



Spanish economy: from cyclical recovery to sustainable growth

Oriol Aspachs
Head of Research Dpt
CaixaBank
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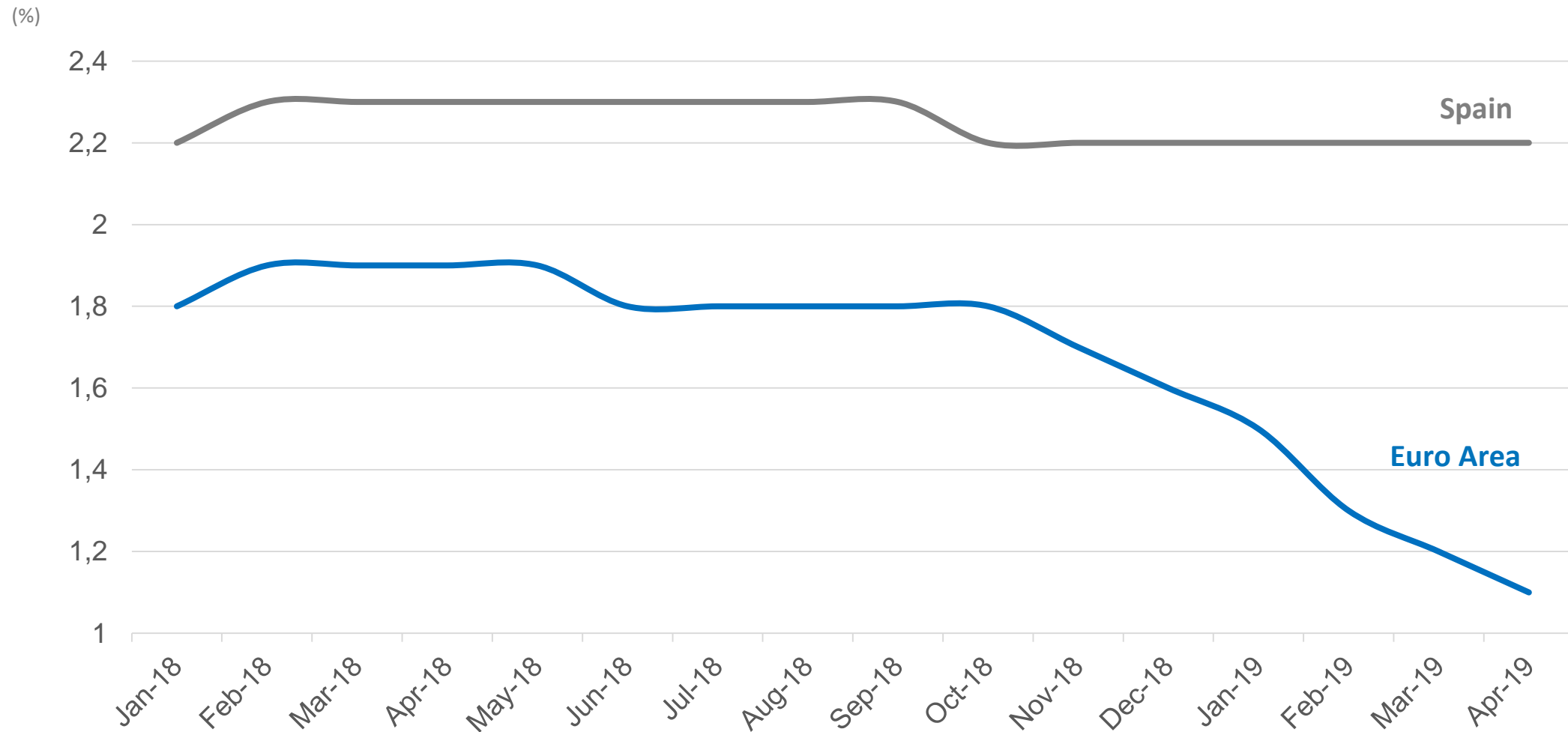
- 1** Global economic scenario
- 2 Spain: where we come from
- 3 Spain: the engines of growth
- 4 Risks

GDP growth forecasts - CaixaBank Research



	2017	2018	2019	2020
World Economy	3.8	3.6	3.3	3.4
Advanced economies	2.4	2.2	2.2	1.8
USA	2.2	2.9	2.4	1.7
Eurozone	2.5	1.8	1.3	1.5
Germany	2.5	1.5	1.0	1.6
France	2.3	1.5	1.4	1.5
Italy	1.8	0.7	0.4	0.8
Portugal	2.8	2.1	1.8	1.7
Spain	3.0	2.6	2.3	1.9
Japan	1.9	0.8	0.8	0.7
United Kingdom	1.8	1.4	1.3	1.5
Emerging economies	4.8	4.5	4.3	4.6
China	6.9	6.6	6.2	6.0
India	6.9	7.4	6.9	6.2
Brazil	1.1	1.1	2.1	2.0
Mexico	2.1	2.0	1.6	2.1
Russia	1.6	2.2	1.8	2.0

Evolution of GDP forecasts for 2019 - Euro area vs Spain



Source: CaixaBank Research based on Consensus Forecast data.



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Improving the engine:



- ✓ **Structural reforms**
- ✓ **Competitiveness recovery**
- ✓ **Deleveraging process**

Robust growth: speed and quality of the recovery

	Average 2000-2007	Average 2008-2014	Average 2015-2017	2018	2019
GDP growth (%)	3.8	-1.0	3.3	2.6	2.3
<i>Domestic demand (Contribution, pp)</i>	4.6	-2.4	3.1	2.9	2.1
<i>Exports growth (%)</i>	4.8	2.1	4.9	2.3	1.1
<i>Imports growth (%)</i>	7.1	-2.5	4.6	3.5	0.3
Job creation/destruction (number)	645	-450	476	566	402
Unemployment rate (%), eop	10.5	20.8	19.6	15.3	13.6
<i>Δ anual change (pp)</i>	-0.8	2.2	-2.4	-1.9	-1.7
Public deficit (% GDP), eop	0.4	-8.3	-4.3	-2.5	-2.4
<i>Δ anual change (pp)</i>	0.4	-1.1	0.9	0.5	0.1
Current account (% GDP), eop	-6.0	-2.6	1.8	0.9	0.6
<i>Δ anual change (pp)</i>	-0.8	1.5	0.3	-0.9	-0.3

Source: INE and Banco de España.

Recent performance

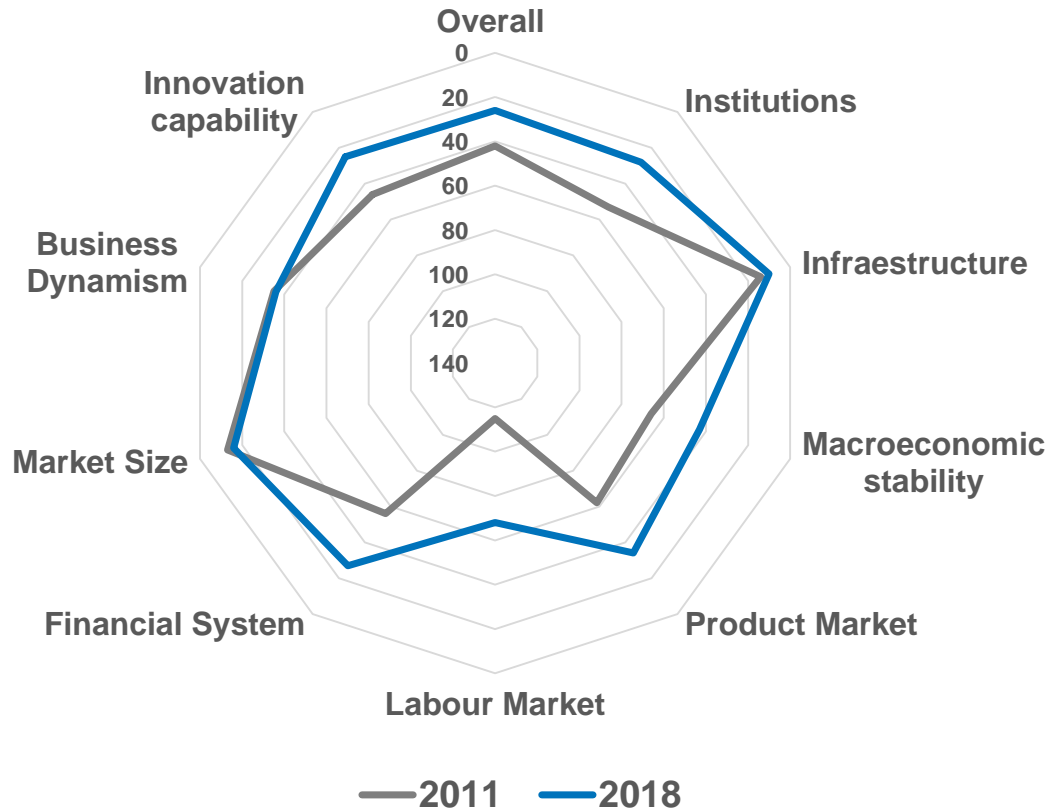
- ↑ Structural reforms
- ↑ Rotation of growth towards net trade
- ↑ Lower macroeconomic imbalances
- ↑ Accommodative financial conditions

The path that lies ahead

- ↑ Moving onto a more mature phase of the cycle
- ↓ From tailwinds to headwinds?
- ↓ Negative contribution of the external demand

Marked improve in competitiveness

Ranking position

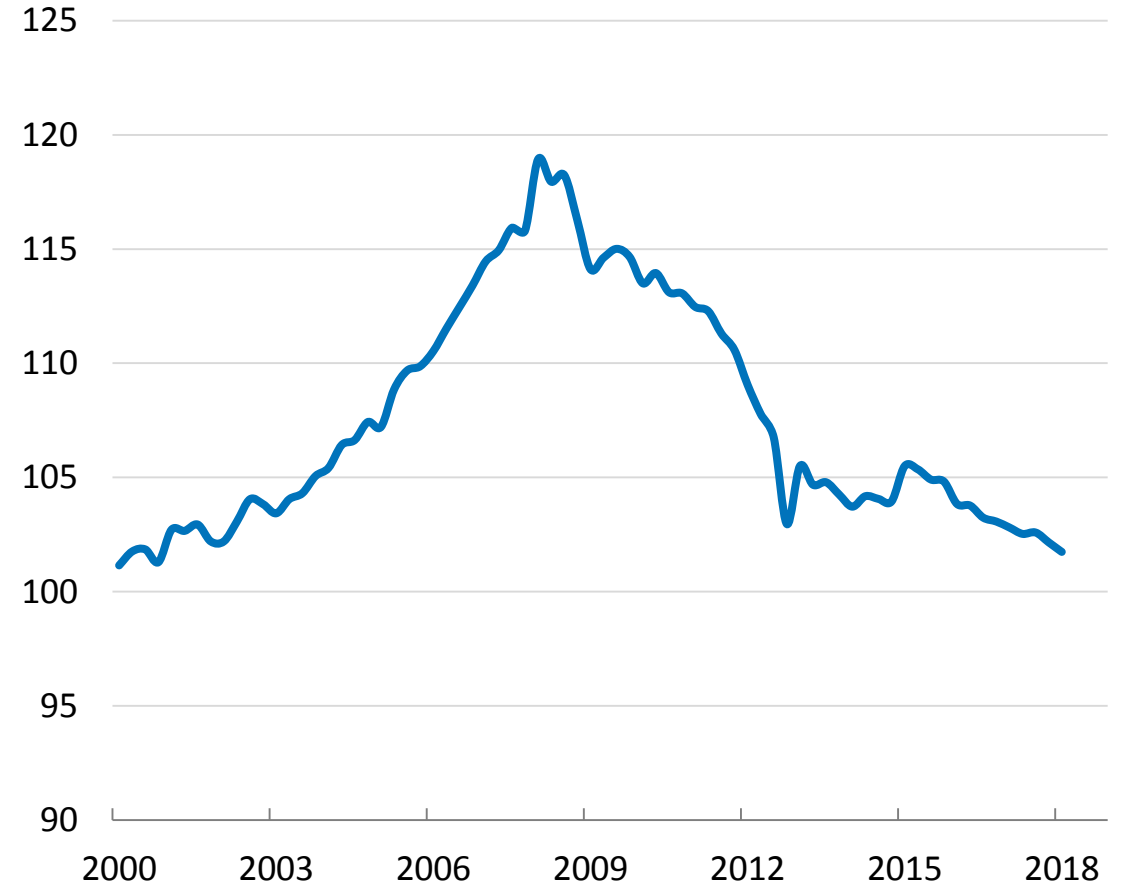


Note: (*) A lower ranking position means higher competitiveness relative to other countries. Total number of countries equal to 139 (2011) and 140 (2018).

Source: CaixaBank Research, based on WEF Global Competitiveness Report .

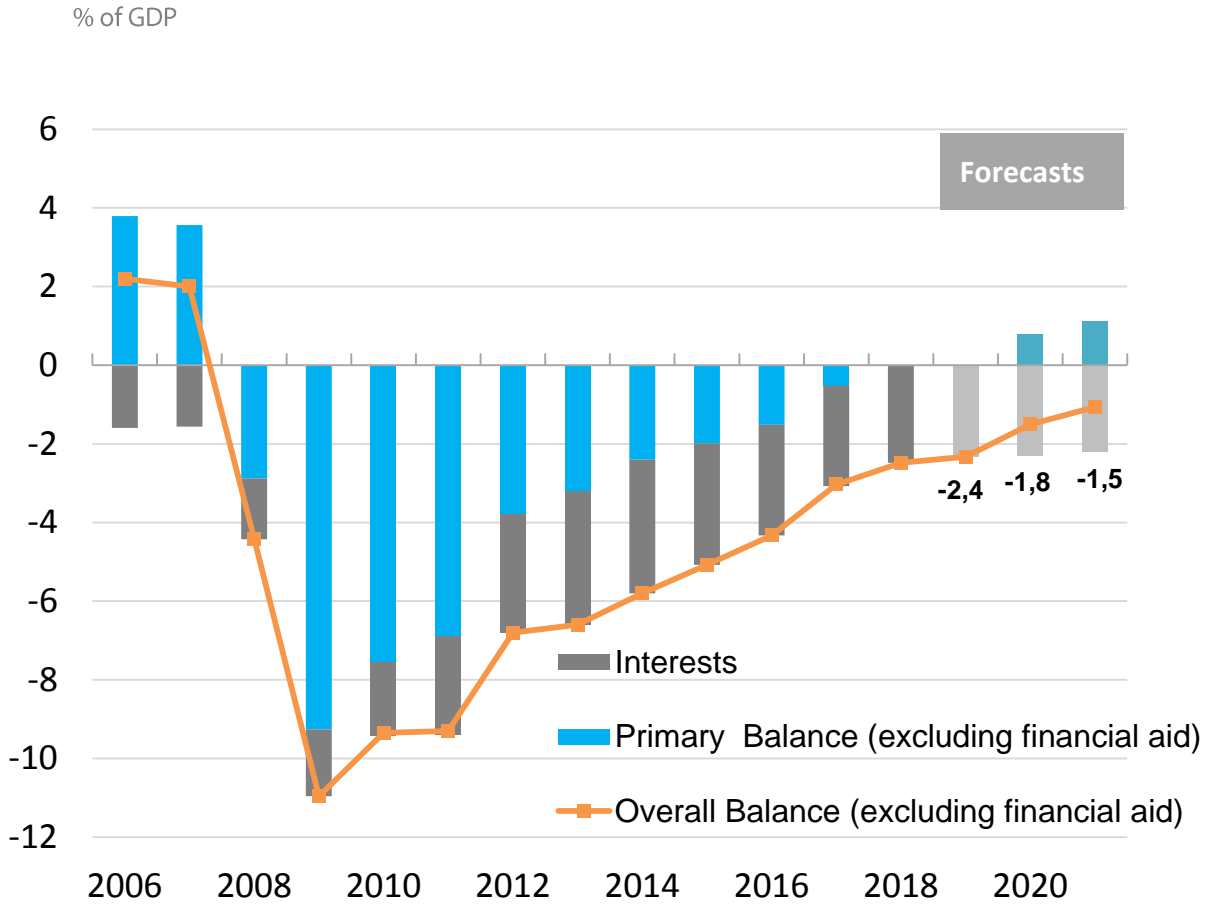
Unit labour cost relative to euro average

Index (1999Q1 = 100)



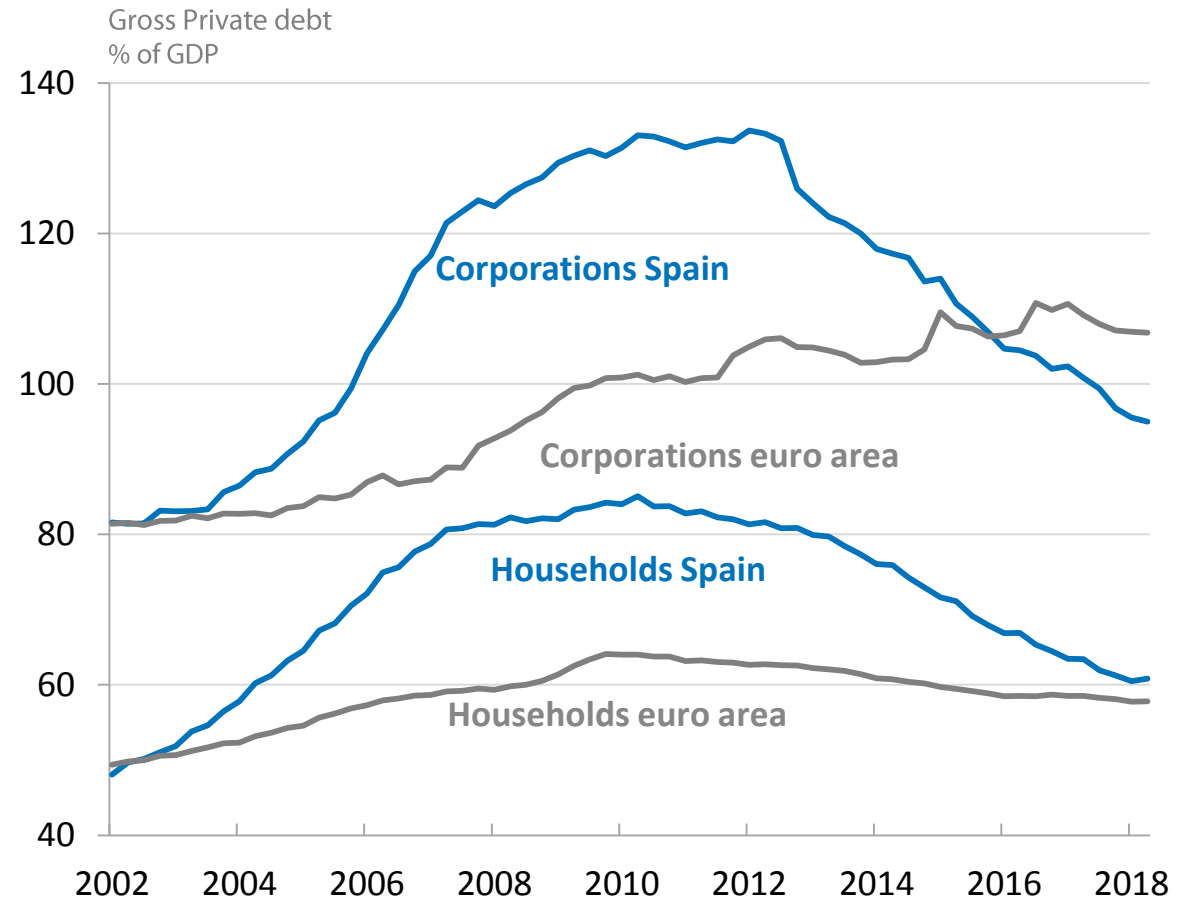
Source: Banco de España and Thomson Reuters Datastream.

Reduction of the fiscal deficit



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

Private indebtedness has fallen significantly



Source: CaixaBank Research, based on data from Banco de España and Eurostat.



Improving the engine:

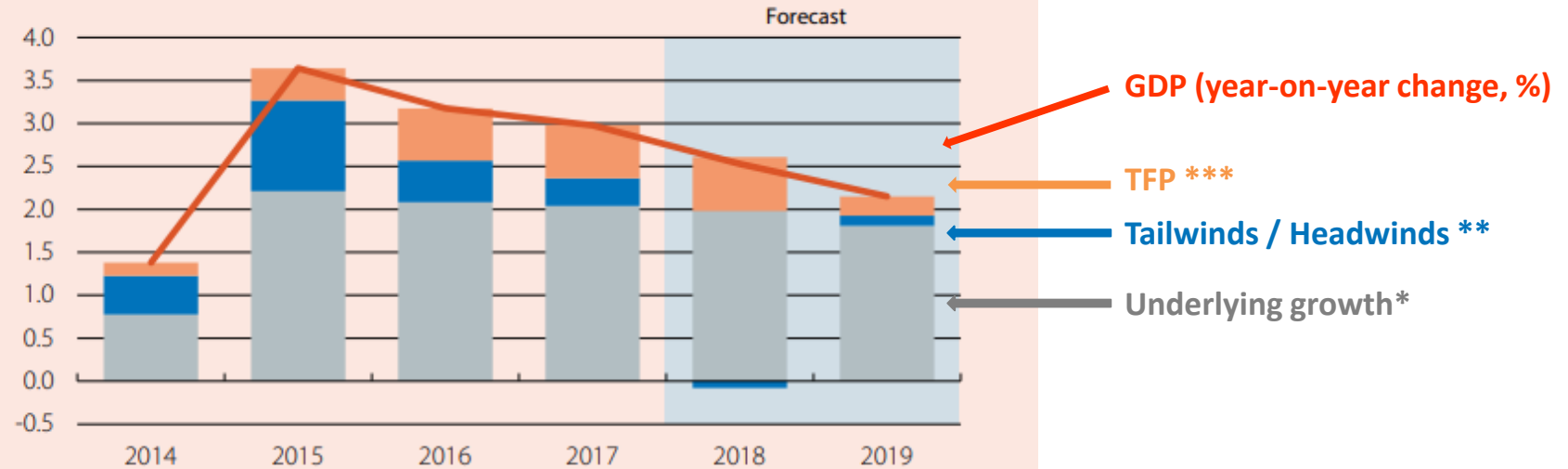


- ✓ Structural reforms
- ✓ Competitiveness recovery
- ✓ Deleveraging process

GDP growth forecasts



Spain: growth forecasts
Contribution to growth (pps)



Notes: * Underlying growth is defined as the GDP growth that is explained by the accumulation of production, employment and capital factors. ** Contextual factors include contributions to growth that come from changes in the price of oil, interest rates and the balance of tourism services. *** Total-factor productivity (TFP) constitutes the remainder.

Source: CaixaBank Research, based on data from the National Statistics Institute and the Bank of Spain.



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Improving the engine:



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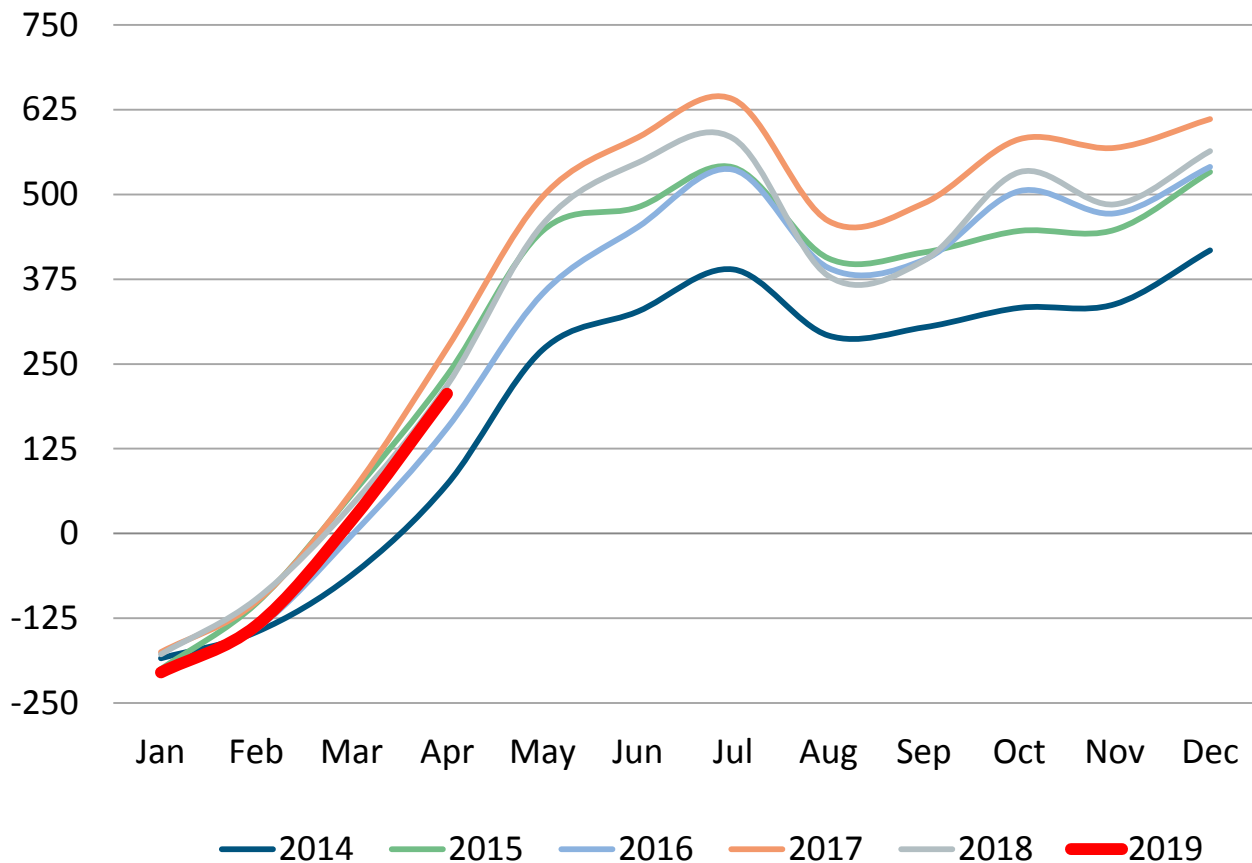
Engines of Spanish growth:



- ✓ Internal demand
 - Private consumption
 - Public consumption
 - Investment
- ✓ External demand

Strong annual job creation

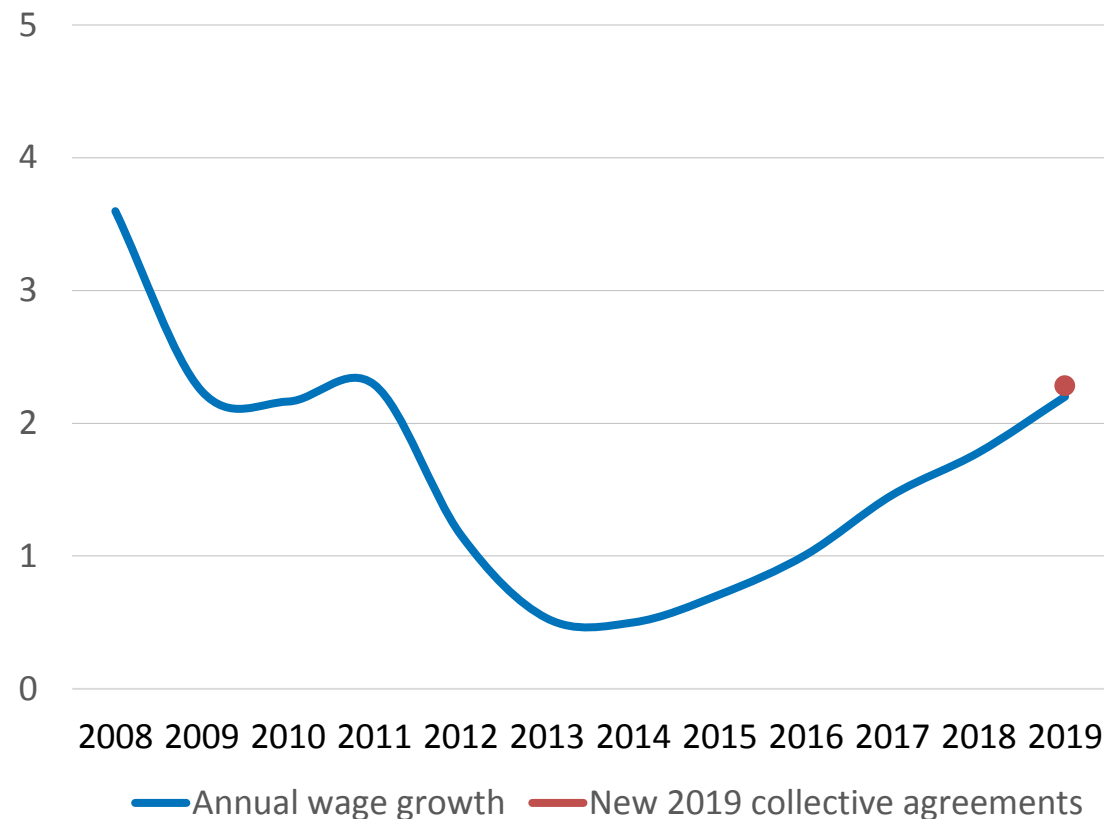
New Social Security Affiliates
Thousands (accumulated through the year)



Source: CaixaBank Research, based on data from the Ministry of Employment and Social Security Institute.

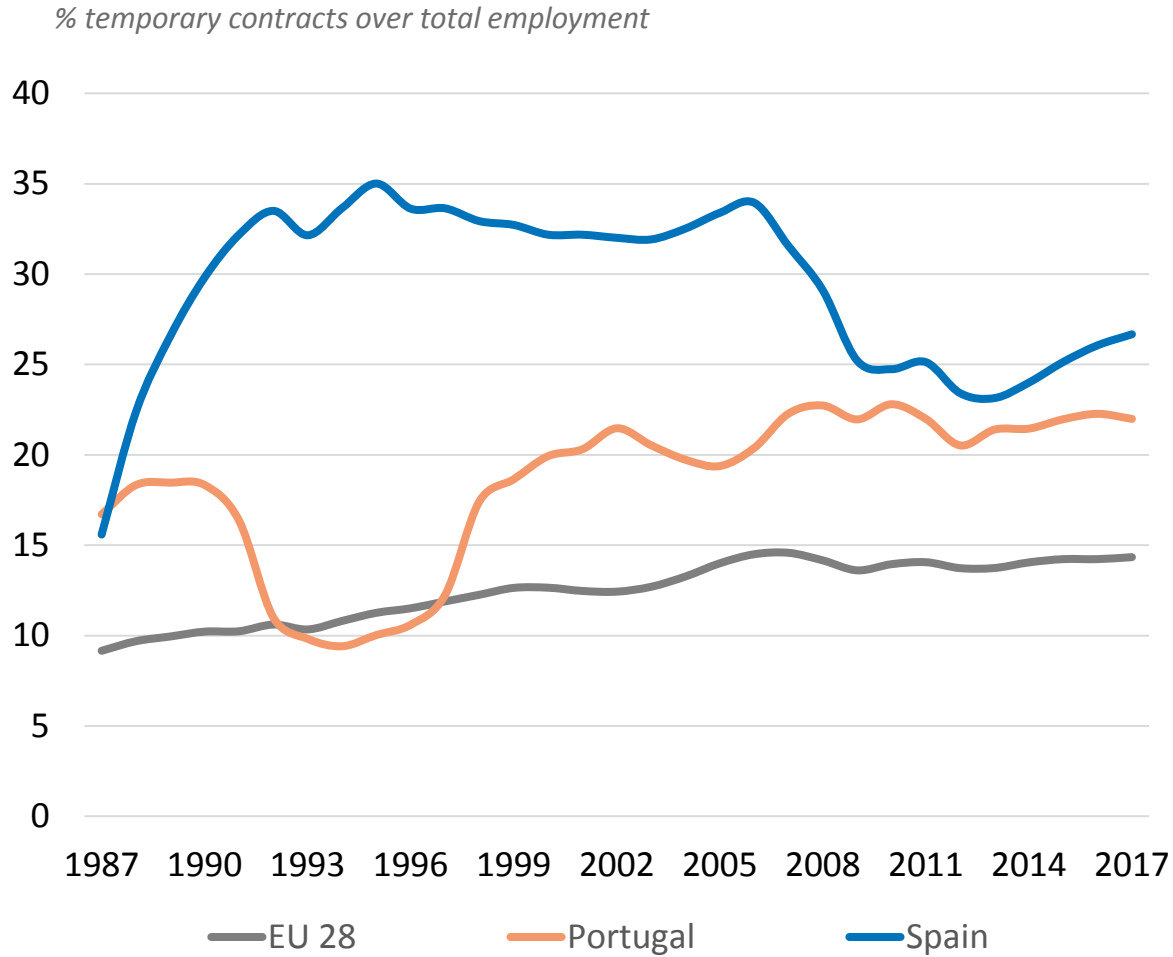
Wages are gradually increasing

Annual wage increase agreed in collective agreements
YoY (%)



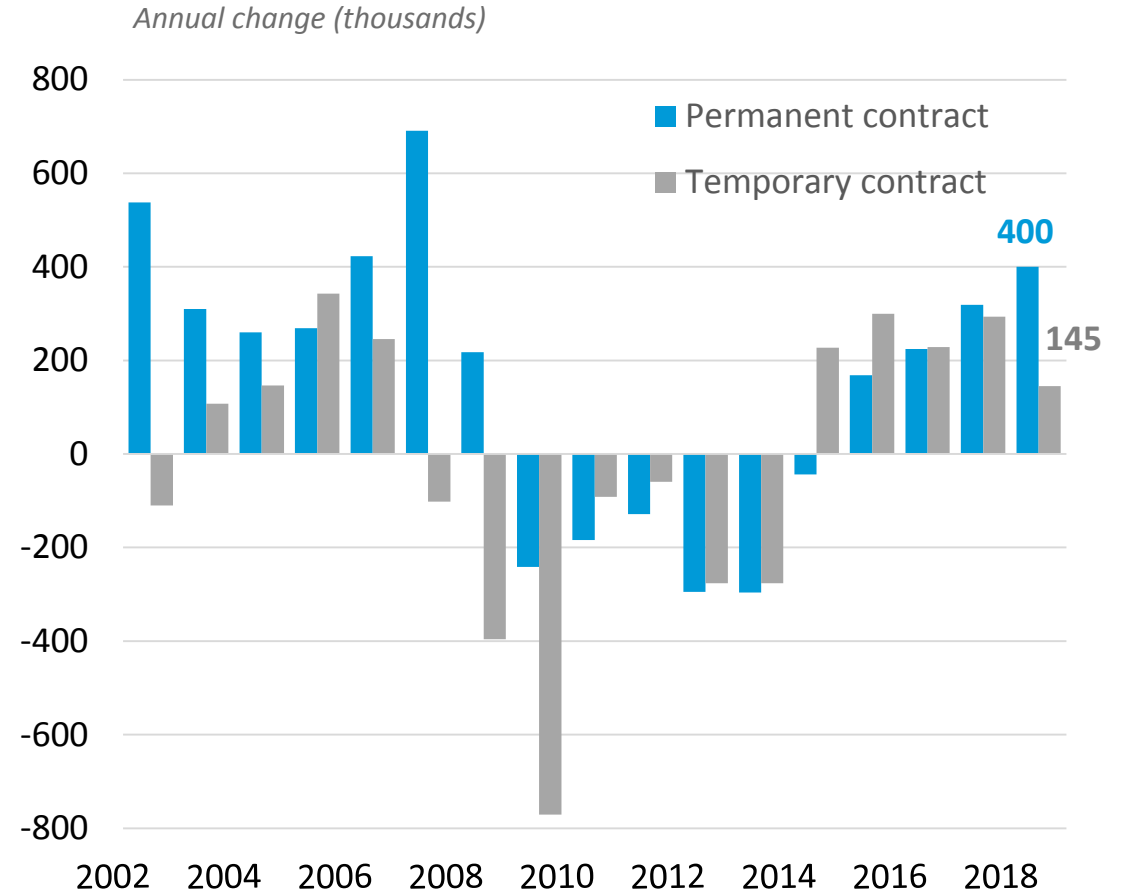
Source: CaixaBank Research, based on data from the Collective Agreements Statistics from the Ministry of Employment and Social Security Institute.

Temporality rate



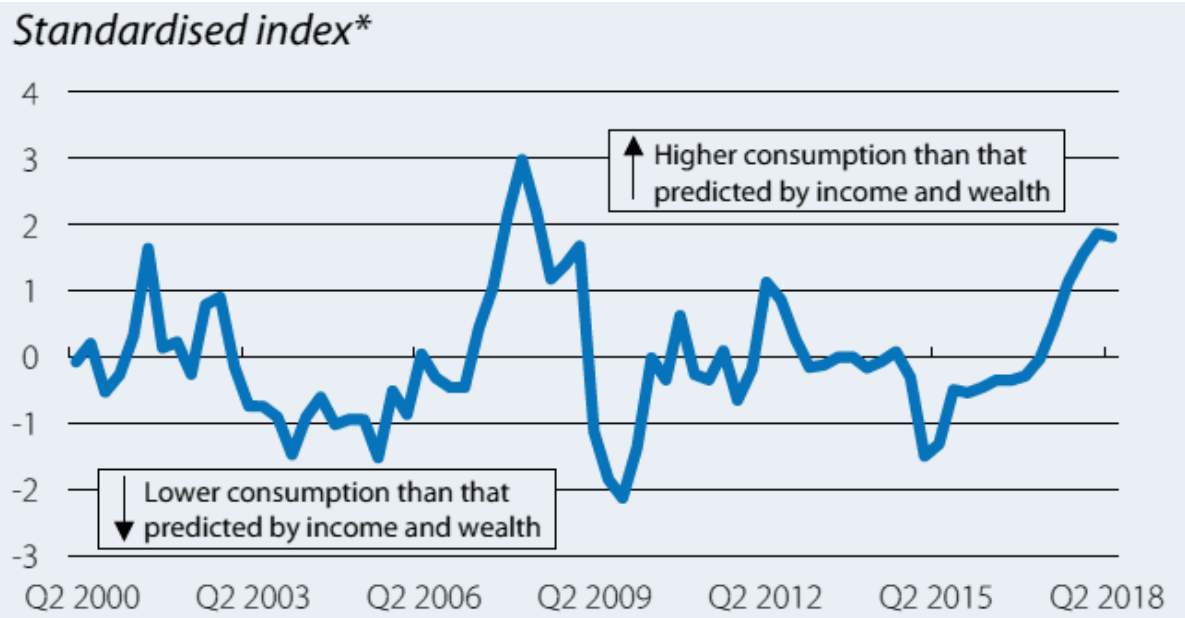
Source: CaixaBank Research, based on data from the OECD.

Social Security affiliates by type of contract



Source: CaixaBank Research, based on data from the Ministry of Employment and Social Security Institute.

Relationship between consumption, income and wealth



Note: *Remainder of a regression of the logarithm of real consumption with the logarithm of gross disposable income, household net financial wealth and the price of housing. All variables have been deflated by the CPI. Standardised series with an average of 0 and a standard deviation of 1.

Source: CaixaBank Research, based on data from the National Statistics Institute and the Bank of Spain.

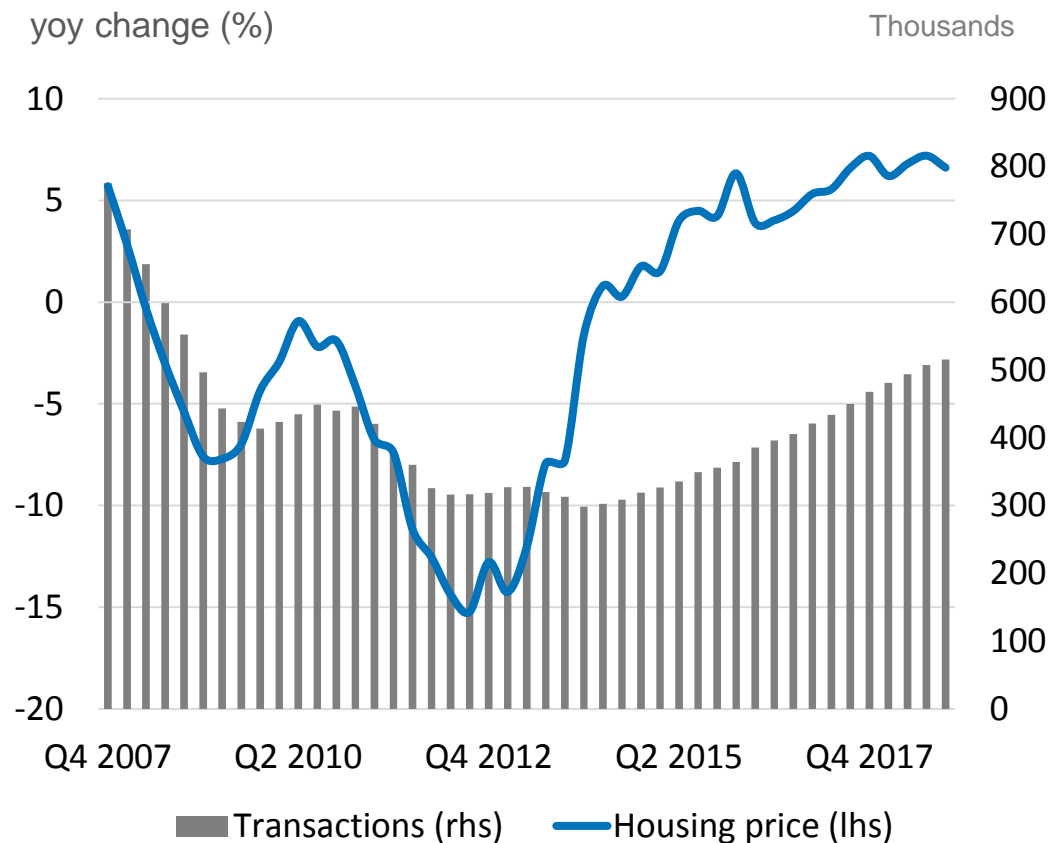
Scenarios for private consumption

		2019-2021		
	2018	Scenario 1	Scenario 2	Scenario 3
Employment	2.5	2.0	1.8	1.5
Wages	1.0	3.1	2.6	2.1
Housing prices	6.7	5.5	5.0	4.5
Mortgage rate	1.9	2.7	2.4	1.9
Consumption growth forecast		1.9	1.8	1.7

Note: * The impact on consumption is calculated by taking the difference between the values of each variable in each of the scenarios and the average values for 2018, and then multiplying this differential by the sensitivities calculated above. The forecast consumption up to 2019 is obtained by adding the impact arising in each scenario to the average growth in consumption in the first two quarters of 2018. ** Average of the data available for the first two quarters of the year. *** It is assumed that there is a one-to-one reaction in the mortgage rate to changes in the ECB reference rate.

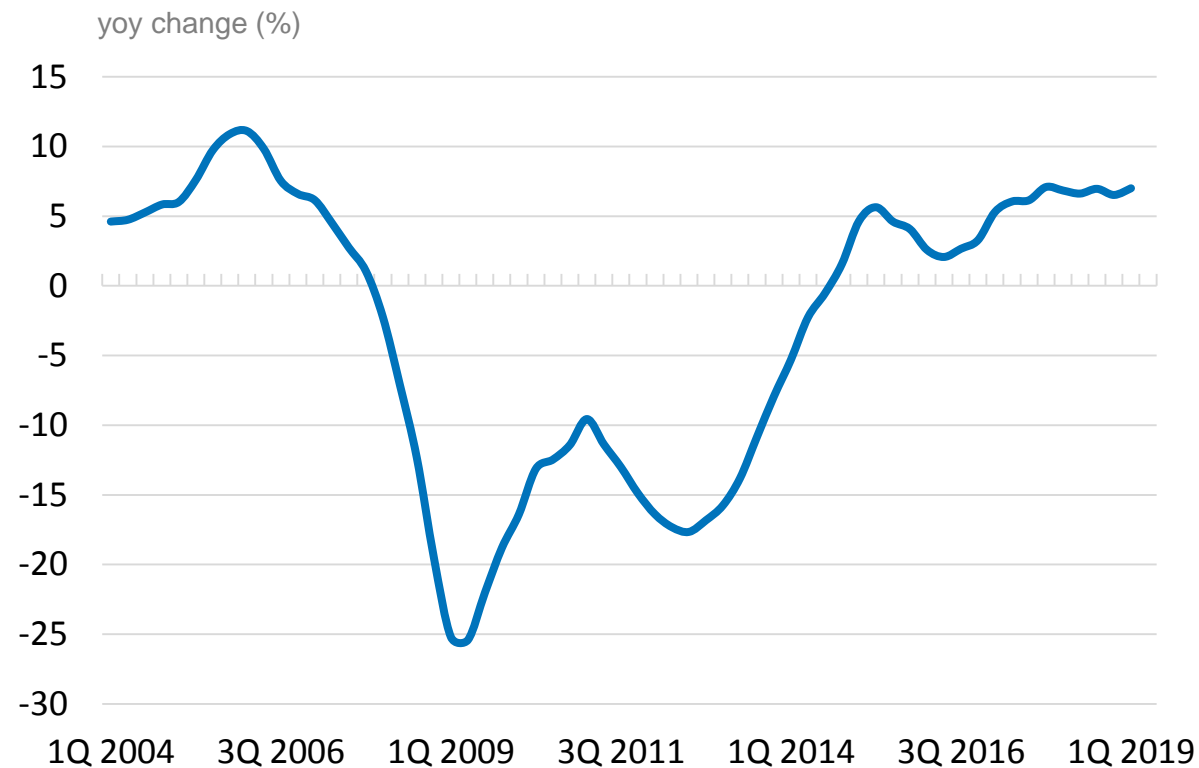
Source: CaixaBank Research.

Demand indicators and prices



Source: CaixaBank research, based on data from INE

Supply: social security affiliates in the construction sector

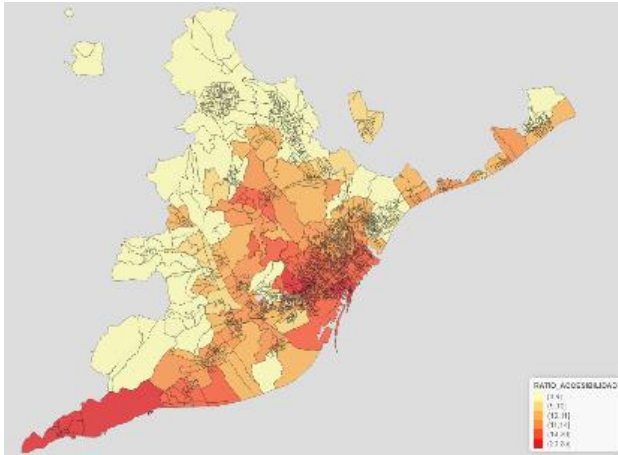


Source: CaixaBank Research, based on data from the Ministry of Employment and Social Security Institute.

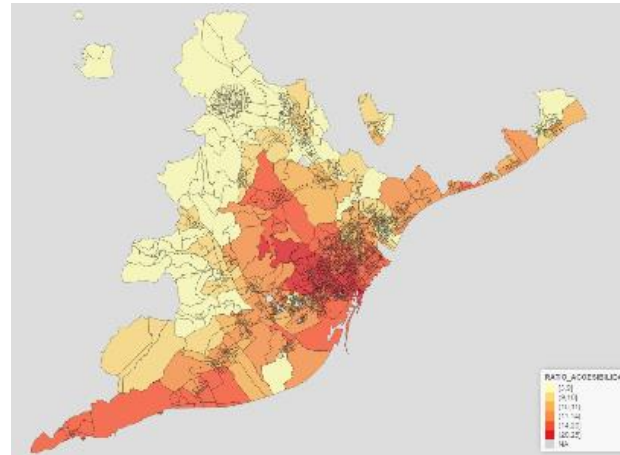
Evolution of the affordability ratios in Barcelona and Madrid

Barcelona

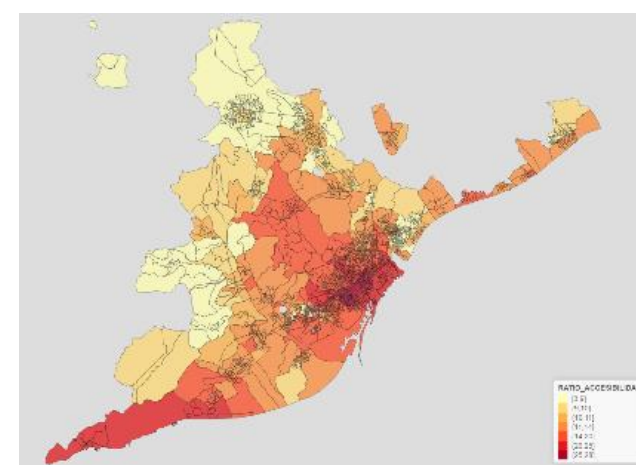
Q4 2016



Q4 2017

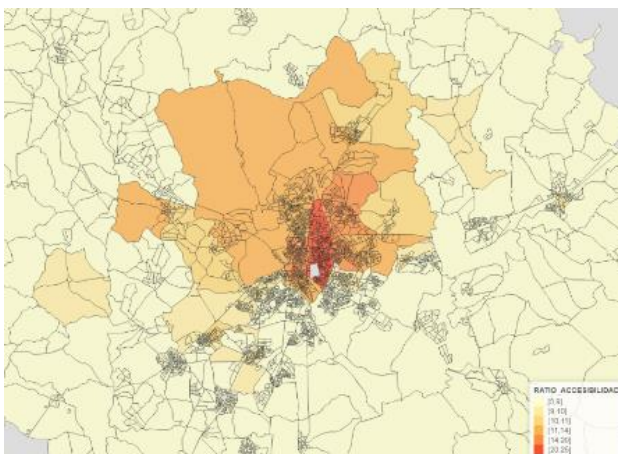


Q3 2018

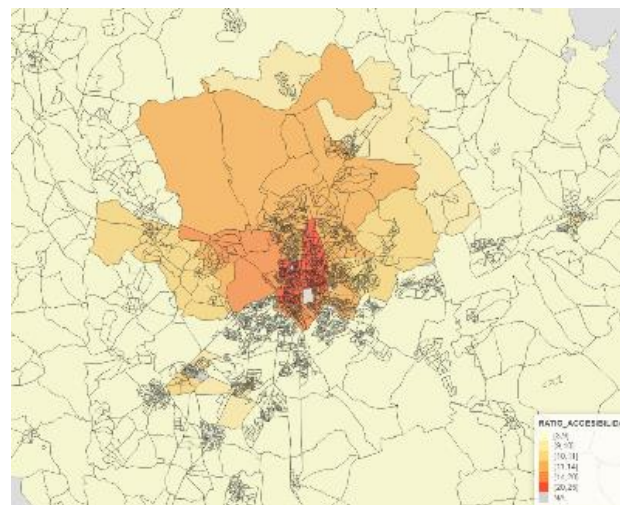


Madrid

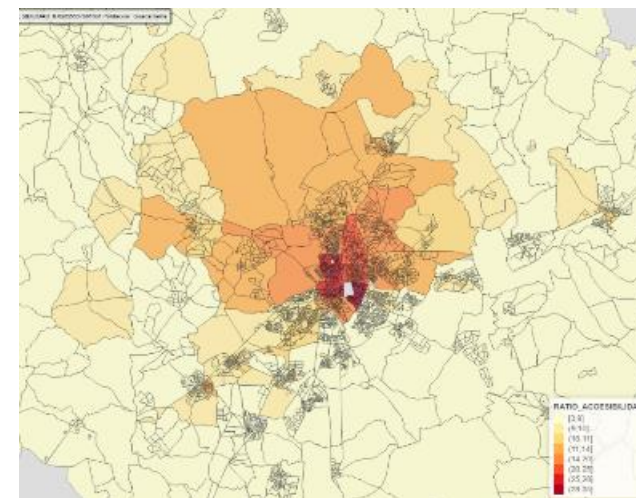
Q4 2016



Q4 2017



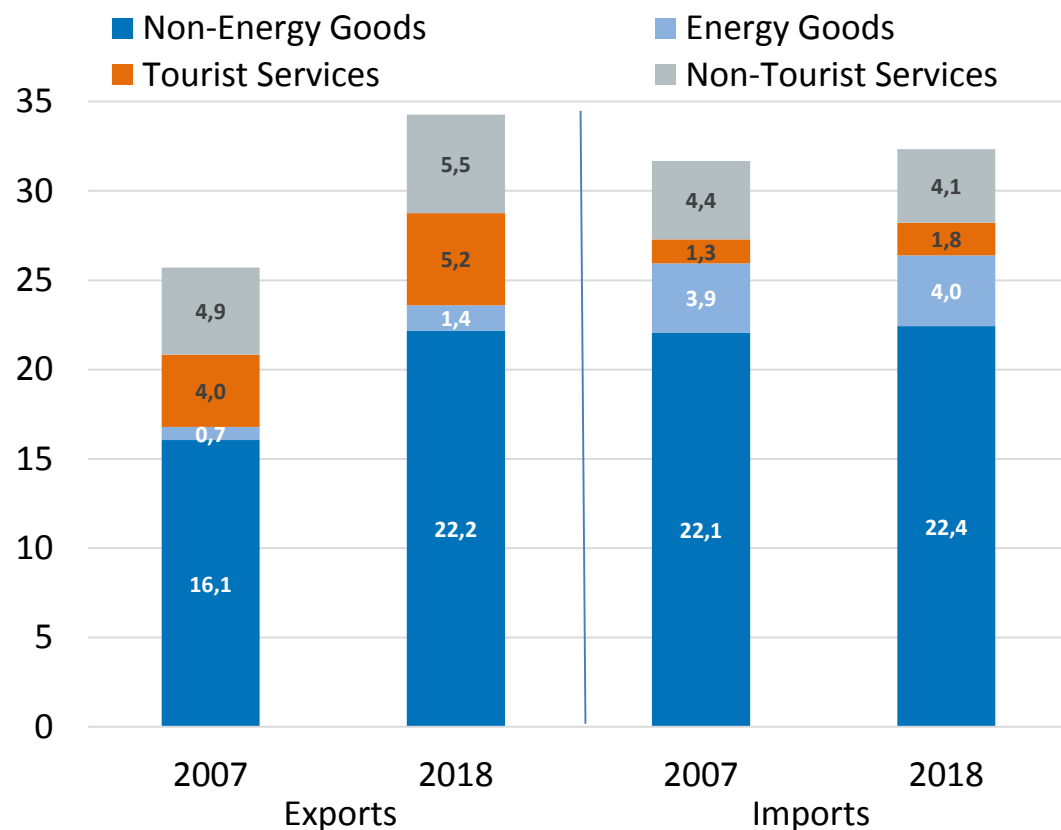
Q3 2018



Source: CaixaBank Research, based on data from the AIS data

Rotation of growth towards exports

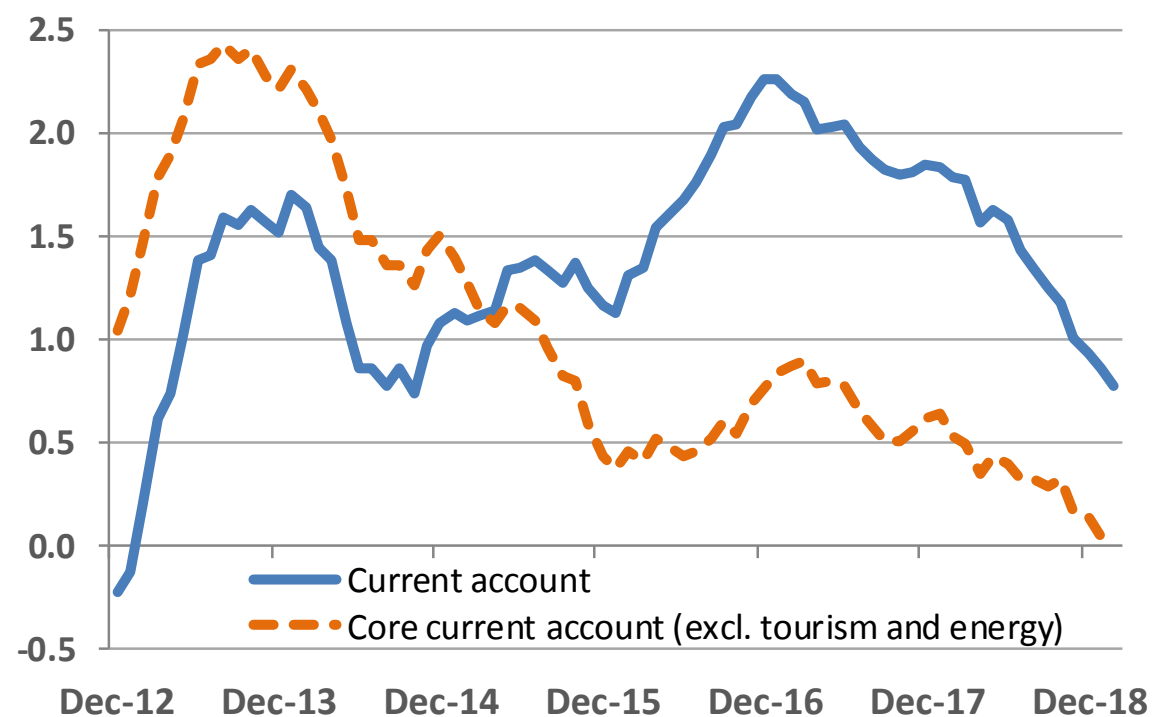
Exports and Imports of goods and services
% of GDP



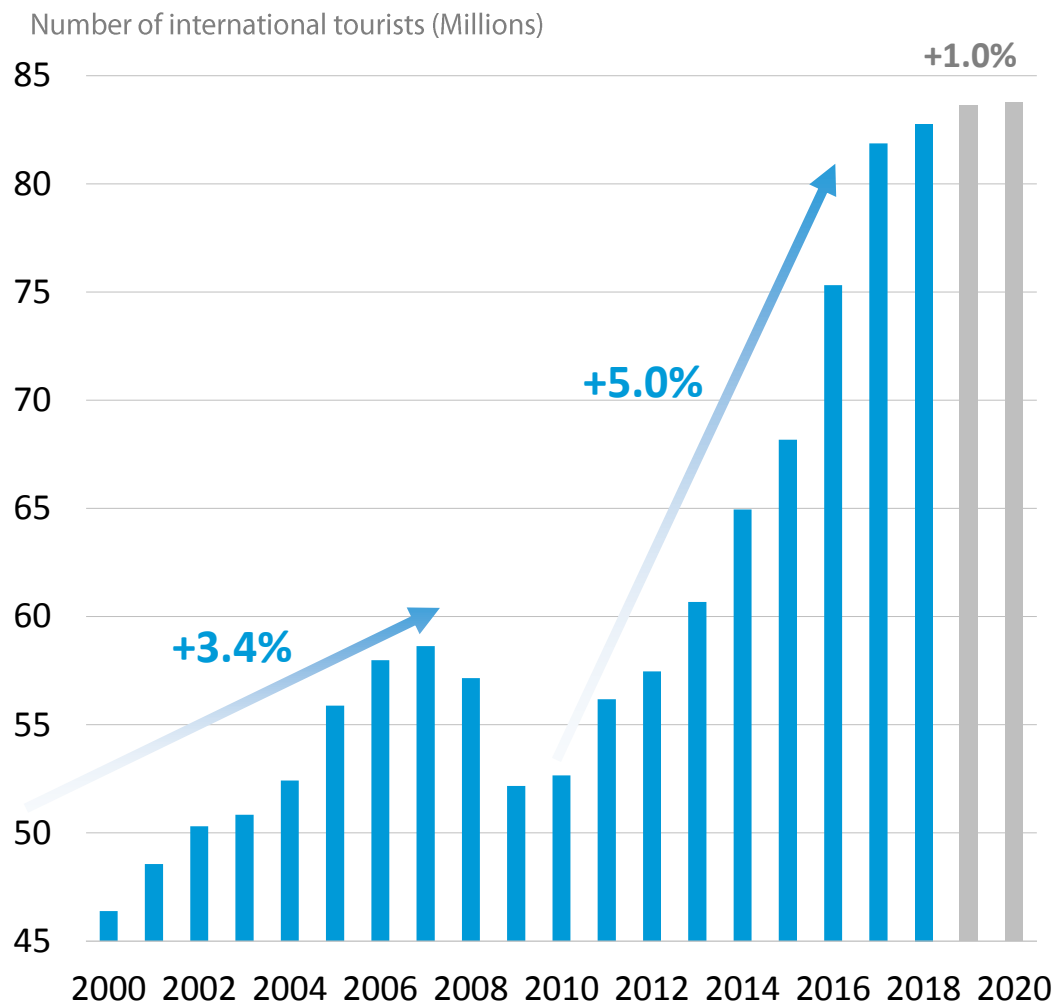
Source: CaixaBank Research, based on data from the Spanish National Statistics Institute

Current account trends downwards

Current account
% of GDP



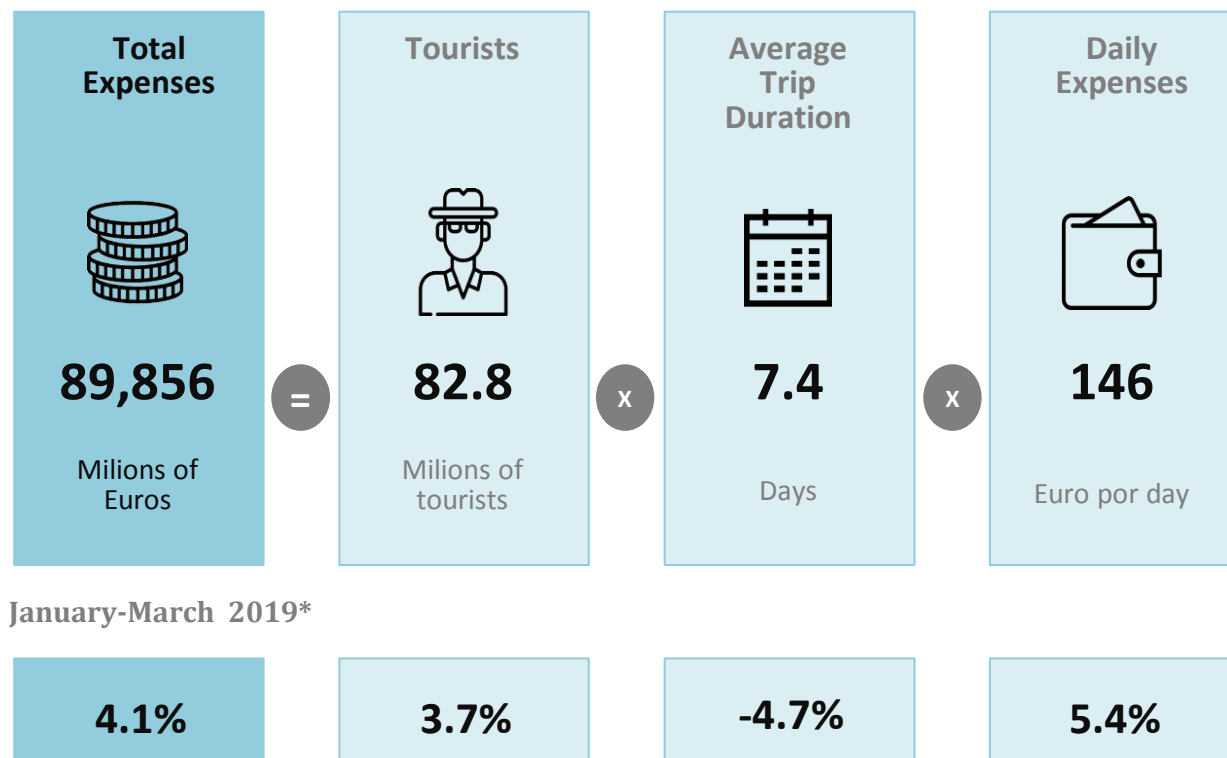
Source: CaixaBank Research, based on data from the Bank of Spain.



Note: The percentages indicate the annual average growth.

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

2018



January-March 2019*

Note: (*) YoY variation of the accumulated until March.

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



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Unemployment* **14.7%**

2015 → 2018
2 M employment creation
▽6.8 pp unemployment rate



Public debt** **97.2% GDP**

Public deficit
-11% (2009) → -2.5% (2018)



External Debt** **166.7% GDP**

Current Acc. balance
-9.7% → +0.9%



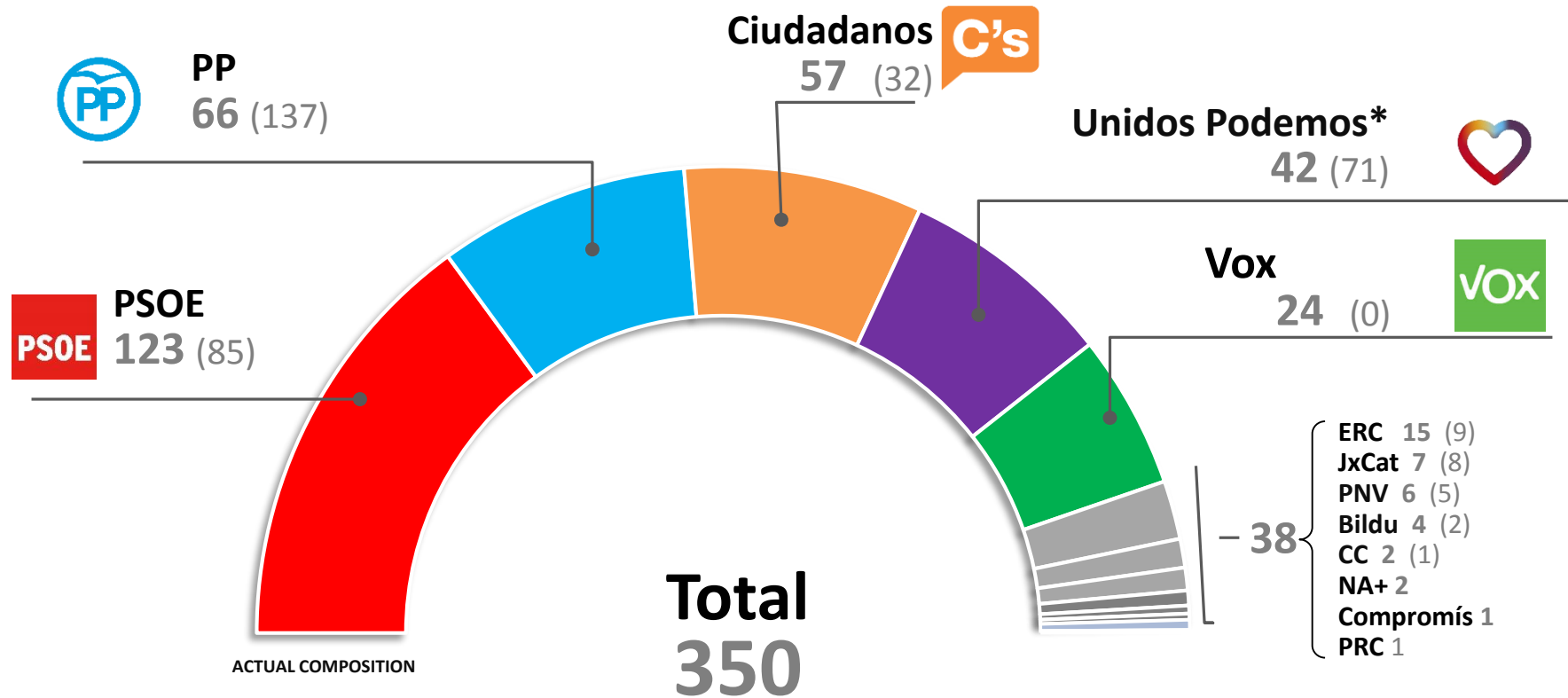
Productivity Growth*** **0.8%**

2000 - 2007
-0.9%



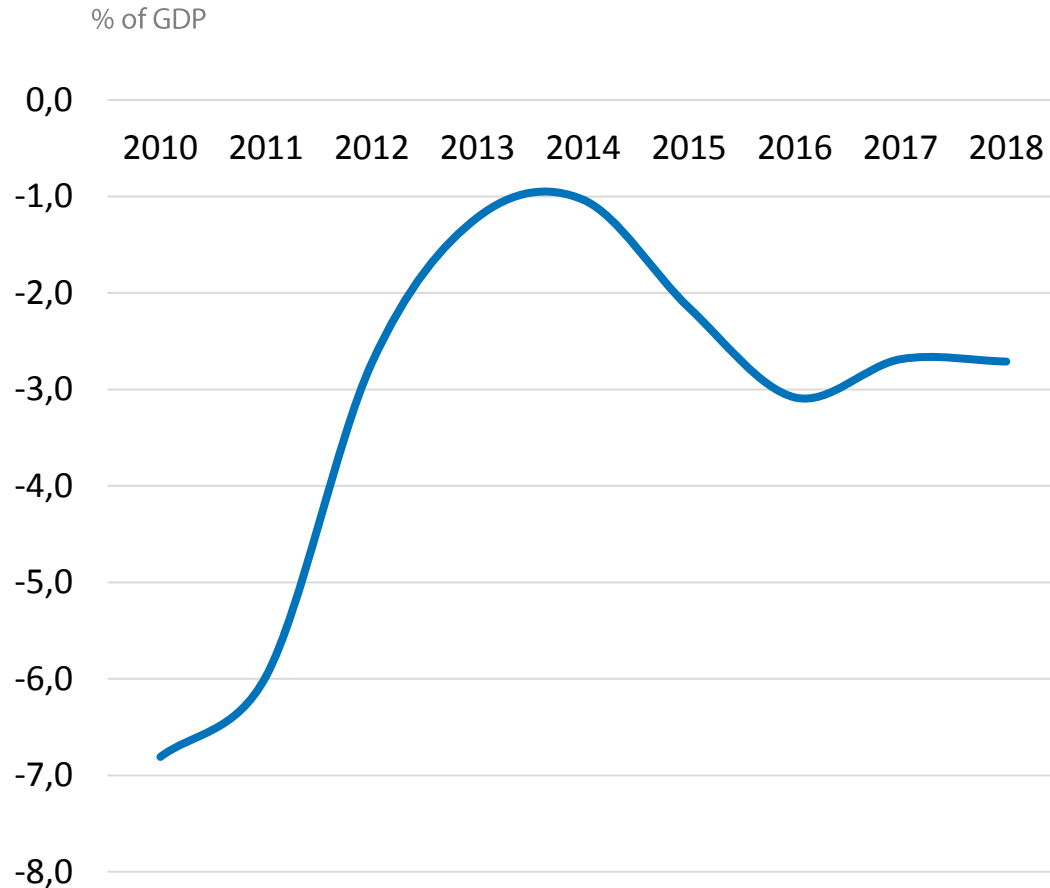
Political uncertainty

April 2019****
146.2 points Spain
193.4 points Europe



Note: in parenthesis, previous elections (2016) number of seats in Parliament.

Structural deficit



Source: CaixaBank Research, based on data from AMECO (EC).

Key measures proposed by the Government

Expenditures

- ↑ social expenditure and R+D investment
- ↑ Pensions according to inflation
- Equalisation of paternity and maternity leave

Income

- ↑ Effective corporate tax rate to 15%
- Creation of a financial transaction tax
- Creation of a digital tax

Other

- ↑ minimum wage to 900€/month (+164€/month)



Commercial Tensions

- ▶ Tensions USA – China



EU Uncertainty

- ▶ Brexit
- ▶ Stability of Italian government
- ▶ EU integration: the challenge of political polarization



**Monetary normalization:
Fed/ECB**

- ▶ Fed: no more hikes in sight
- ▶ ECB: when will the first interest rate hike be?



**Turbulences in the
emerging countries**

- ▶ Many emerging economies in a fragile position (Turkey, Argentina, Brazil,...)
- ▶ China: debt and financial imbalances



- **Macroeconomic imbalances:** substantial correction
- **Growth:**
 - Stabilizing at moderate and sustainable rates
 - Favourable domestic conditions and competitive export sector
- **Risks:** mostly external



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Head of Research
CaixaBank
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