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Informe Economía

Economic Outlook

September 2021

Overview

- **PMI indices point to a growth slowdown in the United States and China, while the Eurozone remains buoyant.**
- **Higher commodity prices and its impact on final prices, if prolonged over time, could hurt global growth by dampening household consumption. However, the main central banks believe that its effects are transitory, and they are not planning on tightening their monetary policy normalization plans for the time being.**
- **Oil prices declined in August, following the OPEC+ agreement to increase production, although in year-on-year terms they remain at very high rates.**
- **The Spanish economy recorded a rebound in Q2. Although there are factors that support the continuity of the recovery, there are still some uncertainty issues affecting the business sector that may slow down the intensity of the recovery.**
- **The OECD and the Bank of Spain have revised their growth forecasts for the Spanish economy upwards for 2021 to 6.8% and 6.3%, respectively. The Government has maintained its economic scenario (6.5% in 2021 and 7% in 2022).**
- **The recovery of the labour market continued in August, although there is still some progress to be made in order to reach pre-crisis levels of actual employment. The seasonally adjusted number of workers registered with the Social Security for August and the preliminary data for September point to a slowdown in the recovery process in the final part of the year.**
- **Inflation rose in August to 3.3% due to the base effect and the transitory increase in energy prices. It will remain at similar rates in the coming months, with an ease expected to start at the end of the year.**
- **The Government approved the State's non-financial expenditure limit for 2022, which is set at €196.142 billion. This is a record figure, similar to that of the previous year, which includes a new package of European funds (€26.355 billion).**

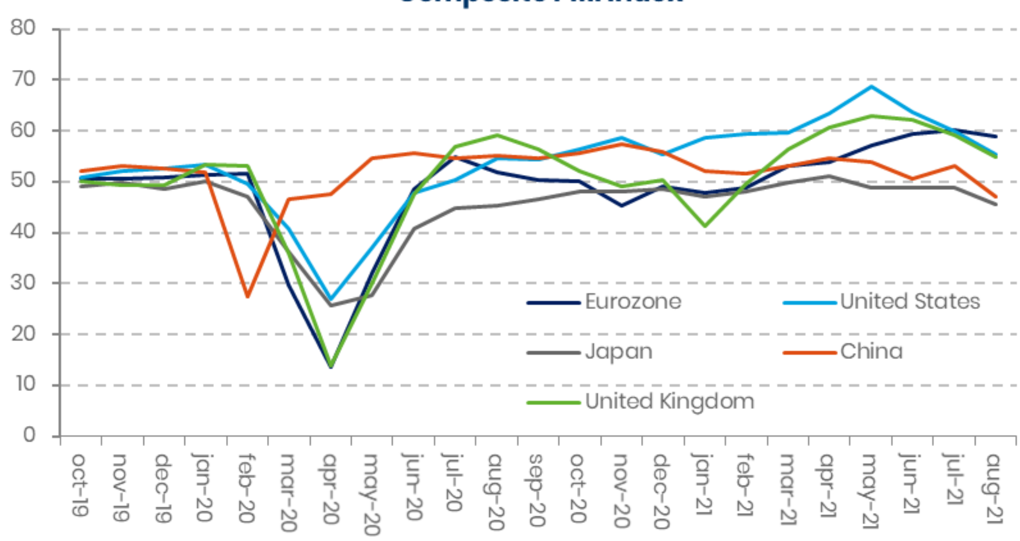
The International Scenario

Global recovery continues at an uneven pace across regions

In Q2, the world economy grew robustly and posted improved rates globally, especially in the U.S. economy, which has already surpassed pre-pandemic GDP levels. At the same time, the European economies, whose recovery was somewhat delayed by the effects of the restrictions implemented in many countries during Q1, took off. In recent months, however, global growth seems to be losing steam. The outbreaks of the pandemic in several major Asian economies and also, although to a lesser extent, in the United States are holding back household consumption. This is compounded with bottlenecks in the supply of certain goods which, in turn, are causing problems in production and leading to higher prices, further damaging growth.

In this regard, the Global Composite PMI Index fell again in August to 52.6 points, the third consecutive decline after the highs of May, although it continues to show a world economy in clear expansion. In the United States and the United Kingdom the same trend continues, pointing to a slowdown in growth. Meanwhile, the Eurozone, which was slower to initiate the recovery, continues to show high momentum. In contrast, Japan is deepening its downtrend and China is below 50 points for the first time since April 2020.

Composite PMI Index



Source: Markit Economics

In the United States, evidence suggests that the pace of growth is slowing as the effects of the fiscal stimuli fade and consumption is being affected by rising prices and the expansion of the covid delta variant, which, although in most cases it is not leading to greater restrictions, it is holding consumers back, mainly in the service sectors.

In August, job creation increased by 235,000, well below expectations, and far from the almost 590,000 jobs that had been created on average per month so far this year. Despite this modest increase in employment, the unemployment rate fell to 5.2% of the labour force, which, in turn, remains at low levels. This generates tensions in the market that are putting upward pressure on wages. However, in September, Covid-related unemployment benefits are scheduled to end, which will presumably help to ease upward pressures on wages. On the other hand, the end of these subsidies may have a negative impact on consumption, slowing the pace of growth.

Meanwhile, the Federal Reserve faces a complicated situation: on the one hand, inflation is at very high levels, 5.3% in August, and above 5.0% since May, which would encourage it to reduce the rate of bond purchases but, on the other hand, the slowdown in job creation may delay this decision for the coming months. In any case, its chairman, Jerome Powell, insisted that rates will not rise in the short term, and that the first upward moves will not occur until the bond purchases are terminated.

In the Eurozone, GDP in Q2 grew by 2.2% quarter-on-quarter after two negative quarters, supported by the increase in private consumption and investment following the easing of the restrictions to fight the pandemic and the increase in immunization rates. Q3, supported by tourism and consumption, will also show a good growth rate while, following the footsteps of other economies where the recovery started earlier, expectations for Q4 point to growth starting to normalize, despite the support provided by the European funds. On the other hand, inflation, which had been very contained in the first months of the year, stood at 3.0% in August, reflecting the rise in raw materials and bottlenecks in the production and distribution of certain goods and services worldwide.

As for the European Central Bank, it is worth noting that it will reduce the pace of asset purchases under the Pandemic Emergency Purchase Program (PEPP), leaving the rest of its monetary policy unchanged.

In China, growth is losing momentum. The outbreaks of covid and the floods that the country has suffered have led to restrictions in production, with a slowdown in industrial production and retail sales, as well as in exports. This lower production, together with the increase in raw material prices, could end up affecting household consumption if the situation is prolonged over time. In addition, it should also be noted that investment spending has also weakened, suffering, in part, from the effects of tighter financial conditions.

In general, the emerging economies performed well in Q2, with notable growth in countries such as India, Turkey and Brazil, and with favourable prospects for Q3, albeit with weaknesses such as high inflation in Turkey and institutional problems in Brazil. However, there are two areas of concern in relation to emerging economies: on the one hand, the rise in the price of raw materials, mainly in food products, given that their economies are generally more dependent on them than advanced countries and, on the other hand, the slowdown in the United States and China, which will affect those economies that are most dependent on their evolution more significantly. In addition, the risk of a possible tightening of monetary policies in the United States could generate financial tensions in some emerging countries.

With regard to inflation, it should be noted that, although year-on-year growth rates have moderated in August, both food and industrial products continue to show very notable increases, namely 38.1% and 34.3%, respectively. Bottlenecks persist in the production of certain goods such as semiconductors, with certain sectors, for example the automotive sector, being affected. In addition, restrictions to contain the pandemic are leading to increases in freight rates, which in turn are being passed on to other goods and services. However, for the time being, the main central banks believe that this situation is transitory and that a significant moderation in prices will take place throughout 2022.

With regard to oil, in August, the price of Brent crude oil stood at $71.8/barrel, down -5.7% compared to July, following the OPEC+ agreements to progressively increase production. However, on a year-on-year basis, Brent crude was 58.2% more expensive in dollars and 59.2% more expensive in euros than a year earlier. In the first days of September, the average price was around $73/barrel, affected by production problems in the United States due to unfavourable weather conditions. Futures suggest that oil prices will remain around these levels for the remainder of the year, before gently decreasing from 2022 onwards.

The Spanish Economy

Rebound in activity and employment in Q2

After the downturn in Q1, the Spanish economy posted a positive performance in Q2. The progress of the vaccination process enabled the gradual lifting of restrictions and a steady return to normality, both in terms of activity and employment. Thus, a turning point was reached last spring and GDP increased at a quarterly rate of 1.1%, while the number of people employed, according to the LFS, increased by almost 465,000.

However, there is still a long way to go to recover pre-pandemic levels, as the Spanish economy is one of the economies that fell the most in 2020. Moreover, this recovery is not the same for all sectors (the arrival of tourists in July was only 44.5% of the number recorded for July 2019, and the categories of Accommodation and Food and beverages account for around 38% of the people in furloughs); nor for all age groups (unemployment continues to have a negative impact on young people and those over 55); nor for all territories, where the most specialized in tourism, such as the Canary Islands and the Balearic Islands, are those with the highest percentage of workers under furlough schemes (ERTE).

The outlook for the second part of the year continues to point to a continuity of the recovery process as a result of several factors: the dynamic typical of the summer season; the recovery of household consumption, which is emerging as the most dynamic component of GDP (together with public consumption); the arrival of European funds; and the leverage of expansionary monetary and fiscal policies. In this last area, it is worth highlighting the approval of the expenditure ceiling for 2022, which remains practically at historic highs, sending a signal that the budgetary policy will continue to have a very expansionary bias, within a context of suspended fiscal rules. The Spanish Government has maintained its growth forecast for this year at 6.5%, above the one from the Bank of Spain (6.3%), although somewhat less optimistic than the OECD (6.8%).

This improvement is not free from uncertainty, a fact that is affecting the business sector head on. The first of these uncertainties is the increase in the price of raw materials, from energy to production materials; the second is the legal uncertainty in key aspects affecting taxation, regulation and labour costs, which can paralyze new investment projects. And the third is the behaviour of the global economy, which, although positive, still there are some countries or economic areas where normalization is yet to arrive and they not contributing as much to the reactivation of trade and world production.

Demand and activity

Activity continues to improve in Q3 on the back of higher consumer spending and increased foreign tourist inflows

From June onwards, with the end of the state of alarm and the lifting of many of the restrictions that were still in place, together with the arrival of the highly contagious delta variant, there was a sharp increase in the number of people infected and the accumulated incidence over the summer months. However, this fifth wave did not lead to an increase in hospital admissions or deaths on the same scale as the previous ones, thanks to the advance in the rate of vaccinations, which now stands at 75% of the population. In this context, activity and employment recorded a favourable evolution in Q3, which is expected to continue in Q4, still boosted by the bottled-up household consumption, the expansionary monetary and fiscal policies, the increase in international tourist arrivals and the implementation of investments financed with NGEU funds.

During the course of Q3, agents' general expectations have continued to improve, mainly consumer confidence and those sectors that had suffered the most during the crisis, such as retail trade and the services sector, although there has been a slight deterioration in the confidence of the industrial and construction sectors. In the case of consumer confidence, both the current situation of households and the economic trend in general are viewed with greater optimism. The PMIs for July and August continue to be well above the 50 level (indicating activity growth) for the manufacturing and service sectors, although somewhat lower than the levels reached in June, when they exceeded 60 points.

Available indicators related to household consumption in Q3 show a continuation of the positive evolution registered in Q2. Thus, for example, the retail trade index (excluding service stations) registered a significant increase in July with respect to the average for Q2, due to the high dynamism in both non-food and food spending. The evolution of credit card consumer spending offered by some banks shows how the lifting of restrictions, together with the arrival of the holidays, has led to higher consumption in those services that were limited by the pandemic such as restaurants, leisure or tourism, placing spending above pre-crisis levels. However, passenger car registrations continued the downward trend of recent months, after registering a decline of -36.1% in August compared to the figure for 2019. In accumulated terms for the first eight months, passenger car registrations are down -33.4% compared to two years ago, as all segments continue to reduce their deliveries, with rates exceeding -20% compared to the same period in 2019. Behind this evolution are supply factors, such as the lack of stock in dealerships due to the shortage of microchips that has led to some factories being halted, and also demand factors, such as the uncertainty of buyers due to the pandemic as well them being hesitant as to what vehicle to choose.

From the point of view of the foreign sector, with information up to the month of June, exports outperformed imports. Thus, in the first six months of the year and in terms of volume, exports increased by 18.2% year-on-year and imports grew by 15.0% year-on-year. The result of these flows was an accumulated trade balance in this period of €-5.397 billion, 28.7% lower than that recorded in 2020 and 61.7% lower than in 2019. According to the Balance of Payments data published by the Bank of Spain, over the January-June period, the Spanish economy recorded an external financing capacity of 2.0 mm, compared to a financing capacity of 3.0 mm in the same period for the previous year. The fall in the tourism and travel balance (2.4 billion, compared to 5.1 billion a year earlier) led to a deterioration in the current account balance, which stood at a deficit (-0.5 billion) compared to a surplus in the same period of the previous year (1.2 billion).

The latest available data on the tourism sector shows a rebound in July that could have intensified in August, according to spending with foreign credit cards. The inflow of international tourists increased in July to almost 4.4 million tourists, although it is still -55.5% below the figure for the same month of 2019 as a figure prior to the pandemic. In the same way, the total expenditure made by international tourists in Spain in July reached 5,231 million euros, which represents a decrease of -56.2%, compared to 2019. The main tourist-generating countries at present are France, Germany and the United Kingdom, the latter is recovering after the deterioration in recent months. It is expected that in August the inflow of foreign tourists will continue to recover, reaching figures higher than 50% of those registered before the pandemic in the same month and that the growing trend will continue until recovering a high percentage of tourists who visited Spain before the crisis, which will be reflected in the balance of payments figures.

The Labour Market

The recovery in the labour market continued in August

The results of the LFS show that Q2 has been a period of economic recovery. In a period traditionally marked by positive seasonality, the gradual lifting of restrictions and the progressive return to normality brought about by the advance in the vaccination process have boosted job creation, with a quarter-on-quarter increase of 464,900 jobs. The notable increase in the active population, up by 354,800 people as a result of the reincorporation of people into the labour market due to the improvement in the economic outlook, slowed down the reduction in the number of unemployed, which fell by 110,100 people, while the unemployment rate dropped to 15.26%. However, in terms of the LFS, the labour market has not yet recovered 2019's employment and unemployment levels.

With respect to Q3, the results for August, both in terms of Social Security registrations and registered unemployment, are relatively favourable, although some uncertainty persists as to their future evolution. The lesser restrictions and the summer season have contributed to the boost in activity, which has resulted in a lower than usual decline in Social Security registrations (-118,004 people) for the month of August (vs. an average of -162,000 people in the same month for the 2014-2019 period). Meanwhile, registered unemployment has decreased by 82,583 people, compared to the traditional increase at this time of the year.

In seasonally adjusted terms, the number of registered workers increased for the fourth consecutive month. Specifically, in August it grew by 76,541 people, although less intensely than in the two previous months. In addition, the Ministry of Inclusion, Social Security and Migration estimates that September will close with an increase of around 80,000 registered workers, similar to the previous month.

In August, the number of registered workers was 153,497 higher than in the same month of 2019. However, despite the fact that the number of people under furloughs (ERTE) declined over said month, it still stands at 277,905 people on average per month, so that the effective number of workers registered is still 124,408 people lower than in August 2019, i.e., it still remains -0.6% below the pre-crisis effective employment level.

According to estimates from CEOE's Economic department, the employment balance in Q3 is expected to be positive. It is estimated that seasonally adjusted effective registrations (discounting furloughs) will have increased by around 3.3% quarter-on-quarter, compared to the 1.8% increase recorded in Q2. However, the employment results (seasonally adjusted) for August and the preliminary data for September, although positive, are more modest than those of previous months, which could point to a slowdown in the normalization of the labour market in the final part of the year.

Inflation

Inflation rose four tenths of a percentage point to 3.3% due to the statistical base effect and the energy prices

In August, the CPI year-on-year rate increased by four tenths of a percentage point to 3.3%. The statistical base effect and the increase in energy product prices have been the main inflationary elements, although other items in the basket are beginning to show a greater increase in prices. The price drops in 2020 are causing a statistical base effect that requires considering, in addition to interannual inflation, inflation between January 2020 and August 2021, which in CPI accumulated terms is 1.7% and 0% in terms of core inflation.

Core inflation increased slightly by one tenth of a percentage point to 0.7% year-on-year. By components, Services prices increased by one tenth to 0.6%, Industrial Goods prices excluding energy products increased by two tenths to 0.6%, and Processed Foods, beverages and tobacco rose by two tenths to 1.2%.

The prices of Non-processed foods increased two tenths year-on-year to 2.6%. The largest increases with respect to the same month of 2020 are concentrated in oils and fats, fresh fruits and eggs, while the sharpest decreases are recorded in canned fruits and milk.

Energy prices constitute the most inflationary component of the CPI, with a year-on-year rate of 23.5% (20.7% in July). In fact, the CPI rate excluding energy products stood at 0.9% in August. In particular, fuel prices, together with electricity and liquid fuels, keep growing at very high rates. In August, the price of crude oil stood at $71.8/barrel, down -5.7% compared to July, following the OPEC+ agreements to progressively increase oil production. However, on a year-on-year basis, the price of Brent crude oil was 58.2% more expensive in dollars and 59.2% more expensive in euros than a year ago. In the first days of September, the average price stood at $72.8/barrel, which, if maintained, would represent an increase of 79.0% in year-on-year terms. Forecasts suggest that the price will remain relatively stable over the coming months, and therefore will continue to put upward pressure on inflation, albeit more moderately from December onwards.

In the coming months, it is expected that, despite the upward behaviour of commodity prices, especially energy prices, their impact on inflation will gradually diminish. This, together with the fact that core inflation will continue to post low figures, will help to keep inflation subdued in the last part of the year.

The Public Sector

The expenditure ceiling for 2022 remains at record highs

In a context in which the exceptional situation of fiscal rules having been suspended still continues, the Government approved at the end of July the agreement that sets the State's non-financial expenditure limit for 2022 at €196.142 billion. This is a record figure, similar to that of the previous year (€196.097 billion), which includes a new package of European funds (€26.355 billion), as well as the transfer of additional resources for the rest of the subsectors (Social Security, Autonomous Communities and Local Entities).

The Government estimates that the overall government deficit will stand at -8.4% of GDP in 2021 and will continue to fall to -5.0% of GDP in 2022. As was the case in 2020, the State assumes most of the cost of the pandemic, guaranteeing liquidity to the rest of the subsectors. Thus, its fiscal imbalance will amount to -6.3% of GDP this year, falling to -3.9% of GDP in 2022. It is followed by the Social Security, with a negative balance of -1.5% and -0.5% in both years, while the Autonomous Regions will have a slight deficit of around -0.6% of GDP and the Local Bodies will continue to have a balanced budget.

Regarding the execution of the State in terms of National Accounts in the first half of 2021, it should be noted that the State deficit continues to improve with respect to 2020. Specifically, it was set at -3.0% of GDP up to June, compared to -4.3% of GDP in the same period of the previous year. In this first half of 2021, the primary deficit represents -2.0% of GDP, below the -3.3% of GDP reached in 2020.

The reduction in the public deficit is explained by the dynamism of the State's non-financial resources, which are 15.0% higher than in the same period of the previous year. Expenditure was practically unchanged compared to the first half of 2020, down just -0.1%.

The evolution of resources is due to the 20.6% growth in tax revenues, which stand at €80.611 billion, €13.797 billion more than in the first half of 2020 (the period in which the pandemic had a greater impact on economic activity). An analysis of the recovery in tax revenues shows, nonetheless, that they are still 2.7% below the level recorded in the first half of 2019.

Forecasts

Economic forecasts for Spain (last update: September 2021)							
Annual rates of change, unless otherwise indicated							
	2016	2017	2018	2019	2020	2021	2022
GDP	3.0	3.0	2.4	2.0	-10.8	5.7	6.0
Private consumption expenditure	2.6	3.0	1.8	0.9	-12.4	5.4	5.9
Government consumption expenditure	1.0	1.0	2.6	2.3	3.8	2.4	1.7
Gross fixed capital formation	2.4	6.8	6.1	2.7	-11.4	5.8	7.6
-Tangible fixed assets	1.7	7.7	7.6	2.7	-13.3	6.5	8.3
Construction	1.6	6.7	9.3	1.6	-14.0	2.4	8.4
Equipment and cultivated assets	1.9	9.2	5.2	4.3	-12.2	12.5	8.1
-Intangible fixed assets	5.2	2.9	-0.7	2.6	-1.7	2.6	4.1
Domestic demand (*)	2.0	3.1	3.0	1.4	-8.8	4.8	4.1
Exports	5.4	5.5	2.3	2.3	-20.2	9.0	11.1
Imports	2.6	6.8	4.2	0.7	-15.8	6.0	5.1
GDP current prices	3.4	4.3	3.6	3.4	-9.9	7.2	7.0
GDP deflator	0.3	1.3	1.2	1.4	1.0	1.5	1.0
CPI (average annual rate)	-0.2	2.0	1.7	0.7	-0.3	2.4	0.9
CPI (dec/dec)	1.6	1.1	1.2	0.8	-0.5	3.0	0.3
Core CPI (average annual rate)	0.8	1.1	0.9	0.9	0.7	0.5	0.8
Employment (Quarterly National Accounts)(**)	2.8	2.9	2.6	2.3	-7.5	4.4	4.6
Employment (LFS)	2.7	2.6	2.7	2.3	-2.9	1.0	1.7
Unemployment rate (LFS) (% active population)	19.6	17.2	15.3	14.1	15.5	15.4	14.6
Productivity	0.2	0.1	-0.2	-0.3	-3.6	1.3	1.4
Compensation per employee	-0.6	0.7	1.0	2.1	1.4	0.5	1.1
Unit labour cost (ULC)	-0.8	0.6	1.2	2.4	5.3	-0.8	-0.4
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)	-4.3	-3.0	-2.5	-2.9	-11.0	-8.3	-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	68.8	67.8

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

(*) Contribution to GDP growth

(**) Full-time equivalent jobs