

ACTIVITY

Spain: economic growth accelerated in the last lap of 2014

Spain Unit

Spanish recovery gains traction against a complex external backdrop

The trend in variables indicates that **the rate of the Spanish economy's expansion intensified at the end of 2014**. With around 80% of 4Q14 information available, BBVA's MICA model estimates **quarterly (QoQ) GDP growth of 0.7%** which, if confirmed, would be a stronger increase than expected at the beginning of the quarter (BBVA Research: 0.5% QoQ)¹. The uptick in activity is linked to an acceleration in job creation which is likely to have given rise to a stagnation or even a marginal fall in productivity.

The improvement in domestic demand (principally in the private sector) continues to be down to short-term factors (reduction of uncertainty), stronger support of monetary and fiscal policies and structural factors. Among the latter, the correction of internal imbalances and some of the reforms pushed through in recent years. In terms of trade flows, the partial short-term indicators point to a stagnation of **Spanish exports, in an external outlook which is conditioned by the absence of momentum in the European economy and increased financial tensions**.

In short, **we are holding to our assessment of the macro-economic scenario and to the biases we have already identified. On the positive side, the oil price has continued its downward path**, with Brent crude at slightly under USD50/barrel at the close of this report. Given that the origin of this pressure on prices seems linked more to the increased supply of crude than to weakness in global demand², **this will put a positive bias on growth as we have forecast it up to now in BBVA Research's baseline scenario** (1.3% and 2.0% for 2014 and 2015 respectively). **On the negative side, the most significant risk for Spain continues to be the possibility of a prolonged stagnation in the EMU** which, if it happens, would limit export growth and with that, growth in the rest of the Spanish economy. Likewise, the increasing uncertainty resulting from external events of a geopolitical nature could affect households' and corporate consumption and investment decisions.

Domestic private demand stays high, while exports decelerate

The third quarter of 2014 featured an expansion across the board of domestic demand, in both the private and public sectors, **and a marginal reversal in net external demand**³. Information available so far for 4Q14 suggests that the composition of demand may be similar to that in 3Q14.

After the strong growth observed in 3T14, a slowdown in Spanish exports could be expected to close 2014. **Fulfilling the expectations**, confidence indicators (new industry exports orders) and spending (foreign sales of large corporations' goods and services) suggest a **virtual stagnation in exports of non-tourism goods and services**. The trend in the indicators linked to consumption by non-residents in national territory (travellers and spending by foreign tourists) suggests a flattening, although at peak levels of activity for the tourism sector.

1: For more details about BBVA's MICA model, see Camacho, M. & R. Doménech (2010): "MICA-BBVA: A Factor Model of Economic and Financial Indicators for Short-term GDP Forecasting", BBVA WP 10/2, available in Spanish at: https://www.bbvarresearch.com/KETD/fbin/mult/WP_1021_tcm348-231736.pdf?ts=2542012

2: BBVA Research estimates indicate that, since this is a relative increase in the oil supply, a temporary reduction (lasting around 12 months) in the price of 20% could have an impact on GDP of around 1.0pp for a year. If the disruption is permanent, it could raise GDP by around 1.2pp.

3: See our detailed assessment, in Spanish, of the data from the 3Q14 Quarterly National Account: https://www.bbvarresearch.com/wp-content/uploads/2014/11/Flash_CNT_3T14_maq.pdf

On the side of private domestic demand, there are no signs of exhaustion, after the widespread growth in 3Q14. So it is that the consumer spending indicators and those for household expectations (new car registrations, retail trade and consumer confidence, among others) indicate that **real spending may have returned to strong growth in 4Q14**⁴. Meanwhile, confidence, industrial production, manufacturing PMIs and trade flow performance all point to an **increased investment in machinery and equipment similar to that recorded in the previous quarter**. Finally, both the long-term fundamentals and the partial short-term indicators allow us to ratify that **the change in the residential investment cycle was confirmed at the close of 2014, with another quarter of positive growth**⁵.

Public consumption remained flat, but the budgetary targets are being met

The most recent information suggests that **real public consumption continued to stagnate in 4Q14**, which will not prevent positive growth for 2014 as a whole, given the uptick in 1Q14. Sluggishness here and the performance of the public deficit imply that **it is thanks mainly to recovery in revenue that we can forecast that budget targets will be met** – a recovery that is driven by the expanding economy - **and by the reduction in other spending items** (in particular, interest payments and unemployment benefits). On this, the budgetary execution figures to October signal that the public deficit (excluding local corporations) stood at around 4.1% of GDP, 0.9pp less than the year before. Meanwhile, the central government deficit to November came in at 3.3% of GDP, 0.4pp less than in 2013.

The improvement in the labour market gains momentum

BBVA Research estimates indicate that **the number of workers affiliated to the Social Security increased by 0.8% QoQ swda in 4Q14**, representing an acceleration of 0.3pp to that registered in 3Q14. Between October and December, hiring rose again (1.5% QoQ swda), for both temporary contracts (1.4% QoQ) and, in particular, long-term ones (2.9% QoQ). Finally, unemployment fell faster over the quarter, to -1.4% QoQ swda (-0.7% % QoQ swda in 3Q14).

The Spanish economy's lending capacity has slipped, but this is temporary

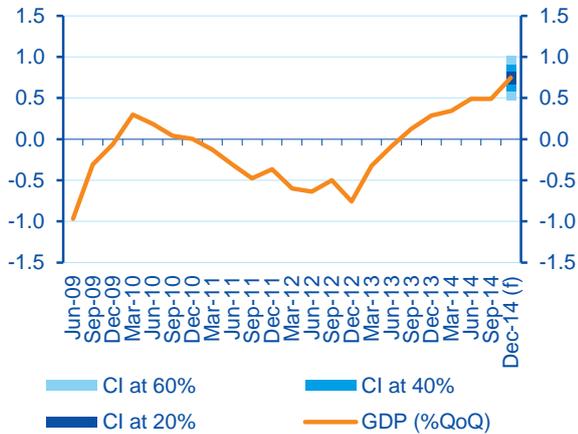
Non-financial accounts for the institutional sectors (CNFSI by the acronym in Spanish) have confirmed that **the Spanish economy's lending capacity edged down to 0.6% of YoY accumulated GDP to the end of 3Q14**. This was the result of a contraction in the savings rate and, to a lesser degree, of a slight increase in the investment rate, similar to the previous quarter. Despite this, **the Spanish economy ought to continue showing lending capacity compared to the rest of the world in 2015**, given the drop in the price of oil, low interest rates and expected growth in exports⁶.

4: For more information about the recent performance of, and outlook for, private consumption, see the Consumption Outlook report for the second half of 2014, available in Spanish at: https://www.bbva.com/wp-content/uploads/2014/12/Situacion_Consumo_2S14.pdf

5: For a deep analysis of the current Real Estate situation see the Spain Real Estate Activity Flash, available at: https://www.bbva.com/wp-content/uploads/2014/12/Real-Estate-flash_Dec14.pdf

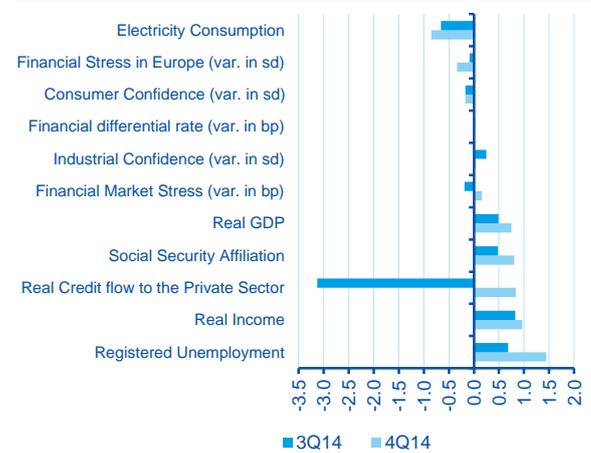
6: The recent correction process of the Spanish economy's borrowing needs is a response, in the main, to the improvement in the structural component and as such the moderation in the current account surplus should be transitory. For more information about the recent movements in the current account in Spain and the outlook for the same, see our Economic Watch, available in Spanish, titled: <https://www.bbva.com/publicaciones/observatorio-economico-espana-un-analisis-de-la-evolucion-y-los-determinantes-del-saldo-por-cuenta-corriente-en-espana/>

Figure 1
Spain: GDP growth and the BBVA's MICA modelling forecasts (% QoQ)



(e): estimate.
Source: BBVA Research

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



Data published to January and forecasts by BBVA's MICA model.
Source: BBVA Research based on official figures

Table 1

Summary of Spain Flashes published since the Spain Outlook for the fourth quarter 2014

Flash	Date	Summary	Link
Spain Energy and food put more downward pressure than expected on inflation	12.12.2014	The intensification in the fall in headline prices was mainly due to the performance of energy and unprocessed food prices. By contrast, the components of core inflation remained broadly stable. Our scenario of low inflation remained with downward bias caused by uncertainty about raw material prices	PDF
Spain The growth of public debt slowed in the third quarter	12.12.2014	In the third quarter of 2014, growth of the Spanish public administration's debt slowed again, standing at 96.8% of GDP. This growth was mainly in the regions and central administration (consolidated with Social Security).	PDF
Spain October 2014 home sales: contraction of sales	12.15.2014	According to data from the General Council of Notaries, 32,694 homes were sold in October 2014. Home sales fell by 3.1% (swda) over the previous month. However, the cumulative sales between January and October were 17.3% higher than the same period in 2013.	PDF
Spain Trade balance in October 2014	12.17.2014	The 12-month accumulated trade deficit increased in October due to the adverse evolution of both, the non-energy goods surplus and the energy deficit. Despite this new deterioration, the trade deficit remains stable at -2.3% of GDP. The last quarter of the year opened with a slightly reduced pace in exports.	PDF
Spain December CPI flash estimate: Energy prices pressured headline inflation to the downside more than expected	12.30.2014	The CPI flash estimate shows a sharper-than-anticipated decline in consumer prices, mainly due to falling energy prices. Our estimates suggest that the decline in core prices may have stabilised.	PDF
Spain November retail sales surprised to the upside	12.30.2014	Once seasonally adjusted, real retail sales posted an unexpected increase in November. Employment in the sector rose by 0.1% (MoM swda), in line with the average for the year to date.	PDF
Spain Passenger car registrations grew in the fourth quarter and over the year as a whole despite the drop in December	01.02.2015	BBVA Research estimates (swda) indicate that the number of registered vehicles in December fell, impacted by poor performance in the professional channel. Even so, the fourth quarter closed with a quarterly increase of 8%, and the total number of cars registered over the year was 855,000.	PDF
Spain Improvements in the labour market intensified during the fourth quarter of 2014	01.05.2014	Although registered unemployment was higher than expected, improving employment in December strengthened the positive trend of labour market in the 4Q14. BBVA Research estimates indicate that growth of both affiliation to the Social Security and hiring accelerated in 4Q14, while registered unemployment fell faster.	PDF
Spain Industrial and consumer confidence in December 2014	01.08.2015	Although agents' expectations showed mixed signals in December, both industrial and consumer confidence remained above pre-crisis levels. The data published today is thus consistent with the BBVA Research scenario, suggesting an acceleration of growth at the end of 2014.	PDF
Spain Further softening of the economy's financing capacity	01.08.2015	The Spanish economy's lending capacity declined to 0.6% of GDP, on an annual aggregate basis, in the third quarter of the year. This was the result of a contraction in the savings rate and a small growth in the investment, similar to the previous quarter dynamics. By agents, only the government improved its balance sheet from the previous quarter.	PDF
Spain Industrial production in November	01.09.2015	Although industrial production posted negatively in November for the second month in a row, this downward trend is not common to all components.	PDF
Spain Energy and unprocessed foods cause inflation to drop more than expected in December	01.15.2015	The fall in headline inflation was intensified at the end of 2014, mainly as a result of energy and unprocessed food prices. By contrast, core prices stabilised. Our forward forecast is for negative headline inflation rates until mid-year, resulting from downward pressure on the price of raw materials.	PDF
Spain Trade balance in November 2014	01.16.2015	The 12-month accumulated trade deficit increased in November compared to the previous month. The improvement was modest and the trade balance remained at -2.3% over GDP. The positive evolution of the energy deficit compensates the deterioration of the non-energy surplus. The fourth quarter witnesses a softening export pace	PDF
Spain November 2014 home sales: the recovery trend continues	01.16.2015	According to data from the General Council of Notaries, 31,017 homes were sold in November 2014. Home sales grew by 3.6% (swda) over the previous month, a higher growth rate than expected. Thus, cumulative sales between January and November were 16.8% higher than the same period in 2013.	PDF

Source: BBVA Research

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