

# Spanish headline and core inflation rise again

Spanish inflation rose for the second consecutive month in February. Core inflation also continues to rise. Although we expect a decline in the coming months, this shows that underlying price pressures in the economy are still very strong



Both stronger economic momentum and rising prices are likely to keep Spanish inflation high over the coming months

## Headline and core inflation continue to rise in February

After rising slightly in January, inflation also rose in February to 6.1% from 5.9% last month. Harmonised inflation followed the same move to 6.1% from 5.9% in January. Core inflation reached 7.7% in February from 7.5% last month. Core inflation has now risen continuously for 22 consecutive months. According to the National Institute of Statistics, this recent development can be attributed to the rise in electricity prices this month, as opposed to the decline seen in February last year. Moreover, prices of food and non-alcoholic beverages increased more than in February last year. On the other hand, some factors also put downward pressure on inflation. Prices of fuels and lubricants decreased, in contrast to the increase in February last year. Combined passenger transport prices also remained stable compared to last year.

## Spanish inflation likely to lag ECB target until second half of 2024

Headline inflation is expected to ease in the coming months due to lower energy prices, but this process will be slow. Inflation is fueled by food prices and persistently high core inflation. Companies selling price expectations remain high. Any rise in production costs is only slowly being passed on in higher sales prices, leaving further price increases in the pipeline. The resilient eurozone economy also makes it easier for companies to implement new price increases, which contributes to the persistence of high core inflation. Although the pace and magnitude of the decline in inflation remain highly uncertain and depend on highly volatile energy prices, we expect Spanish inflation to be around 4.3% for the full year 2023, reaching 2.7% by the end of the year. It will probably take until the second half of 2024 for headline inflation to return to the ECB's 2% target.

## Extra interest rate hikes will hamper economic recovery

As we expect the ECB to raise interest rates further in the coming months, economic growth will be hampered, especially in interest rate-sensitive sectors such as real estate and business investment. The monetary tightening is to some extent compensated by the sharp fall in energy prices, supporting consumption. Therefore, we still expect growth of 1.3% in 2023, but as the full impact of interest rate hikes will not be felt until 2024, Spanish economic growth is expected to fall to 0.8% in 2024.