

ACTIVITY

Spain: robust economic growth with a bias to the upside in the short term

Spain Unit

Activity bounces back in 1Q15, with no signs of losing momentum for the rest of the half

The trend seen in the variables confirms that **the Spanish economy's recovery accelerated at the beginning of 2015**. With around 90% of the information available for 1Q15, our MICA-BBVA model¹ estimates **quarterly (QoQ) GDP growth of around 0.9%**, in line with BBVA Research expectations three months ago², which would entail an intensification in the rate of expansion from the 4Q14 rate of 0.7%. The uptick in activity again coincided with an acceleration in employment creation, which will probably lead to a marginal reduction in apparent labour productivity.

The speed of growth in domestic demand (principally private demand) lasted throughout the first quarter. Consumption and investment decisions were encouraged by fiscal and monetary policies³, the reduction in the energy bill⁴ and the improvement in both the labour market and in agents' confidence. Furthermore, elements favouring spending in the medium and long term persist, such as the correction of internal imbalances and some of the structural reforms that have taken place.

On the other hand, **exports of goods may have stagnated in 1Q15**, despite the improvement in European demand, the depreciation in the exchange rate and the cheapening of oil. This lassitude in trade flows is due, at least in part, to the base effect of the upticks seen for most of 2014 and, as such, will be temporary. On the contrary, **exports of services may have retained their momentum**, with tourism playing a key role again.

Although the **BBVA Research scenario for 2015 and 2016 remains relatively unchanged**, the latest data suggest that the **hearty recovery of demand and employment is rather more robust than thought at the beginning of the year**. As yet, there are no signs of demand waning for the rest of this first half, for which reason **we are putting a moderate bias to the upside on our forecasts for economic growth for 2015 (current BBVA Research forecast: 2.7%, in both 2015 and 2016)**.

Stimuli to demand are encouraging private spending, but growth in goods exports remains anaemic

The fourth quarter of 2014 was characterised by generalised growth in private domestic demand and the exhaustion of commercial flows⁵. Available information suggests that, in general terms, the composition of growth may have been similar during the opening months of 2015.

1: For more details on MICA-BBVA model, see Camacho, M. y R. Doménech (2010): "MICA-BBVA: A Factor Model of Economic and Financial Indicators for Short-term GDP Forecasting": <http://goo.gl/zeJm7g>

2: See the BBVA Research economic scenario in section 3 of our 1Q15 Spain Outlook here: <http://goo.gl/RRHmIX>

3: For more information on the effects of changes in fiscal and monetary policy, see boxes 2 and 3 of our 4Q14 Spain Outlook here: <http://goo.gl/gZiR3>

4: For further information estimating the effects of the oil price by type of shock on activity and prices in the Spanish economy, see Box 1 of our 2Q11 Spain Outlook here: <http://goo.gl/xa60Xy>

5: See our detailed analysis, in Spanish only, of the 4Q14 Quarterly National Accounts here: <http://goo.gl/FqG3DI>

In terms of foreign demand, total exports may have experienced modest growth in 1Q15 or even stagnation. Despite the euro's depreciation, the reduction in transport costs and the improvement in European demand, expectations indicators (industry new export orders) and, above all, spending indicators (trade balance and external sales by large corporations) indicate **zero growth in goods exports. On the contrary, services exports may have maintained their momentum, with activity in the tourism sector again outstanding.** Here, the trend in the indicators linked to consumption by non-residents in Spain (travellers and spending by foreign tourists), suggests growth rates close to those of the preceding quarter, which would once again put activity at record levels.

On the side of private domestic demand, the expansionary tone seen at the end of 2014 is continuing. Greater support from fiscal and monetary policies, the fall in the price of crude and lower labour uncertainty will have encouraged **growth in the first quarter.** Thus, household spending and expectations indicators (mainly, new car registrations, consumer confidence and employment) point to **another uptick in consumption in 1Q15.** Likewise, the movements in the confidence, industrial production and manufacturing PMIs indicators all suggest **vigorous investment growth in machinery and equipment,** similar to that at the end of 2014. Finally, **the improvement in the fundamentals underpinning residential investment continues to strengthen the change in cycle,** in both supply and demand, such that in the first quarter of the year there may be increases again, albeit moderate and from record lows⁶.

The deviation of the public-sector deficit in 2014 was marginal and confirms the change in tone of fiscal policy

The combined deficit of the public administrations at the end of 2014 was slightly worse than expected (-5.7% of GDP compared to the BBVA Research estimate of -5.5% of GDP). The figure was slightly more than 0.2pp of GDP above the budget stability target set for 2014 (-5.5%) and, according to BBVA Research estimates, implies a **slight deterioration in the cyclically adjusted surplus** (around 0.3pp of GDP) which, in any event, **confirms the change in stance of fiscal policy.**

Turning to the start of 2015, the budget execution data for January indicate that the public-sector deficit (excluding local corporations) will come in at around 0.5% of GDP, slightly below the year before. For its part, the state reported an accumulated deficit in February of -1.1% of GDP, which is a 0.1pp improvement on the results in February last year.

Fiscal revenues continue to improve, in line with the recovery in activity, although at lower rates than those of earlier months. On the spending side, the adjustment is softening. We expect a moderate correction in real public consumption here during 1Q15 after the contraction in 4Q14 (-1.0% QoQ).

Labour market figures continue surprising to the upside

The Social Security affiliation grew by 1.1% QoQ swda (seasonally and working-day adjusted) in 1Q15, representing a 0.3pp acceleration over the end of 2014⁷. Between January and March, **hiring spiked strongly** (5.5% QoQ swda), for both temporary (5.4% QoQ) and, in particular, long-term jobs (6.4% QoQ). Consistent with this, **the reduction in unemployment accelerated over the quarter as a whole,** to -2.5% QoQ swda (-1.7% QoQ swda in 4Q14).

6: See our comprehensive look at the real estate market in our Spain Real Estate Flash on 7 April 2015, available here <http://goo.gl/lzJCP1>

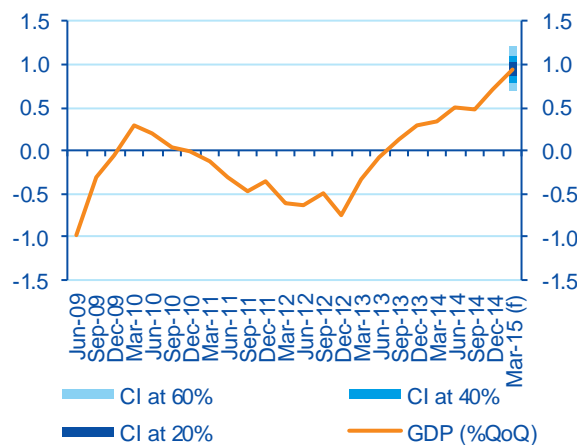
7: The seasonal and working day adjustments (swda) used by BBVA Research are based on univariate time series statistical methods. Therefore, the swda series estimates are subject to uncertainty, can differ from other institutions' estimates, and may be modified a posteriori without prior notice.

The Spanish economy showed lending capacity with respect to the rest of the world, although less so than in 2013

As we anticipated, the country closed 2014 with a positive result in its non-financial accounts for institutional sectors, the second since 1997. Specifically, the **Spanish economy's lending capacity** was 1.0% of GDP, 1.1pp below its lending capacity in 2013. The moderation compared to the 2013 results was a result of a **slight contraction in the economy's saving rate** (growth in consumption offset and surpassed that of gross income) but, above all, can be accounted for by the **recovery in the investment rate**. In 2014, households and companies reduced their lending capacity, whereas public administrations and financial institutions improved their balances.

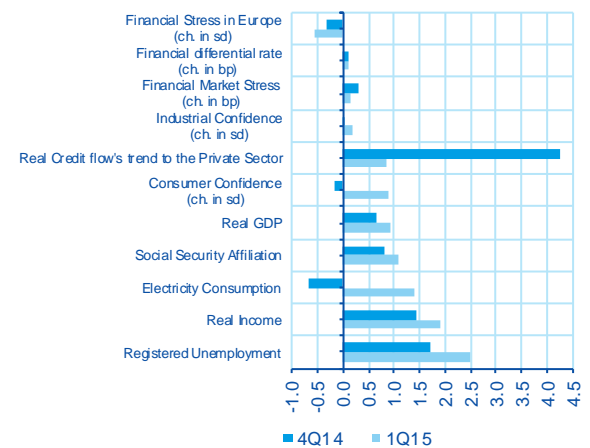
BBVA Research forward forecasts suggest that **the Spanish economy ought to show greater lending capacity with respect to the rest of the world between 2015 and 2016**, supported by the structural adjustment⁸, the recovery of exports, the expectations of a reduction in the interest rates and the saving resulting from the fall in the oil price⁹.

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



(e): estimate.
Source: BBVA Research

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



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

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

Table 1

Summary of Spain Flashes published since the Spain Economic Watch in March 2015

Flash	Date	Summary	Link
Spain Retail sales slightly decreased at the start of 2015	03.10.2015	Seasonally adjusted retail sales fell by four tenths in January. Rising food and fuel consumption was insufficient to offset the decline in durables.	PDF
Spain The fall of inflation started to ease in february	03.12.2015	The fall in headline inflation moderated last month due to the evolution to higher fuel prices. Meanwhile, core inflation remained stable. Negative headline inflation rates are expected until mid-year, resulting from downward pressure on the price of raw materials.	PDF
Spain Public debt rises up to 97.7% of GDP	03.13.2015	During 2014 the Spanish public administration's debt eased its growth rate and stood at 97.7% of GDP. This increase in debt was mainly in the regions and central administration (consolidated with Social Security). Available data suggest that regions deviated from its deficit target.	PDF
Spain January 2015 home sales: the recovery continues	03.16.2015	According to data from the General Council of Notaries, 21,320 homes were sold in January 2015. Although YoY sales fell by 10.9%, seasonally adjusted data show monthly growth of 2.4%. Thus, the recovery trend seen late last year is continuing into the beginning of 2015.	PDF
Spain Trade balance in January 2015	03.20.2015	The 12-month accumulated trade deficit marginally decreased in January compared to the previous month's figure. The trade balance stood at -2.3% of GDP for six months in a row. The figures published today show that the slowdown in goods' exports recorded during the previous quarter continues.	PDF
Spain March CPI flash estimate: the drop in prices has continued to ease	03.30.2015	The CPI flash estimate shows another lower decline in consumer prices in March than the previous month's fall, due to the increase in fuel prices for two months in a row. Our estimates suggest that core inflation may have stabilised.	PDF
Spain Permits January 2015: positive start to the year	03.30.2015	In January 3,466 building permits were signed off, 1.2% more than the previous month. Thus, the growth trend, which was interrupted in the final months of 2014, is back. Refurbishment also started the year with a significant increase.	PDF
Spain Industrial and consumer confidence in March: agents' expectations improved in 1T15	03.30.2015	Economic agents remained optimistic in the begin of 2015: both consumer and industrial confidence stayed above their pre-crisis average levels. Thus, data published today is consistent with the diagnosis of BBVA Research, indicating that the recovery of activity is gaining traction	PDF
Spain Higher investment reduced the economy's lending capacity in 2014	03.30.2015	The Spanish economy's lending capacity fell to 1.0% of GDP in 2014, resulting from the investment rate increase. The saving rate decreased slightly due to a higher growth of consumption which offset the increase of gross disposable income. Households and firms reduced their lending capacity while government and financial institutions improved their balance sheet from 2014	PDF
Spain Public deficit 2014: 5.7% of GDP	03.31.2015	The public-sector deficit closed at 5.7% of GDP in 2014, an improvement of 0.6pp from the previous year. The deviation from the 2014 target was another 0.2pp. The fiscal effort is coming mainly from the central government, while the autonomous regions have a higher deficit, at 1.7% of GDP, than in 2013	PDF
Spain Retail sales fell again in February	03.31.2015	Seasonally adjusted real retail sales fell by 0.7pp, more than expected. The increased consumption of fuels and other products was insufficient to offset the decline of durable goods and food.	PDF
Spain Balance of payments January 2015	03.31.2015	The balance of payments started the year with a 12-month accumulated current account surplus of EUR9.00bn. The positive balance of goods and services grew while the income account deficit decreased slightly. The financial accounts showed net capital inflows amounting to EUR5.25bn.	PDF
Spain Public deficit in January 2015 slightly improved from previous year	03.31.2015	Budget execution in January 2015 improved over last year. By administrations, the regions and, to a lesser extent, the central government, have reduced their deficit from last year, although Social Security figures reported a smaller surplus.	PDF
Spain Labour market figures in March: a positive quarter closed to the upside	04.06.2015	The figures registered in March beat expectations, favoured by the primary sector. BBVA Research estimates indicate that Social Security affiliation, the growth in job-creation and the reduction in unemployment accelerated throughout the first quarter.	PDF
Spain Real Estate sector recovery still going strong	04.07.2015	Housing prices stabilised in 2014, even starting to show some timid rises in the autonomous regions with the highest exposure to tourism. In January housing sales softened slightly, which can be explained by seasonal factors. Building activity continues to grow.	PDF
Spain Industrial production surprised to the upside in February	04.10.2015	Industrial activity performed better than expected, with monthly growth in most of its components. Nevertheless, the figures should be analysed with caution as the recorded surprises were not sufficient to break the slowdown trend showed since 2H14	PDF
Spain The drop of inflation continued to ease in March	04.14.2015	The fall in headline inflation moderated in March due again to the monthly upward trend of fuel prices. Meanwhile, core inflation remained stable. Negative headline inflation rates are expected until mid-year, resulting from lower prices of raw materials than those seen a year ago.	PDF

Source: BBVA Research

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