



Quarterly report on the global and Spanish economy Q3-2017

Círculo de Empresarios
Madrid, October 2017



GLOBAL
CÍRCULO DE EMPRESARIOS

GDP growth outlook



World

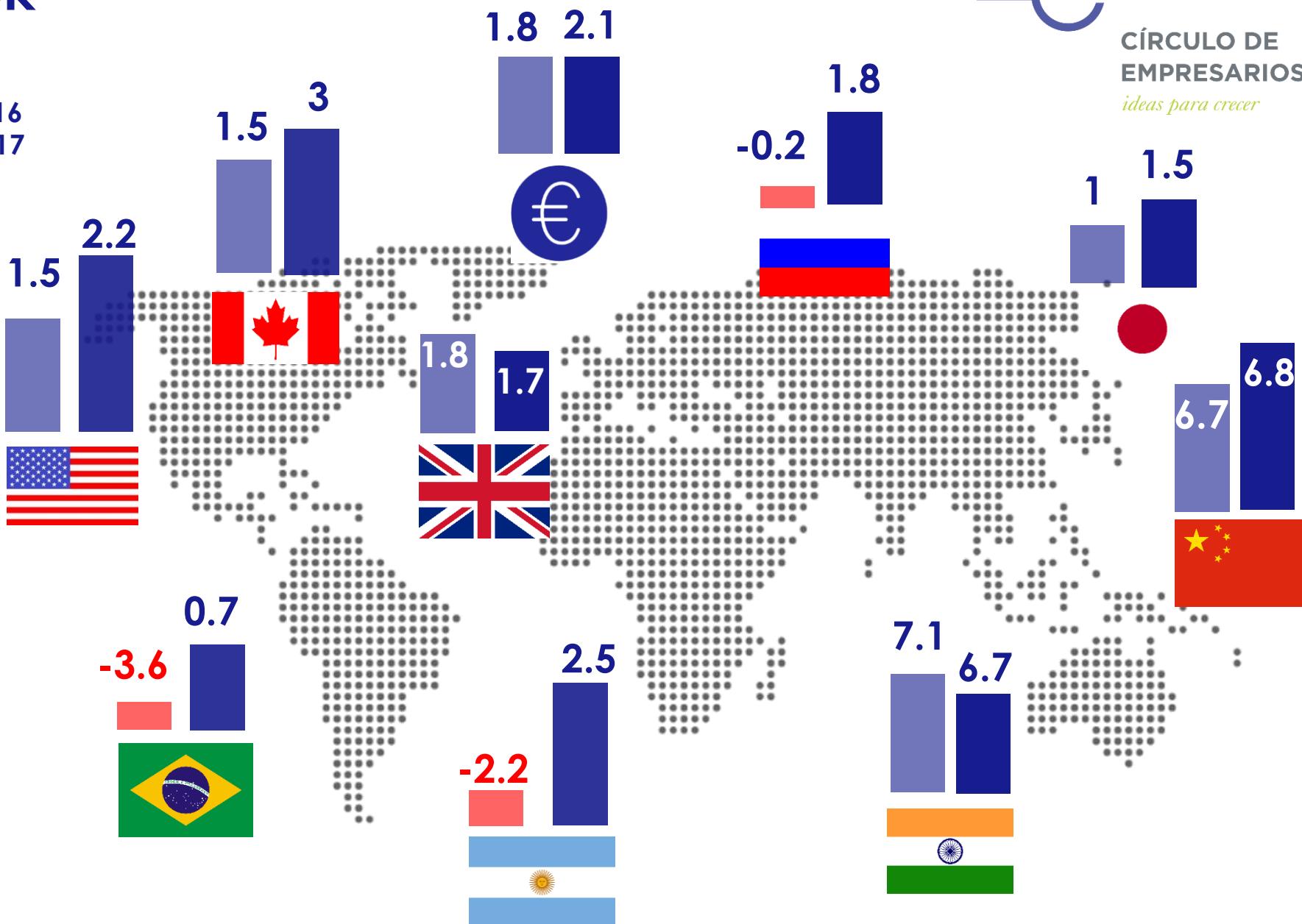
Annual
change

2016 → **3.2**

Forecast

2017 → 2018
3.6 → **3.7**

2016
2017



Geopolitical events

Geopolitical risks **dominate the actual scenario**



North Korean crisis threatens global stability



Brexit: Slower negotiations between UK and the EU



Catalonia Independence challenge



US-China trade disputes



Global strengths and weaknesses



Strengths

Pickup in global growth

**Higher political stability
in Europe**

**Upturn in trade,
investment and industrial
production**



Weaknesses

Geopolitical risks

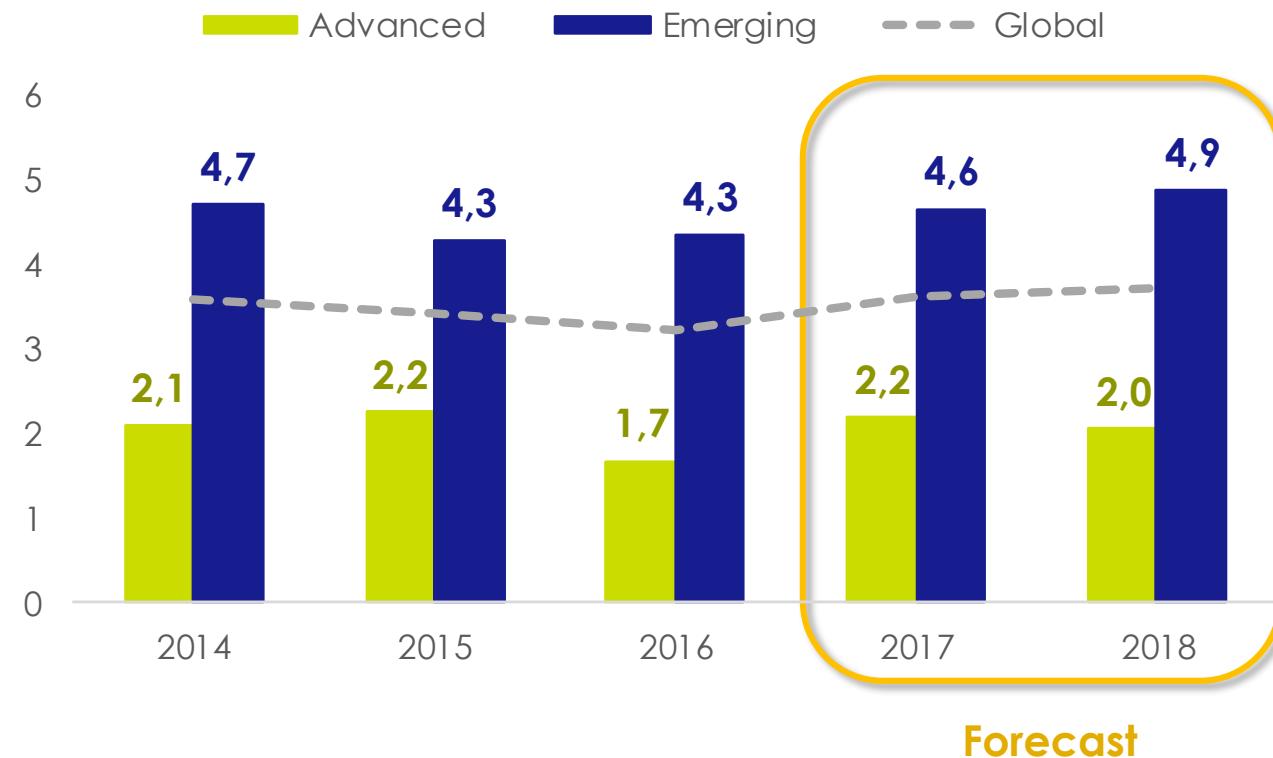
**Slower monetary policy
normalization**

Weak productivity

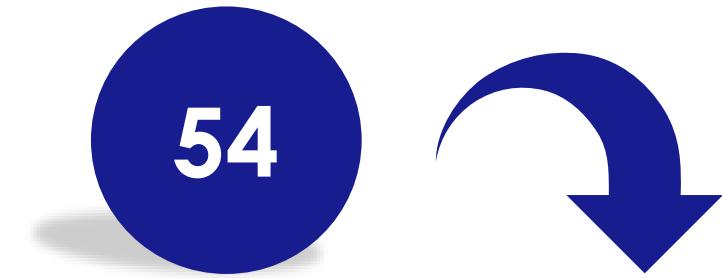
Steady GDP growth

PMI and GDP data suggests a more **synchronised growth**

Real GDP growth
%



Global PMI composite*
(September)



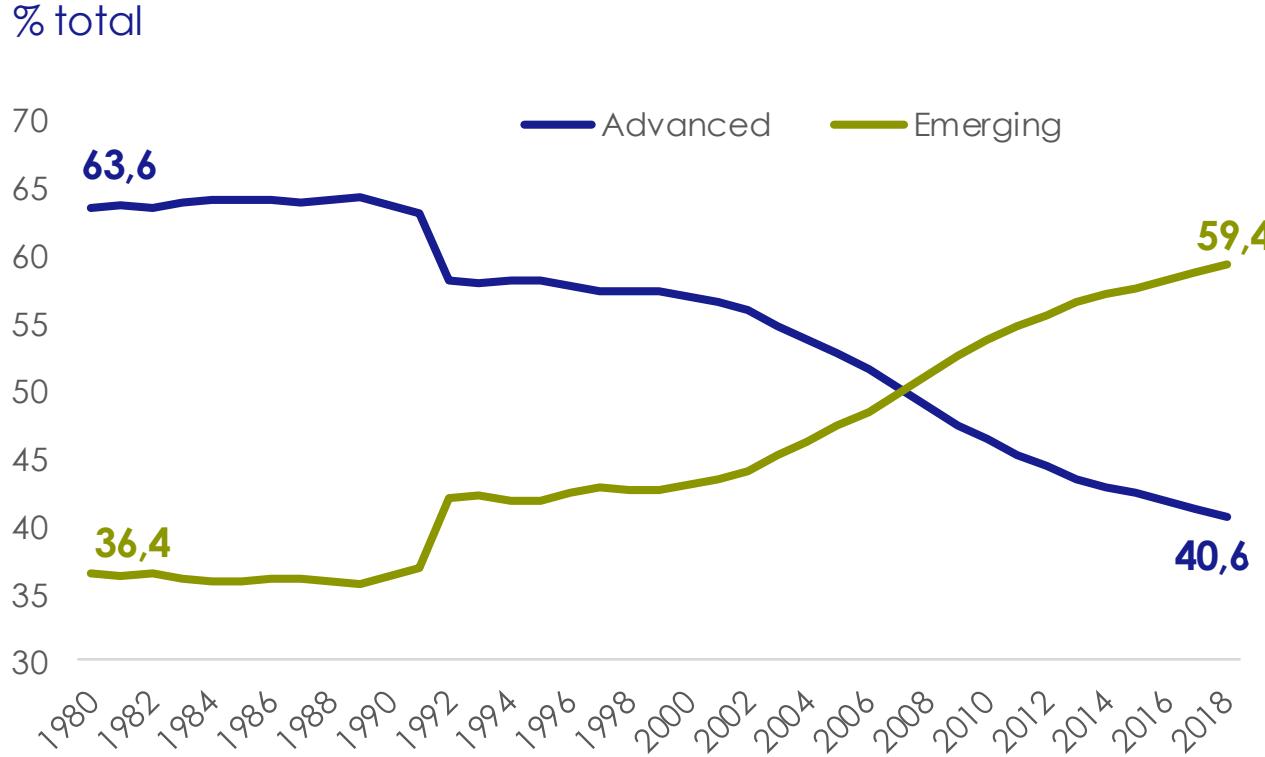
Greater than 60% of the countries presented a PMI higher than 50

*Data > 50 indicates expansion

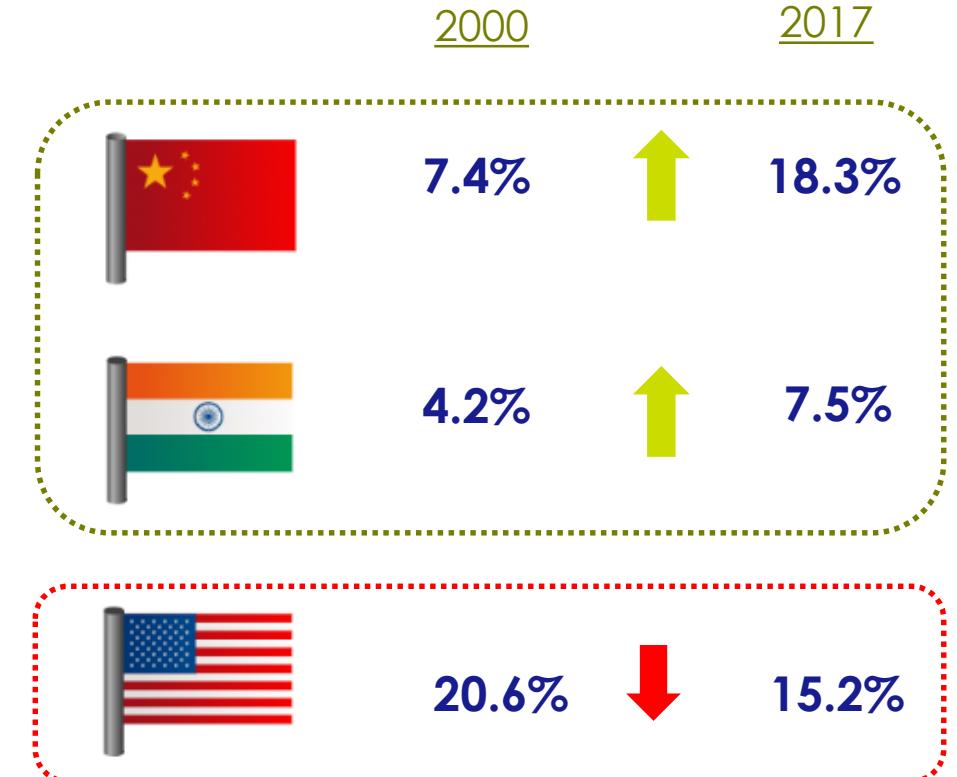
Share of world GDP

Emerging countries continue increasing its share of global GDP

Share of global GDP (PPP)



Share of global GDP (ppp)

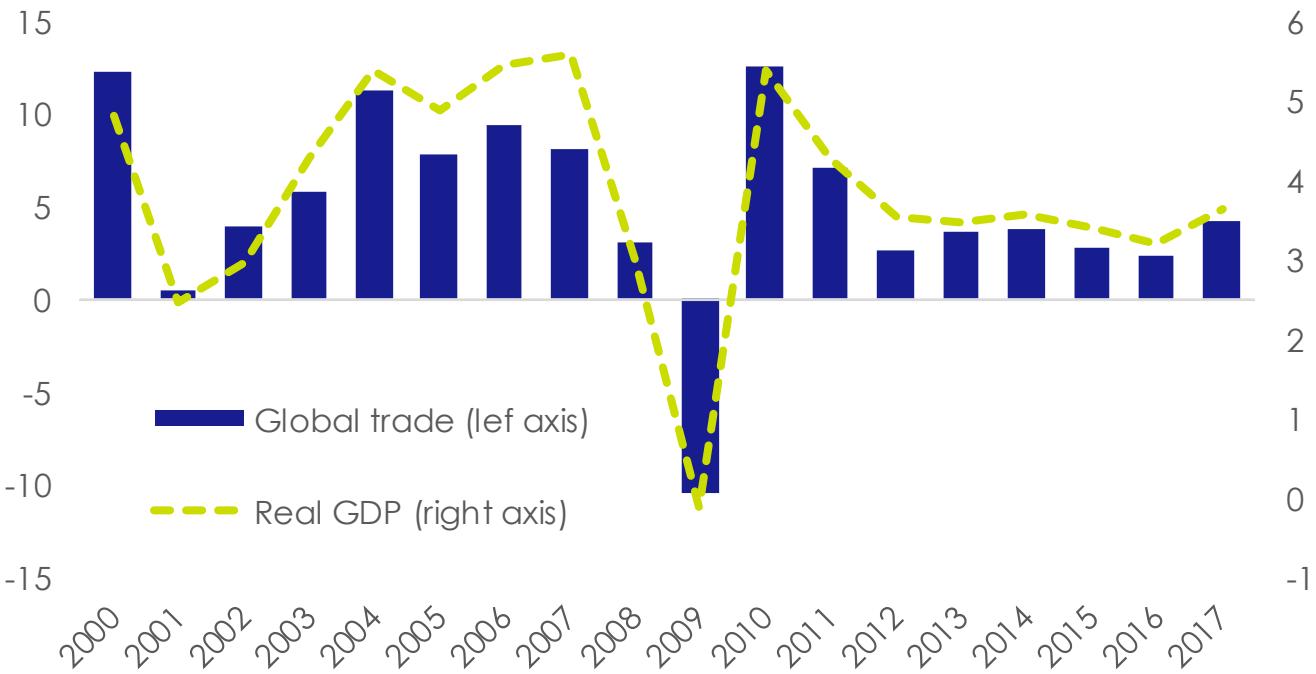


Source: Círculo de Empresarios based on IMF, 2017

World trade recovery

After 2 years of weak trade, it gains momentum

Global trade growth % annual



Global trade intensity diminished to A ratio of 1:1, but it is picking up

Global exports share

In brackets, 2015 data

1. China → **13.2** (13.8)
2. US → **9.1** (9.1)
3. Germany → **8.4** (8.1)
4. Japan → **4** (3.8)
5. Netherlands → **3.6** (3.4)
16. Spain → **1.8** (1.7)

Global inflation

Lower price pressures

January-17 February-17 March-17 April-17 May-17 June-17 July-17 August-17

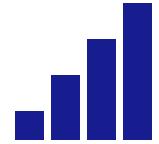
Global	2,3	2,1	1,9	2	1,8	1,7	1,7	1,9
Advanced	2	2,1	1,8	1,9	1,6	1,4	1,6	1,7
Emerging	3,2	2,4	2,5	2,6	2,6	2,5	2,4	2,7
US	2,5	2,7	2,4	2,2	1,9	1,6	1,7	1,9
Canada	2,1	2	1,6	1,6	1,3	1	1,2	1,4
Japan	0,5	0,2	0,2	0,4	0,4	0,3	0,5	0,5
UK	1,8	2,3	2,3	2,7	2,9	2,6	2,6	2,9
Spain	2,9	3	2,1	2,6	2	1,6	1,7	2
Germany	1,9	2,2	1,5	2	1,4	1,5	1,5	1,8
Eurozone	1,8	2	1,5	1,9	1,4	1,3	1,3	1,5
France	1,6	1,4	1,4	1,4	0,9	0,8	0,8	1
China	2,5	0,8	0,8	1,2	1,5	1,5	1,4	1,8
India	3,2	3,7	3,9	3	2,2	1,5	2,4	3,4
Mexico	4,7	4,9	5,4	5,8	6,2	6,3	6,4	6,7

Source: Círculo de Empresarios based on JP Morgan, 2017

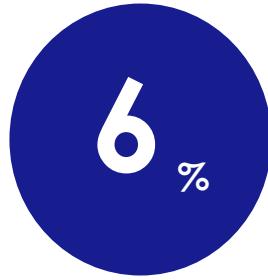
China's growth surprised to the upside (I)

After growing 6.7% in 2016, China's forecasts has been revised up

China's GDP forecasts for 2017



January 2016 IMF outlook



January 2017 IMF outlook



October 2017 IMF outlook



Note: In 2016 (in current prices), China's GDP size was the equivalent of 12 emerging countries: India, Brazil, Russia, Mexico, Indonesia, Turkey, Saudi Arabia, Argentina, Poland, Iran, Thailand and Nigeria

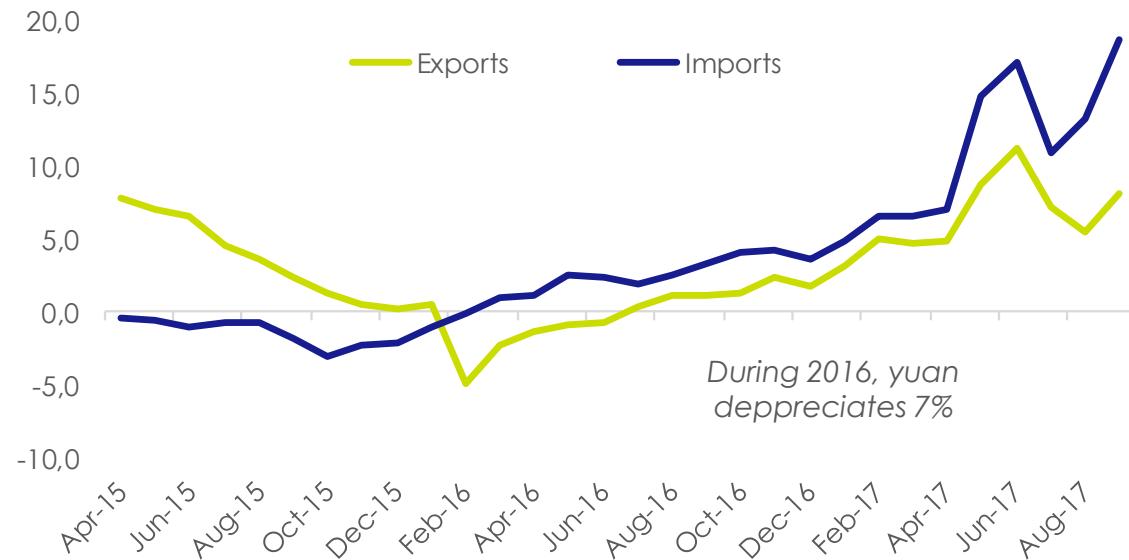
Source: Círculo de Empresarios based on IMF and BlackRock, 2017

China's growth surprised to the upside (II)

The external sector shows national and international demand recovery while
capital outflows stabilized

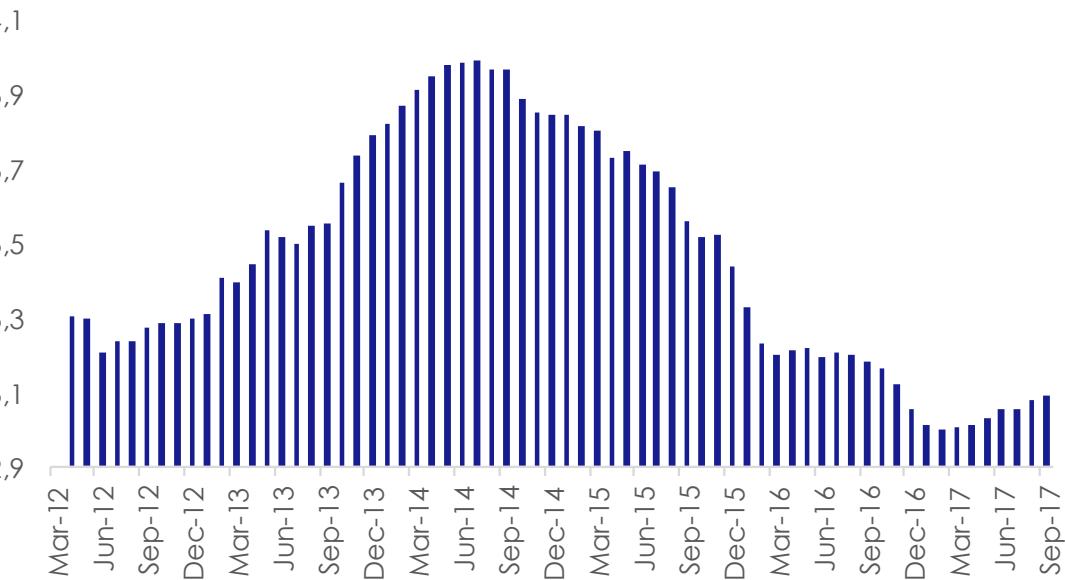
China's external sector

% annual change



China's currency reserves

Trillion \$



Note: According to Pimco, during the first 3 quarters of 2017, emerging Asia has received inflows of approximately 90 billion \$ (specially fixed-income)

Source: Círculo de Empresarios based on Reuters and Safe, 2017

... Although still faces challenges (III)



China's risks

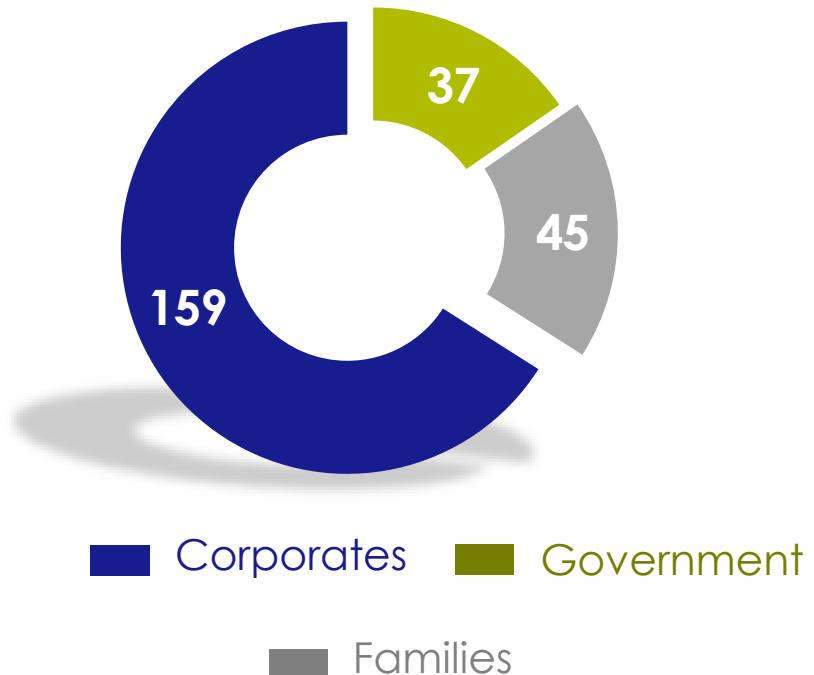
Corporate debt: 159% of GDP

Economic transition

North Korea tensions

US trade policy

Chinese debt composition
% GDP



Source: Círculo de Empresarios based on Pimco, Conference Board and Bloomberg, 2017

Africa: population (I)

Africa will represent approximately **50% of global population growth** between 2017-2030

2017



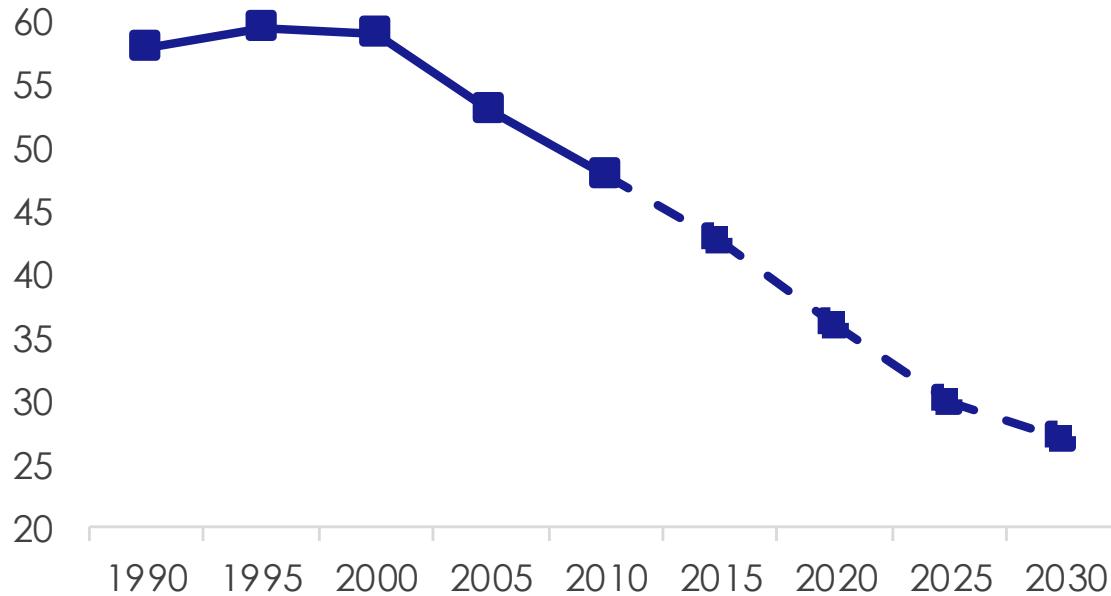
Population (million)	2017	2030
World	7,55	8,55
Africa	1,26	1,70
Asia	4,50	4,95
Europe	742	739
Latam and Caribbean	646	718
North America	361	395
Oceania	41	48

2017-2030: +448 million

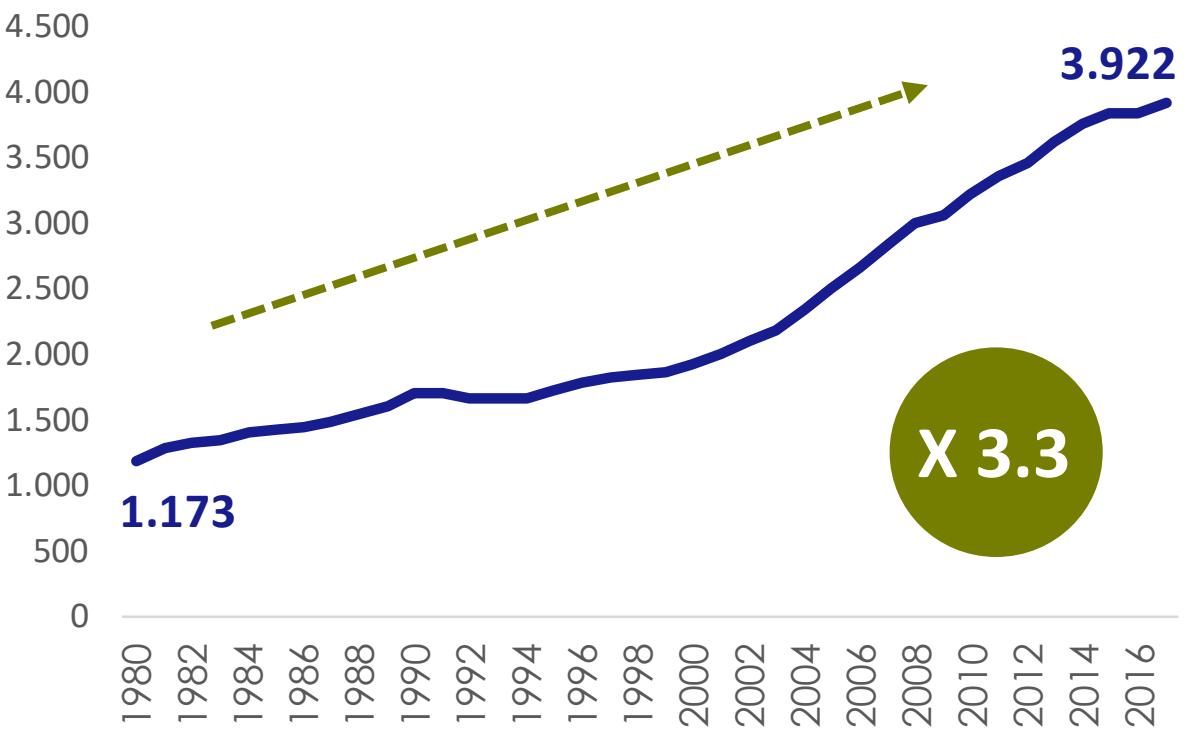
Africa: poverty and economy (II)

Poverty in Africa **has decreased since 90th century**, although it remains at high levels

Share of african population living with an income < 1.25\$



Sub-Saharan Africa GDP per capita \$ PPP



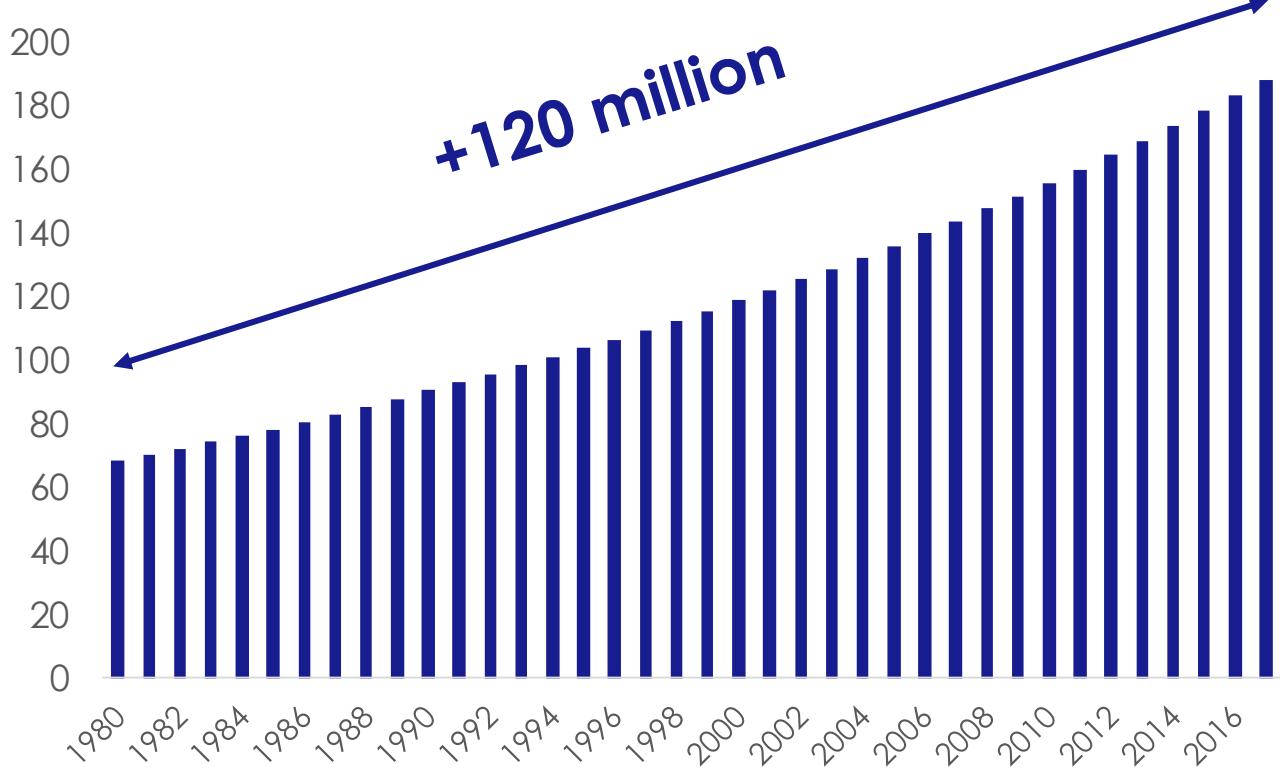
Nigeria: society (I)

- 41% illiteracy
- IDH: 0.527 (0.884 Spain)
- 2017 population : 191 million
- Most african country populated and the 7th in global terms*



1	China	1,409.51	11	Japan	127.484
2	India	1,339.18	12	Ethiopia	104.957
3	US	324.459	13	Philippines	104.918
4	Indonesia	263.991	14	Egypt	97.553
5	Brazil	209.288	15	Vietnam	95.541
6	Pakistan	197.016	16	Germany	82.114
7	Nigeria	190.886	17	Congo	81.34
8	Bangladesh	164.67	18	Iran	81.163
9	Russia	143.99	19	Turkey	80.745
10	Mexico	129.163	20	Thailand	69.038

Nigeria population
Million

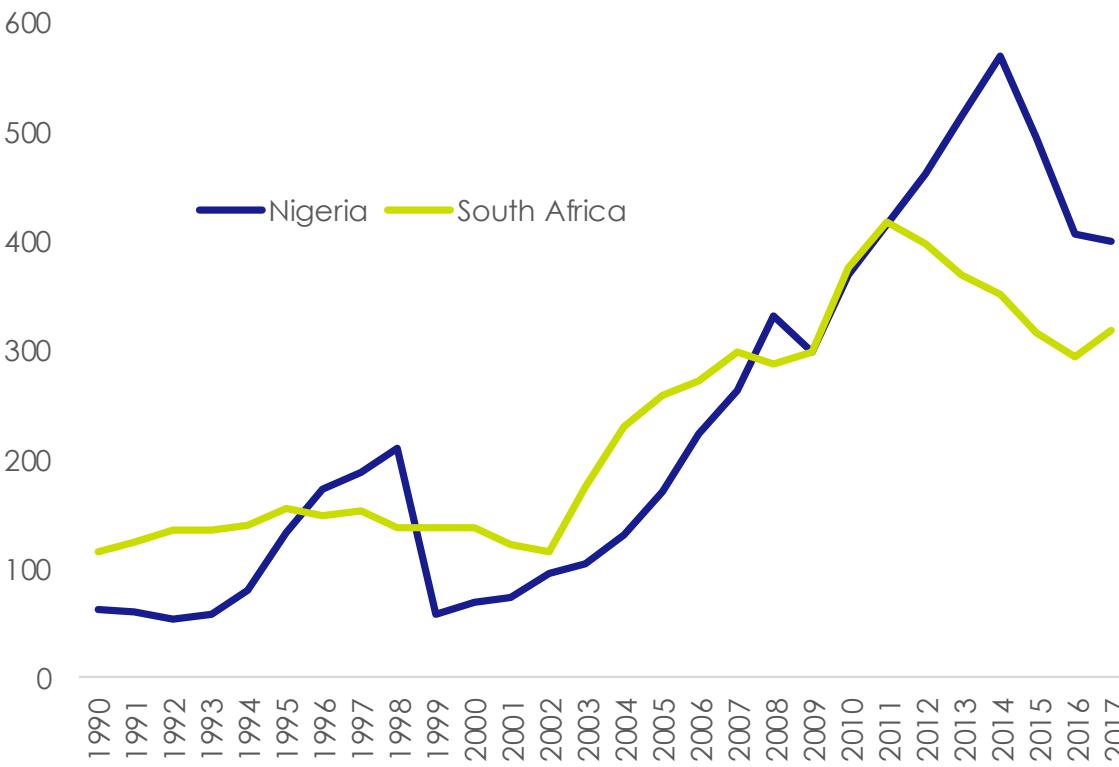


Source: Círculo de Empresarios based on Worldometers, United Nations, 2017

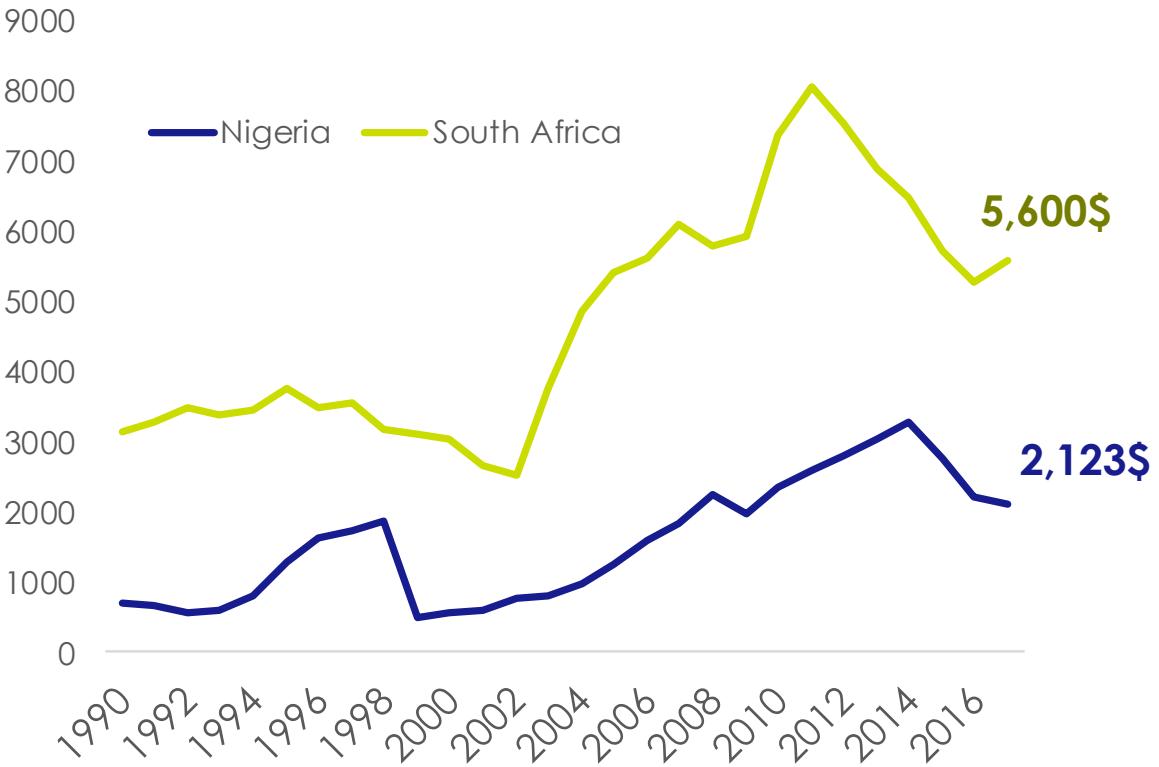
Nigeria: economy (II)

Biggest african economy and the **23rd** of the world. Pwc estimates that Nigeria will stand in the 16th position by 2030

Nominal GDP (current billion \$)



Nominal GDP per capita (current \$)



Source: Círculo de Empresarios based on IMF, 2017

Nigeria: economy (III)

High oil dependence



- 40% of nominal GDP
- Energy products account 90% of total exports
- 76% of total public income
- Biggest oil producer in Africa
- World's 10th largest country by proven oil reserves

Million barrels

1	Venezuela	300
2	Saudi Arabia	269
3	Canada	171
4	Iran	157
5	Iraq	143
6	Kuwait	104
7	UAE	98
8	Russia	80
9	Lybia	48
10	Nigeria	37



Source: Círculo de Empresarios based on CIA. PWC. 2017



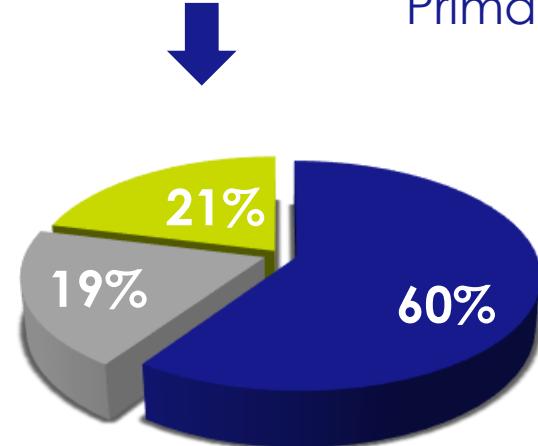
Urbanization increases at an annual pace of 3.5%

GDP composition

Services: **60% del PIB**

Industry: **19% del PIB**

Primary: **21% del PIB**



Employment composition

Primary: **70%**

Services: **20%**

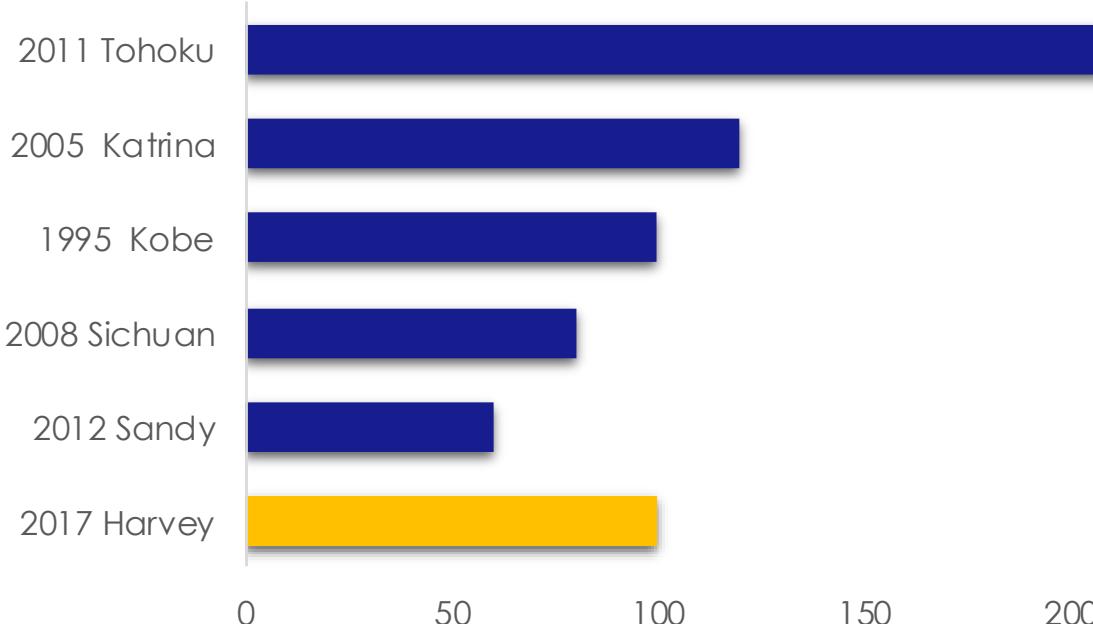
Industry: **10%**

US: hurricane costs (I)

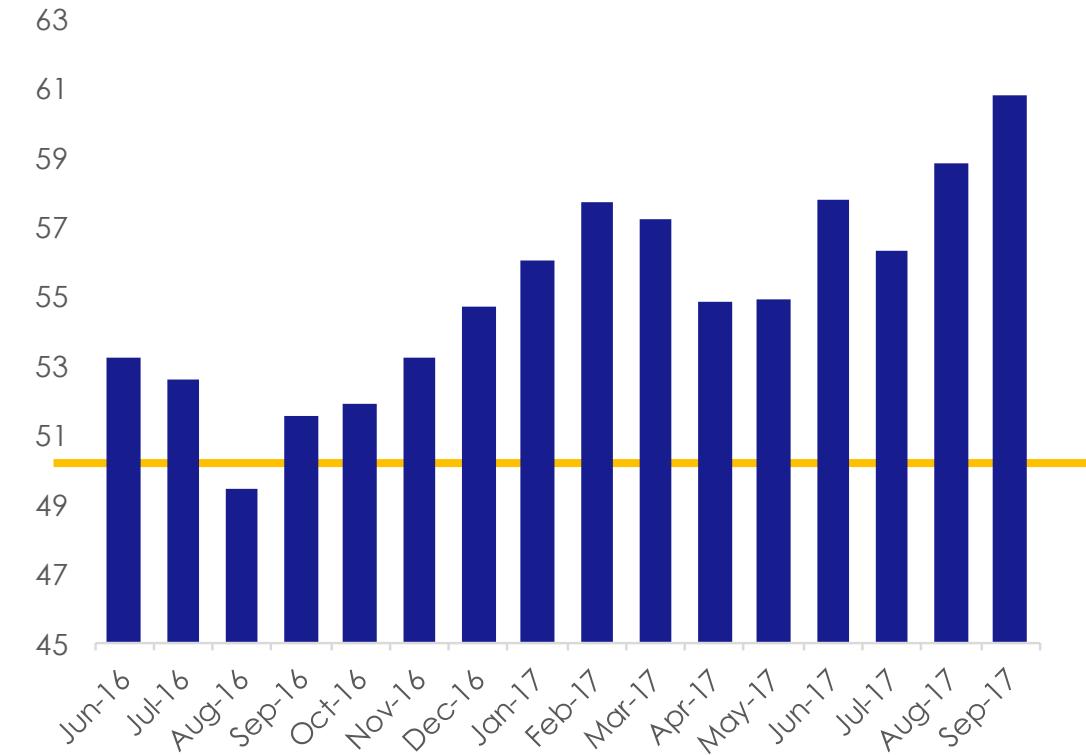
Slightly short term economic impact, but confidence remains solid

Estimate economic losses

Billion \$



US Manufacturing ISM

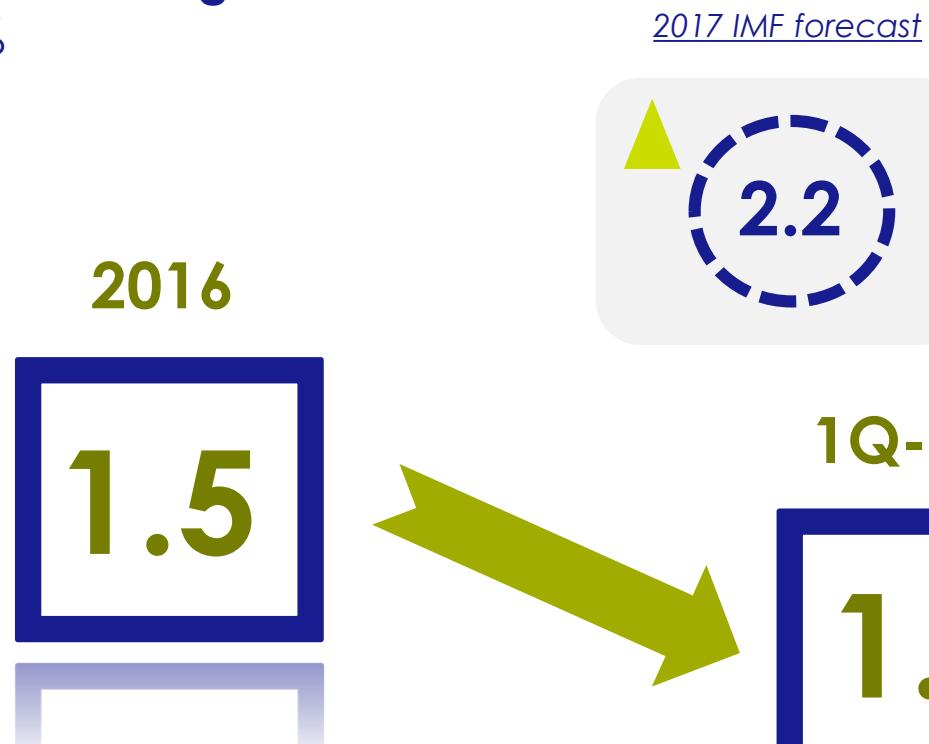


Source: Círculo de Empresarios based on ISM and FT, 2017

US: economic growth upturn (II)

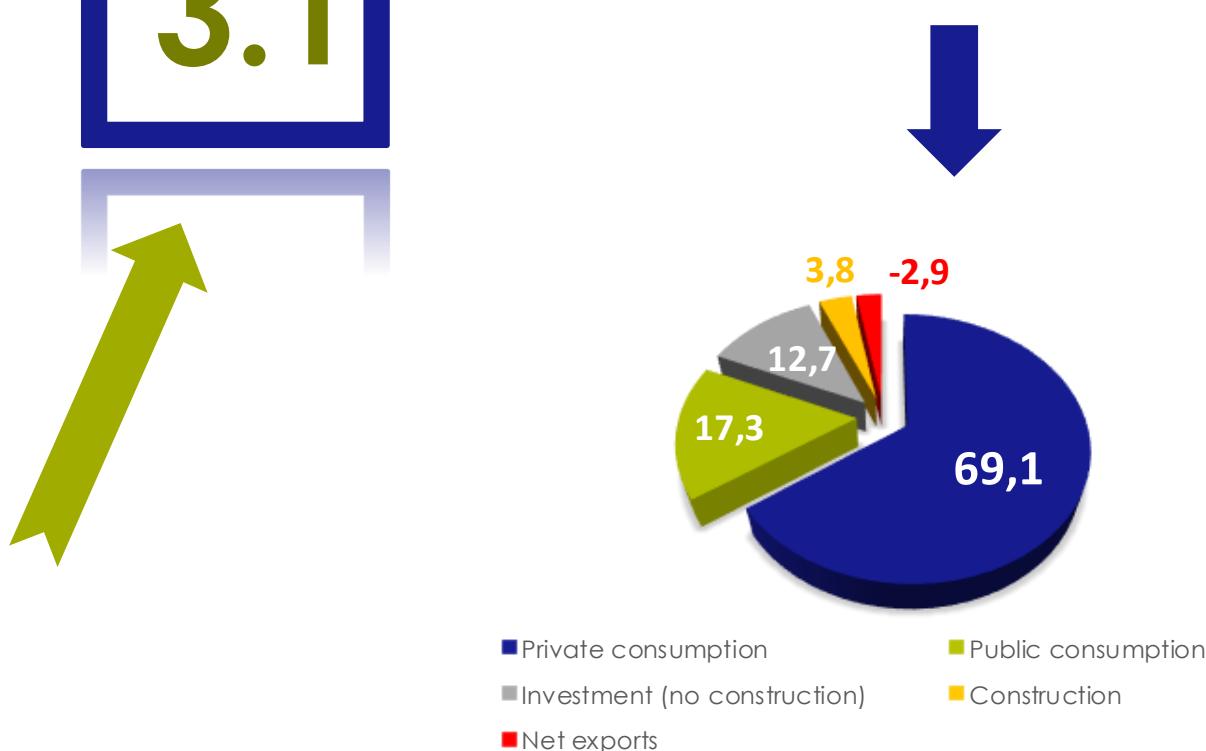
8 consecutive years of economic growth (3rd largest expansionary period)

Real GDP growth
%



2Q- 2017

GDP composition
2Q- 2017. Nominal Tn \$

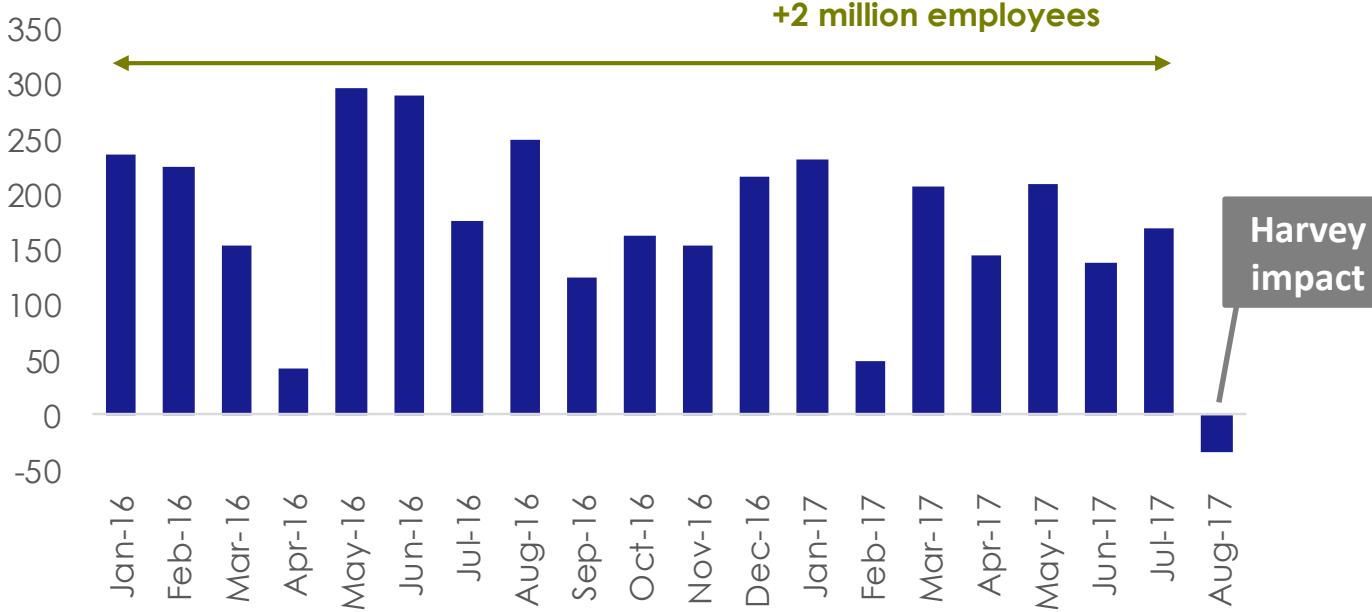


US: strengthening of the labour market (III)

Nominal **wages** rose 2.5%

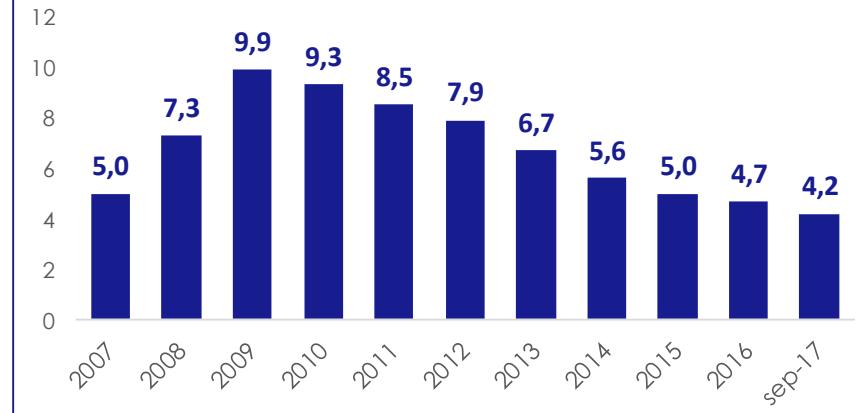
US net employment creation

Thousands



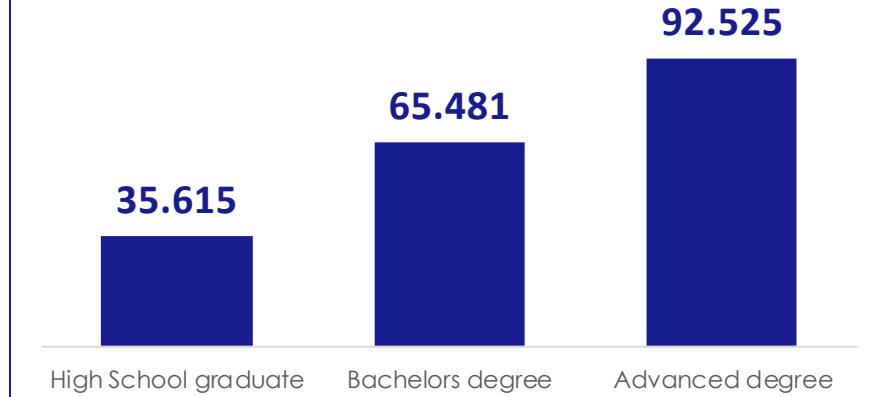
US unemployment rate

% labour force



Average annual earnings by formation

\$



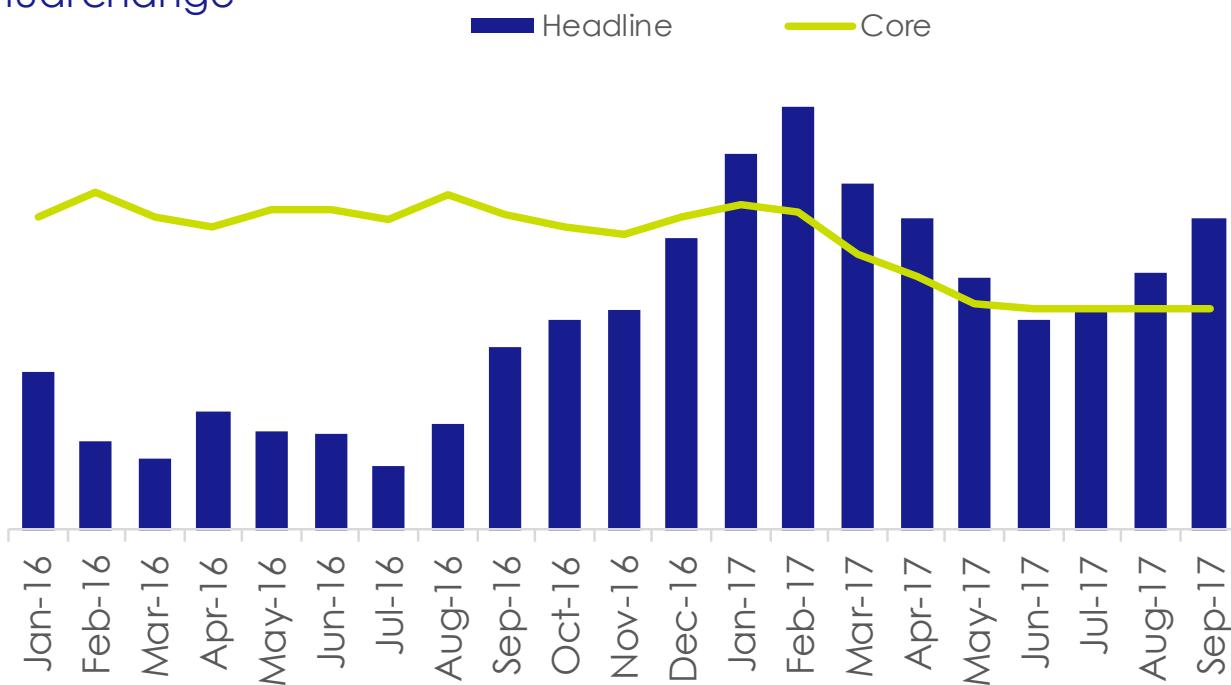
Source: Círculo de Empresarios based on BLS and JP Morgan, 2017

US: core inflation stabilized (IV)

Core inflation remains steady although headline index increases due to higher fuel prices (75% of growth)

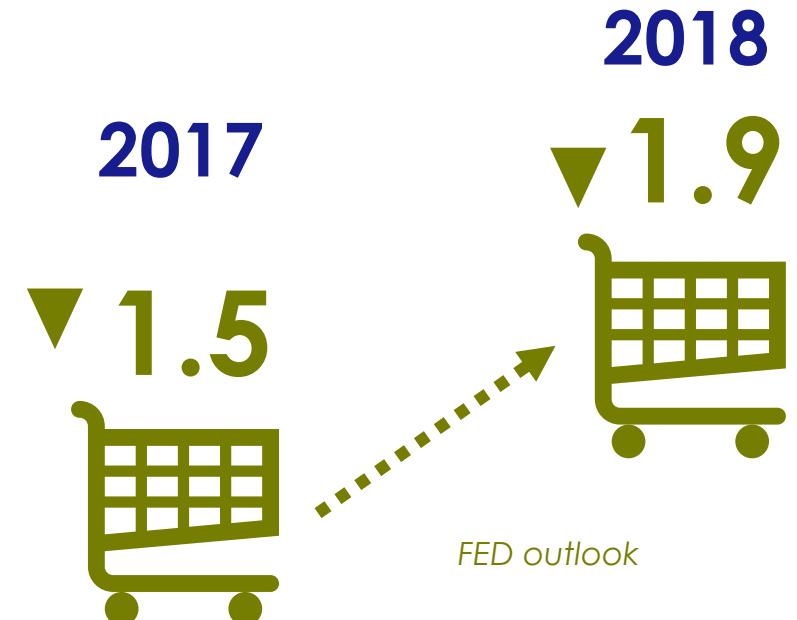
US inflation rate

Annual change



Core inflation forecasts

Annual change, %



Source: Círculo de Empresarios based on BLS and Federal Reserve, 2017

US: the Fed begin to reduce its balance sheet (V)

Market perceives 80% probabilities of an interest **rate hike in December**

Federal funds rate

%

7

6

5

4

3

2

1

0

Jul-00

May-01

Mar-02

Jan-03

Nov-03

Sep-04

Jul-05

May-06

Mar-07

Jan-08

Nov-08

Jul-10

May-11

Mar-12

Jan-13

Nov-13

Sep-14

Jul-15

May-16

Mar-17



Fed dot plot

%

2,25

2

1,75

1,5

1,25

1

0,75

0,5

0,25

0

June 2017

September 2017

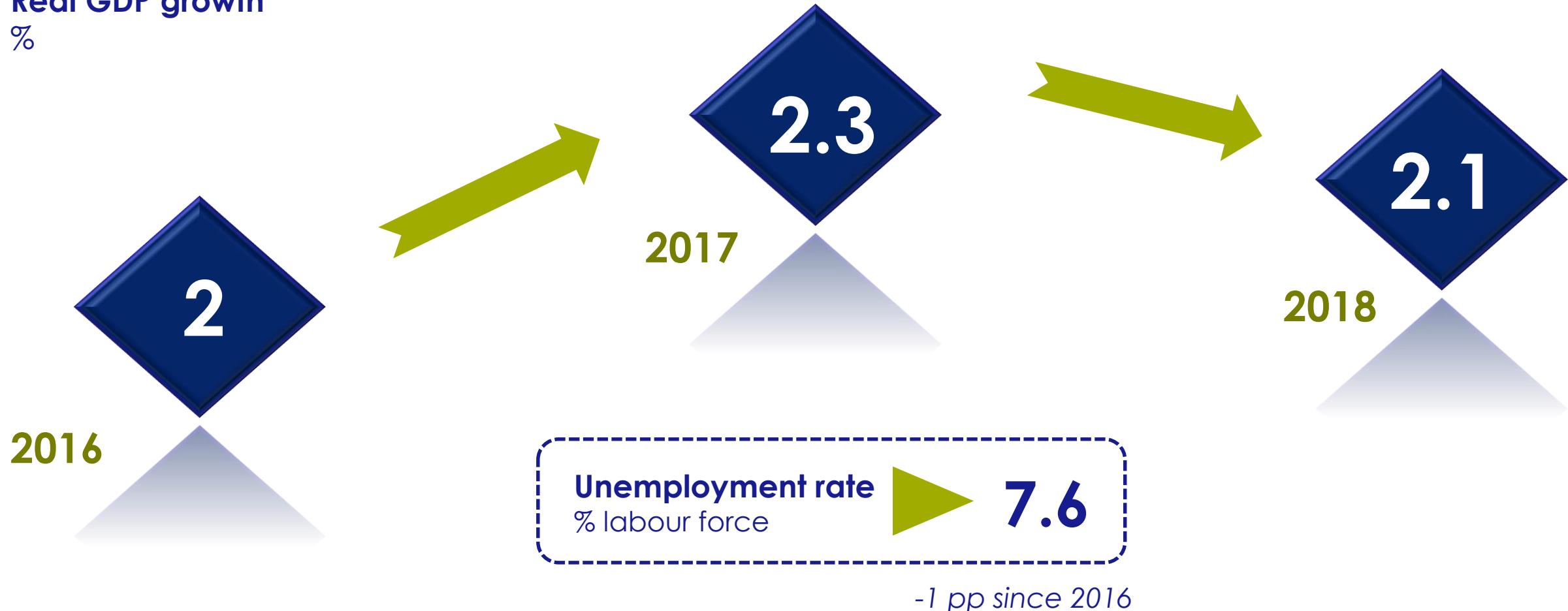
Source: Círculo de Empresarios based on Federal Reserve, 2017

EU: solid recovery and economic dynamism (I)

National demand supports economic growth

Real GDP growth

%



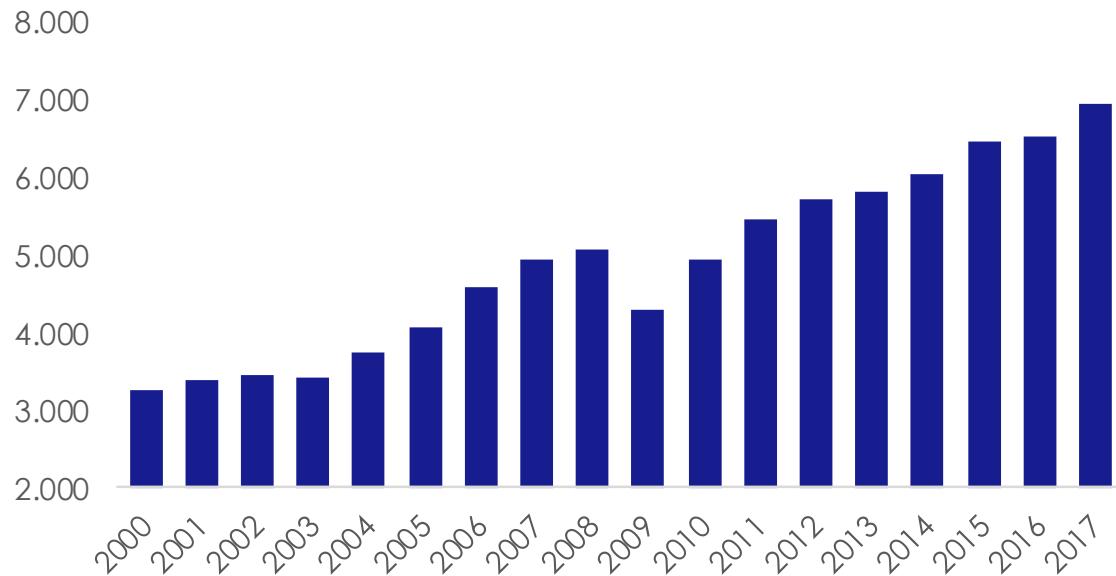
Source: Círculo de Empresarios based on IMF and Eurostat, 2017

EU: external sector success (II)

Exports momentum continue improving the external balance

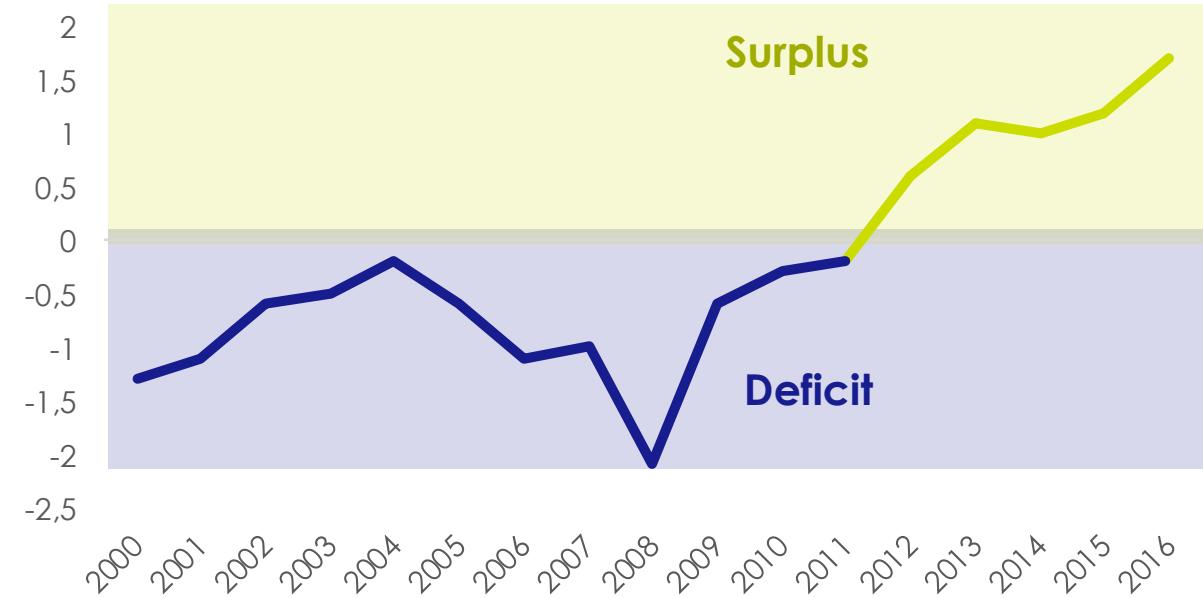
EU goods and services exports

Billion €



EU current account balance

% GDP

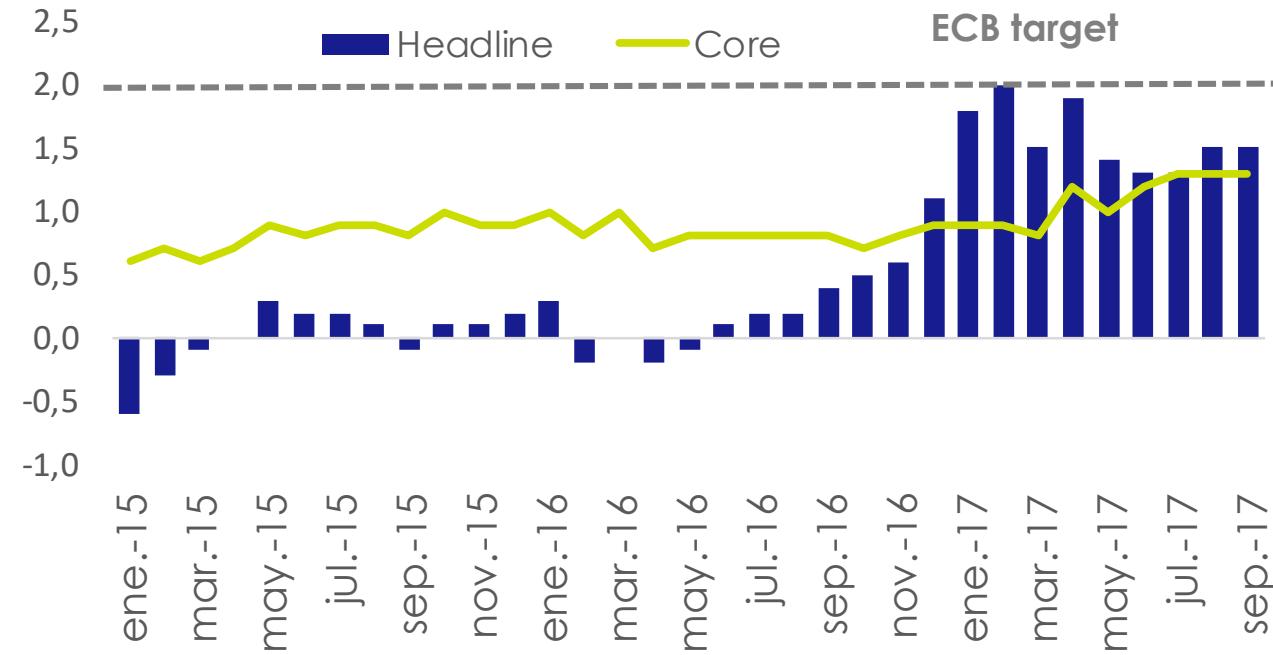


Eurozone: prices

Inflation remains steady, below the ECB target and is expected to have a V-shaped path in the next years

HICP* 2015-16

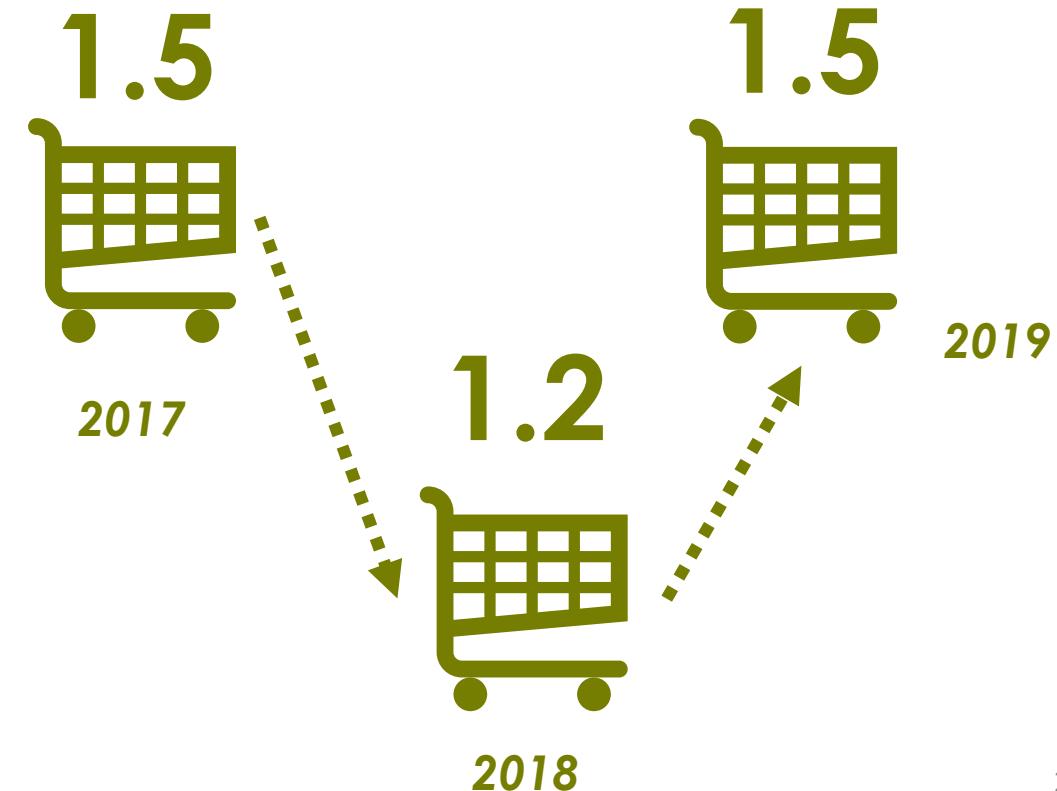
Annual change



Source: Círculo de Empresarios based on Eurostat and ECB, 2017

Eurozone inflation forecast

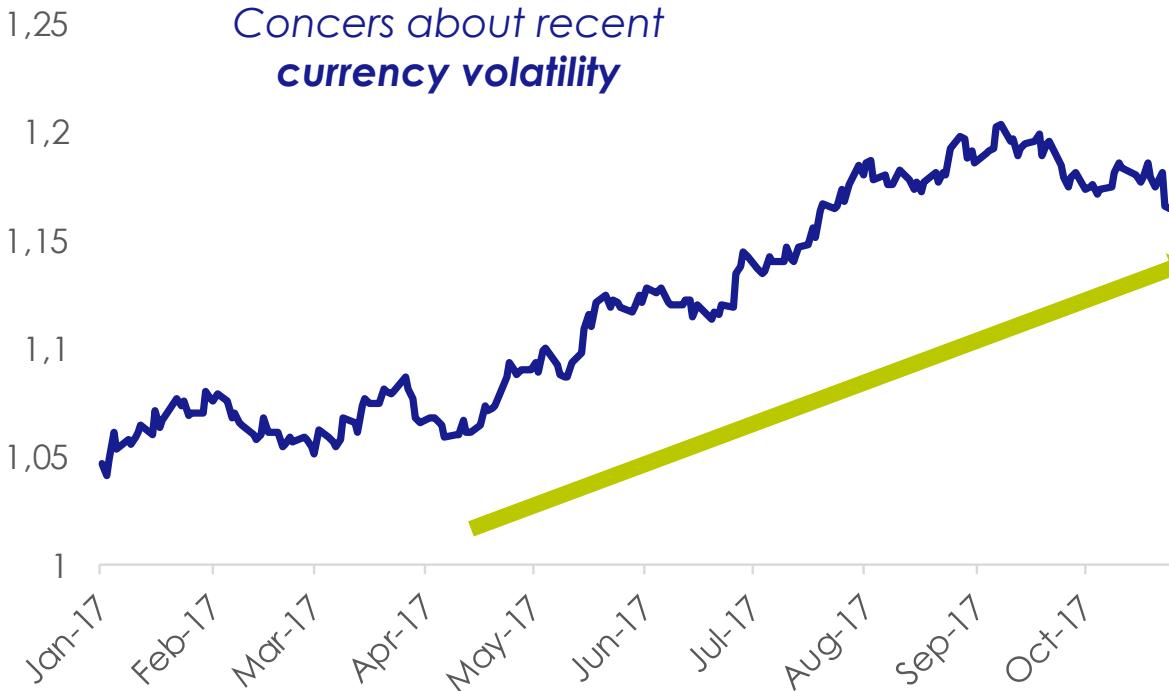
%



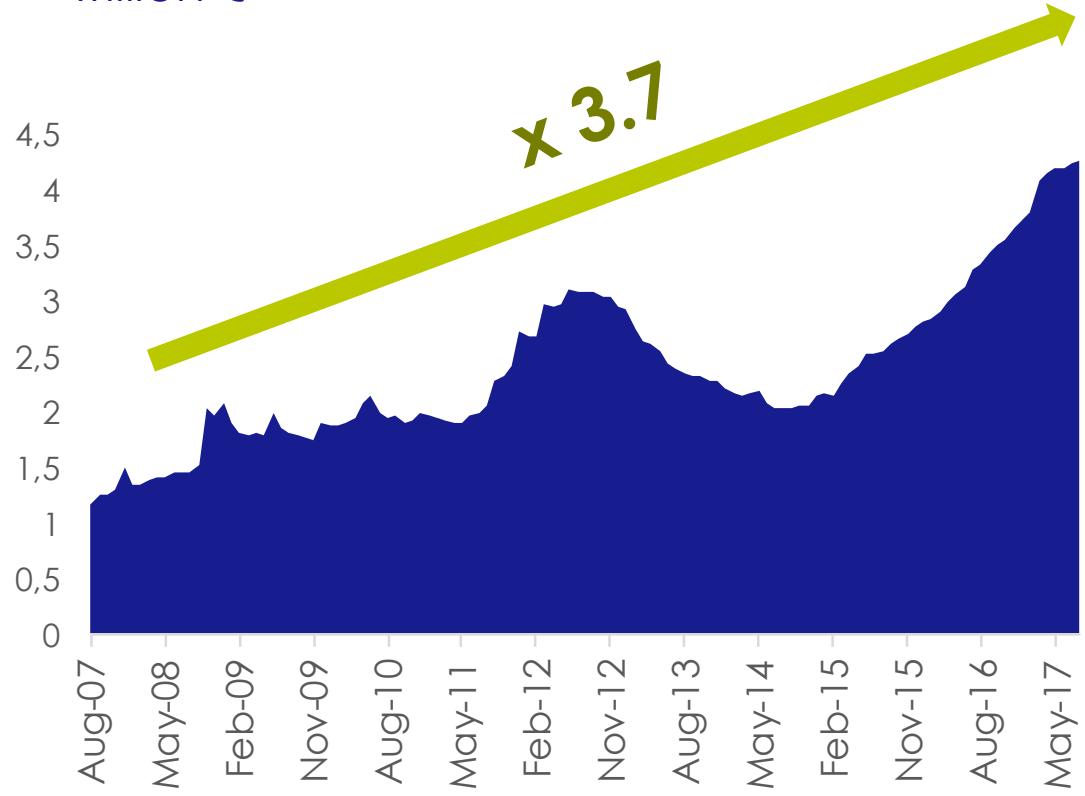
ECB: QE gradual reduction

Longer QE but at lower level → 30 billion € monthly purchase asset

Eur/Usd



ECB balance sheet
Trillion €

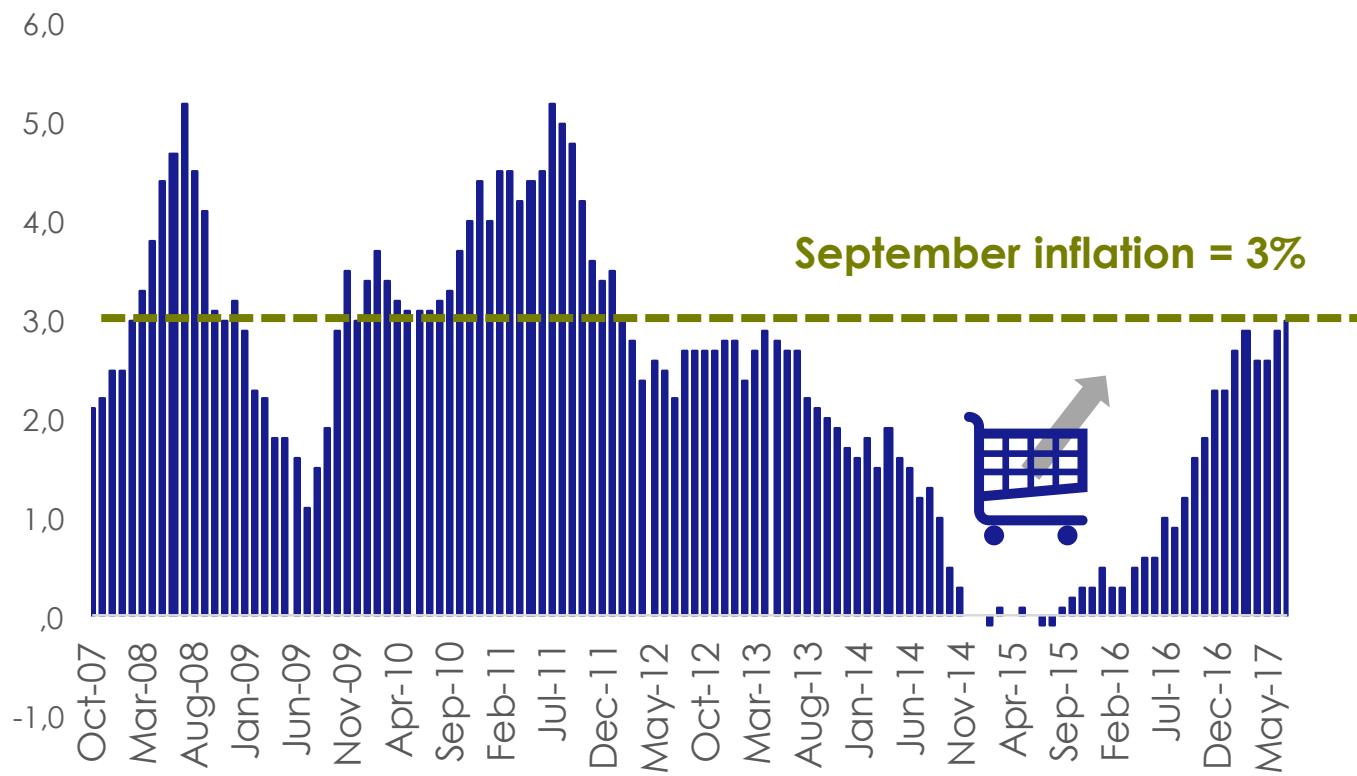


UK: prices and economic growth

Negotiations remain stagnant

Monthly inflation rate

% annual change



Source: Círculo de Empresarios based on ONS, 2017

Quarterly GDP growth

% annual change

Brexit

2016 3Q

1.8

2016 4Q

1.6

2017 1Q

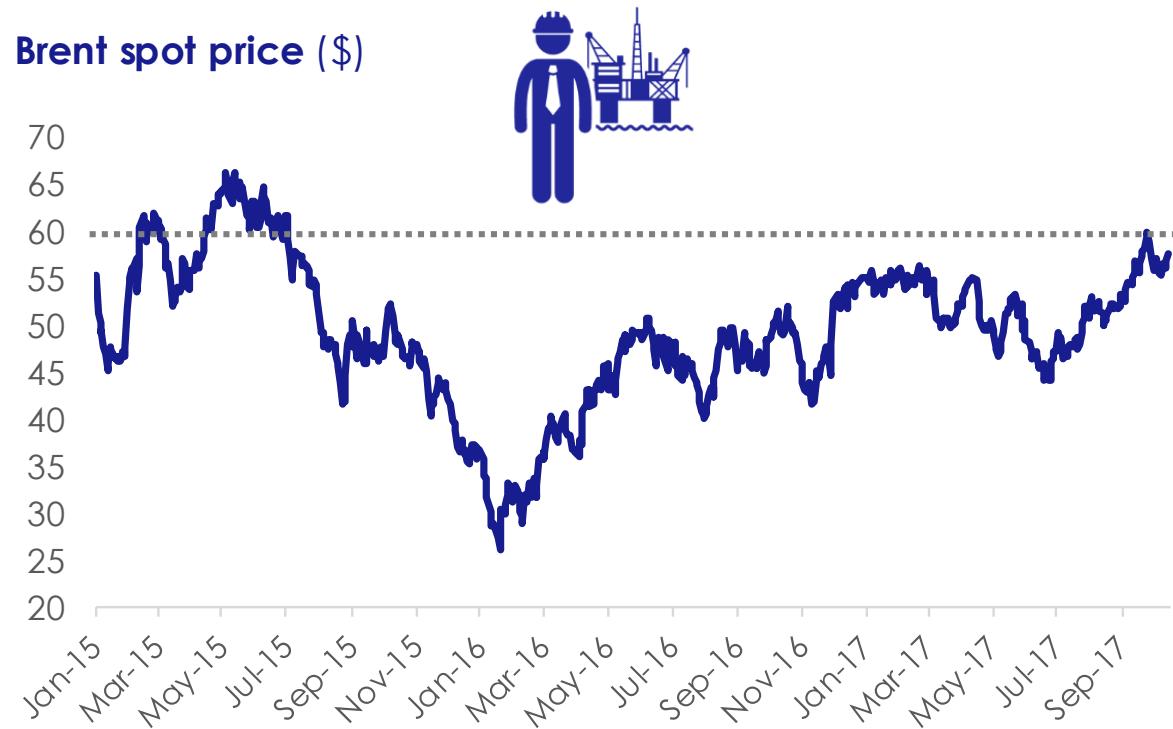
1.8

2017 2Q

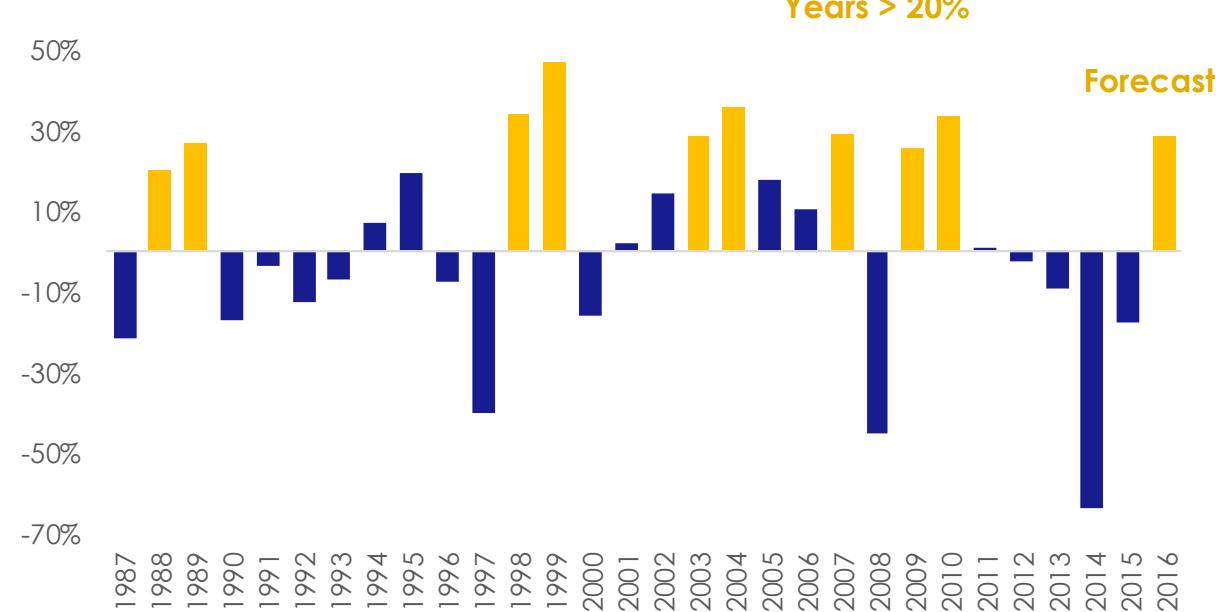
1.5

Oil: slightly oil increase

Brent crude oil prices stabilized between **55-60\$** waiting for the OPEC compliance



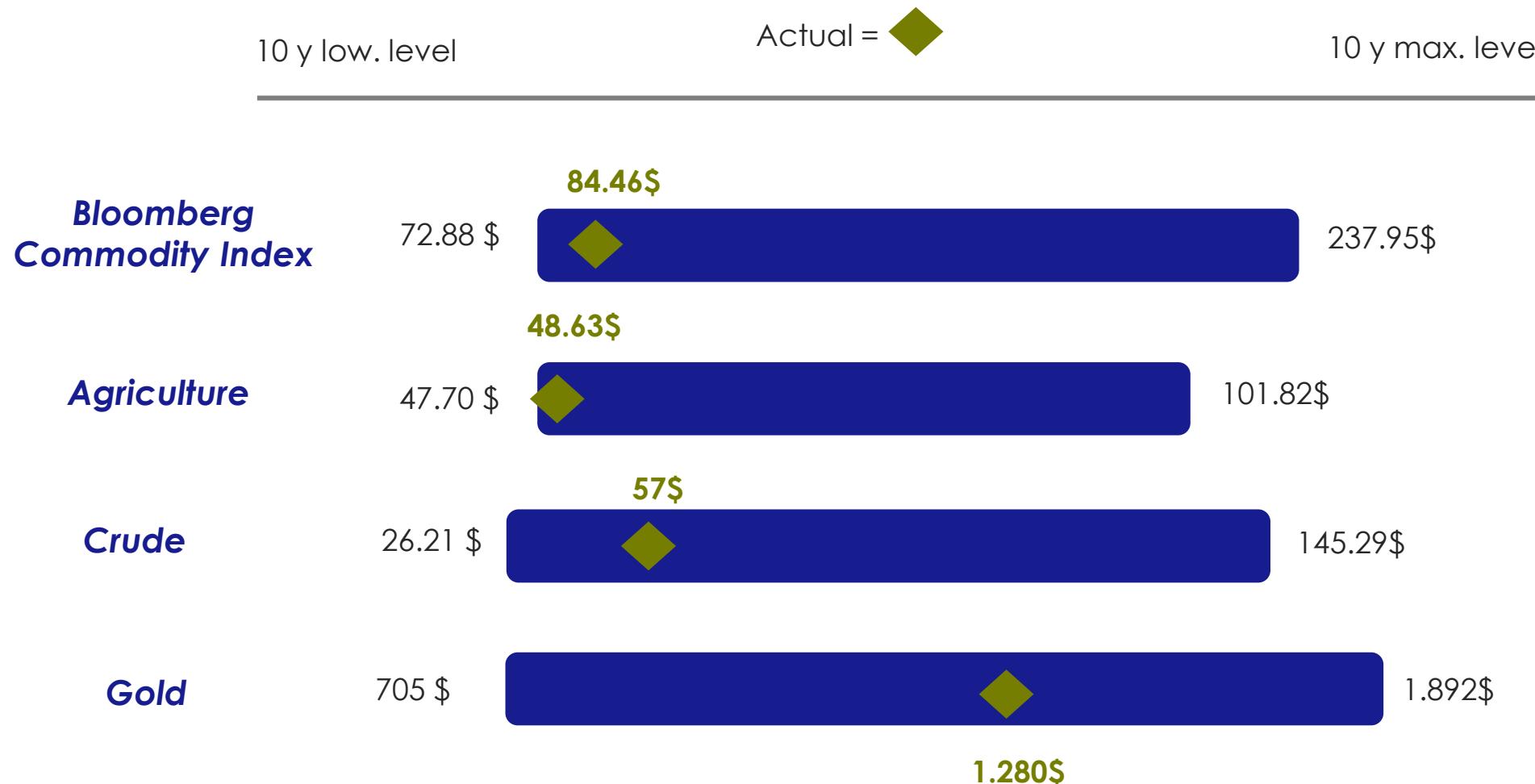
Annual brent performance
1987-2017



OPEC and non-OPEC countries producers achieved **120% compliance in September**

Commodities

Commodity prices

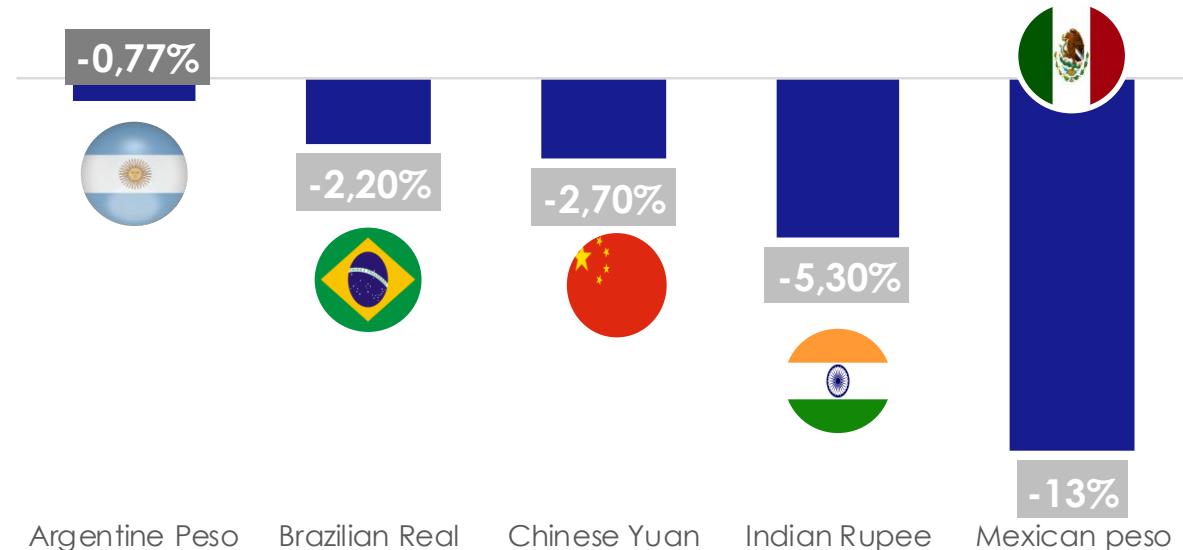


Soruce: Círculo de Empresarios based on JP Morgan, 2017

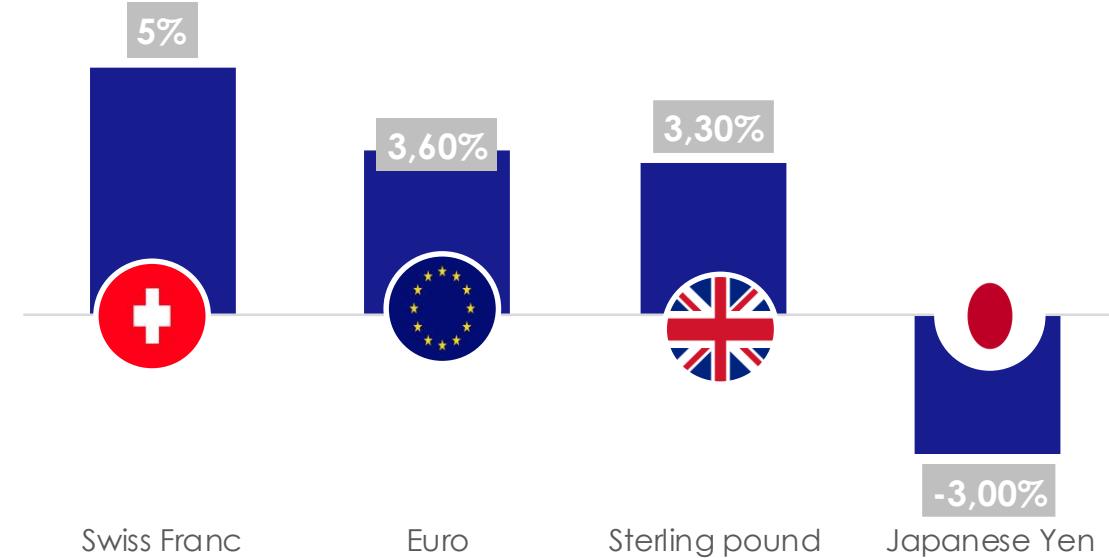
Foreign Exchange market

U.S dollar appreciated against the main currencies in the world

Dollar performance against emerging currencies, Max 2017-July 2017



US dollar performance against the most traded currencies, Max 2017- July 2017



Source: Círculo de Empresarios based on Bloomberg, 2017

Financial markets: equities

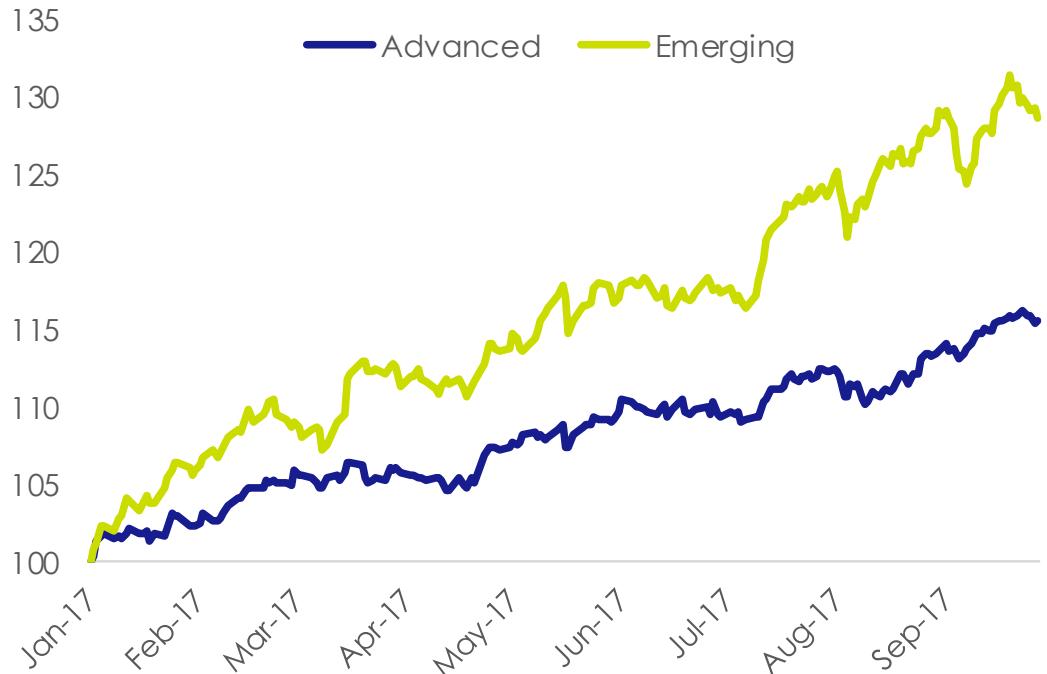
Positive performance of equity markets

	2013	2014	2015	2016	2017*
Global	24,1	2,9	-2,7	5,3	13,5
Eurostoxx 50	17,9	1,2	3,8	0,7	6,8
Euronext 100	19	3,6	8	3	8,8
Dax 30	25,5	2,7	9,6	6,9	9
Cac 40	18	-0,5	8,5	4,9	7,2
Mib 30	16,6	0,2	12,7	-10,2	15,6
Ibex 35	21,4	3,7	-7,2	-2	10,3
FTSE 100	14,4	-2,7	-4,9	14,4	1
Dow Jones	26,5	7,5	-2,2	13,4	12,7
S&P 500	29,6	11,4	-0,7	9,5	11,7
Nasdaq	38,3	13,4	5,7	7,5	19,8
Nikkei 225	56,7	7,1	9,1	0,4	4,2

* Until 15 September

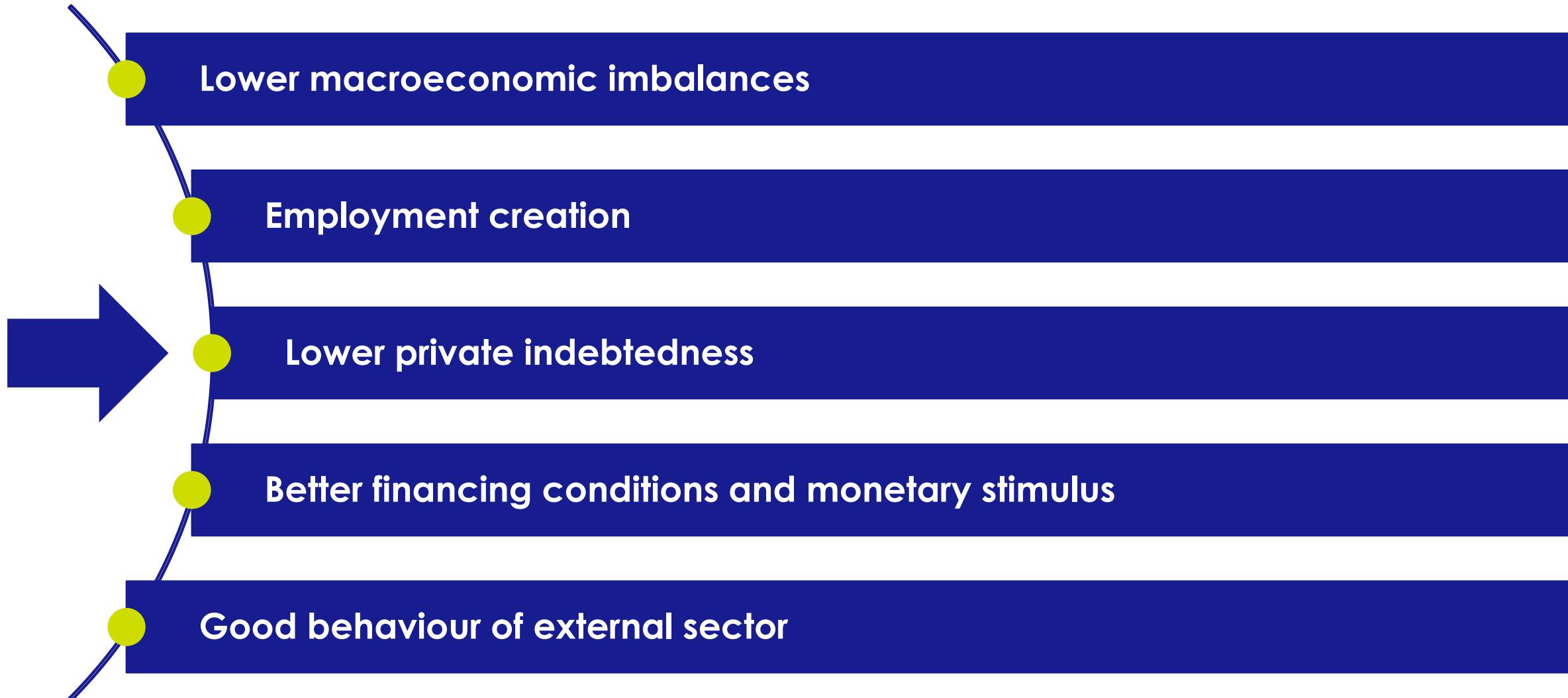
Global and emerging equity markets

January 2017 = 100



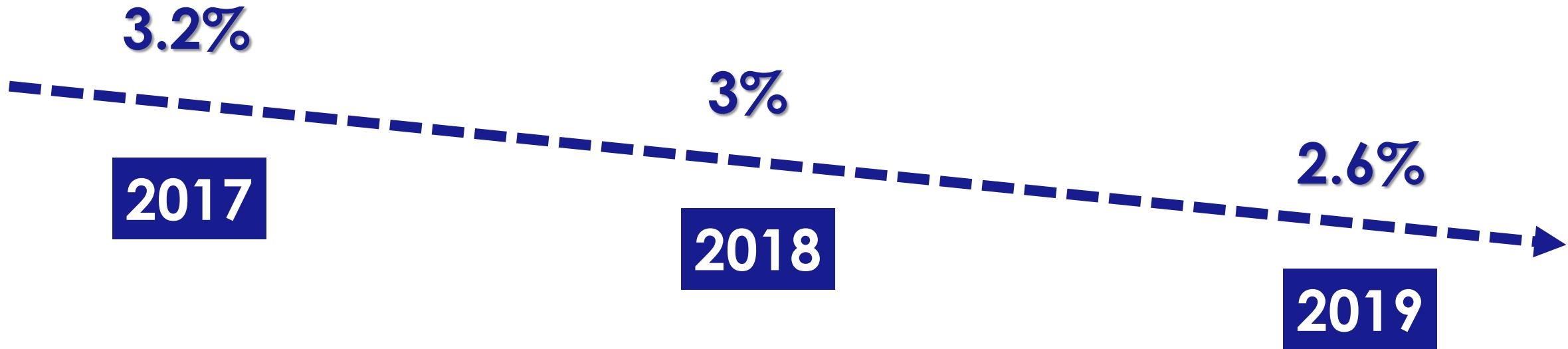


SPAIN



Forecasts: the expansion continues...

... but at a moderate pace



The Spanish government predicts an increase in GDP of 3.1% in 2017 and cuts its forecast for 2018 from 2.6% to 2.3% because of rising political tensions in Catalonia (= 19% of Spanish GDP)

Airef: “1pp decrease in Catalonia growth results in an additional decline of 0.2 pp in Spanish growth”

IMF keeps its forecast for 2017 (3.1%) and increase the one for 2018 to 2.5% (without taking into account the effects of secessionist challenge)

Forecasts 2017: composition of growth

2017 GDP annual change = 3.1%



Domestic demand

Goods and services
% annual change

- **Private consumption = 2.4%**
- **Public consumption = 0.8%**
- **Gross fixed capital formation = 4.3%**



External demand

Goods and services
% annual change

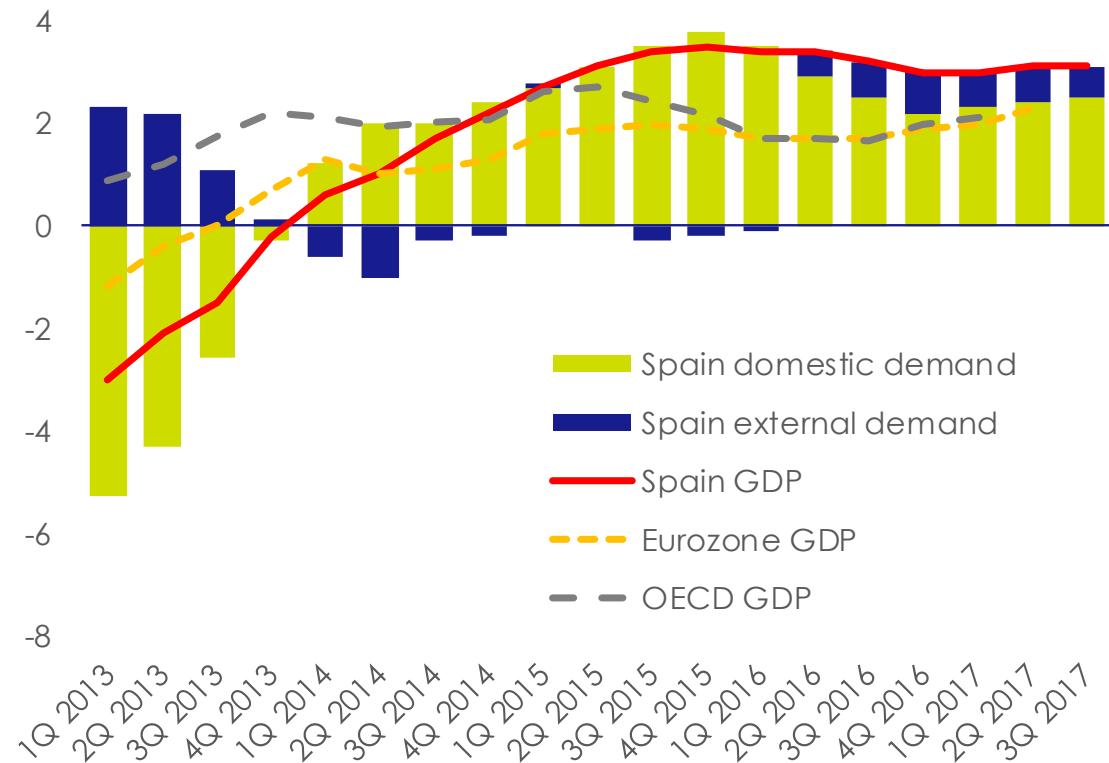
- **Exports = 6.4%**
- **Imports = 5%**

Current growth

Q3 2017 → Spanish GDP increased by **3.1%** in **annual terms**

(Bank of Spain and National Statistical Institute – NSI)

GDP (annual change) and contribution of domestic and external demand (pp)



Spain keeps the **positive spread** growth with the **OECD and the Eurozone**

External demand: 6th consecutive quarter of positive contribution

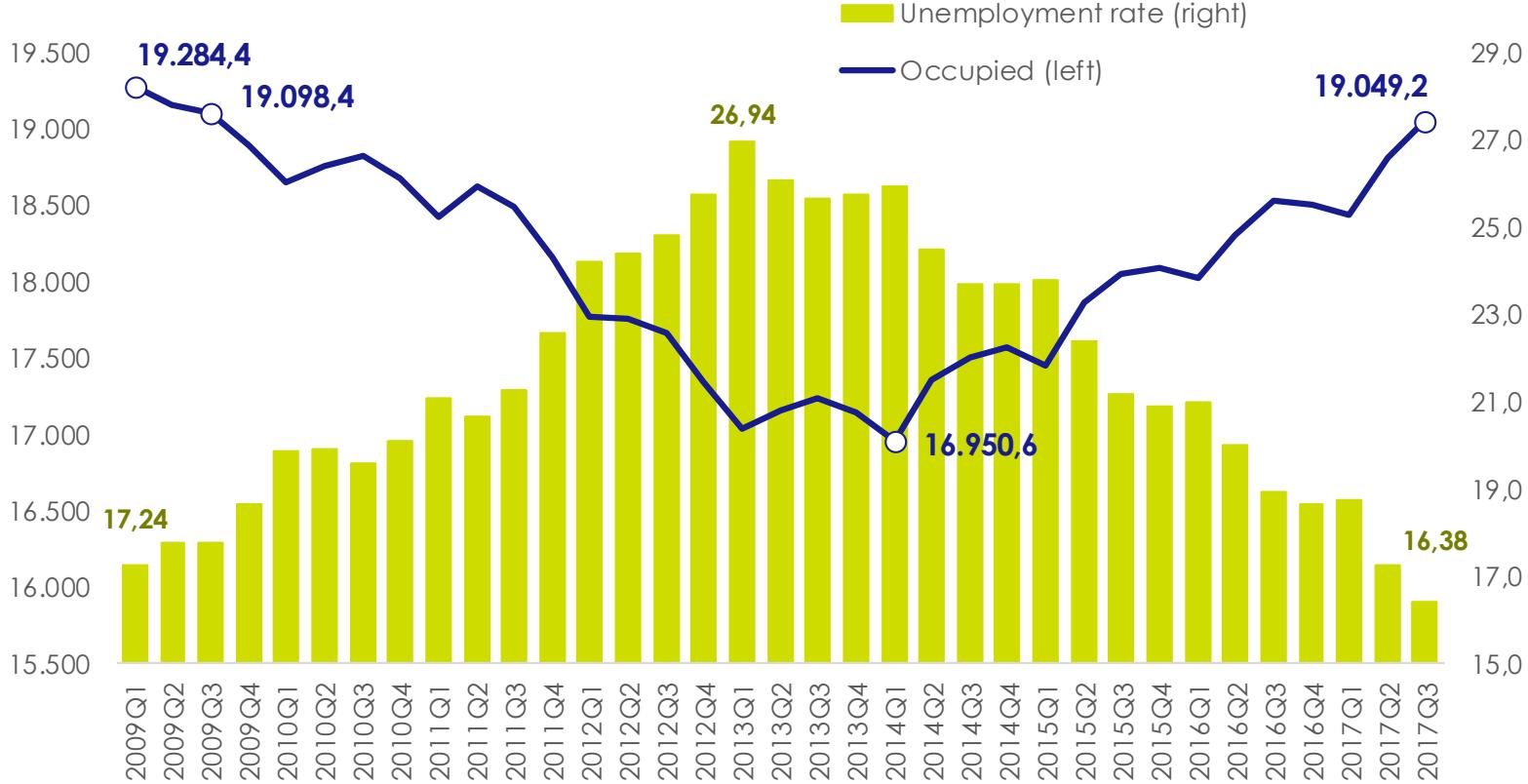
Labour market (I)

Labour Force Survey - Q3 2017 (NSI)

After 8 years, the **number of occupied** persons has again overcome 19 millions

Occupied and unemployment rate, Q1 2009 - Q3 2017

Thousand; % labour force



Occupied = 19,049,200

✓ **Private sector = 15,987,200**

✓ **Public sector = 3,062,100**

**Unemployment recovers
levels of 2009**



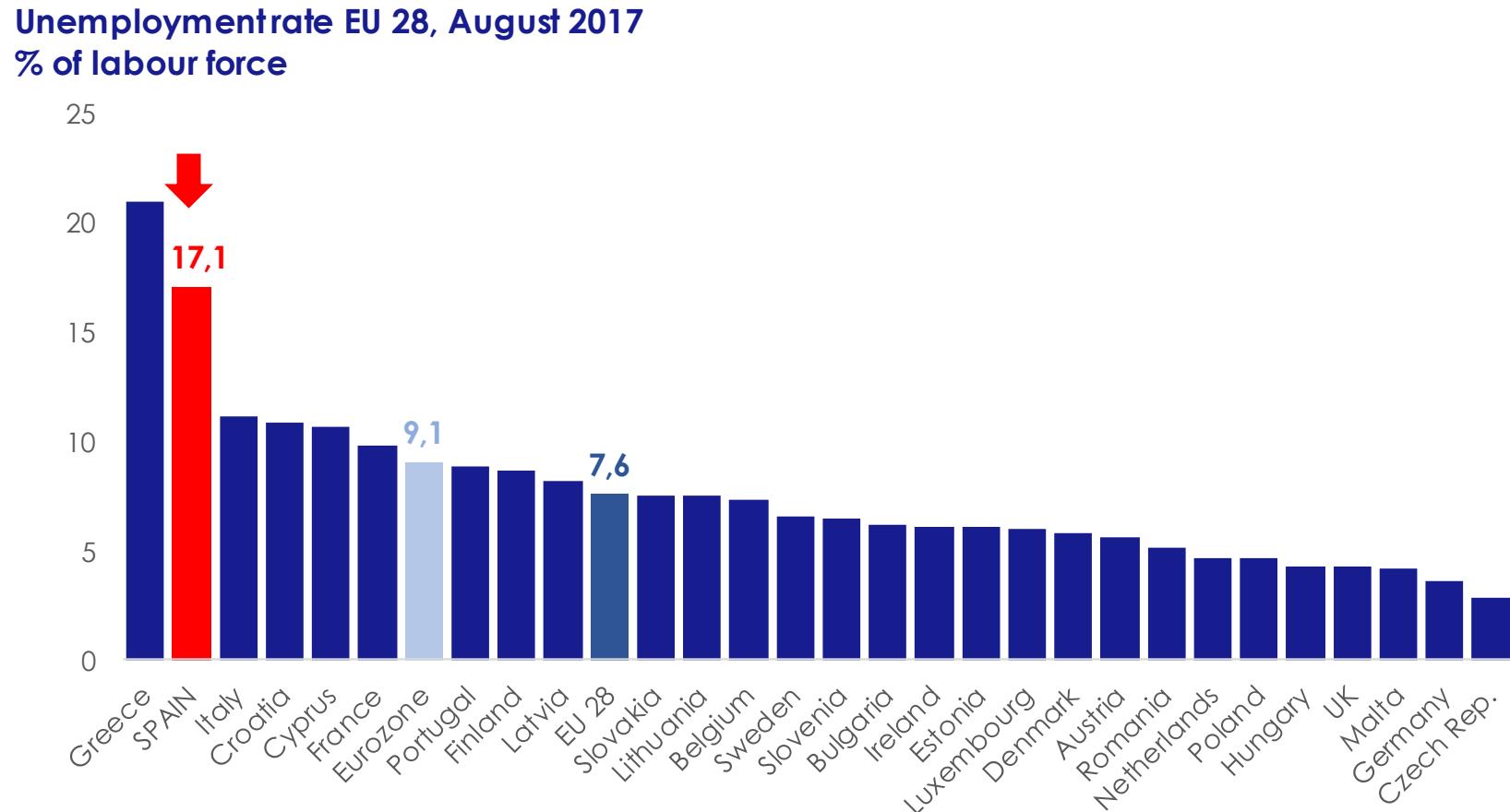
**16.38% of labour force =
3,731,700 unemployed**

Labour market (II)

Unemployment rate in the European Union (August 2017, Eurostat)

Unemployment rate in Spain = 17.1% of labour force

vs. Eurozone average = 9.1%

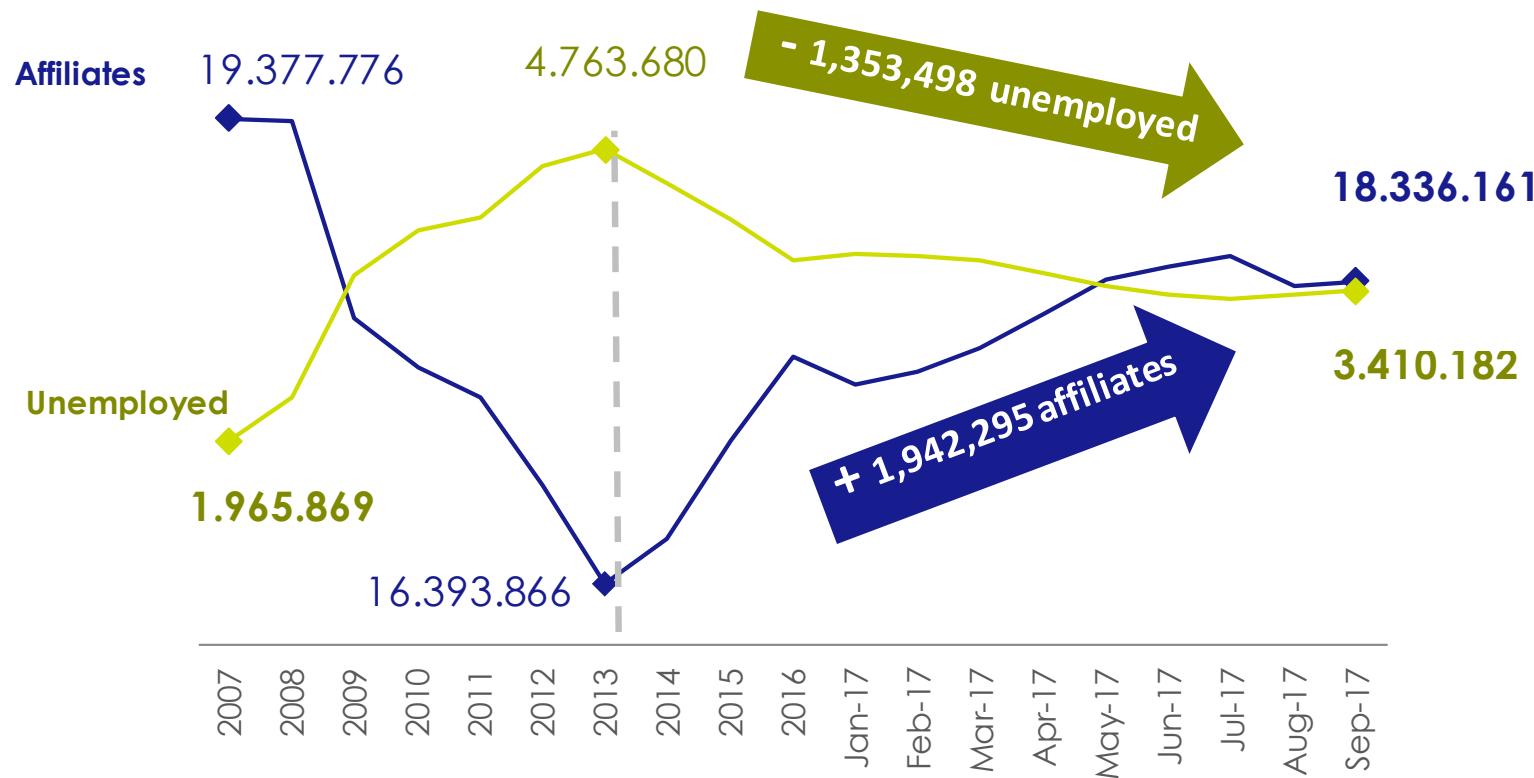


Source: Círculo de Empresarios based on Eurostat, 2017

Labour market (III)

Affiliates to Social Security and unemployed (September 2017, SEPE)

Persons



Unemployed

- ▲ 27,858 vs. August
- ▼ 310,115 vs. September 2016

Affiliates

- ▲ 26,318 vs. August
- ▲ 624,141 vs. September 2016

New contracts

- = 1,993,267 in September
- ▲ 86,267 vs. September 2016

Airef: "1% decrease in Catalonia employment results in a decline of 0,17% in the rest of Spain and of 0,21% in total Spanish employment"

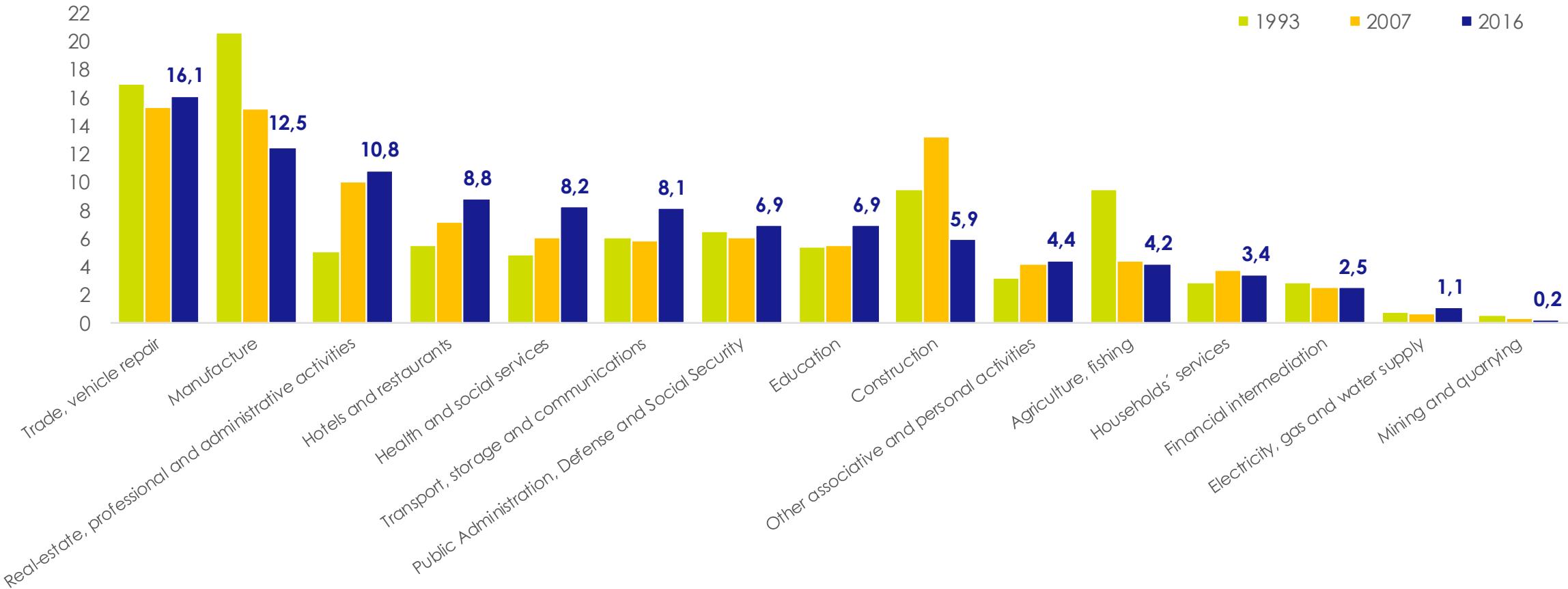
Labour market (IV)

Employment by sectors

▲ employment in services and ▼ in manufacture and primary sector

Employment by sectors

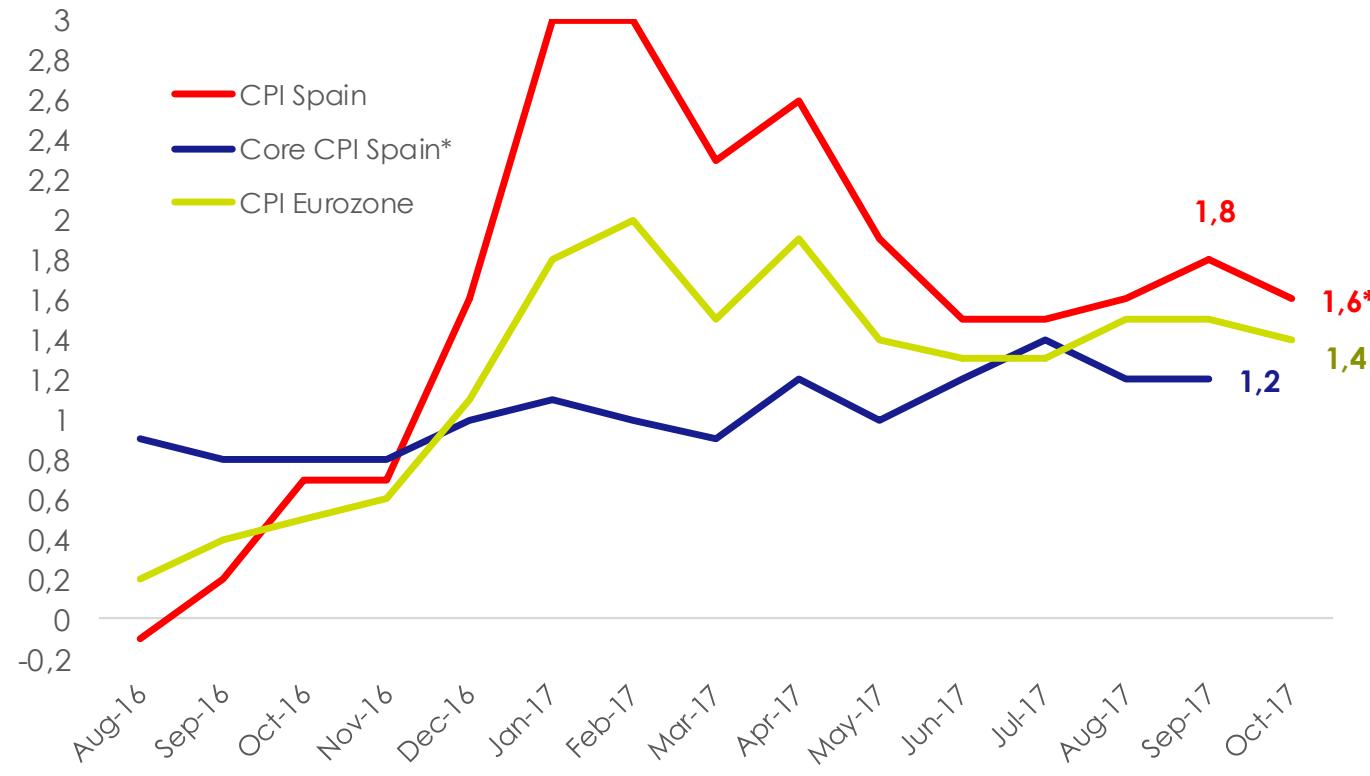
% total



Prices

General and core inflation

% annual change



Source: Círculo de Empresarios based on NSI and Eurostat, 2017

September 2017:



- Annual CPI increases to 1.8%, mainly because energy and fresh food prices evolution

- Prices are rising above the Eurozone average, keeping a positive spread of 0.2 pp

- Core inflation = 1.2%

October 2017:

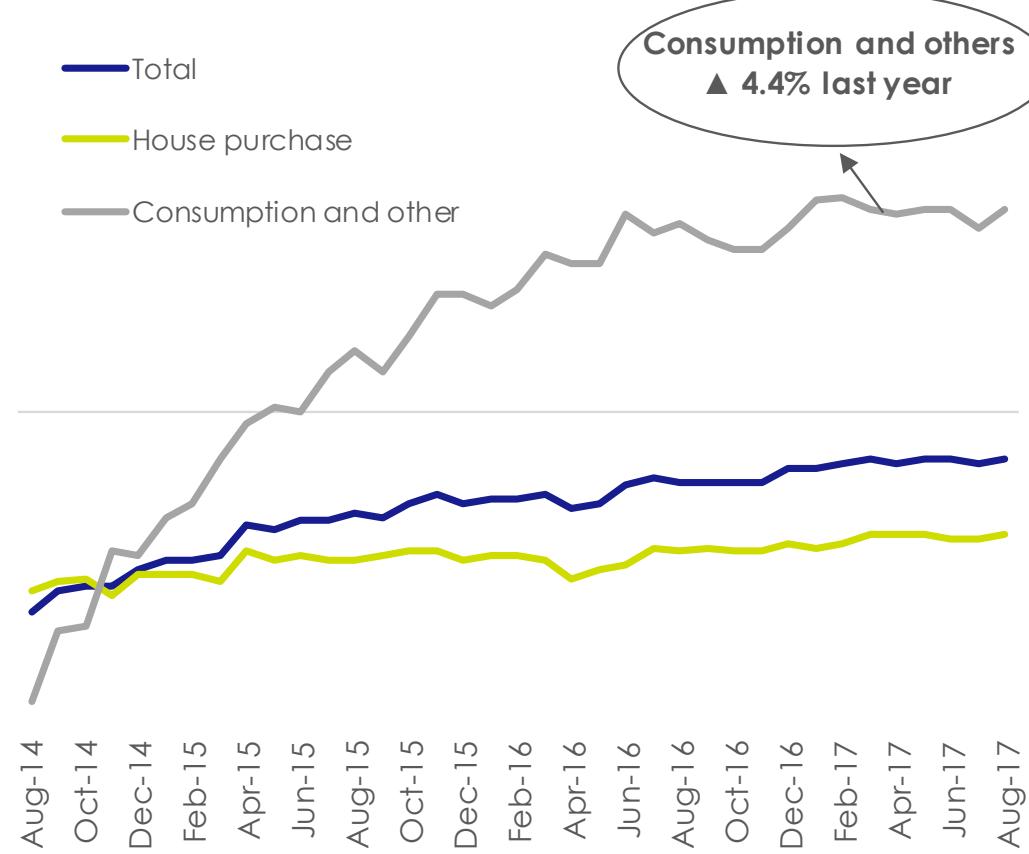
- Estimated annual CPI = 1.6%

Financial conditions (I)

Credit to households and business **increases**

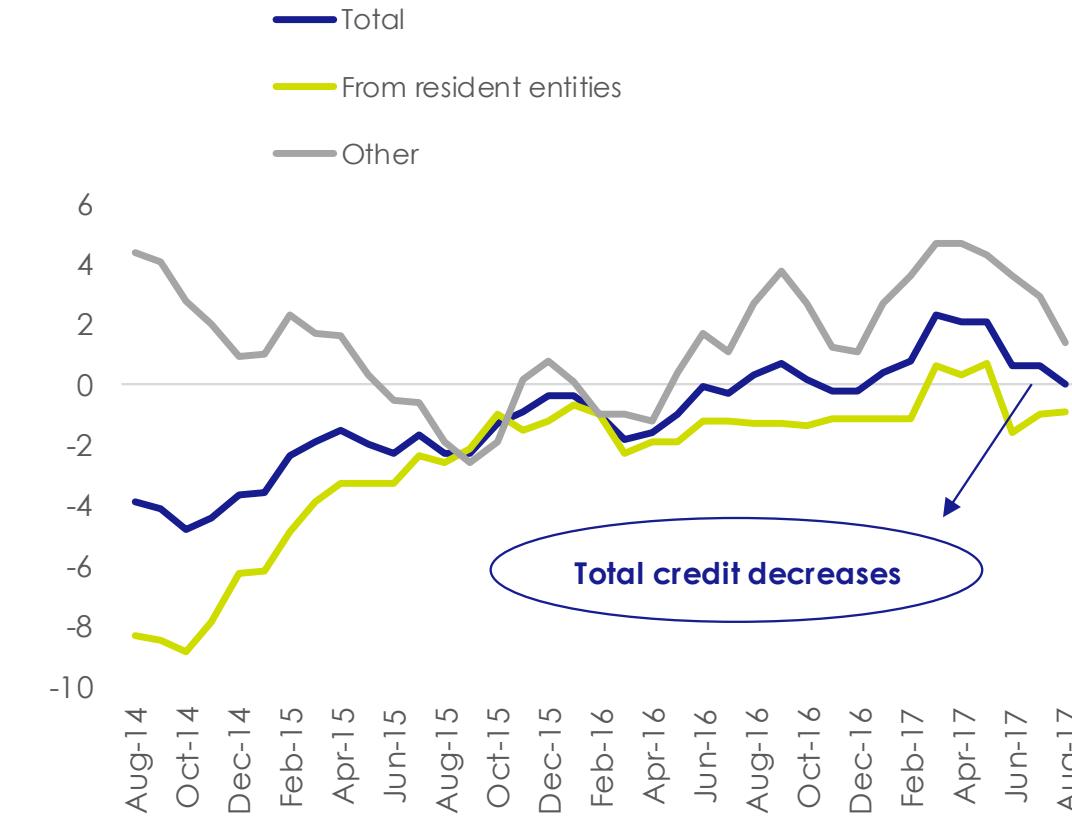
Credit to households

Stock; % annual change



Credit to business

Stock; % annual change



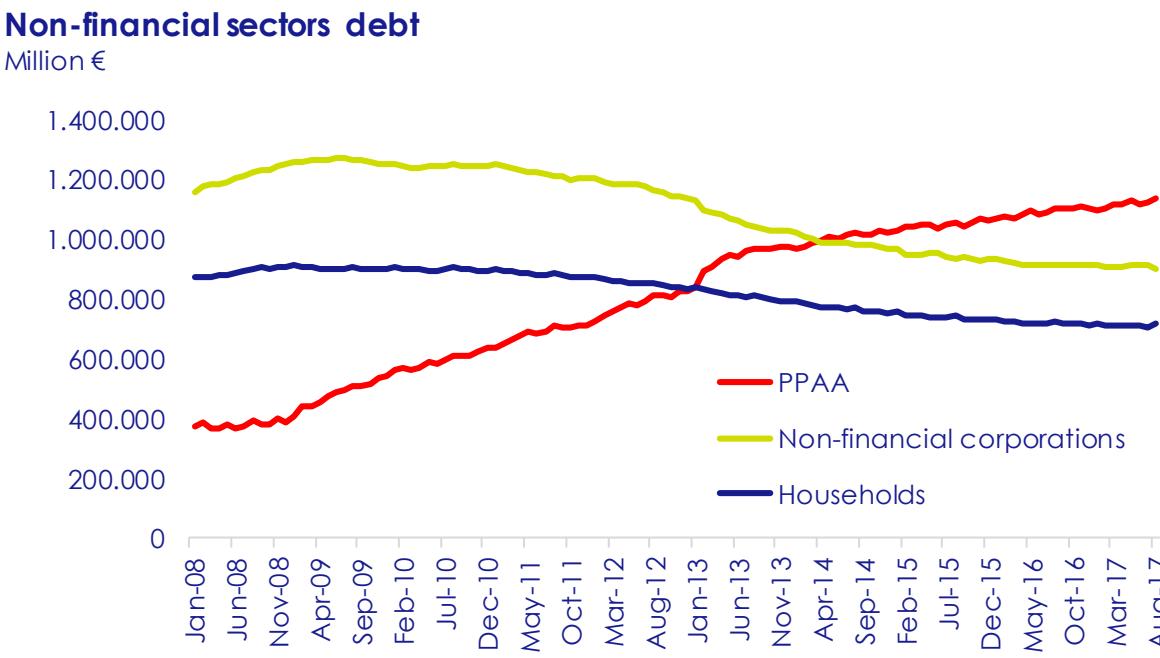
Note: Credit to households and business measured in stock terms

Source: Círculo de Empresarios based on Bank of Spain, 2017

Financial conditions (II)

Private debt keeps going down and public debt continues to increase

In August, public debt = 1,133,009 M€

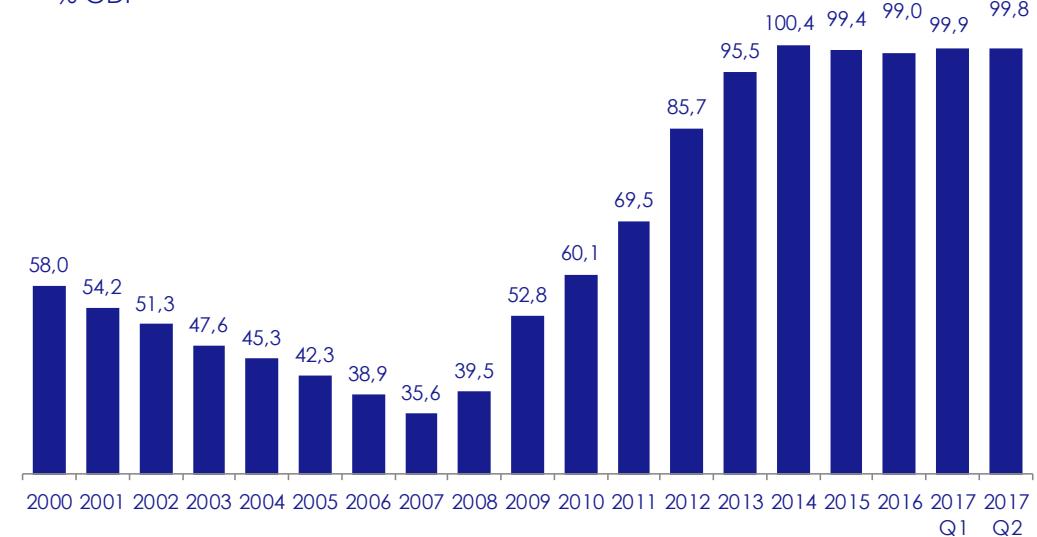


Q2 2017 (% GDP)...

Non-financial companies debt → 83.6%

Households debt → 63.6%

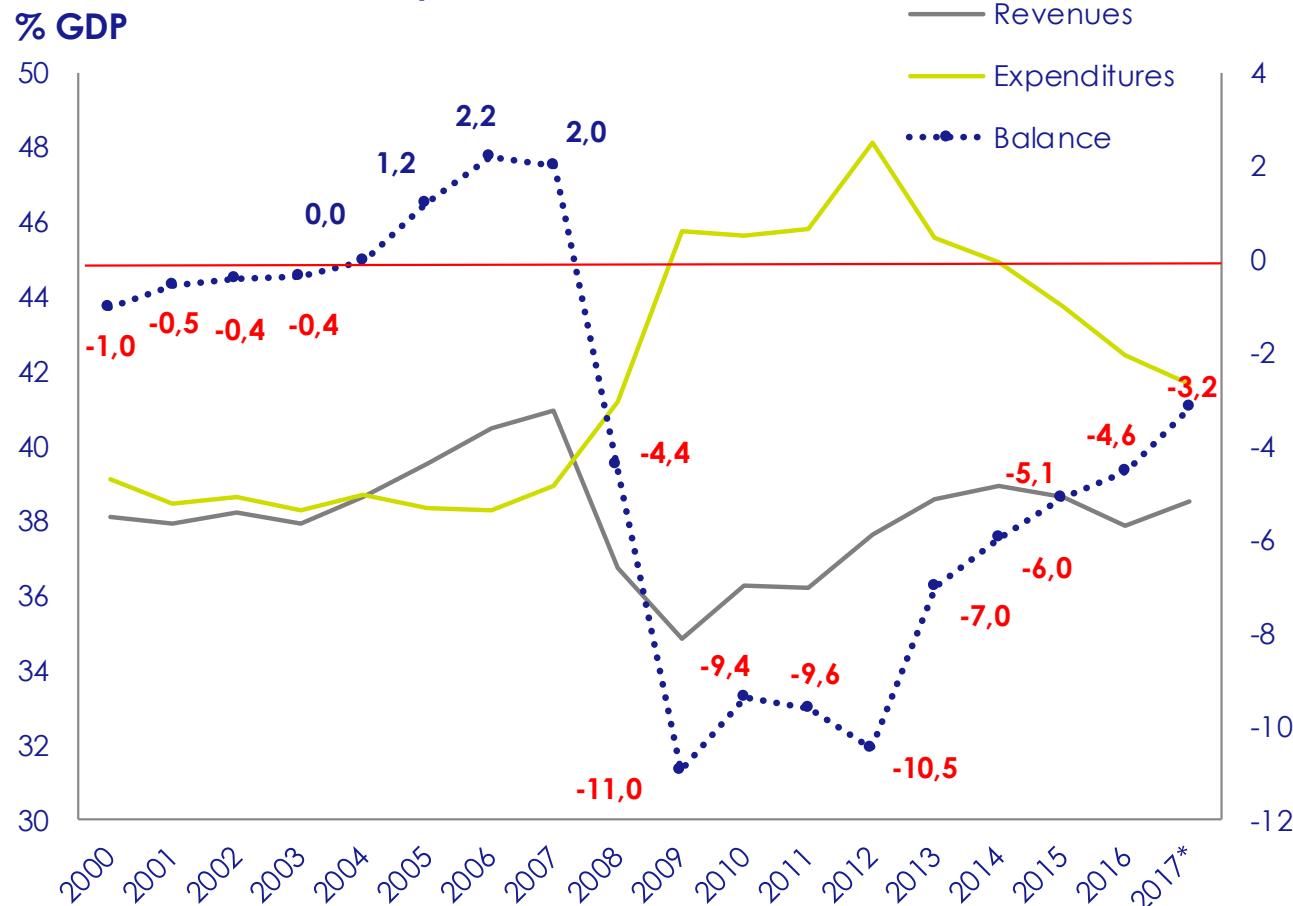
Public Administrations debt
% GDP



Source: Círculo de Empresarios based on Bank of Spain, 2017

National Accounts

Public revenues and expenditures



2017*: forecast

Source: Círculo de Empresarios based on IMF, 2017

Public deficit 2018

The **Spanish government** has increased its **forecast** from 2.2% to 2.3% due to the **impact** of the **political situation in Catalonia** and the absence of budget for 2018:

- **General Government** = - 0,8%
- **Social Security** = - 1,1%
- **Autonomous Communities** = - 0,4%
- **Local Entities** = 0,0%

Source: Ministry of Economy, Industry and Competitiveness, 2017

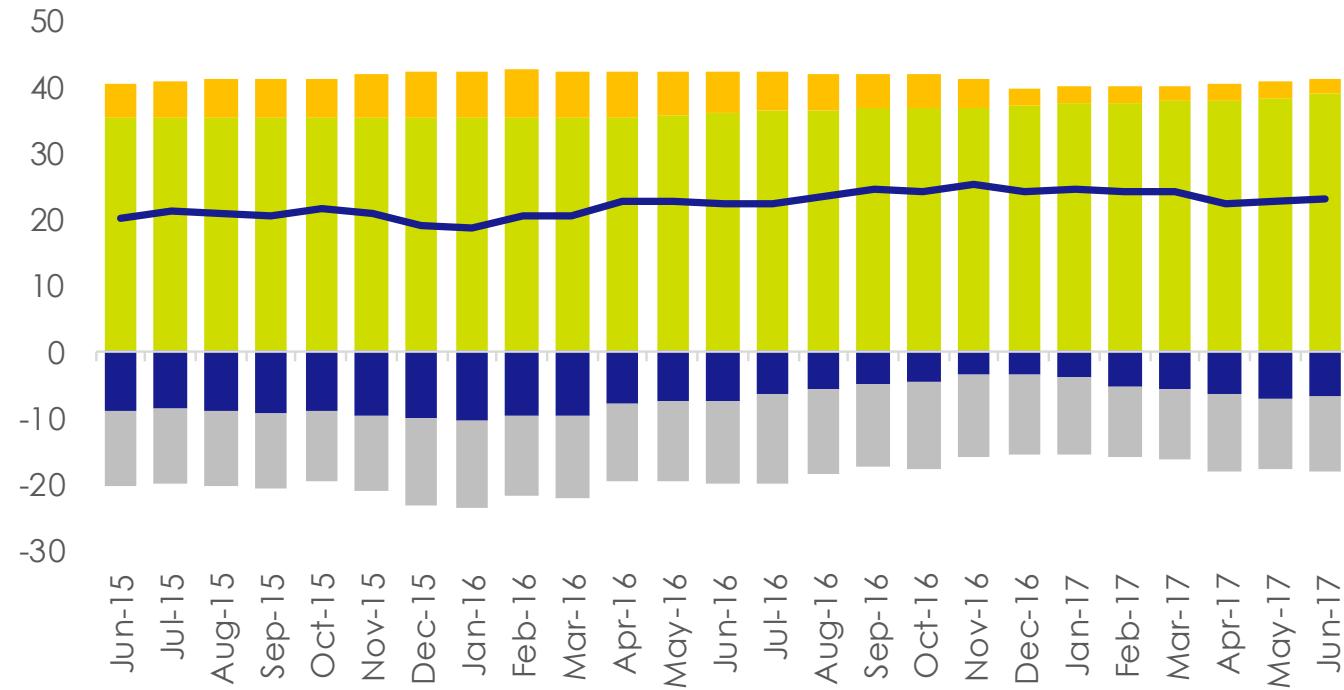
External sector (I)

Relevance of tourism

Current account and capital balances

Bn €

- Goods and services (except tourism)
- Tourism
- Incomes
- Capital balance
- Superavit (+) / Deficit (-)



Source: Círculo de Empresarios based on Bank of Spain, 2017

External sector (II)

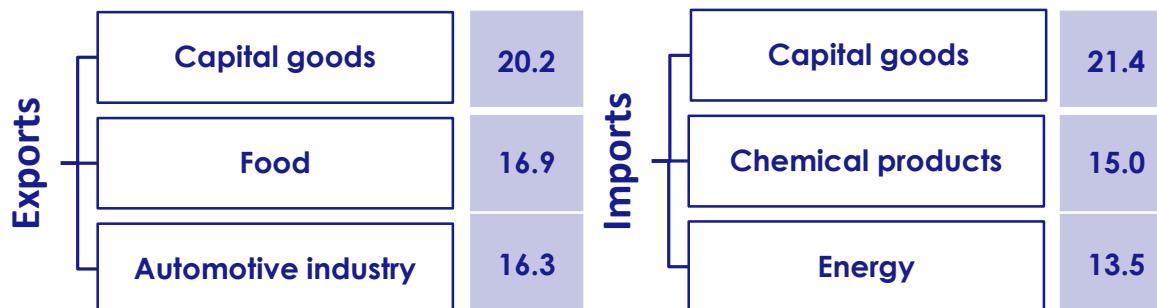
Trade balance, January – August 2017

(annual change)



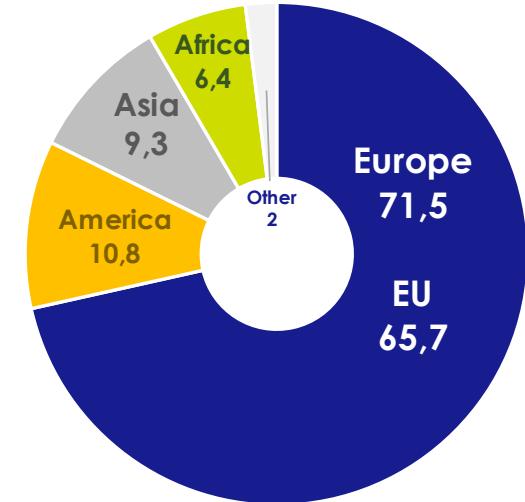
Top 3 sectors

(% of total weight)

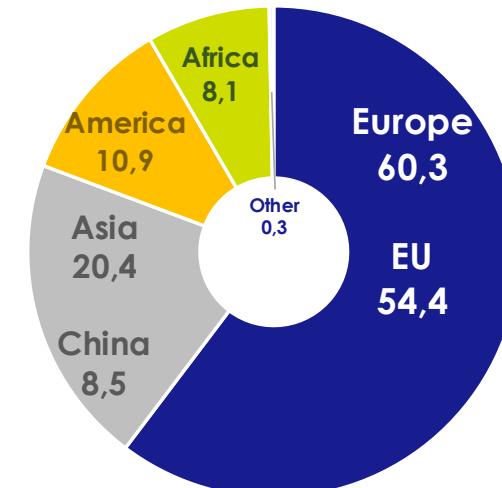


Geographical distribution (%)

Exports



Imports

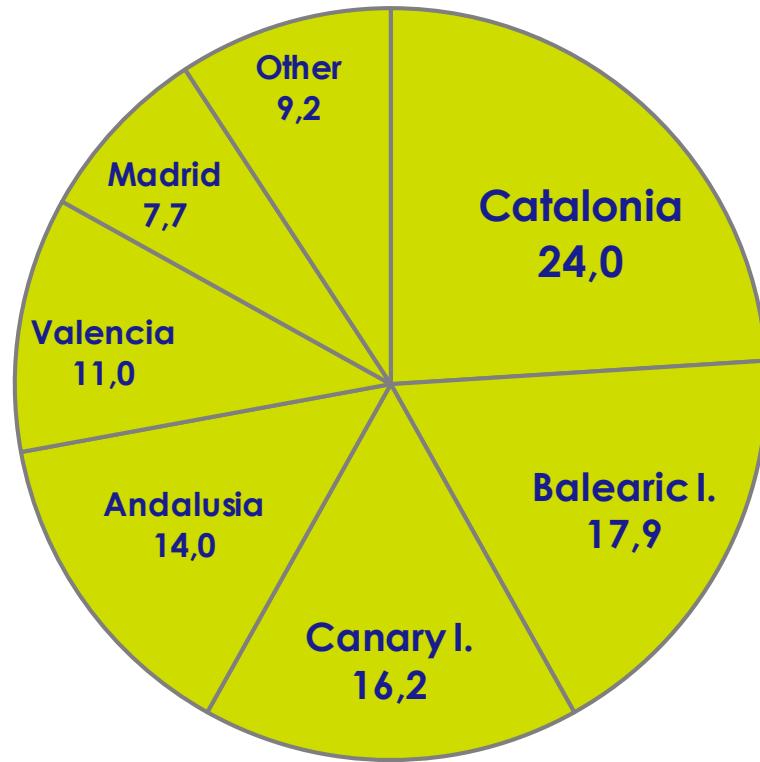


External sector (III)

Tourism

International arrivals, January - August 2017

% of total weight



Source: Círculo de Empresarios based on NSI, 2017

Catalonia.

Major international tourist destination

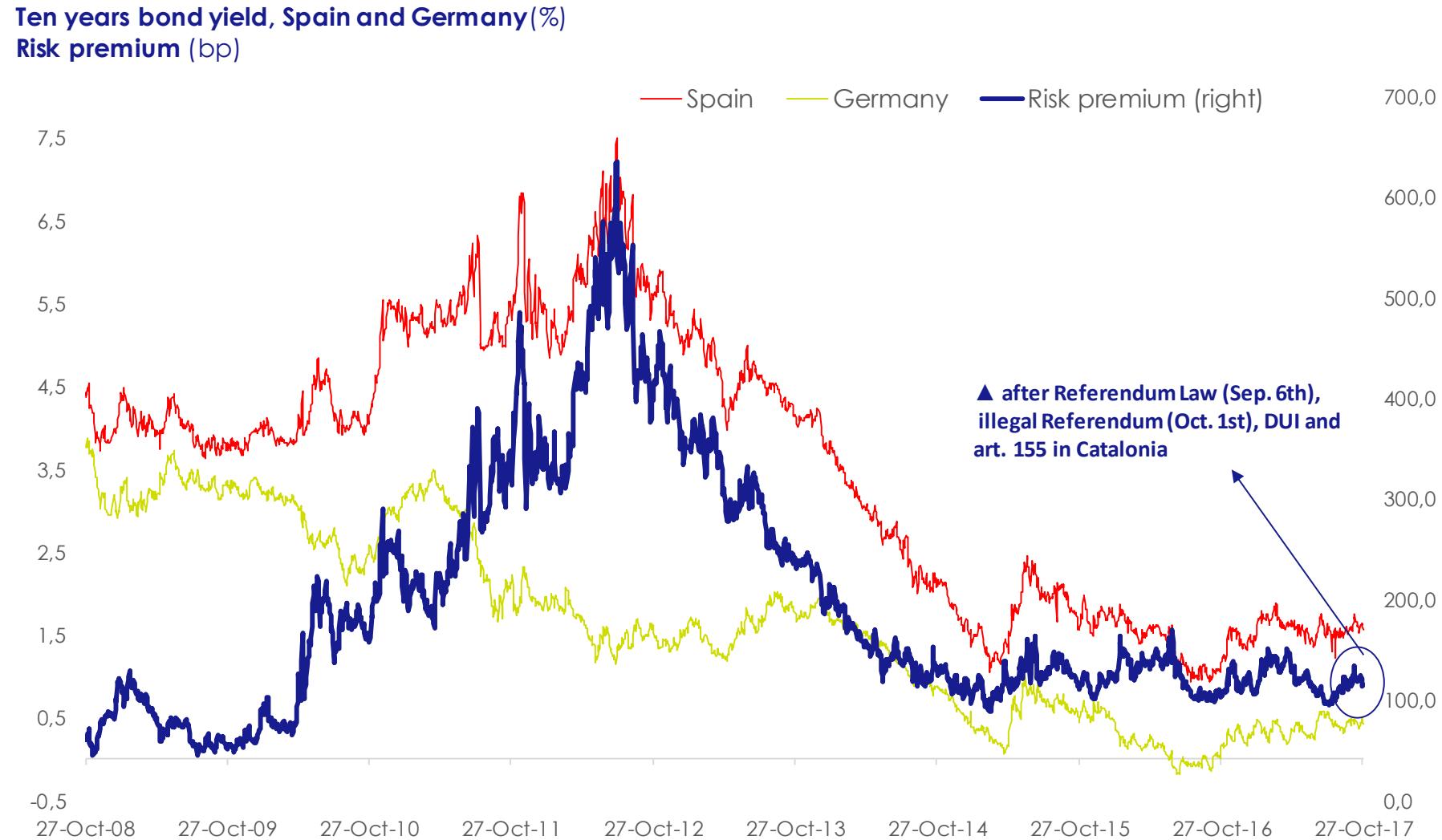
From 1 October, in Catalonia ...

- ▼ 15% of tourist activity
- ▼ 20% of reservations for the end of 2017 (Excltur) (▼1,197 M€ - Q4 2017)
- Slump in investments

Spanish tourist sector growth will also suffer the impact and will decrease from 4,1% to 3,1% in 2017.

Interest rates and risk premium

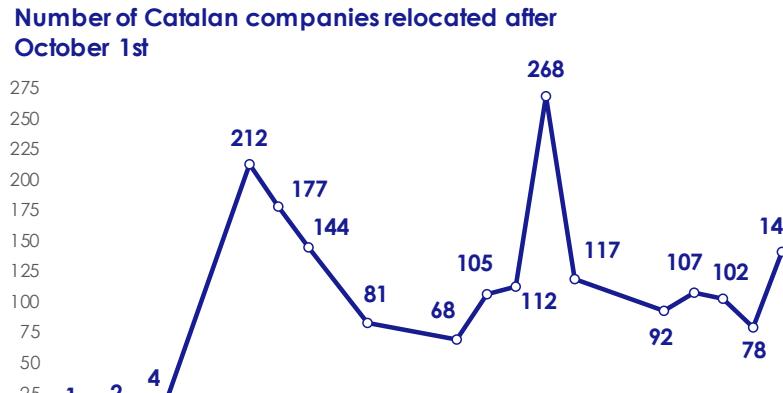
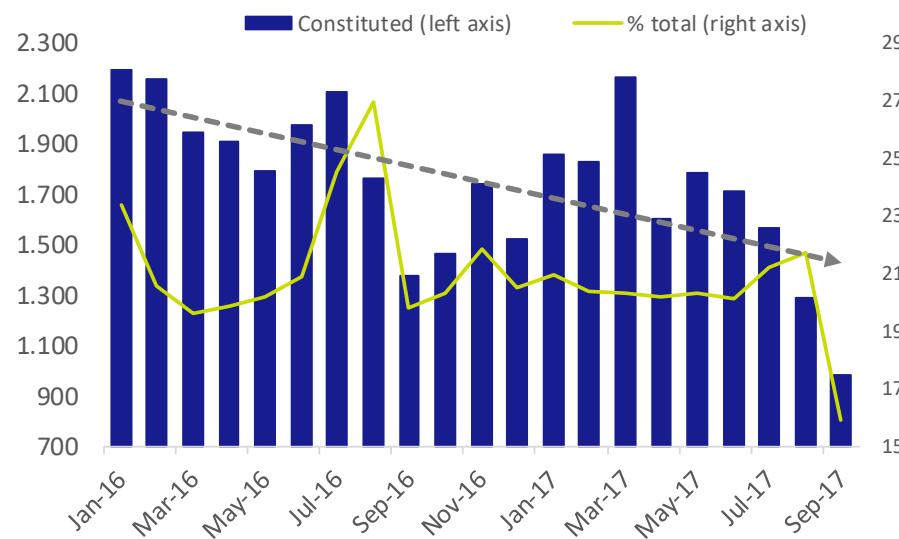
▲ risk premium (120 bp) due to secessionism in Catalonia



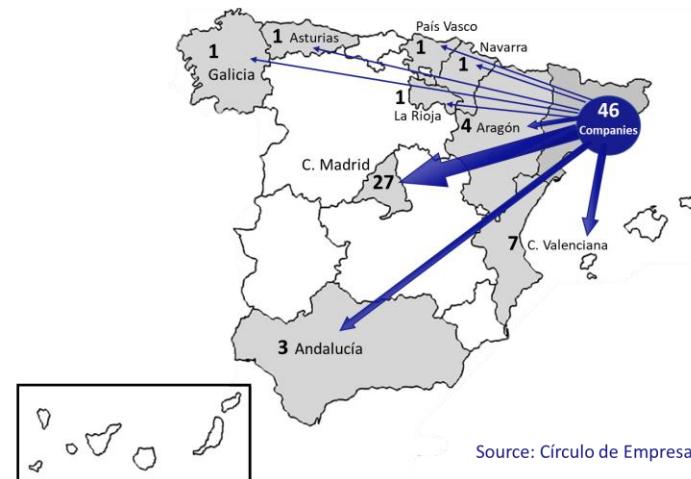
Companies in Catalonia

Catalonia's ability to create new business with regard to all of Spain, has fallen by more than 10 pp from its peak level in 2016

Companies constituted in Catalonia



Relocation corporate headquarters of main Catalonia companies



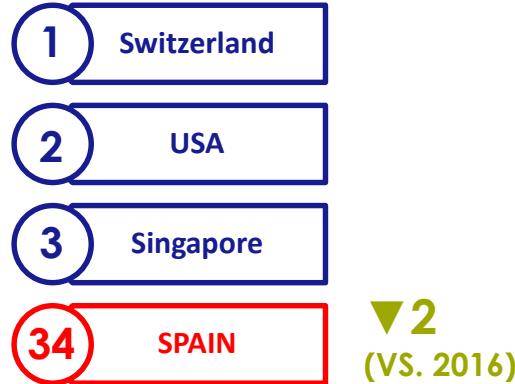
Source: Círculo de Empresarios based on Colegio de Registradores, 2017

After October 1st, more than 1,800 companies have moved their headquarters due to the political instability in Catalonia (85% of its market capitalization).

The top 46 companies that have moved their headquarters outside Catalonia = 36.5% of its regional GDP

Spain's position in international rankings

The Global Competitiveness Report
2017 - 2018 (137 countries)



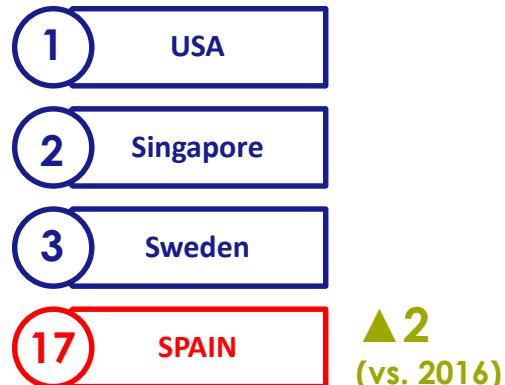
Source: WEF, Sept. 2017

BlackRock Sovereign Risk Index Sep.
2017 (60 countries)



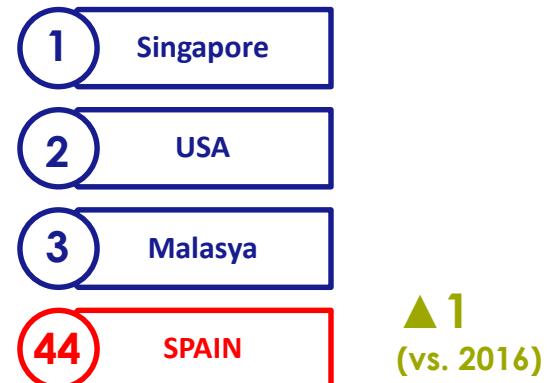
Source: BlackRock, 2017

2017 Global Connectivity Index
(50 countries)



Source: Huawei, 2017

Global Human Capital Index 2017
(130 countries)



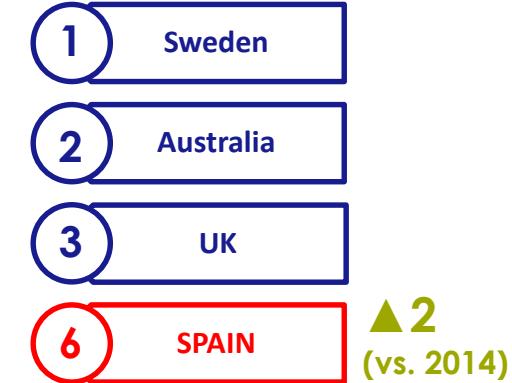
Source: WEF, 2017

2017 Global Peace Index
(163 countries)



Source: Institute for Economics and Peace, 2017

Global Youth Wellbeing Index 2017
(29 countries)



Source: International Youth Foundation, 2017



www.circulodeempresarios.org