

Inflation falls below 2%

Economic activity in Spain remains dynamic. The fall in inflation, combined with employment gains this year, constitutes significant support for activity, which will counteract the increase in mortgage payments faced by some households. We now anticipate stable and moderate growth in activity at 0.4% q/q for the second and third quarters of this year. Retail sales in volume terms recovered in April (+4.1% m/m) before edging back down the following month (-0.4% m/m). Tourism activity in the spring suggests a summer season that will be, if not exceptional, at least as successful as 2019, which has been a record year to date: in May 2023, several indicators (number of foreign tourists entering the country, hotel stays) were above the levels recorded in the same period in 2019.

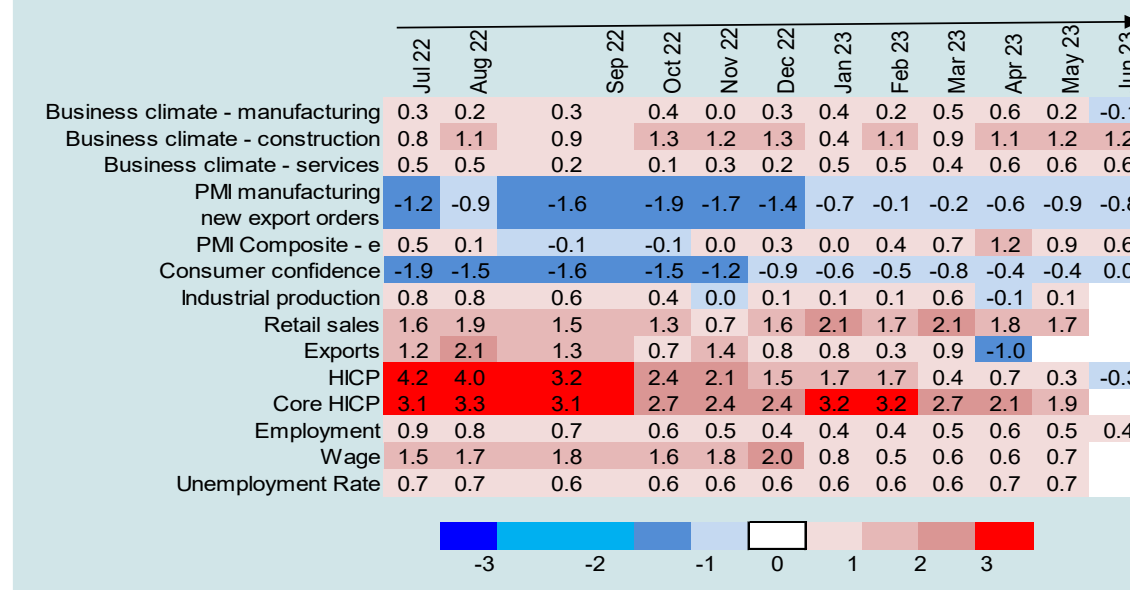
The upturn in household confidence gathered momentum in June (+4.2 points, the strongest improvement in two and a half years), buoyed by the fall in inflation. The rise in consumer prices is now among the lowest in Europe, up just 1.6% year-on-year in June (harmonised index)¹. This is the smallest annual increase since March 2021. Inflation has now fallen below its long-term level, as illustrated by the negative figure in the table here. Core inflation is still only falling modestly, going from 6.1% in May to 5.9% in June. Nevertheless, growth in the 3m/3m annualised index fell sharply and is now close to 2% (2.2% in June).

Spanish household purchasing power is rising again when we compare current inflation with average wage increases in industry agreements, which reached 3.3% year-on-year in June, according to figures from the Ministry of the Economy and Finance. The latest report from the Spanish employment agency (SEPE) indicates that job creation dipped 0.1% (-20,119) in June for the first time since July 2022. The increase in the first half of 2023 is still significant at 2.2%. The unemployment rate fell by 0.3 percentage points between the end of 2022 and May 2023, to 12.7%. With an expected increase in real GDP of 2.4% in 2023, Spain still offers one of the best growth prospects in the eurozone this year.

1 The non-harmonised index rose 1.9% year-on-year in June

Guillaume Derrien (article completed on 19 July 2023)

Spain: economic indicators monthly changes



The indicators are all transformed into "z-scores", i.e. deviations from the long-term average value (expressed in standard deviation), the average of which is zero (except for the PMI/ISM indices where the average is 50, the threshold between the expansion zone and the contraction zone of the activity). Positive (negative) values indicate the number of standard deviations above (below) the mean value.
Reading note: the red colour indicates dynamic activity, high inflation and low unemployment, the blue colour indicates slower activity, low inflation and high unemployment.

GDP growth

Actual				Carry-over	Forecast		Annual forecasts (y/y)		
Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q4 2022	Q2 2023	Q3 2023	2022 (observed)	2023	2024
2.6	0.4	0.5	0.6	1.8	0.4	0.4	5.5	2.4	1.5

Source: Refinitiv, BNP Paribas

