

2025, what colour will you be?

Our perception of economic reality often contrasts with the message that the key macroeconomic figures convey. The general feeling is that the economy is struggling to get going. The colour that best describes the situation of many households is undoubtedly a pessimistic grey or a critical red. This contrasts with the more dynamic patterns shown by the main macroeconomic indicators, which could be painted in a coat of hopeful green.

To date, the Spanish economy has grown, above all, in volume. At the end of 2024, it is estimated that there were 1.7 million more people in Spain than there were in 2019 – an increase of 3.8%. With more people, it makes sense that there is also more economic activity. This largely explains why GDP is 6.6% above the records of five years ago. However, following the economic crisis triggered by the pandemic, the recovery of many Spanish households has been more modest. In fact, consumption per household in real terms was 1.5% below pre-pandemic levels in Q3 2024. This helps to explain the apparent discrepancy between the trends in the main macroeconomic indicators and many households' perception of the economic situation.

This different perception could change in 2025, as the dynamics that will drive economic growth should be noticed in Spaniards' pockets. On the one hand, their purchasing power should consolidate its recovery. Inflation is expected to stabilise around 2% this year, while wages are expected to grow at a slightly higher rate. Specifically, gross disposable income per household could grow by around 1.5% in real terms this year.

This will also be helped by the reduction of interest rates. The 12-month Euribor began 2025 at 2.5%, more than 1 pp below where it stood a year ago. Moreover, it is expected to continue to decline over the coming months, in line with the interest rate cuts that the ECB is likely to continue to implement. For the Spanish economy, this is an important source of support. This, coupled with a generally healthier financial position – with relatively low debt among both businesses and households – should allow private consumption and investment to grow by around 3% this year. Thus, 2025 could be the year in which we finally use the colour green to paint the key macroeconomic figures, as well as the situation of households.

That said, the pessimistic grey is also on the colour palette for 2025. The main challenges come from abroad. Exports of goods and services, after several years of high growth, now lie 11.0% above pre-pandemic levels in real terms and their growth rate is expected to normalise. However, this slowdown could be sharper than expected if the new Trump administration finally fulfils its electoral promise and raises tariffs across the board. If this happens, we cannot rule out the possibility of a global trade war from which no one would emerge victorious. Let's hope that in the end the worst omens will not materialise.

Added to this is the difficult economic situation of Spain's main trading partners, especially France and Germany. At the domestic level, the main challenge is no doubt to be found in the real estate sector. The lack of housing is leading to higher than expected price growth, exacerbating the affordability problems for young people and the most vulnerable groups in society. The reduction of interest rates will cushion the pressure this year, but hopefully housing investment will be mobilised sooner rather than later and the pressure on prices will ease, facilitating dynamic and socially sustainable economic growth.

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