

## ACTIVITY

# Spain: upward bias in growth, despite uncertainty

Spain Unit

14 March 2018

The trend among the observed variables indicates that, despite the uncertainty relating to the political scenario in Catalonia, **the Spanish economy is progressing strongly in Q1 2018**. The available information continues to suggest that the start of the year is turning out better than expected in the BBVA Research central financial outlook, implying that **certain factors, such as monetary policy and growth in Europe, as well as inertia in growth itself, could be having a greater counterbalancing effect** than anticipated.

So with almost 50% of the information available for the 1st quarter, the MICA-BBVA model estimates that **quarterly GDP growth (QoQ) could stand at 0.8%**, a tenth of a point higher than that registered over the two preceding quarters (see Figure 1). If this estimate proved correct, it would represent an upwards bias over BBVA Research's estimated growth for 2018 (2.5%).

## Domestic demand is leading growth

National Accounting data have confirmed that, despite a slowdown, **domestic demand continued to be the cornerstone of activity in Q4 2017** (contribution to growth: 0.6pp QoQ). **Growth in private consumption slowed for the second consecutive quarter to 0.6% QoQ** and **investment in machinery and equipment fell** by 2.0pp, to 0.9% QoQ. Conversely, **residential construction recovered ground** (2.4% QoQ), after the slowdown seen in the third quarter of last year. On the side of public demand, there was evidence of **consolidation in the public consumption growth rate** at 0.4% QoQ (BBVA Research: 0.6% QoQ). Furthermore, **non-residential construction, which includes public works, again fell** by 0.3% QoQ.

In the run-up to the first quarter of the year, the signals gleaned both from expenditure indicators and consumer expectations, as well as from employment records, point to a growth in private consumption similar to that recorded at the end of last year (see Figure 2). Similarly, budgetary data suggest that public consumption could continue to grow at the same rate. Partial economic indicators at the same time point to the fact that, despite volatility, investment in machinery remains positive (see Figure 3). Finally, residential investment seems to continue to rise strongly, though not as much as in Q4 2017 (see Figure 4).

## Commercial flows show signs of high volatility in the short term

As for external demand, in **the fourth quarter of 2017 an unexpected weakness was observed both in total exports (0.3% QoQ) and in imports (0.0% QoQ)**. Although **the results for export sales of goods were slightly on the positive side (0.6% QoQ)**, they were offset by a negative performance in services (-0.4% QoQ). Amongst these, **consumption by non-residents in the country was particularly negative**, falling by -1.3%, worse than the partial economic indicators had suggested.

Looking towards the first quarter, available data suggest that **exports of both goods and services are growing** (see Figure 5). Nevertheless, information on the first quarter is still incomplete and, given the high volatility seen in commercial flows in the short term, **there is no certainty that the sluggishness observed in the last quarter of 2017 has abated completely**.

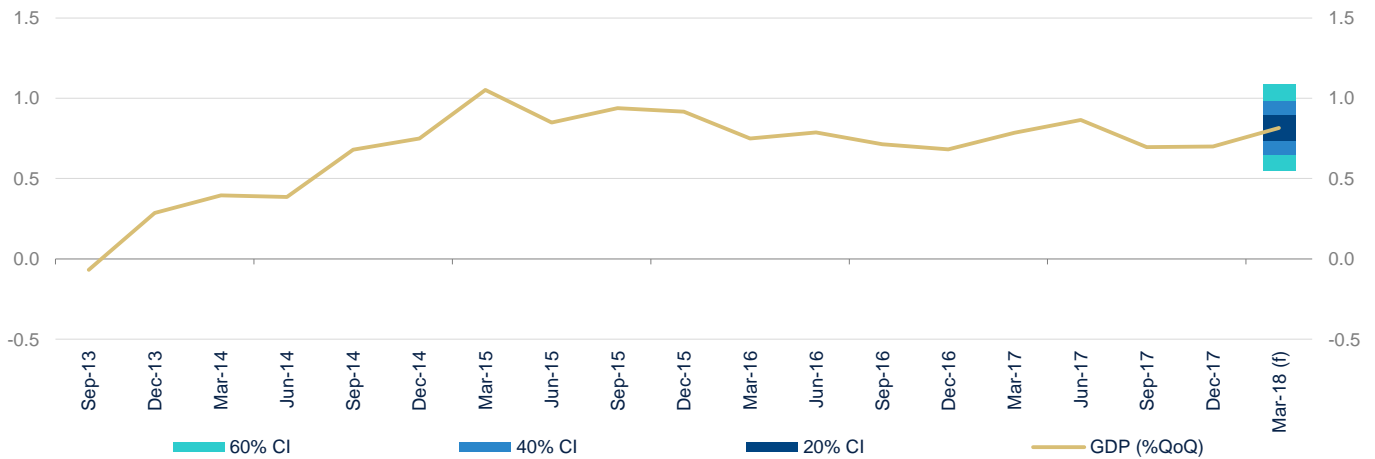
## The labour market remains upbeat during the first quarter.

**After rebounding in January, Social Security affiliation maintained its solid growth path in February (57,000 people SWDA, according to BBVA Research estimates)**. If this trend holds for the rest of the quarter, the increase in affiliations could stay at around 0.9% QoQ SWDA in Q1 2018, the same as in Q4 2017. Similarly, **registered unemployment continued its downward trend last month (-20,000 people SWDA according to BBVA Research estimates)**, which, if prolonged, could result in a fall for the whole of Q1 2018 similar to that recorded in Q4 2017 (-1.8% QoQ against -1.7% QoQ SWDA) (see Figure 6).

## Inflation rose again in February

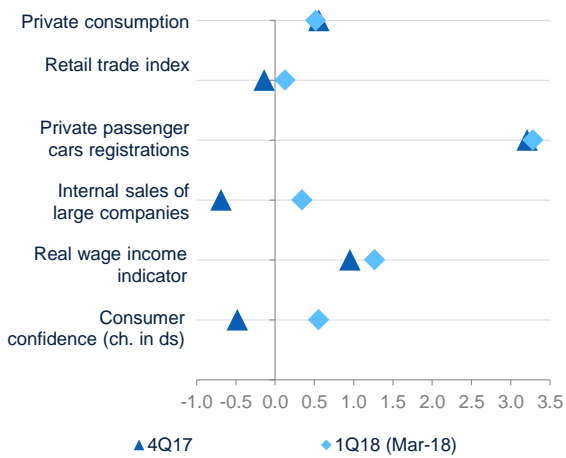
**Headline inflation rose 0.5pp to 1.1% YoY last month** due to the unexpected rise in core inflation (excluding non-processed food and energy) and, to a lesser extent, the base effect on energy prices (see Figure 7). Growth in general prices therefore finished the same as that recorded in the EMU and estimates from BBVA Research indicate that the difference could also have been negligible if the core component of the CPI were taken as a benchmark.

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



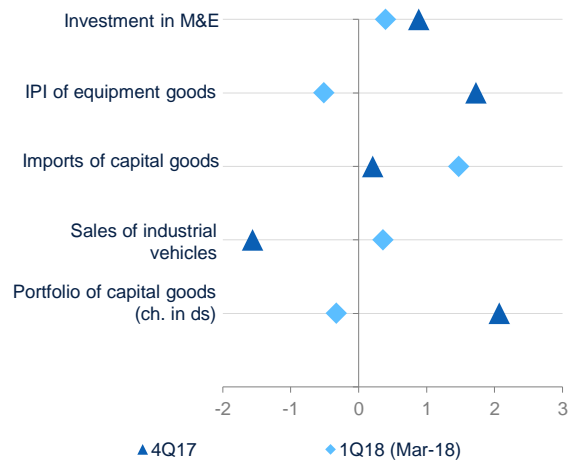
(e) = estimated.  
Source: BBVA Research

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



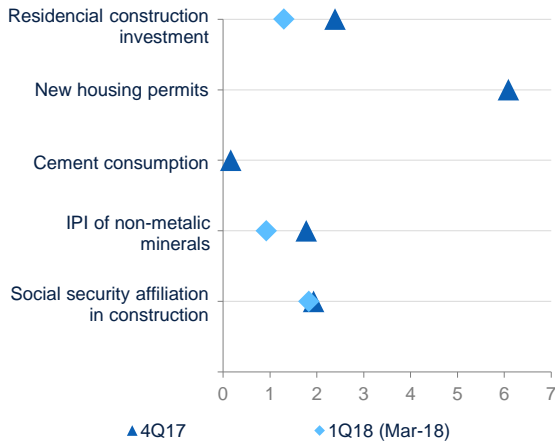
Estimate date for unobserved data in brackets.  
Source: BBVA Research based on data from official bodies

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



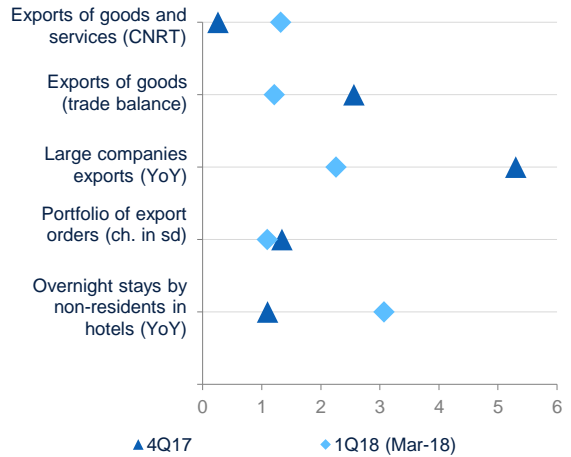
Estimate date for unobserved data in brackets.  
Source: BBVA Research based on data from official bodies

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



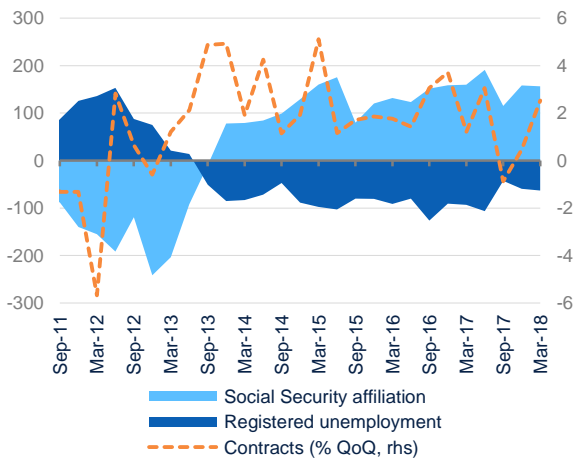
Estimate date for unobserved data in brackets.  
Source: BBVA Research based on data from official bodies

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



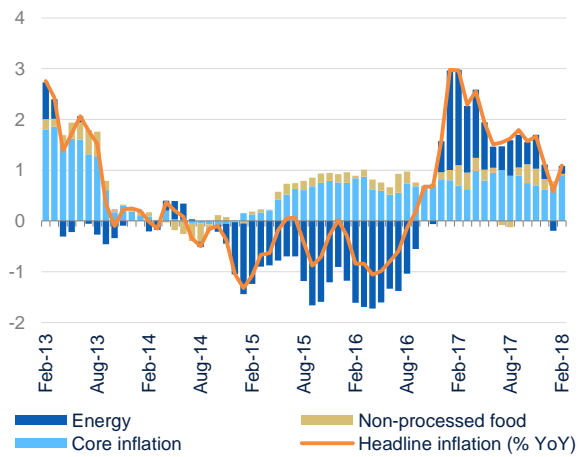
Estimate date for unobserved data in brackets.  
Source: BBVA Research based on data from official bodies

**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 data

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

(Annual average, %)	2015	2016	2017	2018 (f)	2019 (f)
<b>Activity</b>					
Real GDP	3.4	3.3	3.1	2.5	2.3
Private consumption	3.0	2.9	2.4	2.2	1.9
Public consumption	2.1	0.8	1.6	1.8	1.9
Gross Capital Formation	6.5	3.3	5.0	3.7	4.4
Equipment and Machinery	11.5	5.0	6.2	3.5	4.3
Construction	3.8	2.4	4.6	3.4	4.1
Housing	-1.0	4.4	8.3	5.3	5.7
Domestic Demand (contribution to growth)	3.9	2.5	2.8	2.4	2.3
Exports	4.2	4.8	5.0	4.4	5.2
Imports	5.9	2.7	4.7	4.4	5.8
External Demand (contribution to growth)	-0.4	0.7	0.3	0.2	0.0
Nominal GDP	4.1	3.6	4.1	4.2	4.4
(Billions of euros)	1080.0	1118.5	1164.9	1213.8	1266.7
<b>Labour market</b>					
Employment, LFS (Labour Force Survey)	3.0	2.7	2.6	2.5	2.0
Unemployment rate (% of labour force)	22.1	19.6	17.2	15.3	14.0
Employment (full-time equivalent) per CNTR (Quarterly National Accounts)	3.2	3.0	2.8	2.2	1.7
Apparent labour productivity	0.3	0.3	0.2	0.3	0.6
<b>Prices and costs</b>					
CPI (annual average)	-0.5	-0.2	2.0	1.6	1.7
CPI (end of period)	0.0	1.0	1.1	1.2	1.9
GDP deflator	0.6	0.3	1.0	1.6	2.0
Compensation per employee	1.6	-0.3	0.1	1.6	2.4
Unit labour cost (UCL)	1.4	-0.6	-0.1	1.3	1.8
<b>External sector</b>					
Balance of payments on current account (% of GDP)	1.1	1.9	1.7	1.9	1.7
<b>Public sector (*)</b>					
Debt (% of GDP)	99.4	99.0	98.1	96.4	94.1
Balance Public Admin. (% of GDP)	-5.2	-4.3	-3.1	-2.3	-1.7
<b>Households</b>					
Nominal disposable income	2.2	2.0	2.8	4.6	4.9
Savings rate (% of nominal income)	8.8	7.9	6.4	7.4	8.4

Annual change in %, unless expressly indicated.

(f): forecast.

Forecast closing date: 12 January 2018

(\*) Excluding financial assistance to Spanish banks

Source: BBVA Research

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