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## EUROZONE INFLATION SLIPPING AGAIN AS OIL PRICE EFFECTS FADE

### Berenberg Macro Flash

#### Eurozone inflation, March, in %

	Headline	Core
<b>Actual:</b>	<b>1.5</b>	<b>0.7</b>
Previous:	2.0	0.9
Consensus:	1.8	0.8
Berenberg:	1.8	0.9

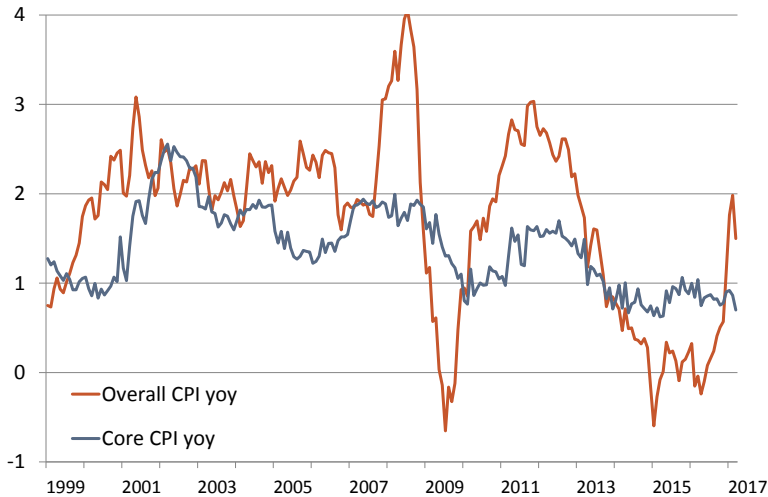
**Not there yet:** The market's recent excitement about inflation risks in the Eurozone were premature. In March, headline inflation dropped from 2.0% yoy in February to 1.5% as past changes in costs of energy and food dropped out of the headline measure. With Easter arriving late this year (mid-April, 20 days later than in 2016) the usual surge in holiday prices will likely occur next month. In March the Easter effect may have shaved off up to 0.2 ppts from the total number. After likely rising again in April, we expect inflation to trend towards the underlying rate thereafter. Core inflation, which strips away volatile energy and food prices, fell to 0.7%, its lowest level since April 2016 – see chart. Core inflation has been hovering below 1% yoy since mid-2013 (with few exceptions), with no clear signs of a pick-up yet. Underlying forces of demand and supply are not yet in place to sustain a rise in inflation to the ECB's target of "below, but close to 2%" until summer 2018 at the earliest (no more than 0.4 ppt this year, 0.3 ppt next year, with a chance it could be less). This is broadly in line with the expected duration of the ECB's QE programme, with monthly asset purchases of €60 bn until December this year, tapering starting from January 2018 and a first rate hike in September 2019.

**Who wants high inflation anyway?** The recovery in the Eurozone is some two years behind the US and UK. Despite major improvements since its peak in 2013 at 12.1%, the unemployment rate remains high at 9.6%. With a significant degree of labour market slack, wage growth remains subdued. Many households and businesses, both financial and non-financial, still need to further repair their balance sheets after the Lehman and euro crises. Low borrowing costs can help to speed up the adjustment. At least part of the Eurozone's current improving growth is due to the ECB's accommodative monetary stance. As long as underlying inflationary pressure remains low, the ECB can keep its monetary policy accommodative, and has no reason to alter its policy path.



## MACRO NEWS

### Headline CPI versus core inflation (yoy, in %)



Source: Eurostat.

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