

# ECONOMIC PULSE

## SPAIN: A RECOVERY STREWN WITH OBSTACLES

The barometer for Spain has begun to improve with the introduction of post-lockdown data, but it continues to fluctuate around historically-low averages.

The composite purchasing managers index (PMI) rose to only 29.2 in May (the manufacturing PMI for June will be released on 1 July) and the employment sub-component was still deep into contraction territory at 32.1. That said, the first leading indicators for June in Europe (IFO in Germany, INSEE business climate in France) show an upturn in economic activity, which should also be observed in Spain.

The return of foreign tourists from 21 June will provide some respite to the economy, but the government must carefully monitor the evolution of the epidemics. Minister of Foreign Affairs Arancha Gonzalez Laya warned that restrictive measures could be reinstated if the weekly contamination rate rises above 50 per 100,000 inhabitants.

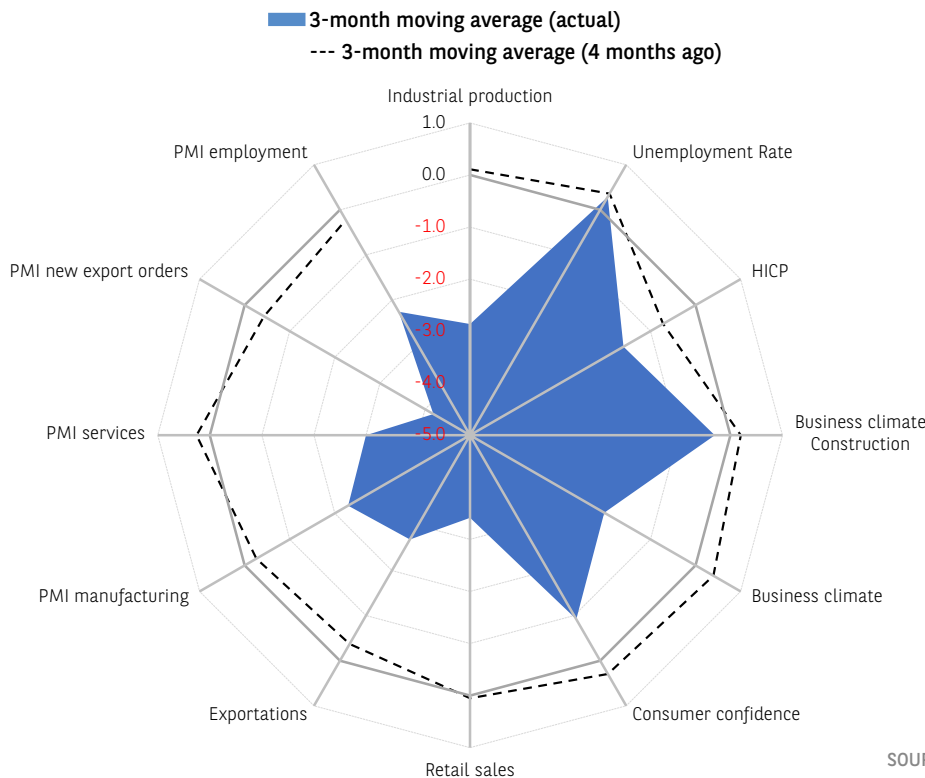
Negotiations between the government and trade unions on the revamp of short-term work regulations (ERTE) from 1 July have highlighted how uncertain the financial situation of numerous companies remains.

INE, the Spanish National Statistics Institute, recently published April turnover by sector: unsurprisingly, a record contraction in activity for the month is reported, estimated at -25.9%. The loss of activity was approximately the same between manufacturing (-28.7%) and the services sector (-27.1%). However, the very high proportion of small and medium-sized enterprises (SMEs) in services increases the risk of bankruptcies and layoffs in the sector. The monthly decline in the utility sector was comparatively smaller (-4.9%).

The decline in oil prices early this year continues to feed through to the consumer price index (CPI). Deflation on the CPI measure intensified to 0.91% in May. The energy CPI declined by 14.3% between January and May, after seasonal adjustments. This was partially offset by a 2.1% rebound over the same period in food and non-alcoholic beverage prices, which account for nearly a fifth of the benchmark consumer basket. Core inflation - which excludes energy and fresh food - held steady at 1.1% in May.

**Guillaume Derrien**

### QUARTERLY CHANGES



SOURCE: THOMSON REUTERS, BNP PARIBAS

The indicators in the radar are all transformed into z-scores. By construction, the z-scores have mean zero and their values, which indicate how far the indicator is removed from its long-term average, are in the interval between -3 and 3 in almost all cases. 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 improvement.

