

Economic Update Spain

10 January 2012

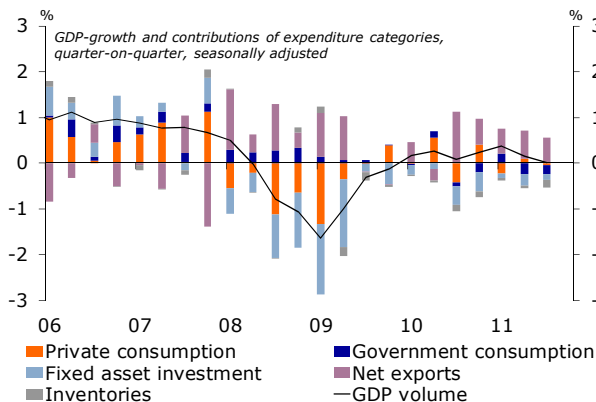
Back in recession

Year-on-year change (%)	'10	'11	'12
Gross Domestic Product	-0.1	¾	-½
Private consumption	1.2	0	-1
Government consumption	-0.7	-1	-1½
Investment	-7.6	-4¼	0
Exports	10.3	8¾	5
Imports	5.4	1¾	2
Inflation	2.0	3¼	1¾
Unemployment (%)	20.1	21¾	22½
Government budget (% GDP)	-9.2	-8¼	-5½
Government debt (% GDP)	60.1	70	76

In 11Q3, export growth managed to keep the Spanish economy out of recession. But the available economic data for 11Q4 point to GDP contraction in that quarter. For the first quarter of this year we also expect GDP to fall, which would mean that Spain will experience a double-dip recession. As a result, we expect the jobless rate to continue its upward trend. The new conservative government has announced further austerity measures to compensate for the higher than planned budget deficit in 2011. This will probably undermine consumer confidence, which had been rising over the past couple of months.

Source: Reuters EcoWin, Rabobank

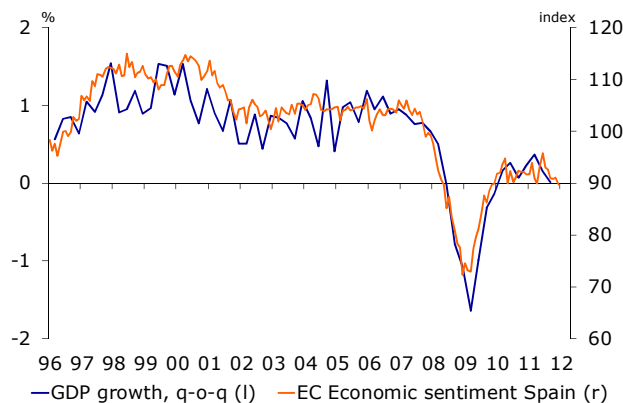
Exports prevented economic contraction in 11Q3...



As we expected, the economy stagnated in 11Q3. On the back of renewed growth in world trade, Spanish exports recovered strongly following a minor contraction in 11Q2. Imports also recovered, but not as strong as exports. As a result, and for the fifth consecutive quarter, the positive growth contribution of net trade (more than) compensated for the decline in domestic demand. World trade is expected to show a less positive development in 11Q4 and an outright fall in the trade volume cannot be excluded. As such, Spanish exports will probably no longer be able to keep the economy out of recession.

Source: Reuters EcoWin, Rabobank

... but return of recession likely in 11Q4



Most of the available economic data for 11Q4 have been negative. New car sales and retail sales both sank to new lows since the start of the previous recession in 08Q1. Industrial production (IP) fell by 1.2% m-o-m in October. This brought the production volume down to the previous recession trough. And based on various measures of producer confidence in the industrial sector, IP will most likely fall further in the last two months of 2011. The broader Economic Sentiment Indicator hardly fell in the last months of the year, but still supports our view that the economy is falling back into recession. For now though, the available data suggest that the likely contraction of GDP is set to be mild compared to the previous recession.

Source: Reuters EcoWin

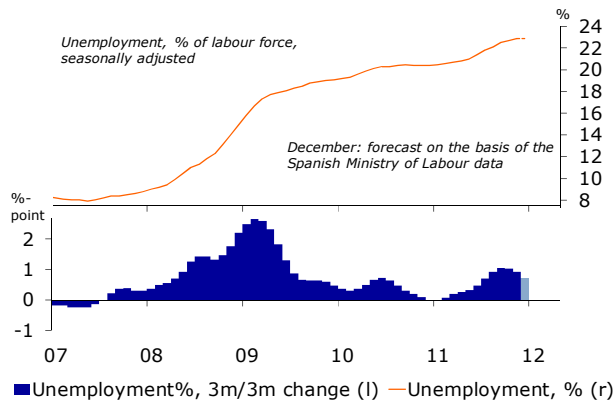
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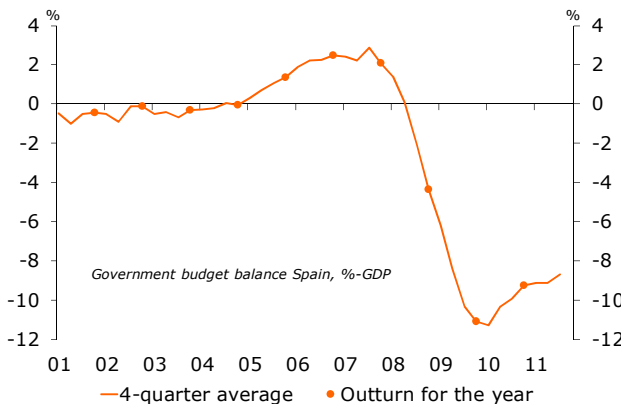
Rise in unemployment loses momentum



Source: Reuters EcoWin, Rabobank

Our expectation of a mild recession is supported by recent labour market developments. In the last three months of the year, the rise in unemployment lost significant momentum from the steep increases seen earlier in 2011. Recent data from the Spanish Ministry of Labour even suggests that the unemployment rate did not rise at all between November and December. But given our expectation of continued output contraction in 12Q1, a further rise in the jobless rate is very likely. With that, the recent positive development in consumer confidence, which was partly driven by a more positive view on the labour market outlook, will likely wane as well.

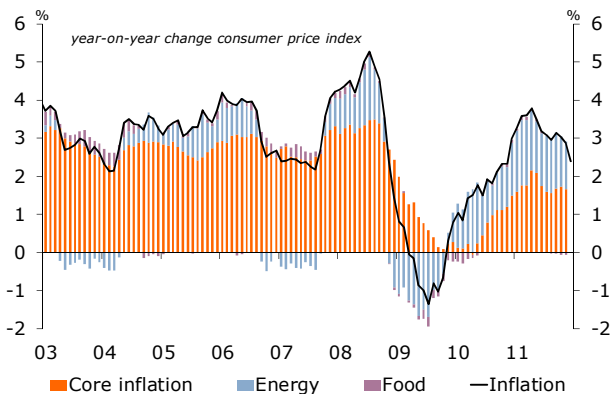
Disappointing government budget result for 2011



Source: Reuters EcoWin, Rabobank

The new government is off to a good start with further austerity measures and structural reforms. Regrettably, Prime Minister Rajoy also had to announce that the budget deficit for 2011 will likely end up above 8% of GDP instead of the 6% target. Since the budget overrun is concentrated in the autonomous regions, the more centralistic Partido Popular has announced new legislation that will give the central government more influence on their finances. Also, the new government is planning to force more transparency on the banks' losses on real estate loans. As such, the two main risks surrounding the government finances are firmly being dealt with.

Lower energy-contribution pulls down inflation



Source: Reuters EcoWin

Consumer price inflation fell markedly in December, to 2.4% from 2.9% in November. The breakdown is not yet available but a lower contribution of energy prices probably played an important role. Oil prices rose sharply in December 2010 on the back of civil unrest in North Africa. But with the relative stability in the oil price since April 2011, the energy contribution to inflation has been on a downward trend. We expect inflation to fall further in the months ahead, both due to a further fall of the energy contribution and due to weaker aggregate demand. Of course, a renewed sharp rise in the dollar oil price and/or a sharp depreciation of the euro against the dollar can easily push the energy contribution back up.

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