BBVA Research

Catalonia Economic Outlook

2nd half 2018

Spain & Portugal Unit

Contents

Closing date: **20 October 2018**

1. Editorial

Catalonia's GDP increased by 3.3% in 2017, following the strong dynamism observed in 2015 (+4.2%) and 2016 (+3.6% YoY). However, the events experienced in the second half of the year (the terrorist attacks in Barcelona and Cambrils, political uncertainty) affected the performance of domestic demand and tourism. However, the favourable evolution of the exports of goods meant that the GDP aggregate did not suffer to the same extent. Thus, an improved global context has partially offset the impact which the heightened uncertainty has had.

Looking ahead, **the growth forecast for Catalonia's GDP points to an increase of 2.5% in 2018, and of 2.3% in 2019.** If the scenario envisaged for the Catalan economy materialises, it will allow the region to record a six year period with an average annual growth of 2.9%, 0.6 pp above the average growth since 1981. Between year-end 2017 and year-end 2019 it is expected that 130,000 jobs could be created, and that the unemployment rate will fall to 10.0% on average, almost 3 pp above the pre-crisis level. However, employment is not recovering to the same extent across all areas in Catalonia: there is a greater dynamism in the urban areas of Barcelona and Girona, while those of Lleida and Tarragona and non-urban areas have still some way to go to reach their pre-crisis employment levels.

The factors that support this recovery are the positive inertia that the Catalan economy has, the continuity of a favourable environment for the growth of sales of goods abroad, the impact of expansive demand policies (monetary and fiscal), and the reduction observed in the levels of uncertainty.

As a result, the latest data available suggest that Catalonia's GDP will continue to rise at relatively stable rates. In particular, according to estimates by BBVA Research, consistent with the figures published by the INE, Catalonia's GDP will increase by nearly 0.5% QoQ on average during the second half of this year, 0.1 pp less than in the first half. Along the same lines, the BBVA Survey of Economic Activity in Catalonia shows an outlook that remains positive, although slightly less favourable than in the first part of the year (see Box 1).

Good exports have been key to sustain business activity and are expected to continue contributing to growth. The improvement observed in 2017 was significant, and general across all sectors. This contributed to an accelerated growth environment in the EMU during the second part of the previous year. Additionally, investment in machinery and capital goods increased significantly during much of 2017, which would have helped increase capacity and improve the competitiveness of companies. Although a slowdown has been observed in the first half of the year, the continuation of growth in the EMU, together with the depreciation of the Euro against the dollar and the potential partial reversal of the oil price increase will continue to drive sales of goods abroad.

Domestic demand will benefit from the reduction in uncertainty, but also from the impact of monetary and fiscal policy. Recently, both private consumption and investment in machinery and capital goods have posted increases above the relevant levels in accordance with the behaviour of their fundamentals. This could be partly due to a decrease in the uncertainty related to the political environment, as a result of which there would have been a partial reversal of the negative trends observed at the end of 2017 and the beginning of 2018. Consolidation in the reduction of this uncertainty would strengthen the environment of continued improvement in private spending. Furthermore, monetary policy is keeping interest rates at historically low levels and we are seeing an increase in the supply of credit from the financial sector. Finally, the tone of the fiscal policy in Spain has changed from neutral to expansive with the approval of the Spanish National Budget by 2018. Among the measures included, some will be of particular benefit to groups having a greater preponderance in Catalonia than in other Autonomous Regions, such as pensioners. Finally, expenditure by the Regional Government and Local Authorities have once again contributed to the growth of domestic demand. In particular, the year-on-year growth of employment in public services is greater than in other parts of Spain, and partly offset the slowdown in the private sector.

The construction sector consolidates its recovery and could begin to contribute significantly to the creation of employment in the coming years. Different factors explain this. On the one hand, there has been a significant reduction in the imbalances that had accumulated during the crisis: both those related to excess supply, and those that limited the growth of demand. The increase in housing prices that has been observed has led to a boost in residential investment and, along with the former, in activity and employment in the construction sector. Looking forward, it is expected that the maintenance of favourable financing conditions, added to the demand that was postponed during the crisis and the adjustments that have been made, will firm up the continued recovery of the sector.

However, in the last quarters a slowdown and convergence to lower levels of growth has been observed. Among the factors that could explain this is, firstly, the fall-off in the drive linked with the "pent-up demand" from the crisis, and the loss of traction in the tail winds that were driving activity (there are no longer any additional drops in interest rates and the price of oil is rising again), which tends to slow down household consumption.

Secondly, **different elements could continue to slow growth in the tourism sector.** The decreased impetus in Catalan domestic demand, but also that of the rest of Spain, will tend to slow down the number of domestic visitors and their spending. With regard to visits by foreigners, the improvement in the perception of security and prices in some of the main competing destinations is giving rise to a certain return of tourists "borrowed" from them by Spain in previous years. For example, the number of border entries by tourists from Germany, the United Kingdom and France have fallen by 700,000 people in Spain as a whole (490,000 in Catalonia), while they have increased in Turkey by approximately the same amount. In addition, although the correction of hotel prices served to curb the fall in visitors in 1Q18, in 3Q18 it has intensified again. To the extent that this returning of "borrowed tourism" could continue, the capacity of this sector as a driver of job creation could be affected.

Thirdly, during the latter half of 2017 the Catalan economy had to face specific events that are continuing to affect activity and employment. In particular, the terrorist attacks in Barcelona and Cambrils last August, together with the increased political uncertainty, seem to be having a negative effect on specific sectors such as tourism, but also on investment and hiring. Following the methodology used by Abadie and Gardeazabal (2004), BBVA Research has simulated the behaviour of Social Security registrations in the private sector in Catalonia in an environment where these events had not occurred. The exercise shows that up to 30,000 other jobs could have been created, equivalent to 1% of Social Security registrations in Catalonia.

Finally, the uncertainty regarding economic policy remains high across the world, in Spain and in Catalonia. Thus, several risks are lurking, ranging from the trade conflicts between the largest economies in the world, to the central banks' exit strategies and their effect on emerging countries, to the final agreement on the departure of the United Kingdom from the EU or the uncertainty generated around the Italian budget. In Spain, there are doubts about when the Spanish National Budget for 2019 will be approved and the impact that the policies that have been announced could have. In any case, there is concern about the lack of consensus to advance agendas for ambitious reforms that could boost further growth and make it inclusive. This aspect may prove significant in an environment where the vulnerability of the Catalan economy has increased.

2. Outlook for Catalonia's economy

After growing 3.6% in 2016, **the Catalan economy continued to show strong dynamism in 2017, with an increase in GDP of 3.3%**[1], 0.3 pp above the latest estimate by BBVA Research[2]. Thus there have been four consecutive years of recovery since 2014, with an average increase of 3.2%, 0.9 pp above the annual average growth since 1981.

The latest available data confirm the slowdown in activity in Catalonia in the first half of 2018, but also that growth continues at around 0.5 pp above that of the eurozone as a whole. In particular, the MICA-BBVA model estimates that Catalan GDP would have increased around 0.6% QoQ SWDA in the first two quarters of the year (see Figure 2.1), 0.2 pp lower than the average for 2017, and in line with the national figure as a whole. Looking at the third quarter of 2018, the data suggest that the slowdown is continuing and the rate of growth of activity would have been maintained close to 0.5% QoQ. All this is consistent with the results of the BBVA Survey of Economic Activity conducted quarterly in Catalonia. In the last survey, carried out in mid-September, the results suggest that a slowdown in activity would be observed in the third quarter of the year, with lower balances than the same period last year. In any case, the expectations have been maintained for positive balances at the end of the year (see Figure 2.2).

Thus, **regional GDP is expected to increase by 2.5% in 2018, and it has been moderated to 2.3% in 2019**, 0.1 pp below the expected growth for the whole of Spain in the two-year period. **This will allow for the creation of 130,000 new jobs throughout the two-year period, and reduce the unemployment rate to 9.5% by the end of 2019.** In any case, at the end of this period the level of employment will remain 5 pp lower than at the beginning of 2008.

Slight slowdown in GDP in 2017, due to a lower contribution of professional activities and public services

The first estimate of the INE on the growth of regional GDP in 2017 reflected that **activity in Catalonia increased 3.3% in 2017**, 0.3 pp below 2016, and 0.2 pp above the national level according to the first estimate by the Spanish Regional Accounts. **The biggest contributions to GDP growth were those of industry, the trade and hospitality sector and professional activities**: the first (including the energy industry) contributed 0.9 pp to total growth (as in 2016), the contribution of the second was 0.7 pp (0.1 pp more than in 2016), and professional activities added 0.5 pp (0.1 pp less than in 2016). On the other hand, the increased contribution by construction (0.3 pp in 2017 and 0.0 pp in 2016) was insufficient to offset the lower growth of financial activities (-0.1 pp in 2017 and 0.0 pp in 2016) and, above all, of public services, whose contribution fell by 0.3 pp, going down to 0.2 pp in 2017. Industry, real estate activities, professional activities, and the information and communication sector showed a greater dynamism than Spain as a whole while construction, commerce and hospitality, public services and financial activities had a lower relative contribution to growth (see Figure 2.3).


1: On 23 March 2018, the INE published the first estimation of the GDP growth of the Autonomous Regions in 2017.http://www.ine.es/prensa/cre_2017_1.pdf
2: See Catalonia Economic Outlook 1st half 2018 https://www.bbvaresearch.com/public-compuesta/situacion-cataluna-primer-semestre-2018/

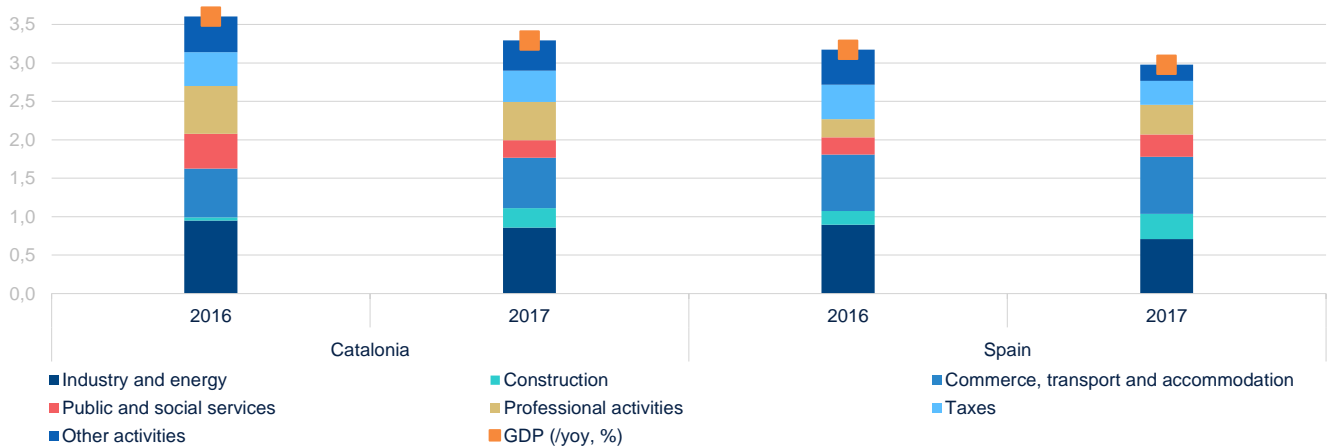Figure 2.1 GDP Growth according to the MICA-BBVA model (QoQ, %, SWDA)
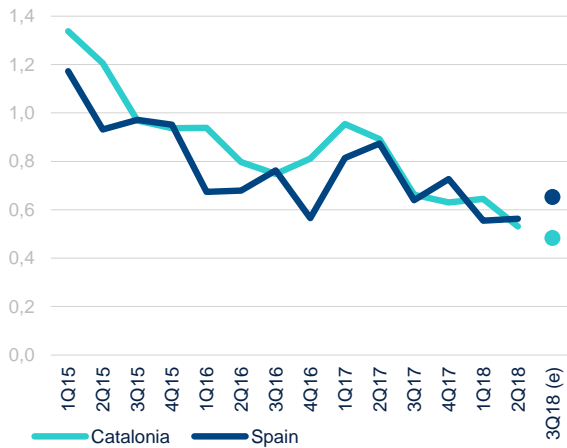
(e) Estimated.
Source: BBVA Research

Figure 2.2 Catalonia: Activity and perspectives according to the BBVA Survey of Economic Activity (%, balance of extreme responses)
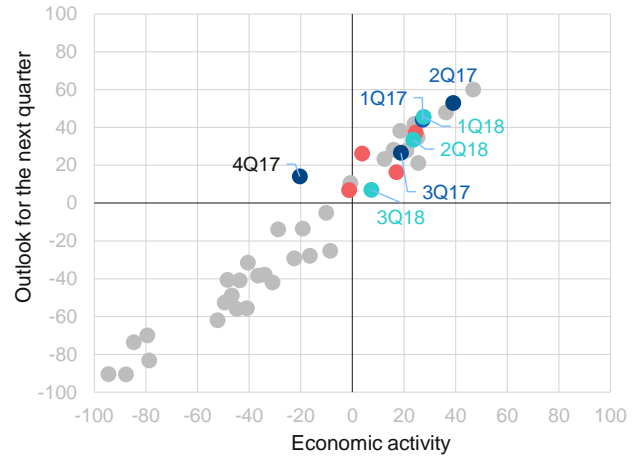
Source: BBVA

Figure 2.3 Catalonia and Spain: GDP growth in the years 2016 and 2017 and sectoral contributions (YoY, % and pp)

Note: Data for Catalonia published in April 2018 with the 1st estimation for 2017 by the Spanish Regional Accounts. Data from Spain published in September 2018, with the revision by Quarterly Spanish National Accounts.
Source: BBVA Research based on INE data

## Private consumption sustains growth this year, but it is less dynamic than in Spain as a whole

After rising by 2.2% in 2017 (0.3 pp below Spain as a whole), **spending on consumption by Catalan households is showing a high volatility in 2018**. Thus, BBVA Research's Composite Consumption Indicator (ISCR-BBVA)[3] which aggregates the signal of the main available partial expenditure indicators, points to a quarterly growth of 0.5% SWDA in the first two quarters of the year, 0.1 pp lower than it showed in 2017. But while **household**

3: The Composite Consumption Indicator, which is prepared by BBVA Research, is based on the main partial cost indicators available at regional level: retail sales, vehicle registrations, activity index in the services sector, imports of consumer goods, fuel and domestic consumption in Spain. The methodology used for the construction of the indicator is based on the analysis of the main components. For more information, see R.1 Does the evolution of domestic demand affect the growth of exports? Spain Economic Outlook, 4th Quarter 2015, BBVA Research.

spending grew by about 1.0% in the first quarter, it stagnated in the second (see Figure 2.4)[4]. This behaviour is explained mainly by the contraction of vehicle registrations between April and June, which was not offset by the recovery of the growth of imports of consumer goods. In addition, both the activity indicator in services and retail sales grew less than in the whole of Spain in the period considered (see Figure 2.5)

Looking towards the third quarter, the indicators point to a recovery in consumption, which would increase about 0.5% QoQ SWDA, supported by the increase in vehicle registrations, facilitated by the change of regulations[5]. In year-on-year terms, this represents an advance of **2.3% YoY with data up to September**, 0.2 pp below the national average. In the future, however, a slowdown in the growth of consumption is expected, as a result of the progressive exhaustion of tail winds that had boosted the dynamism of previous years, among them, the depletion of backed-up demand, some historically low interest rates, increased disposable funds for households and a relatively low petrol price.

Figure 2.4 Regionalised Composite Consumption Indicator, ISCR-BBVA (%, QoQ, SWDA)
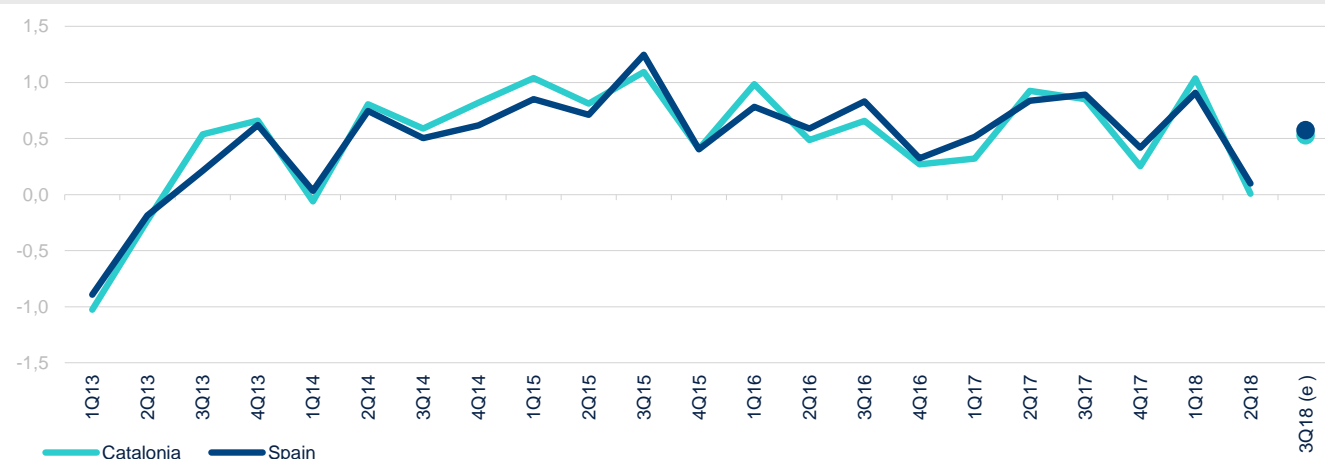
Source: BBVA Research based on INE, DGT and Datacomex data

Figure 2.5 Main indicators of private consumption (%, QoQ, SWDA)
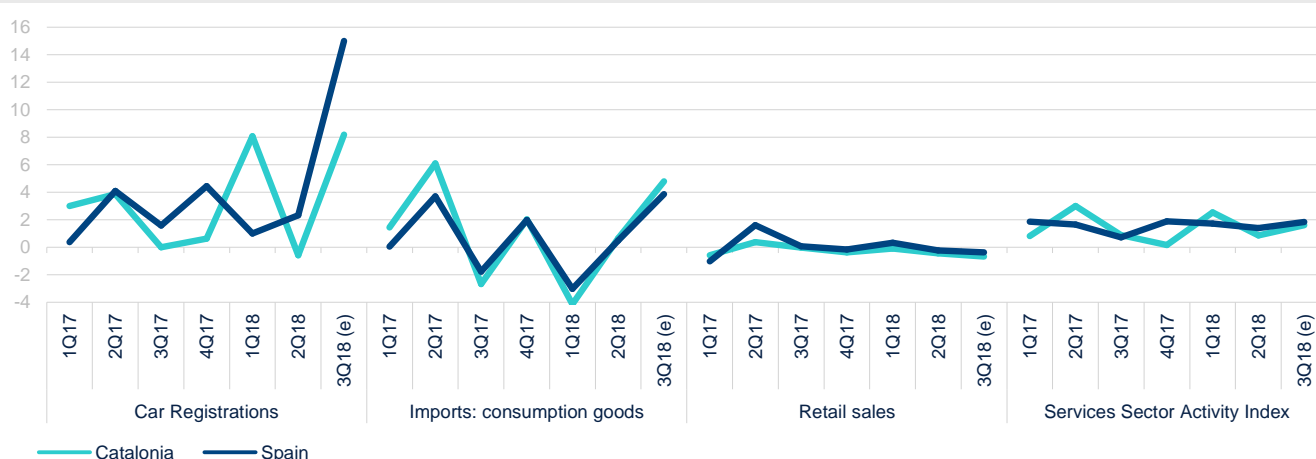
(e) Estimated with the latest information available.
Source: BBVA Research based on INE, DGT and Datacomex data

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4: Idescat points out that in the second quarter of 2018 consumption grew by 0.4% quarterly after having grown by 1% in the first quarter.
5: Further details on the effects of this change can be found in the Consumption Outlook, 1st half of 2018, available here:https://www.bbvaresearch.com/publicaciones/situacion-consumo-primer-semestre-2018/

The Generalitat de Catalunya (Catalan Regional Government) gives a new impetus to final consumption expenditure, but reduces investment in 2018

The Generalitat de Catalunya took advantage of the economic recovery to moderately expand its tax policy during 2017. Thus, spending on both final consumption and public investment increased in 2017, despite credit non-availability agreements and the intervention as a result of the application of Article 155 of the Spanish Constitution as from 27 October. Along the same lines, the budget implementation data with information up to July 2018 show that the Generalitat would have once again boosted final consumption expenditure, which grew by 2.5% YoY, below the autonomic average (2.9% YoY). But this has not been repeated with investment, since that of the Generalitat de Catalunya has been reduced by 5.1% compared to the level accumulated up to July 2017 (see Figures 2.6 and 2.7).

Figure 2.6 Generalitat de Catalunya and the Autonomous Regions as a whole: Nominal final consumption expenditure*. Accumulated from January to July (%, YoY)
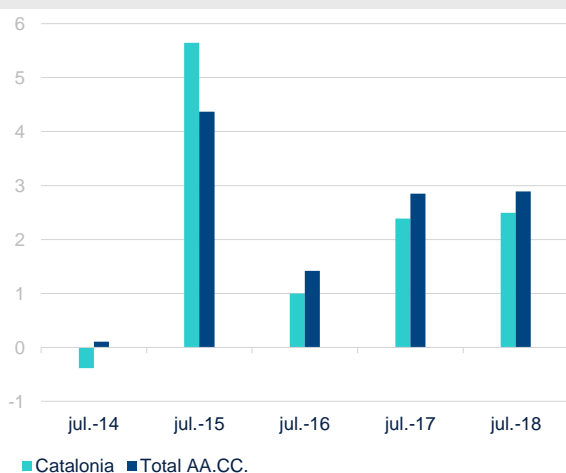
* Approximation to nominal final consumption expenditure, excluding fixed capital consumption.

Figure 2.7 Generalitat de Catalunya and the Autonomous Regions as a whole: Gross fixed capital formation. Accumulated from January to July (%, YoY)
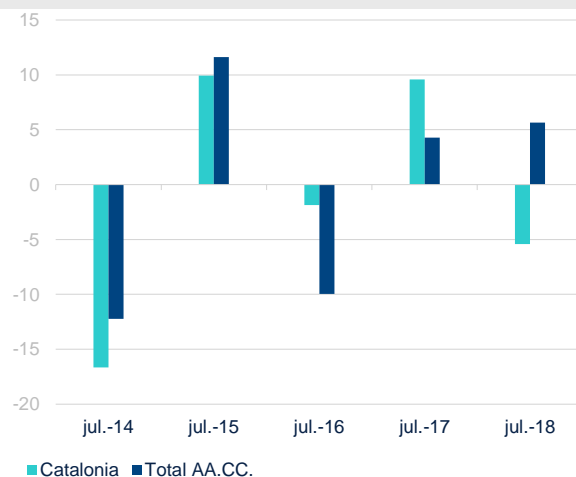
Source: BBVA Research based on MINHAFP data

Public works tenders grow again more moderately after rising strongly in 2017

In 2017 public works tenders in Catalonia increased by 44.2% (38.0% in Spain as a whole) but in 2018 there was less dynamism. Thus, the accumulated figure until August has increased by 25.9% YoY (Spain, 42.8%, see Figure 2.8).

The breakdown by type of work shows that this slowdown in tenders in the first half of 2018 occurred both in civil works and in construction, which reduced growth compared to figure observed for the same period of the previous year. Construction, in the first eight months of the year, increased by 17.5%, slightly below the average rise seen in Spain (18.1%). For its part, civil works tenders grew by 33.3% in the same period, while for Spain as a whole this figure was 58.6%. This is occurring after 2016 and 2017 when civil work progressed more dynamically in Catalonia. The detail of the first half shows that the purpose for which a greater share of building tenders was allocated in Catalonia consisted of buildings for sanitary, administrative and sporting uses, with 50.1%. Regarding civil works, 56.4% of the amount of works tendered between January and August was for urban planning works, with major items also in road works and, with a lower amount, in works on the supply network and hydraulic collectors.

By province, up to August 2018, the highest year-on-year increase occurred in Tarragona (44.2%) followed by Barcelona (24.4%). In Lleida (18.2%) and Girona (9.7%), the increase was more moderate (see Figure 2.9).

Differing by funding agencies, **the boost to tenders in the first eight months of 2018 came from the effort carried out by the State** (+ 123% YoY) after three consecutive years of decline (from 2015 to 2017). On the contrary, the Territorial Entities as a whole increased the value of the tenders by 15.9%, more moderate than the figure of 69.4% by the whole in 2017. As a result, up to August 2018 the weight of the State in public works tenders in Catalonia was 16.4%, 7.1 pp more than in the same period of the previous year.

Figure 2.8 Public works by type of works: Contribution to year-on-year growth, January-August 2018 (Percentage points)

Civil works Building construction Total
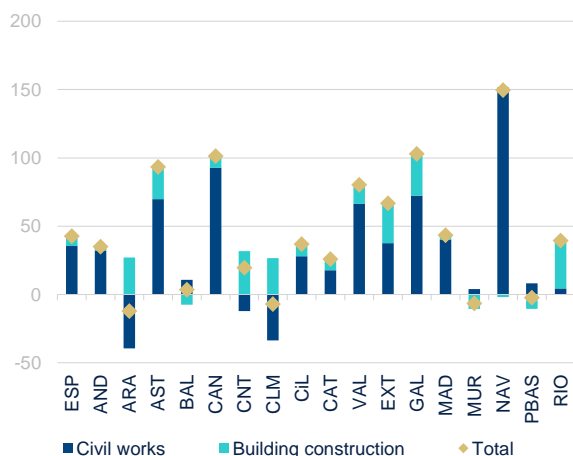
Source: BBVA Research based on Ministry of Public Works data

Figure 2.9 Catalonia: Tender budget for provinces (€ millions and % YoY)

Building construction Civil works yoy,% (rhs.)
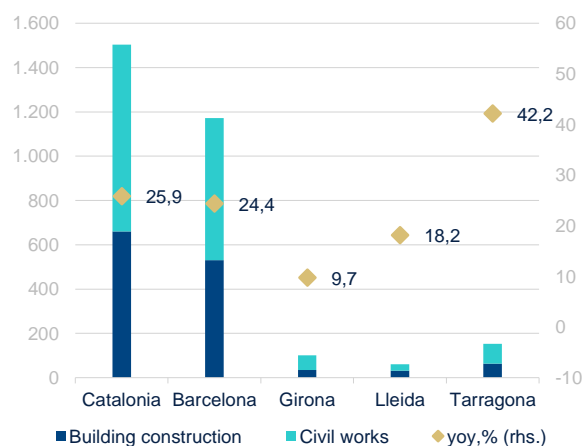
Source: BBVA Research based on SEOPAN data

## Fall of non-residential investment and slowdown in imports of capital goods during the first half of 2018

After growing by 4.1% year-on-year in 2017, **imports of capital goods slowed to** 2.7% YoY in nominal terms with accumulated data up to July, 0.4 pp below the national average (see Figure 2.10). Thus, investment assets are equivalent to 17% of total imports, and have surpassed €9.1 billion over the seven months.

The slowdown in investment efforts is even more evident when the square metres with permits are observed for the construction of new non-residential buildings in the first half of the year. The Ministry of Public Works indicated that the surface area with building permits for non-residential use[6] in the first seven months of 2018 was reduced by 41.3% over the same period of 2017, compared to the increase of 31.1% observed, on average, in Spain for the same period of time. In fact, Catalonia was the autonomous region where non-residential construction fell most in the first seven months of the year. By type of construction, we can highlight the decrease in the surface area with building permits for the construction of offices, but also the m2 for commercial and storage activities and buildings for the agricultural and livestock sector. In this period, year-on-year increases were only made on the surface area of permits for industrial buildings.

More qualitatively, the results of the BBVA Survey of Economic Activity in Catalonia show a strong optimism in the first part of the year in all sectors, especially services and, above all, construction, with the most positive responses since the recovery began. These results contrast with the widespread correction observed in all sectors in the fourth quarter of 2017, linked to increased uncertainty and political tension in Catalonia. However, data from the third quarter indicate a slowdown in investment in industry, agriculture and services, while the balance of new construction continues to be very high (see Figure 2.11 and Box 1).


6: Buildings destined for commercial and storage services, agricultural and livestock activities, industrial, offices, tourism and recreation and transport services, among others.

Figure 2.10 Non-residential construction permits (m^2) and imports of capital goods (%, YoY)

Non Residential Construction Permits / Imports: Equipment Goods

■ 2016 ■ 2017 ■ jan-jul 18
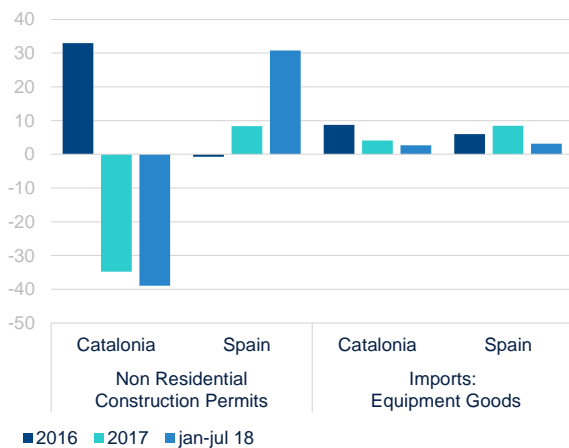
Source: BBVA Research based on Ministry of Public Works and Datacomex data

Figure 2.11 Catalonia: Evolution of the investment by sector according to the BBVA Survey of Economic Activity (Balance of responses, %)

— Construction — Industry
— Services — Primary sector
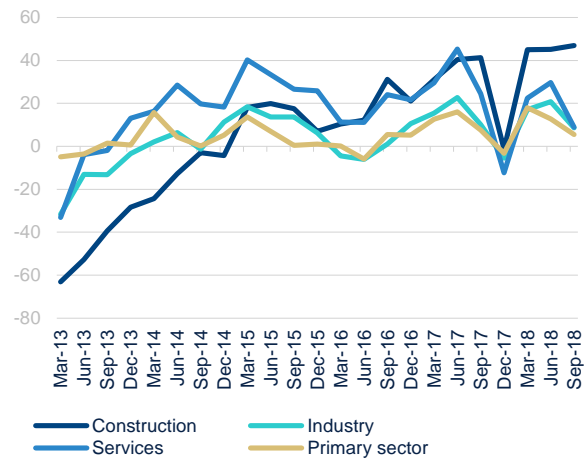
Source: BBVA

Housing sales growth moderates in the first half of the year

In the first half of 2018 housing sales advanced with less dynamism than in previous periods. According to data published by the Ministry of Public Works, in the cumulative total between January and September, 45,500 homes were sold, 2.1% more than in the same period of the previous year. It is the most moderate increase since the recovery in housing sales began in 2014 (between 2014 and 2017 the average increase in transactions in the first half of each year was 21.1%) and, in addition, it is well below the observed progress in Spain as a whole (10.1%). The quarterly dynamics revealed a slight variation in housing sales in the first two quarters of the year, with an average quarterly growth of 0.8% QoQ (SWDA), well below 4.1% (SWDA) of Spain (see Figure 2.12).

By segments of demand, in the first half of the year there was a decline in purchases by foreigners and a moderation in the growth of transactions of both residents in Catalonia and residents in the rest of Spain. Thus, operations carried out by Catalan residents in the same province where the property is purchased increased by 3.4% compared to those made in 1H17, an increase lower than the figure of 11.1% for Spain as a whole. However the weight of this segment increased to 73.9% of the total operations carried out in the first half of the year. In turn, the purchase of housing in Catalonia by residents in a province other than that in which the purchased home is located grew by 10.2%, also below the Spanish average (12.4%). Thus, the weight of this segment of demand increased to 11.9%. Finally, there was a reduction of 8.6% in purchases made by foreigners compared to those made in 1H17, so that the weight of this segment was reduced to 14.0%, 1.7 pp below its share in the first six months of 2017. Again, the differential with Spain as a whole is significant, since the nation as a whole saw an increase of 5.4%.

By province, two clearly differentiated behaviours can be observed. In the first half of 2018, in Lleida and Tarragona the sale of housing was very dynamic, while in Girona and Barcelona it was practically stagnant. What is particularly notable, at this point, is the decline in the province of Barcelona (-0.4% compared to 1H17, see Table 2.1).

House prices gained dynamism in 1H18 and continued to rise above the Spanish average. According to the information on appraisal values published by the Ministry of Public Works, the price of housing increased 5.2% YoY in 1H18, up to a value of €1,948.6/m^2. The quarterly dynamic shows that the moderation of this increase that had been occurring since 4Q17 broke in the second quarter, and the growth of housing prices rose from 4.2% YoY in 1Q18 to 6.2% in 2Q18. This is the biggest growth since house prices began to recover in 2Q13, and is higher than

that observed in Spain as a whole (2.7% YoY in 1Q18, and 3.8% in 2Q18). By province, as can be seen in Table 2.1, it is in Barcelona where the highest increase in 1H18 (6.6%) can be observed, while in Girona and Tarragona the increases are less than 1.0% YoY.

At local level, the price of housing appreciated in all municipalities with more than 25,000 inhabitants except Igualada and Blanes, where they fell by 0.5% and 3.5%, respectively, in 1H18. The most notable increases were observed in municipalities in the metropolitan area of Barcelona, such as Sant Joan Despí (16.1%), L'Hospitalet de Llobregat (15.9%), Sant Adrià de Besòs (14.2%), Cornellà de Llobregat (13.7%) and Rubí (13.6%). Also in this area are the municipalities that have accumulated the highest increases in prices from the low points reached during the crisis: in Sant Cugat del Vallès, Sant Joan Despí, L'Hospitalet de Llobregat, Barcelona and Barberà del Vallès, the recovery of the price has already surpassed 35%.

Building permits for new homes signed in Catalonia grew by 15.8% YoY in the first seven months of 2018. Thus, they grew less than in Spain as a whole, after having grown much more over the last four years (43.3% YoY on average between 2014 and 2017, vs. 24.8% in Spain). Between January and July of this year, building permits were approved for 8,223 new homes, 15.8% more than in the same period of 2017 (26.1% for Spain as a whole). The quarterly analysis shows that the increase was moderated in 2Q18 (see Figure 2.13). However, the number of building permits in the autonomous region is still small, and those signed in the last twelve months until July 2018 represent only 9.4% of those approved, on an annual average, between 2004 and 2006. By province, only in Girona did the number of permits (56.9% YoY in the first seven months of 2018) fall back. On the other hand, the increases in Lleida and Girona stand out (see Table 2.1).

Figure 2.12 Catalonia: Housing sales (SWDA)
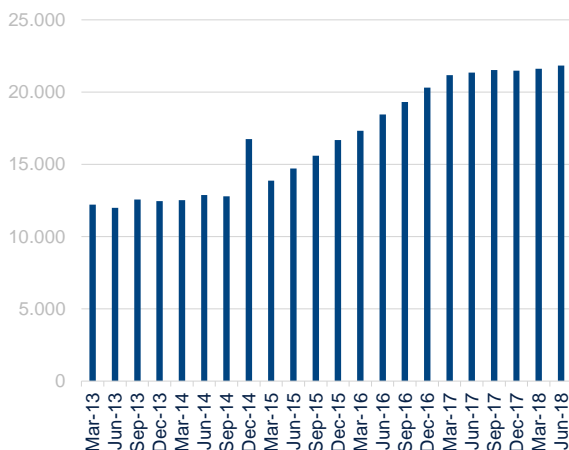
Source: BBVA Research based on Ministry of Public Works data

Figure 2.13 Catalonia: Permits for construction of new housing (SWDA)
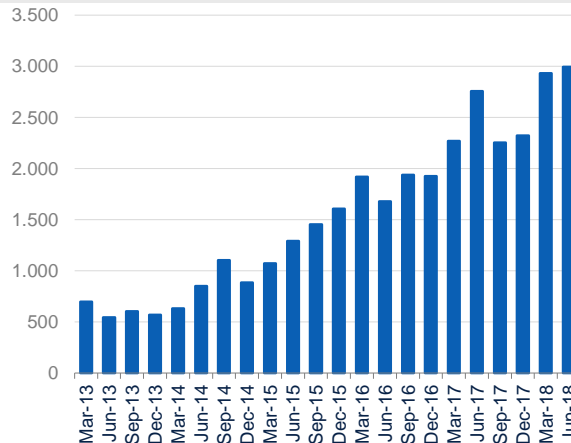
Source: BBVA Research based on Ministry of Public Works data

Table 2.1 Catalonia: Real estate market variables by province

| | Housing sales | | | | Housing price | | New dwellings Building permits | | | |
| | 2017 | | Ene-Jun 2018 | | 2017 | 1S18 | 2017 | | Ene-Jul 2018 | |
	Dwellings	yoy %	Dwellings	yoy %	yoy %	yoy %	Dwellings	yoy %	Dwellings	yoy %
Barcelona	59.046	14,0	31.063	-0,4	6,4	6,6	8.683	48,6	6.970	11,4
Girona	11.313	15,5	5.864	0,7	2,4	0,3	685	-17,6	242	-56,9
Lleida	3.962	9,0	2.355	20,6	0,5	3,1	2.017	-17,4	461	281,0
Tarragona	11.246	13,5	6.185	10,7	1,2	0,8	476	-7,6	550	243,8
Catalonia	**85.567**	**13,9**	**45.467**	**2,1**	**5,3**	**5,2**	**10.091**	**34,7**	**8.805**	**16,5**
Spain	532.261	16,3	295.725	10,1	2,4	3,2	80.786	26,2	68.044	26,1

Source: BBVA Research based on Ministry of Public Works data

The recovery of imports and the slowdown in exports cause an increase in the trade deficit this year

After the sharp increase in the first half of 2017, **Catalan exports of goods in real terms stagnated in the first half of the year** (+0.2% SWDA compared to the previous half-year, 0.3 pp above the national average (see Figure 2.14)). The latest data for July indicates that real exports could rise slightly in the third quarter of the year, with a growth of 1.0% QoQ SWDA compared to the previous quarter. **In nominal terms, exports of goods grew by 3.1% YoY in July (+8.7% YoY in 2017).** The automobile sector (+12.0% YoY and a weight of 16% of the total) and semi-manufactured goods (4.3% YoY with a weight of 33% of the total) are the ones that contributed most to the increase in exports, contributing 1.9 pp and 1.4 pp respectively. Similarly, capital goods, which constitute 18% of the regional total, increased by 1.6% YoY contributing 0.3 pp. On the other hand, contractions of 3.5% YoY and 0.5% YoY in the food and consumer manufacturing sector, respectively, represented a handicap of 0.5 pp for the growth in the period (see Figure 2.15).

Figure 2.14 Catalonia and Spain: Exports of goods in real terms (1Q13 = 100, SWDA)
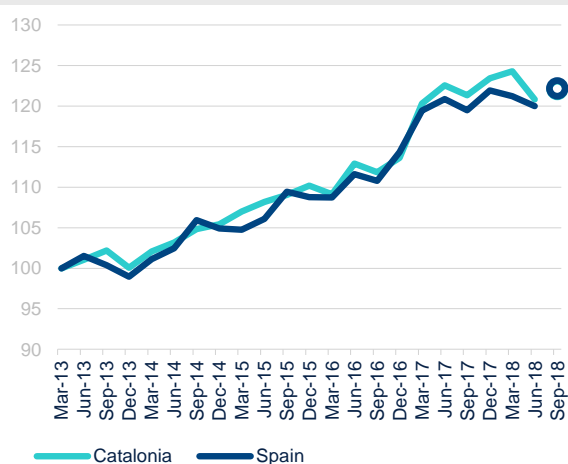
Source: BBVA Research based on Datacomex data

Figure 2.15 Catalonia: Exports and sectoral contributions (% YoY, pp)
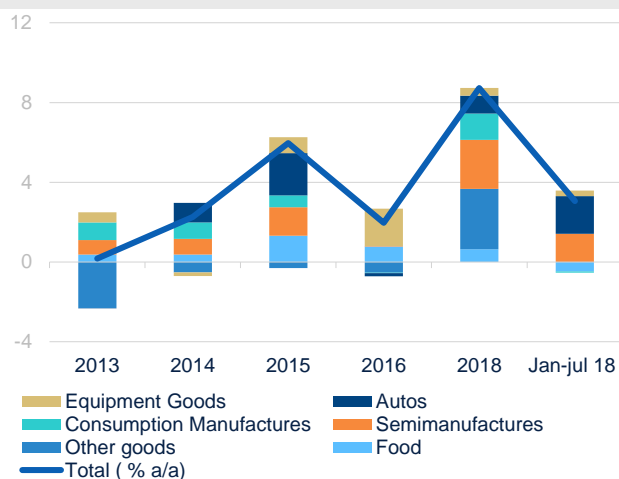
Source: BBVA Research based on Datacomex data

By geographical areas, the increase in sales in Africa of 14.6% YoY (7% of the total), which is explained by the dynamism in energy products and the automotive sector, stands out. By contrast, exports to Asia (9% of the total) were reduced by about 5% due to the fall in foodstuffs and capital goods. Finally, sales in the Americas and the eurozone increased, respectively, by 1.0% and 2.2% YoY. In the European market, all major export destinations experienced similar or lower increases to those of the regional total in the period. Thus, sales in France (top destination with a 16% share) increased by 3.2% YoY, while sales to Germany increased by 1.9%. But sales in Italy and the United Kingdom contracted by 2.7% and 2.1% YoY respectively.

On its side, imports of goods from Catalonia, measured in constant terms, rose in the first half of the year (+2.5% SWDA versus the previous half-year), 2 pp above the nation as a whole and 0.6 pp more than they had grown in the second half of 2017. The data from July suggest that growth will continue in the third quarter, close to +2.5% QoQ SWDA (see Figure 2.16). In nominal terms, imports increased 7.7% YoY in July, driven by energy products, semi-manufactured goods and the automotive sector.

As a result, the evolution of foreign goods flows led to an **increase in the deficit in the balance of trade of Catalan goods abroad**. With accumulated data up to July, **the resulting deficit is €10.49 billion, 32% more than in the same period in 2017**. On the other hand, the results of the BBVA Survey of Economic Activity point to a deterioration in the net balance of responses relating to the evolution of exports in the third quarter, although it remains positive. This indicates that sales abroad by Catalonia could show less dynamism in the latter half of the year (see Figure 2.17).

Figure 2.16 Catalonia and Spain: Imports of goods in real terms (1Q13 = 100, SWDA)
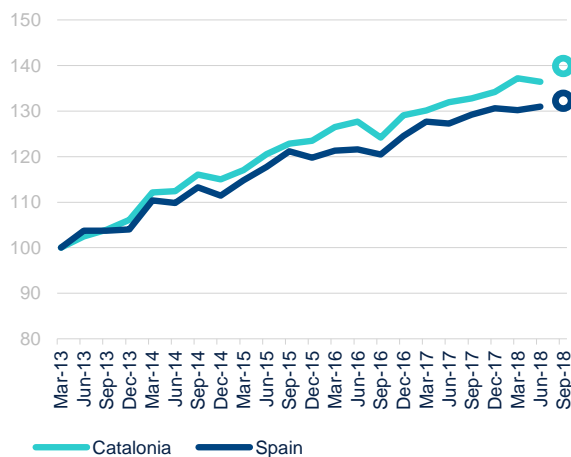
Source: BBVA Research based on Datacomex data

Figure 2.17 Catalonia: Evolution of the investment according to the BBVA Survey of Economic Activity (balances of responses, %)
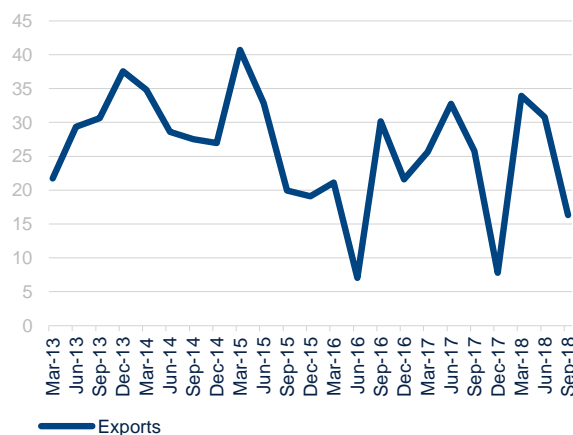
Source: BBVA

Tourist spending of foreigners continues to increase, but arrivals from travellers to hotels and overnight stays are falling

After hitting a new record of travellers and overnight stays in 2017 (19.8 and 57.2 million respectively), **the information available (up to August) indicates that the slowdown in the tourism sector that began in the last quarter of 2017 is continuing.** In the first eight months of 2018, **Catalonia received more than 14.0 million travellers entering hotels (-0.5% YoY) thus generating a total of 40.5 million overnight stays (-2.9% YoY)**. These corrections contrast with the growth in the same period of 2017 of 5.3% for travellers and 5.0% for overnight stays. This positions Catalonia as the autonomous region experiencing the most intense correction to its tourism,

and the figures are notable whether it is compared to the nation as a whole (+0.7% in travellers and -0.6% in overnight stays in the year to date) or with traditional beach destinations, such as Andalusia, the Valencian Community, the Balearic Islands or the Canary Islands[7].

In addition, the evolution fell progressively throughout the year. Thus, the good data observed in the first quarter of 2018 (correcting the fall of the end of 2017) became negative in the second quarter and the correction was accentuated in the third quarter. Growth in the first three months had supported the recovery of foreign tourism compared to the end of 2017, but this behaviour was reversed from the second quarter, and it was mainly residents of Catalonia who maintained the number of stays in hotels. For its part, the contribution of residents from the rest of Spain was negative from the middle of 2017 (see Figure 2.18). All this took place in a context where the level of hotel occupation is falling slightly, down to 59% in the year to date (while in Spain it has stayed stable in 60%) and the average stay per traveller is being maintained around 2.8 nights per traveller.

In year-on-year terms, the deterioration of demand results from the more intense contraction in the segment of residents of Spain (about 30% of the total), with falls of 2.0% YoY in travellers and -5.0% YoY in overnight stays (vs. +0.4% YoY and -2.1% YoY, respectively, in Spain as a whole). This contrasts with the situation of tourism in Spain as a whole, where the slowdown in tourism is driven more by the segment of foreigners than for Spanish residents.

For tourist areas, the city of Barcelona, which absorbs between 35% and 40% of the tourism that visits Catalonia, experienced an increase in passengers of +2.8% YoY in the first eight months of the year, while overnight stays fell by -0.8% YoY, both due to the lower influx of Spanish residents and the slowdown of foreigners, which nevertheless maintain positive rates of growth. The coastal destinations have heterogeneous patterns. On the one hand, the Costa Brava (20% of the total) recovered in these eight months compared to the same period in 2017, supported mainly by the improvement in national tourism, and in spite of the slowdown in foreign tourists. However both the Costa de Barcelona and the Costa Daurada (around 20% of total tourism each) observed strong falls in travellers and overnight stays, with similar contributions from residents of Spain and foreigners. This pattern is also repeated in the Terres de l'Ebre (1% of the total), but with a more negative contribution from residents. Finally, among the inland destinations, Terres de Lleida and the Vall d'Aran (1% of the total each) continued to be very dynamic with growth of 10% both in travellers and overnight stays, which is explained by an improvement in both national and foreign tourism.

The relatively favourable behaviour of the tourist influx, after the events of the second half of 2017, is partly supported by a contraction of hotel prices in the first eight months of 2018, with a fall of 1.5% YoY in nominal terms. This means that Catalonia is the autonomous region with the highest correction in hotel prices in 2018, which contrasts with the increase of 6.4% in the same period of 2017, when Catalonia was part of the group in which the prices increased the most. If hotel prices are deflated for the CPI, this recent evolution means returning to a level that is 8 pp below the highest point reached before the crisis, while competing destinations, such as the Balearic Islands, the Valencian Community or Spain as a whole, have almost recovered the level or even surpassed it (see Figure 2.19).

The slowdown in the sector is also noticeable when the spending of foreign tourists is observed: the growth of this variable has moderated, but to a still significant +6.7% YoY in the year to date (+13.8% YoY in the same period of 2017), with a total amount of €14.61 billion. Even with this reduced dynamism, Catalonia is the autonomous region where tourist spending is growing the most, 4 pp above the national average. On the other hand, the spending per tourist and trip increased 9.3% (doubling the increase in the same period of 2017), 6.7 pp more than the increase in Spain, reaching €1,065.


7: With accumulated data up to the month of August, in travellers and overnight stays respectively, Andalusia (+1.8% and +1.3% YoY), Valencian Community (+2.7% and +0.8% YoY), Balearic Islands (+1.4% and +0.5% YoY) and the Canary Islands (+0.0% and -2.9% YoY).

Figure 2.18 Overnight stays in Catalonia: Contributions by origin (QoQ, SWDA, %) (1Q13 = 100, SWDA)

Legend:
- Catalonia
- Rest of Spain
- Foreigners
- Total
- Overnight Stays in Spain
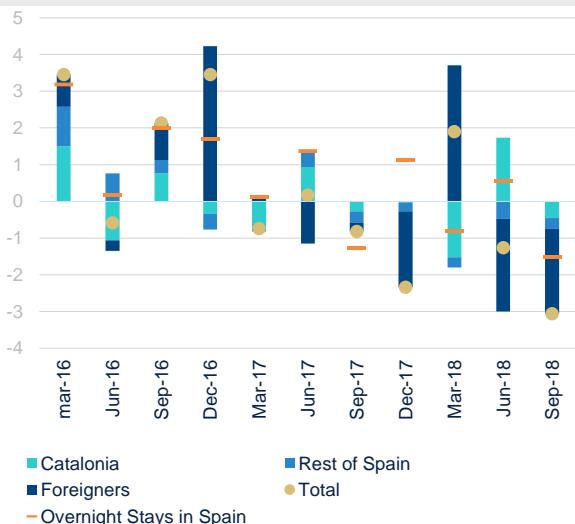
Source: BBVA Research based on INE and Idescat data

Figure 2.19 Index of hotel prices
(Deflated for the national CPI, 2008 = 100)

Legend:
- Spain
- Balears
- C. Valenciana
- Catalonia
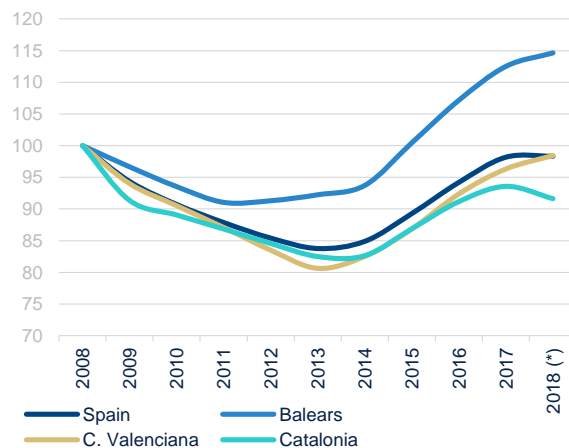
* 2018 includes data up to the month of August.
Source: BBVA Research based on INE data

Catalonia's labour market is slowing down so far this year and is growing below the national average

After the strong growth in 2017 (+3.9% YoY), **Catalonia continues to create jobs in the first three quarters of 2018, but at rates well below those of a year ago.** Social Security registrations increased to an average quarterly rate of 0.6% QoQ SWDA (3.2% YoY), 0.3 pp below the figure in the same period last year. As in other indicators of the Catalan economy, the trend has been downward, and after growing at an average rate of 0.7% QoQ SWDA in the first half, the increase weakened to 0.4% in the third quarter. This slowdown is practically general across all sectors, but is more prominent in professional activities (which have reduced their contribution to the total growth of the period by 0.3 pp vs. the same period of 2017), retail and hospitality (a contribution which is 0.2 pp lower for each activity). This means that registrations increased below the national level (0.7% QoQ SWDA), when last year the opposite happened. The differential with Spain is mainly explained by the lower contribution of retail and hospitality, while the rest of the sectors are evolving in a similar way (see Table 2.2).

The Economically Active Population Survey (EPA) confirms this pattern of a slowdown in the labour market from the beginning of 2018. The employed population increased by 0.4% QoQ SWDA on average in the first half of the year, equivalent to a year-on-year increase of 3.0% YoY (+0.8% QoQ SWDA and +2.6% YoY respectively in Spain). These growth rates were below those of the same half-year in 2017, when the average QoQ SWDA rate was 0.8% (+0.7% in Spain). By sector, the year-on-year increase was mainly supported by industry, public services and agriculture, while construction and, above all, private services showed a lower dynamism (+2.6% and +0.8% YoY respectively).

Table 2.2 Contributions to the growth of Social Security registrations (QoQ, %, SWDA)

	Catalonia				Spain			
	2017	1Q18	2Q18	3Q18	2017	1Q18	2Q18	3Q18
Agriculture	0,0	0,0	0,0	0,0	0,1	0,0	0,0	0,0
Mining and Energy	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Manufacturing	0,4	0,1	0,1	0,1	0,4	0,1	0,1	0,0
Construction	0,3	0,1	0,1	0,1	0,4	0,1	0,1	0,1
Commerce, transp. & repair.	0,7	0,1	0,1	0,1	0,6	0,1	0,1	0,1
Accommodation	0,4	0,0	0,0	0,0	0,4	0,1	0,1	0,0
Comunic., Finances & Real Est.	0,2	0,1	0,1	0,1	0,2	0,1	0,1	0,1
Professional Activities	0,8	0,1	0,1	0,1	0,6	0,1	0,1	0,1
Public Services	0,9	0,2	0,2	0,1	0,8	0,2	0,2	0,2
Social Services	0,1	0,0	0,0	0,0	0,2	0,0	0,0	0,0
Other	-0,1	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Total	3,9	0,7	0,7	0,6	3,6	0,7	0,8	0,6

Source: BBVA Research based on Social Security data
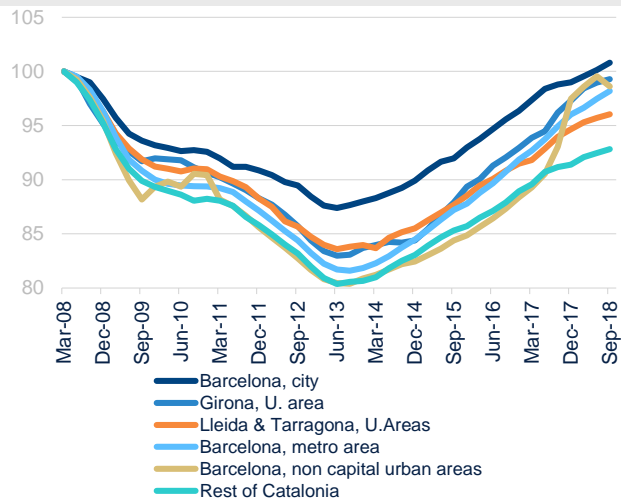
The analysis of the registrations by urban areas shows fairly heterogeneous employment behaviour in the year so far in Catalonia (see Figure 2.20). The Large Urban Area (GAU)[8] outside the capital in the province of Barcelona (Manresa), which represents just over 1% of total Catalan employment, has led the growth so far this year (+8.5% YoY). Also the GAU of the city of Girona (3% of the total), as well as the group of municipalities that make up the GAU of Barcelona excluding the capital (37% of the total) experienced growths close to 4%, and higher than the autonomous region as a whole. In the GAUs of the capitals of Lleida and Tarragona (8% of the total) the increase was similar to that of Catalonia, while in the city of Barcelona (33% of the total) and non-urban areas grew by almost 2% substantially below Catalonia as a whole. In this last group, the dynamism was markedly lower in the non-urban areas of the provinces of Barcelona and Lleida, while in those of Tarragona and Girona the behaviour was more favourable. Finally, it is notable that the city of Barcelona has already regained the level of registrations prior to the crisis, and the rest of the urban areas of the province of Barcelona and the GAU of the capital of Girona are already close to achieving this, but in non-urban areas, the level is still 7 pp lower than the peak of the previous expansive period.

The evolution of the labour market contributes to a **decrease in the unemployment rate to 11.8% in the average of the first two quarters of the year, 2.5 pp less than in the same period of 2017**. This ratio, despite being the lowest since 2009, contrasts with that reached in 2007, when the unemployment rate was below 7%.

With regard to the temporary persistence of unemployment, the incidence of long-term unemployment is lower in Catalonia: 47% of the total of unemployed people has been in this situation for more than one year (3.4 pp less than in Spain, on average) and this figure has been declining in recent years. The quality of the hiring is also more favourable, with temporary employment that has remained stable at the beginning of the year, at around 22%, 5 pp below the same figure in Spain. Thus the youth unemployment rate, which has already fallen by 2 pp is still close to 30% (7 pp below the number for Spain as a whole). Thus, although the situation is better than in other autonomous regions... Reducing temporary and youth unemployment, improving the quality of employment, and increasing human capital are challenges of the highest magnitude (see Figure 2.21).


8: GAUs are made up of the municipalities of the main urban centres, as well as, when applicable, the provincial capitals themselves, in accordance with the definition by the Ministry of Public Works, available here: https://goo.gl/NWJjNR

Figure 2.20 Social Security registrations for Large Urban Areas (1Q08 = 100, SWDA)

- Barcelona, city
- Girona, U. area
- Lleida & Tarragona, U.Areas
- Barcelona, metro area
- Barcelona, non capital urban areas
- Rest of Catalonia

Source: BBVA Research based on INE, Social Security and the Ministry of Public Works data

Graph 2.21 Youth unemployment rate, temporary employment and long-term unemployed (SWDA, %)

- 2008 ■ 1H18
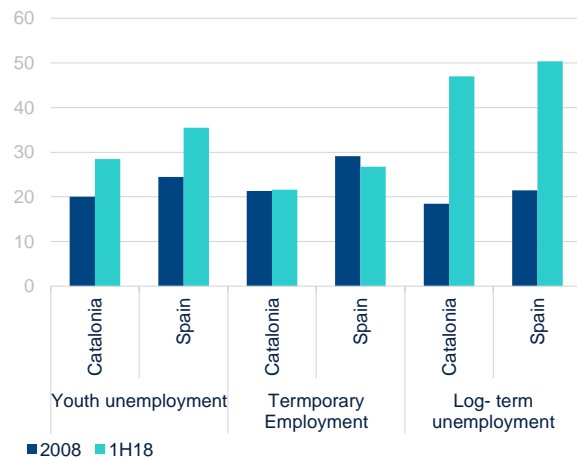
Note: Temporary employment calculated as a percentage of total wage earners.
Source: BBVA Research based on INE data

The Generalitat reached its stability goal in 2017, assisted by the increase of the autonomous region income

In 2017, the Generalitat de Catalunya reduced its deficit by 0.4 pp to reach -0.6% of regional GDP, in line with the budgetary stability goal. The correction came mainly from income, which grew by 6.4% YoY, favoured by the positive impact of the resources of the autonomous financing system[9], and by the recovery of the collection of some of its own taxes. For its part, non-availability agreements approved by the Spanish Government had little impact on spending[10], which grew by 3.5% YoY, with adjustments only in intermediate consumption and capital transfers.

The stability goal could be reached again in 2018

With information known up to July, the budget implementation by the Generalitat de Catalunya is continuing with an expenditure growth of close to 4.8% YoY. In parallel, the dynamism of the tax resources, especially those of own management, has given a new impetus to the income of Catalonia, which grew by 5.0% YoY, slightly above what was forecast by the Generalitat at the beginning of the year. As a result, the Generalitat closed July 2018 in budgetary equilibrium, a situation similar to that registered up to July 2017 (see Figure 2.22).

In this scenario, **the Generalitat de Catalunya should not have problems in closing 2018 in compliance with the budgetary stability goal (-0.4% of regional GDP) if, in the second half of the year, it intensifies control over the growth of spending** (see Figure 2.23). Looking forward, the greatest risks for Catalan fiscal policy come from the uncertainty related to the political environment, both internally and in Spain as a whole and from some specific issues, such as the decision to revoke the concession of Aigües del Ter-Llobregat, which, if it becomes effective, will entail an additional deficit of 0.3 to 0.4 pp of GDP[11].

9: In 2017, the Generalitat de Catalunya received additional revenues of €1.35 billion for increased advance payments and a greater amount from the settlement of the system corresponding to 2015.
10: See in this regard, Airef: report on the expected fulfilment of the objectives of budgetary stability, public debt and the 2018 expenditure rule of the autonomous region of Catalonia, report 47/2018, available here: http://www.airef.es/es/center-documentary/reports/reports-of-compliance-expected-of-objectives-of-stability-budget-debt-publica-and-rule-of-expense-2018-of-the-ccaa /
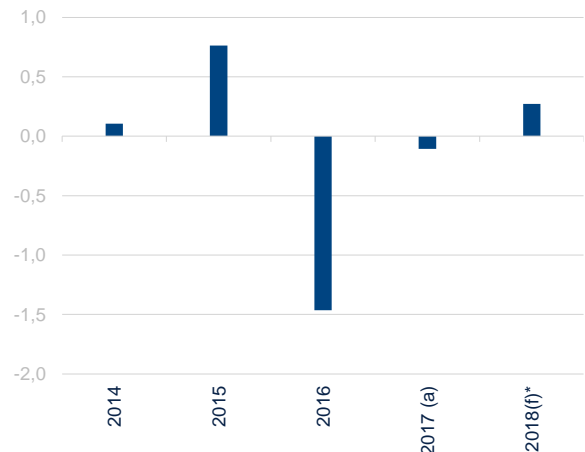
11: See AIREF:https://goo.gl/Ddgk46

Figure 2.22 Generalitat de Catalunya: Capacity/need for financing (Accumulated up to the month t of each year, % of regional GDP)
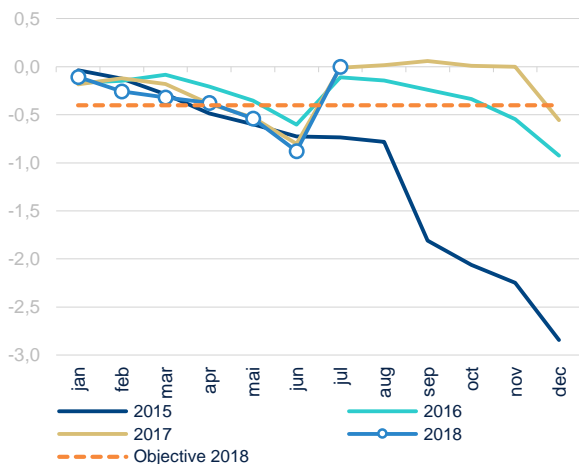
Source: BBVA Research based on MINHAFP data

Figure 2.23 Generalitat de Catalunya: Change in primary spending (pp of GDP)

(a) Advance. (f) Forecast.
* Change necessary to reach the stability goal (-0.4%).
Source: BBVA Research based on MINHAFP data

GDP growth in Catalonia will moderate to 2.5% in 2018 and to 2.3% in 2019

Catalonia's GDP is expected to increase by 2.5% this year, moderating to 2.3% in 2019. This would allow the creation of some 130,000 new jobs in these two years and that the unemployment rate would decrease by about 6.0 pp, to reach 9.5% by the end of 2019. All this takes place in a context in which the Catalan population is expected to increase by 1.9% by the end of 2019 compared to 2017, while in Spain it will increase by 0.9%. As a result, at the end of 2019 the level of GDP, both in absolute terms and per capita, will be located almost 5 pp above its level in 2008, although employment and unemployment rates are still far from these levels (see Figure 2.24).

This behaviour, therefore, represents an upward revision with respect to the one presented in the February edition of Catalonia Economic Outlook[12], of 0.4 pp in 2018 and 0.3 pp in 2019. Several factors justify this change, which was already carried out in the publication of the Regional Watch of the second quarter of 2018[13] and that has been maintained since then. First, the publication of the data of the first estimation of the **growth of GDP in 2017** from the Regional Accounts published by the INE (3.3%) and those of the IDESCAT Quarterly Accounting (3.4%) led to an **upward deviation compared to the estimate by BBVA Research** (3.0%). Although, as expected, the fourth quarter events in Catalonia stalled regional demand and consumption by non-residents, this was offset by a positive surprise in the exports of goods that allowed the maintenance of activity in the industrial sector and services to companies.

In addition, **fiscal policy has continued to be expansive.** On the one hand, although as a result of the increased uncertainty related to the political environment a year ago, a possible slowdown in the activity of the autonomous government was foreseen, the figures relating to public consumption and public employment show that, at least in terms of expenditure, this has not occurred, and therefore, no notable negative contribution from the autonomous public sector to the growth of regional GDP has been observed. On the other hand, at a more general level, the increase in pensions and public salaries approved in the Spanish National Budget, although not fully implemented, means an increase in the disposable income of the Spanish households of around €11 billion for these two years.

12: See Catalonia Economic Outlook 1st half 2018, available here: https://www.bbvaresearch.com/public-compuesta/situacion-cataluna-primer-semestre-2018/
13: On 23 April BBVA Research published the Regional Watch for the second quarter of 2018. The Spanish version can be downloaded here:
https://www.bbvaresearch.com/publicaciones/observatorio-regional-espana-segundo-trimestre-2018/

Thus, although Catalonia is part of the group of autonomous regions that obtains the least direct benefits from this measure (see Figure 2.25), **the increase in the income of Catalan households due to these measures could be estimated at around 0.5 pp of disposable income.** This helps to explain why the slowdown in consumption is less intense than anticipated a few months ago. All this, therefore, justifies the upward revision of the forecasts.

Figure 2.24 GDP per capita and expected change in the 2017-2019 biennium (€ and %)
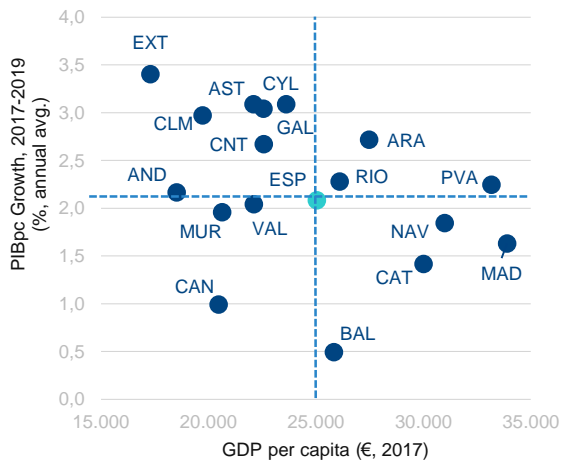
Source: BBVA Research and INE

Figure 2.25 Increase in regional disposable income due to the increase in public salaries and pensions (%)
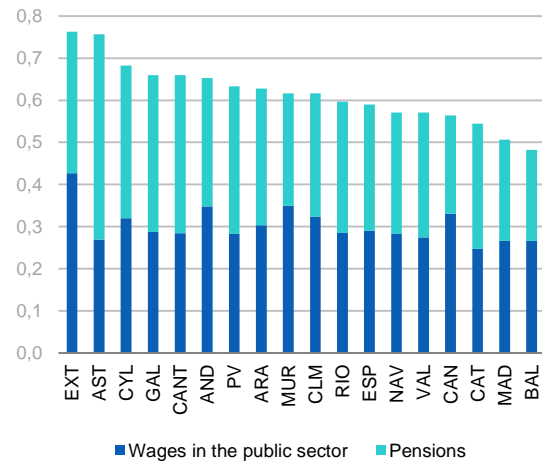
Source: BBVA Research based on Social Security and INE data

Tourism and private consumption are weakening and, although uncertainty is lower, their effects continue to be felt

However, the scenario is not changing substantially and it is expected that the slowdown in the Catalan economy will continue to be faster than that of the rest of Spain. First, the most trend-related factors that could slow down the economy, with less support for the growth of private consumption and tourism, continue to be present. Thus, the depletion of the built-up demand, the slowdown in real disposable income (due to lower employment growth), the recovery of the price of oil (see Figure 2.26) and a scenario of normalisation of monetary policy are no longer encouraging private consumption the way they were doing in the first years of emerging from the crisis. With regard to tourism, the lower dynamism of domestic demand (both in Catalonia and in the rest of Spain) can be added to the loss of momentum in foreign tourism, linked not only to effects that could be transitory (depreciation of the euro and the pound, rise in oil prices, etc.) but also to others of a more structural nature (recovery of competing markets, such as Turkey or Greece, loss of competitiveness due to price increases in recent years, or saturation at the points which are more attractive for visitors). The terrorist attacks of August 2017 and the political tension in October forced the hotel sector to lower prices to limit the loss of visitors (which partially corrects, therefore, the price increases of previous years) during the first quarter of 2018, but that has proved insufficient to change the expected trend, as shown by data from the second and third quarters of 2018.

Secondly, the uncertainty of economic policy in Catalonia has decreased with respect to the peak achieved at the end of last year, which is expected to have facilitated the recovery of the activity, but which still remains high (see Figure 2.27). As a consequence, the impacts of the uncertainty of economic policy on activity in Catalonia are being translated into lower growth. Thus, instability resulted in less confidence among the agents[14], which was reflected in the slowdown in the growth of tourism and private consumption in the short term, but also in corrections in other variables with a less immediate impact, such as housing transactions, building permits for non-residential buildings or investment in capital goods, which fell during two quarters.

Figure 2.26 Impacts of the change in oil price forecasts in regional GDP (pp)
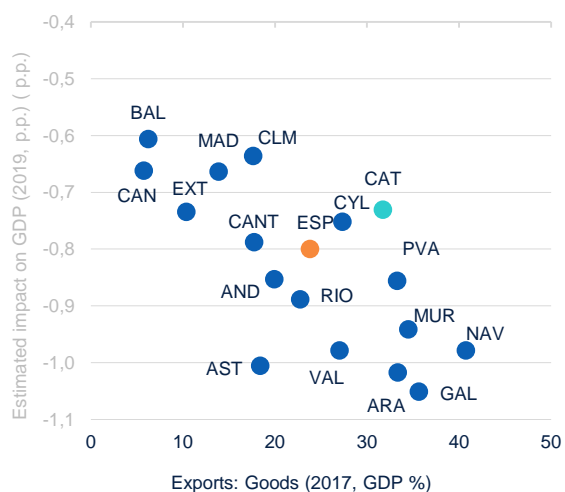
Source: BBVA Research and INE

Figure 2.27 Uncertainty about economic policy in Catalonia and Spain (GDELT)
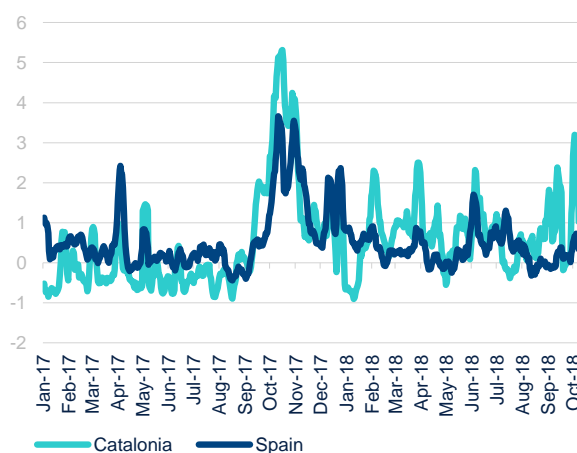
Source: BBVA Research based on Social Security and INE data

The specific shocks of Catalonia reduced the volume of investment in machinery and capital goods by 2 pp and GDP by 0.4 pp, compared to what would have been achieved without uncertainty

BBVA Research has estimated that, although investment in machinery and capital goods underwent a strong recovery in the second quarter of the year, the volume of investment is now 2% lower than what would have been achieved in the absence of the idiosyncratic factors that affected the behaviour of the Catalan economy. This lower capital expenditure limits the increase in activity, with an impact on the whole of the Catalan economy, one year on, by 0.4 pp of GDP (see Figure 2.28). In addition, this less dynamic behaviour of Catalonia also has an impact on the rest of the autonomous regions in line with the extent of their trading relations. The impact for the rest of the regions ranges from 0.1 to 0.3 pp, depending on the degree of relationship with Catalonia (see Figure 2.29).[15]

14: See, for example, the results of the BBVA Survey of Economic Activity in Catalonia, in Box 1 of this publication.
15: For more details, see the BBVA Research Watch entitled I*mpact of the uncertainty in Catalonia on the investment and the regional GDP* to be published soon.

Figure 2.28 Investment in capital goods
(Index at constant prices)

Invesment, Equipment goods
Invesment, Equip. Goods, counterfactual trajectory
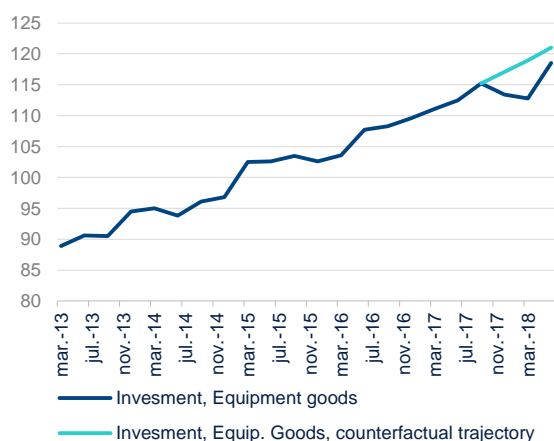
Source: BBVA Research based on IDESCAT data

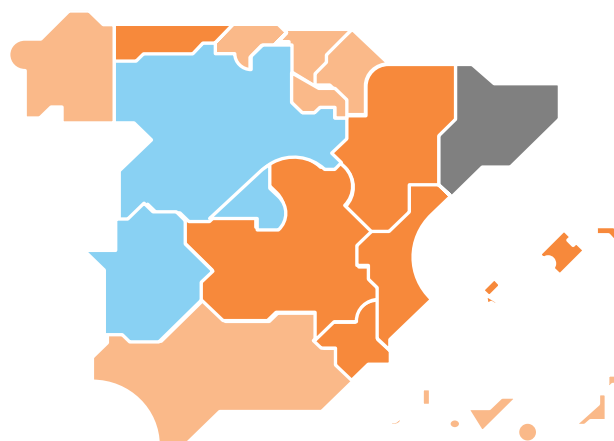Figure 2.29 Impact on regional GDP by autonomous region of the decrease in investment in Catalonia
(pp of regional GDP)

Source: BBVA Research based on IDESCAT, INE and CEPREDE data

A synthetic region similar to Catalonia which had not suffered the events of the last year could have created 30,000 more jobs

Another way of viewing the impact had on the Catalan economy by the terrorist attacks of August last year and the increase in political tension (and its consequences in terms of economic policy) is to calculate , following Abadie and Gardeazábal (2004), how a synthetic region as similar as possible to Catalonia before the occurrence of events would have evolved. In this case, and in order to have monthly information and, therefore, more observations, the analysis was carried out with Social Security registrations[16]. This synthetic region takes into account the sector structure of the Catalan labour market. Thus, the common shock on tourism linked to increased competition from competing markets affects both the observed and synthetic Catalonia. On the other hand, the effects of the terrorist attacks or political tension in the fourth quarter, which do not affect similar regions in Catalonia, would not be observed in the counterfactual region. The results of this analysis, robust for various specifications and formulations of the synthetic region, show that from the summer of 2017 Social Security registrations in Catalonia grew less than they would have done in this synthetic region during the same period. Given that the performance of the public sector is less dependent on the confidence of the agents than the rest of the sectors, and that during the last year the fiscal policy of the Generalitat has continued to be expansive, the differences become much more evident when analysing Social Security registrations in market sectors (see Figure 2.30). In this case, from August 2017 to September 2018, the synthetic region would have created 30,000 more jobs than those that shown by the figures on Social Security registrations in Catalonia in the same period (see Figure 2.31).
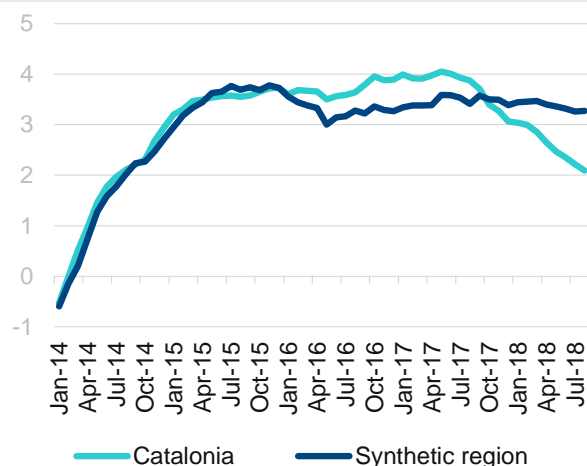

Figure 2.30 Catalonia: housing sales Social Security registrations in market sectors (YoY, %)
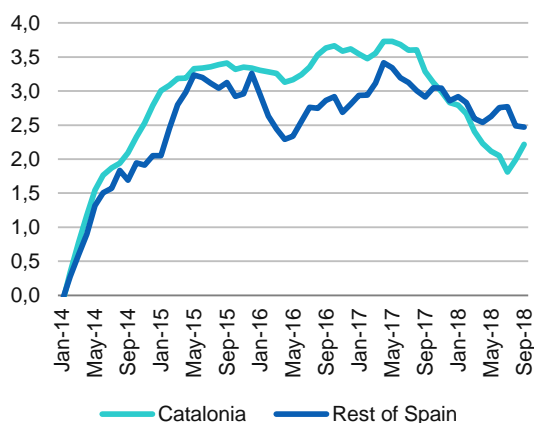
Source: BBVA Research based on Social Security data

Figure 2.31 Social Security registrations in market sectors. Catalonia vs. estimated synthetic region (YoY, %)

Source: BBVA Research based on Social Security data

A less dynamic scenario in the medium term, with high risks in Catalonia, Spain and the external environment

The maintenance of the GDP growth forecasts below the national level in 2018-2019 is justified, as seen in this publication, by two aspects: first, by the progressive deterioration of the main economic indicators of the Catalan economy in the first half of 2018, which was more accelerated than in the rest of the Spanish territory. In particular, in the consumption indicators (see Figure 2.5), it can be seen that the positive growth differential with Spain that existed last year has become negative in the year so far, and in the case of the Activity Indicator in Services, has widened. The reversal of the sign in the differential is particularly intense in the investment, both in capital goods and in building works, whether for residential or non-residential use. The same pattern is presented by exports of goods, the tourism sector and the labour market. Only Catalan industrial production continues to post a positive growth differential, which is also increasing slightly. Secondly, because the factors that have an impact on the slowdown in the Spanish economy, such as the depletion of tourism, the lower dynamism of domestic demand and the reduced impulse from monetary policy will be felt even more intensely in Catalonia, due to its the greater specialisation in the tourism sector (including national tourism). On the other hand, those factors that can boost growth in the short term, such as the fiscal impulse, will have less effect in Catalonia, given the lower weight of the public sector in activity and the disposable income of households. In summary, economic activity in Catalonia seems to be slowing down in the year so far faster than it is doing in the rest of Spain.

Looking forward, growth is expected to continue and be more than 0.5 pp above that of the rest of the EMU. Thus, exports of goods could be accelerated, given that the main trading partners will continue to recover, the recent depreciation of the euro against the dollar, the expectations of a partial reversal in the current trend in the price of oil and the absence of domestic inflationary pressures. In addition, monetary policy will continue to be expansive and low interest rates will continue to stimulate an increase in demand for credit. This could be especially favourable for the recovery of the residential segment of the construction sector, which is labour-intensive and which should gradually increase its contribution to employment creation. Finally, fiscal policy has become expansive. This, which is already being seen in the increase in public investment, could be consolidated in the coming months, when the stimuli approved in the Spanish National Budget for 2018 are being implemented.

In any case, the consolidation of a lower growth environment compared to previous years is also expected. First of all, because the trend towards moderation of private consumption will be extended over time. In particular, the "backed-up demand" seems to have run out. Over the last two years, household spending has grown above what was consistent with the pace of recovery of variables such as their disposable income and wealth, both in financial and real estate terms, and with the savings rate at historically low levels. Thus, much of the purchase of (durable) goods in recent years would have been a consequence of postponing spending during the crisis and its subsequent realisation once the uncertainty has been reduced.

Secondly, doubts are increasing about the sustainability of the contribution of tourism to the creation of employment. Different factors can explain this slowdown in tourist flows, and although some have a temporary nature, others suggest that the sector could reduce its contribution to the recovery in the near future. For example, see the loss of price competitiveness in recent years, due to capacity constraints and the appreciation of the euro in the second half of the previous year. But it is also because the negative externalities that have led to the expansion of the sector have generated an increase in regulation that could be contributing to its slowdown. In addition, the growth of domestic demand in the main countries of origin of the tourists who visit Catalonia has lost dynamism. Lastly, last year's terrorist attacks, along with the pressure from competing markets, also help explain this sector's weakness. Some of these factors have already been reversed, such as the appreciation of the exchange rate, or are expected to do so in coming quarters, such as rising oil prices. In addition, the companies are reacting, for example concentrating on segments with more added value. But in any case, it is expected that the trend of redirecting tourists to other destinations will continue and negatively affect the margins in the sector, the investment and the capacity to create employment.

Third, the price of oil has increased considerably over the values observed a couple of years ago. The first response from exporting companies seems to have been to absorb the higher transport costs in their margins, without shifting the effects to customers. And this does not seem to have significantly affected investment or the creation of employment. In any case, this situation could be temporary if a scenario is consolidated of prices being maintained near the current levels, or even additional increases.

Finally, although it has been corrected in relation to the levels of a year ago, the uncertainty about economic policy remains high, whether globally, in Spain or in Catalonia. Thus, the rise of trade disputes between some of the world's leading economies places at risk the use of globalisation as a wealth-creating mechanism and may already have had negative effects on investment and growth. Additionally, the likelihood of no agreement being reached on the departure of the United Kingdom from the European Union is increasing. To this is added the proposal by the Italian Government to exceed the deficit targets previously established for the coming years, which could lead to a confrontation with the EU institutions and an increase in peripheral country risk premiums. On the other hand, the US Federal Reserve is continuing to raise the reference interest rate in dollars, which has led to the recomposing of investment portfolios and increased volatility in the flows to emerging markets, some of which could have exacerbated the reaction with mistakes in economic policy. In this regard, the negative impact seems to be limited to countries with which Spain and Catalonia have a reduced exposure in trading terms. However, there is a risk of a contagion scenario towards other markets.

In Catalonia and Spain, it is necessary to reduce the uncertainty about the measures that will be implemented in the coming years, given the slowdown shown by the economy, the high imbalances that persist and an increasingly vulnerable external environment. At this point, there is no certainty about when the budget by the Generalitat and the Spanish National Budget for 2019 will be approved, or the measures that will finally be incorporated. If the BBVA Research forecasts on the current scenario are fulfilled, the public deficit of the Public Administration as a whole would fall to 2.2% of GDP by the end of next year in a scenario without any changes in economic policy and, therefore, without any new fiscal measures. This implies that to reduce it to levels between 1.3% and 1.8% (which are the stability goals that are now being debated), additional measures would need to be adopted beyond those being considered to offset any planned increase in expenditure. In addition, the reduction of the public deficit needs to be done while minimising the impact on economic activity: evaluating

spending, identifying and eliminating what is inefficient, and giving certainty about long-term sustainability (for example, with pensions). If it is decided to increase the tax burden, it should follow strict criteria of efficiency, that is, with more indirect taxation and without hindering investment by companies, innovation, job creation or the increase of productivity.

The creation of 130,000 new jobs is envisaged

If the scenario presented in this publication is fulfilled, about 130,000 new jobs will be created in Catalonia. While the improvement in employment is still insufficient to recover levels prior to the employment crisis, by the end of 2019 the unemployment rate is expected to be below the historical average since 1980 (see Chart 2.32). As unemployment approaches its frictional level, or gets close to pre-crisis lows, upward wage pressures may appear.

Figure 2.32 Catalonia: Evolution of the unemployment rate (% of the active population)

—▼— Unemployment rate   ● Min.   — Max.   ----- 1980-2017 Avg.
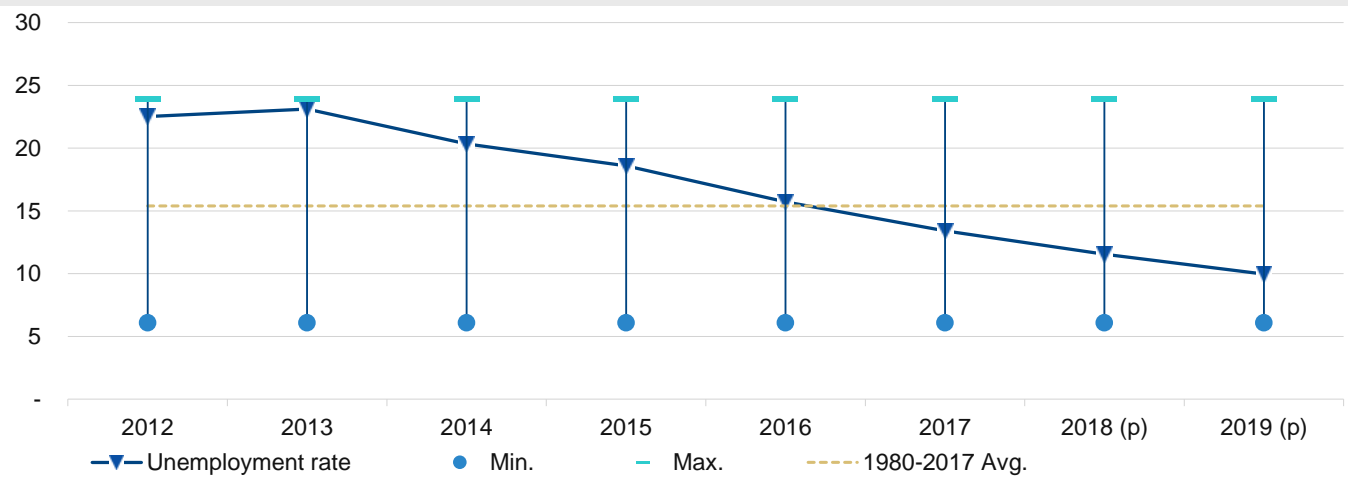
Source: BBVA Research based on INE data

Figure 2.33 GDP, employment, unemployment rate, population and GDP per capita. Level in the year 2017 and change in the period 2018-2019 (Pre-crisis level, 2008 = 100)

■ Level in 2017
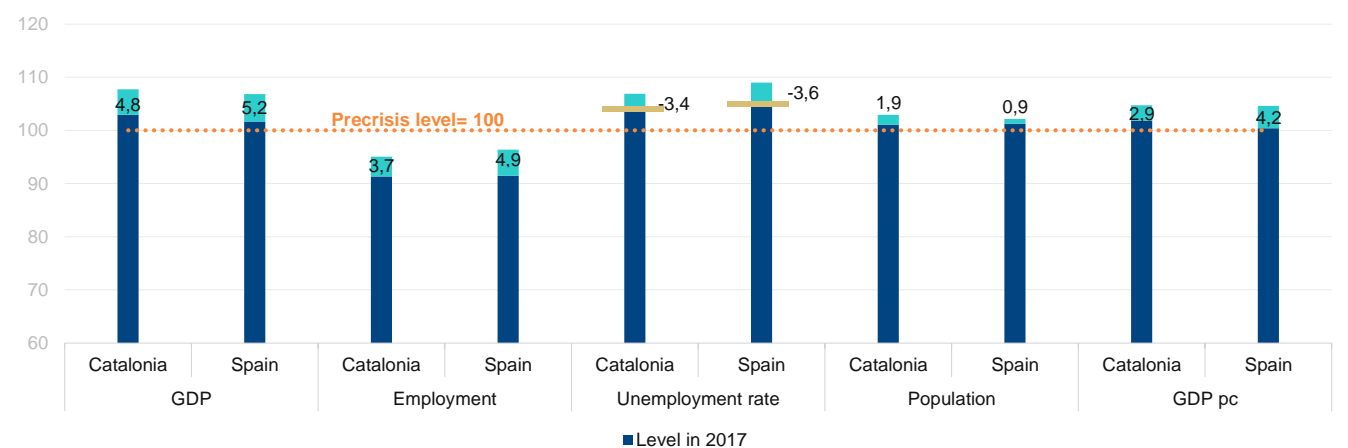
Source: BBVA Research based on INE data

In addition, in Catalonia, the number of job vacancies to cover is above the Spanish average (see Figure 2.34), which could occasionally cause human capital restrictions. This may be a consequence of the lack of qualified employees for the realisation of work in the industrial sector, advanced services or ICT, for example. If a good part of the unemployed people do not have the training required by companies that create employment, this could lead to increases in remuneration in these jobs, which would increase the inequality among those who have a job and those who do not.

Graph 2.34 Unemployment and vacancies (2Q18, %, MM4)
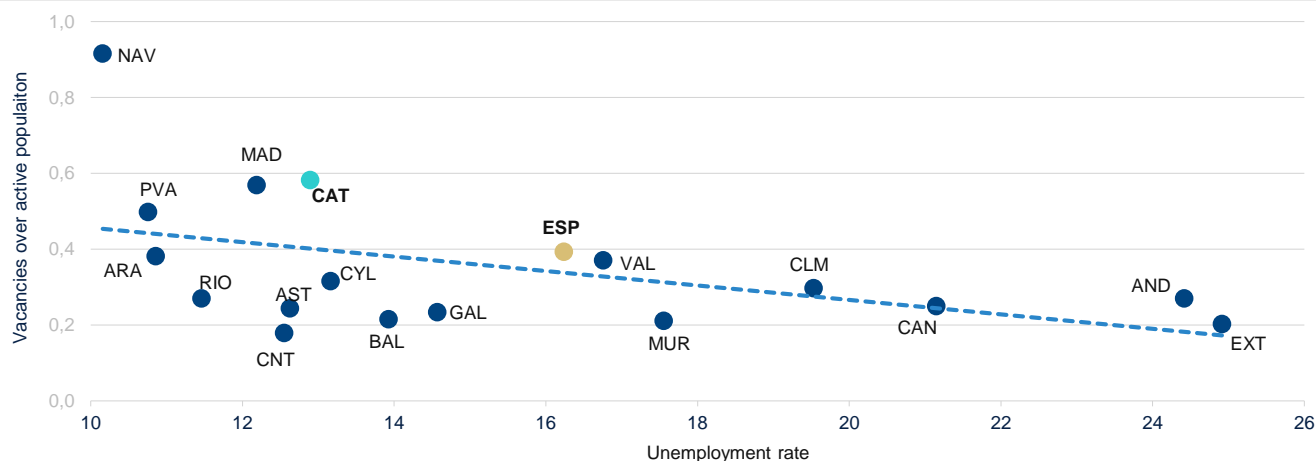
Source: BBVA Research based on INE data

The need to continue reducing the imbalances still in the Catalan economy requires the consideration of new reforms that could help increase the growth of productivity, while maintaining employment and consolidating the deleveraging in respect of the rest of the world. Those measures aimed at improving the functioning of the labour market (reducing the unemployment rate, especially among young people and long-term unemployed, reducing temporary employment or increasing the employment rate) will be of special interest, alongside both the accumulation of human capital and the adoption of new technologies. On the contrary, reversing reforms already made could be a risk to the future recovery of employment.

Analysis of the economic outlook for Catalonia with the BBVA Survey of Economic Activity. Third quarter of 2018[17]

The results of the BBVA Survey of Economic Activity (EAE-BBVA) for the third quarter of 2018 are consistent with a Catalan economy that is showing signs of slowing down, especially in the second half of 2018. The data from the latest survey, carried out in mid-September, are lower than those obtained in the last quarter and a year ago.

Although the perception of stability prevails for now, **the outlook on the economy is behaving in this quarter results in a net balance of only +7 pp[18] in terms of the current evolution of activity in Catalonia** (see Figure R1.1), which is below both the data from the last quarter and data from one year ago, when the balance was in the region of +20 pp. In the same vein, **the expectations for 4Q18 indicate a worsening of the net balance, which now stands at +7 pp**, pointing towards the continuation of the slowdown in activity until the end of the year.

These results are therefore consistent with BBVA Research's prediction of a slowdown in growth compared with that observed in 2017.

The deterioration of the net balance of responses can be seen across the board in all sectors (see Table R.1), but it is industry and services that are most affected. In the industrial sector, both activity (order backlog, stocks and industrial production), such as investment and employment, show some considerable worsening in the balances of extreme responses, which stand below +10 pp. Similar behaviour is found in service indicators, although the slowdown in investment and employment in the sector means its balances stand at higher levels. There is a more optimistic outlook for the construction sector, which continues to present very high net balances. In fact, it is the question that presents the more favourable balance of responses in this latest edition of the Survey.

Finally, foreign sector indicators are the ones showing more of a slowdown. On the one hand, the net balance of the tourist sector has become negative (the only case where this happens in this latest survey). On the other hand, exports are slowing down, although the balance remains at +16 (see Figure R.2).

In short, the results of the BBVA Survey of Economic Activity are consistent with a Catalan economy that is slowing down, especially in the second half of the year, and especially in industry, services and tourism.

17: The BBVA Survey has been conducted quarterly since the 3rd quarter of 1991 among the employees in the BBVA branch network in Catalonia. For more details on the operation of the Survey, please see: Spain Economic Outlook, Box 1, BBVA Survey of Economic Activity. An early tracking tool for the economic pulse. Spain Economic Watch, 2nd quarter 2014, available here; https://www.bbvaresearch.com/public-compuesta/situacion-espana/
18: The net balance of extreme responses is the difference between the percentage of responses of users who consider that the activity is increasing minus those who consider it to be in decline. The data compiled in the BBVA Survey of Economic Activity are gross figures, and so may incorporate a certain seasonal component.

Figure R.1 Catalonia: Evolution of the economic activity in the quarter and expectations for the next quarter.
(Balances of extreme responses, %)

— Economic activity   — Next quarter expectations
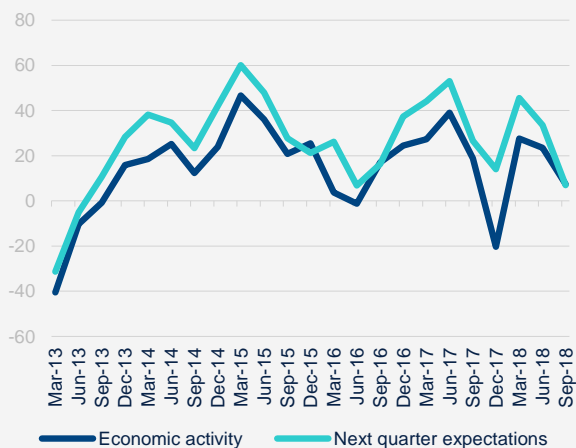
Source: BBVA

Figure R.2 BBVA Survey of Economic Activity in Catalonia. Selected variables.
(Balances of responses, %)

— Tourism   — Exports   — Employment in Services

Source: BBVA

BBVA Research
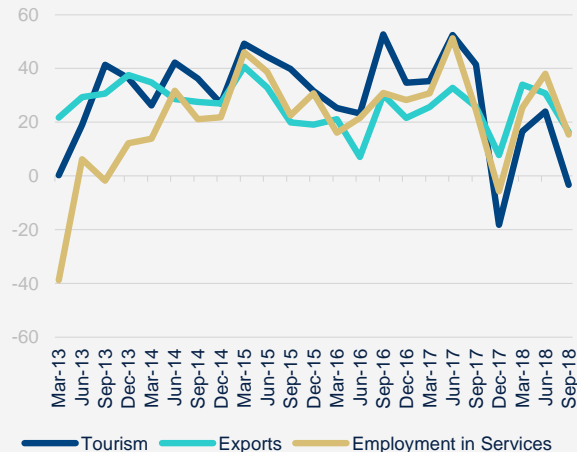
Table R.1 BBVA Survey of Economic Activity in Catalonia. General results (%)

	3rd Quarter 2018				2nd Quarter 2018				3rd Quarter 2017			
	Rising	Stable	Falling	Balance*	Rising	Stable	Falling	Balance*	Rising	Stable	Falling	Balance*
Economic Activity	**20**	**67**	**13**	**7**	**34**	**56**	**10**	**24**	**26**	**66**	**7**	**19**
Outlook for the next quarter	**19**	**69**	**12**	**7**	**39**	**56**	**5**	**33**	**32**	**63**	**5**	**27**
Industrial production	17	72	11	6	30	64	6	24	23	73	4	19
Order backlog	17	71	12	5	30	62	9	21	26	67	7	19
Level of stocks	12	80	8	4	16	78	6	10	11	83	6	5
Investment in the primary sector	16	74	10	5	22	69	9	13	17	73	10	7
Industrial investment	16	77	7	9	26	69	5	21	16	79	6	10
Investment in services	21	67	12	9	38	54	8	30	31	61	7	24
New construction	53	41	6	47	50	45	5	45	47	47	6	41
Industrial employment	17	76	7	10	31	67	2	29	22	75	3	18
Employment in services	25	66	10	15	43	53	5	38	32	61	7	24
Employment in construction	41	55	4	36	39	59	2	37	38	57	5	32
Prices	37	56	7	31	45	50	5	39	36	62	3	33
Sales	17	71	12	5	35	55	10	24	32	62	6	26
Tourism	20	57	23	-3	31	62	7	24	46	50	4	41
Exports	21	75	4	16	33	65	2	31	29	69	3	26

* Balance of extreme responses.
Source: BBVA Research

3. The territorial dynamics of income in Spain, 1955-2016: A first approach

Ángel de la Fuente[19] - FEDEA and the Institute for Economic Analysis (CSIC). September 2018

1. Introduction

These notes form the start of a series that analyses the evolution of GDP per capita in the Spanish autonomous regions and their determining factors, using the linked series of regional income and employment collected in the *RegData database*, described in de la Fuente (2017). This first note will focus on the analysis of the evolution of regional per capita income.

After this introduction, section 2 briefly describes the evolution of per capita income and employment throughout Spain. Next, section 3 analyses the dynamics of the territorial distribution of per capita income, which has been characterised for most of the period by a certain trend towards convergence between autonomous regions, although at a downward rate. However, since the beginning of the latest crisis, this trend has been reversed. Finally, section 4 analyses the behaviour of Catalonia compared against the other autonomous regions.

2. The evolution of the Spanish economy between 1955 and 2016:Ç Some remarkable notes

Given that the bulk of this work will focus on the analysis of the differential behaviour of the autonomous regions in relation to the national average, it is advisable to begin by setting as a reference some of the most remarkable features of the evolution of the Spanish economy in the period in question.

Between 1955 and 2016 the Spanish population increased by 59%, while employment, measured by the number of people in employment, was 63% and Gross Domestic Product measured at the average prices in the period analysed was multiplied by 8.6. As a result, real income per capita grew at an average annual rate of 2.76% to be multiplied by 5.4, although the number of people in employment per inhabitant remained practically constant, with an average rate of annual growth of only 0.04%.

Overall, therefore, the last six decades have been a period of rapid growth in income and a moderate increase in population and employment in Spain. However, the behaviour of the Spanish economy was not uniform during the period being considered. An examination of Figure 3.1 suggests a division of this period into five stages, in accordance with the evolution of employment and the growth rate of real income per inhabitant. The first one extends from 1955 to 1973 and is characterised by a very rapid increase in real GDP per capita (4.92% per year) and a growth rate of employment which is positive, but relatively small (from 0.83% per annum). The second stage covers the years between 1973 and 1985. This was a period of crisis, characterised by the destruction of employment (-1.2% per year) and a decrease in the growth rate of per capita income, to 2% per year. Then, starting in 1985, there was a long period of expansion until 2007, albeit interrupted by a brief recession in the early 1990s. In this sub-period, income per capita rose again at a very respectable rate (2.7%) but significantly lower than that observed during the first expansionary period, while job creation accelerated to achieve an annual growth (of 2.8%) that more than tripled that achieved in the previous expansion. In 2007-13 there was a deep crisis, characterised by a sharp decline in real incomes per inhabitant (at a rate of -1.9% per year) and employment (-3%), followed by a period of recovery that is ongoing at the present time.

Figure 3.1: Evolution of employment and real product per inhabitant in Spain (Logarithmic scale, 1955 = log (1) = 0)
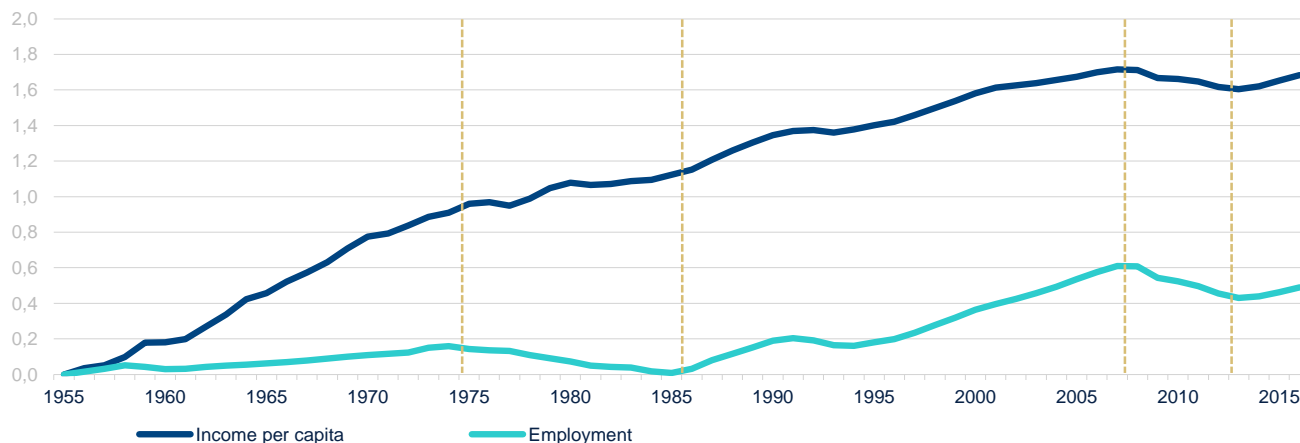

Note: (Logarithm of) total number of people in employment and GDP per inhabitant measured at average prices for the period 1955-2016. The value of each series in 1955 is normalised to 1 before taking logarithms.
Source: de la Fuente (2017)

3. The evolution of the regional economies: A first approach

The economic geography of Spain has undergone a profound transformation since the 1950s. If we focus on the territorial distribution of the population and the product, this period has been characterised by the gradual reduction of income disparities per inhabitant between regions and by the increasing concentration of the population and economic activity in certain territories.

Figure 2 Standard deviation of per capita income and relative population density (1955 = 100)
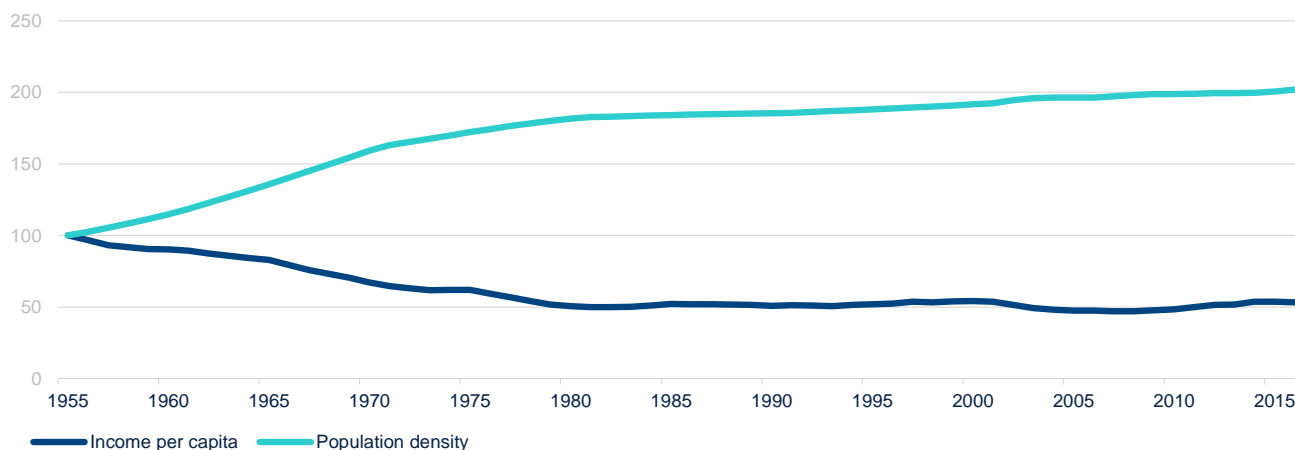
Note: The per capita income (GDP per inhabitant at current prices) and the population density (inhabitants per km2) of each autonomous region are expressed in terms relative to the Spanish average, which is normalised to 100 in each period. The figure shows the evolution of the standard deviation of the variables thus constructed, after normalising to 100 the value of both indicators of dispersion in the first year of the sample. The aggregate of Ceuta and Melilla is included as a single observation for the purposes of calculating the dispersion of income per capita, but it is excluded in the case of population density, since this variable has a very atypical value that distorts the calculations.
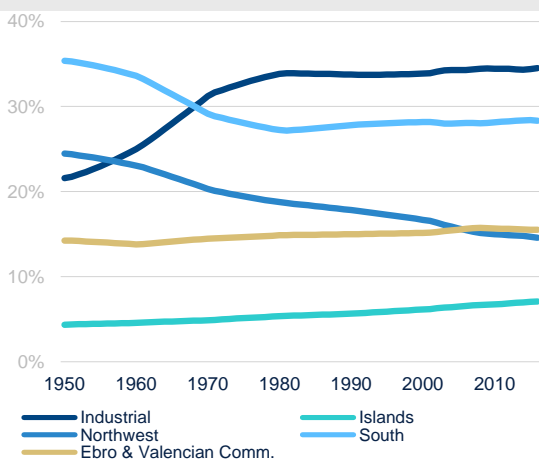Source: de la Fuente (2017)

Figure 3.2 illustrates the intensity of both processes and their tendency to slow down in the period after 1980. In the twenty-five years between 1955 and 1980 the standard deviation of regional per capita income fell by half, while the dispersion of the relative population density increased by more than 80%. By contrast, from 1980 to 2016, the indicator of inequality in income stabilised, but the standard deviation of population density continued to increase, albeit at a much calmer pace.

a. Evolution of large macro-regions

In this section we will analyse in more detail the evolution of the regional distribution of income and population underlying Figure 3.2. To help organise the discussion, in a first approach to the data, the 17 autonomous regions have been grouped into five large *macro-regions*, according to a combination of economic and geographical criteria. The three large autonomous regions with the greatest tradition and industrial weight (Catalonia, the Basque Country and Madrid) have been combined into a single economic region (*large industrial centres*) and the same has been done with the two *island regions*, with economies that are highly dependent on tourism. The rest of the regions are grouped together with geographic criteria, distinguishing between the *South* (Andalusia, Extremadura, Castile-La Mancha, Murcia and Ceuta and Melilla), the *Northwest* (Galicia, Asturias, Cantabria and Castilla y León) and the *Ebro River Valley,* made up of La Rioja, Aragon and Navarra, to which the Valencian Community has been added.

Figure 3.3 shows the evolution of the weight of each of these macro-regions in the Spanish population. The regional profiles are highly varied. Between 1950 and 1980 the weight of large industrial regions increased by almost 60%, while the South region lost more than 20% of its initial weight. However, from 1980 the weights of both regions stayed approximately stable. On the other hand, the Northwest lost weight throughout the period at an evenly uniform rate and the island regions gained it. During the whole period, the former of these macro-regions lost 40% of its initial weight and the latter gained almost 60%. Finally, the combination of the Ebro River Valley and the Valencian Community is the only macro-region that has maintained a position that is approximately constant over the last seventy years, although this stability hides clearly differentiated dynamics among the autonomous regions that make up the macro-region, with the Ebro River Valley losing weight against the Valencian Community.

Figure 3.3: Evolution of the weight in the Spanish population of five large macro-regions

Note: Weight of each region in the total population of Spain (including Ceuta and Melilla).
Source: de la Fuente (2017)

Figure 3.4: Per capita income (Spain = 100)
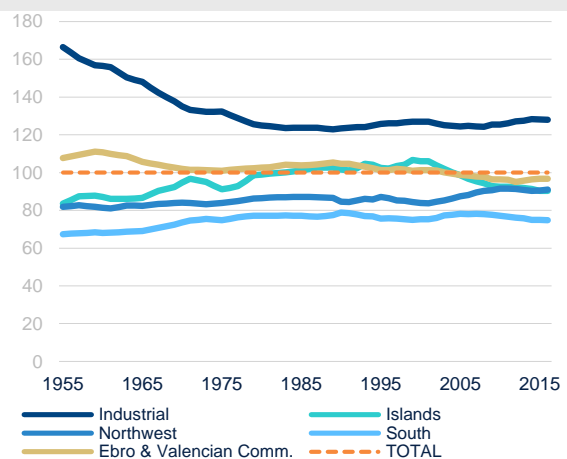
Note: GDP at current prices divided by the population and normalised by the national average including Ceuta and Melilla (= 100).
Source: de la Fuente (2017)

Figure 3.4 shows the temporary evolution of relative income per inhabitant in the large macro-regions. The industrial regions converge rapidly towards the average from the beginning to 1980, but their per capita income stabilises as of that date, even showing a slight upward trend. The south shows a similar pattern: its per capita

income converges upwards to the average until 1975 or 1980, to stabilise after about 25 points below that reference. The northwest, on the contrary, maintains a pattern of soft convergence upward throughout the period, although with some ups and downs, and the Ebro-Levante region has a certain downward trend, also with some fluctuations. Finally, the island regions show a clear upward trend until the turn of the century, which leads them to surpass the national average, but they again lose ground at a steady pace during the final part of the period.

b. Evolution of the regional distribution of income per capita

Figure 3.5 summarises the regional distribution of relative income per inhabitant in the years 1955 and 2016. In the former year, the richest region was the Basque Country, followed by Madrid, Catalonia and Navarra, while the poorest were Extremadura, Galicia, Castilla-La Mancha and the Canary Islands. Sixty years later, the regions that occupy each end of the income *ranking* are largely the same, but with some new features and some changes in their order. Madrid has replaced the Basque Country in first position and Andalusia and Murcia have replaced Galicia and the Canary Islands at the foot of the group. On the other hand, the distance between the two ends of the distribution has been significantly reduced: the difference between the richest and the poorest regions has fallen by half, from more than 130 points in 1955 to "only" 68 points in 2016.

Figure 3.5 Per capita income (Spain = 100)
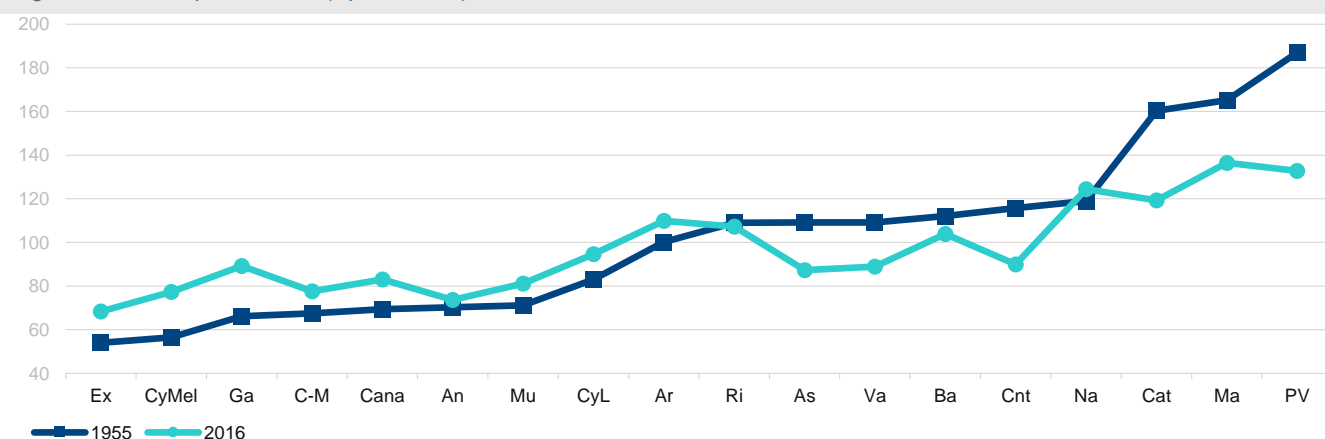
Key: Ma = Madrid; PV = Basque Country; Na = Navarra; Cat = Catalonia; Ba = Baleares; Ri = La Rioja; Ar = Aragon; Cnt = Cantabria; CiL = Castilla y León; Va = Valencian Community; Cana = Canary Islands; As = Asturias; Mu = Murcia; Ga = Galicia; C-M = Castilla-La Mancha; An = Andalusia; Ex = Extremadura.
Source: de la Fuente (2017)

It is also seen in the graph that the initially poorer regions have improved their relative situation, while the richer ones have generally lost ground, which tends to move both groups towards the average. One can speak, therefore, of a process of *regional convergence* or reduction of income disparities.

A convenient way to quantify the intensity of this process is to estimate a convergence regression in which the variable to be explained is the growth rate of the income per capita in a given period (Δrpc_i) and the explanatory variable is the level of the same variable at the beginning of the sample period (rpc_{io}).[20] Working with both variables expressed in terms relative to the national average, an equation will be considered of the form

$$(1) \quad \Delta rpc_i = a - \beta rpc_{io}$$

where rpc is measured in logarithmic differences with the national average and Δrpc_i is the average anual groth of rpc

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20 This focus has its origin in the work of Barro and Sala i Martin (1990).

The slope coefficient of this equation (β) provides a very useful measure of the speed at which interregional disparities are reduced over time, and also facilitates, as will be seen later, a simple decomposition that allows quantifying the immediate sources of convergence between regions. . As both the regional income and its growth rate are expressed in differences with the national average, the regression constant (1) will be approximately equal to zero. Therefore, the convergence coefficient ($\beta \cong -\Delta rpc_i / rpc_{io}$) can be interpreted as the average annual increase in relative income of a "typical region", expressed as a fraction of its income differential with respect to the national average at the beginning of the sample period. Thus, a value of $\square$ of 0.10, for example, would indicate that the income differential with respect to the average is reduced, on average, by 10% every year.

Figure 3.6 shows the results of the estimation of the convergence regression described by equation (1) and the underlying data of income and growth relative to the whole period 1955-2016. The negative slope of the adjusted straight-line regression indicates that, on average, the rate of growth has been higher in the initially poorer regions. As a result, it can be said that beta convergence has existed between the Spanish regions during the period considered. However, the results of the year also indicate that the process of equalisation of regional incomes has been very slow during this period. The estimated value of the convergence coefficient (0.0082) implies that a "typical Spanish region" eliminates only 0.82% of its income differential per inhabitant per year with respect to the national average. At this rate, it would take around eighty years to halve the initial income difference between each region and the Spanish average.

Figure 3.6 Beta convergence in per capita income between the Spanish regions, 1955-2016
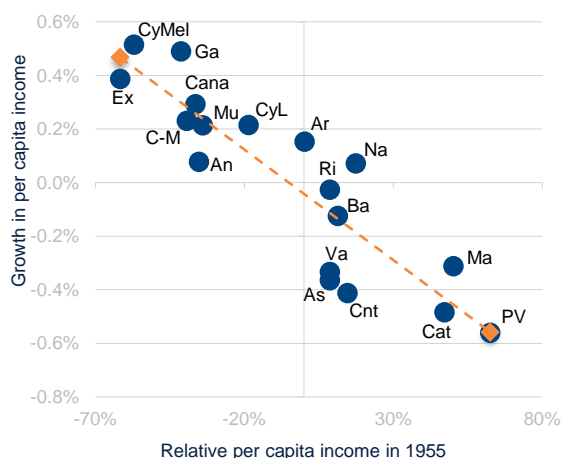
$rpc_i = -0.0004 - 0.0082\ rpc_{io}$ t = 7.94 R2 = 0.798
Note: Relative per capita income is expressed in logarithmic differences with the national average.
Source: de la Fuente (2017)

Figure 3.7 Beta convergence rate per capita income per sub-period
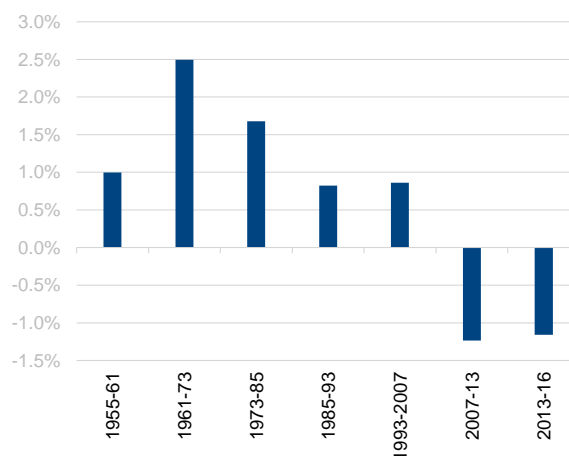
Note: GDP at current prices divided by the population and normalised by the national average including Ceuta and Melilla (= 100).
Source: de la Fuente (2017)

If we divide the period of interest into sub-periods and then the exercise is repeated, a clear trend can be detected towards the reduction of the convergence rate in per capita income. Graph 3.7 shows the estimated convergence rates for different sub-periods, beginning in 1955. It is appreciated that the process of regional convergence was especially intense during the period 1961-73 and that it has tended to slow down since then, reaching convergence rates of less than 1% per year since the mid-1980s, and that have even become negative in the last decade.

4. The case of Catalonia

Figure 3.8 summarises the evolution of the relative per capita income of Catalonia comparing it with the maximum and the minimum in the whole of Spain and in the macro-region in which the autonomous region is included. In the mid-1950s, Catalonia's per capita income was about 60 points above the Spanish average. In the following 25 years the autonomous region lost about 40 points, and then its relative income stabilised, registering slight ups and downs during the second half of the period. Within the group of the three major industrial regions, Catalonia has occupied the last place in income per capita except during the period 1980-2003, when it was situated slightly above the Basque Country.

Figure 3.8 Evolution of Catalonia's relative per capita income
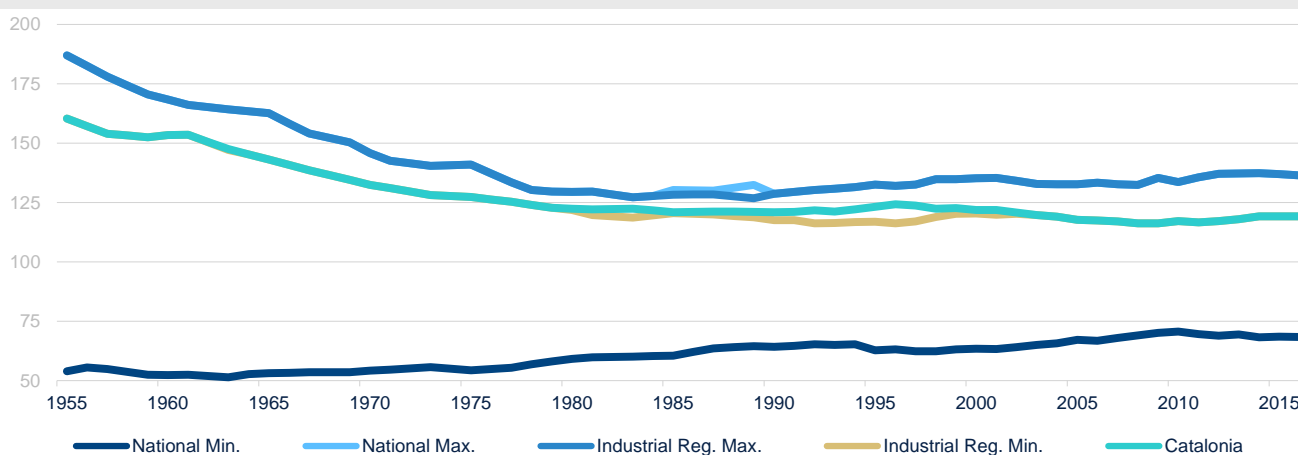
Source: de la Fuente (2017)

Another way to assess the relative behaviour of the autonomous region sets out from the beta convergence diagram in Figure 3.6. This graph allows you to see the starting position of each of the Spanish regions and their relative growth in the period in question. The diagram also allows you to analyse the progress of each autonomous region once an effect of convergence that tends to favour the poorer regions has been eliminated. Economic theory identifies a number of mechanisms (such as technological diffusion and the existence of declining yields) that make, all things being equal, the initially poorer areas have a tendency to grow at a higher-than-average rate, thus reducing the distance that separates them from the richest. A simple procedure for "cleaning up" the regional growth rates of this convergence effect, making them more comparable, is to work with the residue of the convergence equation - that is, with the vertical distance to the estimated straight-line regression, instead of doing so with the gross growth rate that corresponds to the distance on the horizontal axis. This indicator summarises how good or bad it has been for each region with respect to the average behaviour pattern described by the regression line.

Figure 3.9 Average growth rate of relative per capita income per capita, 1955-2016

a. observed value

b. value corrected for the convergence effect
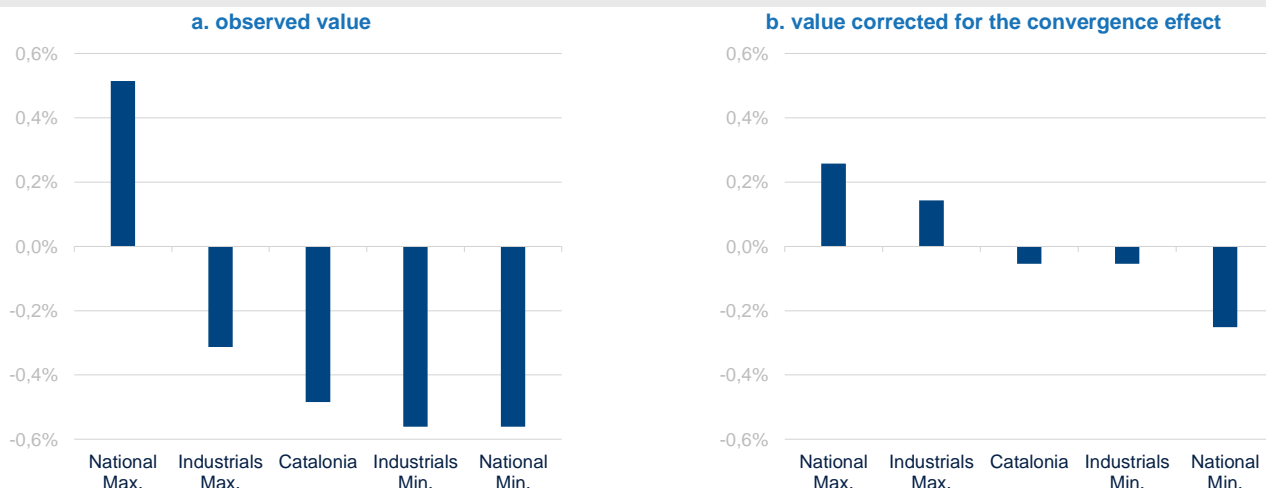
Note: The corrected growth rate is the residue of the convergence equation that appears in Figure 3.6.
Source: de la Fuente (2017)

In these terms, the behaviour of Catalonia has been slightly worse than what could have been expected given its initial level of income. Figure 3.9 shows the gross growth rate during the 1955-2016 period of the autonomous region of Catalonia and its growth rate corrected for the convergence effect, comparing them with the corresponding maximum and minimum levels in the country as a whole and in the macro-region of industrial territories of which Catalonia is a part. In terms of the gross growth of relative per capita income, Catalonia is at the bottom of the distribution, with a growth rate of -0.48% per year. However, the bulk of the relative decline in the region would be explained by its high initial income level, leaving a relative growth rate corrected by the convergence effect of -0.05%, only slightly below the average, but also the smallest of the three large industrial regions.

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4. Tables

Table 4.1 Main indicators of the economic situation in Catalonia (%)

	2017		Average growth since the beginning of the year (YoY)		Last data (MoM, %, SWDA)		
	Catalonia	Spain	Catalonia	Spain	Catalonia	Spain	Last month
Retail Sales	-1.0	0.7	-0.4	0.8	-0.1	1.0	Aug-18
Car Registrations	8.5	9.2	7.2	10.3	-34.4	-38.8	Sep-18
IASS	5.8	6.4	5.7	6.6	1.9	1.3	Aug-18
Resident Travellers (1)	0.2	1.9	-2.0	0.9	-1.2	0.9	Aug-18
Overnight Stays by Residents (1)	-0.5	1.4	-5.0	0.3	0.0	0.7	Aug-18
IPI	3.7	2.9	3.2	2.0	0.8	0.2	Aug-18
Housing building permits	60.5	71.6	-8.9	-20.6	1.1	6.7	Jul-18
Housing transactions	15.9	15.4	2.3	11.1	2.4	0.7	Aug-18
Real Exports (2)	8.1	7.4	0.8	1.0	-2.0	0.0	Jul-18
Real Imports (2)	4.0	5.3	4.7	2.7	1.7	0.3	Jul-18
Non-Resident Travellers (3)	5.7	6.1	0.4	0.6	0.8	-0.1	Aug-18
Non-Resident Overnight Stays (3)	4.5	3.6	-2.1	-1.1	0.3	-0.6	Aug-18
SS Registration	3.9	3.6	3.0	3.1	0.2	0.2	Sep-18
Registered Unemployment	-11.1	-9.3	-6.0	-6.6	-0.8	-0.5	Sep-18

(1) Residents in Spain. (2) Exports of goods. (3) Non-Residents in Spain.
Source: BBVA Research based on INE, the Ministry of Public Works, the Ministry of Economy and the Ministry of Industry data

Table 4.2 EMU: macroeconomic forecasts (annual variation rates in %, except for deindexation)

	2015	2016	2017	2018	2019
GDP at constant prices	1.9	1.9	2.5	2.0	1.7
Private consumption	1.8	1.9	1.7	1.4	1.6
Public consumption	1.3	1.9	1.2	1.2	1.2
Gross fixed capital formation	4.6	3.8	2.8	3.1	3.0
Inventories (*)	0.0	0.1	0.0	0.2	0.0
Internal demand (*)	**2.2**	**2.3**	**1.7**	**1.8**	**1.8**
Exports (goods and services)	6.3	2.9	5.5	3.1	3.6
Imports (goods and services)	7.5	4.1	4.1	3.0	4.1
External demand (*)	**-0.2**	**-0.4**	**0.8**	**0.1**	**-0.1**
Prices					
CPI	0.0	0.2	1.5	1.7	1.7
Underlying CPI	0.8	0.8	1.1	1.2	1.5
Labour market					
Employment	1.0	1.4	1.6	1.4	1.0
Unemployment rate (% active population)	10.9	10.0	9.1	8.3	7.8
Public sector					
Deficit (% GDP)	-2.0	-1.5	-0.9	-0.7	-0.8
Debt (% GDP)	89.9	89.0	86.7	84.1	81.5
Foreign sector					
Current account balance (% GDP)	2.9	3.2	3.2	3.1	3.0

* Contributions to growth.
Closing date for forecasts: 11 October 2018.
Source: BBVA Research

Table 4.3 Macroeconomic Forecasts: Gross Domestic Product (Average annual term, %)

	2015	2016	2017	2018	2019
USA	2.9	1.6	2.2	2.8	2.8
Eurozone	1.9	1.9	2.5	2.0	1.7
Germany	1.5	2.2	2.5	1.9	1.7
France	1.0	1.1	2.3	1.6	1.7
Italy	0.8	1.3	1.6	1.1	1.1
Spain	3.6	3.2	3.0	2.6	2.4
United Kingdom	2.3	1.8	1.7	1.4	1.5
Latin America *	-0.1	-1.0	1.2	0.9	1.8
Mexico	3.3	2.6	2.3	1.9	2.0
Brazil	-3.6	-3.4	1.0	1.2	2.4
EAGLEs **	4.8	5.2	5.4	5.3	5.1
Turkey	6.1	3.2	7.4	2.8	1.0
Asia Pacific	5.7	5.7	5.6	5.7	5.5
Japan	1.4	1.0	1.7	1.0	1.2
China	6.9	6.7	6.9	6.5	6.0
Asia (excl. China)	4.6	4.7	4.6	4.9	5.0
World	3.4	3.4	3.7	3.7	3.6

* Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela.
** Saudi Arabia, Bangladesh, Brazil, China, Philippines, India, Indonesia, Iraq, Mexico, Nigeria, Pakistan, Russia, Thailand and Turkey.
Closing date for forecasts: 11 October 2018.
Source: BBVA Research and IMF

Table 4.4 Macroeconomic Forecasts: 10-year public debt interest rate (Annual average term, %)

	2015	2016	2017	2018	2019
USA	2.13	1.84	2.33	2.89	3.37
Germany	0.52	0.13	0.37	0.52	1.04

Closing date for forecasts: 11 October 2018.
Source: BBVA Research and IMF

Table 4.5 Macroeconomic Forecasts: Exchange rate (Annual average term)

	2015	2016	2017	2018	2019
EUR-USD	0.90	0.90	0.89	0.84	0.83
USD-EUR	1.11	1.11	1.13	1.19	1.21
USD-GBP	1.53	1.35	1.29	1.35	1.41
JPY-USD	121.07	108.82	112.20	110.68	116.25
CNY-USD	6.23	6.64	6.76	6.48	6.46

Closing date for forecasts: 11 October 2018.
Source: BBVA Research and IMF

Table 4.6 Macroeconomic Forecasts: Monetary policy interest rate (End of period, %)

	2015	2016	2017	2018	2019
USA	0.50	0.75	1.50	2.50	3.25
Eurozone	0.05	0.00	0.00	0.00	0.25
China	4.35	4.35	4.35	4.35	4.35

(p) Forecast.
Closing date for forecasts: 11 October 2018.
Source: BBVA Research and IMF

Table 4.7 Spain: Macroeconomic forecasts (Rates of annual variation in %, unless otherwise indicated)

	2015	2016	2017	2018	2019
Activity					
Real GDP	3.6	3.2	3.0	2.6	2.4
Private consumption	3.0	2.8	2.5	2.4	1.8
Public consumption	2.0	1.0	1.9	2.3	2.3
Fixed Capital Formation	6.7	2.9	4.8	6.0	5.0
B. Equipment and Machinery	11.9	5.2	6.0	7.4	5.0
Construction	3.6	1.1	4.6	6.1	5.0
Housing	-0.9	7.0	9.0	6.8	6.0
Internal demand (contribution to growth)	3.9	2.4	2.9	3.1	2.5
Exports	4.2	5.2	5.2	2.8	5.7
Imports	5.4	2.9	5.6	4.7	6.2
External demand (contribution to growth)	-0.3	0.8	0.1	-0.5	0.0
Nominal GDP	4.2	3.5	4.2	3.7	4.4
(Thousands of millions of euros)	1081.2	1118.7	1166.3	1209.2	1262.7
Labour market					
Employment, EAPS	3.0	2.7	2.6	2.6	2.2
Unemployment rate (% active population)	22.1	19.6	17.2	15.3	13.7
Employment QNA (equivalent to full time)	3.3	3.0	2.9	2.4	2.1
Apparent productivity of the labour factor	0.3	0.1	0.1	0.1	0.3
Prices and costs					
CPI (Annual average)	-0.5	-0.2	2.0	1.8	1.6
CPI (end of period)	0.0	1.0	1.1	2.0	1.5
GDP deflator	0.6	0.3	1.2	1.1	1.9
Compensation per employee	0.9	-0.5	0.3	0.9	2.1
Unitary labour cost	0.5	-0.6	0.2	0.8	1.8
Foreign sector					
Current Account Balance (% of GDP)	1.1	1.9	1.9	1.4	1.3
Public sector (*)					
Debt (% GDP)	99.4	99.0	98.3	96.7	94.2
Balance Public Admin. (% GDP) (*)	-5.2	-4.3	-3.1	-2.8	-2.1
Households					
Nominal income available	2.3	1.8	1.6	3.5	4.4
Savings rate (% nominal income)	8.9	8.0	5.7	5.3	6.2

Annual variation rate in %, except if there is a pertinent indexation.
Closing date for forecasts: 11 October 2018.
(*) Excluding aid to Spanish financial institutions.
Source: BBVA Research

5. Glossary

Acronyms

- Public Administration: Public Administrations
- AONC: Agreement for employment and collective bargaining
- ASR: Other Resident Sectors
- BBVA: Banco Bilbao Vizcaya Argentaria
- BBVA – GAIN: BBVA's global activity index
- ECB: European Central Bank
- CC.AA: Autonomous Regions
- CEOE: Spanish Confederation of Business Organisations
- CEPiME: Spanish Confederation of Small and Medium Enterprises
- CG: Governing Council
- CNTR: Quarterly National Accounting
- CRE: Regional Accounting of Spain
- SWDA: Seasonally and Working Day Adjusted
- DCFN: National Final Consumption Expenditure
- EAE – BBVA: BBVA Survey of Economic Activity
- EAGLEs: Emerging and Growth-Leading Economies

- EAPS: Economically Active Population Survey
- Euribor: Euro Interbank Offered Rate
- Fed: Federal Reserve System
- GAU: Large Urban Area
- CPI: Consumer Price Index
- LATAM: Aggregate of Latin America that includes Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela
- INE: National Institute of Statistics
- MITRAMISS: Ministry of Labour, Migration and Social Security
- MICA-BBVA: BBVA's Coincident Activity Indicator Model
- MINHAFP: Ministry of the Treasury
- O.t.c: Full-Time Equivalent Employment
- GDP: Gross Domestic Product
- SMEs: Small and medium-sized enterprises
- APR: Annual percentage rate
- EU: European Union
- EMU: Economic and Monetary Union

Abbreviations

- YoY: year-on-year change
- CI: Confidence Interval
- mM: billions
- bps: basis points

- pm: Market price
- pp: percentage points
- QoQ: quarterly variation

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