

Economic Watch

Spain

Madrid, January 10, 2014
Economic Analysis

Spain Unit

Fourth quarter of 2013: on the path towards sustained growth?

- **Released data corresponding to 4Q13 support the expectations of a sustained recovery**

The trend in the observed variables confirms that the rate of recovery of the Spanish economy gained momentum in the fourth quarter of 2013. With 81.8% of the available information for 4Q13, the MICA-BBVA model estimates a rate of GDP growth of around 0.3% with respect to 3Q13¹, in line with BBVA Research's forecasts and consistent with a GDP decline of around 1.3% for 2013 as a whole. Likewise, productivity growth is expected to continue slowing down.

The improvement in economic activity is based on the easing of financial tensions (as a result of the economic measures taken in Europe and Spain), the reduction in the fiscal effort compared with 2012 and, lastly, the strength of the external sector, despite its recent slowdown. These factors are already having a positive effect on domestic demand (mainly on private demand) and, looking ahead, continue to suggest that the recovery will consolidate during 2014, closing the year with GDP growth of around 0.9%.

- **Exports have lost some momentum, but private domestic demand would be offsetting this slowdown**

Regarding foreign demand, indicators of expectations (industrial exports order books) and expenditure (foreign sales of goods and services by large companies and the trade balance) suggest that, although the volume of exports of goods is still high, the slowdown seen in 3Q13 could have intensified in 4Q13. In contrast, the trend of the indicators linked to non-domestic tourism (the number of foreign tourists and their spending) continues rising, consolidating the increase in demand observed through the summer season.

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: http://www.bbva-research.com/KETD/fbin/mult/WP_1021_tcm348-231736.pdf?ts=2542012

On the private domestic demand side, some indicators of household consumption expenditure (car registrations, consumer confidence and industrial production of consumption goods) continued to show signs of stabilization or improvement in 4Q13. However, poor retail sales in October –albeit partially offset in November– confirm that the recovery is still fragile. The stability of manufacturing PMIs as measured by the October-December average, together with increased industrial confidence and the improved IPI for equipment goods, suggest that investment in machinery and equipment will grow again. If confirmed, the latter would be the fourth consecutive quarterly increase.

In contrast, data on residential investment confirm that both supply and demand continue adjusting, although less sharply than in recent years. Despite the fact that both new construction building permits and residential mortgages showed a positive performance in October, there are no significant changes in the fundamentals of housing investment that suggest that the performance of the housing sector will be very different from that seen in recent quarters.

- **For the first time since the outburst of the crisis, positive signs are observed in the labor market**

The number of affiliates in the Social Security system increased 0.6% q/q swda in 4Q13 (0.5% q/q swda excluding the loss of non-professional carers), which contrasts with the estimated decline of -0.3 pp during 3Q13. This is the first non-seasonal increase in affiliation since the first quarter of 2008. This pace of job creation would have been supported by activities related to the public administration, which created 128,800 jobs from September to December, 54,600 more than in the same period of 2012. However, even excluding this factor, the growth in affiliates in 4Q13 was positive (0.2% q/q swda).

The fall in registered unemployment intensified to -1.8% q/q, swda during 4Q13 -from -0.6% in the previous quarter. Besides, both permanent hiring (+1.1% q/q) and, especially, temporary employment contracts (+4.9% q/q) increased again between October and December, yielding an overall increase of 4.6% q/q swda in hiring during the last quarter of 2013 .

- **Pressure continues to grow on meeting budget targets**

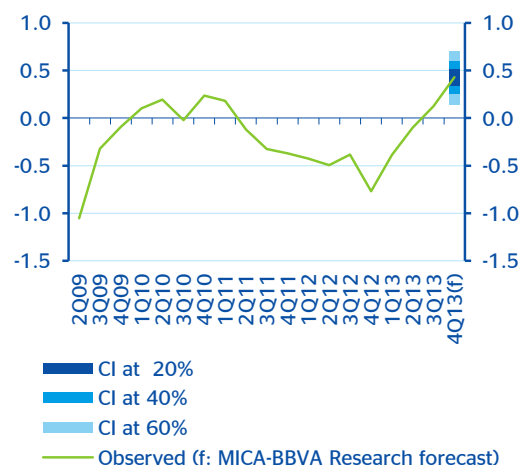
Although the reduced rate of fiscal adjustment decreased the downward bias on growth during 2013, it poses a risk in terms of meeting budget targets. According to the information revealed by the Non-Financial Accounts, public administrations had a year-cumulative deficit of 7.0% of GDP as of 3T13, excluding assistance to the financial sector. Pending the publication of official data for the close of 4Q13, a significant recovery in public revenue is not expected, and the expenditure reduction seems insufficient to reach the year-end target (-6.5%), which could be, thus, slightly surpassed. In net terms, budget execution data for public administrations (excluding local government) show a cumulative public deficit to October 2013 of 4.9% of GDP.

By sub-sector, the central administration continues to accumulate the largest deficit, 3.5% of GDP in October, 0.3 pp below the target for 2013. As of October, the autonomous regions registered a deficit of 1.1% of GDP. Finally, the Social Security System improved its balance in October when compared with the figure registered the previous month, closing the October with a deficit of 0.2% of GDP.

- **The Spanish economy continues to reduce its external imbalances, although at a still relatively slow pace**

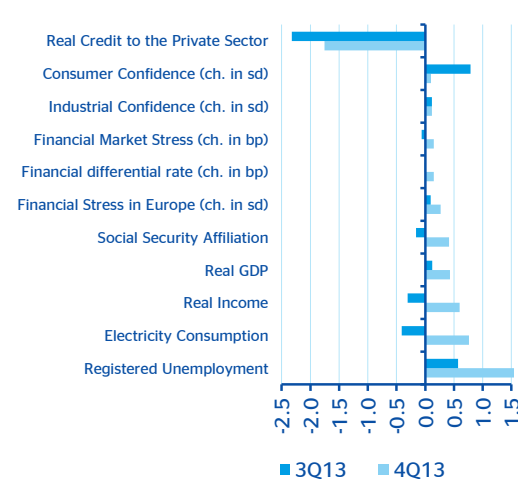
For the third quarter in a row, the Spanish economy showed net foreign lending capacity with respect to the rest of the world in 3Q13 (1.4% of GDP in year-cumulative terms). This was due basically to the fact that the reduction in the rate of investment more than offset the decline in the saving rate. The breakdown by institutional sector reveals that the public administration remains the only agent in the economy that continues to show net borrowing needs (10.3% of GDP in year-cumulative terms as of 3Q13). At the opposite end stand Spanish companies, which are responsible for the increase in the economy's net foreign lending capacity. As of October, the balance of payment continue to show a gradual reduction in the Spanish economy's external borrowing which, we must remember, is essential for consolidating the improvement in confidence and the sustained recovery of economic activity.

Chart 1
Spain: Observed GDP growth and forecasts using the MICA-BBVA model (% q/q)



Source: BBVA Research.

Chart 2
Spain: GDP and the main indicators of the MICA-BBVA model
(+) improvement / (-) deterioration in pp, unless otherwise indicated (swda data)



(*) Data published as of January and MICA-BBVA model forecasts

Source: BBVA Research based on data from official bodies

Table 1

Summary of Spain Flash publications since the publication of the December 2013 Economic Watch

Flash name	Date	Summary	Link
Housing purchases in October 2013: new increase	11/12/2013	For the second month in a row, sales are up in mom terms after adjusting for the month's seasonality	PDF
Public sector debt reached 93.4% in the third quarter	13/12/2013	Spanish public administration debt stood at 93.4% of GDP at the close of 3Q13	PDF
November CPI	13/12/2013	In line with expectations, headline inflation rose in November to positive figures	PDF
The decline in corporate new lending transactions slows down	13/12/2013	Corporate new transactions improved significantly over the last three months, above expectations	PDF
New building permits in October 2013: activity increased in October	20/12/2013	2,959 new building permits were signed in October in Spain , revealing an increase in activity	PDF
Residential mortgages in October 2013: growth for the second month in a row after six months of declines	20/12/2013	14,704 residential mortgages were registered in September, an increase of 3,8% swda , slightly larger than expected	PDF
Trade balance in October 2013	20/12/2013	The cumulative 12-month trade balance deficit in October stood at €-15.1 billion	PDF
Spain: balance of payments in October 2013	27/12/2013	As of October, the 12-month cumulative current account balance recorded a new surplus	PDF
3Q13 closed with a public deficit of 4.7% of GDP	30/12/2013	Cumulative public deficit as of 3Q13 stood at 4.7% of GDP, below the figure registered in september (4.8%)	PDF
Positive real retail trade sales growth in November	02/01/2014	After adjusting for the seasonal variations for the month, real retail trade sales rose in November after two months of declines	PDF
Car registrations in December: 2013 closed with positive increases boosted by the private channel	02/01/2014	After seasonal adjustments, BBVA Research's estimates show that the number of cars registered in December increased slightly	PDF
Deposits held by Spanish households and businesses above €10 billion in November	03/01/2014	Deposits held by households (€7bn) and businesses (€3bn) rose in November, in line with expectations	PDF
Jobs registrations in December: affiliation surprises to the upside and reduction in unemployment	03/01/2014	The labor market closed 2013 showing a positive trend	PDF
December CPI Flash estimate	03/01/2014	Headline inflation was stable in December at 0.2% yoy	PDF
Quarterly non-financial accounts of institutional sectors 3Q2013	08/01/2014	The foreign lending capacity of the Spanish economy grew once again in 3Q13 to 1.4% of GDP in year-cumulative terms	PDF
Industrial and consumer confidence in December	09/01/2014	Both industrial and consumer confidence improved, confirming BBVA Research's scenario	PDF

Source: BBVA Research.

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