

Spain's Economy Expands at Fastest Annual Pace Since Financial Crisis

27/11/2015

Spanish News



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Economic growth in third quarter spurred by domestic spending, investment

MADRID—Spain's economy grew in the third quarter at the fastest annual rate since the 2008 financial crisis, official data showed Thursday.

In its second estimate of gross domestic product-for the quarter, statistics bureau INE said the eurozone's fourth-largest economy grew 3.4% in the July-to-September period compared with the year earlier period, up from a rate of 3.2% in the second quarter.

On a quarterly basis, INE said the economy slowed slightly, expanding 0.8% from the previous quarter, compared with growth of 1% in the second quarter.

Both readings are in line with a preliminary estimate released last month, and indicate Spain is on track to record its strongest economic performance this year-since 2007.

The statistics office provided a growth breakdown that shows that internal demand accounted for much of the momentum in the quarter, driven by a recovery in domestic spending. That contrasts with a negative contribution from international trade for the third consecutive quarter—the result of exports being outpaced by imports.

INE said household spending, up 3.5% on the year, and investment, up 6.5%, rose at their fastest clip since the last quarter of 2006.

Government spending rose 3% on the year, the highest pace since the fourth quarter of 2009, when a left-leaning government tried to implement a Keynesian-stimulus program. Prime Minister-Mariano Rajoy-of the conservative Popular Party, who will stand for re-election on Dec. 20, is now banking on an improving-economy to offset his low popularity ratings.

This spending expansion is being underpinned by rising tax receipts, up 6.1% in the January-October period according to estimates released Wednesday by the-Budget Ministry. However, analysts say the trend-may endanger Spain's target of cutting its budget deficit-to 4.2% of GDP this year from 5.7% of GDP in 2014.

In 2014, the economy grew 1.4%. In July, the government revised its forecast for economic growth this year to 3.3% from 2.9% previously.

This is closely tied to rapid job creation, the result of lower borrowing and energy costs, as well as a 2012 labor market reform that makes it easier for companies-to lower wages and fire employees. INE said Thursday that labor costs rose a mere 0.1% on the year in the third quarter from the same period a year ago.

Spain added over 433,000 new jobs in 2014 and the government says it is likely to add a further 600,000 this year.

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Ref: WSJ