All Signal, No Noise

MARKET ANALYSIS

MNI Eurozone Inflation Preview – May 2025

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May 29, 2025

Contents

Already released May preliminary inflation data:

- France (19% of EZ HICP in 2025): Released 0745BST May 27, 0.6% Y/Y (0.9% consensus, 0.9% April)
- Belgium (4% of EZ HICP in 2025: Released 1030BST May 28, 2.8% Y/Y (3.1% April)

Key May preliminary inflation data releases and timing:

- **Spain** (12% of EZ HICP in 2025) – 0800 BST 30 May
- **Italy** (16% of EZ HICP in 2025) – 1000 BST 30 May
- **Germany** (28% of EZ HICP in 2025) – 1300 BST 30 May
- **Netherlands** (6% of EZ HICP in 2025) – 0530 BST 3 June
- **Eurozone** – 1000 BST 3 June

Eurozone MNI Consensus:

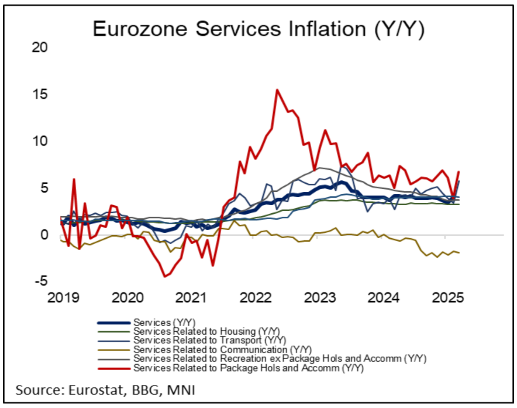
- **HICP** 2.0% Y/Y (vs 2.2% prior).
- **Core HICP** 2.5% Y/Y (vs 2.7% prior).
- **MNI Eurozone Inflation Insight for April 2025 (PDF Link)**

Unwinding of Easter Effect In Focus

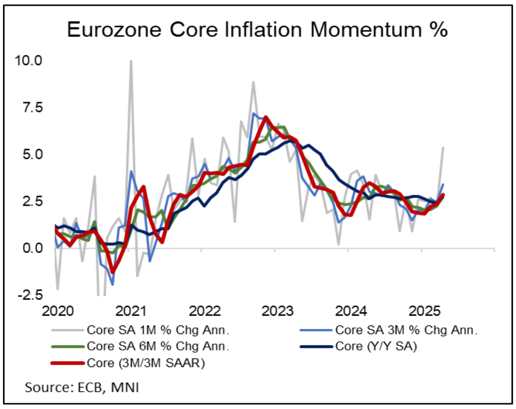
Tariff developments remain the centre of market attention, but the Eurozone May flash inflation round will still be in focus to determine to what extent the April acceleration in services inflation was temporary. The details of the April reading pointed to a substantial "Easter effect" for travel-sensitive services such as airfares, and already released French and Belgian data point to an unwind of these dynamics. The French data was notably soft, printing at 0.6% Y/Y (vs 0.9% cons and prior), and added downside risks to MNI's current consensus for the Eurozone, which stands at 2.0% for headline (vs 2.2% prior) and 2.5% for core (vs 2.7% prior).

In the near-term, the combination of tariff-related downside growth risks and easing wage pressures are expected to weigh on core inflation, but there remains some uncertainty around the medium-term impacts, particularly amongst Governing Council hawks.

The May flash inflation round won't impact the ECB's June decision, where a 25bp cut has been fully priced for several weeks now. However, a soft reading would embolden dovish Governing Council members to support another cut as early as July. Markets currently price a ~30% implied probability of such a move. Looking at terminal rates, the MNI Policy Team's May 22 ECB **sources** piece flagged that risks now tilt to the downside: "*The likelihood that the European Central Bank will need to cut interest rates below 2% is increasing as the Governing Council becomes more convinced that inflationary risks are firmly to the downside amid extreme uncertainty around trade and the global economy*".



Source: Eurostat, BBG, MNI

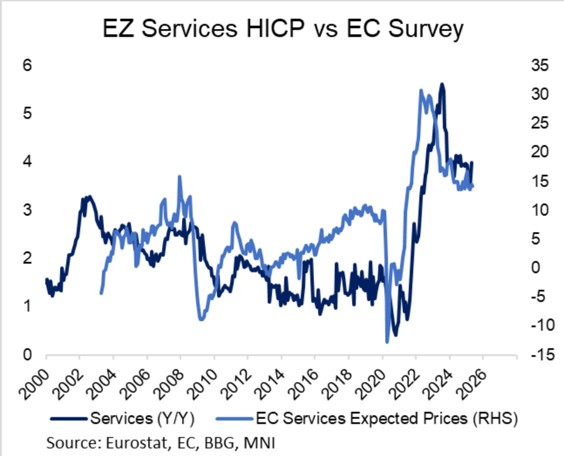


Source: ECB, MNI

Expected Positive/Negative Factors for May Eurozone Inflation

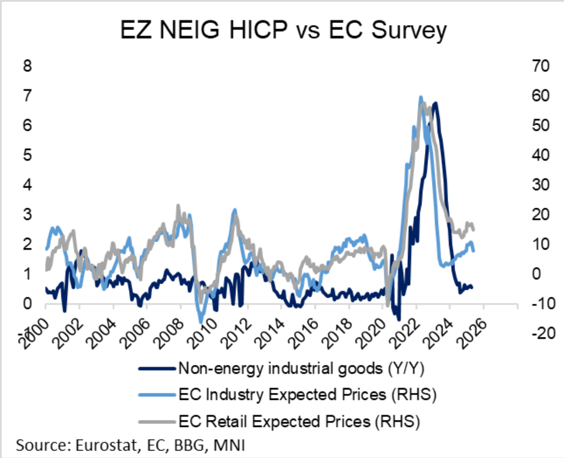
Services prices (- Y/Y) – 46% of 2025 HICP Basket: As the April Easter-related spike in airfares and accommodation drops out of the Y/Y comparison, services inflation is forecast to soften further—estimates range from 3.4% to 3.7% Y/Y, with the median standing around 3.5% (vs 4.0% in April). The key uncertainty remains the magnitude of the "Easter-effect" unwind, and whether momentum in non-travel-related services continues to soften. The soft Q1 ECB negotiated wages print underscores ECB confidence in services inflation moderating over the coming months.

- The May flash PMI noted that "*services input prices were up sharply again, with the pace of inflation slightly stronger than in April*". This was reflected in higher selling prices.
- *Apr EZ services: 4.0% Y/Y, 1.4% M/M. May 2024 0.7% M/M vs 0.25% 2017 - 2024 M/M avg*



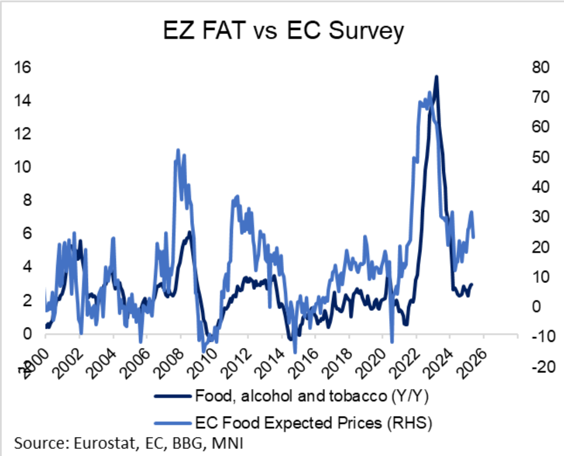
Core goods prices (unch Y/Y) – 26% of 2025 EZ HICP Basket: Core goods inflation is expected to remain broadly stable at around 0.6% Y/Y in May, as muted underlying momentum offsets any pass-through from shifting trade tensions or FX moves. Stronger Chinese exports into Europe, prompted by firmer US tariff barriers, may start to weigh on durable-goods prices later in Q2, but the immediate May print is expected roughly unchanged (vs 0.6% in April).

- The May flash PMI noted that "*manufacturing input costs decreased for the second consecutive month, and to the largest extent since March 2024*". This was reflected in lower selling prices.
- *Apr EZ Non-energy industrial goods: 0.6% Y/Y, 0.4% M/M. May 2024 0% M/M vs 0.1375% 2017 - 2024 M/M avg*



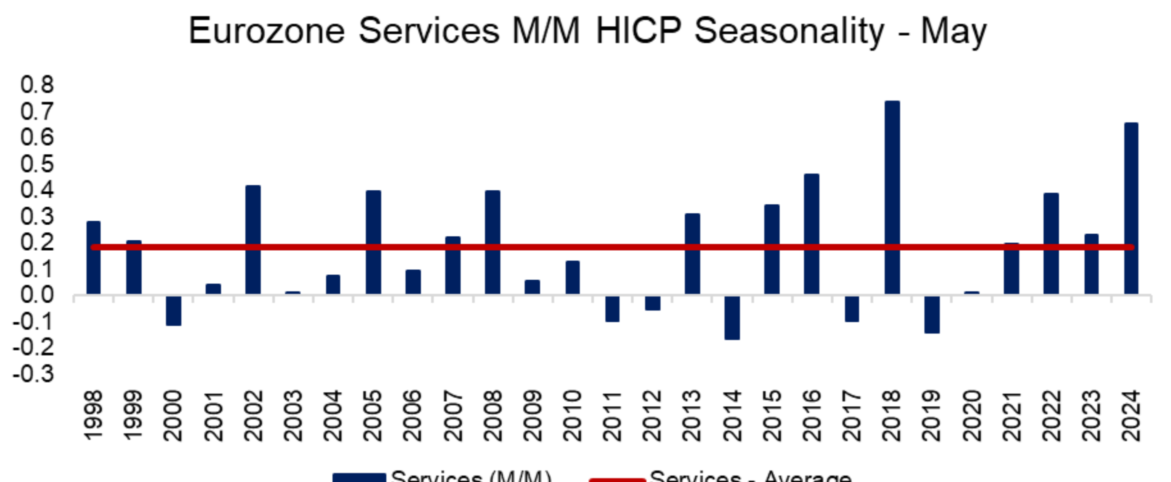
Food prices (unch to slightly +ve Y/Y) – 19% of 2025 EZ HICP Basket: With seasonal pressures in fresh produce and ongoing pass-through of agricultural commodity costs, food inflation is expected to tick up modestly in May to around 3.1% Y/Y (vs 3.0% in April).

- *Apr EZ FAT: 3.0% Y/Y, 0.3% M/M. May 2024 0.2% M/M vs 0.44% 2017 - 2024 M/M avg*
- *Apr EZ Processed food inc. alcohol and tobacco: 2.4% Y/Y, 0.2% M/M. May 2024 0.1% M/M vs 0.41% 2017 - 2024 M/M avg*
- *Apr EZ Unprocessed food: 4.9% Y/Y, 0.9% M/M. May 2024 0.6% M/M vs 0.58% 2017 - 2024 M/M avg*

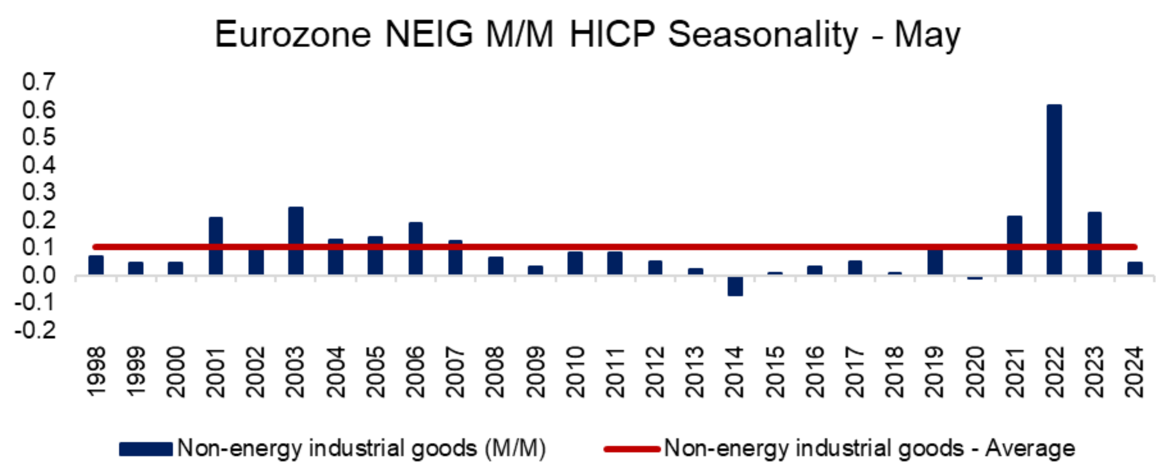


Energy prices (-Y/Y, -M/M) – 9% of 2025 EZ HICP Basket: Analysts expect Eurozone energy inflation to remain deeply negative in May, though slightly less so than in April, as continued declines in wholesale gas and oil prices feed through to retail pump and household bills. The MNI median forecast sits at –3.4% Y/Y (vs –3.6% in April).

- *Apr EZ energy: -3.6% Y/Y, -2.3% M/M. May 2024 -1.2% M/M vs -0.05% 2017 - 2024 M/M avg*



Source: Eurostat, BBG, MNI



Source: Eurostat, BBG, MNI

Summary of Sell-Side Outlooks for May HICP

Analyst	HICP Headline Y/Y	HICP Headline M/M (NSA)	HICP Core Y/Y	HICP Core M/M (NSA)	Germany HICP Y/Y	Germany HICP M/M (NSA)
Apr-25 Actual	**2.17**	**0.57**	**2.75**	**1.02**	**2.2**	**0.5**
May-25 BBG Consensus	**N/A**	**N/A**	**N/A**	**N/A**	**2.1**	**0.4**
May-25 MNI Median Consensus	**2.0**	**0.1**	**2.5**	**0.2**	**2.1**	**N/A**
UBS	2.0		2.3		1.9	
Barclays	1.97	0.02	2.42	0.12	2.12	0.18
Goldman Sachs	2.01		2.46		2.1	
Santander	2.08	0.13	2.48	0.17	2.1 (CPI)	0.1 (CPI)
Morgan Stanley	2.08	0.13	2.57	0.26	2.1	
Commerzbank	2.0		2.6		2.0	
Bank of America					1.9	
RBC	2.2					

Analyst	Italy HICP Y/Y	Italy HICP M/M (NSA)	France HICP Y/Y	France HICP M/M (NSA)	Spain HICP Y/Y	Spain HICP M/M (NSA)
Apr-25 Actual	**2.0**	**0.4**	**0.9**	**0.7**	**2.2**	**0.6**
May-25 BBG Consensus	**1.9**	**0.1**	**0.9**	**0.1**	**2.0**	**0.0**
May-25 MNI Median Consensus	**1.9**	**N/A**	**0.8**	**N/A**	**1.8**	**N/A**
Barclays	1.78	–0.01	0.78	0.00	1.79	–0.22
Morgan Stanley	1.79		0.9		2.1	
Bank of America	1.9		0.8		2.0	
Goldman Sachs	1.9		0.8		1.8	
UBS	2.0		0.9		1.8	
Santander	1.7 (CPI)	0.1 (CPI)	0.9 (CPI)	0.1 (CPI)	2.0 (CPI)	0.1 (CPI)

Analyst (A-Z)	Energy (Y/Y)	Food, Alcohol & Tobacco (FAT) (Y/Y)	Core Goods (Y/Y)	Services (Y/Y)
Apr-25 Actual	-3.56	2.97	0.57	3.98
May-25 MNI Median Consensus	-3.4	3.1	0.6	3.5
Barclays	-3.53	3.05	0.60	3.44
UBS	-3.20	3.1 (food only)	0.5 (all goods)	3.5
Goldman Sachs	-3.3	3.1	0.59	3.52
Morgan Stanley	-3.46	3.04	0.56	3.71
Santander				3.72

Already Released National Inflation Prints:

France (19% of EZ HICP in 2025)

French HICP came in notably lower than estimated, falling to 0.62% Y/Y in May vs 0.9% consensus and 0.92% in April. National-level CPI also came in lower, at 0.67% Y/Y (0.9% cons; 0.82% April).

- Looking at national-level CPI, services inflation slowed down to 2.11% Y/Y (2.39% April), with transport services and communications behind the lower print according to INSEE; ahead of the release, analysts expected a decent reversal transport services due to air fares.
- Energy CPI dropped further into deflationary territory, at -8.11% Y/Y vs -7.77% in April.
- Manufactured goods CPI meanwhile was little changed at -0.23% Y/Y (-0.17% April).
- Food CPI accelerated a little, to 1.34% Y/Y vs 1.24% April.

Belgium (4% of EZ HICP in 2025)

Belgian May flash HICP inflation was 2.8% Y/Y, down from 3.1% in April for the lowest reading since January 2024. Annual CPI inflation eased to 2.01% (vs 2.55% prior), while CPI ex-energy and unprocessed foods decelerated to 2.59% Y/Y (vs 2.82% prior).

Looking at the major sub-components on a CPI basis:

- Services inflation eased to 3.65% Y/Y (vs 3.96% prior) despite an uptick in rent inflation to 3.60% (vs 3.51% prior). Airfares saw a -13.8% Y/Y reading, meaning the transport component pulled down headline inflation by 0.49pp.

Food inflation was 2.04% Y/Y (vs 2.48% prior). Energy inflation was -1.10% Y/Y (vs +0.95% in April and 5.48% in March). On a monthly basis, there were declines in natural gas (-6.2%) and electricity (-4.0%), which pulled down respective annual rates. Fuel inflation was -9.9% Y/Y.

Outlooks And Consensus Ests. For National Inflation Prints:

Germany (28% of 2025 EZ HICP) – 1300BST Fri May 30 (after state-level data in the morning)

- BBG Consensus:
  - HICP: 2.0% Y/Y (vs 2.2% prior); 0.1% M/M (vs 0.5% prior)
  - CPI: 2.1% Y/Y (vs 2.1% prior); 0.1% M/M (vs 0.4% prior)
- Analyst views:
  - **Commerzbank:** "In May, the inflation rate in Germany is likely to have fallen slightly from 2.1% to 2.0%, thus exactly in line with the ECB's target. The core inflation rate is also likely to have fallen, but remains at a higher level".
  - **Goldman Sachs**: "We expect core inflation to decline to a strong 2.8%yoy, and look for the year-over-year rate of services inflation to decline notably to 4%yoy, driven by a partial unwind of travel-related services"…."Of the non-core components, we expect energy inflation to tick up to -4.8%yoy from -5.3%yoy in April, and look for processed food inflation to go to 2.6%yoy (from 2.4%yoy in April) and for unprocessed food inflation to decline to 5.3%yoy".
  - **Morgan Stanley:** "We forecast headline CPI inflation stable at 2.1%Y in May. Weaker core CPI inflation (2.8%Y from 2.9%Y in April) is offset by a rise in both energy inflation (-4.9%Y from -5.4%Y) and food inflation (2.9%Y from 2.8%Y)"…" Within core, the spotlight will be on services: after a large uptick in April on Easter base effects driven by airfares and package holidays, the year-on-year rate should drop (in CPI to 3.55%Y from 3.9%Y and in HICP to 4.1%Y from 4.5%Y). This view is based on subdued price changes in both airfares (CPI at 0.8%M after 21.0%M in April) and package holidays (CPI at 1.2%M after 5.5%M)".
  - **SEB:** "Contrary to many economies in the Euro Area, German service prices did not surprise as much, hence the expected reversal effect will be more modest in May"
  - **TD:** "We expect German inflation to continue cooling in May, driven by a decline in energy prices and a slow-down in core goods".
- The Bundesbank highlights in their monthly report:

- "*The inflation outlook is currently particularly uncertain; from the current perspective, the inflation rate is likely to fluctuate around 2% in the coming months."*
  - *"The government measures with a direct price effect announced in the coalition agreement will exert further downward pressure on energy prices (e.g. reduction in electricity tax and grid fees). However, it is still unclear when the measures will be implemented. The inflation rate in Germany could then fall below 2% for a while."*
  - *"Both traditional and alternative measures indicate a noticeable decline in underlying inflation in Germany since the hyperinflation phase, but remain above their historical averages."*
- The May flash PMI noted "*the rate of increase in average prices charged for goods and services eased for the third time in four months and was the lowest since October last year. Services output price inflation was at a seven-month low (although still well above its long-run average), while manufacturing factory gate charges recorded a renewed decline after rising in April for the first time in nearly two years*"
- German final April HICP was unrevised from the flash readings at 2.2% Y/Y (2.3% prior) and 0.5% M/M (0.4% prior). The final reading to CPI was also unrevised at 2.1% Y/Y (2.2% prior) and 0.4% M/M (0.3% prior). Core CPI accelerated 0.3pp to 2.9% Y/Y, a rate not seen since January.
  - Overall, the data confirms the main conclusions from the flash / state-level reading - services accelerated materially (contribution +0.20pp vs prior) on the back of the Easter effect while goods inflation slowed (contribution -0.25pp vs prior) following lower energy prices.
  - Without (volatile) airfares adding 0.16pp and package holidays adding 0.08pp to headline vs March, services inflation's contribution to headline would have been lower than the month before.
  - This speaks in favour of the process of underlying services disinflation being intact.

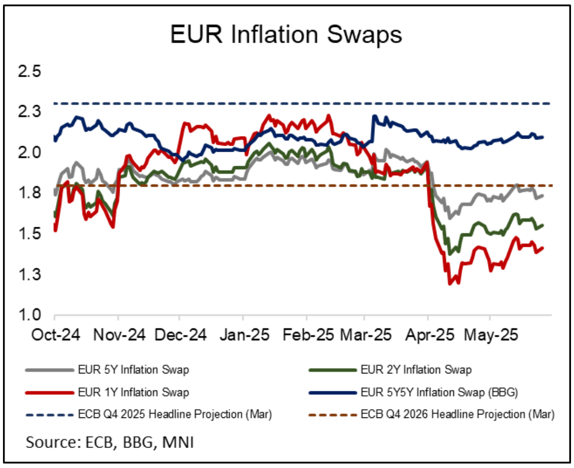
Italy (16% of EZ HICP in 2025) – 1000BST Fri May 30

- BBG Consensus:
  - HICP: 1.9% Y/Y (vs 2.0% prior); 0.1% M/M (vs 0.4% prior)
  - CPI: 1.7% Y/Y (vs 1.9% prior); 0.1% M/M (vs 0.1% prior)
- Analyst views:
  - **Barclays:** "The excise duties on fuels were adjusted in Italy on 15 May, with an increase in the duty on diesel by 1.5 euro cent per litre and a reduction in the excise duty on gasoline by 1.5 euro cents. As diesel (2.2%) and petrol (2.5%) have roughly equal weights in the Italian HICP basket, we expect this change to have only a limited impact on HICP and make no adjustments to our forecast.".
  - **Goldman Sachs**: "We expect Italian headline inflation to decline to 1.9%yoy in May, from 2.0%yoy in April, and core inflation to fall to 2.0%yoy, with year-over-year core services ticking down, driven by transport- and travel-related components."…"Of the non-core components, we look for energy inflation to fall slightly further to -1.0%yoy from -0.7%yoy in April, with risks skewed to the downside in case the "extraordinary" energy bonus effect was not captured fully in the April print. We expect unprocessed food inflation to stay unchanged at 4.7%yoy, and processed food inflation to increase to 2.8%yoy".
  - **Mogan Stanley:** "We see core HICP falling from 2.2%Y to 1.9%Y. March and April showed relatively strong prints in the more volatile services items related to tourism and entertainment. We expect some payback in the month of May that will lower core inflation. Headline is seen falling from 2.0%Y to 1.8%Y. Food prices remain elevated, while we forecast a continued pass through from weaker gas and oil prices into energy. The introduction of a subsidy to electricity bills for lower income households brought electricity prices lower in April. As the subsidy is paid as a one off in the April bill, we expect some payback in May".
- The energy component drove a downward revision to Italian April HICP. Headline HICP inflation was 2.04% Y/Y (vs 2.13% prior, 2.1% flash), with energy at -0.74% Y/Y (vs 2.68% prior, -0.2% flash).
  - A reminder that the few analyst estimates we had seen ahead of the flash release looked for an acceleration in energy to over 4% on a base effect. HICP details indicate a -9.04% Y/Y rate on liquid fuels (vs -6.46% prior).
  - HICP excluding energy and unprocessed foods was confirmed at 2.13% Y/Y (vs 1.90% prior).
  - Services accelerated to 3.44% (vs 2.77% prior). As we had suspected following the flash release, Easter effects were at play. Airfare inflation was 15.44% Y/Y (vs -6.56% prior). Smaller impacts were seen in package holidays (5.42% Y/Y vs 9.81% prior) and accommodation (4.95% Y/Y vs 3.38% prior). Other "underlying" services components saw modest changes relative to March on aggregate.
  - Non-energy industrial goods inflation was soft at 0.26% Y/Y (vs 0.54% prior), while processed foods ticked up to 2.38% Y/Y (vs 2.23% prior).

Spain (12% of EZ HICP in 2025) – 0800BST Fri May 30

- BBG Consensus:
  - HICP: 2.0% Y/Y (vs 2.2% prior); 0.0% M/M (vs 0.6% prior)
  - CPI: 2.1% Y/Y (vs 2.2% prior); 0.1% M/M (vs 0.6% prior)
    - Core CPI: 2.2% (vs 2.4% prior)
- Analyst views:
  - **Goldman Sachs**: **"**We expect Spanish headline inflation to decline to 1.8%yoy in May, from 2.2%yoy in April, and core inflation to tick down to 2.5%yoy, with a notable drop in the year-over-year core services component driven by travel-related, transport and other services"…**"**Across the non-core categories, we look for energy inflation to decline to -4.0%yoy from -2.5%yoy in April, processed food inflation to decline to 0.1%yoy, and unprocessed food inflation to increase to 6.7%yoy".
  - **Morgan Stanley: "**We see a lower core HICP at 2.8%Y, while core CPI remains unchanged at 2.4%Y. Outside of core, we see food inflation continuing its trajectory, reflecting a modest price acceleration. Energy prices, on the other hand, should weaken further driven by lower electricity and pump prices".
- Spanish April HICP inflation confirmed flash estimates at a rounded 2.2% Y/Y, printing at 2.24% Y/Y (vs 2.22% prior). A reminder that this was above the initial 2.0% consensus. Core HICP (excluding energy and unprocessed food) rose to 2.53% Y/Y (vs 2.00% prior), with services at 4.13% Y/Y (vs 3.11% prior) and core goods at 0.30% (vs 0.20% prior).
  - As expected, the timing of Easter pushed travel sensitive services components higher. Airfare inflation was 19.3% Y/Y (vs 1.6% prior), package holidays rose to 13.7% Y/Y (vs -2.8% prior) and accommodation services ticked up to 10.0% Y/Y (vs 5.2% prior).
  - Meanwhile, other services categories (e.g. insurance, rents, medical services) appeared quite sticky relative to March.
  - Energy inflation was -2.47% Y/Y (vs 1.71% prior), driven by a pullback in gas inflation.
  - Food inflation softened across processed (0.80% vs 1.15% prior) and unprocessed (6.22% Y/Y (vs 6.74% prior) components.
  - The share of subcomponents with annual inflation rates between 1-3% fell back down to 28% in April from 30% in March, but this was driven by an increase in the number of components with rates below 1%.

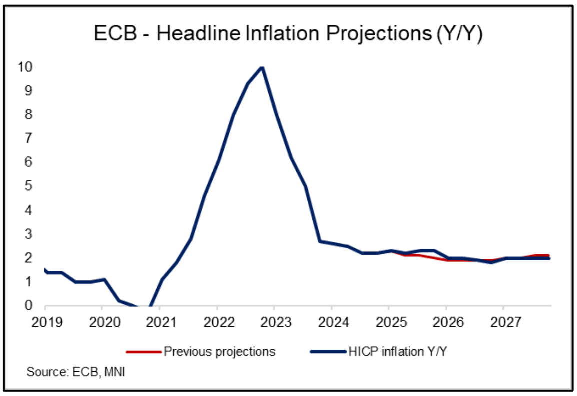
Inflation swap market pricing



EUR traded inflation swaps are little changed relative to a month ago. The 5y5y HICP ex-tobacco inflation swap remains close to 2% at 2.09%, while 1-, 2- and 5-year swaps are comfortably below the 2% handle. The trade agreement between the US and China in early May saw market-implied EUR inflation expectations rise, as it implied a reduced risk of disinflationary trade diversion from China into the Euro-area compared to when tariffs were at triple-digit levels. However, the combination of soft Eurozone data (May flash PMIs and Q1 negotiated wages) and US President Trump's latest threats of tariffs as high as 50% on the EU has prompted a renewed softening of traded inflation metrics.

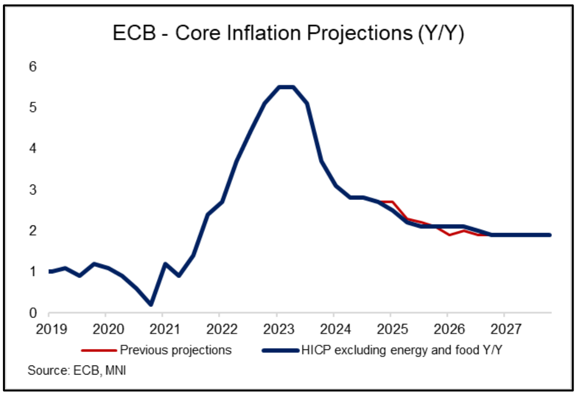
The May 2025 HICP ex-tobacco inflation swap fixing is currently 189bps.

ECB Outlook (March Projections)



The last ECB forecasts from the March meeting saw headline inflation expected to return sustainably to the 2% target in 1Q26 (vs 4Q25 in December). While President Lagarde played down the impact of this adjustment in the press conference (being largely driven by the technical assumption cut-off), it's still another projection round whereby the timeline for getting back to target has been pushed back.

Somewhat notably, headline inflation was seen at around 2.3% throughout 2025 (on the back of higher food and energy prices), before abruptly moving back to 2.0% in Q1 2026. The technical assumptions were as expected: "Higher commodity prices and a weaker exchange rate, while interest rate assumptions are broadly unchanged".



Core inflation is still expected to slip below 2% in the latter half of 2026. Disinflation is expected to begin in earnest in early 2025, "as the effects of lagged repricing fade, wage pressures recede and the impact from past monetary policy tightening continues to feed through". Given the projections only account for trade barriers that had been announced at the time of the cut-off: "External price pressures, as reflected in import prices, are expected to remain moderate assuming that EU trade tariff policies remain unchanged".

Bear in mind though that we're likely to see some marking lower of these inflation projections in the upcoming June round on account of sharply lower energy prices plus euro appreciation.

ECB Survey of Professional Forecasts, Consumer Survey and Corporate Telephone Survey

Highlights from the ECB's Q2 Survey of Professional Forecasters:

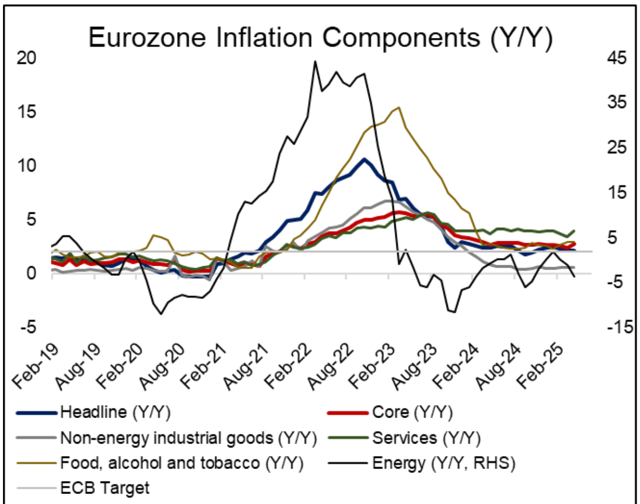
- "Expectations for headline HICP inflation were revised slightly upwards for 2025 and 2026 but remained unchanged for 2027 and the longer-term".
- "Expectations for HICPX were revised up by 0.1 percentage points for all horizons, including the longer term (to 2.0%)".
- "In this round, SPF respondents were asked two special questions on (i) tariffs and protectionism and (ii) defence and fiscal spending".
    - "In terms of baseline inflation expectations, tariffs were expected to have a small upward impact in the nearer term (2025 and 2026), while defence spending was expected to have a similar impact in the medium term (2026 and 2027)".
    - "Respondents' risk assessments for these factors largely corresponded to the direction of the impact on their baseline expectations. This suggests that respondents may have been cautious when incorporating these factors into their baselines and expressed this caution by accounting for risks in the same direction".

ECB 1-year ahead consumer inflation expectations surprisingly rose two tenths to 3.1% in April, going against the median analyst forecast of a softening to 2.8%. However, both 3- and 5-year expectations were steady at 2.5% and 2.1% respectively, so the data shouldn't be of much concern to the ECB.

Highlights from the ECB's Q2 Corporate Telephone Survey:

- Contacts reported moderate price growth with no change in overall momentum or the short-term outlook. While price growth in the services sector still outpaced that in industry, contacts pointed to some convergence, with price rises picking up in manufacturing and waning slightly in services".
- "Contacts in the capital and consumer goods sectors generally reported a "normal" pricing environment of modest increases and stable margins, while prices for many intermediate goods were bottoming out or starting to rise from recent troughs".
- "Price growth across much of the services sector remained relatively robust. However, some contacts in travel and tourism pointed to more moderate price rises as demand growth weakened, as did contacts in some business services where customers were cost cutting or pausing investment."
- "Price growth remained subdued across most of the retail sector in a context of strong competition for market share and price-conscious consumers".
- "Contacts were increasingly confident that wage growth was moderating**.** A simple average of the quantitative indications provided would imply wage growth slowing, from 4.3% in 2024 to 3.0% in 2025 and 2.5% in 2026.
- "Contacts who had reassessed their outlook in view of actual or anticipated tariffs expected lower activity and, on balance, higher prices. The latter reflected an increasing expectation that levies imposed by the United States would result in countermeasures, including safeguards to mitigate trade diversion".
- "Some expected increased defence spending to put upward pressure on prices via higher demand for inputs of materials, components and skilled labour".

Key Eurozone Inflation Charts



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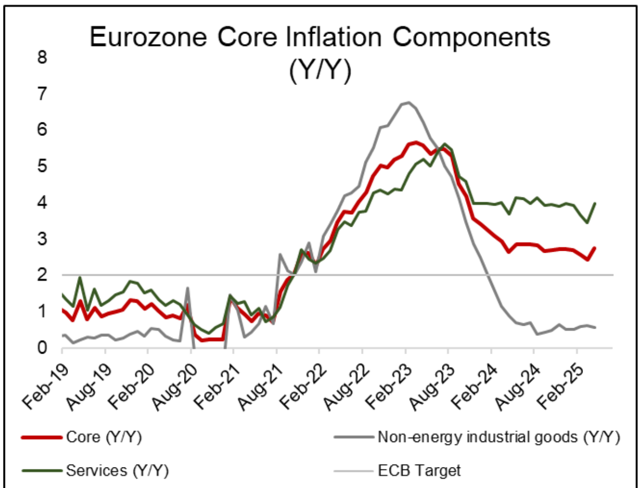
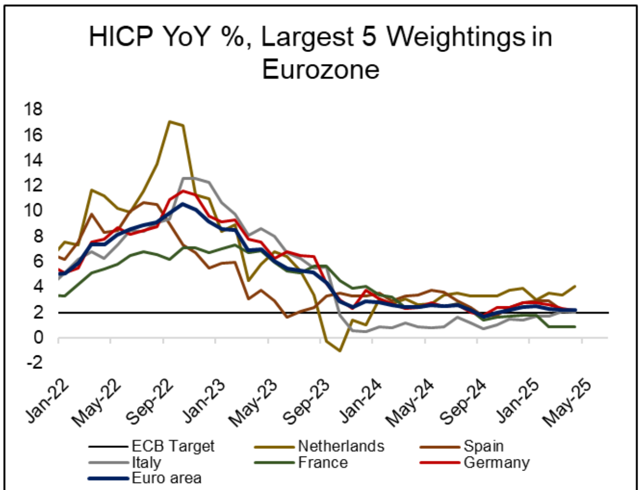


Source: Eurostat, BBG, MNI



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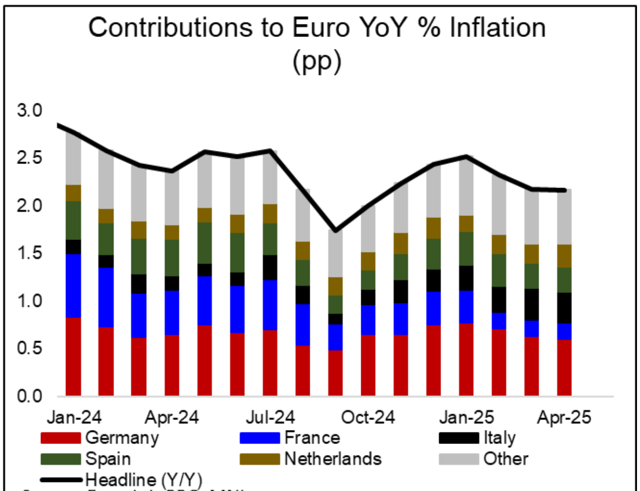

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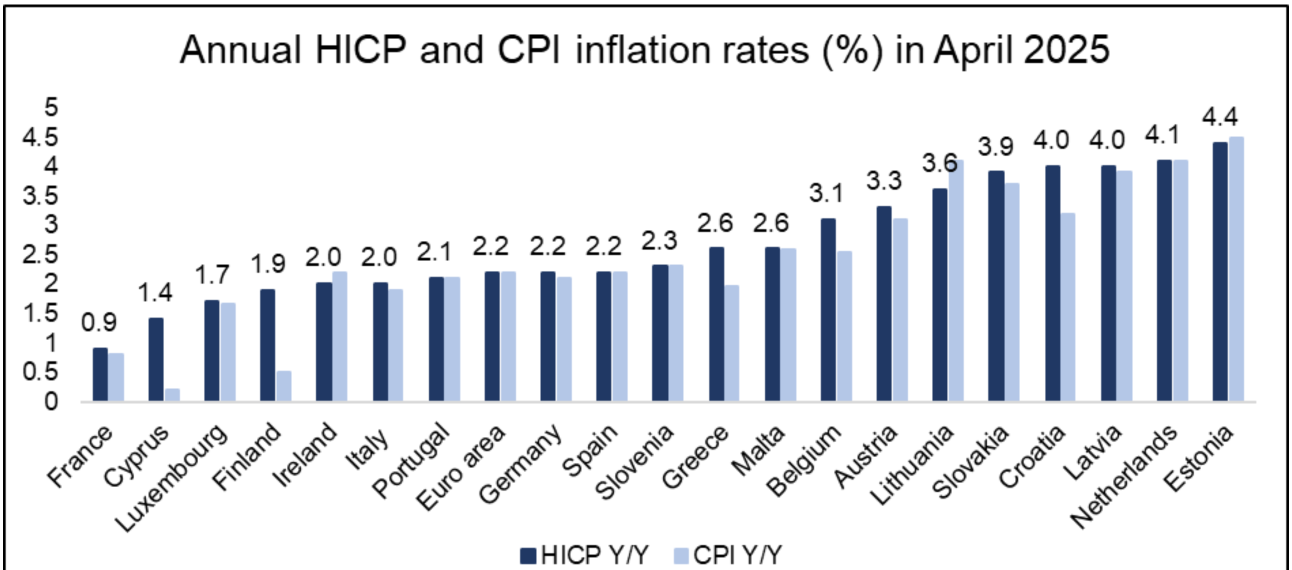
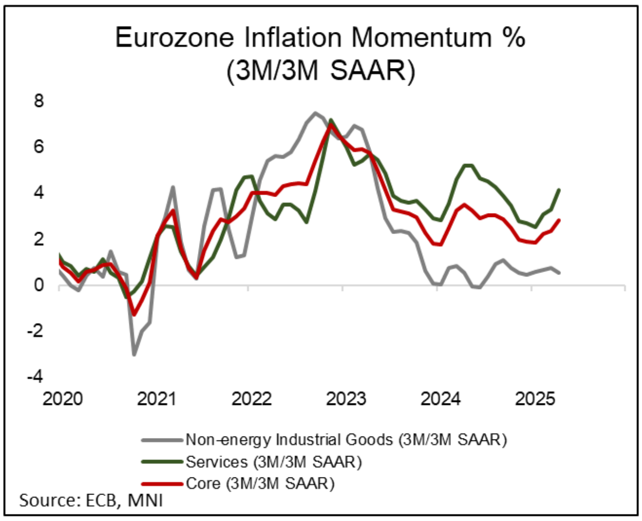
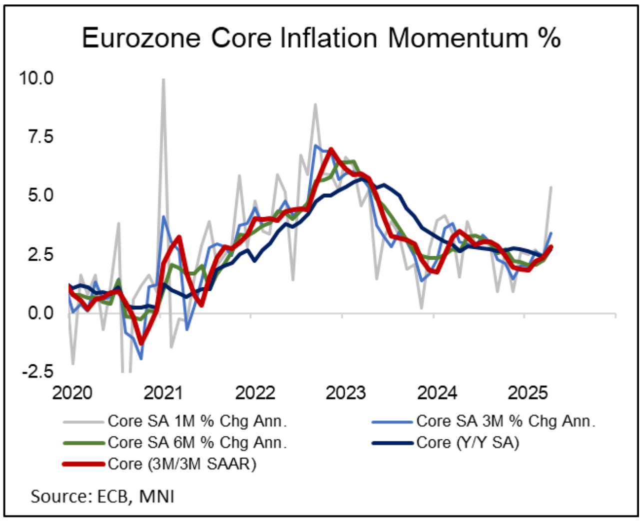
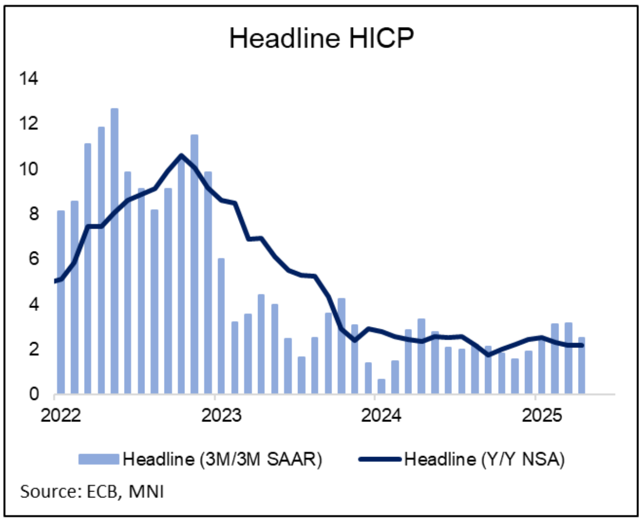


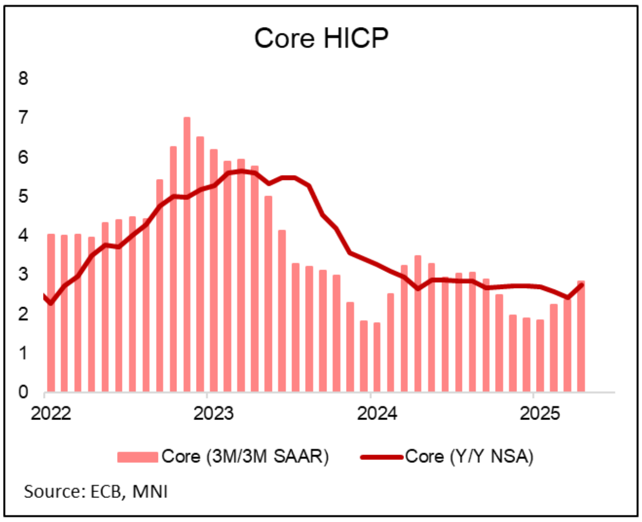
Source: Eurostat, BBG, MNI

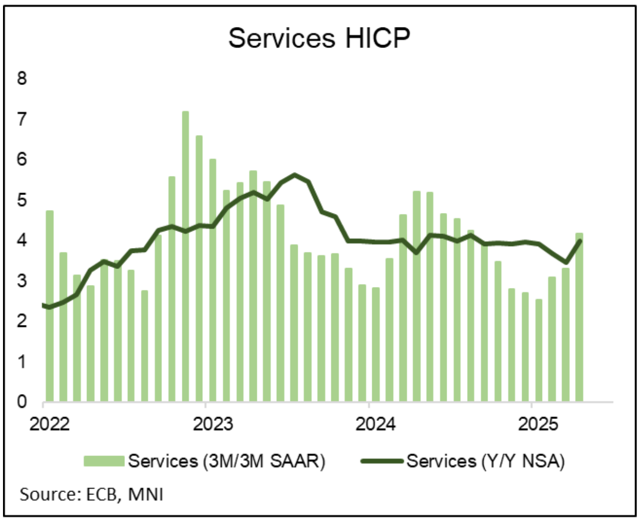
Eurozone - Key Inflation Categories % Y/Y And Momentum (On Seas Adj. 3M/3M Basis)

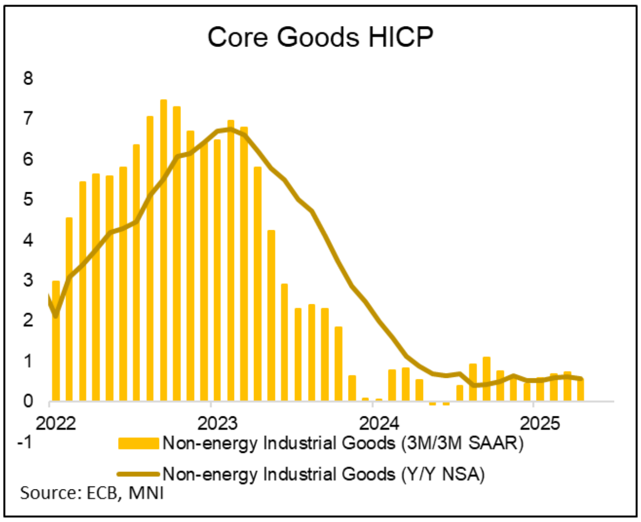




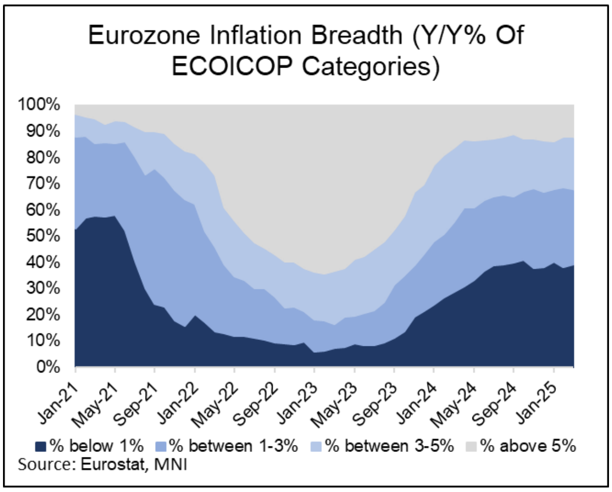


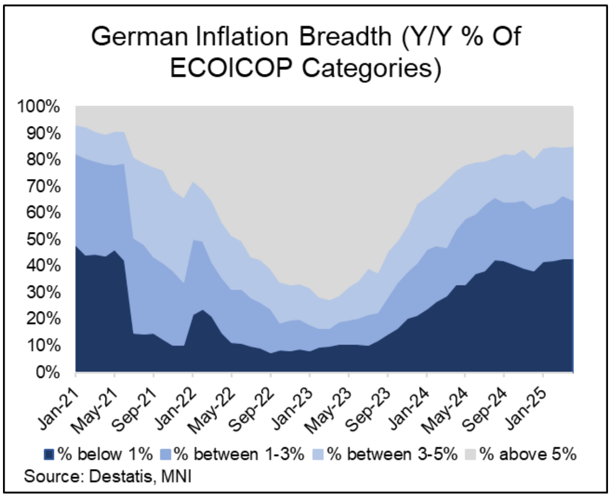


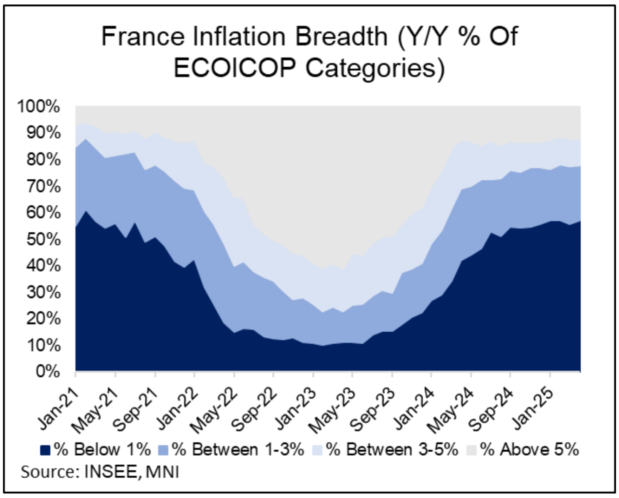


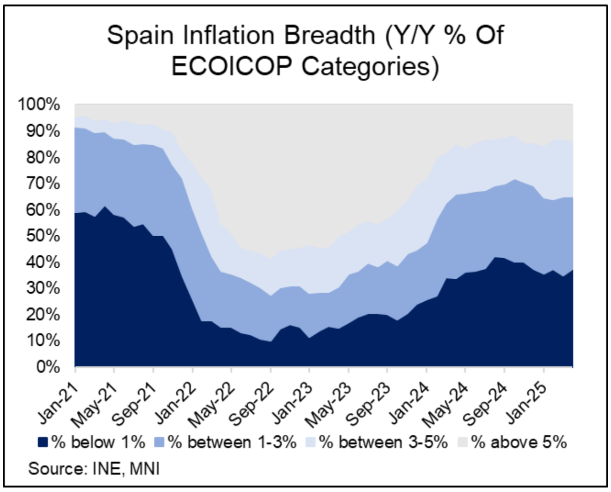


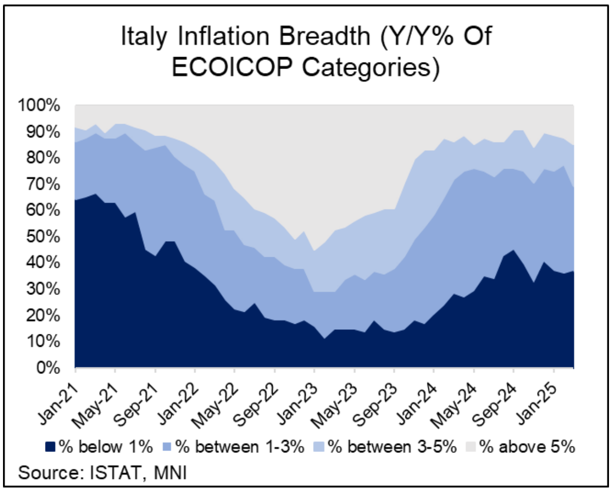
Country-Level Breadth Charts











April HICP Recap: Services Y/Y Eases On Easter Timing

EZ Services Inflation Upwardly Revised in April Final Data

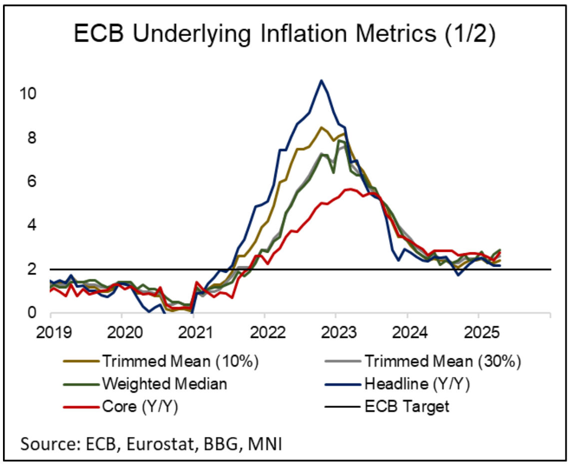
Rounded Eurozone HICP headline / core inflation was unrevised in the final April release. On an unrounded basis, headline came in at 2.17% (2.16% flash) after 2.18% in March. Core meanwhile was 2.75% (2.72% flash, 2.43% in March). In terms of contributions vs March, services adding 0.24pp was broadly outweighed by energy taking away 0.25p, while FAT and NEIG contributions were broadly unchanged.

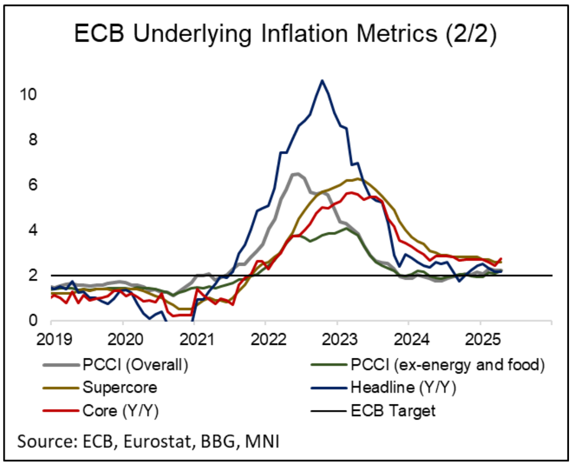
- Services inflation was upwardly revised by 5 hundredths to 3.98% Y/Y (highest since August 2024), bringing the rounded rate to 4.0% - the highest since December 2024 (3.93% flash, 3.45% March). Despite the material April uptick (even the 3.93% flash reading was above all analyst estimates), general consensus is for services inflation to tick down again in the months to come.
- Recall that seasonally adjusted sequential services inflation accelerated in flash March data to 0.67%, the highest since the 0.91% seen in September 2022 and pushed 3m/3m services inflation momentum to an 8-month high of 4.08% (vs 3.31% prior) as it somewhat looks to repeat last year's pattern amidst both *Easter Effects* and residual seasonality concerns. We'll update latest trends here when the ECB updates its seasonal data later today.
- Other categories meanwhile looked mixed:
    - Energy was downwardly revised to -3.56% (-3.47% flash, -0.98% March).
    - Food, alcohol & tobacco (FAT) was little changed at 2.97% (3.00% flash, 2.93% March).
    - Non-energy industrial goods (NEIG) came in at 0.57% (0.58% flash, 0.62% March).

Eurozone Services Uptick Was An Easter Effect

As was suggested in final country-level data over the last week, the April acceleration in Eurozone services inflation was largely driven by Easter effects. Services related to package holidays and accommodation rose to 6.73% Y/Y (vs 3.92% prior), while airfares accelerated to 13.77% Y/Y (vs -4.54% prior). Other services sub-components were mostly steady in April.

- Notably, insurance inflation eased to 7.42% Y/Y (vs 8.78% prior). While the monthly rate of 0.55% M/M was still above the 1997-2019 average of 0.40%, it was well below the 1.81% seen in 2024.
- A reminder that NSA services inflation was revised up to 3.98% Y/Y in April (vs 3.93% flash, 3.45% prior).
- On a seasonally adjusted basis using ECB data, services prices rose 0.73% M/M (vs 0.67% flash, 0.28% prior). That meant 3m/3m momentum accelerated to 4.16% (vs 4.08% flash, 3.31% prior).
- Headline PCCI inflation, which is judged by ECB staff as the best indicator of underlying medium-term inflation pressures, was steady at 2.21%. Other ECB underlying inflation metrics ticked up on the month.
- The ECB Governing Council remain more concerned about the growth outlook when it comes to near-term policy. There is a general expectation for wage pressures to continue easing through 2025, which should filter into weaker services price pressures. Friday's Q1 negotiated wages release is expected to confirm these dynamics.





Sell-Side Analyst Previews

Sorted in Descending Order of April Core HICP Y/Y Forecast

Commerzbank: Core: 2.6%, Headline: 2.0%

- **"**In May, the inflation rate in Germany is likely to have fallen slightly from 2.1% to 2.0%, thus exactly in line with the ECB's target. The core inflation rate is also likely to have fallen, but remains at a higher level. As similar figures are likely to be reported for the eurozone in the coming week, the current trend in consumer prices is unlikely to prevent the ECB from cutting interest rates further".
- **"**We assume that the core inflation rate fell back to 2.6% in May, which means that it is likely to resume its downward trend. The movement in the overall inflation rate is likely to be much smaller, falling from 2.1% to 2.0%, as energy prices are likely to have fallen less than in April compared with the previous year and food prices have risen slightly more strongly".
- **"**Similar figures are likely to be published for the eurozone in the coming week. Here, too, there was probably an "Easter effect" in April (see our briefing), which is why the inflation rate did not fall further. It should now reach the ECB's target, and the core rate is also likely to fall. For the ECB, this would be a strong argument for lowering its key interest rate again at its meeting in early June".

Morgan Stanley: Core 2.57%, Headline 2.08%

- Morgan Stanley think that in May, "services inflation returns to its slow downtrend, leaving Easter volatility behind".
- "We think services inflation will be back to 3.7%Y, its level in February. This reflects two factors. First, airfares and package holidays will ease a touch, but the room for a move down in May, as confirmed by our tracking of Google Trends, seems limited. Second, we expect that the rest of services will continue to slowly soften, at a similar pace as that seen since summer last year."
- "So far, we don't see any indication in producer prices (taken as measures of pipeline pressures) that trade tensions or the appreciation of the euro could push core goods inflation in May in one direction or the other."
- "We expect energy prices (Exhibit 2) to fall in May (-1.1%M)"…"The expected month-on-month drop reflects another decline in fuel prices in line with weekly pump prices in May. But this is not all. Natural gas and electricity prices declined in April, reflecting the significant fall in TTF prices since the start of the year"
- "For May, we expect the monthly rate of food prices to be broadly in line with both its pre-pandemic average and last year (Exhibit 7). This would leave the year-on-year rate stable at 3.0%Y".

Santander: Core 2.48%, Headline 2.08%

- "We expect both core CPI (2.48%) and services CPI (3.72%) to decelerate from last month's levels (2.7% and 4.0%), unwinding some of April's Easter effect. We have revised our services inflation forecasts mechanically higher due to last month's upside surprise".
- "Risks to our headline number are biased to the downside, as our unrounded forecast and the IS fixing show. However, we think that the market is focused too much on lower energy prices and the negative impact of tariffs".

Goldman Sachs: Core 2.46%, Headline 2.01%

- "We see the extent of the Easter-related services spike unwind as the main driver of uncertainty for the upcoming release, with higher volatility in travel- and transport-related components post covid introducing a notable range of outcomes for the May print".
- "While the accommodation services index could develop closely to either the 2019 or the 2023 progression, with a mostly limited impact for the May print (however, more so for later in the year), the airfares component is notoriously hard to forecast due to updated collection methodologies which makes comparability to the pre-2022 trends difficult. Utilizing our equity analysts' European airfares tracker, which points to a limited Q2 spike, we thus expect around a -10%mom nsa print for the transportation by air component in May, with the risks around the forecast seen as balanced"
- "Within core inflation, we expect services inflation to decline to 3.52%yoy and core goods inflation to tick up to 0.59%yoy". "Year-over-year energy inflation will likely rise to -3.3%yoy from -3.6%yoy in April". "Food, alcohol, and tobacco inflation is likely to increase to 3.1%yoy in May".
- "We look for Euro area core inflation to cool more rapidly over the upcoming months, in line with our view that wage growth completes its normalisation over the coming quarters, and that the tariff impact on inflation should be dovish irrespective of the possible EU-US trade negotiations outcomes, coupled with a drag from FX and lower energy prices effects".

Barclays: Core 2.42%, Headline 1.97%

- Barclays think dynamics in the May inflation round "should be driven by services inflation, which we expect to fall roughly back to its March level due to the unwinding of temporary Easter price increases. Across the other components, we expect (1) core goods inflation to remain depressed given easing underlying momentum, (2) energy to stay in deep deflation as past declines in oil prices are being passed-through to consumers, and (3) food, alcohol and tobacco (FAT) inflation to edge up on strong momentum."
- Energy -3.5% Y/Y "due to both fuel and electricity. Fuel inflation should edge up, though still remain deeply negative, as base effects (fuel prices were down 2.3% m/m NSA last May) should marginally outweigh a 2.2% m/m NSA price decrease. This is based on our tracking of pump prices, which in May were, on average, 1.8% below their April level […] expect to see a slight increase in electricity inflation, primarily based on our translation of German electricity futures into the electricity HICP"
- Food, alcohol and tobacco 3.1% Y/Y "based on the fact that momentum in overall food inflation has been building since the beginning of the year. This is also consistent with the EC survey on food and beverage selling price expectations, which correlates well with the HICP and continues to point at growing inflationary pressures. Across components, the uptick in FAT inflation should primarily be driven by processed food."
- Core goods 0.6% Y/Y "momentum has been soft and remarkably stable for some time now […] while momentum in underlying core goods, which exclude semidurable goods, has been drifting lower. In turn, we expect another relatively soft core goods print in May, with broadly stable durable and nondurable goods prices. In contrast, we expect a slight increase in semidurable goods inflation given its above-average recent momentum within core goods.
- Services 3.4% Y/Y "surprised us to the upside in April as we had underestimated the effect of Easter on the volatile holiday-related subcomponents. However, as larger-than-expected price increases during the Easter holiday also imply larger price declines after the holiday, we fade almost all of the April upside surprise to services. In numbers, we expect euro area package holidays and accommodation services to print at only 1.3% m/m NSA and transport services to contract 0.8% m/m NSA, with the latter reflecting a partial reversal of the April airfares increase, which was the strongest monthly increase on record."

UBS: Core 2.3%, Headline 2.0%

- "Decline in headline expected to be driven solely by a 0.4pp decline in core inflation to 2.3% y/y. In contrast, energy and food inflation is likely to rise by 0.4pp to -3.2% y/y and 0.1pp to 3.1% y/y, respectively".
- "Within core inflation, with the Easter boost dropping out, we expect services inflation to ease by 0.5pp to 3.5% y/y. Goods inflation is also likely to ease -0.1pp to 0.5% y/y".
- "At the country level, we expect declines in Germany (-0.3pp to 1.9%), Spain (-0.4pp to 1.8%) and the Netherlands (-0.6pp to 3.5%). In contrast, in France and Italy we expect unchanged prints at 0.9% and 2%, respectively".

Other Previews Without Core HICP Forecasts (Sorted A-Z)

Bank of America:

- "We would expect both headline and core inflation to drop across countries, thanks to some normalization after all the Easter noise and lower energy prices. We see May's headline harmonized inflation at 0.8% yoy in France, 2.0% yoy in Spain and 1.9% yoy in both Italy and Germany".

Daiwa:

- "We expect those [country-level] data to signal a resumption of the recent disinflationary trend, and to confirm that April's vacation-driven pickup in certain services components was merely temporary. Consequently, we expect the national measures of core inflation to reverse close to their levels in March. And with lower auto fuel and household energy prices continuing to add downward impetus to headline HICP rates, we suspect that headline inflation in Germany and Spain, both 2.2%Y/Y on the harmonised measure in April, will be target-consistent".

JP Morgan:

- "One critical aspect of the April Euro area release was the rebound in services and core inflation. In our view, some of this increase is linked to the late timing of Easter which pushed the inflation rate of holiday-related items. Some of this increase is a distortion that should unwind in May. Next week country data, in particular Germany, will be important to assess the fading of this distortion. Through the noise, we expect core inflation to decline in the coming months with services inflation coming down on the back of weaker wage inflation".

Nomura:

- **"**We believe European disinflation remains on track, and we forecast euro area aggregate HICP inflation for May to be in line with the ECB's 2% target. Our forecast is broadly in line with inflation fixings at the time of writing. We believe underlying momentum in services HICP inflation will moderate, and expect some payback in airfares, following the stronger-than-usual April rise. Energy prices likely declined in May, following continued weakness in oil and natural gas prices".

RBC: Headline 2.2%

- "We will be watching closely the services inflation numbers in May since that was where the biggest surprise was in April. The final inflation release for April suggested that volatile factors were at play in April, so it will be interesting to see to what extent they unwind in May. We expect only a partial unwinding since some of the strength in April services inflation reflected an unusually weak March. Our preliminary forecast for euro area HICP is for it to remain at 2.2% y/y in May".

SEB:

- "Contrary to many economies in the Euro Area, German service prices did not surprise as much, hence the expected reversal effect will be more modest in May".
- "In France, the April reading was partly lifted due to Easter effects on recreation and transport. A larger reversal effect is therefore expected in the May numbers".
- "In Spain the Easter impact on services like transport, recreational services and hotels were more pronounce than in other economies. We expect a large part of this to be reversed".

Société Générale:

- **"** We expect either stable or lower total inflation in most countries. And after a spike in services inflation in April due to the timing of Easter, the disinflation should resume in core indices".

TD Securities:

- **Germany:** 2.1% Y/Y. "Though a tick above consensus, we expect German inflation to continue cooling in May, driven by a decline in energy prices and a slow down in core goods. The orderly disinflation path in Europe's largest economy would contribute to a cool down in euro area as a whole. This approach to ECB's inflation target would further placate the Governing Council in delivering the June cut".
