

Europe Flash

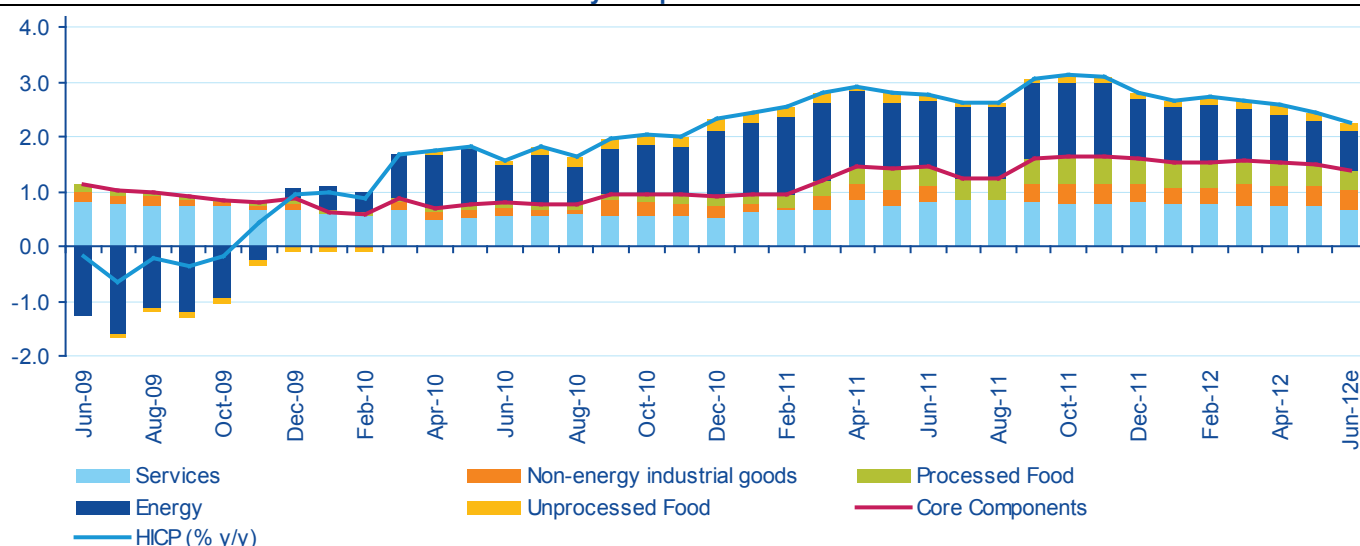
Eurozone flash inflation does not slow down in June

Bottom line: Annual inflation remained stable at 2.4% y/y in June, against our expectation of a slowdown driven by both energy and core inflation. Given very recent indicators of slowing gasoline prices, the upwards surprise is likely to derive from core inflation remaining stable or even increased slightly. We continue to expect a slower moderation of price in coming months, with inflation remaining above the ECB target over the next quarter and reverting to around 2% by the end of the year.

- **According to Eurostat flash estimation, HICP inflation remained stable at 2.4% y/y** (BBVA Research: 2.3% y/y; Consensus: 2.4% y/y). Taking into account recent fuel prices, our models pointed to an even larger moderation in inflation (around -0.2pp). Therefore, although Eurostat has not released the detailed breakdown, these figures suggest that core inflation could have remained stable or increased slightly, against our expectations of moderation.
- **We expect a slower moderation of inflation in coming months**
Looking forward, headline inflation is expected to moderate slowly in coming months, remaining above the ECB target over the next quarter and reverting to around 2% at the end of the year. Nonetheless, given the current evolution of oil prices, headline inflation could revert to below the ECB target earlier than expected, although these lower oil prices could be partly offset by a weaker euro. In addition, we see downside risks to this projection stemming from a deeper contraction of activity, although they can be offset by potential tax hikes in some member states, like Italy or Spain, to meet fiscal targets. Core inflation is likely to ease slightly to remain hovering around 1.6% in the second half of the year.

Chart 1

Eurozone. Annual HICP inflation rate. Contribution by component



Source: Eurostat and BBVA Research

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