

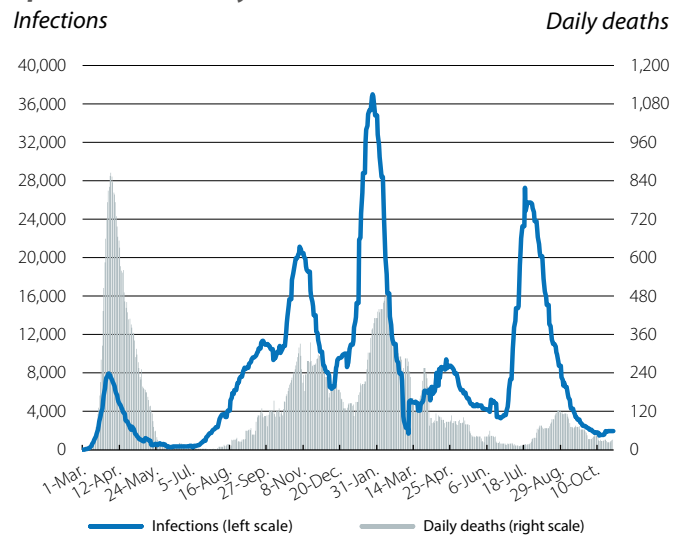
Spain: the downside risks increase

The pandemic remains under control, for now. Thanks to the widespread roll-out of the vaccine, with around 90% of the eligible population now immunised, both the infection rate and that of ICU occupancy by COVID patients remained at very contained levels last month. Looking ahead, although there could be new waves of the pandemic due to the emergence of new variants or a somewhat more adverse seasonal context, we anticipate that the impact on the economy will be more limited because the vaccines will continue to be effective in preventing serious cases of the disease. Although the need for restrictions on activity is no longer anticipated, the pandemic will continue to affect the economy's progress due to spikes in uncertainty or disruptions it could cause for global trade flows or international mobility to the extent that it may affect other countries with lower vaccination rates to a greater extent.

The recovery in GDP was less pronounced than expected in Q3. GDP increased by 2.0% quarter-on-quarter in Q3 (2.7% year-on-year). This is a high figure and exceeds that of the previous quarter (1.1%), but it is still lower than expected (3.0% according to CaixaBank Research) and leaves GDP 6.6% below the pre-crisis level (Q4 2019). Private consumption was weaker than expected (-0.5% quarter-on-quarter) given the boom in domestic tourism and the improvement in employment during the summer season. In contrast, exports increased by a notable 6.4% on a quarterly basis, driven mainly by the recovery of sales in the services sector (+24.4% quarterly). This latter figure most likely reflects the significant, albeit incomplete, recovery in foreign tourist flows during the summer season. We say incomplete because, despite the rally, services exports are still 29.2% below the pre-crisis level. Imports, on the other hand, showed a much more contained growth of 0.7% quarter-on-quarter. Thus, growth during Q3 came almost entirely from external demand, which contributed 1.8 pps to quarterly GDP growth, compared with a meagre 0.2 pp contribution from domestic demand. The figure for Q3 GDP, although positive, slightly tempers expectations of a very rapid economic revival following the somewhat gradual return to normality. It thus leads us to have to revise our outlook in order to accommodate a less vigorous recovery than originally anticipated. The need for this revision is further underscored by the uncertainties surrounding the growth forecast for Q4 2021. Thus, the impact on consumption of the sharp rally in inflation and the effect of the disruptions in global supply chains on the manufacturing sector could end up hampering the economy's performance in the closing stages of the year.

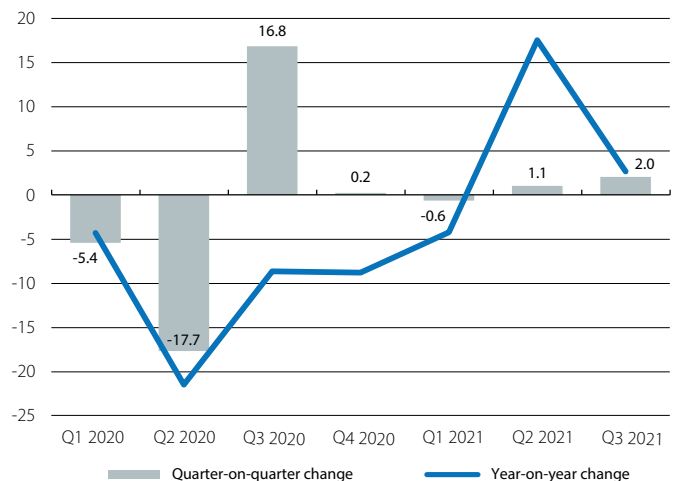
Buoyancy moderates in the early stages of Q4. In October, the manufacturing PMI fell 0.7 points to 57.4 points. Although the indicator remains well above the no-change threshold (50 points), a more detailed reading reveals a greater degree of concern among firms regarding the difficulties in dealing with the increase in demand due to the disruptions in supply chains. This concern is evident in the quarterly industrial sector survey published by the European Commission: 27% of

Spain: COVID daily infections and deaths



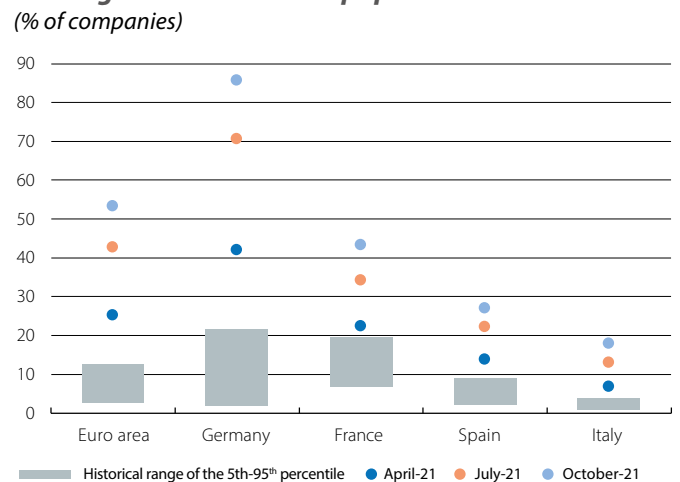
Note: The 7-day average number of infections and deaths are shown. Data by notification date. Source: CaixaBank Research, based on data from the Ministry of Health.

Spain: GDP Change (%)



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

Limiting factors in manufacturing production: shortage of material or equipment



Source: CaixaBank Research, based on data from the European Commission.

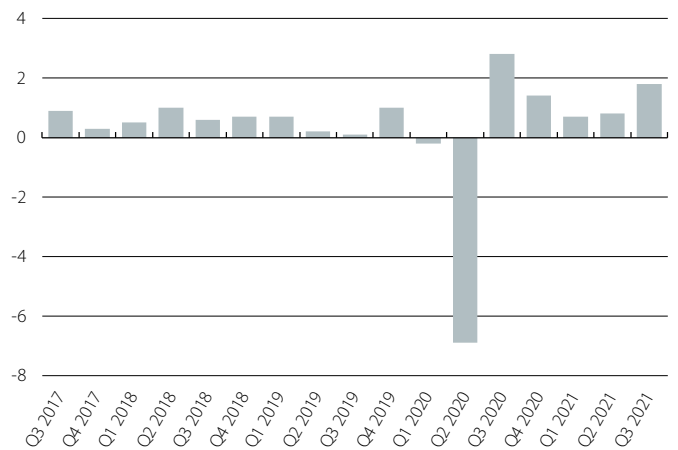
firms mentioned the shortage of materials and/or equipment as a factor limiting their production capacity. This is a high figure considering that, according to the historical data, only 2% to 7% of firms in Spain usually mention this as a limiting factor. The PMI for the services sector, meanwhile, stood at 56.6 points. This is a similar figure to the previous month (56.9 points) and suggests a high rate of expansion. However, just as in the case of manufacturing, there were also heightened concerns over rising costs resulting from the supply chain problems.

Strong recovery in employment in the summer. According to the results of the Q3 2021 Labour Force Survey, the labour market was highly buoyant during the summer, with an increase of 359,000 in the number of people in employment. This brings the total figure to over 20 million, the highest since 2008 and above the pre-pandemic level (19.97 million in Q4 2019). This is the second highest level of job creation in a third quarter, behind only last year's sharp rise following the lifting of the lockdown. Unemployment, meanwhile, fell by 127,000 people in the quarter to 3.42 million, and the unemployment rate fell to 14.6% from 15.3%, although it remains above the pre-pandemic level (13.8% in Q4 2019). Also of note was the marked increase in the labour force (+232,200), bringing the total to 23.45 million. This exceeds the pre-pandemic level (23.16 million) and could be an indication of an improved outlook for the labour market. Without this strong increase in the number of active workers, the unemployment rate would have been further reduced.

Inflation remains on the rise, driven by energy prices. The energy crisis continues to dominate inflation dynamics. In October, inflation rose to 5.5% (4.0% in September), the highest level since October 1992, and although the breakdown by component is not yet known, the National Statistics Institute points to the sharp rises in electricity and fuel prices, which contrast with the declines observed in October last year. Thus, in September, the month for which we have the breakdown by component, electricity contributed 1.6 pps to the increase in inflation, and it seems likely that this contribution will go up in October. Core inflation, meanwhile, rose by 0.4 pps to 1.4%. This is a significant increase which may be an indicator that businesses are beginning to pass the higher production costs on to consumers, after their margins have been squeezed by the rising energy prices as well as by the problems in global supply chains.

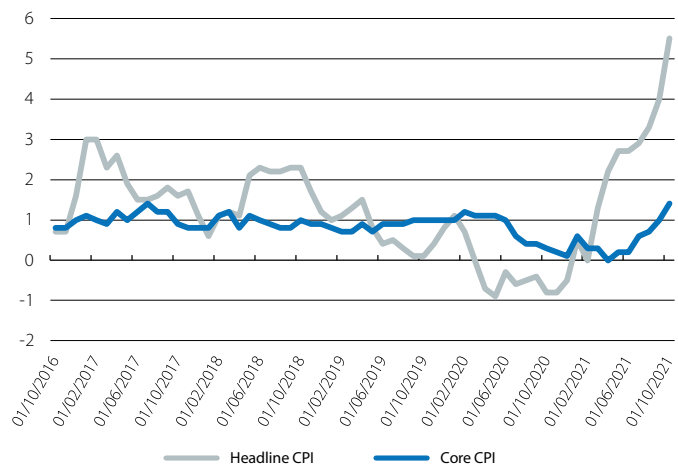
The government submits the Budget Plan to the European Commission. In terms of the public deficit, the Plan anticipates that it will stand at 5.0% in 2022, representing a reduction of 3.4 pps compared to the government's projected deficit for 2021, mainly thanks to the economic recovery. It is estimated that the consolidated public revenues of the general government as a whole will increase by 4.6% year-on-year (7.1% compared to 2019) thanks to the rise in tax collections and social security contributions. On the expenditure side, public expenditure in 2022 is expected to fall by 2.2% (the increase versus 2019 is 12.0%). Pensions will also be revalued in line with the average inflation from December 2020 to November 2021.

Spain: employment*
Quarter-on-quarter change (%)



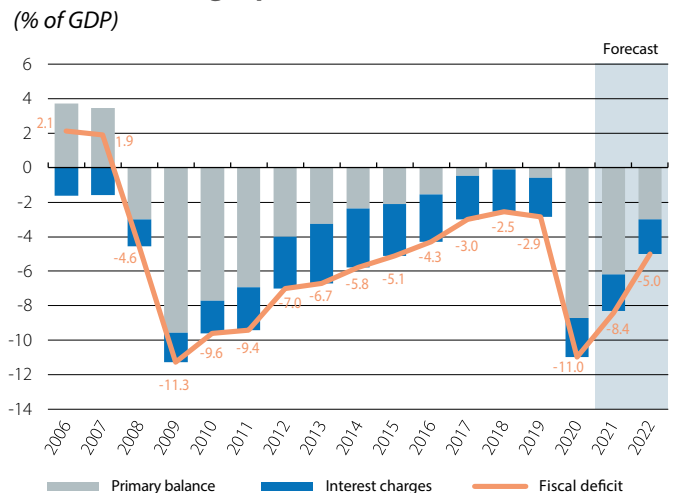
Note: * Seasonally adjusted series.
Source: CaixaBank Research, based on data from the National Statistics Institute (Labour Force Survey).

Spain: CPI
Year-on-year change (%)



Note: The latest figure refers to the flash estimate.
Source: CaixaBank Research, based on data from the National Statistics Institute.

Spain: forecast of the fiscal deficit according to the 2022 budget plan



Source: CaixaBank Research, based on data from the Ministry of Finance.