

# ECONOMIC PULSE

## SPAIN: HOUSEHOLD CONFIDENCE PLUNGES, BUT EMPLOYMENT HOLDS UP

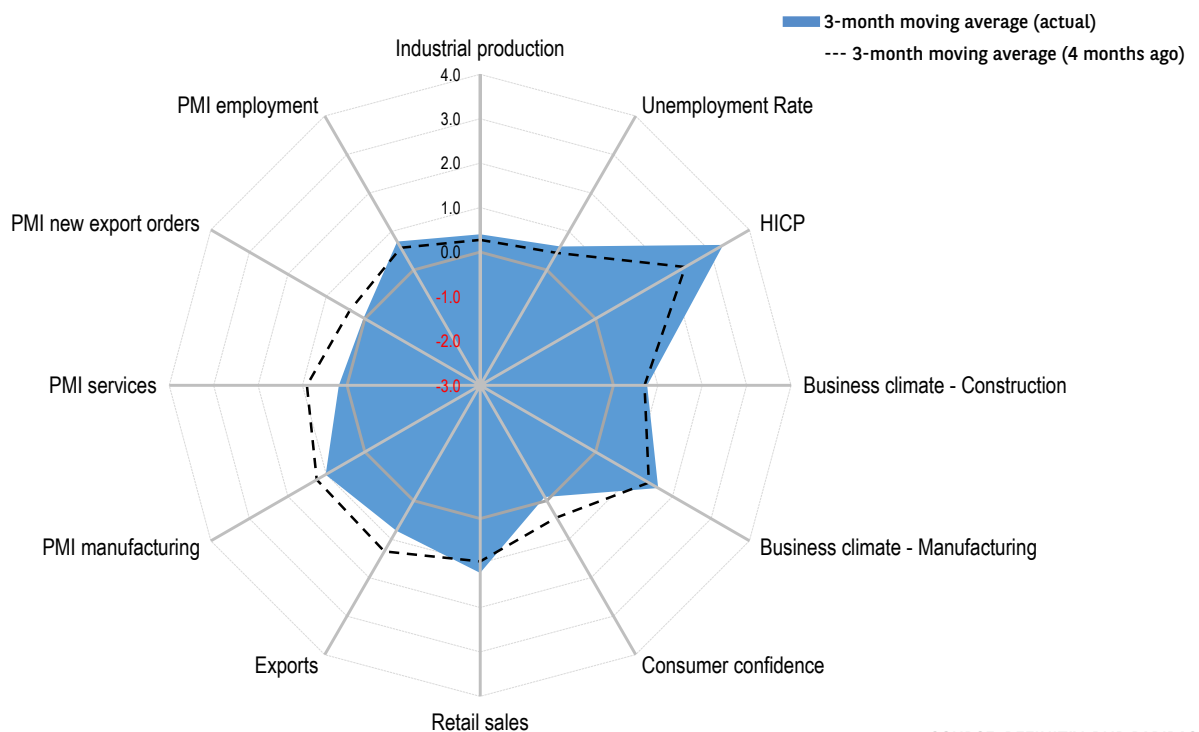
Rising inflation has eroded household confidence in Spain, which in March reported the sharpest drop since the European Commission’s statistical series began in July 1986. So far, business confidence is holding up better according to PMI and European Commission surveys. Yet there are clear signs of an economic slowdown to come: the new orders component of the PMI index has declined due to a sharp deterioration in external demand. Another notable change is the extension of goods delivery times in the manufacturing sector (the PMI index was down 9.1 points to 22.4). It is now at approximately the same level as in November 2021, the worst month on record for the current statistical series.

Spain is facing an intense energy shock that drove consumer price inflation to 9.8% y/y in March. Inflation is bound to accelerate further this spring as companies pass on higher production costs to consumer prices: producer price inflation intensified in February (+40.7% y/y), even before the war in Ukraine exacerbated the rise in commodity prices. To counter these shocks, the government announced new household and corporate support measures at the end of March for a total of EUR 16 bn. This includes a fuel price subsidy (EUR 0.20 per litre), direct financial aid for transport companies, and a new programme of state-backed loans.

Despite the inflationary backdrop, the recovery in the labour market continues, with 24,000 new jobs created in March, the 11<sup>th</sup> consecutive monthly increase. March’s gains were nonetheless the smallest during this period, suggesting a possible decline in hiring this spring, which would be fairly consistent with the deterioration in opinion surveys. Yet Spain should also benefit from stronger tourism activity this year, boosting job creations in the areas directly or indirectly linked to the sector. Moreover, the composition of employment has changed favourably in recent months with a net increase in open-ended contracts. Companies seem to have anticipated the new hiring regulations implemented by the labour laws that took effect on 1 April, which tighten the conditions for resorting to precarious job contracts.

**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.

