

## Spanish inflation up again as core inflation strengthens

Spanish inflation rose again to 5.8% in January, from 5.7% in December. The further cooling in gas and electricity prices was completely offset by a further rise in core inflation to a new record of 7.5% from 7% last month



### Spanish inflation rebounds to 5.8% in January, due to a further acceleration of core inflation

Spanish inflation rose slightly to 5.8% in January from 5.7% in December. On a monthly basis, inflation fell 0.3% compared to December. Harmonised inflation rose to 5.8% year-on-year in January from 5.5% the month before and fell 0.5% month-on-month. The increase in headline inflation was mainly because fuel prices rose more strongly, and clothing and footwear prices fell less than in January last year. A further cooling in energy inflation, on the other hand, put some downward pressure on headline inflation. The removal of the state subsidy on fuel retail prices will also have exerted some downward pressure.

On the other hand, core inflation, excluding food and energy, rose further from 7% last month to 7.5% in January. Core inflation continues to rise worryingly strongly, showing that underlying price

pressures in the economy are still very high. The current figures may also be biased because this month the weightings of the various components in the inflation basket were updated and several methodological changes were made. It will be necessary to wait for the final figures by component to estimate the impact of these changes.

## Lower energy prices drive core inflation higher

The headline inflation rate is affected by two opposing drivers. On one side are lower energy prices exercising some downward pressure on headline inflation. Thanks to warm winter weather, gas stocks are still at very high levels despite reduced imports. As a result, there is growing optimism that we will get through next winter comfortably as well, allowing gas and electricity prices to ease. On the other hand, underlying price pressures in the rest of the economy remain very high. High core inflation shows that there are still very many pass-through effects at play. Food inflation also remains stubbornly high. The number of food producers planning to raise their prices further has barely fallen from its peak levels. Another factor is that the Spanish government has launched several support packages to help families in this energy crisis. One drawback of these measures is that they may prolong inflationary pressures.

The sharp fall in energy prices brings some relief to headline inflation, but inflationary pressures in the rest of the economy remain worryingly high. Unless energy prices strongly rebound, falling energy prices will further cool headline inflation. The big question remains when core inflation will peak. Current figures do not yet point to a cooling. With the economy doing better than expected, it is also easier for companies to pass on new price increases than if we had fallen into a severe recession. We expect core inflation to remain stubbornly high for some time before it too begins its downward trajectory. This is likely to motivate the ECB to continue its tightening cycle. The ECB will not let its policy decisions depend on sharply fluctuating energy prices. We will probably also need to see a sign that core inflation is permanently falling before it will soften its tone.