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## Euro-Area Inflation Accelerates in February as Energy Costs Rise 2012-03-01 10:00:00.42 GMT

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By Simone Meier

March 1 (Bloomberg) -- European inflation accelerated in February as political tensions in the Middle East boosted oil prices even as the economy heads into a recession.

The inflation rate in the 17-nation euro area rose to 2.7 percent from 2.6 percent in January, the European Union's statistics office in Luxembourg said in an initial estimate today. Unemployment rose to 10.7 percent in January, a 14-year high, it said in a separate report.

Europe's economy may struggle to gather strength after shrinking in the fourth quarter as governments from Italy to Greece step up budget cuts, undermining hiring and consumer demand. While crude-oil prices have increased about 23 percent over the past year, companies may find it difficult to raise prices in coming months, economists said.

"Oil-price developments will be a key factor in future euro-zone consumer-price developments," Howard Archer, chief European economist at IHS Global Insight in London, said before today's report. "But the likelihood remains that weakened economic activity and high and rising unemployment should generally limit underlying price pressures."

The euro-region economy may shrink 0.3 percent this year after expanding 1.4 percent in 2011, the European Commission said on Feb. 23. While Germany's economy, Europe's largest, is seen growing 0.6 percent in 2012, the commission projected contractions for Belgium, Greece, Spain, Italy, Cyprus and the Netherlands.

### 'Disturbing Developments'

Rising energy costs threaten to further weaken the region's economy by sapping the purchasing power of companies and consumers. Oil prices have increased in recent months on concern that sanctions against Iran will disrupt supplies from the second-largest producer in the Organization for Petroleum Exporting Countries.

European Central Bank council member Ewald Nowotny said at a conference on Feb. 28 that "disturbing developments in the Middle East" could fuel euro-region inflation. "That could make life a bit more difficult," he said.

Still, euro-region producer-price inflation probably slowed to 3.5 percent in January, a Bloomberg survey shows. That would be the weakest since June 2010. The statistics office will release the report tomorrow.

The ECB cut borrowing costs twice in the fourth quarter, bringing the benchmark rate to 1 percent, matching a record low, to bolster the economy. The Frankfurt-based central bank will publish its latest inflation projections when council members meet on March 8. In December, it forecast that inflation will slow to 2 percent this year from 2.7 percent in 2011.

The statistics office is scheduled to release a breakdown of February consumer prices later this month. Euro-area core inflation, which excludes volatile costs such as energy, slowed to 1.5 percent in January from 1.6 percent in December.

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