

Spain: Consumption Outlook

Barcelona, 3 March 2011

Key themes

- **Divergences in the world economy** (developed vs. emerging, central Europe vs. the peripheral, financial economy vs. real economy) will influence economic policy responses
- **Economic and institutional reforms in Europe** will be key to resolving the financial crisis
- **Spain's economic growth** will continue to be affected by weak domestic demand and the push from export demand
- The sovereign debt crisis confirms the importance of **maintaining the reforming effort**
- The **increased pace of fiscal consolidation** modified household spending patterns in 2010
- Given their increased sensitivity to fluctuations in price and income, **consumption of durable goods** was **especially affected** by the change in tone of fiscal policy
- The expected weakening in demand does not point to an increase in **consumer credit** in the short term
- **BBVA surveys of economic activity and business trends**: companies and managers see improved outlook for 1H11, bolstered by a favourable forecast for the credit supply

Contents

- 1. International environment: decoupling continues**
2. Growth outlook for the Spanish economy: boost from foreign demand while domestic demand remains weak
3. Factors affecting present and future trends in consumer spending of households
4. Consumption of durable goods: especially affected by the deeper fiscal adjustment in 2H10
5. Two complementary approaches to the study of the economic situation in the retail sector: the BBVA surveys of economic activity and business trends

Section 1

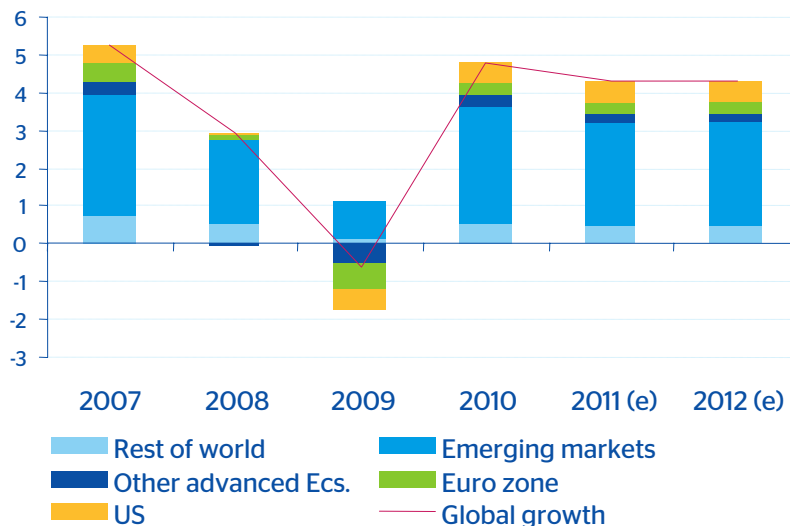
International environment

Strong growth in the global economy driven by emerging markets

- Global growth remains strong: having ended 2010 with a growth rate of 4.8%, the world economy is set for a mild slowdown (4.4% in 2011 and 2012)
- Greater dynamism from emerging economies (especially the EAGLES©)
- Intensified decoupling among developed economies: US vs. EMU, core European states vs. peripheral nations

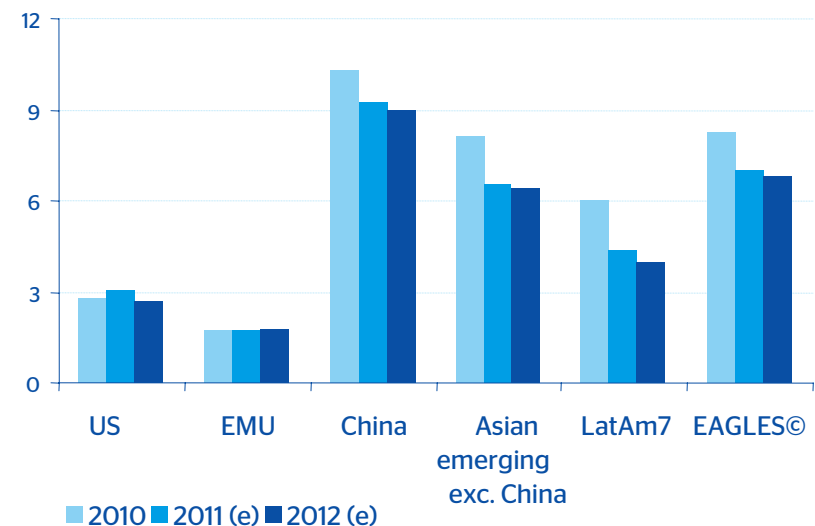
Contribution to global growth (%)

Source: BBVA Research



Growth forecasts (%)

Source: BBVA Research



Section 1

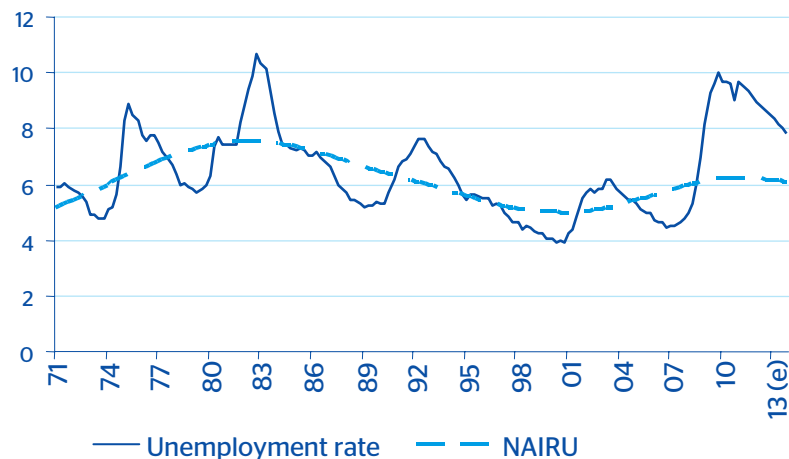
International environment

US growth outlook improves

- Causes: favourable macroeconomic data and new monetary and fiscal stimuli
- Growth forecasts were revised up by 0.7pp (to 3%) in 2011...
- ... still too weak to significantly reduce the unemployment rate

US: Unemployment rate (%)

Source: BBVA Research and Bureau of Labor Statistics

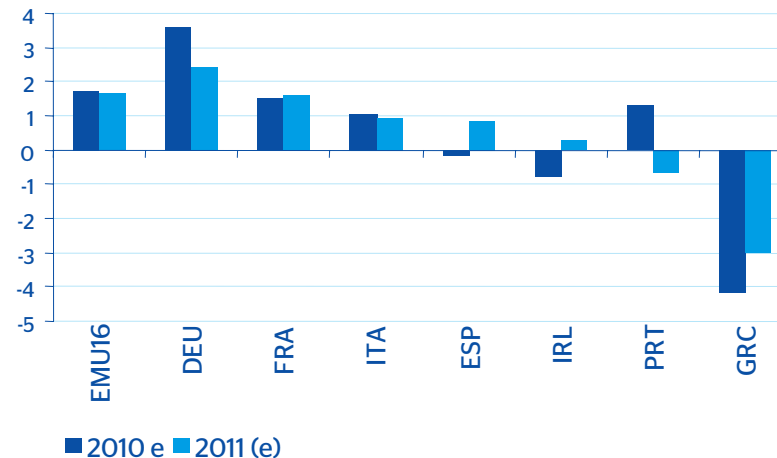


In Europe, a window of opportunity is opening to resolve the crisis and narrow economic divergences

- Financial pressures heightening due to doubts about resolving the debt crisis
- Credibility of stress tests under question (Irish financial system)
- Changes in governance and boost to reforms: essential to reducing core-periphery divergence

Growth forecasts in the EMU (%)

Source: BBVA Research



Section 1

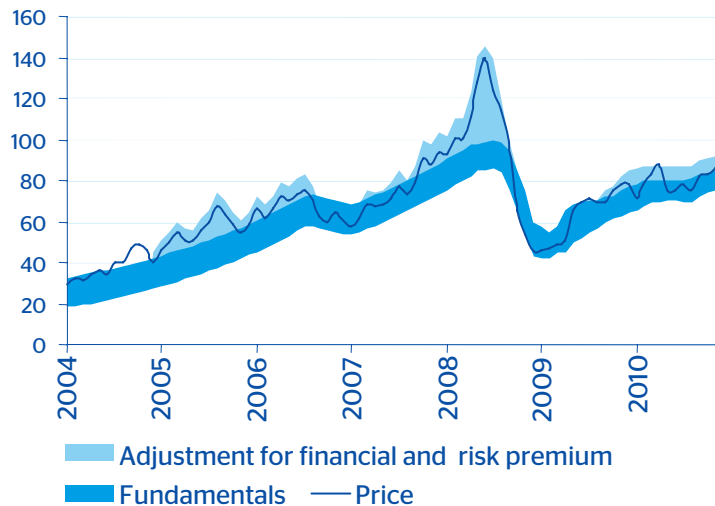
International environment

Rising commodity prices have spurred inflation indicators

- Commodity prices have been rising over recent months due to a number of short-term factors: bad weather and greater investment flows into commodity markets
- Stabilisation of commodity prices scenario
- Neither inflationary expectations nor core inflation pose any threat to monetary policy

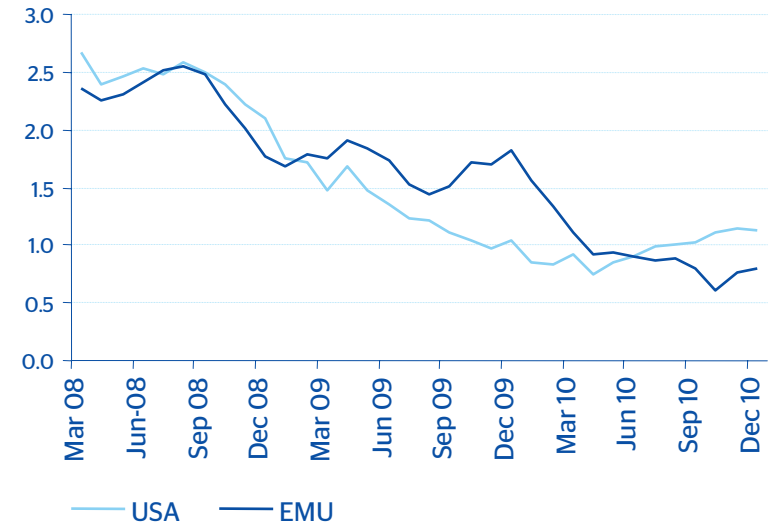
Oil price, USD/barrel

Source: BBVA Research and Bloomberg



Core inflation (% yoy)

Source: BBVA Research based on Eurostat and BA



Contents

1. International environment: decoupling continues
- 2. Growth outlook for the Spanish economy: boost from foreign demand while domestic demand remains weak**
3. Factors affecting present and future trends in consumer spending of households
4. Consumption of durable goods: especially affected by the deeper fiscal adjustment in 2H10
5. Two complementary approaches to the study of the economic situation in the retail sector: the BBVA surveys of economic activity and business trends

Section 2

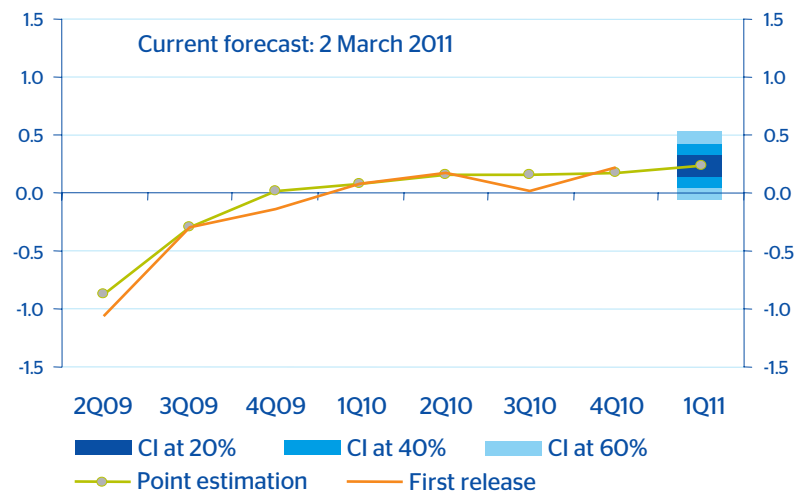
Growth outlook

After a pause in 3Q10, the Spanish economy returned to growth in 4Q10 and 1Q11

- The Spanish economy grew two tenths of a point in the fourth quarter of 2010...
- ... and will continue to grow by between two and three tenths of a point in 1Q11
- 2010 ended with an annual 0.1% fall in GDP, effectively stagnation

Spain: observed GDP growth and forecasts based on MICA-BBVA model (% qoq)

Source: BBVA Research and National Statistics Institute



However, **growth was too weak to create jobs**

Private domestic demand remained roughly stagnant...

... while public domestic demand helped meeting **the public sector deficit targets** in 2010

External demand again sustained growth in the Spanish economy

The **temporary rise in crude prices** mitigated the fall in the **current account deficit**

Section 2

Growth outlook

Outlook 2011-2012: adjustments continue

Negative contribution from the public sector and weak recovery in private domestic demand

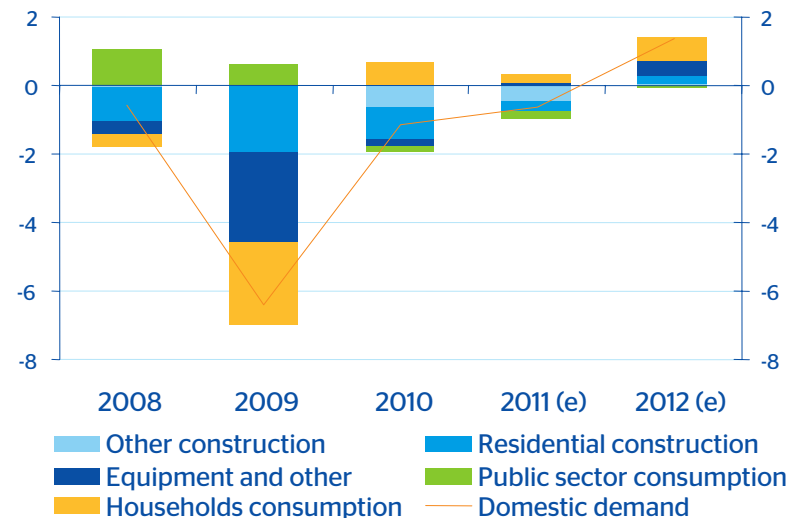
Factors affecting the outlook for 2011-2012

Internal demand

- Fiscal consolidation
- Ongoing adjustments to the private sector
- Monetary policy set to remain accommodative
- Despite moderation, financial pressures remain high

Spain: Contributions to GDP growth (pp)

Source: BBVA Research based on National Statistics Institute data



Section 2

Growth outlook

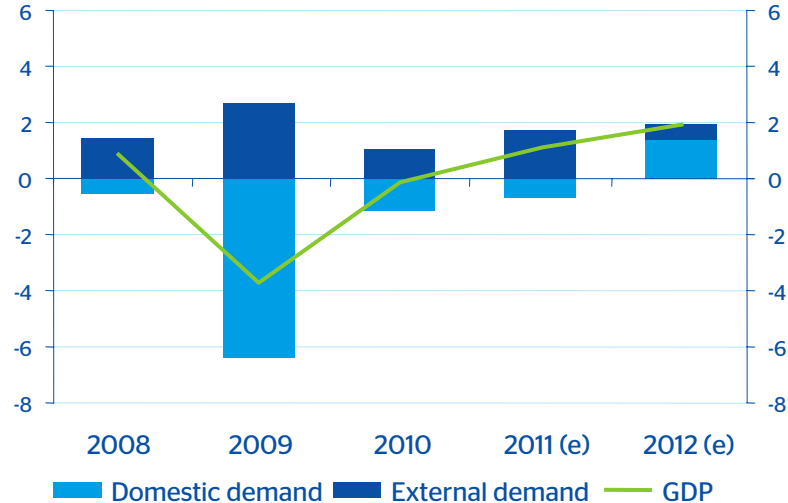
Outlook 2011-2012: adjustments continue

Exports will continue to lead recovery

Factors affecting the outlook for 2011-2012

Spain: Contributions to GDP growth (% yoy)

Source: BBVA Research based on National Statistics Institute and Eurostat data



External demand

- Better outlook for European and global economies
- Euro exchange rate less strong than expected three months ago
- Continued gains in real competitiveness and diversification towards emerging economies

Section 2

Growth outlook

Outlook 2011-2012: adjustments continue

- Recovery will be weak in the short term
- In 2012, the economy will return to 1.9% growth, enough to create jobs but not to significantly reduce the unemployment rate

Macroeconomic forecasts

Source: National Statistics Institute, Bank of Spain, Eurostat and BBVA Research

(yoy chg, %)	2009		2010		2011		2012	
	Spain	EMU	Spain	EMU	Spain	EMU	Spain	EMU
Household consumption	-4.3	-1.0	1.3	0.7	0.2	1.0	1.2	1.5
Public consumption	3.2	2.4	-0.7	0.7	-0.3	0.4	-0.3	0.7
GFCF	-16.0	-11.3	-7.5	-1.0	-2.9	1.6	3.4	2.0
Capital goods & other prods.	-21.2	-15.9	-2.1	2.5	0.6	2.8	5.0	3.2
Capital goods	-24.5	-17.6	1.9	3.6	0.7	2.7	5.5	3.0
Other products	-16.2	-7.6	-7.8	-2.3	0.3	3.2	4.2	4.2
Construction	-11.9	-7.8	-11.1	-3.5	-5.3	-0.2	2.3	0.8
Housing	-24.5	-10.7	-16.5	-3.3	-7.1	-0.1	4.1	0.7
Other	-0.1	-4.9	-7.2	-3.8	-4.1	-0.3	1.0	0.8
Chg. in inventories (*)	0.0	-0.7	0.1	1.3	0.0	0.1	0.0	0.0
Domestic demand (*)	-6.4	-3.3	-1.1	1.7	-0.7	1.1	1.4	1.4
Exports	-11.6	-13.1	10.3	9.7	9.1	6.9	7.0	5.7
Imports	-17.8	-11.8	5.5	9.9	2.0	5.6	4.6	4.9
Net exports (*)	2.7	-0.8	1.0	0.0	1.6	0.6	0.5	0.4
GDP mp (% yoy)	-3.7	-4.0	-0.1	1.7	0.9	1.7	1.9	1.8
Pro-memoria:								
GDP w/out housing investment	-1.9	-3.7	0.9	2.0	1.4	1.8	1.7	1.8
GDP w/out construction	-2.1	-3.6	1.7	2.3	1.9	1.9	1.8	1.9
Employment (LFS)	-6.8	-1.8	-2.3	-0.4	-0.2	0.4	1.1	0.6
Unemployment rate (% active pop.)	18.0	9.5	20.1	10.0	20.6	10.0	20.1	9.9
Current account balance (% GDP)	-5.5	-0.7	-4.5	-0.5	-3.1	0.0	-2.8	0.1
Public sector balance (% GDP)	-11.2	-6.3	-9.2	-6.5	-6.0	-4.7	-4.5	-3.9
CPI annual average	-0.3	0.3	1.8	1.6	1.9	1.8	1.3	1.6

Section 2

Growth outlook

Outlook 2011-2012: adjustments continue

At regional level, the imbalances generated during the boom and crisis will impact recovery in 2011. Spanish growth is still marked by sharp regional divergences

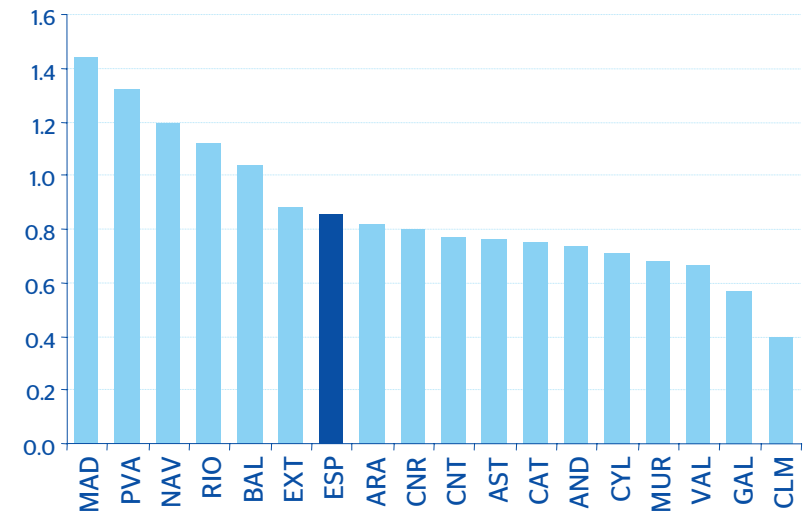
	Surplus housing supplies	Private Debt	Unemployment	Debt Autonomous Regions	Public Consolidation	External openness	Global Index
Basque country	✓		✓		✓		7,2
Asturias		✓					3,5
Cantabria	✓		✓				3,5
Madrid					✓		3,4
Navarre			✓		✓	✓	2,3
Aragón						•	1,2
La Rioja							1,1
Galicia							0,4
C. & Leon		✓					0,2
Balearic Is		•		•		✓	-0,2
Catalunya				•		✓	-0,7
Extremadura		✓			•	•	-1,5
Canary Is			•			✓	-1,6
Murcia	•	•	•				-4,3
C. La Mancha	•			•	•	•	-4,7
C. Valenciana				•			-4,7
Andalusia		•	•		•	•	-5,2

Source: BBVA Research based on National Statistics Institute data

Spain: GDP growth in 2011

By region (% yoy)

Source: BBVA Research based on National Statistics Institute data



Section 2

Growth outlook

However, uncertainties remain as to how dynamic the recovery will be

Downward risk factors

- Delays in resolving Europe's governance issues
- Risks related to financial system restructuring
- Failure to meet deficit targets
- Possible second round effects from the recent rise in crude prices

Upward risk factors

- Stronger growth in the global economy
- Consolidation of structural reform process:
 - long-term sustainability of public pension system
 - efficient Public Administrations funding systems, and
 - resolution of regulatory issues affecting markets for goods and services

Contents

1. International environment: decoupling continues
2. Growth outlook for the Spanish economy: boost from foreign demand while domestic demand remains weak
- 3. Factors affecting present and future trends in consumer spending of households**
4. Consumption of durable goods: especially affected by the deeper fiscal adjustment in 2H10
5. Two complementary approaches to the study of the economic situation in the retail sector: the BBVA surveys of economic activity and business trends

Section 3

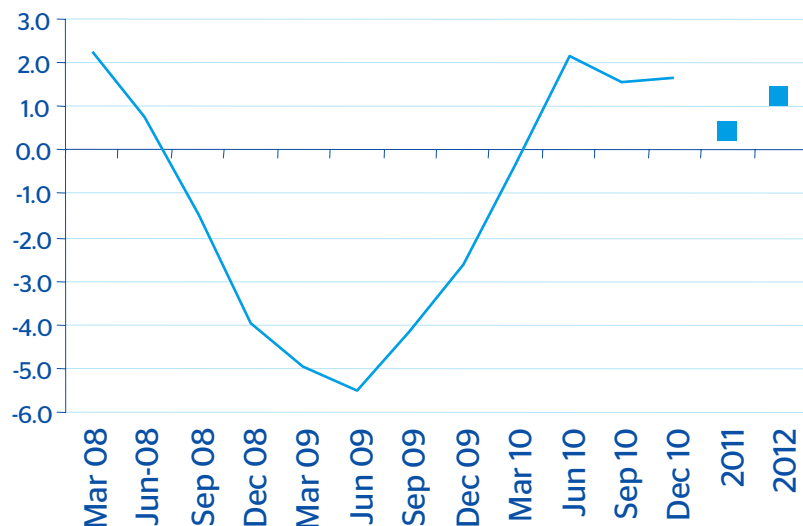
Factors shaping consumption

Factors affecting present and future trends in consumer spending of households:

1. Decrease in risk aversion
2. Correction of imbalances accumulated prior to (deleverage) and during (unemployment) the crisis
3. Consequences of heightening financial pressures
4. Acceleration of fiscal consolidation process

Spain: household consumption (% yoy)

Source: BBVA Research based on National Statistics Institute data



Section 3

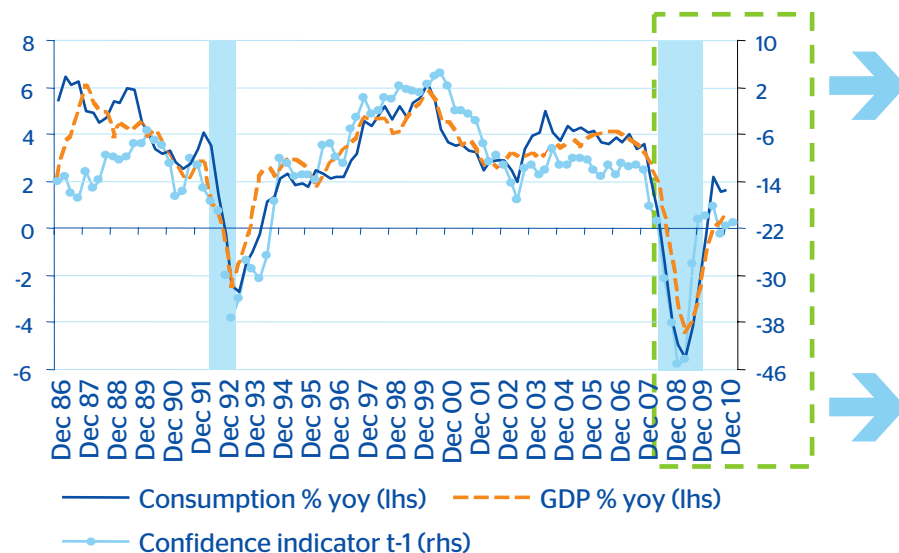
Factors shaping consumption

1 Decrease in risk aversion

Uncertainty will gradually decrease, reducing saving as a precautionary measure

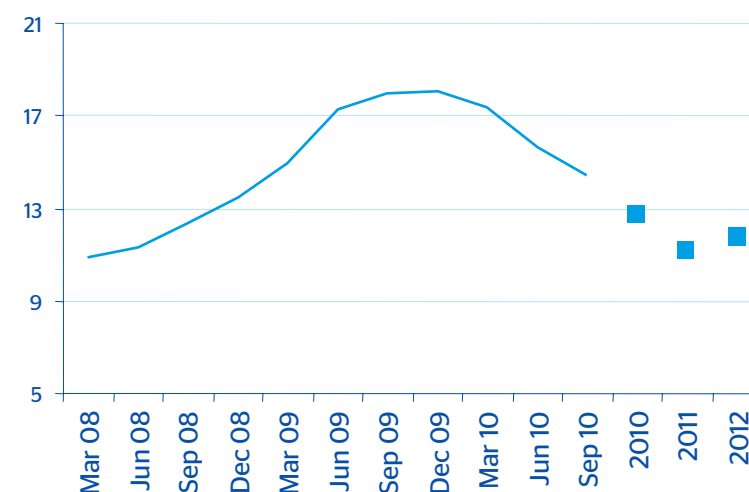
Spain: household consumption, GDP and confidence indicator (t-1) (%)

Source: BBVA Research based on National Statistics Institute and EC data



Spain: household saving rate (% GDHI)

Source: BBVA Research based on National Statistics Institute data



Section 3

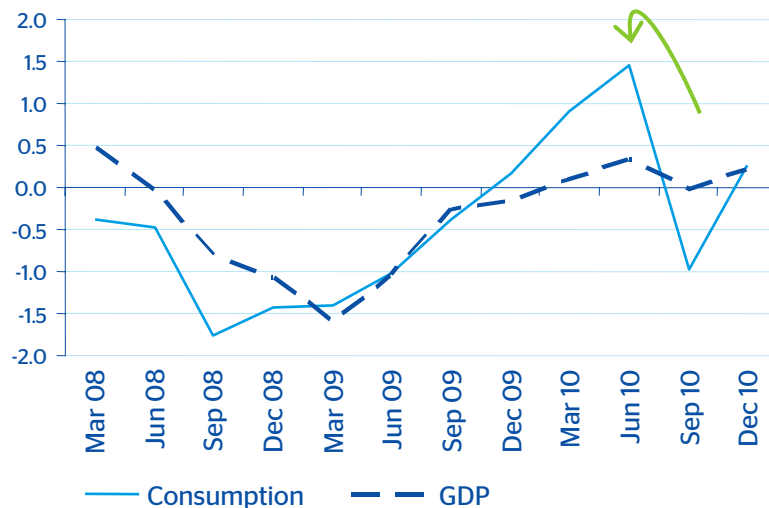
Factors shaping consumption

2 Acceleration of fiscal consolidation process

- During the first half of 2010, consumer spending rose temporarily as a result of consumers **bringing forward purchases** in response to the Government's announcement to **accelerate the fiscal consolidation process** in the second half of the year
- Changes in consumption patterns combined with the direct contraction effects caused by the fiscal policy measures contributed to a decline in spending in 3Q10 (-1.0% yoy).
- Higher VAT will have a permanent impact on consumption. The negative impact on consumption growth was concentrated in 3Q10 (4Q10: +0.3% yoy)

Spain: household consumption (% yoy)

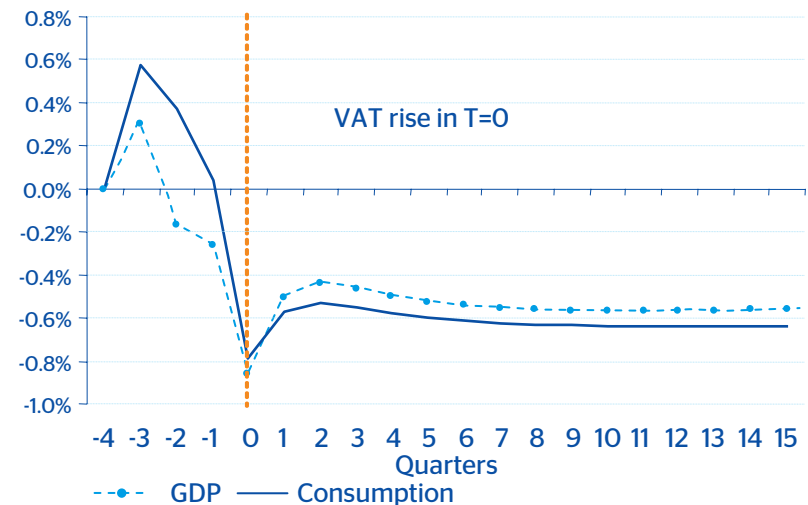
Source: BBVA Research and Bureau of Labor Statistics



Spain: response to a 2pp VAT hike

(Deviation from trend in pp.)

Source: BBVA Research



Section 3

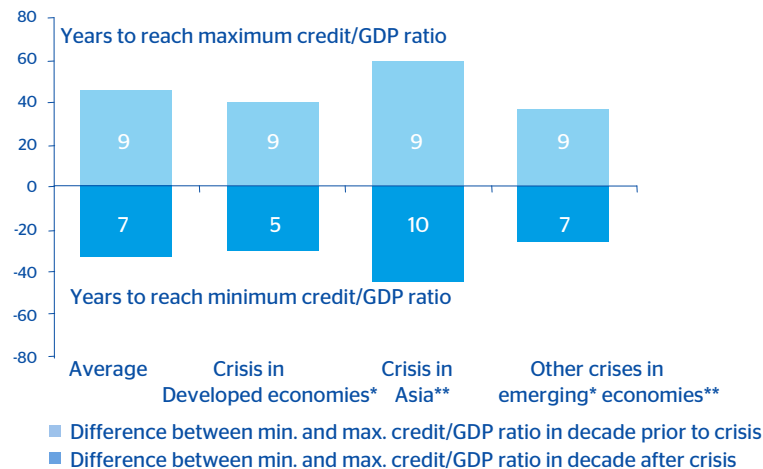
Factors shaping consumption

3 Correction of imbalances: deleverage

- International empirical evidence indicates that:
 - deleveraging starts some time after a financial crisis unfolds
 - it is a slow process which persists for around five years in developed economies
- The decrease in disposable income in 2H10 contributed to the stagnation of household credit

Credit as a percentage of GDP ten years before and after a financial crisis

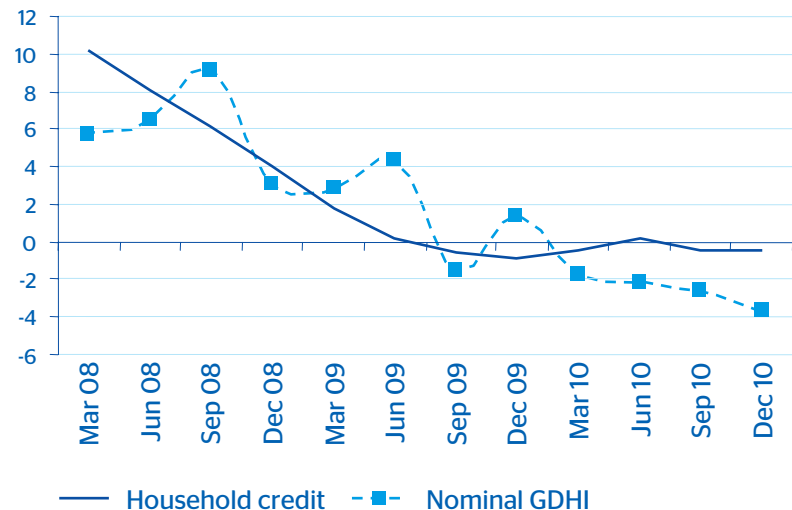
Source: BBVA Research based on Reinhart and Reinhart (2010)



* Spain (1977), Norway (1987), Finland (1991), Sweden (1991), Japan (1992);
 ** Indonesia, Korea, Malaysia, Philippines, Thailand;
 *** Argentina (2001), Chile (1981), Columbia (1988), Mexico (1994), Turkey (2001)

Spain: household credit and GDHI (% yoy)

Source: BBVA Research



Section 3

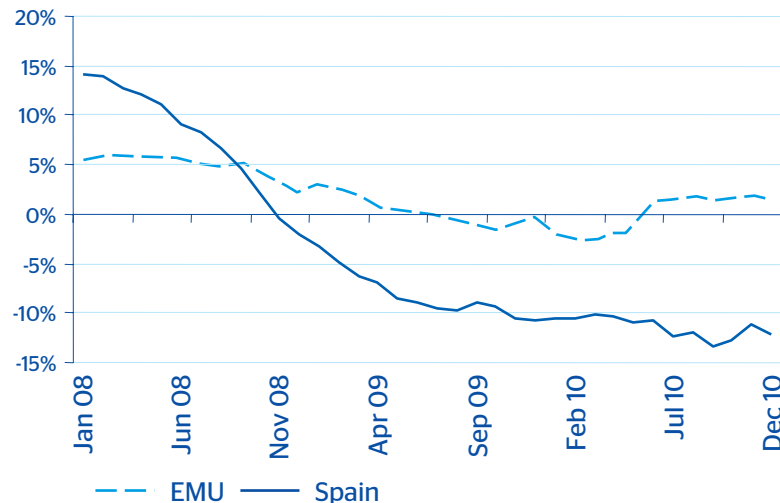
Factors shaping consumption

3 Correction of imbalances: deleverage

During 2H10, consumer credit continued to decline in Spain, while it began to grow in the EMU, bolstering the convergence process

Consumer credit (% yoy)

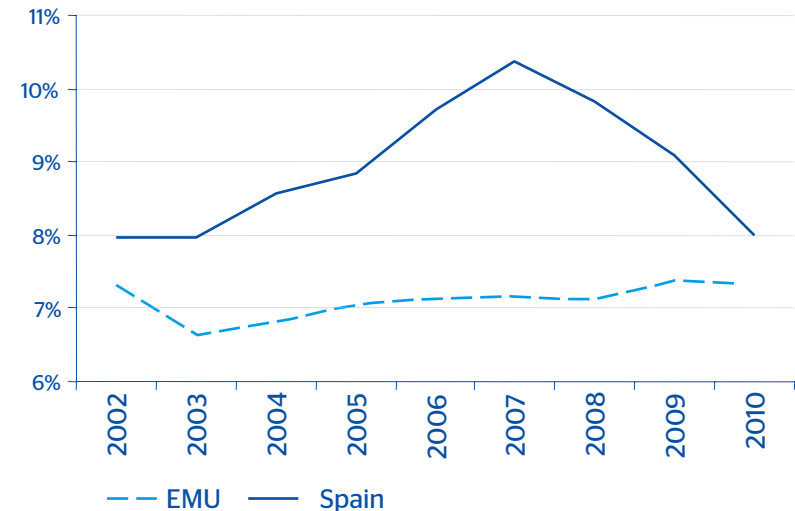
Source: BBVA Research based on BoS and ECB data



* Consumer credit handled: including securitisations

Consumer credit as a percentage of GDP (%)

Source: BBVA Research based on BdE, ECB, National Statistics Institute and Eurostat data



* Consumer credit handled: including securitisations

Section 3

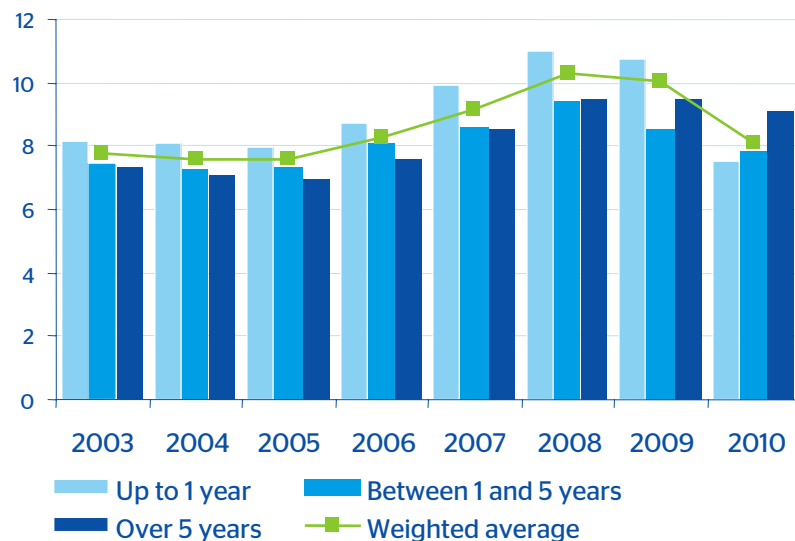
Factors shaping consumption

3 Correction of imbalances: deleverage

The expected weakness in demand and persistently high default rates suggest consumer credit will not rise in the near term

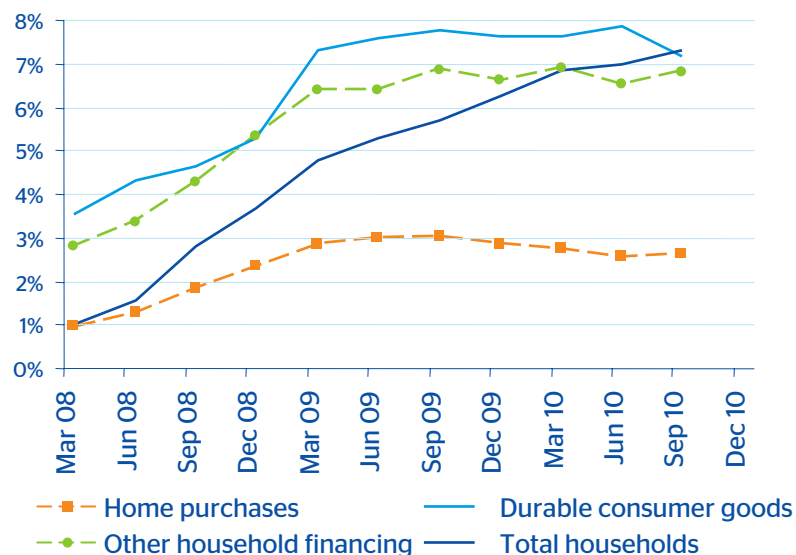
Spain: interest rates for new consumer credit transactions (%)

Source: BBVA Research based on BoS data



Spain: household default rate (%)

Source: BBVA Research based on BoS data



Section 3

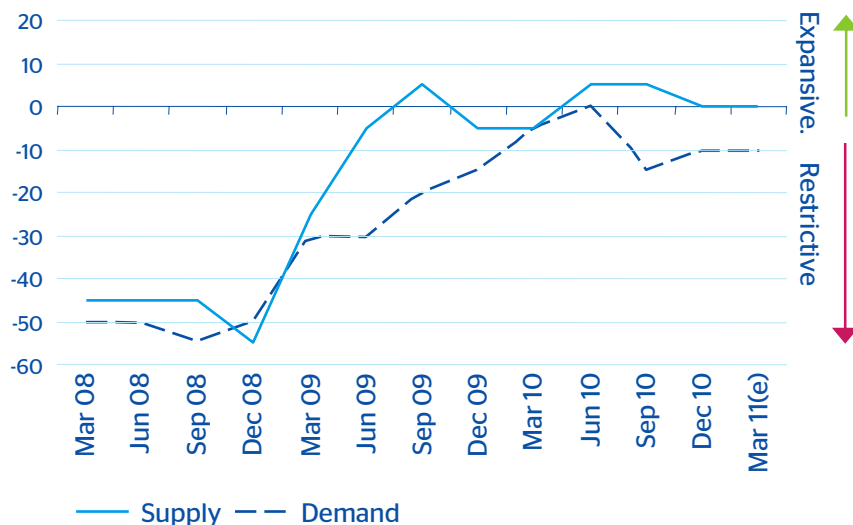
Factors shaping consumption

3 Correction of imbalances: deleverage

The most recent Spanish bank-lending survey indicates that access to credit will not be restricted at the beginning of the present year, while demand will continue to be weak, in line with the trend prevailing during the second half of 2010

Spain: bank-lending survey (% responses)

Source: BBVA Research based on BoS data



Section 3

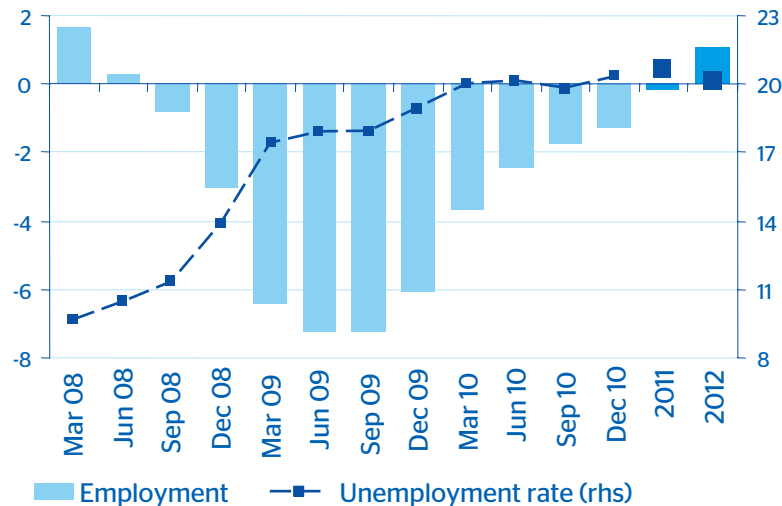
Factors shaping consumption

3 Correction of imbalances: deleverage

- The decline in the labour market is easing off, but will not be sufficient to offset the reduction in salaries as a percentage of GDHI in 2011, the rate of decline of which will slowdown in 2011
- Real income will not grow until the start of 2012

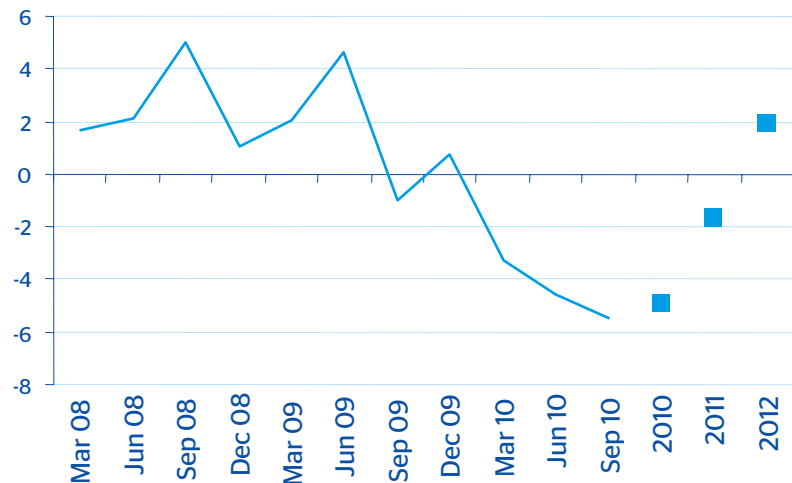
Spain: employment and unemployment rate (%)

Source: BBVA Research based on National Statistics Institute data



Spain: Real gross disposable household income (% yoy)

Source: BBVA Research based on National Statistics Institute data



Section 3

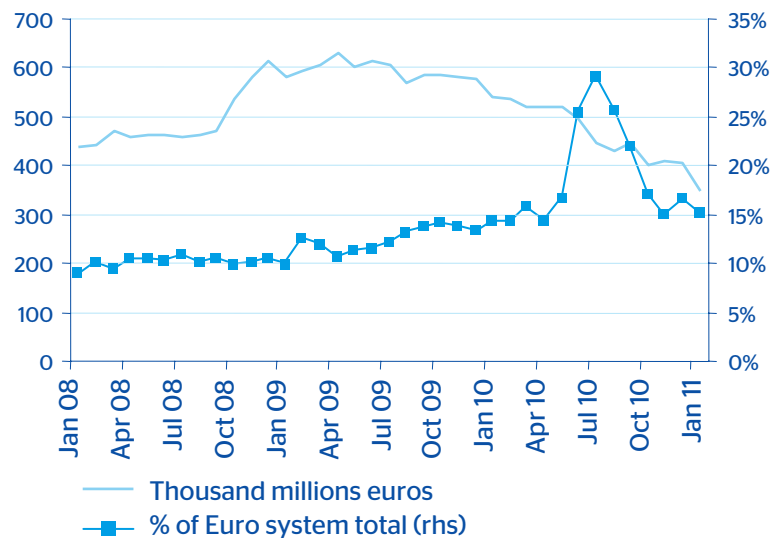
Factors shaping consumption

4 Financial stress

The difficulties some entities are encountering in raising financing are resulting into higher rates on deposits, which encourages saving to the detriment of consumption

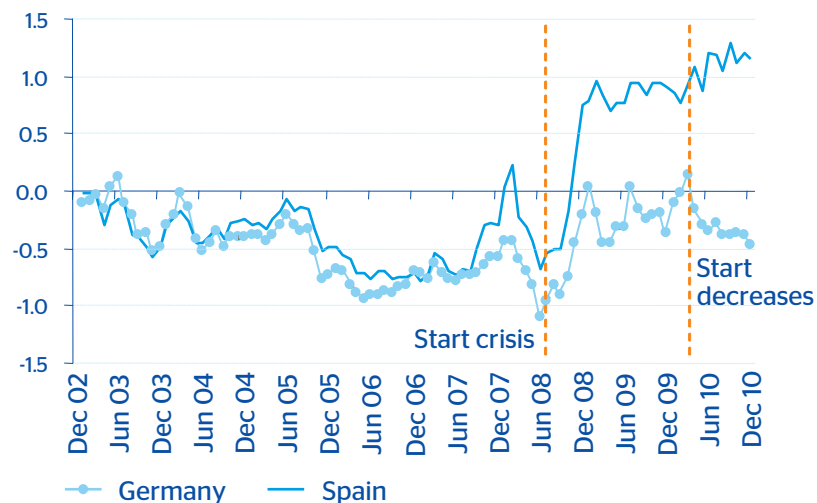
Spanish financial system: ECB funding

Source: BBVA Research based on BoS data



Spread between rates offered on term deposits and 12m Euribor (pp)

Source: BBVA Research based on central bank data



Contents

1. International environment: decoupling continues
2. Growth outlook for the Spanish economy: boost from foreign demand while domestic demand remains weak
3. Factors affecting present and future trends in consumer spending of households
- 4. Consumption of durable goods: especially affected by the deeper fiscal adjustment in 2H10**
5. Two complimentary approaches to the study of the economic situation in the retail sector: the BBVA surveys of economic activity and business trends

Section 4

Durable consumer goods

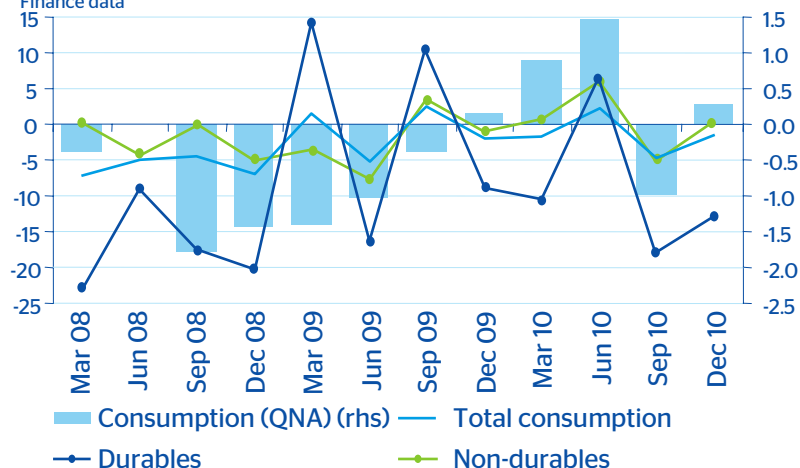
As it is more sensitive to fluctuations in prices and income, domestic demand for durable goods was particularly affected by the deeper fiscal adjustment in 2H10

- The VAT hike in July, the cut in public sector salaries, and the end of Plan 2000E gave rise to a change in the pattern of household spending over time
- Between June and December, the availability of durables fell 32.3%, with the greatest decline in 3Q10 (-18.2%)

Spain: final household consumer spending and availability of consumer goods

(SWDA data, yoy %)

Source: BBVA Research based on National Statistics Institute and Ministry of Economy and Finance data



Section 4

Durable consumer goods

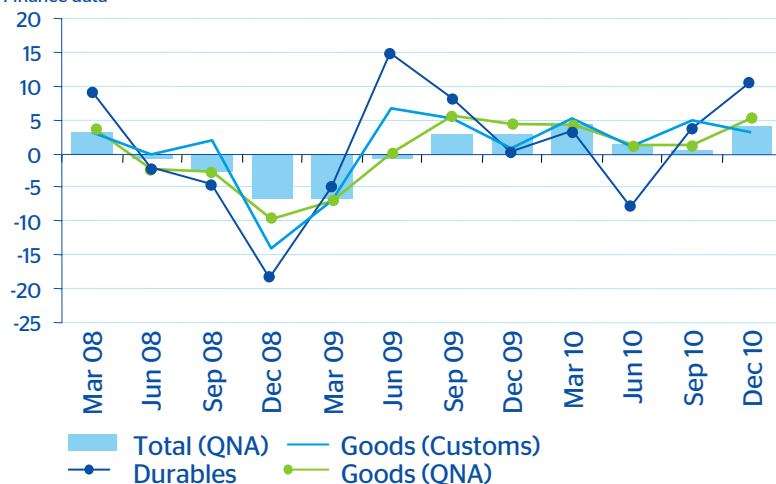
In contrast, export demand improved, driven by the dynamism of the European economy -especially Germany- and robust demand from emerging economies

- Exports of durable goods rose 13.9% between June and December, almost 5pp higher than the total for all goods
- External demand for consumer durables continues to be heterogeneous

Spain: real exports of goods

(SWDA data, yoy %)

Source: BBVA Research based on National Statistics Institute and Ministry of Economy and Finance data

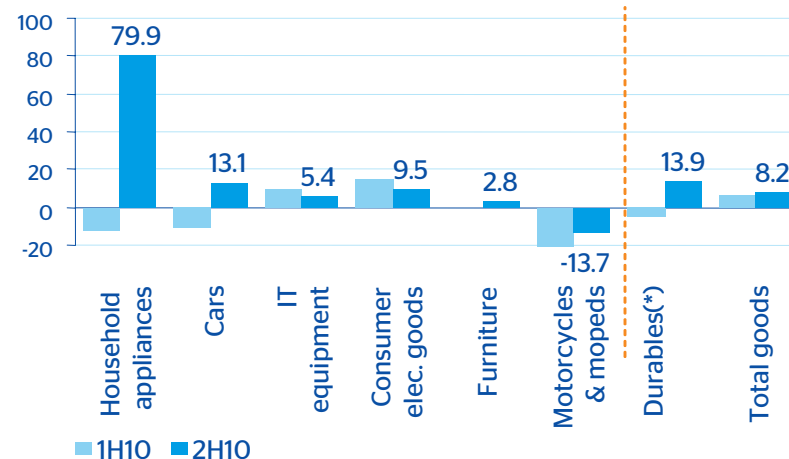


(*) Household appliances, consumer electronic goods, IT equipment, furniture, motorcycles and cars

Spain: real exports of goods

(SWDA data. Accumulated six-month growth %)

Source: BBVA Research based on National Statistics Institute and Ministry of Economy and Finance data



(*) Household appliances, consumer electronic goods, IT equipment, furniture, motorcycles and cars

Section 4

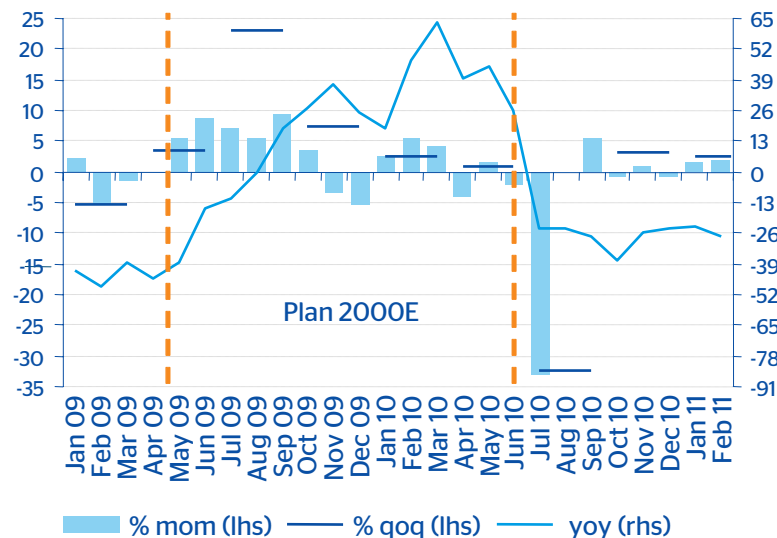
Durable consumer goods

Cars

- With the VAT hike coinciding with the end of Plan 2000E, demand for cars was particularly affected by the acceleration of the fiscal consolidation process
 - After a first quarter of gradual weakening of growth, car registrations plummeted in July (-33.1% mom, SWDA)
 - Since then, the number of car registrations hardly moved, excluding changes due to seasonal effects
 - The lack of demand for private use is the main driver

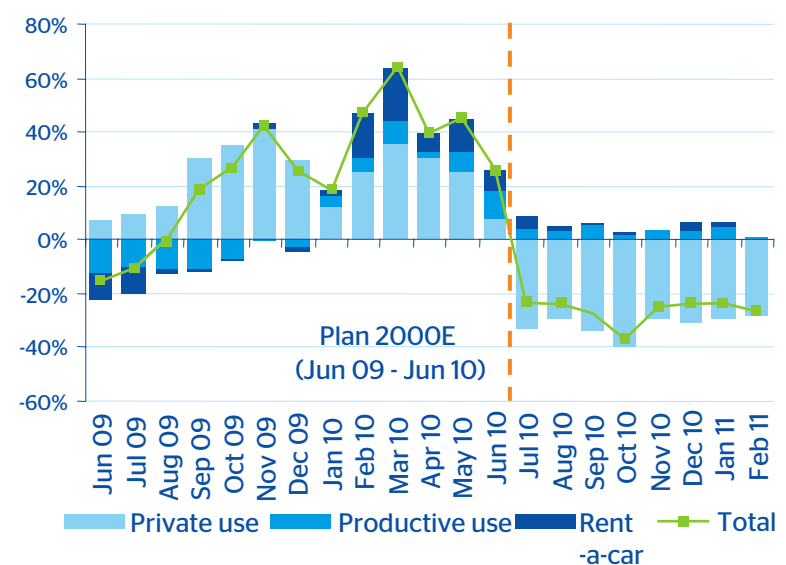
Spain: car registrations

Source: BBVA Research based on ANFAC and Ganvam data



Spain: car registrations (Contributions to % yoy)

Source: BBVA Research based on ANFAC and Ganvam data



Section 4

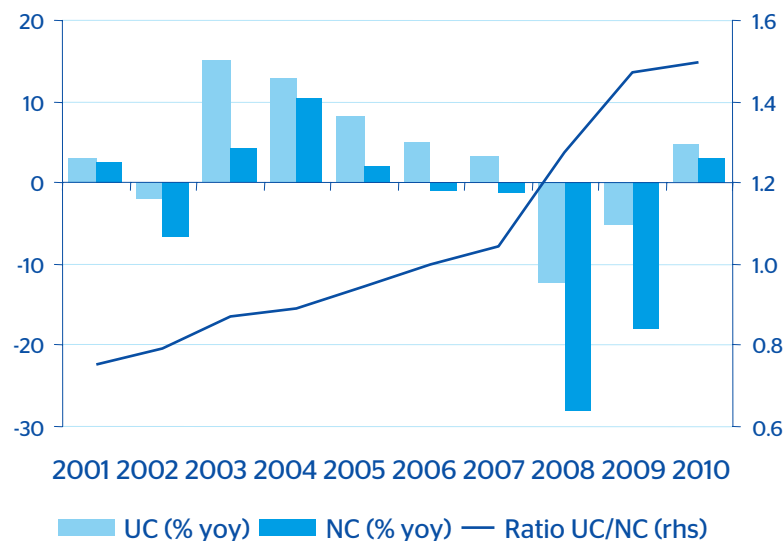
Durable consumer goods

Cars

- The drop in **sales of used cars (UC)** has been significantly lower than the decrease in new car (NC) sales
- The ratio of UC to NC therefore stands at approximately 1.6 in 2010, the highest in the last decade

Spain: car sales

Source: BBVA Research based on ANFAC and Ganvam data



What has caused this change in sales?

Two reasons:

- Change in the type of households purchasing UC
- Changes in preferences



- Need to identify what drives consumers to purchase new or used once they have decided to acquire a car

Section 4

Durable consumer goods

Cars

Minor qualitative changes in the **type** of households purchasing UC

Pre-crisis

- Autonomous regions: Andalusia, Balearic Islands, Murcia, Navarre
- Household:
 - with five or more members
 - with three or more employed
 - net monthly income between €2,500 and €3,000
- Housing:
 - rented
 - semi-urban or sparsely populated
- Main breadwinner:
 - male
 - under 35 years old
 - foreign
 - Primary or secondary education

Crisis

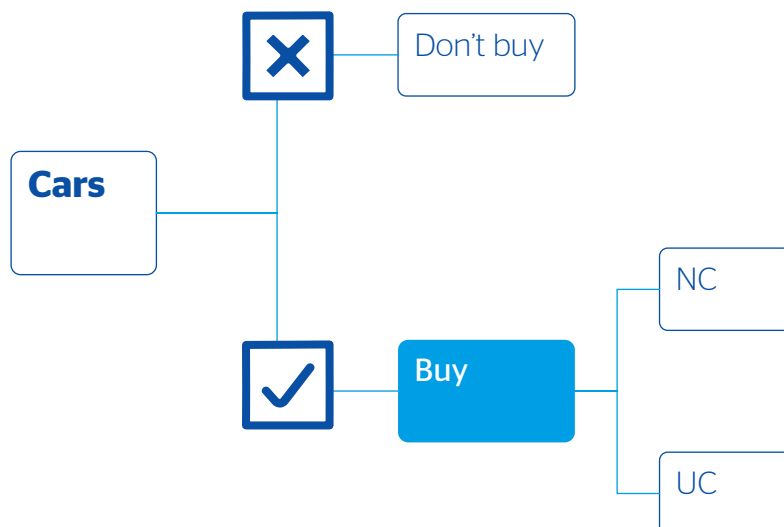
- Autonomous regions: Extremadura, Aragon, Murcia, La Rioja
- Household:
 - with five or more members
 - with three or more employees
 - net monthly income between €2,500 and €3,000
- Housing:
 - rented
 - sparsely populated area
- Main breadwinner:
 - male
 - under 35 years old
 - foreign
 - Vocational training

Section 4

Durable consumer goods

Cars

- To identify if purchasing households **preferences are changing**, it is necessary to **separate the decision to purchase from the decision on which type of vehicle to acquire**



- While the number of variables influencing **the probability of purchasing a car** is high...

Which variables improve the probability of purchasing a car?

- Households in: Catalonia, Madrid, Extremadura and the Basque Country
- With a mortgage
- Second home owned by household
- Main breadwinner: male, married, foreign
- Increases with:
 - level of education
 - household income
 - number of employees
- Decreases with:
 - number of dependant children
 - size of municipality
 - age of main breadwinner
- ...

Section 4

Durable consumer goods

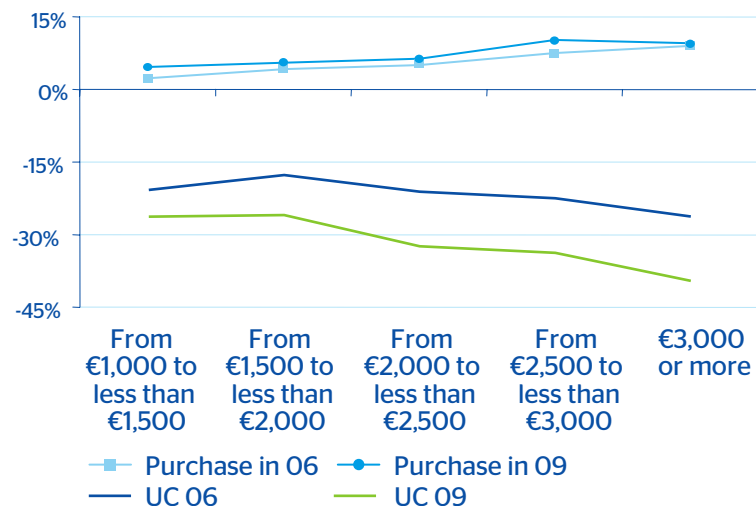
Cars

- ..., only income levels, home ownership, rental, the level of education of the main breadwinner and their nationality **directly affect the probability of choosing a UC**
- The **magnitude** of the effects **has changed during the crisis**:
 1. The negative impact of income level (effective or permanent) has strengthened during the crisis, which explains the higher concentration of spending at lower values (the “1,000-euro earner” UC)

Probability of purchasing vs. probability of choosing a UC. Effects of income level

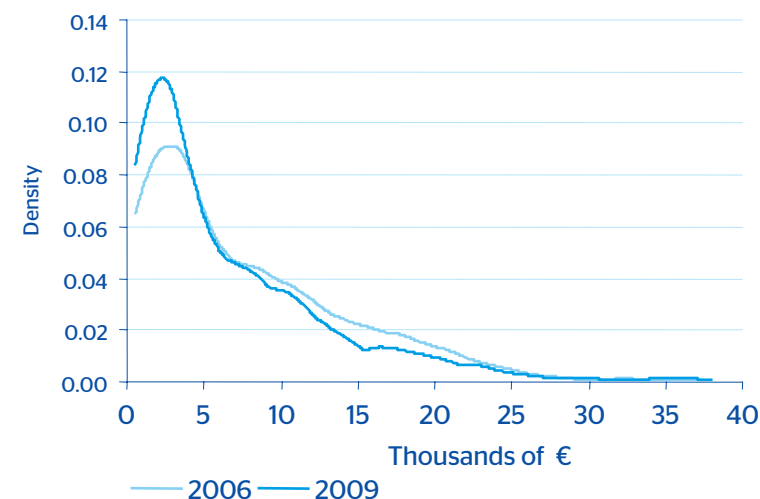
(%) Reference category: below €1,000

Source: BBVA Research



Spain: distribution of real spending per household in UC

Source: BBVA Research



Section 4

Durable consumer goods

Cars

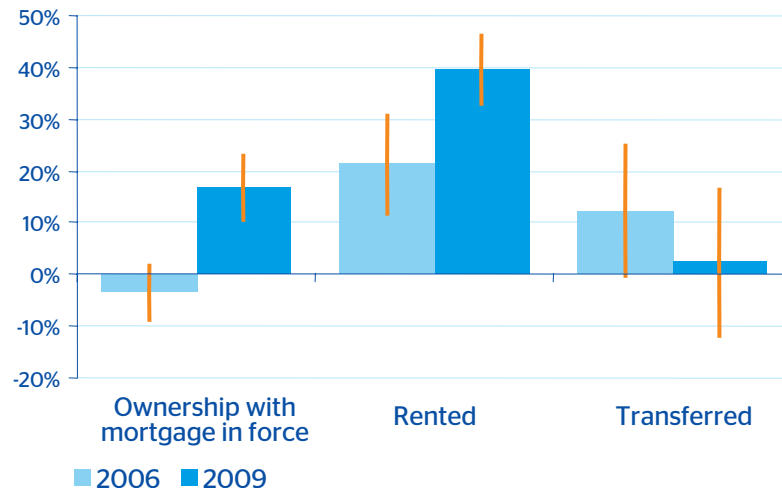
- The **magnitude of the effects has changed during the crisis:**

2. Stronger correlation between demand for cars and residential investment: **households owning homes are NC purchasers while tenants purchase UC**

3. **Natives and immigrants are converging** with respect to preferences for UC: the effect of nationality on the probability of choosing a UC has diluted due to the crisis

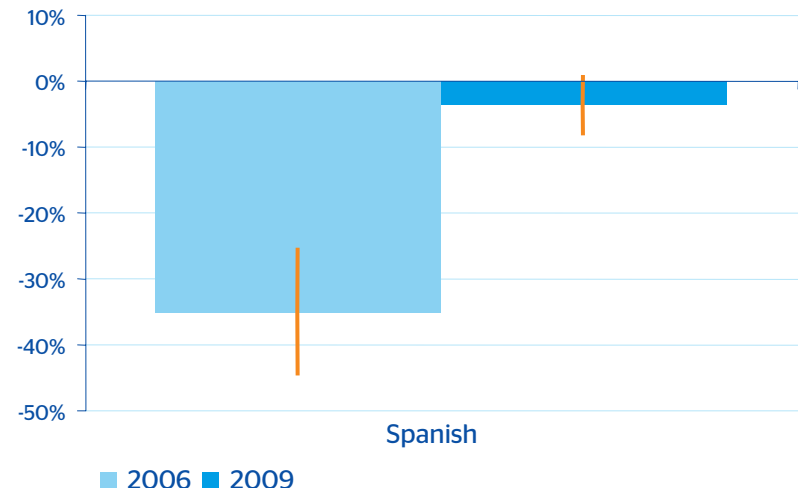
Effect of home ownership vs. rental on the probability of choosing a UC

(%) Reference category: Home owner without mortgage
Source: BBVA Research



Effect of nationality of main breadwinner on the probability of choosing a UC

(%) Reference category: foreign
Source: BBVA Research



Section 4

Durable consumer goods

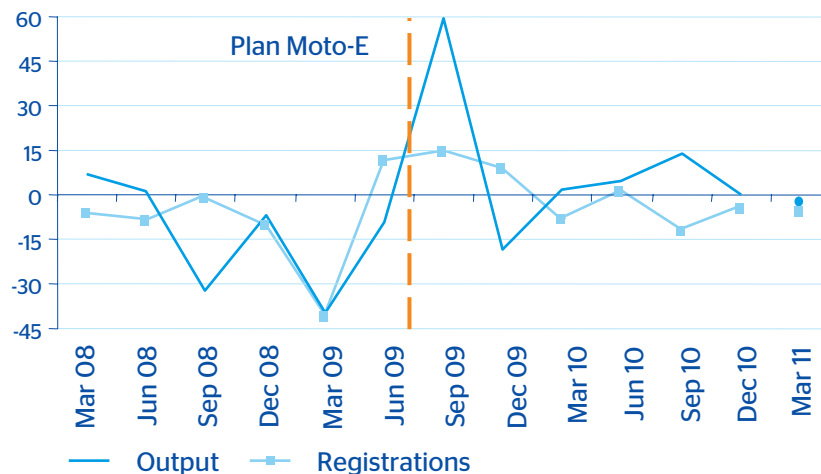
Motorcycles

- The **Plan Moto-E** - extended until the end of 2010 or until the allocated budget runs out - has continued to be **ineffective**
 - The exclusion of motorcycles with higher cylinder capacity from the programme and the requirement to get rid of used motorcycles have been the main factors contributing to the lack of success
- The number of motorcycle registrations fell by 15.7% (SWDA) between June and December last year. Nonetheless, total registered motorcycles did not fall (2.7 million units at 2010 year end)

Spain: output and registrations of motorcycles

(SWDA data, yoy %)

Source: BBVA Research based on National Statistics Institute and Ministry of Economy and Finance data



Section 4

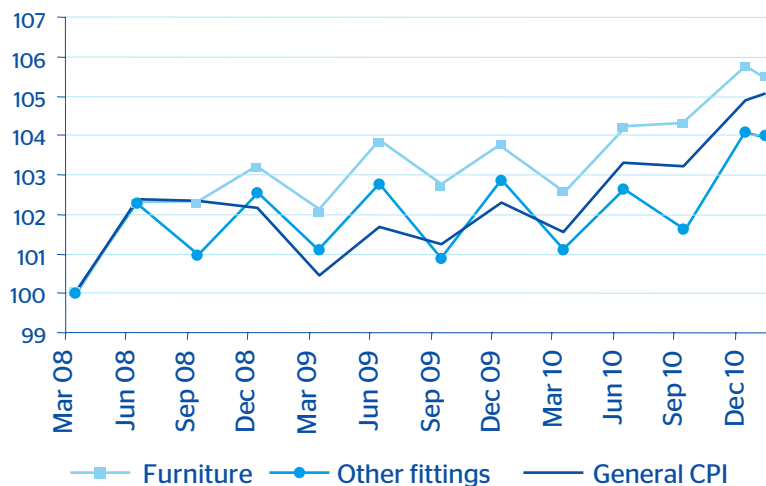
Durable consumer goods

Furniture

- After two years of double-digit declines, the decrease in the **turnover of the furniture sector eased off** in 2010 to -6.1%
 - The temporary slowdown in the decline of the real estate market, underpinned by the end of the tax break on home acquisitions in 2010, stimulated furniture demand. Despite the weakness of consumption, the prices of furniture and other fittings continued to rise in 2H10
- A common feature of durable goods is their illiquidity. This means that in times of uncertainty, the replacement rate falls, driving up demand for maintenance and repair services

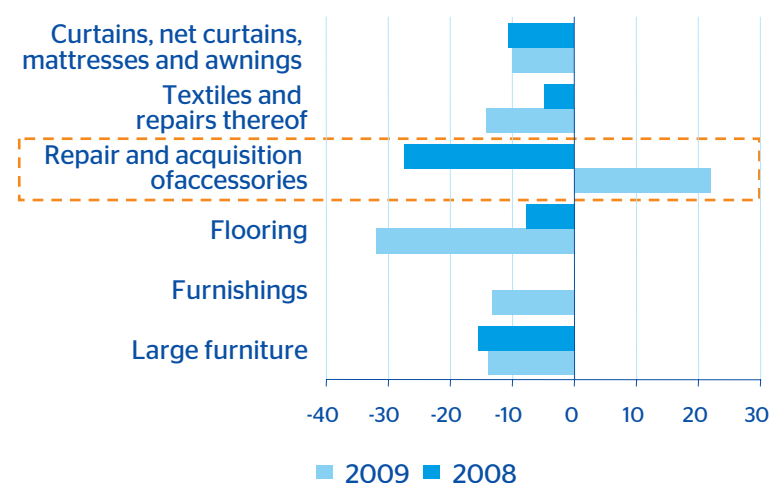
Furniture consumer prices (1Q08 = 100)

Source: BBVA Research based on National Statistics Institute data



Spain: real spending on furniture (% yoy)

Source: BBVA Research based on National Statistics Institute data



Section 4

Durable consumer goods

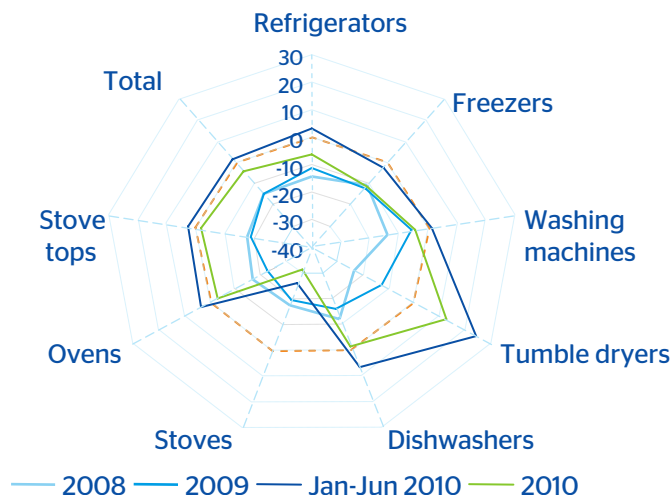
Major appliances

- As with furniture, the effect of the VAT rise on demand was mitigated by the complementary **nature of housing purchases and the acquisition of household appliances**
- The number of homes sold fell by 4.4% in 2010 (while turnover dropped by 4.0%), after a 1.9% rise yoy during the first six months of the year
 - Sales of all groups of household appliances - except for tumble driers - fell; sales of washing machines, dishwashers, ovens and stove tops decreased below the average

Spain: household appliance sales by family

(% yoy)

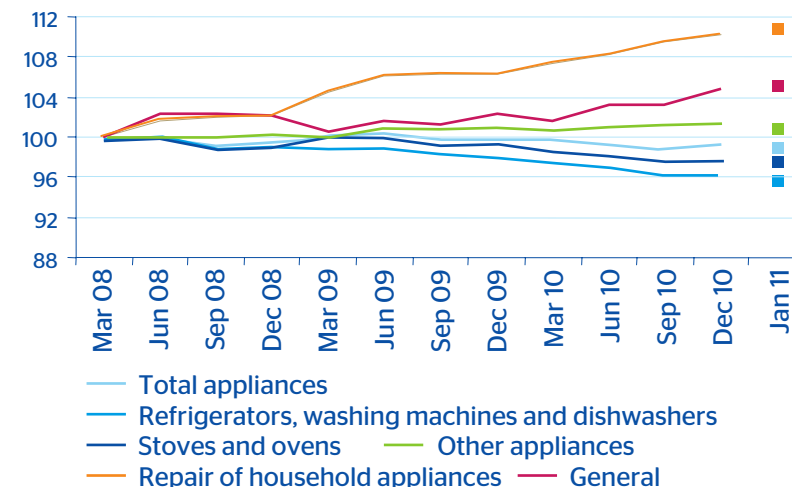
Source: BBVA Research based on ANFEL data



Spain: household appliance consumer prices

(1Q08 = 100)

Source: BBVA Research based on National Statistics Institute data



Section 4

Durable consumer goods

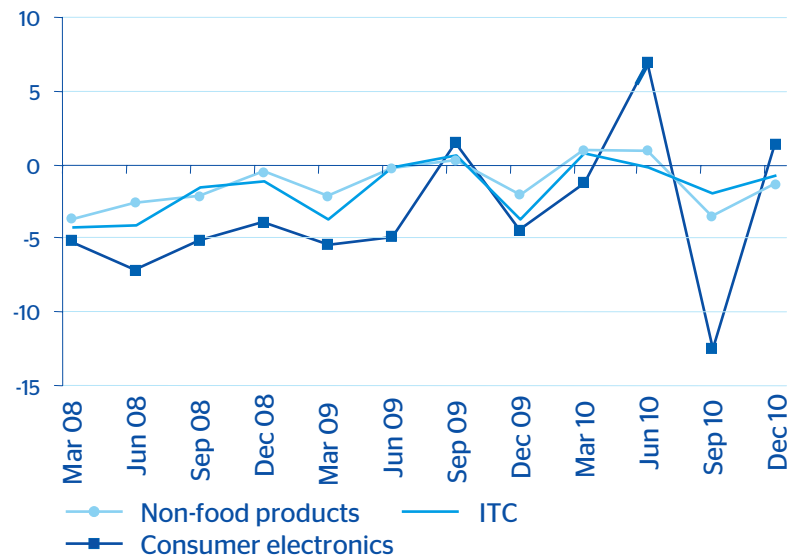
Consumer electronics and ICT equipment

- The **bringing forward of purchases** has significantly affected consumption of **consumer electronic products**, but not consumption of **ICT equipment** (different elasticity-price)
- The brown goods sector continued to be affected by persistent price deflation, which has continued to ramp up the penetration of ICT equipment in homes

Spain: real retail sales of consumer electronics and ICT equipment

(SWDA data, yoy %)

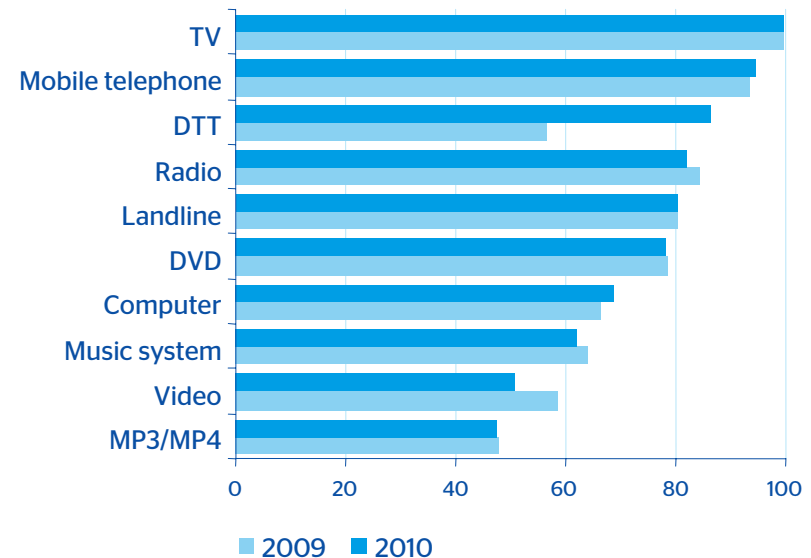
Source: BBVA Research based on Eurostat data



Spain: household penetration rate (%)

(% of households)

Source: BBVA Research based on National Statistics Institute data



Contents

1. International environment: decoupling continues
2. Growth outlook for the Spanish economy: boost from foreign demand while domestic demand remains weak
3. Factors affecting present and future trends in consumer spending of households
4. Consumption of durable goods: especially affected by the deeper fiscal adjustment in 2H10
- 5. Two complementary approaches to the study of the economic situation in the retail sector: the BBVA surveys of economic activity and business trends**

Section 5

BBVA surveys of economic activity and business trends

- To understand the economic position of a sector and its outlook, relevant quantitative and qualitative data on the companies operating therein are required
- It is also recommended that the views of the financial institutions intermediating in the sector under analysis are taken into account



- To fulfil these requirements, BBVA conducted the **Economic Activity Survey (EAS) and the Business Trends Survey (BTS)**
 - Survey population: corporate clients (757) and managers (210) of BBVA Finanzia operating in the retail sectors of consumer goods - mainly durables - and services

Economic activities

- | | |
|---|---|
| <ul style="list-style-type: none">• Car and motorcycle sales and repairs• ICT equipment retail sales• Ironmongery, paint and glass retail sales• Household appliance retail sales• Furniture retail sales | <ul style="list-style-type: none">• Medical and orthopaedic products retail sales• Cosmetic and hygiene products retail sales• Retail sales of other products that are not sold by specialist establishments• Retail sales of other lending activities |
|---|---|

Section 5

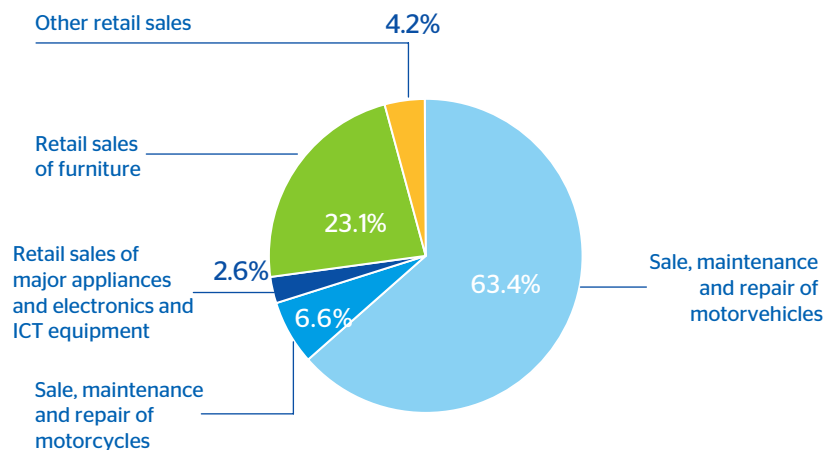
BBVA surveys of economic activity and business trends

- The share of the car distribution sector is comparatively high in both surveys
- The composition of the sample in the BTS is more balanced than in the EAS

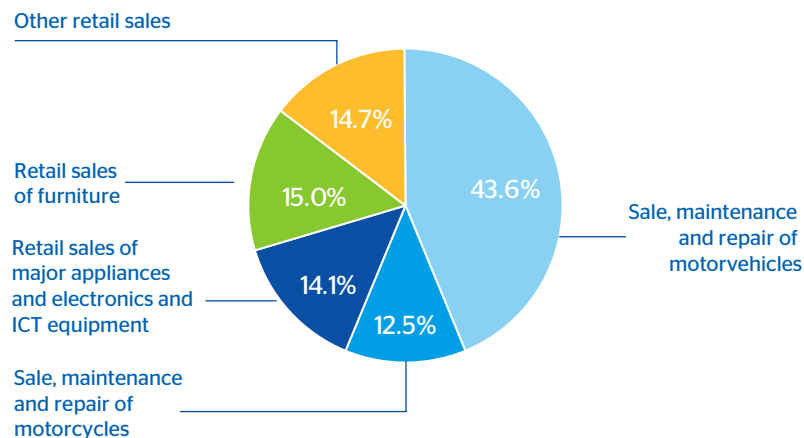
Composition of samples by sector of activity

Source: BBVA Research

Economic Activity Survey



Business Trends Survey



Section 5

BBVA surveys of economic activity and business trends

Headline results

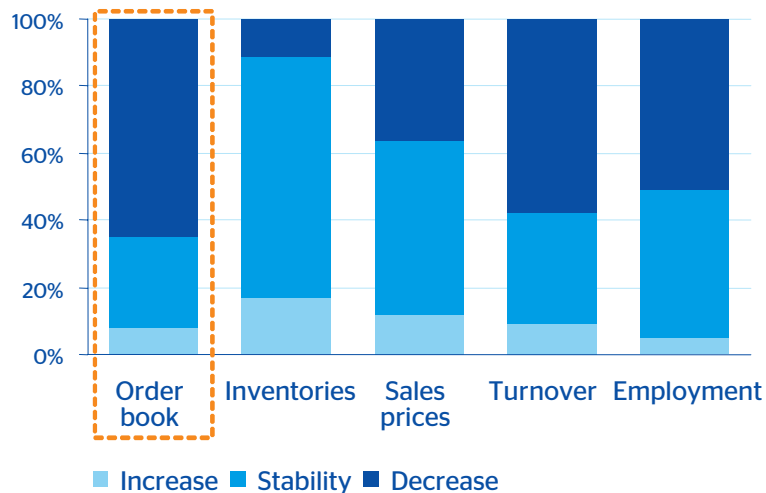
Extremely weak consumption which had a significant negative impact on companies' results in 2H10

Results hardly vary when the question refers solely to the sector in which the company conducts its activity...

... although they do vary when the position of the business is compared with the sector in which it operates ("social desirability")

Business position: 2H10 vs. 1H10

(% answers)
Source: BBVA Research



Perception of economic situation: 2H10 vs. 1H10 (% answers)

Source: BBVA Research

	Spanish economy		Sector		Company
	BTS	EAS	BTS	EAS	EAS
Improved	0.6	2.1	0.6	4.0	7.8
No change	33.1	32.3	27.4	29.1	57.0
Worsened	66.9	65.6	72.0	66.9	35.2

Section 5

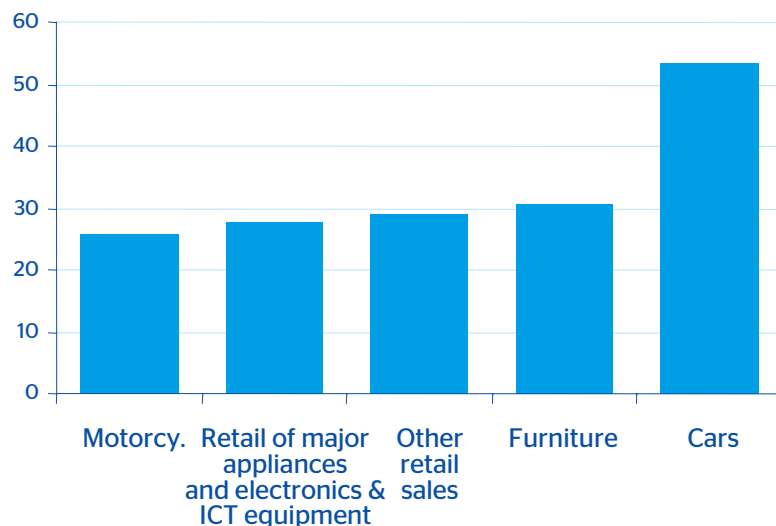
BBVA surveys of economic activity and business trends

Headline results

- During the latter half of last year, the **changes in financing conditions** does not appear to have significantly limited the performance of the companies included in the survey
 - Less than half the participants in the EAS tried to obtain external financing in 2H10, 88.5% of which were successful
- BBVA Finanzia managers agreed that a lack of demand drove the credit squeeze in 2H10 more than a lack of supply

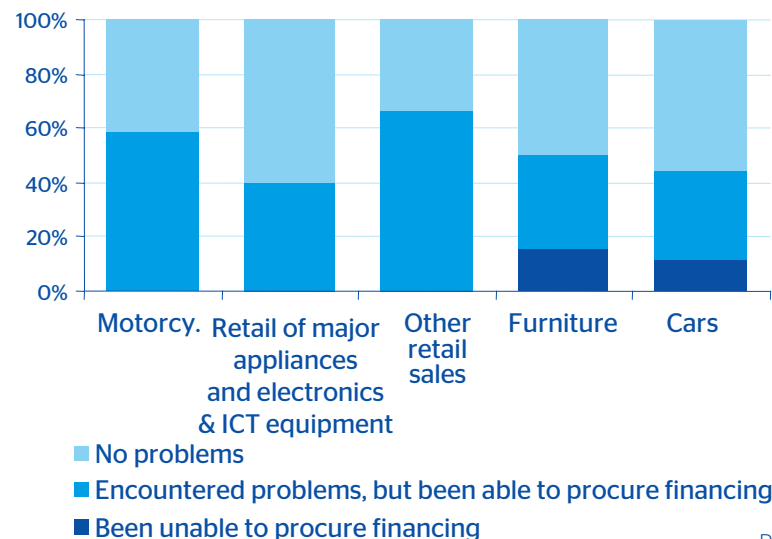
Companies that tried to obtain external financing in 2H10 (%)

Source: BBVA Research



Problems procuring external financing in 2H10

Source: BBVA Research



Section 5

BBVA surveys of economic activity and business trends

Headline results

- **Improved expectations of companies and managers for 1H11 ...**
- ... underpinned by a favourable outlook for supply of credit (70.9% believe it will not decrease in 1H11, compared to 44.0% in 2H10)
 - While most companies in the survey expect an improvement for 1H11, companies involved in motor vehicle distribution remained less optimistic than the average
- Most optimistic expectations: retail sales in non-specialist establishments, medical and orthopaedic product sales, and other lending activities

Perception of economic situation: outlook for 1H11 (% responses)

Source: BBVA Research

	Spanish economy		Sector		Company
	BTS	EAS	BTS	EAS	EAS
Will improve	5.1	9.4	4.0	11.4	18.9
No change	49.1	44.8	54.3	46.6	60.3
Will worsen	45.7	45.8	41.7	42.0	20.8

Key themes

- **Divergences in the world economy** (developed vs. emerging, central Europe vs. the peripheral, financial economy vs. real economy) will influence economic policy responses
- **Economic and institutional reforms in Europe** will be key to resolving the financial crisis
- **Spain's economic growth** will continue to be affected by weak domestic demand and the push from export demand
- The sovereign debt crisis confirms the importance of **maintaining the reforming effort**
- The **increased pace of fiscal consolidation** modified household spending patterns in 2010
- Given their increased sensitivity to fluctuations in price and income, **consumption of durable goods** was **especially affected** by the change in tone of fiscal policy
- The expected weakening in demand does not point to an increase in **consumer credit** in the short term
- **BBVA surveys of economic activity and business trends**: companies and managers see improved outlook for 1H11, bolstered by a favourable forecast for the credit supply

Spain: Consumption Outlook

Barcelona, 3 March 2011