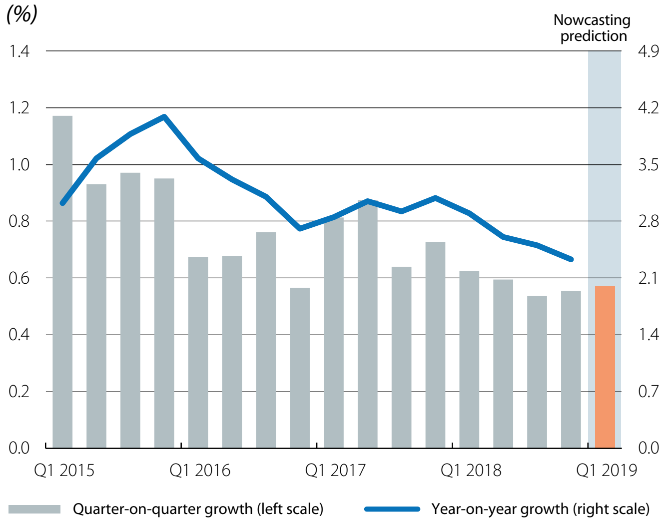
The Spanish economy makes its soft landing

The Spanish economy began 2019 with a positive tone. According to the latest estimate by the National Statistics Institute (NSI), GDP growth for Q4 2018 was somewhat lower than initially estimated (0.6% quarter-on-quarter, instead of the 0.7% originally published). However, the NSI also revised its growth estimates for the first half of 2018, in this case upwards, such that GDP growth for 2018 as a whole is finally estimated at 2.6% (previously, 2.5%). Furthermore, the various indicators relating to the first few months of 2019 have shown a generally positive tone. In particular, in February, the Purchasing Managers' Index (PMI) for the services sector stood at 54.5 points, well above the 50-point threshold that delimits expansive territory and at a level which suggests that the sector's buoyancy of recent months persists. Although this was in stark contrast to the manufacturing sector, which according to its PMI index (49.9 points in February) is still going through a difficult period, industrial production rebounded in January (+2.4% year-on-year) after the drop seen at the end of 2018. Also, on the consumption side, retail sales grew by 1.2% in February (0.3 pps higher than the figure for January and well above the 0.7% average for 2018), suggesting that private consumption performed well in the opening stages of the year.

Growth in Q1 2019 could reach close to 0.6% according to our short-term GDP nowcasting model. As mentioned above, the balance of the economic activity indicators throughout the month was positive and the encouraging performance of the indicators for the labour market and the services sector more than offset the weakness shown by the manufacturing and foreign sectors. This contrast, both between the services and manufacturing sectors and between domestic demand and the foreign sector, is a similar pattern to that observed in recent months and reflects the slowdown in the automotive sector (in response to the need to adapt to the new European regulations on vehicle emissions) as well as the decline in international demand (in a context of a slowdown in global growth). Overall, however, the indicators support the view that the economy will maintain a solid growth rate over the coming quarters, albeit less than in recent years due to it entering a more mature phase of the cycle.

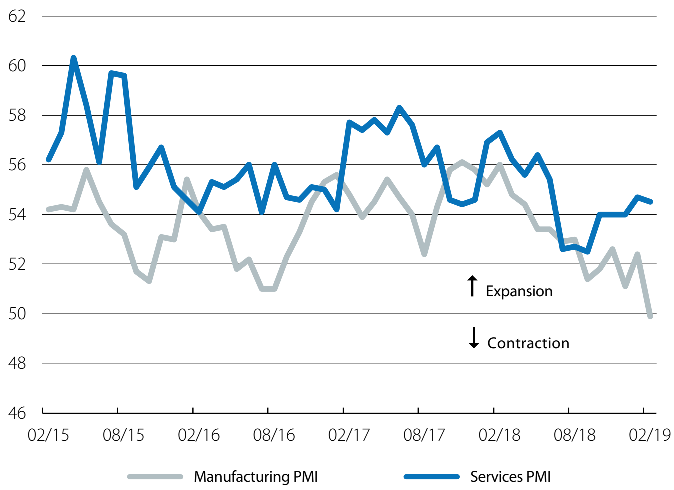
The labour market remains buoyant. In February, affiliation to Social Security increased by 2.86% year-on-year (+38,833 registered workers compared to the prior month, in seasonally-adjusted terms). This is a high rate and very similar to that of January (2.94%), while registered unemployment fell by 181,208 people in year-on-year terms (5.2%). By sector, affiliation increased particularly in services, which registered growth of 2.8%, while in construction and industry affiliation registered growth of 6.7% and 1.7%, respectively. As such, the indicators continue to suggest that

Spain: GDP growth
(%)



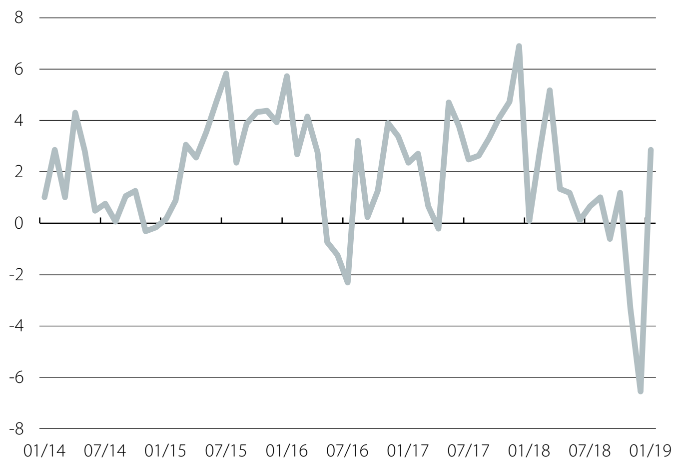
Source: *CaixaBank Research, based on data from the National Statistics Institute.*

Spain: economic activity indicators
Level



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

Spain: industrial production
Year-on-year change (%)



Note: *Seasonally-adjusted series.*
Source: *CaixaBank Research, based on data from the National Statistics Institute.*

the labour market is strong and that the moderation in employment growth is occurring very gradually. On this basis, it should continue to support the rise in domestic demand over the coming months, while also supporting a gentle slowdown in the growth of the economy as a whole.

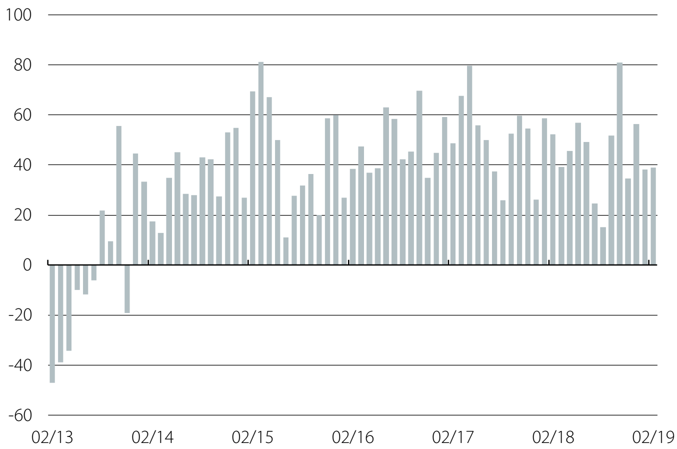
The budget deficit stood at 2.6% of GDP in 2018, 1 decimal point below 2.7% target set by the current government and with a 0.4-pp reduction compared to the figure for 2017. By administration, both the autonomous communities (–0.2%) and local corporations (+0.5%) managed to stay in line with the stability targets. However, the central government and Social Security institute continued to register a notable budget deficit (–1.5% and –1.4% of GDP, respectively). Finally, it should be noted that this allows Spain to withdraw from the excessive deficit procedure (as the deficit lies below 3%).

The net international investment position (NIIP) improved in 2018, but the current account continued to deteriorate. In December 2018, the NIIP stood at –77.2% of GDP, which represents a 6.3-pp improvement over 2017 (when it was –83.5%). This is largely due to revaluations of the instruments in the debt portfolio (assets and liabilities, reflecting changes in their market prices in local currency and the effect of the exchange rate, among other factors). However, in January, the surplus of the foreign sector continued to decline and the current account balance stood at +0.86% of GDP (slightly below the 0.93% of last December). This figure, which represents a 1-pp decline compared to the 1.82% of January 2018, can be attributed to a number of factors. Specifically, 7 tenths are due to the deterioration of the balance of goods (from –2.2% in January 2018 to –2.8% in January 2019, with –0.4 pps due to the deterioration of the balance of non-energy goods) and 3 tenths are due to the increase in the price of oil. The lower trade surplus in services (4.7% in January 2019) deducted a further 3 tenths, of which 1 was due to tourism and 2 to non-tourist services.

The real estate market remains strong. The price of housing published by the NSI, based on sale prices, grew by 6.6% year-on-year in Q4 2018 (0.4% quarter-on-quarter). This places growth for 2018 as a whole at 6.7%, the highest annual growth rate since the start of the recovery in the real estate market. In addition, this occurred in a context of strong growth in demand. In line with the NSI's figures published last month (10.2% growth in 2018, with data based on the property register), the figures from the Ministry of Public Works (based on notarial deeds) suggest a 9.3% increase in home sales over the course of 2018. In this regard, the moderation in home sales in January (–0.2% year-on-year, according to data from the NSI) can be interpreted as a bump in a series that is inherently very volatile. This therefore confirms the positive performance of the sector, which is expected to maintain considerable growth over the coming quarters, albeit at a somewhat more moderate pace (in accordance with the evolution of the economy as a whole).

*Spain: registered workers affiliated to 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: lending capacity (+) or financing needs (–) by administration

(% of GDP)

	2017	2018		2019
	Figure	Target	Figure	Target
Central government	–1.8	–0.8	–1.5	–0.3
Autonomous communities	–0.4	–0.6	–0.2	–0.1
Local corporations	0.6	0.1	0.5	0.0
Social Security institute	–1.4	–1.3	–1.4	–0.9
Total	–3.0	–2.7	–2.6	–1.3

Source: CaixaBank Research, based on data from the Ministry of Finance and Civil Service.

*International trade in goods **

Year-on-year change in the 12-month cumulative balance (%)

Note: * Nominal data, not seasonally adjusted. Excluding energy.
Source: CaixaBank Research, based on data from the Department of Customs.