Business...
at a glance

May 2019

Industry Spain

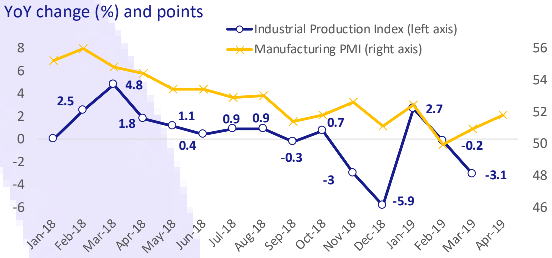
In March, industry indicators exhibit a downward trend year-on-year. Specifically:

- The Industrial Production Index (IPI) dipped by 3.1% for the second consecutive month, 2.9 pp more than in February. By sector, the most noticeable drops occurred in energy goods (−9.9%) and durable goods (−5.8%), while capital goods (+0.5%) and intermediate goods (+0.4%) report positive rates year-on-year.
- The general Business Turnover Index (BTI) grew moderately at a 1.4% rate, which is 1.9 pp less than in February, whereas the increase in the energy sector (11.4%) stood out.
- The New Orders Index experienced a slower increase and stands at 2%, a whole 3.1 pp less than in February, and is mainly backed by the energy sector (+11.5%).

In contrast, the sector's expectations improve in April, with a manufacturing PMI of 51.8, a growth of 0.9 points relative to the previous month of March. It has remained in an expansion zone while the Eurozone continues in the contraction zone (<50 points).

Industrial Production Index (IPI) and Manufacturing PMI

YoY change (%) and points



Source: *Círculo de Empresarios* based on INE and Markit, 2019

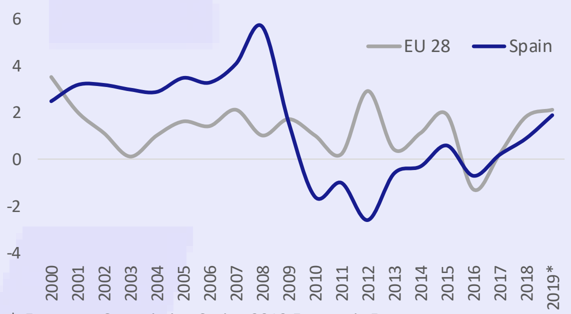
Unit labour costs

Considering that the unit labour costs[1] increased by 0.9% in 2018, the European Commission forecasts a new increase of 1.9% in 2019, which is still slightly below the EU-28 average (2.1%). This development takes place in an environment where productivity will hardly rise (0.1%).

[1] Unit labour costs include both wage costs and other concepts, of which, Social Security contributions take the lion's share. In Q4 2018, the monthly labour cost per worker reached €2,692.52, 0.9% more than in the same period of the previous year (INE)

Unit labor costs

YoY change (%)



* European Commission Spring 2019 Economic Forecast

Source: *Círculo de Empresarios* based on European Commission and Eurostat, 2019

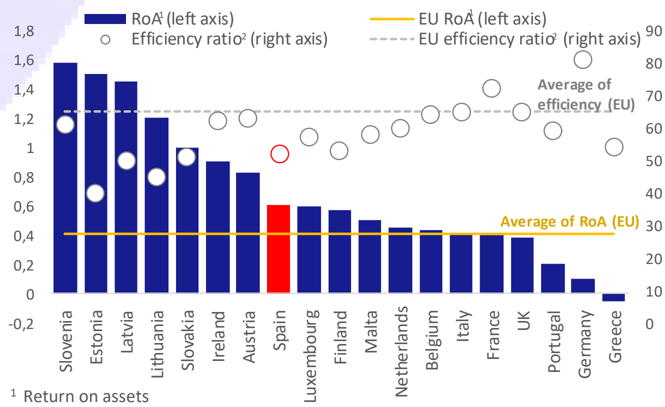
Financial entities

The prospects of a global economic slowdown, especially in the EU, and the delay in monetary normalisation put downward pressure on the operating margins of financial institutions. Particularly on profitability, which hovers at around 0.6%, slightly above the EU average (0.4%).

Similarly, their efficiency ratio (operating expenses / gross margin ratio) remains above the European average and has improved since 2016 to 53.3% (55.7% in 2016) supported by the increase in gross margin and curb in expenses.

Return and efficiency, Spanish financial entities

%



[1] Return on assets

[2] Higher ratio implies lower efficiency

Source: *Círculo de Empresarios* based on Bank of Spain, 2019

US-China trade war

After the last tariff increase by the US, currently, 40% of Chinese imports are taxed at 25% ($250 billion). In turn, the Trump Administration does not rule out imposing tariffs on other imported goods (worth $539 billion in 2018), which would raise the average US tariff above 7% (5 pp more than in 2017).

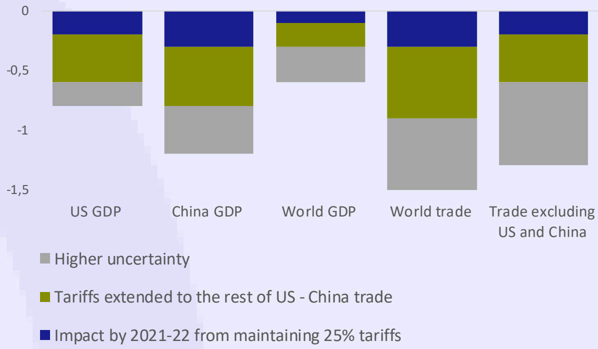
As for China, it already imposes tariffs on 90% of its imports of US goods ($110 billion), and against this backdrop, has announced that from 1 June it will increase tariffs from 5% to 25% on US imports worth $60 billion.

According to the OECD, the increase in tariffs and the mounting uncertainty will jeopardise GDP growth in both countries, the US and China by -0.8 pp and -1.2 pp, respectively, until 2022.

US tariffs on imports of China
$ bn

Chinese tariffs on imports of US
$ bn

US-China trade war impact
%



Source: *Círculo de Empresarios* based on US Census Bureau and OECD, 2019

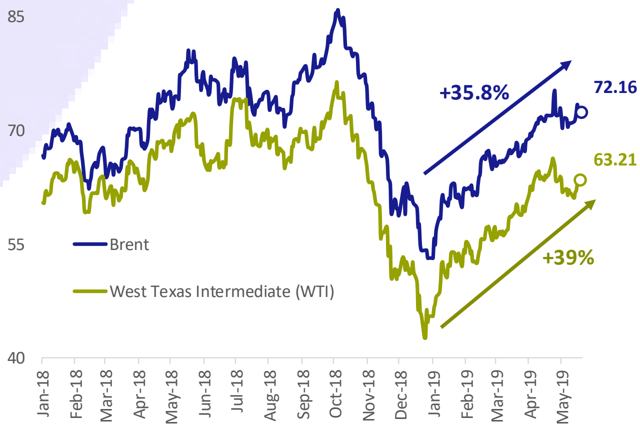
<u>**Uncertainty about US companies**</u>

According to the survey conducted by the US Chamber of Commerce in China, 40% of the US companies surveyed with presence in the Asian country affirm that the escalation of the Trump Administration's trade war will have a strong impact on its trading volume, significantly more than on its European counterparts. Moreover, 33% are reconsidering their investment decisions in China, and 20% are contemplating a future relocation of their production outside the Asian superpower.

OPEC meeting

After the last OPEC meeting held on 19 May, in the wake of less than favourable outlook for global growth and the upsurge in the trade war, the oil-producing countries announced their intention to uphold their policy to cut daily barrels until the end of 2019. This environment, in addition to the tensions between the US and Iran, has boosted the price of Brent and West Texas barrels to $72.16 and $63.2, respectively.
Thus, since January, the prices of Brent crude and West Texas have reported an increase of 35.8% and 39%, although they are still below the record highs hit in October 2018.

Oil prices
$ per barrell



Source: *Círculo de Empresarios* based on EIA, 2019