

# Spain

## Spanish consumer prices rose in November due to energy base effects

### Key findings

- **First increase in consumer prices since February...**
- **...but weak demand continues to limit firms' pricing power.**

### Consumer prices rose in November

Official data released on December 15 by the Instituto Nacional de Estadística (INE) showed that consumer prices in Spain increased 0.3% in the year to November, ending an eight-month sequence of falling prices. However, the rise was largely attributed to base effects of energy, which had fallen sharply at the end of 2008. PMI data indicated that fragile demand and intense competition were generally preventing companies from increasing charges.

Consumer prices were driven up by the energy-intensive Transport sector, where prices were 0.9% higher than one year earlier and contributed eight tenths of the overall rise. Inflationary pressures in this sector have also been signalled by PMI data, with input costs at Transport & Storage companies rising at the fastest pace of the six monitored service sectors in November.

Core inflation, which excludes more volatile items such as food and energy, was just 0.2% in November, and is expected to remain low, with Spanish companies battling to become competitive as recession continues.

### Pricing power remains weak

PMI price data indicated that, although input costs have begun to rise (the Input Prices Index covering both manufacturing and services has been above the no change mark of 50.0 for three months running), higher costs have not been passed on to customers through increased charges.

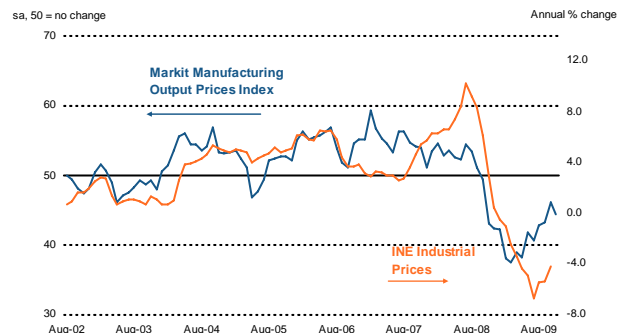
Output prices at Spanish companies have fallen throughout the past 15 months as fragile demand and intense competition for scarce new business have

limited pricing power. The trend in the manufacturing PMI Output Prices Index chimes with official industrial prices data, which has shown annual declines in each of the ten months to October.

Therefore, while the base effects from energy are expected to continue to lift prices over the coming months, and the planned increase in VAT in Spain is also predicted to cause inflationary pressure, it seems unlikely that consumer prices will rise significantly given the weak demand environment, with firms unable to pass on higher costs to clients.

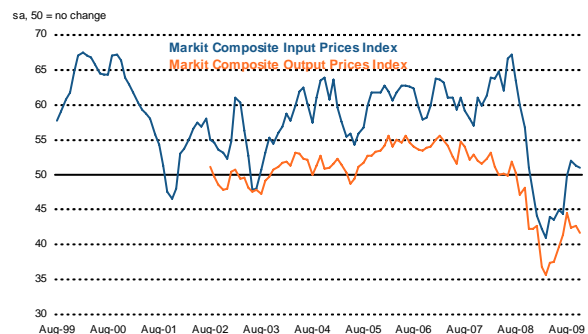
The next Spain Manufacturing PMI (with November data) is released on January 4, with the Services PMI published on January 6. To find out how to receive data from the surveys, or obtain copies of the reports please contact [economics@markit.com](mailto:economics@markit.com).

**Chart 1: Industrial Prices v PMI Output Prices**



Sources: Markit, INE

**Chart 2: Input Costs and Output Prices**



Source: Markit

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