BBVA Research

Final Consumption Drives GDP, but Investment Remains Uneven

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Key Messages

In the second quarter of 2025, GDP grew 2.1% compared to the same period a year earlier and 0.5% versus the previous quarter (seasonally adjusted), accelerating in quarter-on-quarter terms but slowing in year-on-year variation, partly due to the timing of Easter in April.

Final domestic demand expanded 4.2% year-on-year, driven by a 3.8% increase in final consumption expenditure (households: 3.7%; government: 3.9%) and a 6.4% rise in gross capital formation. However, gross fixed capital formation grew by only 1.7%, indicating that much of the increase in investment was due to inventory accumulation.

Household consumption was supported by strong growth in durable goods (+14.8% year-on-year) and semi-durable goods (+7.7%), along with gains in non-durable goods (+4.2%) and services (+2.3%). By category, furniture and household goods (+7.6%), recreation and culture (+7.2%), and communications (+6.1%) were among the most dynamic segments.

Imports rose 9.7% year-on-year in the second quarter, driven almost entirely by purchases of goods (+12.5%) in response to strong domestic demand, which included higher consumption of durable goods, robust investment in machinery and equipment, and inventory restocking. In contrast, imports of services fell 0.9%. Meanwhile, total exports declined 1.6% (goods: -1.6%, services: -0.6%), meaning that net trade had a negative effect on GDP growth.

On the supply side, the strongest momentum came from the combined grouping of trade, transport, accommodation, and food services, which expanded 5.6%, with notable contributions from wholesale and retail trade (+8.8%) and from air (+14.0%) and water transport (+10.3%). The agricultural sector grew 3.8%, supported by livestock (+8.1%) and fishing (+25.0%), although a sharp fall in coffee output (-15.8%) tempered the overall result. Public administration, defense, education, and health rose 1.8%, boosted by higher spending on collective consumption and non-market education, supported by public sector wage adjustments and an increase in the military workforce. Manufacturing (+0.9%) showed a mixed performance: meat processing (+7.2%), non-metallic minerals (+4.9%), and textiles (+5.4%) posted gains, while machinery and equipment (-7.5%), coke production (-3.1%), and basic metallurgy (-13.3%) recorded declines.

In contrast, sectors that detracted from growth included construction, which contracted by 3.5%. Although civil works expanded 9.6%, this was not enough to offset steep declines in residential and non-residential building (-9.7%). Mining shrank by 10.2%, dragged down by sharp drops in metallic minerals (-20.0%), coal (-14.6%), and oil and gas (-6.9%), which also weighed on linked industries.

The 2025 growth forecast remains at 2.3%, with upside potential if positive signals strengthen and resilience in non-traditional exports and public spending persists.

Detailed Analysis – GDP by Expenditure

Gross fixed capital formation grew by only 1.7% in the second quarter, meaning that much of the increase in total investment was driven by inventory accumulation. By asset type, investment in machinery and equipment rose a solid 11.6%, consolidating its position as the main driver of productive investment, supported by higher imports of capital goods, though not by domestic production, as the manufacturing branch producing capital goods contracted. Investment in cultivated biological resources also grew (4.1%), linked to agro-industrial activity. In contrast, other components fell: intellectual property products (-3.9%), other buildings and structures (-1.2%), and, most sharply, housing (-10.6%), reflecting the persistent weakness of the real estate market. As a result, the investment rate stood at 17.2% of GDP, excluding inventory accumulation—well below the 2010–2019 average of 22.2%.

Household consumption maintained an expansionary tone in the second quarter, supported by a combination of macroeconomic and confidence-related factors. Employment continued to grow, although with an increasing share of informality, while real wages rose above inflation, strengthening purchasing power and even allowing some room for savings. Consumer confidence, while still relatively low, showed a slight improvement compared to previous quarters. Added to this were sustained remittance inflows and coffee sector revenues, which benefited from favorable international prices despite lower production. Consumer credit also began to recover, returning to positive territory and helping sustain household spending momentum.

While consumption has been the main driver of activity so far this year, sustained medium- and long-term growth will require complementing this with more dynamic and diversified investment. The recent strong performance of machinery and equipment investment is a positive sign, but for growth to be more balanced and resilient it needs to extend to other components, such as building construction and infrastructure works, whose multiplier effects can “move” other parts of the economy—industry, trade, professional services—thus promoting greater growth homogeneity. Broader and more balanced investment not only boosts current activity but also expands productive capacity and the economy’s potential output.

Moreover, when growth relies predominantly on consumption, it can generate pressures on supply capacity that, in general, tend to influence price behavior and thereby condition the monetary policy decisions of the central bank. A more solid balance between consumption and investment would allow economic momentum to be sustained without creating macroeconomic imbalances, while also fostering a more stable environment for households and businesses.

Detailed Analysis – GDP by Production

In the second quarter of 2025, the economy showed a clear divergence between tradable and non-tradable sectors. Taken together, tradables—which include agriculture, manufacturing, and mining—fell 0.2% year-on-year, dragged down by the mining sector, which offset gains in agriculture and manufacturing. Non-tradables—which include trade, transport, services, and public administration—expanded by a stronger 2.8%, supported by robust domestic demand and solid performance in consumption-oriented activities. This difference reflects the fact that, while sectors tied to external markets and investment faced a less favorable environment, those oriented toward the domestic market continued to benefit from strong household spending.

Within this sectoral reconfiguration, two branches have lost relevance in the productive structure: construction and mining. Construction, which has historically played an important role—especially when called upon to act countercyclically during economic slowdowns—currently accounts for 4.2% of GDP, compared to an average of 6.7% between 2010 and 2019, following a decline linked to the persistent weakness of building activity. Mining accounts for 3.5% of output, down from an average of 5.9% in the past decade, reflecting a loss of traction from lower production of hydrocarbons and metallic minerals. This loss of relative weight not only reduces the homogeneity of economic growth through its smaller direct contribution but also through its diminished capacity to pull along other sectors dependent on its dynamism, thereby limiting the solidity and diversification of overall expansion.

By contrast, trade has gained relative weight, driven by private consumption that has encouraged inventory turnover, the sale of durable and semi-durable goods, and increased use of related services. Its contribution to aggregate growth has been rising in recent quarters, consolidating it as one of the most stable drivers of recent economic performance.

Household consumption, although an element of demand, has been so influential that its strength is clearly reflected on the supply side. Sectors most closely linked to this spending—such as trade, transport, accommodation, food services, entertainment, and parts of consumer goods manufacturing—have outperformed those linked to investment, such as construction, metallurgy, or machinery and equipment manufacturing. While a rebound in goods consumption was anticipated this year due to cyclical recovery conditions, the growth in services consumption exceeded expectations. This occurred even as the central bank reduced interest rates only gradually, with a single 25-basis-point cut in April, highlighting the relative strength of other drivers—employment, real wages, remittances—that are sustaining spending. It is telling that, even when analyzing supply, the scale of consumption compels mention, underscoring its weight in sectoral activity.

That said, the labor intensity of this pattern warrants qualification. Some labor-intensive sectors—such as trade, transport, and entertainment—have led the recovery, but this is not a general rule: manufacturing has yet to achieve high growth rates, and construction remains in contraction. Moreover, going forward, the higher costs associated with labor reform, shorter working hours, and minimum wage hikes will need to be considered, as they could temper hiring.

In sum, the current cycle favors activities most connected to consumption, but the absence of a broader rebound in labor-intensive sectors raises questions about the medium-term sustainability of the labor market.

End of the Second Quarter Shows Mixed Signals and a Cautious Start to the Second Half

The second quarter of 2025 closed with mixed signals. Economic activity began the period with weakness, affected by the timing of Easter in April, which reduced the number of working days and slowed several sectors. In year-on-year terms, monthly ISE figures—an indicator that approximates GDP performance—showed an acceleration toward the end of the quarter, aided by the disappearance of the calendar effects that had constrained April's result: annual growth rose from 0.9% in April to 2.9% in June, bringing the quarterly GDP average to 2.1%. However, seasonally adjusted monthly changes tell a different story: after rising 1.4% in April, the ISE fell 0.2% in May and 1.1% in June, underscoring that the annual acceleration does not necessarily correspond to greater underlying economic strength. On the contrary, the quarter ended with declines in key sectors such as manufacturing, construction, and financial intermediation, tempering the optimism that might otherwise be inferred from annual growth rates.

Although the ISE does not show a clear strengthening at the end of the second quarter, confidence indicators suggest that the economic recovery is still in place. Consumer confidence, along with that of business leaders in trade and industry, has improved slowly but steadily, albeit from low levels. This trajectory, though moderate, helps sustain private spending and provides a more favorable environment for continued economic progress in the second half of the year.

July's leading indicators partly reinforce this view. Consumption strength remains evident, supported by solid automobile sales, improving confidence, a favorable reading from our big data indicator, and positive employment trends. Additional gains were recorded in various production and activity metrics: imports of raw materials increased, energy demand rose, road freight transport expanded, and in construction, building permits approved through June—alongside stronger housing sales in July—point to a possible pickup in investment. Taken together, these elements suggest that the second half of the year may have started at a decent pace, although this initial momentum remains constrained by growth barriers in sectors such as mining and construction—the latter with a natural lag between permit approval and work execution—as well as lingering doubts over the investment recovery, which starts from historically low levels.

We maintain our GDP growth forecast for 2025 at 2.3%, with no change in bias for now. However, the outcome could be higher if the positive signals already discussed—such as improvements in confidence and leading indicators—are consolidated, and if non-traditional exports continue to show less impact than initially expected from higher U.S. tariffs. It will also be crucial for the national and regional governments to sustain high levels of public spending execution, as seen so far in national-level operations and employment, and in regional infrastructure projects. Equally important will be maintaining labor market strength without a slowdown stemming from the higher costs associated with labor reforms, shorter working hours, and increases in the minimum wage.

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