

Will the Spanish economy hold out?

Will the Spanish economy hold out or end up slipping into recession? That is the question on everyone's lips right now. Since we began using Google, never before have we written the word «recession» so often in the search bar. The level of concern has surged throughout the world, including in Spain. In our case, the latest published data show an economy that is maintaining a buoyant growth rate, especially given the difficult current context. However, the fronts that loom on the horizon have fuelled fears that the recovery could end up being derailed, and we are forced to revise our forecast scenario for the Spanish economy.

For the time being, there are particularly encouraging signs from both the rate of job creation and the quality of the employment being generated. In June, the number of jobs created was higher than expected, with an increase of over 75,000 people in seasonally adjusted terms (almost double the average of the previous five months), and the number of people employed hit a new record high. What we see on the horizon offers little cause for optimism, but these good figures should not go unnoticed. It is true that the bulk of the employment was generated in the services sector, especially thanks to the strength of the tourist season, but the other sectors are also showing higher levels of employment than before the pandemic. In addition, there is a sustained reduction in the temporary employment rate, which has been one of the major challenges of the Spanish economy for decades. Thanks to the improvement in the quality of employment being generated, it has fallen by 7 pps compared to June last year and now stands at 20% – an unthinkable milestone until only recently.

The strength of the labour market is one of the key aspects underpinning household consumption, which despite the increase in inflationary pressures has remained buoyant throughout Q2. According to CaixaBank Research's consumption tracker, spending with CaixaBank cards in Q2 was 13% higher than in the same quarter of 2019, compared to 10% higher in Q1. Expenditure was particularly strong in the retail sector, as well as in leisure, catering and hospitality.

Tourism, which was one of the sectors hardest hit during the crisis and which also experienced difficulties getting back off the ground due to the continued restrictions on international mobility, has finally joined the broad economic recovery. Over the past few months its buoyancy has become evident and it is exceeding our good expectations. This is evidenced by the rapid recovery of spending with foreigners' bank cards registered on CaixaBank POS terminals, as well as by the international flight data, despite the restrictions imposed in some countries. In addition, the high number of Google searches for terms related to travel to Spain suggests that the sector will continue to enjoy a dynamic recovery in the coming months.

All this suggests that the GDP growth rate in Q2 could be higher than our forecast of 0.4% quarter-on-quarter. In Q3, the good tourist season will most likely ensure that the pace of growth remains relatively strong. Despite the growing pessimism, the short-term outlook is relatively positive.

However, as we extend the forecast horizon, the questions mount, as do the fears. On the one hand, it seems that the factors pushing up energy and food prices will persist for longer than expected. Thus, the headline inflation rate could remain at around 8% for the next several months, and we will probably have to wait until the end of the year to see a downward trend. Moreover, the inflationary pressures observed both in Spain and across the euro area as a whole will force the ECB to gradually but steadily raise interest rates over the coming months. All this will erode growth in consumption and investment. Exports will also feel the impact of the slower growth of our trading partners.

The picture certainly does not look encouraging. However, it should be stressed that while all this will likely curb the pace of progress relative to our expectations, the new scenario still reflects positive and fairly solid growth rates in the short and medium term. We continue to anticipate growth for 2022 in excess of 4%. For 2023, the downward revision is substantial, specifically from 3.8% to 2.4%, due to the greater persistence of the inflationary pressures and because that is when the tightening of financial conditions will have an impact. Nevertheless, we continue to anticipate solid growth for the year as a whole, largely thanks to the resilience of the labour market, the pent-up savings, the deployment of the NGEU programme and the consolidation of the tourism sector's expansion.

In order for this scenario to be realised, it is key that the pressures on energy and food prices do not escalate and that the second-round effects are contained. The first factor is not up to us, but the second one is. It is also very important that the process of normalising financial conditions can be carried out gradually and smoothly. To a large extent, the scenario depends on factors that are difficult to foresee, such as which policy China will pursue in combating COVID or what course the war in Ukraine will take. In this regard, it is important that the doubts surrounding the supply of gas from Russia are dissipated in the coming months, or the outlook could deteriorate significantly. The holiday season is finally just around the corner, but it seems that this summer we will not be able to fully disconnect: besides sunbathing, sightseeing or enjoying cultural tours, we will have to keep one eye on political and economic events.

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