Spain: Still going strong

Good 1Q growth figures and a possible breakthrough on the 2018 budget

Strong growth path

The Spanish economy grew as expected by 0.7% quarter-on-quarter, as in 3Q17 and 4Q17. Compared to a year ago, the economy expanded by 2.9%. The good growth figure was expected as the high frequency data for 1Q was generally optimistic. The average PMI for 1Q18 was higher than in 4Q17 and the unemployment rate continued to decline. Consumer confidence, on the other hand, declined a bit but remained at a high level.

The European Commission's Economic Sentiment Index for Spain increased from 109.0 in March to 110.6 in April, which is close to the recent peak of 110.9 in January 2018. Forward-looking indicators in the survey, such as order books and hiring intentions in manufacturing and employment and demand expectations in the service sector, however, decreased in April. This provides evidence that Spain is still on a strong growth path, but that this could ease towards the end of the year.

Inflation in April slowed somewhat from 1.3% in March to 1.1% in April and was mainly due to lower package holidays, due to the reversal of the March increase on the back of early Easter holidays, and gas prices. We expect, however, that inflation will slowly edge higher in the months to come.

On the political front, there seems to be a breakthrough concerning the 2018 budget. The Basque Nationalist Party did not want to vote in favour as long as the central government was suspending some of the autonomous powers in Catalonia. But now, there seems to be an agreement between the Partido Popular, the ruling party, and the Basque Nationalist Party. An approved budget by June is a possibility.

Outlook for 2018

All in all, we remain upbeat on the Spanish economy. For 2018, we forecast 2.6%, compared to the 3.1% in 2017. Even though this implies a slowdown towards the end of the year, this would still be a decent yearly performance and lies above our Eurozone 2018 growth forecast of 2.4%.