

Activity

Spain | Downward pressure on growth and job creation at the onset of Q3

Luis Díez / Camilo A. Ulloa

August 8, 2019

After the slightly downward surprise in the second quarter of 2019, the growth of the Spanish economy could be around 0.5% t/t during Q3. Were this to happen, it would mean that growth had been below the average quarterly growth observed in 2018 for two consecutive quarters. The available data reinforces the perception that domestic demand has slowed, while external demand is regaining some traction. Finally, the slowdown in job creation and the stabilization of inflation have been confirmed.

GDP growth is lower than forecasted at the beginning of the quarter

The flash estimate published by the INE (Instituto Nacional de Estadística — Spanish Office of National Statistics) indicated that the Spanish economy grew 0.5% QoQ in 2Q19, below the rate forecast by BBVA Research (between 0.6% and 0.7% QoQ) and the growth observed during the previous two quarters (0.6% QoQ on average). With almost 20% of the information available for the third quarter, **the MICA-BBVA model¹ shows that quarterly GDP growth could be 0.5% QoQ** (see Figure 1); this would be at the lower end of the forecasting range presented at the beginning of the quarter (between 0.5% and 0.7% QoQ).

Domestic demand is slowing, held back by consumption and investment in machinery and equipment

According to the flash estimate of the Spanish Quarterly National Accounts (QNA), **domestic demand slowed unexpectedly and its impact on GDP growth for 2Q19 was reduced**; its contribution was 0.2 pp QoQ compared to 0.5% QoQ on average during the last year. In particular, this negative evolution was caused by sluggish household consumption (0.3% QoQ) and a significant reduction in investment in machinery and equipment (-2.6% QoQ). Moreover, with regard to public demand, it was confirmed that there has been a moderation of public consumption and a slight increase in non-residential construction (0.2% QoQ in both cases). There was, on the other hand, a sharp increase in terms of residential construction (2.3% QoQ).

With respect to the third quarter of the year, consumer spending and expectations indicators and labor market figures support the perception that private consumption has stabilized at roughly the average growth rate observed during the first half of the year (see Figure 2). Meanwhile, budget execution data suggests that public consumption could continue to grow at its current rate.

¹ For more details on the MICA-BBVA model, see Camacho, M. and Doménech, 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/2OTgt1>

In terms of investment, partial economic indicators suggest that investment in machinery and equipment will stagnate following the decrease during the last quarter (see Figure 3). Finally, residential investment is expected to continue growing, albeit at a slower rate than during the first half of the year (see Figure 4).

External demand recovers and leads quarterly GDP growth in 2Q19

The second quarter of 2019 saw a sharp upturn in terms of total exports (1.8% QoQ), which exceeded imports by a significant amount (1.0% QoQ). Consequently, **net external demand made a positive contribution to growth** (0.3 pp QoQ compared to 0.0% QoQ on average during the last year). The positive evolution with respect to sales abroad primarily revolved around the sales of goods (3.3% QoQ), which had been very disappointing during the previous year (-0.5% QoQ on average). There was, however, a reduction in sales of services (-1.4% QoQ) due to lower tourism services sales (-2.2% QoQ). Overall, the available data suggests that, should this trend continue, the situation regarding exports could remain positive during the third quarter of the year. In any case, the high levels of uncertainty surrounding the international context could affect world trade over the coming months (see Figure 5).

Signs of weakness in the labor market

BBVA Research estimates indicate that the number of Social Security registrations grew by 20,000 people in July (SWDA);² 10,000 less than in June. **The available information suggests that this loss of traction could be prolonged and that, consequently, 3Q19 could close with variation of around 0.5% QoQ (SWDA)**; it was 0.6% QoQ (SWDA) in 2Q19. Unemployment increased by 5,000 people (SWDA) in July. If this were to continue, it could lead to a rise of 0.3% QoQ (SWDA) in 3Q19, following a fall of -0.7% QoQ (SWDA) in 2Q19 (see Figure 6). This would be the first quarterly increase in unemployment since 2Q13.

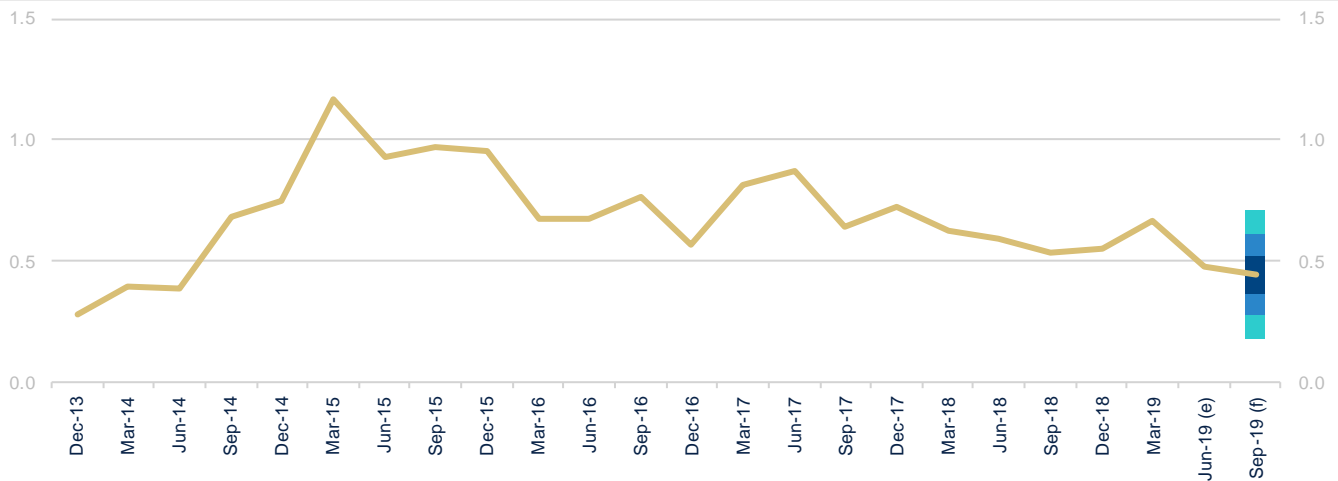
Inflation increases slightly in July and will rise again in August

Headline inflation rose slightly during the last month (by 0.1 pp to 0.5% YoY), while core inflation remained stable at around 0.9% YoY. The rise in general prices in July was 0.6 pp lower than that observed across all EMU countries, and BBVA Research estimates suggest that the differential in the core component (which excludes energy and unprocessed foodstuffs) was also negative (-0.2 pp).

Moving forward, inflation is expected to stabilize around these values, although it could temporarily accelerate to 0.7% in August. Core inflation is likely to stay below 1.0% for the rest of the year.

² SWDA: seasonally and working-day adjusted data.

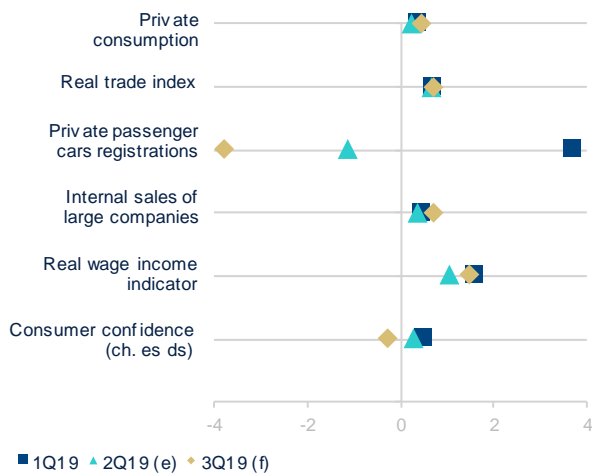
Figure 1. **SPAIN: OBSERVED GDP GROWTH AND MICA-BBVA MODEL FORECASTS (% QoQ SWDA)**



(e) Flash estimate. (f) Forecast.

Source: BBVA Research based on INE (Spanish Office of National Statistics) data.

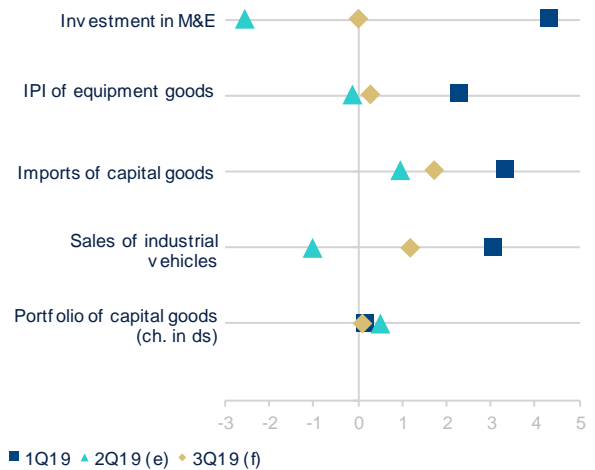
Figure 2. **SPAIN: SELECTION OF INDICATORS RELATED TO HOUSEHOLD CONSUMPTION (% QoQ SWDA, UNLESS OTHERWISE INDICATED)**



(e) Flash estimate. (f) Forecast.

Source: BBVA Research based on data from official bodies

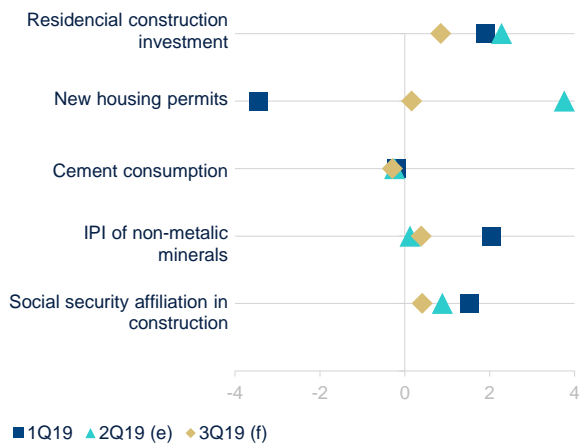
Figure 3. **SPAIN: SELECTION OF INDICATORS RELATED TO INVESTMENT IN EQUIPMENT AND MACHINERY (% QoQ SWDA, UNLESS OTHERWISE INDICATED)**



(e) Flash estimate. (f) Forecast.

Source: BBVA Research based on data from official bodies

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



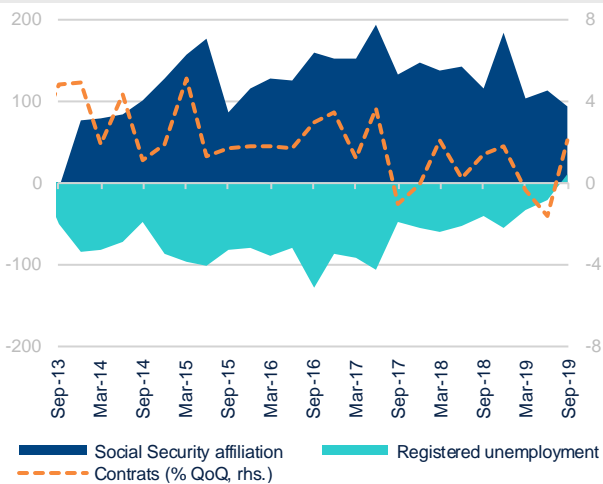
(e) Flash estimate. (f) Forecast.
Source: BBVA Research based on data from official bodies

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



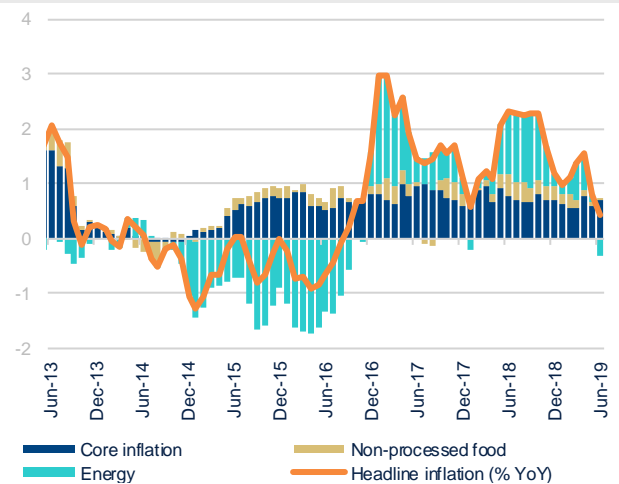
(e) Flash estimate. (f) Forecast.
Source: BBVA Research based on data from official bodies

Figure 6. **SPAIN: LABOR 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	2.3	1.9
Private consumption	2.9	2.5	2.3	1.8	1.7
Public consumption	1.0	1.9	2.1	1.8	1.7
Gross Capital Formation	2.9	4.8	5.3	3.1	3.4
Equipment and Machinery	5.2	6.0	5.4	3.9	3.0
Construction	1.1	4.6	6.2	3.1	3.5
Housing	7.0	9.0	6.9	3.9	3.8
Domestic Demand (contribution to growth)	2.4	2.9	2.9	2.0	2.1
Exports	5.2	5.2	2.3	1.7	3.5
Imports	2.9	5.6	3.5	0.8	4.1
External demand (contribution to growth)	0.8	0.1	-0.3	0.3	-0.1
Nominal GDP	3.5	4.2	3.6	3.2	3.6
(Billions of euro)	1118.7	1166.3	1208.2	1247.5	1291.8
Labor market					
Employment, based on Labor Force Survey	2.7	2.6	2.7	2.4	1.7
Unemployment rate (% of labor force)	19.6	17.2	15.3	13.7	12.7
Employment (full-time equivalent) based on Quarterly National Accounts	3.1	2.8	2.5	2.2	1.6
Apparent labor productivity	0.1	0.1	0.1	0.1	0.3
Prices and costs					
CPI (annual average)	-0.2	2.0	1.7	0.8	1.3
CPI (end of period)	1.6	1.1	1.7	0.6	1.5
GDP deflator	0.3	1.3	1.0	0.9	1.6
Pay per salaried employee	-0.5	0.3	0.8	2.6	2.5
Unit labor cost	-0.6	0.2	0.8	2.5	2.2
External sector					
Balance of payments on current account (% of GDP)	2.1	1.8	0.9	0.7	0.4
Public sector (*)					
Debt (% of GDP)	99.0	98.1	97.1	96.2	94.8
Balance Public Admin. (% GDP)	-4.3	-3.0	-2.5	-2.2	-1.9
Households					
Nominal disposable income	1.8	1.6	3.2	3.8	4.6
Savings rate (% of nominal income)	8.0	5.7	5.0	6.1	7.3

Annual change in %, unless expressly indicated.

(f) Forecast.

Closing date for forecasts: July 12, 2019.

(*) Excluding financial assistance to Spanish banks.

Source: BBVA Research

DISCLAIMER

This document has been prepared by BBVA Research Department. It is provided for information purposes only and expresses data, opinions or estimations regarding the date of issue of the report, prepared by BBVA or obtained from or based on sources we consider to be reliable, and have not been independently verified by BBVA. Therefore, BBVA offers no warranty, either express or implicit, regarding its accuracy, integrity or correctness.

Any estimations this document may contain have been undertaken according to generally accepted methodologies and should be considered as forecasts or projections. Results obtained in the past, either positive or negative, are no guarantee of future performance.

This document and its contents are subject to changes without prior notice depending on variables such as the economic context or market fluctuations. BBVA is not responsible for updating these contents or for giving notice of such changes.

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

This document and its contents do not constitute an offer, invitation or solicitation to purchase, divest or enter into any interest in financial assets or instruments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

With regard to investment in financial assets related to economic variables this document may cover, readers should be aware that under no circumstances should they base their investment decisions on the information contained in this document. Those persons or entities offering investment products to these potential investors are legally required to provide the information needed for them to take an appropriate investment decision.

The content of this document is protected by intellectual property laws. Reproduction, transformation, distribution, public communication, making available, extraction, reuse, forwarding or use of any nature by any means or process is prohibited, except in cases where it is legally permitted or expressly authorised by BBVA.

ENQUIRIES TO:

BBVA Research: Azul Street. 4. La Vela Building – 4th and 5th floor. 28050 Madrid (Spain).
Tel. +34 91 374 60 00 y +34 91 537 70 00 / Fax (+34) 91 374 30 25
bbvaresearch@bbva.com www.bbvaresearch.com

