

## Consumer support fading away

The improved business climate points to a risk of an upwards revision in our current estimate of contraction in Spain's GDP in Q1 2023. The composite PMI topped the 50-point threshold in January at 51.6, five months after slipping below this level. This rebound can be attributed to services (52.7), while further contraction was seen in manufacturing activity (48.4). While manufacturing production increased by 0.8% m/m in December and 2.8% in 2022, it has only just closed the gap relative to 2019.

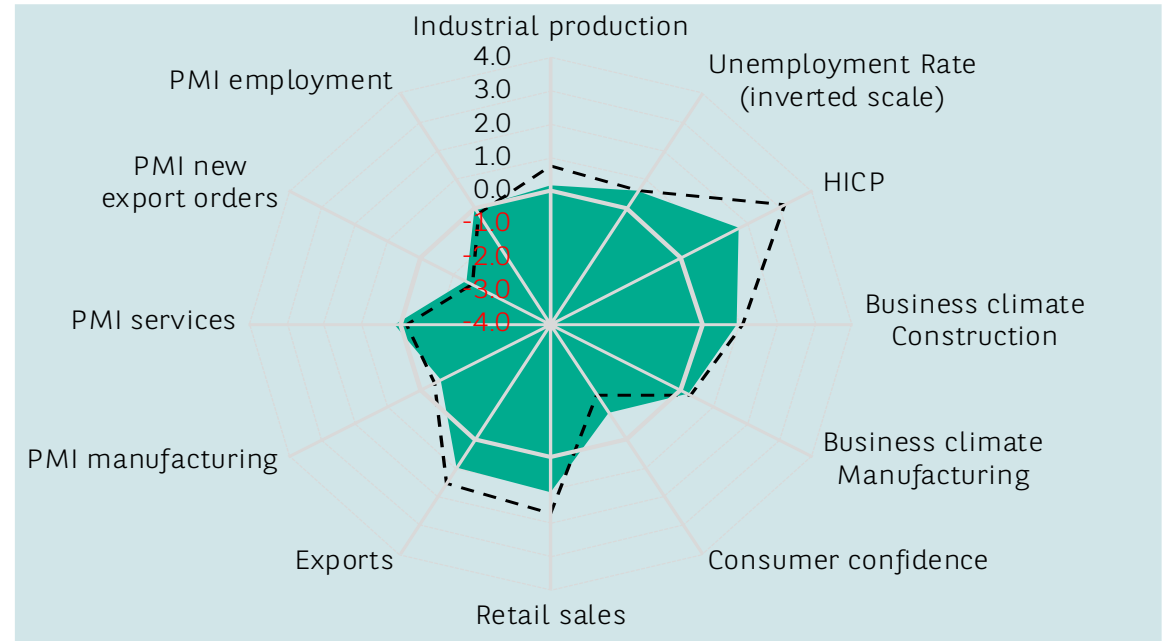
Spanish consumer confidence has also improved with less bleak inflation prospects, although this does not necessarily indicate an upturn in consumer spending. Intentions to buy consumer durables are more or less at the same level as during the lockdowns in 2020. Furthermore, as a result of the inflation shock, the household savings rate – which was 5.8% in Q3 2022 – has fallen rapidly from the peaks reached during the lockdowns and is now well below the average for the last 20 years at 8.9%. This kind of decline has not been seen in France or Germany, for example.

Inflation accelerated again in January from 5.7% y/y to 5.9% y/y, despite more significant deflation in energy prices. Underlying inflation recorded a further sharp rise from 7.0% to 7.5%, fuelled by food products (15.7% y/y in January), which account for half of the inflation rate. The VAT cut on a list of essential items in January, mainly foods (bread, milk, flour, eggs, etc.), has not yet produced any tangible results. In reaction to these figures, on 20 February, the government launched the Food Chain Observatory (*Observatorio de la Cadena Alimentaria*) to work with companies in the sector to assess the impact of this VAT reduction and discuss possible adjustments.

We expect a significant slowdown in activity in 2023, which is likely to be accompanied by an equally marked fall in the hiring rate. Recruitment is already struggling, with two consecutive slight falls in January (-12,200) and December (-8,300), the first since April 2021.

Guillaume Derrien

## Economic indicators 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 -6 and +6. In the radar chart, the green 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.

## GDP growth

Actual		Forecast	Carry-over	Forecast		Carry-over	Annual growth forecasts (y/y)			
Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q1 2023	Q2 2023	Q3 2023	Q3 2023	2022 (observed)	2023	2024
2.2	0.2	0.2	-0.3	0.5	0.2	0.2	0.7	5.5	0.6	1.4

Source: Refinitiv, BNP Paribas



# BNP PARIBAS ECONOMIC RESEARCH

William De Vijlder  
Chief Economist +33 1 55 77 47 31 william.devijlder@bnpparibas.com

## OECD ECONOMIES AND STATISTICS

Hélène Baudchon  
Head - Eurozone, United States +33 1 58 16 03 63 helene.baudchon@bnpparibas.com

Stéphane Colliac  
France, Germany +33 1 42 98 43 86 stephane.colliac@bnpparibas.com

Guillaume Derrien  
Southern Europe, Japan, United Kingdom - International trade +33 1 55 77 71 89 guillaume.a.derrien@bnpparibas.com

Veary Bou, Tarik Rharrab  
Statistics

## ECONOMIC PROJECTIONS, RELATIONSHIP WITH THE FRENCH NETWORK

Jean-Luc Proutat  
Head +33 1 58 16 73 32 jean-luc.proutat@bnpparibas.com

## BANKING ECONOMICS

Laurent Quignon  
Head +33 1 42 98 56 54 laurent.quignon@bnpparibas.com

Céline Choulet +33 1 43 16 95 54 celine.choulet@bnpparibas.com

Thomas Humblot +33 1 40 14 30 77 thomas.humblot@bnpparibas.com

Marianne Mueller +33 1 40 14 48 11 marianne.mueller@bnpparibas.com

## EMERGING ECONOMIES AND COUNTRY RISK

François Faure  
Head - Argentina, Turkey - Methodology, Modelling +33 1 42 98 79 82 francois.faure@bnpparibas.com

Christine Peltier  
Deputy Head - Greater China, Vietnam - Methodology +33 1 42 98 56 27 christine.peltier@bnpparibas.com

Stéphane Alby  
Africa (French-speaking countries) +33 1 42 98 02 04 stephane.alby@bnpparibas.com

Pascal Devaux  
Middle East, Balkan countries +33 1 43 16 95 51 pascal.devaux@bnpparibas.com

Hélène Drouot  
South Korea, Philippines, Thailand, Andean countries +33 1 42 98 33 00 helene.drouot@bnpparibas.com

Salim Hammad  
Latin America +33 1 42 98 74 26 salim.hammad@bnpparibas.com

Cynthia Kalasopatan Antoine  
Ukraine, Central European countries +33 1 53 31 59 32 cynthia.kalasopatan.antoine@bnpparibas.com

Johanna Melka  
India, South Asia, Russia, Kazakhstan +33 1 58 16 05 84 johanna.melka@bnpparibas.com

Lucas Plé  
Africa (Portuguese & English-speaking countries) lucas.ple@bnpparibas.com

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