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Informe Economía

Economic Outlook

April 2022

Overview

- **The IMF revises global growth downward and inflation upward due to the effects of the war in Ukraine.**
- **Inflation continues to rise in the United States and Europe, reaching its highest levels in decades, although it is expected to gradually ease in the second half of the year.**
- **Oil prices in March were at their highest levels since 2012, although futures point to a gentle decrease throughout the year.**
- **In Spain, growth forecasts are revised downwards to around 4-5% for 2022, while the inflation forecast rises.**
- **GDP for Q1 could post a quarter-on-quarter increase of 1%, vs. 2% in Q4. This slower growth is due to factors such as the sixth wave, raw material supply difficulties and the effects of the outbreak of the war on prices and confidence.**
- **Inflation reached its highest rate so far this year in March, although a gradual decline is expected in the coming months, due, among other factors, to the base effect, the progressive normalization of energy costs and of supply and demand mismatches, and the change in the monetary policy stance. As a result, inflation could end the year at around 4%.**
- **The labour market is in the process of returning back to normal in 2022 and, for the time being, it has not reflected the effects of the war in Ukraine. Meanwhile, job creation slowed down in Q1 2022, with a quarter-on-quarter growth of 1.1% in terms of seasonally adjusted actual registrations with the Social Security.**
- **The public deficit falls to -6.9% of GDP in 2021, although these are still very high levels.**

The International Scenario

The effects of the war in Ukraine lead to an upward revision of inflation and a downward revision of global growth

The international scene continues to be marked by the war in Ukraine, which has exacerbated existing inflationary pressures as a result of the increase in the price of many raw materials, mainly energy, but also of metals and foods. Also noteworthy is the evolution of the pandemic in Asia, especially in China, with part of its population under lockdown. This factor is increasing bottlenecks in global production and distribution chains, which, together with rising inflation, is negatively impacting growth worldwide.

In light of this deterioration of the international outlook, the IMF has revised downward its global growth forecasts to 3.6% for both 2022 and 2023, which is 0.8 and 0.2 points lower, respectively, than the estimates it released last January. The reduction is due to the direct effects of the war in Ukraine, the sanctions on Russia and the indirect effects these will have at an international level in terms of commodity prices, world trade and financial relations. In Ukraine, beyond the lives that are being lost, the destruction of infrastructures and the flight of part of its population will lead to a -35% contraction in GDP, according to the IMF, while Russia's economy is expected to shrink by -8.5% due to the sanctions and the broken trade relations. This represents 11.3 points less than the estimations released in January. Nonetheless, the reduction in growth forecasts is widespread and affects the vast majority of countries, with the exception of some exporters of raw materials, which may benefit from the increase in raw material prices.

The effects on inflation will also be significant. Upward pressures on raw material prices and the persistence of supply-demand mismatches will account for high inflation extending over time. However, an improvement is expected from the second half of the year onwards, as mismatches are progressively corrected and supply shortages reduced, which will allow activity to gradually normalize. The disappearance of the base effect that has affected the first months of the year, coupled with the tightening of monetary policies by central banks, will also contribute to price moderation. The IMF estimates that inflation will remain high for longer than previously expected and that in 2022 it will increase by an additional 1.8 points in advanced economies and an additional 2.8 points in emerging markets.

IMF forecasts (April 2022)						
	GDP			Inflation		
(y-o-y rate)	2021	2022	2023	2021	2022	2023
World growth	6.1	3.6	3.6			
United States	5.7	3.7	2.3	4.7	7.7	2.9
Japan	1.6	2.4	2.3	-0.3	1.0	0.8
Eurozone	5.3	2.8	2.3	2.6	5.3	2.3
Germany	2.8	2.1	2.7	3.2	5.5	2.9
France	7.0	2.9	1.4	2.1	4.1	1.8
Spain	5.1	4.8	3.3	3.1	5.3	1.3
Italy	6.6	2.3	1.7	1.9	5.3	2.5
United Kingdom	7.4	3.7	1.2	2.6	7.4	5.3
China	8.1	4.4	5.1	0.9	2.1	1.8
India	8.9	8.2	6.8	5.5	6.1	4.8
Russia	4.7	-8.5	-2.3	6.7	21.3	14.3
Brazil	4.6	0.8	1.4	8.3	8.2	5.1
Mexico	4.8	2.0	2.5	5.7	6.8	3.9
Advanced economies	5.2	3.3	2.4	3.1	5.7	2.5
Emerging economies	6.8	3.8	4.4	5.9	8.7	6.5
World trade	10.1	5.0	4.4			

Source: IMF

These forecasts are subject to considerable uncertainty, linked in part to the duration of the war and the evolution of the pandemic, among other factors. Growth could suffer and inflation could rise if new vaccine-resistant variants were to emerge, which could lead to lockdowns and, in turn, limit production. The extent of the sanctions on all Russian exports could also put pressure on prices and limit global growth, with trade at risk of being fragmented into geopolitical blocs and the subsequent loss of efficiency. On the other hand, a possible increase in inflation expectations in the medium and long term could lead to a more aggressive tightening of monetary policies, which would complicate the financing of economies at a time of high global indebtedness. This situation would also increase financial volatility and make access to capital flows more difficult in many emerging countries.

The March PMIs are beginning to reflect the greater weakness of the global economy, although unevenly across regions. The Global Composite PMI fell by seven tenths vs. February, but still continues to show a clearly expanding global economy. There was some slowdown in the Eurozone, where the improvement in services, following the easing of COVID restrictions, was offset by the lower confidence of agents, who show concern over the effects of rising prices. In contrast, the United States, the United Kingdom and, most of all, Japan seem to be increasing their growth rates, with Japan returning above the 50-point level. In contrast, Russia and China's PMI indices fell sharply to 37.7 and 43.9 points respectively, both showing contraction. This is due to the effects of sanctions for the former and to the activity restraints aimed at containing COVID for the latter. Growth in China for Q1 was 4.8% year-on-year, slightly better than in Q4 2021, although below the government's target of 5.5%. However, the March PMI data and COVID restrictions suggest that activity may slow down in the coming months.

As previously mentioned, inflation is one of the deepest concerns at the moment. In March, it continued to rise and in the United States it stood at 8.5%, the highest in 40 years, while in the Eurozone it reached 7.4%, the highest rate in its historical series. However, the differences between the two regions are significant, since in Europe the increase in prices is strongly conditioned by energy, with core inflation relatively contained at 3.2%. In contrast, in the United States, price increases are more generalized, with core inflation standing at 6.5%, and showing strong wage pressures within a labour market where employment is growing at a good pace and the unemployment rate is down to 3.6%, similar to pre-pandemic levels.

Faced with this rise in inflation, the main central banks are tightening their monetary policies. The Federal Reserve raised rates in March to the 0.25% to 0.50% range and will continue to do so at its next meetings to close the year at around 2%. At its April meeting, the ECB confirmed its intention to end its bond-buying program in Q3, and its vice-president, Luis de Guindos, said that the first rate hike could take place in July, although it will depend on how the figures evolve from now until June. The Bank of England also raised rates in March, for the third consecutive time, to 0.75%.

Raw materials have seen a generalized increase in prices in March, with energy products, several minerals and metals, as well as some food products taking the lead. Brent crude oil prices averaged $122.7/barrel for the month, the highest since March 2012. April is seeing some moderation, following the announcement by the countries within the International Energy Agency (IEA) that they will be releasing part of their strategic reserves. However, production problems in Libya and OPEC+'s difficulties in meeting its production targets are keeping the price around $106/barrel. Meanwhile, futures anticipate mild price declines throughout the year.

The Spanish Economy

Overall downward revision of the growth outlook and upward revision for inflation in 2022 and 2023

The Russia-Ukraine war is generating a large-scale, multi-layered supply shock that has intensified the trends observed at the end of 2021. Thus, energy prices have continued their upward climb and the disruptions in global value chains are still ongoing. This is compounded by a significant increase in uncertainty, which is holding back consumption and investment decisions.

As a result, growth forecasts are being revised downward. In particular, in the case of Spain, the main national and international organizations set GDP growth between 4% and 5% for 2022. Thus, the IMF has revised it down by one percentage point to 4.8%. The Bank of Spain has been somewhat more pessimistic, setting growth for the year at 4.5%, similarly to AIReF (4.3%), while CEOE has revised its central scenario forecast from 5.3% to 4.7% for 2022. The downward revision for 2023 is also generalized, with GDP rates set at around 3%.

The less dynamic growth scenario is coupled with higher inflation, which is forecasted to increase by an annual average of around 2 points in 2022, but there is greater dispersion in this figure's forecasts. Specifically, the Bank of Spain estimates an average CPI rate of 7.5%, while the IMF forecasts only 5.3%. CEOE foresees a rate slightly below 7% on average for 2022. For 2023, there is more consensus, and the CPI will converge on average towards 2% (some institutions even point to rates around 1%). These differences are explained by the greater degree of uncertainty when predicting this variable, since part of the inflation is imported on the back of the rise in the prices of energy and food commodities in international markets.

Regarding other macroeconomic variables, it is worth noting the reduction of the public deficit in 2021, which stood at -6.9% of GDP, vs. -10.3% in 2020 (the latter revised downwards from -11% of GDP as a result of the reclassification of the SAREB - the Spanish asset management company whose main shareholder is the [public] Spanish Executive Resolution Authority - FROB). Nevertheless, Spain still has a large fiscal imbalance that needs to be redressed, given the high levels of structural deficit (-4.5% of GDP) and public debt (118.4% of GDP at the end of 2021). On the other hand, the Spanish economy recorded its ninth consecutive year of external financing capacity in 2021, with a ratio of 1.9% of GDP.

Demand and activity

Q1 is weighed down by the sixth wave, rising inflation, and the impact of the war

In addition to the risk factors that were already weighing on the performance of the economy in 2022, such as the increase in raw material prices, the difficulties in the supply of materials and components and the rising cost of transportation, without forgetting the fact that the COVID pandemic is not over yet, we now have to add the outbreak of the war in Ukraine at the end of February. This war not only implies a drama in terms of the cost in human lives and people displaced from their homes, but it also has a series of effects on the economy that could weigh down the growth expected in 2022 and which are already starting to reflect in forecasts and economic indicators, mainly in inflation and the current account balance. Thus, the sixth wave of the pandemic had an impact in Q1 figures and, although the evolution throughout February was very favourable, the effect of the war on expectations and prices has, once again, been weighing on the recovery since March. Nevertheless, quarter-on-quarter growth for Q1 is expected to be around 1%, vs. 2.2% in Q4.

During the first two months of 2022, consumer and industry confidence indicators showed greater optimism than in the last months of last year, as a result of the positive evolution of the pandemic. However, the increased uncertainty following the outbreak of the conflict in Ukraine has taken its toll on confidence from March onwards, with a marked deterioration in consumer, retail, and industrial indicators, although expectations in the services and construction sectors continue to improve. The services PMI, which had risen significantly in February after having fallen below 50 in January, has fallen again, although it is still set above 50. The manufacturing PMI had already been showing a gradual deterioration for months due to the previously mentioned factors limiting industrial activity, but in March it registered a notable decline, which sets it back to the levels recorded in February 2021.

During Q1 2022, household consumption has shown remarkable dynamism, although high inflation might have weighed down its advance in real terms, resulting in lower growth than in Q4. The deflated retail trade indices also recorded significant growth during the first two months in year-on-year terms but posted a slight drop with respect to the previous quarter. With regard to vehicle registrations, after starting the year with timid increases, in March they stood at 59,920 units, an all-time low for a month of March, with the exception of March 2020, representing a year-on-year decline of -30.2%.

Production difficulties due to the shortage of components, which may be further aggravated by the war in Ukraine, continue to weigh on industrial activity, especially in the production of motor vehicles. This is reflected in February's industrial production index figures for this component, posting a fall of -3.5% year-on-year. However, in general, most industrial activity branches showed an improvement in February, with the overall index rate rising by 3.9%. On the other hand, the additional increase in energy prices, which were already rising at very notable rates, is becoming so intense that it is jeopardizing the viability and continuity of some of these economic activities.

From the point of view of the foreign sector, the information available for the January-February period shows a much more dynamic evolution of the import of goods over exports in nominal terms, due to the increase in import prices. Thus, exports increased by 28.3% year-on-year (11.1% in volume) and imports by 43.5% year-on-year (16.9% in volume). The result of these flows was a trade deficit in this period of -€10.7747 billion, vs. -2.85 billion in the same period of 2021.

According to the Balance of Payments data published by the Bank of Spain, in January 2022, the current account deficit was -2.6 billion, higher than the -0.9 billion recorded in the same month of the previous year. This higher deficit was due to the deterioration in the balance of non-tourism goods and services (-3.9 billion, vs. -0.3 billion in January 2021), partly offset by the surplus in the balance of tourism services (1.9 billion, vs. 0.2 billion for the same period of the previous year).

The latest available data for the tourism sector show that, after the decline in tourist inflows in January due to the increased number of cases in the sixth wave, international tourist inflows recovered significantly in February. Specifically, it reached nearly 3.2 million tourists, which is 10 times the figure for the previous year but still -29% below the number of tourists in February 2020, before the start of the pandemic. Similarly, total spending by international tourists in February reached €3.757 billion, still 20% lower than in 2020, but reflecting an increase in average spending per tourist.

The Labour Market

The labour market continues to normalize in 2022 and job creation slows down in Q1

In Q1 2022, job creation has been less intense compared to the remarkable dynamism shown in 2021. In the first months of this year, a normalization of the labour market is taking place, with a similar behaviour to that seen in the 2014-2019 period. The results continue to be relatively favourable, with increases in employment and decreases in unemployment, but without the positive surprises seen in certain months of 2021, when Social Security registrations posted much higher increases than those recorded in the years prior to the pandemic.

Caution will be the watchword for the coming months in relation to the labour market. Despite the favourable results in March, more than three million people still remain unemployed and around 100,000 workers are still under furlough schemes (ERTE), while the pandemic is still far from over, albeit with lower incidence rates than a few months ago. In addition, the evolution of employment in 2022 will be marked by the great uncertainty and the downside risks to GDP growth, which have increased since the outbreak of the armed conflict between Russia and Ukraine. Although it is very difficult to quantify the economic impact of the war, the different international organizations are revising their growth forecasts for Spain and other countries downwards (CEOE already did so a few weeks ago), which will end up having an impact on the job creation rate.

In March, the number of people registered with the Social Security increased by 140,232 on a monthly average, a very similar figure to the average increase recorded in this month over the 2014-2019 period. Thus, it seems that employment in March was not affected by the impact of the war in Ukraine, while it seems to be returning to some normality in monthly variations after 2021, a year in which employment grew at record highs in several months. The number of Social Security registrations increased in March in both the public and private sectors, by 11,166 and 129,066 contributors, respectively.

In seasonally adjusted terms, the number of registered workers grew for the eleventh consecutive month. Specifically, in March, the number of jobs increased by 23,998, less than half the increase recorded two months earlier (almost 58,000 jobs in January). The first estimates from the Ministry of Inclusion, Social Security and Migration point to an increase in April in seasonally adjusted registrations of 36,502 workers, higher than the figure recorded in March, but continuing the trend of more modest monthly increases in employment (in corrected terms) so far in 2022, compared to the more favourable results observed in the second half of 2021.

The number of workers who are still furloughed (on the basis of the date in which they were reinstated) fell again in March, and at an even faster rate than in the three preceding months, when the number of workers under furlough was affected by the sixth COVID wave. Specifically, in March, 19,049 workers went back to work after having been furloughed, bringing the total figure to 100,043 people on a monthly average. However, it should be noted that this decrease was due to furloughs related to COVID, since the number of workers affected by non-COVID furloughs remained practically stagnant, increasing slightly by 657 people. Since April 1, the furlough scheme available to companies has changed and, according to data recently published by the Ministry of Inclusion, Social Security and Migration, in the first half of April the number of workers in ETOP-furloughs (those due to economic, technical, organizational or production reasons), which are included in those not linked to COVID, has remained stable at around 16,000 people.

The number of people registered with the Social Security increased by 3.0% in March vs. February 2020, just before the outbreak of the pandemic. Discounting the 100,043 persons who were still furloughed in March, actual registrations are 2.5% higher than pre-crisis figures, which means 484,232 more employed workers. However, the results differ for the public and private sectors. The figure for the public sector is 10.2% higher than in February 2020 (+261,050 jobs). Meanwhile, actual registrations in the private sector are 1.3% higher than pre-crisis levels (+223,182 jobs).

Registered unemployment showed a less favourable evolution in March, with a decrease of 2,921 people, a very moderate drop compared to the average for the 2014-2019 period (-44,211 people). Thus, the total number of people unemployed stands at 3,108,763. On the other hand, it should be noted that the good performance of permanent contracts continues, and they represented 30.7% of the total number of contracts signed in March, an all-time high.

The employment balance for Q1 2022 is positive, although job creation has been significantly less intense than in Q4 2021. Specifically, seasonally adjusted actual registrations with the Social Security (discounting furloughed workers) increased by 1.1% quarter-on-quarter in Q1, almost half the 2.1% increase recorded in Q4 of last year.

Inflation

March CPI stood at 9.8%, due to higher energy and food prices

In March, inflation rebounded again to 9.8%, the highest rate since May 1985. There is still a significant "base effect" component, as inflation in March 2021 was only 1.3%. This figure is likely to be the highest posting it will make this year.

Core inflation increased by four tenths, setting the year-on-year rate for March at 3.4%, more than 6 points lower than the general CPI, which reflects the effort of the productive fabric not to pass on the full increase in costs to the final prices of goods and services. Within the underlying component, Services prices increased by four tenths to 2.4% year-on-year; the prices of Industrial Goods without energy products increased by two tenths to 3.2% year-on-year; and Food with processing, beverages and tobacco grew by 0.9 points to 6.2% year-on-year, with the increase in oils and fats (32.1%) standing out.

Non-processed food prices increased by 1.7 to stand at 6.7% year-on-year. The increase in the price of lamb (10.1%), fresh and frozen fish (10.1%) or milk and eggs (11.0%) is noteworthy.

Energy product prices reached a year-on-year rate of 60.9% in March, driven by the rise in the price of energy raw materials. The positive impact that the shock plan approved last week through Royal Decree 6/2022 will have on inflation will be limited to the three months that these subsidies are meant to last. This effect will start to be felt as early as April as a result of the fuel subsidies.

During the coming months, inflation will be highly conditioned by the evolution and duration of the conflict between Russia and Ukraine and the economic sanctions imposed by the European Union on Russia, which may have significant repercussions on the price of some raw materials, such as gas, crude oil, cereals and oils, among others. However, there are also other factors that will help contain inflation, such as the base effect, the gradual normalization of energy costs and of supply and demand mismatches, as well as the tightening of the monetary policy. As a result, inflation could end the year at around 4%.

The Public Sector

The public deficit stood at -6.9% of GDP in 2021 while public debt was set at 118.4% of GDP

The public sector has corrected its deficit significantly in 2021. Thus, the deficit-to-GDP ratio stood at -6.9%, compared to -10.3% in 2020. Nevertheless, the fiscal imbalance is still substantial and must be redirected in order to reduce our high levels of public debt, which stood at 118.4% of GDP at the end of 2021, as well as our structural deficit, currently at around -4.5% of GDP, according to European Commission estimates.

When analysing the different levels of government, it should be noted that all of them have reduced their fiscal imbalance in 2021. The State is the one that concentrates the highest deficit, with a balance of -6.1% of GDP (-7.7% of GDP in 2020), followed by the Social Security (-1.0% of GDP, vs. -2.6% in the previous year). Meanwhile, the local governments have obtained a surplus similar to that of 2020 (+0.3% of GDP), while the regional administrations have managed to practically balance their accounts in 2021.

As was the case in 2021, it is worth highlighting the strength of revenues, which rose 13.2%, compared to the lower growth of payments (5%). Within the latter, it is worth mentioning the reduction in expenses linked to COVID (-18.6%). On the other hand, intermediate consumption increased by 7%, compensation of employees by 5% and public investment by 8.2%.

Another factor to be taken into account is that the 2020 public deficit has also decreased due to the SAREB (the Spanish asset management company whose main shareholder is the public Spanish Executive Resolution Authority-FROB) being re-classified inside the government sector. According to Eurostat's criteria, the deficit realized in 2020 should be recorded from the date of the entity's creation, i.e. 2012. As a result of this change in the re-classification date, the 2020 deficit has been reduced by €7.7 billion and, hence, the balance stands at -10.3% of GDP, vs. -11% of GDP which was the previous estimate.

The preliminary data for the state budget execution in national accounting terms up to February 2022 continues to point to an ongoing reduction of the public deficit with respect to 2021. Specifically, the negative balance stands at -0.87% of GDP, vs. -1.3% in the previous year. The primary deficit, discounting interest, also decreased, to -0.6% of GDP (-1.2% of GDP in the first two months of 2021). This narrower fiscal imbalance is explained by an increase in revenues of 19.6%, while expenditures decreased by 2.2%.

Forecasts

Economic forecasts for Spain (last update: April 2022)						
Annual rates of change, unless otherwise indicated						
	2018	2019	2020	2021	2022	2023
GDP	2.3	2.1	-10.8	5.1	4.7	3.9
Private consumption expenditure	1.8	0.9	-12.2	4.7	3.6	3.2
Government consumption expenditure	2.3	2.0	3.3	3.1	3.0	1.3
Gross fixed capital formation	6.3	4.5	-9.5	4.3	7.0	6.0
-Tangible fixed assets	7.5	5.8	-10.5	4.1	6.7	6.5
Construction	9.5	7.1	-9.6	-2.8	3.4	5.0
Equipment and cultivated assets	4.6	3.7	-12.1	15.7	11.0	8.4
-Intangible fixed assets	1.1	-1.5	-4.3	5.5	8.5	4.1
Domestic demand (*)	2.9	1.6	-8.6	4.7	3.8	3.4
Exports	1.7	2.5	-20.1	14.7	11.1	6.7
Imports	3.9	1.2	-15.2	13.9	8.9	5.4
External demand (*)	-0.6	0.5	-2.2	0.5	0.8	0.5
GDP current prices	3.5	3.4	-9.7	7.4	8.2	4.9
GDP deflator	1.2	1.3	1.1	2.2	3.5	1.0
CPI (average annual rate)	1.7	0.7	-0.3	3.1	6.9	1.3
CPI (Dec/Dec)	1.2	0.8	-0.5	6.5	4.2	1.2
Core CPI (average annual rate)	0.9	0.9	0.7	0.8	3.3	1.8
Employment (Quarterly National Accounts)(**)	2.2	2.6	-7.6	6.6	3.6	2.2
Employment (LFS)	2.7	2.3	-2.9	3.0	2.1	1.8
Unemployment rate (LFS) (% active population)	15.3	14.1	15.5	14.8	13.9	13.1
Productivity	0.1	-0.5	-3.5	-1.4	1.0	1.7
Compensation per employee	1.8	2.6	1.3	-0.7	2.0	1.8
Unit labour cost (ULC)	1.7	3.1	5.0	0.7	1.0	0.1
Current Account Balance (% of GDP)	1.9	2.1	0.8	0.9	0.0	0.5
General government net lending (+) / net borrowing (–) (% of GDP)	-2.5	-2.9	-10.3	-6.9	-5.2	-4.5
Interest rates USA (Dec)	2.50	1.75	0.25	0.25	2.00	2.75
Interest rates Eurozone (Dec)	0.00	0.00	0.00	0.00	0.50	1.00
Brent Oil ($)	52.1	43.3	54.3	70.9	104.3	93.9

Source: CEOE, INE (National Statistics Institute), Banco de España, Eurostat

(*) Contribution to GDP growth

(**) Full-time equivalent jobs