Spain continues to be one of the growth engines of the eurozone

Spain continues to be a strong performer in terms of GDP growth within the euro area, according to the latest GDP report. Spanish GDP grew by 0.8% quarter-on-quarter in the third quarter of 2024. Meanwhile, inflation slightly increased to 1.8% in October

Thousands of tourists descend on Sardinero beach in Santander in August. Spanish tourism continues to soar

Third-quarter GDP growth remains strong

The Spanish economy grew by 0.8% quarter-on-quarter (QoQ) in the third quarter of 2024, according to preliminary data from the National Institute of Statistics INE, in line with the QoQ growth in the second quarter of 2023. We had already seen signs that growth would remain strong as several soft indicators, such as the Purchasing Manager Indices, improved last quarter, but this growth still exceeded market expectations by 0.2 percentage points QoQ, resulting in 3.4% YoY growth.

With this new data, Spain continues to be one of the growth engines of the eurozone. Heavily reliant on tourism, Spain was hit hard by the Covid-19 crisis, but since then has been on a faster growth trajectory than its 2013-19 average. Tourism has rebounded and continues to hit record levels. In August, Spain received 7.3% more international tourists than in the same month in 2023.

Government consumption has benefited from the funds allocated under the Next Generation EU programme, while a strong labour market has boosted consumption. The unemployment rate, which measures the number of unemployed persons relative to the number of active persons in the economy, decreased to 11.21% in the third quarter, the lowest level since the financial crisis.

Spanish headline inflation rises to 1.8%

Spanish inflation rose from 1.5% in September to 1.8% in October, primarily due to an increase in energy prices. As ECB President Christine Lagarde mentioned in her last speech, inflation numbers in the eurozone are expected to be slightly higher at the end of this year due to base effects from significant energy price declines a year ago. Harmonised inflation increased to 1.8% in October from 1.7% in September. Core inflation, which excludes volatile fresh food and energy prices, rose to 2.5% year-on-year, up from 2.4% in September.

While overall inflation remains subdued, there is a risk of higher inflation in Spain if the divergence in economic growth within the eurozone also leads to a divergence in price pressures. Recently, decreasing interest rates have improved housing affordability in Spain, putting upward pressure on housing prices. After rising by 4% in 2023, nominal house prices increased by 7.9% year-on-year in the second quarter of 2024, with prices for new buildings rising by 11.2%. We expect house price growth of 5.5% this year. Construction activity decreased by 1.4% in the third quarter of 2024, but we believe this might pick up as housing supply typically follows demand with a delay.

Overall, we anticipate GDP growth to reach 2.8% this year, with harmonised inflation projected at 2.9%.

Author

Ruben Dewitte
Economist
+32495364780
ruben.dewitte@ing.com