

ACTIVITY

Spain: the national economy is growing and for the moment is avoiding the effect of uncertainty in Q4

Spain Unit
19 December 2017

The trend among the observed variables indicates that, despite the impact of the increase in uncertainty relating to the political environment in Catalonia, **the growth of the Spanish economy has remained solid throughout the fourth quarter of the year**. With almost 50% of the information available for 4Q17, the MICA-BBVA model¹ estimates that **quarterly GDP growth (QoQ) could stand between 0.8% and 0.9%** (see Figure 1). If this estimate materialises, the year as a whole would close with an average annual growth rate in the interval of 3.1% and 3.2%, in line with that estimated in the BBVA Research scenario for the whole of 2017.²

Consumption and investment in machinery and equipment are driving domestic demand

As the partial short term indicators have already suggested, **data from the National Accounts for 3Q17 has confirmed that activity continues to be mainly underpinned by domestic demand (0.8 pp QoQ)**³. In particular, it highlighted the recovery of investment in machinery and equipment (2.5% QoQ, -0.1% QoQ in 2Q17) and the consolidation of the public and private consumption growth of around 0.7% QoQ and 0.4% QoQ respectively. On the other hand, residential construction slowed for the second consecutive month after the surge recorded at the beginning of the year (0.7% QoQ, 4.2% QoQ in 1Q17)

In terms of the fourth quarter of the year, the signals extracted from the indicators of spending, expectations and the labour market support a growth in **private consumption** similar to that registered during the past quarter (around 0.7% QoQ) (see Figure 2). Likewise, budget execution data indicates that the advance in public consumption spending could have been close to that registered in 3Q17 (around 0.6% QoQ). On the other hand, **investment in machinery and equipment is expected to continue growing** - albeit at a slacker pace than in Q3 (1.4% QoQ) - and **residential investment to accelerate** (1.4% QoQ) (see Figures 3 and 4).

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 for the third quarter of 2017, available at: <https://goo.gl/hCpYXg>

3: The detailed evaluation of the data from the quarterly national accounts for 2Q17 can be found at <https://goo.gl/etH7fn>

Exports gained traction at year-end

The **third quarter of 2017 was characterised by a practical stagnation of inbound and outbound trade flows**. In particular, there was marginal growth in exports of goods (0.3% QoQ) that offset the fall in sales of services (-1.1% QoQ), mainly of non-tourism services (-2.9% QoQ). Despite this sluggishness in exports, the stagnation of imports led to a **zero contribution by net external demand to GDP growth (0.0 pp)**.

With a view to the fourth quarter, the available indicators suggest a rebound in exports of goods and a moderate advance in sales of services. The sluggishness in the latter is likely to be due (at least in part) to the negative effects that uncertainty about economic policy is having on the tourism sector.

The increase in final demand accounts for a recovery of imports in the final stretch of the year which, consequently, should result in a marginal contribution by net external demand to growth in Q4 (0.1 pp QoQ). On par with with that registered since early 2016 (0.2 pp per quarter on average since 1Q16).

The labour market maintained its momentum throughout the quarter

Social Security registration continued to grow at a healthy rate in November (55,000 people SWDA⁴, according to BBVA Research estimates), following the exceptional upturn registered in October (69,000 people SWDA). If this trend holds for the rest of the quarter, the increase in affiliations could reach 0.9% QoQ SWDA in 4Q17, 0.2 pp more than in the third quarter. **Similarly, registered unemployment continued its downward trend last month** (-23,000 people SWDA according to BBVA Research estimates), which, if prolonged, would result in a bigger drop for the whole of 4Q17 than in 3Q17 (-1.7% QoQ against -1.2% SWDA) (see Figure 6).

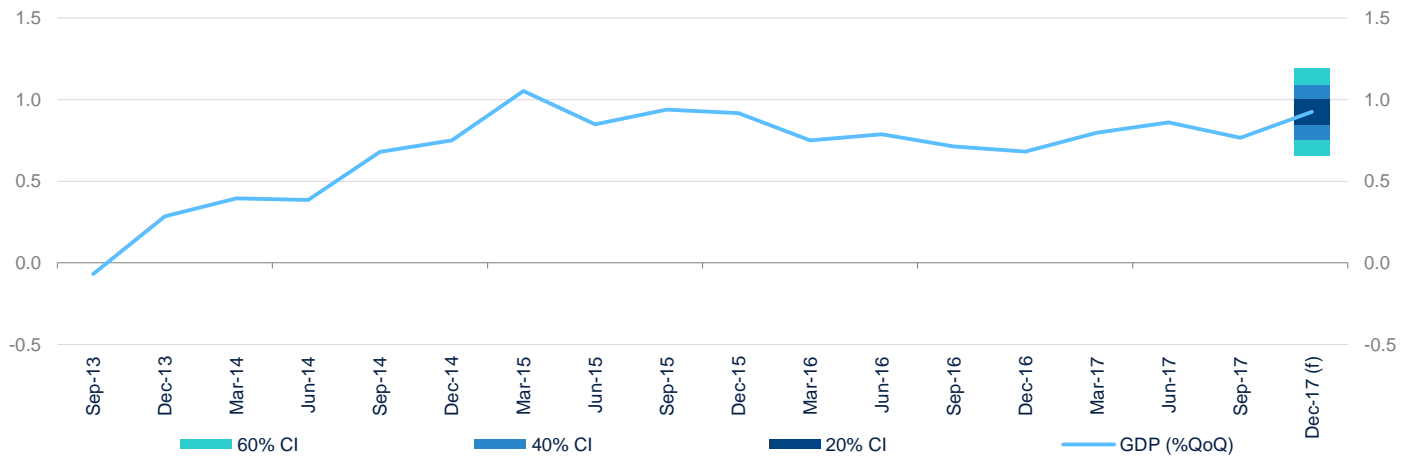
Inflation increased in November, but only transitorily

Headline inflation accelerated to 1.7% YoY last month, mainly due to the rise in energy prices. **However, core inflation eased** to around 0.8% YoY (see Figure 7). Thus, although the increase in general prices in November turned out to be 0.3 pp higher than in all the EMU countries, BBVA Research estimates indicate that the difference could have been negligible if the core component of the CPI were taken as a benchmark (ex unprocessed foods or energy).

Looking ahead to the end of the year, inflation is expected to moderate again, reaching between 1.4% and 1.5% YoY in December. These forecasts are in line with those featuring in the BBVA Research scenario, which currently put headline inflation at around 1.9% YoY for the whole of 2017 (1.1% YoY in the case of core inflation).

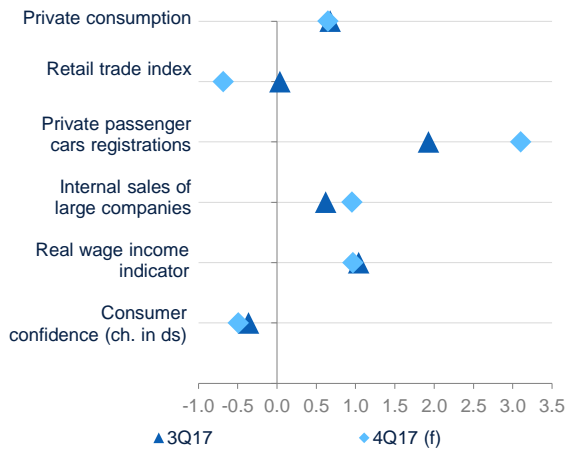
4: SWDA: seasonally and working day adjusted figures

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



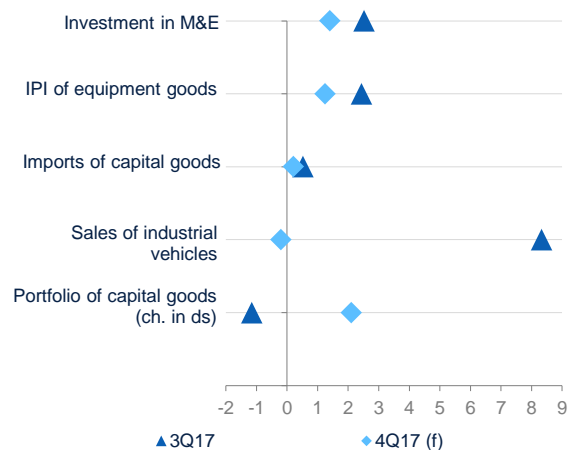
(e) estimated.
Source: BBVA Research

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



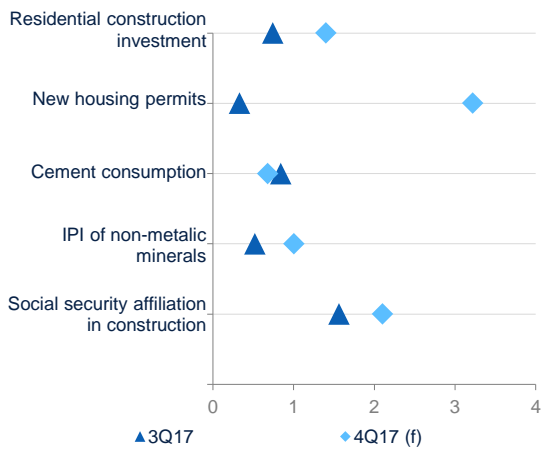
Estimate date for unobserved data in brackets
Source: BBVA Research based on data from official bodies

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



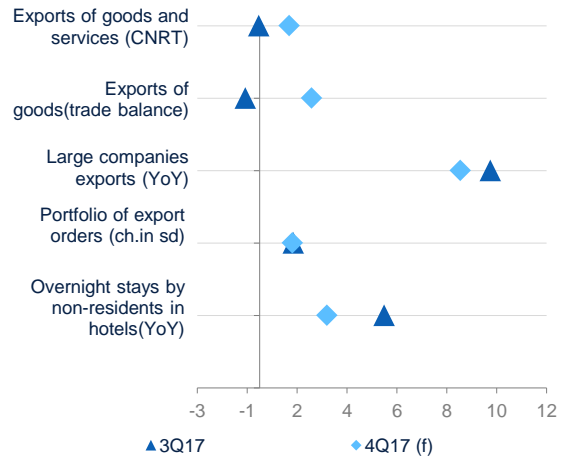
Estimate date for unobserved data in brackets
Source: BBVA Research based on data from official bodies

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



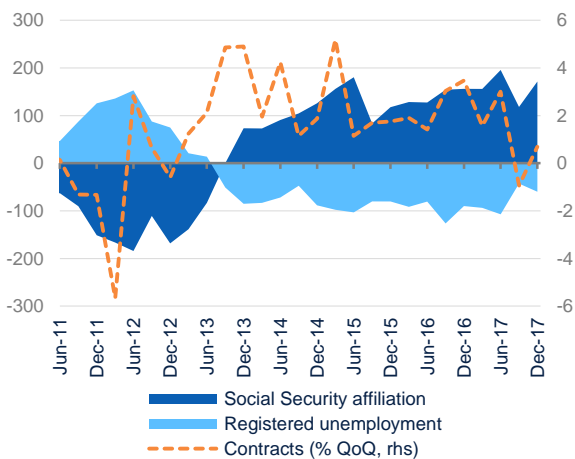
Estimate date for unobserved data in brackets.
Source: BBVA Research based on data from official bodies

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



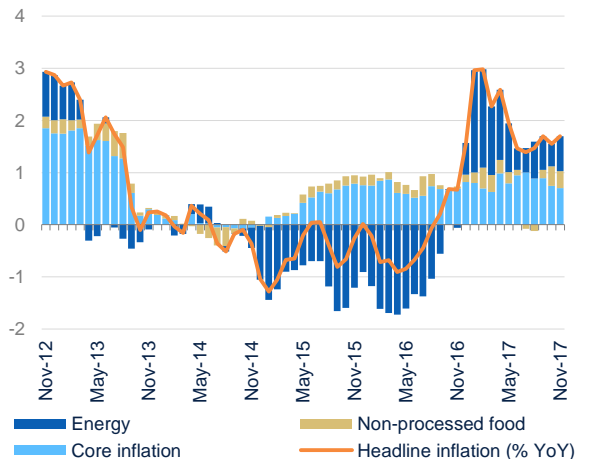
Estimate date for unobserved data in brackets.
Source: BBVA Research based on data from official bodies

Figure 6 Spain: labour market readings (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 CPI growth (pp)



Source: BBVA Research based on INE

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	3.4	3.3	3.1	2.5
Private consumption	1.5	3.0	2.9	2.6	2.1
Public consumption	-0.3	2.1	0.8	1.3	1.8
Gross Capital Formation	4.7	6.5	3.3	4.7	3.6
Equipment and Machinery	5.9	11.5	5.0	5.6	2.8
Construction	4.2	3.8	2.4	4.5	3.8
Housing	11.3	-1.0	4.4	8.2	5.9
Domestic Demand (contribution to growth)	1.9	3.9	2.5	2.6	2.3
Exports	4.3	4.2	4.8	5.0	4.3
Imports	6.6	5.9	2.7	3.8	3.8
External Demand (contribution to growth)	-0.5	-0.4	0.7	0.5	0.3
Nominal GDP	1.2	4.1	3.6	4.0	3.9
(Billions of euros)	1037.8	1080.0	1118.5	1163.3	1208.8
GDP excluding housing investment	1.0	3.6	3.2	2.9	2.4
GDP excluding construction	1.1	3.4	3.4	3.0	2.4
Labour market					
Employment, LFS (Labour Force Survey)	1.2	3.0	2.7	2.7	2.3
Unemployment rate (% of labour force)	24.4	22.1	19.6	17.1	15.5
Employment (full-time equivalent) per CNTR (Quarterly National Accounts)	1.0	3.2	3.0	2.8	2.1
Apparent productivity of labour factor	0.3	0.3	0.3	0.3	0.5
Prices and costs					
CPI (annual average)	-0.2	-0.5	-0.2	1.9	1.4
CPI (end of period)	-1.0	0.0	1.6	1.2	1.7
GDP deflator	-0.2	0.6	0.3	0.9	1.3
Compensation per employee	0.1	1.6	-0.3	0.1	1.4
Unit labour cost (UCL)	-0.2	1.4	-0.6	-0.3	1.0
External sector					
Balance of payments on current account (% of GDP)	1.1	1.1	1.9	1.8	1.5
Public sector (*)					
Debt (% of GDP)	100.4	99.4	99.0	98.3	97.0
Balance Public Admin. (% of GDP)	-5.8	-5.2	-4.3	-3.1	-2.4
Households					
Nominal disposable income	1.1	2.2	2.0	2.8	4.6
Savings rate (% of nominal income)	9.4	8.8	7.9	6.4	7.4

Annual change in %, unless expressly stated.

(f) forecast.

Forecast closing date: 3 November 2017.

(*) Excluding financial assistance to Spanish banks

Source: BBVA Research

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