

The slump in domestic demand in 1Q25 will require trimming our forecast GDP growth in Spain in 2025

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Highlights

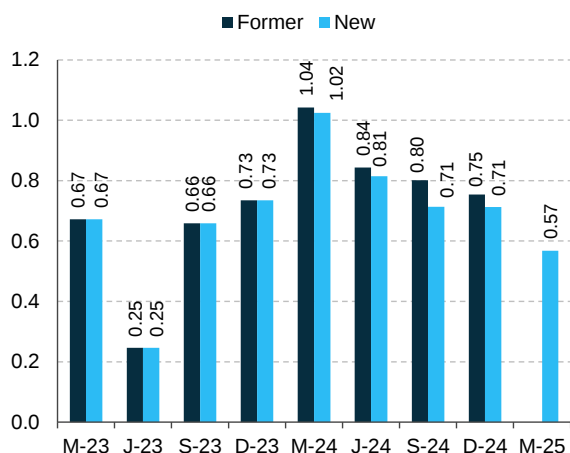
- GDP increased by 0.6% QoQ in 1Q25, 0.1pp below our forecast. The slowdown has been underway since last summer, according to the INE's revised quarterly statistical patterns.
- Domestic demand contributed 0.4pp to quarterly GDP growth in 1Q25, with external demand contributing 0.2pp. Exports of non-travel services in general and energy services in particular are behind the foreign sector's positive contribution to growth.
- Private consumption increased by 0.4% QoQ (vs. our forecast for growth of 0.9%). The reasons for the slowdown are unclear but may be due to a slump in growth in consumers (migratory flows) and/or average expenditure per consumer (precautionary attitudes in the current uncertain climate).
- Investment in capital goods was in line with potential output (+0.5% QoQ), while construction investment fell short of the expectations created by the need for post-flooding reconstruction work and to satisfy demand for housing.
- Export weakness (-0.3% QoQ vs. +0.2%e) confirms the delay in the recovery in eurozone demand. Exports of travel services continue to improve, but at a slower pace, as is mirrored in the tourist arrival figures.

1. The Spanish economy has slowed sooner and by more than expected.

GDP increased by 0.6% QoQ in 1Q25, 0.1pp below our forecast.

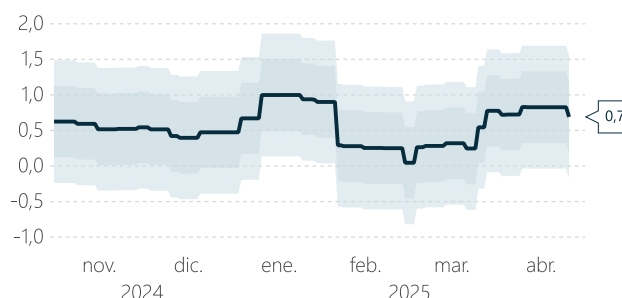
Spanish GDP grew by 0.6% QoQ in 1Q25 (still above potential output: quarterly growth of 0.4%), 0.1pp below our forecast and below the level foreshadowed by our nowcast model. Confirmation, therefore, of the slowdown in growth, albeit slightly more pronounced than we were estimating. Once again, we also have to talk about INE revisions to the series, this time mainly affecting the second half of 2024. With the revised statistics released today, the INE has confirmed that Spanish economic growth has been slowing since last summer: quarterly growth of 0.7% in 3Q24 and 4Q24, compared to the previously estimated rates of 0.8% which implied constant rates of growth. Despite the downward revisions to growth towards the end of 2024, the average annual rate is barely unchanged, at 3.2%.

Quarterly GDP growth (%): former and revised estimates



Source: Afi, INE

Nowcast forecast for GDP growth in 1Q25 (QoQ, %)*



* Percentage of quarterly figures available: 74.4%

Source: Afi, Macrobond

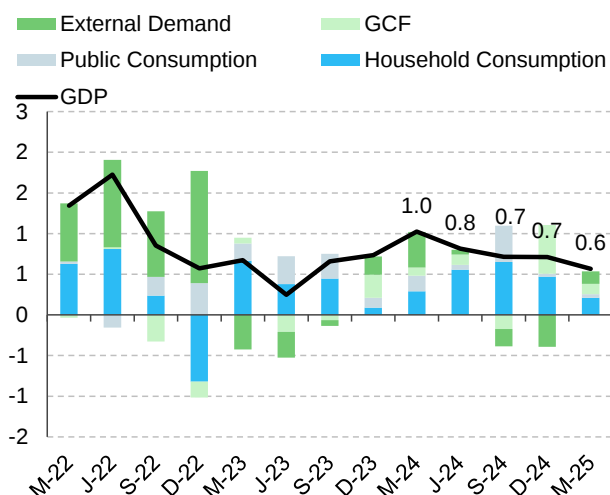
2. Growth in 1Q25 was more balanced than of late

Domestic demand contributed 0.4pp to quarterly GDP growth in 1Q25, with external demand contributing 0.2pp.

Growth in 1Q25 was more balanced than we were expecting and than observed for nearly all of last year. Domestic demand had been propping growth up until now and we expected that to remain the case for the start of 2025. Surprisingly, however, external demand contributed 0.2pp to quarterly growth. The deviation with respect to our assumptions and scenario is mainly attributable to the Spanish economy's ability to export non-travel services in general and to sell energy in particular. Significant generation of renewable energy (wind and solar) towards the end of 1Q and also the start of 2Q (covering internal demand and some of the energy demanded by France), thanks to favourable meteorological conditions, explains this phenomenon. The key, now, lies with the economy's ability to maintain this dynamic, in light of the problems caused this week by the major system blackout (while the official cause remains unidentified, it looks like a technical fault). It is probable that in the short term the contribution by this line of exports will remain relatively low (as it requires investment in storage mechanisms like batteries, as well as grid upgrades); however, in the medium and long term, this could be a competitive advantage for Spain (production of cheaper energy than other European countries, as we are already seeing).

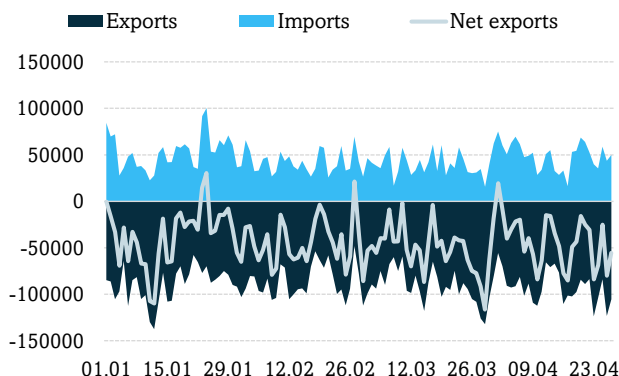
Despite this more balanced growth, key components of GDP performed below expectations and will very probably lead to a downward revision to our growth forecast for this year (which we will publish within the next few days).

Quarterly GDP growth (%) by component of demand



Source: Afi, INE

Energy export and import flows and Spanish trade balance between 1 January and 27 April 2025 (MWh)



Source: Afi, REE

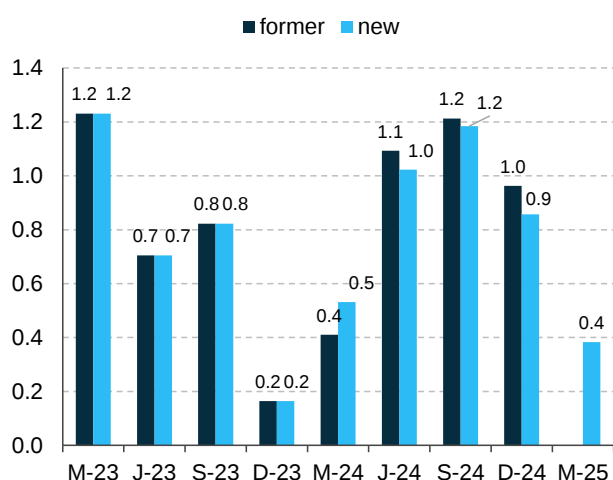
3. Private consumption grew by half as much as we were forecasting

Private consumption increased by 0.4% QoQ (vs. our forecast for growth of 0.9%). The reasons for the slowdown are unclear but may be due to a slump in growth in consumers (migratory flows) and/or average expenditure per consumer (precautionary attitudes in the current uncertain climate).

Consumption was weaker than expected, essentially household consumption, as public expenditure continued to grow in line with our forecasts (reflecting the end of the pay increases that explained the boom in this component in 2024). Private consumption increased a scant 0.4% QoQ, compared to our forecast for twice that amount (0.9% QoQ), as our private consumption tracker had been indicating until now. We do not yet have the breakdown between average expenditure and the number of consumers (a force due to the intense migratory flows Spain had been receiving) on which we had been basing our forecast (see [here](#)), but we fear that both components were behind the slump in household consumption in 1Q25. Most concerning, in our opinion, would be a setback in the propensity to spend per consumer in the current context of heightened uncertainty, as the onset of precautionary behaviour tends to be more complex and take longer to unwind if the current geopolitical tensions end up shifting to a more favourable scenario. However, a slowdown in migratory flows would also be of concern, as this would imply a constraint for growth in the short, medium and long term. And that would imply a risk for potential output which could well materialise, as it was a dynamic that was always going to be hard to sustain (due to the housing access difficulties facing immigrants and the need to commit strategically to productive factors other than labour, among other factors).

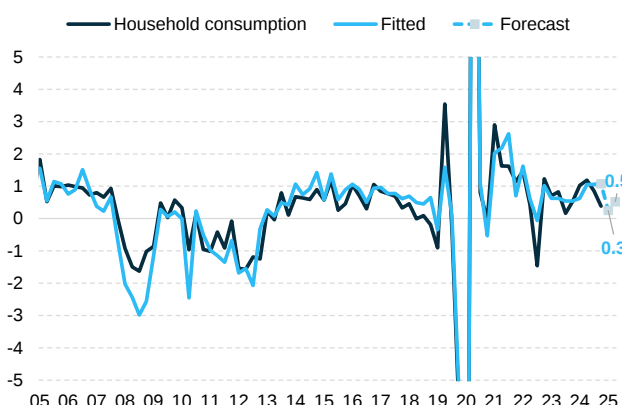
Although the first quarter tends to be weaker than the rest, continuity of these trends for the rest of the year would warrant more detailed analysis of the underlying driving forces: (i) spending power (slowdown in income and job creation); (ii) borrowing power (access to credit); and, above all (iii) risk aversion (which would require estimating to what extent continuation of the current uncertainty could end up prompting households to temporarily postpone certain spending decisions).

Quarterly growth in private consumption (%): former and revised estimates



Source: Afi, INE

Private consumption tracker for 2Q25 and 3Q25 (% QoQ)



Source: Afi, Macrobond

4. Investment in capital goods eased, as did investment in residential and other construction

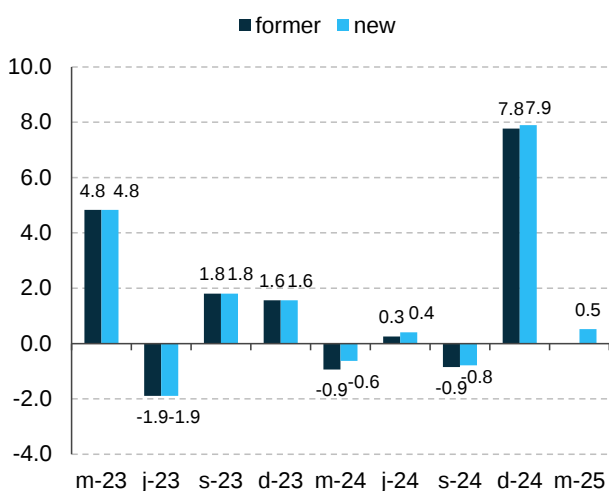
Investment in capital goods was in line with potential output (+0.5% QoQ), while construction investment fell short of the expectations created by the need for post-flooding reconstruction work and to satisfy demand for housing.

Investment also eased by more than we were expecting in 1Q25, affecting both capital goods and construction. Several thoughts about the recent trend and outlook:

- Capital goods. Growth was in line with its potential: 0.5% QoQ, whereas we were expecting quarterly growth of 2.1% for two key reasons: (i) carryover effect from the sharp growth recorded in 4Q24 (+7.9% QoQ, virtually unchanged in the INE's revised quarterly statistics); and (ii) the concentrated replacement of capital goods damaged by the flash floods. The delay in the latter (bottlenecks coming to light related with the ability of many sectors to respond to the demand from businesses and homeowner associations) leads us to think that this boost will be distributed more evenly throughout 2025, possibly diluting the quarterly growth we were forecasting for the rest of the year. At any rate, if the 1Q25 rate of 0.5% were to continue all year, the average annual rate would still be around 6.9%, due to the significant carryover effect generated by the sharp rebound recorded in 4Q24.
- Construction. Quarterly growth of 1.6% in 1Q25, whereas we were forecasting growth of around 2.3%. Investment fell short in both housing (0.4% QoQ vs.

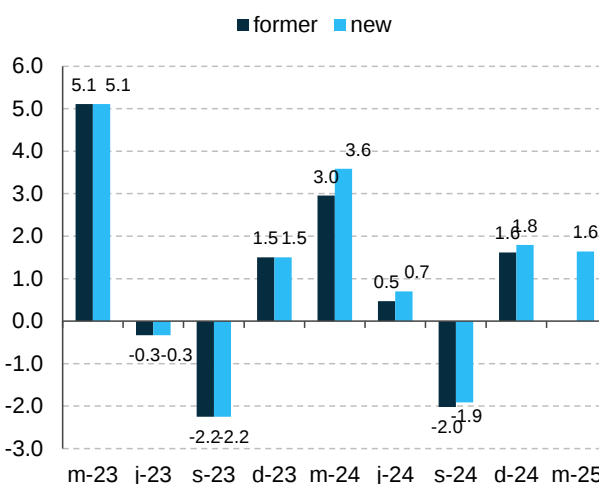
2.4%e) and in other construction (0.2% QoQ vs. 2.1%e). The intensity of the slump tells us that it is not only due to the delays in rebuilding in the wake of the floods (not so much the civil engineering work, which was concentrated in 4Q24, but rather public and private building work), but also perhaps other constraints (weather conditions, among others). Given the shortage of housing and the announcement of a specific public investment plan for industrialised construction, based in Valencia, this process, and by extension this component, should accelerate. However, the current climate of uncertainty could hinder the anticipated recovery in private investment. The prevailing geopolitical climate therefore warrants recalibration of the quarterly patterns.

Quarterly growth in investment in capital goods (%): former and revised statistics



Source: Afi, INE

Quarterly growth in investment in construction (%): former and revised estimates



Source: Afi, INE

5. Goods exports remain weak, offset by services exports

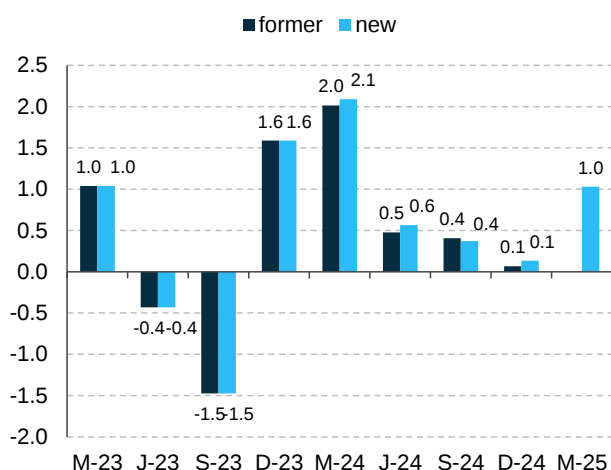
Export weakness
(-0.3% QoQ vs. +0.2%e) confirms the delay in the recovery in eurozone demand.

Goods exports remain weak (-0.3% QoQ vs. +0.2%e), albeit in line with the Datacomex figures. This indicates a delay in the recovery we were forecasting for this year, predicated on stronger demand from central Europe (where Spain's main trading partners reside). It therefore confirms that the recovery in European demand is not materialising, in line with the GDP growth figures due out tomorrow.

Services exports, however, were stronger than forecast: +3.5% QoQ vs. 2.2%e. As noted above, this was driven by non-travel services, especially energy service exports. Travel exports, meanwhile, registered growth of 1.8% QoQ, compared to

4.5% in 4Q24, evidencing a degree of slowdown that is also tangible in the international tourist arrival figures and the ongoing sector deseasonalisation phenomenon. Looking forward, hotel and flight bookings point to a more pronounced slowdown than we are contemplating in our forecasts.

Quarterly growth in goods and services exports (%): former and revised statistics



Source: Afi, INE

Quarterly growth in services exports (%): total and travel-related



Source: Afi, INE

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