

Spain: Decelerating after a great run

After three years of above 3% growth, we expect momentum to slow somewhat in 2018 and 2019. The situation in Catalonia will not be resolved anytime soon and could be a further drag on the economy



The growth momentum

In terms of activity in 2017, there is nothing to complain about. With an annual growth rate projected to be 3.1%, Spain remains one of the fastest growing economies in the Eurozone. Growth momentum remains healthy for now, as PMIs for both the services and manufacturing sectors ended the year on a high note.

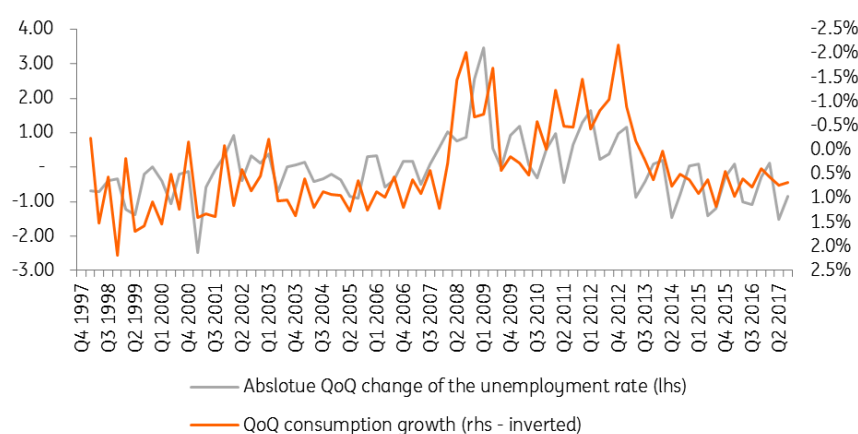
Domestic demand, which has provided a positive annual contribution to growth since the first quarter of 2014, continues to be the main driver of growth. As in 2016, private consumption remained the largest contributor to growth in 2017, although its importance declined. In contrast, the contribution of investment rose. In the third quarter of 2017, the YoY growth contribution of investment of 1.2 percentage points equalled that of private consumption.

External demand was another growth engine

Despite the troubles in Catalonia, Spain saw a record number of visitors in 2017, with the number of tourists increasing by nearly 9% YoY. However, with imports now also accelerating on the back of stronger domestic demand, the positive growth contribution of net exports was somewhat smaller in 2017 than in the previous years.

The labour market performed well last year. In the third quarter, employment grew at 2.8% YoY. Accordingly, the unemployment rate declined to 16.4% in the third quarter from 18.9% a year earlier. For 2018, we expect the unemployment rate to be 16% before dropping to 15% in 2019. This positive evolution, however, is still likely to result in a higher unemployment rate than before the financial crisis of 2009 and remains one of the highest in the Eurozone. The projected decline in unemployment will nevertheless continue to support private consumption in the coming quarters, although to a lesser extent.

Absolute changes of unemployment rate are highly correlated with consumption growth



Source: Thomson Reuters

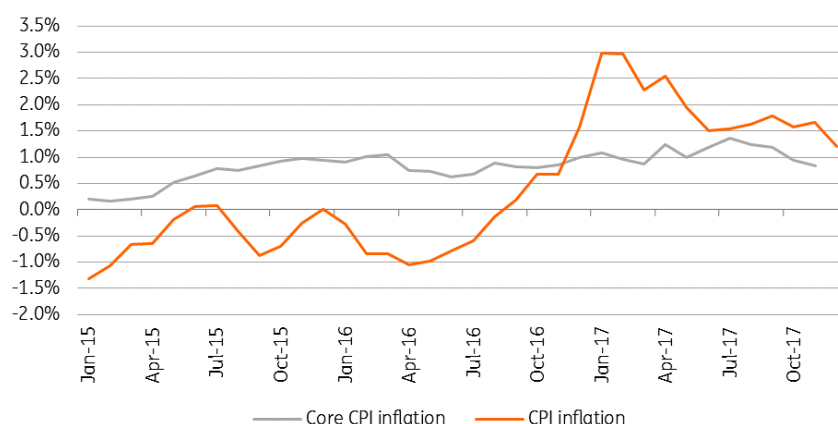
Headline inflation to converge towards the core rate

Headline inflation moderated in the second half of 2017. In the fourth quarter, headline inflation had come down to 1.5% from 2.7% in the first quarter. Core inflation, however, has remained around 1% since mid-2015. As the base effect of oil prices fades away, we expect headline inflation to converge towards core inflation. We think, however, that core inflation will edge upwards, although at a slow pace, as the cyclical slack in the economy only gradually disappears. We expect a headline inflation rate of 1.5% in 2018 and 1.7% in 2019.

The government deficit is expected to have declined from 4.5% in 2016 to 3.1% in 2017. This is mainly due to a strong macroeconomic performance, which supports tax revenues and limits social security expenditures. We expect this trend to continue and forecast a deficit of 2.6% in 2018 and 2.4% in 2019. Government debt is also set to decline as nominal growth offsets the negative budget balances.

Headline inflation will converge towards core inflation

While core inflation is likely to slowly edge upwards



Source: Thomson Reuters

Politics muddle the picture

A big question mark is how the situation in Catalonia will unfold. The results of the Catalan snap elections last month show a divided region. The three pro-independence parties obtained a majority of seats in the Catalan parliament but did not receive more than 50% of the vote. The separatist parties agreed to re-elect Puigdemont as president of the region. However, it is not certain whether this will be possible from a constitutional point of view, as Puigdemont still resides in Brussels so a clear-cut solution doesn't seem to be in the offing.

Political concerns haven't gone away

Unfortunately, the longer this process lasts, the more harmful it could be for the economy. According to Spain's economy minister, the Catalan crisis already cost one billion euro in the fourth quarter, although this kind of calculation is notoriously difficult to make. On the other hand, the main Catalan pro-independence parties have somewhat softened their stance and for the time being have backed away from unilateral independence, which diminishes the risk of greater turmoil.

All in all, the macroeconomic situation remains rosy, although we expect the economy to slow a bit. The Spanish government is planning to increase its growth forecast for this year from 2.3% to at least 2.5%. This seems realistic in our view as we expect the Spanish economy to grow by 2.6% in 2018 and by 2.0% in 2019, compared to 3.1% in 2017.

	2016	2017F	2018F	2019F
GDP	3.3	3.1	2.6	2.0
Private consumption	3.0	2.5	2.2	2.0
Investment	3.1	4.7	3.2	2.5
Government consumption	0.8	1.1	0.9	0.8
Net trade contribution	0.9	0.6	0.5	0.3
Headline CPI	-0.3	2.0	1.5	1.7
Unemployment rate (%)	19.7	17.3	16.0	15.0
Budget balance as % of GDP	-4.5	-3.1	-2.6	-2.4
Government debt as % of GDP	99.0	97.3	96.1	95.1

Source: Thomson Reuters, all forecasts ING estimates

Author

Amrita Naik Nimbalkar

Junior Economist, Global Macro

amrita.naik.nimbalkar@ing.com

Mateusz Sutowicz

Senior Economist, Poland

mateusz.sutowicz@ing.pl

Alissa Lefebvre

Economist

alissa.lefebvre@ing.com

Deepali Bhargava

Regional Head of Research, Asia-Pacific

Deepali.Bhargava@ing.com

Ruben Dewitte

Economist

+32495364780

ruben.dewitte@ing.com

Kinga Havasi

Economic research trainee

kinga.havasi@ing.com

Marten van Garderen

Consumer Economist, Netherlands

marten.van.garderen@ing.com

David Havrlant

Chief Economist, Czech Republic

420 770 321 486

david.havrlant@ing.com

Sander Burgers

Senior Economist, Dutch Housing
sander.burgers@ing.com

Lynn Song
Chief Economist, Greater China
lynn.song@asia.ing.com

Michiel Tukker
Senior European Rates Strategist
michiel.tukker@ing.com

Michal Rubaszek
Senior Economist, Poland
michal.rubaszek@ing.pl

This is a test author

Stefan Posea
Economist, Romania
tiberiu-stefan.posea@ing.com

Marine Leleux
Sector Strategist, Financials
marine.leleux2@ing.com

Jesse Norcross
Senior Sector Strategist, Real Estate
jesse.norcross@ing.com

Teise Stellema
Research Assistant, Energy Transition
teise.stellema@ing.com

Diederik Stadig
Sector Economist, TMT & Healthcare
diederik.stadig@ing.com

Diogo Gouveia
Sector Economist
diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux
Sector Strategist, Financials
marine.leleux2@ing.com

Ewa Manthey
Commodities Strategist

ewa.manthey@ing.com

ING Analysts

James Wilson

EM Sovereign Strategist

James.wilson@ing.com

Sophie Smith

Digital Editor

sophie.smith@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Adam Antoniak

Senior Economist, Poland

adam.antoniak@ing.pl

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

Coco Zhang

ESG Research

coco.zhang@ing.com

Jan Frederik Slijkerman

Senior Sector Strategist, TMT

jan.frederik.slijkerman@ing.com

Katinka Jongkind

Senior Economist, Services and Leisure

Katinka.Jongkind@ing.com

Marina Le Blanc

Sector Strategist, Financials

Marina.Le.Blanc@ing.com

Samuel Abettan

Junior Economist

samuel.abettan@ing.com

Franziska Biehl

Senior Economist, Germany

Franziska.Marie.Biehl@ing.de

Rebecca Byrne

Senior Editor and Supervisory Analyst

rebecca.byrne@ing.com

Mirjam Bani

Sector Economist, Commercial Real Estate & Public Sector (Netherlands)

mirjam.bani@ing.com

Timothy Rahill

Credit Strategist

timothy.rahill@ing.com

Leszek Kasek

Senior Economist, Poland

leszek.kasek@ing.pl

Oleksiy Soroka, CFA

Senior High Yield Credit Strategist

oleksiy.soroka@ing.com

Antoine Bouvet

Head of European Rates Strategy

antoine.bouvet@ing.com

Jeroen van den Broek

Global Head of Sector Research

jeroen.van.den.broek@ing.com

Edse Dantuma

Senior Sector Economist, Industry and Healthcare

edse.dantuma@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Rico Luman

Senior Sector Economist, Transport and Logistics

Rico.Luman@ing.com

Jurjen Witteveen

Sector Economist

jurjen.witteveen@ing.com

Dmitry Dolgin

Chief Economist, CIS

dmitry.dolgin@ing.de

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

Egor Fedorov

Senior Credit Analyst

egor.fedorov@ing.com

Sebastian Franke

Consumer Economist

sebastian.franke@ing.de

Gerben Hieminga

Senior Sector Economist, Energy

gerben.hieminga@ing.com

Nadège Tillier

Head of Corporates Sector Strategy

nadege.tillier@ing.com

Charlotte de Montpellier

Senior Economist, France and Switzerland

charlotte.de.montpellier@ing.com

Laura Straeter

Behavioural Scientist

+31(0)611172684

laura.Straeter@ing.com

Valentin Tataru

Chief Economist, Romania

valentin.tataru@ing.com

James Smith

Developed Markets Economist, UK

james.smith@ing.com

Suvi Platerink Kosonen

Senior Sector Strategist, Financials

suvi.platerink-kosonen@ing.com

Thijs Geijer

Senior Sector Economist, Food & Agri

thijs.geijer@ing.com

Maurice van Sante

Senior Economist Construction & Team Lead Sectors

maurice.van.sante@ing.com

Marcel Klok

Senior Economist, Netherlands

marcel.klok@ing.com

Piotr Poplawski

Senior Economist, Poland

piotr.poplawski@ing.pl

Paolo Pizzoli

Senior Economist, Italy, Greece

paolo.pizzoli@ing.com

Marieke Blom

Chief Economist and Global Head of Research

marieke.blom@ing.com

Raoul Leering

Senior Macro Economist

raoul.leering@ing.com

Maarten Leen

Head of Global IFRS9 ME Scenarios

maarten.leen@ing.com

Maureen Schuller

Head of Financials Sector Strategy

Maureen.Schuller@ing.com

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

Rafal Benecki

Chief Economist, Poland

rafal.benecki@ing.pl

Philippe Ledent

Senior Economist, Belgium, Luxembourg

philippe.ledent@ing.com

Peter Virovacz

Senior Economist, Hungary

peter.virovacz@ing.com

Inga Fechner

Senior Economist, Germany, Global Trade

inga.fechner@ing.de

Dimitry Fleming

Senior Data Analyst, Netherlands

Dimitry.Fleming@ing.com

Ciprian Dascalu

Chief Economist, Romania

+40 31 406 8990

ciprian.dascalu@ing.com

Muhammet Mercan

Chief Economist, Turkey

muhammet.mercan@ingbank.com.tr

Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com

Sophie Freeman

Writer, Group Research

+44 20 7767 6209

Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA

Regional Head of Research, Americas

padhraic.garvey@ing.com

James Knightley

Chief International Economist, US

james.knightley@ing.com

Tim Condon

Asia Chief Economist

+65 6232-6020

Martin van Vliet

Senior Interest Rate Strategist

+31 20 563 8801

martin.van.vliet@ing.com

Karol Pogorzelski

Senior Economist, Poland

Karol.Pogorzelski@ing.pl

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

Viraj Patel

Foreign Exchange Strategist
+44 20 7767 6405
viraj.patel@ing.com

Owen Thomas
Global Head of Editorial Content
+44 (0) 207 767 5331
owen.thomas@ing.com

Bert Colijn
Chief Economist, Netherlands
bert.colijn@ing.com

Peter Vanden Houte
Chief Economist, Belgium, Luxembourg, Eurozone
peter.vandenhoute@ing.com

Benjamin Schroeder
Senior Rates Strategist
benjamin.schroeder@ing.com

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com

Gustavo Rangel
Chief Economist, LATAM
+1 646 424 6464
gustavo.rangel@ing.com

Carlo Cocuzzo
Economist, Digital Finance
+44 20 7767 5306
carlo.cocuzzo@ing.com