

ECONOMIC PULSE

SPAIN: INFLATION IS THE MAJOR OBSTACLE FOR 2022

Despite a substantial increase in new Covid-19 infections since the start of November, the infection rate is currently below those in France or Germany. Meanwhile, concerns about the health situation have had little effect on business confidence so far: the PMI Composite index improved in November (up 1.9 points to 58.3) thanks to better prospects in services. The positive trend in this sector can also be seen in the European Commission survey, which reveals levels of optimism not seen for twenty years. This said, household confidence has fallen back, mainly due to fears of rising consumer prices.

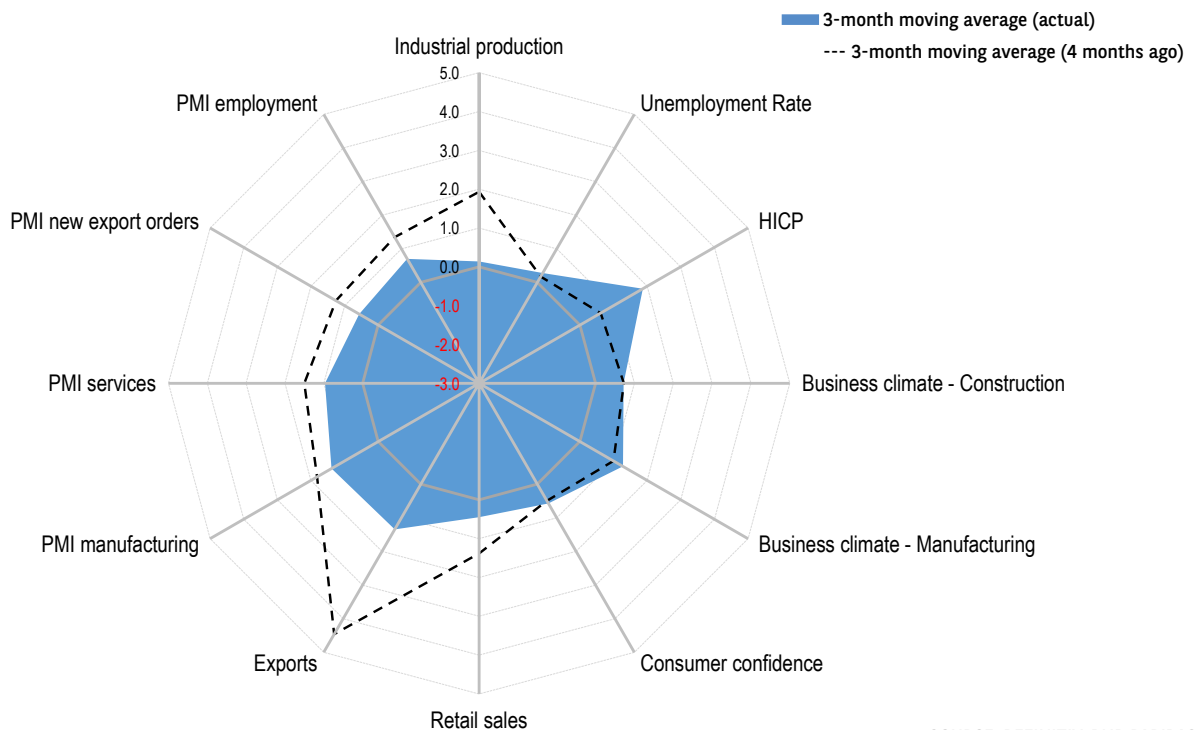
This increase represents a major obstacle to Spanish growth in 2022. Indeed, Spanish inflation will remain high in 2022. As shown in our pulse, the increase in harmonised consumer prices (HICP) has accelerated sharply this autumn (+8.0% in 3m/3m annualised in November) and this will contribute to maintaining significant increases in the annual rate over the next twelve months. There are also strong pressures coming from the housing market (prices are up 9.7% y/y in November).

At the same time, supply problems show little sign of easing. The manufacturing PMI related to delivery times reached a record low in November, at 21.8 (a fall in the index indicates an increase in delivery times). This is likely to slow down production and create further upward pressure on the selling prices of some products.

Given these unstable conditions, fiscal support will remain substantial in 2022. Spain will receive subsidies from the Next Generation EU funds, with the European Commission having officially approved (at the beginning of December) a EUR10 billion payment, due at the end of 2021. Madrid hopes that a further EUR12 billion will be transferred during the first half of 2022, although this payment will be conditional on progress in the labour law reforms currently under negotiations. Despite difficult discussions between unions and government, the latter still plans to finalise these reforms before 31 December 2021, as requested by the European Commission.

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 +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.

