

# Flash

## Europe

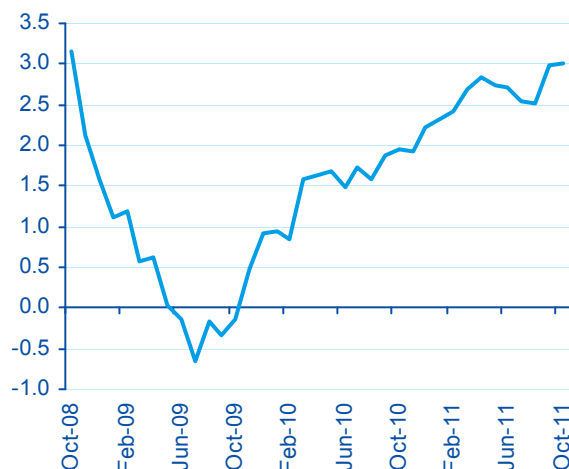
### Eurozone: inflation remained unchanged in October, while unemployment rate unexpectedly increased in September

#### HICP inflation for October and unemployment rate for September

Despite the fact that headline HICP inflation remained stable in October, we continue to see inflation to moderate by end year, due to the weakness of domestic demand, reverting below the ECB target by the beginning of the 2012. More pessimistic news came from the labour market, as unemployment rate increased against expectations, suggesting a faster than anticipated deterioration in activity. Our MICA model updated with the unemployment data continues to estimate flat growth in Q4.

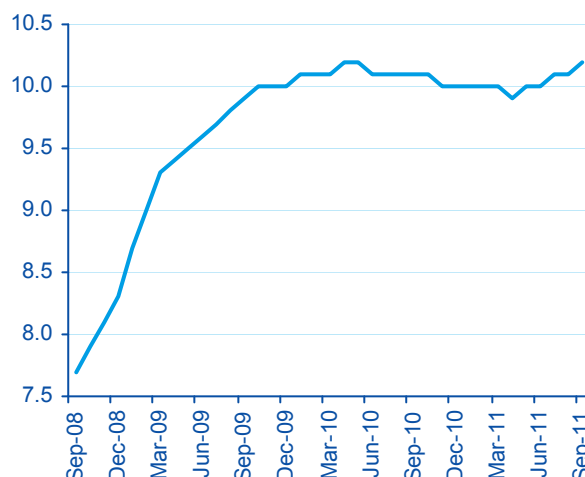
- HICP inflation remained unchanged in October,**  
 at 3% y/y, slightly above forecasts (BBVA Research: 2.9% y/y; Consensus: 2.8% y/y). We see a slight inflation decline, driven by lower energy prices along with a mild deceleration in prices of non-energy industrial goods. Nevertheless, recent oil prices increased somewhat more than expected in recent weeks, while there is still high uncertainty around the forecast of industrial goods inflation this year, given the limited information available on the new model to assess the seasonality of the series. Waiting for the detailed breakdown to be released in a couple of weeks, we continue to expect headline inflation to moderate by the end of the year, driven by favourable base effects in energy prices, and reverting below the ECB target at the beginning of 2012. Regarding, core inflation, we expect it to hover around 1.8%-1.9% y/y for the remainder of 2011 (2% y/y in September), moderating somewhat afterwards.
- Unemployment rate increased by 0.2pp to 10.2%,**  
 (BBVA Research and Consensus: 10%) after remaining broadly stable since the beginning of the year, although it was also revised slightly upwards by 0.1pp to 10.1% in July and August. Hiring intentions from confidence surveys already suggested this worsening in the labour market. Across large countries, the unemployment rate remained stable in France, while it increased markedly in Italy and Spain.

Chart 1  
**Eurozone HICP inflation – October 2011**



Source: Eurostat

Chart 2  
**Eurozone Unemployment rate September 2011**



Source: Eurostat

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