

## Spain's industrial output shrinks but services support growth amid tariff pressure

Industrial production recorded a year-on-year decline of 1.9% in February, worsening from the 1.2% contraction observed in January. However, services activity remains buoyant, sustaining overall economic growth amid tariff pressures



While industry activity is slowing, services activity continued to expand in March

### Industrial activity contracted over the first quarter of 2025

Industry activity has slowed over the first quarter of 2025 in Spain. In February, industrial production recorded a decline of 1.9%, following a revised contraction of 1.2% in January, marking a deepening of the slowdown. Having long outperformed its northern eurozone peers, the manufacturing dip now also seems to be affecting Spain, exemplified by an 11% decline in February in the automotive sector. Unlike its peers, Spain has not yet seen any positive impact on confidence indicators from the announced German spending package. The Manufacturing PMI has fallen by 3.8 index points since December last year, dropping below the 50-mark into contractionary territory at 49.5 in March. New orders, especially export orders, are slowing as tariff concerns lead businesses to reduce production and run down inventories.

## Manufacturing-services divide is increasing

While industry activity is slowing, services activity continued to expand in March, with a services PMI of 54.7. Even though this is a softening compared to the 56.2 February number, services remain comfortably above the long-term average in expansionary territory. Moreover, the average services PMI for this quarter is even slightly higher than the average for the last quarter of 2024. Household consumption, on the back of recent rises in real disposable income, a high savings rate and a robust labour market, appears to be the driving factor, with retail sales growing 3.6% year-on-year in February. Tourism activity remains supportive as well, with the number of tourists increasing by 6.9% in the first two months of 2025.

## Solid but moderating growth amid tariff pressures

Overall, Spanish economic growth remains robust but is moderating, as indicated by the HCOB composite PMI, which slowed from 56.8 in December to 54.0 in March. Uncertainty regarding US tariffs is a concern. In 2023, Spain exported €18 billion worth of goods to the US, with petroleum products, electrical transformers, cars, aerospace and gas turbines, and food products such as olive oil topping the charts. The announced 25% tariffs on cars, 20% additional tariffs on other products, and potential tariffs on pharmaceutical products will clearly have a negative impact.

However, Spain is relatively less exposed compared to other European countries. This is because some of its main export categories, such as petroleum, contain only 17% domestic value added out of the total export value. Consequently, the Spanish exposure to the US market through Europe is 1.1% of GDP, leading to an expected hit of 0.2% on GDP in the short term from 20% tariffs. This figure could increase in the longer term if the impact on investment and hiring starts to play a role.

As a result of the still sustainable growth at a moderating pace, combined with the more negative growth outlook due to US tariffs, we maintain our growth forecast for Spain at 2.5% in 2025, with a further slowing to 2.1% expected in 2026.

## Inflation remains under control

Within this growth scenario, prices remain under control in the Spanish economy. March headline inflation dropped from 3% to 2.3% year-on-year while core decreased to 2%. Low headline inflation numbers were to be expected on the back of base effects as indicated [in a previous analysis](#). In fact, new price increases accelerated in the Spanish economy both in February and March, up to a 0.86% month-on-month increase in March. As such, and despite possible deflationary pressure from US import tariffs, we edged up our inflation forecast to 2.3% for 2025.

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