

SIGNIFICANT RESILIENCE TO SHOCKS

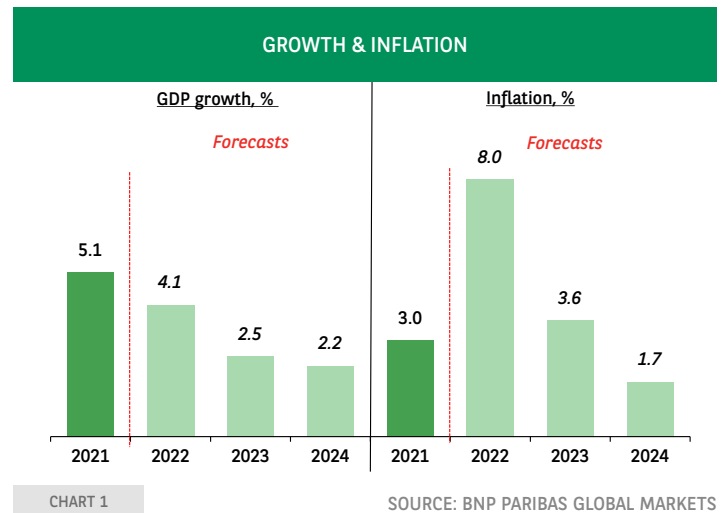
After a weaker economic rebound than its European neighbours in 2021, Spain is expected to report solid growth of more than 4% in 2022. Despite the Ukraine war's impact on inflation and purchasing power, the job market remains on an uptrend, with 186,000 jobs created in the first five months of the year. This dynamic should extend into the summer months with a stronger recovery in tourism, although current disruptions affecting the airlines in Europe could undermine this outlook. Moreover, inflation might not peak until later in the year, since price increases for food and household appliances are currently gaining traction.

Employment growth in Spain shows no signs of easing before the summer months. Nearly 186,000 net job creations were reported between January and May 2022, extending the sharp rebound of 2021 (473,000 job creations). The unemployment rate fell back to 13.3% in April. Compared to February 2020, when employment last peaked prior to the first Covid-19 lockdown, there has been significant hiring in the information and communication sectors (+87,511), as well as in various public sectors, notably education (+119,044) and healthcare (+137,864). Inversely, employment in finance and insurance (-13,177), hotel services (-23,295) and retail activities (-10,738) continues to fall short of pre-Covid levels.

Although the job market situation is still upbeat, the situation is more complicated in terms of inflation. In March, the harmonised index of consumer prices (HICP) nearly reached the threshold of 10% y/y, at 9.7% y/y, before easing to 8.5% y/y in May. Inflation is likely to ease more rapidly in Q4 2022, even though it should remain high (above 3%) through the end of H1 2023. On 15th June a price cap on natural gas was introduced and will help shield households from higher energy prices (+34.2% y/y in May). Even so, consumer price inflation continues to rise in other spending categories, notably food and non-alcoholic beverages (+11% y/y), household appliances (+5.9%) and food and restaurant services (+6.3%). Producer prices continued to soar last spring (+45.1% y/y in April). Although partially absorbed by corporate margins, this increase will also be carried over to sales and consumer prices.

MODERATE WAGE INCREASES

Although wages increased significantly in Q1 (+4.3% y/y according to INE), a price-wage spiral does not really seem to have materialised yet. Wage increases are mainly due to the knock-on effect of the increase in the minimum interprofessional wage (MIW) on the lower end the pay grid. The MIW was raised by 3.6% to EUR 1,000 in January. With the exception of three sectors (energy, information & communications, and finance & insurance), wage increases were reported in all sectors, and were especially large in hotel services. The average base wage in this sector (EUR 1,120.16 a month in Q1 2022) is close to the WIM, and wages rose by two thirds (68.4%) compared to Q1 2021. For the moment, higher wages are mainly due to government measures rather than corporate decisions, even though in certain sectors, like hotel services, labour shortages are also helping to drive up wages. Moreover, only a quarter of workers are covered by an inflation clause that would allow them to fully or partially adjust their wages to inflation¹.



Under this environment, the government could strengthen its support measures in favour of households and companies (EUR 17 bn so far, excluding price caps²). Reduced taxes on energy products, which currently expire in July, will probably be extended. The introduction of a windfall tax on energy providers is also being explored, similar to the measure implemented in Italy.

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¹ See: Solo uno de cada cuatro trabajadores tiene cláusula de revisión salarial contra la inflación, El País, 10 June 2022

² See: BNP Paribas EcoFlash, Energy price inflation in the Eurozone: government responses and implications for household purchasing power, 20 May 2022.