MONTHLY REPORT AND SUMMARY OF ECONOMIC INDICATORS

July-August 2020

MINISTRY
OF ECONOMIC AFFAIRS
AND DIGITAL TRANSFORMATION

STATE SECRETARIAT
FOR ECONOMY AND
BUSINESS SUPPORT
GENERAL-DIRECTORATE OF
MACROECONOMIC ANALYSIS

NIPO: 094-20-099-X

You can view the catalogue of publications at publicacionesoficiales.boe.es

Preparation and coordination: State Secretariat for Economy and Business Support
General-Directorate of Macroeconomic Analysis
Sub-directorate General of Economic Forecasts

MONTHLY REPORT AND SUMMARY OF ECONOMIC INDICATORS[1]

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[1] Statistics published between 6 July and 4 September 2020.

1. Executive Summary

The data published between July and early September continue to show the gradual recovery in economic activity. However, the indicators referring to recent periods, which reflect the economic recovery, coexist with other indicators published later, which record a sharp fall in the second quarter.

In this regard, at the end of July, the National Statistics Institute (INE) published the first estimate for Gross Domestic Product (GDP) for the second quarter, which shows an unprecedented fall in activity. There were noteworthy falls in the sectors most affected by the measures implemented in response to the pandemic, such as retail, transport and hospitality.

Having overcome the stages of the biggest shutdown of the economy, numerous indicators moderated their year-on-year fall in June and July, such as house sales in June and retail sales and tourism data in July. Also noteworthy in June was the widening of the trade surplus recorded by the Spanish economy, particularly the return to year-on-year growth in car exports.

Noteworthy among the more recent indicators, relating to August, was the first increase in workers affiliated to Social Security recorded in an August on record, despite it being a month with unfavourable seasonality. Employment figures therefore continue to recover, with 330,000 new Social Security affiliations since May. In line with this, registered unemployment continued to moderate its year-on-year rise in August.

In the same vein, workers under ERTEs (job-retention schemes) continued to emerge from the temporary suspension, with a total of almost 2.6 million returning to work up to the end of August, although the fall in the number of workers under the schemes moderated over the month.

Car registrations fell in August, after a slight rise in July, albeit at significantly more moderate rates than those recorded in preceding months, while consumer confidence fell for the second consecutive month. Preliminary data on prices show that the fall in the CPI moderated by 0.1 percentage points in August, to -0.5% y-o-y.

For its part, up to the end of August, the COVID-19 Guarantee Line, implemented through the Official Credit Institute (ICO), has acted as a buffer to the fall in companies' revenue by means of over 791,000 operations that have allowed lending to be channelled in an amount of almost 100 billion euros, particularly in the sectors most affected by the pandemic.

These public support measures for the liquidity of self-employed workers and businesses have been supporting lending indicators since the start of the crisis, increasing flows of new credit up to June, although they fell in July.

At an international level, the previous estimate of a sharp drop in GDP for the second quarter in the Eurozone has been confirmed, with a slight upward revision of the data for Germany and the United States, and a downward revision of the data for Italy.

The most recent indicators, relating to August, show a mixed situation, with growth in PMIs in the United States and China, but falls in the Eurozone, including Spain.

Initial claims for unemployment insurance benefits in the United States also continued to fall. At almost 900,000, they remain well above pre-pandemic levels (just over 200,000).

Lastly, inflation in the Eurozone slipped into negative figures in August according to Eurostat estimates. Spain continues to record a favourable differential with regard to the Eurozone, thus maintaining price-competitiveness gains.

2. Financial markets and commodities

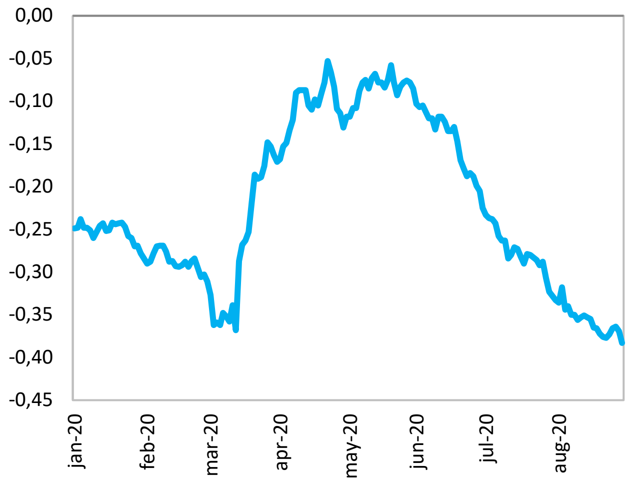
Central banks maintain their stimulus programmes and the Fed relaxes its inflation target

The most important recent monetary policy measure was taken at the end of August following the central bankers' symposium held in Jackson Hole, when the Fed announced the results of the review of its monetary policy strategy. As part of its dual mandate of employment and price stability, the Fed concludes that a robust job market need not cause an outbreak of inflation and it will therefore not respond to *deviations* of employment from its maximum level, but rather to *shortfalls* of employment from its maximum level. With regard to price stability, the Fed maintains its long-term inflation target of 2%, but specifies that, following a period in which it has fallen below that figure, monetary policy should probably aim for rates a little over 2% for a time[2], in order to achieve inflation averaging 2% over time.

At its last meeting in July, the European Central Bank (ECB) kept interest rates unchanged and indicated its willingness to make use of the full 1.35 trillion euros of the Pandemic Emergency Purchase Programme (PEPP).

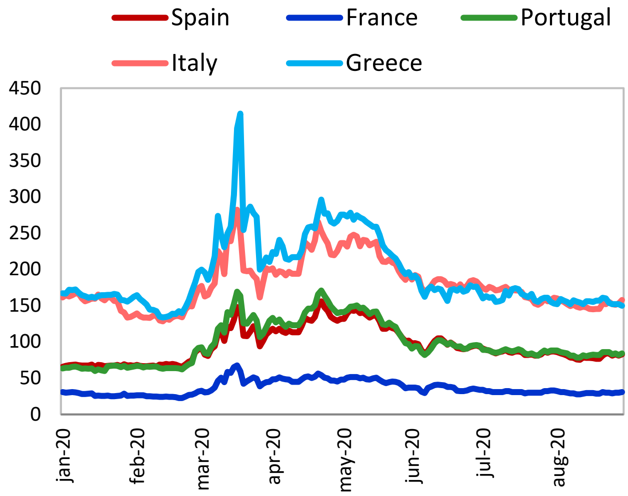
In July and August, the 12-month Euribor interbank market interest rate remained on a downward path, supported by liquidity from the ECB and the reduction of counterparty risk in the market (the Euribor-OIS spread), bringing it back to levels similar to the lows recorded in March. The 12-month Euribor lost 5 points in August and stood at historically low levels, specifically at -0.38%.

Graph 1. ***Euribor 12M***



Source: Reuters.

Graph 2. ***Public debt interest spreads (10-year versus Germany, b.p.)***



Source: Reuters.

Bond yields remain stable compared with the end of June

Government bond yields fell in July, with subsequent upturns in August, with falls of

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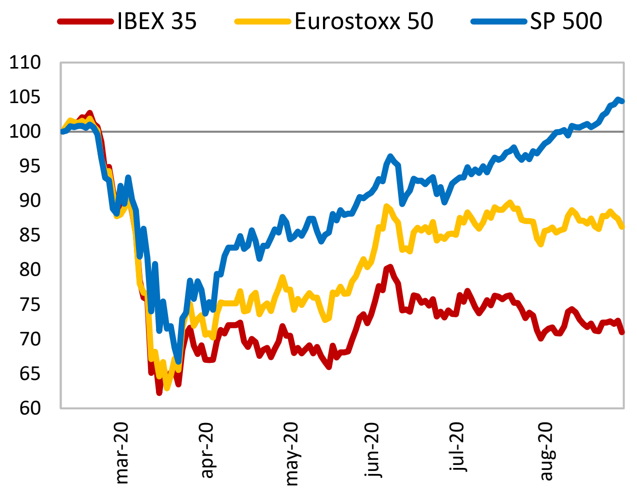
2 https://www.federalreserve.gov/newsevents/speech/powell20200827a.htm

between 2 and 4 bp in the main spreads vs. German bonds. The yield on the Spanish 10-year bond stood at 0.43% and its spread with the German Bund stood at 83 bps on 31 August.

The US stock market rises, while the European market remains flat

US markets have recorded sustained gains over the last two months, despite the spread of the pandemic, supported by the expectation of fiscal stimulus measures and the extension of social protection measures, with the S&P 500 recording an increase of nearly 13% in July and August. In Europe, the Eurostoxx 50 remained relatively stable in July and August (+1.2% at the end of August compared with the end of June), with the IBEX 35 recording a more unfavourable performance (-3.6% - Graph 3 and Table 1).

Graph 3. ***Stock indexes***
(100 = 10. Feb. 2020)



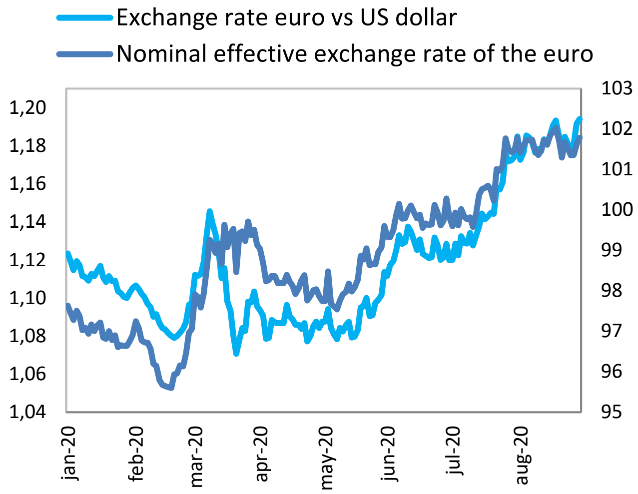
Source: Reuters.

In foreign exchange markets, the euro records gains against the dollar

The euro gained over 3% against the dollar in the second half of July to trade at around 1.18 dollars per euro, against a backdrop of new outbreaks and doubts about the recovery in the United States and optimism about the agreement reached on 21 July on the Recovery Fund in the European Union. It remained relatively stable in August, closing the month at 1.19 dollars/euro.

However, the euro's performance against all currencies weighted for their importance in the Eurozone's external trade has been more moderate. It recorded a slight gain in nominal effective exchange rate terms of around 1% in the second half of July and remained largely unchanged over August.

Graph 4. ***Exchange rates***

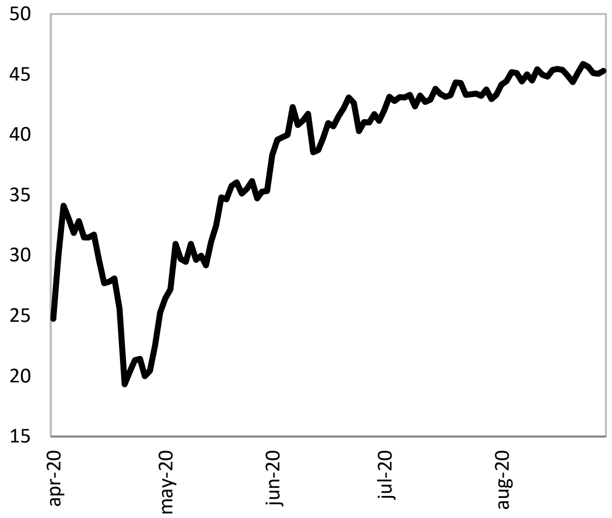


Source: Reuters.

Commodity prices reflect the recovery

In July and August, the average price of Brent maintained a slightly upward trend to stand in a range between 42 and 45 dollars per barrel (Graph 5). The signs of economic recovery, the weakness of the dollar and the new monetary policy measures have sustained the price against a backdrop of major uncertainty about the pace of the recovery in fuel demand. The price of gas has risen significantly since the end of July to stand at 11.2 dollars per MW at the end of August after the lows recorded in June, due to seasonal factors and low prices.

Graph 5. ***Brent oil price***
(USD)



Source: ICE.

The price of gold continued to rise in July, exceeding 2,000 dollars per ounce in early August, a record high. As with other precious metals, it was favoured by low interest rates, although the upward trend has been broken over recent weeks, reflecting a reduction in risk aversion. For their part, industrial metals also continue along an upward path. Copper is now at price levels of two years ago. However, in this case, the strong increase in demand has been accompanied by supply difficulties in certain exporting countries.

The prices of agricultural commodities have also benefited from the weak dollar and increased liquidity in the market, showing upward trends, even in the case of coffee, which had recorded significant falls in June. In this case and in the case of other products, such as cocoa, rising prices also reflect the difficulties in supply from some South American exporting countries, which are particularly affected by the pandemic.

Table 1. ***Financial markets and commodities indicators***

(Percentage points change for interest rates and spreads and percentage change for the rest)

	Level			*Monthly change*	*Accum. Change in 2020*	*Percentage change*
	30-Jun	***31-Jul***	***31-Aug***	***31-Aug***	***31-Aug***	***31-Aug***
Interest rates						
ECB Intervention rate	0.00	0.00	0.00	0.00	0.00	0.00
Euribor rates:						
3 months	-0.42	-0.46	-0.48	-0.01	-0.09	-0.04
12 months	-0.23	-0.33	-0.38	-0.05	-0.13	0.00
10 year Gov. Bond yield:						
Spain	0.47	0.34	0.43	0.09	-0.04	0.29
Germany	-0.46	-0.53	-0.40	0.13	-0.21	0.31
US	0.65	0.54	0.70	0.16	-1.21	-0.80
10 year spreads against Germand bond:						
France	34	33	31	-2	0	0
Spain	93	87	83	-4	17	-2
Portugal	95	88	84	-4	21	0
Italy	179	161	158	-3	-3	-16
Greece	169	153	150	-3	-17	-84
Exchange rates						
Euro/US $	1.12	1.18	1.19	0.8	6.3	8.2
Euro nominal effective	99.84	101.78	101.78	0.0	4.2	3.1
Stock exchange						
USA (S&P 500)	3,100	3,271	3,500	7.0	8.3	19.6
Eurozone (EUROSTOXX 50)	3,234	3,174	3,273	3.1	-12.6	-4.5
Germany (DAX)	12,311	12,313	12,945	5.1	-2.3	8.4
France (CAC 40)	4,936	4,784	4,947	3.4	-17.2	-9.7
Italy (FTSE MIB)	19,376	19,092	19,634	2.8	-16.5	-7.9
Spain (IBEX 35)	7,231	6,877	6,970	1.3	-27.0	-21.2
UK (FTSE 100)	6,170	5,898	5,964	1.1	-20.9	-17.3
China (SHANGHAI COMP)	2,985	3,310	3,396	2.6	11.3	17.7
Raw Material Prices (USD)						
Brent oil ICE	41.2	43.3	45.3	4.6	-31.4	-25.1
Natural Gas TTF	6.2	6.0	11.2	86.6	-6.7	-12.2
Copper	6,038	6,434	6,728	4.6	9.3	18.5
Iron	1,602	1,686	1,762	4.5	-2.1	2.9
Gold	1,782	1,969	1,966	-0.2	29.2	29.2

Sources: European Central Bank, Reuters, Intercontinental Exchange, London Metal Exchange.

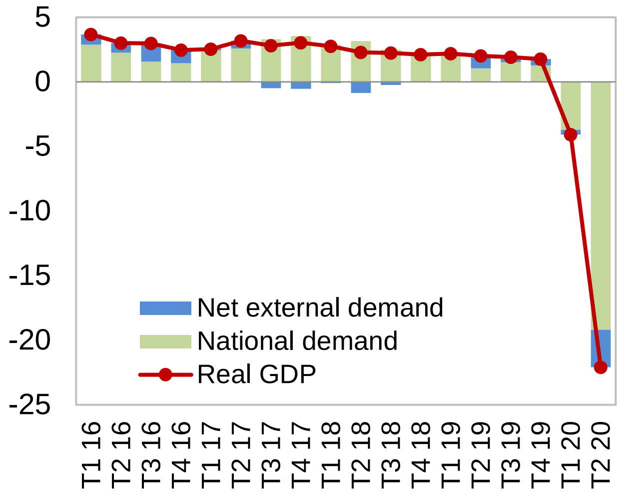
3. Spanish economy

3.1. Major impact of COVID-19 in the second quarter

GDP falls 18.5% quarter-on-quarter in the second quarter

According to the flash estimate of the Quarterly National Accounts (QNA), published on 31 July, GDP recorded an unprecedented fall of 18.5% q-o-q in the second quarter (22.1% y-o-y) due to the measures taken to prevent the spread of COVID-19, which involved significant restrictions on the mobility and economic activity.

Graph 6. ***GDP growth***
(% y-o-y change and pp contribution)



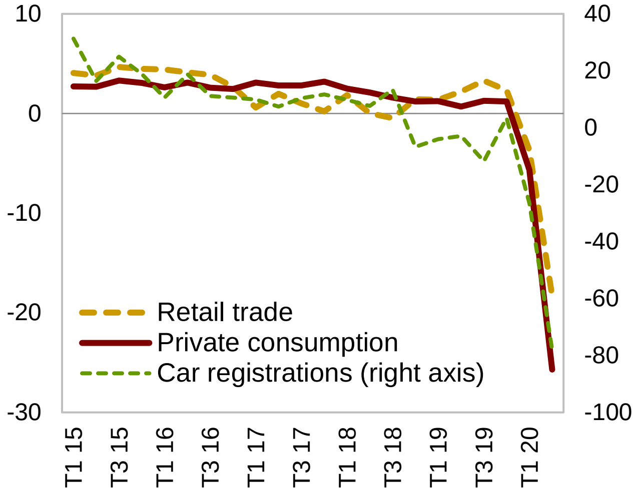
Source: QNA (INE)

Domestic demand contributed most to the y-o-y change in GDP in the second quarter (Graph 6), with -19.2 pp, due to the sharp contraction in private consumption and investment. The contribution of net external demand was -2.9 pp, 2.5 pp less than in the first quarter, as exports fell at a higher rate than imports.

Private consumption and investment lowered the GDP y-o-y change by 19.8 points in the second quarter of the year

By component, private consumption, after falling by 5.7% y-o-y in the first quarter, dropped by 25.7% in the second quarter of 2020, and subtracted 14.5 points from the change in GDP. It was affected by the supply restrictions associated with the measures applied to reduce national and international mobility to slow down the rapid spread of the virus and by the loss of jobs and income linked to the stoppage of activity, which was largely mitigated by measures implemented in relation to labour flexibility.

Graph 7. ***Private consumption indicators***
(% y-o-y change)



Sources: QNA (INE), ICM (INE) and ANFAC

Gross fixed capital formation fell by 26.8% (compared with the previous -6.5%), mainly as a result of the sharp fall in the components of capital goods and cultivated assets and construction (both almost -31%) and, to a lesser extent, the fall in investment in intellectual property products (-6.5%). The components of the construction category recorded a similar fall in the aggregate figure: -31.6% for real estate investment and -30% for other buildings and constructions.

According to the short-term information on investment for the second quarter, the sharp fall in domestic sales of equipment and software by large companies in April (-43.2% y-o-y) began to taper off in May and June (-27.3% and -9.9%, respectively). Regarding residential investment, the main indicators based on the number of registrations in Property Registries, –both the number of mortgages established on residential properties and the sale of new residential properties, suffered the major impact of the crisis in April (-18.4% and -41.3%, respectively). They then recorded the sharpest falls in May (-27.6% and -48.7%), while in June these rates fell by practically half (-12.7% and -24.5%).

Public consumption continued to grow at a high rate (3.5%, similar to the 3.6% of the previous quarter), affected by the package of measures implemented by the government in response to the pandemic.

The shock to productive activity and the blockage of value chains at a global level explain the sharp falls in foreign trade in the second quarter

With regard to the external sector, the negative contribution of net external demand to the y-o-y change in GDP in the second quarter (-2.9 pp) was the result of exports falling at a faster rate (-38.6%, 32.5 points sharper fall than that of the previous quarter) than imports (-33.1%, 27.6 points sharper). In both cases, the services component, mainly tourism, made a more negative contribution than the goods component.

Customs figures also show the impact of COVID-19 on the foreign trade of goods over the second quarter, with exports and imports recording y-o-y falls of 27.7% and 28.9% in real terms, respectively (-3.5% and -5.6% in the previous quarter).

By destination group, there was a noteworthy fall in foreign trade of non-food consumer goods (-44.4% in exports and -47% in imports), followed by capital goods (-20.8% and -26.4%) and intermediate goods (-27.6% and -25.4%). With nominal data, the items that fell most were oil and oil derivatives and those related to transport material.

Foreign trade in services was affected between April and June by application of strict measures restricting national and international mobility which led to the paralysis of the tourism sector causing a dramatic fall in spending by non-resident households in the economic territory (-93.7% y-o-y).

All non-agricultural sectors are contracting, particularly the industries most affected by social distancing measures.

From a supply-side perspective, gross value added (GVA) fell sharply in the second quarter of 2020 in all non-agricultural sectors (Table 2), most notably construction (-29.9% y-o-y), followed by industry (-23.8%) and services (-22%). By sections, there were significant falls in retail, transport and hospitality (-46.4%) and artistic and recreational activities and other services (-39.5%). Growth in the agricultural sector accelerated by 7.1 points to 7.4%. Taxes on products net of subsidies fell by 23.4% y-o-y, 16.2% more than in the previous quarter.

Table 2. ***GVA by* activity *sections***
(% y-o-y change, second quarter of 2020)

Agriculture	7.4
Industry	-23.8
Construction	-29.9
Retail, transport and hospitality	-46.4
Information and communications	-15.1
Financial and insurance activities	9.9
Real estate activities	-4.8
Professional, scientific and technical activities	-31.8
Public administration, education and health	0.1
Artistic and recreational activities and other services	-39.5
Net taxes on products	-23.4
Gross Domestic Product	**-22.1**

Source: QNA (INE)

The implementation of flexibility measures has softened the fall in employment in comparison with previous crises

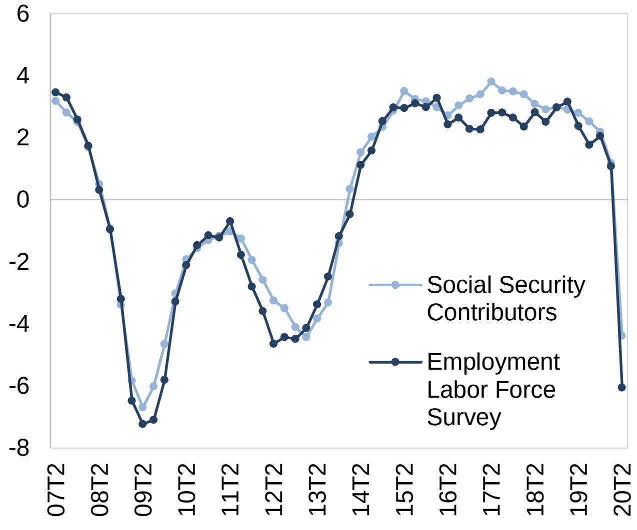
Second quarters tend to show the most favourable performance in terms of employment, with an average quarterly increase in 2015-2019 of 372,400 people, mainly due to the hospitality industry, according to the Labour Force Survey (LFS).

In the second quarter of 2020, however, the impact of COVID-19 dominated the evolution of employment, which contracted by 1,074,100 people (-5.46%), compared with the previous period, the largest quarterly fall on record, to a total of 18,607,200 people. It should be noted that this fall does not include workers joining job-retention schemes (ERTEs), who are considered employed as they maintain their employment relationship according to Eurostat methodology.

With the series adjusted for seasonality by the INE, the contraction amounted to 1,337,600 people (-6.73%, following -0.41% in the first quarter).

In y-o-y terms, and using unadjusted data, employment fell by 1,197,700 people, a y-o-y rate of -6.05% (+1.1% in the first quarter), the first fall since 2014. This deterioration is in line with, but sharper than, that recorded by Social Security affiliations (-4.4% in the second quarter, after growing by 1.2% in the first quarter – Graph 8).

Graph 8. ***Employment: LFS and SS affiliations***
(% y-o-y, quarterly data)



Sources: INE and Social Security.

By industry, almost all sections contribute to the fall, but particularly hospitality (-21.8% y-on-y), followed by retail (-5.6%) and manufacturing (-4.4%).

Among salaried employees, four fifths of the fall is concentrated in temporary workers (-929,100 people, -21.1% y-o-y), although permanent workers also fell sharply (-232,300 people, -1.9%).

As a result, the temporary employment rate fell sharply, by four points, the largest fall on record, to 22.4%, the second lowest figure after that recorded in the first quarter of 2013 (21.9%).

By working hours, almost two thirds of the fall in employment is concentrated in full-time employment (-732,300 people, -4.3%), although part-time employment also recorded a sharp fall (-465,400, -15.8%), placing the part-time employment rate at 13.4%, the lowest figure for the second quarter since 2011.

The total hours actually worked fell by 26.6% y-o-y (-4% in the previous quarter), the sharpest fall on record. The average number of effective hours worked per week in the main job by employed people stood at 36.1, 0.5 points lower than one year earlier (36.6).

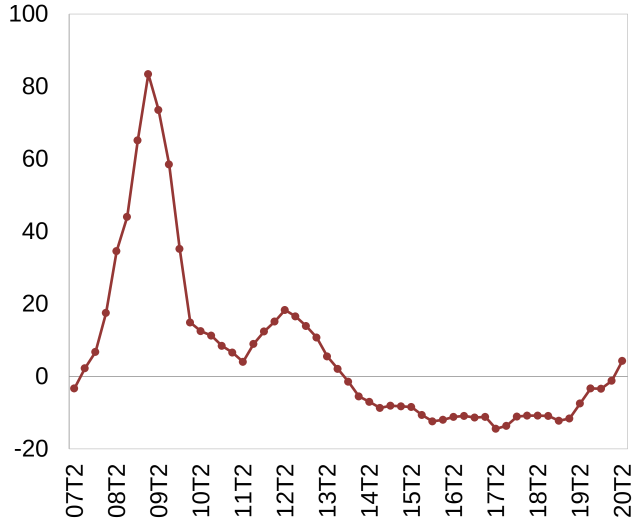
Unemployment grew and inactivity rose in the second quarter

Unemployment rose by 55,000 people in the second quarter of 2020 compared with the previous quarter (1.66% quarter-on-quarter), compared with an average fall of 256,500 people in the second quarters between 2015 and 2019, to stand at 3,368,000 people.

With the series adjusted for seasonality by the INE, unemployment grew by 192,700 people, 6.03%.

Graph 9. ***Unemployment***

(% y-on-y)



Source: INE.

In y-o-y terms, and using unadjusted data, unemployment grew by 137,400 people, 4.3% y-o-y, the first rise since 2013 (-1.2% in the previous quarter).

The unemployment rate rose by 1.3 points in the second quarter compared with a year earlier, to stand at 15.33% of the active population.

By the degree of labour market attachment, the active population fell by 4.6% y-on-y (-1,060,300 people), the highest rate of decline on record. For its part, the inactive population grew by 8.7% (+1,411,100 people), which was not to a significant extent due to discouraged workers (+23,500), but rather to the other potential active population (+1,032,900).

3.2. The economy continues to improve in the third quarter

Production and demand indicators continue to offer favourable results

On the demand side, most recently published short-term indicators continue to show positive signs that point to the consolidation of the economic recovery.

With regard to private consumption, the y-on-y rate of decline of the general retail trade index moderated its rate of decline by 0.8 points in July to stand at -3.9%, mainly as a result of the lower fall in the food component (-1.4%, compared with -2.7% in June). In contrast, registrations of cars and SUVs fell by 10.1% y-on-y in August, after a slight gain in July (+1.1%), although the fall was more moderate than in previous months (-36.7% in June and -72.7% in May).

Among the most recent activity indicators, the Manufacturing PMI fell by 3.6 points in August, interrupting the gains of the previous three months, to stand at 49.9 points, while the Services PMI, following two months of growth, fell by 4.2 points in August, to a level of 47.7, mainly as a result of the lack of new orders due to fluctuating demand. After recording an increase of almost 13 points in June, the European Commission's confidence indicator for the construction sector fell slightly in July and August (0.9 and 5.9 points, respectively) as a result of worsening employment expectations, partially offset by the improvement in the order book.

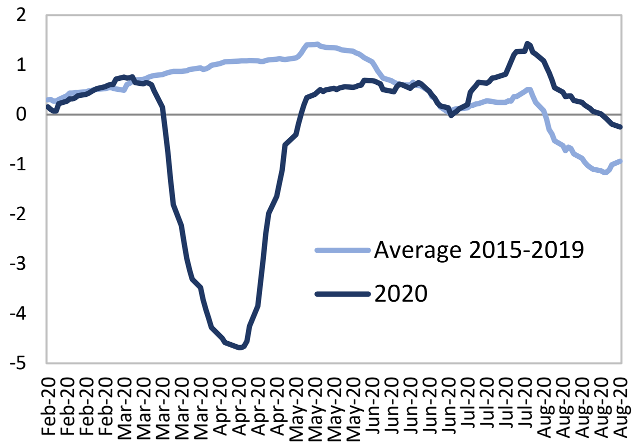
With regard to the tourism sector, Spain received 2.5 million international tourists in July, a fall of 75% y-on-y, almost 23 points lower than in June. Total spending by tourists visiting Spain in July amounted to 2.45 billion euros, 79.5% down on the previous year. As a result, average spending per tourist fell by 17.8% to 994 euros.

With regard to overnight stays, both hotel and non-hotel stays continued to moderate their annual rate of decline in July (-73.4% and -49.9%, respectively, compared with -95.1% and -84.6% in June), with 62.5% and 66.8% of all establishments opening (31.1% and 30.3% in June), with occupancy rates of 35.6% and 80.2%, respectively, (18.8% and 39.2% in June).

Employment continues to recover the ground lost during the lockdown

The average number of Social Security affiliations stood at 18,792,376 in August, an increase of 6,822 people (0.04%) on July, the first in a month of August on record (-174,950 on average in 2015-2019, 0.9% – daily changes in Graph 10).

Graph 10. ***Social Security affiliations***
(% month-on-month, 7-day moving average)



Source: MISM.

There was therefore a slight increase in employment in a month that has the most unfavourable seasonality of the year, together with January, which is traditionally associated with the loss of Social Security affiliations in most sectors, particularly education.

Therefore, as usual, the largest loss in the number of Social Security affiliations in August 2020 was recorded in education (-35,574 compared with July) as a result of the school holidays, although the fall was smaller than in previous years (-59,483 on average in 2015-2019).

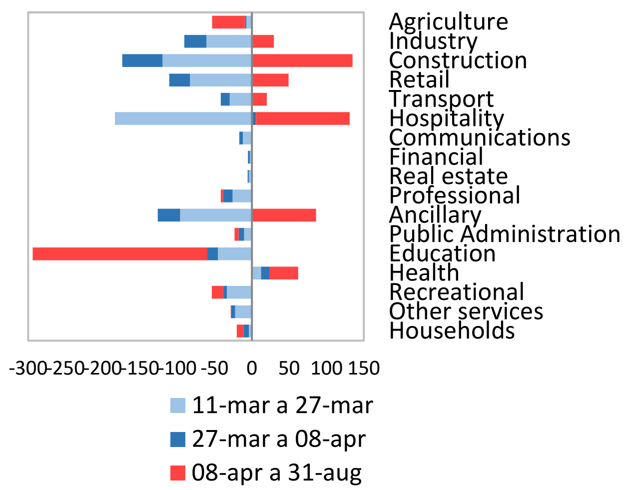
The biggest increase was recorded in health and social services (31,711 more affiliations, almost double the August average of +16,739 between 2015 and 2019), followed by hospitality (+25,685 affiliations, three times more than the average for the previous five years).

With a seasonally-adjusted series, the month-on-month rise was 232,664 people, a rate of 1.3%, 0.4 points higher than that of July (0.9%).

In y-o-y terms, the fall in affiliations amounts to -527,851, -2.73%, a rate of decline that is 1.1 points lower than in July (-3.83%), in line with an m-o-m increase higher than that of the same month in the previous year.

All sections contributed positively to the rate of change, which was especially high in education and ancillary services, followed by construction, agriculture and hospitality (Graph 11).

Graph 11. ***Social Security affiliations according to activity section***
(change in thousands)



Source: MISM.

By contract type, the y-o-y rate of growth in temporary contracts moderated its rate of decline by 2.9 points to stand at -13.1%. The number of affiliations under permanent contracts accelerated by 0.2 points, to 1.3%. Registered self-employed workers remained stable compared with a fall of 0.5% in the previous month.

The number of workers under job-retention schemes (ERTEs) continues to fall, although at a slower rate in August than in previous months.

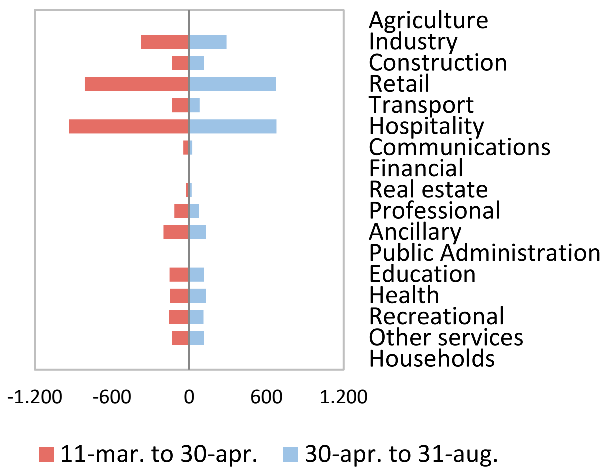
The number of workers under job-retention schemes (ERTEs) stood at 812,438 at the end of August, a fall of close to 2.6 million people from the highs of the end of April (3,386,785), -76%.

In August as a whole, the average rate of workers leaving job-retention schemes stood at 14,900 per day, half the rate recorded in July (-32,400).

By sectors, in the final days of August, the sectors that most contributed to the reduction in workers under job-retention schemes were hospitality and retail. However, the hospitality sector remains the one with the highest concentration of workers under job-retention schemes (254,010, 31% of the total), followed by retail (137,941, 17%). The proportion of workers under job-retention schemes stands at 21% in the hospitality sector compared with figures of over 80% at the start of May.

Graph 12. ***Workers under job-retention schemes***

(change in thousands)



NB: *Negative figures are interpreted as activity interruption and positive figures as activity recovery.*

Source: MISM.

In August, registered unemployment fell in seasonally-adjusted terms

Registered unemployment stood at 3,802,814 people at the end of August, recording a m-o-m rise of 29,780 people (+36,786 on average in the months of August 2015-2019, +54,371 in 2019). In seasonally-adjusted terms, registered unemployment fell by 34,371 people (-0.9%, after -2% in July).

In y-o-y terms, registered unemployment has risen by 737,010 people, a reduction of 1.3 points in y-o-y rates, to 24.04% (25.29% in July), a slowdown to which all industries contributed, especially those from the services sector.

The distribution of COVID-19 guarantees continues growing and focuses on the sectors most affected by the crisis

The COVID-19 Line of Guarantees, implemented through the ICO in order to contribute to the system's liquidity, totals up to 31 August over 791,000 operations of self-employed workers and companies, for an amount of 75.14 billion euros, enabling the channelling of 98.88 billion euros in lending.

Table 3 shows that the companies and businesses falling under the category of retail, transport and hospitality received the highest volume of lending (42.4 billion euros, through 371,911 operations), followed by industry (21.65 billion euros, through 101,483 operations).

Table 3. ***ICO COVID-19 Line of Guarantees***

Industries	*No. of operations*	*Million euros*
Agriculture	34,624	2,937
Industry	101,483	21,649
Construction	76,360	9,414
Retail, transport and hospitality	371,911	42,403
Information and communications	17,257	2,692
Financial activities	3,603	748
Real estate activities	19,213	2,069
Professional, scientific, technical and other activities	87,830	11,003
Public administration, education and health	34,287	2,735
Artistic and recreational activities and other services	45,107	3,228
Total economy	791,675	98,878

Source: compiled by the author on the basis of ICO data (as at 31-Aug-2020).

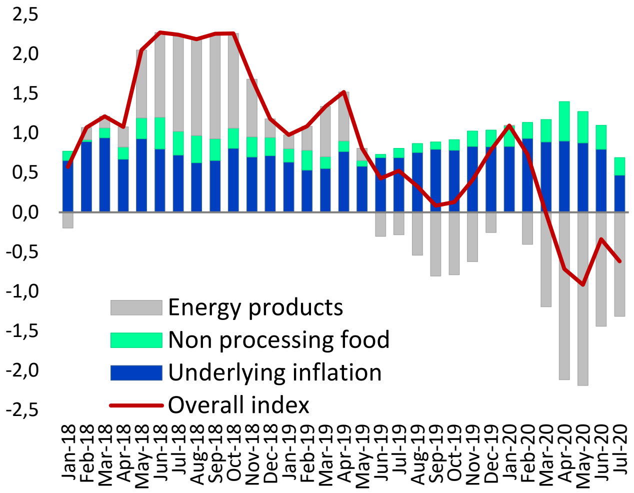
Energy continues to mark the evolution of prices

The change in the consumer price index (CPI) in July stood at -0.6% (-0.3% in the preceding month). This was entirely the result of the energy component, whose prices fell by 10.7% (-11.9% in June).

Inflation was also marked by services (0.4%, after 1.3% in June) and, in particular, accommodation services, whose prices recorded the largest y-o-y fall on record, -11.1% (compared with +3.3% in June). As a result of this change in the prices of accommodation services, core inflation, which excludes energy and unprocessed food, also moderated its growth rate, by 0.4 points, to 0.6%, the lowest rate since July 2016. This was also the result of processed food prices, which moderated their growth by 0.3 points to 1.4%. The prices of non-energy industrial goods grew by 0.4%, 0.3 points more than in June. The y-o-y increase in unprocessed food prices also continued to moderate, by one point, to 3.1% (Graph 13).

Graph 13. ***General inflation***

(% y-o-y of total and contributions)



Source: INE.

In harmonised terms, the CPI fell by 0.7% y-o-y in July according to the INE, compared with the 0.4% increase in the Eurozone according to the Eurostat flash estimates, thus resulting in an inflation differential favourable to Spain of 1.1 points, half a point higher than the previous month[3]. Spanish core inflation stood at 0.4% in July, 0.9 points lower than in the Eurozone.

In August, the change in the CPI puts inflation at -0.5%, which means a moderation of 0.1 points in the y-o-y rate of decline with respect to July, mainly as a result of the rise in electricity prices.

The COVID-19 crisis continues to have an impact on the widening of the public deficit

Up to March of this year, the State deficit had been following a similar path to that of last year in aggregate terms, although the impact of the crisis on certain items, such as VAT and social benefits started to be noticed in that month.

However, it was from April onwards that the impact of COVID-19 started to be felt most strongly in the public accounts, with this effect further intensified in May and June. The accumulated State deficit in the first six months of 2020 stood at -4.36% of GDP (-0.83% a year earlier and -2.95% for the accumulated deficit up to May - Graph 14).

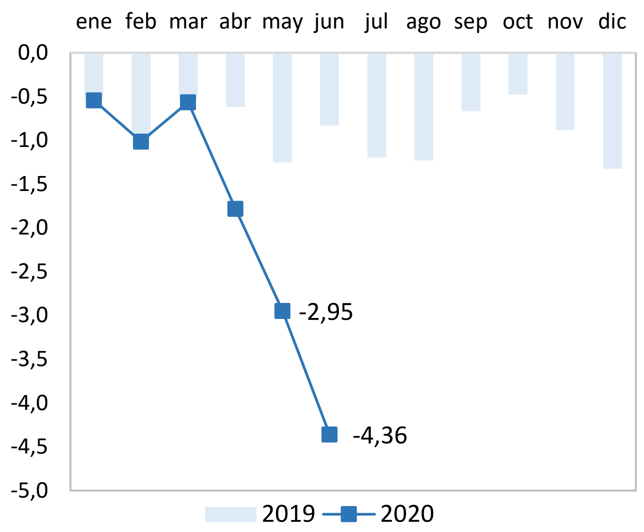
This change was the result of the significant increase in spending as a result of the expenses associated with the impact of the COVID-19 pandemic, which have totalled 15.64 billion euros, which includes the loan of 14 billion euros to mitigate the effects on the Social Security accounts and the lower revenue received from VAT and personal income tax.

Consequently, at the end of July, the State's EDP debt continued to record a sharper y-o-y growth rate in July, up by 1.3 points, to 9.6% y-o-y (1,153.1 billion).

[3] It should be noted that the biggest contribution to the favourable differential comes from the energy component (-8.3% y-o-y in the Eurozone, where it weighs 9.8%, compared with -10.7% in Spain[3], where it weighs 11.6%).

Graph 14. ***State budget balance***

(% of annual GDP)



Source: IGAE.

By contrast, the Social Security has improved its balance recorded up to June, from a surplus of 0.13% of GDP in 2019 to 0.87% of GDP in 2020. This change is the result of a significant increase in revenue, particularly from the sharp increase in current transfers from the State. Expenses were mainly driven by the increase in other benefits compared with 2019.

With data to May, the deficit of the Public Administrations excluding local government stood at -4.2% of GDP, more than triple the figure recorded in the same period of the previous year (-1.31%).

New loans and credit to non-financial corporations fell for the first time since the start of the crisis

The new lending received by non-financial corporations (NFCs) grew sharply in March (34% y-o-y, after -0.3% in the previous month) and reached a rate of 82.8% in April, as result of greater borrowing needs due to the fall in revenue as a consequence of the halt in activity. In May, the flow of new credit operations once again grew at a higher rate (46.8%), which is well above that recorded for the Eurozone as a whole, although notably more moderate than in previous periods, and continued to smooth out in June, to stand at 8.1%.

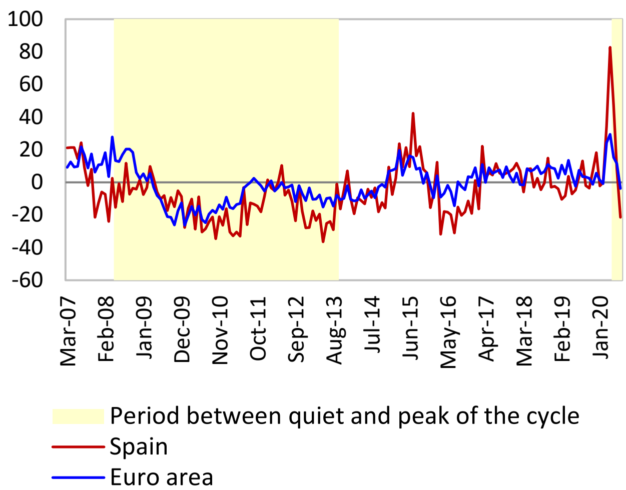
This change has been all the more extraordinary because it has taken place in the context of a recession, in contrast with the historically pro-cyclical nature of lending (Graph 15). The average y-o-y rate of decline in lending in the previous crisis stood at 14%, compared with an average of -1.6% in previous years up to the start of the impact of the pandemic in Spain.

However, the most recent data on new NFC lending for July show a y-o-y fall of 21.3%, the first fall recorded since the start of the health crisis. This behaviour was also recorded in the Eurozone, albeit at a more moderate pace (-3.7%).

This fall may reflect a certain correction of the previous data, when lending grew dramatically, driven by the intensive use of ICO guarantees aimed at preserving liquidity.

Graph 15. ***New lending to NFCs***

(% y-o-y change)



Source: compiled by the author on the basis of ECB and ECRI data.

Table 4. ***Spain's economic indicators***

(% y-o-y change, unless otherwise indicated)

Spanish economy indicators

Year-on-year percentage change except as indicated

	2018	*2019*	*2019 Q4*	*2020 Q1*	*2020 Q2*	*Jun-20*	*Jul-20*	*Aug-20*
Activity								
GDP	2.4	2.0	1.8	-4.1	-22.1	-	-	-
- Domestic demand (contribution)	2.6	1.5	1.3	-3.7	-19.2	-	-	-
- Net exports (contribution)	-0.3	0.5	0.5	-0.4	-2.9	-	-	-
Electric power consumption	0.3	-2.7	-1.7	-2.6	-13.1	-8.7	-4.6	-2.6
PMI Index	54.6	52.7	51.9	43.3	29.4	49.7	52.8	48.4
Economic Sentiment Indicator	108.0	104.1	101.8	101.2	77.1	83.1	90.6	88.1
Consumer confidence indicator	-4.2	-6.3	-10.5	-10.3	-27.9	-25.6	-25.6	-28.7
Large Firms Sales	3.0	1.8	1.1	-4.1	-22.7	-12.2	-	-
Retail sales index	0.7	2.3	2.3	-3.7	-18.4	-4.7	-3.9	-
Passenger car registrations	7.0	-4.8	5.1	-31	-67.7	-36.7	1.1	-10.1
External demand								
Export of goods	2.9	1.8	2.2	-3	-27.7	-9.2	-	-
Import of goods	5.6	1.0	-1.8	-4.9	-32.5	-20.1	-	-
Net lending (+) with the Rest of the World(% GDP)	2.4	2.3	3.0	-0.1	0.8	-	-	-
Labour market								
Labour force	0.3	1,0	1.3	0.7	-4.6	-	-	-
Employment	2.7	2.3	2.1	1.1	-6	-	-	-
SS covered workers	3.1	2.6	2.2	1.2	-4.4	-4.6	-3.8	-2.7
Fin de mes	3.2	2.6	2.3	0.2	-4.3	-5	-3.2	-3.4
Effective hours worked	2.6	1.5	1.4	-4.2	-24.8	-	-	-
Unemployment	-11.2	-6.6	-3.4	-1.2	4.3	-	-	-
Unemployment rate	15.3	14.1	13.8	14.4	15.3	-	-	-
Registered unemployment	-6.5	-4	-1.8	2.2	24.1	26.1	25.3	24.0
Prices and Wages								
CPI	1.7	0.7	0.4	0.6	-0.7	-0.3	-0.6	-0.5
Core CPI	0.9	0.9	1.0	1.1	1.1	1.0	0.6	-
CPI differential eurozone	-0.1	-0.4	-0.5	-0.4	-0.8	-0.6	-1.1	-0.4
Producer prices	3.0	-0.4	-2.3	-2.7	-7.7	-5.9	-4.8	-
Non Energy producer prices	1.1	0.1	0,0	0.4	-0.7	-0.8	-0.6	-
Housing Price Index	6.7	5.1	3.6	3.2	2.1	-	-	-
Wages Collective bargaining	1.8	2.3	2.3	2.0	2.0	2.0	1.9	-
Compensation of employees per head / fte (QNA)	1.0	2.0	1.9	1.8	3.9	-	-	-
Public sector (% GDP)								
General government balance	-2.5	-2.8	-2.8	-0.8	-	-	-	-
Gov.Balance without local gov	-3	-3.1	-3.1	-0.8	-	-	-	-
State balance	-1.5	-1.3	-1.3	-0.6	-4.4	-4.4	-	-
General government debt	97.6	95.5	95.5	98.9	-	-	-	-

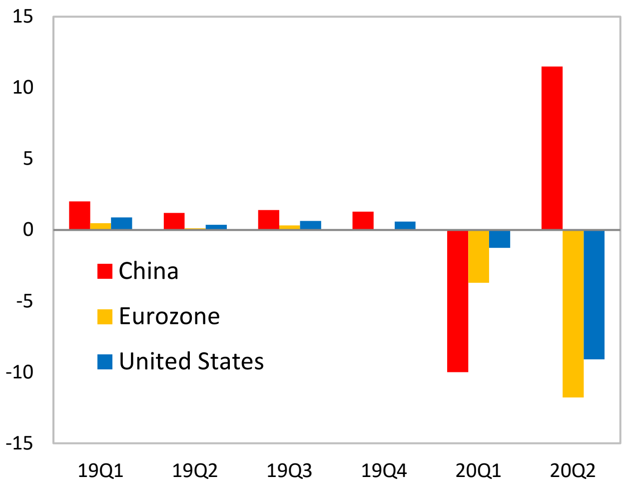
Sources: INE, MISM, MTES, MH, CIS, Anfac, AEAT, Markit.

4. International economy

Eurostat revises Eurozone GDP upwards by 0.3 points

The GDP of the Eurozone fell by -11.8% q-o-q in the second quarter of 2020, revised upwards by 0.3 points, the sharpest fall since records began in 1995 (-14.7% y-o-y, after -3.2% in the first quarter).

Graph 16. ***GDP***
(% q-o-q)



Source: Reuters.

By country, Spain recorded the sharpest fall (-18.5% q-o-q), France fell by 13.8%, Italy by 12.8% and Germany by 9.7%.

US GDP has been revised upwards from the first estimate published in July, recording a contraction of -9.1% q-o-q, non-annualised, in the second quarter of 2020

The unemployment rate continues to fall in the United States

Employment continues to improve and the unemployment rate continues to fall, although it remains at very high levels compared with the levels prior to the start of the global pandemic, after recording the highest unemployment rate in April on record, which began in 1948 (14.7%). In August, nonfarm payroll employment in the United States rose by 1.4 million (+1.8 million in July and +4.8 million in June), and the unemployment rate fell by 1.8 pp, to 8.4%. While it remains at very high levels (compared with 3.5% in February), the positive trend continues.

Unemployment in the Eurozone rose slightly, by 0.2 points, in July to 7.9% y-o-y, 0.6 points higher than in February.

Eurozone inflation in August is in negative territory for the first time since May 2016

The Eurozone consumer price index, according to preliminary estimates, fell by 0.2% y-o-y in August after rising by 0.4% in July, which is associated with the slowdown in non-energy prices, returning to negative territory for the first time since May 2016. The harmonised inflation differential of Spain (-0.6%) with the Eurozone stands at -0.4 percentage points, thus maintaining the price-competitiveness gains.

Growth in the consumer price index in the United States accelerated in July, for the second consecutive month, specifically by 0.4 points, up to 1% y-o-y.

Core inflation in the Eurozone stood at 0.6% y-o-y in August (1.4% in July, recording a low since the start of 2015, while in the United States it stood at 1.6% y-o-y, 0.4 points up on the two previous months, where it stood at 1.2%.

Within the quantitative indicators, car registrations rose in June

With regard to the quantitative indicators, it is worth noting the changes in car registrations in the Eurozone, which moderated their y-o-y fall in June, although this remained in double digits in Spain (from -72.7% to -36.7%), Italy (from -49.6% to -23.1) and Germany (from -49.5% to -32.3%), while in France car registrations are close to remaining stable (from -50.3% to -1.2%).

The qualitative indicators offer mixed signals

Composite PMIs recorded falls in August in the Eurozone (-3 pp, to 51.9), in France (-5.7 pp, to 51.6) in Germany (-0.9 pp, to 54.4), in Spain (-4.4 pp, to 48.4) and in Italy (-3 pp, to 49.5).

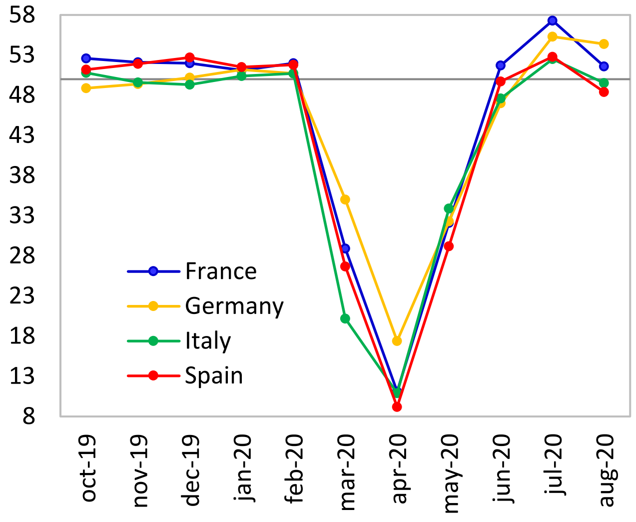
In contrast, the Eurozone Economic Sentiment Indicator continues to recover in August, reporting an increase of 5.3 points to stand at 87.7 (100 = long-term average), after the falls of March and April.

In addition, Germany's IFO business climate index improved by 2.4 points in August. The ZEW German investor economic sentiment index rose by 12.2%, while Germany's GfK consumer confidence indicator fell by 1.6 points in September.

Outside the Eurozone, the composite PMI in the United States rose by 4.3 pp, to 54.6, the highest since the start of 2019 together with April of that year, mainly driven by the services component.

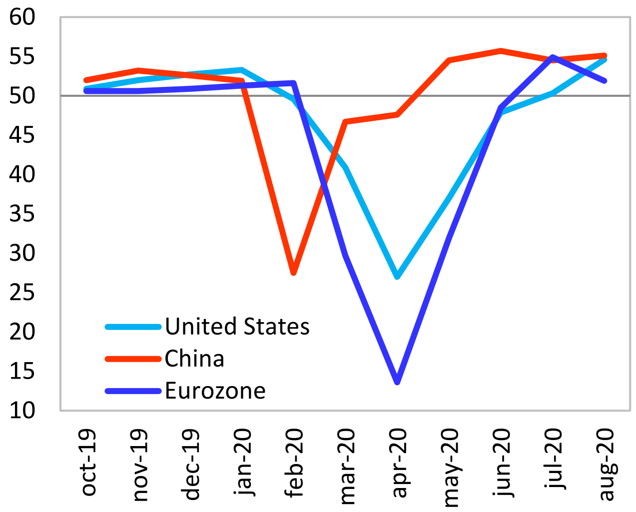
In contrast, the US consumer confidence index, reported by The Conference Board, fell again in August, by 6.9 points, to 84.8.

Graph 17. ***Composite PMI***
(level > 50 indicates expansion)



Source: Markit.

Graph 18. ***Composite PMI***
(level > 50 indicates expansion)



Source: Markit.

China's composite PMI improved by 0.6 points to 55.1, mainly driven by the manufacturing component, reaching its highest level since January 2011.

Table 5. International economic indicators

(% y-o-y change, unless otherwise indicated)

	2018	2019	2019 Q4	2020 Q1	2020 Q2	Jun-20	Jul-20	Aug-20
Global								
Global Manufacturing PMI Index	52.7	50.0	50.1	48.2	43.3	47.9	50.6	51.8
Global Services PMI Index	53.8	52.2	51.5	45.5	35.6	48.0	50.6	51.9
Global activity PMI Index	53.6	51.6	51.2	45.8	36.8	47.8	51.0	52.4
Comercio mundial de bienes	3.4	-0.4	-0.8	-3.1	-14.8	-10.1	-	-
Zona euro								
GDP	1.8	1.3	1.0	-3.2	-14.7	-	-	-
Manufacturing PMI Index	55.0	47.4	46.4	47.2	40.1	47.4	51.8	51.7
Services PMI Index	54.5	52.7	52.3	43.8	30.3	48.3	54.7	50.5
Composite PMI Index	54.6	51.3	50.7	44.2	31.3	48.5	54.9	51.9
Economic Sentiment Indicator	111.5	103.1	100.6	100,0	69.4	75.8	82.4	87.7
Consumer confidence indicator	-4.9	-7.1	-7.6	-8.8	-18.5	-14.7	-15.0	-14.7
Industrial Production Index	0.7	-1.3	-2.1	-5.7	-20.3	-11.9	-	-
Passenger car registrations	1.2	1.5	12.0	-26.5	-50.9	-22.6	-	-
Trade balance (bll €)	191.3	224.7	66.3	70.5	26.6	17.1	-	-
Exports	4.2	2.8	2.2	-1.6	-23.4	-15.5	-	-
Imports	7.1	1.5	-2.3	-4.9	-21.3	-17.0	-	-
Employment	1.5	1.2	1.1	0.5	-2.6	-	-	-
Unemployment rate	8.2	7.6	7.4	7.3	7.5	2.7	5.3	-
CPI	1.8	1.2	1.0	1.1	0.2	0.3	0.4	-0.2
Estados Unidos								
GDP	3.0	2.2	2.3	0.3	-9.1	-	-	-
Manufacturing PMI Index	55.4	51.8	52.1	50.4	41.9	49.8	50.9	53.1
Services PMI Index	54.9	52.5	51.7	47.5	37.4	47.9	50.0	55.0
Composite PMI Index	55.0	52.5	51.9	47.9	37.3	47.9	50.3	54.6
Consumer confidence indicator	130.1	128.3	127,0	127.3	90.0	98.3	91.7	84.8
Industrial Production Index	3.9	0.9	-0.7	-1.9	-14.4	-11.0	-8.2	-
Trade balance (bll €)	-872.0	-854.4	-200.3	-189.3	-217.1	-71.0	-80.1	-
Exports	7.7	-1.4	-1.6	-3.6	-29.4	-23.7	-15.7	-
Imports	8.5	-1.6	-5.4	-6.2	-19.8	-16.9	-7.2	-
Employment	1.6	1.1	1.3	0.6	-12.3	-9.5	-8.8	-6.7
Unemployment rate	3.9	3.7	3.5	3.8	13.0	11.1	10.2	8.4
CPI								
China								
GDP	6.7	6.1	6.0	-6.8	3.2	-	-	-
Manufacturing PMI Index	50.7	50.5	51.7	47.2	50.4	51.2	52.8	53.1
Services PMI Index	53.1	52.5	52.4	40.4	52.6	58.4	54.1	54.0
Composite PMI Index	52.3	51.8	52.6	42.0	52.6	55.7	54.5	55.1

Sources: Markit, CPB, BEA, Reserva Federal, BLS, The Conference Board, ESRI, Oficina Estadística de China, Eurostat, CE y ACEA.