Business...
at a glance

July-August 2019

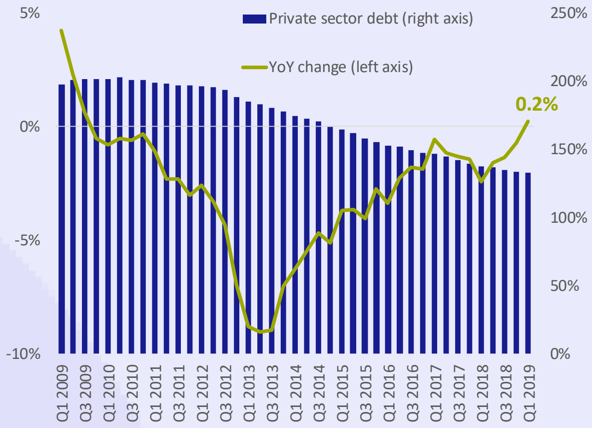
Private sector debt, Spain

In Q1 2019, the consolidated debt of non-financial corporations and households increased for the first time since Q3 2009 by 0.2% year-on-year, to €1.6 billion (132.8% of GDP). In the case of non-financial corporations, the increase in minimum wage, labour and investment costs, and lower profit margins explain the rise in indebtedness by 0.4% year-on-year, up to 74.4% of GDP.

In contrast, the increase in payroll and social benefits favoured a slight reduction in household debt (0.04%), to 58.4% of GDP.

Private sector debt

% of GDP & YoY change (%)



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

Export sector, Spain

In Q2 2019, the Synthetic Indicator of Exporting Activity[1] moderated to 8.7 points (1.6 points less than in Q1 2019), a record low value in a second quarter since 2012, mainly due to the worsening expectations regarding the evolution of the short-term and long-term order book.

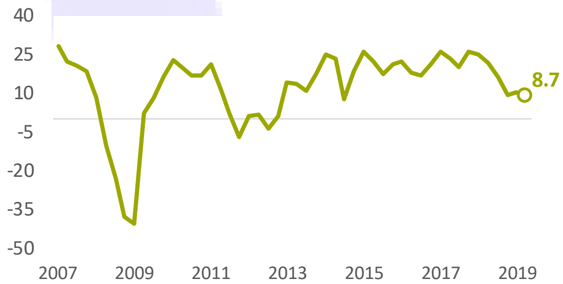
In turn, the global factors that negatively affect the export prospects of the survey respondents are:

- The international price competition .
- Raw material prices.
- Oil prices.

The lower dynamism forecasted for the export sector adversely impacts the job creation attributed to it. Specifically, in the short-term, the forecasts for new hires retreats to 1.6 points, 3 points less than in Q1 2019.

Synthetic Indicator of Exporting Activity

Points



[1]Spanish acronym: ISAE, scale of values (+100,-100). Information on the evolution and prospects of orders from the companies in the Export Situation survey sample (Ministry of Industry, Commerce and Tourism).

Source: Círculo de Empresarios based on Ministry of Industry, Trade & Tourism, 2019

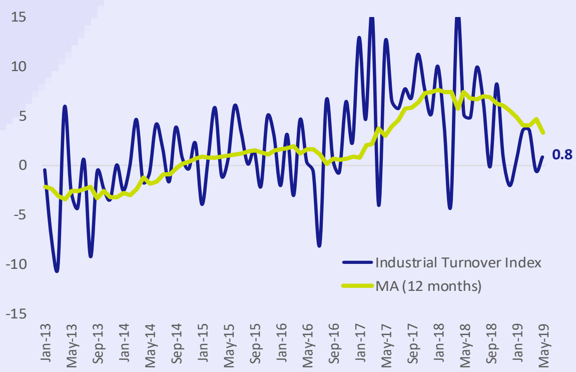
Industrial sector, Spain

In May, the Industrial Turnover Index (ITI), rose by 0.8% year-on-year (1.4 pp more than in April). By typology, the biggest increase was reported in consumer goods (2.3%) and intermediate goods (0.9%), compared to the contraction in energy by 2.3%.

By Autonomous Community, this index rose in 10 of them, where the Region of Murcia stood out the most with an interannual growth rate of 7.7%, as opposed to Extremadura where it fell by 2.3%.

Industrial Turnover Index (ITI)

YoY change (%)



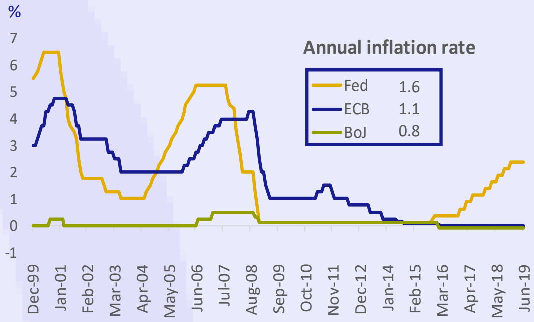
Source: Círculo de Empresarios based on INE, 2019

Monetary policy

The deterioration of economic growth at a global level, the trade tensions between the US and China and the slow rise in inflation are forcing the main central banks to review the stance of their monetary policy:

- After having maintained the interest rates between 2.25% and 2.5%, the Fed expects a rate cut of 0.25pp at the end of July. This monetary stimulus is announced in an environment where inflation (1.6%) is still below the target level (2%), even though:
  - In July, the US recorded the longest economic expansion on record (121 months) and exceeding the one that started in March 2001 (120 months)
  - The unemployment rate is at 3.6%, a historic low since 1969.
  - Salaries are at an interannual rate of 3.1%, in line with their year-on-year economic growth (3.1% Q1 2019).
- The ECB does not expect any change to its official rate (0%), although the Bloomberg analyst consensus expects a 0.1pp cut in its deposit rate to −0.5%. The granting of new macro loans to banks and the launch of a new quantitative easing (QE) of €45 billion per month.
- The Central Bank of Japan maintains its official deposit rate at -0.1% and its bond purchase programme amounting to ¥80 billion per year (€659 billion) until mid-2020 amidst an environment where the country's economic growth exceeded expectations by 2.2%[1] YoY in Q1 2019.

Main policy rates



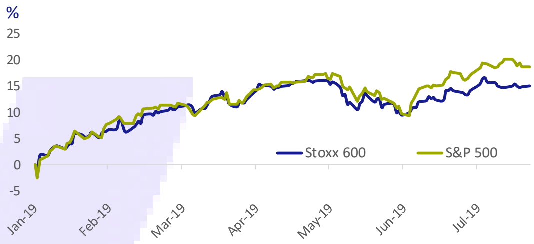
[1]IMF has revised downward Japan´s GDP in 2019 (0.9%)

Source: Círculo de Empresarios based on Bloomberg & Thomson Reuters, 2019

S&P 500 earnings

In Q2 2019, the earnings of the S&P 500 companies decreased by 1.9% year-on-year for the second consecutive month, confirming the US economic slowdown. This evolution contrasts with the profitability of the index, which since January has made headway by 18.6% despite the uncertainty generated by the deceleration of global economic growth, US trade policy, and the geopolitical scenario.

S&P 500 & Stoxx 600 index



Source: Círculo de Empresarios based on Thomson Reuters & Facset, 2019

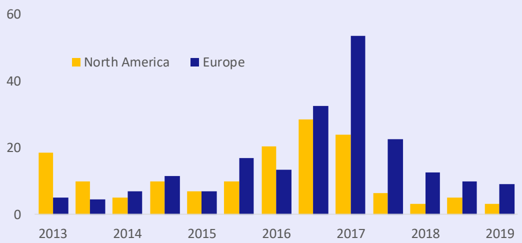
FDI China

In the first half of 2019, foreign direct investment (FDI) from China to North America and Europe fell by 18% to reach $12.3 billion (0.09% of its GDP), mainly due to restrictions by the Chinese authorities on the capital outflow.

By sectors, 75% of investments in these two regions were concentrated in the automotive and consumer goods and services. In turn, the increase in Chinese investment in non-strategic sectors explains its rise in the Nordic countries. Specifically in Finland, which accounts for 43% of the total FDI received in the first half of 2019, followed by the US (26.8%) and Sweden (8.9%).

Chinese FDI in Europe & North America

YoY change (%)



Source: Círculo de Empresarios based on Rhodium Group & Baker Mckenzie, 2019