



# Economic Update Spain

## 5 July 2011

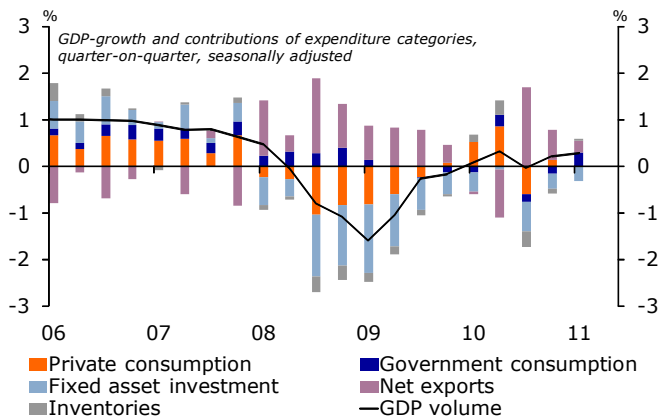
### Slowly moving in the right direction

Year-on-year change (%)	'10	'11	'12
Gross Domestic Product	-0.1	1	1¼
Private consumption	1.2	0	½
Government consumption	-0.7	0	-¾
Investment	-7.6	-4	2½
Exports	10.3	9½	4½
Imports	5.4	4½	4½
Inflation	2.0	3	1½
Unemployment (%)	20.1	21¼	20½
Government budget (% GDP)	9.2	-6½	-5½
Government debt (% GDP)	60.1	68	71

Even though the speed of recovery is nothing to cheer about, the recovery of the economy and the government finances remains on track. GDP grew by 0.3% on the quarter in 11Q1, after growing by 0.2% in the fourth quarter of last year. It appears that growth in the second quarter of this year will continue in a similar magnitude. The previous boost to growth coming from goods exports is likely to wane, but the tourism industry is set for a very good year. Like the economy, government finances are also partly on the mend. But the fact that regional governments continue to lag behind as far as deficit reduction is concerned remains a big concern.

Source: Reuters EcoWin, Rabobank

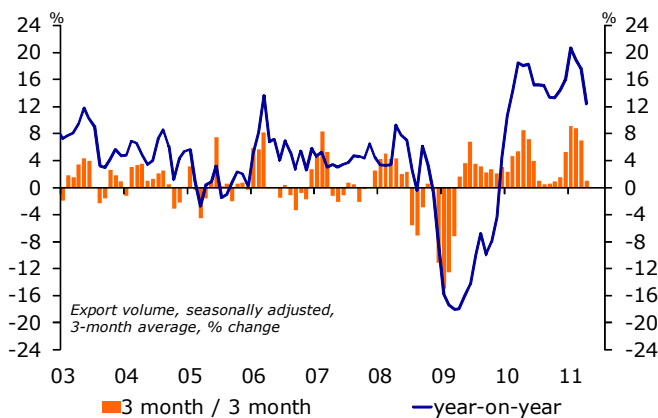
### Exports and government push economy up in 11Q1



The Spanish economy grew by 0.3% q-o-q in the first quarter of 2011. The export volume topped the previous pre-recession peak after growing by a whopping 5% q-o-q. Investment in fixed assets, on the other hand, fell by 1.3% on the quarter and household consumption was stagnant. Government consumption was the only source of domestic demand growth, rising by 1.4% q-o-q. Even though this was positive for economic growth, given the worrying state of Spanish government finances this is by no means a welcome development. What's more, owing to austerity measures we cannot count on this source of demand in the coming quarters.

Source: Reuters EcoWin, Rabobank

### Momentum of exports falls sharply in second quarter



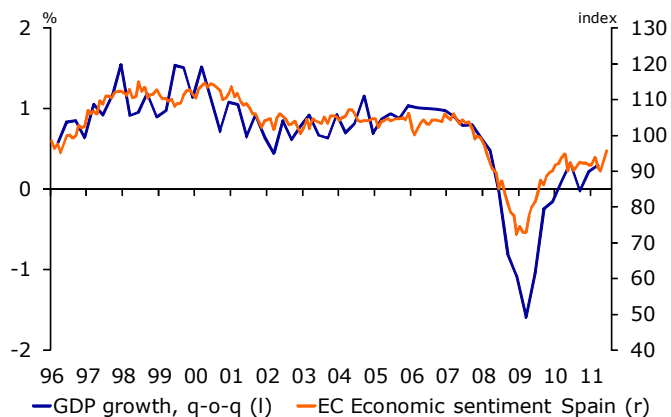
Similar to government consumption, export growth will not be able to repeat its impressive first quarter growth performance in 11Q2. Exports of goods fell by 4% m-o-m in April and the three month average growth rate dropped to 1%, from 9% in January. This is a very sizeable decline in momentum, which was also mirrored in the stagnation of manufacturing export orders observed in the survey data up until June. Note that lower export growth does not automatically lead to a similar decline in GDP growth. In April, the three month average growth rate of imports fell even further than that of exports, to 0.1%. So on balance, net exports may still make a positive contribution to GDP growth in 11Q2.

Source: Reuters EcoWin

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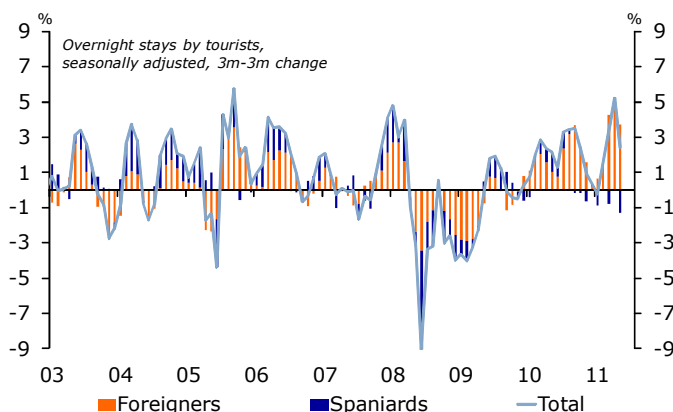
### GDP seems on track for another modest rise



Source: Reuters EcoWin

In spite of the sharp decline in the growth rate of the exports of goods, the Economic Sentiment Indicator (ESI) for Spain suggests further modest GDP growth (between 0.1% and 0.4%) in the second quarter of this year. The ESI reached a new post recession high in June. Recent gains have been driven by a better mood in the services and retail sectors and by rising consumer confidence. Sentiment in the industrial and construction sectors failed to improve however. The decreased pessimism on the part of retailers and consumers is not yet mirrored in retail sales, which fell by 1.7% in the three months to May when compared to the previous three months.

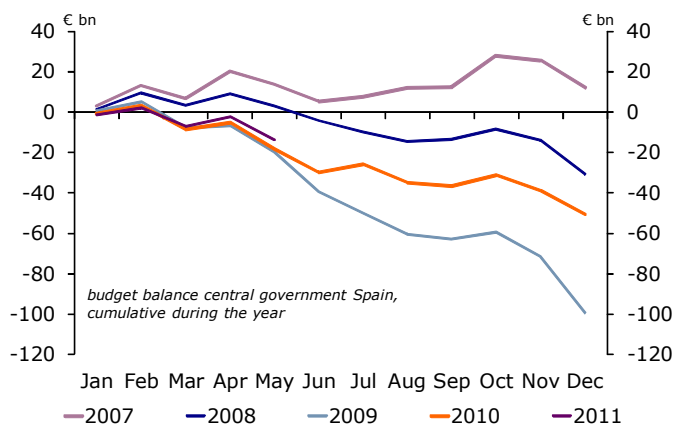
### Tourism takes off



Source: Reuters EcoWin, Rabobank

Summer is here, and if the growth of overnight stays is anything like what we observed during the spring, the tourism sector is set to experience a very good year. The rise in services sector confidence might well be linked to this development. Visits by foreigners have risen sharply since the start of the year, more than compensating for the decline in overnight stays by residents. Overnight stays by foreigners even reached a new record high in April. The reason for this is the robust economic recovery in the north of the eurozone, which has enticed more people to embark on foreign holidays. Also, turmoil in North Africa seems to have diverted some tourist toward Southern European countries.

### Central deficit reduction continues, regions lag behind



Source: Reuters EcoWin

The central government managed to further reduce its budget deficit in the first five months of the year. But the fact that only half of the 17 autonomous regions were on track with the planned deficit reduction in 11Q1 is very worrisome, especially also because this continues from the trend in 2010. In that year, the total deficit of the regions amounted to 3.4% of GDP, with a target of 3.1%. This was compensated by a lower than expected central government deficit. But to make sure the government as a whole achieves the set deficit target this year as well, it is absolutely indispensable that the regions seriously start to rein in spending too.

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Tim Legierse  
Tel. +31(0)30 - 2162677  
T.Legierse@rn.rabobank.nl