

Working Paper 95

***Spain in charts:
"We already know the good news.
Learn now about the rest"***

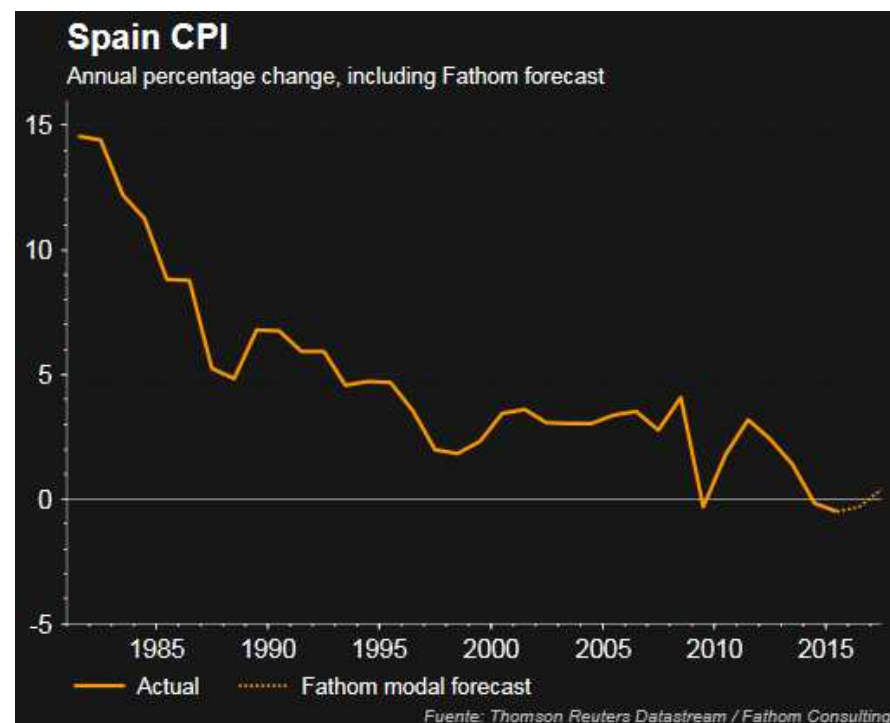
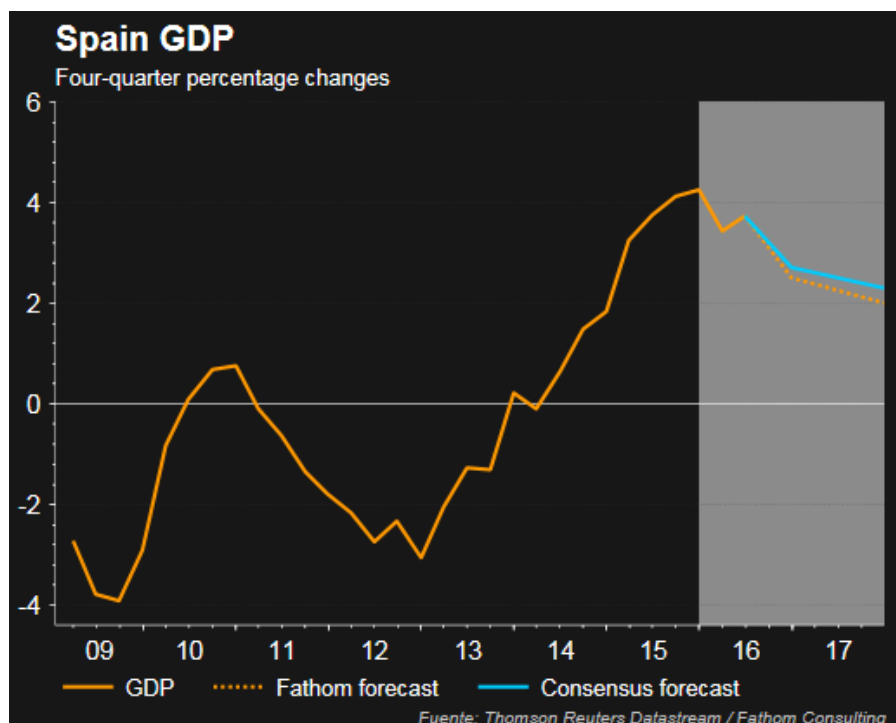
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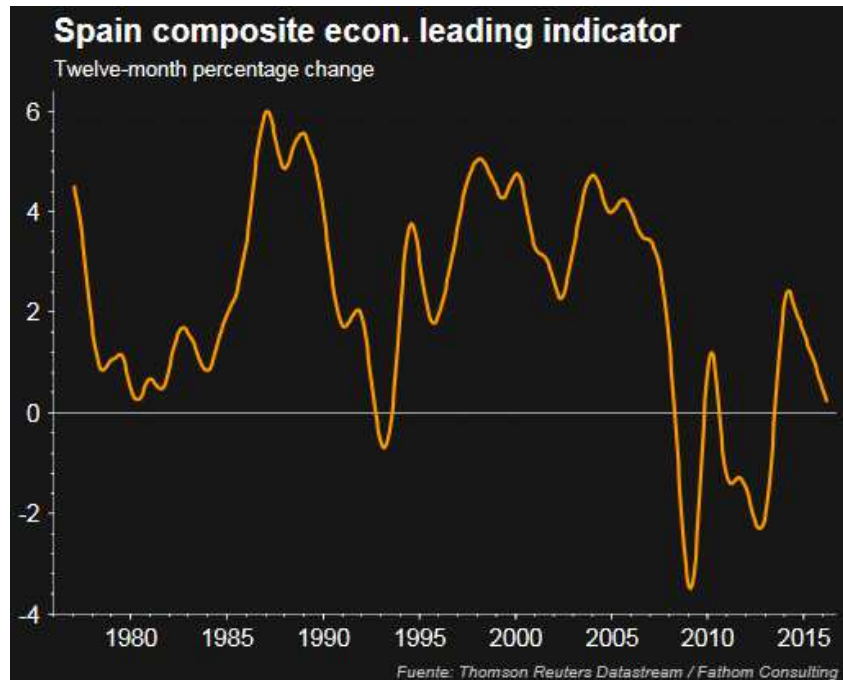
@AlexfusteAlex

September 2016

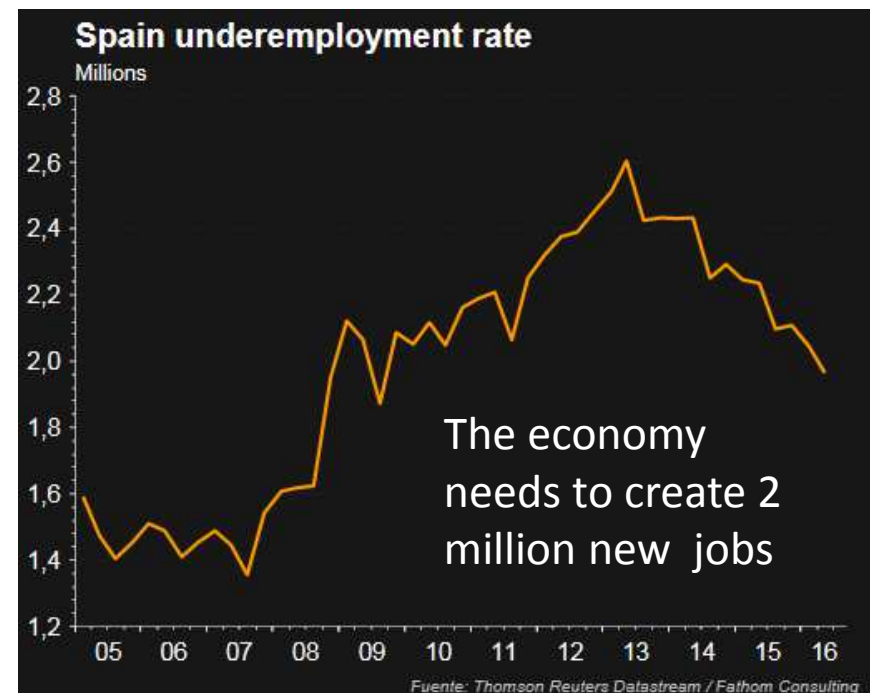
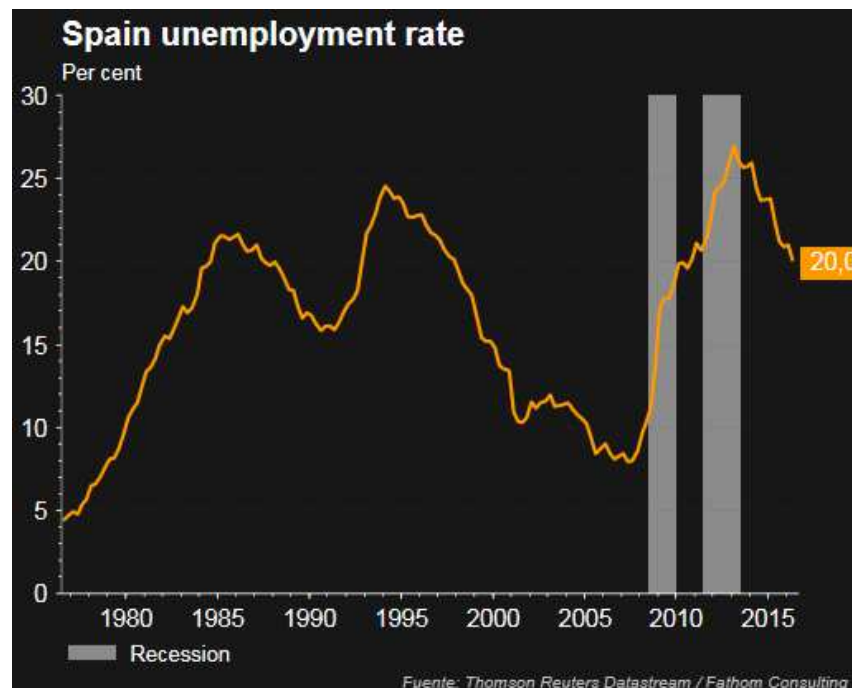
GDP & Inflation projections paint a somewhat gloomy picture.



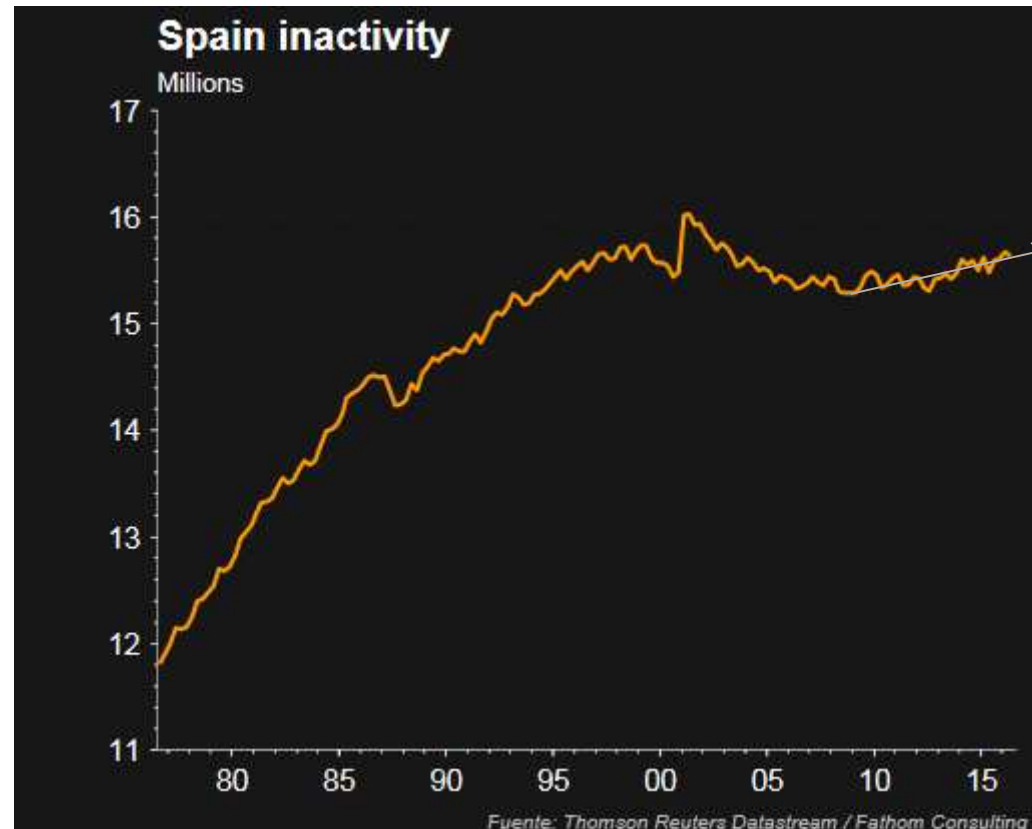
After some positive dynamics, the economy seems to be now losing momentum.



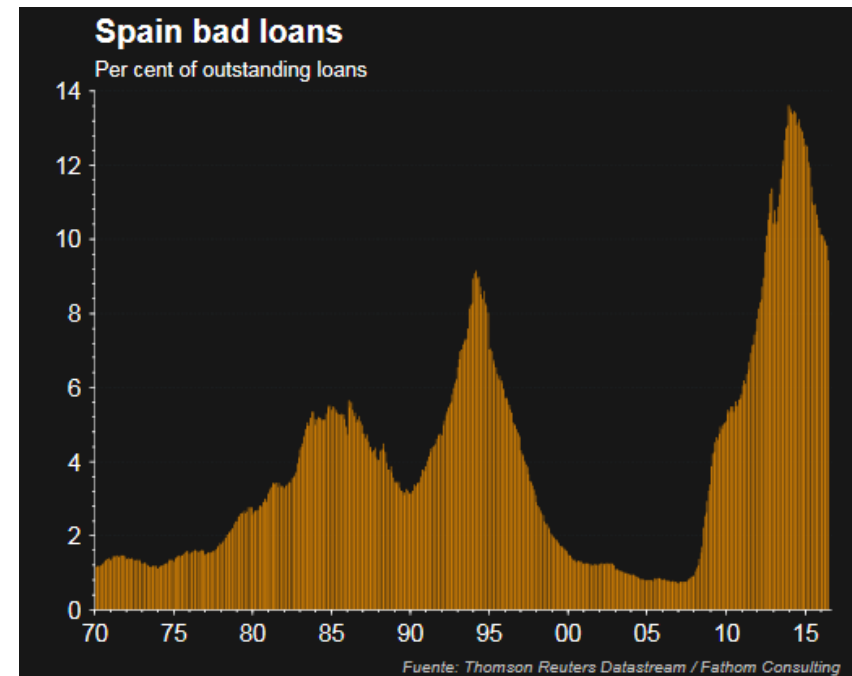
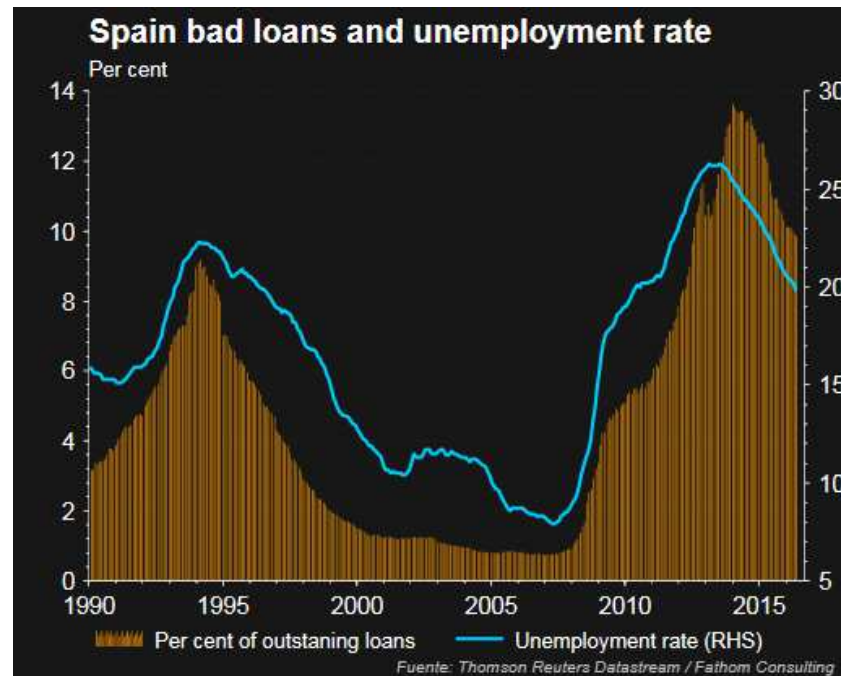
Considering these projections, it seems unlikely that the unemployment levels seen before the crisis (10%) could be recovered. This means that even after overcoming the current crisis, Spain will remain as a weaker country than it was before.



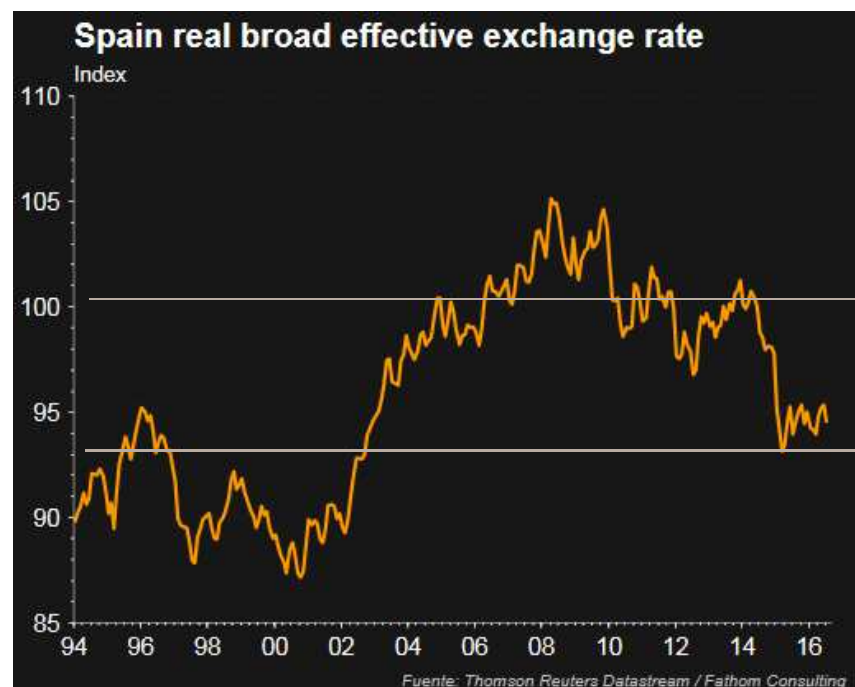
Inactivity is a structural element ... and very difficult one to change its trend in Spain. This problem has its roots in demographic aspects difficult to redirect, and adds to the difficulties to improve the “activity index” and employment participation.



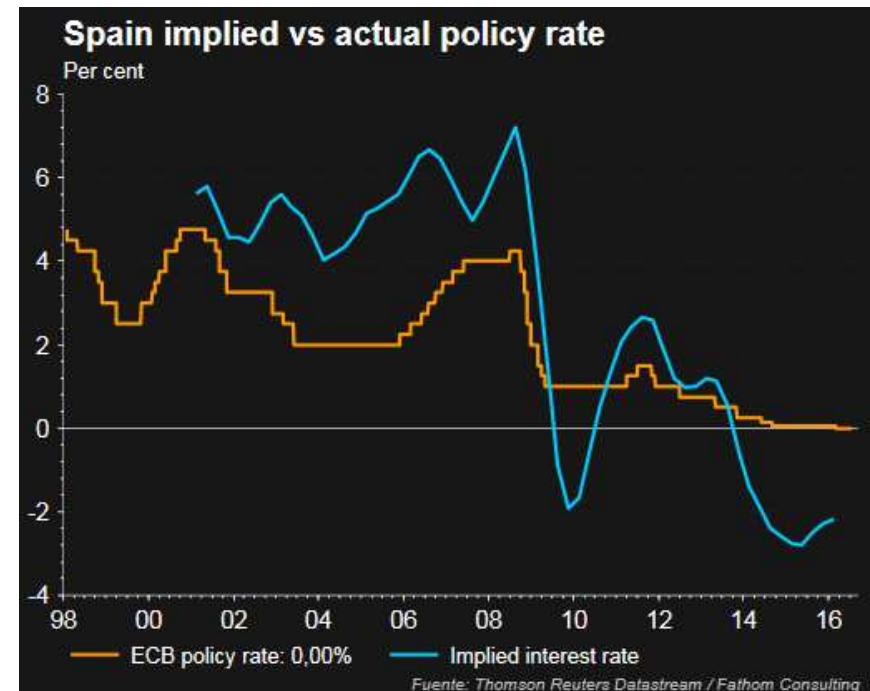
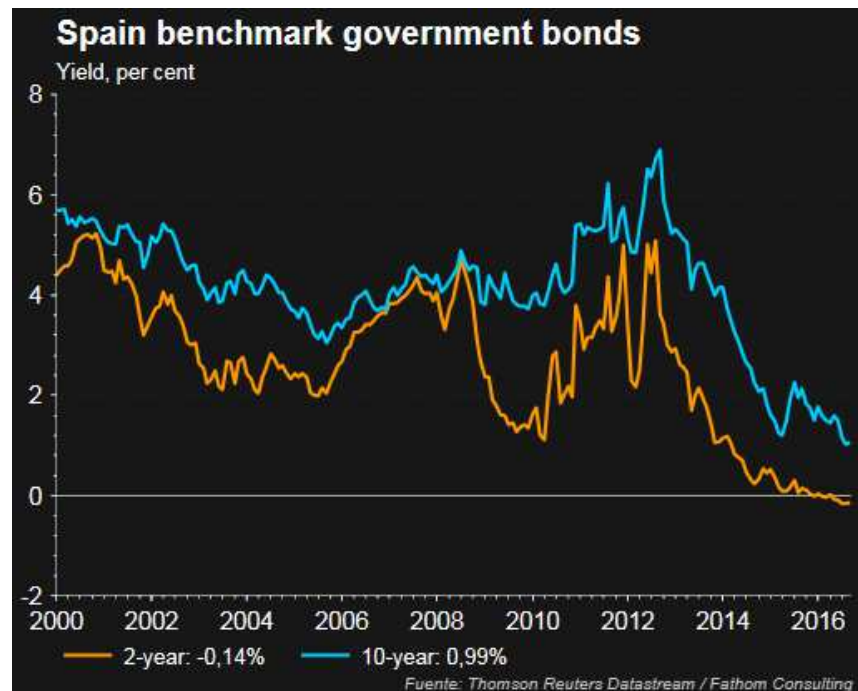
Why is the labor market a critical point? Because it is what determines the quality of banks' balance sheets and their ability to finance a new cycle.



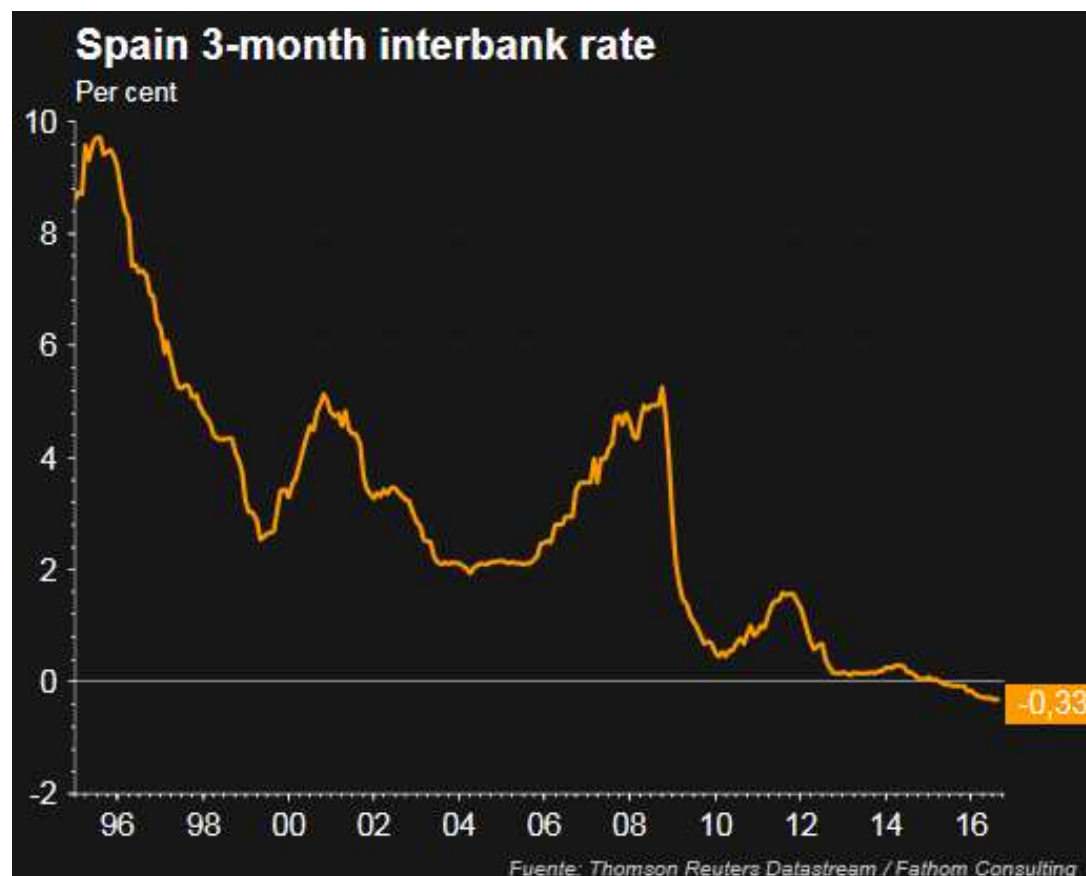
Despite the recent depreciation, the EUR is not yet a clear factor of support on which to underpin growth



Nor the monetary policy seems to have the ability to further stimulate the economy in the future. It seems as if we had already reached the limits of monetary stimulus.

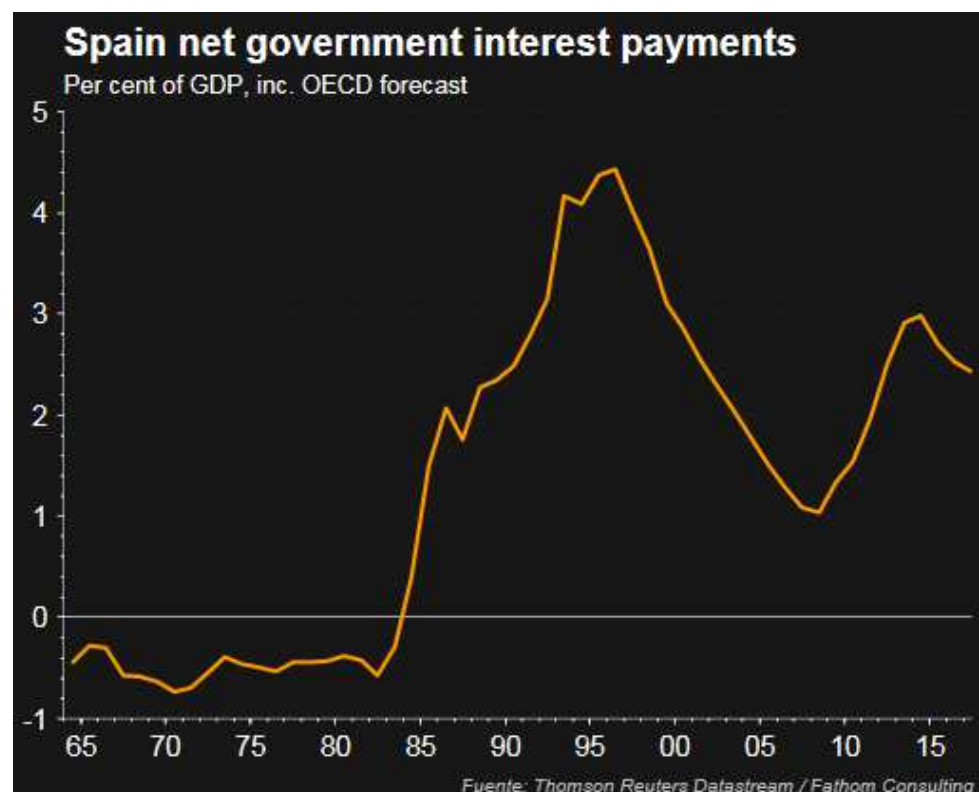


... reaching the limits of monetary stimulus.



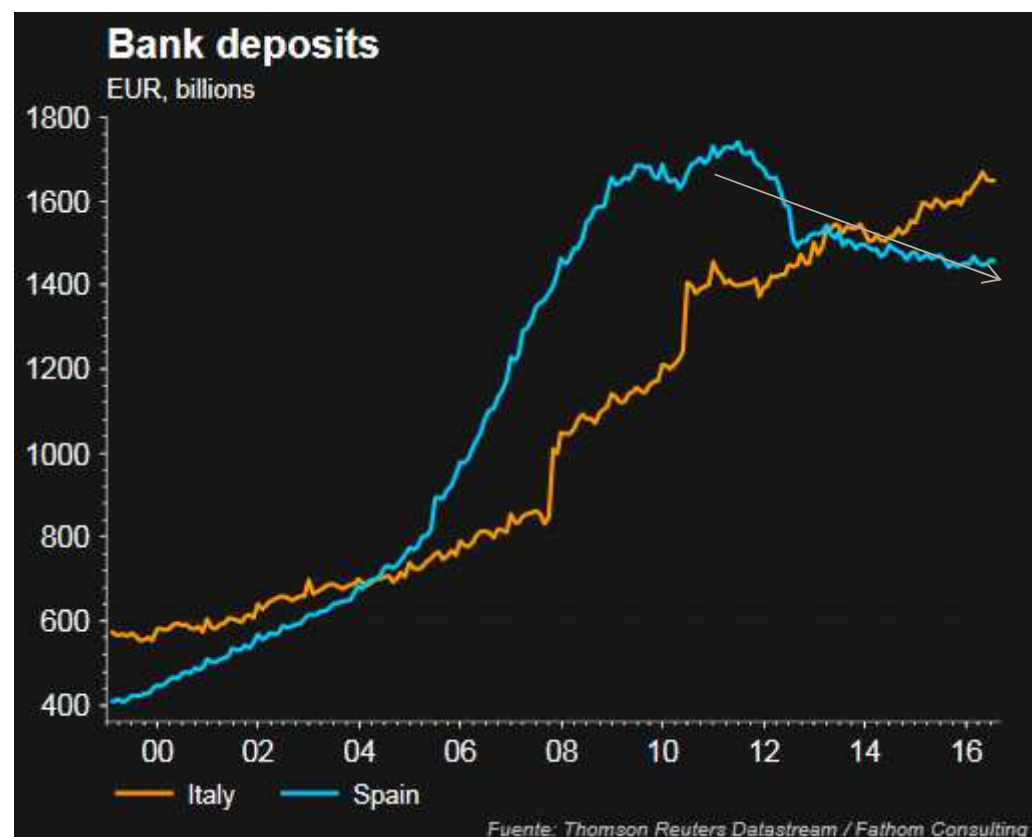
... reaching the limits of monetary stimulus.

Ultra easing monetary policy is helping, but not as much as you may think.

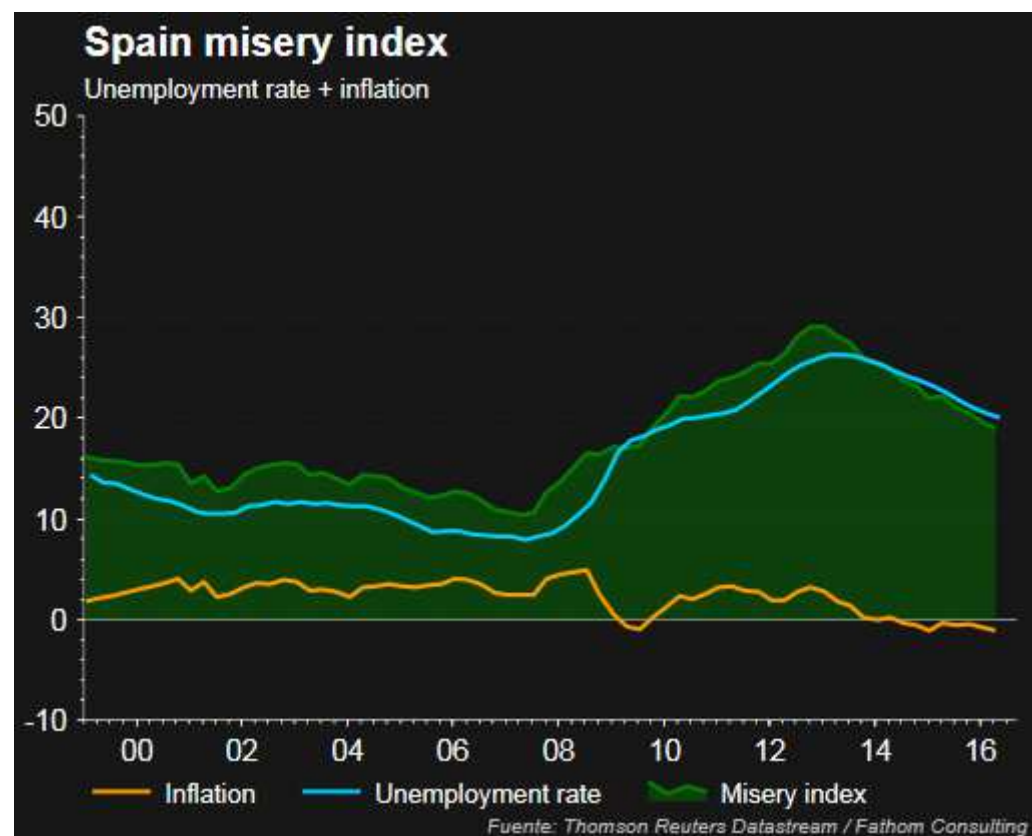


Despite having recovered some momentum in the Spanish labor market, conditions are not good enough, and households still need to withdraw deposits...

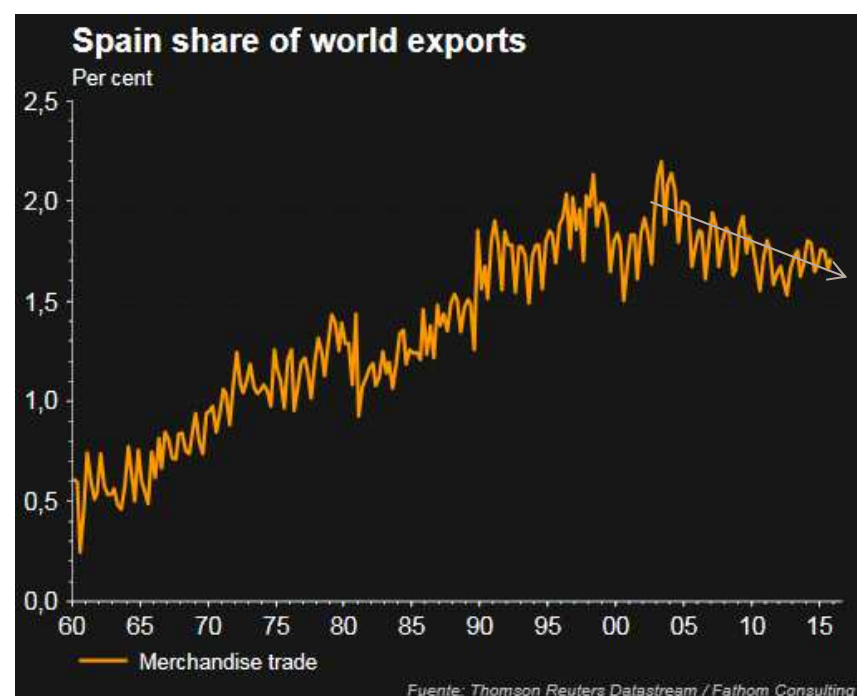
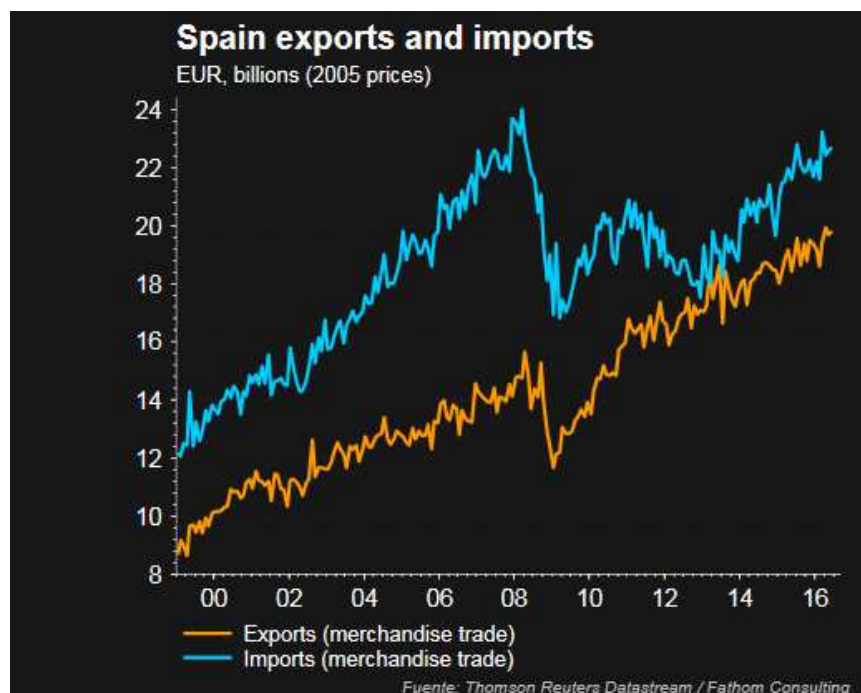
... suggesting that household's saving rate still remains negative



Similarly, the misery index remains historically high, and seems unlikely that it can reconquer pre-crisis levels (given all the aforementioned)



External positioning: Do not get fooled by the nominal rise in exports. Spain is losing share of world exports



External positioning

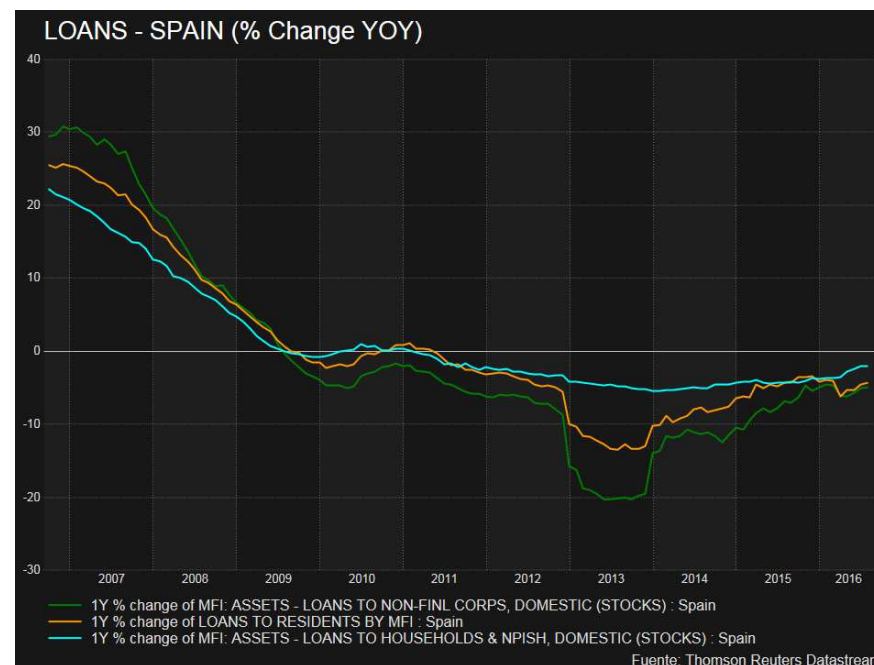
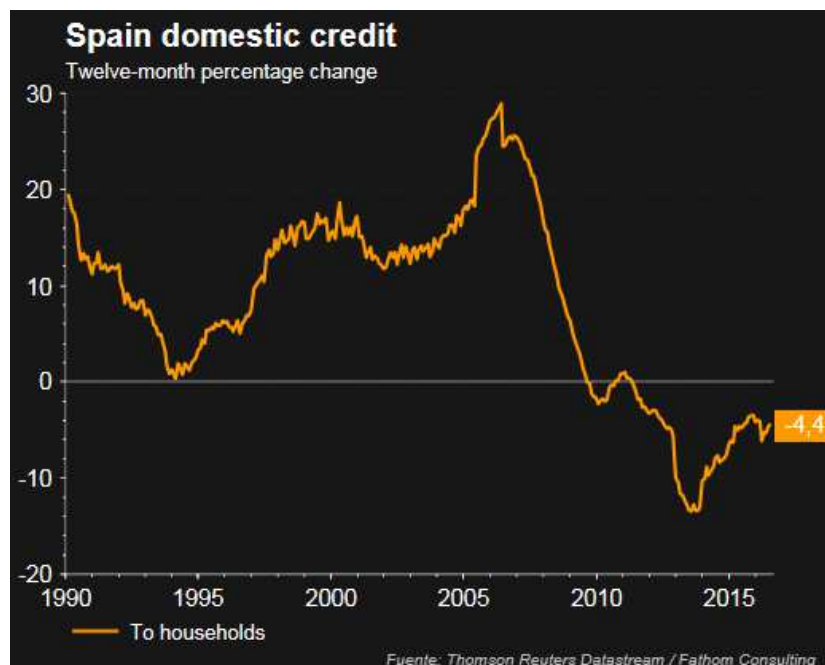
Despite the painful internal depreciation, competitiveness gains have not been large enough as shown by the visible trade balance. This means that in order to reduce funding needs, Spain will probably have to go through another internal devaluation



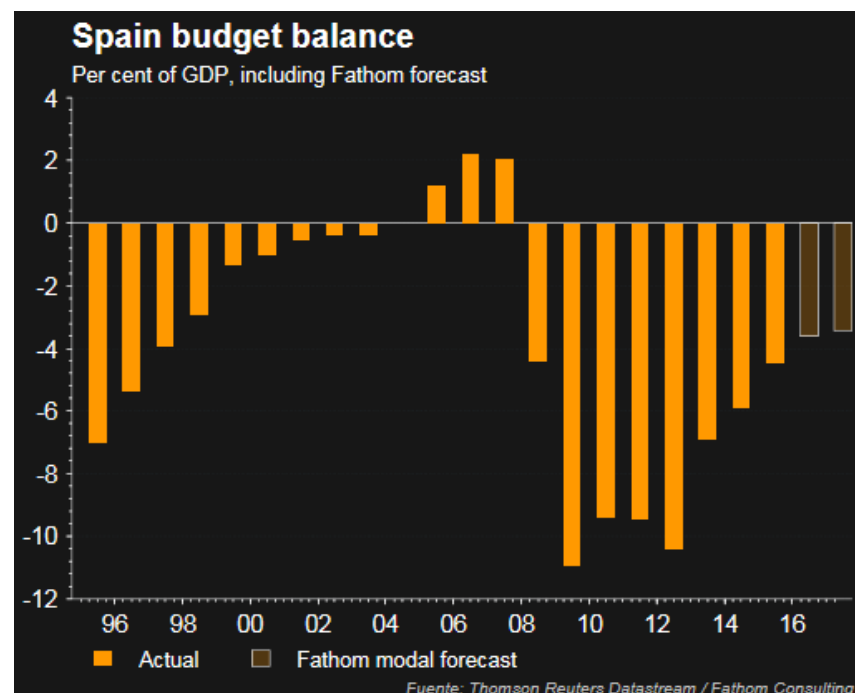
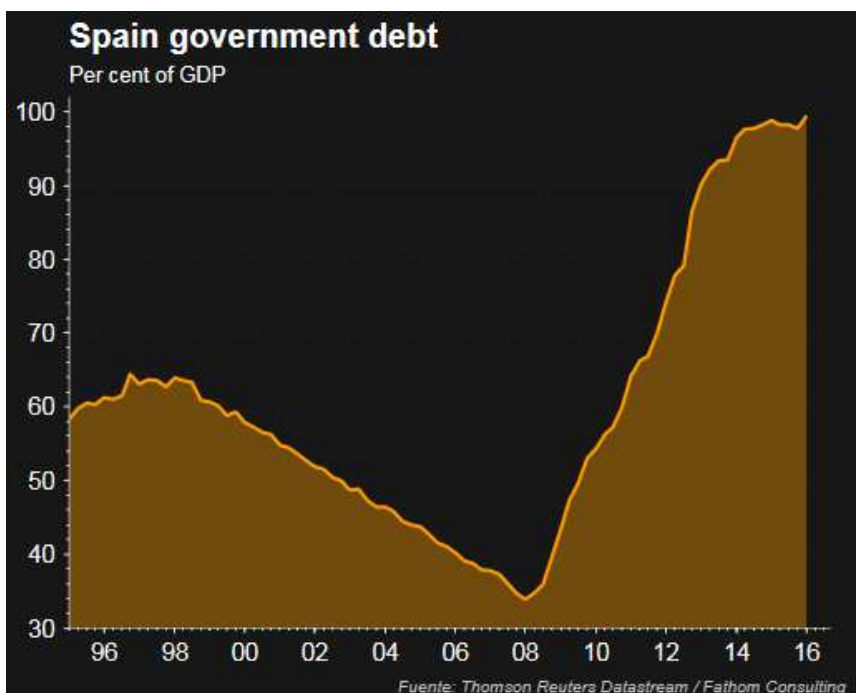
Households and economic agents seem to have realized of a not so exciting future



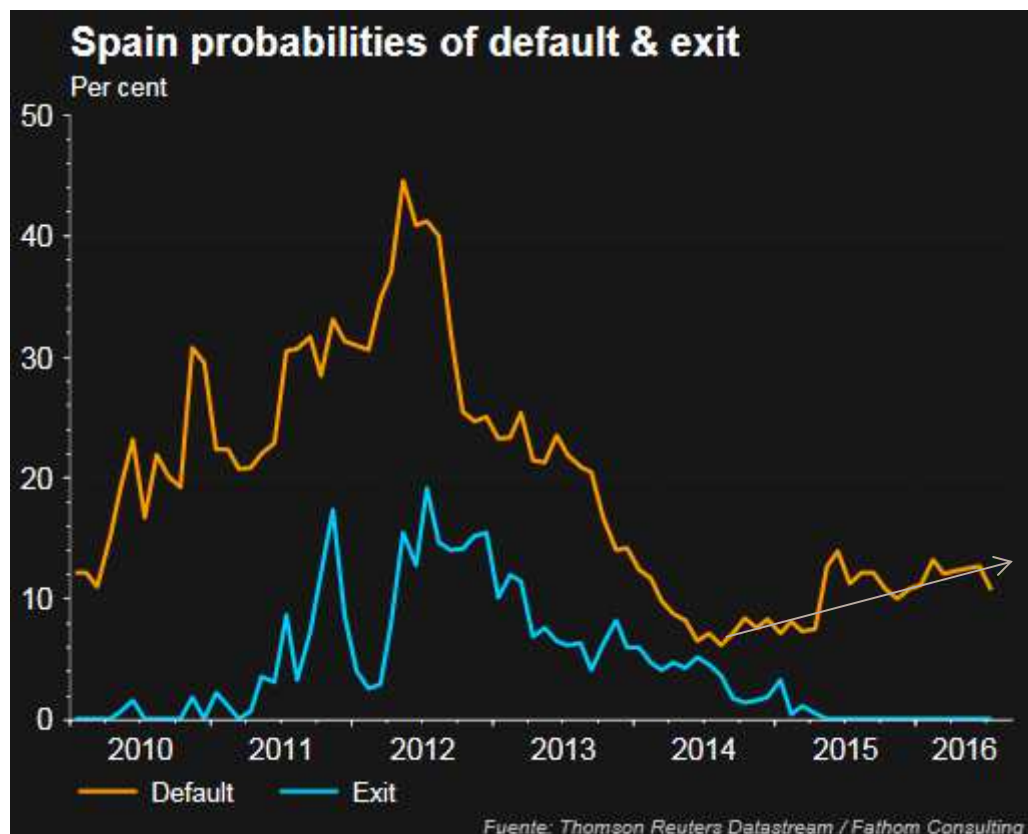
Banks have also realized. Spain domestic credit remains subdued



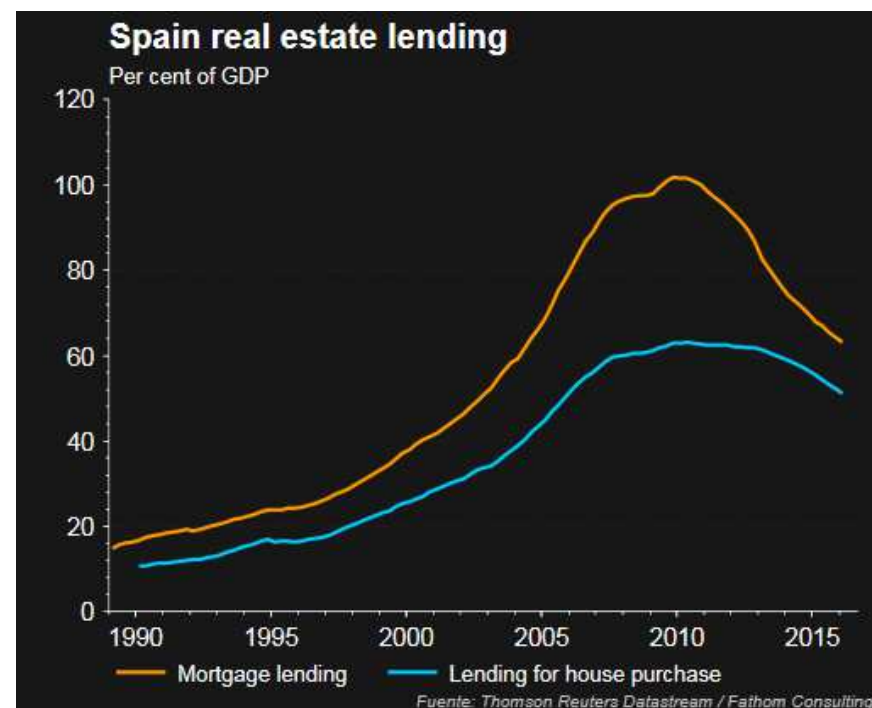
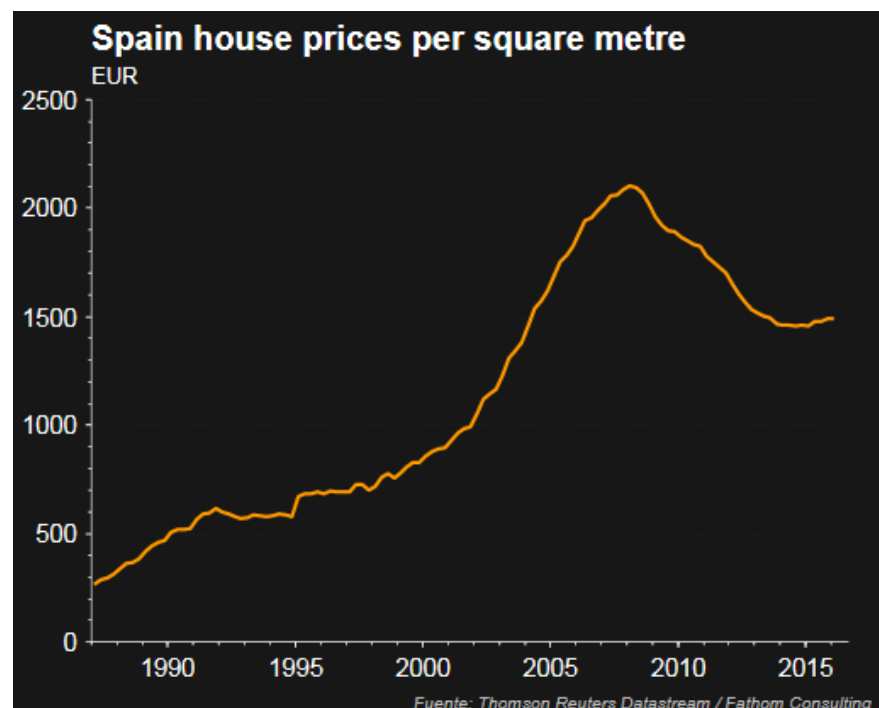
**Debt seems to have stabilized, but remains at a dangerous level.
Credit Metrics need to be improved urgently!!**



... Credit Metrics need to be improved urgently!!



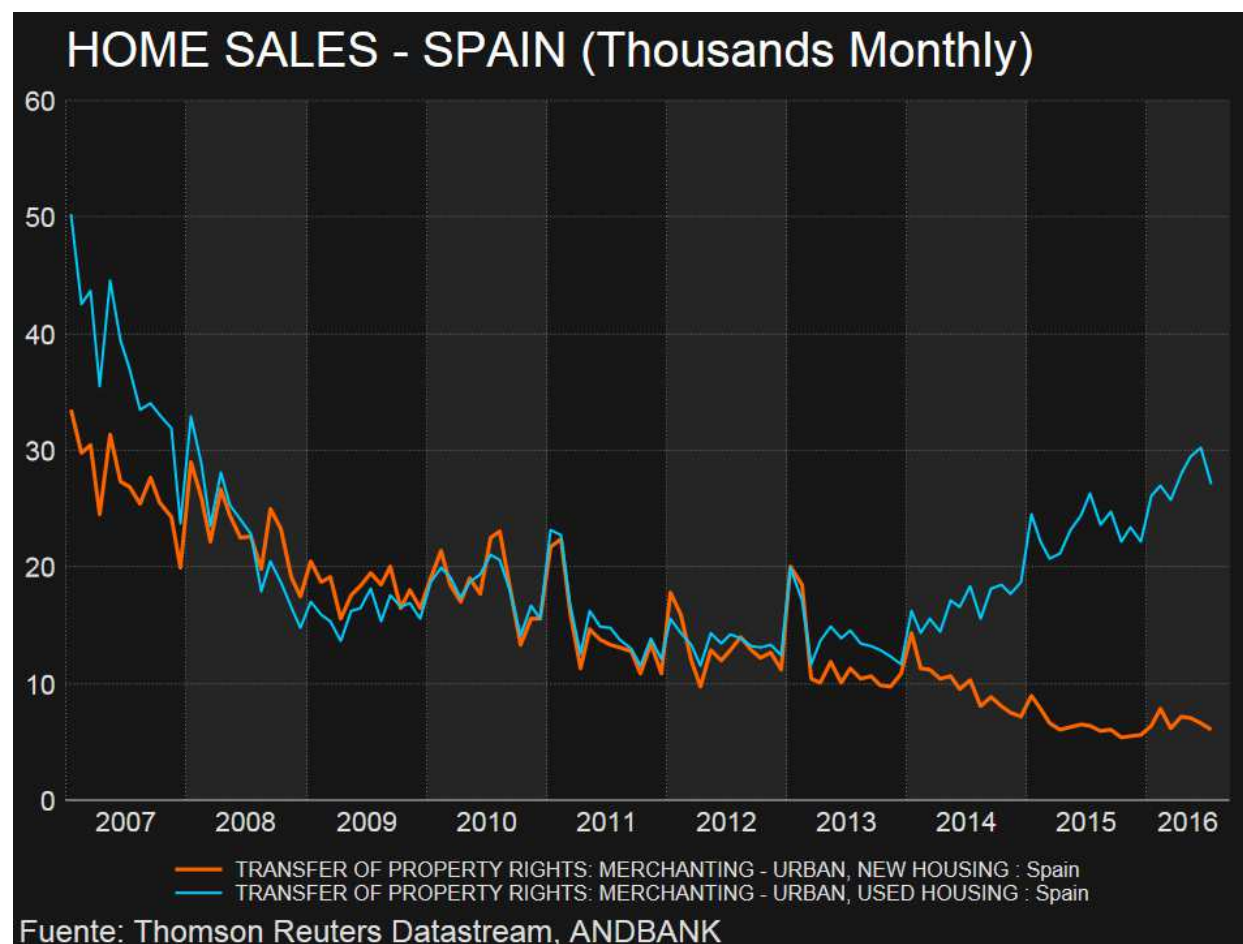
Housing sector seems to have stabilized but ... it maintains a doubtful and weak pace.



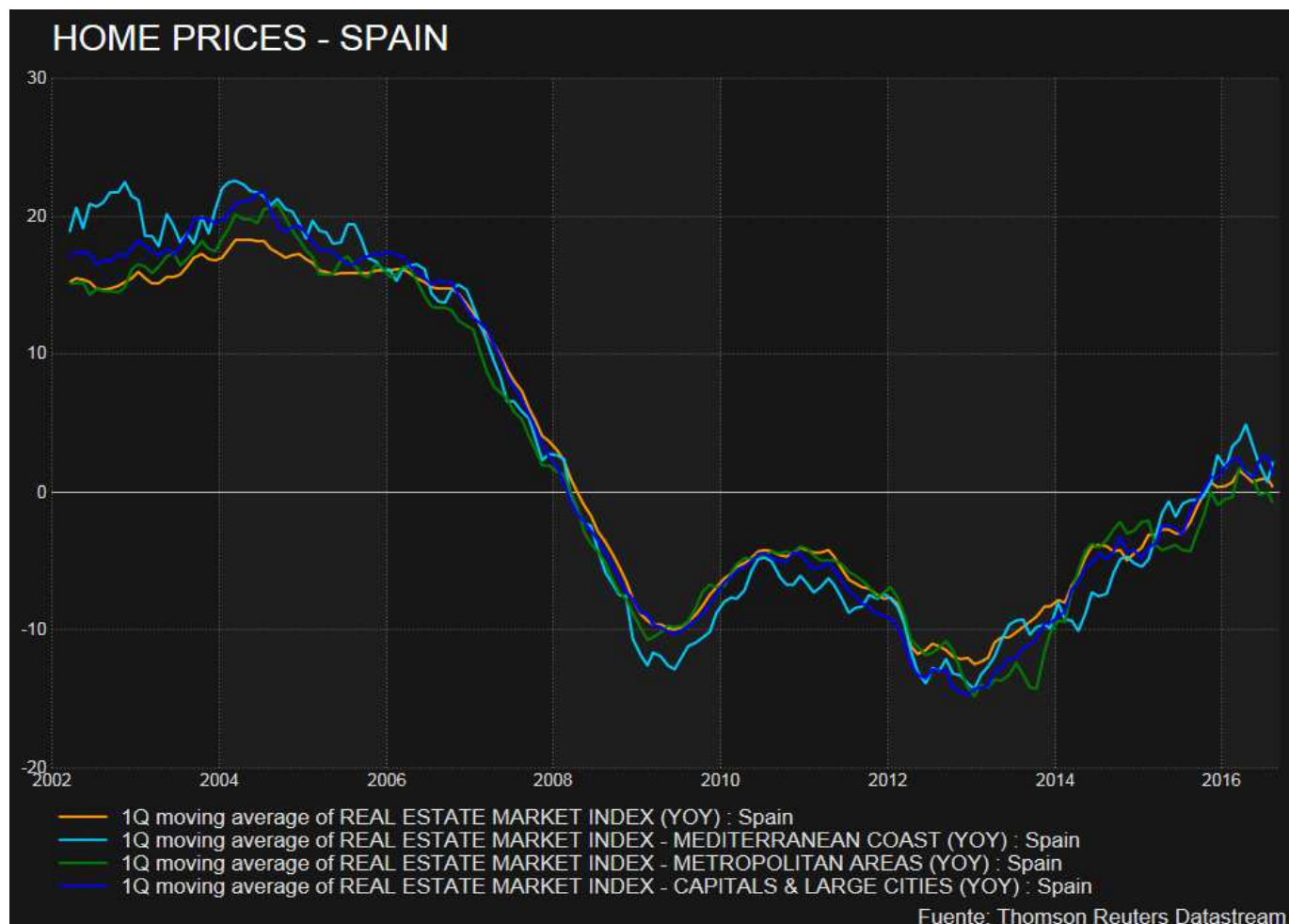
... with new homes at historical low levels ...



... and just “used housing units” being transacted.



As a result, home prices in Spain have not taken a clear path yet (despite the big stimulus received from the ECB)



% Change in Prices:

Country: +0,4%y/y

Large Cities: +1,24% y/y

Metropolitans: -0,7% y/y

Mediterranean: +2,2% y/y

Equity investors are also discounting an unexciting scenario



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