

## A better 2023 than expected

The year 2023 began with forecasts mired in pessimism and fears. The major developed economies were expected to experience only modest growth and there were even fears that some of them, such as Spain, would record negative growth rates at some point during the year. The global context certainly did not invite optimism. With the blow that the war in Ukraine had dealt to energy prices and commodities in general, the omens could not be good. Even the possibility of some European countries having to impose power cuts was not ruled out.

In the end, things have gone far better than that. In terms of growth, a year ago the GDP of the US and European economies was expected to grow by 0.2% and -0.1%, respectively. In contrast, today, just shy of the year end, they are expected to reach 2.4% and 0.5%. In the case of the Spanish economy, there has also been a significant improvement in the outlook throughout the year. The analyst consensus now places expected GDP growth for 2023 at 2.3%, whereas a year ago it was not even expected to reach 1%.

One of the keys to this improvement has been the moderation of energy prices in general, and of gas prices in particular, especially in the European market. A year ago, the futures market placed the TTF gas price, which is the benchmark in Europe, at 150 euros/MWh at the end of 2023. In contrast, during November it was trading at around 50 euros/MWh. European countries reacted quickly and managed to find alternative sources to Russian gas more easily than expected. In fact, they are going into this winter with their reserves full and with liquefied natural gas vessels queuing to unload. The moderation of energy prices has facilitated a faster tempering of inflation, which has allowed households to lose less of their purchasing power. Thus, household consumption has held up better than expected in the major developed countries, registering growth rates that are expected to reach 2.2% in the US and 1.4% in Spain for 2023 as a whole.

In the case of the Spanish economy, the foreign sector also stands out, having performed much better than anticipated. Clearly, the excellent tourist season has been key. That said, exports of non-tourism services have also been surprisingly buoyant. A year ago it was expected that the current balance in 2023 would deteriorate and would only barely be positive, with the consensus estimate placing it at around 3 billion euros. However, today the consensus estimate places it close to 32 billion euros.

Another factor that has helped cushion the energy shock is the fact that the major developed economies were able to tackle it without major macroeconomic imbalances. This prevented dynamics which would have amplified the impact by making it more severe and persistent, as was the case with the real estate and financial crisis just over a decade ago. Moreover, the economic policy response, in both the fiscal and the monetary spheres, has been generally rapid and effective.

All this has been of the utmost importance for allowing employment to remain buoyant during 2023, far exceeding the outlook at the beginning of the year. Faced with the prospect that the bump would be temporary, many companies opted to keep their jobs in place, thus avoiding the need to find replacement workers in the near future in a labour market that is already stressed and in which many companies are struggling to find workers. Thus, the unemployment rate in the US and the euro area is on track to end the year with an average of more than half a point below what was expected at the end of 2022, at 3.7% and 6.5%, respectively. In the case of the Spanish economy, the surprise has been even greater still and the unemployment rate will likely end up 1 pp below expectations, at around 12%.

For 2024, the forecasts are less flattering, not least because it is feared that the impact of the rise in interest rates may still impact economic activity. For the US, the analyst consensus places the anticipated growth rate at just above 1%, while the estimate for the euro area is 0.6% and for the Spanish economy, 1.3%. The risks surrounding the scenario are numerous, but they are not all negative. If the inflationary pressures consolidate the rapid decline they have experienced in recent months and central banks lower interest rates somewhat faster than expected, we are likely to be penning another positive recap a year from now.

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