

Are we wrong about Catalonia?

Diario Expansión (Spain)

Miguel Cardoso

22 Jan 2018

In the film “Groundhog Day”, Bill Murray faces the problem of having to live the same day over and over again. This allows him to devise experiments in order to calibrate the reactions of the people around him and decide on the best strategy to pursue. Murray does not need to imagine “what might have been”: each day he can see the effect of a different attitude on others. We economists do not have that advantage. Therefore we have to rely on models based on historical correlations to give us some idea as to what will happen in different circumstances. This is relevant when we come to evaluate the performance of the Spanish economy over the past few months - especially in view of the uncertainty arising from the political environment in Catalonia. The fact that we are not seeing any significant deterioration in activity has cast doubt on estimates of the negative impact that these events could be having. Although it may not be evident, it is very likely that the increased uncertainty is reducing the Spanish economy’s capacity for growth.

To introduce some arguments in support of this idea, we need only start observing the behaviour of various financial variables. During the week following 1 October of last year, the IBEX35 fell by 2% (relative to the 27 September close), whereas the EURO STOXX index gained about 2%. This gap persisted throughout the fourth quarter. Similarly, the risk premium on Spanish ten-year sovereign bonds evolved more negatively than its Portuguese equivalent and also, in October and November, than that of Italy (until its own political problems took centre stage). In a stable environment, one might think that the current financing terms of the Spanish economy would be more favourable and external perception more positive. The models I mentioned earlier give us a cost of between 0.2 and 0.4 percentage points of GDP in the medium term.

A second factor to take into account is the impact we are already seeing on activity data. Here we could note three trends. Spending indicators signal an increase in “precautionary” savings in October. Both retail sales and new car registrations, among others, fell considerably, and by more in Catalonia than in the rest of Spain. However, we also see patterns of spending returning to normal from November on, in line with the improved perception of uncertainty. The behaviour of indicators relating to the tourist sector has likewise been disappointing. Unfortunately, it is difficult to separate out how much of this deterioration is due to structural factors relating to the exhaustion evinced by certain regions, how much to the terrorist attacks of August, and how much to the events seen in Catalonia since 1 October. Lastly, we must note that the impact on job creation seems so far to be limited. This could be the result of businesses behaving conservatively, waiting to see whether the fall in demand was permanent or temporary. Moreover, in the past few months we have seen expectations regarding the European economy improve. This is particularly evident in manufacturing output, which grew at an annualised rate of 9% from August to November. The increased contribution to growth from the export of goods could end up offsetting the negative effect of uncertainty.

To summarise, recent events have led to a relative deterioration in the movements of financial variables and a sharp fall in spending, especially in Catalonia, but one that is limited in time, and a negative performance of the tourist sector. However, it is also possible that, if the uncertainty proves short-lived, the favourable international environment will partly offset the impact on GDP. If this happens, will it mean that the impact has been zero? No. It will mean that instead of growing at between 2.5% and 3% (as foreseen by the

consensus), Spain could have continued to grow at above 3%. Sadly, it is highly likely that some people will lose their jobs or fail to find jobs as a result of these events.

This document has been prepared by BBVA Research Department, it is provided for information purposes only and expresses data, opinions or estimations regarding the date of issue of the report, prepared by BBVA or obtained from or based on sources we consider to be reliable, and have not been independently verified by BBVA. Therefore, BBVA offers no warranty, either express or implicit, regarding its accuracy, integrity or correctness.

Estimations this document may contain have been undertaken according to generally accepted methodologies and should be considered as forecasts or projections. Results obtained in the past, either positive or negative, are no guarantee of future performance. This document and its contents are subject to changes without prior notice depending on variables such as the economic context or market fluctuations. BBVA is not responsible for updating these contents or for giving notice of such changes.

BBVA accepts no liability for any loss, direct or indirect, that may result from the use of this document or its contents.

This document and its contents do not constitute an offer, invitation or solicitation to purchase, divest or enter into any interest in financial assets or instruments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

In regard to investment in financial assets related to economic variables this document may cover, readers should be aware that under no circumstances should they base their investment decisions in the information contained in this document. Those persons or entities offering investment products to these potential investors are legally required to provide the information needed for them to take an appropriate investment decision.

The content of this document is protected by intellectual property laws. It is forbidden its reproduction, transformation, distribution, public communication, making available, extraction, reuse, forwarding or use of any nature by any means or process, except in cases where it is legally permitted or expressly authorized by BBVA.