Spanish inflation accelerates again, piling pressure on ECB

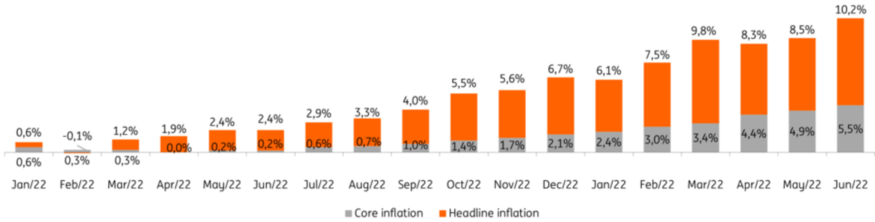
Spanish inflation surprisingly rose to 10.2% in June from 8.7% last month. Rising core inflation puts further pressure on the European Central Bank

Source: Shutterstock

Spain's 12-month inflation surpasses 10% in June

In June, consumer prices rose by 10.2% year-on-year (HICP inflation 10%) from 8.7% in May, bringing inflation to its highest level since 1985. The acceleration is mainly driven by a rise in fuel prices and food. Hotels and catering establishments saw strong price increases compared to June last year. Core inflation, excluding the more volatile energy and food prices, rose to 5.5% year-on-year from 4.9% last month.

Year-on-year change in CPI and core inflation in %



Source: Refinitiv, ING Research

New figure puts extra pressure on the ECB

The increase is much stronger than expected (the market consensus was only 8.7%), which increases the pressure on the ECB to tighten monetary policy more decisively. At yesterday's ECB forum in Sintra, Portugal, President Christine Lagarde confirmed that the central bank will stick to its approach of raising interest rates by 25 basis points in July. If the rise in other eurozone countries is also much stronger than expected, it will increase the pressure on the ECB for a more substantial rate hike in July. And it raises the likelihood of a 50bp rate hike in September, too. Spain is the first country in the eurozone to come out with its inflation figure for June. Germany will follow this afternoon.

Sanchez government has EUR 9 billion plan to ease inflation pain

Last week, the Spanish government announced many measures to mitigate the impact of high inflation on the population. The total plan has a price tag of EUR 9 billion and includes the following measures:

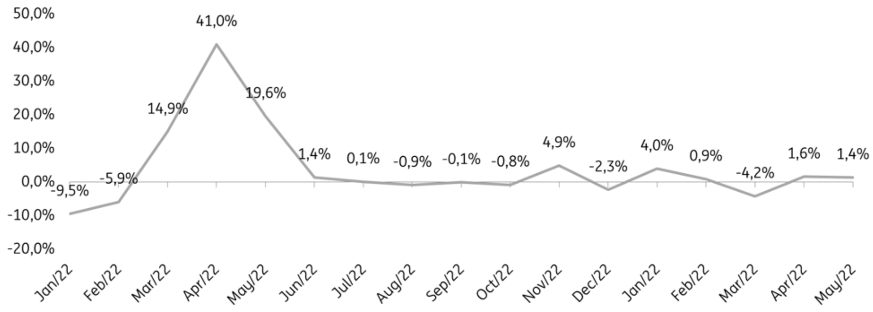
- VAT reduction on electricity to 5% from 10%
- Price cut on monthly public transit by 50%
- Cheque of 200 euros for the most vulnerable households
- The 20 cent per litre subsidy on gasoline has been extended
- Limiting price increases of gas and butane

These measures will dampen inflation in the second half of 2022. In addition, the Iberian mechanism to curb gas prices and reduce electricity bills will put further downward pressure on the energy component of inflation in the coming months.

Spanish retail sales rise 1.4% YoY in May

We expect Spanish inflation to be 7.2% for the full year 2022 and to fall to 3.1% in 2023. Retail sales in Spain rose again by 1.4% YoY, following a 1.6% increase last month. In March, right after the start of the war in Ukraine, consumer confidence took a hit but has since recovered, supporting private consumption. While growth risks are definitely skewed to the downside, the Spanish economy might still benefit in the short run from a strong revival of tourism in the country.

Year-on-year change in retail sales in %



Source: Refinitiv, ING Research

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