

Spanish headline inflation spike is no cause for concern

Spanish headline inflation jumped to 2.4% in November, largely due to base effects. Core inflation, excluding food and energy, edged down to 2.4% from 2.5%, supporting the notion that underlying inflationary pressures in the economy are continuing to ease. Consequently, we expect inflation to trend downwards in the coming months



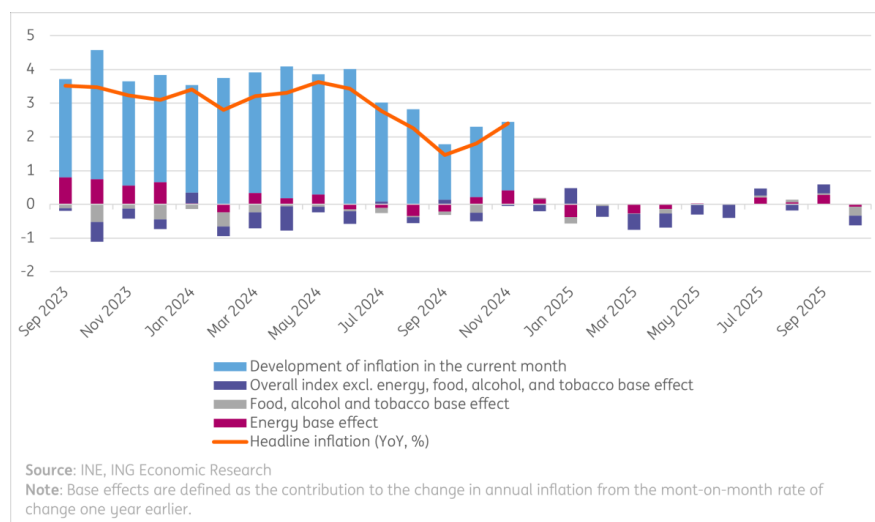
Energy base effects drove headline inflation in Spain in November

Base effects drive November's headline inflation increase

The final inflation number published this morning by Spain's Statistics Service came in at 2.4% for November, matching the earlier flash estimate and in line with expectations. This marks a significant increase from October's 1.8% inflation, despite a decrease in monthly inflation to 0.2% from 0.6%. This apparent contradiction can be explained by the base effect, where the inflation rate from the same period last year drops out of the year-over-year comparison. In November 2023, a sharp decline in energy prices (-0.4% contribution to inflation) was not matched by this November's 0.2% energy contribution to inflation, making the base effects a major factor in this month's inflation figure (See chart below).

Additionally, considering that last month's base effect impacted the inflation number adversely, it becomes clear that inflation is trending in the right direction—downward—despite the headline figure suggesting otherwise. Core inflation, which excludes food and energy, edged lower to 2.4% from 2.5%, supporting the notion that underlying inflationary pressures in the economy are continuing to ease.

Decomposition of headline inflation: base effects and monthly inflation developments



Service inflation evolves positively

Zooming in on the drivers of this month's inflation, we see that upward pressure mainly came from goods prices, which increased to 1.7% year-on-year (YoY) from 0.6% in October. Base effects played a role, but clothing and footwear also contributed significantly with a 4.2% month-on-month (MoM) increase. Service inflation remained steady at 3.3% YoY, showing a favourable downward trend in recent months. With the peak tourist season over, prices in the recreation and culture sectors, as well as in hotels, cafes, and restaurants, have been decreasing. The three-month-over-three-month (3Mo3M) inflation rate in the service sector stands at -1.1%.

Inflation outlook

The upward contribution of base effects to headline inflation, driven by last year's energy price declines, is nearly exhausted. This sets the stage for more subdued inflation numbers moving forward. Notably, base effects are expected to predominantly exert a negative influence on inflation in 2025, with particularly strong negative contributions anticipated between February and April (see also Figure above). Our projection for harmonised inflation remains at 2.9% for 2024, while we expect headline inflation to decrease and stabilise around 2.2% over the next year.

Upward risks are increasing energy prices and the potential inflationary impacts of US economic policy under the new Trump administration. This is likely to affect Spain to a lesser extent, however, given Spain's lower exposure to the US compared to the EU. Spain exported goods equivalent to 1.26% of its GDP to the US in 2023 and imported goods equal to 1.64% of its GDP, whereas the overall EU exposure was 2.9% of GDP for exports and 2% of GDP for imports.

Author

Ruben Dewitte

Economist

+32495364780

ruben.dewitte@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>.