

## ACTIVITY

# Spain: economic growth closed up in 2016 and shows biases for 2017

Spain Unit

The trend in the variables observed indicates that the **recovery of the Spanish economy gained traction at the end of 2016**. With around 90% of the information available for 4Q16, the MICA-BBVA model<sup>1</sup> estimates that **quarterly GDP growth (QoQ) could have been 0.9%**, one tenth more than estimated a month ago and two-tenths above the increase observed in the previous quarter (see Figure 1). If this is confirmed, **last year would have closed with an annual average growth of around 3.3% and there would be a moderate upward bias over the 2017 forecast (2.5%)<sup>2</sup>**.

## Domestic expenditure on consumption and investment balance out

**The third quarter of 2016 was characterized by the positive contribution to growth made by domestic demand, in which consumption (public and private) stood out** and, conversely, major investment items were disappointing. The information available for 4Q16 suggests a new advance in domestic demand, albeit with a somewhat more balanced composition.

In particular, the signs for both expenditure and household expectations as well as signs for labour market point to a **consumer growth similar to that in the previous quarter** (see Figure 2). Budget execution data also indicate that **public administrations' real final consumption expenditure may have continued to increase at the end of 2016**. On the other hand, partial investment indicators suggest a slightly higher progress than the observed in 3Q16, both for equipment and residential purchases (see Figures 3 and 4).

## Exports have corrected upwards after a disappointing 3Q16

With regard to external demand, the available indicators suggest that **sales of goods abroad would have returned to positive territory in 4Q16**, confirming that the unexpected reversal in the previous quarter was of a temporary nature (see Figure 5). Similarly, exports of services, and in particular, consumption by non-residents, would have grown again in the last quarter of 2016, albeit probably more moderately than in the last year and a half.

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>

2: BBVA Research's description of the economic scenario for the two-year period 2016-2017 can be found in the Spain Economic Outlook review, fourth quarter 2016, available at: <https://goo.gl/imQcbo>

## The labour market recovery was reaffirmed at the close of 2016

**After the volatility observed in the first two months of the quarter, Social Security affiliation resumed its upward trend in December.** The number of affiliations grew by 1.0% QoQ SWDA in 4Q16, bettering the improvement observed in 3Q16 by two tenths. Hiring also increased again between October and December (2.9% QoQ SWDA), for both permanent contracts (1.9% QoQ) and, in particular, for temporary contracts (+3.1% QoQ). Finally, the reduction in registered unemployment stabilized at around -2.3% QoQ SWDA (-2.7% QoQ SWDA in 3Q16) (Figure 6).

## Headlight inflation exceeds 1.0% for the first time since 2013

**The flash estimate indicated that headline inflation accelerated by 0.8 pp up to 1.5% YoY in December 2016.** BBVA Research estimates suggest that this result is due to a moderate increase in core inflation (from 0.1 pp to 0.9% YoY) and, above all, to the rise in energy prices (see Figure 7). **Nevertheless, the low inflationary trend continues in the rest of Europe and, consequently, so does the pressure over gains in price competitiveness.** So, although trend inflation in Spain remained at 6% in November, the favourable inflation differential compared to the Euro zone moderated to -0.1pp (0.4pp less than two years ago)<sup>3</sup>.

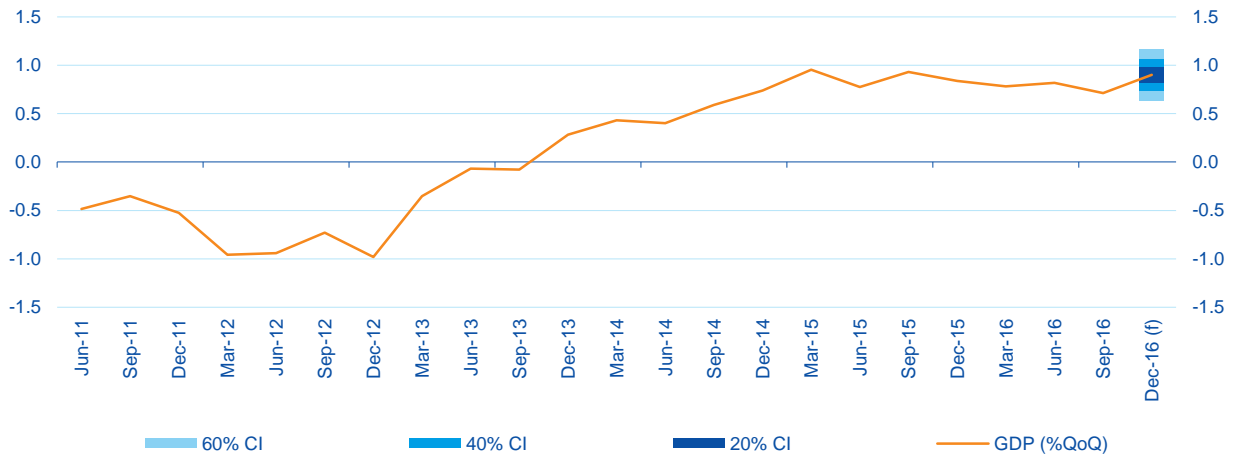
Looking forward, the rebound in energy prices (due in part to the base effect after the fall of a year ago) is expected to continue to mark the start of 2017. **Headlight inflation will remain at rates above 1.5%** (1.7% annual average) for most of the year but it will remain **below the target set by the ECB** for the Euro zone as a whole. On the other hand, core inflation will maintain its moderate growth trajectory, supported by domestic determinants (annual average around 1.1%).

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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

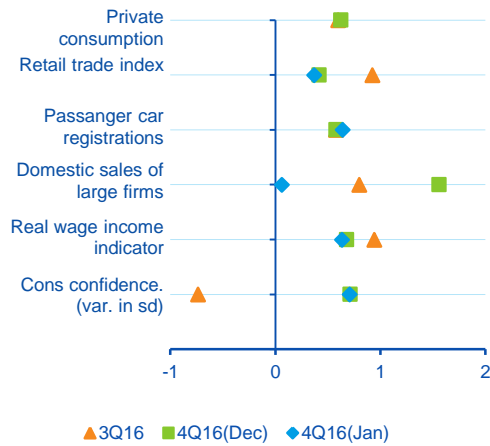
**Spain: observed growth in GDP and forecasts from the MICA-BBVA Model (% QoQ)**



(e): estimated.  
Source: BBVA Research

Figure 2

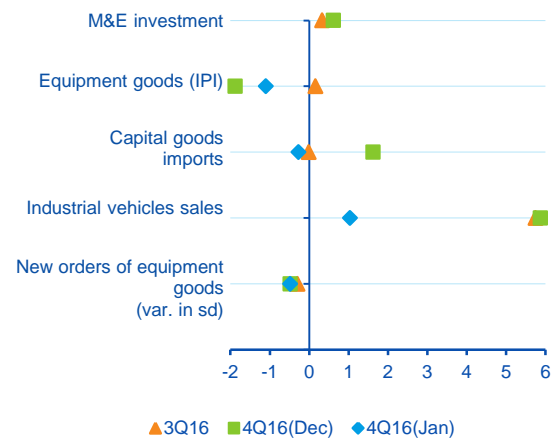
**Spain: selection of indicators linked to household consumption (% QoQ SWDA, unless otherwise indicated)**



(e): estimated.  
Source: BBVA Research based on data from official bodies

Figure 3

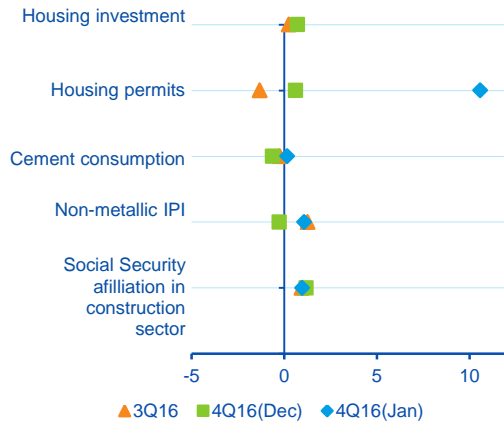
**Spain: selection of indicators linked to investment in equipment and machinery (% QoQ)**



(e): estimated.  
Source: BBVA Research based on data from official bodies

Figure 4

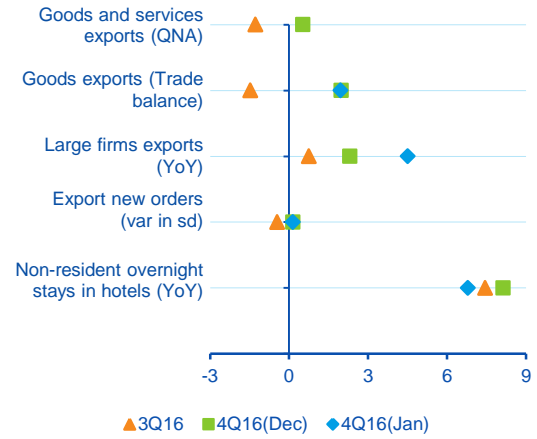
**Spain: selection of indicators linked to investment in housing construction (% QoQ)**



(e): estimated.  
Source: BBVA Research based on data from official bodies

Figure 5

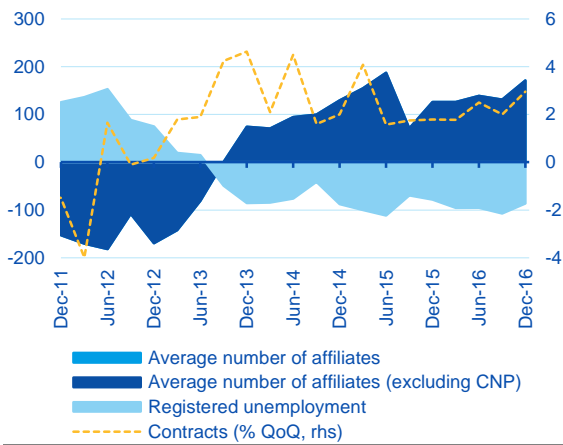
**Spain: selection of indicators linked to exports (% QoQ, unless otherwise indicated)**



(e): estimated.  
Source: BBVA Research based on data from official bodies

Figure 6

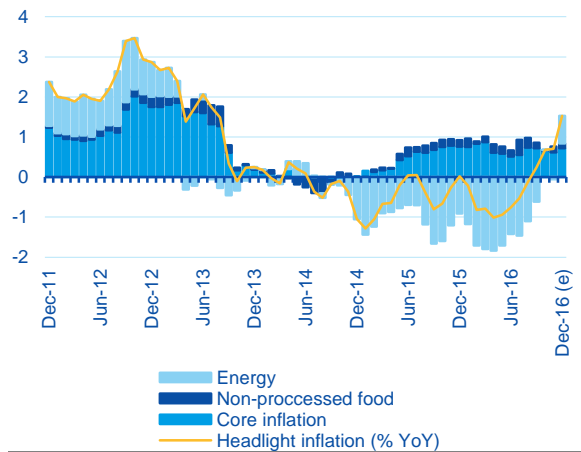
**Spain: labour market figures (quarterly change in thousands of people unless otherwise indicated, SWDA data)**



(e): estimated.  
Source: BBVA Research based on data from official bodies

Figure 7

**Spain: contribution to CPI growth (percentage points YoY)**



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

Table 1

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

	2013	2014	2015	2016 (p)	2017 (p)
<b>Activity</b>					
Real GDP	-1.7	1.4	3.2	3.3	2.5
Private consumption	-3.2	1.6	2.8	3.3	2.3
Public consumption	-2.1	-0.3	2.0	1.2	1.8
Gross Capital Formation	-3.4	3.8	6.0	4.1	3.4
Equipment and Machinery	5.0	8.3	8.9	6.3	3.8
Construction	-8.6	1.2	4.9	2.6	2.7
Housing	-10.2	6.2	3.1	3.1	3.5
Internal Demand (contribution to growth)	-3.1	1.9	3.3	3.0	2.3
Exports	4.3	4.2	4.9	5.5	3.5
Imports	-0.5	6.5	5.6	5.1	3.1
External Demand (contribution to growth)	1.4	-0.5	-0.1	0.2	0.2
Nominal GDP	-1.4	1.1	3.7	4.1	4.7
(Billions of euros)	1025.6	1037.0	1075.6	1119.8	1172.8
<b>Labour market</b>					
Employment, EPA	-2.8	1.2	3.0	2.8	2.5
Unemployment rate (% of labour force)	26.1	24.4	22.1	19.7	18.1
CNTR Employment (full-time equivalent)	-3.4	1.1	3.0	2.8	2.2
Apparent productivity of labour factor	1.7	0.3	0.3	0.5	0.3
<b>Prices and costs</b>					
CPI (annual average)	1.4	-0.2	-0.5	-0.3	1.7
CPI (end of period)	0.3	-1.0	0.0	0.7	1.3
GDP deflator	0.4	-0.3	0.5	0.8	2.1
Compensation of employees	1.4	0.0	0.4	0.8	1.2
Unit labour cost	-0.3	-0.3	0.2	0.4	0.8
<b>Foreign sector</b>					
Balance of payments on current account (% of GDP)	1.5	1.0	1.4	1.3	1.7
<b>Public sector (*)</b>					
Debt (% of GDP)	93.7	99.3	99.2	100.2	99.5
Balance Public Admin. GDP.	-6.6	-5.7	-5.0	-4.6	-3.6
<b>Households</b>					
Nominal disposable income	-0.9	0.9	1.9	3.4	3.9
Savings rate (% nominal income)	9.9	9.1	8.4	8.9	8.8

Annual change in %, unless indicated expressly

(p): projected.

Forecast closing date: 04 November 2016

(\*): Excluding aid to Spanish banks

Source: BBVA Research

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