

## Spanish core inflation falls for third month in a row

Spanish inflation fell to 3.2% in May, indicating a resumption of the downward trend in headline inflation after rebounding to 4.1% in April. Core inflation also fell for the third consecutive month, signalling a continued downward trend



We forecast an average inflation rate in Spain of 3.9% for all of 2023.

### Spanish inflation resumes downward trend

Headline inflation fell to 3.2% in May from 4.1% in April. According to the Spanish statistics office INE, the fall in Spanish inflation can be explained by two main factors. First, the fall in fuel prices, which were still rising in May the previous year. And second, the moderation of price increases for food and non-alcoholic beverages also contributed significantly, albeit to a lesser extent, to the overall decline. So, in addition to falling energy prices, headline inflation is increasingly being held back by cooling food inflation. In addition, we see that falling energy and food inflation is also starting to spill over into other parts of the economy. Spanish core inflation, excluding food and energy, fell to 6.1% from 6.6% in April. This is the third consecutive month of falling core inflation and it is now 1.5 percentage points below May's peak of 7.6%.

## Disinflationary pressures are mounting

Although inflationary pressures are still very high, disinflationary pressures are mounting. Producer price inflation registered a 4.5% fall in April, which is expected to ease inflationary pressures further, especially in the manufacturing sector. The big question, however, is when inflation in the services sector will start to fall. Service sector inflation remains stubbornly high for now. Although detailed data for May is still pending, it was found that service sector inflation stood at 4.2% in April, only slightly lower than the peak level of 4.9% recorded in August 2022. Nevertheless, it is important to point out that price growth expectations of service firms have fallen significantly since the beginning of the year. Consequently, service sector inflation is expected to start cooling structurally for the first time, especially after the summer months.

## Inflation outlook for the rest of 2023 and 2024

We forecast an average inflation rate of 3.9% for all of 2023. The expected slowdown in inflation can be attributed to lower energy prices and cooling food inflation, which will also dampen the pass-through effect of these components to the prices of other goods and services. Furthermore, government support measures such as the VAT reduction on certain food products have been extended until the end of the year, which also helps to slow down the inflation rate. On the other hand, after a significant fall in real income in 2022, wage growth will pick up this year, putting upward pressure on inflation. Moreover, the Spanish government raised the minimum wage by 8% earlier this year, which will further fuel wage growth. For 2024, we forecast an average inflation rate of 2.7%, which is slightly higher than our forecast of 2.5% for the euro area. This forecast assumes that most energy support measures will be phased out next year, which is likely to push Spanish inflation above the eurozone average again.