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Economic Outlook

March 2021

REPORT ON THE EFFECTS OF THE CRISIS ON THE BUSINESS SECTOR

Overview

- The OECD revises its growth forecasts for the global economy upwards, with the United States' improved figures standing out.
- The recovery will be quite uneven across countries. While some economies will return to pre-crisis levels throughout 2021, others will have to wait until 2023 to recover their 2019 GDP levels.
- Oil and commodity prices in general continue to rise. Expectations of an inflation rebound in the medium term are gaining strength.
- The intensity of the third wave and its associated restrictions, not only in Spain but throughout Europe, have weakened economic activity and demand at the beginning of the year in our country. The possibility of a slightly negative first quarter of the year is high.
- The delay in the recovery of the Spanish economy and the duration of the crisis, particularly intense in some sectors, has led to the government's approval of a package of direct aid to companies amounting to €11 billion.
- The labour market worsens in the first months of the year. Social Security registrations intensify their year-on-year fall in February and registered unemployment exceeds 4 million people for the first time since 2016.
- Inflation falls to 0.0% in February due to the drop in electricity prices and the moderation in core inflation.
- With regard to macroeconomic imbalances, public debt ends 2020 at record highs, standing at 117.1% of GDP, compared with 95.5% in 2019. On the other hand, the Spanish economy has once again obtained a net lending position in 2020, albeit to a lesser extent than in 2019.

MONOGRAPH ON THE EFFECTS OF THE CRISIS ON THE BUSINESS SECTOR
• **The drop in Spanish companies' revenues in 2020** • **The number of companies lost one year after the onset of the pandemic**

The International Scenario

The vaccination pace will determine the intensity of the global economic recovery in 2021

The OECD has revised upwards its growth forecasts for 2021 and 2022. In its report it estimates that global GDP, after falling by -3.4% in 2020, will grow by 5.6% in 2021, which is 1.4 points more than estimated in its previous December forecasts. In 2022, growth will lose some momentum to 4.0%, three tenths of a percentage point more than previously projected. The improvement in the estimates is due to the upturn in activity seen in many sectors over the last few months, showing a better-than-expected adaptation to the pandemic as well as the fact that vaccinations are picking up pace. In addition, the fiscal stimuli from different governments, especially the United States, will serve to boost economic activity. The OECD expects global output to return to 2019 levels by mid-year. However, the recovery will be uneven across countries and sectors, and will depend, in part, on the vaccination deployment rate.

OECD growth forecasts (March 2021)

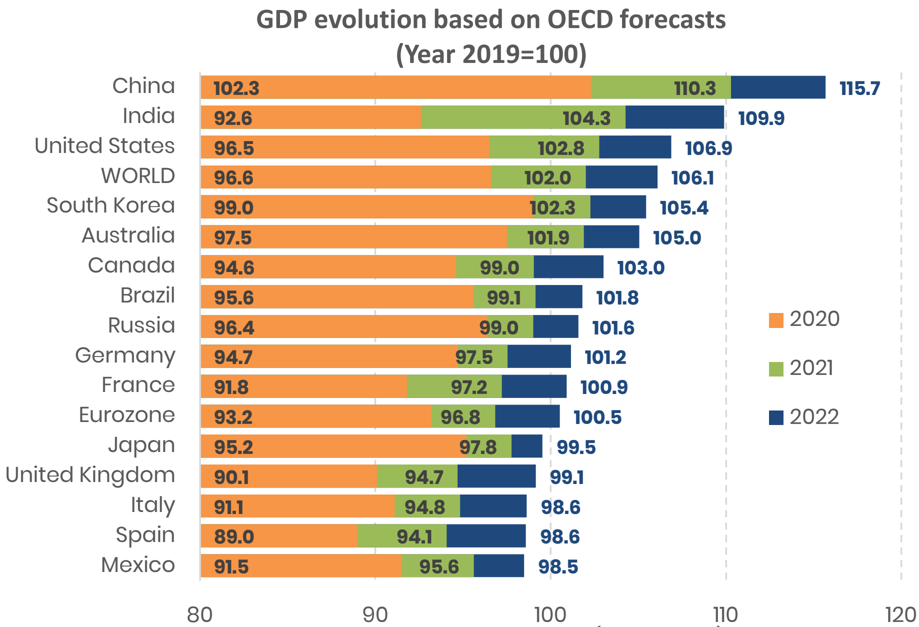
	Forecasts			Difference from Dec.	
	2020	2021	2022	2021	2022
World growth	-3.4	5.6	4.0	1.4	0.3
United States	-3.5	6.5	4.0	3.3	0.5
Japan	-4.8	2.7	1.8	0.4	0.3
Eurozone	-6.8	3.9	3.8	0.3	0.5
Germany	-5.3	3.0	3.7	0.2	0.4
France	-8.2	5.9	3.8	-0.1	0.5
Italy	-8.9	4.1	4.0	-0.2	0.8
Spain	-11.0	5.7	4.8	0.7	0.8
United Kingdom	-9.9	5.1	4.7	0.9	0.6
China	2.3	7.8	4.9	-0.2	0.0
India	-7.4	12.6	5.4	4.7	0.6
Brazil	-4.4	3.7	2.7	1.1	0.5
Mexico	-8.5	4.5	3.0	0.9	-0.4

Source: OECD Economic Outlook, Interim Report, March 2021

Among the advanced economies, it is worth noting the growth forecast for the United States, set at 6.5% after a decline of -3.5% in 2020. This rate has been revised upwards by 3.3 points, strongly influenced by the country's fiscal stimulus plans, both last December's $0.9 trillion plan and the recently approved $1.9

trillion plan. Meanwhile, in the Eurozone, with less fiscal stimuli and lower vaccination rates, the recovery will be slower, with GDP expected to increase by 3.9%. This means that 2019 levels will not be seen again until the end of 2022. Japan and the UK will also post growth in 2021 of less than half of what was lost in 2020.

Among the emerging economies, the most significant revision is India, for which the OECD estimates growth of 12.6% in 2021, 4.7 points higher than its December forecast. Meanwhile, China, which was one of the few countries that grew in 2020 (2.3%), will intensify its dynamism in 2021 to 7.8%. Overall, the outlook is better for the Asia-Pacific region, where the virus has been more effectively contained and industrial sector activity has seen a stronger recovery, than in the emerging economies of Latin America and Africa, where the pandemic has had more outbreaks, slower vaccination processes and less scope for policies aimed at boosting activity.



Source: prepared in-house based on OECD forecasts (March 2021)

The improved outlook for a global recovery, together with the expansionary monetary policies of the main central banks, which have generated abundant liquidity in the financial markets, continue to drive the world's stock markets upwards, with positive results once again in February. However, this abundance of liquidity, reinforced by the different governments' stimulus plans, together with the ongoing rise in commodity prices (up 30% so far this year), are raising expectations of higher inflation in the coming months. These expectations are generating uncertainty in the markets, given the possibility of interest rate hikes, and they are causing a slight rise in the bond yields of several countries.

For the time being, inflation levels are very subdued in advanced economies and forecasts also point to very contained growth for this year, although there may be a little more risk in emerging economies. In any case, the main central banks, led by the Federal Reserve and the ECB, have indicated that interest rates will remain low for quite some time and that they do not perceive inflationary risks in the medium term. Moreover, the current interest rates, at historic lows in many countries, are allowing many economies to absorb their debt servicing costs despite the soaring growth in public debt, so no upward movements in rates are expected in the short term. With regard to debt growth, the European Commission has indicated that it will extend the suspension of fiscal rules on public deficit and debt throughout 2022 so that governments may be able to continue supporting the recovery in activity and employment.

With regard to the current situation, the PMI confidence indicators point to economic growth having gained momentum in February, with improvements in both the manufacturing indices (despite certain disruptions in global supply chains) and in the services indices. The recovery is being led by the United States, where the composite indicator reached 59.5 points, the highest in six and a half years, followed by India. In contrast, China is showing some deceleration, although it is still growing, while the European Union, Japan and the United Kingdom are improving their numbers even though they are still below 50 points.

On the other hand, oil prices continued their upward trend in February, with Brent crude standing at $62.8 per barrel, the highest price since January 2020, 15% higher than in the previous month and 11% higher than a year earlier. In euros, however, this annual increase is zero due to the appreciation of the euro against the dollar. Fears of a slowdown in China have been offset by optimism about vaccination and the fiscal boost in the United States, which will put upward pressure on oil demand. In early March, oil prices continued to rise following the decision by OPEC countries and their partners to extend production levels into April, and due to attacks on oil facilities in Saudi Arabia.

The Spanish Economy

Weak activity and demand at the start of 2021

The intensity of the third wave and the associated restrictions, not only in Spain but across Europe, have weakened activity and demand at the start of 2021. Although data for March is expected to be better due to reduced constraints on mobility and activity in some sectors, information for January and February points to the possibility of a slight fall in GDP for Q1.

This start to the year has led to a restraint in recovery expectations for the Spanish economy. GDP growth estimates for 2021 are set between 5% and 6%. The latest organisation to update its forecasts is the OECD, which anticipates a GDP increase of 5.7% for our country in 2021, a rate that has been revised upwards by 7 tenths of a percentage point compared with its December estimate. For 2022, this institution is less optimistic, estimating a growth rate of 4.8%. This scenario means that Spanish economy would has to wait until 2023 to recover the GDP levels recorded in 2019.

The delay in the recovery of the Spanish economy and the duration of the crisis, particularly intense in some sectors, has led the Government to approve a package of direct aid to companies amounting to €11 billion. This programme has three main axes. The first axis, endowed with €7 billion, is aimed at direct aid to self-employed individuals and companies in the most affected sectors whose income has fallen by more than 30% with respect to 2019. Thus, 2 billion will go to the Balearic and Canary Islands due to the significant impact of tourism on their economies. The second axis (3 billion) includes a set of support and flexibilization measures for public guaranteed facility for loans, allowing the ICO to be incorporated into the restructuring and refinancing processes. Thirdly, a 1 billion recapitalisation fund for companies affected by COVID will be created, aimed at strengthening the balance sheets of companies that were viable in December 2019, but face solvency problems. In addition, the validity of certain insolvency measures is extended until the end of 2021.

With regard to the end of 2020, it should be noted, on a negative side, that the preliminary figure for general government debt reached €1,311 billion, i.e., 117.1% of GDP at the end of 2020, vs. 95.5% of GDP in 2019. On the other hand, and on a positive side, it should be noted that the net lending position of the Spanish economy was again positive in 2020 (0.7% of GDP), albeit lower than in previous years (2% of GDP).

Demand and Activity

The third wave of the pandemic slows down the recovery process and expectations worsen

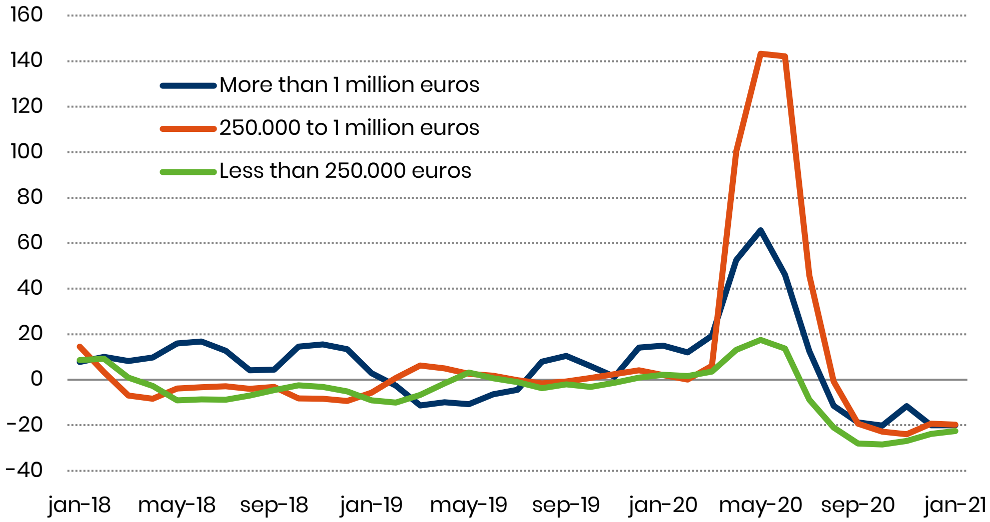
After the timid growth achieved in Q4, which according to the National Statistics Institute's first estimate was set at 0.4% quarter-on-quarter, the indicators available for Q1 are showing a worse overall performance, making it likely that the quarter-on-quarter growth rate will be negative. This would once again put a brake on the recovery, conditioned by the negative evolution of the pandemic in the first few months of the year after a third wave that was more intense than the second, and the associated increase in restrictions on mobility and certain activities. Moreover, although the vaccination process seems to have picked up in recent weeks, it continues to be slow. It is expected that the population most at risk will be vaccinated by the summer.

As a result, expectations among consumers and in certain sectors deteriorated further in February and, on average for the first two months of the year, are now below the Q4 levels. In particular, consumer confidence is back to levels similar to those of June, after having reached its strongest levels in December and January. Retail confidence is also at its most negative since May, due to the deterioration in the outlook for the current and future business climate. By sectors, confidence also worsened in February, especially in retail trade and industry, with services and trade still being the ones with the worst outlook. However, the PMIs showed a slight improvement for both manufacturing and services, bringing manufacturing back to growth levels, while services are still in contractionary levels. Thus, the outlook continues to confirm the notable divergence between sectors.

There is still scarce information available on the evolution of consumption in Q1, but the available information shows a more negative trend. For example, car registrations fell by -51.5% and -38.4% in January and February respectively, dragged by purchases having been brought forward in December before the rise in the car registration tax became effective. There is no doubt that the decline in mobility, the deterioration of expectations and the lack of aid for fleet renewal are making it very difficult for car sales to recover. The deterioration in household consumption can also be seen in the outstanding balance of household financing, which continues to fall (-0.8% in January). New lending to households fell by -19.1%, due to the reduction in loans for consumption and other purposes and the slower growth in housing loans.

On the other hand, company financing stock continues to grow and even accelerates (6.1%), although new transactions by non-financial corporations fell sharply in January (-23.9% year-on-year), which shows, on the one hand, the increase in resorting to financing over the past year and, on the other, the deleveraging of companies after the notable increase in financing in 2020.

Non-financial corporations: new credit evolution (3 months moving average- interannual rate)



Source: Prepared in-house based on data from Bank of Spain

From the point of view of the foreign sector, there is still no information available for Q1. According to the Balance of Payments data published by the Bank of Spain, Spain continued to show a current account surplus in 2020, albeit much lower than in 2019 (8.0 billion vs. 26.6 billion in 2019), equivalent to 0.7% of GDP vs. 2.0% in 2019. This development was mainly due to the plunge in the tourism surplus from 46.3 billion in 2019 to the current 9 billion, a fall of 80.6%, as a result of the sharp drop in tourist inflows. At the beginning of 2021, the situation in the tourism sector is still dramatic. International tourist inflows increased by 4.6 points year-on-year in January, to -89.5% year-on-year and, along the same lines, tourist expenditure fell by -90.5% year-on-year, 4.4 points higher than in December. Overnight stays in hotel accommodation by non-residents fell by 92.6% in January.

The Labour Market

Deterioration of the labour market in February, with a sharper year-on-year fall in the number of registered workers with the Social Security

In the first months of 2021 there has been a certain worsening of the labour market in comparison to the one seen in the second half of 2020, which reflects that a return to normal activity and employment levels is proving difficult, due to the increase in restrictions aimed at curbing the third wave.

After unfavourable data in January, February's figures have clouded the outlook for the labour market even further. This past month closed with an increase of 44,436 registered unemployed, to set the total number of unemployed people at over 4 million, the highest level since 2016. Meanwhile, Social Security registrations increased by 20,632 people on a monthly average, although this figure represents the lowest rise for this month since 2013. In seasonally adjusted terms, the number of workers registered with the Social Security fell by -30,211 following eight months of increases, which also points to the aforementioned deterioration. Going back to the gross data, the year-on-year rate of registered workers fell to -2.1%, compared with -1.7% in January.

The evolution of the number of people registered with the Social Security by sector, public and private, continues to be very uneven. In the public sector, Social Security registrations rose by just over 22,000 in February, in contrast to the fall of -1,720 in the private sector. These results accentuate the divergence observed in recent months in the evolution of employment in these sectors. Thus, registrations derived from the public sector accelerated its year-on-year growth to 7.2% in February, while in the private sector the rate of decline intensified and stood at -3.5%, the worst figure since July last year.

As a result of the greater restrictions on activity due to the third wave, the daily number of workers affected by furlough schemes (ERTE) increased during January to reach 928,286 people at month-end, according to revised data from the Ministry of Inclusion, Social Security and Migration. During February, the number of workers affected by furloughs gradually decreased, ending the month at 899,383 people, which represents a fall of -28,903 people following a 225,478 increase in January. Meanwhile, on a monthly average, the number of workers affected by furloughs increased by 91,511 in February.

According to estimates by CEOE's Economic Department, in Q1, seasonally adjusted effective Social Security registrations (discounting furloughs) are likely to have fallen by around -0.3% quarter-on-quarter, compared with an increase of 1.7% in the last quarter of 2020, which would be in line with the slight decline expected for GDP for that period.

Inflation

The fall in electricity prices and the slowdown in core inflation reduced headline inflation to 0.0% in February

In January, the Consumer Price Index (CPI) year-on-year rate fell by 0.5% to 0.0%, reflecting the weakness of private consumption and the absence of inflationary pressures.

Core inflation fell by 0.3 percentage points to 0.3% year-on-year. Broken down by components, we can see that they remain at very low rates. Thus, prices for Services fell by four tenths of a point to 0.1%, prices for Industrial goods excluding energy products fell by one tenth of a point to 0.2%, and Processed foods, beverages and tobacco fell by four tenths to 0.7%. The prices of this latter food group were affected by the increase in the tax on sugar-sweetened beverages given that, without taking this rise into account, the price increase in this group would have been 0.3%.

Unprocessed food prices continue to be the most inflationary component in the basket, with a year-on-year rate of change of 2.6%, one tenth of a percentage point more than in January, with fresh fruit accounting for the largest rise.

Energy prices intensified their rate of decline in February. Specifically, the year-on-year rate this month for energy product prices was -4.2%, compared with -1.8% the previous month. This was mainly due to the fall in electricity prices, as motor and heating fuel prices slowed their rate of decline in line with the increase in oil prices. In February, oil prices continued to rise to $62.8/barrel on a monthly average, 15% higher than in January and 11% higher year-on-year.

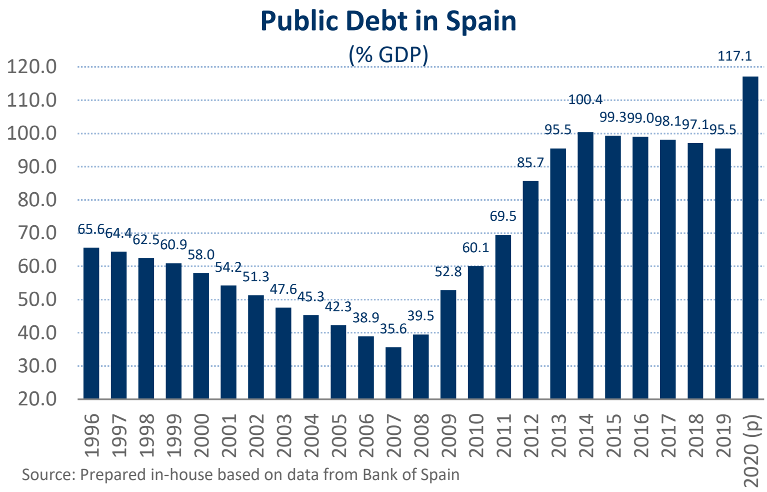
The Harmonised Consumer Price Index fell by 0.5 percentage points in February to -0.1%, while the Economic and Monetary Union's average index remained at 0.9%, according to Eurostat's leading indicator, bringing the negative differential to 1.0 percentage point.

Looking ahead to the coming months, inflation will be conditioned by the behaviour of oil prices and the decline in demand for some goods and services due to the coronavirus crisis.

The Public Sector

Public debt ends 2020 at 117.1% of GDP

With preliminary information for December and considering that the final GDP figure for the Q4 is still pending publication, the Bank of Spain has reported that the public debt of all the Public Administrations stood at 117.1% of GDP at the end of 2020, a ratio much higher than the 95.5% of GDP for the same period of 2019. The crisis caused by the pandemic has had a very significant impact on the public accounts, taking public debt to record highs.



Source: Prepared in-house based on data from Bank of Spain

AIReF (Independent Authority for Fiscal Responsibility) has pointed out that the expected high GDP growth for 2021 and 2022, both of them higher than the nominal interest rate, together with low interest rates, are factors that can support debt sustainability. But if the crisis persists or there is an upward reversal on interest rates, the public debt ratio may start to rise steeply. In fact, this institution has calculated that, if company bankruptcies begin to occur, with their subsequent impact on employment and investment, this would affect the public guaranteed facility for loans. Thus, a level of execution of some 15 to 30% of the guarantees granted by the State over the next five years of the guarantee line life span would mean an additional increase in the debt ratio of 1 to 2 GDP points over the next five years.

On the other hand, according to this institution, a 100 bp hike on interest rate expectations throughout 2021 would imply an increase in the financial burden of 1 GDP point in 2030 and 1.4 in 2040, and the interest expense item would represent 2.8% and 3.6% of GDP, respectively. Therefore, the effort to bring the public debt ratio back to sustainable levels will be one of the main challenges that the Spanish economy will face, requiring the implementation of a clear and credible fiscal consolidation plan once the crisis has been successfully overcome.

Forecasts

Economic forecasts for Spain (last update: March 2021)							
Annual rates of change, unless otherwise indicated							
	2016	2017	2018	2019	2020	2021	2022
GDP	3.0	3.0	2.4	2.0	-11.0	5.4	6.2
Private consumption expenditure	2.6	3.0	1.8	0.9	-12.6	6.8	7.5
Government consumption expenditure	1.0	1.0	2.6	2.3	4.5	3.7	0.6
Gross fixed capital formation	2.4	6.8	6.1	2.7	-12.4	4.8	11.0
-Tangible fixed assets	1.7	7.7	7.6	2.7	-14.5	5.1	11.7
Construction	1.6	6.7	9.3	1.6	-15.8	3.0	11.9
Equipment and cultivated assets	1.9	9.2	5.2	4.3	-12.6	8.2	11.3
-Intangible fixed assets	5.2	2.9	-0.7	2.6	-1.5	3.2	7.5
Domestic demand (*)	2.0	3.1	3.0	1.4	-9.0	5.0	5.5
Exports	5.4	5.5	2.3	2.3	-20.9	6.6	9.4
Imports	2.6	6.8	4.2	0.7	-16.8	5.0	6.7
GDP current prices	3.4	4.3	3.6	3.4	-10.0	6.9	7.2
GDP deflator	0.3	1.3	1.2	1.4	0.9	1.5	1.0
CPI (average annual rate)	-0.2	2.0	1.7	0.7	-0.3	1.3	0.5
CPI (dec/dec)	1.6	1.1	1.2	0.8	-0.5	1.4	0.6
Core CPI (average annual rate)	0.8	1.1	0.9	0.9	0.7	0.6	0.6
Employment (Quarterly National Accounts) (**)	2.8	2.9	2.6	2.3	-7.5	2.1	4.5
Employment (LFS)	2.7	2.6	2.7	2.3	-2.9	-0.5	3.0
Unemployment rate (LFS) (% of active population)	19.6	17.2	15.3	14.1	15.5	16.9	14.8
Productivity	0.2	0.1	-0.2	-0.3	-3.8	3.3	1.8
Compensation per employee	-0.6	0.7	1.0	2.1	1.8	0.6	1.1
Unit labour cost (ULC)	-0.8	0.6	1.2	2.4	5.8	-2.7	-0.7
Current Account Balance (% of GDP)	3.2	2.8	1.9	2.0	0.7	1.2	1.5
General government net lending (+) / net borrowing (–) (% of GDP) (***)	-4.1	-3.0	-2.5	-2.8	-11.5	-9.0	-6.0
Interest rates USA (dec)	0.75	1.50	2.50	1.75	0.25	0.25	0.25
Interest rates Eurozone (dec)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Brent Oil ($)	43.3	54.3	70.9	64.8	41.5	58.7	54.3

Source: CEOE, INE (National Statistics Institute), Banco de España, Eurostat

(*) Contribution to GDP growth

(**) Full-time equivalent jobs

(***) Excluding aid to the financial sector

The drop in Spanish companies' revenues in 2020

Widespread and intense, albeit with different sector impact

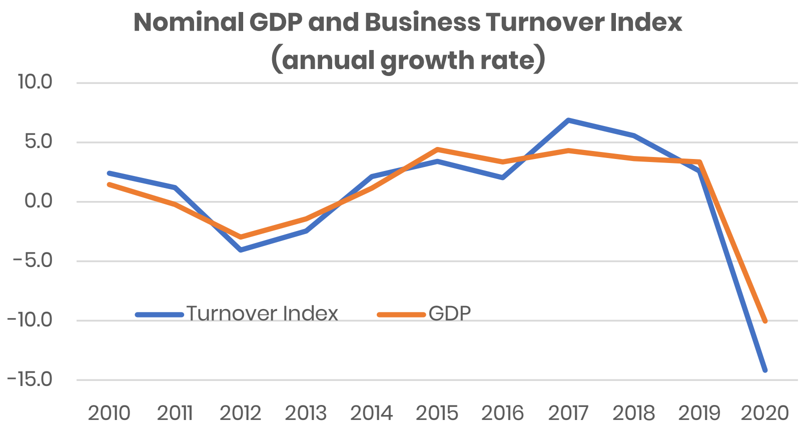
In Spain, the measures aimed at containing the epidemic, together with the weakness of global trade, disruptions in value chains and changes in consumer and leisure habits, have had a notable impact on the different sectors of activity and the companies that comprise them. Generally speaking, revenues are more volatile than costs, as part of the latter are fixed in the short term. In the current context, this means that, despite the sudden drop in revenues, companies still have to face a number of costs (financial expenses, taxes, advertising, wages, etc.). This is reflected in the Bank of Spain's Central Balance Sheet Data, which, with data up to Q3 2020, shows a reduction in corporate revenues of -22% with respect to 2019, a fall that has only been accompanied on the expenditure side by a reduction in net purchases (-26%) linked to these sales, while the decreases in other operating expenses (-9%) and payroll costs (-5%) have been much more moderate.

To estimate the annual fall in turnover in the different sectors of activity in 2020, we have taken as reference the National Statistics Institute's business turnover index for large sectors and the sector business turnover index of the National Classification of Economic Activities (NACE) rounded to two digits in order to carry out a more disaggregated analysis by activity. We've conducted a simple analysis by calculating the average annual rate of these variables for the different sectors and ranked them by drop rate, from highest to lowest. Then, using the Structural Business Survey for commerce, services and industry, the rates of change of the turnover index are applied to the amount of turnover recorded by these structural statistics for 2018 (latest published data). In this way, we obtain a first estimate of the decline in company turnover for each sector of the economy in 2020. For construction, we have used the information published by the Ministry of Transport, Mobility and Urban Agenda for these same variables.

The general business turnover indicator[1] recorded a decline of -14.2% in 2020, which contrasts with the increases in the recovery period. This general index also shows a high correlation with the evolution of nominal GDP although, in 2020, the intensity of the fall in business turnover in the sectors analysed was somewhat greater than the drop in GDP (-10%). In monetary terms and taking as reference the turnover of the sectors included in this index in 2018 (1.86 trillion), we estimate that the decrease in revenue in 2020 with respect to 2019 was in the order of €270 billion for all the sectors analysed combined.

[1] The Business Turnover Index (in Spanish ICNE) aims to measure the monthly evolution of the combined turnover for the following non-financial economic sectors: Extractive and manufacturing industries, Electricity and water supply, sewerage and waste management, Trade and Non-financial market services.

The disaggregated information by large sectors that may be derived from the business turnover index indicates the significant fall recorded by non-financial services, more than -20% in 2020 (-22.2%), which almost doubles the general index as well as the decrease in other sectors that make up this index, such as Extractive and manufacturing industries (-11.7%), Electricity and water supply, sewerage and waste management (-10.1%) or Trade (-11.9%). Thus, the non-financial services sector went from being the most dynamic in 2019 to being the most affected by the crisis.



Source: Prepared in-house based on data from INE

On the other hand, construction recorded a drop in turnover of -11.6% in 2020, with a loss of approximately €17 billion. The intensity of the decline was somewhat greater in civil works than in housing, with both segments recording more than -10%. Therefore, if construction is added to the 270 billion loss in the analysed sectors of industry and services included in the turnover index, the fall in turnover in the business sector in 2020 could be close to 287 billion.

The turnover index provides more disaggregated information by sector. In services, and for those activity areas for which information is available, those sectors linked to tourism are the ones that have suffered the greatest turnover loss in relative terms. Travel agencies stand out, with a -75% drop, followed by accommodation (-68%) and air transport (-60.1%) which, between them, have lost €45.6 billion. Among the tourism-related sectors, food and beverage services stands out, with a decline in turnover of over €23 billion.

Another sector severely affected has been transport, which is intrinsically linked to economic activity and has been affected by mobility restrictions at national and international level. Wholesale and retail trade is also worth mentioning, with a significant drop in turnover due to the restrictions in opening hours, the lockdown and the loss of household income. Trade as a whole (NACE 45, 46, 47) stands out in absolute terms, with a loss of turnover of almost €92 billion euros. On the other hand, the turnover in activities linked to computer and digital services, together with postal activities and those linked to security and research, have been less impacted by the pandemic.

As for the manufacturing industry, the sector that has registered the greatest impact in relative terms has been the oil refining industry. It is followed by all those sectors related to textiles and footwear (between -20% and -30%), whose sharp decline in turnover is due to the fall in consumption in this kind of product as well as the drop in exports, in addition to the restrictions on opening hours of shops and the lockdown period. The metallurgy industry and its derivatives, together with the automotive industry, have also been hit hard by the crisis, both in relative and absolute terms, due to their weight in the Spanish economy. On the other hand, the manufacture of pharmaceutical products, computer, electronic and optical products and the food industry are the activities that have performed most favourably.

In conclusion, most sectors of the Spanish economy have been severely affected by the crisis caused by the pandemic, as evidenced by the declines in turnover. Notably, more than half of the sectors analysed recorded double-digit declines in turnover in 2020. All this reflects how the disruption of activity and demand during the lockdown and subsequent restrictions has had an extremely negative effect not only in Spain, but also worldwide, as this crisis has also strongly affected the most internationalised sectors.

Another relevant aspect is that this decline in turnover has been very uneven. On the negative front, it is worth highlighting tourism-related activities and those in which physical presence is a determining factor, posting declines of over 40%, with travel agencies standing out for their loss of turnover in relative terms. As for the manufacturing industry, it is worth noting the sharp decline in turnover in the footwear and textile industries and those related to metallurgy and the manufacture of machinery, including the automotive industry.

RANKING OF ACTIVITIES - TURNOVER INDEX - YEAR 2020 Sorted by Relative Loss of Turnover	Annual Growth rate %	Turnover Loss billion euros
SERVICES		
79 Travel agency, tour operator and other reservation service and relative serv.	-75.0	-19.0
55 Accommodation	-68.0	-18.6
51 Air transport	-60.1	-8.0
56 Food and beverage service activities	-43.6	-23.2
59 Motion picture, video and television programme production, sound recording and music publishing act.	-34.2	-2.2
50 Water transport	-22.1	-0.5
45 Wholesale and retail trade and repair of motor vehicles and motorcycles	-19.4	-17.5
73 Advertising and market research	-17.4	-3.5
49 Land transport and transport via pipelines	-17.3	-8.8
78 Employment activities	-15.8	-1.1
82 Office administrative, office support and other business support activities	-13.9	-2.4
52 Warehousing and support activities for transportation	-12.8	-6.5
46 Wholesale trade, except motor vehicles and motorcycles	-12.5	-54.9
74 Other professional, scientific and technical activities	-11.6	-0.8
62 Computer programming, consultancy and related activities	-10.5	-3.5
58 Publishing activities	-10.4	-0.7
Legal and accounting activities (*)	-9.6	-2.2
60 Programming and broadcasting activities	-9.4	-0.6
47 Retail trade, except motor vehicles and motorcycles	-7.9	-19.4
71 Architectural and engineering activities; technical testing and analysis	-7.2	-2.0
63 Information services activities	-3.3	-0.1
61 Telecommunications	-1.6	-0.5
53 Postal and courier activities	0.0	0.0
80 Security and investigation activities	0.2	0.0
MANUFACTURING		
19 Manufacture of coke and refined petroleum products	-41.6	n.d.
15 Manufacture of leather and related products	-27.1	-1.2
14 Manufacture of wearing apparel	-21.6	-0.9
24 Manufacture of basic metals	-16.6	-5.1
11 Manufacture of beverages	-15.8	-3.3
33 Repair and installation of machinery and equipment	-15.7	-1.6
25 Manufacture of fabricated metal products, except machinery and equipment	-14.1	-5.5
31 Manufacture of furniture	-13.8	-0.8
18 Printing and reproduction of recorded media	-12.9	-0.8
28 Manufacture of machinery and equipment	-11.9	-2.6
08 Other mining and quarrying	-11.6	-0.3
29 Manufacture of motor vehicles, trailers and semi-trailers	-11.3	-8.1
27 Manufacture of electrical equipment	-10.4	-2.0
30 Manufacture of other transport equipment	-10.0	-1.6
32 Other manufacturing	-9.9	-0.4
12 Manufacture of tobacco products	-9.8	n.d.
17 Manufacture of paper	-8.9	-1.2
22 Manufacture of rubber and plastic products	-8.8	-1.9
13 Manufacture of textiles	-8.5	-0.5
16 Manufacture of wood and cork, except furniture	-8.5	-0.7
20 Manufacture of Chemicals	-8.1	-3.4
23 Manufacture of other non-metallic mineral products	-8.1	-1.7
10 Manufacture of food products	-1.6	-1.8
26 Manufacture of computer, electronic and optical products	-0.6	0.0
21 Manufacture of pharmaceutical products	4.1	0.6
CONSTRUCTION	-11.6	-17.2

Source: Prepared in-house based on data from INE; (*) NACE 69+702

RANKING OF ACTIVITIES - TURNOVER INDEX - YEAR 2020 Sorted by Loss of Turnover	Annual Growth rate %	Turnover Loss billion euros
46 Wholesale trade, except motor vehicles and motorcycles	-12.5	-54.9
56 Food and beverage service activities	-43.6	-23.2
47 Retail trade, except motor vehicles and motorcycles	-7.9	-19.4
79 Travel agency, tour operator and other reservation service and relative serv.	-75.0	-19.0
55 Accommodation	-68.0	-18.6
45 Wholesale and retail trade and repair of motor vehicles and motorcycles	-19.4	-17.5
CONSTRUCTION	-11.6	-17.2
49 Land transport and transport via pipelines	-17.3	-8.8
29 Manufacture of motor vehicles, trailers and semi-trailers	-11.3	-8.1
51 Air transport	-60.1	-8.0
52 Warehousing and support activities for transportation	-12.8	-6.5
25 Manufacture of fabricated metal products, except machinery and equipment	-14.1	-5.5
24 Manufacture of basic metals	-16.6	-5.1
62 Computer programming, consultancy and related activities	-10.5	-3.5
73 Advertising and market research	-17.4	-3.5
20 Manufacture of Chemicals	-8.1	-3.4
11 Manufacture of beverages	-15.8	-3.3
28 Manufacture of machinery and equipment	-11.9	-2.6
82 Office administrative, office support and other business support activities	-13.9	-2.4
59 Motion picture, video and television programme production, sound recording and music publishing act.	-34.2	-2.2
Legal and accounting activities (*)	-9.6	-2.2
71 Architectural and engineering activities; technical testing and analysis	-7.2	-2.0
27 Manufacture of electrical equipment	-10.4	-2.0
22 Manufacture of rubber and plastic products	-8.8	-1.9
10 Manufacture of food products	-1.6	-1.8
23 Manufacture of other non-metallic mineral products	-8.1	-1.7
33 Repair and installation of machinery and equipment	-15.7	-1.6
30 Manufacture of other transport equipment	-10.0	-1.6
17 Manufacture of paper	-8.9	-1.2
15 Manufacture of leather and related products	-27.1	-1.2
78 Employment activities	-15.8	-1.1
14 Manufacture of wearing apparel	-21.6	-0.9
74 Other professional, scientific and technical activities	-11.6	-0.8
31 Manufacture of furniture	-13.8	-0.8
18 Printing and reproduction of recorded media	-12.9	-0.8
58 Publishing activities	-10.4	-0.7
16 Manufacture of wood and cork, except furniture	-8.5	-0.7
60 Programming and broadcasting activities	-9.4	-0.6
61 Telecommunications	-1.6	-0.5
50 Water transport	-22.1	-0.5
13 Manufacture of textiles	-8.5	-0.5
32 Other manufacturing	-9.9	-0.4
08 Other mining and quarrying	-11.6	-0.3
63 Information services activities	-3.3	-0.1
26 Manufacture of computer, electronic and optical products	-0.6	0.0
53 Postal and courier activities	0.0	0.0
80 Security and investigation activities	0.2	0.0
21 Manufacture of pharmaceutical products	4.1	0.6

Source: Prepared in-house based on data from INE; (*) NACE 69+702

The number of companies lost one year after the onset of the pandemic

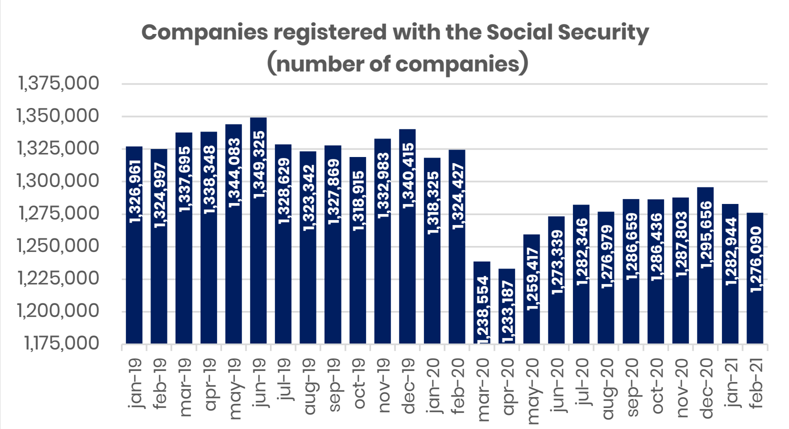
Notable impact of the crisis on the business fabric, although uneven across sectors and different-sized companies

The lockdown and mobility restrictions implemented to try to contain the pandemic and its successive waves have had a strong impact on the economy. As a result, companies, which act as business activity generators and are the driving forces behind job creation, have also been severely affected.

In this section, a brief analysis follows about the negative effect that the pandemic and the restrictive measures implemented to curb it have had on the Spanish business fabric. To this end, we will use Statistics of Firms Registered with the Social Security, published monthly by the Ministry of Work and Social Economy, and whose latest available data refer to February 2021.

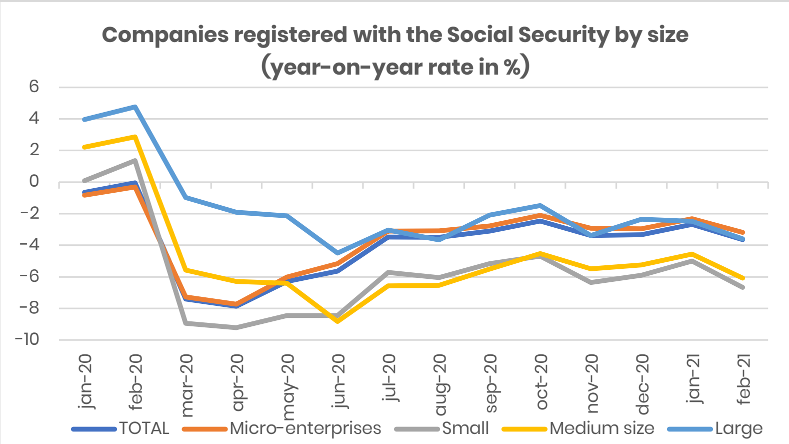
In 2018, the Spanish economy began a deceleration process that continued throughout 2019. As a result, GDP grew by 2.0% in 2019, one percentage point less than in 2017. This loss of dynamism in the economy was reflected in the evolution of the total number of companies, which also slowed down during this period. Thus, its year-on-year rate was set at 0.5% in 2019 (annual average), compared to the 1.5% recorded in 2017.

In this context, the outbreak of COVID-19 significantly aggravated this process of deceleration of the economy and also the slowdown in the total number of companies. In the first months of the pandemic, when the restrictive measures were most severe, with the lockdown of the population and the partial or total paralysis of many activities, the number of firms registered with the Social Security fell rapidly and intensely, as a result of the drop in activity and demand. Between February and April 2020, that is, in just two months, the Social Security Register lost 91,240 companies (a drop of -6.9%), leaving the total number of registered companies at 1,233,187 in April. From May onwards, with the start of the de-escalation, the number of companies increased gradually and this upward trend continued until December 2020, when it reached a figure close to 1.3 million, still below pre-crisis levels. However, in the first months of 2021, this process of recovery of the business fabric has reversed and the number of companies has fallen again, standing at 1,276,090 companies in February, a decrease of -3.6% (-48,337 companies) compared to the same month in 2020. The impact of the third wave at the beginning of the year and the greater restrictions on mobility, together with the longer than expected duration of the pandemic, have pushed many companies to the limit, and many of them have been forced to close down.



Source: prepared in-house based on data from the MInistry of Work and Social Economy

The deterioration in the evolution of the total number of companies in February 2021 affects all company sizes. Both, the total number of registered companies as well as all segments broken down by number of employees are at lower levels than a year ago, just before the pandemic broke out. Small and medium-sized companies are the worst performers this month. Thus, the number of small companies (between 10 and 49 employees), which are the ones that were hit the hardest in relative terms during the toughest months in lockdown, fell by -6.7% year-on-year in February, the worst figure since June, representing a loss of 10,404 companies within this segment in one year. Meanwhile, medium-sized companies (between 50 and 249 employees) also showed a shaper drop in total numbers in February, -6.1% year-on-year, which means 1,555 fewer companies than in the same month of 2020. In the case of the number of micro-enterprises (1 to 9 employees), a deterioration in the figures was also observed, with the year-on-year rate falling to -3.2%, representing the loss of 36,200 companies within this size-based category. In this regard, it should be noted that micro-enterprises are the segment with the greatest weight in the Spanish business fabric, given that they represent more than 85% of the total number of firms registered with the Social Security. On the other hand, for the number of large companies (more than 250 employees), the year-on-year rate has receded to -3.6% in February, which means 178 companies fewer than in February 2020.

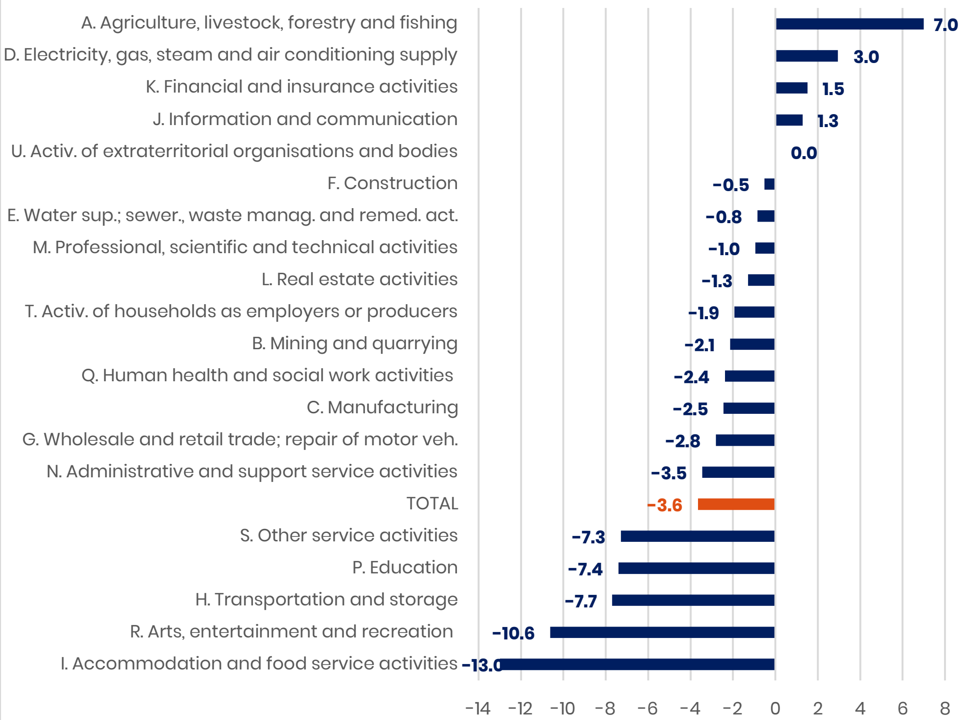


Source: prepared in-house based on data from the MInistry of Work and Social Economy

The pandemic and the measures taken to control it have had a very significant impact on the business fabric, although uneven by sector. Analyzing the number of firms registered with the Social Security in February 2021, in 15 of the 20 sectors studied, the current number of companies is lower than a year ago, and only four sectors show a figure higher than pre-crisis levels.

Among the sectors with the most positive performance, the ones that stand out are those whose activity was either considered essential during the pandemic or was associated with the implementation of actions to support the economy, as well as sectors related to digitization. Thus, the sector with the highest growth in total number of companies in relative terms has been Agriculture, livestock, forestry and fishing, posting and increase in February of 7.0% year-on-year, which is closely related to food supply and was considered essential during the crisis. The increase in the number of companies in the Electricity, gas, steam and air conditioning supply sector is also noteworthy, recording 3.0% year-on-year. This sector has shown positive growth throughout 2020 and so far in 2021, and its activity has proven essential throughout the pandemic. In addition, it should also be pointed out that this is a sector with growth potential, which has bet on new technologies. The Financial and insurance activities sector, which has been essential for the implementation of ICO loans, has also performed more favourably, with the number of companies in February exceeding the existing figure one year prior by 1.5%. Moreover, this has also been a sector where the number of companies has shown positive year-on-year rates since the pandemic began. In the Information and communication sector, the number of existing companies grew by 1.3% year-on-year in February. In this regard, it should be mentioned that this sector has become very important during the pandemic, since the restrictive measures on mobility have significantly accelerated the process of digitalization in all areas: at work, in companies, in education and in society in general.

The business fabric sectors with the most unfavourable evolution are those where the presence of the customer is essential for the provision of the service and have therefore been greatly affected by the mobility restrictions. It will take some time for these sectors to recover their pre-crisis levels. Most of them are related to tourism and leisure. Thus, Accommodation and food service activities and Arts, entertainment and recreation are the areas with the sharpest drops in the number of existing companies, as they recorded year-on-year rates of -13.0% and -10.6%, respectively, during February. The Transportation and storage sector, which is closely linked to tourism and general economic activity, has also been severely affected by the crisis, with -7.7% fewer companies in February than a year earlier. The Education sector has also been badly hit, and although it has made a great effort to move to online learning in many of its fields of action, it was unable to avoid the loss of -7.4% of its companies in one year. The services sector classified as “Other” is the fifth category with the greatest loss of number of companies (in relative terms), with a fall of -7.3%. Overall, these five sectors, which are the most affected by the crisis in terms of business fabric, have lost nearly 40,000 companies in one year, of which almost 23,000 belonged to the Accommodation and food service activities.



Source: prepared in-house based on data from the MInistry of Work and Social Economy

In short, the Spanish business fabric has been hit hard by the pandemic and the restrictive measures that have been implemented to try to fight it. The number of firms registered with the Social Security fell sharply between February and April (by more than 90,000 companies), when the COVID-19 pandemic was at its worse. Subsequently, it began to recover, although without reaching pre-crisis levels. In the first months of 2021, the business fabric has deteriorated once again and, in February, the firms registered with the Social Security were almost 50,000 fewer than a year earlier (a fall of -3.6%). By company size (based on the number of employees), the current number of companies is lower than pre-crisis levels in all segments, with small and medium-sized companies registering the sharpest falls. The impact of the pandemic on the business fabric has been very uneven by sector. In February, in 15 of the 20 sectors analysed, the current number of companies is lower than a year ago, and only four sectors show a higher number of companies than before the crisis. Among the industries with a more positive performance, the following stand out: those whose activity was considered essential during the pandemic; those that were related to the implementation of support measures; and sectors related to digitalization. In contrast, a large proportion of the companies most affected by the crisis belong to the tourism and leisure sectors. The five sectors hit hardest by the pandemic, in terms of business fabric, have lost nearly 40,000 companies in one year, of which almost 23,000 belonged to the Accommodation and food service activities.