

ECONOMIC PULSE

SPAIN: THE EPIDEMIC'S REBOUND WEIGHS ON CONFIDENCE

This week's Eurostat report confirmed that Spain has been Eurozone's worst impacted country by the coronavirus. Real GDP plunged 18.5% q/q in Q2. The resurgence of the epidemic and the implementation of new restrictions will hold back the economic recovery this semester, at least. Although the number of jobseekers fell in August (-34 371) there were still 765 000 more unemployed persons than in February (according to the Spanish employment agency, seasonally-adjusted data).

Furthermore, the purchasing managers indices (PMI) fell in August. The composite index dropped from 52.8 to 48.4, slipping back in contractionary territory. The manufacturing and the service PMIs both dropped below the 50 mark. These figures mirror the European Commission's confidence indices: the economic sentiment index also fell last month, from 90.6 to 88.1.

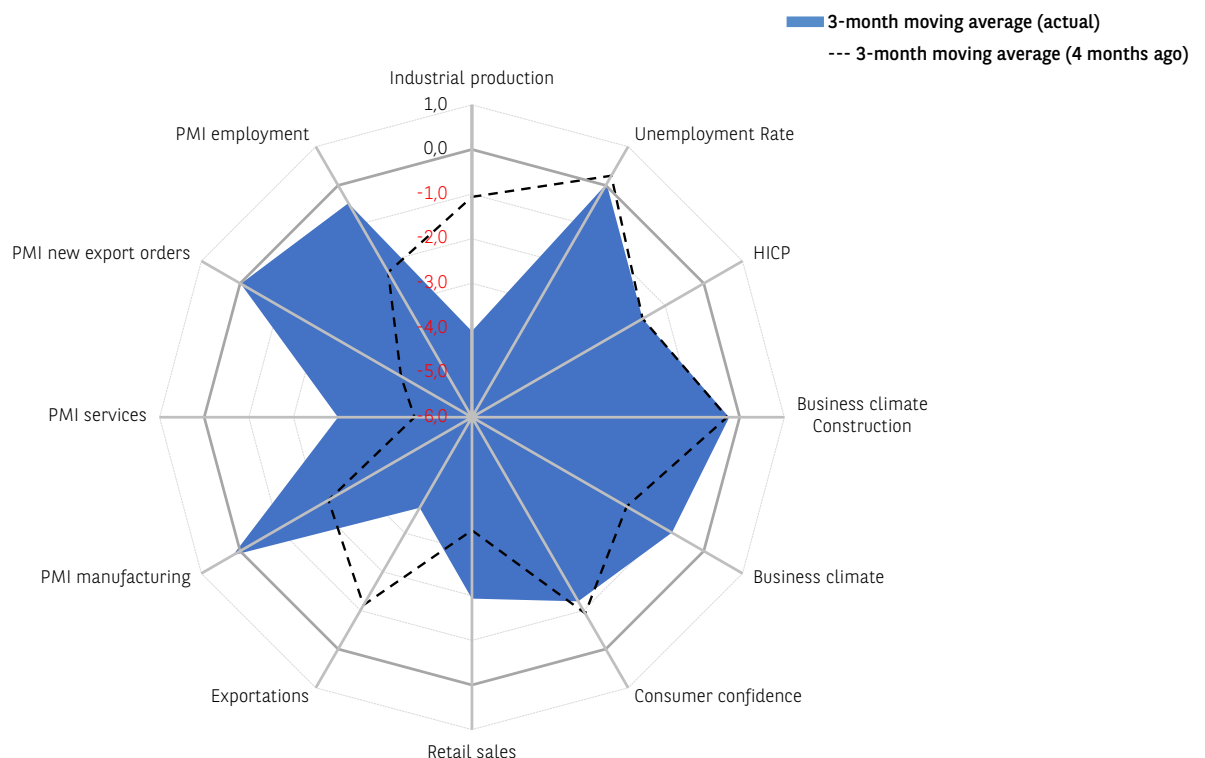
That said, retail sales have recovered strongly this summer, while car sales have risen above February's level. Government incentives to buy less-polluting cars (the Renove 2020 scheme) have helped stimulate demand for vehicles.

The recovery in other areas of industrial production – investment goods in particular – is comparatively slower. Exports have clawed back nearly two-thirds of the ground lost during the lockdown period. This improvement does not show up in the current barometer yet, but this will feed through over the next few months.

The fall in economic activity in the first half is increasingly weighing on consumer prices, with the overall CPI down 0.52% year-on-year in August. The underlying CPI (excluding energy and perishable food) rose by only 0.43% year-on-year in July, the lowest increase since April 2015. This was mainly due to prices in services, where activity levels have been hit much harder by the pandemic: the fall in the services CPI (excluding rents) over the past six months was the biggest since the current data series began in January 2002.

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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 -6 and +1. 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.

