

MACROECONOMIC PROJECTIONS FOR SPAIN 2024-2026

ÁNGEL GAVILÁN

Director General Economics, Statistics and Research

Madrid

17 September 2024





CONTENTS

- 1. Global environment**
- 2. Recent developments in the Spanish economy**
- 3. Macroeconomic projections 2024-2026**
- 4. Focal points**
 - 4.1. Recent consumption weakness**
 - 4.2. Elasticity of imports**

CONTENTS

- 1. Global environment**
2. Recent developments in the Spanish economy
3. Macroeconomic projections 2024-2026
4. Focal points
 - 4.1. Recent consumption weakness
 - 4.2. Elasticity of imports

GLOBAL ENVIRONMENT

Activity

- The [global economy](#) posted robust growth in Q2 which, despite some signs of weakness, is expected to continue in H2.

Inflation

- In recent months the [global disinflation process](#) has continued (although it remains limited by the persistence of inflationary pressures in services) and signs of labour market easing have begun to emerge in the main advanced economies

Energy

- The [prices of energy commodities](#) have been somewhat volatile recently, driven, among other factors, by geopolitical tensions and changes in market perceptions regarding future economic developments

Monetary policy

- The main world central banks are beginning to reduce the restrictive stance of their monetary policy, while the financial markets have significantly revised down their [expectations regarding the future course of interest rates](#)

Financial markets

- Long-term bond yields have declined in recent months, while stock markets have stabilised following the [bout of financial instability in early August](#) and they remain close to their all-time highs

Euro area

- The [pace of economic growth](#) has eased in recent months, while headline inflation has remained on its path of gradual decline despite the downward stickiness that underlying and services inflation continue to display
- The [September Eurosystem projections exercise](#) revises euro area GDP growth slightly downward for the period 2024-2026, and underlying inflation slightly upward in 2024 and 2025

CONTENTS

1. Global environment
- 2. Recent developments in the Spanish economy**
3. Macroeconomic projections 2024-2026
4. Focal points
 - 4.1. Recent consumption weakness
 - 4.2. Elasticity of imports

RECENT DEVELOPMENTS IN THE SPANISH ECONOMY

ACTIVITY

Quarterly National Accounts (QNA) for 2024 Q2

- The [GDP growth rate](#) surprised again on the upside in Q2: +0.8%, as in the preceding quarter, and 0.3 pp above the rate envisaged in the Banco de España's June projections
- As in Q1, the external sector (especially net exports of travel services) was the main driver of growth, while household consumption and investment slowed
- Also, GDP growth in the last two quarters of 2023 and in the first quarter of 2024 has been revised upwards

Employment

- Having been highly buoyant in the first half of the year, [job creation](#) appears to have slowed in Q3,

Confidence indicators

- The [purchasing managers' indices \(PMIs\)](#) have eased from their Q2 levels

Banco de España Business Activity Survey (EBAE)

- The [results of the EBAE](#) suggest that Spanish firms' turnover weakened slightly between July and September

Financial conditions

- [Financing costs](#) have continued to decline (albeit marginally), while financing to households and businesses has increased, against a background of higher [demand for loans](#) and stable credit standards

Overall analysis of the different indicators available suggests that the GDP growth rate in Q3 may stand at 0.6% quarter-on-quarter, a rate that would be compatible with year-on-year growth of 2.9%, the same rate as in Q2

RECENT DEVELOPMENTS IN THE SPANISH ECONOMY

PRICES

- Headline inflation has fallen considerably in recent months

- This decline in inflation has been somewhat sharper than was expected in the Banco de España's June projections ...

- ... with downside surprises in the energy and food components ...

- ... and upside surprises in the behaviour of underlying inflation, especially in that of services

- At the same time, domestic inflationary pressures (approximated by the value added deflator) have risen slightly in Q2, as the slowdown in unit labour costs (ULCs) has been offset by more buoyant profit margins

CONTENTS

1. Global environment
2. Recent developments in the Spanish economy
- 3. Macroeconomic projections 2024-2026**
4. Focal points
 - 4.1. Recent consumption weakness
 - 4.2. Elasticity of imports

MACROECONOMIC PROJECTIONS FOR THE SPANISH ECONOMY 2024-2026
SUMMARY TABLE

				SEPTEMBER 2024 PROJECTIONS (a)			DIFFERENCE WITH RESPECT TO THE JUNE PROJECTIONS		
Annual rate of change (%), unless otherwise indicated	2021	2022	2023	2024	2025	2026	2024	2025	2026
GDP	6.4	5.8	2.5	2.8	2.2	1.9	0.5	0.3	0.2
Harmonised index of consumer prices (HICP)	3.0	8.3	3.4	2.9	2.1	1.8	-0.1	0.1	0.0
HICP excl. energy and food	0.6	3.8	4.1	2.8	2.2	1.9	0.2	0.2	0.0
Unemployment rate (% of labour force). Annual average	14.9	13.0	12.2	11.5	11.0	10.7	0.0	-0.3	-0.5
General government net lending (+) / net borrowing (-) (% of GDP)	-6.7	-4.7	-3.6	-3.3	-3.1	-3.2	0.0	0.0	0.0
General government debt (% of GDP)	116.8	111.6	107.7	105.4	105.4	106.3	-0.4	-0.8	-0.9

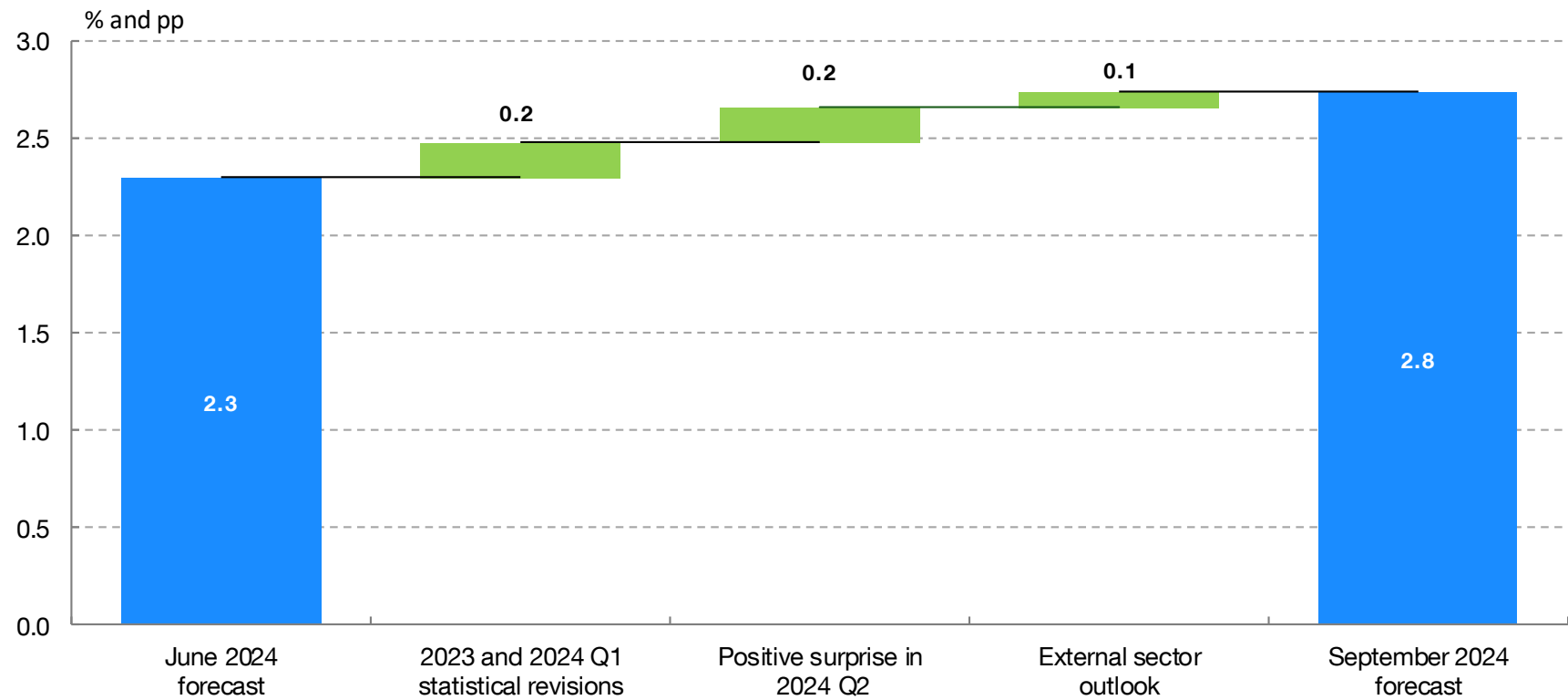
Sources: Banco de España and INE.
a) Projections cut-off date: 9 September 2024.

More details

GDP GROWTH IN 2024 IS REVISED UPWARDS, TO 2.8%, CHIEFLY DUE TO THE POSITIVE CARRY-OVER EFFECT RESULTING FROM NEW QNA DATA

- Also, the new projections envisage a somewhat less favourable outlook for imports and a more positive one for the tourism sector, entailing a larger contribution (albeit declining) from net external demand to GDP growth both in the second half of 2024 and in the two-year period 2025-2026
- Growth projections are also revised upwards for 2025 (by 0.3 pp, to 2.2%) and 2026 (by 0.2 pp, to 1.9%), owing to looser financial conditions and, as already mentioned, a somewhat more positive contribution from external demand than was envisaged in June

CHANGES IN THE GDP GROWTH FORECAST FOR 2024

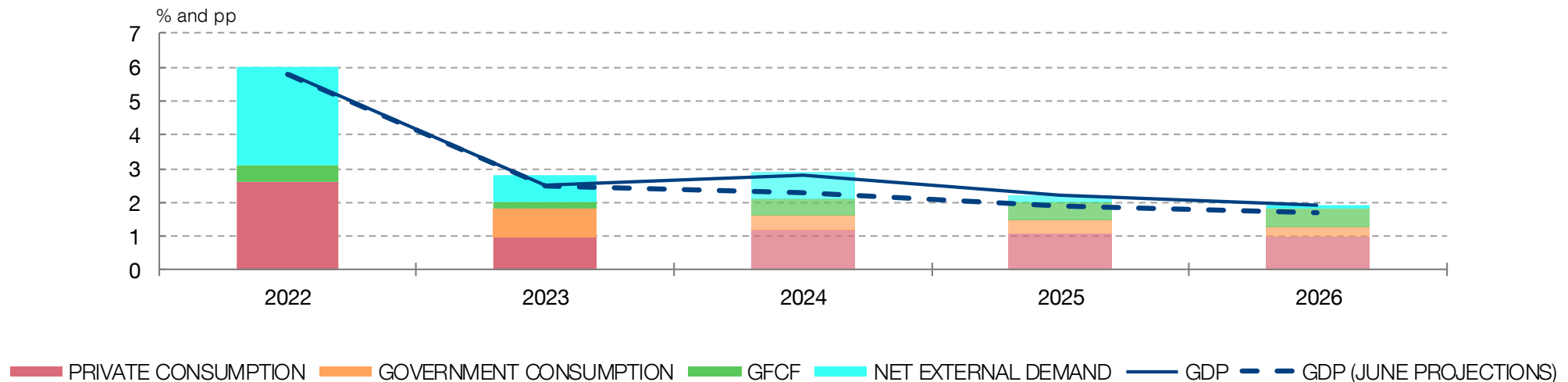


Source: Banco de España.

LOOKING AHEAD, GDP GROWTH RATES ARE EXPECTED TO GRADUALLY TEND TOWARDS THOSE CONSISTENT WITH THE SPANISH ECONOMY'S POTENTIAL GROWTH, ...

- ... the contribution of domestic demand to economic growth is expected to increase, ...
 - Private consumption is the component that is expected to make the largest contribution to GDP growth over the rest of the projection horizon, as a result of favourable employment, wage and inflation developments, as well as the increase in population and the gradual recovery in household confidence
 - The contribution of gross fixed capital formation to GDP growth is also expected to increase over the projection horizon, thanks, among other factors, to the impetus from the NGEU funds (whose roll-out is expected to gain momentum in 2024 and 2025) and the above-mentioned improvement in financing conditions
 - That said, there are doubts regarding the behaviour of consumption and investment in the short run
- ... and the contribution of net external demand is expected to gradually decrease
 - Although international tourism inflows are expected to maintain considerable momentum over the projection horizon, in growth rate terms, their contribution to GDP growth will gradually decrease, as is already apparent in certain indicators
 - At the same time, imports are expected to pick up somewhat, in step with the increased buoyancy of investment and goods exports, given their high import content

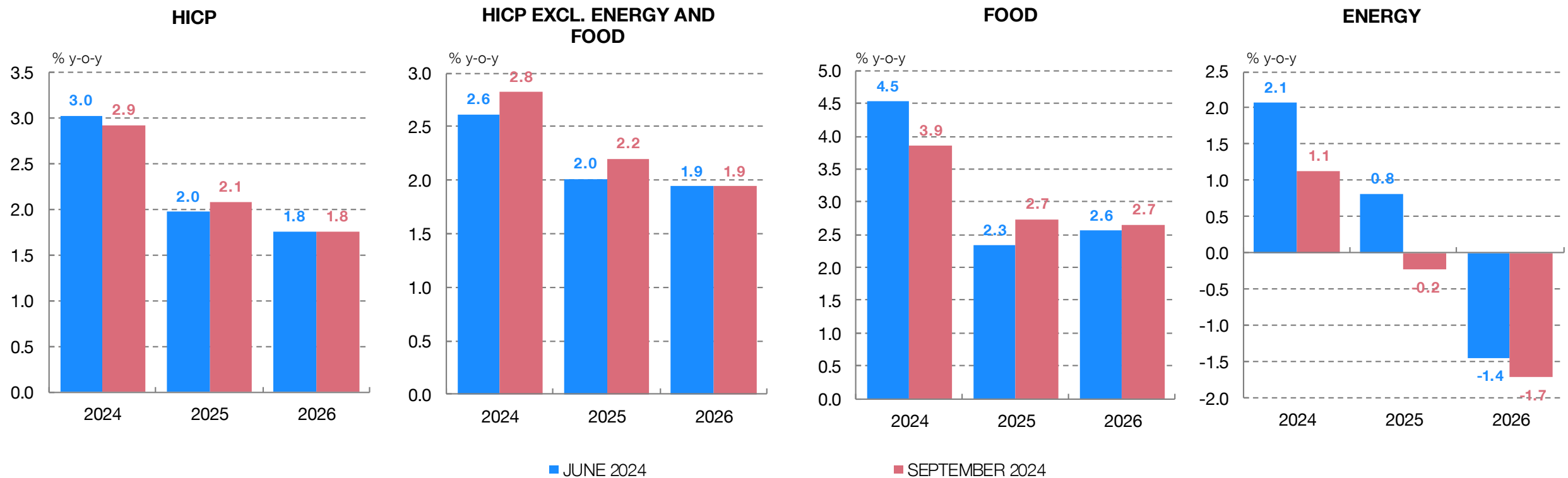
GDP GROWTH AND CONTRIBUTIONS OF THE MAIN COMPONENTS



Sources: INE and Banco de España.

HEADLINE INFLATION IS REVISED DOWN IN 2024 (BY 0.1 PP, TO 2.9%), AND UP IN 2025 (BY 0.1 PP, TO 2.1%)

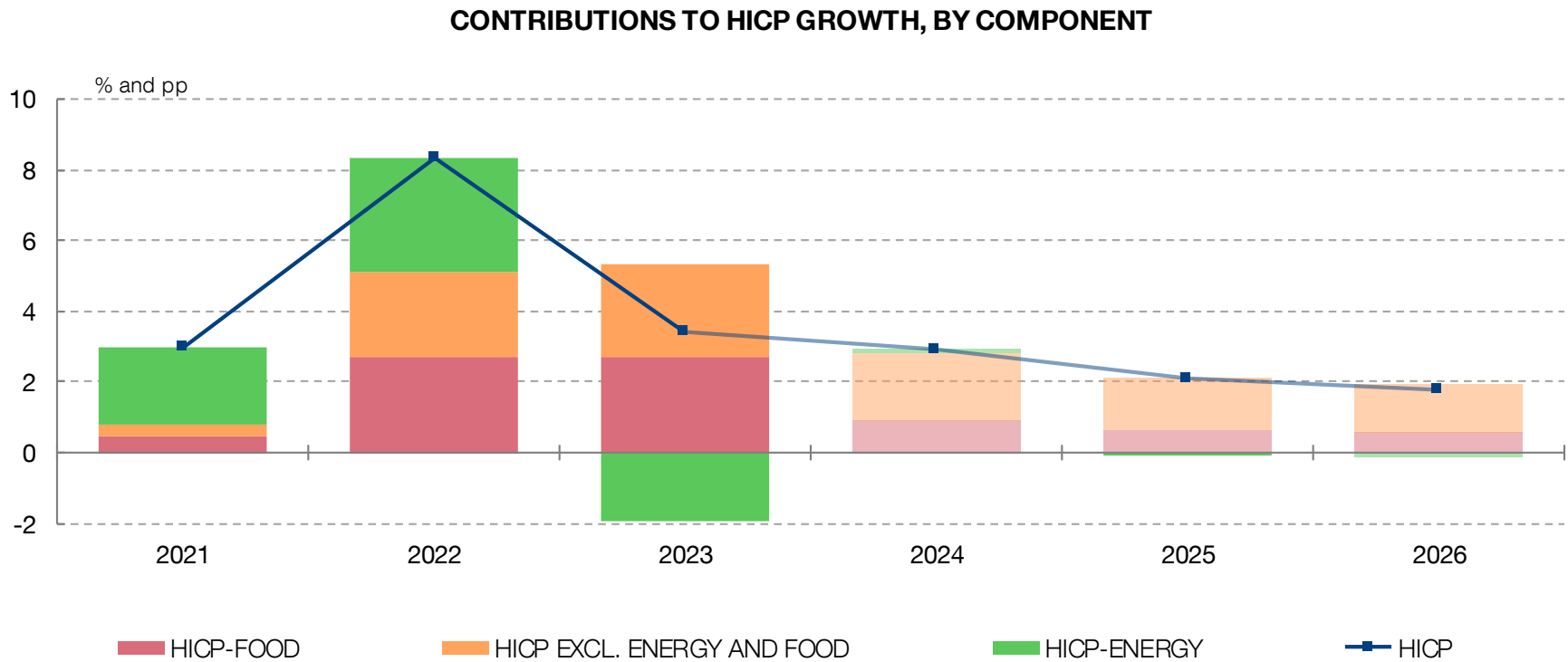
- The revision of headline inflation in 2024 derives, essentially, from the smaller contribution to price growth now anticipated from the energy and food components (with the latter also being affected by the extension of the VAT reduction on essential food items and the inclusion of olive oil in this group), partially offset by the upward revision to core inflation owing to services inflation proving more downwardly sticky than expected
- The revision to headline inflation in 2025 reflects the somewhat higher core inflation rate for that year than forecast in June, and the full reversal in 2025 of the reduced VAT rate on essential food items



Source: Banco de España.

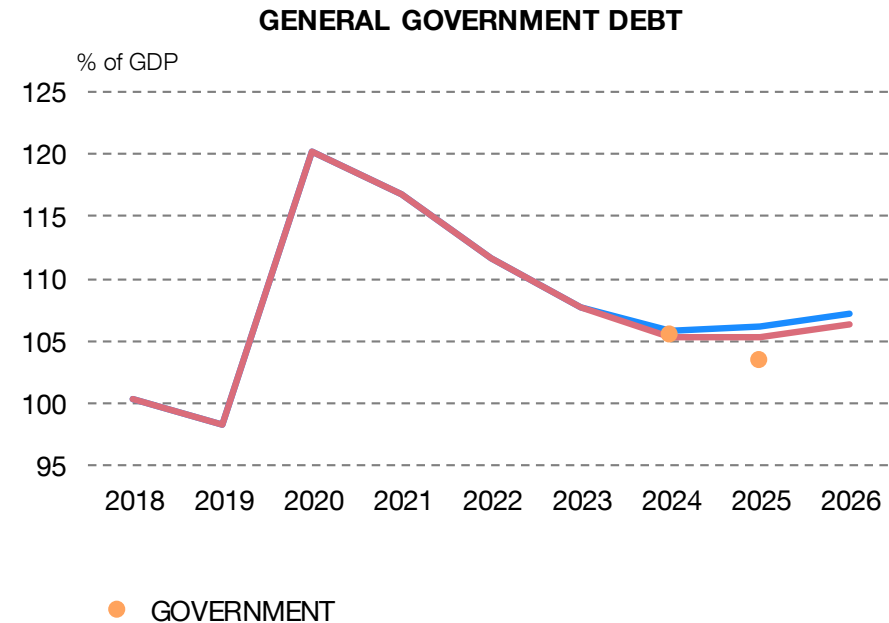
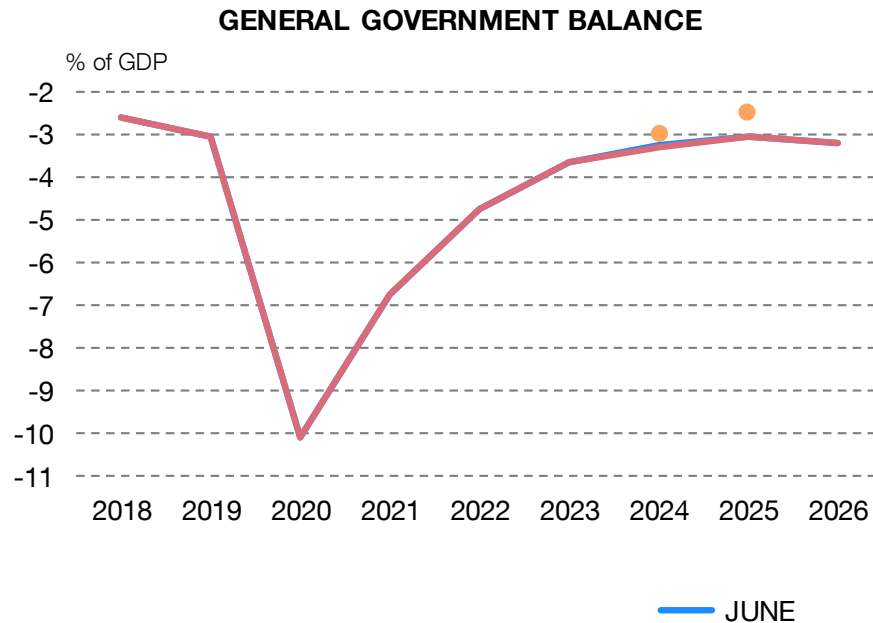
HEADLINE INFLATION WILL REMAIN AT AROUND ITS CURRENT LEVELS (OR SLIGHTLY HIGHER) IN THE LATTER PART OF 2024 AND IN EARLY 2025 ...

- ... and will resume its downward path thereafter
- The slowdown in the rate of inflation projected for 2025 and 2026 essentially reflects a **gradual decline in food inflation** (consistent with the developments projected for the producer prices of these goods and for food commodity prices according to futures markets) **and underlying inflation** (among other factors, owing to the expected slowdown in the rate of growth of demand and costs of production over the projection horizon)



Sources: INE and Banco de España.

- The public finances scenario is largely unchanged compared with that projected in June, given that the new fiscal measures approved are offset by the upward revision to the macroeconomic outlook
- Public revenue continues to grow at a robust rate (9.2% year-on-year in 2024 Q2), but so too does public expenditure (5%) → To ensure compliance with the European Commission's recommendation for Spain in 2024 (that nominal growth of nationally financed net primary expenditure should not exceed 2.6% this year), additional compensatory measures to cut expenditure or raise revenue may be required in the coming months
- In the absence of new measures, the fiscal policy stance is expected to be slightly contractionary in 2024 and roughly neutral in 2025-2026. However, on Banco de España estimates, the introduction of the new European fiscal framework will require Spain to maintain a contractionary fiscal policy stance over the coming years



Sources: IGAE, INE and Banco de España.

BALANCE OF RISKS IN THIS PROJECTION EXERCISE

As in previous exercises, these projections are subject to high uncertainty

Escalation of current geopolitical tensions

(e.g. associated with the armed conflicts in Ukraine and the Gaza Strip, the mounting global trade tensions and some electoral processes)

Possible episodes of financial market turmoil, such as that witnessed in early August

(e.g. due to an abrupt shift in market expectations regarding the future path of US or euro area policy interest rates or a deterioration in China's economic outlook)

The speed at which the disinflationary process (globally, in the euro area and in Spain) could unfold over the coming quarters

(more persistent than expected services inflation vs early signs of easing labour market tensions and wage pressures)

In Spain and the euro area, future developments in household consumption and business investment

(e.g. uncertainty related to the intensity and effects of monetary policy pass-through, household saving developments and the pace and impact of the roll-out of the NGEU programme)

Reactivation of the European fiscal rules



The risks to the growth projections are fundamentally on the downside, whereas the risks to the inflation projections are considered balanced



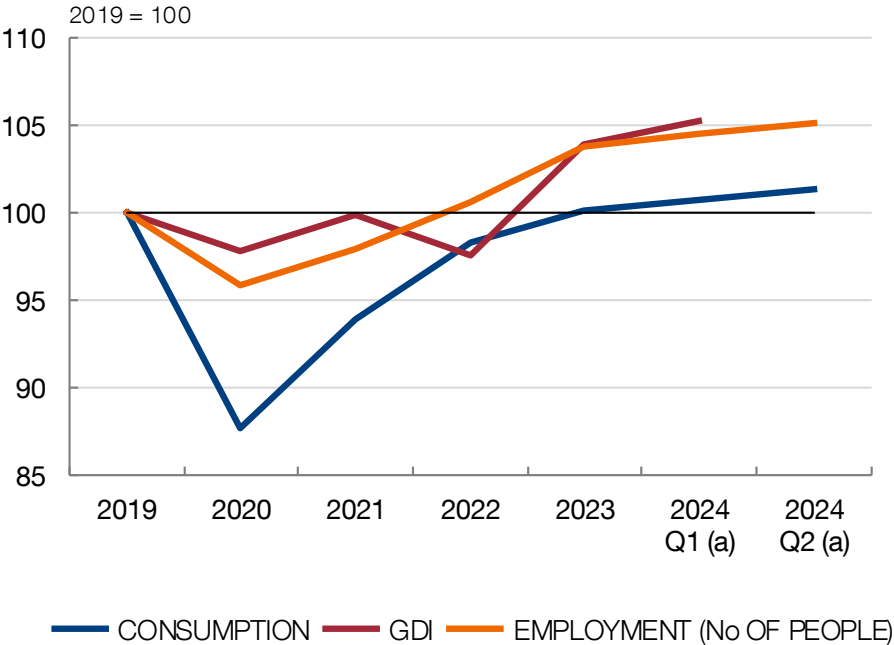
CONTENTS

1. Global environment
2. Recent developments in the Spanish economy
3. Macroeconomic projections 2024-2026
- 4. Focal points**
 - 4.1. Recent consumption weakness**
 - 4.2. Elasticity of imports

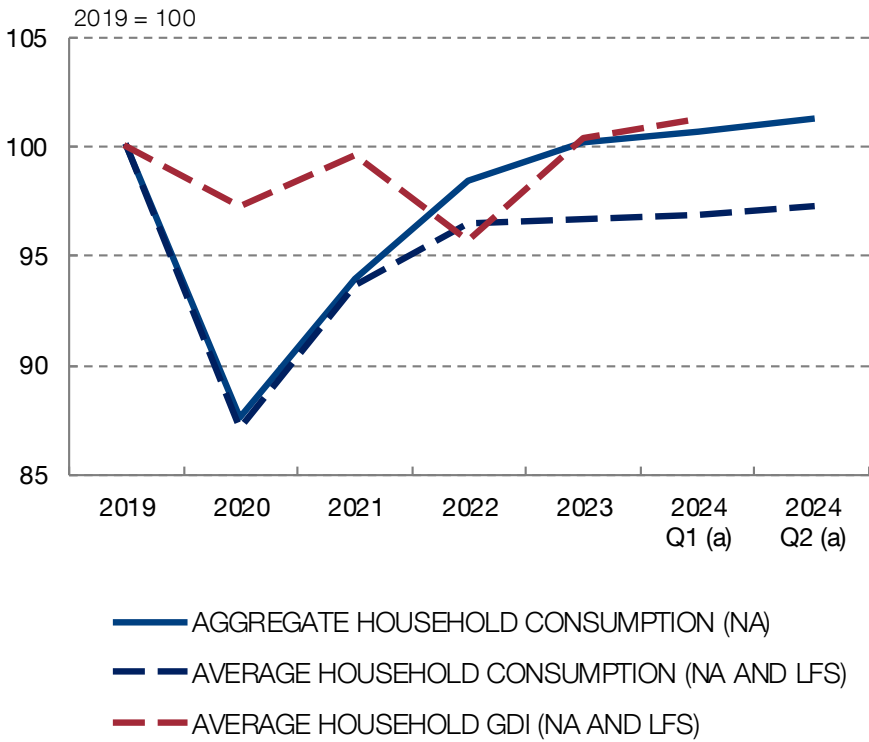
FOLLOWING THE PANDEMIC, THE RECOVERY IN CONSUMPTION HAS BEEN WEAKER THAN ITS FUNDAMENTAL DETERMINANTS WOULD SUGGEST

- The weakness in aggregate consumption, despite the population growth, indicates clear sluggishness in average household expenditure

CONSUMPTION, GROSS DISPOSABLE INCOME (GDI) AND EMPLOYMENT

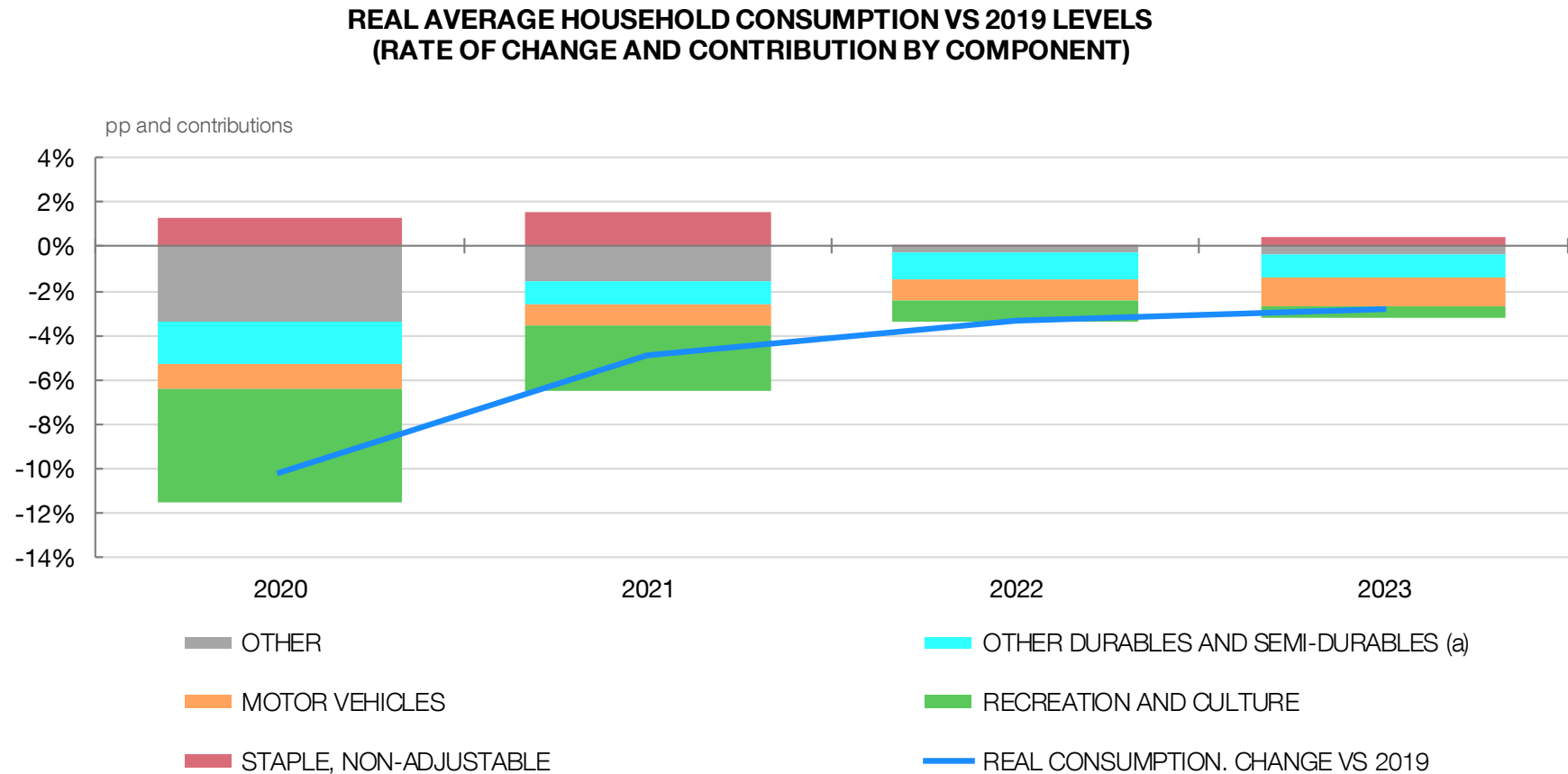


AGGREGATE CONSUMPTION AND AVERAGE HOUSEHOLD CONSUMPTION



Sources: INE and Banco de España.
(a) Cumulative 4-quarter data.

THE GAP IN AVERAGE HOUSEHOLD EXPENDITURE COMPARED WITH 2019 LEVELS OWES LARGELY TO WEAK EXPENDITURE ON DURABLE AND SEMI-DURABLE GOODS

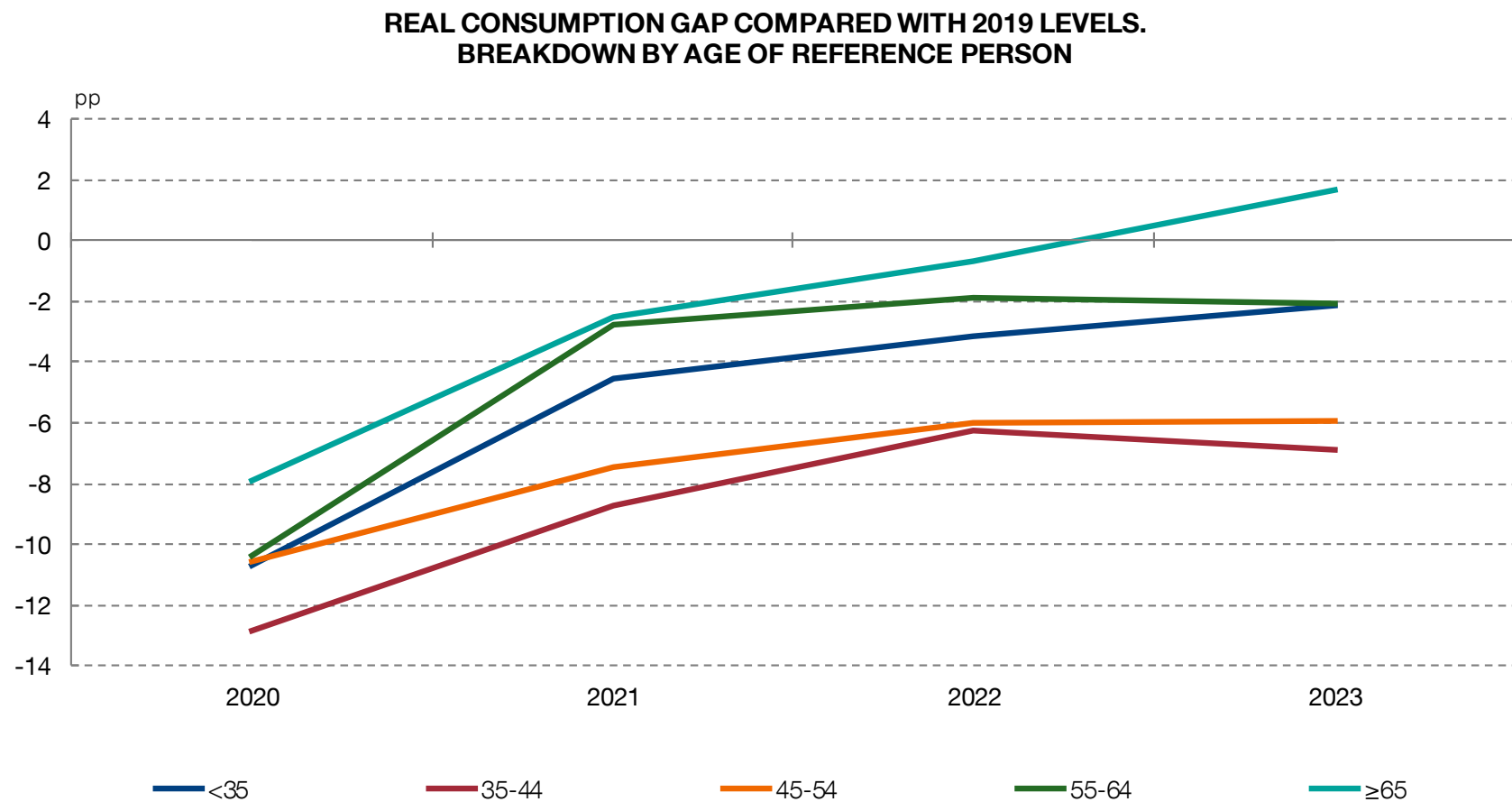


Source: Banco de España drawing on the Household Expenditure Survey. The 2023 data, unlike those of previous years, are based on population figures updated for the 2021 census. This prevents strictly uniform comparisons with earlier years' data, until the harmonised series is released.

(a) Except recreation and culture-related expenditure (i.e. on audiovisual and photography equipment, and other recreation-related durable goods). Includes expenditure on clothing and footwear. In 2019, average household consumption was distributed among the chart items as follows: 47% staple, non-adjustable expenditure; 4% motor vehicle purchase; 9.5% other durable goods; 15.4% recreation and culture; and 24.6% other items.

PRE-PANDEMIC CONSUMPTION LEVELS HAVE ONLY BEEN RECOVERED AMONG HOUSEHOLDS WITH A REFERENCE PERSON AGED 65 AND OVER

- Average household consumption remains below pre-pandemic levels in most [population groups](#)

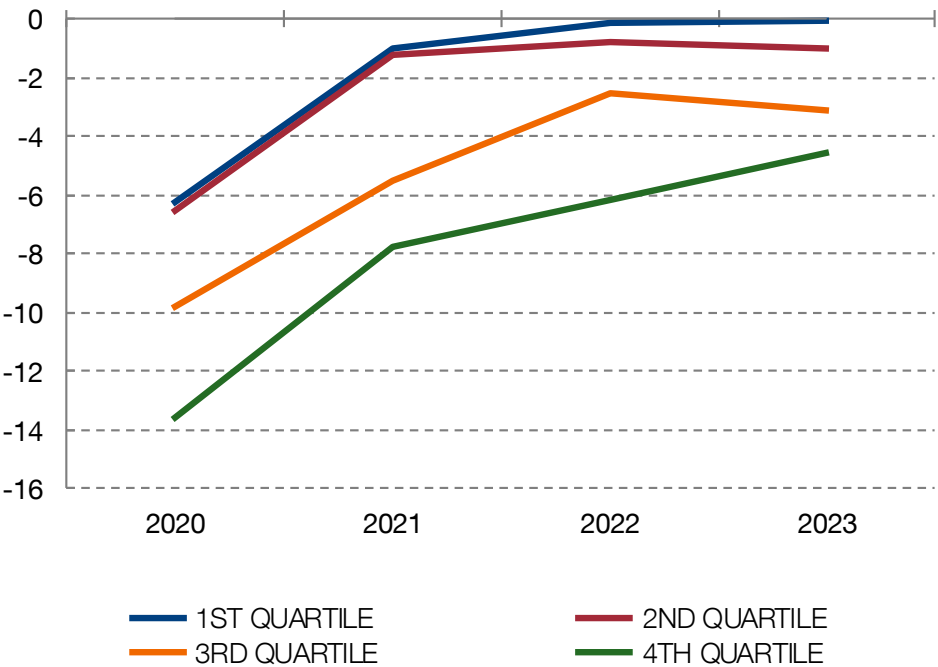


Source: Banco de España drawing on the Household Expenditure Survey. The 2023 data, unlike those of previous years, are based on population figures updated for the 2021 census. This prevents strictly uniform comparisons with earlier years' data, until the harmonised series is released.

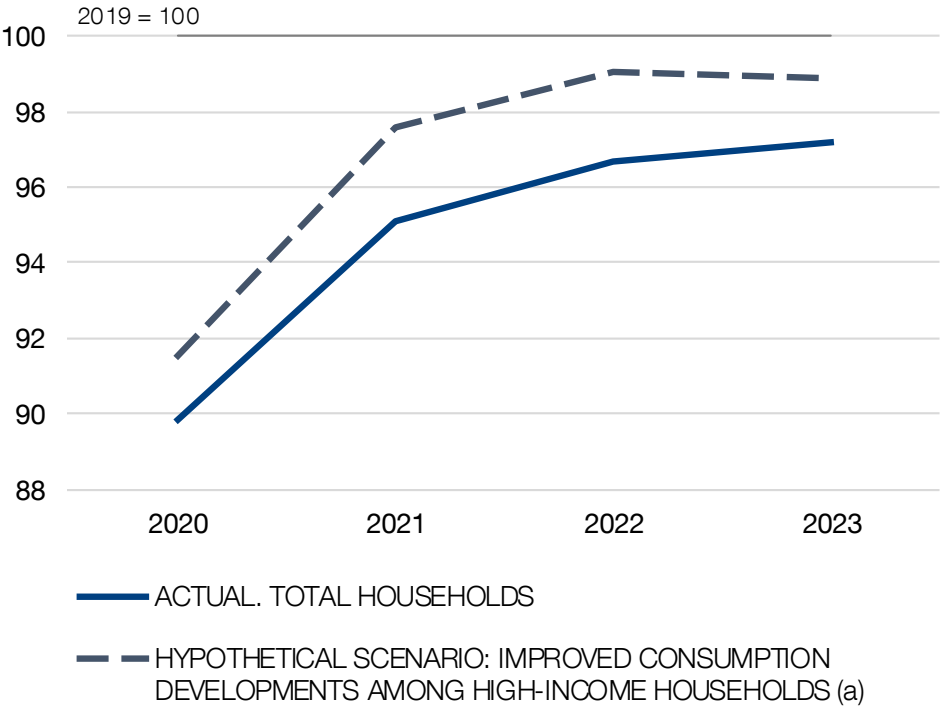
CONSUMPTION DEVELOPMENTS HAVE BEEN LESS FAVOURABLE FOR HIGH-INCOME HOUSEHOLDS ...

- Consistent with these dynamics, recent consumer credit developments have been less expansionary for higher-income households

REAL CONSUMPTION GAP VS 2019 LEVELS.
BREAKDOWN BY INCOME QUARTILE



REAL AVERAGE HOUSEHOLD CONSUMPTION
VS 2019 LEVELS

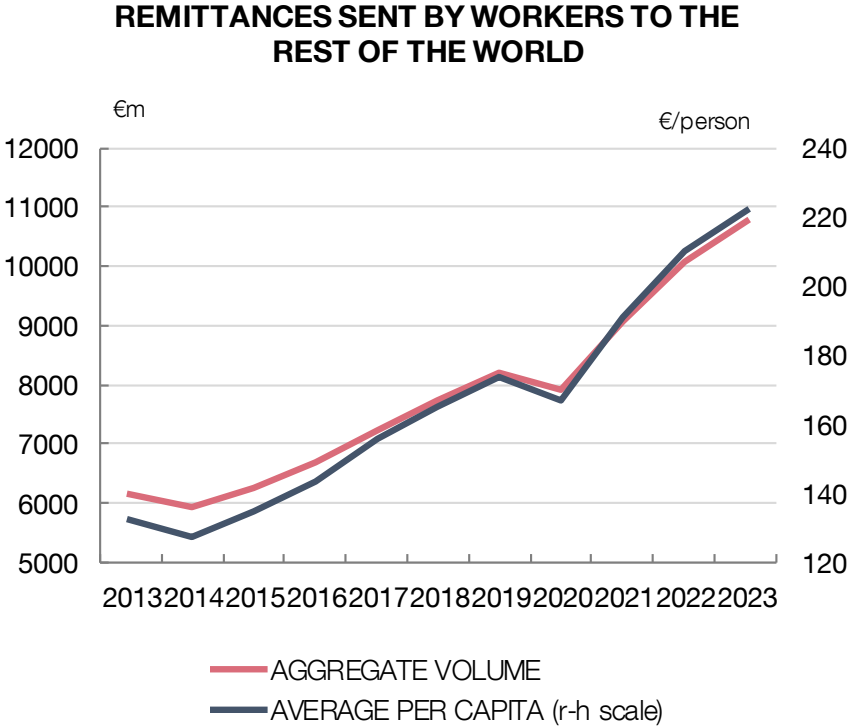
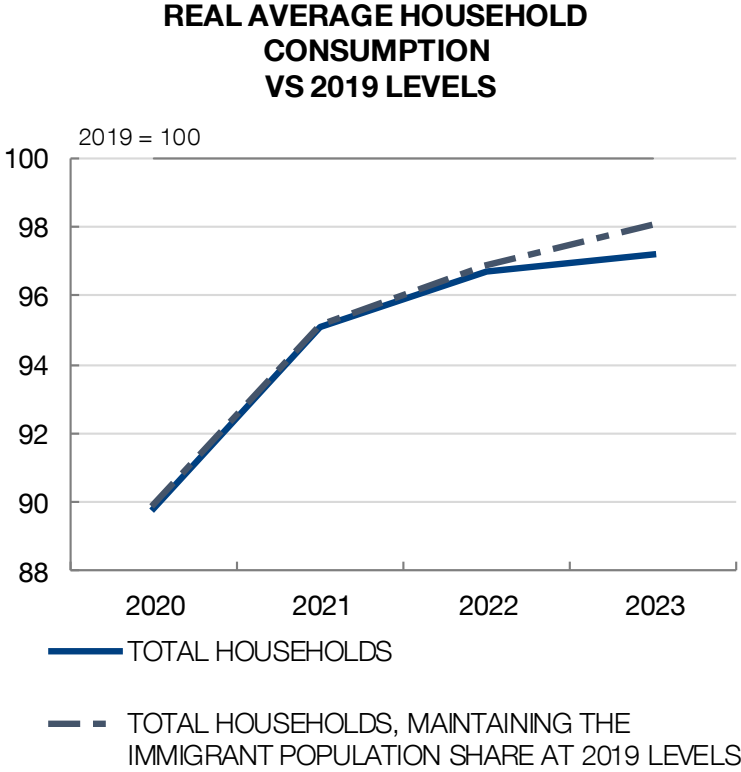
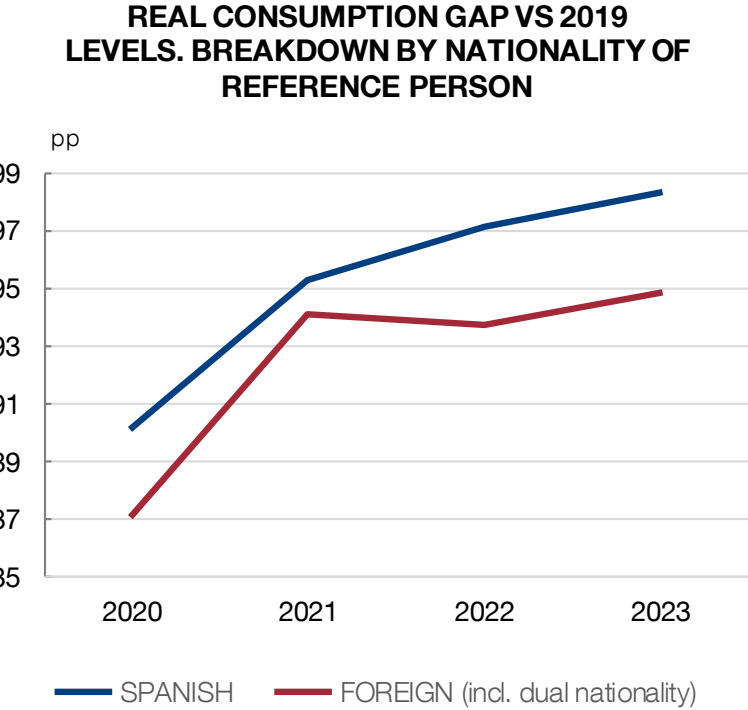


Source: Banco de España drawing on the Household Expenditure Survey. The 2023 data, unlike those of previous years, are based on population figures updated for the 2021 census. This prevents strictly uniform comparisons with earlier years' data, until the harmonised series is released.

(a) Assuming that, since 2020, household consumption in the top income quartile has mirrored the year-on-year changes seen in the bottom income quartile.

... AND THOSE WITH A FOREIGN REFERENCE PERSON

- The increased share of the foreign-born population in Spain, combined with their recent weaker consumption, partially explains the weakness in average household consumption
- Consumption remains more subdued among the foreign-born population even after controlling for income level

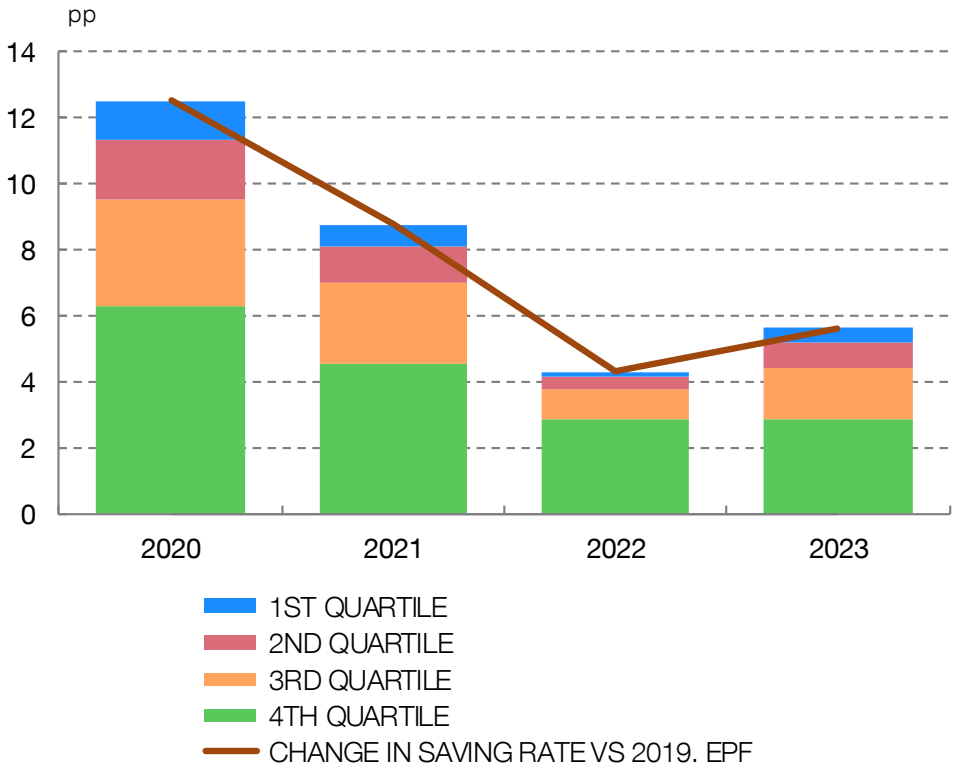


Source: Banco de España drawing on the Household Expenditure Survey. The 2023 data, unlike those of previous years, are based on population figures updated for the 2021 census. This prevents strictly uniform comparisons with earlier years' data, until the harmonised series is released.

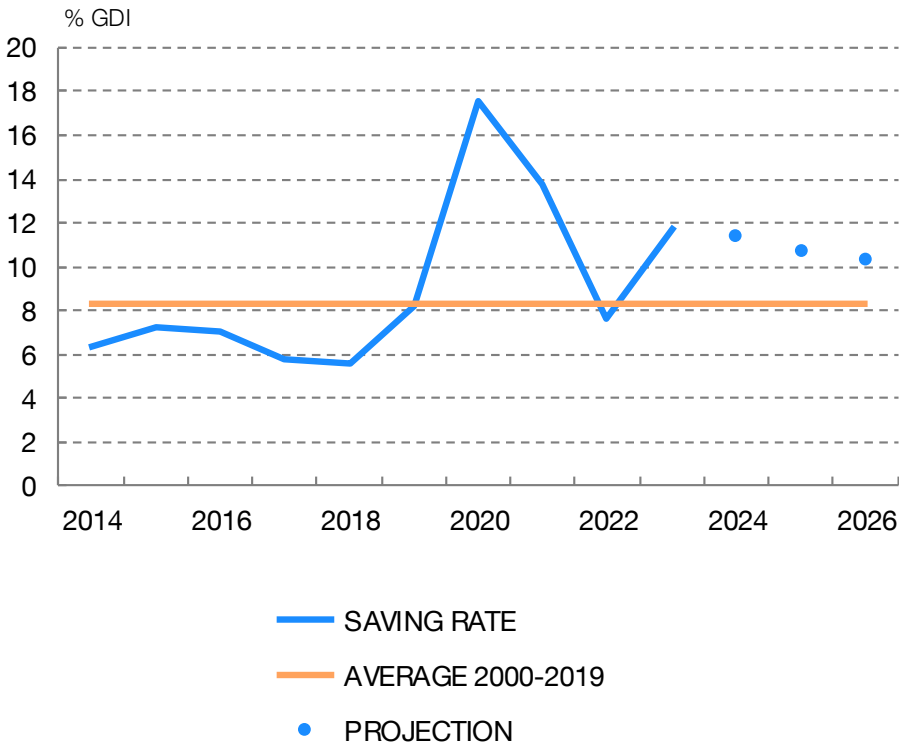
THE SAVING RATE HAS DECLINED ACROSS ALL INCOME GROUPS SINCE THE PANDEMIC, BUT REMAINS ABOVE 2019 LEVELS

- The saving rate, which remains at high levels, is projected to decline over the projection horizon, albeit holding above its historical average

AVERAGE SAVING RATE. CHANGE VS 2019 AND CONTRIBUTIONS BY INCOME GROUP



SAVING RATE



Sources: INE and Banco de España drawing on the Household Expenditure Survey (EPF). The 2023 data, unlike those of previous years, are based on population figures updated for the 2021 census. This prevents strictly uniform comparisons with earlier years' data, until the harmonised series is released.



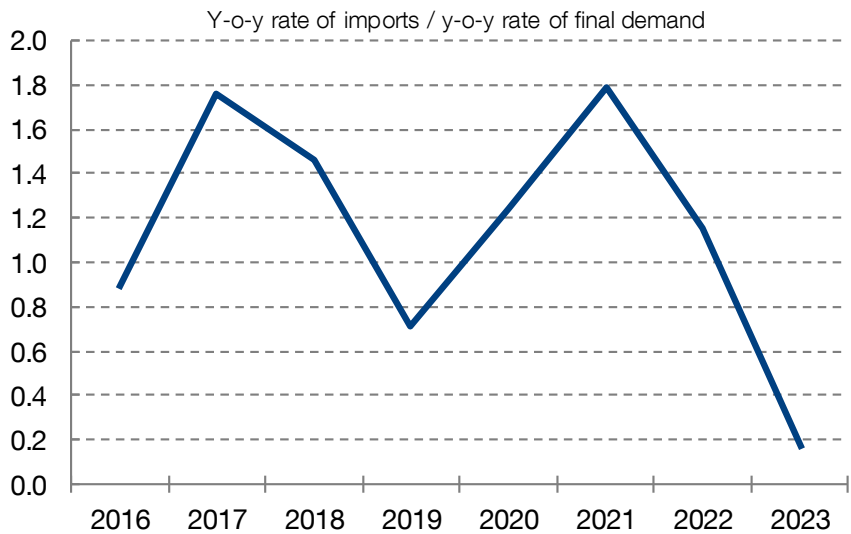
CONTENTS

1. Global environment
2. Recent developments in the Spanish economy
3. Macroeconomic projections 2024-2026
- 4. Focal points**
 - 4.1. Recent consumption weakness
 - 4.2. Elasticity of imports**

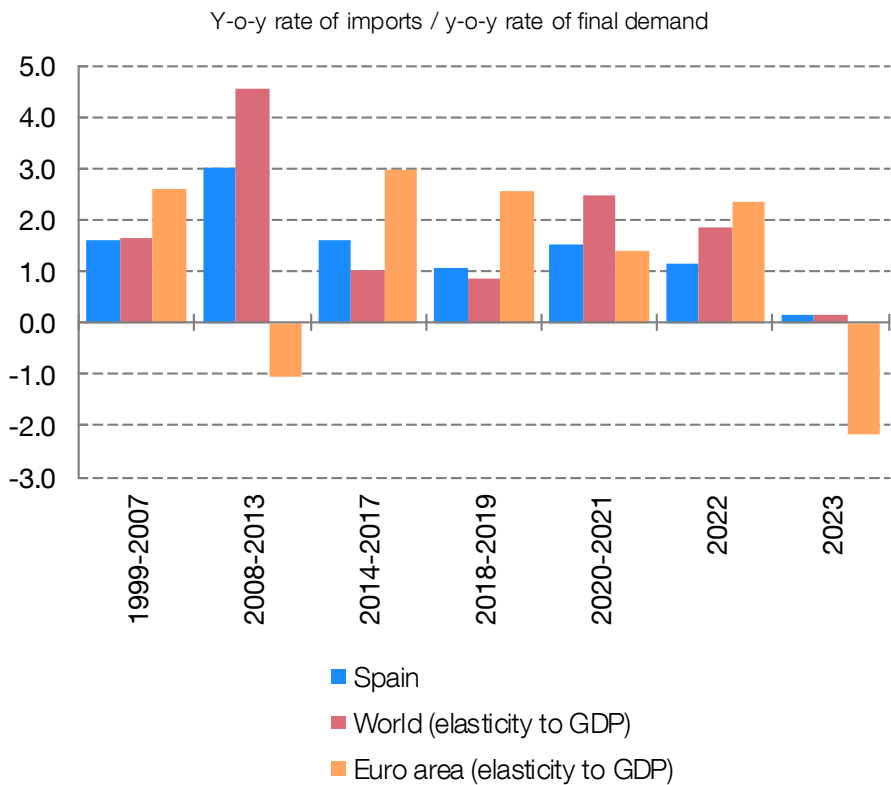
2023 SAW A WIDESPREAD DECLINE IN THE ELASTICITY OF GOODS AND SERVICES IMPORTS TO FINAL DEMAND

- In 2023, the low elasticity of imports to final demand was broad-based, both in Spain and the rest of the world
- Possible contributing factors include, notably, the shift in final demand towards less trade-intensive components (i.e. those with a lower import content) and decreased energy dependence

ELASTICITY OF IMPORTS TO FINAL DEMAND



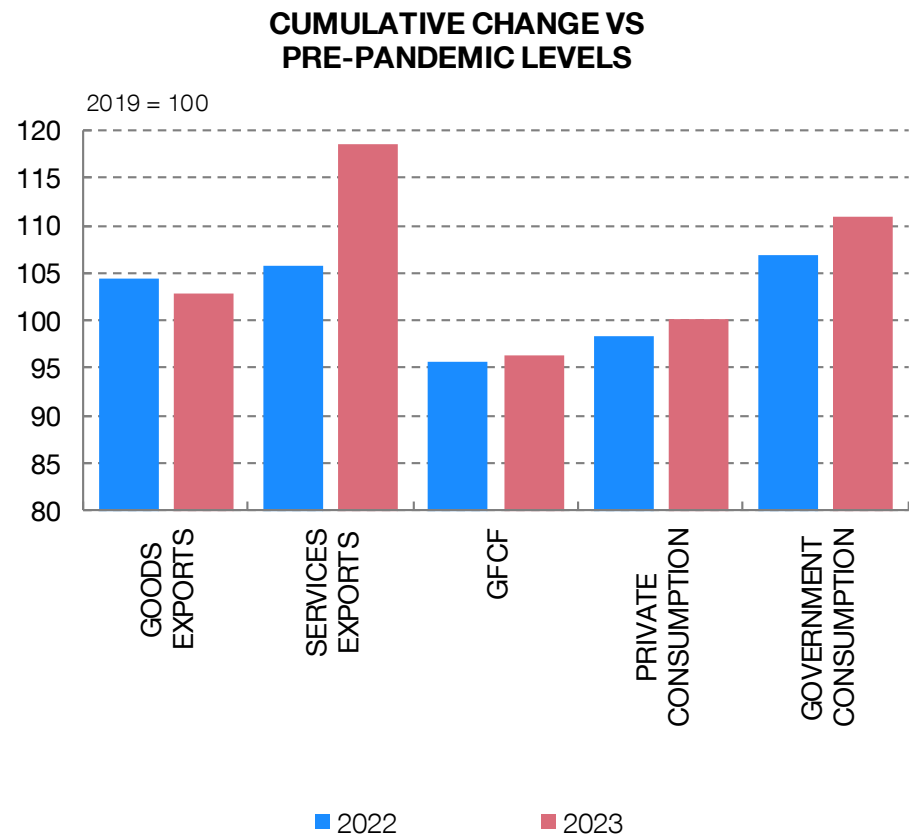
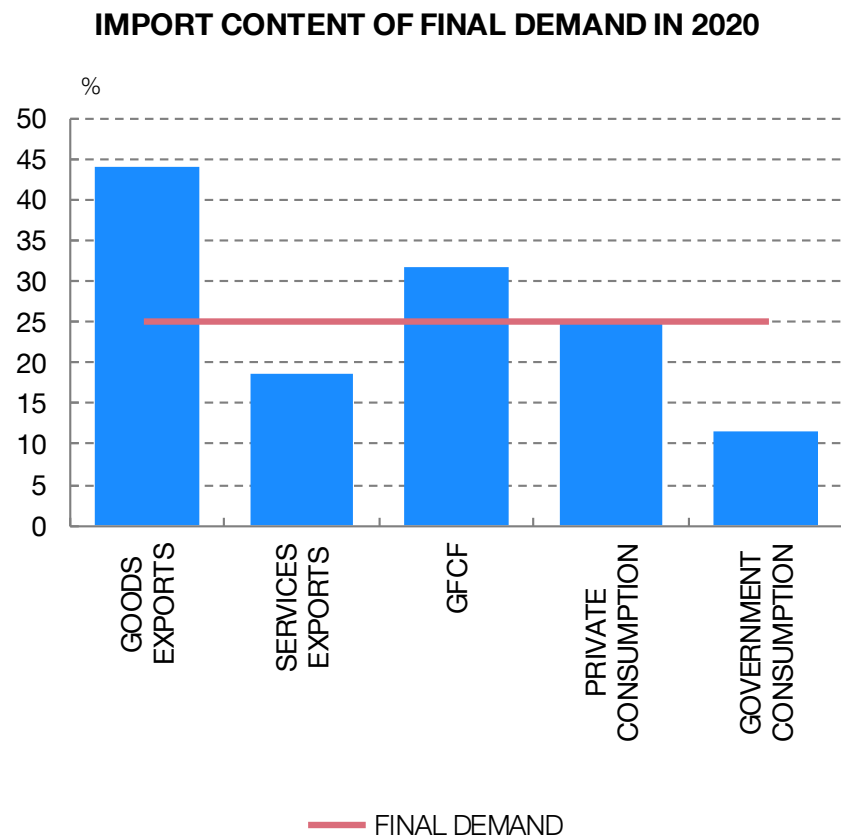
ELASTICITY OF IMPORTS TO FINAL DEMAND



Sources: INE and Banco de España.

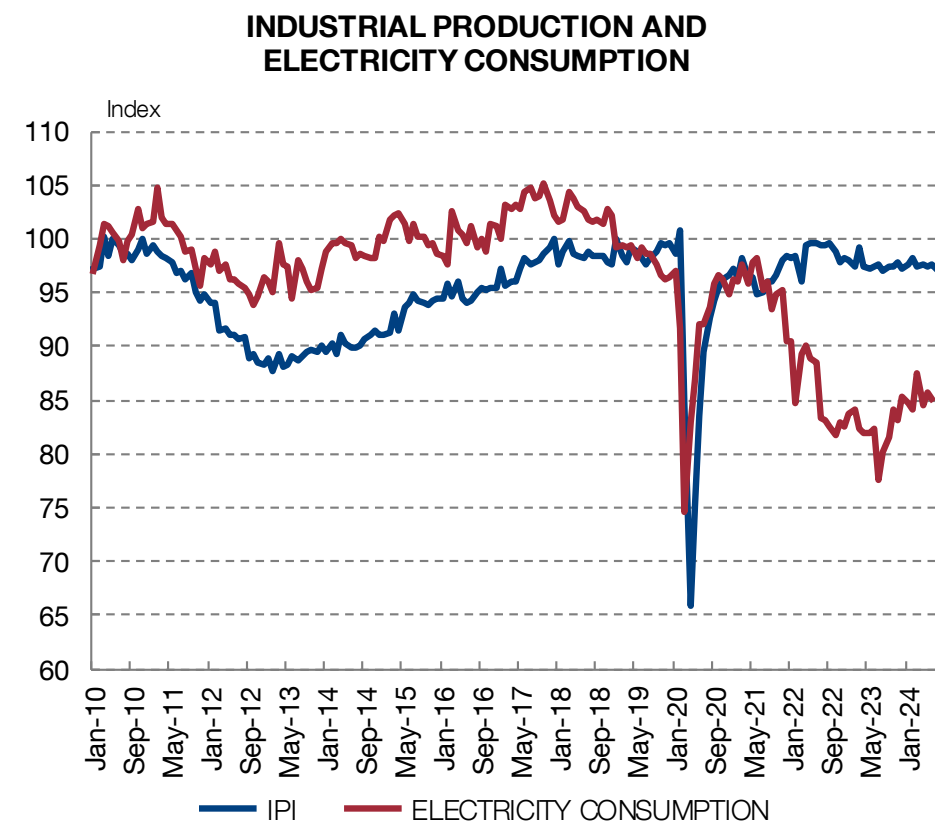
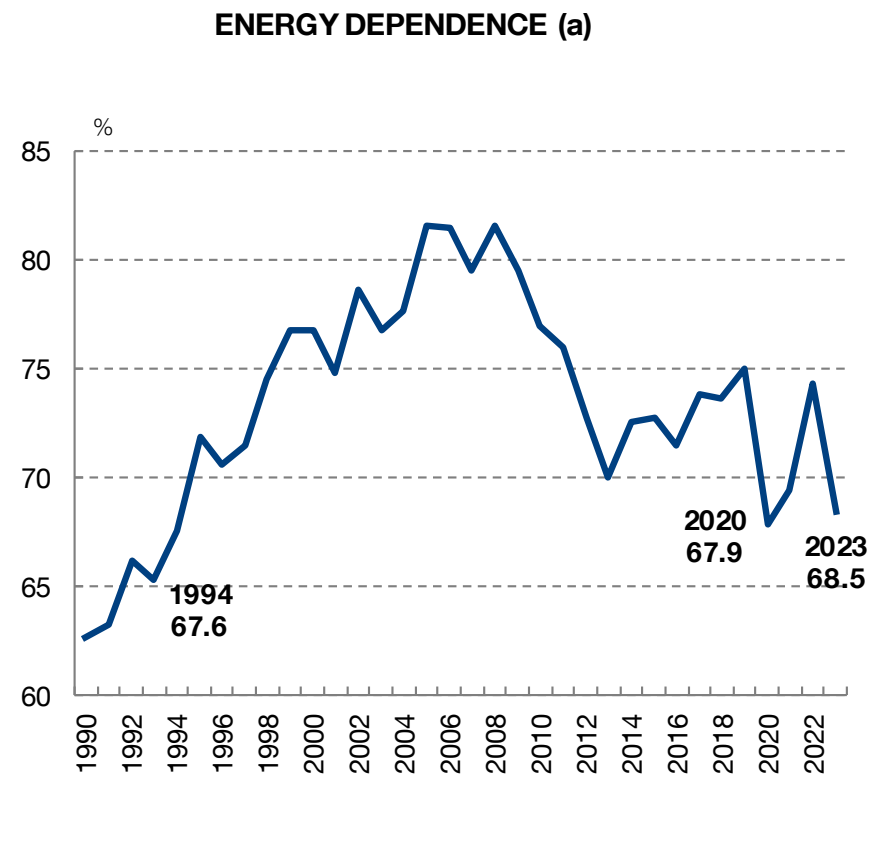
SHIFT IN FINAL DEMAND TOWARDS LESS TRADE-INTENSIVE COMPONENTS

- The recent decline in the elasticity of imports to final demand may have owed, at least in part, to slower growth rates in goods exports and investment, the demand components with the highest import content



Sources: INE, Banco de España and TiVA.

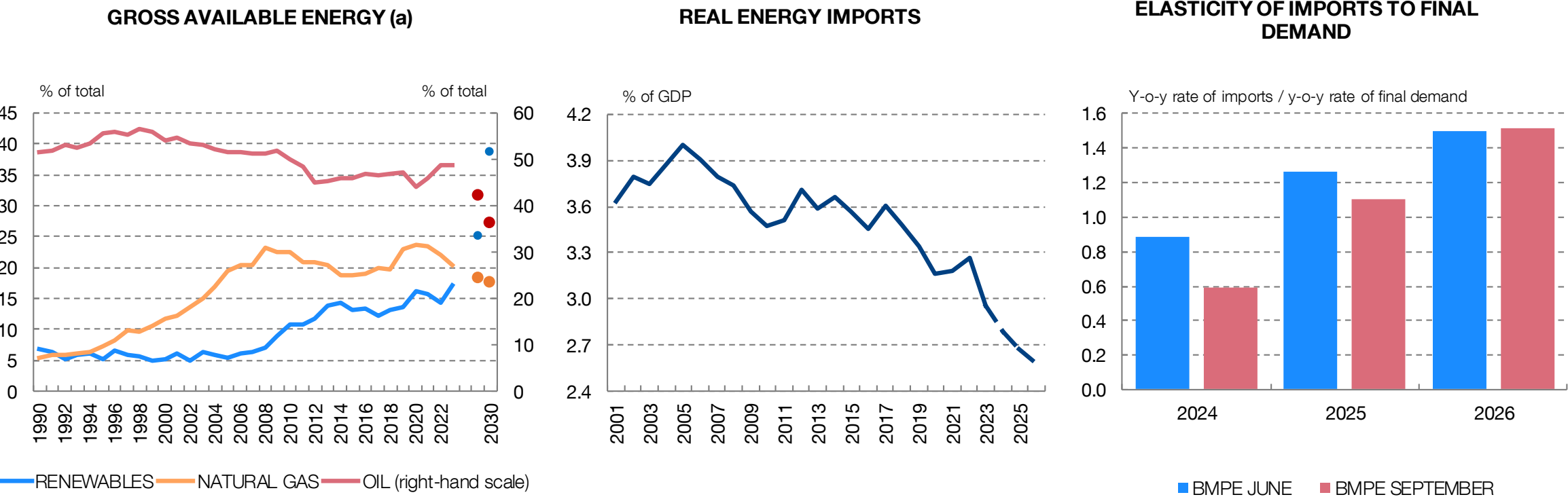
SPAIN HAS ALSO REDUCED ITS EXTERNAL ENERGY DEPENDENCE AND MADE ENERGY EFFICIENCY GAINS



Sources: INE, REE, Ministerio para la Transición Ecológica y el Reto Demográfico and Banco de España.
(a) The energy dependence rate is defined as net energy imports divided by gross available energy, expressed as a percentage.

THE ELASTICITY OF IMPORTS TO FINAL DEMAND IS EXPECTED TO RECOVER IN THE COMING YEARS, ALBEIT TO LEVELS BELOW THOSE OBSERVED IN THE PAST

- Imports will gather pace over the projection horizon, driven by the gradual upturn envisaged for goods exports and business investment
- However, the growing share of renewable energy in Spain, which is helping to reduce the energy deficit and the need for energy imports, will contribute to keeping the elasticity of imports to final demand below the levels observed in the past



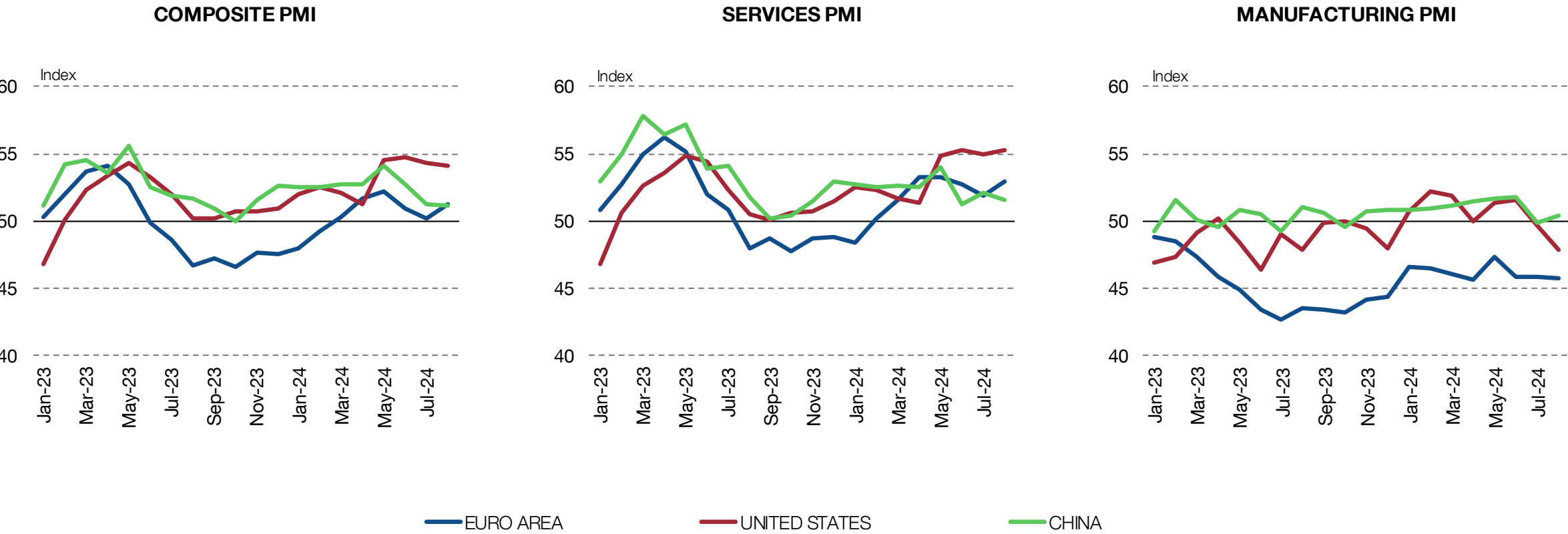
Sources: INE, Banco de España and Ministerio para la Transición Ecológica y el Reto Demográfico.
(a) The dots indicate the NECP forecast for 2025 and 2030 for each type of energy.

THANK YOU FOR YOUR ATTENTION



THE STRENGTH OF GLOBAL ECONOMIC ACTIVITY CONTINUES TO BE UNDERPINNED BY BUOYANT SERVICES ...

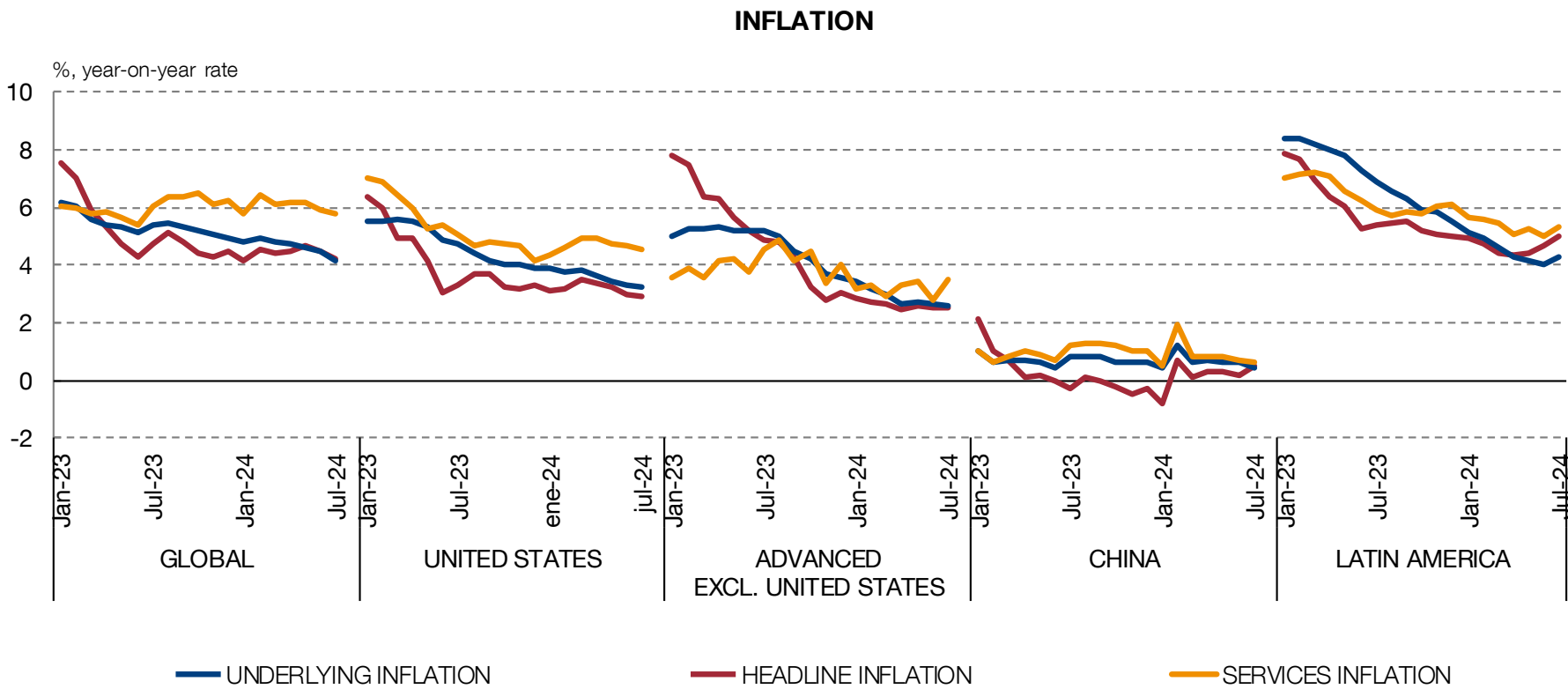
- ... while manufacturing, which in late 2023 and early 2024 appeared to be embarking on a gradual recovery, is once again showing clear signs of weakness



Source: S&P Global. Latest data observed: August 2024.

THE DISINFLATIONARY PROCESS HAS CONTINUED IN RECENT MONTHS ACROSS MOST REGIONS OF THE WORLD

- The gradual decline in inflation in recent months has generally been driven by downward surprises in energy (particularly oil) and food prices. However, underlying and, especially, services inflation continue to be more downwardly sticky than expected
- Meanwhile, market-based short-term inflation expectations for the advanced economies – which can be extracted from certain financial instruments – declined significantly



Sources: National statistics and Refinitiv. Latest data observed: July 2024.

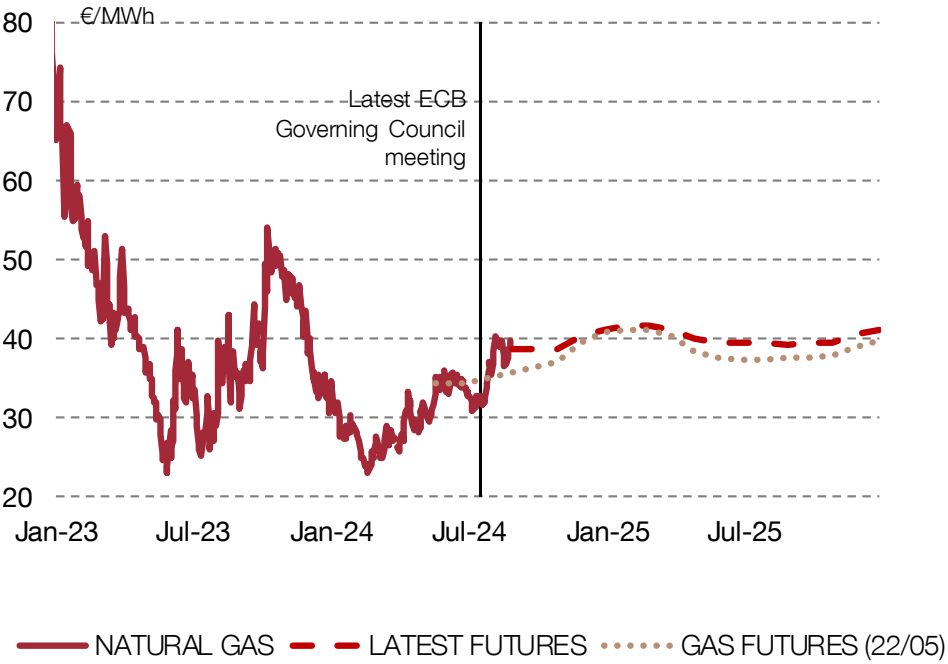
ENERGY COMMODITY PRICES HAVE BEEN VOLATILE

- Brent oil prices have fallen below \$80/barrel as demand for oil is proving weaker than expected a few months ago
- The price of natural gas has rallied to around €40/MWh due to one-off supply disruptions and geopolitical factors. However, inventories remain high for this time of the year

OIL PRICES AND FUTURES



NATURAL GAS PRICES AND FUTURES

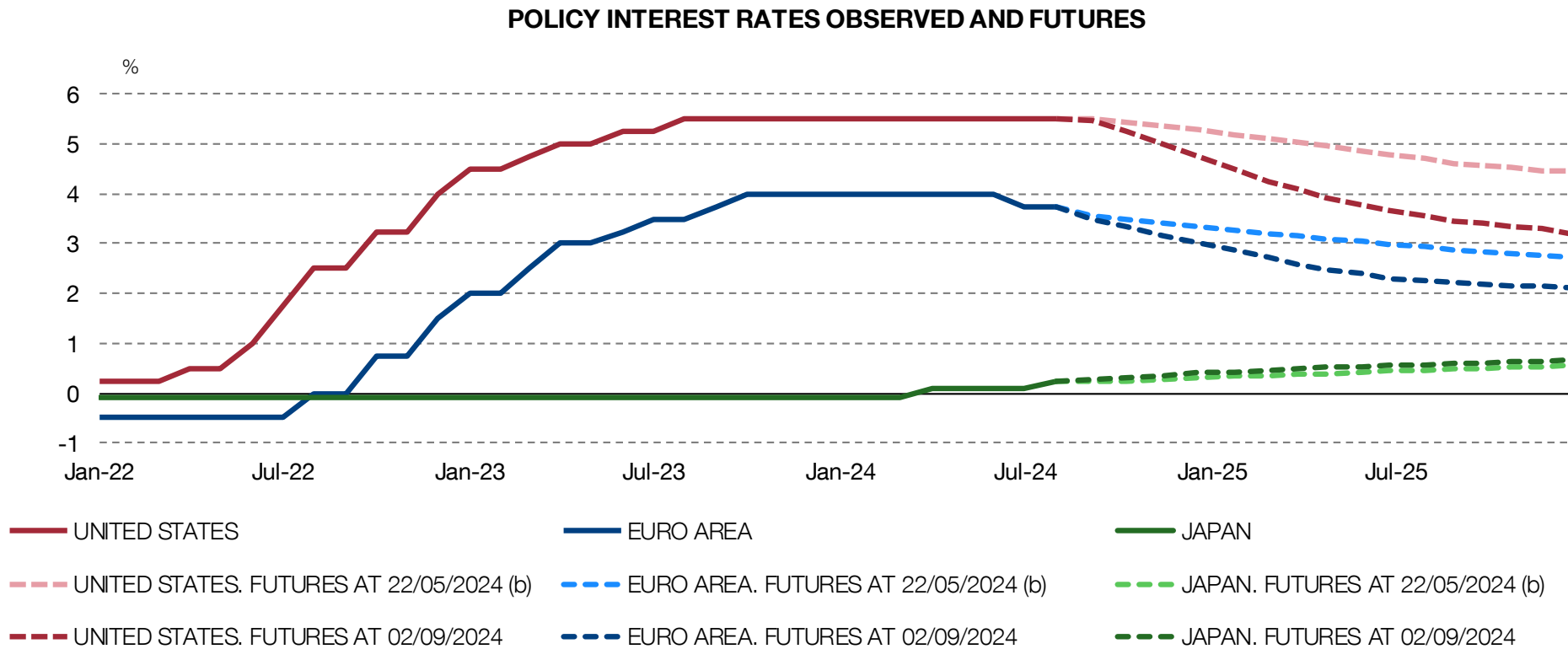


Source: Refinitiv. Latest data observed: 2 September (the cut-off date for the technical assumptions).



FINANCIAL MARKETS ARE PRICING IN BIGGER POLICY RATE CUTS IN THE UNITED STATES AND THE EURO AREA THAN A FEW MONTHS AGO

- In Japan, expectations for the future path of interest rates have been revised up, largely after the Bank of Japan's unexpected decision to raise its policy rates in July (to 0.25%)
- Changes in financial market expectations for the course of monetary policy in the United States, the euro area and Japan have led both the dollar and the euro to depreciate notably against the yen, although the euro has appreciated against the dollar and hardly changed in nominal effective terms



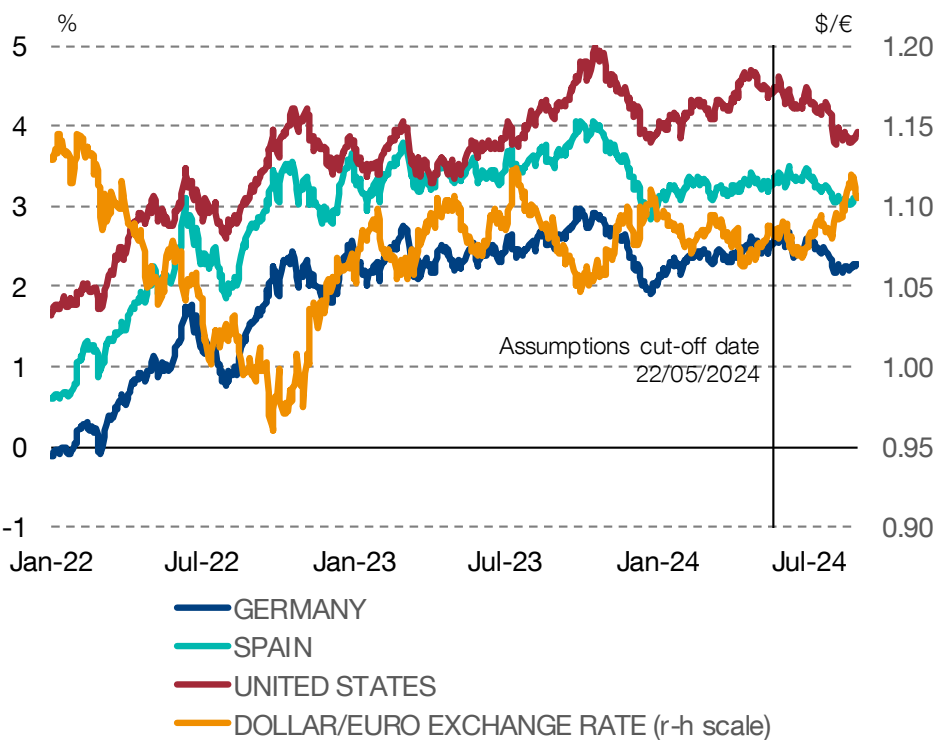
Sources: Refinitiv, Banco de España and Federal Reserve.
(a) Interest rates priced in by the respective futures markets (30-day Federal Funds futures, euro area overnight index futures, Japanese overnight index swaps).
(b) 22 May is the cut-off date for the Banco de España's June 2024 projection exercise.



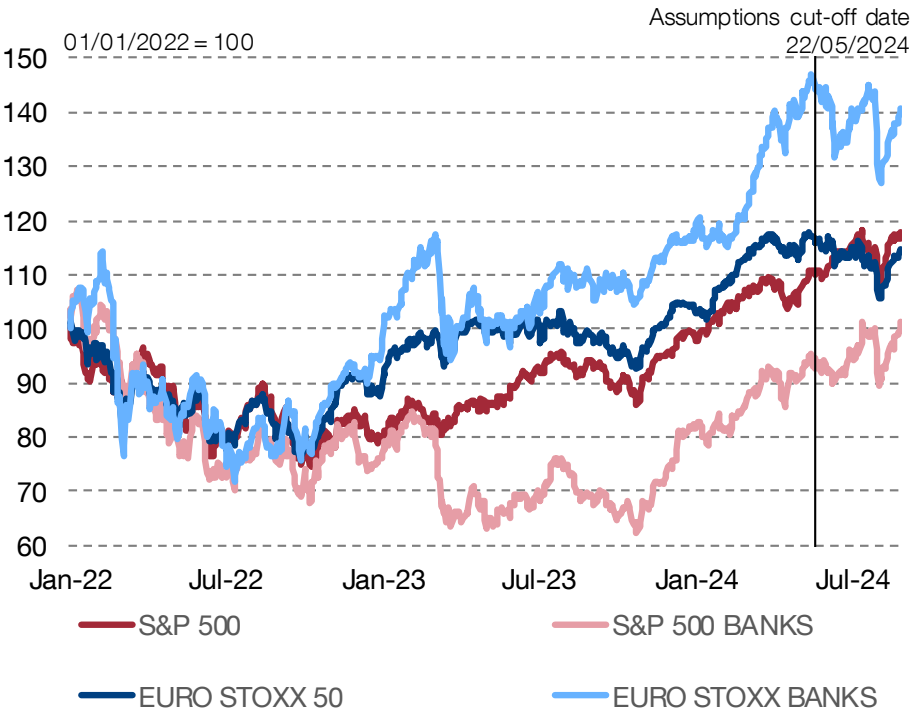
EARLY AUGUST SAW A BOUT OF SHARP VOLATILITY IN INTERNATIONAL FINANCIAL MARKETS

- This episode was linked, among other factors, to an unexpected increase in policy interest rates in Japan and to weak US jobs data
- Admittedly, this bout of instability died down relatively quickly and innocuously, but with financial asset prices at very high levels in many market segments, it demonstrated how sensitive they are to unexpected changes in the macro-financial and geopolitical environment

10-YEAR SOVEREIGN DEBT YIELDS AND EXCHANGE RATE



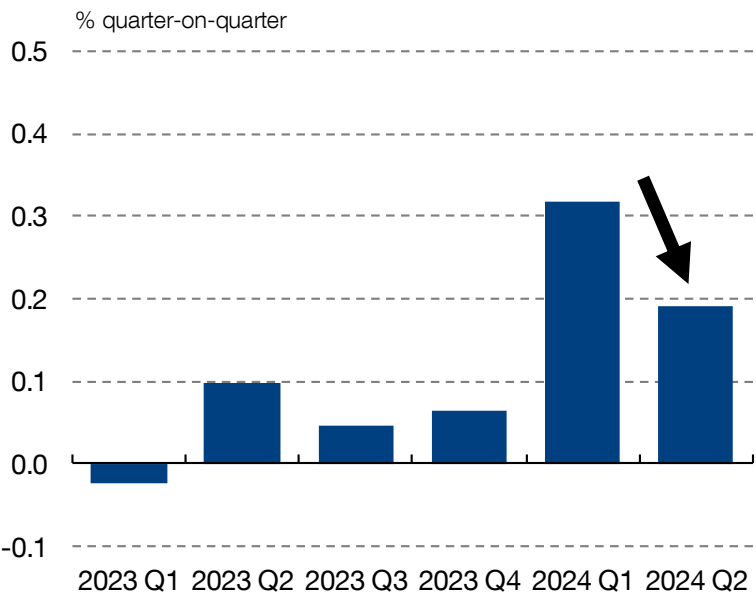
STOCK MARKET INDICES



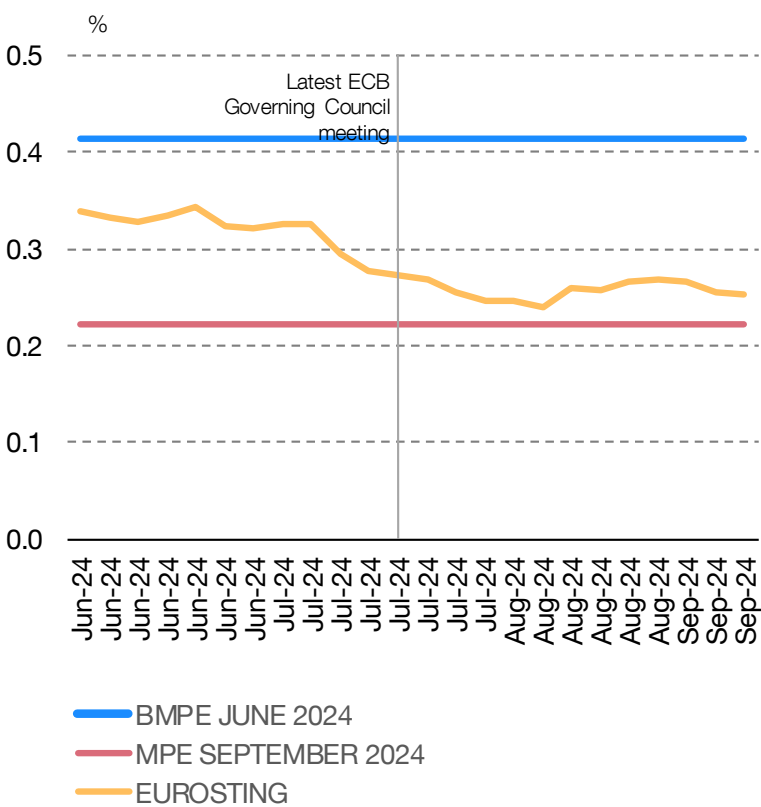
Sources: Refinitiv Datastream, Bloomberg Data License and own calculations. Latest observation: 30/08/2024.

IN THE EURO AREA, THE RECOVERY IN ACTIVITY IS PROVING SOMEWHAT WEAKER THAN EXPECTED, WHILE HEADLINE INFLATION CONTINUES TO GRADUALLY DECELERATE

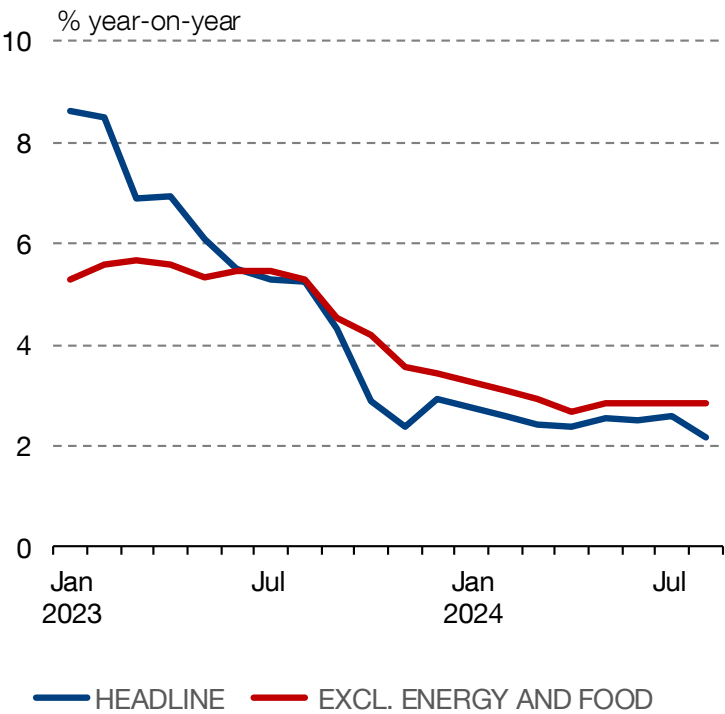
EURO AREA GDP



BMPE VS EUROSTING. 2024 Q3



EURO AREA HEADLINE AND CORE INFLATION

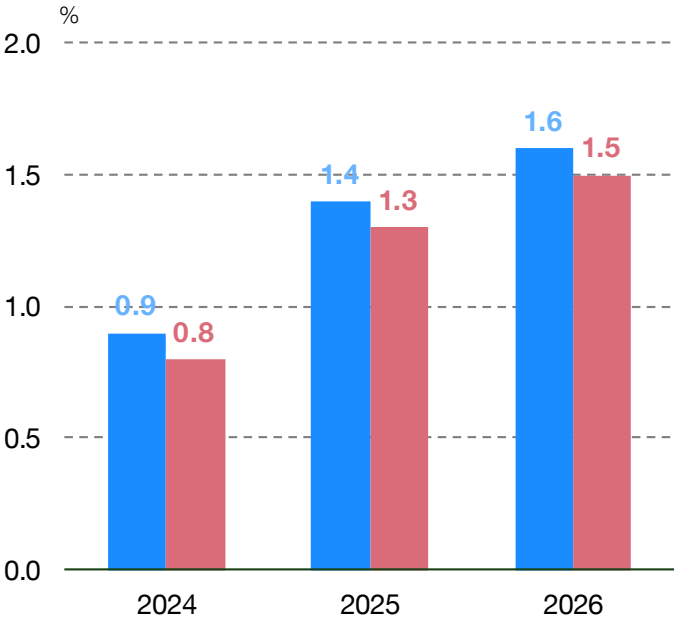


Sources: Eurostat, ECB and Banco de España. Latest observation: Eurosting (6 September); Inflation (August 2024 flash estimate).

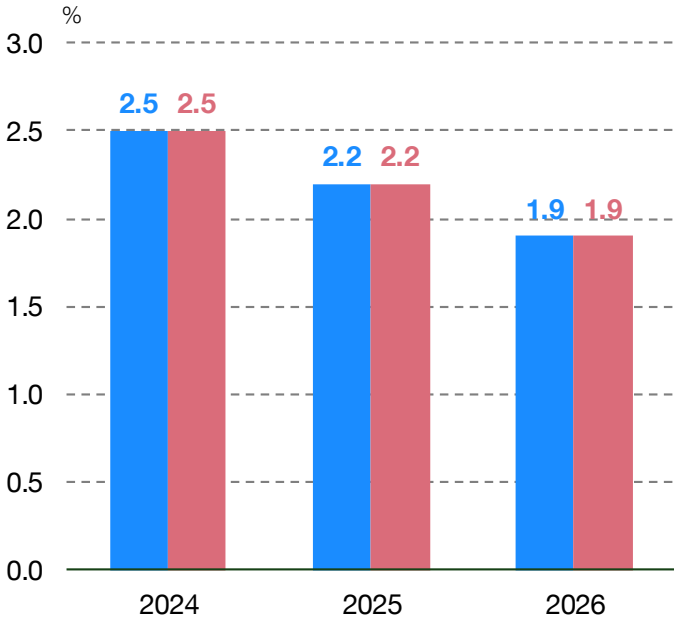
IN THE LATEST ECB STAFF MACROECONOMIC PROJECTIONS, GDP GROWTH WAS REVISED DOWNWARDS OVER THE PERIOD 2024-2026 AND CORE INFLATION WAS REVISED UPWARDS IN 2024

EURO AREA PROJECTIONS

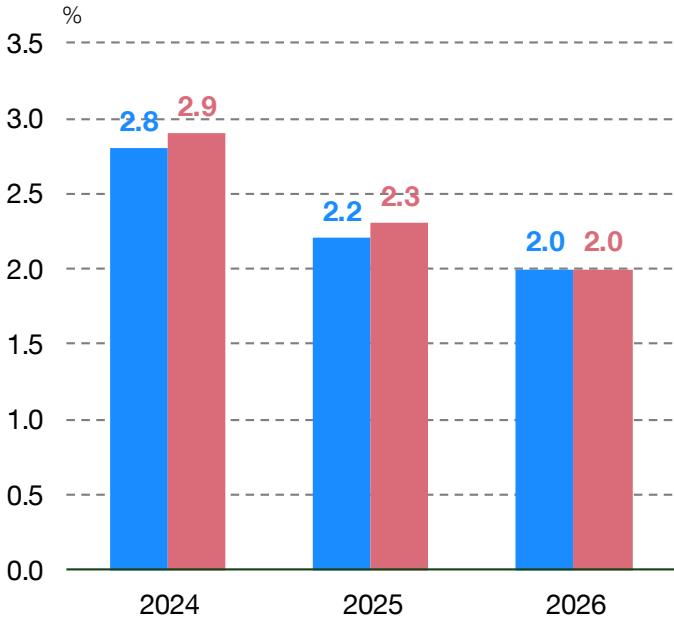
GDP GROWTH



HEADLINE INFLATION



CORE INFLATION



BMPE JUNE 2024 MPE SEPTEMBER 2024

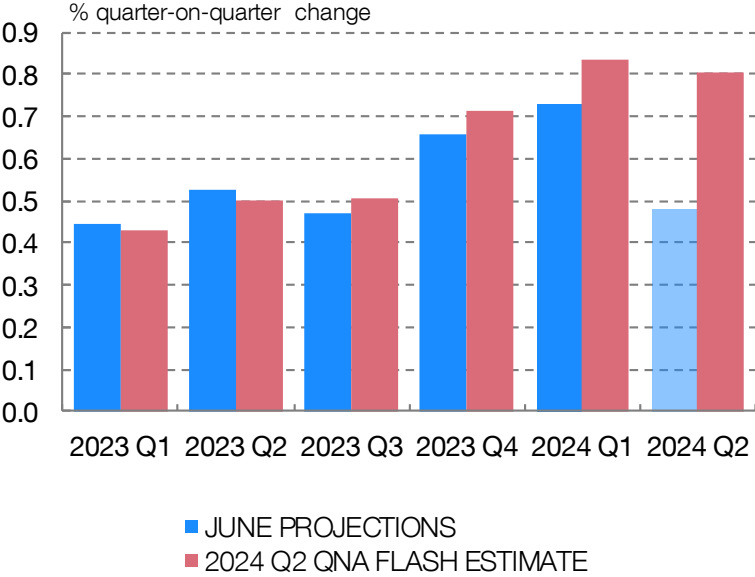
Source: ECB.



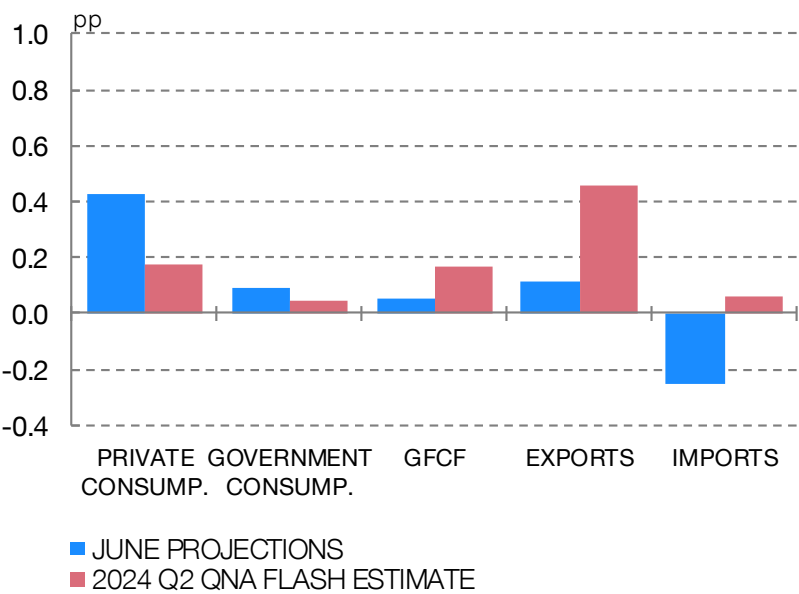
SPAIN'S GDP GROWTH SURPRISED ON THE UPSIDE AGAIN IN Q2

- The notable strength of the Spanish economy in recent quarters – both compared with the euro area and with the economy’s potential growth capacity – owes at least in part to a combination of factors. Noteworthy, among others, are the increase in the **population** (via migratory flows), the relative resilience of Spanish **manufacturing** compared with that of other European economies and, above all, the high contribution of **net external demand** to output growth. The latter reflects, among other factors, weak **imports** (**Focal point 2**), the sustained growth of exports of **non-travel services** and, in particular, the extraordinary momentum of **tourism exports**, underpinned by the growing geographical and seasonal diversification of international tourist flows to Spain
- In any event, despite these favourable dynamics, **household consumption** (**Focal point 1**) and **investment** surprised on the downside, so these demand headings, which are fundamental for robust and sustainable growth, continued to make relatively modest headway

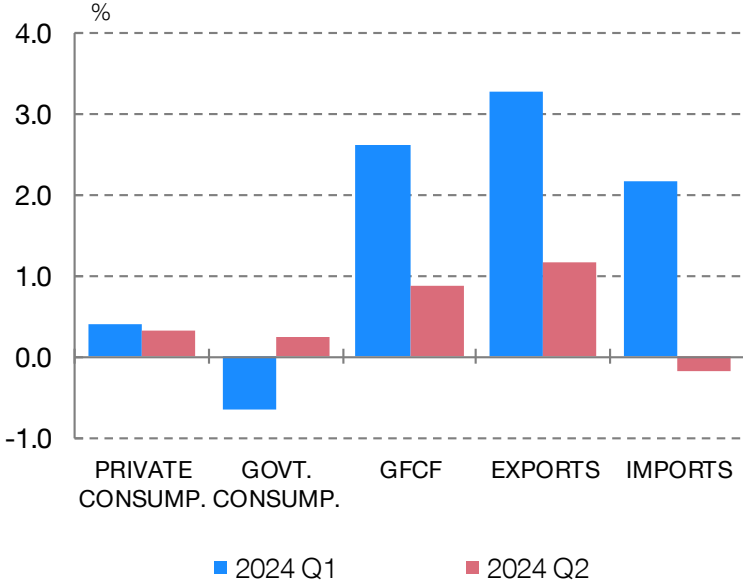
REAL GDP GROWTH



CONTRIBUTIONS TO GDP GROWTH IN 2024 Q2



QUARTER-ON-QUARTER GROWTH RATES

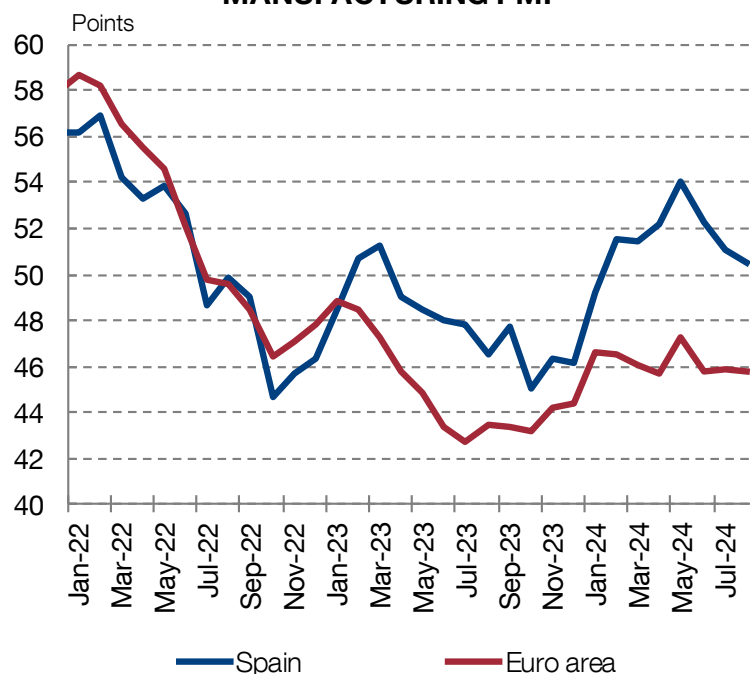


Sources: INE and Banco de España.

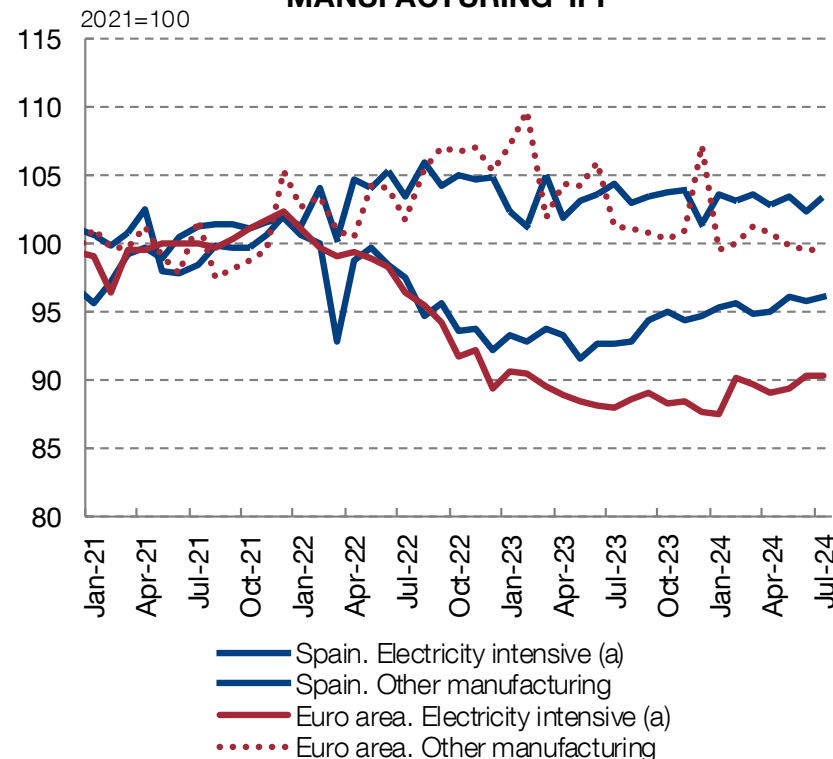
VARIOUS ACTIVITY INDICATORS POINT TO A MORE BUOYANT MANUFACTURING SECTOR IN SPAIN THAN IN THE EURO AREA

- The relative strength of Spanish manufacturing compared with the rest of the euro area is also reflected in the performance of nominal goods exports, albeit with notable cross-sector heterogeneity
- Some sectors, such as [pharmaceuticals and computer products](#), have performed particularly well (better than in the euro area) in recent quarters

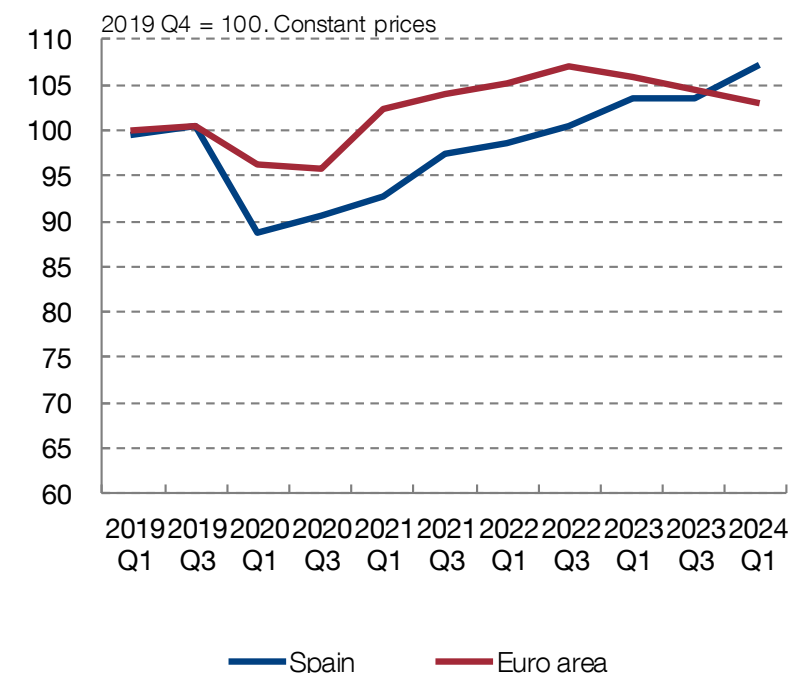
MANUFACTURING PMI



MANUFACTURING IPI



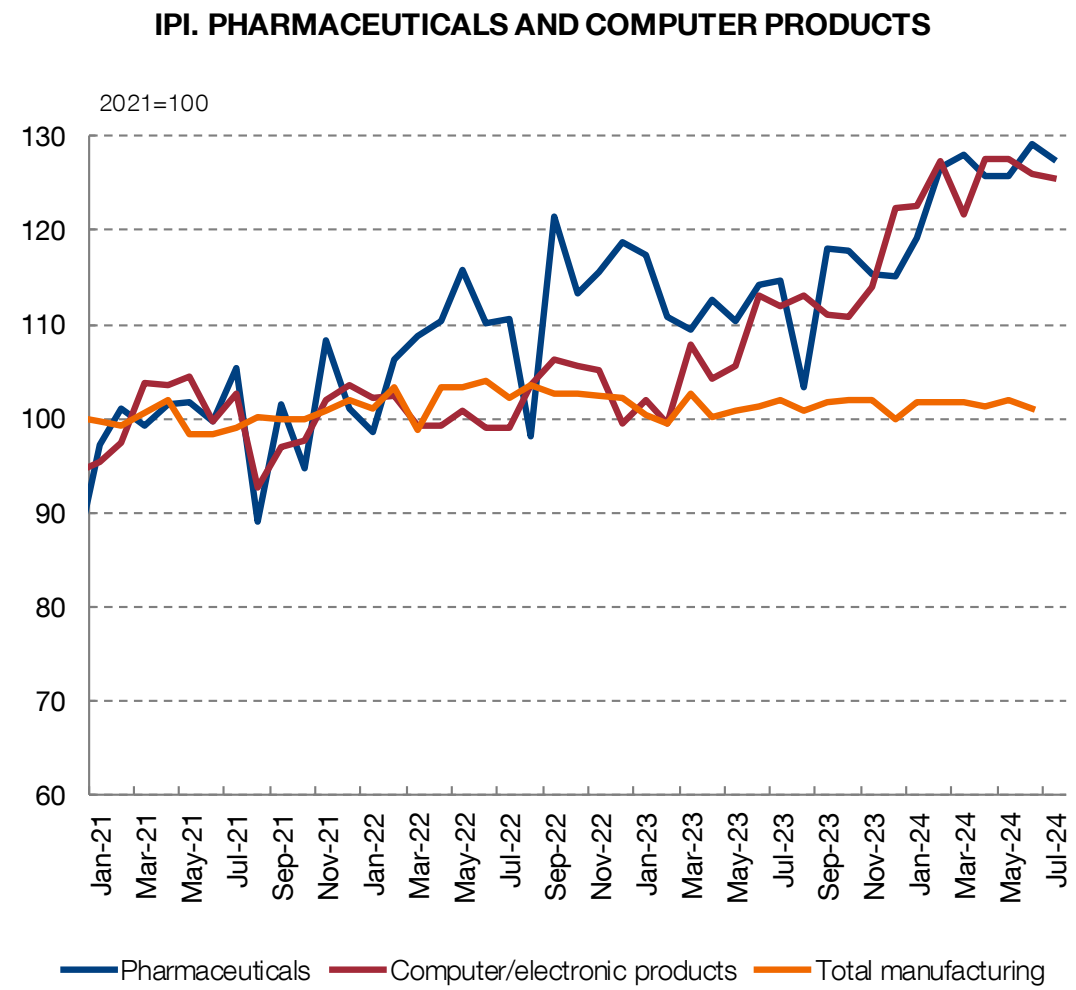
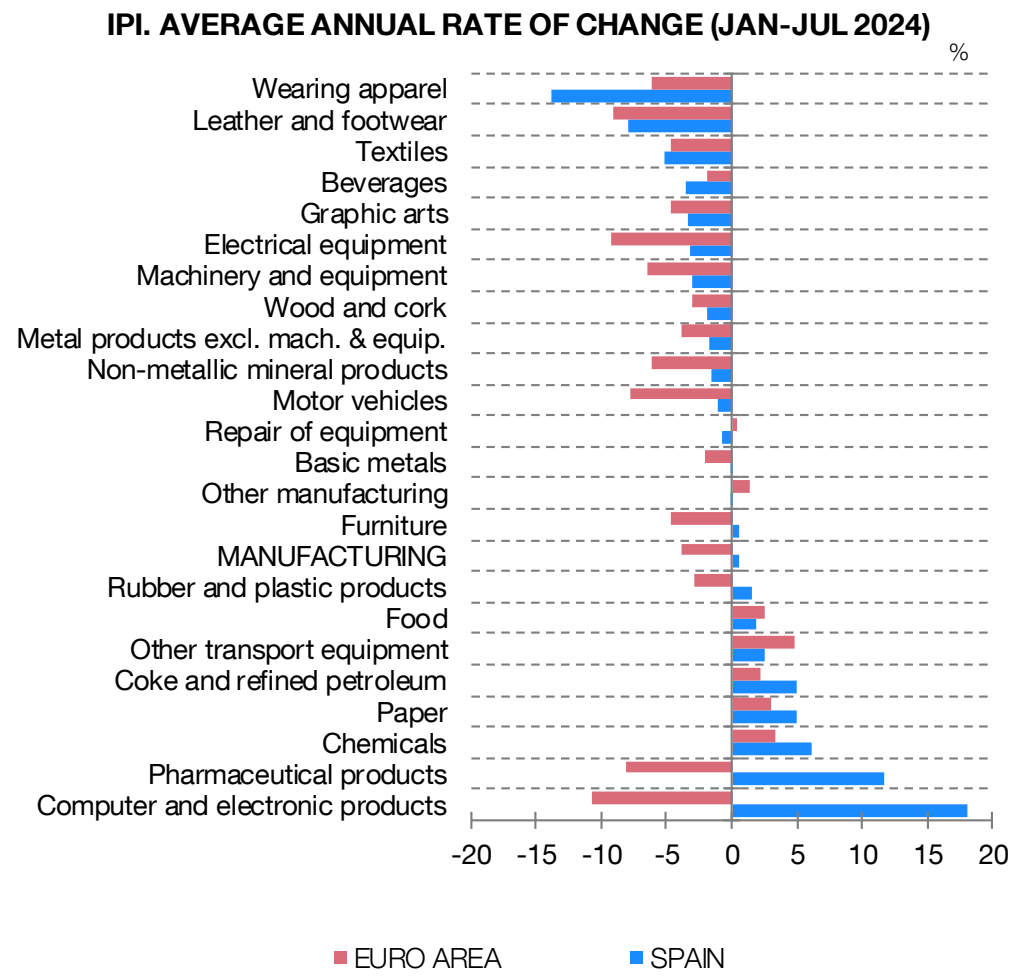
MANUFACTURING SECTOR VALUE ADDED



Sources: S&P Global and Eurostat. Latest observation for the PMI: August 2024. Latest observation for the IPI: July 2024. Latest observation for value added: 2024 Q2.

(a) Energy-intensive manufacturing according to the [definition of the German Federal Statistical Office \(Destatis\)](#): 17 manufacture of paper and paper products, 19 manufacture of coke and refined petroleum products, 20 chemicals, 23 other non-metallic mineral products and 24 basic metals.

SOME MANUFACTURING SECTORS, SUCH AS PHARMACEUTICALS AND COMPUTER PRODUCTS, HAVE PERFORMED VERY WELL IN RECENT QUARTERS

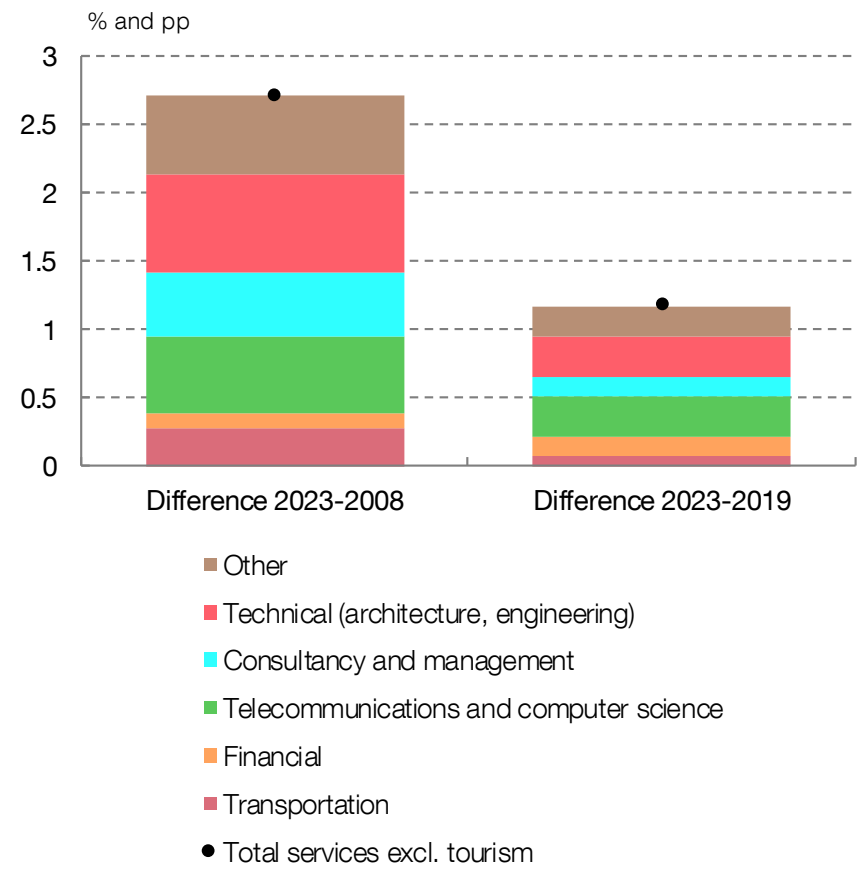


Source: Eurostat. Latest observation: July 2024.

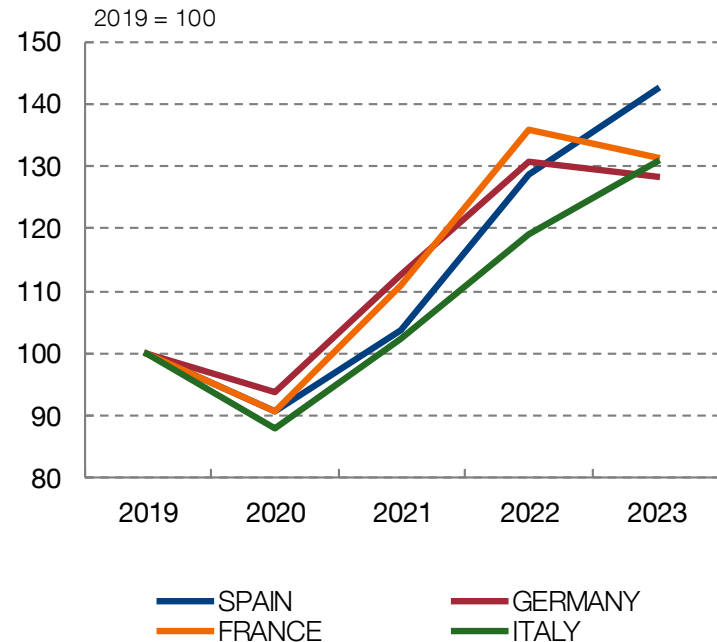


SPANISH EXPORTS OF NON-TRAVEL SERVICES SOARED AFTER THE PANDEMIC, MORE THAN IN THE OTHER MAJOR EURO AREA ECONOMIES

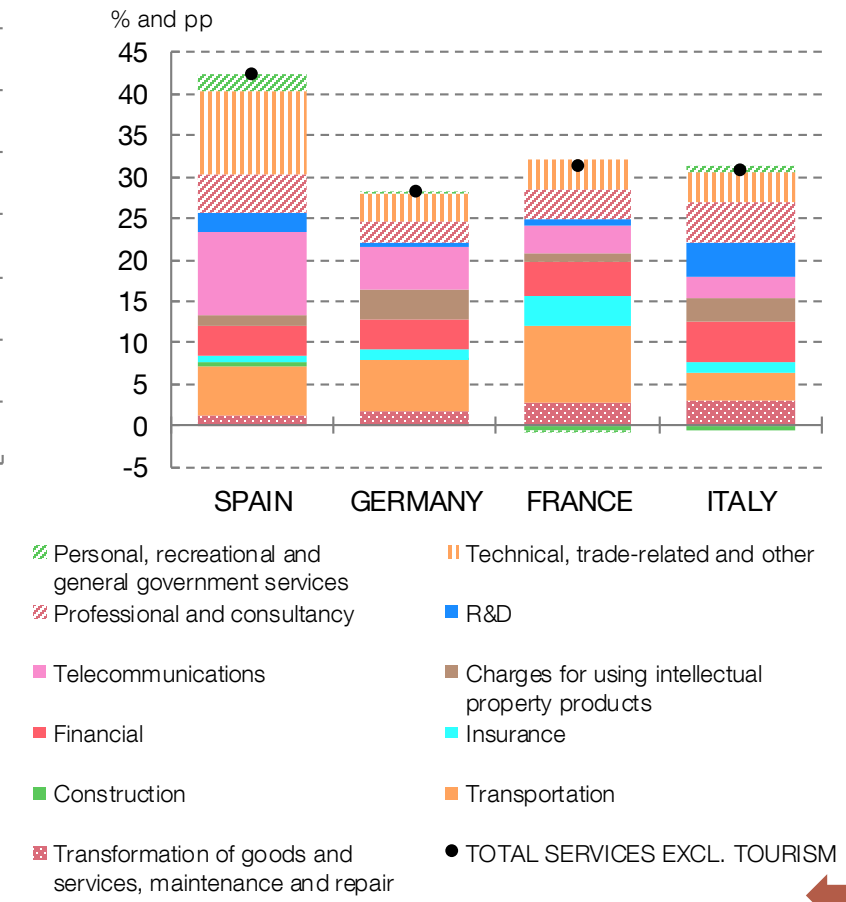
SHARE OF NON-TRAVEL SERVICES EXPORTS IN GDP (a)



NOMINAL EXPORTS OF NON-TRAVEL SERVICES



CONTRIBUTIONS TO THE RATE OF CHANGE OF NON-TRAVEL SERVICES EXPORTS IN THE PERIOD 2019-2023

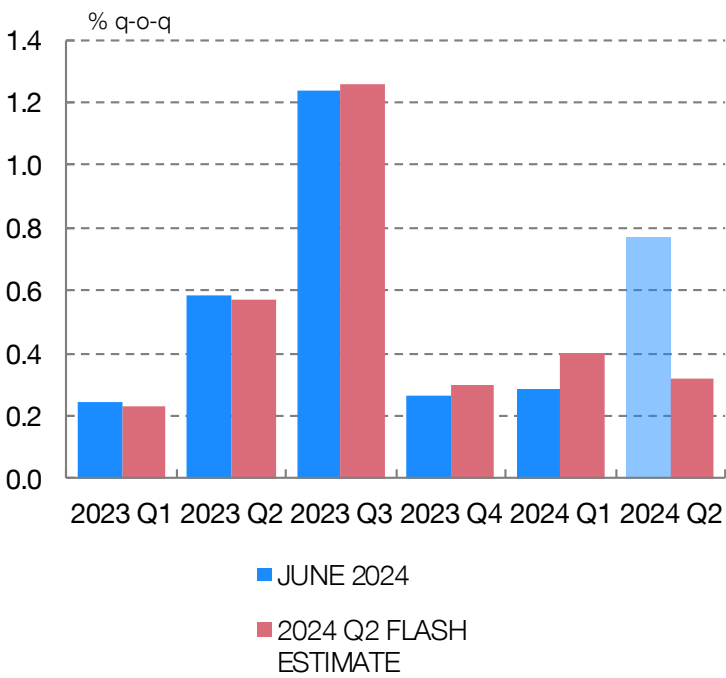


Sources: Eurostat and Banco de España.
(a) “Other” includes insurance; construction; R&D; personal, recreational and general government services; charges for using intellectual property products; and transformation of goods, maintenance and repair.

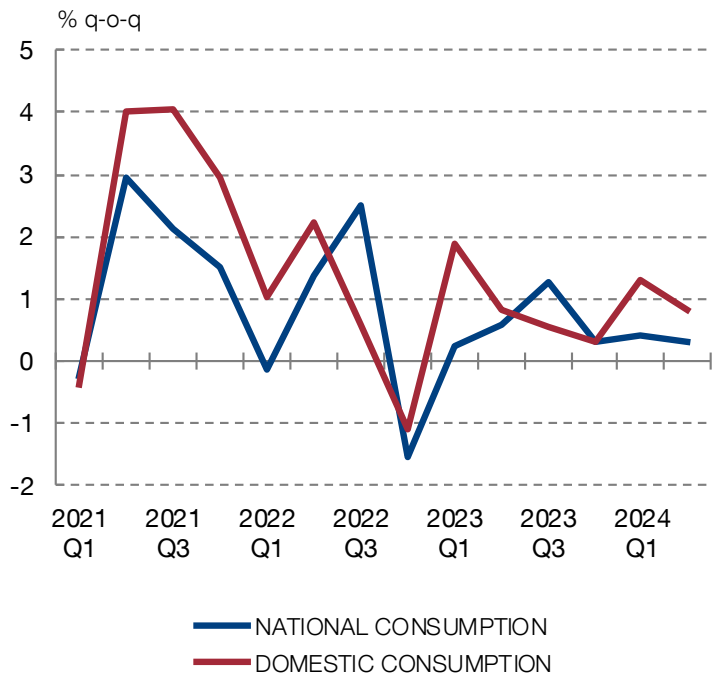
HOUSEHOLD CONSUMPTION SURPRISED ON THE DOWNSIDE IN Q2, WITH QUARTER-ON-QUARTER GROWTH OF 0.3%, BELOW THE 0.8% ENVISAGED IN THE BANCO DE ESPAÑA JUNE PROJECTIONS

- Flash estimates for Q2 again signalled stronger growth in domestic consumption (0.8%) than in national consumption (0.3%)
- The increase in domestic consumption was driven by growth in spending on non-durable goods and services, while spending on durable goods sank by 4.2% quarter-on-quarter, after the rises seen in previous quarters

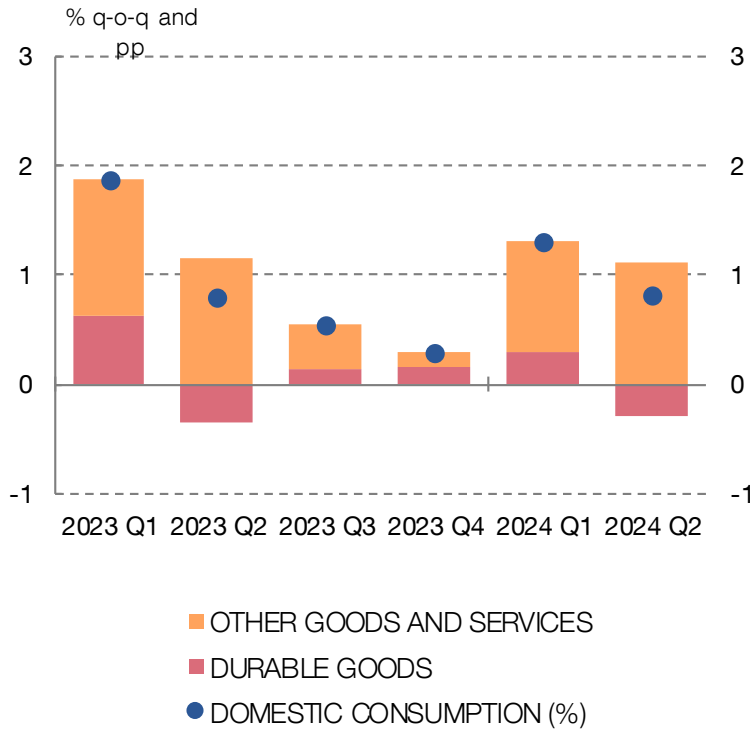
PRIVATE CONSUMPTION



NATIONAL AND DOMESTIC CONSUMPTION

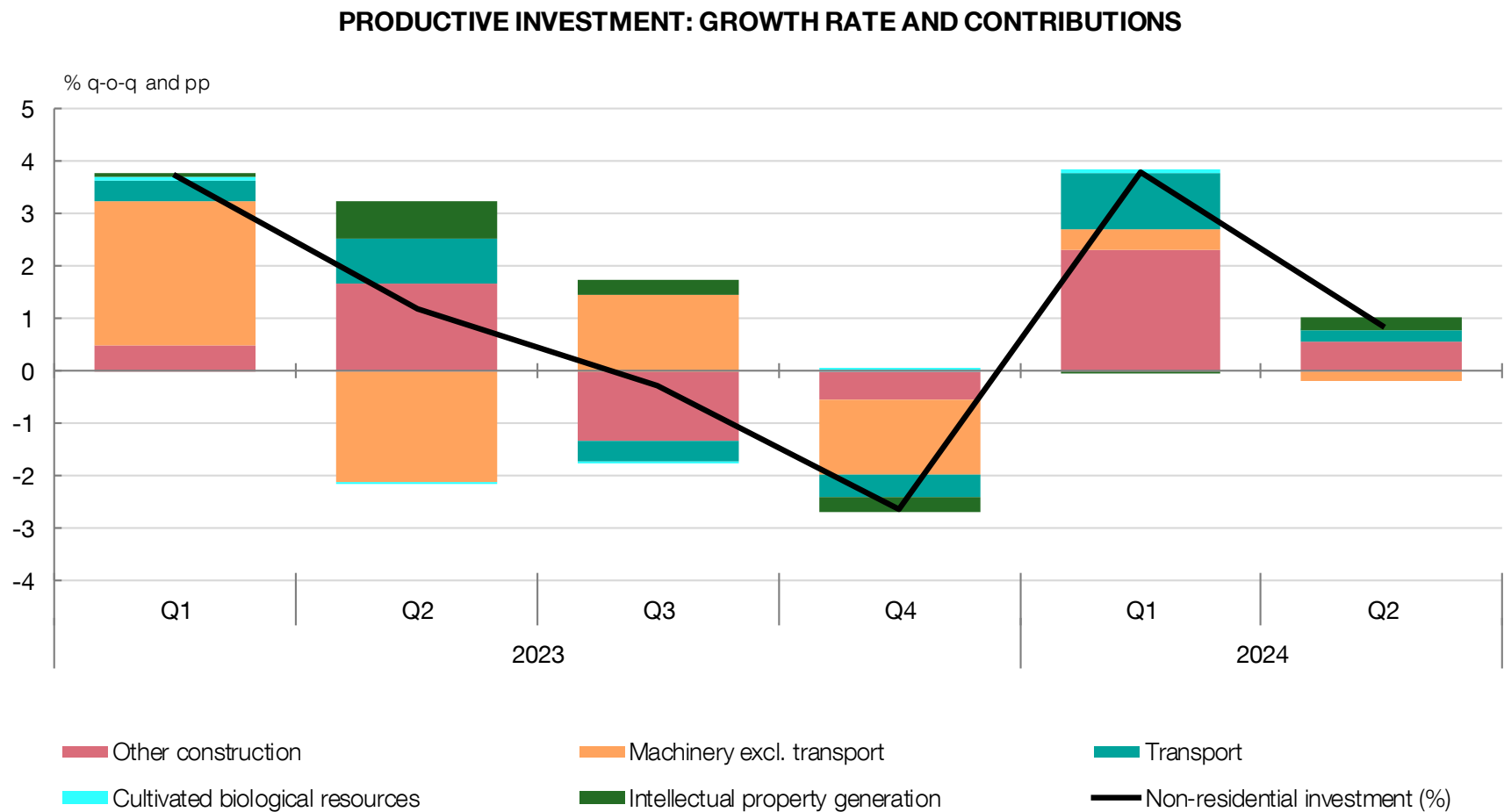


HOUSEHOLD CONSUMPTION: GROWTH RATE AND CONTRIBUTIONS



Sources: INE and Banco de España.

AFTER THE GROWTH SEEN IN EARLY 2024, PRODUCTIVE INVESTMENT SLOWED IN Q2

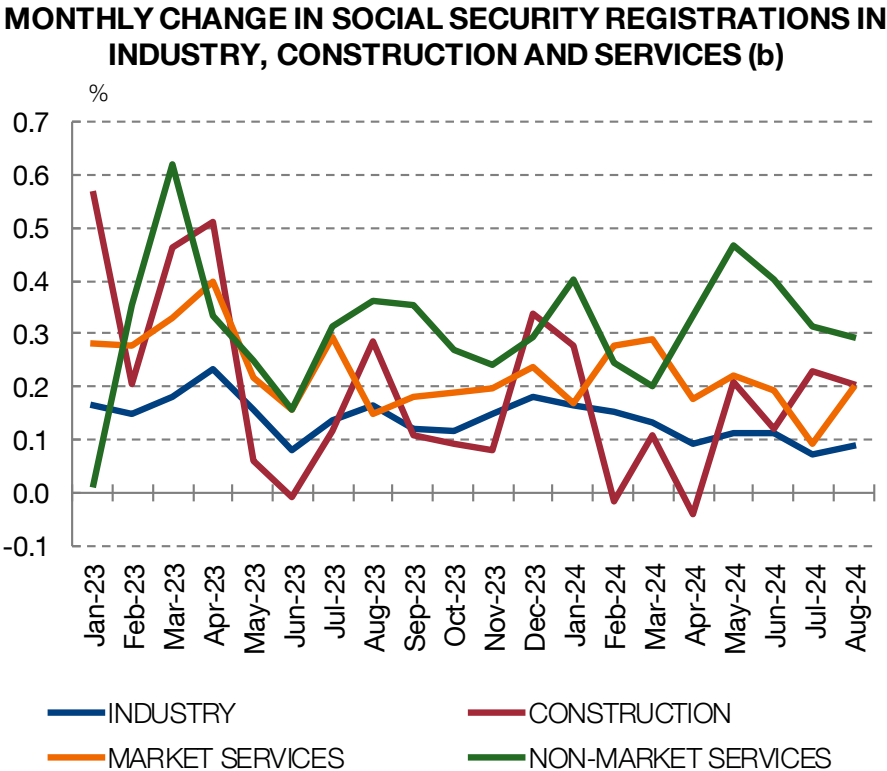
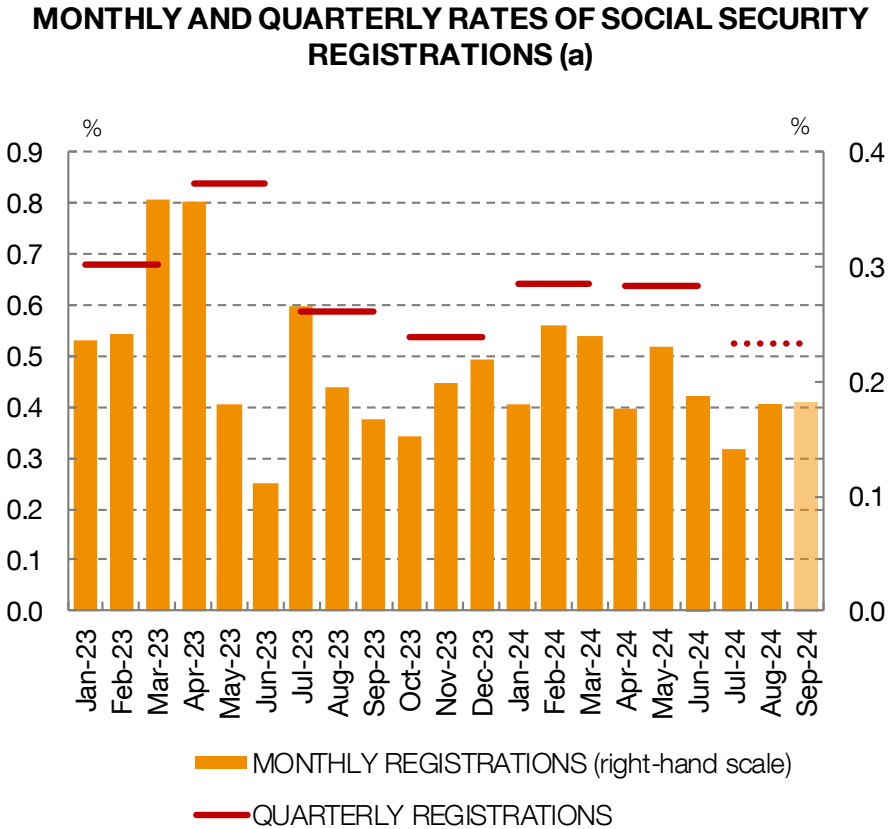


Source: INE.



JOB CREATION APPEARS TO HAVE SLOWED IN Q3, AFTER A HIGHLY BUOYANT FIRST HALF OF THE YEAR

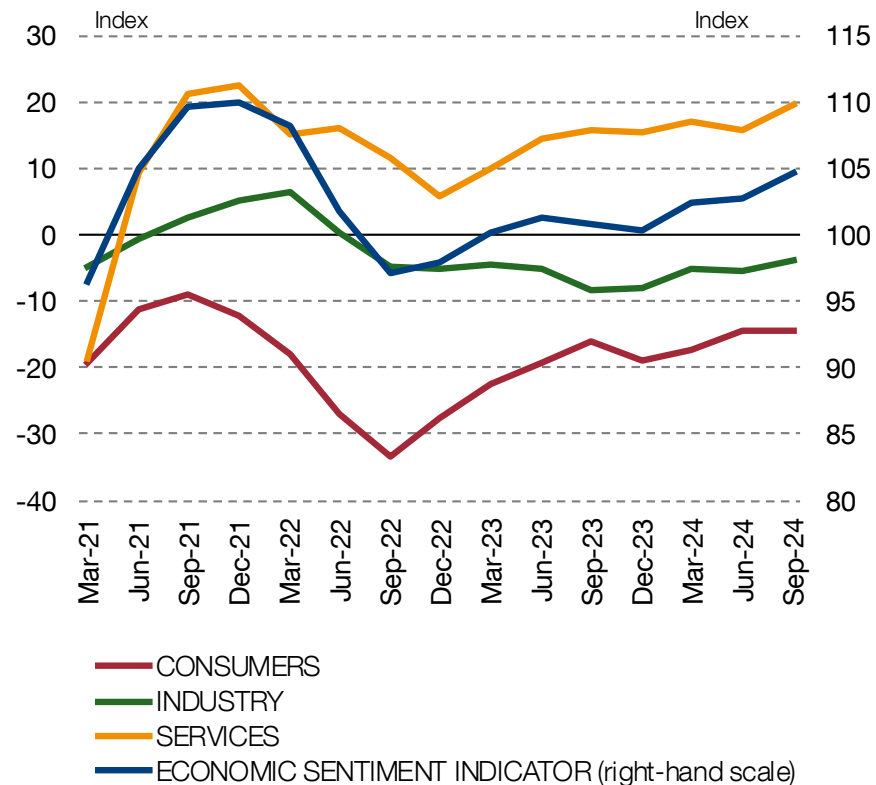
- Employment developments have continued to be uneven across sectors in recent months, with a notable slowdown in services, especially non-market services. By contrast, the upturn in hiring in the construction sector is showing signs of persisting after a weak start to the year



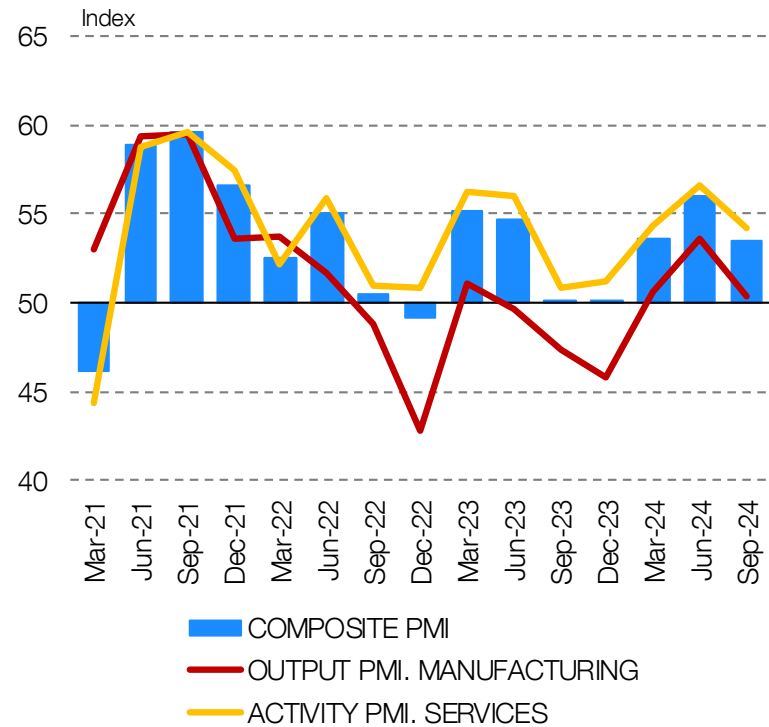
Source: Ministerio de Inclusión, Seguridad Social y Migraciones. Latest observation: August 2024.
(a) Seasonally adjusted monthly and quarterly rates. The predicted rate for 2024 Q3 is calculated based on the data for July and August and the ARIMA model projection for September.
(b) Seasonally adjusted monthly rates.

THE EUROPEAN COMMISSION'S ECONOMIC SENTIMENT INDICATOR FOR SPAIN CONTINUED TO IMPROVE IN Q3, ALTHOUGH THE PMIs FELL RELATIVE TO 2024 Q2

CONFIDENCE INDICATORS (a)



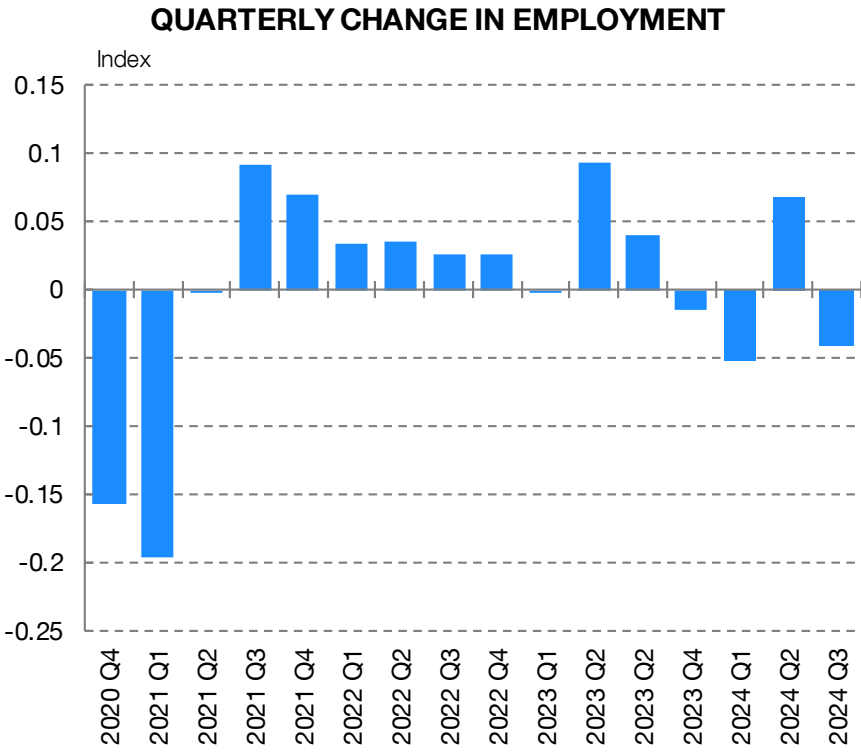
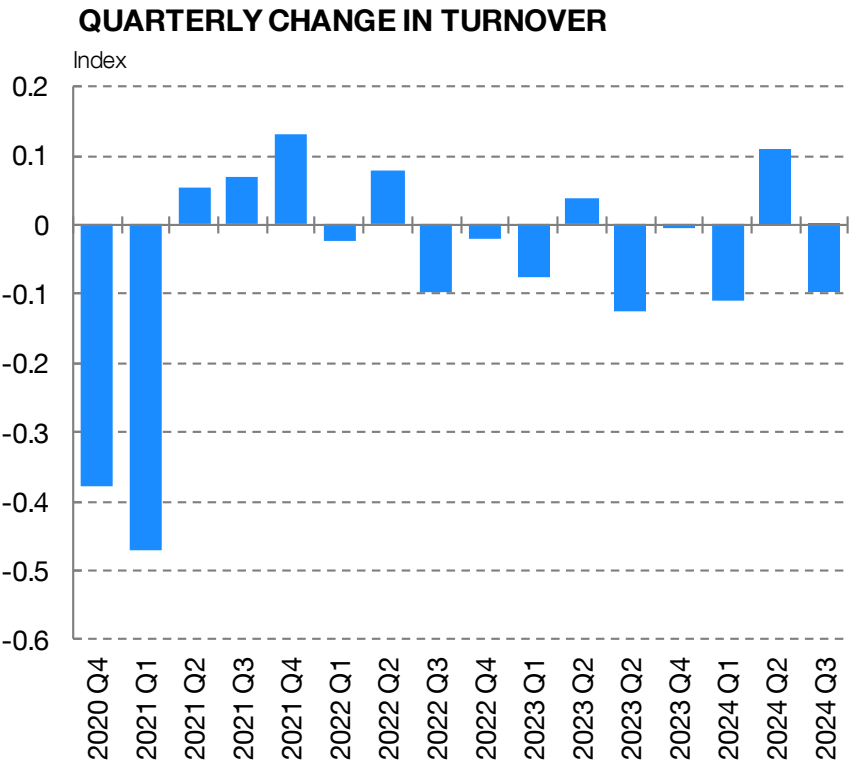
PURCHASING MANAGERS' INDICES



Sources: European Commission and S&P Global.
(a) The figure for Q3 includes data for July and August for the confidence indicators and purchasing managers' indices.

THE EBAE POINTS TO A DECLINE IN TURNOVER AND EMPLOYMENT IN Q3

- Nevertheless, the decline in the turnover indicator was somewhat lower in 2024 Q3 than in the third quarters of 2022 and 2023



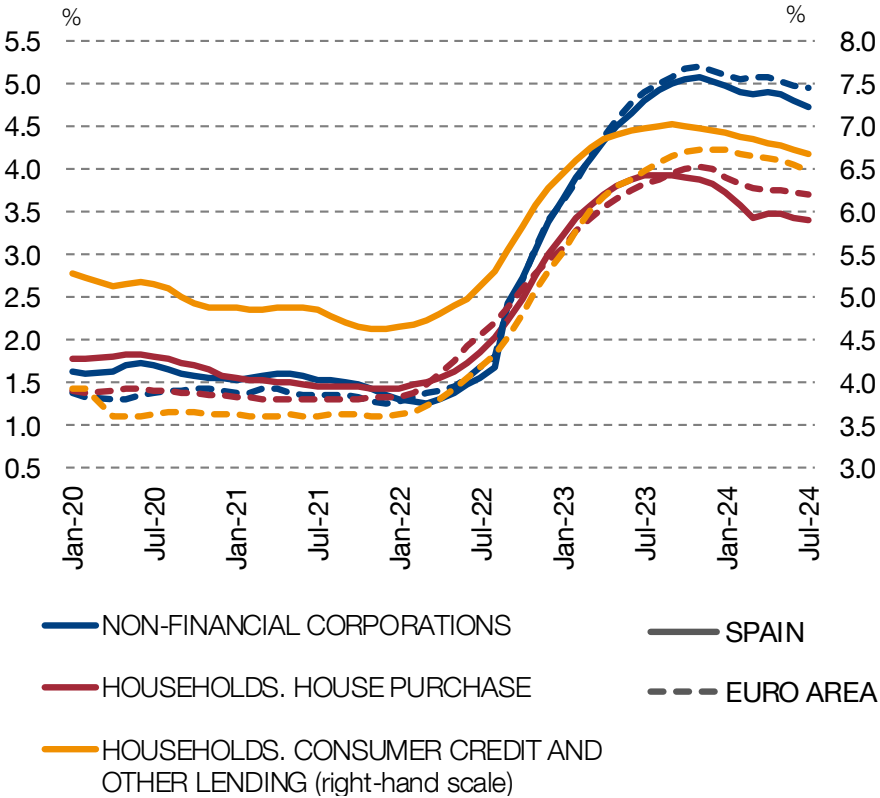
Source: Banco de España.
(a) Index constructed based on the following definitions: Significant decrease = -2; Slight decrease = -1; Unchanged = 0; Slight increase = 1; and Significant increase = 2.



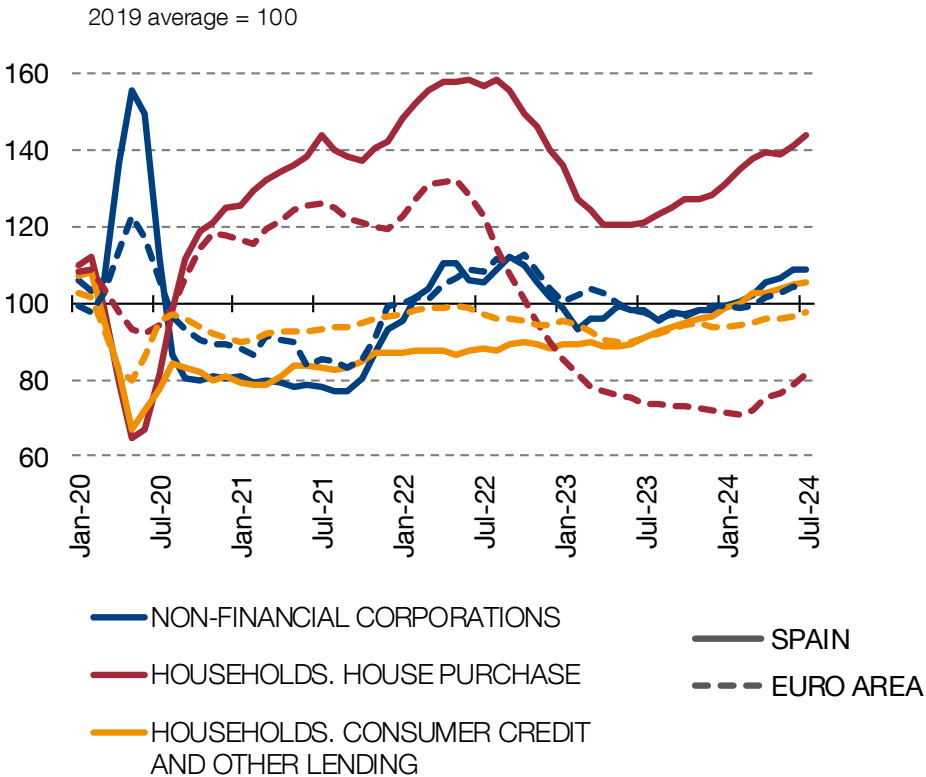
THE COST OF NEW LOANS TO HOUSEHOLDS AND FIRMS CONTINUED ON THE DOWNWARD PATH IT HAS FOLLOWED SINCE 2023 Q4

- New lending has grown across the board in recent months, while outstanding amounts have begun to show signs of recovery

COST OF NEW BANK LOANS (a)



NEW LENDING (b)



Source: ECB. Latest observation: July 2024.

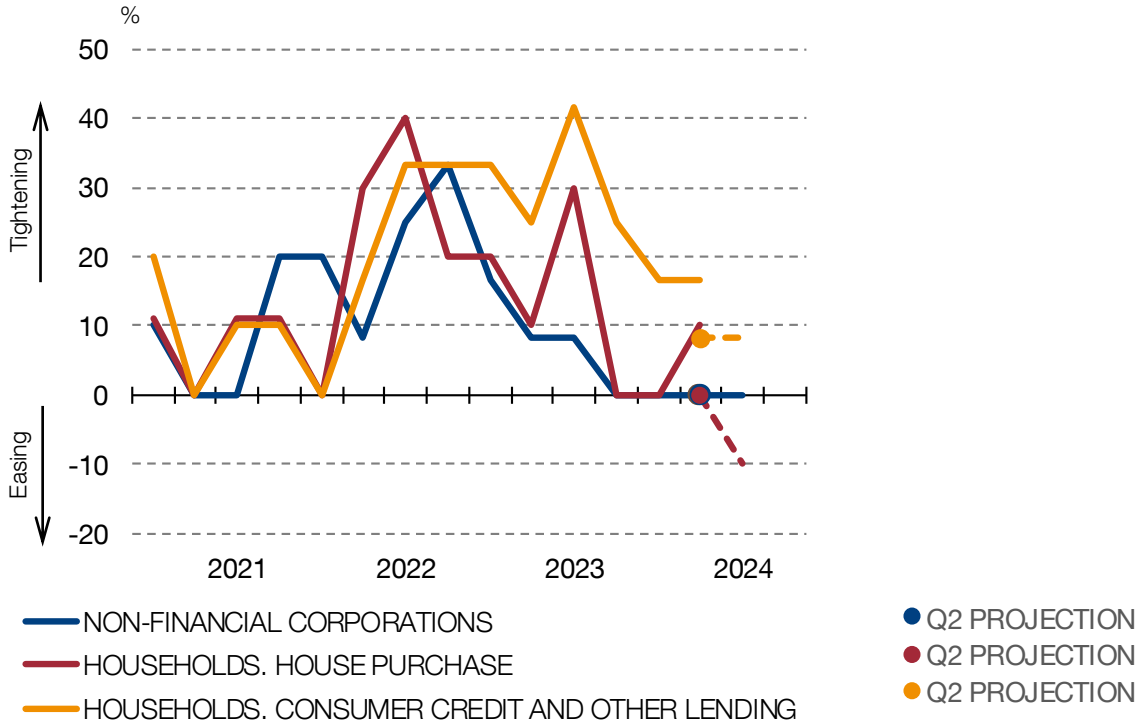
(a) Bank interest rates are narrowly defined effective rates, i.e. they exclude related costs, such as repayment insurance premiums and fees. In addition, they are trend-cycle rates, in other words, they are adjusted for seasonality and the irregular component (small changes in the series without an identifiable regular pattern or trend).

(b) Seasonally adjusted cumulative three-month flows compared with the monthly average for 2019.

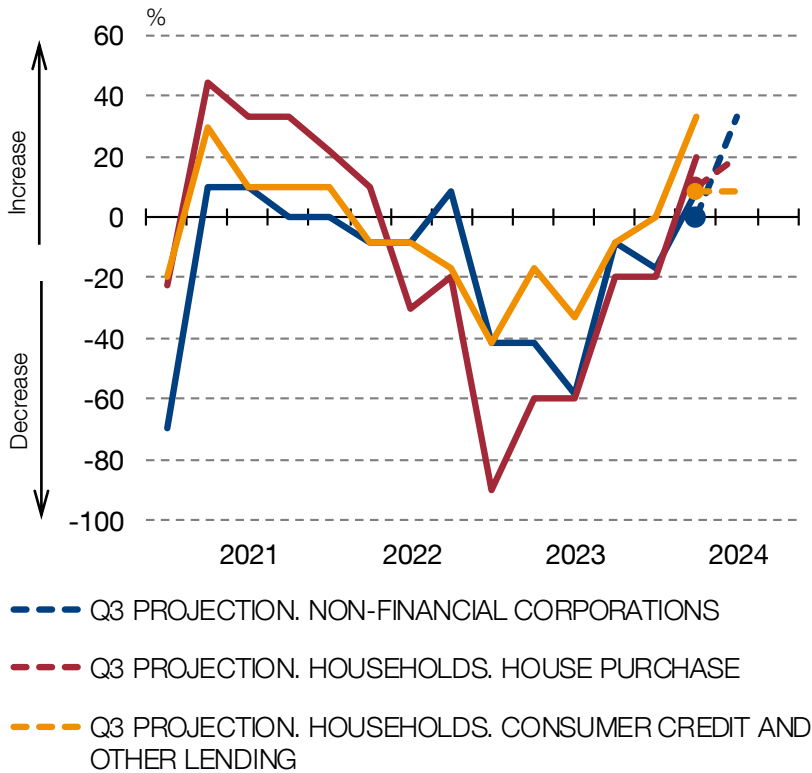
CREDIT STANDARDS WERE UNCHANGED IN Q2 FOR LOANS TO FIRMS, BUT TIGHTENED SLIGHTLY FOR HOUSEHOLDS

- Loan demand increased across all segments, and more sharply than expected, for the first time since 2021. Banks expect it to continue to grow in Q3
- SMEs' perception of banks' willingness to lend improved in Q2

CHANGE IN CREDIT STANDARDS FOR LOANS IN SPAIN (a)



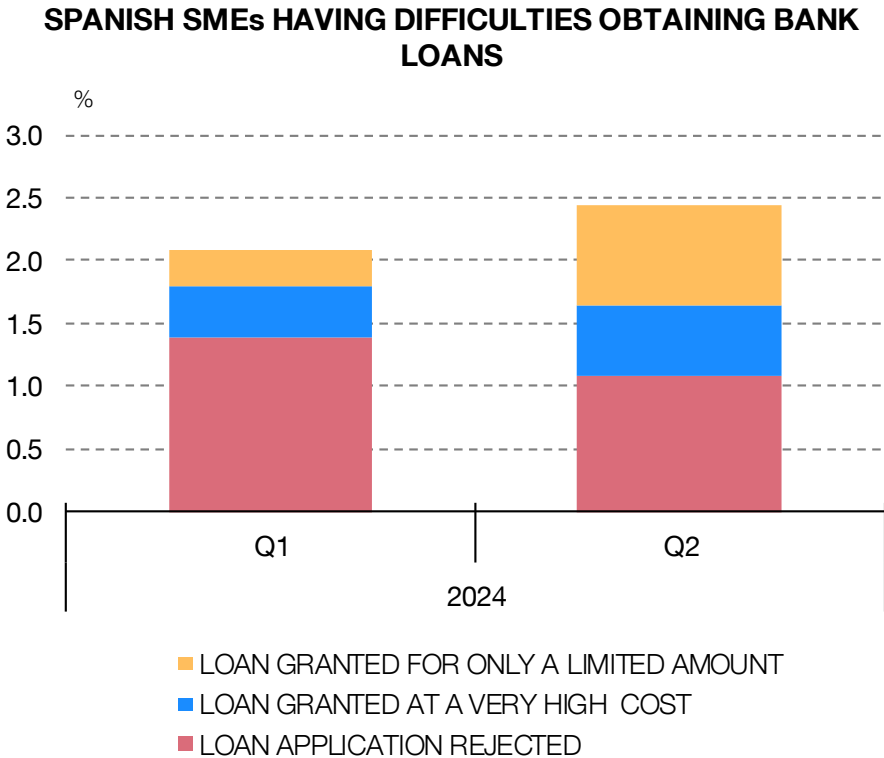
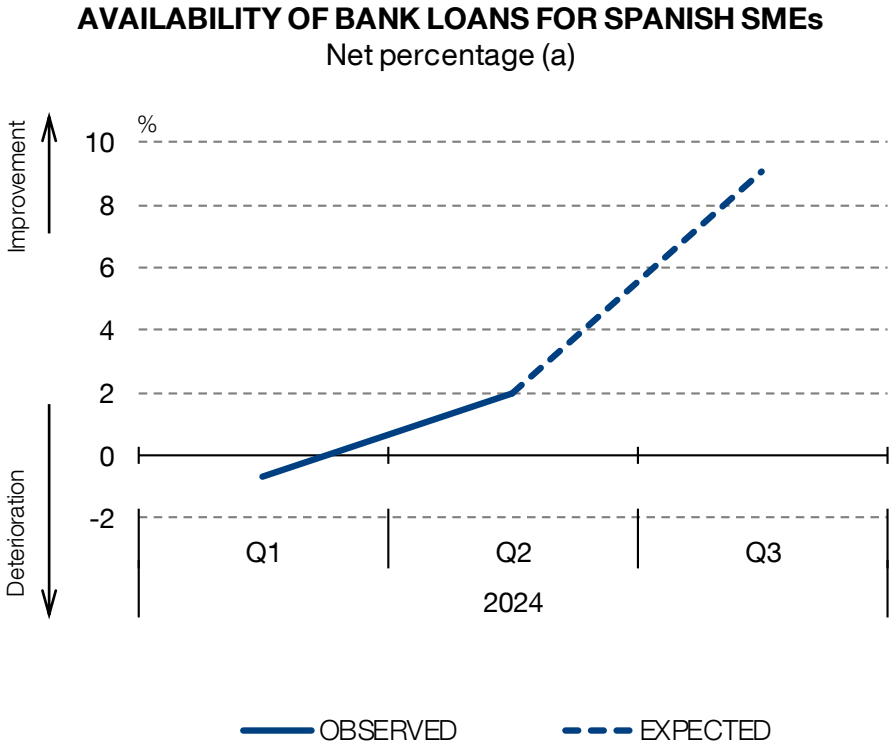
CHANGE IN DEMAND FOR LOANS IN SPAIN (b)



Source: Banco de España. Latest observation: 2024 Q2.
(a) Net percentage of banks reporting a tightening of credit standards.
(b) Net percentage of banks reporting an increase in demand.

SMEs' PERCEPTION OF BANKS' WILLINGNESS TO LEND IMPROVED IN Q2

- The percentage of SMEs whose loan applications were rejected fell in Q2, although the percentage of SMEs granted loans only for a limited amount or at a very high cost rose

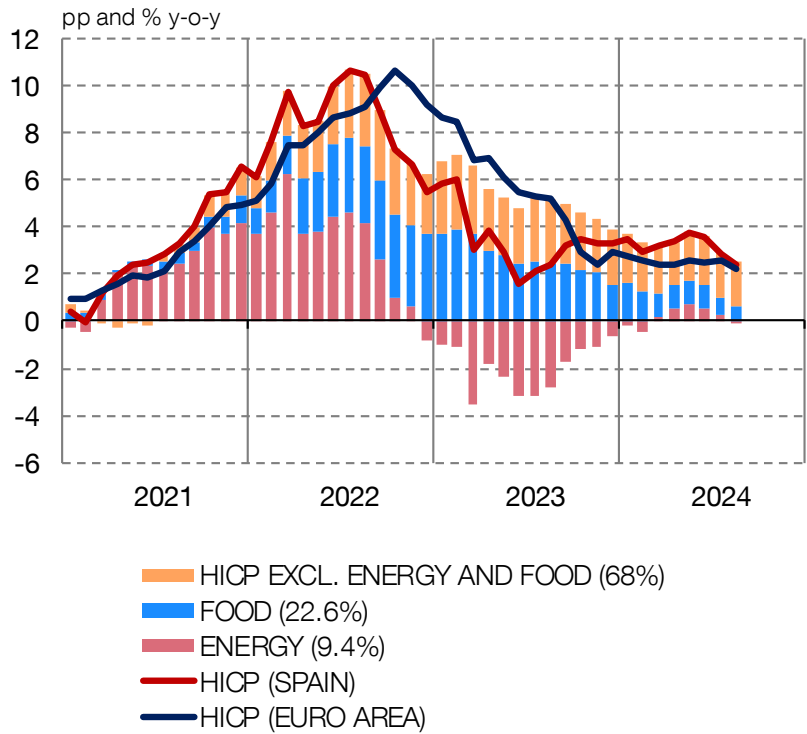


Source: ECB. Latest survey round: March, 2024 (2024-I) – June, 2024 (2024-II).
(a) Net percentage of firms reporting an improvement.

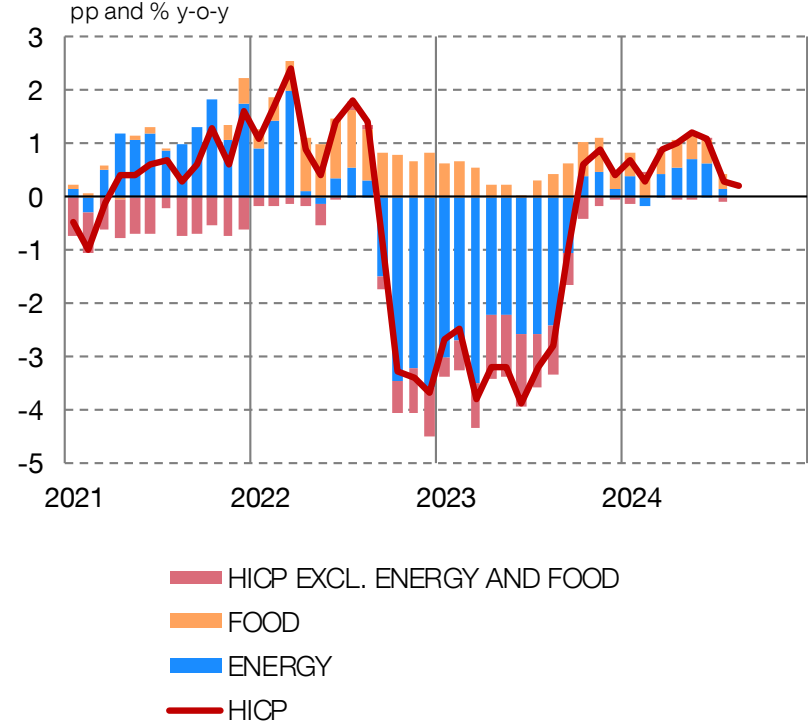
HEADLINE INFLATION HAS FALLEN APPRECIABLY IN RECENT MONTHS

- Headline inflation, as measured by the harmonised index of consumer prices (HICP), stood at 2.4% year-on-year in August, down by 1.4 pp on the May figure
- The inflation differential with respect to the euro area remains positive, but shrank noticeably in July and August

HEADLINE HICP AND CONTRIBUTIONS (a)



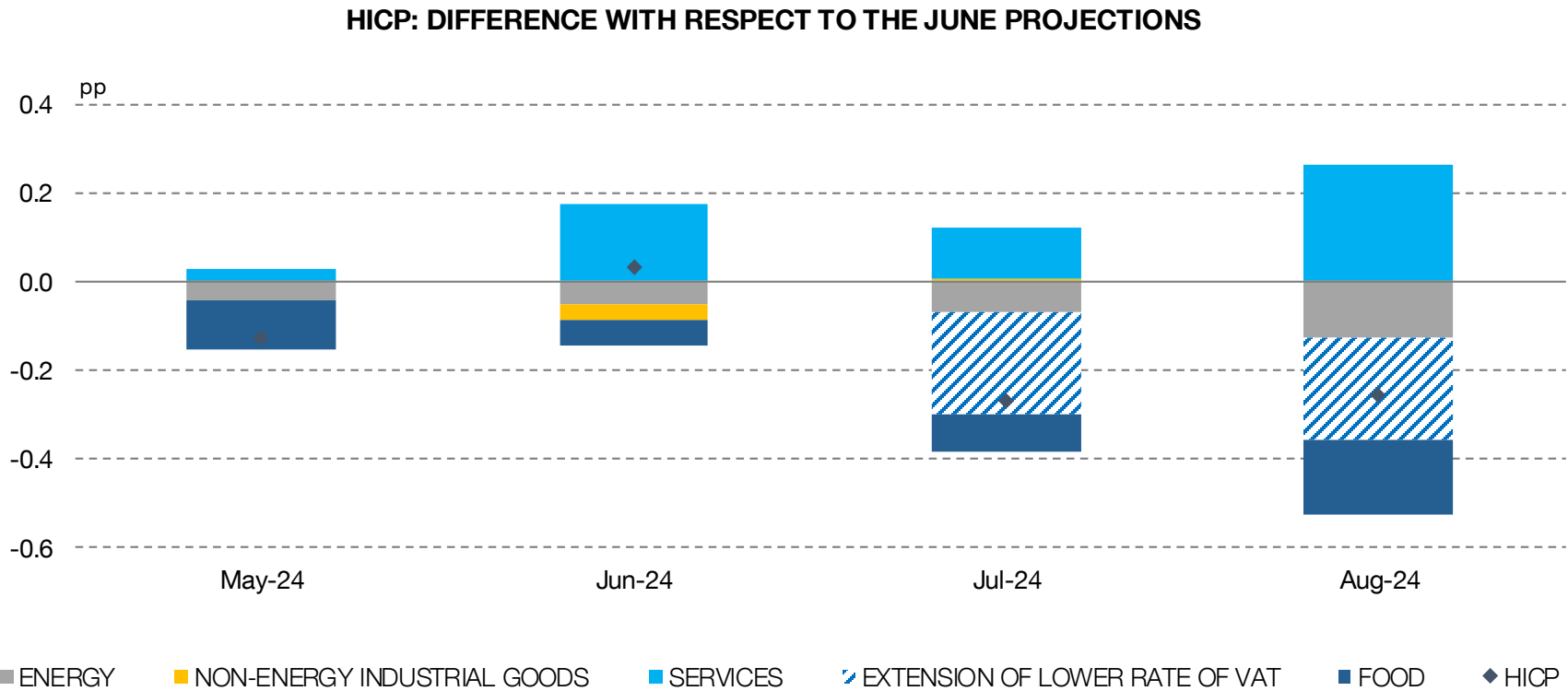
CONTRIBUTIONS TO THE INFLATION DIFFERENTIAL BETWEEN SPAIN AND THE EURO AREA



Sources: Eurostat, INE and Banco de España. Latest observation: August 2024.
(a) The weight of each component in headline HICP in 2024 is given in brackets.

THE RECENT EASING OF HEADLINE INFLATION HAS OCCURRED SOMEWHAT FASTER THAN ENVISAGED IN THE BANCO DE ESPAÑA JUNE PROJECTIONS

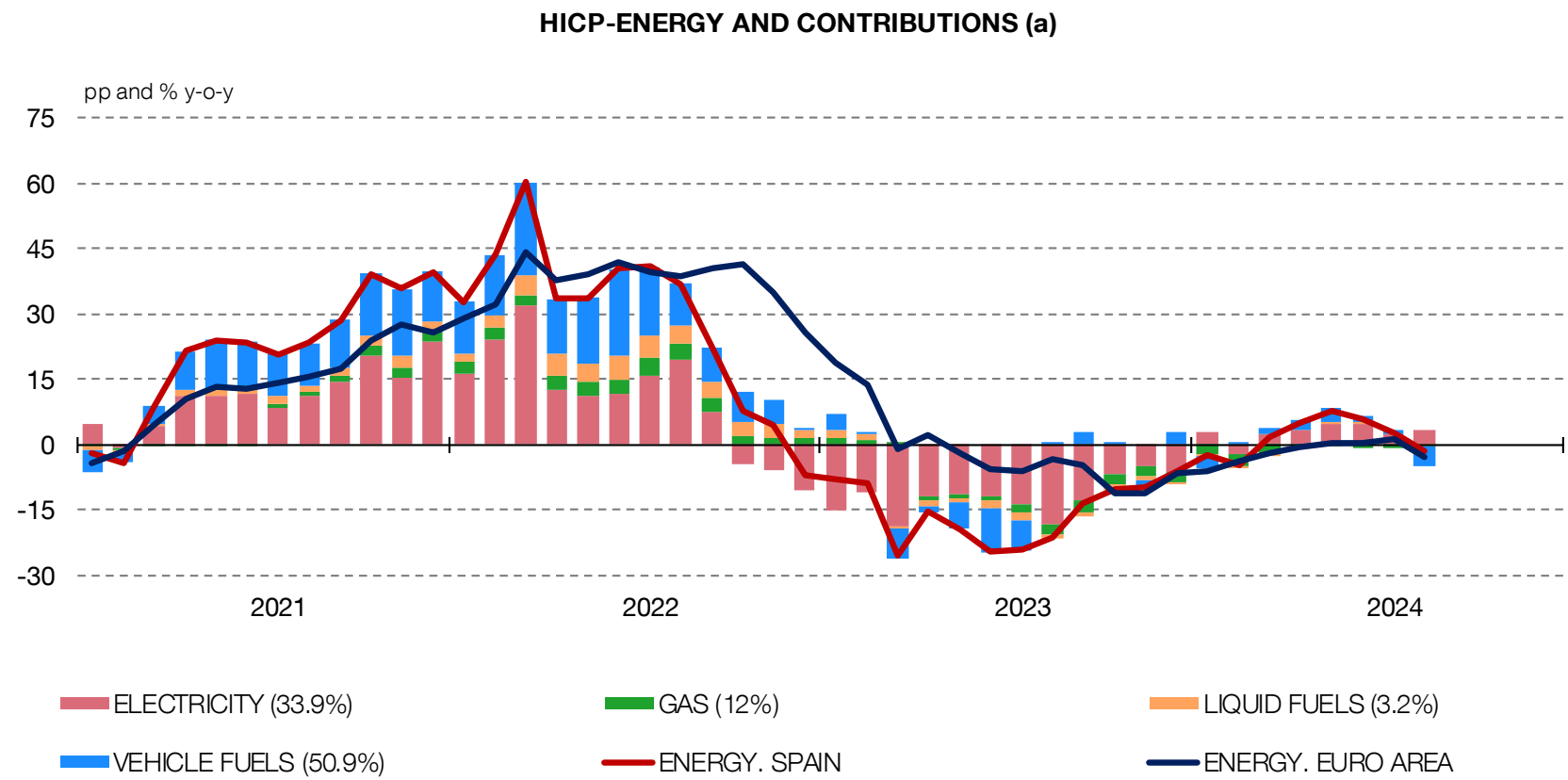
- Food and energy prices have surprised on the downside in recent months (relative to the June projections exercise), while services have surprised on the upside
- A significant share of the downside surprise seen in July and August in changes in food prices is down to the extension of the lower rate of VAT on some foods and the cut in VAT on olive oil. These measures were not envisaged in the June projections exercise



Source: Banco de España.

ENERGY INFLATION FELL OWING TO LOWER FUEL PRICES AND THE REDUCTION IN VAT ON ELECTRICITY TO 10% IN JULY

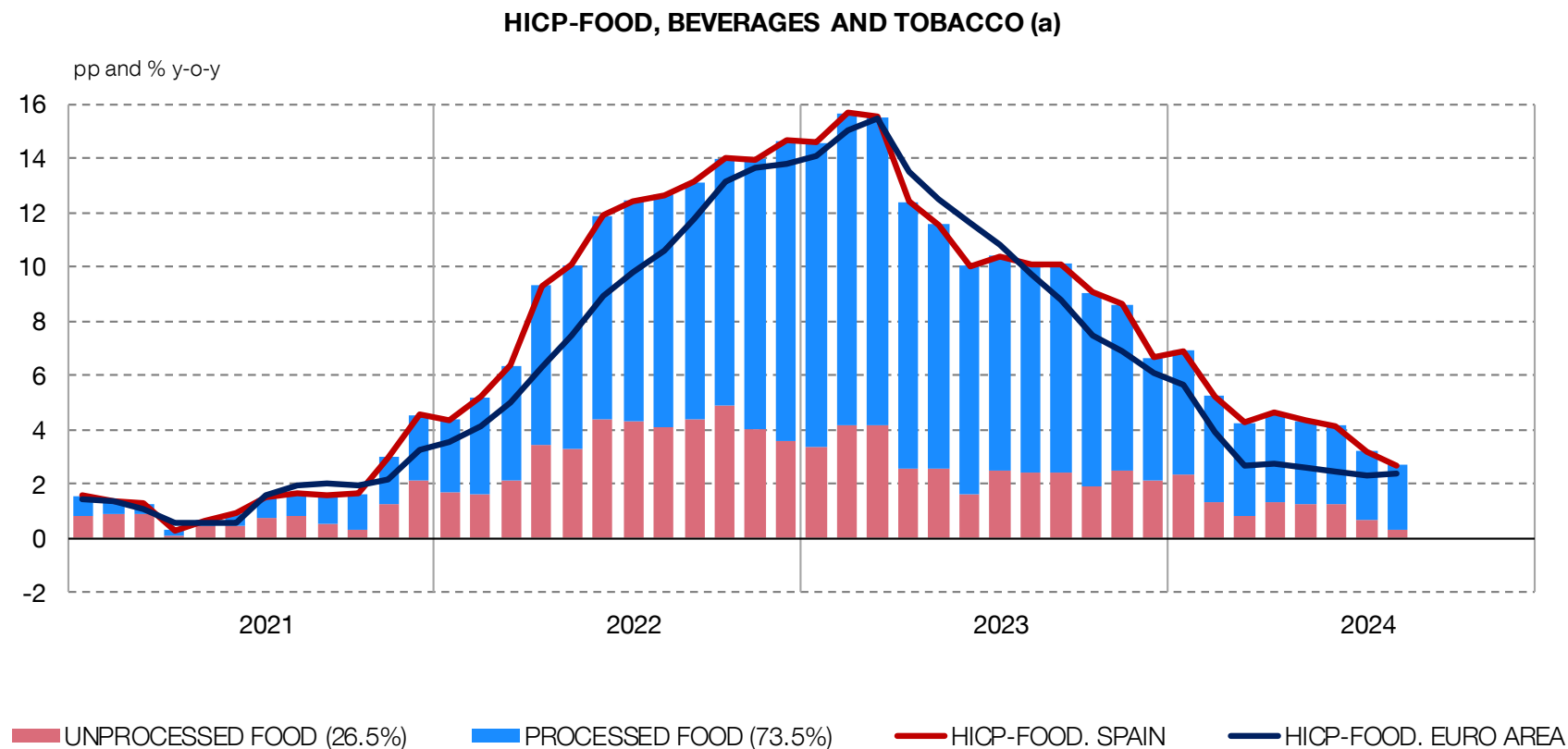
- July also saw the excise duty on electricity return to 5.1% (after standing at 3.8% since April), partially offsetting the impact of the reduction of VAT on electricity



Sources: Eurostat, INE and Banco de España. Latest observation: August 2024.
(a) The weight of each component in HICP-energy in 2024 is given in brackets.



THE SLOWDOWN IN FOOD PRICES LOST STEAM IN Q2, BUT THERE WAS A STEEPER DECLINE IN JULY AND AUGUST, ESPECIALLY FOR UNPROCESSED FOOD

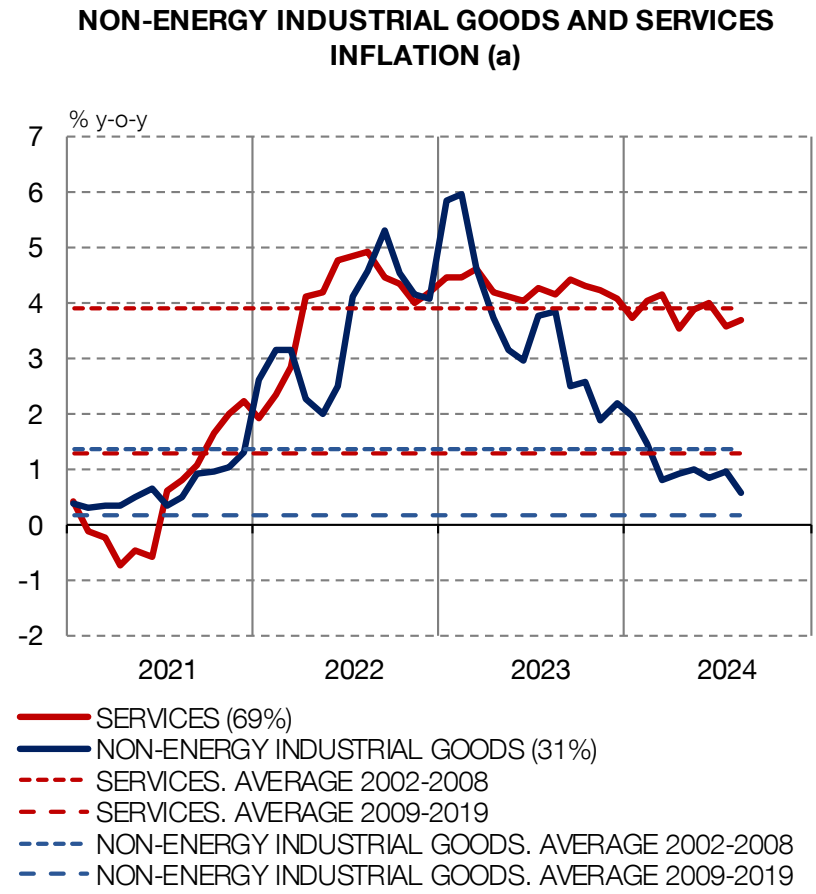
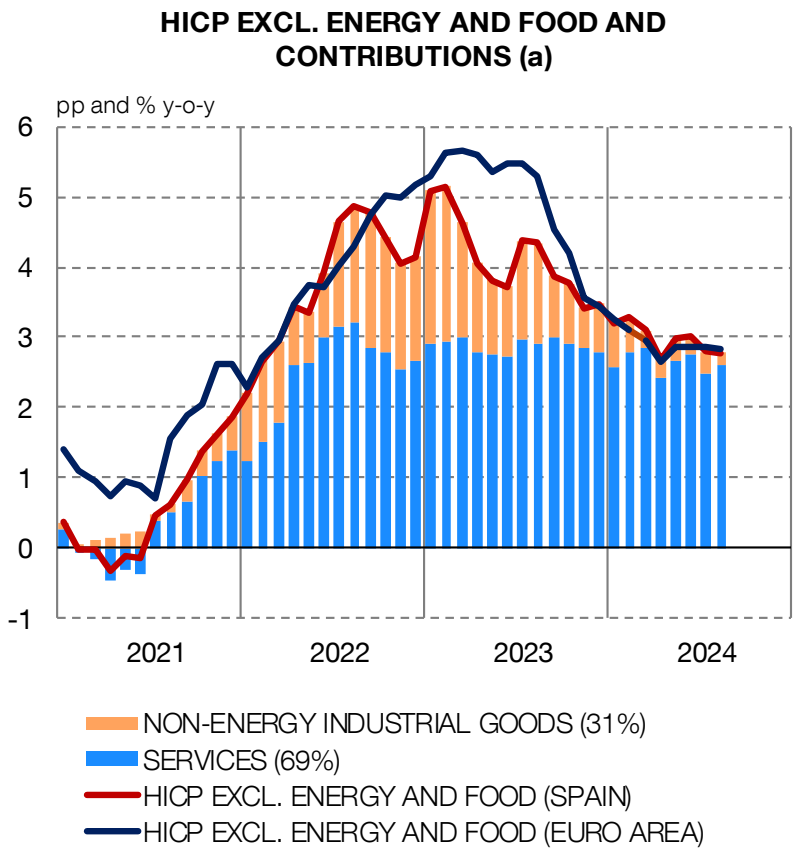


Sources: Eurostat, INE and Banco de España. Latest observation: August 2024.
(a) Month-on-month rates adjusted using average rates for each month between 2016 and 2019.



CORE INFLATION HAS BARELY CHANGED SINCE MAY ...

- ... with inflation of non-energy industrial goods at relatively low levels (around 1%) and services inflation showing clear downward stickiness from around 4%

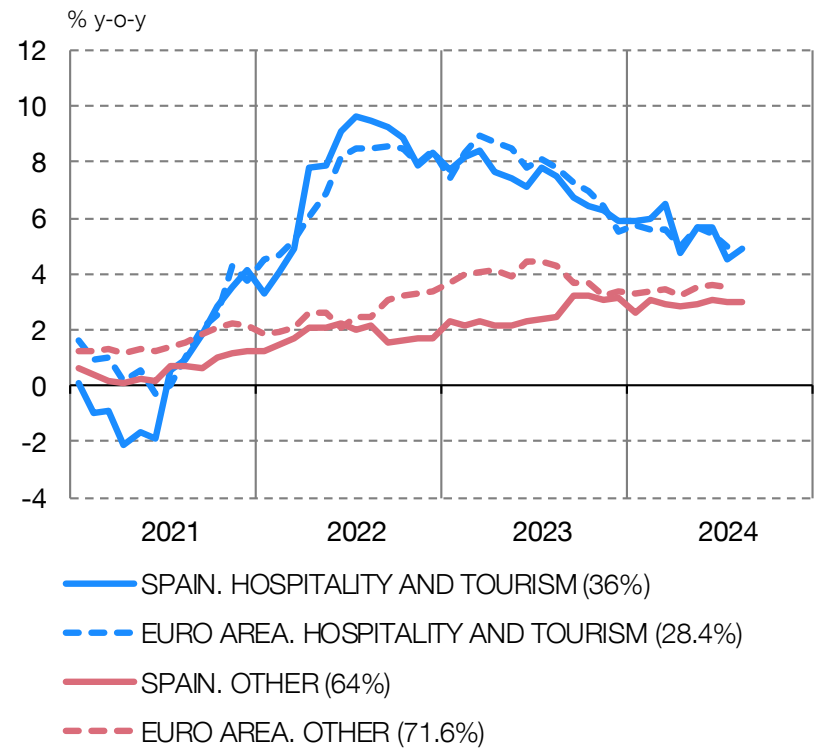


Sources: Eurostat, INE and Banco de España. Latest observation: August 2024.
(a) The weight of each component in HICP excluding energy and food in 2024 is given in brackets.

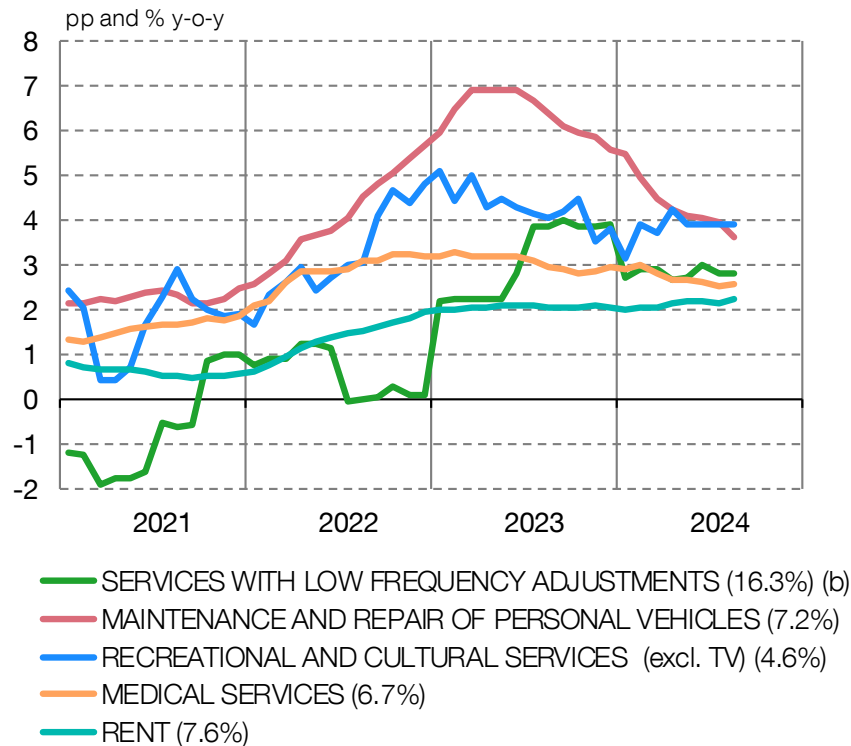


AMONG SERVICES, HOSPITALITY AND TOURISM INFLATION IS FALLING SLOWLY (FROM HIGH LEVELS), WHILE INFLATION FOR OTHER SERVICES STANDS AT AROUND 3%

HICP-SERVICES: HOSPITALITY AND TOURISM AND OTHER (a)



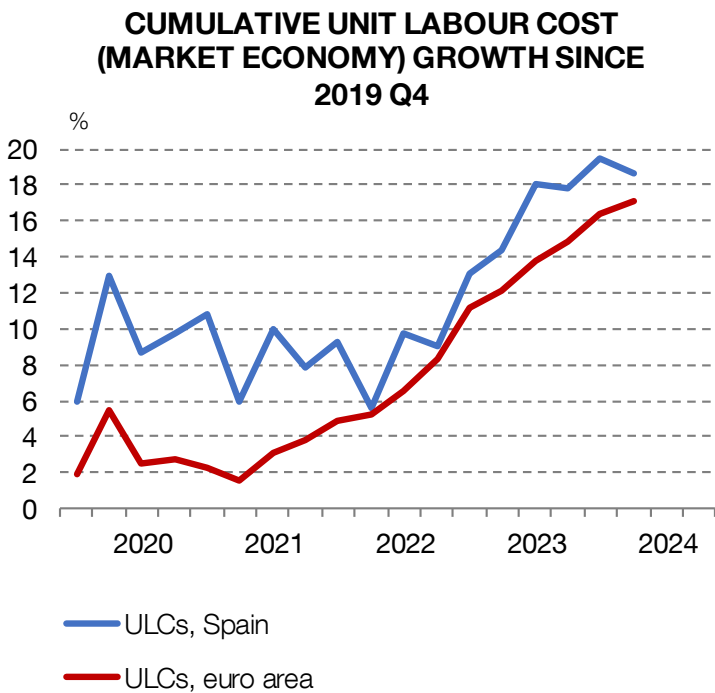
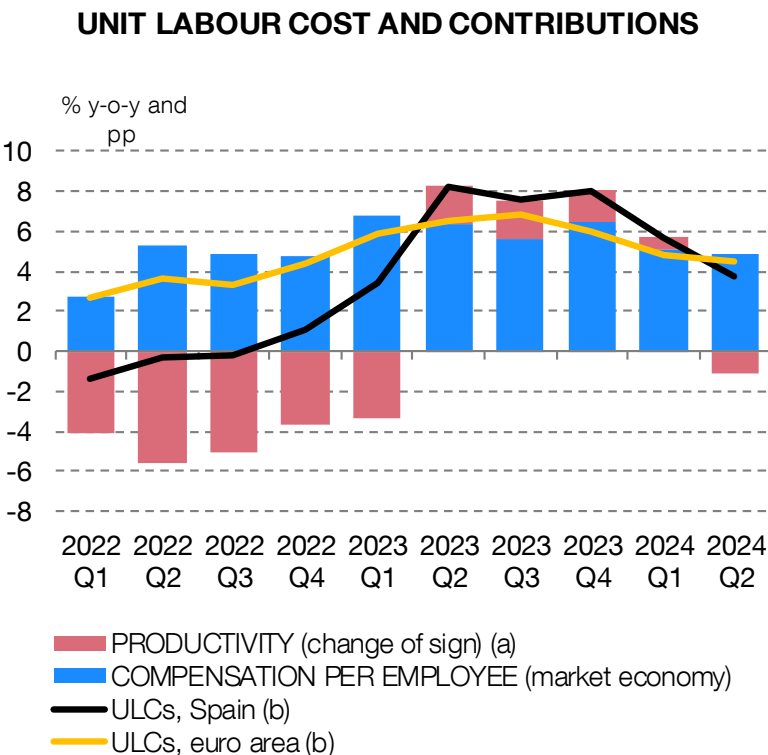
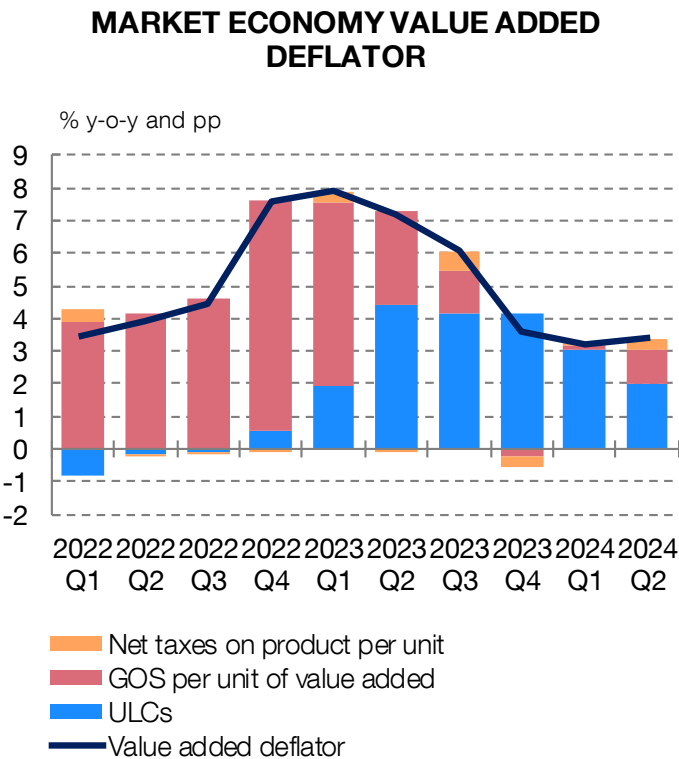
HICP-SERVICES EXCL. HOSPITALITY AND TOURISM: DIFFERENT AGGREGATES (a)



Sources: Eurostat, INE and Banco de España. Latest observation: August 2024.
(a) The weight in 2024 of each component in HICP-Services is shown in brackets.
(b) "Services with low frequency adjustments" refers to those services with fewer than five month-on-month price adjustments in 2023 (excluding transport services). It includes "Refuse collection", "Sewerage collection", "Telephone and telefax services", "Television and radio licence fees, subscriptions", "Education (excl. education not definable by level)", "Insurance", "Charges by banks and post offices", "Other services n.e.c. (excl. funeral services)".

IN 2024 Q2, THE EASING OF UNIT LABOUR COSTS WAS OFFSET BY SOMEWHAT HEALTHIER PROFITS, THUS STABILISING DOMESTIC INFLATION

- Unit labour costs in the market economy slowed in 2024 Q2, thanks to slower growth in compensation per employee (reflecting lower wage drift as the wage increases negotiated for 2024 held stable at around 3%) and productivity gains, following several quarters of decline



Sources: INE, Eurostat and Banco de España.
(a) Productivity is defined as gross value added-to-total salaried workers in a particular sector.
(b) Variations in unit labour costs can be proxied as the sum of the variation in compensation per employee and the variation in productivity (change of sign). Thus, a positive contribution from productivity in the chart is interpreted as the effect of a fall in productivity.

MACROECONOMIC PROJECTIONS FOR THE SPANISH ECONOMY 2024-2026

MAIN ITEMS

		September 2024 projections			June 2024 projections		
	2023	2024	2025	2026	2024	2025	2026
Imports of goods and services							
GDP	2.5	2.8	2.2	1.9	2.3	1.9	1.7
Private consumption	1.8	2.2	2.1	1.8	2.4	2.0	1.7
Government consumption	3.8	1.8	2.0	1.7	1.6	1.7	1.5
Gross fixed capital formation	0.8	2.4	2.6	2.4	1.9	2.4	1.9
Exports of goods and services	2.3	3.5	2.7	3.2	2.4	2.4	2.7
Imports of goods and services	0.3	1.4	2.5	3.5	2.0	2.7	3.0
Domestic demand (contribution to growth)	1.7	2.0	2.0	1.8	2.1	1.9	1.7
Net external demand (contribution to growth)	0.8	0.8	0.2	0.1	0.2	0.0	0.0
Nominal GDP	8.6	5.9	4.4	3.7	5.4	4.0	3.5
GDP deflator	5.9	3.0	2.2	1.8	3.0	2.1	1.8
HICP	3.4	2.9	2.1	1.8	3.0	2.0	1.8
HICP excluding energy and food	4.1	2.8	2.2	1.9	2.6	2.0	1.9
Employment (hours)	1.9	1.8	1.7	1.1	1.1	1.7	1.2
Unemployment rate (% of labour force). Annual average	12.2	11.5	11.0	10.7	11.5	11.3	11.2
Net lending (+) / net borrowing (-) of the nation (% of GDP)	3.7	4.5	5.0	5.0	3.6	3.7	3.7
General government net lending (+) / net borrowing (% of GDP)	-3.6	-3.3	-3.1	-3.2	-3.3	-3.1	-3.2
General government debt (% of GDP)	107.7	105.4	105.4	106.3	105.8	106.2	107.2

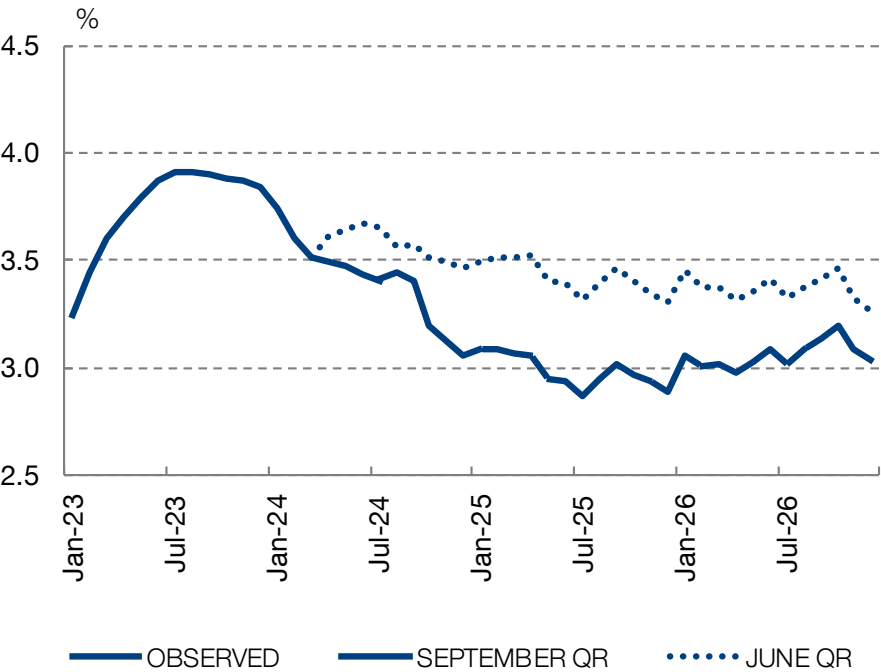
Sources: Banco de España and INE. Latest data published: 2024 Q2 QNA flash estimate.
(a) Projections cut-off date: 9 September 2024.

IN VIEW OF THE RECENT DYNAMICS OBSERVED ON THE FINANCIAL MARKETS, THE EXPECTED FUTURE PATH OF LENDING INTEREST RATES IS REVISED DOWNWARDS

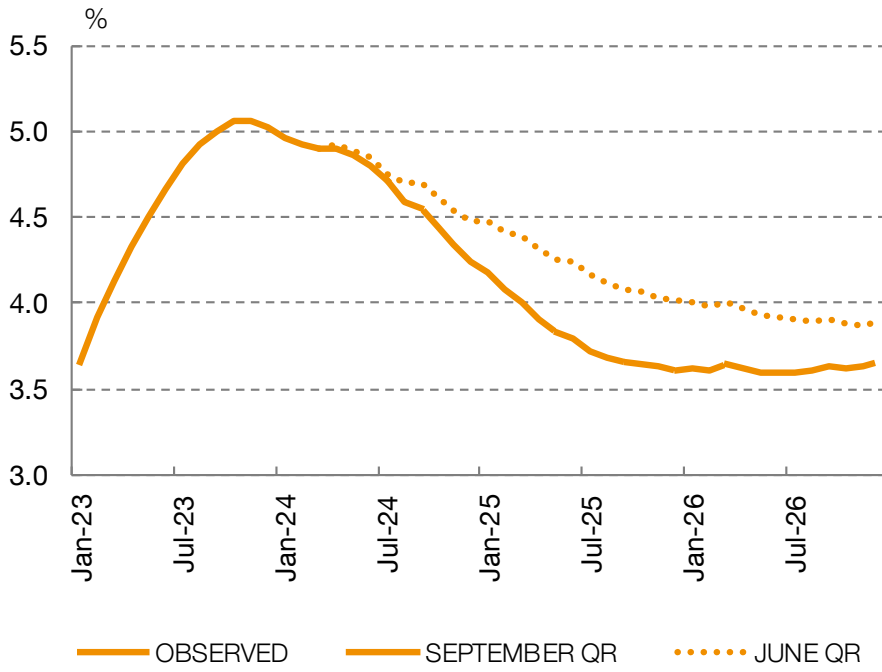
- As part of the other external assumptions comprising this projection exercise, the expected path of oil prices is also revised downwards, while electricity prices are corrected upwards

INTEREST RATES ON NEW LENDING

HOUSE PURCHASE (a)



NON-FINANCIAL CORPORATIONS (a)

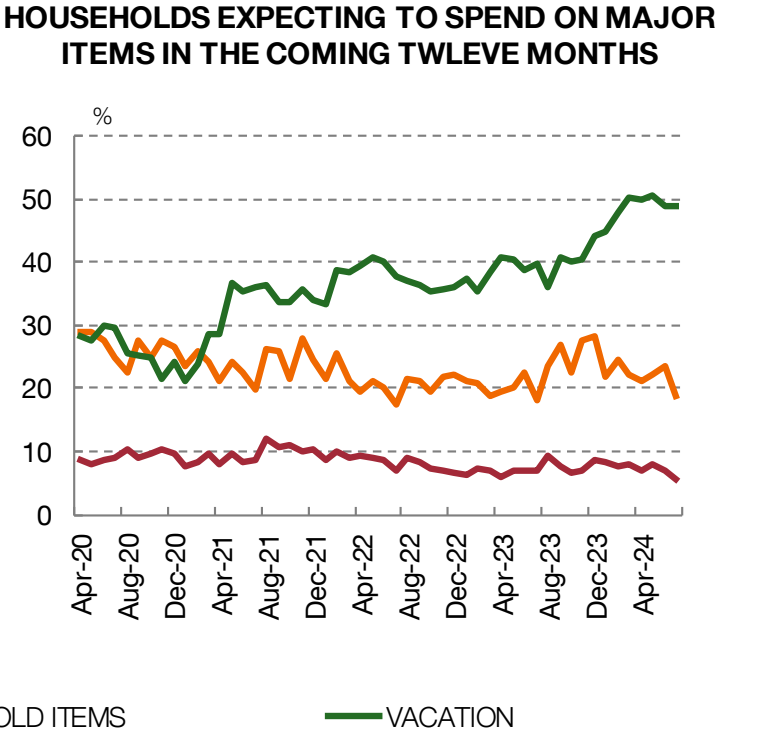
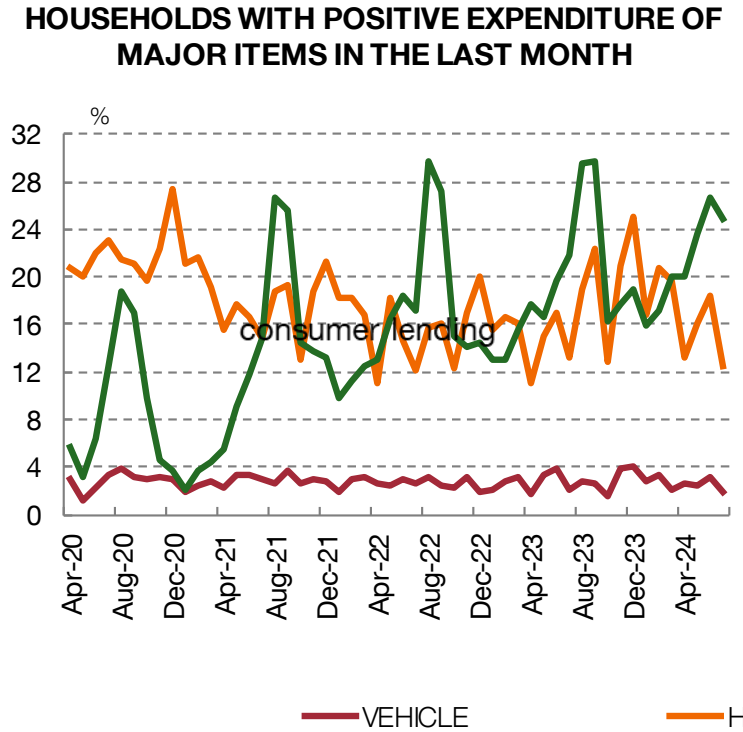
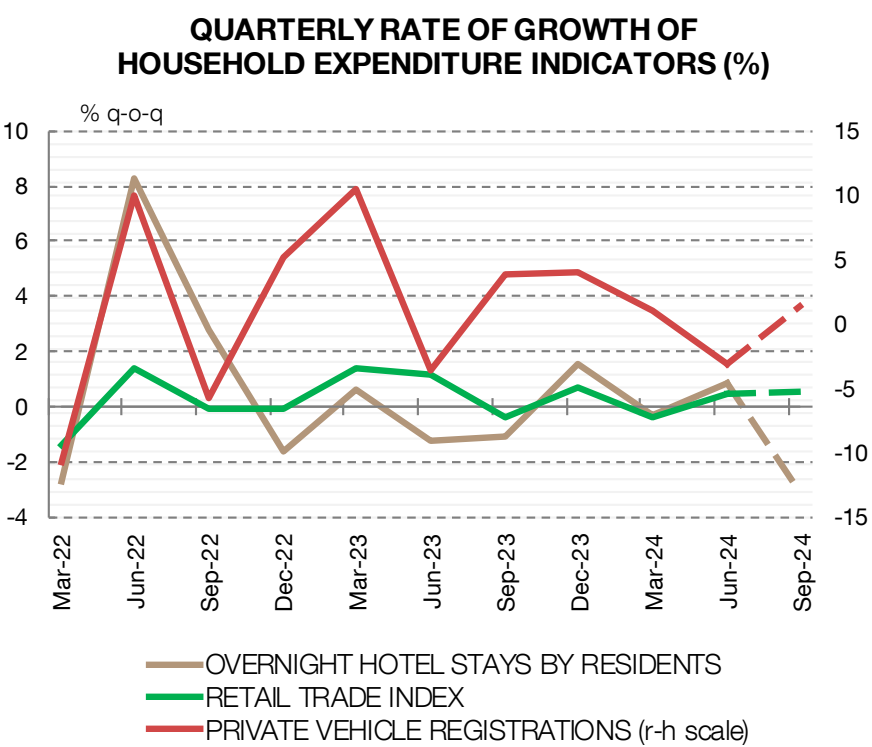


Source: Banco de España. Latest data: July 2024.
(a) The interest rates are NDER. The term refers to the frequency with which the interest rate is revised.



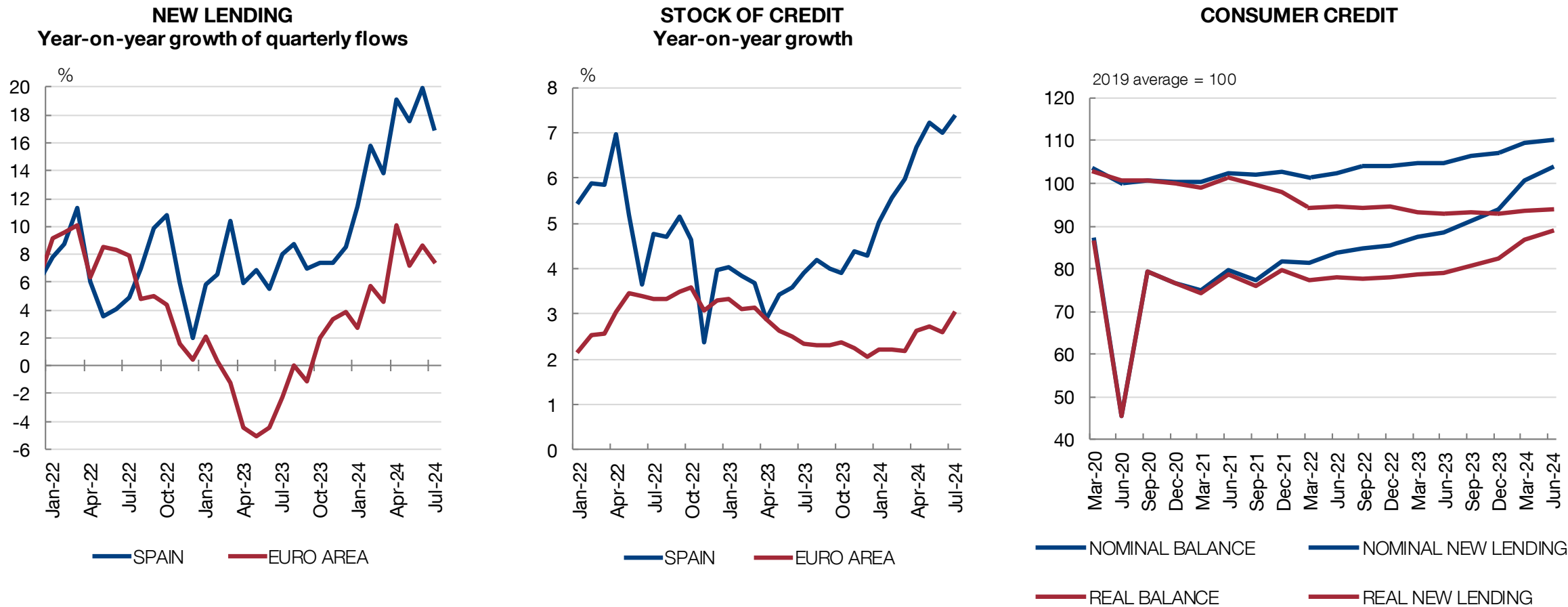
IN GENERAL, THE CONSUMPTION INDICATORS DO NOT POINT TO ANY SIGNIFICANT SHORT-TERM CHANGE IN TERMS OF THE RECENT SLUGGISHNESS DISPLAYED BY THIS COMPONENT

- All of this in a context in which consumer lending in Spain has seen robust growth in recent quarters, outperforming both expectations and the growth observed in the euro area



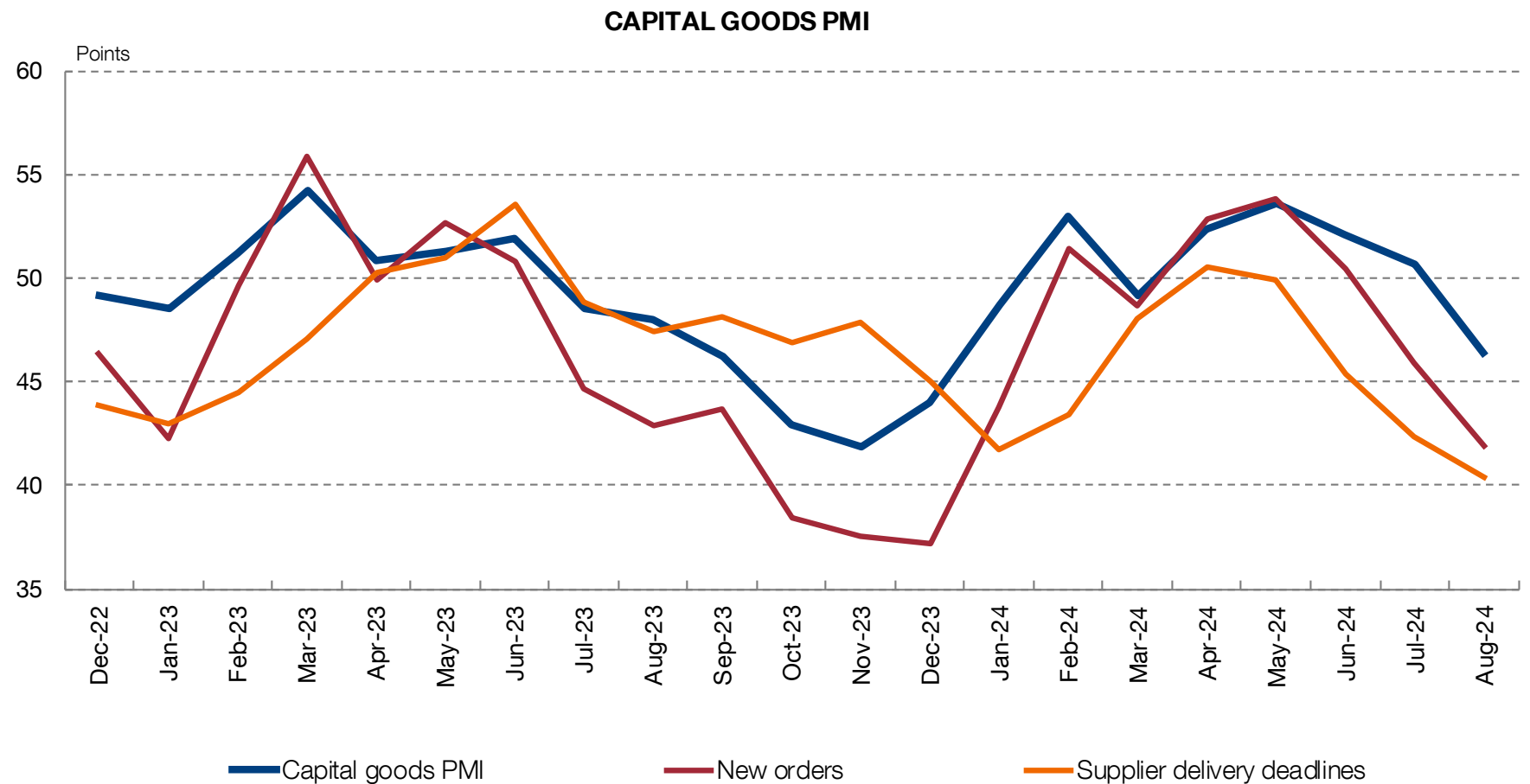
Sources: ANFAC, INE, ECB Consumer Expectations Survey and Banco de España. Latest available figure: July 2024 (the data for 2024 Q3 refer to the cumulative 3-month flows in this period).

- In nominal terms, since early 2024 the flow of consumer credit in Spain has exceeded the figures for 2019, albeit remaining below such levels in real terms



Sources: ECB and Banco de España. Latest data: July 2024.

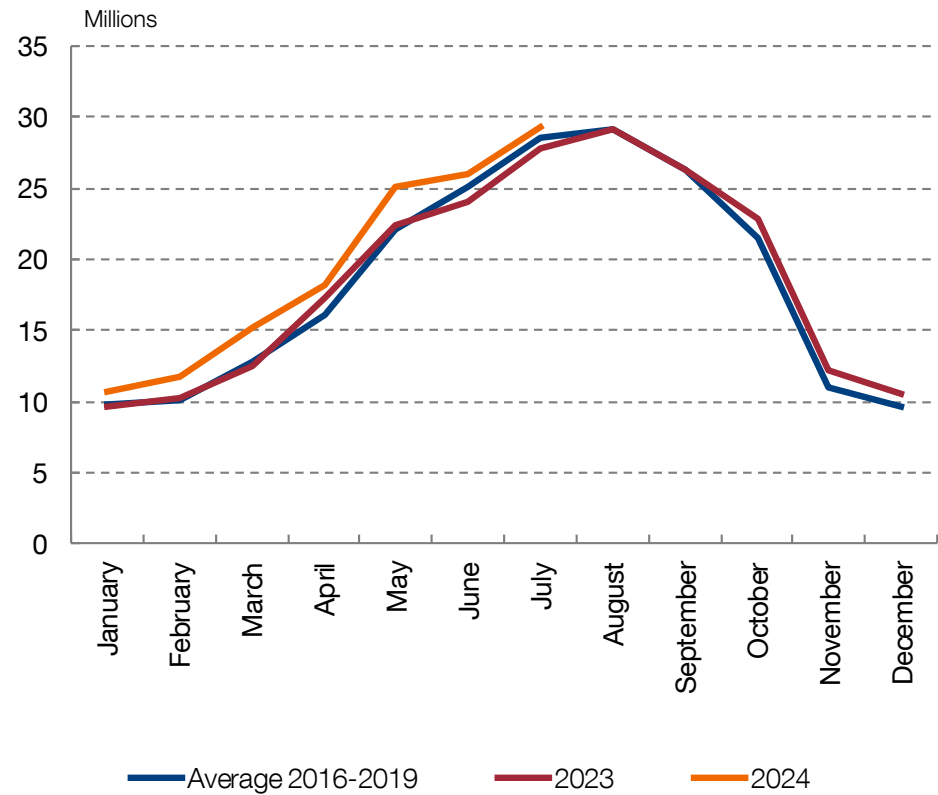
THE DECLINES RECENTLY OBSERVED IN THE CAPITAL GOODS PMI APPEAR TO SUGGEST A POSSIBLE SLOWDOWN IN PRODUCTIVE INVESTMENT IN Q3



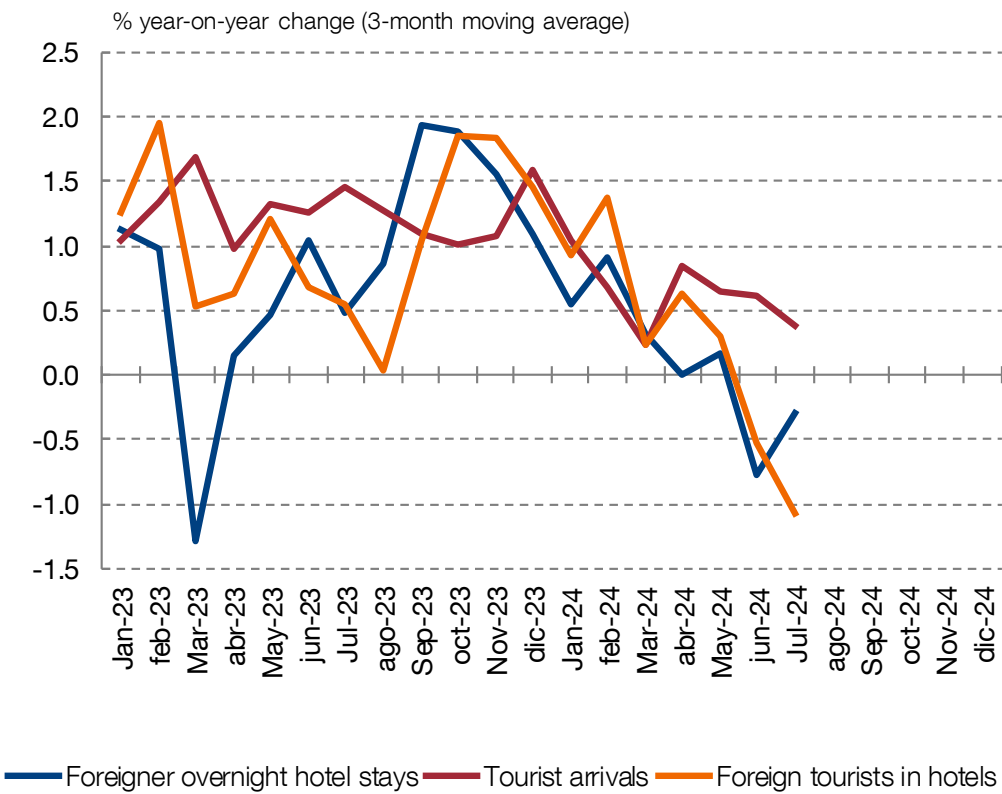
Source: S&P Global.

ALTHOUGH MOST TOURISM INDICATORS ARE RECORDING SUCCESSIVE ALL-TIME HIGHS, THE PACE OF GROWTH IS SLOWING

FOREIGNER OVERNIGHT HOTEL STAYS IN SPAIN



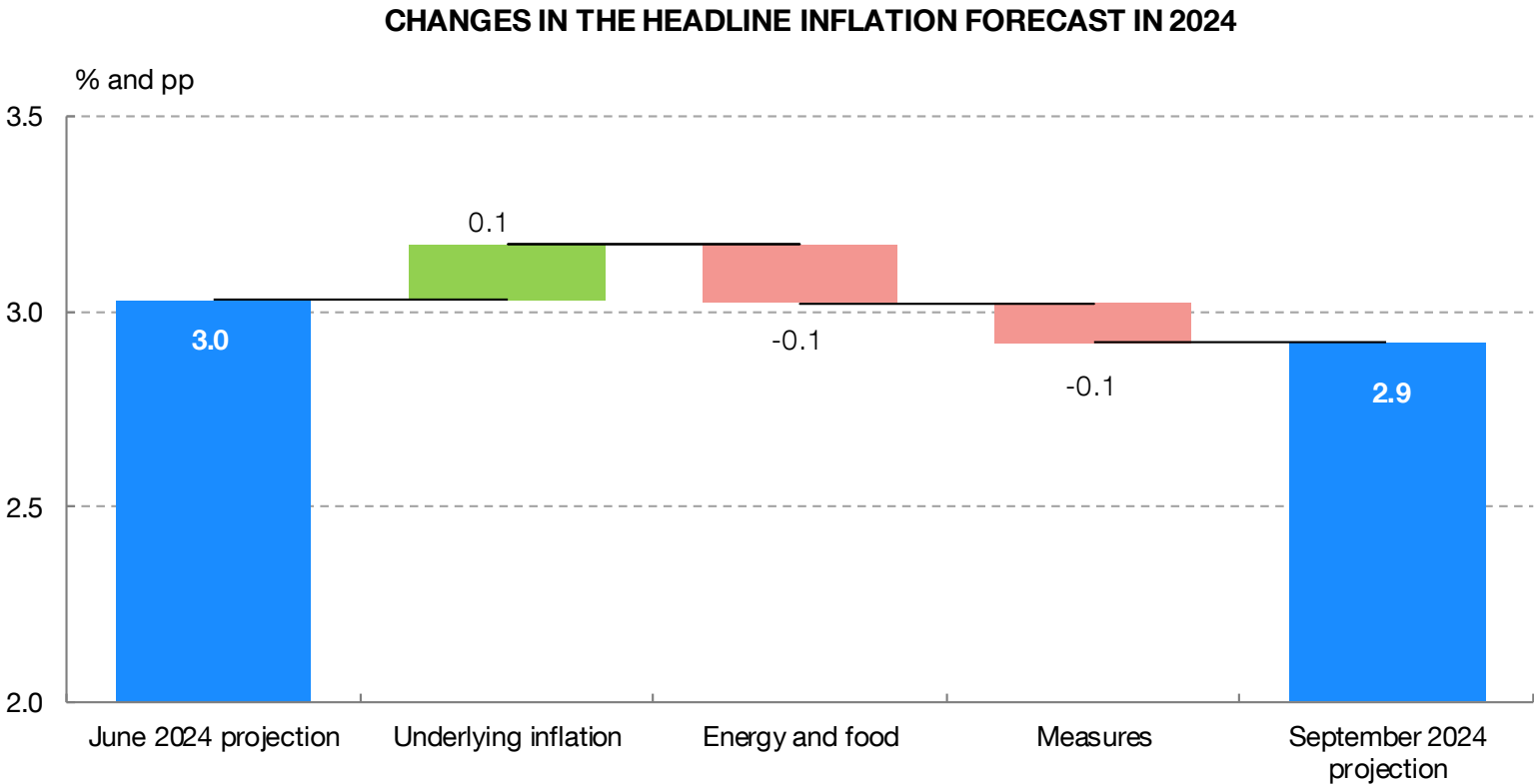
TOURISM INDICATORS



Sources: INE and Banco de España.

LOWER ENERGY AND FOOD PRICES (THANKS IN PART TO THE EXTENSION TO THE REDUCED VAT ON SOME FOODS) HAVE LED INFLATION TO BE REVISED DOWN FOR 2024 ...

- ... despite higher services inflation

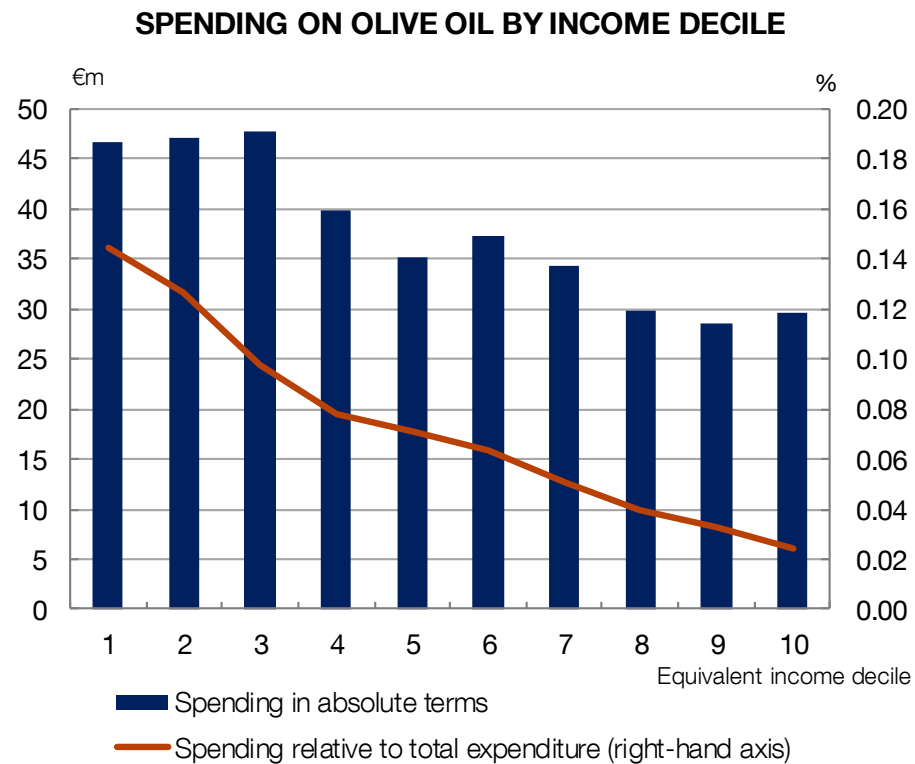
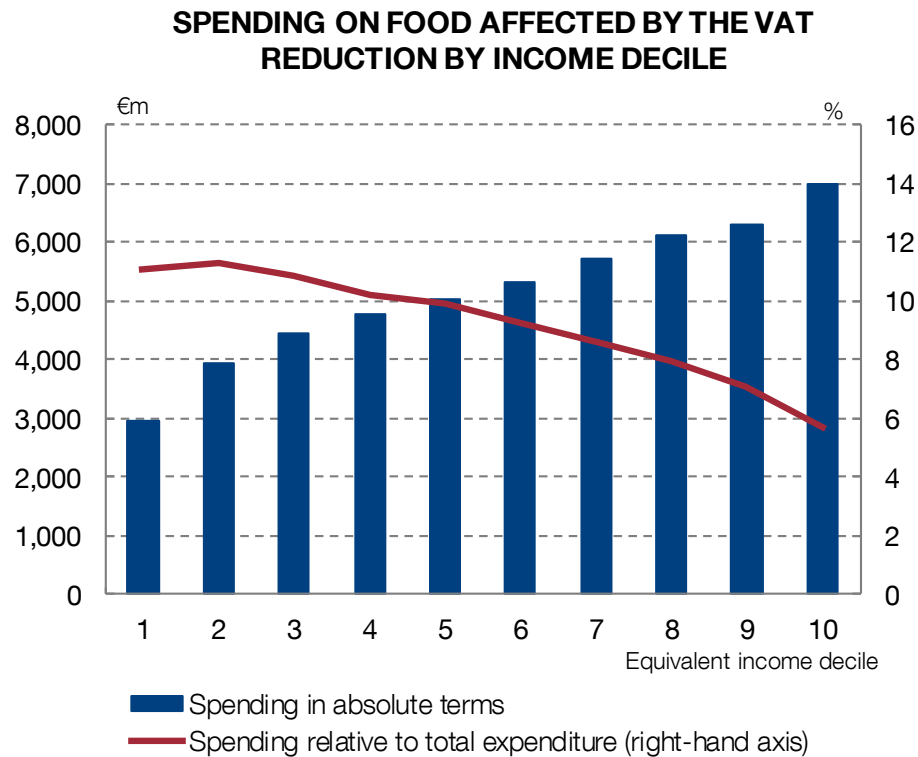


Sources: INE and Banco de España.



EXTENSION OF THE REDUCTION TO THE VAT RATE ON CERTAIN FOODS AND PERMANENT RECLASSIFICATION OF OLIVE OIL WITHIN THE GROUP OF ITEMS SUBJECT TO A "SUPER-REDUCED" RATE

- The foods affected are fairly widely consumed, making it hard to target such measures at the most vulnerable cohorts (see [Banco de España Bulletin Article No 15, 2013](#))
- In absolute terms, olive oil consumption is greater among higher income households. In terms of total expenditure per household, consumption by type of household is practically identical

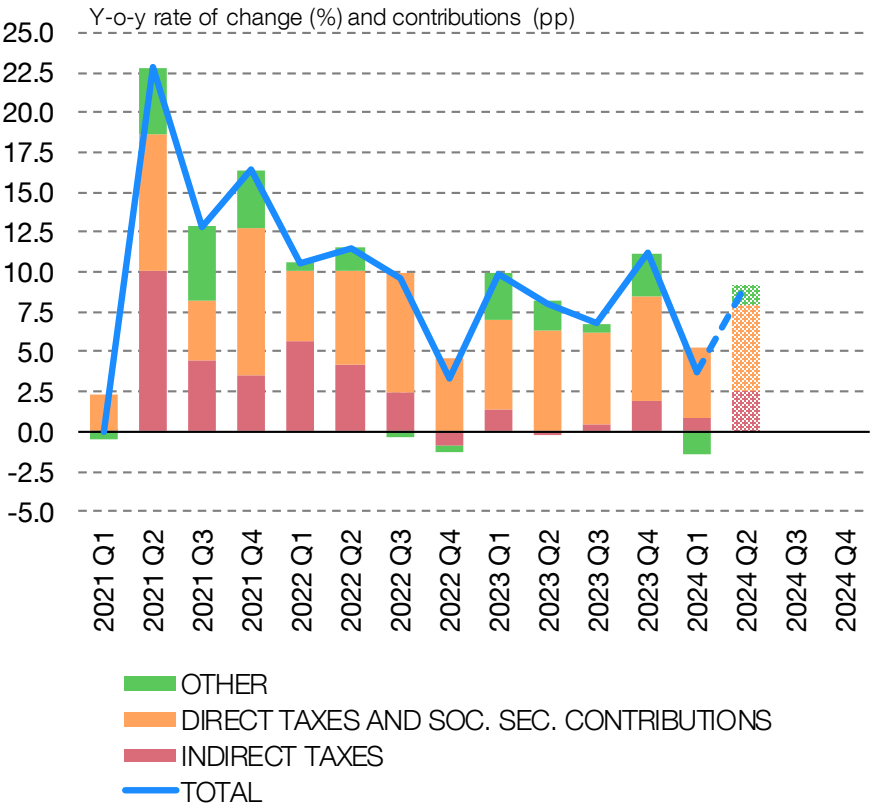


Sources: Banco de España, based on the 2023 Household Budget Survey.

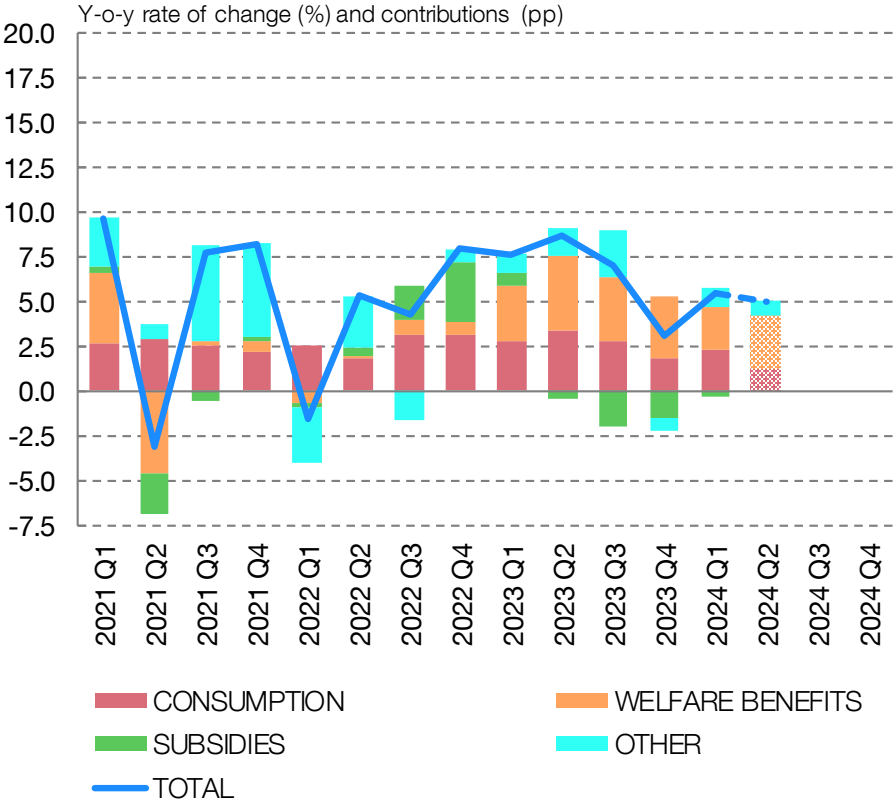
GOVERNMENT REVENUE CONTINUES TO GROW AT A ROBUST RATE, ALTHOUGH GOVERNMENT EXPENDITURE GROWTH REMAINS NOTABLY PERSISTENT

- Direct taxes and social security contributions (and, to a lesser extent, indirect taxes) continue to drive revenue growth (+9.2%), following a first quarter in which the tax take remained below what might be expected based on the macroeconomic fundamentals
- Government expenditure growth remained stable in the early months of the year (due to government consumption and welfare benefits), potentially hindering compliance with the European Commission recommendation that Spain restrict net expenditure growth to 2.6% in 2024

GOVERNMENT REVENUE (a)



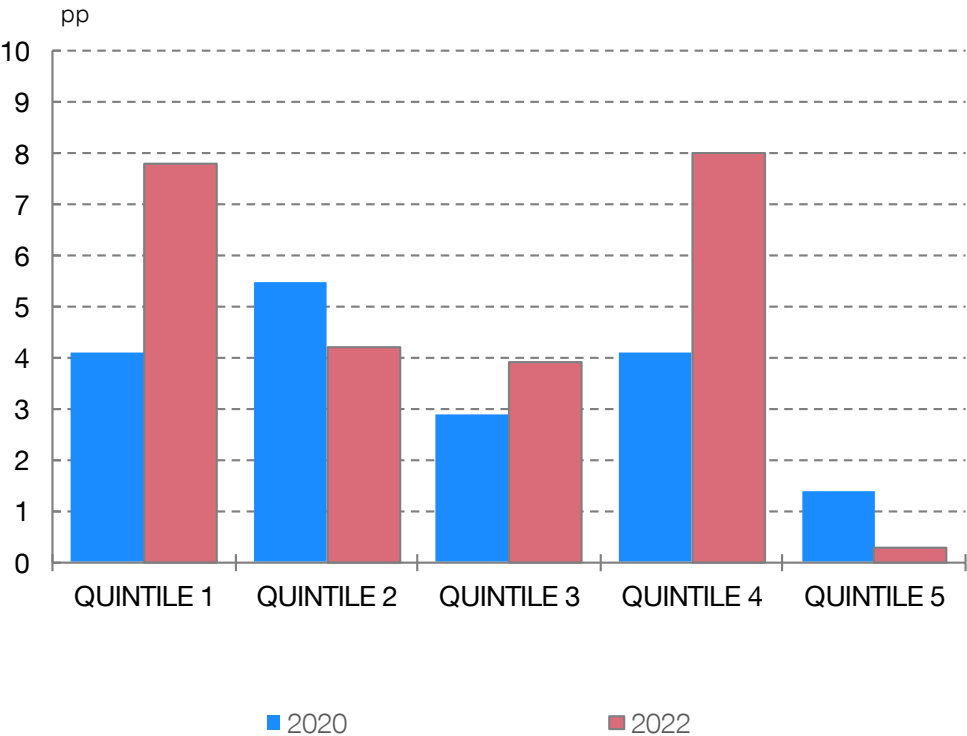
GOVERNMENT EXPENDITURE (a)



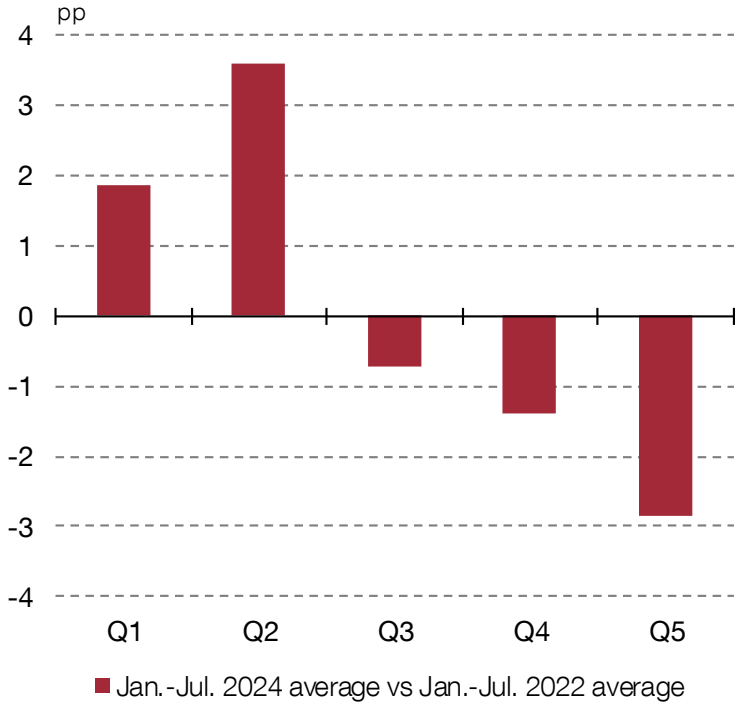
Sources: IGAE and Banco de España.
(a) The latest figure does not include local government.

RECENT GROWTH IN CONSUMER CREDIT HAS BEEN LESS EXPANSIVE AMONG HIGHER INCOME HOUSEHOLDS

PERCENTAGE OF HOUSEHOLDS WITH A PERSONAL LOAN. CHANGE ON 2017. BREAKDOWN BY INCOME QUINTILE



VARIATION IN THE PERCENTAGE OF HOUSEHOLDS THAT HAVE APPLIED FOR SOME FORM OF CONSUMER LOAN (a)

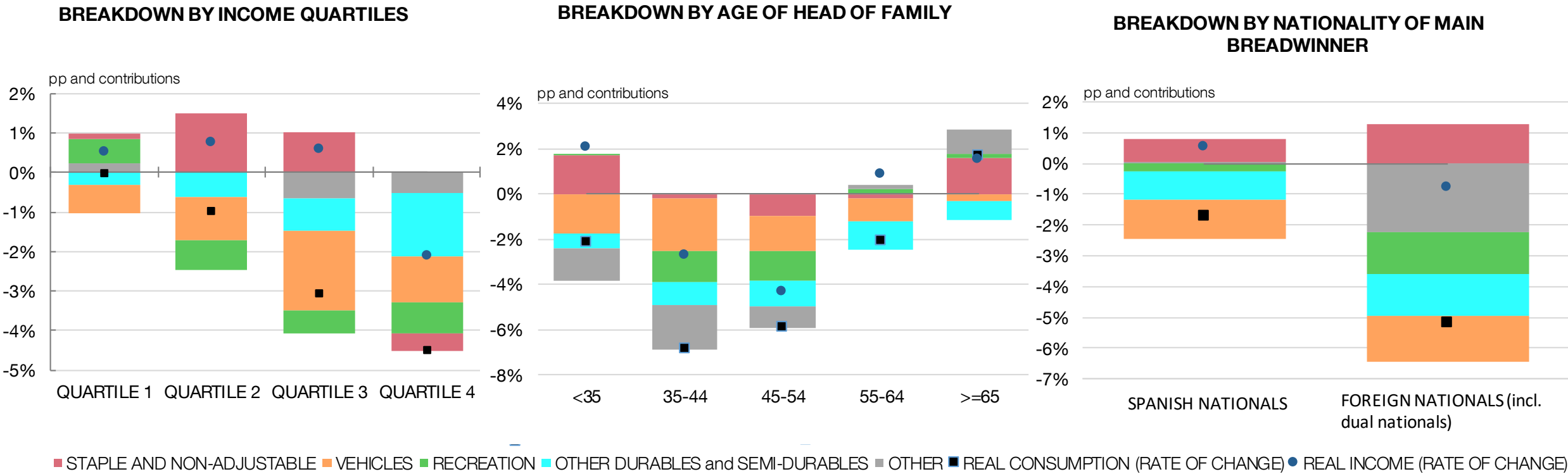


Sources: Banco de España Survey of Household Finances and ECB Consumer Expectations Survey.
(a) Percentage of households that have applied for a loan in the last three months for any of the following purposes: car, motorcycle or other vehicle purchase; other type of consumer loan or deferred debt; credit card or overdraft; loan for education purposes; or an increase to the limit on an existing loan, other than the refinancing of a current mortgage.

AVERAGE HOUSEHOLD CONSUMPTION REMAINS BELOW THE PRE-PANDEMIC RECORDS IN MOST POPULATION GROUPS

- Consumption has tended to grow more among population groups with higher income growth
- In any event, consumption has grown less than income

REAL CONSUMPTION RELATIVE TO 2019 LEVELS (RATE OF CHANGE AND CONTRIBUTIONS)



Sources: Banco de España based on the household budget survey. Unlike the data for previous years, the data for 2023 were prepared using population figures updated with the 2021 census, meaning that strictly homogeneous comparisons between the data for that year and from previous years cannot be made until harmonised series are published.

(a) Excluding expenditure relating to recreation and culture (i.e. audiovisual and photographic equipment and other recreation-related durable items). Includes spending on clothing and footwear. In 2019, the breakdown of average household consumption across the items detailed in the chart was as follows: 47% was earmarked for spending on staples and non-adjustable items; 4% for vehicle purchase; 9.5% for other durable goods; 15.4% for recreation and culture, and 24.6% for other items.