Market Evolution

Public Pharmaceutical Expenditure (pharmacies)

	June 2013	June 2012	% var. 2013/12
Exp. (€ Mill.) *	755,6	979,5	-22,86%
Prescrip. (Millions)	70,4	90,0	-21,83%
Av. Exp. per. prescription (€) *	10,74	10,88	-1,32%

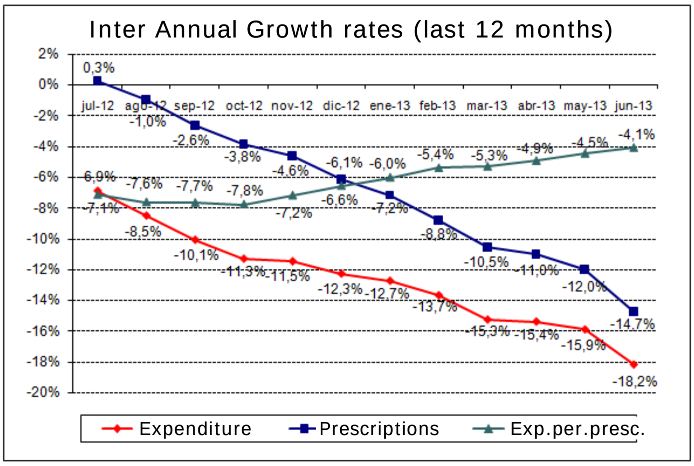
*Retail price (VAT included).

Data from the Ministry of Health, Social Services and Equality shows that in June 2013, public pharmaceutical expenditure at pharmacies experienced a drop of -22.9%, compared to the same month the previous year. This variation in expenditure is a consequence of a fall in the number of prescriptions (-21.8%) and a drop in the average price per prescription of -1.3%.

As mentioned in the previous bulletin, June's expenditure registered a significant fall when compared with the figure for June 2012; the latter was atypically high as a consequence of a "stocking up" effect just before the copayment system (based on personal income) came into force.

Even though there was a significant fall in expenditure in June, it is most likely there will be a noticeable increase in pharma expenditure in July; this is also down to statistics, given that the July 2013 will be compared to July 2012, which was influenced by a stocking up of prescriptions in June (2012) and thus reflected significant falls in prescriptions and pharma expenditure.

Where annual expenditure evolution is concerned (as seen in the chart below), a drop of -18.2 % was registered in June 2013 and the pharma expenditure variation rate continued to drop significantly too although this is expected to slow down in the next few months.

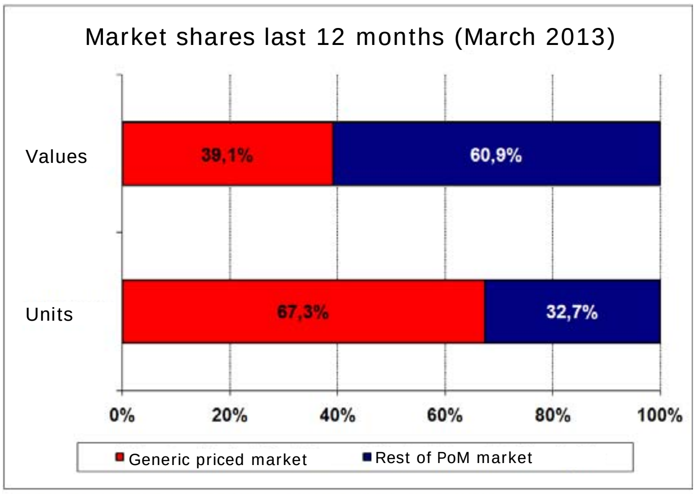


The above chart highlights the sharp fall in the demand of prescriptions in Spain since the new copayment system was established in July 2012; this fall has become even more acute with the de-listing of certain medicines in September.

Similarly, comparing the demand of prescriptions between June 2012 and June 2013, we can verify that the annual demand of prescriptions in Spain has fallen by almost 145 million, i.e. more than 3 prescriptions per person in that 12-year period.

Furthermore, the new pharma copayment system has left a permanent mark on the demand-side as it affects the patient's incentives to ask for prescriptions and it is probable that demand will carry on falling during the second half of this year and throughout 2014; albeit falling at rates a lot lower than the current ones.

Finally, data from the IMS covering the 12-month period ending March 2013 shows that the whole of the medicines market with generic prices reached 67.3% of the total prescription market, in units, in Spain, and 39.1% of said market value.



Source: Farmaindustria estimation from IMS.
Note: Total market net from RDL 8-2010 and 9-2010 RDLs rebates.

Direct payment for acquiring medicines implies a total average cost of 0.6% in Spanish households.

An annual survey carried out by the National Institute of Statistics (INE) allows us to see estimates of annual expenditure in Spanish households as a whole, or broken-down costs for different expenditure groups.

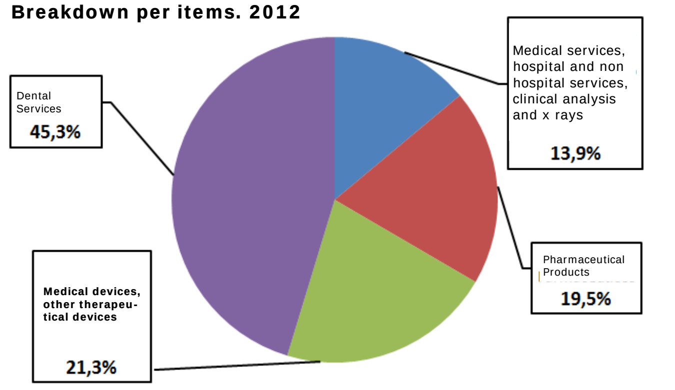
In turn, the results of this survey are used as a base, not only to calculate household expenditure in the National Accounts, but also to establish the weighting structure series of the CPI.

The latest figures published correspond to 2012 and show an average annual expenditure in Spanish households of 28,151.5 €. The main areas of expenditure were: i) housing, water, electricity, gas and other fuels, with an average of 32.3% of the whole expenditure. ii) food and non-alcoholic beverages, 14.7%, iii) transport, 11.8% and iv) spending at hotels, cafes and restaurants, 8.7%.

The healthcare section (including medicines) takes 9th position out of the 12 expense categories and has an average annual expenditure per household of 896.9€, a 3.2% of the total expenditure in 2012.

Analising data in more detail, we can verify that the average expenditure of pharmaceutical products in households rose by 174.9€ in 2012; this implies a total healthcare expenditure of 19.5% and an average expenditure in Spanish households.

Average expenditure in healthcare. Breakdown per items. 2012



Source: INE. Family Budgets Survey. 2012

In 2012, Spanish households spent 174.9€ on pharmaceutical products, an amount similar to that spent on recreational services and sports (175 €) and a lot lower than these following items "hairdressing and beauty treatments/products" (280.8 €), "bread" (315.6 €), "cigarettes" (371 €) or "Mobiles" (441 €), to mention just some.

In per capita terms, in 2012, each person paid 68.3 € for pharmaceutical products; equivalent to 5.7€ a month.

For the fourth consecutive year, the Spanish pharmaceutical market has performed the worst compared to other developed countries.

Over the last few years, pharmaceutical cost containment measures in Spain (in particular the Royal Decrees 4/2010, 8/2010, 9/2011 and 16/2012) have brought about a continual fall in public pharmaceutical expenditure over 3 consecutive fiscal years (2010, 2011 and 2012). Additionally, we shall have to add yet another fall that will probably happen during 2013. According to the MoH, figures at the end of the first half of this year reveal that public pharmaceutical expenditure in prescriptions had dropped by a -15.9%, compared to the first half of 2012.

As a consequence and using data from the 12-month period to June 2013, pharmaceutical expenditure in pharmacies dropped by -30% when compared with the highest figure ever registered, in May 2010.

This drop reflects figures that haven't been seen in Spain since late 2003, while the average expenditure for prescriptions has fallen to levels registered in 1999.

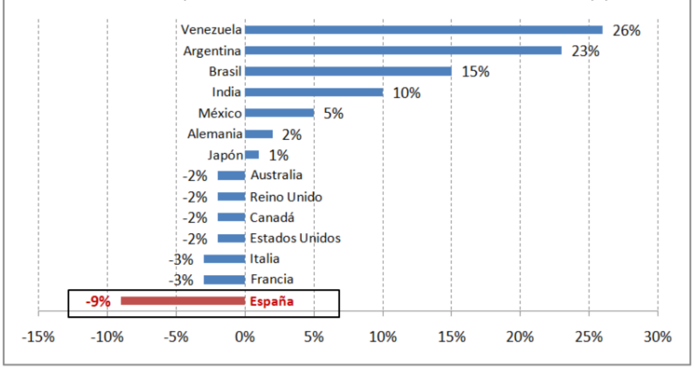
This data prompts further reflection given that the current Spanish healthcare system attends a population: i) a lot larger than in 1999; ii) an aging one; iii) with more chronic health problems than before, and at the same time, there are far more sophisticated and costly therapeutic treatments than those available in 1999.

Consequently, it is worth looking at the performance of the Spanish pharma market in an international context so as to see if what has happened in our country, is also a worldwide trend (as a result of the economic crisis, patent expiry, etc.) or, if on the other hand, the poor Spanish medicines market performance is relatively unusual in an international context.

The consulting Co., IMS Health, has been analising main pharmaceutical markets worldwide for many years. They use a common methodology that allows relatively homogenous comparisons be carried out between different countries.

The most recent figures were published in their bulletin "World Pharmaceutical Market Summary", and the chart below summarises the main results in terms of growth.

Growth in pharmaceutical markets. 12 months rates. June 2013 (*)



Source: IMS Health (World Pharmaceutical Markets Summary)
(*) Accumulated data 12 months June 2013 : growth rate compared to previous year
Note: Pharmacy market (except Japan, which also includes hospitals).

The information in the above chart is very significant as we can observe that the Spanish pharmaceutical market has fallen the most in the last 12 months to June 2013.

Added to this poor evolution is another fact; the Spanish pharmaceutical market is the one with the worst performance in developed countries (those used by the IMS in the study) for the fourth consecutive year (2010-2013).

Furthermore, this situation is worsening due to the forecasts made public recently by the IMS in another reports,[1] (on the Spanish pharmaceutical market) predicting continuous contraction in the pharmacies in Spain, until at least 2016.

If these forecasts are correct, this would mean six consecutive years of falling market prices (2010-2016); an uphill battle for any economic sector, especially an industry which is first and foremost innovative and intense on R&D like the pharmaceutical one.

These figures and expectations should prompt an in-depth reflection on the pharmaceutical industry's role as a driving force for economic development in our country. We are all aware of the delicate situation Spain's public finances are in; however, it is also important to find a balance between public deficit objectives, economic growth and the upkeep of the productive fabric and research of the industry in Spain.

[1] IMS Market Prognosis March 2013.