

# ECONOMIC PULSE

## SPAIN: A SLOW IMPROVEMENT

The barometer improved in March, driven by the manufacturing sector, where growth continues to pick up strongly. According to the purchasing managers index (PMI), confidence in the manufacturing sector has increased to 56.9, the highest level in more than 14 years. By contrast, services sector activity and household consumption remained very fragile in Q1, which can be attributed to health restrictions and January's winter storm, Filomena. This is clearly visible in the 3-month trend for retail sales, which deteriorated in March.

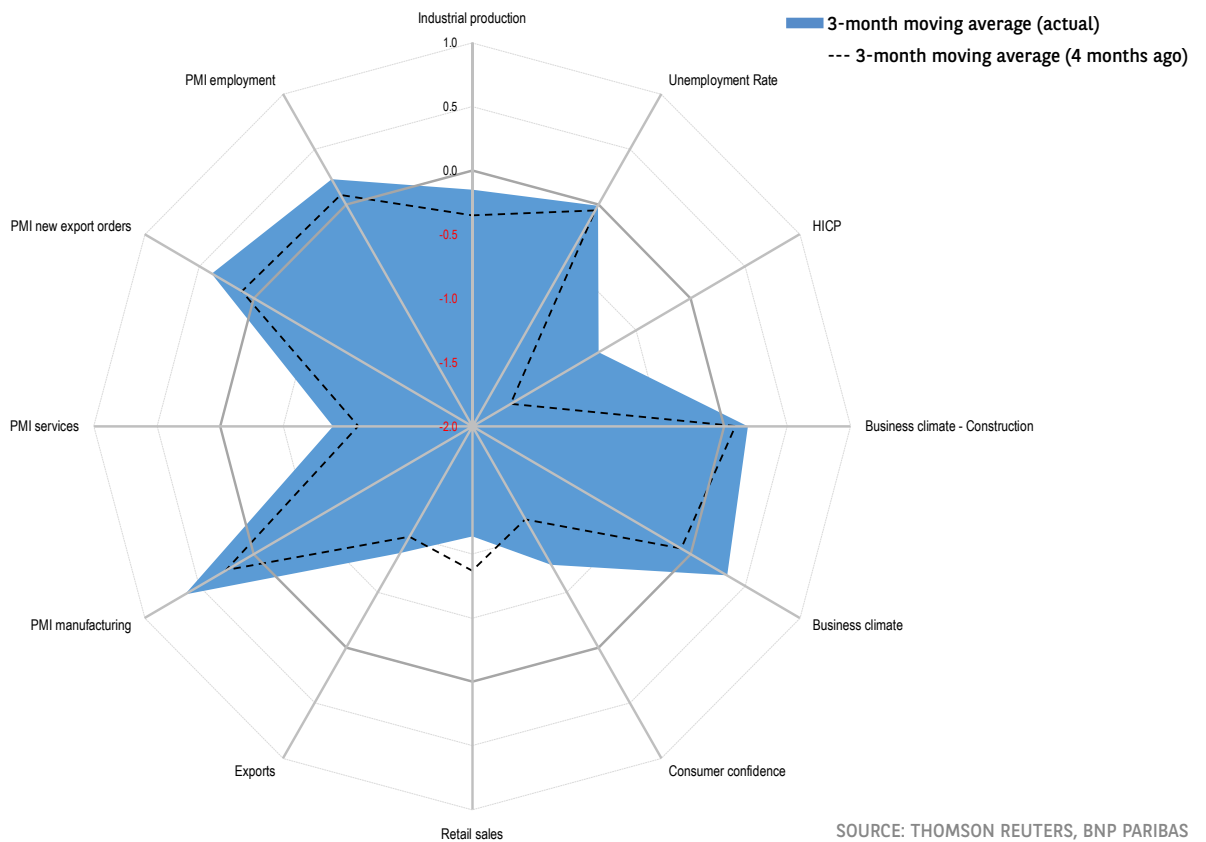
The recovery in the labour market also stalled in the first quarter. On a seasonally-adjusted basis, the number of workers affiliated to the social security system increased only 0.2% (+46,700) in Q1, while unemployment rose by 1.0% (+37,000). There were still significant lags in the recovery of jobs between sectors: while employment in industry –and construction in particular– has recovered most of its losses recorded after the first lockdown, the level of employment in the services sector is still very depressed. At the end of March, about 743,000 workers were still covered by ERTE short-time working schemes.

Even so, we expect to see a significant rebound in activity over the spring months, and more certainly in the second half of 2021. According to the IMF's latest economic projections published this week, real GDP in Spain is expected to rebound 6.4% in 2021. Although this is an upward revision from January's forecast, it is still below October's projections of 7.2%. Moreover, the "slight" upturn in new Covid-19 cases since mid-March is a good reminder that health conditions may continue to strain the economic recovery in the weeks ahead.

The upturn in inflation expectations –visible in opinion surveys– is materialising, and it is not only due to base effects linked to the first lockdown in 2020. The consumer price index (CPI) rebounded by 1% month-on-month in March and by 1.3% year-on-year. According to the March PMI, this upward trend is bound to continue this spring.

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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 +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.

