

Spain

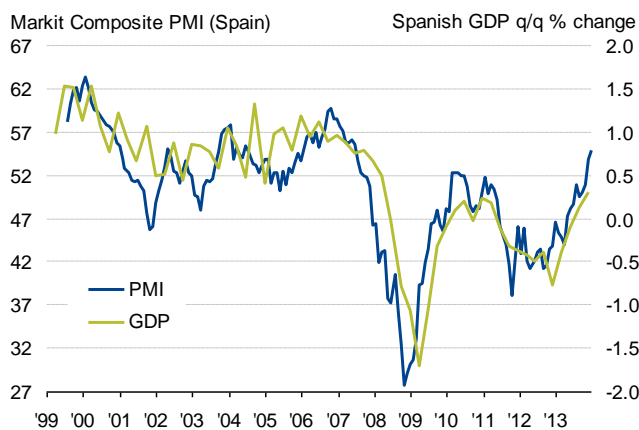
Spanish recovery remains on track at start of 2014

- **Growth of output accelerates**
- **First rise in employment since before the economic crisis began**

The latest PMI™ data for Spain suggest that the economy remained on the road to recovery at the start of 2014. Official data indicated that GDP rose 0.3% on a quarterly basis during the final three months of 2013, and PMI data covering the manufacturing and services sectors signalled that growth accelerated further in January.

At 54.8 in January, up from 53.9 in December, the Composite PMI Output Index rose for the fourth consecutive month and pointed to the strongest rise in business activity since July 2007. Companies reported that growth in output was largely a reflection of rising new business, in turn due to improvements in economic conditions and strengthening client demand at home and abroad. The rise in output was well balanced, with both the manufacturing and services sectors recording solid increases.

Markit Spain Composite PMI and GDP



Sources: Markit, INE

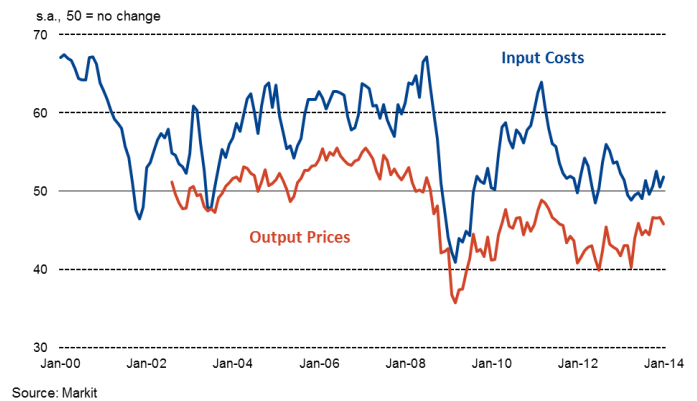
Competitive pricing helps to boost sales

Companies also often reported that competitive pricing had helped them to secure new business. This was particularly evident among exporters, with manufacturers recording the fastest increase in new export orders since last September. Private-sector

companies have lowered their selling prices continuously since September 2008 with a further steep decline seen in January, especially in the service sector, where firms are more exposed to still-weak domestic demand.

While it is encouraging that discounting is finally beginning to result in sales growth, price discounting will inevitably be hitting profits. If the nascent recovery currently underway is to solidify into something more sustainable, firms will need to be in a position where they aren't forced to lower their charges in order to secure new business. This stage still seems some way off, especially given still-high levels of unemployment.

Composite PMI Prices Indices



Employment stabilises

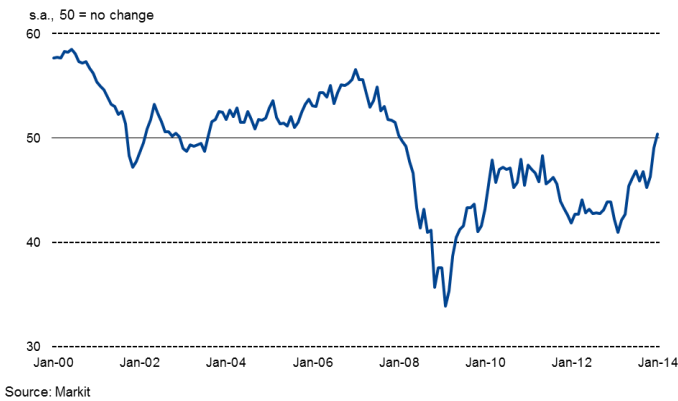
While there have been other months in which output and new orders have risen in the period since early-2008, the sense is that the current expansion is the first one that companies believe has a chance of being sustained for more than a few months (the longest sequence of continuous rises in output in recent years was six months in 2010).

Signs of improved sentiment about the outlook are backed up by the PMI Employment Index, which edged above the 50.0 no-change mark in January. Although the rate of job creation signalled was only marginal, this was the first rise in employment in six years. Moreover, both the manufacturing and services sectors

increased staffing levels – the first time this has been the case since August 2007.

While there is clearly a long way to go, the fact that companies are at least contemplating taking on additional staff does suggest some optimism with regards to the prospects for the economy. Meanwhile, sentiment among services companies improved to the strongest since July 2007 in another sign of returning confidence.

Composite PMI Employment Index



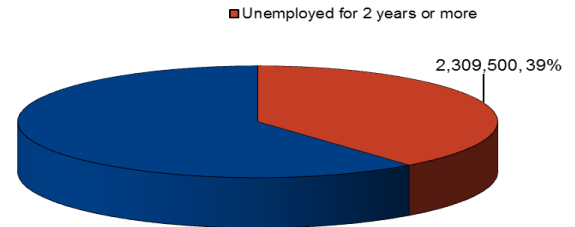
Longer-term concerns

Although the PMI data signalled signs of stabilisation in the labour market during January, the latest update from the Instituto Nacional de Estadística (INE) highlighted some areas of concern for the future. The proportion of unemployment made up by those unemployed for two years or more rose to 39% in the fourth quarter. To put the figures in context, the number of long-term unemployed in Spain (2.31 million) is broadly similar to total unemployment in the UK. In addition, the number of young people giving up on the labour market completely is a worry. The economically active population aged 16-24 in Spain is down nearly one-third since the first quarter of 2007, contrasting with a marked rise in the number of over-55s in the labour market.

If employers are unable to secure the skills they need, either because they have been lost due to long periods of joblessness or because young people have left the labour market, then they may find it harder to capitalise on any improvements in demand should growth continue during coming months.

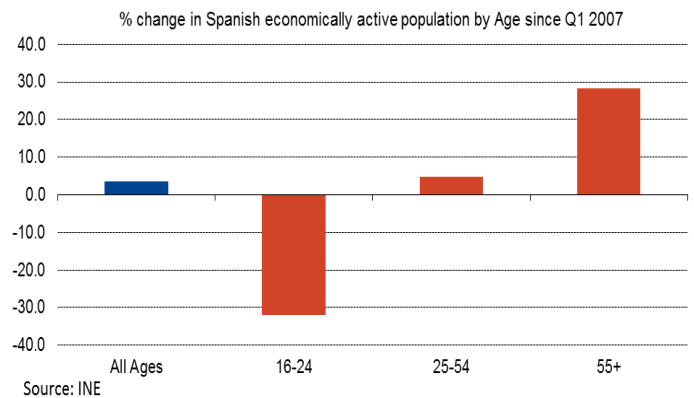
The PMI data will provide a key signal not only as to whether new business and output continue to rise, but also as to whether firms are confident enough to take on extra staff and start raising their charges.

Long-term unemployed as a share of total unemployment



Total Unemployed = 5,896,300
Source: INE

Changes in the labour force



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