

Spanish core inflation accelerates to record high of 7% in December

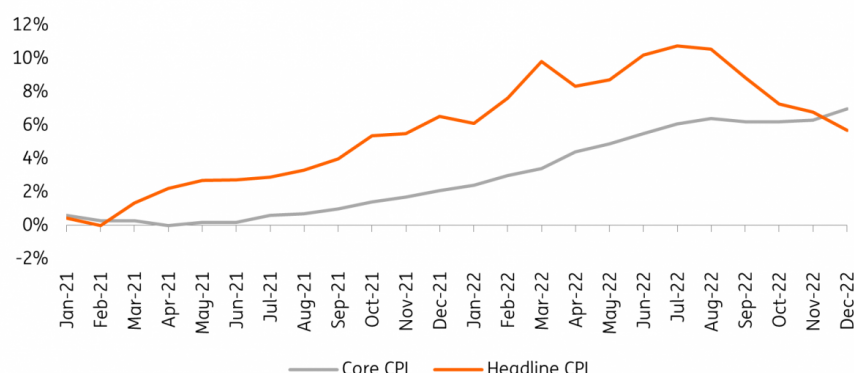
The final inflation figures show that Spanish core inflation strongly accelerated to 7% in December, from 6.3% in November. Although lower energy prices have brought some temporary relief to headline inflation, this shows that inflationary pressures are still very high



Spanish core inflation above headline inflation for the first time

The final inflation figures and details by component revealed by Spain's statistics office INE this morning show that core inflation rose more sharply than expected in December. The core CPI reached 7% in December, a new record, and a strong acceleration from the 6.3% in November. As a result, core inflation is now above headline inflation for the first time. This shows that the underlying price pressures in the economy are still at record levels. The current drop in headline inflation to 5.7% is thus solely due to the recent sharp fall in energy prices, such as electricity and fuels. Thanks to warm winter weather, gas stocks in Europe are above the five-year average, easing some pressure on energy markets. These favourable base effects in the energy component bring some relief to headline inflation.

Spanish core inflation above headline inflation for the first time



Underlying inflationary pressures will remain high

Although the coming headline inflation will fall further thanks to these favourable base effects for energy, inflationary pressures in the rest of the economy will remain high. Besides core inflation, the food component will also continue to contribute positively to inflation figures. The details show that food prices continued to rise further to 15.7% year-on-year in December, from 15.3% the month before. This puts food inflation at its highest level since measurements began in January 1994. Food inflation will also remain high in 2023. Moreover, fertiliser exports were severely disrupted last year, which might also affect global food production in 2023.

In other eurozone countries, favourable base effects in the energy component will cause further declines in headline inflation in the coming months. However, the ECB will not determine its policy based on the more volatile energy prices but will mainly look at whether core inflation is cooling sustainably. It will therefore be careful to announce a policy reversal before core inflation also starts to fall. Moreover, we should not forget that energy prices will rise again later in 2023, especially if a reopening of the Chinese economy drives up demand for liquefied natural gas.

Author

Wouter Thierie

Economist

wouter.thierie@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.