

HOUSEHOLD CONSUMPTION REMAINS THE PRIMARY GROWTH DRIVER

In Q3 2023, Spanish growth eased slightly to 0.3% q/q. It was primarily driven by household consumption, which was itself supported by the resilience of the labour market and the increase in real wages. After an increase in H2 (from 1.6% y/y in June to 3.3% in December according to the harmonised price index), inflation is expected to fall again in 2024 and drop below the target of 2% in Q3. We expect growth to remain moderate at the end of 2023 and in early 2024 (0.2% q/q), before returning to positive territory. Spain will remain one of the drivers of the euro area for another year, with expected growth of 1.5% on an annual average versus 0.6% for the euro area.

The end of 2023 in Spain was marked by political news. Four months after the early general election and Alberto Núñez Feijóo's failure to win the investiture vote of the Spanish Congress of Deputies, Pedro Sánchez was, in the end, reappointed as head of government. This re-election was made possible by the support of the regional parties – including the Catalan independentists – and also by the coalition agreement negotiated between the Socialist Workers' Party (PSOE) and the left-wing alliance, Sumar. Nevertheless, risks of political instability remain, as the government's minority position in Parliament makes it vulnerable to the demands of the small parties in opposition.

Parliament's approval of extending into early 2024 the anti-crisis fiscal measures in place since November 2022 also came with surprises. These measures include a gradual increase in energy taxes but a continuation of the reduction in VAT on staple foods, an extension for another year of the discount on urban transport fares, and an extension of the mechanism allowing households with variable-rate mortgages to restructure their loans at fixed rates without incurring additional fees. Although these measures are expected to disappear in the first half of the year, they will help to maintain moderate inflation and support households.

The annual growth rate of the Harmonised Index of Consumer Prices (HICP) has slowed significantly compared to 2022 (-4.9 pp over one year, to 3.4% as an annual average). As deflation of energy prices – the main factor in the price slowdown this year – subsided in H2, headline inflation rose again in Q4: in December, it stood at 3.3% y/y, higher than that of the euro area (2.9%).

THE LABOUR MARKET HAS PROVED RESILIENT THROUGHOUT THE YEAR

The 2021 labour market's reform continues to bear fruit. The rise in employment goes on (+700,000 over a year in Q3 2023) and is generating a drop in the number of unemployed (2.7 million in December, -130,000 over a year). Although still the highest in the euro area, the Spanish unemployment rate reached its lowest level in 15 years (11.9% in December). The growth rate of average pay negotiated in industry agreements (+3.5% y/y in November 2023) was once again above inflation. This return to real wage growth in positive territory is helping sustain economic activity, primarily in the services sector. The associated activity PMI index improved again in December and returned to levels seen five months ago (51.5). Employment prospects in the sector are positive too: according to the European Commission survey, companies are expecting rising employment over the next three months. The construction sector is also reporting production constraints due to labour shortages (highest level since 2015). As a result, although companies' hiring trends may be affected by rising labour costs (+5.7% y/y in Q3 2023), we are expecting good employment prospects for 2024.

GROWTH & INFLATION

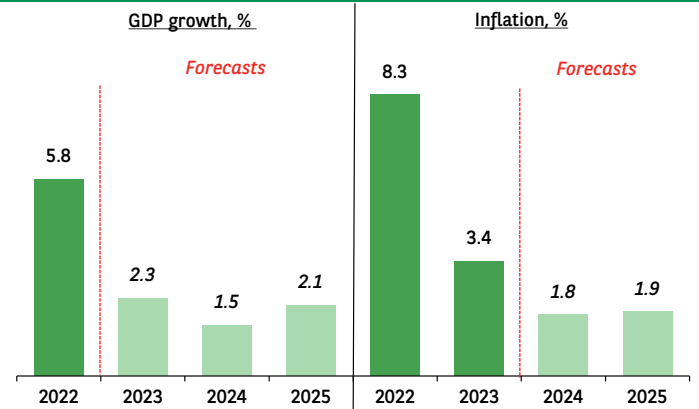


CHART 1

SOURCE: BNP PARIBAS GLOBAL MARKETS

CONSUMPTION, THE PRIMARY GROWTH DRIVER

In 2023, household final consumption expenditure was the driver of Spanish growth. This is expected to continue in 2024, given the recovery in retail sales recorded in November (+0.9% m/m, 5.3% y/y) and the improvement in consumer confidence observed since September 2023 (+4.4 points over three months according to the European Commission survey). Foreign consumption is also expected to contribute positively to activity this winter. Since June 2023, the number of tourists has again exceeded its pre-Covid level. This will support exports of goods and services, as well as the GDP. According to our forecasts, Spanish growth will be +0.2% q/q in Q4 2023 and Q1 2024. For 2024 as a whole, it should remain higher (+1.5%) than euro area's growth (+0.6%).

THE HOUSING MARKET IS STARTING TO FEEL THE DELAYED EFFECTS OF MONETARY TIGHTENING

The housing market is once again becoming a weak point for the Spanish economy. The delayed effects of monetary tightening are starting to emerge. The rise in interest rates and the tightening of lending standards led to a 3.7% drop in one-year loans issued to residents in November. Combined with the continued rise in property prices (+4.2% y/y in November according to Tinsa), this resulted into a fall in the number of transactions (-28,550 in Q3 compared to Q2, i.e. a return to levels seen in Q1 2021). Nevertheless, the fall in interest rates expected during 2024 should gradually ease the tensions observed on the market.

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