

Europe Flash

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Economic Analysis

Europe

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Eurozone inflation slowed in April, more than expected

The fall in energy prices, but also a significant moderation in prices of services, especially, and non-energy industrial goods was behind the slowdown

- **Eurozone HICP inflation declined by 0.5pp to 1.2% y/y in April, more than we expected and much below the consensus forecast (BBVA Research: 1.4%; Consensus: 1.6%)**

According to the Eurostat flash estimate, underlying this slowdown was not only the fall in energy prices (-0.4% y/y, BBVA Research: 0.1% y/y), but also the significant moderation in services prices (to 1.1% y/y from 1.8% in March; BBVA Research: 1.4%), resulting from a larger Easter effect than anticipated. Bad weather conditions could also be behind this effect. In addition, inflation of non-energy industrial goods also moderated by 0.2pp to 0.8% y/y, against our expectation of stabilization. Overall, these figures suggest that core inflation should decline more than we anticipated (BBVA Research: 1.4% y/y from 1.6% y/y), by around 0.4pp to 1.2% y/y.

- **Looking forward, inflation is likely to increase slightly in coming months, but slowing again by mid-year**

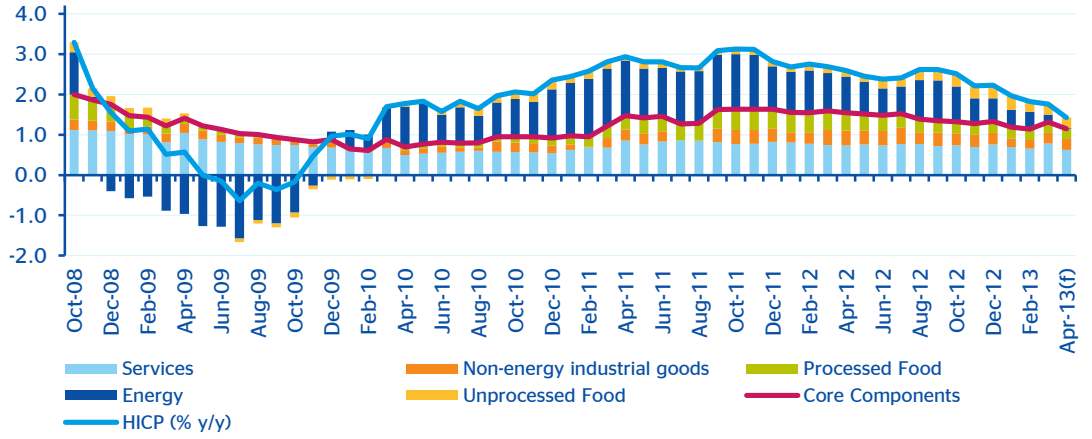
Although we update our models with the final figures (to be released on 16th May), we continue to expect inflation to increase again in May and June to around 1.7% y/y, but slowing again by mid-year to hover around 1.4%-1.5% y/y in 2H13. Core inflation is also likely to increase slightly in coming months, remaining relatively stable at around 1.4% y/y in the second quarter of the year.

- **April's downward surprise in inflation provides another argument for the ECB to lower rates**

This, along with disappointing economic data also in core economies, as well as dovish comments from ECB's Governing Council makes a further rate cut (25bp) very likely as soon as next Thursday or in June at the latest (see [ECB Watch](#)).

Chart 1

Eurozone. Annual HICP inflation rate. Contribution by component



Source: Eurostat and BBVA Research

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