

Activity

Spain | Activity could slow down again in 1Q20

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After recovering some traction at the end of 2019, growth could decrease to 0.4% in the first quarter of 2020. Demand composition remains volatile and monthly records continue to show signs of weakness in the labor market

The upsurge in activity in 4Q19 may have been temporary

The flash estimate published by the Instituto Nacional de Estadística (Spanish Office of National Statistics, INE) indicated that the growth of the Spanish economy accelerated 0.1pp to 0.5% QoQ in 4Q19, and was thus at the upper end of the BBVA Research forecast range (between 0.3% and 0.5% QoQ). However, **with about 20% of the information available for the first quarter, the MICA-BBVA model¹ points out that GDP growth could return to around 0.4% QoQ** (see Figure 1), below the average rate observed since the beginning of the recovery (0.7% QoQ).

Therefore, although the temporary upturn in growth in 4Q19 would introduce a slight upward bias on the growth estimated by BBVA Research for 2020 (1.6%), the evaluation of the Spanish economy's performance in the short term remains the same: the slowdown could have been interrupted, but the evolution of growth will crucially depend on the resolution of the various sources of uncertainty and the policies implemented.²

The sluggishness of investment shapes the evolution of domestic demand

According to the flash estimate of the Spanish Quarterly National Accounts (QNA), in 4Q19 **domestic demand suffered a sharp decline and drained 0.4pp to quarterly GDP growth**. On the downside, sluggish household consumption (0,0% QoQ) and a fall in machinery and equipment investment (-5.7% QoQ) provided some unpleasant shocks. On the contrary, residential construction recovered, albeit temporarily, (1.7% QoQ) and a new advance in public consumption (0.6% QoQ).

For the first quarter of the year, consumer spending and expectation indicators show that private consumption accelerated slightly from no growth in 4Q19 and despite weak employment records (see Figure 2). For their part, budget execution data suggest that public consumption could slow, following the upturn observed in second semester of 2019.

With regards to investment, the partial indicators show that investment in machinery and equipment would return to positive territory (see Figure 3), while residential investment could decline (see Figure 4).

1: For more details on the MICA-BBVA model, see Camacho, M. and R. Doménech (2010): "MICA-BBVA: A Factor Model of Economic and Financial Indicators for Short-term GDP Forecasting," BBVA WP 10/21, available at: <https://bit.ly/2OTgt11>
2: See "Spain Outlook 4Q19":

The recovery in external demand consolidates

The fourth quarter of last year saw a recovery in total exports (1.5% QoQ) which, together with the strong decrease in imports (-1.2% QoQ), **resulted in a positive contribution from net external demand to quarterly GDP growth** (0.9pp compared to -0.1pp on average during the first nine months of 2019). The positive performance of sales abroad was concentrated in both goods (2.3% QoQ), and touristic services (1.8% QoQ).

For the first quarter, available data suggest that exports could continue to show a positive trend. In any case, although trade tensions between the US and China have diminished, uncertainty about the international context remains high, which could affect trade during the coming months (see Figure 5).

The slowdown in job creation continues

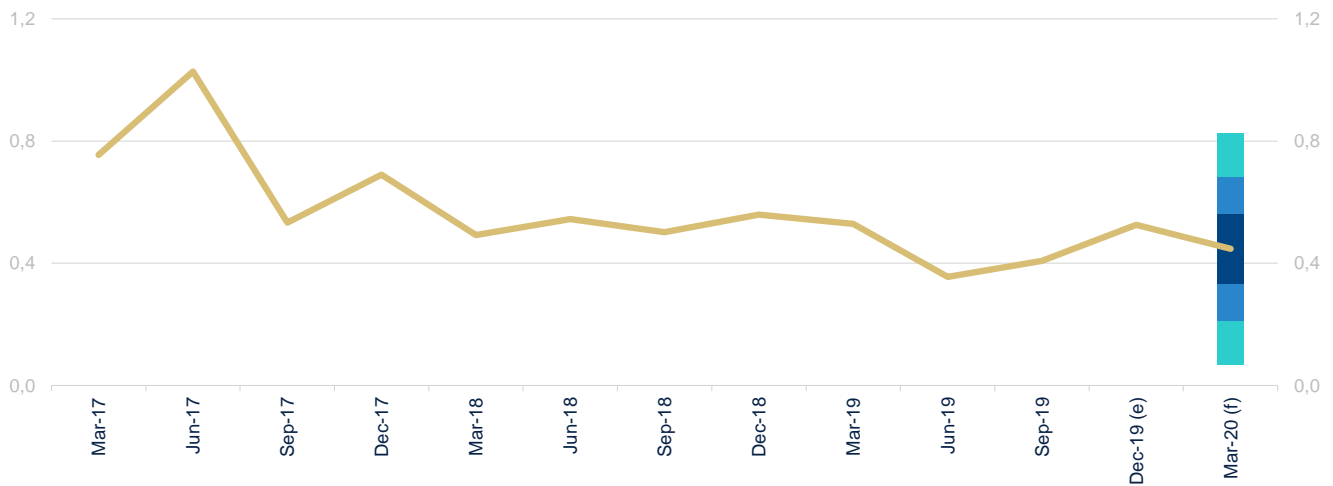
BBVA Research estimates indicate that the number of Social Security affiliations would have increased by around 9,000 people SWDA in January, confirming a decrease in the pace of job creation, both compared to last year (32,000 people on average per month) and above all, with the 2018 records (46,400 people on average per month). The number of people unemployed would have increased marginally (4,000 people SWDA), the fourth monthly increase since October. If these trends continue for the remainder of the quarter, **1Q20 could close with a slowdown in employment growth to around 0.2% QoQ SWDA** and with a new quarterly increase in registered unemployment that would confirm a break in the downward trend recorded since 2Q13.

Inflation continues its gradual trajectory of recovery

The flash estimate published by INE suggests that headline inflation increased slightly in January (by 0.3pp to 1.1% YoY), and BBVA Research estimates point to a stabilization of the core inflation at around 1.0%. Therefore, price growth would probably remain below that recorded in all EMU countries, after closing December 2019 at -0.5pp with regards to headline inflation and -0.3pp for the core headline.

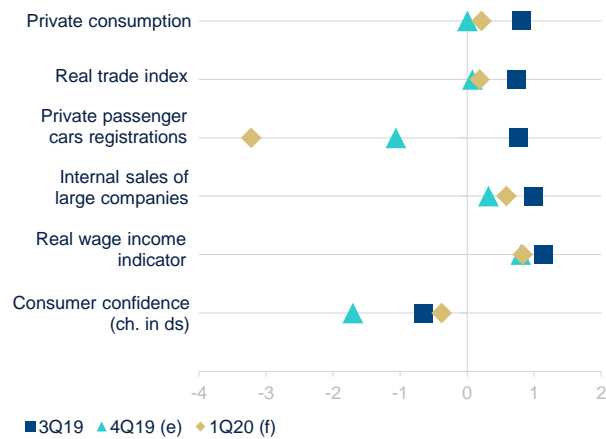
Looking ahead, inflation is expected to remain relatively stable. On average, both headline and core inflation will remain at 1.0% in 2020.

Figure 1. **SPAIN: GDP GROWTH AND MICA-BBVA MODEL FORECASTS (% QoQ SWDA)**



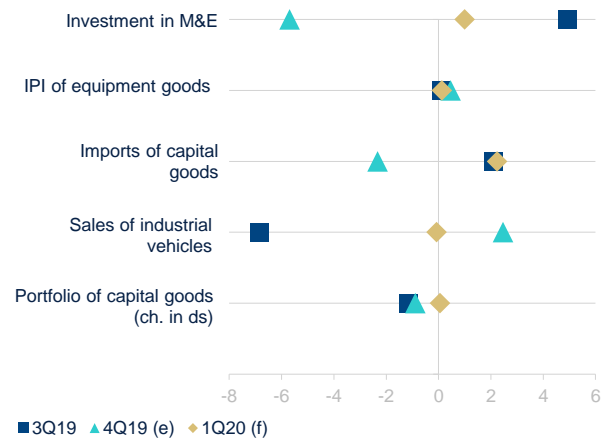
(e) Flash estimate. (f) Forecast.
Source: BBVA Research based on INE data

Figure 2. **SPAIN: SELECTION OF INDICATORS RELATED TO HOUSEHOLD CONSUMPTION (% QoQ SWDA, UNLESS OTHERWISE INDICATED)**



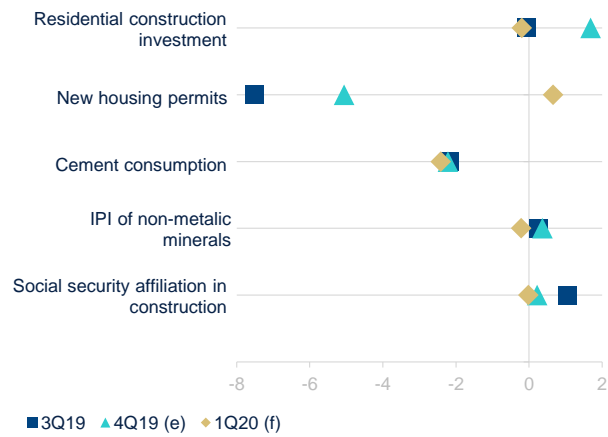
(e) Flash estimate. (f) Forecast.
Source: BBVA Research based on data from official bodies

Figure 3. **SPAIN: SELECTION OF INDICATORS RELATED TO INVESTMENT IN EQUIPMENT AND MACHINERY (% QoQ SWDA, UNLESS OTHERWISE INDICATED)**



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

Figure 4. **SPAIN: SELECTION OF INDICATORS RELATED TO INVESTMENT IN RESIDENTIAL CONSTRUCTION** (% QoQ SWDA, UNLESS OTHERWISE INDICATED)



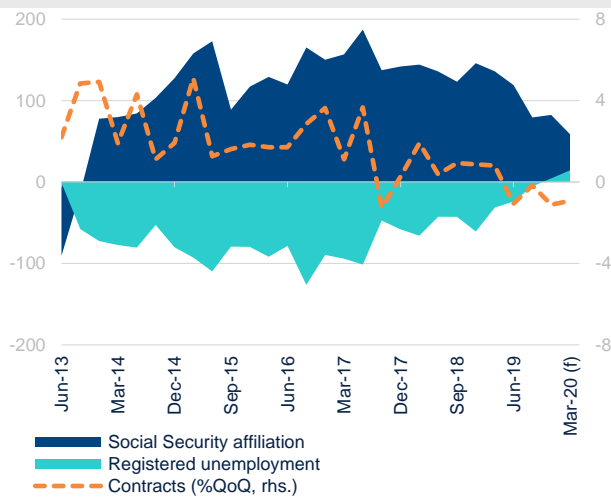
(e) Flash estimate. (f) Forecast.
Source: BBVA Research based on data from official bodies

Figure 5. **SPAIN: SELECTION OF INDICATORS RELATED TO EXPORTS** (% QoQ SWDA, UNLESS OTHERWISE INDICATED)



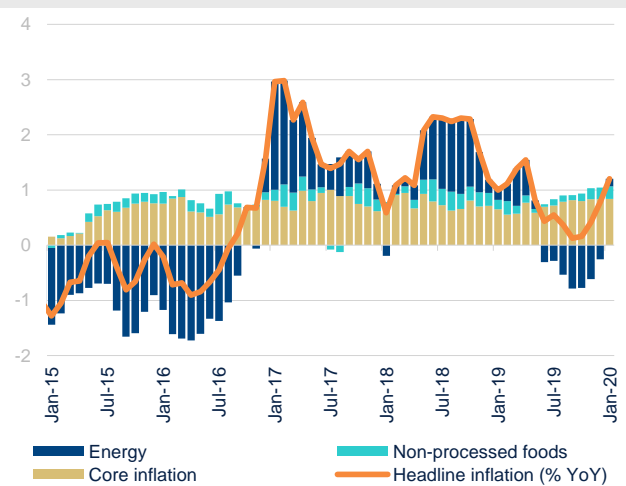
(e) Flash estimate. (f) Forecast.
Source: BBVA Research based on data from official bodies

Figure 6. **SPAIN: LABOR MARKET FIGURES** (% QoQ SWDA)



(f) Forecast.
Source: BBVA Research, based on data from MTMySS

Figure 7. **SPAIN: CONTRIBUTION TO YEAR-ON-YEAR CPI GROWTH (PP)**



Source: BBVA Research based on INE data

Table 1. SPAIN: MACROECONOMIC FORECASTS
 (ANNUAL RATES OF CHANGE IN %, UNLESS OTHERWISE INDICATED)

	2017	2018	2019	2020 (f)	2021 (f)
Activity					
Real GDP	2.9	2.4	2.0	1.6	1.9
Private consumption	3.0	1.8	1.1	1.4	1.6
Public consumption	1.0	1.9	2.2	1.7	1.8
Gross Fixed Capital Formation	5.9	5.3	1.9	2.6	4.5
Equipment and Machinery	8.5	5.7	2.6	3.2	5.1
Construction	5.9	6.6	0.8	1.4	3.8
Housing	11.5	7.7	3.0	2.4	5.0
Domestic Demand (contribution to growth)	3.0	2.6	1.5	1.7	2.1
Exports	5.6	2.2	2.3	2.6	3.4
Imports	6.6	3.3	1.2	3.0	4.5
External demand (contribution to growth)	-0.1	-0.3	0.4	-0.1	-0.3
Nominal GDP	4.3	3.5	3.5	2.7	3.6
(Billions of euro)	1161.9	1202.2	1244.8	1275.9	1322.1
Labor market					
Employment, based on Labor Force Survey	2.6	2.7	2.3	1.4	1.7
Unemployment rate (% of labor force)	17.2	15.3	14.1	13.5	12.5
Employment (full-time equivalent) based on Quarterly National Accounts	2.8	2.5	2.3	1.4	1.6
Apparent labor productivity	0.0	-0.2	-0.3	0.3	0.3
Prices and costs					
CPI (annual average)	2.0	1.7	0.7	1.0	1.5
CPI (end of period)	1.1	1.2	0.8	1.2	1.7
GDP deflator	1.4	1.1	1.6	1.0	1.7
Pay per salaried employee	0.7	1.0	2.1	2.0	1.7
Unit labor cost	0.7	1.2	2.4	1.8	1.5
Foreign sector					
Balance on current account (% of GDP)	2.5	1.8	1.7	1.2	0.9
Public sector (*)					
Debt (% of GDP)	98.6	97.6	96.8	96.5	95.1
Public Administrations Balance. (% GDP)	-3.0	-2.5	-2.4	-2.2	-2.0
Households					
Nominal disposable income	2.9	3.7	3.9	3.8	4.2
Savings rate (% of nominal income)	5.9	6.3	7.7	8.9	9.8

Annual change in %, unless expressly indicated.

Data observed for the years 2017 to 2019 and forecasts (f) of BBVA Research for the two-year period 2020–2021.

Forecasts based on data up to: January 11, 2020. (*) Excluding financial assistance for Spanish banks.

Source: BBVA Research

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