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Economía

Economic Outlook

June 2023

Overview

- **The OECD slightly improves growth forecasts for 2023, although the increase in global GDP will be the lowest since the financial crisis, with the exception of 2020.**
- **The Federal Reserve keeps its interest rates unchanged, while the ECB raises them by 0.25 points. Hikes may continue in light of persistently high core inflation.**
- **Commodity prices continue to slow down, reverting to levels prior to the war in Ukraine.**
- **The Spanish economy continues to show remarkable resilience within the current context, supported by the good performance of the labour market and exports.**
- **The indicators available for Q2 point to an increase in activity similar to that of Q1, even though the effects of monetary policy are starting to be felt.**
- **The number of people registered with the Social Security increased in May, although the figure was somewhat below the average for this month, while the year-on-year job creation rate eased slightly but remains high. Overall, a positive balance of the labour market is expected for Q2.**
- **Inflation continues its downward trend on the back of falling energy prices and a slowdown in core inflation, although the latter remains high.**
- **Up to April and in National Accounting terms, the State's deficit has reduced significantly and stands at -0.1% of GDP, vs. 0.5% in 2022.**

The International Scenario

Monetary policy tightening eases on signs of inflation slowdown

The OECD released its economic outlook report in June, where they highlight that the world economy is showing signs of improvement and capitalizing on the momentum generated by China's reopening, among other factors. However, they also highlight the weakness of the recovery and the existence of downside risks to growth. In addition, they point out that the effects of rising interest rates are already being felt, although the full consequences of the monetary tightening will not be fully visible until the end of this year or the beginning of the next. Against this backdrop, they expect a slowdown in global economic growth from 3.3% in 2022 to 2.7% in 2023, one tenth higher than in their previous March estimates. However, this will be the lowest annual rate since the financial crisis, apart from 2020. Meanwhile, a mild improvement in activity is anticipated for 2024, with growth of 2.9% supported by contained prices.

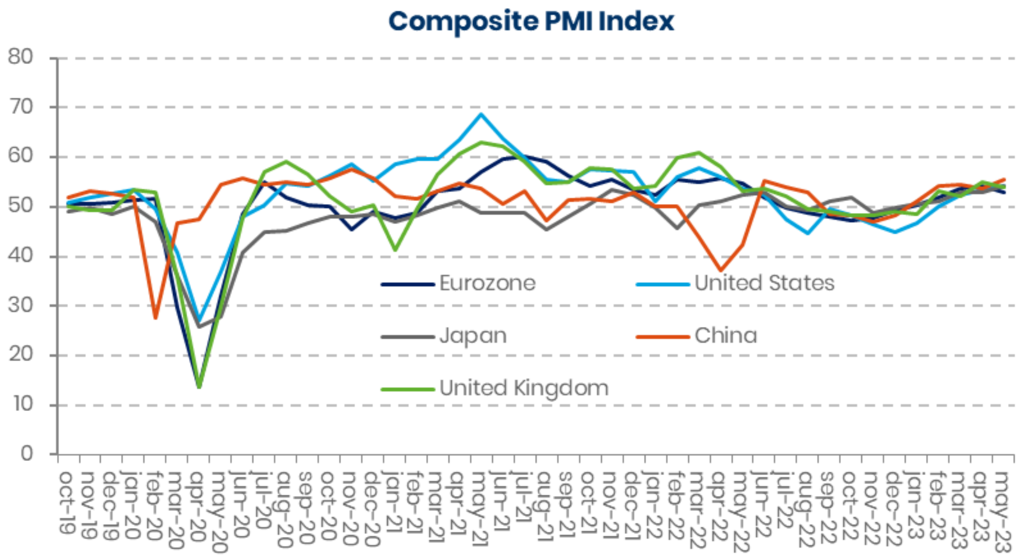
OECD forecasts (June 2023)

	GDP			Inflation		
(y-o-y rate)	2022	2023	2024	2022	2023	2024
World	3.3	2.7	2.9			
OECD	3.0	1.4	1.4	9.3	6.9	4.3
United States	2.1	1.6	1.0	6.2	3.9	2.6
Japan	1.0	1.3	1.1	2.5	2.8	2.0
United Kingdom	4.1	0.3	1.0	9.1	6.9	2.8
Eurozone	3.5	0.9	1.5	8.4	5.8	3.2
Germany	1.9	0.0	1.3	8.7	6.3	3.0
France	2.5	0.8	1.3	5.9	6.1	3.1
Spain	5.5	2.1	1.9	8.3	3.9	3.9
Italy	3.8	1.2	1.0	8.7	6.4	3.0
China	3.0	5.4	5.1	1.9	2.1	2.0
India	7.2	6.0	7.0	6.7	4.8	4.4
Brazil	3.0	1.7	1.2	9.3	5.6	4.7
Mexico	3.1	2.6	2.1	7.9	5.9	3.7

Source: OECD

On the inflation front, there are signs of global moderation as a result of the decline in energy prices, lower demand pressures and the reduction of supply bottlenecks. However, core inflation is showing greater persistence and, although it is also slowing, its stubbornness, particularly with regards to services, means that it is not likely to return to central bank target levels before 2025. Thus, headline inflation, on average across OECD countries, is forecast to fall from 9.3% in 2022 to 6.9% in 2023 and 4.3% in 2024, standing slightly above 2% in Q4 2024 in the major advanced economies. Meanwhile, core inflation changes will be less abrupt, with an average in OECD countries of 6.6% in 2022 and estimates of 6.5% and 4.5% for 2023 and 2024, respectively.

Meanwhile, the Global Composite PMI Index continued to rise and reached 54.4 points in May, the highest value since November 2021, supported by the strength of the services sectors and solid job creation. Meanwhile, the manufacturing sector showed a more discreet behaviour but also increased in May, favoured by improvements in global supply chains. Performance was uneven across countries, with increases in the PMI Composite Index in the United States, Japan, and China, while it slowed in the Eurozone and the United Kingdom.



Source: Markit Economics

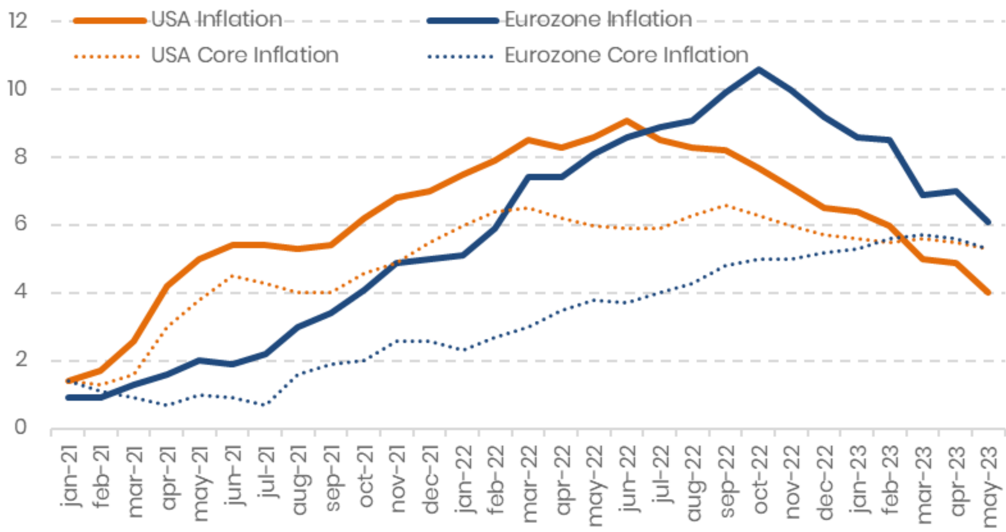
In the United States, the estimate for Q1 GDP has been revised slightly upward, to 0.3% quarter-on-quarter. Although this is half of the growth posted in Q4 last year, it shows that the US economy is still remarkably resilient. The agreement reached to raise the debt ceiling until January 2025 will contribute further to this performance. In addition, the labour market remains remarkably buoyant, with an increase of 339,000 in non-farm payrolls in May, almost twice as high as expected. However, the unemployment rate rose by several tenths of a percentage point to 3.7%, while wage pressures are somewhat lower than in previous months. Inflation continued to moderate in May, accumulating eleven consecutive declines and standing at 4.0%, nine tenths lower than in April. Core inflation, excluding food and energy, also fell by a couple of tenths to 5.3%, although it remains at high levels.

This price moderation has allowed the Federal Reserve to leave interest rates unchanged at its June meeting, in the range between 5% and 5.25%, marking the first break after ten consecutive rate hikes. Its chairman, Jerome Powell, has indicated that the Fed will continue to reduce its balance sheet and that future interest rate decisions will be made on a meeting-by-meeting basis. However, the dot plot suggests that there could be two additional rate hikes before the end of the year, to a range between 5.5% and 5.75%. This is consistent with the upward revision of six-tenths in GDP growth for the current year, to 1%. For 2024 and 2025, the forecasts have been revised down by one tenth to 1.1% and 1.8%, respectively.

In the Eurozone, growth in Q4 2022 and Q1 2023 has been revised downwards to -0.1% quarter-on-quarter in both cases, resulting in a technical recession in the region. The performance across countries has been quite uneven, with a sharper contraction in Germany (-0.5% and -0.3% in Q4 and Q1) versus stronger growth in Spain (0.4% and 0.5%) among the major economies in the area. The Eurozone's decline in GDP in Q1 was marked by a drop in both private consumption and public spending, while investment and the foreign sector contributed positively. The labour market continued to perform favourably, with a 0.6% increase in employment in Q1 and a fall in the unemployment rate, which in April stood at 6.5%, the lowest level in its historical series. Meanwhile, inflation continued to ease in May to stand at 6.1%. In addition, core inflation, excluding food and energy, fell for the second consecutive month to 5.3%, after the highs reached last March.

On the other hand, the ECB raised rates for the eighth consecutive time, in this case by 0.25 points, bringing the main refinancing rate to 4.0%, the deposit rate to 3.5% and the marginal lending facility to 4.25%. The monetary authority updated its forecasts, lowering growth by one tenth to 0.9% for 2023 and 1.5% for 2024. In contrast, it raised its inflation estimates by one tenth, to 5.4% for the current year and 3% for next year, setting inflation in 2025 at 2.2%, still above target. It highlighted its concern about labour shortages and wage pressures, which may cause monetary policy tightening to be greater and remain at high levels for longer.

Inflation in the Eurozone and the USA



Source: Prepared-in house based on data from Eurostat and Bureau of Labor Statistics

The major Asian economies, China, and Japan, performed well in Q1, with quarterly growth rates of 2.2% and 0.7%, respectively, well above the stagnation reported in Q4 2022, when rates stood at 0.0% and 0.1%, respectively. Growth was supported by the rebound in consumption and services spending following the pandemic. However, weaker dynamism in the United States and Europe may cause their exports to suffer. In addition, China's real estate problems continue, and measures are likely to be taken to underpin the recovery. In this regard, the People's Bank of China has cut the short-term lending rate from 2% to 1.9% to help restore investor confidence.

In May, commodity prices continued to fall for the most part, in many cases to levels similar to those prevailing before Russia's invasion of Ukraine. The price of Brent crude oil fell to $77.1/barrel on average in May, 32.4% lower than a year earlier. Meanwhile, OPEC+ countries agreed to extend their current production cuts until the end of 2024, i.e., they will maintain both the cuts agreed in October 2022, of around 2 million barrels per day, and the voluntary cuts adopted in April, of almost 1.7 million barrels per day. Despite this announcement, prices have stayed mainly unchanged in the first days of June and have even slightly extended their downward trend. This price behaviour can be explained by fears of a further slowdown in global activity as a result of the monetary tightening, among other factors, which is counteracting the existing restrictions on the oil supply side.

The Spanish Economy

The Spanish economy continues to show remarkable resilience in the current context, although some imbalances are still present

The information available on the evolution of the Spanish economy in Q2 2023, although still scarce, would seem to indicate that activity has continued to grow at a notable pace. This evolution is mainly supported by the dynamism of exports, especially those corresponding to both tourism and non-tourism services, while Spanish imports have practically stagnated. Moreover, in this period, headline inflation has decelerated significantly, although core inflation remains high, and the labour market has continued to show notable dynamism.

In this context, forecasts for the economy are being revised upwards. Thus, according to estimates by the OECD, which released its economic outlook report in June, Spain will grow by 2.1% in 2023, improving its previous forecast by four tenths. The OECD has also raised its estimate for 2024, from 1.7% to 1.9%. According to these forecasts, Spain will be the euro country with the highest growth this year, ahead of Italy, the Netherlands, France, and Germany, and will grow more than twice as fast as the Eurozone (0.9%) and seven tenths more than the OECD as a whole (1.4%). The report points to lower inflation (which could stand at 3.9%, on average, in 2023), a resilient labour market and the favourable evolution of exports as the factors that will support this better performance of the Spanish economy. However, the organisation forecasts a public deficit of 3.5% of GDP in 2023 and 3.2% in 2024, compared to 4.8% in 2022, in line with the European Commission's estimate and in contrast to the 3% estimated by the government for 2024.

This resilience of the Spanish economy is highlighted in the European Commission's recently published Country Report, which notes its favourable evolution in the complicated context currently in place. However, it also points out that macroeconomic vulnerabilities related to the high level of private, public, and external debt, although decreasing, are still present and will see a slower correction this year, due to the worsening economic outlook and the tightening of financial conditions. In addition, further efforts are needed in areas such as the ecological transition or R&D spending, drawing on the potential of EU funding.

Demand and Activity

Favourable export performance continues to support growth

After the growth estimated by the National Statistics Institute (INE) for the Spanish economy in Q1 of 0.5% quarter-on-quarter, the Spanish economy seems to have kept up a notable rate of growth in Q2 and could, therefore, record similar growth. Such growth would have been based, fundamentally, on the favourable performance of the foreign sector, while domestic demand would have registered a certain stagnation.

Indicators relating to household consumption continue to show a favourable performance, in line with the dynamism posted by employment, the improvement in expectations and the slowdown in inflation over the last few months. Thus, both the retail and services sector confidence indicators have shown an upturn compared with the average for Q1. In April, the retail trade index at constant prices also continued to post a high increase, similar to the average for Q1.

However, forecasts continue to point to a slowdown in private consumption in the second half of the year, once the rise in interest rates takes a real toll on households' financial costs, an effect that is always somewhat delayed.

In this regard, the sharp and rapid rises in interest rates are making loans already granted and new applications more expensive, which is reflected in a notable drop in the number of mortgages taken out and in how many homes have been sold. Thus, the number of homes sold fell by -2.1% year-on-year on average in Q1 and recorded a decline of -8.1% in April, while mortgage originations fell by -16.9% in March.

With regard to industrial activity, there was a slight deterioration in confidence indicators and manufacturing PMIs, which were once again above the 50 level in February and March, but which in April and May returned to contractionary levels. Behind this deterioration in expectations lies the weakness in demand, which is reflected in a drop in new orders, both domestic and foreign, in a context of weakening industrial activity at a global scale.

In the first five months of 2023, vehicle registrations have increased by 26.9% compared to the same period in 2022 but are still 28% below pre-pandemic figures. Although an increase is seen across all sales channels, there is concern in the industry about demand from private individuals still being a third below pre-pandemic levels.

The services sector also saw a further improvement in expectations in Q2, both in the confidence indicator and in the services PMI, which stood at levels close to 60. According to the latest data available from the Statistics on Tourist Movements at Borders (Frontur), the inflow of international tourists continues to recover. Thus, in the month of April, it stood at just over 7.2 million tourists, exceeding the 2019 pre-pandemic figures for the first time. Moreover, as average spending has been rising, total tourist expenditure during April was almost 20% higher than in the same month of 2019.

On the external sector side, the stronger growth of exports versus imports in Q1 resulted in a positive contribution from the foreign sector that more than offset the detraction of domestic demand. The information available seems to point to a continuation of this trend, with the contribution of the sector continuing to play a key role in growth in Q2. Thus, the customs information available for the first four months of 2023 shows a notably greater dynamism in exports, which is leading to a correction in the trade deficit, both non-energy and energy. Over the January-April period, exports grew by 9.2% (0.0% in volume), compared with 0.2% in imports (-4.4% in volume). The trade balance recorded a deficit of €10.9537 billion, compared to a deficit of €21.8109 billion in the same period of 2022.

Similarly, according to the Balance of Payments data published by the Bank of Spain, in the first three months of the year, the current account surplus reached 11.1 billion, compared with a deficit of -4.0 billion in the same period of 2022. This improvement in the surplus is explained by the improvement in the balance in goods and non-tourist services (which went from a deficit of -9.5 billion to a surplus of 3.9 billion) and by the increase in the positive balance in tourism, from 7.4 to 10.5 billion, while primary and secondary income showed a larger deficit.

The Labour Market

Registrations with the Social Security rose in May, although the year-on-year rate posted a slight slowdown

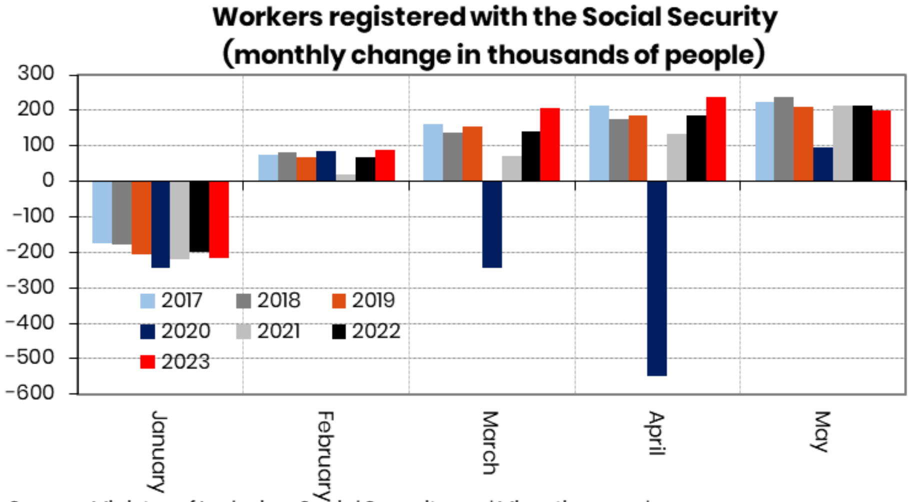
The labour market continues to perform favourably, although May did not come with any of the positive surprises, in terms of job creation, recorded in previous months. Meanwhile, the year-on-year rate halted the acceleration it had been showing throughout the year, albeit the rate of growth remains high. Registered unemployment fell in May, although less sharply than usual. In any case, everything points to a positive balance for the labour market in Q2 as a whole, with job creation continuing to show dynamism.

In May, employment typically grows notably and, this year, Social Security registrations increased by 200,411 people. However, this figure is slightly below the figures usually recorded in this month and is the smallest increase since 2016 (excluding 2020). The private sector generated 186,233 jobs, while the public sector added 14,178 workers, meaning that 93% of the increase in May's registrations was due to the private business sector.

In seasonally adjusted terms, May saw an increase of 47,883 people registered with the Social Security, well below the figures for recent months, with March and April having recorded growth in excess of 100,000.

Turning to the gross data, by economic sector, a large part of this growth in registrations in May came from services, with an increase of more than 158,000 persons, accounting for almost 80% of the total number of jobs created. Within services, it is worth highlighting the good performance of accommodation and food service activities and retail, boosted by the recovery in tourism, and in administrative activity. Industry, construction, and agriculture also recorded an increase, the latter sector being particularly noteworthy.

In May, the year-on-year rate of Social Security registrations slowed slightly, by one tenth, to 2.9%, after having been on an upward trend since February this year. Registrations in the private sector also slowed in May, with the year-on-year rate standing at 2.8%, two tenths lower than in April. In the case of the public sector, there was a notable pick-up in the rate of growth, up five tenths to 3.4%.



Source: Ministry of Inclusion, Social Security and Migrations and CEOE Economic Department

The number of companies registered with the Social Security has maintained a certain sluggishness in its year-on-year growth rate since the end of 2022. Thus, so far in 2023, its year-on-year rate peaked in March at 0.7%, before slowing to 0.3% in May. As a result of this very subdued performance, the number of companies registered with Social Security, which reached 1,336,531 in May, was once again below pre-pandemic levels. Specifically, there are 7,552 fewer companies than four years ago, after having reached pre-pandemic levels in April. Moreover, we should note that, by economic sector, only construction has managed to exceed the number of companies in 2019, while there are fewer companies in agriculture, industry, and services than before the pandemic broke.

The number of workers under furlough schemes (ERTE) fell in May, for the sixth consecutive month, to 11,710 people on average for the month, which is approximately a third of the more than 31,000 workers accounted as furloughed in May 2022. Meanwhile, the performance of registered unemployment was less favourable than that of employment. Specifically, registered unemployment fell in May by 49,260 people, a much lower figure than is typical for this month (the average in 2014-2019 was a fall of 104,899 people). Thus, the total number of unemployed stands at 2,739,110 people, the lowest level since September 2008. On the other hand, in seasonally adjusted terms, registered unemployment rose by 11,963 people, the first increase since July 2022.

With the results for June still to be released, everything suggests that employment is showing notable dynamism in Q2. According to estimates by CEOE's Economics Department, effective new registrations with the Social Security (discounting furloughs), adjusted for seasonal effects, will increase by around 1.5% quarter-on-quarter in Q2, which represents a significant acceleration compared with the 0.9% recorded in Q1.

Inflation

Inflation continues to ease as core inflation slows and energy prices fall

In May, headline inflation fell by nine tenths to 3.2% and core inflation continued to decelerate, standing at 6.1%, five tenths lower than in April.

There was a further fall in the prices of energy products and a slowdown in the prices of industrial goods and processed foods, trends that are expected to continue in the coming months.

Within the core component, Services prices decreased their year-on-year rate by one tenth to 4.2%; Industrial goods prices excluding energy products fell by six tenths to 4.2%; and Processed food, beverages and tobacco decreased by 1.3 percentage points year-on-year to 12.9%.

Unprocessed food prices remained virtually unchanged, after the notable slowdown in April, and stand at 8.9%. Many food items still register rates above 10%, so this component remains the most inflationary in the basket.

Energy product prices intensified their fall to -19.6% year-on-year, compared with -15.6% the previous month, due to the greater decline in commodity prices this month. Although energy commodity prices are expected to show significant drops for the remainder of the year, these will be slightly tempered when compared with 2022 prices due to the withdrawal of the 20 cents per litre discount on fuels. In May, the price of Brent crude oil resumed its downward trend, recording an average of 77.1 $/barrel, which is 32.4% lower than a year earlier. In euro terms, the decline was 34.1%. Oil prices are expected to be significantly lower in the coming months compared to a year ago, so energy will continue to contribute to the continued slowdown in inflation.

In comparison with Europe, the Harmonised Index of Consumer Prices (HICP) in May stood at 2.9%, while in the Monetary Union this rate reached 6.1%, leaving the negative differential unchanged at 3.2 points, with lower inflation in Spain.

The Public Sector

Notable reduction in the State government deficit up to April

In Q1, the reduction in the fiscal imbalance continued within a context of activity growth and job creation. Thus, the aggregate for the General Government, excluding local governments, recorded a deficit up to March equivalent to -0.2% of GDP, compared with -0.4% in the same period of the previous year.

By different types of government, the performance of public finances has been mixed. The Central Government posted a slight surplus of 0.1% of GDP in Q1, after having recorded a deficit of -0.3% in the same period of 2022. On the other hand, the Autonomous Regions recorded a deficit of -0.2% of GDP, compared with a balanced budget a year earlier. Meanwhile, the Social Security Funds showed a deficit of -0.1% of GDP, the same as in 2022.

With data up to April, the State recorded a deficit of 1.66 billion euros, -76.5% lower than in the first four months of 2022. In terms of GDP, the financing need is equivalent to -0.1%, which contrasts with the -0.5% recorded in the same period of the previous year. The State primary balance has also improved, with a positive figure (0.5% of GDP) and higher than the 0.1% of GDP seen in the first four months of 2022.

The reduction in the government deficit up to April was due to a 10.7% increase in non-financial resources, in clear contrast to the 3.0% increase in non-financial expenditure.

Within resources, tax revenue stands out, showing year-on-year growth of 7.8% up to April, representing €4.933 billion. More than 30% of the increase in revenue is due to the three new taxes for 2023: the Special Tax on Non-Reusable Plastic Packaging, the Temporary Energy Tax and the Temporary Tax on Credit Institutions and Financial Credit Establishments. Together, these three taxes have raised €1.596 billion. Meanwhile, revenue from current taxes on income, wealth, etc. is 11.4% higher than in the first four months of 2022. In contrast, VAT revenues showed year-on-year growth of 2.2%.

On the uses side, one of the items that experienced the greatest increase was subsidies (24.0%), although in absolute terms the increase in transfers to other public administrations (+€ 2.391 billion) should be highlighted. On the other hand, there was a decrease in miscellaneous current transfers (-25.0%), resources to the EU (-24.2%), gross fixed capital formation (-10.3%) and other uses (-81.8%).

Forecasts

Economic forecasts for Spain (last update: June 2023)						
Annual rates of change, unless otherwise indicated						
	2019	2020	2021	2022	2023	2024
GDP	2.0	-11.3	5.5	5.5	1.9	1.4
Private consumption expenditure	0.9	-12.4	6.0	4.5	-0.1	0.9
Government consumption expenditure	1.9	3.5	2.9	-0.7	1.2	0.9
Gross fixed capital formation	4.5	-9.7	0.9	4.6	1.9	2.5
-Tangible fixed assets	5.3	-11.1	0.1	4.4	1.8	1.9
Construction	7.2	-10.2	-3.7	4.7	4.3	2.3
Equipment and cultivated assets	2.4	-12.6	6.5	4.1	-2.1	1.2
-Intangible fixed assets	0.6	-2.5	4.7	5.5	2.4	5.3
Domestic demand (*)	1.6	-9.1	5.3	3.1	0.8	1.2
Exports	2.2	-19.9	14.4	14.4	6.4	3.3
Imports	1.3	-14.9	13.9	7.9	3.5	3.0
External demand (*)	0.4	-2.2	0.3	2.4	1.1	0.2
GDP current prices	3.5	-10.2	7.9	10.0	5.4	4.4
GDP deflator	1.5	1.1	2.4	4.5	3.5	3.0
CPI (average annual rate)	0.7	-0.3	3.1	8.4	4.5	2.7
CPI (Dec/Dec)	0.8	-0.5	6.5	5.7	4.9	2.5
Core CPI (average annual rate)	0.9	0.7	0.8	5.2	6.7	2.8
Employment (Quarterly National Accounts)(**)	3.3	-6.8	6.6	3.8	1.6	1.0
Employment (LFS)	2.3	-2.9	3.0	3.1	1.5	1.0
Unemployment rate (LFS) (% active population)	14.1	15.5	14.8	12.9	12.7	12.6
Productivity	-1.3	-4.8	-1.0	1.6	0.3	0.4
Compensation per employee	2.4	2.5	-0.8	2.0	3.7	2.9
Unit labour cost (ULC)	3.8	7.7	0.2	0.4	3.4	2.4
Current Account Balance (% of GDP)	2.1	0.6	1.0	0.6	1.0	0.8
General government net lending (+) / net borrowing (–) (% of GDP)	-3.1	-10.1	-6.9	-4.8	-4.2	-3.8
Interest rates USA (Dec)	1.75	0.25	0.25	4.50	5.25	4.25
Interest rates Eurozone (Dec)	0.00	0.00	0.00	2.50	4.25	3.75
Brent Oil ($)	64.8	41.5	71.1	103.7	84.2	79.6

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

(*) Contribution to GDP growth

(**) Full-time equivalent jobs