

## Spanish activity slows sharply in the third quarter

The Spanish economy grew by 0.2% Q-on-Q in the third quarter, a significant slowdown from the 1.5% we saw the previous month. A strong tourism season helped stop the growth figures from turning negative



Spain has had a good tourism season

### Spain's economy slowed sharply in the third quarter

Spain's economy still grew by 1.5% on a quarterly basis in the second quarter, thanks to strong growth in domestic demand and the revival of tourism. However, growth slowed sharply to 0.2% QoQ. In the manufacturing sector, economic activity stagnated. While manufacturing recorded growth of 1.7% QoQ in the previous quarter, it fell to just 0.1% in the third. The services sector also slowed significantly from 1.6% to 0.7%. The leisure sector still recorded strong growth rates (7.6% QoQ), mainly thanks to a strong tourist season. The tourism sector, contributing 14% of total GDP in 2019, has held up much better than the rest of the economy so far and positively contributed to the growth figures.

### Economy is likely to fall in a recession over the winter months

The latest figures suggest the economy is likely to contract in the fourth quarter. Both

manufacturing and service sector PMIs fell below 50 in September, signalling contraction. New orders were again noticeably down in September as the high inflation and bleak economic outlook weighed on demand. There is little improvement in sight as Spanish consumer confidence fell again in September. The index stands below the Covid-19 pandemic low illustrating that Spaniards are increasingly worried about high inflation. Also, tourism, which contributed positively to growth figures in the second quarter, is starting to show signs of weakening. While the number of international visitors in July was still at 92% of its pre-pandemic levels, this dropped to 87% in August. The slowdown in domestic tourism was even greater than that of foreign tourism. The number of hotel stays booked by residents fell to 101% of pre-pandemic levels in August, from 107% in July. On the other hand, the aid packages, amounting to 30 billion euros or 2.3% of Spanish GDP announced by the government last month will bring some relief.

We forecast a mild recession for the Spanish economy in the next 2 quarters. Thanks to the strong first half of the year, GDP growth will still come in at 4.3% in 2022, but for 2023 we are now looking at 0.3% growth.