

1 Summary

The Spanish economy's recovery has stabilised since the last edition of Consumption Outlook.¹ The recovery in the economy, first seen in the second half of 2013, has taken hold, reaching quarterly (QoQ) growth of 0.5% between July and September, underpinned by both external and internal factors. Despite the lassitude of the Europe-wide economy, diversifying destinations and products has widened the export base. On the domestic front, the improvement in fundamentals, progress in correcting imbalances and economic policy measures have together encouraged an overall increase in domestic demand. On the horizon, GDP is forecast to end 2014 with an average growth of 1.3%, and to accelerate to 2.0% in 2015.

The national accounts for the third quarter have confirmed the momentum of private consumption. The wage component of households' disposable income and their financial wealth grew again between July and September, but the improved perception of the economic outlook and the efficacy of the Efficient Vehicle Incentive Programme (PIVE in the Spanish acronym) have waned. As a result, household expenses rose by 0.8% QoQ in 3Q14, 0.1pp less than the preceding quarter, and may increase by between 0.5% and 0.8% in 4Q14.

The contribution of the automotive sector to the growth in consumption has moderated in the second half of the year to date, partly because the results of PIVE-6 have been more modest than in previous programmes. According to BBVA Research estimates, the monthly average growth in the number of cars registered between July and October came to 1.6% swda, as against 3.0% between February and June during the PIVE-5 programme. **All in all, PIVE has limited the negative and permanent effect of the increase in VAT in September 2012.** The hike in VAT was forecast to have cut by 470,000 units the number of cars that would have been registered up to November 2014 if the car scrapping plan had not been approved. The subsidy has limited this fall to 54,000 units.

The extension of the PIVE guaranteed a significant rise in new car registrations in 2014. If demand behaves as expected in December, car sales will be around 860,000 units in the year as a whole. The 2015 figures will depend on whether the subsidy is extended or not. On this, estimates indicate that car registrations will increase by around 6% in 2015 if the current conditions of the PIVE subsidy are extended throughout the year; if it is brought to an end, the improvement in the determinants (among them, per capita income, the relative price of fuels, the unemployment rate and interest rates on consumer credit) could offset the contractive effect of the end of the subsidy.

After six years of declines, the two-wheeled vehicle market will grow in 2014. The bounce-back in motorcycle registrations is mainly due to improved expectations on the part of potential buyers, to an increase in lending and to the need to renew the existing fleet. Improvements expected in the determinants for motorcycle demand in 2014 will smooth the negative repercussions of the regulatory changes adopted since 2009, allowing sales to possibly go as high as 115,000 units, around 20% more than in 2013. In 2015, the forecast is for 140,000 registrations, which would bring the figures back to 2009 levels.

Meanwhile, turnover in the furniture sector increased again in 3Q14, making this the third quarter in a row with growth. The favourable behaviour of external demand and the first growth in housing investment since the second half of 2007 both boosted activity in the sector.

1: See BBVA Research (2014): *Consumption Outlook. First half 2014*. BBVA, Madrid. Powerpoint presentation available here https://www.bbva.com/wp-content/uploads/2014/06/1406_Presentation_SpainConsumptionOutlook.pdf

Positive forecasts for real estate activity will lead to this making a bigger contribution to the furniture business in 2015.

When it comes to the consumption of white goods, recent information confirms that the recovery of demand is holding firm. In fact, all categories of household appliances registered YoY growth of over 7% in the first eight months of 2014. By contrast, **brown goods consumption showed the same erratic behaviour in 3Q14 as it has done since VAT was raised in 2012.** Expenditure on consumer electronics diminished between July and September after two quarters of growth which had been underpinned by the uptick in demand which is traditionally related with the holding of a major sporting event (on this occasion, the football World Cup in Brazil). By contrast, spending on ICT increased after a disappointing first half.

The fall in prices and policies designed to encourage digitalisation have contributed to raising household ICT usage and to promoting the use of electronic commerce as a complement to traditional shopping. Nevertheless, despite the progress made in the last decade, **the penetration of on-line trade in Spain is still limited** compared to the main European economies. Box 1 shows that the infrequency of on-line purchases could be explained by individual characteristics – particularly low income and education levels – by the lack of densely populated urban nuclei that encourage economies of scale, and by less internet banking usage, among other factors.

Household consumption has been accompanied by lending in the second half of 2014. New consumer credit operations have grown at double-digit rates in the second half to date, driven mainly by the increase in medium- and long-term lending. However, given that the amortisations have been larger than new operations, total outstanding consumer credit continued to fall, reaching 5.7% of GDP in September, which is the EMU average. **The BBVA Business Trends Survey (BTS) corroborates these results.** Participants in the BTS noticed an increase in the demand for loans and a loosening in the lending conditions in 2H14, which has materialised as a bigger increase in the aggregate consumer credit supply than forecast in June. Those surveyed consider that credit has performed well in all areas of retail trade activity, and will continue to do so in the first half of 2015.

Another of the factors accounting for the recent momentum in the demand for durable goods is its greater sensitivity to changes in income. Estimates calculated in Box 2 on the basis of data from the Household Budget Survey and from the consumer price index show that furniture, leisure, educational, health and social services and, above all, vehicles, are luxury products: their consumption varies more than household purchasing power does. By contrast, perishable foods, housing, household appliances and brown goods are necessities. Furthermore, **we have found that complementary goods are in the majority; in a context of the price containment the country is currently experiencing, this makes a positive contribution to the recovery of aggregate consumption.**

Against this backdrop, **the outlook for private consumption remains positive.** Job creation and the reduction of income tax, starting in 2015, will contribute to the recovery of disposable income. The expected growth in financial wealth, the absence of inflationary pressures, the expectation that official interest rates will remain at record low levels and the adjustment in saving will offset the stagnation of property wealth and the uncertainty as to whether the PIVE programme will be renewed. In summary, **private consumption is expected to grow at around 2.1% in 2014 and at 1.8% in 2015.** All in all, we estimate that households will continue to spend more than their long-term fundamentals can justify, which helps to explain the long-lasting reduction in their savings rates, and may herald a slowdown in consumption in the medium term if household expectations are not met.