

ACTIVITY

Spain: the recovery in activity and employment gathers momentum in 4Q14

Spain Unit

Economic growth accelerates in the home stretch of the year

The trend in observed variables suggests that **the Spanish economic recovery is forging ahead at the end of 2014**. With around 50% of the information available for 4Q14, the MICA-BBVA model forecasts a **quarterly (QoQ) growth in GDP of between 0.6% and 0.7%** which, if confirmed, would mean an acceleration in the rate of expansion, which we did not expect at the beginning of the quarter (BBVA Research: 0.5% QoQ, the same as in 2Q14 and 3Q14)¹. The improvement in activity may be coupled with more intense job creation, which is likely to give rise to stagnation or even a reduction in productivity.

The positive performance in national demand (essentially, private) is underpinned by structural factors, such as the correction in internal imbalances, the execution of some of the reforms and the lower financial tensions. But there are also others, in particular **the recent change in the tone of fiscal and monetary policy, which are stimulating short-term demand**². When it comes to trade flows, the partial short-term indicators confirm the **strength of Spanish exports, in a complex external environment** marked by the lack of momentum in the European economy.

Although for the moment we are sticking to **the growth forecasts** in our central scenario (1.3% and 2.0% for 2014 and 2015 respectively), **our assessment of the biases in this scenario**³ **have not changed. On the negative side, the most serious event for Spain would be a prolonged stagnation or recession in the EMU**; if this were to happen, it would weaken Spanish exports and, with them, the rest of the economy. Similarly, external events of a geopolitical nature have increased uncertainty since the middle of the year, which could affect household and corporate consumption and investment decisions. **On the positive side, the price of oil remains below the estimate in the BBVA Research central scenario**. If this starts to look permanent, and the cause is seen to lie not in weak global demand but rather the expanded supply of crude, this pressure on prices would be a balm for the productive system and, as such, a positive bias on growth⁴.

The components of private demand are showing no signs of flagging

The third quarter enjoyed across-the-board growth in aggregate demand⁵. On the domestic front, the **steady progress in both household consumption (0.8% QoQ) and machinery and equipment investment (1.7% QoQ) were once again notable**, clocking up six and seven consecutive positive quarters respectively. Along with this expansionary momentum, in the last quarter there has been **investment in**

1: For more information on the MICA-BBVA model, see Camacho, M. & R. Doménech (2010): "MICA-BBVA: A Factor Model of Economic and Financial Indicators for Short-term GDP Forecasting", BBVA WP 10/21, here: http://www.bbvarresearch.com/KETD/fbin/mult/WP_1021_tcm348-231736.pdf?ts=2542012.

2: For more information on the effects of the recent changes in fiscal and monetary policy, see boxes 2 and 3 in the Spain Outlook for the fourth quarter of 2014, available here: <https://www.bbvarresearch.com/wp-content/uploads/2014/11/Spain-Economic-Outlook-4Q14.pdf>

3: The description of the BBVA Research economic scenario for 2014-2015 is in section 2 of our Spain Outlook for the fourth quarter, here: <https://www.bbvarresearch.com/wp-content/uploads/2014/11/Spain-Economic-Outlook-4Q14.pdf>

4: BBVA Research estimates indicate that, since this is a relative increase in the oil supply, a temporary reduction (for around twelve months) in the price, equivalent to 20%, could have an impact on GDP of close to 1.0pp for one year. If the price disruption were permanent, it could raise GDP by around 1.2pp.

5: The detailed evaluation of the Quarterly National Accounts for 3Q14 is available in Spanish here: https://www.bbvarresearch.com/wp-content/uploads/2014/11/Flash_CNT_3T14_maq.pdf

housing which, as expected, recorded positive variation rates for the first time since 2007 (1.4% QoQ)⁶.

When it comes to external demand, **there was vigorous expansion in exports** (3.5% QoQ; BBVA Research: 1.6% QoQ) despite the low growth shown by the eurozone (0.2% QoQ according to the flash Eurostat estimate). However, the positive tone in final demand led to a rather more intense **uptick in imports than expected** (4.7% QoQ; BBVA Research: 1.4% QoQ), which caused an unexpected reverse in net external demand.

For the end of the year, the information available indicates that the composition of growth may be comparable to 3Q14. When it comes to external demand, the expectations indicators (new industrial orders) and spending (sales of goods and services abroad by large corporations) show that, **even though the recovery in Europe is still weak, non-tourism goods and services exports continue to grow**. Similarly, the trend in the indicators relating to consumption by non-residents (travellers and spending by foreign tourists) signalled renewed growth in the autumn.

On the side of private domestic demand, there are no clear signs of a slowdown following the upticks in 3Q14. Thus, consumer spending indicators and household expectations (car registrations, retail trade and consumer confidence) suggest that **real spending could grow by between 0.5pp and 0.8pp in 4Q14⁷**. Equally, movements in industrial confidence, in the manufacturing PMIs and trade flows, herald renewed **growth in machinery and equipment investment, similar to that seen during the previous quarter**. Finally, the fundamentals for residential investment allow us to confirm that **the cycle has changed, in both supply and in demand**, such that we may see positive growth rates again in the current quarter, although moderate, and from very low starting points⁸.

The adjustment in public spending seems to have bottomed out, but it does not present an obstacle to meeting budget targets

The breakdown of the Quarterly National Accounts (CNTR) for 3Q14 again had some **surprises in the area of public demand**. After the upwards correction in 1Q14 (1.1% QoQ), and the stagnation in 2Q14 (-0.1% QoQ), public sector real consumption was expected to fall by -0.5% QoQ in the previous quarter. However, the published data revealed an insignificant variation in this demand item (0.1% YoY). This unexpected stagnation and the performance of the deficit in the public administrations imply that **the most important factor required in order to comply with budget targets is the recovery of revenue** – spurred on by the fact that the economy is gaining traction - and by the reduction seen in other spending items (interest payments and unemployment benefits, for example). Here, budgetary execution figures to September indicate that the public deficit (excluding local corporations) is around 4.1% of GDP, half a point higher than the year before. Meanwhile, the state's deficit in October came to 2.9% of GDP, 0.6pp less than in 2013.

Labour market figures surprise positively

According to BBVA Research estimates, **Social Security affiliations beat growth expectations in November (+69,600 MoM swda)⁹**. If the positive trend holds during December, the number of affiliations could rise by 0.9% QoQ swda in 4Q14, which would imply a **significant acceleration in the rate of job creation** (0.6% QoQ in 2Q14 and 3Q14), such that around 435,000 jobs (figure at end of period) may have been created

6: For more information about the stylised facts of the Spanish property cycle, see Box 4 of our 4Q14 Spain Outlook available here: <https://www.bbvarsearch.com/wp-content/uploads/2014/11/Spain-Economic-Outlook-4Q14.pdf>

7: For more information about recent performance and perspectives for private consumption, see our 2H14 Consumption Outlook. Available here in Spanish: https://www.bbvarsearch.com/wp-content/uploads/2014/12/Situacion_Consumo_2S14.pdf

8: We have conducted a detailed analysis of the real estate market in the 2 December 2014 Spain Real Estate Flash "[Improved demand is driving construction activity](#)"

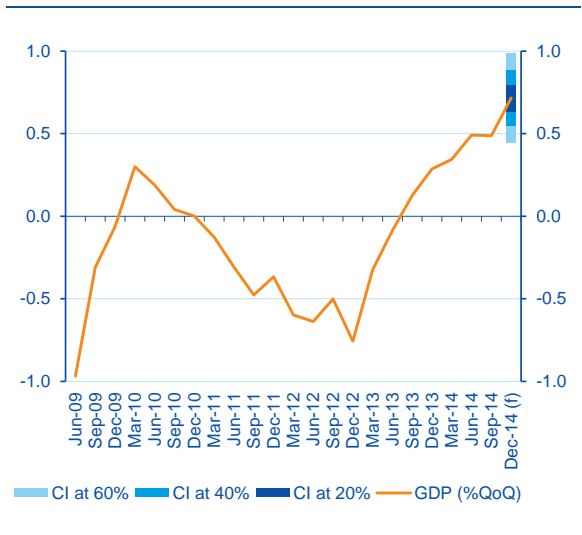
9: The seasonal and working day adjustments (swda) used by BBVA Research is based on statistical methods using univariate time series. As a result, the swda series estimates are subject to uncertainty, since they may differ from estimates made by other institutions, and may be modified without prior notice.

over the whole of 2014. In line with this, BBVA Research estimates indicate that unemployment fell sharply in November (-35,400 swda) which, were it to continue in December, would give rise to a **higher rate of unemployment reduction than in 4Q13 (-1.7% QoQ swda, compared to -0.8% QoQ in 3Q14).**

The Spanish economy's lending capacity moderates, for the moment

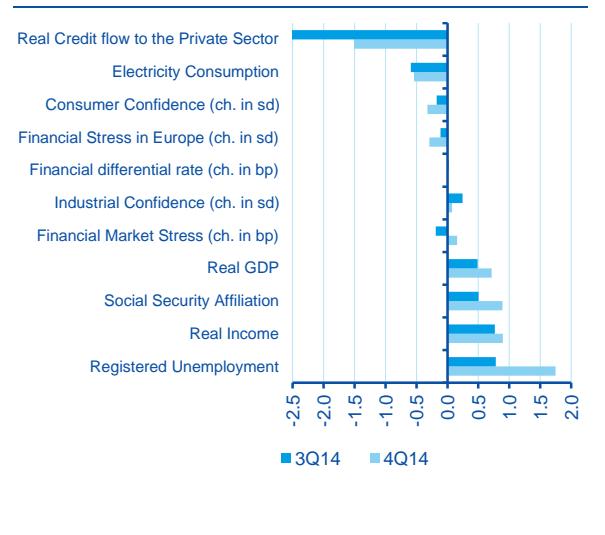
Flash figures for the new balance of payments accounts indicate that the current account surplus edged down again in the third quarter, although by a modest amount. Thus, in the 12-month accumulated figure, the current account had a positive balance of EUR1.674bn. On the horizon, **the Spanish economy ought to continue to show lending capacity with respect to the rest of the world in 2014-15**, given the expectations of a falling oil price, a reduction in interest rates and an increase in exports¹⁰.

Figure 1
Spain: GDP growth and MICA-BBVA model forecasts (%QoQ)



(e): estimate
Source: BBVA Research

Figure 2
Spain: change in GDP and in the MICA-BBVA model's key indicators (+) improvement / (-) deterioration in pp unless otherwise indicated (swda data)



Data published to December and MICA-BBVA model forecasts.
Source: BBVA Research, from official institutions

10: The recent correction process of the Spanish economy's borrowing needs is principally a result of the improvement in the structural component and, as such, the moderation of the current account surplus ought to be transitory. For more information on recent movements in and perspectives for, the current account in Spain, see our Economic Watch: "[An analysis of the performance and the determinants of the current account in Spain](#)"

Table 2

Synopsis of Spain Flash reports since the publication of Spain Outlook, fourth quarter 2014

Title of Flash	Date	Synopsis	Link
Spain Industrial production in September	07 Nov 2014	Despite the positive performance of industrial production in September, it was not enough to offset the lack of momentum in the rest of the quarter. There was a downward correction of 0.5pp in production during 3Q14, mainly due to the negative development of capital goods to August.	PDF
Spain Fall in prices eased in October	13 Nov 2014	The slowdown in the decrease of inflation was caused by the evolution of non-core components, and in particular the increase in food prices. All the components of core inflation remained stable. From now on, we hold to our low inflation scenario, in which short-term negative rates of inflation cannot be ruled out.	PDF
Spain September 2014 home sales: performance edges upwards	17 Nov 2014	According to data from the General Council of Notaries 26,778 homes were sold in September 2014. Home sales rose by 0.8% (swda) over the previous month. The third quarter ended with a 2.3% increase in operations over 2Q14.	PDF
Spain Trade balance in September 2014	17 Nov 2014	The 12-month accumulated trade deficit decreased slightly in September from August, to 2.3% of GDP. This time, a further reduction of the non-energy surplus was offset by a decrease in the deficit for energy products. Export performance was healthy in 3Q.	PDF
Spain Public deficit: towards the target	25 Nov 2014	The recovery in activity is driving revenues and reducing the pressure on social benefits, allowing the public deficit to improve from last year. This increases the likelihood that the year-end fiscal target will be met. Nevertheless, taking the regions as a whole, the risk remains of non-compliance with the target.	PDF
Spain November CPI Flash: energy puts more downward pressure than expected on inflation	27 Nov 2014	The flash CPI estimate shows a higher-than-expected drop in consumer prices, mainly due to the decline in energy prices. Our estimates suggest the marginal decrease in core prices has stabilised.	PDF
Spain Permits in September 2014: the end of another positive quarter	27 Nov 2014	Permits in September grew by 1.2% from the previous month, bringing to five the number of consecutive quarters of growth in construction activity, albeit from a low base. Thus, the number of permits registered between January and September is 5.7% higher than those from the same period last year. Refurbishment, on the other hand, remained stagnant.	PDF
Spain Quarterly National Accounts 3Q14	27 Nov 2014	As anticipated in the latest edition of our Spain Economic Outlook, the pace of recovery in the Spanish economy stabilised between July and September after four quarters of acceleration. GDP growth for 3Q14 (+0.5% QoQ) is consistent with the BBVA Research scenario, which forecast a rate of 1.3% for 2014 as a whole and 2.0% in 2015. Overall, the published data are positive inasmuch as they show positive growth in all demand components, even beating the central forecasts. Nevertheless, the GDP growth breakdown contains elements that need to be looked at with caution, highlighting the sharp rise of imports and, consequently, the contraction of net external demand. Employment grew at the same pace as activity, leading to stagnation in productivity. This, together with the year-on-year fall in prices, put the adjustment of unit labour costs on pause.	PDF
Spain Industrial and consumer confidence in November: mixed signals but positive on balance	27 Nov 2014	Although the agents' expectations shown mixed signals in November, both industrial and consumers' confidence remained above the historical levels. Thus, the data published today is consistent with the BBVA Research scenario, which is for a continuing recovery.	PDF
Spain October's retail sales disappointed	28 Nov 2014	Real retail sales (swda) fell unexpectedly in October. However, employment increased slightly for the second consecutive month	PDF
Spain Balance of payments September 2014	28 Nov 2014	The flash new accounting data on the balance of payments estimate that the 12-month accumulated current account surpluses continued to erode in September, although by a modest amount. The large capital movements in September were particularly pronounced, with residents choosing to invest in foreign assets, while non-residents opted for domestic liabilities	PDF
Spain Demand for passenger cars stabilised in November pending the prolongation of the incentive purchase plan (PIVE)	01 Dec 2014	BBVA Research estimates indicate that the number of registered passenger cars was unchanged in November, after seasonal adjustments. Businesses and rental companies offset the drop in private demand.	PDF
Spain Job creation speeded up in November	02 Dec 2014	November's labour market figures were positive even though this month usually performs badly. After seasonal adjustments, the growth of affiliations to the Social Security and the decline in unemployment accelerated.	PDF

Source: BBVA Research

DISCLAIMER

This document has been prepared by BBVA Research Department, it is provided for information purposes only and expresses data, opinions or estimations regarding the date of issue of the report, prepared by BBVA or obtained from or based on sources we consider to be reliable, and have not been independently verified by BBVA. Therefore, BBVA offers no warranty, either express or implicit, regarding its accuracy, integrity or correctness.

Estimations this document may contain have been undertaken according to generally accepted methodologies and should be considered as forecasts or projections. Results obtained in the past, either positive or negative, are no guarantee of future performance.

This document and its contents are subject to changes without prior notice depending on variables such as the economic context or market fluctuations. BBVA is not responsible for updating these contents or for giving notice of such changes.

BBVA accepts no liability for any loss, direct or indirect, that may result from the use of this document or its contents.

This document and its contents do not constitute an offer, invitation or solicitation to purchase, divest or enter into any interest in financial assets or instruments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

In regard to investment in financial assets related to economic variables this document may cover, readers should be aware that under no circumstances should they base their investment decisions in the information contained in this document. Those persons or entities offering investment products to these potential investors are legally required to provide the information needed for them to take an appropriate investment decision.

The content of this document is protected by intellectual property laws. It is forbidden its reproduction, transformation, distribution, public communication, making available, extraction, reuse, forwarding or use of any nature by any means or process, except in cases where it is legally permitted or expressly authorized by BBVA.