



SPAIN 2021-2023 SCENARIO

NEW YEAR, NEW UNCERTAINTIES

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GROUP ECONOMIC RESEARCH

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SUMMARY

AS GROWTH ACCELERATED IN Q3, ECONOMIC PROSPECTS EASED

The Spanish economy continued to rally in the third quarter of 2021. Spanish GDP growth gathered pace quarter-on-quarter to reach 2.6% (vs. 1.1% in Q2). This expansion can primarily be attributed to the positive contribution of net foreign demand (1.6 pp) and, to a lesser extent, to the contribution of domestic demand (1 pp). Exports climbed 7.1% and imports 2.2%, driven by the partial rebound in tourist activity. Consumer spending rose 1%, fuelled by consumption of non-durable goods and services, while investment picked up 1.2%, driven by capex. Meanwhile, construction dipped for the fourth quarter in a row (-0.4%).

In Q3, Spanish GDP came out 6.6% below end-2019 levels, a significantly larger gap compared to the rest of the EMU (0.3%). **The Spanish economy recorded a sharper contraction than the principal eurozone economies in H1 2020 and has since undergone a weaker recovery.** Two of the components of demand underlying this relatively weaker performance are private-sector consumption and particularly tourist exports which, for the Spanish economy, posted a comparatively more gradual recovery.

Spanish economic GDP growth is expected to slow in the fourth quarter amid global supply chain bottlenecks, persistently high inflation rates and the exacerbation of the pandemic.

We expect GDP growth of 1.2% in Q4, driven by persistently robust consumption and the modest yet positive contribution of foreign demand thanks to the partial comeback in tourist activity in October and November. In Q1 2022, investment should start to take up the baton from growth in consumer spending, still expected to be positive but on the more moderate side.

Our GDP growth forecast for full-year 2021 is 4.8%, up from our forecasts for the last fiscal year, resulting from a slightly weaker-than-expected performance in Q3. In 2022, GDP is expected to climb 5.6%. **Our projections are based on the assumption that employment will recover, triggering another contraction in the savings rate (which rose from 9.2% in Q2 to 10.9% in Q3) compared to the exceptionally high levels seen in 2020, which will further encourage private-sector consumption.**

Though incomplete, the information available on the **actual implementation rate of the NGEU** suggests that the volume of funds to be used in 2021 may be significantly lower than initially announced by the government. Of the €26.6bn in loans to be financed by the NGEU, included in the Spanish government's budget for 2021, only €9.2bn in expenditures were recorded. **The expenditures that were “pushed back” to 2022 will go towards expanding investment, projected to climb 7.3% in 2022.**

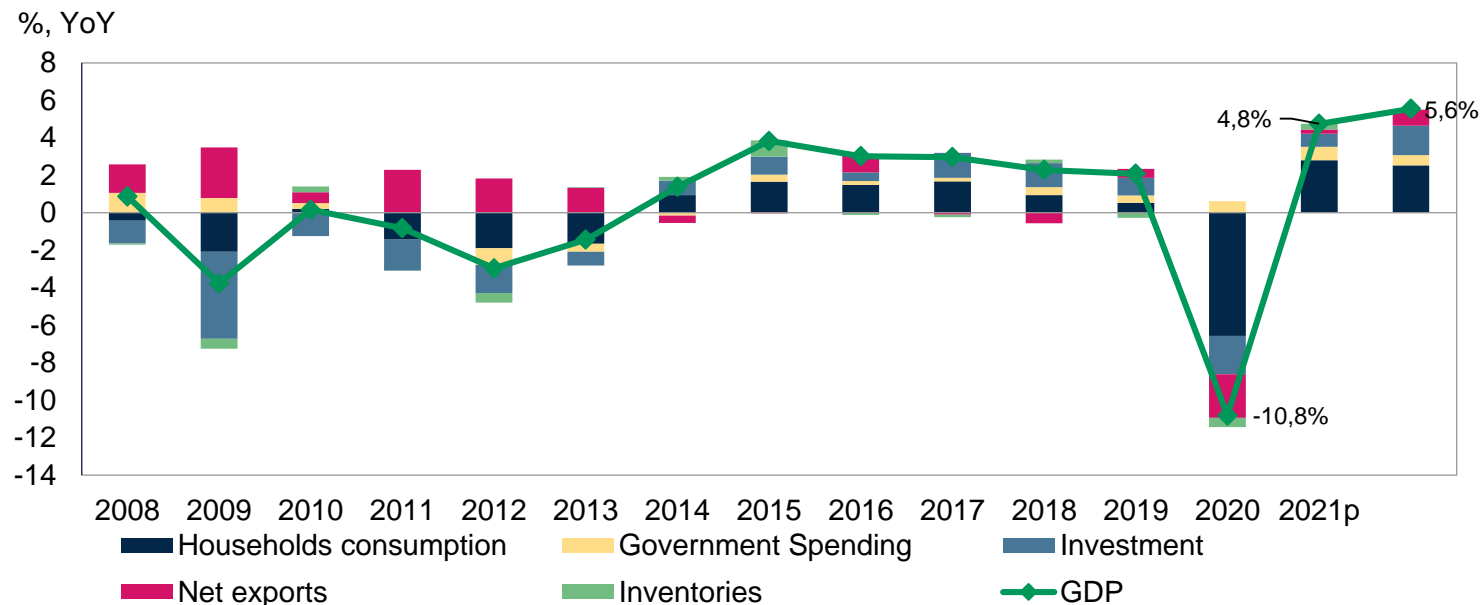
The main short-term risk factor is the impact of inflation pressures on the consumer spending scenario, although base effects such as the surge in energy prices, which has driven up prices, should wane in the coming quarters.

The main vulnerabilities in terms of growth are associated as always with the high unemployment rate and a deficit level preventing significant reductions in the public debt/GDP ratio in the coming years (120% in 2021, 117% in 2022 and 115% in 2023 according to our forecasts).

SUMMARY

OUR GROWTH FORECASTS

Contributions to annual GDP growth



Sources: Eurostat, Crédit Agricole S.A / ECO

Spain	2021	2022	2023	2022				2023			
				Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
GDP	4,8	5,6	4,1	1,1	1,1	1,4	1,1	1,0	1,1	0,7	0,6
Households consumption	5,2	4,7	3,0	0,9	0,9	0,9	0,9	0,9	0,8	0,4	0,3
Investment	3,2	7,3	7,1	2,5	2,4	2,3	2,2	1,5	1,5	1,2	1,1
Change in inventories*	0,3	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Net export*	0,2	0,9	0,5	0,0	0,0	0,3	0,0	0,1	0,2	0,1	0,1
Unemployment	15,2	14,8	14,6	14,8	14,8	14,7	14,8	14,7	14,6	14,5	14,5
Government net lending	-6,9	-6,3	-2,3								

* Contributions to GDP growth

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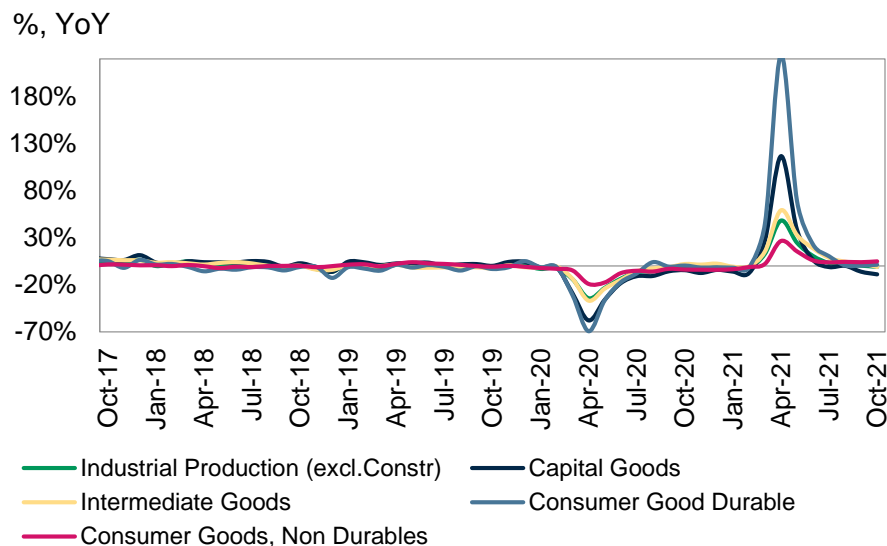
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RECENT ECONOMIC TRENDS

MODERATION IN Q4 2021

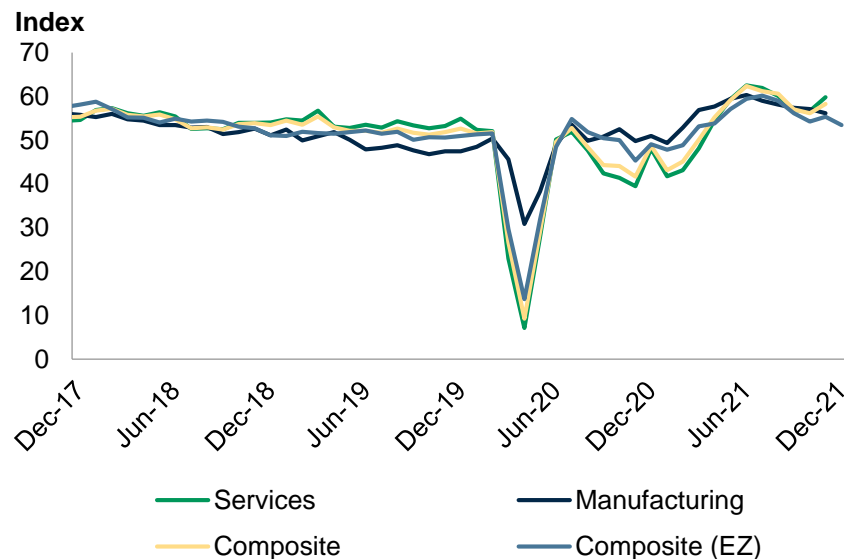
Industrial output



Sources: Eurostat, Crédit Agricole SA / ECO

Spanish economic GDP growth is expected to slow in the fourth quarter amid global supply chain bottlenecks, persistently high inflation rates and the increased spread of COVID-19. The expected downturn in Spanish economic growth rates from October to December 2021 is consistent with the signs stemming from, among others, consumer and business sentiment indicators – which tended to decline over the period – and metrics on mobility and fuel sales, which failed to point to significant improvements for Q1 2022. Manufacturing PMIs signalled a weaker outlook and the industrial output index fell for five consecutive

Purchasing Managers Index (PMI)



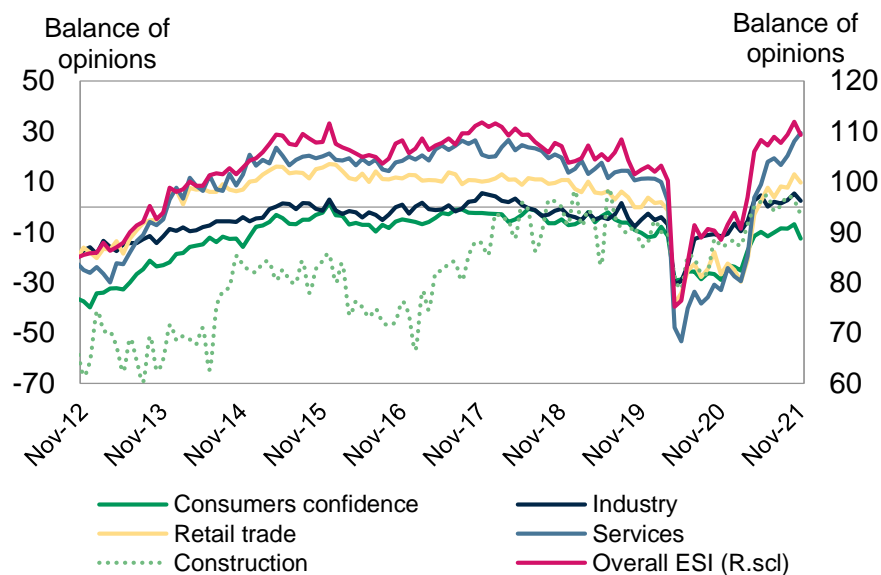
Sources: Markit, Crédit Agricole SA / ECO

months due to supply chain problems and rising supply prices. Furthermore, worsening pandemic conditions and the reintroduction of new restrictions to curb the spread of the virus – not only in Spain but also among some of its key trade partners – are also set to generate a negative impact on economic momentum in late 2021/early 2022.

RECENT ECONOMIC TRENDS

CONFIDENCE UNDERMINED BY THE PANDEMIC

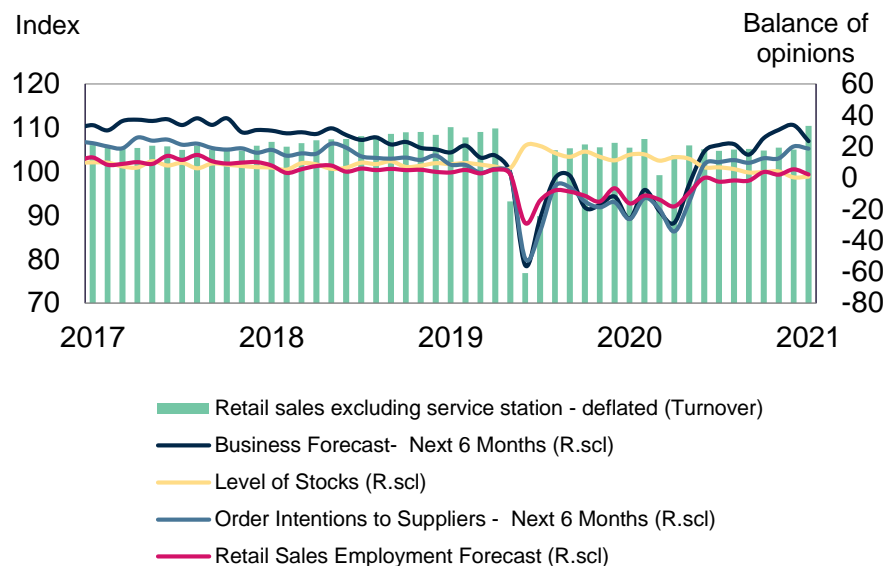
ESI and its components



Sources: Eurostat, Crédit Agricole SA / ECO

The components of the European Commission's Economic Sentiment Indicator highlighted a loss of confidence in all sectors in November 2021, with the exception of the services component. This decline was especially prevalent in terms of consumer sentiment and retail trade. The services revenue index for October (latest available data) showed tourism continuing to recover (revenue from accommodation services shot up 16% month-on-month in October and travel agency revenue 27%). The retail sales index improved from August to November, indicating that consumer spending and service exports continued to

Retail sales



Sources: ICI, Crédit Agricole SA / ECO

drive economic activity in Q4. Finally, the latest business activity survey conducted by the Bank of Spain, for which the data were collected through the last week of November, pointed to a minor dip in revenue growth forecasts in Q4 compared to Q3. These signals support the assumption of more moderate growth in Q4, which we estimate at 1.2% qoq.

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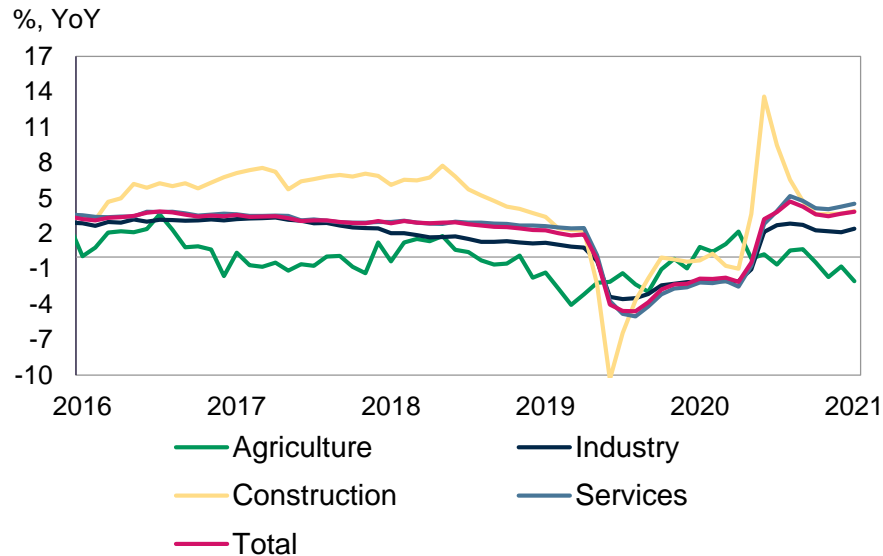
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OUTLINE OF OUR SCENARIO

ONGOING RECOVERY IN EMPLOYMENT

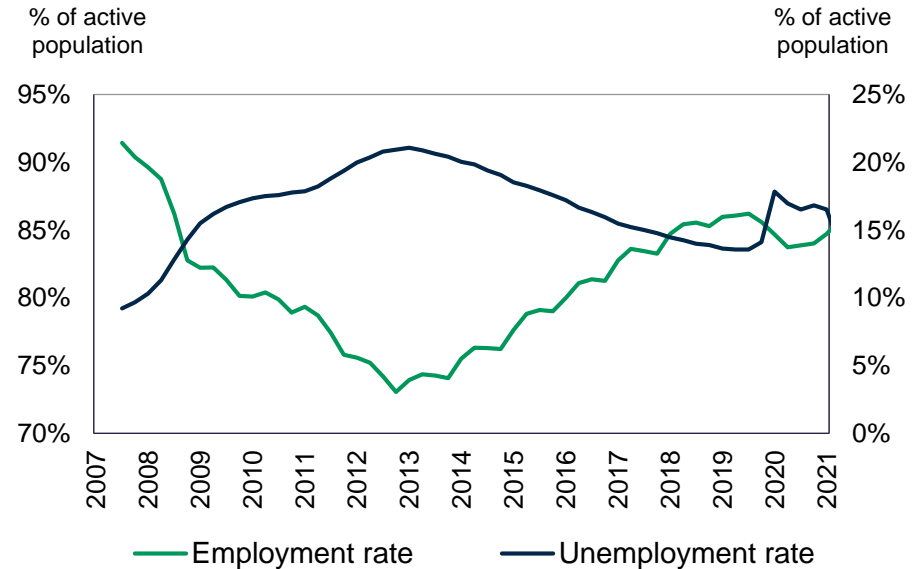
Employment: Social Security enrolment



Sources: Ministère du Travail, Crédit Agricole SA / ECO

Social Security enrolment outpaced the historical average for the period in October and November, exceeding February 2020 pre-crisis levels by 1%. Furthermore, the number of workers on part-time work continued to fall in Q4, settling at just over 125,000 by end-November, i.e. 800,000 fewer workers than in February 2021 (the peak for the year). In light of these trends, we estimate that actual workforce numbers were 0.3% higher than before the crisis, whereas the average gap observed in Q3 2021 was negative (-1.2%). In line with this improvement, we expect the total number of hours worked to rise

Unemployment rate



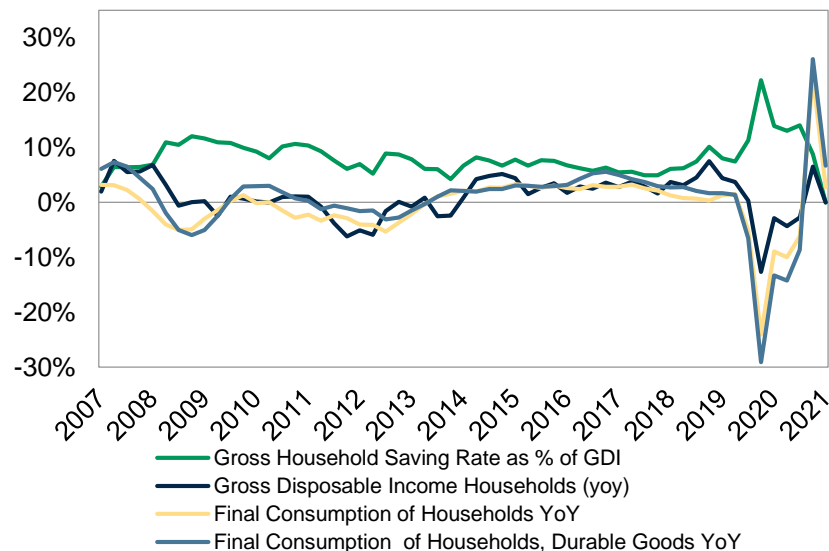
Sources: Ministère du Travail, Crédit Agricole SA / ECO

and the unemployment rate to fall in Q4, against the backdrop of the ongoing recovery in the economic activity rate. Unemployment stood at 14.8% in Q3 (vs. 15.4% in Q2). We have thus lowered our unemployment forecasts to 15.2% on average in 2021 and 14.8% in 2022.

OUTLINE OF OUR SCENARIO

HOUSEHOLD CONSUMPTION RESILIENT IN Q3

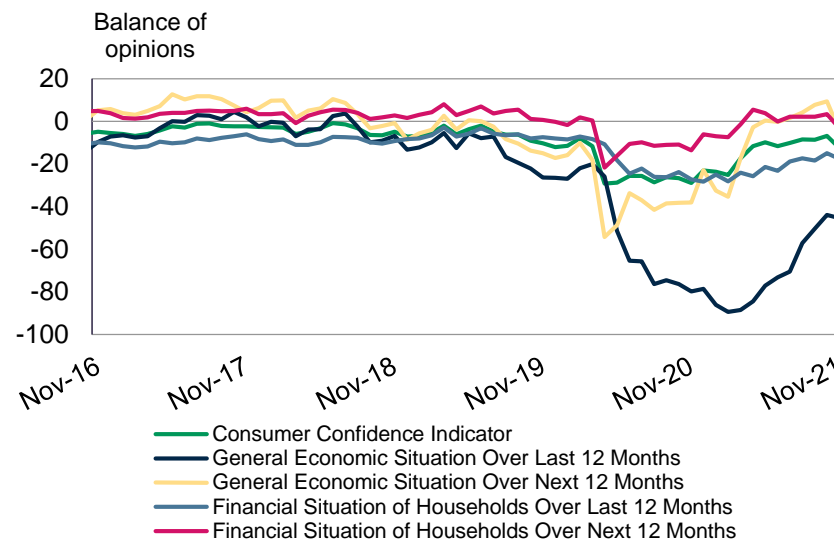
Change in gross disposable income and its components



Sources: Eurostat, Crédit Agricole SA / ECO

Private-sector consumption picked up 1% in Q3, fuelled by consumption of non-durable goods and services (2.7%), while consumption of durable goods shed 1.6%. The household savings rate came out at 10.9% of gross disposable income, up from 9.2% in Q2. The investment rate held steady at 6.7%. Although the exacerbation of health conditions in recent weeks and the reintroduction of certain mobility restriction measures may have weighed on private-sector consumption at end-2021, this component of demand should have improved slightly in the fourth quarter. The rise in spending, consistent with the ongoing improvement in the job market over the last few months, should primarily be visible in certain service segments. At the

Household survey



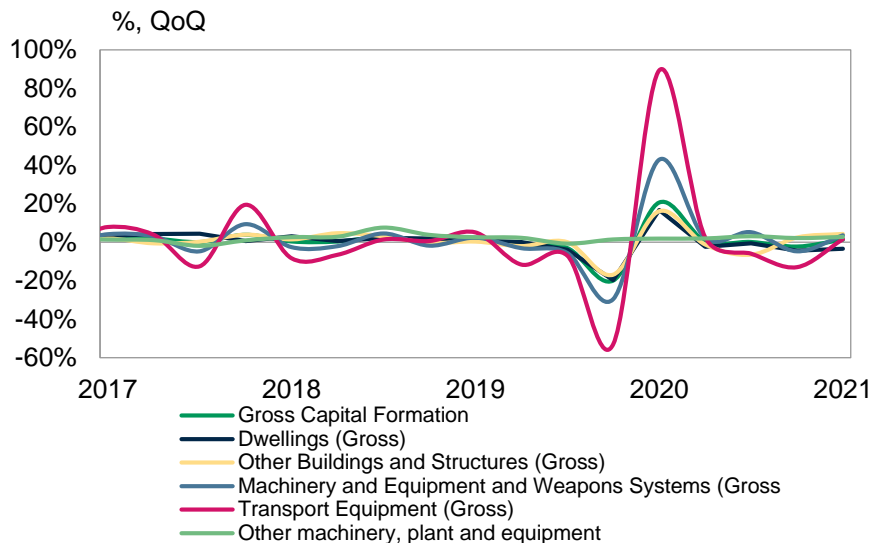
Sources: European Commission, Crédit Agricole SA / ECO

same time, consumption of goods should prove less dynamic, as suggested by the retail trade index and car registrations. This rise in spending can be associated with a certain relaxation of consumer lending conditions (although the cost of financing remained at record low levels in this segment), insofar as households have built up substantial savings since the pandemic began and have cut their spending on certain durable goods that typically have to be financed. We expect private-sector consumption to climb 0.9% in Q4, down slightly from Q3, and to be driven in 2022 by the social measures provided for under the Finance Act, although investment should take up the baton as the main economic growth driver.

OUTLINE OF OUR SCENARIO

STRONG INVESTMENT MOMENTUM EXPECTED IN 2022

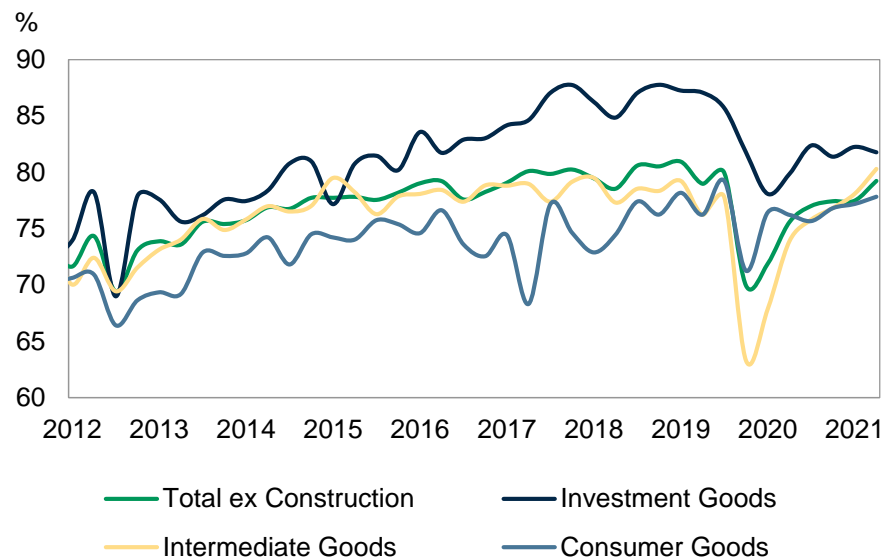
Components of investment



Sources: INE, Crédit Agricole SA / ECO.

Investment increased 1.2% qoq in Q3 (vs. -2.5M in Q1), due to the drop-off in construction (-0.4%), which was more than offset by capital expenditures (+3.7%). Business investment is projected to climb in the fourth quarter, as suggested by the manufacturing sentiment indicator and the foreign orders pipeline, which exceeded Q3 levels until November. However, the persistence of supply chain problems continued to cause delivery delays in the manufacturing sector, raising the percentage of businesses that consider the supply shortage to be

Capacity utilisation



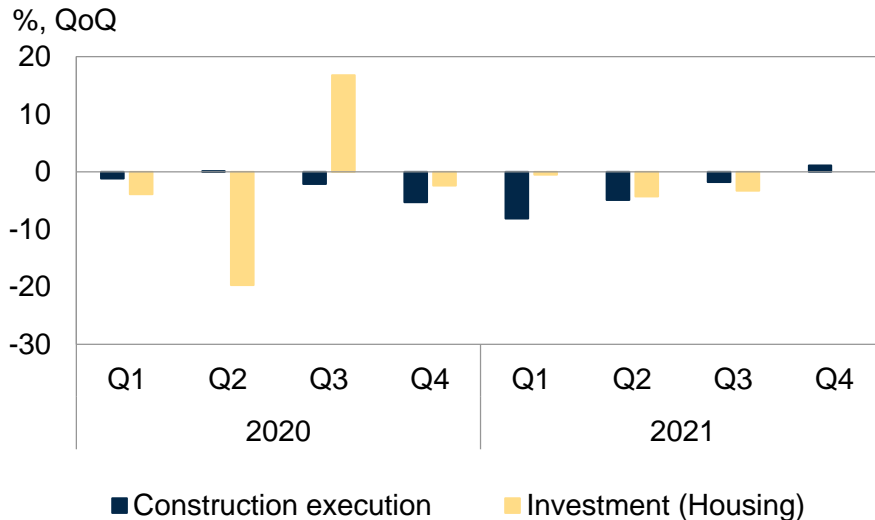
Sources: Ministère de l'Industrie et du Commerce, Crédit Agricole SA / ECO.

curbing their revenue, which may in turn affect business investment momentum in the future. We expect investment to rise 1.5% in Q4 2021 and to be boosted in 2022 by NGEU spending, which has yet to be reflected in Spanish GDP growth. Of the €26.6bn in loans to be financed by the NGEU, included in the Spanish government's budget for 2021, only €9.2bn in expenditures were recorded. Most of these funds comprised transfers to the various ministries in charge of spending.

OUTLINE OF OUR SCENARIO

CONSTRUCTION STRUGGLING TO GET BACK ON ITS FEET

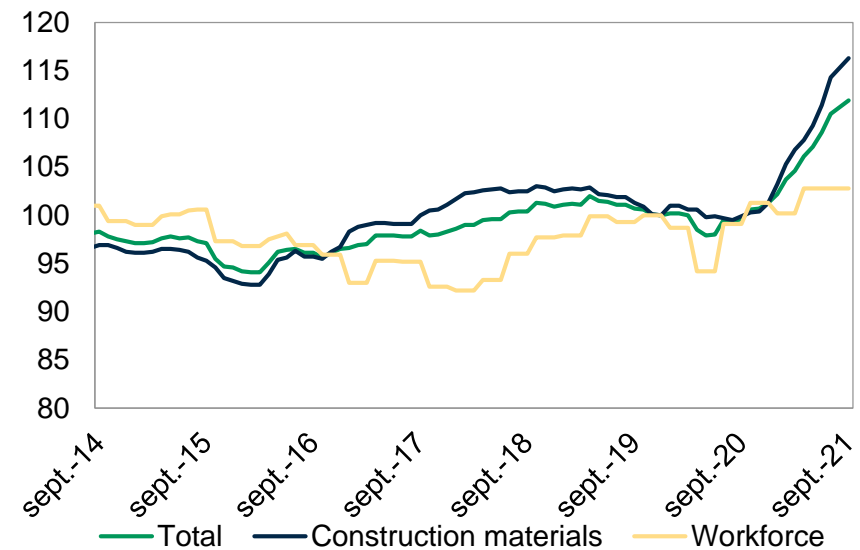
Construction indicators



Sources: INE, Crédit Agricole S.A.

The recent boost in the momentum of new builds suggests that investment in housing, on the decline since end-2020, initiated a recovery in Q4 2021. However, the problems encountered by the construction sector in recent months, in terms of the availability of certain intermediate goods (reflecting a sharp rise in costs) coupled with a labour shortage could weigh on the recovery of residential real estate investment in the coming quarters, especially if they continue

Construction sector costs



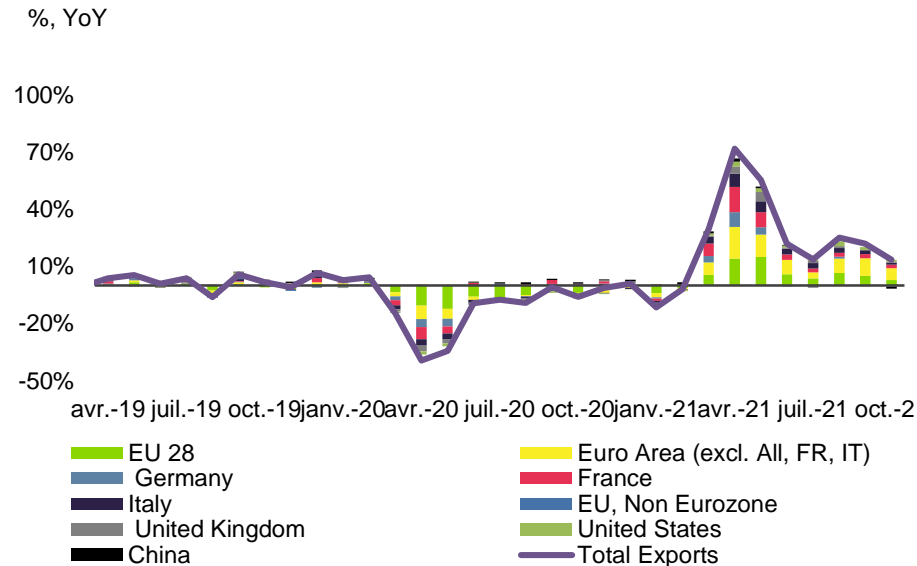
Sources: INE, Crédit Agricole S.A. - Base 100 = déc. 2019

for an extended period. In any event sales of homes proved considerably resilient in recent months, aided by a very dynamic trend in new loan activity – with volumes up sharply from pre-pandemic levels – and an acceleration in home prices in the third quarter.

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FOREIGN TRADE: STRONG EXPORT MOMENTUM THANKS TO TOURISM

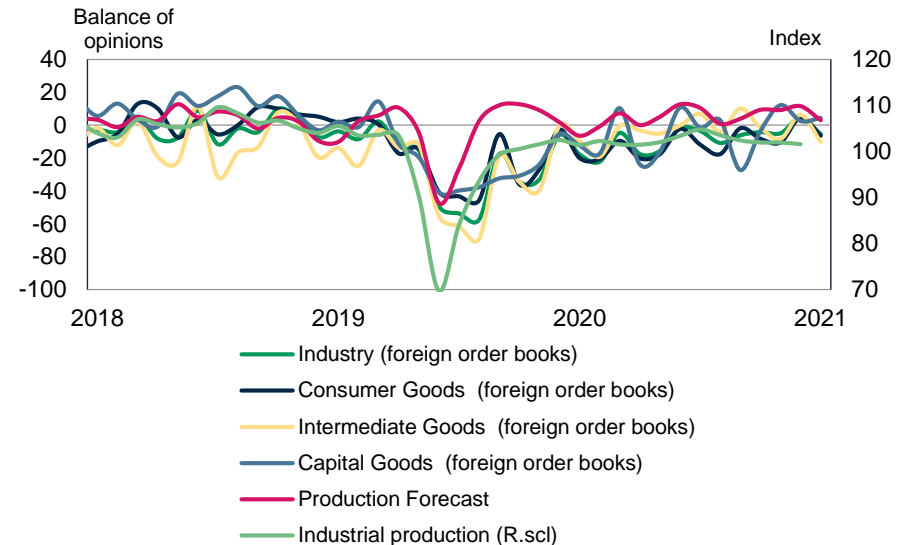
Exports by destination



Sources: Banque d'Espagne, Crédit Agricole SA / ECO

Foreign trade contributed positively to GDP growth in Q3 2021, on the back of higher exports (7.1% qoq), while imports recorded a more modest gain of 2.2%. Persistent disruptions in global supply chains and reduced economic activity among some of Spain's top trade partners point to a slowdown in exports and imports of goods in Q4. The impact of bottlenecks on international trade flows was especially visible in the automotive sector, where Spanish car exports as well as imports of some car parts continued to post noteworthy declines in recent months. Over the full quarter, tourist exports are expected to continue improving. However, in the final stretch of the year, the intensity of this recovery may be slowed by the worsening of the

Export order books



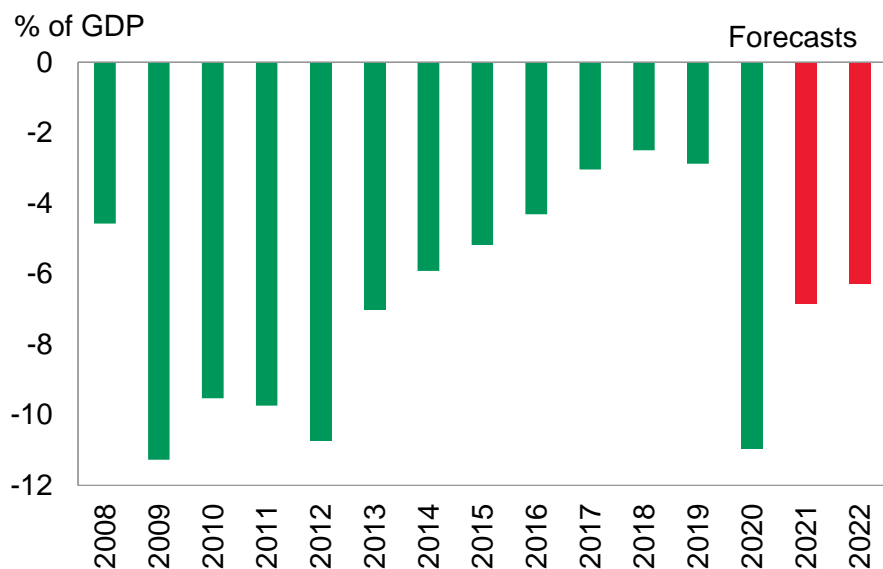
Sources: ICI enquête minis. de l'Industrie & du Commerce, Crédit Agricole SA / ECO

pandemic. Certain indicators on tourist activity trends, only available through October, showed that Spain's recovery in international trade gathered pace in early Q4, thanks to the German and French markets, and to the improvement recorded in December on the UK market. However, based on recent trends in airline passenger traffic, this relatively positive momentum has slowed considerably in recent weeks.

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PUBLIC FINANCES: A MORE MODERATE DEFICIT IN STORE FOR 2021

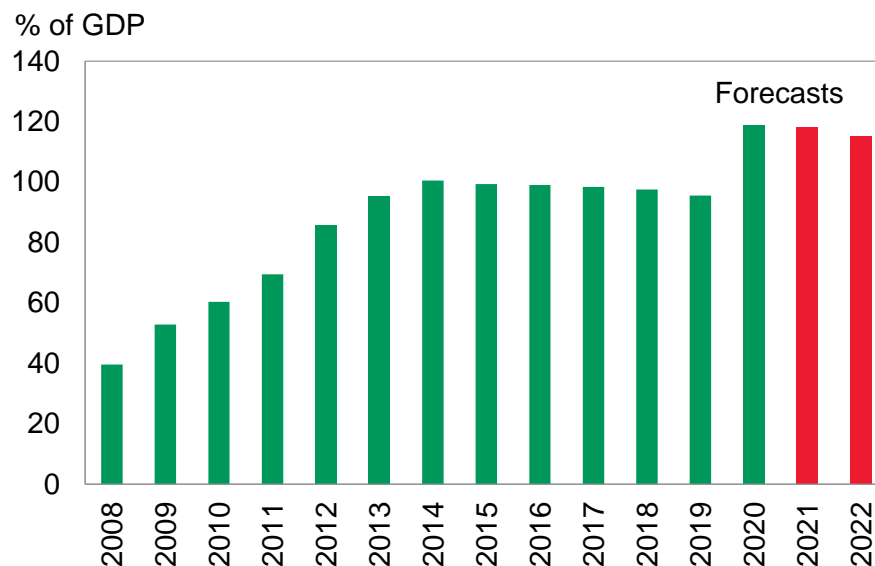
Government budget balance



Sources: Stability and Growth Programme, Crédit Agricole SA / ECO

The public deficit (excluding local administrations) stood at 4.2% of GDP for the first nine months of 2021, down 2.7 pp year-on-year, aided by significant momentum in public revenues in recent months, sitting well above pre-pandemic levels. Government spending – also above pre-crisis levels has climbed in recent months, driven by the rise in capital transfers to the private sector stemming from, among other things, SME solvency measures approved in March 2021. Though incomplete, the information available on the actual implementation rate of the NGEU suggests that the volume of funds to be used in 2021 may be significantly lower than initially announced by

Government debt



Sources: Stability and Growth Programme, Crédit Agricole SA / ECO

the government. Of the €26.6 billion in loans to be financed by the NGEU, included in the Spanish government's budget for 2021, only €9.2 billion in expenditures were recorded, including those associated with the stimulus and resilience plan and with REACT-EU funds. Most of these funds comprised transfers to the various ministries ultimately in charge of spending.

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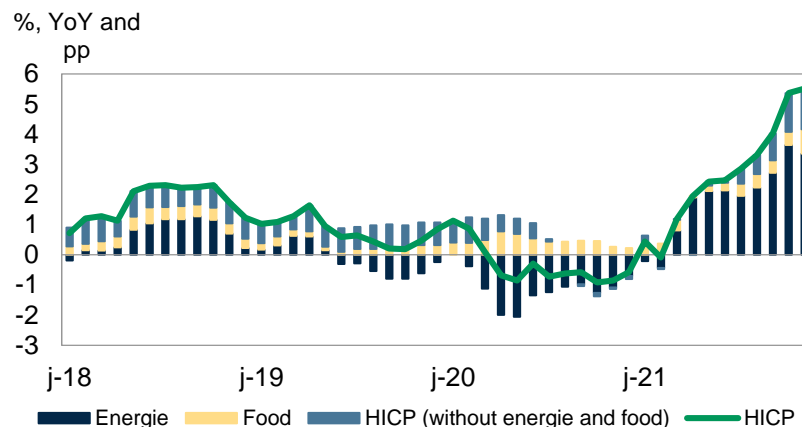
FOCUS: INFLATION ON THE RISE

IMPACT OF ENERGY

Inflation has spiked in Spain over the last few months, mainly due to an acceleration in the energy component of prices, but also to an increase (albeit more moderate) in the underlying component. In November (most recent detailed data available), the Harmonised Index of Consumer Prices (HICP) hit 5.5% over a rolling 12-month period, thus extending the rise in underlying inflation since end-2020. As in previous months, the price rise can predominantly be attributed to the acceleration of energy prices. The energy component's contribution to the inflation rate in November was 3.4 pp, o/w 1.4 pp was attributable to the increase in electricity prices, which in turn reflected higher natural gas prices and, to a lesser extent, climbing CO₂ emissions quotas on international markets in recent months. For their part, the various measures approved by the Spanish government in mid-September – including in particular the reduction of the tax expense on the power grid through January 2022 and the hike in social security contributions to vulnerable consumers through April – should have partially mitigated the impact of high wholesale electricity prices on rates paid by consumers.

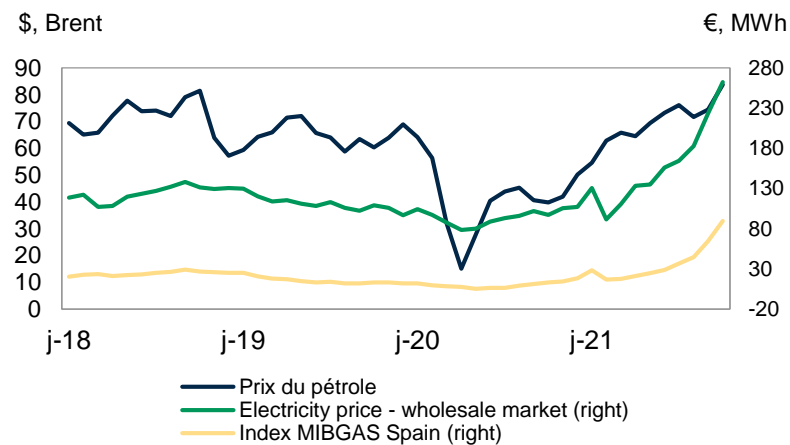
Core inflation (HICP excluding energy and food) has also climbed in recent months, largely owing to higher service sector prices. In particular, underlying inflation hit 1.6% over a rolling 12-month period in November, i.e. significantly higher than the average rate observed in Q1 2021 (0%) and Q3 2021 (0.7%). The increase in underlying inflation can largely be attributed to the accelerated price rises of certain services related to tourism and leisure activities in the wake of their steep drop in 2020. For example, the prices of accommodation services fell 12.7% on average year-on-year in Q1 2021, but climbed 6.8% in Q3 and 14.5% in November.

Inflation: trend and contributions



Sources: INE, Crédit Agricole SA / ECO

Oil and electricity prices



Sources: Reuters, MIBGAS, réseau électrique de l'Espagne, Crédit Agricole SA / ECO

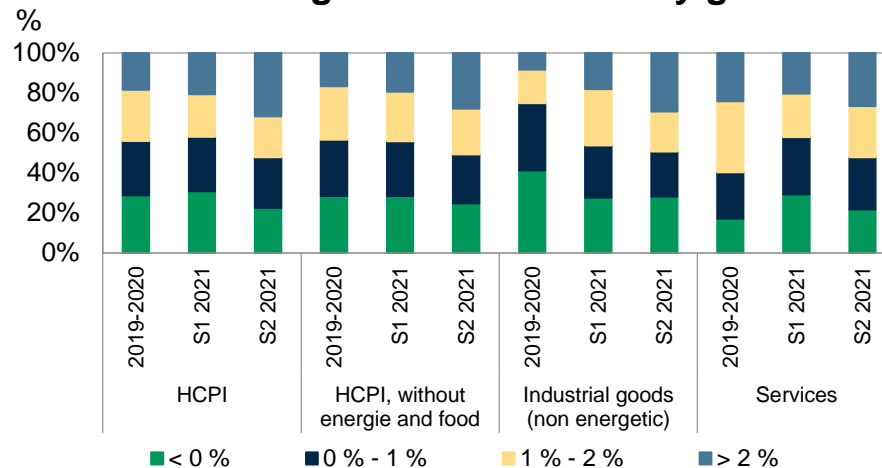
FOCUS: INFLATION ON THE RISE

PERSISTENT TENSIONS IN 2022

The recent rise in the prices of certain non-energy industrial goods is also thought to have contributed to the increase in underlying inflation, due to the considerable impact of the rise in energy prices on the production costs associated with these goods, or due to global supply chain bottlenecks observed in recent months. In any event, the percentage of non-energy industrial goods posting inflation rates of more than 2% climbed very sharply in the last year, from 6% in January to 34% in November. It should be noted, however, that for the HICP as a whole, the percentage of components showing negative or below 1% inflation remained relatively high (around 40%).

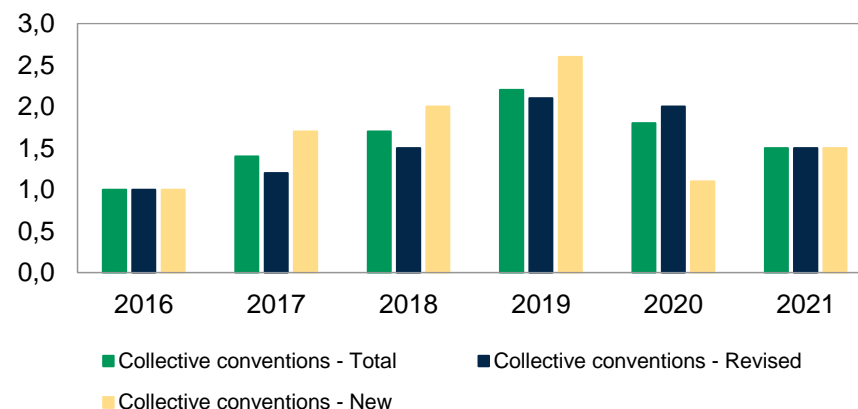
The factors underlying the recent acceleration of inflation appear to be temporary for the most part, meaning we can expect to see a gradual deceleration in 2022. Nevertheless, there are multiple risks weighing on price trends. First, increases in energy prices coupled with supply chain bottlenecks observed in recent quarters have proved systematically stronger and more persistent than initially projected. Any resurgence in geopolitical tensions could revive pressures on gas prices in Europe. Furthermore, the simultaneous deployment of NGEU projects in multiple countries could promote the extension of demand pressures on the supply of certain products. Second, additional inflation pressures via indirect and second-round effects cannot be ruled out. On that point, it should be noted that in Spain (November data), newly signed collective bargaining agreements are already showing (albeit moderately) an acceleration in wage hikes for 2022 (up to 1.5%).

Percentage of HICP classes by growth



Sources: INE, Crédit Agricole SA / ECO

Wage negotiations



Sources: : Ministry of Labour, Crédit Agricole SA / ECO

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