

Regional Analysis Spain

Slowdown: Temporary or permanent?

Expansión (Spain)

Miguel Cardoso

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Spain's GDP growth remains strong, although we have seen moderation relative to previous years. While it is always tempting to seek a single culprit, this seems to be rather the combined result of various factors. Some of these are temporary, but others are here to stay. In this environment of increased vulnerability, there is a need to move ahead on consensus positions that allow implementation of policies to reduce uncertainty and promote inclusive growth.

Let us take this one step at a time. The high rate of growth of recent years is partly explained by factors that it will be difficult to replicate in the future. One of these has to do with "pent-up demand", that is to say the demand that built up on the part of households and businesses as they postponed spending decisions during the crisis. The reduction in uncertainty, together with the recovery of employment and access to credit, have allowed households for example to cease postponing renewal of certain durable consumer goods. However, after years of increased spending, fewer and fewer people find themselves in that situation, so the effect on domestic demand is being diluted.

A second factor, which it is hard to see changing in the short term, is the increased cost of energy. In 2018, the average price of a barrel of crude will be 35% more than last year. Both the solid growth in world demand and the actual or potential fall in supply point to oil prices in 2019 being similar to those seen this year. For now, the evidence points to businesses having opted to avoid passing on these increased transport costs in prices, thus limiting the impact on activity. This decision presumably reflected a perception that the increase in oil prices was temporary. If this is not confirmed, job creation could slow in the next few quarters.

Thirdly, the exhaustion of growth in the tourist sector may continue. This adjustment is due in part to failure to earn the loyalty of a certain segment of visitors, to the gains in price-competitiveness made by some alternative destinations, and to the improved perception of security in countries directly competing with Spain. As a result of all these factors we have seen the start of an exodus, which it is hard to see being halted in the short term. Although firms in the sector are reacting by adjusting margins or specialising in segments with greater added value, the environment is less favourable than in previous years for a sector that has been one of our main growth drivers.

Fourthly, uncertainty about economic policy remains high, both in Spain and worldwide. In this regard, BBVA Research has been warning that this uncertainty would be shaving between 0.2 and 0.3 percentage points off growth every year, since 2016.

Although all these factors are no doubt limiting growth, some of them will reverse. For example, part of the slowdown comes from the slower growth in exports of goods in the first half of the year. The strong increase in capital expenditure on machinery and equipment, together with the depreciation of the euro against the dollar and the continuing recovery in the euro zone presage a more favourable environment during the second half of the year. Also, fiscal policy has moved from neutral to expansive with the approval of the General State Budget for 2018. Additionally, the economy will continue to be supported by monetary policy, low interest rates and in particular the increased supply of credit. Finally, labour-intensive sectors such as construction could start to play an important role in job creation. All this seems to point to growth remaining at levels around 2.5%, this year and next.

Having said that, it is clear that the recovery has become more vulnerable and that it seems essential to move ahead with measures to reduce uncertainty, with policies that, while reflecting commitment to inclusive growth, also continue to encourage investment and job creation.

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BBVA Research: Calle Azul, 4. Edificio La Vela – 4ª y 5ª planta. 28050 Madrid (España). Tel.:+34 91 374 60 00 y +34 91 537 70 00 / Fax:+34 91 374 30 25 - bbvaresearch@bbva.com www.bbvaresearch.com