

## Spanish headline inflation remains flat, but should rise further over winter

Spanish headline inflation stabilised in October at 3.5% but is likely to resume its upward path in the coming months. Core inflation continued its downward trend, cooling markedly from 5.8 to 5.2%



Upward base effects, higher fuel prices and the expiry of government measures to mitigate the impact of the energy crisis will put upward pressure on headline inflation over the coming months

### Spanish core inflation continues its downward trend

According to the flash estimate published this morning by Spain's Statistics Service, inflation came in at 3.5% in October as expected, the same level as in September. On a monthly basis, inflation rose 0.3% in October. On the one hand, electricity prices exerted upward pressure on the inflation figure, falling less this month than a year ago. On the other hand, declining fuel prices and a slower rise in food prices exerted downward pressure on the inflation rate. The harmonised inflation rate rose slightly to 3.7% in October from 3.5% last month.

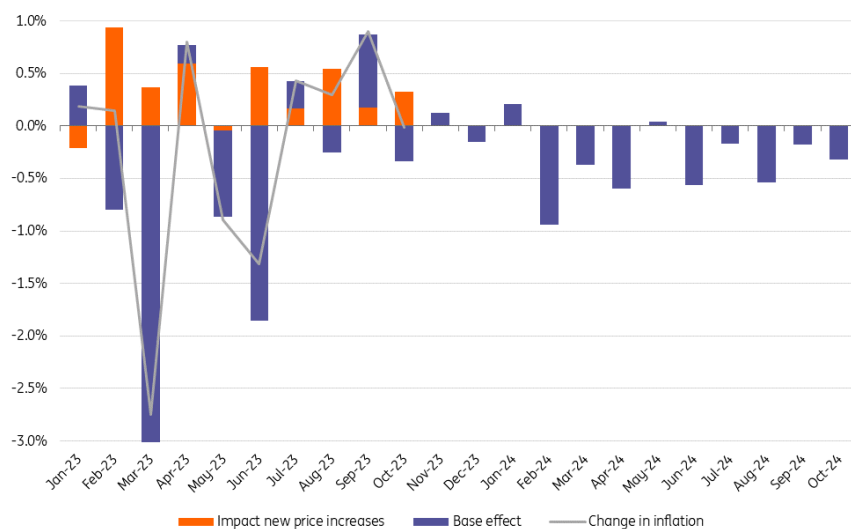
Core inflation, excluding food and energy, came in at 5.2%, significantly lower than September's 5.8%. This decline suggests that underlying inflationary pressures in the economy continue to ease. [Last week](#), it was also revealed that the Spanish economy slowed substantially in the third quarter. A further slowdown in economic growth will help underlying inflation to fall further in the months ahead.

## Inflation is likely to rise further during winter months

The question now is what inflation will bring over the coming months and into next year. Due to recent strong swings, base effects and new inflationary impulses have had a large impact on inflation developments. This is because the year-on-year development of the consumer price index is influenced not only by the change in the price index for the month in question but also by last year's starting point or base value. The chart below shows the change in headline inflation and breaks it down between this base effect and the impact of the new price increases. Favourable base effects in the first half of this year helped to lower headline inflation sharply. Since early summer, we have entered a new phase where favourable base effects play less strongly, allowing headline inflation to pick up again.

We expect Spanish headline inflation to rise further in the coming months. Upward base effects, higher fuel prices and the expiry of government measures to mitigate the impact of the energy crisis will put upward pressure on headline inflation. On the other hand, a further cooling of the economy will cause underlying inflation to continue its downward trend. For this year, we expect an average inflation rate of 3.7%. For 2024, we assume an average inflation rate of 3.4%. Higher fuel prices due to ongoing tensions in the Middle East and more second-round effects pose upside risks to our forecast.

**Fig. Contribution to the change in inflation**



Source: INE, calculations ING