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# Towards a less import-dependent production model

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The dynamism shown by imports in the current phase of the recovery has raised doubts concerning Spain's ability to keep its current account in surplus. A sustainable correction in the external imbalance should be based on a production model which, in addition to having a broader and more competitive export base, also depends less on imports. This Focus analyses the trend in imports since the recovery began in 2013 Q3 to determine whether the Spanish economy seems to have embarked on the road towards such a transformation.

One initial approach to assess the rise in imports looks at the trend in the different sectors that support growth. If those sectors requiring more imported inputs to manufacture their products are the ones behind the improvement in economic activity, it is very likely that imports will also rise sharply. And that is precisely what is happening: the recovery is stronger in those branches of activity with a

higher import content.<sup>1</sup> Industry, which is the sector with the highest import content (38.2%), posted the largest cumulative increase in its value-added between 2013 Q2 (the start of the recovery) and 2015 Q2 (most recent figure). A similar picture is provided by analysing growth from the point of view of demand. The components recovering the fastest are private consumption, particularly of durables, and investment, precisely those components with the highest import intensity (29.0% and 35.8%, respectively).

However, we must also take into account the fact that this is unlikely to reflect a structural change in the economy towards sectors with a higher import content. Industry, on the supply side, and investment and durables consumption on the demand side, tend to fluctuate a lot throughout the economic cycle: they fall more during recessions and grow more during the cycle's expansionary phase. In fact, in developed countries the share of industry and investment in the economy has a downward secular trend, which should result in their economies becoming less import-dependent in the long term.

To determine more accurately whether the underlying trend in the Spanish economy is towards less dependence on imports, we need to calculate the import content of the different GDP items over time. Unfortunately the data available do not have the necessary frequency. In fact, the most recent estimates for the import content in the main demand components of GDP correspond to 2005.<sup>2</sup> However, one simple exercise can be highly illustrative. Taking as our reference the estimated import content in 2005, we can extrapolate the trend for imports according to the growth observed in the different demand components of GDP. If the predicted growth in imports is higher than the actual growth, we can conclude that the import content has fallen. This is precisely the result obtained. The strong growth observed in imports over the last few years is therefore modulated when we take into account the growth in GDP components and the estimated import content in 2005. For example, imports should have grown by 7.6% year-on-year in 2015 Q2 if the import intensity had remained constant since 2005 but they actually grew by 6.8%.

We must, however, enter two caveats regarding this deduction. Firstly, part of the

difference between the observed and predicted trend in imports according to the trend in GDP components and their import content is due to the fall in oil prices, resulting in import growth being more moderate in nominal terms. However, growth in imports was already lower than the predicted rate before oil prices started to plummet, reinforcing the idea that a structural change is occurring towards less dependence on imports. Secondly, given that those branches of activity with the most growth are the ones with the highest import content, we should expect the observed growth in imports to be higher than the predicted figure rather than lower. Consequently, this second factor also supports the idea of a change towards a less import-dependent pattern of growth.<sup>3</sup>

In summary, the evidence is not direct and a more detailed analysis is therefore required before reaching any firm conclusion. But the exercise carried out suggests that the gains in competitiveness achieved over the last few years are helping to construct a model of growth that is less dependent on imports. If the Spanish economy continues to progress along this path, it will be capable of growing at a high rate without this leading to external imbalances.

1. The import content is the share of production value represented by imported intermediate inputs.

2. See «The import content of the industrial sectors in Spain», Economic Bulletin, April 2012, Bank of Spain.

3. The theoretical trend in imports according to the estimated import intensity in 2005 is calculated with a limited level of disaggregation by demand component. Given the aforementioned composition effect, the predicted growth in imports would be higher if this exercise could be carried out in more detail.

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