

Spain

Rising exports provide welcome relief for Spanish firms

- **Export growth helps exit from recession**
- **Strengthening global demand helps firms**
- **Exporters performing better than non-exporters**

Official GDP data released later this month looks set to announce the end of the recession in Spain, in line with PMI data covering the manufacturing and service sectors, which in Q3 posted its highest quarterly average since the current recession began in Q2 2011.

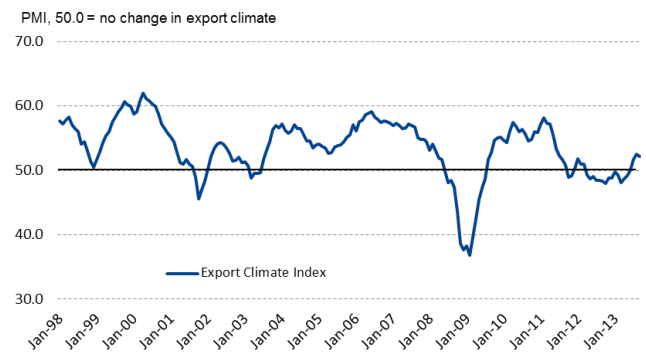
One of the most positive aspects of the recent PMI data has been strong growth of manufacturing exports. New export orders increased at the fastest rate in more than two-and-a-half years in August, and maintained this pace in September. Exports have now risen for five months in a row. Looking at the national accounts data, goods exports rose 12.7% year-on-year in Q2 and the PMI data suggest that another solid rise is likely when the data for the third quarter are released.

Spanish goods exports rising sharply



Spanish firms have been able to take advantage of recent signs of economic improvement in some of their main export markets. PMI data suggest that the [eurozone](#) recovery gathered pace at the end of Q3, while the [UK](#) posted particularly strong growth. The Export Climate Index for Spain suggests that conditions for exporters have strengthened in three successive months, largely on the back of these improvements.

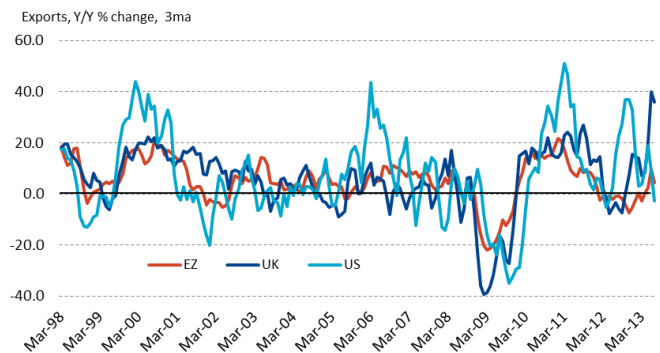
Export climate improving



Source: Markit

Monthly export data from the Bank of Spain also highlight the UK as a key source of current growth in external demand, with rises also seen in the eurozone. However, after increasing strongly towards the end of 2012, exports to the US have shown signs of weakness in recent months.

Strong growth in exports to the UK



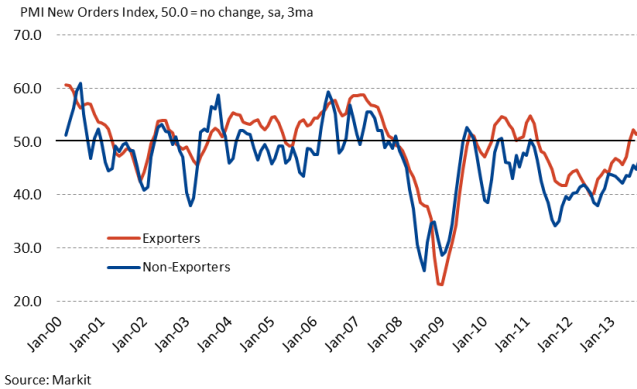
Source: Bank of Spain

Diverging performance between exporters and non-exporters

Further evidence of the recent solid performance of exports in Spain can be seen by splitting the PMI data into exporting and non-exporting companies. This shows that manufacturers that export have recorded growth in overall new orders in recent months, while non-exporters have continued to see falling levels of new business as domestic demand in Spain lags

behind. A similar trend can be seen with regards to output, but employment has fallen across both groups.

New Orders Index: Exporters v Non-Exporters¹



While strong export performance can help Spain exit recession, there does still appear an over-reliance on export markets for growth, something that is unlikely to change until labour market conditions improve significantly, in turn requiring companies to gain the confidence to start hiring again.

This over-reliance on external markets is a cause for concern given that economic recoveries in the eurozone and UK are far from assured, and political stalemate in the US has the potential to throw the world economy back into turmoil. It is therefore too early to judge whether the Spanish economy is starting a real recovery or just experiencing another false dawn.

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¹ The exporter / non-exporter series was created by assuming that a manufacturer not responding to the New Export Orders question only had sales to domestic clients during the reference month. Conversely, those that did respond to the exports question were categorised as exporters. Seasonal adjustment for these PMI series is identical to those used for the Spain Manufacturing PMI.