

Spain: A surprising strong end of 2020

While the pandemic gained speed at the beginning of the fourth quarter, the economy managed to grow by 0.4% quarter on quarter. The arts and entertainment sector and the construction sector, however, are still hard hit. For 2020 as a whole the economy contracted by 11%



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The demand breakdown shows that household consumption continued to recover from the severe recession in the first half of 2020. Compared to the previous quarter private consumption grew by 2.5%. Government consumption also supported activity and grew by 4%, the fastest pace since 1995 (GDP figures using the most recent methodology runs until 1995). Investment, on the other hand, contracted again in 4Q after a firm recovery in 3Q. Gross capital formation shrank by 6.2%. In particular, investment in dwellings and other buildings and structures was hardest hit (-6.3%).

Looking at the performance of the various sectors, it is clear that two sectors remain hard hit by the current crisis. Activity in the arts and entertainment sector shrank by 15.1%, after a recovery in the third quarter. The construction sector also recorded a negative growth rate of -8.1%. Activity in the remaining sectors was stagnant or grew modestly.

The current high level of new cases, however, is alarming. A number of regions announced new

restrictive measures that will be applicable until at least mid-February. Bars and restaurants are closed in Valencia and Galicia, while in Andalusia non-essential shops are closed in locations with an incidence of over 1.000 per 100.000 people in the last 14 days.

This situation obviously does not bode well for economic activity in the first quarter. Next week, both the PMI for the manufacturing and services sector will be published. This will give us a better idea of how the economy started the year.

Given the upward surprise of growth in the fourth quarter, we revised our growth forecast for 2021 as a whole upwards to 5%. Obviously, there is a lot of uncertainty around that figure. The evolution of the vaccination programmes in Europe and the impact on the tourism sector, for example, will have a large impact on Spanish growth, especially in the second quarter.

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