

Activity

Spain: no signs of slowdown for the moment

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GDP growth could be between 0.6% and 0.7% QoQ in 2Q19, which, if confirmed, would introduce an upwards bias to the BBVA Research growth forecast for 2019 (2.2% YoY). Despite the slowdown in investment, domestic demand continues to account for most of the increase in GDP, thanks to the acceleration in consumer spending. Meanwhile, exports may have regained some traction. In any case, job creation could be losing momentum as 2Q19 goes by, while core inflation is expected to remain below 1%, showing no demand or cost pressures.

GDP growth remains high, despite uncertainty

With about 50% of the information available for the second quarter of the year, the MICA-BBVA¹ model estimates that the quarterly GDP growth may stand between 0.6% and 0.7% QoQ (see Figure 1). If these estimates prove correct, the upward bias would be consolidated in the scenario forecast by BBVA Research for the year as a whole (2.2% YoY).² In any case, slowdown is still a possibility given that certain risks still stand. Externally, the main risks include depletion of growth in developed economies and the development of trade tensions. Domestically, there is still uncertainty surrounding economic policy and the end impact of some of the measures approved in recent months.

Domestic demand leads growth, boosted by consumption and residential investment

In the second quarter of the year, the signals drawn from expenditure and confidence indicators suggest that private consumption growth could accelerate slightly with regard to the growth seen in 1Q19 (see Figure 2). In contrast, budget execution data indicates that the growth in public consumption will be somewhat lower than during the last quarter.

With regard to investment, partial indicators show that investment in machinery and equipment could be close to stagnation, which implies, in any case, consolidating a healthy level of activity following the strong recovery seen in the first quarter of the year (see Figure 3). Moreover, residential investment could continue to grow, although its rate of progress is expected to be somewhat slower than recorded last quarter (see Chart 4).

1 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>

2 See "Spain Outlook 2Q19": <https://bit.ly/31xo8PF>

External demand has regained some traction, although uncertainty continues to loom

Following a disappointing performance last year, the available data suggests that exports of goods could return to positive ground (see Figure 5). Similarly, exports of services are expected to grow back following the fall in 1Q19. Most notably, these include growth in the tourism sector following almost complete stagnation in the first quarter. However, uncertainty remains high about this expected improvement, given the adverse global environment.

The recovery of the labour market could be losing momentum as 2Q19 goes by

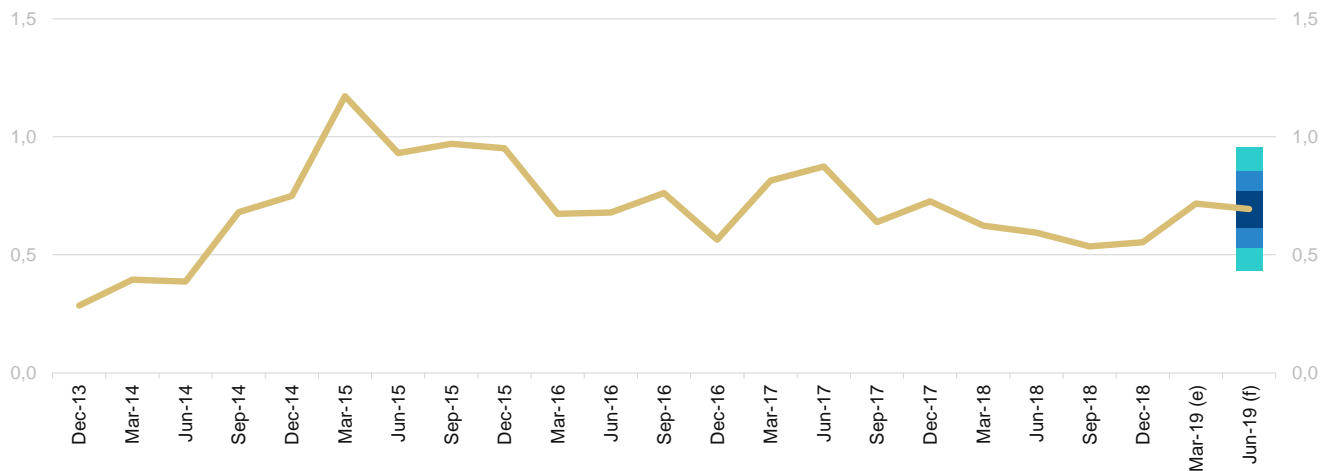
BBVA Research estimates indicate that the number of Social Security affiliations grew by 31,000 people in May, seasonally and working days adjusted (SWDA), 10,000 less than in April. If this rate of job creation continues for the remainder of the quarter, the variation in the number of affiliations could be around 0.6% QoQ, SWDA, in 2Q19, somewhat less than at the end of the first quarter of the year (0.7% QoQ, SWDA). For its part, unemployment continued its downwards trend in May (by 10,000 people, SWDA, according to BBVA Research), which, if continued into June, could lead to a drop in 2Q19 similar to that seen in 1Q19 (-1.1% QoQ, SWDA) (see Figure 6).

Inflation fell in May and will decrease again in June

Following the rise seen in the first months of the year (0.5 pp between January and April), headline inflation dropped by 0.7 pp to 0.8% YoY in May, which was due to the fall in the price of electricity and fuels (base effect generated following the upturn in energy prices last year). The slowdown in the core component, which excludes energy and unprocessed food, also contributed as it reversed the calendar effect of Easter on inflation in services. As a result, core inflation slowed down two tenths to 0.7% YoY. Thus, the increase in headline inflation in May was once again 0.3 pp lower than that recorded in the EMU countries as a whole. According to BBVA Research forecasts, the differential in the core component appears to have closed.

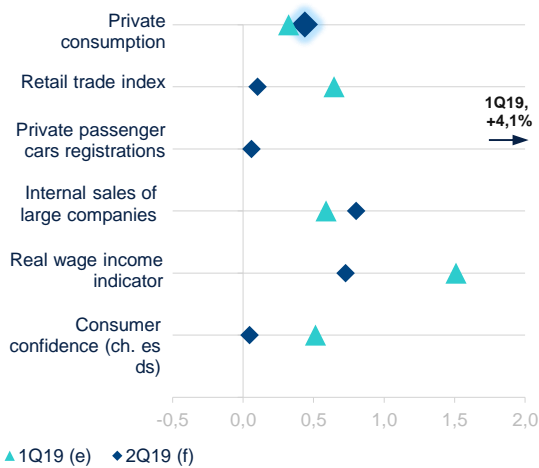
Moving forward, inflation is expected to fall again, due to a monthly reduction in the price of electricity and fuels, in addition to the absorption of the base effect following the upturn that took place a year ago. This would introduce a downward bias on BBVA Research's inflation forecast for the whole year (1.1% YoY). In this context, core inflation is estimated to remain close to 0.7% over the coming months.

Figure 1. **SPAIN: OBSERVED GROWTH IN GDP AND FORECASTS FROM THE MICA-BBVA MODEL (% QOQ SWDA)**



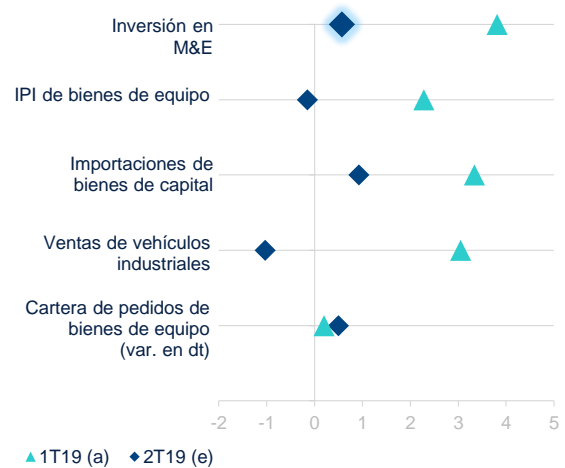
(e) Flash estimate. (f) Forecast.
Source: BBVA Research based on INE (Spanish National Institute of Statistics) data.

Figure 2. **SPAIN: SELECTION OF INDICATORS LINKED TO HOUSEHOLD CONSUMPTION (% QOQ, SWDA, UNLESS OTHERWISE INDICATED)**



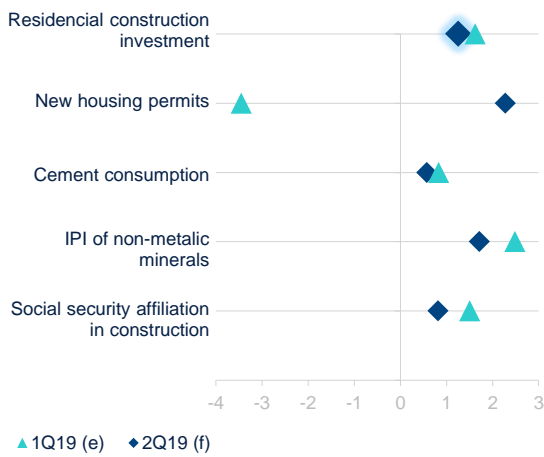
(e) Flash estimate. (f) Forecast.
Source: BBVA Research based on data from official bodies

Figure 3. **SPAIN: SELECTION OF INDICATORS LINKED TO INVESTMENT IN EQUIPMENT AND MACHINERY (% QOQ, SWDA, UNLESS OTHERWISE INDICATED)**



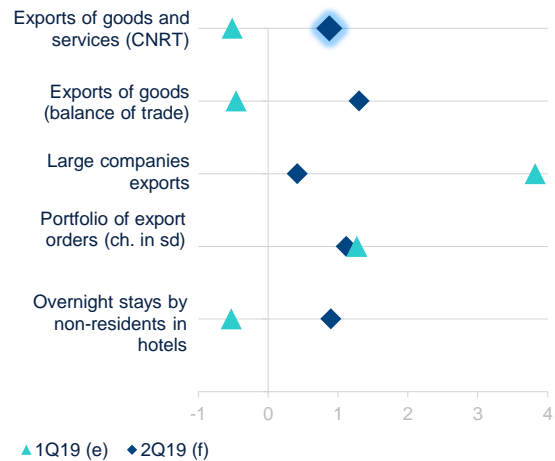
(e) Flash estimate. (f) Forecast.
Source: BBVA Research based on data from official bodies

Figure 4. **SPAIN: SELECTION OF INDICATORS LINKED TO INVESTMENT IN RESIDENTIAL CONSTRUCTION (% QOQ, SWDA, UNLESS OTHERWISE INDICATED)**



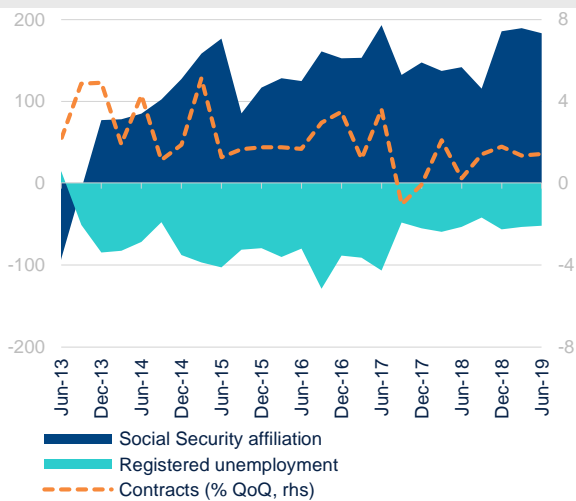
(e) Flash estimate. (f) Forecast.
Source: BBVA Research based on data from official bodies

Figure 5. **SPAIN: SELECTION OF INDICATORS LINKED TO EXPORTS (% QOQ, SWDA, UNLESS OTHERWISE INDICATED)**



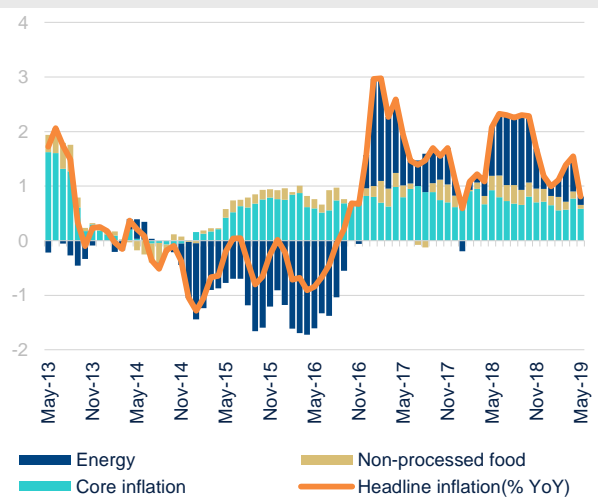
(e) Flash estimate. (f) Forecast.
Source: BBVA Research based on data from official bodies

Figure 6. **LABOUR MARKET FIGURES (% QOQ, SWDA)**



Source: BBVA Research based on MTMySS data

Figure 7. **SPAIN: CONTRIBUTION TO YEAR-ON-YEAR CPI GROWTH (PP)**



Source: BBVA Research based on INE 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	2.6	2.2	1.9
Private consumption	2.9	2.5	2.3	2.0	1.7
Public consumption	1.0	1.9	2.1	2.2	1.6
Gross Capital Formation	2.9	4.8	5.3	4.1	3.9
Equipment and Machinery	5.2	6.0	5.4	3.0	3.7
Construction	1.1	4.6	6.2	4.8	3.7
Housing	7.0	9.0	6.9	4.6	4.3
Domestic Demand (contribution to growth)	2.4	2.9	2.9	2.4	2.1
Exports	5.2	5.2	2.3	2.8	3.8
Imports	2.9	5.6	3.5	3.8	4.5
External demand (contribution to growth)	0.8	0.1	-0.3	-0.3	-0.2
Nominal GDP	3.5	4.2	3.6	3.8	3.5
(Billions of euro)	1118.7	1166.3	1208.2	1254.8	1299.1
Labour market					
Employment, based on Labour Force Survey	2.7	2.6	2.7	2.0	1.7
Unemployment rate (% of labour force)	19.6	17.2	15.3	13.9	12.8
Employment (full-time equivalent) based on Quarterly National Accounts	3.1	2.8	2.5	2.0	1.6
Apparent labour productivity	0.1	0.1	0.1	0.2	0.3
Prices and costs					
CPI (annual average)	-0.2	2.0	1.7	1.1	1.4
CPI (end of period)	1.6	1.1	1.7	1.2	1.5
GDP deflator	0.3	1.3	1.0	1.6	1.6
Pay per salaried employee	-0.5	0.3	0.8	2.1	2.3
Unit labour cost	-0.6	0.2	0.8	1.9	2.0
External sector					
Balance of payments on current account (% of GDP)	2.3	1.8	1.0	0.9	0.8
Public sector (*)					
Debt (% of GDP)	99.0	98.1	97.2	95.9	94.5
Balance Public Admin. (% GDP)	-4.3	-3.0	-2.6	-2.2	-1.9
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.

Forecast (f).

Forecast closing date: 5 April 2019.

(*) Excluding financial assistance to Spanish banks

Source: BBVA Research

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