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**Informe
Economía**

Economic and Business Outlook

September 2024

Overview

The world economy

- PMI indices point to a slowdown in global growth which, together with slowing inflation, will make it easier for central banks to ease monetary policy.
- Oil prices are also affected by the expected slowdown in economic activity, mainly in China, and have fallen to their lowest levels since mid-2021.

The Spanish economy

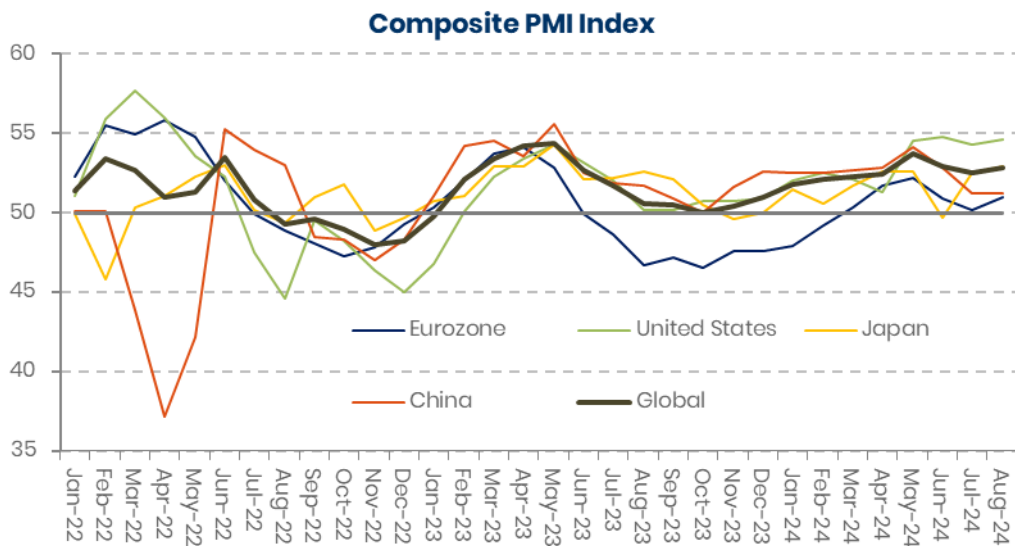
- CEOE revises the growth outlook for the Spanish economy upwards to 2.7% in 2024 and 2% in 2025. Investment remains the weakest component.
- The Funcas Panel and the Bank of Spain have also revised their growth forecasts for Spain upwards in 2024 and 2025. In the case of the former, to 2.6% and 2.1%, respectively, and the monetary authority forecasts 2.8% and 2.2% for each of these two years.
- The Spanish economy recorded significant growth in the first half of 2024, driven by the foreign sector and, in particular, by service exports.
- The number of people registered with the Social Security system lost momentum in Q3 due to the weaker employment figures in the private sector. According to CEOE estimates, effective registrations (discounting furloughs), adjusted for seasonal effects, will increase by 0.4% quarter-on-quarter in Q3, just half of the 0.8% recorded in Q2.
- Inflation has slowed significantly in recent months due to the softening of energy and food prices.
- The strength of personal income tax revenues, which now account for 27% of total tax collection, explains part of the decrease in the State's public deficit up to June.
- Turnover in June was positive for the third month in a row, albeit with modest growth. Additionally, large companies' sales showed stronger performance in July, with a growth rate exceeding the average recorded earlier this year.

The International Scenario

Inflation moderation and economic slowdown make it easier to relax monetary policy

In August, stock markets experienced considerable volatility, with sharp declines in the first week that gradually rebounded. The rise in Japan's official interest rates from 0.1% to 0.25%, coupled with weak U.S. employment data for July that heightened fears of a potential recession, put pressure on global stock markets. However, subsequent indicators, which again pointed to a soft landing as the most likely outcome, along with the potential for monetary policy easing, allowed the major global stock markets—except Japan's—to end the month in positive territory.

In Q2, the growth of the Chinese economy slowed to 0.7% quarter-on-quarter, the lowest since the end of 2022. The Eurozone also lost some momentum, posting 0.2% growth, a tenth of a percentage point lower than in Q1. In contrast, the U.S. economy showed greater resilience, with quarter-on-quarter growth of 0.7%, up from 0.4% in Q1. Activity also picked up in the United Kingdom and Japan, with quarterly growth rates of 0.6% and 0.8%, respectively. For Q3, PMIs for China and the Eurozone indicate ongoing weakness, particularly in China. Meanwhile, U.S. employment data for July, and to a lesser extent August, suggest a potential slowdown in growth, though the PMIs have yet to reflect this.



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

The prospect of a broad economic slowdown across major global economies, combined with a gradual moderation in inflation, which in August stood at 2.5% in the U.S. and 2.2% in the Eurozone, have shifted the focus of central banks back toward growth and easing monetary policy, which currently has a restrictive bias. In this context, Federal Reserve Chairman Jerome Powell signalled an interest rate cut for September from the current range of 5.25%/5.5%, the highest levels since 2001, although the extent of the adjustment was not specified. The improvement in August's labour market data, along with the sustained strength of PMI indices, suggests that the reduction is likely to be only a quarter-point rather than the half-point anticipated in August. Similarly, the ECB also cut interest rates at its September meeting.

In the United States, the economy showed greater dynamism in Q2, with growth of 0.7% quarter-on-quarter, significantly higher than the 0.4% recorded in Q1. Annual growth also accelerated from 2.9% to 3.1%. This rebound was supported by the increase in private consumption and higher inventories, which compensated for lower public spending, lower fixed capital investment and the poorer performance of the foreign sector. For Q3, PMI indices continue to point to solid growth, driven primarily by the strong performance of the services sector, in sharp contrast to the ongoing weakness in manufacturing.

On the other hand, labour market data have raised concerns about the strength of the U.S. economy. In August, 142,000 jobs were created, an improvement from the 89,000 added in July, though still well below the 12-month average of 202,000. The unemployment rate edged down by 0.1 percentage point in August to 4.2%, following July's peak, which marked the highest rate since October 2021. Moreover, wage pressures have eased compared to a few months ago, contributing to the slowdown in prices. Inflation in August stood at 2.5%, the lowest rate since February 2021, while core inflation remained at 3.2%, the lowest since April 2021. This price containment, along with uncertainties surrounding the labour market, has prompted the Federal Reserve to start easing its monetary policy in September, when it will likely implement a quarter-point rate cut. Another cut is expected at the December meeting, following the November presidential elections.

In the Eurozone, GDP growth in Q2 came in at 0.2% quarter-on-quarter, somewhat lower than the 0.3% posted in Q1. It was largely impacted by Germany, which faces the greatest challenges among major economies and posted a quarterly decline of -0.1%. Growth in the Eurozone was driven by increased public spending and exports, while gross fixed capital formation and private consumption remained weak. Looking ahead to Q3, PMI indices suggest a slowdown in activity, with the manufacturing sector clearly in contraction territory while the services sector continues to show positive momentum.

Meanwhile, the labour market remains relatively strong, with employment rising by 0.2% in Q2, one tenth lower than in Q1. The unemployment rate continued to decline, reaching a record low of 6.4% in July. Inflation is also easing, standing at 2.2% in August, the lowest rate since July 2021. Core inflation is decelerating more gradually, posting 2.8% in August, the lowest level since early 2022. As a result, at its September meeting, the ECB cut interest rates for the second time this year, lowering the deposit facility rate by a quarter point to 3.5%. This move narrowed the spread with the main refinancing rate by 0.15 percentage points to 3.65%, while the marginal lending facility rate was set at 3.90%.

In China, the economy slowed in Q2, with GDP growing by 0.7% quarter-on-quarter, down from 1.6% in Q1, marking the weakest growth rate since Q4 2022. Consumer confidence remains weak, and challenges in the real estate sector persist, alongside a slowdown in new lending and a significant decline in foreign direct investment, with the foreign sector serving as the main source of support. For Q3, PMI indices suggest that the slowdown will continue, with the loss of momentum most pronounced in the services sector. In July, retail sales saw a slight improvement compared to June, rising 2.7% year-on-year, although still moderate compared to growth rates over the past year and a half. Meanwhile, industrial production in July decelerated slightly to 5.1% year-on-year. Additionally, house prices remain well below their recent cycle highs, and both housing starts and completions are declining at rates exceeding 20%.

The prospects of a global economic slowdown, combined with increased oil supply, are driving down crude oil prices. In August, Brent crude fell to \$80.4 per barrel, a 5.6% decrease from July, and continued to decline in early September, trading around \$70 per barrel, its lowest level since mid-2021. This decline, along with OPEC+'s downward revision of global oil demand growth forecasts, prompted the organization to postpone the reversal of voluntary production cuts by two months, extending them until December.

The Spanish Economy

CEOE raises growth forecast to 2.7% in 2024 and 2.0% in 2025

Following the release of the Quarterly Accounts data, which showed 0.8% quarter-on-quarter GDP growth in Q2 –the same rate as Q1 after a slight upward revision from 0.7%– CEOE has revised upward its outlook for the Spanish economy for this year and the next. Even if we take into account the potential moderation in activity in the second half of the year, GDP is now projected to grow by 2.7% in 2024, with a slowdown to around 2% anticipated in 2025.

The government, after updating its macroeconomic framework in July, raised its expected GDP growth rate to 2.4% for 2024 and 2.2% for 2025. Similarly, the September Funcas Panel revised its forecast, projecting 2.6% growth for this year and 2.1% for 2024. Additionally, the Bank of Spain has also improved its forecasts, predicting GDP growth of 2.8% in 2024 and 2.2% in 2025.

Spanish economic forecasts			
	2023	2024	2025
GDP, volume (y-o-y rate)			
Government	2.5	2.4	2.2
CEOE	2.5	2.7	2.0
Bank of Spain	2.5	2.8	2.2
Funcas Panel	2.5	2.6	2.1

Source: Ministry of Economy, Trade and Business, Bank of Spain, CEOE and Funcas

The strong performance of the foreign sector and a modest improvement in domestic demand were key factors in the solid results for the second quarter. However, there is stagnation in capital goods investment, despite government estimates suggesting that European funds are currently having their greatest impact on the economy. While investment in construction remains more positive, overall investment is still -1.3% below pre-pandemic levels (end of 2019). This situation is even more pronounced in the machinery and equipment component, which is down -6.2%, highlighting one of the main weaknesses in the composition of Spain's economic growth.

In contrast to previous years, there is a noticeable slowdown in the job creation rate, as reflected in both the quarterly accounts data and information from the Labour Force Survey and the number of people registered with the Social Security. The slowdown is particularly pronounced in the private sector. This trend contrasts with GDP growth, which increased by 2.9% in Q2, outpacing employment growth (currently at around 2.3%). As a result, productivity has seen a slight uptick throughout the year, which is helping to moderate the rise in unit labour costs.

Inflation eased during the summer months, reaching 2.3% year-on-year in August. As a result, the average annual CPI for 2024 is likely to fall below 3%. The December CPI, which is expected to rise slightly toward the end of the year, should also remain below 3% if there are no additional shocks. By 2025, inflation in Spain is projected to converge toward the European Central Bank's target rate of 2%.

Finally, it should be noted that the National Statistics Institute has incorporated information from new statistical sources and is applying new methods and procedures into the National Accounts estimate. As a result, it has revised upwards GDP for 2021, with an impact on nominal GDP of €13.184 billion in 2021, which is passed on to 2022 and 2023, with increases in nominal GDP over the previous estimates of 2% and 2.5%, respectively. Thus, nominal GDP in 2023 reached €1.498 trillion.

As for growth in real terms, there has been a notable upward revision in 2021, 2022 and 2023, showing a stronger recovery of activity after the recession caused by the pandemic. After falling by -10.9% in 2020, GDP recovered in 2021 to 6.7% (up three tenths), 6.2% in 2022 (up four tenths) and 2.7% in 2023, higher than the 2.5% previously estimated.

In 2023, the composition of growth has changed. The contribution of external demand is now estimated to be higher (1 percentage point) due to the improved performance of exports, while the contribution of domestic demand remains unchanged at 1.7 percentage points. In the latter case, it should be noted that investment has decreased by more than previously estimated, while general government spending has increased.

Demand and Activity

Exports and the increase in population drive the remarkable growth recorded in the first half of the year

The Spanish economy showed greater than expected dynamism in the first half of 2024. According to data from the Quarterly National Accounts, growth in the last two quarters was 0.8% quarter-on-quarter. This result means that activity growth accelerated in Q2, rising by 2.9% year-on-year versus the previous 2.6%. This robust performance is particularly noteworthy when compared to the European average, where growth was just 0.3% in Q1 and 0.2% in Q2. The stronger performance of the Spanish economy has been largely driven by the positive contribution of the foreign sector, with a marked strength in service exports—particularly tourism, but also non-tourist services.

An analysis of the composition of growth in Q2 shows that the foreign sector contributed 0.5 points while domestic demand only 0.3 points, very similar figures to Q1. For the coming quarters, the contribution of foreign demand is expected to be somewhat more moderate due to the slowdown in tourism growth, while domestic demand should gain some dynamism. Within domestic demand, it should be noted that all the components are contributing positively, although there is concern about the sluggishness of investment in capital goods, which only increased by 0.1% quarter-on-quarter versus the previous 3.8%. Investment in construction remains more favourable, up 1.3% quarter-on-quarter.

Private consumption is growing at a modest quarterly rate of just 0.3%. When factoring in population growth, this implies that per capita consumption growth is either flat or negative. In this regard, Spain's increasing population is also a key factor setting it apart from other European countries in terms of economic performance because, without this demographic boost, private consumption would not be contributing to overall growth. Despite significant increases in both employment and wages, this limited rise in consumption has led to historically high household savings rates, likely influenced by the tighter monetary policy. As interest rate cuts gradually improve financial conditions and reduce mortgage repayments, and given that inflation is also moderating, consumption should begin to accelerate.

By sector, it is worth highlighting the strong growth posted by the manufacturing industry, which stands at 5.6% year-on-year, in line with the improvement in key indicators such as PMIs and the Industrial Production Index seen in Q2. The services sector also saw robust performance, particularly in areas linked to commerce, accommodation and food service activities, and leisure, where quarterly growth

accelerated. In contrast, the construction sector experienced a year-on-year slowdown and posted a nearly flat quarterly rate.

Early indicators for Q3 suggest a potential slowdown in activity. The manufacturing PMI has shown a clear downward trend, dropping from 54.0 in May to 50.5 in August. While still above the 50-point threshold, signalling expansion, signs of weakening are evident due to the broader European slowdown and deteriorating expectations. Meanwhile, the services sector continues to demonstrate strong momentum, though at a slower pace than earlier in the year. The services PMI rose to 54.6 in August, up from 53.9 in July, driven by increased new orders, though future confidence appears to be softening.

According to the Balance of Payments data published by the Bank of Spain, in the first six months of 2024, the current account surplus reached 25.4 billion, versus a surplus of 19.1 billion in the same period of the previous year. This result was due to the improvement in the balance of goods and non-tourist services (with a surplus of 4.6 billion, versus 3.2 billion in the same period of 2023) and the increase in the surplus in the balance of tourist services (31.8 billion, versus 26.2 billion in the same period of the previous year), which corresponds to an even more favourable development of the inflow of tourists this year.

In terms of foreign trade in goods, customs data for the first six months of 2024 indicate a continued contraction in both exports and imports, with both declining by similar rates (-2.4% for exports and -2.5% for imports). As a result, the trade deficit in goods has slightly narrowed compared to the first half of last year (-€15.822 billion, versus -€16.42 billion).

On the other hand, the tourism sector continues to record very positive figures. In the first seven months of 2024, the number of tourists visiting Spain reached an all-time high of 53.4 million, an increase of 12% versus the same period in 2023. Moreover, as average spending has been increasing, total tourist spending during this period was almost 18.6% higher than in the first seven months of 2023.

The Labour Market

Social Security registrations lose momentum in Q3 due to the slower employment trend in the private sector

Labour market trends in Q2 revealed mixed signals. While job creation remained strong, particularly in the private sector, there was a noticeable slowdown in year-on-year growth, as reflected in the Labour Force Survey (LFS). In contrast, data on hours worked from the National Accounts showed an improved year-on-year performance in Q2, following weak results in Q1. However, early indicators for Q3, particularly Social Security registrations in July and August, suggest a loss of momentum in employment, driven by slower growth in the private sector during this period.

The LFS shows an increase in employment of 434,700 people in Q2, a lower figure than the strong performance recorded in the same period of 2023, but in line with the average for this period since 2014 (with the exception of 2020). It should be noted that the boost to employment in Q2 came from the private sector, which generated 427,800 jobs. As a result, the number of employed workers reached an all-time high of 21,684,700 people.

On a negative note, employment in quarter-on-quarter and seasonally adjusted terms slowed to 0.37%, the lowest figure in the last 18 months. Turning to the raw data, employment in year-on-year terms also shows a notable slowdown, falling to 2.0% from the previous 3.0%. In the case of the private sector, the number of employed workers also grew at a slower pace, by 1.2 percentage points, to stand at 2.1%.

Meanwhile, the number of unemployed fell by 222,600 people in Q2 versus Q1. This brought the total number of unemployed individuals to 2,755,300, marking the lowest level since 2008, while the unemployment rate dropped to 11.3%, one percentage point lower than in the previous quarter. However, despite this progress, Spain continues to have the highest unemployment rate in the European Union and, in fact, is the only EU country with an unemployment rate above 10%, nearly double the European average.

The Quarterly National Accounts data for Q2 reveal a positive trend in hours worked, which increased by 1.0% quarter-on-quarter after posting a decline in the previous period. On a year-on-year basis, hours worked rebounded by 2.1%. In contrast, employment measured in terms of full-time equivalent jobs showed a notable slowdown, with year-on-year growth of 2.0%, aligning with the trend seen in the number of employed workers reported in the LFS.

The slower growth in employment relative to GDP in Q2 has contributed to a recovery in productivity per occupied person, which increased by 0.9%, marking the first rise after four consecutive quarters of decline. However, despite this improvement, productivity levels remain 3.1% below where they stood at the end of 2019. Productivity per hour worked also saw an increase of 0.8%, although this growth was slower compared to Q1.

Compensation per employee and unit labour costs continued to show notable growth, albeit with different trends in Q2. Thus, compensation per employee rose by two tenths of a percentage point to 4.4% year-on-year. By contrast, unit labour costs slowed to 3.5% year-on-year. However, compared with pre-crisis levels, unit labour costs are 18.9% higher than in Q4 2019.

Recent data indicates a slowdown in employment. In July, Social Security registrations decreased by 9,783, marking an unusual decline during a month typically associated with job creation. In fact, this was the worst July on record. Meanwhile, in August, Social Security registrations fell by 193,704, a typical number if we bear in mind that this month tends to be seasonally unfavourable. Thus, the seasonally adjusted series shows weaker increases in July and August than in previous months. In turn, the year-on-year rate showed a gradual slowdown during these months, standing at 2.3% in August, four tenths of a percentage point lower than in February and the slowest rate of growth since January 2023. The private sector has been particularly affected by this loss of momentum, with its growth rate falling to 2.0% in August, down from 2.5% in February and March. In contrast, the public sector has continued to grow at a strong pace and more intensely than in previous months, with new registrations increasing by 4.2% in August.

Pending the release of the Social Security figures for September, everything suggests that employment lost momentum in Q3. According to CEOE estimates, seasonally adjusted effective registrations (discounting furloughs) will increase by 0.4% quarter-on-quarter in Q3, half of the 0.8% recorded in Q2.

Inflation

Inflation eased further in August due to the drop in energy prices

In August, headline inflation eased by five tenths and was set at 2.3%, while core inflation decreased by one tenth to 2.7%. Overall, there was a broad moderation in prices across nearly all components, with energy products showing the most significant change. Over the past two months, energy has shifted from being the most inflationary element in the basket to experiencing a notable decline in prices. Food prices also slowed considerably, particularly unprocessed foods.

All core inflation components experienced a slowdown in price increases, except for services. Thus, while services rose by one tenth year on year to 3.5%, industrial good prices, excluding energy, declined by two tenths to 0.5%. Similarly, the inflation rate for processed food, beverages, and tobacco decreased by three tenths to 3.1%. The strong demand for services, combined with rising production costs, including higher wage costs, may be contributing factors keeping service prices high.

Energy prices fell significantly to -1.5% versus 2.7% in the previous month, mainly due to the decline in fuel and lubricant prices and the lower increase in electricity prices, following their return to a 10% VAT rate.

The extension of tax reduction measures to curb inflation has also affected the figures in recent months. VAT on electricity has been reduced to 10% since July and VAT on basic foods, including olive oil, will remain at 0% until October, before rising to 2%. This will mean that prices for these products will be somewhat contained in the coming months.

Inflation is expected to remain slightly below 3% for the remainder of 2024 and core inflation will continue to moderate, albeit very gradually, given the downward resilience of some of its components. In any case, these developments will be conditioned by the pace of the reversal of anti-inflationary measures and by the performance of commodity prices on international markets.

The Public Sector

The State's public deficit falls up to June due to the strength of personal income tax collection, which now accounts for 27% of the total

The information provided by the Spanish National Audit Office (IGAE) on the State's budgetary execution up to June points to progress in the public deficit reduction in 2024. Thus, in national accounting terms, the State recorded a negative balance of -1.2% of GDP, almost half a percentage point lower than in the same period of 2023. Discounting interest, this figure results in a negative primary balance of -0.2% of GDP, while it stood at -0.7% of GDP in the same period of 2023.

Non-financial resources are 6.4% higher than in the first half of 2023. Of total revenues, around 85% are from taxes, which is a 10% increase. The key to this dynamism is the evolution of personal income tax collection, which is growing at 20.8% due strong employment figures and the rise in wages. In fact, this tax now represents 27% of total tax revenue. VAT shows a less intense but notable increase, up 6.6%, due, in part, to the restoration of the electricity tax rate, the Special Electricity Tax rate and the VAT rate on gas. Corporate income tax revenue increased by 5.8% up to June.

In contrast, revenue from Social Security contributions fell by -1.4% and other revenue by -11.6%, in the latter case mainly due to the fact that in 2024 there was no revenue from dividends from the Bank of Spain corresponding to the profits of 2023, as they were zero.

Uses followed the trend observed in previous months and maintained modest and stable growth of around 1.5% in the first half of the year. Among the non-financial transactions with the largest increases, interest (12.9%) and miscellaneous current transfers (37.9%) are worth noting, the latter being due to a delay in the 2023 settlement of the tax allocation to the Catholic Church. Of the remaining items with more moderate growth rates, we should mention compensation of employees (3.2%) and social benefits other than social transfers (5.0%). In terms of decreasing uses, subsidies, social transfers in kind, current international cooperation and investment aid stand out.

Business Activity

- June marked the third month in a row with a positive turnover, albeit with moderate growth. Moreover, sales by large companies performed somewhat better in July, with a slight upswing that represents a higher rate of growth than the average recorded so far this year.
- Corporate financing conditions remain high, although they are starting to gradually ease. However, there has been a notable pick-up in new lending, which is broad-based across all types of transactions.
- Business confidence indicators continue to improve, apart from the PMIs, which continued to decline in August.
- The number of companies registered with the Social Security in August is slightly higher than pre-pandemic levels, although the number of smaller companies has yet to recover 2019 levels. These firms are also less dynamic in terms of job creation.

Turnover and sales

According to the National Statistics Institute, turnover in June posted its third consecutive positive result. Specifically, the year-on-year rate, adjusted for seasonal and calendar effects, stood at 2.3%, up from 1.5% in May. The decline in energy, water and sanitation continued (-14.2%), while the rest of the sectors had positive figures, with non-financial market services posting the highest growth rate (3.8%). Turnover in the extractive and manufacturing industries performed very modestly (0.5%).

According to the Tax Agency, the total sales of Large Companies, deflated and adjusted for seasonal and calendar variations, increased by 1.0% in July versus the same month of the previous year, which represents a slight upturn compared with June. Moreover, the rate is somewhat higher than the average for the first seven months of the year (0.8%). **Domestic sales** slowed by two tenths of a percentage point in July (1.5%), due to the lower dynamism of capital goods, while consumer goods and intermediate goods showed higher growth rates. **Exports**, in turn, increased by 0.4%, which is an improvement compared with the downward trend of the last 12 months (except for the one-off upturn in March). By sector, and in terms of total sales, it is worth noting the drops in Manufacture of transport equipment (-6.9%) and Information and communications (-3.7%), while the strongest increases were recorded in Construction (13.0%), Social, cultural, and recreational services (10.3%) and Transport and storage (9.1%).

According to the Bank of Spain's Survey of Business Activity (EBAE), companies report a decline in turnover in Q3 2024, although this trend is typical for this period every year due to seasonal factors.

In comparison with previous years, it should be noted that the fall in turnover this year is lower than the one recorded in Q3 of the previous two years. By branch of activity, there is significant heterogeneity, with improvements in some service sectors, such as transport, accommodation and food service activities, and administrative activities, while other sectors, such as agriculture, commerce, and non-market services show a more unfavourable evolution. For Q4 2024, companies anticipate a marked recovery in turnover. Inflationary pressures have eased in Q3 in terms of input costs, sale prices and labour costs. With regard to the factors affecting activity, uncertainty about economic policy, problems with labour supply and the rise in energy costs are the ones negatively affecting activity.

Labour Costs

According to data from the Collective Bargaining Agreements Statistics published by the Ministry of Labour and Social Economy, as of August 31, 2024, a total of 3,039 agreements with known economic effects had been registered. These agreements cover 1,050,873 companies and 9,391,408 workers.

The average wage increase agreed upon in 2024 negotiations stands at 3.02%, compared to 3.38% in the same period in 2023. By type of agreement, national sectoral agreements reported a wage increase of 3.02%, regional agreements 3.01%, and provincial agreements 3.03%. In terms of industry sectors and considering the provisional nature of the data along with potential statistical adjustments, the Services sector recorded the highest wage increase at 3.08%, followed by Industry at 2.93%, Construction at 2.90%, and Agriculture at 2.64%.

On the other hand, according to the Quarterly Labour Cost Survey, the **labour cost for companies in Q2 increased by 4.1% year on year, which represents a rise of two tenths**, to €3,161.6 per worker per month. The wage cost also rose by 4.0% to €2,353.59, while other costs grew by 4.3%, one tenth more than in Q1. Compulsory social security contributions, the main component of other costs, continued to grow strongly, by 4.1% in Q2.

Financing conditions and costs

In July, **interest rates on loans to companies eased slightly downwards and below 5%. They now range between 4.9% and 4.5%.** Despite these rates, new loan issuances saw robust growth across all segments, each expanding by over 10%. Particularly notable was the 19.4% year-on-year increase in loans of up to €250,000. Loans exceeding €1 million also experienced a strong rebound in July and August, recovering after months of significant volatility.

According to the Central Balance Sheet Data Office Quarterly Survey, the percentage of vulnerable firms in Q1 2024 increased versus the same period in 2023, both in terms of negative RON (by 3.5 percentage points to 30% of firms) and in terms of high financial stress (by 2.3 percentage points to 16%), while the share of highly indebted companies remained unchanged. However, in all these cases, the levels are below the 2008–2023 average. This increase occurred in almost all the sectors analysed, in a context of less buoyant surpluses, which were likely to have been pressured by higher staff and financial costs.

Business confidence

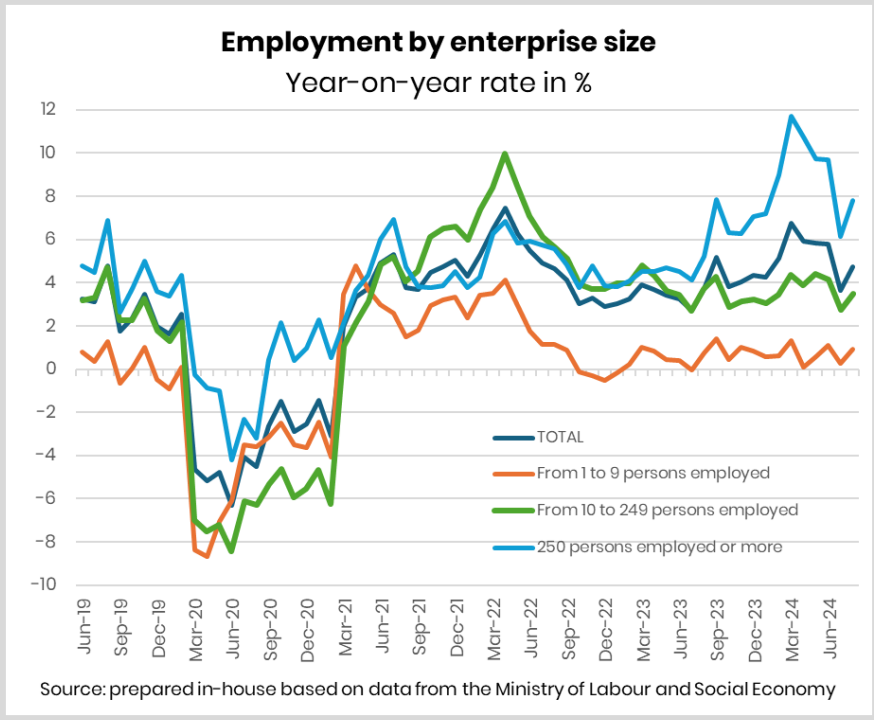
With regard to confidence indicators, **the composite PMI**, which had shown strong growth in the first half of the year, **began to moderate in July and August. In August, the PMI stood at 53.5, down 2.3 points from June.** This slowdown can be attributed to declines in both of its components: the services PMI dropped to 53.9 (from 56.8 in June), while the manufacturing production PMI fell to 50.5 (from 52.3 in June), signalling a more tempered optimism during the summer months.

By contrast, the European Commission's Economic Sentiment Indicator improved in July and August compared with the first half of the year. It stood at 105.4 points versus 104.1 in July, which represents the best reading since February 2022. The increase in confidence is due to an improvement in industry and services, especially trade, where the index is at its highest level since July 2023. In contrast, in construction, confidence declined to a two-month low.

Business dynamism

In August, 2,562 more companies were registered with the Social Security compared to August 2019, representing a modest increase of just 0.2%. By company size, the smallest businesses, those with 1 to 2 workers (which make up 51.8% of all registered companies), have still not returned to their pre-pandemic levels. Across economic sectors, the number of companies registered with Social Security remains below pre-pandemic levels in agriculture, industry, and services, with only the construction sector having fully recovered.

Employment in companies registered with Social Security increased by 4.7% in August compared to the previous year, marking a rebound from July, although this growth rate is lower than that seen in the first half of 2024. Job creation is primarily concentrated in larger companies, which experienced a year-on-year growth of 7.8% in August. However, this figure is also more moderate than those recorded earlier in the year. In contrast, **smaller firms (with 1 to 9 workers) continue to see a more modest increase in employment,** with a year-on-year growth of just 0.9%.



Main Business Indicators

(last update: September 2024)

Indicator	2021	2022	2023	Penultimate data	Last data	Last given period
Turnover and sales						
	Annual rate			Year-on-year rate		
Business turnover index corrected for seasonal and calendar effects	17,8	23,5	-2,5	1,5	2,3	Jun-24
Sales indicator for large companies	6,1	5,8	1,5	0,9	1,0	Jul-24
Labour costs						
	Annual rate			Year-on-year rate		
Labour cost per worker	5,9	4,2	5,5	3,9	4,1	Q2 24
Business dynamism						
	Annual average level			Monthly level		
Companies registered with the Social Security	1.301.461	1.321.657	1.327.404	1.328.221	1.325.904	Aug-24
Financing conditions and costs						
	Annual average level			Monthly level		
Interest rates applied to new credit transactions up to 250 thousand Euros	1,9	2,3	4,7	4,9	4,7	Jul-24
Interest rates applied to new credit transactions from 250 thousand to 1 million Euros	1,5	2,0	4,6	4,6	4,5	Jul-24
Interest rates applied to new credit transactions over 1 million Euros	1,3	1,7	4,5	4,7	4,7	Jul-24
	Annual rate			Year-on-year rate		
New corporate loans up to 250 thousand Euros	-2,3	16,6	5,4	0,4	19,4	Jul-24
New corporate loans from 250 thousand to 1 million Euros	-12,9	11,9	4,6	1,3	12,5	Jul-24
New corporate loans over 1 million Euros	-15,4	34,5	-18,7	23,0	15,0	Jul-24
Business confidence						
	Annual average level			Monthly or quarterly level		
Economic sentiment indicator	105,2	101,3	100,6	104,1	105,4	Aug-24
Business confidence indicator	120,8	126,8	132,7	136,0	138,0	Q3 24
Composite PMI Index	55,3	51,8	52,5	53,4	53,5	Aug-24
Manufacturing PMI Index	57,0	51,0	48,0	51,0	50,5	Aug-24
Services PMI Index	55,0	52,5	53,6	54,6	53,9	Aug-24
Stock markets						
	Annual averages level			Monthly level		
IBEX 35 Index	8.645,2	8.252,5	9.441,5	11.065,0	11.401,9	Aug-24

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

Forecasts

Economic forecasts for Spain							
(last update: September 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	2,7	2,0
<i>Private consumption expenditure</i>	0,9	-12,4	7,2	4,8	1,8	2,0	1,4
<i>Government consumption expenditure</i>	1,9	3,6	3,4	-0,2	3,8	2,4	0,9
<i>Gross fixed capital formation</i>	4,5	-9,0	2,8	2,4	0,8	2,1	1,4
- <i>Tangible fixed assets</i>	5,3	-10,3	1,7	2,1	1,0	2,1	1,5
<i>Construction</i>	7,2	-9,2	0,4	2,6	2,3	2,7	1,5
<i>Equipment and cultivated assets</i>	2,4	-11,9	3,9	1,2	-1,3	0,9	1,4
- <i>Intangible fixed assets</i>	0,6	-2,7	7,7	3,8	-0,3	2,1	1,0
<i>Domestic demand (*)</i>	1,6	-9,0	6,7	2,9	1,7	2,0	1,3
<i>Exports</i>	2,2	-20,1	13,5	15,2	2,3	2,7	4,7
<i>Imports</i>	1,3	-15,0	14,9	7,0	0,3	0,7	3,4
<i>External demand (*)</i>	0,4	-2,2	-0,3	2,8	0,8	0,7	0,7
GDP current prices	3,5	-10,2	9,2	10,2	8,6	5,8	4,6
GDP deflator	1,4	1,1	2,7	4,1	5,9	3,1	2,6
CPI (average annual rate)	0,7	-0,3	3,1	8,4	3,5	2,9	2,0
CPI (Dec/Dec)	0,8	-0,5	6,5	5,7	3,1	2,8	2,3
Core CPI (average annual rate)	0,9	0,7	0,8	5,2	6,0	2,9	2,2
Employment (Quarterly National Accounts)(**)	3,3	-6,5	7,1	3,7	3,2	2,3	1,8
Employment (LFS)	2,3	-2,9	3,3	3,6	3,1	2,2	1,7
Unemployment rate (LFS) (% active population)	14,1	15,5	14,9	13,0	12,2	11,5	10,8
Productivity	-1,3	-5,0	-0,6	2,0	-0,7	0,5	0,1
Compensation per employee	2,5	2,8	0,3	2,9	5,2	4,0	2,9
Unit labour cost (ULC)	3,8	8,3	1,0	0,9	6,0	3,6	2,7
Current Account Balance (% of GDP)	2,1	0,6	0,8	0,6	2,5	2,8	2,6
General government net lending (+) / net borrowing (-) (% of GDP)	-3,1	-10,1	-6,7	-4,7	-3,6	-3,3	-3,0
Interest rates USA (Dec)	1,75	0,25	0,25	4,50	5,50	5,00	4,25
Interest rates Eurozone (Dec)	0,00	0,00	0,00	2,50	4,50	3,75	3,00
Brent Oil (\$)	64,8	41,5	71,1	103,7	83,8	83,7	78,5

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

(*) Contribution to GDP growth

(**) Full-time equivalent jobs