

ECONOMIC PULSE

SPAIN: UNDER THE THREAT OF A RESURGENCE OF THE EPIDEMIC

The Q2 GDP figures – released next week – should confirm that Spain has been one of the European economies hit hardest by the health crisis. In its monthly bulletin, the National Statistics Institute (INE) estimates that in May, non-financial companies' turnover was 30.6% below the level reported during the same month last year. This decline is visible in our barometer, particularly for the retail sales and industrial production data. Although business activity picked up in June with the easing of lockdown restrictions, the Q2 contraction will be unprecedented.

The resurgence of Covid-19 cases in Catalonia shows that significant downside risks to economic activity persist. Since 17 June, the city of Barcelona has reintroduced restrictions, including the closures of movie theatres and arts centres as well as a ban on gatherings of more than 10 people. The city is also encouraging the population to restrict their movements as much as possible, which has already triggered a sharp decline in retail activity.

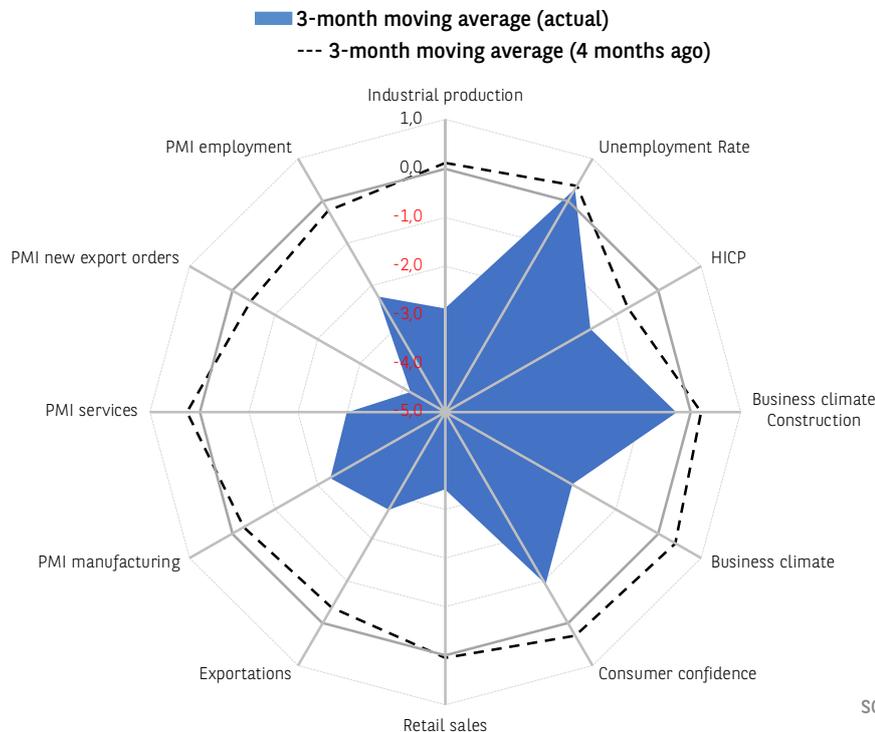
External demand is also weak. In May, exports have hit their lowest level since February 2011, on a 3-month moving average basis. The rebound in exports could be modest during the summer: the export

orders indicator -a sub-index of the Purchasing managers' index (PMI) – remained low in June, at 47.5. This said, the Spanish trade balance has improved since imports have fallen more sharply than exports. Indeed, the trade deficit narrowed to EUR 359.1 m in May, the smallest shortfall since June 2013 (adjusted data).

Core inflation has held steady despite the collapse in economic activity in H1 2020. The core consumer price index (CPI), which excludes energy and fresh foods, rose only 0.5% over the past six months and the annual rate was 0.99% in June. Headline CPI remained in deflation territory (-0.33%), but it should gradually pick up. Indeed, the rebound in oil prices since the end of April has been filtering through to the energy CPI, which recorded in June its biggest monthly rise in a year.

Guillaume Derrien

QUARTERLY CHANGES



SOURCE: THOMSON REUTERS, 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 -8 and +2. 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.

