

Spanish economic forecasts panel: July 2012¹

FUNCAS Economic Trends and Statistics Department

Growth forecasts for 2012 remain at -1.7%

The indicators suggest that the sharp drop in activity at the start of the second quarter of 2012 may have softened in June. The fall in GDP over the period as a whole has therefore been less severe than anticipated. According to Bank of Spain estimates, the result was -0.4%, although the consensus forecast for this quarter has barely changed, at -0.6%. However, the forecasts for the third and fourth quarters have worsened, with a quarterly drop of 0.1% in both cases (Table 2).

The consensus forecast for GDP growth over 2012 as a whole remains -1.7%, with almost no changes in its composition. The contribution of national demand to growth continues to be -4.3 pp and that of the external sector 2.6 pp.

The forecast for 2013 has been cut to -1.1%

By contrast, the average or consensus forecast for 2013 has been cut by five tenths to -1.1%. This revision is due to a bigger drop in domestic demand components, whose contribution to GDP growth has been cut by seven tenths, to -3.1 pp. The expected contribution of the external sector has improved by two tenths of a percent to 2.0 pp.

¹ The Spanish Economic Forecasts Panel is a survey run by FUNCAS, which consults the 18 analysis departments listed in Table 1. It 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. The survey responses are used to produce a "consensus" forecast, which is calculated as the arithmetic mean of the 18 individual responses.

It is anticipated that GDP will continue to shrink in the first quarter of the year.

The slowdown in industrial activity has worsened

Indicators such as the industrial production index, the turnover index or the PMI all point to a sharp slowdown in industrial activity in April and May. The drop in employment in the sector as a whole in the second quarter, according to the figures for social security registrations, has been similar to that in the previous quarter, and in both cases, these are the highest figures since the end of 2009.

The consensus forecasts for 2012 and 2013 for the industrial production index have again worsened, dropping to -5.0% and -2.1%, respectively.

The VAT increase has pushed up the inflation forecast for December of this year

In the first six months of the year, the inflation rate stood at around 2%. The underlying inflation rate had been low, but in June it rebounded to 1.3% as a result of the increase in the tobacco price.

The decision to raise VAT as of September 1st of this year is probably the main reason why the forecast year-on-year rate for December this year has risen by three tenths of a percent to 2.1% (Table 3), and the annual average to 2.0%. The

year-on-year rate for December, estimated for 2013, remains at 1.5%, while the annual average for this year has increased by two tenths to 1.7%.

The outlook for jobs has worsened

The drop in employment in April and May, according to social security registration figures, was as severe as in the preceding months, softening somewhat in June. The consensus forecast for the variation in employment this year stood at -3.6%, and that for the coming year has worsened to -2.0%. The forecasts for the unemployment rate have risen to 24.4%, and 25.2%, respectively.

The estimates for GDP growth, employment and wages yield an implicit consensus forecast for productivity growth and unit labour costs: Productivity is set to rise by 2.0% this year and 0.9% the next, whereas ULC is expected to fall by 2.0% and 0.7%, respectively.

The external deficit adjustment will continue

The trade gap between January and April was 58.7% lower than in the same period the previous year, although this improvement was partly offset by the increase in the deficit on the income and transfers account, such that the negative current account balance shrank by 18.7%.

The forecast for this variable was -1.7% of GDP this year –as in the case of the Panel in June– whereas that for 2013 has been modified to a balance of -0.2%, from -0.5% in the previous panel forecast, consistent with the more negative outlook for national demand.

The government deficit is forecast to be 4.0% in 2013

Following the changes to the government deficit targets in 2012 and 2013, the consensus forecast

for this variable is 6.3% and 4.0% of GDP, respectively, for this year and next, compared with 5.9% and 3.8% in the June survey.

The European context is clearly unfavourable

All the signs are that GDP growth in the euro area was negative in the second quarter of the year, and that, in a context of a worsening debt crisis, the outlook for the year as a whole remains bleak. There is near unanimity among the panellists about the unfavourable EU economic context. Moreover, there has been a drop in the number of panellist who think that the situation is going to improve over the course of the next few months.

As regards the situation outside the EU, the recovery in the United States seems solid, and the property market indicators have begun to bounce back. However, moderate growth, at below the potential rate, is still expected. Growth in emerging economies has slowed considerably, particularly in China, which posted growth of 7.6% in the second quarter. Thus the assessment remains virtually unchanged: the situation outside the EU is considered neutral and is set to remain so over the coming months. However, there are ever fewer panellists who think that the situation is going to improve in the immediate future.

No further increase in the interest rates on government debt are expected

The downward trend in short-term interest rates has steepened in recent weeks after forecasts of a rate cut by the European Central Bank were confirmed. The level is deemed appropriate for the economy's conditions, and the majority view is that it will remain at current levels.

Spanish government debt has come under mounting pressure, with the risk premium rising to over 600 points. There are no changes in the

assessment of long-term interest rates: most panellists believe that rates are too high for the state of Spain's economy, but despite recent increases, they are not generally expected to rise further.

The euro is overvalued

The renewed tensions caused by the European debt crisis have prolonged the euro's slide begun in May, leaving it at a value of 1.21 dollars. Nevertheless, the panellists' majority opinion is that it is still overvalued, and panellists who expect a further drop continue to outnumber those who do not.

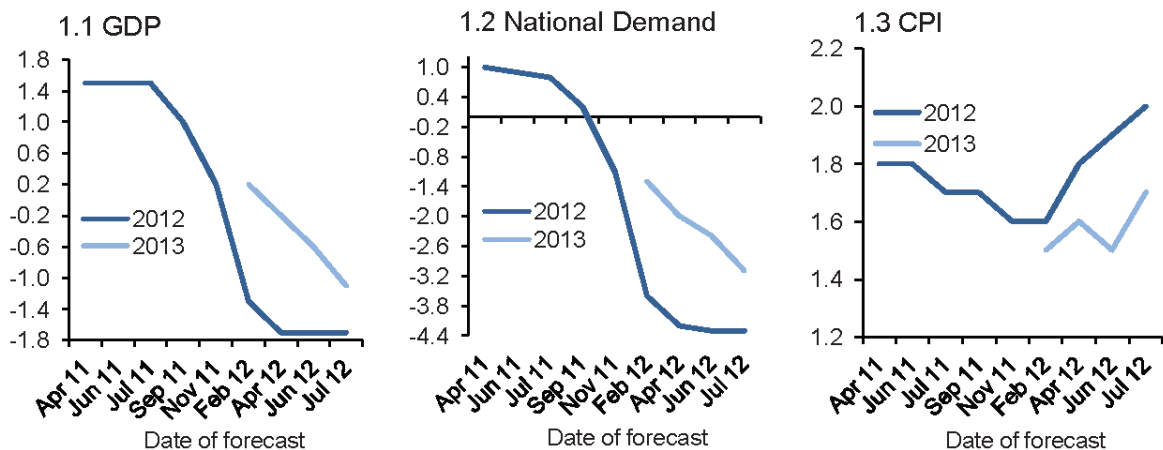
Expansionary monetary policy is warranted

There has been no change in opinions on fiscal policy, which continues to be unanimously viewed as restrictive, which is considered the right approach. The ECB's recent rate cut has led to a shift in opinions that monetary policy is neutral towards a view that it is expansionary. The unanimous view is that this course should be maintained.

Exhibit 1

Change in forecasts (Consensus values)

Percentage annual change



Source: FUNCAS forecasts panel.

Table 1

Economic Forecasts for Spain – July 2012

Annual change (percentage) unless stated otherwise

	GDP		Household consumption		Public consumption		Gross fixed capital formation		GFCF machinery capital goods		GFCF Construction		National 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	-1.5	-0.8	-2.2	-2.1	-5.7	-4.4	-8.0	-1.7	-6.1	-0.5	-9.7	-2.7	-4.1	-2.4
CatalunyaCaixa	-1.9	-1.4	-1.5	-1.4	-7.5	-7.2	-8.7	-2.9	-8.0	1.5	-10.0	-5.4	-4.0	-3.4
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	-1.4	-1.7	-2.5	-7.8	-5.2	-8.2	-5.2	-7.5	-2.4	-8.6	-6.8	-4.4	-3.5
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	-1.9	--	-1.6	--	-6.7	--	-1.3	--	--	--	--	--	-2.6	--
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)	-1.5	-0.9	-1.8	-1.0	-6.8	-5.2	-9.3	-4.4	-6.8	-2.4	-11.1	-5.9	-4.2	-2.5
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	-1.8	--	-2.2	--	-3.8	--	-11.4	--	-10.0	--	-13.4	--	-4.4	--
La Caixa	-1.5	-0.5	-1.3	-0.7	-6.3	-5.7	-9.2	-3.2	-7.6	-2.6	-10.9	-3.5	-4.0	-2.2
Repsol	-1.7	-1.4	-1.3	-1.7	-5.9	-9.9	-10.1	-4.8	-9.5	-2.1	-11.6	-6.3	-4.1	-4.2
Santander	-1.6	-1.4	-1.5	-1.7	-6.5	-8.5	-8.3	-6.3	-6.0	-4.2	-9.4	-7.4	-4.0	-4.0
Solchaga Recio & asociados	-2.1	-1.8	-2.2	-2.5	-7.5	-8.5	-9.8	-6.8	-8.1	-5.8	-11.5	-6.8	-5.0	-4.8
CONSENSUS (AVERAGE)	-1.7	-1.1	-1.7	-1.5	-6.9	-6.5	-8.7	-4.4	-7.2	-2.5	-10.8	-5.8	-4.3	-3.1
Maximum	-1.1	0.6	-1.1	0.1	-3.8	-1.5	-1.3	-1.0	-4.6	1.5	-8.5	-2.7	-2.6	-1.5
Minimum	-2.1	-2.3	-2.2	-2.6	-10.6	-9.9	-12.0	-8.4	-10.0	-6.0	-14.0	-11.0	-5.3	-4.8
Change on 2 months earlier ¹	0.0	-0.5	0.0	-0.5	0.0	-1.1	0.0	-0.6	-0.3	-0.6	0.0	-0.6	0.0	-0.7
- Rise ²	4	0	2	1	4	2	3	1	2	2	3	2	2	0
- Drop ²	2	7	3	6	3	6	3	6	3	4	2	6	2	7
Change on 6 months earlier ¹	0.0	-0.9	0.1	-0.8	0.2	-1.4	-0.3	-1.2	-1.2	-2.1	-0.4	-1.1	-0.1	-1.1
Memorandum items:														
Government (May 2012)	-1.5	-0.5	-1.5	-1.4	-4.8	-8.2	-9.8	-2.0	--	--	--	--	-4.0	-2.8
Bank of Spain (January 2012)	-1.5	0.2	-1.2	-0.5	-6.3	-3.3	-9.2	-2.2	-7.0 ³	-0.9 ³	-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)	-1.7	-1.2	--	--	--	--	--	--	--	--	--	--	--	--
OECD (May 2012)	-1.6	-0.8	-2.9	-1.8	-7.7	-4.5	-9.3	-2.4	--	--	--	--	-5.3	-2.5

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

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

³ Investment in capital goods.

Table 1 (Continued)

Economic Forecasts for Spain – July 2012

Annual change (percentage) unless stated otherwise

	Exports goods & services		Imports goods & services		Industrial production (IPI)		CPI (annual average)		Labour costs ³		Employment ⁴		Unemp. (LFS) (% 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	-6.3	-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	3.5	-7.0	-1.4	-2.8	0.8	1.9	1.9	0.1	0.3	-4.0	-2.1	24.7	25.8	-2.4	0.1	--	--
CatalunyaCaixa	0.2	3.1	-7.1	-2.0	--	--	1.9	1.8	--	--	-4.2	-1.8	24.6	26.0	--	--	--	--
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	-7.0	-5.3
Centro de Estudios Economía de Madrid (CEEM-URJC)	3.7	5.2	-4.5	-1.5	--	--	2.1	2.4	--	--	-3.6	-1.5	24.3	25.2	-1.1	0.0	-6.4	-4.7
Centro de Predicción Económica (CEPREDE-UAM)	2.8	4.8	-9.7	-0.6	-4.1	-1.4	2.3	2.6	1.5	2.0	-2.4	-1.1	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	2.0	1.7	-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	2.1	1.8	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)	1.0	3.4	-6.3	-0.7	-4.5	-2.0	1.8	1.6	0.0	0.3	-3.8	-1.8	24.0	23.0	-2.0	-0.8	-6.3	-4.2
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	-5.9	-5.5	1.9	1.6	--	--	--	--	24.3	25.5	-2.2	-0.7	--	--
Intermoney	-1.0	--	-9.4	--	-7.4	--	1.9	--	-0.3	--	-4.0	--	24.7	--	-1.2	--	-7.1	--
la Caixa	0.5	4.3	-7.4	-1.2	-4.7	-1.0	1.8	1.4	0.4	1.0	-4.3	-2.4	24.7	25.8	-2.0	-1.4	-6.4	-4.0
Repsol	0.4	4.8	-7.9	-4.8	-3.5	-1.5	2.0	1.6	0.8	0.6	-2.0	-1.8	24.5	25.0	-1.2	-0.2	-6.3	-4.5
Santander	3.1	3.8	-5.6	-4.0	--	--	2.1	2.4	0.4	0.2	-3.8	-2.0	24.4	25.3	-1.7	-0.5	-6.3	-4.8
Solchaga Recio & asociados	2.0	5.5	-7.2	-3.8	--	--	2.2	1.7	--	--	-4.1	-2.1	24.7	25.5	-1.2	-0.4	-6.5	-4.9
CONSENSUS (AVERAGE)	2.0	4.9	-6.3	-1.3	-5.0	-2.1	2.0	1.7	-0.1	0.2	-3.6	-2.0	24.4	25.2	-1.7	-0.2	-6.3	-4.0
Maximum	4.0	8.9	1.0	1.6	-2.8	0.8	2.3	2.6	1.5	2.0	-2.0	-1.0	25.0	26.6	-0.4	1.4	-5.3	-3.0
Minimum	-1.0	3.1	-9.7	-4.8	-7.4	-5.5	1.7	0.7	-2.6	-1.4	-4.3	-3.0	23.3	23.0	-2.5	-1.4	-7.1	-5.3
Change on 2 months earlier ¹	-0.2	-0.4	0.0	-1.0	-0.3	-0.2	0.1	0.2	0.0	-0.2	0.0	-0.3	0.1	0.2	0.0	0.3	-0.4	-0.2
- Up ²	1	1	3	1	1	0	9	9	2	0	2	1	6	7	4	6	0	1
- Down ²	6	6	4	6	4	4	3	1	0	2	6	7	1	0	2	0	6	3
Change on 6 months earlier ¹	-1.1	-0.8	-0.6	-1.3	-1.2	-1.6	0.2	0.1	-0.5	-0.6	-0.3	-0.6	0.4	0.6	0.1	0.4	-0.5	-0.6
Memorandum entry:																		
Government (July 2012)	1.6	6.0	-6.7	-1.5	--	--	--	--	-1.0	1.5	-3.7 ⁷	-0.2 ⁷	24.6	24.3	-2.0	0.0	-6.3	-4.5
Bank of Spain (January 2012)	3.5	5.9	-4.8	1.2	--	--	1.5 ⁸	1.2 ⁸	-0.8	0.1	-3.0	-0.7	23.4	23.3	-1.4 ⁸	0.0 ⁸	-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 (July 2012)	--	--	--	--	--	--	2.1	2.2	--	--	--	--	24.9	24.7	-1.8	-0.6	-6.3	-4.7
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

¹ Difference in percentage points between the current month's average and that of two months earlier (or six months earlier).² Number of panelists revising their forecast upwards (or downwards) since two months earlier.³ Average earnings per full-time equivalent job: includes all labour cost items for businesses.⁴ In National Accounts terms: full time equivalent jobs.⁵ Current account balance, according to Bank of Spain estimates.⁶ Private consumption deflator.⁷ Employment (LFS).⁸ Net borrowing vis-à-vis rest of world.

Table 2

Quarterly Forecasts - July 2012¹

	Quarter-on-quarter change (percentage)							
	12-Q1	12-Q2	12-Q3	12-Q4	13-Q1	13-Q2	13-Q3	13-Q4
GDP ²	-0.3	-0.6	-1.0	-1.0	-0.1	0.1	0.1	0.3
Household consumption ²	0.0	-0.7	-0.9	-1.0	-0.4	-0.3	-0.1	0.1

¹ Average forecasts of private institutions listed in Table 1.

² According to series corrected for seasonality and labour calendar.

Table 3

CPI Forecasts – July 2012¹

Monthly change (%)				Year-on-year change (%)	
Jul-12	Aug-12	Sep-12	Oct-12	Dec-12	Dec-13
-0.6	0.2	-0.1	0.5	2.1	1.5

¹ Average forecasts by private institutions listed in Table 1.

Table 4

Opinions – July 2012

Number of responses

	Currently			Trend for next 6 months		
	Favourable	Neutral	Unfavourable	Improving	Unchanged	Worsening
International context: EU	0	1	17	1	13	4
International context: Non-EU	2	14	2	3	12	3
	Low ¹	Normal ¹	High ¹	Increasing	Stable	Decreasing
Short-term interest rate ²	4	10	4	2	10	6
Long-term interest rate ³	1	2	15	2	9	7
	Overvalued ⁴	Normal ⁴	Undervalued ⁴	Appreciation	Stable	Depreciation
Euro/dollar exchange rate	9	8	1	0	5	13
	Is			Should be		
	Restrictive	Neutral	Expansionary	Restrictive	Neutral	Expansionary
Fiscal policy assessment ¹	18	0	0	11	6	1
Monetary policy assessment ¹	2	1	15	0	0	18

¹ In relation to the current state of the Spanish economy.

³ Yield on Spanish 10-year government debt.

² Three-month Euribor.

⁴ Relative to theoretical equilibrium rate.