

Economic Watch

Spain

Madrid,
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Economic Analysis

Spain Unit

4Q13: the year closes on a positive note

- **Available information for the fourth quarter of 2013 suggests that the economic activity continues to recover**

The trend in the observed variables supports the view that after emerging from recession in the third quarter (growing 0.1% q/q) the Spanish economy would be gaining traction during the fourth quarter. With 48.5% of information available, the MICA-BBVA model estimates a GDP growth rate in the last quarter of the year of 0.3% QoQ¹. This rate of expansion is in line with that forecasted in the baseline scenario of BBVA Research, consistent with a GDP fall of around 1.3% for the year as a whole.

The economic recovery is the result of the easing of financial tensions (due to the economic measures undertaken in Spain and Europe as a whole), a less contractionary fiscal policy when compared with 2012 and, finally, of the growth in exports, in spite of their recent slowdown. These factors are beginning to have an effect on the recovery of domestic demand (mainly private), which after three consecutive years in the red contributed positively to growth in 3Q13.

- **Exports are slowing down, but private domestic demand begins to recover**

Exports slowed down in the third quarter of the year (2.2% q/q compared with 6.4% q/q in 2Q13) while domestic demand began to recover (contributing 0.3 pp q/q to GDP growth). In particular, both consumption and private productive investment showed positive growth rates (0.45 q/q and 0.8% q/q respectively). This growth gave rise to a further increase in imports, which offset exports growth leading to a negative contribution of net foreign demand to GDP (-0.1 pp q/q).

At the end of the year, growth in some of the final demand items could be weaker than at the start of the second half of the year. Regarding foreign demand, indicators of expectations (exports order books) and expenditure (foreign sales of goods and services by large companies) suggest that although the level of activity within exporting sectors is still solid, the slowdown observed in 3Q13 could be extended to 4Q13. In contrast, the trend of the indicators linked to non-domestic tourism (the number of foreign tourists and their spending) appears to be upward-sloping consolidating the significant rise in demand registered in the first nine months of the year (7.4% between 4Q12 and 3Q13).

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: http://www.bbvarsearch.com/KETD/fbin/mult/WP_1021_tcm348-231736.pdf?ts=2542012

On the private domestic demand side, some indicators of household consumption expenditure (car registrations and household confidence) continue to show signs of improvement as of the first months of 4Q13. However, low retail sales in October indicate that the recovery is still fragile. The stabilization of both industrial confidence and the manufacturing PMIs when accounting for the October-November average, combined with improvement in the Index of Industrial Production of equipment goods in October and the sound export performance, could all be advance signs of renewed growth in investment in machinery and equipment. If this was confirmed, 2013 would end with positive growth in all quarters of the year.

In contrast, data on residential investment confirm that both supply and demand continue to adjust, although less sharply than in recent years. After correcting for seasonal factors, the third quarter of the year ended with a fall in residential investment of 1.4% q/q with respect to 2Q13 (a fall of 3.3% q/q in the number of houses sold). Looking to the future, no significant changes are in sight for the fundamentals of housing investment so as to allow us to anticipate a considerably different behavior than that observed in recent quarters.

- **The labor market also reflects the change in cycle: the number of affiliates in the social Security System increases and registered unemployed falls**

After five and a half years of decays, Social Security affiliation has increased for two consecutive months as of November. If this trend continues until the end of the quarter, the number of affiliates in the system, not including the non-professional carers, could increase at a seasonally adjusted rate of 0.4% q/q. This pace of job creation is being supported to a significant extent by activities related to the Public Administration, which created 118,100 jobs in October and November, 47,600 more than in the same months in 2012. However, even discounting this factor, the number of affiliates in the Social Security system in the fourth quarter of the year would have grown (a seasonally adjusted 0.1% q/q).

Registered unemployment has fallen for five consecutive months to November. If this trend continues in December, it will be the second quarterly fall in registered unemployment after four years of increases (-1.4% q/q, seasonally adjusted).

- **A less contractionary fiscal policy increases pressure on compliance with the budget targets for 2013**

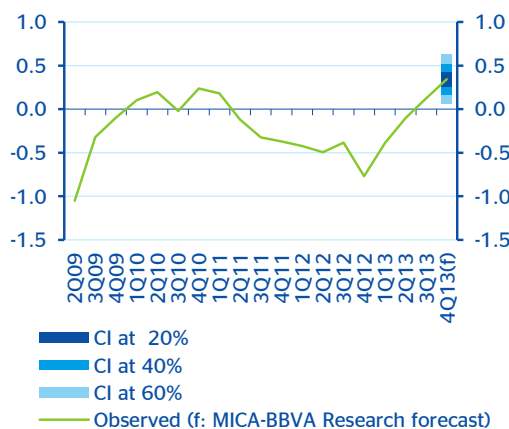
The breakdown of Quarterly National Accounts (CNTR) for 3Q13 confirms the slowdown in the rate of fiscal consolidation expected for 2013. After a reduction of 1.1 pp of GDP in public expenditure during 2012, there was a growth of 0.1 pp of GDP through 3Q13. However figures support the idea that the adjustment in public investment is ongoing: the first nine months of the year closed with a contraction in investment in other constructions of 0.7 pp of GDP (-0.6 pp in 2012). Although this fall in the rate of adjustment in public expenditure has reduced the downward bias on domestic demand, it continues to be a risk in terms of compliance with the budget target as of the end of the year.

The less contractive stance of public demand is also clear in budget execution data for September and October. The cumulative public deficit of the general government (excluding local governments) to September 2013 stood below 4.8% of GDP, over the 4.7% recorded to September 2012. The excess deficit resulted mainly from the deterioration in the finances of the Social Security system, while in September the deficit of both the Central Government and the autonomous communities remained at the same level of 3Q12 (3.6% and 1.0% of GDP, respectively). Furthermore, the situation seems to have deteriorated a bit in October, at least regarding the deficit of the Central Government, which stood at 3.6% of GDP till October 2013, a worsening of 0.3 percentage points with respect to a year earlier.

• **The Spanish economy continues to increase its financing capacity with respect to the rest of the world**

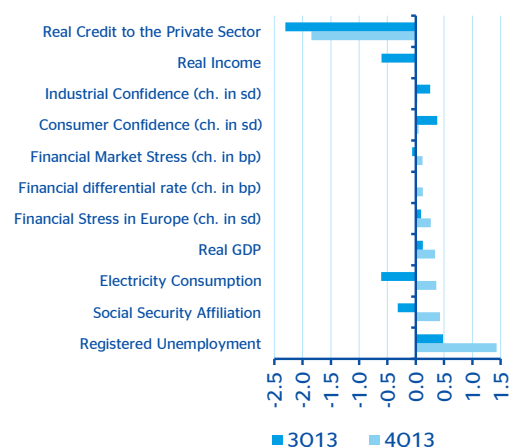
The current account balance closed the third quarter of the year with a 12-month cumulative surplus of €7,136 million. The 12-month cumulative balance was in the positive territory for the fifth month in a row, although its growth slowed down due to the lower growth rate of exports and the recovery of imports during 3Q13. Overall, there was a surplus of €339 million, compared with a deficit in September last year of €402 million. The financing capacity of the Spanish economy in September reveals, nonetheless, different patterns among its agents. In particular, the financial account of the Bank of Spain recorded a net fall in liabilities of €11,884 million. This figure reflects a significant deleveraging with respect to the Eurosystem (€13,063 million) for the first time in six months. Domestic agents increased their net asset positions against the rest of the world by €4,038 million. Unlike what happened in the last five months, the net capital inflow of foreign sectors was high (€13.7 billion) and confirmed the interest of foreign investors in the portfolio investments of the Spanish public administrations.

Chart 1
Spain: Observed GDP growth and forecasts using the MICA-BBVA model (% q/q)



Source: BBVA Research

Chart 2
Spain: GDP and main indicators of the MICA-BBVA model
(+) improvement / (-) deterioration in pp, unless otherwise indicated (seasonally adjusted)



(*) Data published to December and MICA-BBVA model forecasts
Source: BBVA Research based on data from official bodies

Table 1

Summary of Spain Flash publications since the publication of the 4Q13 Spain Economic Outlook

Flash name	Date	Summary	Link
The growth in car registrations in October and the renewal of the PIVE trade-in scheme augur well for 4Q13	04/11/2013	After seasonally adjusting the gross data for the month, BBVA Research's estimates show that the number of cars registered in October increased	PDF
Job registrations in October: job creation and a fall in unemployment	05/11/2013	After adjusting for seasonal factors, there was a fall in unemployment, combined with net job creation for the first time since the start of the crisis	PDF
Industrial output in September	07/11/2013	Seasonally adjusted industrial output performed better in September than suggested by the baseline forecasts	PDF
Home sales rise in September 2013	13/11/2013	After falling for four months in a row, house sales recovered in September, a month that was better than last year's	PDF
October CPI	13/11/2013	Headline inflation fell more than expected in October. Both the core component and unprocessed foods contributed equally to the surprise	PDF
Trade balance in September 2013	20/11/2013	The cumulative 12-month trade deficit to September fell by 500 with respect to the 12-month figure for the previous month to €15.2 billion.	PDF
The public deficit was under 4.8% at the end of September 2013	26/11/2013	The cumulative public deficit to September 2013 was under 4.8% of GDP (excluding local governments), higher than the figure of 4.3% through September 2012	PDF
Residential mortgages in September 2013: an increase in the context of sluggish activity	26/11/2013	There were 14,856 residential mortgages registered in September, a seasonally adjusted increase of 4.4%	PDF
Real retail sales in October worse than expected	27/11/2013	After correcting for the seasonal variations for the month, real retail trade sales fell in October for the second month in a row	PDF
CPI advance figure for November	28/11/2013	Headline inflation increased in November due mainly to the end of the base effect of energy prices and, to a lesser extent, a slight increase in core inflation.	PDF
Quarterly National Accounts 3Q13	28/11/2013	As anticipated in the last edition of the Spain Economic Outlook, the Spanish economy began its recovery in 3Q13	PDF
Balance of payments in September 2013	02/12/2013	The cumulative 12-month current account balance to September recorded a new surplus	PDF
Car registrations in November	02/12/2013	The non-business channel is sustaining demand and suggests that 2013 will close at around 720,000 units	PDF
Job registrations in November: unemployment continued to fall and employment increased, but less than in October	03/12/2013	The labor market improved in November. Seasonally adjusted, there was another reduction in unemployment, combined with a slight increase in employment	PDF
Industrial output in October	05/12/2013	Industrial output was slightly worse than suggested by the baseline forecasts. Except for equipment goods, all components fell back in the month	PDF

Source: BBVA Research

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