

## Activity

# Spain: sustained growth, despite internal and external uncertainty

Spain and Portugal Unit

18 June 2018

The trend in the variables observed indicates that growth in the Spanish economy during the second quarter of the year is around 0.8% QoQ. With the information available, the BBVA Research forecast remains unchanged (2.9% by 2018), although there are still both positive and negative biases. On the one hand, the approval of the Spanish National Budget draft for 2018 (PGE18) suggests a more expansive fiscal policy. On the other hand, during the last month, uncertainty about economic policy in Spain has increased. Furthermore, the risks linked to the US trade policy, geopolitical tensions, the increase in the price of commodities, and financial volatility in some emerging markets still persist.

## GDP growth remains at healthy levels

The National Institute of Statistics (INE) confirmed that the Spanish economy grew by 0.7% QoQ in 1Q18, as in the two previous quarters. With around 50% of the information available for the second quarter, the MICA-BBVA model estimates that quarterly GDP growth could stand around 0.8% QoQ (see Figure 1). Should this estimate materialise, the progress of economic activity would be in line with the forecasts presented by BBVA Research at the beginning of the quarter (between 0.7% and 0.9% QoQ). This growth in 2Q18 would continue to be explained by the good performance of domestic demand, particularly private consumption and investment in housing.

## Consumption and investment in construction support the progress in domestic demand

National Accounts data have confirmed that domestic demand continued to be the cornerstone of economic activity in 1Q18 (contribution to growth: 0.6pp QoQ). The advance of both private and public consumption accelerated by 0.1 pp, to 0.7% QoQ and 0.5% QoQ, respectively. Likewise, investment in construction gained traction, both in residential, which grew 3.5% QoQ (2.4% QoQ in 4Q17), and non-residential investment (which includes public works), which grew by 1.2% QoQ (-0.3% QoQ in 4Q17).

In the run-up to the second quarter of the year, the signals gleaned from expenditure indicators and consumer expectations, and from employment records, point to a growth in private consumption similar to that recorded at the beginning of the year (see Figure 2). Similarly, budgetary data suggest that public consumption could continue to grow at the current rate. Finally, economic indicators point out that, in spite of the volatility, the investment in machinery could be recovering momentum (see Figure 3), while residential one could continue growing, although with less intensity than in 1Q18 (see Figure 4).

## Trade flows recover, although at unequal speeds

As for external demand, in the fourth quarter of 2018, continued growth was observed both in total exports (1.3% QoQ) and total imports (1.3% QoQ). Among the former, the recovery in sales of services abroad stood out (3.8% QoQ compared to the decline of 0.4% QoQ in the previous quarter), led by an upswing in the consumption by non-residents in national territory (2.3% QoQ), which contrasted with the poor data observed in the previous quarter (-1.3% QoQ 4Q17). On the contrary, the growth in the sale of goods, which had already been showing signs of sluggishness during 2H17, slowed down again at the start of the year (0.2% QoQ, 0.6% QoQ in 4Q17).

For the second quarter of the year, the available data suggest that commercial flows will keep growing, although it cannot be ruled out that they continue to show some mixed signals. Exports of goods would probably recover some lost ground, while those of services will grow somewhat less than at the start of the year (see Figure 5). In this regard, the information through April regarding tourism, points to a deceleration of real spending and overnight stays.

## Job creation regains momentum in the middle of the second quarter

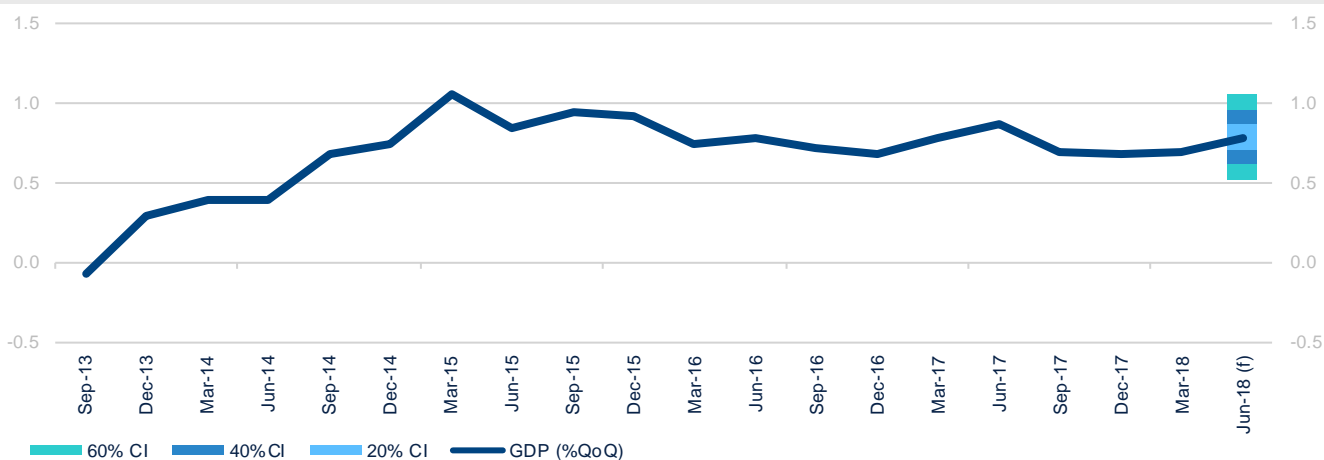
BBVA Research estimates indicate that the number of Social Security registrations grew by 60,000 people SWDA in May, 15,000 more than in the previous month and returned to the job creation figures registered up until February. Should this improvement in the trend consolidate during the remainder of the quarter, the variation in Social Security membership could reach 0.8% QoQ SWDA in 2Q18, equalling the rise registered in the whole of 1Q18. 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 2Q18 of 1.6% SWDA, somewhat lower than in 1Q18 (-1.8% SWDA) (see Figure 6).

## Energy forces up inflation

Headline inflation rebounded strongly during the last month (1.0 pp to 2.1% YoY), due to the upward pressure on energy price. Meanwhile, core inflation increased by 0.3 pp to 1.1% YoY, as a consequence of the impact of higher energy prices on transport services and utilities. Thus, the growth in headline prices in May turned out to be 0.2 pp higher than that registered in the EMU countries as a whole, and BBVA Research estimates indicate that the difference in the core component (which excludes energy and unprocessed foodstuffs) would also have been moderate (-0.1 pp).

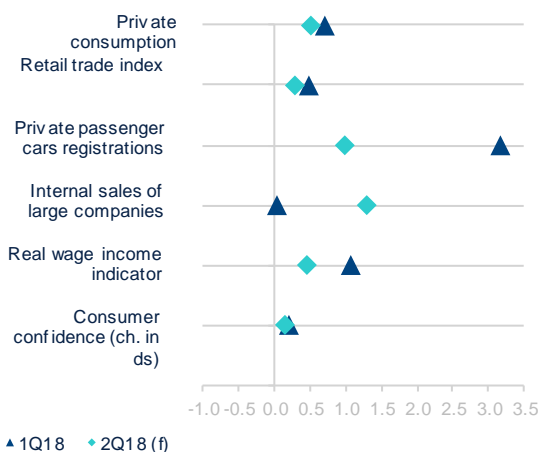
Going forward, it is expected that geopolitical tensions and the consequent volatility in the price of commodities will continue to push up prices, at least in the short term. In June, headline inflation could rebound to around 2.3% or 2.4%, while core inflation would remain between 1.0% YoY and 1.1% YoY.

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



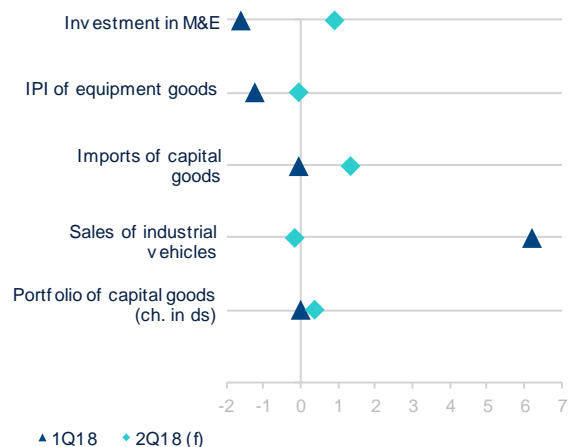
(f) Forecast.  
Source: BBVA Research

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



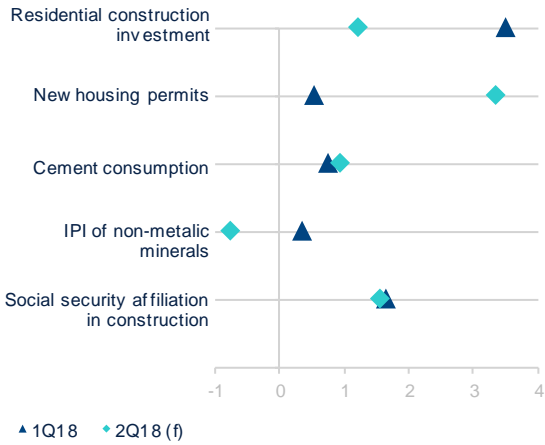
(f) Forecast.  
Source: BBVA Research based on data from official bodies

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



(f) Forecast.  
Source: BBVA Research based on data from official bodies

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



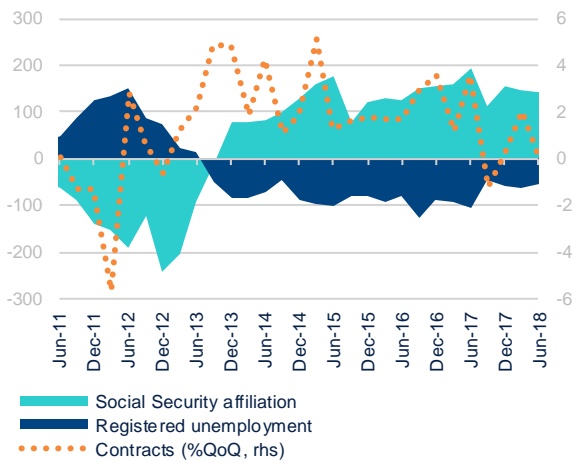
(f) Forecast.  
Source: BBVA Research based on data from official bodies

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



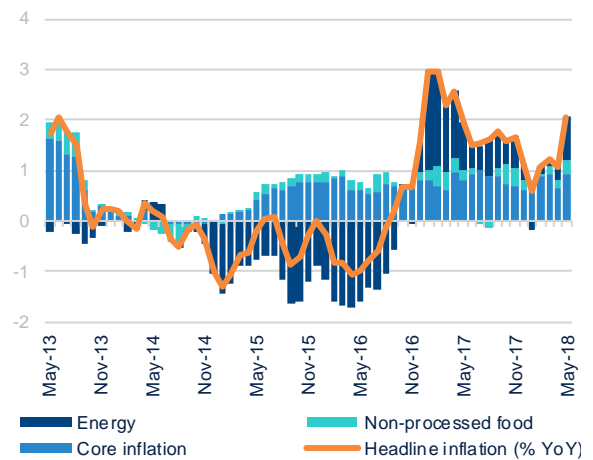
(f) Forecast.  
Source: BBVA Research based on data from official bodies

Figure 6 Spain: labour market records (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)

	2015	2016	2017	2018 (f)	2019 (f)
<b>Activity</b>					
Real GDP	3.4	3.3	3.1	2.9	2.5
Private consumption	3.0	2.9	2.4	2.2	2.0
Public consumption	2.1	0.8	1.6	1.7	1.9
Gross Fixed Capital Formation	6.5	3.3	5.0	4.8	5.4
Equipment and machinery	11.5	5.0	6.2	5.2	5.3
Construction	3.8	2.4	4.6	4.7	5.4
Housing	-1.0	4.4	8.3	6.1	5.6
Domestic Demand (contribution to growth)	3.9	2.5	2.8	2.6	2.6
Exports	4.2	4.8	5.0	4.8	6.1
Imports	5.9	2.7	4.7	4.2	6.9
External Demand (contribution to growth)	-0.4	0.7	0.3	0.3	-0.1
GDP at current prices	4.1	3.6	4.0	4.6	4.4
(Billions of euros)	1080.0	1118.5	1163.7	1217.5	1270.5
<b>Labour market</b>					
Employment, LFS (Labour Force Survey)	3.0	2.7	2.6	2.6	2.3
Unemployment rate (% Labour force)	22.1	19.6	17.2	15.3	13.7
Employment, full time equivalent	3.2	3.0	2.8	2.6	2.2
Productivity	0.3	0.3	0.2	0.4	0.3
<b>Prices and costs</b>					
CPI (annual average)	-0.5	-0.2	2.0	1.5	1.6
CPI (end of period)	0.0	1.0	1.1	1.5	1.8
GDP deflator	0.6	0.3	1.0	1.6	1.8
Compensation per employee	1.6	-0.3	0.1	1.1	2.1
Unit Labour Cost (ULC)	1.4	-0.6	-0.1	0.8	1.8
<b>External sector</b>					
Current Account Balance (% GDP)	1.1	1.9	1.7	1.5	1.1
<b>Public sector (*)</b>					
Debt (% GDP)	99.4	99.0	98.3	96.4	94.1
Deficit (% GDP) (*)	-5.2	-4.3	-3.1	-2.4	-1.7
<b>Households</b>					
Nominal disposable income	2.2	2.0	2.0	4.3	5.3
Savings rate (% nominal disposable income)	8.8	7.9	5.9	6.5	7.9

Annual change in %, unless expressly indicated.

(f) Forecast.

Forecast closing date: 06 April 2018.

(\*) Excluding financial assistance to Spanish banks.

Source: BBVA Research

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