

Questions about the recovery

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Should wages be increased? If so, by how much? Can the export sector continue to drive growth in employment? Is a bubble being formed in the property market? These are some of the questions that will be asked now that the Spanish economy is entering a phase of prolonged growth. The answers to each of them will be crucial for determining both how long the recovery lasts and the distribution of the gains it will generate over the next few years.

Towards 2018 we expect the economy to have accumulated five years of growth, and by the end of the following year we expect it to have recovered around 70% of the jobs lost during the crisis. How sustainable is this growth looking ahead? Externally, it is possible that many of the conditions behind the good performance of the world economy will remain in place. In any case, if geopolitical risk scenarios were to materialise, or if there is an adjustment in the growth of China's economy, the outlook could deteriorate. Domestically, the continuing recovery will bring with it questions that we have not had to address for some time. In particular, we shall start to wonder whether the economy will be able to continue creating employment once the excess capacity in various areas is being used.

For example, the change we are seeing in wages is consistent, so far, with a considerable reduction in unemployment. Looking ahead, how wages evolve will depend both on the relative scarcity of labour and on growth in productivity. If the time needed to fill a vacancy starts to lengthen, businesses will have no option but to speed up wage increases, seeking to attract people who have left the labour force or who are already in employment. While this would be good news for these groups, it would not be so good for people without jobs. In particular, this would send a clear signal that the skills now in demand are not those of the unemployed. For this to happen with unemployment at around 17% would be disastrous, since it would lay bare society's inability to offer these people alternatives, as well as increasing inequality between those with jobs and those without. Although for now we do not seem to have reached that point, it would be good to focus immediately on improving training for the unemployed, increasing both the quantity of resources dedicated to it and the efficiency of their use.

One sector in which we may start to see capacity constraints is the export sector, and especially tourism. While the constant growth in capital expenditure on plant and equipment may ensure improvements in competitiveness in exports of goods, the rising trend in prices in the tourism sector may be a symptom of exhaustion. In particular, regions such as the Balearic and Canary Islands are showing record hotel occupancy rates and prices are already as much as 15% higher than pre-crisis levels. Therefore, in the absence of significant increases in investment in the next few quarters, the increased demand will be reflected mainly in prices, and job creation could slow.

Lastly, the incipient recovery in the property market has aroused concerns about the possibility of a return to the excesses of the past. This is highly improbable in the short term, in part due to the efforts made in the past few years by both households and businesses, which have led to a reduction in the imbalances in the sector. Thus, the increase in prices we are seeing in some urban areas and in regions exposed to external

demand has reversed only a small part of the fall observed during the crisis. Moreover, the revaluation should be a sign for investment in the sector to be reactivated.

In short, the environment continues to support the recovery, although we shall have to keep a close eye on the behaviour of prices and wages, which may bring forward a slowdown in the growth of employment and with it the need to act to avoid an increase in inequality.

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