SPAIN

THE OUTLOOK REMAINS OPTIMISTIC

For the fourth year in a row, Spain will be the primary growth driver in the Eurozone. This country's outperformance is expected to continue over the remainder of 2024, albeit with very slightly less momentum than in H1 (expected growth of +0.6% and +0.7% q/q in Q3 and Q4 after +0.9% and 0.8% in Q1 and Q2). Foreign trade, mainly driven by the still significant growth in exports of tourism services, should continue to support activity. For its part, the marked fall in inflation (+2.4% y/y in August; -1.2 pp over two months), combined with the strength of the labour market, should allow private consumption to gradually recover.

FOREIGN TRADE WILL REMAIN THE PRIMARY SOURCE OF GROWTH

The post-pandemic upturn in tourism has continued to boost Spanish exports (+11.2% q/q in Q2). With 53.4 million foreign visitors arriving since the beginning of the year[1] (+11.2% compared to the same period in 2019), it is clear that 2024 will set a new record. However, the gradual deceleration in growth in tourism expenditure (+11.9% y/y in July, compared to +21.8% y/y on average since the beginning of the year) tends to show that exports of services (+1.0% q/q in Q2) could slow in the coming months.

In addition, the weakness in imports observed in Q2 (-0.2% q/q) - brought about by the decline in exports of manufactured products, which require foreign inputs, but also by greater energy efficiency and increased renewable energy production - should continue to have a positive impact on the contribution of foreign trade during the last two quarters of the year.

GROWTH AND INFLATION

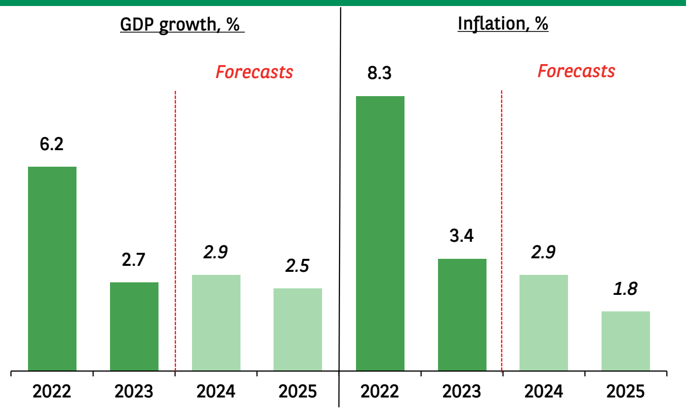

CHART 1 SOURCE: BNP PARIBAS GLOBAL MARKETS

IMMIGRATION FUELS THE LABOUR MARKET

The remarkable strength of the Spanish labour market, observed since 2021, continues to be one of the sources of explanation for the significant growth in real GDP. The number of people registered with social security is steadily increasing, reaching 21.2 million in August[2] (+1.5% since the beginning of the year). This growth was mainly supported by the immigrant workforce, which itself increased by 7.6% over a year, and represented 14.9% of the total number of registered workers in Q2.

Nevertheless, as mentioned by the Bank of Spain in the latest quarterly publication of its forecasts[3], structural vulnerabilities remain. Although having fallen since 2021, the unemployment rate (11.5% in July) is still well above the Eurozone average (6.4%), and the number of long-term unemployed (for one year or more) has stagnated at 1.1 million since the beginning of 2023. Against the backdrop of an ageing working population, this stagnation suggests that this is an older workforce that is difficult to reintegrate into the labour market, making it difficult to continue reducing the unemployment rate in the years ahead. However, rising immigration is likely to address this problem of an ageing population in the next few years.

MOVING TOWARDS A GRADUAL FALL IN INFLATION, WHICH SHOULD ALLOW PRIVATE CONSUMPTION TO RECOVER

Spain seems to be gradually coming to an end to its inflationary crisis, with the annualised HICP slowing by 1.2 pp over two months and standing at 2.4% in August. Although services inflation persists (3.7%, +0.1 pp over a month), inflation on goods (1.1%, -1.1 pp), food (2.5%, -0.6 pp) and energy (-1.7%, -4.3 pp) surprised on the downside. The continued reduction in VAT on basic food products until the end of the year, and its extension to olive oil, have also helped disinflation. According to our forecasts, harmonised inflation should slow to 2.4% y/y in Q3 and Q4, and stand at 2.9% on average over 2024 as a whole.

Disinflation, combined with the robustness of the labour market and wage growth (+3.7% y/y in Q2), means that households are regaining purchasing power, which should ultimately stimulate private consumption in H2 and in 2025. Recent developments in the European Commission consumer confidence indicator show that intentions to make major purchases and buy a car in the coming year have returned to their highest levels since November 2019 (-20.6 and -80.3, respectively). Nevertheless, these trends are struggling to be reflected in hard business data: retail sales only increased by 0.3% (3m/3m) in July and new vehicle registrations fell by -13.6% 3m/3m in August[4].

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1 In July.
2 Seasonally adjusted data.
3 «Macroeconomic projections and quarterly report on the Spanish economy. September 2024", Bank of Spain.
4 Seasonally adjusted data.