

# Europe Flash

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Economic Analysis

Europe

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## Eurozone inflation slowed in March

The slowdown was due to seasonal factors and to falling energy prices. We see inflation increasing slightly in coming months

- **Eurozone inflation declined by 0.2pp to 0.5% y/y in March (BBVA Research: 0.6%; Consensus: 0.6%)**

According to the Eurostat flash estimate, inflation fell by -0.2pp to 0.5% y/y driven by the calendar effect of a late Easter holiday this year, which pushed down inflation excluding energy and food by -0.2pp to 0.8% y/y. In general, these figures are in line with our forecast. The discrepancy is probably explained by lower energy prices than anticipated (as we highlighted that a 0.5% y/y could not be ruled out taking into account recent oil prices), while both services and non-energy industrial goods evolved in line with expectations (Table 1).

- **Inflation is projected to increase in the second quarter to about 0.9% y/y**

Although we will update our models when the final figures are released (on 16<sup>th</sup> April), we see inflation increasing again in 2Q14, by around 0.3pp to about 0.9% y/y, and remain relatively stable until the last quarter of the year, when it could return to rates above 1% y/y. Core inflation is likely to increase in April, remaining relatively stable at around 1.1% the remainder of the year.

- **We continue to expect the disinflationary process to stop after March, though inflation will continue to be relatively low and below the ECB's reference value**

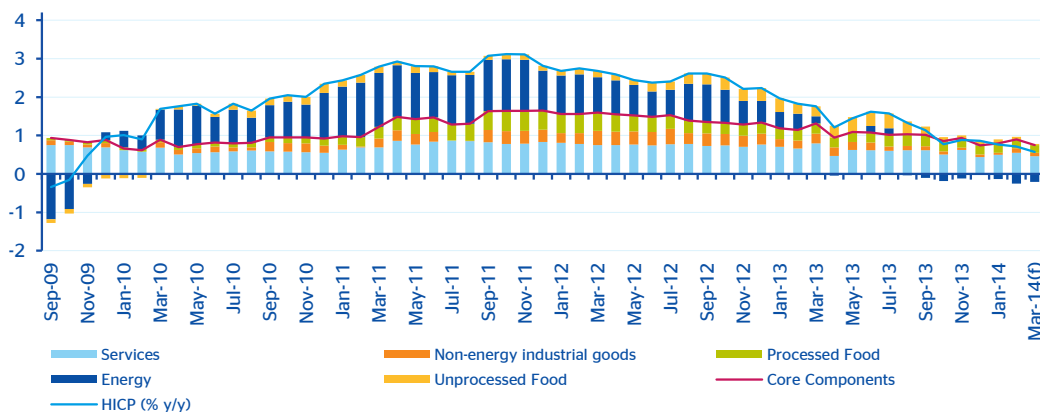
After some volatility in headline inflation over recent months, core inflation remained more resilient than expected. This could help to dispel fears about the intensity and nature of the disinflationary process and its possible negative effect on inflation expectations. We still think it unlikely that disinflation will continue beyond March, and we foresee a scenario of low and stable inflation rates at around 0.9% y/y as more likely, given the favourable base effects and the progressive recovery of domestic demand. If we look at seasonally adjusted quarterly figures for both headline and core inflation in order to abstract from base effects from a year ago, they remained relatively stable in 1Q14 at annualized figures of 0.7% and 1% (after 0.8% and 1.0% in 4Q13), respectively. Nevertheless, we continue to see downside risks, particularly deriving from the strength of the euro, while differences in inflation across countries will continue, with very low rates in the periphery and moderate rates in core European countries.

Table 1  
Eurozone. Annual HICP inflation rate (% y/y)

	Observed		Flash estimate	BBVA Research
	January 2014	February 2014	March 2014	March 2014
HICP	0.8	0.7	0.5	0.6
Energy	-1.2	-2.3	-2.1	-1.9
Fresh Food	1.3	0.9		0.4
HICP excluding energy and food	1.0	1.1	0.8	0.8
Core excluding Fresh Food and Energy	0.9	1.0		0.9
Services	1.2	1.3	1.1	1.1
Non-Energy Industrial Goods	0.2	0.4	0.3	0.4
Processed Food	2.0	1.8		1.6

Source: Eurostat and BBVA Research

Chart 1  
Eurozone. Annual HICP inflation rate. Contribution by component



Source: Eurostat and BBVA Research

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