

Spain

Spanish rebound fails to gain momentum in Q2

Key findings

- **GDP increased by just 0.2%.**
- **PMI data point to difficult start to H2.**
- **Growth well below key Eurozone partners.**

Q2 GDP data from the Instituto Nacional de Estadística (INE) pointed to a second consecutive quarter of rising output in Spain. However, the rate of expansion of just 0.2% was only fractionally faster than the 0.1% growth recorded in Q1, and indicates that the rebound in the Spanish economy failed to gain much traction during the quarter. On a year-on-year basis, GDP fell by 0.2%.

The fragile growth in Spain contrasted with stronger expansions in some of the main Eurozone economies. Germany posted a stunning 2.2% rise in output over the quarter, while France's increase was also much faster than Spain's at 0.6%. Meanwhile, the euro area's third largest economy, Italy, posted growth of 0.4%.

The growth rate in Spain was also much slower than the Eurozone average of 1.0%, and only performed better than the beleaguered Greek economy which remained firmly in recession, contracting by 1.5% during the quarter.

PMI data signal trouble ahead in H2

PMI™ data for Spain, compiled by Markit, also pointed to fragile growth in output over the second quarter following the exit of recession in Q1. Moreover, latest data for July suggest that the second quarter may even have marked the peak of the current rebound as austerity measures (such as a rise in VAT and public sector wage cuts), implemented in an attempt to reduce a large public sector budget deficit, begin to bite.

The Composite PMI Output Index (covering both manufacturing and services) remained only slightly above the no-change mark of 50.0 during July, and was weaker than the average over the second quarter as a whole.

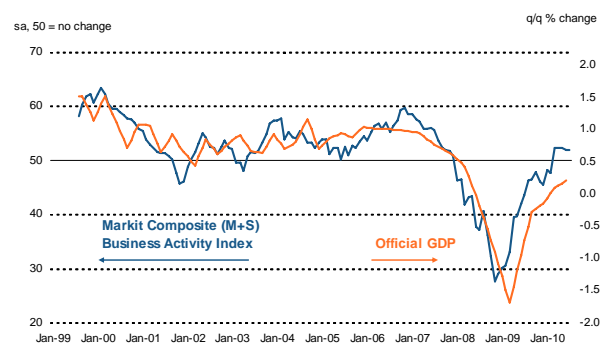
Economic growth is largely being supported by external demand, which helped manufacturing output increase at a solid pace in July. However, the overall manufacturing expansion masked a marked reduction in production at consumer goods producers. Consumer demand remains weak amid uncertainty surrounding the future path of the economy and the high rate of unemployment, currently stuck at 20%.

The crucial service sector posted the weakest growth in activity since April as it slowed for the second month running. Weak expansion of this major employer does not bode well for hopes of a rapid improvement in unemployment.

Latest PMI data indicated that employment continued to decline across both the manufacturing and service sectors, with the current periods of job shedding extending to thirty-five and twenty-nine months respectively.

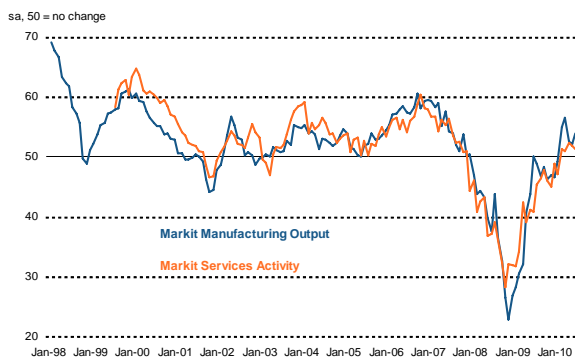
PMI data will be the first indicator of whether growth continues to stagnate over the third quarter of 2010, leading to a potential return to falling output by the end of the year. Eurozone PMI data will also continue to highlight whether the divergence between the euro area's fourth largest economy and its main Eurozone neighbours persists, creating difficulties for euro area policy makers.

Spanish GDP v PMI



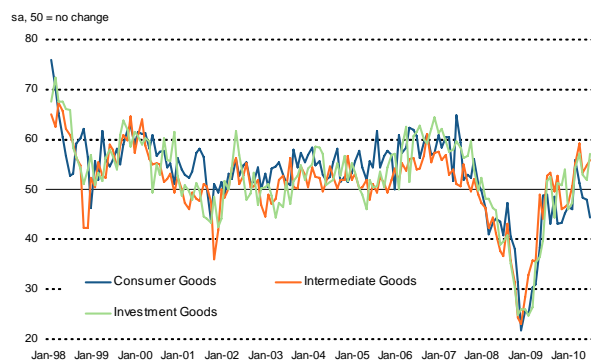
Sources: Markit, INE

Manufacturing & Services Output



Source: Markit

Manufacturing Sector Output



Source: Markit

The next Spain Manufacturing PMI (with August data) is released on September 1, with the Services PMI published on September 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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