

The regions with a strong tourism sector and diversified productive structures grow faster in 2024

The Spanish regions that rely more heavily on tourism have sustained a strong recovery since the Covid-19 crisis, benefitting from the rebound in international tourism and spearheading the regional growth tables in 2024. All the regions have revisited their pre-pandemic GDP levels, but they've done so at different rates. The regions most exposed to industry and with less diversified productive structures have reported more moderate growth and higher unemployment.

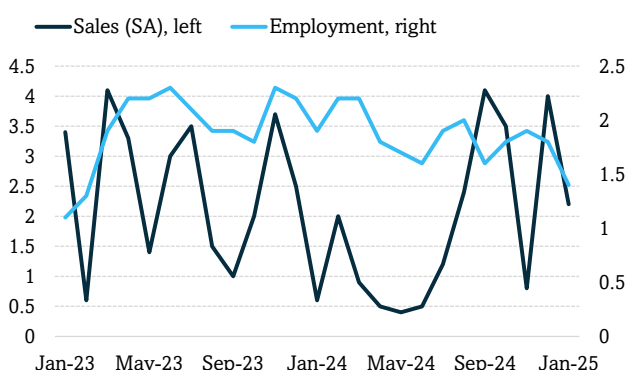
Retail sales:

Retail sales increased by 2.2% year-on-year in January, both adjusting for seasonality and calendar effects and without adjustments. That implies a slowdown in the adjusted series of 1.8 points by comparison with December, when sales rebounded by 4% year-on-year. Meanwhile, employment in the retail sector increased by 1.4% year-on-year, down 0.4pp from the December figure. This growth in sales and employment signals ongoing momentum in the retail sector, despite the slowdown.

Inflation:

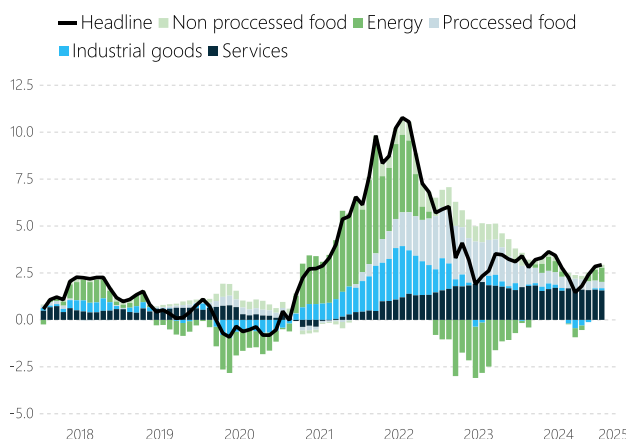
Inflation in February increased by 0.1 percentage points to 3.0% year-on-year, confirming the preliminary data. As for core inflation, the annual rate stood at 2.2%, 0.1 pp above the initial estimate. Notably, the housing component rose by nearly two percentage points, reaching an inflation rate of 9.8%, driven by higher electricity costs compared to the decline in February 2024. The main negative influence came from the transport sector, with a year-on-year rate of 0.3%, due to the moderation in fuel and lubricant prices. Good news from services inflation, which moderated two tenths of a percentage point, although it still remains above 3%.

Retail sales index (% YoY)



Source: Afi, INE.

Headline inflation and contributions (% YoY, pp)



Source: Afi, INE, Macrobond

...and what to watch for next week

From the 17th to the 21st of March		
17-Mar	Quarterly Labour Cost Survey	4Q-2024
	Services Sector Price Index	4Q-2024
	General Government Debt (advance)	January
	Goods Trade	January
21-Mar	Hotel Tourism Short -Term Trends	February
	Services Sector Activity Indicators	January

The regions with a strong tourism sector and diversified productive structures grow faster in 2024

The Spanish economy was remarkably dynamic in 2024, growing at an annual rate of 3.2%, spearheading growth in the euro area (+0.7% year-on-year). In this week's report, we go into more detail on the differences in economic growth across the 17 autonomous regions of Spain, their recovery since the pandemic and our forecasts for 2025.

Growth and productive structure

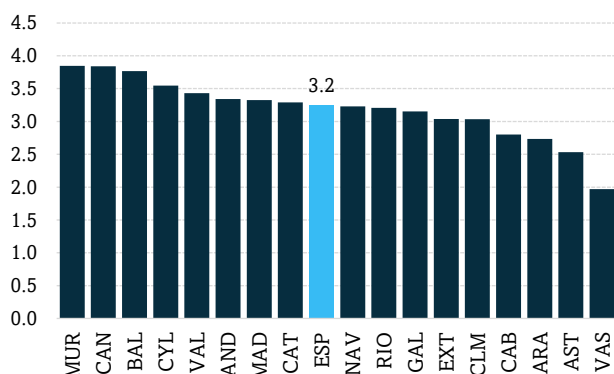
The regions more exposed to tourism registered stronger growth in 2024...

The Spanish economy's buoyant growth in 2024 was not evenly distributed across all its regions. The regions with higher exposure to tourism registered a more solid growth, with the Balearic and Canary Islands reporting annual growth of 3.8%. Notably, Murcia, even less reliant on tourism, posted economic growth of 3.8%, thanks to the trend in public consumption and its export sector (Exhibit 1). Elsewhere, the regions more dependent on industry and more exposed to the weaker environment of the euro area economy, including the Basque region and Aragon, posted more moderate growth.

...having been hit harder by the crisis induced by Covid-19.

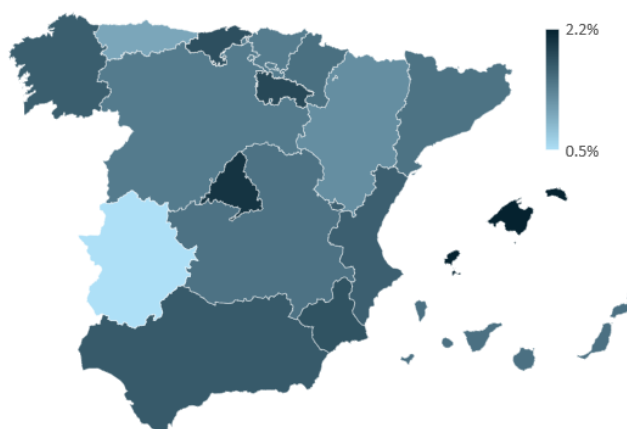
The Covid-19 crisis hit the regions more reliant on tourism harder: in the Balearic and Canaries Islands, tourism accounts for 35% and 30% of their GDP, respectively. The mobility restrictions and lockdowns imposed all around the world triggered annual GDP contractions of 23.7% in the Balearic Islands and of 19.8% in the Canary Islands in 2020. In the Balearic Islands, unemployment jumped from 10.6% in 2019 to 16.6% in 2020, increasing from 18.8% to 25.2% in the Canaries that year. The end of the pandemic and ensuing rebound in tourism drove economic recovery in both regions, which by the end of 2022, had revisited pre-pandemic levels and by 4Q24 were 10pp above their 2019 GDP.

Exhibit 1. GDP growth in 2024 (YoY %)



Source: Afi, INE

Exhibit 2. Average growth 2020-2024 (CAGR, annual %)



Source: Afi, INE

All of the Spanish regions have revisited their pre-pandemic GDP levels but have done so at different rates.

Nevertheless, all of the regions have revisited their pre-pandemic GDP levels, albeit doing so at different rates. The Balearic Islands and Madrid have led the recovery, posting compound average growth (CAGR) of 2.2% and 2.0% between 2020 and 2024, respectively (Exhibit 2). The islands have benefitted from the robust recovery in tourism, while the momentum observed in the country's capital is attributable to a diversified economic structure, the ability to attract investment and a recovery in international visitors to the city. At the other end of the spectrum, the economy in Extremadura has grown at a CAGR of 0.5% over the last five years, shaped by reliance on the primary sector, low industrialisation and less new investment.

Labour market

Unemployment in Madrid and Castile-León is under 9.5% and these two regions also recorded the highest growth in social security contributors in February.

The differences among the regions are amplified in the job market. In 2024, the national unemployment rate averaged 11.3%. Navarre and Cantabria reported the lowest average unemployment rates, of 7.6% and 7.8%, respectively (Exhibit 3). Weak economic activity in Extremadura translated into higher unemployment, an average rate of 15.5% in 2024 (down from 17.4% in 2023). Andalusia, despite reducing its average unemployment rate by 1.8pp by comparison with 2023, continues to present the highest rate of unemployment of the Spanish regions, at 16.5%.

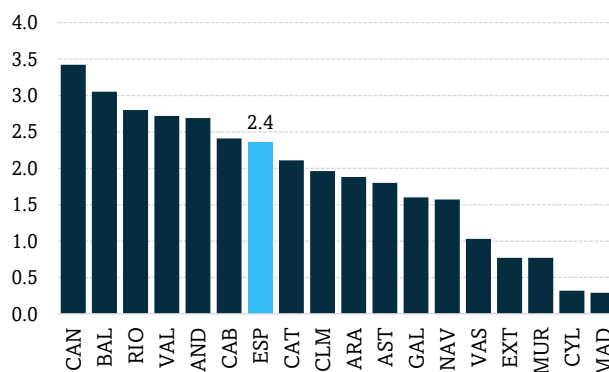
The social security contributor ranks increased by 100,340 in February in gross terms, year-on-year growth of 2.4%, a level of growth that is consistent with the gradual labour market easing we are anticipating for this year. The Canary Islands and Balearic Islands added the highest numbers of contributors, with growth of 3% year-on-year. At the other end of the table, contributors in Madrid and Castile-León increased by just 0.3% year-on-year.

Exhibit 3. Average unemployment rate in 2024 (%)



Source: Afi, INE

Exhibit 4. Growth in contributors in February 2025 (YoY %)



We are forecasting healthy economic growth in Spain in 2025, underpinned by consumer spending, a strong external sector and better (albeit insufficient) investment dynamics. Madrid and Murcia are expected to remain the biggest drivers, with forecast annual GDP growth of 3.2% year-on-year (Table 1). Conversely, regions with a greater reliance on the industrial sector – and therefore more exposed to euro area weakness and high international uncertainty – will experience the lowest growth in 2025, including the Basque Country (2.4% year-on-year), Asturias, and Cantabria (2.3%).

Table 1. Afi forecasts for GDP growth by region (annual %)

	2024	2025	2026
Spain	3.2	2.8	2.3
<i>Andalucía</i>	3.3	2.8	2.2
<i>Aragon</i>	2.7	2.5	2.1
<i>Asturias</i>	2.5	2.3	1.6
<i>Baleares</i>	3.8	3.0	2.2
<i>Cantabria</i>	2.8	2.3	1.8
<i>Castilla La Mancha</i>	3.0	3.0	2.5
<i>Castilla y León</i>	3.5	2.2	1.6
<i>Cataluña</i>	3.3	2.8	2.4
<i>Extremadura</i>	3.0	2.5	2.1
<i>Galicia</i>	3.2	3.1	2.3
<i>Islas Canarias</i>	3.8	2.6	2.0
<i>La Rioja</i>	3.2	2.5	2.0
<i>Madrid</i>	3.3	3.2	2.9
<i>Murcia</i>	3.8	3.2	2.6
<i>Navarra</i>	3.2	2.8	2.4
<i>Pais Vasco</i>	2.0	2.4	2.4
<i>Valencia</i>	3.4	2.5	2.3

Source: Afi, INE

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