The Monthly Economic Bulletin

THE PHARMACEUTICAL MARKET IN SPAIN

February 2014

farmaindustria

Market Evolution

Public Pharmaceutical Expenditure (pharmacies)

	Feb. 2013- Ene. 2014	Feb. 2012- Ene. 2013	% var. 2014/13
Gasto (Millones de euros) *	9.209,2	9.652,9	-4,60%
Recetas (Millones)	862,2	903,7	-4,60%
Gasto Medio por Receta (€) *	10,68	10,68	0,00%

* PVP con IVA

Data from the Ministry of Health, Social Services and Equality shows that in January 2013, public pharmaceutical expenditure at pharmacies experienced a drop of -4.6%, compared to the same month the previous year. This variation in expenditure is a consequence of a fall in the number of prescriptions (-4.6%) and a flat evolution rate in the average price of prescriptions (0%.)

The accumulated expenditure in the 12-month period to January 2014 was 562 M€ lower than the year-end figure of 2012. (Please see the below chart.)

Pharmaceutical expenditure. Moving average last 12 months (€ Mill.)

Source: MSSSI

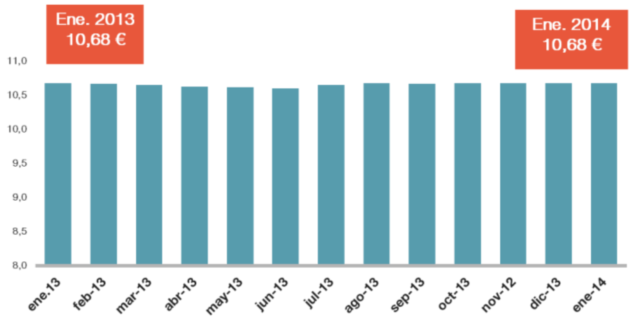
As previously forecast (see **Bulletin number 104**), the series of expenditure and prescriptions in January (2014), continued registering positive annual rates, although at the same time, growth rates were significantly lower. It's likely that this slight growth is maintained in the short-term, but dropping in the summer due to the coming into force of the next Ministerial Order on Reference pricing(RPO).

In fact, it is foreseeable that in March, a noticeable increase in expenditure and prescriptions will be registered due to the seasonal statistic of the Easter Holiday period. Easter this year falls in April, but last year it was in March. With this in mind, the annual comparison of March 2013 vs. March 2014 will in fact be comparing two rather different months with different working days (19 in March 2013 and 21 days in March 2014) (working days is understood as Monday – Friday.)

On the other hand, April will reflect the opposite with 19 working days in that month and 21 working days in April 2013.

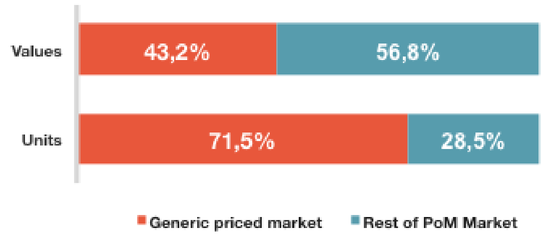
Where average expenditure per prescription is concerned, data is at a standstill. Since August 2013, average expenditure per prescription (accumulated to 12 months) remains unchanged at 10.68 euros. It seems that this situation will continue registering this figure, or reflecting a very slight variation until the next RPO comes into force.

Average expenditure. Moving average last 12 months (€ per prescription)



Finally, data from the IMS covering the 12-month period ending December 2013, shows that the whole of the medicines market with generic prices reached 71.5% of the total prescription market in units in Spain, and 43.2% of said market value.

Market shares last 12 months (December 2013)



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

The pharmaceutical market in the Autonomous regions, 2013

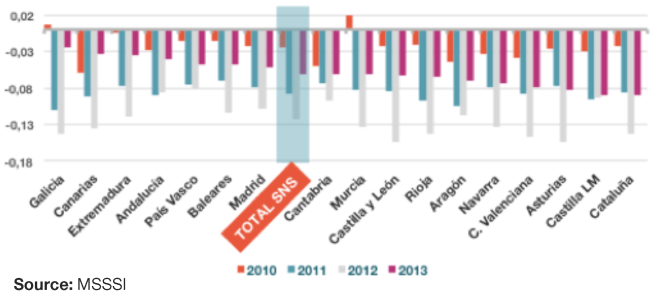
Public pharmaceutical expenditure in pharmacies fell for the 4th consecutive year in 2013. Between the year end of 2009 and that of 2013, Spanish public pharma expenditure fell by -27%, which caused this variable to reach levels as low as those registered at the end of 2003.

This adjustment in expenditure has happened -to a greater or lesser extent- in each and every autonomous region that makes up the NHS. More specifically, the regions have managed to reduce their pharma expenditure during 2009-2013, ranging from anything between -20% in the Basque Country and -31% in the Valencia Region. [1]

The above mentioned adjustment has been gradual, progressive and generalized. In fact, 15 of the 17 regions have registered a fall in public pharma expenditure in each of these 4 years, as you can see in the chart below.

1 Reduction in pharma expenditure in the Basque country has been less than in other Regions, this is fundamentally due to the Basque Country not applying the Co-payment system until 1st July 2014, a year later than that of the other Regions.

Annual variation of pharmaceutical expenditure (2010-2013)

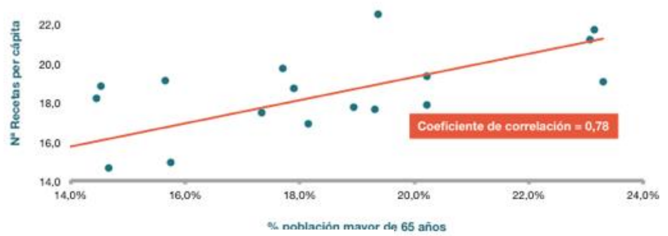


Source: MSSSI

Two-thirds of the total fall in pharma expenditure over the last 4-years is due to reductions made on the average cost of prescriptions (which are at the same level as those in 1998), while the other 3rd part is due to a fall in the number of prescriptions dispensed; this reflects figures similar to those seen in 2007.

Notwithstanding, the drop in prescription dispensing in 2012 and 2013 has not affected the substantial positive correlation between the number of prescriptions in each autonomous region and the percentage of the population of elderly people over 65-years (please see the chart below).

Relation between per capita prescription consumption and / of over 65 years old population in Spanish autonomous regions. 2013.



Source: Farmaindustria + MoH+INE

The severe adjustment made to public pharma expenditure over the last 4-years has played a fundamental role in the Regions' financial sustainability and this adjustment has affected the prescription dispensing as much as the average expenditure per prescription.

The pharma industry still leads in the ranking of productivity within the industrial sectors

Productivity is a variable dependant on economic growth. Economies that base their activities mainly on sectors and industries with high productivity are normally aspiring economies, dynamic and with a large capacity to adapt to changing environments.

One of the longstanding problems with the Spanish economy has been its low productivity, due mainly to focusing on non-intensive industries where capital and innovation are concerned.

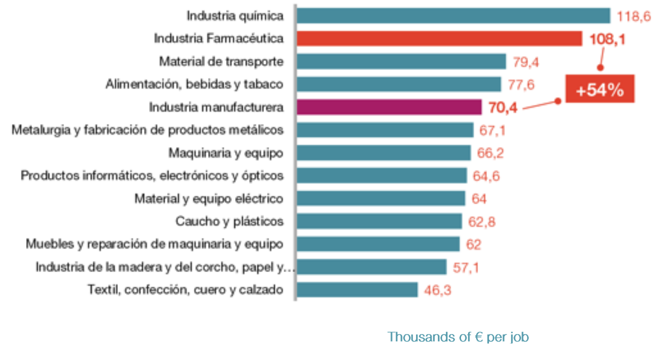
The economic crisis has brought about a noticeable increase in productivity in our country, but, unfortunately, this increase has come through heavy job losses, way more severe than the drop in production registered over the last few years.

According to figures from the BBVA Study Services 2, between 2009 and 2013 an apparent increase in productivity would have been produced in the workforce in Spain of +10%, with a fall in employment somewhat higher than -12% and a fall in real GDP of close to -3%.

This increase will only consolidate in the medium and long term if changes are made to the economic structure in Spain. For this to happen, it is an absolute must that the Spanish productivity begins to swings towards high productivity sectors allowing for greater specialization in those industries where more R&D knowledge is carried out.

In this sense, the pharmaceutical industry would rank high on productivity, leading with the chemicals industry, with a Gross Value Added per employee of 108,100 euro in 2012, a +54% higher than the average Spanish manufacturing industrial sectors.

Productivity (Gross Value Added/Total Jobs) Spain 2012



Source: Farmaindustria from INE (Spanish National Accounts and Entreprises Industrial Survet 2012=)

Even looking at it from that perspective, the pharma industry lost productivity in 2012. This loss is due to the fall in gross value added of (-6.2%) in 2012 that brought about a substantial contraction in the Spanish public pharma market in that year (-8.4%) in both pharmacies and hospitals alike.

In fact, the increase in pharma exports of +6.3% in 2012 couldn't compensate for the drop in demand on a national scale, especially public prescription demand.

Once we see Spain begins to recuperate economically, this will be the moment to lay the foundations to start modernizing the productive model that will turn our country's economy into a more robust one, that will handle the brunt of crises and that can make the most of economic growth periods; this can only be gained by committing to sectors of high-productivity and one of those that is in the lead is the pharmaceutical industry.

2 BBVA Research. Study Services from Grupo BBVA. The Spanish Situation. 4th quarter 2013. Economic Analysis. Available at: http://www.bbvaresearch.com/KETD/

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