

Activity

Spain | GDP growth in Q4 (0.4% QoQ) validates 2019 slowdown

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At the end of the year, the economy could string together three consecutive quarters with an increase of 0.4% QoQ, below the growth observed since the beginning of the recovery (0.7% QoQ, on average). In this context, job creation has stabilized, there is a more volatile composition of demand and low inflation.

GDP growth remains at around 0.4% QoQ

With about 50% of the information available for the fourth quarter, **the MICA-BBVA model¹ indicates that quarterly GDP growth could return to 0.4% QoQ** (see Figure 1), within the forecast range (between 0.3% and 0.5% QoQ), but below that observed since the beginning of the recovery (0.7% QoQ, on average). If this forecast is confirmed, the financial year would close with an average annual increase of between 1.9 and 2.0% below what was observed in 2018.²

Consumption supports the increase in domestic demand

For 4Q19, consumer spending and expectation indicators, along with labor market figures, point to **the slowdown in private consumption toward a more moderate growth rate than the rate registered in 3Q19**, although above those observed in the first half of the year (see Figure 2). Moreover, budget execution data suggest a slowdown in the pace of growth in public expenditure to levels slightly lower than those observed until September.

Regarding investment, the partial indicators suggest that investment in machinery and equipment could decrease after the strong progress observed last quarter, while residential investment will stagnate after the decrease observed between July and September (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/2OTgtl1>

2: See "Spain Outlook 4Q19":

Exports of goods lead the increase in foreign demand

Available data suggest that, following the slowdown in the third quarter, **exports of goods could regain traction at the end of the year** (see Figure 5). On the other hand, doubts remain regarding the trends in sales of services abroad, which have fallen for two consecutive quarters. In particular, the tourism sector continues to show less dynamism than in recent years (see Figure 5) although it is expected to return to positive territory in the fourth quarter.

Employment rate increases moderately, but so does unemployment

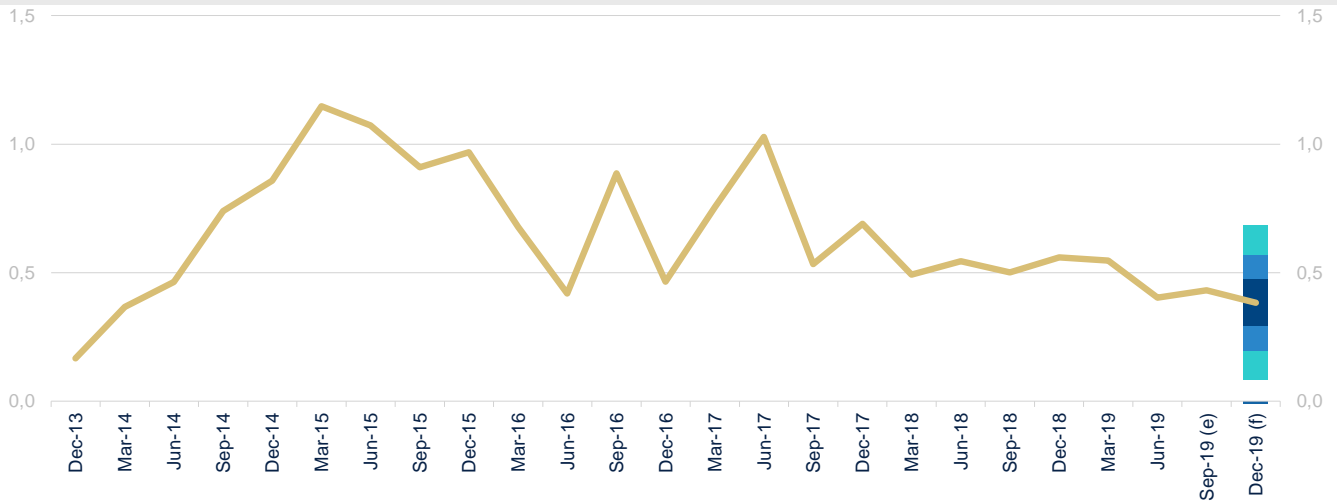
BBVA Research estimates indicate that the number of Social Security registrations have increased by around 30,000 people SWDA in November, in line with the job creation rate observed since 2Q19 (32,000 people per month, on average), but below the number recorded in 2018 (46,500 people per month, on average). The number of unemployed people has slightly increased (1,200 people SWDA), which implies the fourth monthly growth in unemployment in 2019, following the numbers recorded in June, July and October. If these trends continue in December, **4Q19 could close with employment growth close to 0.5% QoQ SWDA**, but also with a marginal increase in registered unemployment that would put an end to the downward trend recorded since 2Q13.

Inflation remains low, despite recovering its upward trend

Headline inflation increased to 0.4% YoY in November, due to lower downward pressure on the residual component (energy and unprocessed food) and core inflation stability. Therefore, growth in headline prices in November proved to be 0.5pp lower than in EMU countries as a whole. Regarding the underlying component (which excludes energy and unprocessed food), BBVA Research estimates indicate that the differential was similar (-0.4pp).

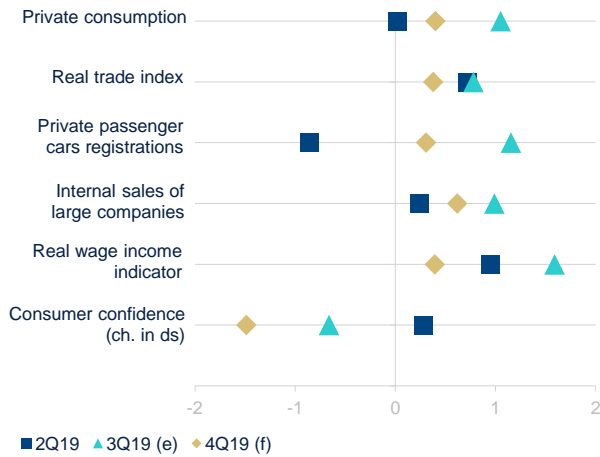
This trend seems to be continuing in December, which could lead to an increase in headline inflation up to around 1.0%, in line with the estimates for core inflation.

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



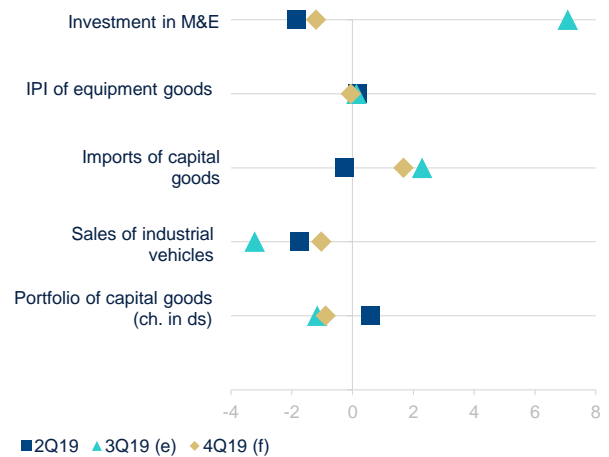
(e) Flash estimate. (f) Forecast.
Source: BBVA Research based on INE data

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



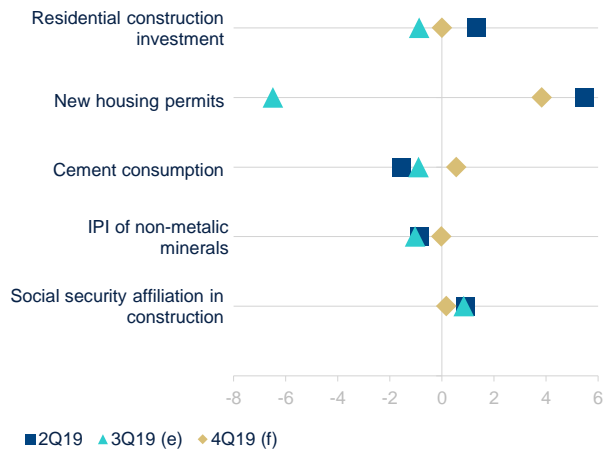
(e) Flash estimate. (f) Forecast.
Source: BBVA Research based on data from official bodies

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



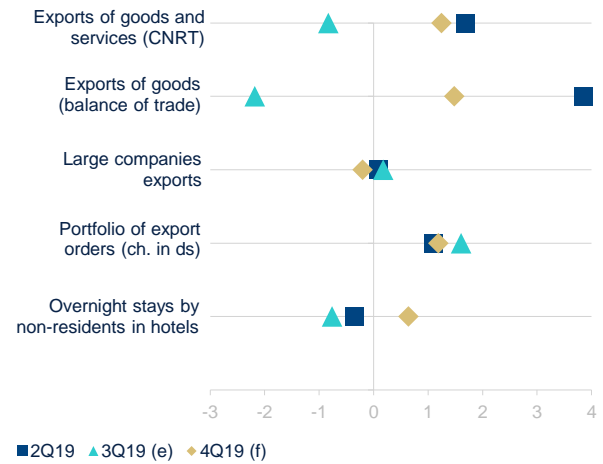
(e) Flash estimate. (f) Forecast.
Source: BBVA Research based on data from official bodies

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



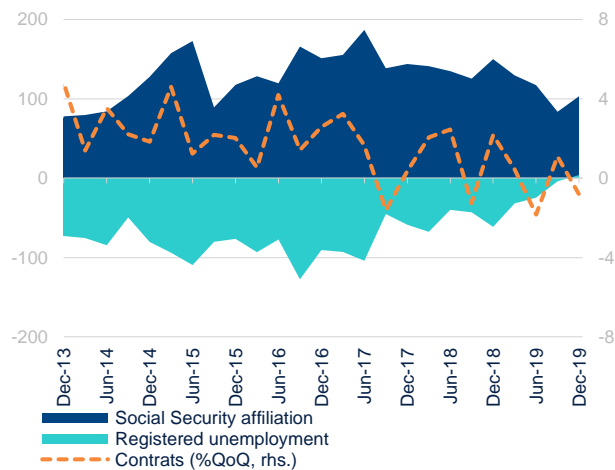
(e) Flash estimate. (f) Forecast.
Source: BBVA Research based on data from official bodies

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



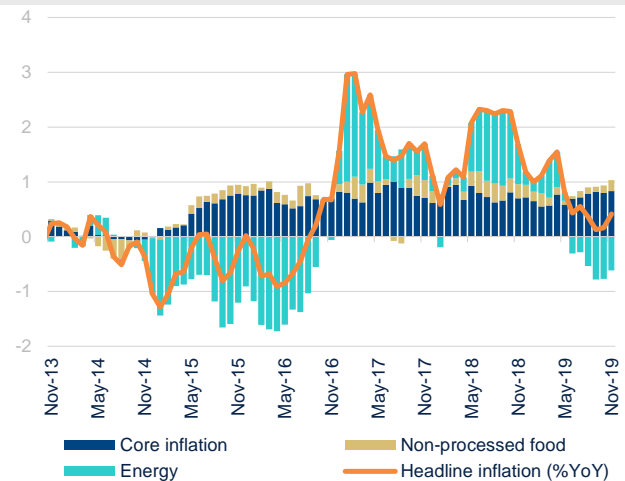
(e) Flash estimate. (f) Forecast.
Source: BBVA Research based on data from official bodies

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



Source: BBVA Research, based on 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: Friday, October 11, 2019 (*) Excluding financial assistance for Spanish banks.

Source: BBVA Research

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