

Eurozone | August inflation remained stable at 0.2% YoY despite oil price

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In August, the overall index and the core remain at the levels observed in the previous month, due to the evolution of fresh food prices

Without knowing the final data, the stability of inflation in August (0.2% YoY for the third successive month, BBVA Research: 0.1% YoY) responded to the further inflation growth of unprocessed food (2.3% YoY after 1.4% in July) and non-energy industrial goods (0.6% YoY after 0.4% in July), together with the maintenance of growth rates in the service sector (1.2% YoY for the second successive month), offset the further drop in prices of energy products (-7.1% YoY from -5.6% YoY in July). Core inflation, therefore, has remained at 0.9% YoY, which could be indicating good prospects for domestic demand and a strong asset against external uncertainties. (In line with expectations. BBVA Research: 0.9% YoY) (Table 1).

By country, Germany maintained its inflation at 0.1%, in line with consensus, while prices in Italy surprised with an increase (0.5% YoY, consensus: 0.2% YoY, after 0.3% in July). Spain surprisingly fell more than expected (-0.4% YoY. Consensus: -0.1% YoY, BBVA Research: -0.2% YoY, after 0.1% in July).

The forecast for 2015 and 2016 with new downward bias

The latest data from the price of energy and our outlook for 2015-16 would point to a downward bias in our inflation forecasts for 2015 and 2016, now at 0.3% and 1.3% respectively on an annual average. Oil prices well below the projected path could have a moderately negative impact on the rest of the year (about one-tenth) and slightly higher in 2016, while core inflation should remain relatively stable at around 0.8-0.9% YoY in the remainder of 2015.

Table 1

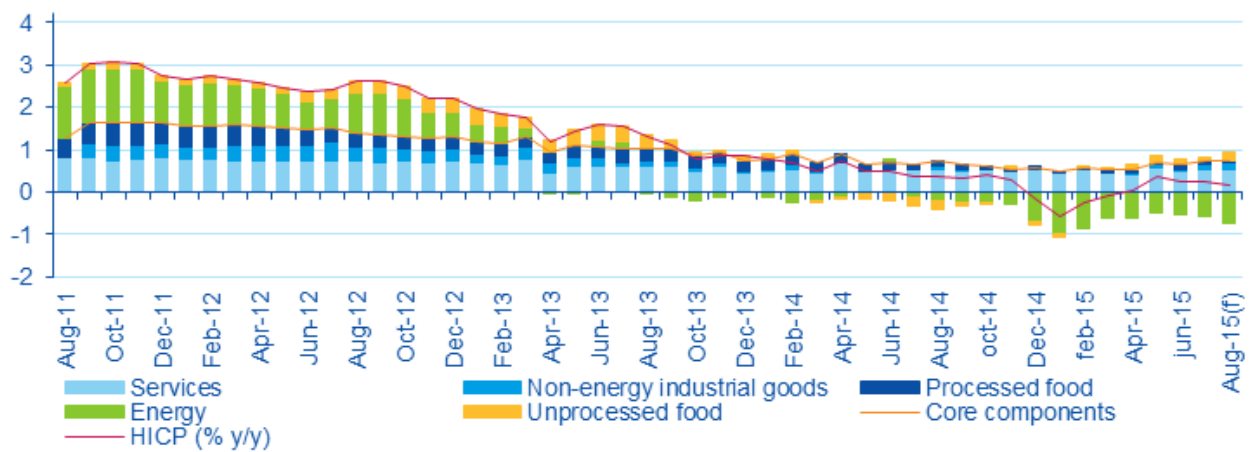
Eurozone. HCPI inflation (% YoY)

	Observed		August 2015	
	June 2015	July 2015	Flash Estimate	BBVA Research
HCPI	0.2	0.2	0,2	0,1
Energy	-5.1	-5.6	-7.1	
Fresh Food	1.9	1.4	2.3	
HCPI excluding energy and food	0,8	1.0	1.0	
Core excluding Fresh Food and Energy	0.8	0.9	0.9	0,9
Services	1.1	1.2	1.2	
Non-Energy Industrial Goods	0.3	0.4	0.6	
Processed Food	0.7	0,6	0.6	

Source: Eurostat and BBVA Research

Figure 1

Eurozone. Annual HCPI inflation rate. Contribution by component



Source: Eurostat and BBVA Research