SPAIN
2021-2022 SCENARIO

A STILL-DISRUPTED START TO THE YEAR

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WORKING EVERY DAY IN YOUR INTEREST AND FOR SOCIETY

GROUP ECONOMIC RESEARCH

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SUMMARY

ECONOMIC RESILIENCE IN Q4, BUT A COMPROMISED Q1

After the sharp increase in GDP in Q3 (+17.1%), economic activity stagnated in Spain in the last quarter of 2020. Q4 growth was stable. At the start of the quarter, the worsening of the health crisis led to the tightening of measures to contain the pandemic. However, those measures were much more targeted than those taken in the spring, and were loosened again in the last few weeks of December. Combined with a process of economic agents learning and adapting to the pandemic, this made it possible for Spanish GDP to avoid contracting again in Q4, unlike its European partners (-0.7% for the Eurozone). The stability of GDP in Q4 is the result of a negative contribution by foreign demand (due to greater growth in imports than in exports) and a positive contribution from domestic demand.

Private consumption was stable, while investment rose by 1% (including -0.2% for construction and +1.1% for productive investment), and public consumption grew 1.3%. GDP contracted 10.8% over 2020 as a whole. Looking at individual sectors, only agriculture (8.2%), finance and insurance (+6.6%), and public-sector services (+3.5%) had a positive variation in Q4 year-on-year. The decline in industry remains moderate (-3.6%), while construction (-12%) and services (-10%) saw significant drops. In services, the arts and recreation suffered the most (-33%), followed by retail, transportation, and hospitality (-22%).

In January and February, following the sharp rise in new cases, measures to contain the pandemic were tightened, which weakened the economy, as shown by various leading indicators. However, the situation improved beginning in mid-February, which likely made it possible to contain the first-quarter economic decline. As in our most recent scenario, uncertainties remain high, particularly with respect to the course of the pandemic. The start of the vaccination campaigns partially reduced that worry, although the effectiveness against different variants is unclear and delays in the delivery of doses compromised the initially planned rollout of the campaigns. Although the first quarter of 2021 will be characterised by negative growth (-0.8% in our forecasts), the continuation of many economic activities during the “soft” lockdown will help reduce its impact on growth. In the first half of the year, activity will be more modest due to the longer-lasting social distancing measures and voluntary restrictions of movement, but the gradual modification of consumption and sales habits in retail are also expected to allow stakeholders to adapt more quickly. This is expected to limit the impact on consumption, which will be more vigorous in the second half of the year, once visibility becomes clearer, assuming that dose deliveries keep to schedule.

We are projecting 3.7% consumption growth in 2021 and 3.9% in 2022, following negative growth in Q1, which will delay the recovery. Investment will also be hampered in the first half-year, but will benefit from the government’s stimulus plan, which projects 34% growth in public investment, according to the 2021 budget. The plan’s effects will manifest in the second part of 2021. The foreign sector will also not show signs of recovery until next 2021, depending on the progress of the vaccination campaign at the European level.

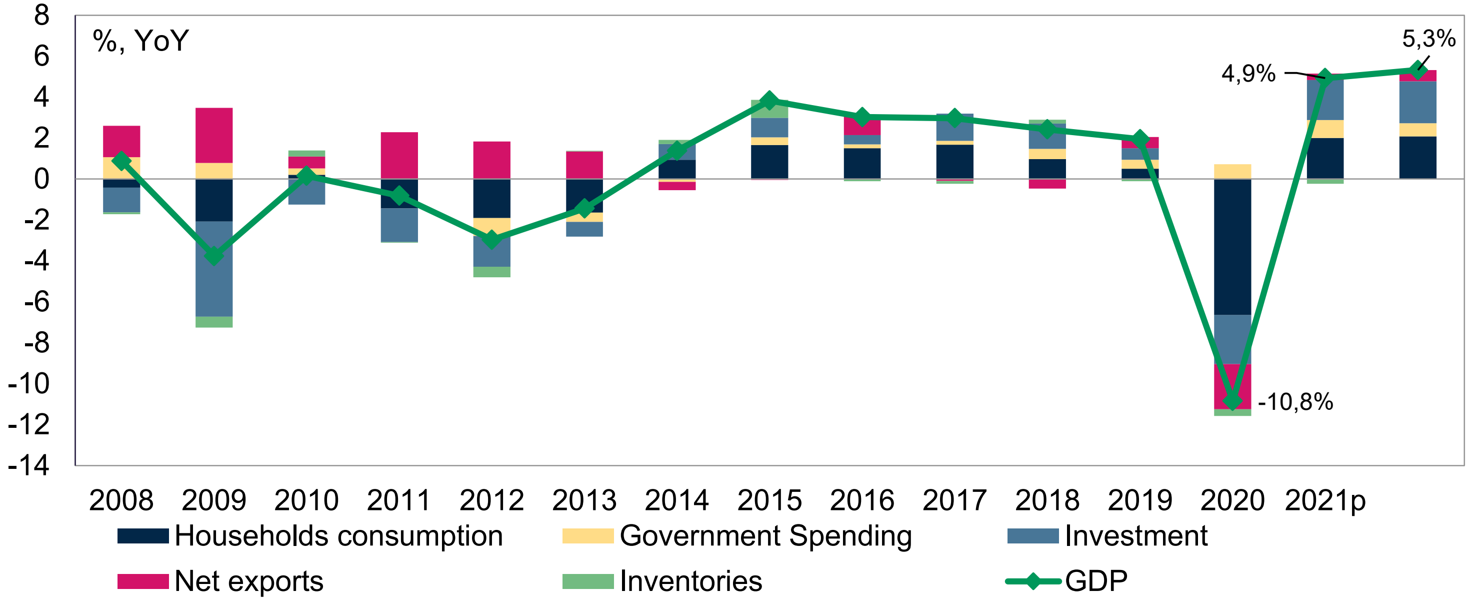
Our growth forecasts are 4.9% in 2021, following the economic collapse of 2020. In 2022 the rebound is expected to be 5.3%, which would still leave Spanish GDP 1.5% below its 2019 levels. The crisis’ most persistent economic effects have not yet fully manifested. The effect of the rising unemployment will hinder consumption throughout 2021 and 2022, which will discourage private investment, in a context of very low inflation. Unemployment is set to go from 15.2% on average in 2020 to 18% in 2021 and then 17% in 2022, as a result of the increase in corporate bankruptcies, which until now had been benefiting from liquidity assistance, and the elimination of ERTE (short-time work), which cannot being kept in place indefinitely. The Spanish stimulus plan will be a major tool for mitigating the effects of unemployment and uncertainty in the minds of private investors.

As for public finances, measures to fight the pandemic increased the government budget deficit from -2.9% of GDP to 11% in 2020. The deficit is expected to fall slightly in 2021 (to -9.6% of GDP) due to the continuation of ERTE (in principle until May 2021) and the new package of measures targeted to SMEs and freelancers (€11bn). The debt-to-GDP ratio rose from 95% in 2019 to 120% in 2020 and is expected to grow to 122% in 2021, then fall in the years to follow.

SUMMARY

GROWTH OF THE SPANISH ECONOMY

Contributions to annual GDP growth



Sources: Eurostat, Crédit Agricole S.A. / ECO

Spain	2020	2021	2022	2021				2022			
				Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
GDP	-10,8	4,9	5,3	-0,8	1,1	3,4	1,3	1,0	0,9	0,9	0,8
Households consumption	-12,1	3,7	3,9	-1,8	0,7	2,1	1,0	0,8	0,8	0,7	0,6
Investment	-11,4	9,3	9,3	-0,4	1,9	6,1	2,0	2,0	1,5	1,5	1,0
Change in inventories*	-0,3	-0,2	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Net export*	-2,2	0,3	0,6	0,2	0,1	0,7	0,1	0,0	0,1	0,1	0,1
Unemployment	15,6	18,2	17,6	18,1	18,6	18,3	17,8	18,0	17,5	17,7	17,1
Government net lending	-11,0	-9,6	-6,8								

* Contributions to GDP growth

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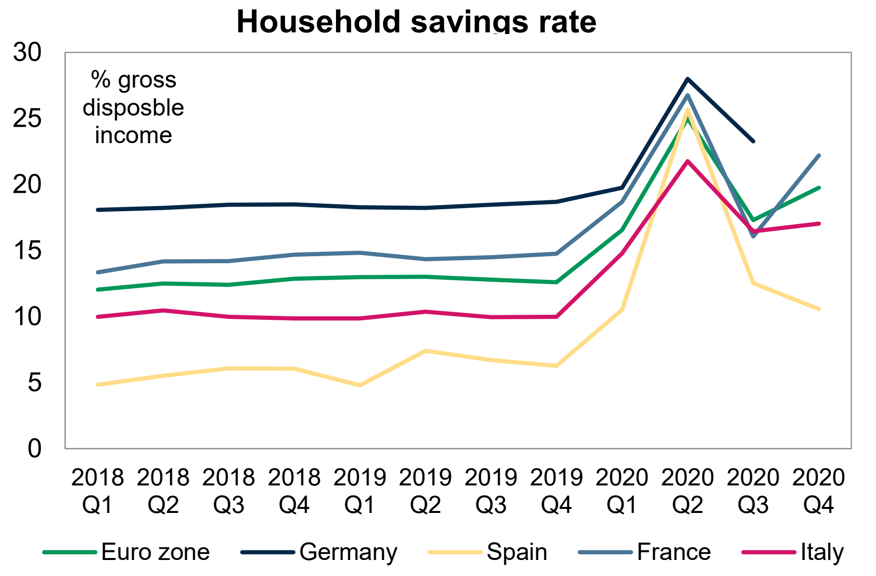
FOCUS: HOUSEHOLD SAVINGS IN THE CRISIS

TREND AND OUTLOOK

A noteworthy aspect of the economic crisis caused by the COVID-19 pandemic was the extraordinary increase in the household savings rate. In fact, between January and December 2020, the average Spanish household savings rate was 14.8% (6% on average in 2018 and 2019), while across the Eurozone, it was 19.7% (12.7% on average in 2018 and 2019). A significant share of those excess savings was accumulated in the form of bank deposits. This change in savings reflected a much more substantial decline in household consumption than income, although the latter was partially supported by government assistance deployed to mitigate the economic effects of the pandemic. Multiple factors contributed to the historic decline in private consumption beyond the decline in gross disposable income. Therefore, some of the decline in consumption is likely the consequence of households' desire to increase their savings as a precautionary measure, given the current highly uncertain economic downturn and pandemic. At this stage, households' insight into their future financial situation or the unemployment trend has fallen out of focus.

Private consumption behaviour in recent quarters had been heavily influenced by the restrictions. To a great extent, these restrictions generated a sizeable volume of savings, which may be considered forced savings. The Bank of Spain estimated that amount to be 2.5% of GDP in Q3 2020. The fact that the most significant decline in consumption was observed in transportation-related and social-interaction-heavy spending would tend to support the thesis about the forced nature of the increase in household savings. In the coming months, progress in the vaccination campaign is expected to enable a gradual loosening of pandemic restrictions and contribute to a gradual decline in uncertainty about the economy and pandemic.



Sources: Eurostat, Crédit Agricole SA / ECO

This in turn would also help to release some of the private savings stock accumulated, which could further invigorate the recovery in consumption. In any event, the extent of this effect is subject to great uncertainty, and some arguments suggest that its impact could be relatively limited. First of all, a significant share of recent quarters' unmet consumption resulting from restrictions is attributable to spending on services that are generally not put off for later. It is unlikely that spending on certain services such as dining out or recreation that did not materialise during the lockdown will be added to usual spending once the restrictions are lifted. Secondly, the extraordinary reserve of savings that had built up since he the start of the pandemic is primarily concentrated at the highest income levels, whose marginal propensity to consume is lower.

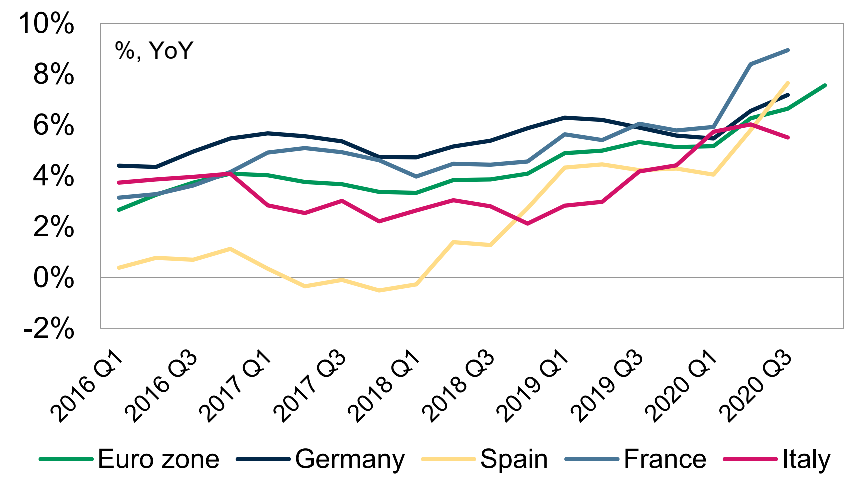
FOCUS: HOUSEHOLD SAVINGS IN THE CRISIS

TREND AND OUTLOOK

Households with lower incomes have more limited saving capacity. Although public support measures helped to preserve their income, the increase in those households' savings in recent quarters could have been very small, perhaps even non-existent. As such, it should also be noted that low-income workers account for a relatively greater share of employment in sectors that have been most affected by the pandemic. At the same time, spending that never happened due to movement restrictions (which was therefore saved) – primarily spending on things that require greater mobility and social interaction – account for a smaller share of spending by the lowest-income households. According to Spain's latest wage structure survey, the median net monthly salary was €1,144 in 2018. This evidence suggests the idea that the population likely to have built up forced savings might be only half of Spanish employees, whose spending on the services most affected by the crisis will not be added to their usual spending and whose propensity to consume is smaller. Thirdly, Ricardian equivalence might also drive households to maintain a high level of savings, because they anticipate future tax increases in response to the substantial rise in government debt that has occurred during this crisis. Lastly, extreme situations that have occurred in recent months may structurally alter individuals' behavioural models, making them likelier to save, once they start to assign greater probability to these types of extreme events.

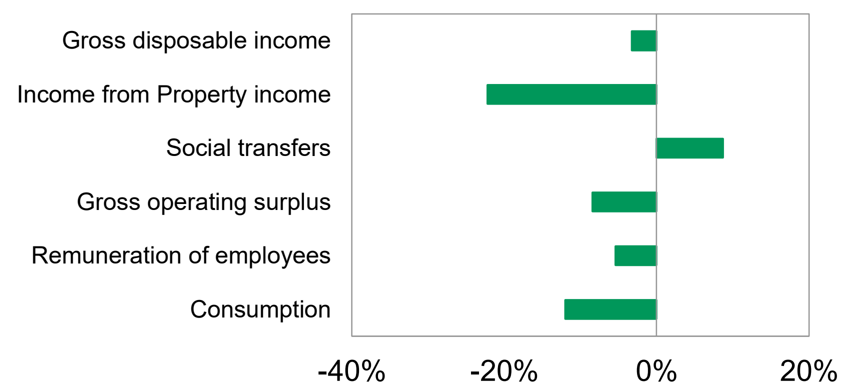
The breakdown of savings across different income levels and certain factors, such as a potential persistent increase in the precautionary and Ricardian components of household savings, suggest that consumption will take time to return to its pre-crisis level. In our growth forecasts, consumption by the end of 2022 will still be 5.3% less than what it was in 2019.

Bank deposits



Sources: Eurostat, Crédit Agricole SA / ECO

Household income and consumption (2020 vs. 2019)



Sources: INE, Crédit Agricole SA / ECO

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VACCINATION DELAYED, BUT GOAL ACHIEVABLE BY SUMMER'S END

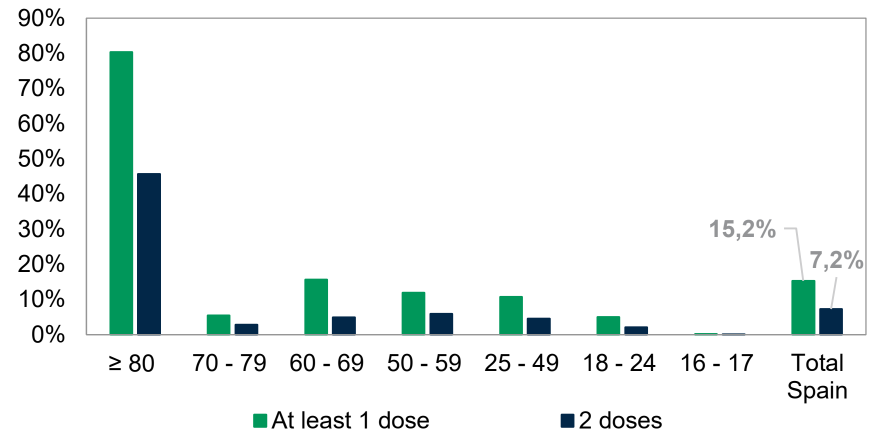
According to figures available as of 14 April, Spain has administered 11,073,657 doses of the various COVID-19 vaccines. 15% (6.1 million people) of the population have received at least one dose, and 7.2% have had both doses (2.9 million).

The vaccination schedule provided by Moncloa indicates that by 3 May, a total of 5 million Spanish people will be vaccinated, 10 million by 14 June, and 25 million the week of 19 July. By late August, 70% of the Spanish population, 33 million people, are expected to be vaccinated with both doses. Vaccination is taking place in 13,000 healthcare facilities across the country, and is not mandatory. Spain vaccinated 14 million people against the flu last autumn. Consequently, the government's strategy (10,200 people per healthcare facility in six months) does not seem unrealistic.

The pace of vaccination throughout the first quarter of 2021 was irregular, primarily due to shortfalls by suppliers. The purchasing of the vaccines was managed by Brussels and the distribution by the government. Spain is set to receive 38 million doses between April and June, or 3.5 times as much as received in Q1. If the delivery schedule is followed, the country is expected to achieve its 70% goal by the end of the summer.

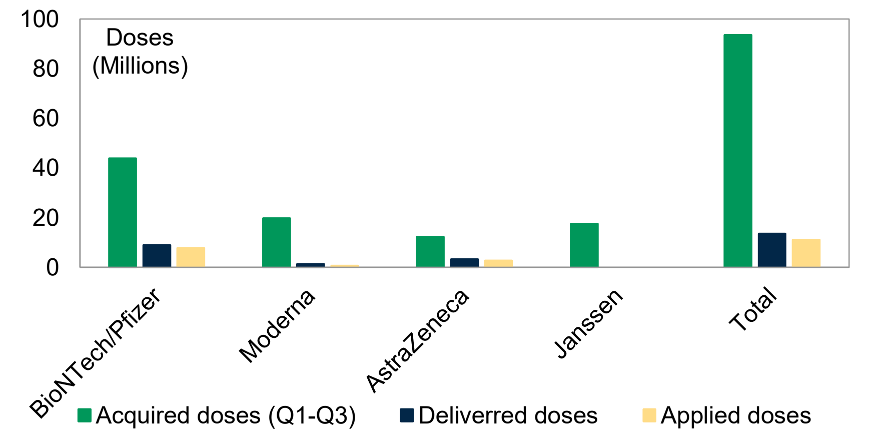
Among the over-80s, 80% (compared to 61% Europe-wide) have received at least one dose, and 45% two doses (36% on average for the EU). 98% of nursing home residents have had at least one dose, 90% both.

Progress of the vaccination campaign as of



Sources: Ministry of Health, Crédit Agricole SA / ECO

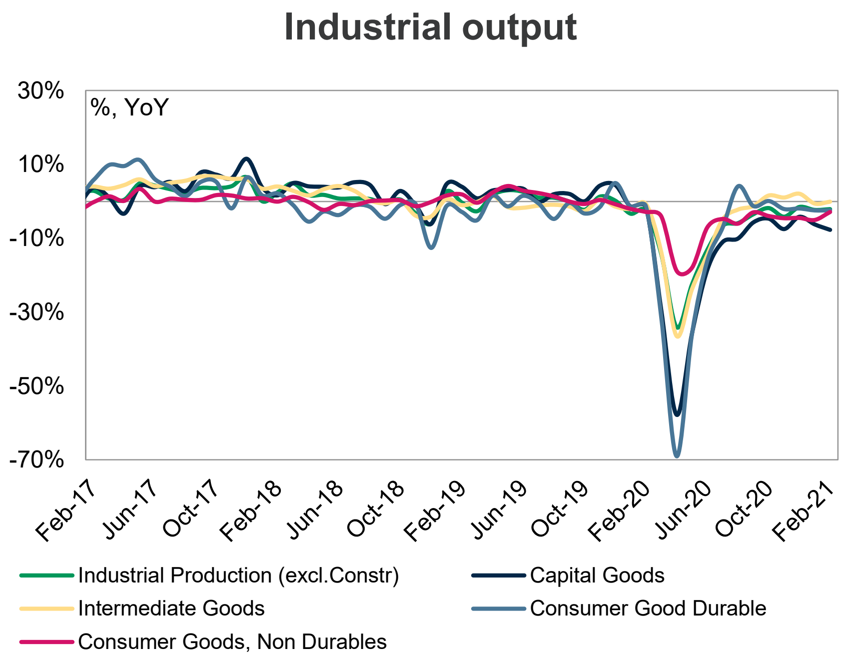
Vaccines - situation as of 14/04/2021



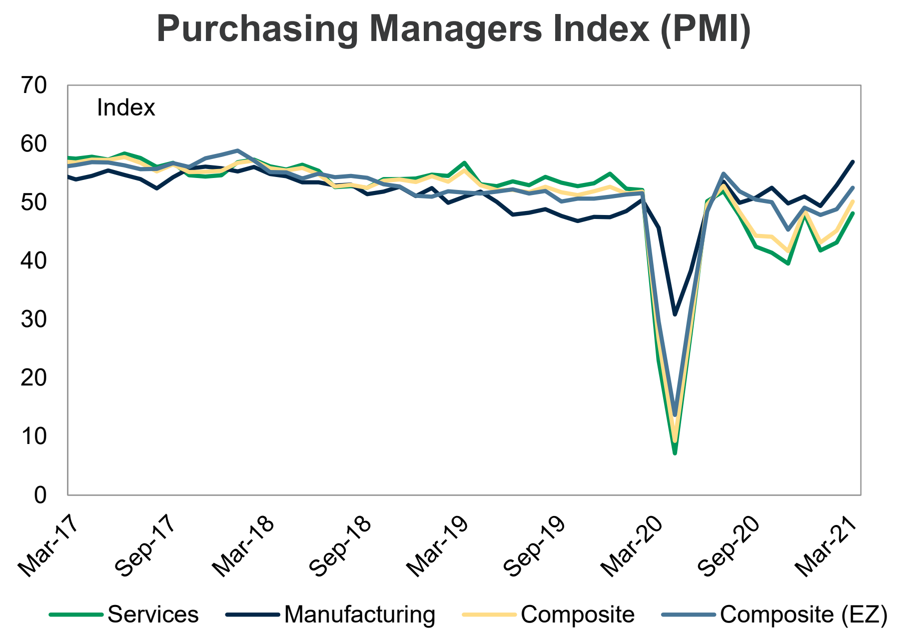
Sources: Ministry of Health, Crédit Agricole SA / ECO

RECENT ECONOMIC TRENDS

A NEGATIVE Q1



Sources: Eurostat, Crédit Agricole SA / ECO

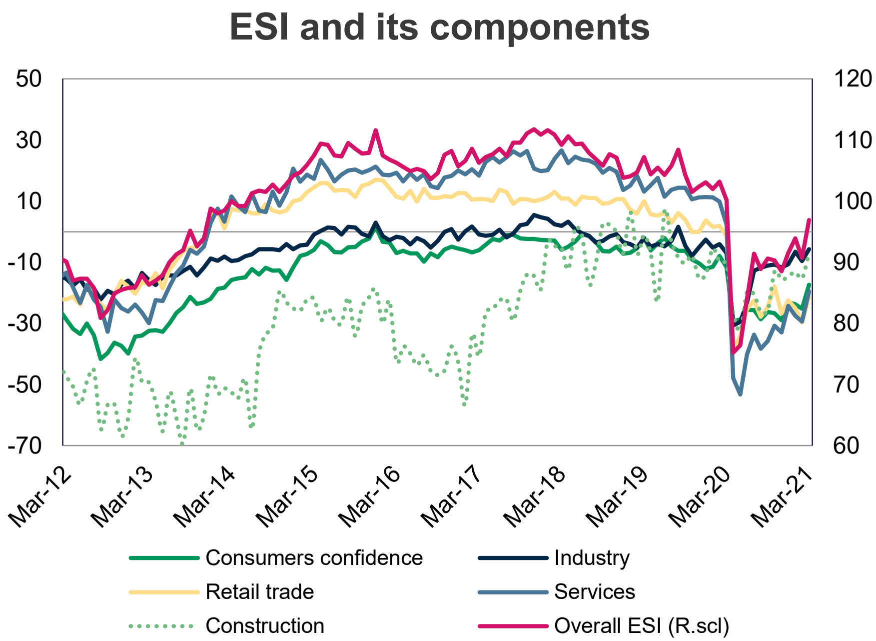


Sources: Markit, Crédit Agricole SA / ECO

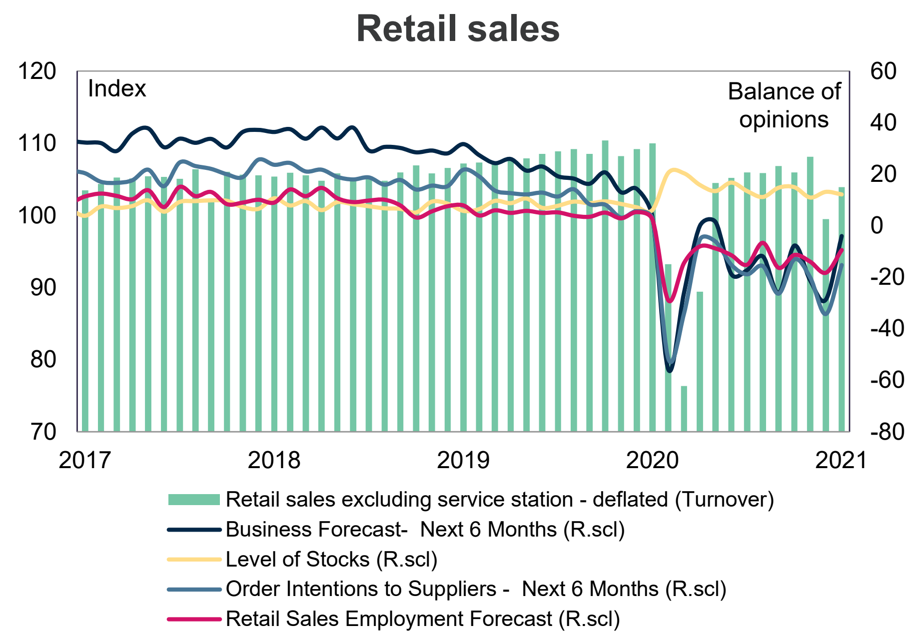
The worsening of the pandemic in early 2021 sapped vigour from the economy, which will cause a slight decline in Q1 GDP (-0.8% compared to Q4 2020, according to our forecasts). At the start of the current year, measures to contain the pandemic were strengthened in order to slow the third wave of infections, which weakened the economy. The PMI indices show that the manufacturing and service sectors are still far apart. Manufacturing recovered sharply in February and March (56.9), after a slight dip in January, while service-sector purchasing managers' sentiments declined in January and February, holding steady at very low levels. The industrial output indices declined slightly in January (-0.7% in January month-on-month, -2.2% year-on-year), and remained stable in February. As for the service sector economic indicator, it stood at -14.6% year-on-year in January (latest data available). Hospitality (-60%), vehicle sales and repairs (-20.6%), and transportation and logistics (-17%) saw the largest year-on-year declines. Although ERTE (short-time work) continues to mitigate the effects on employment, on a year-on-year basis, the employment index has fallen both in retail (-4.6%) and in other services (-5.9%, including -16.7% in hotels).

RECENT ECONOMIC TRENDS

RETAIL SALES FALL IN Q1



Sources: Eurostat, Crédit Agricole SA / ECO



Sources: ICI, Crédit Agricole SA / ECO

The trendlines of the various high-frequency indicators in early 2021 back up the assumption of a Q1 economic decline. In January and February, mobility indicators (air and road traffic and fuel sales) intensified their year-on-year slide from Q4 2020. Electricity demand and credit/debit card payments showed a similar dynamic. Along the same lines, the Bank of Spain survey on business activity (February 2021) anticipates an unfavourable Q1 revenue trend. The improvement in the pandemic situation beginning in mid-February has enabled some loosening of lockdown measures, which is likely to have a favourable economic impact. The same indicators that were pointing to an economic decline at the start of the year have shown, in the last part of the quarter, signs of trend reversals. The components of the European Commission's March economic climate surveys also confirm restored confidence in all sectors, and the retail sales index rebounded 4.2% in February month-on-month, after a sharp decline in January (-7.6% from December). Economic forecasts for the next six months and employment forecasts in the sector also showed signs of improvement in February. These facts indicate improved activity toward the end of Q1, which appears to have limited Q1 GDP decline.

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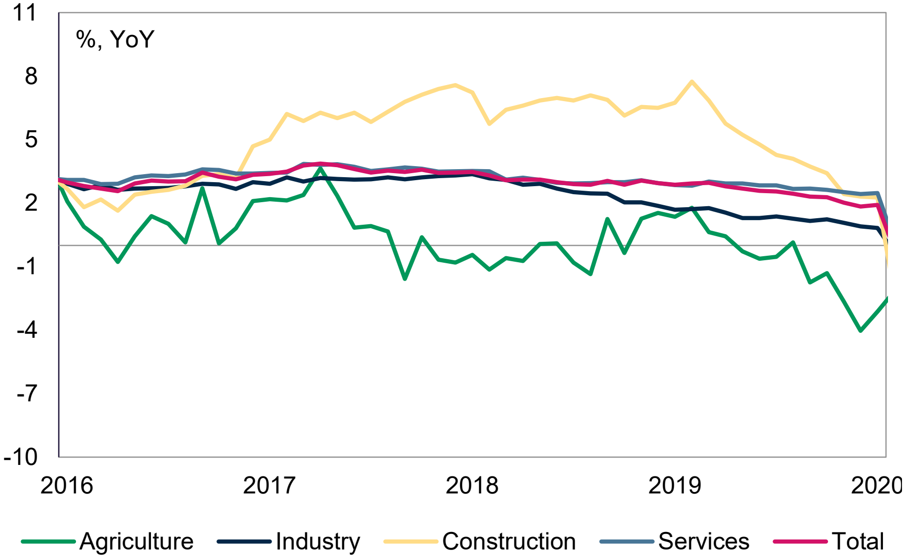
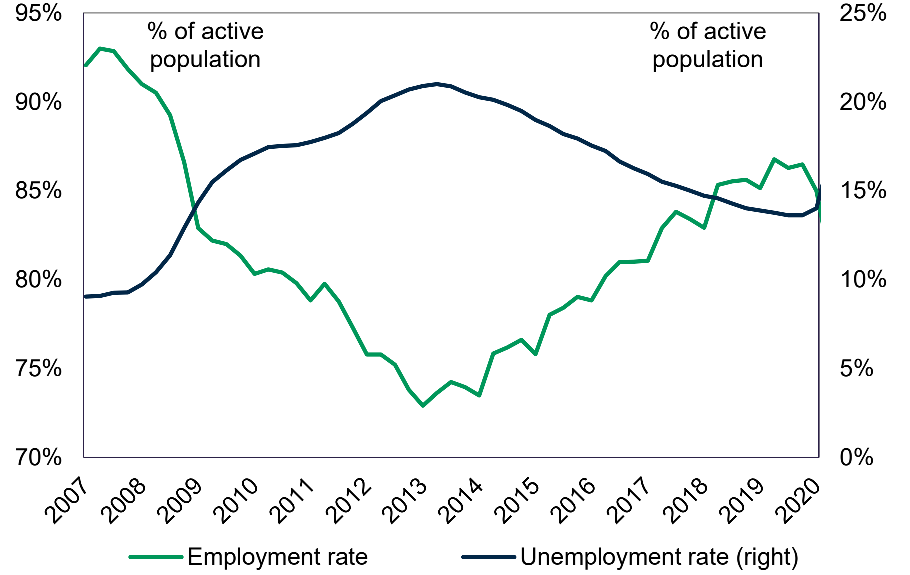
LABOUR MARKET RESILIENT IN Q4

Employment: Social Security enrolment



Sources: Ministry of Labour, Crédit Agricole SA / ECO

Unemployment rate



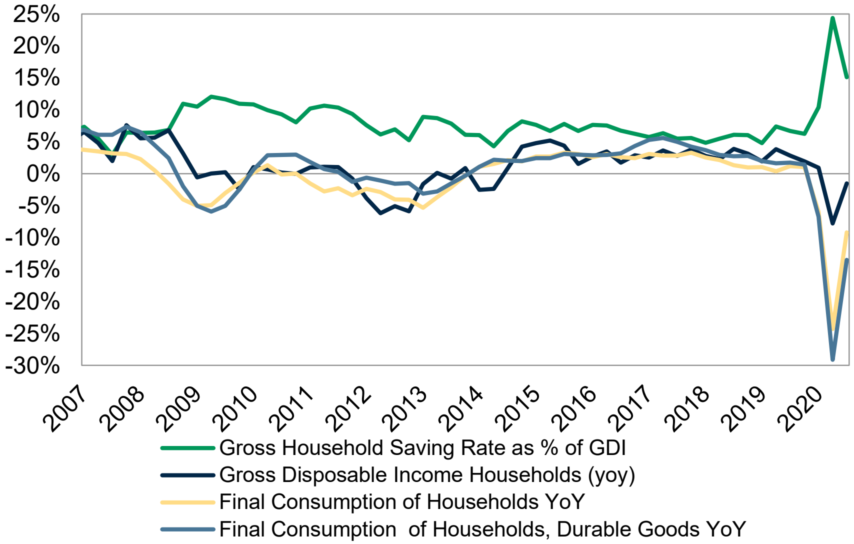
Sources: Ministry of Labour, Crédit Agricole SA / ECO

Employment rose 0.9% in Q4 quarter-on-quarter (+3.1% in Q3) to reach 19,344,300 workers (-3.1% year-on-year, as opposed to -3.5% in Q3). The Q4 jobless rate stood at 16.1%, down compared to Q3 (16.3%). This resilience in the labour market weakened in February due to the tightening of mobility restrictions: total Social Security enrolment declined -2.1% year-on-year, due to the drop in employment in services (-2.5%) and industry (-2%), while the decline in the construction sector was more modest (-1%). The number of workers on ERTE is still concealing the impact of the crisis, and increased to 909,661 workers in February (818,000 on average in Q3, 2,800,000 in Q2). Effective enrolment therefore came to -6.8% in February, a level similar to what was observed in August 2020. The sector-by-sector divide in the employment trends continue to increase: year-on-year, effective enrolment fell 50% in hospitality and 35% in arts and recreation, which contrast with the growth observed in the public sector and health care services. We project that unemployment will increase in 2021, reaching an average of 18% due to the lockdowns which will gradually be lifted, but which will remain present for the entire current year, and the incomplete restart of tourism this year. We also consider the permanent effects of the crisis, which will lead to a loss of jobs, as a consequence of the bankruptcy of companies whose financial and/or business model is no longer viable (according to the Bank of Spain, 40% of Spanish companies ended 2020 under financial pressure). Beginning in the final quarter, we project fewer unemployed, due to the effectiveness of the vaccination campaigns.

OUTLINE OF OUR SCENARIO

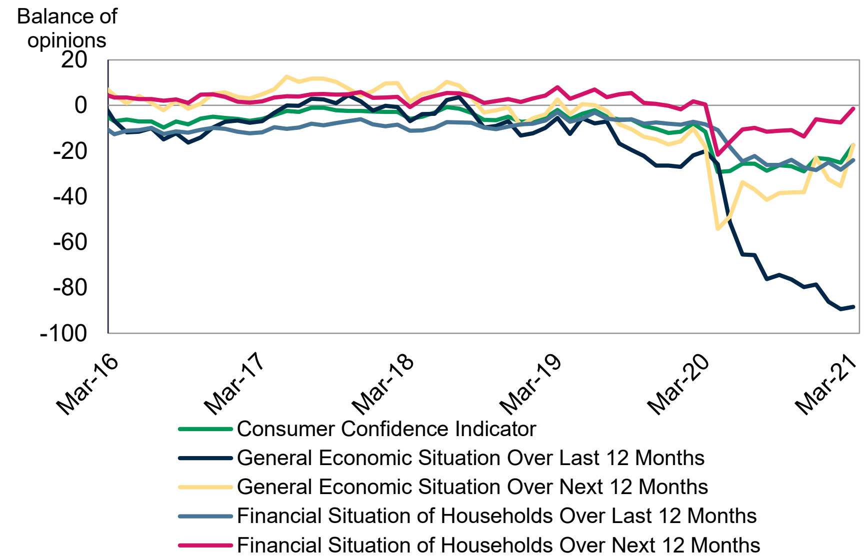
HOUSEHOLD CONSUMPTION AND WAGES

Change in gross disposable income and its components



Sources: Eurostat, Crédit Agricole SA / ECO

Household survey



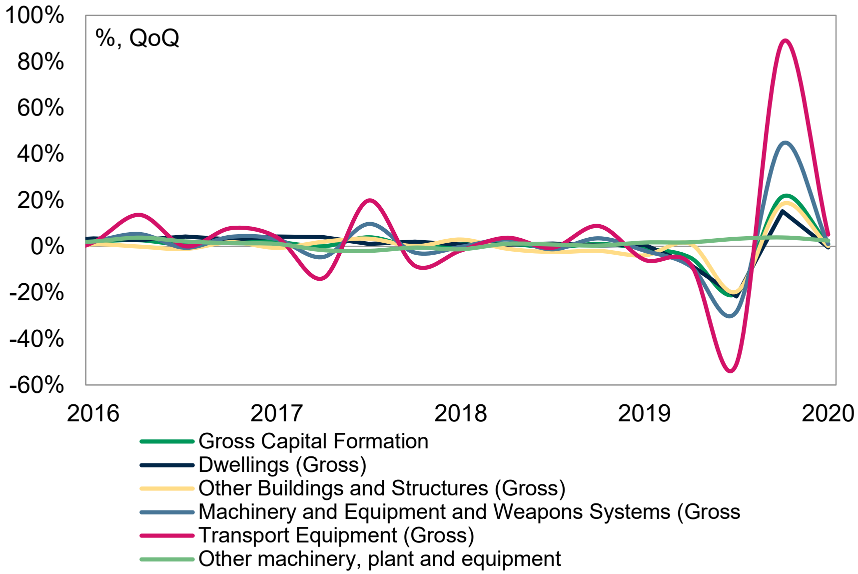
Sources: European Commission, Crédit Agricole SA / ECO

Private consumption remained stable in Q4 compared to Q3, due to the mobility restrictions adopted beginning in November to contain the third wave of the pandemic. Consumption of durable goods declined by 2%, while non-durable goods and services saw no change. The household savings rate stood at 10.6% in Q4 (12.5% in Q3), due to less gross disposable income and stable consumption. According to the latest indicators available, household consumption likely fell in Q1 2021. For example, this direction is shown by car registrations, nights spent in hotels, the retail index, and spending through debit/credit cards. Likewise, new consumer credit transactions have been falling year-on-year at a faster pace since September. In an environment where the pandemic's impact on household income continues to be mitigated by ERTE, the Q1 consumption dynamic would be consistent with a high savings rate. The pace at which the volume of savings built up by families (primarily in the form of bank deposits) could be released, once the epidemiological situation starts to return to normal, will be a key factor for future consumer and economic behaviour. We are projecting that consumption will fall 1.8% in Q1, followed by a partial recovery in Q2 (consumer confidence indices significantly improved in March, particularly the prospects for the country's economic situation). In the second half of the year, household spending is expected to be stronger due to the recovery in confidence, assuming there is an effective vaccination campaign.

OUTLINE OF OUR SCENARIO

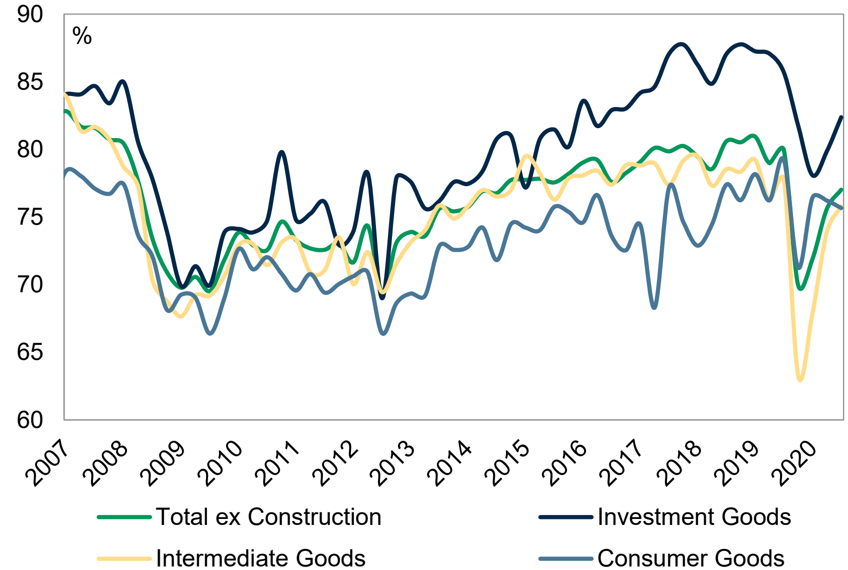
INVESTMENT, AWAITING EUROPEAN FUNDS

Components of investment



Sources: INE, Crédit Agricole SA / ECO

Capacity utilisation rate

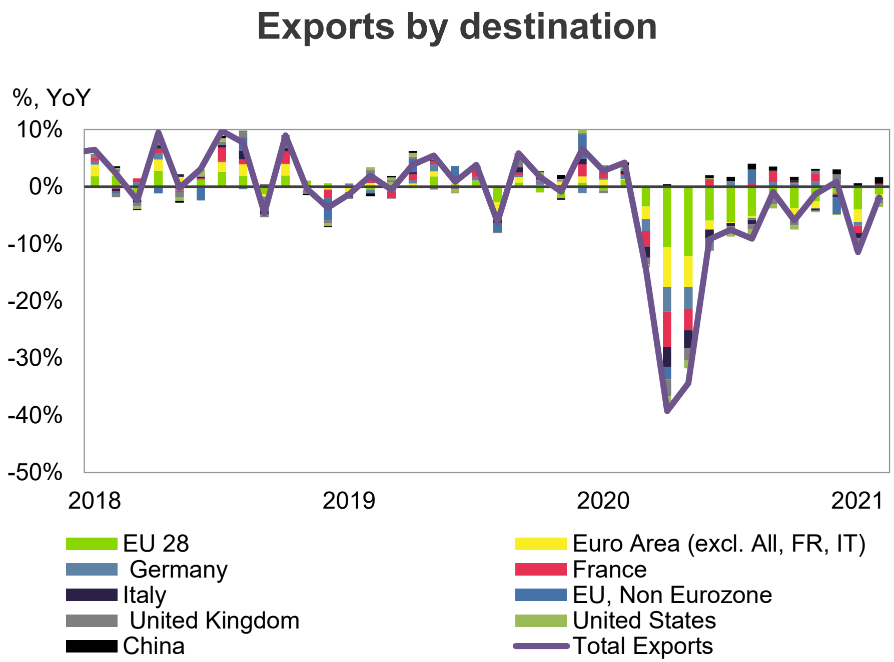


Sources: Ministry of Industry and Commerce, Crédit Agricole SA / ECO

Investment increased 1% in Q4 quarter-on-quarter after a strong rebound in Q3 (+22%), explained by the increase in intellectual property products (+4%), investment in machinery and equipment (+1%) and transport equipment (+5.2%), while construction declined slightly (-0.2%, including -0.4% for housing). Business investment continued to be sluggish in Q1, affected by the persistence of high uncertainty: the business activity PMI, which had remained in contracting territory in January and February; the European Commission's industrial and service confidence indicators, which held steady at low levels; and the capital goods industry climate indicator based on the Ministry of Industry's survey. Likewise, in January, the capital goods industrial output index and light commercial vehicle registrations saw negative year-on-year rates and were below December levels. Additionally, new loans to companies and individual entrepreneurs have continued to fall since June 2020: according to the Bank Lending Survey, the reduced vigour of business loans is due not only to the slight tightening of lending conditions, but also to much weaker demand for credit. We are projecting a slight contraction investment in Q1 2021, followed by soft growth in Q2, due to investment decisions delayed as a result of the economy's poor visibility and uncertainty. Beginning this summer, assuming there is more visibility into the course of the virus and an effective vaccination campaign, companies will be able to resume their investments. Public investment will also play a major role beginning in Q3 (the 2021 budget calls for a 37% increase), but will be contingent on the release of European funds.

OUTLINE OF OUR SCENARIO

INTERNATIONAL TRADE



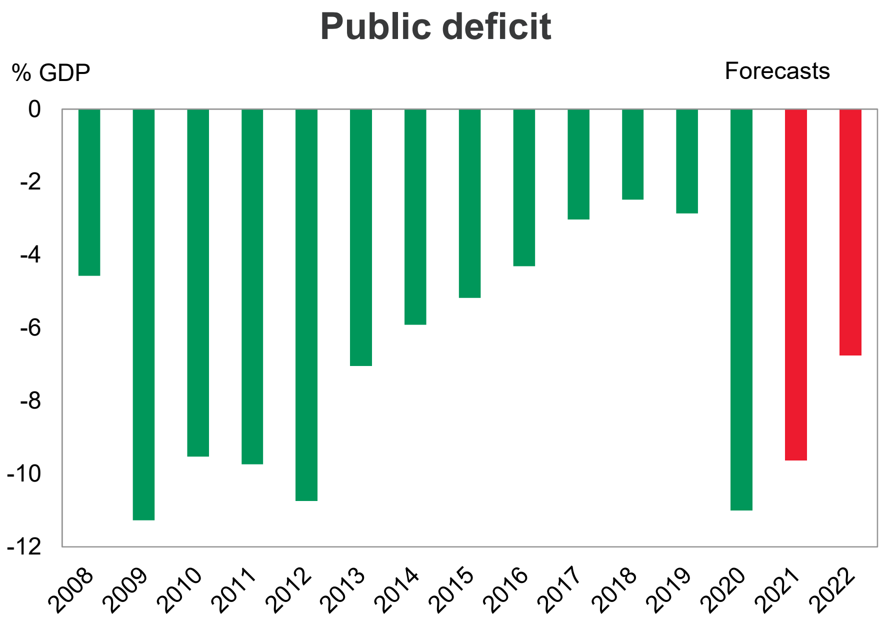
Sources: Banco de España, Crédit Agricole SA / ECO

Sources: Business confidence survey, Ministry of Industry and Commerce, Crédit Agricole SA / ECO

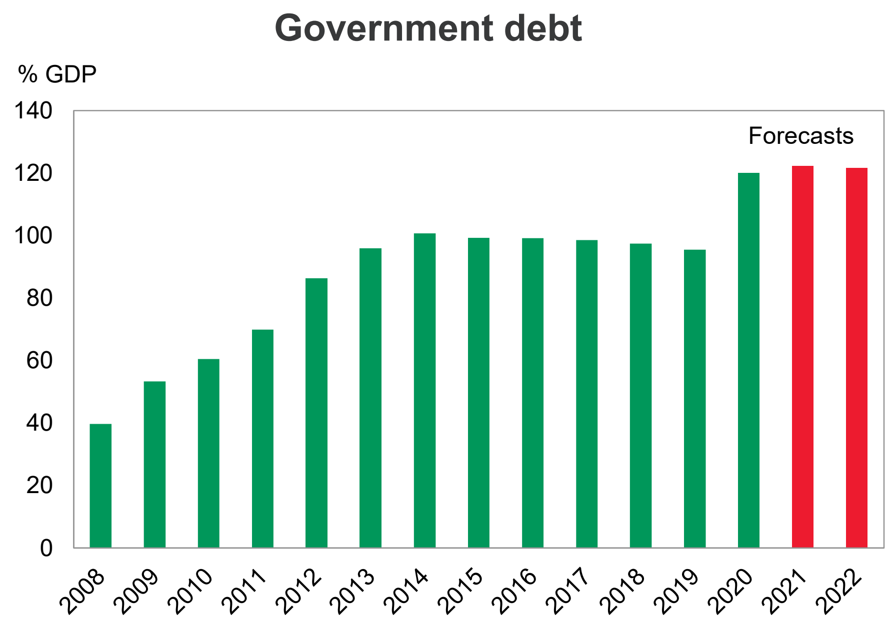
In Q4, international trade took 0.3 points away from GDP growth, due to the increase in imports (+6.2% quarter-on-quarter, +26.8% in Q3), which was not offset by the increase in exports (+4.6%, +31.1% in Q3). The most recent information about new export orders and intermediate consumption purchases from the manufacturing PMI would seem to indicate that the export and import of goods recovered during the first few months of the year. As for services, tourism exports were affected for most of the quarter by international mobility restrictions in the main countries of the zone. Consequently, tourism exports seem to have remained at very low levels, with decreases in the arrivals of foreign tourists and their spending of about 90% year-on-year in January. The turnaround in exports will be contingent on the course of the pandemic. The recovery will take longer than expected, given the new increase in infections. Furthermore, tourism could restart with a delay, even after the health emergency is over. We are projecting a 9.1% increase in exports in 2021, which will see their greatest contribution in the second half of the current year. In 2022, the recovery will continue and tourism services are expected to normalise their contribution to the current balance. This will result in 8.3% export growth in 2022.

OUTLINE OF OUR SCENARIO

PUBLIC FINANCE: COVID-19 REPORTEDLY COST THE GOVERNMENT €45BN IN 2020



Sources: Stability and Growth Programme, Crédit Agricole SA



Sources: Stability and Growth Programme, Crédit Agricole SA

The public deficit rose from -2.9% of GDP in 2019 to -11% in 2020. This is the result of a 5% decline in revenue, focused on production and import taxes (-11.8%). This reflects the decline in tax collection, such as VAT and special taxes (-12.8% in both cases), owing directly to the economic decline caused by the lockdowns, as well as other measures such as the elimination of VAT on certain goods needed to fight the pandemic. Current income and wealth taxes were also affected by the impact of the crisis (-3%), as was the business tax (-12.7%). As for spending (+12%), the growth is due to the increase in employee wages (+4.5%, with civil servants' wages having increased 2%), grants (+71%, social security contribution exemptions for workers on ERTE and freelancers), and social benefits (15.9% for ERTE and other unemployment support). Total COVID-19 spending was €44.9bn in 2020. The public deficit is expected to fall in 2021 to -9.6%, taking into account the package recently approved by the government. It provides €11bn in spending focused on businesses. Debt reached 120% of GDP in 2020 (95% in 2019). The level is expected to increase slightly, to 122% this year, and then fall in the years ahead.

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13/04/2021	World – Macroeconomic Scenario for 2021-2022: a (very) disorderly exit from the crisis	World
13/04/2021	Italy – Monthly News Digest	Italy
08/04/2021	Geopolitics, pandemic and contextual intelligence	Geopolitics
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