

## Spanish tourism boom propping up a weakening economy

Sentiment indicators for Spain weakened in April, with the manufacturing PMI falling below 50. The services sector continued to grow, albeit at a slightly slower pace. We expect growth to weaken later this year as the European Central Bank's interest rate hikes gain traction



Spain's tourism industry is thriving, with 42% more international visitors in the first quarter than during the same period last year

Spain's manufacturing PMI fell below the neutral level of 50 in April to 49.0, from 51.3 in March, mainly due to a drop in new incoming orders. Although Spanish manufacturing showed signs of a tentative recovery in the first quarter, boosted by lower energy prices and improved supply chains, this momentum now seems to be fading. We expect continued weakness in the coming months, as underlying demand dynamics remain particularly weak.

Spain's service sector again experienced strong growth in April, albeit at a slightly slower pace. The services PMI index fell from 59.4 to 57.9, but remained well above the neutral level of 50. The main driver of growth was tourism.

## International visitors to Spain up 42% in the first quarter

The Spanish statistics office INE this morning released data on the number of international visitors for March, which now gives us the full picture of the first quarter. The data show that Spain welcomed 13.7 million international visitors in the first quarter, representing a 42% increase from last year. This puts the number of international visitors in the first quarter at 96% of pre-Covid 2019 levels. Assuming this trend continues, an additional nine million visitors are expected to travel to Spain this year compared to last year, which would serve as a significant growth catalyst for the Spanish economy.

## Loan demand in Spain falls sharply as credit conditions tighten

The April Bank Lending Survey released earlier this week shows that credit conditions in Spain significantly tightened in the first quarter for loans to businesses, homes, and consumers. This has led to a sharp decline in demand for credit, particularly for home loans, which has only ever been seen during the financial crisis and the early stages of the pandemic.

The drop in loan demand is a clear indication of a weakening economy, despite the strong growth figures reported in the first quarter. Although the Spanish economy grew by 0.5% quarter-on-quarter in the first quarter, growth is expected to decelerate due to the reduced investment resulting from the fall in loan demand. With an important percentage of households having a mortgage at variable rates, the ECB tightening is also likely to impact consumption over the course of this year.

## Spanish economic growth forecast raised, but concerns remain

After a stronger-than-expected first quarter, we have revised up our growth forecast for this year from 1.5% to 1.7%. However, we remain concerned about the prospect of growth softening in the second half of the year. Apart from tourism, there are few reasons to be optimistic.