

## INTERNATIONAL

# Spain's boom in exports drives growth and raises hopes of long-term recovery

Rebalancing of 'more German' economy under way after business embraces foreign expansion



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LA ROCA DEL VALLÉS

The Plaser factory in the northern Spanish town of La Roca del Vallés is in full swing, melting giant vats of plastic for industrial materials at a rate of 50,000 tonnes a year, employing more than 75 people from the local area.

The company is one of many medium-sized manufacturers in Spain that are driving not just robust growth but also a fundamental rebalancing of the country's economy. "We used to produce just a few thousand tonnes a year," said Lluís Perez, the owner of Plaser. "Today it's all so different."

Thanks in part to companies such as Plaser, the Spanish economy is on a roll. Growth has been greater than 3 per cent for the past three years, well above the eurozone average. The IMF has raised its 2018 forecast from 2.4 per cent to 2.8 per cent, outstripping France, Germany and Italy.

Over the past few months, rating agencies Moody's, Standard and Poor's and Fitch have all upgraded Spain's sovereign debt. Sovereign borrowing costs have fallen sharply over the past six months and unemployment is down from 26 per cent in 2013 to 16 per cent today. "We are going through the greatest economic period in Spanish history," said Alberto Nadal, budget secretary in the ruling centre-right Popular party government.

The growth is partly cyclical, as the economy bounces back after a tough financial crisis. Unemployment is still twice the eurozone average and the total size of the economy is not much above what it was in 2007.

But economists, business leaders and politicians say the really positive development in the Spanish economy is not the rate of growth, but the fact that the growth is now far more export-driven.

In the early 2000s the Spanish economy was also booming, but it was on the back of debt-fuelled domestic demand, an overheated and uncompetitive construction sector, and a housing bubble. The trade deficit surpassed €100bn.

Today, exports make up a third of national output, compared with a quarter before the crisis, and there was a €22bn current account surplus in 2017. The domestic construction sector has shrunk rapidly, replaced by manufacturing and other high-skilled industries.

"The Spanish economy is seeing robust growth, but also more resilient growth," said Daniel Lacalle, chief economist at fund manager Tressis.

When issuing a ratings upgrade last month, Moody's said: "It has become increasingly clear that structural changes in the economy have changed the growth model to one that is broader-

On the up: car production at Seat's plant in Martorell, Spain. Manufacturing and other high-skilled industries have replaced a shrinking domestic construction sector

David Ramos/Bloomberg

based and more sustainable than in past recoveries."

Mr Nadal, speaking about the rise in the number of export-driven manufacturers, put it a different way: "Our economy is becoming more German."

Economists and businesses said Spain's deep economic crisis, from 2008 on, itself laid the foundations for the improving business climate.

First, the economic crisis led to a fall in wages while at the same time labour market reforms by the PP government made the jobs market even more business-friendly.

"Wage adjustment has caused us and other Spanish companies to increase competitiveness and efficiency," said Rafael Vázquez, vice-president of production at Conesa, an industrial tomato processing plant in Extremadura, in the south-west. Lower wages helped the



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company to expand sales threefold to €200m over the past three years.

The second factor, said businesses, was that the financial crisis forced them to embrace foreign expansion because of the collapse of the domestic market. "We started putting far more efforts into foreign expansion because we had to, but that is now really paying off," said Mr Perez. Third, there has been a rise in absolute productivity since the financial crisis, in part because some of the least efficient Spanish companies went bust during the crisis.

The situation for the Spanish economy and Spanish manufacturing is not all rosy, however.

Many of the concerns among economists are political. Spain has been operating with a minority government since 2015, which has been unable to undertake significant structural reforms, potentially dampening prospects for future growth.

Rudolf Alvis Lennkh, an analyst at European rating agency Scope, said: "The risk is that going forward, despite the economy remaining on a robust trajectory, the trend is likely to be less dynamic."

At the same time, the push for independence in the northern region of Catalonia — where Plaser is based — is a worry. In its rating upgrade, Fitch said that while the economic impact had been "limited", the Catalan government's declaration of independence in October heightened political risks for the country in the long term.

There are also some signs of a slowdown in European economic growth. But a bullish Mr Perez said that even a slower European economy would not stop Plaser, as its markets were increasingly in the US and Latin America. "We have grown sales 900 per cent since 2010... the way things are going, I think we can continue this way."

## PMI estimate Slowdown fears ease as eurozone index stabilises

A eurozone index has signalled that the downturn in economic performance could be temporary, soothing worries of a sharp slowdown in growth this year.

The purchasing managers' index, which monitors activity such as order books and inventory levels, stood at 55.2 in April, according to a flash estimate by IHS Markit — in line with the final number for March. Any level above 50 marks an expansion.

The PMI's downward drift has raised concern that growth in 2018 will underwhelm after reaching 2.3 per cent last year, its strongest in a decade. Eurostat, the European Commission's statistics bureau, will publish its first estimate of growth in the first quarter

of 2018 on May 7. The April PMI figure signalled that manufacturers continue to suffer from a stronger euro and US-China trade tension. A separate reading for manufacturing hit a 14-month low of 56. At the end of 2017, the reading for manufacturing was above 60.

"Such strong growth as seen at the start of the year rarely persists for long, not least because supply fails to keep up with demand," said Chris Williamson, chief business economist at IHS Markit. "With recent months seeing record delivery delays for inputs to factories and growing skills shortages, output is clearly being constrained."

The euro has risen sharply against the dollar, trading at \$1.22 yesterday morning more than 14 per cent above its level at this point last year.

Poor data on the eurozone economy since the start of the year have led economists to downgrade their growth

expectations. Sentiment indicators for the German economy as well as hard data on exports and industrial production for the eurozone's economic powerhouse have fallen sharply.

A separate PMI reading for Germany indicated that exporters fared better in April than in March, though activity failed to expand at the speed seen at the turn of the year.

Traders have started to price in the possibility that the European Central Bank, whose policymakers meet on Thursday, will not make its first rate rise until later into the second half of next year amid signs of slowing growth.

Investors will be eager to hear what Mario Draghi, ECB president, says about the slowdown. Any attempts to play down the recent data are likely to lead to a shift in expectations back towards a rate rise around mid-2019.

Claire Jones

## Political impasse

### Five Star's poll setback hits quest to control Italian government

## Terror cell

### Paris attacker given life sentence