The Spanish economy continues to beat expectations

Although it is nothing new, it is still important to emphasise it: the latest available indicators for the Spanish economy have once again beaten expectations. Despite the continued weakness of Europe and the high global uncertainty, Spain's economy continues to stand out on the international stage.

The country's GDP growth reached 0.8% quarter-on-quarter in Q3 2024, surpassing the 0.5% growth which we had anticipated here at CaixaBank Research. This growth rate was also significant from a historical perspective. For comparison, the average quarter-on-quarter growth rate recorded between 2000 and 2024 was 0.5%. Between 2014 and 2019, when the economy had recovered from the financial and sovereign debt crisis, the average growth rate stood at 0.7%.

The latest quarters have provided a steady stream of surprises and this has forced us to revise our growth forecasts upwards. If we take a step back, we see that the improvement has been substantial. A year ago, here at CaixaBank Research we were expecting growth of 1.4% for 2024, a forecast similar to that of the wider analyst community. In contrast, the current scenario contemplates an increase of 2.8%. This better-than-expected growth has been driven by several factors. Firstly, exports have grown more than expected, for both tourism and non-tourism services, and this accounts for around half of the gap in the growth versus expectations. The other half of the improvement in the forecasts is explained by stronger growth in consumption, both for households and in the case of public consumption. The only item that remains relatively weak is investment. We expect that in the coming quarters, as financial conditions normalise and European NGEU funds are deployed, this component will gain momentum.

In the list of positive items of news, this month we also find one of the main challenges of the Spanish economy: productivity growth. Specifically, in Q3 2024, GDP growth per hour actually worked – which is one of the key measures for this variable – accelerated to 2.5% year-on-year. This progress is the result of GDP growth outpacing the number of hours worked. In fact, the number of hours worked per worker has fallen in recent quarters. The dynamics at the sector level are also revealing. The improvement in productivity is partly the result of the good pace of growth in some of the most productive sectors, such as the information and telecommunications sector or the chemicals and pharmaceutical industry, whose role in the economy steadily has grown as a result. On the other hand, the increase in productivity is also the result of improvements in some less productive sectors, such as wholesale trade or some branches of industry, such as timber and agrifood.

Beyond the good figure for Q3, the early indicators for Q4 2024 are also encouraging. The pace of growth in the number of people registered with Social Security accelerated in October, and the economic activity indicators consolidated their position in expansive territory or even improved, as is the case of industry. In this context, once again, the risks surrounding our forecast scenario are skewed to the upside. In fact, if we keep the growth rate expected for the coming quarters unchanged, then the annual growth for 2024 as a whole would be 3.1%, compared to the 2.8% currently contemplated in the CaixaBank Research scenario. For 2025, the scenario contemplates an advance of 2.3%, although taking into account the latest indicators that have been published, this figure could end up closer to 2.5%.

The consequences of the floods, which have been particularly devastating in the province of Valencia, deserve a separate mention. The human and social drama of the disaster has been felt deeply by the CaixaBank Research team. We have all felt more Valencian than ever. In economic terms, the consequences will also be significant. The available information is still incomplete and the final impact will depend on the final assessment of the damage, on how long it takes to restore infrastructure and basic service networks, as well as on the support measures that are implemented. The growth of the Valencian economy will suffer in the short term, and this will also be noticeable in the Spanish economy as a whole. But we hope that, sooner rather than later, the investment efforts in reconstruction and replenishment of the destroyed capital will win out.

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