

# ECONOMIC PULSE

## SPAIN: THE EPIDEMIC IS WORSENING BUT CONFIDENCE SHOWS RESILIENCE IN JANUARY

Spain's health situation is still alarming. The pandemic continues to spread, forcing the public authorities to tighten restrictive measures, notably in the Madrid and Valencia regions. Yet the most recent confidence indicators have shown a certain resilience in January, notably the European Commission economic sentiment index. It gained 2.4 points to 93.9, the best reading since April 2020 and the introduction of the first lockdown measures. Confidence is rising in the industrial sector, and the gap with the services sector continues to widen.

GDP figures for Q4 confirmed that the Spanish economy has experienced the worst year of recession in recent history. Real GDP fell by 11.0% in 2020. Nevertheless, activity grew slightly in Q4 on a quarterly basis (+ 0.4%). This indicates that the restrictions put in place to stem the second wave of the epidemic were less severe for the economy than last spring.

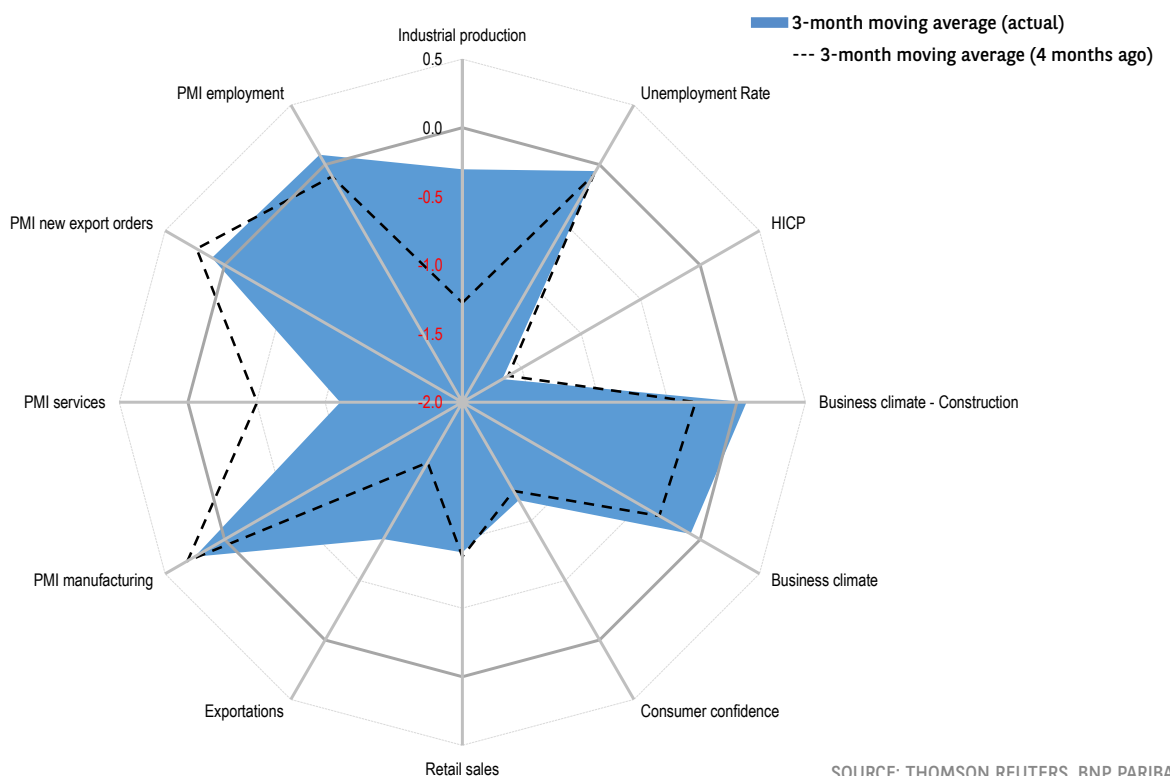
The labour market has shown some resilience, thanks to government support measures, especially the ERTE furlough scheme. According to INE – the Spanish statistical office – the unemployment rate rose to

15.5% in 2020. Employment declined by 2.9%, but the drop-off in the active population limited the increase in the unemployment rate. More than 4 out of 5 job destructions in 2020 were in the services sector.

One of the most apparent trends on our barometer is the consumer price index (CPI), which has been impacted significantly by the economic shock, especially in the services sector. In December, core CPI (excluding perishable goods and energy) reported the smallest annual increase in the past six years (+0.13%). Services CPI (excluding rent) slipped back into deflation territory, with annual declines visible in communications, transport and education. However, the CPI rebounded strongly in January, according to preliminary estimates from INE.

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### 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 -2 and +0.5. 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.

