New York • London • Boston • Chicago
DECISION ECONOMICS, INC.
Information for Decisions™

Western European Indicators and Insights

April 30, 2012

Andrew Wroblewski
Chief Economist, Eurozone and UK

London
+44 20 7959 3244
awroblewski@decisioneconomicsinc.com

ECB: Pointing to a rate cut?

German data may be more important in ECB considerations than Spanish!

Exceeding most expectations, flash numbers for April nevertheless still saw Eurozone HICP inflation drop 0.1 percentage point to 2.6% Y/Y, an eight-month low. No break-down comes with this flash estimate: details will be forthcoming with final data on 16 May.

Regardless, in the last few Council meetings the ECB has become more wary about inflation, not only no longer pointing to lower wage, cost and price pressures that characterized its thinking in late 2011, but now even starting to mention the need to avoid second-round effects, ie the kind of rhetoric used in the run-up to the hikes seen in the first half of 2011.

However, a change of tone back to the dovish side is likely at the Thursday ECB Council press conference. The weakness in lending data may be important, albeit with the central bank keen to underscore that this is a demand and not a supply issue.

More important will be the real economy numbers seen of late. Much has been made of the recent, weak Spanish numbers, although Q1 GDP, by falling 0.3%, ie no faster than the previous quarter, hardly echoes the damage being portrayed by the further jump in the last batch of unemployment numbers in the country. Regardless, as far as Spanish GDP is concerned the ECB must be thinking that any resilience seen in Q1 GDP data is surely the calm before the storm.

More important in ECB thinking may be the weakness in (some) German data of late, including retail sales data which point to a steeper fall in consumer spending in Q1 than in the previous quarter, in turn, highlighting the risk that Germany may actually have suffered a second successive drop in GDP last quarter, despite upbeat Ifo survey readings. Such data could silence or least tone down the relatively hawkish ECB comments that have been coming from the German contingent on the Council. Indeed, the Council this Thursday could point to the clear (and therefore growing) possibility that rates may have to be cut afresh, with the possibility of a move in June depending on how weak (or not) Q1 GDP due in mid-May proves to be: DE expects a similar drop to that in Q4.