

MACROECONOMIC PROJECTIONS FOR SPAIN

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PROLONGATION OF THE CYCLICAL EXPANSION, ALBEIT AT A SLOWER RATE

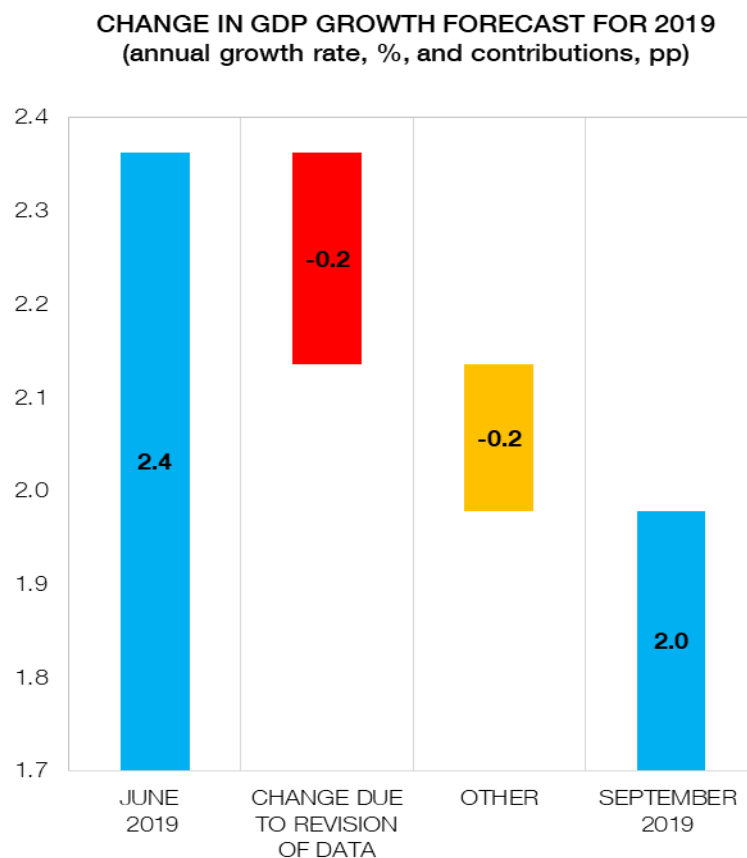
- **Downward revision to GDP growth (with respect to June), as a result of:**
 - 1) Less growth in recent quarters than anticipated (in the light of the new National Accounts data), in particular, in the case of private domestic demand.
 - 2) Poorer recent economic indicators.
 - 3) Against a background of global uncertainty: trade tensions, geopolitical conflicts, Brexit, political uncertainty, etc.
- **Downward revision to inflation (with respect to June):**
 - In 2019, mainly due to a larger fall in energy prices than foreseen in June.
 - Over the whole horizon, due to the weaker underlying component.

Annual rate of change (%)		September 2019 projections			Revisions (pp)		
		2018	2019	2020	2021	2019	2020
GDP (real)	2.4	2.0	1.7	1.6	-0.4	-0.2	-0.1
Employment	2.5	1.8	1.3	1.5	-0.2	-0.2	-0.1
HICP	1.7	0.8	1.1	1.5	-0.3	-0.2	0.0
Underlying HICP	1.0	1.1	1.4	1.6	-0.1	-0.1	-0.1

Projections cut-off date: 17 September.

REVISION OF THE ANNUAL NATIONAL ACCOUNTS AND OTHER INFORMATION SINCE JUNE

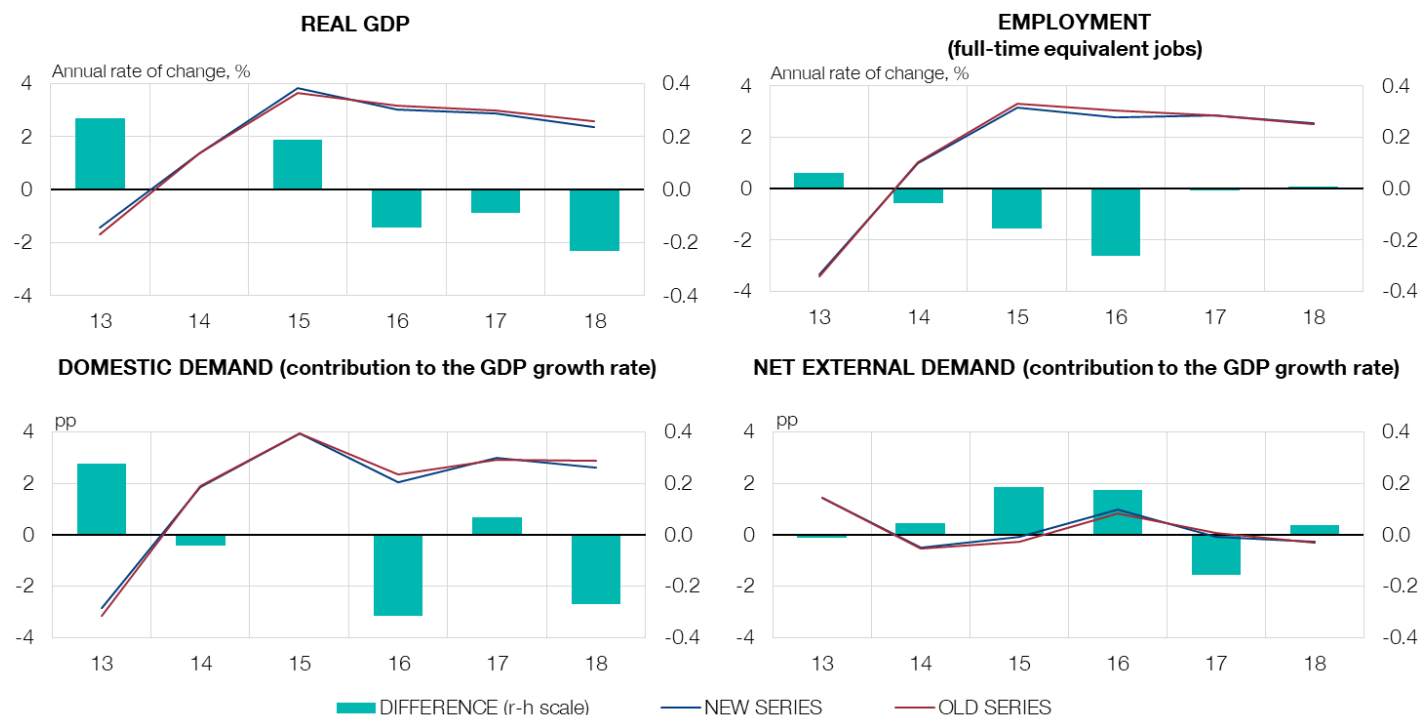
- The GDP growth projected for 2019 has been revised downwards by 0.4 percentage points (pp), of which:
 - 0.2 pp are due to the revision of the National Accounts data.
 - The rest are due to the negative information received since June.



Sources: Banco de España and INE.

REVISION OF THE ANNUAL NATIONAL ACCOUNTS

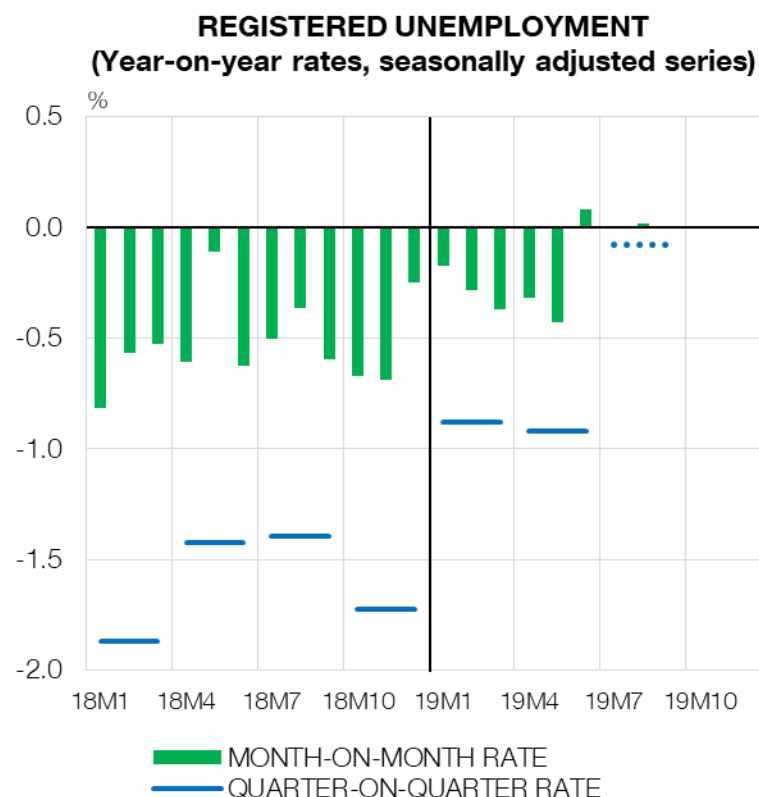
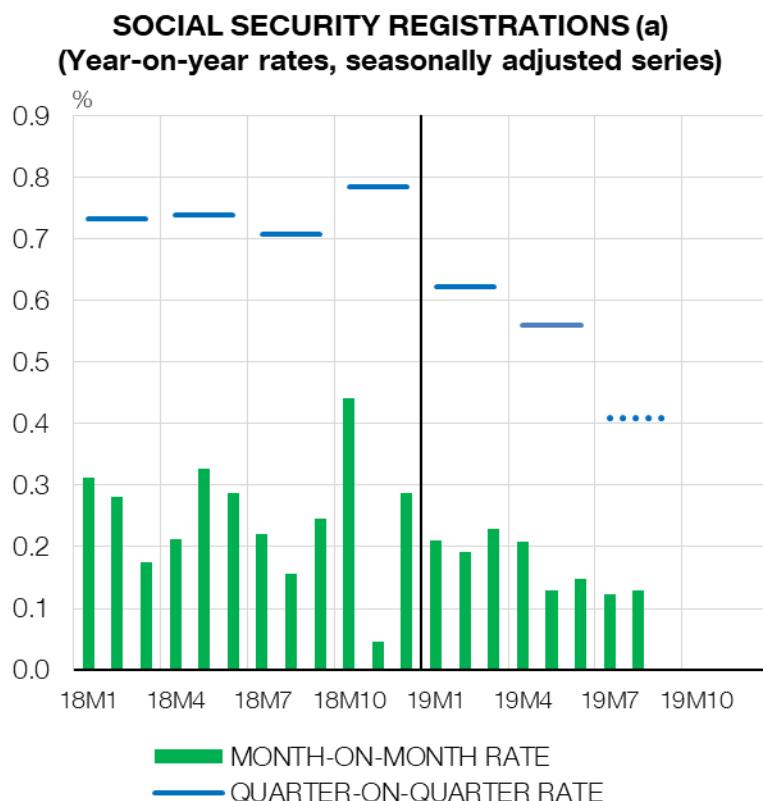
- The INE has revised the National Accounts from 1995, given the need to update periodically (at least once every five years) the sources and estimation methods.
- Since 1995, the annual growth rate of GDP has been revised on average by -0.04 pp and that of employment by -0.12 pp, with a smaller fall during the crisis and a smaller expansion since 2014.
- Over the last few years, domestic demand has increased less strongly than anticipated.



Source: INE.

WORSENING OF RECENT ECONOMIC INDICATORS: THE LABOUR MARKET

- **Social Security registrations slowed between May and August, with monthly growth of 0.1% (0.2% between January and April). The slowdown was broad-based across sectors.**
- **Also, registered unemployment stopped falling in the summer.**



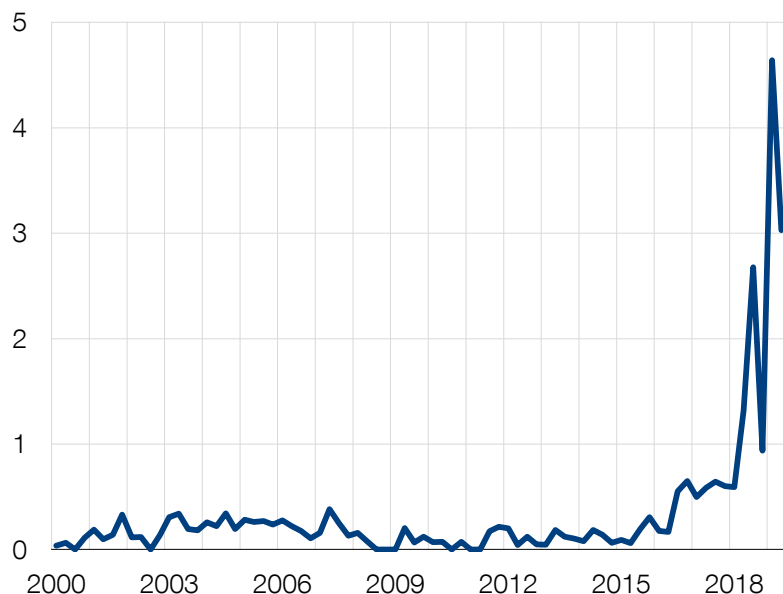
Sources: Ministerio de Trabajo, Migraciones y Seguridad Social and Banco de España. Latest observation: August 2019.

a. Social Security registrations exclude non-professional carers.

INCREASE IN GLOBAL UNCERTAINTY OVER THE SUMMER

- Increase in uncertainty, mainly external, relating to trade tensions, the risk of a disorderly Brexit and some other geopolitical risks.
- The uncertainty over domestic economic policy is also on an upward trend.

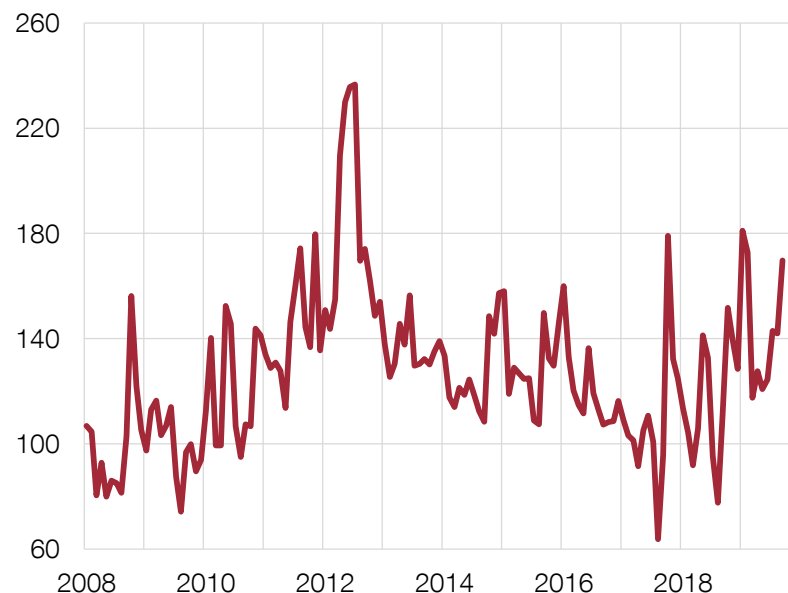
WORLD TRADE UNCERTAINTY INDEX (a)



Source: Ahir, Bloom and Furceri (2018). Latest observation: June 2019.

a. Linked to the frequency with which concepts linked to uncertainty and trade appear in analysts' reports.

SPANISH ECONOMIC POLICY UNCERTAINTY INDEX



Source: Ghirelli, Perez and Urtasun (2018), "A new economic policy uncertainty index for Spain", Working Paper No. 1906, Banco de España. Available at: <https://www.policyuncertainty.com/>. Latest observation: September.

LIMITED NET IMPACT ON GDP OF THE CHANGES IN THE TECHNICAL ASSUMPTIONS WITH RESPECT TO JUNE

• Main changes:

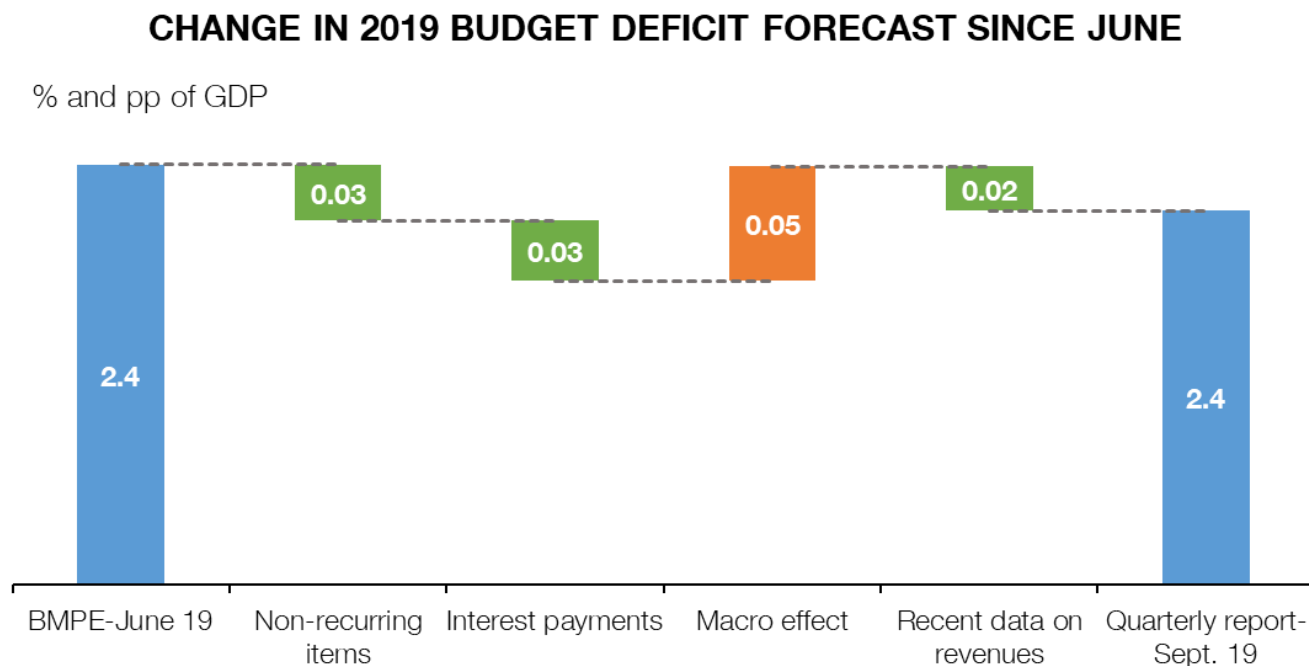
- Downward revision to growth in external markets **(-)**.
- Lower oil prices **(+)**.
- Lower interest rates, especially long-term ones **(+)**.

INTERNATIONAL ENVIRONMENT AND MONETARY AND FINANCIAL CONDITIONS	2018	Current projection			Changes from the June 2019 projection		
		2019	2020	2021	2019	2020	2021
International environment							
World output	3.6	2.8	3.2	3.3	-0.2	-0.2	-0.1
Spain's export markets	3.0	1.9	2.5	3.0	-0.7	-0.5	-0.2
Oil price in dollars/barrel (level)	71.1	64.0	60.0	57.9	-4.1	-5.8	-4.8
Monetary and financial conditions							
Dollar/euro exchange rate (level)	1.18	1.12	1.10	1.10	-0.01	-0.02	-0.02
Nominal effective exchange rate in Spain vis-à-vis the world, including the euro area (2000 = 100 and pp changes)	117.9	117.7	117.8	117.8	0.1	0.0	0.0
Short-term interest rates (3-month Euribor)	-0.3	-0.4	-0.5	-0.5	0.0	-0.2	-0.3
Long-term interest rate (ten-year bond yield)	1.4	0.6	0.4	0.6	-0.5	-0.9	-1.0

Cut-off date for the external assumptions: 17 September.

- **As at the cut-off date of the projections, the revised budget deficit for 2018 and its composition (to be published on 30 September) were not known.**
- **The calling of new elections means that it is practically impossible that a budget will be approved (or measures adopted) this year. As a result:**
 - There will automatically be a further budget extension.
 - The budget and measures for 2020 will be presented by the new Government next year.

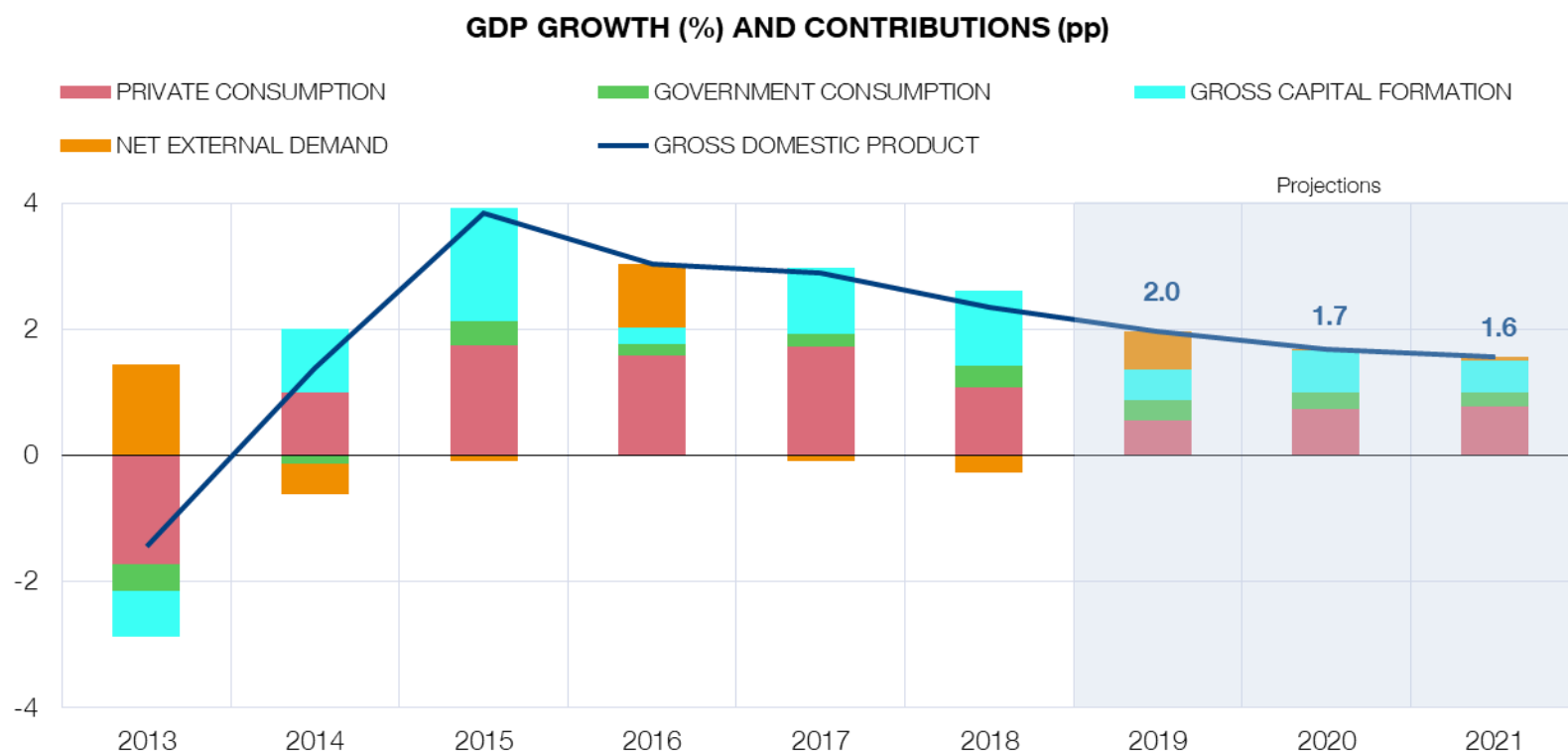
- **Subject to the above-mentioned caveats, the available budget outturn data are in line with the Banco de España's June projections for 2019.**
 - Assuming a deficit of 2.5% in 2018 (due to be updated on 30 September), the improvement in interest payments, certain non-recurring items and some revenues that are behaving better than anticipated offset the poorer macro scenario since June.
- **The fiscal policy stance is expansionary in 2019.**



Source: Banco de España.

GDP GROWTH WILL CONTINUE TO BE BASED ON DOMESTIC DEMAND

- However, the main components of domestic demand are projected to be less buoyant than in previous years.
- Net external demand will make a positive contribution in 2019, and a contribution of approximately zero over the rest of the projection horizon.

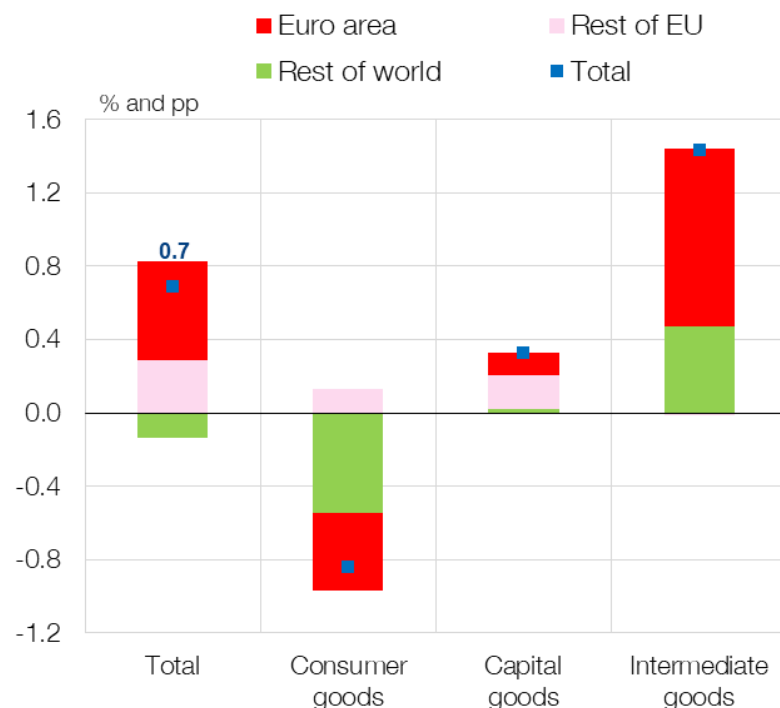


Sources: Banco de España and INE.

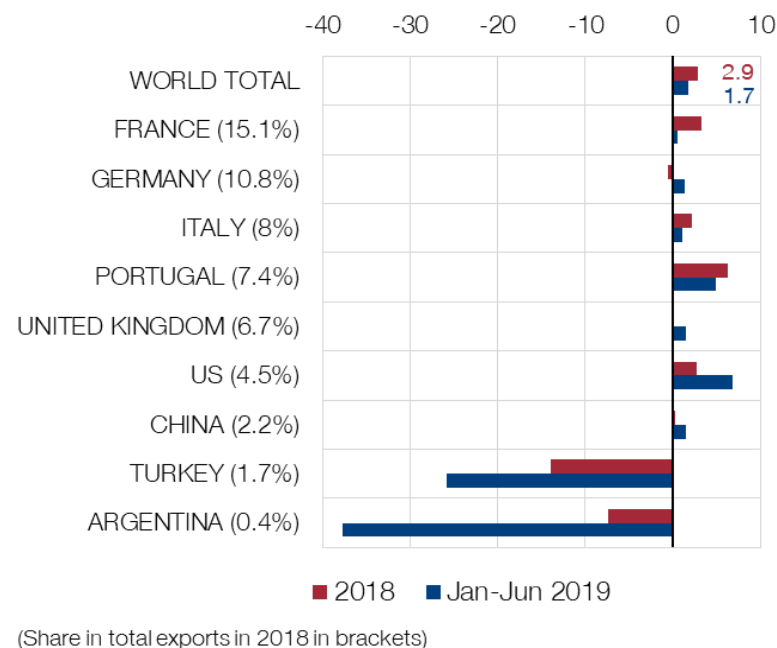
GOODS EXPORTS IN THE FIRST HALF

- Exports were adversely affected by lower retail car sales, while exports of capital and intermediate goods performed positively.
- Nominal exports grew by 1.7% (2.9% in 2018), with sharp falls in those to certain markets, such as Turkey and Argentina, but greater resilience in other cases, such as the United States and Portugal.

REAL GOODS EXPORTS IN THE FIRST HALF OF 2019



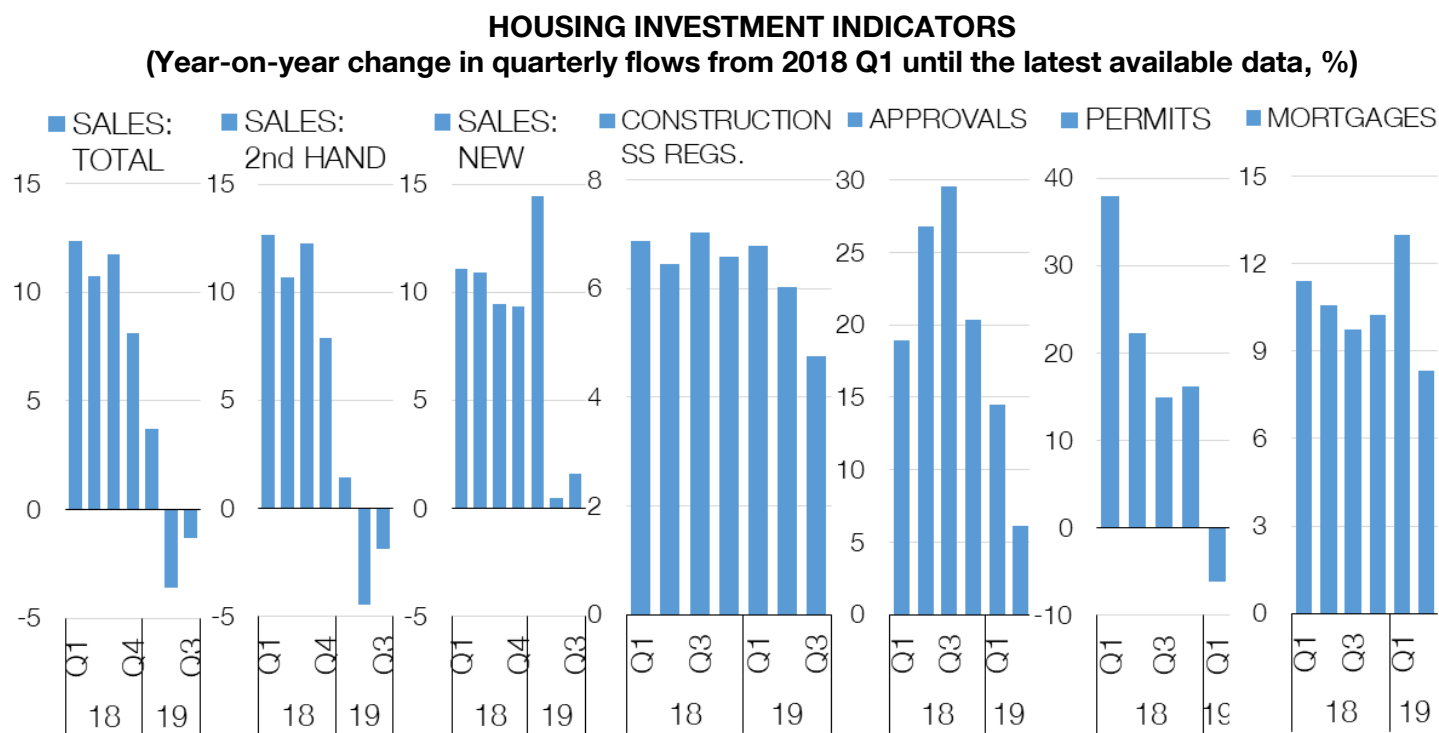
NOMINAL RATES OF CHANGE IN GOODS EXPORTS (%)



Sources: Departamento de Aduanas and Ministerio de Economía y Empresa.

THE SLOWDOWN IN HOUSING INVESTMENT

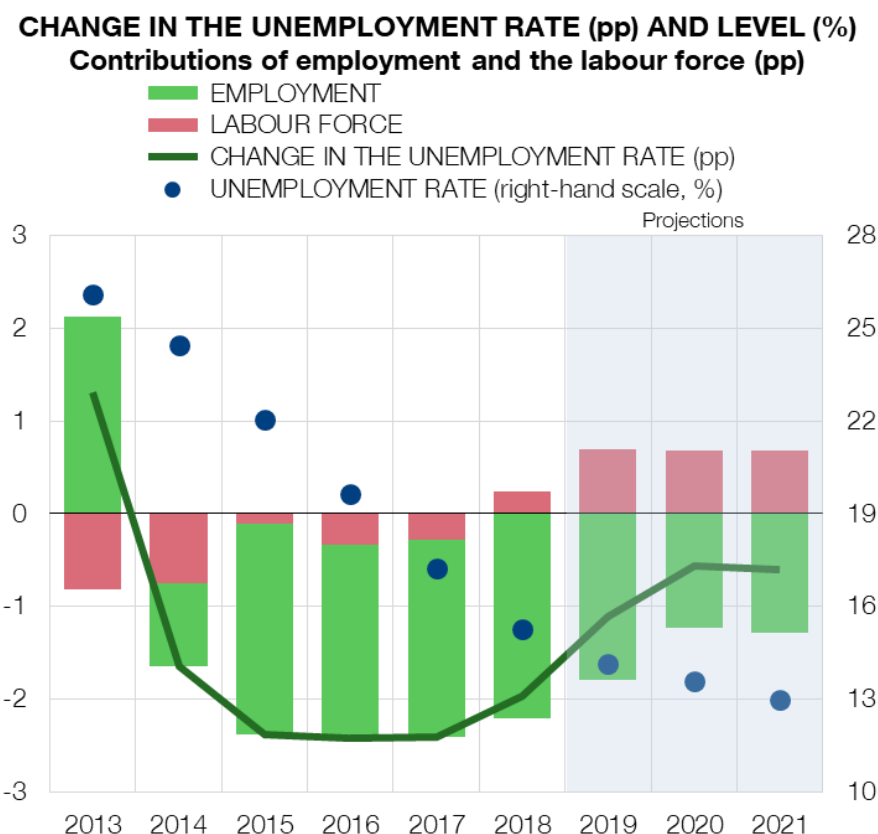
- Since the end of 2018, various indicators of housing investment have slowed.
- The loss of momentum is mainly reflected in house sales, which are slowing more strongly in the second-hand segment.
- These developments, which are less positive than projected in June, are reflected in a reduction in the housing investment projected for the second half of 2019.



Sources: INE (sales, mortgages), Ministerio de Fomento (approvals, permits) and Ministerio de Trabajo, Migraciones y Seguridad Social (Social Security registrations). Latest observations: August (SS registrations), July (sales), June (mortgages), May (approvals) and February (permits). The levels of the series have been seasonally adjusted, except in the case of sales, for which the gross series are used.

LESS PRONOUNCED IMPROVEMENTS ARE PROJECTED FOR THE LABOUR MARKET THAN IN THE PAST

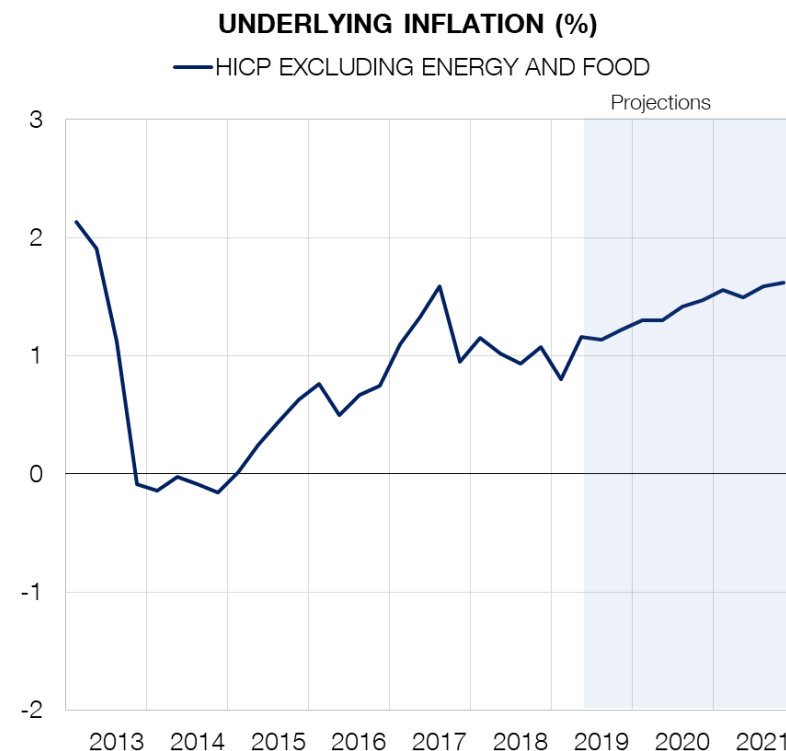
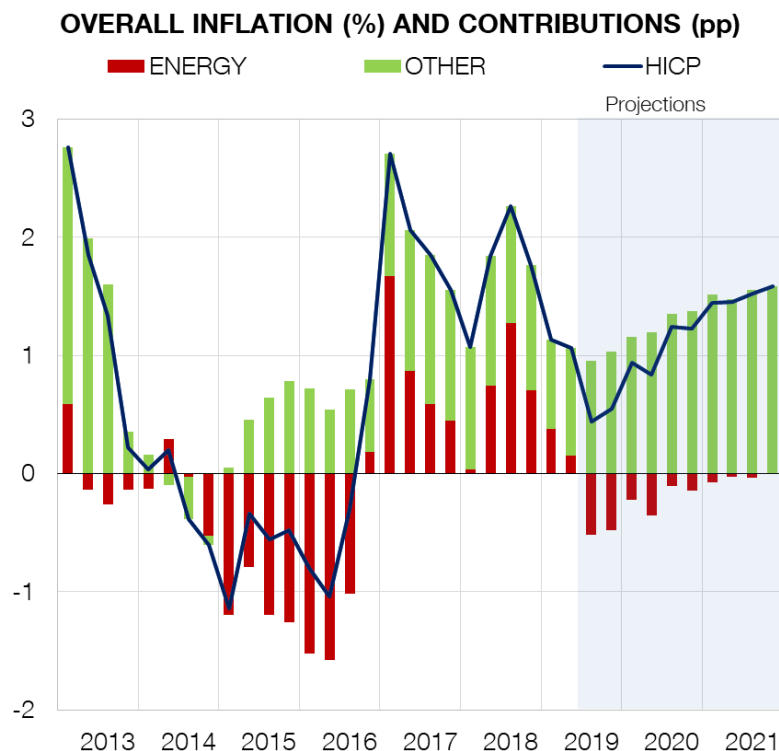
- As usual in expansionary phases in the Spanish economy, very modest apparent labour productivity growth is projected.
- The net generation of employment will reduce the unemployment rate, although by less than in the recent past, to 13% in 2021, despite the increase in the labour force.



Sources: Banco de España and INE.

INFLATION WILL MODERATE IN THE SHORT TERM DUE TO ENERGY AND WILL SUBSEQUENTLY STAND AT LOW RATES

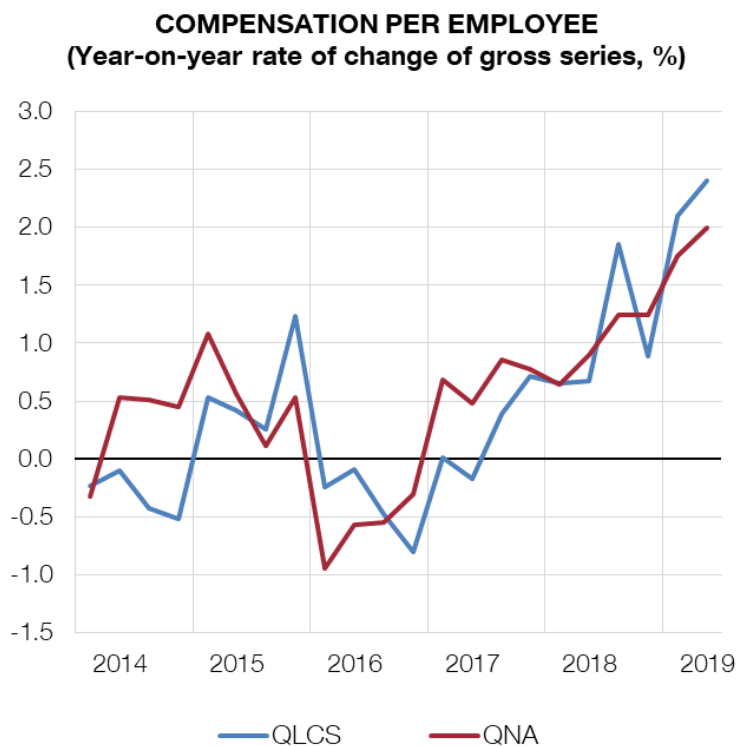
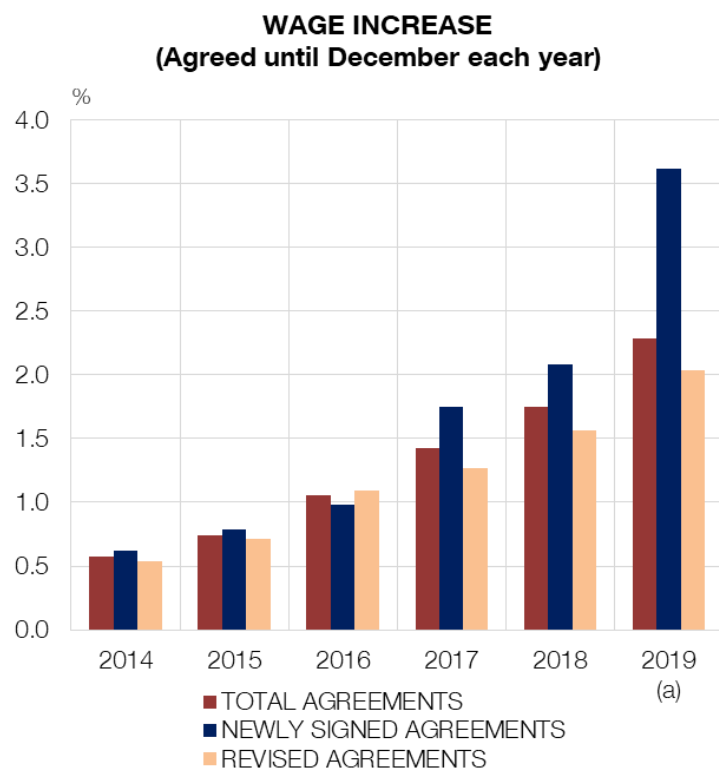
- Overall inflation will moderate over the rest of the year, rising thereafter, to stand at 1.5% in 2021.
- Underlying inflation will rise gradually, in line with the widening of the positive output gap and with the increase in unit labour costs.
- The energy component will make an increasingly moderate negative contribution.



Sources: Banco de España and INE.

UNIT LABOUR COSTS PICKED UP IN 2019

- The rise in wage indicators: collective agreements incorporate an average wage increase of 2.3% (1.8% in 2018) and newly signed agreements one of 3.6%
- The labour cost acceleration may also reflect other factors such as the increase in minimum and maximum contribution bases.



Sources: Banco de España and Ministerio de Trabajo, Migraciones y Seguridad Social. Latest observation: August 2019 (left-hand chart), and Q2 (right-hand chart).

a. The figure for 2019 is the average year-on-year increase in wage rates in the period January-August 2019.

DOWNSIDE RISKS AROUND THE CENTRAL SCENARIO

Activity:

- *External:*
 - *an intensification of trade tensions and other geopolitical risks, with implications for global trade and activity,*
 - *the possibility of a no-deal Brexit,*
 - *a weaker recovery than projected in external markets, in particular the euro area.*
- *Domestic:*
 - *the persistence of uncertainty regarding the future course of economic policy.*

Prices:

- *a possible materialisation of downside risks to activity, although some of them may be somewhat inflationary (tariff increases, oil price rises if certain geopolitical risks materialise).*

PROJECTIONS: 2019-2021

Annual rate of change in volume terms and % of GDP		Projections			Differences between September and June 2019 projections		
	2018	2019	2020	2021	2019	2020	2021
GDP	2,4	2,0	1,7	1,6	-0,4	-0,2	-0,1
Private consumption	1,8	1,0	1,3	1,4	-0,8	-0,4	-0,1
Government consumption	1,9	1,8	1,3	1,2	0,0	0,0	0,0
Gross fixed capital formation	5,3	2,3	3,4	2,6	-1,9	-0,5	-0,3
Investment in equipment, intangibles and other	4,1	2,3	2,9	2,3	-1,4	-0,6	-0,3
Investment in construction	6,6	2,3	3,9	2,9	-2,3	-0,4	-0,3
Exports of goods and services	2,2	2,2	3,0	3,3	0,6	-0,2	-0,2
Imports of goods and services	3,3	0,5	3,2	3,4	-0,9	-0,6	-0,2
Domestic demand (contribution to growth)	2,7	1,4	1,7	1,5	-0,9	-0,4	-0,2
Net external demand (contribution to growth)	-0,3	0,6	0,0	0,1	0,5	0,2	0,0
Harmonised index of consumer prices (HICP)	1,7	0,8	1,1	1,5	-0,3	-0,2	0,0
HICP excluding energy and food	1,0	1,1	1,4	1,6	-0,1	-0,1	-0,1
Employment (full-time equivalent jobs)	2,5	1,8	1,3	1,5	-0,2	-0,2	-0,1
Unemployment rate (% of labour force). End-of-period data	14,4	14,1	13,2	12,8	0,2	0,8	1,0
Unemployment rate (% of labour force). Annual average	15,3	14,1	13,6	13,0	0,2	0,6	0,9
General government net lending (+) / net borrowing (-) (% of GDP)	-2,5	-2,4	-1,8	-1,5	0,0	0,0	0,1

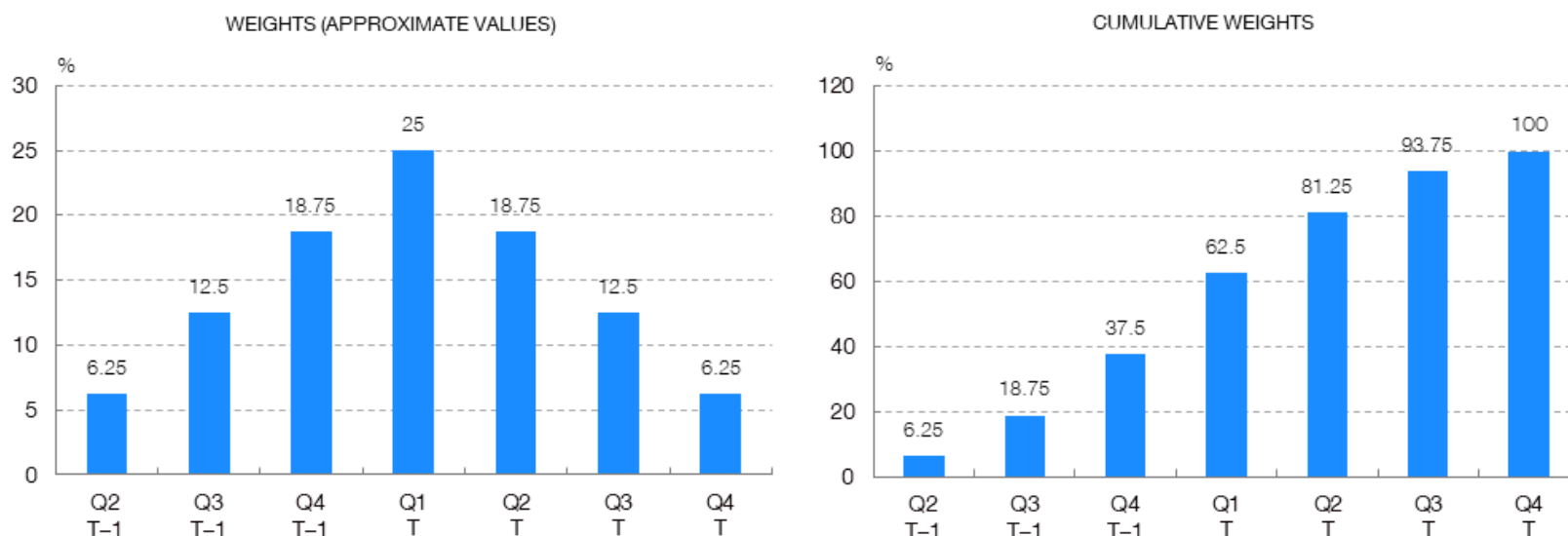
Sources: Banco de España and INE.

- **The relationship between average annual and quarter-on-quarter GDP growth rates: implications for projections and macroeconomic analysis**

AVERAGE ANNUAL AND QUARTER-ON-QUARTER RATES ARE ALGEBRAICALLY RELATED

- The average annual rate of growth may be expressed as a weighted sum of the quarter-on-quarter changes, not only in that year but also in the previous year.
- The **weightings** of the **quarter-on-quarter rates change: they rise up to Q1 of year T** and then subsequently decline:
 - Intuitively: changes in Q1 of the year analysed raise or reduce the level on which the changes in the rest of the year are based.
 - The growth **profile** in years **T-1** and **T** will shape average growth in year **T**.

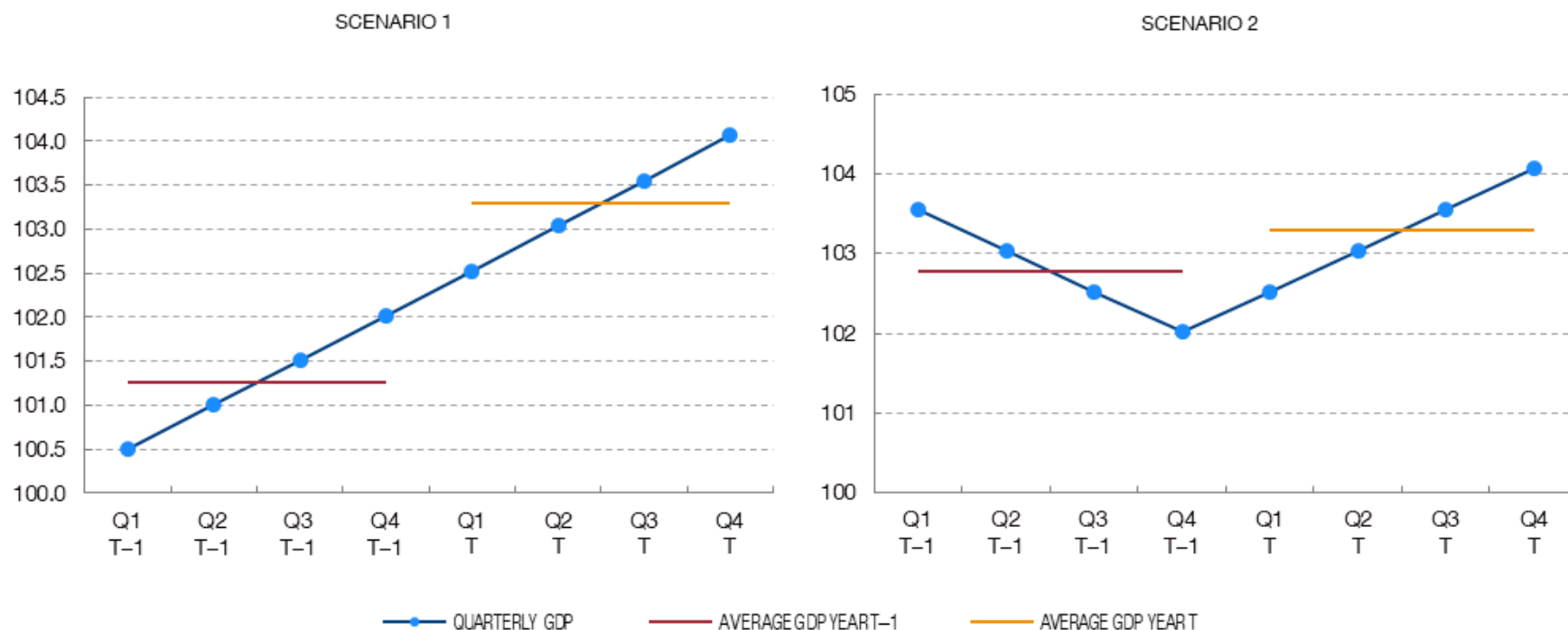
THE WEIGHTS OF THE QUARTER-ON-QUARTER GROWTH RATES IN THE AVERAGE ANNUAL GROWTH RATE (%)



Source: González Mínguez and Martínez Carrascal (2019): [“The relationship between average annual and quarter-on-quarter GDP growth rates: implications for projections and macroeconomic analysis”](#), Analytical Articles, Economic Bulletin 3/2019, Banco de España.

SOME CONSEQUENCES FOR ANALYSIS (1)

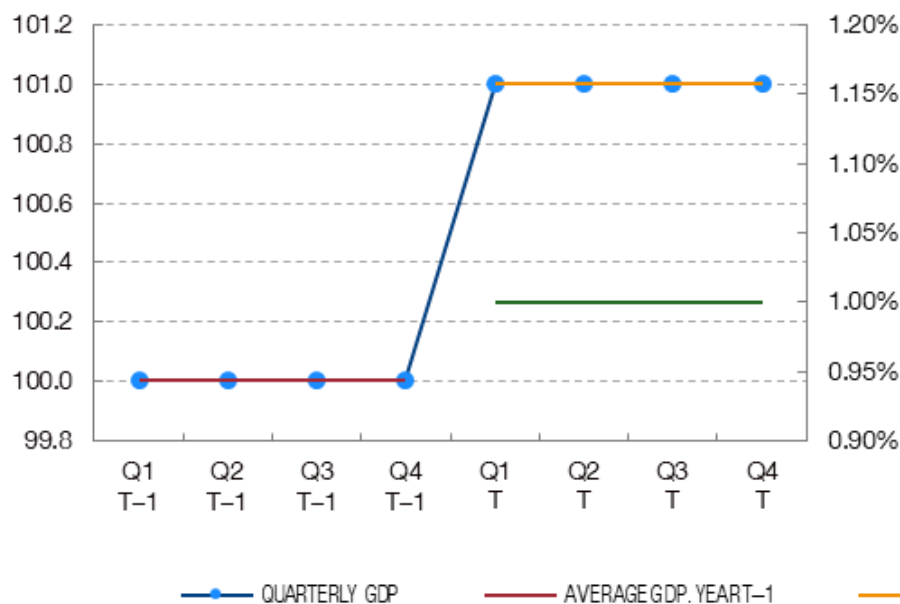
- Average growth in year T depends not only on the rate of growth in each quarter of year T, but also on the rate of growth in the last three quarters of year T-1.



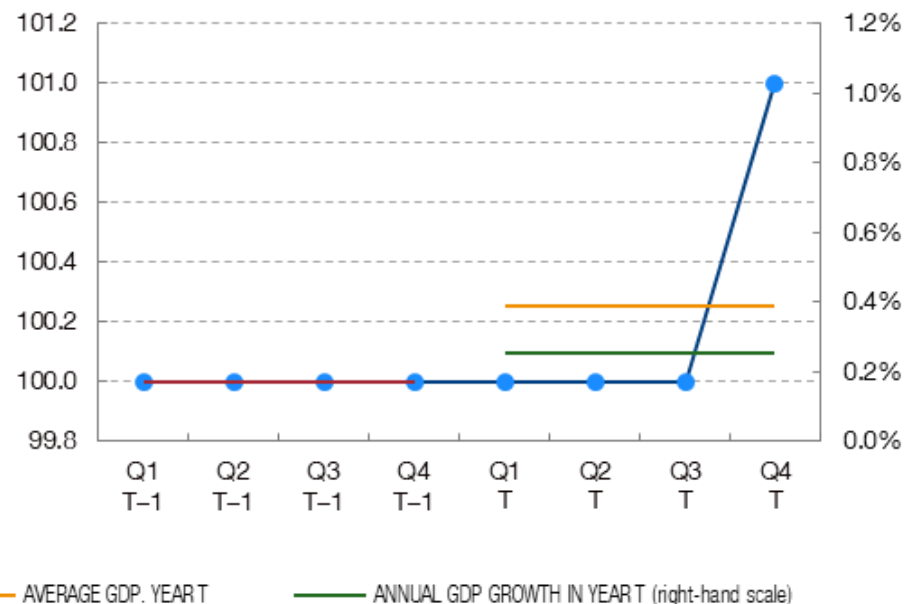
SOME CONSEQUENCES FOR ANALYSIS (2)

- Average growth in year T is higher if quarter-on-quarter growth is concentrated in the first quarters of that year.

SCENARIO 3



SCENARIO 4



THANK YOU FOR YOUR ATTENTION

