

## Surprise boost in Spanish GDP fuels inflation concerns

Spain delivered an unexpectedly strong GDP report today. Spanish GDP growth increased 0.6% quarter-on-quarter in the last quarter of 2023. Strong economic momentum is also fuelling inflation, which rose again to 3.6% in January



Both stronger economic momentum and rising prices are likely to keep Spanish inflation high over the coming months

### Fourth-quarter GDP growth accelerates in final quarter of 2023

The Spanish economy grew by 0.6% QoQ in the fourth quarter of 2023, as shown by preliminary data from the National Institute of Statistics INE this morning, accelerating from a revised 0.4% QoQ growth in the third quarter of 2023. We'd previously seen signs that growth was picking up as several soft indicators (such as business sentiment) improved toward the end of 2023 – but this growth far exceeds expectations. GDP came in much higher than market expectations of 0.2% QoQ.

The GDP report was positive across the board. After significant growth in the third quarter, which returned household consumption to pre-pandemic levels, it continues to fuel economic growth in the fourth quarter. With inflation lower than wage growth, real purchasing power is increasing again, boosting consumption.

The investment component also grew despite headwinds from higher interest rates. Investment in greening and digitalisation and the continued rollout of NGEU funds continue to support business investment, while particularly strong growth in housing demand boosted residential investment. Strong housing demand growth continues to outpace housing supply growth. Finally, government spending also increased and the net trade position improved. Looking at the details by sector, interest rate sensitive sectors such as manufacturing and construction grew strongly in the fourth quarter, against expectations.

This morning's news of fourth-quarter economic growth and last Friday's unemployment figures confirm the strength of the Spanish economy, which is showing resilience amid a sharp slowdown in the other eurozone countries. Spain is outperforming its European peers like Germany, whose economy is more dependent on manufacturing and more affected by the global economic slowdown.

## Spanish headline inflation rises to 3.6%

Spanish inflation rose from 3.1% in December to 3.4% in January (mainly due to an increase in electricity prices), compared with the January 2023 decline, a separate report from INE showed this morning. Harmonised inflation rose to 3.5% in January from 3.3% in December. Core inflation, which excludes volatile fresh food and energy prices, was 3.6% year-on-year, down from 3.8% in December and the lowest level since March 2022. The decline in underlying core inflation is encouraging and shows that the disinflationary trend in the economy continued in January.

Still, there are some blinkers. Stronger economic momentum is fueling inflation. INE data published earlier this month showed that significantly more Spanish companies plan to raise prices further in the coming months. Rising container prices and supply chain problems due to tensions in the Middle East may also put upward pressure on inflation in the coming months. These developments will keep inflation high in the months ahead and will prevent Spanish inflation from falling back to the 2% target this year. We are still assuming an average inflation rate of 3% this year and 2.3% in 2025.