

MACROECONOMIC ANALYSIS

Eurozone | Inflation increases slightly in May, but is still negative

Europe Unit

Inflation increased by 0.1pp to -0.1% YoY in May, due to the moderation of falling energy prices and the increase in services inflation, which raised core inflation by 0.1pp to 0.8% YoY. We still see low and relatively stable core inflation, while oil prices will maintain headline inflation in negative territory or very low until summer.

Higher services prices and strong moderation of falling energy prices explain the rise in inflation in May

Although we have yet to know the final data, Eurostat's flash estimate noted that inflation increased by 0.1pp to -0.1% YoY in May, somewhat above expectations (BBVA Research: -0.2% YoY; consensus: -0.1% YoY) due mainly to the greater increase in services inflation (1% YoY; BBVA Research: 0.9% YoY). However, national data suggest that this increase was not general and corresponds to some of the most volatile components, such as tourist packages. Moreover, this was also reflected in the rise in core inflation by 0.1pp to 0.8% (BBVA Research: 0.7% YoY). On the other hand, the lower fall in energy prices helped explain the rest of the increase in headline inflation last month, in line with expectations (-8.1% YoY after -8.7% in April; BBVA Research: -8.2% YoY). There were no surprises in the other components either (Table 1), with non-energy industrial goods inflation remaining stable (0.5% YoY), and processed and unprocessed food increasing somewhat more (0.6% and 1.3% YoY respectively).

Slightly negative or very low inflation rates could continue until summer

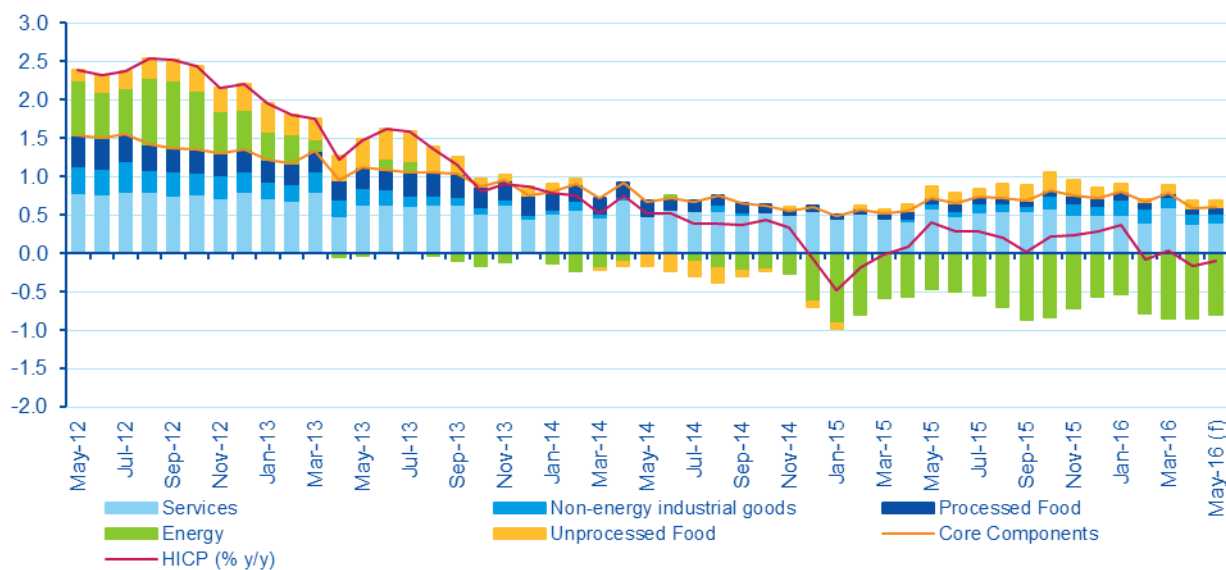
We still expect a weak and relatively stable core inflation rate of slightly below 1% over the year (beyond the volatility in some services). The evolution of oil prices will continue to be the main determinant of inflationary behaviour in the coming months, so negative or very low inflation rates could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

Table 1
Eurozone. HCPI inflation (% YoY)

	Observed		May-16	
	March 2016	April 2016	Flash Estimate	BBVA Research
HCPI	0	-0.2	-0.1	-0.2
Energy	-8.7	-8.7	-8.1	-8.2
Fresh Food	1.3	1.2	1.3	1.3
HCPI excluding energy and food	1	0.7	0.8	0.7
Core excluding Fresh Food and Energy	1	0.7	0.8	0.7
Services	1.4	0.9	1	0.9
Non-Energy Industrial Goods	0.5	0.5	0.5	0.5
Processed Food	0.4	0.5	0.6	0.7

Source: BBVA Research

Figure 1
Eurozone. Annual HIPC inflation rate. Contribution by component



Source: BBVA Research

DISCLAIMER

This document has been prepared by BBVA Research Department, it is provided for information purposes only and expresses data, opinions or estimations regarding the date of issue of the report, prepared by BBVA or obtained from or based on sources we consider to be reliable, and have not been independently verified by BBVA. Therefore, BBVA offers no warranty, either express or implicit, regarding its accuracy, integrity or correctness.

Estimations this document may contain have been undertaken according to generally accepted methodologies and should be considered as forecasts or projections. Results obtained in the past, either positive or negative, are no guarantee of future performance.

This document and its contents are subject to changes without prior notice depending on variables such as the economic context or market fluctuations. BBVA is not responsible for updating these contents or for giving notice of such changes.

BBVA accepts no liability for any loss, direct or indirect, that may result from the use of this document or its contents.

This document and its contents do not constitute an offer, invitation or solicitation to purchase, divest or enter into any interest in financial assets or instruments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

In regard to investment in financial assets related to economic variables this document may cover, readers should be aware that under no circumstances should they base their investment decisions in the information contained in this document. Those persons or entities offering investment products to these potential investors are legally required to provide the information needed for them to take an appropriate investment decision.

The content of this document is protected by intellectual property laws. It is forbidden its reproduction, transformation, distribution, public communication, making available, extraction, reuse, forwarding or use of any nature by any means or process, except in cases where it is legally permitted or expressly authorized by BBVA.