

Activity

Spain: Downward biases on growth expectations persist

Spain and Portugal Unit

15 November 2018

The growth of the Spanish economy could stand between 0.6% and 0.8% quarterly during Q4. However, the downward surprise recorded in Q3 (0.6% QoQ compared to an estimate of 0.7% QoQ), together with the persistence of the risks that hang over the scenario, keeps a downward bias on the growth forecast for 2018 by BBVA Research (2.6%)¹. Domestic demand supports the advance in activity at the same time that uncertainty about the recovery of external demand increases. Finally, the pace of job creation improves and inflation stabilises in the second half of the year.

GDP moves at a quiet quarterly pace

The flash estimate published by the National Statistics Institute (INE) indicated that the Spanish economy grew by 0.6% QoQ in 3Q18, again below expectations (BBVA Research: 0.7% QoQ) although in line with the progress recorded throughout the first half of the year. For its part, with about 20% of the information available for the fourth quarter, the MICA-BBVA model estimates that the quarterly GDP growth could stand between 0.6% and 0.8% QoQ (see Figure 1). Nevertheless, given the downward surprises recorded throughout the year and the risks that hang over the scenario, the downward bias on the growth forecast for 2018 by BBVA Research (2.6%) is being maintained.

Domestic demand sustains the advance of activity

The flash estimate of the Quarterly Spanish National Accounts (QSNA), confirmed that domestic demand sustained the entire growth of activity last quarter (0.8 pp QoQ)². In particular, the upturn in investment, both in machinery and equipment (2.2% QoQ) and in residential construction (1.5% QoQ), was particularly noteworthy. Likewise, the expected recovery in private consumption (of 0.5 pp to 0.6% QoQ) and the strength of public consumption (0.8% QoQ) were noted.

Looking ahead to the end of the year, the signs drawn from the expenditure, confidence and labour market indicators point to slightly lower growth in private consumption than was registered in Q3 (see Figure 2). Furthermore, budget execution data suggest that the increase in public consumption spending could be close to that registered in the previous quarter (around 0.7% QoQ).

With regard to investment, partial indicators suggest that investment in machinery and equipment could continue to grow, albeit with less momentum than was observed in the central quarters of the year (see Figure 3). Meanwhile, residential investment could maintain its pace of progress at levels close to those observed in the last quarter (see Figure 4).

1: See "Spain Economic Outlook 4Q18" <https://bit.ly/2zyJDST>

2: The detailed evaluation of the 3Q18 flash estimate data is available at <https://bit.ly/2qvSccU>

After the negative surprise registered in 3Q, uncertainty about the improvement in external demand has grown

The third quarter of 2018 was again marked by an unexpected fall in total exports (-1.8% QoQ) which, being larger than that of imports (-1.2% QoQ), caused a negative contribution of net external demand to growth (-0.2 pp QoQ). The negative behaviour was widespread, although the decline in the exports of services (-4.1% QoQ) compared to the sales of goods (-0.7% QoQ) stood out. Regarding the former, it is worth highlighting the drop in exports of non-tourist services (-6.4% QoQ) together with the expected contraction in consumption by non-residents (-0.9% QoQ).

While available data suggest that exports may grow during the last quarter of the year (see Figure 5), the volatility observed during the first nine months of the year raises uncertainty about this expected improvement in external demand.

Job creation recovered dynamism at the beginning of the fourth quarter

The Labour Force Survey (LFS) for 3Q18 confirmed the trend pointed to by Social Security affiliations and unemployment figures in that quarter. Employment increased by 0.5 pp in seasonally adjusted terms (2.5% YoY), 0.4 pp less than in the second quarter. For its part, the active population barely grew by 0.1% QoQ SWDA and, therefore, job creation resulted in a drop of 0.4 pp in the unemployment rate to 15.1% SWDA (14.6% in gross terms).

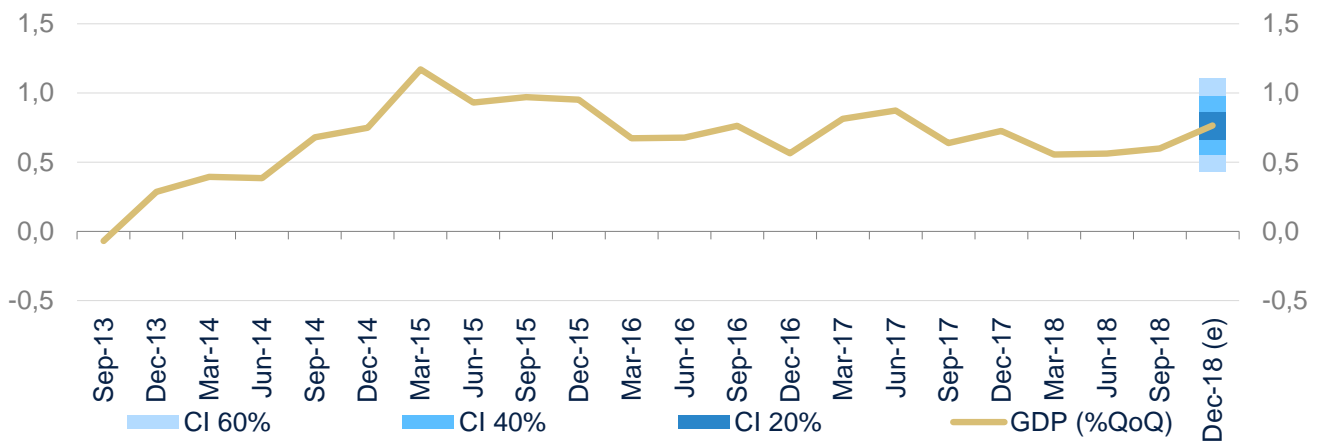
Entering the final stretch of the year, BBVA Research estimates indicate that the number of Social Security affiliations grew by 85,000 people SWDA in October (30,000 more than last month) due to a positive surprise in agriculture. Thus, although known information suggests that this greater dynamism in job creation was probably temporary, the variation in the number of Social Security affiliations could reach 0.8% QoQ SWDA during the fourth quarter (0.6% SWDA in 3Q18). Regarding registered unemployment, it continued its downward trend in October (-23,000 people SWDA according to BBVA Research estimates), which, if prolonged in the coming months, would result in a bigger drop for the whole of 4Q18 than that registered in 3Q18 (-1.7% QoQ against -1.2% SWDA) (see Figure 6).

Inflation stabilises slightly above 2.0%

In October headline inflation remained at 2.3% YoY and core inflation rose to 1.0% YoY, largely due to an uptick in energy and food prices. Thus, the increase in headline inflation in October was once again 0.1 pp higher than that registered in the EMU countries as a whole. Nevertheless, BBVA Research forecasts indicate that the differential in the core component (which excludes energy and non-processed food) would have been favourable for Spain (-0.2 pp).

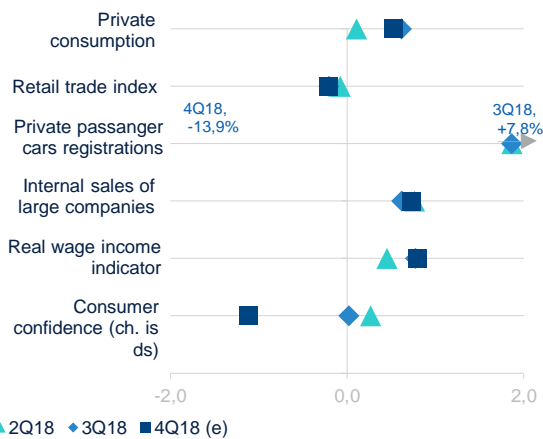
Moving forward, it is expected that inflation will again gradually decelerate, having left behind the upturns caused by the increase in energy prices. In this context, it is estimated that core inflation will remain around 1.0% for the rest of the economic period.

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



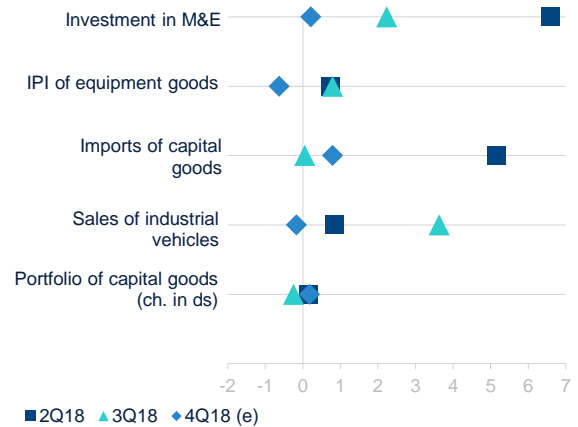
(e) Estimate.
Source: BBVA Research

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



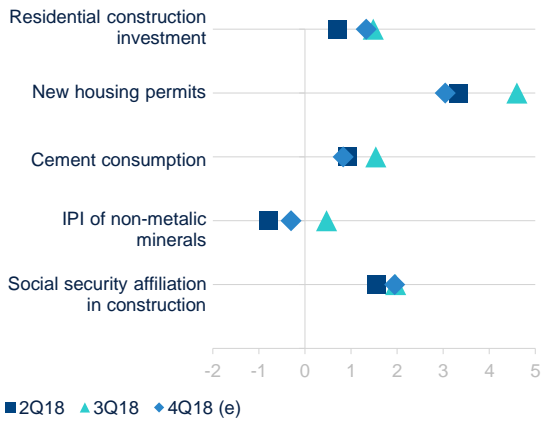
(e) Estimate.
Source: BBVA Research based on data from official bodies

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



(e) Estimate.
Source: BBVA Research based on data from official bodies

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



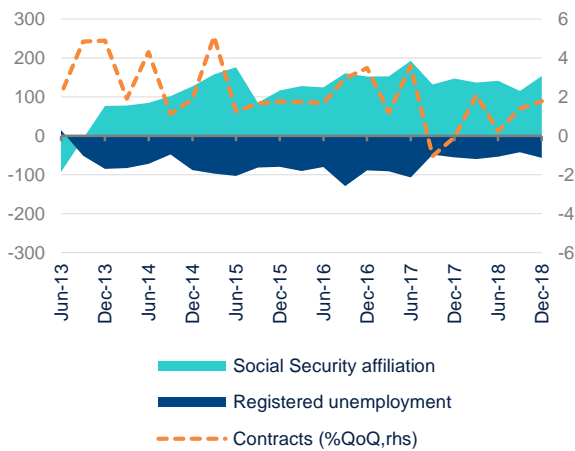
(e) Estimate.
Source: BBVA Research based on data from official bodies

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



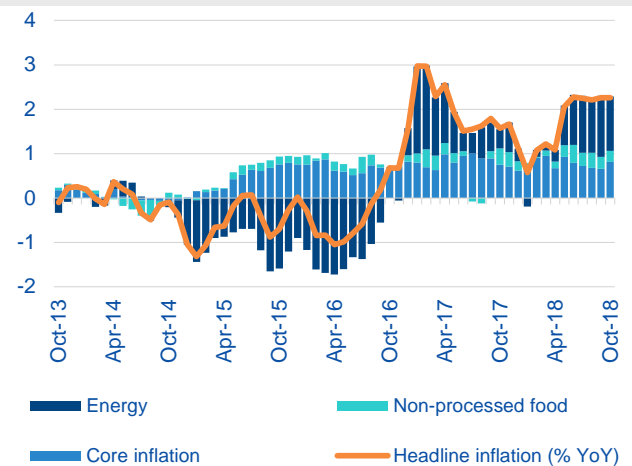
(e) Estimate.
Source: BBVA Research based on data from official bodies

Figure 6 labour market records (Seasonally adjusted quarterly change in thousands of people unless otherwise indicated)



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

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



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

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

(Annual average, %)	2015	2016	2017	2018	2019
Activity					
Real GDP	3.6	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
Gross Capital Formation	6.7	2.9	4.8	6.0	5.0
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
Domestic 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
(Billions of euros)	1081.2	1118.7	1166.3	1209.2	1262.7
Labour market					
Employment based on Labour Force Survey	3.0	2.7	2.6	2.6	2.2
Unemployment rate (% of labour force)	22.1	19.6	17.2	15.3	13.7
Employment (full-time equivalent) based on Quarterly National Accounts	3.3	3.0	2.9	2.4	2.1
Apparent labour productivity	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	1.0	1.1	2.0	1.5
GDP deflator	0.5	0.3	1.2	1.1	1.9
Pay per salaried employee	0.9	-0.5	0.3	0.9	2.1
Unit labour cost	0.5	-0.6	0.2	0.8	1.8
External sector					
Balance of payments on current account (% of GDP)	1.1	1.9	1.9	1.4	1.3
Public sector (*)					
Debt (% of GDP)	99.4	99	98.3	96.7	94.2
Balance Public Admin. (% GDP)	-5.2	-4.3	-3.1	-2.8	-2.1
Households					
Nominal disposable income	2.3	1.8	1.6	3.5	4.4
Savings rate (% of nominal income)	8.9	8.0	5.7	5.3	6.2

Annual change in %, unless expressly indicated.

(f) Forecast. Forecast closing date: 14 October 2018.

(*) Excluding financial assistance to Spanish banks.

Source: BBVA Research

LEGAL NOTICE

This document, prepared by the BBVA Research Department, is informative in nature and contains data, opinions or estimates as at the date of its publication. These arise from the department's own research or are based on sources believed to be reliable and have not been independently verified by BBVA. BBVA therefore makes no guarantee, either express or implied, as to the document's accuracy, completeness or correctness.

Any estimates contained in this document have been made in accordance with generally accepted methods and are to be taken as such, i.e. as forecasts or projections. Historical trends in economic variables (positive or negative) are no guarantee that they will move in the same way in the future.

The contents of this document are subject to change without prior notice, depending on (for example) the economic context or market fluctuations. BBVA does not give any undertaking to update any of the content or communicate such changes.

BBVA assumes no liability whatsoever for any loss, direct or indirect, that may result from the use of this document or its contents.

Neither this document nor its contents constitute an offer, invitation or solicitation to acquire, disinvest or obtain any interest in assets or financial instruments, nor can they form the basis of any contract, undertaking or decision of any kind.

In particular and with regard to investment in financial assets that could be related to the economic variables referred to in this document, readers should note that under no circumstances should investment decisions be made based on the contents of this document; and that any persons or entities who may potentially offer them investment products are legally obliged to provide all the information they need to take such decisions.

The contents of this document are protected by intellectual property law. The reproduction, processing, distribution, public dissemination, making available, taking of excerpts, reuse, forwarding or use of the document in any way and by any means or process is expressly prohibited, except where this is legally permitted or expressly authorised by BBVA.

ENQUIRIES TO:

BBVA Research: Calle Azul 4, Edificio La Vela – 4ª & 5ª plantas. 28050 Madrid, Spain. Tel. (+34) 91 374 60 00 and (+34) 91 537 70 00 / Fax (+34) 91 374 30 25 - bbvaresearch@bbva.com www.bbvaresearch.com