SPAIN

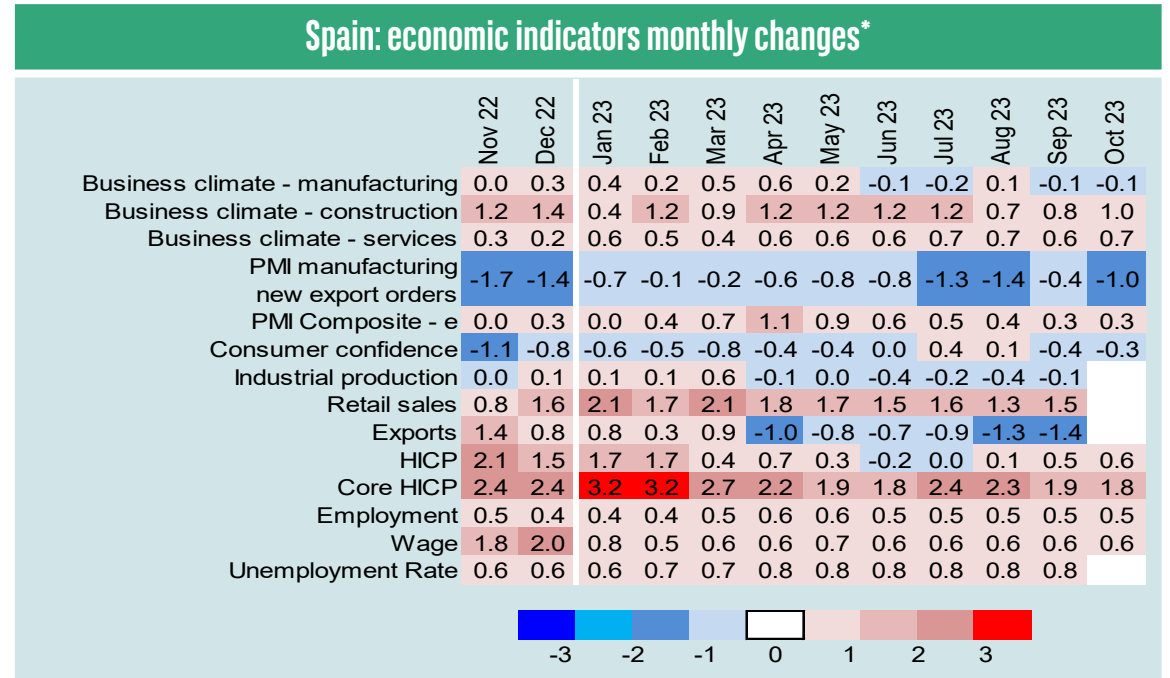## The manufacturing sector continues to underperform

The Harmonised Index of Consumer Prices (HICP) rose again to +3.5% y/y in October (+0.21 pp). Food inflation remains high, although it eased from September (+9.5% y/y in October, -1 pp). However, the surge in olive oil prices persisted (+73.5% y/y, +6.5 pp), contributing 0.37 points to overall inflation. As for energy, the deflation is subsiding but remains significant (-10.1% y/y, -3.7 pp). Core inflation meanwhile, eased to +3.8% over a year.

The European Commission's Economic Sentiment Indicator rose slightly in October (100.3 points), mainly due to an improvement in services. Confidence in this sector has returned to its April 2022 level. Moreover, according to the survey, job creation in services is expected to continue over the next three months, as the index reached its highest level since April 2019. Conversely, the manufacturing sector continues to suffer, with order books below pre-Covid levels. In addition, the manufacturing PMI sank further into the contraction zone, reaching its lowest level in a year (45.1). Household expectations for the economic situation over the next twelve months also deteriorated (-8.8 pp between August and October), keeping the consumer confidence index at a depressed level.

The country's political situation could also weigh on the economic climate. Pedro Sánchez, the outgoing Prime Minister, was finally re-elected in a vote held in Parliament on 16 November. However, the start of his second term is likely to be turbulent due to the country's division over the amnesty law soon to be granted to Catalan separatists.

We expect a moderate slowdown in the Spanish economy in H2 2023, as already shown by the preliminary Q3 GDP figures (+0.3% q/q). We expect this deceleration to continue to +0.2% q/q in Q4, which would nevertheless allow growth to reach 2.4% over 2023 as a whole, one of the highest levels in the eurozone.

Lucie Barette (article completed on 21 November 2023)

Spain: economic indicators monthly changes*

	Nov 22	Dec 22	Jan 23	Feb 23	Mar 23	Apr 23	May 23	Jun 23	Jul 23	Aug 23	Sep 23	Oct 23
Business climate - manufacturing	0.0	0.3	0.4	0.2	0.5	0.6	0.2	-0.1	-0.2	0.1	-0.1	-0.1
Business climate - construction	1.2	1.4	0.4	1.2	0.9	1.2	1.2	1.2	1.2	0.7	0.8	1.0
Business climate - services	0.3	0.2	0.6	0.5	0.4	0.6	0.6	0.6	0.7	0.7	0.6	0.7
PMI manufacturing new export orders	-1.7	-1.4	-0.7	-0.1	-0.2	-0.6	-0.8	-0.8	-1.3	-1.4	-0.4	-1.0
PMI Composite - e	0.0	0.3	0.0	0.4	0.7	1.1	0.9	0.6	0.5	0.4	0.3	0.3
Consumer confidence	-1.1	-0.8	-0.6	-0.5	-0.8	-0.4	-0.4	0.0	0.4	0.1	-0.4	-0.3
Industrial production	0.0	0.1	0.1	0.1	0.6	-0.1	0.0	-0.4	-0.2	-0.4	-0.1	
Retail sales	0.8	1.6	2.1	1.7	2.1	1.8	1.7	1.5	1.6	1.3	1.5	
Exports	1.4	0.8	0.8	0.3	0.9	-1.0	-0.8	-0.7	-0.9	-1.3	-1.4	
HICP	2.1	1.5	1.7	1.7	0.4	0.7	0.3	-0.2	0.0	0.1	0.5	0.6
Core HICP	2.4	2.4	3.2	3.2	2.7	2.2	1.9	1.8	2.4	2.3	1.9	1.8
Employment	0.5	0.4	0.4	0.4	0.5	0.6	0.6	0.5	0.5	0.5	0.5	0.5
Wage	1.8	2.0	0.8	0.5	0.6	0.6	0.7	0.6	0.6	0.6	0.6	0.6
Unemployment Rate	0.6	0.6	0.6	0.7	0.7	0.8	0.8	0.8	0.8	0.8	0.8	

-3   -2   -1   0   1   2   3

* The Indicators are all transformed into "z-scores", i.e. deviations from the long-term average value (expressed in standard deviation), the average of which is zero (except for the PMI/ISM indices where the average is 50, the threshold between the expansion zone and the contraction zone of the activity). Positive (negative) values indicate the number of standard deviations above (below) the mean value.

Reading note: the red colour indicates dynamic activity, high inflation and low unemployment, the blue colour indicates slower activity, low inflation and high unemployment.

GDP growth

Actual				Carry-over	Forecast		Annual forecasts (y/y)		
Q4 2022	Q1 2023	Q2 2023	Q3 2023	Q4 2022	Q4 2023	Q1 2024	2022 (observed)	2023	2024
0.5	0.6	0.4	0.3	1.2	0.2	0.2	5.8	2.4	1.5

Source: Refinitiv, BNP Paribas