

The Spanish economy's greater resilience vis-à-vis the euro area in 2023: the role of sectoral composition

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Rationale

Against a backdrop of weaker global and euro area activity, in 2023 to date the Spanish economy has shown notable resilience compared with other European economies. This article aims to illustrate some of the factors explaining this greater strength.

Takeaways

- The differences between the sectoral composition of the Spanish economy and that of the euro area seem to explain in part the greater buoyancy of activity in Spain.
- Spain has less trade exposure to China (whose recent slowdown is one of the main factors behind the global economic slowdown) than the other euro area economies.
- The Spanish economy continuing to outperform the euro area over the coming quarters will depend, among other factors, on how lower expected growth in manufacturing is passed-through to services or whether tourism loses momentum.

Keywords

Confidence, economic outlook, productive structure, energy crisis, international trade.

JEL classification

E32, E66, F10, F14.

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THE SPANISH ECONOMY'S GREATER RESILIENCE VIS-À-VIS THE EURO AREA IN 2023: THE ROLE OF SECTORAL COMPOSITION

GDP growth in Spain has been stronger than in other euro area countries over the course of 2023, leading to an upward revision of analysts' forecasts in 2023.¹ As shown in Chart 1.a, these favourable developments stand in contrast to the euro area's (and especially Germany's) sluggishness and even downward revisions. Similarly, confidence indicators have performed better in the Spanish economy since early 2023. As seen in Chart 1.b, according to the European Commission's surveys, this is particularly evident in the services sector, specifically in those activities most closely related to tourism, such as leisure and culture, air transport, hospitality and travel agencies (see Chart 1.c). Also notable is the buoyancy of sectors related to information and communication services, and professional and technical activities, which could be related to the momentum generated by the roll-out of the Next Generation EU funds.² Other opinion indicators, such as the Purchasing Managers' Index (PMI), are also consistent with a more negative stance in manufacturing (by sector) and in the euro area (by geographical area). Thus, in Spain PMIs have stood at higher values than in the euro area during practically all of 2023. This article describes this divergence, paying special attention to the possible factors behind it.

The recent pick-up in activity in Spain is largely explained by the differences in sectoral composition. Specifically, it appears to be related, in part, to the greater share in gross value added (GVA) of market services, particularly those linked to the tourism sector, such as passenger transport, hospitality and leisure activities (11.4%, compared with 7.3% in the euro area and 5.3% in Germany) (see Chart 2.a). These tourism services have continued to experience very high demand since the economic reopening following the pandemic, as shown by foreign tourist arrival and expenditure data for the 2023 summer season.³

By contrast, the share of manufacturing – which has, in general, seen weaker momentum than services – is lower in Spain (12%) than in the euro area as a whole (16.5%) and considerably lower than in Germany (21.7%). Most notable, first, is the performance of the most energy-intensive sectors,⁴ which have shown greater weakness in recent quarters owing to the rise in energy input prices since 2021. However, this development has been less unfavourable in Spain than in the euro area as a whole and, in particular, in Germany (see Chart 2.b), possibly because the German industrial sector has been more directly exposed to the disruptions stemming from the reduction

1 These 2023 GDP growth forecasts for Spain do not take into account the revision of the Annual National Accounts for 2020, 2021 and 2022 published by the National Statistics Institute.

2 Alejandro Fernández Cerezo, Enrique Moral Benito and Javier Quintana. (2023). "The Recovery, Transformation and Resilience Plan and its macroeconomic impact from a sectoral standpoint". *Economic Bulletin - Banco de España*, 2023/Q1, 12. <https://doi.org/10.53479/29539>

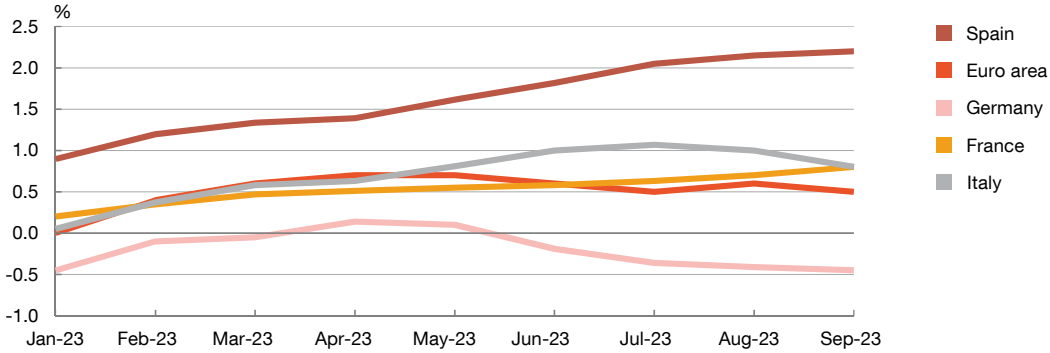
3 Banco de España. (2023). "Quarterly report and macroeconomic projections for the Spanish economy. September 2023". *Economic Bulletin - Banco de España*, 2023/Q3, p. 27. <https://doi.org/10.53479/33563>

4 According to the definition of the German Federal Statistical Office (Destatis), energy-intensive activities include the manufacture of paper and paper products, coke and refined petroleum products, chemicals and chemical products, other non-metallic mineral products and basic metals. <https://www.destatis.de/DE/Themen/Branchen-Unternehmen/Industrie-Verarbeitendes-Gewerbe/produktionsindex-energieintensive-branchen.html>

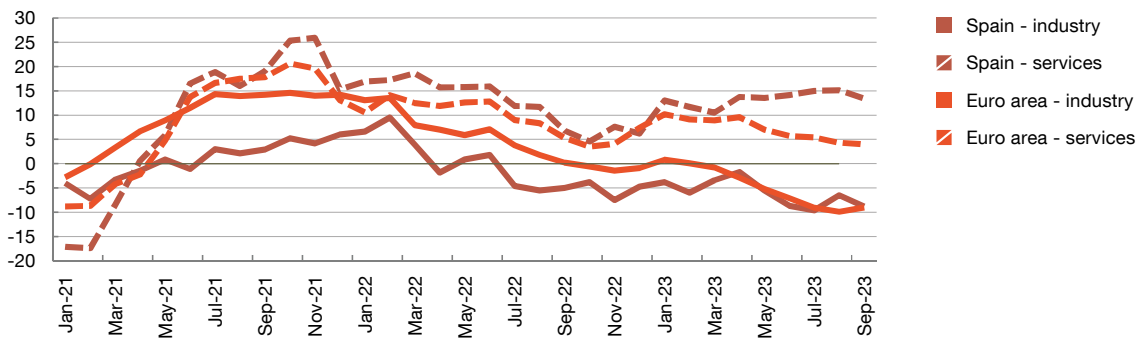
Chart 1

The Spanish economy has shown notable resilience compared with other European economies in 2023 to date

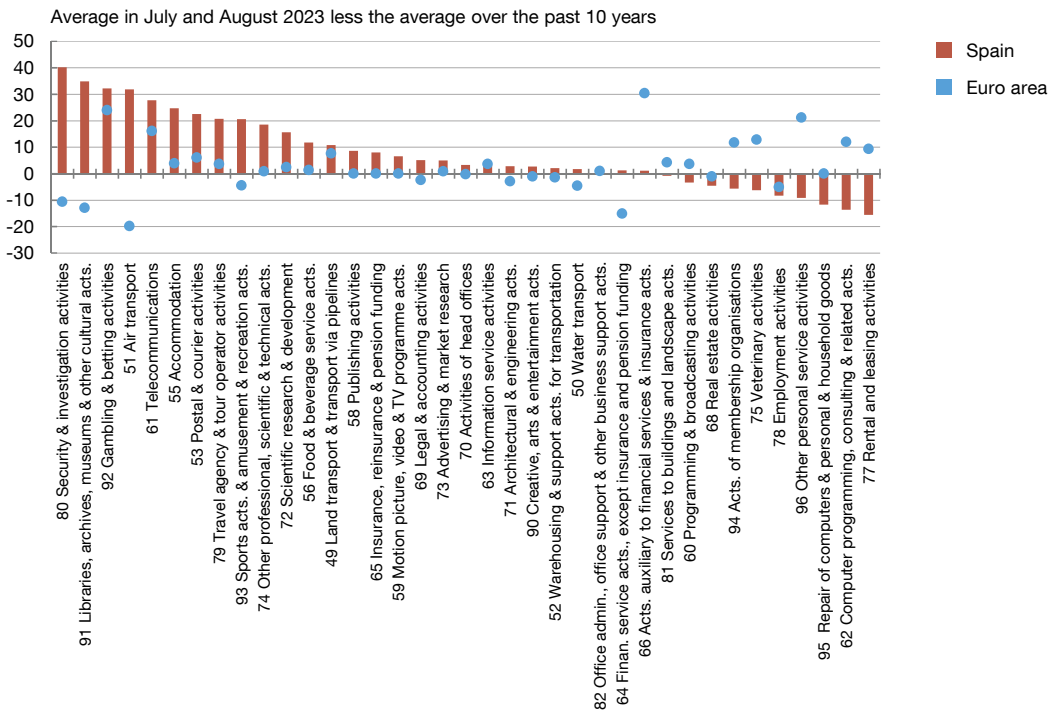
1.a Average GDP growth rate forecasts for 2023



1.b European Commission confidence



1.c European Commission confidence in services



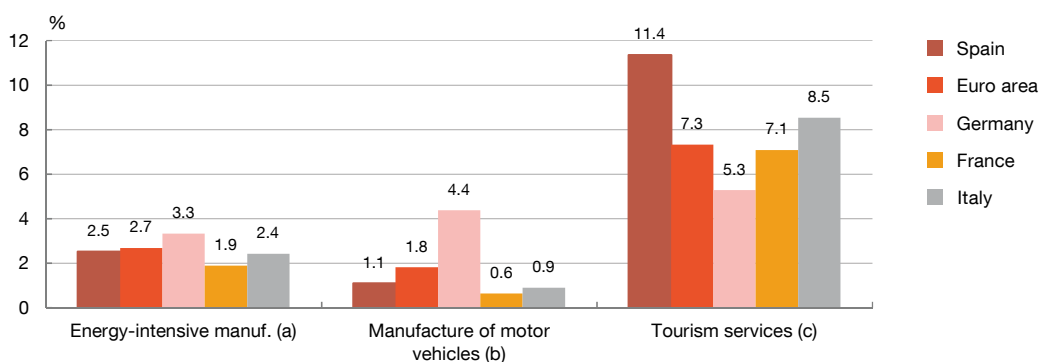
SOURCES: Consensus Forecasts and European Commission.



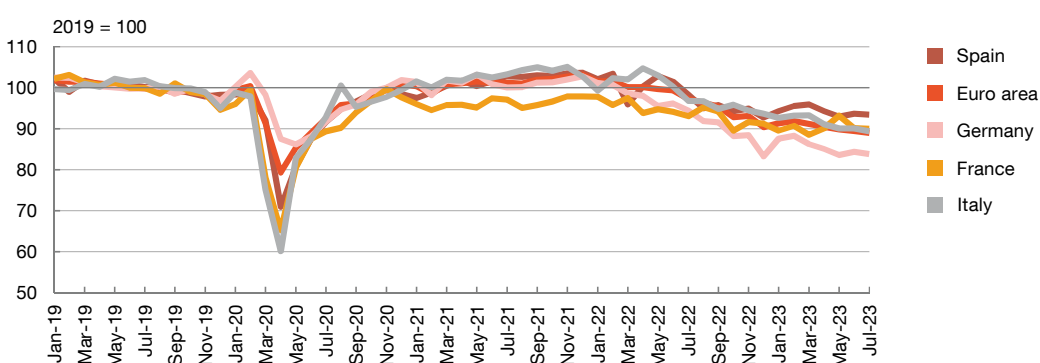
Chart 2

Differences in sectoral composition and developments in energy-intensive sectors

2.a GVA of certain industrial and tourism sectors as a percentage of total GVA (2019)



2.b Industrial production index for energy-intensive sectors (a)



SOURCES: INE and Eurostat.

- a Energy-intensive manufacturing: 17 Manufacture of paper and paper products, 19 Manufacture of coke and refined petroleum products, 20 Manufacture of chemicals and chemical products, 23 Manufacture of other non-metallic mineral products, and 24 Manufacture of basic metals.
- b Manufacture of motor vehicles: 29 Manufacture of motor vehicles, trailers and semi-trailers.
- c Tourism services: 49 Land transport and transport via pipelines, 50 Water transport, 51 Air transport, 55-56 Accommodation and food and beverage service activities, 79 Travel agency activities, 90-92 Creative, arts and entertainment activities; libraries, archives, museums and other cultural activities; gambling and betting activities, 93 Sports activities.



in the supply of Russian gas.⁵ Second, the share of the automotive sector (which has been most strongly affected by the global supply chain bottlenecks and by the increasing competition from China in the production of electric cars) in GVA is lower in the case of the Spanish economy (1.1% of total GVA) than it is for Germany (4.4%)⁶.

Moreover, global economic activity has been slowing down over the last few months. This is particularly evident in China. Thus, Spain's limited trade exposure to China could partly explain the better performance of its external sector. Using information contained in the World Input-Output Database, Chart 3.a shows the share of the GVA of Spain, the euro area, Germany, France

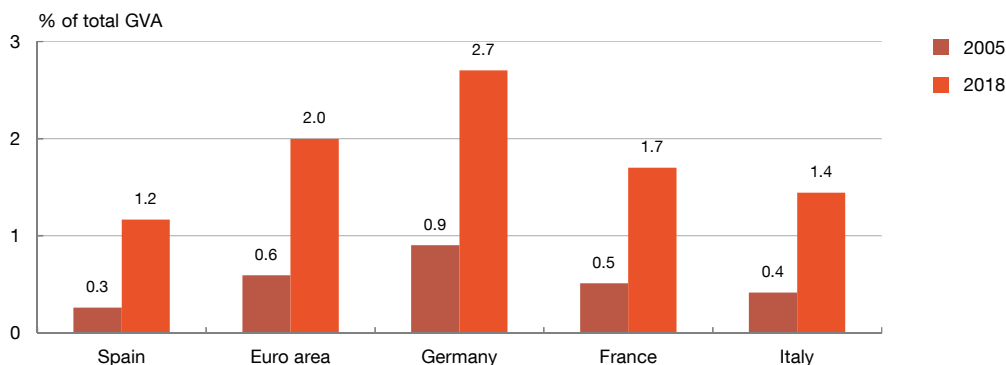
5 Irina Balteanu and Francesca Viani. (2023). "The energy dependency of the EU and Spain". *Economic Bulletin - Banco de España*, 2023/Q3, 02. <https://doi.org/10.53479/30253>

6 The automotive sector includes activities falling under NACE Rev. 2 code 29 (Manufacture of motor vehicles, trailers and semi-trailers).

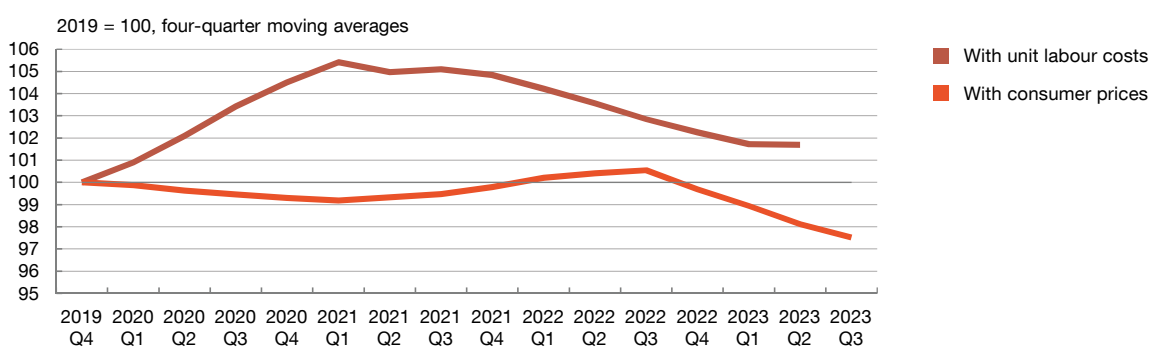
Chart 3

Trade exposure to China and competitiveness indicators

3.a Exposure to China in GVA



3.b Spanish competitiveness indicators compared with the euro area (a)



SOURCES: Banco de España, OECD and ECB.

a Increases (decreases) in the indices reflect losses (gains) in competitiveness. For the third quarter of 2023, data to August.



and Italy that can be attributed to Chinese domestic demand. Although Spain's exposure to China has increased significantly in recent years – to 1.2% of GVA in 2018,⁷ 0.9 percentage points more than in 2005 – this dependence is, in comparative terms, almost half that of the euro area as a whole (2% of GVA), with Germany having the strongest relationship with the Chinese economy of the main European economies (2.7% of GVA).⁸ Consequently, a slowdown of the Chinese economy would have less of an impact, through trade channels, on the Spanish economy than it would on other European countries. In addition, amid this weak external environment, another factor supporting Spanish exports of goods and services could be the competitiveness gains over the rest of the euro area stemming from the greater labour cost and price moderation in Spain of late (see Chart 3.b).

7 A significant part of this link is generated through European production chains. For instance, 26% of the Spanish GVA that ultimately satisfies domestic demand in China comes from Spanish exports of intermediate goods incorporated into final goods exported by other EU countries to China, a relatively larger share than in the other major euro area economies.

8 For more details, see Banco de España. (2019). "Box 2. The impact of the Chinese economy on the euro area and Spain through European value chains". *Economic Bulletin - Banco de España*, 4/2019. <https://repositorio.bde.es/handle/123456789/10744>

In any event, from a sectoral perspective, the Spanish economy's expected outperformance of the euro area over the coming quarters will depend, among other factors, on how lower growth in manufacturing will be passed-through to services and the buoyancy of tourism. Thus, the services most in demand by the manufacturing sector could be affected by developments in the industrial sectors that they serve as suppliers.⁹ Moreover, the strength of tourism exports might be limited owing to the end of the summer and the fading of the pent-up demand following the pandemic.

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⁹ Banco de España. (2019). "Box 8. The recent slowdown in activity from a sectoral perspective". *Economic Bulletin - Banco de España*, 4/2019. <https://repositorio.bde.es/handle/123456789/10750>