

# Spanish inflation falls sharply in September

Spanish inflation fell in September to 9% from 10.5% in August, marking the second consecutive month of decline. These figures fuel hopes that the peak in inflation is now behind us



We forecast an average inflation rate in Spain of 3.9% for all of 2023.

## Spanish inflation falls for the second consecutive month

Spanish inflation fell to 9.0% in September from 10.5% 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, also fell slightly to 6.2% from 6.4% last month.

The decline in headline inflation is mainly due to base effects that are starting to kick in. We are now comparing energy prices to a period when energy prices started to rise in 2021. Increasing base effects will further weaken year-on-year comparisons. Encouragingly, core inflation has also cooled slightly, suggesting that the strength of second-round effects is waning, mitigating the risks of entering a wage-price spiral. In the coming months, the cooling demand will ease inflationary pressures as it will become more difficult for companies to pass on new price increases to the end customer. Nevertheless, inflation will remain high until the end of the year. For the whole of 2022, we forecast inflation to come out around 9%. In 2023, inflation will gradually start to come down, reaching 4.5%. From 1 October, the Spanish government will reduce VAT on gas from 21% to 5% to

soften the inflation shock. However, this will have only a marginal effect on the CPI. According to our calculations, the VAT cut on gas will reduce inflation by only 0.1 percentage point in October.

## **Despite cooling off, ECB will continue its policy of interest rate hikes**

Despite the cooling trend, inflation remains historically high across the eurozone. Therefore, the current high inflation figures are unlikely to prompt the ECB to ease its monetary tightening policy. Judging from ECB officials' latest speeches, their first priority is to reduce inflation as soon as possible, rather than looking at inflation expectations or medium-term inflation. A 9% inflation rate is still well above the ECB's 2% target. Even with an upcoming recession, we think it likely that the ECB will opt for another 75 basis point rate hike in November as well.