

Eurozone | Inflation fell in September because of energy, with stable core

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Further fall in energy prices, while the remaining prices remained relatively stable

While we have yet to know the final data, Eurostat's flash estimate confirms our expectations and points out that inflation reduced by 0.2pp to -0.1% YoY in September (BBVA Research: -0.1% YoY; consensus: 0% YoY), which basically reflects the falling prices of energy products (-8.9% YoY; BBVA Research: -9.1% YoY) (Figure 1). Inflation for the rest of the components remained relatively stable, and the slight movements offset one another. So, inflation of services increased by 0.1pp to 1.3% YoY, while that of non-energy industrial goods fell by 0.1pp to 0.3% YoY and processed food remained stable 0.6% YoY. With all this, core inflation remains at 0.9%, unchanged from mid-year. So far, no signs of second-round effects are observed from the falling price of oil, which perhaps are being held back by improving domestic demand and some translation of the depreciation of the euro over the past year.

Inflation will rebound later this year, but we continue to expect that it will remain clearly below the ECB target in 2016

Today's data are in line with our scenario, that includes a spike in inflation in November and December (to about 0.8% YoY) due to the disappearance of base effects from energy prices (after the sharp fall in late 2014) to reach an annual average of about 0.1% for 2015 as a whole. Nevertheless, recent developments in the prices of raw materials, especially oil, as well as the exchange rate (linked to decisions of other central banks) put a downward bias on the pattern of inflation in the short term. For 2016, inflation will clearly remain below the ECB's target and we expect to record an annual average of 1.1%.

Figure 1

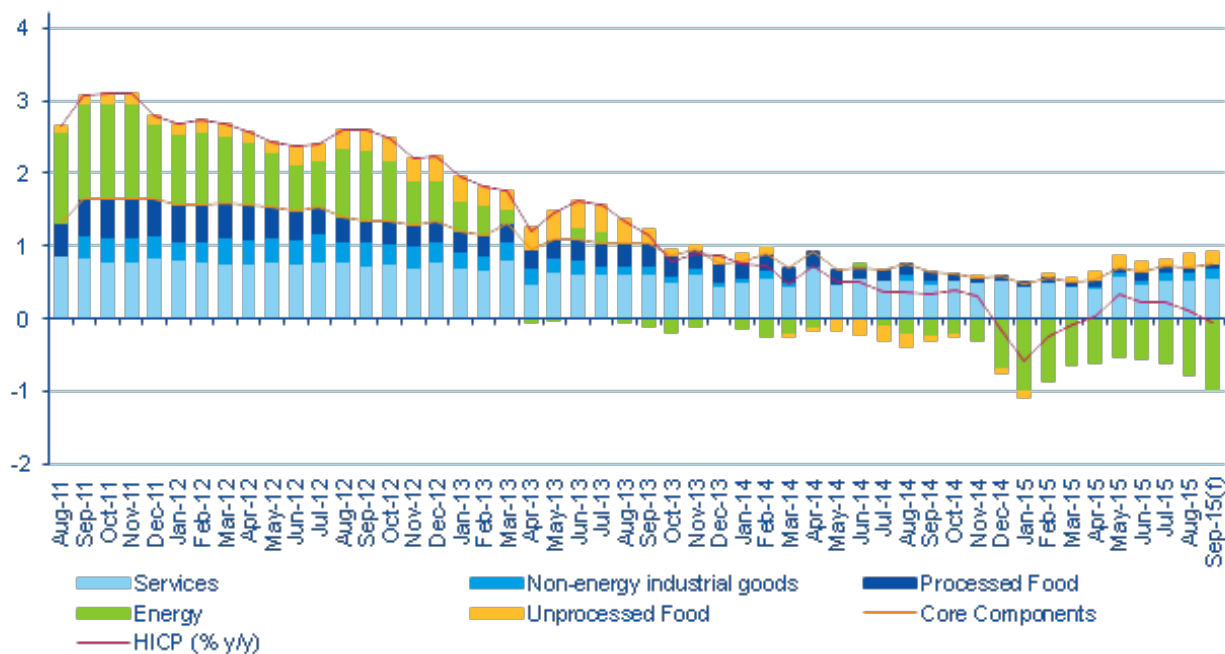
Eurozone. HCPI inflation (% YoY)

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

Source: Eurostat and BBVA Research

Figure 2

Eurozone. Annual HICP inflation rate. Contribution by component



Source: Eurostat and BBVA Research

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