

ECONOMIC PULSE

SPAIN: FISCAL TIGHTENING CAN WAIT

The sections of our Pulse on industrial production and retail sales deteriorated significantly. This mainly reflects base effects linked to the catch-up in activity in the first half of 2021. In the coming months, household spending could be held back by the rise in energy prices, which shows no sign of slowing down, and possibly also by lengthening delivery times for certain products. Higher spending on energy will result in households cutting back on other areas of expenditures. The negative impact on purchasing power will nevertheless be partly neutralised by government measures introduced in recent weeks (cuts in the VAT rate on energy, a windfall tax on energy company profits). Confidence indices (PMIs, business climate) have fallen slightly over recent weeks, but remain at historically high levels.

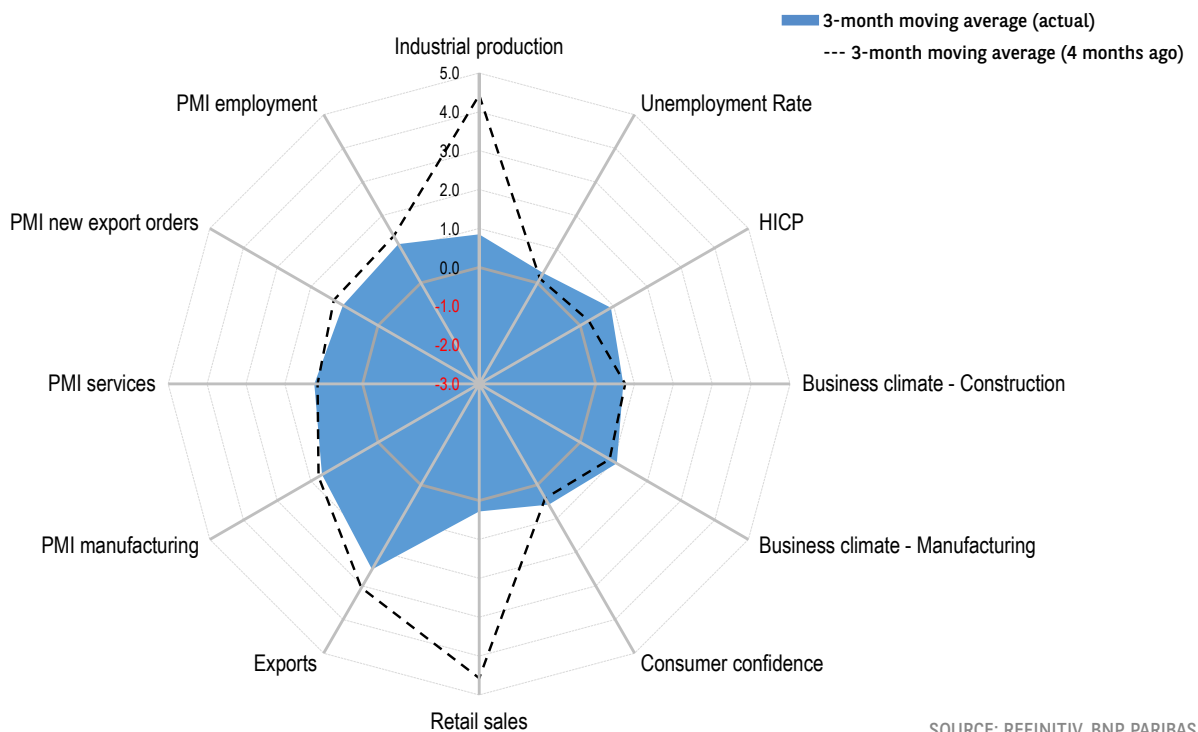
Rising energy costs are pushing inflation upwards, as shown by the expansion of the blue HCPI area on our barometer. Consumer prices continued to rise in September, with an increase of 4.0% y/y, the highest inflation rate for thirteen years.

In its latest World Economic Outlook, the IMF cut its forecast for Spanish growth by 0.5 points to 5.7% in 2021, but revised upwards its estimate for 2022, up by 0.6 points to 6.4%. The significant recovery in the labour market should provide fresh economic impetus over the medium term. According to the Spanish employment agency (SEPE), employment rose further in September (+82,184), taking it above pre-pandemic levels. The unemployment rate fell again in August, to 14.0%, although this is still a very high level.

Although the economic recovery is expected to be robust in 2022, fiscal tightening will be much more modest. The draft budget for 2022, approved last week in the Council of Ministers, will be the biggest in the post-war period, with total public spending at a record level of EUR 459 billion. However, this figure includes EUR 27.6 billion in European aid, which will not therefore affect the deficit. Even so, the deficit will remain substantial in 2022 (5.0% of GDP) and significantly higher than in 2019. Government projections now predict a return below the 3% deficit limit in 2025 at the earliest.

Guillaume Derrien

SPAIN: QUARTERLY CHANGES



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 +5. 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.