

Industrial investment in Catalonia grew 6.7%, the highest rate in the last six years.

- The Minister of Innovation, Universities and Enterprise, Josep Huguet, and the Secretary of Industry and Enterprise, Antoni Soy, presented the annual report on industry in Catalonia. According to this report, the evolution of industrial investment is the indicator that best expresses the solidity of industrial recovery for a variety of reasons: it contributes to an increase in GDP; plays a decisive role in the improvement of productivity and competitiveness levels; and reflects business owners' confidence in the future.
- This report details the annual evolution of the Catalan industry based on primary variables such as industrial investment, the industrial GDP, the Industrial Production Index, the Industrial Climate Indicator, foreign trade, employment within the sector and industrial prices.
- Another indicator which has demonstrated a very positive evolution has been foreign trade: exports grew 12% in 2006, the highest rate since 2000. By sectors, high technology content exports have registered the best performance, with a 25.3% increase.
- By industrial sectors, activities associated with construction, as well as consumer electronics and motorcycle manufacturing have ranked as top performers in 2006.

Thursday, 14 June 2007 – Industrial investment in Catalonia has grown 6.7%, the highest rate in six years, according to the Annual Report on Industry in Catalonia presented today by the Minister of Innovation, Universities and Enterprise, Josep Huguet, and the Secretary of Industry and Enterprise, Antoni Soy.

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improvement of productivity and competitiveness levels; and reflects business owners' confidence in the future".

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Minister Huguet has indicated that ***"the foreign sector, together with investment, demonstrate healthy growth in Catalonia's industrial sector"***, and has added that ***"the industrial companies are meeting their obligations to change the paradigm and are diversifying the export markets. This is a desirable strategy for reaching an international positioning that is not dependant on the European economic situation"***.

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From the reading of the 2006 annual report on industry in Catalonia, Minister Huguet has pointed out that ***"we are presently in a good industrial situation"*** and that ***"the economic model in Catalonia is facing a change"***. According to Huguet, ***"the relaunching of industry demonstrates that this country has resisted the temptation of being a country that only offers services"***.

The head of Industry has pointed out that ***"they are beginning to invest more outside than they are receiving investments. However, that is not to say that we are not contributing to a new wave of foreign investment: it takes the shape of R&D, instead of production plants"***.

According to Minister Huguet, ***"we are restructuring the most outdated aspects of the Catalan economy and should be pleased with the data"***. He has concluded that ***"the government's policy is aimed at supporting the modernisation of the Catalan economy"***.

Annual Report on Industry in Catalonia: validity and usefulness

The Observatory of Industrial Foresight (*Observatori de Prospectiva Industrial*) of the Secretariat of Industry and Enterprise under the Ministry of Innovation, Universities and Enterprise drew up this Annual Report on Industry in Catalonia with a view to making the public aware, in an efficient and systematic manner, of the Catalan industry's annual evolution and its main events.

The analysed indicators are:

- industrial investment
- industrial GDP
- Industrial Production Index
- Industrial Climate Indicator
- foreign trade
- industrial employment
- industrial prices.

Industrial investment: 6.7% increase in 2006

One of the most significant notes of 2006 has been the evolution of industrial investment, having experienced the highest growth rate in the last six years, with a 6.7% change rate. This is the fourth and final estimate, which represents an improvement over the last three (4.4%, 5.4% and 5.9% respectively) and makes it evident that business owners revised the investment forecasts upwards as the year progressed.

INDUSTRIAL INVESTMENT IN CATALONIA

(Annual change rates in %)

Source: Secretariat of Industry and Enterprise

The increase of this indicator is important due to its direct impact on other parameters. On the one hand, investment increases and modernises productive capital stock and plays a decisive role in the improvement of productivity and competitiveness levels. On the other hand, industrial investment is the main factor responsible for the fluctuations experienced by the GDP production levels in the short-term. Likewise, investment is highly linked to business expectations, as it only increases if business owners have confidence in the near future.

The increase in industrial investment in Catalonia is even more remarkable if one takes into consideration that it has occurred amidst rising interest rates.

Based on company size, small and medium-sized companies (with less than 50 workers) have been most dynamic due to the 13.8% increase in their investment. On the other hand, large-sized companies (with more than 250 workers) have reduced their investment, with a 2.3% decrease in 2006 compared with the year before.

As regards the destination of investment, the expansion of production capacity was, once again, the most important, representing 38.4% of the total. Twenty-five percent of the investment was allocated to improving the production equipment's output, 20% to replacing the equipment and 15% to other purposes, such as business or administrative improvements.

Industrial GDP: 2.9% growth in 2006

The industrial Gross Domestic Product (GDP) has grown 2.9% in 2006 in comparison with the previous year. This is the highest rate since 2000 and demonstrates that, after years of weakness, the Catalan industry has entered a definite phase of expansion.

Annual evolution of the industrial GDP in Catalonia (% of year-on-year change)

Note: until 2000, 1995 base; from 2001 on, 2000 base

Source: Statistical Institute of Catalonia

GDP growth intensified as the year progressed. Thus, analysed quarterly, the rate of increase in the first quarter of 2006 was 2.7%; for the second, 2.1%; for the third, 3.1%; and the fourth quarter's industrial GDP growth was 3.6%.

Industrial Production Index: registered a 3.3% increase for 2006

Industrial recovery has also been demonstrated in production: last year the Industrial Production Index rose 3.3%, the highest increase in the last six years. All the sectors increased their production in comparison with 2005, although capital goods production has led the revival of the group, with a 10.1% increase after having fallen four years in a row.

After three years of negative evolution, the consumer goods sector experienced a 2.1% increase. In turn, intermediate goods production increased 1.2% and energy, 4.4%.

Annual evolution of the Industrial Production Index

Source: Statistical Institute of Catalonia

Industrial Climate Indicator: in 2006, business owners' confidence was 3 points higher than in the previous year.

The Industrial Climate Indicator (synthetic indicator that measures business confidence based on the assessment of value ratings) also confirms the industrial recovery of 2006. This indicator closed the year at its highest level in six years.

Industrial Climate Indicator (ICI) (*)

- 1996-2005 Average

(*) Average of the deseasonalised business opinion results related to the total order portfolio, stocks (with inverted sign) and the production trend.

Source: Secretariat of Industry and Enterprise on the database of the Ministry of Industry, Tourism and Trade.

The positive evolution of this synthetic indicator has been determined by the positive assessment of orders, both domestic as well as foreign, which have also reached their highest levels in the last six years.

Foreign trade: 12% export growth in 2006

Based on the recovery of industrial activity in Catalonia, another indicator that has experienced a strong boost has been the foreign sector. Last year, exports grew 12%, the highest rate in the last six years. Together with the increase in industrial investment, it has contributed to shaping a healthier growth pattern for Catalan companies.

EXPORTS (Annual change rates in %)
years

Source: Statistical Institute of Catalonia

Despite the strength of the euro's exchange rate, this increase is primarily due to the good performance of sales targeted at countries outside of the EU25. The areas where Catalan exports grew most are Central and South America (a growth of 39.1% in comparison with 2005) and North America (20.5% increase in comparison with 2005).

This evolution makes it clear that Catalan industrial companies are putting forth an effort to diversify the export markets, a desirable strategy for reaching an international positioning that is less dependent on the European economic situation. If the foreign sector's evolution has been a significant note of 2006, the most relevant in this area is the considerable export growth of high-technology content.

High-technology content exports experienced a 25.3% growth last year in comparison with 2005. This growth rate implies an increase in its "weight" within the set of exports: in 2006, exports of high-technology products represented 14% of the total, compared to 13.3% in 2005.

HIGH-TECHNOLOGY EXPORTS (Annual change rates in %)
years

Source: Statistical Institute of Catalonia

Within this group, the rise in exports of general electronics (33.1%) and of consumer electronics (44%) are particularly noteworthy, resulting from the dynamism of the demand for products such as flat screen televisions, DVD recorders and MP3 and MP4 players.

Also noteworthy is the rise in pharmaceutical exports, close to 30%, while imports grew around 2%. As a result of the relative evolution of both changes, the coverage rate of the sector's trade balance improved considerably, in comparison with previous years during which they reached a negative balance due to a relatively significant absolute value.

Analysing Catalonia's weight in country's set, in 2006, 43% of Spanish exports of this product set were Catalan, in comparison with 38.8% in 2005. This data shows a relative specialisation in Catalonia as regards high-technology content activities, in comparison with Spain.

Table 2.7.2 Exports of industrial products by technological content (R&D) in 2006

	Value (Million of Euros)	% of TOTAL	% Cat./Spain	% Year-on-year Change
High technological level	6,350.0	14.0	43.0	25.3
Medium-high technological level	22,831.9	50.2	32.3	6.7
Medium-low technological level	7,114.9	15.6	18.1	22.5
Low technological level	9,205.8	20.2	29.4	8.1
TOTAL	45,502.7	100.0	29.1	11.6

Note: High level: electronics, pharmaceutical products, office equipment, computers, etc. Medium-high level: transport material, chemicals, machinery, etc. Medium-low level: rubber, plastic materials, oil refining, metal products, etc. Low level: feed, textile, paper, wood, graphic arts, etc.

Source: Statistical Institute of Catalonia

Industrial employment: rose 0.6% in 2006

Despite the recovery of activity demonstrated by almost all the indicators, a slowdown in industry employment growth has occurred in 2006.

In spite of the slight employment increase that has been registered (0.6%), according to the Labour Force Survey (*Encuesta de Población Activa –EPA*), this increase is less than the 3.8% increase of 2005. However, it is better than in the years 2002, 2003 and 2004, which registered negative growth rates (-0.6%, -2.5% and -4.1% respectively).

Industrial prices: 5.1% growth in 2006

The rise in activity in 2006 has caused industrial prices to increase an average of 5.1%, also the highest rate since 2000. Nevertheless, it is necessary to take into account the sharp increase in the price of oil over the year.

According to the economic destination of goods, the evolution of industrial prices has demonstrated varying performance: the energy sector has experienced the sharpest increase (14.1%), resulting from the evolution of the price of crude oil. Intermediate goods (textile, paper, cardboard, plastic raw materials, production and first transformation of metals) have been the second most inflationary sector with a 6% change rate. As regards consumer goods (feed, furniture, footwear and clothing and publishing), growth has been 2.7%, while capital goods (machinery, electric materials, metal construction) were the least inflationary, with 2%.

Highest performing sectors in Catalonia in 2006: construction materials, consumer electronics and motorcycle manufacturing.

By sector, the positive performance of **construction** activities (construction materials sector as well as part of the metal products, glass, wood and plastic sectors, amongst others) is of particular note, as they took advantage of their customers' long expansive cycle.

In turn, **consumer electronics** has been characterised by a spectacular production increase (30.7%), putting an end, in 2006, to the downward trend of the last three years and reaching its highest growth level since 1998. The key to this improvement has been the considerable dynamism of exports.

With 29% growth, **motorcycle manufacturing** has achieved record volume. The reason lies in the legislative changes that came into effect in 2004. According to these changes, anyone who has possessed a car driving licence for at least three years may drive a motorcycle of up to 125 c.c. Since then, the internal market has experienced a growth spurt. Exports have also played a positive role, with an 18.6% increase in units and record volume.