

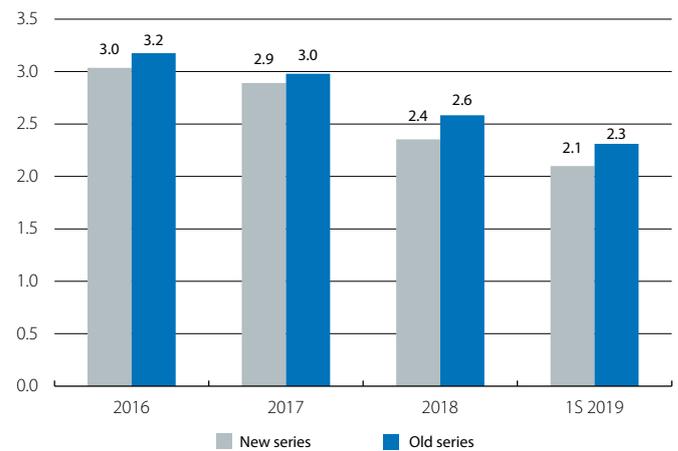
## The Spanish economy grows at a more moderate pace than anticipated

**The statistical revision of GDP reflects a more moderate growth.** September has been marked by a series of revisions of historical data on macroeconomic variables, which to some extent have altered the analysis of the current economic environment. Spain's National Statistics Institute (NSI) revised GDP growth between 2016 and 2018 downwards, reducing economic activity growth in 2018 by 0.2 pps to 2.4%. The institution also revised quarter-on-quarter GDP growth in Q1 and Q2 2019 down by 0.2 and 0.1 pps, respectively. By component, the main factor behind the downward revision of growth in 2018 is private consumption, which has gone from growing at an annual rate of 2.3% to 1.8%. This lower growth in consumption in a favourable domestic context, with strong performance in the labour market and accommodative financial conditions (supported by the ECB), could indicate that consumers reacted to the increase in uncertainty in the external environment and modified their spending decisions in order to shore up their finances in the face of greater downside risks. In this regard, the NSI has also revised the series for the savings rate which, as we shall see later, now shows that household savings are higher than previously estimated. Overall, the new data indicate that domestic demand is growing at more moderate rates than expected, due to a more demanding international environment, and lead us to revise our growth forecasts down by 0.4 pps (compared to our July forecast) in both 2019 and 2020, bringing them to 1.9% and 1.5%, respectively.

**The economic activity indicators suggest moderate growth in Q3.** The latest economic activity indicators show that the differing performance between the services sector and the industrial sector (which we have observed since the end of 2018) continues. While the PMI of the manufacturing sector stood at 48.8 points in August, still below the 50-point growth threshold, the equivalent figure for the services sector rose by 1.4 points to 54.3. Similarly, while industrial production in July maintained a moderate tone and grew by 0.8% year-on-year, a rate similar to the average for the first half of the year (0.7%), retail sales grew at a notable pace of 3.2% year-on-year. On the whole, with these and other indicators, CaixaBank Research's GDP forecasting model suggests that GDP growth in Q3 will be around 0.3%-0.4% quarter-on-quarter.

**Job creation experiences a gradual slowdown, but wages continue to rise.** The data on Social Security affiliation show that employment grew by 2.55% year-on-year in August, a slightly lower rate than in the previous month (2.6%). As such, a slowdown in the labour market is emerging that was more gradual than expected in the first half of the year. On the other hand, the progressive increase in labour costs continued in Q2 2019. According to the quarterly labour cost survey, the labour cost per effective hour rose by 3.1% year-on-year in Q2, +0.6 pps higher than in Q1 2019. Meanwhile, the wage cost per effective

**Revision of the GDP series**  
Annual change (%) \*



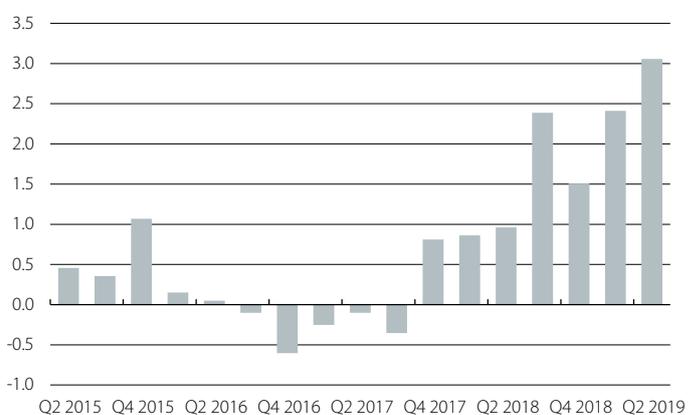
*Note:* \* Except for the figure for 1S 2019, which corresponds to the average of the year-on-year change of Q1 and Q2 2019.  
*Source:* CaixaBank Research, based on data from the National Statistics Institute.

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



*Note:* 90% confidence interval.  
*Source:* CaixaBank Research, based on data from the National Statistics Institute.

**Spain: labour cost per effective hour \***  
Year-on-year change (%)



*Note:* \* Corrected for calendar and seasonal effects.  
*Source:* CaixaBank Research, based on data from the National Statistics Institute (Quarterly Labour Cost Survey).

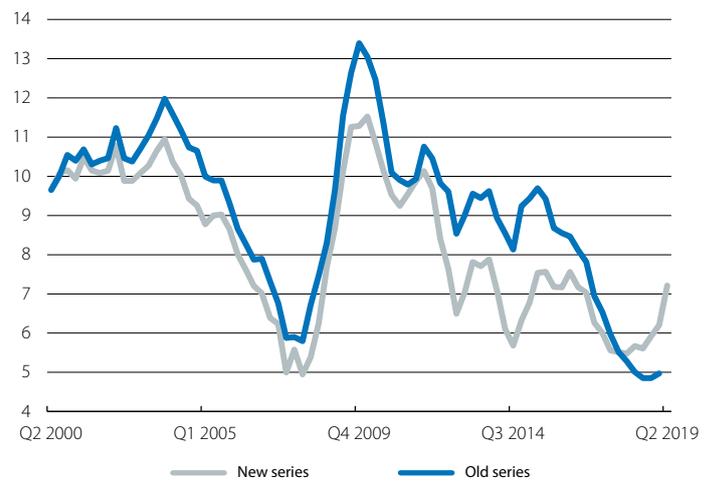
hour, which represents over two thirds of the total labour cost, increased by 2.7% (+2.2% in Q1 2019). Therefore, the recovery in wages continues, as can also be seen in the pay rises agreed in collective agreements, which amount to 2.3% in August 2019.

**The slowdown in private consumption has translated into an increase in savings.** With the new available data we can see that, after reaching a low point at the end of 2017, the savings rate began to recover until it reached 7.2% of gross disposable income in Q2 2019 (four-quarter cumulative figure). This figure contrasts with the previous estimate, which indicated that household savings had fallen steadily since mid-2015 and had stabilised at around 5.0% in Q1 2019. Although it provides less impetus to the current growth rate, this increase in savings gives the economy greater strength to withstand potential downside risks.

**The current account balance remains stable thanks to the slower growth of imports.** In coordination with EU countries, the ECB and Eurostat, the Bank of Spain has performed a major review of the series. The resulting revision of the figures does not change the trends affecting the balance of payments since 2016, but it raises the level of the current account surplus by 1.1 pps of GDP. With the new data, the cumulative current account balance for the 12 months to July 2019 stood at 21,945 million euros (1.79% of GDP), a level similar to the figure for the previous month (1.75% of GDP). This stability (which contrasts with the steady deterioration in the current account balance between late 2016 and March 2019) is mainly attributable to the non-energy goods component, which has stabilised since April as a result of the slowdown in imports: in July this component grew by 1.9% year-on-year (12-month cumulative balance), less than the 2.5% of the previous month and the 5.9% registered in July 2018. Nevertheless, the adverse international environment continues to manifest itself in the weakness of exports, which in July grew by a modest 1.3% (1.6% in June and 4.4% in July 2018).

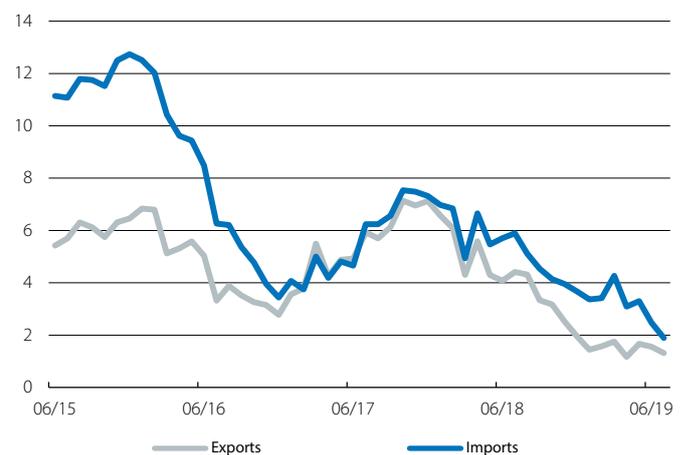
**The real estate market shows signs of moderation.** The price of housing based on valuations slowed its pace of growth in Q2 2019, with an increase of 0.1% quarter-on-quarter (1.1% in Q1). The growth rate of the price of housing based on transactions also fell in Q2 2019, in this case by 0.3 pps down to 1.2% quarter-on-quarter. This slowdown in housing prices is occurring in a context in which demand is showing signs of stabilisation. More specifically, property sales have barely grown so far this year (0.6% in January to July on a cumulative basis). That said, this slowdown is partly due to the temporary impact of the implementation of the new mortgage law (property sales fell by 9.0% in June), although in July they recovered (+3.8%). Furthermore, the supply indicators are slowing down too, although growth in the construction sector remains significantly higher than that of the economy as a whole. Looking ahead to the coming quarters, the moderation in the sector's growth rate will continue in the context of a slowdown across the economy as a whole. Nevertheless, this should not be interpreted as a sign of weakness in the sector, but rather as a process of normalisation towards more sustainable growth rates following the strong rebound experienced during the recovery.

**Spain: savings rate**  
(% of gross disposable income)



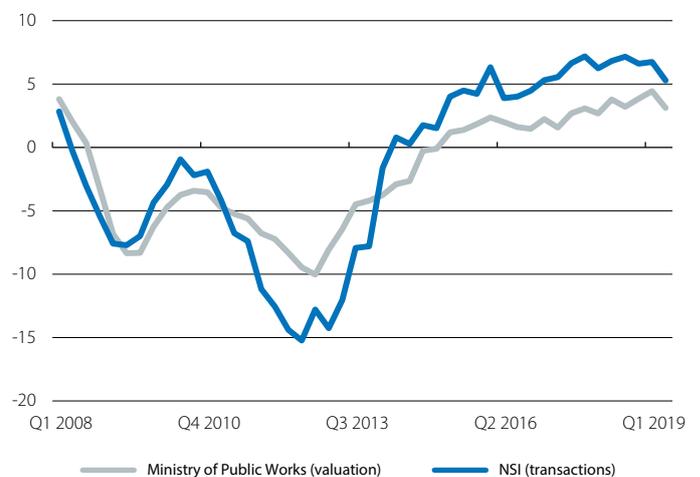
Source: CaixaBank Research, based on data from the National Statistics Institute.

**Spain: foreign 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.

**Spain: price of unsubsidised housing**  
Year-on-year change (%)



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