

Spain

Signs of life in the Spanish economy after strong start to second quarter

- **PMI signals further acceleration of growth in April after 0.4% rise in GDP during Q1**
- **Increased employment across both manufacturing and service sectors**

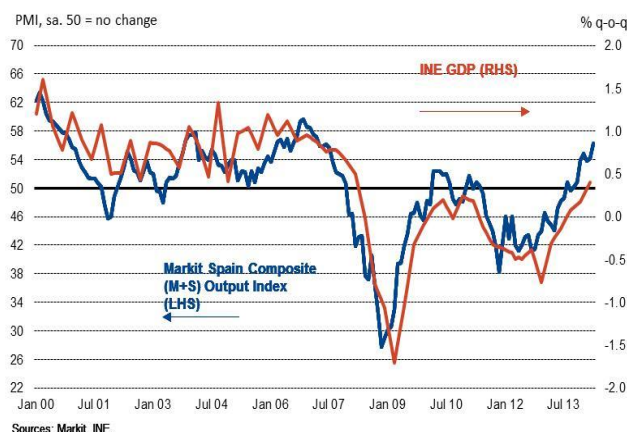
The pace of growth of the Spanish economy is set to accelerate in the second quarter. After official data signalled a 0.4% quarterly increase in Spanish GDP in the first quarter of 2014, PMI™ data signalled a further upturn in the rate of expansion during April. Moreover, stronger rises in new and outstanding business were recorded and employment increased for the first time in three months, adding to a sense of optimism that the Spanish economy is finally on the mend.

The strength of the improvement suggests that the OECD's forecast of 1.0% growth for the Spanish economy in 2014, which would be its best year since 2007, is already looking too pessimistic.

There is still much to be done, however. After two long recessions over the past six years, the economy will need to see a sustained period of strong growth to make up the lost output. GDP remains almost 7% smaller than its pre-crisis peak and unemployment is running at 26%.

The Composite PMI Output Index rose to 56.3 in April to record its highest mark since March 2007, shortly before the economic crisis struck. Output across the combined manufacturing and service sectors has now risen for seven successive months, the longest period of continuous growth seen since the PMI dropped below the 50.0 no-change level in January 2008.

Markit Spain Composite PMI and GDP



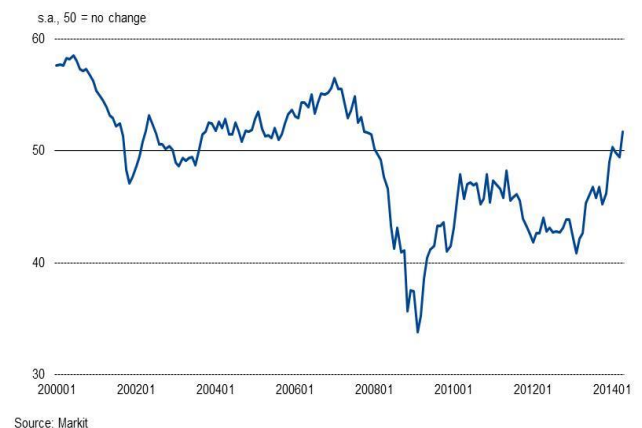
Faster rises in workloads lead to job creation

There are some signs that growth can be sustained in the near future. The rate of expansion in new business accelerated for the second month running in April and was the fastest since January 2007. Higher new business was recorded in both the manufacturing and service sectors, but was more pronounced in the latter. Companies have recorded improvements in demand from both domestic and export markets.

Outstanding work is also increasing across both monitored sectors and has done in each of the past three months. This suggests that overall workloads can be enough to keep output rising over the next few months at least.

Growth in both new and existing workloads translated to an increase in employment in April, only the second month in which job creation at the composite level has been recorded in over six years. This provides some hope that labour market conditions may have finally bottomed out after years of deterioration.

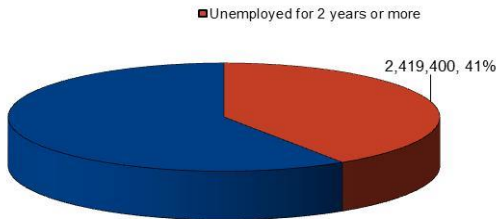
Composite PMI Employment Index



While employment increased in April, last week's quarterly labour market bulletin from the Insituto Nacional de Estadistica (INE) pointed to little sign of improvement during the first three months of the year.

Unemployment remains close to 6 million, with 41% of these unemployed for two years or more. To have this many long-term unemployed will be a concern for companies looking to take on staff as the skills required may not match those of the people available for work.

Long-term unemployed as a share of total unemployment



Total Unemployed = 5,933,300
Source: INE

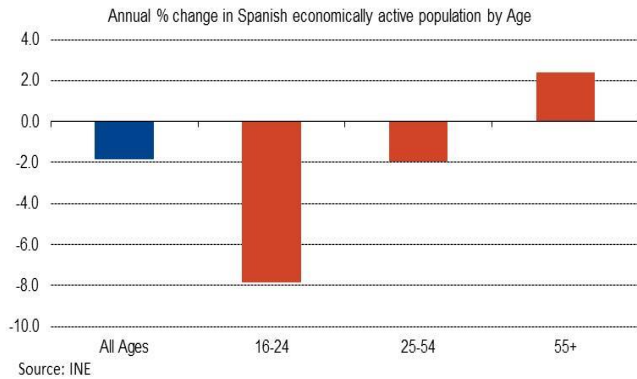
Unless the employment situation starts to improve more quickly there is a potential that the strengthening of demand in recent months could peter out again. The PMI data in coming months will be key in showing to what extent the current recovery is looking sustainable and whether companies continue to take on extra staff.

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There has also been a worrying decline in the Spanish labour force over the past year, driven by those under the age of 25 who could either be staying longer in education or leaving Spain altogether given the dire employment prospects in recent years.

Changes in the labour force



Source: INE