ECONOMIC OUTLOOK

November 2019

- ***The IMF and the European Commission have revised downwards their growth forecasts for the global economy, which is still immerse in a deceleration process.***
- ***Central banks continue easing their monetary policies. In October, the Federal Reserve cut interest rates for the third time this year.***
- ***The European Commission is reviewing growth forecasts for the Spanish economy down to 1.9% in 2019 and 1.5% in 2020. It estimates that progress in fiscal consolidation will be minimal over both years, which contrasts with the government's estimations.***
- ***GDP for Q3 confirmed that the Spanish economy kept up its growth rate in terms of activity, but employment slowed considerably.***
- ***The slowdown in the number of people registered with the Social Security in October suggests that job creation continues to lose momentum in the final stretch of 2019.***
- ***CEOE maintains its growth forecast at 2% for 2019, which widens positive growth differential in comparison to the Eurozone this year.***
- ***In this context, CEOE considers necessary that, in order to ensure the continuity of the growth and employment recovery cycle, economic policy should focus on generating a favourable climate for business activity and competitiveness, as stated in our document. "Business priorities before the general elections on 10 November"***

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IMF (October 2019) **and European Commission growth forecasts** (November 2019)

	IMF				European Commission		
	2017	2018	2019	2020	2019	2020	2021
World growth	3.8	3.6	3.0	3.4	2.9	3.0	3.1
United States	2.4	2.9	2.4	2.1	2.3	1.8	1.6
Japan	1.9	0.8	0.9	0.5	0.9	0.4	0.4
Eurozone	2.5	1.9	1.2	1.4	1.1	1.2	1.2
Germany	2.5	1.5	0.5	1.2	0.4	1.0	1.0
France	2.3	1.7	1.2	1.3	1.3	1.3	1.2
Spain	3.0	2.4	2.2	1.8	1.9	1.5	1.4
Italy	1.7	0.9	0.0	0.5	0.1	0.4	0.7
United Kingdom	1.8	1.4	1.2	1.4	1.3	1.4	1.4
China	6.8	6.6	6.1	5.8	6.1	5.8	5.6
Advanced economies	2.5	2.3	1.7	1.7			
Emerging economies	4.8	4.5	3.9	4.6			
World trade	5.7	3.6	1.1	3.2			

Source: IMF and European Commission

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INTERNATIONAL SCENE: the IMF and the European Commission have again revised their growth forecasts downwards

The main world stock exchanges showed a positive behaviour in October. This improvement was fostered by the easing of monetary policies, the seemingly closer positions in the negotiations between the United States and China, with a preliminary agreement that contemplates proportionally reducing, in several phases, the tariff increases that have taken place over the past eighteen months, as well as by a new postponement of the United Kingdom's exit from the European Union which, for the time being, seems to push away the possibility of a Brexit without agreement.

However, the global economy is still immersed in a slowdown phase that affects most countries. Thus, the IMF and the European Commission have once again revised their growth forecasts downwards, both for this year and for the next. For 2019, the IMF estimates world GDP growth at 3.0%, two tenths less than in July, while the Commission sets it at 2.9%, three tenths less than in May. In any case, it will be the lowest growth rate since 2009. Among the causes behind this slowdown in growth is the increase in trade barriers, which has led to world trade growing by around 1.1% in 2019, also the worst record since 2009. This slowdown in trade has negatively affected manufacturing sectors, and this situation, together with the growing uncertainty associated with trade tensions and other factors such as the Brexit or geopolitical tensions, are negatively affecting investment and the confidence of economic agents. By 2020, the world economy is expected to recover slightly, up to 3.4% according to the IMF or 3.0% according to the Commission, driven mainly by certain emerging economies, while advanced economies are expected to grow at similar rates to this year's, and the United States and China could even continue to lose momentum.

In Q3, the United States maintained its quarterly growth rate at 0.5%, and the Eurozone at 0.2%, although Germany is back in positive growth, despite the crisis in the automobile sector, thus avoiding a technical recession. Meanwhile, China is still showing a gentle slowdown, with year-on-year growth of 6%, two tenths lower than in Q2. In Latin America, the prevailing trend is the weakness of the economy, with strong social tensions in Chile and stagnant growth in Mexico, due the halt in investment and the slowdown in consumption. In Argentina, uncertainty has increased following Alberto Fernández's electoral victory and its central bank's decision to limit the purchase of dollars to only $200 a month in order to preserve reserves. There is a little more optimism with Brazil, after the approval of the pension reform, which will mean significant savings for the public finances, around €175 billion in a decade.

For Q4, PMI indicators suggest that activity will remain very contained. Thus, the global manufacturing PMI remains in sluggish mode, at 49.8 points in October, despite having improved a tenth with respect to September, while the services PMI fell four tenths, to 51 points, which makes the global composite PMI stand at 50.8 points, three tenths lower than the previous month (the worst figure since February 2016).

Meanwhile, central banks continue to ease their monetary policies. In October, the Federal Reserve cut interest rates by a quarter of a percentage point to the 1.5% - 1.75% range, the third cut this year. Its president, Jerome Powell, pointed out that, for the time being, there will be no new movements, and justified the cut appealing to the weakness of business investments and exports, despite the fact that the economy and the labour market are posting decent growth. In addition, in the first days of October the Fed also approved the purchase of short-term public debt in the amount of $60 billion per month, with the aim of increasing market liquidity. Meanwhile, at the ECB, Mario Draghi held his last meeting as president, in which he defended the measures adopted in September, such as the repurchase of debt in the amount of €20 billion per month and the reduction of the deposit rate to -0.5%, against a backdrop of very contained inflation and low growth.

As for oil prices, they fell again in October, following the rebound in September as a result of the attacks on oil facilities in Saudi Arabia. Brent crude stood at $60.3 per barrel on a monthly average, 5.1% lower than in September and 26% lower than a year earlier. The slowdown in the global economy is weighing down on oil prices, which seem to have stalled at around $60 per barrel, awaiting the evolution of trade negotiations between the United States and China and the effects these may have on global activity.

THE SPANISH ECONOMY: confirmed slowdown in employment, although activity continues to grow at the same pace in the third quarter

The GDP growth figure for Q3 confirmed that the Spanish economy kept up its growth rate in terms of activity, but employment slowed down considerably. Specifically, GDP registered a quarterly increase of 0.4%, the same rate as in the previous quarter, and the year-on-year growth rate remained at 2.0%. However, employment shows a significant slowdown and is already growing at a year-on-year rate below 2%. As a result, productivity per worker has returned to positive territory, following falls in the past five quarters. This, together with the slight moderation in compensation per employee, which increased more than GDP and employment, has led to lower growth in unit labour costs (2.1%, compared to 2.8% in Q2).

In addition, the composition of growth has changed with respect to Q2, with domestic demand once again gaining prominence. In other words, in Q3 the Spanish economy has gone back to the profile observed throughout the slowdown, with the external sector contributing very little to overall growth, and domestic demand supporting a large part of it.

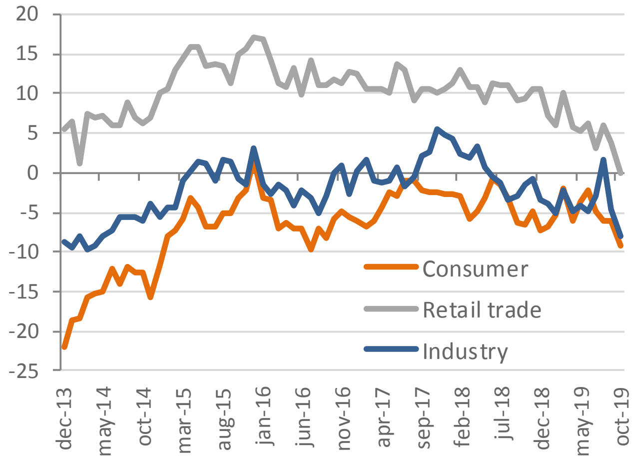
The European Commission lowered its forecasts for Spain for 2019 and 2020 to 1.9% and 1.5%, respectively. The unemployment rate will continue to fall, but at a slower pace, the net lending position of the Spanish economy will remain unchanged and there will be no inflationary pressures. However, the most negative note is in its public deficit forecast, where progress in fiscal consolidation is minimal. Thus, it estimates a negative balance of -2.3% of GDP for this year and -2.2% of GDP for 2020, which contrasts with the Government's forecasts (-2.0% in 2019 and -1.7% in 2020). Meanwhile, CEOE maintains its growth forecast of 2% for Spain in 2019, nine tenths more than the Eurozone (1.1% according to the European Commission).

DEMAND AND ACTIVITY: the Spanish economy continues to grow faster than the Eurozone as a whole

According to the preliminary GDP estimate for Q3 (0.4%), the economy would have continued to grow significantly above the Eurozone (0.2%). This favourable evolution, which in coupled with traditional imbalances being kept under control, is driven by stronger domestic demand, which contributed 1.8 p.p. to year-on-year growth (0.8 p.p. more than in the previous quarter). By components, private consumption, which in Q2 had shown a loss of momentum, posted a significant quarterly advance (1.1%), more in line with fundamentals that continue to be positive (employment growth, low interest rates, wage increases and contained inflation). However, household confidence levels continue on a deteriorating trend that became more pronounced in October and retail trade confidence has also worsened, so it is foreseeable that Q4 will not be as positive for private consumption. Investment in capital goods also rebounded significantly (7.8% quarterly), following the sluggishness seen in Q2, despite increased uncertainty at global and national levels. Investment in construction, however, posted a decrease that contrasts with the progress of previous quarters and that may be explained, in part, by the regulatory uncertainty due to the implementation of the Law regulating real estate credit contracts. With regard to the external sector, imports would have grown more intensely than exports, thus reducing its contribution to 0.2 p.p., compared to 1.0 p.p. in the previous quarter.

For the fourth quarter, the services sector seems to be behaving differently than the industrial sector. Thus, the manufacturing PMI for October stood at 46.8 points, falling even further below the growth threshold of 50 points. In addition, the confidence index of the industrial sector posted negative levels that had not been recorded since 2014. In contrast, the services PMI remains on expansionary territory (52.7 points), although its confidence index is also beginning to show a slight deterioration.

Confidence Indicators



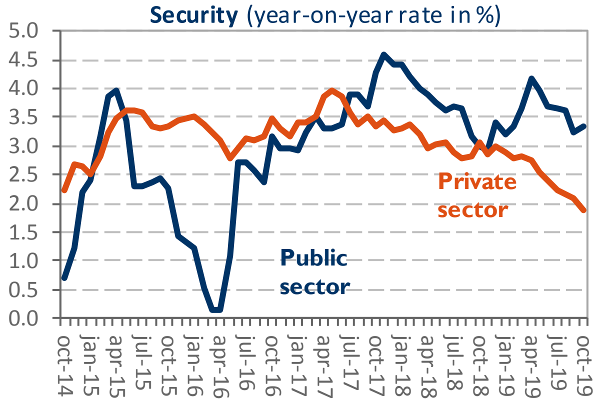
Source: European Commission

THE LABOUR MARKET: job creation continues to lose momentum at the beginning of the fourth quarter

LFS results for Q3 confirmed the loss of momentum in the labour market. The employment increased by 69,400 persons, the lowest increase in a third quarter since 2012. The year-on-year job creation rate fell six tenths to 1.8%, the lowest since 2014

The preliminary indicators for Q4 suggest that job creation continues to slow down in the final stretch of 2019. Thus, the number of people registered with the Social Security grew by 2.3% year-on-year in October (2.1% excluding non-professional carers), one tenth less than in September. In the private sector, the year-on-year rate fell two tenths to 2.1%, although this figure drops to 1.9% if non-professional carers are excluded. On the other hand, it is worth highlighting the positive momentum seen in the number of civil servants registered with the Social Security, with a rate of 3.3%.

Workers registered with the Social Security (year-on-year rate in %)

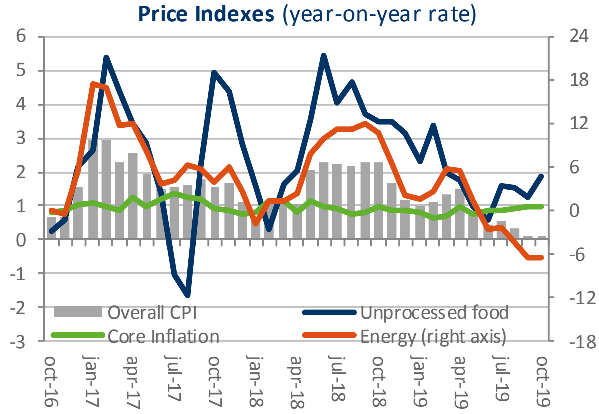


Note: excluding non-professional carers
Source: prepared in-house based on data from the Social Security

PRICES: inflation remains very low, at 0.1%, although it is expected to pick up in the coming months

In October, the year-on-year CPI remained at 0.1%, aided by the fall in energy prices and the moderate rise in core inflation, which stands at 1.0%, unchanged from the previous month. Within core inflation, its components continue to grow at a very slow pace. Energy product prices fell in a similar proportion to the previous month, with a decrease of -6.5% year-on-year, in line with the decline seen in oil prices. For the next few months, inflation is expected to pick up and become aligned with the core rate, as energy prices stop falling in relative terms. As a result, the average CPI for 2019 will be set around 0.7%.

Price Indexes (year-on-year rate)



Source: INE

THE PUBLIC SECTOR: the State is the Public Administration level that contributes the most to the control of the public deficit

With data up to September, the State deficit stood at -0.6% of GDP in National Accounts terms, below the figure for 2018, which was set at -1.1% of GDP. In terms of primary surplus, it stands at 0.9% of GDP, compared to 0.6% in the previous year.

This decrease in the State deficit is due to the notable dynamism in revenues and the containment in expenditures. In terms of tax collections two items stand out: Income Tax, up 10.8% due to the favourable evolution of withholdings on wages and increased revenues from the Income Tax Campaign; and the Tax on Hydrocarbons, due to the regulatory change that took place on January 1, 2019, with a collection impact to date of 782 million. On the expenditure side, it increased by 0.8%, although there are large differences between items. Thus, on the one hand, there was a decrease in current and capital transfers between Public Administrations as well as in interests and, on the other, intermediate consumption, pensions and compensation of employees increased.

Meanwhile, the consolidated deficit of the Central Administration, Autonomous Communities and Social Security up to August was set at -2.1% of GDP. This percentage, which is somewhat higher than the figure recorded up to August 2018 (-2.0% of GDP), shows that little progress has been made in consolidating public accounts throughout 2019, despite the efforts being made by the Central Administration.

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