

## Activity

# Spain: The GDP growth forecast for 4Q18 supports the 2.6% advance for 2018

Spain and Portugal Unit

14 December 2018

The growth of the Spanish economy could stand between 0.7% and 0.8% quarterly during Q4, slightly above the average observed throughout the year (0.6% QoQ). Thus, the downward bias on the growth forecast for 2018 by BBVA Research (2.6% YoY) is moderated, but caution is maintained on the scenario given the persistence of several risks that hang over it.<sup>1</sup> Both domestic and external demand advance, even though uncertainty is high. Finally, the pace of job creation stabilises, and inflation moderates at the end of the year.

## GDP growth accelerates at year-end, although risks remain

With about 50% of the information available for the fourth quarter, the MICA-BBVA model<sup>2</sup> estimates that the quarterly GDP growth could stand between 0.7% and 0.8% QoQ (see Figure 1). If this estimate is materialised, the progress of activity would be in line with the forecasts presented at the beginning of the quarter (between 0.7% and 0.9% QoQ)<sup>3</sup>, and would exceed the average observed in the first nine months of the year (0.6% QoQ). Thus, the negative bias on the growth forecast for 2018 by BBVA Research (2.6%) as a result of the lower-than-expected increase in GDP in Q3, is now moderated. Nevertheless, caution is being maintained regarding the scenario, given the persistence of the risks that hang over the economy.

## Domestic demand grows despite deceleration in household consumption

Looking ahead to the end of the year, the signs drawn from expenditure and confidence indicators point that private consumption growth will be lower than in Q3, following the increase in demand for vehicles caused by the entry into force of the new global emissions protocol in Spain (WLTP<sup>4</sup>) (see Figure 2). Furthermore, budget execution data suggest that the increase in public consumption spending could be higher than that registered in the previous quarter (around 0.7% QoQ).

With regard to investment, partial indicators suggest that investment in machinery and equipment could be approaching stagnation, which, in any case, implies consolidating a healthy level after the momentum observed during the middle quarters of the year (see Figure 3). Meanwhile, residential investment could continue to grow strongly, although its pace of progress would be slower than in the last quarter (see Figure 4).

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

2: For more details on the MICA-BBVA model, see M. Camacho, M. and Domenech, R. (2010): "MICA-BBVA: A Factor Model of Economic and Financial Indicators for Short-Term GDP Forecasting" BBVA WP 10/21, available at: <https://bit.ly/2OTgt11>

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

4: Since September all registered passenger cars must be approved according to the WLTP protocol to measure consumption and emissions. More details at <http://wltpfacts.eu/from-nedc-to-wltp-change/>

## External demand is recovering, but uncertainty persists

Available data suggest that, after disappointing during the first nine months of the year, sales of goods abroad may be returning to positive territory at the end of the year (see Figure 5). Exports of services would also recover, and, among them, the behaviour of the tourism sector could be highlighted after the setback recorded during the summer period (see Figure 5). Nonetheless, there remains a high degree of uncertainty about this expected improvement, given the volatility observed during previous quarters.

## The labour market maintains its dynamism

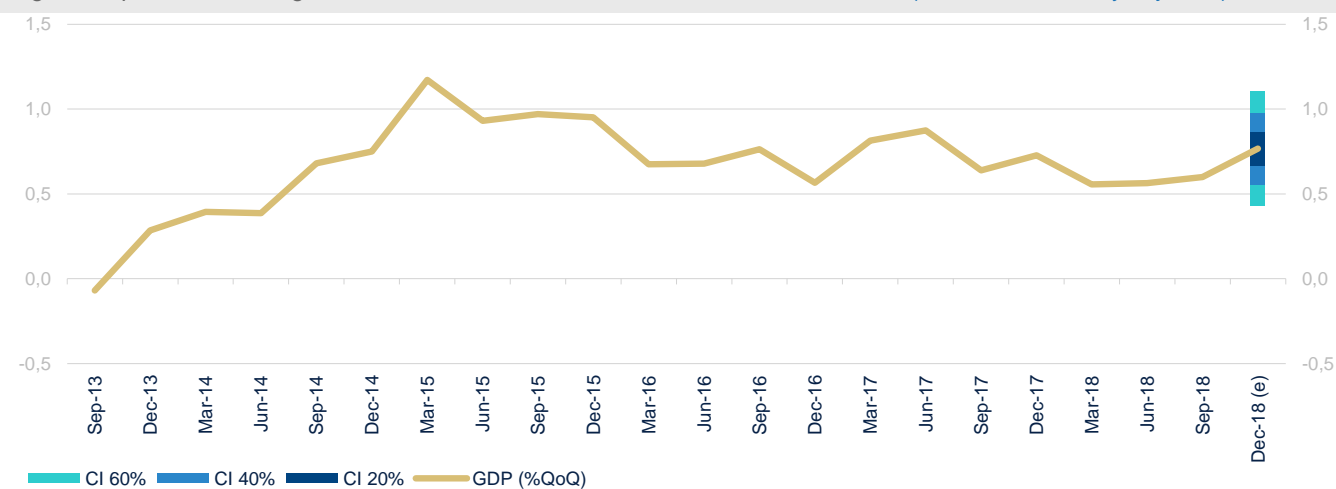
BBVA Research estimates that the number of Social Security affiliations grew by 35,000 people SWDA in November, half as much as in October, but in line with the monthly average recorded during the third quarter of the year. Thus, although the known information confirms the greater dynamism of job creation at the start of the quarter - conditioned by agriculture - was temporary, the variation in the number of Social Security affiliations could remain at 0.6% QoQ SWDA during the fourth quarter (0.6% QoQ 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 (-1.9% QoQ against -1.3% SWDA) (see Figure 6).

## Headline inflation moderates and stands again below 2.0%

In November headline inflation fell by 0.6pp to 1.7% YoY, due to the slowdown in energy prices, and, to a lesser extent, core inflation (from 0.1pp to 0.9% YoY). Thus, the growth in headline inflation in November would have been 0.3pp lower than in all EMU countries and, according to BBVA Research estimates, the differential in the core component (which excludes energy and non-processed food) would have been -0.2 pp.

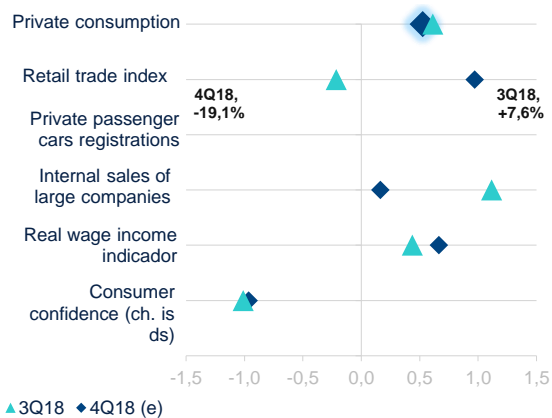
Moving forward, it is expected that inflation will again gradually decelerate, having left behind the upturns caused by the increase in energy prices. In this context, it is estimated that core inflation will remain around 1.0% for the coming months.

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



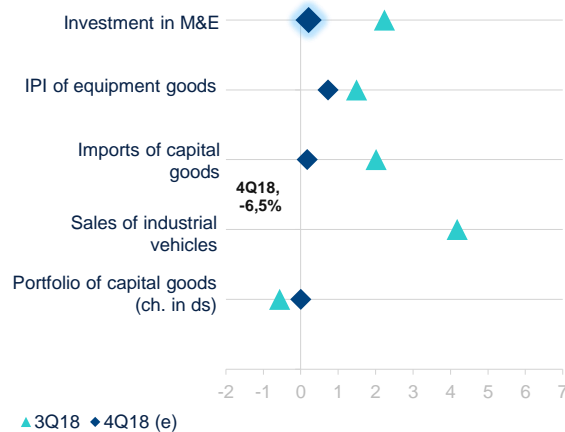
(e) Estimate.  
Source: BBVA Research

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



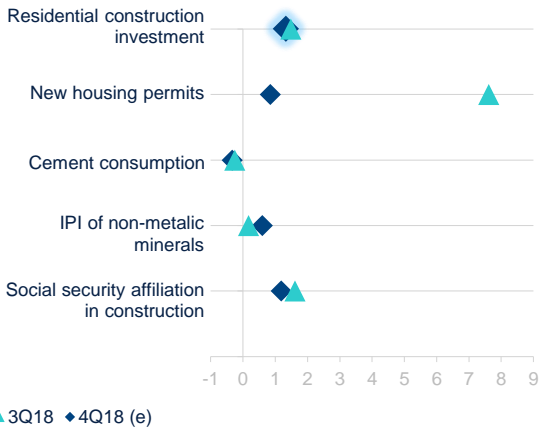
(e) Estimate.  
Source: BBVA Research based on data from official bodies

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)



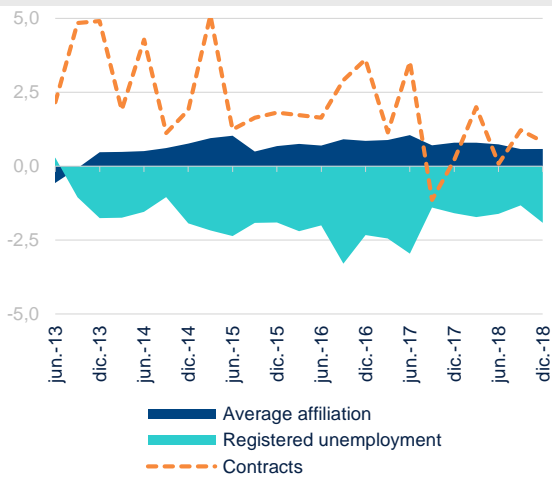
(e) Estimate.  
Source: BBVA Research based on data from official bodies

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



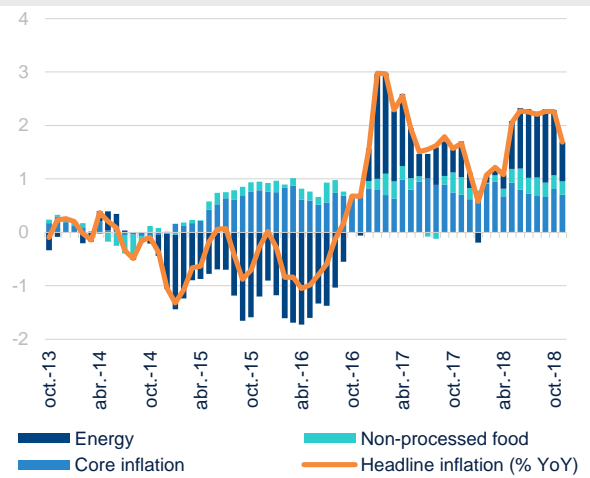
(e) Estimate.  
Source: BBVA Research based on data from official bodies

Figure 6 Labour market figures (% QoQ SWDA)



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
<b>Activity</b>					
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
<b>Labour market</b>					
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
<b>Prices and costs</b>					
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
<b>External sector</b>					
Balance of payments on current account (% of GDP)	1.1	1.9	1.9	1.4	1.3
<b>Public sector (*)</b>					
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
<b>Households</b>					
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: 12 December 2018.

(\*) Excluding financial assistance to Spanish banks.

Source: BBVA Research

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