

## EMPLOYMENT HOLDS UP, BUT SOCIAL TENSIONS ARE RISING

Although Spain is not the European country with the highest “structural” exposure to the war in Ukraine, it has been hard hit by the energy price shock. Inflation will certainly exceed 10% year-on-year this spring. Higher petrol prices have triggered protests that have spread across the country, disrupting economic activity even though the impact on growth should be modest. Job creations were still resilient in Q1. Household confidence as well as business expectations of future orders both dropped sharply with the outbreak of the war in Ukraine, which will have an impact the dynamics of hiring. The recovery of the tourism industry will partially offset the loss of consumer spending due to the erosion of household purchasing power in Spain.

Spain is facing an intense energy shock, even though the country is not very dependent on Russian oil and gas imports<sup>1</sup>. Inflation accelerated to 9.8% in March and is likely to rise even higher. Producer prices have rebounded sharply (+40.7% y/y in February), and companies will struggle to fully absorb the rise in costs. Core inflation has also fastened (+2.5% in February), signalling that price increases are steadily spreading to the rest of the economy. Demand for higher wages coming from professions severely impacted by the rise in fuel prices, illustrates the social risks that accompany a context of higher inflation. It is also reflected in household confidence, which posted its biggest decline ever in March, plummeting even more than during the first lockdown in April 2020.

In response to social unrest, and to face up to the economic consequences of the war in Ukraine, the government set up a temporary aid package of EUR 16 bn at the end of March. For the moment, these support measures are expected to extend through 30 June and are comprised of two parts: a EUR 6 bn fund to provide direct aid to households and companies (including a fuel subsidy of EUR 0.2 per litre) and tax cuts. A new EUR 10 bn credit line will also be released. These measures follow on two structural reform measures that Parliament introduced last winter that will support economic growth: the housing law (which tightens regulations on the rental market) and the labour market reform law (which tightens the rules on the use of temporary job contracts).

### THE JOB MARKET IS STILL DYNAMIC

The job market continued to be surprisingly resilient in the first quarter of 2022. The number of new social security affiliations rose 0.9% (+171,716) in Q1. Job growth is robust in certain high value-added sectors, such as information & communications and the scientific & technical professions, while recruitment in restaurant and hotel services continues to rebound with the easing of health restrictions. Hiring under open-ended job contracts also increased in Q1 as companies anticipated changes in regulations, which officially took effect on 1 April. The unemployment rate declined to 12.6% in February, the lowest level since 2008.

Considering the deterioration in the PMI and European Commission surveys, the job market improvement could stall this spring. Greater wage demands due to inflation could also put a lid on hiring. The Bank of Spain does not think the risk as very high in 2022, although it points out the possibility of stronger wage growth in 2023, as more workers add inflation-adjustment clauses to their job contracts<sup>2</sup>.

<sup>1</sup> For Spain, the main suppliers of gas are Algeria and the United States, and the main oil suppliers are Nigeria and Mexico.

<sup>2</sup> Mario Izquierdo and Isabel Soler, An initial analysis of the impact of inflation on collective bargaining in 2022. Bank of Spain, April 2022.

<sup>3</sup> Pablo Casado resigned and was replaced by Alberto Núñez Feijóo, the current president of the Galicia autonomous region.

### GROWTH & INFLATION

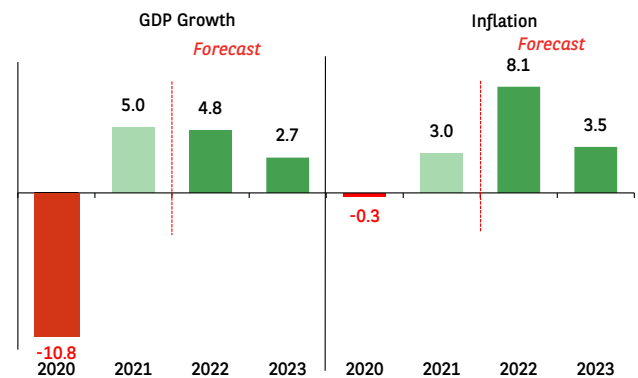


CHART 1

SOURCE: BNP PARIBAS GLOBAL MARKETS

The political scene was turbulent at the beginning of the year, with the breakthrough of the far-right party Vox in the regional elections of Castile and Leon, and the replacement of the head of the Conservative party<sup>3</sup>. Relations are also tense within the ruling coalition and between the government and the Catalonia (ERC) and Basque (PNV) nationalist parties, whose support (or abstention) is often necessary to achieve a parliamentary majority. The ERC's last-minute support to the housing law is a striking example. The political climate could become even tenser over the next twelve months under a more difficult social climate and the approach of the December 2023 legislative elections, the outcome of which is still highly uncertain according to recent polls.

4 April 2022

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