CEOE Empresas Españolas

Liderar
Defender
Impulsar
Promover

Informe
Economía

Economic Outlook

December 2021

Overview

- Global growth remains robust, although there are signs of an upcoming slowdown and an increase in the number of risks present.
- Oil and ocean freight prices provide some respite, although inflation continues to rise in many countries.
- Rising inflation is prompting major central banks to begin tightening monetary policy.
- The Bank of Spain and the OECD have been the latest institutions to join in the significant downward revision of the Spanish economy's growth prospects, setting it at 4.5% for 2021 and around 5.5% in 2022.
- The Spanish economy slowed its recovery pace in the last quarter due to the worsening health situation and supply problems.
- Job creation has been remarkable in recent months. However, CEOE estimates indicate that seasonally adjusted effective Social Security registrations will increase by around 2.2% quarter-on-quarter in Q4-2021, less strongly than in Q3.
- Inflation reached 5.5% in November, but energy prices are beginning to slow down.
- The dynamism of public revenues is contributing to the correction of the State's public deficit in 2021, but public spending continues to increase.

The International Scenario

Rising inflation prompts central banks to begin tightening monetary policies

The global economy continues to post clear growth signals, although in recent months there have been several factors that have slowed the momentum of this upward trend. The percentage of the population vaccinated has stagnated in many regions, while the spread of new Covid variants is causing an increase in the number of infections in many countries, particularly in Central Europe. This situation could further restrict the production of certain goods and services, aggravating the mismatch between supply and demand, prolonging existing bottlenecks over time, and putting upward pressure on prices.

Energy costs also continue to rise, with upward pressures on coal and most notably on natural gas prices, due to strong demand from China as it seeks to partly reduce its dependence on coal, and from Europe as winter approaches and the geopolitical tensions with Russia and Belarus continue. In contrast, oil prices have eased in recent weeks to around $75/barrel, after hovering around $85/barrel during October and much of November. Fears that the spread of the omicron variant could affect people's mobility and slow economic growth are the main reasons for the decline in crude oil prices.

After the peaks reached in October, freight rates have also subdued in recent weeks, although they are still at historically high levels as reflected in the Baltic Dry Index. Despite this moderation in freight costs and oil prices, inflation continued to rise in November, having reached its highest levels of several decades in many countries. The rise was particularly intense in the United States, which is also experiencing significant wage pressures due to the lack of workers in many sectors.

The rise in inflation has led central banks to react and some have started to tighten their monetary policies, which in any case continue to be, in general, very lax, at least among advanced economies. Since the summer, interest rate hikes have been taking place in some countries, mainly among emerging economies. Following the December meetings of the main central banks, the Bank of England was the first to implement an interest rate hike. Meanwhile, the Federal Reserve has accelerated the cutback of its asset purchase program and has announced up to three rate hikes in 2022, while the ECB will also progressively reduce its bond purchases, although for the time being it does not plan to raise rates in the coming year.

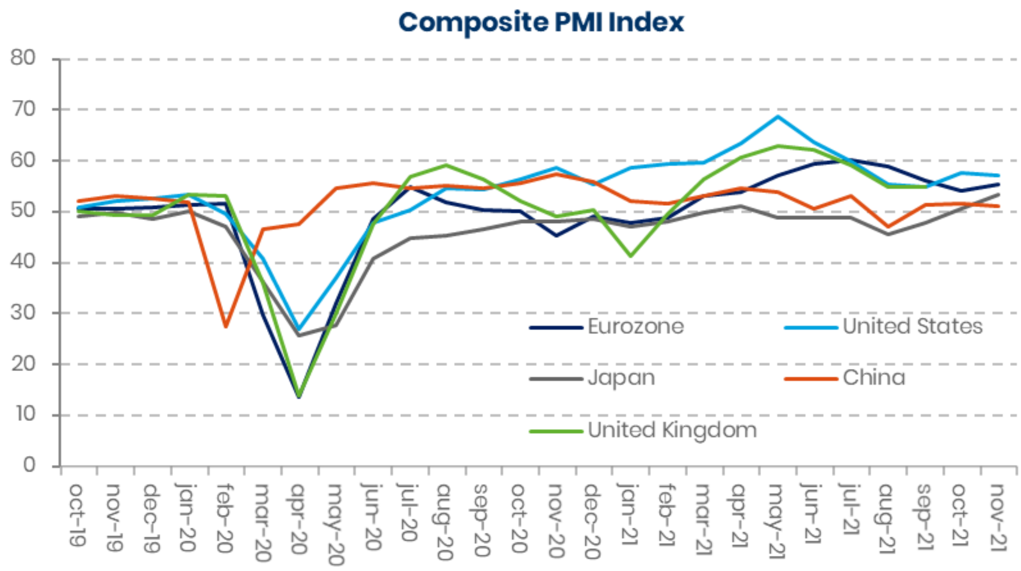
In this context of greater uncertainty, the OECD, in line with other international institutions, revised its global growth forecasts for 2021 slightly downwards, by one tenth, to 5.6%. The agency pointed out its concern about the increase in infections, the drag on the global economy caused by the existing bottleneck problems and the high levels of inflation. The revision was quite significant in the United States (four tenths lower than the September estimate) and even more so in Japan (seven tenths lower), while the Eurozone's was only lower by one tenth and, in contrast, the estimates for the United Kingdom were increased by two tenths. China's estimates were also revised down considerably (by four tenths). In the case of raw material exporting countries, the revision was generally positive. For 2022, the growth forecast remains unchanged at 4.5%, while in 2023 GDP growth is expected to slow down to 3.2%, a level similar to those posted in the years prior to the pandemic.

OECD growth forecasts (December 2021)

	OECD			dif. from sept.	
GDP (year-on-year rate)	**2021**	**2022**	**2023**	**2021**	**2022**
World growth	5.6	4.5	3.2	-0.1	0.0
United States	5.6	3.7	2.4	-0.4	-0.2
Japan	1.8	3.4	1.1	-0.7	1.3
United Kingdom	6.9	4.7	2.1	0.2	-0.5
Euro Area	5.2	4.3	2.5	-0.1	-0.3
Germany	2.9	4.1	2.4	0.0	-0.5
France	6.8	4.2	2.1	0.5	0.2
Spain	4.5	5.5	3.8	-2.3	-1.1
Italy	6.3	4.6	2.3	0.4	0.5
China	8.1	5.1	5.1	-0.4	-0.7
India	9.4	8.1	5.5	-0.3	0.2
Brasil	5.0	1.4	2.1	-0.2	-0.9
Mexico	5.9	3.3	2.5	-0.4	-0.1
Russia	4.3	2.7	1.3	1.6	-0.7

Source: OECD

As for the most recent performance, the global composite PMI index for November improved slightly compared to October, remaining clearly in expansionary territory, albeit at lower levels than those reached between April and June. There has been a mild improvement in the Eurozone along with a more notable improvement in Japan, while there was a slight worsening in the United States, China and the United Kingdom.



Source: Markit Economics

Among the main economies, the most relevant aspect is the rapid and sharp increase in prices. Bottlenecks affecting world production and problems with maritime transport, which have led to delays in distribution, are exacerbating the mismatch between supply and demand. In the United States, inflation in November stood at 6.8%, a nearly forty-year high, while wage pressures are intensifying as a result of a labour shortage, in a context where the workforce and the labour force are lower than they were before the pandemic.

In the Eurozone, prices have also risen very quickly to stand at 4.9% in November, after starting the year with negative rates. This is partly due to a base effect, to the increase in energy prices, and to problems in production and distribution, which may be exacerbated by the increase in the number of infections in recent weeks. In contrast to the United States, employment in the Eurozone has returned to or even surpassed pre-crisis levels, although the slower GDP growth rate and the existing excess production capacity mean that tensions in the labour market are not as marked. In the United Kingdom, on the other hand, they are also experiencing staff shortages in many sectors, a situation that has been exacerbated by Brexit, with notable wage pressures and inflation reaching 5.1% in November, the highest since 2011.

China, on the other hand, has its consumer prices under control for the time being, but also has tensions in energy and production prices. In addition, the Asian country is immersed in a real estate crisis which, if left unchecked, threatens to significantly slow its economic growth. The energy transition towards less coal dependence and greater gas demand, and its zero-tolerance policy on Covid, at a time when infections are on the rise, are also factors that will dampen growth, at least in the short term.

The response from central banks is becoming harsher as inflation rises and the increase extends over time. At first, several emerging economies responded to price pressures by increasing their interest rates, most notably Brazil, which so far this year has raised its official interest rates from 2.0% to 9.25%, and Russia, where it has gone from 4.25% to 8.5%. However, in recent weeks, the main central banks have been the most prominent players.

At its December meeting, the Bank of England took everyone by surprise by raising interest rates by 15 basis points to 0.25%, the first increase since August 2018, with the aim of containing inflation and tensions in the labour market. As for the Federal Reserve, it has stepped up the tapering of its asset purchase program, which is now scheduled to end in March 2022 rather than in June. In addition, its chairman, Jerome Powell, indicated that they plan to implement three interest rate hikes next year, once bond purchases have ended, with the aim of setting them between 0.75% and 1.0% by the end of 2022. Meanwhile, the European Central Bank also tightened its monetary policy slightly, with a gradual reduction in its bond-buying program. Between December and March (at the end of which the Pandemic Emergency Purchase Program (PEPP) will be discontinued), it will reduce the amount of its purchases by €10 billion per month. And from April, its conventional Asset Purchase Program (APP) will increase bond purchases from the current €20 billion per month to €40 billion per month, reducing it every 3 months until October, when it will again stand at €20 billion and where it will remain for as long as necessary to ensure that the monetary policy approach is appropriate. In contrast, China, whose economy is slowing down and is suffering from problems in the real estate sector, has minimally reduced its interest rate on one-year bank loans from 3.85% to 3.80% to stimulate its economy.

The Spanish Economy

Widespread downward revision of growth prospects for 2021 and 2022, except from the government

The OECD has been the latest international institution to join in reviewing the growth outlook for the Spanish economy downward, forecasting 4.5% for 2021 and 5.5% for 2022. The Bank of Spain has also followed along this line, estimating rates of 4.5% and 5.4% respectively. Thus, Spain has gone from being the engine of the Eurozone to becoming one of the economies that will take the longest to recover pre-crisis levels, which in terms of activity are now not foreseen until 2023.The opposite is the case with employment, which has been surprisingly buoyant month after month since May, as reflected in the Social Security registration figures, which are already above pre-crisis levels. This is largely due to the public sector, while the private sector only reached this milestone in November. However, the 106,180 self-employed individuals receiving extraordinary benefits should be taken into account.

The causes behind this lower growth scenario in 2021 are a weaker-than-expected dynamism in private sector consumption and investment spending, coupled with high inflation, the delay in the implementation of the European funds, and a more gradual return of international tourism than anticipated, which is still far from pre-crisis levels.

The downward revision of the outlook for 2022 is based on many factors, as well on the growing uncertainty. The first of these factors is the evolution of the pandemic, which is becoming more complicated in Europe, especially for certain economies. This may lead to an increase in restrictive measures and, in turn, to a delay in the recovery of our main trading partners, also implying greater limitations on trade and on the functioning of global value chains. According to the Bank of Spain, disruptions in global supply chains could lead to a reduction of the Spanish GDP growth rate by between five and nine tenths in 2022. Another worrying element is inflation, whose initially transitory upturn may now extend over time. This would generate a decline in household incomes and business margins, as well as have negative consequences for industrial production and other sectors that are leading the shift towards a more digital and sustainable economy.

Although there are encouraging factors (expansionary policies, European funds and bottled-up savings), there is no doubt that the recovery will be somewhat contained in the last quarter of 2021, as indicated in the Bank of Spain's latest forecast report, which estimates a quarterly rate of 1.6% vs. the previous 2%.

Demand and Activity

Economic recovery slowed by supply constraints

The Spanish economy continues its recovery, albeit at a more moderate pace than initially expected. After registering quarter-on-quarter growth of 2% in Q3, according to the National Statistics Institute's first estimate, which will be revised and published on December 23, the indicators available for Q4 could be showing slightly lower growth than that recorded in the previous quarter. All in all, the increase for the year 2021 as a whole will most likely be below 5%.

With regard to the pandemic, although Q4 began with very low incidence levels, the number of infections has risen rapidly during November and so far in December. The emergence of the new "omicron" variant and the high incidence in the unvaccinated population, especially among children under 12, has complicated the health situation, although the number of admissions and deaths remains contained.

This worsening of the health situation is compounded by other factors that were slowing activity and is leading to a downward revision of growth forecasts for Q4. Thus, the difficulties in the supply of inputs, together with the increase in the prices of raw materials and transport, are weighing on activity in certain sectors.

Spain shows mixed signals, but activity has lost momentum. Confidence indicators show some decline in agents' expectations, especially in the case of consumer, retail and construction confidence in November. The PMIs for November, although still well above 50 (indicating activity growth), both for the manufacturing industry and the services sector, show a slight deterioration with respect to previous months, which could be associated with supply difficulties and delays in the delivery of orders that are making it impossible to meet existing demand.

Car registrations continue to accumulate additional setbacks, due to both the shortage of microchips and very subdued demand. Between January and November 2021, 773,396 units were sold, 4% more than in the first eleven months of 2020, but 33% less than in the same period of 2019. From the sector, it is estimated that there is an order backlog of more than 100,000 units undelivered due to supply problems, which will be converted into registrations next year, but will be affected by the registration tax hike.

With regard to household consumption in the coming months, if inflation remains at high levels, it could have a detrimental effect on purchasing power. However, spending is expected to continue growing, especially that related to services.

In terms of the foreign sector, with information up to October, exports performed slightly better than imports. Thus, in the first ten months of the year and in terms of volume, exports increased by 13.3% year-on-year and imports grew by 12.7% year-on-year. The result of these flows was an accumulated trade deficit in this period of € -16.6289 billion, 41.5% higher than in 2020 and -39.1% lower than in 2019.

According to the Balance of Payments data published by the Bank of Spain, for the 12-month accumulated figure up to September 2021, the Spanish economy recorded a financing capacity against the foreign sector of 21 billion, higher than the 16.3 billion registered in the same period of the previous year. The improved performance of the balance of goods has been able to offset the deterioration of the tourism and travel balance (13.0 billion, compared to 15.7 billion a year earlier) and of primary and secondary income, allowing the current account balance to record a higher surplus.

Tourism inflows continued their gradual recovery, although the figures are still far from pre-pandemic levels. In October, international tourist inflows stood at 5.1 million tourists, still -33% below the October 2019 figure but an improvement over August and September, when it was set at around 60% of pre-pandemic levels. Similarly, total spending by international tourists in October reached €5.587 billion, down 32.8%, compared to 2019. In addition, figures for spending with foreign cards in November seem to indicate that the recovery has continued at a good pace.

The Labour Market

The recovery of the labour market continued in the final stretch of 2021

The labour market is heading into the final stretch of the year with a favourable performance, driven by a substantial job creation that is proving even more intense than the economic recovery. However, the uneven recovery by sector, a high level of unemployment with more than three million people out of a job, more than 100,000 workers under furlough schemes-ERTE, and the growing incidence of COVID in the last few weeks require us to remain cautious about the future evolution of the labour market. All of this is set against a backdrop of uncertainties and downside risks to the economic recovery.

In November, a traditionally unfavourable month for the labour market, Social Security registrations increased by 61,768 people, which is an all-time record for this month. In the private sector, 53,433 new Social Security registrations were recorded, while the public sector added 8,335 workers. In seasonally adjusted terms, registrations grew for the seventh consecutive month, by 109,451 people, and the Ministry of Inclusion, Social Security and Migration estimates that December will close with 63,543 additional registrations.

According to the latest figures published by the aforementioned Ministry, the number of workers under furloughs has continued to fall in recent months. Thus, as of December 15, there were a total of 111,496 people in this situation (provisional data), of which 84,126 corresponded to furloughs linked to Covid; 25,984 refer to furloughs not linked to Covid (almost one out of every three workers in this type of furlough belongs to the automobile sector); and 1,386 are related to furloughs due to the eruption of the volcano of La Palma.

In November, discounting the monthly average of 118,885 people under furlough schemes, effective Social Security registrations stood at 1.3% above the levels recorded two years ago (+256,594 people). However, there are differences between the public and private sectors. The number of people registered with the Social Security in the public sector is higher than in November 2019 by 211,799 people (8.2%). Meanwhile, in the private sector, effective registrations have reached pre-pandemic levels for the first time since the beginning of the crisis, with 0.3% more effective employment (+44,795 workers). However, we need to bear in mind that 106,180 self-employed individuals are receiving extraordinary benefits.

According to estimates by CEOE's Economic Department based on the Ministry's preliminary data for December, the employment balance in Q4 will be positive, although job creation will be less intense than in Q3. It is estimated that effective registrations (discounting those under furloughs), adjusted for seasonality, will increase by around 2.2% quarter-on-quarter, compared to the 3.4% increase recorded in Q3.

Inflation

Inflation reached 5.5% in November, but energy prices are starting to ease

In Spain, inflation has undergone a notable acceleration throughout 2021, standing at 5.5% in November, with the increase in the price of energy products being the main inflationary element. In turn, core CPI increased by three tenths, bringing its year-on-year rate to 1.7%. However, companies are assuming significant production costs, which are hardly being passed on to final prices, as shown by the subdued core inflation rate. All this implies a significant reduction in business margins at a sensitive time for many of them, after months of crisis and restrictions on activity.

Within core inflation, Services prices increased their year-on-year rate by three tenths to 1.7%; the prices of Industrial Goods, excluding energy products, increased by two tenths to 1.1%; and Processed Foods, beverages and tobacco went up by five tenths to 2.5% yoy.

Non-processed food prices increased three tenths to 3.9% year-on-year. The increase in the prices of meat (1.1% monthly) and fish and seafood (1.2% monthly) is particularly noticeable, although their evolution may be conditioned by the increase in demand in light of the Christmas holidays and thus, its effect should be transitory.

Energy prices are the most inflationary component of the CPI, standing at 35.9% year-on-year, although their rate of increase is beginning to slow down (39.5% in October). Fuel prices, together with electricity and liquid fuels, continue to show very high year-on-year growth rates. The price of crude oil is also slowing down, and forecasts indicate that it will continue to do so in the coming months and, thus, its impact on headline inflation will gradually diminish.

Looking ahead to 2022, although CPI is expected to remain at high levels, its growth rate is likely to slow down. Both the European Central Bank and the European Commission see the current increase in raw materials as transitory and, according to these entities, its transfer to final prices or wages should be avoided as much as possible so as not to prolong its effect.

The Public Sector

Remarkable dynamism in the collection of the second payment on account of the Corporate Income Tax

With information up to October, the State deficit in national accounting terms continues to fall with respect to the same period in 2020, albeit at a slow pace given the recovery being experienced by the Spanish economy in 2021 and which contrasts with the harshness of the crisis in 2020. In terms of GDP, the accumulated deficit in the first ten months of 2021 is equivalent to -4.5%, 0.7 points lower than in the previous year. The primary deficit, net of interest, represents -2.9% of GDP, compared to -3.6% of GDP recorded up to October 2020. It should be borne in mind that it is the State that is financing the rest of the Public Administrations at the different levels and, therefore, they have improved their budgetary situation in 2021 in comparison to last year.

Non-financial resources continue to show high dynamism, increasing by 19.0% to 177.021 billion. Of this figure, the tax item was 20.9% higher than in 2020, following the 44.7% increase recorded in October, driven by the strength of revenues from the second payment on account of the Corporate Income Tax. Also noteworthy is the 17.3% increase in VAT revenues and the 28.2% in Personal Income Tax revenues. Of the remaining taxes, it is worth highlighting the collection of three: (i)the Special Tax on Hydrocarbons due to the rise in prices; (ii) the Tax on Insurance Premiums, with an increase of 32.6%; and (iii) auctions of greenhouse gas emission rights by 29.5%.

Non-financial uses continue to grow at a good pace, which reflects the expansionary policy being implemented. In fact, they increased by 11.6% up to October, a rate that continues to be affected by COVID-related expenses, which, in 2021, amounted to 22.006 billion. This item is broken down as follows: vaccines account for 1.142 billion and transfers to Regional and Local Administrations amount to a total of 20.822 billion. Of the latter, 6.791 billion correspond to the COVID line of direct aid to self-employed workers and companies and 13.486 billion to the additional resources provided under Article 117 of the 2021 Law on the Public State Budget.

Of the expenditures not linked to the pandemic, it is worth noting the transfers to finance expenditure on Dependency, which increased by 52.6%; the 2.514 billion to finance the Minimum Vital Income (432 million in 2020); the transfer of 4.365 billion to the Public Employment Service (SEPE) with no correspondence in 2020; the higher contribution per GNI resource by 25.5%; and the 25.6% increase in the expenditure for financing the electricity deficit.

Forecasts

Economic forecasts for Spain (last update: December 2021)						
Annual rates of change, unless otherwise indicated						
	2017	2018	2019	2020	2021	2022
GDP	3.0	2.3	2.1	-10.8	4.8	5.0
Private consumption expenditure	3.0	1.8	0.9	-12.2	4.4	5.9
Government consumption expenditure	1.0	2.3	2.0	3.3	3.1	2.2
Gross fixed capital formation	6.8	6.3	4.5	-9.5	3.7	4.5
-Tangible fixed assets	7.7	7.5	5.8	-10.5	3.6	4.8
Construction	6.7	9.5	7.1	-9.6	-3.1	2.4
Equipment and cultivated assets	9.2	4.6	3.7	-12.1	14.8	8.1
-Intangible fixed assets	2.9	1.1	-1.5	-4.3	3.9	3.3
Domestic demand (*)	3.1	2.9	1.6	-8.6	4.3	3.8
Exports	5.5	1.7	2.5	-20.1	12.9	11.2
Imports	6.8	3.9	1.2	-15.2	11.6	7.9
External demand (*)	-0.2	-0.6	0.5	-2.2	0.5	1.2
GDP current prices	4.3	3.6	3.4	-9.8	6.3	6.8
GDP deflator	1.3	1.3	1.3	1.0	1.5	1.8
CPI (average annual rate)	2.0	1.7	0.7	-0.3	3.0	2.3
Core CPI (average annual rate)	1.1	0.9	0.9	0.7	0.7	1.3
Employment (Quarterly National Accounts)(**)	2.9	2.2	2.6	-7.6	5.9	3.5
Employment (LFS)	2.6	2.7	2.3	-2.9	2.9	2.7
Unemployment rate (LFS) (% active population)	17.2	15.3	14.1	15.5	15.1	14.2
Productivity	0.1	0.1	-0.5	-3.5	-1.1	1.5
Compensation per employee	0.7	1.8	2.6	1.3	-0.3	2.0
Unit labour cost (ULC)	0.6	1.7	3.1	5.0	0.9	0.5
Current Account Balance (% of GDP)	2.8	1.9	2.0	0.7	1.2	1.5
General government net lending (+) / net borrowing (–) (% of GDP)	-3.0	-2.5	-2.9	-11.0	-7.8	-6.2
Interest rates USA (dec)	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
Brent Oil ($)	54.3	70.9	64.8	41.5	72.1	79.7

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

(*) Contribution to GDP growth

(**) Full-time equivalent jobs