

## Spanish inflation edges higher again

Spanish headline inflation rose for the third consecutive month. The flash estimate for headline inflation came in at 3.5% in September compared to 2.6% in August. Core inflation fell to 5.8% from 6.1% last month



### Negative base effects push headline inflation higher

Spanish headline inflation rose to 3.5% in September from 2.6% in August, according to figures released this morning by Spain's statistics service INE. The harmonised inflation rate rose to 3.2% in September from 2.4% in August. This rise was mainly driven by less favourable base effects as energy prices fell sharply in September last year. Electricity prices fell strongly last year, while they rose in September. Increased fuel prices also exerted upward pressure on the inflation rate.

### Core inflation falls to 15-month low

On a more positive note, core inflation cooled further in September to 5.8% (from 6.1% in August), which is its lowest level since June 2022. Although negative base effects for the energy component will keep headline inflation at around 3.5% in the coming months, core inflation will continue to trend down. Spanish producer prices came in at -10.0% in August. In addition, fewer service companies are planning to raise prices further in the months ahead. And with the tourism season also coming to an end, inflationary pressures in the service sector will cool.

The biggest question mark for the inflation outlook is the evolution of fuel prices. Oil prices have risen sharply since the start of summer and briefly reached \$95/bbl last week. As the market will be in deficit for the rest of the year, we expect oil prices could rise above \$100/bbl in the coming weeks. The question remains how long oil prices will remain at these high levels. If, as we expect, it is a temporary uptick, the impact on our inflation outlook will be fairly moderate. The danger though is that if oil prices stay high for longer, companies will increasingly pass on these higher fuel prices, causing it to trickle down to core inflation again.