

Activity

Spain | With data up to February, activity remains stable

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The data observed up to February show that GDP would have grown at a rate close to 0.5% QoQ, consistent with a stabilization of demand and employment at low levels. However, uncertainty about the magnitude of the negative effects of Covid-19 is increasing, implying a significant downward bias.

For the time being, the progress of activity remains stable in 1Q20

With around 50% of the information available for the first quarter of the year, the MICA-BBVA model¹ shows that quarterly GDP growth has remained relatively stable at the beginning of the year (around 0.5% QoQ), although lower than that observed since the start of the recovery (an average of 0.7% QoQ) (see Figure 1). If this estimate is fulfilled, the activity growth will stand at the higher end of the forecasts made at the beginning of the quarter (0.3%–0.5% QoQ), which would give a certain positive edge to the BBVA Research forecast for 2020 (1.6% YoY).²

The data seen thus far suggests that the effects of the spread of Covid-19 and the economic uncertainty that this is causing, will be noticed from March onwards.

Consumption sustains the rise in domestic demand, while investment is volatile

Regarding 1Q20, the indicators of consumer spending and expectations, along with labor market figures, suggest **moderate growth in private consumption**, although lower than the average growth observed during the second half of last year (see Figure 2). Moreover, the budget execution data suggest a slowdown in the pace of growth in public consumption to levels slightly lower than those observed up until December.

Regarding investment, the partial indicators suggest that investment in machinery and equipment could increase slightly following the sharp decline observed last quarter, while residential investment could moderate slightly after the rebound observed in 4Q19 (see Figures 3 and 4).

1: For more details on the MICA-BBVA model, see 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 Economic Outlook. First quarter 2020" available at: <https://www.bbva.com/en/publicaciones/spain-economic-outlook-first-quarter-2020/>

Exports stagnate at the beginning of the year

The data available suggests that, following the rebound in 4Q19, the **exports of goods could slow down at the beginning of the year**. Similarly, although they could return to positive ground in the first quarter of the year, sales of services abroad remain sluggish. Specifically, the tourism sector could fall due to structural factors, in addition to the downward pressure that the overall spread of Covid-19 will exert on it (see Figure 5).

Labor records improved expectations in February

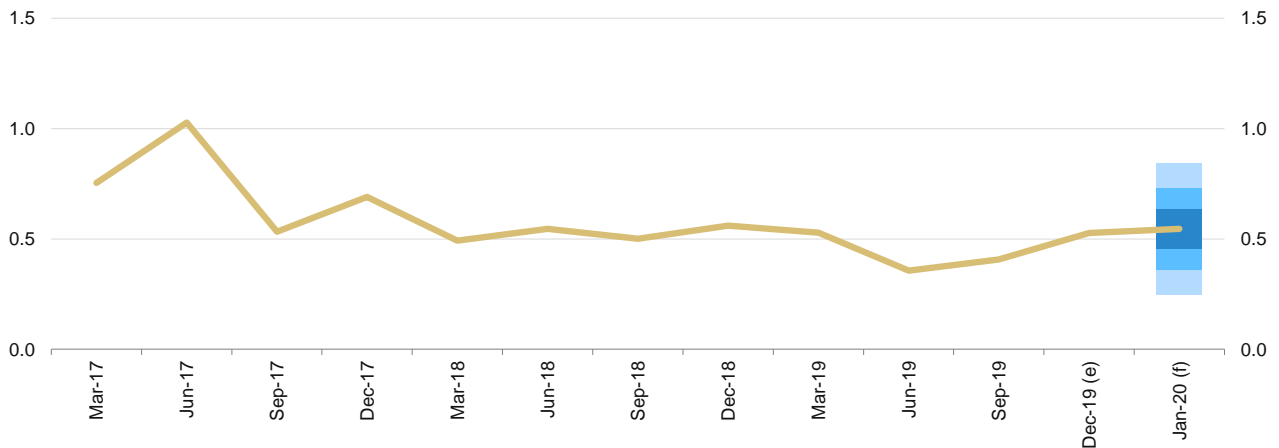
BBVA Research estimates show that the number of Social Security registrations increased by around 36,000 people SWDA in February — 13,000 more than in January. This means that the rate of job creation improved, reaching the levels seen in 2019 (an average of 32,500 people per month). However, it remained modest when compared to the levels recorded in 2018 (an average of 46,200 people per month). On the other hand, unemployment figures fell unexpectedly (-17,000 people SWDA) following the disappointing data seen up until January. If these trends are not abruptly interrupted in March, **1Q20 could end with employment growth of 0.4%–0.5% QoQ SWDA**, and registered unemployment will have resumed its downward trend (-0.6% QoQ SWDA) (see Figure 6).

Inflation is again moderating

The **preliminary estimate published by INE suggests that headline inflation decreased in February** (by 0.3 pp to 1.1% YoY), **and BBVA Research estimates point to core inflation stabilizing at around 1.0%**. It is probable that price growth will have remained below that recorded in all EMU countries, after closing January with a differential of -0.2 pp for both headline and core inflation (see Figure 7).

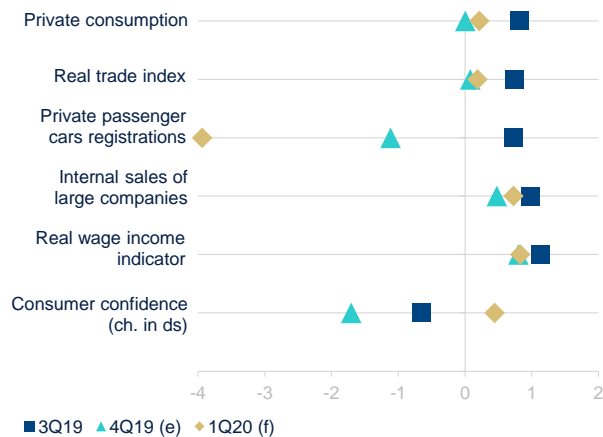
Going forward, it is estimated that the recent fall in oil prices and the negative bias on demand could drive down inflation expectations which, up until January, were heading toward stabilizing at around 1.0% on average for 2020, both in terms of headline and core inflation.

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



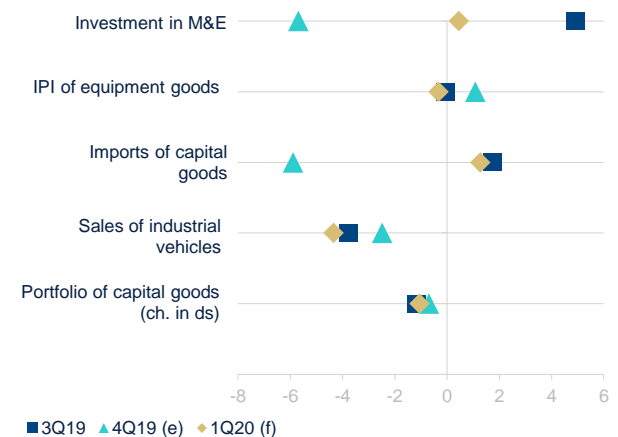
(e) Flash estimate. (f) Forecast.
Source: BBVA Research based on INE data.

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



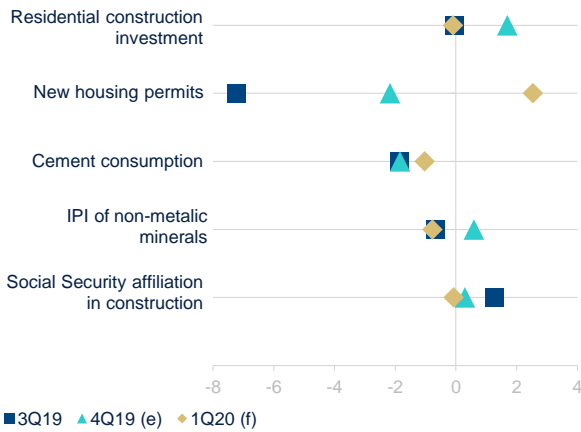
(e) Flash estimate. (f) Forecast.
Source: BBVA Research based on data from official bodies

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)



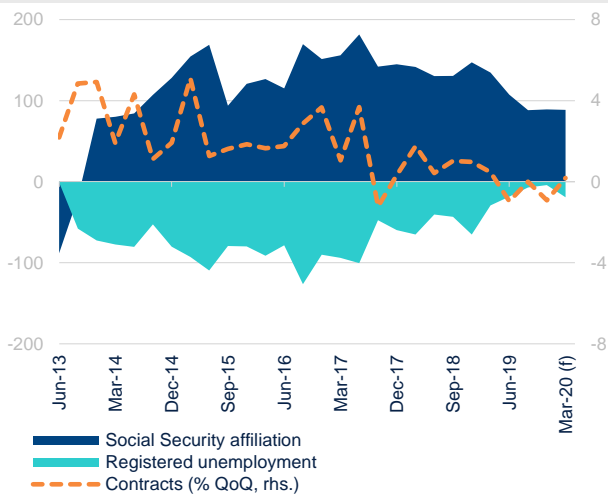
(e) Flash estimate. (f) Forecast.
Source: BBVA Research based on data from official bodies

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



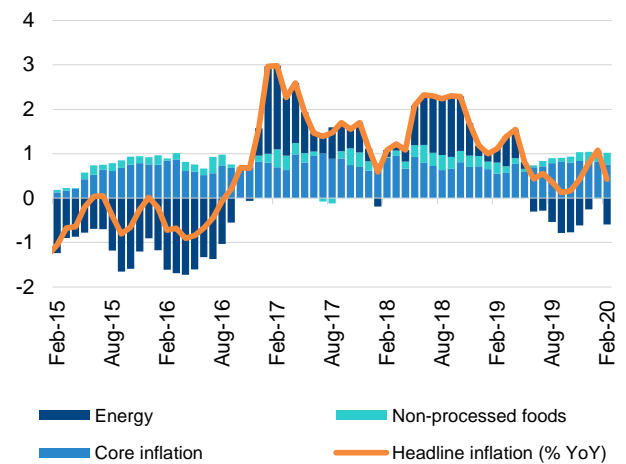
(e) Flash estimate. (f) Forecast.
Source: BBVA Research based on data from official bodies

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



(f) Forecast.
Source: BBVA Research based on Ministry of Labor, Migration and Social Security 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 VARIATION AS A %, UNLESS OTHERWISE INDICATED)

(Annual average, %)	2017	2018	2019	2020 (f)	2021 (f)
Activity					
Real GDP	2.9	2.4	2.0	1.6	1.9
Private consumption	3.0	1.8	1.1	1.4	1.6
Public consumption	1.0	1.9	2.2	1.7	1.8
Gross Capital Formation	5.9	5.3	1.9	2.6	4.5
Equipment and Machinery	8.5	5.7	2.6	3.2	5.1
Construction	5.9	6.6	0.8	1.4	3.8
Housing	11.5	7.7	3.0	2.4	5.0
Domestic Demand (contribution to growth)	3.0	2.6	1.5	1.7	2.1
Exports	5.6	2.2	2.3	2.6	3.4
Imports	6.6	3.3	1.2	3.0	4.5
External demand (contribution to growth)	-0.1	-0.3	0.4	-0.1	-0.3
Nominal GDP	4.3	3.5	3.5	2.7	3.6
(Billions of euro)	1161.9	1202.2	1244.8	1275.9	1322.1
Labor market					
Employment, based on Labor Force Survey	2.6	2.7	2.3	1.4	1.7
Unemployment rate (% of labor force)	17.2	15.3	14.1	13.5	12.5
Employment (full-time equivalent) based on Spanish Quarterly National Accounts	2.8	2.5	2.3	1.4	1.6
Apparent labor productivity	0	-0.2	-0.3	0.3	0.3
Prices and costs					
CPI (annual average)	2.0	1.7	0.7	1.0	1.5
CPI (end of period)	1.1	1.2	0.8	1.2	1.7
GDP deflator	1.4	1.1	1.6	1.0	1.7
Pay per salaried employee	0.7	1.0	2.1	2.0	1.7
Unit labor cost	0.7	1.2	2.4	1.8	1.5
Foreign sector					
Balance on current account (% of GDP)	2.5	1.8	1.7	1.2	0.9
Public sector (*)					
Debt (% of GDP)	98.6	97.6	96.8	96.5	95.1
Public Administrations Balance (% of GDP)	-3.0	-2.5	-2.4	-2.2	-2.0
Households					
Nominal disposable income	2.9	3.7	3.9	3.8	4.2
Savings rate (% of nominal income)	5.9	6.3	7.7	8.9	9.8

Annual change in %, unless expressly indicated. (f) Forecast.

Data observed for the years 2017 to 2019 and forecasts (f) of BBVA Research for the two-year period 2020–2021.

Forecast closing date: January 11, 2020.

(*) Excluding financial assistance for Spanish banks.

Source: BBVA Research

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