

Economic Update Spain

6 November 2012

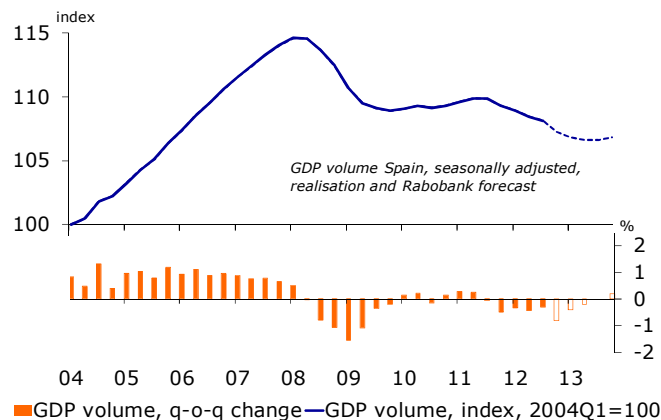
Recession continues at a steady pace

Year-on-year change (%)	'11	'12	'13
Gross Domestic Product	0.4	-1¼	-1¼
Private consumption	-1.0	-2	-2¼
Government consumption	-0.5	-5¼	-7¾
Investment	-5.3	-9	-1½
Exports	7.6	4	6¾
Imports	-0.9	-5	¾
Inflation	3.1	2½	2½
Unemployment (%)	21.6	25	27¼
Government budget (% GDP)	-9.4	-7½	-5½
Government debt (% GDP)	69	87	95

The contraction of the Spanish GDP volume was much smaller than expected in the third quarter of 2012. Stronger export growth played an important role. The fall in economic activity was further cushioned by a smaller drop in private consumption. But this will prove to be a temporary effect, since consumers have frontloaded their spending in August to avoid paying higher VAT rates in September. As a result, a pullback in consumption and a sharper GDP contraction in the fourth quarter are likely. Meanwhile, unemployment has continued to rise and reached 25.8% in September. This does not bode well for the government's Budget 2013.

Source: Reuters EcoWin, Rabobank

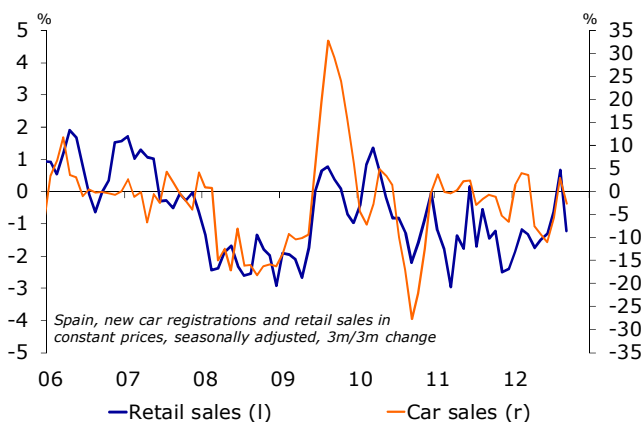
Recession moderates in 12Q3 ...



In 12Q3, the Spanish economy contracted for the fifth quarter in a row. But in contrast to what we had expected, the fall in activity did not accelerate compared to the previous quarter. Interestingly, with -0.3% q-o-q the first estimate points to a slightly smaller contraction than in 12Q2. Of course, when looking at the big picture since 2008, this relatively moderate pace of contraction offers only limited consolation. The 12Q3 fall in economic activity brought the level of GDP to 5.6% below the 08Q1 pre-recession high, a new low-point since the start of the crisis. Moreover, the moderate contraction can partly be explained by a temporary boost to private consumption.

Source: Reuters EcoWin, Rabobank

... helped by a temporary boost to consumption ...



Consumers anticipated the September 1st VAT hike, which gave them a strong incentive to frontload spending in August. This can be seen clearly in the seasonally adjusted figures for retail- and car sales. Both posted very high growth rates in August. But the temporary nature of the VAT-effect became apparent with even larger drops in sales volumes for September. For 12Q3 as a whole, the contraction in private consumption was on balance more benign than in the quarter before. But the sharp pullback in September suggests an extra acceleration in the fall of consumption in 12Q4. Car sales specifically will be supported up to March 2013 by a new car-scrappage scheme.

Source: Reuters EcoWin, Rabobank

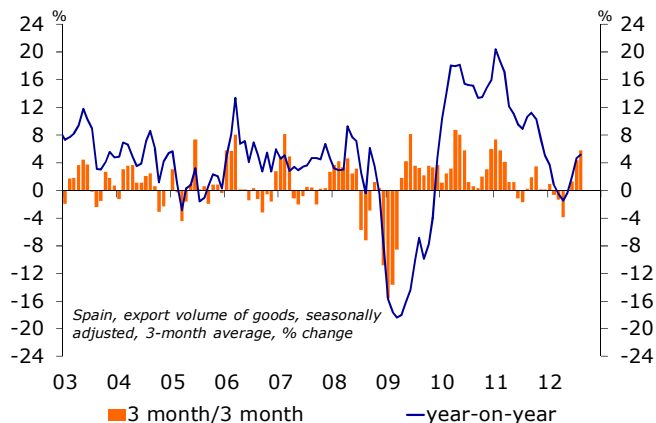
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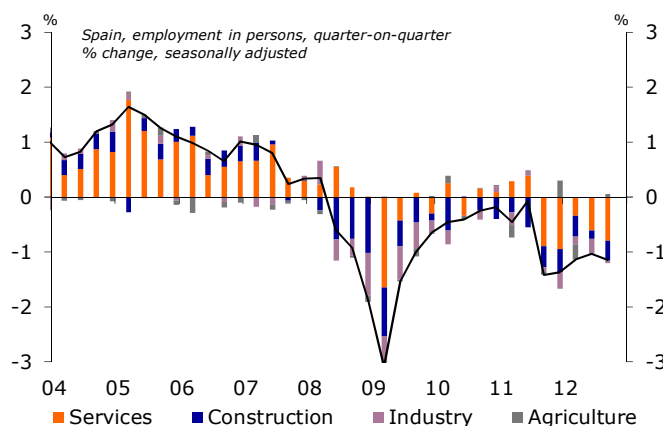
... and accelerating export growth



Another important reason for the modest decline in GDP in 12Q3 has been a strong rise in the export volume. Goods exports increased 10% m-o-m in August. Lower exports to the rest of Europe have been more than compensated for by rising exports to the rest of the world. Even if goods exports were to fall back sharply in September, the growth rate for 12Q3 as a whole will have been very strong. The balance of payments up to and including August also shows a strong growth for exports of services. Together with lower import growth, this positive export performance will have resulted in another contribution of net trade to GDP growth.

Source: Reuters EcoWin

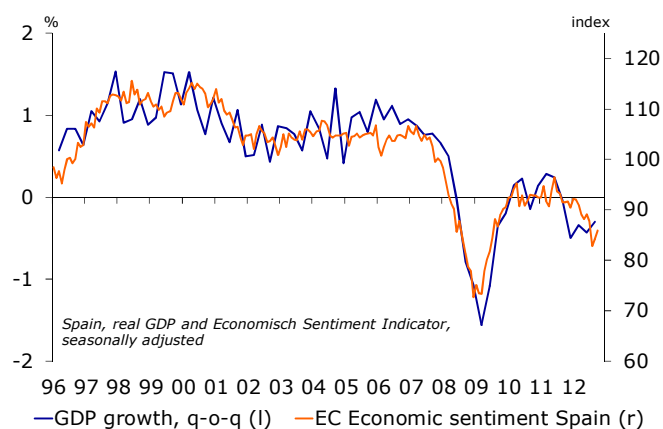
Employment contracts for 18th consecutive quarter



Even though the GDP contraction was smaller than expected, employment continued to contract in 12Q3. The number of employed persons has fallen for four and a half years and is now 16.2% (or more than 3.3 million jobs) lower than in 08Q1. Unemployment rose during the third quarter, from 25% in June to 25.8% in September. Apart from the alarming record high that has been reached, this development also shows that the government has been too optimistic in its economic outlook for the 2013 budget. They counted on a stabilisation of unemployment below 25% and a small fall next year. Behold the first disappointment, even before 2013 has even started.

Source: Reuters EcoWin, Rabobank

Recession is set to continue



Sentiment indicators point to continued recession. The manufacturing PMI rose in August and September but fell back in October. The services sector PMI fell back sharply in September and recovered only modestly in October. The Economic Sentiment Indicator improved slightly in September and October but continues to point to a shrinking GDP. We expect an acceleration of the economic contraction in 12Q4 on the back of a VAT-related fall in private consumption and on-going fiscal austerity measures. Beyond that, we foresee an end to recession in the third quarter of 2013 at the earliest. By then, continued export growth should be able to compensate for a more moderate fall of domestic demand.

Source: Reuters EcoWin

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