

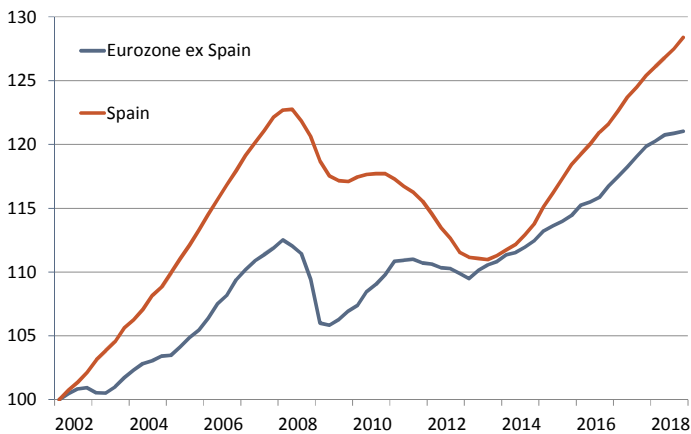


... CHART OF THE WEEK ... CHART OF THE WEEK ... CHART OF THE WEEK ... CHART OF THE WEEK

15 February 2019

Spain: the pain was not in vain

Solid recovery after the crisis: Spanish versus Eurozone GDP



Real GDP, indexed at Q1 2002=100. Sources: Eurostat, INE.

- **Election time again:** Spain is heading for its third election in less than four years after two Catalan regional parties refused to back the 2019 budget agreed between the Socialist minority government and far-left Podemos. Spanish politics will remain noisy. However, the economic impact of the 28 April 2019 ballot will likely be limited.
- **Coming a long way:** From 2008 to 2012, the double whammy of the financial and euro crises forced a brutal front-loaded adjustment upon Spain. Courtesy of serious pro-growth reforms, the Spanish economy has rebounded in a V-shaped fashion from late-2013 onwards (see chart). Having suffered badly from the bursting of a real-estate bubble, Spain has savoured the sweet taste of success over the past five years: its GDP expanded by 15% versus only 9% in the rest of the currency union. In Berenberg's regular ranking of adjustment progress in the Eurozone, Spain has consistently taken one of the top slots since 2011.
- **A bright spot in the Eurozone:** After 21 quarters of a solid recovery, the Spanish economy continues to shine. With growth of 2.5% in 2018, it once again beat the Eurozone average of 1.8% by a wide margin. Against the Eurozone trend, Spanish growth even accelerated in Q4 from 0.6% qoq to 0.7% on the back of stronger private consumption and government spending. However, investment fell for the first time in six quarters. On top of a more challenging external environment, some domestic issues probably also played a part in this setback.
- **Minimum wage jump – playing with fire:** After coming to power in June 2018, Socialist prime minister Pedro Sanchez teamed up with Podemos to raise taxes and welfare spending and to reverse some previous pro-growth reforms. While the minority government – fortunately – did not get much of its agenda done, it introduced a 22.3% surge in the minimum wage as of 2019. This increase will likely slow the pace of job creation in services and lead to more temporary instead of permanent work contracts. In times of relatively healthy demand, Spain can cope with that. In a future recession, however, the full costs of the higher minimum wage may show up.
- **What the polls say:** In current opinion polls, Sanchez's Socialist party leads with 25% of the votes, followed by the centre-right Partido Popular (PP) at 20% and the centrist Ciudadanos at 18%. Left-wing Podemos could get 13%. A right-of-the-centre alliance looks most likely. However, the PP and Ciudadanos will likely need the backing from the new right-wing Vox party, which scores over 10% in the polls. Whereas Vox would likely demand a tough stance against Catalan independence, it would probably not affect economic policy decisively.
- **Limited impact:** After serious structural progress in recent years, Spain can afford a period of political gridlock or weak governments that struggle to push through major changes. Beyond the excessive rise in the minimum wage, which has already happened, we do not expect major reform reversals under any of the realistic political scenarios. Ultra-left Podemos has lost support in the past two years. A leftist Socialist-Podemos alliance in which Podemos could set the agenda looks unlikely. A PP-Ciudadanos-led alliance would be mildly positive for the Spanish economy as the risk of excessive social give-aways that could constrain Spain's long-term growth potential would be lower. Unfortunately, a genuine solution to the Catalan problem looks unlikely under any scenario. As in the past two years, Catalan quarrels need not hurt overall Spanish growth much, though.

Disclaimer

This document was compiled by the above mentioned authors of the economics department of Berenberg Capital Markets LLC (hereinafter also referred to as "BCM"). BCM has made any effort to carefully research and process all information. The information has been obtained from sources which we believe to be reliable such as, for example, Thomson Reuters, Bloomberg and the relevant specialised press. However, we do not assume liability for the correctness and completeness of all information given. The provided information has not been checked by a third party, especially an independent auditing firm. We explicitly point to the stated date of preparation. The information given can become incorrect due to passage of time and/or as a result of legal, political, economic or other changes. We do not assume responsibility to indicate such changes and/or to publish an updated document. The forecasts contained in this document or other statements on rates of return, capital gains or other accession are the personal opinion of the author and we do not assume liability for the realisation of these.

This document is only for information purposes. It does not constitute a financial analysis, investment advice or recommendation to buy financial instruments. It does not replace consulting regarding legal, tax or financial matters.

This document is classified as objective for the purposes of FINRA rules. Please contact Berenberg Capital Markets LLC (+1 617.292.8200), if you require additional information.

This document is meant exclusively for institutional investors and market professionals, but not for private customers. It is not for distribution to or the use of private investors or private customers.

Remarks regarding foreign investors

The preparation of this document is subject to regulation by US law. The distribution of this document in other jurisdictions may be restricted by law, and persons, into whose possession this document comes, should inform themselves about, and observe, any such restrictions.

Copyright

BCM reserves all the rights in this document. No part of the document or its content may be rewritten, copied, photocopied or duplicated in any form by any means or redistributed without BCM's prior written consent.

© July 2015 Berenberg Capital Markets LLC

Contacts

www.berenberg.com



BERENBERG
CAPITAL MARKETS

EQUITY RESEARCH

RESEARCH

AEROSPACE & DEFENCE

Andrew Gollan +44 20 3207 7891
Charlotte Keyworth +44 20 3753 3013
Ross Law +44 20 3465 2692

AUTOMOTIVES

Adam Hull +44 20 3465 2749
Paul Kratz +44 20 3465 2678

BANKS

Nick Anderson +44 20 3207 7838
Adam Barrass +44 20 3207 7923
James Burbridge +44 20 3753 3014
James Chappell +44 20 3207 7844
Andrew Lowe +44 20 3465 2743
Eoin Mullany +44 20 3207 7854
Peter Richardson +44 20 3465 2681
Jonathan Sharpe +44 20 3753 3031

BEVERAGES

Javier Gonzalez Lastra +44 20 3465 2719
Adam Mizrahi +44 20 3465 2653

BUSINESS SERVICES, LEISURE & TRANSPORT

Najet El Kassir +44 20 3207 7836
Stuart Gordon +44 20 3207 7858
Simon Mezzanotte +44 20 3207 7917
Matthew O'Keefe +44 20 3207 7895
Josh Puddle +44 20 3207 7881
Alastair Reid +44 20 3207 7841

CAPITAL GOODS

Sebastian Kuenne +44 20 3207 7856
Philippe Lorrain +44 20 3207 7823
Rizk Maida +44 203 207 7806
Horace Tam +44 20 3465 2726
Simon Toennessen +44 20 3207 7819

CHEMICALS

Sebastian Bray +44 20 3753 3011
John Klein +44 20 3207 7930
Evgenia Molotova +44 20 3465 2664

CONSTRUCTION

Lush Mahendrarajah +44 20 3207 7896
Robert Muir +44 20 3207 7860
Michael Watts +44 20 3207 7928

FOOD MANUFACTURING AND H&PC

Fintan Ryan +44 20 3465 2748
James Targett +44 20 3207 7873

GENERAL RETAIL

Conrad Bartos +44 20 3753 3053
Michelle Wilson +44 20 3465 2663

HEALTHCARE

Scott Bardo +44 20 3207 7869
Jakob Berry +44 20 3465 2724
Alistair Campbell +44 20 3207 7876
Graham Doyle +44 20 3465 2634
Klara Fernandes +44 20 3465 2718

HEALTHCARE (cont.)

Tom Jones +44 20 3207 7877
Louise Pearson +44 20 3465 2747
Laura Sutcliffe +44 20 3465 2669

INSURANCE

Iain Pearce +44 20 3465 2665
Sami Taipalus +44 20 3207 7866

LUXURY GOODS

Zuzanna Pusz +44 20 3207 7812

MEDIA

Robert Berg +44 20 3465 2680
Laura Janssens +44 20 3465 2639
Sarah Simon +44 20 3207 7830

METALS & MINING

Alessandro Abate +44 20 3753 3029

MID CAP GENERAL

Robert Chantry +44 20 3207 7861
Gunnar Cohrs +44 20 3207 7894
Sam England +44 20 3465 2687
Ned Hammond +44 20 3753 3017
Benjamin May +44 20 3465 2667
Virginia Nordback +44 20 3465 2693
Anna Patrice +44 20 3207 7863
Simona Sari +44 20 3207 7834
Owen Shirley +44 20 3465 2731

Internet www.berenberg.com E-mail: firstname.lastname@berenberg.com

REAL ESTATE

Kai Klose +44 20 3207 7888
Tina Munda +44 20 3465 2716

TECHNOLOGY

Adnaan Ahmad +44 20 3207 7851
Jean Beaubois +44 20 3207 7835
Georgios Kertsos +44 20 3465 2715
Daud Khan +44 20 3465 2638
Gal Munda +44 20 3465 2746
Tammy Oiu +44 20 3465 2673

TELECOMMUNICATIONS

Wassil El Hebil +44 20 3207 7862
Usman Ghazi +44 20 3207 7824
Siyi He +44 20 3465 2697
Laura Janssens +44 20 3465 2639
Paul Marsch +44 20 3207 7857

THEMATIC RESEARCH

Asad Farid +44 20 3207 7932

UTILITIES

Robin Abrams +44 20 3465 2635
Andrew Fisher +44 20 3207 7937
Mehul Mahatma +44 20 3465 2698
Lawson Steele +44 20 3207 7887

ECONOMICS

Kallum Pickering +44 20 3465 2672
Holger Schmieding +44 20 3207 7889

EQUITY SALES

SPECIALIST SALES

BANKS & DIVERSIFIED FINANCIALS

Iro Papadopoulou +44 20 3207 7924

CONSUMER STAPLES

Rupert Trotter +44 20 3207 7815

CONSUMER DISCRETIONARY

Victoria Maigrot +44 20 3753 3010

HEALTHCARE

Frazer Hall +44 20 3207 7875

INDUSTRIALS

Chris Armstrong +44 20 3207 7809

INSURANCE

Trevor Moss +44 20 3207 7893

MEDIA & TELECOMMUNICATIONS

Julia Thannheiser +44 20 3465 2676

MATERIALS

Jina Zachrisson +44 20 3207 7879

SALES

BENELUX

Miel Bakker +44 20 3207 7808
Martin de Laet +44 20 3207 7804
Alexander Wace +44 20 3465 2670

GERMANY

Michael Brauburger +49 69 91 30 90 741
Nina Buechs +49 69 91 30 90 735
André Grosskurth +49 69 91 30 90 734
Joerg Wenzel +49 69 91 30 90 743

SALES (cont.)

UK

Frederik Angel +44 20 3753 3055
John von Berenberg-
Consrbruch +44 20 3207 7805
Matthew Chawner +44 20 3207 7847
Alexandra Clément +44 20 3753 3018
Fabian De Smet +44 20 3207 7810
Toby Flaux +44 20 3465 2745
Karl Hancock +44 20 3207 7803
Sean Heath +44 20 3465 2742
David Hogg +44 20 3465 2628
Peter Kaineder +44 20 3753 3062
Christoph Kleinasser +44 20 3753 3063
James Matthews +44 20 3207 7807
David Mortlock +44 20 3207 7850
Eleni Papoula +44 20 3465 2741
Richard Payman +44 20 3207 7825
George Smibert +44 20 3207 7911
Anita Surana +44 20 3207 7855
Paul Walker +44 20 3465 2632

FRANCE

Thibault Bourgeat +33 1 5844 9505
Alexandre Chevassus +33 1 5844 9512
Dalila Farigoule +33 1 5844 9510
Clémence Peyraud +33 1 5844 9521
Benjamin Voisin +33 1 5844 9507

SALES (cont.)

SCANDINAVIA

Marco Weiss +49 40 350 60 719

SWITZERLAND, AUSTRIA & ITALY

Andrea Ferrari +41 44 283 2020
Stephan Hofer +41 44 283 2029
Carsten Kinder +41 44 283 2024
Gianni Lavigna +41 44 283 2038
Jamie Nettleton +41 44 283 2026
Benjamin Stillfried +41 44 283 2033

SALES TRADING

HAMBURG

Alexander Heinz +49 40 350 60 359
Gregor Labahn +49 40 350 60 571
Marvin Schweden +49 40 350 60 576
Tim Storm +49 40 350 60 415
Philipp Wiechmann +49 40 350 60 346
Christoffer Winter +49 40 350 60 559

LONDON

Mike Berry +44 20 3465 2755
Stewart Cook +44 20 3465 2752
Chris McKeand +44 20 3207 7938
Simon Messman +44 20 3465 2754
AJ Pulleyn +44 20 3207 2756
Paul Somers +44 20 3465 2753

E-mail: firstname.lastname@berenberg.com

ELECTRONIC TRADING

Daniel Eichhorn +49 40 350 60 391
Matthias Führer +49 40 350 60 597

CRM

Jessica Jarmyn +44 20 3465 2696
Edwina Lucas +44 20 3207 7908
Greg Swallow +44 20 3207 7833

CORPORATE ACCESS

Lindsay Arnold +44 20 3207 7821
Jennie Jiricny +44 20 3207 7886
Stella Siggins +44 20 3465 2630

EVENTS

Laura Elliott-Jones +44 20 3753 3008
Charlotte Kilby +44 20 3207 7832
Natalie Meech +44 20 3207 7831
Ellen Parker +44 20 3465 2684
Sarah Weyman +44 20 3207 7801
Lisa Winterton +44 20 3753 3057

US SALES

BERENBERG CAPITAL MARKETS LLC

Member FINRA & SIPC

SALES

Kelleigh Faldi +1 617 292 8288
Shawna Giust +1 646 445 7216
Zubin Hubner +1 646 445 5572
Jessica London +1 646 445 7218
Ryan McDonnell +1 646 445 7214
Emily Mouret +1 415 802 2525
Peter Nichols +1 646 445 7204
Kieran O'Sullivan +1 617 292 8292
Jonathan Saxon +1 646 445 7202

SALES TRADING

Scott Duxbury +1 646 445 5573
Tristan Hedley +1 646 445 5566
Christopher Kanian +1 646 445 5576
Lars Schwartz +1 646 445 5571
Bob Spillane +1 646 445 5574

E-mail: firstname.lastname@berenberg-us.com

CRM

Laura Cooper +1 646 445 7201

CORPORATE ACCESS

Olivia Lee +1 646 445 7212

ECONOMICS

Mickey Levy +1 646 445 4842