

ACTIVITY

Spain: 3Q16 growth remains around last year's levels

Spain Unit

The trend in the observed variables indicates that the **recovery of the Spanish economy continued during the third quarter**. With almost 90% of the information available, the MICA-BBVA model¹ estimates that **quarterly GDP growth (QoQ) may be between 0.7% and 0.8% in 3Q16**, a similar figure to those registered last year (see Figure 1). If this estimate is confirmed, the activity forecast will be in line with expectations. **Given this, growth forecasts included in the BBVA Research scenario remain unchanged (3.1% for 2016 and 2.3% for 2017)**, but the valuation regarding downside risks for next year remains in force.²

Private domestic demand recorded robust growth, albeit lower than the previous quarter

The second quarter was characterised by the significant contribution made by private domestic demand to growth in the Spanish economy. **3Q16 figures suggest that** while some components may have grown at a slower rate than in 2Q16, **domestic spending continues to bolster growth**.

In particular, household expectations, domestic spending and labour market figures point to a **consumption growth that is only slightly below those for the previous quarter** (see Figure 2). Partial indicators for **investment in machinery and equipment** suggest that this would have **maintained a solid growth rate, albeit almost 1% lower than recorded** advance between April and June (see Figure 3). As far as residential investment is concerned, forecasts indicate that after a stagnant quarter, **construction once again increased** in 3Q16 (see Figure 4).

Public demand returned to growth in the third quarter

Based on the figures from the budget execution until August, **actual final consumption of the public administration in 3Q16 may have grown at a similar rate to the period from 2Q15 to 1Q16** (average 0.6% QoQ). If this growth forecast is confirmed it would suggest that the surprising fall during the second quarter was a temporary blip.

Export growth has been adjusted downwards

The second quarter was marked by the exceptional performance recorded by exports, in both goods and services, making a 0.6pp contribution to quarterly GDP growth. However, in 3Q16 we expect to see a deceleration in external demand, and a subsequently marginal contribution to growth. **The available indicators show that there will be a slowdown in the sale of goods abroad**, with this verging on stagnation in the third quarter (see Figure 6). As far as service exports are concerned, the figures relating to foreign tourism indicate that the affluence of non-residents remains positive due, at least in part, to geopolitical problems in some of the competitor market. Nevertheless, tourist expenditure indicators show a stabilisation in terms of non-resident spending.

1: See Camacho, M. and Doménech, R. (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>

2The BBVA Research description of the economic scenario for the 2016-2017 biennium is at the end of this observatory

Job creation continued in 3Q16

After weak growth in August, the growth in Social Security affiliation gained dynamism in September. As a result, affiliations grew 0.7% QoQ swda in 3Q16, representing a **slowdown in the creation of employment** (0.8% QoQ swda in 2Q16). Meanwhile, **unemployment continued its downward trend last month**, with the third quarter closing with a **fall in registered unemployment of 2.8% QoQ swda** (-2.4% QoQ, swda in 2Q16).

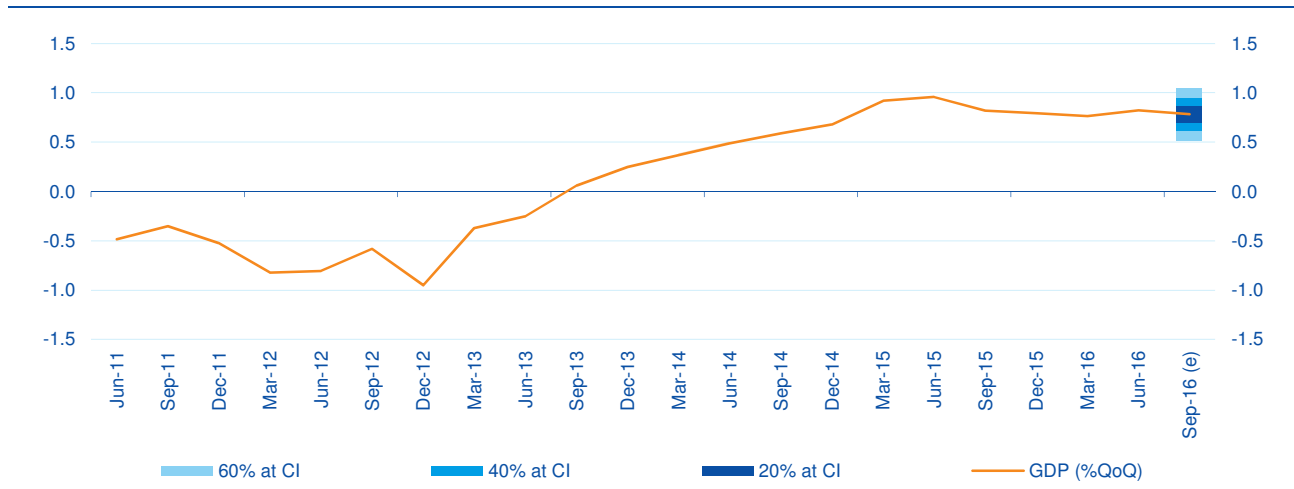
Headline inflation moves into positive territory

The CPI flash estimate shows that, after eight consecutive months in decline, headline consumer prices were up 0.3% YoY in September, slightly higher than forecast (see Figure 8). In this regard, BBVA Research estimates suggest that downward pressure on energy prices continues to moderate, while **core inflation remains positive (at around 0.9%)**. **However, the context of low and stable inflation in Europe persists and, consequently, limits the gains in price competitiveness of the Spanish economy.** Although it remains favourable, the trend inflation differential relative to the euro zone fell by 0.6pp over the course of last two years to -0.2pp in August³.

Despite the upward correction in oil prices and the slight appreciation of the exchange rate, the cumulative decline in energy prices will keep headline inflation in negative territory for most of 2016 (an annual average of -0.3%). However, domestic determinants continue to reflect positive annual rates where core inflation is concerned. In 2017, both headline and core inflation will continue their upward trend (an annual average of 1.7% and 1.1%, respectively) due, at least in part, to the base effect caused by low prices in 2016.

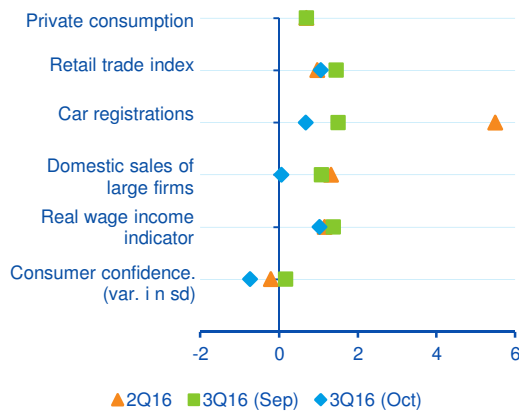
³: For more details on the calculation of trend inflation using the trimmed mean method, see Box 1 of the Spain Economic Outlook review for the first quarter of 2014, available at: <http://goo.gl/j0rIT8>

Figure 1
Spain: observed growth in GDP and forecasts of the MICA-BBVA Model (% QoQ)



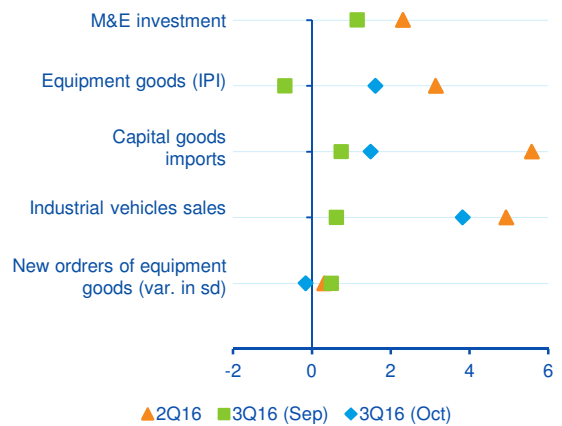
(e): estimated.
Source: BBVA Research

Figure 2
Spain: selection of indicators related to household consumption (% QoQ SWDA, unless otherwise indicated)



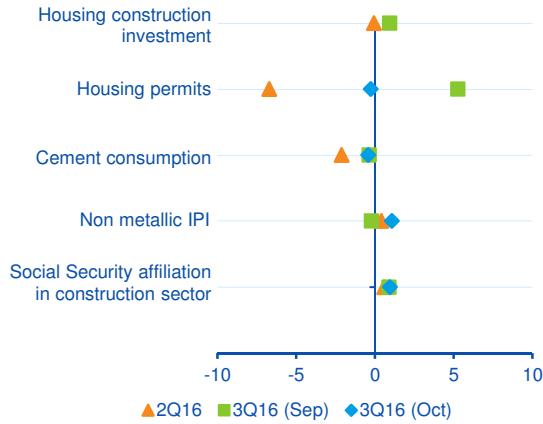
3Q16 (m): forecast based on available figures to month end m
Source: BBVA Research based on data from official statistical sources

Figure 3
Spain: selection of indicators linked to investment in equipment and machinery (% QoQ)



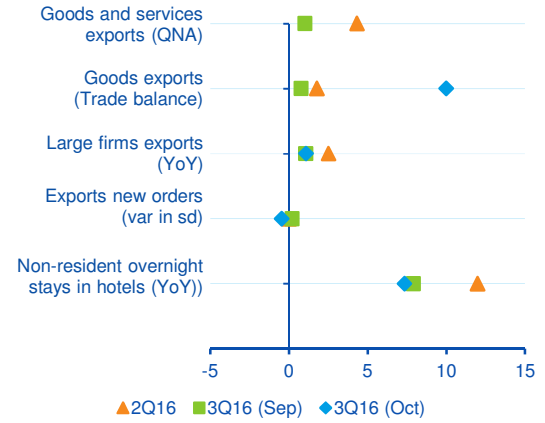
3Q16 (m): forecast based on available figures to month end m
Source: BBVA Research based on data from official statistical sources

Figure 4
Spain: selection of indicators linked to investment in residential construction (% QoQ)



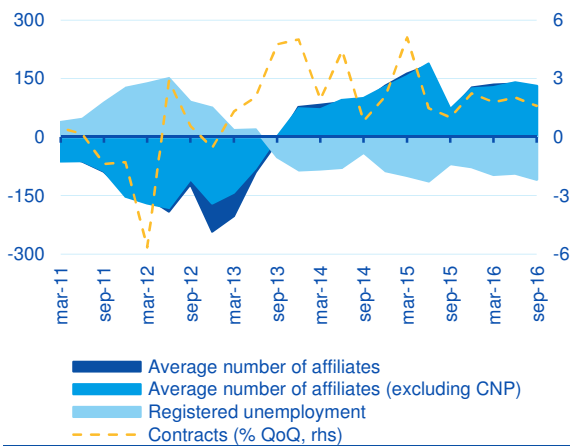
3Q16 (m): forecast based on available figures to month end m
Source: BBVA Research based on data from official statistical sources

Figure 5
Spain: selection of indicators linked to exports (% QoQ, unless otherwise indicated)



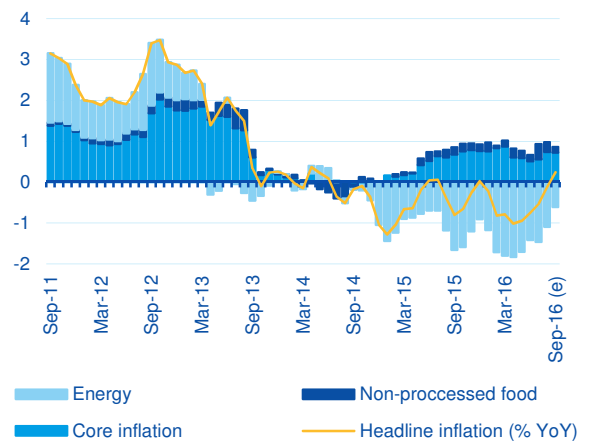
3Q16 (m): forecast based on available figures to month end m
Source: BBVA Research based on data from official statistical sources

Figure 6
Spain: figures from the labour market (quarterly change in thousands of people unless otherwise indicated, SWDA data)



Source: BBVA Research, based on MEYSS data

Figure 7
Spain: contribution to CPI growth (percentage points YoY)



(e): estimated.
Source: BBVA Research based on INE

Table 4.6

Spain: macroeconomic forecasts (Annual rate of change in %, unless otherwise indicated)

	2013	2014	2015	2016 (f)	2017 (f)
Activity					
Real GDP	-1.7	1.4	3.2	3.1	2.3
Private consumption	-3.1	1.2	3.1	3.3	1.9
Public consumption	-2.8	0.0	2.7	0.8	1.8
Gross Capital Formation	-3.6	4.8	7.0	4.3	3.3
Equipment and Machinery	4.0	10.6	10.2	7.0	3.9
Construction	-7.1	-0.2	5.3	2.3	3.0
Housing	-7.2	-1.4	2.4	2.8	3.3
Internal Demand (contribution to growth)	-3.1	1.6	3.7	2.9	2.1
Exports	4.3	5.1	5.4	5.6	4.5
Imports	-0.3	6.4	7.5	5.3	4.5
External Demand (contribution to growth)	1.4	-0.2	-0.5	0.2	0.1
Nominal GDP	-1.1	1.0	3.8	3.9	4.5
(Billions of euros)	1031.3	1041.2	1081.2	1123.4	1174.2
Labour market					
Employment, EPA	-2.8	1.2	3.0	2.9	2.1
Unemployment rate (% of labour force)	26.1	24.4	22.1	19.6	18.5
CNTR Employment (full-time equivalent)	-3.5	1.1	3.0	2.9	1.9
Apparent productivity of labour factor	1.8	0.3	0.2	0.3	0.3
Prices and costs					
CPI (annual average)	1.4	-0.2	-0.5	-0.3	1.7
CPI (end of period)	0.3	-1.0	0.0	0.6	1.3
GDP deflator	0.6	-0.4	0.6	0.7	2.2
Compensation of employees	1.7	-0.6	0.5	1.0	1.5
Unit labour cost	-0.1	-0.8	0.3	0.7	1.2
Foreign sector					
Balance of payments on current account (% of GDP)	1.5	1.0	1.4	1.5	1.9
Public sector (*)					
Debt (% of GDP)	93.7	99.3	99.2	99.8	99.1
Balance Public Admin. (% GDP)	-6.6	-5.8	-5.0	-4.4	-3.6
Households					
Nominal disposable income	-0.8	0.9	2.3	2.9	3.4
Savings rate (% nominal income)	10.2	9.8	9.6	9.7	9.5

Annual change in %, unless indicated expressly

(f): forecast.

Forecast closing date: 8 September 2016

(*): Excluding aid to Spanish banks

Source: BBVA Research

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