

## Spanish inflation falls for the third consecutive month

Spanish inflation fell in September to 7.3% from 8.9% in September, marking the third consecutive month of decline. The main driver is the fall in the energy component



### Spanish inflation falls to 7.3% in October

Spanish inflation fell to 7.3% in October from 8.9% a month earlier. This is now the second month in a row in which inflation has fallen. Core inflation, excluding more volatile energy and food prices, remained flat at 6.2%. The decline in headline inflation is mainly due to a drop in energy prices. This translates into a significant drop in the energy component. Clothing and footwear prices also rose more moderately than last year, reducing headline inflation, albeit to a lesser extent. From 1 October, the Spanish government reduced VAT on gas from 21% to 5% to soften the inflation shock. However, according to our calculations, this had only a marginal effect on the CPI of 0.1 percentage point.

### Many factors ease inflationary pressures, but the decline will be very gradual

There are many structural factors easing some of the pressure on inflation. Many commodity

prices have already fallen sharply from their peak levels a few months ago. Container transport prices have also fallen significantly, and supply chain problems continue to ease. These factors point to less inflationary pressure in the pipeline. Much will also depend on the development of energy prices. These have recently fallen sharply from the peak in August thanks to favourable weather conditions, but the question is how long this will last when winter really starts. Due to all these factors, producer price inflation has also already fallen from 47% in March to 36% in September but is still very high.

This ensures that transmission to consumer prices also starts to weaken, and that will continue as the economy slips into recession. Cooling demand will continue to ease inflationary pressures as it will become more difficult for companies to pass on higher prices to the end customer. Although still historically high, the number of companies planning to raise prices further also shows a downward trend in a wide range of sectors. Price selling expectations only continue to edge higher in food and consumer goods. This shows that inflationary pressures will remain high in the coming months and only very gradually start to ease. For the full year of 2022, we forecast inflation to reach around 8.7%. In 2023, inflation will gradually start to come down, reaching 4.4% in 2023.