HICP, headline inflation is likely to remain slightly above the ECB target until the last quarter of the year, posing some pressure on monetary policy. On the labour market, the unemployment rate increase to 10.7% in January from 10.6% in December, with also an upward revision by 0.2pp of December's figure. In addition, hiring intentions in confidence surveys suggest that labour market will continue to deteriorate in coming months.

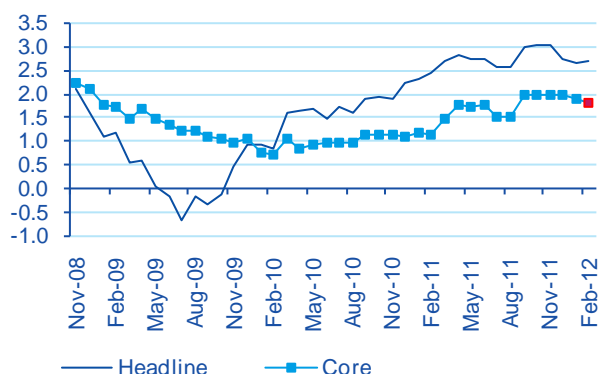
- **HICP inflation increased in February**

to 2.7% y/y, against our expectation of stabilization (BBVA Research and Consensus: 2.6% y/y). Although the detailed breakdown is not available yet, our forecast pointed to a moderation in core inflation that could offset the rebound in energy prices. Today's flash estimation suggests a stabilization instead of a fall in core inflation, likely linked to the increase of some industrial goods' prices after the effect of January's sales, while the rebound in energy prices should be somewhat higher. Overall, we continue to see inflation moderating in coming months, but both the milder slowdown in oil prices and the depreciation of the euro will put a brake on its downward trend, thus keeping inflation from reverting below 2% in Q2 as previously projected.

- **Unemployment increased by 0.1pp to 10.7% in January,**

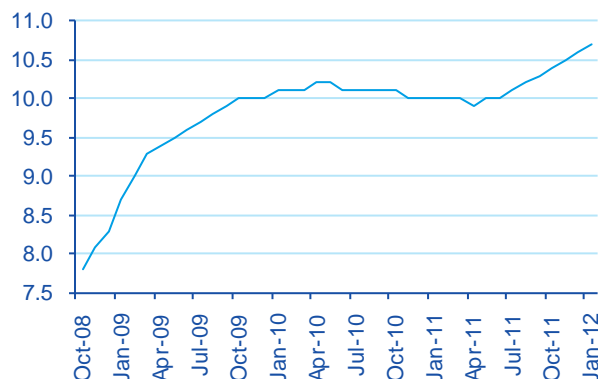
(BBVA Research: 10.5% and Consensus: 10.4%), after the upwards revision by 0.2pp of December's figure, to 10.6%. This, combined with last month's revisions for the whole year, shows that the unemployment rate has increased by around 0.5pp over the past year. Recent data suggests that the fall in activity in Q4, along with higher uncertainty on the outlook for coming quarters, are weighing on firms' hiring intentions, which are worsening further according to the EC survey. All these figures show further evidence of deterioration in the labour market in the short-term. Across countries, the rise in unemployment was generalized, with most of them experiencing increases of between 0.1pp and 0.2pp. The exception was Italy, where unemployment rose from 8.9% to 9.2%, with a cumulated increase of 0.7pp since October.

Chart 1
Eurozone HICP inflation (% y/y) – January 2012



Source: Eurostat and BBVA Research:

Chart 2
Eurozone Unemployment rate (%). January 2012



Source: Eurostat

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