

Pantheon Macroeconomics Datanote: Inflation and Construction, Eurozone

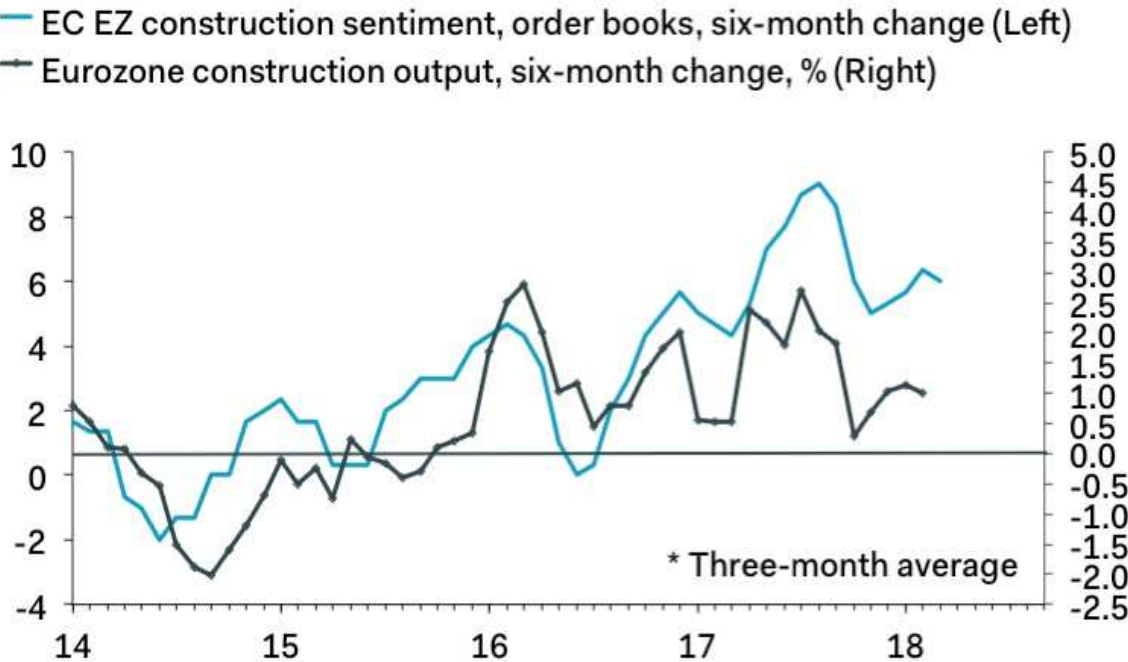
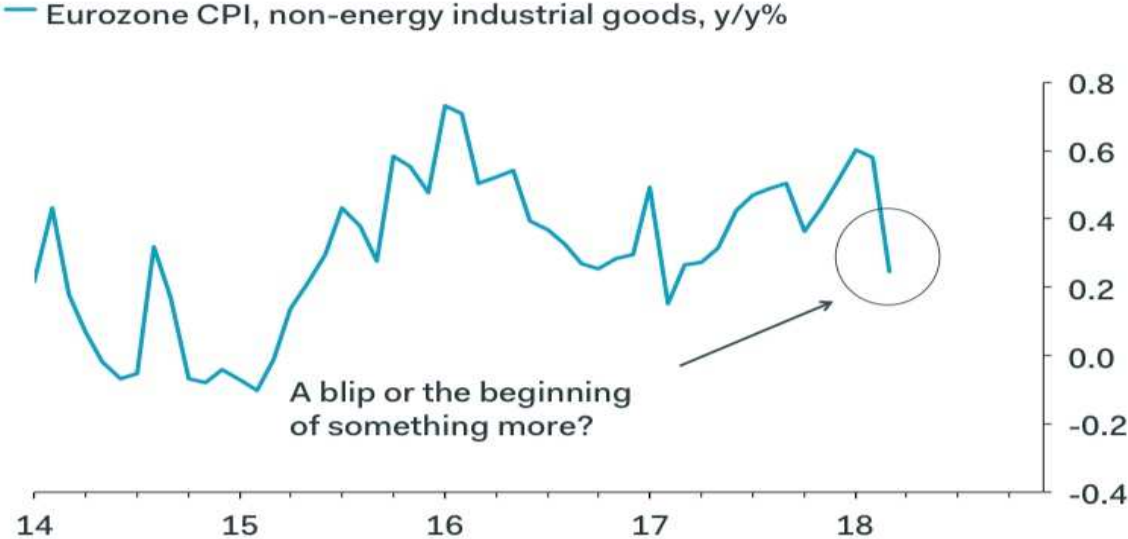
In one line: Headline inflation to rise further; construction slowed in Q1, but should rebound in Q2.

- Inflation in the Eurozone rose to 1.3% year-over-year in March from 1.1% in February, slightly below the consensus and initial estimate, 1.4%.
- Construction in the Eurozone fell 0.5% month-to-month in February. Bloomberg does not provide a consensus on these data. The year-over-year rate fell to 0.4% from an upwardly-revised 6.9% in January. Net revisions to the month-to-month data were +1.2 percentage points.

Headline inflation in the euro area was boosted by a rebound in fresh food inflation and a rise in the rate of increase in services prices last month. Unprocessed food inflation rebounded to +0.8, from -0.9% in February, as base effects from last year's Q1 supply shock faded. Services inflation rose by 0.2pp to 1.5% due to early Easter, lifting prices of airfares and accommodation services. Elsewhere, energy inflation fell marginally to 2.0%, from 2.1% February, but base effects point to an increase in coming months. Finally, non-energy goods inflation fell sharply by 0.4pp to 0.2% as deflation returned to the market for clothes and shoes. The seasonal month-to-month rebound after the winter sales likely were less pronounced than last year. We think goods inflation will rebound, but the lagged effect of a stronger euro points to downside risk due to a lower rate of increase in import prices. Overall, we think headline inflation in the Eurozone will rise to about 2% in the next three-to-six months, and we also think the core rate will edge higher, mainly due to higher services inflation, to about 1.4% at the end of the year.

The construction headline was almost exactly in line with our expectations. The February number was poor, but the significant upward revision of the January headline was a welcome offset. Weather likely played a key role for the sector in Q1. Temperatures were higher than normal in January which means that many sites opened earlier than normal after the holidays, but this tailwind reversed sharply in February and March as temperatures dropped and the snow rolled in. For Q1 as a whole, we think construction output was flat, slowing significantly from a 0.9% rise in Q4. The Q2 data, however, should be much better.

The first chart shows that non-energy goods inflation fell sharply in March. We hope for a quick rebound, but the lagged effect of a stronger euro points to downside risks. The second chart shows that construction production has slowed recently, but the new orders index signals a rebound soon.



 Claus Vistesén
 Chief Eurozone Economist
 Pantheon Macroeconomics
www.pantheonmacro.com
 Twitter: @ClausVistesén
 Direct line: +44 191 2600 308

Pantheon Macroeconomics Ltd is a private company limited by shares registered in England and Wales with registered number 07076751. Its registered office is Quayside House, 110 Quayside, Newcastle upon Tyne, NE1 3DX, United Kingdom and is governed by UK law. Our VAT registration number is 128 0655 20.