

# Spain

## Spain still in recession at the end of 2009

### Key findings

- GDP continued to fall in Q4.
- PMI points to further reduction in output at the start of 2010.

### GDP declined for seventh quarter running

Q4 GDP data from the Instituto Nacional de Estadística (INE) indicated that Spain remained in recession at the end of 2009, although the quarterly rate of contraction moderated to 0.1%. Output has fallen in each of the past seven quarters. Spain is the only major European economy to remain in recession and continues to lag well behind France and Germany, which both exited recession back in Q2 2009.

Spanish PMI data, compiled by Markit, suggest that the recession continued at the start of 2010, although the rate of contraction continued to moderate. The Composite Output Index, combining data from the manufacturing and service sectors, has registered falling business activity in each month since January 2008.

### Pressure mounts on government to bring down budget deficit

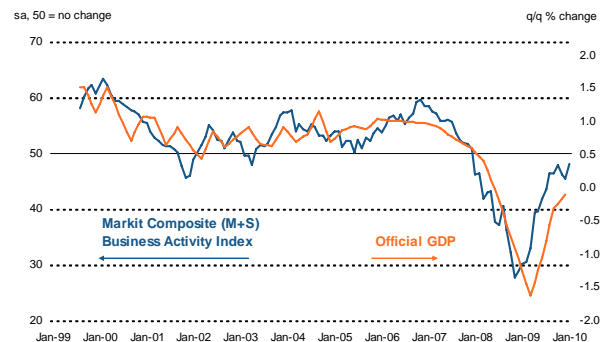
Recently, attention has been increasingly focused on Eurozone economies with large budget deficits, particularly Greece. Spain's 2009 deficit was 11.4% of GDP, and the government is therefore under pressure to demonstrate how this can be brought down to the 3% Eurozone limit. While Spain has already announced measures such as a rise in VAT and a much reduced stimulus package for 2010, more fiscal austerity is expected to be needed. However, tighter fiscal policy is undesirable while economic conditions continue to deteriorate, as it could lead a potential recovery to be delayed. The International Monetary Fund currently forecasts a contraction of Spanish GDP of 0.6% for 2010.

Spain's sovereign Credit Default Swap (CDS) spread has widened at the start of 2010, suggesting that the

financial markets think the prospects of Spain defaulting on its debt have increased. This largely reflects events in Greece and the impact a possible default there would have on Spain. As of 10<sup>th</sup> February, the Spanish CDS spread was 140 basis points (which means it costs EUR140,000 to insure EUR10m of Spanish government debt), much lower than Greece's 356 bps but well above the levels seen as recently as the third quarter of 2009.

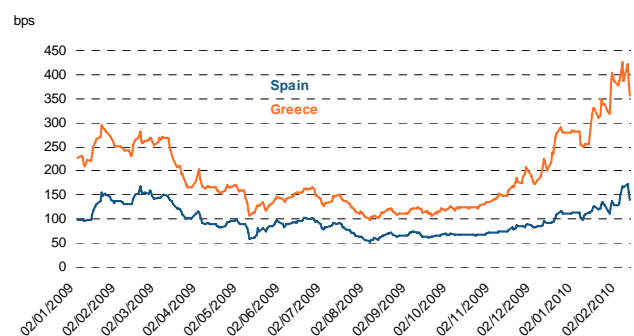
Based on past performance, PMI data will provide an early signal as to whether Spain exits recession in Q1 2010, and to what extent any fiscal tightening measures implemented over the coming months impact on business conditions.

### Spanish GDP v PMI



Sources: Markit, INE

### Spanish and Greek CDS spreads



Source: Markit

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

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