

ECONOMIC PULSE

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SPAIN: ENCOURAGING NEWS ON THE INFLATION FRONT

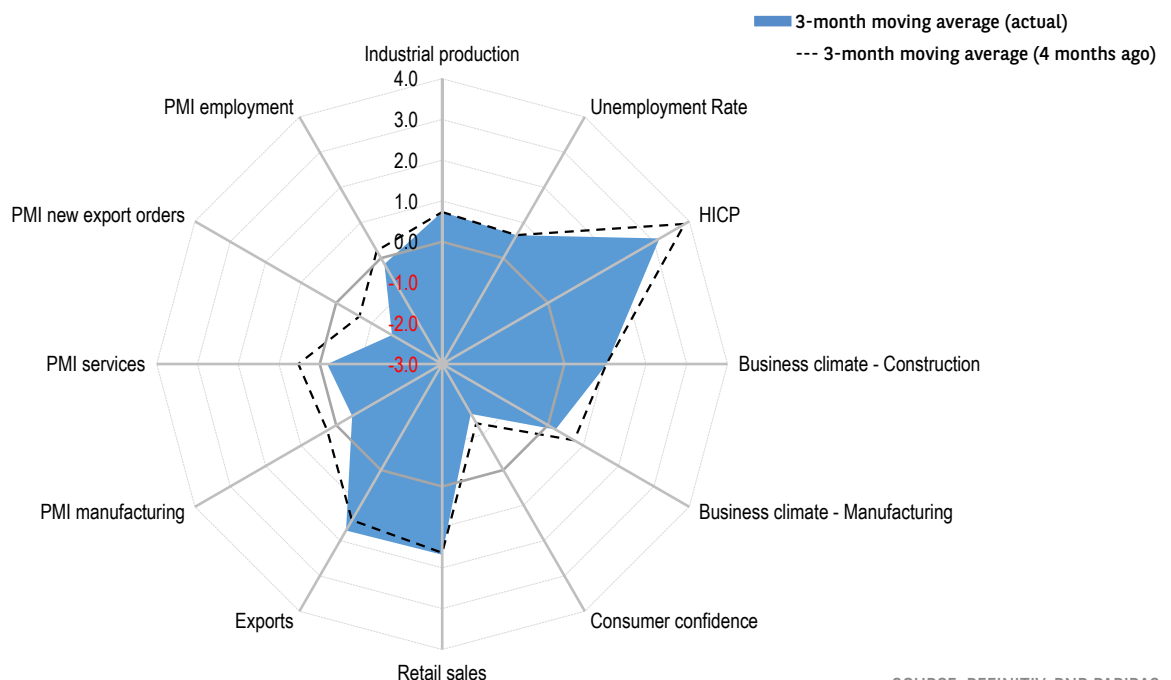
Inflation in Spain fell in October for the third consecutive month, from 10.7% in July to 7.3% in year-on-year terms. At the time of writing these lines, the detailed figures were not yet revealed. However, it is likely that, once again, the main driver behind this fall was energy prices, whose pace of increase has slowed noticeably this summer, although remaining high (22.4% y/y in September). The "Iberian exception", which has been in place since the spring, and the capping of regulated prices on the energy market are paying off. The Spanish government has decided to extend these measures, along with the social bonus which allows electricity bills to be reduced by up to 80% for the least well-off households, until the end of 2023. That said, the inflationary pressures emanating from other items of consumption – food, recreational and cultural services and household goods in particular – remain high and until September have slowed down only very slightly.

Conversely, the rise in property prices is accelerating, suggesting that until now the impact of the rise in borrowing rates on activity in the sector has been very moderate. According to Tinsa, property prices jumped 1.7% m/m and 9.1% y/y in October, the highest annual rate for over 15 years. The labour market is still surprisingly resilient and continues to defy the less-than-encouraging trends coming out of confidence surveys. According to the Spanish state public employment service (SEPE), employment continued to rise in October, by 16,100 (seasonally adjusted figure), and the number of unemployed people fell sharply (-104,914), reaching its lowest level for fourteen years. At the same time, the number of permanent contracts (part-time and full-time contracts combined) increased by 149,870 and now represents more than 70% of total employment. This percentage was only 62% at the end of 2021, a few weeks before the new labour law came into effect in February 2022, the main purpose of which was to tighten the conditions for using precarious contracts.

However, the economic outlook remains negative, with the latest PMI report in particular reporting a significant drop in the manufacturing index in October, down 4.3 points to 44.7. This is the biggest monthly fall since the first lockdown in spring 2020. The PMI index for the services sector was up slightly (+1.2 points to 49.7), but remained in the zone which indicates a contraction in activity.

Guillaume Derrien

SPAIN QUARTERLY CHANGES



SOURCE: REFINITIV, BNP PARIBAS

The indicators in the radar are all transformed into 'z-scores' (deviations from the long-term average, as standard deviations). These z-scores have mean zero and their values are between -3 and +4. In the radar chart, the blue area shows the actual conditions of economic activity. It is compared with the situation four months earlier (dotted-line). An expansion of the blue area compared to the dotted area signals an increase in the variable.



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