

Spanish growth momentum continues to defy expectations

Spain's economic growth continues to exceed expectations, with the economy expanding by 0.8% quarter-on-quarter in the fourth quarter of 2024. The labour market remains robust, though productivity is still lagging. This strong labour market is expected to bolster consumption and investment in 2025, maintaining the positive momentum



Granada, Spain

Spanish economy grew 0.8% in the fourth quarter of 2024

The Spanish economy continues to surprise on the positive side, with the economy growing by 0.8% quarter-on-quarter in the fourth quarter of 2024, according to figures released this morning by Spain's statistical service, INE. This marks the third consecutive quarter of 0.8% growth. On an annual basis, Spain's economic output expanded by 3.5% in the fourth quarter, bringing the annual growth rate for 2024 to 3.2%. The Spanish growth numbers are all the more impressive when taking into account the destructive floodings in the Valencian region, which were expected to lower GDP growth with 0.1 to 0.2 percentage points in the fourth quarter.

Fourth-quarter growth was primarily driven by domestic demand and business investment. While export growth slowed, import growth accelerated, reducing the contribution of external demand to GDP growth to nearly zero. Sector-wise, growth was sustained by the manufacturing and services

sectors, which continued to expand, while construction activity also increased.

Strong employment growth, but productivity lags behind

The number of hours actually worked increased by 2.8% year-on-year this quarter, which is 1.5ppt higher than in the previous quarter. This aligns with the unemployment figures published yesterday, showing a drop from 11.2% in the third quarter of 2024 to 10.6% in the fourth quarter. This represents a year-on-year decrease of 1.2ppt, indicating a robust labour market.

The service sector significantly contributed to this reduction in unemployment, alongside industry and agriculture, while employment in the construction sector remained relatively stable. The strong employment gains in the service sector are consistent with expectations, driven by the substantial growth in service exports in 2024. For example, tourism reached historic highs in the first 11 months of 2024, with 88.5 million visitors, a 10.6% increase from the same period in 2023.

However, it's important to note that employment gains in the fourth quarter were primarily in part-time positions, and productivity per hour worked decreased by 1.1% quarter-on-quarter.

Consumption and investment will maintain positive momentum in 2025

With growth in the fourth quarter already driven by domestic demand and business investment, we expect these components to continue being the primary drivers of growth in 2025. The household savings rate stands at 13.1%, which is five percentage points above its pre-Covid level, and coupled with a strong labour market, consumption is anticipated to keep rising alongside disposable income growth.

More affordable credit and the allocation of EU recovery funds will also benefit private investment, particularly in the construction sector. These drivers will need to sustain momentum in a challenging eurozone environment, which remains a crucial export market for Spain. Until now, we had a GDP growth forecast of 2.2% for 2025, but on the back of today's figures, that might prove to be too pessimistic.

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