

## Euro headline inflation increases due to energy, but core inflation remains weak

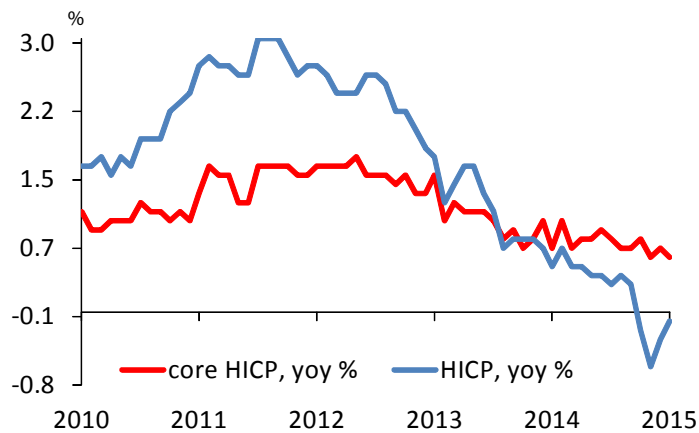
Olga Kosma  
 Economic Analyst  
[okosma@eurobank.gr](mailto:okosma@eurobank.gr)

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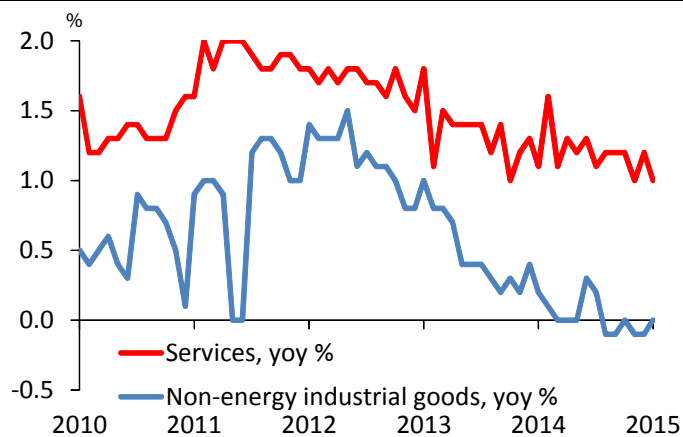
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- According to the final estimate published by Eurostat<sup>1</sup>, euro area headline HICP inflation increased to -0.1% yoy in March 2015, from -0.3% yoy and -0.6% yoy in February and January, respectively (Figure 1). The main reason was the recent pickup in the energy price component, which increased by 1.7% on the month, as well as an improvement in food inflation. The lowest annual inflation rates were registered in Greece (-1.9% yoy) and Cyprus (-1.4% yoy), while the highest were recorded in Austria (0.9% yoy) and Romania (0.8% yoy).
- Euro area core HICP inflation (excluding energy, food, alcohol and tobacco) declined to +0.6% yoy in March, from +0.7% yoy in the previous month, scaling back to record lows reached in January 2015. The decline in core inflation was mainly driven by service price inflation (accounting for around 60% of core inflation), which decelerated to 1.0% yoy from 1.2% yoy in February. On the flip side, non-energy industrial goods inflation (accounting for the remaining 40% of core inflation) increased to 0.0% yoy in March from -0.1% yoy in each of the previous two months (Figure 2).
- The transmission of euro weakness into inflation has so far been modest, as firms facing higher import prices have probably been compressing their profit margins instead of increasing final output prices. Nevertheless, the increase in non-energy industrial goods inflation, which was more pronounced in Germany (0.6% yoy in March 2015 from 0.2% yoy in February), could be an early sign that the euro depreciation is starting to support core industrial goods inflation.
- All in all, weak euro area inflation data reinforce ECB's commitment to fully implement its expanded asset purchase program until September 2016. Looking ahead, we expect annual HICP inflation to remain at current low levels for the first half of this year, and turn positive later this year due to positive base effects that will give boost to energy price inflation. Core HICP inflation rate is not expected to climb towards 1.0% before 2016, as the marked depreciation of the euro will probably be offset by the lag effect of weak commodity prices and, particularly, the sharp fall in energy prices since autumn 2014 on the price momentum of core goods and services.

<sup>1</sup> <http://ec.europa.eu/eurostat/documents/2995521/6786721/2-17042015-AP-EN.pdf/a65288a9-ec03-4e37-b99b-ff05e75d9dd3>

**Figure 1: Headline and Core HICP Inflation in the euro area**

Source: Eurostat

**Figure 2: Services and non-energy industrial goods inflation in the euro area**

Source: Eurostat

## Eurobank Economic Analysis and Financial Markets Research

Dr. Platon Monokrousos: *Group Chief Economist*  
pmonokrousos@eurobank.gr, +30 210 37 18 903

### Research Team

**Anna Dimitriadou:** *Economic Analyst*  
andimitriadou@eurobank.gr, +30 210 37 18 793

**Ioannis Gkionis:** *Research Economist*  
igkionis@eurobank.gr +30 210 33 71 225

**Stylianos Gogos:** *Economic Analyst*  
sgogos@eurobank.gr +30 210 33 71 226

**Olga Kosma:** *Economic Analyst*  
okosma@eurobank.gr +30 210 33 71 227

**Arkadia Konstantopoulou:** *Research Assistant*  
arkonstantopoulou@eurobank.gr +30 210 33 71 224

**Paraskevi Petropoulou:** *G10 Markets Analyst*  
ppetropoulou@eurobank.gr, +30 210 37 18 991

**Galatia Phoka:** *Research Economist*  
gphoka@eurobank.gr, +30 210 37 18 922

**Theodoros Stamatiou:** *Senior Economist*  
tstamatiou@eurobank.gr, +30 210 33 71 228

### Global Markets Sales

**Nikos Laios:** *Head of Treasury Sales*  
nlaios@eurobank.gr, +30 210 37 18 910

**Alexandra Papanthasiou:** *Head of Institutional Sales*  
apapanthasiou@eurobank.gr, +30 210 37 18 996

**John Seimenis:** *Head of Corporate Sales*  
yseimenis@eurobank.gr, +30 210 37 18 909

**Achilleas Stogioglou:** *Head of Private Banking Sales*  
astogioglou@eurobank.gr, +30 210 37 18 904

**George Petrogiannis:** *Head of Shipping Sales*  
gpetrogiannis@eurobank.gr, +30 210 37 18 915

**Vassilis Gioulbaxiotis:** *Head Global Markets International*  
vgioulbaxiotis@eurobank.gr, +30 210 3 718 995

Eurobank Ergasias S.A, 8 Othonos Str, 105 57 Athens, tel: +30 210 33 37 000, fax: +30 210 33 37 190, email: [EurobankGlobalMarketsResearch@eurobank.gr](mailto:EurobankGlobalMarketsResearch@eurobank.gr)

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