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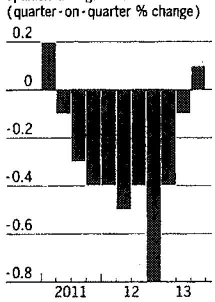
Optimism in store

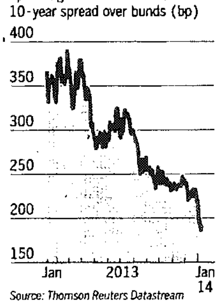
Shoppers enjoy the winter sales in Madrid but experts fear it will take time for an economic revival to filter through to rising domestic demand

EPA

Spanish GDP growth
(quarter-on-quarter % change)



Spanish government bonds,
10-year spread over bunds (bp)



Source: Thomson Reuters Datastream

Recovery accelerates in recession-hit Spain

Nascent revival

Despite jobs and GDP boost, analysts warn a prolonged period of modest growth looms, writes Tobias Buck

The Spanish economy grew at its fastest pace in almost six years in the final quarter of last year, raising hopes that the recession-scarred country is finally on the road of recovery.

Luis de Guindos, the economy minister, told parliament yesterday that gross domestic product rose 0.3 per cent in the three months to December, a marked increase from the 0.1 per rise in output in the third quarter. "For the first time since the start of the crisis we are in a different scenario," he said.

The data are the latest in a series of economic signals that have bolstered confidence in the Spanish economy and sparked a surge in foreign investor interest.

Most importantly, in a nation where one in four workers is out of a job, there is mounting evidence that the unemployment rate is slowly starting to fall. Last month, the number of registered jobless in Spain fell 108,000, one of the sharpest December falls on record, and the third monthly decline in a row.

Some of that improvement is because of migrant workers returning to their home countries, and to long-term unemployed dropping out of the system because they are no longer entitled to benefits. But most analysts agree a mild recuperation in the jobs market is taking place, helped by labour market reform in 2012 and the persistent drop in wages.

"Employment creation in the last few months was considerable. That was a surprise to most of us," says Marcel Jansen, a labour market expert and professor of economics at Madrid's Autónoma University. "It is hard to say how solid this recovery is but the numbers have certainly exceeded expectations."

There was more good news from Spain's long-suffering services sector, which in December grew at its fastest pace in more than six years. Surveys of business and consumer confidence also showed striking leaps, suggesting that companies and households alike are starting to sense that a turnround is at hand.

Taken in conjunction, the data lend strength to the argument that Spain is undergoing the early stages of a classic recovery cycle, with falling wages leading to a rise in competitiveness, followed by a surge in exports that allows companies to invest in new plants and machinery, new hiring and – eventually – a rise in domestic demand and government tax revenue. Exports have been increasing for the past two years, and business investment started rising in early 2013.

The question now is: how far, and how fast, can these improvements spread to the broader domestic economy?

"The improvement in the financial economy is feeding through into confidence, and that is possibly encouraging people to spend more," says Edward Hugh, a Spain-based economic analyst and commentator. "But for this to continue people need this improvement to feed through into their income, and that is not happening."

108,000

Fall in December jobless, one of largest on record

It is a point shared by Spanish economy watchers. Most believe, for example, that domestic demand will remain broadly flat this year, leaving exports to pull the economy ahead. Some economists warn there is a risk the surge in investor enthusiasm is running ahead of itself.

Last week the Treasury sold five-year government bonds at the lowest yield in Spain's history. The stock market is at its highest level since July 2011, and companies seen as untouchable a year ago are enjoying a surge in popularity.

Bankia, the nationalised savings bank that emerged as the symbol of the Spanish financial crisis, revealed last week that it had raised €1bn by issuing senior unsecured bonds, citing "strong demand".

Luis Garicano at the London School of Economics argues the surge in investor appetite for assets from Spain and other countries on the eurozone periphery is "probably an excessive reaction". He adds: "I think what you see is a picture of stabilisation, but there is still large volatility and potential for accidents... Financial markets are being too sanguine about the underlying structural problems, where the reality on the ground is still tough."

Compared with the financial drama of 2012, the present phase of slow recuperation marks a welcome change. But the remnants of the crisis – high debts, a moribund housing market and a dearth of bank credit – look certain to handicap the recovery ahead. As Prof Jansen says: "Six months of good news doesn't wipe out five years of economic disaster."

EU living standards warning, www.ft.com/theworld