

The Spanish economy starts the year on a good footing

This month, the editorial tone of the Monthly Report will be different from that of recent editions. The environment is highly uncertain and we usually reflect this, analysing in detail the factors that could potentially affect the course of the economy. In addition, we usually focus on those which are of most concern, so the overall tone often ends up being more sombre than desired. It is a bias that we economists often succumb to. However, this month the performance of the main indicators of the Spanish economy has been better than expected. GDP and employment growth have been higher than anticipated, while inflation, with a significant decline in the core component, has begun to show signs of moderation. This is worth emphasising.

As some of the flash indicators had already suggested, in Q1 2023 GDP growth accelerated, standing at 0.5% quarter-on-quarter. That means it has now practically reached the pre-pandemic level (it is just 0.2% below). In addition, the National Statistics Institute revised the growth figures for the second half of last year upwards, resulting in a significant knock-on effect for this year. For illustrative purposes, even in a hypothetical scenario with quarter-on-quarter growth stagnating at 0% for the remainder of the year, the figure for 2023 as a whole would be 1.6%. Since all the indicators point to growth remaining positive, we will soon have to revise our forecast upwards, likely placing it around the 2% mark.

The revival of the Spanish economy is not based on household consumption, which, weighed down by the high inflation, is still 5% below pre-pandemic levels. In fact, the consumption of Spanish households within the country has fallen by 1.5% in real terms in the last two quarters (in nominal terms it does show a positive growth rate). However, this is more than offset by the strong performance of exports of goods and services. The growth in service exports particularly stands out, climbing by a remarkable 21% in Q1 this year.

In addition, the recovery of the Spanish economy is being accompanied by an improvement in productivity and employment. In previous crises, job destruction tended to exceed the decline in economic activity, so productivity increased. During periods of recovery, in contrast, employment would experience rapid growth, while that of productivity would be modest. This time is different.

During the pandemic, the mechanisms put in place to protect jobs, such as the ERTE furlough schemes, prevented a bigger rise in unemployment, but they also led to a significant decline in productivity (because the fall in activity was greater than that of the volume of hours worked). This protected labour relations, as well as the incomes of many households, but the extent to which it would end up affecting the recovery of the economy, and that of productivity in particular, remained to be seen. On the one hand, the protection of labour relations could facilitate the economic revival, thus favouring a rapid recovery in productivity. But on the other hand it could hinder them if the protection mechanisms made it difficult for companies to adjust.

Now, with the pandemic finally behind us, we can see that the pace of productivity growth has been significant. So has that of employment. In Q1 2023, employment registered the best performance of the past 15 years. As for productivity (measured in terms of hours actually worked), whereas in the last expansionary cycle, between 2014 and 2019, it grew at a rate of 0.5% per year, in 2022 the rate of progress stood at 1.4%. The start of 2023 has been even better, as growth in Q1 has accelerated to 2.3% and is already above pre-pandemic levels. Moreover, the recovery in productivity is fairly widespread across the various sectors, with trade, transportation and hospitality registering the most notable increases, as well as professional, scientific and technical activities.

Over the coming months, the Spanish economy will have to continue to navigate an adverse and complex international environment. The growth rate of its main trading partners is likely to remain modest, and we cannot rule out some of them even going into recession. In addition, the interest rate hikes being implemented by the ECB will continue to put pressure on households' and businesses' spending and investment capacity. It will be difficult for the Spanish economy to maintain the pace of growth of Q1. But, for now, it has started the year on a good footing.

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