

Spain: Slight growth deceleration confirmed, but still well above the eurozone average

The Spanish economy grew by 0.8% in 3Q, slightly lower than the second quarter, but above the eurozone average. The figures are not impacted by the Catalonia issue



Compared to a year ago, the economy grew by 3.1%, the same year-on-year rate as in 2Q. The Eurozone as a whole grew by 2.5% over the same period in the third quarter. Domestic demand was up, and that contribution to the Spanish year-on-year growth rate increased from 2.3 percentage points in 2Q to 2.7 percentage points. This was mainly due to a surge in investment. Export growth remained relatively stable, but import growth accelerated. The contribution of external demand to the year-on-year growth rate therefore declined. Overall we can conclude that the strong recovery of the Spanish economy continued in 3Q.

0.8%

Spanish GDP growth

Third quarter

Initial data for the fourth quarter, however, does show some impact of the political crisis which could impact growth. Retail sales (calendar adjusted) dropped by 0.1% in October compared with a year ago. In September sales increased by 1.6%. The drop for Spain as a whole is mainly due to a sharp decline in Catalonia. Out of the 17 autonomous regions, retail sales for Catalonia dropped the most. The unadjusted series fell by 3.9%. Alongside Madrid, where retail sales growth was flat, Catalonia weighs heavily in the index.

Meanwhile, Spain is preparing for the Catalan elections planned on the 21st of December. These elections could lead to a more long-term solution for the crisis as a number of pro-independence politicians say that for the time being, they would refrain from a unilateral declaration of independence. Instead, they called for talks with Madrid.

According to the latest polls there are no big shifts in the political landscape in Catalonia. The unionists and the pro-independence parties get approximately the same amount of votes. The ERC (pro-independence) party would get the most votes (26%), followed by two unionist parties Citizens (20%) and the Socialists' party of Catalonia (15%). Carles Puigdemont's party, PDeCat, is the fourth largest (14%). Of course, these polls should be interpreted with caution.

The economic impact of the elections will, of course, depend on the results. For now, our base case is that there will be a negotiated solution after the elections. This will take time, but as long as there is progress in finding a solution, we think the economic impact will be limited.