

ACTIVITY

Spain: economic growth accelerates, underpinned by domestic demand

Spain Unit

Activity and employment gather momentum at the outset of 2015

The trend in the variables indicates that **the Spanish economy's recovery will press on in 2015**. With around 50% of the information for 1Q15 available, the MICA-BBVA¹ model estimates **quarterly GDP growth (QoQ) of around 0.9%** which, if confirmed, will mean an acceleration in the rate of expansion in line with the BBVA-Research scenario (**between 0.8% and 0.9%**)². The improvement in activity is still characterised by the intensification in job creation which will probably continue to exert downward pressure on apparent labour productivity in the short term.

The positive evolution of national demand (mainly from the private sector) is extending into the first quarter of the year, and is supported by fiscal and monetary policies³, cheaper oil prices⁴ and reduced uncertainty. Structural factors also play a part, providing incentives for spending, among them the correction of internal imbalances and some of the reforms which have been pushed through. Short-term partial indicators, for their part, signal that **exports may show modest growth in 1Q15**.

All in all, **we are sticking to our assessment of the macroeconomic scenario** for the next two years. The Spanish economy will grow at around 2.7%, in both 2015 and 2016, a rate which will facilitate net employment creation of nearly 1,000,000 jobs, bringing the unemployment rate down to close to 20% by the end of 2016.⁵

Private demand continues to grow robustly

In the fourth quarter of 2014 private domestic demand grew across the board⁶. We can point, in particular, to the **steady progress in both household consumption (0.9% QoQ) and investment in machinery and equipment (1.8% QoQ)**, with seven and eight consecutive quarters of growth respectively. Housing made slower progress (0.4% QoQ), although enough to confirm the change in cycle noticed from mid-2014 onwards, after six and a half consecutive years of falls⁷.

Turning to external demand, we saw a **stagnation in exports (0.0% QoQ;)** and a **moderate decrease in imports (-0.6% QoQ)**. However, this did not come as a surprise, given the sluggish demand in the eurozone as a whole (+0.3% QoQ in 4Q14) and the baseline effect after the upticks during most of 2014 (of 3.9% QoQ in exports and 5.0% QoQ in imports, in 3Q14).

In terms of the opening months of 2015, the information available suggests that the composition of growth could be similar to 4Q14. On foreign demand, the expectations indicators (industry new export

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.

2: The description of the BBVA Research economic scenario for 2015-16 is in section 3 of our [Spain Outlook report for the first quarter of 2015](#)

3: For more information about the effects of the recent changes in fiscal and monetary policy, see boxes 2 and 3 of our [Spain Outlook for the fourth quarter of 2014](#)

4: BBVA Research estimates point to a stabilisation in prices at around USD70/bbl (2015-16 average) which, if materialised, would contribute 0.7pp on average to the Spanish economy's YoY growth. For more details about our estimate of the effects of the oil price by type of shock on activity and prices in the Spanish economy, see Box 1 of our Spain Outlook report for the second quarter of 2011: <https://www.bbvarresearch.com/publicaciones/situacion-espana-mayo-2011/>

5: In average terms, we estimate that occupation will grow at an annual rate of 3.0% and the unemployment rate will fall to 20.9% by 2016.

6: The detailed breakdown of the data in the 4Q14 National Quarterly Accounts is available here, in Spanish only: <https://www.bbvarresearch.com/publicaciones/espana-contabilidad-nacional-trimestral-del-4t14/>

7: For more information on the stylised facts of the Spanish real estate cycle, see Box 4 of [Spain Outlook for the fourth quarter of 2014](#).

orders) and expenditure (external sales of goods and services by large corporations) indicate that, even though the recovery in Europe is fragile, **exports could show some timid expansion**, enlivened by the depreciation of the euro and the fall in the oil price.

On the side of private domestic demand, there are no signs of exhaustion. On the contrary, the greater support from fiscal and monetary policies, the reduction in the energy bill and lower labour market uncertainty herald **hearty growth in the first months of the year**. Thus, indicators of consumer spending and household expectations (new car registrations and consumer confidence) signal that **real spending could grow strongly again in 1Q15⁸**. Equally, the change in confidence and industrial production indicators, as well as in the manufacturing PMIs, presages another **growth in machinery and equipment investment** similar to that of the previous quarter. Finally, **the residential investment fundamentals continue to support the change in cycle** in both supply and demand, such that we could see positive growth rates again in the current quarter, although relatively moderate and starting from a very low base⁹.

The budgetary targets are being met

The breakdown of the Quarterly National Accounts (CNTR in the Spanish acronym) for 4Q14 revealed **positive surprises in terms of the correction of public demand**. After the uptick in 1Q14 and the virtual stagnation in the central part of the year, public administrations' real consumption was expected to stand still in the last quarter. However, the published data revealed a fall in this item of demand (-1.0% YoY). This **unexpected reduction in public consumption contributed positively to meeting the budgetary targets** which, in any event, continue to rely on the recovery of revenues – encouraged by the accelerating economy – and on the reduction in other spending items (unemployment benefits, for example). Here, the budgetary execution data to November signal that the public sector deficit (excluding local corporations) was around 4.6% of GDP, half a point below the year before, which improves the likelihood of achieving the stability target (5.5%).

The labour market records continue surprising to the upside

The number Social Security Affiliates exceeded the growth expectations in February (+64,000 MoM seasonally and working-day adjusted (swda), according to BBVA Research estimates)¹⁰. If the positive trend is consolidated this month, the number of affiliates could increase by 1.0% QoQ swda in 1Q15, which would imply **acceleration in the rate of job creation**. Aligned with this, **unemployment fell sharply last month** (-40,000 people swda); if this continues in March, it would give rise to a **faster rate of reduction in registered unemployment** than we saw at the end of 2014 (-2.2% QoQ swda, compared to -1.6% QoQ in 4Q14).

The Spanish economy closed 2014 with a moderate lending capacity

Newly released balance of payments data signal that the **current account surplus came to EUR1.2bn for 2014 as a whole, a modest figure** which, as a percentage of GDP, represents a significant deceleration from 2013 (of 1.3pp, down to 0.1% of GDP). **Nevertheless**, the most recent estimates suggest that **the Spanish economy ought to show more lending capacity to the rest of the world in 2015-16**, given the structural corrections that are underway¹¹, the fall in the price of oil¹², and the expectations for interest rate cuts and an increase in exports.

8: For more information about recent performance and the perspectives for private consumption, see [Consumption Outlook, 2nd half 2014](#), in Spanish only.

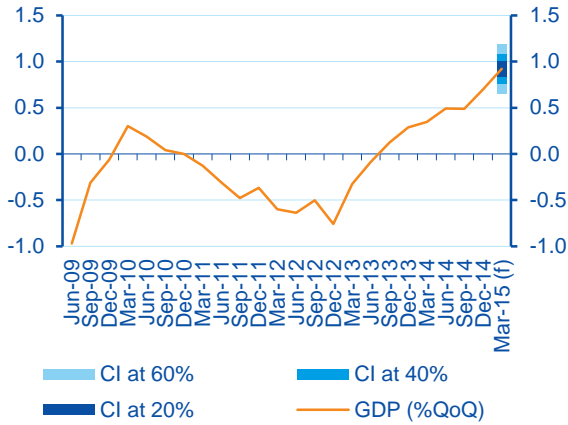
9: See our detailed analysis of the real estate situation in the [Spain Real Estate Flash](#) dated 2 March.

10: The seasonal and working day adjustments (swda) introduced by BBVA Research are based on univariate time series statistical methods. As a result, they may differ from those of other institutions and subsequently be modified without prior notice.

11: The recent process of correction in the Spanish economy's borrowing needs is principally down to the improvement in the structural component, and, as such, the moderation in the current account surplus should be transitory. For more information on recent changes and the outlook for the current account balance in Spain, see our Economic Watch: "[Un análisis de la evolución y los determinantes del saldo por cuenta corriente en España](#)", in Spanish only.

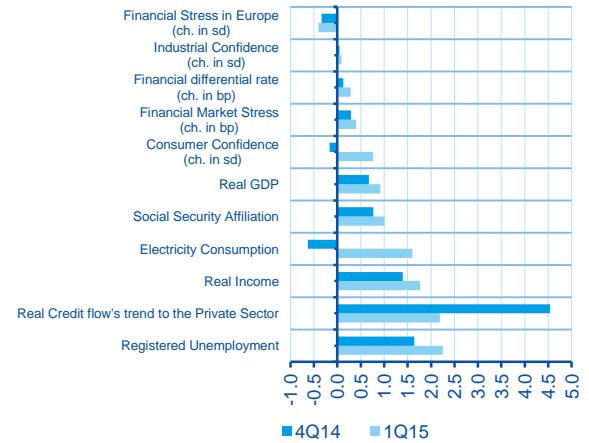
12: BBVA Research estimates suggest that the fall in oil price during 2015 will improve the current account balance by 1.0pp of GDP.

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



(e): estimate.
Source: BBVA Research

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



Data published to March and MICA-BBVA model forecasts.
Source: BBVA Research based on official institutions

Table 2

Summary of Spain Flashes published since the Spain Outlook for the first quarter 2015

Flash	Date	Summary	Link
Spain Energy prices pushed inflation down, but core prices increased slightly	13.02.2015	The drop in headline inflation intensified at the beginning of 2015 due to energy prices. However, core inflation surprised by increasing. Our forecasts suggest negative headline inflation until mid-year, resulting from the downward pressure of raw materials.	PDF
Spain December 2014 home sales: the year concludes with an increase in sales	16.02.2015	According to data from the General Council of Notaries, 43,901 homes were sold in December 2014. Home sales grew by 2.2% (swda), translating into a quarterly growth of 3.4%. Thus, the figure of 364,600 homes sold in 2014 was 19.1% higher than in 2013.	PDF
Spain Trade balance in December 2014	18.02.2015	The 12-month accumulated trade deficit remained stable in December compared to the previous month, at -2.3%, where it has stood for five months in a row. In the last quarter of 2014, the flow of goods traded decreased in real terms, yet 2014 closed with healthy performance by exports and a remarkable import growth rate.	PDF
Spain Permits in December 2014: despite the poor performance of the month, the year closed in positive	26.02.2015	Building permits in December fell to 1,866, a decrease of 9.6% from the previous month. Although the data surprised negatively, the annual aggregate shows an increase in visas of around 2.0% compared to 2013. Refurbishment also decreased by 5.0% from November, ending the year with a decline from the previous year.	PDF
Spain Quarterly National Accounts 4Q14	26.02.2015	As advanced in the latest edition of our Spain Economic Outlook, the pace of recovery in the Spanish economy accelerated at the end of 2014. GDP growth for 4Q14 (+0.7% QoQ) is consistent with the BBVA Research scenario, which forecast a rate of 1.4% for 2014 as a whole and 2.7% in 2015. Overall, the published data are positive inasmuch as they shows positive growth of all private domestic demand components and a drop in public consumption. Even though the GDP growth breakdown confirms the slowdown of exports, this comes as no surprise due to the pick-ups registered up to 3Q14 and the moderate expansion in European activity. Employment is growing at the same pace as activity, leading to a stagnation of productivity. The foregoing did not offset the adjustment of real wages, leading to a real increase in unit labour costs.	PDF
Spain Industrial and consumer confidence in February: agents' expectations remained supportive	26.02.2015	Economic agents remained optimistic at the beginning of 2015: both consumer and industrial confidence stayed above their pre-crisis averages. Thus, data published today are consistent with the BBVA Research diagnosis, indicating that the recovery in activity is gaining traction	PDF
Spain February CPI flash estimate: the fall in inflation has started to moderate	27.02.2015	The CPI flash estimate shows a smaller decline in consumer prices in February than the previous month's drop, due to the monthly increase in fuel prices. Our estimates suggest that core inflation may have stabilised	PDF
Spain Balance of payments December 2014	28.02.2015	Newly released balance of payments data show that the current account ended 2014 close to equilibrium. After two consecutive months of deficit overall, a reduction in the deficit of the balance of income enabled the year to close with the current account at 0.1% of GDP. Exports stagnation at the end of the year led to a further decline in the surplus of the balance of goods and services. Finally, December witnessed a large movement of capital flows, with residents and non-residents reducing positions in foreign assets and domestic liabilities, respectively.	PDF
Spain Passenger car registrations increased again more than expected	02.03.2015	After seasonal adjustments, BBVA Research estimates that the number of passenger car registrations in February surprised to the upside for the second consecutive month. All channels contributed positively to the performance of sales.	PDF
Spain The real estate sector begins a year of growth supported by positive economic forecasts	02.03.2015	Growth in housing sales in December raised transactions in 2014 to 364.600, 19% more than the year before. By the close of 2014, the price of housing had experienced its first quarter of growth since the beginning of the crisis, at the same time as housing starts closed the year with positive figures. All in all, the economic growth outlook for this year and the favourable lending conditions are preparing the way for another increase in sales in 2015, which will be accompanied by a moderate price increase and further expansion in construction activity.	PDF
Spain Labour market figures in February: data beat expectations	02.03.2015	February data confirmed that the setback in January, centred on agriculture, was temporary. BBVA Research estimates indicate that job creation and the reduction in official unemployment accelerated last month.	PDF
Spain Industrial Production showed a marginal improvement in January	06.03.2015	In January industrial activity performed slightly better than expected. However, the results should be viewed with caution : first because they do not break with the trend of deceleration (following the positive performance up to 1H14) and, second, because January's improvement was mainly in the production of energy-sector goods.	PDF

Source: BBVA Research

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