The Spanish economy holds up well, but the medium-term risks still loom large

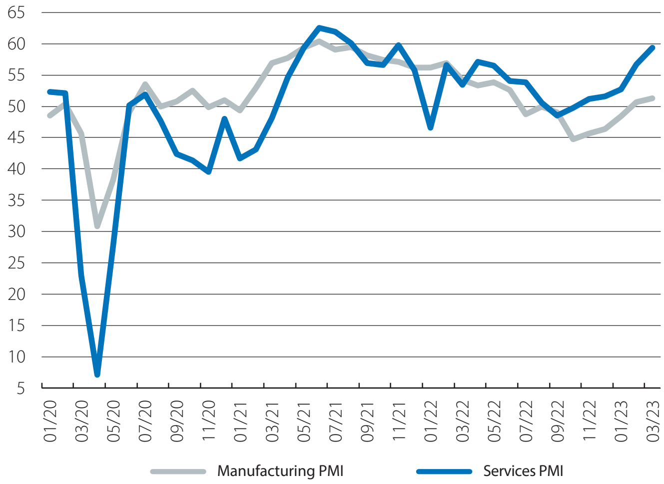
The improvement in the supply shocks, with the correction in energy prices and the easing of the bottlenecks, together with the fiscal support measures and the strength of the labour market, are contributing to better-than-expected economic activity. Indeed, this is even leading to an upward revision of GDP growth forecasts for 2023. However, the transmission of a more pronounced tightening of the financial conditions than had been anticipated a few months ago, as well as the potential blow to confidence dealt by the Silicon Valley Bank (SVB) episode and the ensuing financial turbulence, could take a toll on economic growth in 2024. Thus, the Bank of Spain has raised its forecast for 2023 by 0.3 pps, to 1.6%, but it has lowered the forecast for 2024 by 0.4 pps, placing it at 2.3%.

The indicators published in the opening months of the year offer generally encouraging signals. The Purchasing Managers' Index (PMI) for the manufacturing sector stood in expansionary territory in Q1 (above 50 points, specifically at 50.1 points) for the first time since Q2 2022. In the case of services, the PMI rose to 56.3, the highest figure since Q4 2021. In addition, the tourism sector has got off to a strong start in 2023 and the outlook for the summer season is very good: tourist arrivals in January-February were just 1.3% below the same period in 2019 (–5.5% in Q4 2022) and foreign tourists' spending exceeded the level of January-February 2019 by 12.9%.

On the demand side, the European Commission's consumer confidence index has continued to climb, reaching its highest level in the past year in Q1 (–23.2 points vs. –28.2 in Q4 2022). The improvement in the climate of household confidence, together with the increase in job creation, is reflected in the better pattern in consumption during the opening stages of the year. Retail sales in terms of volume, corrected for seasonal effects and excluding spending at petrol stations (which was greatly affected by the withdrawal of the government's petrol price reduction), grew by 2.4% quarter-on-quarter in January-February (2.0% in Q4 2022). CaixaBank Research's consumption tracker registered an 8% year-on-year increase in the usage of Spanish bank cards in Q1 as a whole, exceeding the figure for Q4 2022 (6%).

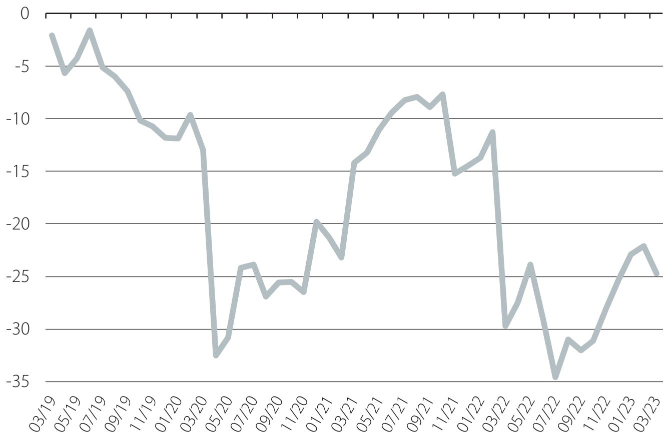
The labour market continues to produce positive surprises, with the pace of job creation intensifying. The Social Security affiliation data for March confirm the excellent momentum in employment: in seasonally adjusted terms, there was an increase of 151,943 registered workers, marking the biggest rise since June 2021, when the lifting of restrictions due to the pandemic led to rapid growth. With this figure, effective employment (seasonally adjusted registered workers not on

Spain: PMI
Level



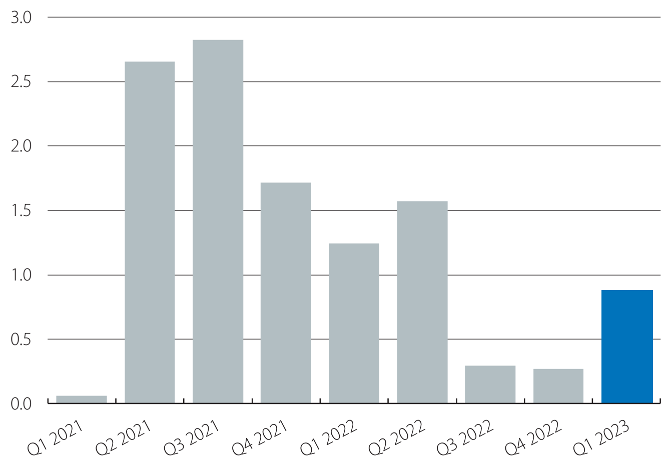
Source: *CaixaBank Research, based on data from IHS Markit.*

Spain: consumer confidence indicator
Level



Source: *CaixaBank Research, based on data from the European Commission.*

Spain: registered workers affiliated with Social Security
Quarter-on-quarter change (%)



Note: *Seasonally adjusted series of registered workers not on furlough.*
Source: *CaixaBank Research, based on data from the Ministry of work, migration and social security.*

furlough) grew in Q1 2023 by 0.9% quarter-on-quarter, representing a notable acceleration compared to the growth of the previous quarter (0.3%).

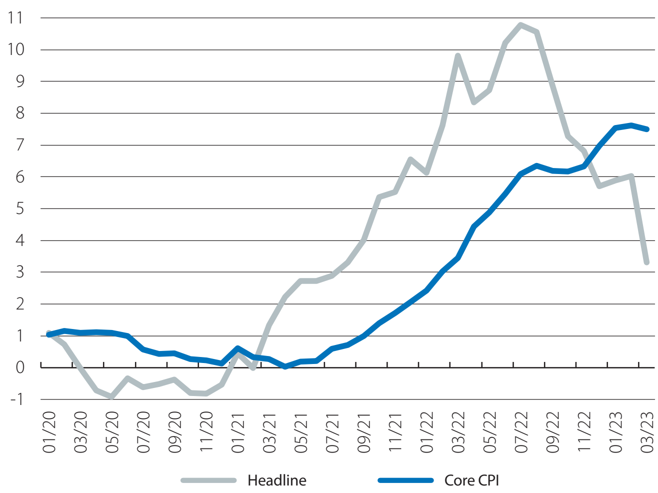
Food prices, the main driver of inflation. According to the flash indicator revealed by the National Statistics Institute, headline inflation fell sharply in March to 3.3% (6.0% in February), marking what would be the lowest level since August 2021. This correction was due to the base effect generated by the increase in energy prices in March 2022, which according to our calculations would have subtracted around 3 pps from headline inflation. In contrast, core inflation (excluding fresh food and energy), driven above all by higher processed food prices, remains very high, although it registered a slight decline in March for the first time in five months (7.5% vs. 7.6% in February).

Signs of cooling in the housing market. Housing prices, according to data from the National Statistics Institute, closed 2022 with significant growth (7.4%), albeit with a slowdown during the course of the year: in Q4 2022 they recorded a fall of 0.8% quarter-on-quarter, after rising 1.7% in Q3. On the other hand, home sales showed some volatility, increasing by 6.6% in January following a weak December (–10.2% year-on-year). Despite this encouraging figure, the rate of transactions is showing signs of slowing down: whereas sales grew by around 23% year-on-year during the first half of 2022 on average, in the last three months the growth rate stood at around 2% year-on-year.

The budget deficit closed 2022 at 4.8% of GDP. The general government deficit amounted to 63,776 million euros in 2022, equivalent to 4.8% of GDP (6.9% in 2021). In a context of strong economic growth and job creation, revenues increased by 8.1%, well in excess of expenditure (3.8%). The deficit, although high, has fallen below the government's forecast of 5.0% of GDP mentioned in the last Budget Plan sent to Brussels. Public debt, meanwhile, closed the year at 1.5 trillion euros, 75,267 million more than at the end of 2021. That said, in terms of GDP, the ratio fell to 113.1%; this is 5.2 pps less than in 2021, although still well above 2019 levels (98.2%).

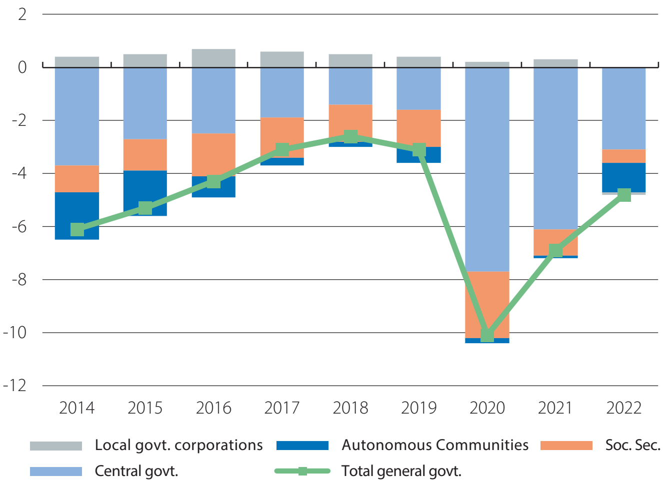
The foreign sector starts the year on a good footing. The trade deficit stood at 3,956 million euros in January, significantly lower than in January 2022 (–6,523 million). By component, both the energy and the non-energy deficits saw a correction. The energy deficit fell to 2,849 million from 3,359 million a year earlier, thanks to the drop in the volume of imports (–2.0% year-on-year), in a context marked by a sharp slowdown in price growth. The non-energy balance, for its part, stood at –1,107 million (–3,164 million in January 2022), thanks to the greater buoyancy of exports (13.8% growth vs. 4.7% in the case of imports).

Spain: CPI
Year-on-year change (%)



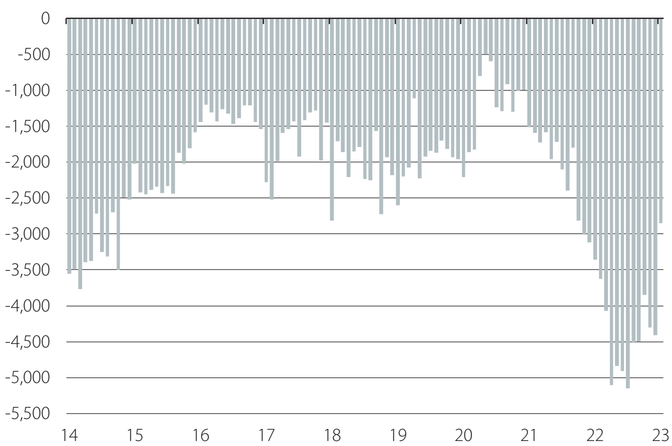
Source: *CaixaBank Research, based on data from the National Statistics Institute.*

Spain: general government balance
(% of GDP)



Source: *CaixaBank Research, based on data from the Ministry of Finance.*

Spain: energy trade balance
(EUR millions)



Note: *Monthly data on energy products according to the Standard International Trade Classification (SITC).*
Source: *CaixaBank Research, based on data from the Customs department.*