

## Spain: Solid growth, but will it continue?

Good growth performance in 3Q confirmed and high-frequency data for the fourth quarter looks promising. However, a weaker external environment and continued political uncertainty will hamper economic activity in 2019



Source: istock

The final release of 3Q GDP figures confirms the Spanish economy grew by 0.6% quarter on quarter. The annual figure was revised down from 2.5% to 2.4%, but these figures are in stark contrast to the growth performance of other Eurozone countries, such as Italy and Germany, where the economy slowed quite significantly in the third quarter.

Even though Spanish survey indicators, such as the PMI, edged lower in the third quarter, economic activity held up quite well. Compared to the second quarter, household and government consumption grew faster, but investment growth slowed.

---

*We forecast annual growth of 2.6% in 2018 and 2% in 2019 - a clear slow down of economic activity*

---

High-frequency data for the fourth quarter looks rather positive. PMI for both services and manufacturing are now at a higher level, after the decline in the third quarter. Moreover, headline inflation declined again which supports consumption, and all this bodes quite well for domestic demand in 4Q.

But there are also reasons to be less optimistic. The minority government remains fragile as the prime minister Pedro Sánchez hasn't succeeded in striking a deal with Catalonia yet, the protests in Barcelona continue, the 2019 budget hasn't been approved in parliament either, and the slowdown in other Eurozone countries will impact Spanish exports.

Given the political issues and the weaker external environment, we continue to think that the Spanish economy will slow in 2019.

We forecast annual growth of 2.6% in 2018 and 2% in 2019 - a clear deceleration of economic activity given the 3% growth since 2015.