

Spain: Has growth peaked?

The Spanish economy has continued its strong growth in 2018 but a slowdown could well be on the horizon. Meanwhile, there are optimistic tunes around the budget but no symphony just yet



Source: Shutterstock

Current activity is strong

The Spanish economy continued its strong performance at the beginning of the year recording 0.7% quarter-on-quarter growth identical to third and fourth quarter growth in 2017. This figure was expected as the high-frequency data for the first quarter was overall optimistic. The average PMI for 1Q18 was higher than 4Q17's, the unemployment rate continued to decline and consumer confidence still remains at a considerably high level despite having dipped slightly.

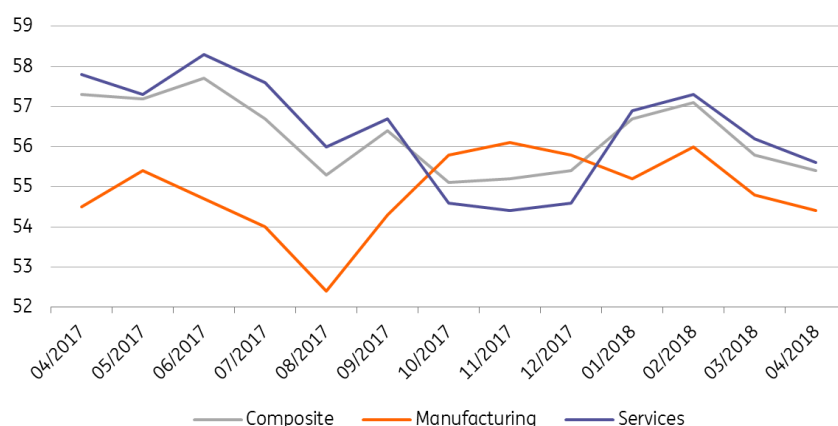
Cool down ahead?

Looking ahead, the Spanish economy could cool down a little.

The European Sentiment Indicator (ESI) 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. Furthermore, PMIs declined for a second consecutive month in April. All this points to the fact that Spain is currently still on a strong

growth path, but this could ease over the course of the year.

PMIs drop for a second consecutive month in April



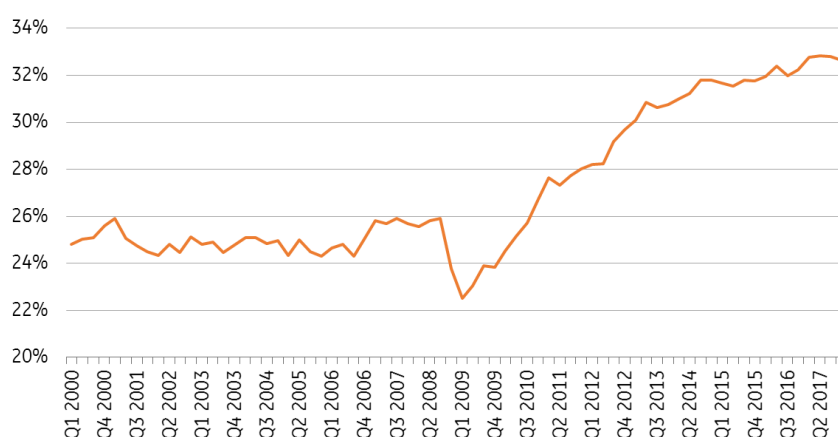
Source: Thomson Reuters

Exports driving recovery

A remarkable feature of the Spanish economy today is the importance of exports.

The share of exports increased to 33%, compared to 25% before 2008. A few reasons include the decline in wages after the crisis followed by the labour market reforms which made it more business-friendly. Secondly, the crisis forced companies to broaden horizons and look towards foreign markets as the domestic market collapsed and finally the rise in productivity. Given that these changes were not temporary and the fact that Spanish exports are now more geographically diversified, it is likely that exports will continue to support the economy.

Exports on the rise (as a percentage of GDP)



Source: Thomson Reuters

Structural weaknesses in the labour market remain

The labour market continues its recovery as the unemployment rate continues to decline and employment growth remains firm.

This, of course, supports private consumption, but structural problems remain. The proportion of employees on temporary contracts relative to total employment equalled 26.8% in 4Q17. Young and low-skilled workers often fail to secure permanent jobs, and this reduces the incentive to invest in training and lifelong learning, limiting potential human capital formation.

Broader measures of the labour supply also show some weakness. For example, underemployed part-time workers still account for 6.0% of the active population in 2017 while this is only 4.1% in the Eurozone.

Optimistic tunes on the budget, but no symphony yet

On the political front, there seems to be a breakthrough concerning the 2018 budget. Last year, the approval of the budget had to be postponed as the Basque Nationalist Party (PNV) withdrew its support to protest against the government's management of the Catalan crisis. But now, there is initial parliamentary support for the budget from several political parties. The PNV agreed too after a deal with the government to boost public pension in 2018 and 2019.

However, the PNV continues to say it will not back the budget until the government removes its direct control over Catalonia. But there are also positive sounds on that front. Now that a new Catalan premier is elected, a new Catalan government is imminent. And once the new government is installed, the central government could lift Article 155.

Even though political uncertainty hasn't disappeared, it has eased compared to a few months ago, and the negative impact on the economy was also limited. The rating agency, Moody's recently upgraded Spain's long-term credit rating citing the low impact of the Catalan crisis but good economic performance and structural improvements in the banking sector also helped.

The three main rating agencies, Fitch, Standard and Poors and Moody's, have all upgraded Spain's long-term credit rating in 2018.

The Spanish economy in a nutshell (%YoY)

	2016	2017	2018F	2019F	2020
GDP	3.3	3.1	2.6	2.0	1.6
Private consumption	3.0	2.4	2.4	1.8	1.3
Investment	3.1	5.5	3.3	2.4	2.1
Government consumption	0.8	1.6	1.2	0.3	0.0
Net trade contribution	0.9	0.3	0.3	0.4	0.4
Headline CPI	-0.3	2.0	1.4	1.7	1.8
Unemployment rate (%)	19.6	17.2	16.1	15.0	14.0
Budget balance as a % of GDP	-4.5	-3.1	-2.6	-1.9	-2.0
Government debt as a % of GDP	99.0	98.3	97.2	96.3	95.2

Source: Thomson Reuters, ING forecasts

Author

Amrita Naik Nimbalkar

Junior Economist, Global Macro

amrita.naik.nimbalkar@ing.com

Mateusz Sutowicz

Senior Economist, Poland

mateusz.sutowicz@ing.pl

Alissa Lefebre

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