

Activity

Spain: the economy evolves at cruising speed in 1Q19 despite uncertainty

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GDP growth in 1Q19 compared to the previous quarter may stand between 0.6% and 0.8%. This is consistent with BBVA Research's forecast for 2019 (2.4% YoY). In any case, the risks and their possible realization during the coming months, put a downward bias on the scenario. Domestic demand leads the advance in activity while some components of foreign demand show signs of weakness. Finally, the pace of job creation and inflation stabilise.

GDP growth stabilises at the start of the year, despite the risks

With about 50% of the information available for the first quarter of the year, the MICA-BBVA model¹ estimates that the quarterly GDP growth may stand between 0.6% and 0.8% QoQ (see Figure 1). If these forecasts materialise, the growth in activity would be in line with the presented at the beginning of the quarter (between 0.6% and 0.8% QoQ)², and consistent with the scenario projected by BBVA Research for the year as a whole (2.4% YoY). In any case, some caution remains given the risks that persist. At the external level, a range of factors including doubts about the pace of global growth and the evolution of trade policy among some of the major economies stand out. Domestically, uncertainty persists about economic policy and the impact of some of the measures that have recently been implemented.

Domestic demand leads growth, highlighting the strength of consumption and the recovery, at least temporarily, of investment

In the first quarter of the year, the signals drawn from expenditure and confidence indicators suggest that private consumption growth will maintain the positive note recorded at year's end or even accelerate slightly (see Figure 2). Similarly, budget execution data indicate that the growth in public consumption expenditure could remain high, although slightly below that recorded in the previous quarter.

With regard to investment, partial economic indicators show that investment in both residential construction and, especially, the one linked to the expansion of production capacity (machinery and equipment) could return to positive ground after the unexpected fall at the end of last year (see Figures 3 and 4).

1: For more details on the MICA-BBVA model, see Camacho, M. and R. Doménech (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>

2: See "Spanish Economic Outlook 1Q19" <https://bit.ly/2VITwg5>

External demand grows at the start of the year, despite the environment of uncertainty

The available data suggest that after the recovery at the end of last year, exports may continue to rise at the beginning of the year (see Figure 5). For their part, exports of services should grow, albeit at a lower rate than in the previous quarter. This includes a recovery in the tourism sector following the decline recorded during the second half of the previous year (see Figure 5). However, uncertainty remains high about this expected improvement, given the adverse foreign environment.

The labour market remains dynamic at the outset of 2019

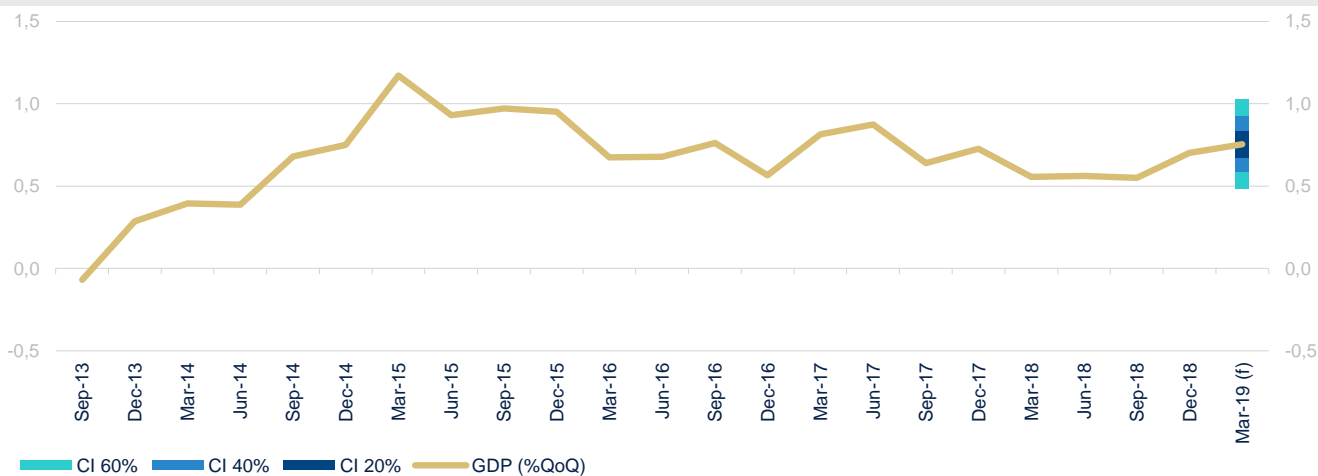
BBVA Research estimates indicate that the number of Social Security affiliations grew by 40,000 people in February, seasonally and working days adjusted (SWDA), the same as in January. If this rate of job creation continues for the remainder of the quarter, the variation in the number of affiliations could be around 0.7% QoQ, SWDA, in 1Q19, somewhat less than at the close of 2018 (0.8% QoQ, SWDA). For its part, unemployment continued its downward trend in February (by 13,000 thousand people, SWDA, according to BBVA Research estimates), which, if continued into March, could lead to a drop in 1Q19 similar to that seen in 4Q18 (-1.1% QoQ versus -1.9% QoQ, SWDA) (see Figure 6).

Inflation interrupted its downward trend in February

Following the sharp slowdown in recent months (1.3 pp between June and January), headline inflation increased 0.1 pp to 1.1 % YoY in February, due to the year-on-year increase in fuel prices. However, core inflation moderated by 0.1 pp to 0.7% YoY, due to the base effect on the price of services. Thus, the increase in headline inflation in February was once again 0.4 pp lower than that recorded in the EMU countries as a whole. According to BBVA Research forecasts, the differential in the core component (which excludes energy and unprocessed foodstuffs) would also have hovered around -0.4 pp.

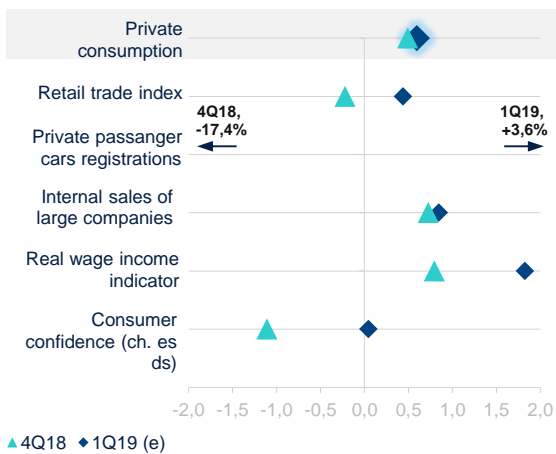
Moving forward, inflation is expected to remain contained, having left behind the upticks caused by the increase in energy prices in 2018. In this context, core inflation is estimated to remain close to 1.0% over the coming months

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



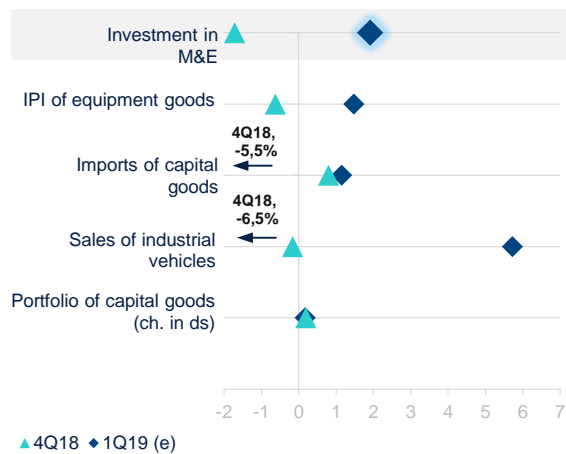
(e) Estimate.
Source: BBVA Research

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



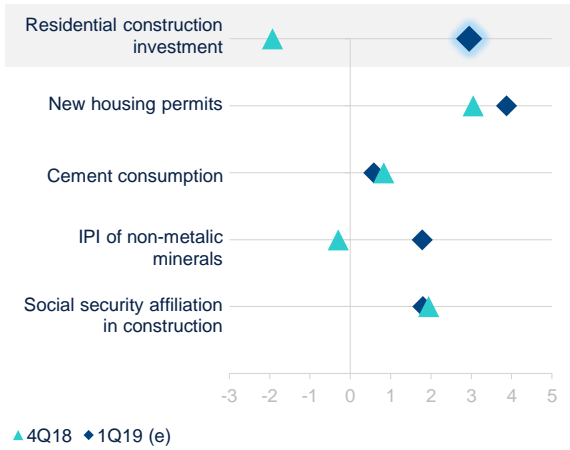
(e) Estimate.
Source: BBVA Research based on data from official bodies

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)



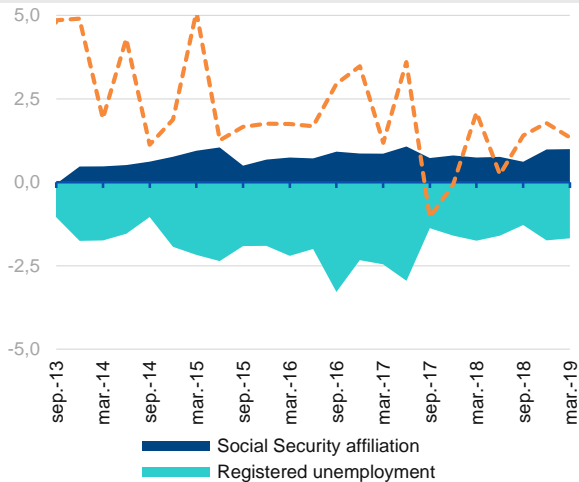
(e) Estimate.
Source: BBVA Research based on data from official bodies

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



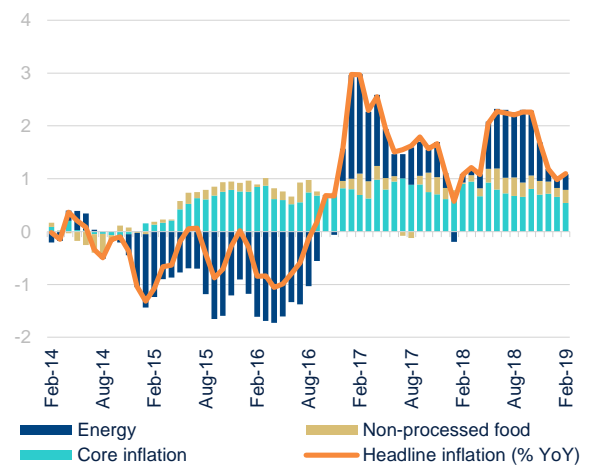
(e) Estimate.
Source: BBVA Research based on data from official bodies

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 (Spanish National Institute of Statistics) data.

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

(Annual average, %)	2016	2017	2018	2019 (f)	2020 (f)
Activity					
Real GDP	3.2	3.0	2.5	2.4	2.0
Private consumption	2.8	2.5	2.4	2.1	1.8
Public consumption	1.0	1.9	2.3	2.4	1.7
Gross Capital Formation	2.9	4.8	5.2	4.6	4.6
Equipment and Machinery	5.2	6.0	6.0	3.9	4.2
Construction	1.1	4.6	5.5	4.9	4.7
Housing	7.0	9.0	6.2	5.5	5.6
Domestic Demand (contribution to growth)	2.4	2.9	2.9	2.6	2.4
Exports	5.2	5.2	2.2	5.2	4.5
Imports	2.9	5.6	3.6	6.2	5.7
External demand (contribution to growth)	0.8	0.1	-0.4	-0.3	-0.3
Nominal GDP	3.5	4.2	3.5	4.2	3.7
(Billions of euro)	1118.7	1166.3	1206.9	1257.3	1304.4
Labour market					
Employment, based on Labour Force Survey	2.7	2.6	2.7	2.1	1.8
Unemployment rate (% of labour force)	19.6	17.2	15.3	13.8	12.6
Employment (full-time equivalent) based on Quarterly National Accounts	3.1	2.8	2.5	2.2	1.7
Apparent labour productivity	0.1	0.1	0.0	0.2	0.3
Prices and costs					
CPI (annual average)	-0.2	2.0	1.7	1.3	1.5
CPI (end of period)	1.6	1.1	1.8	1.4	1.5
GDP deflator	0.3	1.2	0.9	1.8	1.7
Pay per salaried employee	-0.5	0.3	1.0	1.9	2.2
Unit labour cost	-0.6	0.2	1.0	1.7	1.9
Foreign sector					
Balance of payments on current account (% of GDP)	1.9	1.9	1.2	0.9	0.7
Public sector (*)					
Debt (% of GDP)	99.0	98.1	97.5	95.9	94.4
Balance Public Admin. (% GDP)	-4.3	-3.1	-2.7	-2.3	-2.0
Households					
Nominal disposable income	1.8	1.6	3.7	4.7	5.2
Savings rate (% of nominal income)	8.0	5.7	5.4	6.6	8.0

Annual change in %, unless expressly indicated.

(f) Forecast.

Forecast closing date: 1 February 2019.

(*) Excluding financial assistance to Spanish banks.

Source: BBVA Research

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