Consumption Outlook

Spain

First Half 2013
Economic Analysis

- **Global growth remains robust,** but its geographical composition has become more uneven.

- **Spain's economy will bottom out in 2013.** Growth in 2014 will be buoyed by a better external environment, smaller internal imbalances and structural reforms.

- **The lasting effect of the VAT hike and the weakness of its determinants** will continue to weigh on private consumption.

- **Trends in the household savings rate during the crisis are explained by the drastic changes** that have occurred in households' fundamentals.

- **Deterioration of consumer finance slows down** in an environment of weak demand.

Index

Closing date: June 7, 2013

1. Summary

The growth outlook of the **global economy** has barely changed since the publication of the last edition of Consumption Outlook[1], although its geographical composition has become more uneven. Global economic growth is expected to be about 3.3% in 2013, only 0,1% above the estimated 2012 growth, while growth will be close to 4% in 2014. Available indicators show growing dispersion of activity, especially among the developed economies, with the eurozone again lagging behind the US and Japan.

In Europe, the ECB has been effective in its role as the guarantor of the euro, particularly in events such as the bailout of Cyprus, the lack of government in Italy for several weeks and the Portuguese constitutional court ruling declaring illegal the elimination of the extra payment to public-sector workers and pensioners. In spite of this climate of greater certainty in capital markets, activity indicators show that cyclical weakness has spread beyond the periphery, which explains the slash in official interest rates at the start of May. Although this is a positive measure, it will hardly mitigate on its own the financial fragmentation giving rise to differing availability and cost of credit to households and enterprises between EMU countries. Consequently, GDP growth in the eurozone has been revised downward to -0.1% in 2013 and 1% in 2014, 0,4% and 0,3% less, respectively, from the forecast three months ago.

The **Spanish economy** has benefited from the easing of financial pressures, the gradual return of capital flows and greater resilience to the rising risk premiums being paid by both the public and the private sector. However, the worse performance of the real economy of Spain's main trading partners puts downward pressure on growth, although this is offset to an extent by increasing diversification in export markets. On the domestic front, the process of correcting accumulated imbalances is still ongoing. In the medium and long term, the National Reform Plan seeks to lay the bases for a sustained recovery, provided that implementation risks are mitigated. Hence, the economy is expected to see contraction similar to that of 2012 (about -1.4%). On the other hand, the momentum of the world economy, which will firm up the growth of Spanish exports, the near end of some processes of internal adjustment and a less contractionary tone in fiscal policy than in 2012-2013 will drive a return to growth in 2014 (0.9%).

Household consumer spending slowed the pace of its decline in the first quarter of 2013 to -0.4%, helped by the base effect on 4Q12 consumption caused by the changes in VAT and the suppression of December extra payment to public employees. In addition, the lower-than-expected fall in households' real disposable income, their improved net wealth, and the anticipated decrease in their savings rate helped stem the decrease in private consumption between January and March. As shown in **Box 1** of this publication, the performance of Spanish households' **savings rate** during the current crisis has been driven by drastic changes in their fundamentals. Specifically, the aging of the population and, above all, the decline in disposable income explain the recent fall in the households' propensity to save, which would be even larger if the increase in unemployment beyond its structural level were not inducing households to save, for precautionary reasons, more than is justified by its drivers. Overall, the scenario is less worrying if we analyse the private sector as a whole. Non-financial enterprises have increased their savings by more than 9 points of GDP in the latest cycle, thus offsetting the reduction in savings of their ultimate owners, households.

Trends in **car registrations** in the first half of 2013 were affected by the fleet renewals by rental companies in preparation for Holy Week in March and, above all, the extension of the Efficient Vehicle Incentives Plan (PIVE). Since the deployment of the PIVE incentive plan in October of last year, the number of registered cars grew by 39.9% SWDA[2] to May (16.5% SWDA in 2013), which offset part of the lasting effect of the VAT hike in September of last year. The estimates of BBVA Research indicate that the VAT hike would have reduced car registrations by 155,000 units to May 2013 if the PIVE had not been approved. However, the subsidised scrapping programme helped limit this fall to 54,000 cars. However, the success of the PIVE does not ensure an increase in registrations in 2013. If demand performs as forecast for the rest of the year, car sales may total some 700,000 units, as they did in 2012.

Like cars, the market for **two-wheeled vehicles** has been affected at the start of this year by the base effect stemming from the VAT change. After falling back in 4Q12, motorcycle registrations flattened out between January and March, and they are expected to grow in 2Q13. On the whole, if the second half performs as expected, sales may not surpass 95,000 units in the year, as against 102,600 in 2012.

Turnover in the **furniture sector**, meanwhile, firmed up in the first quarter of this year after the drop seen in 4Q12, which was in line with the fall among all durable goods producers. Two factors help to explain the trajectory of turnover in the industry during 1Q13. The first is, once again, the increase in VAT, which caused a base effect in furniture sales. The second is the strong performance of external demand, which has helped to mitigate the collapse of domestic demand triggered by the downturn in housing demand. The forecasts of BBVA Research indicate that the decline in housing investment in Spain will begin to slow towards the end of this year. Hence, a sustained recovery in furniture demand should not be expected in the short term.

As in the furniture sector, the prolonged adjustment in the real estate sector has continued to have a differential effect on purchases of **household appliances**. According to data from the National Association of Household Appliance Manufacturers (ANFEL), turnover decreased by 8.5%, over the first four months of 2013, in yoy terms, compared with a decline of 13.9% in 2012. As for other durable goods, the VAT hike brought about changes in the pattern of spending over time on all families of household appliances and **brown line products**, affecting demand trends going forward. In a sector characterised by lingering deflation caused by technological progress, sluggish consumption has contributed to a reduction in the prices of electronic consumer items and ICT equipment, which will allow continued increases in their usage in Spanish homes. Retail sales of consumer electronics slowed their fall in 1Q13, while sales of ICT equipment increased after falling in the previous quarter.

Credit is a key determinant of consumption of durable goods. The persistence of elevated unemployment, the contraction of disposable income, the resizing of the real estate sector, the fiscal consolidation and households' ongoing deleveraging have affected recent trends in **consumer financing**. During the first quarter of this year, lending to households for consumption and other purposes - excluding housing - continued to fall, albeit at a slower pace than observed in 4Q12, bringing the outstanding balance to the levels observed at the beginning of 2004. This household deleveraging led to a drop in the ratio of consumer credit over GDP to 5.9% in April, 0.3pp below the European average.

Although consumer financing is expected to continue falling in the coming months due to the weakness of the demand component, gradual easing of pressure on sovereigns and the cleaning up of financial institutions' balance sheets would allow for more expansive access to credit. Data from the **BBVA Business Trend Survey** (BTS) for the first half of 2013 confirm these results. Respondents in the BTS perceived a slowing in the downturn of retail activity in the 2H13, favoured by the expected dynamism of supply and a smaller reduction in demand for credit. The **short-term outlook** points to a continued process of adjustment in private consumption that may come to an end in 2014. The increase in indirect taxes in 4Q12 and the worsening of some of its drivers point to fall of approximately -3.0% in household spending this year and, to a lesser extent, next year (-0.5%). The worsening employment situation will again decrease the contribution of salaries to household gross disposable income, which will fall in 2013 and remain practically constant in 2014. In addition, the September 2012 VAT increase -and the resulting bringing forward of consumption- will have a lasting contractionary effect on consumption levels. Furthermore, real estate wealth will continue to decline over the coming quarters. Conversely, the recovery in net financial wealth, continued low levels in the household savings rate and the absence of demand-driven inflationary pressure pushing up official interest rates will all limit the expected contraction in private consumption.

2. Macroeconomic outlook

Growing divergences in the global economy[3]

Global economic activity continued its gradual recovery in the first quarter, although with mixed outlooks among the main economies. Quarterly global GDP growth in 1Q13 was estimated by BBVA Research at 0.7% yoy, slightly above the 0.6% yoy of the last quarter of 2012. Looking forward, growth is expected to be around 3.3% yoy in 2013, only 1pp above growth in 2012, while rates near 4% will be reached in 2014 (Chart 1). However, the indicators available to date point to a growing dispersion of activity, particularly between developed economies, where the euro zone is once more lagging behind the U.S. and even Japan.
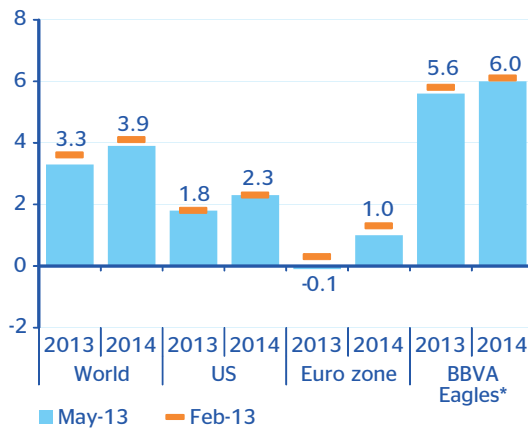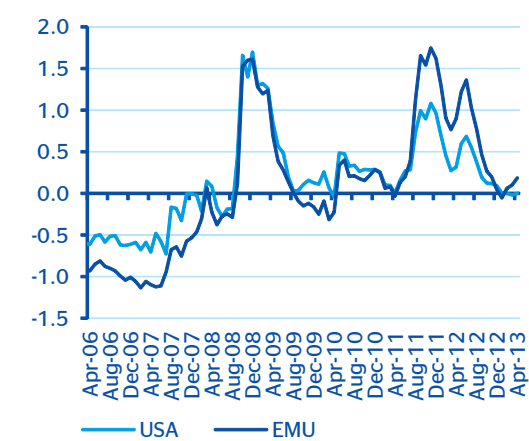
Chart 1
GDP growth rate (% yoy)

■ May-13 ■ Feb-13

Chart 2
BBVA financial stress indicator

—— USA —— EMU

* China, India, Indonesia, Brazil, Russia, Korea, Turkey, Mexico and Taiwan.
Source: BBVA Research based on Haver Analytics

Source: BBVA Research

Financial markets have responded tentatively to the uncertainty over the definition of fiscal policy in the US, and political paralysis in Italy and events in Cyprus and Portugal in the eurozone (Chart 2). The inherent support of the Outright Monetary Transactions programme (OMT) of the European Central Bank (ECB) and the increase in global liquidity continue to benefit the search for yields and, consequently, the easing of risk premiums in the EMU.

The strength of private demand and monetary stimulus measures are supporting growth in the US, in spite of the uncertainty on fiscal policy

In the US, data for the first quarter of 2013 confirmed the strength of private consumption, which has become the basis of economic growth. The main reason are households' better employment and financial position and, to a lesser extent, the lack of a response of financial markets to external risk events such as those from the eurozone. However, the most recent indicators point to a slowdown of GDP growth in the second quarter.

The economic outlook of the US for 2013 and 2014 implies growth rates of 1.8% and 2.3%, respectively. Two factors explain these forecasts. First, in spite of the uncertainty regarding the so-called "fiscal cliff" and the entry into force of the sequester (automatic public spending cuts), private demand has give signs of resilience. Second, inflation expectations remain anchored, which means that quantitative easing can continue to be implemented until the labour market expectations have significantly improved. Although the good figures at the start of the year made

3: For more information, see Global Economic Outlook for the second quarter of 2013, available at: http://www.bbvaresearch.com/KETD/fbin/mult/1305_Situacionglobal_tcm346-385838.pdf?ts=462013

an early withdrawal of stimulus measures seem possible, the most recent information shows that the US economy is still far from robust growth rates, so monetary policy will continue to be a support for growth.

Doubts persist in Asia about the strength of growth in China. In contrast, optimism rises in Japan on the back of its massive quantitative expansion

The Chinese economy lost strength in the first quarter due to weak investment, in spite of increased external demand. Although the measures implemented to tackle domestic financial weakness appear to have contributed to the slowdown, the change in the growth model towards a more consumption-oriented economy continues. With inflation coming in below expectations, pressure to tighten monetary conditions has slackened. This has given the authorities some room for manoeuvre to meet their commitment to sustainable growth (announced target: 7,5%). Growth forecasts for China are therefore 8% for 2013 and 2014.

Meanwhile, the Japanese economy will benefit from a package of more aggressive-than-expected stimulus policies. Among them is the massive quantitative easing, whose size amounts to around 25% of Japan's GDP, aimed at driving changes in inflation expectations in order to boost growth. This monetary expansion will be more effective if it is accompanied by effective fiscal measures and, in particular, structural reforms. Thus our growth forecast for the Japanese economy for 2013 and 2014 remains at 1.7%, above the 1.3% consensus.

The eurozone stalls and ECB begins to act[4]

The most significant aspect of the eurozone's performance is the spread of economic weakness from periphery to core economies, particularly France, but also impacting Germany and the Netherlands. In France, uncertainty over fiscal policy, and the meagreness of reforms, are undermining the confidence of economic agents. In Germany, economic agents' expectations are again down and exports have weakened in spite of the resilience of demand in emerging countries. The Netherlands has also been dragged into recession as a result of falling investment and household consumption, despite exports holding up well. Lastly, in the eurozone periphery appetite for risk has recovered, with a revival of demand for sovereign debt driven by the ECB's OMT programme and the better global liquidity stemming from Japan's quantitative expansion.

In this context, eurozone authorities are still engaged in building the economic architecture of the area. There is also a growing debate on the appropriate degree of fiscal consolidation for achieving a credible deficit reduction and debt sustainability path that does not damage short-term activity to the point of undermining consolidation efforts. In particular, the recent statements of the European Commission backing the postponement to 2016 of the public deficit target of 3% in Spain are in line with lending greater importance to the quality and composition of the adjustment than to the achievement of quick nominal corrections.

With regard to progress on banking union, the agreement ultimately reached on Cyprus involved implementation of the bailout model being negotiated for the sector throughout the EMU. Before there is any bailout, this will hit bank creditors, including depositors not covered by deposit protection guarantees, if necessary.

With regard to monetary policy, the ECB cut the refi rate by 25 basis points (bp), from 0.75% to 0.50%, at the same time as it narrowed its lending and deposit corridor from +/- 75bp to +/-50bp. It also announced an extension of its fixed-rate liquidity auctions for banks with no restrictions on amounts, as necessary, until at least July 2014. In addition, it has started consultations with other European institutions (the European Investment Bank and the Commission) to kickstart the market for financial instruments backed by corporate lending, in an attempt to tackle the pressing problem of lending in periphery countries. Lastly, as risks continue being on the downside,

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the Central Bank has signalled that it may take additional measures in the face of any further economic deterioration. The measures the ECB may consider include reducing the rate on its deposit facility into negative territory, implementing unconventional measures or supporting European institutions in lending to SMEs.

In sum, GDP in the eurozone is expected to fall by 0.1% in 2013 and to increase by 1% in 2014. Risks continue to be on the downside. It is essential that Germany does not continue to be the sole source of growth for the area, with its easy access to borrowing, high competitiveness and greater exposure to the better-performing sources of global demand.

Spain's economy will bottom out in 2013 and grow in 2014[5]

In Spain, the easing of financial stress is being accompanied by a gradual return of capital flows and increased resistance to rising risk premiums paid by both the public and private sectors, which is a positive shock on the consensus scenario of last summer. However, the worse performance of the real economy of Spain's main trading partners inevitably puts downward pressure on growth, although this is offset to an extent by increasing diversification in export markets.

Domestically, the process of correcting accumulated imbalances continues, although some factors are acting as a counterweight. In the short term, the Government has announced an extension to its supplier payment plan, and has left open the possibility of launching another such plan, which could have a significant, though temporary, effect on activity. In the medium and longer term, a number of reforms have been initiated that, taken as a whole, have the objective of continuing to reduce structural imbalances and establishing the basis for a more robust recovery. Although we will have to wait to see whether the timetables defined are actually achieved, and whether the ambition of the changes is sufficient, the National Reform Plan submitted on 26 April includes an accurate diagnosis of the situation[6]. Within the framework of the NRP, on 24 May, the Draft Law to Support Entrepreneurs and their Internationalisation was approved. If effectively implemented, it will be a step forward in kickstarting the Spanish economy[7].

In accordance with the above, short-term drivers of the Spanish economy remain extremely weak, which is compatible with a slackening off of the economic contraction in the near future. Hence, although the downturn of activity between January and March (-0.5% qoq) was somewhat sharper than expected at the end of 4Q12 (0.3% qoq), second quarter economic indicators suggest that the Spanish economy is near to bottoming out (MICA-BBVA Research: between -0.1% and -0.3% qoq in 2Q13) (Chart 3)[8]. In addition, the breakdown of Quarterly National Accounts (CNTR) data 1T13 confirmed that the composition of growth has been influenced by rising net external demand and falling domestic demand, although the latter dragged growth at a notably lower pace than in the previous quarter (See Chart 4).

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5. For more information, see Spain Economic Outlook for the second quarter of 2013, available at: http://www.bbvaresearch.com/KETD/fbin/mult/1305_Situacionespana_tcm346-385826.pdf?ts=462013
6: Available at http://www.mineco.gob.es/stfls/mineco/comun/pdf/PNR_Espana_2013.pdf
7: The objective of the Draft Bill is to foster an entrepreneurial culture and facilitate the launch of entrepreneurial activities through a package of measures in four main areas: (1) the development of new forms of financing, (2) second-chance entrepreneurship, (3) tax incentives for companies and (4) a reduction of the barriers to the creation of new companies. Further details at: http://www.lamoncloa.gob.es/docs/refc/pdf/refc20130524e_2.pdf
8: For more details on the MICA-BBVA model, see Camacho, M. and R. Doménech (2010): "MICA-BBVA: A Factor Model of Economic and Financial Indicators for Short-Term GDP Forecasting", BBVA WP 10/21, available at: http://www.bbvaresearch.com/KETD/fbin/mult/WP_1021_tcm348-231736.pdf?ts=2542012
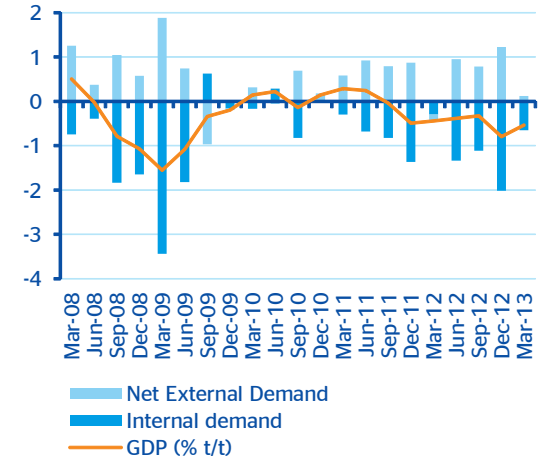
Chart 3
Spain: GDP growth and forecasts using the MICA-BBVA Model (% qoq)

- CI at 20%
- CI al 40%
- CI al 60%
- Point estímate
- Observed
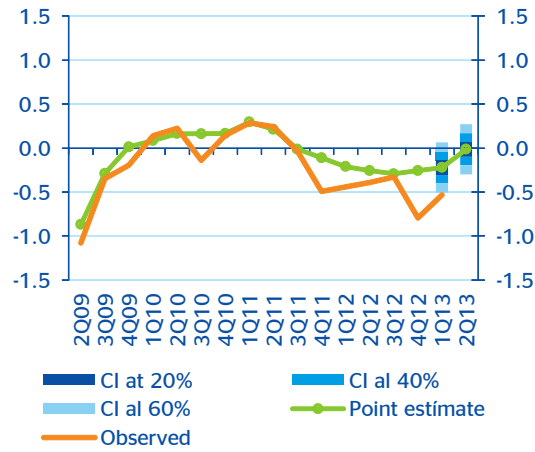
Source: BBVA Reseach base on INE

Chart 4
Spain: contributions to quarterly GDP growth (%)

- Net External Demand
- Internal demand
- GDP (% t/t)

Source: BBVA Reseach base on INE

For 2013 as a whole, the fall of Spanish economy is expected to be similar to that of 2012 (about -1.4%), mainly due to the need to correct the public deficit and continuing process of absorbing accumulated imbalances (Table 1). However, several factors point to a return to growth in 2014 (0.9%). As noted at the beginning of this section, an acceleration in growth of the world economy is expected, spreading to the euro area and supporting the expansion of Spanish exports. Domestically, some internal adjustment processes (investment and employment in housing construction) will be almost completed, with fiscal policy becoming somewhat less contractionary than in 2012 and 2013.

The expected decrease in public employment resulting from fiscal consolidation will add to the destruction of private-sector jobs, which will slow as the deterioration in economic activity moderates. As a result, the unemployment rate increase, despite the expected decrease in the active population, exceeding 27% of the active workforce in 2013. The return to growth in 2014, and the expected improved efficiency of the labour market as a result of the reforms introduced in February last year[9], will result in increased private sector employment and a slight reduction in unemployment in the second half of the year[10].

But there are risks to this expected recovery. Whilst the measures launched in 2012 have so far outweighed recent increases in uncertainty following events in Italy, Cyprus and Portugal, the additional relaxation in financial pressure continues to be dependent on progress with structural reform, both in Europe and in Spain.

Regarding the composition of growth, the BBVA Research economic scenario point to further downward pressure on domestic demand in 2013, which will be offset only partially by a climb in external demand. Domestic demand will barely erode growth in 2014, while net exports will continue to contribute positively. With regard to private consumption, the indirect tax increases in September 2012[11] and expected deterioration in some other fundamentals lead us to expect expenditure to fall by around 3.0% this year and 0.5% in 2014. The worsening employment

9: An assessment of the labour market reform approved in 2012 is given in Box 4 of our Spain Economic Outlook for the second half of 2012. Available at: http://www.bbvaresearch.com/KETD/fbin/mult/1205_Situacionespana_tcm346-326621.pdf?ts=462013.

Box 2 of the Spain Economic Outlook for the second quarter of 2013 examines how wage moderation resulting from the agreement on employment and collective bargaining signed in January 2012 and the labour market reform approved in February of the same year prevented greater job destruction in both the short and long term.

10: Labour market reform should provide the necessary rebalancing between the extensive margin (employment) and the intensive margin (hours worked and wages), reduce segmentation and increase productivity. These consequences, together with the change in the Spanish economy's production model, should facilitate greater job creation and a more intensive reduction in the unemployment rate for every percentage point of GDP. For more details, see: Andrés. J, J. E. Boscá, R. Doménech and J. Ferri: "Job Creation in Spain: Productivity Growth, Labour Market Reforms or both", BBVA Working Paper 10/13, Madrid. Available at: http://www.bbvaresearch.com/KETD/fbin/mult/WP_1013_tcm348-221513.pdf?ts=15112011.

11: On 1 September 2012 the general and reduced rates of VAT were raised from 18% and 8% to 21% and 10% respectively, and modifications were made to taxable income by application of the general rate to products hitherto taxed at the reduced rate.

situation will again decrease the contribution of salaries to household gross disposable income, which will fall in 2013 and remain practically constant in 2014. In addition, the VAT increase -and the resulting bringing forward of consumption- will have a permanent contractionary effect on consumption levels[12]. Furthermore, real estate wealth will continue to decline over the coming quarters. Conversely, the recovery in net financial wealth, the firming up of household savings at rates considerably below those during the previous cycle (Box 1) the absence of inflationary pressures from demand driving up official interest rates will all cushion the expected contraction in private consumption.

Table 1
Spain: macroeconomic forecasts

(yoy %, unless otherwise indicated)	2009	2010	2011	2012	2013 (p)	2014 (p)
National Final Consumption Expenditure (FCE)	-1.9	0.9	-0.8	-2.5	-3.6	-0.8
Private FCE	-3.8	0.7	-1.0	-2.1	-3.0	-0.5
Household FCE	-3.9	0.6	-0.8	-2.2	-3.0	-0.5
Public Administration FCE	3.7	1.5	-0.5	-3.7	-5.1	-1.8
Gross Capital Formation	-17.9	-5.5	-5.5	-8.7	-8.5	1.3
Gross fixed capital formation	-18.0	-6.2	-5.3	-9.1	-8.5	1.3
Fixed material assets	-18.5	-6.7	-5.8	-10.0	-8.9	1.1
Equipment, machinery and cultivated assets	-23.9	2.6	2.3	-6.6	-4.7	4.9
Equipment and machinery	-24.5	3.0	2.4	-6.7	-4.7	4.9
Construction	-16.6	-9.8	-9.0	-11.5	-10.9	-1.0
Housing	-23.1	-10.1	-6.7	-8.0	-9.3	0.8
Other buildings and constructions	-9.1	-9.6	-11.0	-14.6	-12.4	-2.7
Change in inventories (*)	0.0	0.1	-0.1	0.1	0.0	0.0
Domestic demand (*)	-6.6	-0.6	-1.9	-3.9	-4.5	-0.4
Exports	-10.0	11.3	7.6	3.1	4.7	6.4
Imports	-17.2	9.2	-0.9	-5.0	-4.9	2.8
Net trade balance (*)	2.9	0.3	2.3	2.5	3.0	1.4
GDP at mp	-3.7	-0.3	0.4	-1.4	-1.4	0.9
Pro-memoria:						
GDP w/o housing investment	-1.4	0.5	1.0	-1.0	-1.0	1.0
GDP w/o construction	-0.5	1.6	2.1	0.2	-0.2	1.2
Employment (LFS)	-6.8	-2.3	-1.9	-4.5	-4.1	-0.2
Unemployment rate (% active pop.)	18.0	20.1	21.6	25.0	27.1	26.4
Employment (FTE)	-6.2	-2.5	-1.7	-4.4	-3.9	-0.5
Real disposable household income (% growth)	1.7	-4.8	-3.3	-5.3	-4.2	-0.6
Nominal disposable household income (% growth)	0.6	-2.9	-0.5	-2.7	-2.0	0.5
Household savings rate (% income)	17.8	13.1	11.0	8.3	7.2	7.1
Current account balance (% of GDP)	-4.8	-4.5	-3.7	-1.1	0.5	1.0
Public sector balance (% of GDP)	-11.2	-9.7	-9.0	-7.0	-6.5	-5.7
CPI (period average)	-0.3	1.8	3.2	2.4	1.7	1.2

(*) contribution to growth.
Source: BBVA Reseach based on INE and BdE

12: Box 2 of Spain Economic Outlook for the fourth quarter of 2009 sets out how a 2pp increase in VAT would result in a permanent 0.6 pp reduction in long-term private consumption. See: http://www.bbvaresearch.com/KETD/fbin/mult/0911_situacionespana_tcm346-204668.pdf?ts=1742013

3. Durable goods

After a fourth quarter characterised by a brusque decline in consumption expenditure by households, National Accounting data for the first quarter of 2013 confirmed that the decline in household spending had eased off, as shown by preliminary demand indicators (Table 2). Household expenditure fell back by -0.4% qoq in 1Q13 due to the base effects stemming from the impact on 4Q12 consumption of VAT changes and the elimination of the public employees' extraordinary Christmas payment. Furthermore, the lower-than-expected reduction in real household disposable income, improved net financial worth, the expected reduction in the savings rate and renewal of the Efficient Vehicle Incentives Plan (PIVE) contributed to maintaining private consumption between January and March. However, the weakness of its drivers points to a further reduction in expenditure in the second quarter of this year. For example, both BBVA's synthetic consumption indicator (ICS-BBVA) and our coincident consumption indicators model (MICC-BBVA) suggest that the contraction of household spending in 2Q13 will be similar to that of the previous quarter (Chart 5)[13].

Table 2
Spain: selected consumer spending indicators (SWDA data*, % qoq)

	Availability of consumer goods	Car registrations		Domestic sales by large enterprises	Services sector turnover index	Retail trade	Consumption (National Quarterly Accounts)
		Totals	Private				
1Q10	-2,6	-1,6	-4,6	0,9	0,9	0,4	-0,1
2Q10	3,4	2,8	4,4	2,0	2,7	-0,3	0,9
3Q10	-5,7	-30,5	-46,2	-6,2	-4,3	-1,4	-1,2
4Q10	-0,5	1,5	-1,4	0,2	-0,6	-0,8	1,2
1Q11	1,2	1,6	-0,1	-1,0	0,4	-3,0	-0,6
2Q11	-1,2	2,2	-0,5	0,2	-1,3	-0,8	-0,2
3Q11	0,3	-5,4	-7,4	-0,2	0,8	-0,1	-0,6
4Q11	-1,1	-2,7	-1,5	-2,0	-2,5	-2,8	-1,0
1Q12	-4,1	2,9	-1,8	-1,6	-1,3	-1,2	0,5
2Q12	-2,0	-8,8	-3,0	-2,7	-2,7	-3,2	-1,1
3Q12	-1,4	-8,5	-1,4	2,4	-3,6	-0,5	-0,5
4Q12	-3,2	-8,1	-11,4	-4,9	0,9	-5,6	-1,9
1Q13	-2,8	16,6	17,7	0,7	-1,6	0,3	-0,4

** SWDA data: seasonally and working day adjusted data.
Source: BBVA Research based on MINECO, ANFAC, AEAT and INE

During the first quarter of 2013, external demand for goods regained the dynamism it appeared to have lost during 4Q12, thereby limiting the decrease in economic activity caused by lacklustre domestic demand. External sales of durable goods significantly contributed to the recovery in goods exports. As shown in Chart 6, exports of durable goods increased by 7.1% qoq SWDA in 1Q13 in spite of the weak European economy, while total exports of goods climbed by 4.4% qoq SWDA (1.2% in National Accounting terms).

13. For further details on the MICC-BBVA Model, see Box 1 in Consumption Outlook for 2H10 available at: http://www.bbvaresearch.com/KETD/ketd/bin/esp/publi/espana/novedades/detalle/Nove346_195714.jsp?id=tcm:346-176089-64
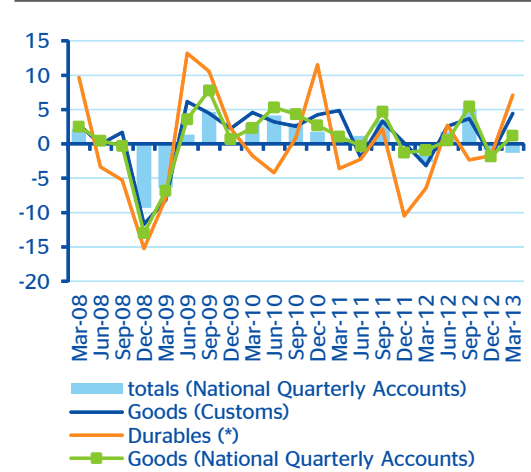
Chart 5
Spain: observed data and real-time forecast of household consumption

- Consumption (% qoq, LHS)
- Consumption (% yoy, RHS)
- MICC-BBVA (% yoy, RHS)
- ISC-BBVA (% yoy, RHS)
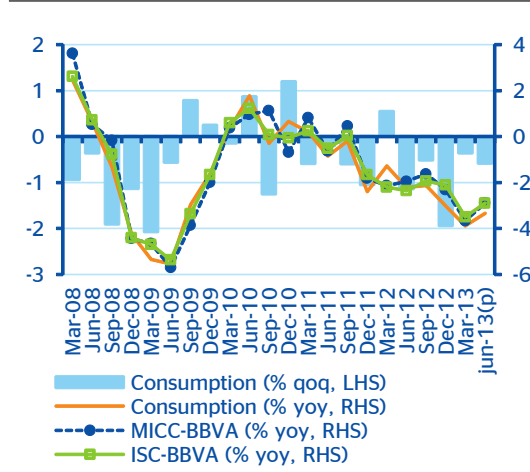
Source: BBVA Research base on INE

Chart 6
Spain: real exports (SWDA data,% qoq)

- totals (National Quarterly Accounts)
- Goods (Customs)
- Durables (*)
- Goods (National Quarterly Accounts)

Fuente: BBVA Research based on INE and Customs data

Demand for cars

The extension of the Efficient Vehicles Incentive Plan (PIVE) and fleet renewal by rental companies in preparation for Easter Week in March influenced car registration trends in the first half of the year.

PIVE-2 has been in effect since 4 February. It aims to replace cars and light commercial vehicles over 10 and 7 years old respectively (compared to 12 and 10 years old in PIVE-1) with more energy-efficient vehicles (M1). 150 million euros have been budgeted for this plan -twice the amount of PIVE-1- and the campaign will run for 1 year or until all the funds are used. The scheme benefits individuals, the self-employed, professionals, micro-enterprises and SMEs. The Ministry of Industry, Energy and Tourism contributes 1,000 euros per vehicle, in addition to a further 1,000 euro discount per vehicle provided by the manufacturer or importer. Unlike PIVE-1, the amount for large families that purchase "M1" vehicles with more than 5 seats can achieve a bonus of 3,000 euros (Table 3)[14].

Since the entry into force of PIVE in October of last year, car registrations have increased by 39.9% SWDA up to May (16.5% SWDA in 2013), partly offset by the permanent effect of the VAT hike (Chart 7)[15]. The dynamism of private demand is the main driver of automobile sales, although fleet renewal by rental companies in the first half of the year also contributed positively (Chart 8).

However, the success of the PIVE does not ensure an increase in registrations in 2013. If demand performs as forecast for the rest of the year, car sales may total some 700,000 units, as they did in 2012[16].

14: : For more details, see: http://www.planpive2.es/Bases/Boletin%20CD%2069-13%20PIVE-mod.pdf
15: The estimates of BBVA Research indicate that the VAT hike in September 2012 would have reduced car registrations by 155,000 units to May 2013 if the PIVE had not been approved. However, the PIVE incentive helped limit this fall to 54,000 cars.
16: For a detailed analysis of drivers of demand for cars, see Box 2 in Consumption Outlook for the first half of 2011 at: http://www. bbvaresearch.com/KETD/fbin/mult/1111_Situacionconsumo_tcm346-281278.pdf?ts=5122012

Table 3
Characteristics of the Effective Vehicle Incentives Plan (PIVE)

	PIVE 1	PIVE 2
Beneficiaries	Individuals, self-employed, micro-enterprises, SMEs (<250 employees, turnover <50M€)	Individuals, self-employed, micro-enterprises, SMEs (<250 employees, turnover <50M€)
Eligible cars	NC (or UC <1 year)	NC
	Categories: M1 (categories A and B) and N1 (<160 g of CO_2/km)	Categories: M1 (categories A and B), N1 (<160 g of CO_2/km), M1 and N1 (<120 g of CO_2 and energy class A, B, C or D) and M1 (large family, > 5 seats, energy class A, B or C)
	Price: ≤ 25,000€ before tax (excluding fully electric cars, plug-in hybrids and extended autonomy cars)	Price: ≤ 25,000€ before tax (excluding fully electric cars, plug-in hybrids and extended autonomy cars)
		Price: ≤ 30,000€ before tax (for large families with more than five seats and energy class A, B or C)
Scrapped vehicle	Age≥ 12 years (M1) and up to 10 years (N1); registered in Spain	Age≥ 10 years (M1) and up to 7 years (N1); registered in Spain
Minimum financial assistance	1,000€ IDAE + 1,000€ manufacturer or importer	1,000€ IDAE + 1,000€ manufacturer or importer
		1500€ IDAE + 1500€ manufacturer or importer (large family, > 5 seats, energy class A, B or C)
Timing	01/10/12 (15/10 activation of reserves) - 31/03/13 or depletion of funds	02/02/13 (04/02 activation of reserves) - 01/02/14 or depletion of funds
Budget	75 million € (75,000 cars)	150 million € (up to 150,000 cars)
Application	Submission of documentation and paper application to IDAE	Documentation and application uploaded through point-of-sale application

Source: BBVA Research based on IDAE

Chart 7
Spain: Car registrations (SWDA data)
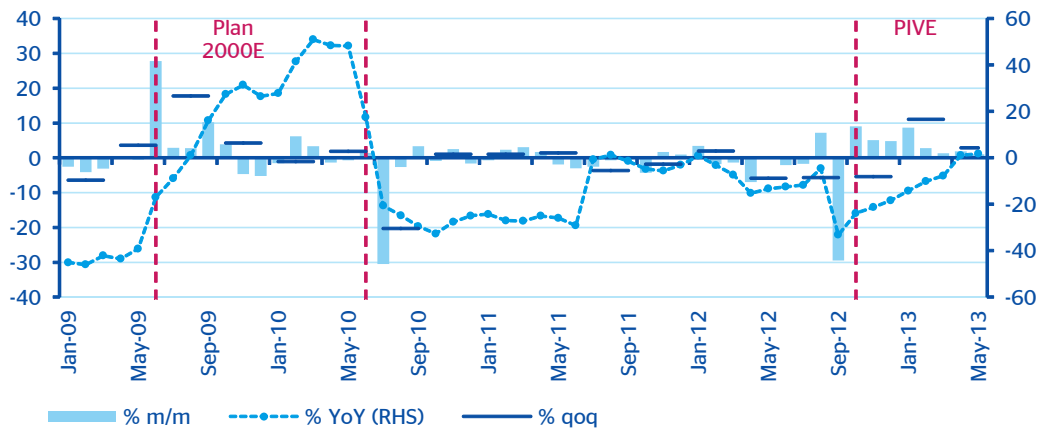
Source: BBVA Research based on ANFAC and Ganvam

One of the objectives of PIVE was to rejuvenate the Spanish car fleet. However, sluggish demand explains the imperceptible results. Chart 9 shows that the age distribution of cars in Spain continued to move to the right in 1Q13, and thus the percentage of cars aged ten years and over –i. e., those eligible for the PIVE-2 plan - increased by 8.7 percentage points (pp) since March of last year to stand at 53.3% of the total (11.9 million cars)[17].

17: Consumption Outlook for the first half of 2012 shows how changes to car distribution by age over the last five years have brought the ageing of Spanish cars into line with the average elsewhere in Europe. See: http://www.bbvaresearch.com/KETD/fbin/mult/1205_Situacionconsumo_tcm346-330687.pdf?ts=5122012

Chart 8
Spain: contributions to qoq change in car registrations (SWDA data, %)
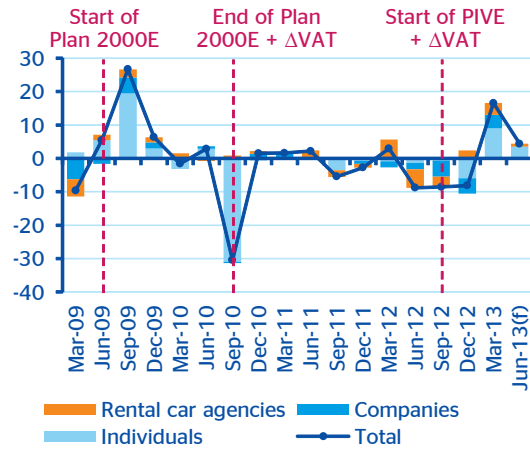
Source: BBVA Research based on ANFAC and Ganvam

Chart 9
Spain: breakdown of cars by age (% of total)
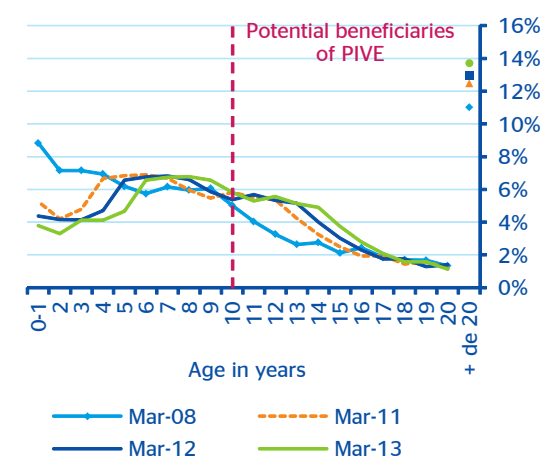
Source: BBVA Research based on DGT

The VAT hike in September 2012 made cars relatively more expensive since most of the tax increase was passed on to end prices, as Chart 10 shows. The higher relative price of cars, however, was only transitory because the deployment of the PIVE made cars cheaper in 4Q12. Since January 2013, as car consumer prices have decreased in line with headline CPI, their relative price has barely changed.

Chart 10
Spain: retail car prices (Jan-08=100)
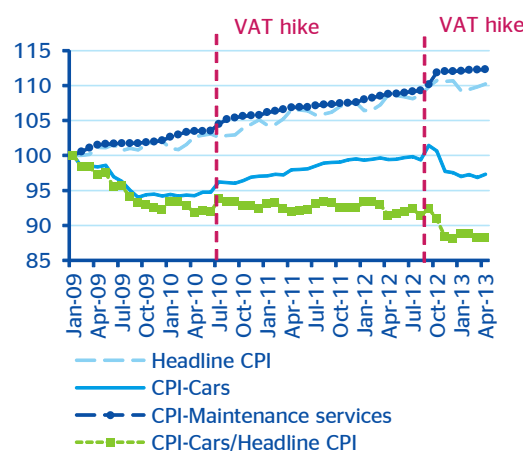
Source: BBVA Research based on INE

Chart 11
Car sales in Spain: NC vs. UC
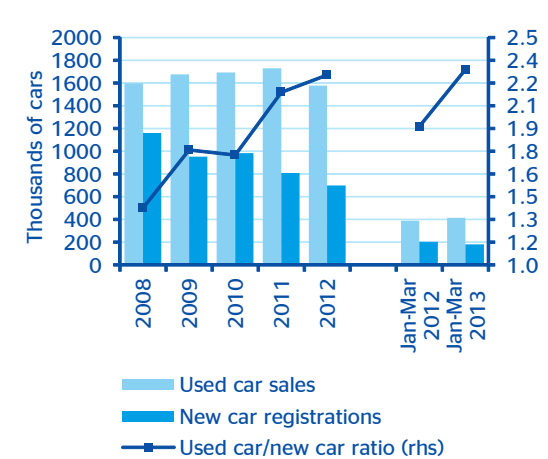
Source: BBVA Research based on Ganvam

Demand for used cars (UC) was also affected by lower incomes and household wealth, economic uncertainty and borrowing restrictions, albeit less than demand for new cars (NC). The year 2012 closed with an 8.8% fall in UC sales, to 1,576,300 units. In 1Q13, the trend changed: UC sales increased by 6.0% yoy to 413,600 units, 59% of which were sold among individuals. Given that NC registrations decreased by 11.5% between January and March, the ratio of UC to NC was 2.3 used cards for every new car, 4pp more than in 1Q12[18].

18: For a detailed analysis of the drivers of used-car demand in Spain, see BBVA (2011): "Who buys a used car? Changes in the factors that determine vehicle choice during the crisis", Consumption Outlook 2H10, 14-21. Available at: http://www.bbvaresearch.com/KETD/fbin/mult/Situacion_Consumo_2S10_tcm346-248813.pdf?ts=15112011

In a similar fashion to the patterns observed in the fourth quarter of last year, external demand for cars has continued growing more than for the rest of goods. After an increase of 3.3% in 4Q12, the growth of real car exports accelerated between January and March to 7.8% qoq SWDA (Chart 12).

Chart 12
Spain: real car exports (SWDA data, % qoq)
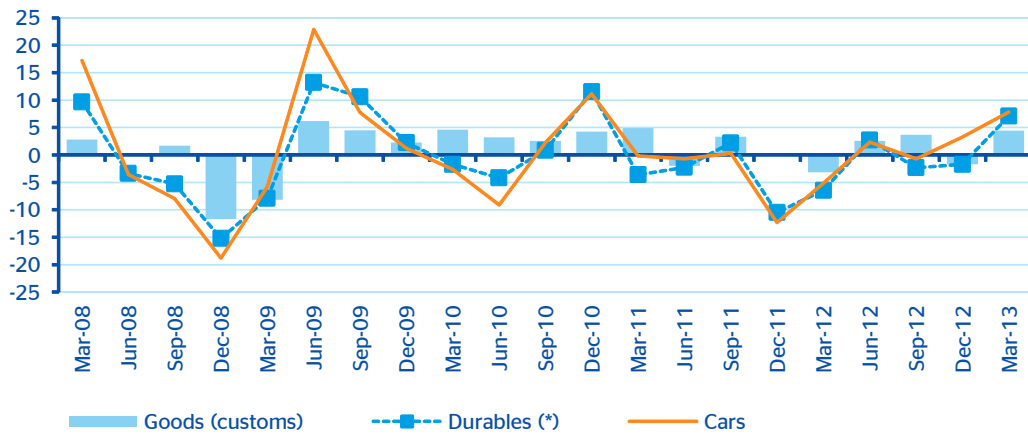
Goods (customs)   Durables (*)   Cars

(*) Electrical appliances, consumer electronics, computer equipment, furniture, motorcycles and cars.
Source:BBVA Research based on Customs data

Demand for motorcycles

Just as with other durable goods, the market in two-wheeled vehicles was affected by the base effects stemming from the VAT change in September 2012 (see Chart 13) After falling back by 13.5% qoq SWDA in 4Q12, motorcycle registrations flattened out between January and March (-0.8% qoq), and they are expected to grow in 2Q13 (2.3% qoq). On the whole, if the second half of the year performs as expected, sales may not surpass 95,000 units in the year, as against 102,600 in 2012.

The reasons for the prolonged decrease in motorcycle consumption may be found in the weakness of their fundamentals, especially income levels of potential purchasers in view of the deteriorating labour market situation among the youngest age bracket. In addition, regulatory changes since 2009 - in particular, the raising of the licence age for mopeds to 15 and the increased cost of the new progressive licensing system[19] – have contributed to the fall in demand for motorcycles and mopeds.

In spite of the weakness of consumption, the relative price of two-wheeled vehicles mildly increased at the start of 2013. As shown in Chart 14, the VAT hike interrupted the relative decrease in prices observed since the start of 2009. External demand, meanwhile, continued its highly volatile trajectory. As shown in Chart 15, real exports of motorcycles and mopeds again decreased in 1Q13 (-10.1% qoq SWDA). Due to the reduction in installed capacity in recent years, no significant recovery is expected in external sales in the short term.

19: Spain was the first EU country to transpose Directive 2006/126/EC on drivers licences (Royal Decree 818/2009), nearly four years before required to do so by European authorities. For more details, see: http://www.boe.es/boe/dias/2009/06/08/pdfs/BOE-A-2009-9481.pdf

Chart 13
**Spain: motorcycle registrations
(SWDA data,% qoq)**
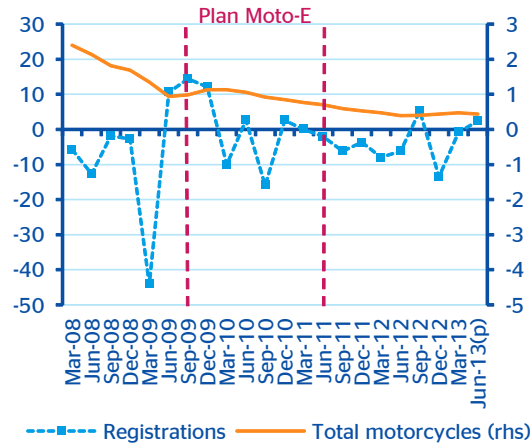
Source: BBVA Research based on DGT and Anesdor

Chart 14
**Spain: retail prices of mopeds and motorcycles
(Jan-08=100)**
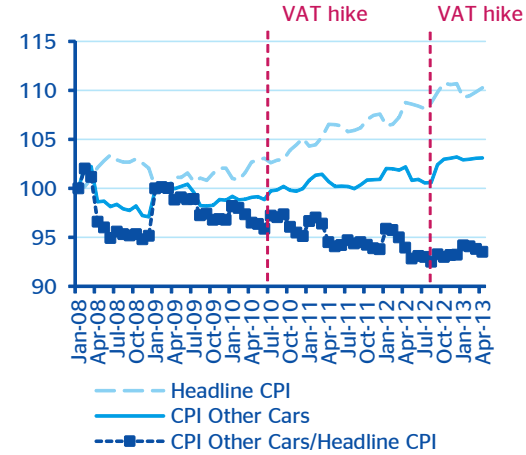
Source: BBVA Research based on INE

Chart 15
**Spain: real exports of motorcycles and mopeds (SWDA data,% qoq)**
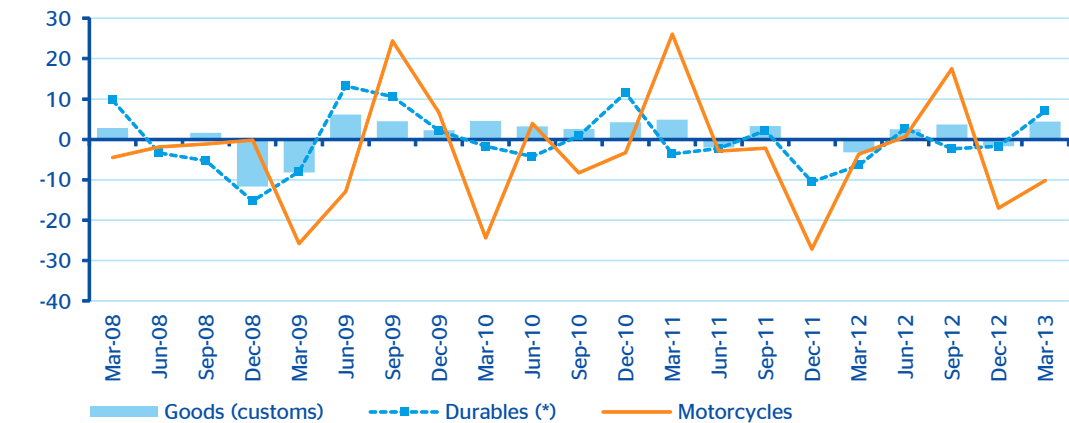
(*) Electrical appliances, consumer electronics, computer equipment, furniture, motorcycles and cars.
Source:BBVA Research based on Customs data

Furniture

Turnover in the furniture sector remained flat in the first quarter of this year (-0.5% qoq SWDA), after a fall in 4Q12, mirroring the situation of all producers of durable goods (see Chart 16). Two factors help explain the trajectory of turnover in the industry during 1Q13. The first is, once again, the increase in VAT, which caused a base effect in furniture sales. The second is the strong performance of external demand, which advanced by 1.3% qoq SWDA after contracting in 4Q12 (see Chart 17).

Chart 18 shows how the positive performance of exports helped cushion the slump in domestic demand caused by the decline in housing demand[20]. The forecasts of BBVA Research indicate that the decline in housing investment in Spain will begin to slow towards the end of this year. Hence, a sustained recovery in furniture demand should not be expected in the short term.

In line with other durable goods[21], furniture prices moved in step with headline inflation in the early months of 2013. Hence, their relative price has flattened after a fall of 1.8% in 2012 (see Chart 19).

20: BBVA Research estimates show that a 1% qoq fall in nominal furniture exports leads to -ceteris paribus- a 0.7% qoq cumulative fall in turnover in the sector. A 1% qoq reduction in nominal investment in housing has a slightly smaller cumulative effect (0.6% qoq) on the furniture sector.
21: Except in brown line items, as we will see below.

Chart 16
Spain: turnover (SWDA data, % qoq)

- Furniture
- Consumer goods
- Durables
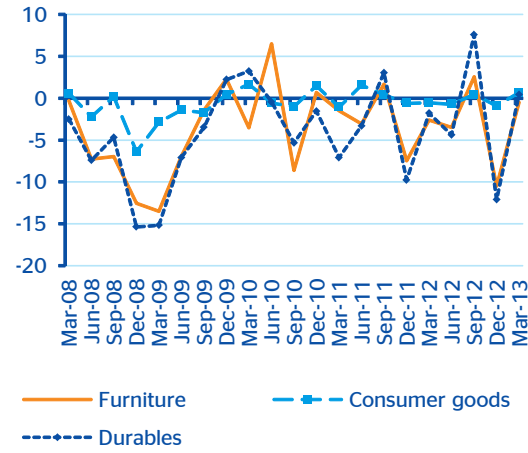
Source: BBVA Research based on INE

Chart 17
Spain: furniture real exports (SWDA data, % qoq)
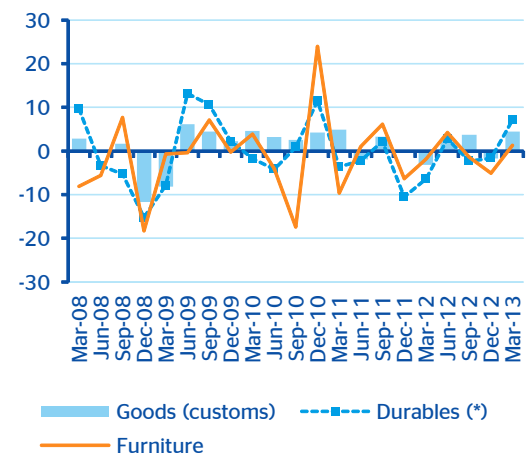
- Goods (customs)
- Durables (*)
- Furniture

(*) Electrical appliances, consumer electronics, computer equipment, furniture, motorcycles and cars.
Source: BBVA Research based on Aduanas

Chart 18
**Spain: housing investment,
turnover and exports in the furniture sector
(Nominal data,% qoq of the trend)**

- Turnover
- Housing investment
- Exports
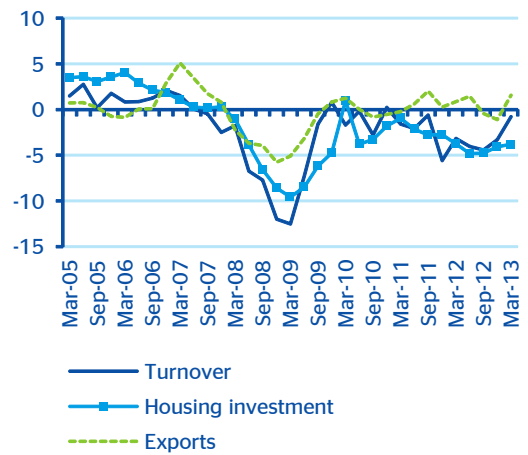
Source: BBVA Research based on INE

Chart 19
Spain: retail furniture prices (Jan-08=100)

VAT hike   VAT hike

- Headline CPI
- CPI Furniture
- CPI furniture/headline CPI
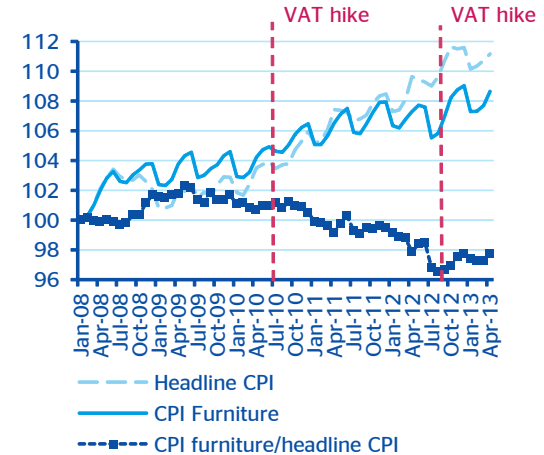
Source: BBVA Research based on INE

Major household appliances

As in the furniture sector, the prolonged adjustment in the real estate sector has continued to have a differential effect on purchases of household appliances. According to data from the National Association of Household Appliance Manufacturers (ANFEL), the number of appliances sold decreased by 9.2%, and turnover by 8.5%, over the first four months of 2013, both in yoy terms, compared with declines of 13.3% and 13.9% respectively in 2012. Sales for all appliance families - except counters (+0.6%) - were lower until April, though the fall in ovens (-5.9%) and extractor hoods (-4.6%) was lower than the average for household appliances overall (see Chart 20). As for other durable goods, the VAT hike in September 2012 brought about changes in the pattern of spending over time on all families of household appliances, affecting demand trends moving forward.

Sluggish consumption of major appliances has led to a general reduction in their prices, but one that was smaller than headline CPI. In fact, the price of major appliances in relation to other consumer products increased by 0.3% between January and April. They would have been even cheaper if after-sales services had not become more expensive. Prices for repair services increased by 1.7% in the first four months of the year and by 5.0% since April 2012 (see Chart 21).

Like domestic demand, external demand continued to fall in the first quarter of the year, but at a slower pace than in the fourth quarter of 2012. As shown in Chart 22, real exports of major household appliances fell by 1.4% qoq SWDA in 1Q13, while average exports of durable goods increased by 7.1% qoq SWDA.

Chart 20
Spain: sales of household appliances per family (% yoy of the number of appliances)
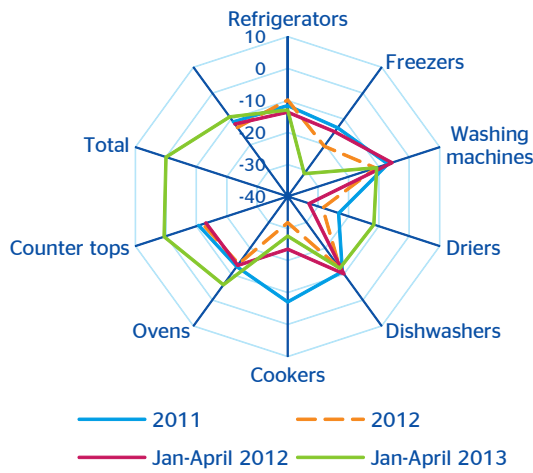
Source: BBVA Research based on ANFEL

Chart 21
Spain: retail prices of household appliances (Jan-08=100)
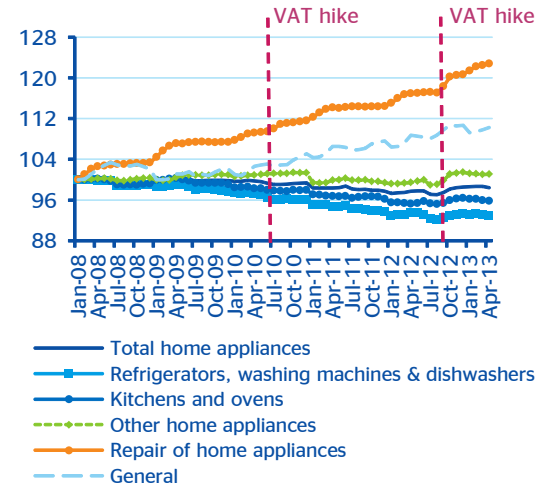
Fuente: BBVA Research based on INE

Chart 22
Spain: real exports of appliances (SWDA data, % qoq)
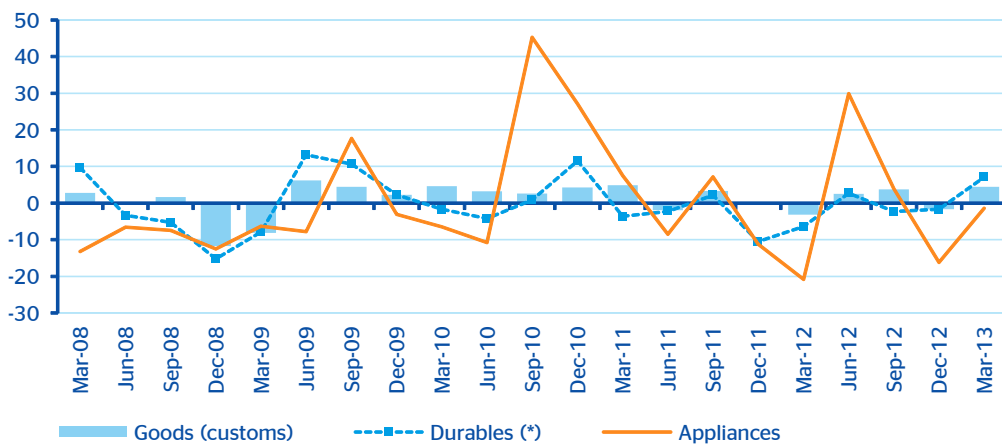
(*) Electrical appliances, consumer electronics, computer equipment, furniture, motorcycles and cars.
Source: BBVA Research based on Customs data

Brown line

Spending on brown line items at the start of 2013 has also been influenced by the base effects arising from the VAT hike of last year, even though the mark-up on final prices was negligible. Chart 23 shows that retail sales of consumer electronics slowed their decline to -1.2% qoq SWDA in 1Q13 from -12.2% in 4Q12, while sales of ICT equipment increased by 1.8% qoq after a fall of 8.4% in the previous quarter.

Sluggish consumption has contributed to a reduction in prices in a sector with lingering deflation caused by technological progress. As shown in Chart 24, prices for all consumer electronics products and ICT equipment fell in the last six months, in both nominal and real terms. The generalised price fall will lead to an increase in the rate of penetration of ICT equipment in Spanish households. The survey on ICT equipment and its usage shows that the most popular products entering Spanish households in the course of the year were computers -mainly laptops-, followed by mobile phones (see Chart 25).

External demand for brown line items demonstrated a similar trend to domestic demand. Real exports of technological equipment like consumer electronics grew in 1Q13. Chart 26 shows that the former increased by 2.4% qoq SWDA, while the latter advanced by 11.5%, above the average of durable goods in the analysis. The strong performance of external demand should continue to help reduce the rate of business mortality in the brown line manufacturing sector[22].

Chart 23
Spain: real retail sales of brown line items (SWDA data,% qoq)
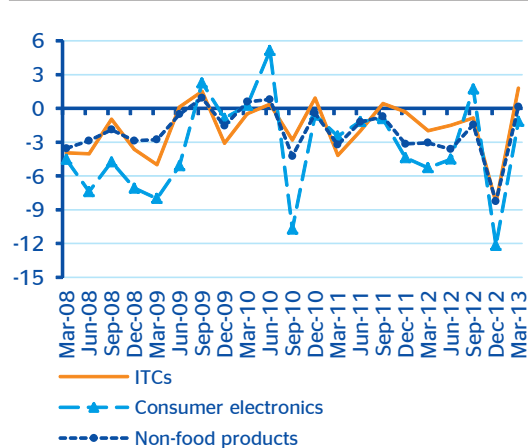
Source: BBVA Research base on Eurostat

Chart 24
Spain: retail prices for brown line items (Jan-08=100)
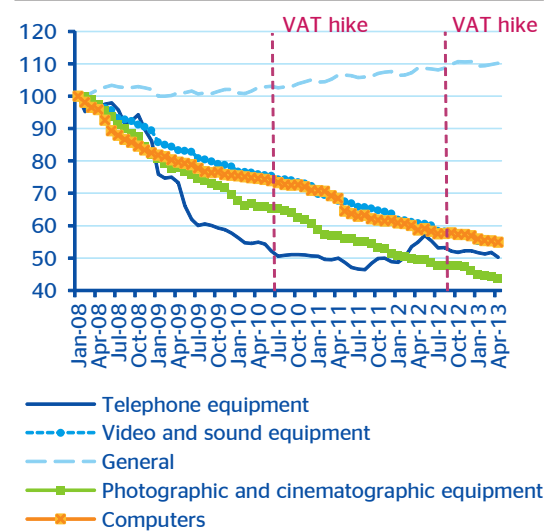
Source: BBVA Research based on INE

22: DIRCE data indicate that the number of enterprises in the consumer electronics manufacturing sector barely decreased by 1.0% in 2012, as against 1.6% of the total throughout the economy. Net business mortality among IT product manufacturers slackened off to 4.1% from 8.2% in 2011.

Chart 25
Spain: rate of ICT penetration in Spanish households (% of households)

■ 2012 ■ 2011 ■ 2008
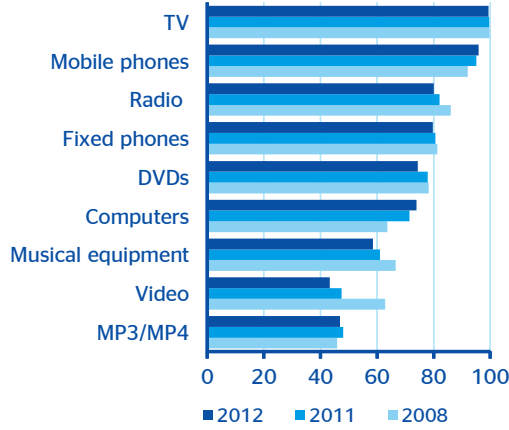
Fuente: BBVA Research based on INE

Chart 26
Spain: real exports of brown line items (SWDA data,% qoq)
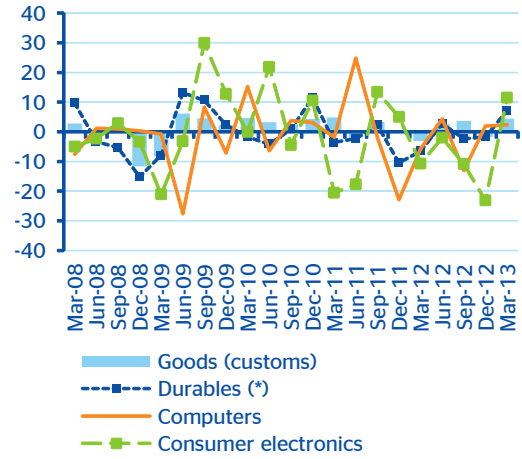
■ Goods (customs)
■ Durables (*)
— Computers
— Consumer electronics

(*) Electrical appliances, consumer electronics, computer equipment, furniture, motorcycles and cars.
Source:BBVA Research based on Customs data

Box 1. Savings rate of households in Spain: the role of fundamentals

From the start of the 1970's, the savings rate of Spanish households declined by nearly 6pp to 10.2% of gross disposable income (GDI) in 2006. This reduction in households' propensity to save was not exclusive to the Spanish economy. As shown in Chart 27, many developed economies performed in a similar way. In 2008, the trend changed. The onset of the crisis caused a generalised increase in household savings rates that, in Spain, exceeded 7pp, reaching 17.8% in 2009. In 2010, it returned to a downward trend that continues to this day. Spanish households ended 2012 saving only 8.1% of their GDI (see Chart 28).

What explains the trends in household savings in the latest recession? If the changes in the savings rate arise from fundamentals, no significant advances in the process of deleveraging on the demand side should be expected in the short term. On the other hand, if the savings rate is below its equilibrium level, households are delaying the

necessary adjustment in their consumer spending. Hence, one might anticipate quicker deleveraging as the relative scarcity of savings is corrected.

As shown below, the increase in household savings in Spain in 2008-2009 and its subsequent decrease are caused by the drastic changes in households' fundamentals. In particular, the results of the estimate for the 1981-2012 period indicate that the ageing of the population, the deterioration of real estate wealth and, above all, the decline in per capita income were the main drivers of changes in the savings rate of households. However, Spanish households' lower rate of savings is less worrying if we take into account the household savings that are being channelled through corporations. In fact, average savings in the private sector (households and non-financial enterprises) amounted to 20.1% of GDP at the end of last year, 8pp above its pre-crisis level and nearly 3pp higher than the average of the last decade.
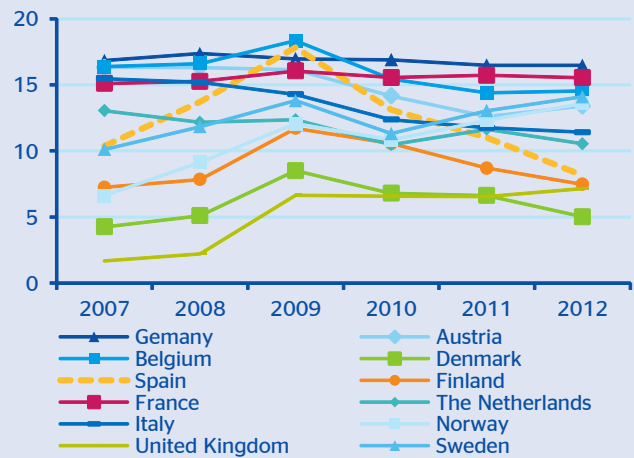
Chart 27
Households' average savings rate (% of GDI)

70-79 ■ 80-89 ■ 90-99 ■ 00-07

Source: BBVA Research based on European Commission and OECD

Chart 28
Households' savings rate (% of GDI)
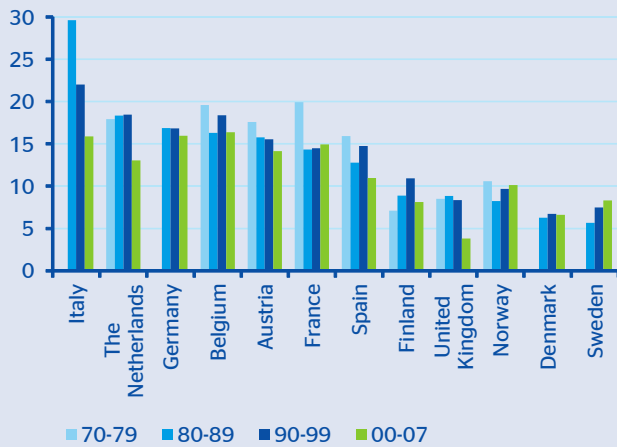
Source: BBVA Research based on European Commission and OECD

Fundamentals of household savings

The starting point for analysing the drivers of household savings is life-cycle theory[23], according to which individuals seek to smooth their spending over their entire lifetime with the aim of keeping constant the marginal utility discounted

from their consumption. Individuals tend to save when their **real current income** is higher[24], which normally occurs when they are economically active. Hence, **older economies** would exhibit relatively lower savings rates.

23: An overview of the literature on the micro-economic drivers of savings can be found in Browning and Lusardi (1996).
24: If income growth is seen as permanent, private consumption can increase, and savings, decrease.

The posibility to smooth spending over a life cycle will depend on the opportunity cost of present consumption (that is, the real interest rate) and the ease of lending and borrowing (that is, the existence of liquidity constraints). An increase in the **real interest rate** incentivises individuals to delay consumption in the present and increase savings. But in addition to this substitution effect, there is an income effect whose meaning depends on whether individuals are net borrowers or net lenders. In the former case, a rise in the real interest rate will increase the financial burden of debt and reduce their current consumption. In the latter, a higher interest rate will increase the return on investment and incentivise consumption to the detriment of savings. Therefore, the income effect will have an impact that is the opposite of the substitution effect for net borrowers[25]. Consequently, the impact of the real interest rate on the aggregate savings rate of households is ambiguous and will depend on the relative magnitude of the two effects. The larger the number of households facing difficulties in obtaining financing, the higher the likelihood the income effect will be positive - thus strengthening the substitution effect -, as will the incentive to save in anticipation of future consumption needs that may not be met by a recourse to borrowing.

The existence of liquidity constraints, coupled with uncertainty about future income, favour savings due to precaution. Another source of uncertainty is **situation of public finance.** According to the Ricardian equivalence hypothesis, rational and altruistic individuals with a vision of the future internalise the fact that public debt is equivalent to a deferred tax, and they consequently decide to increase their present savings in the anticipation of a greater tax burden in the future[26].

In addition to public savings, other factors determine households' income expectations and, hence, their spending and savings decisions. **Unemployment** is one of these. Specifically, an increase in the unemployment rate may help increase the precautionary savings of risk-averse individuals and of those worried about a greater likelihood of losing their job. Similarly, **inflation** may capture part of the effect on private savings of uncertainty regarding a household's future income. But this would not be the only consequence of inflation. If individuals see a change in relative prices as an increase in the general level of prices, consumption may decrease and private savings may increase[27]. The propensity to save may also grow in response to a reduction in a household's real financial wealth caused by an unexpected increase of inflation.

Apart from the indirect effect of inflation, **wealth** has direct effects on savings. A permanent increase in either real financial or real estate wealth moderates the need to save in order to sustain future consumption and allow for borrowing, which could result in an increase in household expenditure.

International empirical evidence[28] provides no conclusive results for the drivers of household savings discussed above, except for current income, whose positive effect on private savings is univocal and, to a lesser extent, for public sector debt. The reasons for the discrepancies lie not only in the use of different country samples, time spans and estimation methods, but also in the selection of the variables.

Model, variables and results

With the objective of determining what factors explain the household savings rate in Spain, a dynamic model of panel data has been estimated for twelve European countries[29] between 1981 and 2011, in which both the coefficients of variables driving the equilibrium savings rate and the variables explaining deviations from such equilibrium may vary from country to country[30]. In the chosen specification, the equilibrium savings rate of households depends on the real gross disposable income per capita, the dependency ratio[31], the long-term real interest rate, on the General government net financial liabilities (as a percentage of GDP), the rate of inflation and of real financial (as measured by MSCI[32] indices) and real estate wealth (as approximated by housing prices).

25: A third effect of the change in the real interest rate, one which is indirect and difficult to quantify, arises from its impact on both financial and non-financial wealth. For example, an increase in the interest rate reduces the real value of fixed-income and equity assets if the income flow from such assets does not grow at least pro-portionally. In the same way, a higher interest rates damages the present value discounted from an individual's future income flow, thus moderating consumption and incentivising savings, with the objective of keeping one's real wealth constant.
26: See Elmendorf and Mankiw (1999) for an overview of literature on the Ricardian equivalence hypothesis and its implications.
27: Deaton (1977) shows that when individuals see an increase in the relative price of a product as a generalised increase in the level of prices, they reduce their aggregate spending on consumption.
28: Summarised in Bérubé and Côté (2000), de Serres and Pelgrin (2003) and Hüfner and Koske (2010), among others.
29: Germany, Austria, Belgium, Denmark, Spain, Finland, France, the Netherlands, Italy, Norway, United Kingdom and Sweden.
30: Based on Pesaran and Smith (1995), Pesaran, Shin and Smith (1999) and Haque, Pesaran and Sharma (1999) an error correction model is estimated with non-stationary panel data. See Appendix for more details.
31: The dependency ratio is defined as the number of people above the age of 65 for each person of working age.
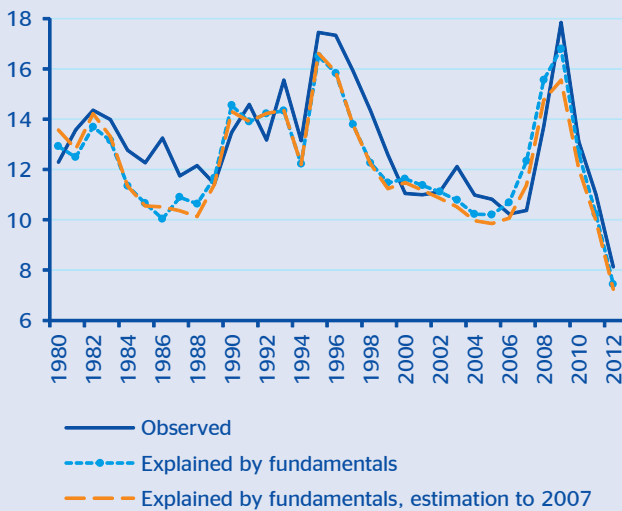32: Elaborated by Morgan Stanley Capital International, MSCI indices reflect the value of the listed companies in each country. For more details, see: http://www.msci.com/products/indices/

Deviations from the equilibrium level are caused by changes in the interest rate, inflation, wealth or the differential between the observed unemployment rate and its structural level, which is known as NAIRU[33].

The results for Spain -shown in Table A.1 of the Appendix- show that the equilibrium savings rate responds positively to the real current income, the real long-term interest rate and the net financial liabilities of the public sector[34]. Specifically, the sensitivity of Spanish households' savings rate to income is greater than the average of the twelve countries in the sample. That is, a growth of real disposable income per inhabitant of 1% would increase the equilibrium savings rate by about 0.8 pp in Spain, as against an average increase of 0.5 pp.

As expected, permanent increases in the dependency ratio and the wealth rate - mainly, real estate wealth - reduce savings. The ageing of the population is of relative importance. The results indicate that the equilibrium savings rate would decrease by nearly 4pp in the event of a 1pp-increase in the dependency ratio, more than double the average decrease of the twelve countries[35].

Lastly, inflation does not have a significant effect on household savings in Spain, but it does such an effect on the European aggregate.

Chart 29 shows that adjustments in Spanish households' savings rate is consistent with trends in fundamentals, even in the latest recession and/or if one uses the estimated structural relationship as the benchmark based on data up to 2007. With regard to the last five years, it may be observed that changes in disposable income and in the dependency ratio are the main drivers of recent changes in the savings rate. The increase in income and real interest rates, coupled with the reduction of wealth and the accummulation of liabilities by the public administrations explain a large portion of the climb in the propensity to save in 2008-2009. Since 2010, the sudden and lasting drop in income, combined with the increase in the dependency ratio - which was caused by the arrival at retirement age of large numbers of individuals and the reversal of the migratory flows seen during the preceding expansionary phase - caused the savings rate to plummet. The deterioration of wealth and rising real interest rates prevented a larger decline (see Chart 30).

Chart 29
Spain: household savings rate (% of GDI)

— Observed
····•···· Explained by fundamentals
– – – Explained by fundamentals, estimation to 2007

Source: BBVA Research based on European Commission and OECD

Chart 30
Spain: contributions to yoy change in household equilibrium savings rate (pp)

- Real GDI
- Dependency ratio (> 65 years)
- Price of dwelling (real)
- General government net financial liabilities
- Long-term real interest rates
- MSCI
- Inflation
— Observed
-------- Explained by fundamentals
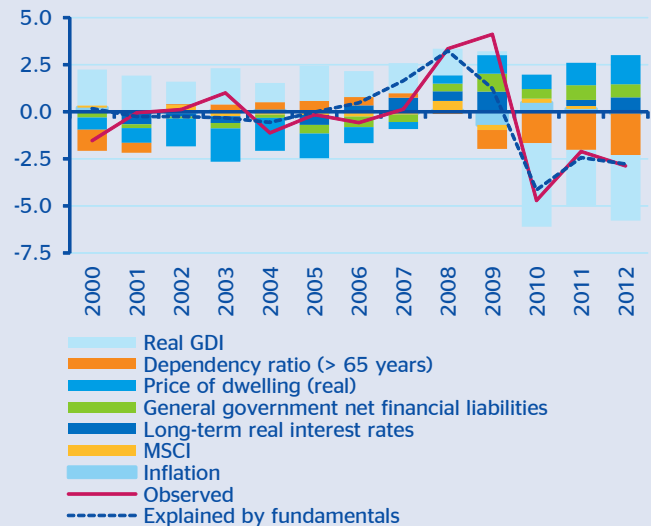
Source: BBVA Research based on European Commission and OECD

33: A previous version of the model included the credit-to-GDP ratio as a driver of the equilibrium households' savings rate. The objective was to capture the impact of financial sophistication and easier access to credit on households' propensity to save in recent decades. However, the effect of credit on savings is not conclusive. There are at least three reasons. First, credit as a percentage of GDP would also capture the impact of debt on savings. Hence, a household's need to save could be greater, the larger its debt. Second, the effect may be reflected in wealth variables: the larger a household's real wealth, the greater its collateral and, hence, the easier it is to borrow. Third, this is an imperfect approximation of the ease of access to credit. Quantifying the role of liquidity constraints would require a variable that reflected factors that are exclusive to the credit supply.
34: The effect of public debt on private savings is limited, in line with the findings of Castro and Fernández (2009).
35: Indeed, the dependency ratio is only relevant for explaining equilibrium savings in Denmark and in Spain.

Although its fundamentals back the recent performance of the Spanish household savings rate, an imbalance is seen that is the result, mainly, of the rising uncertainty associated to employment. As indicated in Chart 31, the savings deficit of 2007 originated in a negative employment gap: that is, households reduced precautionary savings due to the fall of the cyclical component of the unemployment rate. In 2008, the deterioration of financial wealth, seen by households as temporary, helped bring savings below its equilibrium level. Since 2009, cyclical unemployment has surged, incentivising households to save more than justified by the fundamentals.

Households or the private sector?

The decline of the savings rate to record lows is worrying because it determines the pace of households' future deleveraging and increases their fragility in the face of future negative fluctuations in their income. However, the situation is less worrisome if we take into account household savings that are being channelled through non-financial corporations. Empirical evidence indicates that the savings of households and of enterprises are, to a certain degree, interchangeable[36]. The reason is that, corporations are ultimately owned by households. Therefore, if an enterprise decides to increase its savings - for example, by withholding profits - its owners may decide to reduce their individual savings if they deem that their net wealth has increased. This phenomenon is known as "lifting the corporate veil"[37]

The data in Chart 32 show that there is a negative - likely not linear - relationship between enterprise and household savings in economies where the latter has declined. In Spain, the share of household savings in GDP decreased by more than 7pp since 2009, which was offset by an increase of 5pp in the savings of non-financial corporations. Consequently, the average savings of the private sector fell by only 2pp between 2009 and 2012, to 20.1% of GDP last year, still 8pp above its pre-crisis level.

Chart 31

Spain: drivers of the difference between observed savings rate and the fundamentals-based rate (pp)

- (Unemployment rate-NAIRU)
- Δ(MSCI)
- Δ(Real price of dwelling)
- Δ(Inflation)
- Δ(Long-term real interest rate)
- Rest
- Observed savings rate/ savings rate explained by fund.
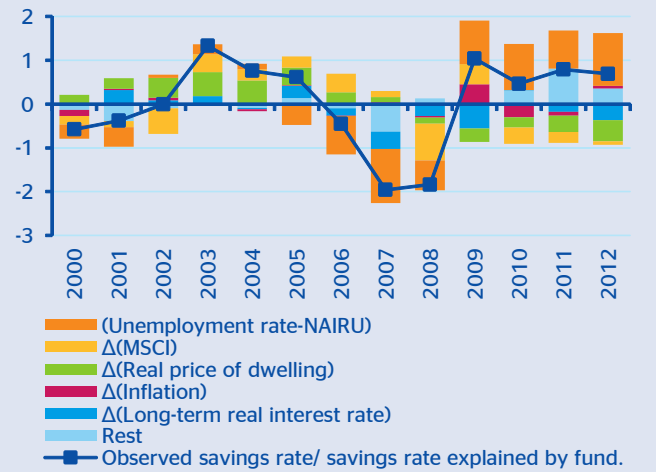
Source: BBVA Research based on European Commission and OECD

Chart 32

Private sector savings as percentage of GDP: 2009-2012* change (pp)

- ■ Households ■ Non-financial corporations
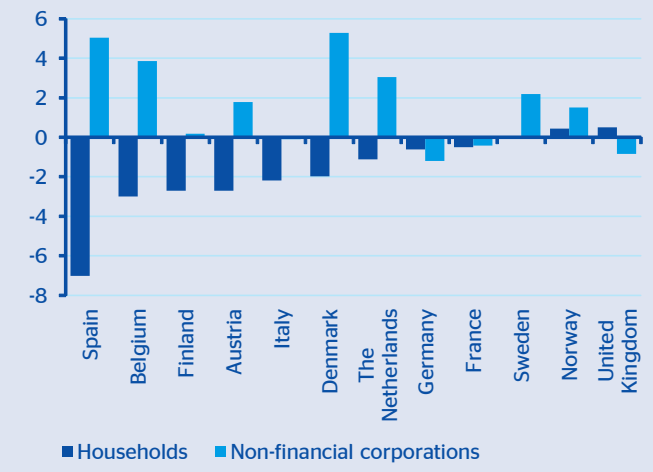
* 2009-2011 for Austria and Belgium.
Source: BBVA Research based on European Commission and OECD

In summary, trends in the savings rate of Spanish households during the current crisis are driven by fundamentals. Therefore, no significant advances should be expected in demand-side deleveraging in the short term. The aging of the population and, above all, the decline in disposable income explain the recent fall in the households' propensity to save, which would be even larger if the increase in unemployment beyond its structural level were not inducing households to save, for precautionary reasons, more than is justified by the fundamentals. Overall, the scenario is less alarming if we analyse the private sector as a whole. Non-financial corporations have increased their savings by more than 9 points of GDP in the latest cycle, which has offset the reduction in savings of their ultimate owners, households.

36: See Cardarelli and Ueda (2006).
37: Among other factors, tight liquidity, the belief that the increased wealth is temporary or the reinvestment of withheld profits in unsuccessful projects mean that the interchangeability between household and enterprise savings is not perfect.

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Appendix

Model

Following Pesaran and Smith (1995) and Pesaran, Shin and Smith (1999), it is assumed that the household savings rate (S) in each country i ($i=1,…,12$) follows an auto-regressive distributed lag process (ARDL) ($1, q_1, …, q_{1K}$):

$$S_{it} = \lambda S_{it-1} + \sum_{(j=0)}^{q} \delta_{ij} X_{i,t-j} + \mu_i + \varepsilon_{it} \ (t=1981,…,2011) \qquad [1]$$

where $X_{i,t-j}$ is a vector $k \times 1$ of explanatory variables (in this case, the long-term real interest rate, TIRLP; the growth rate of the consumption deflator, dlnCONS; the gross real disposable income per inhabitant, lnRBDRpc; the dependency ratio, TD; net financial liabilities of public administrations as a percentage of GDP, PFNAAPP; the price of housing in real terms, lnPVR; and the MSCI

indices, lnMCSI), μ is a fixed effect of each country and ε_{it}, an error term independently distributed over i and t.

If the variables are cointegrated[38] and the regressors are strictly exogenous, it can be expressed [1] as an error correction mechanism:

$$\Delta S_{it} = \Phi_i (S_{it-1} - \theta_i' X_{it}) + \lambda^* S_{it-1} + \sum_{j=0}^{q-1} \delta_{ij}^{*} \Delta X_{i,t-j} + \varepsilon_{it} \qquad [2]$$

$\Phi_i = (\lambda_i - 1) < 0$ denotes the velocity of convergence to the equilibrium savings rate, $\theta_i = \sum_{(j=0)}^{q} \delta_{ij} / (1 - \sum_k \lambda_{ik})$ contains the equilibrium relationship between the variables and $\delta_{ij}^{*} = -\sum_{m=j-1}^{q} \delta_{im}$ $j = 1,2,…,q-1$ the short-term disequilibrium.

In our case, the equation finally estimated for maximum likelihood is the following:

$$\Delta S_{it} = \Phi_i (S_{it-1} - \theta_{0i} - \theta_{1i} lnRBDRpc_{it} - \theta_{2i} TD_{it} - \theta_{3i} TIRLP_{it} - \theta_{4i} dlnCONS_{it} - \theta_{5i} lnPRV_{it} - \theta_{6i} lnMSCI_{it}) + \delta_{7i} \Delta TIRLP_{it}$$

$$+ \delta_{8i} \Delta dlnCONS_{it} + \delta_{9i} \Delta lnPRV_{it} + \delta_{10i} \Delta lnMSCI_{it} + \delta_{11i} (TP_{it} - NAIRU_{it}) + \varepsilon_{it} \qquad [3]$$

38: The results of the unit root tests and of panel cointegration tests are available upon request.

Table A.1.
Estimation of determinants of households' gross savings rate, 1981-2011

| | Spain | | Europe(*) | | | |
| | | | Non-weighted estimation (mean group) | | Weighted estimation (pooled mean group) | |
	Coef.	P-value	Coef.	P-value	Coef.	P-value
Equilibrium savings rate						
TIRLP	0.552	0.000	0.114	0.737	0.535	0.000
dlnDCONS	0.153	0.367	0.811	0.054	0.919	0.000
lnRBDRpc	0.839	0.000	0.505	0.000	0.453	0.000
TD	-3.684	0.000	-0.798	0.293	-1.386	0.000
PFNAAPP	0.083	0.001	-0.012	0.769	0.084	0.000
lnPRV	-0.133	0.000	-0.122	0.000	-0.053	0.000
lnMSCI	-0.010	0.112	-0.010	0.168	0.001	0.642
Deviation from equilibrium						
Convergence coefficient to eq.	-0.923	0.000	-0.766	0.000	-0.384	0.000
Δ(TIRLP)	-0.267	0.008	0.059	0.438	-0.080	0.049
Δ(dlnCONS)	-0.091	0.434	-0.211	0.020	-0.307	0.000
(TP-NAIRU)	0.316	0.000	0.294	0.214	0.013	0.915
Δ(lnPRV)	0.038	0.026	0.002	0.926	-0.039	0.119
Δ(lnMSCI)	0.015	0.003	0.009	0.019	0.001	0.749
# of obs. (NxT)			370		370	
Log likelihood			-332,249		-493,493	
RSME			0.463		1,040	
Hausman test (MG vs. PMG)			Chi2(7) = 35,890; P>Chi2 = 0.000			

(*) Germany, Austria, Belgium, Denmark, Spain, Finland, France, the Netherlands, Italy, Norway, United Kingdom and Sweden.
(*) A constant included in the cointegration relationship.
Source: BBVA Research

4. Consumer finance

Recent trends in consumer lending in Spain have been influenced by the persistence of high levels of unemployment, lower disposable income, the resizing of the real estate sector, the fiscal adjustment and the ongoing deleveraging process of households. However, the pace of the downturn has significantly moderated. In April, household credit not for house purchase (consumer loans and other) declined by 5.5%, as against the double-digit drop of previous six months.

The fall moderates

Although consumer lending in Spain remains on the declining trend that began in 2008, the outstanding balance is decreasing at a slower pace, similarly to the eurozone average (see Chart 33). Therefore, the present stock of consumer credit is similar to that of mid-2004.

The process of deleveraging reduced the ratio of consumer credit to GDP to 5.9% in April, which is below the eurozone average (6.2%). As shown in Chart 34, the Spanish ratio decreased by 442 basis points (bp) from its maximum and converged at levels similar to the European average. The fall in debt levels offset the mild increase in borrowing costs. Hence the households' debt burden for consumer loan remained stable at about 6% of households' disposable income in the early months of 2013. These levels are lower than in 2008, when the debt burden for such credit reached 8.8%.

The increase of consumer credit interest rates applied in Spain is due, among other reasons, to the increase in the borrowing costs of financial institutions of peripheral economies caused by inadequate monetary policy transmission. In particular, data show that the interest rate of consumer loans for more than five years in Spain reached 9.6% in April, as against 7.9% in Germany or 7.7% in the eurozone (see Chart 35).

Chart 33
Consumer credit (% yoy)
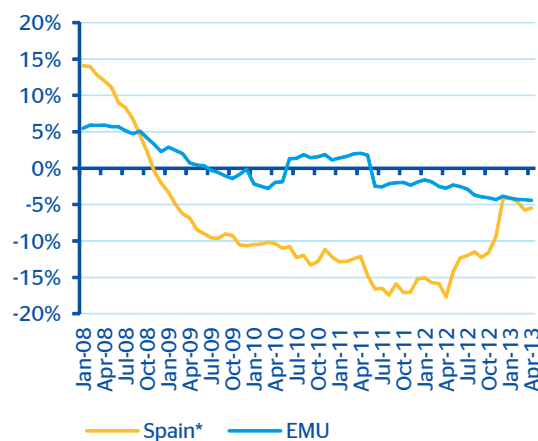
* Consumer credit handled: includes securitisations.
Source: BBVA Research based on BdE and BCE

Chart 34
Consumer credit over GDP (%)
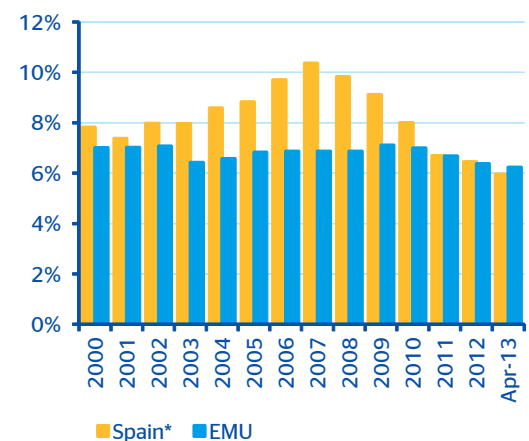
* Consumer credit handled: includes securitisations.
Source: BBVA Research based on BdE, BCE and INE

Chart 35
Interest rates of new consumer credit (more than 5 years, %)

Spain — Germany — EMU
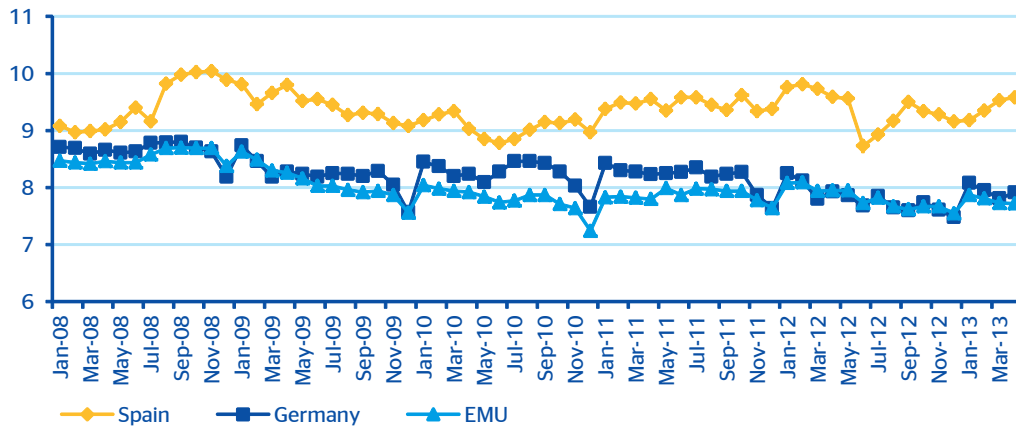
Source: BBVA Research based on Eurostat

New consumer loan transactions continue to show the greater weight of longer-dated loans. In general terms, longer-dated transactions tend to be associated with lower credit risk and often include collateral. Hence, it is natural for their relative weight to increase during the crisis. For example, 27.9% of transactions up to April were for terms of less than a year, 38.0% for one to five years and 34.2% for more than five years (see Chart 36). In all maturities, average interest rates slightly increased over those observed a year earlier.

Supply recovers, but demand remains weak

On the supply side, banks are in a different situation with regard to lending. In past quarters, in the midst of the sovereign debt crisis, all Spanish banks were sharply affected by the tightening of liquidity in European markets. Since the ECB's announcement of its OMT programme and the stress tests performed on the banks last summer, some banks have resumed the issuance of debt (and at longer terms), and the market is again differentiating among them, although the prices paid for borrowing are still high in view of the cyclical situation of the economy. Further, implementation of restructuring plans by banks that received public capital prevent them from engaging in aggressive new lending. In this setting, a majority of the Spanish financial system has cleaned up its balance sheets and is now in a better position to provide consumer credit.

In any case, demand for consumer loans remains weak, as shown in the Bank Lending Survey (see Chart 37). Given the sluggishness of consumption and the expected fall in household disposable income, no recovery in demand is expected in the short term.

Chart 36
Spain: distribution by term of new consumer loans (%)

■ Over more than 5 years ■ Between 1 and 5 years
■ Up to 1 year
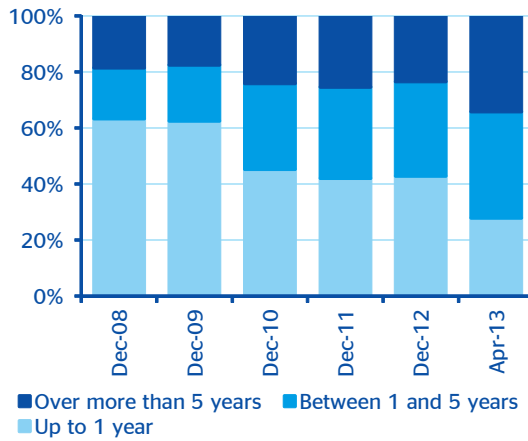
Souce: BBVA Research based on BdE

Chart 37
Spain: Bank Lending Survey (Consumer loans and others, balance of responses)

—— Supply   – – – Demand
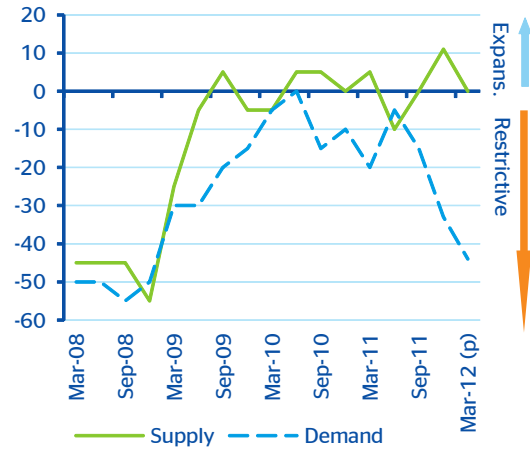
Souce: BBVA Research based on BdE

Moving forward, the decreasing consumer credit trend is expected to continue in the coming months. The demand component bears significant weight in explaining this performance. In a climate of lower purchasing power, unemployment at peak levels and high taxes, household deleveraging is likely to continue. Further, the maintenance of official interest rates at low levels and the gradual easing of sovereign stresses may cause a mildly declining trend in consumer credit in the coming quarters. This issue, linked with an ease in lending conditions, will give rise to a somewhat more expansive supply of consumer credit. Financial institutions that have cleaned up its balance sheets will be in a position to increase its supply of credit as economic conditions improve.

Box 2. Consumers in the consumer credit market

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Introduction

Consumer finance is a fundamental element in the process of purchasing certain products - mainly, durable goods and services -, which purchase usually involves a relatively large disbursement for the consumer, as such finance allows consumers to optimally distribute spending over time. When making a purchase, the consumer can choose between outside finance, which is offered by commercial banks and savings banks, and financing associated with the purchase, by making use of the finance mechanisms offered by the seller and backed by a lending institution.

There are three models of lending institution in Spain:

1. First are the brand-name financial institutions. These lending institutions are owned by companies that market the product whose purchase is financed. Quite often, this type of finance is equivalent to captive business, as it links a specific promotion or discount to a product or to taking a loan from the financial company itself.

2. Second are the financial institutions owned by banking groups. These institutions are independent of their parent companies, they have their own commercial network and a parallel structure that allows personalised attention of their collaborating companies. In spite of their independence, they offer synergies with the parent financial institution that allows them to offer both consumers and collaborators a series of services and products in addition to the financing itself.

3. Lastly, there are the pure lending institutions, which are independent intermediaries that cannot raise repayable funds from the public. These are special enterprises that are in the business of providing credit transactions, guarantees and securities, financial leasing, factoring and the issuance and management of cards. Therefore, they focus their activity on offering consumer finance. In general, they do not have their own network of branch offices, but instead enter into collaboration agreements with distributors -of consumer goods and automobiles-, who offer the financing of their products through lending institutions.

Link between lending institutions and collaborating enterprises

The relationship between financial institutions and collaborators is a crucial aspect of the functioning of consumer finance. The link must be formalised through a collaboration agreement that assigns the collaborators a broad role, as they act not only in the management of third-party interests, but become perform part of the work of marketing financial products (Leiñena, 2011)[39]. They consequently become another link in the distribution chain of such products.

For pure credit institutions and those which form part of banking groups, the collaboration allows financial institutions to use the distribution network of enterprises.

Customer collateral

With the aim of preventing situations of over-indebtedness, the new consumer credit law[40] obligates lending institutions to seek assistance to the consumer to allow the latter to evaluate whether the conditions of the credit match the latter's interests, needs and financial position. It also establishes a prior obligation of evaluating the consumer solvency based on the information the consumer has provided and on solvency files, among other information.

A customer must be given several ways of financing the product. To ensure a consumer's right to choose, the new law strengthens financial institutions' obligation to provide information and seeks to help applicants for consumer credit compare different alternatives. The law establishes minimum information requirements in consumer loan advertising and in pre-contract information.

One of the innovations on the previous law is that pre-contract information relating to the contractual relationship with the customer must be on paper or some other durable medium. Such information, contained in the INE document, (the standardised European information on consumer credit, must be provided to the consumer) who will sign it prior to the contracting of the loan.

39: Leiñena, E. (2011): "El Contrato de Agencia y La Comisión Mercantil", *Cuadernos de Derecho y Comercio*, 56, 135-223
40: For an analysis of Law 16/2011, of 24 June, on consumer credit contracts, see Box 1 of the Consumption Outlook for the first half of 2011: http://www.bbvare-search.com/KETD/fbin/mult/1111_Situacionconsumo_tcm346-281278.pdf?ts=562013

Lastly, financial institutions must collect all basic information of the contract, with a breakdown of costs and expenses, consequences in the event of non-payment, guarantees, details on consumer rights and the product financed.

The role of collaborators

Along with better information, the position of collaborating enterprises in relation to credit financial institutions is relevant to enabling a customer to make the right decision on the purchase and financing of the item. It must be recalled that the collaborator is responsible for informing customers of the characteristics of the financing linked to the purchase. Hence, financial institutions are obligated to inform their collaborating enterprises.

Recent trends

According to data provided by ASNEF in its activity report of the sector with income statements at 31 December 2012, the activity of entities owned by banking groups increased by 3.1% last year, as against a decline of other lending institutions. The activity of pure credit institutions decreased by 12.8%, automobile finance enterprises by 6.3% and consumer finance by 16.6%.

5. Analysis of the economic situation of the retail trade based on BBVA's Business Trend Survey. First half 2013[41]

To round off our analysis of the economic situation of Spain's retail trade sector and its interrelation with credit demand and supply, in December 2010 BBVA Research introduced its biannual Business Trend Survey (BTS). The BTS survey is aimed at managers and directors of BBVA's Consumer Finance Department in Spain who sell consumer loans (prescriber channel) in sectors distributing goods - mainly durable goods - and retail services[42].

The BTS survey is divided into three sections. The first contains information on the location of those interviewed (autonomous community, province and sectors of collaborating companies); in the second section participants are asked about their assessment of the economic situation - current and forecast - for the sectors in which they operate and the economy as a whole. In the third section, those interviewed assess present and future trends in credit supply and demand in their areas of business[43].

There follow the results of the BTS for the first half of 2013, containing the assessment of interviewees of the first half of the current year and their expectations for the second half of the year.

1H13 BTS: slowing deterioration and better prospects

Chart 38 shows that the interviewees' perception of the outlook for the Spanish economy was a continuation of its downward trajectory in the first half of 2013, albeit at a slower pace than during the last half of 2012. In the first half of 2013 the spread between the percentage of respondents indicating the economy had improved and the percentage indicating that it had worsened - normally used as an indicator of the economic situation - stood at -54.1 points, up by 23.7 points on 2H12. The slackening off of financial stress in the last six months, the resistance to the upward pressure of risk premiums and the gradual return of capital flows continue to improve the agents' view of the outlook for the Spanish economy. Those participating in the BTS survey were particularly hopeful that the sluggishness of the economy would improve during the latter six months of 2013: 73.7% of respondents felt the economic situation will not worsen in 2H13, as against the 43.9% who did not see any deterioration in 1H13.

Evaluations of the current state of the Spanish economy and its outlook vary according to the sectors of respondents. As shown in Chart 39, the balance of responses varies from one region to another[44]. During the first half of 2013, responses to the BTS by residents of the South and, above all, of the Central regions, pointed to a worsening of the economic situation below that indicated by the national average. By contrast, respondents from the North and Madrid indicated that the situation had worsened more than the national average. As in previous half-year periods, the expectations are improving in all regions, especially in the Centre, where an expansion of economic activity is expected.

41: We would like to thank the participation in surveys of the office managers and directors of the Consumer Finance department of BBVA.
42: The activities studied are car and motorcycle sales and repairs; retail sales of ICT equipment; sales of hardware products, paints and glass; household appliances; furniture; cosmetic and hygiene products; and other products not sold in specialist establishments. Other credit activities relating to the approval of loans for institutions not involved in money trading are also included (particularly consumer loans).
43: It should be noted that questions refer to the market as a whole and not to BBVA's policy.
44: In order to preserve the confidentiality of the participants and to avoid of representativity problems, aggregate results for seven autonomous community groups which comprise level 1 Nomenclature of Territorial Units for Statistics (NUTS1) are listed. These are: Northwest (Galicia, Asturias and Cantabria); Northeast (Basque Country, Navarra, Rioja and Aragón); Madrid (Community of Madrid); Central region (Castilla y León, Castilla-La Mancha and Extremadura); East (Catalonia, Valencia and Balearic Islands); South (Andalusia, Murcia, Ceuta and Melilla); and the Canary Islands (Canary Islands).

In line with the results obtained for the economy overall, the negative perception of the economic situation in all areas of activity between January and June this year was less acute than during the second half of 2012, although it was greater than expected six months ago (see Chart 40). Among the activities analysed, notworthy was a mild improvement in retail sales of furniture. The weakness of furniture sales is likely due to the prolonged adjustment in the construction sector. As with the Spanish economy, the situation for all sectors is expected to continue to worsen in 2H12, although at a lower pace than estimated last year.

Chart 38

Perception of the state of the Spanish economy: balance of responses (<0 indicates a worsening)

- Outlook
- Situation compared to previous six months
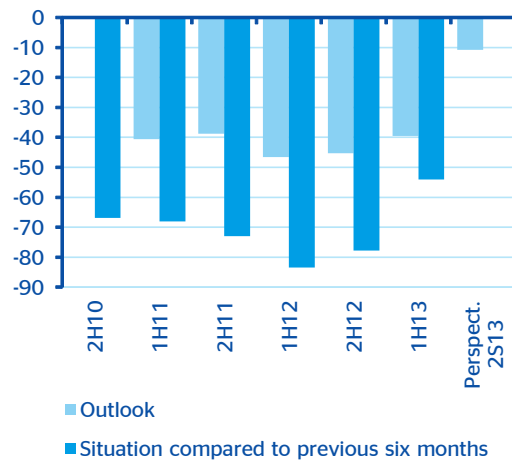
Source: BBVA Research (BTS)

Chart 39

Perception of the state of the Spanish economy in each region: balance of responses (<0 indicates a worsening)

- Northwest and Northeast
- Madrid
- Centre
- East
- South and Canary Islands
- Spain
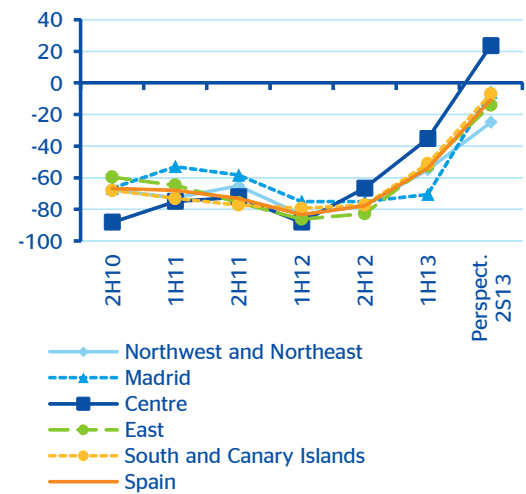
Source: BBVA Research (BTS)

Chart 40

Perception of the economic situation of each sector: balance of responses (<0 indicates a worsening)

- Sale, maintenance and repair of motor vehicles and motorcycles
- Retail trade in major household appliances and brown line products
- Retail furniture trade
- Other retail trade
- Simple average
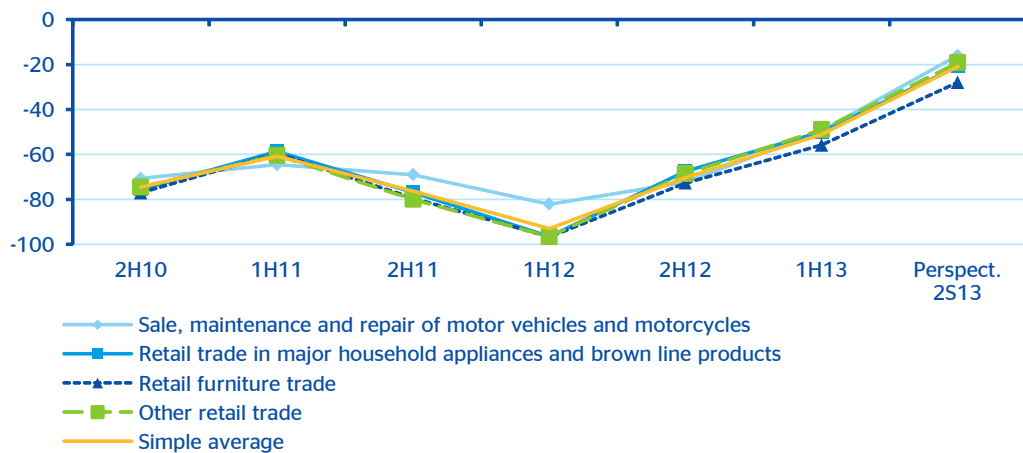
Source: BBVA Research (BTS)

Perceptions of trends in credit approvals by financial institutions reflect uncertainty concerning the economic situation observed by respondents. In this regard, BTS respondents feel that the supply of credit and particularly demand for credit in Spain fell during the first half of this year, although not to the extent of the second half of 2012 (see Charts 41 and 42). In particular, the proportion of respondents who feel that supply shrank between January and June stood at 40.5%, 3.3 pp lower than in 2H12; by contrast, 66.2% of the survey respondents feel that demand shrank in 1H13, 15.9 pp less than in the previous six-month period. It is significant

that the perceived performance of credit supply and demand is ever more closely matching expectations of six months previously.

The outlook for 2H13 is comparatively more favourable in terms of credit supply. In fact, one of every four respondents think that the aggregate credit supply will grow in the second half of the year, while only one out of every five believe it will continue to decrease. In contrast, the majority of BBVA Consumer Finance managers and directors believe demand will not increase (81.2%).

Chart 41
Perception of credit supply: balance of responses (<0 indicates a worsening)

■ Outlook
■ Situation compared to previous six months
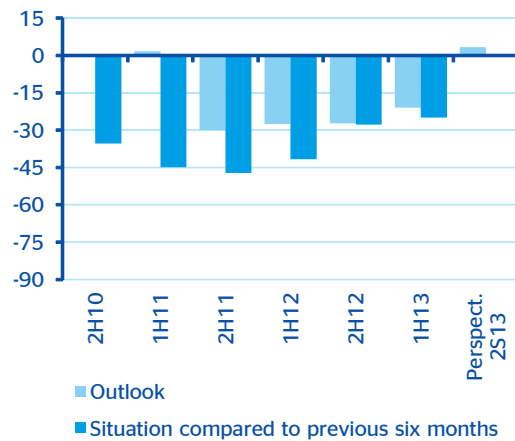
Source: BBVA Research (BTS)

Chart 42
Perception of demand for credit: balance of responses (<0 indicates a worsening)

■ Outlook
■ Situation compared to previous six months
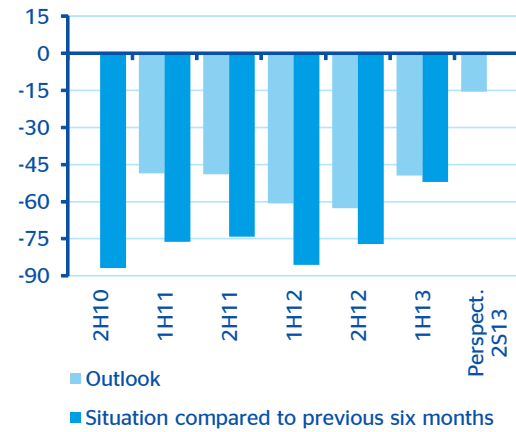
Source: BBVA Research (BTS)

The trend in loans by sectors replicates the aggregate pattern, with an upturn in supply and a slowdown in the worsening of demand compared with 2H12, albeit with qualifications (see Charts 43 and 44). In particular:

a. The contraction of supply and, above all, of demand for credit in the motor vehicle and motorcycle retail sector in spite of the extension of the Efficient Vehicle Incentive Programme.

b. The reduction in the supply in furniture retail, associated with - as noted above - the continuing process of restructuring in the real estate sector.

c. A favourable demand trend in terms of household appliances and brown line retail trade.

The expectations of BTS respondents for 2H13 indicate that the credit supply will increase in all analysed activities. In turn, demand will continue to shrink, but at a slower pace, which - again - is consistent with the expected performance of economic activity in each sector.

Chart 43
Perception of credit supply in each sector: balance of responses (<0 indicates a worsening)

Sale, maintenance and repair of motor vehicles and motorcycles
Retail trade in major household appliances and brown line products
Retail furniture trade
Other retail trade
Simple average
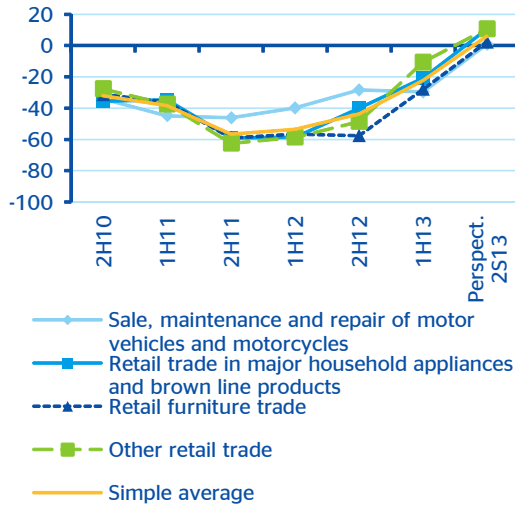
Source: BBVA Research (BTS)

Chart 44
Perception of credit demand in each sector: balance of responses (<0 indicates a worsening)

Sale, maintenance and repair of motor vehicles and motorcycles
Retail trade in major household appliances and brown line products
Retail furniture trade
Other retail trade
Simple average
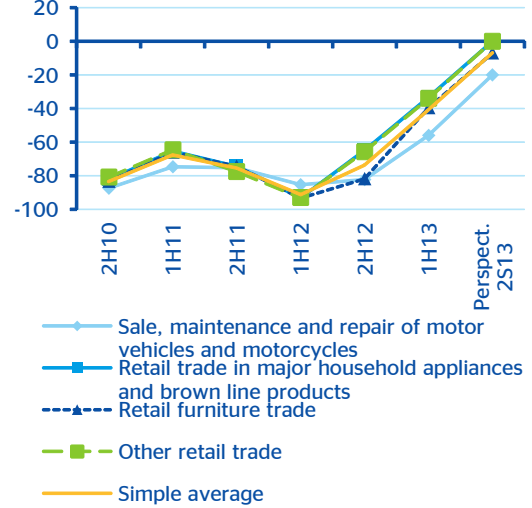
Source: BBVA Research (BTS)

In summary, the BTS results suggest that retail trade is on the road to recovery, on the back of improving credit conditions. Although respondents believe that the economic situation worsened more than expected in the first half of this year, it did so at a markedly slower pace than in the second half of last year. Despite weak fundamentals, the improvement of lacklustre consumption had a positive impact on demand for credit, contraction of which slowed up in 1H13. At the same time, BTS respondents perceived a slight easing of financing conditions, specially, in the retail trade of household appliances and brown line products. The outlook for 2H13 points to a generalised slowdown in the deterioration of economic activity, largely based on an expected increase in the supply of and a slower decrease in demand for credit.

Appendix

Table A.1.
BBVA Business Trend Survey. Sample breakdown (%)

By NUTS1

Northwest ▪ Northeast ▪ Madrid
Centre ▪ East ▪ South
Canary Islands

By sector

▪ Sale, maintenance and repair of motor vehicles and motorcycles
▪ Retail trade in major household appliances and brown line products
▪ Retail furniture trade
▪ Other retail trade
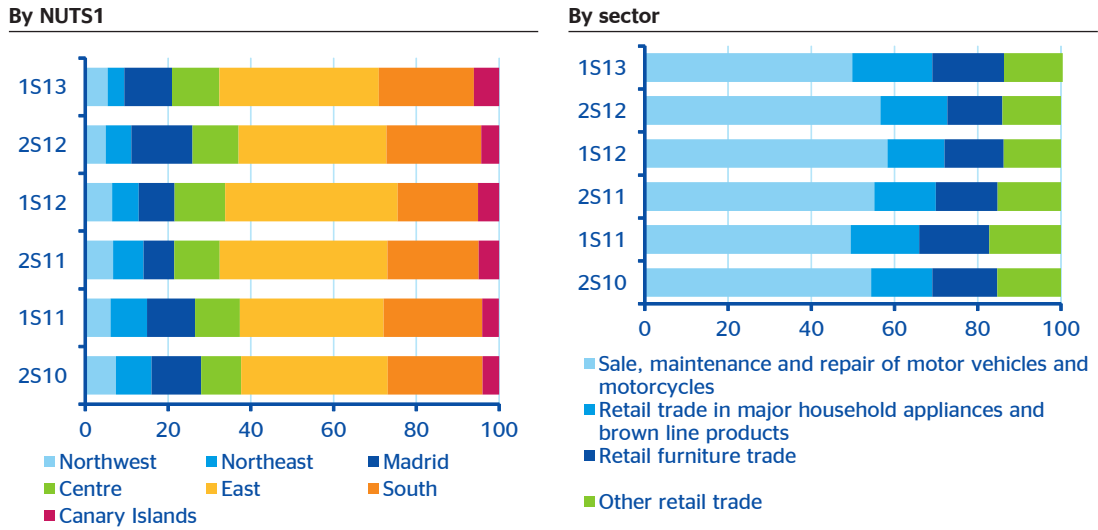
NUTS1: Nomenclature of the level 1 Statistical Territorial Units. Northwest: Galicia, Asturias and Cantabria; Northeast: Basque Country, Navarra, Rioja and Aragón; Madrid: Madrid; Central region: Castilla y León, Castilla-La Mancha and Extremadura; East: Valencia and Balearic Islands; South: Andalusia, Murcia, Ceuta and Melilla; the Canary Islands.
Number of observations: 175 in 2H10, 147 in 1H11, 163 in 2H11, 140 in 1H12 and 162 in 2H12 and 149 in 1H13.
Source: BBVA Research

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