

The indicators provide a respite

The main indicators concerning the Spanish economy have improved slightly during the last month. This alleviates fears of a sharp decline in economic activity and, indeed, opens the door to the possibility of the year ending without a contraction in GDP. In addition, the good news has come in a number of areas. In any case, the pressure on economic activity, and especially on household consumption, will remain high until there is a sustained reduction in inflation. The rapid rise in interest rates by the ECB will also limit the economy's ability to recover over the next few quarters.

At the sector level, the improvement has occurred in both manufacturing and services. The composite PMI rose in November to close to 50 points, the threshold which usually separates positive growth rates from negative ones. Industrial production performed particularly well, maintaining a positive growth rate in year-on-year terms in spite of the adverse context. In the services sector, meanwhile, retail sales improved significantly, registering a positive growth rate in October and the highest year-on-year rate of change in the last five months. There were also encouraging signs in this area from consumer confidence; while still low, in October it improved for the first time in a year and a half.

However, among all the positive news, two particular developments stand out: the fall in the inflation rate and the strength of the labour market. An easing of the inflationary pressures was already expected to occur in the closing stages of the year, but the shift is proving rather more pronounced than expected, primarily thanks to the moderation in electricity prices. The recovery of renewable energy production, the reduction in the price of gas on the international markets, as well as the increased efficiency of the gas price cap (thanks to the decline in gas-fired electricity production and the increase in the number of consumers paying the compensation surcharges), have been the key elements to date. Looking ahead to the coming months, the moderation in the inflationary pressures is expected to continue, and this should facilitate the consolidation of the incipient improvement in consumer confidence, which has been severely hampered to date.

With regard to the labour market, job creation remains highly buoyant. Following the encouraging figures for November, the growth in the number of people in employment in Q4 could end up at around 0.5% quarter-on-quarter (0.7% in Q3), representing a more moderate

slowdown than had been expected. In previous episodes of economic weakness, the slowdown in employment tended to be more abrupt. Indeed, in a context like the current one, there would most likely have been some job destruction by now. However, the successive reforms of recent years, which have reduced the incidence of temporary employment and have favoured the adjustment of working hours over the course of the business cycle, could have led to a structural change in how the labour market behaves.

The impact of all this is not inconsiderable. The reduction in household incomes, in real terms, has been significant, but the way this impact has been distributed among the population is very different from previous crises. Specifically, household gross disposable income this year will likely have fallen by around 6% from the peak reached in Q3 2021. This is a significant figure. To put it in context, it represents almost half of the decline that occurred during the financial crisis, which amounted to 14.6%. However, a decade ago the bulk of the adjustment was concentrated among the portion of the population that lost their jobs. The sharp rise in the unemployment rate, which peaked above 25%, has been etched into everyone's memory. This time, in contrast, the resilience of the labour market is allowing the impact of the crisis to be transmitted more evenly among the population.

Thus, despite the current difficulties, wage income inequality has continued to decline in recent months. In October, the real-time Gini Index produced by CaixaBank Research was just 1 point below the pre-pandemic level. Even among the most vulnerable groups, such as young people or those born outside Spain, who often suffer the most in contexts like the present, inequality continues to decline, and it is also well below the levels registered in 2019.

In short, despite the uncertainty surrounding the current context and the difficulties faced by many households and businesses, the economic indicators at the close of the year offer a glimmer of hope.

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