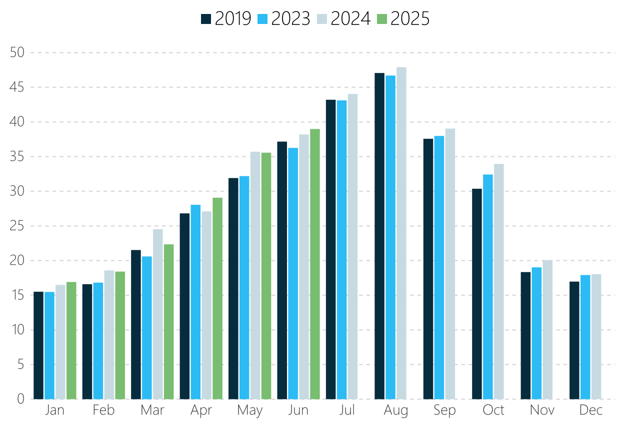
The LFS cements the outlook for a solid 2Q25 and leaves us poised to raise our GDP forecasts

The social security contributor figures already foreshadowed a strong quarter, free from import tariff fallout. Growth in employment has accelerated, signalling quarterly GDP growth of 0.8% in 2Q25. Balanced contribution sector-wise, with services spearheading the growth. Improvement across all employment quality metrics. The unemployment rate has fallen to its lowest level since 2008 (10.3%) despite growth in the foreign and dual nationality labour force, a trend we think could continue.

Tourism:

Overnight stays in hotels increased by 2.1% year-on-year in June to over 38.9 million. This growth was underpinned by international tourism, where overnight stays increased by 3.7%, compared to a contraction of 1.3% among residents. The Balearics, Catalonia and the Canaries accounted for over 70% of the non-resident overnight stays, with the UK and Germany as the main issuer markets (28.8% and 17.1%, respectively). Hotel occupancy also improved, filling 66.1% of the rooms on offer (+1.5pp YoY). In parallel, hotel prices increased by 5.2% year-on-year.

Overnight stays (millions)

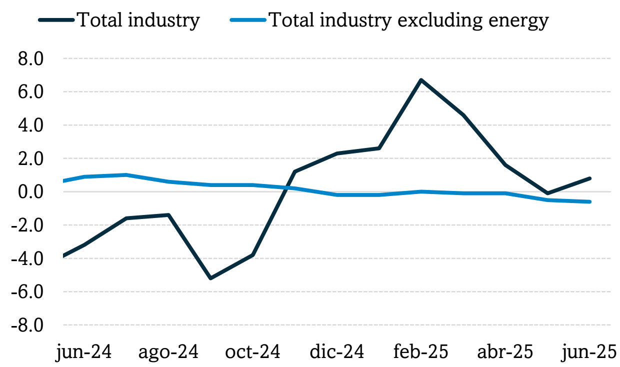


Source: Afi, INE

Industrial prices:

The industrial price index spiked to 0.8% year-on-year in June (+0.9pp from May), fuelled exclusively by energy prices (+3.5% YoY). Excluding the energy component, industrial prices corrected by 0.6%, due to weakness in intermediate goods (-0.7%). Month-on-month, the index increased by 3.2%, explained almost entirely by the sharp increase in the cost of electricity (+25.2% MoM), more than offsetting the contraction in the cost of animal feed and chemicals.

Annual trend in industrial price index (% YoY)



Source: Afi, INE

...and what to watch for next week

From the 28th of July to the 1st of August		
29-Jul	Quarterly Spanish National Accounts	2Q-2025
	Retail Trade Indices	June
30-Jul	CPI-HCPI (flash)	July
31-Jul	Survey of occupation in tourist accommodation	June
	Balance of payments	May
	Tourist Expenditure Survey	June
01-Aug	Tourist Expenditure Survey	June
	Tourist Movement on Borders	June
	Manufacturing PMI	July

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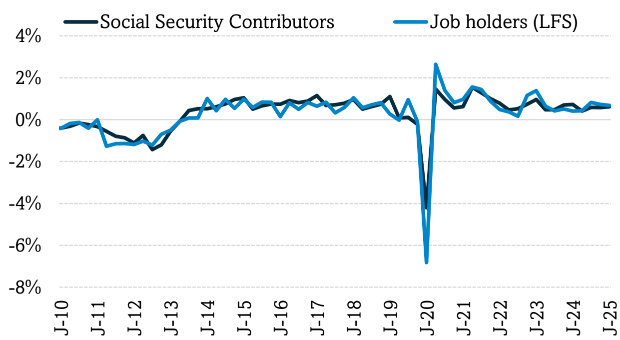
The social security contributor figures already foreshadowed a strong quarter, free from import tariff fallout.

Throughout 2Q25, the social security contributor reports foreshadowed a very strong labour market performance, as borne out by the labour force survey (LFS) published yesterday (Exhibit 1). Despite global trade tensions, tariff fallout appears not to have had any impact on the Spanish economy, as was foreseeable in light of the productive ecosystem's low exposure to tariff risks, especially by comparison with other European economies more dependent on the US for trade.

Growth in employment accelerated, signalling quarterly GDP growth of 0.8% in 2Q25..

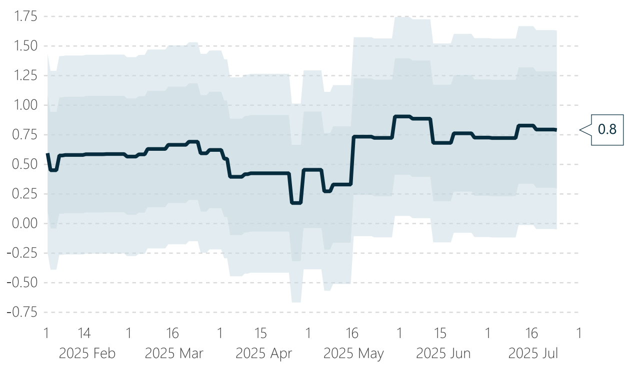
The number of people in work climbed by 503,300 in 2Q25, to 22.27 million, the biggest second-quarter increase since 2018. Adjusting for seasonality, employment increased by 0.68%Q, cementing our growth tracker, which is pointing to quarterly GDP growth of 0.8% in 2Q25 (Exhibit 2). If this estimate materialises, we would be looking at fresh acceleration of the Spanish economy, having slowed a little since last summer. 1Q25 growth came in at 0.6%Q. If the 2Q25 estimate of 0.8%Q proves on target, it would be double our most recent forecast for 2Q25 (which dates to the end of April). As a result, we will be raising our forecasts for 2025, after the national accounts are released, scheduled for 29 July (preliminary figures).

Exhibit 1. Social Security contributors and seasonally-adjusted LFS job holders (quarterly, %)



Source: Afi, Ministry of Inclusion, Social Security and Migration, INE

Exhibit 2. GDP growth tracker for 2Q25 (quarterly, %)

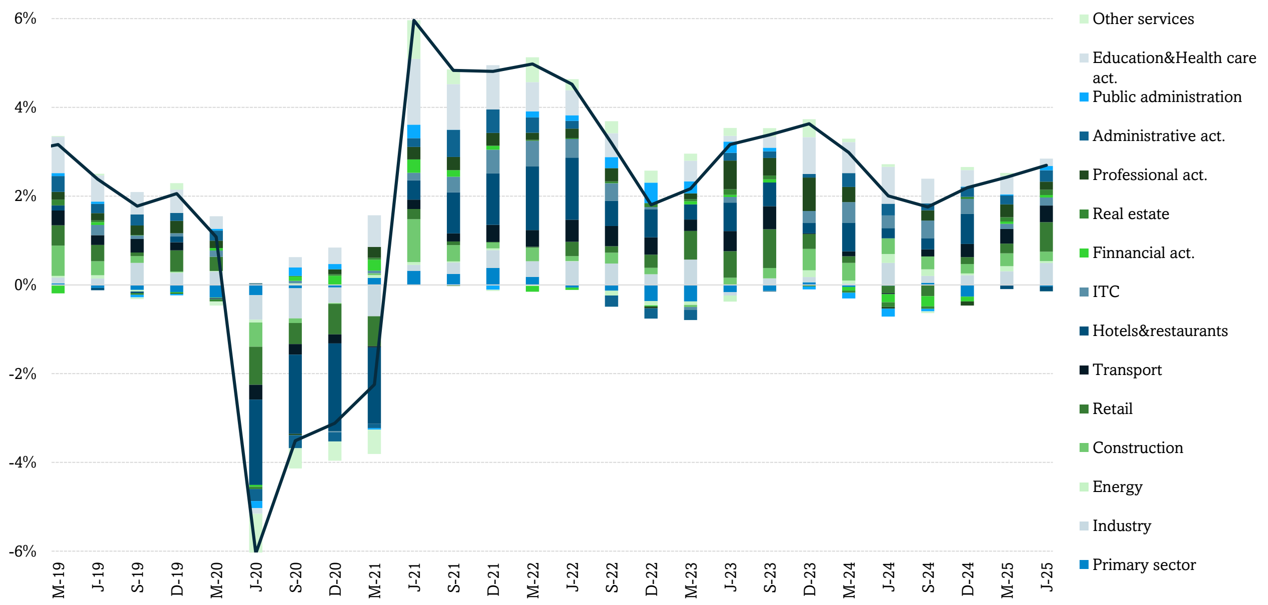


Source: Afi, Macrobond

Balanced contribution sector-wise, with services spearheading the growth.

A key aspect of the LFS is the wide and diverse spectrum of sectors contributing to the growth in employment, reinforcing the notion that the cycle is proving favourable for all areas of activity, without discrimination (Exhibit 3). Although the services sector continues to spearhead job creation, adding 364,800 new jobs in 2Q25, industry (+90,300) and construction (+45,400) are also very dynamic. Even the agricultural sector, traditionally more volatile, added 2,800 new jobs (net) in 2Q. This more sectorally-balanced growth pattern depicts a more resilient labour market and reduces its dependence on a single growth engine.

Exhibit 3. Contribution to the change in employment by area of activity (%)



Source: Afi, INE

Improvement across all employment quality metrics.

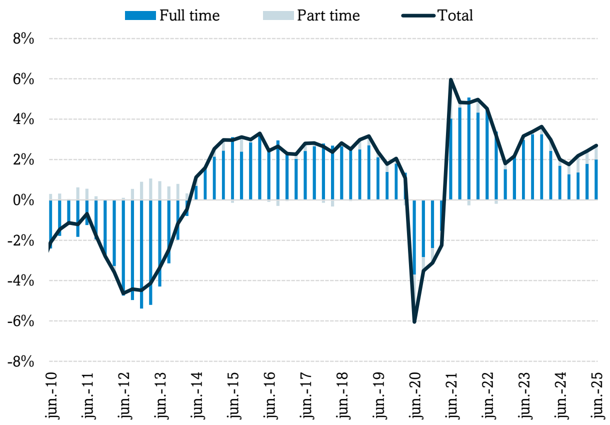
Aside from the volume growth, employment quality also improved in 2Q25:

- Full-time employment increased by 485,300 in 2Q25 (Exhibit 4), compared to much smaller growth in part-time employment (+18,000 people). As a result, the incidence of part-time work fell to 13.9% (down 0.2pp QoQ).
- In parallel, indefinite employment made strong inroads: the number of wage-earners on indefinite contracts increased by 354,600 in 2Q25, whereas the number on temporary contracts increased by 124,700 (Exhibit 5). As a result, the incidence of temporary work remained slightly above the 15% mark, holding steady at the level at which it has been hovering for the last 18 months, thanks to the impact of the last round of labour reforms making this type of arrangement less attractive.

The unemployment rate has fallen to its lowest level since 2008 (10.3%)…

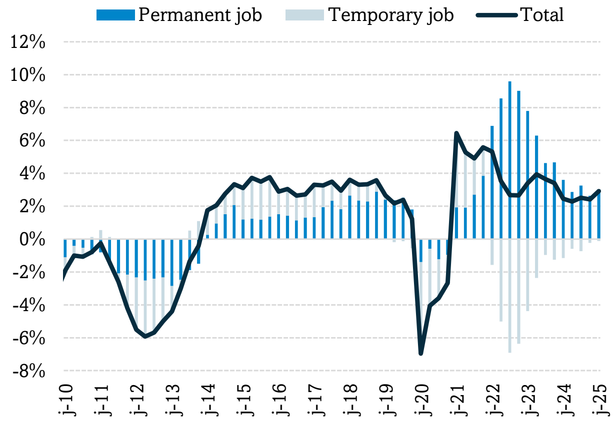
Momentum in the labour market is also evident in the trend in unemployment. The number of job seekers dropped by 236,100 in 2Q25 to just over 2.5 million people (Exhibit 6). This, coupled with the increase in participation, drove the unemployment rate to 10.29%, its lowest level since mid-2018, a milestone that confirms the solid nature of the recovery, albeit still one of the highest rates in Europe.

Exhibit 4: Contribution to the change in employment by length of working day (%)



Source: Afi, INE

Exhibit 5: Contribution to the change in employment by duration of employment contract (%)



Source: Afi, INE

… against the backdrop of growth in foreign and dual nationality worker participation…

The most significant aspect of this drop in the unemployment rate is that it comes about despite labour force growth (labour force participation increased by 267,200 people in 2Q25), indicating that the improvement is not attributable to a discouragement phenomenon but rather the labour market's genuine ability to absorb newcomers. In fact, if we decompose the change in participation in 2Q25 we see that the bulk of the growth is due to the arrival of people with dual or foreign nationalities (Exhibit 7), the cohorts which are, moreover, spearheading the growth in employment in recent quarters. This phenomenon suggests that the healthy performance of Spain's job market continues to lure people from abroad, a trend that could continue to fuel GDP and employment growth in the coming quarters. Spain could prove a destination for some of the Latin American people being deported from the US or a route to the European market. The risk is that this source of growth could be curtailed if the country cannot provide the permanent or temporary living solutions they need.

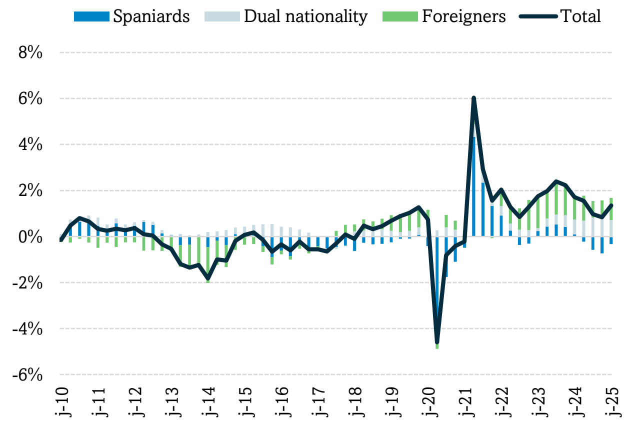
… a trend we think could continue in the coming months.

In short, growth in seasonally-adjusted employment is accelerating in Spain, foreshadowing quarterly GDP growth of 0.8% in 2Q25. The improvement is proving quantitative and qualitative, forging a more resilient labour market. Unemployment has fallen to its lowest level since 2008 (despite remaining relatively high by European standards) despite growth in the labour force, evidencing the Spanish economy's ability to attract new workers, particularly foreign and dual nationality workers, locking in a degree of traction for the quarters to come.

Exhibit 6: Official unemployment and seasonally-adjusted LFS unemployment (quarterly, %)

Source: Afi, INE

Exhibit 7: Contribution to the YoY change in labour force participation by nationality (%)



Source: Afi, INE

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