



CÍRCULO  
DE EMPRESARIOS  
*ideas for growth*

# | 2023 At the crossroads

FEBRUARY  
2023

ECONOMY

# Global



# | Summary

## Global economic situation

Throughout 2022, the global economy lost momentum with the onset of adverse shocks and as downside risks materialized, affecting households, businesses and financial markets. The health and economic impact of the war in Ukraine was compounded by high inflationary pressures, the tightening of monetary policy by the major Central Banks, the energy and food crises and the slowdown in the Chinese economy. All this in a context of high uncertainty and deteriorating confidence among economic agents. Despite all this, the labour markets have shown relative resilience in recent months, partly favored by expansionary fiscal policies to mitigate the negative impact of the energy crisis and inflationary pressures on the real incomes of economic agents.

Looking ahead to 2023, the environment of uncertainty and volatility continues in both the economic and geopolitical spheres. A certain correction in inflation is expected due to the moderation of growth and energy prices, as well as a return to normality in global supply chains. In addition, the reopening of the Chinese economy will favor the recovery of activity. The IMF expects that after slowing from 3.4% in 2022 to 2.9% in 2023, global growth will rebound to 3.1% in 2024.

# 2.9%

world GDP growth in **2023** forecast by  
IMF in Jan. 23

# 3.1%

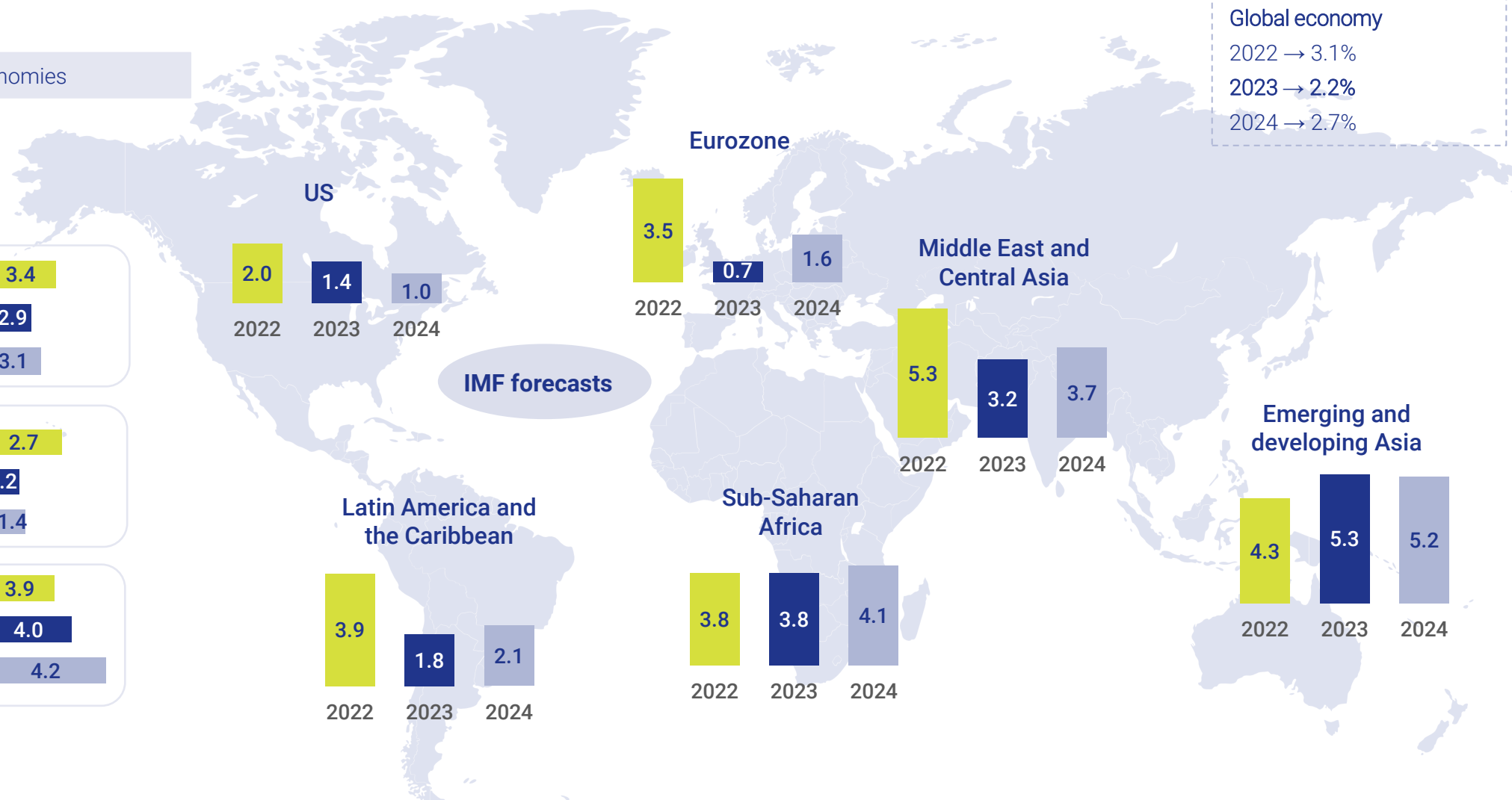
world GDP growth in **2024**

# Major obstacles to global economic growth



# | Global slowdown in 2023

Mainly from advanced economies



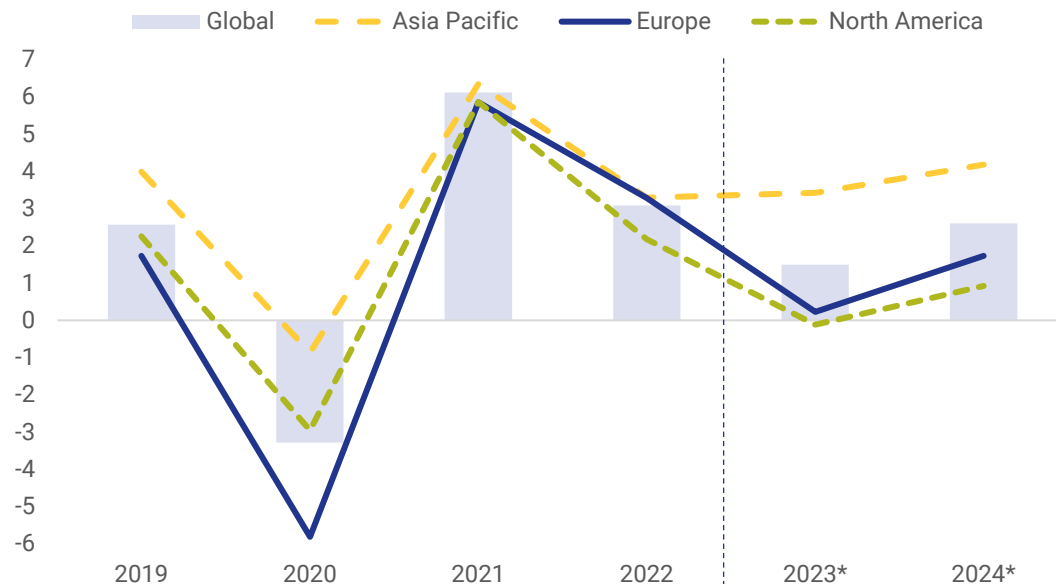
OECD forecasts (Nov. 22)  
Global economy  
2022 → 3.1%  
2023 → 2.2%  
2024 → 2.7%

# Uneven contribution to global growth

The three regions with the greatest impact on global growth face different problems: excess demand in the US, the impact of the Russia-Ukraine war in Europe and the eventual stagnation of the economic recovery in China

**Oxford Economics forecasts lower global GDP growth than the IMF in 2023 (1.5% y-o-y) despite positive surprises in Q4 22**

% y-o-y change



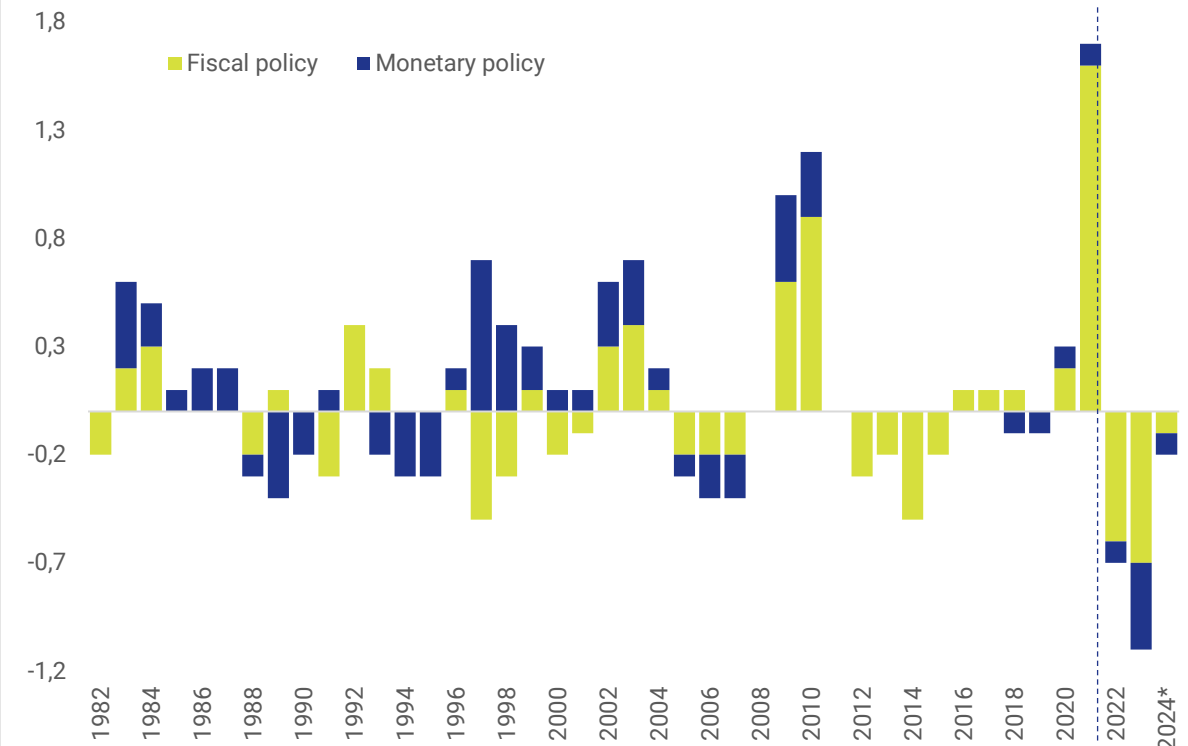
India to lead global growth in 2023 → +4.8% y-o-y, alongside China (+4.5%)

\* Forecasts

Source: *Círculo de Empresarios* based on Oxford Economics/Haver Analytics, 2023.

**Rising interest rates and withdrawal of fiscal stimulus impact global growth from 2022 onward**

% GDP



# Improvement in the business confidence index

The global business confidence index\* increased 0.8 pp since Oct. 22, although it is still 2,7 pp below the Jan. 20 level

Index 100 = Jan.20



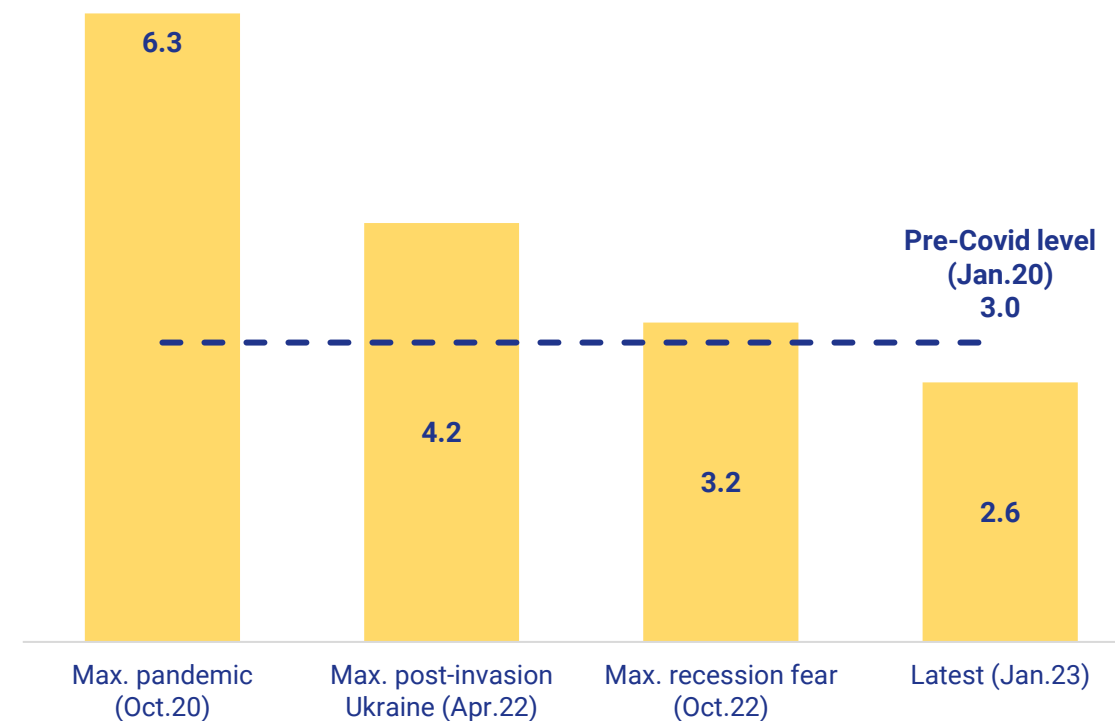
\* Average indexed one-year-ahead expectation for the level of world GDP

\*\* Degree of uncertainty measured from the width of the interquartile range for year-on-year GDP growth

Source: *Círculo de Empresarios* based on Oxford Economics/Haver Analytics, 2023.

Uncertainty about global growth expectations has been reduced to below the pre-pandemic level

Degree of uncertainty\*\* for year-on-year GDP growth

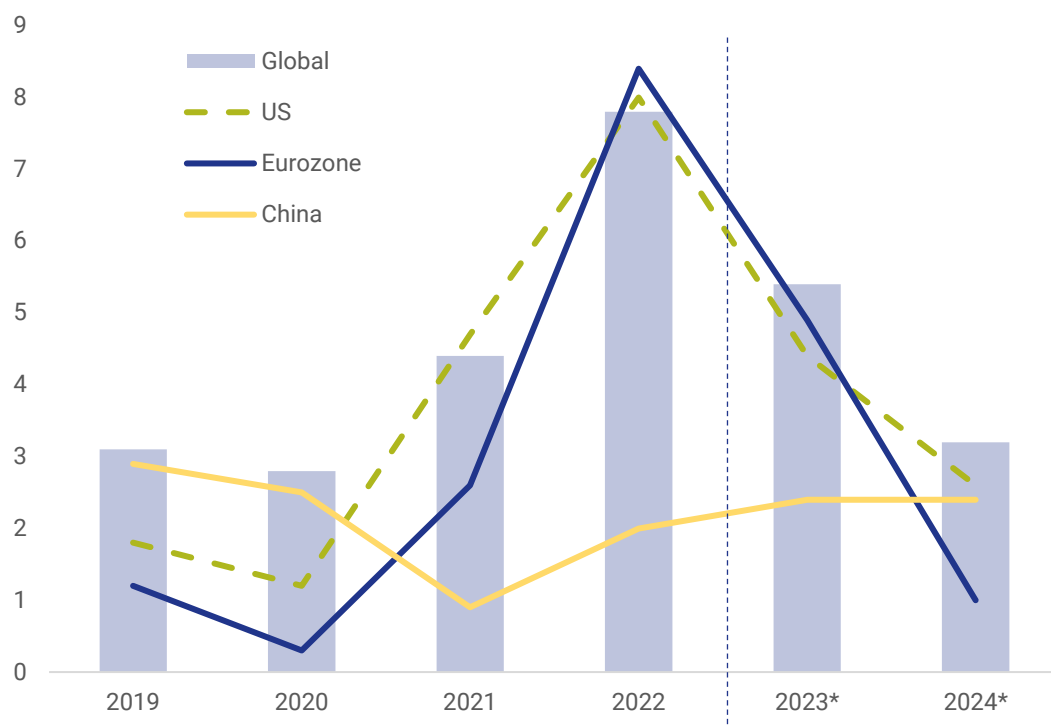


# Persistently high rates of inflation despite moderation

Reducing the risk of extremely high and persistent inflation reduces the likelihood that CBs will tighten monetary policy further and drive economies into recession to win the war against rising prices

## Moderation of inflation, although levels remain well above the CBs' target rates in 2023

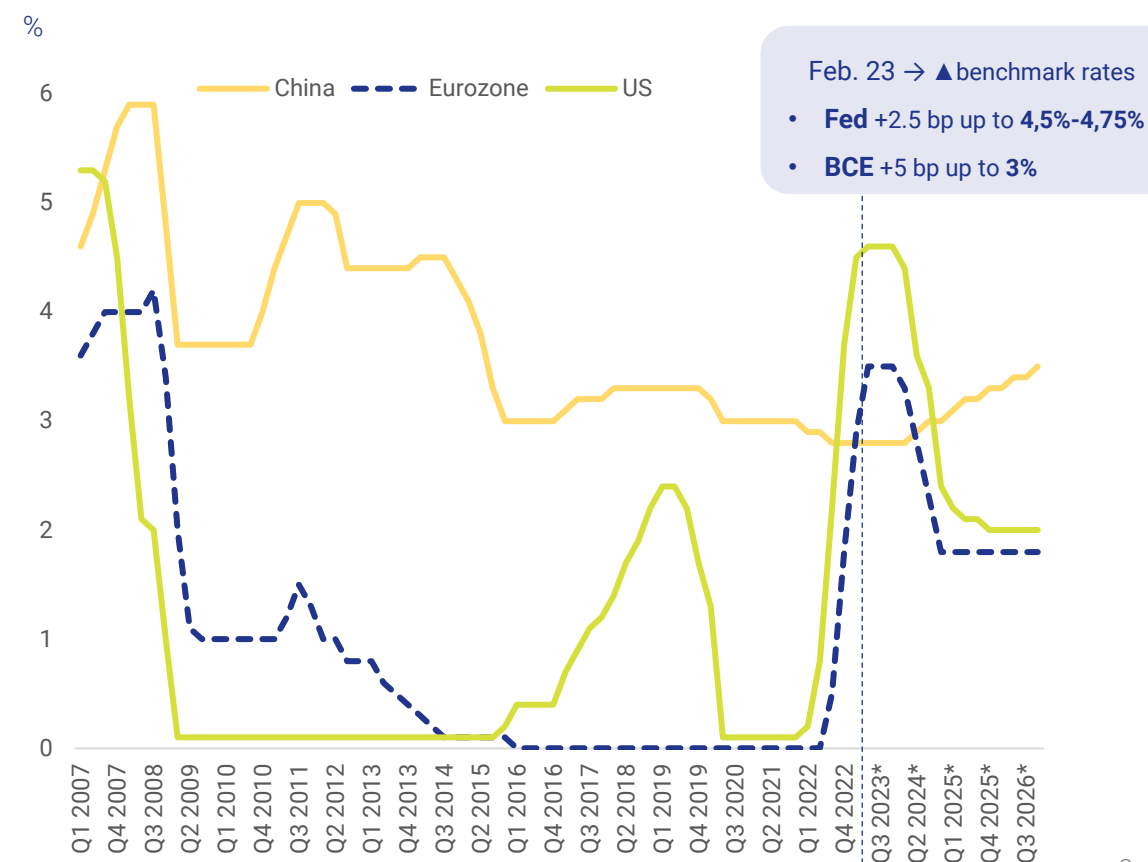
% y-o-y change



\* Forecasts

Source: *Círculo de Empresarios* based on Oxford Economics/Haver Analytics, 2023.

## Expectations that CBs will slow down rate hikes or apply them with less intensity



Feb. 23 → ▲ benchmark rates

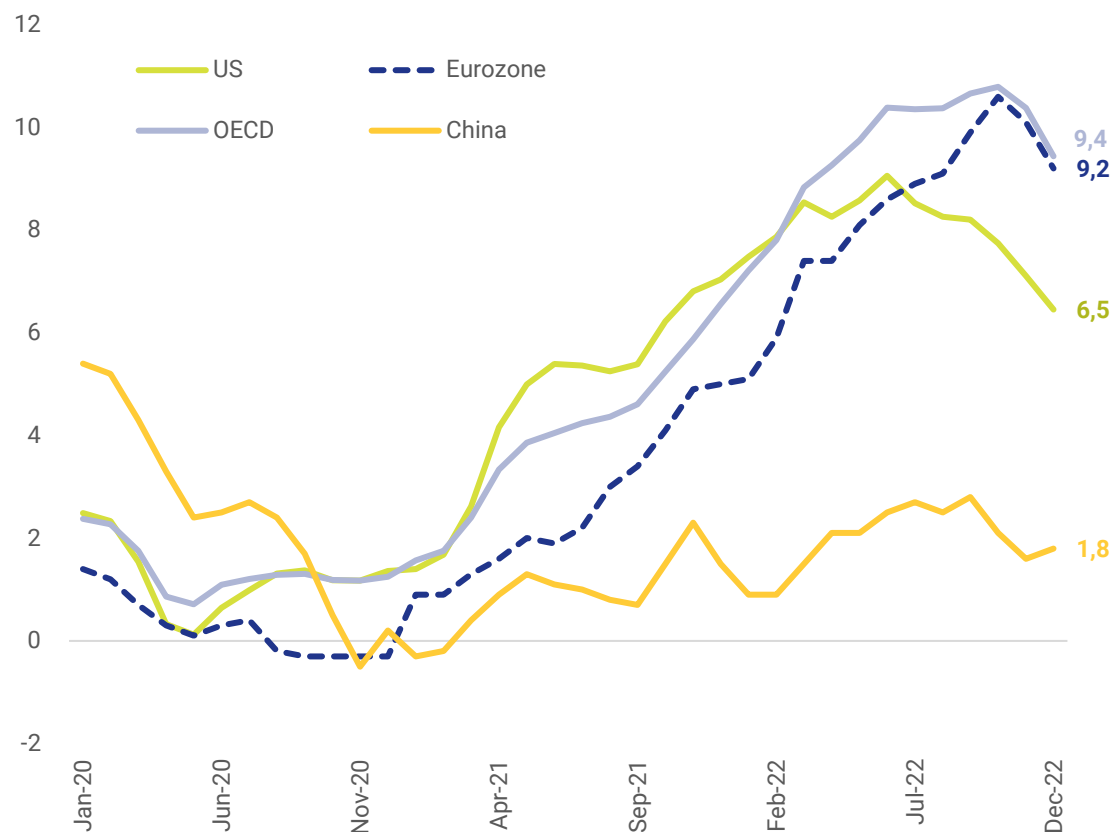
- Fed +2.5 bp up to 4,5%-4,75%
- BCE +5 bp up to 3%



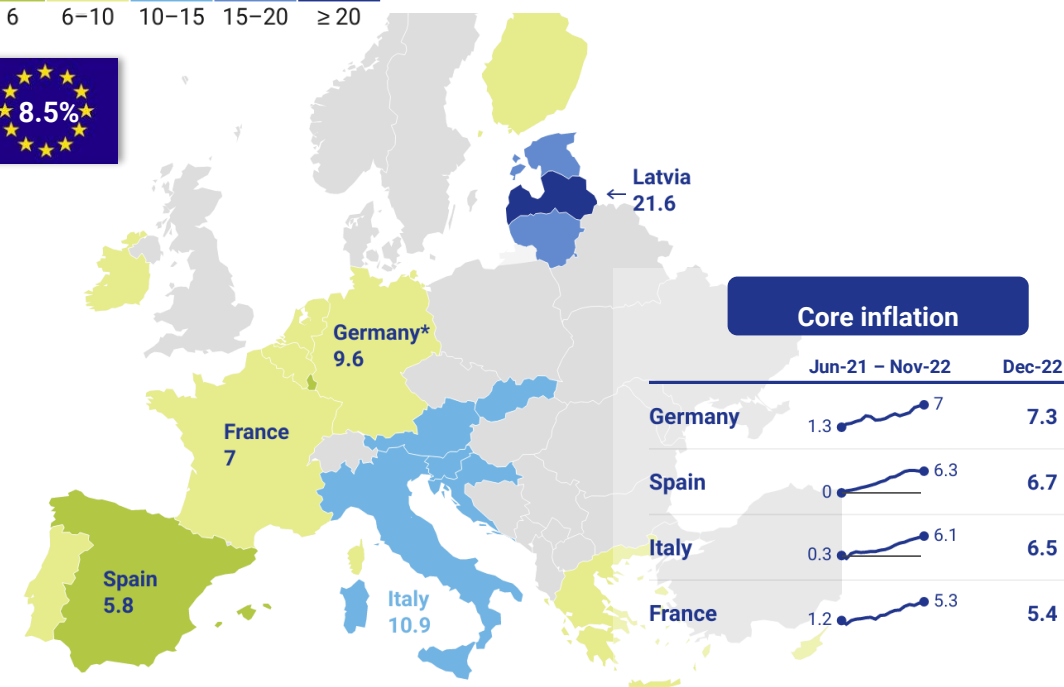
# Inflation in the OECD and the Eurozone

In Dec. 22, inflation rates retreated from the summer highs, although core inflation (excluding unprocessed food and energy) remained high and even rebounded in the Eurozone (up 7% Jan. 23)

General CPI % y-o-y change



Jan. 23  
% y-o-y change



Core inflation



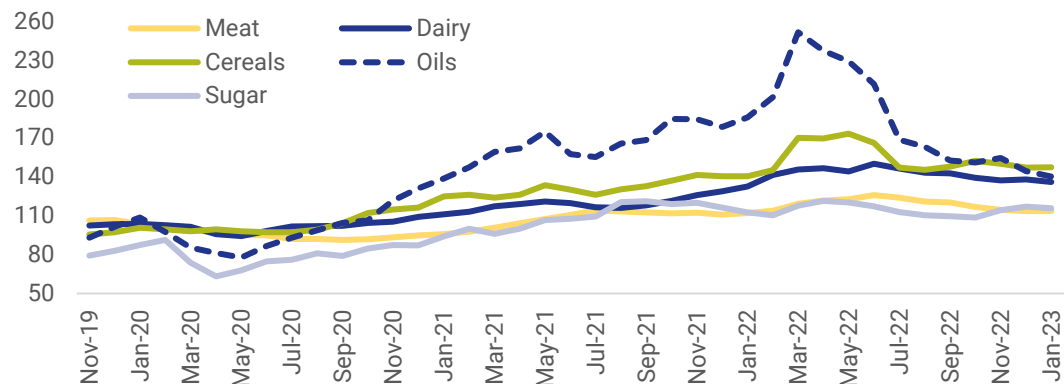
# Moderation in food and energy prices

## FAO food price index declined in January, reaching 2010 levels

FAO monthly food price index

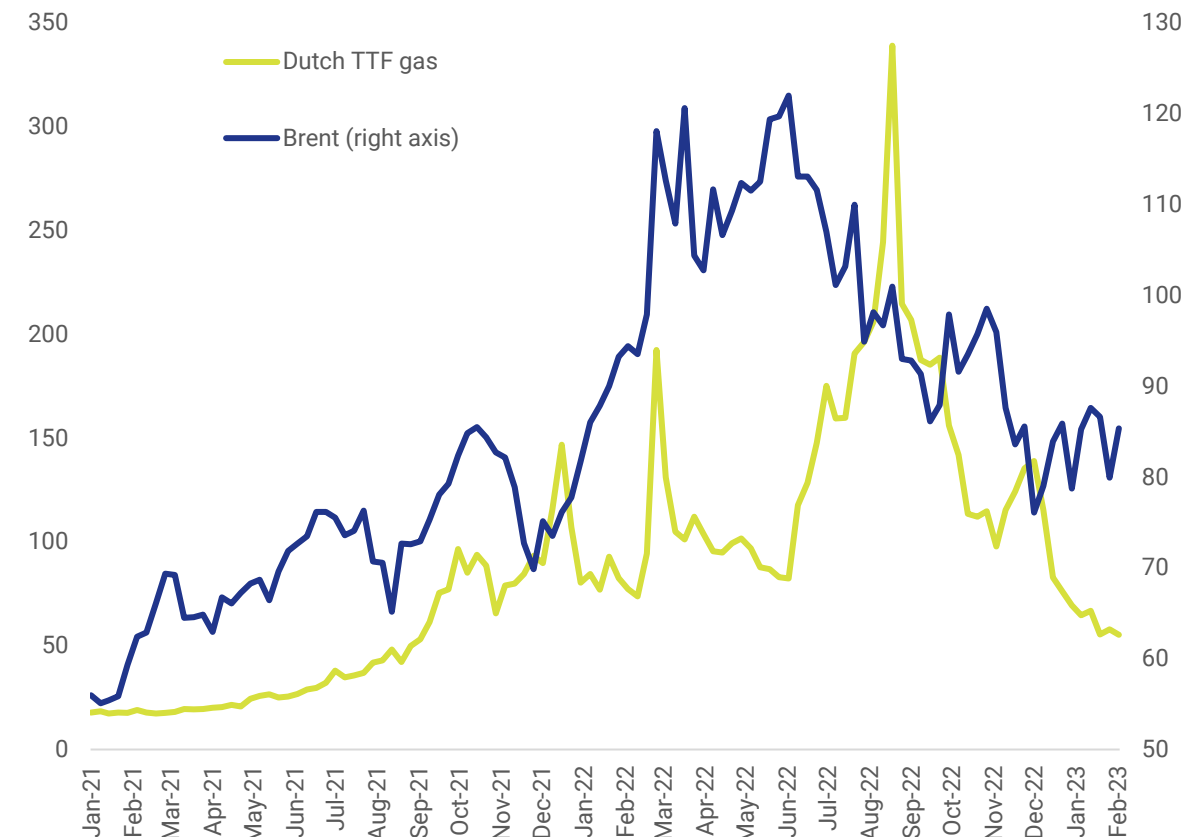


All components moderated their evolution, especially oils, after reaching peak values in Q1 2022



## Oil and gas price trend softens

€/MWh and \$/ crude barrel



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# Asia

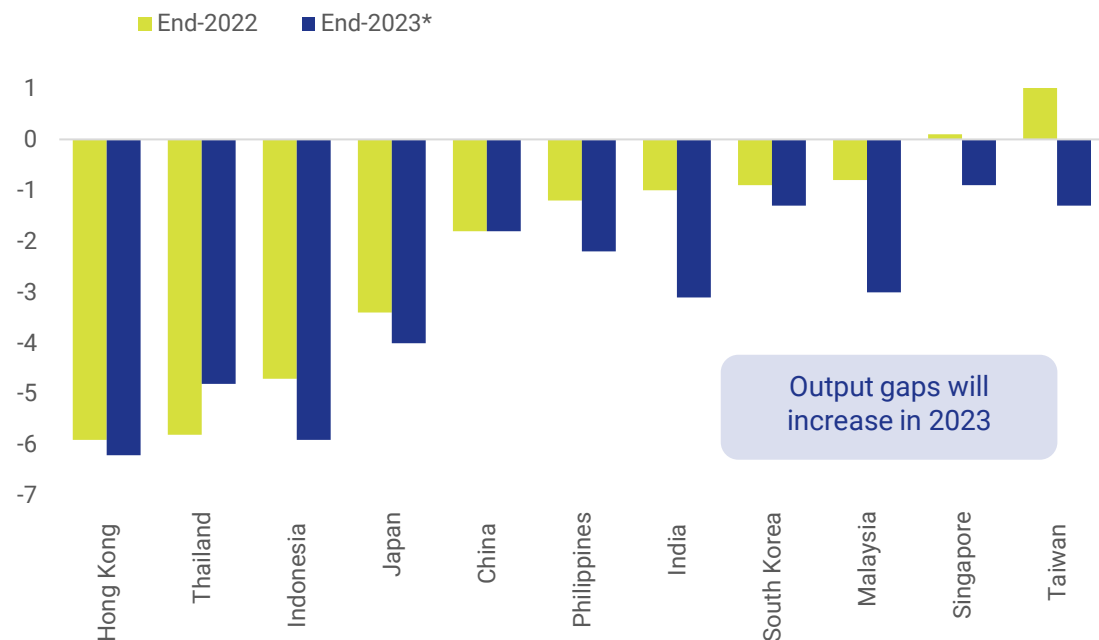


# Growth and inflation in Asia

Declining supply shocks and weaker demand will support a fall in headline inflation in Asia in H1 2023. It is mainly explained by falling global fuel prices and, more recently, cooling food prices

## Weak economic growth in Asia relative to potential GDP is accentuated

Output gap (1), % GDP



(1) The output gap: the difference between recorded GDP and potential GDP, the latter being the level of output compatible with stable underlying inflation around its target level

\* Forecasts

Source: *Círculo de Empresarios* based on Oxford Economics/Haver Analytics, 2023.

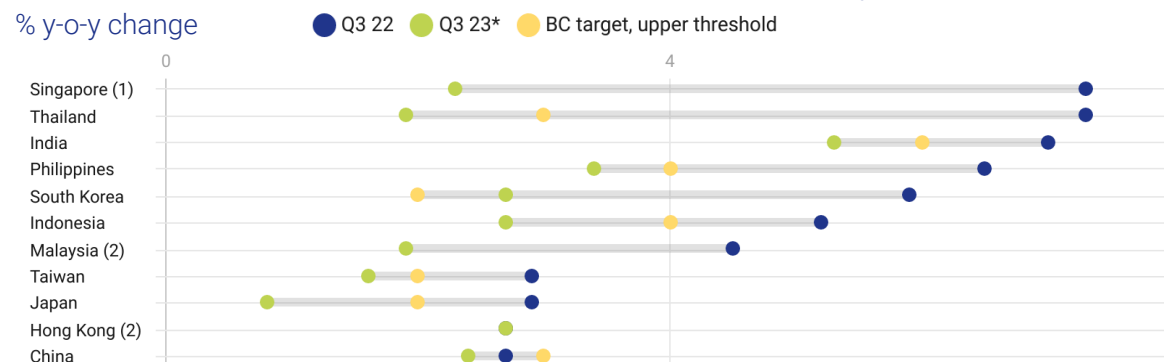
## Transportation, food and housing, the items with the greatest impact on inflation

% y-o-y, Nov.22, 3 month average; and contribution in pp

	Headline	Transport	Food	Housing	Clothing	Medical	Recreation
China	2,1	0,5	1,4	0,0	0,0	0,0	0,3
Japan	3,5	0,2	1,5	1,2	0,1	0,0	0,1
Hong Kong	2,6	0,0	1,0	0,8	0,1	0,0	0,1
South Korea	5,4	0,7	1,0	1,2	0,2	0,1	0,2
Taiwan	2,6	0,2	1,2	0,6	0,1	0,1	0,1
India	6,7	0,4	3,1	0,5	0,7	0,3	0,1
Singapore	6,5	2,8	1,5	1,5	0,1	0,2	0,5
Indonesia	5,7	1,9	1,7	0,7	0,1	0,1	0,1
Malaysia	4,0	0,8	2,1	0,5	0,0	0,0	0,2
Philippines	7,5	1,2	3,4	1,5	0,1	0,1	0,0
Thailand	6,0	1,2	3,7	0,8	0,0	0,1	0,1
Vietnam	4,2	0,3	1,7	0,8	0,1	0,0	0,2

## Inflation to return to target in almost all countries by Q3 2023

% y-o-y change



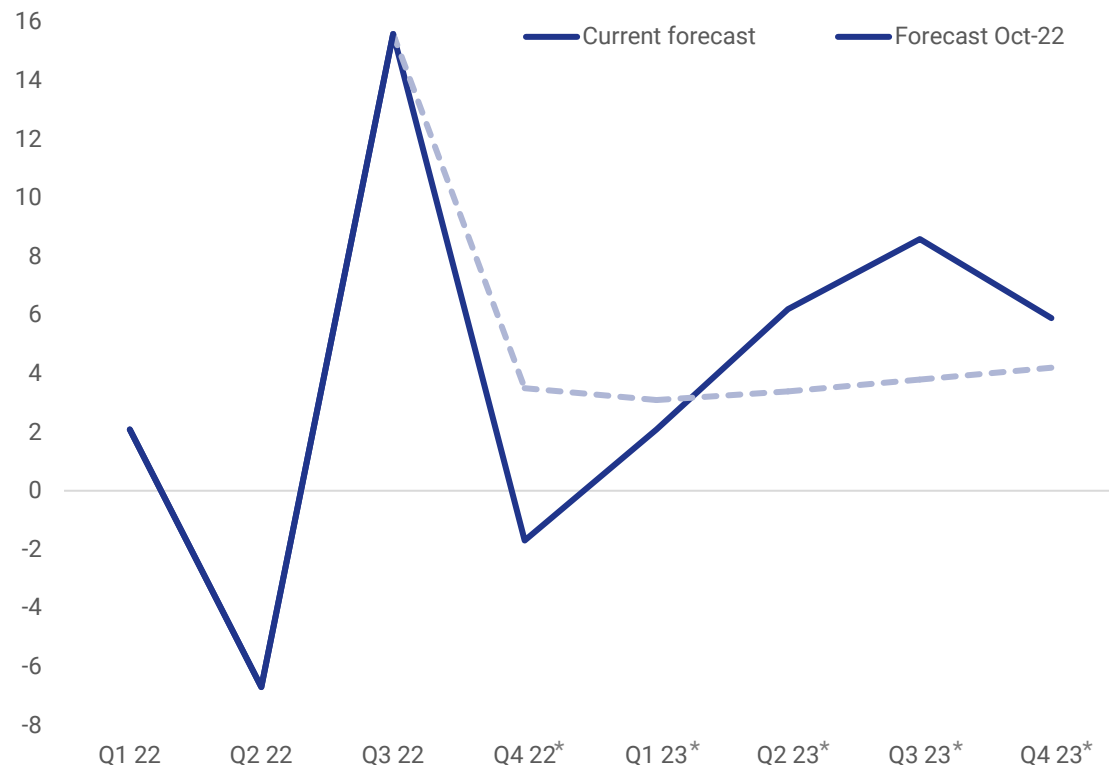
(1) Core inflation "slightly below 2%" and (2) No inflation target.

# China: economic recovery

Oxford Economics estimates that China's zero COVID policy over the past three years has subtracted 4.7% of its GDP in suspended activity from the Chinese economy

According to forecasts by Oxford Economics, GDP growth will reach 3% in 2022 and 4.5% in 2023, lower than estimated in Oct. 22

% y-o-y change

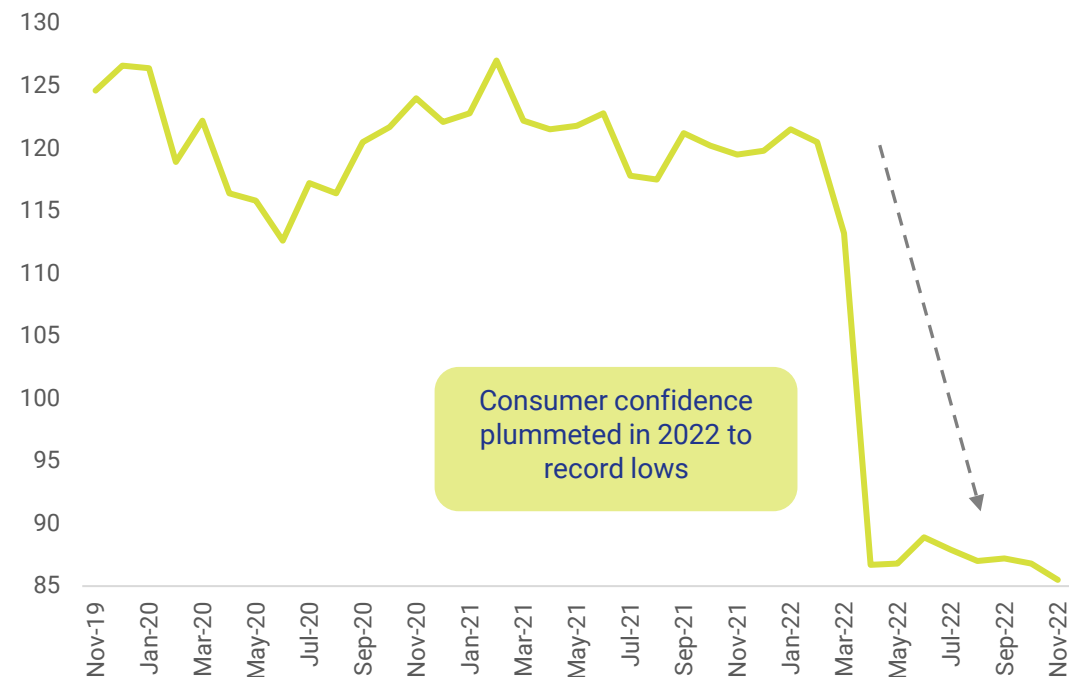


\* Forecasts

Source: *Círculo de Empresarios* based on Oxford Economics/Haver Analytics, NBSC and Statista, 2023.

Deteriorating labour market conditions, with rising unemployment, and potential negative wealth effects associated with a downturn in the real estate sector undermine household confidence

Consumer Confidence Index: > 100 = optimism



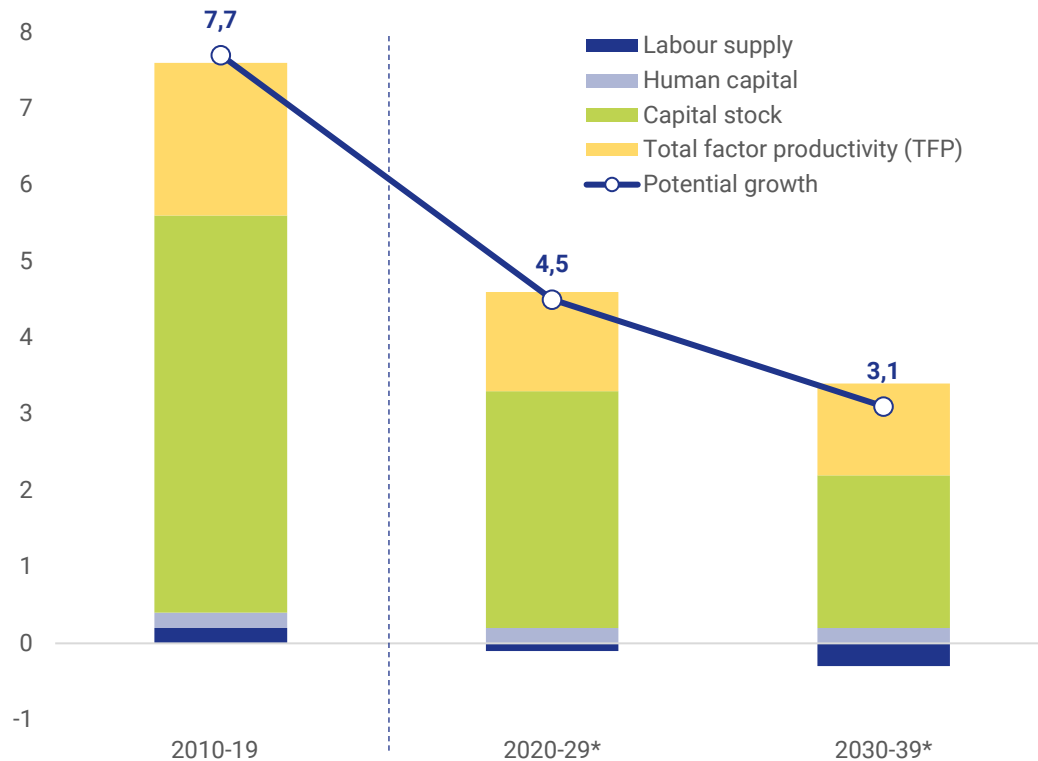
Consumer confidence plummeted in 2022 to record lows

# China: impact of demographic change

China faces a demographic transition that will put downward pressure on labour supply and economic growth in the coming decades. According to the latest data from the National Bureau of Statistics, its mainland population fell by 850,000 people to 1.41 billion in 2022, the first decline in 60 years

**Demographic deterioration will drag potential growth to an annual average of around 4.5% in the 2020-29 decade**

Contribution in pp

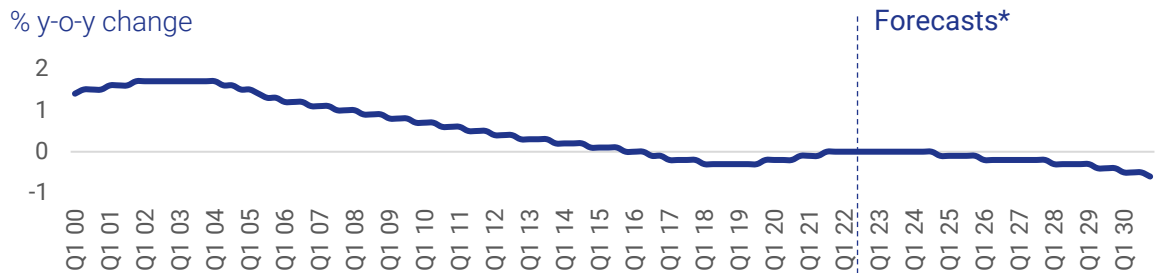


\* Forecasts

Source: *Círculo de Empresarios* based on Oxford Economics/Haver Analytics, 2023.

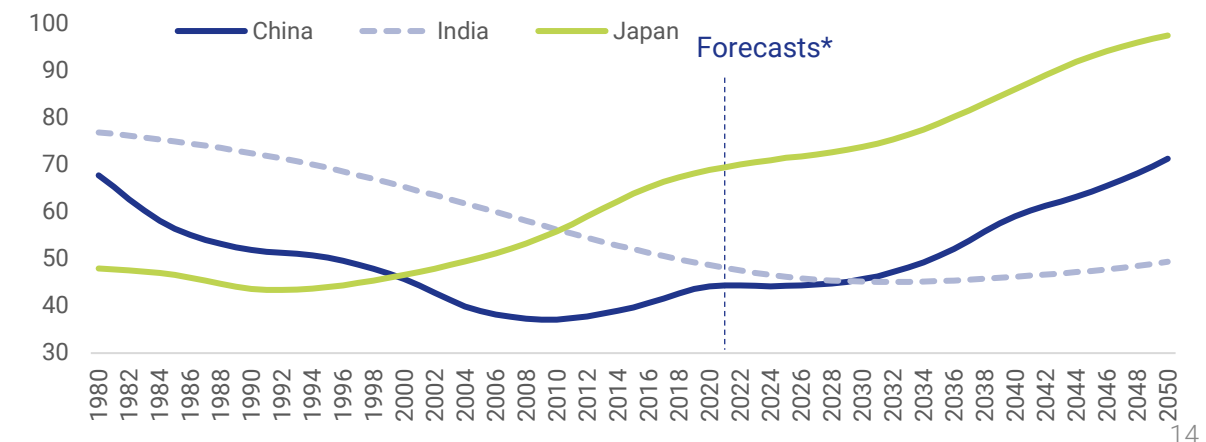
**China's labour force will contract by 0.2% per annum this decade, compared to +0.1% per annum in 2010-19**

% y-o-y change



**The higher dependency ratio will increase the economic and fiscal burden on the shrinking labour force**

Dependency ratio = population > 64 years old and < 15 years old / population 15-64 years old

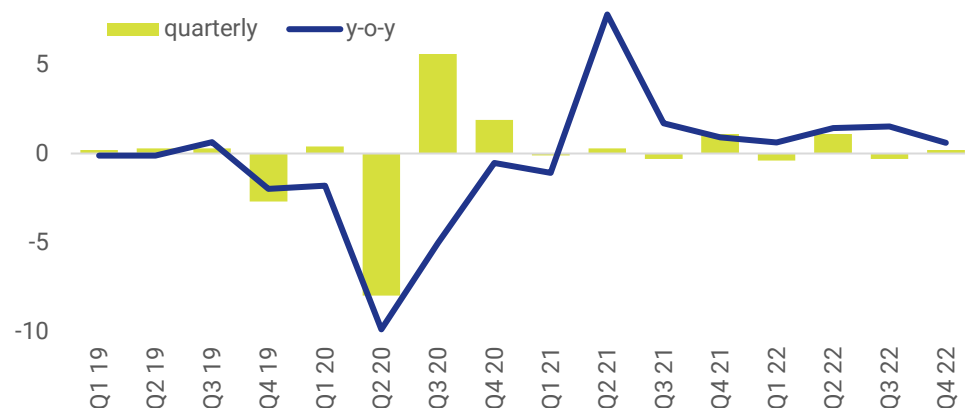


# Japan: recovery momentum weakens

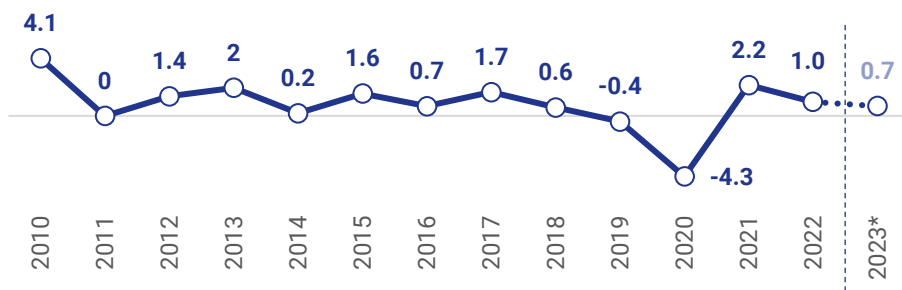
By the end of 2022, recovery slowed due to inflation, deteriorating real household incomes and weak external demand

In Q4 22, Japan's GDP grew by 0.2% quarterly and 0.6% year-on-year, well below initial estimates

Quarterly data, % change



Annual data, % y-o-y change



In Dec. 22, export growth slowed to +12% (+20% Nov. 22), partly due to cuts in automobile production in the face of chip shortages

% y-o-y change



\* Forecasts Oxford Economics

Source: *Círculo de Empresarios* based on Oxford Economics/Haver Analytics, 2023.

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# Americas



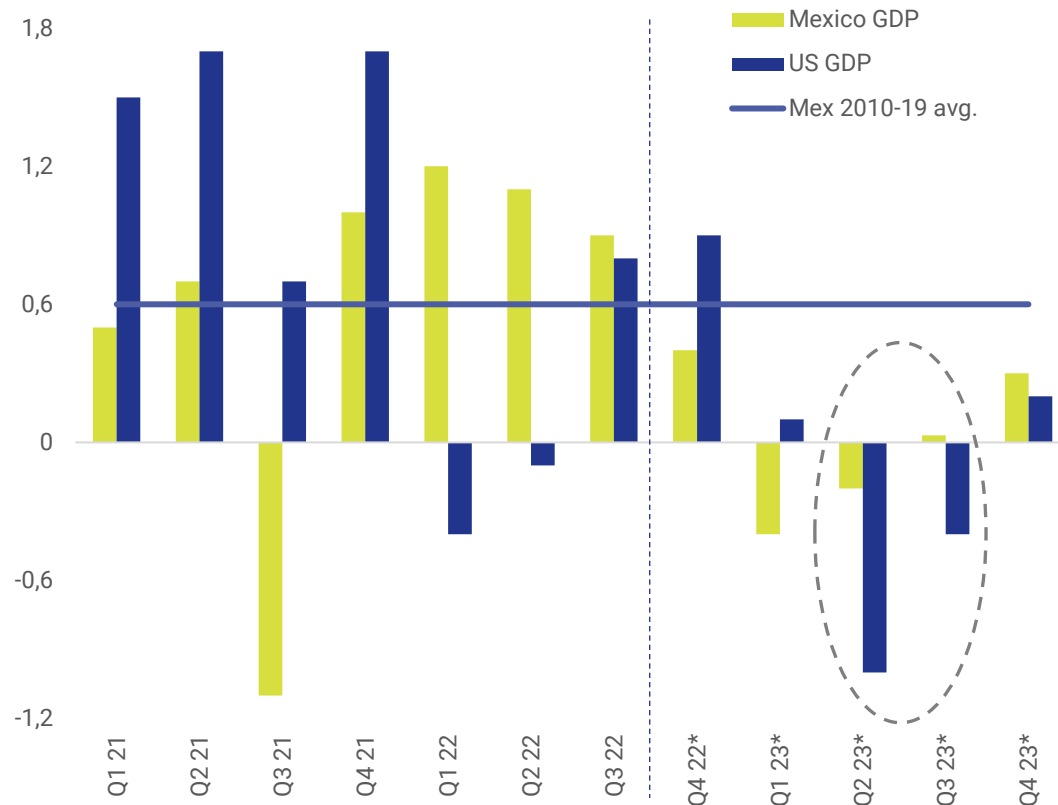


# Mexico: slowdown or recession?

Oxford Economics forecasts 0.8% year-on-year growth in 2023

Mexico could record a mild technical recession in 1H 23 influenced by weak domestic demand and US GDP evolution

% quarterly change

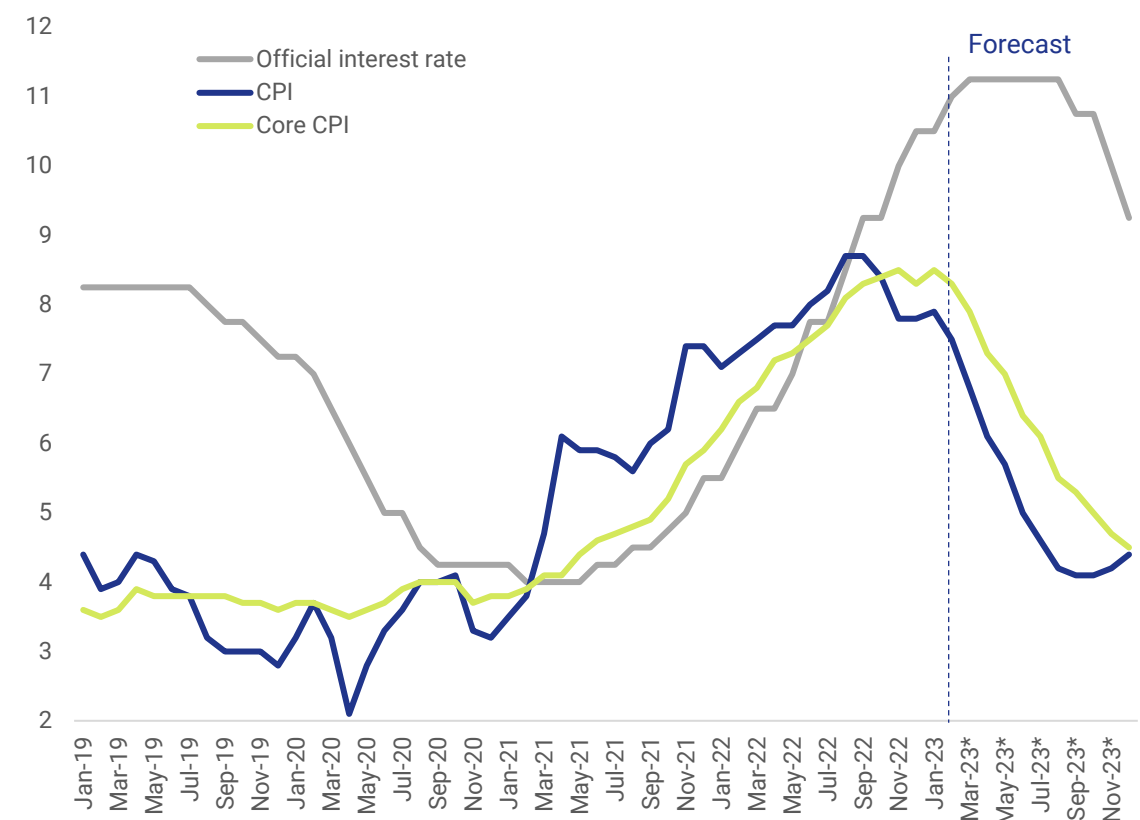


\* Forecasts

Source: *Círculo de Empresarios* based on Oxford Economics/Haver Analytics, 2023.

Core prices are expected to moderate more slowly than the overall CPI and Banxico's monetary policy could ease in 2H 23

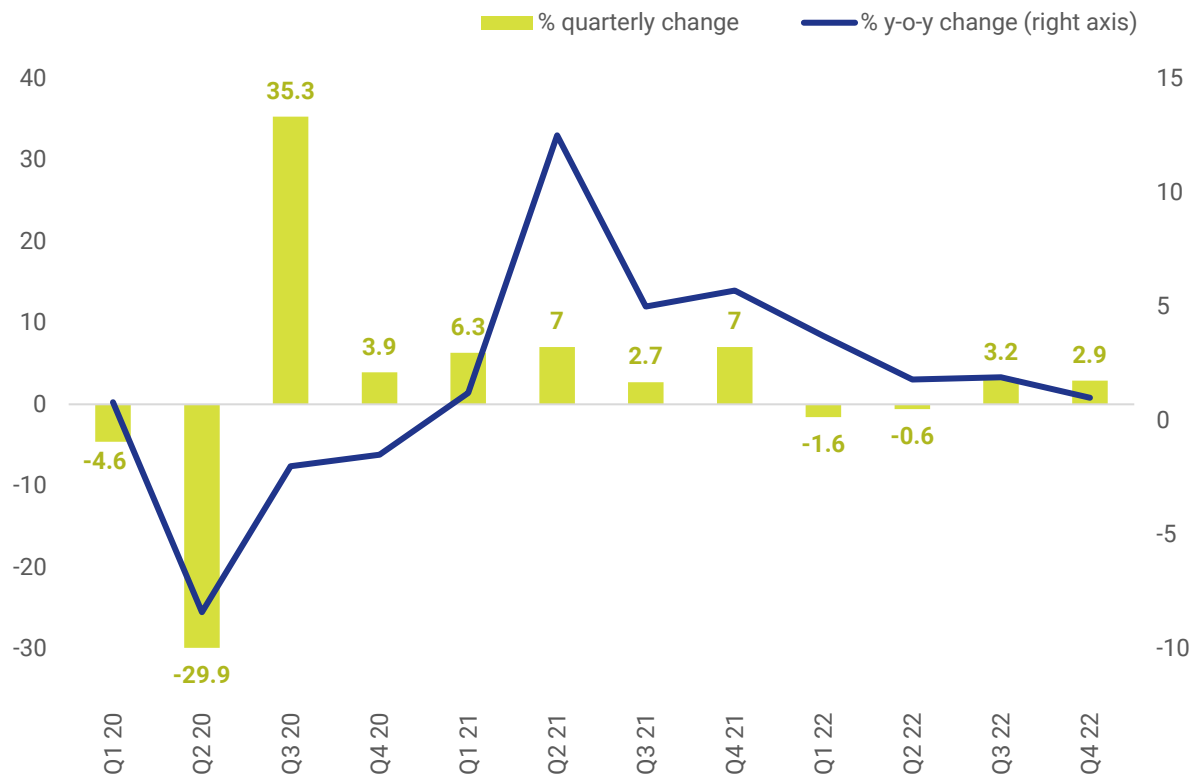
% y-o-y change



# US: Q4 22 growth, but recession expected in 2023

Real GDP grew at an annual rate of 2.9% quarterly in Q4 22 (provisional data), 3 tenths of a percentage point less than in Q3 22 (provisional data)

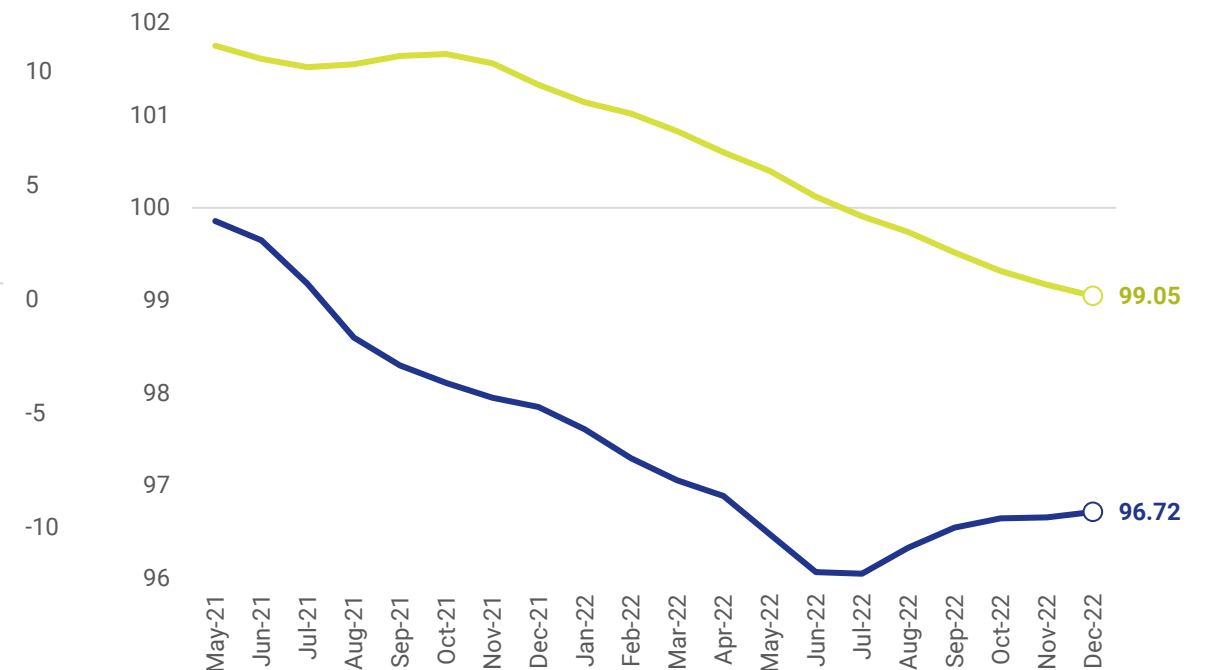
% change



The downward trend in business confidence that began in 2021 continues, while consumer confidence rebounds

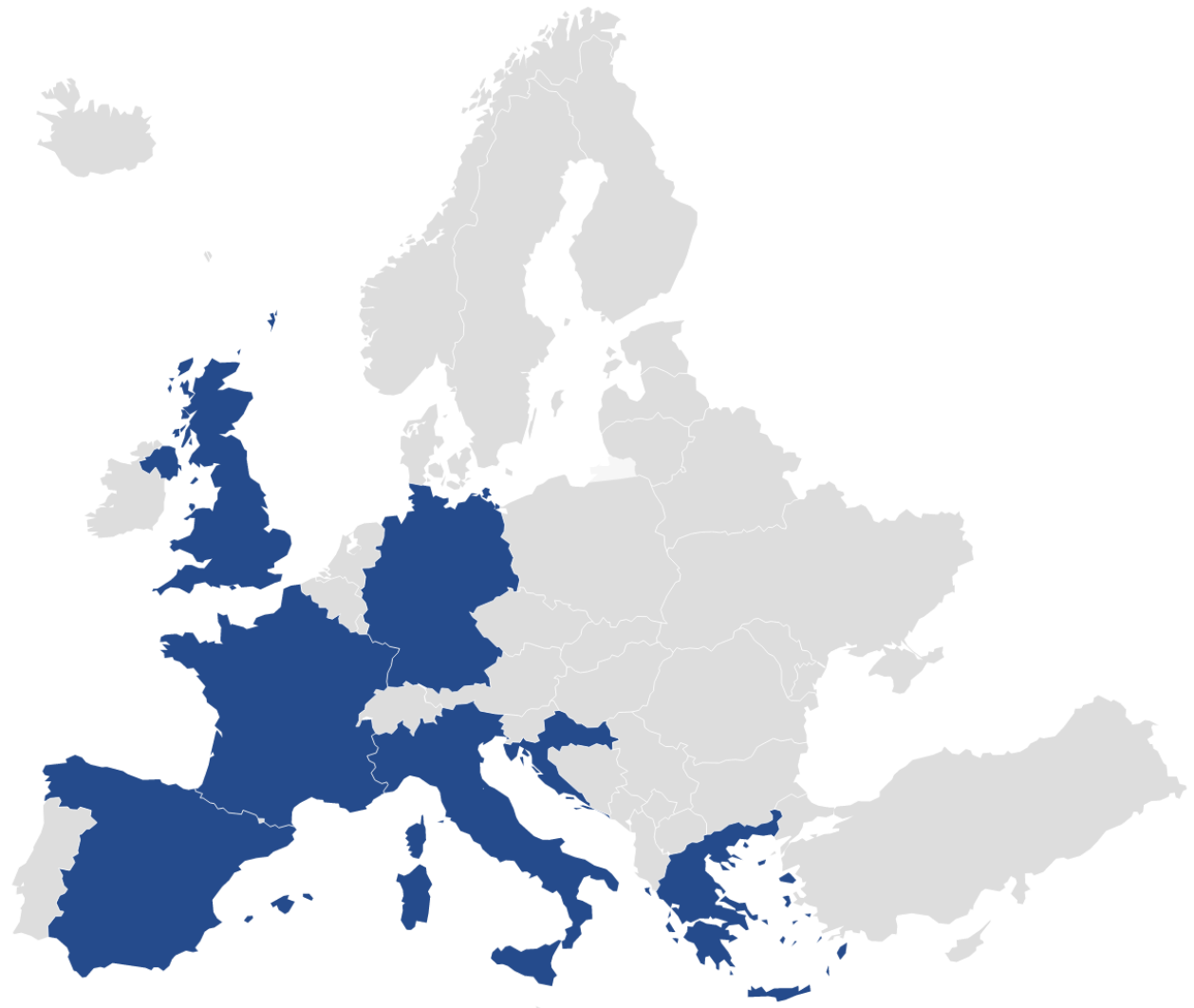
ECI value > 100: ▲ business confidence and potential growth in economic activity.  
 Value < 100: possible declines in business activity in the future

ICC value > 100: ▲ consumer confidence and likelihood that they will spend money on major purchases in the coming year. Value < 100: negative economic developments



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# Europe

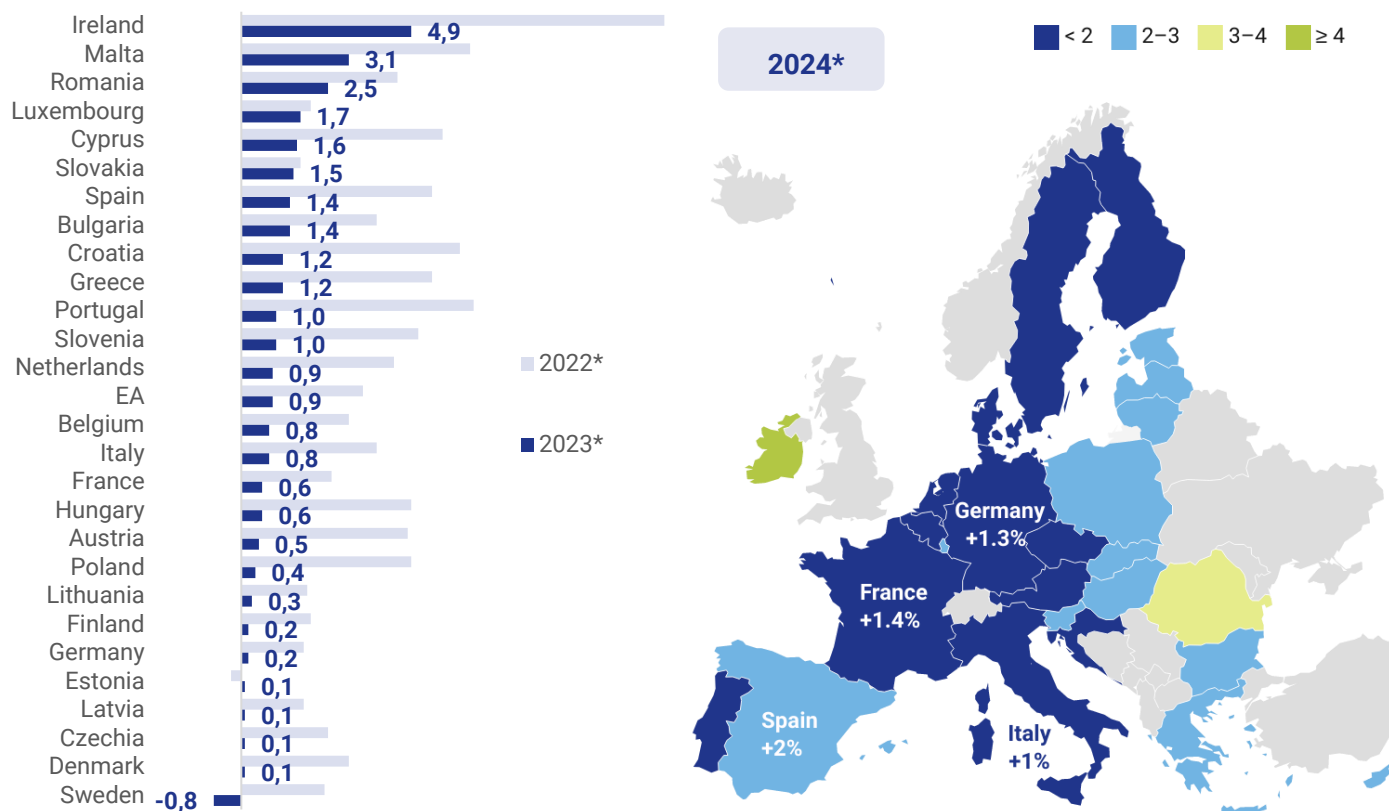


# | European Commission forecasts

European Commission's interim winter forecast upgrades growth outlook and slightly downgrades inflation expectations

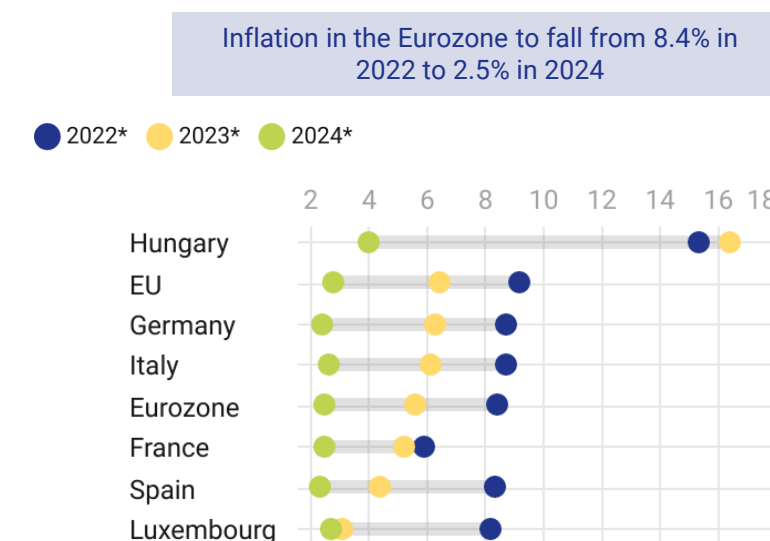
**EU GDP growth to decelerate from 3.5% in 2022 to 0.8% in 2023 and rebound to 1.6% in 2024**

% y-o-y change



**Inflation rate will moderate in the EU from 9.2% in 2022 to 2.8% expected in 2024**

% y-o-y change



Inflation risks continue to be linked to the evolution of energy markets in the short term

\* Forecasts

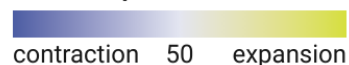
Source: *Círculo de Empresarios* based on European Commission, 2023.

# | Deteriorating PMIs marked 2022 in Europe

Business activity has suffered throughout 2022 in the main European economies, mainly due to the impact of the war in Ukraine, rising prices, the slowdown in international trade and the growing uncertainty affecting demand. In Jan. 23, producers in some economies show an improvement in expectations

## Manufacturing PMI

### Business performance



	Jan-22 – Dec-22	Jan-23
<b>Germany</b>	59.8  47.1	47.3
<b>France</b>	55.5  49.2	50.5
<b>Italy</b>	58.3  48.5	50.4
<b>Spain</b>	56.2  46.4	48.4
<b>Eurozone</b>	58.7  47.8	48.8
<b>UK</b>	57.3  45.3	47.0

## Services PMI

### Business performance



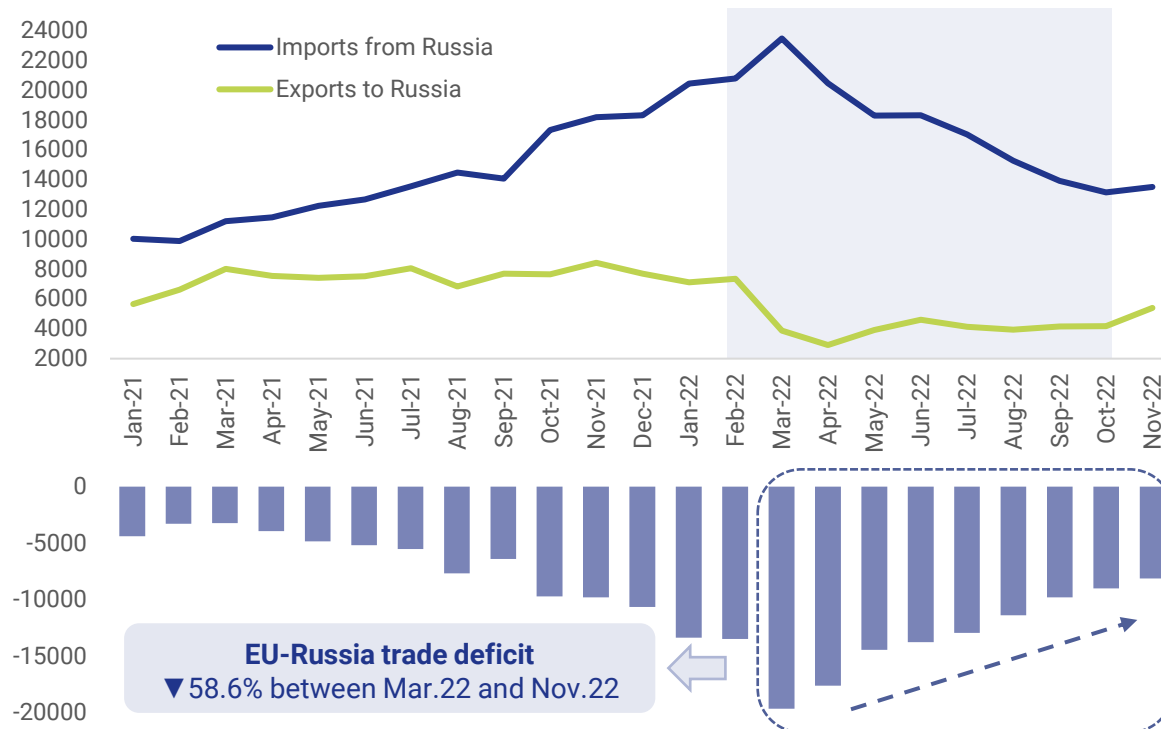
	Jan-22 – Dec-22	Jan-23
<b>Germany</b>	52.2  49.2	50.7
<b>France</b>	53.1  49.5	49.4
<b>Italy</b>	48.5  49.9	51.2
<b>Spain</b>	46.6  51.6	52.7
<b>Eurozone</b>	51.1  49.8	50.8
<b>UK</b>	54.1  49.9	48.7

# EU-Russia trade : war-related decline in trade

The Russian invasion of Ukraine has led to a significant drop in both EU-Russia exports and imports, against a backdrop of EU restrictions on trade in several products

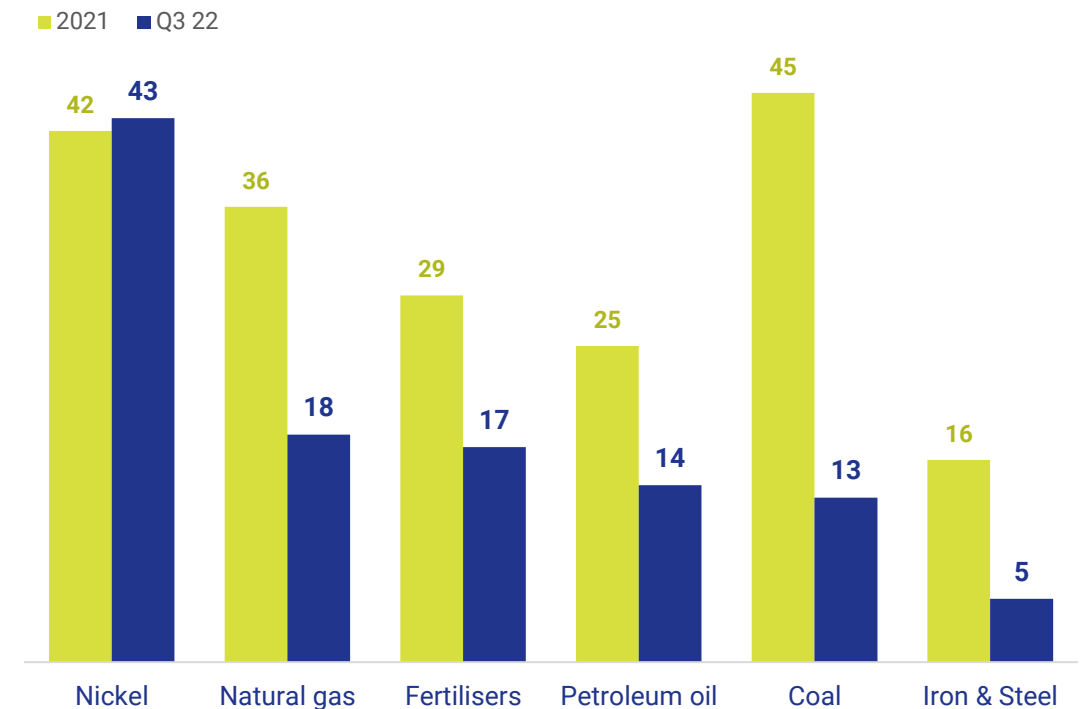
Between Feb.-Oct. 22, EU imports from Russia fell by 36.7% and exports by 43.3%

Million €



Russia's share of imports has been cut significantly in coal (-32 pp) and natural gas (-12 pp)

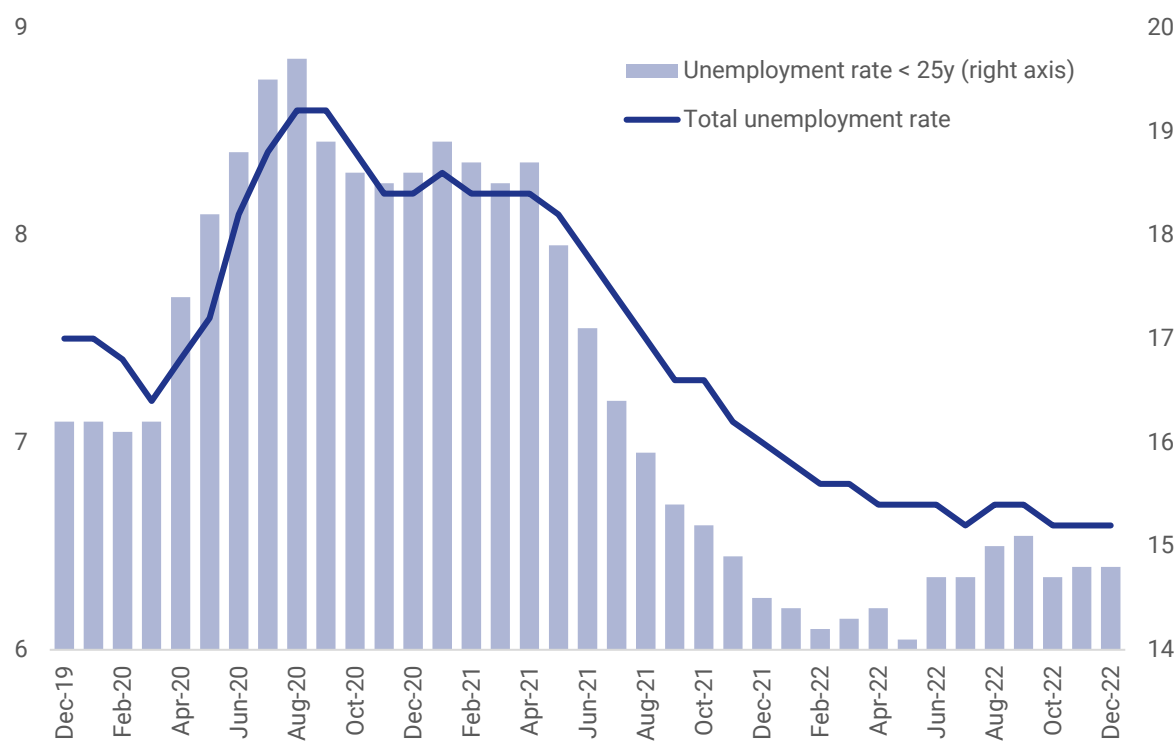
% EU imports from Russia out of total extra-EU imports



# Eurozone: unemployment reaches new record lows

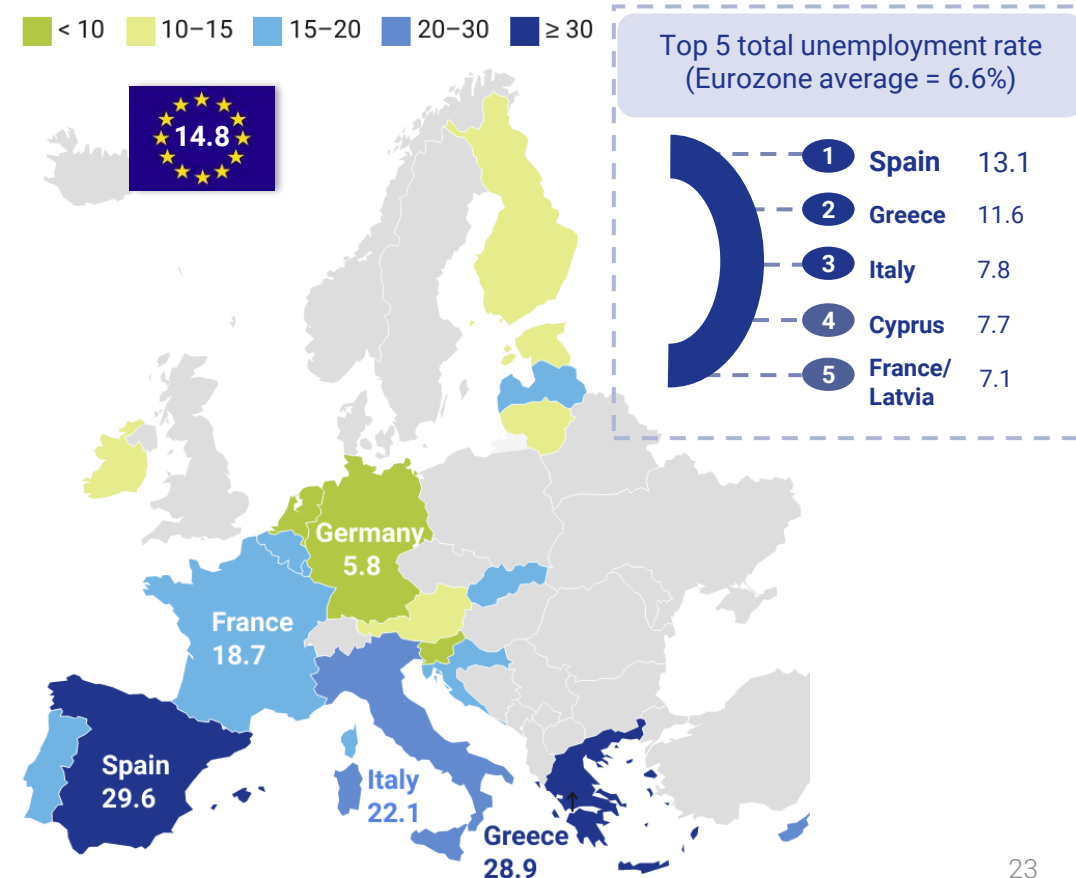
The total unemployment rate in the Eurozone remained at 6.6% in Dec. 22 and unemployment among the under-25s at 14.8%

Unemployment rate as % of working population in your age group



In Dec. 22, Spain leads in total unemployment (13.1%) and under-25 unemployment (29.6%)

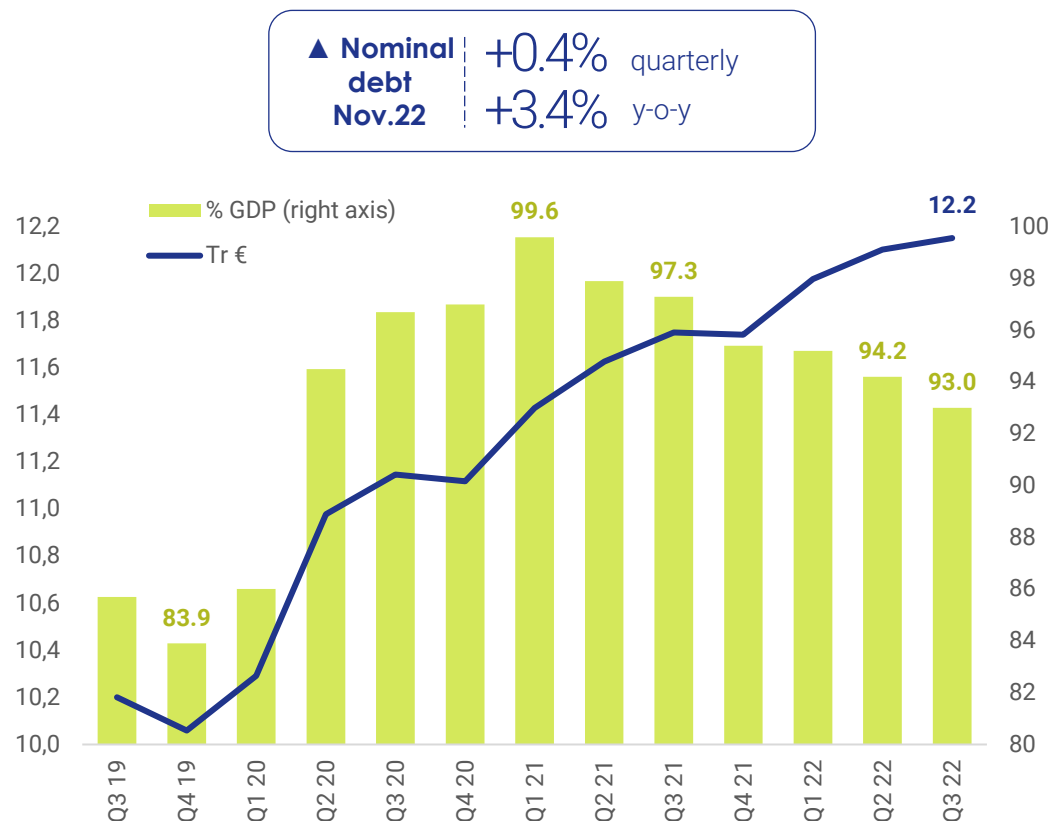
Unemployment rate under 25 years of age % labour force under 25 years of age



# Eurozone: debt volume expansion

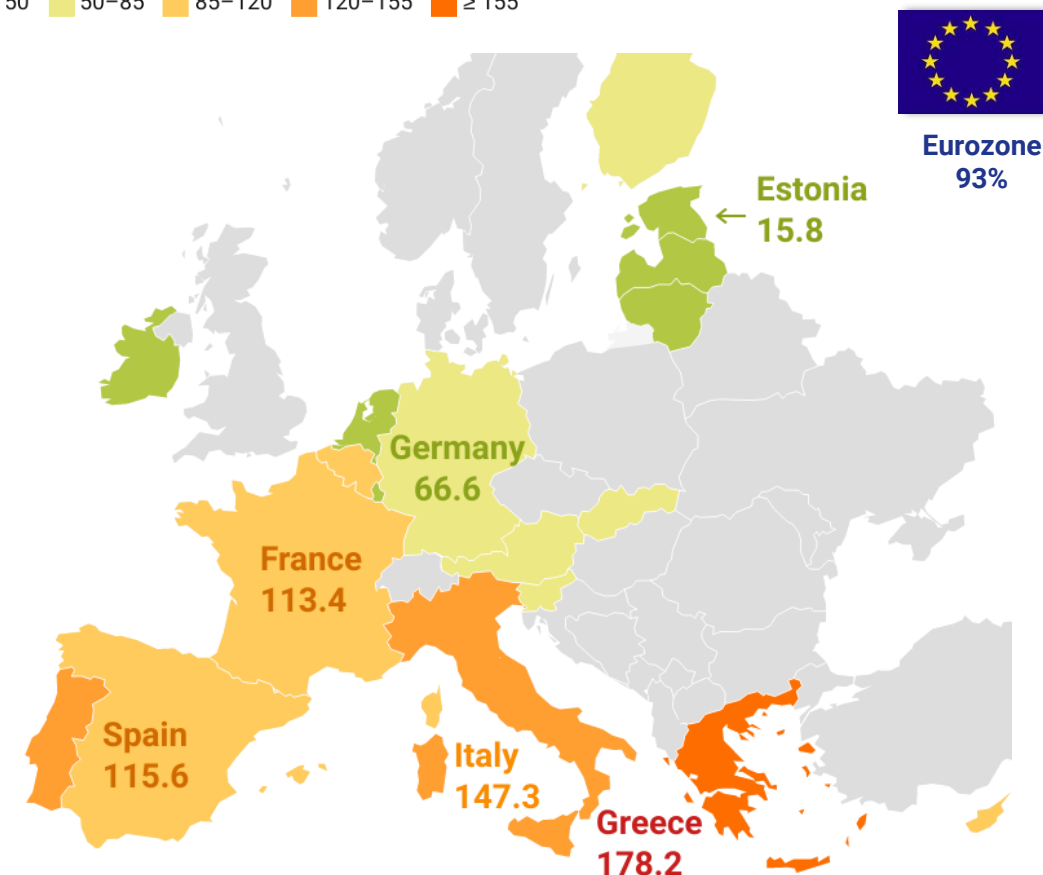
Eurozone debt stock continues to rise to €12.2 trillion, but the debt-to-GDP ratio falls to 93% as GDP rises in nominal terms

% GDP



Greece, Eurozone country with the highest level of public indebtedness  
% GDP

< 50 50-85 85-120 120-155 ≥ 155

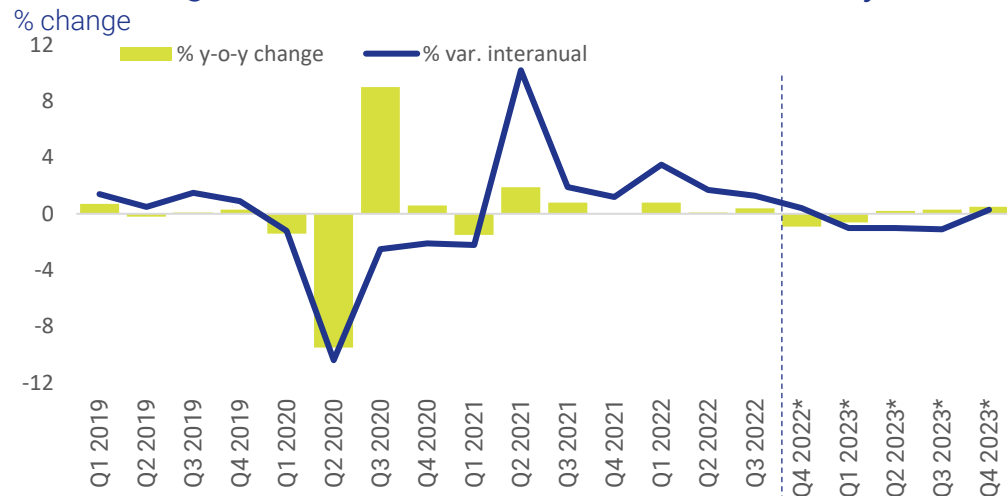




# Germany: recession risks in 2023

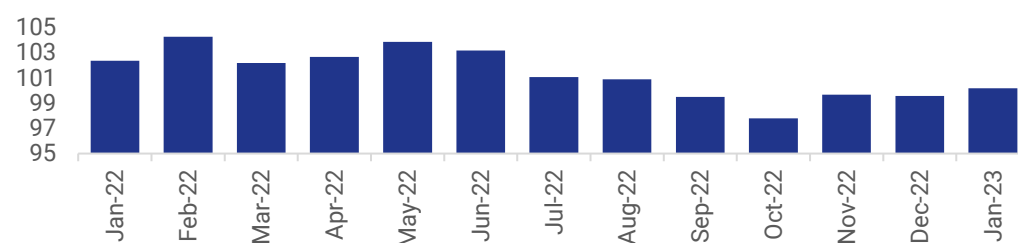
German economy grew by 2% year-on-year in 2022 and is 0.7% above the 2019 level (pre-pandemic)

Expectations of recession in 2023, although pessimism is diminishing as inflation is under control and industry rebounds



Companies' willingness to hire personnel increases

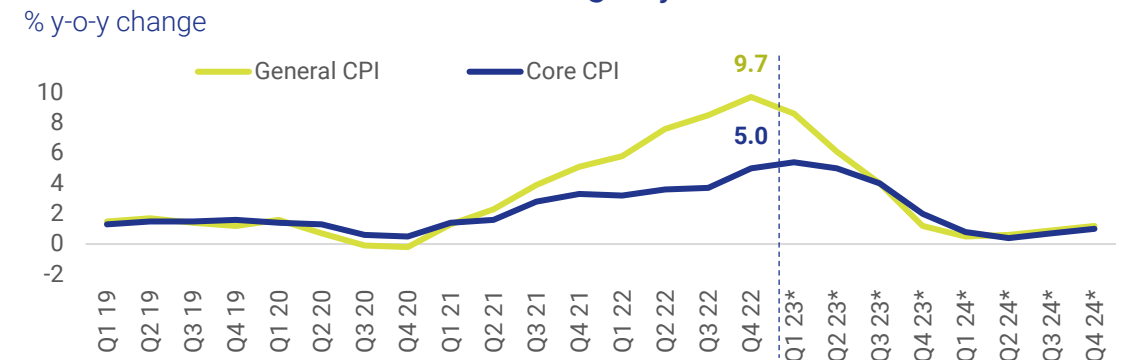
Index 2015 = 100



\* Forecasts

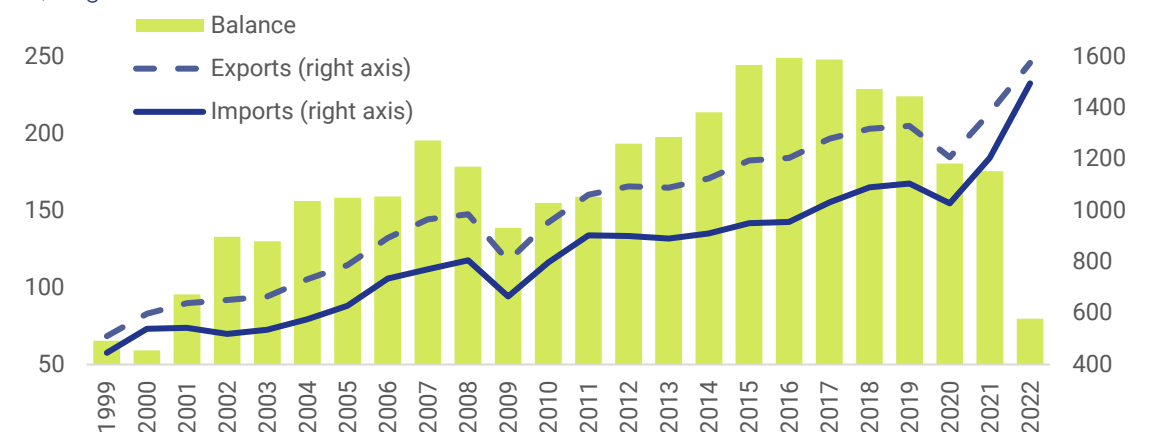
Source: *Círculo de Empresarios* based on Oxford Economics/Haver Analytics and Destatis, 2023.

Headline CPI fell to 8.6% in Dec.22, standing at 9.7% in Q4 22. Core inflation shows more downward rigidity



Trade surplus falls to lowest level since 2000

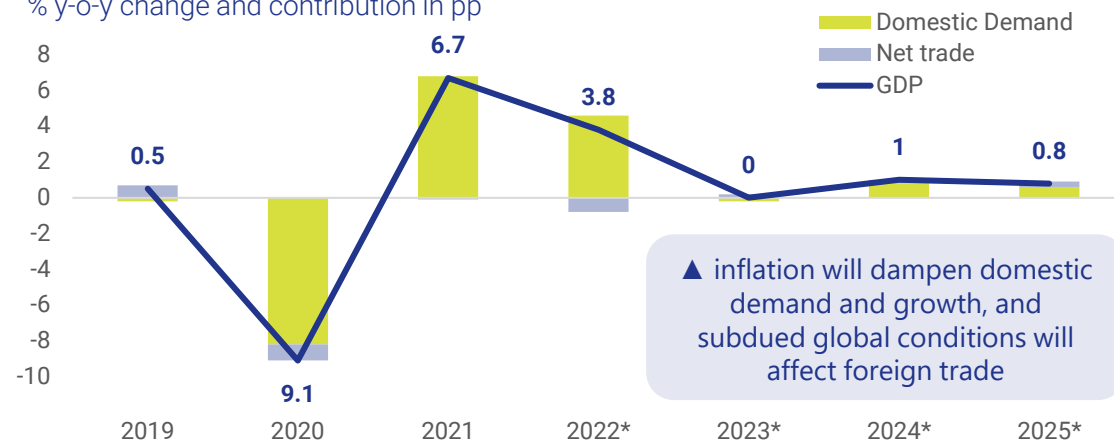
Bn €, original series



# Italy: stagnation in 2023

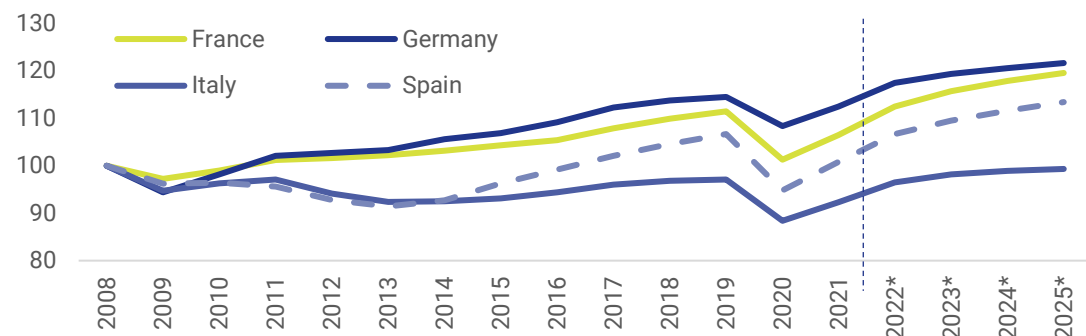
The Italian economy showed remarkable resilience through Q3 2022, and GDP is expected to have grown by 3.8% in 2022

% y-o-y change and contribution in pp



GDP has not yet recovered to pre-2008 level

2008 = 100

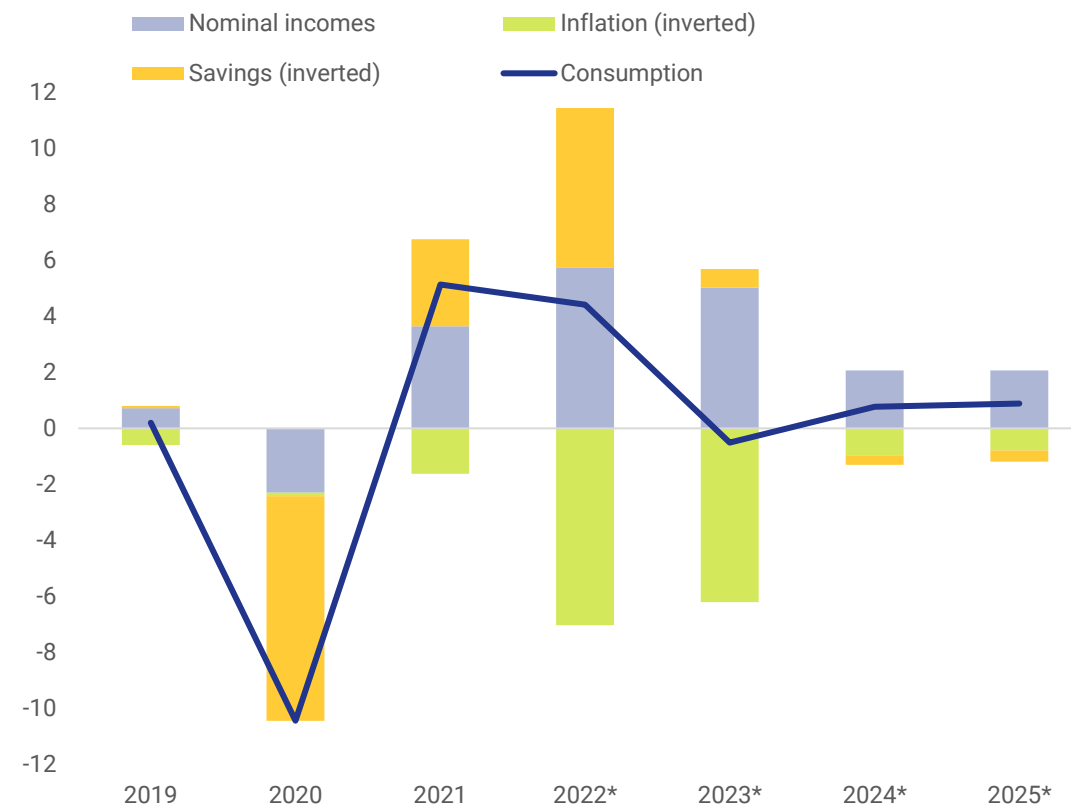


\*Forecasts

Source: Círculo de Empresarios based on Oxford Economics/Haver Analytics, 2023.

Consumption stagnates in the face of a weak labour market and high inflation

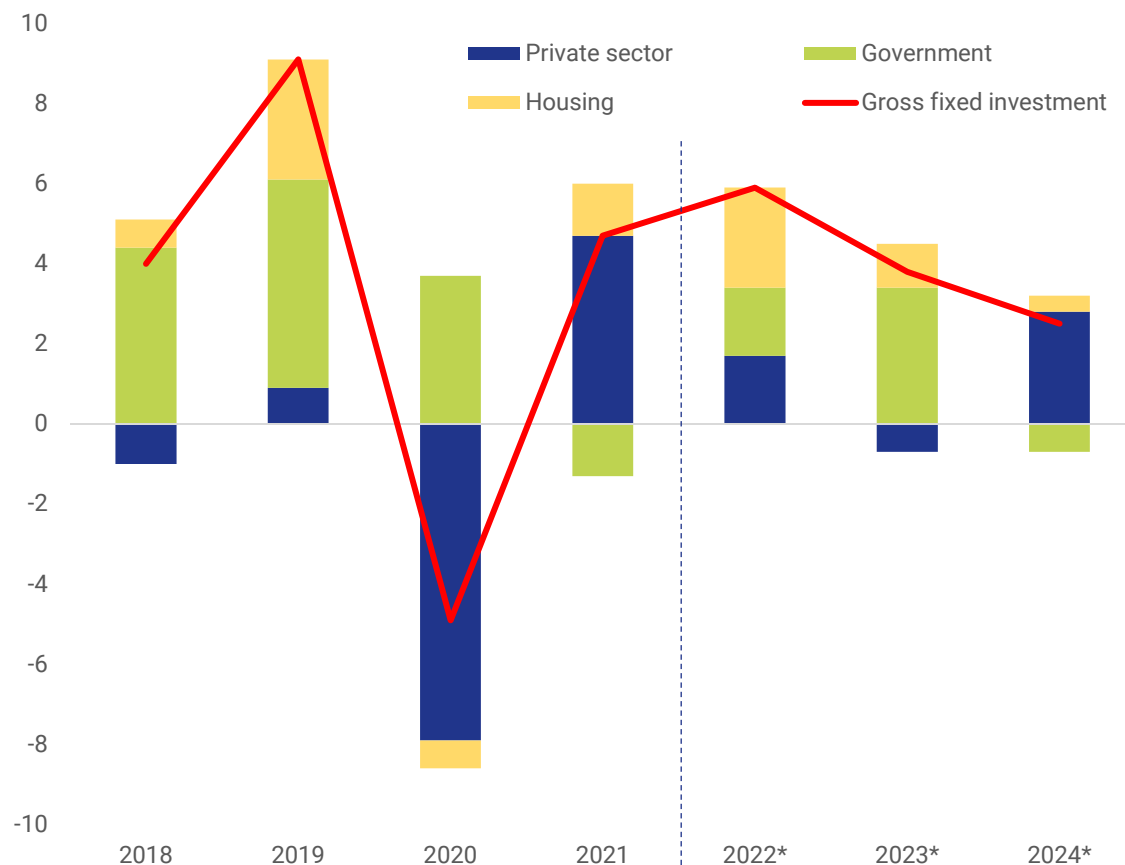
Real, % y-o-y, contribution in pp



# Croatia: new member of the Eurozone

## Investment will support growth in coming years

% y-o-y change, pp contribution

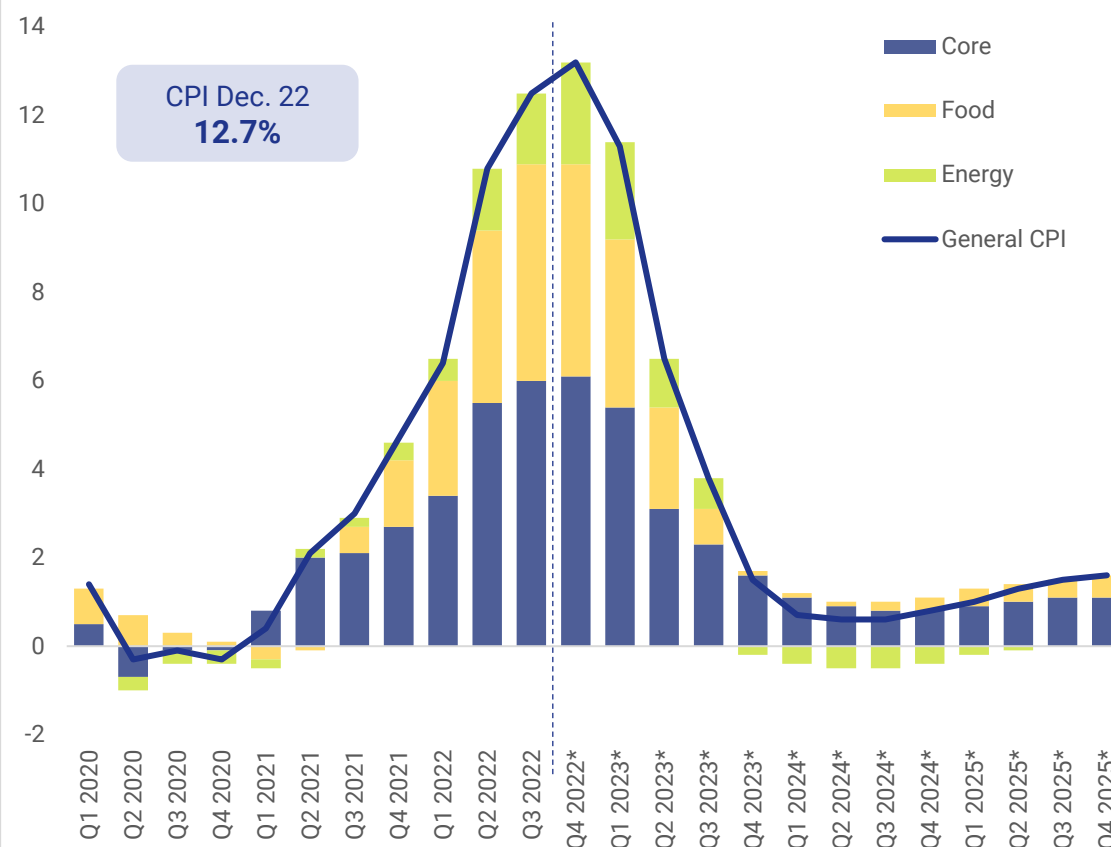


\* Forecasts

Source: *Círculo de Empresarios* based on Oxford Economics/Haver Analytics and Eurostat, 2023.

## Falling food and energy prices facilitate moderation in headline inflation

% y-o-y change, pp contribution

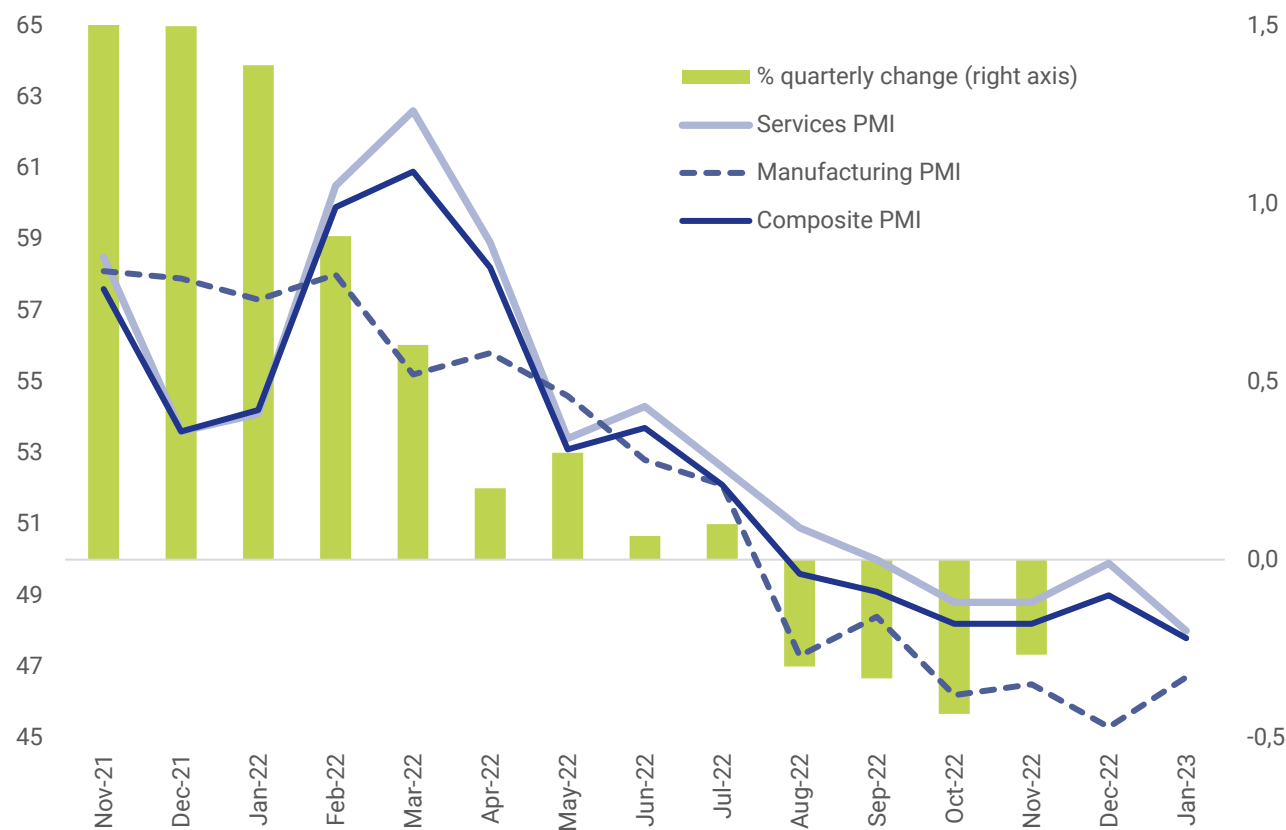


CPI Dec. 22  
12.7%

# Drop in activity in UK

Business activity deteriorates, mainly in the services sector, in a context in which the negative trend in GDP evolution is expected to continue

PMI in points and GDP in % quarterly change; 3 month moving average

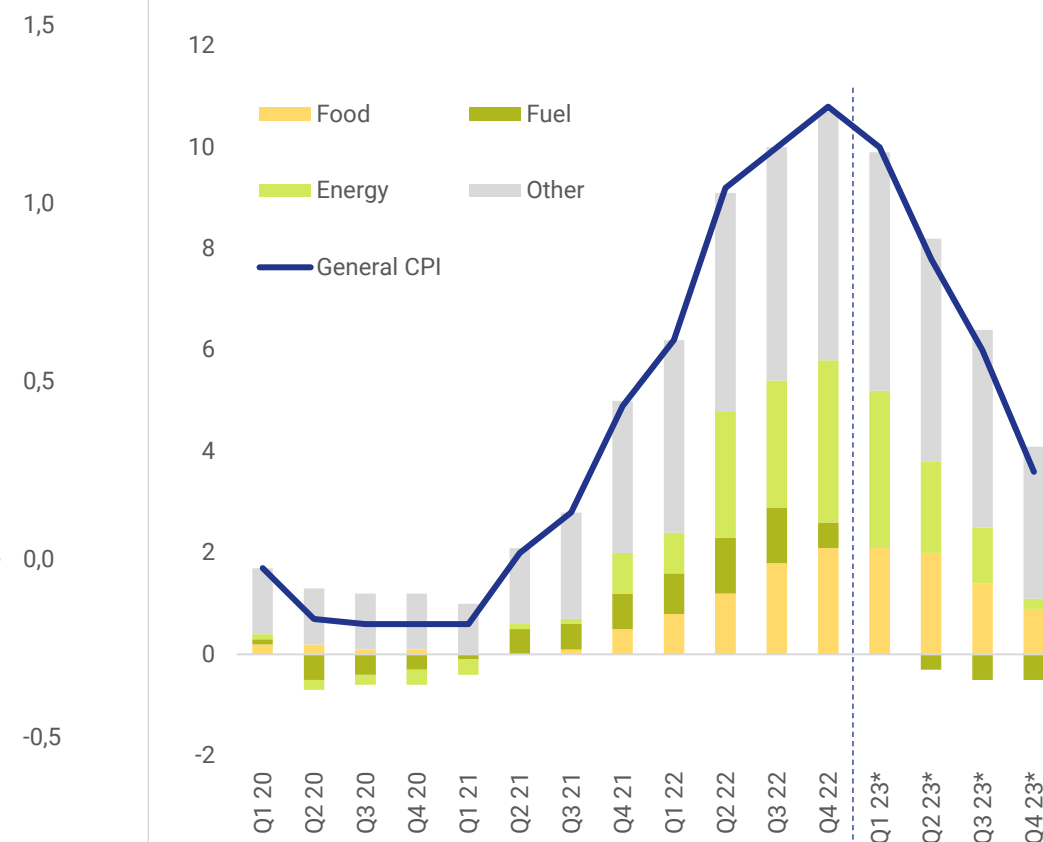


\*Forecasts

Source: *Círculo de Empresarios* based on Oxford Economics/Haver Analytics, Office for National Statistics and Markit, 2023.

Inflationary pressures moderate, mainly due to lower energy prices

% y-o-y change, contribution in pp





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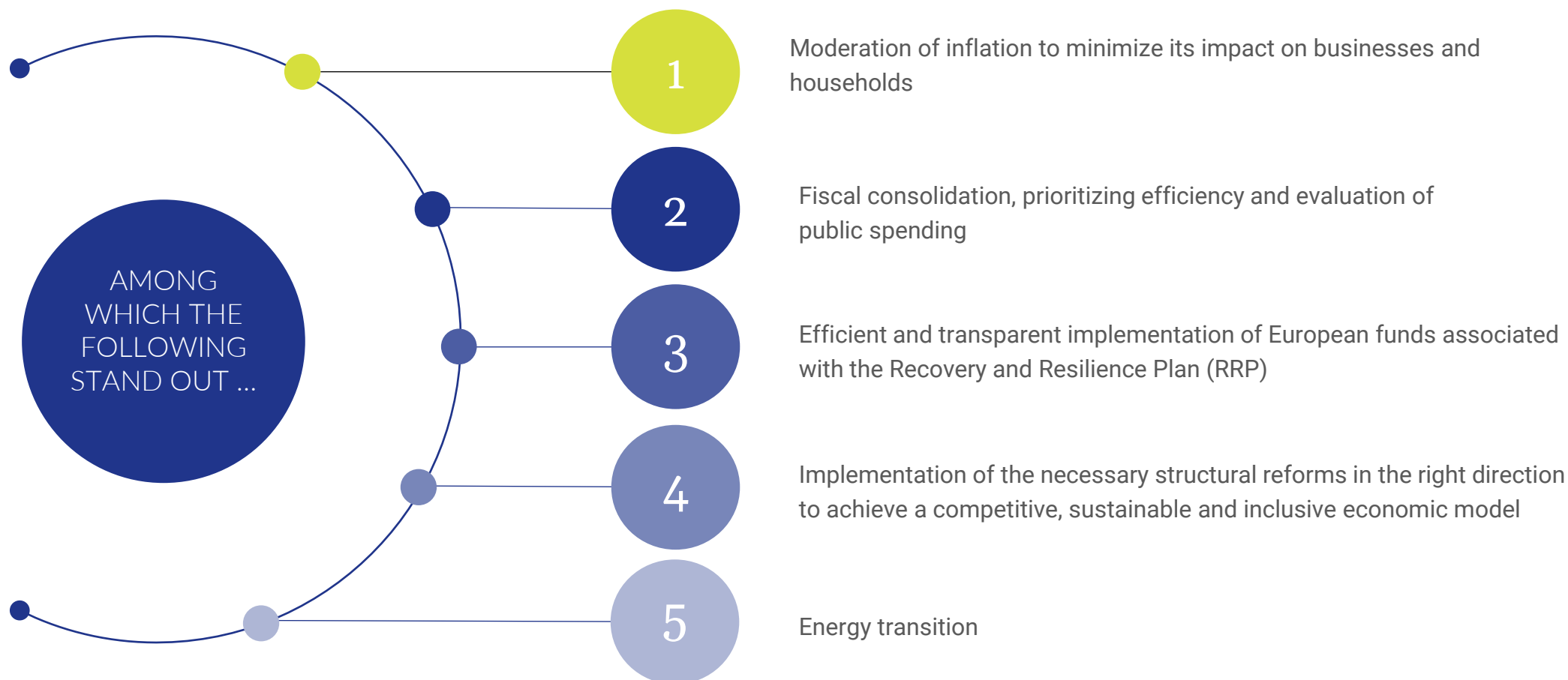
ECONOMY

# Spain



# | The challenges facing the Spanish economy remain

National context marked by high inflation, tightening of financial conditions, containment of household disposable income, the impact of the Russia-Ukraine war, economic slowdown in the main European countries, volatility in the financial markets, geopolitical tensions, doubts about the evolution of the Chinese economy and uncertainties about the implementation of the European Next Generation funds



# | Headwinds slowing the economic recovery

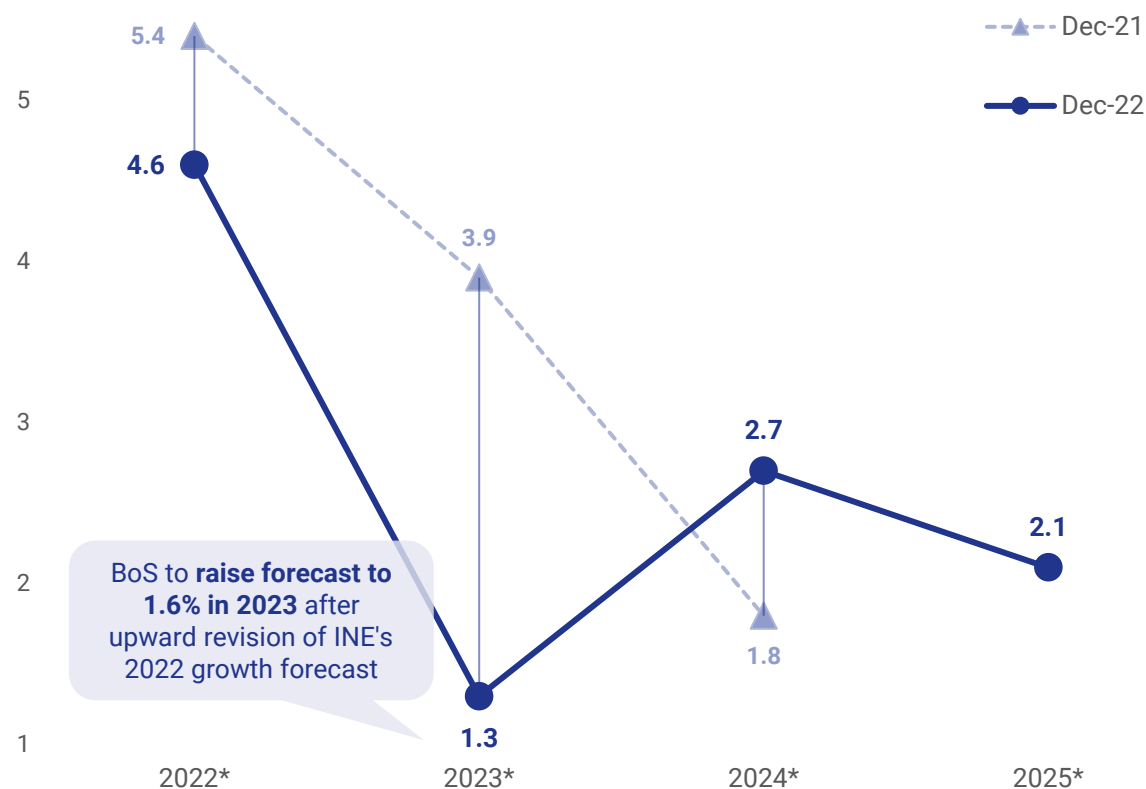
- X **Persistent inflation and core inflation. Deterioration of competitiveness due to ▲ prices and second round effects on wages**
- X **Discretionary tax increases or introduction of new taxes without prior assessment of the efficiency of public spending**
- X **Economic impact of the war: deterioration of trade flows, interruptions in energy supply ...**
- X **Normalization of the ECB's monetary policy and increase in the cost of borrowing**
- X **Lack of transparency and delay in the execution of European funds**
- X **Uncertainty about legal certainty in labour and investment matters**
- X **Labour supply shortage for jobs resulting from the green and digital transitions**
- X **Bottlenecks and supply shortages resulting from disruptions in global value chains**

# Growth forecasts continue to decline

## The Bank of Spain updated its forecasts on Dec. 22

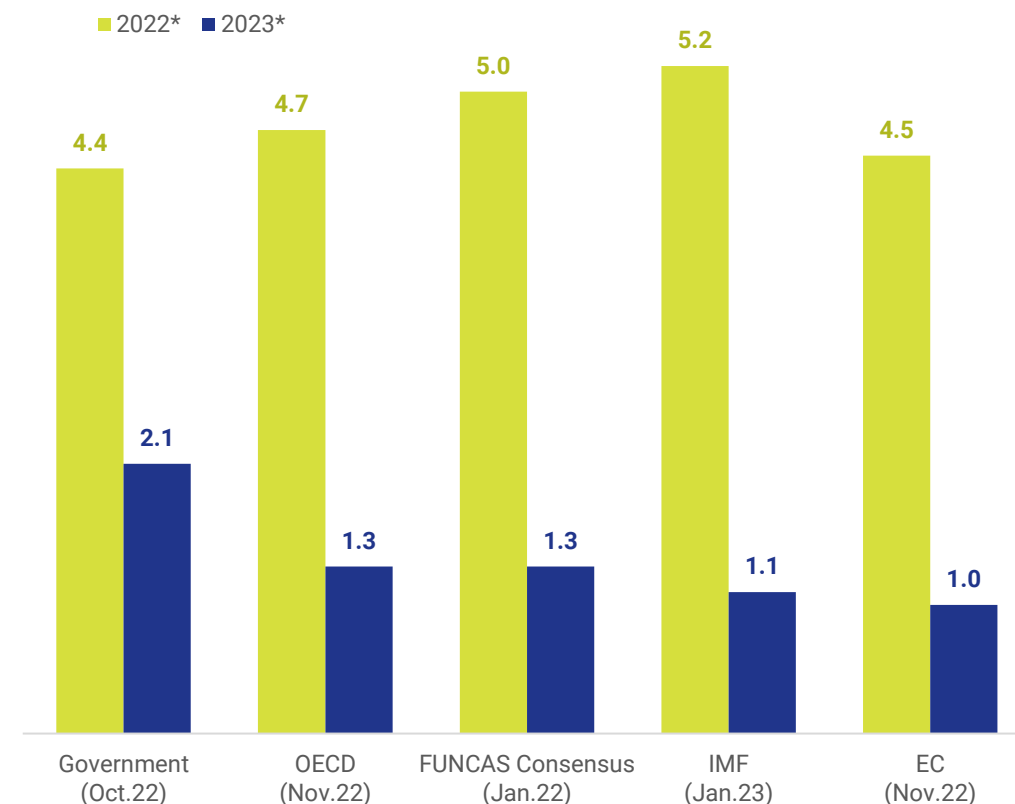
Since Dec. 21 there have been 3 other mid-term reviews in Apr, Jun and Oct.

% y-o-y change



## Forecasts from other national and international organizations (Q4 22/Jan.23)

% 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, 2023.



# Growth continues to trend downward

In Q4 22, GDP grew 0.2% quarterly. In year-on-year terms, the economy advanced by 2.7% (domestic demand: +0.6 pp and foreign demand: +2.1 pp)

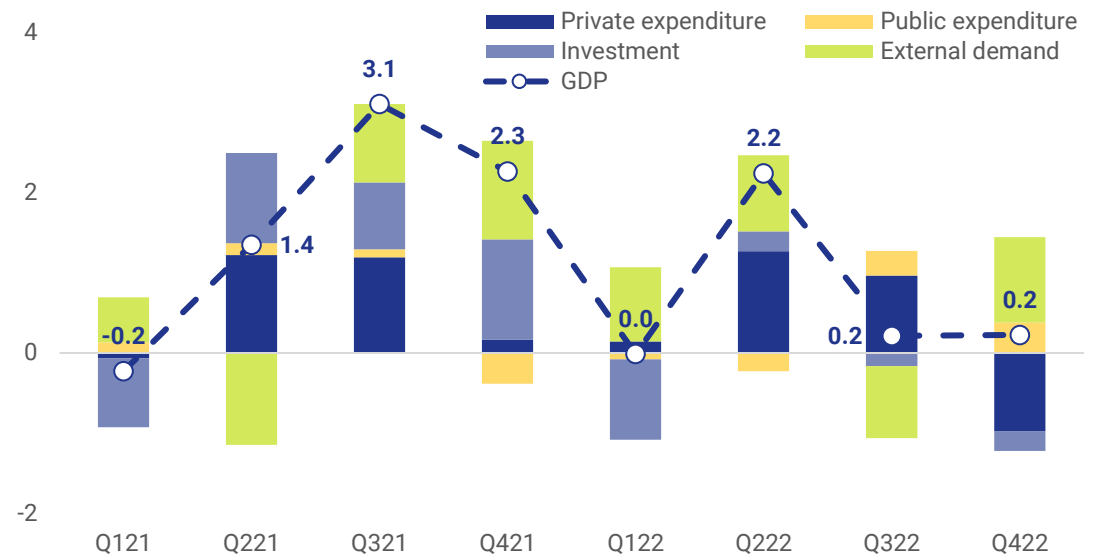
## Growth moderates with private consumption and investment in negative territory

% quarterly and y-o-y change



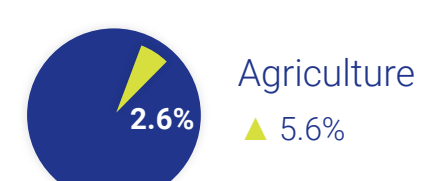
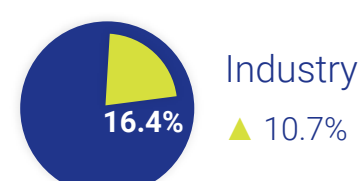
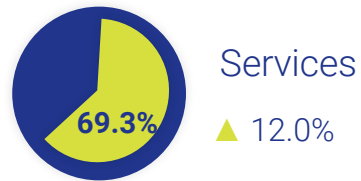
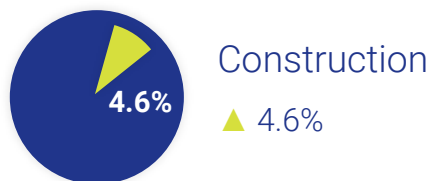
## Contribution of domestic demand to GDP growth declines

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



## By sectors

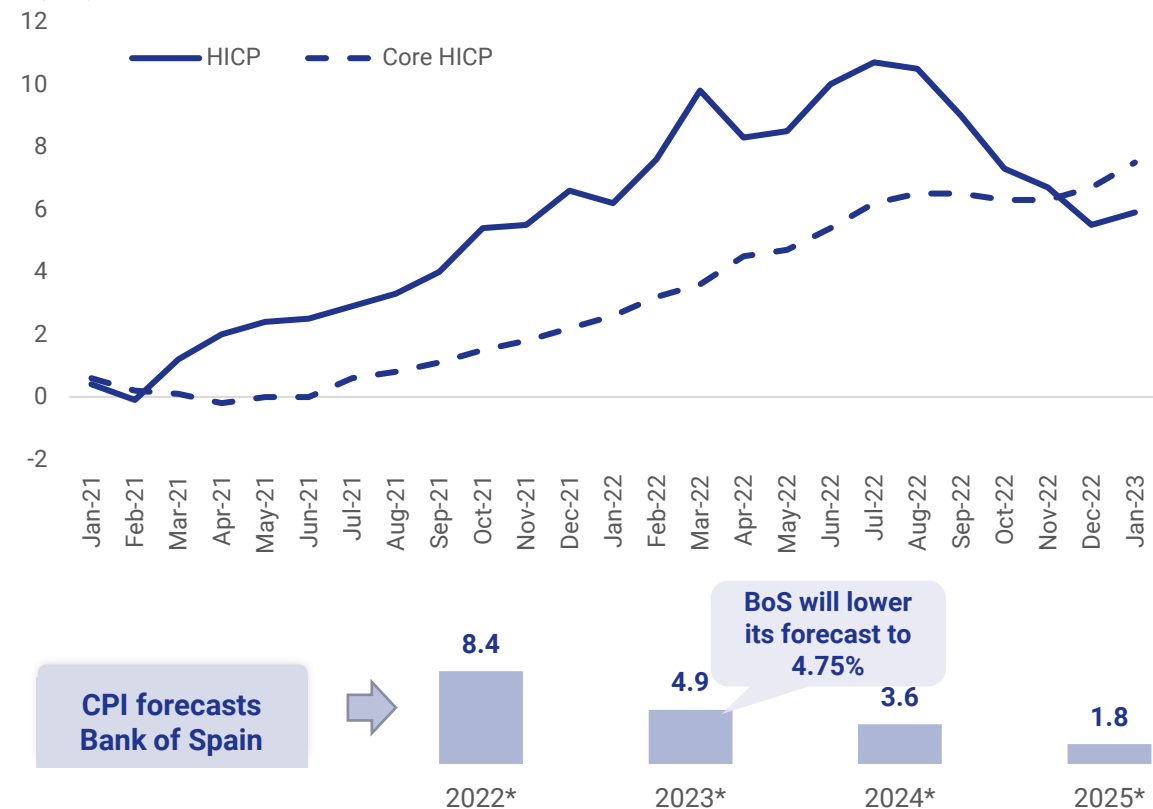
Weight in % of total and % y-o-y change



# | Core inflation at very high levels

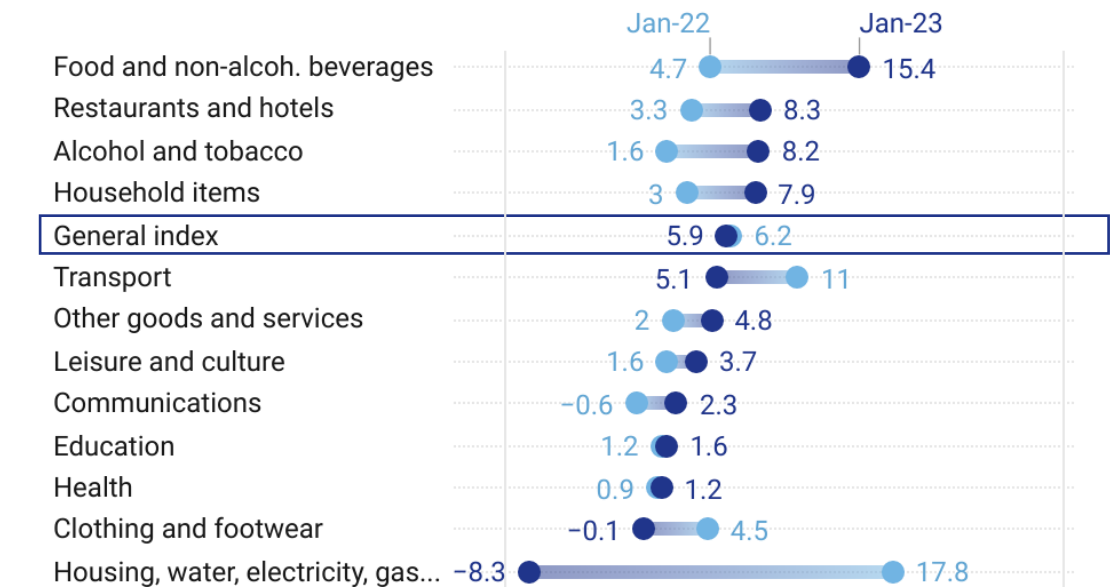
Inflation moderation stalls. The HICP stood at 5.9% y-o-y in Jan. 23, 4.8 pp lower than the peak of Jul. 22

% y-o-y change



The persistently high levels of inflation are mainly explained by the increase in food prices

HICP Jan. 23; % y-o-y change



\* Forecasts

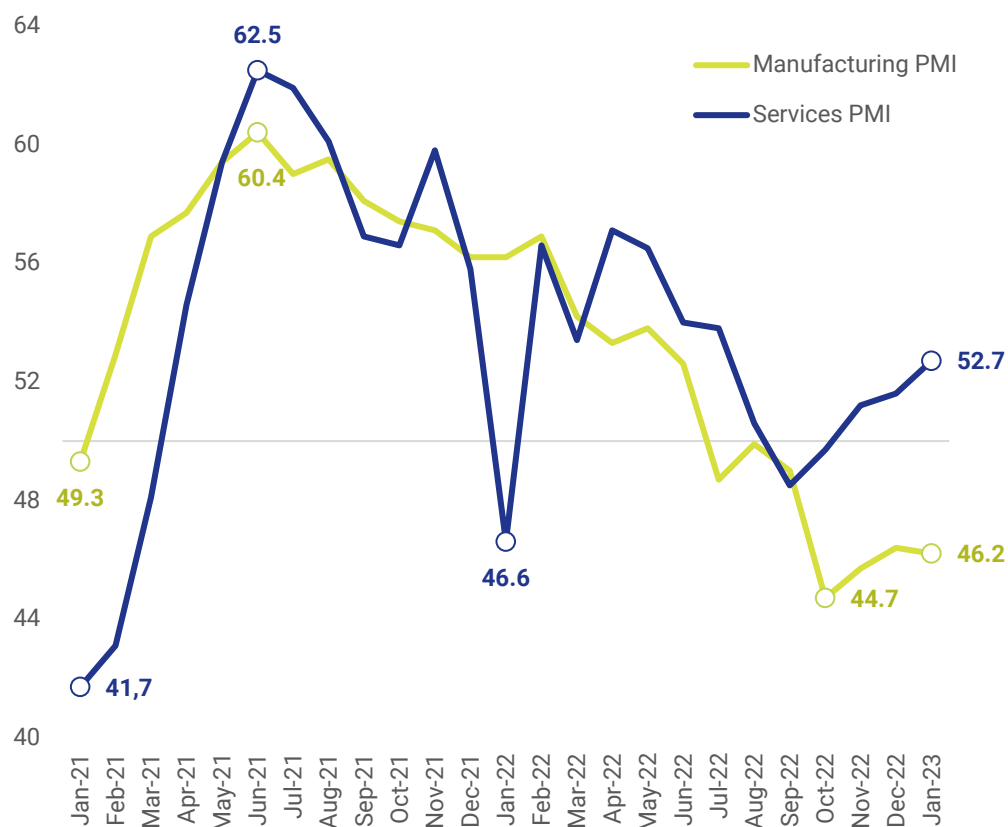
In Jan. 23 INE applies methodological change in CPI calculation. Free electricity and gas tariffs are included

Source: *Círculo de Empresarios* based on INE, Bank of Spain and Eurostat, 2023.

# Uncertainty in the economic agents' confidence

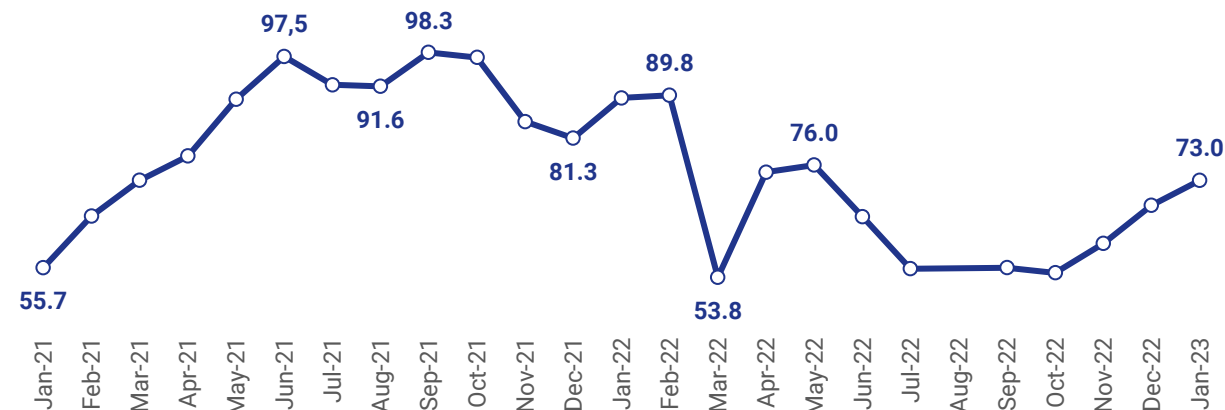
In Jan. 23, the manufacturing PMI remains at very low levels, and the services PMI consolidates its advance

<50: activity contraction; > 50: activity expansion



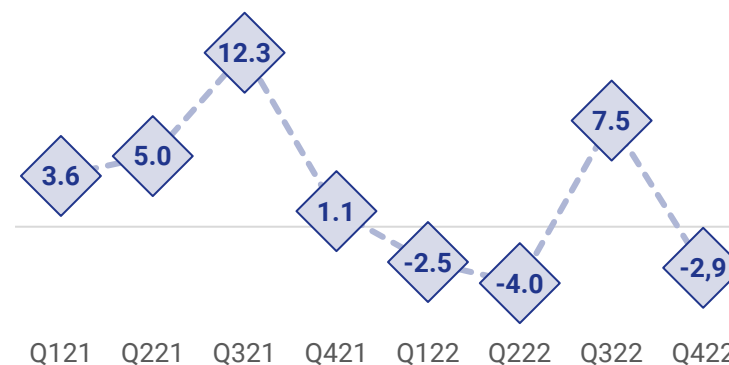
## Consumer Confidence Index rebounded

< 100: negative consumer perception



## Harmonized Business Confidence Index falls 2.9% in Q4 22 compared to Q3 22

% quarterly change



By sectors, Q4 22

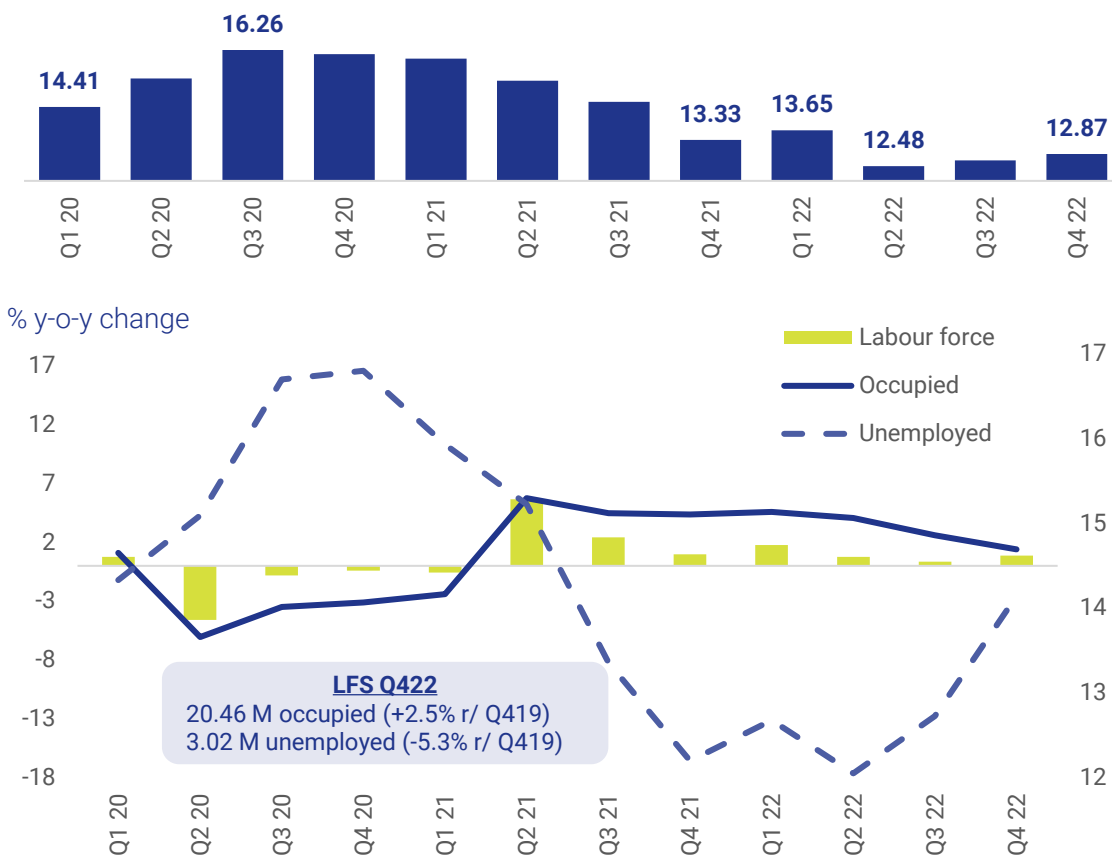
Industry	▼4.8%
Transport and hospitality	▼2.9%
Other services	▼2.9%
Trade	▼2.1%
Construction	▼0.6%

# | Loss of dynamism in the labour market (I)

## LFS Q4 22 (INE)

Unemployment rate rises for 2nd consecutive quarter to 12.87%, with the number of unemployed surpassing the 3 million mark

Unemployment rate % labour force



## QUARTERLY NATIONAL ACCOUNTS Q4 22 (INE)

Employment measured in hours actually worked has not yet recovered to pre-pandemic levels

Q4 19 = 100

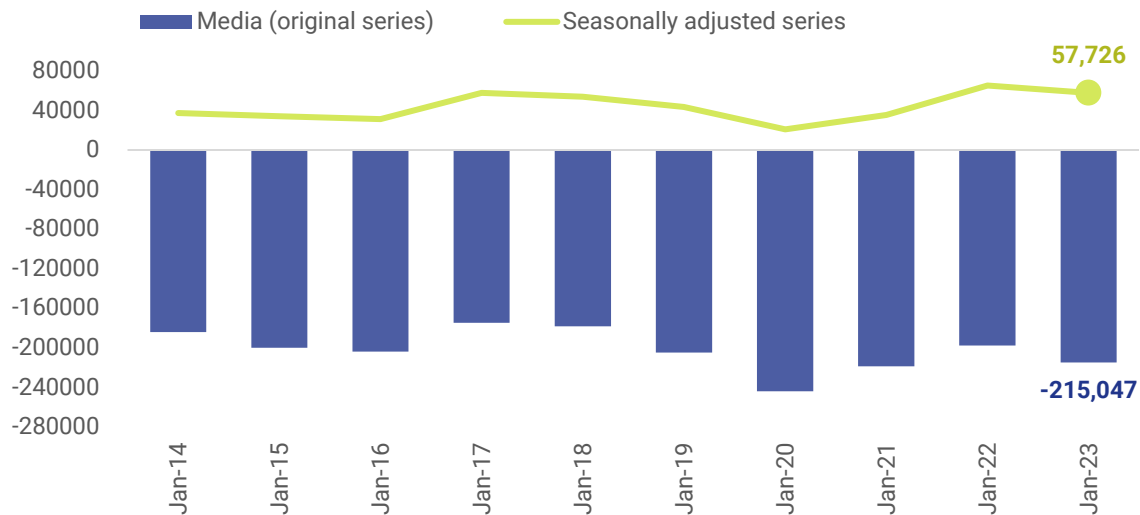


# | Loss of dynamism in the labour market (II)

Slowdown in the generation of employment and increase in registered unemployment

In Jan. 23 there were 215,047 fewer average affiliates than in Dec.22,  
2nd largest drop in the last decade

Absolute monthly average change in Social Security affiliates month of January



Total average no. affiliates

Jan.23

**20,081,224**

Original series

20,298,620

Seasonally adjusted series

Absolute y-o-y change

**+454,063**

average affiliates

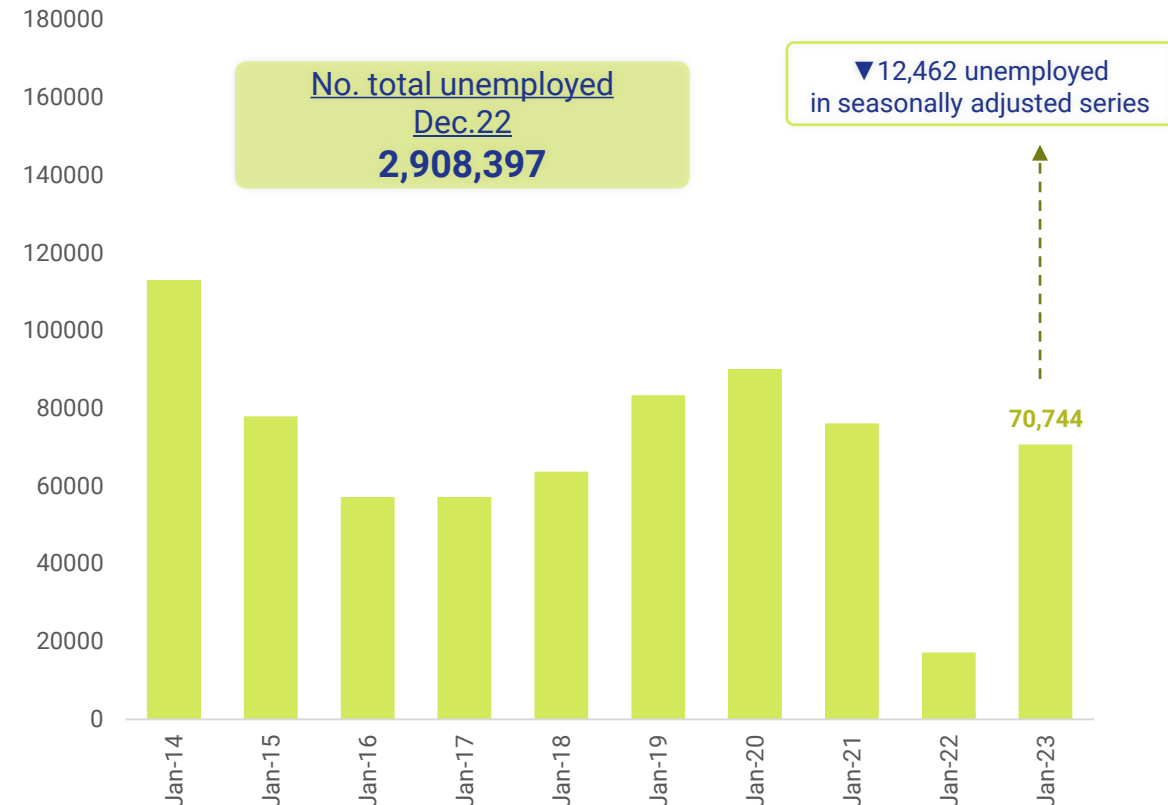
r/Jan.22

**+471,416**

in seasonally adjusted series

In Jan. 23, the no. of unemployed increased by 70,744 people with  
respect to Dec. 22

Absolute monthly change in number of unemployed Dec. Original series



# Effects of the labour reform

Temporary employment is reduced but the quality of employment does not improve

Since the entry into force of the labor reform (30 Mar. 22), the employee temporary employment rate has fallen by 7.1 percentage points to 17.9%, with a notable drop in the private sector

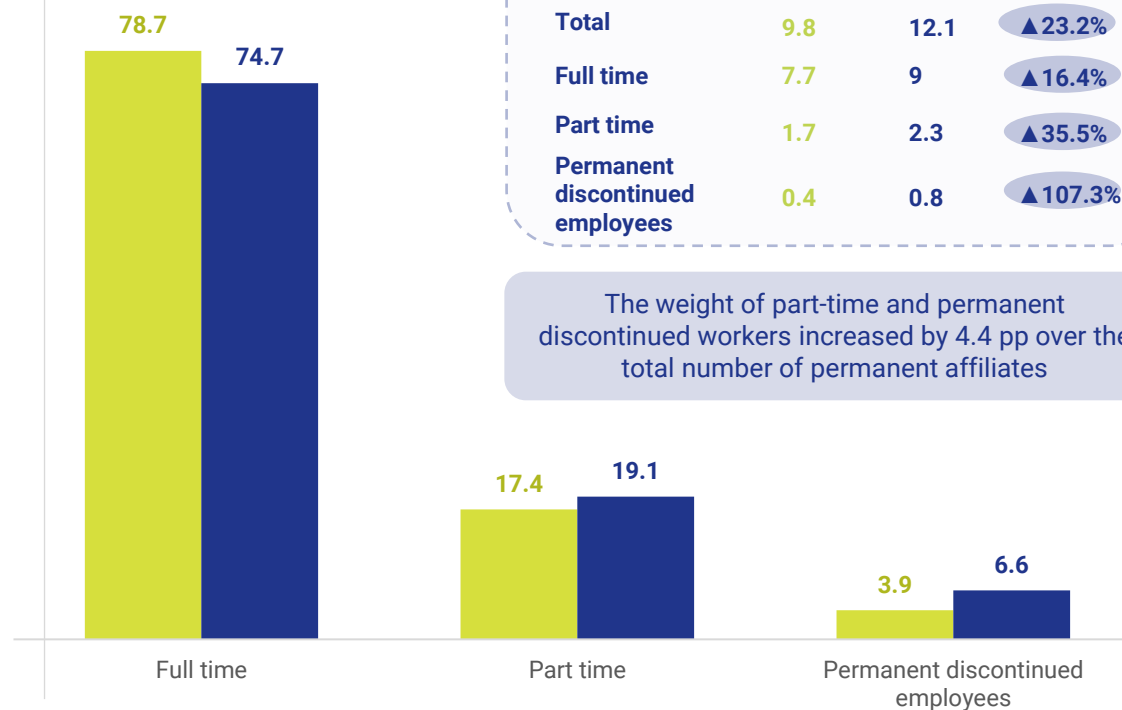
Temporary employment rate as % of total salaried employees (LFS-INE)



Between Dec. 21-Jan. 23, the number of workers with permanent discontinued contracts multiplied by 2.1 and its share over total permanent workers increased to 6.6% (from 3.9%)

% of total affiliates with permanent contracts

■ Dec-21 ■ Jan-23



Million affiliates with permanent contract

Dec. 21 Jan. 23

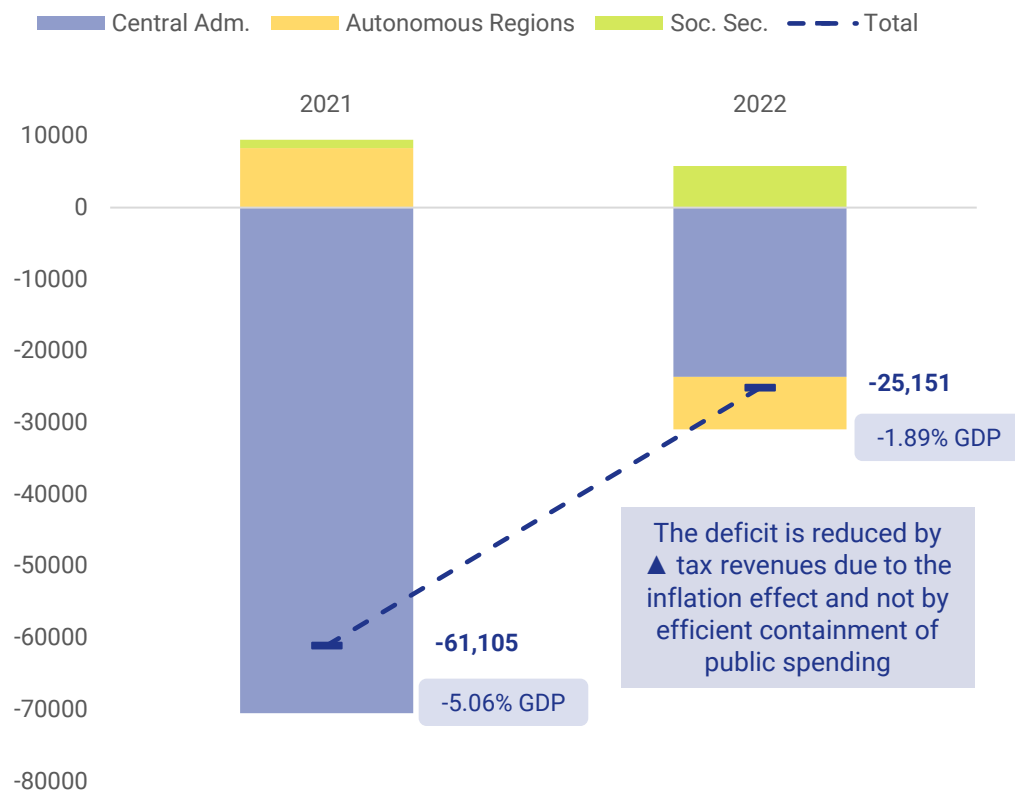
Total	9.8	12.1	▲ 23.2%
Full time	7.7	9	▲ 16.4%
Part time	1.7	2.3	▲ 35.5%
Permanent discontinued employees	0.4	0.8	▲ 107.3%

The weight of part-time and permanent discontinued workers increased by 4.4 pp over the total number of permanent affiliates

# Persistent imbalances in public accounts

## Consolidated public deficit PPAA\* Nov. 22

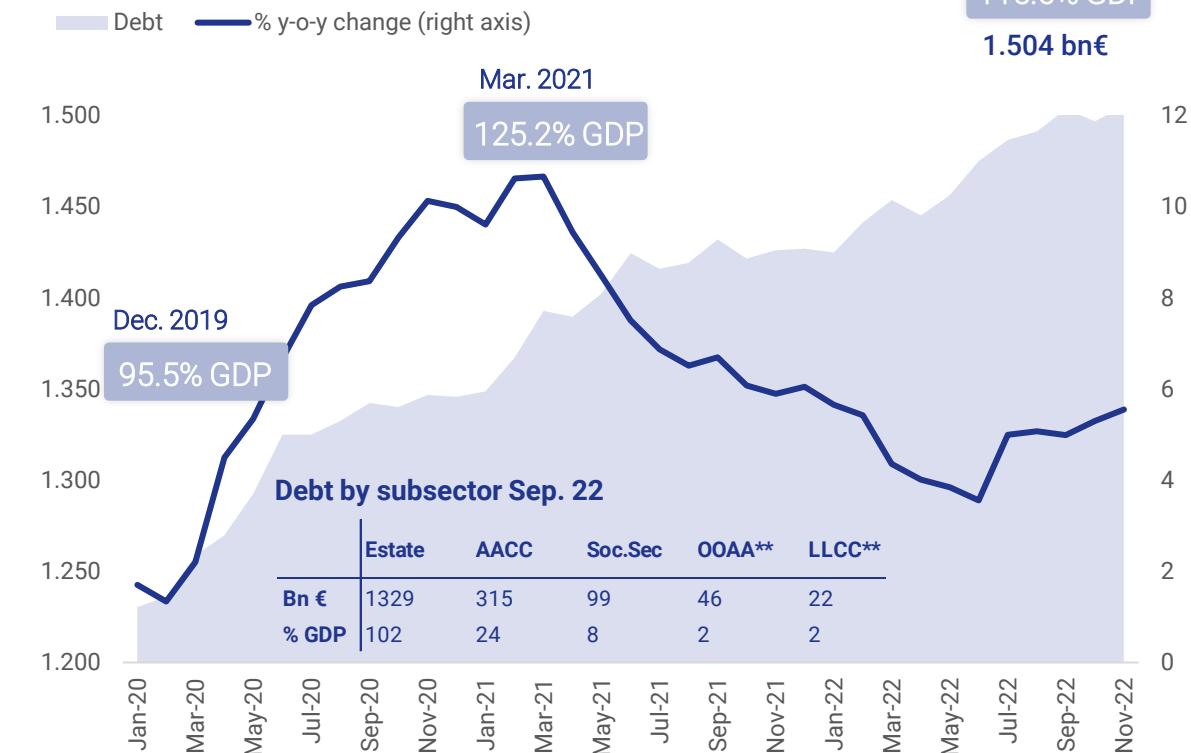
Millions €



## Public debt progress

Nov. 2022 → 1.506 bn€

Bn €



\* In National Accounts terms. Without Local Corporations

Source: *Círculo de Empresarios* based on IGAE and Bank of Spain, 2023.

\*\*AAOO: Autonomous Organizations; CCLL: Local Corporations

# Exports and imports at maximum values

In Jan-Nov. 22 the trade deficit was three times higher than in Jan-Nov. 21

## Jan.-Nov. 22

### Exports

€ 357,111.2 M  
+23.6% y-o-y

### Imports

€ 420,714.1 M  
+35.8% y-o-y

### Balance

€ -63,602.9 M

Energy

€ -48,210.6 M

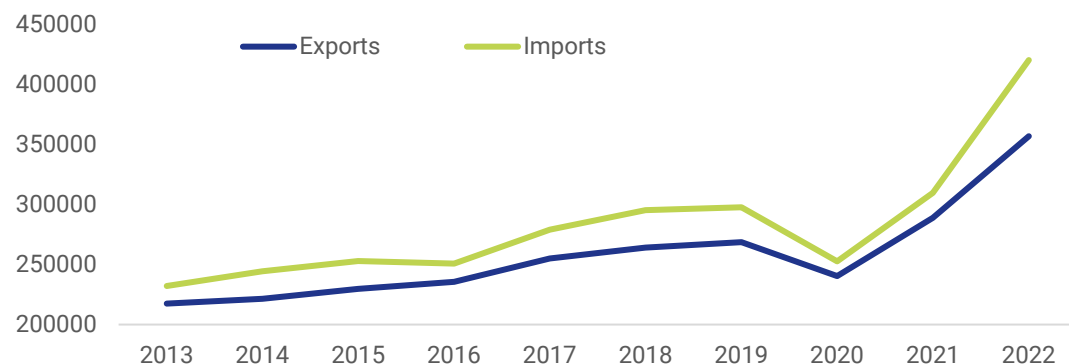
x 2.2  
y-o-y

Non-energy

€ -15,392.3 M

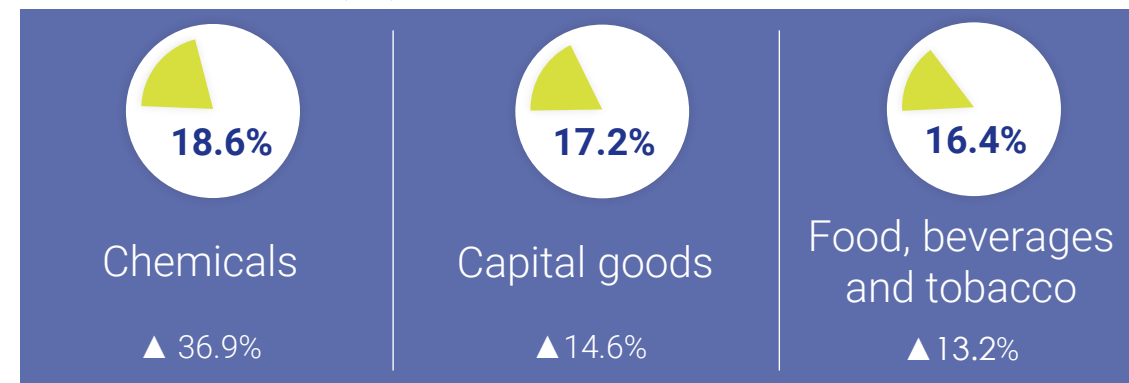
vs. € +1,376.5 M  
Jan.-Nov.22

Million €; Jan.-Nov.

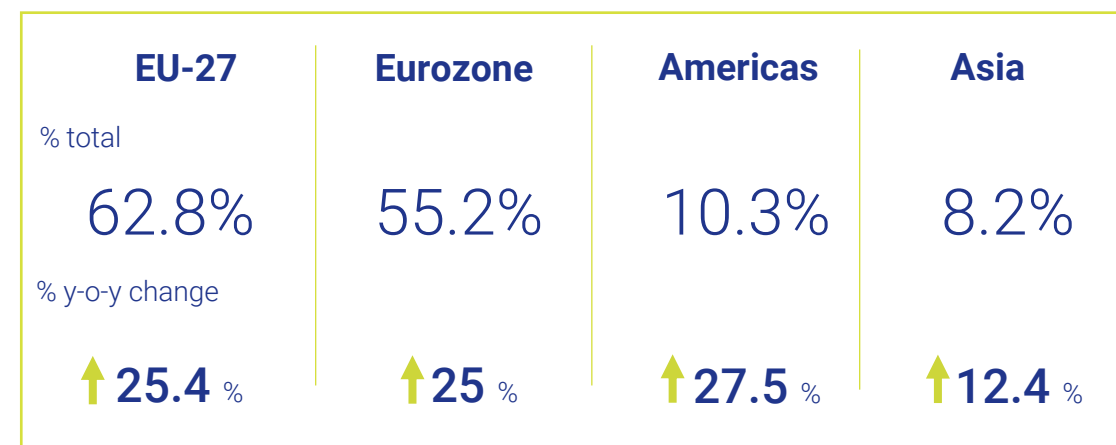


## Top 3 exports by sector

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



## Exports by destination





# Tourism does not recover pre-Pandemic levels

## International tourist arrivals

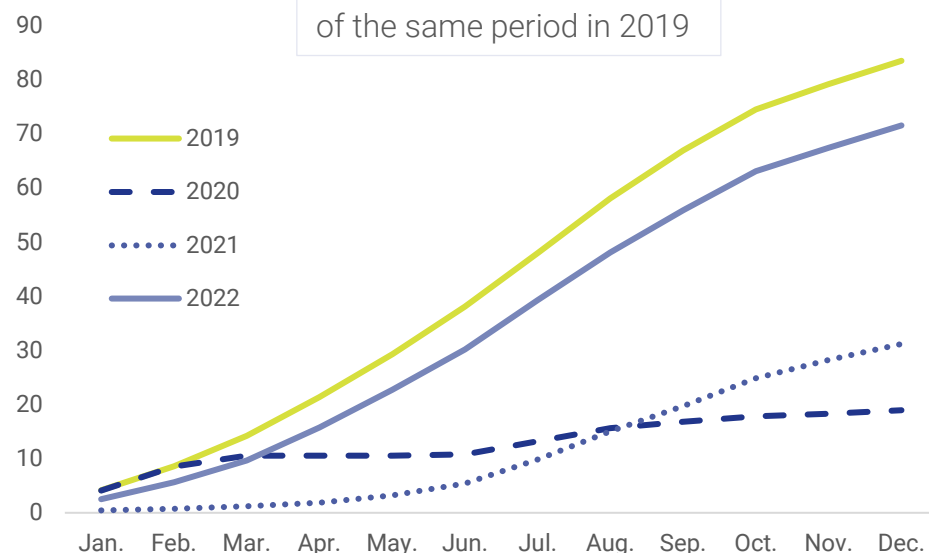
Jan.- Dec. 22

x 2.3

times r/ Jan.-Dec. 21

71,561,488 tourists

Million tourists



## Tourism expenditure

Jan.- Dec. 22

€ 87,061.25 M

5.3% below the level of the same period in 2019

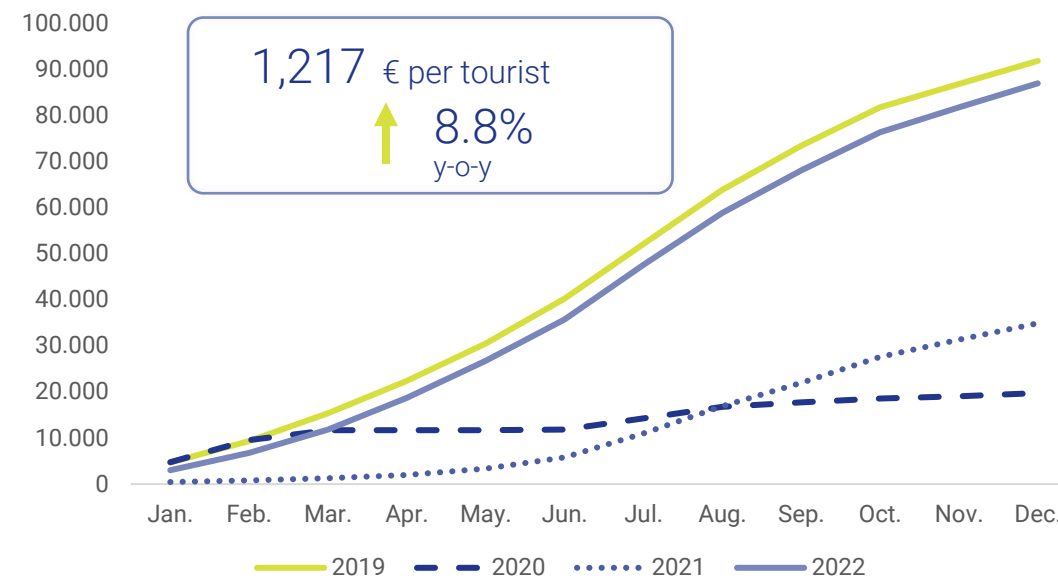
### Top 3 origin country

UK	-----	€ 17,144.8 M
Germany	-----	€ 11,513.3 M
France	-----	€ 8,148.7 M

x 2.5

times r/ Jan.-Dec. 21

Millones €





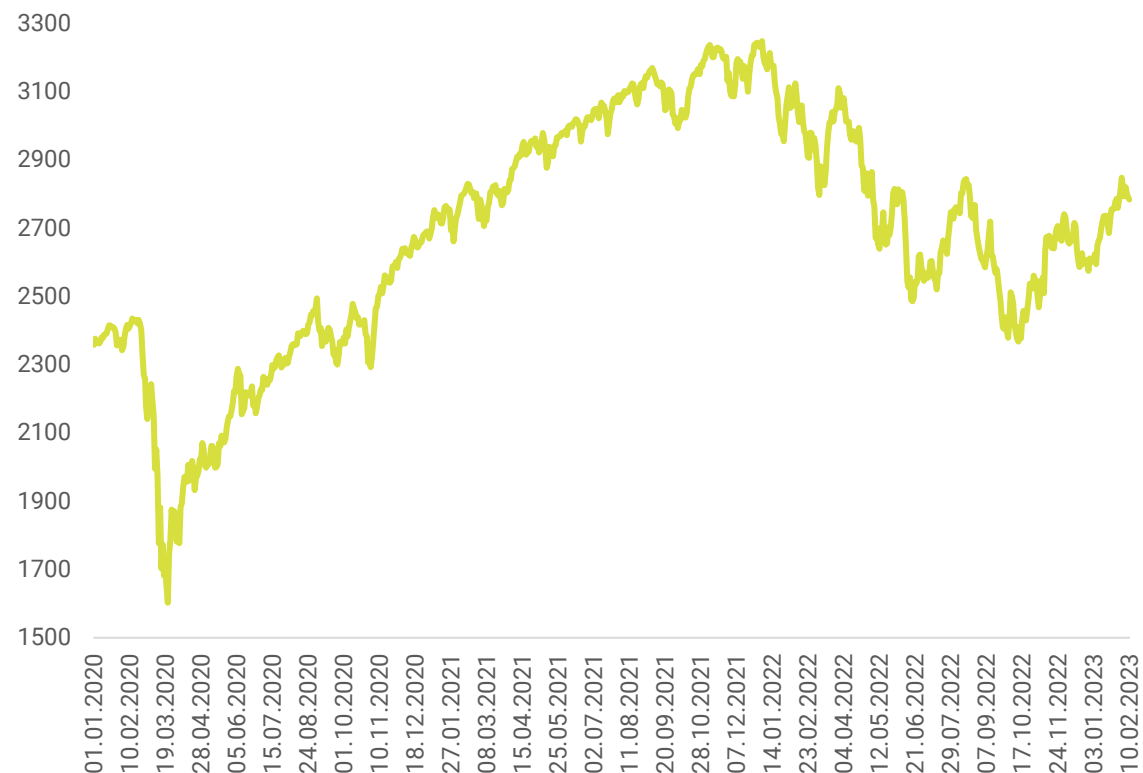
# MARKETS

# | Stock markets: instability in the face of international uncertainty

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

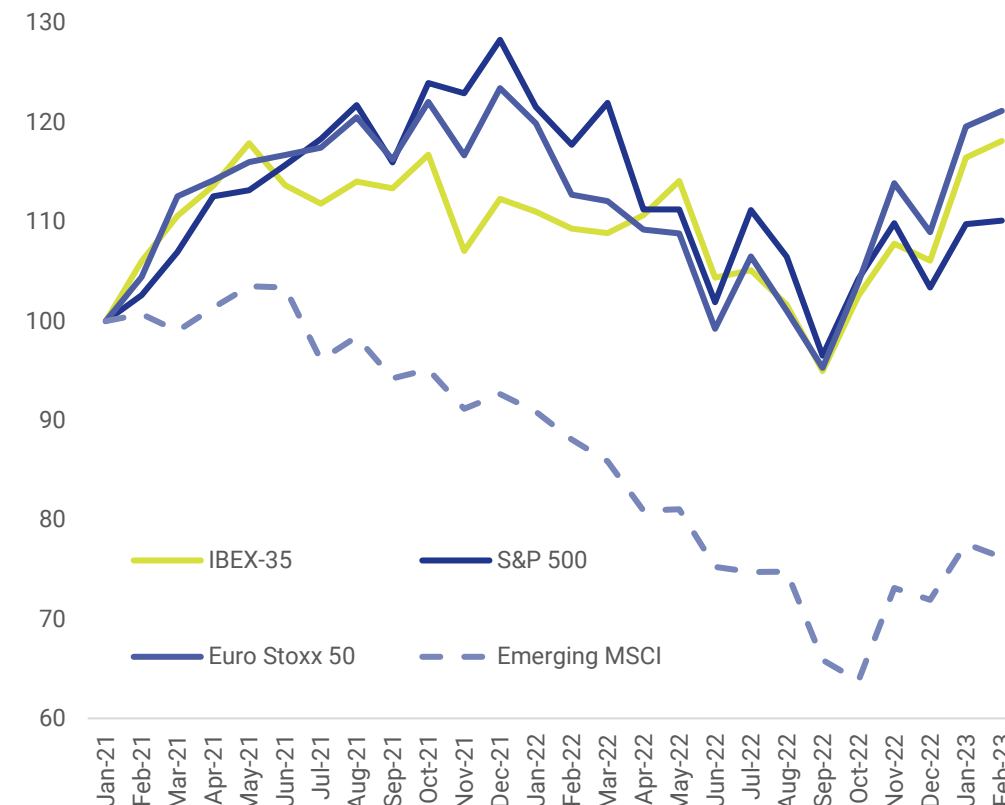
At the end of Jan. 23, the world stock index (MSCI World) was 14.2% below the peak reached at the end of 2021

Price US\$



Markets remain highly volatile

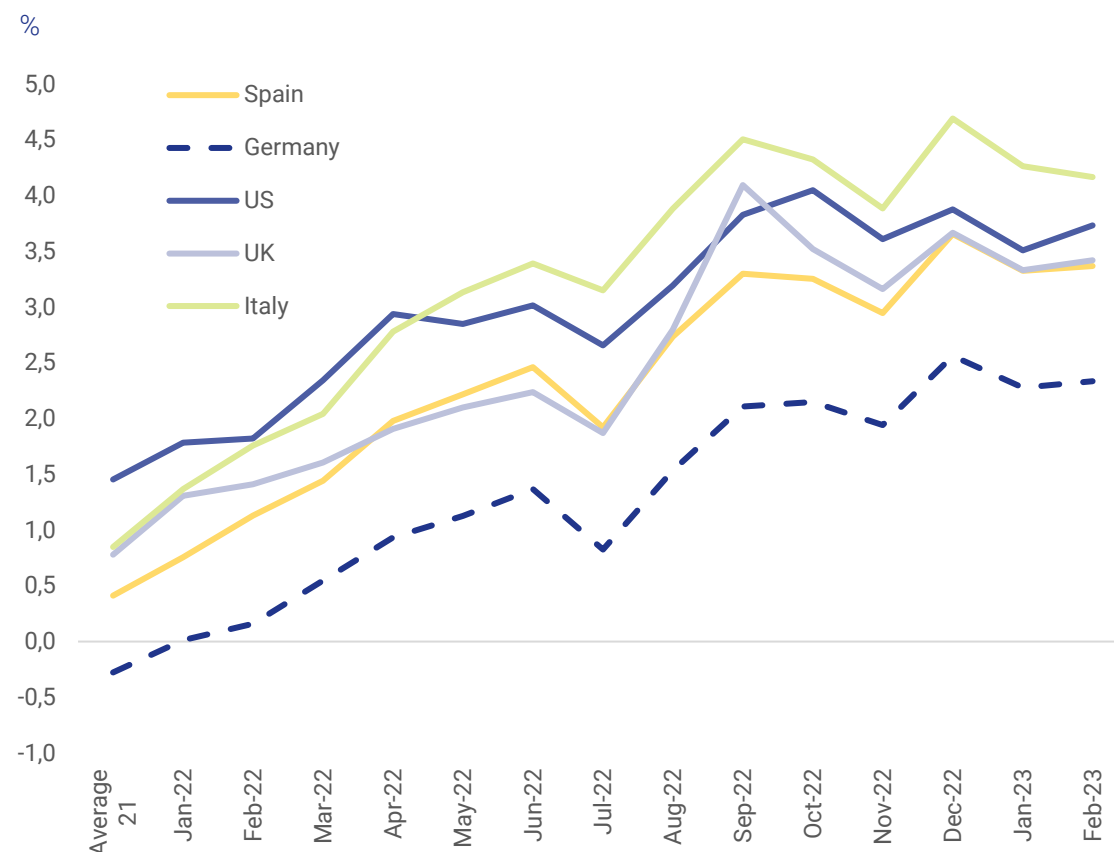
January 2021 = 100



# | Fixed income: moderation in yield increases

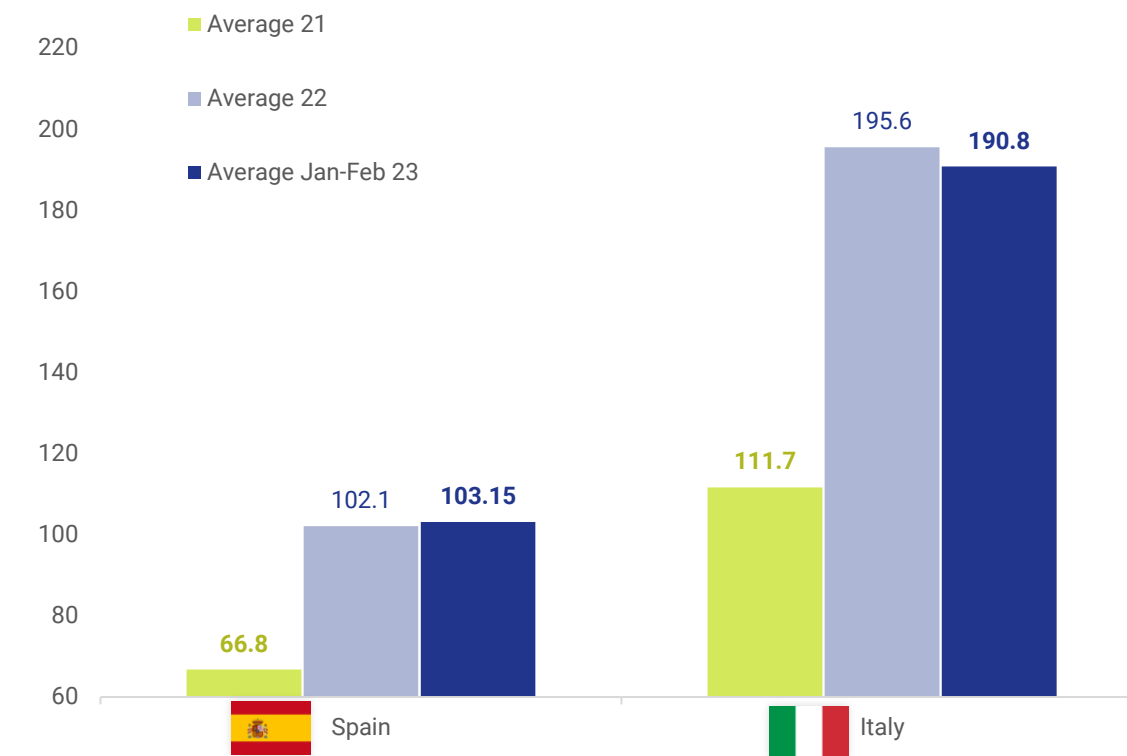
The increase in yields on long-term sovereign debt and the rise in risk premiums moderated

## Generalized increases in 10-year bond yields



## Spanish and Italian risk premiums moderate in recent months despite the current scenario of uncertainty

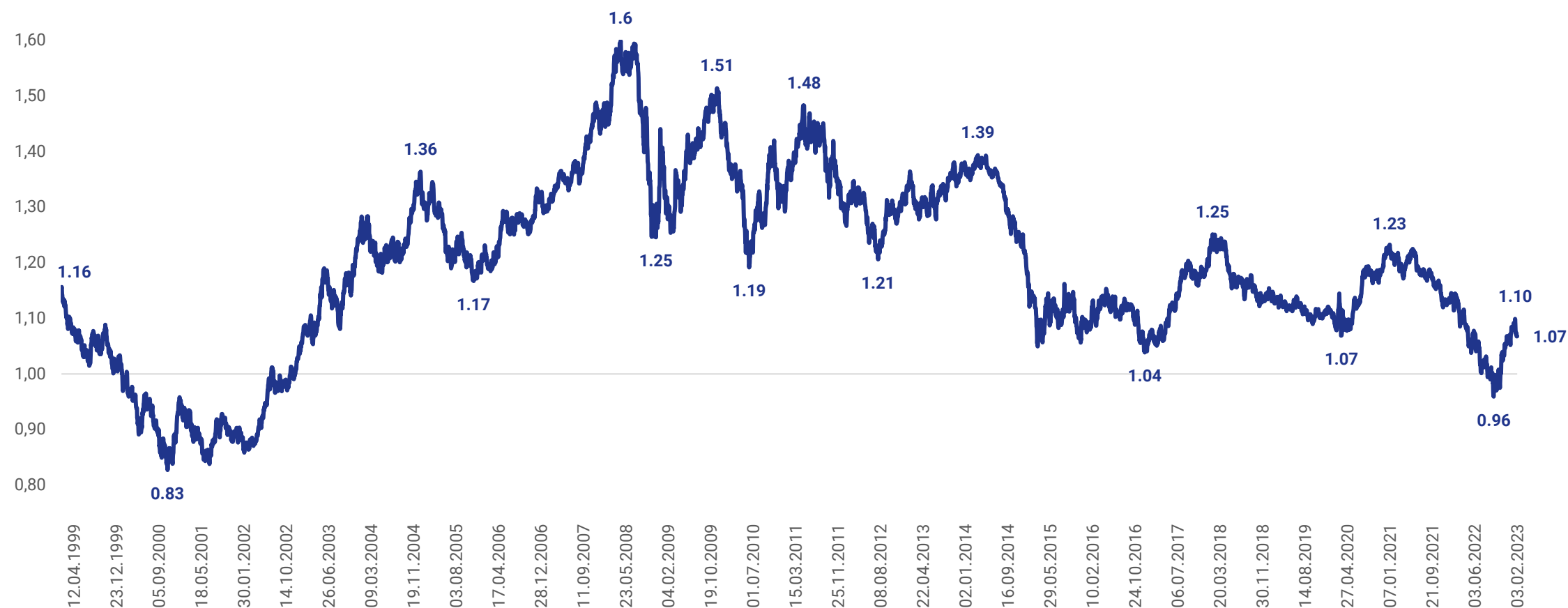
Basic points



# | Exchange rate - parity €/€

Euro recovers after falling below parity with the dollar

Daily exchange rate €/€



Source: *Círculo de Empresarios* based on Investing, 2023.

# Thank you

