No need to worry about Spain's sharp inflation increase

Headline inflation in Spain increased sharply in April for the second consecutive month in a row. We were expecting it not least because of a sharp increase in energy prices compared to a year ago

Prices are higher for people in Spain

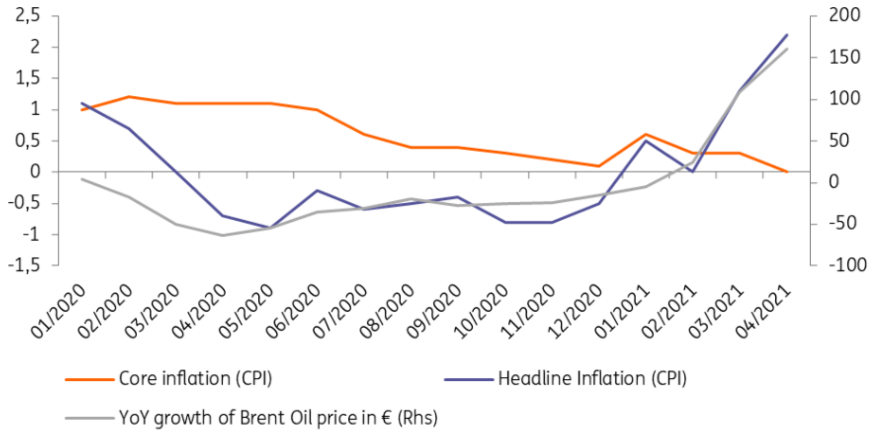
2.2% Spain's CPI inflation for April

1.3% in March

Headline inflation (CPI) rose from 1.3% in March to 2.2% in April. It is the second consecutive month that headline inflation has risen sharply but the reason's the same: Energy prices. Data on the components are not yet available, but the increase in the oil price compared to a year ago makes this obvious. Indeed, the Brent oil price in euros rose by about 160% YoY in April, while in March it grew by 108% YoY.

From next month onwards, we expect headline inflation to come down again, as the energy price impact will start to fade, albeit very slowly. So the sharp increase over the last two months is nothing to worry about.

It is all about energy price inflation



Core inflation (excluding energy, food, alcohol and tobacco) dropped ever further from 0.3% in February and March to zero in April. This implies that the current level of economic activity is not putting upward pressure on prices that are non-energy related. We expect that core inflation is likely to edge higher once the economy reopens. During the last couple of months, prices in the Recreation and Culture and Restaurants sectors and Hotels were dropping. Once the economy reopens, with a more active tourism sector, we expect that this trend will turn. This should push core inflation up.

Given the difficult start of the year, with a postponement of the economic recovery as a result, it is not surprising that the labour market was not able to recover further in the first quarter of 2021. But at the same time, the impact of the surge of infections and corresponding restrictions at the beginning of 2021 was limited. Employment fell by 0.71% (or 137.500 persons) compared to the previous quarter. This is much more limited compared to the second quarter of 2020 when employment fell by 5.5%.

Today's figures look worrying at first sight, but shouldn't be. The surge in headline inflation was expected due to the sharp increase in energy prices, while the weaker labour market figures are explained by the surge of the pandemic during the first quarter. GDP growth figures for the first quarter will be published tomorrow. We expect that the economy will have contracted in Q1 by about 0.5%, but that this will likely be the end of the economic contraction