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AP Spain's Election May Turn on Economy

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By Ciaran Giles, Associated Press Writer

Once an Asset, Spain's Economy Now a Problem for Government in Run-Up to Elections

MADRID, Spain (AP) -- Spain's thriving economy appeared not so long ago to be an ace in the hand for Prime Minister Jose Luis Rodriguez Zapatero as he geared up for the general elections.

With just two weeks to go and negative economic data spilling out almost daily, the economy may have become a stone around his neck.

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Polls consistently show the slowing economy to be among Spaniards' chief worries in the March 9 vote, along with immigration and terrorism.

A Gallup poll last year showed 68 percent of Spaniards felt optimistic about the economy. Back then, the Socialists had an average four percentage point edge over the conservative Popular Party.

Surveys now show the two parties dead even, with unemployment and economic problems occupying second and third place in people's minds, after terrorism.

"It's surprising Zapatero did not call elections earlier," said Juan Carlos Martinez Lazaro, an economics professor at the Instituto de Empresa, a Madrid business school. "In electoral terms, he may have made a mistake because from now on the economic figures are not going to be good."

Spain's economy has been a European success story for more than a decade. But a global financial crisis triggered by the collapse of the U.S. subprime mortgage industry -- coupled with a slowdown in Spain's overheated construction sector -- has set off alarm bells.

Employment figures have become gloomy.

After a decade in which 600,000 jobs were created each year, dramatically reducing one of the EU's highest unemployment rates from 25 percent in 1994 to 8.6 percent, unemployment is rising again

The most recent figures released in January put unemployment at 4.3 percent, up from 2.4 percent a year ago -- the biggest jump in at least a decade.

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Inflation reached a 12-year annual high last month at 4.3 percent, more than double the European Union average. A consumer confidence indicator tumbled in January for the ninth straight month.

Zapatero's Socialists say that while there are problems, Spain's economy can weather the storm.

"It's inevitable that people should be concerned but there is no need to take hasty measures," said Finance Minister Pedro Solbes.

But the economy has turned into a campaign issue for the opposition Popular Party, which accuses the government of ruining the healthy economy it inherited in 2004.

"The profits from the past are finished and the question is 'What now?'" said party leader, Mariano Rajoy.

Most economists expect Spanish economic growth to slow but still produce healthy numbers this year and next.

"I don't see a recession. We will grow at a slower pace, that's all," said Xavier Vives of the IESE business School. "Compared to other European countries, Spain has a budget surplus and its public finances are in better shape."

Spaniards on the street are divided.

"Things are terrible. We haven't got a cent," said Loli Garcia, a 50-year-old office worker.

As Spain made its economic run, housing prices rocketed by some 200 percent, putting homeownership out of the reach for many. Interest rates since have spiked, leaving many who were able to buy into the market struggling with top-heavy mortgages.

Traditionally a low-wage country, an influx of some 4 million immigrants in recent years has helped suppress wages and created a social class known as the 'mileuristas' -- people who earn 1,000 euros (\$1,500) a month or less. In Madrid alone, nearly 50 percent of wage earners, or some 1.5 million people, are mileuristas, according to unions.

"Personally I can't complain, I have a job and they pay me well," said computer technician Jose David Caceres, 30. "But there's too much of a difference between those who are well paid and those who can't make ends meet."

Spain boasts the EU's fifth largest economy with an average yearly growth of 3.75 percent, double the European average, for the past 12 years. Some now predict only 2 percent growth this year. Solbes said growth will hover above 3 percent.

"There's a pervading sense of pessimism because of the bad statistics and everyone talking about crisis," said Martinez. "But this is not a crisis, it's just less growth. There have been worse situations."

The Socialists insist Spain is better off than ever. Per capita gross domestic product, a key measure of wealth, is above the EU average for the first time.

Ironically, Zapatero's and Rajoy's electoral promises virtually mirror each other and many believe it makes no difference who wins.

The Socialists pledge a tax rebate of 400 euros (\$600) to 13.5 million workers while Rajoy promises to exempt 7 million low-wage earners from income taxes altogether. Both promise to create more than 2 million jobs.

"I've no intention of voting because it makes no difference to me who wins," said Garcia. "It's the same dog with a different collar."

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