

## ECONOMIC ACTIVITY

# Spain: the recovery of activity and employment takes hold in 4Q15

Spain Unit

## Economic growth stabilises in the final stages of the year

The trend among the variables observed as this note went to print indicates that **Spain's economy is still growing in the fourth quarter of 2015**. With close to 50% of the information for 4Q15, the MICA-BBVA model<sup>1</sup> estimates that **GDP's quarterly advance (QoQ) could reach 0.8%, which is the same as the previous quarter**. This figure is 0.1pp above that offered in our [Spain Outlook, fourth quarter 2015](#) and, if this trend is confirmed, it would give the forecasts for GDP growth (3.2% in 2015 and 2.7% in 2016) in this two-year period a slight positive bias.

Growth continues to be sound and supported by both external and domestic factors. Outside influences include **low oil prices, the gradual pick-up in European demand and, above all, European Central Bank (ECB) monetary policy**, which helps to bring about suitable conditions in terms of the euro exchange rate, interest rates and liquidity. In this respect, the central bank's Governing Council last week announced further measures<sup>2</sup> aimed at boosting the recovery of both credit and domestic demand, and bringing price movements into line with the inflation target.

With regard to domestic factors, we should recall that **the recovery of demand rests not merely on transitory elements**, but also on structural aspects that will continue to encourage growth in the medium term. The latter include the consequences of certain economic reforms (such as that of the labour market) and also the changes which have taken place in the productive structure, such as, for example, the re-orientation of investment towards machinery and equipment components, or output towards external demand<sup>3</sup>.

To summarise, the most recent cyclical data, together with the changes in the external environment and economic policy, allow us to stand by the assessment of activity and employment in BBVA Research's central scenario, even though the **likelihood of mildly more positive scenarios for Spain's economy has increased**.

## Private demand is still generally growing

In 3Q15 **activity continued to find support from domestic demand**, this exhibiting a slightly bigger contribution to quarterly growth (1.1pp, BBVA Research: 0.8pp) than expected and compared to the figure for the previous quarter (1.0pp). Particularly striking was the **unforeseen acceleration by household consumption** (of 0.1pp to 1.0% QoQ, BBVA Research: +0.8% QoQ) and the **smaller than anticipated slowdown in machinery and equipment investment** (by 1.4pp to 2.3% QoQ, BBVA Research: 1.5% QoQ). On the other hand, housing investment ground to a virtual standstill (0.1% QoQ), comfortably beating the forecast deceleration (BBVA Research: 1.0% QoQ).

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://goo.gl/zeJm7g>

2: Such measures most notably include cutting deposit facility rate and extending the asset purchase programme. For further details see the BBVA Research ECB Watch published on 3 December 2015, available at <https://goo.gl/tDE494>

3: See Boxes 1 and 2 of Spain Outlook, fourth quarter 2015, available at <https://goo.gl/DrDTdt>

**External demand bled 0.3pp from growth last quarter**, since the progress made by exports (2.8% QoQ) was outweighed by that of imports (4.0% QoQ). Even though goods sales abroad lost momentum, as expected (-0.7pp to 1.5% QoQ, BBVA Research: +1.3% QoQ), services exports gained traction in exceptional fashion (6.1pp to 5.6% QoQ; BBVA Research: +1.0% QoQ).

**Looking to the year-end, the available information suggests that the growth mix could reinforce the pattern seen in 3Q15.** As for external demand, the variables that relate to spending (sales abroad by larger companies and tourist spending) and expectations (orders book) indicate that **exports should continue to grow, though at a slower pace** than in the first nine months of the year. On the private domestic demand side, partial short-run indicators (vehicle registrations, retail sales, agents' confidence and labour market readings) confirm that **household consumption is likely to continue to spearhead the recovery**, at growth rates in the 0.8-1.0% band QoQ. Meanwhile, trends in industrial confidence, the manufacturing PMIs and industrial production suggest a further deceleration of growth in machinery and equipment investment. Finally, although **the fundamentals and short-run indicators offer mixed signals in the near term**, on balance the data point to continuity in the recovery of **housing investment**<sup>4</sup>.

## Public sector demand surprises on the high side and works against reaching budget targets

**The breakdown of the Quarterly National Accounts (QNA) for 3Q15 threw up some surprises in connection with public administrations.** In particular, real public administrations consumption showed an acceleration (of 0.2pp to 0.9% QoQ), while it had been expected to come to a virtual standstill (BBVA Research: 0.3% QoQ). On the other hand, there was confirmation of the expected slowdown in non-residential construction (of 1.1pp, down to 1.5% QoQ), which was affected by public works.

Together with developments with respect to the public sector deficit, this showing by demand confirms that **the fiscal adjustment still rests on the shoulders of cyclical recovery**, in terms of both revenues and expenditure on unemployment benefit payments. In this regard, the available figures for public administrations budget execution (excluding local corporations) indicate that, in spite of the good performance by central government, the rate of adjustment is falling short of managing to offset the deterioration in the Social Security item and the deviation by the regions.

## Employment has gained traction going into the fourth quarter

According to BBVA Research estimates<sup>5</sup>, the number of affiliates to the Social Security system grew by around 60,000 swda in November (20,000 more than in October). **If the positive trend consolidates over the present month, the number of registrations could rise by 0.7% QoQ swda in 4Q15**, which would imply a substantial pick-up following the lull in growth observed during the months in the middle of the year (0.3% QoQ in 3Q15). In keeping with this, BBVA Research estimates suggest that the fall-off rate in registered unemployment quickened by some 20,000 people swda last month (taking this up to 40,000), and if this trend runs on into December, it would give rise to **a drop in unemployment on a par with that in the previous quarter (-1.8% QoQ swda)**.

## Consumer prices fell in August, but core inflation remains positive

**The flash estimate showed that the YoY fall in consumer prices eased up by 0.4pp, taking this to an annual net -0.3% in November.** According to the INE preview, the smaller slip in prices was due to a reduction in downward pressure on the cost of energy compared to the decrease in such prices a year

4: An in-depth examination of the real estate situation can be found in the Real Estate Outlook, second half 2015, at <https://goo.gl/d8yPL3>

5: The seasonal and working day adjustment (swda) used by BBVA Research is based on univariate time series statistical methods. As a result, estimates of series swda are subject to uncertainty, can differ from those made by other organisations, and be changed after the event without warning.

previously. On the other hand, **core prices rose by 0.8% YoY in October and, according to BBVA Research estimates, these could have accelerated by another 0.1pp in November.**

**Overall, the gradual improvement in trend inflation in the Spanish economy continues within a context of a recovery of price-competitiveness,** where the inflation differential with respect to the euro area remains in Spain's favour. Specifically, measures of trend inflation show prices moving up at approaching 0.8% in Europe and 0.4% in Spain<sup>6</sup>.

### Spain's economy increased its financing capacity in 3Q15

The balance of payments figures show that **the annual current account surplus amounted to EUR16.3bn (cumulative to September)**, which was above the levels seen at the close of both Q2 (EUR15bn) and, above all, 2014 (EUR10.2bn). From the point of view of the financial account, it can be seen that **outward and inward investment flows improved in September, while the Spanish economy increased its net lending** (by EUR5.1bn). Specifically, the inflow of non-resident capital produced an increase in investment of EUR3.8bn, while resident sectors lifted their investment abroad by EUR8.9bn.

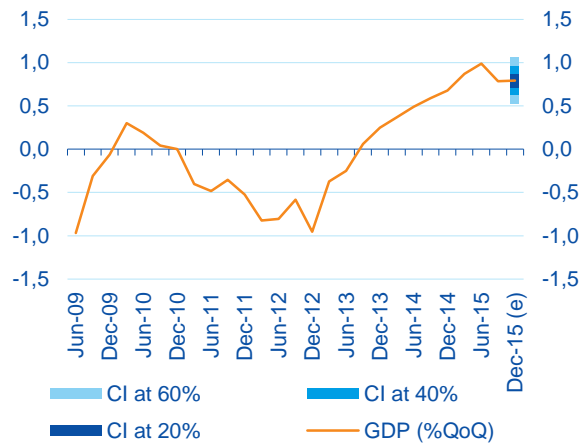
Going forward, the Spanish economy is expected to continue to exhibit financing capacity with respect to the rest of the world, given its structural adjustment<sup>7</sup>, export growth, low interest rates and the progressive cheapening of oil.

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6: For further details on the calculation of trend inflation using the trimmed means method, see Box 1 of the Spain Outlook, first quarter 2014, at <http://goo.gl/j0riT8>

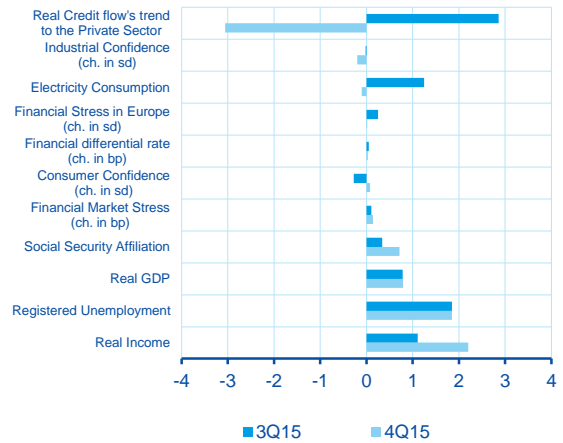
7: The process of correcting the Spanish economy's borrowing requirement has chiefly come with improvement in the structural component. For more information on recent developments and the outlook for the current account balance in Spain, see the Economic Watch "An analysis of the performance and determinants of the current account balance in Spain" at <http://goo.gl/qF1qz6>

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



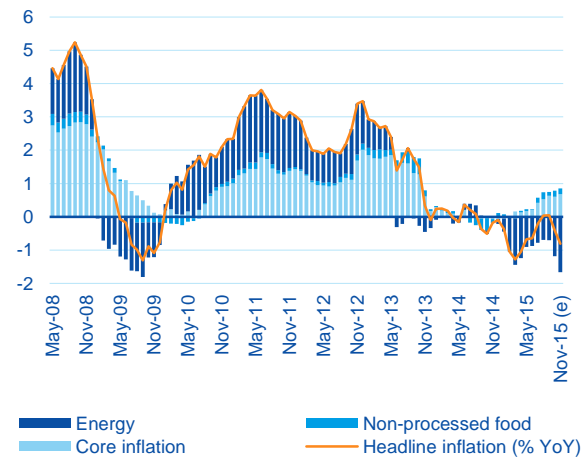
(e): estimate.  
Source: BBVA Research

**Figure 2**  
Spain: Trends in GDP and key MICA-BBVA model indicators  
(+) improvement / (-) deterioration in pp save where otherwise indicated (swda)



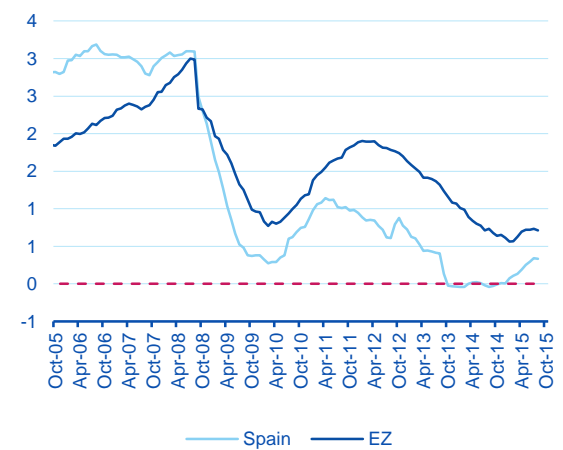
Data out up to 9 December 2015 and MICA-BBVA model forecasts.  
Source: BBVA Research based on official organisations

**Figure 3**  
Spain: contribution to CPI rise (pp YoY)



(e): estimate  
Source: BBVA Research

**Figure 4**  
Spain and EMU: trend inflation (trimmed means method, % YoY)



Source: BBVA Research based on INE and Eurostat

Table 1

## Summary of Spain Flashes since publication of Spain Outlook, fourth quarter 2015

Flash	Date	Abstract	Enlace
<b>Headline inflation moderated its fall in October, and core inflation improved</b>	13.11.2015	The decline in headline inflation moderated last month due to the improvement in core inflation and lower fall in energy prices. Looking forward, BBVA Research anticipates that the positive trend of the core component will be maintained, although volatility in the price of commodities does not allow us to rule out further headline prices' declines in short term	<a href="#">PDF</a>
<b>September 2015 home sales: growth without surprises</b>	16.11.2015	According to data from the General Council of Notaries 30,328 homes were sold in September 2015, which is 11.4% more than in August. As a result, transactions between January and September exceed 10.9% for the same period of 2014.	<a href="#">PDF</a>
<b>September trade balance shows an improvement of trade in 3Q15</b>	19.11.2015	Both real exports and imports of goods recovered in September, closing the third quarter in positive territory. The accumulated trade balance deficit slightly increased again, despite the reduction of the energy bill	<a href="#">PDF</a>
<b>Public administrations: adjustment of the public deficit is kept in September 2015</b>	24.11.2015	The public deficit (excluding local governments) stood at 3.4% of GDP until September, which improves the figure from a year ago. Despite the good performance of the central government, the pace of adjustment does not seem enough to offset the deterioration in Social Security accounts. The probability of failing to meet year-end target is maintained	<a href="#">PDF</a>
<b>Permits in September 2015: growth in the month closes a quarter of flat evolution</b>	26.11.2015	In September 4,419 housing permits were signed, 2.9% more than in the previous month. This puts an end to a quarter in which they have remained stable compared to 2T15. Thus, permits signed between January and September increased 30.6% yoy. For its part, refurbishment also showed a positive development.	<a href="#">PDF</a>
<b>The National Accounts confirms the slowdown of quarterly growth in 3Q15</b>	26.11.2015	As expected, the quarterly growth of the Spanish economy moderated in 3T15. However, the slowdown was not homogeneous as foreseen, but concentrated in investment and exports of goods. Nevertheless, the observed development is consistent with BBVA Research scenario, which envisages an increase of 3.2% in 2015 and 2.7% in 2016	<a href="#">PDF</a>
<b>The flash indicator confirms that the decline in CPI moderated in November</b>	27.11.2015	The flash indicator of the CPI confirms that the decline in headline prices continued to moderate in November. BBVA research estimates suggest that energy continues to explain the fall in prices and core inflation gradually improves	<a href="#">PDF</a>
<b>Optimism goes up among consumers, but not for the industry</b>	27.11.2015	Despite the agents' expectations are positive, some mixed signals are still observed, which cast doubts on its upward trend in the short term. Thus, while the consumer confidence improves again, production expectations decrease, explaining the further decline in industrial confidence	<a href="#">PDF</a>
<b>Retail sales got off to a positive start in 4Q15</b>	30.11.2015	After seasonal adjustments, retail sales at constant prices grew in October in line with forecasts. Food, personal equipment and household equipment are responsible for turnover's increase	<a href="#">PDF</a>
<b>The balance of payments closed the third quarter of 2015 with favorable figures</b>	30.11.2015	The balance of payments ended the third quarter with a current account surplus that improves on the observed at end of 1S15. Both the surplus of goods and services and the income deficit improved in September. Investment flows to and from abroad also performed positively	<a href="#">PDF</a>
<b>Particular passenger car registrations surprised to the upside in November</b>	01.12.2015	After seasonal adjustments, BBVA Research estimates that passenger car registrations increased in November more than expected. Rent-a-car and private customers responsible for the demand rise	<a href="#">PDF</a>
<b>Social security affiliation increased and unemployment falls more than expected</b>	02.12.2015	November figures confirm the dynamism of labor market shown by September and October data. After seasonal adjustments, BBVA Research estimates that affiliation increased by 60 thousand people, while unemployment fell exceeded 40 thousand	<a href="#">PDF</a>
<b>Spain   The trend in industrial production (IPI) remains positive in October</b>	04.12.2015	Industrial production (IPI) behaved better than expected in October, consolidating the upward trend observed since 2013. However, some mixed signals remain among components production	<a href="#">PDF</a>

Source: BBVA Research and BLS

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