The Spanish economy exhibits a solid performance

Moving towards a gentle slowdown in growth. With the year almost at an end, and with official GDP growth data for three of the four quarters of the year, indicators suggest that the Spanish economy will have grown by around 2.5% in 2018, a figure very much in line with the 2.4% projected in our scenario a year ago. This represents a gentle slowdown following three years of exceptionally strong growth – at rates above 3% –, in which the Spanish economy was favoured by a number of factors that gave further impetus to the recovery that was already underway (such as the decline in oil prices, the reduction of interest rates and the depreciation of the euro). This gentle slowdown in growth will continue into 2019, when we expect the economy to grow at slightly above 2%. This is a lower rate than previous years, but higher than that forecast for most developed economies, as well as being more sustainable in the long term. A similar outlook is suggested by the latest forecasts published in November by the International Monetary Fund (IMF), in its annual analysis (the so-called «Article IV»). In it, the Fund predicts a 2.2% growth for 2019 and reiterates that the moderation in growth is a result of reduced momentum in the cyclical support factors, as well as a more adverse international context. The IMF also stresses the need to reduce public debt, which remains high (at around 98% of GDP) despite the reduction of the deficit in recent years. This reflection coincides with the assessments made by the European Commission in relation to the 2019 draft budget submitted by the Government to Brussels.

Economic activity indicators indicate healthy growth. In October, the Purchasing Managers' Index (PMI) for the manufacturing sector stood at 51.8 points, a figure very similar to that of September (51.4 points) and close to the average for Q3 (52.4 points). The PMI for the services sector, meanwhile, rebounded up to 54.0 points, 1.5 points higher than the figure for the previous month and slightly above the average for Q3 (52.6 points). On the other hand, industrial production grew somewhat below expectations in September (0.0% year-on-year). Finally, retail sales grew by a significant 1.8% year-on-year in October, well above the figure for the previous month (–0.4%) and the average for 2017 (0.9%). This indicates that the positive tone in private consumption will continue in the last quarter of 2018. On the whole, therefore, indicators suggest that growth in Q4 remains at similar levels to the previous quarter (0.6% quarter-on-quarter).

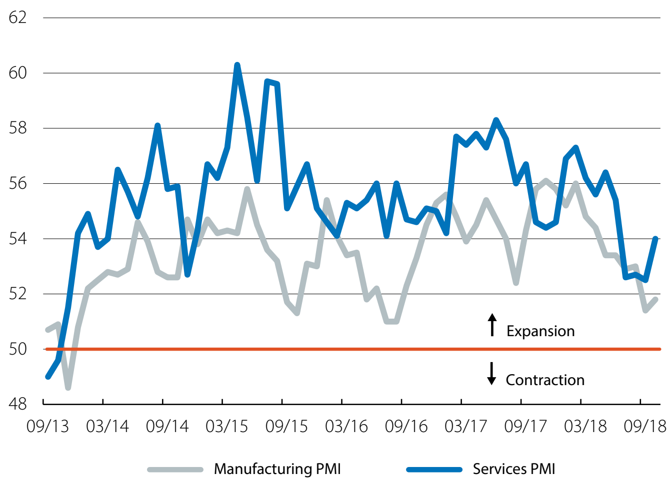
Job creation maintains a positive tone. The number of registered workers affiliated to Social Security rose by 110,567 people in October (seasonally-adjusted data). This represents a 3.1% year-on-year growth in employment (2.9% in September) and brings the cumulative total for the number of jobs created in the past 12 months to 562,544. This is in addition to the encouraging trends exhibited by national accounts data and

Spain: GDP
Quarter-on-quarter change (%)

	Q4 2017	Q1 2018	Q2 2018	Q3 2018
GDP	0.7	0.6	0.6	0.6
Private consumption	0.4	0.9	0.1	0.6
Public consumption	0.3	0.8	0.1	0.8
Investment	0.6	1.1	3.5	1.0
Investment in capital goods	0.5	–0.1	6.6	2.2
Investment in construction	0.8	2.1	2.2	0.5
Exports	1.4	0.6	0.2	–1.8
Imports	0.4	1.1	1.2	–1.4

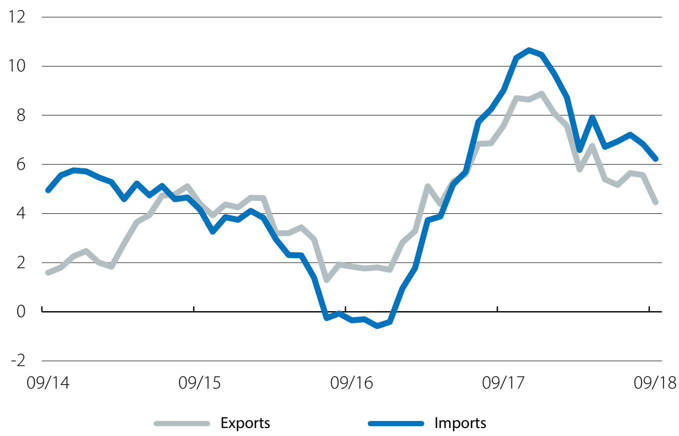
Source: *CaixaBank Research, based on data from the National Statistics Institute.*

Spain: activity indicators
Level



Source: *CaixaBank Research, based on data from Markit.*

Spain: exports and imports of goods *
Year-on-year change (%)



Note: ** 12-month cumulative figures.*
Source: *CaixaBank Research, based on data from the Department of Customs.*

labour force survey (LFS) figures. In particular, in Q3 the unemployment rate stood at 14.6%, its lowest level since Q4 2008, while the remuneration per full-time employee rose by 1.1% year-on-year, a rate higher than the average for 2017 and the first half of 2018.

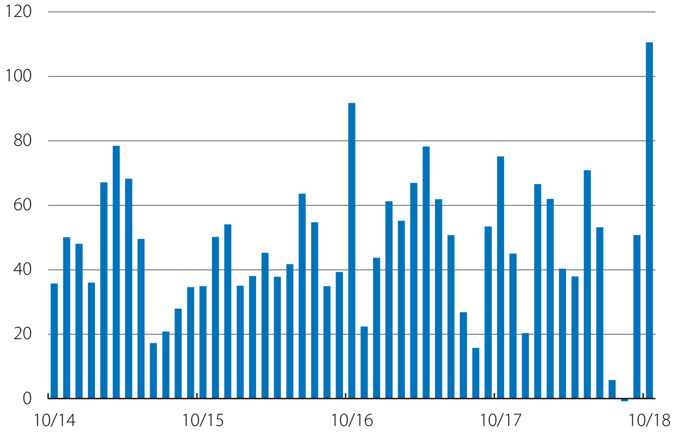
The external surplus moderates further. In September, the current account balance stood at +1.1% of GDP (i.e. 13,339 million euros, based on 12-month cumulative data), lower than the 1.8% registered in September 2017. The decrease can be largely explained by the deterioration in the trade balance, in both the energy and the non-energy balance (in equal parts). Furthermore, the decrease in the services surplus also contributed to the deterioration in the current account balance. Looking ahead to the next few months, the indicators suggest that the current account balance will continue to be subjected to downward pressure due to the continued deterioration of the non-energy balance. That said, these downward pressures could be mitigated somewhat by the recent correction in the oil price and by a slowdown in the balance of tourism, which is proving to be more benign than anticipated before the summer season.

The public deficit benefits from the cyclical momentum. The data available up to September show that the consolidated fiscal deficit (excluding local corporations) stood at 1.5% of GDP. This represents a 0.5-pp reduction in the public accounts compared to the prior year and should make it possible to achieve the budget deficit target for 2018 (2.7%). On the other hand, general government debt remained at 98.1% of GDP in Q3 2018, very similar to the figure for Q3 2017 (98.4%). In reference to this high level of public debt, which has remained close to 100% of GDP for the past five years, in November the European Commission stressed the need to ensure the structural deficit was reduced as expected, as well as the high level of public debt.

The growth in housing prices slows down in Q3. Housing prices based on valuations registered a modest increase in Q3 2018 (0.1% quarter-on-quarter, 3.2% year-on-year) and slowed down compared to Q2 (1.4% quarter-on-quarter, 3.8% year-on-year). Nevertheless, most supply and demand indicators in the sector continue to show an encouraging trend. Together with the improvement in the labour market, as well as the accommodative financial conditions and the support for housing demand from abroad, these indicators support the positive outlook for the sector. On the demand side, in the cumulative 12 months to September there were 506,749 home purchase and sale transactions. This is 12.6% higher than the figure for September 2017 – evidence that the demand for housing continues to experience strong growth. Furthermore, on the supply side, residential investment remained buoyant with year-on-year growth of 6.5% in Q3, a figure similar to that of the previous quarter (7.0% year-on-year).

*Spain: registered workers affiliated with Social Security **

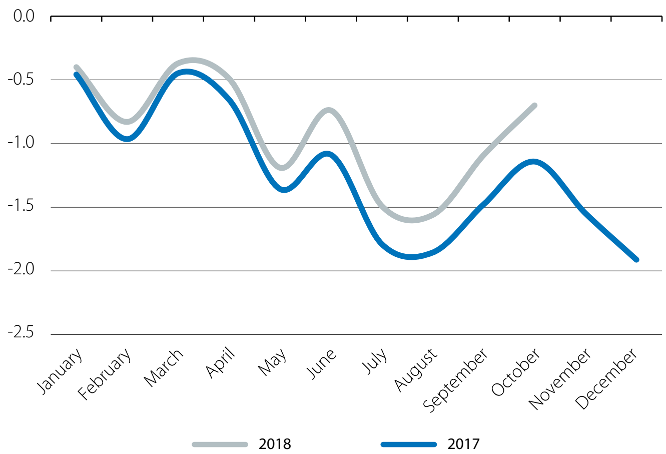
Monthly change (thousands of people)



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

Spain: government balance

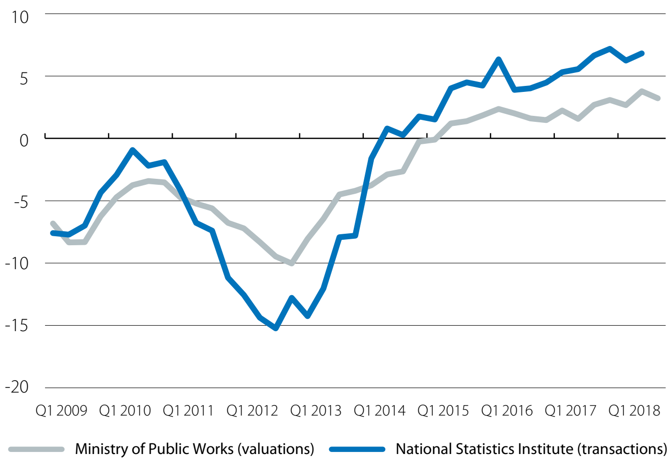
(% of GDP)



Source: *CaixaBank Research, based on data from the General Comptroller of the State Administration (IGAE).*

Housing prices

Year-on-year change (%)



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