

Activity

Spain: Downward bias in economic growth with high internal and external uncertainty

Spain and Portugal Unit

20 August 2018

After the surprisingly disappointing results in 2Q, the Spanish economy is set to record quarterly growth of 0.7% in 3Q. This, together with the increase of risks and its probability of materialization has meant a downward bias in the 2018 growth forecasts projected by BBVA Research (2.9%). Domestic demand continues to sustain economic activity while expectations of exports recovery are maintained. Finally, there is a temporary moderation of job creation at the start of the quarter, at the same time that inflation has interrupted its upward trend.

GDP grew at a slightly slower rate than was estimated at the beginning of the third quarter

The flash estimate, published by INE, Spain's National Statistics Institute, indicated that the Spanish economy grew 0.6% QoQ in 2Q18, below the forecast rate of 0.8% QoQ and the progress from the previous two quarters (0.7% QoQ). With almost 20% of the information available for the second quarter, the MICA-BBVA model shows that the advance quarterly GDP estimate would be 0.7% QoQ (see Figure 1), around the lower bound of the forecasting range for the quarter (between 0.7% and 0.9% QoQ). If these forecasts materialise, it would represent a slight downward bias against BBVA Research's estimated growth for 2018 (2.9%).

Domestic demand continues to drive activity, despite the slowdown of certain key components

According to the Quarterly National Accounting flash estimate, domestic demand accounted for all GDP growth in 2Q18 (a contribution of 0.8% QoQ). The recovery recorded by investment in machinery and equipment (5.7% QoQ) was a positive sign, as was the strength of the non-residential building sector (1.8% QoQ) and public consumption (0.7% QoQ). In contrast, there was a significant slowdown in both household consumption (0.2% QoQ) and residential building (0.3% QoQ).

Looking at the third quarter, expenditure indicators and consumer forecasts, labour market records and estimates of response to the fiscal impulse included in the 2018 general budget have bolstered consumer spending to levels close to those registered at the beginning of the year (see Figure 2). Meanwhile, budgetary data suggests that public consumption could continue to grow at the current rate.

As far as investment is concerned, partial economic indicators suggest that sums earmarked for machinery and equipment will remain at current levels. In any case this would imply a practically quarterly growth stagnation after the good data from the past quarter (see Figure 3). Meanwhile, residential investment may again continue to grow, albeit at a slower rate than that seen in 2Q18 (see Figure 4).

External demand disappoints at the end of the first half of the year, although it may regain traction in the short term

The second quarter of 2018 closed with a drop in total exports (-1.0% QoQ) which was significantly greater than the fall in imports (-0.3% QoQ), resulting in a negative contribution of external demand to growth (-0.2pp QoQ). The negative performance of foreign sales extended to both goods (-0.8% QoQ) and services (-1.4%), with non-tourism service performing particularly poorly (-2.3%). All the data available suggests that, despite having under-performed over the first half of the year, exports may recover ground in 3Q18 (see Figure 5).

Job creation to slow down in the third quarter

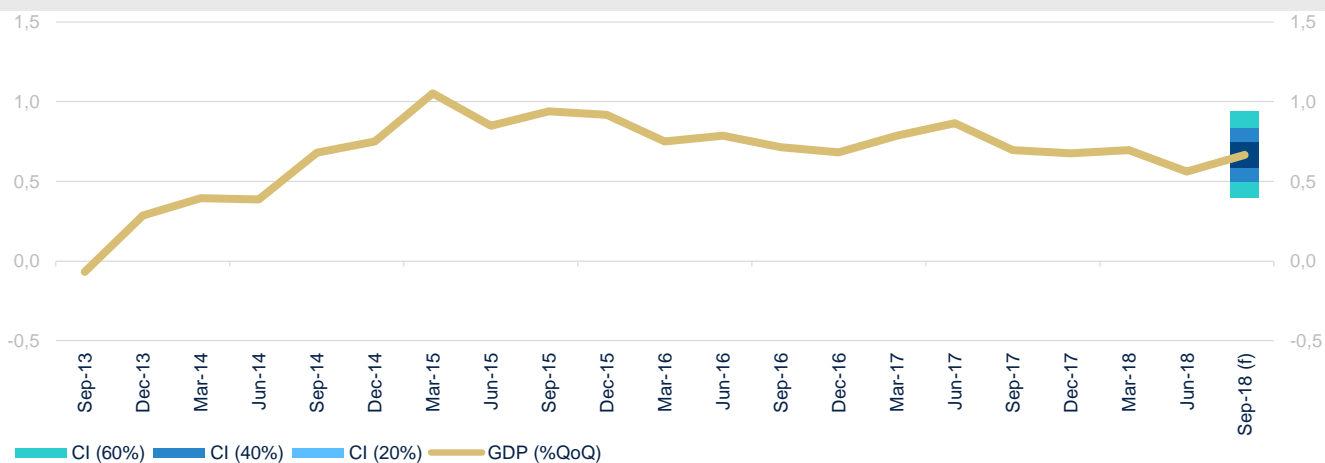
BBVA Research estimates indicate that the number of Social Security registrations grew by 25,000 people SWDA in July, 20,000 less than last month. These figures suggest that this loss of traction was probably temporary, and that 3Q18 will close with a variation of around 0.6% QoQ SWDA (0.7% QoQ SWDA in 2Q18). Similarly, registered unemployment continued its downward trend last month (-14,000 people SWDA according to BBVA Research estimates), which, if prolonged, could result in a fall for the whole of 3Q18 of 1.1% QoQ SWDA, somewhat lower than in 2Q18 (-1.5% QoQ SWDA) (see Figure 6).

Inflation's upward trend slows in July

Headline inflation slowed slightly last month (0.1pp to 2.2% YoY), mainly due to a lower rate of core inflation (-0.1pp to 0.9% YoY). The rise in general prices in July turned out to be 0.2pp higher than that registered in the EMU countries as a whole. BBVA Research forecasts indicate that the difference in the core component (which excludes energy and unprocessed foodstuffs) would also have been moderate (-0.1pp).

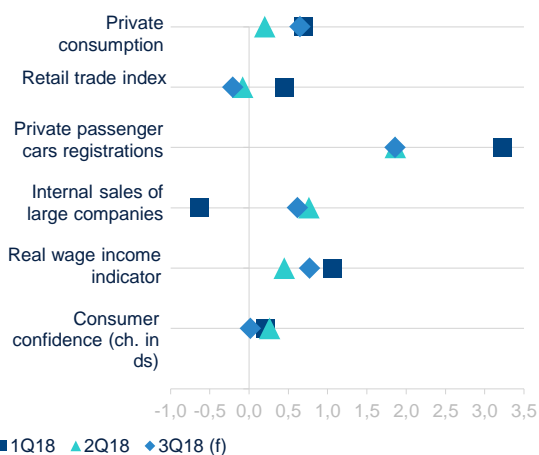
Looking forward, it is expected to see inflation gradually slowing, although in August it should remain at 2.2%. Core inflation will probably stay below 1.0% for the rest of the financial year.

Figure 1 Spain: observed growth in GDP and forecasts from the MICA-BBVA Model (% QoQ, SWDA)



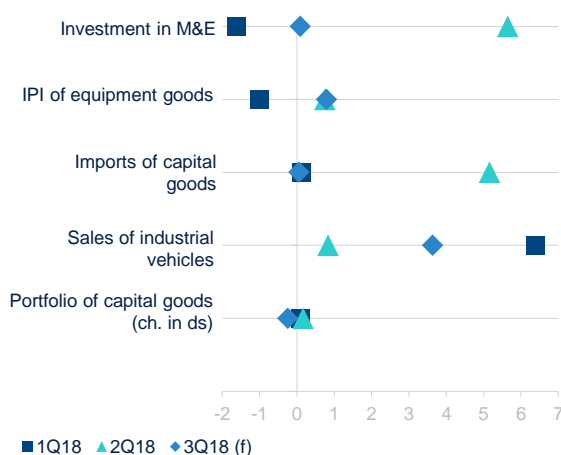
(f) Forecast.
Source: BBVA Research

Figure 2 Spain: selection of indicators linked to private consumption (% QoQ SWDA unless otherwise indicated)



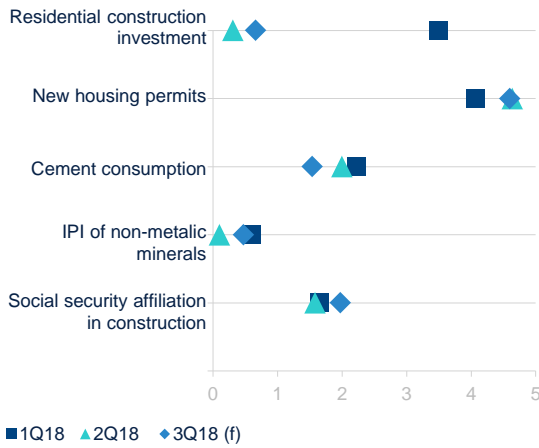
(f) Forecast.
Source: BBVA Research based on data from official bodies

Figure 3 Spain: selection of indicators linked to investment in equipment and machinery (% QoQ SWDA unless otherwise indicated)



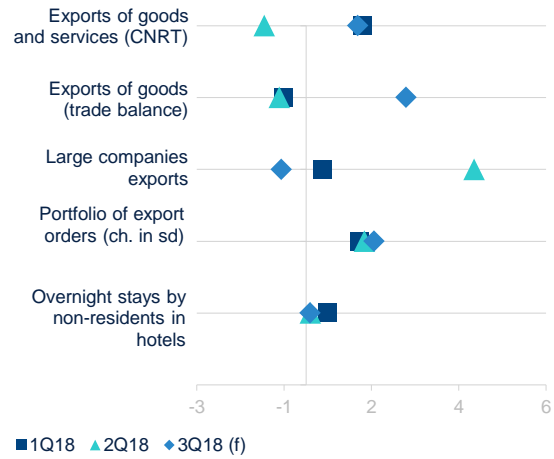
(f) Forecast.
Source: BBVA Research based on data from official bodies

Figure 4 Spain: selection of indicators linked to investment in residential construction (% QoQ SWDA unless otherwise indicated)



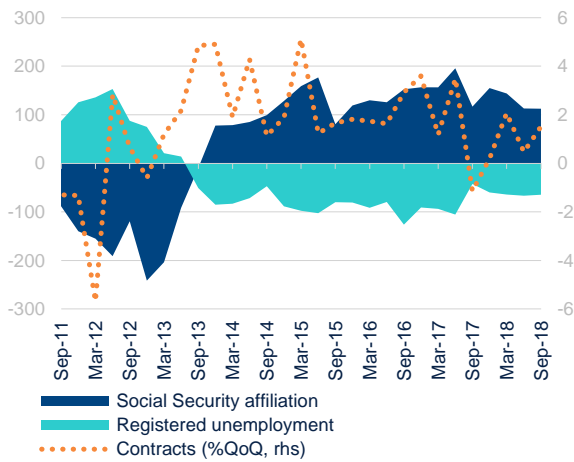
(f) Forecast.
Source: BBVA Research based on data from official bodies

Figure 5 Spain: selection of indicators linked to exports (% QoQ SWDA unless otherwise indicated)



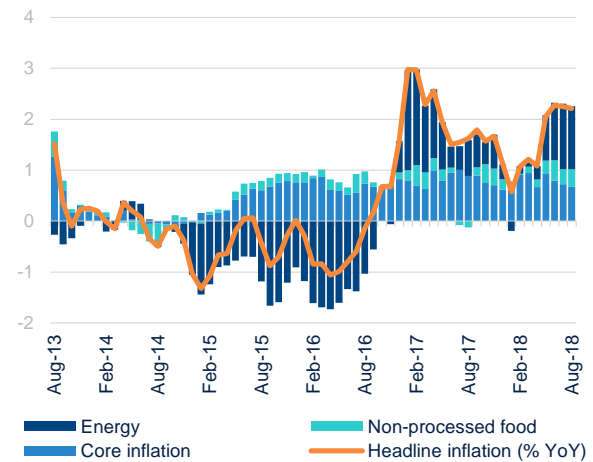
(f) Forecast.
Source: BBVA Research based on data from official bodies

Figure 6 Spain: labour market records (quarterly change in thousands of people unless otherwise indicated, SWDA data)



Source: BBVA Research, based on Ministry of Employment and Social Security figures

Figure 7 Spain: contribution to year-on-year CPI growth (pp)



Source: BBVA Research based on INE (National Statistics Institute) data

Table 1 Spain: macroeconomic forecasts (Annual rates of change in %, unless otherwise indicated)

(Annual average, %)	2015	2016	2017	2018	2019
Activity					
Real GDP	3.4	3.3	3.1	2.9	2.5
Private consumption	3	2.9	2.4	2.6	2.1
Public consumption	2.1	0.8	1.6	2	2
Gross Capital Formation	6.5	3.3	5	4.3	5.6
Equipment and Machinery	11.5	5	6.2	2.3	5.7
Construction	3.8	2.4	4.6	5.9	5.5
Housing	-1	4.4	8.3	7.8	5.5
Domestic Demand (contribution to growth)	3.9	2.5	2.8	2.8	2.7
Exports	4.2	4.8	5	3.5	6
Imports	5.9	2.7	4.7	3.6	7.1
External Demand (contribution to growth)	-0.4	0.7	0.3	0.1	-0.2
Nominal GDP	4.1	3.6	4	4.8	5
(Billions of euros)	1080	1118.5	1163.7	1219.6	1280.2
Labour market					
Employment, LFS (Labour Force Survey)	3	2.7	2.6	2.3	2.3
Unemployment rate (% of labour force)	22.1	19.6	17.2	15.2	13.5
Employment, full-time equivalent	3.2	3	2.8	2.5	2.2
Productivity	0.3	0.3	0.2	0.4	0.3
Prices and costs					
CPI (annual average)	-0.5	-0.2	2	1.8	1.7
CPI (end of period)	0	1	1.1	2	1.6
GDP deflator	0.6	0.3	1	1.6	2.3
Compensation per employee	1.6	-0.3	0.1	1	2.6
Unit Labour Cost	1.4	-0.6	-0.1	0.7	2.3
External sector					
Current Account Balance (% of GDP)	1.1	1.9	1.7	1.3	1.5
Public sector (*)					
Debt (% of GDP)	99.4	99	98.3	96.7	94.2
Deficit (% of GDP)	-5.2	-4.3	-3.1	-2.8	-2.1
Households					
Nominal disposable income	2.2	2	2	4.3	5.3
Savings rate (% of nominal disposable income)	8.8	7.9	5.9	6.5	7.9

Annual change in %, unless expressly indicated.

(f) Forecast.

Forecast closing date: (13 July 2018).

(*) Excluding financial assistance to Spanish banks.

Source: BBVA Research

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