

## May euro area inflation confirmed at 0.3% YoY mainly driven by energy and food

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

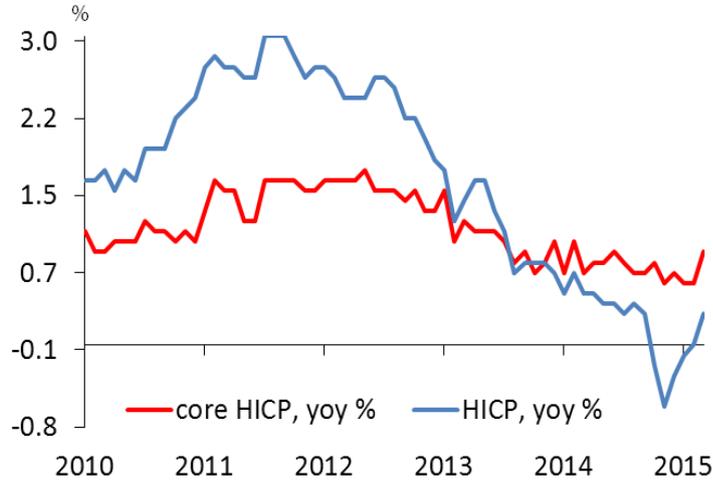
- According to the final estimate published by Eurostat<sup>1</sup>, euro area headline HICP inflation rose to 0.3% YoY in May 2015 (in line with the flash estimate), from 0.0% YoY in April. (Figure 1). The lowest annual inflation rates were registered in Cyprus (-1.7% YoY) and Greece (-1.4% YoY), while the highest were recorded in Romania and Malta (both 1.3% YoY). The rise in euro area headline inflation was once again attributed to the volatile categories of energy and food price inflation. In particular, energy inflation increased to -4.8% YoY from -5.8% YoY, in the prior month, while food inflation rose to +0.9% YoY from 0.6% YoY due to a large increase in unprocessed food prices.
- Euro area core HICP inflation (excluding energy, food, alcohol and tobacco) edged up to +0.9% YoY in May, from +0.6% YoY in the previous month. The increase in core inflation was mainly driven by service price inflation -accounting for around 60% of core inflation- which accelerated to 1.3% YoY from 1.0% YoY in April. The sharp increase in services was partly attributed to temporary factors, as air fares and packaged holiday prices probably increased significantly (+3.9% YoY from -5.4% YoY and +4.3% YoY from -1.3% YoY, respectively) due to the different Easter timing in 2015 compared to 2014.
- Non-energy industrial goods inflation, which accounts for the remaining 40% of core inflation, increased to 0.2% YoY in May from 0.1% YoY in the previous month (Figure 2). Durable goods prices continued to lead the upward trend (-0.1% YoY in May from -0.3% YoY in April), while semi- and non-durables goods prices remained subdued (stable at 0.0% YoY).
- Overall, euro area inflation has increased significantly over the last couple of months, after a steady downward trend since Q4 2011. Nevertheless, we still remain cautious on the euro area inflation outlook before we see a strong sustained upward trend in services and in semi- and non-durables goods. In our view, inflation will probably remain below the ECB's medium-term target of 2.0% at least until the end of 2016 (+0.2% in 2015 and +1.3% YoY in 2016). In this context, we expect the ECB to fully implement its expanded asset purchase program until September 2016, as initially planned.

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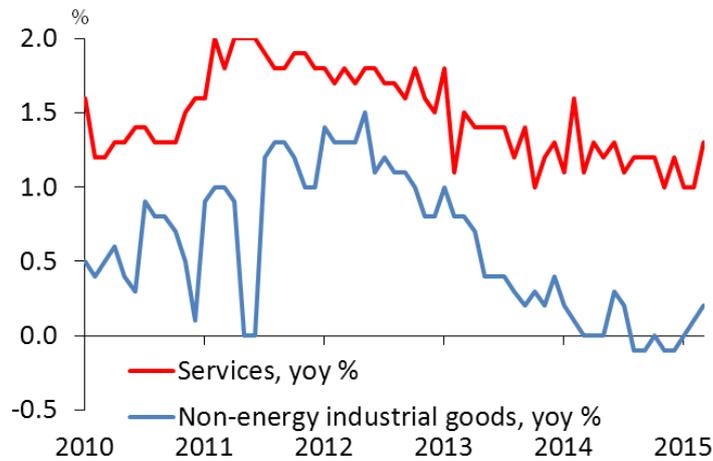
<sup>1</sup> <http://ec.europa.eu/eurostat/documents/2995521/6886417/2-17062015-AP-EN.pdf/162851e3-034f-4b72-8d39-b79779fdffdcc>

**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 Papatheanasiou:** Head of Institutional Sales  
apapatheanasiou@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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