

Spain

Euromonitor reports that the Spanish economy experienced significant growth in 2022, buoyed by increasing private expenditure, a rebounding tourism sector, and a declining unemployment rate. While higher household energy costs were a concern, government assistance helped ease some of the burden, along with initiatives to alleviate the impact of rising mortgage costs on vulnerable households. However, economic growth in Spain slowed considerably in 2023 as private consumption growth decelerated as expected.

- Following robust real gross domestic product (GDP) growth of 5.7% in 2022, Spain's economy expanded at a rate of 2.5% in 2023 and is expected to expand at a rate of 1.3% in 2024.
- Inflation in Spain is forecast to slow down to 4.5% in 2023 from 8.5% in 2022.
- While Spain's merchandise exports increased by 8.5% and imports rose by 18.1% during 2022, the country remained a net importer of goods.
- Gross fixed capital formation (GFCF) continued to increase over 2022, accounting for 20.4% of GDP.
- The public debt-to-GDP ratio in Spain fell to 114% in 2022, standing above the regional average of 85.1%.

Over the next 10 years, heightened competition from firms in both Asia and Eastern Europe represents a significant threat to the Spanish economy which is too dependent on lower labor costs. A shortage in skilled labor could also limit further gains in Spain's competitive abilities. Spain spends far less than other EU countries on research and development and lags in product development.

Spain's population was 47.2 million in 2023 (CIA World Factbook Est.), up from 40.8 million in 2000. The population may continue to grow, amounting to 48.7 million by 2030. Both the country's workforce and its population are ageing rapidly. In 2023, the median age was 46.3 years, significantly higher than the regional average of 44.2 years. By 2030, the median age will reach 47.7 years. In line with the aging process, Spain's fertility rate has been steadily dropping for several decades. In 2023, it amounted to just 1.2 births per female, well below the regional average of 1.6.

Like other European nations, aging is set to continue to be a key demographic trend, as life expectancy rises, and fertility rates stay low. In 2023 20.6% or about 9.7 million Spaniards were older than 65. In the future that ratio will surge, while younger groups will shrink, transforming the consumer landscape further up to 2040 as lifestyles and spending adapt. An overall decline in the workforce over 2023-2040 and a dramatically increased proportion of retirees will drive the old-age dependency ratio even higher at 48.3% by 2040, remaining above the Western European average of 42.7%. Therefore, more pressure will be placed on state coffers in the form of greater pension provision and healthcare for the elderly.

USDA's Office of Agricultural Affairs (OAA) in Madrid, hereinafter referred to as FAS Post Madrid, reports that Spain is a major producer and exporter of food and agricultural

products, with other EU countries as its primary export destination. Spanish producers, processors, wholesalers, retailers, food service operators, and importers are all part of a well-developed agribusiness sector, contributing to a competitive and dynamic domestic scenario. In 2022, Spain's total imports of agricultural and related products reached US\$53.9 billion, up 17% compared to 2021; 55% of these imports originated from the European Union.

In 2022, U.S. exports of processed foods grew 46% to a total of US\$307million, an all-time record high. Spain is the fourth largest U.S. market in Europe for processed foods. U.S. exports of processed food products to Spain dropped 8% in 2023 to US\$281.9 million. That equates to US\$26 million, which adds to the U.S. trade deficit in food and agricultural products.

Top processed foods exported to Spain in 2023 included:

- Alcoholic Beverages – down 29%.
- Food Preparations and Ingredients – up 44%.
- Prepared/Preserved Seafood – down 16%.
- Fats and Oils – up 42%.
- Condiments and Sauces, Jams and Jellies – up 12%.
- Non-Alcoholic Beverages – up 82%.
- Processed Vegetables and Pulses – down 15%.

Market Opportunities and Key Issues for U.S. Processed Food Exporters in Spain

Market Opportunities:

- Spanish consumers are increasingly open to new products. The U.S. is among the favorite destination for Spanish travelers outside the EU, increasing the popularity and interest in U.S. food products.
- U.S. products have a good reputation with importers and retailers. U.S. suppliers are known for being serious business partners. The quality consistency and the supply reliability are highly appreciated.
- Increased demand for innovative and sustainable products and packaging. The U.S. is a market that importers look to when looking for novelties and new trends.
- Good network of agents and importers to help get products into the market and consequently, into the retail chain.
- Consumers are increasingly health conscious, demanding new products. U.S. suppliers are known for offering a wide variety for this type of products.
- Distribution structure is modern, and many companies serve both Spain and Portugal.

Key Issues:

- High import tariffs and import regulations impose a price disadvantage on non-EU based companies. Competitive disadvantage with direct competitors with signed Free Trade Agreements, such as Canada.

- Food imported from third countries, including the U.S., must comply with EU food laws and labeling, traceability, and packaging rules, which vary from U.S. regulation and practice.
- High transportation costs. Small exporters face difficulties in shipping mixed/smaller container loads vs EU competitors or big exporters.
- Competition from EU countries, where tastes and traditional products may be better known.
- Lack of consumer awareness of U.S. brands, applicability, and varieties of U.S. products. Despite interest, introducing new-to-market brands and products is not easy.
- The economic environment post-pandemic; adjustments to the overall economy, tourism, and consumer habits.

Retail Food Sector Highlights:

According to Euromonitor, retail sales in the packaged food market in Spain are estimated to reach US\$55 billion in 2023. That represents growth of 23.2% and US\$10.3 billion since 2019. By the year 2028, retail sales in the packaged food market in Spain are expected to reach nearly US\$65.7 billion, growth of 14.4% or US\$8.2 billion.

High growth categories in the forecast include:

- Ready Meals
- Pet Food
- Savory Snacks
- Edible Oils
- Confectionery
- Sauces, Dips and Condiments
- Processed Meat, Seafood and Alternatives to Meat

FAS Post Madrid reports that grocery retail is expected to continue to grow, benefiting from the proximity of outlets to customers. However, growth is expected to be driven mainly by inflation. In addition, the competition from other retail channels will hamper growth. Due to inflation and other factors, such as the economic crisis and high unemployment rate, price has become one of the main determinants for purchases. With increased food inflation pressure over the last year, consumers' purchasing power has been constrained and consumers are on the lookout for promotions and bargains.

This price sensitivity results in a lack of brand loyalty that will provide private label lines with a strong opportunity for growth, as stretched consumers will be looking for the best value for their money. For instance, discounters, especially Lidl and Aldi, are seeing a rapid expansion of their outlet numbers, with their offer of good value for money products.

Supermarkets are increasing their focus on sustainability. Spanish consumers are increasingly concerned about sustainable development and their impact on the environment, particularly after the shock of the COVID-19 pandemic. As a result, consumers are becoming increasingly interested in recyclable packaging and production,

improving the energy-efficiency of their outlets and offering more locally sourced products. Thus, sustainable development is expected to continue being an essential part of grocery retailers' strategies in the Spanish market. Big grocery retail chains are also expected to increase their partnerships with local producers to reduce their carbon footprint, promote local produce and encourage consumers to eat food from their own region.

Euromonitor reports that Maradona confirmed its position as the leading chain of Spanish supermarkets in value terms in 2023 despite ranking second in terms of the number of outlets. The company strengthened its brand equity through intensified promotional campaigns, including lowering the pricing of 500 products during the second quarter of 2023 in what it communicated as its efforts to support Spanish shoppers during the challenging economic environment. This move was well received with Mercadona seeing double-digit growth in current value terms and recording a significant increase in its value share.

French retail giant Auchan has reinforced its presence in Spain after converting over 200 outlets that it acquired from Distribuidora Internacional de Alimentación (Dia) SA in 2022 into Alcampo Supermercado outlets. The move allowed Auchan to rapidly increase its penetration throughout Spain while simultaneously introducing a larger store format. This acquisition also allowed Distribuidora Internacional de Alimentación (Dia) SA to finalize its restructuring plans in Spain, with the retailer now focusing on convenience through digitalization and smaller store formats.

Carrefour announced in September 2023 that it was in the process of acquiring 47 Supercor supermarkets and convenience stores from El Corte Inglés SA at a cost of US\$173 million, with the deal set to be finalized in early 2024. These stores are located across Madrid, Catalonia, and Andalucia and the company plans to convert them into Carrefour Express, Carrefour Market and Supeco outlets. This will allow Carrefour to diversify its offerings and further expand its reach.

With supermarkets struggling to maintain affordable prices for their branded products, private labels are becoming an increasingly important competitive tool for retaining the loyalty of shoppers. As an example, Grupo Eroski has been benefiting from its extensive private label offering when it comes to essential commodities, with its Eroski Center and Eroski City banners both seeing healthy growth in current value terms in 2023. The company has also been able to attract consumers across the income spectrum through the diversity of its portfolio. While its Eroski Basic range is focused on affordable offerings, its Eroski Seqtia is a more premium private label range of over 200 SKUs which is proving attractive to shoppers seeking quality products but at more affordable prices.

Spar Española SA continued to expand its network of convenience stores in 2023, which allowed the company to improve its market penetration and increase its sales in both its Spar and Spar Express chains. The company is also in the process of refurbishing some of its existing outlets to give them a more modern look, while it has extended its shopping

hours in areas like Girona to provide more convenience for its customers and to boost its sales opportunities.

Convenience stores have already started offering ready to eat meals as they look to diversify their offer and take advantage of the growing demand for delivery and takeaway within the foodservice industry. Although Spain has traditionally had a strong foodservice industry due to cultural reasons due to the unstable economic situation it is expected that customers will remain more open to looking for cheaper foodservice options, such as those offered by convenience stores. With prevailing economic uncertainty and ongoing pressure on disposable income it is expected that this could be an area that convenience stores look to further exploit. The wide-reaching presence of convenience stores including in neighborhood and suburban locations also means they are often easily accessible, while the expansion of third-party delivery services into these areas could also benefit convenience stores that choose to sign up with these platforms.

Best Product Prospects:

FAS Post Madrid reports that products present in the market with good sales potential include tree nuts, particularly almonds, walnuts, and pistachios; peanuts; pulses; rice; sunflower seeds; and fish and seafood (frozen).

Products not present in significant quantities with good sales potential condiments and sauces, functional and innovative health food, free-from products (lactose-free, gluten-free), specialty foods, snack foods, nuts, pecans, and hazelnuts.

Foodservice Sector Highlights:

FAS Post Madrid reports that Spanish tourism is rapidly recovering from the effects of the pandemic and reaching pre-pandemic levels. Demonstrating a definitive return to pre-pandemic normality, 2023 has seen stabilization in the growth of the Hotel, Restaurant and Institutional (HRI) sector. Spain received 37.5 million international tourists in the first half of 2023, a 24% increase from the same period last year. In addition, Spaniards have returned to eating and drinking away from home, boosting demand in the HRI sector. Health, sustainability, and innovation are the biggest trends within the sector, although these trends are facing challenges imposed by inflation. The HRI sector in Spain offers excellent opportunities for U.S. food ingredient and food product exporters.

Despite challenges posed by high inflation, the average expenditure per tourist is also 3% higher than a year ago. Spain's economy is heavily dependent on tourism, which accounts for 12% of gross domestic product.

Spain's tourism industry data reflects an extraordinary recovery in tourism, expecting to receive more tourists in summer 2023 than before the pandemic. Spain received over 8.8 million international air passengers in May 2023, marking a significant increase of 13.9% compared to the same month in the previous year. This positive trend has been consistent throughout the year, as the country welcomed a total of 34 million passengers in the first five months, reflecting a remarkable growth of 28.8% in comparison to the same period in 2022. The government forecasts that Spain will receive between 52.3 million and 54.8

million tourists between May and October, slightly up from the number of visitors in the same period in 2019, a record year for tourist flows. Expenditure is also recovering. In the first quarter of the year, total spending was close to US\$40 million, 32% more than in the same period last year, and 16% higher than in 2019.

The hospitality sector continues its recovery after being one of the sectors most affected by the coronavirus crisis and expects to exceed the figures registered before the pandemic in 2023. Though final numbers are not published yet, the hospitality sector in Spain expects this summer to be a record one in both turnover and employment, favored by the strength of international tourism with recovery in visits and especially associated spending. The recovery of national tourism, which is also showing important progress, will also have a positive influence.

According to the Spanish Hospitality Confederation (CEHE), in the first half of this 2023, the industry reached pre-pandemic levels thanks to the strength of the sector and the robust national and foreign demand. Throughout the first six months of this year, strong increases have continued compared to 2022. The hospitality industry also grew 7.8% between January and May compared to 2019, though the profitability of hospitality companies is 5.9% below 2019. Although due to the start of the recovery last year, growth is gradually moderating. It is interesting to note that the effect of the recovery has been stronger in tourism and leisure consumption, whereas there has been a slower recovery in daily consumption. This is due in part to the established telework policy, more predominant in large cities such as Madrid or Barcelona.

According to Euromonitor, around 10% of consumers in Spain define themselves as vegetarian or vegan, which is close to 5 million people. This growing potential audience is likely to inspire existing restaurants to offer more plant-based menu options, while it is also likely to incentivize more players to open specialist vegan and vegetarian restaurants. Aside from animal welfare and health concerns, plant-based diets are also becoming popular among those who are concerned about sustainability and climate change.

Larger companies dominate institutional foodservice in Spain, with the top five companies accounting for more than 40% of total sales. In addition, there are hundreds of local small companies providing catering and events services. Large institutional foodservice companies are price sensitive, importing directly, and/or buying products, particularly fresh produce, from local suppliers.

Typically, HRI operators buy their food ingredients from importers or wholesalers. Some large companies buy directly from foreign suppliers. Spain exports around 20% of the Spanish food production, mainly to the EU. Some food processing companies concentrate on the domestic or on export markets, but most of them will have mixed customers. Companies supplying mainly the domestic market frequently market their products directly and have their own logistics infrastructure. However, customers will vary from wholesalers to buying groups and retailers. Companies producing for re-export may have their own marketing office overseas, local agents, or may work with local importers.

Best Product Prospects:

FAS Post Madrid reports that U.S. products in the Spanish market that have good sales potential include frozen fish, tree nuts, particularly almonds, walnuts and pistachios, pulses, sunflower seeds, fish, and seafood (frozen); surimi and spirits. Other products with good potential in the HRI food processing sector include functional and innovative health food, free-from products (lactose-free, gluten-free), specialty and snack foods, nuts (e.g., pecans, hazelnuts), sweet potatoes, and pet foods.

Food Processing Sector Highlights:

FAS Post Madrid reports that Spain is a major producer and exporter of food and agricultural products, with other EU countries as its primary export destination. Spanish producers, processors, wholesalers, retailers, foodservice operators, and importers are all part of a well-developed agribusiness sector, contributing to a competitive and dynamic domestic scenario. In 2022, Spain's total imports of agricultural and related products reached US\$53.9 billion, up 17% compared to 2021; 55% of these imports originated from the European Union.

In 2022, the food processing sector consolidated its position as an important industrial sector. Spain enjoys a modern food-processing sector that pays special attention to the quality, safety, and traceability of the food products it produces. It has one of the most competitive food industries in Europe, which makes this sector an important target for U.S. exports of food ingredients. Industry's interest in developing new products continues to present opportunities for food ingredients.

Many U.S. companies are present in Spain, either through joint ventures, acquisitions, etc. Some examples of U.S. companies in the Spanish food and beverage industry are (in alphabetical order): Bunge – fats and oils; Cargill – fats, oils, additives, pet food; Coca Cola – beverages, snacks; H.J. Heinz Foods Spain – prepared vegetables; Mondelez International – cheese, snacks; Kellogg's España – breakfast cereal; PepsiCo – beverages, juices, snacks.

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Spain's main trading partner is the EU-27. The lack of trade tariffs, trade barriers and other restrictions make European goods more attractive and competitive, particularly in terms of price sensitive goods.

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