

# ECONOMIC PULSE

## SPAIN: WILL THINGS BE DIFFERENT THIS TIME?

Once again, Spain has become an epicentre of the Covid-19 pandemic in Europe after new cases of the Delta variant spiked, especially in Catalonia. The number of new contaminations could rapidly surpass the peaks reached during previous waves of the pandemic. The days and weeks ahead will tell whether the vaccination campaign is paying off – more than 50% of the population is now fully vaccinated (2 doses) – and whether the authorities can limit the reintroduction of health measures that restrict economic activity.

The latest developments on the economic front are encouraging. The labour market continues to recover, as 202,857 jobs were created in June, the biggest monthly increase since the current series of statistics began (January 2001). The number of jobseekers also declined by 102,604 last month, which suggests that the unemployment rate could drop below 15% this summer (from 15.3% in May). External demand is fuelling economic growth. Exports increased in May – up for the fourth consecutive month – and are now more than 10% above pre-pandemic levels. Industrial output also rebounded in May, in line with the rise in exports. However, consumption was still sluggish in Q2, and the improvement in retail sales on our Pulse mainly reflects base effects after the sharp decline during the first lockdown in Q2 2020.

As to inflation, headline and core CPI continued to diverge in June. Headline inflation accelerated to 2.73%, while core inflation (excluding energy and fresh food items) remained very low at 0.21%. Despite a rather low weighting on the consumer price index, energy prices explain almost entirely all of the increase in Spanish inflation: higher pump prices drove up the transport CPI, while electricity prices have risen sharply this year (+37.1% y/y). In response to this situation, the government has taken action, notably through a drastic cut in the VAT rate on electricity, to 10% from 21%.

**Guillaume Derrien**

### SPAIN: 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 -3 and +5. 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.

