Spain: Major economic downturn predicted for 2009

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For the first time in 15 years, the Spanish economy, the fifth largest in Europe, is now sliding into a full-blown recession. According to official statistics, Spain’s gross domestic product shrank 1 percent in the fourth quarter of last year. GDP could shrink by as much as 3 percent this year, according to economists.

Spain now has the second largest current account deficit in the world, after the United States, standing at €8.54 billion ($10.97 billion).

The Bank of Spain report, which preceded this week’s National Statistics Institute figures, has blamed the crisis on a steep fall in domestic consumption and investment. This latest report now officially confirms that Spain has entered into recession, with two consecutive quarters of negative growth. The governor of the bank said in December last year that the world faced a “total” financial meltdown unseen since the Great Depression.

The economic indicators coming out of the most respected statistical institutions are bleak. In January the credit ratings agency Standard & Poors demoted the Spanish economy from Triple A status, due to concerns over the handling of public finances and “structural weaknesses”.

The National Statistics Office reported falling consumer spending as one of the biggest concerns, but the export market looks just as bad. The General Industrial Production Index fell 15 percent in December compared to the same month the previous year.

According to Eurostat, the European Union’s statistical office, industrial production dropped by 12 percent compared to the previous year, the steepest fall since 1999. This is a sure sign that the real economy is already feeling the effects of the financial crisis.

Francisco Javier Garcia, of the national association of car and truck manufacturers, said that new car production could fall by as much as three percent in 2009. This comes on top of 400,000 vehicles that went unsold in 2008. Garcia warned that further factory closures and thousands of lay-offs are very likely. Car manufacturing has seen the biggest collapse, but the banks are cutting back as well. Banco Santander is expected to close 600 offices this year.

Antonio Argandona of the IESE Business School said, “Families are so deeply in debt that they are not prepared to spend more and businesses are not going to invest with such negative expectations. The view is bleak, and I think we have plenty of recession to travel through yet.”

Workers’ debt linked to the value of their home has spiraled out of control, increasing from slightly above 60 percent, in the mid 1990s, to more than 110 percent by 2004.

The new figures are in line with a downward trend predicted by most forecasts for the European Union. Spain— alongside the UK, Italy and Ireland—is amongst the most exposed to a rapid slide into negative growth. Like those countries, Spain has come to the end of a housing bubble. With stagnant or declining wage levels, workers have been unable to afford housing outside of a vast accumulation of debt provided by the banks.

The past decade of steady growth has been attributed almost wholly to construction, mostly in home building. According to National Accounts data, construction accounted for over 16 percent of GDP in 2004. Now that credit has dried up in the wake of the financial crisis, the construction industry, one of the biggest employers in Spain, has all but ground to a halt.

Building sites across the country are already closed down, at a time when housing is in short supply for young people and low earners. Housing sales by the end of 2008 were down nearly 36 percent from the year before.

“For 15 years, construction got bigger and bigger. But now it’s crashed. It’s over, almost paralyzed,” commented Blanca Miedes Ugarte, director of the Local Employment Observatory at the University of Huelva.

Unemployment is becoming one of the biggest concerns in the wake of the crisis. It currently stands at well over three million, or 14 percent of the workforce, the highest rate in the EU. Spain lost almost 200,000 jobs last month, the worst drop since records began. Spain is now losing jobs, at an incredible three times the rate of the US.

In January the government predicted that the jobless rate could go as high as 16 percent by the end of the year. Last year the number of people claiming unemployment benefits increased by one million to a total of three million.

The large immigrant population has also been squeezed as casual labour jobs dry up and Spanish workers are forced to compete in the same low paid and marginal sectors. Immigrants in Spain make up a tenth of the population, the highest proportion in the EU. They are losing jobs at twice the rate of better paid workers, in a country where one in five people live below the poverty line.

The Organisation for Economic Co-operation and Development (OECD) has voiced serious concerns over unemployment, noting that the financial crisis "has already resulted in a marked increase in unemployment, hitting workers in low skill occupations, including immigrants, particularly hard."

But it is not just the poorer workers who are affected. Young graduates are also increasingly experiencing problems finding work.

A BBC interview with a young graduate looking for work is typical: "It is almost impossible for highly-educated job-seekers like me to find a job. The problem in Spain is that almost everyone has a university degree, so you have to do something else, like a masters or doctorate degree. But in this situation, it doesn't even help."

The labour secretary, Maravillas Rojo, said that unemployment could reach four million by the end of the year. "We're suffering from a grave international financial crisis, lack of liquidity, and falling consumption," she said.

The political temperature is rising almost as fast as the economy is falling. Mariano Rajoy, leader of the right-wing opposition Popular Party (PP), accused the government of almost criminal incompetence. He said of the ruling social democratic Socialist Workers Party (PSOE), "This is a national emergency. The government is being overwhelmed by events."

Finance Minister Pedro Solbes could hardly have instilled much confidence with his reaction to the crisis. He has candidly admitted that the government is quickly running out of options. "We have exhausted our margin for manoeuvre," he said. Solbes predicted last month that the government will run up a deficit this year of 5.8 percent of GDP, double the target set by the EU.

The National Energy Commission has asked to raise electricity prices by 31 percent. Under pressure from public opposition, Minister for Industry, Miguel Sebastián, has postponed the price hike to July from April.

Bankruptcy applications from families and small businesses have tripled. Two thirds of applicants work in construction, industry and service sectors. Employers in Spain are demanding ever greater flexibility in the workplace, despite the fact that already 88 percent of contracts are temporary and 30 percent are short-term.

Tourism is also expected to be hit badly. Spain is the world's second most popular tourist destination after France, with almost half its 60 million visitors coming from Britain and Germany. The sliding value of the pound against the euro will exacerbate the problem by deterring holidaymakers.

According to the *Financial Times*, last year Spain's €40 billion ($52 billion) tourism industry received 57.4 million visitors, down 1.8 million on 2007. Tourism's share of GDP is predicted to fall from 11 to 10 percent, with the loss of 100,000 jobs in a sector that also employs 1.8 million people.

None of the measures imposed by the ruling class has done anything to slow the economic contraction or the wiping out of paper asset values. Now the state will turn on the working class to try and resolve the crisis, forcing further job cuts, closing down production, raising prices and slashing social spending.

El Mundo reported that in the wake of the downturn, the social security system is teetering on the edge of deficit. Car manufacturing companies are now allowed to postpone social security payments for up to five years.

Though Spain joined the chorus at the recent G-20 summit on the importance of maintaining the international free-trade nostrums that have prevailed for the last two decades, back at home the calls for protectionist measures are growing.

Industry minister, Miguel Sebastian, has started a campaign urging Spanish workers to buy Spanish clothes and take skiing holidays in the Sierra Nevada instead of the Alps. He urged consumers to spend 150 euro less this year on imports, despite accusations that this could be in breach of EU law. "There is something that our citizens can do for their country: bet on Spain, bet on our products, our industry and our services, bet, in short, on ourselves," he said.