

Spanish inflation cools sharply in February, but further downside potential limited

Spanish headline inflation fell strongly in February. The further cooling of core inflation is positive news for the European Central Bank. Nevertheless, there are several factors standing in the way of a return to the 2% inflation target this year



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Further fall in Spanish core inflation good news for ECB

According to figures released this morning by Spain's statistics office INE, inflation fell to 2.8% in February from 3.4% in January. The HICP also fell to 2.9% from 3.5% last month. The decline was mainly caused by a cooling of electricity prices and a stabilisation of food inflation after sharp price increases in February last year. Still, higher fuel prices did exert some upward pressure on the headline inflation rate. Core inflation, excluding food and energy, also fell to 3.4% from 3.6% in January. The further decline in Spanish core inflation in February is good news for the ECB as it shows that underlying price pressures continued to ease in February.

Spanish headline inflation to hover around 3% this year

We expect inflation to continue hovering around 3% this year. Although sales price expectations in the industrial sector have fallen in recent months, more Spanish service companies plan to raise prices again. Sales price expectations have been on the rise again for several months and rose to their highest level in a year in February. Continued high service inflation poses an upside risk to our inflation forecast. On top of that, the unwinding of government measures to moderate high energy prices may also put upward pressure on inflation. Both factors will prevent inflation from returning to the ECB's 2% target this year. Average inflation is expected to reach 3% this year and 2.3% in 2025.

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