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Informe Economía

Economic Outlook
December 2020

Overview

- In an environment of considerable uncertainty and an uneven impact of the pandemic by region, the OECD has estimated that global GDP will decrease by -4.2% this year, followed by a rebound of comparable magnitude in 2021.

- The OECD, the Bank of Spain and the Funcas Consensus lower their 2021 expectations for the Spanish economy to 5%, according to the international organization, and to around 6.5%-6.8% in the case of the Spanish institutions. All this within a context of high uncertainty.

- In Q4 there has been a worsening of expectations from the different agents and a depletion of the demand built up during the first confinement, so some stabilization of GDP is expected.

- The evolution of activity is still very uneven across sectors, with tourism, passenger transportation and the accommodation and food service activities still being very affected.

- The recovery of the number of people registered with the Social Security in November is clouded by the increase in the number of workers affected by furlough schemes (ERTE).

- Inflation remained negative in November for the eighth consecutive month. Thus, the average inflation in 2020 will be -0.3%.

- Acute deterioration of public accounts in 2020. The public deficit up to September was set at close to -7% of GDP.

International Scenario

Uncertainty, though more moderate, still dominates an uneven recovery by region

Uncertainty about the future evolution of the pandemic and the associated restrictive measures continue to influence economic activity and its growth forecasts at a global level. While recent announcements about the effectiveness of some vaccines have somewhat reduced this uncertainty, confidence remains fragile and the momentum of the economy continues to be weak, especially in the short term, given the ongoing outbreaks of the virus, particularly in Europe. This situation has led to new containment measures that dampen activity levels. Within this context, the OECD's latest forecasts estimate that overall GDP will contract by -4.2% this year, followed by a rise of the same proportional magnitude in 2021.

Although the impact of the pandemic is broad-based, both the decline in the first half of the year and the later incipient recovery are uneven across geographic regions. Among the developed economies, the Eurozone is the most affected and has likely experienced a contraction (of -3%, according to the OECD) in the last quarter of the year, due to new restrictions caused by the second wave of the pandemic. This would lead to a decline for the Eurozone of -7.5% for the whole of 2020, much higher than the declines in Japan (-5.3%) and the United States (-3.7%). Due to the extent of the previous fall, the rebound in 2021 would be greater in the Eurozone (+3.6%) than in the United States (+3.2%) and Japan (+2.3%). On the flipside, the country that stands out is China, the only economy of all those analysed by the OECD that shows positive GDP growth (+1.8%) in 2020, followed by the strongest growth in 2021, with an 8% rate.

The possibility of having a vaccine available in the final stretch of the year or early 2021, together with the continuation of the whole array of monetary and fiscal stimuli, has resulted in a certain optimism in the financial markets, with a particularly favourable performance in November. Some stock markets registered record gains, as is the case of the IBEX 35, posting a rise of 25.2% in November. This rebound was especially sustained by cyclical stocks, which had been the most severely hit by the pandemic. As of early December, it seems that investor optimism has moderated in the midst of a somewhat volatile environment in which certain difficulties, such as the Brexit resolution, have re-emerged. This has led the main stock markets to an almost flat performance.

Central banks are still implementing a markedly expansionary monetary policy, with interest rates close to zero and liquidity injections. These actions result in sovereign bonds yields that, even for some European peripheral countries, have reached negative levels, in what are historical lows. Such is the case of Spain, which issued 10-year bonds at a negative rate for the first time.

In its last meeting on December 10, the ECB announced a new set of measures to continue fostering liquidity in the system given the expectations of a less intense recovery, with a €500 billion-extension of the debt purchase program created to mitigate the crisis (the so-called PEPP, now amounting to €1.85 trillion), which has also been extended in time until March 2022. The LTRO III program has also been rescaled, and new liquidity transactions have been announced for 2021 both within the LTRO III itself and in the PELTRO, the specific line created during the pandemic.

The green light to the European Recovery Fund, along with an agreement between the EU and the United Kingdom, are some of the other topics of interest in these last weeks of 2020. With regard to the release of European funds, Hungary and Poland finally lifted the veto on the European funds program and the EU budget. On the other hand, the negotiations on the Brexit are still at a standstill, although an extension of the negotiations has been agreed upon. Both parties will continue to try to find a compromise in the coming days. The European Commission has launched a battery of emergency measures to absorb a potential exit without agreement, in particular for sectors such as air and ground transport and the fishing industry, which could be very strongly affected.

In the first days of December, the price of Brent oil has almost reached $50/barrel, hitting its peak since March. This price surge follows the agreement reached by the OPEC+, resulting in an additional cut in the supply of crude oil over last spring´s agreed output. Specifically, given the current status of the oil market, from January onwards, the cut in production will not be 5.8 million barrels per day, as initially agreed, but 7.2 million barrels per day, increasing current production by only 500,000 barrels. In the month of December, if the average price remains at $50/barrel, it would be -27.6% lower than a year earlier in dollar terms or -32.0% in euros, smoothing out the drop experienced in previous months.

The Spanish Economy

There is still uncertainty in relation to the intensity of the recovery process in 2021

The OECD has revised downwards the growth of the Spanish economy in 2021 to 5%, a figure well below the Government's forecast (9.8%), and even more pessimistic than the conclusions of the last Funcas´s Panel published at the end of November, which cuts growth to 6.5% (from a previous 7.3%) in 2021. The Bank of Spain also points to a 6.8% growth in its central scenario (in line with CEOE's forecasts), a figure that would reach 8.6% in the most favourable scenario and would be reduced to 4.2% in the most adverse. The uncertainty associated with the intensity of the recovery for the coming year is very significant and depends on factors that are not strictly economic, such as the vaccine's efficacy and its impact on the evolution of the pandemic, as well as on other issues related to economic policies, such as the arrival and the effectiveness of European funds, the reactivation of the European economy, a Brexit deal and the implementation of a reforms process.

For the last quarter of 2020, GDP may have stabilised, given the second wave's impact on activity and employment. This wave has had a more pronounced effect on certain activities, such as tourism and restaurants as well as on trade, albeit to a lesser extent. If we factor in the slight downward revision anticipated for Q3, GDP growth for 2020 as a whole could reach -11%, in line with our forecasts.

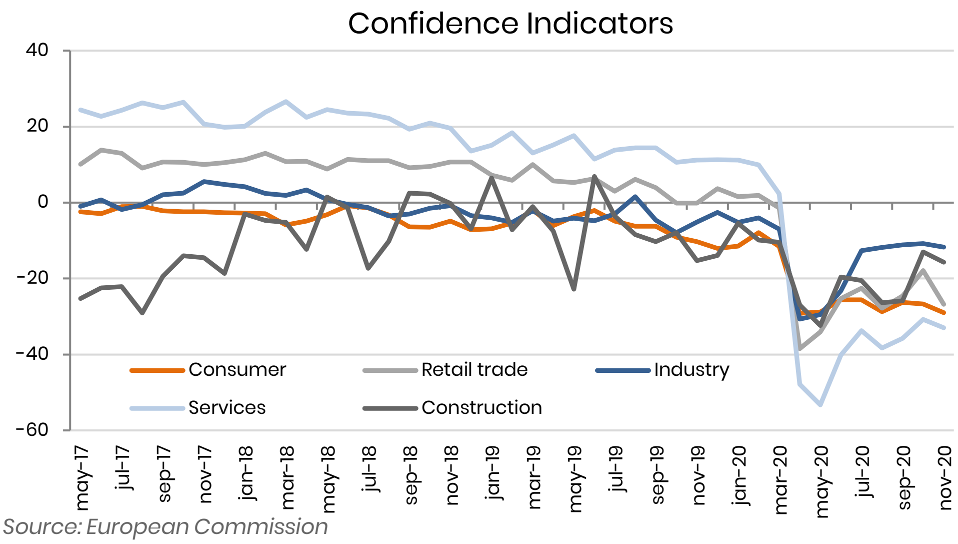
The 2020 crisis has had a very intense impact on the Spanish business sector. A recent study by the Bank of Spain, using accumulated data up to September from the Central Balance Sheet Data Office, points to a fall in GVA of -22.5% compared to the same period in 2020, while Ordinary Net Profit plummets to -71.2%. Companies have increased liquidity at the cost of higher indebtedness, which has deteriorated their financial situation. These negative results are more pronounced in SMEs and in those companies that conduct their business in the sectors most affected by the crisis.

This report also includes the assessment on the financial situation of companies, indicating that 40% of them could be under significant financial stress (compared to 13% a year ago). Additionally, another estimate has been made where two scenarios have been considered: one where the crisis does not have permanent effects on the economy and another where it does. In the first scenario, the number of insolvent companies is estimated to rise by 4 points, setting it at 15% of the total number of companies. In the second scenario, this percentage would increase to 20%.

Demand and activity

As we are about to close this 2020, we can confirm that the Covid-19 crisis has caused one of the worst recessions in the history of our country, with a drop in activity nearing -11%. However, unlike past crises, the causes were not economic and the economy's fundamentals were stronger, facts that, together with the measures implemented to protect jobs and provide liquidity to businesses, have mitigated the impact on employment and business closures.

The information available for Q4 points to a stabilization of GDP, after the notable upturn experienced in Q3. The second wave of the pandemic has led to increased restrictions on mobility and activity, which have resulted in worse expectations from businesses and families. Thus, confidence indicators began to slow down or retreat again in August. In November, the last data available, we observe a more pronounced deterioration affecting virtually all actors: consumers, retail businesses (with great intensity), but also the confidence of manufacturing or construction industries, which had been showing better performance.



Source: European Commission

In addition, there is a certain depletion of the momentum due to the demand build-up in household consumption and home sales, which saw a strong rise in the previous quarter. In this regard, the latest available data corresponding to the October retail sales index sets the year-on-year rate at -2.4%, mainly due to a drop in sales of non-food products. Car and SUV registrations also dropped sharply in November, -18.7%, although more moderately than in October (-21%), with setbacks in all distribution channels but most notably in rental companies (-35.4%) and private owners (-24.4%).

This weakening of the domestic demand can also be observed in new financing operations, which doubled their decline in October to -21.8% year-on-year (-10.9% in September), as a result of a significant drop in both of their components: -25.1% in credit granted to non-financial companies and -10.7% in credit granted to households.

The Christmas season is expected to be much more restrained than in previous years, both in terms of consumption of goods (food and gifts) as well as in services (restaurants, events, hotels, travel...), due to restrictions on mobility and the limitations on number of people allowed at gatherings.

The persistence of the pandemic and the restrictions resulting from this second wave are having an asymmetrical impact on different sectors of the economy, an effect that is becoming increasingly noticeable. Thus, while the recovery of activity is now practically complete in industry and construction, the services sector still has a long way to go and a full recovery is not even likely to be achieved by the end of 2021, particularly in the tourist sector. The inflow of tourists again intensified its decline in September and October, with German and British tourist figures dropping over 90% (-92.7% and -91% respectively) whereas French (-57.2%) and Portuguese (-74.9%) show smaller negative rates. Meanwhile, in October, tourist spending dropped by -89.7%, compared to the same period of the previous year.

Despite the deterioration in tourism revenues, the balance of payments in September 2020 recorded a net lending of 0.7 billion compared to 1.4 billion the previous year, since the worsening in the tourism and traveling item, with a balance of 0.4 billion (4.6 billion in September 2019), has been partially offset by the favourable progress of the remaining items of the current and capital balances.

The Labour Market

The recovery in the number of people registered with the Social Security continues in November, but it is offset by the increase in furlough schemes (ERTE) caused by the second wave of the Covid-19.

In the final stretch of the year, the labour market´s progress is being affected by the second wave of the pandemic and the resulting mobility restriction measures that are being adopted. The number of people registered with the Social Security continued to grow in November, although this favourable trend is clouded by the increase in the number of workers affected by furlough schemes (ERTE), thus reversing the downward trend of recent months.

In November, a traditionally negative month for employment, the number of people registered with the Social Security rose for the seventh consecutive month by 31,638 people on a monthly average, bringing the total number to over 19 million for the first time since March. Despite the recovery in employment in recent months, the current number of contributors is still far from pre-crisis levels (-228,228 people compared to February) and, in fact, only 71% of the total number of jobs lost in March and April have been recovered. Meanwhile, the year-on-year rate stood at -1.8% (-354,877 people) in November, compared to -2.3% in October and September, meaning that the gradual reduction in the year-on-year rate of decline has been resumed.

The evolution in the number of people registered with the Social Security in the public and private sectors has been very uneven during November. In the public sector, the number of contributors increased by just over 31,000 people, in contrast with an increase of 565 workers in the private sector. These figures widen the divergence observed in recent months in the evolution of employment in these sectors. Consequently, the number of people registered from the public sector accelerated its year-on-year growth rate to 6.2% in November, while in the private sector the rate of decline stood at -3.1%.

In recent months, as business activity picked up, the number of workers under furlough schemes (ERTE) decreased. However, in November, it increased by more than 80,000 people to reach 758,702 workers on a monthly average, as a result of the restrictive measures set forth during the second wave of the Covid-19 pandemic. In addition, we should emphasize that more than 40% of the total number of workers under furlough schemes (ERTE) are employees of the accommodation and food service activities. In this respect, the pandemic is having a considerable negative effect on the tourism and leisure sector, with a significant percentage of their workforce under furlough schemes (ERTE).

Inflation

Falling energy and non-processed food prices account for the continued decrease in inflation

In November, the year-on-year rate of the Consumer Price Index (CPI) remained at -0.8%, accumulating eight months of negative rates. Inflation maintains a significant rate of decline due to the fall of energy prices and the slowdown of the core rate.

Thus, core inflation continued its decelerating path and stands at 0.2%, one tenth lower than the previous month. Its components remain at very low or practically zero rates. Services' prices remain at 0.1%, industrial goods excluding energy products stabilized at 0.0%, and processed foods, drinks and tobacco dropped by two tenths year-on-year, to 0.8%.

Non-processed food prices also show a more moderate growth, reducing their rate of change by more than two percentage points to 2.0%, but they continue to be the most inflationary component of the basket, with the most significant gains recorded in fresh product, lamb and pulses and vegetables.

During November, energy prices slightly reduced their decline rate. Specifically, their year-on-year rate was set at -9.5%, compared to -11.1% in the previous month. This trend is expected to continue over the coming months due to rising oil prices. Crude oil is now close to $50/barrel following the agreement recently reached by OPEC+, resulting in an additional cut in the crude oil production over last spring´s agreed figures. During December, if oil prices stay stable, the year-on-year fall would still be -27.6%, thus the energy component would continue to exert downward pressure on inflation, albeit at a lower intensity.

In the coming months, CPI will reduce its fall and return to positive rates in early 2021, although it will be conditioned by the behaviour of oil prices and the crisis-driven lower demand for some goods and services. Overall, in 2020, the CPI average rate will be slightly negative (-0.3%) and, for 2021, inflation is expected be increase to around 1.0%.

The Public Sector

Public finances continue to show a very pronounced deterioration in 2020, with the Central Government bearing the bulk of the fiscal imbalance.

The pandemic is strongly impacting Spain's public finances in 2020. Up to September, the data points to a deficit of -6.8% of GDP for the Central Administration, Autonomous Communities and Social Security combined. The Central Government bears most of this imbalance, with -5.2% of GDP, distantly followed by the Social Security funds (-1.9% of GDP). The regional governments of the Autonomous communities show a slight surplus (0.23% of GDP), mainly due to the central government's transfers to the regions.

With advanced data up to October, the Central Government deficit stands at -5.2%. of GDP. Subtracting debt interest payments (primary deficit), the figure drops to -3.5% of GDP. This figure is explained by a -13.5% drop in revenues and a 16% increase in spending. Of the nominal increase in spending (an estimated €28.566 billion), €23.730 billion are related to the pandemic, which represents about 2.2 GDP percentage points.

Regarding revenues, up to October, there is a widespread fall across all tax categories. Looking at the taxes with highest revenue collection potential, income and wealth taxes stand out at -20.2%, with personal income tax experiencing the greatest drop at -22.6%. VAT revenues fell by -13.6% and Corporate Tax by -16.3%. This data points out the very negative impact that the slowdown in activity, demand and employment has had on public revenues.

As for spending, the increase in Central Government transfers to the Autonomous Communities and to the Social Security is noteworthy, including the transfer of 14 billion to ease the effects of the crisis on the Social Security accounts and half of the planned allocation of the COVID-19 Fund (8 billion) that is distributed among the Autonomous Communities and Local Governments. In addition to the Covid-19 Fund, the Autonomous Communities have received 675 million in transfers, and 447 million in subsidies to the National Housing Plan.

Forecasts

Economic forecasts for Spain

(last update: december 2020)

Annual rates of change, unless otherwise indicated

	2015	2016	2017	2018	2019	2020	2021
GDP	3,8	3,0	2,9	2,4	2,0	-11,5	7,0
Private consumption expenditure	2,9	2,6	3,0	1,8	1,1	-13,4	7,0
Government consumption expenditure	2,0	1,0	1,0	1,9	2,3	4,3	1,0
Gross fixed capital formation	4,9	2,4	5,9	5,3	1,8	-18,8	12,6
-Tangible fixed assets	4,8	1,7	7,0	6,2	1,7	-21,8	14,8
Construction	1,5	1,6	5,9	6,6	0,9	-21,4	12,5
Equipment and cultivated assets	9,9	2,0	8,5	5,7	3,1	-22,3	18,5
-Intangible fixed assets	5,3	5,3	1,3	1,1	2,2	-4,3	4,0
Domestic demand (*)	3,9	2,0	3,0	2,6	1,5	-10,2	6,8
Exports	4,3	5,4	5,6	2,2	2,6	-24,7	7,5
Imports	5,1	2,7	6,6	3,3	1,2	-22,2	7,0
GDP current prices	4,4	3,4	4,2	3,6	3,4	-10,5	8,0
GDP deflator	0,6	0,3	1,3	1,2	1,4	1,0	1,0
CPI (average annual rate)	-0,5	-0,2	2,0	1,7	0,7	-0,3	1,0
CPI (dec/dec)	0,0	1,6	1,1	1,2	0,8	-0,2	1,1
Core CPI (average annual rate)	0,6	0,8	1,1	0,9	0,9	0,8	0,8
Employment (Quarterly National Accounts) (**)	3,2	2,8	2,9	2,6	2,3	-7,6	3,6
Employment (LFS)	3,0	2,7	2,6	2,7	2,3	-2,9	-0,8
Unemployment rate (LFS) (% of active population)	22,1	19,6	17,2	15,3	14,1	15,8	18,2
Productivity	0,6	0,2	0,1	-0,2	-0,3	-3,9	3,4
Compensation per employee	0,6	-0,6	0,7	1,0	2,1	1,6	0,5
Unit labour cost (ULC)	-0,1	-0,8	0,6	1,2	2,4	5,4	-2,9
Current Account Balance (% of GDP)	2,0	3,2	2,7	1,9	2,0	0,5	1,0
General government net lending (+) / net borrowing (–) (% of GDP) (***)	-5,1	-4,1	-3,0	-2,5	-2,8	-11,5	-9,0
Interest rates USA (dec)	0,50	0,75	1,50	2,50	1,75	0,25	0,25
Interest rates Eurozone (dec)	0,05	0,00	0,00	0,00	0,00	0,00	0,00
Brent Oil ($)	52,1	43,3	54,3	70,9	64,8	40,9	45,3

Source: CEOE, INE, Banco de España, Eurostat

(*) Contribution to GDP growth

(**) Full-time equivalent jobs

(***) Excluding aid to the financial sector