

Growth forecasts

The Bank of Spain has revised down its growth forecast for the Spanish economy to 2% in 2019 and 1.7% in 2020, which is slightly lower than that provided by the Government and the Funcas consensus (2.2 % in 2019 and 1.9% in 2020).

The main causes that explain this downward forecast are the loss of dynamism in the domestic and external demand, and the revision of the National Accounts by INE, in a context of a lack of national political stability and the escalating geopolitical and economic risks worldwide.

Deficit forecasts

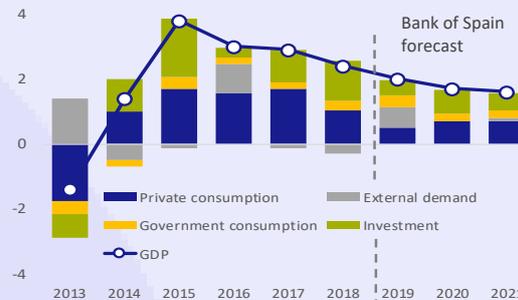
According to the Bank of Spain, the public deficit will reach 2.4% of GDP in 2019, exceeding the target sent by the Acting Government to the European Commission¹ and the one set on the path of fiscal consolidation of the PGE 2018, by 0.4pp and 1.1pp, respectively.

If this forecast were to come true, then in order to set the public deficit at its official target of 0.5% of GDP in 2020, a budgetary adjustment of 1.9pp (approximately €24 billion) would be necessary, a figure that

Specifically, the OECD forecasts that the world economy will grow by 2.9% this year, the lowest growth rate in 10 years, and the Eurozone by 1.1%.

GDP growth

YoY change (%) and growth contributions (pp)

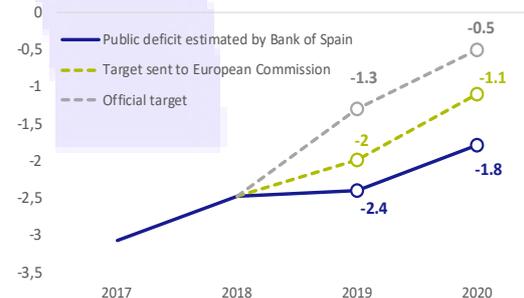


Source: Círculo de Empresarios based on Bank of Spain & Funcas, 2019

would exceed the real GDP growth in 2020 (1.7% Bank of Spain).

Deficit forecast

% of GDP



¹ Latest final plan submitted to the European Commission

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

Balance of trade

Between January and July 2019, exports of goods increased by 2% year-on-year to amount to €172.695 million (14% of GDP), which is 1.8pp lower than in the same period of 2018. Imports experienced a moderate growth amounting to €189,893 million (15.5% of GDP), standing at 1.5% year-on-year, compared with 6.2% in the same period of 2018. This evolution has allowed Spain to reduce the trade deficit by 3.6% year-on-year until accounting for 1.4% of GDP (€17.198 billion), in which 81.2% is explained by the energy component.

By sectors, the greatest contribution made to the export growth was by capital goods

(1.3pp), food, beverages and tobacco (0.7pp), and chemical products (0.6pp), while cars contributed negatively by 0.7pp.

Exports and imports of goods

Billion €



Source: Círculo de Empresarios based on Ministry of industry, trade and tourism, 2019

Economic activity evolution

Germany

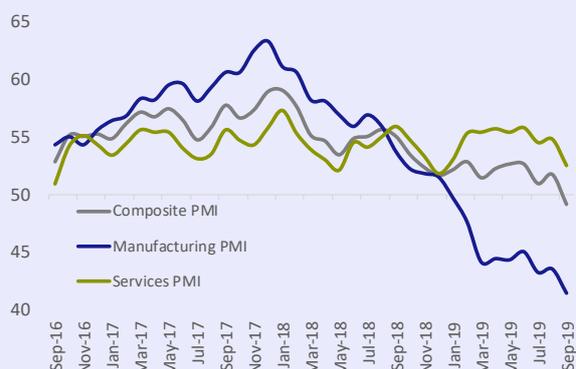
In September, the composite PMI of Germany (a leading indicator of the evolution of GDP) slipped back to 49.1 points, entering the contraction zone for the first time since October 2012. This negative development piles on with the other indicators that forecast a possible technical recession in Q3 2019 for the German economy.

By sectors, the manufacturing PMI continues to spiral downwards to 41.1 points, mainly due to the slowdown in industrial activity that grows at its slowest pace in a decade.

Although the services PMI is still in the expansion zone, it dropped to 52.5 points due to the lower dynamism of German domestic demand.

Evolution of PMI

Points



Source: Círculo de Empresarios based on Markit, 2019

Germany's business confidence continues to plunge in the context of a global economic slowdown. In September, the confidence of the business people stood at 94.6 points, keeping to the record lows in November 2012.

US

In September, the Fed announced, for the second consecutive month, a further drop in interest rates, placing them in the range between 2%–1.75%. This decision is taken in a context of global economic slowdown with rising trade and geopolitical tensions, and now also, the lower dynamism of the US economy.

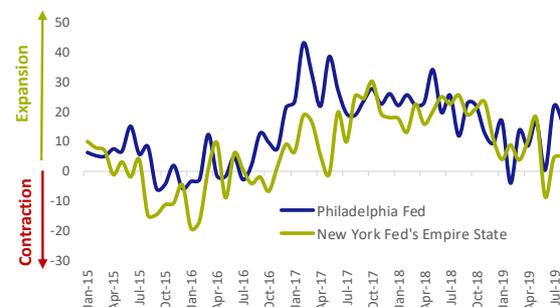
Specifically, based on the latest data published in September, these stand out:

- Consumer confidence fell to 125.1 points, 9 points less than in August (134.2).
- The New York Fed's Empire State manufacturing survey's main index² and the Philadelphia Fed survey² fell to 2 and 12 points respectively.

- In contrast, the sale of newly built homes rose by 18% year-on-year, compared with 6.2% in the previous month.

Manufacturing activities

Points



² Both indicators measure the dynamism of the manufacturing sector. The series forecasted by the Philadelphia Fed takes a sample size of 250 manufacturers in Philadelphia County, while the NY Fed takes a sample size of 200 manufacturers from the State of New York.

Source: Círculo de Empresarios based on Bloomberg, 2019

India

In Q2 2019, India's GDP grew by 5% year-on-year, when the OECD was forecasting a 5.9% increase for the year as a whole, the lowest recorded in 7 years. Given the moderation in growth, the Government has announced a package of expansive fiscal policy measures to boost foreign investment, make India the new

manufacturing centre in Asia, and gain prominence against China. To accomplish this, India plans to improve the competitiveness of its tax system, reducing the Corporate Income Tax to 22% (compared with the current 30%) and establishing a new rate of 15% for start-up companies over 4 years.

¹ 'Economy at a glance', a publication of the Círculo de Empresarios produced by its Department of the Economy, contains information and opinion from reliable sources. However, the Círculo de Empresarios does not guarantee its accuracy and does not take responsibility for any errors or omissions. This document is merely informative. As a result, the Círculo de Empresarios is not responsible for any uses that may be made of the publication. The opinions and estimates of the Department can be modified without prior warning.