

Signs of resilience

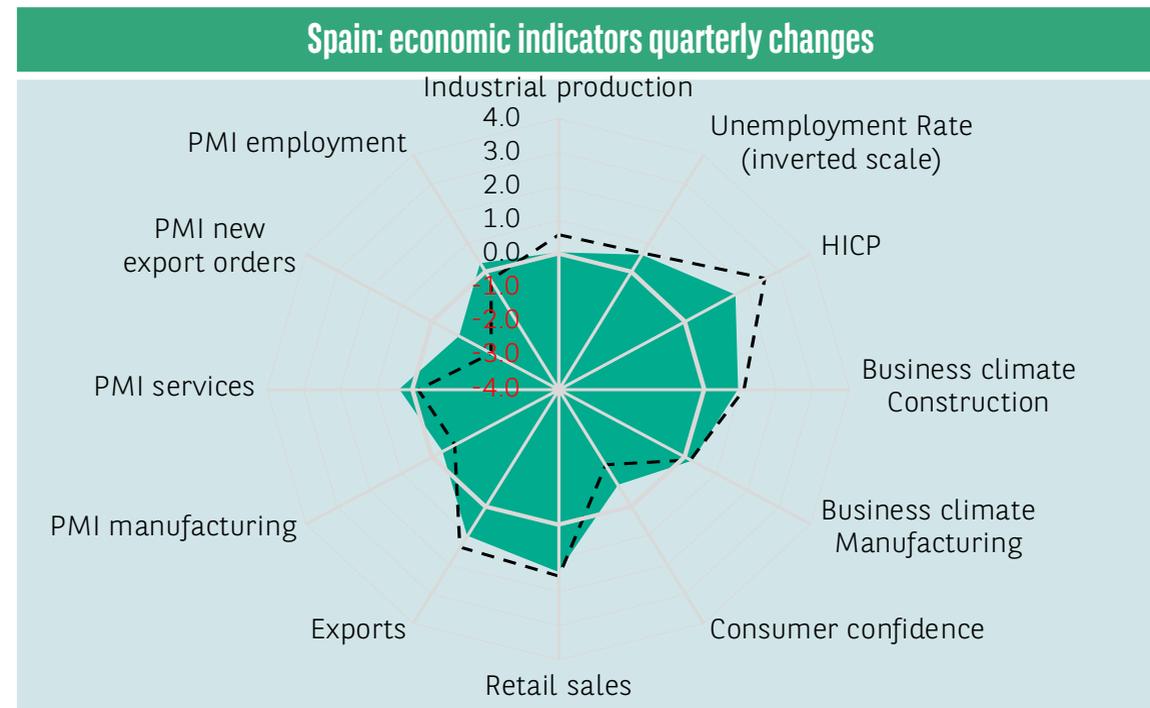
Trends in the PMI indices are making a short-term economic downturn less likely. Our initial forecasts of a contraction in economic activity for Q1 2023 were also revised upwards, with moderate growth now expected (+0.2% q/q). The composite PMI index was up again in March, rising by 4.1 points to 55.7, its highest level since May 2022. The new orders sub-indicator (+4.2 points, to 55.2) and, to a lesser degree, the employment sub-indicator (+2 points, to 52.2) helped to drive this improvement, with price indices (input and output prices) remaining high. Consumer confidence is rising, but is still very weak.

While headline inflation has eased in recent months, thanks to falling energy prices, a second more widespread and sustained wave is now ongoing. Excluding energy, the CPI increased even more sharply in February to 8.2% year-on-year (y/y), driven mainly by rising food prices (+16.6% year-on-year). The removal of VAT on essential products, which was introduced in January, has not stopped prices from going up in the food sector for the time being.

However, the number of jobs created has continued on its upward trajectory from 2022, with a cumulative net increase of 0.7% over the first two months of 2023, according to figures from the Spanish National Employment Office (*Servicio Público de Empleo Estatal* - SEPE). In annual average terms, employment growth stood at 4.7% in 2022, according to the SEPE. The unemployment rate (people aged 16-64 years old) rose to 13.0% during Q4 2022, but is expected to drop again during the first six months of 2023 if job creation continues at this current rate.

Our growth forecasts for 2023 have been revised upwards, from 0% to 1.4%. This is partly due to a more positive carry-over of 0.8% at the end of 2022.

Guillaume Derrien (article completed on 20 March 2023)



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 -4 and +4. 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.

Spain: GDP growth									
Actual			Carry-over	Forecast			Annual growth forecasts (y/y)		
Q2 2022	Q3 2022	Q4 2022	Q4 2022	Q1 2023	Q2 2023	Q3 2023	2022 (observed)	2023	2024
2.2	0.2	0.2	0.8	0.2	0.3	0.3	5.5	1.4	1.1

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
Deputy chief economist, Head - 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
Eurozone, 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

CONTACT MEDIA

Mickaëlle Fils Marie-Luce +33 1 42 98 48 59 mickaëlle.filsmarie-luce@bnpparibas.com

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