

HSBC Global Connections

Trade Forecast Update: Spain

February 2012

Forecast exploring the future of world trade and the opportunities for international businesses

- World trade to grow by 86% in the next 15 years (2012-2026)
- International trade growth will accelerate from 2014
- Companies to increase trade activity by 4.70% annually to achieve projected growth
- Fastest growing emerging sectors support trade infrastructure and the transportation of goods around the world
- Spain's trade growth from 2012 to 2026 will be 71.46%
- Spanish companies to increase trade activity annually by 3.57% over the next 15 years
- Spain's fastest emerging export sector is mechanical wood pulp, which will grow at an annualised rate of 22.99% over the next five years

Trade overview

As the world continues to face well-documented economic challenges, the Trade Forecast suggests grounds for optimism for international businesses. Despite the current climate the overall trend for international trade is positive with growth acceleration sooner than expected from 2014, rather than 2015. After 2014 the global economy ends a period of slow growth and contraction and sees an upturn in trade in line with GDP forecasts. Over the next five years it is forecast that world trade will grow at an annualised rate of 3.78% (see below graph for year-on-year predictions), due primarily to the expectation of an earlier recovery of the overall global economy. In the period 2017-2021, the Forecast predicts even more rapid annualised growth at 6.23%, as world demand for traded goods recovers its dynamism. As a result world trade is predicted to grow by 86.00% in the next 15 years, taking total trade activity in that year to \$53.8 trillion.

The Trade Forecast predicts that trade in Spain will grow at an annualised rate of 1.74% over the next five years to 2016, but that it will increase between 2017 and 2021 at 5.00% as world growth is expected to pick up, opening up increased trade opportunities, particularly with countries in the Asia Pacific regions and Latin America. This equates to growth (indexed to a base in 2011) of 71.46%. Annualised total trade growth in Spain over the next 15 years will be 3.57%, which is the rate at which companies will need to increase their international activities if they are to keep pace with this change.

Spain's trade outlook

The eurozone crisis has had a significant effect on the economy, as the majority of its export markets lie within the region. Worsening economic performance and weakening demand suggest a challenging 2012 for Spain. Spain has typically relied on service sectors, as a result of steady modernisation of the economy. Demand for its automobiles has however waned, as trade with its largest export partners has gone into a state of decline. In addition, with cuts of €14.9 billion and a worse than forecast budget shortfall, unemployment is likely to increase beyond its current level of 22.8%, forcing down domestic demand for its products.

Spain's trade will grow at a slower rate than the world average until 2026. In fact, the gap between both averages grows larger throughout. The world growth is because of accelerated growth after 2015 in Latin America and Asia Pacific regions. However, the Trade Forecast predicts that Spain will increase its export of medicaments (therapeutic and prophylactic) to Italy by 7.83% over the next five years and, as a current largest global sector, there is likely to be positive trade growth over the next five years as a result.



Alan Keir, Group Managing Director and Global Head, HSBC Commercial Banking:

"Where once businesses followed economic investment, now, forward-thinking companies lead, taking matters into their own hands and making business happen. Whether that's taking advantage of shorter-term growth in international trade, which despite economic uncertainty sits at \$1trillion a year, or by creating new supply chains that open up trade corridors, businesses are connecting themselves to future opportunities. The reality is that growth opportunities lie internationally. The companies that succeed will be planning for that today."

Trade corridors and trends

Spain's largest export partners are France, Germany and Portugal and the Trade Forecast predicts that exports to these countries will grow by 3.06%, 3.10% and 3.31% annually over the next five years. Faster annualised growth to 2016 comes from other export partners: China (7.52%), Poland (6.97%) and Russia (6.32%). Switzerland and Morocco will also become more important as exports are set to increase by 6.19% and 6.12% respectively. Emerging export partners reflect a move from a European base into the Asia Pacific and Latin America regions. For example, trade with Singapore is forecast to increase by 10.73% and with Paraguay by 12.29%. Spain's largest import partners are Germany, China and France. Imports from Germany and France overall are set to grow very modestly over the next five years at annual rates of 0.64% and 0.27%, reflecting a drop in the imports and exports of road vehicles in particular. Imports from Italy are forecast to contract at an annual rate of 2.08% over the next five years. Fastest growing and larger export partners include Poland (7.00%) and Brazil (6.04%) annualised to 2016. Of the top five fast growing and large import partners, four are from outside of Europe. Imports from Malta are set to grow by 14.44%, Paraguay by 12.82% and Kuwait by 11.00%. This comes as smaller economies grow in strength and are able to decrease their reliance upon imports and increase their exports.

There will be some interesting trade corridors opening up outside of Europe, with Laos and Paraguay, with both imports and exports with Paraguay emerging over the next five years. The largest growing export sectors over the next five years will be within mechanical wood pulp and asbestos, while the largest growing import sectors will be groundnut oil cake, garneted wool and animal hair stocks and also coal and water gas, which is set to increase by 22.25%.

Spain's Emerging Growth Importers and Exporters (2012-2016)							
Spain's Largest (2012) Export Partners Ordered by Value	CAGR (2012)	Emerging Growth Export Partners	%	Spain's Largest (2012) Import Partners Ordered by Value	CAGR (2012)	Emerging Growth Import Partners	%
France	3.06%	Laos	12.53%	Germany	0.64%	Bermuda	15.81%
Germany	3.10%	Paraguay	12.29%	China	5.78%	Malta	14.44%
Portugal	3.31%	Libya	11.86%	France	0.27%	Brunei Darussalam	13.51%
Italy	3.81%	Myanmar	11.55%	Italy	-2.08%	Paraguay	12.82%
United Kingdom	1.22%	Singapore	10.73%	Netherlands	3.29%	Rwanda	11.88%
USA	3.58%	Egypt	10.43%	USA	4.65%	Bolivia	11.21%
Netherlands	3.18%	Bolivia	10.27%	United Kingdom	0.48%	Kuwait	11.00%
Belgium	3.40%	Vietnam	10.19%	Portugal	2.98%	Slovakia	9.96%
Morocco	6.12%	Uruguay	10.08%	Belgium	1.04%	Lebanon	9.57%
Turkey	5.57%	Bulgaria	10.00%	Russia	1.53%	Romania	9.55%

N.B. Emerging Growth Import and Export Partners are trade partners that are growing most quickly over the period, albeit potentially from a small base.

Sector watch

The table below shows Spain's fastest growing export and import sectors by partner:

Spain's Fastest Growing Export and Import Sectors by Partner (2012-2016)					
Export Sector	Export Partner	CAGR (2012-16)	Import Sector	Import Partner	CAGR (2012-16)
Medicaments, therapeutic, prophylactic use, in dosage	Italy	7.83%	Television receivers, video monitors, projectors	Slovakia	12.20%
Medicaments, therapeutic, prophylactic use, in dosage	France	7.56%	Medicaments, therapeutic, prophylactic use, in dosage	USA	12.15%
Medicaments, therapeutic, prophylactic use, in dosage	Switzerland	5.88%	Oils petroleum, bituminous, distillates, except crude	USA	10.40%
Medicaments, therapeutic, prophylactic use, in dosage	Germany	5.45%	Diodes, transistors, semi-conductors, etc	China	9.00%
Oils petroleum, bituminous, distillates, except crude	USA	5.27%	Oils petroleum, bituminous, distillates, except crude	Netherlands	8.19%
Motor vehicles for transport of persons (except buses)	Portugal	5.11%	Petroleum gases and other gaseous hydrocarbons	Norway	7.95%
Olive oil and its fractions, not chemically modified	Italy	3.53%	Medicaments, therapeutic, prophylactic use, in dosage	Ireland	7.73%
Motor vehicles for transport of persons (except buses)	Germany	2.60%	Automatic data processing machines (computers)	China	7.50%
Parts and accessories for motor vehicles	France	1.10%	Soya beans	Brazil	6.30%
Parts and accessories for motor vehicles	Germany	0.98%	Petroleum gases and other gaseous hydrocarbons	Qatar	5.47%

N.B. Spain's fastest growing import and export sectors by partner are developed from the top 50 export and import partners and are selected alongside the trade sectors that constituted values of above \$100 million at the end of 2010. The top ten fastest growing partners by sector were selected for this table.

The sector opportunity

Agriculture: Spain's economy is very reliant on agriculture. Therefore, pork meat and wine are amongst the top-10 export sectors, as are citrus fruit and olive oil, albeit set to grow slightly more slowly at 3.02% and 2.38% annually to 2016. Spain's exports of olive oil to Italy are forecast to increase by 3.53% over the next five years while imports of Soya from Brazil will increase. The agricultural sector has been damaged by high food prices globally and businesses seeking to internationalise their activities in this sector need to be aware of volatility in these markets caused by those fluctuating prices. As trade routes open up with Latin America, there are positive opportunities for trade between Spain, Brazil and Argentina, to develop at the higher value end of the agricultural market.

Medicine: This is a core and growing sector for Spain and demonstrates that the Spanish economy's future through trade is at the high-value end of the supply chain. Exports of medicines to Italy, for example, are set to increase by 7.83% annually, while the equivalent figure for France is 7.56%, Switzerland is 5.88% and Germany is 5.45%. Similarly, imports from Ireland are set to increase by 7.73% annually to 2016 and from Germany by 4.95%. The Spanish medical sector is highly integrated into the European supply chain but as this expands to Asian markets in particular, Spanish businesses will be able to take advantage of rapidly expanding markets outside of the EU.

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Trade Forecast

The Trade Forecast predicts how trade is going to develop over the next five, 10 and 15 years. It forecasts overall trade growth (exports, imports and total trade) globally, in global regions, and individual countries. Spanning 37 countries, it covers the top 10 sectors for exports and imports for each of these. The forecast has a unique approach to understanding the drivers of trade from a business perspective, informed by: trade trends, macroeconomic and market influences trade (for example GDP, oil prices, inflation, foreign direct investment), and business environment influences on trade (including regulation, demographics, access to capital and finance). The research has been commissioned by HSBC and undertaken by Delta Economics.

The economic and business narratives stem from a broader documentary search that includes material from National Statistical Offices, the World Bank and International Monetary Fund, economic blogs, the Economist Intelligence Unit, Bloomberg, the Financial Times and other professional and financial services news websites.

About HSBC Commercial Banking

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