

ACTIVITY

Spain: No signals of activity weakening despite greater uncertainty

Spain Unit

Economic growth stabilised at high levels at the close of 2015

The trend in the variables observed on the date this report was closed indicates that **in the fourth quarter of 2015, the Spanish economy maintained its growth rate**. With around 90% of the information in for 4Q15, the MICA-BBVA model¹ estimates that **QoQ GDP growth could have reached 0.8%, similar to that observed in the previous quarter**. This figure is consistent with the estimates advanced at the close of 2015², and would imply that GDP expanded 3.2% in 2015.

Economic growth continues finding support in both external and internal elements. The former include **the low oil prices, the gradual improvement of European demand and the monetary policy of the European Central Bank (ECB)**, which favours the euro exchange rate, interest rates and liquidity³.

With regard to the internal drivers, **the recovery in demand is supported by both transitory and structural elements**. On one hand, the fiscal policy stance has been slightly expansionary. On the other hand, factors such as the repercussions of some economic reforms (for example, of the labour market) and also the changes that have taken place in the productive structure⁴.

To sum up, **the economic activity data show that the recovery continues and that, so far, we are not observing any significant effects of the increased uncertainty associated with the expectations of growth in emerging economies, the volatility in the capital markets or the domestic political situation**.

Private demand continues its positive path

The data observed during the second and third quarters of 2015 consolidated domestic demand as the principal support of economic activity in Spain⁵. The available information for 4Q15 **suggests growth breakdown will maintain this trend**.

The partial economic indicators related to private domestic demand (passenger car registrations, retail trade, agent confidence and labour market data) indicate that **household consumption probably continued to lead the recovery**, at a rate of growth similar to that registered in the previous quarter. Meanwhile, the indicators related to investment in machinery and equipment (Industrial Production Index, Industrial Confidence, manufacturing PMIs and industrial vehicle registrations) showed evidence of growth decelerating in this component of demand.

As regards external demand, expenditure variables (large corporates' sales abroad and tourist spending) and expectations (order book) indicate that **exports continued to grow at the close of 2015**, although

1: For more details on the MICA-BBVA model, see Camacho, M. and R. Doménech (2010): "MICA-BBVA: A Factor Model of Economic and Financial Indicators for Short-term GDP Forecasting", BBVA WP 10/21, available at: <http://goo.gl/zeJm7g>

2: See Spain Economic Watch published by BBVA Research on 9 December 2015. Available at <https://goo.gl/BD988k>

3: The Governing Council of the ECB announced additional measures in December aimed at achieving a more intense recovery in credit and domestic demand, and to increase prices towards its inflation target. For more details, see the ECB Watch published by BBVA Research on 3 December 2015. Available at <https://goo.gl/tDE494>

4: For example, the reorientation of investment towards the components of equipment and machinery and production towards external demand. See Boxes 1 & 2 of the Spain Outlook for 4Q15, available at <https://goo.gl/IO2lZz>

5: The evaluation of the 2Q15 and 3Q15 Quarterly National Accounts is available at: <https://goo.gl/Nflqyo> & <https://goo.gl/MtZ08B>

more slowly than in the first nine months of the year. Finally, although the **economic indicators are giving mixed signals in the short term**, on balance the data point to **new growth in residential investment**⁶.

The data observed evidence the difficulty of meeting the budget targets

The cyclical recovery continues to underpin the reduction in the public deficit. In this context, the budget execution data available indicate that the state deficit reached 2.55% of GDP in November (0.85pp less than in the same month of 2014). For the total of Public Administrations (excluding local corporations), the latest available data (October) reflects a cumulative deficit of 3.4% of GDP (also less than in the same month in 2014, 3.9% of GDP).

The pace of job-creation recovers in the fourth quarter

According to our estimates⁷, **Social Security affiliation increased by 0.8% QoQ seasonally and working day adjusted (swda) in 4Q15**, which implies a significant acceleration compared with the stagnation observed during the third quarter of 2015. With this, **4Q15 was the ninth consecutive quarter of non-seasonal expansion in affiliation**. Job-creation increased again between October and December (+2.4% QoQ swda), of both temporary jobs (+2.6% QoQ) and permanent contracts (+0.9% QoQ).

Meanwhile, our estimates also indicate that in 4Q15, registered unemployment continued to decline (-1.6% vs. -1.7% QoQ swda in 3Q15). However, the pace remained slower than that observed in the first two quarters of the year (-2.4% QoQ swda on average).

Consumer prices stalled in December, but core inflation remained positive

The flash estimate signalled that consumer prices stalled in December (0.0% YoY) after falling for four consecutive months. According to INE data, the flat performance of prices vs. the same month in 2014 was due to energy prices falling more slowly than last year (i.e. the base effect). Meanwhile, **according to our estimates, core inflation remained relatively stable at around 0.9% YoY**.

All in all, the stabilisation of trend inflation in the Spanish economy continues in a scenario of price-competitiveness recovery, in which the differential in the variation in prices compared with the euro area remains favourable to Spain. Thus, trend inflation indicators show prices rising close to 0.8% in Europe and 0.4% in Spain⁸.

The Spanish economy's financing capacity continues to expand

The non-financial quarterly accounts of the institutional sectors (CNFSI in their Spanish acronym) confirmed that, at the close of the third quarter of 2015, the **Spanish economy's financing capacity amounted to 2.2% of the cumulative GDP for the year**, 0.2pp more than in 2Q15. This increase reflected improved savings, which in cumulative terms, amounted to 21.8% of GDP. The analysis by sectors shows that it was **the deterioration in the Public Administrations' savings that prevented a better overall performance**. At the same time, the momentum in household savings continued to moderate, fundamentally due to the increase observed in consumption. The investment rate continued to rise, driven by both public and household investment.

6: A detailed analysis of the situation in real estate can be found in the Real Estate Flash dated 4 January 2016, available at <https://goo.gl/tP6LLQ>

7: The correction of seasonal and calendar variations (CVEC in its Spanish acronym), implemented by BBVA Research, is based on univariate time series models. As a consequence, the CVEC are subject to uncertainty, may differ from the estimates of other organisations and be modified a posteriori without advance notice.

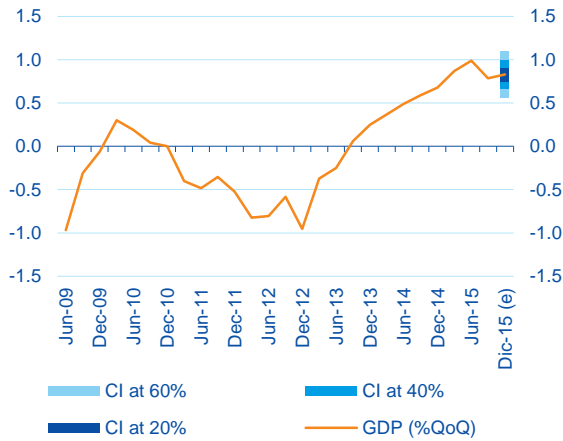
8: For more details on the calculation of trend inflation using the trimmed mean method, see Box 1 of the Spain Outlook for 1Q14, available at: <https://goo.gl/smtVlh>

The balance of payments data indicate that, cumulative to October, **the annual surplus on the current account amounted to EUR17bn**. This represents an increase compared with the cumulative figure registered both at the close of the third quarter (EUR15.8bn) and with the 2014 total (EUR10.2bn). From the financial accounts' point of view, **the Spanish economy's financing capacity increased**, reaching EUR10.349bn. In particular, non-resident capital inflows fell by EUR3.5bn, while resident sectors increased their investment abroad by EUR6.6bn.

Looking ahead, we expect the Spanish economy to continue to show lending capacity to the rest of the world, thanks to its structural adjustment⁹, the growth in exports, the low level of interest rates and the cumulative drop in the price of oil.

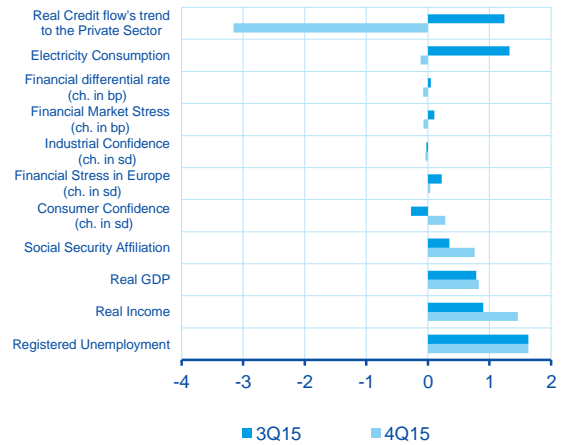
9: The correction process in the Spanish economy's financing needs is principally due to the improvement in the structural component. For more information on the recent evolution and the Outlook for the balance on current account in Spain, see the Economic Watch entitled: An analysis of the evolution and drivers of the current account balance in Spain, available at: <https://goo.gl/hnCsdU>

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



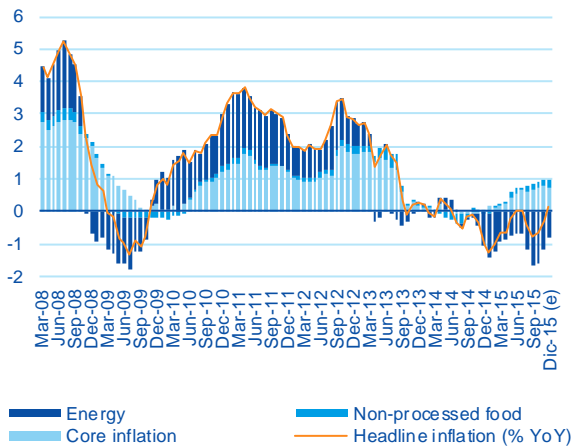
(e): estimate.
Source: BBVA Research

Figure 2
Spain: Trends in GDP and key MICA-BBVA model indicators (+) improvement / (-) deterioration in pp save where otherwise indicated (swda)



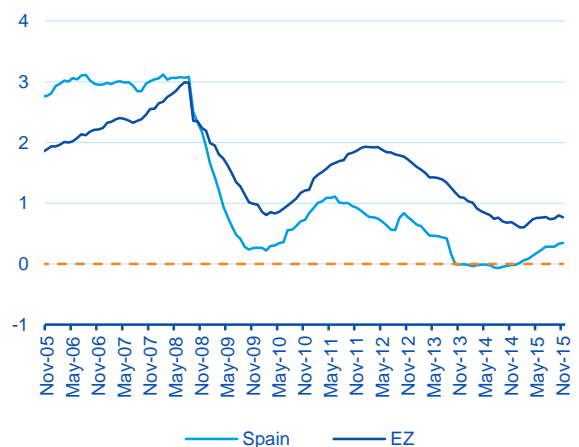
Data out up to 12 January 2016 and MICA-BBVA model forecasts
Source: BBVA Research based on official organisations

Figure 3
Spain: contribution to headline inflation (pp YoY)



(e): estimate.
Source: BBVA Research

Figure 4
Spain and EMU: trend inflation (trimmed means method, % YoY)



Source: BBVA Research based on INE and Eurostat

Table 1

Summary of Spain Flashes since publication of Spain Outlook, December 2015

Flash	Date	Abstract	Link
October 2015 home sales: a stable month	14.12.2015	According to data from the General Council of Notaries 35,088 homes were sold in October 2015, remaining virtually unchanged from September. As a result, transactions between January and October exceed 10.8% for the same period of 2014.	PDF
The headline inflation decline eased in November while core inflation improved	15.12.2015	Headline inflation moderated its fall due to lower drop in energy prices and the marginal increase in core inflation. Going forward, we expect the positive trend in the core component to remain, although further decline in headline prices cannot be ruled out in the short term, due to volatility in the price of raw materials.	PDF
Public deficit: insufficient pace of deficit adjustment	22.12.2015	The public deficit (excluding local governments) stood at 3.4% of GDP until October, which improves the figure from a year ago. Despite the good performance, the pace of adjustment does not seem enough and the probability of failing to meet year-end target is maintained	PDF
Spanish Regional Accounting Review	24.12.2015	The audit of the 2014 CRE growth skews towards the Mediterranean	PDF
Permits in October 2015: monthly contraction	29.12.2015	In October 3,840 housing permits were signed, 13.2% less than in the previous month. However, the balance of the year remains positive as permits signed between January and October increased 29.2% yoy. For its part, refurbishment also performed worse than in the previous month.	PDF
Retail sales decreased less than expected in November	29.12.2015	Retail trade turnover fell in November less than expected after adjusting for calendar and seasonal effects. Purchases of household equipment and other goods rose last month, but not enough to offset the decline of other products' sales.	PDF
The CPI flash estimate confirms the stagnation of prices in December	30.12.2015	The CPI flash estimate indicates that headline prices stalled in December after declining for four consecutive months. Our estimates suggest that energy continues to put downward pressure on prices, while core inflation remains relatively stable.	PDF
Balance of payments remain positive in October	30.12.2015	BOP opened the fourth quarter with a current account surplus that improves up on the recorded at the previous quarter. Both the surplus in the balance of goods and services as the deficit in the income balance widened in October. The entry of non-resident capital resulted in a reduction of investment in October.	PDF
Registrations in December certify the recovery in demand for passenger cars in 2015	04.01.2016	Once the data is seasonally adjusted, BBVA Research estimates that passenger car registrations evolved in line with expectations in December. 2015 closed with 1,034,232 passenger cars registered, 20.9% more than in 2014.	PDF
December's labor market records consolidate the positive balance in 2015	05.01.2016	Although unemployment fell less than expected, December's employment improvement strengthened the positive trend. All in all, BBVA Research estimates that growth of affiliation to the Social Security accelerated in the 4T15, while unemployment reduction stabilized.	PDF
The agents' confidence picks up at the end of 2015	07.01.2016	The agents' expectations are positive and show a widespread optimism in all components of both industrial and consumer confidence. Both indicators widened the gap with pre-crisis average and, in the case of consumers, the historical maximum has been reached. On balance, the 4T15 consolidated a year of positive expectations.	PDF
Industrial production (IPI) consolidated its positive trend until November	11.01.2016	Industrial production (IPI) behaved as expected in November, consolidating the observed trend since 2013. Nevertheless, some mixed signals among the production components can still be observed.	PDF

Source: BBVA Research and BLS

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