

Europe Flash

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Economic Analysis

Europe

Miguel Jiménez González-Anleo
Chief Economist
mjimenezg@bbva.com

Agustín García Serrador
Senior Economist
agustin.garcia@bbva.com

Diego Torres Torres
Economist
diego.torres.torres@bbva.com

Pablo Budde
pablo.budde@bbva.com

Massimo Trento
massimo.trento@bbva.com

Eurozone inflation increased in April, but slightly lower than anticipated

The increase was due to seasonal factors that also pushed up core inflation by 0.2pp to 1.1% y/y, as expected, but offset by an additional fall in energy prices

- **Eurozone inflation increased by 0.2pp to 0.7% y/y in April (BBVA Research and Consensus: 0.8%)**

According to the Eurostat flash estimate, inflation increased by +0.2pp to 0.7% y/y driven by the calendar effect of a late Easter holiday this year, which pushed up inflation excluding energy and food by +0.2pp to 1.0% y/y. The slight negative innovation stems from the larger fall in energy prices, while the inflation of the remainder of the components was in line with expectations. Service inflation rose by 0.5pp to 1.6% y/y, while that of non-energy industrial goods remained broadly stable (Figure 1).

- **Inflation is projected to decline slightly in May**

Although we will update our models when the final figures are released (on 15th May), we see inflation declining slightly in May by around 0.1pp, mainly driven by low inflation in core components after the rebound observed in April due to seasonal factors, but also lower prices of unprocessed food,

- **We continue to expect inflation to remain low and relatively stable in coming months, given the progressive recovery of domestic demand**

Looking beyond May, headline inflation is expected to remain relatively stable until the last quarter of the year, when it could return to rates above 1% y/y. Core inflation is also projected to remain broadly stable at around 1.1% y/y the remainder of the year. 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.

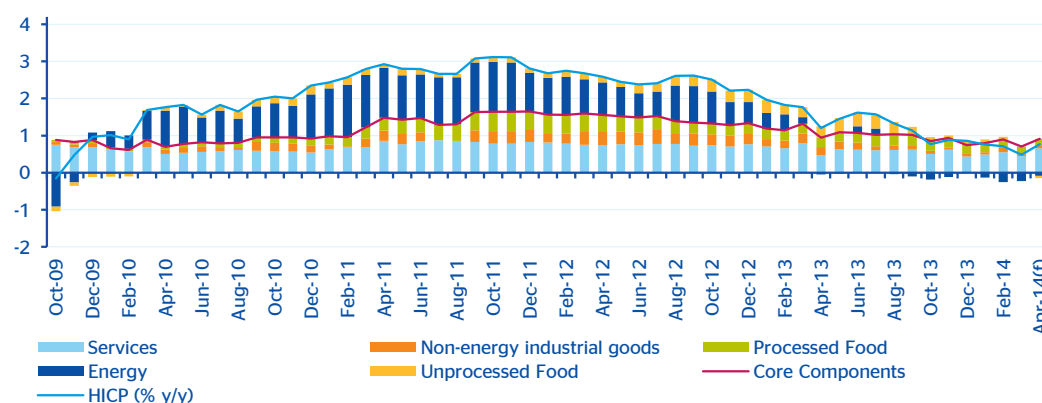
Table 1

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

	Observed		Flash estimate	BBVA Research
	February 2014	March 2014	April 2014	April 2014
HICP	0.7	0.5	0.7	0.8
Energy	-2.3	-2.1	-1.2	-0.8
Fresh Food	0.9	-0.1		-0.9
HICP excluding energy and food	1.0	0.7	1.0	0.9
Core excluding Fresh Food and Energy	1.1	0.9		1.1
Services	1.3	1.1	1.6	1.5
Non-Energy Industrial Goods	0.4	0.2	0.1	0.2
Processed Food	1.8	1.7		1.6

Source: Eurostat and BBVA Research

Figure 1

Eurozone. Annual HICP inflation rate. Contribution by component


Source: Eurostat and BBVA Research

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