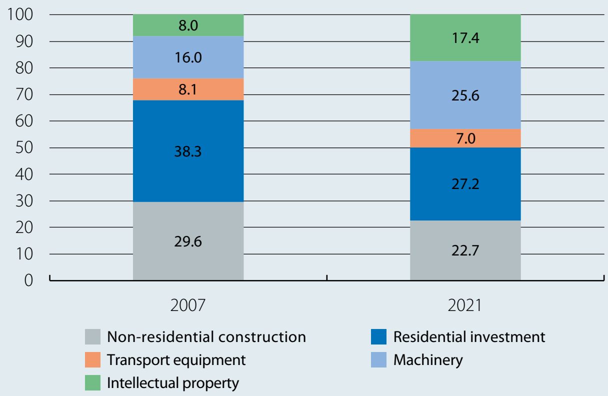
Long-term investment trends in Spain

Investment plays a key role in determining a country's economic growth potential. The quantity and quality of the stock of a country's productive capital largely determines its ability to adapt to economic transformations and, therefore, its economic growth. Therefore, one of the main challenges in order for the Spanish economy to successfully navigate the current context of rapid technological innovations is to reorient its productive factors. This is a necessary step in order to boost productivity and facilitate the transformation of the country's productive model.

This is the first of two articles devoted to the analysis of investment in Spain. In this first article, we will explore the changes that have taken place in the last decade in the composition of investment in Spain. The second one, meanwhile, focuses on investment trends since the beginning of the pandemic, as well as the signals that can be drawn from the latest investment indicators.

Spain: structure by type of investment
(% of total investment)



Source: *CaixaBank Research, based on data from the National Statistics Institute.*

Structural changes in the composition of investment

The first chart shows a comparison between the structure of investment in Spain in 2007, the year before the start of the financial crisis, and in 2021, the last year for which data are available. Several messages can be drawn from the chart. First of all, we see a sharp fall in the relative weight of investment in construction in the last 14 years, including both non-residential construction and, above all, residential construction. Whereas investment in construction accounted for almost 68% of total investment in 2007, by 2021 this proportion had fallen to around 50%. Of course, this decline reflects the sharp contraction in the housing market since the financial crisis, which has led to a structural shift in the relative weight of this sector in the economy as a whole: investment in construction (residential and non-residential) in 2021 stood 41% below the level of 2007 (in real terms).

Secondly, we see that investment in both machinery and intellectual property – the latter mainly materialising in the form of intangible assets – have seen their relative weight significantly increase, especially in the case of investment in intangible assets, which has more than doubled as a proportion of the total between 2007 and 2021. The greater role of these categories not only reflects an automatic impact resulting from the sharp fall in construction investment, but it is also the result of significant growth in investment in absolute terms: investment in intangibles in real terms was 43% higher in 2021 than in 2007, while investment in machinery was 20% higher. The rise of investment in intangibles is linked to the phenomenon of digitalisation – a technological transition which is revolutionising productive processes across the economy and which is more intensive in this type of investments.[1] The growth of investment in machinery, meanwhile, reflects the recovery of the industrial sector in the wake of the financial crisis, the investment needs associated with the pre-pandemic digitalisation process, as well as the rotation that the Spanish economy experienced during the recovery years as it shifted towards a more export-intensive economy – a transition which required significant investment.

Converging on European investment patterns

How does the pattern of investment in Spain compare with that of the major European economies? Let us first make a comparison in relative terms and then in terms of the structure of investment.

The second chart shows the pattern followed by investment in Spain and other major euro area economies as a percentage of GDP. We see how investment in Spain reached as high as 30% of GDP in the run-up to the financial crisis. This is much higher than in neighbouring economies and was fuelled by the strong growth in construction investment. We also see that the correction in the real estate sector beginning in 2008 had a significant impact on investment: by 2013 investment had fallen to a low of 17.2% of GDP. Since then, and driven by the categories mentioned earlier, investment has been recovering lost ground and has stood at around

1. Unlike more traditional investment assets, intangible assets lack a physical component. They include investment in software, patents, databases and training, among others.

20% of GDP since 2019. However, although it is not far off, we see that investment in Spain is still somewhat below that of countries such as France and Germany.

How does the structure of investment in Spain compare with that of other European economies? As can be seen in the third chart, the structure of investment in Spain in 2021 was quite similar to that of other large European economies. In particular, we see that the relative weight of investment in construction in our economy is similar to that of others and, with the exception of certain idiosyncratic cases, the same can be said of investment in intangibles and in equipment and transport goods.

However, although the structure of investment in Spain today is similar to that of the large European economies, this was not the case 10 years ago. At that time, investment in construction in Spain represented a much higher proportion of the total compared to the other major European countries, while investment in intangibles was much lower. Thus, the gap in the cumulative capital invested in intangibles and machinery is still substantial. As an example, according to data from EUKLEMS, in Spain in 2016 (the last available figure), the level of capital in intangibles amounted to 6,750 euros per worker, compared with 13,300 euros per worker in France and 10,450 euros in Germany. Thus, given that the percentage of GDP we allocate to investment is similar to that of France or Germany, in the case of Spain we would need to allocate a higher proportion of total investment to these categories compared to those other economies, and for a longer period of time, in order to converge on their level of investment in terms of capital per worker.

In this regard, the European funds from the NGEU programme are a key element. Not only will they provide a boost to investment, but if the projects are well chosen they also offer a unique opportunity to modernise the productive assets of the Spanish economy.

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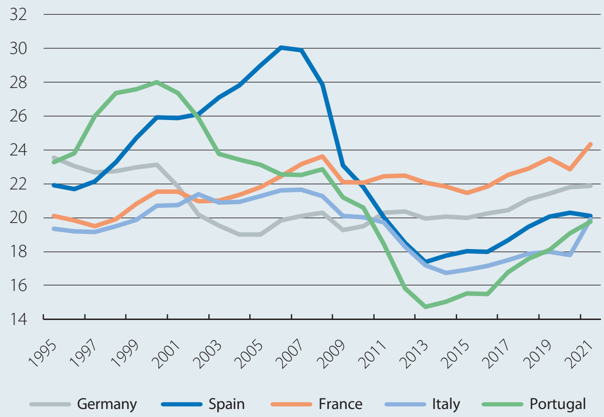
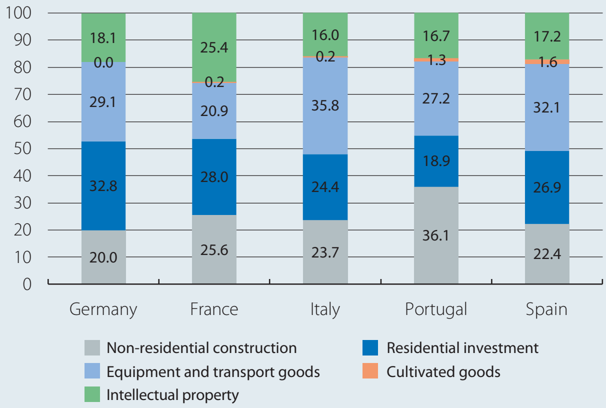
Euro area: investment
(% of GDP)



Source: *CaixaBank Research, based on data from Eurostat.*

Euro area: comparison of the structure of investment by component
(% of total investment)



Source: *CaixaBank Research, based on data from Eurostat.*