Spain: Household poverty increases

Mike Ingram
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More than half of Spanish households have difficulty meeting their financial outlays each month.

According to a study published by the National Statistical Institute (INE), which examined the third quarter of 2003, 10 percent of families had "great difficulty" covering monthly costs. A further 46 percent said they were also feeling the pinch. Fully 65 percent of those surveyed said they were unable to save any of their income.

Wages in Spain are among the lowest in Europe, lagging well behind the European Union average. The country has a relatively high household debt, largely fuelled by a house price boom over the past decade in a country where most people own their own home. According to the INE report, 46 percent of families said they could not afford to make major purchases, excluding housing.

Spain has seen an inexorable rise of prices in the housing market, with a 17.5 percent jump in prices per square metre in the first quarter of 2003. The accompanying surge in lending to Spanish households has led to concerns that the upward trend will gather pace for the sixth year in succession. The combination of a steep drop in interest rates and the rapid rise in household debt has fuelled a surge in lending.

Though unemployment has dropped from previous decades, it still stands at around 11 percent and is the highest in the 12-state eurozone.

An article in the November 27 issue of *Economic Monitor* published by the Allianz Group speaks of an above euro-area average level of indebtedness for Spanish consumers, running at 87 percent of disposable gross income.

The *Economic Monitor* states that though the rate of household debt is much lower than that of the United Kingdom or the United States, this is no cause for complacency. Predicting that the building boom will lead to surplus capacity in the construction sector in the long term, the author asks, "How much longer can this trend on the housing market last? What would happen if an external shock were to drive up interest rates rapidly in the euro area?"

The answer does not bode well for working people in Spain.

"But should a sharp rise in interest rates become necessary in the next few years, Spain would have a big problem," the author states.

"First, debt service would climb appreciably because much household sector borrowing is contracted at variable rates. Second, diminishing demand would tend to depress the market value of housing, and with it the lending value of property. This would make it more difficult to access new, affordable loans and would consequently narrow the credit channel. That would hit Spanish households particularly hard, since the bulk of their assets—more so than in many other countries—consists of property. The Spanish household sector is now more sensitive than before to rising interest rates, declines in asset values or shrinking employment," the article continues.

The INE report also points to a significant rise in the cost of living, citing an increase in household spending by 3.7 percent in the third quarter of 2003 from the same period a year earlier. Spending on food, drink and tobacco was up 1.8 percent on a year earlier, while other outlays climbed 4.1 percent. Average household spending in the third quarter was up 1.9 percent from a year earlier at 5,469 euros.

Spain was also cited in a report by the European Commission on December 17. Commenting on the need to tackle the underlying causes of unemployment, the report says, "Member states also needed to focus on a new emerging group at risk—young Europeans who leave school too early to have acquired the skills needed to compete for jobs."

The report said an average 19 percent of 18- to

24-year-olds belonged to this group, with the figure for Spain, Portugal and Italy being at least one in four.

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