

Spain: Weaker growth ahead

Economic activity remained elevated in 2019, but there are reasons to think it will slow in 2020. A weaker domestic labour market and a weaker global environment will slow activity. Political uncertainty is likely to ease somewhat but overall will remain high



Spanish Prime Minister
Pedro Sanchez

Source: Shutterstock

A good growth performance in 2019

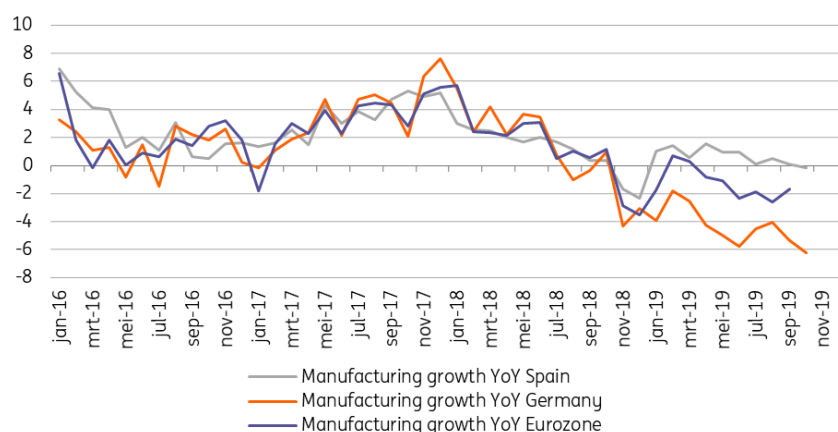
Compared to the eurozone as a whole, Spanish economic growth held up nicely in 2019. During the first three-quarters of 2019 average quarterly growth equalled 0.46%, while this was 0.51% over the same period in 2018. Investment growth slowed over the course of the year, while export growth accelerated. Household and government consumption growth remained relatively stable.

The performance of the manufacturing sector was quite good, given the global environment. Compared to a year ago, manufacturing production was flat in Spain, but decreased by about 2% in the eurozone and by a whopping 6% in Germany.

Even though growth performance in 2019 was relatively good, labour market developments were not. The unemployment rate stopped declining at the beginning of 2019 and it now hovers around 14%, which is a lot higher than the 8% before the financial crisis. Similarly, employment growth slowed, while the employment rate stagnated at around 69%, which is still significantly lower than

76% observed before the crisis. All this might point to a severe case of hysteresis in the Spanish labour market.

Compared to the eurozone, Spain's manufacturing sector performed well in 2019



Source: Refinitiv Datastream

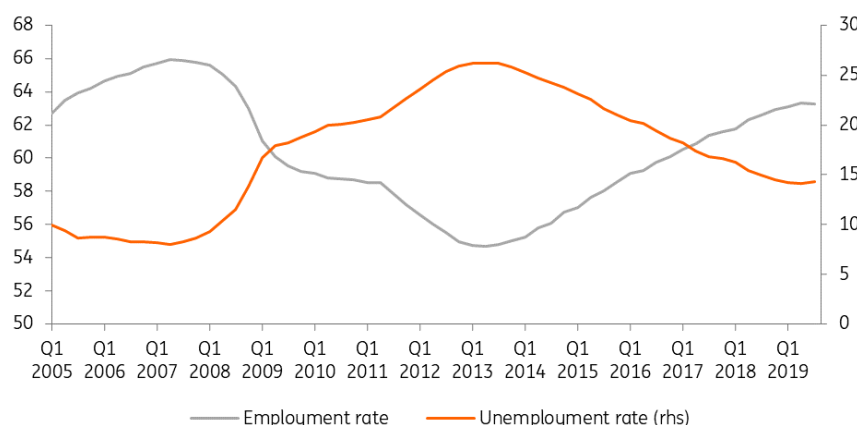
Weaker growth in 2020

The weaker labour market did not yet have a strong impact on consumption, but consumer confidence started to drop during the summer months and is now at its lowest level since January 2015. In our view this lower consumer confidence will negatively impact consumption in the months ahead. Intentions to make major purchases by consumers over the next 12 months dropped already quite a bit.

It is not likely that the unemployment rate starts to drop significantly again as hiring intentions in the industry dropped in recent months. Furthermore, the manufacturing sector will probably weaken further in 2020. Industrial production expectation fell recently which will impact labour demand negatively.

Slower consumption growth is not the only reason why we expect slower growth in 2020. The weaker external environment is another one. Growth in the eurozone and the United States is forecasted to slow further in 2020, which will negatively impact Spanish export growth. It is also likely that the tensions and uncertainty surrounding international trade are not going to disappear soon. The threat of tariffs by the US on cars, which is the largest Spanish export sector, hasn't materialized yet, but has not completely disappeared.

The unemployment and employment rate plateaued



Source: Refinitiv Datastream

Will political uncertainty recede in 2020?

Political uncertainty has been elevated during the last couple of years and 2019 was no different. Hence, the snap elections in April and November.

The November elections weakened the PSOE and Podemos, compared to the elections in April, but one day after the November elections they made the decision to form a minority government. To have enough support in parliament, they are now trying to convince the ERC (Catalan Republican Left) to abstain during the vote in parliament so the coalition government could be formed. However, ERC only wants to help the minority government if it gets some concessions in return, something which is still difficult.

This option is certainly not a done deal. Moreover, there are other possibilities. Recently, Inés Arrimadas, the new leader of Ciudadanos, said she is willing to work on a PSOE-Partido Popular-Ciudadanos government, although this looks to be a long shot.

However, we do think that pressure to form a government is high and this increases the likelihood that there will be a government soon as the main political parties are unlikely to fare any better in new elections. Once there is a government, political uncertainty should in principle decline however the type of government will also have an impact. A minority government is by definition not that stable and the political fragmentation and polarisation has only increased during the latest elections and this political reality won't be changing anytime soon.

Political uncertainty could hamper investment and hiring decisions, but it also impacts fiscal policy. As the Spanish government debt level is above 60% of GDP, the government should lower it at a fast pace. The no policy change draft budget submitted by the current caretaker government to the European Commission, however, did not go far enough.

According to the European Commission, Spain should use the decline of interest rate expenditures to reduce the debt ratio and urged Spain to submit a new budget consistent with the rules as soon a new government is formed. This warning, of course, makes the government formation more difficult.

We think that growth will slow in 2020 and expect a GDP growth rate of 1.4% in 2020. For 2021, we expect a growth rate of 1.5% compared to 2% in 2019.

The Spanish economy in a nutshell (%YoY)

	2018	2019F	2020F	2021F
GDP (%)	2.4	2.0	1.4	1.5
Private consumption (%)	2.4	2.0	1.7	1.9
Investment (%)	6.0	2.0	1.5	1.6
Government consumption (%)	2.0	2.0	1.5	1.5
Net trade contribution (%)	-0.2	0.0	-0.1	-0.1
Headline CPI (%)	1.7	0.7	0.7	1.5
Unemployment rate (%)	15.3	14.2	14.0	13.8
Budget balance (% of GDP)	-2.5	-2.2	-2.0	-2.0
Government debt (% of GDP)	97.6	97.2	97.2	96.4

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