

# Spanish economic forecasts panel: June 2012<sup>1</sup>

## FUNCAS Economic Trends and Statistics Department

### No change in the growth forecast for 2012

GDP contracted by 0.3% in the first quarter of 2012. Although negative, this result was better than expected. The drop in domestic demand was significantly less than that registered in the fourth quarter of 2011, largely as a result of the stabilisation of household consumption, which performed better than expected; the consensus view from the previous panel had pointed to a drop in this variable of 0.6%, in line with the negative results shown by consumption indicators in the first quarter of the year. The contribution of the external sector continued to be positive, although it fell short of its performance in the previous quarter.

Despite the better than expected results in the first quarter, the consensus forecast for 2012 as a whole remains at -1.7%. This is due to the quarterly profile envisaged for the second half of the year, where a steeper drop in activity is now expected than was the case at the time of the previous panel (Table 2).

### The forecast for 2013 has been cut to -0.6%

The forecast for 2013 has been cut by four tenths

<sup>1</sup> The Panel of Spanish Economic Forecasts is a survey conducted by FUNCAS consulting the 18 analysis departments listed in Table 1. The survey has been run since 1999 and is published bimonthly in the first half of February, April, June, October and December and the second half of July. Survey responses are used to produce a "consensus" forecast, which is calculated as the arithmetic mean of the 18 individual responses.

of a percent, to -0.6%. This revision is due to a bigger drop in domestic demand components, whose contribution to GDP growth has been cut by four tenths, to -2.4 percentage points. The expected contribution of the external sector has remained at 1.8 pp.

### The slowdown in industrial activity has worsened

According to the results of the industrial production index, the slowdown in industrial activity worsened in March and April. This was corroborated by other indicators, such as manufacturing PMI. The consensus view for 2012 is now -4.7%, and that for 2013, -1.9%.

### Only minor changes in the inflation forecast

The inflation rate broke its year-long downward trend in April as a result of rising tobacco and electricity prices, although it dropped again in May. It stood at around 2% in the first five months of the year, while the core inflation rate, well below the general rate (1.1% in April), continued to fall, highlighting how weak demand has eased inflationary tensions.

The consensus forecast for the 2012 average rate has risen a tenth of a point to 1.9%, and that for 2013 has been cut by the same amount, to 1.5%. The year-on-year rate for December this year is 1.9% and that for next year is 1.5% (Table 3).

## **The outlook for jobs has worsened**

Employment, in terms of full time equivalent jobs, contracted again in the first quarter, although at a somewhat slower rate (1.3%) than in the previous quarter. However, job losses in the last quarter of 2011 and first quarter of 2012 were the most severe since the recession in the first half of 2009. The consensus forecast for the change in employment this year and next has become more negative, at -3.6% and -1.7%. In parallel, the forecast unemployment rate has risen to 24.3% and 25%, respectively.

The estimates for GDP growth, employment and wages yield an implicit consensus forecast for productivity growth and unit labour costs (ULC): Productivity is estimated to rise by 1.9% this year, which is up from the previous estimate, and 1.2% next year; ULC will fall by 1.9% this year and 0.8% next, which is a sharper drop than predicted by the previous forecasts.

## **The external deficit adjustment will intensify**

The external deficit has continued its trend towards a correction in the first quarter of 2012. The trade deficit was 58% lower than in the same period of 2011 as a result of both the strong reduction in the goods deficit and the increase in the services surplus. Indeed, according to customs data, the non-energy goods balance is positive, with the deficit due entirely to the energy bill. This improvement in the trade balance has been partly offset by the growing deficit in the income and current transfers accounts, such that the correction of the current account deficit has been more modest, at 12%.

The bigger adjustment expected for internal demand translates into a faster correction of the current account external deficit, which is now anticipated to drop to 1.7% of GDP in 2012 and 0.5% in 2013.

## **The public deficit is expected to be 3.8% in 2013**

The consensus forecast for the general government deficit in 2012 has worsened by a tenth of a percent compared to the previous survey, and now stands at 5.9% of GDP. The forecast for 2013 has also been revised upwards to 3.8% of GDP.

## **The European context is clearly unfavourable**

GDP in the euro area stabilised in the first quarter of the year, although the latest indicators suggest a relapse in the second quarter. The perspectives for the year as a whole remain negative, and there is near unanimity across panellists that the EU's economic context is unfavourable. The majority view remains that this situation will remain unchanged over the next six months, although the number of panellists expecting an improvement has increased.

As regards the situation outside the EU, the recovery in the United States appears to be solid, although growth is expected to slow this year, as is the case for the emerging economies. The assessment remains virtually unchanged: the situation outside the EU is considered neutral and likely to remain so over the months ahead.

## **No further increase in interest rates on public debt are expected**

Short-term interest rates have intensified their downward trend in recent weeks. Current interest rates are considered appropriate for Spain's economy, and the panellists' opinions are divided between those who think they will remain stable and those who expect them to continue to fall.

The tensions affecting Spain's public debt have continued in recent weeks, with the risk premium rising to over 500 basis points at times.

There are no changes in the assessment of long-term interest rates: the overwhelming majority of panellists think that they are too high for the Spanish economy's situation, and opinions are divided as to whether they will remain stable or drop. There is therefore generally no expectation that they will continue rising.

### Monetary policy needs to remain expansionary

There has been no change in opinions on fiscal policy, which continues to be unanimously viewed as restrictive, and this is considered the right approach. There is also still a majority who consider current monetary policy to be expansionary for Spain's conditions – although the number of panellists considering it to be neutral has grown, probably more as a result of Spain's situation than of monetary policy becoming stricter. The unanimous view is also that it should remain expansionary.

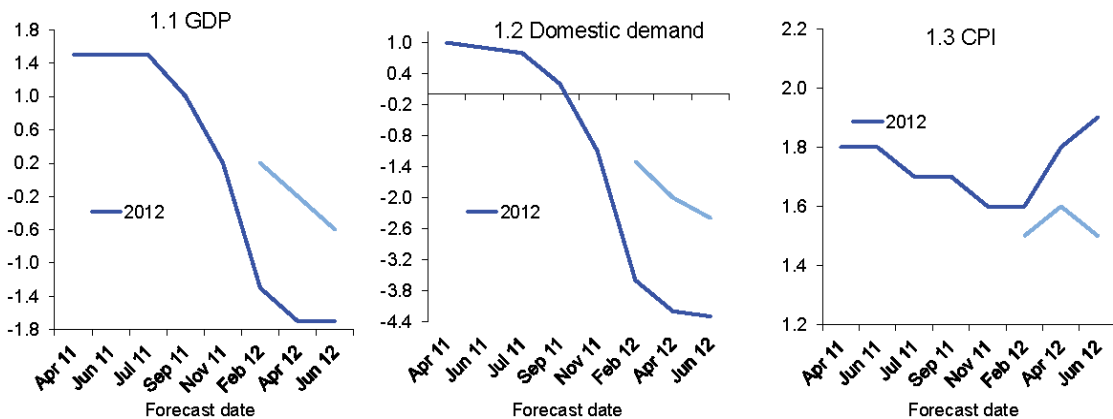
### The euro is overvalued

After a period of stability in euro exchange rates, during which the euro remained over 1.30 dollars, since early May it has been on a downward path, dropping to 1.24 dollars in recent days. Nevertheless, the panellists' majority opinion is that it is clearly overvalued, and panellists who expect a drop continue to outnumber those who do not.

Exhibit 1

### Change in forecasts (Consensus values)

Annual change (percent)



Source: FUNCAS panel of forecasts

Table 1

**Economic Forecasts for Spain – June 2012**

Annual change (percentage) unless indicated otherwise

	GDP		Household consumption		Public consumption		Gross fixed capital formation		GFCF machinery and equipment		GFCF Construction		Domestic demand	
	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013
Analistas Financieros Internacionales (AFI)	-2.0	-1.7	-2.0	-1.5	-10.6	-9.6	-9.1	-3.1	-7.5	-1.8	-10.4	-3.7	-5.3	-3.4
Banco Bilbao Vizcaya Argentaria (BBVA)	-1.3	0.6	-2.0	-0.9	-8.0	-5.6	-7.4	-1.0	-4.6	-2.8	-9.2	-3.2	-4.5	-1.8
Bankia	-1.6	0.0	-2.2	-0.6	-5.5	-4.2	-8.0	-1.4	-6.1	-0.5	-9.7	-2.2	-4.1	-1.5
CatalunyaCaixa	-1.9	-0.6	-1.5	-0.2	-8.0	-8.0	-9.1	-1.9	-8.4	1.4	-10.4	-3.8	-4.0	-2.2
Cemex	-2.1	-2.3	-1.9	-2.6	-4.6	-4.0	-12.0	-8.4	-10.0	-6.0	-14.0	-11.0	-4.7	-4.1
Centro de Estudios Economía de Madrid (CEEM-URJC)	-1.9	0.6	-1.7	0.4	-7.8	-2.8	-8.2	-2.0	-7.5	1.1	-8.6	-3.6	-4.4	-0.7
Centro de Predicción Económica (CEPREDE-UAM)	-1.1	-0.5	-1.5	0.1	-8.6	-8.0	-10.2	-4.1	-7.2	-2.9	-12.1	-5.1	-5.0	-2.5
CEOE	-1.6	-0.6	-1.1	-0.8	-7.8	-6.7	-8.3	-3.3	-5.0	0.4	-10.7	-5.3	-3.8	-2.3
ESADE	-1.5	--	-1.0	--	-6.9	--	-1.3	--	--	--	--	--	-2.2	--
Fundación Cajas de Ahorros (FUNCAS)	-1.7	-1.5	-1.8	-2.6	-6.4	-7.2	-9.4	-6.4	-6.7	-3.1	-11.7	-8.5	-4.3	-4.4
Instituto Complutense de Análisis Económico (ICAE-UCM)	-1.6	-0.4	-2.1	-2.1	-5.9	-1.1	-10.0	-5.5	-3.0	-5.0	-11.5	-6.0	-4.5	-1.8
Instituto de Estudios Económicos (IEE)	-1.8	-0.4	-1.8	-1.0	-6.0	-1.5	-6.8	-3.0	-5.3	-1.0	-8.5	-4.1	-3.9	-1.5
Instituto Flores de Lemus (IFL-UC3M)	-1.5	-0.9	-1.4	-0.8	-7.5	-6.6	-8.9	-5.2	-6.3	-3.9	-11.4	-6.8	--	--
Intermoney	-2.1	--	-2.5	--	-4.6	--	-12.4	--	-10.8	--	-13.9	--	-5.1	--
La Caixa	-1.5	-0.5	-1.3	-0.7	-6.3	-6.1	-9.2	-3.1	-7.6	-2.6	-10.9	-3.4	-4.0	-2.2
Repsol	-1.8	-0.6	-1.1	-0.5	-6.7	-5.7	-9.7	-4.8	-8.4	-1.4	-11.6	-6.5	-4.1	-2.7
Santander	-1.6	-0.2	-1.5	-0.8	-6.5	-6.0	-8.1	-5.0	-6.0	-1.8	-9.1	-6.6	-4.0	-2.7
Solchaga Recio & asociados	-1.8	0.0	-1.8	-0.7	-6.1	-3.5	-9.2	-2.4	-7.5	-0.4	-9.6	-3.3	-4.4	-2.1
<b>CONSENSUS (AVERAGE)</b>	<b>-1.7</b>	<b>-0.6</b>	<b>-1.7</b>	<b>-1.0</b>	<b>-6.9</b>	<b>-5.4</b>	<b>-8.7</b>	<b>-3.8</b>	<b>-6.9</b>	<b>-1.9</b>	<b>-10.8</b>	<b>-5.2</b>	<b>-4.3</b>	<b>-2.4</b>
Maximum	-1.1	0.6	-1.0	0.4	-4.6	-1.1	-1.3	-1.0	-3.0	1.4	-8.5	-2.2	-2.2	-0.7
Minimum	-2.1	-2.3	-2.5	-2.6	-10.6	-9.6	-12.4	-8.4	-10.8	-6.0	-14.0	-11.0	-5.3	-4.4
Change on 2 months earlier <sup>1</sup>	0.0	-0.4	0.1	-0.3	0.2	-0.3	-0.3	-0.6	-0.9	-1.5	-0.4	-0.5	-0.1	-0.4
- Rise <sup>2</sup>	2	0	5	1	4	2	2	3	2	0	3	3	4	0
- Drop <sup>2</sup>	2	7	0	6	4	8	7	6	7	10	6	6	3	8
Change on 6 months earlier <sup>1</sup>	-0.4	-0.8	-0.3	-0.6	-1.8	-2.1	-1.3	-1.6	-2.7	-3.1	-1.7	-1.1	-0.7	-1.1
<u>Memorandum items:</u>														
Government (May 2012)	-1.7	0.2	-1.4	-1.1	-8.0	-4.6	-9.0	-0.5	-7.3 <sup>3</sup>	-0.2 <sup>3</sup>	-9.9	-0.7	-4.4	-1.6
Bank of Spain (January 2012)	-1.5	0.2	-1.2	-0.5	-6.3	-3.3	-9.2	-2.2	-7.0 <sup>3</sup>	-0.9 <sup>3</sup>	-10.6	-3.1	--	--
EC (May 2012)	-1.8	-0.3	-2.2	-1.3	-6.9	-3.5	-7.9	-3.2	-6.1	-3.0	-9.1	-3.5	-4.4	-2.1
IMF (April 2012)	-1.8	0.1	-0.9	0.6	-7.6	-2.4	-7.5	-1.0	--	--	--	--	--	--
OECD (May 2012)	-1.6	-0.8	-2.9	-1.8	-7.7	-4.5	-9.3	-2.4	--	--	--	--	-5.3	-2.5

<sup>1</sup> Difference in percentage points between the current month's average and that of two (or six) months earlier.

<sup>2</sup> Number of panelists revising their forecast upwards (or downwards) since two months earlier.

<sup>3</sup> Investment in capital goods.

Table 1

**Economic Forecasts for Spain – June 2012**

Annual change (percentage) unless indicated otherwise (Continued)

	Exports of goods & services		Imports of goods & services		Industrial production (IPI)		CPI (annual average)		Labour costs <sup>3</sup>		Jobs <sup>4</sup>		Unemployment (% labour force)		c/a bal. payments (% of GDP) (5)		Gen. gov. bal. (% of GDP)	
	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013
Analistas Financieros Internacionales (AFI)	1.9	5.8	-8.9	0.5	--	--	1.8	1.1	--	--	-4.3	-2.5	25.0	26.6	-1.3	0.2	-5.6	-3.5
Banco Bilbao Vizcaya Argentaria (BBVA)	4.0	8.9	-6.2	1.6	--	--	1.9	0.7	--	--	-4.3	-2.0	24.6	24.8	-1.9	-0.4	-5.3	-3.0
Bankia	1.6	3.6	-6.6	0.9	-2.5	1.0	2.1	1.8	0.0	0.3	-3.5	-1.5	24.5	25.6	-2.5	-1.4	--	--
CatalunyaCaixa	0.8	3.3	-7.1	0.8	--	--	1.8	1.5	--	--	-4.2	-1.2	24.6	25.7	--	--	--	--
Cemex	1.8	5.6	-5.5	1.0	--	--	1.7	1.5	--	--	-4.0	-3.0	24.5	25.5	-1.9	-0.7	-5.8	-5.3
Centro de Estudios Economía de Madrid (CEEM-URJC)	3.9	4.5	-4.7	0.4	--	--	1.7	1.5	--	--	-3.3	-0.5	24.1	24.3	-1.5	-0.1	-6.0	-3.9
Centro de Predicción Económica (CEPREDE-UAM)	2.8	4.8	-9.7	-0.6	-3.1	-1.3	2.3	2.6	1.5	2.0	-2.7	-1.2	23.3	23.9	-0.4	1.4	-5.5	-3.1
CEOE	3.1	5.8	-5.0	-0.2	-5.1	-3.5	1.9	1.1	-1.2	-0.5	-3.5	-1.7	24.2	25.4	-1.8	-0.5	-6.5	-4.2
Esade	4.0	--	1.0	--	--	--	1.7	--	--	--	-3.0	--	24.0	--	-2.0	--	--	--
Fundación Cajas de Ahorros (FUNCAS)	2.2	6.0	-6.6	-3.2	-7.1	-2.9	2.0	1.4	0.2	-0.5	-4.0	-2.7	24.5	26.1	-1.9	1.0	-6.2	-3.0
Instituto Complutense de Análisis Económico (ICAE-UCM)	1.3	4.1	-9.0	-1.7	-4.5	-2.0	2.0	2.0	0.0	1.5	-2.8	-1.5	23.8	22.6	-1.0	-2.0	-5.3	-3.0
Instituto de Estudios Económicos (IEE)	3.0	3.5	-4.0	-0.7	--	--	2.0	2.0	-2.6	-1.4	-2.5	-1.0	24.1	24.5	-2.5	0.2	-5.8	-3.3
Instituto Flores de Lemus (IFL-UC3M)	2.5	5.2	-6.3	-0.5	-4.9	-4.7	1.8	1.4	--	--	--	--	24.3	25.5	-2.2	-0.7	--	--
Intermoney	-1.5	--	-11.0	--	-7.6	--	0.9	--	-0.3	--	-3.8	--	24.0	--	-0.5	--	-6.2	--
la Caixa	0.5	4.3	-7.4	-1.2	-4.7	-1.0	2.0	1.4	0.4	1.0	-4.3	-2.4	24.7	25.8	-2.0	-1.4	-6.4	-4.0
Repsol	1.0	6.8	-7.1	-0.3	-2.8	-0.5	1.9	1.5	0.6	0.6	-3.5	-1.5	24.6	24.8	-2.5	-1.9	-6.0	-4.0
Santander	4.3	6.8	-3.8	-0.9	--	--	1.8	1.4	0.4	0.4	-3.1	-1.6	23.8	24.6	-2.1	-1.0	--	--
Solchaga Recio & asociados	3.1	5.9	-5.3	-0.2	--	--	2.1	1.5	--	--	-3.9	-1.0	24.5	24.8	-1.2	-0.7	-6.5	-5.0
<b>CONSENSUS (AVERAGE)</b>	<b>2.2</b>	<b>5.3</b>	<b>-6.3</b>	<b>-0.3</b>	<b>-4.7</b>	<b>-1.9</b>	<b>1.9</b>	<b>1.5</b>	<b>-0.1</b>	<b>0.4</b>	<b>-3.6</b>	<b>-1.7</b>	<b>24.3</b>	<b>25.0</b>	<b>-1.7</b>	<b>-0.5</b>	<b>-5.9</b>	<b>-3.8</b>
Maximum	4.3	8.9	1.0	1.6	-2.5	1.0	2.3	2.6	1.5	2.0	-2.5	-0.5	25.0	26.6	-0.4	1.4	-5.3	-3.0
Minimum	-1.5	3.3	-11.0	-3.2	-7.6	-4.7	0.9	0.7	-2.6	-1.4	-4.3	-3.0	23.3	22.6	-2.5	-2.0	-6.5	-5.3
Change on 2 months earlier <sup>1</sup>	-0.9	-0.4	-0.6	-0.3	-0.9	-1.4	0.1	-0.1	-0.5	-0.4	-0.3	-0.3	0.3	0.4	0.1	0.1	-0.1	-0.4
- Rise <sup>2</sup>	1	1	2	3	0	0	4	0	0	0	0	0	10	10	4	2	0	0
- Drop <sup>2</sup>	8	6	8	5	6	5	3	4	5	3	7	6	0	0	1	1	5	6
Change on 6 months earlier <sup>1</sup>	-0.9	-1.1	-2.1	-1.8	-1.5	-2.2	0.3	0.0	-0.6	0.0	-0.9	-0.6	0.6	0.8	0.6	0.7	-0.6	-0.3
<b>Memorandum items:</b>																		
Government (May 2012)	3.5	6.9	-5.1	1.3	--	--	1.6 <sup>6</sup>	2.2 <sup>6</sup>	0.2	-0.4	-3.7	-0.4	24.3	24.2	-0.9 <sup>7</sup>	0.8 <sup>7</sup>	-5.3	-3.0
Bank of Spain (January 2012)	3.5	5.9	-4.8	1.2	--	--	1.5 <sup>6</sup>	1.2 <sup>6</sup>	-0.8	0.1	-3.0	-0.7	23.4	23.3	-1.4 <sup>7</sup>	0.0 <sup>7</sup>	-4.4	-3.0
EC (May 2012)	3.2	4.7	-5.6	-0.9	--	--	1.9	1.1	0.1	0.1	-3.7	-1.5	24.4	25.1	-2.0	-1.0	-6.4	-6.3
IMF (April 2012)	2.1	4.1	-4.1	2.9	--	--	1.9	1.6	--	--	-3.2	0.1	24.2	23.9	-2.1	-1.7	-6.0	-5.7
OECD (May 2012)	3.1	5.7	-9.2	0.8	--	--	1.6	2.1	--	--	--	--	24.5	25.3	-0.9	0.1	-5.4	-3.3

<sup>1</sup> Difference in percentage points between the current month's average and that of two months earlier (or six months earlier).

<sup>2</sup> Number of panelists revising their forecast upwards (or downwards) since two months earlier.

<sup>3</sup> Average earnings per full-time equivalent job: includes all labour cost items for businesses.

<sup>4</sup> In National Accounts terms: full time equivalent jobs.

<sup>5</sup> Current account balance, according to Bank of Spain estimates.

<sup>6</sup> Private consumption deflator.

<sup>7</sup> Net borrowing vis-à-vis rest of world.

Table 2

**Quarterly Forecasts - June 2012<sup>1</sup>**

	Quarter-on-quarter change (percent)							
	12-Q1	12-Q2	12-Q3	12-Q4	13-Q1	13-Q2	13-Q3	13-Q4
GDP <sup>2</sup>	-0.3	-0.7	-0.9	-0.6	0.0	0.2	0.2	0.4
Household consumption <sup>2</sup>	0.0	-0.8	-0.7	-0.4	-0.1	-0.1	0.1	0.1

<sup>1</sup> Average forecasts by private institutions listed in Table no. 1.

<sup>2</sup> According to series corrected for seasonality and labour calendar.

Table 3

**CPI Forecasts – June 2012<sup>1</sup>**

	Monthly change (%)				Year-on-year change (%)	
	apr-12	may-12	jun-12	jul-12	dec-12	dec-13
	1.4	-0.2	0.0	-0.7	1.8	1.5

<sup>1</sup> Average forecasts by private institutions listed in Table no. 1.

Table 4

**Opinions – June 2012**

Number of replies

	Currently			Trend for next 6 months		
	Favourable	Neutral	Unfavourable	Improving	Unchanged	Worsening
International context: EU	0	1	17	6	10	2
International context: Non-EU	1	16	1	4	13	1
	Low <sup>1</sup>	Normal <sup>1</sup>	High <sup>1</sup>	Increasing	Stable	Decreasing
Short-term interest rate <sup>2</sup>	4	9	5	1	9	8
Long-term interest rate <sup>3</sup>	1	2	15	2	8	8
	Overvalued <sup>4</sup>	Normal <sup>4</sup>	Undervalued <sup>4</sup>	Appreciation	Stable	Depreciation
Euro/dollar exchange rate	10	7	1	0	5	13
	Is being			Should be		
	Restrictive	Neutral	Expansionary	Restrictive	Neutral	Expansionary
Fiscal policy assessment <sup>1</sup>	18	0	0	13	5	0
Monetary policy assessment <sup>1</sup>	2	4	12	0	0	18

<sup>1</sup> In relation to the current state of the Spanish economy.

<sup>3</sup> Yield on Spanish 10-year public debt.

<sup>2</sup> Three-month Euribor.

<sup>4</sup> Relative to theoretical equilibrium rate.