

August euro area inflation surprised on the upside, but disinflation risks remain

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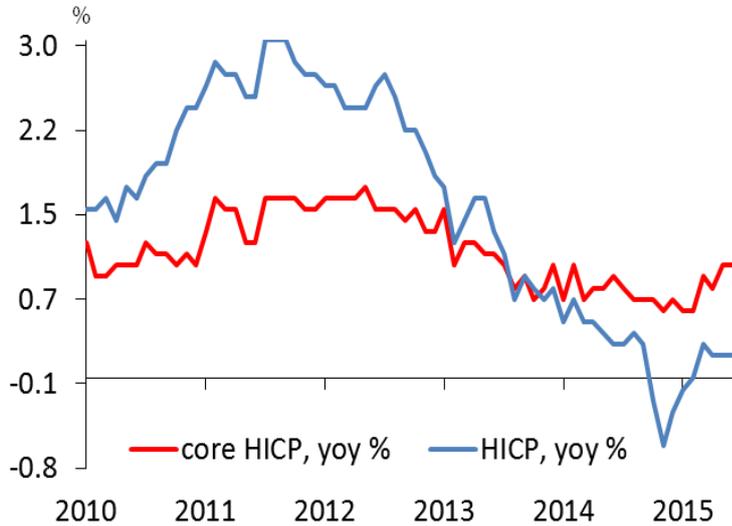
- According to the preliminary estimate published earlier today by Eurostat¹, Euro area headline HICP inflation was 0.2%YoY in August 2015 (Figure 1), unchanged compared to the prior month's level, against consensus estimate for a modest decline to 0.1%YoY. In more detail, the sharp decline in oil prices that led to lower energy price inflation (-7.1%YoY in August from -5.6%YoY in July) was more than offset from higher goods and food price inflation. The increase in the latter from 0.9%YoY in July to 1.2%YoY in August was mainly driven by the volatile "unprocessed food" component, which surged to 2.3%YoY from 1.4%YoY in the previous month.
- Euro area core HICP inflation, which excludes energy, food, alcohol and tobacco, also remained steady at 1.0%YoY (Figure 1), marginally surpassing market expectations for a modest easing to 0.9%YoY. Service price inflation, which accounts for around 60% of core inflation, was unchanged at 1.2%YoY, while non-energy industrial goods inflation reached its highest rate since June 2013 (0.6%YoY from 0.4%YoY in the previous month), probably reflecting a delayed impact of the weaker EUR, although the euro has recovered significant ground since mid-July.
- Given the recent mounting volatility in global financial markets and persisting worries about global spillovers from China's economic slowdown, we do not expect that the August CPI figure will so much affect ECB's policy deliberations ahead of its upcoming monetary policy meeting on Thursday. Adding to this, the inflation drivers, which surprised on the upside relative to the market forecast, are considered to be volatile components. In our view, the ECB will probably pay close attention on the latest sharp decline in oil prices and the subsequent renewed easing of inflation expectations (Figure 2). An extension of its expanded asset purchase program beyond September 2016 cannot be ruled out, although it is not expected to come before year-end, so that the ECB has enough time to better ascertain the impact of the recent financial market volatility onto the euro area economy.

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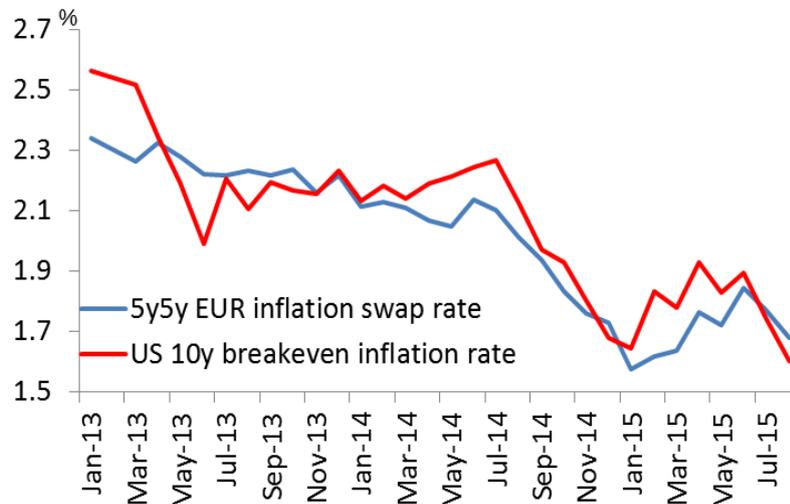
¹ <http://ec.europa.eu/eurostat/documents/2995521/6977679/2-31082015-AP-EN.pdf/d8050442-d6aa-4547-846a-e5c479d5d78c>

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



Source: Eurostat, Eurobank Economic Analysis and Financial Markets Research

Figure 2: Renewed easing of inflation expectations in the euro area and the US



Source: Eurostat, Bloomberg, Eurobank Economic Analysis and Financial Markets Research

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