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Western European Economic Indicators and Insights

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UK: Inflation Falls Clearly

Downtrend in Inflation Resumes

Undershooting expectations slightly, *April consumer price inflation fell very clearly, dropping 0.5 percentage point to 3.0% Y/Y, the lowest since end-2009.* Prices rose by 0.6% in M/M terms, meanwhile, boosted by transport costs and indirect-tax induced increases on alcohol. Meanwhile, the Y/Y breakdown showed the fresh and large fall to be a reflection of decreasing price pressures for food (4.2% from 4.6%), clothing (2.4% from 3.7%) and particularly transport where the earlier Easter this year resulted in a swing into the negative in terms of airfare inflation.

As a result, the core rate (which excludes energy, food, alcohol and tobacco) also fell clearly (by 0.4 percentage point) to 2.1% Y/Y.

IMF Suggest More Easing?

Given that inflation is now within a percentage point of target, BoE Governor will now not have to produce another letter explaining the overshoot of the inflation target. Regardless, *given the extent to which the timing of Easter may have affected these numbers, possibly explaining half the drop in the Y/Y rate, perhaps not too much should be read into these numbers*, with BoE worries about the supply side of the economy still likely to be making some MPC members wary about the extent to which inflation will fall further.

Nevertheless, the likes of *the IMF believe that downside economic risks and the lower inflation backdrop provide scope, if not rationale, for more monetary easing*, albeit with perhaps greater focus on a fresh cut in Bank Rate than in additional asset purchases.