

Spain: Tourism to drive economic upturn, but the outlook is cloudy

High uncertainty related to the war in Ukraine and soaring inflation are expected to cool down the Spanish economy in the second half of the year. However, the negative impact might be cushioned by government measures and a strong revival of tourism in the third quarter

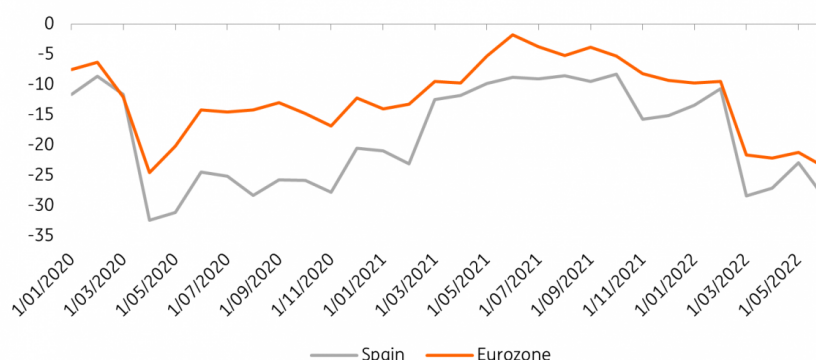


The Prime Minister of Spain, Pedro Sánchez

Things are starting to look worse for Spain

The ongoing war in Ukraine and the erosion of purchasing power due to high inflation are expected to adversely impact economic activity. Households are becoming more pessimistic as soaring inflation bites, with consumer confidence plunging again in June. This could contribute to a slowdown in the economy later this year. However, the latest consumption data for May show no weakening (yet). Business activity is also holding up for the time being. The purchasing manager indices show that both the manufacturing and services sector in Spain weakened in June, although they are still above the 50-mark indicating they have still grown compared to May. The fall in both PMIs was slightly more pronounced in Spain than in the eurozone.

Consumer confidence plunged again in June



Source: Refinitiv, ING Research

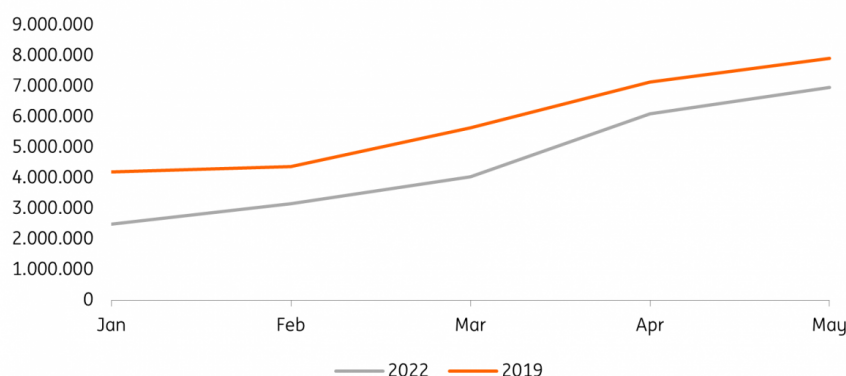
Inventory correction and a weakening in export demand are also worsening the outlook for Spain. As part of ongoing efforts to circumvent rising prices and supply chain problems, firms subsequently built up their stocks in the spring, but a weakening demand from autumn is likely to prompt companies to correct their inventories. On top of that, a slowdown or recession among Spain's main trading partners will reduce exports. On the other hand, a strong labour market, a government package to cushion the loss in purchasing power (adding five basis points to the growth figure in 2022 and 2023, according to the Spanish central bank), and a continued recovery of the tourism sector, will help ease the pain.

Since Spain is one of the eurozone members least directly affected by the war in Ukraine, we expect the country to stay just out of recession territory during the coming winter months.

Tourists to the rescue?

In May, Spain welcomed seven million international tourists, which means it recovered 90% of the international tourists recorded in 2019. Total tourist expenditures are also already at 90% of their pre-covid level in real terms. The elimination of Covid restrictions led to a strong acceleration of inbound tourist flows in the first half of the year, which were at the heart of the solid contribution of the exports of services to GDP growth. We expect that international tourism will continue to recover over the summer months, although soaring inflation might start to slow tourist activities down. As tourism is a key economic sector in Spain, contributing 14% of total GDP in 2019 according to the World Travel and Tourism Council, a continued recovery is a substantial factor underpinning economic growth.

International tourist arrivals



Source: Refinitiv, ING Research

Higher inflation is hitting demand

In June, consumer prices rose by 10.2% year-on-year (HICP inflation 10%) from 8.7% in May, bringing inflation to its highest level since 1985. More worrying was that core inflation was also up again, from 4.9% in May to 5.5% last month. Looking ahead, the introduction of the Iberian mechanism to cap gas prices for electricity production, and a package of government measures including a VAT tax cut on electricity, are expected to cushion inflation in the second half of 2022. However, the impact will be reversed completely in 2023, which has led us to increase our inflation forecast for next year to 3.1%. Although business surveys indicate that inflationary pressures are easing somewhat, elevated price pressures are likely to persist in the near term at least. As total input costs rose again at an elevated level in June, this will lead to other rounds of price mark-ups in the months ahead. Until now, market demand was sufficiently resilient to absorb higher prices, but this now seems to be turning around as household budgets are increasingly under pressure. If these second-round effects materialise, this is expected to substantially slow down consumer spending over the next few months.

Spain's job market improves, helped by labour market reform

There has been strong employment recovery in Spain. In June, registered unemployment stood at its lowest level since October 2008. June 2022 also recorded the largest increase in new jobs since 2005, albeit the start of the summer season traditionally prompts growth in temporary employment. The largest increase was recorded in the hospitality industry which is still benefitting from the elimination of Covid restrictions. A mix of domestic reopening tailwinds and a recovery of tourism will support employment growth in the second and third quarters of 2022. Employment expectations have also held relatively firm since the onset of the war. In June, jobs continued to be added with capacity constraints persisting and backlogs still elevated. However, we expect this trend to be reversed in 2023.

Current headwinds to economic growth are mounting and will adversely impact employment next year. Although the recent labour market reforms initiated in Madrid improved the proportion of permanent contracts relative to temporary ones, the swings in unemployment rates might be more pronounced than in other eurozone countries as the share of temporary contracts still exceeds the eurozone average. Nevertheless, we expect the impact on the labour market to be moderate unless the outlook deteriorates further.

All in all, the reopening of the economy and recovery of tourism supported growth in the second quarter, but the outlook is cloudy for Spain. For 2022 and 2023, we expect 3.8% and 1% economic growth, respectively.

The Spanish economy in a nutshell (% YOY)

	2021	2022F	2023F	2024F
GDP	5.1	3.8	1.0	2.1
Private Consumption	4.6	0.9	3.1	2.3
Investment	4.3	6.0	-1.4	0.7
Government Consumption	3.1	-0.3	0.3	1.9
Net trade contribution	0.5	1.7	-2.2	-0.3
Headline CPI	3.0	7.2	3.1	2.1
Unemployment rate (%)	14.8	13.3	13.6	13.1
Budget balance in % of GDP	6.9	4.9	4.6	4.3
Government debt in % of GDP	118.4	115.7	116.1	115.4

Source: Refinitiv, all forecasts ING estimates

Author

Alissa Lefebvre

Economist

alissa.lefebvre@ing.com

Deepali Bhargava

Regional Head of Research, Asia-Pacific

Deepali.Bhargava@ing.com

Ruben Dewitte

Economist

+32495364780

ruben.dewitte@ing.com

Kinga Havasi

Economic research trainee

kinga.havasi@ing.com

Marten van Garderen

Consumer Economist, Netherlands

marten.van.garderen@ing.com

David Havrlant

Chief Economist, Czech Republic

420 770 321 486

david.havrlant@ing.com

Sander Burgers

Senior Economist, Dutch Housing

sander.burgers@ing.com

Lynn Song

Chief Economist, Greater China

lynn.song@asia.ing.com

Michiel Tukker

Senior European Rates Strategist

michiel.tukker@ing.com

Michal Rubaszek

Senior Economist, Poland

michal.rubaszek@ing.pl

This is a test author

Stefan Posea

Economist, Romania

tiberiu-stefan.posea@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Jesse Norcross

Senior Sector Strategist, Real Estate

jesse.norcross@ing.com

Teise Stellema

Research Assistant, Energy Transition

teise.stellema@ing.com

Diederik Stadig

Sector Economist, TMT & Healthcare

diederik.stadig@ing.com

Diogo Gouveia

Sector Economist

diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

ING Analysts

James Wilson

EM Sovereign Strategist

James.wilson@ing.com

Sophie Smith

Digital Editor

sophie.smith@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Adam Antoniak

Senior Economist, Poland

adam.antoniak@ing.pl

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

Coco Zhang

ESG Research

coco.zhang@ing.com

Jan Frederik Slijkerman

Senior Sector Strategist, TMT

jan.frederik.slijkerman@ing.com

Katinka Jongkind

Senior Economist, Services and Leisure

Katinka.Jongkind@ing.com

Marina Le Blanc

Sector Strategist, Financials

Marina.Le.Blanc@ing.com

Samuel Abettan

Junior Economist

samuel.abettan@ing.com

Franziska Biehl

Senior Economist, Germany

Franziska.Marie.Biehl@ing.de

Rebecca Byrne

Senior Editor and Supervisory Analyst

rebecca.byrne@ing.com

Mirjam Bani

Sector Economist, Commercial Real Estate & Public Sector (Netherlands)

mirjam.bani@ing.com

Timothy Rahill

Credit Strategist

timothy.rahill@ing.com

Leszek Kasek

Senior Economist, Poland

leszek.kasek@ing.pl

Oleksiy Soroka, CFA

Senior High Yield Credit Strategist

oleksiy.soroka@ing.com

Antoine Bouvet

Head of European Rates Strategy

antoine.bouvet@ing.com

Jeroen van den Broek

Global Head of Sector Research

jeroen.van.den.broek@ing.com

Edse Dantuma

Senior Sector Economist, Industry and Healthcare

edse.dantuma@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Rico Luman

Senior Sector Economist, Transport and Logistics

Rico.Luman@ing.com

Jurjen Witteveen

Sector Economist

jurjen.witteveen@ing.com

Dmitry Dolgin

Chief Economist, CIS

dmitry.dolgin@ing.de

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

Egor Fedorov

Senior Credit Analyst

egor.fedorov@ing.com

Sebastian Franke

Consumer Economist

sebastian.franke@ing.de

Gerben Hieminga

Senior Sector Economist, Energy

gerben.hieminga@ing.com

Nadège Tillier

Head of Corporates Sector Strategy

nadege.tillier@ing.com

Charlotte de Montpellier

Senior Economist, France and Switzerland

charlotte.de.montpellier@ing.com

Laura Straeter

Behavioural Scientist

+31(0)611172684

laura.Straeter@ing.com

Valentin Tataru

Chief Economist, Romania

valentin.tataru@ing.com

James Smith

Developed Markets Economist, UK

james.smith@ing.com

Suvi Platerink Kosonen

Senior Sector Strategist, Financials

suvi.platerink-kosonen@ing.com

Thijs Geijer

Senior Sector Economist, Food & Agri

thijs.geijer@ing.com

Maurice van Sante

Senior Economist Construction & Team Lead Sectors

maurice.van.sante@ing.com

Marcel Klok

Senior Economist, Netherlands

marcel.klok@ing.com

Piotr Poplawski

Senior Economist, Poland

piotr.poplawski@ing.pl

Paolo Pizzoli

Senior Economist, Italy, Greece

paolo.pizzoli@ing.com

Marieke Blom

Chief Economist and Global Head of Research

marieke.blom@ing.com

Raoul Leering

Senior Macro Economist

raoul.leering@ing.com

Maarten Leen

Head of Global IFRS9 ME Scenarios

maarten.leen@ing.com

Maureen Schuller

Head of Financials Sector Strategy

Maureen.Schuller@ing.com

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

Rafal Benecki

Chief Economist, Poland

rafal.benecki@ing.pl

Philippe Ledent

Senior Economist, Belgium, Luxembourg

philippe.ledent@ing.com

Peter Virovacz

Senior Economist, Hungary

peter.virovacz@ing.com

Inga Fechner

Senior Economist, Germany, Global Trade

inga.fechner@ing.de

Dimitry Fleming

Senior Data Analyst, Netherlands

Dimitry.Fleming@ing.com

Ciprian Dascalu

Chief Economist, Romania

+40 31 406 8990

ciprian.dascalu@ing.com

Muhammet Mercan

Chief Economist, Turkey

muhammet.mercan@ingbank.com.tr

Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com

Sophie Freeman

Writer, Group Research

+44 20 7767 6209

Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA

Regional Head of Research, Americas

padhraic.garvey@ing.com

James Knightley

Chief International Economist, US

james.knightley@ing.com

Tim Condon

Asia Chief Economist

+65 6232-6020

Martin van Vliet

Senior Interest Rate Strategist

+31 20 563 8801

martin.van.vliet@ing.com

Karol Pogorzelski

Senior Economist, Poland

Karol.Pogorzelski@ing.pl

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

Viraj Patel

Foreign Exchange Strategist

+44 20 7767 6405

viraj.patel@ing.com

Owen Thomas

Global Head of Editorial Content

+44 (0) 207 767 5331

owen.thomas@ing.com

Bert Colijn

Chief Economist, Netherlands

bert.colijn@ing.com

Peter Vanden Houte

Chief Economist, Belgium, Luxembourg, Eurozone

peter.vandenhoute@ing.com

Benjamin Schroeder

Senior Rates Strategist

benjamin.schroeder@ing.com

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@ing.com

Gustavo Rangel

Chief Economist, LATAM

+1 646 424 6464

gustavo.rangel@ing.com

Carlo Cocuzzo

Economist, Digital Finance

+44 20 7767 5306

carlo.cocuzzo@ing.com