The Spanish economy performs better than expected in the closing stages of the year

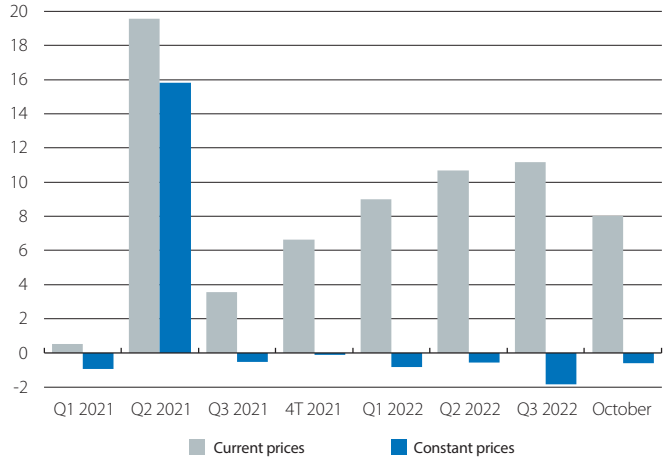
The Spanish economy continues to slow, but is holding up better than expected in the adverse context, introducing upward biases into our GDP forecast for Q4 2022 (–0.3% quarter-on-quarter vs. +0.2% in Q3). The indicators for the last quarter of the year provide mixed signals. On the one hand, there is a cooling in domestic spending, dented by the deterioration in real income, and a worsening of the Purchasing Managers' Index (PMI) in the industrial sector. On the other hand, the labour market is holding up better than expected, with job creation slightly dampened but still positive, while the tourism sector remains buoyant and is very close to recovering pre-pandemic levels, with the weakness of one of our biggest source markets – Germany – being offset by the strength of others. Another good piece of news is the containment of inflation. Thanks to the correction in electricity and gas prices, it has now registered four consecutive months of declines, placing it at 6.8% in November, the lowest rate since January.

The weakening of economic activity is less pronounced than expected. The cooling of activity is especially evident in industry, which is more susceptible to the supply shocks that have been affecting the economy, whereas services are holding up very well. In particular, the manufacturing sector's PMI, hampered by the heightened uncertainty as well as the increased energy, transport and commodity costs, remains in contractionary territory (45.7 points in November) due to a drop in production and a shrinking order book. However, the services PMI climbed back above 50 points in November, reaching 51.2 points, the highest level since July, thanks to stronger than expected demand. Household spending, meanwhile, remains very weak but is declining at a slower rate than before, and retail purchases – excluding service stations and in real terms – registered the smallest decline in five months in October (–0.6% year-on-year vs. –1.8% in Q3 2022).

The labour market remains resilient. The pattern in employment in recent months remains positive, despite the current adverse economic scenario. Social Security affiliation numbers fell very slightly in November, by just 155 workers, which represents a significant improvement compared to the usual trend in that month (an average decline of 23,200 people in the period 2014-2019). In seasonally adjusted terms, this was the biggest monthly increase in the last year (77,695), meaning that the seasonally-adjusted number of registered workers not on furlough has grown by 0.5% in Q4 so far, compared to 0.7% in Q3, marking a slower decline than we had anticipated. As for registered unemployment, the figures are once again better than expected, with a fall of 33,512 people; this is the biggest decrease in a month of November in the last decade, except for in 2021 when it was affected by the recovery of employment after the pandemic.

Spain: retail trade

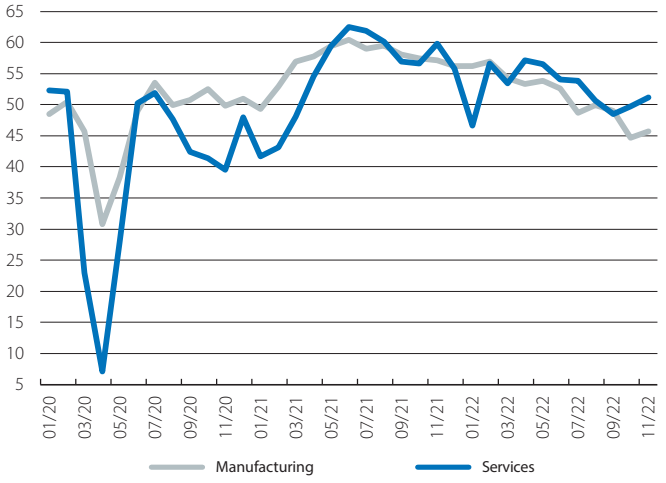
Year-on-year change (%)



Note: *Data excluding service stations, corrected for seasonal and calendar effects.*
Source: *CaixaBank Research, based on data from the National Statistics Institute.*

Spain: PMI

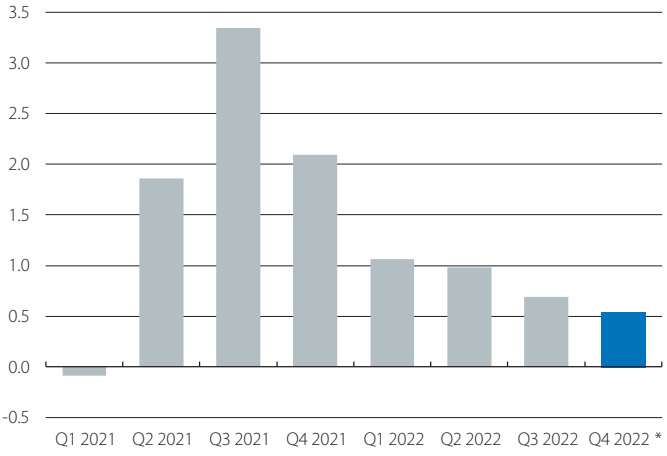
Level



Source: *CaixaBank Research, based on data from IHS Markit.*

Spain: registered workers affiliated with Social Security

Quarter-on-quarter change (%)



Notes: *Seasonally adjusted series of registered workers not on furlough. * Data for October-November.*
Source: *CaixaBank Research, based on data from the Ministry of work, migration and social security (MITRAMISS).*

Inflation continues to fall, driven by the drop in energy prices. According to the leading indicator, headline inflation moderated to 6.8% in November (7.3% in October). This was mainly due to the fall in electricity prices as the decline observed in late October continued throughout November, thanks to benchmark gas prices remaining contained, lower levels of electricity generation at gas-fired power plants and a higher number of consumers paying the surcharge to offset the gas price cap. The fall in fuel prices has also played a role in this moderation, albeit to a lesser extent, as the price of a barrel of Brent oil registered a 6.5% monthly reduction in November, bringing it to 89 euros. However, in the other components of the CPI, the increases in production costs are still being transmitted to final prices. Therefore, core inflation, which excludes energy and unprocessed foods, rose slightly in November to 6.3%.

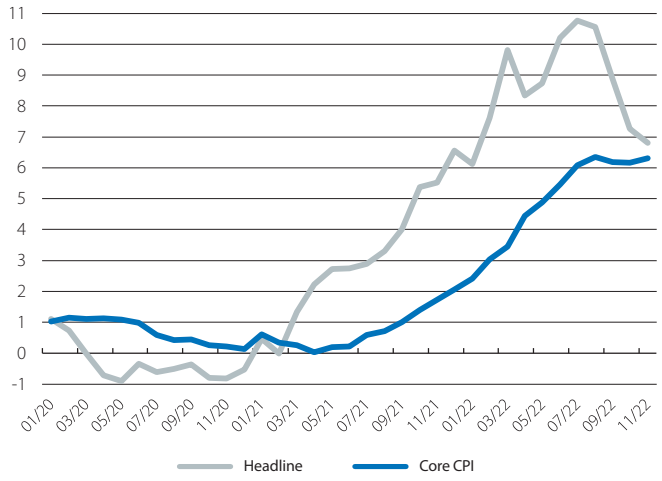
The recovery in tourism revenues is offsetting the sharp deterioration in the foreign energy deficit. Up until last September, the current account balance had a surplus of 1,376 million euros, 77.9% less than a year earlier (6,224 million). This deterioration is mainly explained by the widening of the deficit in the balance of goods, which increased to 53,437 million euros, four times higher than in the same period last year (–13,267 million). On the one hand, the energy deficit continues to rise and reached an all-time peak in the period January-September (–39,480 million vs. –18,007 million in 2021), as a result of the sharp rise in import prices (up 70.5% year-on-year). However, the balance of non-energy goods has also deteriorated, registering a deficit of 13,957 million (compared to a surplus of 4,740 million in 2021), as a result of greater import growth (27.4% vs. 19.8% in the case of exports), which was also driven by a sharp price rally (18.3%).

On the upside, and thanks to the excellent summer season, the tourism sector registered a cumulative surplus of 39,356 million euros for the first nine months of the year. The data for October remain encouraging: the number of foreign tourist arrivals is gaining momentum, approaching 7.2 million, and they spent almost 8.3 billion euros. This narrows the gap versus the levels of the same month in 2019 to 5.4% and 0.3%, respectively (–11.6% and –3.9% in September). Overnight stays in hotels by foreign tourists also improved, with the figure as of October lying 6.3% below that of October 2019 (–8.2% in the previous month).

There are growing signs of cooling in the housing market. In Q3 2022, home values based on appraisals stagnated in quarter-on-quarter terms, having registered meagre growth in the previous quarter (0.4%); in year-on-year terms, there has been a sharp slowdown over the course of 2022 to 4.7% in Q3, 2 points less than in Q1. Housing demand is also beginning to run out of steam: the number of sales rose by 6.9% year-on-year in September, compared to rates in excess of 30% in the first few months of the year; however, in cumulative terms for the last 12 months, a total of 644,000 sales have been completed, marking the highest figure since 2008.

Spain: CPI

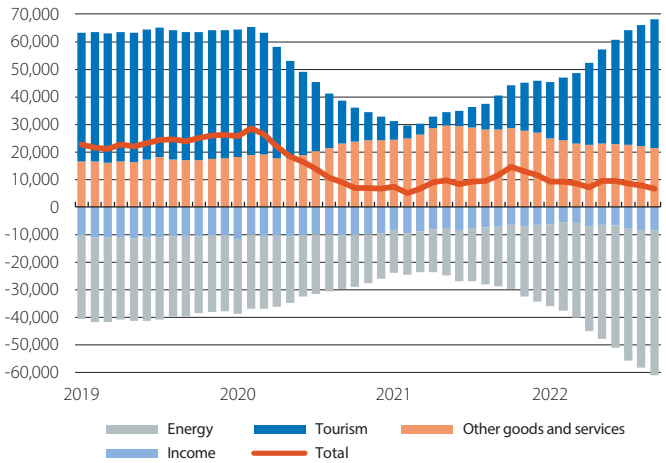
Year-on-year change (%)



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

Spain: current account balance

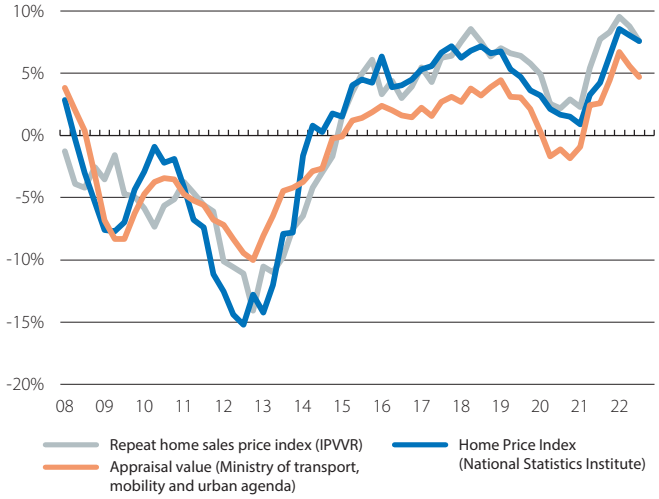
(EUR millions)



Note: *12-month cumulative figures.*
Source: *CaixaBank Research, based on data from the Bank of Spain and the Department of Customs.*

Spain: home prices

Year-on-year change (%)



Source: *CaixaBank Research, based on data from the Association of Property Registrars, the National Statistics Institute and the Ministry of transport, mobility and urban agenda.*