We estimate the Spanish economy will grow by 2.8% in 2024 and 2.1% in 2025

Spanish GDP growth figure for 1Q24 raised slightly to 0.83%.

Spain's national statistics office, the INE, has, for the second time, raised its estimate for GDP in 1Q24 to 0.83% quarter-over-quarter, up from its last estimate of 0.79%. It also increased growth for 2H23, although the annual average is unchanged at 2.5% and the carryover effect in 2024 is still 0.9pp.

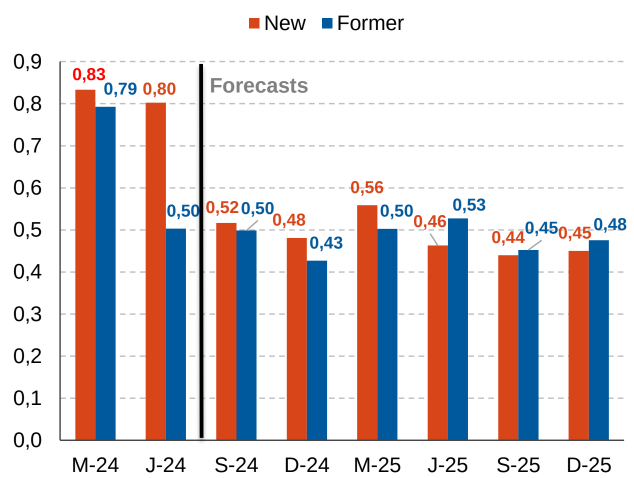
The economy remained dynamic in 2Q24, registering quarterly growth of 0.8%…

The first estimate of GDP in 2Q24 suggests momentum has continued in Spain, where the **economy grew by 0.8% from 1Q**, above its potential level. The year-on-year rate climbed to 2.9% in 2Q24. The second-quarter growth figure has come in above our baseline scenario (0.8% vs. 0.5% for the quarter | Exhibit 1) and above our tracker for 2Q24 (0.6% for the quarter as per the last update of 26/07/24). Our GDP tracker currently points to quarterly growth of 0.5% in 3Q24, although this signal should be taken with caution as we have hardly any indicators for the period yet.

… with foreign demand the main growth engine.

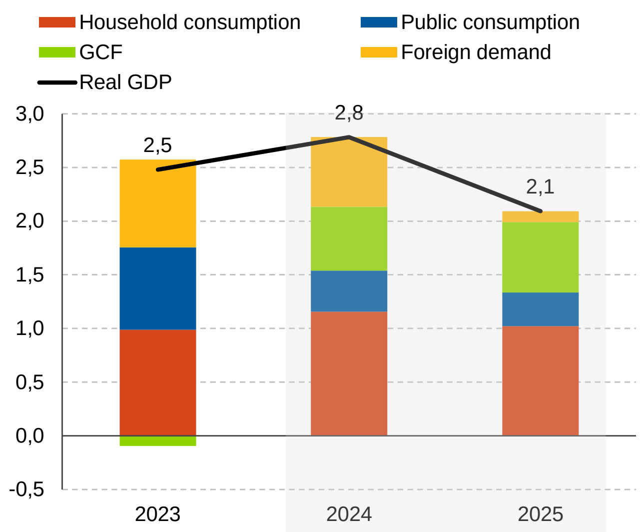
The breakdown of the 2Q24 growth is less positive, as it is marked by a slowdown in household consumption (0.3% QoQ from 0.4% in 1Q24) and, above all, in GFCF (0.9% QoQ vs. 2.6%), due to stagnation in investment in capital goods (0.1% QoQ), partially offset by renewed growth in public spending (0.2% QoQ). Internal demand contributed 0.3pp to the quarterly growth. Growth in exports also slowed although foreign demand continued to make a positive contribution to growth (explaining 0.5pp of the quarterly growth in GDP), due to the fall in services imports (-3.1% QoQ).

Exhibit 1. Quarterly real GDP growth pattern: current vs. previous path (quarterly, %) Afi's forecasts for 3Q24-4Q25



Source: Afi, INE

Exhibit 2. Contributions to the forecast annual growth in real GDP (% | pp)



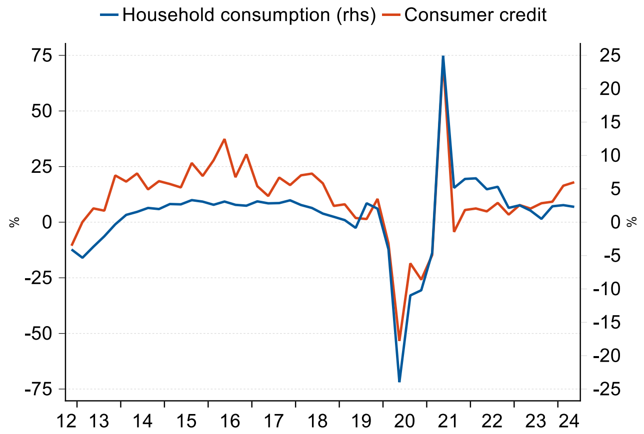
Source: Afi, INE

We are revising our forecast for GDP growth in 2024 and 2025 upwards to 2.8% (+0.4pp) and 2.1% (+0.1pp), respectively.

With this new information in hand, **we are raising our growth forecasts for the Spanish economy for 2024 and 2025**. This year we are now looking for annual growth of 2.8%, up 0.5pp from our last set of forecasts, whereas in 2025 we are forecasting annual growth of 2.1%, up 0.1pp from our last estimate. The upward revision of our estimates is based on: i) the statistical revisions of the historical series by the INE; ii) surprisingly strong growth in 2Q24; and iii) brighter prospects for the rest of 2024.

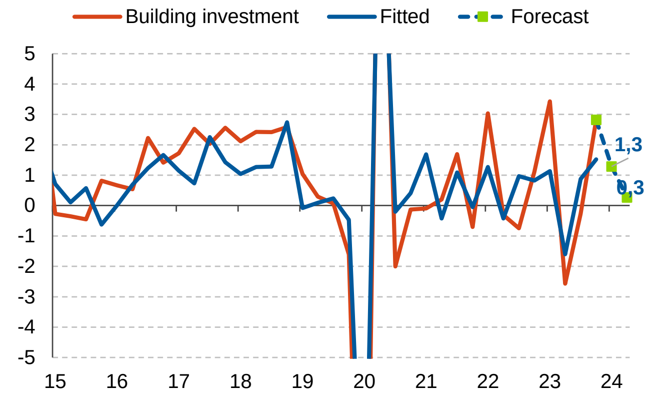
Growth should still be underpinned primarily by household consumption (Exhibit 4), although we expect investment (after a poor 2023 in annual terms) to re-emerge as a growth support factor as a result of execution of the NGEU funds (which tends to accelerate towards the end of the year). Foreign trade will remain key to growth albeit playing a lesser role as time goes by (due to normalisation in tourist flows and spending). Risks linger but are more likely to come into play in 2025 than this year.

Exhibit 3. Consumer credit and household consumption (% YoY)



Source: Afi, INE

Exhibit 4. Afi construction investment tracker (% QoQ), 3Q24-4Q24



Source: Afi, Macrobond, INE

Internal demand

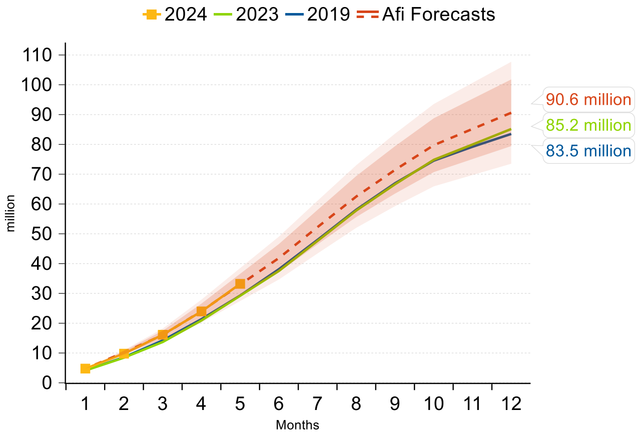
Internal demand (both consumption and investment) is expected to remain the pillar of Spanish growth over the next two years

Growth in the next two years is expected to be driven mainly by internal demand, which is forecast to make a contribution of around 2pp in 2024-2026, with its role tapering over the course of the projection horizon.

- **Household consumption will be key** (Exhibit 2). We are raising our forecasts for this component for all years (by 0.2pp in 2024, 0.3pp in 2025 and 0.2pp in 2026), as a result of:
  - The recovery in household purchasing power, thanks to the rebound in real wages, which are expected to continue to grow throughout the projection period;
  - The resilience of the labour market, which should continue to support the recovery in Spanish households' purchasing power and capacity to spend;
  - A still-high stock of savings, in both absolute and relative terms (cumulative excess household savings stood at over €180 billion in 1Q24 by our estimates);
  - An improvement in borrowing terms and conditions, which should galvanise the flow of consumer credit, a development that may have already started to materialise in 2Q24 (Exhibit 3), while reducing certain costs such as mortgage payments.
- **Public spending is expected to ease in the coming years**. Having made a sizeable contribution to growth in 2023, public spending contracted sharply in 1Q24 (-0.6% QoQ) and although it recovered in 2Q24 (+0.2% QoQ), we do not expect to see a repeat of the growth rates observed in 2023 (a year of elections at all levels of government).
- **Our vision for private investment is unchanged**. After a strong first quarter in terms of investment in capital goods (+3.7% QoQ) and construction (+2.8% QoQ), and despite the dip in 2Q24 referred to above, we expect to see positive momentum in the second half, as the NGEU funds gradually get put to work. We continue to expect to see higher growth in 2025, due to the delayed impact of the European funds. In construction, particularly the housing segment, we are hard pressed to imagine housing start permits much above the level

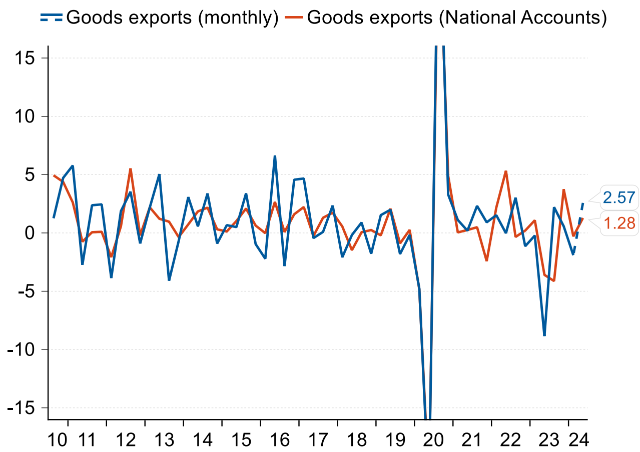
observed in recent years (anchored at around 100,000 per annum), at least in the very near future. Despite the evident and growing scarcity of housing, shaped by intense migratory flows, the measures announced to date strike us as insufficient to respond to such a major challenge. As analysed in this Weekly, Spain needs to design more ambitious housing measures to overcome the current housing supply issues.

Exhibit 7. International tourist arrivals YTD and Afi forecasts for 2024 (million people)



Source: Afi, INE

Exhibit 8. Goods exports in real term (% QoQ)



Source: Afi, Datacomex, INE

Foreign demand

Foreign demand will continue to contribute positively to growth, albeit waning

After a couple of weak quarters mid-last year, trade dynamics improved in 4Q23 and 1Q24, marked by quarter-over-quarter growth of 3% in goods and services exports, compared to growth of 2.3% in imports. On the other hand, that momentum was interrupted in 2Q24, as noted at the start of this piece, with growth in exports slowing and imports actually contracting (due to services). Nevertheless, the outlook for the rest of 2024 has improved compared to when we drew up our last set of forecasts, due to:

- **The exceptional performance of the tourism sector**, as discussed here, and, above all, in **exports of non-tourist services** (here). Firstly, tourism should continue to drive growth all year long. The most recent figures point to new records in tourist arrivals, tourist spending and overnight stays. Moreover, exports of non-tourist services accounted for 2.3% of GDP in 1Q24, which implies doubling its contribution in less than two years. This positive trend is expected to continue in the coming years, even if it eases somewhat.
- The **recovery in the international trade in goods:** buoyed by a stronger economic performance in the eurozone and China in the coming quarters, which should drive some recovery in Spanish goods exports, helping shore up the trade balance.

The risks to this scenario have increased since our last set of forecasts (May)

However, while the international panorama looked relatively tranquil a few months ago (here), the situation has changed.

The US elections could imply an inflexion point for economic activity in Europe. Trump will look to reinstate and hike tariffs (and other impediments to free trade) on imported products, not only from China, but also from the EU (the structural bilateral trade deficit between the US and EU stands at over $200 billion). This new protectionist approach to US foreign policy could have a significant impact on the trend in exports of Spanish goods and services, hurting growth, particularly towards the end of 2024 and in 2025. The escalation of trade tensions could also increase the risk of an uptick in inflation in the short term by increasing the cost of imported goods along the supply chain. This could destabilise the remainder of the disinflation path if expectations become unanchored (something that has not happened to date).

Also, inflationary pressures in the services sector remain persistent. Higher nominal wage growth, combined with weak productivity, could make it harder for businesses to roll back price increases, creating more rigid wage - and indeed general price - inflation. This would imply slower monetary policy easing and could even do away with new rate cuts, therefore leaving rates at contractionary levels, affecting business expectations and investment decision-making in the coming years.

Table 1. Macroeconomic forecasts for the Spanish economy. Afi forecasts, 2024-2026

%YoY	2023	2024	2025	2026
Real GDP	**2,5**	**2,8**	**2,1**	**1,8**
Final consumption	2,3	2,0	1,8	1,5
Household	1,8	2,1	1,9	1,6
Public Sector	3,8	1,9	1,5	1,4
Investment	0,8	2,8	3,1	2,3
Capital goods	-1,6	2,0	3,9	2,3
Construction	2,3	3,5	2,0	1,5
Domestic demand (*)	**1,7**	**2,2**	**2,0**	**1,7**
Exports	2,3	4,1	3,2	3,7
Imports	0,3	2,5	3,1	3,6
External demand (*)	**0,8**	**0,6**	**0,1**	**0,1**

(*) Contributions to GDP growth

Source: Afi, INE

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