

Spain: Recovery stalls in September

Retail sales growth in September moved into negative territory and the government has recently announced new measures to combat Covid-19. All this does not bode well for the fourth quarter.



A view of a deserted beach in Benidorm, Spain, one of Spain's hotspots for tourism.

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Recent newsflow on the Spanish economy is discouraging. Survey data already pointed to a further weakening in September, and now the first piece of hard data for the month of September has confirmed this, with retail sales growth back in negative territory.

Retail sales dropped by 0.3% month-on-month (seasonal and calendar adjusted) in September, after being up 1.4% in August. Year-on-year September retail sales shrunk by 3.3%. At the same time employment in the retail sector fell by 3.0% year-on-year.

This offers further evidence that the post-lockdown recovery came to a halt at the end of the third quarter and does not bode well for the fourth quarter.

On top of that, the second Covid-19 wave in Spain, which started much earlier than in other European countries, has gained momentum since mid-October. This led the government to take further action last weekend, declaring a state of emergency for 15 days and aiming to extend it for 6 months. There is also a nationwide curfew (except in the Canary Islands) between 11pm and 6am, although regional governments can modify the start and end time.

With the post-lockdown recovery, we expect GDP growth to be positive in the third quarter. But as

the pandemic already started to accelerate early in the third quarter and tourism is an important sector, we expect this to be lower than in the eurozone as a whole. The market expects the eurozone economy to grow by 9.4% quarter-on-quarter in the third quarter, close to what we expect. For Spain, we expect the economy to grow by 7% quarter-on-quarter in the third quarter. The Spanish figure will be published this Friday.

Concerning the fourth quarter, we expect growth to move back into negative territory. With the second Covid-19 wave also spreading fast in the rest of Europe, and the recent pessimistic survey data, it appears that we are moving from a "Nike Swoosh" recovery to a W-shaped one. For 2020 as a whole, we currently expect economic growth to come out at -15%.