

## ACTIVITY

## Spain: momentum continued in 3Q14

Spain Unit

### The economy's expansion rate remains healthy

The trend in the variables known at the date of closing this report indicates that **the Spanish economy's recovery continued during the third quarter of 2014**. With around 80% of the information for 3Q14, the MICA-BBVA model estimates **quarterly GDP growth (QoQ) of around 0.5%** which, if confirmed, will imply a marginal moderation to the expansion rate (0.6% QoQ in 2Q14)<sup>1</sup>. The improvement in activity and job creation continued which, on this occasion, may have given rise to stagnation or even a small slide in productivity.

**Reduced uncertainty and a less contractive fiscal policy have again contributed to the growth in domestic demand** (private, in particular). In terms of commercial flows, the partial short-term indicators suggest that the lack of traction in exports we saw at the end of 2013 and the beginning of 2014 continues to lessen, despite some weak European demand indicators. Although **the doubts about recovery in Europe represent a bias to the downside, BBVA Research estimates growth of at least 2.0% in 2015<sup>2</sup>**.

**All in all, we are sticking to our assessment of the factors underlying the Spanish economy's recovery.** In the medium term, the structural reforms, the move to a productive model more geared towards exports, lower fiscal tightening requirements, a more expansive monetary policy and the absorption of imbalances are crucial for the economic reactivation to continue strengthening.

### Both domestic and external demand grow

The second quarter of the year saw vigorous expansion in domestic demand, both private and public sector, and a progressive improvement in Spanish exports<sup>3</sup>. **Available information suggests that, although some of the transitory stimuli to demand continue to taper, the composition of growth may have been similar in the third quarter.**

**On the side of private domestic demand, we estimate that the recovery continued, but at a fractionally slower rate than in the first half of the year.** While household incomes and expectations performed positively in 3Q14, some expenditure indicators weakened (for example, new car registrations and large corporations' domestic sales). Equally, the confidence and industrial production indicators, of the manufacturing PMIs and trade flows, all suggest slightly slower growth in machinery and equipment investment than in the preceding quarter.

Meanwhile, **the variables for residential investment reveal that both supply and demand are close to their turning points.** Correcting for seasonal and working day adjustments (swda), in July there was another uptick in new residential building permits. When it comes to sales, the marginal setback in July indicates that the housing market is still in the stabilisation phase prior to recovery. In the future, housing investment fundamentals allow us to predict that this trend will continue, which could result in **positive rates of growth, although moderate and from very low levels, for the rest of the second half of the year.**

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, see: [https://www.bbva.com/wp-content/uploads/migrados/WP\\_1021\\_tcm348-231736.pdf](https://www.bbva.com/wp-content/uploads/migrados/WP_1021_tcm348-231736.pdf)

2: The BBVA Research economic scenario for 2014-15 is explained in the Spain Outlook for the third quarter of 2014, here: [https://www.bbva.com/wp-content/uploads/2014/09/Spain-Economic-Outlook-3Q14\\_maq\\_FINAL3.pdf](https://www.bbva.com/wp-content/uploads/2014/09/Spain-Economic-Outlook-3Q14_maq_FINAL3.pdf)

3: For a detailed analysis of the Quarterly National Accounts for 2Q14 in Spanish: [https://www.bbva.com/wp-content/uploads/2014/08/CNT\\_2T14.docx\\_e.pdf](https://www.bbva.com/wp-content/uploads/2014/08/CNT_2T14.docx_e.pdf).

In terms of external demand, the expectations indicators (the industrial export new orders) and for income (balance of trade and external sales of goods and services by large corporations) indicate that, **even though the country's key trading partners are making uneven progress, exports of goods and non-tourism services continue to recover**. Equally, the trend in the indicators linked to consumption by non-residents (travellers and expenditure by foreign tourists) point to a positive performance in the summer season.

## Public-sector demand is no longer draining growth, but it does not compromise compliance with budget targets

The most recent information indicates a change in expenditure in public-sector consumption stance which, in the most likely scenario, will contribute positively to growth in the Spanish economy for the year as a whole. Budget execution data to July point to a very moderate correction in this item of demand, which will be insufficient to offset the intense growth in the first half of the year (4.5pp in real terms between December 2013 and June 2014, according to data from the Quarterly National Accounts for 2Q14).

All in all, **the economic recovery, together with the lower fiscal requirements, guarantees that budget targets will be met this year**. In this area, the budget execution data to July shows that the public-sector deficit (excluding local corporations) will be around 3.9% of GDP, 0.5pp below last year. The state recorded an accumulated deficit to August of 3.3% of GDP, improving its 2013 result by 0.5pp.

## Labour records have gone from less to more in the third quarter

Although September's labour records beat expectations, they did not entirely offset the weak start to the quarter. Even so, BBVA Research estimates<sup>4</sup> indicate that **the number of affiliates registered with the Social Security grew by 0.5% QoQ swda in 3Q14** (0.6% when the loss of non-professional carers is discounted), representing a slowdown of just 0.1pp over 2Q14. **The reduction in registered unemployment moderated more intensely, to -0.7% QoQ swda, from -1.9% the previous quarter**. Hiring was virtually unchanged (0.1% QoQ swda), due to temporary jobs (0.0% QoQ CVEC) and, to a lesser degree, permanent positions (1.1% QoQ swda). Thus, the percentage of temporary contracts fell 0.1 pp to 91.8% swda.

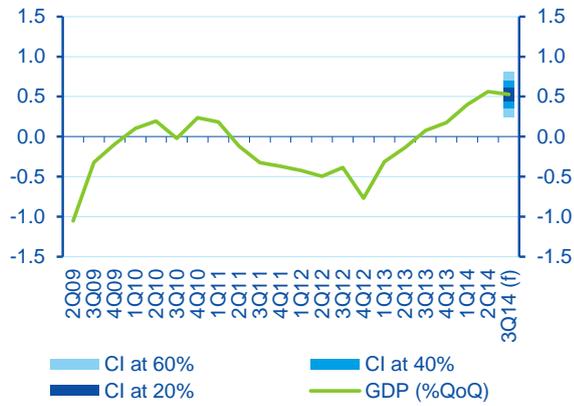
## The correction to the Spanish economy's financing needs has temporarily halted

After maintaining a surplus for nearly a year, the current account balance posted a cumulative 12-month deficit at the close of the first half of the year. Nevertheless, the process of correcting the Spanish economy's borrowing needs corresponds, in the main, to the improvement in the structural component, and as such the current account deficit should be temporary<sup>5</sup>. In this context, **the Spanish economy should show lending capacity with respect to the rest of the world during 2014-15**, provided that the commitments to internal depreciation, structural reforms and competitiveness gains are kept.

4: The seasonal and working day adjustments (swda), incorporated by BBVA Research, are based on statistical methods of univariate time series. As a result, the swda series estimates are subject to uncertainty; they may differ from estimates by other institutions and be subsequently modified without prior notice.

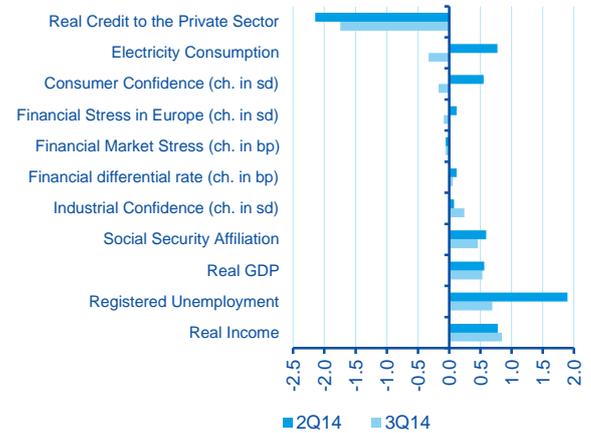
5: For more information on recent changes and the outlook for the current account balance in Spain, see our Economic Watch titled: "Un análisis de la evolución y los determinantes del saldo por cuenta corriente en España", available in Spanish here: [https://www.bbvaesearch.com/wp-content/uploads/migrados/131028\\_Observatorio\\_Cuenta\\_Corriente\\_Espa\\_a\\_Esp\\_tcm346-407130.pdf](https://www.bbvaesearch.com/wp-content/uploads/migrados/131028_Observatorio_Cuenta_Corriente_Espa_a_Esp_tcm346-407130.pdf)

**Figure 1**  
Spain: real GDP growth and MICA-BBVA model forecasts (% QoQ)



(e): estimate  
Source: BBVA Research

**Figure 2**  
Spain: change in GDP and in the key MICA-BBVA model indicators  
(+) improvement / (-) deterioration in pp unless otherwise indicated (swda data)



Data published to October and MICA-BBVA model forecasts  
Source: BBVA Research based on official institutions

Table 1

**Summary of Spain Flash publications since our last Economic Activity Watch in September**

Flash	Date	Summary	Link
<b>Spain   Industrial production in June</b>	09.10.2014	Preliminary industrial production figures for 3Q14 show a monthly stagnation in July, a consolidation of the slowdown in the upward trend which began a year ago.	<a href="#">PDF</a>
<b>Spain   Inflation fell by 0.2pp to -0.5% YoY in August</b>	09.12.2014	The expected drop in inflation was caused basically by the reduction in energy prices and the absorption of base effect in food prices. In line with expectations, core prices remain stagnated. From now on, the low inflation scenario is maintained, in which short term negative rates of inflation cannot be ruled out.	<a href="#">PDF</a>
<b>Spain   Public debt slows down growth in the second quarter</b>	09.12.2014	The Spanish central government's debt increased again during the second quarter, albeit at a more moderate pace than in the previous quarter. This increase has been driven once again by the liquidity provision programmes to regional governments.	<a href="#">PDF</a>
<b>Spain   July 2014 housing sales: weaker but within the limits of stability</b>	09.15.2014	32,545 homes were sold in July 2014, according to figures from the General Council of Notaries. Sales fell by 1.5% (swda) from the previous month. Nevertheless, the operations remained within the limits of stability that we started to see some months ago.	<a href="#">PDF</a>
<b>Spain   Trade balance of July 2014</b>	09.17.2014	The 12-month accumulated trade deficit increased 0.1pp in July to reach -2.2% of GDP. The reason behind this new deterioration in the overall balance was the reduction in the non-energy goods trade surplus. July's data confirms the recovery of goods exports.	<a href="#">PDF</a>
<b>Spain   Household and corporate deposits rise in August</b>	09.25.2014	In August, household and corporate deposits performed as expected, growing by EUR2bn	<a href="#">PDF</a>
<b>Spain   September CPI flash estimate: price fall moderates in line with expectations.</b>	09.29.2014	The leading CPI indicator confirmed the expected moderation in the drop of consumption prices, caused basically by the absorption of the base effect in food prices. Our estimates suggest that core prices have remained stagnant.	<a href="#">PDF</a>
<b>Spain   Retail sales pick up in August more than expected</b>	09.29.2014	Seasonally adjusted retail sales increased by 2.8% during August. While sector turnover grew in all product types, occupation was virtually unchanged.	<a href="#">PDF</a>
<b>Spain   Industrial and consumer confidence indicators in September 2014: reasonably optimistic</b>	09.29.2014	Although the September data is not positive, agents' expectations throughout 3Q14 have been optimistic: consumer confidence moderated but both consumer and industrial confidence stayed above pre-crisis levels. Thus, the figures published today support the BBVA Research scenario: recovery continues, but slowed down slightly in 3Q14.	<a href="#">PDF</a>
<b>Spain   Permits in June and July 2014: slight improvement</b>	09.30.2014	5.1% fewer permits were signed in June than in May. This decline was reversed in July when permits grew by 13.1% MoM, above expectations. This result brought the total for the first seven months of the year above the same period last year, which may possibly mark the beginning of the recovery in the construction sector, although levels remain low. Meanwhile, permits for home refurbishments still show no sign of recovery.	<a href="#">PDF</a>
<b>Spain   New car registrations fell in 3Q14 despite the increase in September</b>	10.01.2014	BBVA Research estimates indicate that the number of registered passenger cars in September rose in line with expectations, after seasonal adjustments. However, registrations fell throughout 3Q14 as a whole, after three consecutive quarters of improvements.	<a href="#">PDF</a>
<b>Spain   Public deficit: heading for on-target</b>	10.01.2014	Continued improvement in the public deficit is increasing the likelihood of ending the year on target. However, the risk remains in the regions as a whole of non-compliance with their objective.	<a href="#">PDF</a>
<b>Spain   Labour market figures have gone from less to more over the course of the third quarter</b>	10.02.2014	Although September's labour market figures have beaten expectations, they only partly offset weak performance at the quarter's outset. All in all, BBVA Research estimates indicate that the number of Social Security affiliates returned to growth in 3Q14 as a whole, while hiring was virtually stagnant and unemployment continued to fall.	<a href="#">PDF</a>
<b>Spain   Industrial Production in August</b>	10.08.2014	Industrial production rose marginally in August and its components showed mixed signals	<a href="#">PDF</a>

Source: BBVA Research

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