Spain’s Crisis Fades as Exports Transform Country


- Victor Alberola Salcedo was shocked when the construction of a suburban Madrid train line was halted in 2010, terminating a contract for his 17-person company. It brought home the reality of the worst economy in his country’s more than 30 years of democracy.

Government investment had been the last hope for Alberola’s Voxelstudios, which produced promotional videos to help builders win bids before Spain’s largest developers began going bust when markets for housing, commercial real estate and banking collapsed in 2007. Profit fell by 76 percent the year of the cancellation. He had only one more card to play: He hit the road, heading for the Middle East, Asia and Latin America.

- Special Report: Hope Dawns for European Recovery

The decision paid off. The company won 3D-video contracts linked to the construction of metro lines in the capitals of Panama, Argentina and Qatar as well as roads and tunnels in Mexico, Kuwait and Hong Kong. Voxelstudios’ profit last year was more than double the 2010 level. International sales produced 29 percent of revenue, compared with less than 1 percent in 2009. And no one was laid off even during the darkest period.

“Had we not gone abroad, we’d be half as many today,” said Alberola, 35, as designers huddled around computer screens in the three-room office studio in Madrid. “At least every other day I tell my wife how lucky we are. I’ve kept all my staff and I haven’t even cut wages.”

Record Exports

Alberola is among a growing percentage of standouts in a country with 27 percent unemployment -- 56 percent for those less than 25 years old. Their success also is forging a path for the euro region’s fourth-largest economy to emerge from a sixth year of recession.

Spanish exports climbed to a record 223 billion euros ($291 billion) last year as a drought in orders at home pushed companies to upgrade products and go abroad. It
was another step away from a decade of growth fueled by mass construction and tourism.

“There’s a qualitative change in exports toward more value-added products,” said Pedro Nueno Iniesta, a professor of entrepreneurship at IESE Business School in Barcelona in a telephone interview. “Spain will always export wine, olive oil, traditional products but it’s logical that there are other more sophisticated products such as pharmaceutical ones or car components that will play a bigger role in the economy.”

The “painful” reforms undertaken by debt-strapped countries “are starting to bear fruit,” European Central Bank President Mario Draghi said in a May 23 speech in London. It’s visible in “the impressive improvement in export performance in Ireland, Spain and Portugal.”

**Reducing Forecasts**

The euro region needs improvement in those countries in order to exit its sixth quarter of recession. The Organization for Economic Cooperation and Development cut its economic forecast for Italy for the second time in a month on May 29 as weak household demand extended the country’s longest slump in more than two decades. The OECD also said Greece, the country that triggered the debt crisis in 2010, may need more funds as output will drop a seventh year in 2014.

Spain’s budget deficit, at 10.6 percent of gross domestic product, is the widest in the EU, more than three times the limit set for all members. The country last year received 41 billion euros in European aid to bail out banks burdened by bad loans linked to real estate.

“Spain needs Europe and Europe needs Spain,” said Maria Yolanda Fernandez Jurado, associate professor of the Faculty of Economic and Business Sciences at Madrid’s Universidad Pontificia Comillas. “There is mutual interest, given the weight of its economy, its population, its links with countries outside Europe.”

**Sales Doubling**

For companies such as pool supplier Fluidra SA (FDR), sales outside Europe are the answer. Fluidra almost doubled its sales to Asia. Builder Grupo Isolux Corsan SA tripled the share of its revenue that came from abroad over four years. The Spanish unit of German software giant SAP AG generated 38 percent more revenue last year from sales to small businesses, mostly from products linked to exports.

They are helping make up for falling demand in a country where 11 percent of the country’s 17.4 million households have no breadwinner.
"Many companies that depended on domestic demand disappeared during the crisis while those that had a strong exporting capacity were able to overcome it," Deputy Trade Minister Jaime Garcia-Legaz Ponce said on May 17. "This is a very important lesson for the future that companies have learned and it's transforming the Spanish economy."

**Fewer Jobless**

He spoke after announcing that in March, Spain registered its first trade surplus since records began being kept in 1971. Figures published today showed the biggest May decline in people signing up for jobless benefits since at least 2002. Aided by the start of Spain’s peak tourism season, the number dropped by 98,265, according to the Labor Ministry.

Spaniards may have to wait to see the impact on the overall economy. GDP (SPNAGDPY) contracted for a seventh quarter in the first three months of the year amid a slump in lending that is strangling small businesses. In Spain, 95 percent of companies have fewer than 20 employees, according to the National Statistics Institute.

Households’ income from wages fell 8.5 percent in the last quarter of 2012 from a year before, pushing their savings rate down to 13 percent from 16 percent. Retail sales have declined every month since July 2010; mortgage lending since August 2007.

**Long History**

The March trade surplus was driven by a 15 percent import drop as households cut spending. Foreign sales rose 2 percent and first-quarter exports fell at the fastest pace in a year.

A country’s reputation is the product of a long history and that is difficult to change, said Emilio Lamo de Espinosa, chairman of the Elcano Royal Institute, during an event organized by the government in March to improve the country’s image abroad.

“We have given an image of romance, partying, sun, sangria wine, siesta and paella: Spain comes across as a country where it is good to live, to go for a vacation or retire, but not to work,” he said during a roundtable. “It is obviously easier to sell a fridge branded ‘made in Germany’ than ‘made in Spain.’ Spain doesn’t have the reputation of a serious, rigorous, efficient and reliable country.”

Still, Spain is raising hopes. The European Commission forecast in May that exports will grow 4.1 percent this year, almost twice the European Union average rate. Exports of goods and services as a share of GDP, at 32 percent, was the highest last year since at
least 2000, Eurostat figures show. Sales are rising at double-digit rates in fast-growing markets in Asia and Africa, according to Trade Ministry data.

**Falling Yields**

The pace of the Spanish recession slowed in the first quarter and sovereign borrowing costs dropped as Draghi repeated his July pledge to support the euro. The yield on Spain’s 10-year benchmark bond dipped below 4 percent in March for the first time since 2010, compared with a euro-era record of 7.75 percent on July 25.

Sales from abroad enabled publicly traded Spanish companies to increase revenue by 8 percent last year even as the domestic market was almost flat, according to a study published on May 8 by the research unit of the Madrid stock exchange company Bolsas & Mercados Espanoles SA (BME).

“I want to think the future will be better,” said Tontxu Campos, director of the Entrepreneurship Center at the Deusto Business School in Bilbao, Spain, in a telephone interview. “Entrepreneurship and technological leverage can help Spain achieve an economic recovery and change the country’s economic structure toward being less dependent on traditional sectors such as construction or agriculture.”

**Route Diversification**

In the last two years, the number of companies that export has jumped by more than 10 percent each year, compared with an increase of 1.7 percent in 2010, data from government agency Icex show.

Fluidra was the fourth-best performer last year on Spain’s Ibex small-cap index, rising 16 percent. The biggest gainer with an 88 percent advance was passenger carrier Vueling Airlines SA (VLG), bought by IAG SA last month. Chairman Josep Pique Camps said in February he planned to diversify routes to limit dependency on the Spanish market.

“Spain has the potential to become again one of the economic engines in the euro zone,” Dutch Finance Minister and euro group Chairman Jeroen Dijsselbloem said April 11. “It has a young population, it has a good infrastructure, a good educational system like Ireland has, the basis is there, the competitiveness is being improved.”

**Metro Contract**

That’s even true among some of Spain’s construction companies, whose overbuilding helped bring about the crisis. Spain is home to almost one-third of the euro region’s 19.4 million jobseekers and the construction industry last year employed less than half as many people as it did at the beginning of 2008.
Isolux increased the share of its revenue generated abroad to 68 percent in 2012 from 22 percent in 2008, the first year of Spain’s recession. Contracts included the second phase of a World Bank-funded metro line in Sao Paulo in Brazil.

Another company that turned its fortunes around by expanding internationally was Fluidra, the pool supplier and water-treatment company based in Sabadell, Spain. Domestic revenue last year was 43 percent below its level in 2007, just before demand for private pools started crashing as the real-estate boom ended. Over the same period, sales to Asia and Australia almost doubled.

**Pool Robots**

“We haven’t recovered the peak of our sales yet but we are close to it, and that clearly didn’t happen in Spain,” said Fluidra chief financial officer Xavier Tintore Segura in a phone interview.

In order to win clients, Tintore says Fluidra opened branches in Indonesia, Jordan and Colombia and expanded services. The company added fluid handling to its core pool and spa operations and made sure its range of products remained extensive, from plastic parts to automatic pool cleaning robots.

Fluidra is now also seeking to sell more “all-in-one” packages, after winning a contract of 2.5 million euros to handle speed water rides and other hydraulic features for an amusement park set to open this year near Pataya, Thailand.

For Carlos Trenchs Sainz de la Maza, managing director of venture capital fund Caixa Capital Risc, Spain is benefiting from an educated labor pool that can develop technologies enabling companies to go global. At 34 percent, the portion of the workforce with the highest level of education is well above the euro region average of 28 percent and ahead of Germany and France, according to 2011 Eurostat data.

**Most Educated**

“Technology came to Spain later than in other countries but now it has been picked up by the most educated and experimented generation of 30- to 40-year-olds the country has ever had,” Trenchs said. “All we hear about is the bad news and it’s true part of the economy is very damaged, but it’s also true many companies are doing very well and this will contribute to an economic recovery.”

Exports with high-technology content increased by 14 percent in 2011, after a 17 percent surge in 2010, according to the most recent data available, published by the...
“Many companies have seen products that used to be very popular in Spain and aren’t selling as well can find buyers in emerging countries,” said Pilar Martinez Santa Maria, a director at SAP’s Spain branch.

Counter Maker

The company, which counts wine-maker Miguel Torres SA and kitchen-and-bathroom silestone fixtures supplier Cosentino SA among its clients, says SAP’s revenue generated by small businesses in Spain surged 38 percent last year due to demand for export-tied products, such as programs to analyze markets.

The government of Prime Minister Mariano Rajoy, in power since December 2011, has created a task force dubbed “Marca Espana” to promote investment in Spain as well as working, studying and traveling.

The agency, which helped Voxelstudios go abroad in the first stages of the crisis, last month published a handbook to guide small businesses looking to do business abroad. It also signed a partnership with the state bank ICO to help them access funding and counseling.

Voxelstudios’ Alberola says he has seen the transformation. While many Spanish customers wondered why he was wasting time and money when he first began scouring the planet, some of them later set up overseas operations themselves -- and he now works for several of those units abroad.

His staff remains lean: He cleaned his own office window shutters on the Saturday morning before the interview. Still, he sees growth ahead.

“Spaniards have really changed and the crisis has been the trigger,” he said. “Even for olive oil or wine, we’ve realized that to sell ourselves, you have to make yourself different from your neighbor.”

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