

29 November 2022

Article

Spanish inflation fell again sharply in November

Spain's inflation figure fell again sharply in November and is now already four percentage points below its peak level in July. The decline will continue in the coming months



Content

- Spanish inflation falls for the fourth consecutive month
- Spanish inflation now significantly below eurozone average
- The light at the end of the inflation tunnel is getting brighter

Spanish inflation falls for the fourth consecutive month

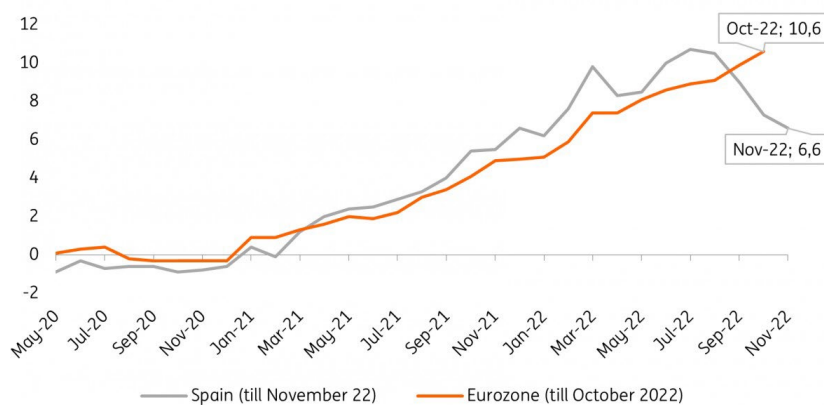
Spanish inflation was 6.8% year-on-year in November, down from 7.3% in October. Over the month, consumer prices fell by 0.1%. The harmonised index was 6.6%, down from 7.3% in October. This development was mainly due to a fall in fuel prices last month, while they rose in November last year. Also, price increases for clothing and footwear were more moderate last month than in November 2021.

Spanish inflation now significantly below eurozone average

Spanish inflation has generally been above the eurozone average since the beginning of the year, but has fallen sharply since peaking at 10.7% in July. The weight of food in Spain is much higher than the eurozone average, which

turbocharged the sharp price increases within this component. Hospitality also contributed more to price increases than the eurozone average, through a combination of faster rising prices but also a greater weight in the inflation basket. After its peak level, Spanish inflation has fallen sharply, making it unique in the euro area. Energy inflation has fallen sharply and is well below the eurozone average. Energy prices in Spain rose sharply in autumn 2021, making the year-on-year comparison much weaker this year. The VAT cut on gas and electricity has also eased energy inflation. Details by component for November are not yet available, but October data showed that electricity inflation turned negative during the month (-15.4%) while gas inflation also fell sharply to 13.3% in October from 24.3% a month earlier. This decline will manifest itself further in the coming months.

Spain's inflation slowdown has set in earlier



Source: INE, Eurostat

The light at the end of the inflation tunnel is getting brighter

Price pressures higher up the production chain are starting to ease. Both commodity prices, freight costs for transport, and factory prices are starting to fall sharply from their recent peak levels. Last week, Spain's statistics office INE announced that producer prices fell again in October. While producer price inflation was still 42.9% in August, it fell to 26.1% in October, its lowest level since September 2021. It is also becoming increasingly difficult for companies to implement new price increases as demand has fallen and inventories have risen sharply.

Inflation will continue to normalise in 2023, but it will probably take until 2024 before inflation hovers around 2% again, which is the ECB's target. The development next year will depend on several factors, such as the price of energy and other inputs on international markets, the fall in demand, the euro-dollar exchange rate, and the speed at which falling prices higher up the production chain lead to lower prices for consumers. We expect inflation to reach 4.4% on average next year.

Wouter Thierie

Economist

wouter.thierie@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("**ING**") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group NV and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice. The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions. Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is deemed authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. The nature and extent of consumer protections may differ from those for firms based in the UK. Details of the Temporary Permissions Regime, which allows EEA-based firms to operate in the UK for a limited period while seeking full authorisation, are available on the Financial Conduct Authority's website. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.