

Are Spanish exports competitive?

In the last decade, the Spanish foreign sector has produced very good results and shown a remarkable resilience to numerous adverse economic events. The fact that the current account has remained positive for 11 consecutive years, even during the coronavirus pandemic, is proof of this. However, given the current context marked by a sharp rebound in inflation and the consequent increase in wage costs, it is worth analysing the evolution of the competitiveness indicators of the Spanish export sector.

Before we begin, we must first clarify that competitiveness is a concept with multiple facets. In this article, we will focus on analysing indicators related to the degree of competitiveness in price and costs, since the current operating environment has been affected by an energy crisis that has triggered a marked increase in companies' production costs. However, as already mentioned, this analysis will offer only a partial view of the competitiveness of our country's foreign sector, given that, although competitiveness in price and/or costs is important, there are other relevant factors which also play a part. These include elements such as the quality of the products and services being exported, or the degree of innovation they incorporate, to name just two. In any case, we will briefly analyse the evolution of the country's market share in exports, which after all are the result of the overall competitiveness of the economy.

Competitiveness in price/cost

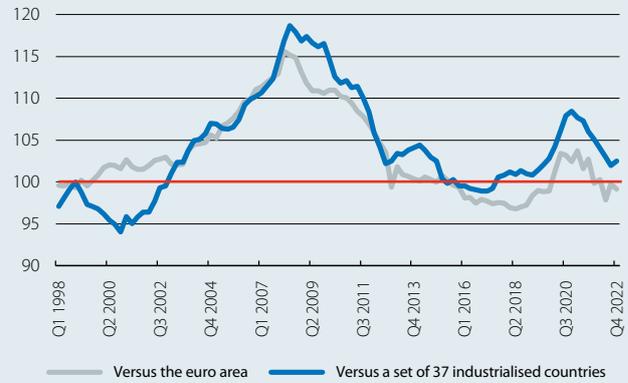
To measure cost competitiveness, we use the real effective exchange rate (REER). This measures the value of a currency against a weighted average of several foreign currencies corrected by a cost index. An increase in the REER implies that exports become more expensive and imports become cheaper; therefore, an increase indicates a loss of competitiveness in trade.

In the first chart, we show the evolution of the effective exchange rate, deflated using the unit labour costs (ULCs, which are the labour cost per unit of product) of Spain compared to those of the euro area and of a broader set of industrialised countries. Given that euro area countries share the same currency, the measure against the euro area corresponds to the ratio of Spain's ULCs versus a weighted average of euro area ULCs.

The competitiveness of the Spanish economy, as measured according to this index, suffered a sharp deterioration during the years leading up to the great recession. This deterioration was largely corrected during that downturn and the economy managed to maintain those gains throughout the expansionary period which lasted up until just before the outbreak of the pandemic in 2020. During the pandemic, there was a marked but temporary deterioration in competitiveness linked to the

Spain: real effective exchange rate based on unit labour costs

Index (100 = 2015)



Notes: The 37 industrialised countries include the EU-27 plus Australia, Canada, the US, Japan, Norway, New Zealand, Mexico, Switzerland, the United Kingdom and Turkey. The measure relative to the euro area, which does not involve an exchange rate, corresponds instead to the ratio between unit labour costs in Spain versus those in the euro area.

Source: CaixaBank Research, based on data from the Bank of Spain and Eurostat.

Spain: real effective exchange rate based on the CPI

Index (100 = 2015)



Notes: The 37 industrialised countries include the EU-27 plus Australia, Canada, the US, Japan, Norway, New Zealand, Mexico, Switzerland, the United Kingdom and Turkey. The measure relative to the euro area, which does not involve an exchange rate, corresponds instead to the ratio between inflation in Spain and that of the euro area. Both series have been smoothed by applying a seasonal adjustment.

Source: CaixaBank Research, based on data from the Bank of Spain and Eurostat.

fall in productivity, but this deterioration has been corrected practically in its entirety during 2021 and 2022. Overall, competitiveness measured using ULCs shows that Spain is in a similar situation to that which it experienced during the period 2014-2019. This was a very good period for our export sector, as demonstrated by the fact that the relative weight of exports of goods and services as a proportion of GDP went from around 26% in 2007 to close to 34% on average in the period 2014-2019 and to 42% in 2022.

In the second chart, we take another look at the evolution of the effective exchange rate, but this time

deflated using the harmonised index of consumer prices (HICP). The previous measure, based on ULCs, allowed us to compare labour costs between countries, taking into account differences in productivity but ignoring other production costs, among other things. The measure based on inflation allows us to compare price levels between countries, but it is a price index based on the pattern of consumption, so the price of intermediate inputs in production processes is excluded from the calculation. In this case, the pattern in the effective exchange rate deflated using the HICP is particularly relevant, given the sharp rebound in inflation that has occurred in both Spain and the euro area since the end of 2021.

Once again, whether we compare it against the euro area or the broader sample of industrialised countries, in both cases we can see the marked deterioration in competitiveness during the first decade of the millennium. However, it is also apparent that since the great recession this deterioration has been gradually corrected, and this correction has not been altered by the recent inflation rally. In fact, in the most recent period characterised by inflation, Spain has seen an increase in its competitiveness compared to both the euro area as a whole and the industrialised countries analysed.

Competitiveness and export share

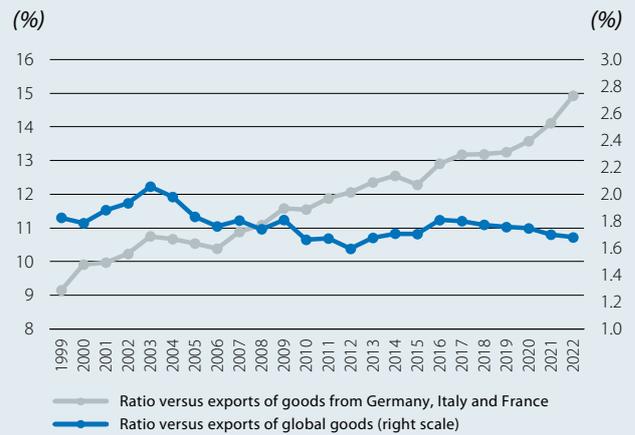
Finally, it is interesting to examine how Spanish exports of goods and services compare to the rest of the world in terms of total share, as this offers a more complete picture of Spain’s competitiveness. This measure does not address the reasons why we can export, i.e. whether it is because we are competitive in costs or because we produce products with a high innovative component; rather, it summarises the result of this complex process that is selling abroad.

The third chart shows the evolution of exports of Spanish goods measured in terms of their percentage of the total exports of goods in the world, and as a percentage of the exports of Germany, France and Italy.

As can be seen, when we focus on the evolution of exports compared to our main competitors within the euro area, we see a very strong performance. Exports of Spanish goods have gone from representing around 10% of the exports of Germany, France and Italy in 2000-2007 to around 13% in 2014-2019, climbing to almost 15% in 2022. Nevertheless, when compared to the whole world, the pattern is much more restrained, with a very slight drop in Spain’s share of exports.

However, it is important to emphasise that behind this asymmetric behaviour is China’s irruption in the export markets, having tripled its export share since the 1990s. This has been at the expense of most countries, which have seen substantial drops in their share of total global exports, including prominent exporters such as the US (from 12% between 1995 and 1999 to 8% between 2021

Ratio of exports of Spanish goods



Source: CaixaBank Research, based on data from the World Trade Organization.

Share of service exports in the global total by country



Source: CaixaBank Research, based on data from the World Trade Organization.

and 2022) and France (from 6% between 1995 and 1999 to just over 2% between 2021 and 2022). In this regard, the fact that Spain has managed to maintain a relatively stable share of global exports, at around 2%, and above its relative weight in terms of global GDP (around 1.5% on average between 2014 and 2019) for three consecutive decades is a hallmark of resilience.

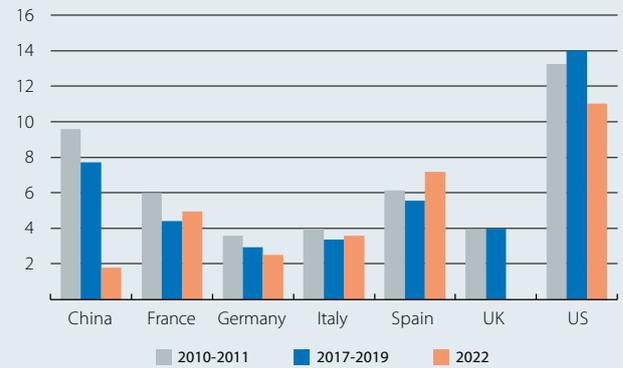
As for the export share of services, we see a similar situation for Spain, which has kept its share stable at around 3% of global service exports. China has increased its share very slightly, capturing just over 7% of the market, while the United Kingdom and the US have lost a substantial portion of their share (-1 pp and -2 pps, respectively). France and Germany have remained relatively stable. It should be noted that the structure of the global services market is more balanced than that of goods in terms of competitors. For instance, while in goods China has practically 18% of the market compared to a combined 24% for France, Germany, Italy, Spain, the United Kingdom and the USA, in the case of services, China’s share is reduced to 7% while that of the aforementioned group of countries rises to 34%.

Finally, we looked at tourism services, since Spain plays an especially important role globally in this sphere. While Spain's market share has always been well above the relative weight of its GDP in the world economy (around 6% versus approximately 1.5%), in 2022 its market share has risen significantly to reach 7% of the global market. The sharp fall in service exports from China also stands out, having gone from a share of tourism exports of around 8% prior to the pandemic to just 2% in 2022.

In conclusion, in this article we have reviewed the evolution of some competitiveness indicators for Spain's foreign sector. Based on the price/cost indicators reviewed, or the evolution of the share of our exports of goods and services in the global market, we see that the performance of our foreign sector underscores its strength despite the many adverse shocks of recent years. We expect our foreign sector to remain competitive in the coming years, although this does not mean that the growth of our exports will be immune to the effects of the economic slowdown in our trading partners as a result of the monetary policy tightening cycle that we are witnessing across many parts of the world.

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Share of tourism service exports in the global total by country (%)



Source: CaixaBank Research, based on data from the World Trade Organization.