Spain: a difficult end to the year and a recalibration of forecasts

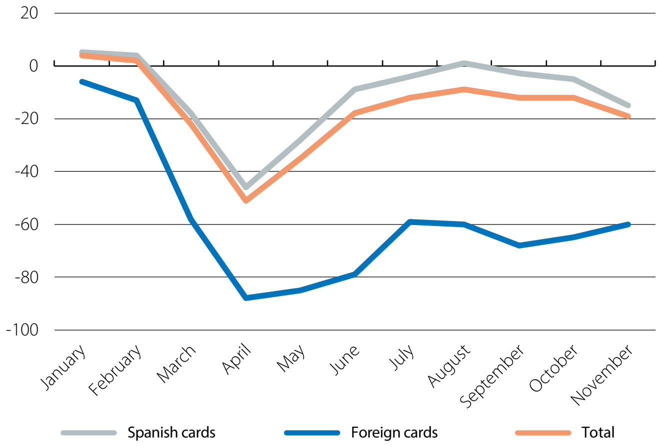
The recovery of economic activity in Q4 is tarnished by the new outbreaks. Following the notable recovery in mobility and economic activity in Q3, the persistent rise in the number of confirmed COVID-19 cases in Spain forced new mobility restrictions to be imposed in October. The impact of these measures has already become apparent in the economic activity indicators and forces us to once again update the forecast scenario, given that a decline in activity in Q4 is likely. In particular, the November data for total card spending registered on CaixaBank POS terminals and cash withdrawals indicate a 19% year-on-year decline, the worst monthly figure since June. The mobility data also reflect a deterioration in the situation: with data from 1 to 27 November, mobility around shopping centres was almost 40% below the pre-crisis level, 9 points below that of October and 18 below September. Furthermore, in November the PMI for the services sector was in clearly contractionary territory (39.5 points), continuing the negative trend of the previous months (the services PMI stood at 51.9 points in July). In contrast, the counterpart indicator for the manufacturing sector stood at 49.8 points, very close to the threshold which indicates no change (50 points) and suggesting that the restrictions on activity are not affecting all sectors alike.

The labour market weathers the crisis better than expected. In contrast, the labour market is showing remarkable resilience. Together with the success of the furlough (ERTE) schemes in sustaining employment and supporting the recovery in the number of workers, this leads us to anticipate a smaller rise in unemployment than previously projected (we expect the unemployment rate to be 16.0% in 2020 and 17.9% in 2021). A sign of the good performance of the labour market during this crisis is the November Social Security affiliation data which, despite the tightening of restrictions on activity, showed a slight increase in registered workers (+32,000 people, bringing the total to 19.02 million). In year-on-year terms, this figure represents a fall in affiliation of 1.8%, 5 decimal points less than the previous month. In addition, the number of employees affected by furlough (ERTE) schemes remained stable at 747,000 people, an increase of 18,000 compared to October. Thus, the number of registered workers who are not affected by an ERTE fell by 5.8% year-on-year, the same figure as in October but significantly less than the –8.1% registered in Q3.

Adjusting the scenario in the run-up to a recovery in 2021. The new macroeconomic projections for the Spanish economy reflect the context of heightened restrictions and weak indicators. Our forecasts are compatible with a scenario in which the restrictions on activity are maintained across large parts of the country until the end of the year and continue, to some extent, during the first quarter of next year. However, the economic impact of the new measures is expected to be lower than during the first half of the year. Assuming that the restrictions imposed to curb the pandemic will not be intensified, the new macroeconomic scenario puts the decline in GDP in Q4 at around 2.5% quarter-on-quarter. There is a great deal of uncertainty surrounding this estimate, given that the range of indicators provide conflicting messages. For instance, whereas the mobility, confidence, and consumption data mentioned earlier point towards a setback in economic activity, the resilience shown by the labour market, if maintained over

Spain: evolution of expenditure on CaixaBank POS terminals *

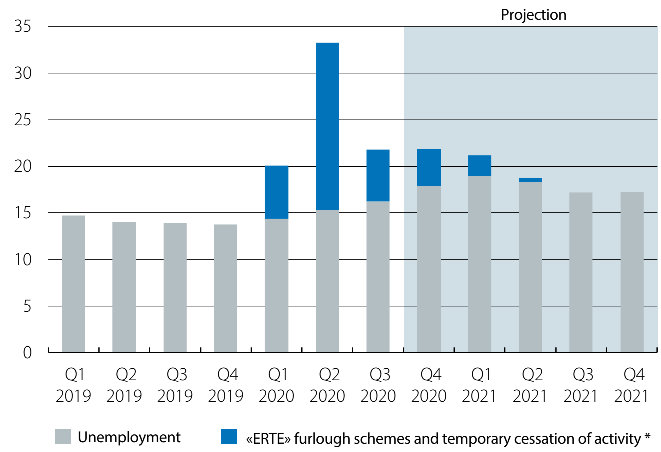
Year-on-year change (%)



Notes: ** Includes payments registered on POS terminals and cash withdrawals at CaixaBank ATMs.*
Source: *CaixaBank Research, based on internal data.*

Spain: unemployment rate and furlough schemes

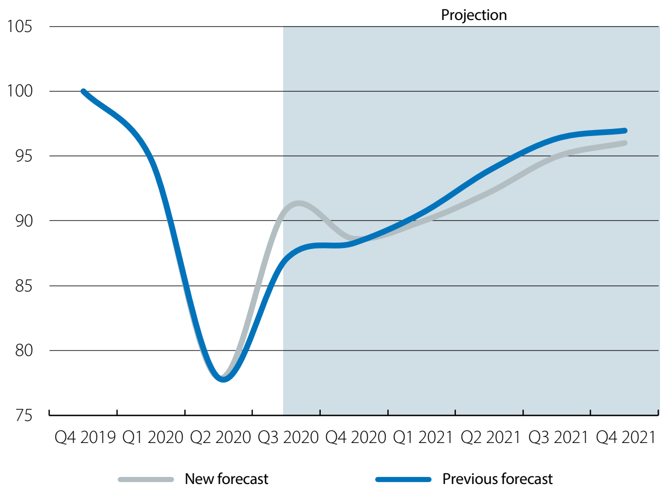
(% of the labour force)



Note: ** Registered workers who are affected by an «ERTE» furlough scheme (total or partial) and self-employed workers who are registered as having temporarily ceased their activity. The latter figure is an internal estimate.*
Source: *CaixaBank Research, based on data from the Ministry of Work, Migration and Social Security, and from the National Statistics Institute (Labour Force Survey).*

Spain: GDP

Level (100 = Q4 2019)



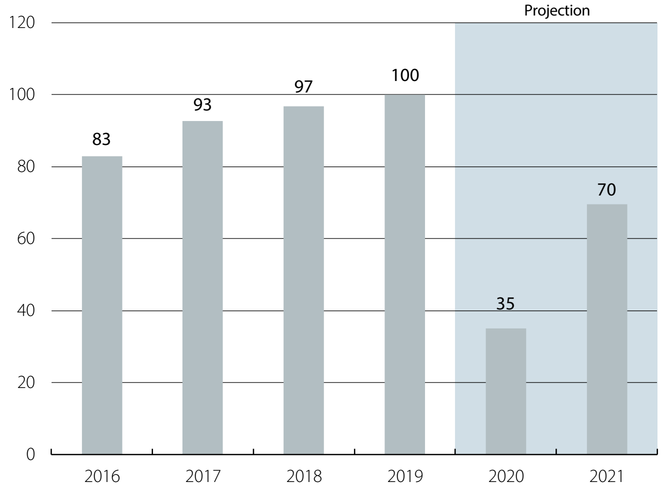
Source: *CaixaBank Research, based on data from the National Statistics Institute.*

the Christmas period, could limit the decline in GDP. Despite the decline in activity which we project for the closing stages of the year, the strong rebound that occurred in Q3 leads us to revise our 2020 GDP forecast up from –12.5% to –11.4%. Looking ahead to 2021, we anticipate that the stabilisation of the pandemic in Q1 will allow for a gradual improvement and that the recovery will gain strength beginning in Q2 through more extensive use of rapid tests and the administration of the vaccine among the main risk groups. All of this will help to boost confidence, which we expect will have a knock-on effect on all areas of the economy and, in particular, on international mobility. Thus, we expect that tourism GDP will experience a significant recovery in 2021 and that the sector will go from operating at around 70% below its pre-crisis level in 2020 to 30% below in 2021. Finally, the economy will also be supported by fiscal policy, with the launch of the Next Generation EU (NGEU) recovery plan, which could contribute slightly more than 1 pp to GDP growth in 2021 (under a baseline assumption that projects amounting to slightly over 1.0% of GDP can be implemented this year). With the impetus of all these factors, we expect to see a significant rise in economic activity in Q2 and Q3 2021, and we place the economy's growth at 6% for the year as a whole. However, it will take time for the economy to achieve a complete revival, and this will weigh on inflation, which is expected to recover very gradually (–0.4% in 2020 and 1.0% in 2021).

COVID-19 will continue to weigh on the public accounts in 2021. The lower projected fall in GDP for 2020 leads us to slightly improve our deficit forecast for this year, now placing it at 12.4% of GDP, with public debt at 120.4%. Nevertheless, these are still historically high levels, reflecting the unprecedented state action taken to support households, workers and businesses during this pandemic, which will leave its mark over the coming years. Indeed, while the economic recovery will favour a certain correction of the deficit next year, the business cycle and the need to maintain exceptional measures to address the COVID-19 crisis will continue to put pressure on the public accounts in 2021 (we project a deficit of 9.2% and debt of slightly below 120%).

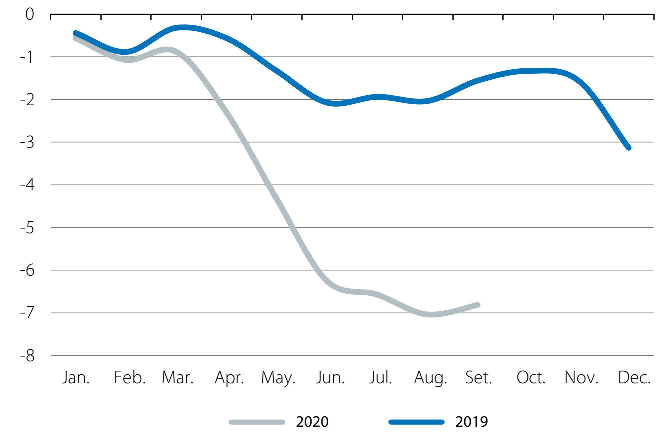
The real estate sector performs very differently to in the previous recession. The real estate sector entered the COVID-19 crisis with much stronger fundamentals than in the previous recession. The level of indebtedness of both households and firms was much lower and there was no situation of over-supply in the sector. Also, on this occasion the origin of the crisis is not within the real estate sector itself. As a result, the crisis should have a less pronounced impact on the sector than it did during the previous recession, and this is corroborated by the latest data. According to valuation data published by the Ministry of Transport, Mobility and Urban Agenda, the price of housing rose by 0.6% quarter-on-quarter in Q3, thus moderating the year-on-year decline (–1.1% *versus* –1.7% in Q2). Furthermore, the number of sale transactions enjoyed a strong recovery in September (–1.1% year-on-year), leaving behind the sharp declines experienced during the lockdown (–36% year-on-year between March and July). Given the strength of the sector's indicators, we have reduced the projected fall in home prices in 2020 from –3.6% to –1.5%. However, the sector will not be immune to the economic context, both in terms of losses of income resulting from the rise in unemployment and in terms of deteriorating confidence, so we expect the decline to continue in 2021, amounting to around 2%.

Spain: tourism GDP
Level (100 = Q4 2019)



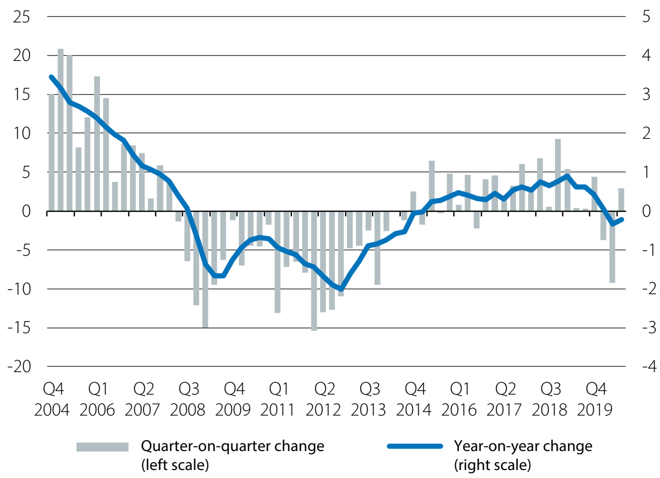
***Source:** CaixaBank Research, based on data from the National Statistics Institute.*

Spain: general government lending capacity/funding needs
(% of GDP)



***Note:** Excludes financial aid and local corporations.*
***Source:** CaixaBank Research, based on data from the Comptroller General of the State (IGAE).*

Spain: home prices
Change (%) *Change (%)*



***Source:** CaixaBank Research, based on data from the Ministry of Transport, Mobility and Urban Agenda.*