# ECONOMIC OUTLOOK · The Spanish economy is gaining ground in a more favourable external environment

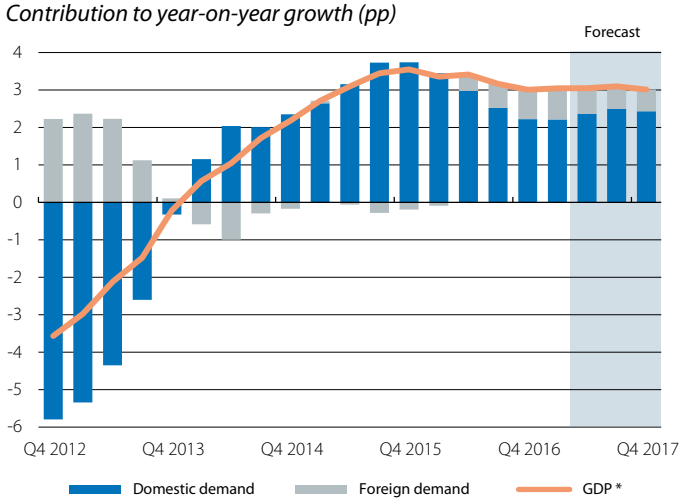
**Economic growth accelerated to 0.8% quarter-on-quarter in Q1**, 0.1 pp higher than the rate in Q4 2016. The year-on-year figure remained at a high 3.0%. Spain's economy is still showing no signs of slowing down; in fact, quite the opposite. Early indicators for April and May point to growth continuing at a similar pace to Q1 or even slightly faster. Given this good performance, CaixaBank Research has revised its growth forecast for 2017 from 2.8% to 3.1%, and for 2018 from 2.4% to 2.5%. These figures are noticeably higher than the forecasts for most advanced economies. The high growth rate recorded in the past three years has also helped Spain's GDP to regain its pre-crisis level. In nominal terms this landmark was reached in Q1 2017 while, in real terms, it was achieved in Q2 2017. This growth is also more balanced than in the previous expansionary period. In Q1 2017 domestic demand contributed 2.2 pp to year-on-year GDP growth while foreign demand also made a positive contribution of 0.8 pp.

**Improvements in the external environment**. Spain's faster economic growth is thanks to several factors, both external and internal. The tail winds that have boosted economic growth over the past two years are taking longer than expected to disappear: oil prices are only rising gradually and financial conditions are still very favourable. Monetary normalisation is also expected to be very measured in the euro area. The news from our main trading partners, other euro area countries, are also encouraging. Their growth prospects are improving, political uncertainty is easing (especially after Emmanuel Macron's victory in the French elections) and Brexit negotiations are not as disruptive as feared, at least for the moment. Regarding domestic factors, the structural reforms implemented in the past few years and gains made in competitiveness are also helping the economy to perform well. Moreover, the cyclical position of the Spanish economy means there is still ample room for solid expansion in both 2017 and 2018. For instance, private consumption and investment have yet to return to the peaks reached in 2008.

**Private consumption goes through a temporary dip in Q1**. Household consumption increased by just 0.4% quarter-on-quarter in Q1 2017, its lowest figure since Q3 2014. Nevertheless, the good trends shown by consumer confidence and retail sales in April suggest private consumption will liven up again in Q2. Improvements in the labour market and more favourable credit conditions, helped by the ECB's accommodative monetary policy and banks' improved lending capacity, will continue to act as key supports for household consumption.

## GDP

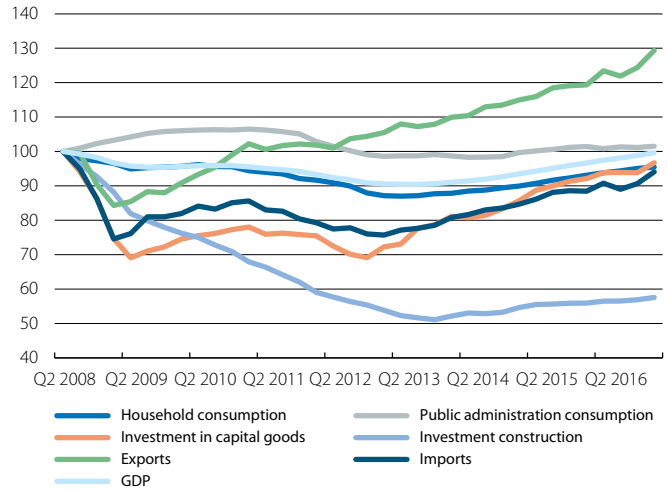
*Contribution to year-on-year growth (pp)*




***Note:*** ** Year-on-year change (%).*
***Source:*** *CaixaBank Research, based on data from the INE.*

## GDP components

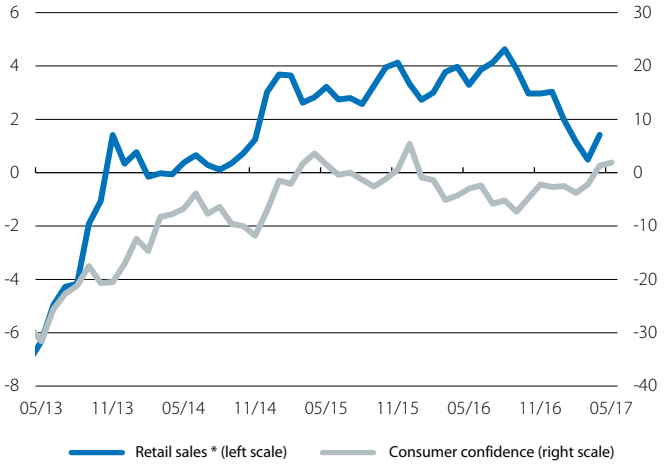
*Index (100 = Q2 2008)*




***Source:*** *CaixaBank Research, based on data from the INE.*

## Retail and consumer goods and consumer confidence

*Year-on-year change (%)* *Level*




***Nota:*** ** Moving average of three months.*
***Source:*** *CaixaBank Research, based on data from the INE.*

**Corporate capital expenditure is shaping up**. The sharp upswing in investment in capital goods offset the dip in private consumption in Q1. The component saw strong growth of 3.1% quarter-on-quarter, leaving behind its sluggish performance in the previous two quarters. This strength has been reinforced by business sentiment indicators suggestive of robust expansionary phases. The upswing in Q1 is therefore likely to go much further in the future. The economic sentiment index (ESI) published by the European Commission stood at 108.4 points in April, above the average for 2016 (106.3). The PMI manufacturing index stood at 54.6 points while the services index reached 57.4 points; both also above the 2016 average.

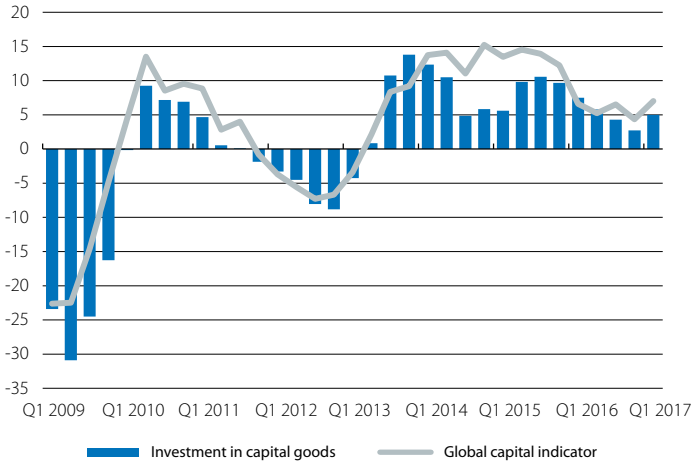
**Real estate activity is on the rise**. According to national account data, in Q1 2017 residential investment grew by an impressive 2.7% quarter-on-quarter (5.5% year-on-year), indicating the recovery in the real estate sector is taking hold. New building permits grew by 20.3% in March (cumulative over 12 months) although they are still at a relatively low level. This indicates the sector still has a lot of room for growth but without incurring the excesses of the past. Regarding demand, house sales were buoyant, up by 15.1% year-on-year in March (cumulative over 12 months). This higher demand is pushing up prices, rising by 2.2% year-on-year in Q1 2017 (0.9% in quarter-on-quarter terms) according to the Ministry of Public Works, above the 2016 average. This acceleration in the price index calculated by the Ministry of Public Works coincides with the acceleration shown by the INE price index in the second half of 2016. House prices will continue to rise over the coming quarters, albeit disparately across segments. Pressure from increased demand will be felt particularly in prime zones (large cities) where the supply is limited, while the market will still lag far behind in other areas.

**The foreign sector posts strong growth thanks to dynamic exports**. According to national account data, exports in real terms increased by a considerable 4.0% quarter-on-quarter (8.4% year-on-year). This growth can be seen both in exports of services, still benefitting from the tourism boom, and also in goods. Imports in real terms also increased, albeit to a lesser extent, growing by 3.8% quarter-on-quarter (6.4% year-on-year). Customs data for March, in nominal terms, confirm the trends shown by the national accounts, with goods exports growing by 5.1% year-on-year (cumulative over 12 months). Goods imports rose by a notable 3.8% year-on-year, although this is partly due to higher oil prices in Q1. The current account now stands at 2.1% of GDP, setting a new record.

**The labour market continues to outperform expectations**. The number of registered workers affiliated to Social Security rose by 212,216 in April, a considerably higher figure than the CaixaBank Research forecast (+155,000). The job creation rate therefore picked up to 3.8% year-on-year (3.5% in March). Although good figures were expected since Easter fell entirely in April this year (falling in March in 2016), the trend has outdone all expectations. For example, the increase in the

## *Capital goods investment*

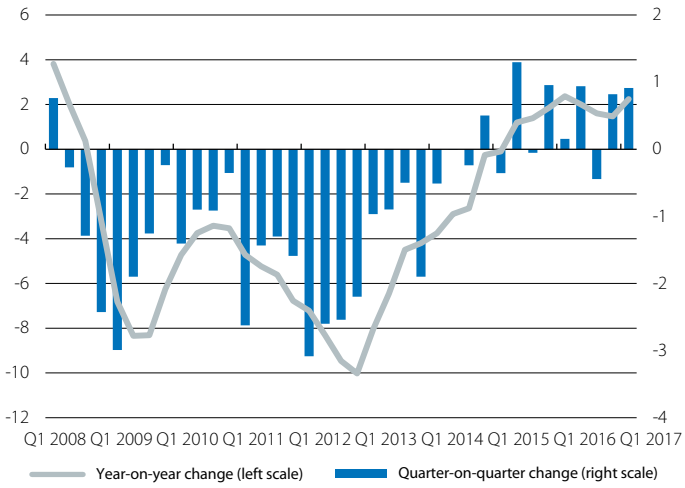
*Year-on-year change (%)*




***Source:*** *CaixaBank Research, based on data from the INE and the Ministry of Economy, Industry and Competitiveness.*

## *House prices*

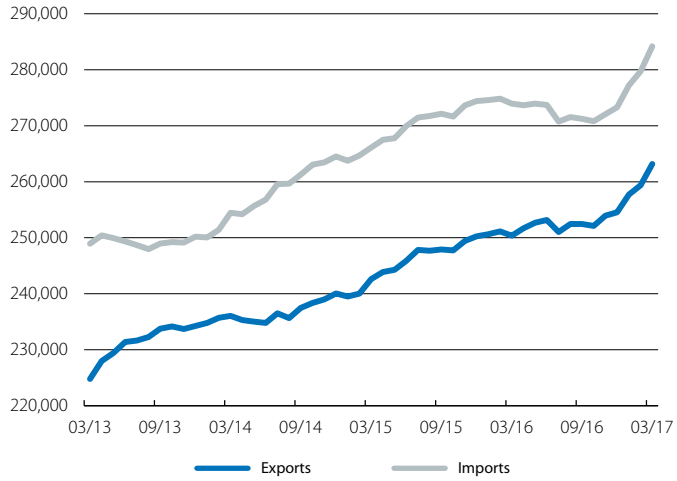
*Change (%)* *Change (%)*




***Source:*** *CaixaBank Research, based on data from the Ministry of Public Works.*

## *Exports and imports of goods*

*(EUR million)*




***Source:*** *CaixaBank Research, based on data from the Customs Department.*

number of people affiliated to Social Security, without the seasonal component, was 101,006, an exceptionally high figure. Although the hotels and restaurants sector increased by 8.8% year-on-year, the rest of the sectors also posted a positive trend, especially construction and education. Registered unemployment fell by 129,281 people, pushing its rate of descent to –10.9% year-on-year, the fastest reduction in the whole history of the series. The national account data on equivalent full-time employment posted an increase of 2.5% year-on-year in Q1 and all the evidence suggests this good tone will continue over the coming quarters.

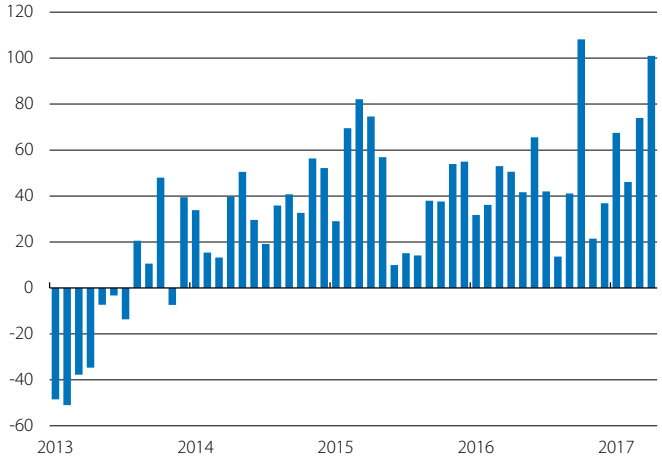
**Inflation slackens.** The CPI posted a 1.9% rise year-on-year in May, 0.7 pp less than in April. This was because of the fall in fuel prices compared with the increase last year, as well as the drop in prices for tourism packages after the increase over Easter. Core inflation (headline inflation without energy or unprocessed food) was also affected by Easter, with higher tourism prices pushing it up by 1.2% in April (pending more recent figures). The moderation in headline inflation should reverse in May, at least in part, due to the recent upswing in oil prices. Nevertheless, the trend is likely to moderate again in the second half of 2017 as growth in the price of crude slows down in year-on-year terms. Core inflation will tend to rise steadily, helped by dynamic private consumption.

**The economic situation is also improving the national accounts.** The public administration deficit fell to 0.5% of GDP in Q1 2017, 0.3 pp below the figure for Q1 2016. According to April's figures, the central government deficit fell to 0.7% of GDP (1.3% in April 2016). This corresponds to an adjustment of 0.3 pp out of the total adjustment of 1.2 pp required to achieve the deficit target of 3.1% in 2017. The current environment of low interest rates means that interest payments are still decreasing in spite of the high level of public debt (100.4% of GDP in Q1 2017).

**The good economic climate is helping credit to expand,** also boosted by the ECB continuing its expansionary monetary policy. In cumulative figures from January to March, credit to buy housing rose by 23.5% year-on-year, reflecting the recovery in demand in the sector, while consumer credit also grew strongly by 22.5% year-on-year. In terms of business credit, loans to SMEs also improved on 2016, up by 9.6% year-on-year. Loans to large companies are still feeling the effect of the rise in corporate bond issuances, albeit to a lesser extent than in 2016.

### Registered workers affiliated to Social Security *

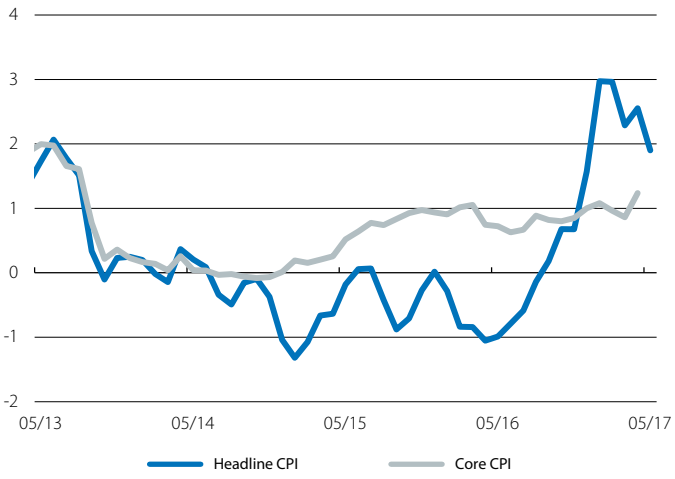
*Month-on-month change (thousands of people)*




***Note:*** ** Seasonally adjusted.*
***Source:*** *CaixaBank Research, based on data from the Ministry of Employment and Social Security.*

### CPI

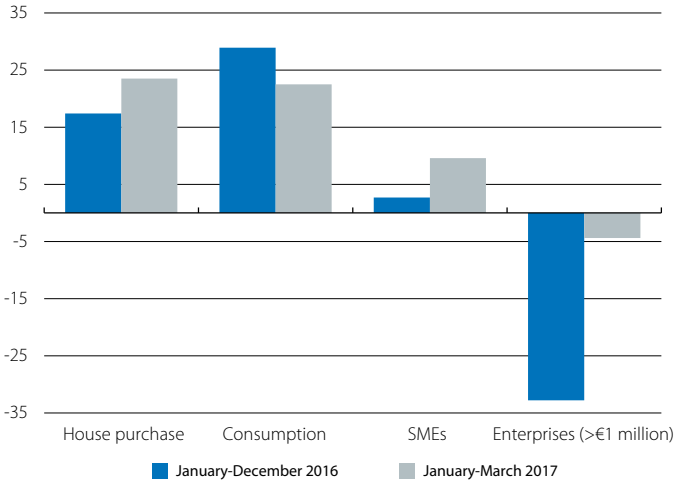
*Year-on-year change (%)*




***Source:*** *CaixaBank Research, based on data from the INE.*

### New loans granted

*Year-on-year change (%)*

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