

Eurozone | Headline and core inflation increased in October, in line with expectations

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Somewhat smaller drop in energy prices and slightly higher inflation of the remaining components

While we have yet to know the final data, Eurostat's flash estimate confirmed our expectations and noted that inflation increased by 0.1pp to 0% YoY in October (BBVA Research and consensus: 0% YoY). Behind this increase is some moderation in the fall in energy prices (-8.7% YoY from -8.9% YoY in September, BBVA Research: -8.7% YoY) (Table 1), but also the slight increase in inflation of services (+ 0.1pp to 1.3% YoY) and non-energy industrial goods (+ 0.1pp to 0.4% YoY), as well as unprocessed food (+ 0.3pp to 3% YoY). Prices of processed foods continued to rise at 0.6% YoY. All this is reflected in an increase in core inflation by 0.1pp to 0.9% YoY, thus reversing the slight decline the previous month and remaining relatively stable so far in the second half, after hitting a 0.6% low in March. The falling price of oil has, therefore, so far shown no signs of any second-round effects, which might continue to be partially limited by improving domestic demand and some translation of the depreciation of the euro over the past year.

Inflation could rebound later this year, but remain clearly below the ECB's target in 2016

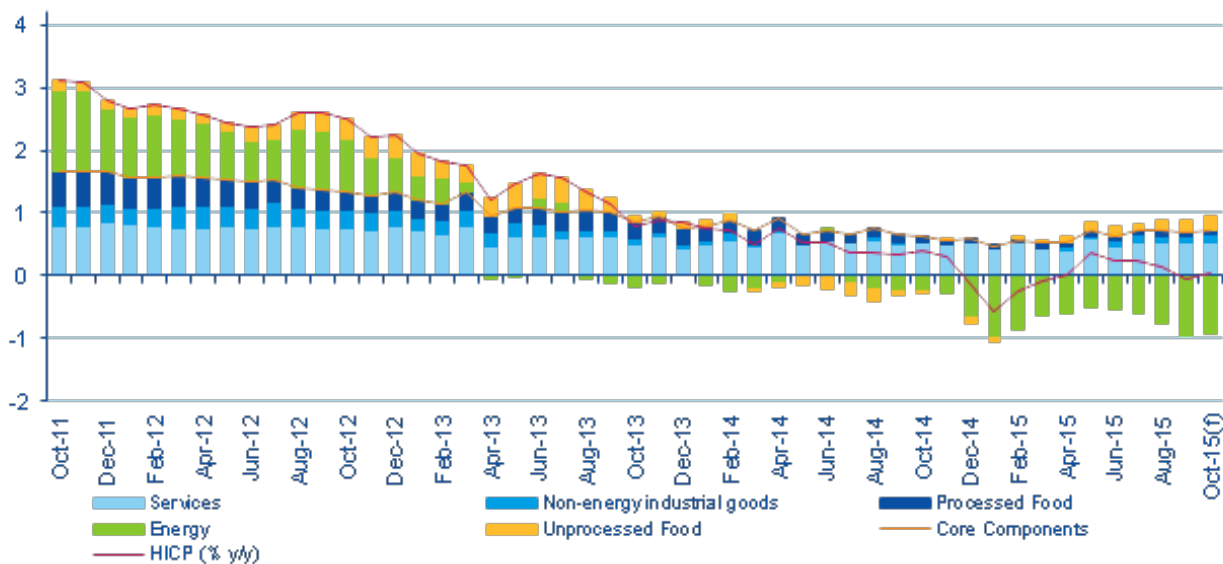
Today's data are in line with our scenario, which includes a spike in inflation in November and especially in December (to about 0.8% YoY), due to the disappearance of base effects of energy prices (after the sharp fall in late 2014), and which will reach an annual average of about 0.1% for the whole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

Figure 1
Eurozone. HCPI inflation (% YoY)

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

Source: Eurostat and BBVA Research

Figure 2
Eurozone. Annual HICP inflation rate. Contribution by component



Source: Eurostat and BBVA Research

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