

Spanish economic forecasts panel: September 2012¹

Funcas Economic Trends and Statistics Department

Growth forecasts for 2012 have improved by a tenth of a point

GDP contracted by 0.4% in the second quarter of 2012, making it the fourth consecutive quarter of negative growth. Compared to the previous quarter, the pace of the fall in domestic demand accelerated, driven by a decline in both investment and consumer spending, while the contribution of the external sector grew.

The indicators available for the third quarter suggest GDP will shrink only slightly more than it did in the second. However, the VAT increase may have induced consumers to bring forward purchases, possibly inflating the figures somewhat, although much of this effect will have been offset in the last month of the quarter, when the VAT increase was in effect.

In any event, even supposing a much sharper drop in the last quarter than in the preceding quarters (which is likely, given that the fiscal adjustment measures are concentrated in the period), it seems clear that the drop in annual GDP will be somewhat less than forecast in previous Panels. Thus, the average or consensus forecast for 2012 has risen by a tenth of a percentage point to -1.6%.

The forecast for 2013 has been cut to -1.5%

On the other hand, the forecast for 2013 has been cut by four tenths of a percent, to -1.5%. This revision is the outcome of a more negative figure

for domestic demand, which is now expected to fall by 3.8%, although part of this drop will be offset by the stronger contribution of the external sector.

The quarterly profile that emerges from the consensus figures (Table 2) is that GDP will continue to fall until the second quarter of 2013, then rise slightly in the third and fourth quarter.

Little change in the forecast for industry

The slump in industrial activity moderated in July and August, probably reflecting the fact that consumer purchases were brought forward ahead of the VAT increase. The forecast for this year has been modified upwards slightly, to -4.7%, although that for the coming year has worsened, falling to -2.6%.

The forecast for inflation has risen

Inflation has picked up considerably in the last few months, although this has been a result of a series of external factors rather than an increase in inflationary pressures. These factors include the rising oil price and legislative changes affecting consumer prices –the change in the tax on tobacco products, the new system of payments for medicines, increases in public prices and fees, and the VAT rate increase.

As a result, the new average rate forecasts for 2012 and 2013 have risen to 2.4% and 2.2%, respectively. The forecasts for the year on year

¹ The Spanish Economic Forecasts Panel is a survey run by Funcas, which consults the 19 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 19 individual responses.

rate to December of this year and next have increased to 3.1% and 1.6%, respectively.

The outlook for jobs has deteriorated

According to social security registration figures, the job market continued to contract rapidly over the summer, with the rate of job losses remaining largely unchanged from the preceding quarters. Even if domestic employees are excluded, given the distortion in the series caused by the change in the system they come under, the drop in employment has been intense. The consensus forecast for 2012, despite the upward correction in the expected growth rate, has been revised downwards to a drop of 3.9%. For 2013, in line with the worsening forecast for GDP growth, the estimate has been downgraded by six tenths from the previous consensus figure, to -2.6%.

The estimates for GDP growth, employment and wages yield an implicit consensus forecast for productivity growth and unit labour costs (ULC): Productivity is set to rise by 2.4% this year and 1.1% the next, whereas ULCs are expected to fall by 1.8% and 0.6%, respectively.

The external deficit adjustment will continue

In the first half of 2012 the current account balance decreased by 31.7% compared to the same period the previous year. This reduction was the result of a change in the sign of the total trade balance (goods and services), which returned to surplus, and a reduction in the income and transfers deficit.

The forecast for this variable is -1.8% of GDP this year (a tenth of a point lower than in the July Panel—while the figure for 2013, consistent with the bigger drop envisaged in national demand, has risen (a tenth of a point less negative) to -0.1%.

The deficit targets will be hard to meet

The general government deficit in the second quarter of the year, in national accounts terms, came to 9.7% of GDP, measured as the moving average over four quarters. However, one percentage point of this figure is the result of assuming the financial support to credit institutions. In any event, the result reflects a slight advance on the correction of the deficit in the first half of the year, although it is expected to pick up speed in the second half of the year, as most of the adjustment measures are concentrated in this period.

Panel participants' consensus forecast now points to a budgetary balance of -6.9% of GDP in 2012. This figure refers to the deficit without taking into account the impact of the financial support given to financial institutions. This represents a deterioration of six tenths of a percentage point on the figure given by the previous Panel. The estimate for 2013 has worsened by 1.1 percentage points to -5.1%. In both cases the estimate is over the deficit targets.

The European context is clearly unfavourable

Euro-area GDP shrank by 0.2% in the second quarter, and all the signs suggest that it was also negative in the third. Of the area's largest economies, only Germany managed to avoid recession. The French economy has been stagnant since the end of 2011, and Spain and Italy are mired in recession. The panellists' unanimous verdict on the economic context in the EU is unfavourable, and most believe that it will remain so over the coming months.

As regards the situation outside the EU, the recovery in the United States looks solid, although growth is sluggish. The property market has started to recover, and the trend in employment in September was also very positive. However, there

is growing concern that the lack of agreement in Congress on the pace of fiscal adjustment will mean hitting a “fiscal cliff” next year, plunging the economy into recession. The growth rate in emerging economies, particularly China, has slowed significantly. The consensus view remains virtually unchanged: the situation outside the EU is considered neutral and likely to remain so over the months ahead.

No further increases in interest rates on government debt are expected

The downward trend in short term interest rates has accelerated in recent weeks, to the extent that an increasing number of panellists think they are already too low for Spain’s economy, although the majority still consider them appropriate. The majority also believe that they will remain at their current level.

The pressure on Spanish government debt has eased since the President of the ECB announced a programme to buy debt in the secondary market, albeit subject to conditionality. Despite this, there is a growing current of opinion –close to a majority

view– that the return on Spanish government debt is too high for the state of the Spanish economy. On the subject of the expected course of rates over the next few months, the vast majority of responses are divided between no change and a drop.

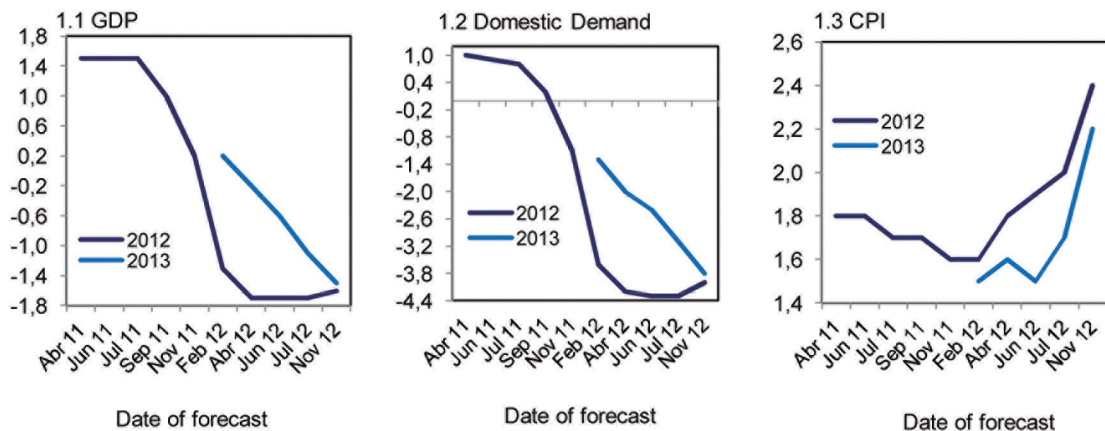
The euro is overvalued

The easing of the sovereign debt crisis since the end of July has encouraged a recovery of the euro, to the extent that there has been an increase in the majority of panellists who consider it overvalued. The majority expect that it will depreciate over the next few months.

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 overwhelming majority of panellists also consider current monetary policy to be expansionary, and still unanimously believe that this orientation should be maintained.

Exhibit 1
Change in forecasts (Consensus values)
 Percentage annual change



Source: Funcas forecasts panel.

Table 1

Economic Forecasts for Spain – September 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)	-1.7	-2.0	-2.2	-2.5	-5.1	-9.0	-5.1	-9.6	-7.8	-3.4	-11.3	-5.2	-4.3	-4.3
Banco Bilbao Vizcaya Argentaria (BBVA)	-1.4	-1.4	-2.0	-2.8	-4.8	-7.9	-9.4	-5.6	-9.1	-4.6	-10.7	-6.7	-4.2	-4.4
Bankia	-1.4	-1.5	-2.3	-2.4	-4.1	-5.9	-9.2	-4.2	-6.7	-3.1	-11.5	-5.5	-4.2	-3.4
CatalunyaCaixa	-1.7	-1.4	-2.4	-3.5	-4.8	-7.2	-9.9	-5.2	-7.1	2.4	-13.5	-9.6	-4.0	-3.8
Cemex	-1.7	-2.0	-2.2	-2.6	-4.5	-4.0	-10.0	-8.5	-8.0	-6.0	-12.5	-11.2	-4.4	-4.0
Centro de Estudios Economía de Madrid (CEEM-URJC)	-1.7	-1.4	-1.9	-2.2	-4.9	-7.6	-9.2	-2.9	-7.5	-2.4	-10.3	-3.2	-4.1	-3.4
Centro de Predicción Económica (CEPREDE-UAM)	-1.6	-1.2	-2.0	-1.3	-4.9	-8.1	-9.3	-4.3	-7.2	-1.7	-11.4	-6.5	-4.3	-3.6
CEOE	-1.6	-1.6	-2.1	-2.1	-5.2	-9.3	-9.7	-4.7	-7.7	-2.0	-11.7	-6.4	-4.1	-3.7
ESADE	-1.5	-1.2	-1.0	-1.1	-6.9	-4.3	-1.3	-1.0	--	--	--	--	-2.2	-1.9
Fundación Cajas de Ahorros (FUNCAS)	-1.5	-1.8	-2.1	-3.2	-3.5	-5.1	-9.6	-9.0	-6.4	-3.5	-12.3	-12.6	-4.0	-4.7
Instituto Complutense de Análisis Económico (ICAE-UCM)	-1.5	-1.4	-1.8	-2.3	-6.8	-6.2	-9.3	-5.2	-6.8	-3.5	-11.1	-6.2	-4.2	-4.0
Instituto de Estudios Económicos (IEE)	-1.8	-1.2	-1.8	-1.3	-4.4	-6.0	-6.8	-4.5	-5.3	-2.5	-8.5	-6.0	-3.4	-3.0
Instituto de Macroeconomía y Finanzas (Universidad CJC)	-1.5	-1.0	-2.3	-1.8	-4.4	-3.5	-10.0	-5.0	-7.9	-3.1	-12.2	-6.4	-4.4	-2.8
Instituto Flores de Lemus (IFL-UC3M)	-1.4	-1.6	-1.5	-1.2	-4.8	-8.1	-9.2	-6.8	-7.0	-5.4	-11.3	-8.5	--	--
Intermoney	-1.6	-2.0	-2.3	-3.8	-3.4	-4.6	-10.7	-12.1	-9.0	-13.8	-12.8	-12.5	-4.3	-5.6
La Caixa	-1.5	-1.5	-1.9	-1.5	-4.4	-8.5	-9.8	-5.6	-8.7	-6.3	-11.4	-5.3	-4.0	-3.7
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	-1.5	-1.4	-2.0	-1.7	-4.0	-7.0	-9.1	-6.5	-6.2	-4.2	-11.2	-7.8	-3.9	-3.7
Solchaga Recio & asociados	-1.7	-1.8	-2.0	-2.1	-5.1	-8.1	-9.2	-6.6	-6.1	-5.8	-11.5	-7.5	-4.3	-4.3
CONSENSUS (AVERAGE)	-1.6	-1.5	-2.0	-2.2	-4.8	-6.9	-8.8	-5.9	-7.5	-3.9	-11.5	-7.4	-4.0	-3.8
Maximum	-1.4	-1.0	-1.0	-1.1	-3.4	-3.5	-1.3	-1.0	-5.3	2.4	-8.5	-3.2	-2.2	-1.9
Minimum	-1.8	-2.0	-2.4	-3.8	-6.9	-9.9	-10.7	-12.1	-9.5	-13.8	-13.5	-12.6	-4.4	-5.6
Change on 2 months earlier ¹	0.1	-0.4	-0.3	-0.7	2.1	-0.4	-0.1	-1.5	-0.3	-1.4	-0.7	-1.6	0.3	-0.7
- Rise ²	11	1	2	2	15	4	5	2	5	2	4	1	11	4
- Drop ²	2	10	12	11	1	9	9	13	7	9	9	14	2	10
Change on 6 months earlier ¹	0.1	-1.3	-0.2	-1.5	2.3	-1.8	-0.4	-2.7	-1.5	-3.5	-1.1	-2.7	0.2	-1.8
<u>Memorandum entry:</u>														
Government (July 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 (October 2012)	-1.5	-1.3	-2.2	-2.4	-4.1	-5.4	-8.9	-4.1	--	--	--	--	-4.0	-3.3
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 – September 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)	1.7	5.6	-6.8	-1.6	--	--	2.4	2.3	--	--	-4.5	-2.4	25.1	26.7	-1.6	0.1	-6.9	-5.1
Banco Bilbao Vizcaya Argentaria (BBVA)	2.6	7.2	-6.5	-2.1	--	--	2.1	1.5	--	--	-4.3	-3.6	24.9	26.0	-1.2	0.7	-6.3	-5.0
Bankia	3.1	3.6	-6.1	-2.7	-3.8	-1.8	2.6	2.5	--	--	-4.2	-3.1	25.0	26.4	-2.2	0.3	--	--
CatalunyaCaixa	2.1	4.7	-6.9	-5.5	--	--	2.5	2.4	--	--	-4.2	-1.8	24.6	26.0	--	--	--	--
Cemex	2.2	5.6	-5.9	0.0	--	--	2.4	2.3	--	--	-4.5	-3.0	24.5	25.5	-0.9	0.5	-7.0	-5.3
Centro de Estudios Económica de Madrid (CEEM-URJC)	3.0	4.8	-4.8	-1.5	--	--	2.5	2.4	--	--	-3.6	-1.5	24.3	25.2	-1.1	0.0	-6.5	-4.7
Centro de Predicción Económica (CEPREDE-UAM)	2.7	4.2	-5.8	-2.4	-5.1	-3.6	2.4	2.4	1.3	1.3	-4.2	-2.1	24.8	26.2	-1.7	0.8	-7.1	-3.4
CEOE	3.2	5.4	-5.8	-2.5	-5.7	-3.8	2.4	1.8	0.3	1.3	-4.5	-3.2	25.2	26.5	-2.5	-1.0	-6.9	-4.9
Esade	4.0	3.0	1.0	1.0	--	--	1.7	2.5	--	--	-3.0	-2.5	24.0	24.5	-2.0	-2.5	--	--
Fundación Cajas de Ahorros (FUNCAS)	1.7	3.8	-6.5	-5.4	-6.1	-3.7	2.6	2.4	1.0	0.5	-4.3	-3.4	25.0	27.2	-2.1	0.2	-6.9	-5.0
Instituto Complutense de Análisis Económico (ICAE-UCM)	1.5	3.8	-6.3	-2.0	-4.5	-2.0	2.3	2.4	0.0	0.3	-4.0	-2.7	24.8	26.0	-2.0	0.2	-6.3	-5.1
Instituto de Estudios Económicos (IEE)	3.0	4.5	-3.0	-2.0	-2.5	-1.1	2.0	2.1	-0.1	0.2	-2.5	-1.7	24.1	25.3	-2.5	-0.1	-6.3	-5.1
Instit. Macroec. y Finanzas (Univ. CJC)	3.3	4.4	-6.3	-2.3	--	--	2.6	2.5	0.7	--	-4.4	-2.9	25.2	27.3	-1.9	-1.0	-7.3	-6.0
Instituto Flores de Lemus (IFL-UC3M)	1.8	3.3	-6.1	-3.4	-5.0	-4.2	2.4	2.3	--	--	--	--	24.9	26.6	-2.2	-0.7	--	--
Intermoney	1.3	-3.2	-8.0	-14.9	--	--	2.9	1.6	-0.3	-0.9	-4.0	-3.9	24.8	27.2	-2.1	1.7	-7.9	-6.5
La Caixa	2.0	3.8	-6.1	-3.3	-6.5	-3.0	2.5	2.4	1.0	1.0	-4.1	-2.8	24.8	26.3	-2.2	-0.2	-6.3	-4.5
Repsol	0.4	4.8	-7.9	-4.8	-3.1	-0.5	2.0	1.6	0.8	0.6	-2.0	-1.8	24.5	25.0	-1.2	-0.2	-7.0	-4.9
Santander	2.9	3.8	-5.6	-4.0	--	--	2.5	2.7	0.8	0.3	-4.0	-2.3	24.6	25.7	-2.4	-1.3	--	--
Solchaga Recio & asociados	1.7	4.4	-6.9	-4.1	--	--	2.5	2.1	--	--	-4.1	-2.5	24.7	26.3	-1.3	-0.2	-7.5	-5.3
CONSENSUS (AVERAGE)	2.3	4.1	-5.8	-3.3	-4.7	-2.6	2.4	2.2	0.6	0.5	-3.9	-2.6	24.7	26.1	-1.8	-0.1	-6.9	-5.1
Maximum	4.0	7.2	1.0	1.0	-2.5	-0.5	2.9	2.7	1.3	1.3	-2.0	-1.5	25.2	27.3	-0.9	1.7	-6.3	-3.4
Minimum	0.4	-3.2	-8.0	-14.9	-6.5	-4.2	1.7	1.5	-0.3	-0.9	-4.5	-3.9	24.0	24.5	-2.5	-2.5	-7.9	-6.5
Change on 2 months earlier ¹	0.3	-0.8	0.5	-2.0	0.3	-0.5	0.4	0.5	0.7	0.3	-0.3	-0.6	0.3	0.9	-0.1	0.1	-0.6	-1.1
- Up ²	7	4	10	0	3	2	15	13	5	4	1	1	11	12	3	6	1	0
- Down ²	8	9	4	13	4	5	0	1	1	1	8	10	0	0	8	6	10	10
Change on 6 months earlier ¹	-0.8	-1.6	-0.1	-3.3	-0.9	-2.1	0.6	0.6	0.2	-0.3	-0.6	-1.2	0.7	1.5	0.0	0.5	-1.1	-1.7
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 ⁶	1.2 ⁶	-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 (October 2012)	2.4	3.5	-5.7	-2.8	--	--	2.4	2.4	--	--	-4.4	-0.1	24.9	25.1	-2.0	-0.1	-7.0	-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

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 according to LFS.⁸ Net borrowing vis-à-vis rest of world.

Table 2
Quarterly Forecasts - September 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	-0.4	-0.7	-1.0	-0.5	-0.1	0.1	0.3
Household consumption ²	0.3	-1.0	-0.7	-1.2	-0.5	-0.4	-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 – September 2012¹

	Monthly change (%)				Year-on-year change (%)	
	Sep-12	Oct-12	Nov-12	Dec-12	Dec-12	Dec-13
	1.0	1.1	0.7	0.5	3.1	1.6

¹ Average forecasts by private institutions listed in Table 1.

Table 4
Opinions – September 2012

Number of responses

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