

Spanish headline inflation rises for second month in a row

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Gas prices have been rising in Spain

Rising fuel prices main driver behind uptick in headline inflation

Spanish headline inflation rose to 2.6% in August from 2.3% in July, the second consecutive increase. Core inflation, excluding volatile food and energy prices, did cool slightly to 6.1% in August from 6.2% the month before. The strong tourism season has probably kept core inflation rather high.

According to the Spanish statistics agency INE, the increase in headline inflation was mainly driven by a rise in fuel prices. In turn, electricity prices exerted downward pressure on the headline inflation rate as they rose less than in August last year.

Rising oil prices push headline inflation higher

Rising oil prices are putting upward pressure on inflation, which could intensify in the coming months. Since the beginning of summer, oil prices have risen sharply. While a barrel of oil was worth \$72 at the end of June, the price has now risen to \$86. Oil prices could rise further to above

\$90 a barrel by the end of this year. Much, of course, will depend on how global oil demand evolves in the coming months. If the Chinese economy continues to languish, oil demand may weaken again.

The US economy also remains an uncertain factor. Most analysts were expecting a sharp slowdown of the American economy on the back of the interest rate hikes, but it has been holding up well so far.

Inflation likely to rise further

We expect headline inflation to stabilise in the coming months. Gas prices rose further in September last year, which creates a favourable base effect for this year's inflation. On the other hand, rising oil prices and expiring inflation-inhibiting measures may cause headline inflation to edge higher. Inflation could still increase at the start of 2024 before moving back towards 2%. For the whole of 2023, we assume an average inflation rate of 3.6%, and 2.7% for 2024.