

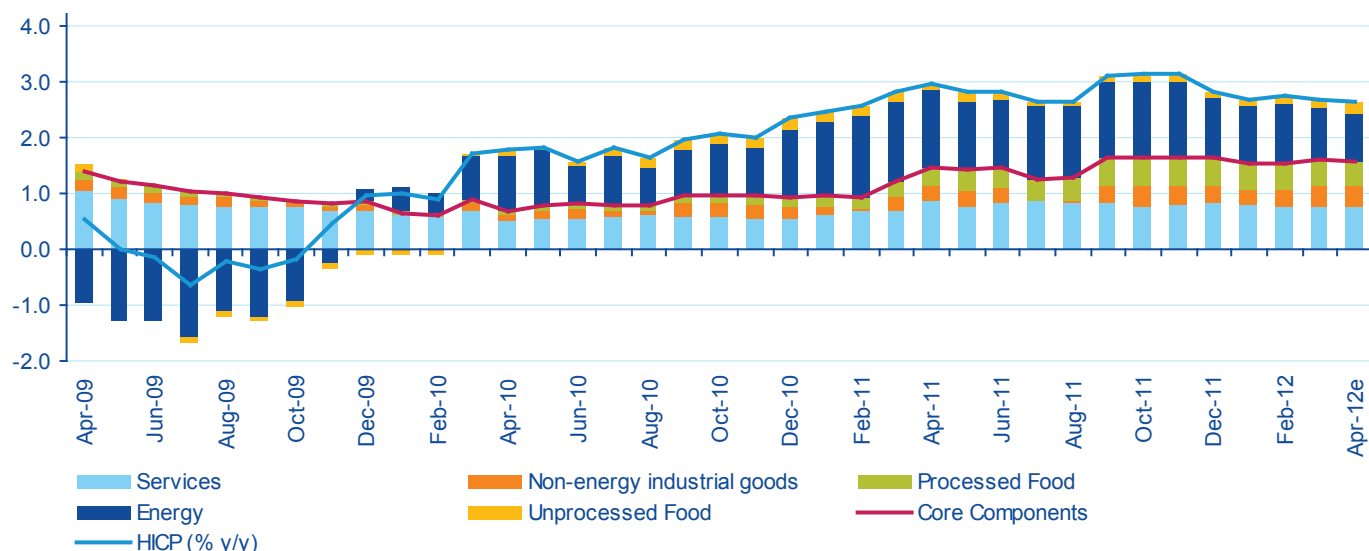
Europe Flash

Eurozone flash inflation eased slightly in April

Bottom line: Annual inflation eased by 0.1pp to 2.6% y/y, as expected, driven by a lower growth of energy prices, while our forecasts suggest that core inflation should have remained broadly stable at 1.9% y/y. Looking forward, we expect inflation to slow further in coming months, but to remain above the ECB target throughout 2012.

- According to Eurostat flash estimation, HICP inflation slowed by 0.1pp to 2.6% y/y,** in line with our expectation (BBVA Research: 2.6% y/y; Consensus: 2.5% y/y). Although Eurostat has not released the detailed breakdown, our forecasts suggested that this deceleration should have been driven by the lower growth of energy prices, still owing to the favorable base effect after high energy inflation observed a year ago (around 13% y/y). Regarding inflation of other components, our forecasts suggest that it should remain broadly unchanged, resulting in the stabilization of core inflation at 1.9% y/y.
- We expect inflation to slow further in coming months**
Looking forward, recent increases in oil prices combined with the continuous depreciation of the euro and a milder slowdown in activity point to a slower moderation of headline inflation in coming months. As a result, it should remain above the ECB target during 2012, while core inflation is likely to remain hovering around 1.9% y/y in the short term and to moderate timidly in the second half of the year. Upside risks continue to stem from geopolitical tensions related to oil prices, as well as potential tax hikes to meet fiscal targets, while the depressed domestic demand could partly offset these effects.

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



Source: Eurostat and BBVA Research

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