



CÍRCULO  
DE EMPRESARIOS  
*ideas for growth*

# | Monetary policy sets the pace

SEPTEMBER  
2023

ECONOMY

# Global



# | Summary

## Global economic situation

The global recovery after the pandemic and the Russian invasion of Ukraine is slowing down with significant asymmetries between economic sectors and regions.

The IMF forecasts a slowdown in global growth from an estimated 3.5% in 2022 to 3.0% in 2023 and 2024, 8 tenths of a percentage point lower than the annual average for the period 2000-19. The tightening of monetary policy to control inflationary pressures is already having an effect on economic dynamism, although the restoration of pre-pandemic conditions in supply chains and the good performance of the services sector are acting as positive factors for growth.

Inflation remains high and is eroding household purchasing power. The IMF estimates that it will fall from 8.7% in 2022 to 6.8% in 2023 and 5.2% in 2024. The correction of core inflation will be more gradual.

Against this backdrop, downside risks to global growth persist. These include renewed inflationary pressures, renewed turbulence in the financial markets in the face of a possible tightening of monetary policies and credit scarcity, a slowdown in the recovery of the Chinese economy, a slowdown in activity in the Eurozone, high levels of sovereign debt, the continuation of the war in Ukraine and geo-economic and strategic uncertainty.

### Global GDP 2023

**3.0%**  
y-o-y

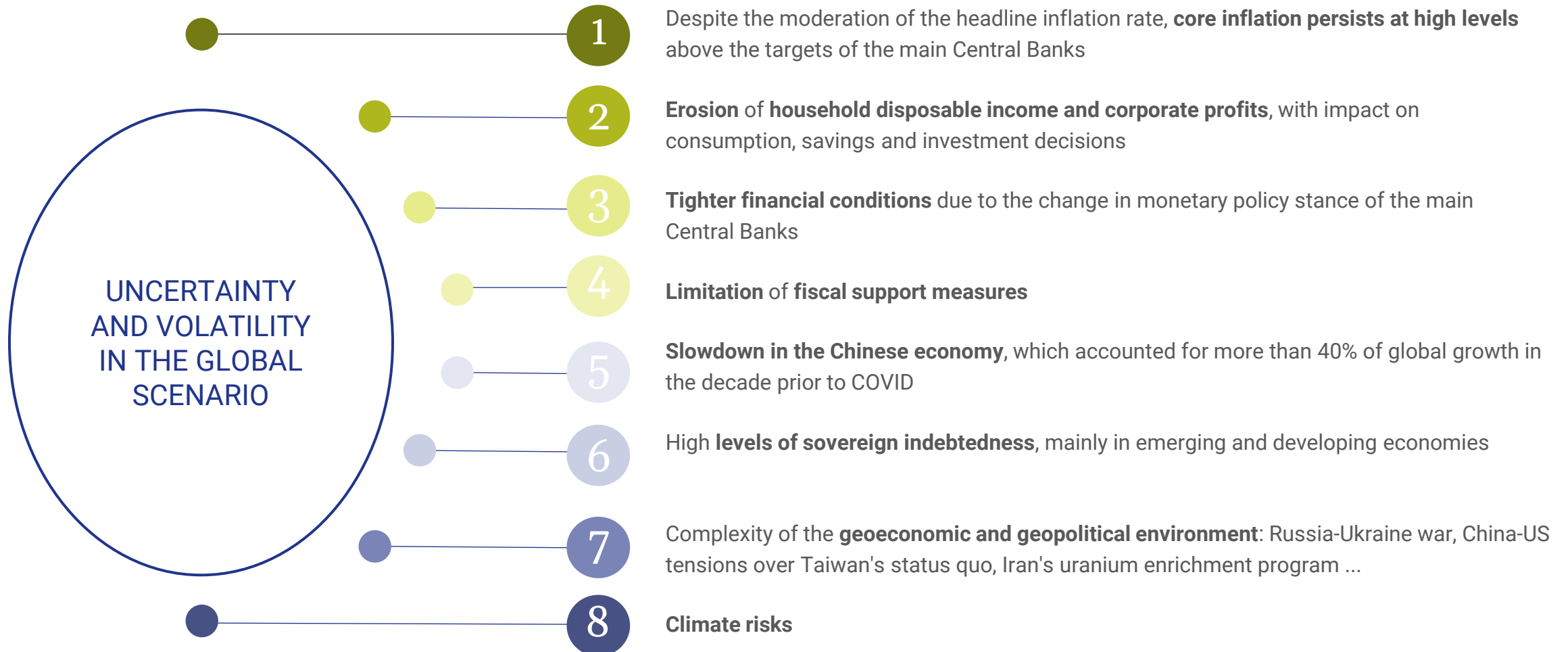
3.0% in **2024**

### Inflation 2023

**6.8%**  
y-o-y

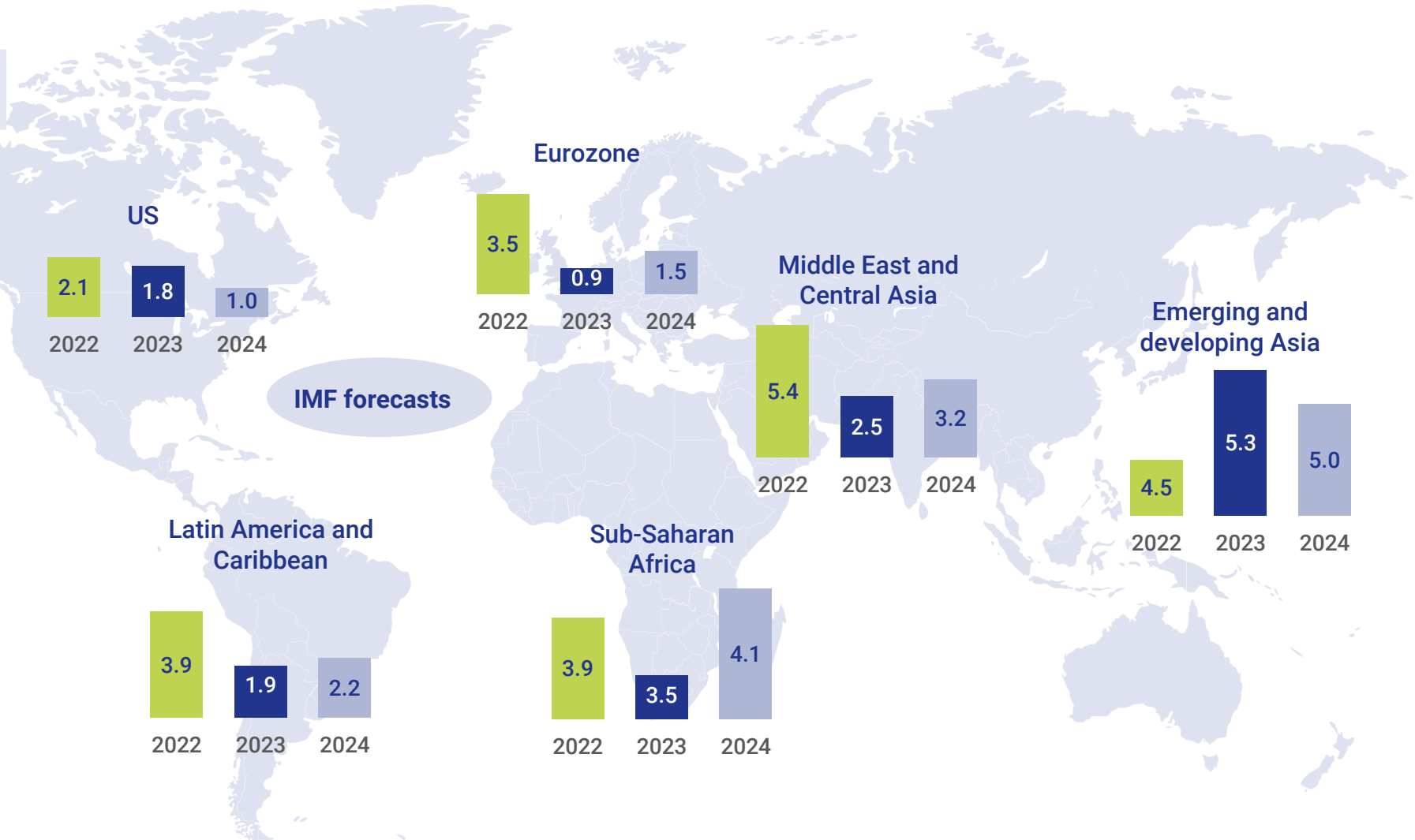
5.2% in **2024**

# | Major obstacles to global economic growth



# | Resilience in the short term

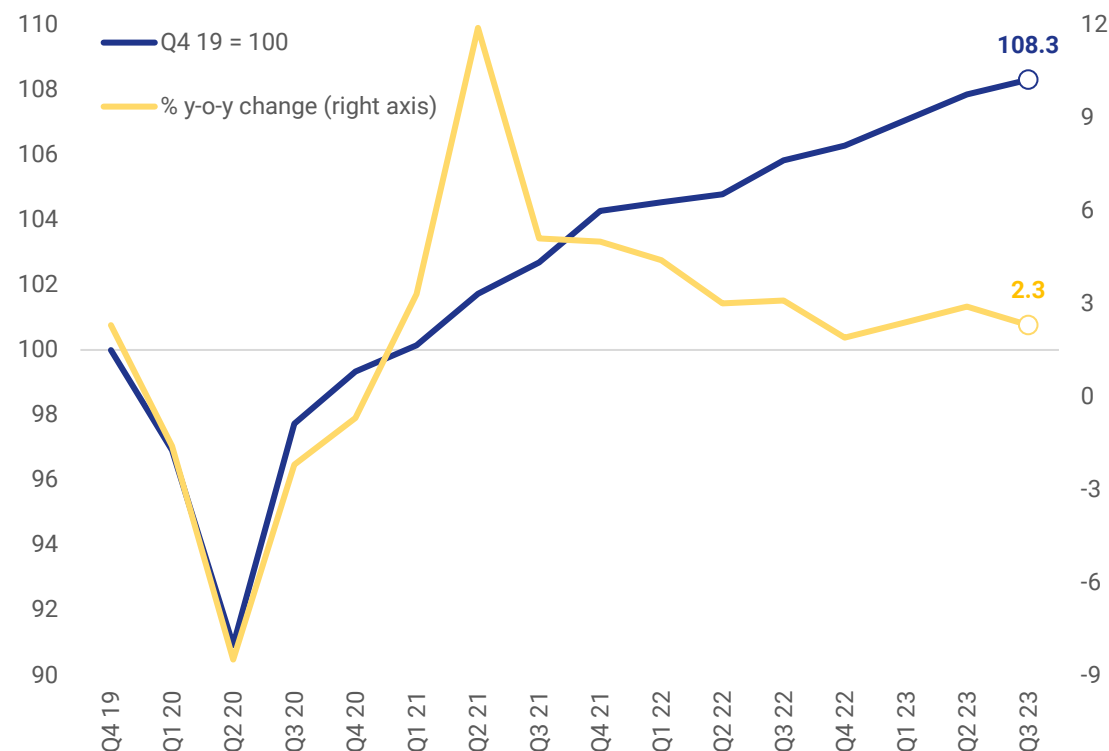
Advanced economies continue to weigh on global growth



# |The service sector drives economic activity

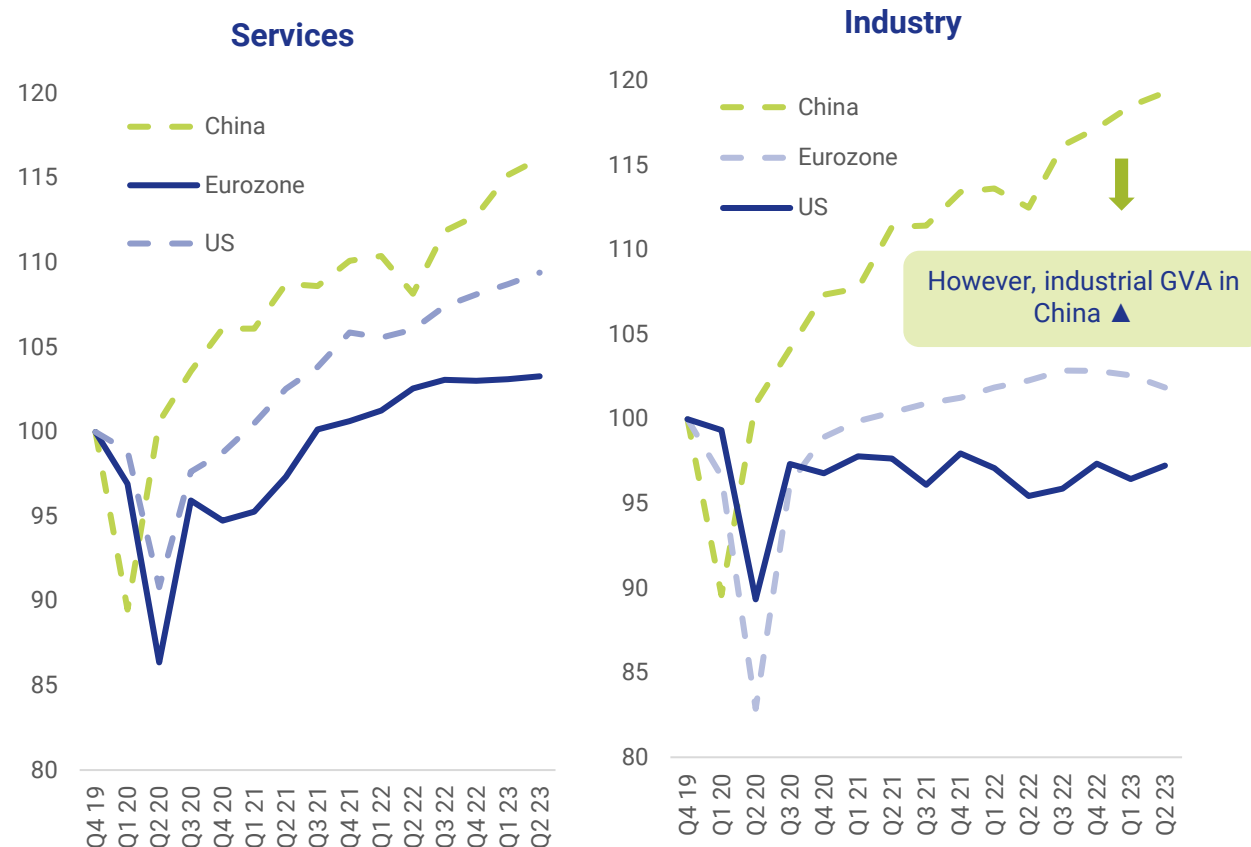
The global economy held up better than expected in Q2 23. The dynamism of services stands out, while indicators in non-related sectors, including manufacturing, point to a slowdown in activity, especially in advanced economies

Global GDP advanced 2.3% y-o-y in Q3 23 and was 8.3% above the pre-pandemic level (Q4 19)



## Value added of services and industry in major economies

Q4 19 = 100

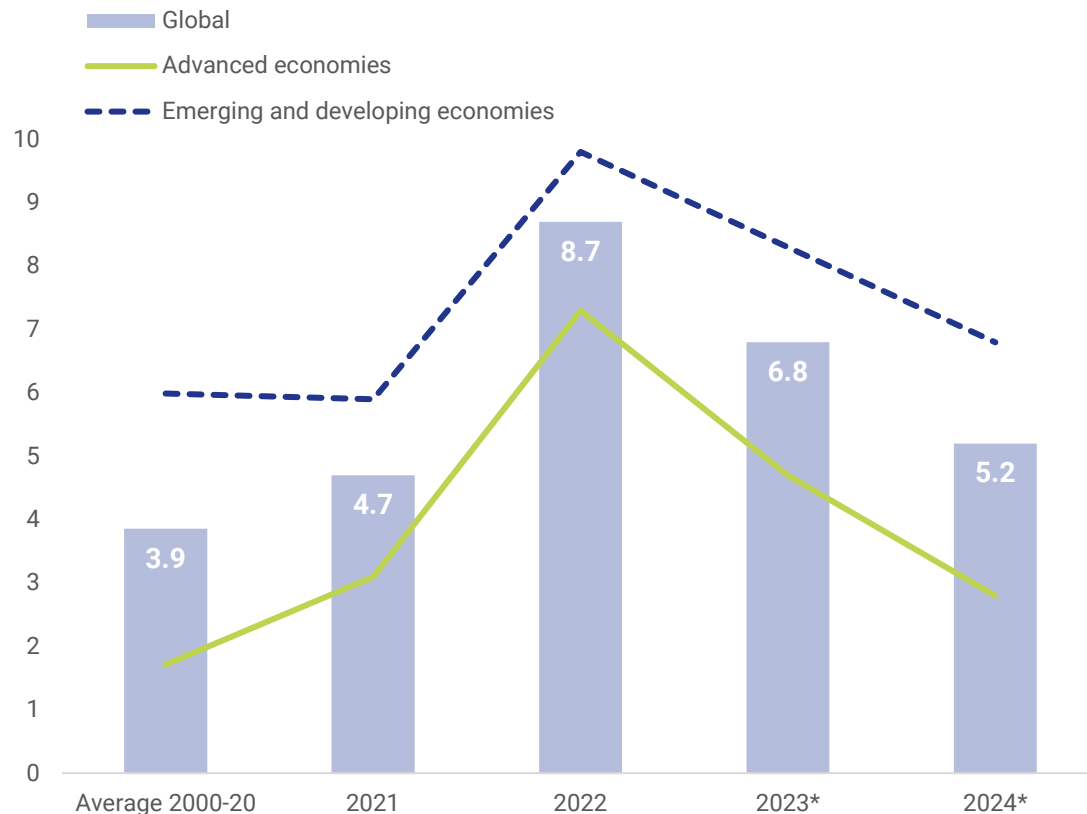


# Persistently high levels of underlying inflation

Headline inflation moderates, but core inflation slows, remaining well above the targets of most Central Banks (CBs)

## Moderation of headline inflation

% y-o-y change

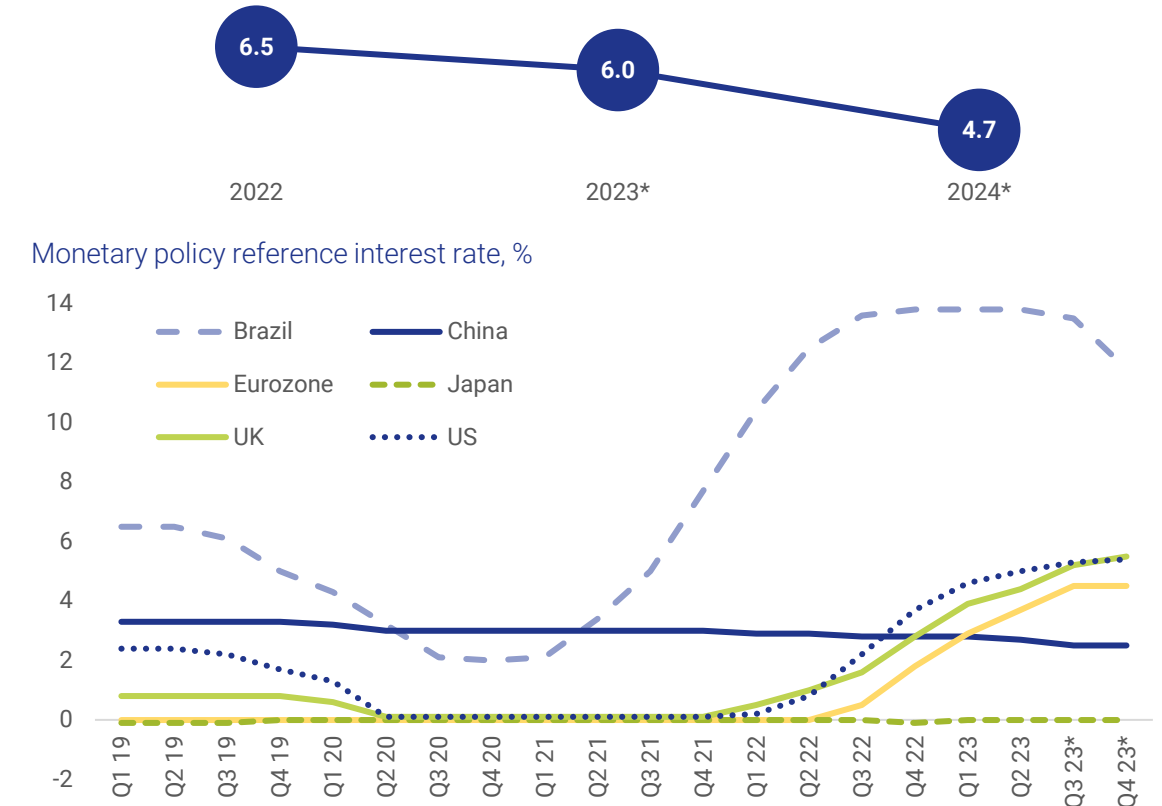


\* Forecasts

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

## Expectations that CBs will further tighten monetary policy in the face of high levels of core inflation, except in Latin America

Core inflation, % y-o-y change

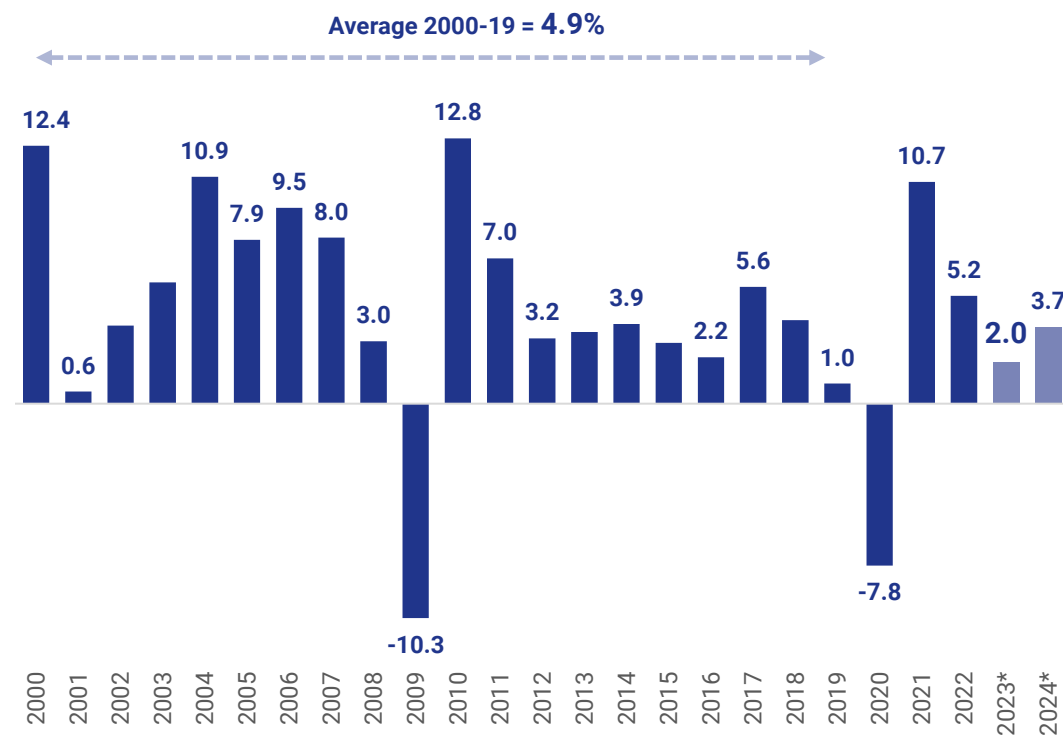


# Loss of dynamism in world trade

The slowdown in world trade in 2023 reflects the trajectory of global demand, shifts in its composition towards domestic services, the lagged effects of dollar appreciation and rising trade barriers. Problems in the Panama or Suez canals put global trade in check and could exacerbate its downward trend

## IMF forecasts global trade slowdown from 5.2% in 2022 to 2% in 2023

% y-o-y change



\* Forecasts

Source: *Círculo de Empresarios* based on IMF, Kiel Institute and UNCTAD, 2023.

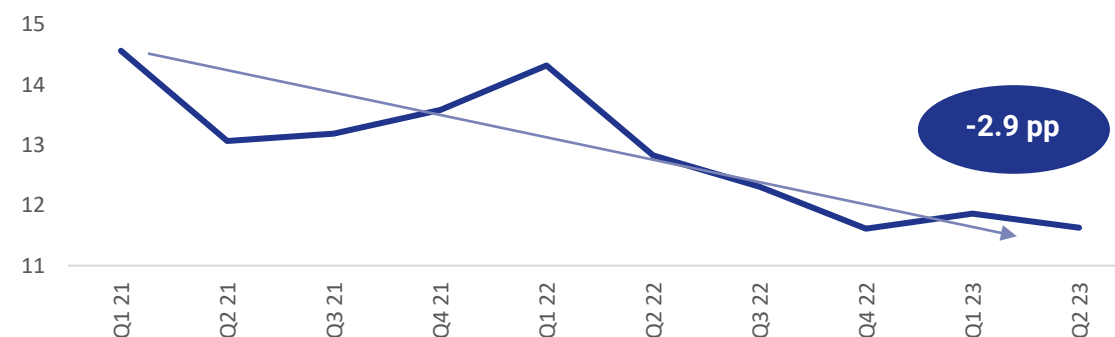
## Weak trade figures and a decline in container traffic

Million TEUs (20-foot equivalent units)



## Decline in US-China trade interdependence

US-China bilateral trade (X+M) over total trade between both countries



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# Asia

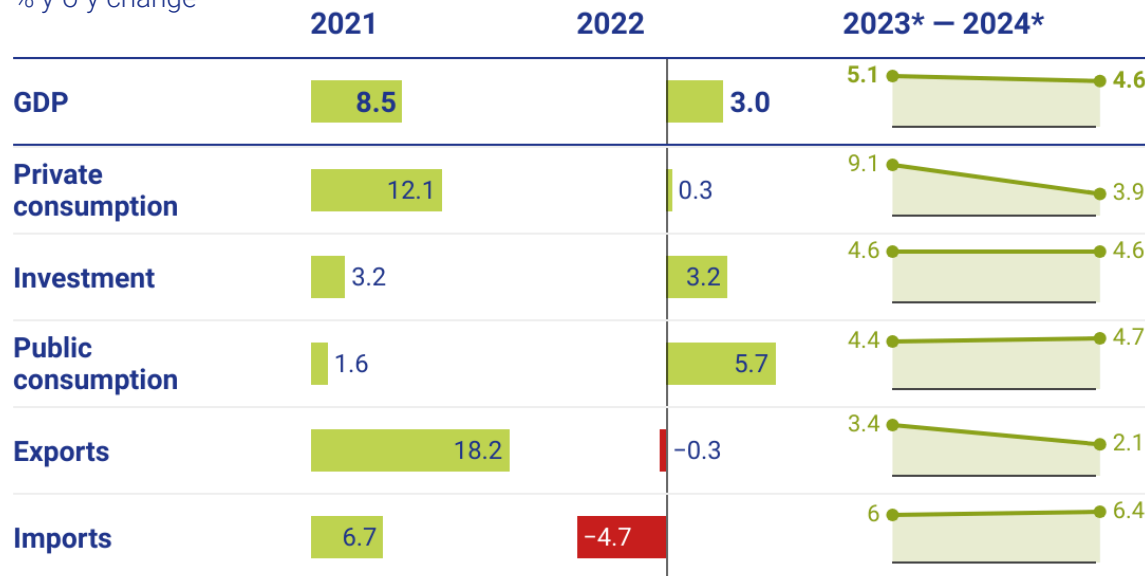


# China: recovery stagnates

The Chinese economy is affected by the persistence of the real estate crisis, the risks of high levels of local indebtedness, sluggish domestic demand, the weakness of the labour market and the fall in external demand. All these factors are negatively affecting expectations for its industrial and foreign sectors

According to forecasts by Oxford Economics, GDP growth will reach 5.1% in 2023 and 4.6% in 2024

% y-o-y change



The authorities' focus on meeting their official growth target is manifested in increasingly frequent waves of policy announcements aimed at stabilizing market confidence and supporting economic activity

The real estate crisis is reflected in a sharp drop in prices, a reduction in investment, an increase in unsold real estate inventories and a greater risk of default by developers

% y-o-y change



**Housing starts and sales**



**47% and 66%**  
levels mid 2021  
(respectively)

Estimates by Oxford Economics put the **volume of debt associated with the real estate sector** at approximately **43% of China's GDP**

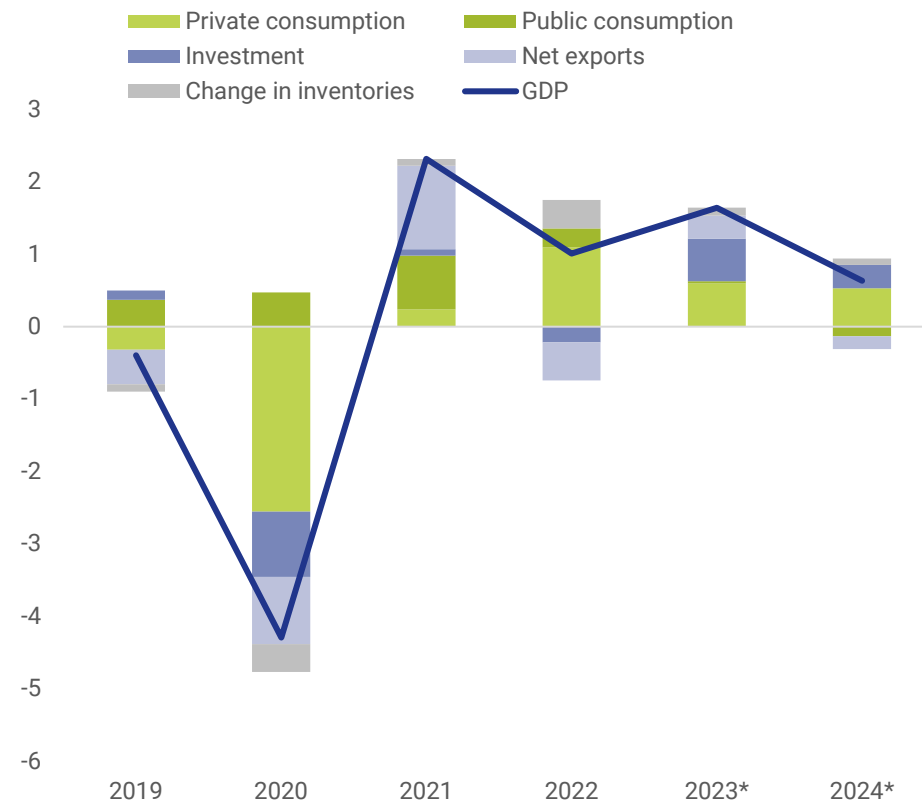
\* Forecasts

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

# Japan: external sluggishness limits growth

Slight increase in the Japanese economy of 6 tenths to 1.6% in 2023\* to be contained in 2024\* (0.6%)

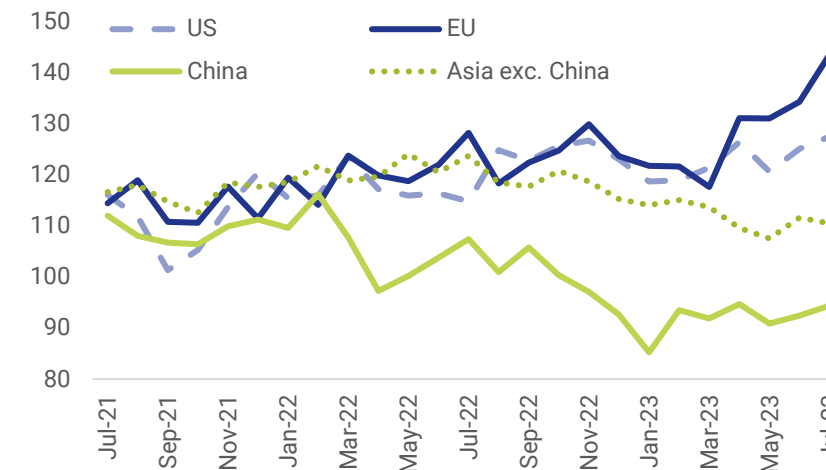
GDP % y-o-y change and component contributions in pp



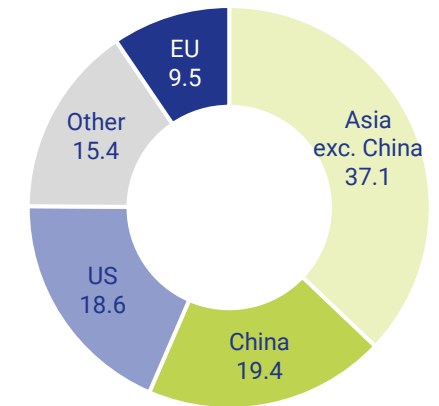
Goods exports contracted by 0.3% y-o-y in Jul.23, following a 1.5% advance in Jun.23

Recent ▲ in auto shipments to EU and US → offset by weak Asian demand, especially for capital goods

Real exports 2020 = 100



% s/ total exports from Japan



Real export performance by type of goods % y-o-y change

	Average H1 23		Average H2 23	Jul-23
Intermediate goods	-0.9		-0.7	6.3
Motor vehc.		1.3	2.5	-0.3
IT products	-0.7		-0.3	1.7
Capital goods	-0.5		-0.3	3.2
Other	-0.4		-0.2	0.4

\* Forecasts Oxford Economics

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

ECONOMY

# America



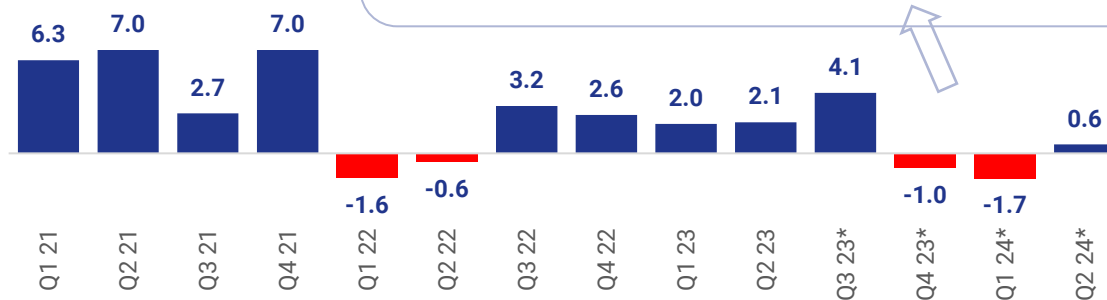
# US: mild recession expected by the end of 2023

Likely recession with quarterly GDP declines of 1% in Q4 23 and 1.7% in Q1 24

% annualized quarterly change

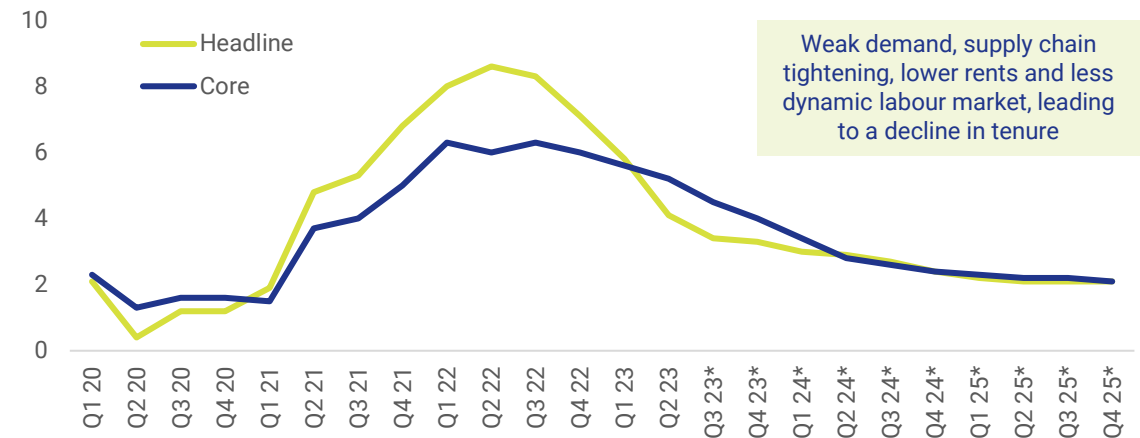
- Cumulative Fed interest rate hikes
- Tighter credit conditions
- Inflation

Consumers + companies → ▼ expenses, contracting and investment



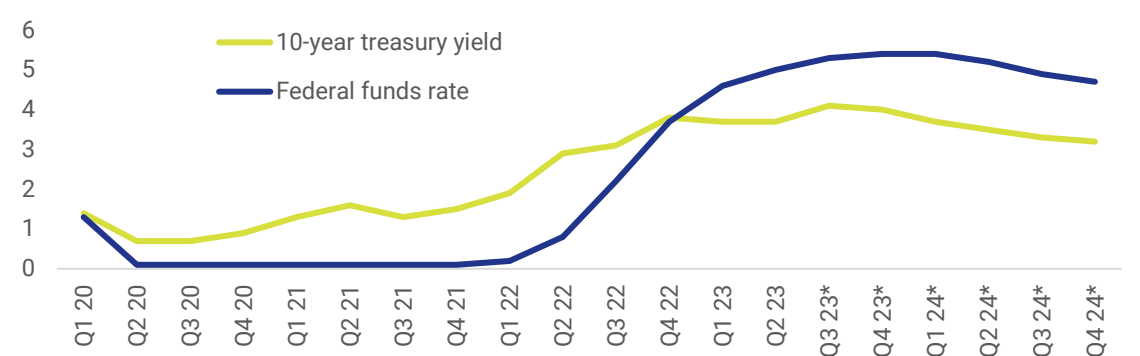
Inflation is approaching the Fed target (2%)

% y-o-y change



Fed to pause before cutting rates

% y-o-y change



% y-o-y change

2020 – 2022

2023\*

2024\*

<b>GDP</b>	-2.8	2.1	2.1	0.2
<b>Private consumption</b>	-3.0	2.7	2.4	0.6
<b>Investment</b>	-1.2	-0.5	0.1	0.2
<b>Public consumption</b>	2.2	-0.2	1.6	-2.0
<b>Exports</b>	-13.2	7.1	2.7	1.5
<b>Imports</b>	-9.0	8.1	-3.6	0.5

\* Forecasts

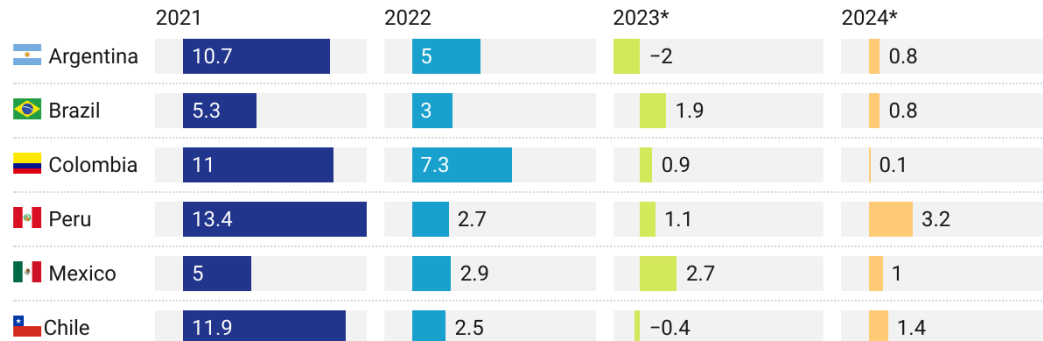
Source: *Círculo de Empresarios* based on Oxford Economics, 2023.

# Growth and inflation in Latin America

Despite the better-than-expected GDP performance at the beginning of the year, forecasts point to a significant slowdown in H2 23. This is due to lower growth in advanced economies, the fall in commodity prices, the restrictive monetary policy stance and significant uncertainty

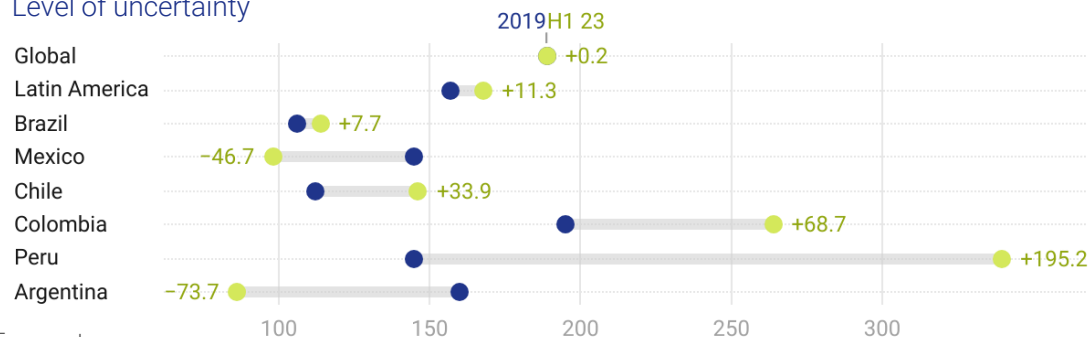
**The risks of recession have diminished, but have not entirely disappeared and economic dynamism is declining**

% y-o-y change



**Economic policy uncertainty rises, except in Mexico and Argentina**

Level of uncertainty



\* Forecasts

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

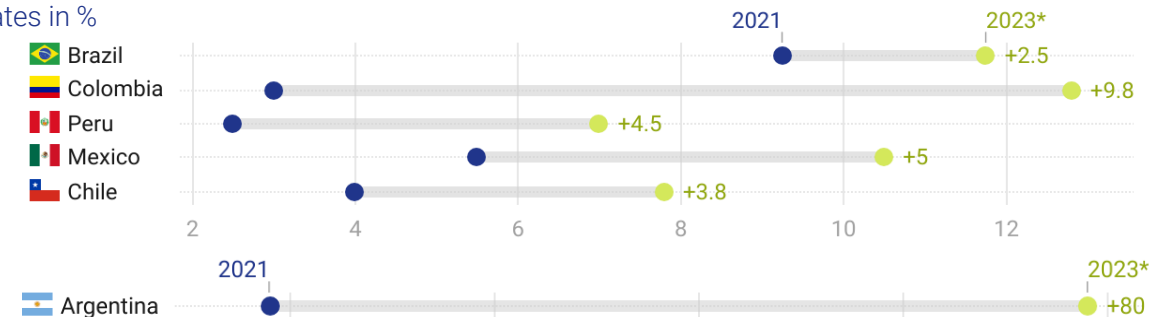
**Inflation moderates in H1 23, with core inflation holding up**

% y-o-y change



**The rapid and intense monetary tightening in the region, which preceded that in the US and Europe, paused in Apr. 23**

Rates in %

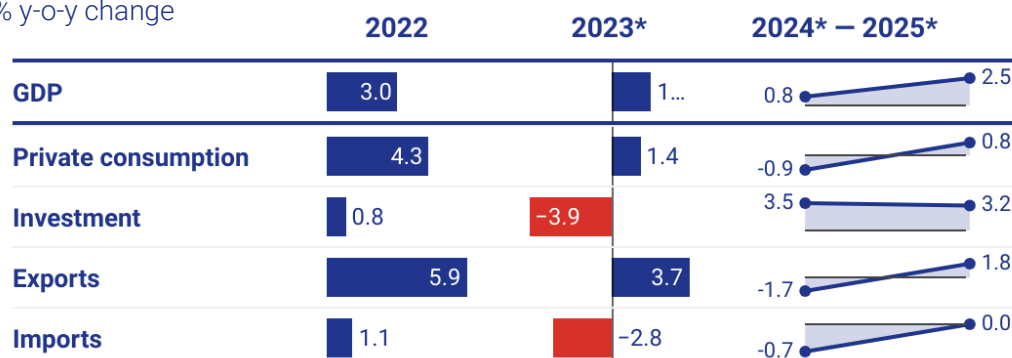


# Brazil: slowdown and doubts about fiscal consolidation

H2 23 marked by a downward correction in domestic demand due to restrictive financial conditions, reduced fiscal stimulus and slow momentum in foreign trade. In the long term, Oxford Economics estimates an average GDP growth of 1.9% due to supply-side handicaps (institutional, demographic and physical/human capital)

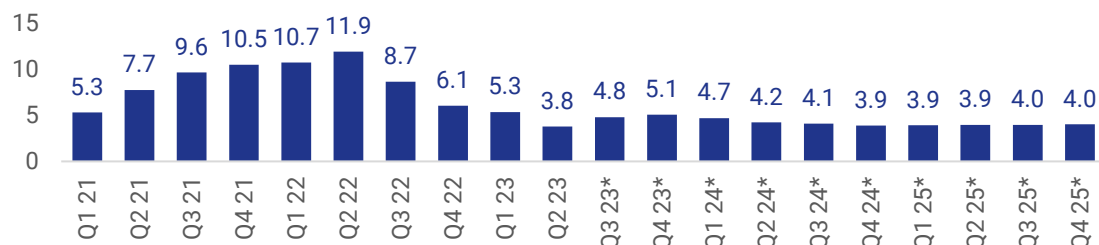
## Expected drop in investment and moderation in private consumption weigh on growth in 2023

% y-o-y change



## Record cereal harvest has moderated food prices, amid rising energy and utility prices

% y-o-y change CPI

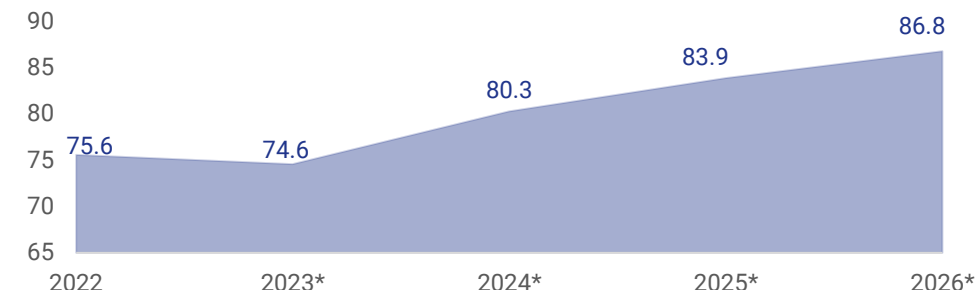


\* Forecasts

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

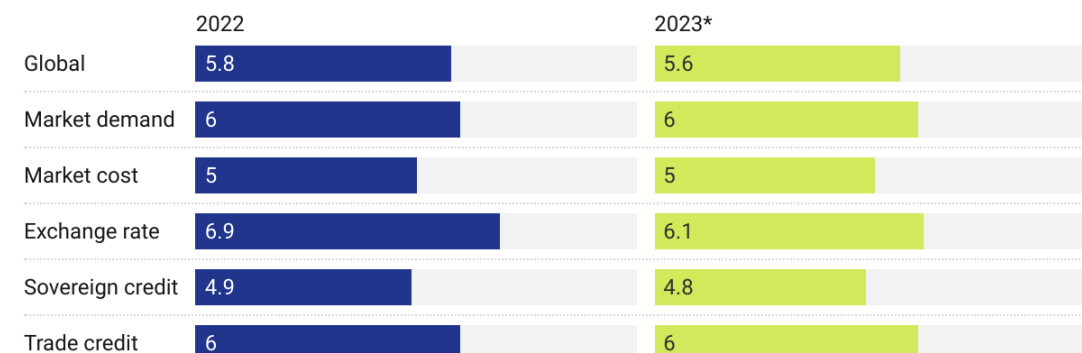
## The recent proposed fiscal framework to revise the spending limit will not serve to maintain the debt-to-GDP ratio in the short term

% GDP



## Economic risk in line with the average for emerging countries

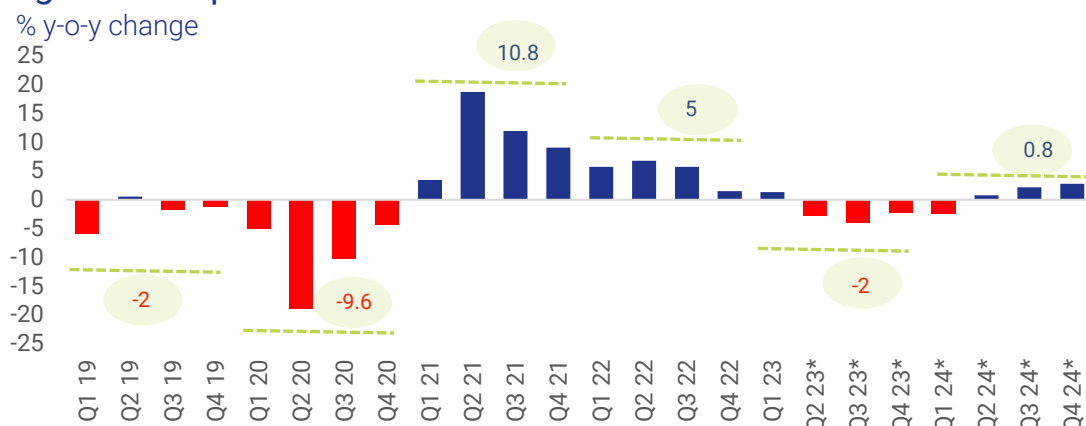
Scores between 1 and 10, with 10 representing the highest risk



# Argentina: persistent recession

In H1 23, downward revisions have shown a deeper contraction of the Argentine economy in a context of worsening inflation outlook. Following the agreement with the IMF, the authorities should commit to structural changes to improve potential GDP growth

**GDP expected to fall by 2% in 2023 due to the contraction of consumption and investment and the effect of the severe drought on agricultural production**



## Downside risks

- Low foreign exchange reserves
- Tight monetary restrictions
- Large volumes of Central Bank bonds
- Possible currency devaluation

## Inflationary spiral

\* Forecasts

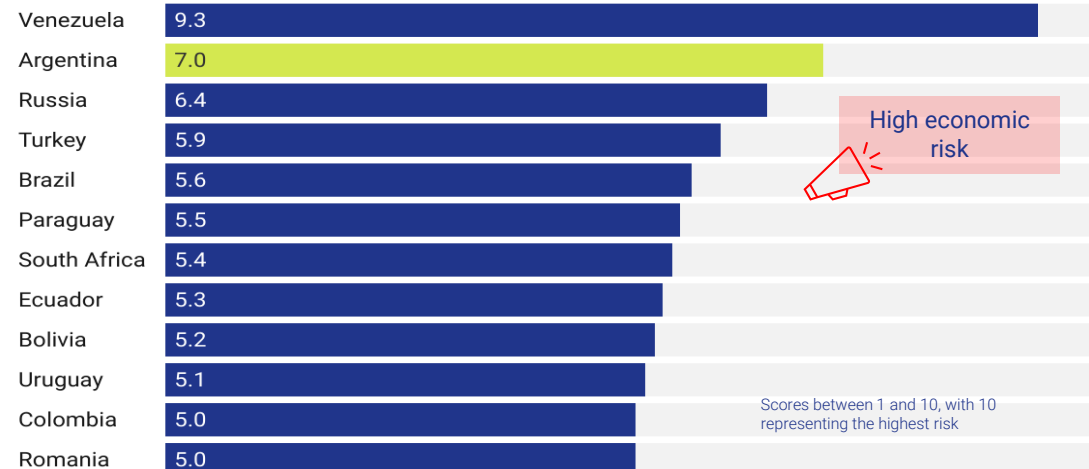
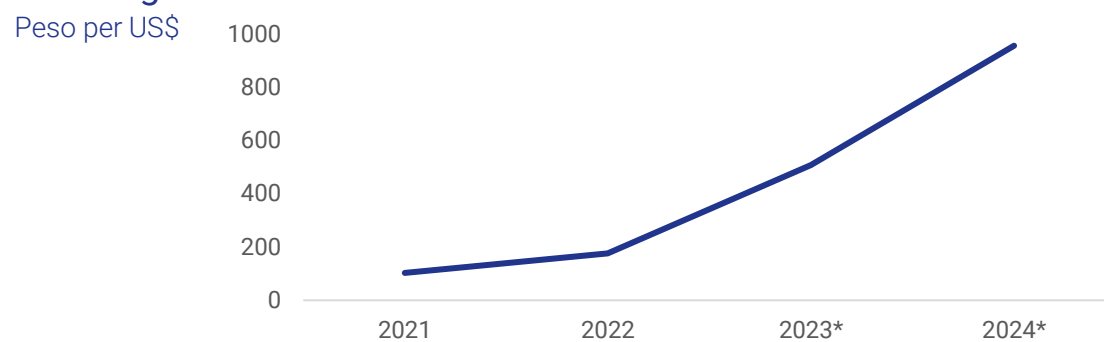


If ▲ public spending → in risk planned fiscal adjustment



Higher demand for Argentine exports could ▲ growth and foreign exchange inflows, with less pressure on the exchange rate

**After candidate Milei won the primary elections and in view of high financial volatility, the Central Bank recalibrated the official exchange rate**

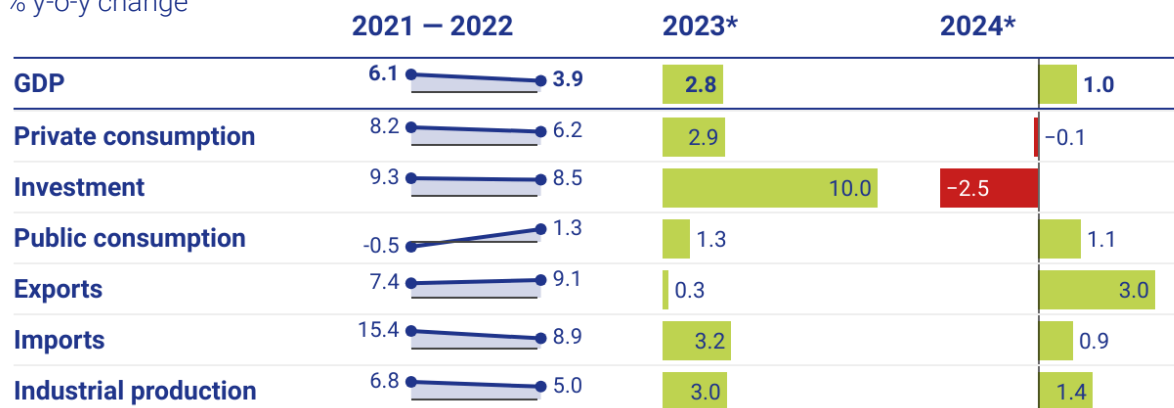


# Mexico: in step with the North American economy

The upward revision of the national accounts, due to methodological changes and readjustment to 2018 prices, evidenced a remarkable dynamism of the Mexican economy. The slowdown forecast by Oxford Economics for the second half of the year is softening in the wake of the US economic evolution

**GDP forecast for 2023 is supported by investment dynamism and resilience of private consumption due to the strength of the labour market**

% y-o-y change



Mexico economic risk has deteriorated marginally in the last six months to 5.0, but remains better than the emerging markets average

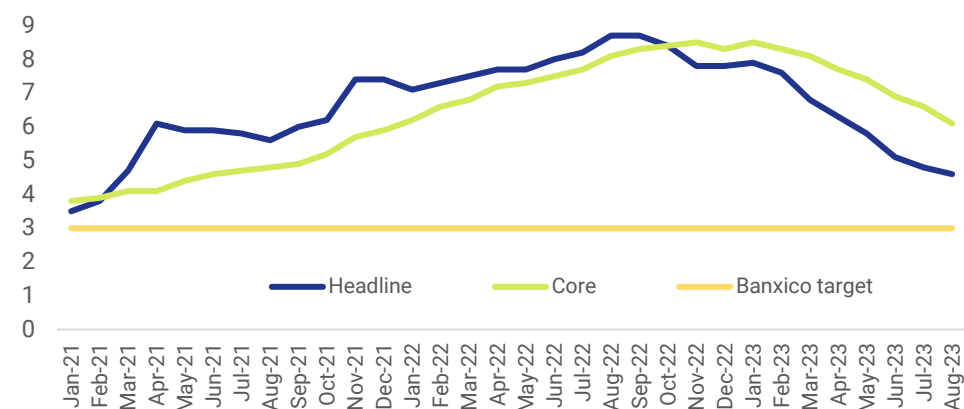
Pessimism about the medium-term outlook for the domestic and global economies will be a drag on investment

Risks of trade tensions remain high due to AMLO's unpredictable economic agenda

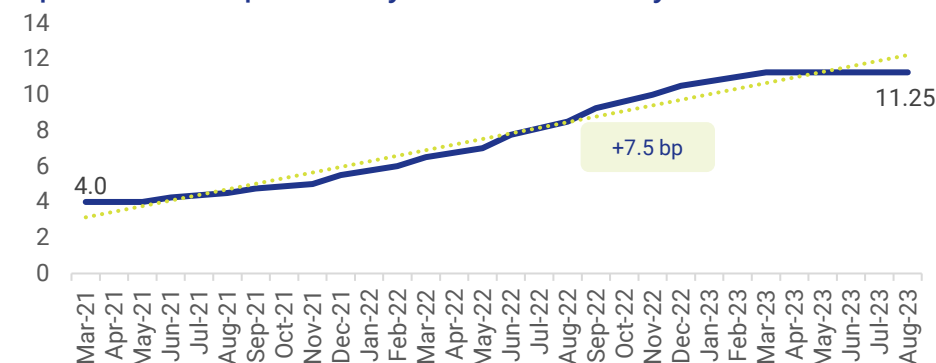
The peso is vulnerable to episodes of risk aversion and volatility in emerging markets due to its high liquidity and large trading volumes

**Good downward performance of core inflation, although the rest of the components contribute more to disinflation**

% y-o-y change



**25 bp rate cut expected by the end of the year**



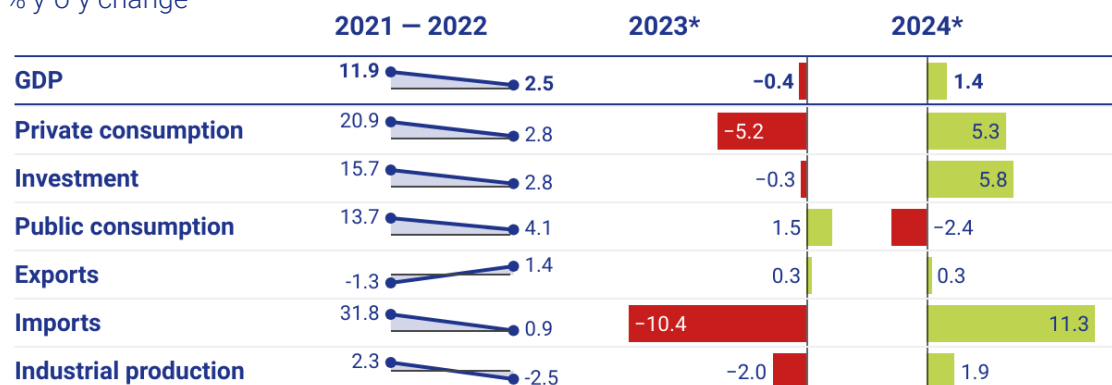
\* Forecasts

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

# Chile and Colombia: domestic demand weakens

Chile's GDP is expected to fall 0.4% in 2023 due to lower demand and industrial activity, marked by political uncertainty

% y-o-y change



## Risks

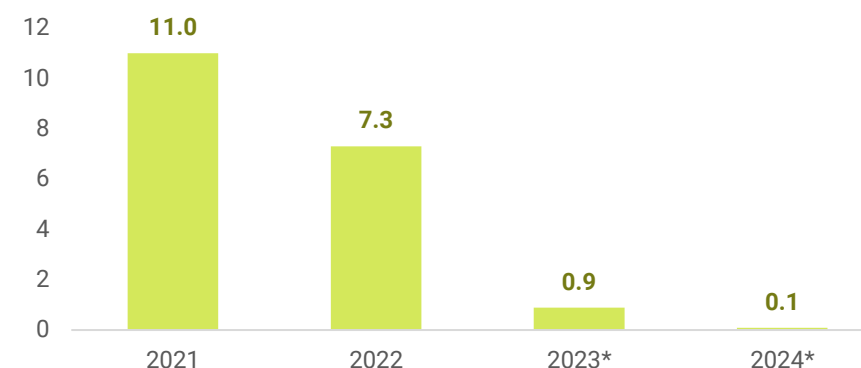
- GDP:** the country should remain in a shallow recession until Q4 23
- Inflation:** high, but the disinflation process is already well established
- Current account:** adjustment in the short term due to weak domestic demand
- Public accounts:** the post-pandemic adjustment is over
- Public debt:** expected to fall below 30% of GDP by 2030
- External debt:** the revaluation of the peso brings it below 80% of GDP

\* Forecasts

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

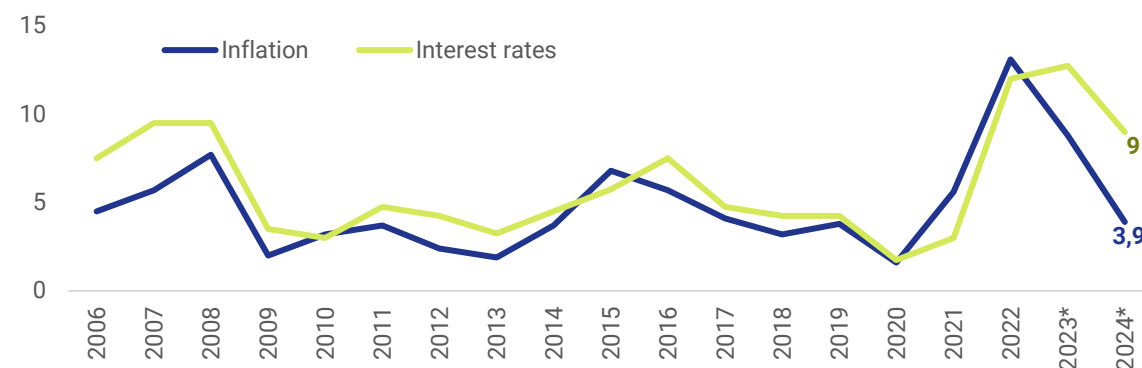
Economic activity in Colombia has already felt the effects of high inflation and the tightening of monetary policy

% y-o-y change GDP



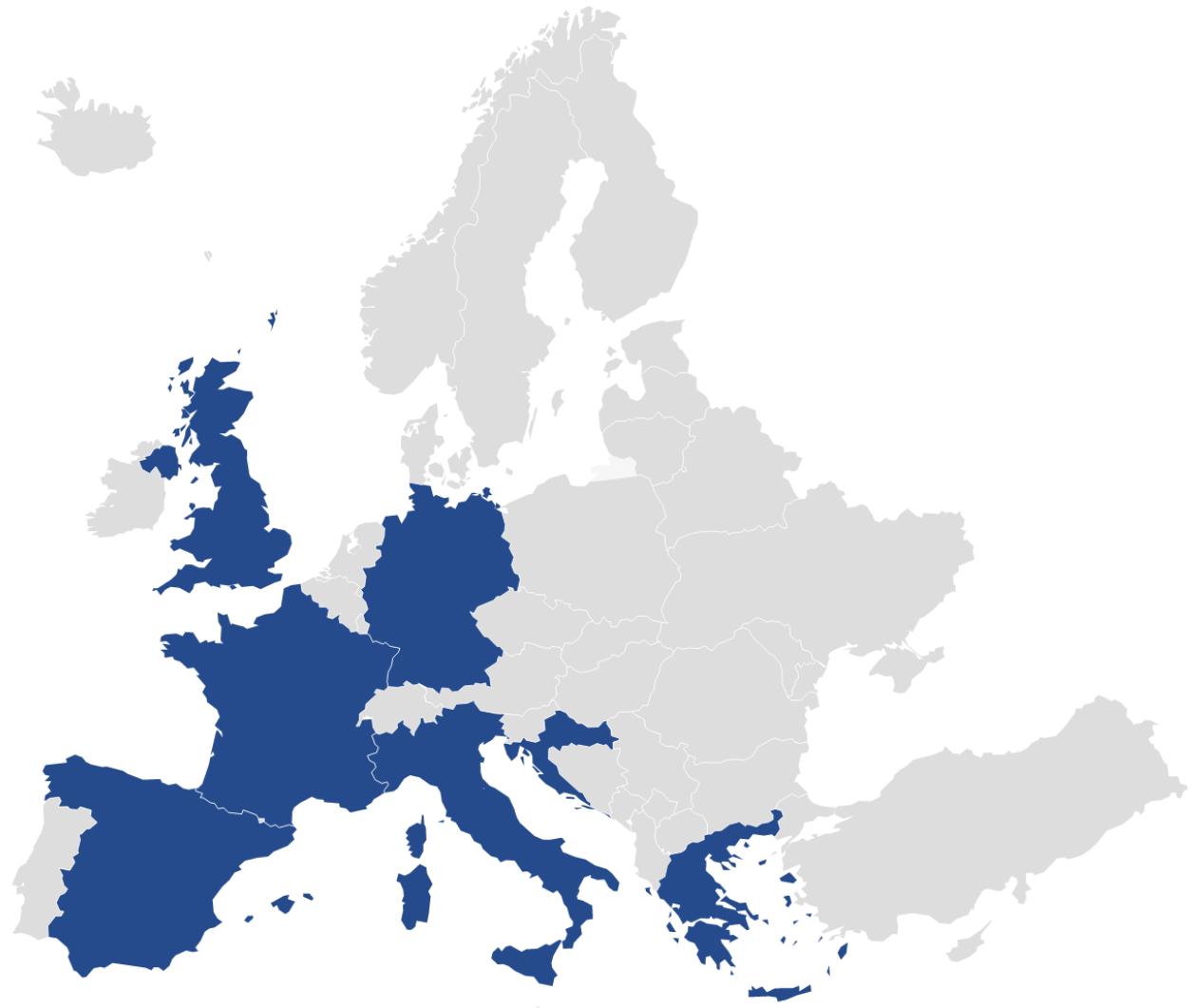
Inflation moderates and monetary policy is expected to be less restrictive by the end of 2023

% y-o-y change and %



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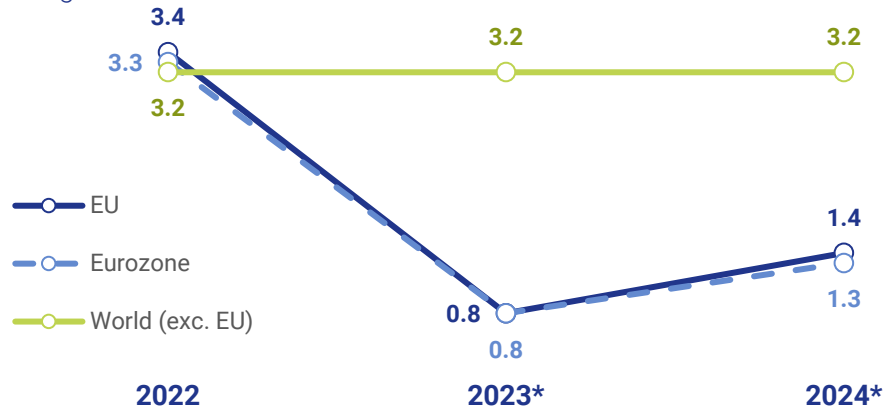
# Europe



# | EU growth forecast downgraded

GDP slows to 0.8% in 2023\* due to lack of strong growth driver and weak domestic and foreign demand

% y-o-y change



Growth of major economies ...

% y-o-y change

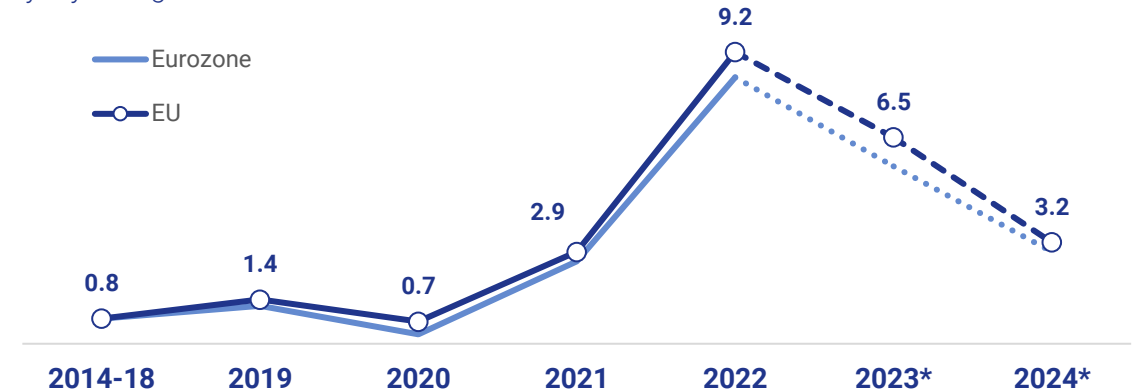
	2022	2023* – 2024*
Spain	5.8	2.2 → 1.9
France	2.5	1.0 → 1.2
Italy	3.7	0.9 → 0.8
Poland	5.1	0.5 → 2.7
Netherlands	4.3	0.5 → 1.0
Germany	1.8	-0.4 → 1.1

\* Forecasts

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

Inflation will moderate from 9.2% in 2022 to an expected 3.2% in 2024\* in the face of monetary tightening and falling commodity prices

% y-o-y change HCPI



Inflation in major economies ...

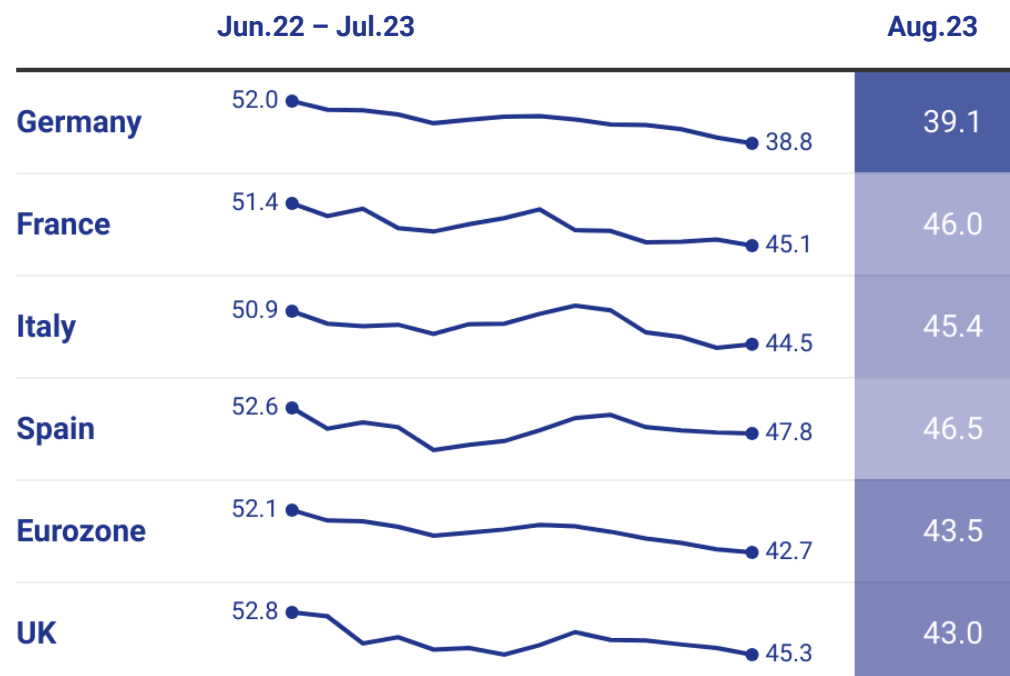
% y-o-y change HCPI

	2022	2023* – 2024*
Poland	13.2	11.4 → 6.1
Germany	8.7	6.4 → 2.8
Italy	8.7	5.9 → 2.9
France	5.9	5.6 → 2.7
Netherlands	11.6	4.7 → 3.0
Spain	8.3	3.6 → 2.9

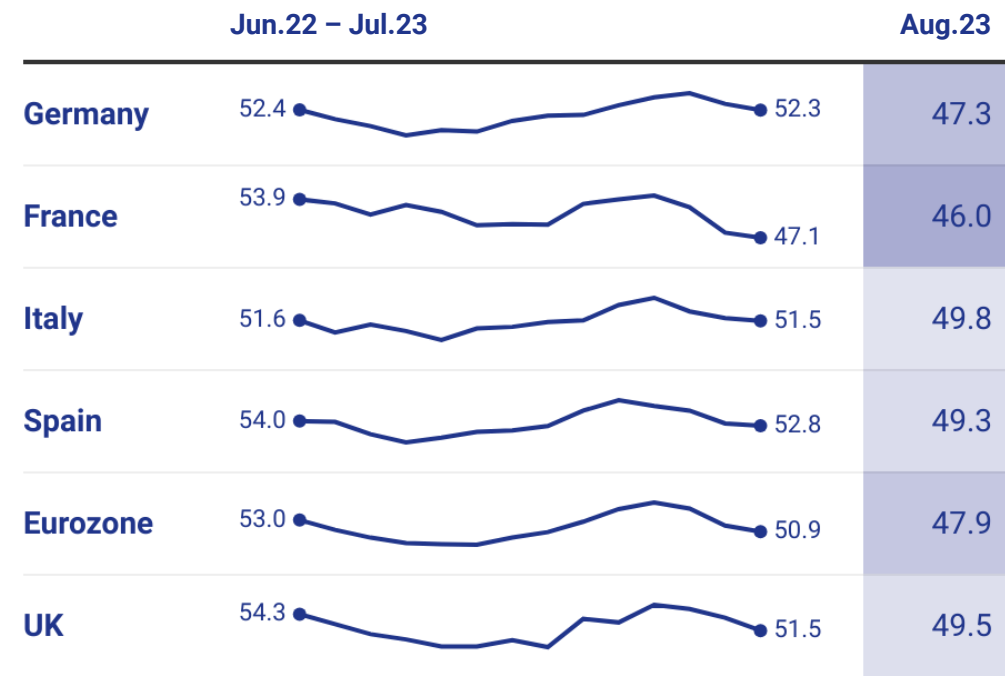
# | Deterioration in PMIs, mainly in manufacturing

contraction 50 expansion

## Manufacturing



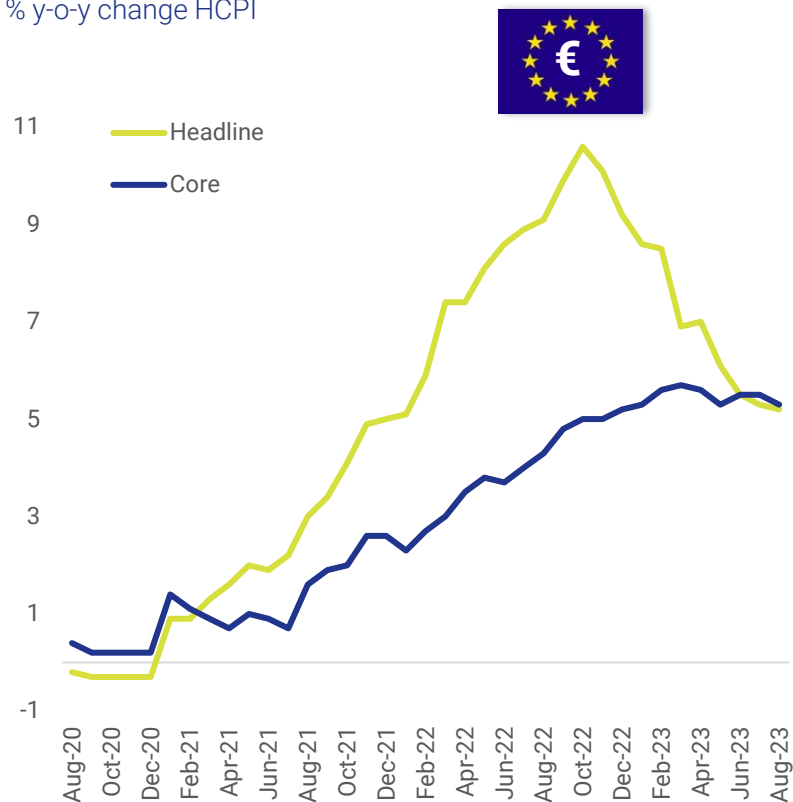
## Services



# | Inflation to fall, with resistance from service prices

In Aug.23, headline inflation stood at 5.2% y-o-y and core\* inflation at 5.3%

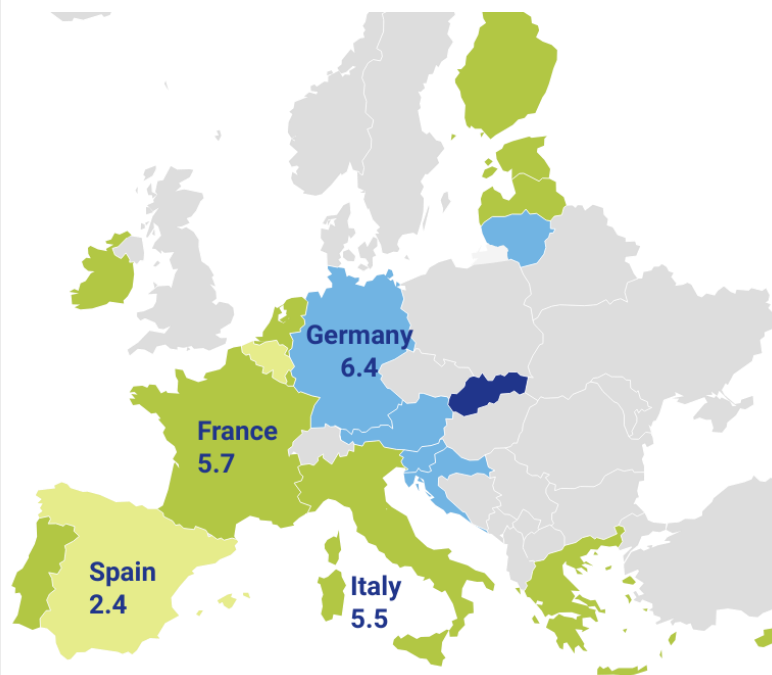
% y-o-y change HCPI



## Overall HCPI main Eurozone economies

% y-o-y change

< 3   3-6   6-9   ≥ 9



## By type of goods

% y-o-y change

	Average 2022	May.23 – Aug.23
HCPI	8.4	6.1 → 5.2
Energy	37.1	-1.8 → -3.3
Unprocessed food	10.4	9.6 → 7.8
Processed food	8.6	13.4 → 10.3
Core	3.9	5.3 → 5.3
Services	3.5	5.0 → 5.5
Industrial goods	4.6	5.8 → 4.7

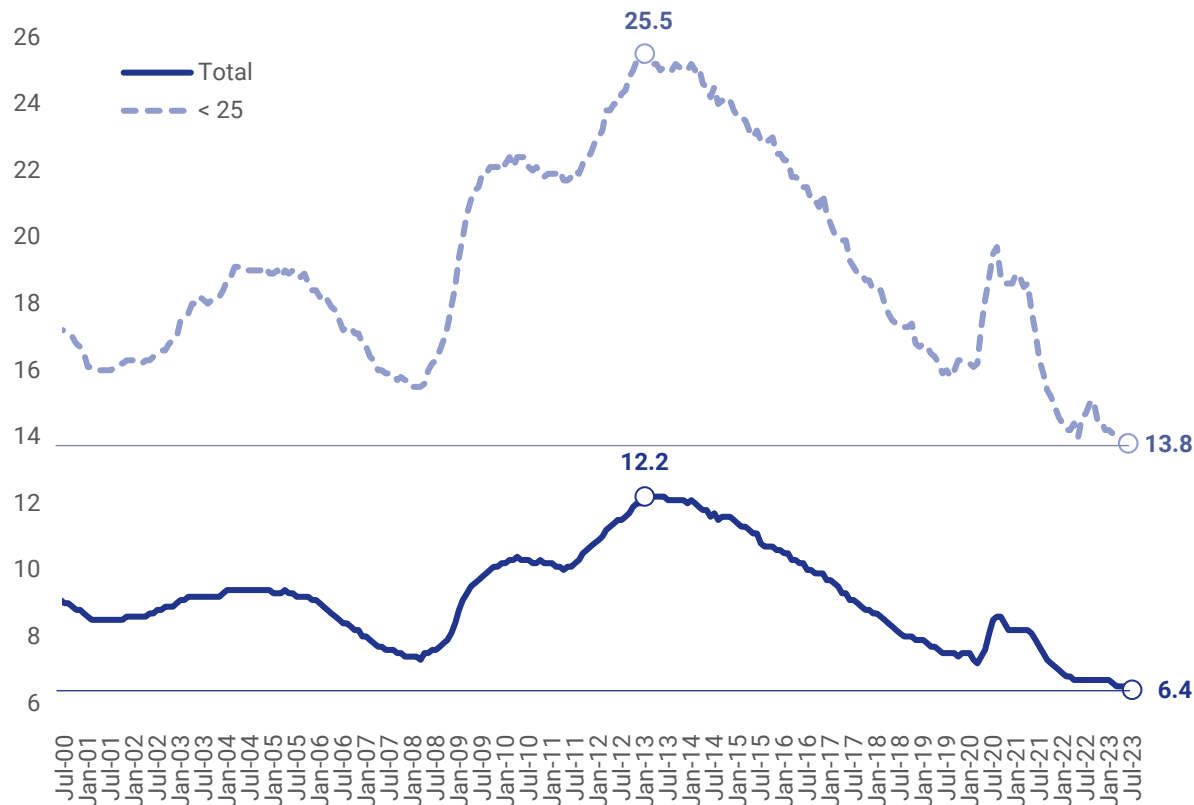
\* Exc. energy, food, alcohol and tobacco (ECB definition)

Source: *Círculo de Empresarios* based on Eurostat and CaixaBank Research, 2023.

# Eurozone: unemployment at historic lows

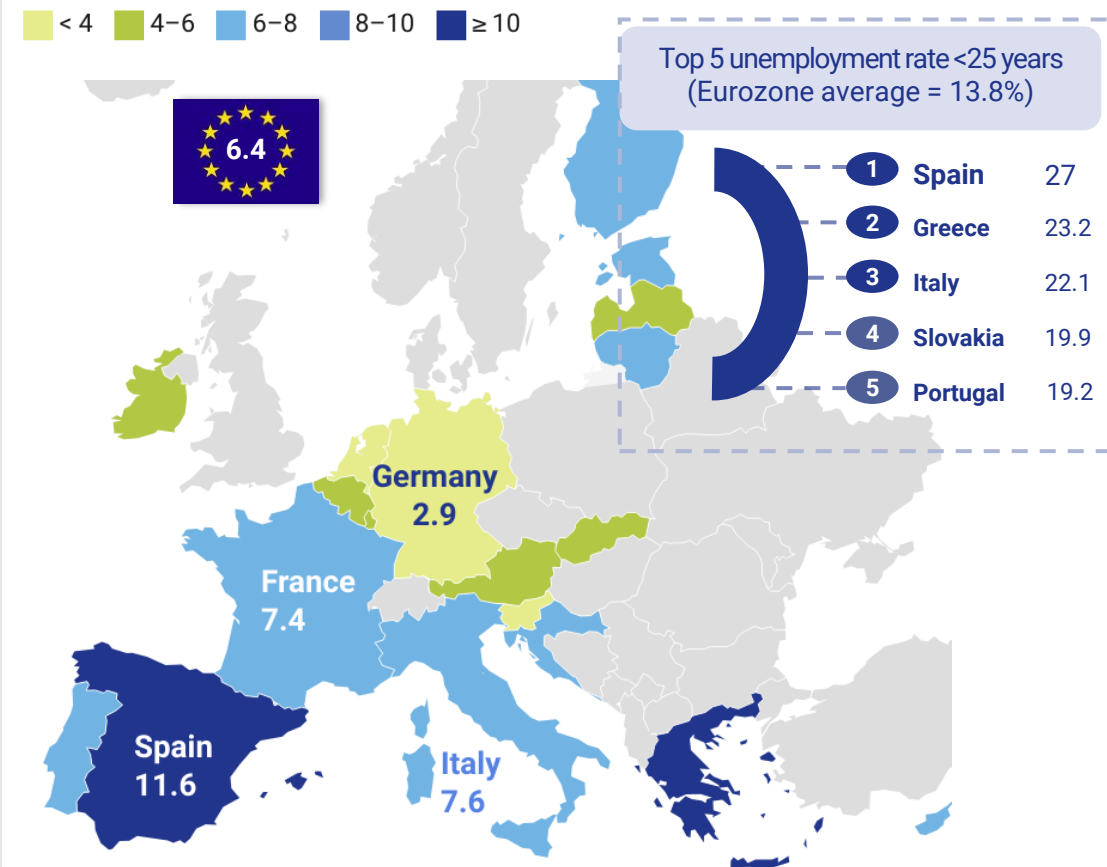
Eurozone unemployment rate hits Jul. 23 low at 6.4%, but employment expectations fall due to lower optimism

Unemployment rate as % of labour force



In Jul. 23, Spain leads in total unemployment (11.6%) and under-25 unemployment (27%)

Unemployment rate % labour force



# Germany: risk of recession in the second half of 2023

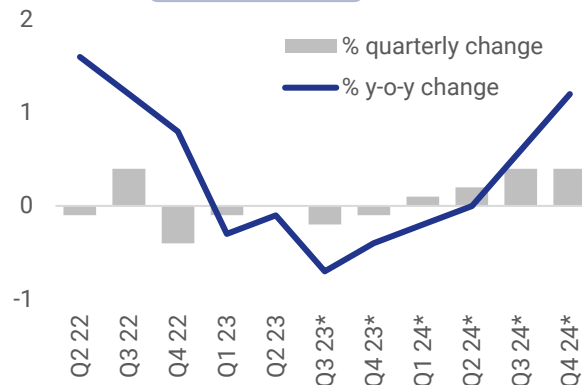
Weak outlook for foreign demand and investment, coupled with structural challenges in key sectors, drive Germany's underperformance in 2023 and 2024

## Expectations of recession in Q3 23, driven by industry production cuts

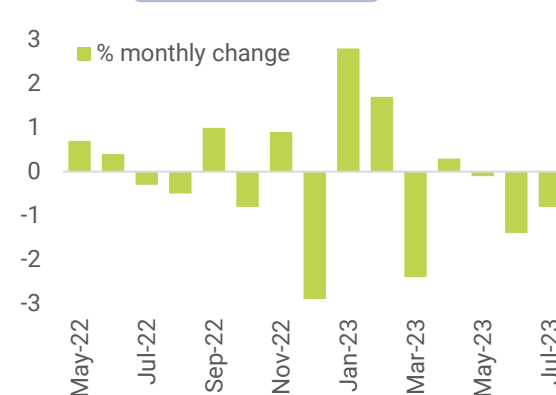
% y-o-y change

	2021 – 2022	2023*	2024*
<b>GDP</b>	11.9	-0.4	1.4
<b>Private consumption</b>	20.9	-5.2	5.3
<b>Investment</b>	15.7	-0.3	5.8
<b>Public consumption</b>	13.7	1.5	-2.4
<b>Exports</b>	-1.3	0.3	0.3
<b>Imports</b>	31.8	-10.4	11.3
<b>Industrial production</b>	2.3	-2.0	1.9

GDP evolution



Production index

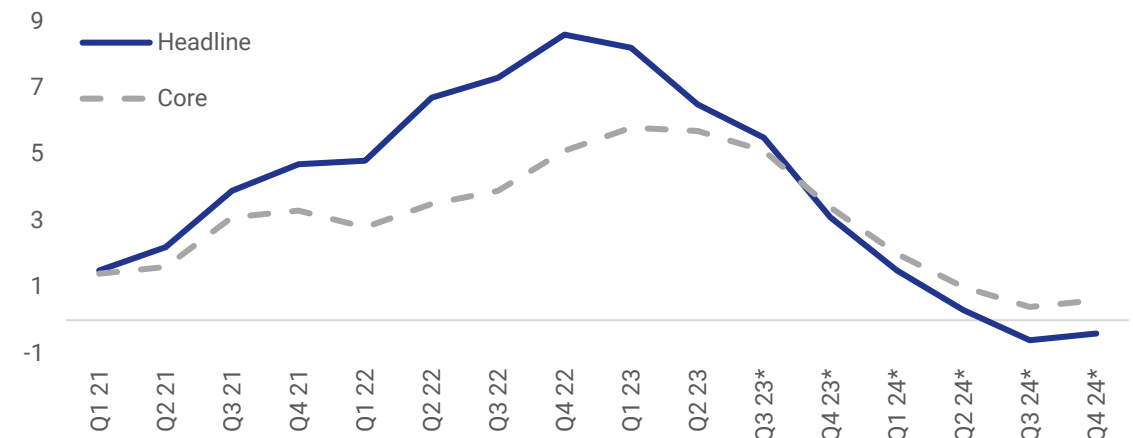


\* Forecasts

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

## Inflation to average 5.8% in 2023 and decelerate to below 2% in 2024

% y-o-y change



### Downward trend in 2023 due to:

- Policy measures
- Fall in raw material prices
- Reduction of supply bottlenecks
- Favorable base effects

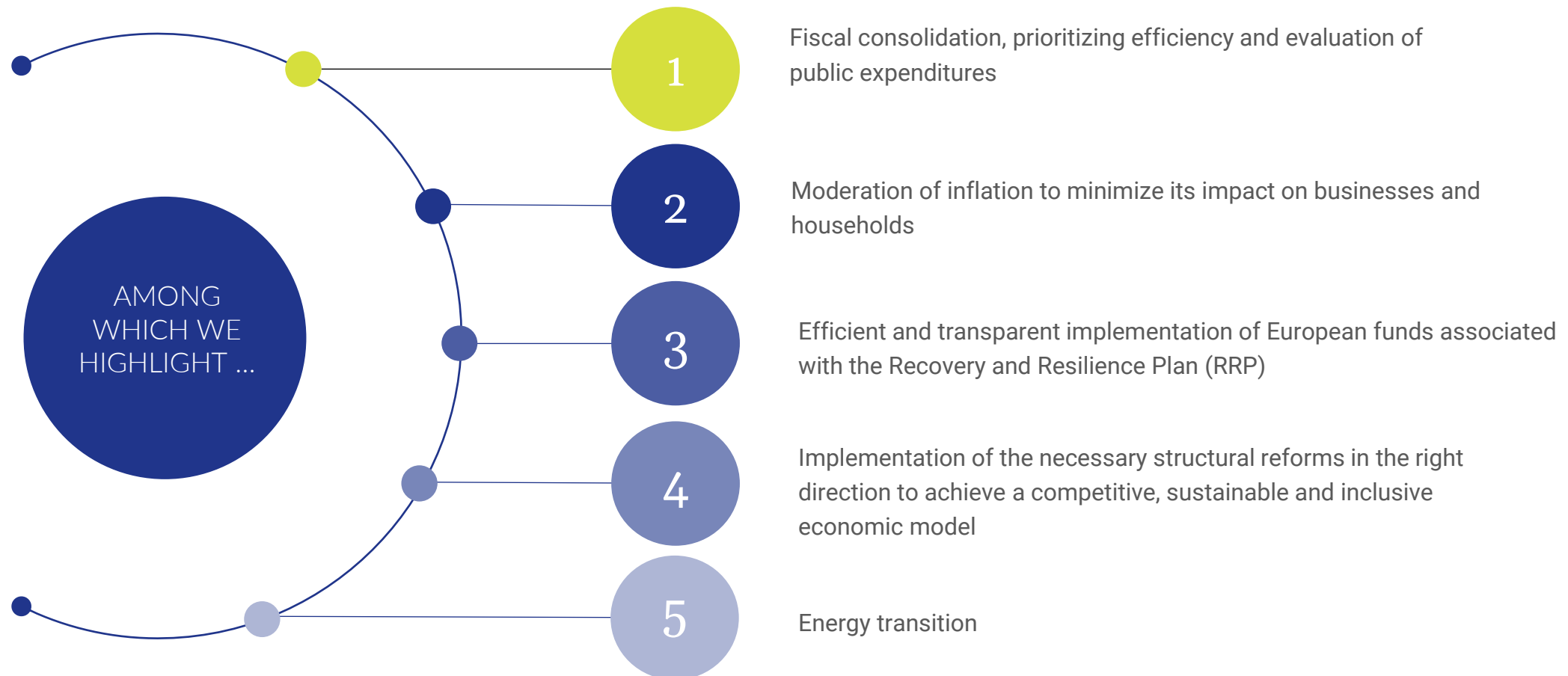
Although the recent oil price increases will limit the fall

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# Spain



# | Challenges for the Spanish economy remain



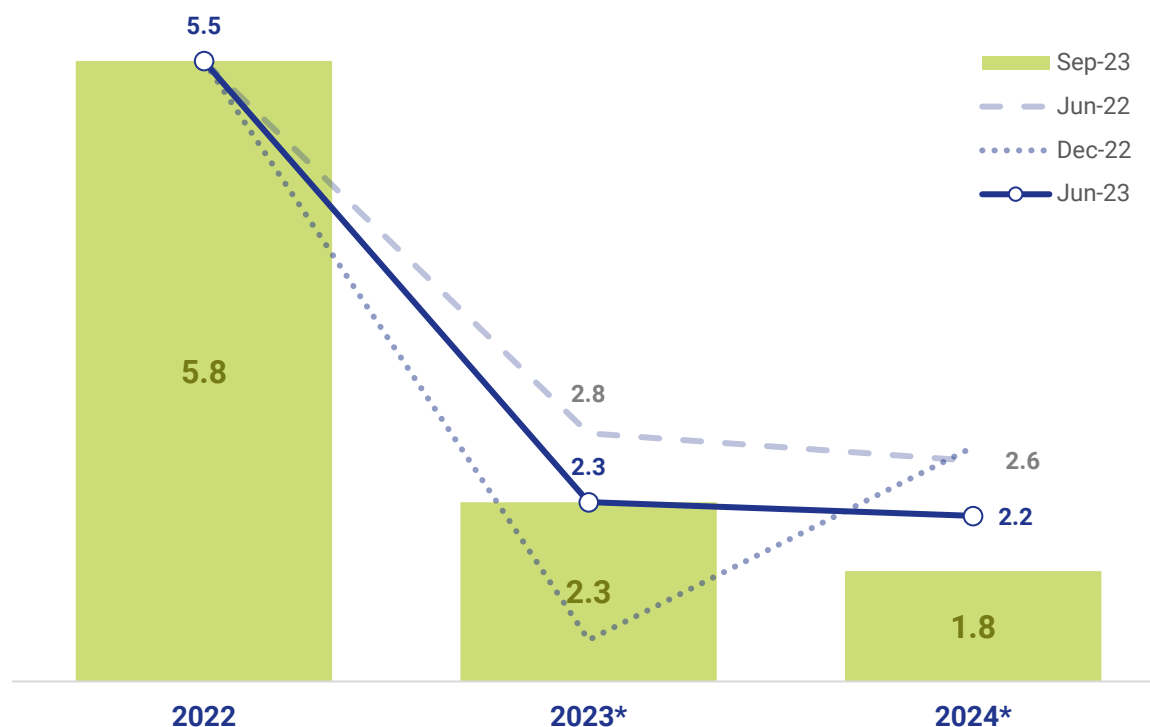
# | Headwinds slowing the economic recovery

- X Persistent underlying inflation.** Deterioration of competitiveness due to ▲ prices and possible second round effects on wages
- X Tighter financing conditions**
- X Economic weakness** of major **trading partners**
- X Lack of transparency and delay** in the execution of **European funds**
- X More moderate employment dynamics**
- X Labour supply shortage** for jobs resulting from the **green and digital transitions**
- X Confrontation and political uncertainty** with government in office
- X Uncertainty** about **legal security**

# High volatility in growth forecasts

In its Sep. 23<sup>1</sup> forecast, the Bank of Spain maintains its GDP growth estimate of +2.3% in 2023 and reduces by 4 tenths of a pp that of 2024

% y-o-y change



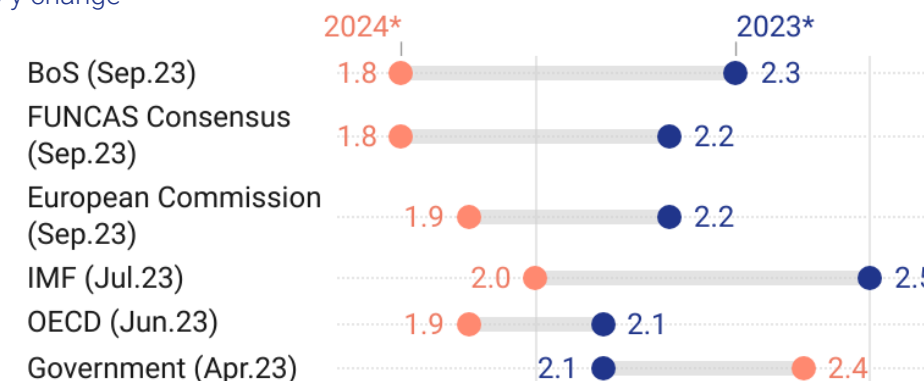
<sup>1</sup> In its latest forecast of 19 Sep. 23, the Bank of Spain does not yet take into account the upward revision of INE's GDP growth for 2021 and 2022

\* Forecasts

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

## Forecasts from other national and international organizations

% y-o-y change



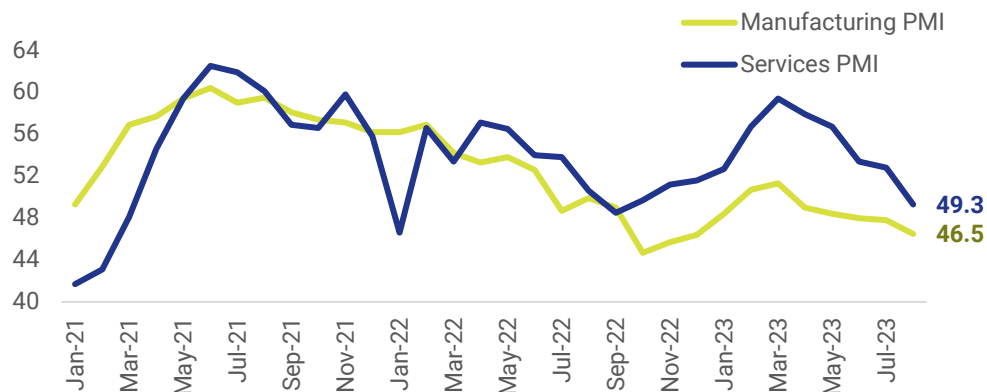
## High uncertainty in the forecasts for ...

- Difficulties in assessing the impact of monetary policy tightening on GDP growth, price developments and financial market performance
- Possibility of second-round effects on inflation via wages or business margins
- Weak external environment
- Evolution of geopolitical tensions, especially the war in Ukraine

# Signs of deterioration in economic activity

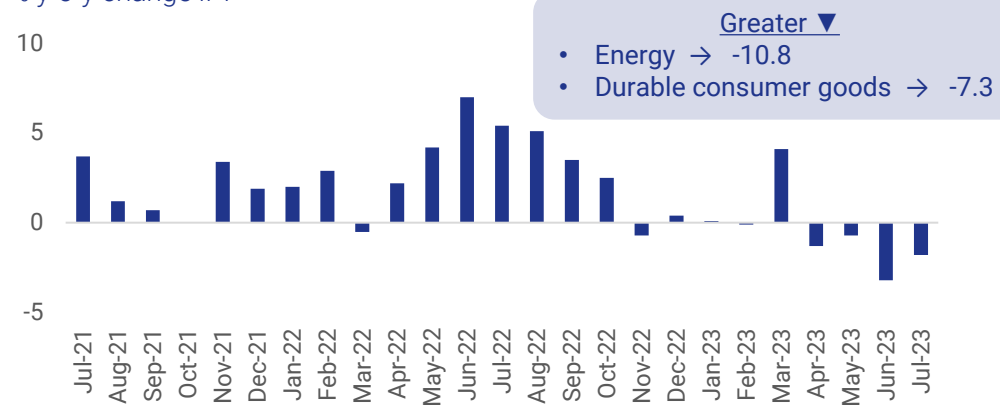
In Jul. 23, manufacturing and services PMIs fall for 4th consecutive month

<50: contracción de actividad; > 50: expansión de actividad



Four months of decline in industrial production

% y-o-y change IPI



Significant declines in industrial and services turnover

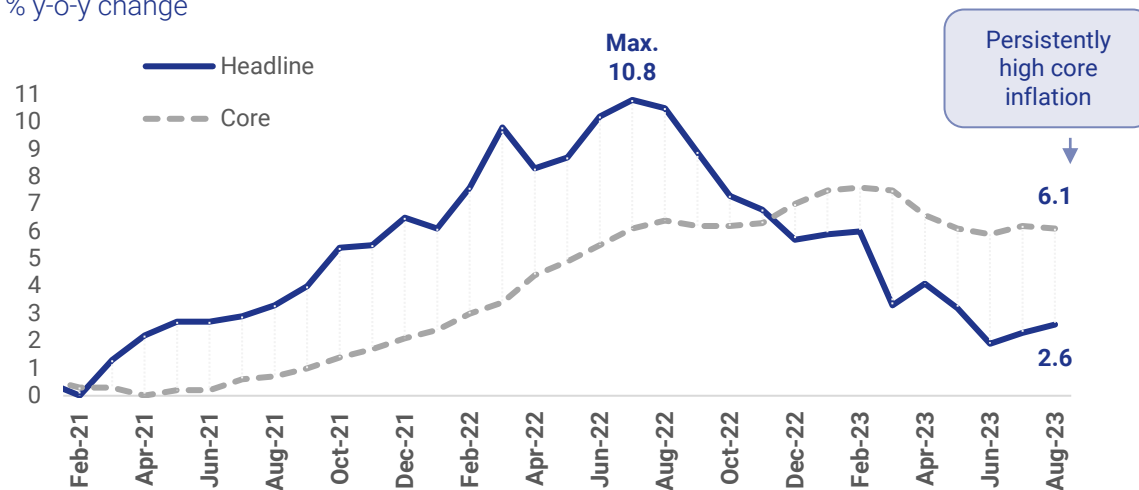
% y-o-y change



# | Core inflation remains at high levels

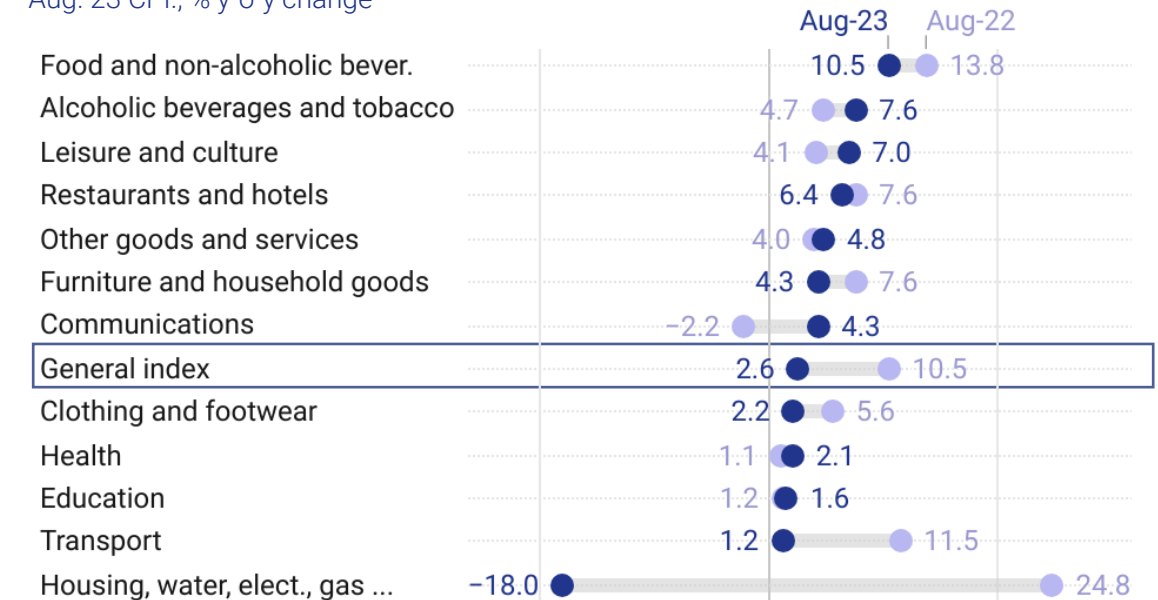
Uptick in inflation in Aug. 23 (2.6% y-o-y vs. 2.3% in Jul. 23), mainly due to ▲ tourism and fuel prices

% y-o-y change

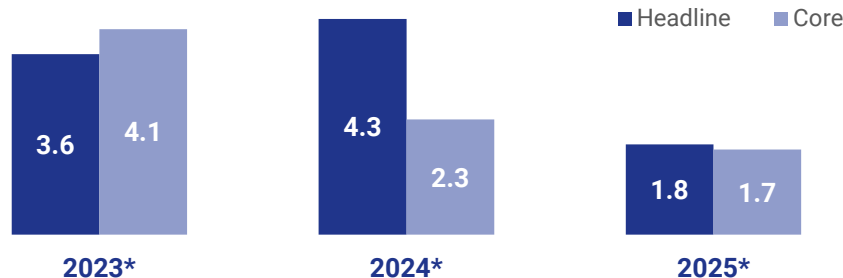


## High increases in food prices

Aug. 23 CPI.; % y-o-y change



**HCPI  
forecasts**  
Bank of Spain



\* Forecasts

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

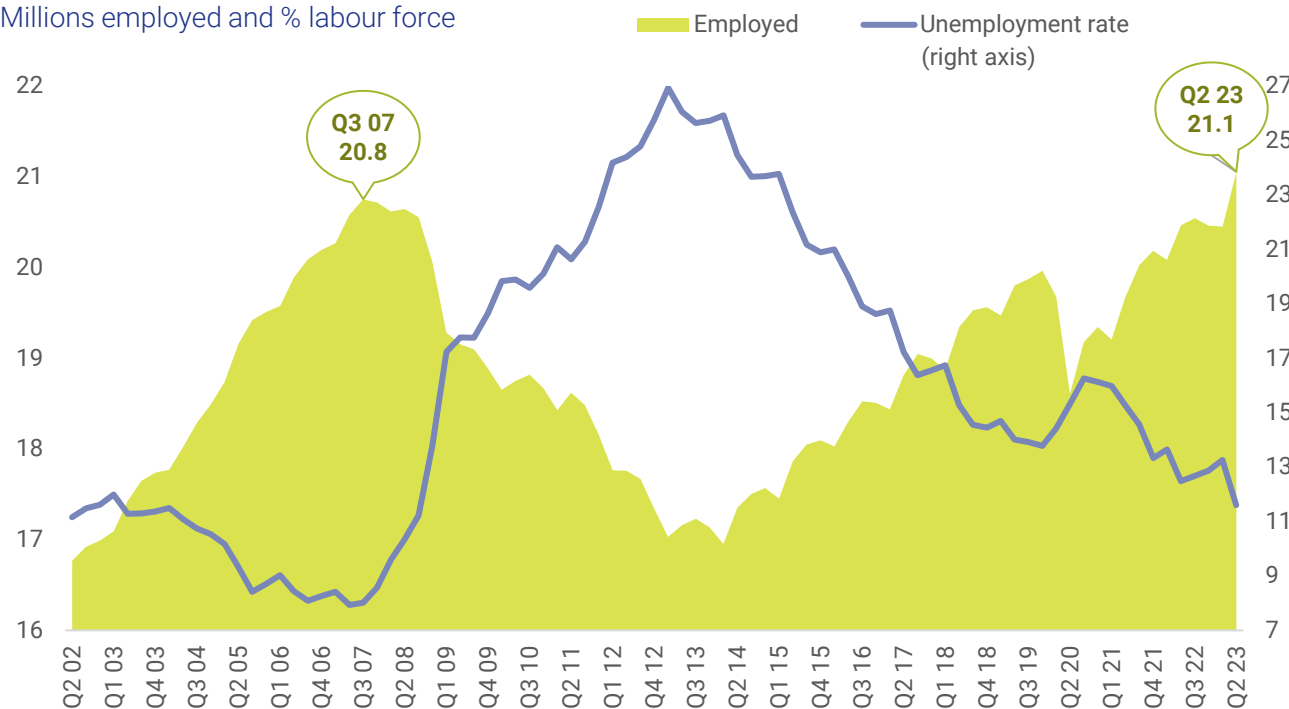
## Risks to the moderation of inflationary pressures

- Asymmetries in the pass-through of ▼ energy prices to consumer prices
- Possible ▲ energy prices due to OPEC+ production cut
- Possible ▲ some food prices due to the impact of drought and Putin's cancellation of Ukraine grain export deal
- Possible second round effects via wages/business margins

# | More employment, but more precarious

In Q2 23, 21.1 million people were employed and the unemployment rate reached 11.6%

Millions employed and % labour force



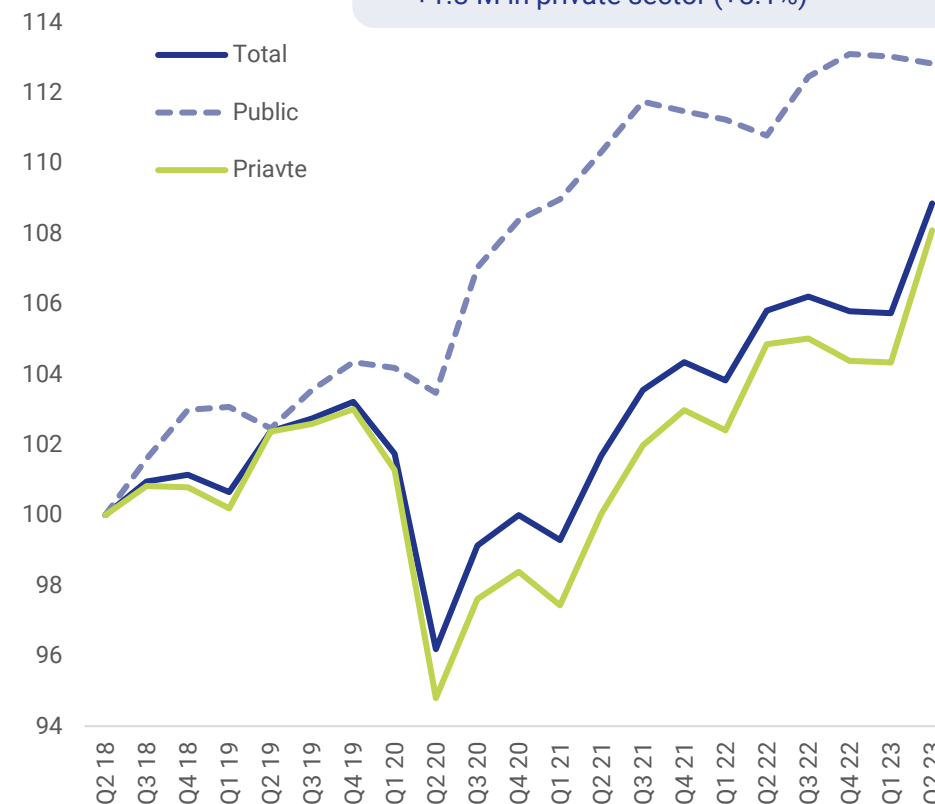
**Services** → 77% of employed, ▲ 10.5 pp r/ 07 (Industry → 12.9% de employed, ▼ 3.3 pp r/ 07)

**Employed part-time** → ▲ 25.7% r/ previous max. Q3 07 (+78.6% in the case of permanent employees)  
92% of part-time employees work in the service sector

Since Q2 18, public sector employment increased by 12.8%, 4.7 pp higher than in the private sector

Q2 18 =100

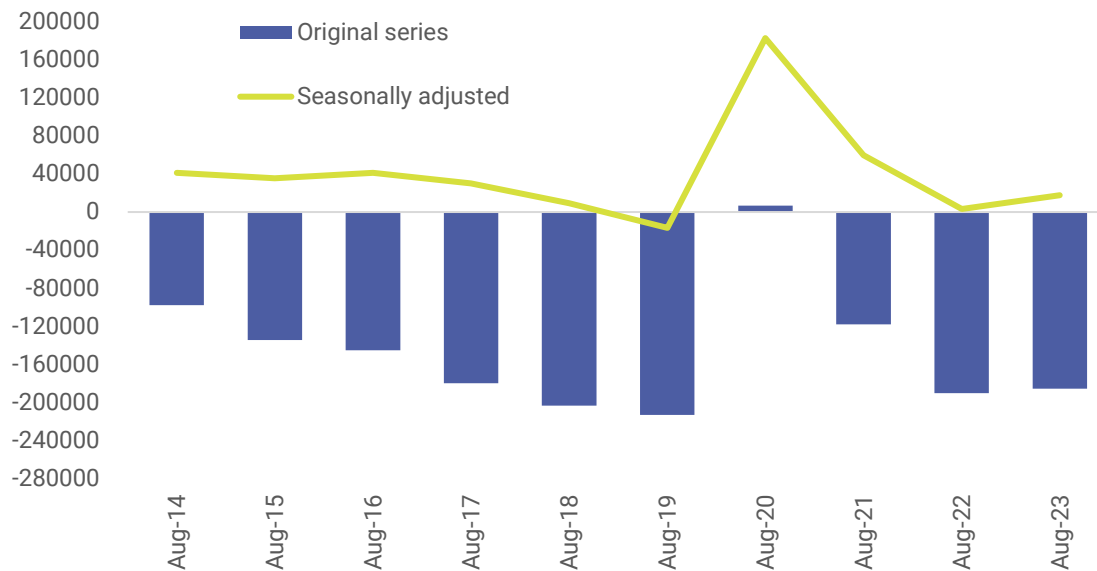
Since Q2 18: ▲ **employed = 1.7 M** (+8.9%)  
• **+400,00 in public sector** (+12.8%)  
• **+1.3 M in private sector** (+8.1%)



# | Loss of dynamism in job creation

In Aug. 23, average Social Security enrollment fell by 185,385 persons r/Jul. 23, mainly in the services sector (-136,535)

Absolute monthly variation in average number of Social Security affiliates in August



Total average number of affiliates Aug.23

**20,706,500**

Original series

20,722,990

Seasonally adjusted

Absolute y-o-y change

**+555,370**

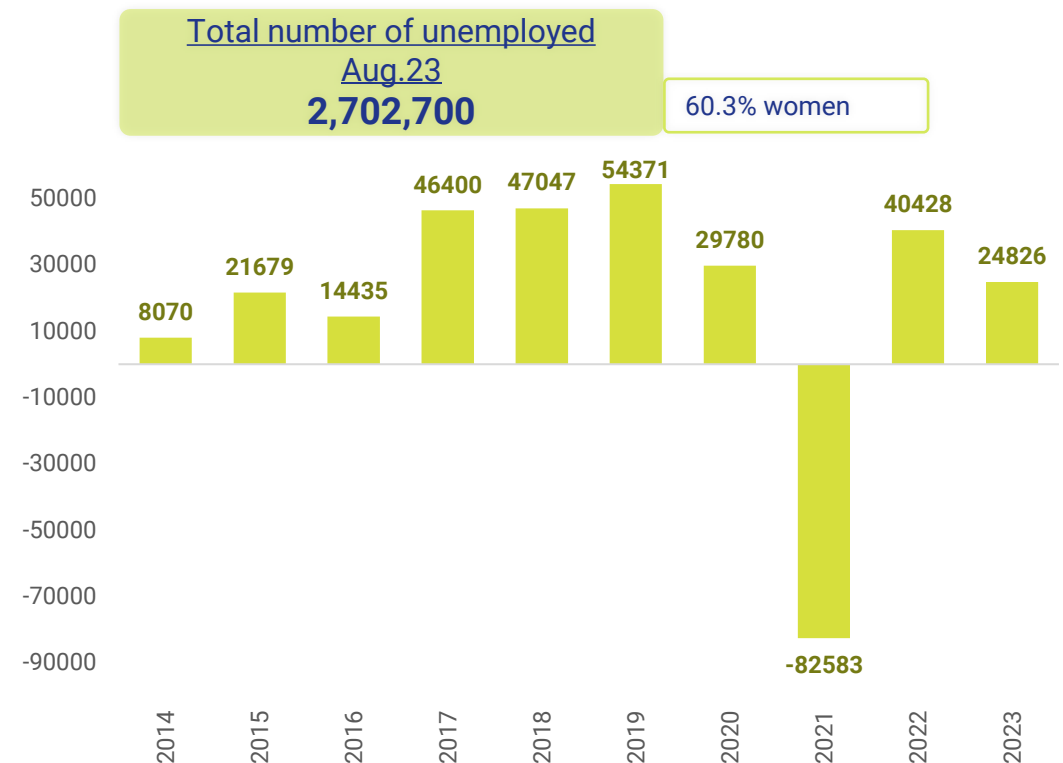
average affiliates r/Aug.22

+549,543

in seasonally adjusted

In Aug. 23, the number of registered unemployed increased by 24,826 compared to Jul. 23, despite not including inactive permanent unemployed

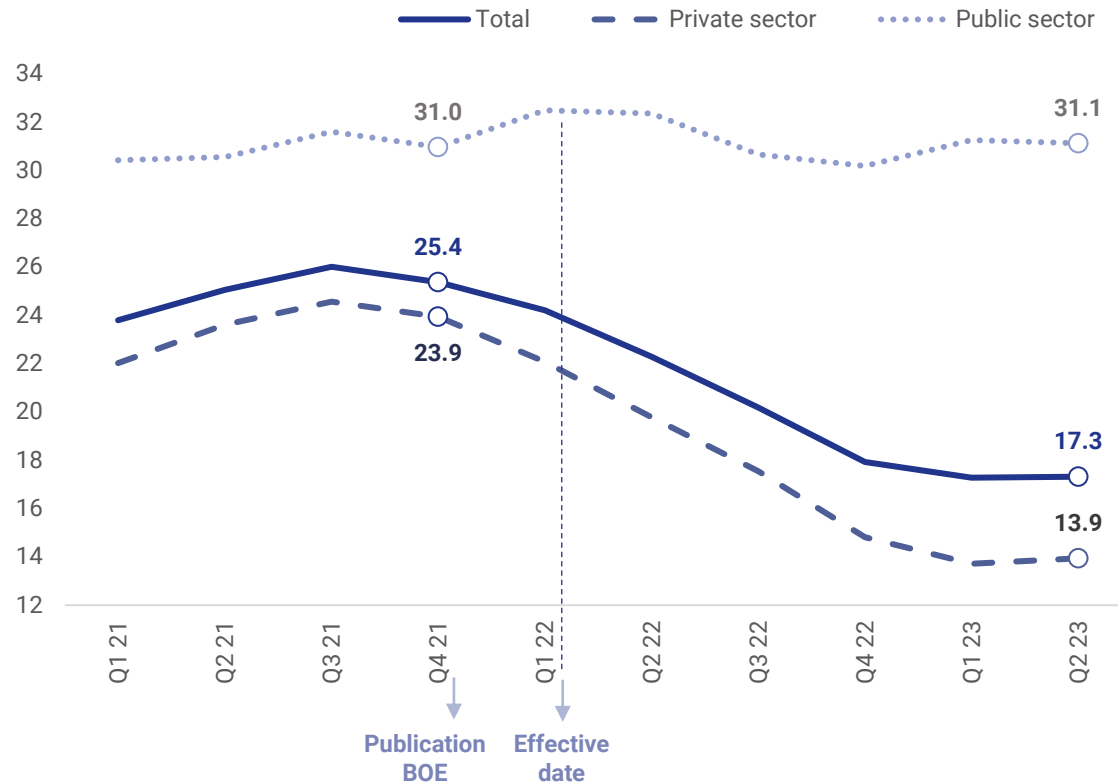
Absolute monthly change in number of unemployed Aug. Original series



# Effects of the labour reform

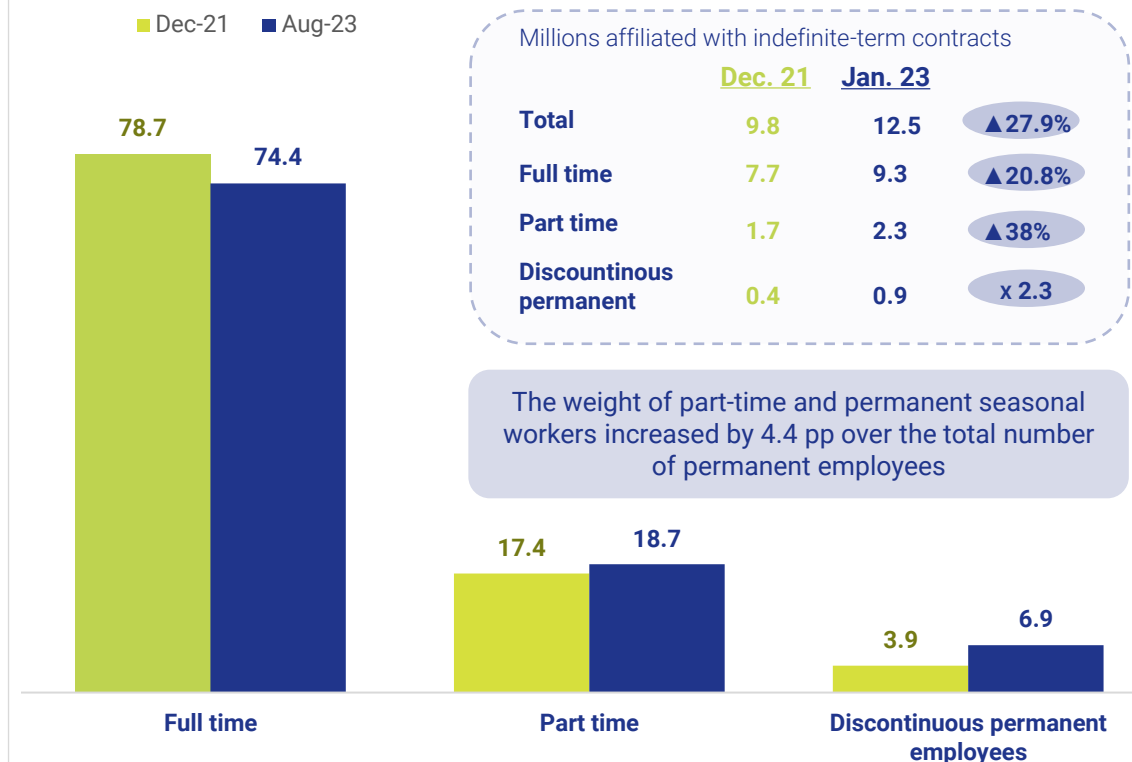
Since the publication of the labour reform in the BOE (30 Dec. 21), the temporary employment rate of employees has fallen 8.1 pp to 17.3% in Q2 23, due to a decrease in the private sector (-10 pp)

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



Between Dec. 21-Aug. 23, the number of workers with fixed-term contracts multiplied by 2.3 and part-time employment grew by 38% compared to +20.8% for full-time workers

% of total affiliates with permanent contracts



# Persistent imbalances in public accounts

The fiscal response to the pandemic accentuated the deterioration of public finances and pushed debt much higher. Fiscal consolidation remains a priority

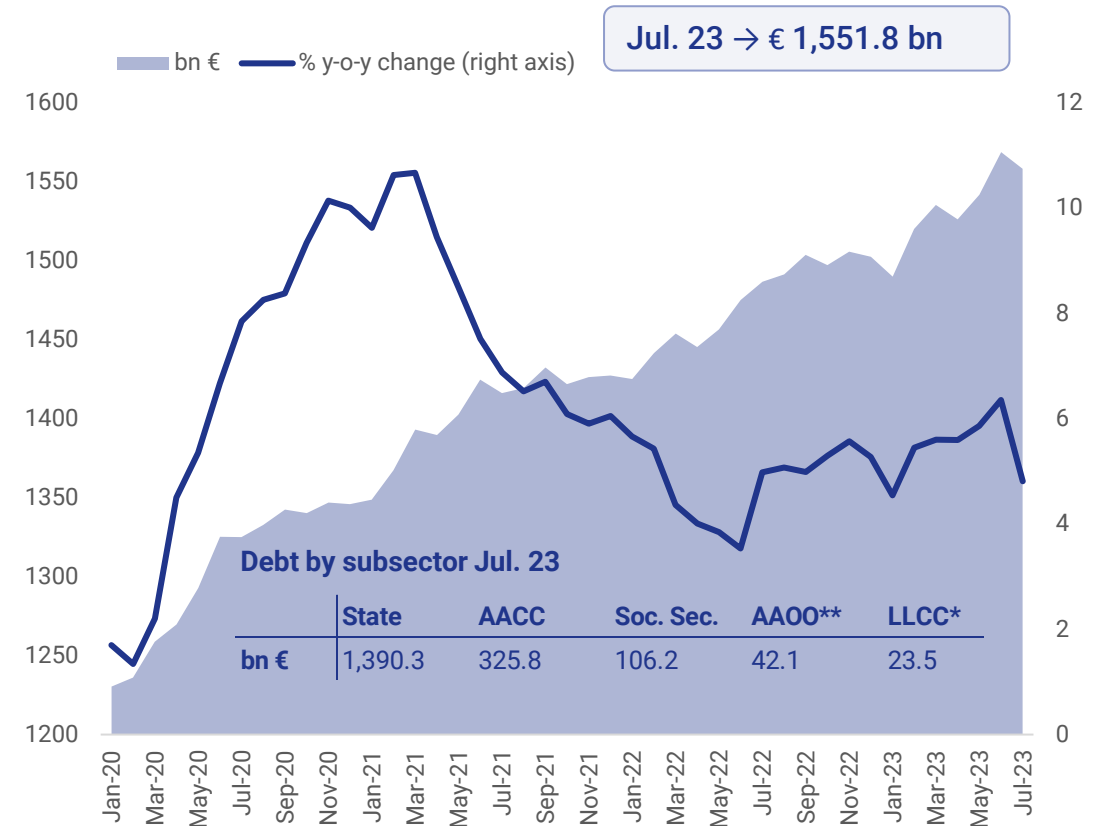
## Consolidated deficit PPAA \*

June ; million €

Reduction in part because income benefits from higher inflation



## Continued increase in public debt



\* In National Accounts terms. Without Local Corporations

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

\*\* AA00: Autonomous Organizations; LLCC: Local Corporations

# | Slowdown in foreign trade

Jan-Jul. 23 trade deficit down 44.6% r/ Jan-Jul. 22

## Jan.-Jul. 23

### Exports

€ 230,397 M

+3.3% y-o-y

### Imports

€ 251,719.9 M

-3.7% y-o-y

### Balance

€ -21,323 M

Energy

€ -19,324 M

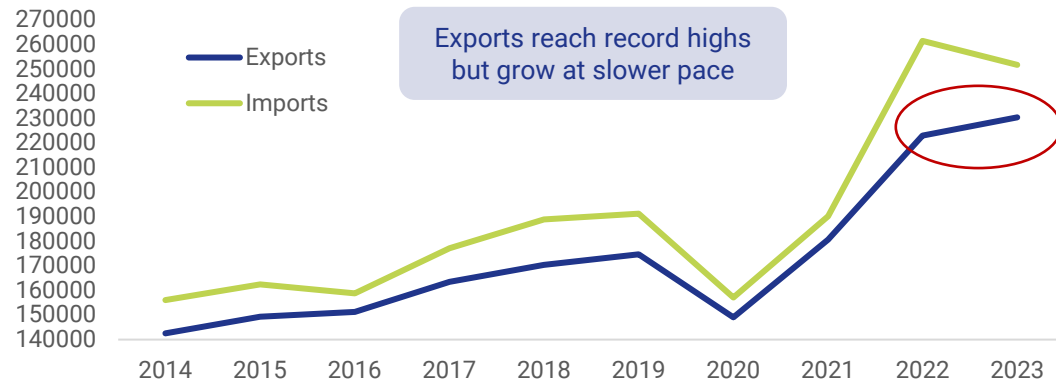
-37.8% y-o-y

Non-energy

€ -1.999 M

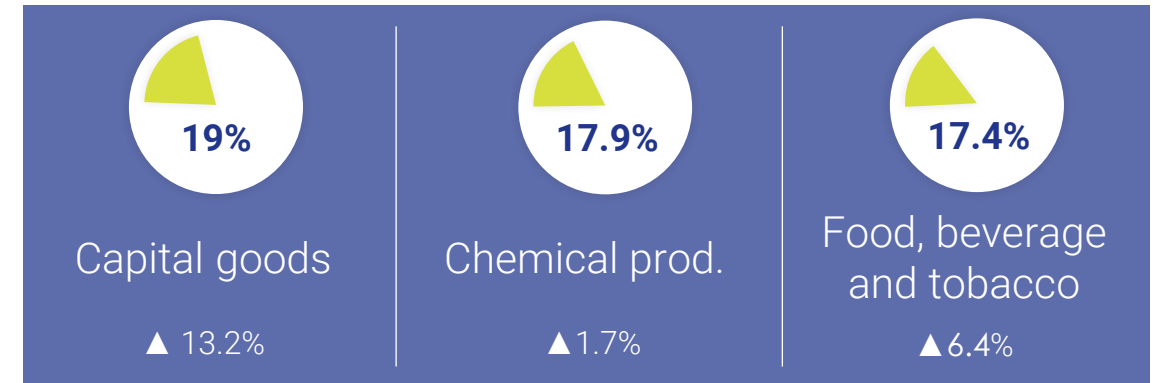
vs. € -7,478.5 M  
Jan.-Jul.22

Million €; Jan.-Jul. each year

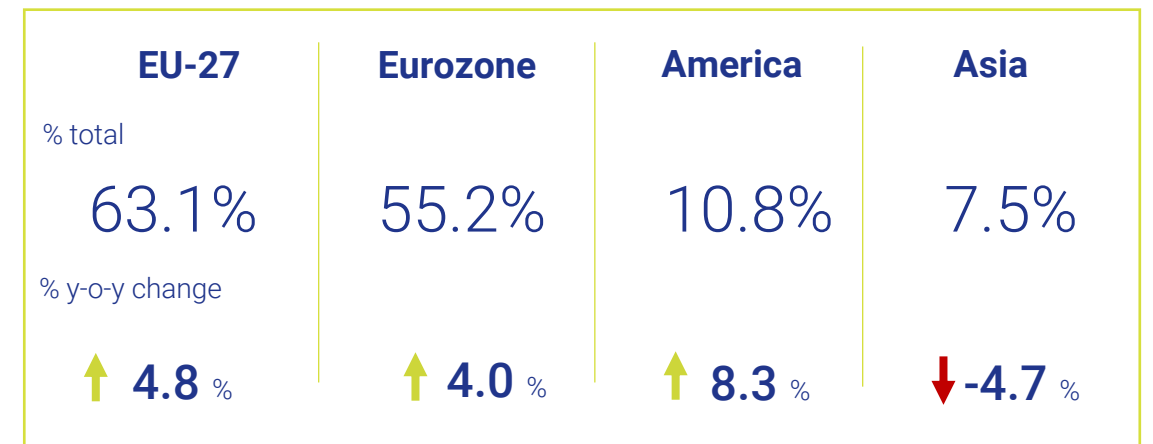


## Top 3 exports by sector

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



## Exports by destination



# Tourism recovers pre-pandemic levels

## International tourist arrivals

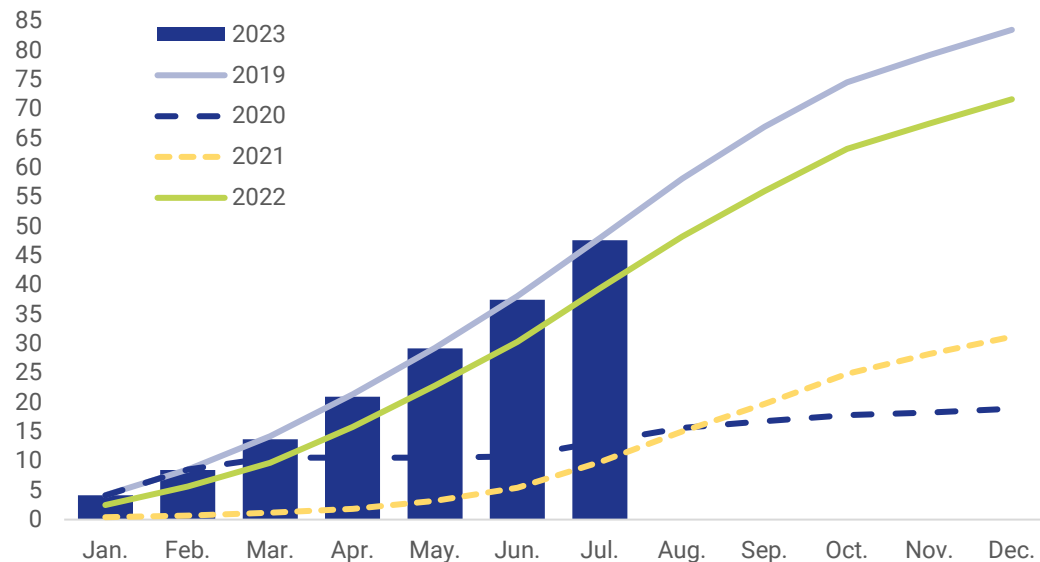
**Jan.- Jul. 23**

In Jan.23-Jul. 23 cumulative tourist arrivals were 0.8% below the level of the same period in 2019

**47,628,867** turistas

**x 1.2**  
times r/ Jan.-July 22

Million tourists



## Tourism expenditure

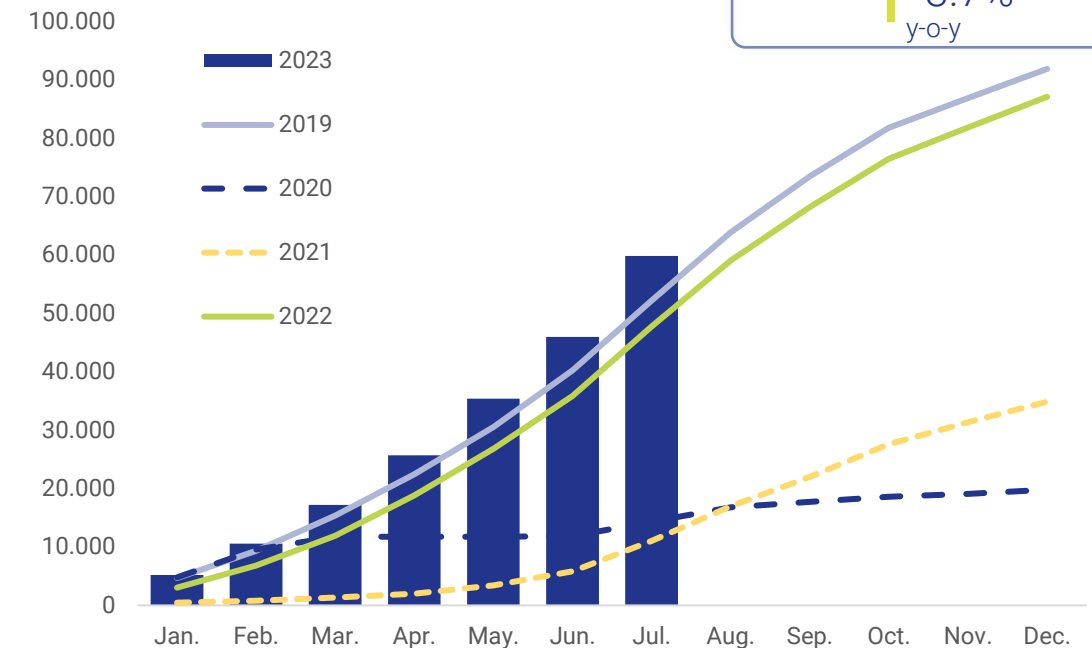
**Jan.- Jul. 23**

**€ 59,863.84 M**

+14.7% r/ same period in 2019

**x 1.3**  
times r/ Jan.-July 22

Million €



**€1,257** per turista  
↑ 3.7%  
y-o-y

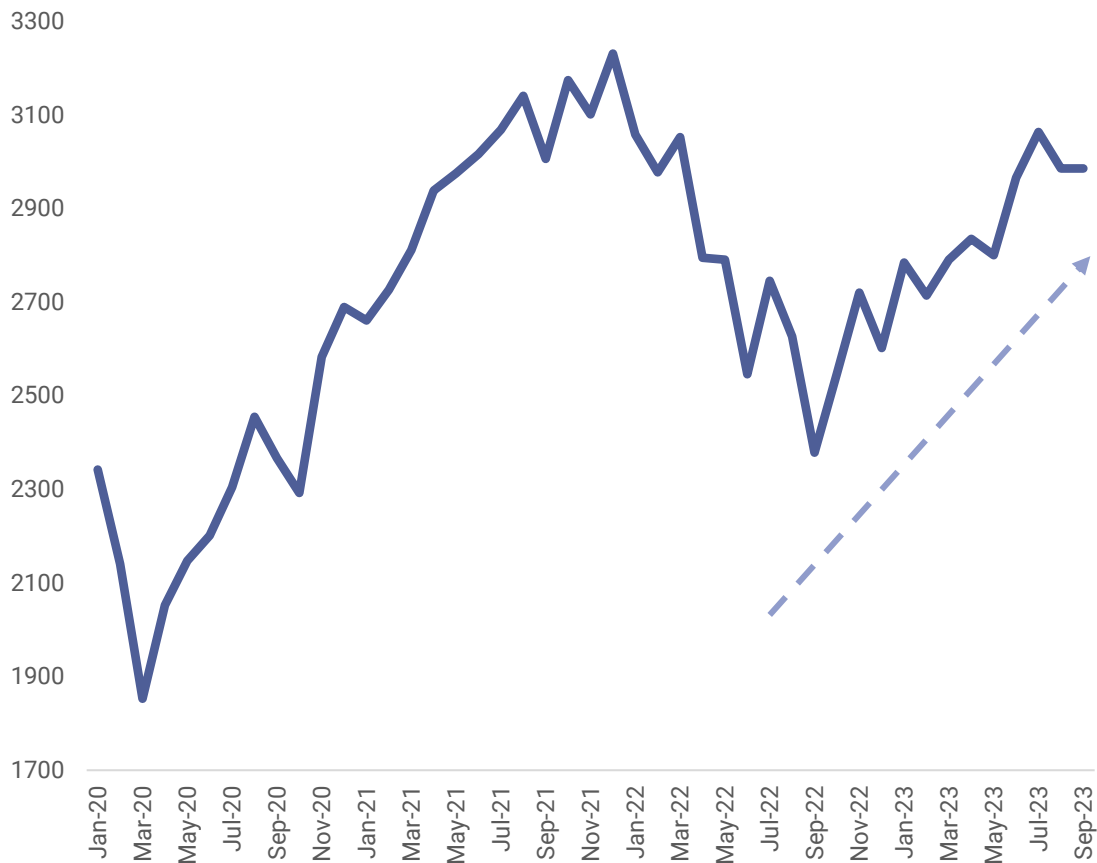


# MARKETS

# | Stock markets: better results than in 2022 and volatility

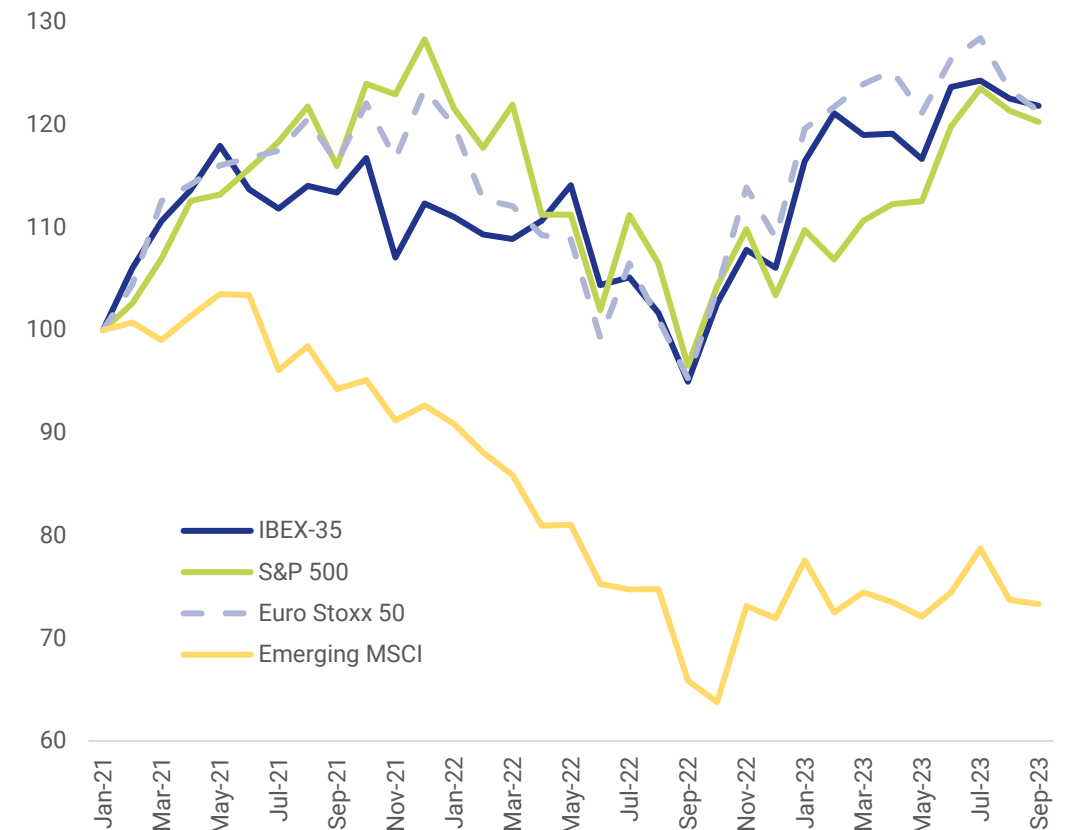
## Recovery of the world stock market index (MSCI World)

Price US\$



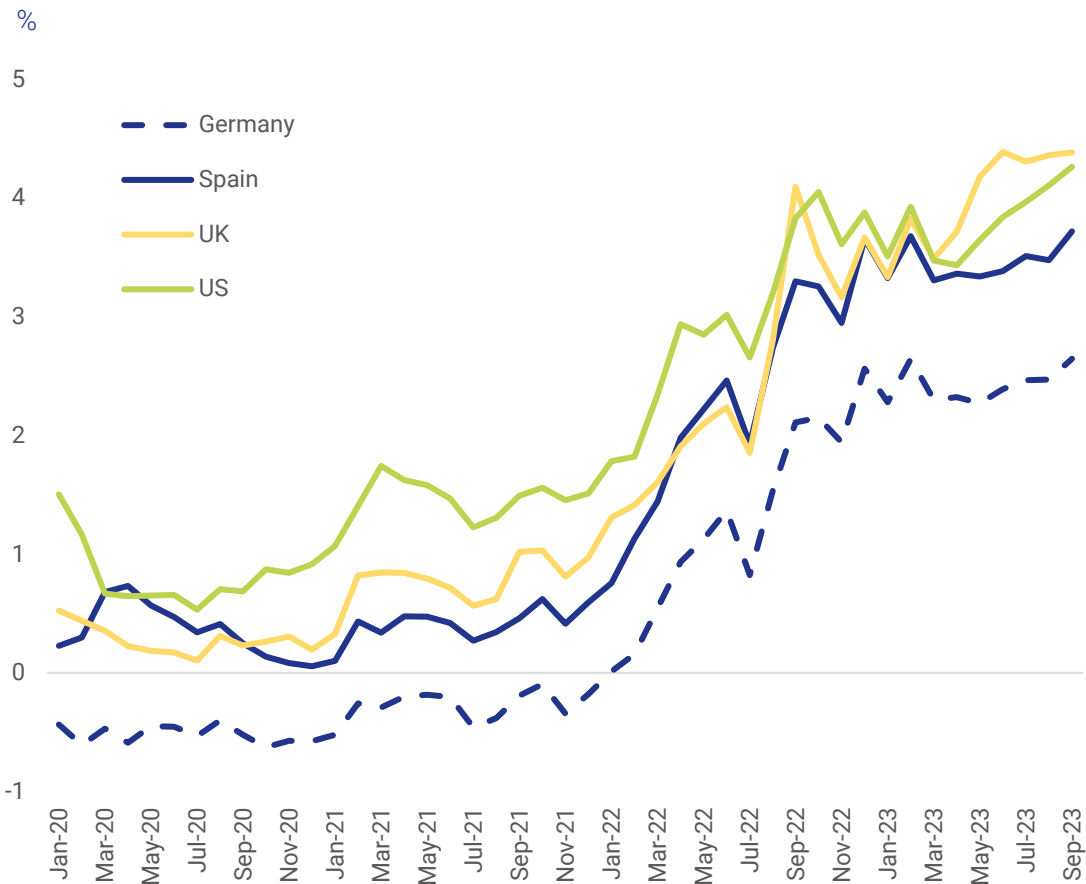
## Markets remain highly volatile

Jan. 2021 = 100



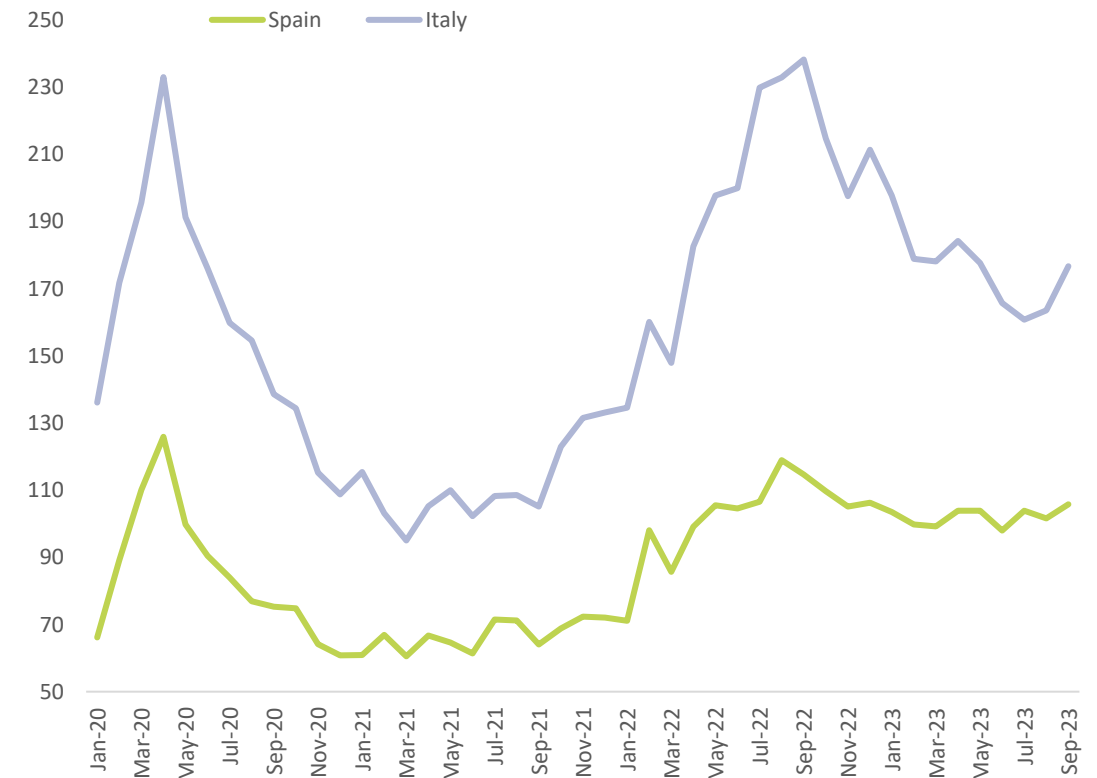
# | Fixed income: profitability gains

Widespread increases in 10-year bond yields, which increase the cost of capital



Increase in Spanish and Italian risk premiums, although they remain at moderate levels

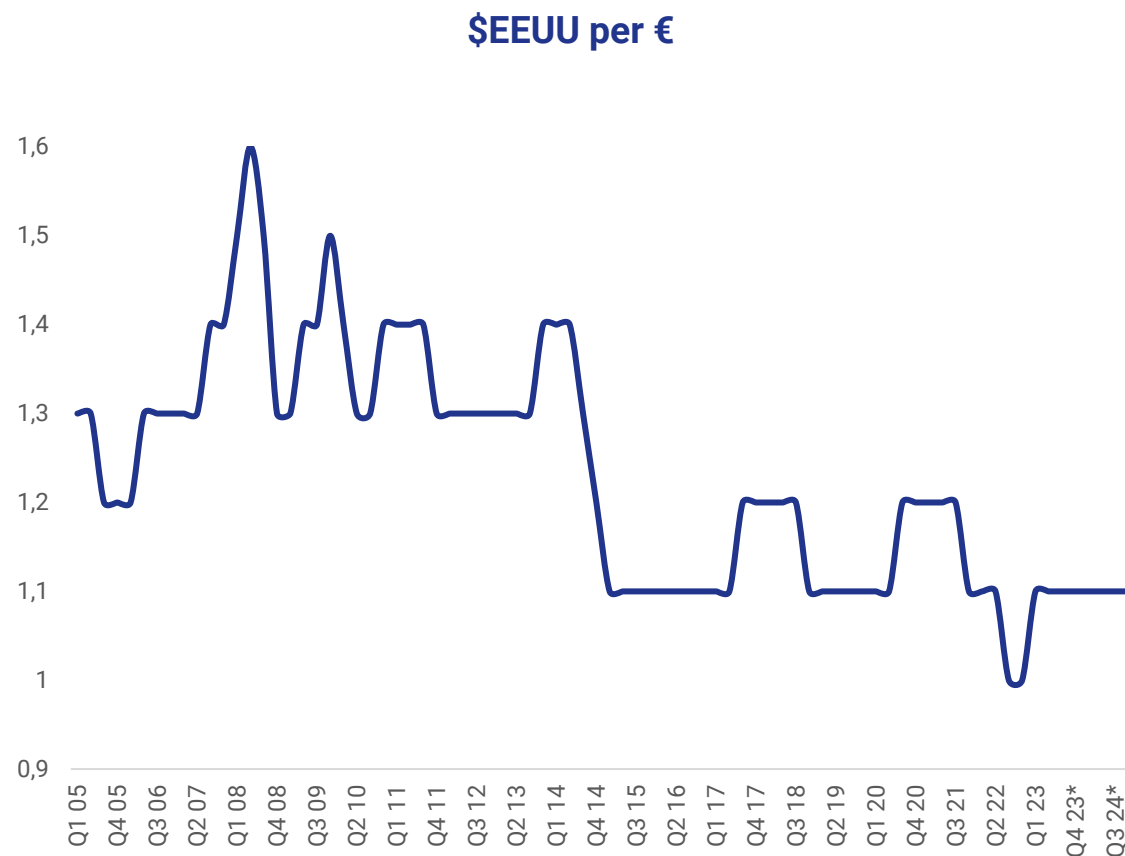
Basic points



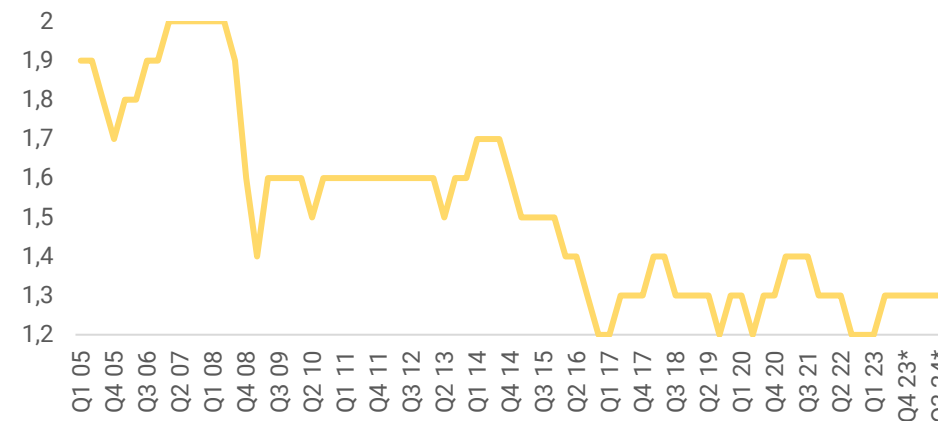
# | Exchange rates - parity €/ \$

Euro recovers, but remains weak against the dollar

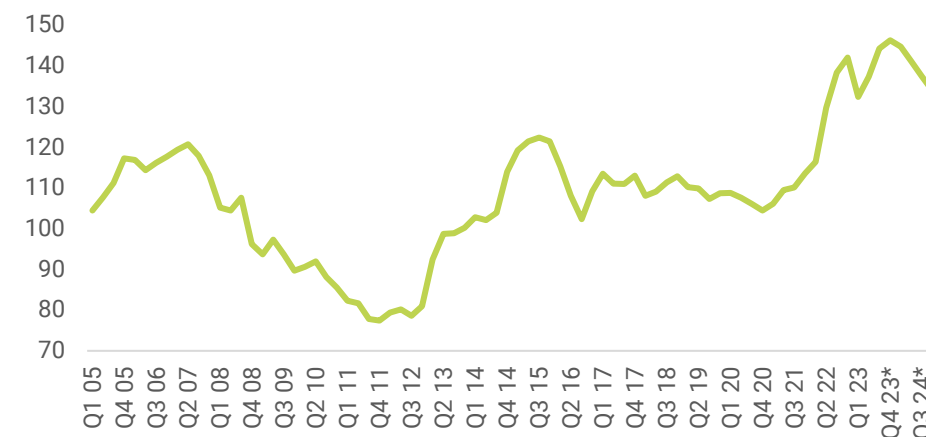
Quarterly €/ \$ exchange rate



**US\$ per Pound**



**Yen per US\$**



# Thank you

