

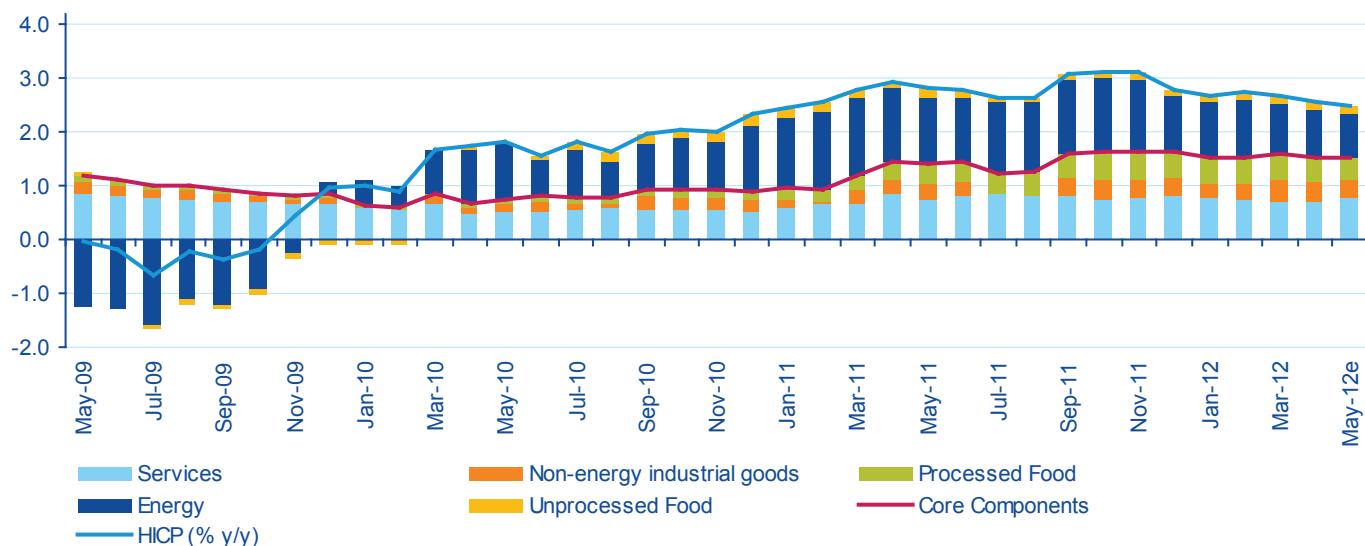
Europe Flash

Eurozone flash inflation slowed in May somewhat more than expected

Bottom line: Annual inflation eased by 0.2pp to 2.4% y/y, slightly more than expected. Our forecast suggests that this slowing stems from lower inflation in more volatile components, especially energy. Overall, we continue to expect inflation to remain above the ECB target during 2012, although reverting towards 2% at the end of the year.

- According to Eurostat flash estimation, HICP inflation slowed by 0.2pp to 2.4% y/y** (BBVA Research: 2.5% y/y; Consensus: 2.6% y/y). Although Eurostat has not released the detailed breakdown, our forecasts suggested that this deceleration should have been driven by the lower inflation in more volatile components, especially energy. In contrast, inflation of the rest of the components is expected to have remained broadly stable, resulting in unchanged core inflation at 1.9% y/y.
- We expect a slower moderation of inflation in coming months**
Looking forward, high oil prices combined with the continuous depreciation of the euro suggest that inflation should remain above the ECB target during 2012, although returning to the target by the end of the year. Core inflation is likely to remain hovering around 1.9% y/y in coming months to moderate timidly in H212. Upside risks continue to come from potential increases in oil prices, as well as potential tax hikes to meet fiscal targets, although recent soft data suggest that the depressed domestic demand could offset these effects.

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



Source: Eurostat and BBVA Research

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