

Eurozone | Negative inflation in April and moderation in the core component

Agustín García / Miguel Jiménez

Beyond the volatility of services prices over the last few months, we still see low and relatively stable core inflation, while oil prices will retain negative rates until summer.

Services price moderation and falling energy prices result in renewed negative inflation rates in April

Although we have yet to learn the final data, Eurostat's inflation flash estimate, -0.2%, was in line with our expectations but below the Consensus forecasts of analysts (BBVA Research: -0.2% YoY; Consensus: 0% YoY). In addition to falling energy prices (-8.6% YoY), we saw a moderation of core inflation by 0.2 pp to 0.8% YoY, explained basically by the deceleration of services inflation by 0.4 pp to 1% YoY. This is in line with expectations (even we expect a somewhat larger moderation) due to the impact of the change of the Easter calendar with respect to the previous year, which was responsible for the significant increase registered in March. The other components of core inflation remained stable, with non-energy industrial goods inflation and processed food growing by 0.5% YoY, as expected (see Table 1). Finally, fresh food inflation decreased by 0.1 pp to 1.2% YoY.

Negative inflation rates could continue until summer

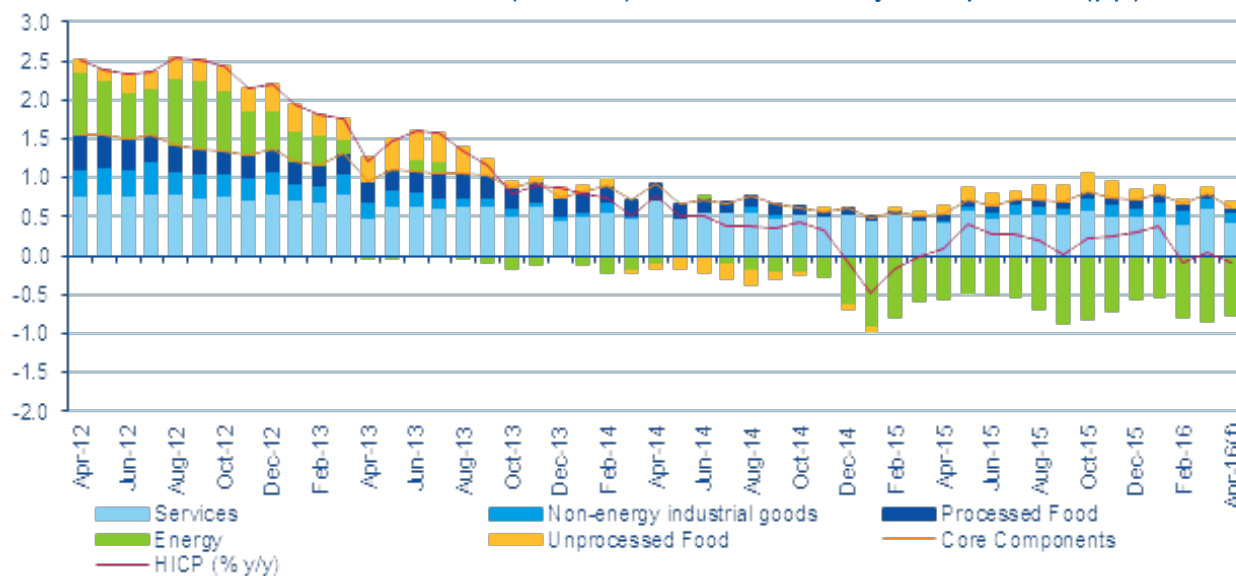
We still expect a weak and relatively stable core inflation rate of slightly below 1% over the year. The evolution of oil prices will continue to be the main determinant of inflationary behavior in the coming months, so negative inflation could continue during the second quarter and only rebound slightly after summer to positive rates (around 0.5% YoY).

Eurozone. HICP inflation (% YoY)

	Observed		April 2016	
	February 2016	March 2016	Flash Estimate	BBVA Research
HICP	-0.2	0.0	-0.2	-0.2
Energy	-8.1	-8.7	-8.6	-7.9
Fresh Food	0.6	1.3	1.2	0.9
HICP excluding energy and food	0.8	1.0	0.8	0.7
Core excluding Fresh Food and Energy	0.8	1.0	0.8	0.7
Services	0.9	1.4	1.0	0.9
Non-Energy Industrial Goods	0.7	0.5	0.5	0.6
Processed Food	0.6	0.4	0.5	0.4

Source: Eurostat and BBVA Research

Eurozone. Annual HICP inflation (% YoY). Contribution by component (pp)



Source: Eurostat and BBVA Research

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