

Europe Flash

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Economic Analysis

Europe

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Another negative surprise to Eurozone inflation in January

- **Eurozone inflation declined by 0.1pp to 0.7% y/y in January, against expectations (BBVA Research: 0.8%; Consensus: 0.9%)**

According to the Eurostat flash estimate, the decline in inflation was mainly driven by falling energy prices (but somewhat lower than what one would expect considering incoming information of energy prices, see Table 1), but also due to slowing inflation in non-energy industrial goods and the moderation in the growth of food prices. The service inflation increase was lower than anticipated, in line with German figures released yesterday that reflected a lower impact of seasonality changes of this component. Overall, the annual inflation rate excluding energy and food increased by 0.1pp to 0.8% y/y. These figures suggest that core inflation could have remained stable or even declined slightly in January after being at 0.9% y/y in December.

- **Inflation is projected to slow slightly over 1Q14 to increase again afterwards, especially at the end of the year to around 1.3% y/y**

Although we will update our models with the final figures (to be released on 24th February), we see inflation declining slightly over 1Q14, partly reflecting a lower base effect of energy prices and lower food prices, but also due to lower core inflation in March stemming from changes in the Easter calendar. As a result, the annual inflation rate could drop to 0.6% y/y. Afterwards, we see inflation increasing again, especially by year end.

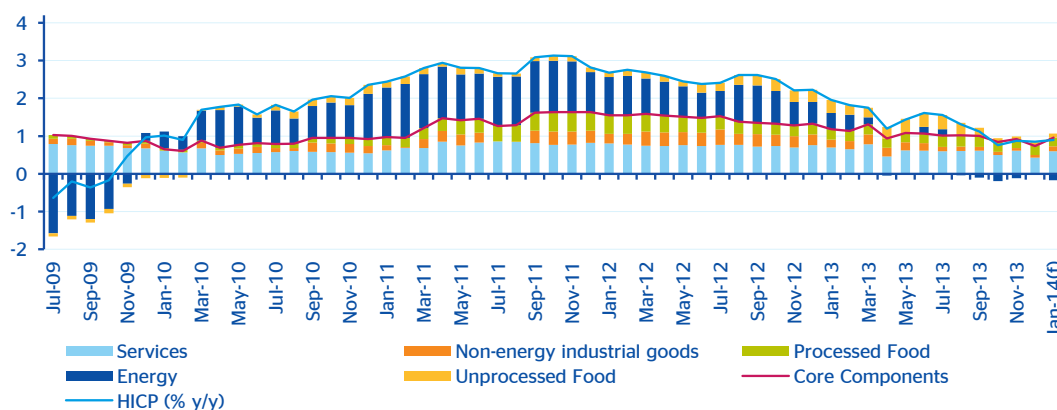
The recent downward surprises in inflation figures in recent months raise doubts on whether the disinflationary is being too fast and therefore will push the ECB to act further. In this respect, looking throughout inflation figures excluding tax hikes, the annual inflation rates, especially the core component, have remained fluctuating around 0.9% y/y over last year, and the low but positive growth trend expected for coming months imply that a strong disinflationary process is unlikely over the rest of the year.

Table 1
Eurozone. Annual HICP inflation rate (% y/y)

	Observed		Flash estimate	BBVA Research
	November 2013	December 2013	January 2014	January 2014
HICP	0.9	0.8	0.7	0.8
Energy	-1.1	0.0	-1.2	-1.6
Fresh Food	0.9	1.5		1.4
HICP excluding energy and food	0.9	0.7	0.8	0.9
Core excluding Fresh Food and Energy	1.1	0.9		1.0
Services	1.4	1.0	1.1	1.4
Non-Energy Industrial Goods	0.2	0.3	0.2	0.4
Processed Food	2.0	2.0		1.9

Source: Eurostat and BBVA Research

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



Source: Eurostat and BBVA Research

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