

Consumption hoists up the Spanish economy

The pace of growth of the Spanish economy has slowed, as evidenced by the lower GDP growth rate recorded in Q3. The main reason for this is the weakness of the external environment: the euro area has registered a slight decline in economic activity and its three main economies are stagnant. In contrast, the statistics for household consumption in Spain, one of the pillars of the economy, remain strong.

In general, household consumption fluctuates less than the economy as a whole throughout the business cycle. Thus, when we are in an expansionary phase, consumption tends to grow at a slower rate than GDP. In contrast, when GDP growth moderates, consumption tends to do so more gently. This is the pattern that we will probably observe in the coming quarters.

But not all types of consumption behave alike. There are certain categories, such as leisure, catering, textiles and fashion and other durable goods which experience bigger fluctuations than the economy as a whole, and these are usually a good indicator of where in the cycle the economy lies. In contrast, spending on essential goods, such as food and purchases at pharmacies, is more stable over time.

For instance, during the last two recessions, the consumption of durable goods fell more than twice as much as aggregate consumption. However, between 2014 and 2019, the latter increased by 14%, while spending on durable goods grew by 42%. The recovery after COVID-19 has followed a similar pattern: whereas total household consumption only recovered the pre-pandemic level in Q3 2023, the consumption of durable goods reached this milestone over a year ago and it now stands 7% above that level.

The latest available data continue to offer a broadly positive message, albeit with some important nuances. According to CaixaBank Research's Real-Time Consumption Tracker, face-to-face and online spending using CaixaBank cards, plus cash withdrawals, grew by 3.8% year-on-year in October. This is a significant rate of increase, albeit somewhat less than the 5.5% recorded in Q3. On the other hand, when we analyse the various items of expenditure, we observe differences that corroborate the aforementioned peculiarities in how consumption behaves.

Spending on essential goods continues to show strong growth in excess of 10%, partly due to the sharp year-on-year increase in food prices. In contrast, the items that are more sensitive to the business cycle show different trajectories. On the one hand, spending on leisure and catering continues to go from strength to strength, while at the opposite end of the spectrum retail spending was weaker and even registered negative growth rates. This is most likely not a sign of weakness, but rather a consequence of the high autumn temperatures, which have led people to postpone certain purchases which they usually make at this time of year. Now that the cold finally seems to have come, we may see a normalisation of this pattern. We will be able to verify this hypothesis in real time using the [CaixaBank Consumption Tracker](#), which you can view on our website.

Over the next year, consumption is likely to consolidate its role as the primary force sustaining the Spanish economy. On the one hand, some of the factors that have limited its recovery to date will likely fade. Inflation, for instance, ought to settle into a downward trajectory, especially the core indicator which is still relatively high. On the other hand, the ECB's reference interest rates are not expected to increase any further and, in fact, they are likely to begin to come back down from mid-next year. In this context, the 12-month Euribor may have already peaked, and during the next year market expectations suggest that it could moderate to end up at around 3%.

Finally, despite the current challenges, the financial position of households is less stressed than had been anticipated a few quarters ago. Gross household income recorded a historic growth rate in Q2 and the savings rate was above 10% of household income. As discussed in the [Dossier of this Monthly Report on the 2024 Outlook](#), this statistic provides an important buffer for households in order for them to maintain their consumption over the coming quarters. All this suggests that household consumption could continue to hoist up the Spanish economy for some time to come.

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