

Spain

Spain crawls out of recession

Key findings

- GDP rose marginally during Q1.
- PMI signals modest rebound in output.
- Economy remains fragile as government announces new deficit reduction measures

First quarter gross domestic product data from the Instituto Nacional de Estadística (INE) signalled that Spain finally exited recession at the start of 2010, following almost two years of falling output. However, the increase was just 0.1% on the quarter, leaving GDP still 1.3% lower than a year ago.

Spanish PMI data, compiled by Markit, have also indicated a modest rebound in private sector output in recent months. A composite output index of the manufacturing and service sectors pointed to higher output in both March and April. The expansions were very much driven by strong gains in manufacturing output, while growth in the service sector remained anaemic. PMI data suggest that there is still a long way to go before a real economic recovery in the private sector can be said to be underway, with Spain continuing to lag behind some of its Eurozone neighbours.

Government announces new austerity measures

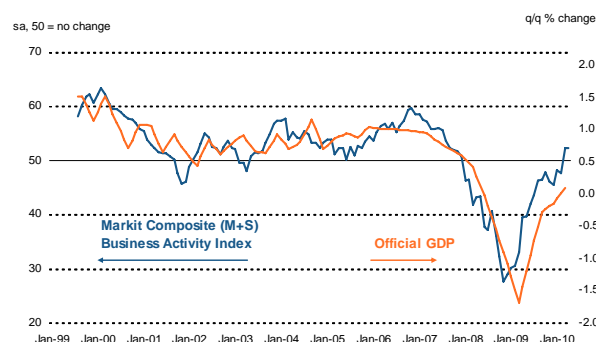
Although Spain has now officially exited recession, growth was only slight and considerable concerns surround the economy, particularly with regards to high levels of public and private debt, as well as an unemployment rate which has now breached 20%¹. Recent events in Greece have led to increased pressure on other fragile, high-debt Eurozone countries to show that they have a clear deficit reduction plan. Ratings agency S&P downgraded its credit rating for Spain on April 28th, reflecting weak

medium-term growth expectations. Furthermore, the price of insuring Spanish government debt against the risk of default has risen sharply recently on fears of contagion from Greece, and remains elevated despite the agreement of a European rescue plan.

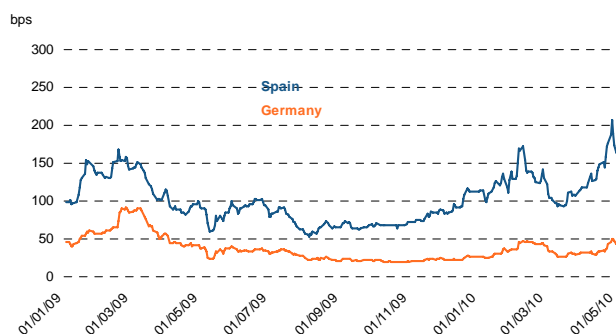
Pressure on the Spanish government has resulted in a greater clarification of the measures that they plan to introduce to reduce a budget deficit that was 11.2% of GDP in 2009. The latest announcement included civil service wage cuts, reduced public investment and pension reform. Time will tell as to whether the latest measures will be enough to placate the markets.

Meanwhile, PMI data will continue to give an early indication as to whether the recent rebound in activity can be sustained and begin to support improvements in the beleaguered labour market.

Spanish GDP v PMI



Spanish and German CDS spreads



Sources: Markit, INE, Markit Desktop

¹ See

http://www.markit.com/assets/en/docs/commentary/markit-economics/2010/apr/ESP_EMP_10-04-30.pdf

The next Spain Manufacturing PMI (with May data) is released on June 1, with the Services PMI published on June 3. To find out how to receive data from the surveys, or obtain copies of the reports please contact economics@markit.com

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