1 Editorial

In 2016 the Spanish economy will grow at a gentler pace than in 2015, but it will once again show growth rates above the European average. Trends in both employment and household income will be positive and will continue to stimulate housing demand. The improvement seen in the property market has finally translated into new building, which will lead to a significant increase in housing starts, the main driver of this industry in 2016.

In this context of market improvement, housing prices have left their lowest prices behind, and at the end of 2015 were already showing gains in value, on an aggregate level, in all the autonomous regions of Spain, for both new and existing residential properties. In some regions where the increases started earlier, such as Madrid and the Balearic Islands, prices are already more than 10% up on the lows of two or three years ago. The trend indicates that in 2016 there will be more markets with higher property values.

Mortgage lending is playing a significant role in this recovery, and will be crucial for its development in 2016. Flows of credit to families for the acquisition of residential property is evolving at a good pace, well ahead of sales, and the trend suggests that this will continue throughout 2016. Financing for property developers was already positive in 2015 and will slowly consolidate in 2016.

It is expected that this year finished residential properties will start to increase in number in some markets, while in others they might bottom out. At the same time building permits for new residential properties will grow at a rate of around 30%. This, together with the greater dynamism we are seeing in the market for land, will ensure the advance of the construction business. Thus it is expected that in 2016 investment in housing will grow again, increasing its weight in the economy.

Box 1 shows an analysis of the productivity of the construction industry. It analyses the historical development of labour productivity and total factor productivity (TFP), from a sectoral and international perspective. It reaches the conclusion that the industry, both in Spain and in other countries, has grown historically on the basis of accumulating productive factors, especially employment, and that in the future it would be advisable for the industry to grow more via quality than quantity of factors.

The improvement in the economy is leading to a decrease in emigration and a new magnet for immigration. In this regard, Box 2 shows the effects that the improvement we are seeing in the labour market as a result of increased economic activity will have on net migration. If in the long term the Spanish economy grows at its average GDP potential, immigration will be the factor that mitigates the limitations imposed by an ageing population. Forecasts indicate that we will see positive net migration figures in the short term, which will be a new incentive for residential demand.

Yours sincerely,
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