

Economic Update Spain

5 March 2013

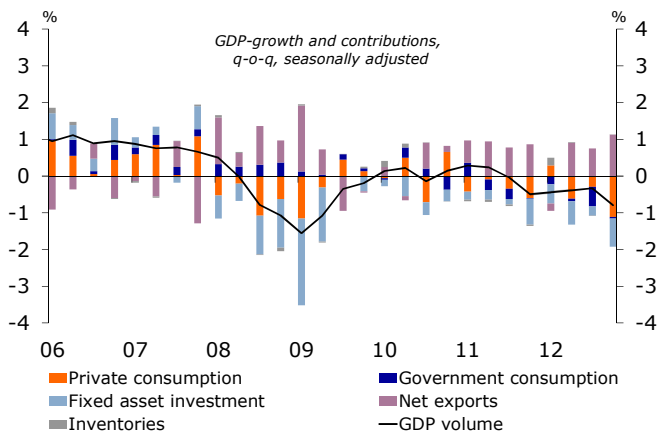
Recovery: mañana, mañana?

Year-on-year change (%)	'12	'13	'14
Gross Domestic Product	-1.4	-1½	½
Private consumption	-2.1	-3¼	-1½
Government consumption	-3.7	-5¼	-2¼
Investment	-9.1	-6½	3¾
Exports	3.1	6½	6¼
Imports	-5.0	-2¼	3½
Inflation	2.4	2¼	1½
Unemployment (%)	25.1	27¼	27¼
Government budget (% GDP)	-6.7	-6½	-4½
Government debt (% GDP)	88.4	95	98

Looking back, the Spanish economy was very weak in 12Q4. Although partly due to temporary factors, the contraction of both GDP and industrial production intensified considerably. Looking forward, we see a number of bright spots. For one, there has been a gradual improvement of several sentiment indicators, both in Spain and in the rest of the eurozone. Secondly, signs of recent wage moderation strengthen our conviction that the external rebalancing of the economy is taking place. Finally, Spain is expected to get the 'green light' for further postponing its budget deficit target this year. Although clearly positive, they are unlikely to support the economic recovery in the short term.

Source: Reuters EcoWin, Rabobank

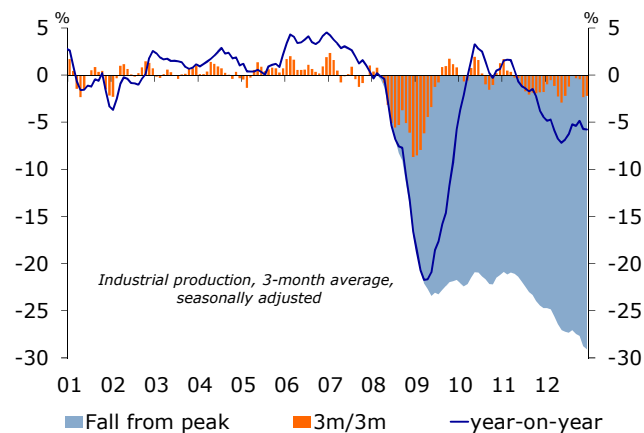
Harsh GDP-contraction seems temporary



GDP in 12Q4 showed a relatively large contraction (-0.8% q-o-q) compared to previous quarters. This was mainly due to the strong negative contribution of private consumption (-1.1% point) amid an increase in the VAT in September 2012. Thus, the sharp GDP-contraction seems temporary. Furthermore, the 1.8% q-o-q decline of exports in 12Q4 was remarkable, especially after the exuberant growth of 5.4% q-o-q in the previous quarter. However, amid the robust import contraction (-4.8% q-o-q) net exports still managed to contribute positively to the quarterly figure. We expect a gradual slowdown of GDP-contraction in 2013, which is partly based on rising sentiment indicators (e.g. ESI).

Source: Reuters EcoWin

Industrial production sends out mixed signals



The Spanish industrial production (IP) also ended 12Q4 on a weak footing. IP contracted by 2.2% q-o-q –the largest drop since early 2009. As a result of that, the level of IP at the end of 2012 was a shocking 29% below its pre-crisis peak. Moreover, a survey among entrepreneurs in the manufacturing industry showed that the capacity utilisation rate is expected to drop further in 13Q1, in contrast to many other eurozone countries. However, there are also some bright spots. For one, IP grew, albeit modestly, in December on a monthly basis. Secondly, sentiment among purchasing managers (PMI manufacturing) rose in February (46.8) to its highest level since mid 2011.

Source: Reuters EcoWin

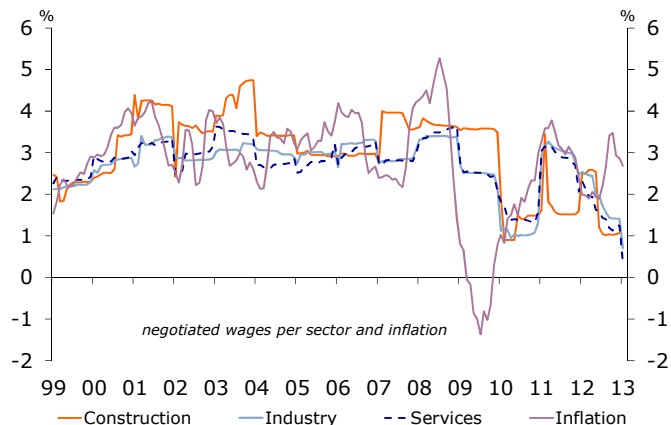
www.rabobank.com/economics

Michiel Verduijn
Tel. +31 (0)30 – 2130522
M.P.Verduijn@rn.rabobank.nl

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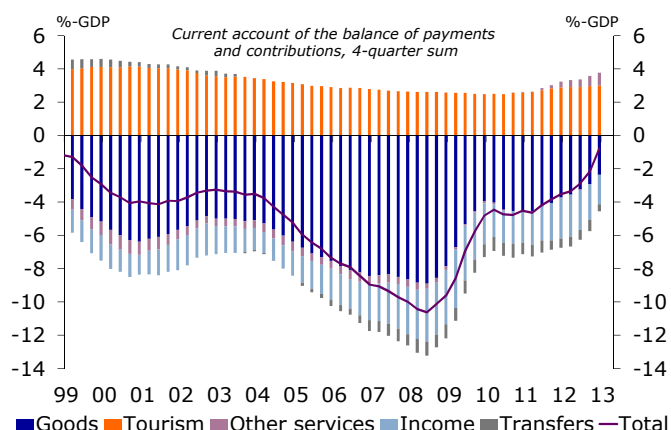
Wage moderation despite VAT-increase ...



Source: Reuters EcoWin

The VAT-increase in September 2012 – from 18% to 21%– resulted in a sharp increase in inflation (2.8% in January). Although this will push up the price level throughout the year, we expect a gradual decrease of inflation during 2013. It is encouraging that wages are not rising in line with inflation until now; in both the industrial and the services sector the growth of negotiated wages dropped further in January. The labour market reforms of 2010 and 2012 seem to have had an effect on the wage bargaining process. If wage moderation continues, it is a clear positive for Spain's price competitiveness. The trouble is that it will further erode the purchasing power of consumers.

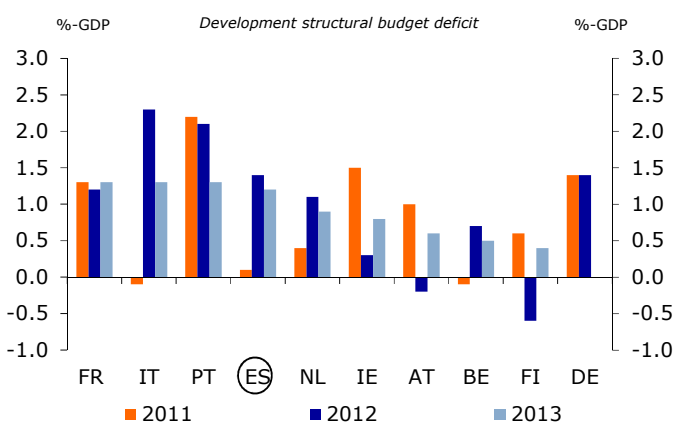
... raises hope for a sustainable rebalancing



Source: Reuters EcoWin

The current account deficit of Spain is falling quickly. On a monthly basis, there have even been a couple of months of surplus. Amid the ongoing austerity effort and the resulting decrease of domestic demand, the current account is expected to improve going forward. As this is mainly the result of import contraction instead of export growth –which is a reason behind the high unemployment rate– one can question the sustainability of this economic rebalancing. However, given the success of the labour market reforms and the structural improvement of Spain's public finances, we believe a considerable part of the external rebalancing process should be seen as permanent.

Europe hints at more time for Spain



Source: European Commission

The Spanish government recently stated that the budget deficit in 2012 came in at 6.7%-GDP (10%-GDP if we include the bank recapitalisations). Moreover, the Winter Forecast of the European Commission (EC) showed that the deficit target for 2013 (4.5%) was unlikely to be met. As the EC hinted at postponing the target for another year owing to unexpected economic headwinds, Spain probably does not need to announce further austerity measures –in addition to the existing ones– in 2013. Given the high social-economic costs (unemployment rate above 26%) and the already substantial planned austerity effort for this year, we believe this postponement is perfectly justifiable.

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Michiel Verduijn
Tel. +31 (0)30 – 2130522
M.P.Verduijn@rn.rabobank.nl