

Spanish business activity moderates

Spanish business activity is moderating, according to the Purchasing Manager Index (PMI), as services confidence drops for a third consecutive month



Despite an 11% YoY increase in tourist arrivals in April 2025, the PMI figures suggest a continued moderation in service sector momentum in 2Q25

Services cool while manufacturing recovers

The Spanish composite Purchasing Managers' Index (PMI) fell from 52.5 in April to 51.4 in May, marking the third consecutive month of weakening business sentiment in Spain. This deceleration was primarily driven by a drop in service sector confidence. The services PMI has fallen by 4.9 points since February, reaching 51.3 in May.

Despite robust retail activity – up 4% in May – and an 11% year-on-year increase in tourist arrivals in April 2025, the PMI figures suggest a continued moderation in service sector momentum during the second quarter of 2025. Preliminary GDP estimates indicate that service activity growth slowed by 0.6 percentage points to 0.3% in the first quarter of 2025.

In contrast, the manufacturing sector showed signs of recovery. The Manufacturing PMI rose from 48.1 in April to 50.5 in May, crossing into expansionary territory for the first time this year. Purchasing managers reported output growth and rising employment, although concerns about the broader economic outlook persist.

Trade tensions remain an uncertainty factor

US tariffs are a key determinant of the economic outlook. Following the so-called 'Liberation Day' announcement in April, Spain's industrial production declined by 0.8% month-on-month, slowing annual growth from a revised 0.9% in March to 0.6% in April. Tariff-related uncertainty also weighed on sentiment in the service sector, where expectations fell to their lowest level since November.

That said, Spain's direct exposure to the US via European trade channels remains relatively limited, amounting to just 1.1% of GDP. Moreover, global tariff tensions have begun to ease compared to April. As a result, we maintain our growth forecast for Spain at 2.5% in 2025, with a further moderation to 2.1% expected in 2026.

Inflation falls below target amid easing cost pressures

PMI data points to declining input costs for Spanish manufacturers, which are passed through to consumer prices as firms aim to sustain sales in a highly competitive market environment. This downward pressure on costs is largely driven by a strong euro and falling commodity prices. Most notably, oil prices are down around 12.5% year-to-date and are [expected to remain relatively low this year](#).

As a result, Spain's national inflation rate dipped below the 2% target, reaching 1.9% year-on-year in May. Core inflation also eased, falling from 2.4% to 2.1%. Looking ahead, we expect harmonised inflation to hover around 2% this year, resulting in 2.3% inflation for 2025.

Author

Ruben Dewitte

Economist

+32495364780

ruben.dewitte@ing.com

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