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Economic Comment

CPI inflation in the target

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November CPI inflation was revised up to 2.5% y/y from 2.4% y/y. In our view, this change resulted from a slight upward adjustment in core inflation estimates, though it was a minute change and, according to our calculations, the flash reading was already on the borderline between 2.4% y/y and 2.5% y/y. We estimate core inflation at 2.7% y/y. Service price inflation fell to 5.3% y/y from 5.6% y/y, while goods inflation declined to 1.4% y/y from 1.7% y/y.

We believe CPI inflation may edge up slightly in December, supporting the MPC in its "wait-and-see" stance, before falling towards 2% in the first half of 2026, which would give the Council an incentive to cut rates to 3.50%.

Core inflation clearly lower

Core inflation, according to our estimates, fell to 2.7% y/y from 3.0% y/y, marking its lowest level since 2019. On a monthly basis, prices in this category dropped by 0.1% m/m – the first decline in November since 2018. The downward move was driven mainly by clothing (partly due to the high base in November 2024), household furnishings, communications, and recreation & culture.

In household furnishings, prices fell by 0.6% m/m – the lowest reading in years. Furniture prices dropped by 3.2% m/m, household appliances by 1.1% m/m, including cookers (-2.2% m/m), irons (-1.7% m/m), and washing machines (-1.5% m/m). In communications, prices rose by 0.1% m/m, with the annual core inflation rate mainly affected by the high base in November 2024, when internet and mobile services became more expensive. Recreation & culture prices fell by 0.6% m/m, including optical instruments (-2.9% m/m), museums (-2.8% m/m), and recreation & sports services (-0.9% m/m). In transport, car prices continued to decline, down by 0.6% m/m – the 26th consecutive month. We believe core inflation still reflects imported disinflation from China, especially for durable goods. Not everything is getting cheaper, though – jewellery prices rose by 2.2% m/m, driven by higher global gold prices.

We expect core inflation to rebound slightly in December before falling again at the start of 2026. Next year, we see core inflation hovering just below 2.5% y/y, supported by a gradual slowdown in service price growth, with a probable deceleration of the downward trend in goods prices.

Food price inflation continues to decline

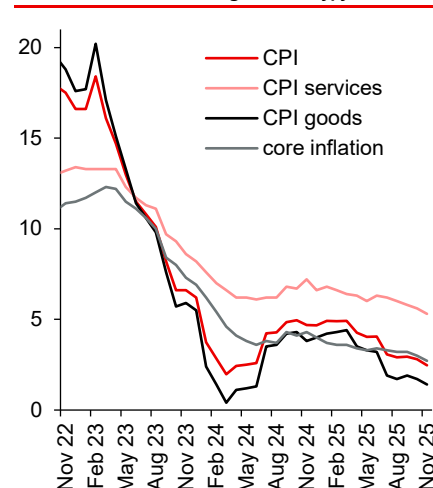
Food and non-alcoholic beverage inflation fell from 3.4% y/y in October to 2.7% y/y in November, in line with the flash estimate released at the end of last month.

As in October, the monthly price change in November was unusually low for this time of year. Prices rose by just 0.1% m/m, compared to an average increase of 0.6% over the past decade. The unusually small rise was partly due to a 1.0% m/m drop in meat prices – historically, they rose by an average of 0.1% m/m in November. This decline slowed annual meat inflation from 3.0% y/y to 1.5% y/y, accounting for about half of the overall drop in food inflation. The fall mainly affected poultry (-4.1% m/m) and, to a lesser extent, pork (-1.5% m/m). On the other hand, beef prices continued to rise strongly, up 1.5% m/m, making them 22.2% higher than a year ago.

Other contributors to the slowdown included oils and fats, whose annual inflation dropped from 1.3% y/y in October to -1.4% y/y in November, mainly due to butter prices falling by 2.5% m/m. Butter prices became lower than a year ago for the first time since March 2024, down by 4.4%.

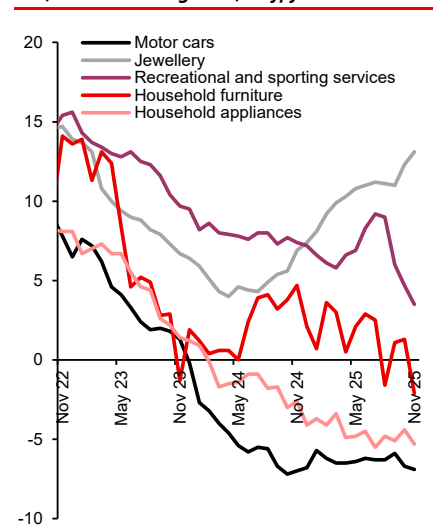
Fruit inflation also fell sharply, from 1.9% y/y to 0.3% y/y, mainly thanks to a relatively modest, for November, rise in berry prices (10.4% m/m). Its impact was limited by a

CPI inflation, main categories, % y/y



Source: GUS, Santander

CPI, selected categories, % y/y



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relatively small drop in citrus prices, only 3.1% m/m. For comparison, in previous years citrus prices fell by an average of 10.2% m/m in November.

With Christmas approaching, it is worth noting that fish and seafood prices rose relatively strongly, by 1.5% m/m, pushing their inflation up from 2.6% to 3.2% y/y.

We expect food price inflation to continue declining next year, averaging 2.3%. Our expectations are supported, among other factors, by solid forecasts for cereal harvests in the 2025/2026 season, as well as the behaviour of certain leading indicators, including global FAO food price indices.

No surprises in energy and fuel price inflation

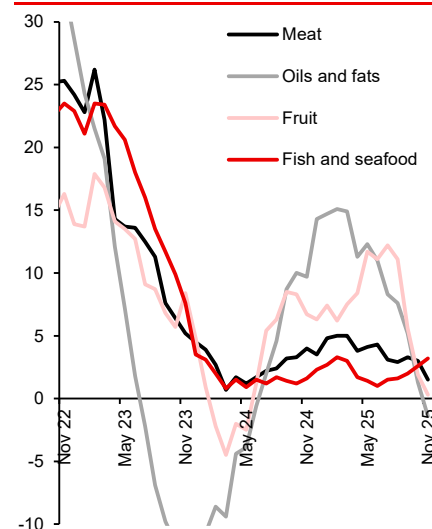
Energy carrier inflation rose from 2.6% to 2.7% y/y, with prices up 0.1% m/m, in line with the flash estimate. The main increases in this category were in liquid fuel prices, up 5.3% m/m, and some of the solid fuels. Heat energy prices rose by only 0.1% m/m, suggesting that the increases triggered by the expiration of the heat price cap has already ended.

We expect energy price inflation to remain stable in the coming quarters and to average 2.9% y/y over the whole of 2026, mainly due to tariff stabilisation, with only minor increases in some other charges.

Inflation in fuels and lubricants for private transport slipped from -1.8% y/y to -1.9% y/y, with a 2.1% m/m rise in prices. The slight slowdown in inflation in this category occurred amid an increase in diesel inflation from -0.6% to 0.5% y/y and a fall in petrol inflation from -1.5% to -1.9% y/y.

We expect fuel price inflation to rebound next year from its current low level.

CPI, selected categories, % y/y



Source: GUS, Santander

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