

Activity

Spain: The economy continues to grow, although less than estimated at the beginning of 3Q

Spain and Portugal Unit

13 September 2018

The growth of the Spanish economy could remain at around 0.6% quarterly during 3Q, below that expected at the beginning of the quarter. This, together with the continued risks hanging over the economy, reinforces the downward bias in the 2018 growth forecasts projected by BBVA Research (2.9%). Domestic demand underpins the growth in activity while expectations of export recovery are maintained. Finally, the slowdown in the job creation rate and the stabilisation of inflation during 3Q are confirmed.

GDP growth is steady, but at a lower rate than forecast

With almost 50% of the information available for the third quarter, the MICA-BBVA model indicates that the advance quarterly GDP estimate may again be 0.6% QoQ (see Figure 1), that is, below the forecasts presented at the beginning of the quarter (between 0.7% and 0.9% QoQ). If these forecasts materialise, it would represent a second downward surprise recorded in two consecutive quarters (after the 0.6% QoQ in 2Q, compared to the estimated 0.8% QoQ) and, therefore, would reinforce the downward bias that looms over the growth forecasts projected for 2018 by BBVA Research (2.9% YoY).

Domestic demand continues to drive activity up

BBVA Research estimates suggest that domestic demand continues to drive activity up in 3Q18. Consumer expenditure indicators, labour market records and estimates of the response to the fiscal impulse included in the 2018 general budget underpin a recovery in private consumption, after the apathy observed in 2Q18 (see Figure 2). Furthermore, data pertaining to the implementation of the budget suggest that the pace of the growth in public spending will remain relatively stable.

With regard to investment, the available information indicates that the amounts destined for machinery and equipment could record a negligible quarterly increase, having rebounded strongly last quarter (see Figure 3). Residential investment however will continue to grow, albeit again with less momentum than that observed in 2Q18 (see Figure 4).

External demand will improve, although there is uncertainty in the short-term

The available data suggests that, following the disappointment experienced during the first semester of the year, the evolution of the export of goods may be moving into positive territory during the third quarter (see Figure 5). However, the volatility is still high, and some questions remain in the short-term concerning the export of services. To this end, it is important to note that the behaviour of the tourism sector during the summer period has been less dynamic than what was expected at the beginning of the season, and therefore we cannot rule out a decline in the influx of tourists for the quarter.

The recovery of the labour market continued to loose traction in August

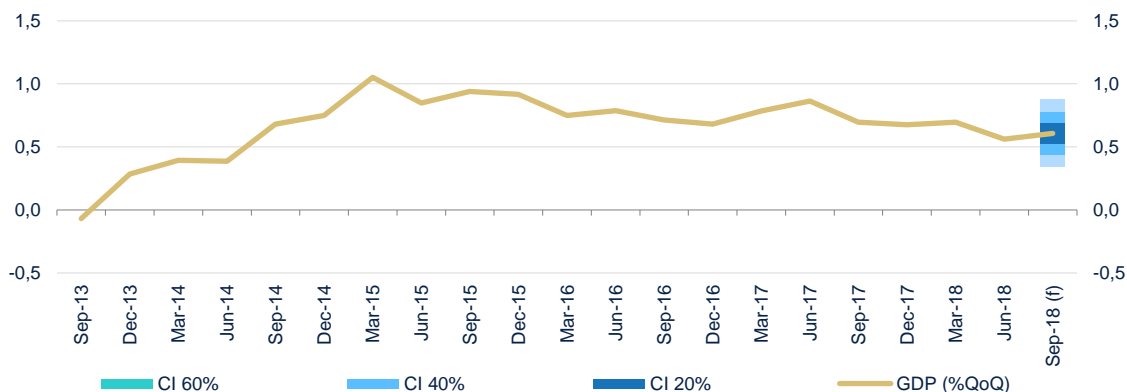
BBVA Research estimates indicate that the number of Social Security registrations grew by 11,000 people SWDA in August, half the growth experienced last month, and almost a quarter of the monthly average observed throughout 2Q. Thus, these figures suggest that the loss in traction in job creation could result in a downturn in Social Security registrations up to 0.5% QoQ SWDA in 3Q (0.7% QoQ SWDA in 2Q). Similarly, the downward trend in registered unemployment slowed last month (-14,000 people SWDA according to BBVA Research estimates), which, if prolonged, could result in a fall for the 3Q of 1.0% QoQ SWDA, also lower than in 2Q18 (-1.5% QoQ SWDA) (see Figure 6).

Inflation has stabilised, confirming the break in the upward trend

According to the advance indicator published by the National Statistics Institute (INE), headline inflation remained at 2.2% last month, in line with expectations. BBVA estimates suggest that this was due to a virtual stabilisation in energy inflation (around 11% YoY) and to a slight downturn in core inflation (up to 0.8% YoY). Thus, the increase in general prices in August was once again 0.2pp higher than that registered in the EMU countries as a whole. BBVA Research estimates indicate that the difference in the core component (which excludes energy and unprocessed foodstuffs) would also have been moderate (-0.1pp).

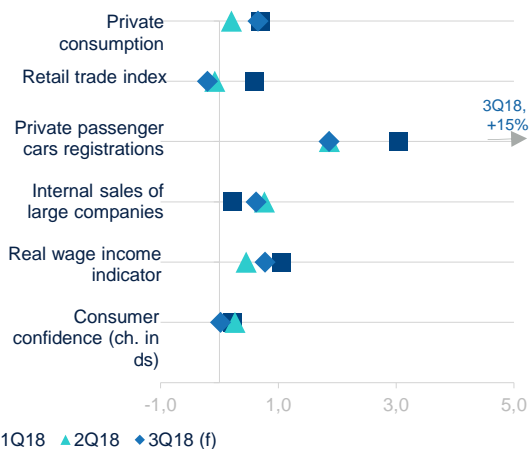
Moving forward, it is expected that inflation will gradually decelerate, having left behind the upturns caused by the increase in oil prices during the first semester of the year. In this context, it is estimated that core inflation shall remain slightly below 1.0% for the remainder of the economic period

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



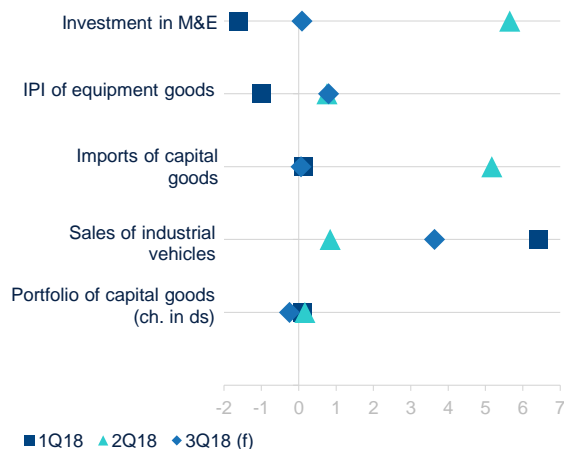
(f) Forecast.
Source: BBVA Research

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



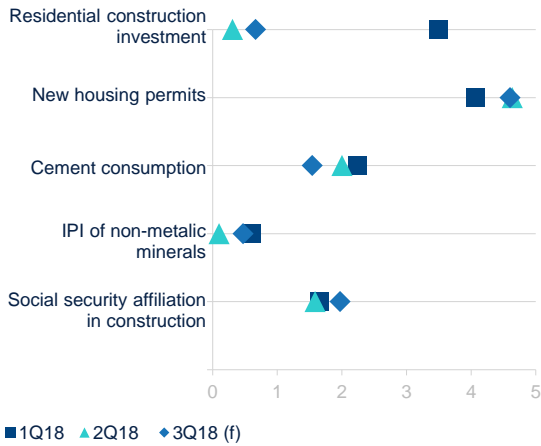
(f) Forecast.
Source: BBVA Research based on data from official bodies

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



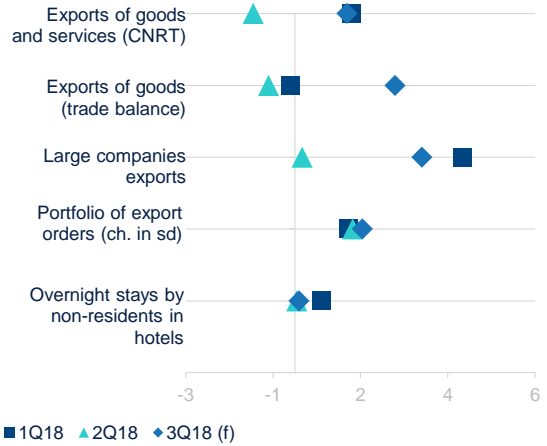
(f) Forecast.
Source: BBVA Research based on data from official bodies

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



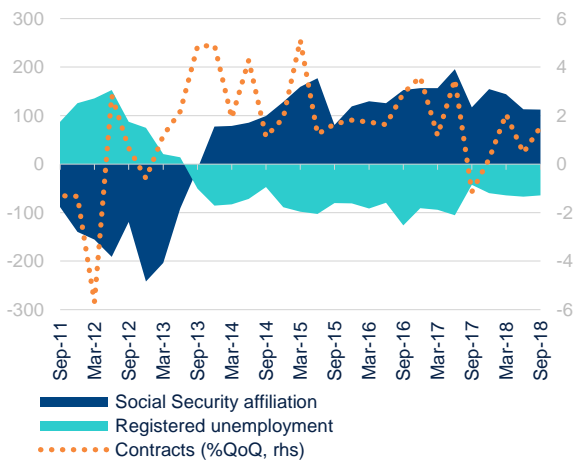
(f) Forecast.
Source: BBVA Research based on data from official bodies

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



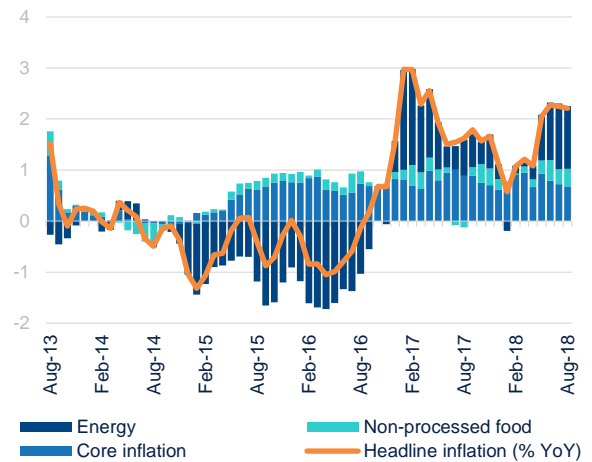
(f) Forecast.
Source: BBVA Research based on data from official bodies

Figure 6 labour market records (quarterly change in thousands of people unless otherwise indicated, SWDA data)



Source: BBVA Research based on Ministry of Labour, Migration and Social Security data

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



Source: BBVA Research based on INE (National Statistics Institute) data

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

(Annual average, %)	2015	2016	2017	2018	2019
Activity					
Real GDP	3.4	3.3	3.1	2.9	2.5
Private consumption	3	2.9	2.4	2.6	2.1
Public consumption	2.1	0.8	1.6	2.0	2.0
Gross Capital Formation	6.5	3.3	5.0	4.3	5.6
Equipment and Machinery	11.5	5.0	6.2	2.3	5.7
Construction	3.8	2.4	4.6	5.9	5.5
Housing	-1	4.4	8.3	7.8	5.5
Domestic Demand (contribution to growth)	3.9	2.5	2.8	2.8	2.7
Exports	4.2	4.8	5.0	3.5	6.0
Imports	5.9	2.7	4.7	3.6	7.1
External Demand (contribution to growth)	-0.4	0.7	0.3	0.1	-0.2
Nominal GDP	4.1	3.6	4	4.8	5
(Billions of euros)	1080	1118.5	1163.7	1219.6	1280.2
Labour market					
Employment, based on Labour Force Survey	3	2.7	2.6	2.3	2.3
Unemployment rate (% of labour force)	22.1	19.6	17.2	15.2	13.5
Employment (full-time equivalent) based on Quarterly National Accounts	3.2	3.0	2.8	2.5	2.2
Apparent labour productivity	0.3	0.3	0.2	0.4	0.3
Prices and costs					
CPI (annual average)	-0.5	-0.2	2	1.8	1.7
CPI (end of period)	0	1	1.1	2	1.6
GDP deflator	0.6	0.3	1	1.6	2.3
Pay per salaried employee	1.6	-0.3	0.1	1	2.6
Unit labour cost	1.4	-0.6	-0.1	0.7	2.3
External sector					
Balance of payments on current account (% of GDP)	1.1	1.9	1.7	1.3	1.5
Public sector (*)					
Debt (% of GDP)	99.4	99	98.3	96.7	94.2
Balance Public Admin. (% of GDP)	-5.2	-4.3	-3.1	-2.8	-2.1
Households					
Nominal disposable income	2.2	2	2	4.3	5.3
Savings rate (% of nominal income)	8.8	7.9	5.9	6.5	7.9

Annual change in %, unless expressly indicated.

(f) Forecast

Forecast closing date: (13 July 2018).

(*) Excluding financial assistance to Spanish banks

Source: BBVA Research

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