

Labour costs and minimum wage

In Q1 2019, the average labour cost¹ in Spain has increased for the seventh consecutive month by 2.1% year-on-year (up to €2,550.27 per month per employee), its largest increase since Q4 2013. By components:

- The average salary cost² has increased by 1.7% year-on-year (to €1,876.19 per month per employee), explained in part by the rise in the Minimum Wage³ by 22.3%.
- Non-wage labour costs reported an increase of 3.1% year-on-year, mainly due to the increase in social contributions by 3.6%, after the increase of its maximum base.

By sectors, the biggest increase was recorded in services (2.3% year-on-year), followed by industry (1.8%) and construction (1%).

Madrid and the Basque Country are the Autonomous Communities that reported higher labour costs in absolute terms, exceeding the national average by more than

€400 (€2,530.27 per month per employee), Extremadura is the region with the lowest labour costs (€2,026.42 per month per employee).

Labour and salary costs

YoY change (%)



Source: Círculo de Empresarios based on INE, 2019

The recent evolution of labour costs has weakened the dynamism of the labour market. Specifically, between January and May as registered unemployment reduced at a slower pace, -5.2% year-on-year (vs -10.1% in 2017 and -7.1% in 2018), and the growth in the number of affiliates slipped down to 2.8% (vs 3.4% in 2017 and 3.3% in 2018).

¹ Includes: wages and non-wage labour costs (social contributions and other costs such as non-wage payments, subsidies, and bonuses)

² Includes: base salary, salary supplements, overtime, extraordinary payments and late payments

³ It is now 900 euros per month in 14 payments

Tourism sector outlook

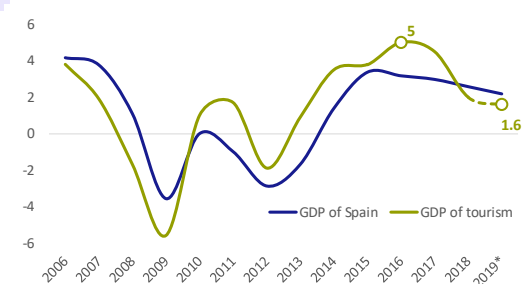
Since 2018, tourism GDP shows a change in trend and slows down until it is below the national average. For 2019, Exceltur forecasts annual growth of 1.6%, compared to 2% in 2018, determined by:

- The increase in demand for competing destinations of the Eastern Mediterranean, such as Turkey, Tunisia or Egypt.
- The lower economic growth of the Eurozone, especially Germany.
- The possibility of a no-deal Brexit.
- The decline in household consumption and the creation of employment in Spain.
- The evolution of oil price.

Particularly in May, the overnight stays of foreign tourists declined by 2.1% compared with the increase of 1.4% reported in the same month of 2018. Further highlighting the drop in German and French tourists, by 15.7% and 9.5%, respectively. The Valencian Community, Navarra, and the Canary Islands are the most affected destinations.

Tourism GDP growth vs GDP of the Spanish economy

YoY change (%)



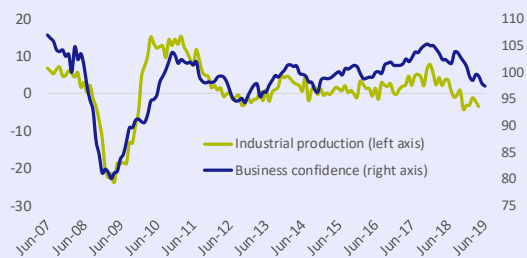
Source: Círculo de Empresarios based on INE and Exceltur, 2019

Business confidence Germany

In June, the German business confidence index ifo slides by 0.3 pp to hit 97.4 points, record low since November 2014.

This evolution confirms the stagnation of the German economy, with the industrial sector being the most affected as production declines at an average annual rate of 2.9% since November 2018.

Business confidence and industrial production
YoY change (%), points



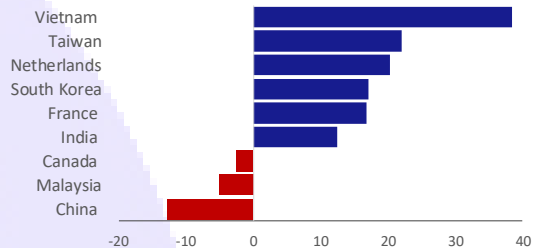
Source: Círculo de Empresarios based on Eurostat and Ifo Institute, 2019

Trade war: Vietnam

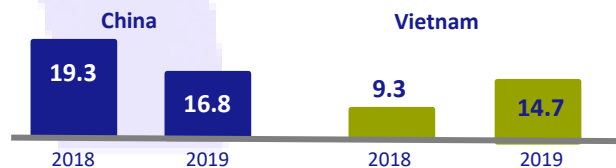
Escalating protectionist measures between the US and China have weakened trade flows between the two powers, reconfiguring the trade of goods to the benefit of other countries such as Vietnam. Between January and April, Chinese exports to the US fell by 12.8% year-on-year, while exports from Vietnam reported an increase of 38.4%.

By branches of production, the Chinese exports of mobile phones and computers fell by 27% and 13%, respectively. In contrast, those from Vietnam increased by 175% and 79%.

Exports to US, accumulated Jan-Apr 2019
YoY change (%)



Exports to US, accumulated Jan-Apr
% of total exports to US



Source: Círculo de Empresarios based on US Census Bureau and Financial Times, 2019

Global investment received

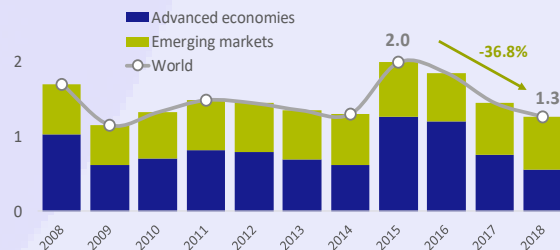
In 2018, according to the WIR¹ of the UNCTAD, the flows received from foreign direct investment (FDI) worldwide fell for the third consecutive year by 13.4% to \$1.3 trillion (1.6% of the global GDP), its lowest level since 2009.

This evolution is explained by the reduction of 27% in the FDI received (to \$557 billion) in advanced economies. Mainly, this was especially significant in the EU28 (-18.5% annual) and in the US (-9.2%), due to the impact of the repatriation of profits by the American multinationals before the tax reduction of the Trump Administration in the second semester of 2018.

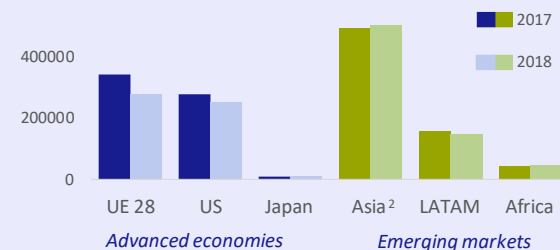
In contrast, in emerging markets, the flows of FDI received increased by 2% to \$706 billion, with remarkable progress in Africa (+10% annually), compared to the decline

experienced in Latin America (-6%). In Asia², it increased by 4% to take the lion's share, 75% of global FDI in 2018.

Foreign Direct Investment
Trillion of \$



FDI evolution by regions
Billion of \$



¹The World Investment Report

² Excluding Japan

Source: Círculo de Empresarios based on UNCTAD and Bankia Estudios, 2019