

Economic Watch

Spain

Madrid, 11 March 2014
Economic Analysis

Spain Unit

First quarter 2014: biases to the upside

- **Economic growth accelerates**

The trend in data when compiling this report confirms that the Spanish economy's recovery continues to gain traction during 1Q14. With 48.5% of the information available, the MICA-BBVA model forecasts a GDP growth rate of around 0.4% over 4Q13¹. As we saw in the previous quarter, the recovery will be accompanied by job-creation, which will result in a slowdown, or even a stagnation, in productivity.

Improved output and employment are underpinned by the reduction in financial tensions, lower fiscal adjustment, solid export sector performance and by the positive impact of some of the reforms. Said factors continue to have a positive effect on the improvement in domestic demand (private demand, mainly) and are the basis for the recovery continuing throughout 2014 and 2015 (+0.9% YoY and 1.9% YoY, respectively)².

Although our forecast scenario for 2014 remains relatively unchanged since a year ago, the data indicate that the recovery in domestic demand and employment is somewhat more robust than we expected then. As a result, and for the first time since the crisis began, there are biases to the upside in our growth forecasts.

- **Resilient exports and reactivation of private domestic demand**

In the second half of 2013, we saw a transitory slowdown in exports (0.7% QoQ on average compared to 1.3% QoQ in 1H13) and an incipient recovery in domestic demand, with an uptick both in consumption and in private productive investment (an average of 0.5 QoQ and 2.0% QoQ, in 2H13 respectively). On the other hand, in the last few months of the year there was a more pronounced adjustment than we expected in public spending (-3.9% QoQ in 4Q13) after the virtual standstill in the first three quarters of the year (+0.1% QoQ on average), which contributed to limiting the deviation of the public deficit from the target.

1: For more details on the MICA-BBVA model, see Camacho, M. & 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.bbva-research.com/KETD/fbin/mult/WP_1021_tcm348-231736.pdf?ts=2542012

2: For more information on BBVA Research's economic scenario (biennium 2014-2015) see Spain Economic Outlook for the first quarter of 2014, available at http://www.bbva-research.com/KETD/fbin/mult/1402_Spain_Economic_Outlook_tcm348-426396.pdf?ts=1132014

As regards 1Q14, growth by components may be slightly more balanced than we expected towards the end of 2013. In terms of foreign demand, expectations (industry export portfolio) and expenditure (exports of goods and services by large corporations) suggest that the slowdown in 2H13 could be starting to reverse. On the other hand, indicators linked to non-resident tourism (foreign tourist arrivals and their expenditure) seem to be flattening, after the strong increase in 2013 (+2.6% vs. 2012).

On the private domestic demand side, we expect recovery to continue although probably at a slower rate than in 2H13. Some of the indicators for household consumption and expenditure expectations (new car registrations, consumer confidence and industrial production of consumer goods) continue to show signs of stabilising and improvement in 1Q14. Meanwhile, improvements in industrial confidence and in manufacturing PMIs in the January-February average, together with progress in the January capital goods' IPI and solid exports, could be putting forward renewed growth in investment in equipment and machinery.

In contrast, data on residential investment confirm that both supply and demand continue correcting, although more moderately than in the last few years. In seasonally and working-date adjusted (swda) terms, 4Q13 ended with a 1.4% QoQ drop in residential investment (-5.2% QoQ in the number of homes sold). Going forward, we see no significant changes in housing investment fundamentals that would herald a trend disruption. So we expect 2014 to end with a more moderate correction in housing investment than in the last few years (-3.4%). It will be in 2015 when we start to see recovery in this component of investment.

- **The labour market continues to show signs of recovery**

Social Security affiliations have had a (seasonally adjusted) 6-month run of consecutive increases to February. If this momentum is confirmed in March, the number of affiliates – not counting non-professional carers who have signed off – could rise by 0.6% QoQ (swda) in 1Q14. Meanwhile, registered unemployment has clocked up ten consecutive months of falls which, if continued in March, would mean the third quarterly reduction in registered unemployment (-2.4% QoQ swda).

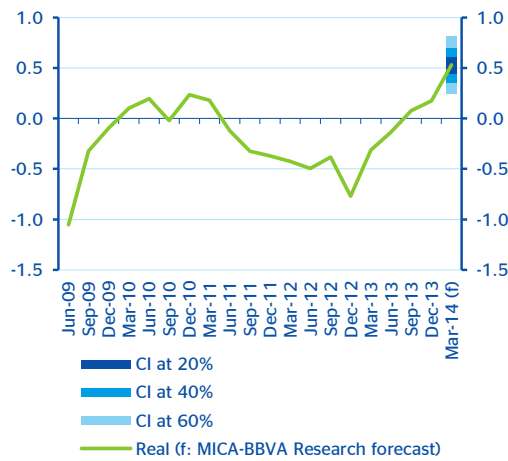
- **Slight deviation from the 2013 deficit target despite the fall in public spending in 4Q13**

The breakdown of the 4Q13 Quarterly National Accounts revealed some positive surprises in the area of fiscal consolidation. Thus, after the correction to the upside of nominal public spending in 3Q13 (1.8% QoQ on average) there was a 5.2% QoQ fall in 4Q13. With this, and after dropping 1.1pp of GDP the year before, 2013 closed with a fall in public consumption of 0.1pp of GDP to 20.1%. Although this adjustment in public spending translated into less growth in internal demand, it lowers the risk of the 2013 budget target not being met.

• **The Spanish economy continues to reduce its external imbalances**

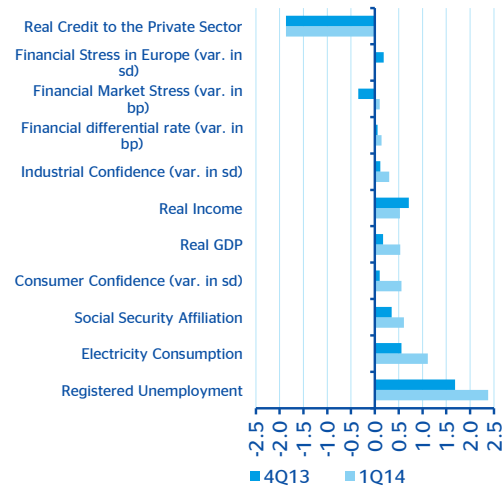
As expected, 2013 closed with the first positive entry in the current account balance in over 25 years (0.7% of GDP). In its initial phase, this process of correcting the trade deficit, begun in 2008, was based on the gradual downsizing of the structural component and on generating cyclical surpluses. In the current phase, it relies on significantly reducing the deficit's structural component, which means that 2013 could close with a positive balance. This will enable the Spanish economy to complete the adjustment of the structural deficit in the current account balance by the end of the 2014-15 period³.

Chart 1
Spain: real GDP growth & forecasts. MICA-BBVA model, % var. QoQ



Source: BBVA Research based on INE

Chart 2
Spain: change in GDP and the main MICA-BBVA model indicators (+) improvement / (-) deterioration in pp unless otherwise stated (swda data)



(*) Data published up to March & MICA-BBVA model forecasts
Source: BBVA Research based on official figures

3: For more information about the recent performance and outlook for the current account balance in Spain, see the Economic Watch titled: "An analysis of the performance and the determinants of the current account balance in Spain", available in: http://www.bbva.com/KETD/fbin/mult/131119_Spain_Economic_Watch_tcm348-411578.pdf?ts=1132014

Table 1

Summary of Spain Flashes since the publication of the February 2014 Spain Economic Outlook. Only available in Spanish

Subject	Date	Synopsis	Enlace
Industrial Production in December	07/02/14	Industrial production increased in December, slightly more than we forecast in our central scenario	PDF
January CPI	14/02/14	Even though core inflation stabilised, the moderation in energy prices led to a marginal slowdown in headline inflation	PDF
Housing sale-purchases in December 2013: the end of a year of contraction	17/02/14	30,779 homes were sold in December, according to the Notaries' General Board; 2.9% less than in November (sa)	PDF
December 2013 trade balance	21/02/14	The accumulated balance of trade deficit for 12 months to December remains steady at around -1.5% of GDP.	PDF
Residential mortgages December 2013: a year of falls is over	26/02/14	12,329 new residential mortgages were registered in December, representing a drop of 5.9% over November (sa)	PDF
Industrial and consumer confidence in February 2014	27/02/14	Expectations on the part of economic agents showed marginal movements during February	PDF
Household and Spanish corporate deposits rise EUR5bn in January (swda)	27/2/14	Although January is typically a month when deposits decline, both household (-EUR3bn) and corporate deposits fell less than we expected	PDF
New-build permits as of December 2013: a year of lows comes to an end	27/02/14	2,465 new housing permits were given in Spain in December, a level similar to the month before, with activity flat in MoM terms	PDF
Quarterly National Accounts for 4Q13	27/02/14	As forecast in the previous edition of our Spain Economic Outlook, the Spanish economy gained traction in the latter part of 2013	PDF
Balance of payments at December 2013	28/02/14	The accumulated twelve-month current account balance surplus fell in December compared to the accumulated surplus for 12 months to November	PDF
February CPI flash estimate	28/02/14	The CPI flash estimate confirmed the expected fall in prices due, mainly, to the drop in energy prices	PDF
New car registrations in February: positive surprise	3/03/14	Our seasonally-adjusted estimates indicate that the number of new car registrations increased more than we anticipated in February	PDF
Positive data in employment in February	4/03/14	Both new Social Security affiliations and the unemployment rate improved in February	PDF
Industrial production in January	10/03/14	Although the performance of the energy sector limited production in January, aggregate industrial activity was slightly better than predicted	PDF

Source: BBVA Research

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