SPAIN
2024-2025 SCENARIO

STRONG GROWTH
IN THE FIRST HALF

October 2024

Ticiano Brunello

WORKING EVERY DAY IN YOUR INTEREST AND FOR SOCIETY

GROUP ECONOMIC RESEARCH

STRONG GROWTH IN THE FIRST HALF

Scenario highlights

- Domestic demand takes over as key growth driver
- Labour market growth slows
- Foreign demand contribution halts in Q2
- The disinflationary process continues

	2022	2023	2024	2025
GDP (y/y, %)	6,2	2,7	2,7	1,8
Domestic demand (contribution to GDP, pps)	0,0	0,0	0,0	0,0
Stockbuilding (contribution to GDP, pps)	0,4	-0,7	-0,3	0,0
Net exports (contribution to GDP, pps)	2,2	0,9	0,5	-0,1
Private consumption (y/y, %)	4,8	1,8	2,2	1,7
Investment (y/y, %)	3,3	2,1	2,7	3,4
Inflation (y/y, %)	8,3	3,4	2,9	2,0
Unemployment rate (%)	13,1	12,2	11,5	11,1
Fiscal balance (% of GDP)	-4,7	-3,6	-3,4	-3,1

Sources: Crédit Agricole S.A./ECO.

The Spanish economy continued to grow robustly at the beginning of the year despite an array of unfavourable factors, including the weakness of the Eurozone economies, persistently high inflation, and the impact of the rise in interest rates, which were expected to peak in Q1 2024. The strong performance was driven by positive labour-market momentum, persistently dynamic immigration and sound international tourism data, which once again exceeded expectations and explain the strong contribution of external demand to growth. In the second quarter, private consumption took over as the key growth driver, accelerating for the third quarter in a row. In contrast, investment continues to disappoint, but is improving.

Data for the second quarter, as well as a slightly more favourable global environment (including the slowdown in the US and China), have led us to revise our GDP growth forecasts upwards to 2.7% for 2024 and 1.8% for 2025. We expect domestic demand to become the key growth driver. The lower contribution from public consumption will be more than offset by a gradual recovery in both private consumption and investment.

STRONG GROWTH IN THE FIRST HALF

PRIVATE CONSUMPTION PICKS UP

The pace of Spanish GDP growth once again surprised on the upside in Q2 (0.8% qoq, after 0.9% in Q1) and leading indicators suggest that economic activity will continue to grow robustly in Q3, though not as much as in the first half of the year. Several factors have bolstered the strength of the Spanish economy in the past few quarters, both relative to the Eurozone and relative to its own potential growth. These include **the increase in the population *owing* to migration, the superior resilience of Spanish manufacturing relative to neighbouring countries and, above all, the strong contribution of foreign demand to GDP.** The latter trend reflects a lack of vigour in imports, an increase in exports of non-tourist services and, first and foremost, exceptional momentum in tourism exports, underpinned by the geographical and seasonal diversification of international tourist flows to Spain.

In a key development, private consumption accelerated throughout the first half and became the main contributor to growth in Q2. Despite this favourable momentum, private consumption and investment continued to trend moderately in the first half of the year. This aspect could prove decisive in the ability of the Spanish economy to maintain its strong momentum over the coming quarters, especially as some indicators suggest that the foreign sector's contribution to growth could moderate in the future. **In Q2, investment was just 0.4% higher than in Q4 2019 and private consumption was only 1.4% higher.**

Our assumptions for this scenario are based on a slowdown in activity in the United States (and, to a lesser extent, China) and Eurozone GDP growth of 0.8% in 2024 and 1.3% in 2025, after 0.5% in 2023. Key interest rates will continue to fall, with the ECB refinancing rate expected to dip from an average of 4% in 2023 to 3.25% in 2024 and 2.50% in 2025. Our forecasts point to a slight decrease in the Brent price, from an average $82 in 2023 to $80.90 in 2024 and $80.50 in 2025.

Second-quarter data, together with a less marked slowdown in external demand, have led us to **revise our GDP growth forecasts upwards, to 2.7% for full-year 2024 and 1.8% for 2025**. Growth will be based on the strength of domestic demand, and notably on the contribution of private consumption, which results from favourable developments in employment, wages and inflation, as well as the increase in the population and the gradual recovery of confidence. Investment, a demand component that is recovering more slowly relative to pre-pandemic levels, will also make a greater contribution to GDP growth over our forecast horizon. With companies enjoying a healthy financial position, the recovery in investment will be favoured by NGEU funds, the roll-out of which is expected to increase in 2024 and 2025, and by improving financing conditions.

However, the decrease in the unemployment rate will be limited by an expected slowdown in job creations and by the dynamism of the working population due to relatively high immigration flows. We are forecasting an annual average unemployment rate of 11.5% in 2024 and 11.1% in 2025.

STRONG GROWTH IN THE FIRST HALF

PRIVATE CONSUMPTION PICKS UP

Inflation will stay put in late 2024 and early 2025 before resuming its decrease on a gradual moderation in food inflation and core inflation. Our inflation forecasts are 2.8% in 2024 and 2% in 2025, after an average 3.4% in 2023.

The risks surrounding the forecast scenario are high. Private consumption could benefit if the savings rate returns to normal a little faster than expected, and investment could pick up more quickly than expected with the fall in interest rates. Similarly, immigration flows and growth in international tourism spending could remain higher than expected. This would lead to an upwards revision to our forecasts.

The downside risks are essentially geopolitical. Internationally, any escalation of the conflict in the Middle East could make oil more expensive and reverse the dipping trend in inflation, with the attendant impact on economic activity. Nationally, it is important that the implementation of the NGEU funds gains ground and supports the recovery of business investment. **Regarding public finances, the current forecast does not include a budgetary adjustment trajectory compliant with the new European budgetary rules. Any such adjustment would imply a lower degree of economic momentum than expected.**

International background assumptions

	2022	2023	2024	2025	2022				2023				2024				2025			
					Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
World GDP (y/y, q/q, %)	3,5	3,3	3,0	2,7	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
United States GDP (y/y, q/q, %)	1,9	2,5	2,5	1,3	-1,0	0,3	2,7	3,4	2,8	2,5	4,4	3,2	1,6	3,0	1,7	0,5	0,8	1,4	1,7	2,0
Eurozone GDP (y/y, q/q, %)	3,4	0,5	0,8	1,3	0,4	0,9	0,5	-0,1	0,5	0,1	0,0	0,1	0,3	0,2	0,4	0,3	0,3	0,4	0,3	0,4
China GDP (y/y, q/q, %)	3,0	5,2	4,7	4,2	0,4	-2,1	4,0	0,8	1,8	0,8	1,5	1,2	1,6	0,6	1,1	1,1	1,1	1,0	1,0	1,0
ECB refinancing rate (end of period, %)	2,00	4,00	3,25	2,50	-0,50	-0,50	0,75	2,00	3,00	3,50	4,00	4,00	4,00	3,75	3,50	3,25	3,00	2,75	2,50	2,50
Federal Reserve funds rate (end of period, %)	4,50	5,50	4,50	3,50	0,50	2,50	3,25	4,50	5,00	5,50	5,50	5,50	5,50	5,50	5,00	4,50	4,00	3,75	3,50	3,50
Exchange rate (average, EUR/USD)	1,05	1,08	1,09	1,10	1,12	1,06	1,01	1,02	1,07	1,09	1,09	1,08	1,09	1,08	1,10	1,08	1,08	1,09	1,10	1,12
Brent (average, USD/barrel)	99,1	82,2	80,9	80,5	98,0	112,1	97,7	88,6	82,2	77,9	85,9	83,0	81,9	85,0	78,9	78,0	75,0	80,0	82,0	85,0

Sources: Crédit Agricole S.A./ECO.

RECENT ECONOMIC TRENDS

DOMESTIC DEMAND DRIVING GROWTH

Spanish GDP grew by 0.8% qoq in Q2, exceeding the Eurozone average of 0.3% and our forecast of 0.4%. Year-on-year growth rose to 3.1% from 2.5% in the previous quarter. The external sector made a negligible contribution to quarterly GDP growth (0.4pp in Q1), while domestic demand became the main contributor (0.8pp). Private consumption rose by 1% qoq (up from 0.5% in Q1) and public consumption by 0.7%. Investment slowed to 0.4% (1.1% in Q1), driven mainly by investment in construction. Exports increased by 0.7%, thanks to exports of services, while imports increased by a slightly lower 0.6%.

Economic indicators available for the third quarter are more subdued. The manufacturing PMI slowed throughout July and August to 50.5 points, from 52.3 points in June. After dipping in July, the services PMI rebounded in August, to 54.6 points (56.8 points in June).

Still in expansion territory, both figures point to growth in activity, though at a more moderate pace than in the previous quarter. In consumption, consumer confidence fell in August, to -15.2 points vs. -13.7 points in July.

Labour market growth has slowed. The number of Spanish people in employment increased by 22,220 in September, for Q3 growth of 0.3%, lower than the 0.8% in Q2. Foreign workers have accounted for 41.7% of the increase in workers in the last year and now account for 13.6% of the total, compared with 13.0% a year ago. **By business sector, services posted the strongest trend, at 2.7% year-on-year**, i.e. one tenth less than the previous month. The decline in agriculture slowed slightly year-on-year, to -2.1%, while industry stabilised for the third consecutive month, at 1.5%, and construction held steady for the second month in a row, at 1.8%.

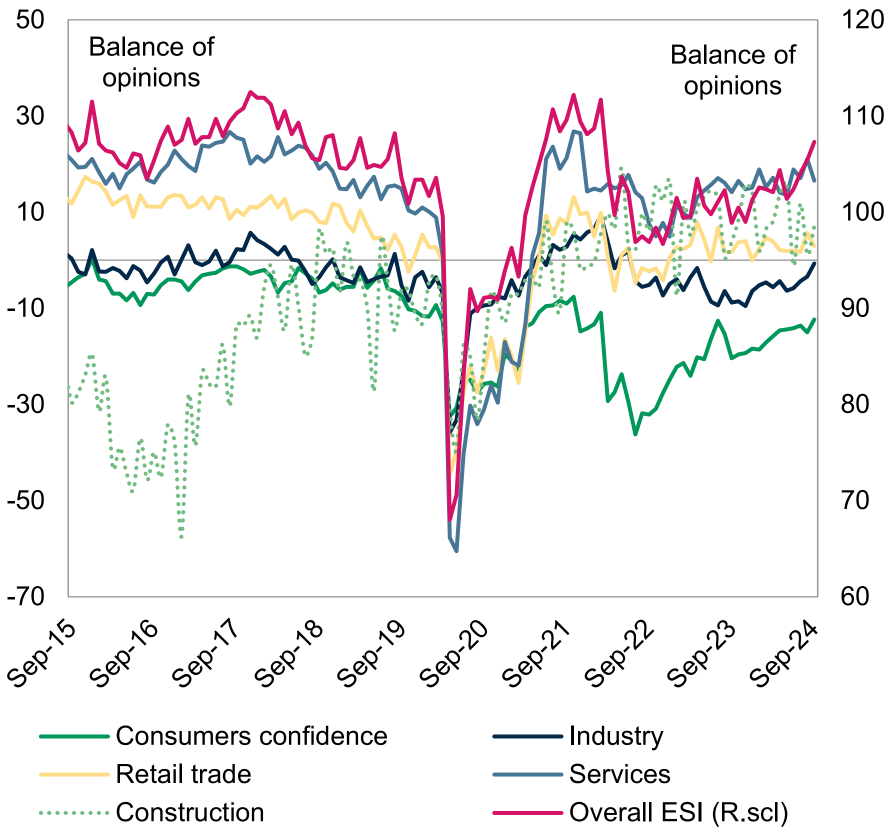
Headline inflation fell in September to 1.5% yoy (2.3% in August). The decline resulted primarily from lower carbon inflation, although growth also slowed in the prices of food, electricity and leisure and cultural goods and services. Core inflation fell three-tenths to 2.4% in September. These data point to a further drop in inflation on processed foods, pursuing the trend observed in recent months. Services inflation, however, has remained above 3.5% since the beginning of the year.

Residential transactions continued to moderate. Real estate transactions fell by 6.1% yoy in June. By type of home, the slight 0.9% yoy increase in new home sales failed to offset the 7.8% yoy decline in existing home sales. Despite the contraction, home sales remained at a high level, with nearly 570,000 transactions in the last 12 months, a full 12.8% more than in 2019. Prices accelerated in Q2, climbing 5.7% yoy in Q2 2024, compared with 4.3% in Q1.

RECENT ECONOMIC TRENDS

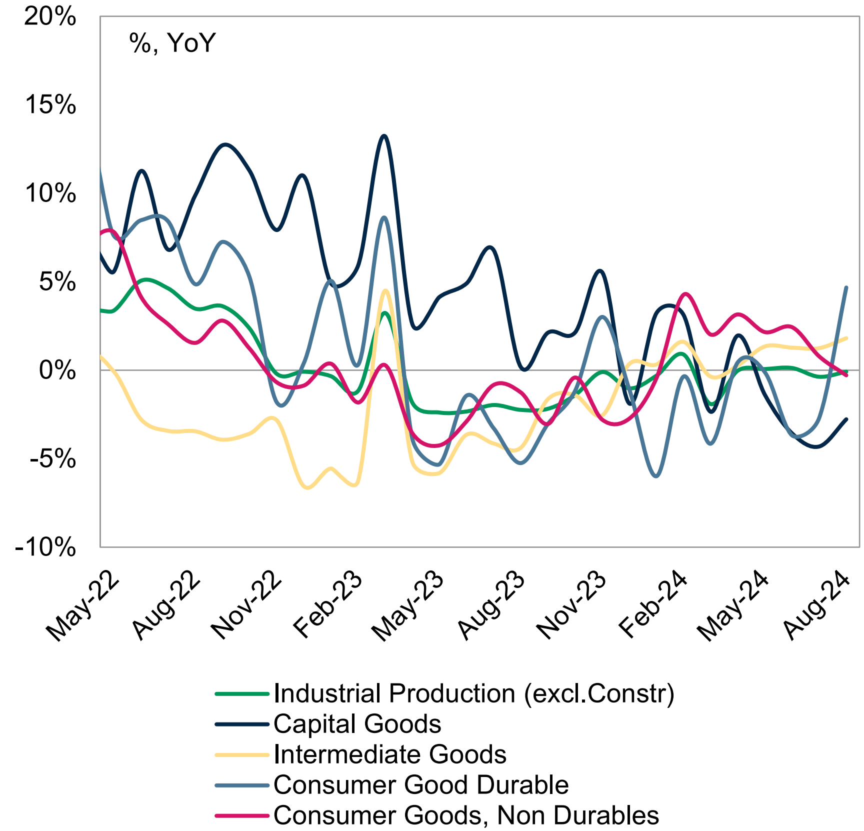
DOMESTIC DEMAND DRIVING GROWTH

ESI survey and components



Sources: European Commission, Crédit Agricole S.A./ECO.

Industrial output



Sources: Eurostat, Crédit Agricole S.A./ECO.

HOUSEHOLDS

SPANISH HOUSEHOLDS CONTINUE TO SAVE

The gap between gross disposable income and consumption is holding steady

Household gross disposable income rose by 0.1% qoq in Q2, down from 3.7% in Q1. The slowdown resulted primarily from the decrease in net property income (-16.1%, mainly due to the decrease in rents collected) and lower growth in wages (+1.5%, compared with 1.9% in the previous quarter). Household consumption increased by 1.4% qoq, leading to a moderate decline in the savings rate. The latter came out at 13.1%, still higher than in 2019 and the historical average (7.3% from 2015 to 2019).

Households are reducing debt

Households have significantly increased their savings in the last few quarters, particularly in response to relatively high interest rates. To address the rise in interest rates, households have increased their acquisitions of financial assets and reduced their debt.

The net acquisition of financial assets by households amounted to €55bn in cumulative terms in the four quarters to Q1 2024, compared with an average of €13.4bn from 2015 to 2019. Households acquired €12.4bn in cash (€5.1bn in 2015-2019), €23bn in investment funds (€20.3bn in 2015-2019), €14.9bn in debt securities (-€10.4bn in the first quarter of 2015-2019), and €4.7bn in insurance and pension plans (€5.4bn in 2015-2019). Household income is expected to continue to grow substantially in the coming quarters, accompanied by a recovery in purchasing power. Combined with the fall in interest rates, this should bolster consumption.

Families also continued to deleverage in Q1 2024, reducing their debt by 4.4 points of GDP to 46%, the lowest since H1 2001 and 7.3 points below that of the Eurozone. Following the rise in interest rates, households continued the trend that began in H2 2022, using the majority of their savings to repay bank loans, to the tune of €11bn. Through the increase in the net acquisition of financial assets, the decrease in debt, and the impact of a €125bn revaluation of financial assets over the last year, the net financial assets of families increased by €190bn compared with Q1 2023. They now stand at slightly over €2,140bn, a new high.

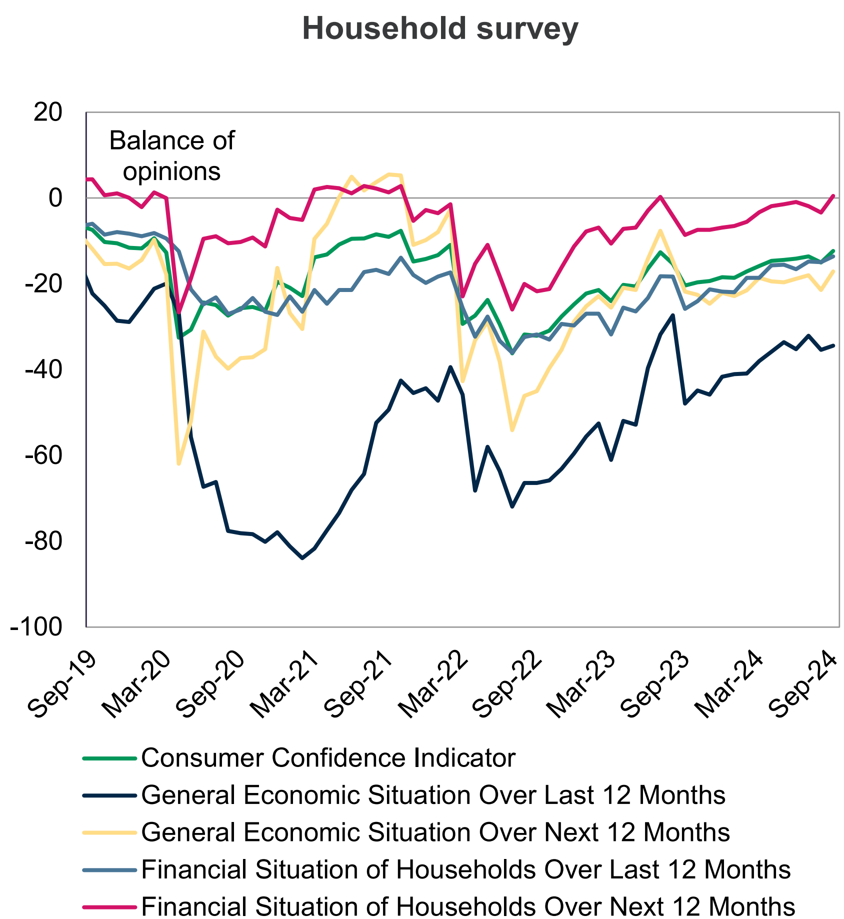
Moderate consumption over our horizon

The data available in August show that wages under collective bargaining agree-ments for 2024 rose by 3% (3.5% in 2023).

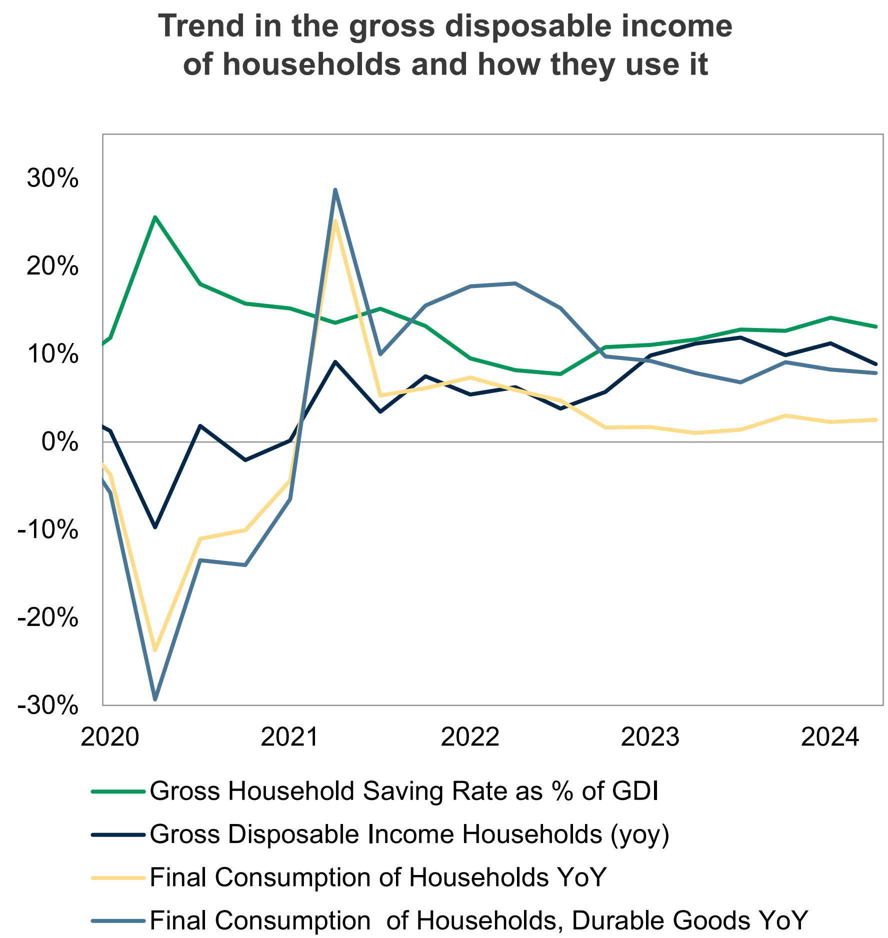
According to the leading indicators availa-ble, household consumption could continue to recover gradually in the third quarter. These indicators include a positive tone in consumer confidence, steady momentum from consumer credit, and a rebound in the retail index and car registrations. Household spending is expected to continue to expand in the coming quarters, by 2.2% in 2024 and 1.7% in 2025, as inflationary pressures diminish, the labour market remains robust and financial conditions improve somewhat.

HOUSEHOLDS

SPANISH HOUSEHOLDS CONTINUE TO SAVE



Sources: European Commission, Crédit Agricole S.A./ECO.



Sources: Eurostat, Crédit Agricole S.A./ECO.

BUSINESSES

PRODUCTIVE INVESTMENT FAILS TO PICK UP

After the sharp quarterly increases in Q4 2023 (1.2%) and Q1 2024 (1.1%), investment slowed in Q2 (0.4%). Business investment held steady, with a slight decrease in transport investment (-1%) offset by an increase in machinery and equipment investment (+0.5%). Construction investment rose by 0.5% (including 0.4% for housing). But despite this rebound, productive investment in Spain remains 4% lower than before Covid.

Wage cost growth is slowing but margins remain stable

The ratio between the gross operating surplus (EBITDA) and the gross value added (GVA) of the market economy has been stable since the end of 2023, very close to pre-pandemic levels. But margins remain highly contrasted from one sector to the next, particularly between manufacturing (10% higher than in 2019) and construction (45% lower). The per capita wage slowed in Q2, at an inter-annual rate of 4.8%, compared with the over 6% increase in 2023. This increase remained higher than wage rises under collective agreements, reflecting positive wage drift, albeit lower than last year. The slowdown in wages and the recovery in productivity impacted unit labour costs, which rose by 3.8% yoy in Q2 (down from 5.8% in Q1).

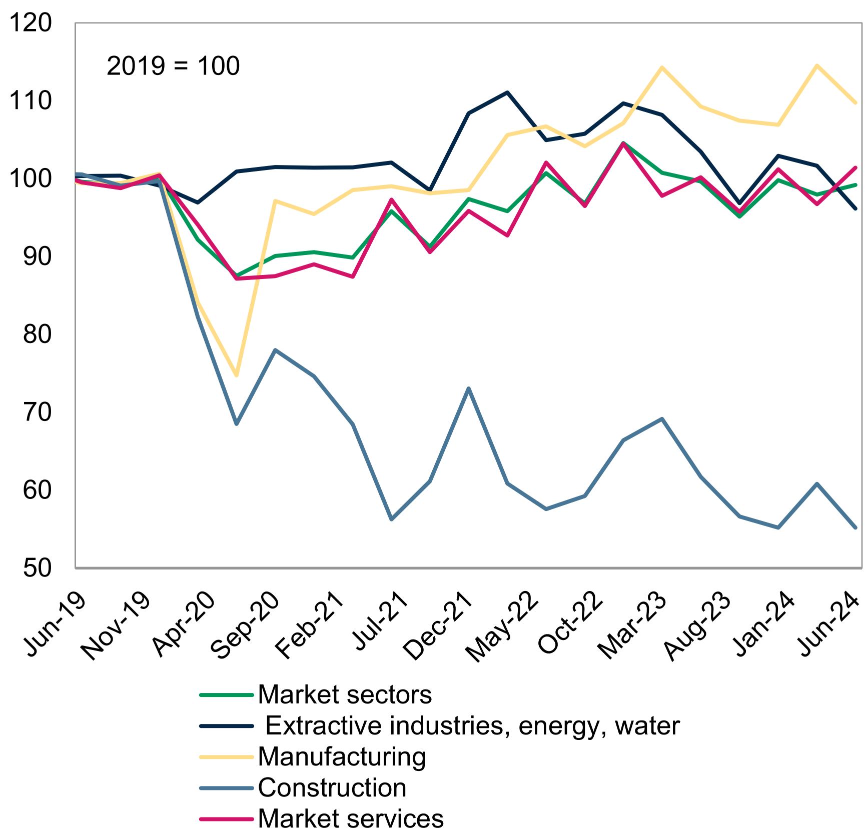
Investment was strong in the first half, driven mainly by positive momentum in construction. In contrast, investment in machinery and equipment has declined and is still 4% lower then before the pandemic. As we approach the third quarter, the decrease in the PMI for capital goods, driven by the decline in new business, does not point to a swift recovery in business investment.

Regarding housing investment, the recent trend in the construction execution indicator suggests a lacklustre performance in the third quarter, even though home sales continue to show strong momentum, with the highest number of transactions between January and July since 2008, after the record in 2022. However, the relative tightness of short-term supply relative to strong demand, driven in part by acquisitions by foreign citizens, continues to put upwards pressure on real estate prices, which rose 7.8% yoy in Q2. Our forecasts for gross fixed capital formation currently stand at 2.7% for 2024 and 3.4% for 2025.

BUSINESSES

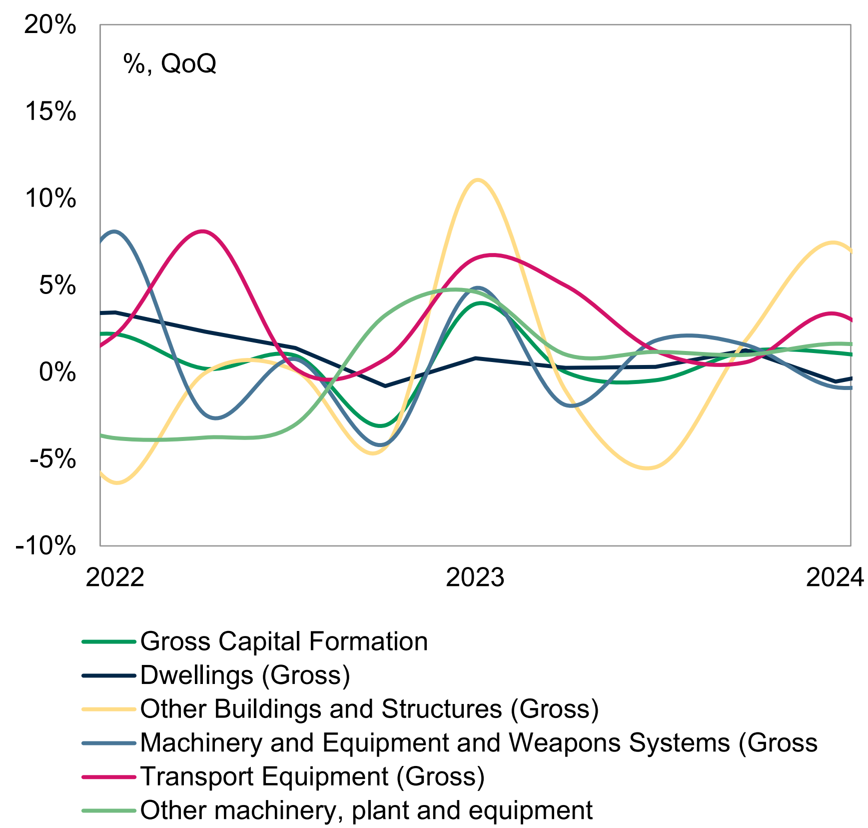
PRODUCTIVE INVESTMENT FAILS TO PICK UP

Trend in business margins (GOI/GVA)



Source: INE, Crédit Agricole S.A.

Investment components



Sources: INE, Crédit Agricole S.A./ECO.

INTERNATIONAL TRADE

FOREIGN DEMAND CONTRIBUTION HALTS IN Q2

The positive 0.1pp contribution of net external demand to GDP growth in Q2 2024 was fuelled by momentum in services exports, which more than offset the decline in goods exports (2.6% and -0.3% qoq, respectively), particularly tourism services. Imports of services also proved brisk, gaining 3.7%, driven by tourism services, which should remain buoyant in the coming quarters.

The outlook for the external sector in the second half of the year is somewhat more favourable than in June. This projection is underpinned by two different trends. First, although tourism exports have grown more slowly in recent months, they have slowed less than expected. Some of this better-than-expected performance should continue, in line with some leading indicators on tourism activity for the coming quarters. Second, Spanish imports have been relatively low in recent quarters. Beyond composition effects, the factors explaining the current modest elasticity of imports relative to final demand remain uncertain. One potential explanation for the phenomenon could be the decrease in Spanish energy dependence following the increase in energy production from renewable sources. In any case, these recent developments, which could be linked to some structural aspects, call for a downwards revision of the recovery trajectory for imports in 2024.

Towards a zero contribution from foreign growth in 2025

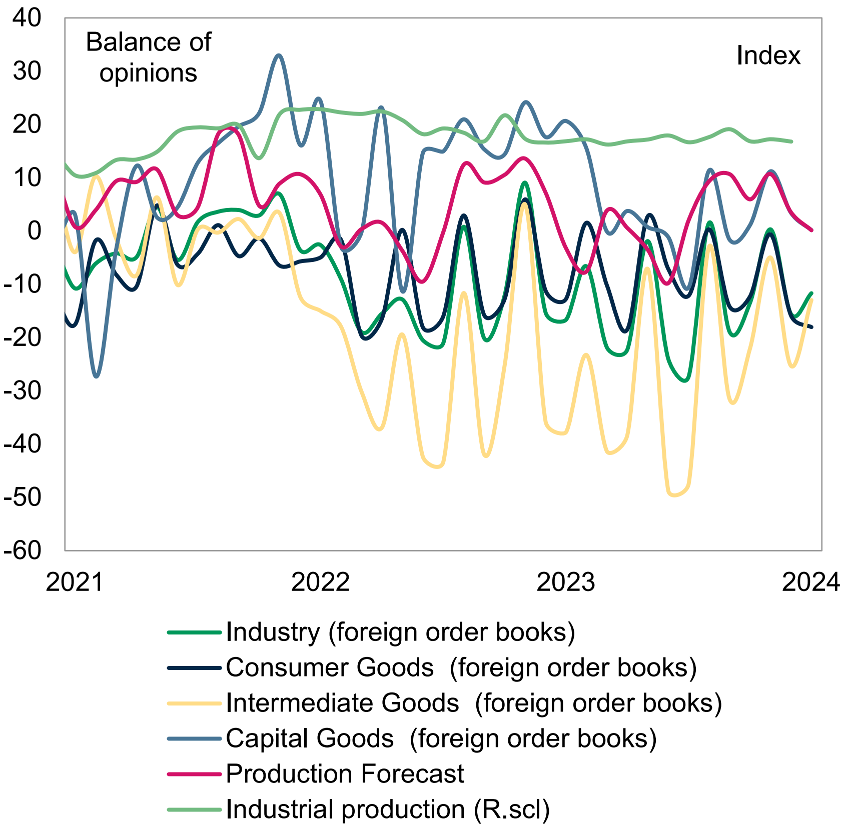
Since 2022, foreign trade has made a remarkable contribution to GDP growth. A substantial share of this contribution has resulted from strong momentum in international tourist flows to Spain, which have surprised on the upside and showed increasing geographical and seasonal diversification. Over our forecast horizon, we expect these flows to remain extremely vigorous. But in growth terms, their contribution to GDP will gradually decrease. Meanwhile, following a decline in 2023, the projected recovery in international trade will favour a gradual increase in goods exports throughout our forecast horizon. Imports are expected to rise more than exports, consistent with stronger momentum in gross fixed capital formation and exports of goods, which are components of final demand with a higher import content.

According to our forecasts, net external demand will contribute a positive 0.5% to GDP growth in 2024 and a slightly negative -0.1% in 2025.

INTERNATIONAL TRADE

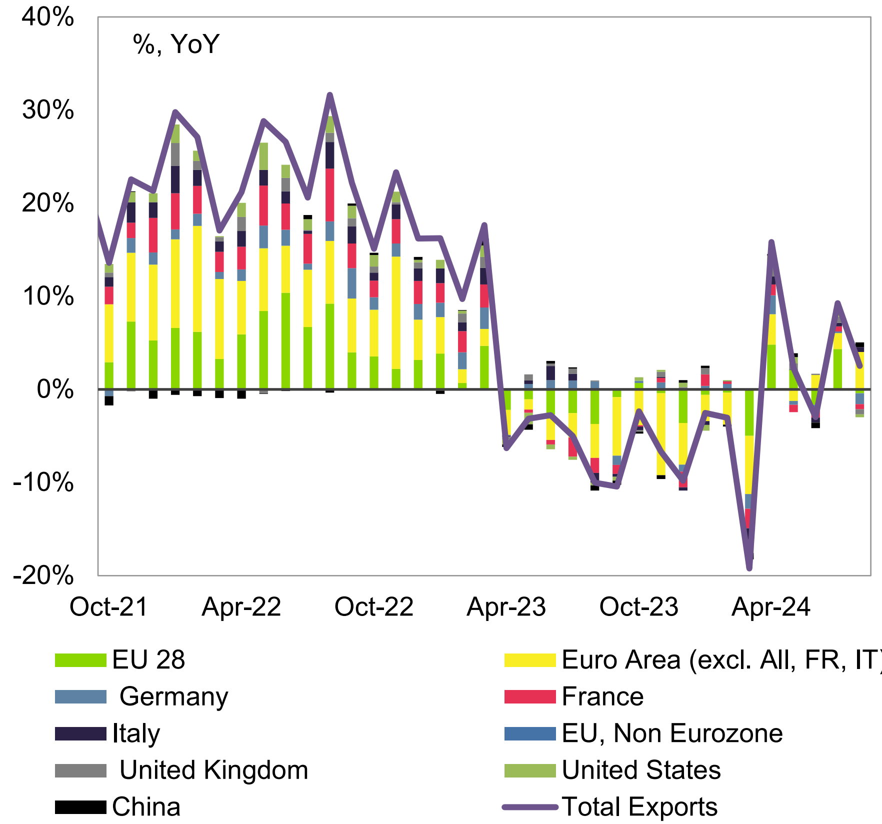
FOREIGN DEMAND CONTRIBUTION HALTS IN Q2

Export order books



Sources: Business sentiment survey, Min. of Industry & Commerce, CA S.A./ECO.

Exports by destination



Sources: Bank of Spain, Crédit Agricole S.A./ECO.

RISKS

STRONG GROWTH IN THE FIRST HALF

No recession

Disinflation continues

Activity and employment hold up

Wage purchasing power increases

Financing conditions ease

Recession

Geopolitical conflicts escalate

Growth weakens and income and profits deteriorate

Fiscal adjustment compliant with new EU fiscal rules could slow growth

THE SCENARIO IN FIGURES

FORECAST TABLES

	2022	2023	2024	2025	2022				2023				2024				2025			
					Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
GDP (y/y, q/q, %)	6,2	2,7	2,7	1,8	1,3	1,7	0,9	0,6	0,7	0,2	0,7	0,7	0,9	0,8	0,3	0,2	0,5	0,5	0,5	0,2
Domestic demand (contribution to GDP, pps)	3,5	2,4	2,4	1,8	1,1	0,7	0,7	-1,0	1,6	0,8	0,7	0,4	0,7	0,8	0,3	0,3	0,5	0,6	0,5	0,3
Private consumption (y/y, q/q, %)	4,8	1,8	2,2	1,7	1,1	1,5	0,4	-1,4	1,2	0,8	0,8	0,2	0,5	1,0	0,3	0,2	0,4	0,5	0,5	0,4
Public consumption (y/y, q/q, %)	0,6	5,2	3,3	1,2	0,1	-0,8	1,1	1,9	1,1	1,8	1,5	0,6	1,1	0,7	0,0	0,1	0,4	0,4	0,4	0,2
Investment (y/y, q/q, %)	3,3	2,1	2,7	3,4	2,2	0,2	1,0	-3,1	3,9	0,0	-0,5	1,2	1,1	0,4	0,8	1,1	1,0	1,0	0,5	0,4
Stockbuilding (contribution to GDP, pps)	0,4	-0,7	-0,3	0,0	-0,4	0,0	-0,5	0,4	-0,6	-0,3	0,1	0,1	-0,2	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Net exports (contribution to GDP, pps)	2,2	0,9	0,5	-0,1	0,7	1,0	0,7	1,1	-0,3	-0,3	-0,1	0,2	0,4	0,1	0,0	-0,1	0,0	0,0	0,0	-0,1
Exports (y/y, q/q, %)	14,3	2,8	3,3	3,0	2,5	6,6	0,3	0,9	1,0	-0,4	-1,5	1,6	1,8	0,7	0,8	0,9	0,8	0,7	0,7	0,4
Imports (y/y, q/q, %)	7,7	0,3	2,2	3,7	0,5	3,8	-1,7	-2,5	2,3	0,4	-1,4	1,1	0,7	0,6	1,0	1,3	0,8	0,8	0,8	0,8
Inflation (y/y, %)	8,3	3,4	2,9	2,0	7,9	8,9	10,0	6,5	5,0	2,8	2,6	3,3	3,2	3,6	2,3	2,4	2,5	1,5	2,0	2,0
Core inflation (y/y, %)	3,8	4,1	2,8	2,2	-0,5	3,5	-0,1	1,3	0,2	2,4	0,2	0,6	-0,1	2,1	0,0	0,7	-0,6	2	0	0,8
Unemployment rate (%)	13,1	12,2	11,5	11,1	13,3	13,0	12,8	13,1	12,9	12,0	12,0	11,9	11,8	11,6	11,2	11,3	11,4	11,2	10,9	11,0
Current account balance (% of GDP)	0,4	2,7	2,0	0,9	-1,4	0,4	0,8	1,5	2,8	2,4	3,1	2,3	3,1	1,3	1,8	1,9	-0,2	0,9	1,3	1,5
Fiscal balance (% of GDP)	-4,7	-3,6	-3,4	-3,1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Public debt (% of GDP)	111,6	107,7	107,9	116,7	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

CONSULT OUR LAST PUBLICATIONS

Date	Title	Theme
17/10/2024	China in the face of protectionism	Asia
04/10/2024	World – Macro-economic Scenario 2024-2025: delicate balances	World
03/10/2024	China's central bank strives to revive sluggish growth	Asia
02/10/2024	France – The residential real-estate market: correction continued	France
26/09/2024	Can Saudi Arabia afford its ambitions?	MENA
24/09/2024	Essential of Semiconductors – Foundry	Semiconductors
19/09/2024	Protectionism, US style	USA, Asia
12/09/2024	Indonesia: the fraught road from Jakarta to Nusantara	Asia
06/09/2024	The great legitimacy crisis	Geopolitics
09/08/2024	Italy – 2024-2025 Scenario: staying the course	Italy
08/08/2024	Egypt – Retrospective of a currency crisis: how to build confidence?	MENA
26/07/2024	United Kingdom – 2024-2025 Scenario: future looking brighter?	United Kingdom
24/07/2024	Spain –2024-2025 Scenario: robust growth continues	Europe
18/07/2024	Countervailing duties on Chinese electric vehicles: a setback for China and a test of European unity	EU, Asia
18/07/2024	France – Is the French economy stalling since the snap election call?	France
11/07/2024	The new grammar of the risk economy	Geopolitics

Completed on October 14th 2024

Ticiano BRUNELLO

ticiano.brunello@credit-agricole-sa.fr

THANKS FOR YOUR ATTENTION

YOU CAN SUBSCRIBE TO OUR PUBLICATIONS ON OUR WEBSITE : http://economic-research.credit-agricole.com/

Access and subscribe to our free online publications:
application available in App Store and in Google Play

Crédit Agricole S.A. — Group Economic Research
12 place des Etats-Unis – 92127 Montrouge Cedex

Publication Manager: Isabelle Job-Bazille - **Chief Editor:** Armelle Sarda
Information centre: Elisabeth Serreau - **Statistics:** Datalab ECO
Editor: Fabienne Pesty
Contact: *publication.eco@credit-agricole-sa.fr*

This publication reflects the opinion of Crédit Agricole S.A. on the date of publication, unless otherwise specified (in the case of outside contributors). Such opinion is subject to change without notice. This publication is provided for informational purposes only. The information and analyses contained herein are not to be construed as an offer to sell or as a solicitation whatsoever. Crédit Agricole S.A. and its affiliates shall not be responsible in any manner for direct, indirect, special or consequential damages, however caused, arising therefrom. Crédit Agricole does not warrant the accuracy or completeness of such opinions, nor of the sources of information upon which they are based, although such sources of information are considered reliable. Crédit Agricole S.A. or its affiliates therefore shall not be responsible in any manner for direct, indirect, special or consequential damages, however caused, arising from the disclosure or use of the information contained in this publication.