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Economic News

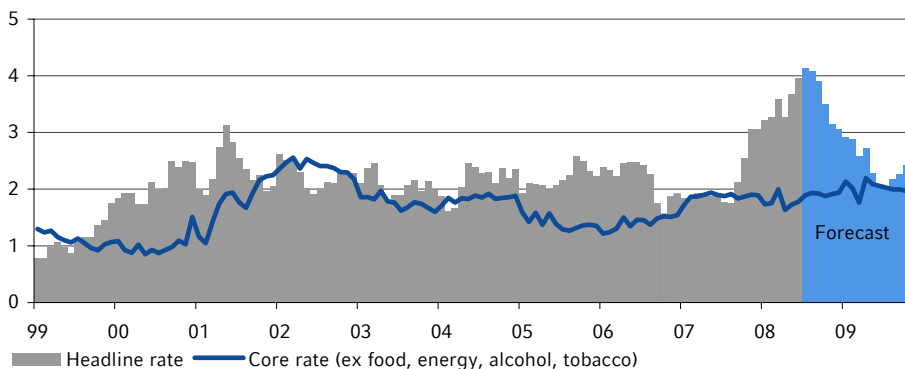
EUROZONE INFLATION

Core inflation remains low

Eurostat today confirmed its flash estimate of 4.0% y/y inflation in June. Energy and food continued to have the most significant impact; by contrast, the upward drift in core inflation from 1.7% to 1.8% was modest. All member countries except Greece experienced a rise in the headline inflation rate.

- The flash estimate of 4.0% y/y eurozone inflation in June was confirmed. Core inflation excluding energy and unprocessed food held steady at 2.5%; inflation excluding energy, food, alcohol and tobacco rose only slightly to 1.8% from 1.7%.
- The highest inflation rate in June was reported by Slovenia, at 6.8%, followed by Belgium at 5.8%. The Netherlands recorded the lowest inflation rate of only 2.1%.
- Liquid fuel prices rose by 5.6% m/m and 53.1% y/y, the largest increases in both the monthly and annual inflation rates. However, fuels for transport had the largest upward impact owing to their higher weight in the CPI basket. This alone accounted for 0.7 percentage point of the 4.0% inflation rate. Clothing and automobiles were the main price-curbing components. The latter component is probably also affected by the aforementioned increase in fuel prices, which has led to falling demand and correspondingly strong price declines.
- The significant rise in producer prices - at 7.1% in May - suggests that inflation should continue to accelerate in the short term. However, as growth in the core rate remains limited, the ECB is unlikely to opt for another rate hike, especially as the economic indicators now signal a sharper downswing.

EMU: consumer prices (% y/y)



Source EcoWin, WestLB Research

Torge Middendorf
 +49 211 826-71749
 torge.middendorf@WestLB.de

EMU Inflation Monitor

	Item weight 2008	% year-over-year contribution in %-points		% year-over-year				% m/m Jun 08
		Jun 08		May 08	Apr 08	Mar 08	12-month average	
Food and non-alcoholic beverages	157.9	6.4	1.0	6.4	6.0	6.2	4.6	0.2
Bread and cereals	26.0	9.9	0.3	9.6	9.2	9.0	6.8	0.4
Meat	36.8	4.1	0.2	3.9	3.6	3.8	3.1	0.3
Milk, eggs and cheese	23.0	13.4	0.3	13.6	14.4	14.3	9.9	0.1
Fruit	12.1	4.8	0.1	7.4	8.2	8.0	5.7	1.6
Vegetables	15.7	2.3	0.0	2.0	-2.0	1.3	1.5	-2.7
Alcoholic beverages, tobacco and narcotics	37.2	3.3	0.1	3.3	3.2	3.3	3.6	0.1
Beer	4.8	3.2	0.0	3.0	2.5	2.0	2.1	0.4
Tobacco	22.6	3.3	0.1	3.3	3.2	3.3	3.6	0.1
Clothing and footwear	68.3	0.7	0.0	0.7	0.8	1.0	0.8	-0.7
Clothing	54.3	0.3	0.0	0.6	0.7	0.9	0.7	-1.0
Footwear including repair	14.0	1.2	0.0	1.2	1.4	1.5	1.1	-0.5
Housing, water, electricity, gas and other fuels	153.0	6.1	0.9	5.7	4.8	4.4	3.8	0.6
Actual rentals for housing	60.0	1.9	0.1	1.9	1.8	1.9	1.9	0.1
Water supply & miscellaneous services relating to the dwelling	25.6	2.3	0.1	2.3	2.4	2.4	3.0	0.1
Electricity	22.2	4.4	0.1	4.3	4.2	3.7	4.0	0.1
Gas	15.4	10.1	0.2	9.2	7.5	3.8	2.6	0.6
Liquid fuels	9.1	53.1	0.5	47.4	34.3	36.1	22.8	5.6
Furnishings, household equip and maintenance of the house	70.1	2.0	0.1	2.0	2.2	2.2	2.0	0.1
Furniture and furnishings	22.6	2.3	0.1	2.3	2.6	2.7	2.4	0.1
Household appliances	10.3	-0.5	0.0	-0.5	-0.6	-0.5	-0.4	-0.1
Health	40.5	1.7	0.1	1.6	1.6	1.6	1.6	0.2
Medical products, appliances and equipment	17.6	1.4	0.0	1.2	1.3	1.0	0.9	0.3
Out-patient services	16.9	1.6	0.0	1.4	1.6	1.5	2.0	0.2
Transport	156.4	7.1	1.1	5.9	4.8	5.6	4.6	1.4
Purchase of vehicles	47.9	0.1	0.0	-0.2	-0.1	0.2	0.8	0.1
Fuels and lubricants for personal transport equipment	45.7	18.5	0.8	15.2	12.0	14.5	10.6	3.8
Maintenance and repair of personal transport equipment	23.9	4.4	0.1	4.2	4.1	3.9	3.9	0.2
Transport services	20.5	5.2	0.1	4.8	3.2	3.6	2.8	1.1
Communications	32.9	-1.6	-0.1	-1.7	-1.6	-1.5	-1.9	-0.1
Telephone and telefax services	26.4	-1.0	0.0	-0.3	-0.3	-0.3	-1.2	-0.7
Telephone and telefax equipment	1.9	-1.8	0.0	-1.9	-1.7	-1.7	-2.1	-0.1
Recreation and culture	96.7	0.1	0.0	0.1	-0.4	0.6	0.1	0.0
Information processing equipment	5.1	-15.0	-0.1	-14.3	-13.8	-14.4	-14.3	-2.4
Recreational and cultural services	23.9	2.3	0.1	2.3	2.0	2.4	2.4	0.2
Newspapers, books and stationery	18.2	1.8	0.0	1.8	1.5	1.5	1.9	0.1
Package holidays	15.9	4.9	0.1	5.2	3.0	8.4	3.5	1.2
Education	10.6	3.7	0.0	3.7	3.6	9.6	8.0	0.0
Restaurants and hotels	92.8	3.5	0.3	3.3	3.2	3.6	3.3	0.6
Restaurants, cafés and the like	68.2	3.9	0.3	3.9	3.8	3.7	3.7	0.3
Accommodation services	17.2	2.0	0.0	1.8	1.3	3.9	2.4	2.1
Miscellaneous goods and services	83.6	2.5	0.2	2.4	2.4	2.4	2.3	0.2
Hairdressing salons and personal grooming establishments	11.7	2.5	0.0	2.5	2.6	2.6	2.6	0.1
Jewellery, clocks and watches	5.2	9.0	0.0	8.8	8.8	8.0	6.1	0.3
Insurance	20.1	2.1	0.0	2.1	2.0	2.1	2.3	0.0
Overall index	1,000.0	4.0	4.0	3.7	3.3	3.6	2.9	0.4
ex energy	901.9	2.6	2.4	2.6	2.5	2.8	2.4	0.1
ex food, energy, alcohol, tobacco	706.8	1.8	1.3	1.7	1.6	2.0	1.8	0.1
ex energy and unprocessed food	825.8	2.5	2.1	2.5	2.4	2.7	2.3	0.1
ex energy and seasonal food	862.6	2.6	2.2	2.5	2.4	2.7	2.3	0.1
ex tobacco	977.4	4.0	3.9	3.7	3.3	3.6	2.9	0.4
Energy	98.1	16.0	1.6	13.7	10.8	11.2	8.3	2.5
Food, alcohol, tobacco	195.1	5.8	1.1	5.8	5.4	5.6	4.3	0.2
Goods	591.0	4.9	2.9	4.5	4.0	4.1	3.2	0.4
Industrial goods	395.9	4.5	1.8	3.9	3.2	3.4	2.7	0.5
Non-energy industrial goods	297.7	0.7	0.2	0.7	0.8	0.9	0.9	-0.2
Services	409.0	2.5	1.0	2.5	2.3	2.8	2.5	0.3

Source EcoWin, WestLB Research

WestLB AG
Herzogstrasse 15
D-40217 Düsseldorf

WestLB AG
London Branch
Woolgate Exchange
25 Basinghall Street
London EC2V 5HA
United Kingdom

T: +49 (0)211 826 71841
F: +49 (0)211 826 6154

T: +44 (0)20 7020 2000
F: +44 (0)20 7020 4209

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