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Economic and Business Outlook

February 2024

Overview

The world economy

- **International agencies revise upwards their forecasts for global GDP growth in 2024, although it will remain historically weak.**
- **The PMI indices for January point to greater dynamism in global activity, albeit with significant differences across regions.**
- **Oil prices rise moderately, despite tensions in the Middle East and OPEC+ production cuts.**

The Spanish economy

- **2023 ends with better-than-expected GDP and employment figures, but with some weaknesses.**
- **Growth breakdown highlights the subdued performance of business investment, as opposed to government spending, which continues to be the engine driving domestic demand.**
- **Notable job creation in 2023 outpaced GDP growth, leading to a fall in productivity. Unit labour cost growth accelerated to close to 6% on annual average in 2023.**
- **Growth outlook for 2024 has been revised upwards to 1.8%**
- **A dynamic public expenditure coupled with a certain moderation in revenues has contained the intensity of budget tightening in 2023.**
- **Companies are facing higher financial and labour costs in a context where sales are stagnating and turnover is declining. However, at the beginning of the year, business confidence indicators are improving.**

Note: this report includes a section on the contributions to growth of GDP components in 2023.

The International Scenario

International agencies revise global growth upwards and inflation downwards

The resilience of the global economy in 2023, posting slightly better than expected growth figures, as well as the signs of greater dynamism shown by the PMI indices since last November, have led the IMF and the OECD to revise their forecasts for global GDP in 2024 upwards by a couple of tenths of a percentage point. Among the advanced economies, it is worth highlighting the growth forecast for the United States for this year, which improves by six tenths, in contrast with estimates for the Eurozone which are cut by 3 tenths (down by four tenths in the case of the European Commission). Despite the revision, global growth in 2024 will be similar or even somewhat lower than in 2023, conditioned by restrictive monetary policies and lower fiscal support, within a context of high indebtedness. By 2025, activity is expected to improve slightly, although, in both years (2024 and 2025), growth will remain well below the historical average of 3.8% that was seen in the 2000-2019 period.

IMF (January 2024), **OECD** (February 2024) **and European Commission Forecasts** (February 2024)

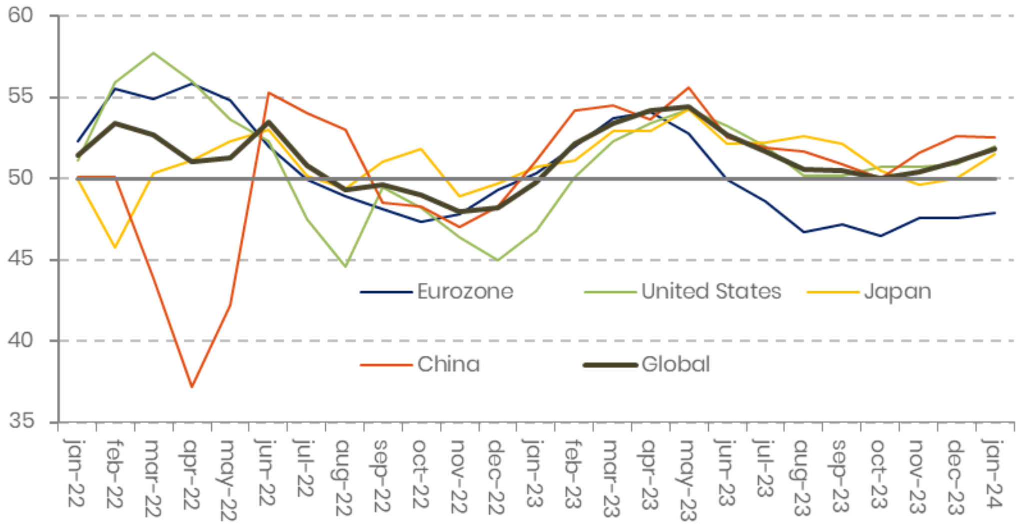
	IMF			**OECD**			**European Commission**		
(y-o-y rate)	**2023**	**2024**	**2025**	**2023**	**2024**	**2025**	**2023**	**2024**	**2025**
World	3.1	3.1	3.2	3.1	2.9	3.0			
United States	2.5	2.1	1.7	2.5	2.1	1.7			
Japan	1.9	0.9	0.8	1.9	1.0	1.0			
Eurozone	0.5	0.9	1.7	0.5	0.6	1.3	0.5	0.8	1.5
Germany	-0.3	0.5	1.6	-0.1	0.3	1.1	-0.3	0.3	1.2
France	0.8	1.0	1.7	0.9	0.6	1.2	0.9	0.9	1.3
Spain	2.4	1.5	2.1	2.5	1.5	2.0	2.5	1.7	2.0
Italy	0.7	0.7	1.1	0.7	0.7	1.2	0.6	0.7	1.2
UK	0.5	0.6	1.6	0.3	0.7	1.2			
China	5.2	4.6	4.1	5.2	4.7	4.2			
India	6.7	6.5	6.5	6.7	6.2	6.5			
Brazil	3.1	1.7	1.9	3.1	1.8	2.0			
Mexico	3.4	2.7	1.5	3.1	2.5	2.0			
Advanced economies	1.6	1.5	1.8						
Emerging economies	4.1	4.1	4.2						
World trade	0.4	3.3	3.6						

Source: IMF, OECD and European Commission

On the other hand, inflation, which is decelerating faster than expected in most regions, is expected to continue to decline, as global supply problems are resolved and the effects of the interest rate hikes that have taken place become more widespread. In the case of the Eurozone, inflation for 2024 has been revised down by 5 tenths to 2.7% and will continue to moderate to 2.2% in 2025.

Meanwhile, January's PMI indices continue to point to a mild recovery of the global economy, with the Global Composite Index at 51.8, the highest since June 2023. The main weakness continues to be in the manufacturing sectors, although a few of them are showing signs of improvement. Moreover, all major economies, except the Eurozone, were in positive territory in January, and all of them, except China, which declined by one tenth, improved their performance compared to December.

Composite PMI Index



Source: Prepared-in house based on data from Markit Economics

In the United States, activity remains remarkably strong, as shown by the 0.8% quarter-on-quarter increase in GDP in Q4, as well as by the improvement in the PMI indices in January, with manufacturing returning to expansionary territory and services gaining momentum. Moreover, job creation picked up in January and posted 353,000 new jobs for the month, marking 37 consecutive months of improvement in the labour market. Meanwhile, the unemployment rate remained stable at 3.7%, having been below 4% for the past two years. Inflation in January fell by three tenths to 3.1%, although at a slower pace than expected, while core inflation, excluding energy and food, remained at 3.9%. Thus, the good performance of activity and employment, together with inflation's resistance to ease, delays the first cut in interest rates, which the markets are now expecting at the Federal Reserve's June meeting.

The Eurozone avoided technical recession in Q4, with GDP remaining unchanged quarter-on-quarter after a -0.1% decline in Q3. Leading indicators for the region show mixed signals. PMI indices remain in contractionary territory, although they showed some improvement in January, posting the strongest reading since July 2023. The labour market continues to show remarkable resilience, with December's unemployment rate at 6.4%, the same as in November and the lowest in the historical series. Moreover, employment has continued to increase, albeit at moderate rates. Meanwhile, industrial production in December increased by 2.6% compared with the previous month, gaining dynamism over November's data. In contrast, retail sales fell by -1.1% in December vs. November and industrial prices fell again in December (-0.8%). Inflation in January fell by one tenth to 2.8%, after the rebound in December, while core inflation, excluding energy and food, continued to fall to stand at 3.3%, the lowest rate since March 2022.

The Chinese economy slowed down in Q4, with 1% quarter-on-quarter growth, down from 1.5% in Q3, also offering mixed results. On the one hand, retail sales and exports gained momentum. On the other hand, investment continues to decelerate, while inflation in January stood at -0.8%, accumulating four months of negative rates and increasing deflationary risks for the economy. This situation, coupled with an expected slowdown and the problems experienced in the construction sector, could encourage the implementation of more expansionary fiscal and monetary policies. Nonetheless, the latter would be limited, given that a drop in interest rates could push capital out of the country.

In turn, commodity prices continued to moderate. In January, the prices of metallic industrial raw materials, such as zinc, copper, and gold, fell sharply. On the other hand, freight prices are rising as a result of the tensions in the Middle East, which are forcing changes to routes that traditionally went through the Red Sea. Oil prices broke their downward trend in January, averaging $82.6/barrel. The price has continued to rise in the first days of February, albeit moderately, despite the conflict between Israel and Hamas, OPEC+ production cuts and some production problems in North America. By 2024, OPEC expects global oil demand to rise by 2.25 million barrels per day, which would tighten the crude oil market. In contrast, the International Energy Agency (IEA) lowers this increase in global demand by half, to between 1.2 and 1.3 million barrels per day, which, together with the expected higher production, mainly in the United States, Canada, Guyana, and Brazil, will keep crude oil prices subdued.

The Spanish Economy

The year 2023 ends with better-than-expected growth and employment figures, but with some weaknesses

GDP and LFS data for Q4 confirm the positive performance of growth, which surprised on the upside with a quarterly rate of 0.6%, and of the labour market, where the unemployment rate fell to 11.8%. Thus, annual GDP growth in 2023 was 2.5%, overperforming our main European partners, and average job creation reached 615,000 people, according to the LFS.

The positive results in Q4 are tempered if we focus on the composition of growth and the loss of dynamism in employment over the past year, coupled with the increase in labour costs and the fall in productivity. With regard to the growth breakdown, business investment fell by -4.8% quarter-on-quarter, in clear contrast with public consumption, which posted growth of 1.4%, and inventories, which contributed 0.4 points to the quarterly rate. Investment has been weak in recent years, and it is the only domestic demand variable that has not recovered its pre-crisis levels (see grey box below).

With regard to the evolution of employment, there is a slowdown in quarter-on-quarter and seasonally adjusted terms, having increased by 0.6% in Q4, which contrasts with the rates recorded in the first part of the year of over 1%. The stronger increase in employment than in GDP translated into a significant decline in productivity per employed person, which fell by -1.8% year-on-year in the last quarter of 2023. It should be noted that productivity per employed person in 2023 is still 4.5% lower than in 2019 and this has a negative impact on unit labour costs, which continue to rise.

Given the improvement in activity in the latter part of the year, the outlook for 2024 has been revised up slightly to 1.8%. The forecast for 2025 brings the growth of the Spanish economy to 2%. These forecasts are in line with those of the European Commission, which estimates 1.7% for 2024 and 2% for 2025. It will have a moderately positive effect on job creation (around 2%) for both years and the unemployment rate will gradually fall to 11% on average in 2025. Inflation will average 3% in 2024 and 2.2% in 2025, as long as there are no adverse shocks in commodity markets. The external surplus will remain unchanged, while fiscal consolidation will slow down, unless the implementation of fiscal rules comes with higher fiscal adjustment pressures.

Demand and Activity

The economy's performance surprises on the upside in Q4 and expectations improve at the start of 2024

The Quarterly National Accounts data for Q4 exceeded expectations, with quarterly growth standing at 0.6%, two tenths higher than the increase in Q3 (which, in turn, has been revised upwards by one tenth). With this figure, the trend of a slowdown in activity that had been recorded throughout the year has been halted. However, the performance of the different GDP components in this seemingly good result is a cause for concern. On the demand side, the increase in GDP has been due mainly to government consumption expenditures and the change in inventories, while private consumption has shown a modest change and business investment has continued to deteriorate. Moreover, the weakness of the external demand is reflected in a decline in exports.

The indicators available for the beginning of the year, which are still very scarce, show a fairly positive starting point for 2024, at least those referring to agents' expectations. In January, the economic sentiment indicator posted its best result in nine months and most of the confidence indicators show a more positive trend than in the final months of 2023.

Private consumption continues to play a key role in the economy's growth, which may be favoured in 2024 by the good performance of the labour market, the increase in disposable income, the moderation of inflation and expectations of further interest rate cuts. Of greater concern is the evolution of investment, which has yet to pick up within a context of weak industry and weak external demand.

We are starting to see some stabilisation in the indicators for industrial activity, which remained on a contractionary path for most of 2023. Thus, although industrial activity continues to be affected by a stagnant international economic context, especially in the Eurozone, the slowdown in the sector's activity seems to be easing. Despite accumulating ten months of contractionary levels, the manufacturing PMI has shown a significant improvement in January, rising from 46.2 to 49.2, the best figure since March 2023. The companies surveyed say that the volume of purchases as well as new orders have slowed their rate of decline and expectations for 2024 are improving, in a context of lower inflation and possible interest rate cuts in the second half of the year. Within the manufacturing sector, consumer goods continue to show greater dynamism than intermediate or capital goods, although the latter also show less deterioration. Moreover, inputs are already showing some delay, mainly due to the crisis in the Red Sea, which is a cause for concern in the sector.

On the other hand, the services sector continues to show a more positive performance than the industrial one and might even prove to have accelerated recently. The services PMI in January reached its best reading since May 2023, which might be suggesting a better outlook for the first quarter of 2024. Companies' orders, mainly on the domestic front, are picking up, which has led to a continued increase in hiring even in a context of wage increases. In this regard, wage and non-wage production costs are rising, which is also having an impact on selling prices.

The latest available data from the tourism sector show that international tourist inflows continued to recover over the past year. In 2023, visitor inflows reached 85.1 million tourists, 18.7% higher than in 2022 and 1.9% above the figure for 2019, right before the pandemic. This figure marks a new all-time high. In addition, total tourist expenditure in 2023 was 24.7% higher than in 2022 and increased by 18.2% compared to 2019.

As far as the external sector is concerned, the customs information available for 2023 shows a clear trend of contraction in foreign flows, which has been worsening over the course of the year. However, in nominal terms, exports have posted the second best figure in the historical series. Imports have fallen more sharply than exports, which has led to a reduction in the trade deficit of more than 40% with respect to 2022. Thus, the trade deficit was reduced to €40.6 billion in last year's accumulated figures, compared to €68.1 billion in 2022.

In the same line, according to the Balance of Payments data published by the Bank of Spain, in the Jan-Nov 2023 period, the current account surplus reached 35.5 billion, compared with a surplus of 7.3 billion in the same period of the previous year. This good performance was due to a significant improvement in the balance of goods and non-tourist services and an increase in the surplus of tourism services. With these results, the Current Account Balance is expected to be around 2.5% of GDP in 2023, compared to 0.6% in 2022.

GDP components' contribution to growth over 2023

The growth of the Spanish economy in 2023 was positive, 2.5%, exceeding forecasts and clearly above our main EU partners, although it has shown a notable slowdown compared to 2022 (5.8%).

Although this data may initially seem positive, the composition of growth is a cause for concern, especially in terms of the weakness of investment in this past year, compounded by the timid advances in 2022 and 2021 and following the drastic decline in 2020. Specifically, investment in capital goods fell by -1.8% in 2023 vs. 2022, and overall investment (gross capital formation) declined by -0.5%.

On the other hand, if we analyse the change in the different components compared with pre-pandemic 2019, we can see that growth has been supported by the good performance of the foreign sector and the notable increase in public spending (11%). However, private consumption in 2023 has barely recovered its pre-pandemic levels and investment remains significantly lower than in 2019.

Companies, despite being in a healthier financial situation, are not allocating resources to investment and prefer to amortise debt. This seems to be mainly due to a deterioration in expectations and increased uncertainty, rather than to the higher cost of financing. This lack of investment is a drag on productivity growth and a factor limiting potential growth and can, therefore, be considered a pending issue for the Spanish economy.

GDP growth and contribution to growth in 2023

	Compared to 2022		**Compared to 2019**
	Growth (%)	Contribution (percentage points)	Accumulated Variation (%)
GDP	**2.5**		**2.5**
Domestic demand	1.7	1.7	1.4
Private consumption	1.8	1.0	0.1
Government consumption	3.8	0.8	11.0
Gross capital formation	-0.5	-0.1	-3.5
GCF Construction	2.2	0.2	-4.5
GCF Capital goods	-1.8	-0.1	-8.7
Changes in inventories		-0.2	
External demand		0.9	
Exports	2.4	1.0	6.9
Imports	0.3	-0.1	4.8

Source: Prepared-in house based on date from INE (Quarterly National Accounts of Spain)

The Labour Market

Notable job creation outpaced GDP growth in 2023, causing productivity to decline

Resilience has been the most characteristic feature of the labour market in 2023. Employment growth was high: according to the Labour Force Survey (LFS), it stood at 3.0% on average per year, only one tenth below the figure recorded in 2022, despite the existing uncertainties and the higher costs for companies, especially labour costs. Moreover, job creation outpaced GDP growth, resulting in a loss of productivity.

On the other hand, it should be noted that the business sector is responsible for more than 90% of the job creation in 2023. Specifically, 561,200 of the 615,000 newly employed individuals found work in the private sector. Meanwhile, unemployment continued to fall and the unemployment rate stood at 12.1% on annual average, eight tenths lower than in 2022. Another positive aspect is the decline in the temporary employment rate in the private sector, which stood at 13.8% in 2023, ten percentage points lower than two years ago, and well below the 30.4% in the public sector.

Job creation went through two phases over the past year. Thus, the notable dynamism recorded in the first half of the year gave way to a more contained growth path. In this respect, the quarter-on-quarter seasonally-adjusted rate according to the LFS went from over 1% in Q1 and Q2 to 0.7% and 0.6% in Q3 and Q4, respectively. The same trend can also be seen in Social Security registrations.

With regard to the LFS results for Q4, the number of employed workers fell by 19,000, a smaller fall than the decrease recorded in 2022, but which contrasts with the average increase recorded in this same period before the pandemic (+28,300 employed in 2014-2019). In addition, it is worth noting the loss of employment in the private sector, with 77,600 fewer workers, a more unfavourable figure than usual in Q4, compared with an increase of 58,600 people in the public sector.

Although employment fell in Q4, the number of unemployed fell by 24,600 because of the decline in the working population. Thus, the total number of unemployed stood at 2,830,600 people and the unemployment rate remained at 11.8%, in both cases the lowest figures for a fourth quarter since 2007. Nevertheless, our unemployment rate is still the highest in the European Union and almost doubles the European average.

Among the results of the National Accounts for Q4, it is worth highlighting the year-on-year decline in productivity per full-time equivalent job, for the third consecutive time, with a rate of -1.8% in Q4. Productivity per hour has also fallen, albeit more moderately, by -0.8%. Unit labour costs continued to rise significantly, with an annual rate of 6.3%, bringing annual average growth to 5.9%. Compared with the scenario before the pandemic, unit labour costs in 2023 are 16.8% higher than in 2019.

The labour market has started the year with no significant trend reversals with respect to the end of 2023. January, which is usually unfavourable for employment due to the end of the Christmas season, recorded a fall of 231,250 in Social Security registrations, a decline of -1.1% month-on-month. This is a very similar rate to the average fall during this month in the more recent years (2021-2023) and in the pre-pandemic period (2014-2019). More than 90% of the decline in employment was due to the private sector, which lost 214,883 workers, compared with a fall of 16,367 in the public sector. In turn, the year-on-year rate fell by one tenth in January, to 2.6%.

Seasonally adjusted Social Security registrations increased by 38,357 people, which is a more favourable figure than the average increase recorded in the second half of 2023 of almost 31,500 people. In this regard, it should be noted that the Ministry of Inclusion, Social Security and Migration has updated the seasonally adjusted registration series, correcting downwards the notable increases recorded in the first half of 2023 and upwards the increases in the second half of last year. In any event, this revision does not alter the Social Security registrations' trend, which was more dynamic during the first half of the year than during the second. Thus, it is now estimated that seasonally adjusted effective registrations (discounting furloughs) increased by 0.4% quarter-on-quarter in Q4 (0.2% before the revision), the same rate as in the previous quarter, although well below the 1.1% recorded in Q2 (1.4% before the revision).

Registered unemployment increased in January by 60,404 people, although in seasonally adjusted terms it continued its ongoing decrease posting an even sharper fall than in recent months at -27,691 individuals (the average in the second half of 2023 was -9,061 workers).

Inflation

Core inflation continues on its decelerating path, although headline inflation has picked up temporarily

In January 2024, headline inflation rose by 0.3 to 3.4%, while core inflation continued its downward trend and fell by two tenths vs. December to be set at 3.6%.

Food prices continue to be the most inflationary element of the basket at the start of 2024. On the other hand, energy product prices continue to make a negative contribution to inflation for the time being, albeit much more limited, partly due to the withdrawal of the VAT reduction on electricity.

If we compare the evolution of the CPI with that of the CPI at constant taxes, we can see that inflation would have risen by two tenths less than it did in January if the tax reduction measures had been maintained.

In January, services prices fell by 0.3 to 3.6% year-on-year; industrial goods prices, excluding energy products, decreased by 0.1 to 1.6%; and processed food, beverages and tobacco increased by 0.1 y-o-y to 6.2%.

Energy product prices also contributed to the slowdown in inflation, as they continued to post year-on-year falls, albeit of a lesser intensity due to the base effect: they stood at -2.3% compared with -6.1% in the previous month, which is coupled with an acceleration in unprocessed food prices.

Forecasts suggest that inflation will continue to ease during 2024, on the back of a slower increase in core inflation, although there may be an occasional upswing. In any case, this evolution will be conditioned by the pace of the unwinding of anti-inflationary measures and commodity prices on international markets.

The Public Sector

Public spending continued to grow strongly in 2023

The information provided by the General Comptroller of the State Administration (IGAE) on the National Accounts for the aggregate of the general government sector, excluding local administrations, places the fiscal imbalance in November at -1.9% of GDP, lower than the -2.2% of GDP recorded in the same period of 2022. Regional governments and Social Security funds show a moderate containment of the deficit, while the central government has barely reduced its negative balance. These figures show that the fiscal consolidation path has not been tightened in 2023. In fact, the public deficit could end up at around -4% of GDP.

Over the course of 2023, there has been a confirmed loss of dynamism in resources, with more moderate growth in some taxes, particularly VAT collection. And all this despite the implementation of new taxes in some productive sectors (banking and energy), plastic and large fortunes.

The main source of public administration funding is taxes (54.0% of the resources), which grew by 6.4% with respect to 2022, representing an increase of €17.051 billion. Of this net increase, €3.974 billion is due to the new taxes collected at national level in 2023. Also noteworthy is the strength of personal income tax collection (9.4%), on the back of wage rises and job creation. The second source of financing is revenue from contributions, which represent 34.3% of the total and grew by 9.4%. This performance is due, among other things, to the implementation of the Intergenerational Equity Mechanism (MEI) in 2023.

Public spending continued to increase significantly, at a rate of 6.9% until November 2023. Of note is the 10.1% increase in social benefits that are not transfers in kind and which account for 57.1% of the increase in expenditure for the period. This includes pensions for the passive classes (+12.3%) and pensions from the Social Security System, both contributory and non-contributory (+10.9%).

Interest expenditure rose by 9.1% to €30.153 billion, due to the tightening of financing conditions, and unemployment expenditure also increased (10.2%), despite the good performance of the labour market. Among the expenses that fell, it is worth highlighting subsidies (-17.5%). Within the Social Security field, it is worth highlighting the 17.6% increase in expenditure related to temporary incapacity to work, 16.9% in Minimum Vital Income, and 7.2% in family benefits.

Business Activity

Since April 2023, turnover has continued to decline, with notable differences across sectors. At the end of 2023, business financing conditions remained high, exerting further pressure on costs. However, business confidence indicators at the start of 2024 are improving from the perceived subdued outlook at the end of 2023. Business investment continues to show a marked decline.

Turnover, sales, and investment

According to the National Statistics Institute (INE), **turnover** in November continued its year-on-year rate of decline, accumulating eight months of consecutive falls. Specifically, the annual rate adjusted for seasonal and calendar effects stood at -2.7%, although it has improved with respect to October (-4.8%). So far this year (January-November 2023), turnover is -1.6% lower than in the same period of 2022. In turn, in year-on-year terms, the decline continues in the branches linked to industry and, to a greater extent, in energy, water and sanitation (-26.1%). The non-financial market services sector is the only one to record positive rates, although the increase was more modest compared to the previous month (5.3% in November, vs. 6.3% in October). Trade continues to register negative rates (-2.2% in November), making it the eighth month of declines in a row.

In December 2023, according to data from the Tax Agency, **total sales of large companies**, deflated and adjusted for seasonal and calendar variations, remained practically unchanged with respect to the same month of the previous year (0.0%). Domestic sales increased by 2.2% in December, a very similar rate to that of the previous month (2.1%). In exports, the fall of the last few months worsened (-5.7%). By sector, the biggest falls were recorded in some branches of industry, specifically in the mining and quarrying industry (-11.2%) and in the manufacture of transport equipment (-19.0%).

According to the **European Investment Bank's 2023 Investment Survey**, Spanish companies do not regard investing in new products and services as a priority compared to the European average (15% vs. 26% respectively). Energy prices were a greater source of concern for Spanish companies (73% said so, compared to the European average at 58%). 64% of our companies have invested in addressing the impact of climate events and reducing carbon dioxide emissions (European average at 56%). The biggest impediments to investment were uncertainty about the future and energy costs. Spanish companies were also more concerned than European companies about issues such as financing, labour market regulation and demand for products and services.

Labour Costs

In Q4 2023, **compensation per employee** continued to increase at a year-on-year rate of 4.4%. By sector, the largest increases were recorded in agriculture (8.2%) and construction (5.9%). Within the services sector (4.1%), the one that stands out is the Information and communications industry (7.9%). Compared with the pre-pandemic figure, compensation per employee in 2023 was 11.6% higher than in 2019.

According to the **Statistics on Collective Bargaining Agreements released by the Ministry of Labour and Social Economy**, on January 31, 2024, there are 2,170 agreements with known and registered economic effects for 2024 and they contemplate **a wage increase of 2.83%**, similar to the same month in 2023 (2.81%). The business sector shows increases of 2.63% in private companies. Wage increases in the national sectoral agreements stand at 2.89%, in the regional agreements 2.77% and in the provincial agreements 2.85%.

Financing conditions and costs

The results of the **Bank Lending Survey**, published by the Bank of Spain, reveal that, in Q4 2023, both the criteria for granting loans and the general conditions applied to new business loans eased. In addition, there was a moderation in the contraction of both supply of and demand for bank loans.

Corporate financing conditions remain high compared to 2022. In December, average interest rates for new transactions stood at 5%, but there was a slight decrease compared to November.

With regard to **new business loans**, those up to €250,000 and over €1 million rebounded, with positive year-on-year rates of 8.1% and 6.9%, respectively. On the other hand, loans of between €250,000 and €1 million are the only ones with negative rates (-4.2%).

According to the **Bank of Spain's Report on the financial situation of households and companies** for the second half of 2023, although the debt ratio has been reduced, the financial burden of companies increased from 6.3% in 2022 to 8.6% in 2023. **Corporate financing conditions** remained tight throughout 2023, making access to credit particularly difficult for SMEs.

According to the Quarterly Central Balance Sheet Survey, in the first three quarters of **2023, the percentage of firms with a negative ONP** decreased to 28.2%, compared with 30.6% in the same period of 2022. However, looking at all firms participating in the Bank of **Spain's Survey of Business Activity** (EBAE), the percentage of firms whose economic and financial situation deteriorated in Q3 increased to 17.2%, and was partially corrected in Q4 to 15%.

Profits and margins

Gross operating surplus (GOS) decelerated throughout 2023 to 2.4% year-on-year in Q4, growing much less than employee compensation (8.5%), taxes and even GDP in year-on-year terms. In fact, the GOS is the most lagging variable in the post-pandemic recovery process. Moreover, the GOS accounts for 42.3% of GDP in 2023, down from 43.2% in 2019, while the weight of employee compensation in GDP is higher than in 2019 (47.8% in 2023 compared with 46.6% in 2019).

According to the Third Quarter 2023 Report from the **Business Margins Observatory**, margins are showing a very heterogeneous evolution depending on the sector and, although they have already reached pre-crisis levels, it has been the variable that has taken the longest to recover.

Business confidence

In terms of confidence indicators, the composite PMI for January stood at 51.5, 1.1 points higher than in December (50.4). In the services sector, activity increased for the fifth consecutive month, standing at 52.1. The manufacturing sector remains in contractionary territory for the tenth consecutive month. However, by rising to 49.2 in January from 46.2 in December, the index shows some improvement.

The business confidence indicator published by the National Statistics Institute (INE) improves in Q1 2024 compared to Q4 2023. Four of the five sectors analysed increased their confidence in comparison with the previous quarter. Construction presents the largest increase (2.1%), while Transport and hospitality recorded the only decrease (-1.0%). However, expectations for the start of this year indicate that 18.6% of businesses expect a favourable quarter, compared with 19.2% in the previous quarter.

The European Commission's **Economic Sentiment Indicator** improves moderately from the previous month (102.6 in January against 101.2 in December). Industry remains in contractionary territory, while construction and retail trade reflect positive but very modest results. The services sector continues the good performance of recent months.

Business dynamism

The number of companies registered with the Social Security in January 2024 is very similar to that of January 2020: there are only 1,002 more companies than in the pre-pandemic period. By size, the smallest companies, with between one and five employees, still haven't recovered their pre-pandemic levels. By economic sector, the number of companies registered with the Social Security in Agriculture and Industry is still below the figure recorded before the pandemic.

Main Business Indicators (last update: February 2024)						
Annual averages except penultimate and last data						
Indicator	2021	2022	2023	Penultimate data	Last data	Last given period
Business turnover index corrected for seasonal and calendar effects	19.7	25.3	-1.4	-4.8	-2.7	nov-23
Sales indicator for large companies	7.3	5.9	1.5	0.7	0.0	dec-23
Labour cost per worker	6.0	4.2	5.7	5.8	5.0	Q3 23
Companies registered with the Social Security	1,301,461	1,321,657	1,327,404	1,338,191	1,319,327	jan-24
Interest rates applied to new credit transactions up to 250 thousand Euros	1.9	2.3	4.7	5.3	5.1	dec-23
Interest rates applied to new credit transactions from 250 thousand to 1 million Euros	1.5	2.0	4.6	5.1	5.0	dec-23
Interest rates applied to new credit transactions over 1 million Euros	1.3	1.7	4.5	5.0	4.9	dec-23
New corporate loans up to 250 thousand Euros	-2.3	16.6	5.4	4.2	8.1	dec-23
New corporate loans from 250 thousand to 1 million Euros	-12.9	11.9	4.6	7.3	-4.2	dec-23
New corporate loans over 1 million Euros	-15.4	34.5	-18.7	-20.8	6.9	dec-23
Economic sentiment indicator	105.2	101.3	100.7	101.2	102.6	jan-23
Business confidence indicator	120.8	126.8	132.7	133.2	134.0	Q1 24
Composite PMI Index	55.3	51.8	52.5	50.4	51.5	jan-24
Manufacturing PMI Index	57.0	51.0	48.0	46.2	49.2	jan-24
Services PMI Index	55.0	52.5	53.6	51.5	52.1	jan-24
IBEX 35 Index	8,713.8	8,229.1	10,077.7	10,102.1	10,077.7	jan-24

Source: INE, Bank of Spain, Eurostat, Ministry of Labour and Social Economy, Tax Agency, Ministry of Economy, Trade and Business, Madrid Stock Market.

CEOE Empresas Españolas

Informe Economía

Forecasts

Economic forecasts for Spain (last update: February 2024) Annual rates of change, unless otherwise indicated	2019	2020	2021	2022	2023	2024	2025
GDP	2.0	-11.2	6.4	5.8	2.5	1.8	2.0
Private consumption expenditure	0.9	-12.4	7.2	4.8	1.7	1.5	1.7
Government consumption expenditure	1.9	3.6	3.4	-0.2	3.8	1.0	0.5
Gross fixed capital formation	4.5	-9.0	2.8	2.4	0.6	1.1	1.6
-Tangible fixed assets	5.3	-10.3	1.7	2.1	0.8	1.0	1.3
Construction	7.2	-9.2	0.4	2.6	2.2	1.0	1.3
Equipment and cultivated assets	2.4	-11.9	3.9	1.2	-1.6	1.0	1.4
-Intangible fixed assets	0.6	-2.7	7.7	3.8	-0.3	1.8	2.9
Domestic demand (*)	1.6	-9.0	6.7	2.9	1.7	1.6	1.4
Exports	2.2	-20.1	13.5	15.2	2.4	2.4	5.0
Imports	1.3	-15.0	14.9	7.0	0.3	2.1	3.8
External demand (*)	0.4	-2.2	-0.3	2.8	0.8	0.2	0.6
GDP current prices	3.5	-10.2	9.2	10.2	8.6	6.0	5.6
GDP deflator	1.4	1.1	2.7	4.1	5.9	4.0	3.5
CPI (average annual rate)	0.7	-0.3	3.1	8.4	3.5	3.0	2.2
CPI (Dec/Dec)	0.8	-0.5	6.5	5.7	3.1	3.1	2.0
Core CPI (average annual rate)	0.9	0.7	0.8	5.2	6.0	3.1	2.3
Employment (Quarterly National Accounts)(**)	3.3	-6.5	7.1	3.7	3.2	2.0	2.1
Employment (LFS)	2.3	-2.9	3.0	3.1	3.0	1.9	2.0
Unemployment rate (LFS) (% active population)	14.1	15.5	14.8	12.9	12.1	11.8	11.0
Productivity	-1.3	-5.0	-0.6	2.0	-0.7	-0.2	-0.2
Compensation per employee	2.5	2.8	0.3	2.9	5.2	3.7	2.9
Unit labour cost (ULC)	3.8	8.3	1.0	0.9	5.9	3.9	3.0
Current Account Balance (% of GDP)	2.1	0.6	0.8	0.6	2.5	1.5	1.7
General government net lending (+) / net borrowing (–) (% of GDP)	-2.9	-11.0	-6.9	-4.8	-4.2	-3.7	-3.2
Interest rates USA (Dec)	1.75	0.25	0.25	4.50	5.50	4.50	3.50
Interest rates Eurozone (Dec)	0.00	0.00	0.00	2.50	4.50	3.75	2.75
Brent Oil ($)	64.8	41.5	71.1	103.7	83.8	80.8	77.5

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

(*) Contribution to GDP growth

(**) Full-time equivalent jobs