

# THE RISE IN INFLATION: SHARPER AND MORE PERSISTENT THAN INITIALLY FORECAST

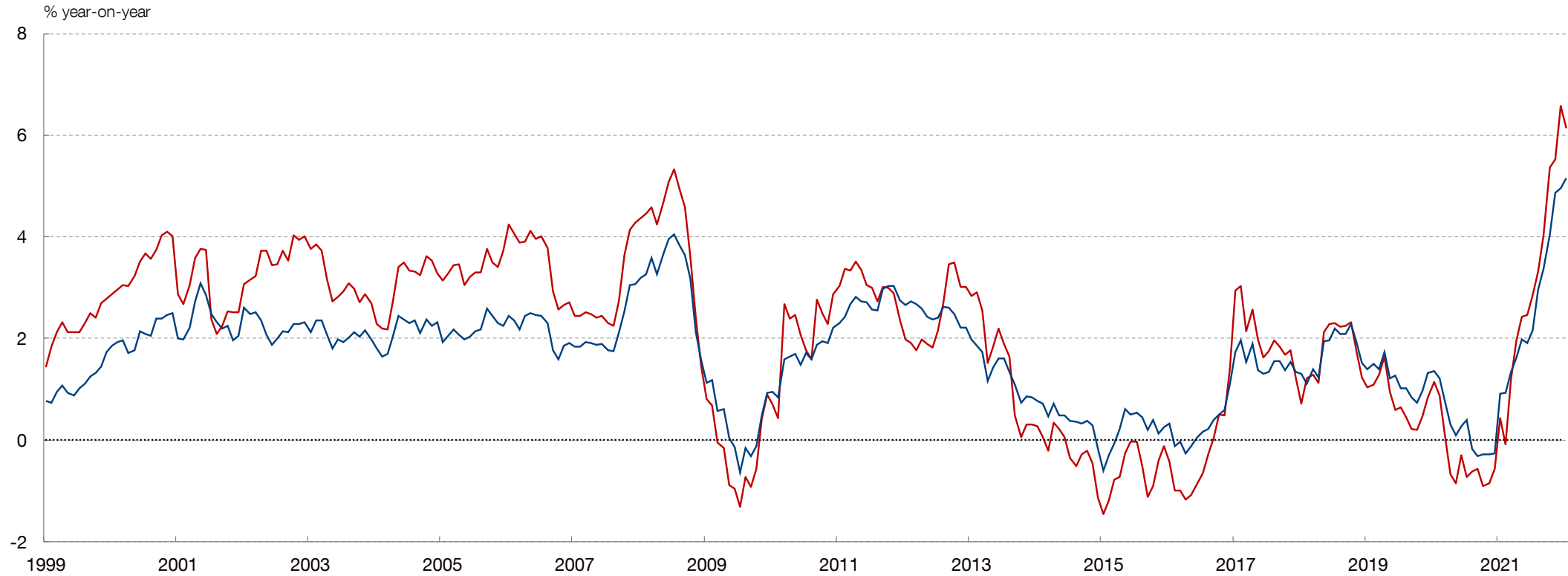
**Pablo Hernández de Cos**  
Governor

ESADE

23 February 2022

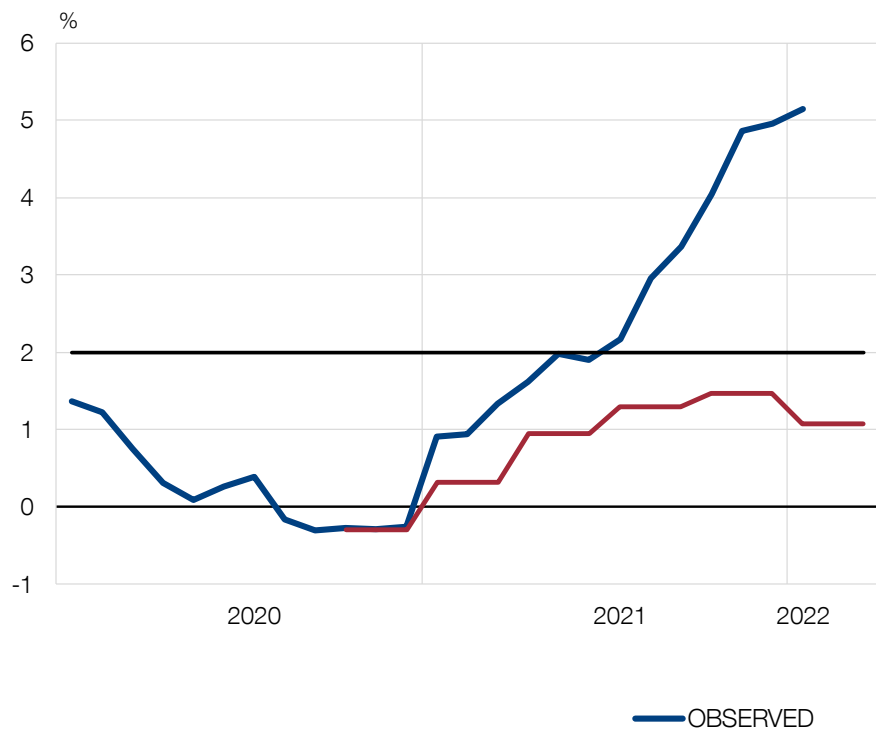


## 1. HICP

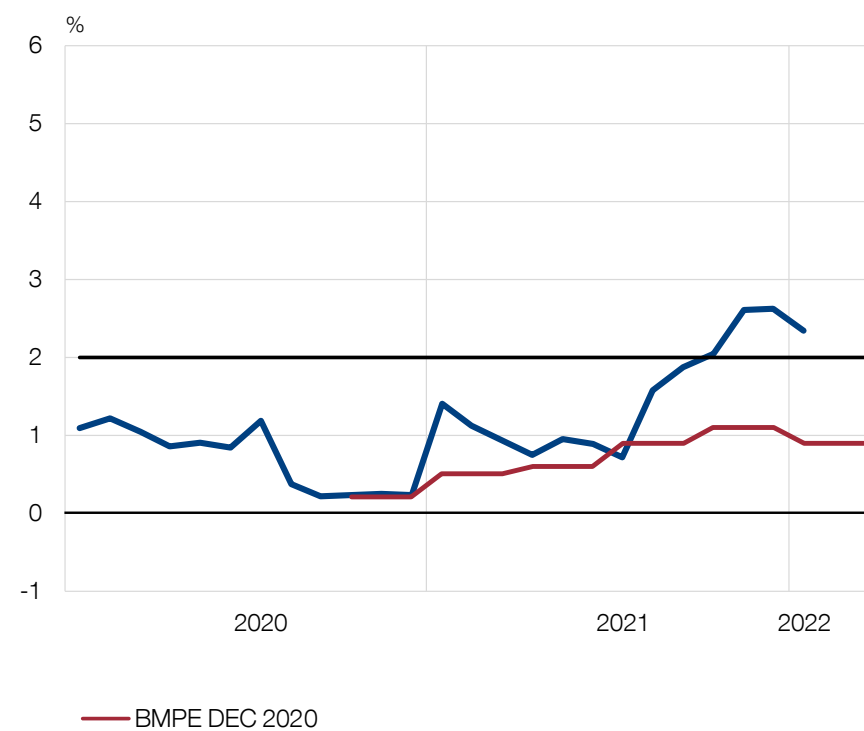


Sources: INE and Eurostat.

### HEADLINE INFLATION

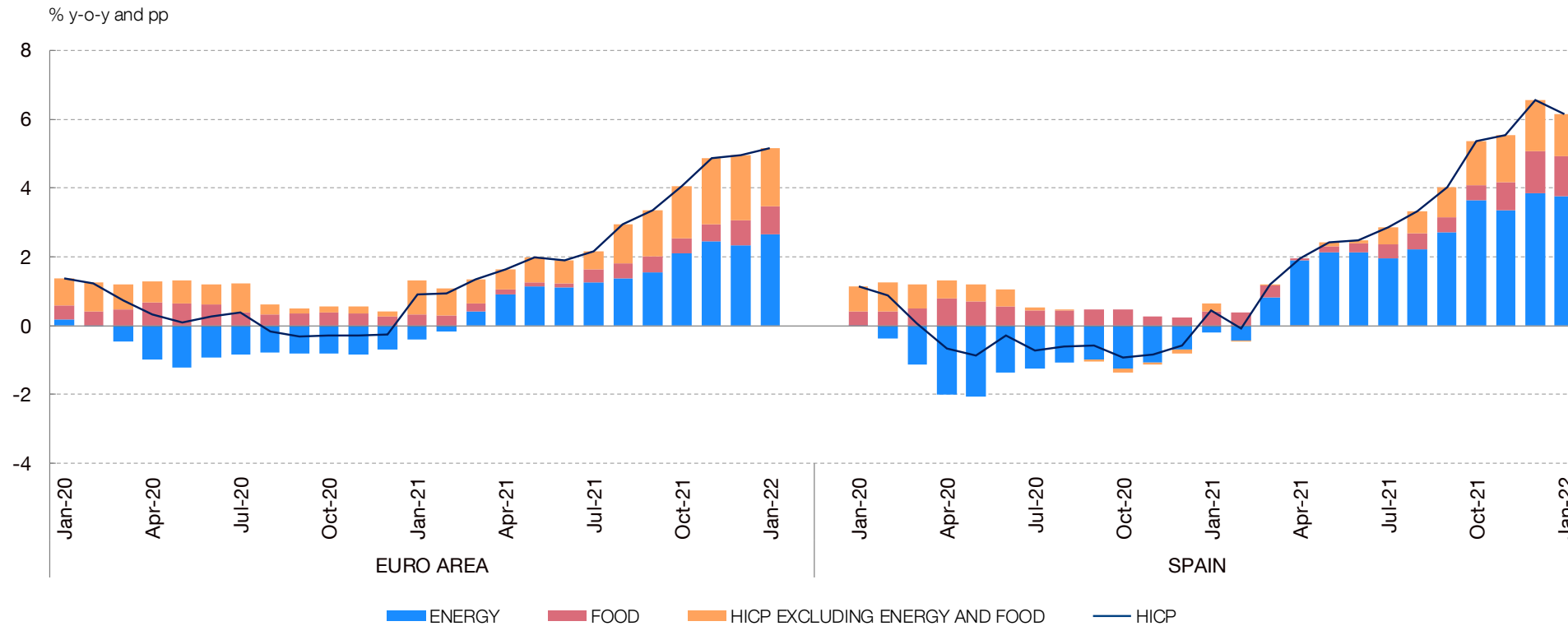


### CORE INFLATION



# THE INCREASE MAINLY AFFECTS THE ENERGY COMPONENT AND, TO A LESSER DEGREE, FOOD PRICES AND CORE INFLATION

## 1. OVERALL INDEX AND CONTRIBUTIONS



Sources: INE, Eurostat and Banco de España

# BASE EFFECTS, SUPPLY BOTTLENECKS AND TENSIONS IN THE GAS MARKET ARE KEY FACTORS BEHIND THE RISE IN INFLATION

	UNITED STATES	EURO AREA	SPAIN
	Jan-2022 / Jan-2020	Jan-2022 / Jan-2020	Jan-2022 / Jan-2020
<b>All-ítems CPI/HICP</b>	<b>9.0</b>	<b>6.1</b>	<b>6.6</b>
<b>Food</b>	<b>11.0</b>	<b>5.0</b>	<b>6.5</b>
<b>Energy</b>	<b>22.3</b>	<b>23.4</b>	<b>28.5</b>
<b>Non-energy industrial goods</b>	<b>13.6</b>	<b>3.6</b>	<b>1.9</b>
<b>Services</b>	<b>5.5</b>	<b>3.8</b>	<b>2.9</b>
<b>Memorandum item: CPI/HICP excluding energy and food</b>	<b>7.5</b>	<b>3.7</b>	<b>2.5</b>

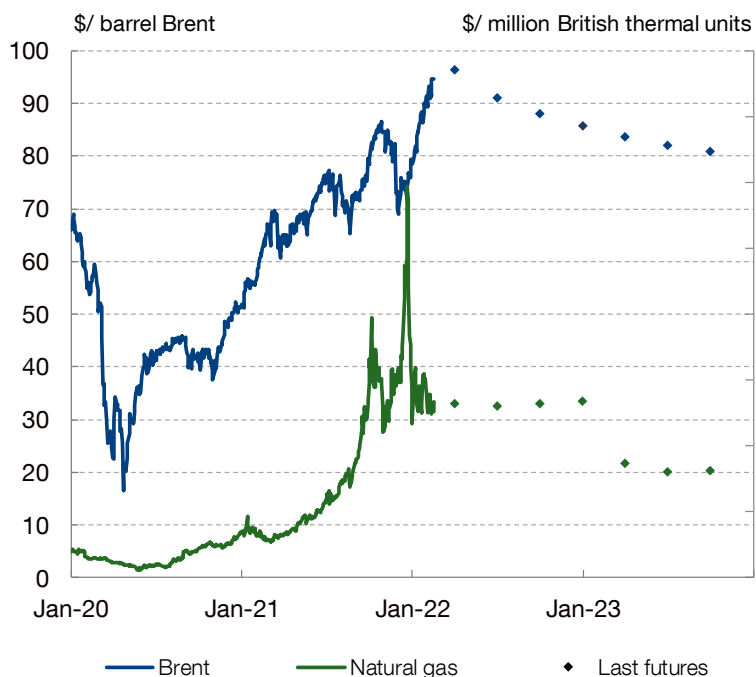
SOURCES: Eurostat and U.S. Bureau of Labor Statistics.

(\*) In the United States, the data refer to the consumer price index and in Spain and the euro area to the harmonised index of consumer prices.

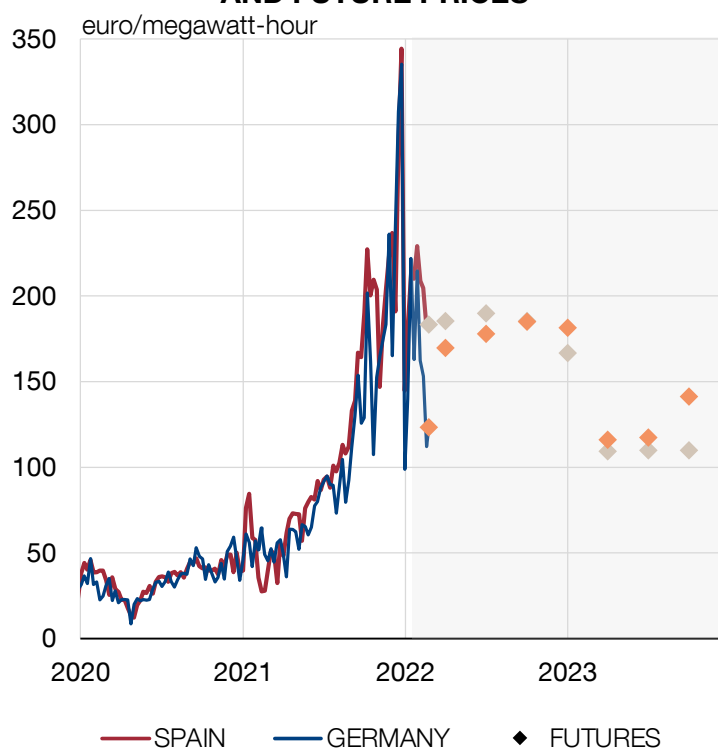
# COMPARED WITH THE DECEMBER FORECAST, RISKS ARE ON THE UPSIDE, PARTICULARLY IN THE NEAR TERM

- Inflation again surprised on the upside in December and January and energy prices remain high. This will lead, *ceteris paribus*, to a significant revision of the inflation projected for 2022.
- These developments also increase the probability of second-round effects.

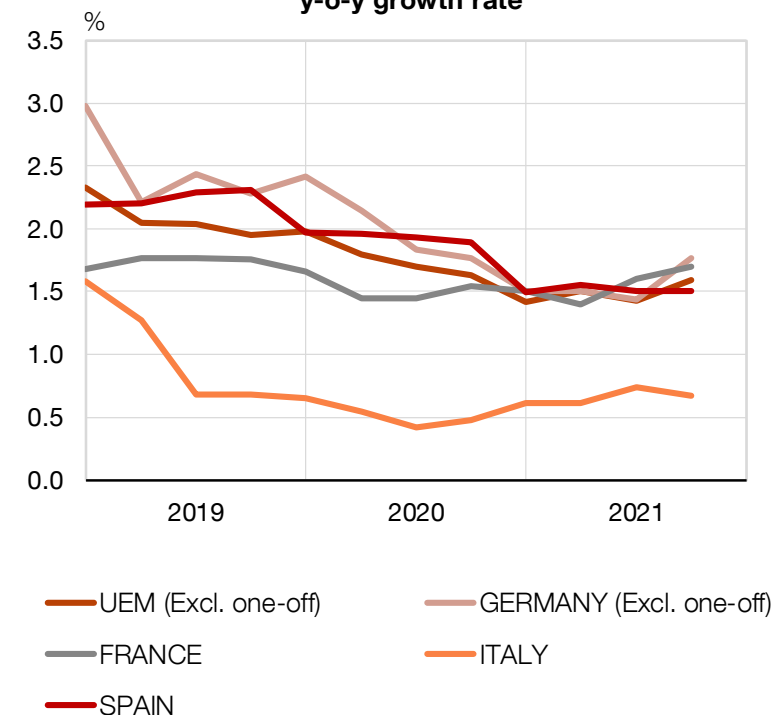
**NATURAL GAS AND OIL PRICES**



**WHOLESALE ELECTRICITY SPOT AND FUTURE PRICES**



**NEGOTIATED WAGES (a)  
y-o-y growth rate**



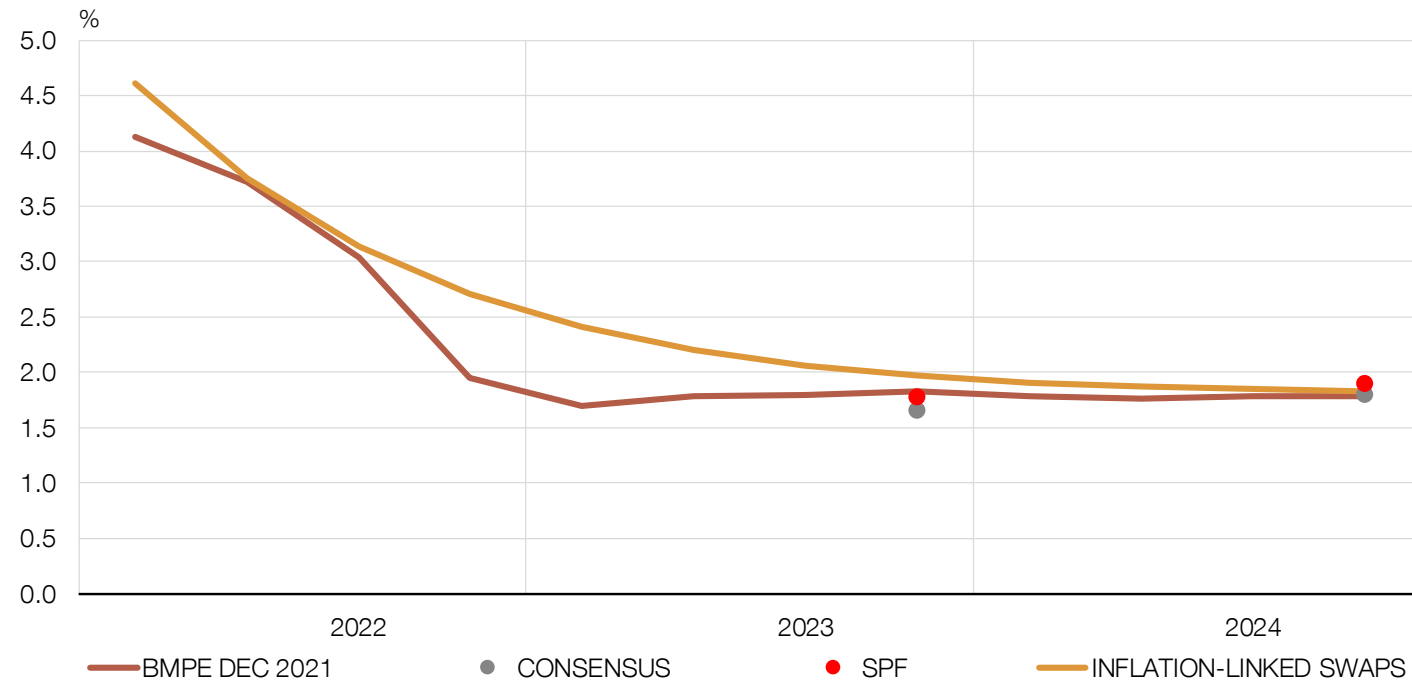
Sources: Refinitiv, ECB and Banco de España. Latest observation: 11 February.

a) Negotiated wages for the whole economy, except in France and Spain, where it refers to the market economy.

# IN THE MEDIUM TERM, THE PROBABILITY OF INFLATION STANDING AT 2% HAS INCREASED, BUT THERE ARE AS YET NO PERCEIVED RISKS OF IT REMAINING PERSISTENTLY ABOVE THAT LEVEL

- Most projections, surveys and indicators point to inflation standing at around 2% in the medium term
- However, the outlook is highly uncertain, particularly due to geopolitical tensions

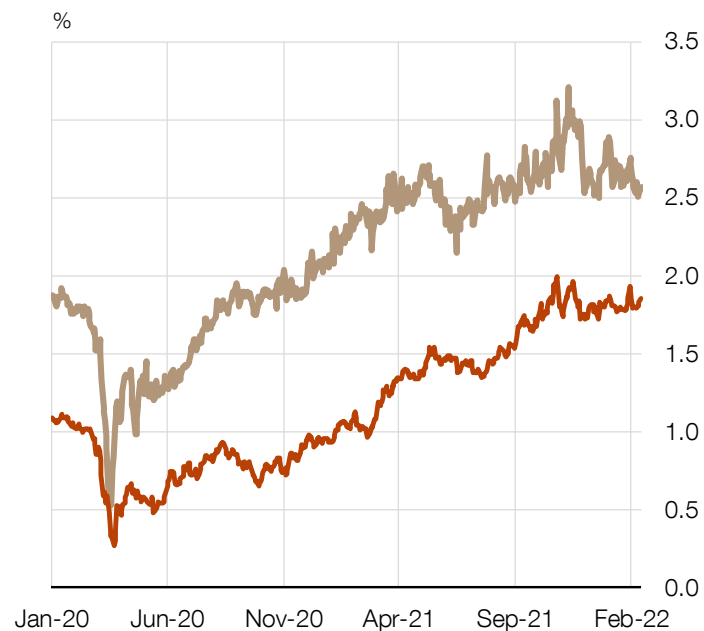
EURO AREA INFLATION FORECASTS AND EXPECTATIONS



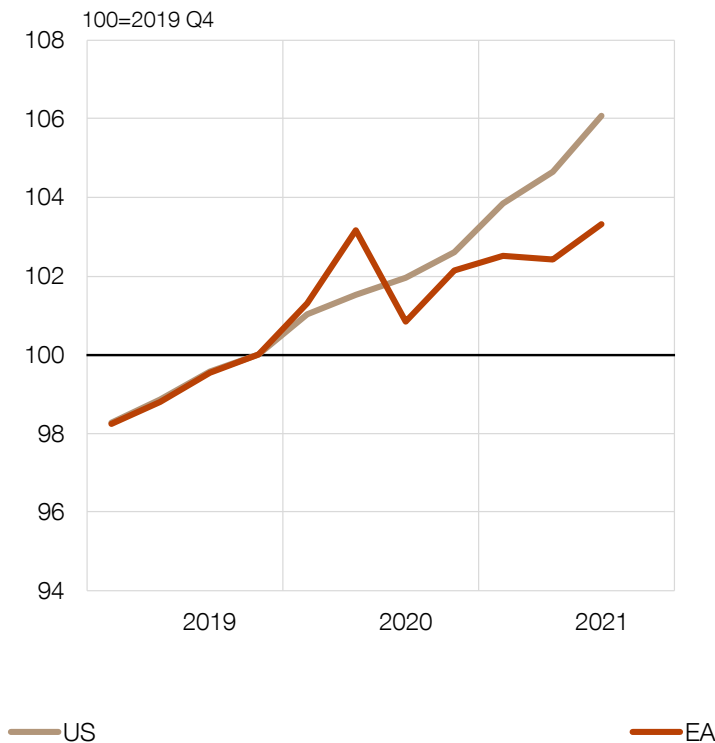
Sources: ECB, Reuters, Consensus Economics.

# THE SITUATION OBSERVED IN THE UNITED STATES REMAINS SUBSTANTIALLY DIFFERENT FROM THAT IN THE EURO AREA

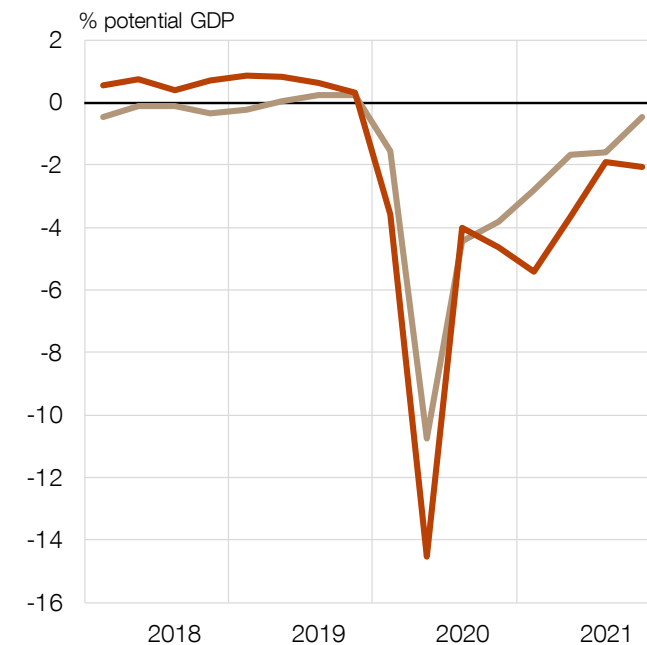
### 2Y2Y INFLATION SWAP RATES



### HOURLY LABOUR COST (a)



### OUTPUT GAP



Sources: Datastream, Eurostat, BLS, CBO and ECB. Latest observations: inflation swaps, 14 February; labour cost, 2021 Q3; output gap, 2021 Q3 (Euro Area) and 2021 Q4 (US).



## Flexibility and optionality

- Given the high degree of uncertainty, now more than ever, we must maintain flexibility and optionality.
- We stand ready to adjust all our instruments, if necessary, to ensure that inflation stabilises at the 2% target over the medium term.

## Forward Guidance

- Forward guidance remains the anchor for monetary policy. For the first interest rate hike to be implemented, three conditions need to be met.
- Sequencing: we will not raise interest rates until net purchases under the APP have come to an end.

## Gradualism

- We cannot rule out the possibility that all the conditions in our forward guidance will be met sooner than we had expected some months ago.
- We will have to decide how to exercise our optionality. And the key to “how” is gradualism.

## Avoiding fragmentation

- In December 2021, we decided to retain the flexibility of the PEPP with respect to reinvestment of principal payments, which will continue until the end of 2024.
- We should now use this flexibility proactively and monitor whether it is sufficient.

THANK YOU FOR YOUR ATTENTION

