

Spain: Consumers and tourists to the rescue?

The worsening of the health situation at the beginning of 2021 will probably lead to a contraction of activity in the first quarter. But afterwards, we expect the economy to recover. The strength of it will depend on consumers and international tourists



Pedro Sánchez, Spain's Prime Minister

Source: Shutterstock

A bad start to the year

At the end of 2020, there were a number of reasons to be optimistic. But as 2021 started, the number of new infections began to rise sharply, from about 10,000 daily cases at the end of December to about 30,000 by mid-January. Things can change very quickly in a pandemic.

The government was forced to introduce new restrictions and some regions decided to close bars and restaurants and/or close non-essential shops. The measures, however, were implemented in a smarter way compared to the first wave. In Andalusia, for example, non-essential shops were required to close in locations with a Covid infection rate of over 1,000 per 100,000 people in the last 14 days.

Things can change very quickly

Luckily, the number of infections has come down since the peak in mid-January. The latest figures show about 5,500 daily new cases and some regions have recently announced a light relaxation of the containment measures. But the situation remains precarious. Rates remain high in a number of regions and there are already cases of the more infectious strain of coronavirus first detected in South Africa.

The outlook for the first quarter of 2021 is therefore still uncertain. For now, we think that the Spanish economy will contract by 0.8% quarter-on-quarter. Admittedly, the economy managed to grow marginally, by 0.4%, in the fourth quarter of 2020, but we think that the duration of the lockdown measures will take its toll.

Vaccinate, vaccinate, vaccinate...

According to the Spanish health ministry, over 85% of care home residents in Spain have received two doses of a Covid-19 vaccine, while another 11% have received one dose. So even though the vaccination programmes are running slower compared to the US or UK, the strain on the Spanish health system should decline. Barring a fourth wave, this will allow the government to eliminate some of the confinement measures so the recovery can begin in the second quarter.

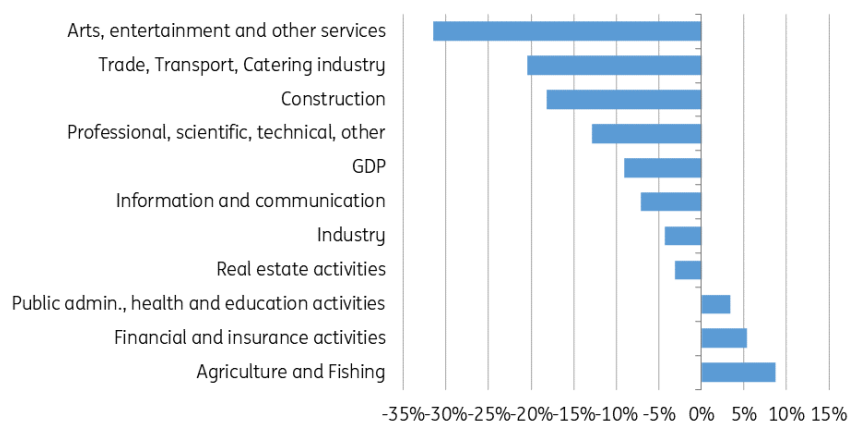
Pedro Sánchez, Spain's prime minister, recently said that he is confident of reaching the target of vaccinating 70% of the Spanish population by the end of the summer. This implies that restrictive measures will be a thing of the past in the fourth quarter.

What does this mean for the recovery?

The economy has a lot of ground to recover after the contraction of 11% in 2020. Looking at the various sectors, the 'Arts and entertainment' (4% of added value today), 'Trade, Transport, Catering industry' (20% of added value) and the construction sector (6% of added value) have been the hardest hit (see Figure). These three sectors are about 30% of added value.

This leads us to think that the consumer and international tourism will be crucial for the Spanish recovery, as the recovery of the 'Arts and entertainment' and 'Trade, Transport, Catering industry' largely depend on them.

Level of added value in 4Q 2020 compared 4Q 2019



Source: Refinitiv

As the lockdown measures are loosened we expect consumption to grow (by 7.7%, compared to -12.4% in 2020), but it will not go straight back to pre-Covid levels for two reasons. First, consumer optimism remains subdued, even though the vaccination programmes have started and there is light at the end of the tunnel. Second, even though the savings rate went up quite a bit in 2020, and so there is a buffer to consume, we think that an important part of the extra saving is precautionary. This will take time to unwind.

Concerning tourism activity, there is also a lot of uncertainty. A vaccination target of 70% of the total population by the end of the summer is too little too late for the tourism sector. But a vaccination passport could save the summer and Spain is pushing for such a passport at the European level. It remains uncertain whether such a passport will be introduced as it might seem unfair to those who want to get vaccinated, but aren't yet due to supply issues. In the meantime, Many Britons have already booked a holiday in Spain from May onwards when the international leisure travel ban will possibly be lifted. However, this remains uncertain and so these bookings might yet be cancelled.

We think the most likely scenario is that the economy will start to recover from the second quarter onwards. For 2021 and 2022, we expect growth to be around 5%, which would imply that the pre-crisis level of GDP is not reached before 2023.

The Spanish economy in a nutshell (%YoY)

| | 2022 | 2023F | 2024F | 2025F |
|-------------------------------|-------|-------|-------|-------|
| GDP | 5.5 | 2.2 | 1.0 | 1.9 |
| Private Consumption | 4.4 | 0.1 | 2.1 | 2.1 |
| Investment | 4.6 | 1.5 | 2.1 | 2.3 |
| Government consumption | -0.7 | 0.6 | 0.7 | 1.3 |
| Exports | 14.4 | 7.1 | 1.5 | 2.7 |
| Imports | 7.9 | 3.4 | 3.9 | 3.0 |
| Headline CPI | 8.4 | 3.6 | 2.7 | 2.1 |
| Unemployment rate (%) | 12.9 | 13.1 | 13.3 | 12.9 |
| Budget balance as a % of GDP | -4.8 | -4.1 | -3.7 | -3.4 |
| Government debt as a % of GDP | 113.2 | 109.8 | 109.1 | 108.6 |

Source: Refinitiv, all forecasts ING estimates

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