



Economic Update Spain

3 May 2011

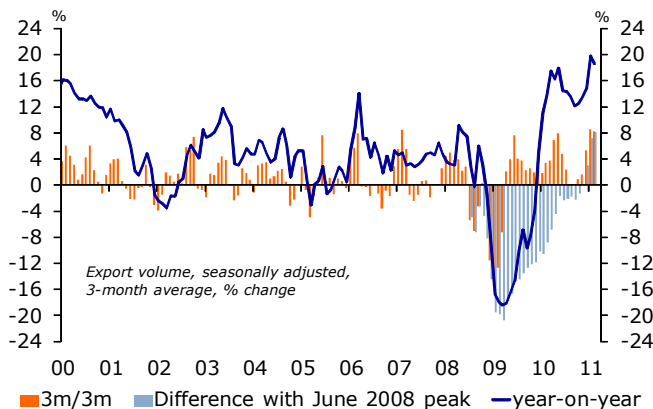
The good news comes from the outside

Year-on-year change (%)	'10	'11	'12
Gross Domestic Product	-0.1	¾	1¼
Private consumption	1.2	0	½
Government consumption	-0.7	-¾	¼
Investment	-7.6	-1	3
Exports	10.3	7	4
Imports	5.4	1¾	1¾
Inflation	2.0	2¾	1¼
Unemployment (%)	20.1	20¾	20¼
Government budget (% GDP)	-9.3	-7	-5½
Government debt (% GDP)	64.4	70	73

Similar to the last quarter of 2010, export growth is set to grow at a healthy clip in the first quarter of 2011. Domestic demand on the other hand is still very weak. This combination has resulted in a very sluggish recovery of industrial production. Coupled with the further contraction of the construction sector this has led to yet another quarter of falling employment, which has pushed up the unemployment rate to a new cyclical high of 20.7%. Add to that the currently high inflation, the government austerity measures and the need for households to bring down their debt burdens and it becomes clear that consumers will remain in belt-tightening mode in the year to come.

Source: Reuters EcoWin, Rabobank

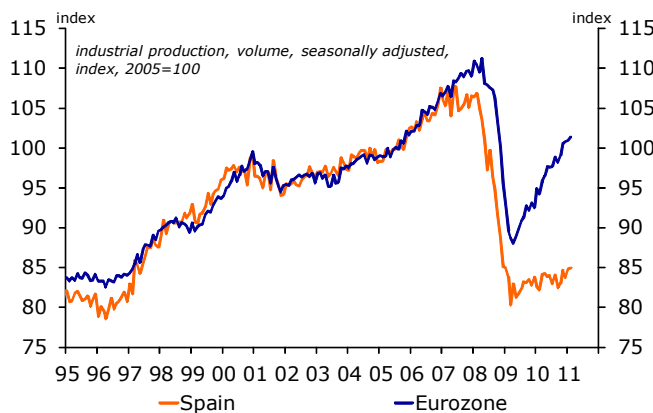
Export growth still going strong...



Exports of goods fell by 4.2% m-o-m in February. At first sight this seems worrying, but this contraction followed an average monthly gain of 3.6% in the four preceding months. As a result, even if the export volume does not recover in March, growth for the first quarter as a whole will come in at a very robust 5% q-o-q. This follows on the 5.3% growth in the last quarter of 2010. The recovery has been strong enough to push the export level back up above the previous high of the second quarter of 2008. And with import growth lagging behind export growth, international trade remains the most important driver of the Spanish economic recovery.

Source: Reuters EcoWin

...but industrial production keeps lagging behind



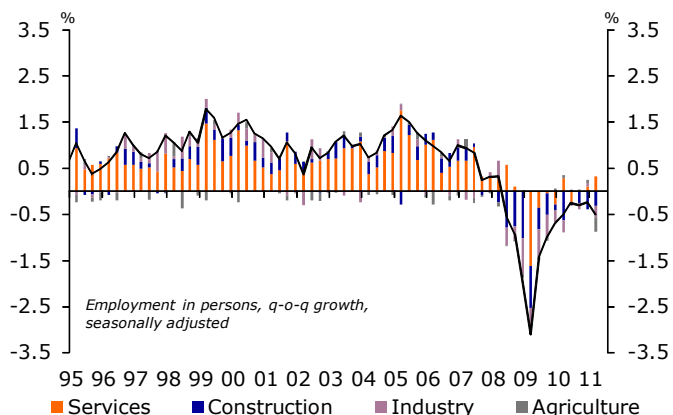
The economic boost from high export growth is largely offset by continued weak domestic demand. Construction spending is still firmly on the way down, partly due to government's austerity policy. The government cutbacks also put downward pressure on household's disposable income, constraining the possibility of private consumption growth. As a result, Spanish industrial production is clearly lagging relative to the recovery seen in the euro zone as a whole. This weak recovery in production in turn makes the growth prospect for corporate investment much less bright than our investment expectations for countries like The Netherlands and Germany.

Source: Reuters EcoWin

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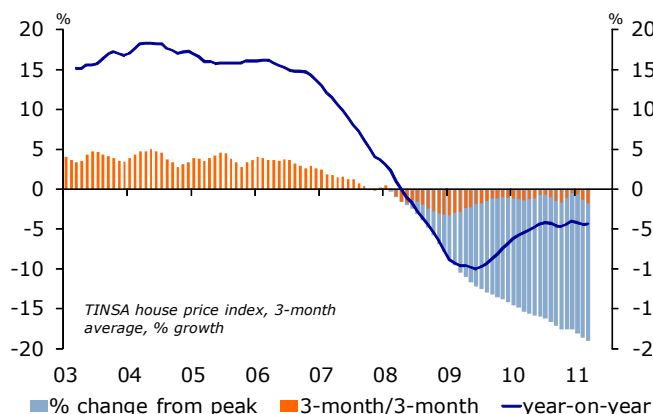
Employment keeps contracting...



The sluggish recovery of industrial production and the continued fall in construction activity resulted in a further contraction of employment in the first quarter of 2011. Employment growth in the services sector has not been strong enough to compensate for losses in the other sectors. The unfavourable employment developments have resulted in an increasing number of people becoming discouraged to look for a job. As a result, the labour force has been shrinking in the past two quarters. Despite the smaller labour force, unemployment continued its upward trend in the first three months of 2011, reaching a new cyclical high of 20.7% in March.

Source: Reuters EcoWin, Rabobank

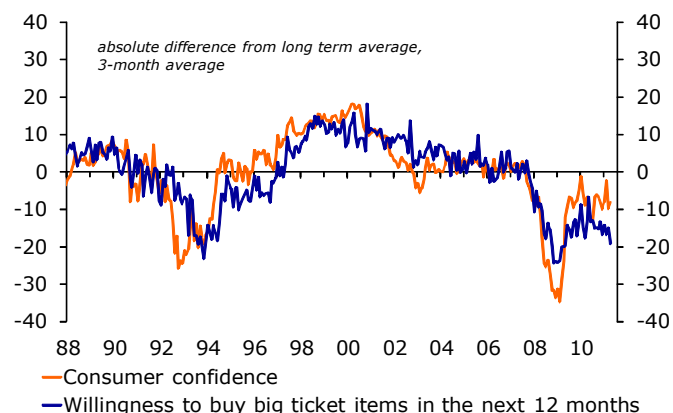
...and house prices continue to fall as well...



After having fallen for more than three years in a row, average house prices in Spain are now 19% below the peak reached in late 2007. There are at least three reasons to expect a further fall in house prices. First, the excess supply of houses, which was created during the building boom, is still sizeable. Second, household disposable income is under pressure from higher taxes, higher energy prices and lower government spending. Third, the expected rise in the mortgage interest rate will put further downward pressure on affordability. Since virtually all Spanish mortgages have a variable interest rate, policy rate hikes by the European Central Bank will feed through relatively quickly into living expenses.

Source: TINSA

...so consumers remain in belt-tightening mode



The continued rise of unemployment, high inflation and the fiscal squeeze have resulted in consumer confidence being stuck at a relatively depressed level. Apart from slowly rising or even falling real disposable income, households will be keen to reduce the debt burden they built up before the recession. The willingness to buy big ticket items has declined since the middle of 2010 and is far removed from the long term average. In the first quarter of 2011, new car sales have recovered some of the huge contraction seen in the third quarter of 2010. But retail sales posted a sharp decline. We expect private consumption to be stagnant on balance throughout this year.

Source: Reuters EcoWin

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