

We are where we left off

The last few summers have been rather hectic. Between the pandemic, the tensions in international trade, the war in Ukraine, inflationary pressures and the shift in monetary policy, it has been difficult to wind down during the holidays. Fortunately, despite the financial cold drop at the beginning of August, this year has been different, at least in economic terms. The Spanish economy is where we left it, or even in slightly better shape than what we had anticipated. Shall we pick up where we left off?

The Spanish economy grew by 2.5% in 2023. This was much faster than expected, and during the early stages of this year it has maintained an equally vigorous growth rate. At the end of July, the National Statistics Institute published the GDP growth rate for Q2 and placed it at 0.8% quarter-on-quarter. This is the same growth rate as in Q1 and is somewhat higher than that anticipated by CaixaBank Research, as we had expected growth to stand at 0.5%. In addition, the composition of this growth was also favourable: both domestic and foreign demand provided a positive contribution to growth, with a special mention going to exports of goods, which posted an increase of 1.3% after a string of rather weak quarters. As for the breakdown by sector, of particular note was the buoyancy of the manufacturing industry, which recorded growth of 1.1%, as well as that of tourism.

The starting point is somewhat better than we expected before the summer break and this will force us to revise our GDP growth forecast for this year slightly upwards. Currently, the CaixaBank Research scenario forecasts growth of 2.4% for 2024, whereas the latest data indicate that it will be above 2.5%. For instance, incorporating the figure for Q2, while keeping the growth forecast for the second half of the year unchanged, would bring growth in 2024 as a whole up to 2.7%. Beyond this revision, the underlying trends remain unchanged and continue to point to a moderate slowdown over the coming years, with growth likely to lie slightly above 2%, as contemplated in the current forecast scenario.

On the one hand, foreign demand is expected to lose some steam. The euro area maintains a very modest pace of growth, while the US and Chinese economies are slowing. On the other hand, the tourism sector, after recovering and far exceeding pre-pandemic levels, is bound to experience a moderation in its growth rate. The indicators in July continue to show significant growth (the expenditure of international tourists grew by 12.1% compared to July last year), but the pace is now slower than it was at the beginning of the year, when growth of 27.6% was recorded for Q1 as a whole.

Domestic demand, on the other hand, could experience an acceleration in its growth rate, especially in the case of household consumption and investment, and this would partially offset the weaker foreign demand. Three factors should help in this regard. Firstly, the completion of the inflationary cycle. In August, inflation fell to 2.2% and there is no indication that it will rise again to the heights observed a few quarters ago. Over the coming months, we could see it rebound to around 3%, given the rate at which food and services prices are still rising. However, on the whole households should continue to recover their lost purchasing power.

The decline in inflation will allow the ECB to continue to lower interest rates. This is the second element that ought to encourage greater growth in consumption and investment over the coming quarters, especially in 2025 and 2026. The interest rate expectations implicit in money market prices reflect that the ECB is expected to cut its benchmark rate by 1.5 pps between now and December 2025, and that the 12-month Euribor, which currently lies at 3.1%, could fall slightly below 2.5%. Finally, the financial position of households and businesses, with healthy levels of debt below those of the euro area as a whole, should also facilitate a revival of consumption and investment.

The main risks surrounding the forecast scenario for Spain's economy remain external. The US presidential election is undoubtedly the next milestone on the path ahead, given its implications for international geopolitics, as well as for trade tariffs. The slowdown of the Chinese economy and its ability to further adjust its real estate sector in a gradual and orderly manner is also another key aspect to follow. Moreover, future developments in the various ongoing armed conflicts, and the geopolitical tensions surrounding them, will be decisive. Fortunately, we are where we left off or even slightly better, but, unfortunately, the risks that surround the Spanish economy remain ever-present.

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