

ACTIVITY

Spain: 2Q17 indicators point to upward bias in growth

Spain Unit

20 June 2017

The trend in the observed variables indicates that the **Spanish economy is gaining traction in the first half of the year**. With almost 50% of the information available for 2Q17, the MICA-BBVA model¹ estimates that **quarterly GDP growth (QoQ) could accelerate to 1.0%** (see Figure 1). If this estimate were to materialize, this would imply an upward bias in the growth envisaged in the BBVA Research scenario for the current quarter (0.8% QoQ) and for the whole of 2017 (3.0%).²

Investment drives growth in domestic demand

As the partial conjectural indicators already suggested, **data from the National Accounts for 1Q17 confirmed that the activity found support in domestic demand at the start of 2017 (0.6pp QoQ)**³. Particularly noteworthy was the recovery of investment in machinery and equipment (3.1% QoQ), following the slump recorded in 2H16, and the consolidation of investment in housing investment (2.7%). On the other hand, household consumption slowed down to 0.4% QoQ (0.3 pp less than in 4Q16), while public consumption grew moderately (0.3% QoQ) after the fall observed at the close of 2016. Meanwhile, investment in non-residential construction (affected by public works) fell by 0.4% QoQ, maintaining the weakness observed for most of 2016.

In terms of the second quarter of the year, the signs extracted from expenditure, expectations and the labour market support a **slight acceleration in private consumption** to around 0.6% QoQ (see Figure 2). With regard to public consumption expenditure, budgetary execution data indicate that growth would be similar to that recorded in the first months of the year (around 0.3% QoQ). On the other hand, it is estimated that **investment in machinery and equipment continues to grow at healthy rates**, although probably somewhat more moderate than at the start of the year (see Figure 3). Finally, the **consolidation of the growth rate of residential investment** is expected to grow at rates close to those observed at the end of 2016 and early 2017 (see Figure 4).

Exports continue to grow in the second quarter but at a less vigorous pace than in the first

Regarding external demand, **the first quarter of 2017 showed the continuity of the good pace in trade flows to and from abroad**. On the export side, the main highlights were strong growth in sales of goods abroad (4.6% QoQ) and non-tourism services (3.3% QoQ). On the other hand, after an exceptional 4Q16, tourism services moderated

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 2017-2018 can be found in the Spain Economic Outlook review, first quarter 2017, available at: <https://goo.gl/laz96F>

3: The detailed evaluation of the data from the EAPS of 1Q17 can be found at <https://goo.gl/7ZL4KP>

their growth to 1.7% QoQ. Thus, **net external demand contributed 0.2 pp to the quarterly GDP growth, since the increase in imports (3.8% QoQ) remained below that of total exports (4.0% QoQ).**

With a view to the second quarter, available indicators suggest **a slowdown in the sale of non-tourism goods and services abroad** due, at least in part, to the base effect generated by the rebound observed in the first months of 2017. Regarding sales of tourism services, it is estimated that there will be ongoing rates close to those observed in 1Q17 (see Figure 5). On the other hand, imports are expected to grow again below than total exports, leading to **a new positive contribution of net external demand to growth in 2Q17.**

The good tone of the labour market continues throughout the second quarter

After rebounding in April, Social Security affiliations resumed a more balanced growth path in May (64,000 people SWDA⁴, according to BBVA Research estimates). If this trend holds for the rest of the first half, the increase in affiliations could accelerate to 1.1% QoQ SWDA in 2Q17, three tenths more than in the first quarter. With regard to registered unemployment, it continued its downward trend last month (-47,000 people SWDA according to BBVA Research estimates), which, if continued, would lead to a drop for the whole of 2Q17 higher than that recorded in 1Q17 (-3.7 % QoQ SWDA) (see Figure 6).

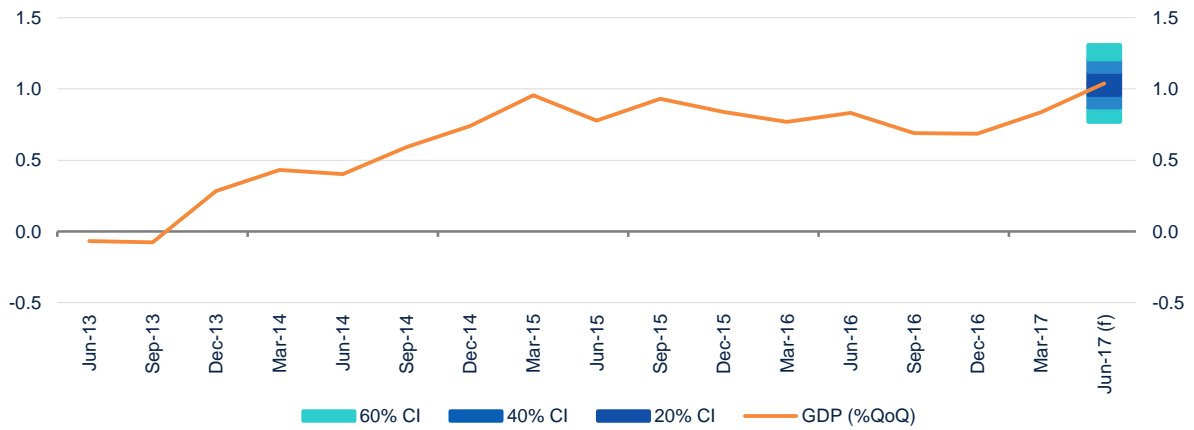
Inflation resumed its downward trend

Headline inflation decreased by seven tenths last month (to 1.9% YoY), slightly below expectations (BBVA Research: 2.1% YoY). Behind this result is the decline in fuel prices (compared to a year ago) and tourism services after the Easter holiday (see Figure 7). In spite of the above, the headline inflation differential vis-à-vis EMU countries remains unfavourable to Spain (0.6 pp compared to a historical average of 0.8 pp), and it is estimated that the price differential of the core component (without unprocessed food or energy) remains practically closed.

Looking forward, headline inflation is expected to continue moderating while the base effect on energy prices is reduced. **Thus, the year will therefore end with average headline inflation of around 2.1% YoY, while core inflation will continue its gradual upward trend (1.2% YoY on annual average for 2017).**

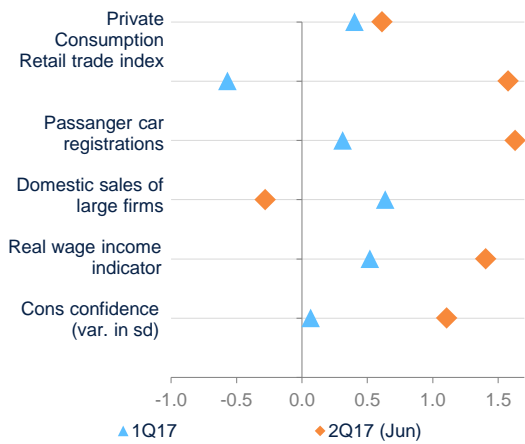
4: SWDA: seasonally and working day adjusted figures

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



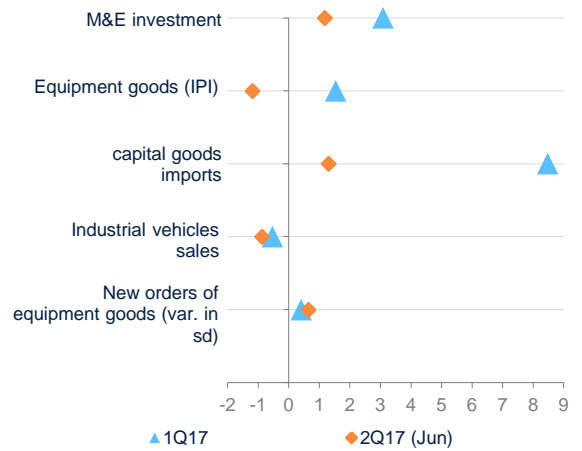
(e): estimated.
Source: BBVA Research

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



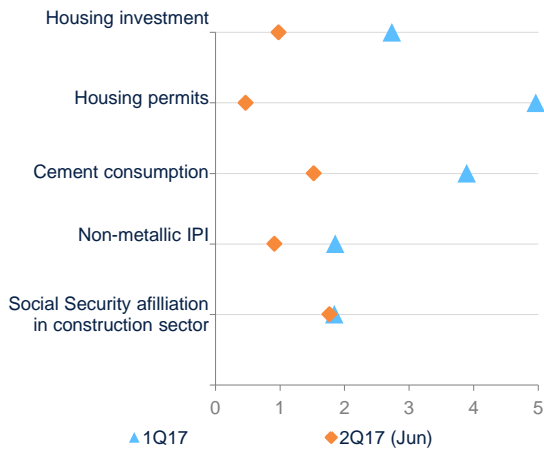
Dates in brackets are estimates for non-observed data
Source: BBVA Research based on data from official bodies

Figure 3 Spain: selection of indicators linked to capital expenditure on plant and equipment (% QoQ)



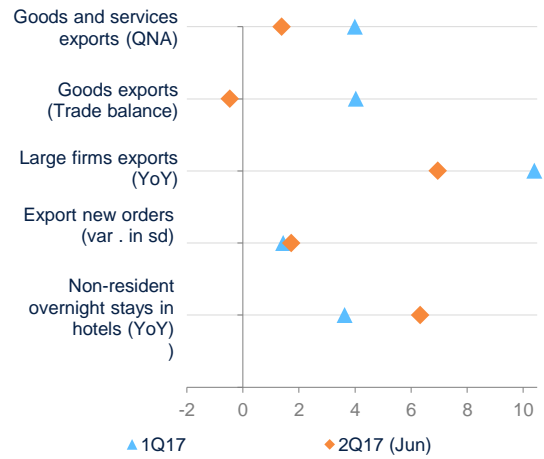
Dates in brackets are estimates for non-observed data
Source: BBVA Research based on data from official bodies

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



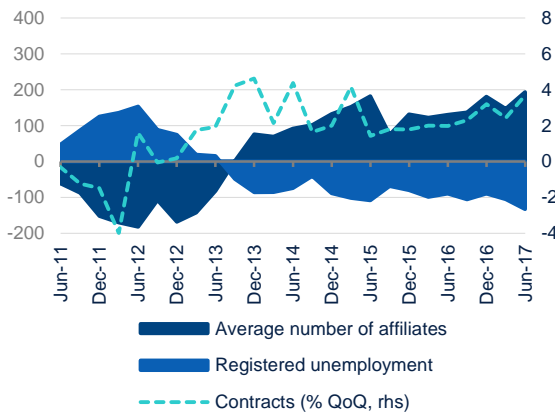
Dates in brackets are estimates for non-observed data
Source: BBVA Research based on data from official bodies

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



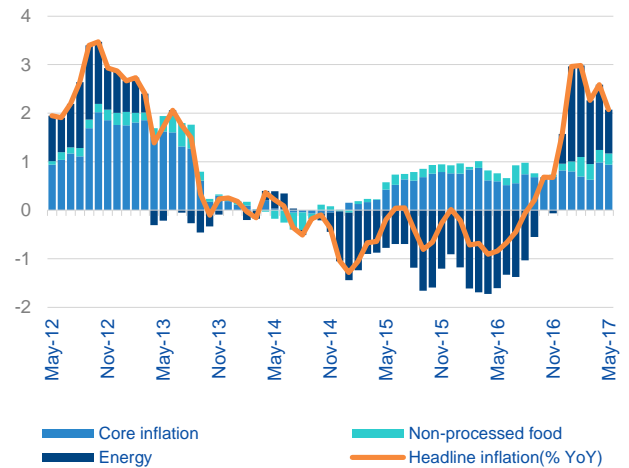
Dates in brackets are estimates for non-observed data
Source: BBVA Research based on data from official bodies

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



Source: BBVA Research, based on Ministry of Employment and Social Security figures

Figure 7 Spain: contribution to year-on-year growth in CPI (pp)



Source: BBVA Research, based on INE figures

Table 1 Spain: macroeconomic forecasts (Annual rates of change in %, unless otherwise indicated)

(Annual average %)	2014	2015	2016	2017(f)	2018(f)
Activity					
Real GDP	1.4	3.2	3.2	3.0	2.7
Private consumption	1.6	2.8	3.2	2.5	2.4
Public consumption	-0.3	2	0.8	1	2
Gross Capital Formation	3.8	6	3.1	3.3	4.5
Machinery and Equipment	8.3	8.9	5	3.6	4.4
Construction	1.2	4.9	1.9	2.8	4.2
Housing	6.2	3.1	3.7	4.3	5.8
Domestic Demand (contribution to growth)	1.9	3.3	2.8	2.3	2.6
Exports	4.2	4.9	4.4	5.8	5
Imports	6.5	5.6	3.3	4.2	5.2
External Demand (contribution to growth)	-0.5	-0.1	0.4	0.7	0.1
Nominal GDP	1.1	3.7	3.6	5.1	5.3
(Billions of euros)	1037.0	1075.6	1113.9	1170.7	1232.4
Labour market					
Employment, LFS (Labour Force Survey)	1.2	3.0	2.7	2.6	2.6
Unemployment rate (% of labour force)	24.4	22.1	19.6	17.3	15.6
Employment (full-time equivalent) QNA (Quarterly National Accounts)	1.1	3.0	2.9	2.4	2.2
Apparent productivity of labour factor	0.3	0.3	0.4	0.6	0.6
Prices and costs					
CPI (annual average)	-0.2	-0.5	-0.2	2.1	1.9
CPI (end of period)	-1.0	0	1.6	1.4	1.9
GDP deflator	-0.3	0.5	0.3	2.1	2.5
Remuneration per employee	0.0	0.4	0	0.7	1.8
Unit labour cost	-0.3	0.2	-0.4	0.1	1.2
External sector					
Balance of payments on current account (% of GDP)	1.1	1.4	1.9	1.8	1.5
Public sector (*)					
Debt (% of GDP)	100.4	99.8	99.3	97.8	95.0
Balance Public Admin. (% GDP)	-5.9	-5.1	-4.3	-3.1	-2.1
Households					
Nominal disposable income	0.9	1.9	2.8	3.6	4.6
Savings rate (% nominal income)	9.1	8.4	8.4	7.5	7.9

Annual change in %, unless indicated expressly

(f): forecast.

Forecast closing date: 12 April 2017

(*): Excluding aid to Spanish banks

Source: BBVA Research

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