

The Spanish economy surprises the most optimistic analysts

All the indicators were suggesting that the growth of the Spanish economy was still strong, just as we have been stating in the pages of the CaixaBank Research *Monthly Report* in recent months. Job creation is not showing any signs of exhaustion and, in fact, it even accelerated in Q1 of this year. The business activity indicators have rebounded, both in the services sector and in industry. Industrial production also rebounded and household consumption is holding up well. Yet despite all this, the GDP figure published by the National Statistics Institute has exceeded even the most optimistic expectations. In Q1 2024, the Spanish economy recorded a quarter-on-quarter growth rate of 0.7%.

This figure reveals a buoyant economy, especially taking into account the context in which it has occurred, amid the uncertainty generated by the recent geopolitical tensions, an inflationary cycle that, although moderating, is not yet over, and interest rates at their highest levels in over 10 years. Europe's other main economies have also recorded an acceleration in their growth rates in Q1, yet their growth is clearly lower than that of Spain's, which makes the figure all the more remarkable.

When we take a closer look at the factors supporting this growth, important nuances emerge. It is largely supported by the foreign sector and, more specifically, by the strong boost provided by service exports, which grew by 11.1% and now lie 37.0% above their pre-pandemic levels. Since the growth of imports was more timid, the contribution of the foreign sector to economic growth was 0.5 pps.

Domestic demand also played an important role. In Q1 2024, of particular note is the leap made by investment, both in construction and in capital goods, recording growth rates of 3.0% and 3.7%, respectively. Although in both cases they still remain far from their pre-pandemic levels, and last year their growth was very weak, this recent turning point is significant. Household consumption did not offer any surprises and maintained a modest rate of growth, at 0.3%, in line with what was anticipated by [CaixaBank Research's real-time consumption](#) tracker. In any case, given the current state of household finances, with a higher-than-usual savings rate, there is plenty of scope for consumption to drive up the growth rate. This could happen when the ECB cuts interest rates and households perceive that the inflationary cycle has finally come to an end.

The various sectors of the economy have followed very disparate patterns in recent years. First the pandemic, and then the energy and inflationary crisis, affected each one very differently. The latest available data show that the sectors that have performed the best in recent years continue to enjoy dynamic growth. For example, the manufacturing industry grew 3.3% year-on-year and now lies 7.0% above pre-pandemic levels. Above all, however, it is the services sector that stands out, particularly information and communications, and professional, scientific and technical activities. These sectors grew by 5.3% and 2.3%, respectively, and now lie 19.6% and 10.1% above their pre-pandemic levels.

The buoyancy of these three sectors is particularly relevant, as they are sectors which tend to show the highest productivity growth. Thus, while GDP growth per hour worked in the Spanish economy since 2014 stands at around 0.5% on average, these sectors show a productivity growth rate of over 1% during this period.

The better performance of the economy at the start of the year, together with the different factors that are driving it, will force us to improve our CaixaBank Research forecast scenario soon. Currently, we forecast growth of 1.9%. However, following the publication of these data, and if there are no new plot twists on the international stage, Spain's economic growth this year could approach 2.5% and thus maintain a very similar growth rate to last year.

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