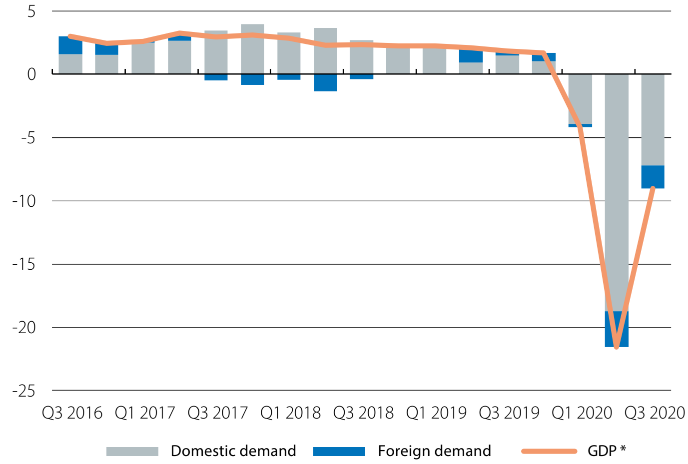
Spain: 2021, a year of partial economic recovery

The economy will continue its recovery in 2021. The COVID-19 pandemic has dominated 2020, triggering a health and economic crisis on an enormous scale. According to our projections, the pandemic will have cut 11.4% off GDP in 2020 as a whole, a figure heavily impacted by the collapse in Q2 (–17.9% quarter-on-quarter). However, the economy has also demonstrated a capacity to rapidly recover. According to the latest estimates by the National Statistics Institute, published in December, GDP had rebounded by 16.4% quarter-on-quarter in Q3, reducing the year-on-year decline from a severe –21.6% in Q2 to a more moderate –9.0%. Thus, although the restrictions imposed to contain the second wave will have weighed down growth in the last quarter of the year, economic activity is expected to continue its recovery in a more sustained manner in 2021, driven by the early availability of vaccines, the strong support from domestic and European economic policies and the accommodative financial environment anchored by the ECB. In particular, our forecasts reflect growth of around 6.0% in 2021 (incorporating the positive effect of funds from the European Next Generation EU, or NGEU, recovery plan) and paint a reasonably similar picture of the macroeconomic scenario as that set out by the Bank of Spain in its December update (economic contraction in 2020 of between 10.7% and 11.6% and a rebound in 2021 in the range of 4.2% to 8.6%). However, these forecasts also illustrate that the recovery will take time to be completed (we do not project a return to pre-COVID activity levels until 2023). Moreover, although the vaccination process already initiated should make the economic revival more resilient over the coming quarters, in the short term the environment remains highly demanding and uncertain, and the mobility restrictions required to contain the pandemic will continue to weigh on economic activity at the start of the year.

The economic activity indicators show mixed performance in the second wave. Industrial production moderated its year-on-year decline to 1.6% in October, an improvement of 1.5 pps compared to the previous month's figure, indicating that the industrial sector remained on its path to recovery despite the mobility restrictions. In contrast, the restrictions had a clearer impact on consumption in November, as retail sales broke the recovery of recent months with a 4.3% year-on-year decline (1.3 pps worse than in October). This decline eased in December, according to data on the total spending registered on CaixaBank point of sale (POS) terminals, which fell by 10% year-on-year and recovered some of the ground lost in November (–15% year-on-year). Consumption with Spanish cards fell 7% (–11% in November), while e-commerce performed particularly well and registered year-on-year growth of +14%, helping businesses to weather the declines in face-to-face consumption. Consumption on foreign cards, meanwhile, fell in December (–54% year-on-year), albeit by somewhat less than in November (–58% year-on-year).

Spain: GDP

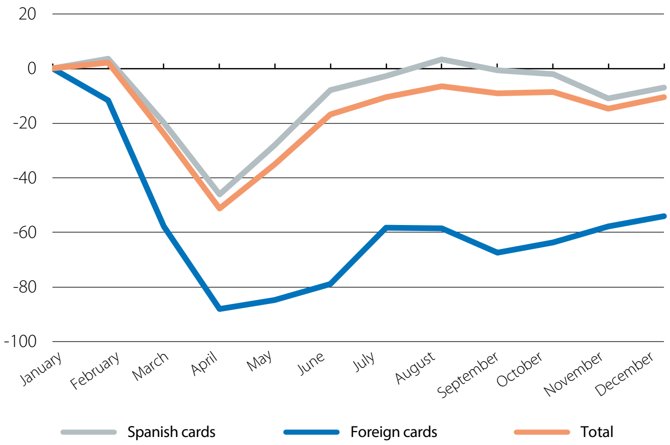
Contribution to year-on-year growth (pps)



Note: ** Year-on-year change (%).*
Source: *CaixaBank Research, based on data from the National Statistics Institute.*

Spain: card activity on POS terminals and cash withdrawals at CaixaBank ATMs

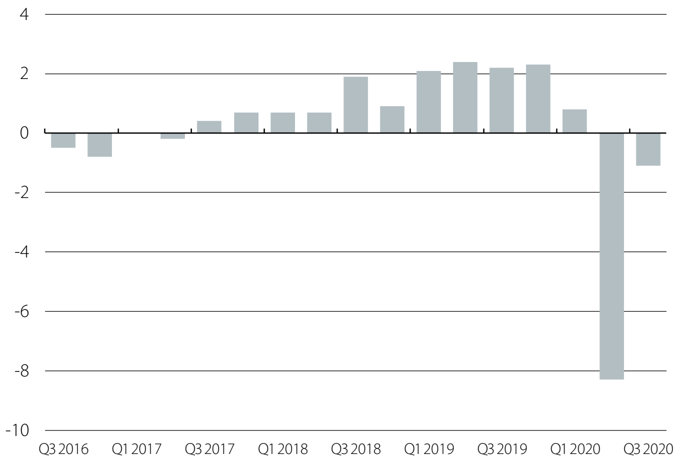
Year-on-year change (%)



Source: *CaixaBank Research, based on internal data.*

Spain: total labour cost per worker *

Year-on-year change (%)



Note: ** Series adjusted for seasonality and calendar effects.*
Source: *CaixaBank Research, based on data from the National Statistics Institute (Quarterly Labour Cost Survey).*

Some stability in the labour market in the midst of the pandemic. The number of people registered with Social Security increased by 26,000 in December, bringing the total to 19.05 million, meaning that there were 360,000 fewer affiliates than a year earlier (–1.9% year-on-year). Also, the average number of affiliates affected by ERTE furlough schemes stood at 783,000, most notably in the hospitality sector (46%). These schemes have allowed employment to fall by less than economic activity, unlike in previous crises (for more detail, see the Focus «Employment holds up this time, but duality in the labour market continues to wreak havoc»). Labour costs, meanwhile, were less affected by the pandemic in Q3 2020. According to the quarterly labour cost survey (QLCS), the total labour cost per worker decreased by 1.1% year-on-year (corrected for calendar effects and seasonality), a smaller reduction than that experienced in Q2 (8.3%) due to the lower incidence of ERTE furlough schemes in Q3.

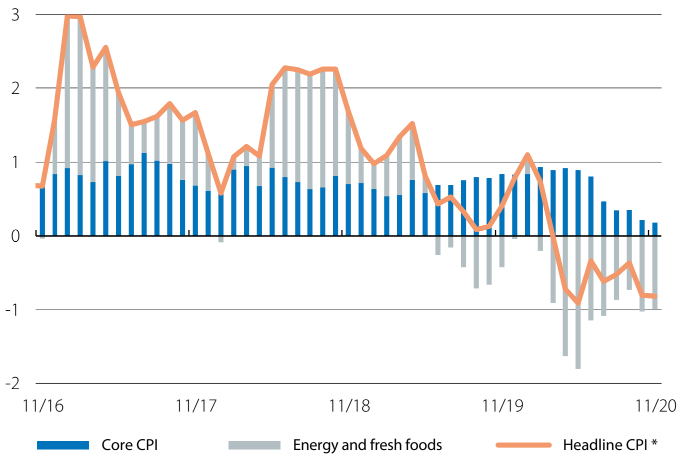
Inflation remained weak at the end of the year. In November, headline inflation stood at –0.8% and core inflation (excluding energy and fresh foods) moderated slightly to 0.2%, driven by price declines in the hospitality, leisure and cultural sectors. In December, a month for which we have an early estimate of headline inflation, there was a relative improvement, with inflation standing at –0.5% year-on-year, favoured by electricity and fuel prices. If this estimate is confirmed, inflation for 2020 as a whole would have stood at –0.3%.

The real estate sector partially recovers from the first lockdown. In October, housing sales were 13.3% below the level for the same month in the previous year, while in cumulative terms since January, sales fell by 21.2%. Meanwhile, the impact of the crisis on the price of housing is still relatively moderate. Specifically, according to transaction data, home prices rose 1.7% year-on-year in Q3, only 4 decimal points less than in the previous quarter. Traditionally, however, home prices display inertia, so we expect them to gradually reflect a correction.

The COVID-19 crisis weighs on the public accounts while the 2021 General State Budget (GSB) enters into force. The central government deficit stood at 6.5% of GDP in January-November, 1.3 pps higher than in October. The deterioration in the central government accounts occurred both due to a 19% year-on-year increase in expenditure (up to November) and because of a 12.8% year-on-year decrease in revenues. Meanwhile, the consolidated general government deficit (excluding local corporations), for which data are available up to October, stood at 7.1% of GDP. On the other hand, the GSB for 2021 successfully passed through parliament and entered into force on 1 January, replacing the 2018 extended budget.

Spain: CPI

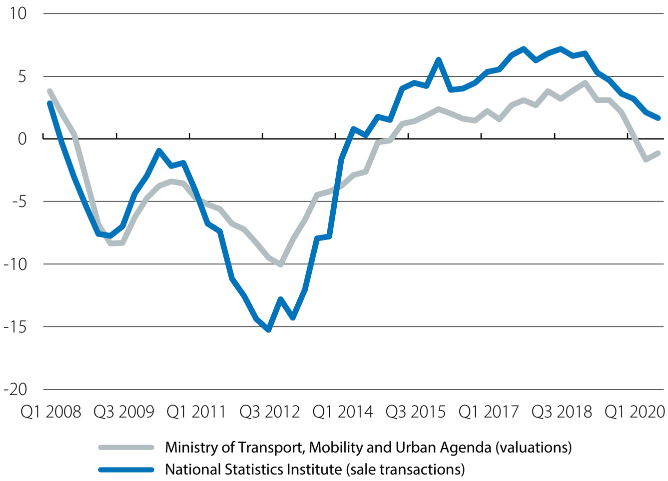
Contribution to year-on-year growth (pps)



Note: ** Year-on-year change.*
Source: *CaixaBank Research, based on data from the National Statistics Institute.*

Spain: price of unsubsidised housing

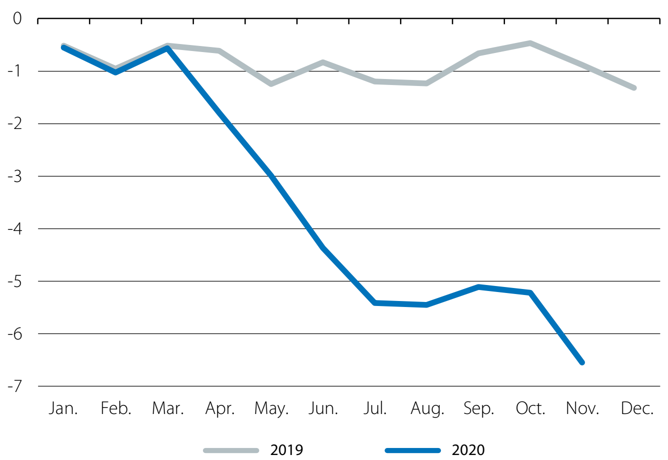
Year-on-year change (%)



Source: *CaixaBank Research, based on data from the National Statistics Institute and the Ministry of Public Works.*

Spain: state funding capacity/needs

(% of GDP)



Source: *CaixaBank Research, based on data from the General Comptroller of the State Administration (IGAE).*