Comunidad
de Madrid

Economic Situation in the Community of Madrid

Subdirectorate General for Economic Analysis
Directorate General for Economic Affairs

II /2023

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Note on the analysis of the evolution of economic indicators in this report.

An assessment of how economic indicators have recovered following the COVID crisis is based on a comparison with the usual levels in the reference months prior to the outbreak of the pandemic. This report, therefore, sheds light on monthly indicator values from March 2019 to February 2020 and the variations in 2023 levels relative to pre-pandemic levels, alongside the usual year-on-year rate of change. They are all geared towards spotting possible shifts in recent evolution patterns, which are particularly relevant in the current context in which the performance of the economy is conditioned by multiple factors, some of them non-economic, with a great disruptive capacity.

Close date: 25/9/23

I. Overview of the economic situation

Once again, the first lines of this report should be focused on pointing out that the economy's performance in the last quarter has exceeded expectations. Aggressive rate hikes by the main monetary authorities to fight persistent inflation, together with a reduction in savings accumulated during the pandemic and the impact of higher prices on agents' decisions all led to fears of poorer economic performance in Q2 than that observed.

Among the factors contributing to the sustained high levels of activity were the strength of the labour market, the initial slowdown of price growth (largely due to the knock-on effect of the energy component), containment of the wage-inflation spiral, and normalisation of factors conditioning international trade, with bottlenecks being resolved and the lifting of restrictions following the pandemic's global health controls.

The strong economic performance in Q2 could be related to the containment of three factors that threatened it at the start of the year: the escalation of the military conflict between Russia and Ukraine, the solvency issues of certain financial institutions in light of the new international interest rate scenario, and that of prices and wages, which would have made it necessary to keep up the tightening pace of monetary policy in order to prevent inflation expectations from becoming de-anchored.

As for price expectations, although the discourse of those responsible for monetary policy remains firm in the commitment to bringing inflation levels back to 2% (the magic figure of 'good' inflation for mainstream thinking), a lack of an immediate response from rate hikes has not stopped a slowing in the pace of their increases, nor is the time in sight when they may flex downwards, which would be sooner in the US than in the EU. Thus, it is understood that some adaptation of agents' behaviour to the new scenario is taking place and will ultimately be reflected in economic indicators in the coming months; and it is now starting to be assumed that inflation levels in 2023, and even in 2024, may still be far from 2%, at least in Europe.

In relation to the above is the Federal Reserve's statement after its September meeting, in which it maintained rates, pointing out that the focus will be on real interest rate developments, and in which it made clear that they do not know whether the current levels will be relative maximums until the course of the activity-labour market-inflation triumvirate has been defined. One must be confident that no external shock will disturb the interdependent balance of these three variables in each of the major economic areas, as the huge debt and the resulting lack of savings imply a very weak balance that can crumble under any shock, however small.

In terms of fiscal policy, 2023 will mark a turning point (at least in the EU and the US) with a return to the normal and desired alignment of both policies as compensatory mechanisms for cyclical imbalances. The euro area's return to fiscal adjustment rules, suspended after the onset of the pandemic, is a definitive step towards normalisation, although it is being done by applying broader limits than those required before the health crisis. In the new interest rate scenario, more stringent public deficit containment is being pursued in those economies, such as Spain's, where public debt has significantly increased in relation to 2019.

The effects of this fiscal policy shift on aggregate demand and, therefore, on the activity and price levels of the European and especially the Spanish economy, will be observable in coming years and explain part of the slowdown in growth forecast for 2024, explained below.

Regarding the data available at the time of the report's publication, the GDP continues to grow, although it lost momentum in all major economic areas in Q2. China's growth slowed from 2.2% in Q1 to 0.8% in Q2, due to the problems experienced by the real estate sector that have already affected its financial system; the US repeated its growth of 0.5%; the EU stagnated, and the euro area, for its part, again showed weak growth of 0.1%, closely linked in Q2 to the temporary boost to activity in France, which grew by 0.5% while other large economies of the EU-19 slowed (Germany) or fell (Italy); in fact, seven euro area countries saw their GDP decline in Q2 2023.

In light of this context, the Q2 2023 regional economy performance continued to be positive. Strong activity levels continue to translate into a dynamic labour market and high levels of consumption and, while prices continue to rise, they do so with less force, with the Community of Madrid standing out for its good performance in the Spanish regional environment. Also relevant in Q2 is the consolidation of the normalisation of international trade flows, even if this translates into year-on-year declines in the nominal values of foreign trade in the most recent months.

The first GDP growth estimate for the Community of Madrid projects quarter-on-quarter (QoQ) growth at 0.8% and year-on-year (YoY) growth at 2.4% in Q2 2023, versus 0.5% and 2.2%, respectively, in Spain (revised upwards very recently). Regional activity levels are already 3.1% above pre-pandemic levels, and the breakdown by supply and

demand components points to progress in recovering pre-crisis levels in all of them. As was the case in Q1, the aggregates with the largest pre-pandemic gap have performed significantly better this quarter, such as housing investment (up and outstanding 3.8% in the quarter and 5.1% in the year), though activity levels remain 15.2% lower than Q4 2019 levels.

Regional demand is the indisputable protagonist of the region's growth in Q2 2023, with household final consumption spending playing a key role, increasing by 0.9% QoQ, although its YoY growth continues to be weaker. In terms of supply, the QoQ GVA growth of 2.1% in construction was again particularly encouraging, and more than one point above the estimate for services, while industrial GVA stagnates. This wide range of quarterly growth results in equally heterogeneous advances in the YoY analysis, ranging from 0.4% in industry to 4.1% in construction GVA.

The dynamism of the regional labour market, as mentioned above, continues to sustain the increase in consumption levels and boost activity. The indicators in this regard are unmistakable: Q2 2023 LFS flows show job growth with decreasing unemployment, as is usual in the series of second quarters, with Q2 2023 standing out for the intensity of these variations. Thus, the region's jobholders and active population reached historic highs, while the unemployment rate dropped from double digits and stood at 9.6%, the lowest since Q3 2008.

An analysis of the flows determining these variations offers certain relevant details to the regional labour market's positive performance. It is important to note that the growth in employment in the quarter was not so much due to a high inflow but rather to a very limited outflow, with an unusual composition. Transitions from inactivity played an important role in the considerable reduction in the quarter's unemployment rate. Some questions emerge from these trends, such as, whether the relative weakness of the inflow into employment from unemployment is related to the greater stability of the labour market after the legislative change or, on the other hand, if it responds to an incipient loss of dynamism, congruent with the possible inflection point that may be emerging in terms of activity in the second half of 2023. The first box of this report presents a detailed analysis of the results of the LFS flow survey.

With respect to post-pandemic changes observed in the labour market, the data shows that increases in employment have outpaced and preceded increases in actual hours worked. Employment levels in the region exceeded pre-pandemic levels as early as Q1 2021, and have systematically remained above them since. The trend in actual hours worked has been different: although the recovery of the pre-covid gap seemed steady at the beginning of 2022, the results in the second half of the year returned to levels below those of the pre-pandemic period, a situation that seems to have been reversed in the first half of 2023.

Thus, there is more employment, with 6.7% more employed jobholders than in Q2 2019; 4.8% more hours worked than in Q2 2019; and a greater distribution of work, as weekly hours worked per employed person remain below those recorded before the health crisis, with 36.1 hours in this second quarter compared with 36.9 hours in Q2 2019.

This trend underlies the favourable evolution that households are experiencing in relation to their employment situation; thus, the number of households with all their active members employed is 6.5% higher in Q2 2023 than the pre-pandemic figure, driven by the dynamism observed in the segment of single-person households in this situation, and well above the growth in the total number of households between 2019 and 2023.

As is well known, the increases in Social Security enrolment in relation to the pre-pandemic period are even greater; in the case of the Community of Madrid, they reached 10.1% in the second quarter of the year and in the first eight months of 2023.

Nevertheless, we should not lose sight of the incipient signs of a slowdown in employment creation or the effects that the asymmetric evolution of the sectoral labour markets have on certain segments of the population, which are more vulnerable to the loss of dynamism of a market that has reached record employment levels of over 3.3 million people, and which has reduced the number of unemployed to below 350,000 in a second historic quarter in terms of the labour market.

If we look briefly at the recent performance of the registry sources, their very favourable evolution places Social Security enrolment at a record high, indicating a decline in the amount of registered unemployment to values not seen since 2008. That said, the dynamics of the two series differ, and the still very high growth rate of Social Security enrolment contrasts with the clearly slower profile of unemployment decline, to which the first YoY reductions in permanent contracts have recently been added, once the knock-on effect brought about by the labour reform coming into force has been offset.

Base effects are also essential when analysing recent developments in consumer price indicators. Headline inflation, which had hit 9.6% YoY in July last year, entered a subdued trajectory that became particularly abrupt in March, when its growth dropped by 2.6 points, and reached a lower value in June. In that month, regional CPI inflation reached 1.4%, picking up in the two summer months. The latest available data, relating to last August, put the regional CPI at 2.3%, compared with 2.6% for the whole of Spain. These swings are directly related to the YoY dynamics of energy prices and to the measures then put in place to contain them, which allow Spain to currently have, together with Belgium, the lowest inflation in the euro area.

Quite different is the pattern of correction in core inflation which, now more than ever, should be the key monitoring indicator for price developments. Excluding energy and unprocessed food, the basket of goods and services consumed in the region became 6.6% more expensive year-on-year in January 2023, tapered to 4.9% in May and June, and rebounded to 5.3% in August, still below core inflation for the country as a whole, which reached 6.1% in August. In practically all the months of 2023, Madrid recorded the lowest core inflation of all Spanish regions.

However, it should be noted that this tapering of headline or core inflation in Q2 2023 does not correspond with being based on lower prices, but rather on price growth lower than last year. Thus, the downward resistance of prices, as evidenced by the summer upturns in the annual variations of both inflation measures, is a cause for concern, and even more so when we are heading towards a new rise in energy prices, this time in fuel prices due to a cut in oil production combined with the arrival of the cold weather and, in theory, the expiry of government measures.

Moreover, food prices, the component with the highest weight in the shopping basket, continue to rise. In addition to the effects of higher energy prices on the cost structure of agricultural and livestock farms, the effects of bad weather on production have been compounded and these problems are not expected to improve in the medium term. There is the apparent paradox that the food subgroup, whose inflation was 10.7% in August and exceeded 11% in Q2 of the year, has contributed to the lower change in inflation in August, as its prices have risen less this month of 2023 than they did a year ago.

The price effect is behind the drastic YoY decline in exports (-3.9%) and imports (11.6%) of goods in Q2, which does not prevent both from reaching the highest transaction values for a Q2 of the year, second only to those recorded in 2022. It should be borne in mind that there are no deflated series for international trade by region. Pharmaceuticals, fuels and mineral oils, the main items responsible for the increase in these flows in 2022, are also those mainly responsible for the decline in Q2, while motor vehicles, aircraft and spacecraft are also important, continuing the process of returning to pre-crisis trends, both in terms of the composition of these flows and the map of the main trade partners.

The better than expected first half of the year has seen a double effect: a rise in GDP growth in 2023 and a delay in the materialisation of the adverse consequences of persistent inflation and rising interest rates on consumption and investment until the second half of the year. Thus, in terms of expected growth in the current year, the region shares the generalised upward revision of Spain's growth estimates for 2023. Independent forecasting agencies project an average growth of 2.4% in 2023 for the Community of Madrid, three tenths of a percentage point above the forecast for the country as a whole, which implies a slowdown in activity in the run-up to 2024.

II. International context

Global recovery is slowing while divergence across economic sectors and regions is increasing

The deal to raise the US debt ceiling and the firm measures adopted earlier in the year by the authorities to contain banking turbulence in the US and Switzerland reduced the immediate risks of financial sector disruption. This moderated adverse risks to the outlook. However, given the risks involved, the outlook for global growth is skewed downwards. Inflation could remain high, and even rise, if further shocks such as an escalation of the war in Ukraine or extreme weather events were to induce an even more restrictive monetary policy. Turbulence in the financial sector could return as markets adapt to central banks further tightening of policy.

The Chinese economy is losing steam, and activity and growth have weakened due to cooling domestic and foreign demand. From April to June, China's gross domestic product (GDP) grew by 0.8% QoQ. YoY, the economy grew by 6.3%, accelerating from 4.5% in Q1, but below analysts' forecast of 7.3%. Although the annual growth rate of China's economy was the fastest since Q2 2021, the comparison has been heavily skewed by the restrictions and lock-downs of the country's now defunct zero-covid policy.

The Eurozone returned to 0.1% QoQ growth in Q2 2023. This slow momentum came from a stagnation of household final consumption expenditure compared to the previous quarter (+0.0%) and a 0.7% drop in exports in a context of sluggish performance by giants such as

among the primary economies, with both growing 0.5%. Italy shrunk by 0.4% while Germany stalled. In terms of GDP components, household consumption remained stable in both the Eurozone and the EU in Q2 compared to the previous quarter, while final government spending increased by 0.2% in both areas.

Meanwhile, the employment rate grew by 0.2% in the Eurozone in Q2, while the increase in employment in the EU was revised down by one tenth of a percentage point to 0.1%. Thus, in both cases there was a slowdown in job creation compared to Q1, when employment had grown by 0.5% and 0.4%, respectively.

Global headline inflation growth seems to have peaked, while core inflation growth has subsided somewhat, especially in India. But in most G20 countries, particularly in advanced economies, inflation remains well above central banks' target levels. Early signs are emerging that the impact of monetary policy is being transmitted to economic activity, through the tightening of bank lending standards in the Eurozone and the United States, but it still remains high, hence the need for monetary policy to stay on course until inflation declines to target levels on a lasting basis, while keeping a close eye on risks to the financial sector. This has just been demonstrated by the ECB with a new rate hike

Evolution of main economies
(Year-on-year rates of change)
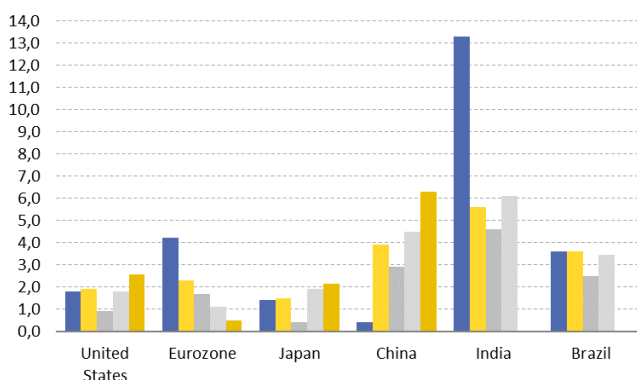
Source: OECD and Eurostat (September 2023) ■ II-22 ■ III -22 ■ IV -22 ■ I-23 ■ II-23

World economic growth 2015–2024

Source: IMF (July 2023)
— World production
— Advanced economies
— Emerging and developing economies

China. France and Spain were particularly buoyant
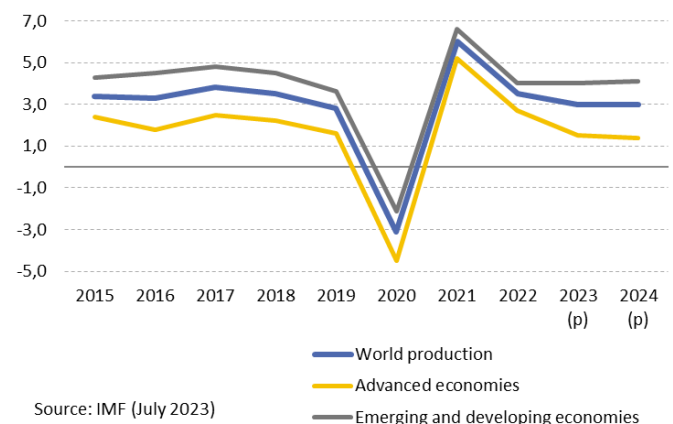
III. National framework

1. Growth

A significant upward revision of national growth has been made, pushing the recovery of pre-covid activity levels forward to Q3 2022. According to the recently published data from the Spanish National Accounts (CNE), the increase in 2021 goes from 5.5% to 6.4% and that of 2022 goes from 5.5% to 5.8%, while the fall in 2020 has also been revised from -11.3% to -11.2%.

As expected, this improved performance has been reflected in the quarterly growth profile derived from the Quarterly National Accounts (CNTR), which in the preview published in July placed the recovery of pre-covid activity levels in Spain in Q2 2023. With the second estimate, which already incorporates the new data from the CNE, the point of return to pre-pandemic levels is pushed forward by three quarters, to Q3 2022.

Evolution of GDP, consumption and investment in Spain

Source: Drafted in-house based on CNTR, INE
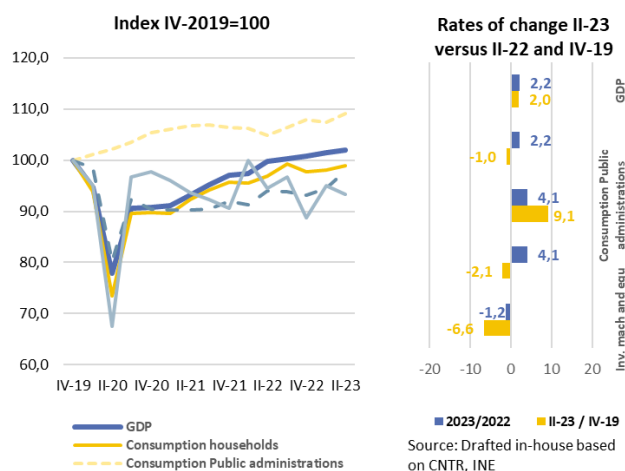
Q2 GDP growth has been slightly revised upwards to 0.5%, thus maintaining a relatively stable QoQ growth rate since Q3 2022. This revision is based on a less negative external demand performance than initially estimated. On the other hand, the contribution of domestic demand has been adjusted downwards by up to 1 point, although it improves compared to the modest contribution in Q1.

The YoY increase is four tenths of a percentage point higher than in July, up to 2.2%, although it is slower than the Q1 rate of 4.2% at that time. Domestic demand contributed 2.3 points to GDP growth, one point more than in the previous period, due to a greater increase in general government consumption and the recovery of investment. This was driven by investment in construction, while that in machinery and equipment continued to fall, but at a slower pace.

2. Foreign sector

The second quarter of 2023 saw the first decreases in all of Spain's international goods trade, while still maintaining very high volumes. Spanish exports of goods thus decreased by 4% in Q2 2023 against the same period in 2022, with a recorded volume of €97,267 million, a figure 5.3% less than the previous quarter. In real terms, the decrease was 7.5% YoY, as the export prices, approximated by unit value indices, rose by 3.8%. Imports slowed to €107,109 million, 9.1% less than in the same period of 2022 and 2% less than in the first quarter of the year. Import prices fell by 2.1% YoY so that, in terms of volume, merchandise imports declined by 7.2%. The trade balance for the second quarter recorded a deficit of €9,842 million.

In Q2 2023, the sectors that made the greatest contribution to increased exports were *automotive* (contribution: 2.8 p.p.), *Capital goods* (1.8 p.p.) and *Food, beverages and tobacco* (0.2 p.p.). All other sectors suffered YoY decreases in exports. On the other hand, the sectors that made a more pronounced downward contribution in this period were *energy products* (contribution -3.7 p.p.) and *non-chemical semi-manufactures* (-2.2 p.p.). The destinations with the greatest positive contributions to the rate of change in sales were Panama, Turkey, Italy and Germany. For imports, Germany, Ukraine and Poland.

Foreign Trade Quarterly year-on-year rates

Source: Tax
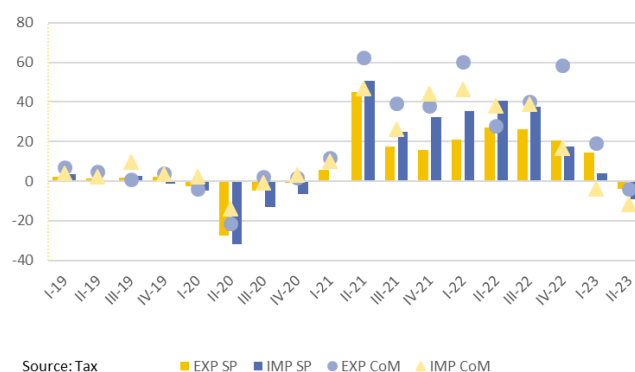
The latest data published, corresponding to the month of July, once again shows a reduction in both exchanges, with a 5% YoY drop in exports and an 8.4% drop in imports, with levels, however, only surpassed by those of 2022, an extraordinary year.

3. Labour market

Strong performance in Q2, which seems to be slowing down in July and August.

The LFS results reveal increases in employment and a decrease in unemployment for the quarter and the year. Thus, it is not the direction of the quarterly changes in these two variables which follow a historical seasonal pattern, but rather their intensity, which allows the YoY profiles to accelerate. The active and employed population are at record highs, and the participation rate is increasing due to the greater dynamism of the active population than of the working-age population.
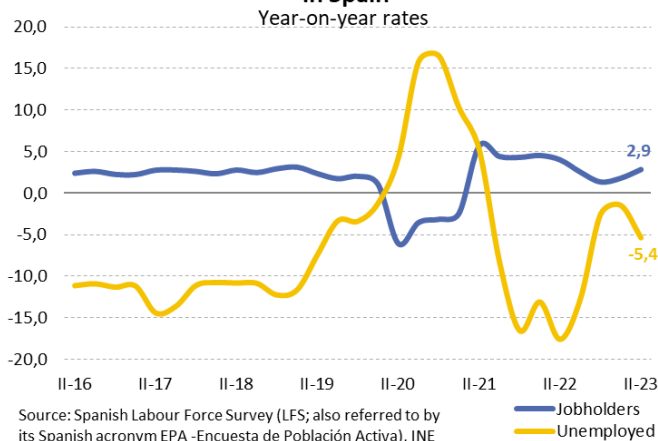
As a result, employment increased in the quarter by 603,900 persons over the figure observed a year ago, which generated an acceleration in the YoY increase of 1.1 points to 2.9%. Unemployment fell to 2.8 million in the quarter, and the rate of YoY decline also accelerated. The dynamism of both variables' evolution can also be seen in the seasonally-adjusted series, which experience a notable boost in 2023.

Consequently, the unemployment rate fell by 1.7 points to 11.6%, the lowest since Q4 2008, and the participation rate stood at 59.0%.

Historic Social Security enrolment levels in Q2. Enrolment accelerated its YoY increase to 2.8%, which is higher than that of the previous two quarters. The series recorded a new high in July, and the seasonal decline in August is in line with the historical average. However, the seasonally-adjusted series has slowed considerably over the last four months. Registered unemployment, which closed Q2 below the 2.7 million mark, also saw a slowing YoY pattern, with still significant falls of 6.9% in Q2 2023 and 11.3% compared to the pre-pandemic period.

Evolution of employment and unemployment in Spain
Year-on-year rates

Source: Spanish Labour Force Survey (LFS; also referred to by its Spanish acronym EPA -Encuesta de Población Activa), INE

4. Prices

In Q2 2023 inflation continued to be contained, returning to values close to the ECB's target; core inflation remained at high levels, although easing slightly.

CPI inflation reached an average rate of 3.1% in Q2 2023, or 2 p.p. lower than in the previous quarter, with June's figure of 1.9% being the lowest since March 2021. However, July and August, the latest data available at the close of this report, show a new rebound that raises the rate to 2.6%. The underlying rate reached 6.2% in Q2, down from 7.6% in the previous quarter, the first QoQ decline in the last two years, although there was a slight upturn in July and August compared to June.

Quarterly General and Core Spain
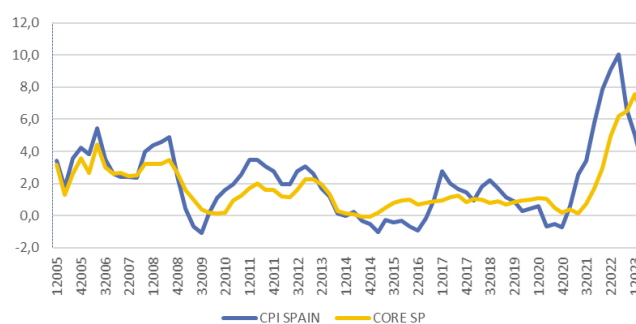
Similar to the previous quarter, containing the rise in inflation in the first quarter of the year is due to reductions in, 'Housing' and 'Transport', which are directly affected by the evolution of prices of energy products, coupled with a favourable YoY comparison. Thus, in Q2 'Housing' registered an average rate of -12% (10.4% in Q1), and transport -3.5% (0.7% in the previous quarter); a year ago the average rates of these same groups in Q2 were 18.5% and 15.7% respectively.

The remaining groups all stood out for their high inflation in Q2 2023: 'Food and non-alcoholic beverages' posted an average inflation rate of 12.6%, (16.2% in the previous quarter); and 'Alcoholic beverages and tobacco' by 8.9% (8.4 in the previous quarter). As for 'Restaurants and hotels', it reached 6.8%, one point below Q1, which was the first QoQ decline in the last two years.

In the international context, the harmonised indicator in the EU cuts its rate to 6.2% in the second quarter. In the latest data from August, the downward trend continued, with a YoY rate of 5.3%, the same value as in July.

IV. Economic growth and forecasts

IV.1. Economic growth

The regional economy is gaining momentum, despite the persistence of risk factors still present in the global economic context, such as high inflation levels for many months, interest rate hikes, and the continuation of the war in Ukraine. Thus, according to data from the Regional Accounts of the Community of Madrid, the region's GDP has strengthened throughout the first half of the year, after a weak second half of 2022.

Gross Domestic Product

Data adjusted for seasonality and calendar effect
Year-on-year actual rates of change

Source: IECM, INE and Eurostat   Spain   Madrid   UE19
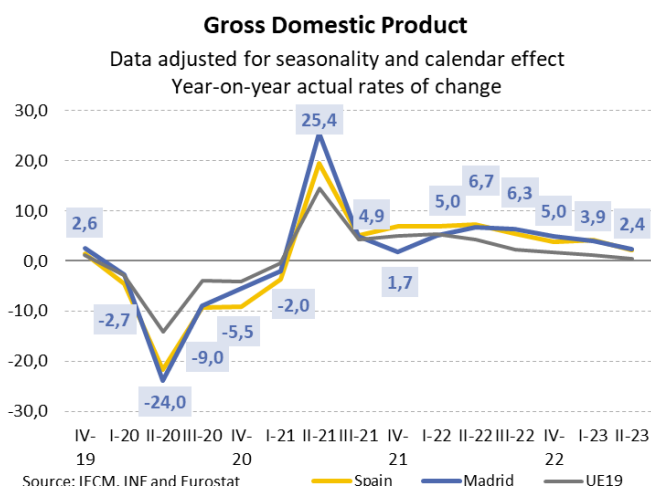
New growth in Madrid's economy in Q2, driven by domestic demand. The Community of Madrid's GDP grew by 0.8% QoQ, a much slower pace than that recorded in the previous quarter, very much determined by the strength of foreign demand. In Spain, the INE's new estimate for September, published after the regional figures, puts GDP growth at 0.5% in this period, while growth in the Eurozone, according to Eurostat, continues to stagnate at 0.1%. In YoY terms, Madrid's GDP increased by 2.4%, below Q1 (3.9%). In Spain, the

Impact of COVID-19 crisis in Madrid, Spain and the EU

Gross Domestic Product, index IV-2019=100

Source: IECM, INE and EUROSTAT   Spain   Madrid   UE-19

pace slowed by 2 percentage points to 2.2% and in the Eurozone by 0.6 percentage points to 0.5%.

For the fifth consecutive quarter, Madrid outperformed pre-pandemic GDP in terms of volume, consolidating a 3.1% increase in the second quarter. Spain, which, according to the latest revision of the INE, reached this in Q3 2022, already exceeds it in Q2 2023 by 2%, while the Eurozone was 2.6% above it in the last quarter of 2019.

Evolution of GDP, consumption and investment Community of Madrid

Index IV-2019=100

Drafted based on IECM data
Consumption households
Consumption Public administrations
Inv. housing

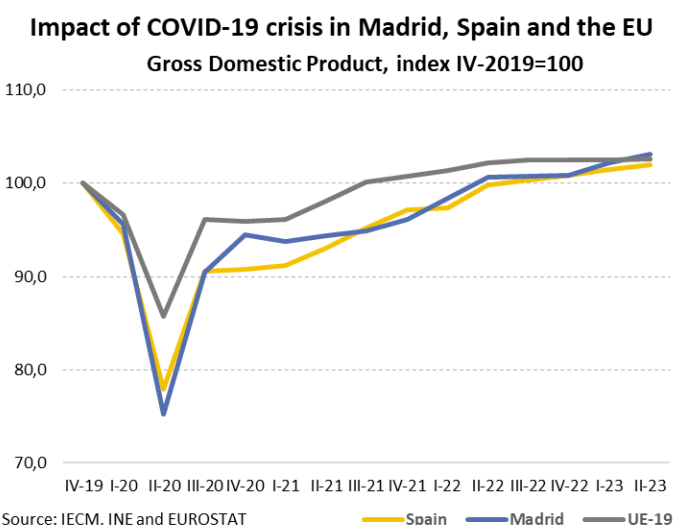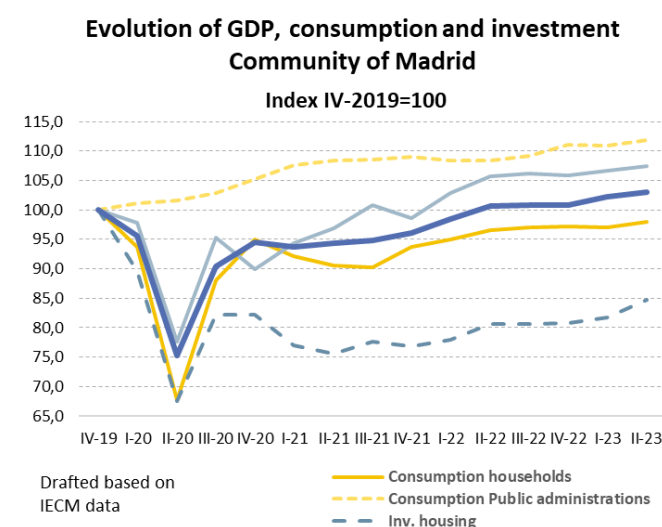**Consumption and investment pick up in Q2, cushioning the deterioration of the foreign sector**. The trend with respect to Q1 reflects a recovery in consumption, both in households and in public administrations, with both growing by 0.9% after stagnating in Q1; investment also increased, driven by investment in housing. On the other hand, foreign demand, which was key to the strong performance in the previous period, slowed down its contribution in Q2, reducing GDP growth by one tenth of a percentage point.

The slowdown in private consumption, non-residential investment and foreign demand led to a moderation in YoY GDP growth. Thus, the contribution of regional demand fell by four tenths of a point compared with the previous quarter, to 2.1 points. In addition to this lower contribution, foreign demand weakened by more than one percentage point to 0.5 points. Consumption growth moderated slightly due to a slump in the household segment, whose growth rate slowed down by 0.7 percentage points to 1.5%, while that of the public administrations became more dynamic once again. Therefore, private consumption continues to be 2% below its pre-pandemic level, while that of Public Administrations is 11.9% above. Meanwhile, investment slowed to 2.7%. Housing investment grew

by 5.1% and offset the slower growth of other investment (1.6%). However, the former is still a long way from recovering its pre-COVID level, still 15.2% below, while other investments exceed it by 7.4%.

Significant sectoral asymmetries. YOY growth was observed in all sectors, albeit more moderate than in the previous quarter, except in construction, which is growing at a rate of 4.1%. More modest gains can be seen in agriculture, with 0.6%, and in industry, the weakest sector, with another 0.4%. The service sector recorded growth of 2.5%, 1.3 pp below the Q1 rate. With this evolution, construction is now the sector with the best position compared to its pre-covid activity level, up 4.4%, followed by industry with 3.8%. The services sector as a whole outperformed its Q4 2019 level by 2.6%, although with significant asymmetries in its branches.

Among tertiary activities, distribution and hospitality services are no longer the most dynamic branch, as they had been for the last eight quarters, with a YoY increase of 1.9%, or 3.2

Evolution of GVA of major industries
Community of Madrid
Index IV-2019=100

Drafted based on IECM data

- - - Industry
—— Construction
······ Distribution and hospitality
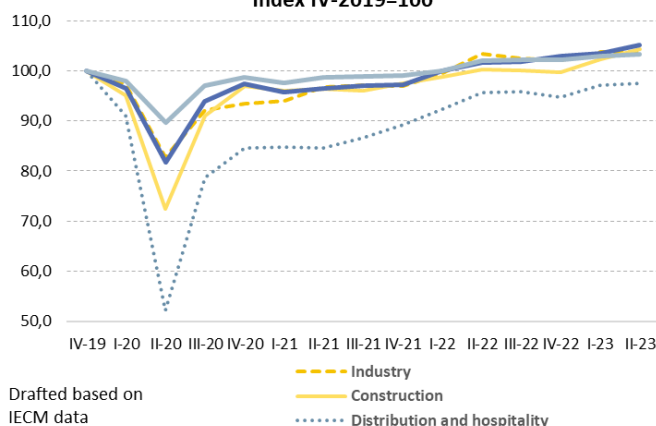
points lower than in the previous period. This is the only activity that is still below its pre-covid level, at 2.4%. *Business and financial services* grew YoY by 3.4%, two tenths of a point lower than in the previous quarter, and 5.1% above the pre-covid value. *Other services* slowed its growth by 1.3%, although it consolidated its recovery, exceeding the level of activity prior to the pandemic by 3.3%.

| QUARTERLY ACCOUNTS OF THE COMMUNITY OF MADRID BASE 2013										
(Volume indices, seasonally and calendar-adjusted data)										
			Quarter-on-quarter rate of change (%)							
	2021	**2022**	**III 2021**	**IV 2021**	**I 2022**	**II 2022**	**III 2022**	**IV 2022**	**I 2023**	**II 2023**
Agriculture	-	-	0,0	-2,7	0,5	0,1	1,9	0,1	-0,2	-1,2
Industry	-	-	0,3	-0,1	2,6	3,8	-0,9	-0,3	1,5	0,1
Construction	-	-	-0,3	1,5	1,3	1,5	-0,2	-0,3	2,5	2,1
Services	-	-	0,9	1,0	2,5	2,3	0,2	0,2	1,1	0,9
GVA	-	-	0,8	0,9	2,4	2,4	0,1	0,1	1,3	0,9
GDP	**-**	**-**	**0,5**	**1,3**	**2,4**	**2,3**	**0,1**	**0,1**	**1,3**	**0,8**
Final Consumption Expenditure	**-**	**-**	**-0,1**	**2,8**	**0,8**	**1,1**	**0,6**	**0,5**	**0,0**	**0,9**
- households	-	-	-0,2	3,8	1,4	1,5	0,6	0,0	0,0	0,9
- Public sector and NPISH	-	-	0,2	0,3	-0,5	0,0	0,7	1,7	-0,1	0,9
Gross Capital Formation	**-**	**-**	**3,6**	**-1,8**	**3,4**	**3,0**	**0,3**	**-0,1**	**0,8**	**1,7**
- Investment in housing	-	-	2,8	-1,2	1,6	3,4	-0,1	0,2	1,1	3,8
- Rest of investment	-	-	4,0	-2,2	4,3	2,8	0,5	-0,3	0,7	0,7
Regional demand	**-**	**-**	**0,5**	**2,0**	**1,2**	**1,4**	**0,6**	**0,4**	**0,1**	**1,0**
External demand [(1)]	**-**	**-**	**0,0**	**-0,6**	**1,2**	**1,0**	**-0,4**	**-0,3**	**1,2**	**-0,1**
GDP COMMUNITY OF MADRI	**-**	**-**	**0,5**	**1,3**	**2,4**	**2,3**	**0,1**	**0,1**	**1,3**	**0,8**
SPAIN GDP	**-**	**-**	**2,3**	**2,0**	**0,3**	**2,5**	**0,5**	**0,5**	**0,6**	**0,5**
			Year-on-year rates of change (%)							
	2021	**2022**	**III 2021**	**IV 2021**	**I 2022**	**II 2022**	**III 2022**	**IV 2022**	**I 2023**	**II 2023**
Agriculture	3,6	0,1	6,0	2,9	0,1	-2,1	-0,2	2,7	1,9	0,6
Industry	5,3	5,9	5,3	3,9	6,0	6,7	5,5	5,3	4,2	0,4
Construction	8,6	3,3	5,6	0,6	2,8	4,0	4,1	2,2	3,5	4,1
Services	6,0	5,8	4,5	1,5	5,0	6,8	6,0	5,2	3,8	2,5
GVA	6,1	5,6	4,7	1,6	5,0	6,7	5,9	5,1	3,9	2,4
GDP	**6,5**	**5,7**	**4,9**	**1,7**	**5,0**	**6,7**	**6,3**	**5,0**	**3,9**	**2,4**
Final Consumption Expenditure	**6,2**	**3,9**	**3,5**	**0,1**	**2,4**	**4,7**	**5,4**	**3,1**	**2,2**	**2,0**
- households	6,5	5,2	2,6	-1,2	3,1	6,7	7,5	3,6	2,2	1,5
- Public sector and NPISH	5,5	0,8	5,6	3,6	0,8	0,1	0,6	1,9	2,3	3,2
Gross Capital Formation	**3,7**	**6,6**	**1,8**	**3,9**	**6,5**	**8,3**	**4,9**	**6,7**	**4,0**	**2,7**
- Investment in housing	-4,5	4,2	-5,5	-6,6	1,2	6,7	3,7	5,1	4,7	5,1
- Rest of investment	8,3	7,7	5,7	9,8	9,1	9,1	5,4	7,3	3,7	1,6
Regional demand	**5,8**	**4,3**	**3,2**	**0,7**	**3,1**	**5,3**	**5,3**	**3,7**	**2,5**	**2,1**
External demand [(1)]	**1,1**	**1,7**	**1,9**	**1,1**	**2,1**	**1,8**	**1,3**	**1,6**	**1,6**	**0,5**
GDP COMMUNITY OF MADRI	**6,5**	**5,7**	**4,9**	**1,7**	**5,0**	**6,7**	**6,3**	**5,0**	**3,9**	**2,4**
SPAIN GDP	**6,4**	**5,8**	**5,1**	**7,0**	**6,8**	**7,2**	**5,4**	**3,8**	**4,2**	**2,2**

(1) Contribution to GDP growth

Source: Institute of Statistics of the Community of Madrid

IV.2. Forecasts

Spanish economic growth expectations for 2023 continue to improve. A first half of the year largely exceeding forecasts is offsetting, for the time being, signs of moderation that several indicators are experiencing in Q3, weighed down by the tightening of financial conditions, the deterioration of the international economic context and further rises in energy costs.

These factors are contributing to a cooling of the Spanish economy's outlook in the second half of the year and could lead to a weakening of the forecasts for 2023 as a whole in the coming months. For the moment, however, September projections stand at an average of 2.2%, around two tenths of a percentage point above those published between May and July. We must also wait to see how the new INE figures, with upward revisions for growth both for the previous three years and for the first two quarters of this year, affect expectations.
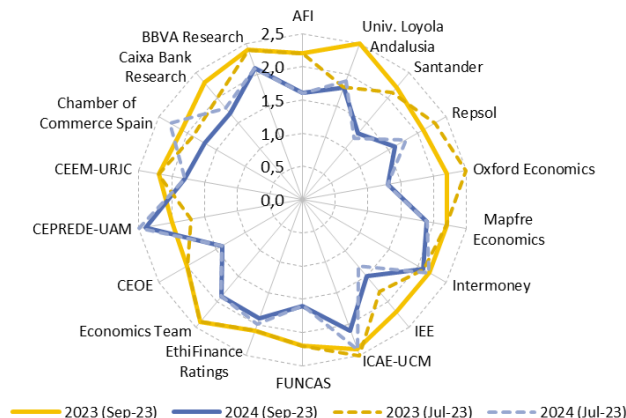
Growth forecasts for Spain
FUNCAS Panel

— 2023 (Sep-23) — 2024 (Sep-23) ---- 2023 (Jul-23) ---- 2024 (Jul-23)

Evolution of national GDP growth forecasts 2023 and 2024
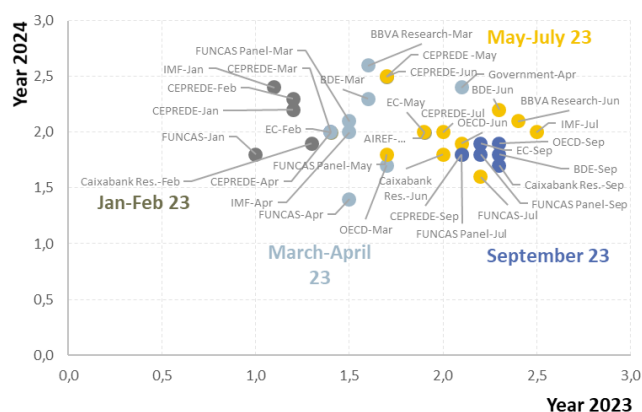
Among the most recent forecasts, the Bank of Spain's forecast for 2023 remains unchanged at 2.3%, moderated significantly with respect to 2022, due to the lower dynamism of domestic demand, mainly private consumption, as well as a more limited contribution from foreign demand. With a view to 2024, the institution expects the Spanish economy to maintain a slowing profile, weighed down by the loss of momentum in investment and the negative contribution of the foreign sector, although it is also counting on a reactivation of private consumption.

Other analysts who have updated their estimates in September follow a very similar pattern, with rates in a narrow range between 2.1% and 2.3%, an improvement on the forecasts made before the summer. However, some of them also point to the fact that the expected slowdown in 2024 may prove to be stronger than initially expected.

This year's forecasts in the FUNCAS panel for September have also been slightly revised upwards. The 2023 forecasts range between 2% and 2.5%, with the overall average at 2.2%, one tenth of a percentage point above the July consensus, with seven participants raising their estimates; this difference increases to seven tenths of a percentage point when compared with six months ago. For 2024, the panellists forecast growth rates between 1.3% and 2.4%, with the average at 1.8%, which is unchanged from the panel two months ago, although eight analysts downgraded their forecasts.

The Community of Madrid is expected to continue performing more dynamically than the Spanish economy as a whole this year, according to the latest regional estimates produced in June and July. The risks and uncertainties that are present in the global context are reflected in the forecasts available for Madrid, which stand at an average of 2.4%, compared to the 2.1% projected by the same analysts for Spain.

Summary of forecast 2023
Actual GDP growth rates*

* The Hispalink data refer to GVA growth.

Latest forecasts available at the close of this report.
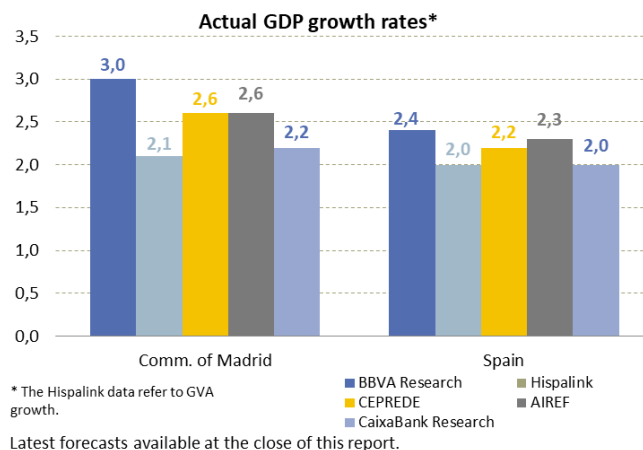
V. Recent developments in Madrid's economy

V.1. Demand and production

V.1.A. Domestic demand

Passenger car registrations in Q2 2023 hit the second highest volume for this quarter in the series. According to the DGT, Q2 passenger car registrations stood at 128,582 units, which is 19,257 units and thus 17.6% more than last year. This represents two quarters of growth; compared to Q2 2019, it already exceeds it by 3.5%. After seven months of consecutive YoY gains, the latest figure, for August, is down 3.6% YoY, with 20,531 units registered and 760 units less than a year ago; it should be noted that the comparison is made with the third highest volume in the series for this month, and that it is up 12.6% compared to August pre-pandemic.

Passenger car registrations
Community of Madrid
Levels and rates of change for indicated periods.

Source: DGT.
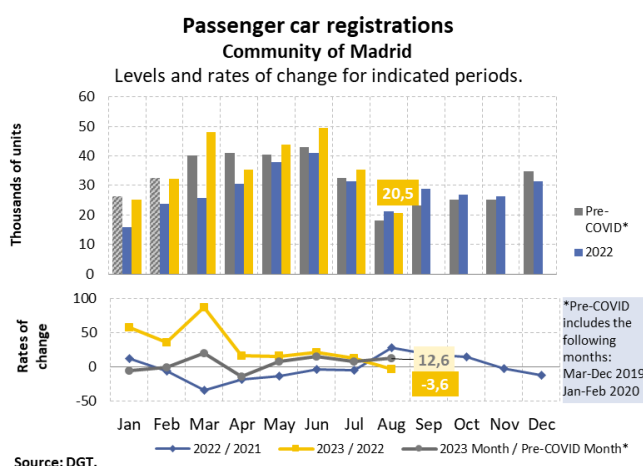
Lorry and van registrations in Q2 2023, at 21,308 units, an increase of 32.0% YoY, and 9.4% compared to the same period of 2019. They have now been up for nine months, and the latest figure, 4,831 units in August 2023, is up 4.9% YoY, although this slows down the double-digit increases of previous months. However, with respect to August 2019, it falls by 9% compared to the highest volume in the series for an August since 2007.
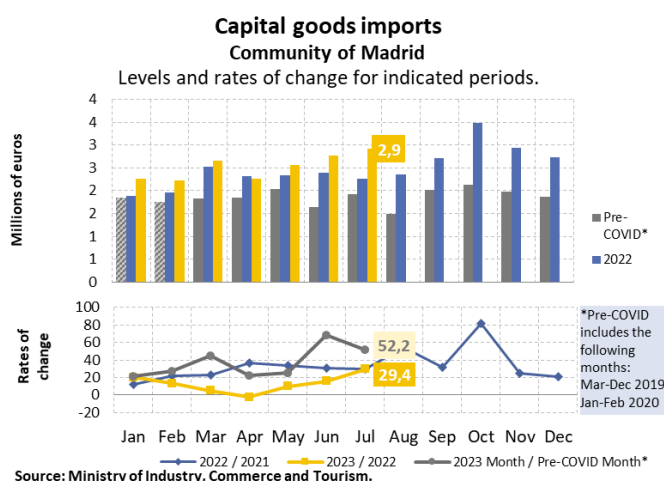
Petrol consumption in Q2 reached the highest volume for this period since 2006. This indicator grew by 1.4% versus 2022, and 15.3% versus the same quarter in 2019. The most recent figure from July reveals the highest consumption for this month since 2005, growing and accelerating to 13.9% YoY, up 3.3% in June, and also exceeding pre-pandemic consumption for July 2019 by 16.9%. For its part, diesel consumption in this quarter accelerated its path of YoY reductions, with a drop of 8.4% in the month and 5.9% in Q1, with consumption falling by 17.5% compared to Q2 2019.

The most recent data for July shows the lowest consumption in the series for this month since 2000, persisting in negative YoY rates for the seventh

consecutive month, after the respite in December 2022, although its downward trend is slowing, falling by 0.2%; in June it had fallen by 2.9% and it fails to exceed pre-pandemic levels of July 2019. Rising prices, together with the demonisation of diesel, has led to a downward trend in the consumption of these fuels, which have not recovered despite government subsidies.

Deflated loans to the private sector are back to negative figures in Q2 2023. After three consecutive quarters of growth, declining by 1.1%, falling below the same quarter of 2019 by 0.9%; banks have tightened the criteria for financing companies and households, and both have contracted demand; as a result, the volume of loans in this quarter is the lowest for this period since 2005. Deflated deposits fell for the third consecutive quarter and accelerated their decline to 10.9%, the largest drop in the historical series; compared with 2019, there was a modest increase of 0.1% in the volume of deposits.

Imports of capital goods in Q2 2023 are the second highest in the quarterly series. Thus, it reached €7.5893 billion, an increase of 7.8% compared to the same period of the previous year, although growth of Q1 2023 slowed, reaching 12%; even so, it is still 36.6% higher than Q2 2019. In July, the latest available data, imports reached €2.9149 billion, the third highest volume in the historical series, and accelerated its YoY growth to 29.4%; in June it grew by 15.6%. Compared to July 2019, it increased by 52.2%.

Capital goods imports
Community of Madrid
Levels and rates of change for indicated periods.

Source: Ministry of Industry, Commerce and Tourism.

V.1.B. External demand

In Q2, the Community of Madrid reduced its trade compared to the same period in 2022, but maintained high volumes. Community of Madrid exports fell 3.9% YoY, compared to the 19% growth in the previous quarter, standing at €12,426 billion, the second highest figure in the series for a quarter, after Q4 2022.

2019-2022 Quarterly Exports-Imports. Community of Madrid.

TARIC Export Weighting — Q2 2023

- 30 PHARMACEUTICAL PRODUCTS
- 87 VEHICLES OTHER THAN RAILWAY OR TRAMWAY
- 27 FUELS, MINERAL OILS
- 84 MACHINERY AND MECHANICAL APPLIANCES
- 85 ELECTRIC APPLIANCES AND MATERIAL
- Rest
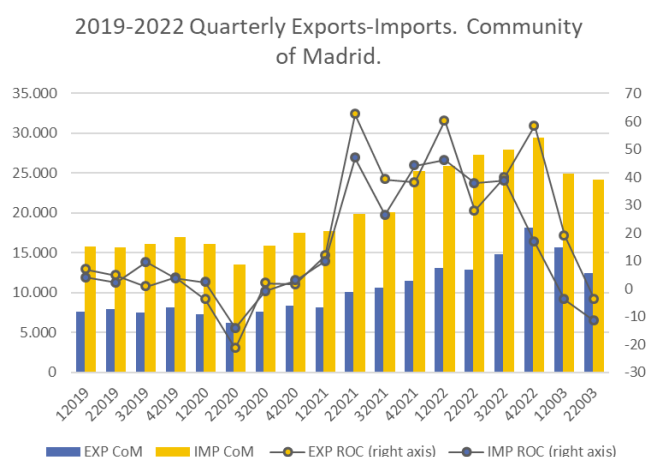
Community of Madrid purchases abroad in Q2 2023 stood 11.6% lower than a year ago, compared to -3.9% in the previous quarter. At €24.167 billion the impressive purchasing figures are the second best in the series, after the peak in Q2 2022.
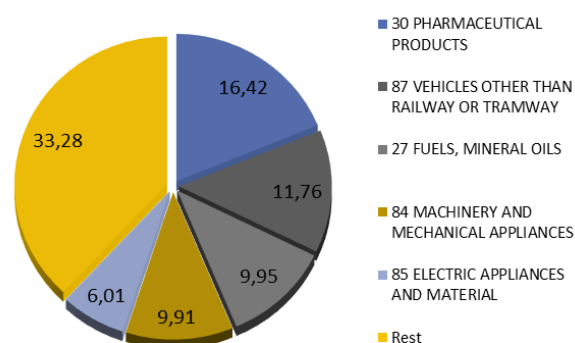
The leading components of 2022 become the most important downward contributions in 2023. *Pharmaceutical products,* the leader in sales, reduces the quarterly rate by 8.4 p.p. €2.04 billion is exported, 35% less than in Q2 2022; however, it is the highest figure in the series up to the same period of 2021. The weight of this category has gone from 29.2% in Q1 2023 to 16.4% in Q2 2023. *Fuel*: *mineral oil* slowed down with -4.2 p.p., selling 31% less than a year ago, with the decrease in the prices of energy products contributing to this fall.

On the other hand, among the categories that most increased the rate in Q2 were Motor vehicles; tractors with a contribution of 4 p.p. and sales of €1.462 billion, a record figure in the quarterly series, 0.4% higher than in the prior quarter, which was the previous high. It is followed by Organic Chemicals with a 3.7 p.p. contribution to the second quarter rate, which arrived on the scene in August 2022 and, after a few months of unusual sales, accumulated €1.174 billion sold in 2023, the seventh highest figure and the strongest growth in the quarter and in 2023.

As for Madrid's imports, the contribution that most depressed the rate is *Fuels and mineral oils* with a fall of 14.3 p.p., the €2.684 billion bought in Q2 reduces the figure from a year ago by 59%, favoured by the decrease in the prices of energy products. This is followed at a distance by *Electrical appliances and equipment* with a -1.3 p.p. contribution and the leader, *Pharmaceutical products*, of which we bought €3.349 billion, 4.4% less than a year ago, but still a very high figure.

In contrast, the most significant contribution, as in the case of sales, comes from *Motor vehicles: tractors,* with €2.671 billion in purchases during Q2 2023. This amount is close to Q4 2022, the highest figure in the last 15 years, contributing 1.4 p.p. to the figure. This is followed by *Aircraft: spacecraft,* which adds 1.1 p.p. to the rate, with €570 million imported.

As for the countries that most drained the variation of exports in Q2 2023, Belgium (-6.7 p.p.), Portugal (-2.3 p.p.) and France (-0.7 p.p.) stand out. On the other hand, the countries that most drove the variation in sales were Italy (4.4 p.p.), China (1.7 p.p.) and the United Kingdom (0.8 p.p.). In terms of purchasing, the main contributors to the decline were the US (-4.3 p.p.), Russia (2.6 p.p.) and China (-1.7 p.p.). On the upside, the most notable contributions in the quarter came from Germany (1.4 p.p.), Italy (1.1 p.p.) and the France (0.7 p.p.).

The data for July, the last one published, shows a reduction in sales (-15.7% YoY) and an increase in purchases (3.8%); although it is the evolution of the *Aircraft: spacecraft* category that determines these variations for the month, a very erratic series until 2020.

V.1.C. Foreign direct investment

Foreign investment received in the second quarter does not exceed the figures for the same period in 2022. Foreign direct investment (FDI) received in Madrid, excluding Foreign Securities Holding Entities (ETVE), decreased in Q2 2023, to €885.2 million, resulting in one of the most moderate investment figures in recent years, and 86.8% below the first quarter. Similarly, compared to Q2 of last year, investment is down by €4.588 billion or 83.8%. For the country as a whole, there was a decrease of 79.1% compared to Q1 2023, amounting to €2.075 billion, and in YoY terms, there was a significant decrease of 74.4% Madrid continues to be the preferred destination for investment in Spain, accounting for 42.7% of the national total.

Inward foreign investment

Millions of euros

Source: Ministry of Industry, Commerce and Tourism
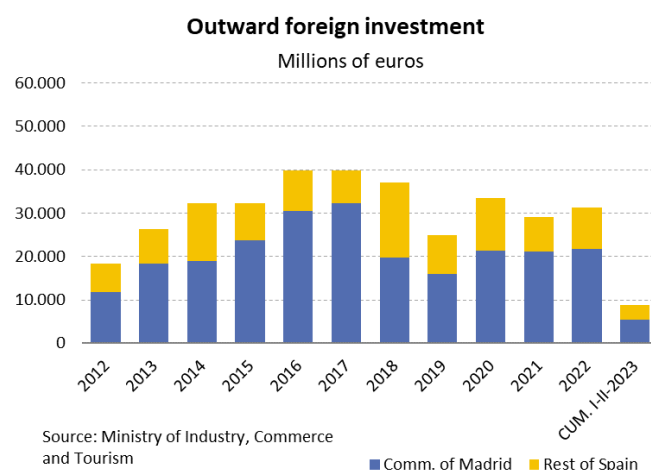
■ Comm. of Madrid ■ Rest of Spain
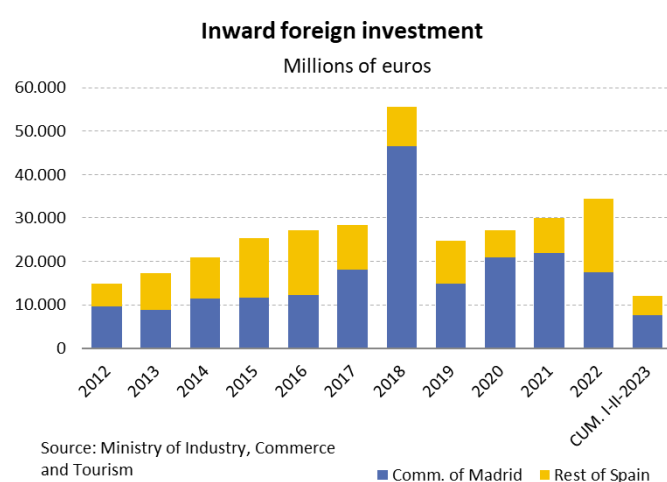
Second-quarter investment by sector in the Community of Madrid was mainly directed towards three branches: *Clothing manufacturing*, which accounted for 21.3% of the FDI received; *Real estate activities*, with 13.8% of the total; and *Retail trade except motor vehicles*, which accounted for 10.8% of the total.

By country, there was a greater dispersion in the origin of the investment received in Madrid in Q2 than in previous periods, with the USA accounting for 16% of the total, followed by the UK (12.2%) and the Netherlands (11.7%).

In the first half of the year as a whole, the FDI received amounted to 7.579 billion, 23.2% lower than that invested in the same period of 2022. The US was responsible for 49.5% of the investment received in the first half of 2023, with the Australia (9.8%) and France (8.8%) also contributing significantly. There was a greater concentration of investment across the different branches, with the main ones being *Extraction of crude oil and natural gas* (44.9%), *Telecommunications* (22%) and *Energy supply* (7.3%).

The same is not true for exterior investment so far this year. Madrid's gross investment abroad, excluding investments in Foreign Securities Holding Entities, experienced a QoQ increase of 23.1% in Q2 2023, with €3.051 billion. It increased by €1.051 billion, 52.5% YoY, compared to Q2 of the previous year. There was also an upswing in investment in Spain as a whole, with €5.059 billion, and of which Madrid accounted for 60.3% of the total in the quarter.

The top two destinations for FDI issued in the last quarter were European countries, with Luxembourg accounting for 67.7% of the total, and Jersey; between them they accounted for 78.9% of investment. Other destinations, less relevant in terms of their weight, were Mexico (4.2%) and Brazil (4.1%).

Outward foreign investment

Millions of euros

Source: Ministry of Industry, Commerce and Tourism

■ Comm. of Madrid ■ Rest of Spain

In terms of sectors, the main branch investing abroad in Q2 was *financial services except insurance and pension funds*, with 94.4%, and *civil engineering* with 2.4% of the total.

In the overall calculation for Q1 2023, the FDI issued by Madrid was 45.6% higher than that of the same period of the previous year, amounting to a total of €5.529 billion. This investment was mainly directed to Luxembourg, with 37.8% of the total, the USA with 16.9%, and Brazil with 10.1%. Among the branches that invested abroad, *financial services except insurance and pension funds*, which accounts for 74.5% of investment, and *warehousing and support activities for transport* with 5.5%.

Main countries of origin of foreign investment in the Community of Madrid. Sectoral flow breakdown

	Investment origin	Investment sector	Volume (millions of €)	Total weight of each country	Weight over total of CoM
Q2 2023					
1	**UNITED STATES**	*Sector totals*	*141,9*	*100,0*	*16,0*
		14 MANUFACTURE OF WEARING APPAREL	94,2	66,4	10,6
		68 REAL ESTATE ACTIVITIES	15,4	10,8	*1,7*
		82 OFFICE ADMINISTRATIVE ACTIVITIES	7,1	5,0	0,8
2	**UNITED KINGDOM**	*Sector totals*	*107,7*	*100,0*	*12,2*
		14 MANUFACTURE OF WEARING APPAREL	94,2	87,4	10,6
		68 REAL ESTATE ACTIVITIES	5,7	5,3	*0,6*
		86 HEALTH ACTIVITIES	3,4	3,2	0,4
3	**THE NETHERLANDS**	*Sector totals*	*103,5*	*100,0*	*11,7*
		47 RETAIL TRADE, EXCEPT OF MOTOR VEHICLES	90,0	87,0	10,2
		68 REAL ESTATE ACTIVITIES	3,2	3,1	*0,4*
		35 ELECTRICITY, GAS, STEAM AND AIR CONDITIONING SUPPLY	3,1	3,0	0,3
Subtotal FDI Received Top 3 countries			**353,1**	**-**	**39,9**
Total FDI Received			**885,2**	**-**	**100,0**
ACCUMULATED I - QII 2023					
1	**UNITED STATES**	*Sector totals*	*3.754,7*	*100,0*	*49,5*
		06 EXTRACTION OF CRUDE OIL AND NATURAL GAS	3.400,0	90,6	44,9
		68 REAL ESTATE ACTIVITIES	135,3	3,6	*1,8*
		14 MANUFACTURE OF WEARING APPAREL	94,2	2,5	1,2
2	**AUSTRALIA**	*Sector totals*	*745,8*	*100,0*	*9,8*
		61 TELECOMMUNICATIONS	561,1	75,2	7,4
		35 ELECTRICITY, GAS, STEAM AND AIR CONDITIONING SUPPLY	151,0	20,2	*2,0*
		24 MANUFACTURE OF BASIC METALS	33,6	4,5	0,4
3	**FRANCE**	*Sector totals*	*670,6*	*100,0*	*8,8*
		61 TELECOMMUNICATIONS	495,1	73,8	6,5
		68 REAL ESTATE ACTIVITIES	46,7	7,0	*0,6*
		49 LAND TRANSPORT AND TRANSPORT VIA PIPELINES	45,9	6,8	0,6
Subtotal FDI Received Top 3 countries			**5.171,1**	**-**	**68,2**
Total FDI Received			**7.579,3**	**-**	**100,0**

Source: Compilation based on data from the Ministry of Industry, Trade and Tourism

Main countries of destination of outward foreign investment from the Community of Madrid. Sectoral flow breakdown.

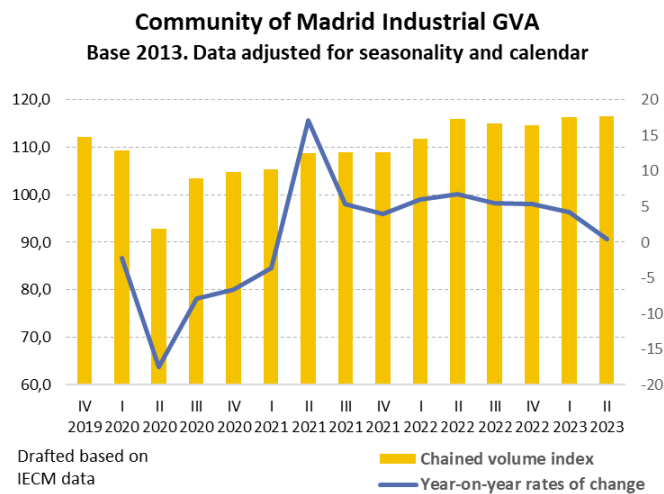|	Investment destination	Investment origin sector	Volume (millions of €)	Total weight of each country	Weight over total of CoM
Q2 2023					
1	**LUXEMBOURG**	*Sector totals*	*2.066,8*	*100,0*	*67,7*
		64 FINANCIAL SERV ACTIVITIES, EXCEPT INSURANCE & PENSION FUNDING	2.041,7	98,9	66,9
		47 RETAIL TRADE, EXCEPT OF MOTOR VEHICLES	19,5	0,9	0,6
		70 ACTV. HEAD OFFICES; ACTIV. MANAGEMENT CONSULTANCY	2,7	0,1	0,1
2	**JERSEY**	*Sector totals*	*342,9*	*100,0*	*11,2*
		64 FINANCIAL SERV ACTIVITIES, EXCEPT INSURANCE & PENSION FUNDING	342,9	100,0	11,2
		99 ACTIV. OF EXTRATERRITORIAL ORGANISATIONS AND BODIES	0,0	0,0	0,0
		98 UNDIFF. GOODS-& SERVICES-PRODUCING ACTIVITIES	0,0	0,0	0,0
3	**MEXICO**	*Sector totals*	*127,6*	*100,0*	*4,2*
		64 FINANCIAL SERV ACTIVITIES, EXCEPT INSURANCE & PENSION FUNDING	116,4	91,3	3,8
		82 OFFICE ADMINISTRATIVE ACTIVITIES	6,4	5,0	0,2
		22 MANUFACTURE OF RUBBER AND PLASTIC PRODUCTS	4,7	3,7	0,2
Subtotal FDI ISSUED Top 3 countries			**2.537,2**	**-**	**83,2**
Total FDI ISSUED			**3.051,0**	**-**	**100,0**
ACCUMULATED I - QII 2023					
1	**LUXEMBOURG**	*Sector totals*	*2.092,5*	*100,0*	*37,8*
		64 FINANCIAL SERV ACTIVITIES, EXCEPT INSURANCE & PENSION FUNDING	2.063,2	98,9	37,3
		47 RETAIL TRADE, EXCEPT OF MOTOR VEHICLES	19,5	0,9	0,4
		70 ACTV. HEAD OFFICES; ACTIV. MANAGEMENT CONSULTANCY	2,7	0,1	0,0
2	**UNITED STATES**	*Sector totals*	*933,9*	*100,0*	*16,9*
		64 FINANCIAL SERV ACTIVITIES, EXCEPT INSURANCE & PENSION FUNDING	840,7	90,1	15,2
		35 ELECTRICITY, GAS, STEAM AND AIR CONDITIONING SUPPLY	83,4	8,9	1,5
		68 REAL ESTATE ACTIVITIES	4,7	0,5	0,1
3	**BRAZIL**	*Sector totals*	*559,9*	*100,0*	*10,1*
		52 WAREHOUSING & SUPPORT ACTIVITIES FOR TRANSPORTATION	291,6	52,1	5,3
		64 FINANCIAL SERV ACTIVITIES, EXCEPT INSURANCE & PENSION FUNDING	168,0	30,0	3,0
		66 OTHER FINANCIAL ACTIVITIES	77,1	13,8	1,4
Total FDI ISSUED			**5.528,6**	**-**	**100,0**
Subtotal FDI ISSUED Top 3 countries			**3.586,3**	**-**	**64,9**

Source: Compilation based on data from the Ministry of Industry, Trade and Tourism

V.1.D. Manufacturing

1. Industry

The Industrial Gross Value Added growth rate eased slightly.

The YoY growth of Madrid's industrial GVA in 2022 as a whole stood at 5.9%, or 0.6 percentage points higher than in 2021 evenly spread over the four quarters of the year, ending the year with a YoY rate of 5.3% in Q4. The regional industry maintained its expansionary pace, though its growth slowed to 4.2% YoY, according to the Community of Madrid's Quarterly Regional Accounts for Q1 2023. This trend intensified in Q2, which showed a meagre growth of 0.4%.
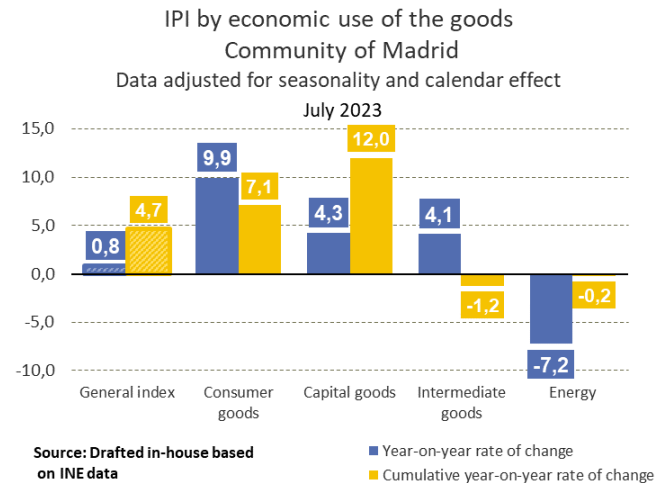
Community of Madrid Industrial GVA
Base 2013. Data adjusted for seasonality and calendar

Drafted based on IECM data

Chained volume index
Year-on-year rates of change

The Industrial Production Index moderates its dynamic tone in Q2 2023.

In July, and with seasonal and calendar adjusted (SCA) data, the Community of Madrid IPI maintained its positive performance of the last eighteen months, although with very moderate YoY growth of 0.8%, which in any case was higher than the YoY decline of 1.8% for Spain as a whole. In Q2 as a whole and in YoY terms, the IPI (SCA) grew by 3.5% in the Community of Madrid, 5.2 points higher than in Spain as a whole, which fell by 1.7% in YoY terms. In Q2, the Community of Madrid IPI was more moderate than in the Q1, when it was 7.2%. The IPI (SCA) in Q2 is 5% above the production levels of the same pre-pandemic period.
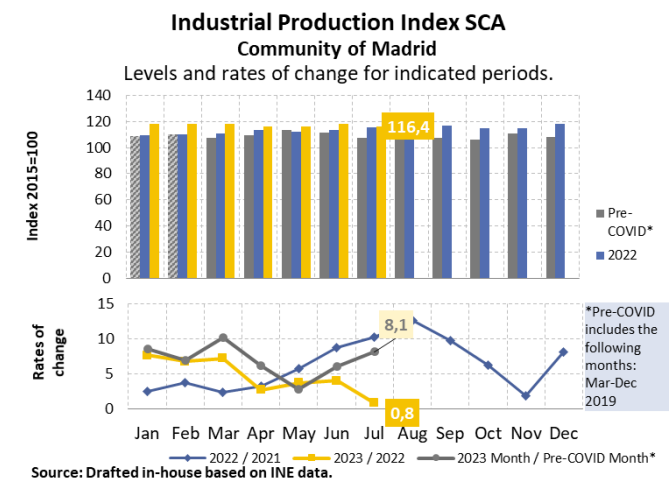
In the analysis by components, in the average of Q2 2023 we can observe positive YoY growth rates in consumer goods of 9.6% (durables by 6.7% and non-durables by 9.7%), as well as in capital goods (by 11.1%). By contrast, both intermediate goods and

energy showed negative YoY growth rates in Q2, by 6% and 3.2%, respectively. In July, the latest available data, only consumer durables contracted in YoY terms, by 4.6%, and energy, by another 7.2%.

IPI by economic use of the goods
Community of Madrid
Data adjusted for seasonality and calendar effect

Source: Drafted in-house based on INE data

Year-on-year rate of change
Cumulative year-on-year rate of change

The Turnover Index also performed fairly well, though there was a certain slowdown in the January-July 2023 cumulative period.

The Community of Madrid's Industrial Turnover Index has shown positive YoY rates since November 2021 and for 19 consecutive months; this favourable evolution was interrupted in June 2023, when it observed a YoY fall of 1.5%, a situation that was confirmed in July with a decrease of 6.5%. This lower YoY activity in the last two months available can only be seen to a very limited extent in Q2, which grew by 7.7% YoY compared to 6.5% in Q1, far from the double-digit growth of 2022.

Industrial Production Index SCA
Community of Madrid
Levels and rates of change for indicated periods.

Pre-COVID*
2022

*Pre-COVID includes the following months: Mar-Dec 2019

2022 / 2021
2023 / 2022
2023 Month / Pre-COVID Month*

Source: Drafted in-house based on INE data.

2. Construction

Construction GVA continued its strong YoY growth in the first quarter.

In 2022 as a whole, regional construction GVA grew by 3.3% YoY, 5.3 p.p. below the previous year. This growth was evenly spread over the four quarters, moderating slightly in the fourth quarter to 2.2%. According to data from the Community of Madrid's Quarterly Regional Accounts for Q1 2023, the sector reaffirmed its growth rate to register a year-on-year growth rate of 3.5%, a trend that was confirmed in Q2 with a YoY growth rate of 4.1%.

Community of Madrid Construction GVA
Base 2013. Data adjusted for seasonality and calendar

Drafted based on IECM data

■ Chained volume index
— Year-on-year rates of change
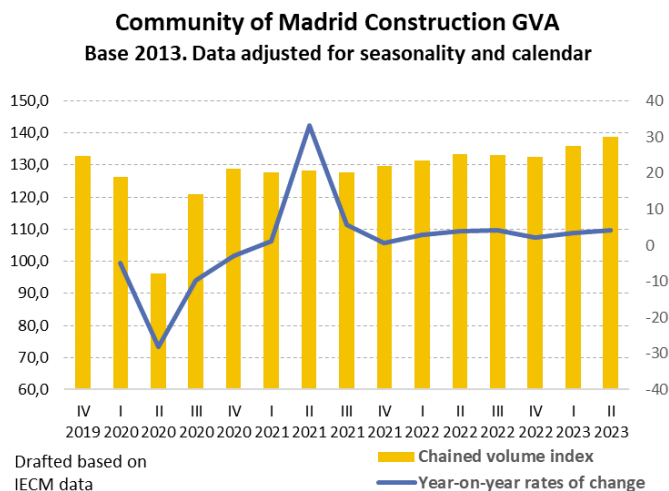
Total tenders in 2022 hit the best level since 2006, contracting in the first half of 2023 due to a decline in Q1.

After the magnificent performance of public tenders in construction recorded in 2021 and 2022, the year with the highest level of activity since 2006 for a total tender volume of €4.5266 billion, total tenders contracted by 14.6% in the first two quarters of 2023 due to the 47% drop in civil works tenders. This reduction in the number of tenders originated in Q1, which showed a YoY decline of 53.3%, caused by a YoY drop of 80.9% in civil works. This development was corrected in Q2, when total tenders grew by 32.7% as a result of the strong increase in building tenders 86.9%.

In terms of leading indicators, and with data through May 2023, all contracted year-on-year. Thus, in the January-May accumulated period, building permits fell by 51.2%. The number of housing permits fell by 15.1% YoY. The total surface area with permits fell by 20.9% and the total amount of surface area with permits fell by 11.1%. In the same cumulative period, work completion certifications, a lagging indicator, fell by 18%.

In the first half of the year, the residential market shrank significantly.

The INE (National Statistics Institute) reports that home sales and purchases decelerated significantly in 2022, growing by 35.1% less than in the previous year, to 3.2% YoY. In the first half of 2023, house sales fell by 12.4%, split between 11.1% in Q1 and 13.8% in Q2. This YoY decline in the accumulated period January-July 2023 was caused by the 7.8% drop in new housing sales and, to a greater extent, by the 14.4% drop in second-hand housing.

Home sales
Community of Madrid
Levels and rates of change for indicated periods.

Source: INE (NATIONAL STATISTICS INSTITUTE)
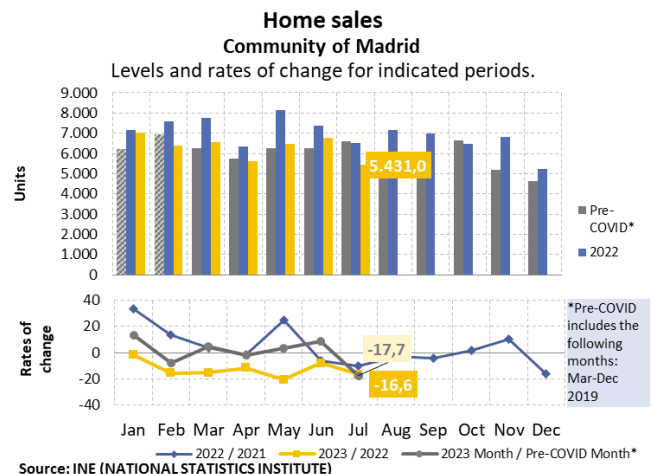
The housing mortgage statistics, both in terms of the number of mortgages and in terms of equity, showed a very positive performance in 2021 and 2022. In 2022, 80,153 residential mortgages were taken out, representing the year with the highest volume of residential mortgages taken out in Madrid since 2010, while €16.811 billion was lent, the highest volume of capital loaned since 2008.

This excellent performance was cut short in the January-June 2023 accumulated period, with negative year-on-year variation rates of 20.1% in the number of home mortgages and 18.9% in capital provided, decreases that are slightly higher than those registered by the Spanish mortgage market as a whole, at 13.7% in the number of mortgages and 15% in the capital provided. This negative performance of the mortgage market accelerated over the first two quarters of the year, with year-on-year decreases of 13.4% in the number of mortgages and 12.3% in the amount of capital provided in Q1, which intensified in Q2, to 26.7% and 25.3% respectively.

3. Services

Annual GVA growth in the services sector persists in Q2 2023 in the region. The real GVA of services (SCA) grew 0.9% in Q2 2023 from the previous quarter, or 2.5% year-on-year. This trend consolidates the annual GVA figures for services, which grew by 5.8% in 2022.

Services GVA. Breakdown by branches
Year-on-year rate of change (%)

Source: QRA, IECM
- Total services
- Distribution and hospitality services
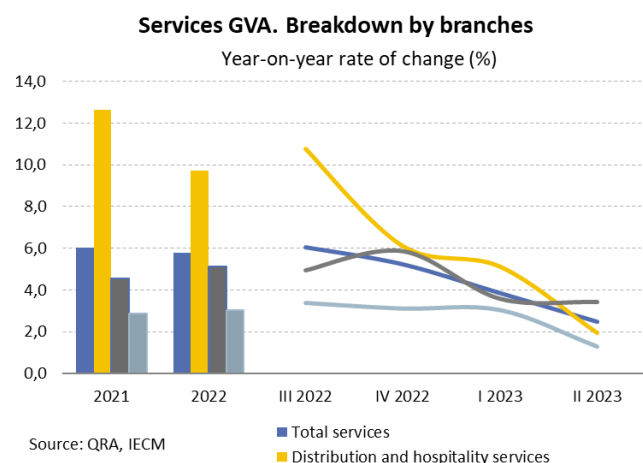
All the branches of services combined posted growth in real GVA (SCA) versus the previous quarter. Of note was the 1.5% rise in *Business and financial services; Distribution and hospitality services*, which also grew by 0.5%; and *Other services*, which grew by 0.3%. All branches grew year-on-year in Q2 2023: *Business and Financial Services* by 3.4%, *Distribution and hospitality* by 1.9% and *Other services* by 1.3%.

The Services Sector Activity Indicators (SSAI) fell in the Q2, but remained above pre-pandemic levels. In Q2 2023, SSAI revenue dropped 4.5% YoY in the Community of Madrid, thus breaking the pattern of growth that began in Q2 2021, while in Spain it grew 0.3%. This index level stood at 13.2% above Q2 2019 in the region, and 18.8% in Spain. Please note that this indicator is not deflated.

The latest available data, for July, shows a year-on-year decline of 1.8% in the Community of Madrid and an increase of 1.5% in Spain.

The SSAI employment index points to a different evolution to the business index in both the Community of Madrid and Spain. It continues to grow, albeit at a slower pace. Year-on-year growth in the Community of Madrid in Q2 2023 was 3.1%, 2% in Spain and, like business, has continues to grow steadily since Q2 2021. Moreover, the indicator in Q2 2023 exceeded pre-pandemic levels, advancing 4.6% in the region and 2.5% in Spain compared to the Q2 2019.

Services Sector Activity Indicators. Turnover.
Community of Madrid
Levels and rates of change for indicated periods.

Source: INE (NATIONAL STATISTICS INSTITUTE)
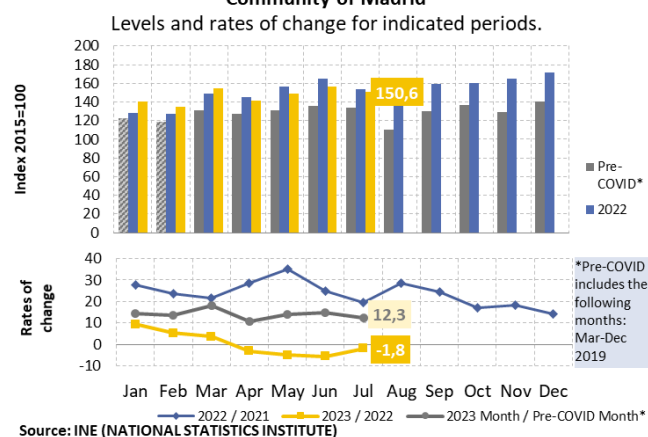
The latest available data, for July, shows a year-on-year growth of 2.8% in the Community of Madrid and 1.9% in Spain.

Air passenger and freight traffic and metro and urban bus transport improved their performance, nearing pre-pandemic levels. Passenger flows at Adolfo Suarez Madrid Barajas Airport increased in Q2 2023 to 15,051,960 passengers, versus 12,895,736 in Q2 2022, and are now nearly at the 15,834,719 passengers registered in Q2 2019.

Additionally, freight traffic at Madrid airport increased by 11.5% YoY in Q2 2023, and is 16.6% above Q2 2019 levels.

In Q2 2023, urban transport in Metro de Madrid posted a significant year-on-year increase of 16.9%. Urban bus transport also posted similar growth, with a 19.7% YoY increase. However, recovery is still incomplete, although they are close to pre-pandemic levels, at 0.04% and 1.3% respectively.

Turnover and Employment figures in the Retail Trade Index (RTI) consolidated increases in Q2 2023. Q2 2023 deflated RTI turnover index in the Community of Madrid was 10.8% higher than in the same quarter of 2022, continuing the progress initiated in Q3 2020. Since then, quarterly data have exceeded the pre-pandemic level. The most recent figure, from June 2023, grew by a remarkable 12% YoY, and consolidated after twelve consecutive months of growth.

In Spain, the index grew by 6.2% YoY in Q2, the third consecutive increase and 4.1% above the pre-pandemic level.

In turn, in Q2 2023, the regional employment rate continues on the positive growth path that began in Q2 2021, and which was only interrupted by stagnation in the last quarter of 2022; it thus advanced YoY by 1.2% in the region, and by 2.1% in Spain. Similarly, and in relation to Q2 2019, it posted an increase of 0.7%.

Retail Trade Index. Turnover.
Community of Madrid
Levels and rates of change for indicated periods.

Source: INE (NATIONAL STATISTICS INSTITUTE)
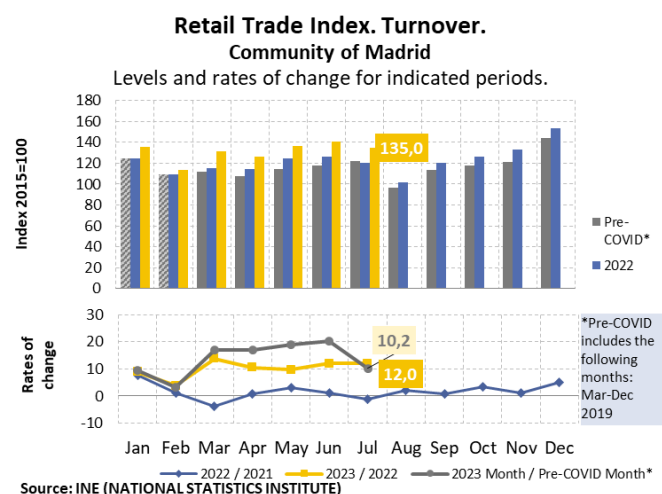
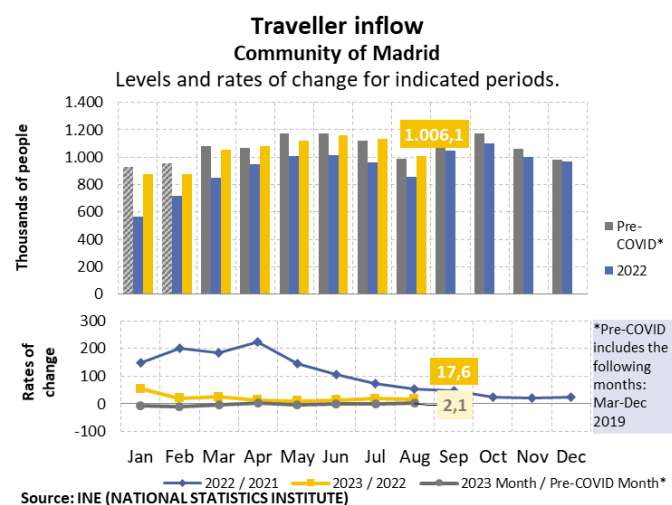**Hotel activity in the Community of Madrid continued to improve in Q2 2023, and advanced to a nearly complete recovery of pre-pandemic levels.** In 2023, slightly more than 3,366,303 passengers were welcomed compared to 2,979,270 in the same quarter of the previous year, continuing the upward trend that began in Q2 2021. The level is, however, still lower than pre-pandemic numbers; 1.3% fewer tourists came in this second quarter of 2023 than in the same period of 2019, when more than 3.4 million travellers came.

Overnight stays paralleled the behaviour of incoming travellers. In Q2, 6,722,513 travellers stayed overnight, surpassing the total for the same period of the previous year by more than 600,000, and coming close to the 2019 total of 6,865,719 overnight stays which marked the series record. It should be noted that the number of travellers and overnight stays in July once again topped the pre-pandemic figures, while the August figure was again 1.2% lower.

By markets, the most influx of travellers to the Community of Madrid in this quarter again corresponds mostly to residents in Spain (52%), slightly exceeding the pre-pandemic weight which was 49.6% in the same quarter of 2019. The later recovery of international demand means that the number of travellers in this segment remains below pre-pandemic, though the number of residents is already above pre-pandemic. Overnight stays by foreigners exceeded nationals for this quarter, with 55.7% of the total in 2023 (58.2% in Q2 2019), although they are still 6.2% lower than the corresponding pre-pandemic figures.

The latest published data from August 2023 reveals a year-on-year growth of 17.6% in the number of travellers and 17.5% in overnight stays.

Traveller inflow
Community of Madrid
Levels and rates of change for indicated periods.

Source: INE (NATIONAL STATISTICS INSTITUTE)

With regard to the occupancy rate, the average of 62.4% for Q2 2023 is an improvement on the 58.6% of the same quarter in 2022 and is close to the same quarter in 2019, when it reached 64.7%. The figure for August 2023 puts the occupancy rate at 53.6%.

With regard to the profitability indicators of the hotel sector, in Q2 2023, the Average Daily Rate (ADR) per occupied room stood at €124.60 in the Community of Madrid, 23.2% higher than the average rate in Q2 2019. The latest published figure, in August 2023, puts the rate at €93.60. The regional daily average for Revenue Per Available Room (RevPAR) was €95.30 in Q2 2023, 19.1% higher than in the same quarter of 2019. The data from 2023 puts it at €56.50.

V.2. Prices and wages

Headline inflation continues to slow its rise in Q2 2023, while core inflation remains at elevated rates, albeit posting its first QoQ decline. As in the previous quarter, the falling energy prices, together with the knock-on effect from the sharp increases a year ago, continue to dampen the rise in inflation in Q2 2023. Throughout the period, inflation slowed by two p.p. to 1.4% in June, the lowest rate since March 2021.

Thus, average inflation in the Community of Madrid in Q2 2023 was 2.4%, as opposed to 4.4% in Q1. However, July's data showed a slight upturn and the latest inflation data published for August confirms this upward trend with a rate of 2.3%, three tenths of a percentage point higher than in July.

Community of Madrid General and underlying Quarterly
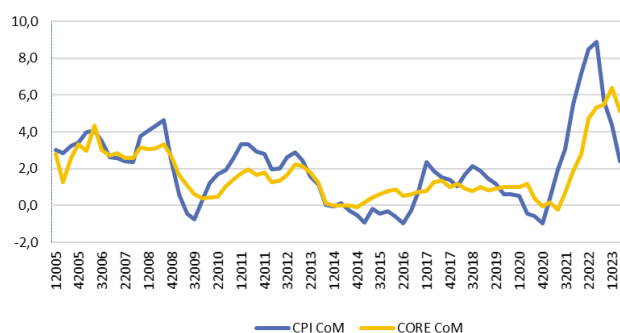
Core inflation, in which only the most structural and less volatile elements are involved, seems to continue the downward trend of the previous quarter in Q2, which, after January's record high of 6.6%, has been on a path of containment. However, the June rate is the same as in May at 4.9%, and the July rate is up by 5.4%. The figure for August, the latest published, is one tenth of a percentage point lower than the previous figure of 5.3%. The Community of Madrid continues to be the region with the lowest core rate.

In Q2 2023, the special group *Energy Products*, which in July 2022 had accumulated 52.1% inflation since the start of the pandemic, gradually eased up to reach a cumulative inflation of 15.6% in June 2020–April 23. Thus, in June, this special group subtracted almost 3 points from the rise in inflation, a month in which it recorded a YoY rate of -23.9%. In August, the latest data published, the YoY rate was -20.4%.

The evolution of *Energy product* prices has a direct impact on the performance of 'Housing' and 'Transport', the groups that most curbed the increase in inflation during this period. 'Housing' recorded an average rate in Q2 of -8.7% (-7.6% in Q1), and the latest published figure is -14.5%, prolonging its downward trend. In Q2, 'Transport' registered -7.2% (-2.6% in the previous

quarter), the lowest in years; but in the last two months, when there was a lot of holiday activity, the YoY rate of the group evolved upwards, standing at -2.5% in August due to the increase in fuel prices.

Of the remaining groups, 'Food and Non-alcoholic Beverages' is particularly noteworthy for its high inflation, which registered an average inflation rate of 11.9% in Q2, down from the previous quarter's rate of 16.3%, the highest in the history of the series. The latest data, from August, continues this trend, with a rate of

Community of Madrid General and underlying Quarterly
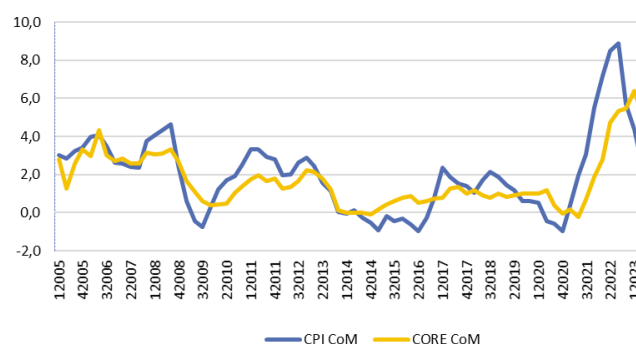
10.9% after a slight upturn in July. But this moderation is largely sustained by the knock-on effect since, one year ago, the Food subgroup was posting double-digit rates; in fact, it continues to accumulate month-on-month increases and has not registered a negative month-on-month rate since June 2021. Thus, cumulative inflation since the start of the pandemic in the *Food* subgroup already stood at 29.1% in August.

IPC España

Quarterly inflation of the 4 most important groups. Community of Madrid.
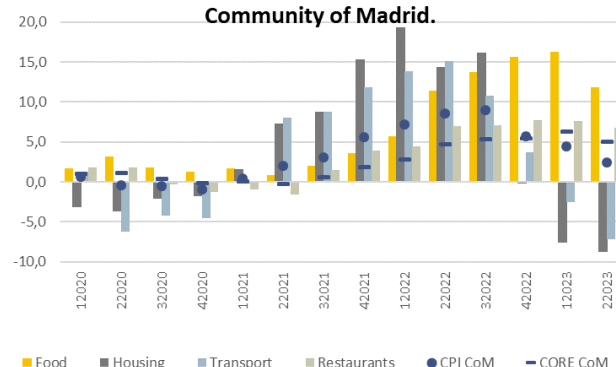
This is followed by 'Alcoholic beverages and tobacco', with inflation in Q2 at 8.4%, two tenths of a percentage point less than the previous quarter, and 12.2% if we count the price increases since the start of the pandemic. The August data stands at 7.4%, confirming the slow cutback that started in April 2023. The 'Restaurants and hotels' group slightly moderated the average rate of the previous quarter and reached 6.7%,

although in the accumulated February 2020-June 2023 period its prices increased by 14.2%. The latest data for the summer season months shows an increase in rates, with 6.7% in August.

Compared with the other Autonomous Regions, headline inflation accumulated in the Community of Madrid since the start of the pandemic (Feb 20-Aug 23) rose to 14.4%; the region with the lowest rate, at 18.7%, was Castilla-La Mancha. In terms of the evolution of headline inflation, Madrid was the least inflationary region from August 2022 to May 2023. In the case of core inflation, the Madrid region has been at the lowest level in Spain for the last year.

Inflation by Region August 2023

- Year-to-date inflation
- CPI. Annual rate of change
- Inflation cumulative Feb 20-Aug 23 (right axis)
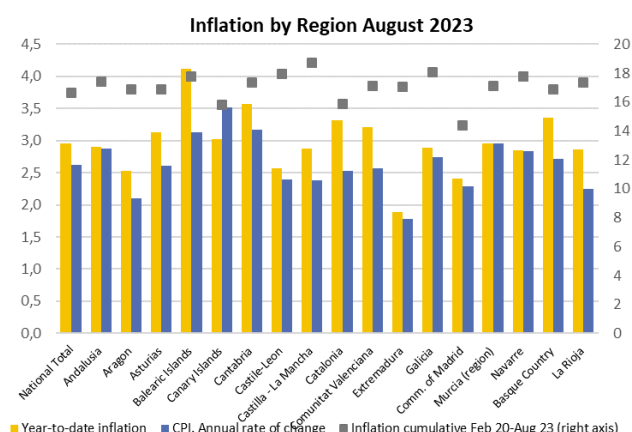
The latest CPI forecast by FUNCAS for Spain in August 2023 notes that the headline rate is expected to continue its upward trend, reaching a rate of 4.9% in December, with an average rate of 3.9% in 2023. In 2024, inflation would start the year with a rate of 4.8% and would be on a downward trend, bringing the December rate to 2%.

Regarding the underlying rate, it would continue its slow decline, leading to a rate of 4.6% in December, with an average rate of 6.2% in 2023. This profile would be maintained for 2024, reaching a rate of 2.1% in December. This is assuming that oil prices are around 90 dollars and that the Mibgas price is the one that is discounted today by the futures markets.

According to the Q2 data published by INE for the Quarterly Labour Cost Survey (QLCS), wages continued to rise, although their growth rate slowed compared to the previous quarter. In Q2 2023, labour costs for companies in the Community of Madrid stood at €3,562.10 per worker per month, the highest in the history of the series, with an increase compared to the same period in 2022 of 5.5% (6.9% in the previous quarter). This figure exceeds the national average by more than €500, which stands at €3,037.5 (5.8% more than a year ago).

By components, *Salary costs* saw YoY growth of 4.3% in the region, while *Other costs* grew by 9.4%. By sector, the rise in wages is driven by the *Services* sector, which is the only sector to register YoY wage growth of 6.6%, with *Construction* and *Industry* registering reductions in wage costs of -17.1% and -3.1% respectively, compared to the same period in 2022. The inflation-wage differential is narrowing thanks to moderating inflation, with wage growth outpacing inflation by 1.9 points in Q2, up from 2.3 points in the previous quarter.

Inflation* and wage cost
Year-on-year rate of change (%)

*Quarterly inflation data
Source: Quarterly Wage Cost Survey (QWCS), INE
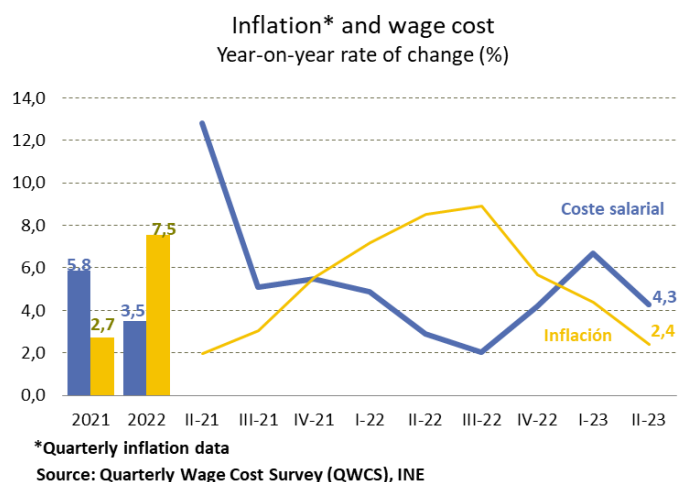
V.3. Labour market

1. LFS

Excellent evolution of the LFS in Q2. The increases in employment and reductions in unemployment, both quarter-on-quarter and year-on-year, generate record highs in the number of active and employed individuals and a notable fall in the unemployment rate.

The number of **jobholders** in the Community of Madrid increased by 77,300 people in Q2 2023, which represents a QoQ increase of 2.4% and places the total number of jobholders at 3,301,600,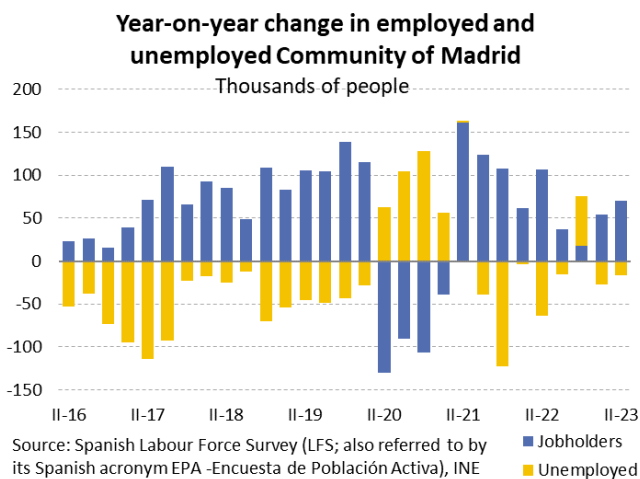 a record high in the series. The quarterly increase in employment, 2.4%, is only surpassed in a second quarter by that recorded in 2005. This strong quarterly performance is reflected in an acceleration of the YoY growth of jobholders in Q2 2023 by half a percentage point to 2.2%.

Year-on-year change in employed and unemployed Community of Madrid

Source: Spanish Labour Force Survey (LFS; also referred to by its Spanish acronym EPA -Encuesta de Población Activa), INE

The number of **unemployed** in the region fell by 49,900, or 12.5% QoQ, to 349,200 people, the lowest number of unemployed since Q4 2008. This is a very positive development: it is the third most dynamic decline for a second quarter, behind only 2002 and 2022. It is precisely the comparison with the historic fall in unemployment a year ago that explains the year-on-year slowdown in unemployment, which went from falling by 6.3% in Q1 to 4.7% in Q2.

Given that the increase in jobholders exceeds the decrease in the unemployed in the quarter and in the year, the labour force in the Community of Madrid rose to 3,650,800 people, a record high in the series. The active population increased by 27,400 people in the quarter, by 0.8%. This increase contrasts with the sluggishness observed one year ago and, as a result,

the YoY increase in active population accelerated significantly, from 0.8% in Q1 to 1.5% at present.

The activity rate in the Community of Madrid rose by one-tenth of a percentage point in the quarter, and fell by four tenths in the year to 63.4% of the population aged 16 and over. This is the result of a more dynamic behaviour of the labour force than of the working-age population in the quarter, but not in the year.

Nevertheless, the unemployment rate in the Community of Madrid fell by 1.4 p.p. from the previous quarter to 9.6% of the labour force, six-tenths of a point lower than observed a year ago, its lowest value since Q3 2008.

Unemployment rate (%)

Source: EPA, INE — Community of Madrid — Spain
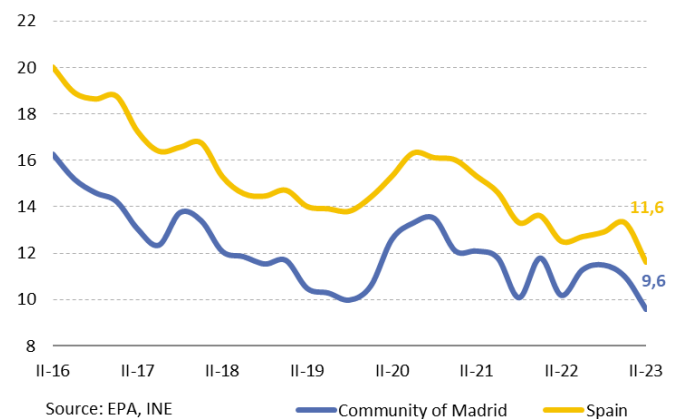
In the regional context, Madrid ranks third in terms of active workforce and jobholders, and second in terms of unemployment. This quarter recorded the second highest activity rate in the national context, and the ninth lowest unemployment rate, together with Galicia.

It also marked the third largest increase in the number of jobholders in the quarter and the fourth largest increase in the year. It also took a leading role in the fall in unemployment, with the third largest reduction in unemployment in the quarter, only behind Andalusia and the Balearic Islands, and the fourth largest in the year. In year-on-year terms, employment increased in fourteen Autonomous Communities and unemployment fell in nine. Employment rose while unemployment fell in five regions in the quarter and in eight regions in the year, including Madrid in both groups.

Sidebar II. LFS flows in Q2 2023: resilience and/or first signs of weakness?

A.- Q2 2023 LFS Flows at a Glance

Image 1

Diagram of flows between quarters I-23 and II-23
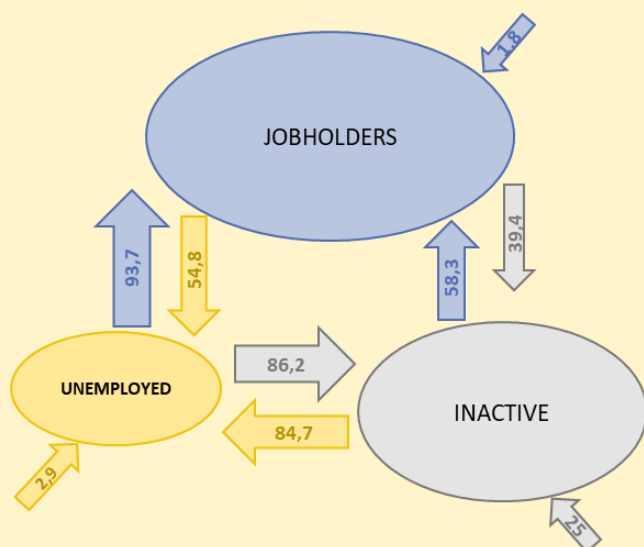
Image 2

Employment (E), Unemployment (U) and Inactivity (I) transitions from I-23 to II-23 (thousands of people).					
	II-23	Employment 3.301,6	Unemployment 349,2	Inactivity 2.105,0	Outflows (b)
I-23	Bilateral flows	ENTRIES			
		J	P	I	
Employment 3.242,1	J		54,8	39,4	94,2
Unemployment 386,7	P	93,7		86,2	179,9
Inactivity 2.097,3	I	58,3	84,7		143
No data -	ND	1,8	2,9	25	
Inflows (a)		153,8	142,4	150,6	
Net balance (a)-(b)		59,6	-37,5	7,6	

Source: Drafted in-house based on LMFS data (INE)

Image 3

LFS Flows 2-23. Breakdown of inflows, outflows and balances
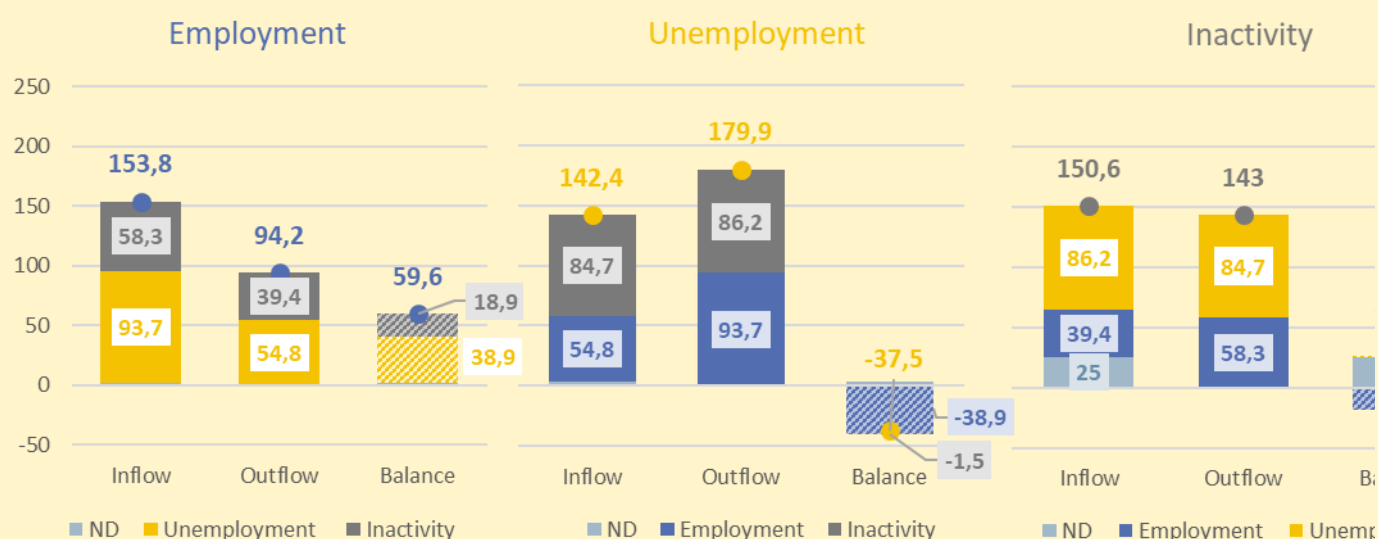
Image 4

Transition from I-23 to II-23 data through flows between employment, unemployment and inactivity			
	Thousands of people		
	Employment	Unemployment	Inactivity
1-23 Data according to LMSF	3.242,1	386,7	2.097,3
- between Employment and Unemployment	38,9	-38,9	-
- between Employment and Inactivity	18,9	-	-18,9
- between Unemployment and Inactivity	-	-1,5	1,5
No data	1,8	2,9	25,0
2-23 Data	3.301,6	349,2	2.105,0

Source: Compilation based on LFS flow survey data (INE)

Image 5

Sidebar using data from Flow Survey (LMSF) with LFS data in II-23			
	Thousands of people		
	Jobholders	Unemployed	Inactive
2-23 (LFS=LMSF)	3.301,6	349,2	2.105,0
1-23 (LMSF)	3.242,1	386,7	2.097,3
Quarterly difference per LMSF (A)	59,5	-37,5	7,7
1-23 (LFS)	3.224,3	399,1	2.101,6
Quarterly difference per LFS (B)	77,3	-49,9	3,4
(B) - (A)	17,7	-12,4	4,3
LMSF-LFS data difference in 1-23	17,8	-12,4	4,3
Unexplained difference	0,1	0,0	0,0

Source: Drafted in-house based on LMFS data (INE)

The Labour Market Flow Statistics (LMFS) facilitate a detailed analysis of the observed transitions between employment, unemployment and inactivity. This sidebar covers a comparison of Q2 with Q4 so we can gain a better understanding of the components involved in this extent of rising employment and falling unemployment.

Since the recovery phase of the previous business cycle began in 2014, all Q2s, with the sole exception of 2020, have seen both increases in employment and decreases in unemployment, a pattern that continues in 2023. But what is interesting is the large amount of quarterly changes in both variables in 2023 and the composition of these changes, as we will analyse below.

The employment-unemployment and unemployment-inactivity transitions have been key in this quarter, with the latter yielding some unexpected results given the age structure of the region's labour market.

A first overview of the flows is given in Image 1. The largest amount is the number of people exiting unemployment and entering employment in Q2 2023 (93,700 people), but of limited size compared to the same quarter of previous years; thus, with the exception of the atypical 2020, one has to go back to 2013 to find a lower flow in this quarter.

The same is not true of new entries into the labour force from inactivity, which are relatively high at 58,300 people; these allow the **inflow into employment** to total **153,800** people in Q2 2023, which is, however, lower than the average for the same quarter in the pre-Pandemic expansionary phase (2014-2019).

It is the transitions in the opposite direction, the **outflows of employment**, **which explain the good performance of employment for the quarter.** The two flows that make it up are particularly small this quarter. Those who lost their jobs during the quarter (54,800), are the second lowest in the series of Q2s. Also notable in terms of containment is the flow of employed to inactivity (39,400 people), the third lowest for a Q2, a result that is surprising given the current demographic context. Overall, only 94,200 people were no longer in employment in the quarter, a historic minimum for a Q2.

The difference between the inflows and outflows of employment quantifies the increase in employment in the quarter, which grew by 59,600 according to the flow statistics. This is the third largest increase for a Q2, second only to 2005 and 2011.

Images 3 and 4 show that this quarterly growth in employment was the result of a positive balance of 38,900 more people in favour of employment in the employment-unemployment transition, to which is added the positive balance of 18,900 people in bilateral flows with inactivity, breaking with the historical pattern

prevailing in Q2s in which inactivity drained employment in net terms.

We may conclude, therefore, that the growth in employment in Q2 is driven not so much by the incorporation of previously unemployed workers, but by the reduced outflows from employment, in which the net incorporation of people from inactivity has played a decisive role. This last factor is noteworthy, given the high number of people close to retirement age, those born in the second half of the 1950s.

With regard to **unemployment inflows**, the most important is the number of inactive people in the previous quarter, with 84,700 people. However, this figure is very contained from a historic perspective. We need to add the small number of people who lost their employment, the already-mentioned 54,800. This is 142,400 in total, which, after the figure registered a year ago, is the second lowest figure in the series since 2008 for this quarter.

The **unemployment outflow** is almost evenly distributed; the top flow this quarter (the transition of 93,700 unemployed to employed) is joined by the high outflow into inactivity of 86,200 unemployed people; together, 179,900 people are no longer counted as unemployed, a figure **in line with the historical average**, but not its composition.

The difference between the total inflows and outflows of unemployed is the variation in the number of unemployed in the quarter, which, according to the flow statistics, fell by 37,500. Given the particularly favourable performance of unemployment inflows this quarter, the reduction in unemployment is the fourth sharpest in a second quarter.

Images 3 and 4 show that this decline in unemployment is the result of the net outflow of unemployed persons into employment (38,900 already mentioned), slightly slowed by a net inflow of 1,500 people into inactivity.

This net inflow of unemployed into inactivity of 1,500 people, contains the net outflow from inactivity to employment (-18,900), and together the incorporation of inactive people whose situation was not known in the previous quarter (25,000), pushed the number of inactive people to grow by 7,600 this quarter.

The quarterly change in LMSF flows regarding employment, unemployment and the inactive workforce points in the same direction but fails to match in quantities, with the quarterly change in these variables

according to the LFS[1], broken down in image 5. The flow analysis thus helps to explain the quarterly variation of the three main variables.

In terms of jobholders, the discrepancy between LFS and LMSF this quarter is similar to that observed in the second quarters series, as depicted in table 4, and the appendix to this sidebar. LMSF and LFS recorded employment increases in Q2 of 59,500 and 77,300 respectively. Therefore, employment flows help to explain the variation in the number of jobholders reported in the LFS.

The quarterly difference between the LMSF and LFS looks similar to the previous one in terms of unemployment, and especially inactivity. Unemployment flows show a significant fall in unemployment in Q2 (the already analysed 37,500 less

unemployed), while the LFS posted higher decrease of 49,900 unemployed, the second highest in the history of the series behind only the one observed a year ago.

The inactivity flows indicate an increase of no less than 7,700 inactive persons in Q2, of 3,400 individuals according to the LSF.

Image 5 shows that the quarterly discrepancy between LMSF and LFS is almost entirely explained by the differences in the values of the variables for Q4.

However, these LFS-LMSF discrepancies are not unique to this quarter, nor are they now of any significant size compared with the Q4s of the historical series. The appendix to this sidebar illustrates these differences over time.

B.- Visualisation of Q2 2023 flows, year-on-year comparison and historical perspective.

As the LFS shows a marked seasonal behaviour, the analysis of the most recent flows will be limited to the flows observed in the same quarter of previous years.

Image 6 provides a quick snapshot of inflows and outflows into employment, unemployment and inactivity in year-on-year terms and in relation to the Q2s of the expansionary phase prior to the health crisis (2014–2019). Images 7 to 9 specify the composition of these flows and include the average of the values in the recessionary phase of the previous cycle. Images 10 and 11 position the data for Q2 2023 in the historical series, segmented according to cyclical phases.

Images 12 to 14 provide a summary of the latest determinants of the quarterly change in employment, unemployment and inactivity in the Q2s of the historical series according to the flow statistics. They also show the reconciliation of LMSF/LFS data analysed in the previous section.

Image 6

Labour market flows CoM				
	II-23		Historical comparison (thousands of people)	
	Thousands of people	Yearly variation (%)	II-22	Average Q2 14-19
Employment inflows	153,8	-6,9	165,2	156,4
Employment outflows	94,2	-18,2	115,2	120,6
Unemployment inflows	142,4	5,4	135,1	160,2
Unemployment outflows	179,9	2,1	176,2	196,2
Inactivity inflows	150,6	9,6	137,4	147,5
Inactivity outflows	143,0	13,2	126,3	132,3

Source: Labour force flow statistics (LMSF, INE)
)

Image 7

Q2, employment flow, historical trend
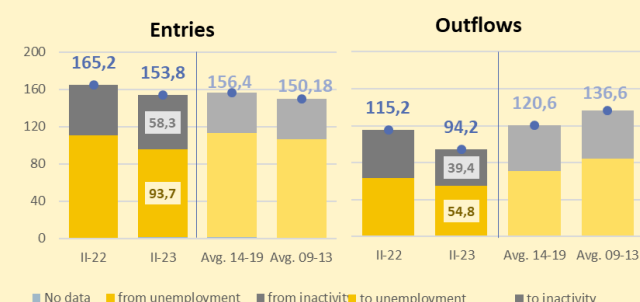
Entries: II-22 165,2; II-23 153,8 (58,3 / 93,7); Avg. 14-19 156,4; Avg. 09-13 150,18
Outflows: II-22 115,2; II-23 94,2 (39,4 / 54,8); Avg. 14-19 120,6; Avg. 09-13 136,6

No data · from unemployment · from inactivity · to unemployment · to inactivity

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Inactivity flows in Q2, Historical trend

Image 8

Q2 employment flows. Historical trend

Source: Compilation based on LFS flow survey data (INE)
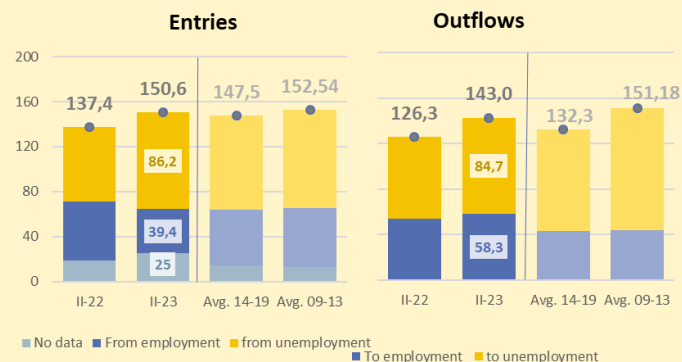
Source: LMSF, INE

Source: Compilation based on LFS flow survey data (INE)

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Image 10

Principales flujos y saldos bilaterales de la EPA en los II trimestres. Serie histórica 05-23

*Interpretación del saldo bilateral A-B: + indica crecimiento de A; - crecimiento de B
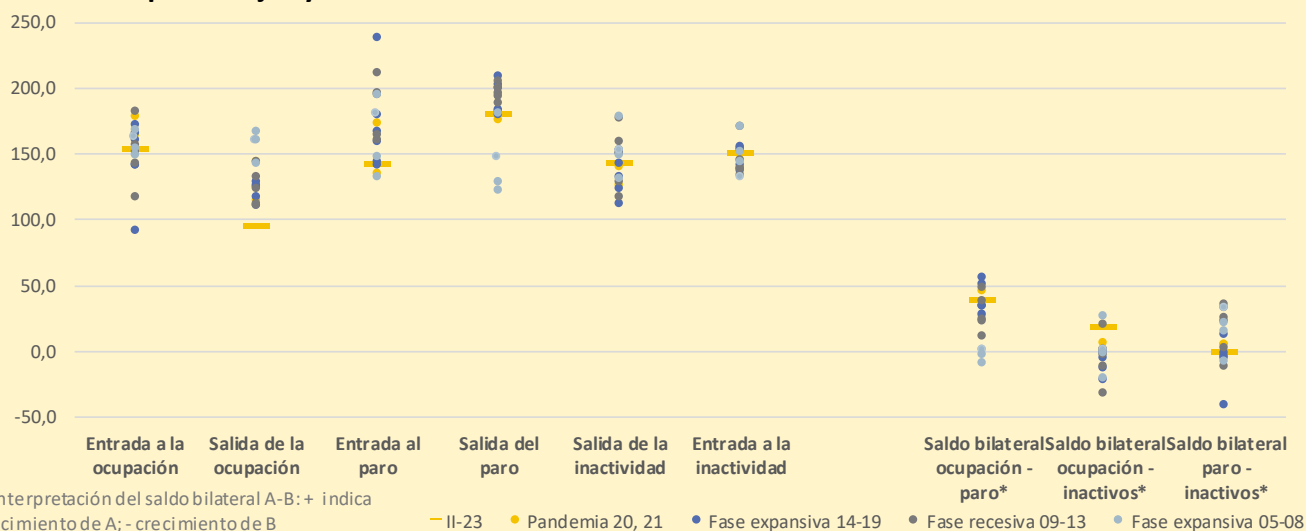
Source: Compilation based on LFS flow survey data (INE)

Image 11

Q2 LFS flows. Historical series 05-23. Components

Source: Compilation based on LFS flow survey data (INE)

C.- Conclusions

The LFS results for Q2 2023 have been positive, combining increases in employment and reductions in unemployment, as is typical in the region in the second quarters of the year. However, there are **two aspects** worth highlighting: the **intensity** of these variations, and the **composition** of flows that have made them possible.

The extent of the changes in employment and unemployment, both from LMSF and LFS data, can be described as very positive.

The LMSF also provides relevant details on these variations. **The growth in employment in the quarter was due not so much to a high inflow but rather to a very limited outflow.** Moreover, it has been the increase in employment inflow from inactivity that has allowed the employment inflow to be sustained at levels similar to historical ones, given the relative weakness of the transition from the unemployed to employed.

The limited outflow of employed individuals has been the key to increasing this variable in the quarter, in which the containment of the flow towards unemployment is noteworthy, together with an also very low outflow of workers towards inactivity.

It could be thought that these features may be coherent with a regional labour market that has gained in employment stability, which would explain the decrease in the flow between employment and unemployment, where the good momentum in terms of economic activity

is boosting net inflow from inactivity, even though there are large cohorts of the population close to retirement age. However, we may wonder whether the rising cost of living could be behind the decreasing flow from employed to inactive.

Another question, which the data for the coming quarters will clarify, is whether the drop in the flow of unemployed to employed people signals an incipient weakening of the labour market, placing us at the turning point of the series of employed people, which, let's not forget, reached its historical maximum of more than 3.3 million in Q2 2023.

This hypothesis may seem bold in view of the performance recorded in a quarter where even YoY employment growth has picked up; but it is worth keeping an eye on the possible signals emanating from the flows.

Thus, the variation in the number of people unemployed, and bearing in mind that the behaviour of unemployment a year ago was especially positive, has undoubtedly shown a favourable evolution in Q2 2023.

At the root of this good performance is the containment of the inflow into unemployment, which may be reflecting greater stability in the labour market as mentioned above. Likewise, unemployment outflow has remained at levels similar to the historical average, sustained by an increase in the flow towards inactivity, consistent with the demographic structure of the labour force.

Graphical summary of conclusions

Source: Compilation based on LFS flow survey data (INE)

Appendix - LMSF-LFS variable matching. A historical perspective

Image 12

QUARTERLY CHANGE IN EMPLOYMENT FLOWS IN Q2. HISTORICAL TREND
Driving factors of the quarterly change in flows (LMSF) and stock (LFS)
People

Legend: Net unemployment flow · Net inactivity flow · No data · LMSF-LFS difference Q2 · LFS employment change: · Employment flow change

Image 13

QUARTERLY CHANGE IN UNEMPLOYMENT IN Q2. HISTORICAL TREND
Driving factors of the quarterly change in flows (LMSF) and stock (LFS)
People

Legend: Net employment flow · Net inactivity flow · No data · LMSF-LFS difference Q2 · LFS unemployment change · Unemployment flow change

Image 14

QUARTERLY CHANGE IN INACTIVITY IN Q2. HISTORICAL TREND
Driving factors of the quarterly change in flows (LMSF) and stock (LFS)
People

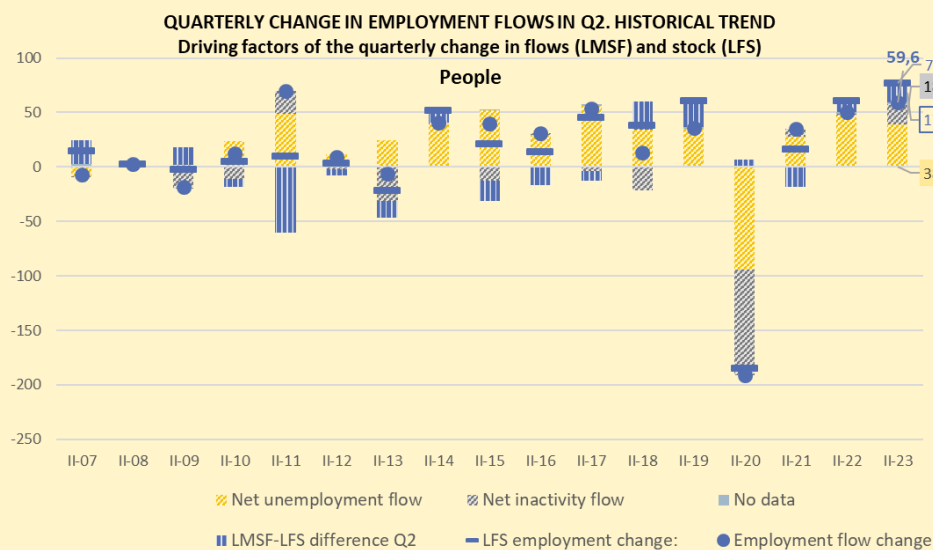Legend: No data · Net employment flow · Net unemployment flow · LMSF-LFS difference Q2 · LFS inactive change · Inactive flow change
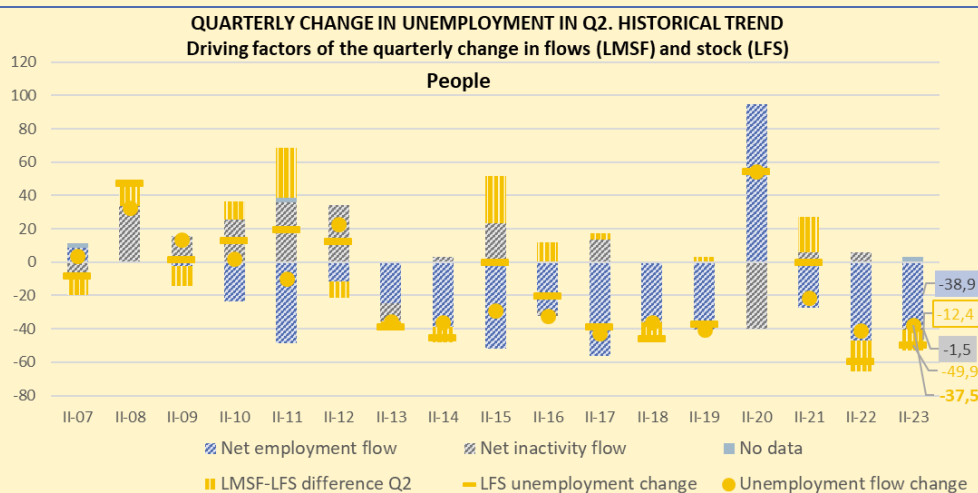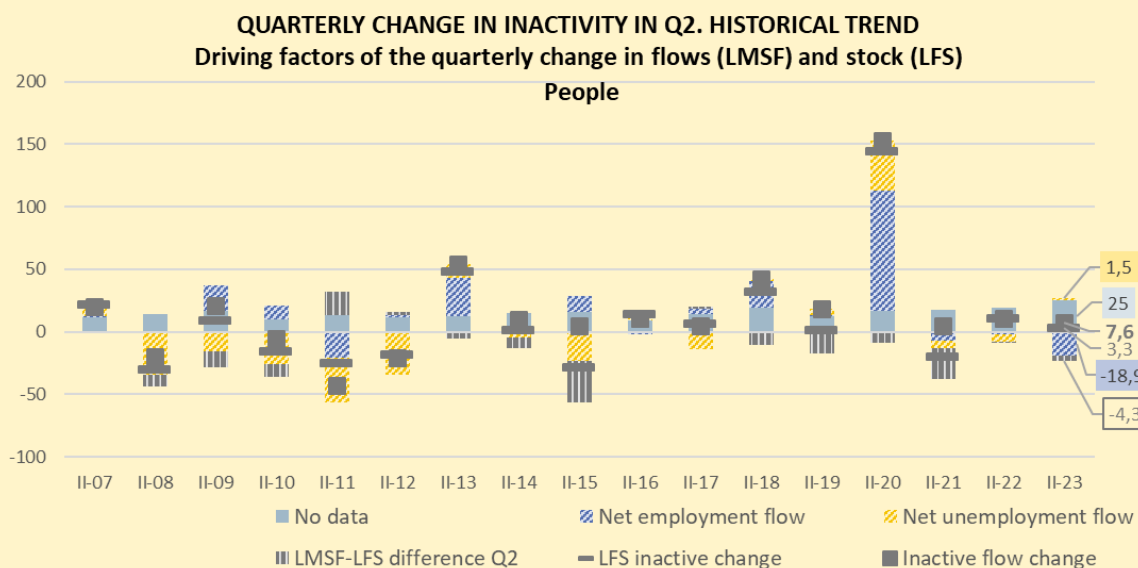
Source: Compilation based on LFS flow survey data (INE)

Sidebar 2. Employment situation of households in the Community of Madrid according to the LFS, recent trends and pre-pandemic comparison

	Households whose active members are all employed	Households whose active members are all unemployed	Households whose members are all inactive	All households	Single-person households whose members are all			All single-person households
					Jobholders	Unemployed	Inactive	
Level (thousands) [% / total households]								
2019Q2	*1,652.4 [63.0]*	*96.1 [3.7]*	*649.4 [24.7]*	*2.624,4*	*316.2 [46.4]*	*31.3 [4.6]*	*334.1 [49.0]*	*681,6*
2021Q2	1,601.0 [60.8]	108.2 [4.1]	671.9 [25.5]	2.632,0	312.0 [45.0]	33.0 [4.8]	347.7 [50.2]	692,6
2022Q2	1,732.4 [64.8]	104.1 [3.9]	624.1 [23.3]	2.674,0	351.4 [48.3]	34.9 [4.8]	341.8 [46.9]	728,1
2023Q2	**1,759.4 [65.0]**	**104.4 [3.9]**	**635.4 [23.5]**	**2.707,8**	**393.9 [53.1]**	**30.5 [4.1]**	**317.4 [42.8]**	**741,8**
QOQ differences (thousands)								
2021Q2	-5,2	-12,2	21,4	-1,6	-9,7	-5,8	19,3	3,8
2022Q2	54,9	-18,7	-3,2	8,6	-11,2	-1,3	16,0	3,4
2023Q2	**37,7**	**-11,2**	**-14,6**	**11,2**	**11,5**	**-5,3**	**-5,2**	**0,9**
Quarter-on-quarter changes (%)								
2021Q2	-0,3	-10,2	3,3	-0,1	-3,0	-15,0	5,9	0,5
2022Q2	3,3	-15,2	-0,5	0,3	-3,1	-3,7	4,9	0,5
2023Q2	**2,2**	**-9,7**	**-2,2**	**0,4**	**3,0**	**-14,9**	**-1,6**	**0,1**

Table title: **HOUSEHOLDS COMMUNITY OF MADRID (thousands and %) Q2**

Source: Compilation based on microdata from the LFS (INE).

The Labour Force Survey for Q2 2023 puts the total number of households in the Community of Madrid at 2,707,800, of which, just over one in four (27.4%) were single-person households.

The total number of households increased in the quarter and in the year, 0.4% and 1.3% respectively, and exceeded by over 83,000 those existing before the pandemic, in Q2 2019.

The rise in the number of single-person households accounts for 40% of the rise in total households over the year and more than 70% of the growth in relation to the pre-pandemic period, although their evolution in the last quarter slows total household creation.

The household employment situation analysis in Q2 2023 is in line with the analysis carried out so far, which used the individual as the unit of measurement. Thus, in Q2 2023, there were 1,759,400 households with all members employed; not only did the number grow in the quarter and year, but it did so above the growth in total households, increasing its weight to 65% of all households (5.3 points above the participation of this segment in Spain).

The same can be seen in the pre-pandemic comparison, with 107,100 more households with all members employed than in the Q2 2019, an increase of 6.5% compared to a growth of 3.2% in total households (83,500).

Meanwhile, the number of households whose active members are all unemployed dropped to 104,400 in Q2 2023, which allows it to return to values very similar to those of a year ago (104,100). Thus, its share of total households fell from 4.3% in the previous two quarters to 3.9% in the current quarter.

The pre-pandemic comparison shows an increase in this segment of households, both in number and weight in the total, as the 96,100 units counted at that time accounted for 3.7% of all households.

Households whose members are all inactive fell in the quarter to 635,400 households (23.5% of total households), growing by 1.8% over the year and dropping by 2.2% in the pre-pandemic comparison in a situation where the number of total households rose, meaning that their current weight is 1.2 points lower than that observed in Q2 2019.

In Q2 2023, single-person households were mostly composed of households with an employed member, about 400,000 units or 53.1% of single-person households. There are another 317,400 households with an inactive member.

As was the case for the total number of households with all members employed, the single-person household segment shows increases in the three quarterly, year-on-year and pre-pandemic comparisons, with the dynamics of single-person households being a determining factor in their evolution, as we shall see in detail.

There are now 77,600 more households than in Q2 2019, accounting for 72.5% of the increase in this period of the total number of households with all members employed, despite accounting for 'only' 22.4% of these.

This characteristic is accentuated in the yearly comparison, given that the rise in the number of single-

person households with an employed member far exceeds the rise in the number of households with all members employed (42,500 versus 27,000).

Added to these growth differentials is a greater dynamism than that observed for single-person households as a whole, leading to an increase in the weight of this type of household in the total number of single-person households, to 53.1%, compared with 46.4% in Q2 2019.

Yet, this synchronous evolution of single-person and multi-person households with all their active members employed is not observed in the other two main categories of households in relation to their employment status.

Thus, the number of households with an inactive member decreased in the three quarterly, annual and pre-pandemic comparisons, while, as we have seen, the number of households with all their members inactive, the group to which it corresponds, increased in relation to a year ago.

However, it is clearly in households with all members unemployed that a greater disparity can be seen between the behaviour of the part (single-person households) and the whole, which is surprising given

that these represent 50% of the total number of households with all members unemployed.

On the other hand, and as observed in the typology of households with employed members, the evolution of the single-person household segment is especially favourable. Thus, the number of households with an unemployed member decreased in the three comparisons involved, although we should remember that the number of households with all their members unemployed increased compared to a year ago and pre-pandemic.

Given that the total number of single person households has grown in the quarter, in the year and with respect to the pre-pandemic period, the decrease in those whose only member is unemployed has caused this category to reduce its participation in the total number of single-person households from around 5% in 2021 and 2022, to 4.1% in Q2 2023.

It can thus be concluded that the strong performance of the labour market in Q2 has also been reflected when the unit of measurement is the household, with the very favourable dynamics of single-person households being a determining factor in this performance.

HOUSEHOLDS COMMUNITY OF MADRID (thousands and %) Last mobile year							
Households whose active members are all employed	Households whose active members are all unemployed	Households whose members are all inactive	All households	Single-person households whose members are all			All single-person households
				Jobholders	Unemployed	Inactive	
Level (thousands) [% / total households]							
2022Q3	1,704.6 [63.7]	98.2 [3.7]	634.9 [23.7]	2.674,8	365.0 [49.5]	27.7 [3.8]	344.5 [46.7]	737,2
2022Q4	1,686.4 [62.9]	115.6 [4.3]	641.7 [23.9]	2.681,2	363.8 [49.0]	41.8 [5.6]	336.4 [45.3]	742,0
2023Q1	1,721.7 [63.8]	115.6 [4.3]	650.0 [24.1]	2.696,7	382.3 [51.6]	35.9 [4.8]	322.6 [43.5]	740,8
2023Q2	1,759.4 [65.0]	104.4 [3.9]	635.4 [23.5]	2.707,8	393.9 [53.1]	30.5 [4.1]	317.4 [42.8]	741,8
YOY differences (thousands)							
2022Q3	104,1	-0,2	-33,8	38,1	52,1	-10,1	-0,2	41,9
2022Q4	-9,4	16,3	4,3	28,9	13,4	13,1	2,4	28,8
2023Q1	44,2	-7,2	22,7	31,2	19,7	-0,3	-3,2	16,2
2023Q2	27,0	0,2	11,3	33,8	42,5	-4,3	-24,4	13,7
Year-on-year changes (%)							
2022Q3	6,5	-0,2	-5,0	1,4	16,7	-26,7	-0,1	6,0
2022Q4	-0,6	16,5	0,7	1,1	3,8	45,4	0,7	4,0
2023Q1	2,6	-5,9	3,6	1,2	5,4	-0,9	-1,0	2,2
2023Q2	1,6	0,2	1,8	1,3	12,1	-12,5	-7,1	1,9

Source: Compilation based on microdata from the LFS (INE).

## Sidebar 3. Analysis of other employment-related LFS variables

Employed persons who did not work in the reference week.

The number of people in this situation recorded in the Community of Madrid stood at 209,200 in Q2 2023, which was 25,800 fewer employed people than in the previous quarter and 18,800 fewer than one year ago. Relative to Q2 2019, before the covid crisis, the number of employed people who did not work in the reference week is now higher, by 66,000.

JOBHOLDERS NOT WORKING IN REFERENCE WEEK BY REASON FOR NOT WORKING (thousands) Community of Madrid					
Reason	2019Q2	2020Q2	2021Q2	2022Q2	2023Q2
Holidays or leave	68,5	33,5	43,9	72,7	71,4
Childbirth	5,9	15,0	27,4	24,6	16,4
Illness or accident	60,9	133,7	100,7	117,0	109,8
Partial lay-off for technical or economic reasons	0,0	258,6	0,7	0,9	2,0
Furlough scheme	0,0	226,9	9,6	0,9	0,0
Strike or labour dispute	0,0	0,0	0,0	0,0	0,0
Other reasons	8,0	10,3	4,6	9,8	8,6
Unknown	0,0	0,0	0,0	0,0	0,0
Unclassifiable	0,0	2,3	0,6	2,1	1,0
Total	143,2	680,3	187,6	228,0	209,2

Source: compilation based on microdata from the LFS (INE).

However, the quarterly variation of this variable, which is highly seasonal, indicates a trend in Q2 2023 that is quite similar to that observed before the pandemic: the number of employed persons not working in the reference week fell QoQ by 11.0% in 2023, and by 13.4% in Q2 2019.

Jobholders not working in relation to all jobholders (%)

Source: compilation based on microdata from the LFS (INE).
■ Community of Madrid ■ Spain
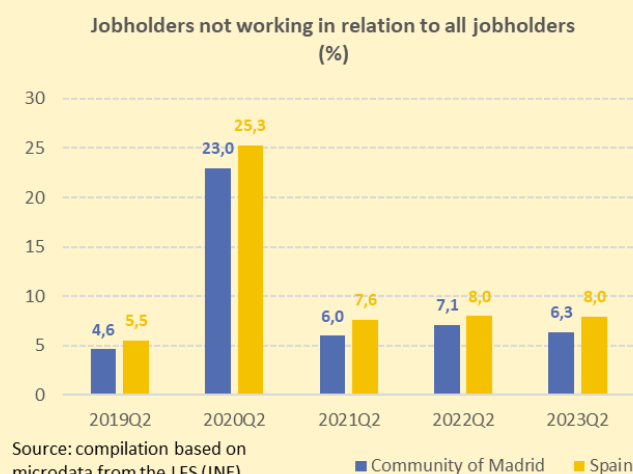
The proportion of employed persons who did not work in relation to the total employed persons in all second quarters since 2019 is slightly lower in the Community of Madrid than in Spain. In the second quarter of 2023, they accounted for 6.3% of the total number of employed persons in the region; for Spain as a whole the figure was 8%, while these percentages a year ago were 7.1% and 8%, respectively.

However, the pre-pandemic gap is particularly wide in both territories: in Q2 2019, only 4.6% of those employed in the region and 5.5% of those employed nationally did not work in the reference week.

The majority of jobholders in the region not working in Q2 2023 (52.5% or 109,800 individuals), belong to the *illness or accident* category, which differs from the pre-pandemic pattern when the main reason for absences from work was *Holidays or leave*, with 47.8% of jobholders not working in the reference week in Q2 2019.

In Q2 2023, this last factor, *Holidays or leave*, accounted for 34.1% of absences from work (71,400 people). This value is very similar to that recorded before the pandemic, although its weight in the total number of absences was notably higher, as noted above, at 47.8% then compared to 34.1% now.

The once key categories, *Partial lay-off for technical or economic reasons and furlough scheme (ERTE/ERE)*, play a very residual role in Q2 2023, in contrast to Q2 2020 (see the first table).

Employed persons who did not work due to sickness, partial unemployment, furlough in relation to all employed persons who did not work (%)

Source: compilation based on microdata from the LFS (INE).
■ Community of Madrid ■ Spain
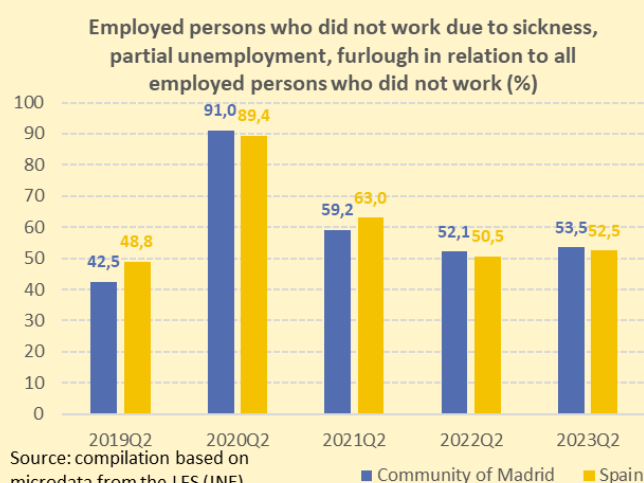
Thus, the sum of workers who did not work due to illness, partial unemployment or ERTE or ERE, which accounted for 91% of jobholders who had not worked in Q2 2020, the worst quarter of the pandemic, now accounts for 53.5%. However, current employment levels still exceed pre-pandemic values (42.5), and looking at the evolution of the three components it seems that, although the now somewhat diminished health effects of the pandemic are still palpable, the number of employed persons still subject to the mechanisms put in place to deal with the effects of the pandemic on employment relationships is residual. The situation in Spain is similar, reflected in the previous chart.

Effective hours worked.

The **total number of effective weekly hours** worked by all employed persons (main job) in the Community of Madrid in the second quarter of 2023 exceeded 108 million, the highest figure of hours worked since 2019. This means a growth of 1.1% compared to the previous peak of the series in Q1 2023, which is in line with the historical seasonality of the series, which in the second quarters exceeds the hours worked in the first quarters.

The smaller quarterly increase in 2023 than in 2022 in this Q2 explains the prolongation of the trend of annual slowdown in hours worked, to 1.4%.

Effective hours worked. Community of Madrid

Source: compilation based on microdata from the LFS (INE).

Effective hours worked. **Annual changes**

Source: compilation based on microdata from the LFS (INE).
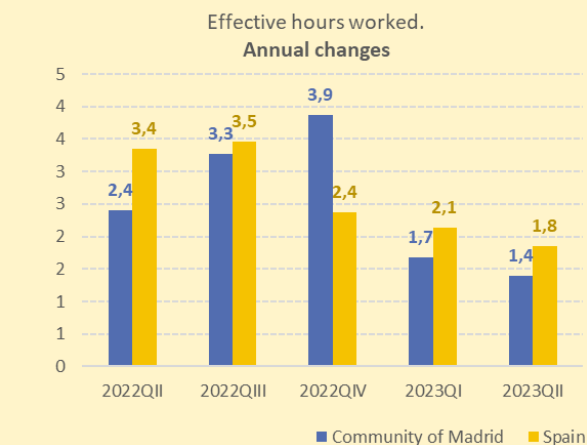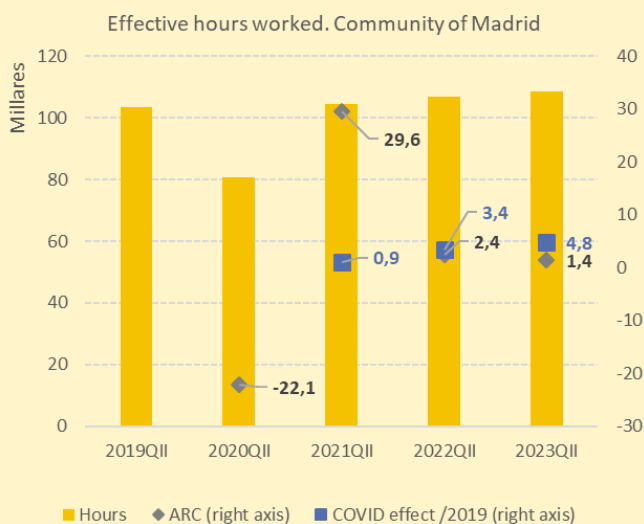
In Spain, this variable grew YoY by 1.8% in Q2 2023, although it is below pre-COVID crisis levels, and shares with Madrid the profile of slowing growth.

In both territories, actual hours worked in the first two quarters of 2023 far exceed those in the same periods of 2019, breaking with the drops recorded in the second half of 2022.

On the other hand, the **average weekly effective hours per employed person** in the region only regained pre-pandemic levels in Q1 2022, with the rest remaining below them. Across the region, 36.1 hours per week were worked in Q2 2023, 36.6 a year ago, and 36.9 hours in Q2 2019.

The country's economy as a whole has progressed similarly in recent periods, although the pre-crisis levels have not been recovered at any time. Thus, the hours worked in Q2 2023 are 1.7% below the effective hours in the same quarter of 2019 in Spain and 2.1% lower in the Community of Madrid.

Average effective hours per week per jobholder

Source: compilation based on microdata from the LFS (INE).
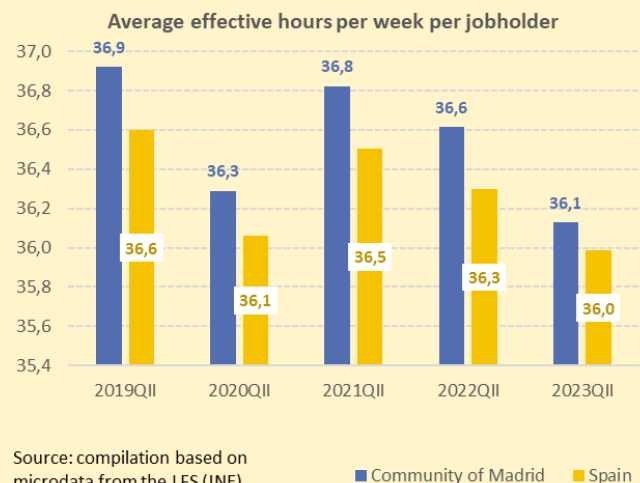
However, the average weekly effective hours per employee in the region remained above the national average in the second quarters of the year since 2019; in fact, the number of average weekly effective hours per employee in Spain exceeded the regional average only in the third quarter of 2020.

2. Social Security Enrolment

Excellent performance of Social Security enrolment in the Q2 2023, hitting record highs in the quarterly series for the main schemes and for both genders.
With an average of 3,561,602 new enrolments, it again surpasses the previous quarter's record and shows a strong growth rate of 4%, one tenth of a point higher than in the previous quarter, the third largest increase for a second quarter since 2006.

Both genders and the general and self-employment schemes have the highest number of employees for the quarterly series. Once again, the performance of female enrolment and of the general scheme continued to be more dynamic, with year-on-year increases in the Q2 of 4.3% and 4.5% respectively. The self-employment scheme grew at a more muted rate of 0.5%, but one tenth of a percentage point above the increase in Q1 2023.

Both genders and the general scheme also contributed in Q2 to the dynamism of their outstanding YoY increases, given that this is taking place against a backdrop of peak enrolment levels, as mentioned above.

The analysis of the general scheme, excluding the special agricultural and domestic workers' schemes, is decisive in determining the distribution by activity of total enrolment. In the second quarter of the year, it accounted for 88.8% of the total, with 87.6% of enrolment in the services sector in this scheme. It should be noted that all sections of this sector in this period experienced year-on-year increases and increases in enrolment versus Q2 2019, except for *Rest of services*, which fell 0.8% on the pre-crisis figure, with *Public administration and defence*, and *Information and communications*, with 29.6% and 23.5% respectively above pre-crisis levels. Total enrolment in this scheme grew by 4.6% in Q2 and by 11.6% compared to the same period of 2019.

The latest available data, corresponding to July and August 2023, and despite the seasonal month-on-month decrease, reached the highest enrolment figures for these months and have now exceeded 3.5 million enrolments for seven consecutive months. In the summer months, the YoY increases were 3.9%. The same pattern of behaviour can be seen in the breakdown by gender: men increased YoY by 3.6% and women by 4.3% in July and August, while the general scheme decelerated by one tenth of a point in August, 4.3% compared to July's growth; however, the self-employment scheme picked up in August by two tenths of a point compared to the previous month, 0.8% YoY.

With regard to pre-pandemic enrolment, the region has not ceased to recover volume month by month since February 2021 and the figure for August 2023 is 10.5% higher than that of the same month in 2019.

The analysis of average monthly enrolment in August by sector of activity in the general scheme, excluding the special agricultural and domestic workers' schemes, does not, however, show peak enrolment volumes in any of the three major sectors, given the aforementioned seasonality; the tertiary sector peaked in June 2023, though one of its sections, *healthcare activities and social services* (which account for nearly 9% of total enrolment in the scheme), did so. However, the number of employed persons in the services sector was the highest for the month of August, and this was the case in twelve of its thirteen sections, including the aforementioned, and which account for 84.7% of total enrolment in the general scheme.

Turning to the self-employed, August's relative peak is due to the sectoral origin of enrolment in the tertiary sector: seven of its thirteen services sections show the highest enrolment in August. The highest levels were also reached in agriculture for this month, although its weight was very residual.

| CNAE Sections 2009	Q2 2023			Q2 2022			Q2 2019			Rates of change			
	Level	Weight	COM/SP ΔTN	Level	Weight	COM/SP ΔTN	Level	Weight	COM/SP ΔTN	23/22		23/19	
	No.	(%)	(%)	No.	(%)	(%)	No.	(%)	(%)	COM	Spain	COM	Spain
A - Agric. Livest. Fore. Ar	**2.622**	**0,1**	**3,2**	**2.493**	**0,1**	**3,1**	**2.651**	**0,1**	**3,6**	**5,2**	**3,3**	**-1,1**	**11,4**
B ... E - Industry	**208.496**	**6,9**	**9,7**	**200.158**	**6,9**	**9,5**	**194.178**	**7,1**	**9,4**	**4,2**	**2,1**	**7,4**	**4,5**
F - Construction	**163.719**	**5,4**	**16,6**	**152.933**	**5,3**	**16,4**	**144.670**	**5,3**	**16,4**	**7,1**	**6,2**	**13,2**	**12,0**
G - Comm. Rep. Vehicles	430.588	14,2	17,0	418.297	14,4	16,9	414.767	15,3	17,0	2,9	2,6	3,8	4,0
H - Transport. Storage	168.195	5,5	20,5	157.909	5,4	20,3	147.655	5,4	20,1	6,5	5,6	13,9	11,8
I - Hospitality	202.894	6,7	13,4	190.484	6,6	13,3	194.164	7,1	13,9	6,5	7,1	4,5	7,9
J - Inform. Commun.	269.961	8,9	43,0	255.178	8,8	43,5	218.564	8,0	44,2	5,8	7,1	23,5	27,0
K - Act. Finance & Insur	117.738	3,9	37,2	112.271	3,9	36,4	109.820	4,0	33,9	4,9	2,6	7,2	-2,2
L - Act. Real Estate	27.936	0,9	26,3	26.914	0,9	26,3	24.983	0,9	25,3	3,8	3,8	11,8	7,4
M - Actv. Prof. Tech. Sci.	285.764	9,4	31,9	267.984	9,2	31,7	240.116	8,8	31,7	6,6	6,1	19,0	18,2
N - Actv. Admt. Serv. Auxil.	330.918	10,9	23,7	325.667	11,2	23,6	311.422	11,5	23,6	1,6	1,2	6,3	6,1
O - Public Adm Defen., SS	212.408	7,0	17,1	200.628	6,9	16,7	163.898	6,0	14,8	5,9	2,9	29,6	11,6
P - Education	216.083	7,1	19,6	207.124	7,1	19,4	187.637	6,9	19,5	4,3	3,6	15,2	15,1
Q - Actv. Health Serv. Social	261.179	8,6	14,5	251.120	8,7	14,3	232.074	8,5	15,0	4,0	3,0	12,5	16,7
R - Actv. Artis. Rec. & Ent	53.467	1,8	17,7	51.330	1,8	18,2	49.588	1,8	18,3	4,2	6,6	7,8	11,3
S ... U - Rest of Serv.	79.009	2,6	20,7	77.834	2,7	20,9	79.647	2,9	20,8	1,5	2,4	-0,8	-0,4
Total services	**2.656.139**	**87,6**	**20,4**	**2.542.741**	**87,7**	**20,2**	**2.374.336**	**87,4**	**20,0**	**4,5**	**3,9**	**11,9**	**10,2**
Total	**3.030.976**	**100,0**	**18,6**	**2.898.323**	**100,0**	**18,5**	**2.715.834**	**100,0**	**18,3**	**4,6**	**3,8**	**11,6**	**9,5**

Average quarterly affiliation to the General Scheme (not farm/domestic) by sections. Structure and changes. Community of Madrid.

(*) The average quarterly data are calculated on the basis of the average monthly data.

Source: Ministry of Inclusion, Social Security and Migration.

3. Registered unemployment

A reduction of the number of unemployed people was observed in Q2, with levels improving on pre-pandemic values. The recent performance of registered unemployment has been positive in Q2. Unemployment fell from 316,978 in Q2 2022 to 305,506 in Q2 2023.

Registered unemployment
Community of Madrid
Levels and rates of change for indicated periods.

Source: MLSE.
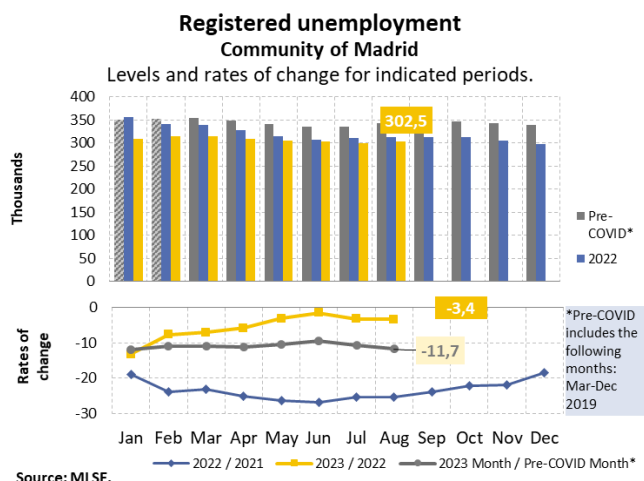
Registered unemployment data for the region reflect a normal attenuation in the pace of unemployment decline in Q2 2023, with a fall of 3.6% YoY, compared to 9.4% in Q1 2023. Thus, the number of registered unemployed in the region is 10.4% lower than in Q2 2019., with 35,645 fewer people unemployed. On average for the year 2022, the decline in registered unemployment stood at 23.5%.

The latest published figure, in August 2023, saw a YoY decline in registered unemployment of 3.4%, and 11.7% compared with August 2019.

Both genders have participated in the year-on-year decreases in unemployment in the region and improve the pre-pandemic data. Male unemployment continued to show the largest year-on-year fall reaching 3.8% in Q2 2023, while female unemployment fell by 3.5%. Compared to the pre-pandemic situation, unemployment is below the levels in Q2 2019, 13.1% for men and 8.6% lower for women. The most recent data published, from August 2023, shows a year-on-year decrease of 2.7% in male unemployment and 3.9% in female unemployment.

The year-on-year decreases observed in Q2 also occurred in all sectors of activity: 8% in agriculture, 6.5% in industry, 3.4% in construction and in services; The 'previously unemployed' group recorded an increase of 1.3%.

This decline is much more evident in comparison with Q2 2019 in all sectors, although with different intensity. 19.6% was reached in industry, 19% in construction, 15% in agriculture, 9.7% in the 'previously unemployed' group and 8.9% in services.

In August 2023, regional unemployment fell year-on-year in all sectors: 7.2% in industry, 5.1% in agriculture, 4.7% in construction, and 3.5% in services. meanwhile, the 'previously unemployed' group recorded a 2.9% increase in August for the fourth consecutive month.

						Pandemic max		Pre-pandemic variation: Q2 19		
Registered unemployment by sections **Community of Madrid**										
Q2 23						**Pandemic max**		**Pre-pandemic variation: Q2 19**		
CNAE Sections 2009	**Level**	**Weight (%)**	**Diff Annual**	**ARC (%)**	**Rep. (1)**	**Level**	**Date**	**Difference**	**RC (%)**	**Rep. (1)**
A - Agric. Livest. Fore. and Fis	2.366	0,8	-205	-8,0	-0,1	3.470	Q1 21	-416	-15,0	-0,1
B ... E - Industry	17.042	5,6	-1.486	-8,0	-0,5	24.732	Q1 21	-4.149	-19,6	-1,2
F - Construction	21.984	7,2	-1.528	-6,5	-0,5	33.085	Q1 21	-5.172	-19,0	-1,5
G - Comm. Rep. Vehicles	41.577	13,6	-2.321	-5,3	-0,7	59.641	Q1 21	-4.963	-10,7	-1,5
H - Transport. Storage	11.633	3,8	-636	-5,2	-0,2	17.971	Q2 20	-1.042	-8,2	-0,3
I - Hospitality	26.851	8,8	361	1,4	0,1	43.980	Q1 21	-3.592	-11,8	-1,1
J - Inform. Commun.	11.365	3,7	254	2,3	0,1	16.165	Q2 20	-545	-4,6	-0,2
K - Act. Finance & Insur	5.337	1,7	-245	-4,4	-0,1	6.028	Q3 21	738	16,0	0,2
L - Act. Real Estate	2.676	0,9	70	2,7	0,0	3.582	Q1 21	-34	-1,3	0,0
M - Actv. Prof. Tech. Sci.	30.991	10,1	-1.384	-4,3	-0,4	47.878	Q1 21	-7.978	-20,5	-2,3
N - Actv. Admt. Serv. Auxil.	49.284	16,1	-3.510	-6,6	-1,1	74.986	Q1 21	-6.531	-11,7	-1,9
J - Public Adm Defen., SS	13.161	4,3	326	2,5	0,1	15.366	Q3 21	1.464	12,5	0,4
P - Education	10.381	3,4	-812	-7,3	-0,3	16.956	Q3 21	420	4,2	0,1
Q - Actv. Health Serv. Social	15.373	5,0	-739	-4,6	-0,2	20.185	Q1 21	112	0,7	0,0
R - Actv. Artis. Rec. & Ent	5.937	1,9	-94	-1,6	0,0	9.458	Q3 20	-596	-9,1	-0,2
S ... U - Rest of Serv.	18.135	5,9	209	1,2	0,1	26.142	Q1 21	-1.064	-5,5	-0,3
Total services	242.702	79,4	-8.522	-3,4	-2,7	350.569	Q1 21	-23.612	-8,9	-6,9
No previous employment	21.412	7,0	269	1,3	0,1	31.547	Q2 21	-2.297	-9,7	-0,7
Total	**305.506**	**100,0**	**-11.472**	**-3,6**	**-3,6**	**442.805**	**Q1 21**	**-35.645**	**-10,4**	**-10,4**

(1) Impact is the contribution of each section to total grow th
Source: Directorate General of the Public Employment Service. Regional Department of Economy, Taxation and Employment

However, the breakdown by activity sections of the services sector (CNAE 2009) shows that in year-on-year terms, unemployment did not decline in the second quarter of 2023 in all of them. The greatest drop in registered unemployed in relative terms affected *Education* (7.3%); *Administrative Activities and Auxiliary Services* (6.6%); *Vehicle trade and repair* (5.3%); and *Transport and Storage* (5.2%).

Nor is there a generalised downward trend in the comparison of the levels in Q2 2023 with those in Q2 2019. On the other hand, an increase in the number of unemployed people registered in the sections of *Financial and Insurance Activities*, which increased by 160%, *Public Administration, Defence and Social Security* by 12.5% and *Education* by 4.2% (the sections that played the most important role in managing the health crisis) stand out.
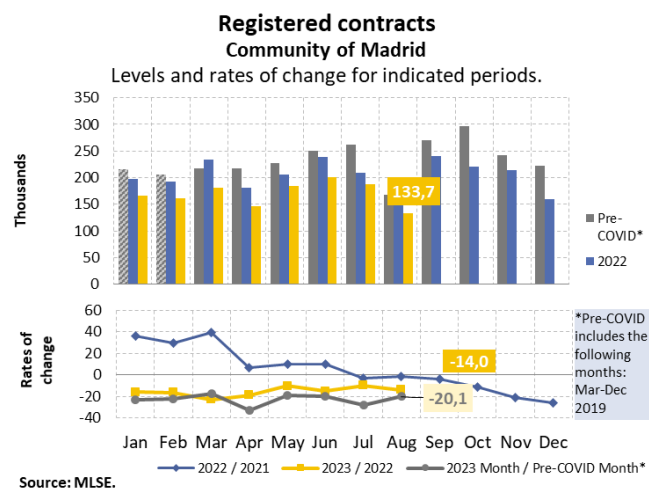
The most recently published from August 2023 on the regional comparison in year-on-year terms pointed to a generalised decrease in registered unemployment in all the Autonomous Regions, varying widely from a 15.7% reduction in the Balearic Islands to a 3.4% reduction in the Community of Madrid and Catalonia. Similarly, all regions show current levels of registered unemployment lower than in August 2019, with the Community of Madrid ranking second in absolute terms.

A drop in hiring data after the labour reform. Hiring continued the downward trend that began in Q3 2022, falling by 14.7% in Q2 2023. In a pre-pandemic comparison, the number of registered contracts is 23.4% lower than contracts signed in Q2 2019. The most recent data from August 2023 places the number of registered contracts at 133,730, a YoY decrease of 14.0% and 20.1% less than in August 2019.

Permanent contracts lose momentum year-on-year in the Q2 2023. Since the labour reform came into force, the number of permanent contracts has broken records while temporary hiring has already shown year-on-year declines since April 2022, when the transitional period for some types of temporary contracts, established in the 2022 Labour Reform, came to an end.

On the contrary, in Q2 2023, year-on-year permanent contract levels in Q1 2023 showed a 14.9% YoY decrease, compared to the already slower increase in Q1 2023, when it reached YoY growth of 34.7%. This is added to the evolution of temporary contracts, which already took a sharp dip in its recovery since Q2 2022, with a year-on-year decline of 14.6% in Q2 2023, compared to 43.9% in Q1 2023. The pre-pandemic gap equated to 53.6% fewer temporary contracts than in Q2 2019. The most recent data for August 2023 show a 16.8% YoY decrease in permanent contracts and an 11.7% decrease in temporary contracts for the third

month, with 124.3% more permanent contracts and 46.8% fewer temporary contracts than in August 2019.

Registered contracts
Community of Madrid
Levels and rates of change for indicated periods.

Source: MLSE.

The impact of labour market reform resulted in a reclassification of contracts. Discontinuous fixed contracts that were merely residual became more prevalent in the labour market.

Accordingly, the number of discontinuous fixed contracts has risen from 2,261 in January 2022 to 9,013 in August 2023, of which 8,091 were in the services sector. However, for the first time they show a decrease of 4% year-on-year in Q2 2023.
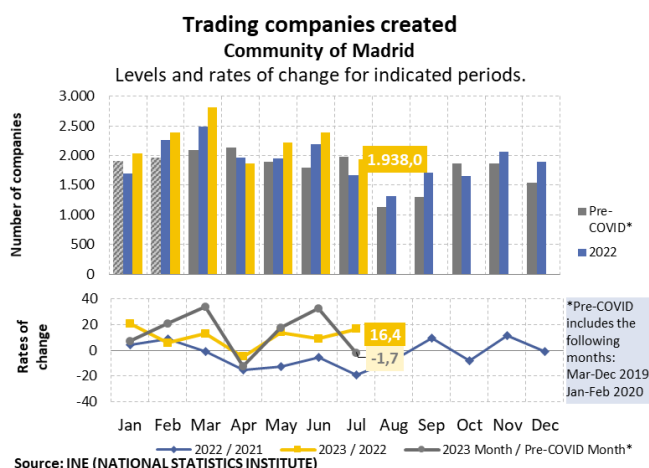
The trend in the number of discontinuous fixed jobseekers, registered as jobseekers after having signed a discontinuous fixed contract, should also be taken into account; the figure for August 2023 is 38,630 discontinuous fixed jobseekers.

V.4. Business environment

Entrepreneurship started 2023 on an upward trend, growing by 20.6% year-on-year in January, increasing month-on-month in the first half of the year, but more subdued except in April, when it declined by 5%.

Thus, Q2 2023 posted the second highest number of company incorporations for this period since 2007, with the creation of 6,473 entities, 6.1% more than in the same quarter of 2022; 372 more companies were incorporated than one year before. Compared to the same quarter in 2019, the number of companies created also increased by 645, which is also 11.1% higher than those registered at the time.

Company creation reached 1,938 companies in July, the latest known figure, 18.9% less than in June; this figure, however, is higher than the average decline of 8.9% for the months of July in the series, although this measure has been greatly distorted by the atypical July 2020 growth of 17.1%. In YoY terms, it increased by 16.4%, the third positive rate after the drop in April, but it did not exceed the volume of the same month in 2019, dropping by 1.7%. It should be noted that this comparison was made with the highest number of creations for a month of July in the series since 2007.

Trading companies created
Community of Madrid
Levels and rates of change for indicated periods.

Source: INE (NATIONAL STATISTICS INSTITUTE)

The Community of Madrid topped the regional ranking in terms of incorporations for the month and January to July 2023. The relative figures for the creation of new companies are very significant; 23.4% of the total number of companies created in Spain in July did so in the region, for 22.6% of those set up in the first seven months of 2023.

Subscribed capital in the months of the second quarter of 2023 alternated between, a positive rate in April of 6.9%, with falls in May of 10% and June, when it fell by 8.4%; in light of this Q2 data, investment by new companies amounted to 229.3 million euros, the lowest investment for this quarter in the last three years for this period.

This is 6.2% less than in the same quarter of 2022, although the 2023 figures are 19% higher than the pre-pandemic figures.

The figure for July is 56.6 million euros, the lowest for this month since 2009, 27.3% less than in June and 27.5% lower than a year ago; compared to July 2019, it is down 51.6%. But, despite these figures, the Community of Madrid is the third region where most capital was subscribed in July, and the first in the January-July period, with 16% of total national investment in this month and 23.4% in the year to date. The average capitalisation per company was 31.3% lower than the national average in July; however, the cumulative figure for 2023 was 3.3% higher than the Spanish average.

In the second quarter of 2023, dissolutions reached the lowest value for this quarter in the last three years, decreasing by 8.8% versus 2022, but increasing by 17.4% compared to 2019. In July dissolutions fell by 4.5% YoY, but rose by 1.7% compared to 2019. The drop in dissolutions, both in July and in the quarter analysed, is the result of the different labour disputes that have been occurring throughout this year in the Judiciary.

In the January-August period, the Community of Madrid remained the preferred territory for migration from other regions. Experian reports that in the period January-August 2023, 1,265 companies changed their registered office to the region; the most represented sector is *Industry* (19.2% of the transfers), followed by *Financial Activities, Insurance and Real Estate* (17.9%) and then *Professional and administrative activities* (16.8%). The predominant origin of companies relocating to the Community of Madrid is once again Catalonia, accounting for 22.9%, followed by Andalusia with 19.8%, and the Community of Valencia with 11%. The balance with companies leaving the Community of Madrid in this period is positive, with 34 companies opting for the region.

Companies that relocated their registered address to the Community of Madrid by activity sector.
Cum. Jan–Aug 2023

Source: Experian
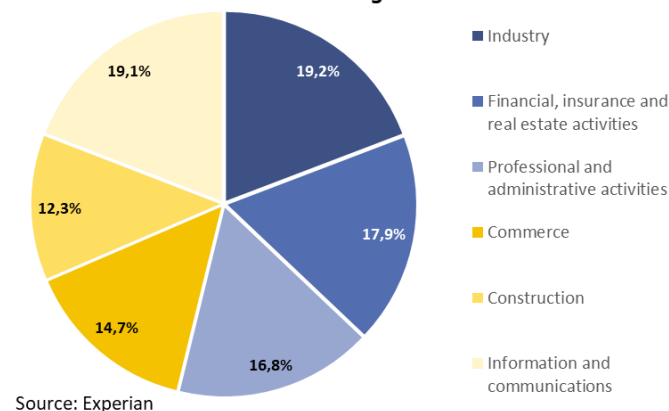
Annex Company relocations to the Community of Madrid

Companies that relocated their registered address to the Community of Madrid[2]

Latest data: August 2023

Cumulative: January – August 2023

Companies that relocated their registered address to the Community of Madrid
By autonomous community of origin and sector of activity. Cumulative August 2023

Autonomous comm.	01	02	03	04	05	06	07	08	09	10	11	n/d	Total	%
Andalusia		3	4	5		1		8	6		1		28	25.9
Aragon					1								1	0.9
Asturias				1			1	1	1				4	3.7
Balearic Islands			1			1		1					3	2.8
Canary Islands										1			1	0.9
Cantabria														
Castile-La Mancha		3	2	1				1					7	6.5
Castile Leon		4		3	1								8	7.4
Catalonia		2	3	3			4	7	10	2	1		32	29.6
Extremadura		1	2	1					1				5	4.6
Galicia				1			1	1					3	2.8
La Rioja									1				1	0.9
Murcia				2				1	1	2			6	5.6
Navarre							1						1	0.9
Basque Country									2		1		3	2.8
Valencia			2					1	1		1		5	4.6
Others														0,3
Total		**13**	**14**	**16**		**5**	**6**	**21**	**24**	**4**	**5**		**108**	100,0
%		12.0	13.0	14.8		4.6	5.6	19.4	16,8	3.7	4.6		100,0	
Balance. Inputs - Outputs													**34**	

01: Agriculture; 02: Industry; 03: Construction; 04: Commerce; 05: Transport and storage; 06: Hospitality; 07: Information and communications; 08: Financial, insurance and real estate activities; 09: Professional and administrative activities; 10: Public administrations, health and education; 11: Artistic activities and other services; n/d: no data.

Companies that relocated their registered address to the Community of Madrid
By autonomous community of origin and sector of activity. Cumulative Jan-Aug 2023

Autonomous comm.	01	02	03	04	05	06	07	08	09	10	11	n/d	Total	%
Andalusia	5	96	30	25	8	3	7	35	26	7	7	1	250	19,8
Aragon	1	5	4	5		2	3	8	5		1		34	2,7
Asturias	1	3	6	3	1	1	5	9		1			30	2,4
Balearic Islands		2	3	4		2		13	3				27	2,1
Canary Islands	1	2	5			1	3	3	3		3		21	1,7
Cantabria		2	4	1		1	1	4	4		1		18	1,4
Castile-La Mancha	1	21	17	21	4	1	6	13	17	6	4		111	8,8
Castile Leon	4	31	23	23	2	4	3	13	11	5	5		124	9,8
Catalonia	1	29	23	46	5	9	24	74	61	14	4		290	22,9
Extremadura	3	4	9	9	1			1	3	1	1		32	2,5
Galicia		3	3	6	2	1	2	5	9	2		1	34	2,7
La Rioja	1		1	1					3	1			7	0,6
Murcia		3	6	12	1		3	6	9	2	1		43	3,4
Navarre		10		3	1		1	10	3	1			29	2,3
Basque Country		8	6	9	1	5	4	10	17	3	9		72	5,7
Valencia	3	24	15	15	1	5	9	29	29	4	5		139	11,0
Others			1	3									4	0,3
Total	**21**	**243**	**156**	**186**	**26**	**34**	**67**	**226**	**212**	**50**	**42**	**2**	**1.265**	100,0
%	1,7	19,2	12,3	14,7	2,1	2,7	5,3	17,9	16,8	4,0	3,3	0,2	100,0	
Balance. Inputs - Outputs													**34**	

01: Agriculture; 02: Industry; 03: Construction; 04: Commerce; 05: Transport and storage; 06: Hospitality; 07: Information and communications; 08: Financial, insurance and real estate activities; 09: Professional and administrative activities; 10: Public administrations, health and education; 11: Artistic activities and other services; n/d: no data.

Companies that relocated their registered address from the Community of Madrid[3]

Latest data: August 2023

Cumulative: January – August 2023

Companies that move their registered address outside the Com. of Madrid
By autonomous community of origin and sector of activity. Cumulative August 2023

Autonomous comm.	01	02	03	04	05	06	07	08	09	10	11	n/d	Total	%
Andalusia	1	1		6	1		3	3	4				19	25.9
Aragon				1									1	0.9
Asturias		1						1					2	3.7
Balearic Islands		1	1	1				3	1				7	2.8
Canary Islands			1			1	1	1					4	0.9
Cantabria									1				1	
Castile-La Mancha	1	2	1	2	1	1			1				9	6.5
Castile Leon		4		3		1							15	7.4
Catalonia	1			14	2		2	9	5	1			24	29.6
Extremadura			1						1		1		3	4.6
Galicia						1			2				3	2.8
La Rioja														0.9
Murcia														5.6
Navarre								2					2	0.9
Basque Country								1			1	1	3	2.8
Valencia			1	4		1	1	3	5	1			16	4.6
Others														0,3
Total	**3**	**6**	**6**	**35**	**4**	**4**	**7**	**25**	**23**	**2**	**3**	**1**	**119**	100,0
%	2.5	5.0	5.0	29.4	3.4	3.4	5.9	21.0	19.3	1.7	2.5	0.8	100,0	

01: Agriculture; 02: Industry; 03: Construction; 04: Commerce; 05: Transport and storage; 06: Hospitality; 07: Information and communications; 08: Financial, insurance and real estate activities; 09: Professional and administrative activities; 10: Public administrations, health and education; 11: Artistic activities and other services; n/d: no data.

Companies that move their registered address outside the Com. of Madrid
By autonomous community of origin and sector of activity. Cumulative August 2023

Autonomous comm.	01	02	03	04	05	06	07	08	09	10	11	n/d	Total	%
Andalusia	7	17	20	45	7	9	14	41	26	13	7		206	16.7
Aragon	1	5	2	5		3	11	4	1	1		1	34	2.8
Asturias		7	4	2		2	2	3	2				22	1.8
Balearic Islands	2	7	1	2		2	2	11	6				33	2.7
Canary Islands		7	5	6		3	3	5	6	2	3		40	3.2
Cantabria		1			1			4	4				10	0.8
Castile-La Mancha	6	35	24	33	7	7	8	19	23	1	6		169	13.7
Castile Leon	5	12	13	12	1	6	4	9	14	4	3	1	84	6.8
Catalonia	1	28	13	60	7	10	19	78	42	5	13	2	278	22.6
Extremadura	1	4	6	7		1			3	2	1		25	2.0
Galicia	3	4	5	12	1	2	4	10	20		1		62	5.0
La Rioja		1						2	3				6	0.5
Murcia	1	1	6	2			1	11	2	2	1		27	2.2
Navarre		15	1	2		1	1	8	1		1		30	2.4
Basque Country	1	9	6	9	1	2	7	19	10	1	6	1	72	5.8
Valencia	1	9	12	28	3	3	11	35	21	3	4		130	10.6
Others			1	1							1		3	0.3
Total	**29**	**162**	**119**	**226**	**28**	**48**	**79**	**266**	**187**	**34**	**48**	**5**	**1.231**	100,0
%	2.5	5.0	5.0	29.4	3.4	3.4	5.9	21.0	19.3	1.7	2.5	0.8	100,0	

01: Agriculture; 02: Industry; 03: Construction; 04: Commerce; 05: Transport and storage; 06: Hospitality; 07: Information and communications; 08: Financial, insurance and real estate activities; 09: Professional and administrative activities; 10: Public administrations, health and education; 11: Artistic activities and other services; n/d: no data.

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[3] Source: Experian, with information from the Official Gazette of the Companies Registry (in Spanish: Boletín Oficial del Registro Mercantil, or BORME).

Concepts, sources and abbreviations used

P. A.	Public Administrations	ETVE	Foreign Securities Holding Entities
Tax Authority	State Tax Administration Agency	IMF	International Monetary Fund
H&MHT	High and Medium High Tech	FUNCAS	Foundation of the Federated Savings Banks
ECB	European Central Bank	IECM	Institute of Statistics of the Community of Madrid
BDE	Bank of Spain	INE (National Statistics Institute)	National Statistics Institute
AA. CC	Autonomous Communities	MAEYTD	Ministry of Economic Affairs and Digital Transformation
EC	European Commission	MISSYM	Ministry of Inclusion, Social Security and Migration
CoM	Community of Madrid	MITMA	Ministry of Transport Mobility and Urban Agenda
CNTR	Quarterly Spanish National Accounts	OECD	Organisation for Economic Cooperation and Development
CRTR	Quarterly Regional Accounts of the Community of Madrid	OPEC	Organisation of Petroleum Exporting Countries
SPRC	Strategic Petroleum Products Reserves Corporation	GDP	Gross Domestic Product
CRE	Regional Accounts of Spain	SEOPAN	Association of Construction Companies at a National Scale
SCA	Seasonal and calendar adjustment	TARIC	Code for the integrated tariff of the European Union
TC	Trend-cycle component	EU	European Union
DGT	Directorate-General for Traffic	EMU	Economic and Monetary Union
EUROSTAT	Statistical Office of the European Union	GVA	Gross value added

Non-centred moving average of order 12 (MM12).

Series constructed from the original by means of successive arithmetic averages, where each data point is obtained from the average of the last twelve months of the original series. The purpose of constructing a series of moving averages is to eliminate possible seasonal or erratic variations in a series, so that an estimate of the trend-cycle component of the variable in question is obtained.

Trend-Cycle (TC)

A trend is one of the unobservable components into which a variable can be broken down, according to classic time series analysis. It can be extracted or estimated using a variety of techniques and represents the solid evolution underlying the observed evolution of the variable, once seasonal variations and irregular or short-term disruptions are removed. It therefore reflects the long-term evolution of the series. Normally, the trend includes another component, the cyclical component, which includes oscillations that occur in the series over periods of between three and five years, but due to the difficulty of separating them, they usually appear in the so-called trend-cycle component.

Seasonal and calendar adjustment (SCA)

A high-frequency time series analysis technique applied to remove both seasonality (movements that form a pattern and are repeated approximately every year) and calendar effects (representing the impact on the time series due to the different structure of the months or quarters in each year, both in length and composition). The aim of adjusting a variable for seasonality and calendar is to eliminate the effect of these fluctuations on the variable, and thus facilitate the interpretation of the economic phenomenon.

Surveys

These aim to measure the attitude of the subjects to whom the survey is addressed (consumers, the business world, etc.) towards a variable (consumption, production or employment, etc.) in order to anticipate whether in the following months this variable will increase, decrease or remain stable.

Balance of responses

In surveys, the results for the variables under investigation are basically obtained through the differences or balances between the positive and negative responses, although depending on the survey, there are different calculation methods.

Rate of change

A rate of change compares the value of a variable at one point in time with its value at another point in time. Various types of rates of change can be calculated. Among the most common are the following:

- *Month-on-month (quarter-on-quarter, etc.) rate:* Compares the value of a period (shorter than a year: month, quarter, etc.) with that of the immediately preceding period (month, quarter, etc.).

- *Year-on-year rate:* Compares the value of a period with that of the same period in the previous year (same month for monthly data, similar quarter for quarterly data, etc.).

- *Year-to-date cumulative rate of change:* Compares the cumulative value of a period (sum or average, depending on the type of data, of the elapsed months, quarters, etc. of a year) with the same cumulative period of the previous year.

Other periodical publications of the Economics Area:

- Notes on the Economic Situation in the Community of Madrid (monthly)

- Foreign Trade Report (monthly)

- Note on EU regional GDP (annual)

- Individual monitoring notes on the main economic indicators of the Community of Madrid (monthly or quarterly depending on the nature of the data):

Social Security Enrolment, Registered Unemployment, Industrial Production Index (IPI), Consumer Price Index (CPI), Mercantile Companies, Retail Trade Indices (RTI), Services Sector Activity Indices (SSAI), Mortgages on homes, Hotel Tourism Situation (HTS), Labour Force Survey (LFS), Foreign Direct Investment (FDI) and Quarterly Regional Accounts (QRA).

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