

ACTIVITY

Spain: the recovery continues in 2017

Spain Unit

The trend in the observed variables indicates that the **Spanish economy continues to grow at the beginning of the year**. With almost 50% of the information available for 1Q17, the MICA-BBVA model¹ estimates that **quarterly GDP growth (QoQ) could stand at 0.8%**, a slightly higher figure than those registered in the second half of 2016 (see Figure 1). If this forecast is met, it will imply a slight upward bias to the 2017 growth foreseen in BBVA Research's scenario (2.7%). Nevertheless, expectations of a slowdown relative to 2016 remain (of around 0.5 pp)².

Private domestic demand continues to underpin growth

The fourth quarter of 2016 was characterised by the positive contribution made by domestic demand to growth (0.6 pp QoQ)³. In particular, the increase in household consumption (0.7% QoQ) and investment in residential construction (1.4%) stood out. In contrast, there were negative surprises from both public spending and capital expenditure on machinery and equipment (-0.2% and -0.1% respectively), while investment in non-residential construction (affected by public works) remained flat as it had been throughout most of 2016, with zero growth.

Looking at the first quarter of the year, available information suggests a somewhat more balanced composition of domestic demand. The signals extracted from the expenditure, expectations and labour market indicators point to private consumption moderating its growth marginally returning to around 0.6% QoQ (see Figure 2). Budgetary execution data indicate that, following the decline seen at the end of 2016, public consumption would grow again in the first quarter of the year (by around 0.5% QoQ). On the other hand, **we estimate that growth in investment will remain at more moderate rates than those recorded since the start of 2014**. As for capital expenditure on machinery and equipment, the partial indicators suggest that it could start to recover in 1Q17 following the virtual stagnation observed in the second half of last year (see Figure 3). Residential investment is expected to continue the upward trend seen at the end of 2016 (see Figure 4).

1: See Camacho, M. and Doménech, R. (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: BBVA Research's description of the economic scenario for the two-year period 2017-2018 can be found in the Spain Economic Outlook review, first quarter 2017, available from: <https://goo.gl/16EFIL>

3: A detailed evaluation of the data from the Quarterly National Accounts (CNTR) for 4Q16 can be found (in Spanish) at <https://goo.gl/BfHwI5>

Exports will continue to grow in 1Q17

With regard to external demand, **the last quarter of 2016 confirmed the recovery of both outflows and inflows following the temporary decline observed in 3Q16**. On the export side the outstanding features were the good performance of the tourist industry, which registered a QoQ increase of 4.1% and, to a lesser extent, that of other (non-tourist) services, which were up by 2.2% QoQ. Sales of goods abroad also grew, by 1.6% QoQ. Thus **external demand contributed 0.1 pp to the quarter's GDP growth, as the increase in imports (1.8% QoQ) remained below that of total exports (2.0% QoQ)**.

For the first quarter of the year, available indicators suggest that **total exports will continue growing (1.2% QoQ), albeit at a slower pace than that seen at the end of last year (2.0% QoQ)**. The moderation in growth will probably be seen in both **exports of goods (0.9% QoQ) and in consumption by non-residents (1.2% QoQ)** (see Figure 5). The latest will be limited by the base effect caused by the unusual growth of 4Q16.

More affiliates and fewer unemployed in February consolidate the positive trend in the labour market in 1Q17

Following the uptick in January, the increase in the Social Security affiliation moderated slightly in February (to 48,000 persons SWDA, according to BBVA Research estimates). If this trend continues through the current month, the number of affiliations could increase by 0.8% QoQ SWDA in 1Q17, which, in any event, would imply a slight **slowdown in job creation** (1.0% QoQ SWDA in 4Q16). Meanwhile, unemployment continued its downward trend last month (-33,000 people SWDA according to BBVA Research estimates), and if this continues in March, it will lead to a bigger fall in registered unemployment than that observed at the close of 2016 (-2.6% QoQ SWDA as against -2.3% in 4Q16) (see Figure 6).

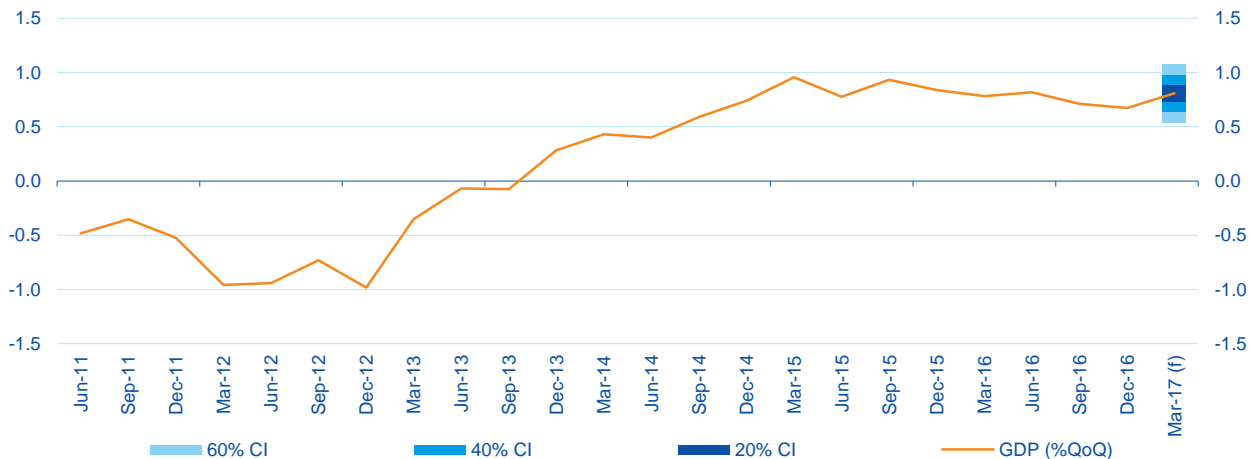
Inflation, driven by energy prices, may have peaked in February

Headline inflation stabilised at 3.0% YoY in February. Behind this result lie the stability of core inflation (around 1.0% YoY) and the cease, at least for now, in the upward pressure on energy prices (see Figure 7). **However, the cumulative rise in inflation conditions the economy's gains in price competitiveness**. The headline inflation differential, which has been unfavourable to Spain since December, stood at 1.0 pp in February (compared with the historical average of +0.8 pp), while the price differential of the core component stood at 0,1pp.

Looking ahead, we estimate that the base effect of energy prices will gradually dissipate from March on, enabling a slowing in headline inflation. **Thus, the year will end with an average headline inflation of around 2.1%, and core inflation will continue its gradual upward trend (1.2% on annual average for 2017)**.

Figure 1

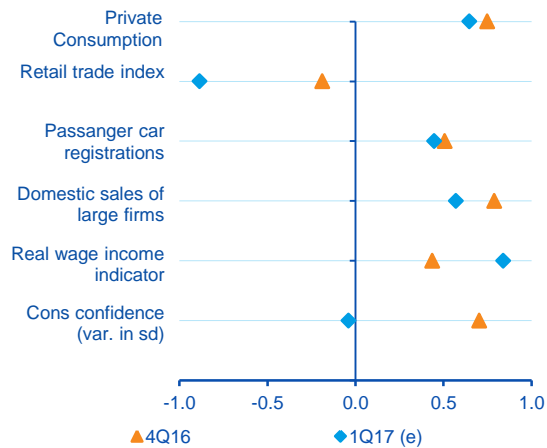
Spain: observed growth in GDP and forecasts of the MICA-BBVA Model (% QoQ)



(f): forecast.
Source: BBVA Research

Figure 2

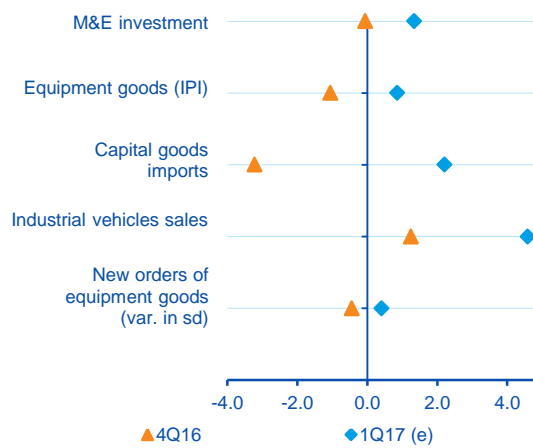
Spain: selection of indicators related to household consumption (% QoQ SWDA, unless otherwise indicated)



(e): estimated.
Source: BBVA Research based on data from official bodies

Figure 3

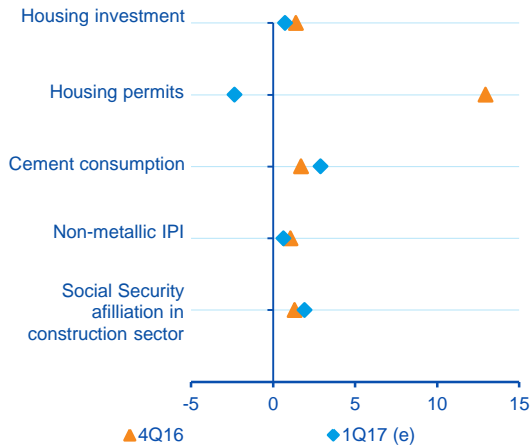
Spain: selection of indicators linked to investment in machinery and equipment (% QoQ)



(e): estimated.
Source: BBVA Research based on data from official bodies

Figure 4

Spain: selection of indicators linked to investment in housing construction (% QoQ)



e): estimated.
Source: BBVA Research based on data from official bodies

Figure 5

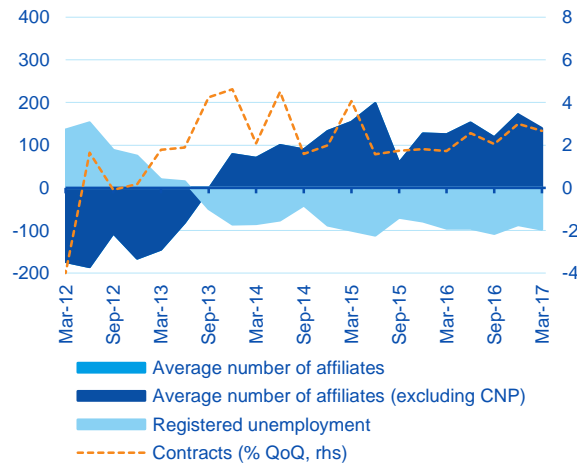
Spain: selection of indicators linked to exports (% QoQ, unless otherwise indicated)



e): estimated.
Source: BBVA Research based on data from official bodies

Figure 6

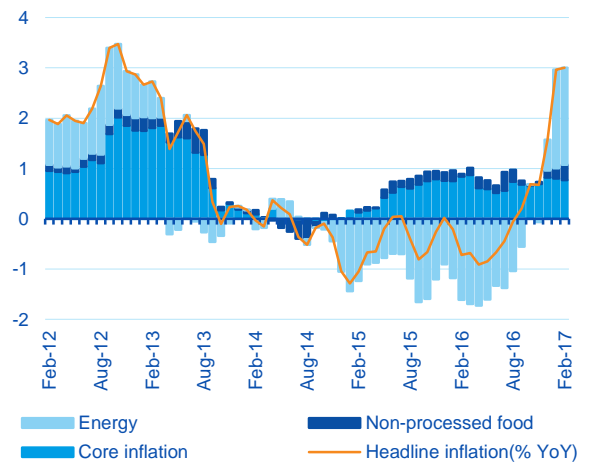
Spain: figures from the labour market (quarterly change in thousands of people unless otherwise indicated, SWDA data)



e): estimated.
Source: BBVA Research based on data from official bodies

Figure 7

Spain: contribution to CPI growth (percentage points YoY)



e): estimated.
Source: BBVA Research based on INE figures

Table 1

Spain: macroeconomic forecasts (Annual rates of change in %, unless otherwise indicated)

	2014	2015	2016	2017 (p)	2018 (p)
Activity					
Real GDP	1.4	3.2	3.2	2.7	2.7
Private consumption	1.6	2.8	3.2	2.5	2.4
Public consumption	-0.3	2.0	0.8	1.8	1.9
Gross Capital Formation	3.8	6.0	3.1	3.3	4.4
Machinery and Equipment	8.3	8.9	5.0	4.1	4.3
Construction	1.2	4.9	1.9	2.5	4.2
Housing	6.2	3.1	3.7	3.2	5.8
Domestic Demand (contribution to growth)	1.9	3.3	2.8	2.4	2.6
Exports	4.2	4.9	4.4	4.5	5.2
Imports	6.5	5.6	3.3	3.8	5.5
External Demand (contribution to growth)	-0.5	-0.1	0.4	0.3	0.1
Nominal GDP	1.1	3.7	3.6	4.9	5.2
(Billions of euros)	1,037.0	1,075.6	1,113.9	1,170.1	1,230.8
Labour market					
Employment, EPA (Labour Force Survey)	1.2	3.0	2.7	2.5	2.5
Unemployment rate (% of labour force)	24.4	22.1	19.6	17.5	15.8
NAT Employment (full-time equivalent)	1.1	3.0	2.9	2.3	2.1
Apparent productivity of labour factor	0.3	0.3	0.4	0.5	0.6
Prices and costs					
CPI (annual average)	-0.2	-0.5	-0.2	2.1	1.9
CPI (end of period)	-1.0	0.0	1.6	1.4	1.9
GDP deflator	-0.3	0.5	0.3	2.1	2.5
Compensation per employee	0.0	0.4	0.0	1.0	1.9
Unit labour cost	-0.3	0.2	-0.4	0.5	1.4
External sector					
Balance of payments on current account (% of GDP)	1.1	1.4	2.0	1.9	1.8
Public sector (*)					
Debt (% of GDP)	100.4	99.8	100.5	98.9	96.2
Balance Public Adm. GDP	-5.9	-5.1	-4.4	-3.1	-2.2
Households					
Nominal disposable income	0.9	1.9	2.8	3.6	4.6
Savings rate (% nominal income)	9.1	8.4	8.4	7.5	7.9

Annual change in %, unless indicated expressly

(p): projected.

Forecast closing date: 3 February 2017.

(*) Excluding aid to Spanish banks

Source: BBVA Research

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