

Activity

Spain | Moderate growth and high uncertainty at year-end

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The Spanish economy could continue growing at a quarterly rate of 0.4% in 4Q19, the same as the previous two quarters. If this is confirmed, 2019 would close with an average annual increase of 2.0%, 0.4 pp less than in 2018. The available data reveal high volatility both in domestic and external demand, in an environment of high uncertainty. Finally, both the pace of job creation and inflation remain bounded.

Quarterly GDP growth stabilizes at moderate levels

The flash estimate published by the INE (Instituto Nacional de Estadística — Spanish Office of National Statistics) indicated that the Spanish economy grew 0.4% QoQ in 3Q19, in line with the BBVA Research forecast (between 0.3% and 0.5% QoQ) and the growth observed in 2Q19 (0.4% QoQ). In addition, with about 20% of the information available for the fourth quarter of the year, the MICA-BBVA model¹ forecasts that GDP growth may remain around 0.4% QoQ (see Figure 1). If these estimates are confirmed, the economic year would close with an annual average increase of around 2.0%, 0.4 pp below that observed in 2018.²

Domestic demand shows high volatility

According to the flash estimate of the Spanish Quarterly National Accounts (QNA), in 3Q19 **domestic demand regained traction and increased its contribution to the observed quarterly GDP growth to 1.0 pp**. The positive surprise came from the strong upturn in household consumption (1.1% QoQ), the acceleration in the government consumption expenditure (0.9% QoQ), and the recovery in machinery and equipment investment (7.1% QoQ). In contrast, a decline in both residential (-0.9% QoQ) and non-residential (-4.7% QoQ) construction was observed.

With respect to the fourth quarter of the year, consumer spending and expectation indicators, and the labor market figures support the perception that private consumption has stabilized at roughly the average growth rate observed during the last six months (see Figure 2). For their part, the budget execution data suggest that public consumption could slow down, following the upturn observed in the third quarter.

In terms of investment, partial indicators suggest that investment in machinery and equipment could fall following the increase during the last quarter (see Figure 3). Finally, residential investment is expected to stagnate after the decline observed between July and September (see Figure 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 Spain Outlook, Fourth Quarter of 2019, available at: <https://www.bbvaesearch.com/publicaciones/situacion-espana-cuarto-trimestre-2019/>

The fall in services exports drags down external demand in the third quarter

The third quarter ended with a fall in total exports (-0.8% QoQ) which, together with the strong increase in imports (1.3% QoQ), **resulted in a negative contribution from net external demand to quarterly growth** (-0.7 pp compared to 0.2 pp on average during the last year). The adverse behavior of exports was concentrated in the sales of services (-3.1% QoQ), as a result of the poor performance of non-tourism sales (-5.4% QoQ) and the near-stagnation of tourism sales (-0.1% QoQ). For their part, exports of goods grew slightly (0.2% QoQ).

Overall, the available data suggests that exports could show less negative signs during the fourth quarter of the year. In any case, the uncertainty surrounding the international situation remains high, which could affect trade over the coming months (see Figure 5).

Employment regained traction in October, but unemployment rose

BBVA Research forecasts indicate that the number of Social Security registrations grew by 39,000 people (SWDA) in October;³ 6,000 more than in the previous month. **If this pace is consolidated during the rest of the quarter, 4Q19 could close with a growth rate between 0.5% and 0.6% QoQ SWDA** (0.4% QoQ SWDA in 3Q19). However, the unemployment recorded increased by 13,000 people (SWDA) in October, which, if not reverted during the remaining months of the quarter, could lead to a rebound of 0.2% QoQ SWDA in 4Q18, following a slight fall in 3Q19 (-0.1% QoQ SWDA) (see Figure 6). This would be the first quarterly increase in unemployment since 2Q13.

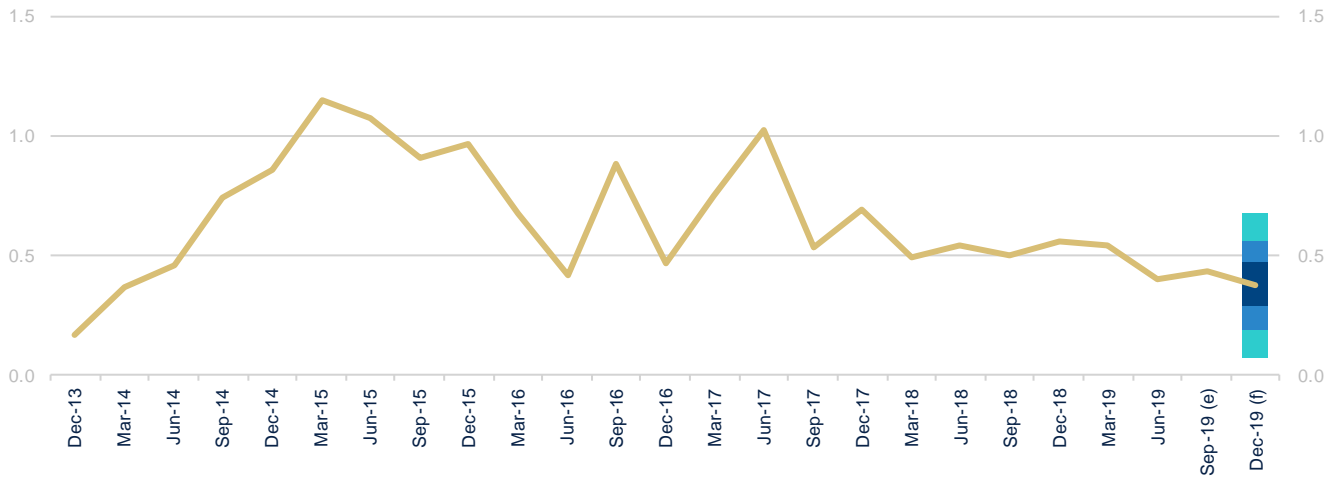
Inflation remained stable in October and will marginally increase in November

Both headline and core inflation barely fluctuated last month, around 0.1% and 1.0% YoY, respectively. Hence, the rise in headline inflation in October was 0.5 pp lower than that registered in the EMU countries. BBVA Research forecasts indicate that the difference in the core component (which excludes energy and unprocessed food) would also have been negative (-0.2 pp).

Looking forward, BBVA Research forecasts indicate that headline inflation could increase slightly in November (to 0.2% or 0.3% YoY), despite the downward pressure on the energy component. For its part, core inflation could grow by one-tenth to 1.1% YoY.

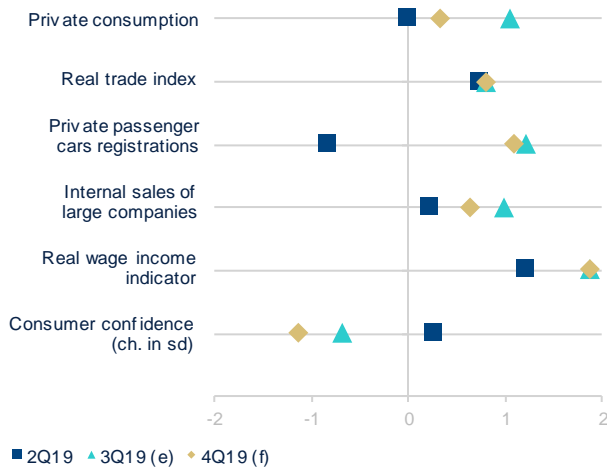
3: SWDA: seasonally and working-day adjusted data

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



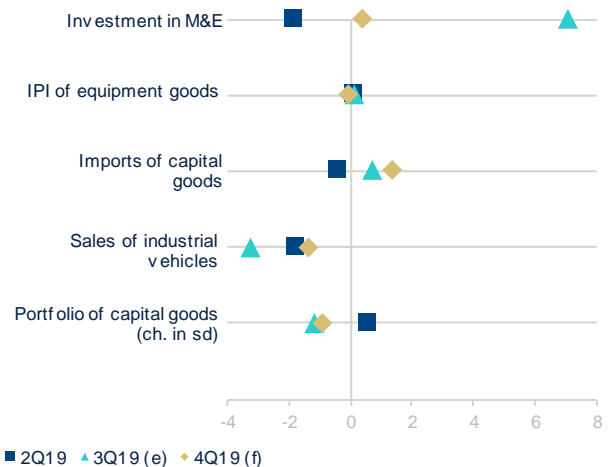
(e) Preliminary data. (f) Estimate.
Source: BBVA Research based on INE data

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



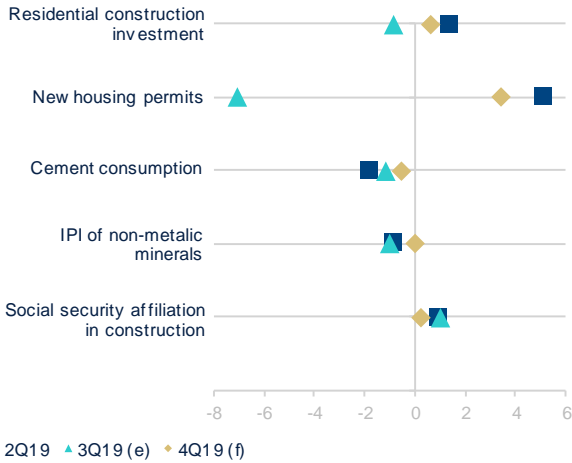
(e) Preliminary data. (f) Estimate.
Source: BBVA Research based on data from official bodies

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



(e) Preliminary data. (f) Estimate.
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) Preliminary data. (f) Estimate.

Source: BBVA Research based on data from official bodies

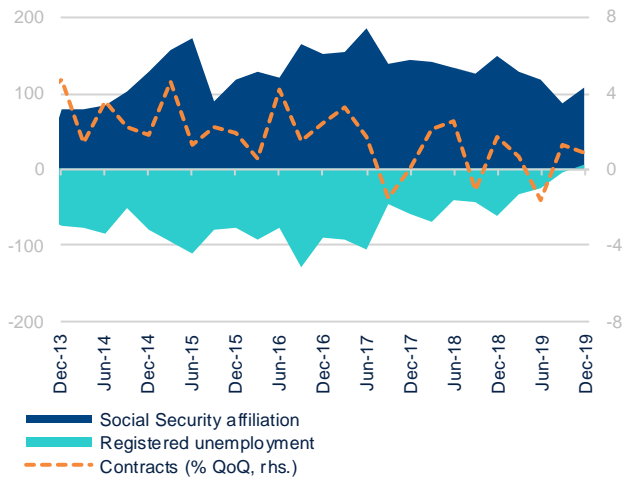
Figure 5. **SPAIN: SELECTION OF INDICATORS RELATED TO EXPORTS** (% QoQ SWDA, UNLESS OTHERWISE INDICATED)



(e) Preliminary data. (f) Estimate.

Source: BBVA Research based on data from official bodies

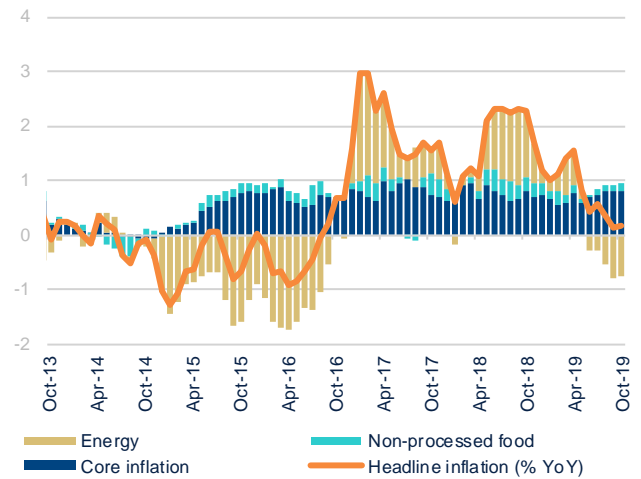
Figure 6. **SPAIN: LABOR MARKET FIGURES** (% QoQ SWDA)



Data observed up to Oct-19. Forecast from this date on.

Source: BBVA Research, based on data from the Spanish Ministry of Labor, Migrations and Social Security

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	3.0	2.9	2.4	1.9	1.6
Private consumption	2.6	3.0	1.8	0.8	1.3
Public consumption	1.0	1.0	1.9	2.0	1.7
Gross Capital Formation	2.4	5.9	5.3	2.3	3.0
Equipment and Machinery	1.8	8.5	5.7	1.6	2.6
Construction	1.6	5.9	6.6	2.9	2.6
Housing	8.9	11.5	7.7	3.5	3.9
Domestic Demand (contribution to growth)	2.0	3.0	2.6	1.3	1.7
Exports	5.4	5.6	2.2	2.0	2.9
Imports	2.6	6.6	3.3	0.2	3.4
External demand (contribution to growth)	1.0	-0.1	-0.3	0.6	-0.1
Nominal GDP	3.4	4.3	3.5	3.2	2.5
(Billions of euro)	1,113.8	1,161.9	1,202.2	1,240.0	1,271.2
Labor market					
Employment, based on Labor Force Survey	2.7	2.6	2.7	2.2	1.4
Unemployment rate (% of labor force)	19.6	17.2	15.3	14.1	13.3
Employment (full-time equivalent) based on Quarterly National Accounts	2.8	2.8	2.5	2.2	1.4
Apparent labor productivity	0.2	0.0	-0.2	-0.3	0.2
Prices and costs					
CPI (annual average)	-0.2	2.0	1.7	0.7	1.1
CPI (end of period)	1.6	1.1	1.2	0.9	1.4
GDP deflator	0.3	1.4	1.1	1.2	0.9
Pay per salaried employee	-0.6	0.7	1.0	2.7	2.8
Unit labor cost	-0.8	0.7	1.2	3.0	2.6
Foreign sector					
Balance on current account (% of GDP)	2.9	2.5	1.8	1.6	1.4
Public sector (*)					
Debt (% of GDP)	99.4	98.5	97.6	96.9	96.5
Balance Public Admin. (% GDP)	-4.1	-3.0	-2.5	-2.3	-1.9
Households					
Nominal disposable income	2.7	2.9	3.7	4.4	4.2
Savings rate (% of nominal income)	7.5	5.9	6.3	8.3	9.8

Annual change in %, unless expressly indicated.

(f) Forecast.

Forecasts based on data up to: October 11, 2019

(*) Excluding financial assistance for Spanish banks

Source: BBVA Research

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