

SPAIN

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GROWTH TO REMAIN HIGH IN THE SECOND QUARTER

In Q1 2024, Spanish real GDP growth was, as expected, one of the highest in the Eurozone (+0.7% q/q). It was mainly driven by foreign trade (contributing +0.5 pp), which was directly supported by the record tourism figures recorded at the start of the year. In the second quarter, we expect activity to remain strong (+0.7% q/q) due to a gradual recovery in private consumption, continued growth in exports, and support for investment from future disbursements of NGEU funds.

TOWARDS NEW TOURISM RECORDS

For another year, Spain is expected to set a record number of tourist arrivals. After surpassing its pre-Covid levels in 2023 (with 85 million foreign tourist arrivals), tourism activity does not seem to be slowing down at the start of 2024, which is not without its problems, particularly as resources and territories come under pressure. According to figures published by the INE, arrivals rose by 14.5% in the first four months of the year compared with the same period last year, while tourist spending grew by 22.6% over the same period. These strong performances underpinned growth in services exports in Q1 (+11.1% q/q), which enabled foreign trade to be the main contributor to real GDP growth during the quarter.

Over the coming months, this positive momentum in tourism, combined with the gradual recovery in activity of Spain's main trading partners, should further boost export growth. The results of the PMI survey carried out in May in the services sector bear witness to this optimism: the component relating to activity in the months ahead has risen (+1.6 points, to 69), driven upwards by export orders (53.9; +3.7 points), themselves induced by strong tourism activity. In addition, this momentum will provide further support for employment (with the employment component having risen to 55.1 points).

A POSITIVE CYCLICAL TREND IN THE LABOUR MARKET, BUT STRUCTURAL DIFFICULTIES PERSIST

This strong demand for work in the services sector, particularly tourism services, led to a sharp rise in the number of people registered with the social security system in May compared with the previous month (+220,289), reaching an all-time high of 21.3 million. The biggest increases were in the hotel, travel agency and entertainment sectors (more than 80,000 people). This labour market performance is also benefiting from the strong growth in the immigrant workforce, which rose from 12.1% in Q1 2020 to 14.6% in Q1 2024.

Nevertheless, structural vulnerabilities persist. Although the unemployment rate has fallen sharply since the 2021 reform, and in April reached its lowest level since 2008 (down from 15.7% in April 2021 to 11.7% in April 2024), it is still the highest in the Eurozone and well above the average for the region (6.4%). The youth unemployment rate also remains significantly higher than in other Eurozone countries (26.5% compared with 14.1%), which tends to show that the transition from education to the labour market remains more difficult in Spain than in other countries.

1 For virtually all domestic consumers and SMEs.

2 Despite the government's decision in February to reintroduce VAT on electricity at 21% (its usual level).

3 Seasonally adjustable.

4 Seasonally adjustable.

GROWTH AND INFLATION

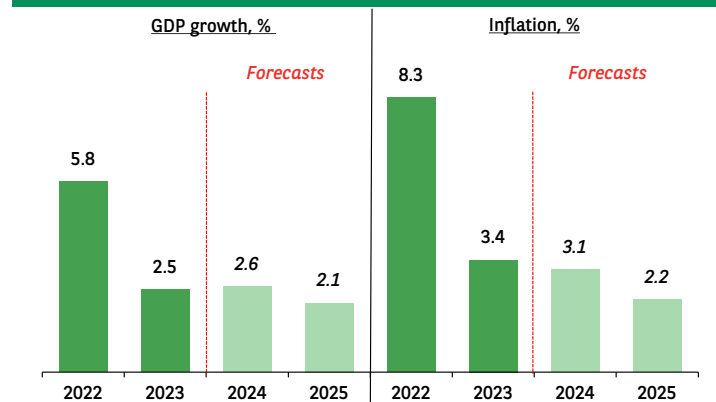


CHART 1

SOURCE: BNP PARIBAS GLOBAL MARKETS

HOUSEHOLD CONSUMPTION COULD PICK UP FROM Q2 ONWARDS

Despite this improving labour market, wage increases are already gradually starting to slow (up +4.2% y/y in Q1 after +4.5% and +5.0% over the previous two quarters). However, wage increases are still substantial, and continue to explain the resilience of services inflation (+3.5% y/y in April). For its part, headline inflation (HICP) has picked up over the past four months (+3.8% y/y in May), mainly due to base effects linked to energy prices. However, disinflation could return to Spain from July onwards, as the government has announced that VAT on electricity will revert to the reduced rate of 10%¹ from that month, due to rising prices on the wholesale electricity market².

This expectation of disinflation, combined with the robustness of the labour market and the growth in real wages, means that households are regaining purchasing power, which should stimulate their private consumption; this could then increase more than in Q1 (+0.3% q/q). The economic indicators for April concerning domestic consumption also show that retail sales are up slightly (+0.8% m/m³, the strongest monthly growth since November 2023) and that vehicle registrations have jumped sharply (+14.3%⁴ over one month). Finally, the ECB's cycle of interest rate cuts should encourage Spanish households to dip into their savings (13.1% of disposable income in Q4 2023) and in turn support private consumption.

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