



CÍRCULO  
DE EMPRESARIOS  
*ideas for growth*

# Economy in check due to global risks

SEPTEMBER  
2022

ECONOMY

# Global



# | Summary

## Global economic situation

The world is facing a context of high geopolitical and economic uncertainty that may lead to a foreseeable simultaneous contraction in the main areas. The post-pandemic economic recovery has been disrupted by the direct consequences of the Russian invasion of Ukraine and its collateral effects on energy prices and supplies. The persistence of some risks and the materialization of other latent risks would turn the slowdown into a recession. Of particular note are the high inflation rates caused by the increase in the price of energy and food raw materials, and their transmission to the rest of the consumption basket, as well as by the continuous tensions in the supply chains. Also, if the systematic interruption of Russian natural gas supplies to Europe becomes effective, the impact on European economies will be significant and could trigger a global energy crisis. Finally, it cannot be ruled out that a disruption of grain exports from Ukraine and Russia could lead to a food crisis.

In this environment of generalized inflation, major central banks have begun to normalize their policies, reducing sovereign debt purchases and raising interest rates. This monetary tightening will have a negative impact on the recovery, but it is necessary, especially where inflation expectations are beginning to unanchor. Without action, there may be second-round effects with upward spirals requiring further monetary tightening, further damaging growth and employment.

The main international organizations have revised their global growth forecasts downwards. Thus, in June, the OECD lowered its forecasts for 2022 to 3% year-on-year (vs. 4.5% estimated in December 2021), and in July, the IMF updated its April forecasts, reducing growth for 2022 by 4 tenths of a percentage point to 3.2%.

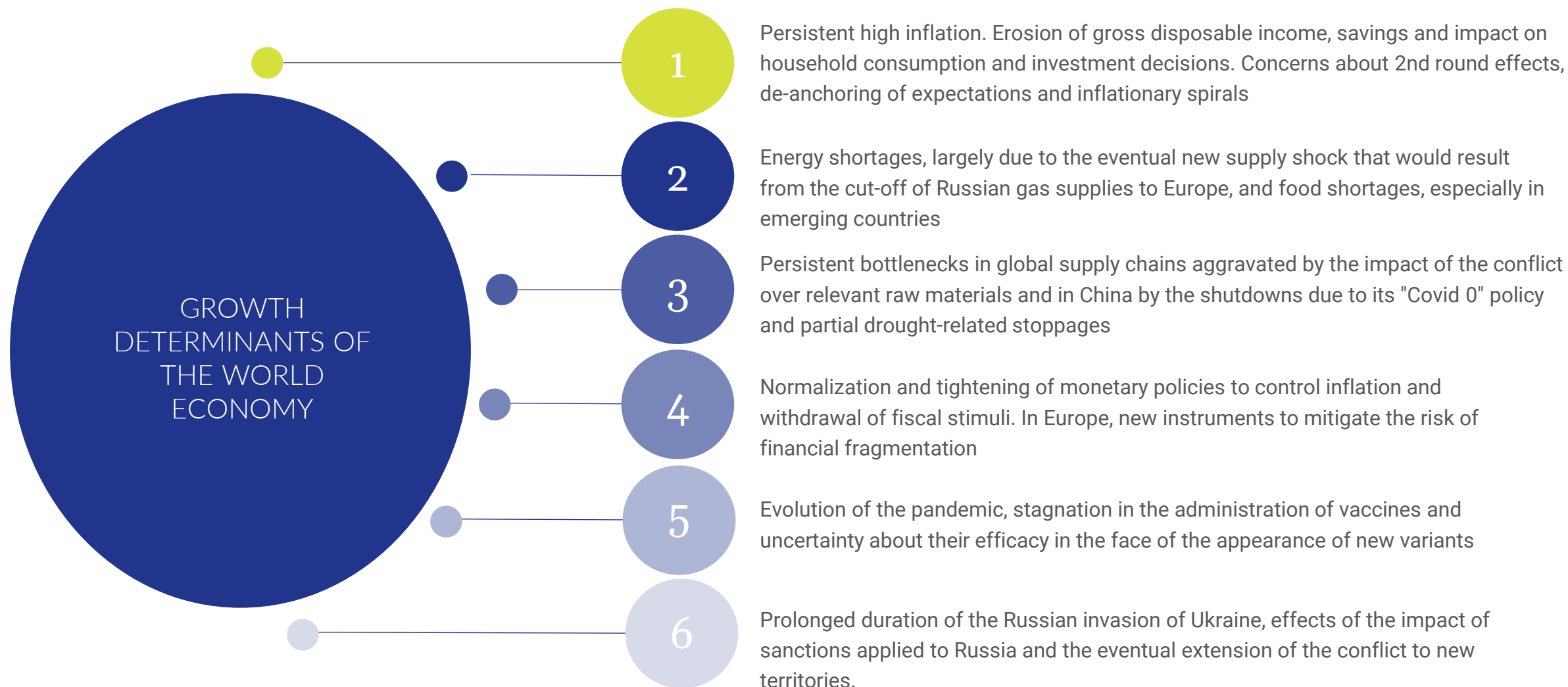
# 3.2%

world GDP growth in 2022 forecast by  
the IMF in July 2022

# 2.9%

world GDP growth in 2023

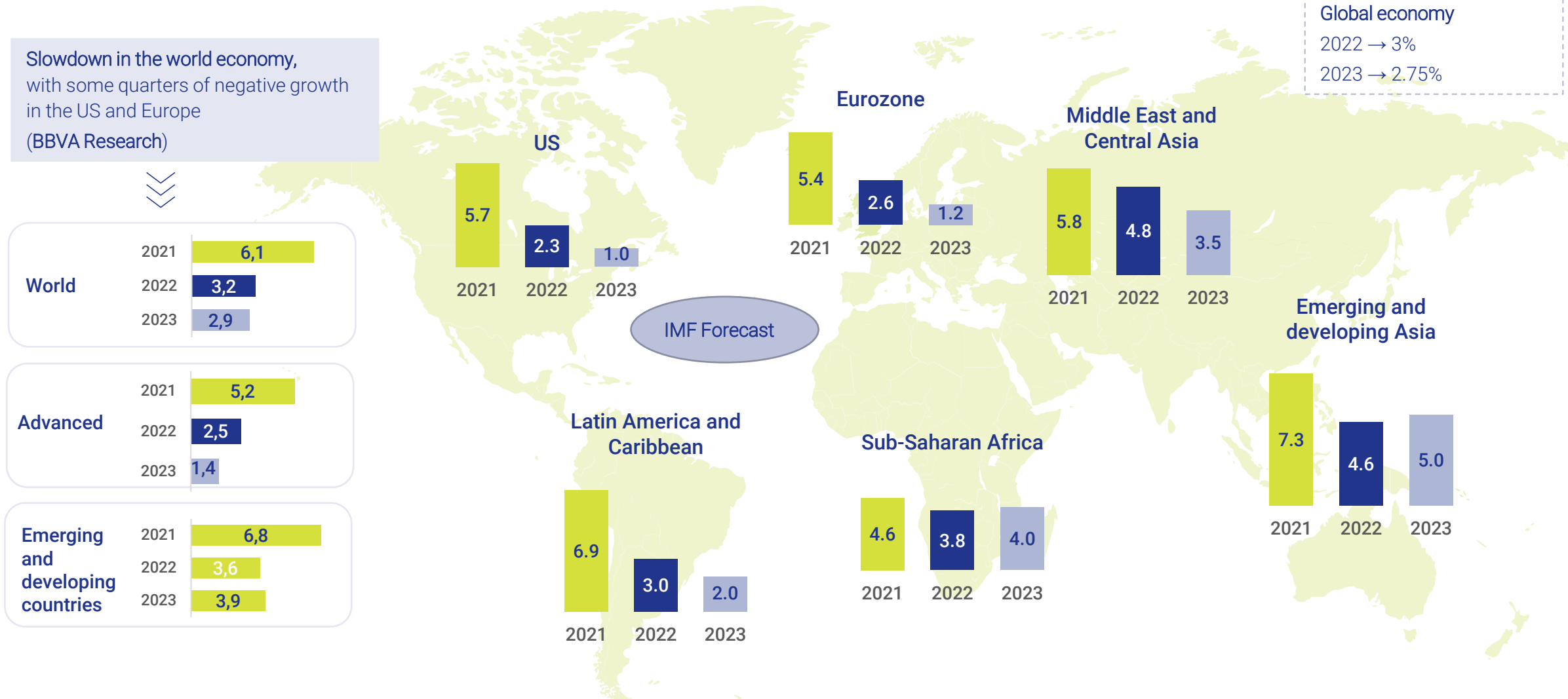
# Major risks to the global economy



# Downgrading forecasts and economic slowdown

Slowdown in the world economy, with some quarters of negative growth in the US and Europe (BBVA Research)

OECD Forecast (June 22)  
Global economy  
2022 → 3%  
2023 → 2.75%



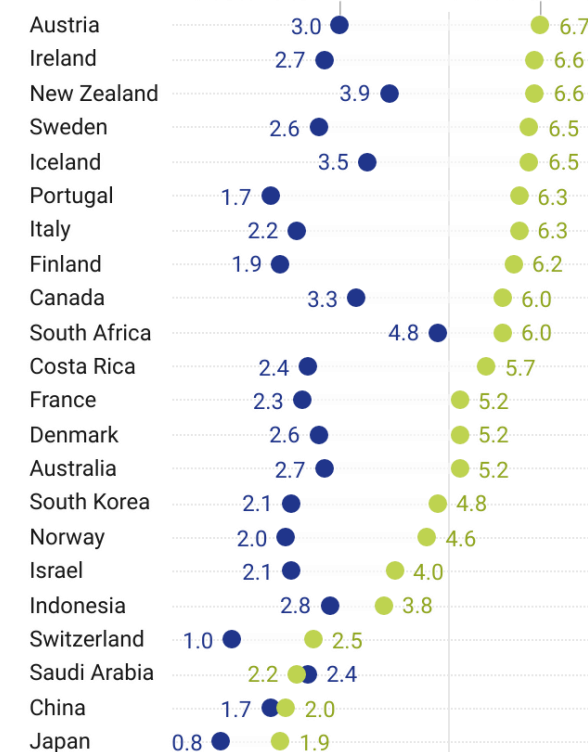
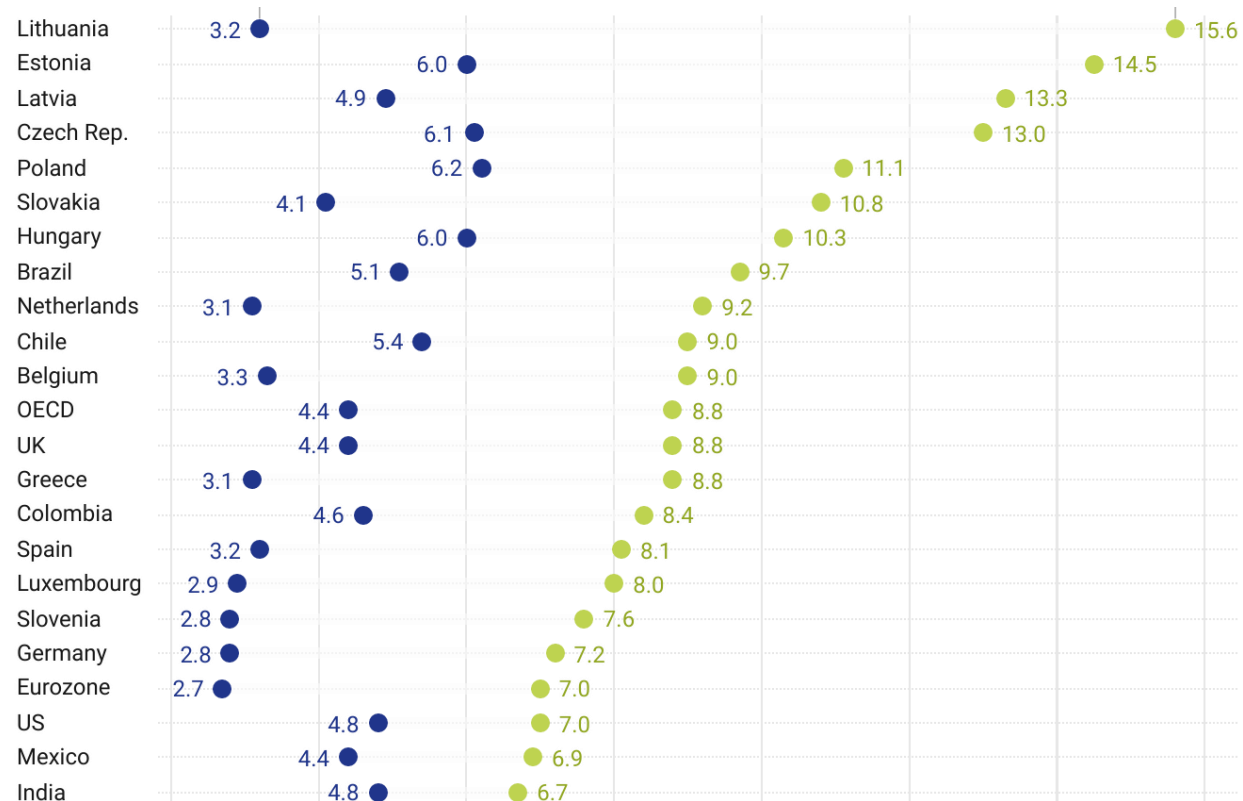
# Negative impact of the war on prices

Inflation rates continue to rise as food and energy prices increase and supply chain tensions persist

## OECD updates upwards its inflation forecast for the year 2022

% y-o-y change

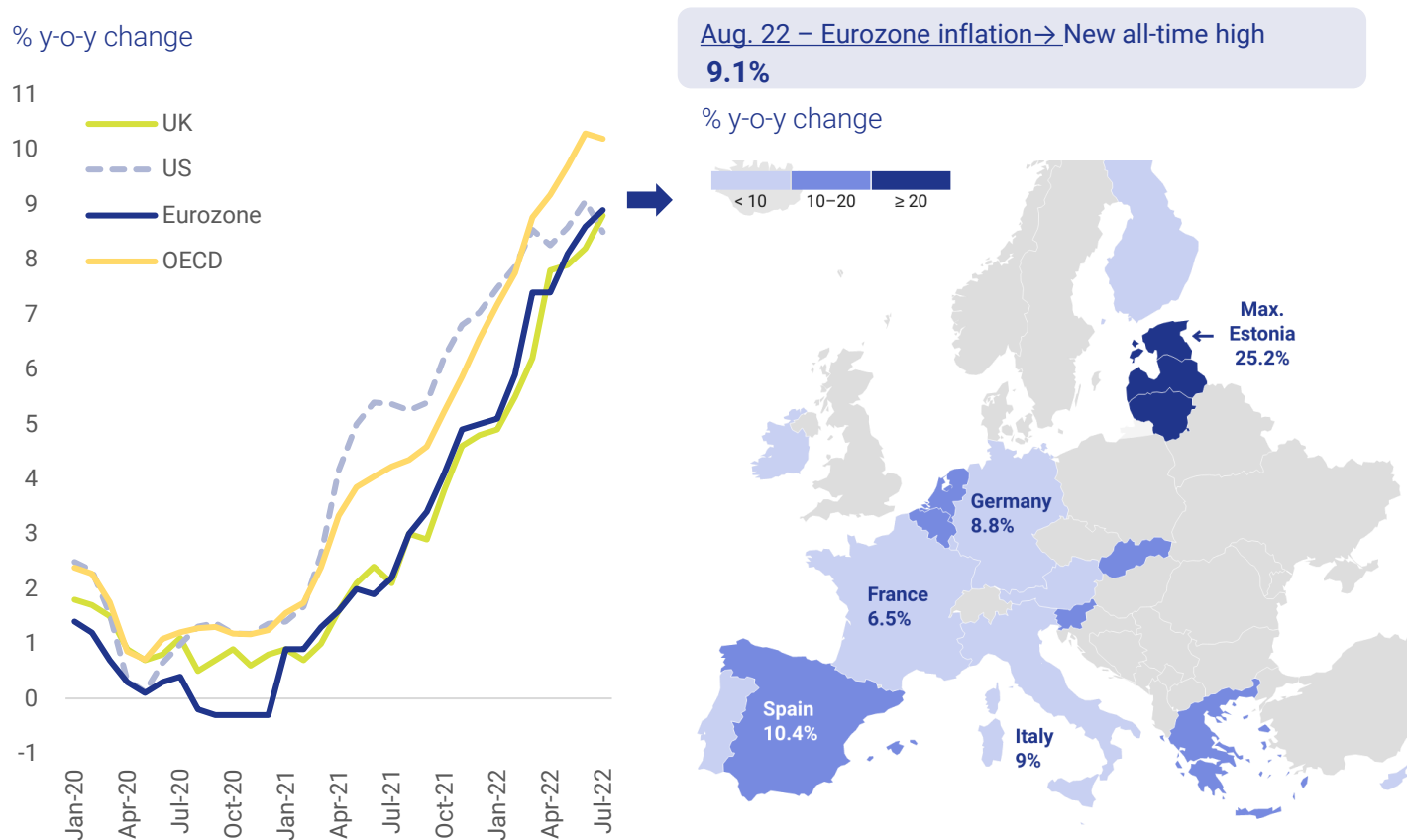
● Dec. 21 initial forecast      ● Forecast updated on Jun.22



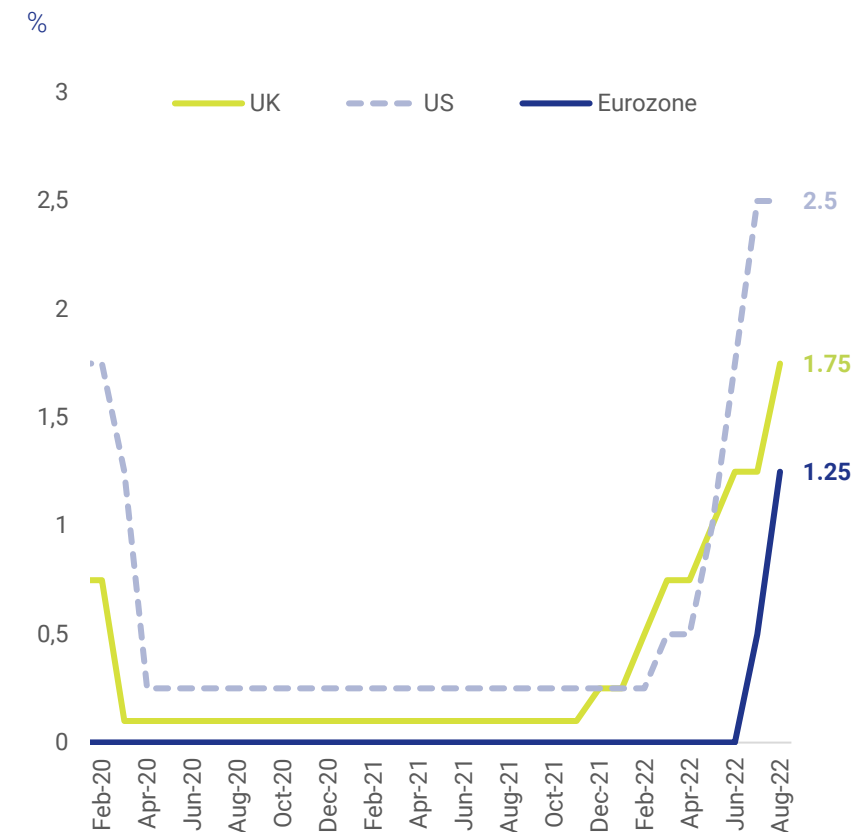
Source: *Círculo de Empresarios* based on OECD, 2022.

# Inflation in the OECD and the Eurozone (Jul.-Aug. 22)

OECD rates are the highest in the past 40 years



In response, the major central banks raise their benchmark interest rates

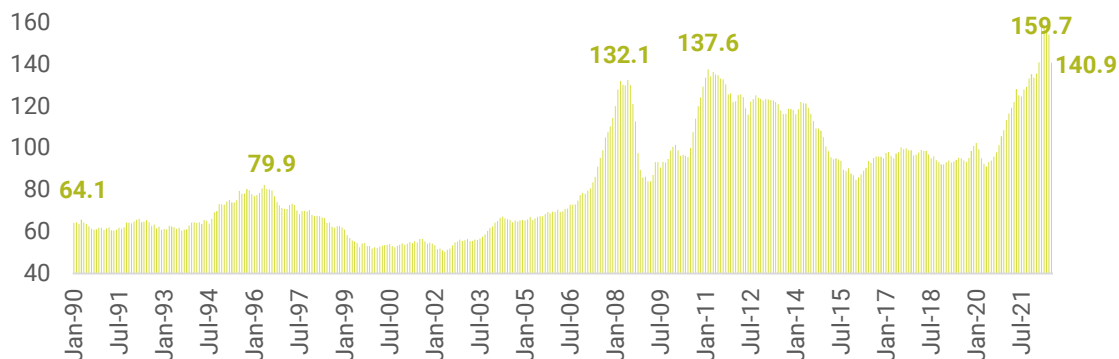


# Increases in raw material prices

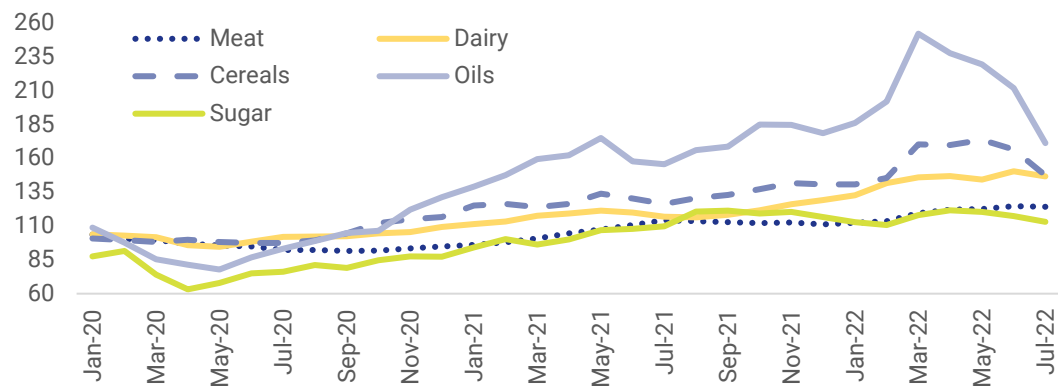
Post-pandemic supply constraints and war in Ukraine put pressure on commodity prices

## Food commodity prices remain at record highs

FAO monthly food price index



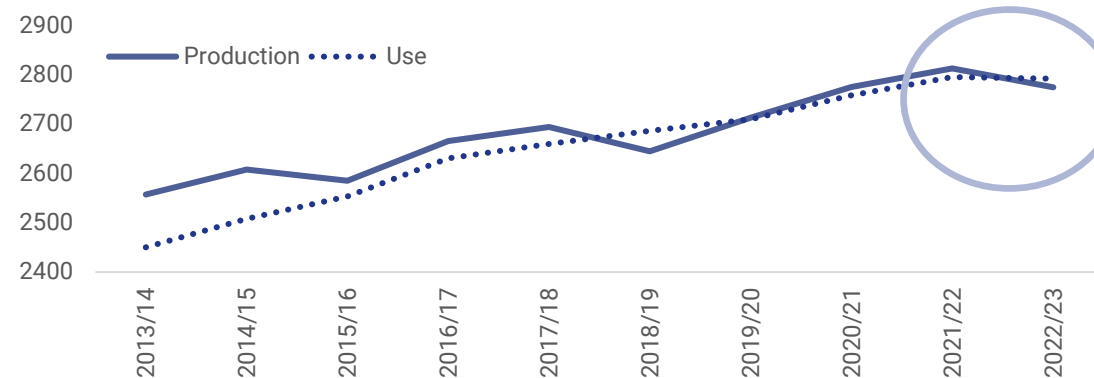
Oils and cereals lead increases



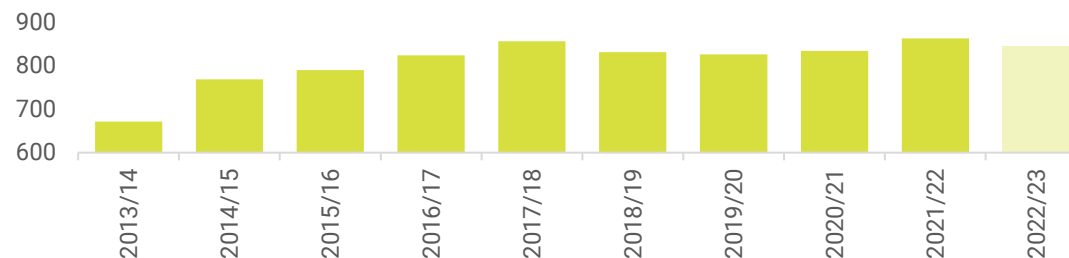
## Drought in northern hemisphere countries has led FAO to downgrade the world cereal production forecast for 2022

Most of the expected decline relates to corn production in the EU due to the exceptionally hot and dry weather conditions since late spring

Global cereal production and use figures  
Millions of tons



Global cereal stocks figures  
Millions of tons



Source: *Círculo de Empresarios* based on FAO, 2022.

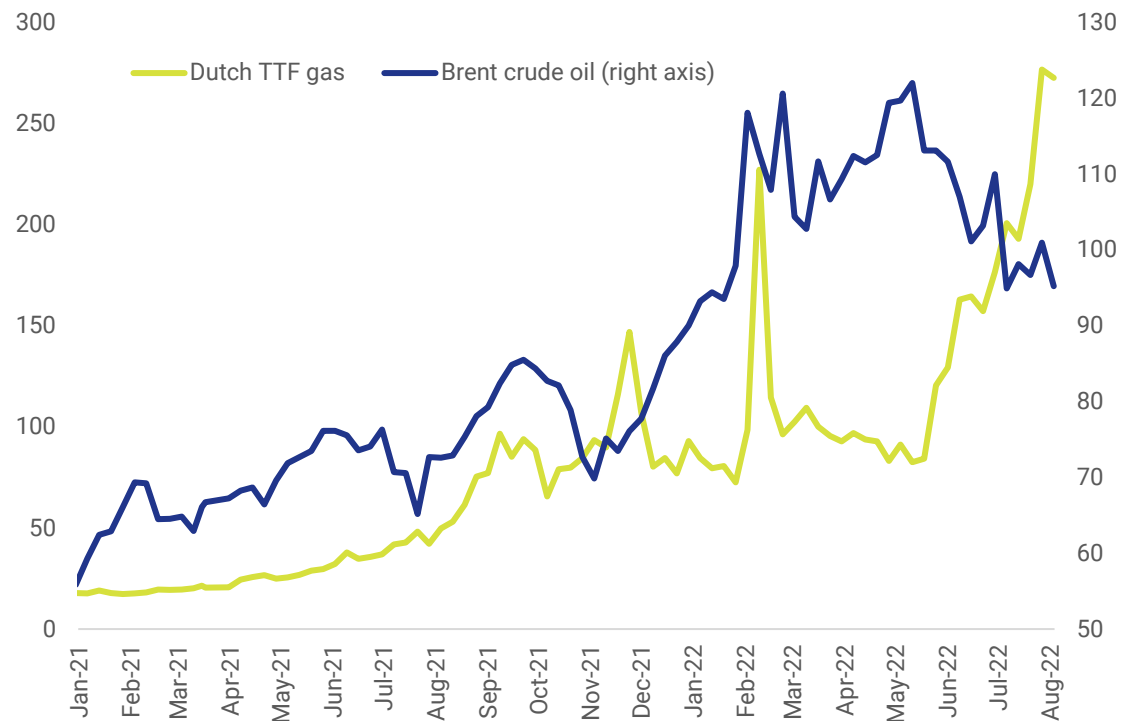


# Threat of energy crisis in Europe

Energy prices, mainly gas, continue to rise. If the warning of a systematic cut-off of Russian gas supplies to Europe comes true, there is a latent risk of economic recession in some of the main European economies

## Oil and gas price developments

€/MWh and \$/barrel of crude oil



## Main energy risks in Europe

- X Rising gas and electricity prices, which are linked, would exacerbate the impact on the cost of living
- X Social and political unrest if consumers find it difficult to heat their homes and buy basic commodities
- X Cold snaps in Asia and Europe would intensify global competition for limited liquefied natural gas (LNG) cargoes
- X Persistent drought could make it difficult to deliver coal to power plants being reactivated to reduce gas use
- X OPEC price increases

# Tensions in supply chains moderate slightly

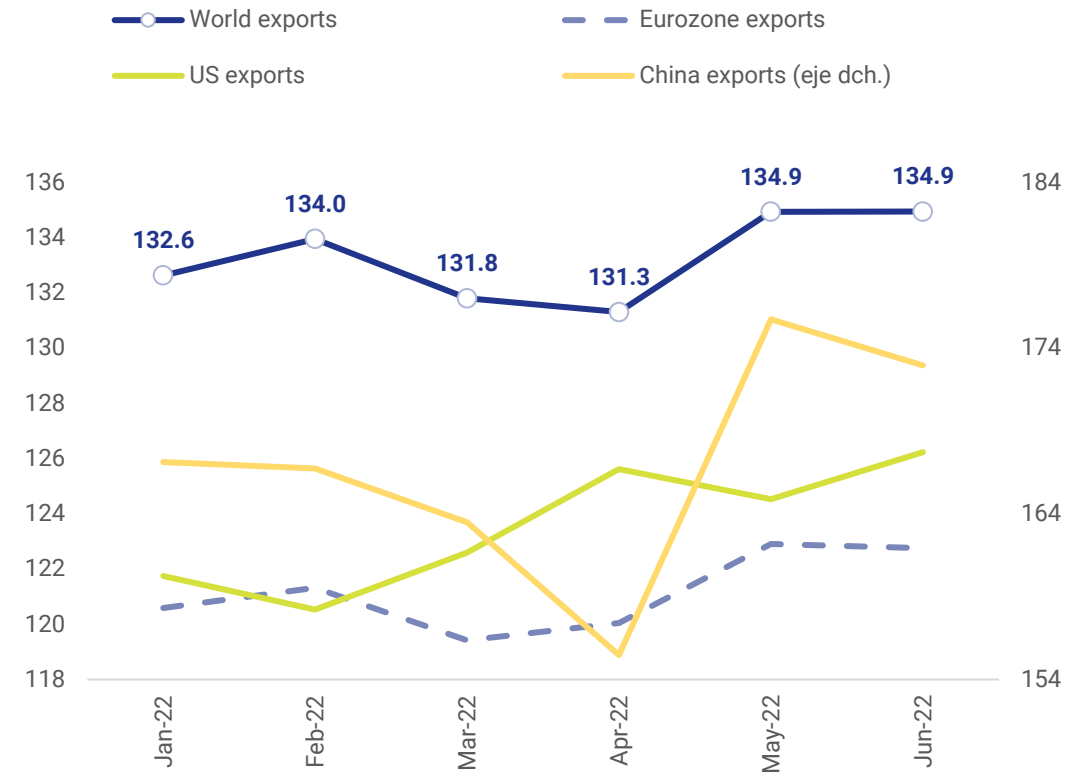
Gradually removing the anomaly of congestion in global supply chains and lowering shipping costs

Global supply chain pressure index.  
Value = 0 is at its mean. Values +/- indicate deviation +/- from the mean



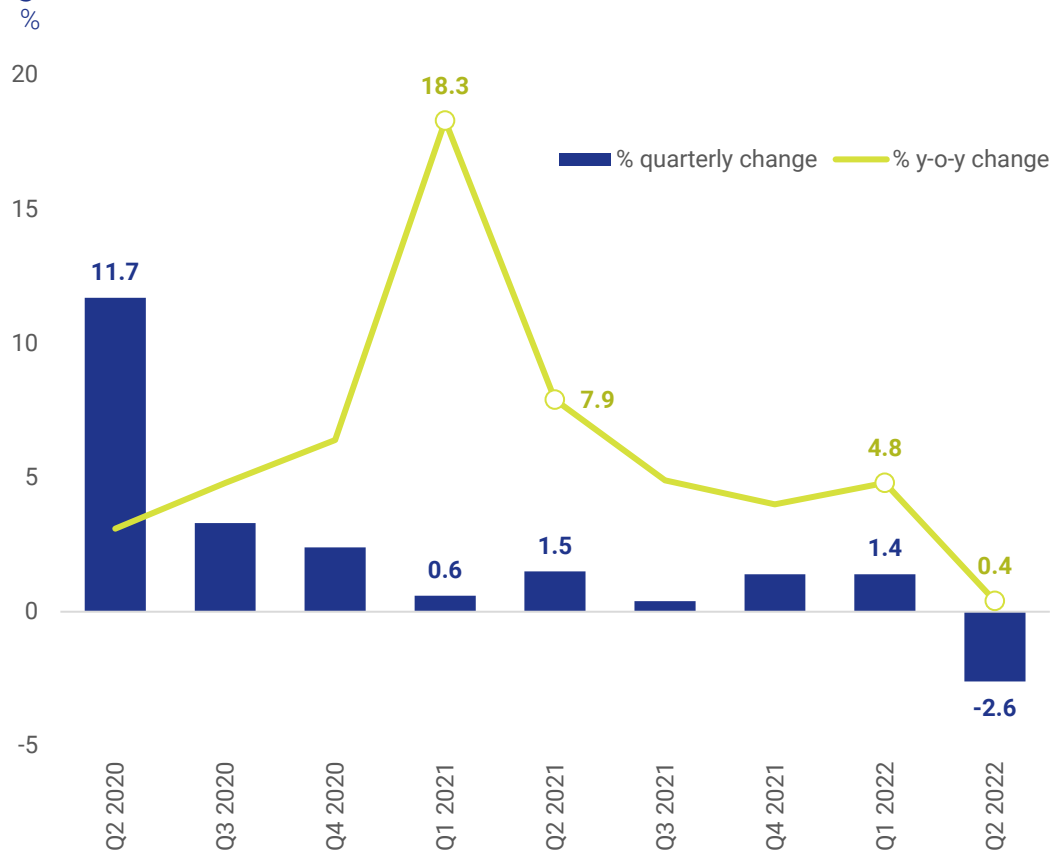
World trade recovers dynamism after deterioration due to the Russian invasion of Ukraine and the beginning of the war conflict

Index 2010 = 100



# China: economic slowdown

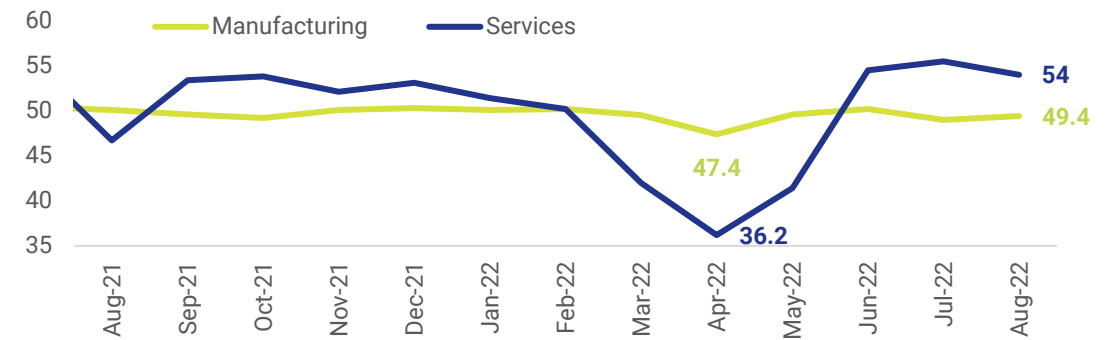
In Q2 22, China's GDP fell by 2.6% due to the cessation of activity linked to the zero Covid policy and real estate problems. In year-on-year terms, growth continues to decelerate



Source: *Círculo de Empresarios* based on NBSC and Statista, 2022.

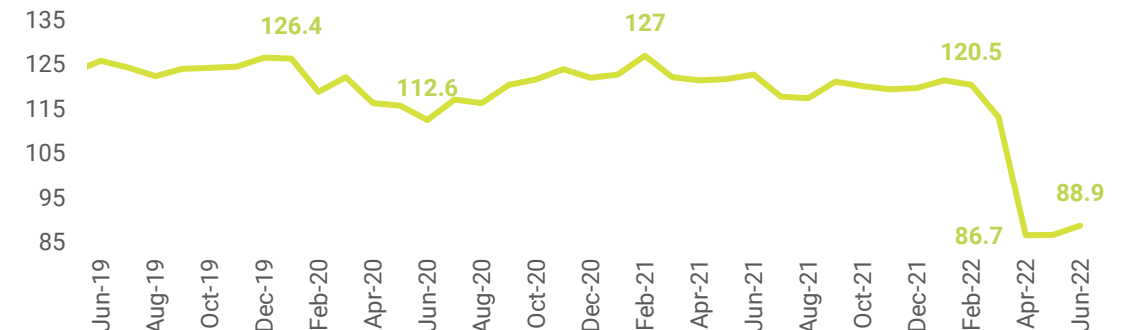
Manufacturing PMI remains in contractionary zone in Aug. 22, while services PMI recovers after slump due to Ukraine war

Points (< 50: economic activity contraction; > 50: economic expansion)



Deteriorating Consumer Confidence due to growing global uncertainty

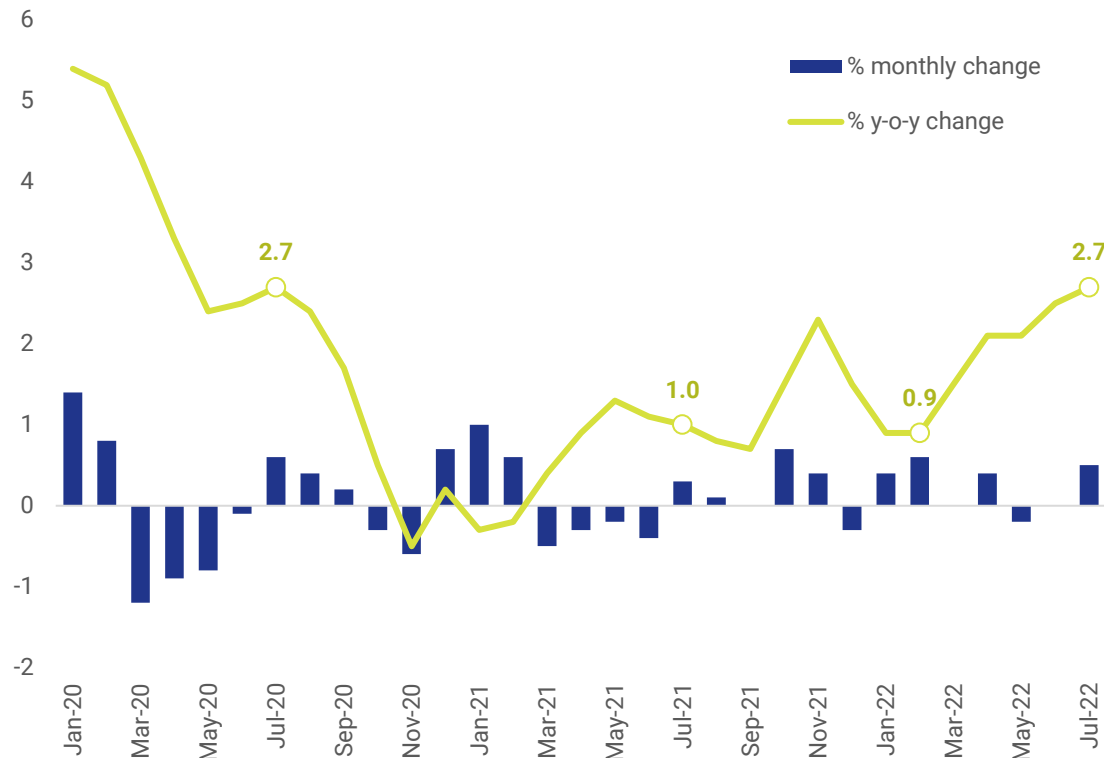
Points (<100: consumer pessimistic about their economic situation; >100: consumer optimistic)



# China: moderate inflation, but upward trend

The annual inflation rate has been on an upward path since March 22, recovering in July from the 2.7% recorded in July 20

% change



Highlights include year-on-year increases in medicine and food and non-alcoholic beverages

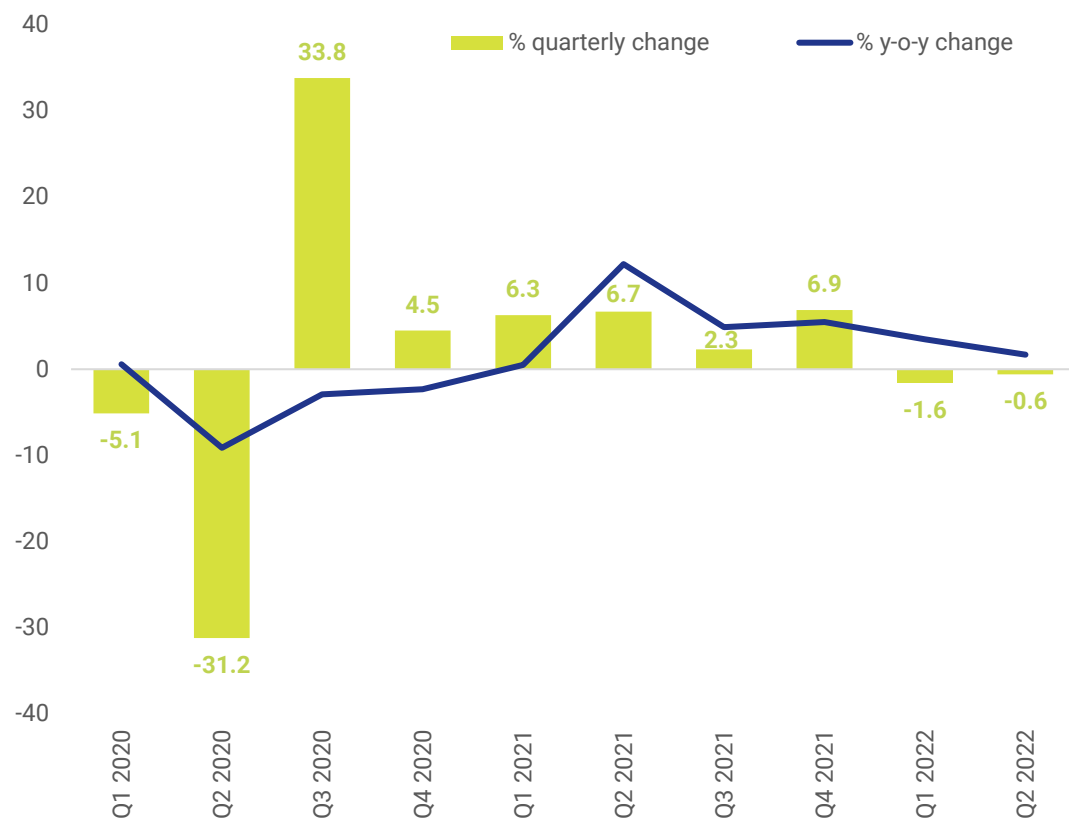
% change

	% monthly change	% y-o-y change
<b>Food and non-alcoholic beverages</b>	1.9	4.7
<b>Transport</b>	0.5	1.5
<b>Homeware</b>	0.3	1.4
<b>Leisure and culture</b>	0.0	0.7
<b>Clothes and footwear</b>	0.0	0.7
<b>Alcoholic beverages and tobacco</b>	-0.4	0.7
<b>Medicine</b>	-0.7	6.1
<b>Housing</b>	-0.7	0.9

# The US: in technical recession but with job creation

In Q2 21, the US economy declined for the second consecutive quarter amid persistent inflation, low unemployment, rising interest rates and supply chain problems

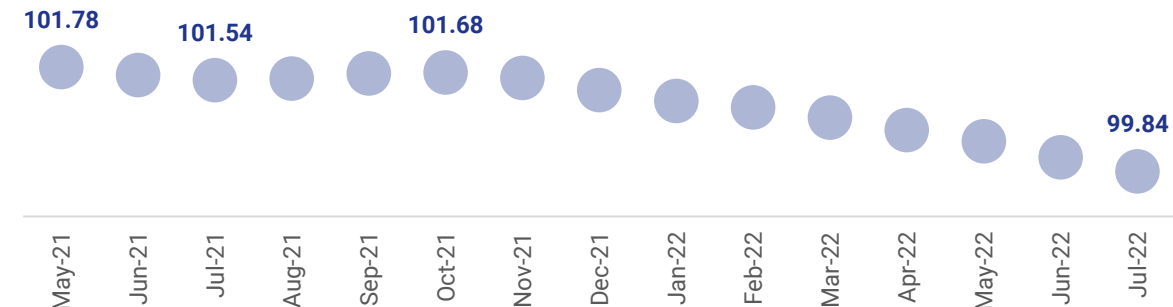
% change. Annualized rates



## Uncertainty and economic slowdown dampen confidence

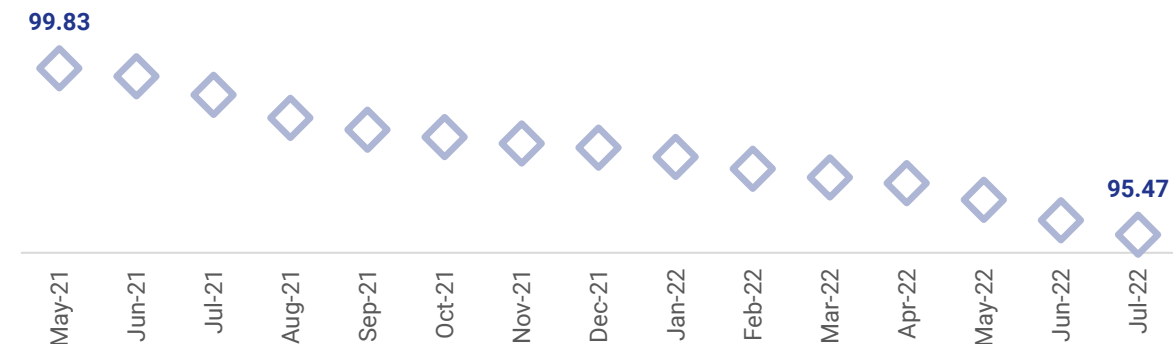
### Business confidence (on production and sales evolution)

Index >100: increased confidence and potential growth of economic activity  
< 100: possible decline in future business performance



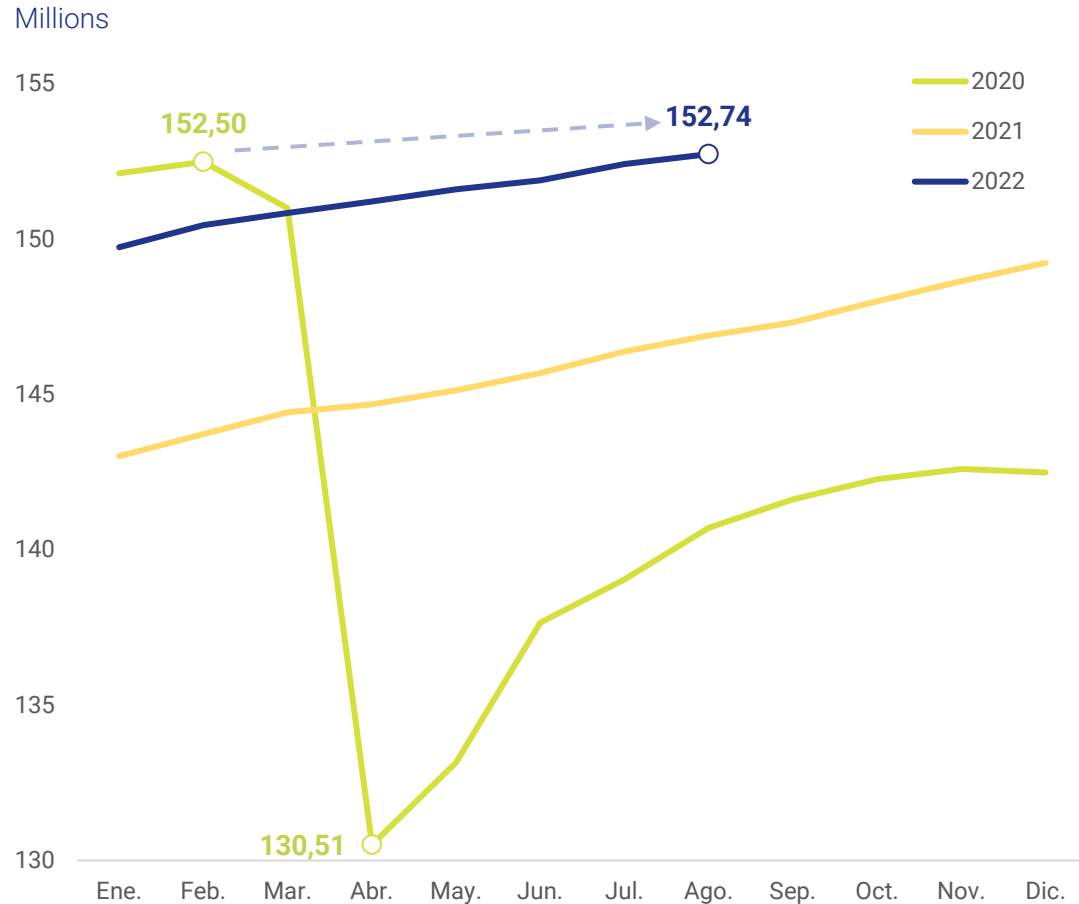
### Consumer confidence (regarding their financial situation)

Index >100: increased confidence; < 100: decreased confidence

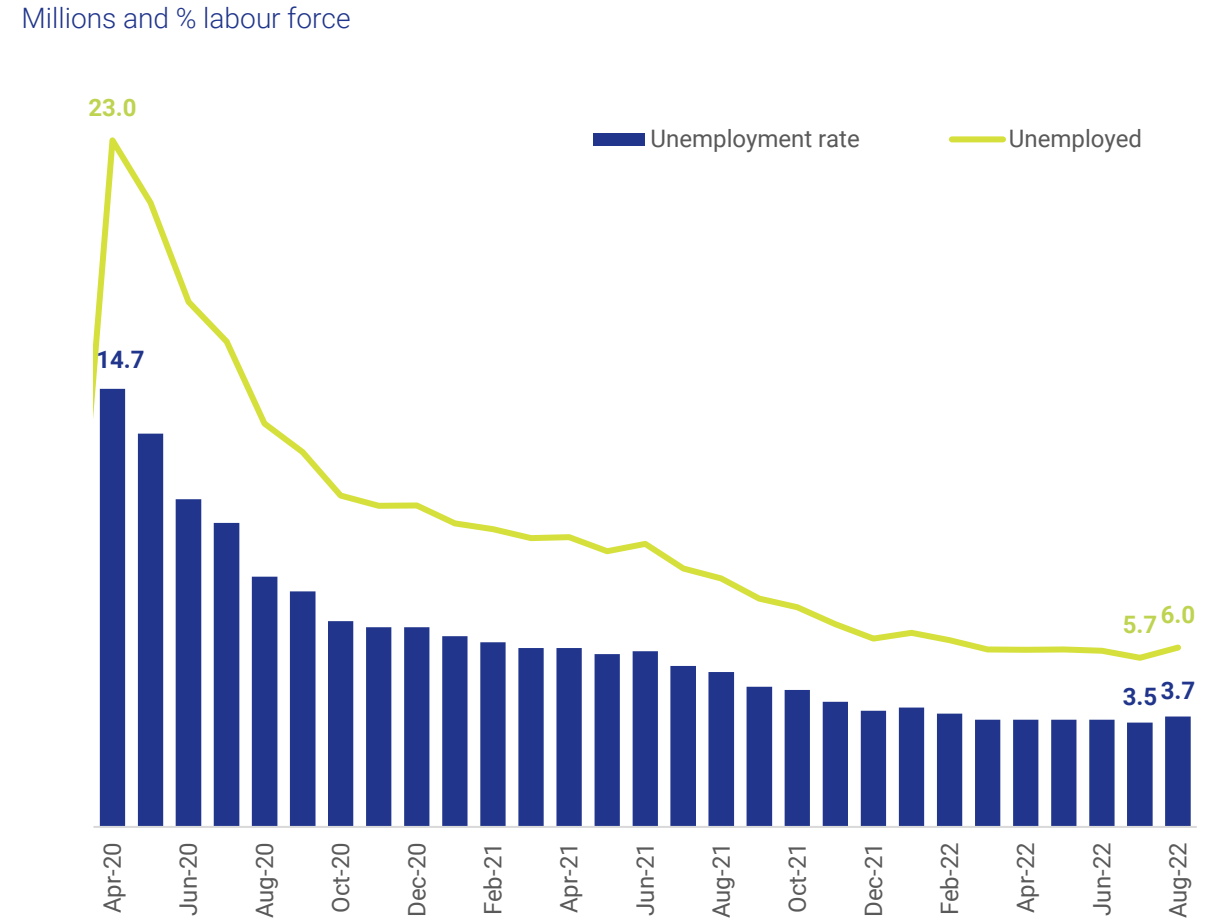


# The US: the labor market endures the slowdown

Job creation continues, exceeding pre-pandemic level by 0.15% (Feb.20) and reaching 153.7 million workers



The unemployment rate of 3.7% is below those recorded in recessionary periods since the Great Depression (between 5.2% and 24.9%)

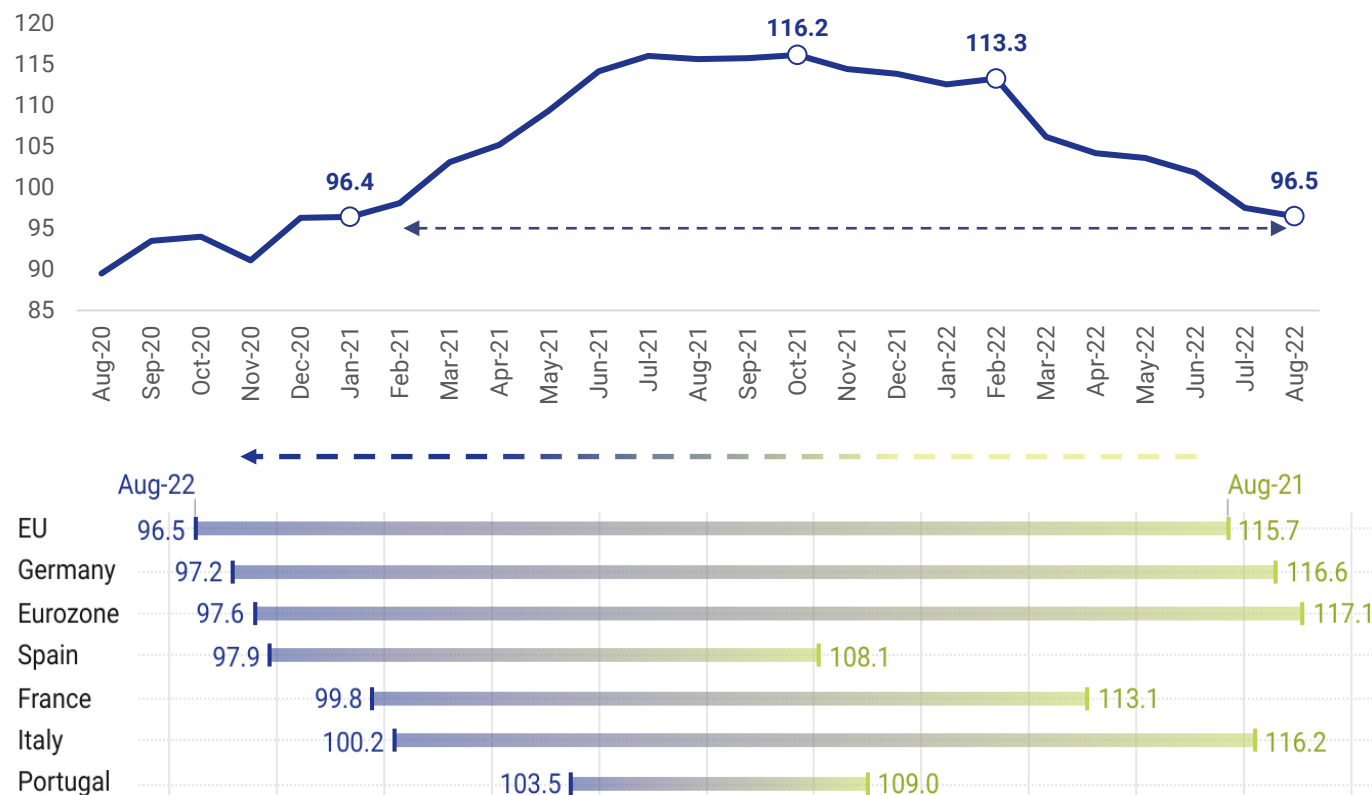


# Europe: increasing level of uncertainty

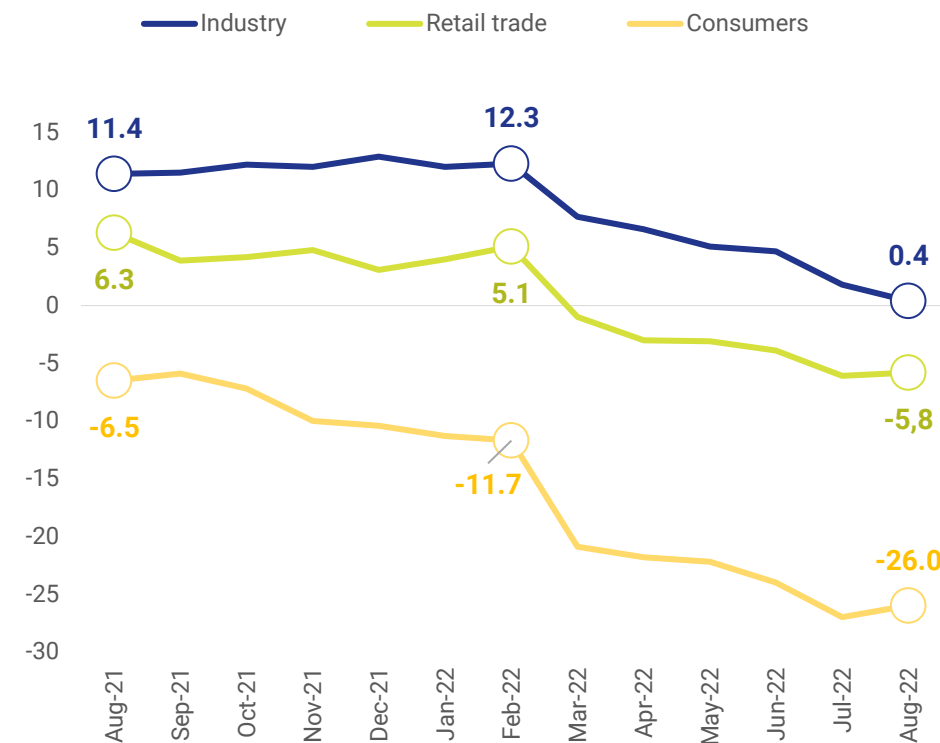
Since the beginning of the invasion of Ukraine, the European macroeconomic environment has been subject to high levels of uncertainty in view of the socioeconomic and geopolitical risks facing the region

## In Aug. 22, the economic confidence indicator for the EU-27 reached its lowest level in 19 months

ESI (Economic Sentiment Indicator), points (average = 100)



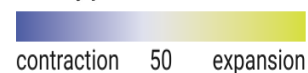
Indicators of confidence by sector and consumer confidence in EU-27. Difference between favorable-unfavorable responses (pp)



# | Deteriorating manufacturing PMIs in Europe

Manufacturing activity has suffered in the main European economies and in the US, with falls of around 10 points or more, as a result of the effects of the war in Ukraine, the shortage of components, the increase in prices and the growing uncertainty affecting demand

## Activity performance



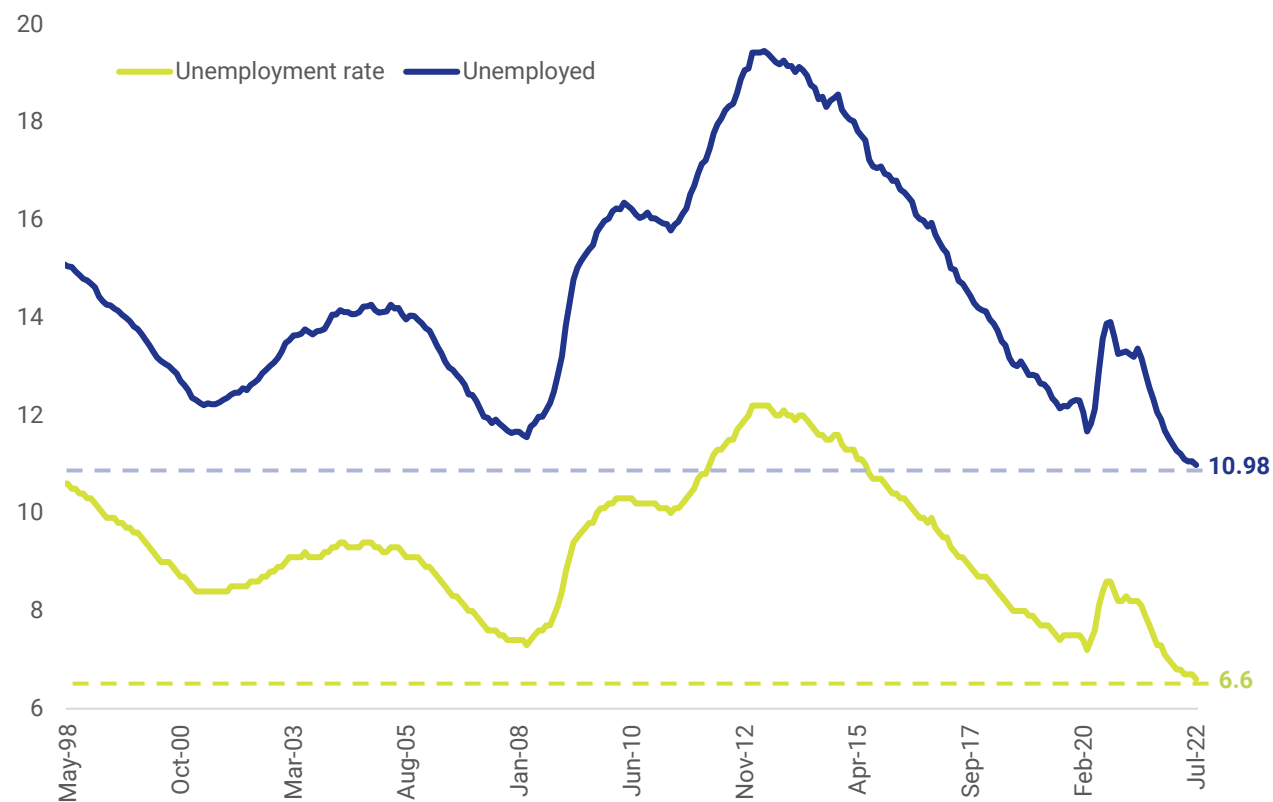
	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	
<b>Germany</b>	62.6	58.4	57.8	57.4	57.4	59.8	58.4	56.9	54.6	54.8	52.0	49.3	49.1	▼ 13.5
<b>France</b>	57.5	55.0	53.6	55.9	55.6	55.5	57.2	54.7	55.7	54.6	51.4	49.5	50.6	▼ 6.9
<b>Italy</b>	60.9	59.7	61.1	62.8	62.0	58.3	58.3	55.8	54.5	51.9	50.9	48.5	48.0	▼ 12.9
<b>Spain</b>	59.5	58.1	57.4	57.1	56.2	56.2	56.9	54.2	53.3	53.8	52.6	48.7	49.9	▼ 9.6
<b>Eurozone</b>	61.4	58.6	58.3	58.4	58.0	58.7	58.2	56.5	55.5	54.6	52.1	49.8	49.6	▼ 11.8
<b>UK</b>	60.3	57.1	57.8	58.1	57.9	57.3	58.0	55.2	55.8	54.6	52.8	52.1	47.3	▼ 13
<b>US</b>	61.1	60.7	58.4	58.3	57.7	55.5	57.3	58.8	59.2	57.0	52.7	52.2	51.3	▼ 9.8
<b>Japan</b>	52.7	51.5	53.2	54.5	54.3	55.4	52.7	54.1	53.5	53.3	52.7	52.1	51.5	▼ 1.2
<b>China</b>	50.1	49.6	49.2	50.1	50.3	50.1	50.2	49.5	47.4	49.6	50.2	49.0	49.4	▼ 0.7



# Eurozone: record low unemployment

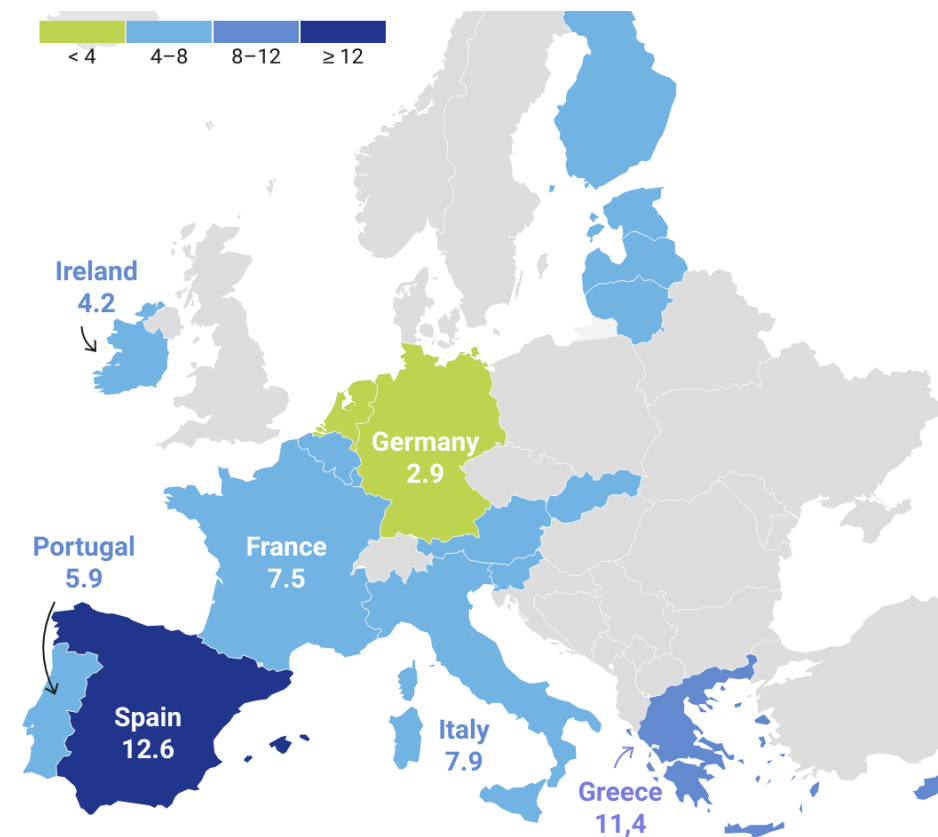
In July 22, the unemployment rate in the Eurozone reached an all-time low, bringing the total number of unemployed to 10.98 million

Unemployment rate as % of labour force and number of unemployed in millions of people



Spain leads the unemployment rate with 12.6% of the labour force, 9.7 points higher than Germany (2.9%)

% labour force

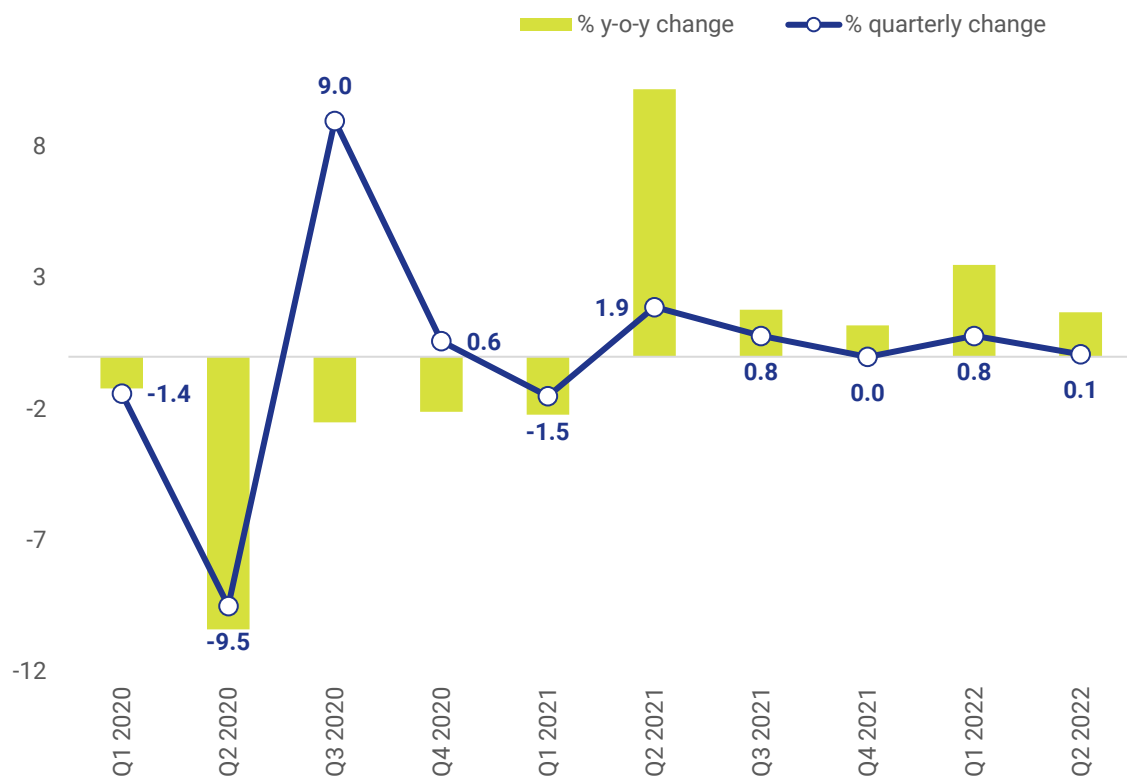


# Germany ¿road to a recession?

The context of high inflation, fears of recession and occasional Russian gas supply disruptions that may become constant increase risks

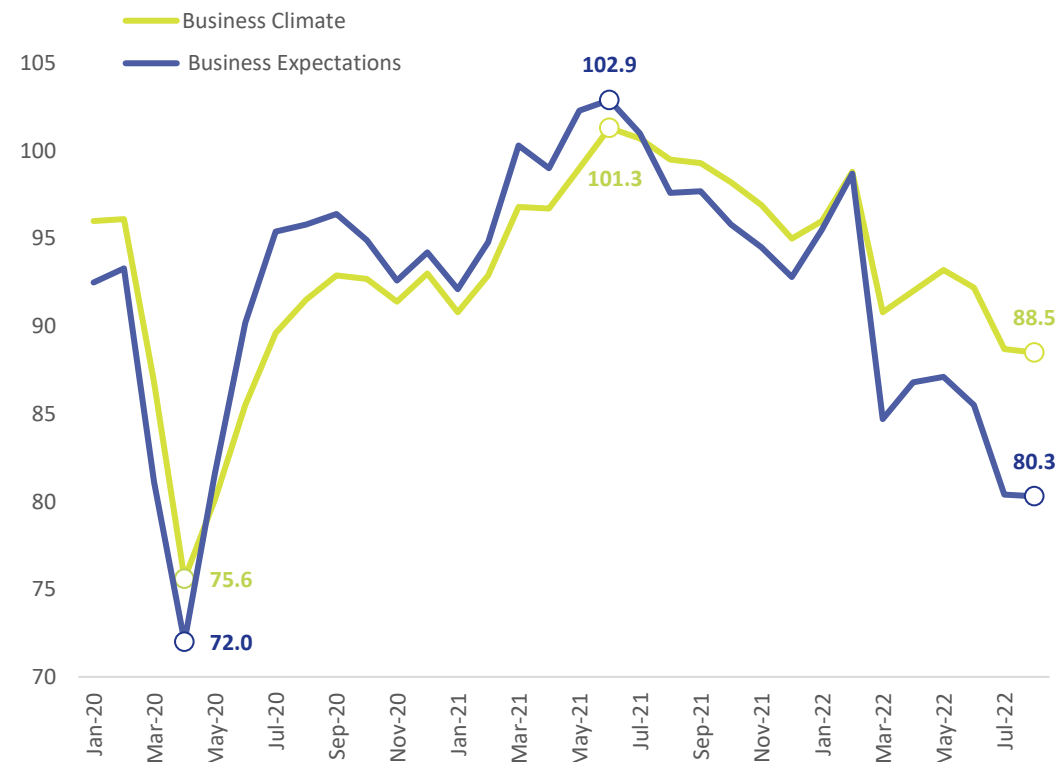
GDP expected to fall in Q3 22 amid uncertainty after a timid 0.1% quarter-over-quarter increase in 2Q22

% change



Slight declines in the Ifo business climate index and in business expectations for the next 6 months

Points

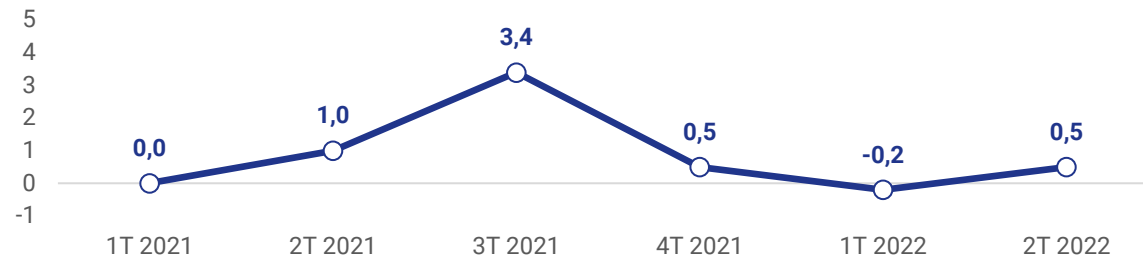


Source: *Círculo de Empresarios* based on Ifo Institute, 2022.

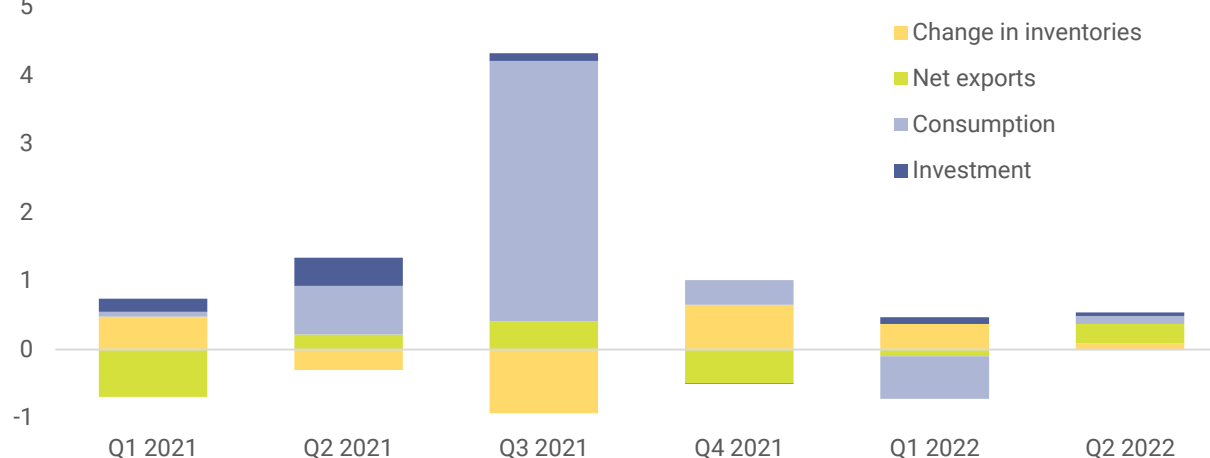
# French and Italian economies resilient in the fase of crisis

In France, in Q2 22, GDP rebounded by 0.5% quarter-on-quarter, with positive contributions from both domestic demand (+0.2 points vs. -0.5 in Q1 22) and foreign demand (+0.3 points, after -0.1 in Q1 22)

Quarter-on-quarter % change in GDP

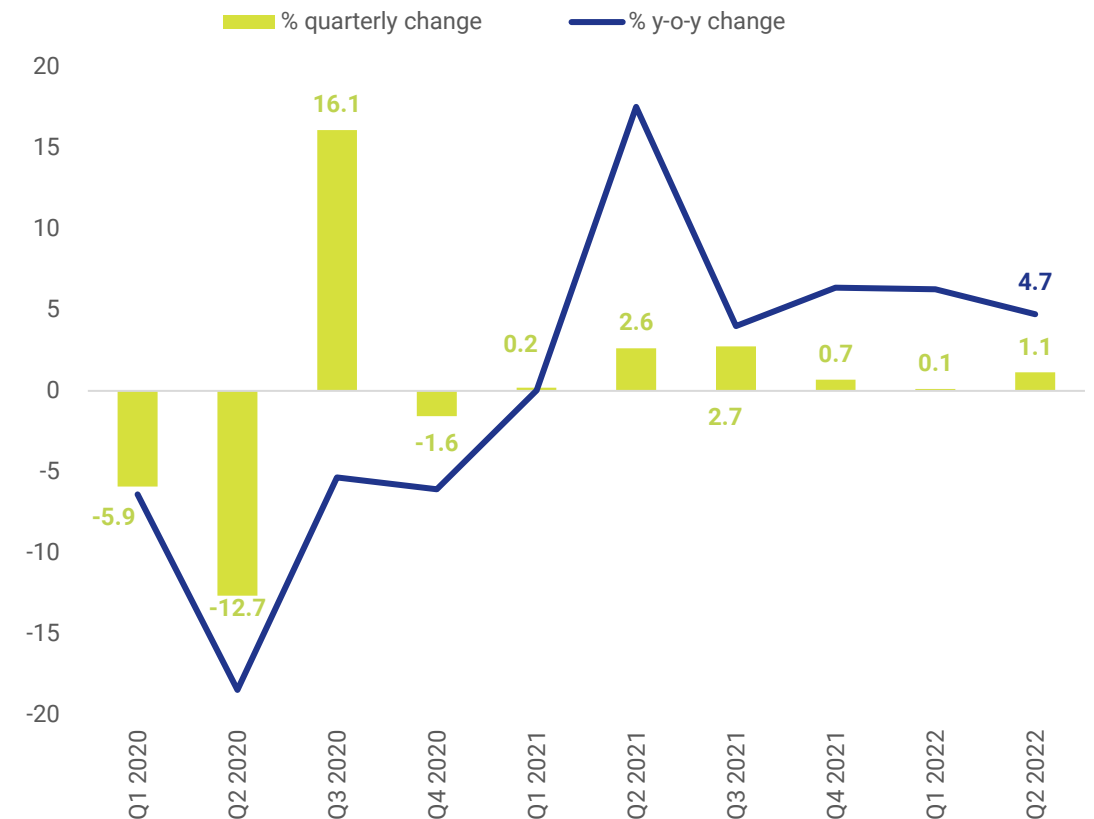


Contribution to quarter-over-quarter growth in pp



In Q2 22, Italy's GDP increased by 1.1% over the previous quarter with domestic demand offsetting the foreign sector

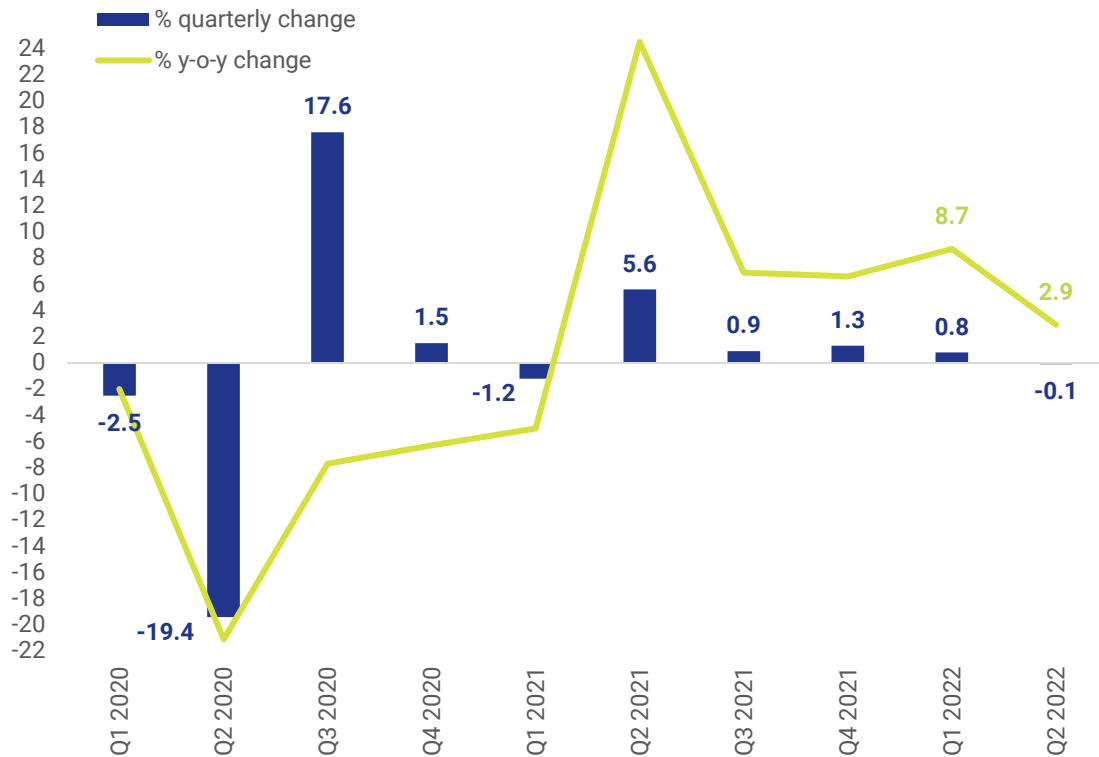
% change



# Slowdown in activity in the United Kingdom

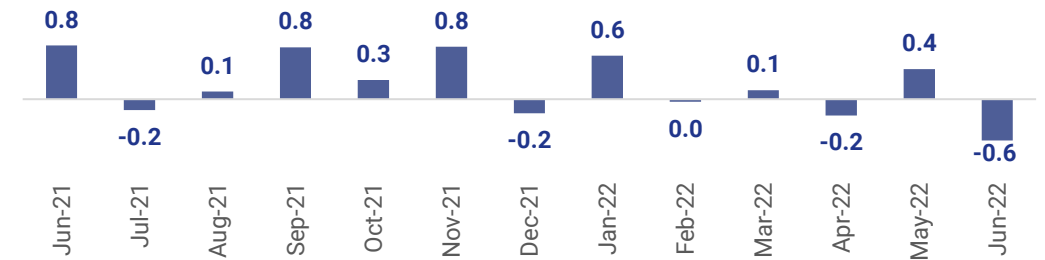
The UK economy contracted by 0.1% in Q2 22 amid rising prices and cost of living, deteriorating confidence and lower trade and investment flows

% change

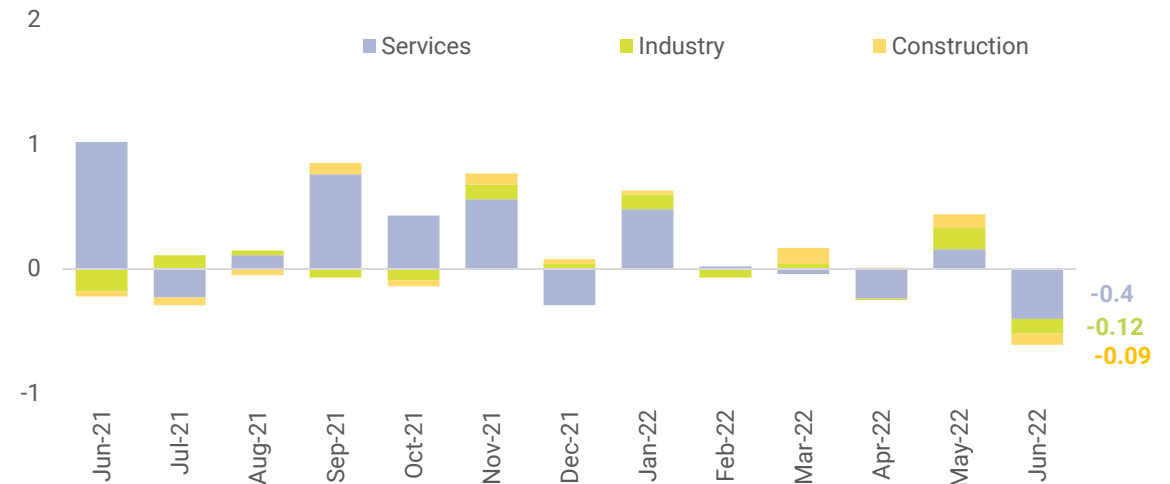


All sectors contributed negatively to the monthly GDP growth in Jun. 22

Monthly % change in GDP



Contribution of sectors to monthly GDP growth in pp





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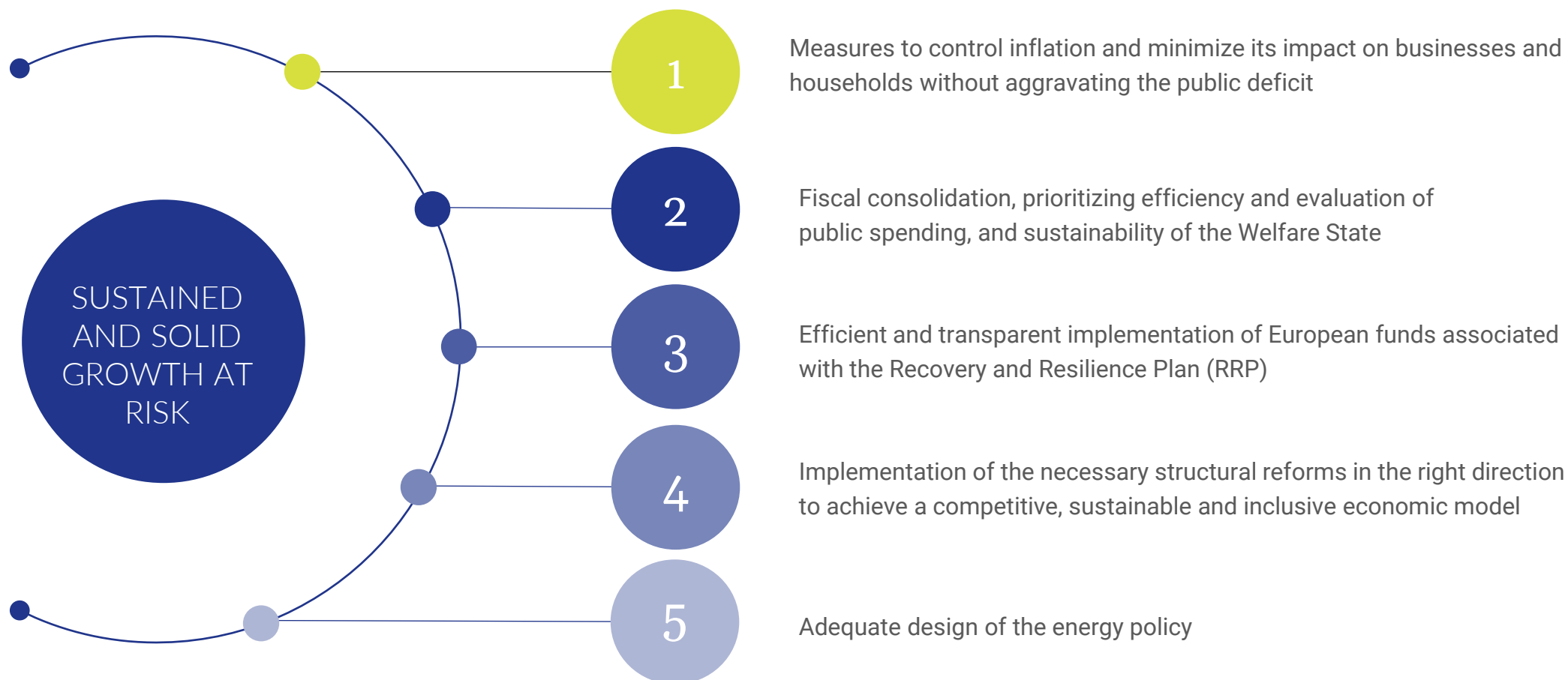
ECONOMY

**Spain**



# Challenges of the Spanish economy

National context marked by inflationary tensions, the effect of the change in monetary policy, the duration and impact of the Russian invasion of Ukraine, volatility in financial markets, the persistence of disruptions in some global supply and distribution chains, the low level of execution of European Next Generation funds and the consequences of new waves of the pandemic



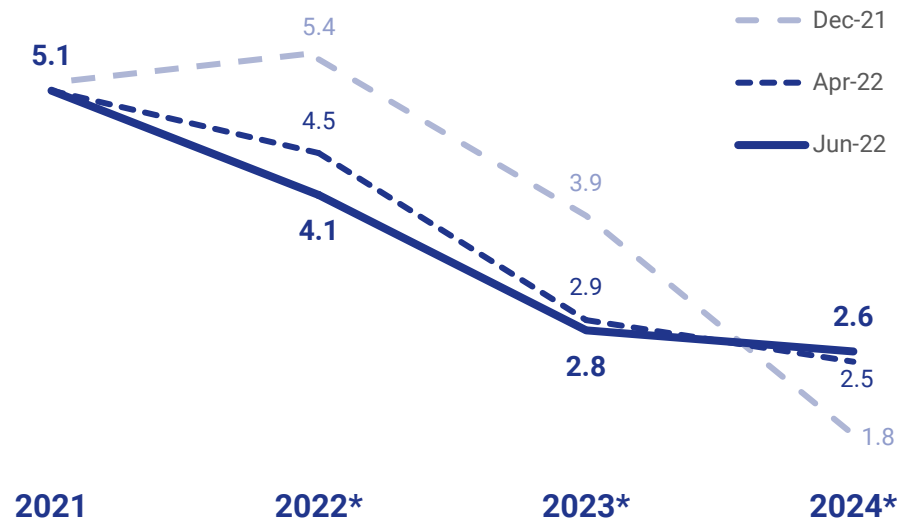
# | Risks for the recovery of the Spanish economy

- ⓧ **Persistent inflation** and core inflation. **Deterioration of competitiveness due to ▲ prices and second round effects on wages**
- ⓧ **Discretionary tax hikes without prior assessment of the efficiency of public spending**
- ⓧ **Economic impact of the war:** deterioration of trade flows, disruption of energy supply, etc.
- ⓧ **Bottlenecks and supply shortages** resulting from disruptions in global value chains
- ⓧ **Normalization of the ECB's monetary policy and increase in the cost of borrowing**
- ⓧ Evolution of the **pandemic and effectiveness of vaccines**
- ⓧ **Lack of transparency** and delay in the execution of **European funds**
- ⓧ **Uncertainty about legal certainty in the labor field**
- ⓧ **Labour supply shortage for jobs resulting from the green and digital transitions**

# Downward growth forecasts

## Bank of Spain (Jun.22)

% y-o-y change



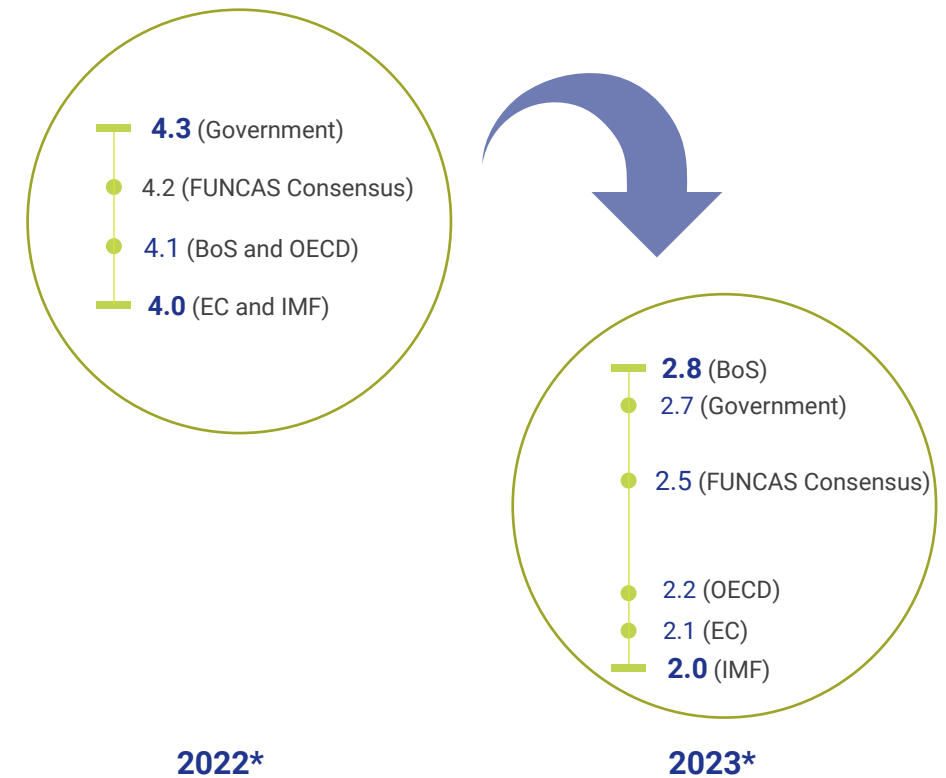
## Government

■ PGE 22  
■ Current



## Forecasts from national and international organizations (Jun. and Jul. 22)

% y-o-y change



\*Forecasts

Source: *Círculo de Empresarios* based on Bank of Spain, M. Economic Affairs and Digital Transformation, FUNCAS, OECD, European Commission and IMF, 2022.

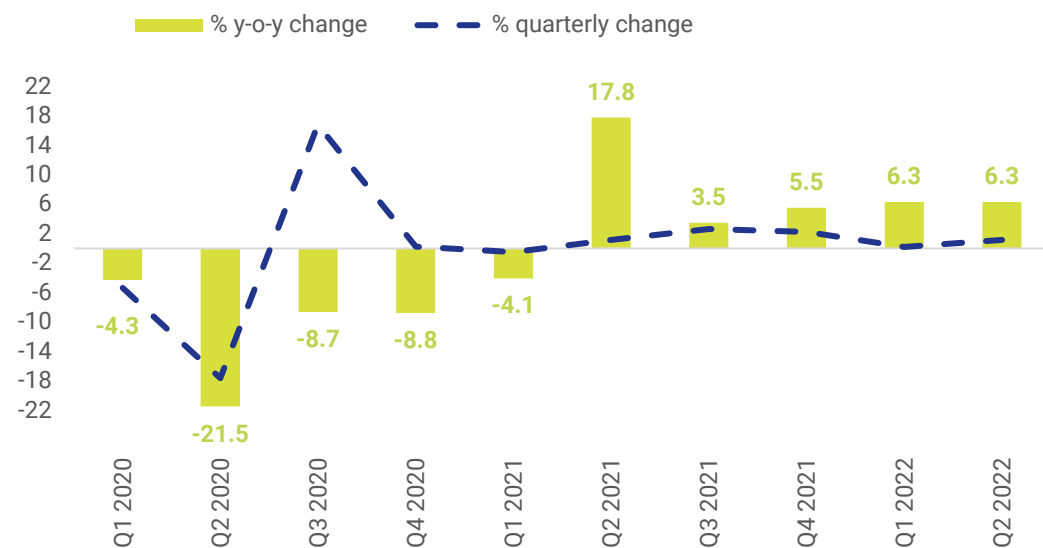


# GDP growth in Q2 2022 remains unchanged

In Q2 22, GDP advanced 1.1% quarter-on-quarter on the back of the improvement in hotel and catering and foreign tourism and the recovery of the labour market. On a year-on-year basis, the economy advanced 6.3% (domestic demand: +3.6 pp and foreign demand: +2.6 pp)

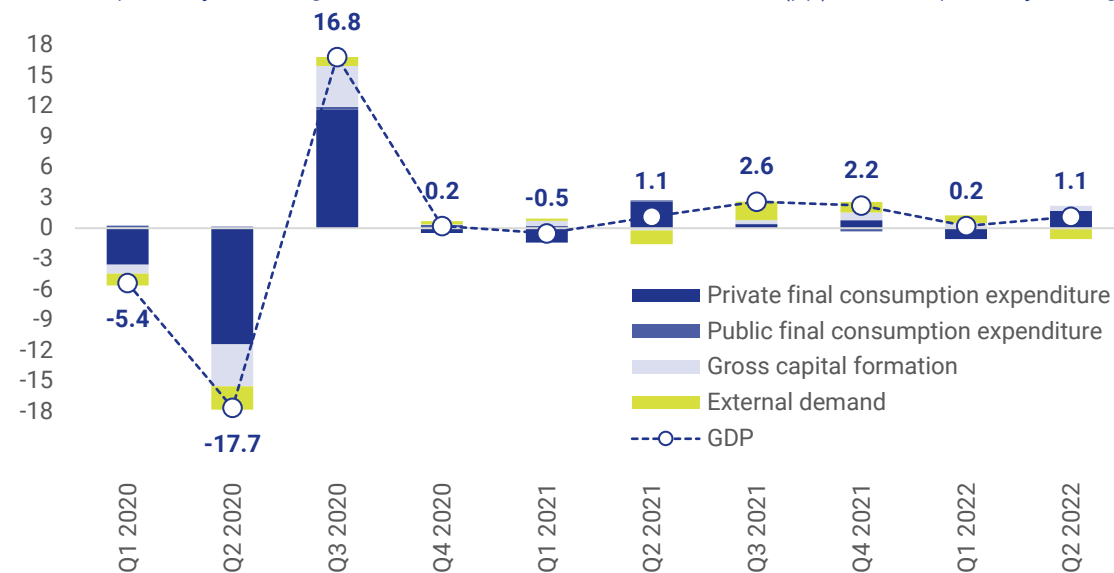
## Economy grows despite uncertainty

Quarterly and y-o-y % change



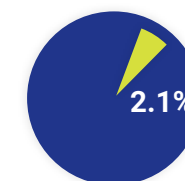
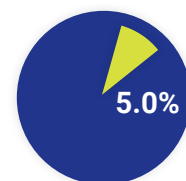
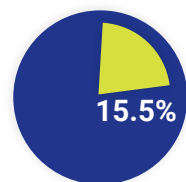
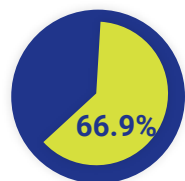
## Strong private consumption sustains growth

GDP in quarterly % change and other variables in contributions (pp) to GDP quarterly change



## By sectors

Weight in % of total and % y-o-y change

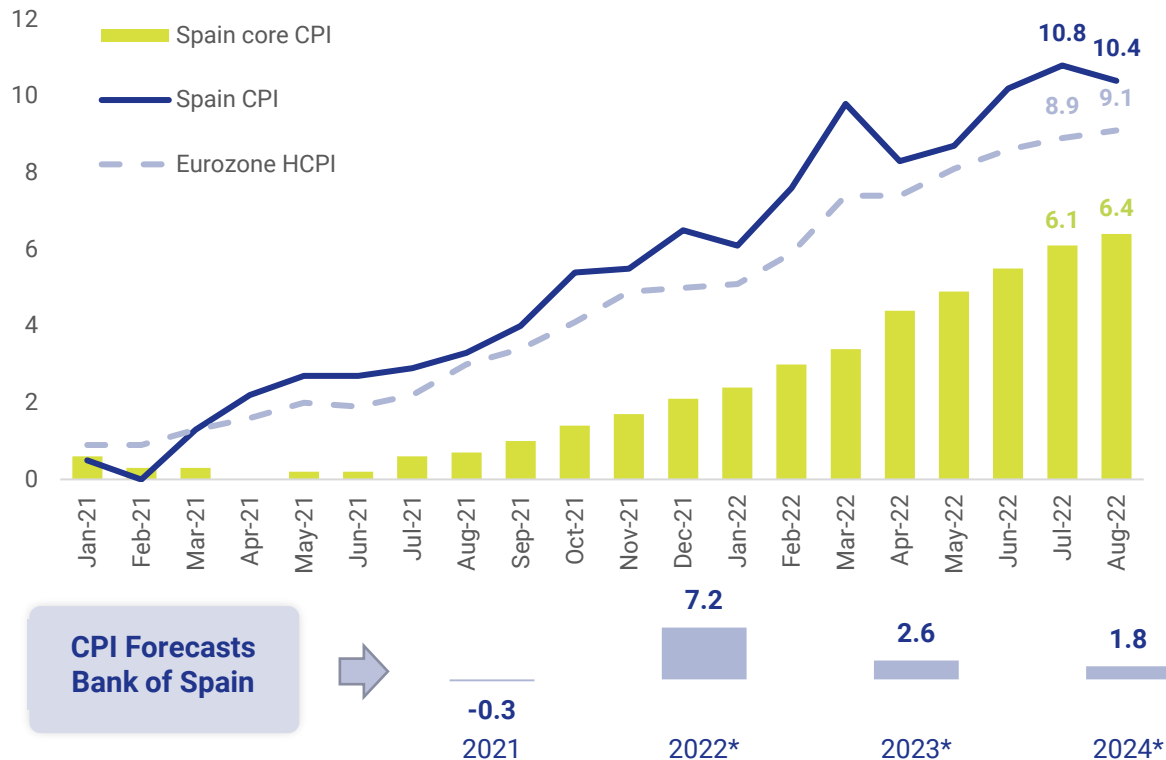


Source: *Círculo de Empresarios* based on INE and Bank of Spain, 2022.

# Persistence of inflation at historically high levels

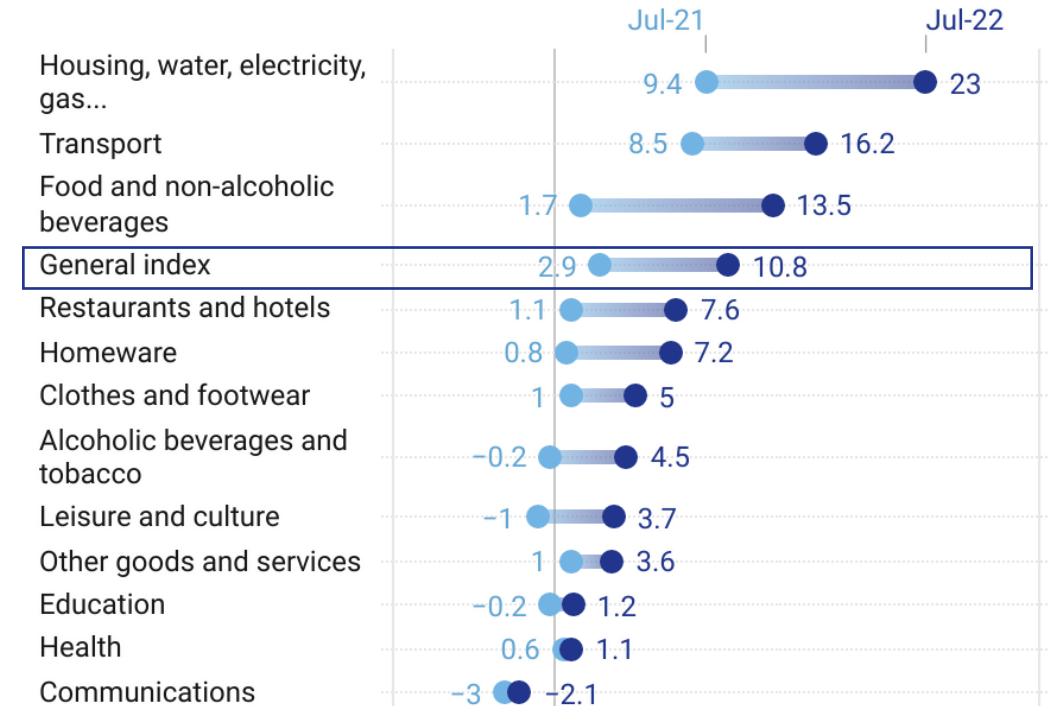
In Aug. 22, the advance CPI annual rate was 4 tenths of a point lower than in Jul. 22 to 10.4%. Core inflation continued to climb and stood at 6.4%

% y-o-y change



In July 22, inflation stood at 10.8%. The rise is explained by the increase in energy and raw material prices

Influence of the groups on the annual CPI rate in July 22



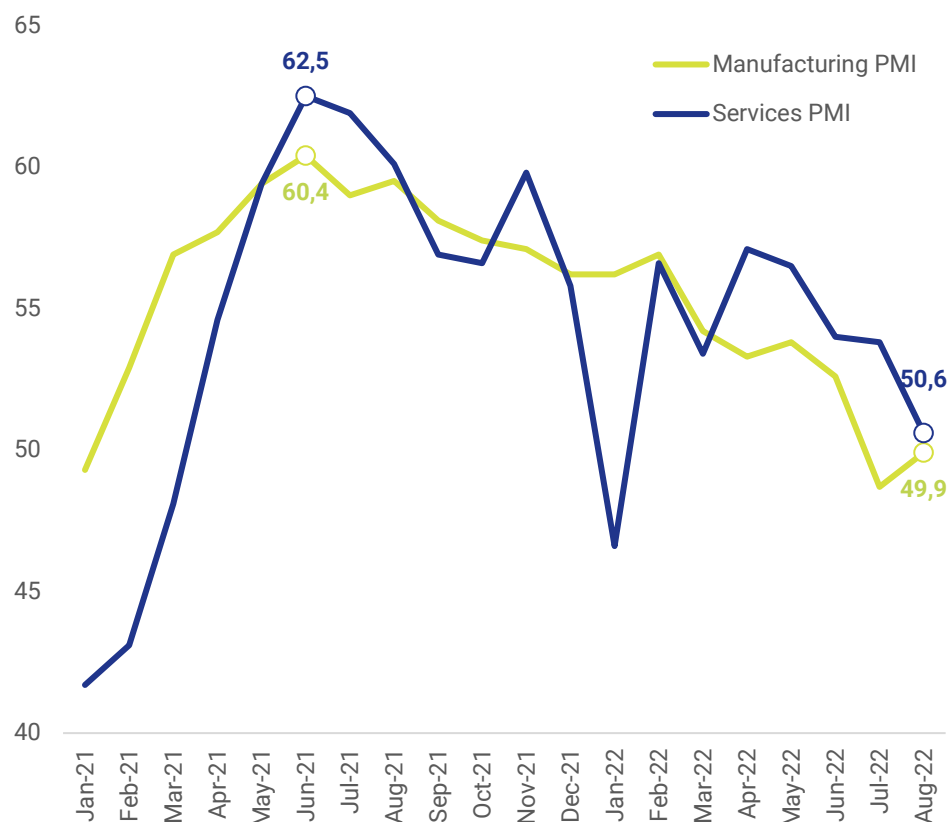
\* Forecasts

Source: *Círculo de Empresarios* based on INE, Bank of Spain and Eurostat, 2022.

# Expectations damaged by uncertainty and rising prices

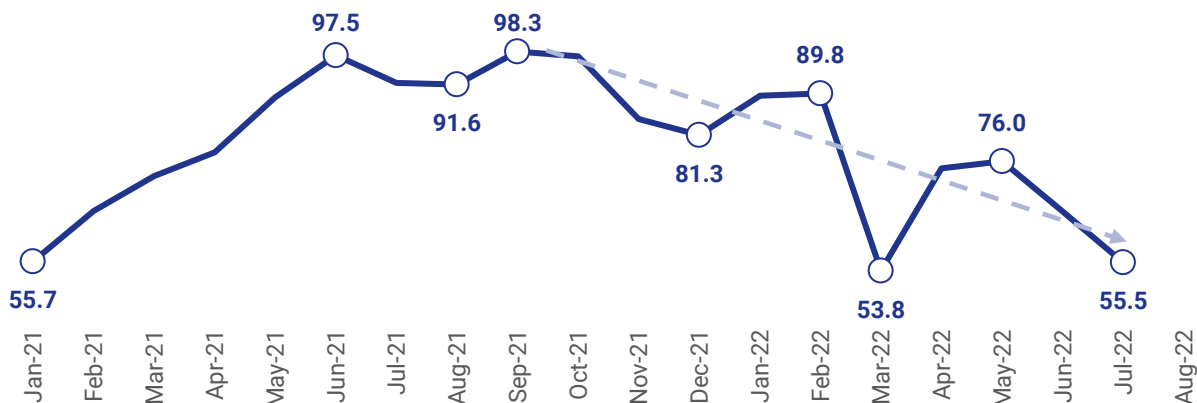
In Aug. 22, the manufacturing PMI remained in contractionary territory and the services PMI fell 3.2 pp

> 50: expansion of activity



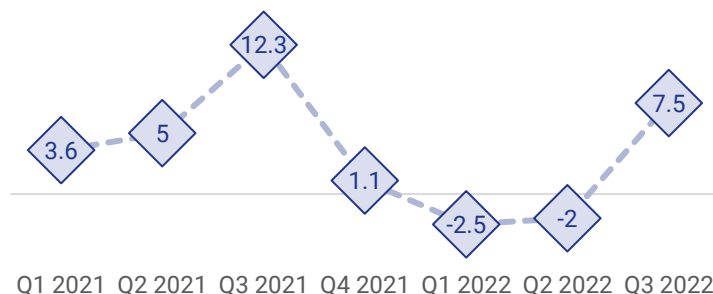
Consumer Confidence Index continues downward trend

< 100: negative consumer perception



Harmonized Business Confidence Index rises 7.5% in Q3 22 compared to Q2 22 despite uncertainty

% quarterly change



By sectors, Q3 22

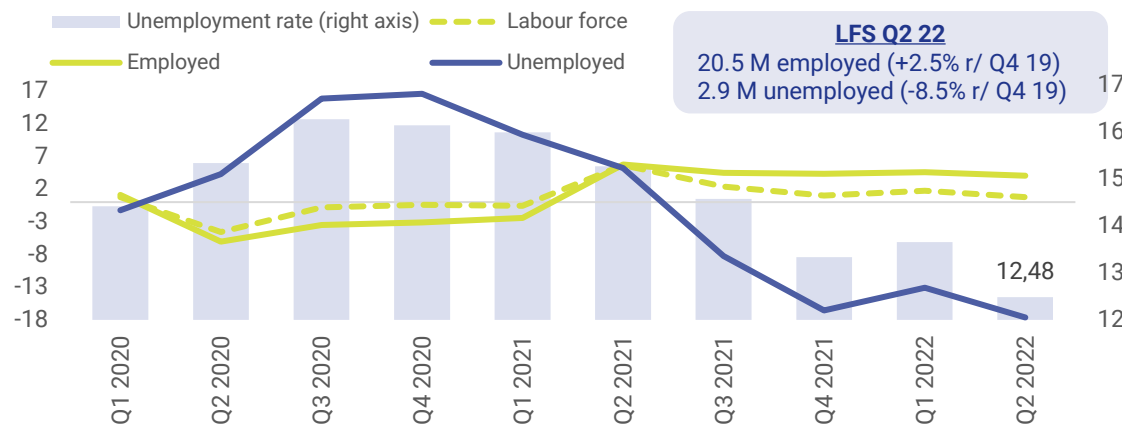
Transportation and hospitality	▲ 12.9%
Trade	▲ 7.4%
Industry	▲ 7.3%
Other services	▲ 6.1%
Construction	▲ 6.0%

# Loss of dynamism in the labour market

## LFS Q2 22 (INE)

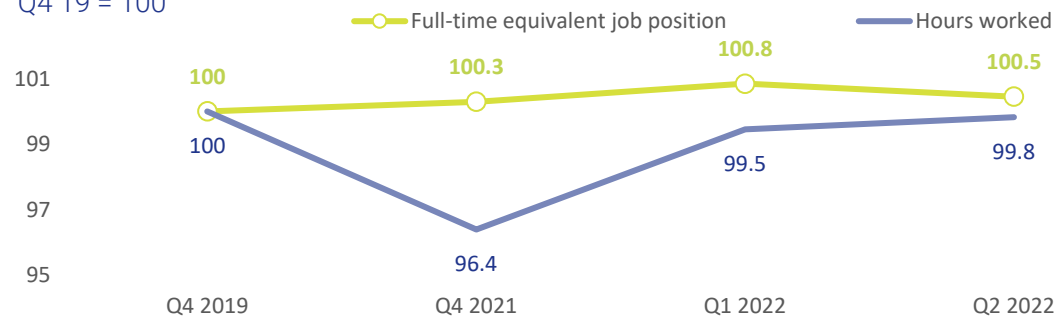
Unemployment rate falls to 12.48% and employment slows down from 5.7% year-on-year in Q2 21 to 4%

Y-o-y change and unemployment rate as a % of labour force



Despite the increase in full-time equivalent employment, hours worked are still below pre-pandemic levels

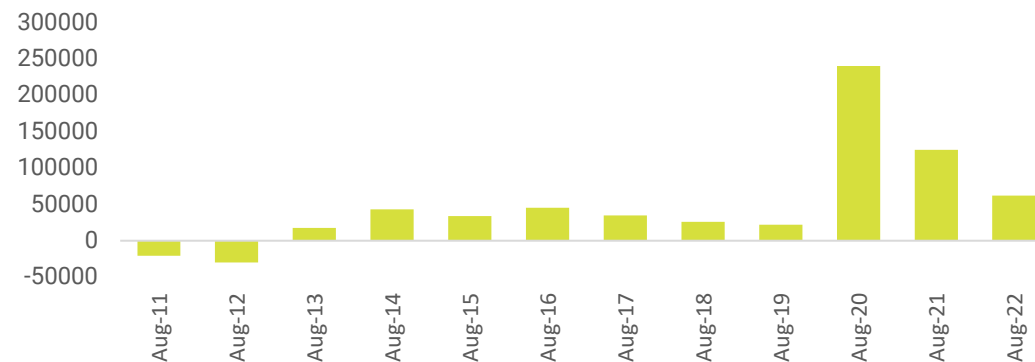
Q4 19 = 100



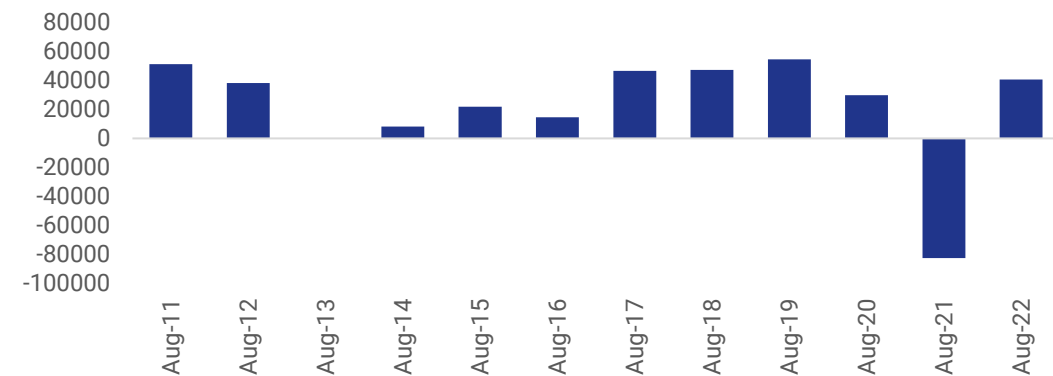
## Enrollment and registered unemployment Aug.22 (Social Security)

Slowdown in job creation and increase in unemployment

Absolute monthly average change in Social Security affiliates month of August in seasonally adjusted terms



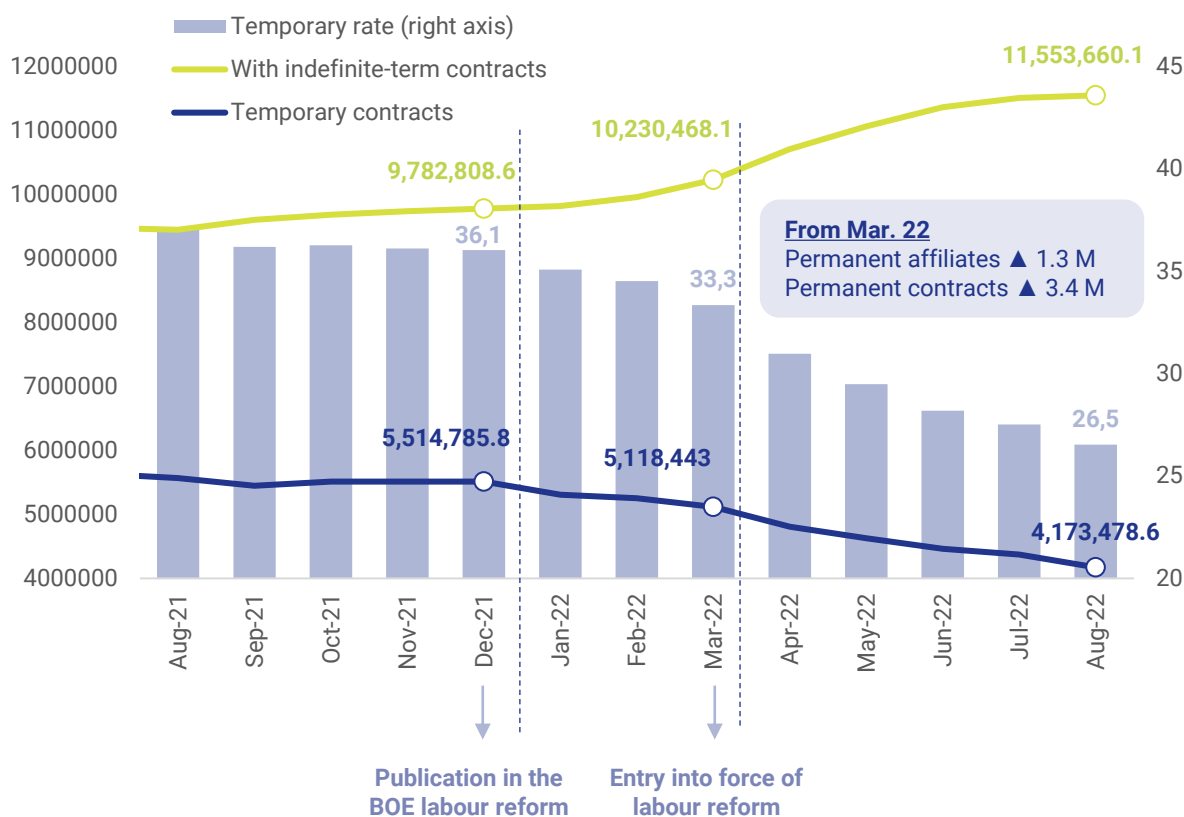
Absolute monthly change in number of unemployed August in seasonally adjusted terms



# The reduction of temporary employment as a result of labour reform

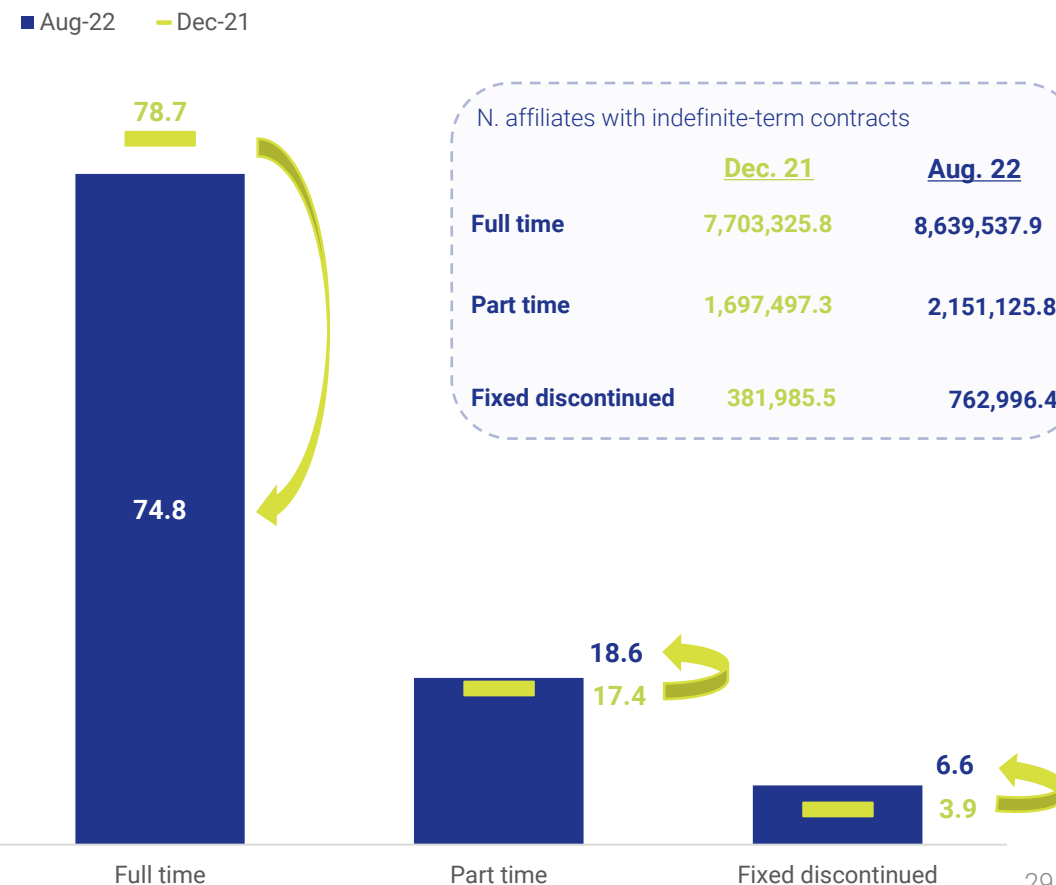
Since the entry into force of the labor reform (30 Mar. 22), the number of workers with permanent contracts in the general regime has increased by 18.1% and the number of temporary workers has fallen by 24.3%

Average number of affiliates in general reg. in units and seasonality rate as % of total affiliates



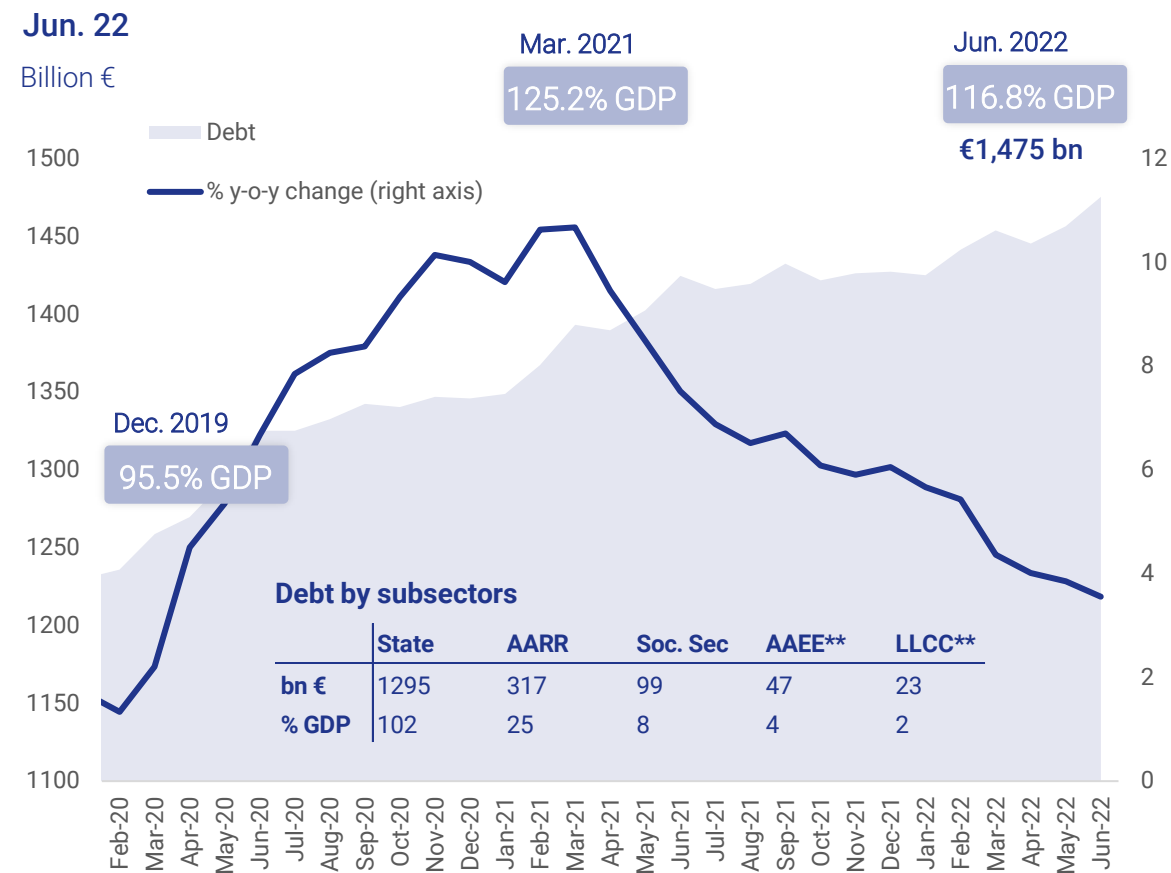
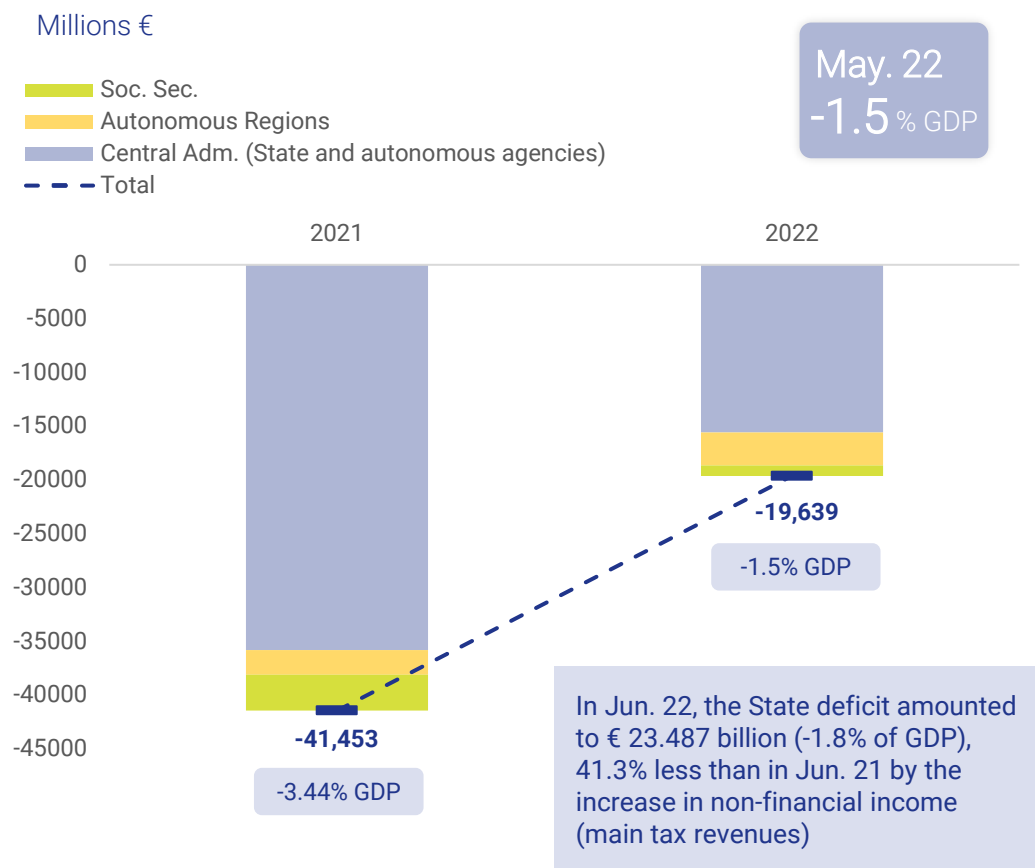
Between Dec.21-Aug.22, the number of workers with fixed-term contracts doubled and their share of permanent workers increased to 6.6%

% of total members with permanent contracts



# Persistent imbalances in public accounts

## Consolidated general government deficit \* | Public debt



\* In National Accounts terms. Without Local Corporations

Source: *Círculo de Empresarios* based on IGAE and Bank of Spain, 2022.

\*\* OAAA: Autonomous Agencies; LLCC: Local Corporations

# Maximum values in foreign trade of goods

In Jan.-Jun. 22 trade deficit was 7 times that of Jan.-Jun. 21

## Jan.-Jun. 22

### Exports

€190.9 bn

**+24.8%** y-o-y

### Imports

€222.9 bn

**+40.7%** y-o-y

### Balance

€ -31.96 bn

Energy

€ -25.9 bn

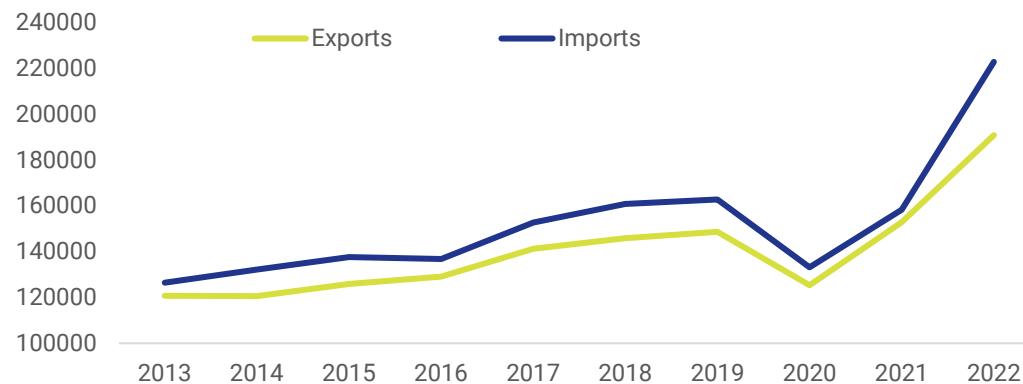
x 2.6 y-o-y

Non-energy

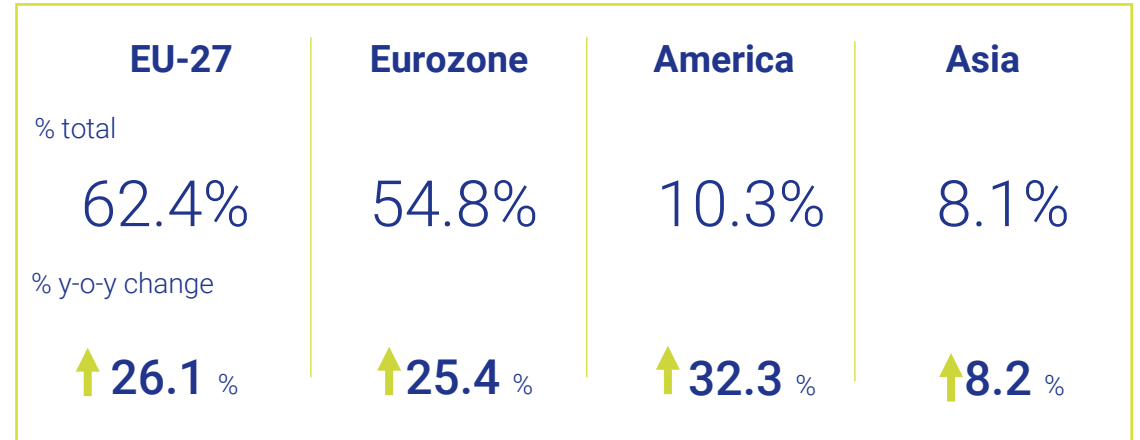
€ -6.1 bn

vs. € +4.7 bn  
Jan.-Jun.22

Millions €; Jan.-Jun. of each year



## Exports by destination



## Top 3 exports by sector

Weight in % of total and % y-o-y change



# Tourism recovery, close to pre-pandemic levels

## International tourist arrivals

Jan.- Jul. 22

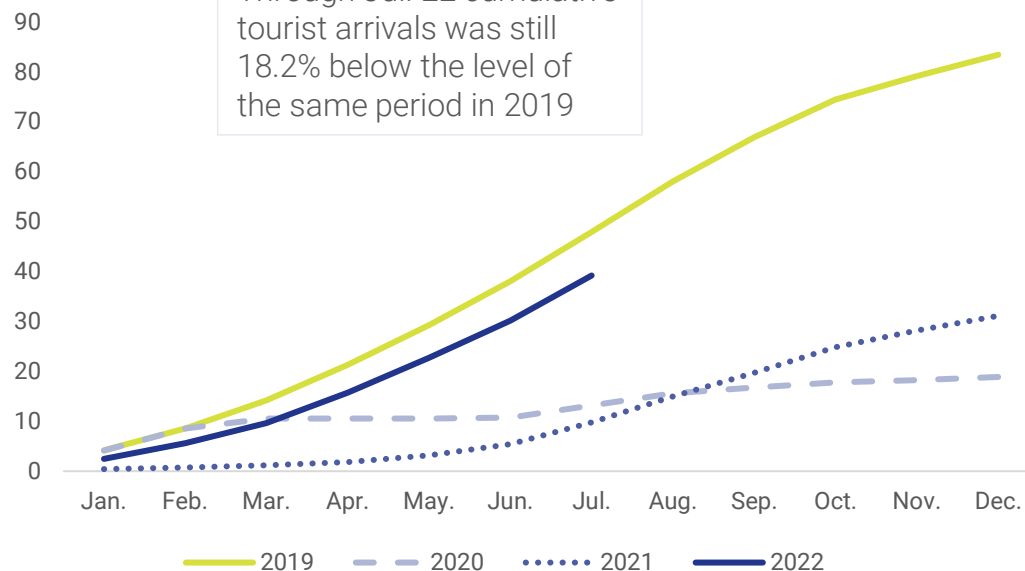
x 3.4

times r/ Jan.-Jul. 21

39,274,090 tourists

Million tourists

Through Jul. 22 cumulative tourist arrivals was still 18.2% below the level of the same period in 2019



## Tourist spending

Jan.- Jul. 22

x 4.3

times r/ Jan.-Jul. 21

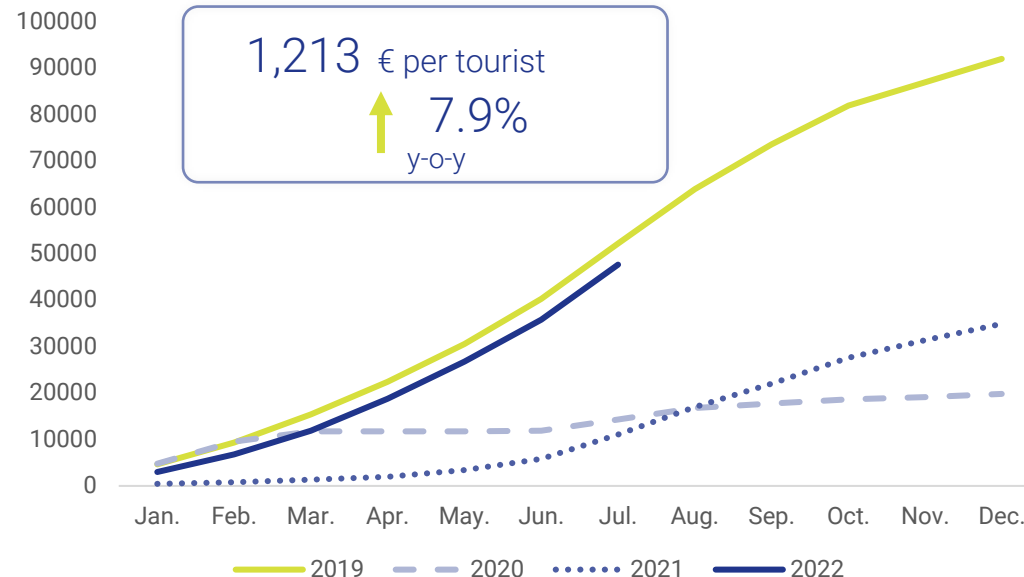
€47.64 bn

Top 3 emitting country

United Kingdom	-----	€9.5 bn
Germany	-----	€6.4 bn
France	-----	€4.1 bn

Million €

1,213 € per tourist  
↑ 7.9% y-o-y







# MARKETS

# Exchange rates - €/\$ parity

Euro falls below parity with the dollar and to the lowest levels since late 2002

Daily exchange rate €/€



Uneven pace of interest rate hikes by Fed and ECB to curb rising inflation

Concerns about gas supplies in Europe as Russia threatens to cut off supplies

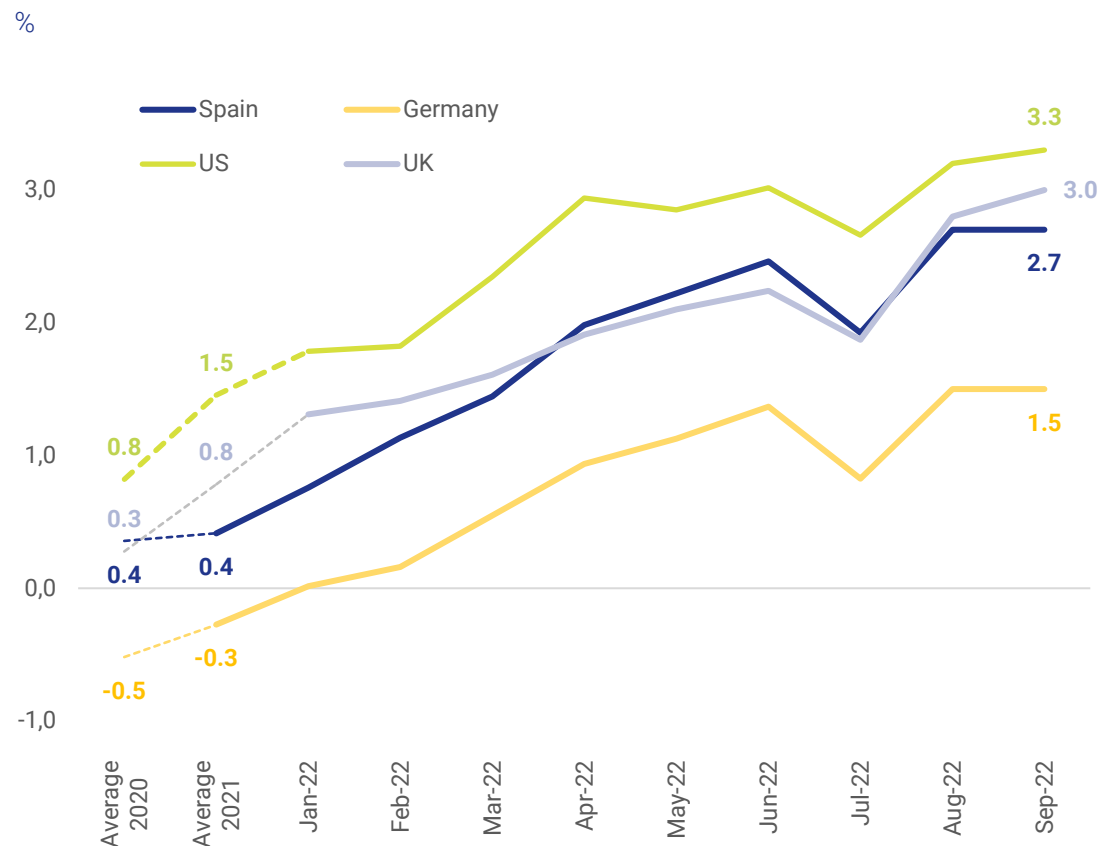
Outlook pointing to an increasing risk of recession in the Eurozone against a backdrop of high inflation

Source: *Círculo de Empresarios* based on Investing, 2022.

# Fixed income: rate hikes continue

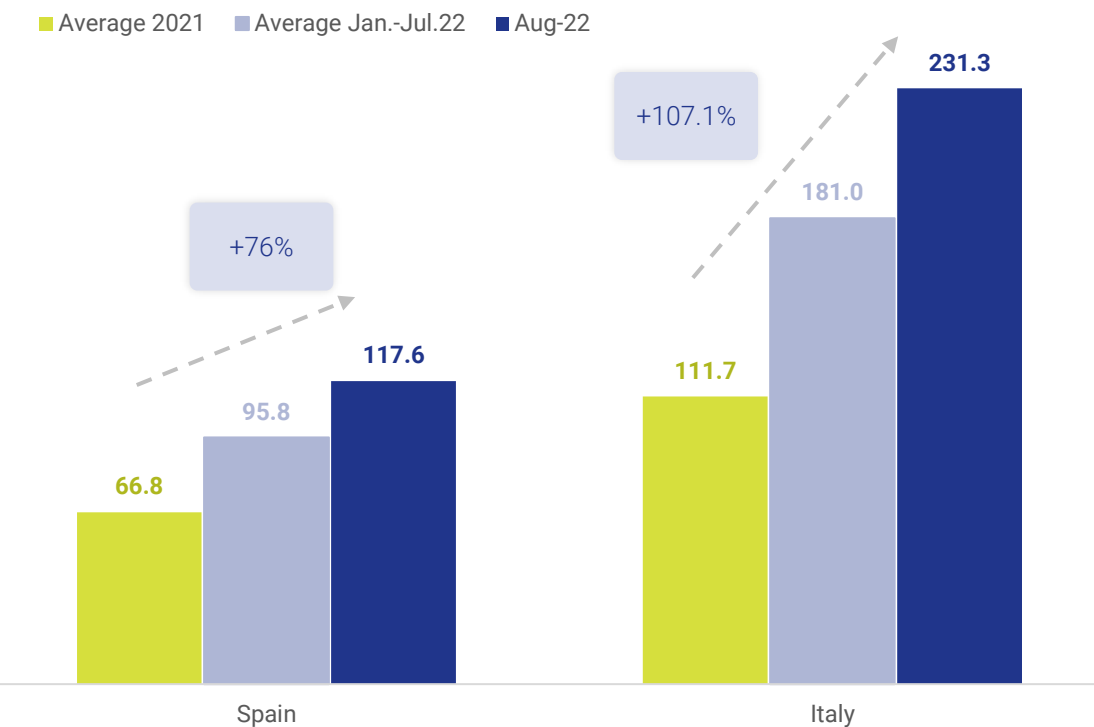
Long-term sovereign debt yields and risk premiums continue to increase

## Widespread increases in 10-year bond yields



## Spanish and Italian risk premiums increase in the current scenario of uncertainty

Basic points

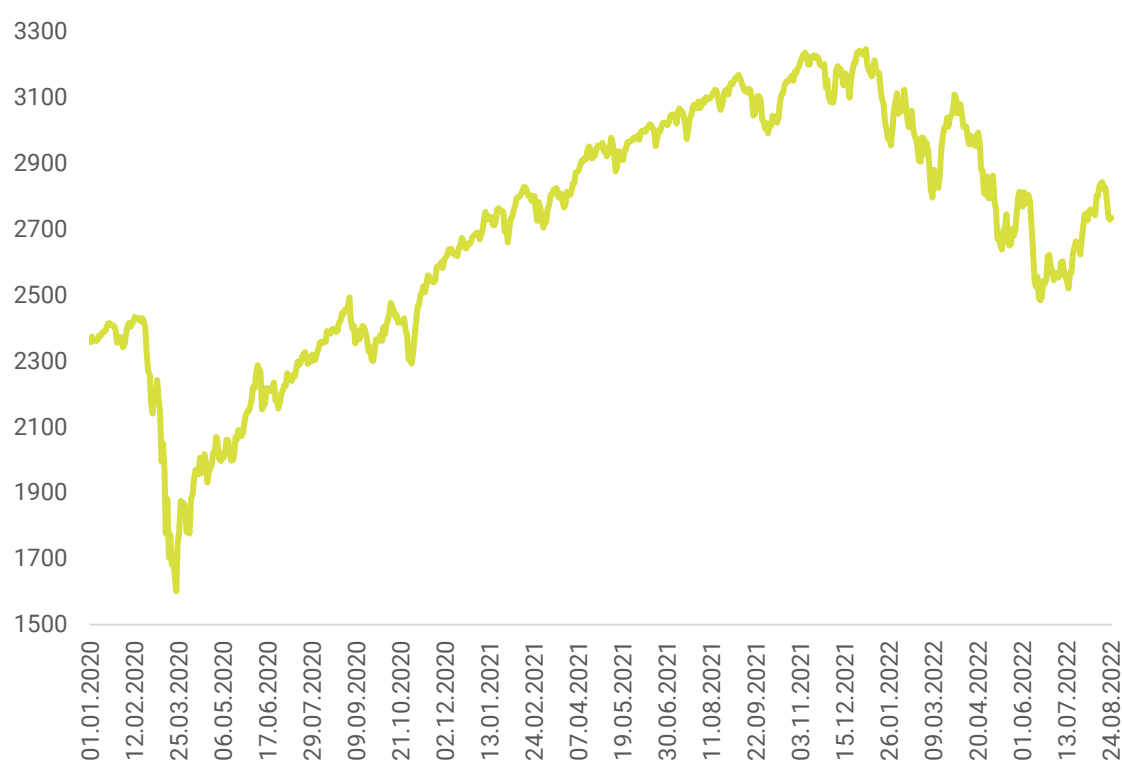


# Stock markets unstable due to international uncertainty

The main stock market indexes are suffering from the consequences of the war in Ukraine and the context of high generalized inflation

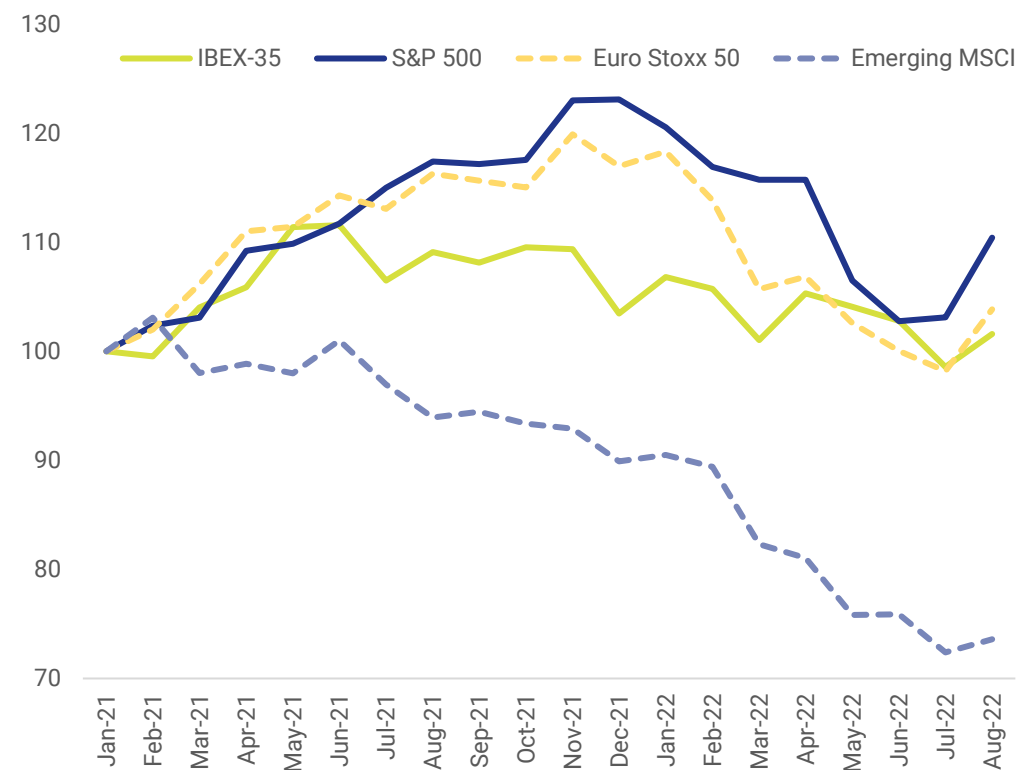
The MSCI World Stock Index (MSCI World) is 15.7% below the peak reached at the end of 2021

Price US\$



## Market volatility

Jan. 2020 = 100



Source: *Círculo de Empresarios* based on Investing, 2022.

# Thank you



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