

16 September 2008

# Economic News

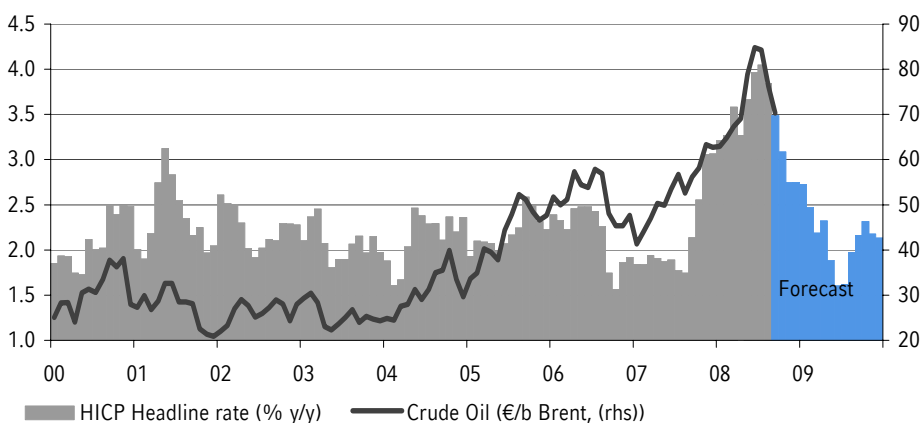
## EUROZONE INFLATION

### Headline inflation eases – core inflation edges up slightly

Eurostat today confirmed its flash estimate of 3.8% August inflation. Due to the further sharp drop in the oil price, we look for 3% inflation towards the end of the year. The core rate rose to 1.9% in August. The significant slowdown in economic activity is likely to keep inflation in check over the coming months.

- Inflation ranged from 3% in the Netherlands to 6.0% in Slovenia. Higher food and energy prices continued to contribute most to the rise in inflation year-on-year.
- Crude oil (in euros) fell 9.5% in August from July. As a result, the energy price component of the harmonised index of consumer prices declined in August for the first time month-on-month since December 2007 – by more than 2%. Food prices also eased down by 0.4% m/m. Clothing prices were the greatest contributor to higher inflation on the month.
- The sharply lower oil price – the price of Brent grade is currently around US\$90/b – will also result in a weaker inflationary trend in the months ahead. We look for an inflation rate of just below 3% towards the end of the year. With regard to our assumed oil price ranging between US\$ 100 and US\$ 110, there is even the possibility that the inflation rate will drop even more sharply towards year-end. In any case, the ECB will slowly but surely have more manoeuvring room for a first rate cut, which we expect to see in December.

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



Source EcoWin, WestLB Research

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# EMU Inflation Monitor

	Item weight 2008	% year-over- contribution year in %-points		% year-over-year				% m/m
		Aug 08		Jul 08	Jun 08	May 08	12-month average	Aug 08
<b>Food and non-alcoholic beverages</b>	<b>157.8</b>	<b>6.2</b>	<b>1.0</b>	<b>6.7</b>	<b>6.4</b>	<b>6.4</b>	<b>5.4</b>	<b>-0.4</b>
Bread and cereals	25.9	10.1	0.3	10.2	9.9	9.6	8.1	0.3
Meat	36.8	4.4	0.2	4.2	4.0	3.9	3.5	0.6
Milk, eggs and cheese	23.0	12.2	0.3	13.0	13.3	13.6	11.7	0.2
Fruit	12.1	6.5	0.1	9.0	5.4	7.4	6.4	-3.6
Vegetables	15.7	0.5	0.0	2.1	2.5	2.0	1.3	-3.5
<b>Alcoholic beverages, tobacco and narcotics</b>	<b>37.2</b>	<b>3.0</b>	<b>0.1</b>	<b>3.7</b>	<b>3.3</b>	<b>3.3</b>	<b>3.4</b>	<b>0.1</b>
Beer	4.8	2.9	0.0	3.1	3.2	3.0	2.3	0.0
Tobacco	22.6	3.0	0.1	3.7	3.3	3.3	3.4	0.1
<b>Clothing and footwear</b>	<b>68.3</b>	<b>0.4</b>	<b>0.0</b>	<b>-0.5</b>	<b>0.7</b>	<b>0.7</b>	<b>0.7</b>	<b>1.6</b>
Clothing	54.3	0.4	0.0	-0.6	0.5	0.6	0.6	1.9
Footwear including repair	14.0	0.4	0.0	-0.1	1.3	1.2	1.1	0.4
<b>Housing, water, electricity, gas and other fuels</b>	<b>153.0</b>	<b>6.3</b>	<b>1.0</b>	<b>6.7</b>	<b>6.1</b>	<b>5.7</b>	<b>4.5</b>	<b>-0.3</b>
Actual rentals for housing	60.0	1.9	0.1	1.9	1.9	1.9	1.9	0.1
Water supply & miscellaneous services relating to the dwelling	25.6	2.1	0.1	2.2	2.3	2.3	2.7	0.0
Electricity	22.2	6.4	0.1	6.1	4.4	4.3	4.4	0.6
Gas	15.4	14.6	0.2	13.3	9.9	9.2	5.0	1.1
Liquid fuels	9.1	39.1	0.4	51.5	53.3	47.4	31.3	-8.4
<b>Furnishings, household equip and maintenance of the house</b>	<b>70.1</b>	<b>2.1</b>	<b>0.1</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>	<b>0.2</b>
Furniture and furnishings	22.6	2.6	0.1	2.4	2.3	2.3	2.4	0.4
Household appliances	10.3	-0.4	0.0	-0.6	-0.5	-0.5	-0.5	0.3
<b>Health</b>	<b>40.5</b>	<b>2.0</b>	<b>0.1</b>	<b>1.6</b>	<b>1.7</b>	<b>1.6</b>	<b>1.6</b>	<b>0.0</b>
Medical products, appliances and equipment	17.6	1.2	0.0	1.2	1.3	1.2	1.0	0.0
Out-patient services	16.9	2.4	0.0	1.6	1.6	1.4	1.9	-0.1
<b>Transport</b>	<b>156.6</b>	<b>6.3</b>	<b>1.0</b>	<b>7.2</b>	<b>7.1</b>	<b>5.9</b>	<b>5.5</b>	<b>-1.3</b>
Purchase of vehicles	48.0	0.1	0.0	0.0	0.1	-0.2	0.5	0.2
Fuels and lubricants for personal transport equipment	45.7	14.9	0.7	18.9	18.8	15.2	13.8	-5.2
Maintenance and repair of personal transport equipment	23.9	4.4	0.1	4.6	4.4	4.2	4.0	0.2
Transport services	20.5	7.2	0.1	5.0	4.9	4.8	3.5	1.7
<b>Communications</b>	<b>32.9</b>	<b>-2.5</b>	<b>-0.1</b>	<b>-2.2</b>	<b>-1.9</b>	<b>-1.7</b>	<b>-2.1</b>	<b>-0.2</b>
Telephone and telefax services	26.4	-1.3	0.0	-1.0	-0.8	-0.3	-1.2	-0.1
Telephone and telefax equipment	1.9	-2.7	0.0	-2.4	-2.1	-1.9	-2.3	-0.2
<b>Recreation and culture</b>	<b>96.8</b>	<b>0.5</b>	<b>0.0</b>	<b>0.2</b>	<b>0.1</b>	<b>0.1</b>	<b>0.2</b>	<b>0.2</b>
Information processing equipment	5.1	-14.3	-0.1	-14.5	-14.7	-14.3	-14.2	-1.0
Recreational and cultural services	23.9	2.5	0.1	2.4	2.3	2.3	2.4	0.2
Newspapers, books and stationery	18.2	2.0	0.0	1.9	1.7	1.8	1.8	-0.1
Package holidays	15.9	5.7	0.1	4.8	5.1	5.2	4.1	1.7
<b>Education</b>	<b>10.4</b>	<b>3.0</b>	<b>0.0</b>	<b>3.7</b>	<b>3.7</b>	<b>3.7</b>	<b>7.0</b>	<b>-0.5</b>
<b>Restaurants and hotels</b>	<b>92.8</b>	<b>3.6</b>	<b>0.3</b>	<b>3.5</b>	<b>3.5</b>	<b>3.3</b>	<b>3.3</b>	<b>0.4</b>
Restaurants, cafés and the like	68.2	3.9	0.3	3.9	3.9	3.9	3.7	0.2
Accommodation services	17.2	2.1	0.0	2.0	2.1	1.8	2.1	1.4
<b>Miscellaneous goods and services</b>	<b>83.6</b>	<b>2.5</b>	<b>0.2</b>	<b>2.5</b>	<b>2.5</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	2.5	2.6	0.1
Jewellery, clocks and watches	5.2	9.1	0.0	8.7	8.9	8.8	6.9	0.9
Insurance	20.1	2.4	0.0	2.2	2.2	2.1	2.3	0.1
<b>Overall index</b>	<b>1,000.0</b>	<b>3.8</b>	<b>3.8</b>	<b>4.0</b>	<b>4.0</b>	<b>3.7</b>	<b>3.3</b>	<b>-0.1</b>
ex energy	901.9	2.7	2.4	2.6	2.7	2.6	2.5	0.2
ex food, energy, alcohol, tobacco	706.9	1.9	1.3	1.7	1.8	1.7	1.8	0.3
ex energy and unprocessed food	825.8	2.6	2.1	2.5	2.5	2.5	2.4	0.3
ex energy and seasonal food	862.6	2.7	2.3	2.6	2.6	2.5	2.4	0.3
ex tobacco	977.4	3.9	3.8	4.1	4.0	3.7	3.3	-0.1
Energy	98.2	14.6	1.4	17.1	16.1	13.7	11.0	-3.0
Food, alcohol, tobacco	195.0	5.6	1.1	6.1	5.8	5.8	4.9	-0.3
Goods	591.0	4.6	2.7	5.1	5.0	4.5	3.9	-0.4
Industrial goods	396.0	4.2	1.6	4.6	4.5	3.9	3.3	-0.5
Non-energy industrial goods	297.9	0.7	0.2	0.5	0.8	0.7	0.8	0.4
Services	409.0	2.7	1.1	2.6	2.5	2.5	2.5	0.3

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