

# ECONOMIC PULSE

## SPAIN: FOOD PRODUCTS - NOW THE MAIN SOURCE OF INFLATION.

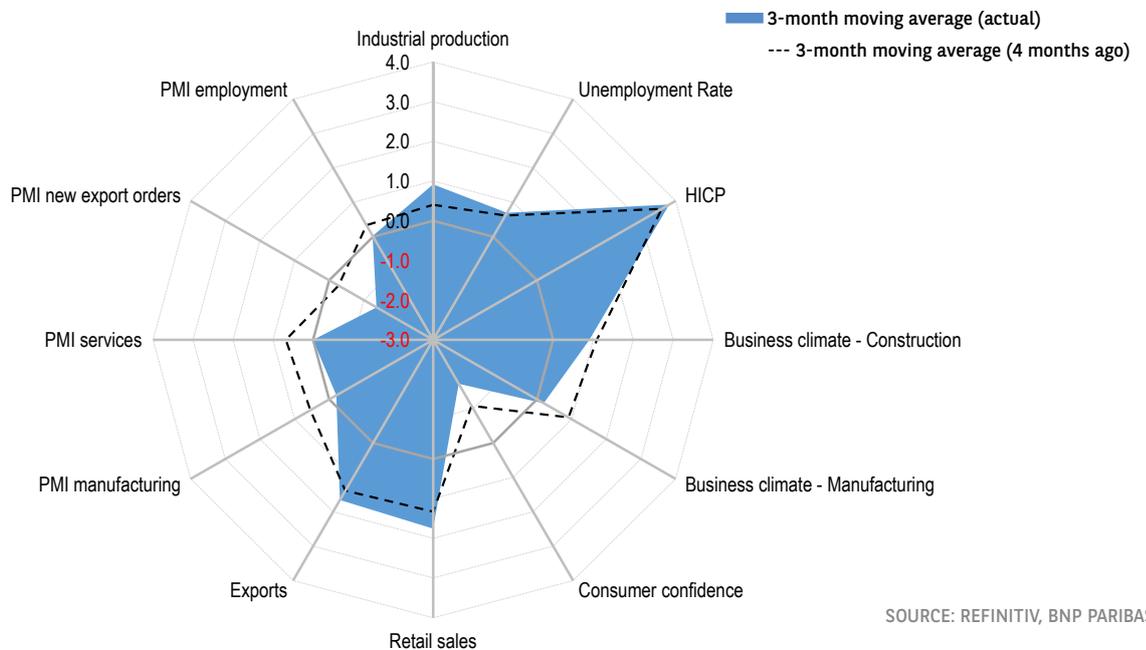
The detailed inflation figures for September confirm the changes in price momentum over recent months. The rise in energy prices, while still very high (22.4% y/y), has eased since last March – at that time the increases had peaked at 60.9% y/y. Conversely, the annual CPI increase for food and non-alcoholic beverages has accelerated (14.4% y/y compared to 6.8% y/y in March). As a result, and for the first time since the outbreak of the war in Ukraine, the rise in the cost of food products has become the leading contributor to inflation, by 3.4 percentage points (p.p.), compared to 2.4 p.p. for energy. However, harmonised total inflation fell from 10.5% in August to 9.0% in September.

The labour market maintained its momentum in the third quarter, with around 130,000 net new jobs created during the summer, and with an unemployment rate which again fell slightly in August, to 12.4%. Nonetheless, the deterioration in opinion surveys leaves little doubt that this positive recruitment dynamic will not last. Household confidence recorded its worst level in 10 years during July, and it has not recovered much since then. In September the composite PMI fell below 50 (-2.1 points, to 48.4), the lowest for one and a half years. The manufacturing (49.0) and service (48.5) indices were both negative, indicating an increasingly widespread slowdown in activity for the economy as a whole. The deterioration in the situation in Europe weighed on external demand: at 41.5 in September, the manufacturing PMI indicator for new export orders fell further, reaching the same level as at the beginning of the first lockdown in March 2020.

In the current economic and social context, and one year from the general election, a very expansionist 2023 budget might have been expected from the socialist government. But the roadmap unveiled by the Ministry of Finance is generally conservative, with a limited increase in social expenditure (+1.1%) and a deficit forecast of less than 4% of GDP for next year. The budget figures are nevertheless based on a very optimistic growth rate for 2023, at 2.1%, and far from the consensus. Last week the IMF cut its 2023 forecast to +1.2%, compared to +2.0% last July, while our forecasts for September indicate an increase of just 0.5%.

**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.

