Economy...
at a glance

CÍRCULO DE EMPRESARIOS
ideas for growth

July - August 2019

National accounts, Spain

In Q1 2019, GDP increased by 2.4% year-on-year (0.1pp more than the previous quarter). This evolution is mainly on the back of domestic demand contribution (2.2pp), despite it reporting a lower dynamism compared to Q4 2018 (2.5pp):

- Business investment rose by 4.7%, which is 0.3pp more than in Q4 2018.
- Domestic consumption reported a moderate growth to 1.6% YoY, 0.4pp less than Q4 2018.

In turn, the external sector regained its positive contribution to GDP growth (0.2pp vs −0.2pp in Q4 2018), due to the combination of a fall in imports of goods and services by 0.5% YoY (2.2pp less than Q4 2018) and the stagnation of exports.

By sectors, the increase in construction by 6.6% year-on-year starkly contrasts with the stagnation of agriculture, and the slight increase in industry (0.1%) which returned it to positive territory after the decline occurred in Q4 2018.

In this context, the European Commission forecasts that the Spanish economy will grow by 2.3% in 2019, which is 0.2pp higher than its previous forecast.

GDP evolution
YoY change (%), growth contributions

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

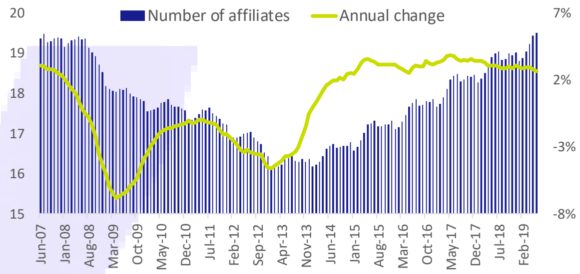
Labour market, Spain

In June, the number of unemployed people registered in the Social Security dropped by 4.6% year-on-year, falling to a new total of 3,015,686 people, a record low since November 2008.

Whereas, the average affiliation increased by 2.7% year-on-year to 19,517,697 employed people, surpassing the record high of July 2007 (19,493,050 affiliates). By sectors, there is a marked increase in the construction sector (5.2%), trailed by services (2.9%) and industry (1.3%), as opposed to the decline in affiliates of agriculture by 0.3% year on year.

This positive evolution notwithstanding, the pace of progress of affiliation in H1 2019 has slowed down, compared with the same period last year (3.4%), to an annual average of 2.8%.

Affiliation Social Security
Millions of people, YoY change (%)



Source: *Círculo de Empresarios* based on Ministry of Labour & Employment, 2019

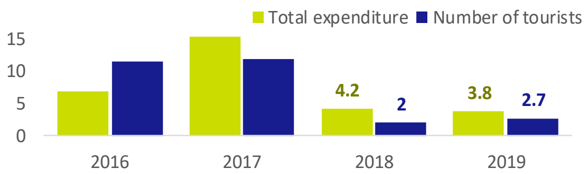
Tourism industry, Spain

Between January and May, tourist arrivals in Spain increased by 2.7% year-on-year, 0.7pp more than in 2018, reaching a total of 29.3 million visitors.

The rise in tourists from Russia (17.1%), the US (14.1%) and Portugal (10.5%) is noteworthy. Nonetheless, the UK, Germany and France continue to be the top tourist sending countries.

However, tourism spending reported a lower dynamism, increasing by 3.8% year-on-year, 0.4pp less than in the same period last year, amounting to a total of €30.7 billion (2.54% of GDP).

Tourism sector evolution, accumulated Jan-May
YoY change (%)



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

UK: economic slowdown

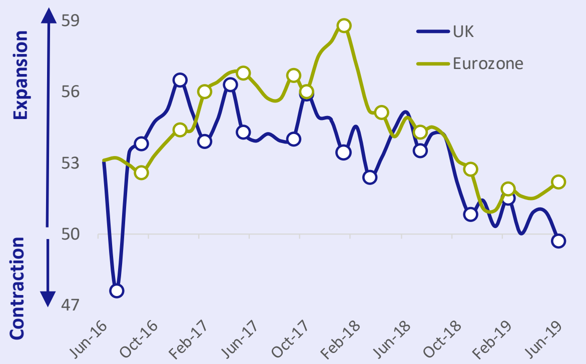
Bloomberg forecasts that the UK GDP will shrink by 0.1% in Q2 2019, in line with the trend shown by the main leading indicators.

Specifically, in June, the composite PMI slipped to 49.7 points, plunging it to the contraction zone for the first time since the Brexit referendum. In contrast, the Eurozone reported an upswing in the composite PMI, reaching 52.2 points.

By sectors:

- The Manufacturing PMI sank to 48 points, lingering for the second consecutive month in the contraction zone. This trend, predominantly explained by the global downturn and the persistent trade tensions, coincides with the evolution of the US and the Eurozone.
- The Services PMI declined to 50.2 points, mainly due to the lower business investment in the UK logistics industry.
- The UK construction PMI plunged to 43.1 points, a record low since April 2009. This sector has been severely affected by the waning consumer confidence and the delay in the start-up of new construction projects in light of the constitutional crisis of the country and the mounting probability of a no-deal Brexit.

Composite PMI
Points



	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19
Manufacturing PMI	51.1	53.3	54.3	52.8	52.1	55.1	53.1	49.4	48
Services PMI	52.2	50.4	51.2	50.1	51.3	48.9	50.4	51	50.2
Construction PMI	53.2	53.4	52.8	50.6	49.5	49.7	50.5	48.6	43.1

Source: *Círculo de Empresarios* based on Financial Times & Markit, 2019

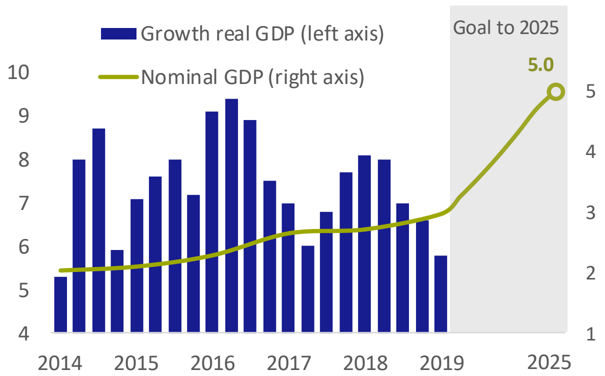
India: public deficit

The Indian Government announced a downward revision of its public deficit target to 3.3% of GDP in 2019/2020, which is 0.1pp lower than previously set, on the back of a foreseeable increase in tax revenues.

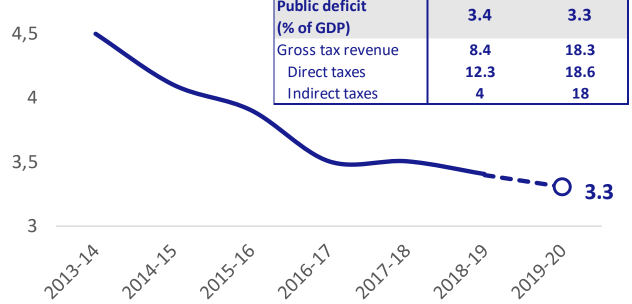
To achieve this objective, tax collection should increase by 18.3% annually, 9.9pp more than the previous year. This fiscal projection is unrealistic, given the moderation in the growth of the Asian country. Since 2013, tax revenues have increased on average by 13.2% per year, with an average annual GDP increase of 7.3%.

In Q1 2019, India's economic growth stood at 5.8% year-on-year, which is 1.25pp lower than what the IMF forecasted for 2019. If this evolution continues, the Modi government would not only fail to comply with its fiscal path but also its goal of doubling the Indian GDP to $5 trillion by 2025.

GDP evolution, India
YoY change (%) y $bn



Public deficit
% of GDP & YoY change (%)



	2018-2019	2019-2020
Public deficit (% of GDP)	3.4	3.3
Gross tax revenue	8.4	18.3
Direct taxes	12.3	18.6
Indirect taxes	4	18

Source: Círculo de Empresarios based on Financial Times & Bloomberg, 2019