Spanish inflation continues to cool in September

Spanish headline inflation continued to slow down in September. The further cooling of core inflation is particularly relevant for the ECB, as it may move towards target more quickly. Inflation is expected to hover around 2% in the coming year but upside risk remains

Recent developments in Spain's inflation story have mainly been driven by the fall in fuel prices and, to a lesser extent, the decrease in food and electricity prices

A further fall in Spanish core inflation is good news for the ECB

Spanish inflation fell to 1.5% in September from 2.3% in August, according to initial inflation figures released this morning by Spain's statistics office INE. This decline exceeded consensus expectations. The HICP also fell to 1.7% from 2.4% last month.

The evolution is mainly driven by the fall in fuel prices and, to a lesser extent, the decrease in food and electricity prices compared with September 2023. Recreation and culture also contributed to the easing. Core inflation, excluding food and energy, also fell to 2.4% from 2.7% in August. The continued decline in Spanish core inflation in September is good news for the European Central Bank as it shows that underlying price pressures continued to ease in September, helping the ECB move closer to its target inflation rate.

Headline rate to hover around 2% this year, but several factors could exert upward pressure

We expect headline inflation to hover around 2% over the next year. This trend is largely driven by the ongoing decline in food and transport inflation.

However, several factors could exert upward pressure on inflation. The Spanish economy has a more positive growth outlook compared to the eurozone as a whole, and improving consumer sentiment might allow room for price increases. Today, year-on-year GDP growth for Spain was revised up from 2.9 to 3.1% for the second quarter of 2024. Selling prices in both the manufacturing and service sectors are expected to rise, as an increasing share of Spanish companies plan to increase their prices in the coming months.

Additionally, the proposed reduction in working hours from 40 to 37.5 hours, which the current Spanish government is committed to, could increase company costs if not accompanied by sufficient productivity improvements. If demand is strong enough, this could result in further upward pressures on inflation.

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