

14 August 2008

# Economic News

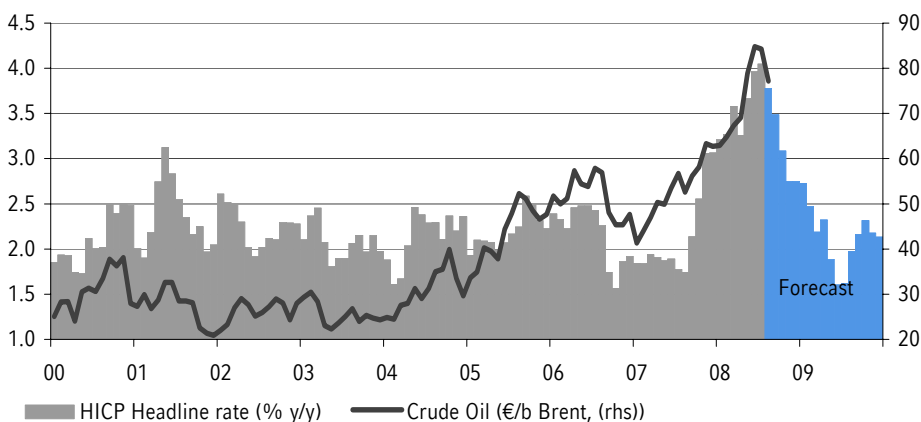
## EUROZONE INFLATION

### Inflation likely to have peaked at 4%– downturn imminent

Eurostat today revised down its flash estimate for the inflation rate in July to 4.0%. We believe inflation has peaked and expect the rate to drop below 4% in August. The 3% level is likely to be reached by the end of the year. Core inflation slowed to a moderate 1.7% in July and is not expected to increase significantly in the coming months given the currently weak economic growth.

- In July, inflation rates ranged between 3% in the Netherlands and 6.9% in Slovenia. Again, food and energy prices were the main drivers of inflation.
- Crude oil has fallen 9% (priced in euros) so far in August compared to July. This indicates that the energy price component of the harmonised index of consumer prices will decline in August for the first time since December 2007, as also suggested by recent declines in heating oil and petrol prices, which are down nearly 10% in Germany compared to the survey period in July. By contrast, price increases for gas and electricity should have less of an impact. We expect the EMU inflation rate to stand at 3.8% in August.
- Thereafter, inflation will very much depend on the oil price trend. We view the recent price decline – by over US\$ 30 since early July – to be sustainable and base our forecasts on a crude oil price of US\$ 100-110. Should the oil price tend to fall within this range, this would have strong positive base effects on energy prices and inflation, as crude oil jumped by 11% (priced in euros) during the same period last year. By the end of the year, we expect inflation to decline to 3% in the eurozone and around 2½% in Germany.

### EMU consumer prices (% y/y) and crude oil



Source EcoWin, WestLB Research

**Holger Sandte**  
+49 211 826-7398  
holger.sandte@westlb.de

# EMU Inflation Monitor

	Item weight 2008	% year-over- contribution year in %-points		% year-over-year				% m/m
		Jul 08		Jun 08	May 08	Apr 08	12-month average	Jul 08
<b>Food and non-alcoholic beverages</b>	<b>157.8</b>	<b>6.7</b>	<b>1.1</b>	<b>6.4</b>	<b>6.4</b>	<b>6.0</b>	<b>5.0</b>	<b>0.1</b>
Bread and cereals	25.9	10.2	0.3	9.9	9.6	9.2	7.5	0.4
Meat	36.8	4.2	0.2	4.0	3.9	3.6	3.3	0.4
Milk, eggs and cheese	23.0	13.0	0.3	13.3	13.6	14.4	10.8	0.1
Fruit	12.1	9.0	0.1	5.4	7.4	8.2	6.2	0.5
Vegetables	15.7	2.1	0.0	2.5	2.0	-2.0	1.4	-1.1
<b>Alcoholic beverages, tobacco and narcotics</b>	<b>37.2</b>	<b>3.7</b>	<b>0.1</b>	<b>3.3</b>	<b>3.3</b>	<b>3.2</b>	<b>3.6</b>	<b>0.5</b>
Beer	4.8	3.1	0.0	3.2	3.0	2.5	2.2	0.0
Tobacco	22.6	3.7	0.1	3.3	3.3	3.2	3.6	0.5
<b>Clothing and footwear</b>	<b>68.3</b>	<b>-0.5</b>	<b>0.0</b>	<b>0.7</b>	<b>0.7</b>	<b>0.8</b>	<b>0.8</b>	<b>-9.3</b>
Clothing	54.3	-0.6	0.0	0.5	0.6	0.7	0.7	-9.3
Footwear including repair	14.0	-0.1	0.0	1.3	1.2	1.4	1.1	-9.2
<b>Housing, water, electricity, gas and other fuels</b>	<b>153.0</b>	<b>6.7</b>	<b>1.0</b>	<b>6.1</b>	<b>5.7</b>	<b>4.8</b>	<b>4.2</b>	<b>0.8</b>
Actual rentals for housing	60.0	1.9	0.1	1.9	1.9	1.8	1.9	0.3
Water supply & miscellaneous services relating to the dwelling	25.6	2.2	0.1	2.3	2.3	2.4	2.9	0.2
Electricity	22.2	6.1	0.1	4.4	4.3	4.2	4.2	1.8
Gas	15.4	13.3	0.2	9.9	9.2	7.5	3.7	2.1
Liquid fuels	9.1	51.5	0.5	53.3	47.4	34.3	27.6	1.2
<b>Furnishings, household equip and maintenance of the house</b>	<b>70.1</b>	<b>2.0</b>	<b>0.1</b>	<b>2.0</b>	<b>2.0</b>	<b>2.2</b>	<b>2.0</b>	<b>-0.4</b>
Furniture and furnishings	22.6	2.4	0.1	2.3	2.3	2.6	2.4	-0.4
Household appliances	10.3	-0.6	0.0	-0.5	-0.5	-0.6	-0.4	-0.5
<b>Health</b>	<b>40.5</b>	<b>1.6</b>	<b>0.1</b>	<b>1.7</b>	<b>1.6</b>	<b>1.6</b>	<b>1.6</b>	<b>0.1</b>
Medical products, appliances and equipment	17.6	1.2	0.0	1.3	1.2	1.3	0.9	0.0
Out-patient services	16.9	1.6	0.0	1.6	1.4	1.6	1.9	0.2
<b>Transport</b>	<b>156.6</b>	<b>7.2</b>	<b>1.1</b>	<b>7.1</b>	<b>5.9</b>	<b>4.8</b>	<b>5.1</b>	<b>0.7</b>
Purchase of vehicles	48.0	0.0	0.0	0.1	-0.2	-0.1	0.6	0.1
Fuels and lubricants for personal transport equipment	45.7	18.9	0.9	18.8	15.2	12.0	12.3	0.8
Maintenance and repair of personal transport equipment	23.9	4.6	0.1	4.4	4.2	4.1	4.0	0.2
Transport services	20.5	5.0	0.1	4.9	4.8	3.2	3.0	2.5
<b>Communications</b>	<b>32.9</b>	<b>-2.2</b>	<b>-0.1</b>	<b>-1.9</b>	<b>-1.7</b>	<b>-1.6</b>	<b>-2.0</b>	<b>-0.3</b>
Telephone and telefax services	26.4	-1.0	0.0	-0.8	-0.3	-0.3	-1.1	-0.2
Telephone and telefax equipment	1.9	-2.4	0.0	-2.1	-1.9	-1.7	-2.2	-0.3
<b>Recreation and culture</b>	<b>96.8</b>	<b>0.2</b>	<b>0.0</b>	<b>0.1</b>	<b>0.1</b>	<b>-0.4</b>	<b>0.1</b>	<b>1.3</b>
Information processing equipment	5.1	-14.5	-0.1	-14.7	-14.3	-13.8	-14.2	-1.8
Recreational and cultural services	23.9	2.4	0.1	2.3	2.3	2.0	2.4	0.4
Newspapers, books and stationery	18.2	1.9	0.0	1.7	1.8	1.5	1.8	0.2
Package holidays	15.9	4.8	0.1	5.1	5.2	3.0	3.8	10.1
<b>Education</b>	<b>10.4</b>	<b>3.7</b>	<b>0.0</b>	<b>3.7</b>	<b>3.7</b>	<b>3.6</b>	<b>7.5</b>	<b>0.0</b>
<b>Restaurants and hotels</b>	<b>92.8</b>	<b>3.5</b>	<b>0.3</b>	<b>3.5</b>	<b>3.3</b>	<b>3.2</b>	<b>3.3</b>	<b>1.3</b>
Restaurants, cafés and the like	68.2	3.9	0.3	3.9	3.9	3.8	3.7	0.2
Accommodation services	17.2	2.0	0.0	2.1	1.8	1.3	2.3	5.9
<b>Miscellaneous goods and services</b>	<b>83.6</b>	<b>2.5</b>	<b>0.2</b>	<b>2.5</b>	<b>2.4</b>	<b>2.4</b>	<b>2.3</b>	<b>-0.1</b>
Hairdressing salons and personal grooming establishments	11.7	2.5	0.0	2.5	2.5	2.6	2.6	0.1
Jewellery, clocks and watches	5.2	8.7	0.0	8.9	8.8	8.8	6.5	-0.6
Insurance	20.1	2.2	0.0	2.2	2.1	2.0	2.3	0.1
<b>Overall index</b>	<b>1,000.0</b>	<b>4.0</b>	<b>4.0</b>	<b>4.0</b>	<b>3.7</b>	<b>3.3</b>	<b>3.1</b>	<b>-0.2</b>
ex energy	901.9	2.6	2.4	2.7	2.6	2.5	2.4	-0.3
ex food, energy, alcohol, tobacco	706.9	1.7	1.2	1.8	1.7	1.6	1.8	-0.5
ex energy and unprocessed food	825.8	2.5	2.1	2.5	2.5	2.4	2.3	-0.4
ex energy and seasonal food	862.6	2.6	2.2	2.6	2.5	2.4	2.4	-0.3
ex tobacco	977.4	4.1	4.0	4.0	3.7	3.3	3.1	-0.2
Energy	98.2	17.1	1.7	16.1	13.7	10.8	9.7	1.3
Food, alcohol, tobacco	195.0	6.1	1.2	5.8	5.8	5.4	4.7	0.2
Goods	591.0	5.1	3.0	5.0	4.5	4.0	3.6	-0.9
Industrial goods	396.0	4.6	1.8	4.5	3.9	3.2	3.0	-1.4
Non-energy industrial goods	297.9	0.5	0.1	0.8	0.7	0.8	0.9	-2.4
Services	409.0	2.6	1.1	2.5	2.5	2.3	2.5	0.9

**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

**Regulator:** WestLB AG is authorised and regulated by the Bundesanstalt für Finanzdienstleistungsaufsicht and by the Financial Services Authority. It is regulated by the Financial Services Authority for the conduct of UK business.

#### **Disclaimer**

This publication has been prepared by the independent economics department within the research department of WestLB AG ("WestLB"). This report is for information purposes only.

Publications in the United Kingdom are distributed by WestLB AG London Branch, and are available only to Eligible Counterparties and Professional Clients not Retail Clients, as defined by the rules of the Financial Services Authority. Individuals who do not have professional experience in matters relating to investments should not rely on it.

The information contained herein has been obtained from public sources believed by WestLB to be reliable, but which may not have been independently justified. No guarantees, representations or warranties are made as to its accuracy, completeness or suitability for any purpose.

This material is not intended as an offer or solicitation for the purchase or sale of any financial instrument or any other action and will not form the basis or a part of any contract.

Neither WestLB nor any of its affiliates, its respective directors, officers or employers accepts any liability whatsoever (in negligence or otherwise) for any loss howsoever arising from any use of this document or its contents or otherwise arising in connection therewith. Any opinion, estimate or projection expressed in this publication reflects the current judgement of the author(s) on the date of this report. They do not necessarily reflect the opinions of WestLB and are subject to change without notice. WestLB has no obligation to update, modify or amend this report or to otherwise notify a reader thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate.

The past performance of financial instruments is not indicative of future results. No assurance can be given that any financial instrument or issuer described herein would yield favourable investment results.

WestLB, its affiliates, principals or employees may have a long or short position or may transact in the financial instrument(s) referred to herein or may trade in such financial instruments with other customers on a principal basis. WestLB may act as a market maker in the financial instruments or companies discussed herein and may also perform or seek to perform investment banking services for those companies. WestLB AG may act upon or use the information or conclusion contained in this report before it is distributed to other persons.

This report is subject to the copyright of WestLB. No part of this publication may be copied or redistributed to persons or firms other than the authorised recipient without the prior written consent of WestLB.

By accepting this report, a recipient hereof agrees to be bound by the foregoing limitations.

WestLB AG Düsseldorf is a member of the London Stock Exchange. WestLB AG London Branch is a member of the International Capital Market Association.

Copyright: 2008 WestLB AG. All rights reserved.