Disinflation

The inflation rate has fallen below 2.0% in Spain. It is still too early to declare the inflationary shock over, but the figure announced for June (1.9%, to be precise) could mark the beginning of a new phase for the Spanish economy. Unlike what has happened historically, while most developed economies are still enduring rapid price increases (take, for instance, the 5.5% in the euro area or the 4.0% in the US), it appears that this time the Spanish economy is one step ahead and is already showing moderate inflation rates. The coming months will be key for confirming that this is not merely a temporary respite. However, if this new trend is confirmed, the implications will be very positive.

There are multiple indications to suggest that inflation may be entering a new phase, but three stand out. Firstly, the factors that drove prices to increase in the first place have now faded. Oil and gas prices are at similar levels to those of 2021, as are other commodities which also experienced a sharp increase following Russia's invasion of Ukraine. Stopping adding wood to the fire is the first step for putting out it.

Secondly, the change in tone is widespread across most components of the CPI, so the indirect effects of the initial shock on consumer goods as a whole appear to be coming to an end. For instance, whereas in January around 25% of goods were showing price increases in excess of 20% (annualised and seasonally adjusted monthly change), in May this proportion barely reached 2% and over 30% of goods were already registering a drop in prices. This shift of trend is also apparent in food. In this case, 45% came to present a price increase of more than 20%, but the latest data show that this situation has been reversed. There are virtually no foods registering such high price increases, and around 30% are showing falls in their prices.

Thirdly, wage pressures remain contained. According to CaixaBank Research's wage indicator, wage incomes increased by 3.9% in May. Moreover, thanks to the agreement reached between employers and trade unions, we can anticipate that in the coming years there will not be an acceleration, so wages ought not to hinder a decline in inflation.

All this suggests that we are unlikely to see another significant rebound in inflation in the coming months. Depending on how energy prices evolve and when government support measures are withdrawn, inflation could pick up slightly above 3%, but it is less likely to exceed the 4% threshold again in the coming quarters.

If this scenario materialises as anticipated, households will be able to continue to recover the purchasing power which they have lost in recent quarters. In particular, gross disposable income per household in real terms (i.e. discounting the effect of price increases) is expected to experience a positive growth rate this year, potentially of around 1.0%, after falling by 5.0% in 2022.

Another notable aspect is the improvement in the competitiveness of the Spanish economy that is taking place thanks to the lower inflationary pressures. Since January 2022, the accumulated price increase in the euro area has been 3 pps higher than that recorded in Spain, and this factor is supporting the excellent performance of Spanish exports, as set out in the Focus «Are Spanish exports competitive?» in this same *Monthly Report*.

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