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Economic Comment

The slowdown accelerated

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GDP growth in 2019 was 4.0% according to flash estimate, below forecasts, and means that in 4Q19 the economy grew by c3% y/y (somewhere in the 2.8-3.1% range). Private consumption seems to be the source of disappointment and net exports might have contributed negatively in the final quarter of 2019. On the other hand, investments most likely accelerated vs 3Q. The data will support interest rates stability given the current rhetoric of the MPC.

The flash estimate of annual GDP for 2019 showed 4.0% y/y vs 4.2% consensus. This implies, assuming no revisions of 1-3Q data, that in 4Q alone the economy grew by around 3% (somewhere in the 2.8-3.1% range) vs 3.9% in 3Q and 4.6% in 2Q, the lowest reading since 4Q16. This means that the slowdown is occurring at a faster-than-expected pace.

The striking part of the release is private consumption, with implied 4Q growth of only 3.5% y/y (while we thought it might have even accelerated vs 3.9% y/y in 3Q). Household budgets were supported by the still relatively high wage bill growth and additional social transfers, and yet it did not translate to stronger consumption.

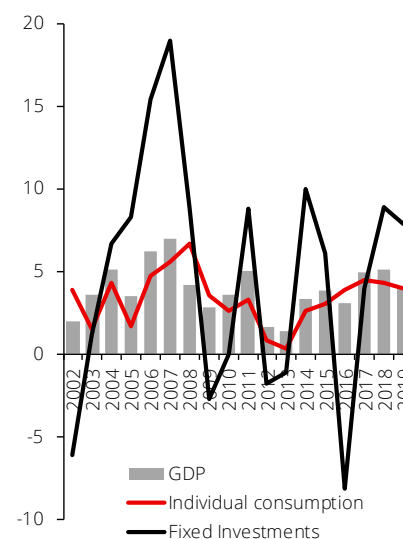
On the other hand investments seem to have grown more in 4Q than we expected: possibly c7.3%, up from 4.7% in 3Q. We still assume that the category will lose pace in 2020.

Our calculations based on the partial data released today show that net exports contributed slightly negatively in 4Q (after four positive quarters) despite the surprisingly low imports growth reported in monthly data.

On the value added side of GDP, the preliminary annual result implies negative growth in construction in 4Q for the first time since 4Q16 and a further slowdown in industry, to c3.2% y/y from 3.4% in 3Q and 4.4% in 2Q. Value added in the transport sector was most likely somewhat weaker than in 3Q, while the outcome for trade, at c4.7% y/y, was similar to 3Q.

The data will support interest rates stability given the current rhetoric of the MPC, with focus more on risks of deeper economic slowdown than on current inflation going above the tolerance band.

GDP growth, % y/y



Source: GUS, Santander

GDP growth and its components (% y/y)

	2017	2018	2019	1Q19	2Q19	3Q19	4Q19**
GDP	4.9	5.1	4.0	4.8	4.6	3.9	3.0
Domestic demand	4.9	5.3	3.8	3.9	4.6	3.3	3.4
Total consumption	4.1	4.1	4.0	4.4	4.0	4.0	3.5
Private consumption	4.5	4.3	3.9	3.9	4.4	3.9	3.5
Public consumption	2.9	3.6	4.4**	6.3	3.1	4.7	3.8
Gross accumulation	7.9	10.1	3.0	1.5	7.1	0.4	2.9
Fixed investment	4.0	8.9	7.8	12.2	9.1	4.7	7.3
Stock building *	0.8	0.4	-0.8	-1.3	-0.2	-0.7	-1.0
Net export *	0.3	0.0	0.4	1.0	0.2	0.8	-0.2

* contribution to GDP growth (percentage points); ** Santander estimates

Source: GUS, Santander

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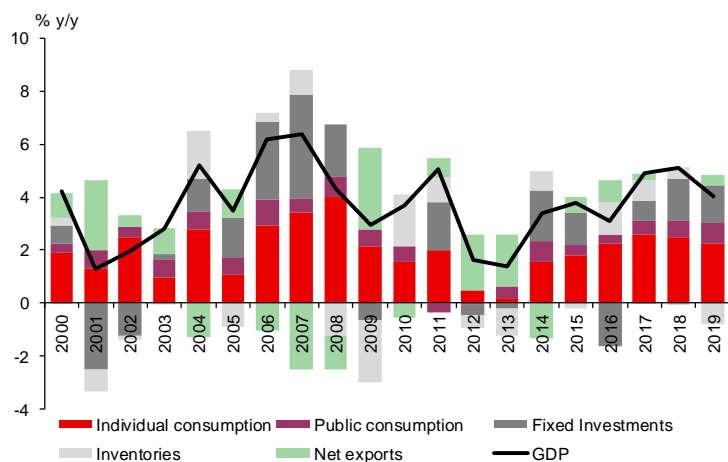
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GDP growth breakdown(% y/y)



Source: GUS, Santander

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