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Economic News

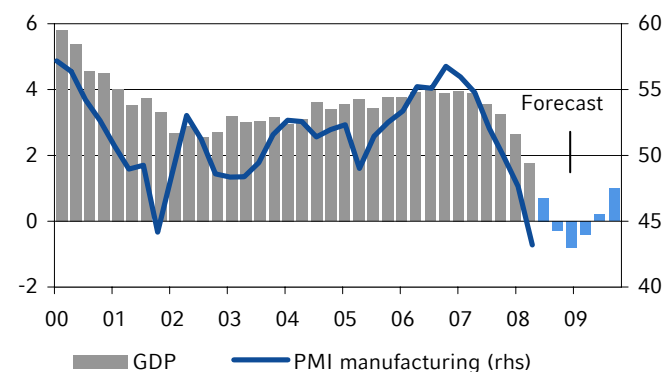
GROWTH IN SPAIN

Spain on the verge of a recession

- The Spanish Statistical Office today published **second-quarter GDP** details. The growth rates for the years 2004-2007 were also recalculated. The statistical office confirmed its first estimate of **0.1% q/q** and 1.8% y/y GDP growth for the second quarter. The previous quarters were revised downward, so that currently there is already clearer evidence of a downturn since mid-2007.
- The weak second-quarter growth is attributable to the **slowdown in domestic demand**, which contracted by 0.2% q/q. Year-on-year domestic demand was down from 2.5% to only 1.3%. Whereas private consumption still grew by a marginal 0.1% q/q, investment – notably construction – saw a sharp decline. However, the slowdown in domestic demand was partly offset by a **positive contribution to growth from external trade**.
- The fact that, of the five major EMU countries, Spain is the only one whose GDP did not experience a decline in the second quarter should not disguise the fact that **signs clearly point to a downturn**: The adjustment crisis in construction has only just begun, and construction activity is poised to decline significantly in the coming quarters as well. The picture looks similar – albeit weaker – for machinery and equipment investment, as corporate sales and earnings prospects have clouded appreciably. Consumer confidence has dropped to a level similar to that last seen during the recession of 1992/93, when private consumption contracted for several quarters in succession. Accordingly, there is concern that private consumption will decline this time as well. Foreign trade unlikely to be able to compensate for all of these developments, particularly since the export outlook has deteriorated further given the downturn in major partner countries. Consequently, we expect economic stagnation in Spain next year, with a number of quarters also likely to experience a **decline in GDP**, however.

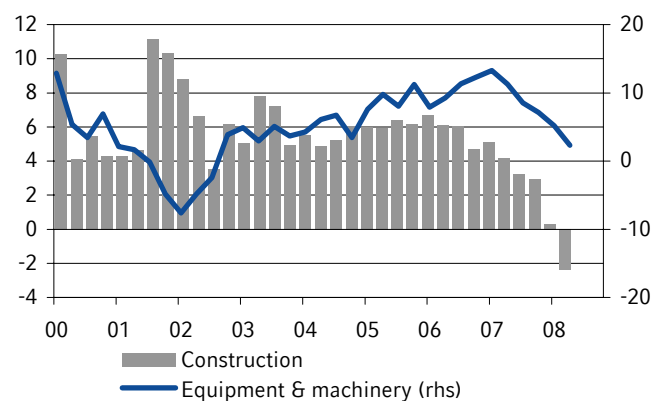
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GDP
% y/y



Source EcoWin, WestLB Research

Construction and equipment&machinery investment
% y/y



Source EcoWin, WestLB Research

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