

Snap | 3 May 2019

Eurozone inflation: What goes down must come up...surely!

Easter and oil effects have pushed up inflation to 1.7% in April, but don't get thrown off by this jump in price growth; the trend is still downwards. In May, Easter effects will probably bring core inflation down considerably



Source: Shutterstock

Inflation data usually bounces around this time of the year, as the timing of Easter influences holiday related price growth. This year is no different as March saw a drop in core inflation from 1 to 0.8% and it went up to 1.2% in April. The differences in services inflation, which include package holidays were even more pronounced as they jumped from 1.1 to 1.9% in April. Core inflation improvements are likely to reverse again next month as Easter effects fade out.

With business confidence continuing to be weak, the underlying story remains one of higher wage growth taken into margins as businesses remain too uncertain about the future of price increases. In April, we again saw selling price expectations drop for the months ahead, indicating that core inflation environment remains soft for now as business confidence hasn't picked up yet.

The recent rise in oil prices is pushing up inflation now, but base effects from energy prices are still

going to push inflation down over the coming months with headline inflation moving further away from the ECB's target until the end of 2020.

The ECB is unlikely to bat an eyelid towards March and April fluctuations, but may still be confused by the recent signals about growth and inflation. The Q1 growth figures were surprisingly strong, but recent surveys indicate new orders continue to come in weak.

With selling price expectations falling, the ECB won't be too optimistic in how the pick up in growth in Q1 will translate into price growth, but will eagerly wait for more evidence ahead of the June meeting.

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