

Economic Update Spain

3 September 2012

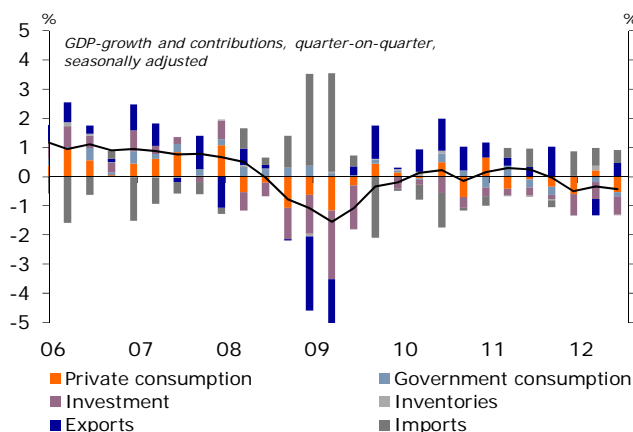
From bad to worse

Year-on-year change (%)	'11	'12	'13
Gross Domestic Product	0.4	-1¾	-1
Private consumption	-1.0	-2¼	-1¾
Government consumption	-0.5	-5¼	-7¾
Investment	-5.3	-9	-1½
Exports	7.6	2¾	6¾
Imports	-0.9	-6	¾
Inflation	3.1	2½	2½
Unemployment (%)	21.6	25¼	26½
Government budget (% GDP)	-8.5	-6¼	-4
Government debt (% GDP)	68	81	87

Compared to the first half of the year, the contraction of Spanish economic activity will probably accelerate in the second half. In 12Q2, the decline in GDP was limited to a relatively modest 0.4% q-o-q. A further fall in domestic demand was partly compensated for by a renewed rise in exports. For the second half of the year, a further sharp fall in domestic demand is in store. Consumer confidence dropped abruptly in August, partly in reaction to the announcement of further fiscal austerity which is pulling down household disposable income. Lower government spending meanwhile is directly having a negative effect on GDP.

Source: Reuters EcoWin, Rabobank

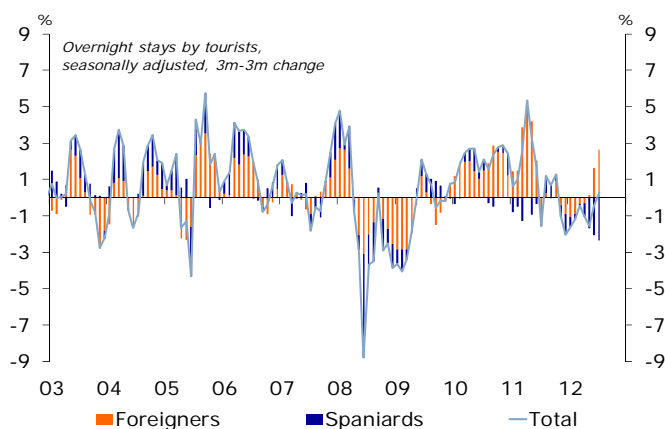
Pace of contraction was relatively modest in 12Q2...



The GDP-volume fell by 0.4% q-o-q in 12Q2. For the past three quarters, the pace of economic contraction has been relatively modest when compared to either the Spanish experience during the 2008/09 recession or the recent Italian economic decline. But before the beginning of this new recession, the economy had by no means recovered yet from the earlier damage. The statistics agency recently published revised GDP figures, showing that the recovery from the Great Recession has been slower than previously thought. With the renewed decline, GDP reached a new low since 08Q1 in 12Q2. The only positive factor in 12Q2 was a return of export growth.

Source: Reuters EcoWin, Rabobank

... which was partly due to growth in tourism



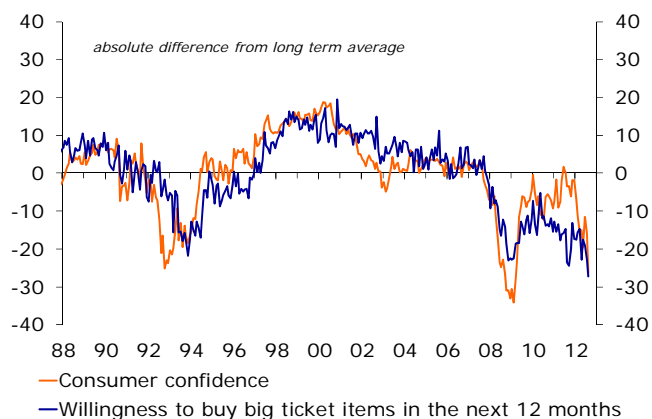
Exports of services were the dominant force pushing up exports in the second quarter. Services exports rose by 4.2% q-o-q while goods exports increased by a mere 0.4%. After three quarters of contraction, spending by foreign visitors contributed positively again to services exports in 12Q2. Following a sharp fall in the number of overnight stays by foreigners in 2008 and 2009, a quick recovery took hold in 2010 and the first half of 2011. Since the middle of 2011 foreign visits fell back somewhat. But tourism had a rather good run again in April to July of this year. If overnight stays remain stable in August and September, tourism will contribute positively to Spanish export growth in 12Q3 again.

Source: Reuters EcoWin, Rabobank

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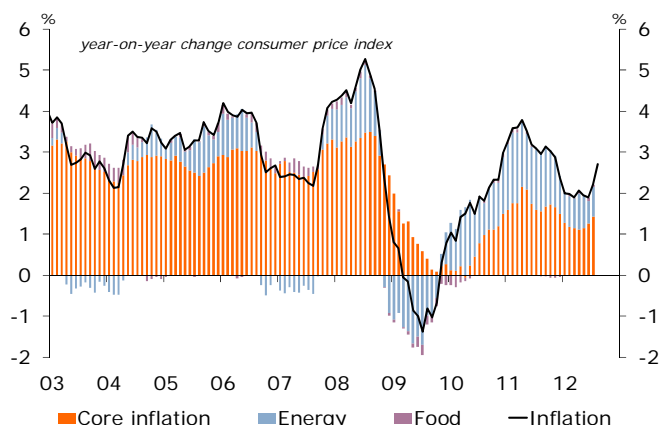
Consumer confidence collapses



While the growth of the number of overnight stays by foreigners increased, the fall in the number of stays by Spaniards accelerated. Spanish private consumer spending fell by 0.9% q-o-q in 12Q2. In the past six quarters, the average quarterly pace of contraction was 0.5%. Consumer confidence collapsed in August. The 10.5 point drop was the biggest fall in the series that started in 1987 apart from September 1990. The sub-indicator on willingness to buy big ticket items over the next twelve months fell to a record low. We expect a sharp fall in private consumption in the third quarter and further falls beyond that as well.

Source: Reuters EcoWin, Rabobank

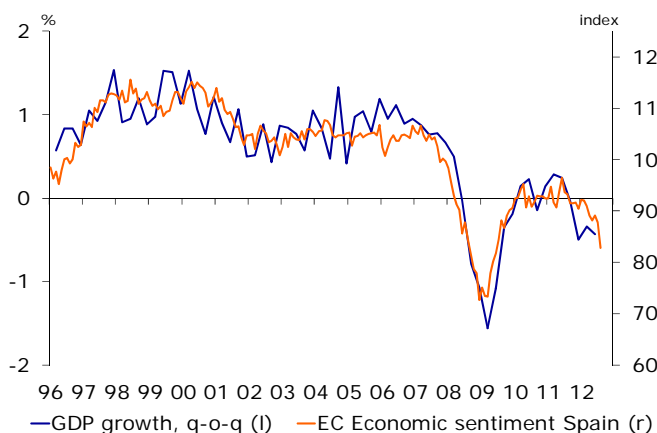
Government policy pushes up inflation



The sharp drop in consumer confidence can partly be attributed to the announcement of further austerity measures in July. One of the effects of these measures is a sharp rise in the inflation rate. In July, inflation rose partly because of an increase in the price of pharmaceuticals that resulted from a higher contribution to be paid by the consumer. On September 1st, the VAT-rates were increased. As in 2010, this has pushed up inflation in the month prior to the actual increase because firms are raising prices in anticipation. Inflation jumped from 2.2% in July to 2.7% in August and will probably rise to over 3% in September.

Source: Reuters EcoWin, Rabobank

Fall in sentiment points to accelerating recession



Rising pessimism was not restricted to consumers in August. Producer confidence in all sectors of the economy fell too. The all-encompassing Economic Sentiment Indicator published by the European Commission fell to the lowest level since June 2009 in August. We expect the pace of economic contraction to accelerate in 12Q3 and for the economy to remain in recession at least until 13Q1. Private consumption and investment will continue to fall due to depressed confidence and with government austerity pushing down purchasing power. On top of that, government spending will continue to fall at a fast pace. As a result of the continued recession, unemployment, which reached 25.1% in July, will continue to rise.

Source: Reuters EcoWin

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