

Spain: Whisper it! A Spanish recovery may already be happening

We see tentative signs that the slowdown in the Spanish economy is over and that growth may gradually accelerate this year. But, like in 2023, it will be characterised by a strong service sector while industry continues to languish



Some reasons to be cheerful for Spain's Prime Minister, Pedro Sánchez

Tourism remains a key driver of growth as industry struggles

Spain should see a gradual acceleration of economic growth in 2024. However, it will still be markedly held back, especially in the first half of the year, by the European Central Bank's tighter monetary policy dampening investment and consumption. What helps the figures is the relatively greater weight of the service sector, specifically tourism in the overall Spanish economy, which means a shrinking industry weighs less in the country's growth numbers.

Tourism to Spain after the pandemic was the key driver to its recovery, giving it a solid lead over other eurozone countries early last year. In fact, in the first quarter, international visitors increased by 42% from 2022. That soon dropped back, given the slowdown in the global economy, but private consumption helped cushion the blow. But as tighter monetary conditions took hold, that too slipped back; notably, we saw a lessening in loan demand.

The roll-out of European funds and the extension of some government support measures are also helping spur growth, although the latter's impact will fade towards the end of the year when most measures will be phased out. For this year, we are currently assuming an average growth rate of 1.3%, which will accelerate to 2.2% in 2025.

The outlook for industry remains gloomy

Last year, we saw a strong dichotomy in the Spanish economy, with the service sector being particularly buoyant while the more interest-rate-sensitive manufacturing and construction sectors feeling the pain. And the outlook for manufacturing remains gloomy for this year. The manufacturing PMI, a good gauge of general business sentiment in the sector, fell again slightly in December to 46.2, well below the neutral level of 50 that distinguishes growth from contraction. There are some glimmers of hope, though. Order books in the manufacturing sector seem to be gradually recovering. In contrast, the services PMI rose to 51.5 in December from 51 in November, suggesting that growth there is picking up.

The European Sentiment Indicator also improved in its latest release. Spain was the only country to end the year above 100 points, including a 2.4-point rise in December. Along with better consumer confidence, these soft indicators are fuelling hopes the slowdown is over, and the Spanish economy is gaining some momentum.

More Spanish service companies are planning price increases in 2024

The growing optimism in the services sector could well have the downside of wage growth picking up a bit more strongly than expected this year. This poses an upside risk to our inflation forecast. The European Commission's Price Selling Indicator shows that more Spanish service companies plan to raise prices further in the coming months. The strengthening of employment expectations could boost wage growth, putting additional upward pressure on the inflation rate. As those government spending measures fade and energy prices soften, we should see headline inflation hovering around 3% this year, falling to 2.3% in 2025.

The Spanish economy in a nutshell

	2022	2023F	2024F	2025F
GDP	5.8	2.4	1.3	2.2
Private consumption	4.7	2.2	2	2
Investment	2.4	1.8	2.4	3
Government consumption	-0.2	2.2	0.5	1.8
Exports	15.2	1.0	0.0	3.3
Imports	7.0	-0.4	1.0	3.3
Headline CPI	8.4	3.6	3.0	2.3
Unemployment rate (%)	12.9	12.1	11.9	11.3
Budget balance as % of GDP	-4.7	-3.8	-3.6	-3.5
Government debt as % of GDP	111.6	107.3	106.5	107.2

Source: Thomson Reuters, all forecasts ING estimates

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