

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

## Funcas Economic Trends and Statistics Department

### Growth forecasts for 2012 have improved by two tenths of a point to -1.4%

GDP dropped by 0.3% in the third quarter of 2012, a slightly smaller decline than in the two preceding quarters. This was due to a moderation in the fall in national demand, driven by consumers bringing purchases forward ahead of the VAT increase, and the strong growth in exports of goods and services (including tourism). The figure was better than anticipated by participants in the preceding panels.

This result, and the fact that growth in the last quarter is expected to be less negative than envisaged in the previous panel forecast (-0.8% per quarter compared to -1%), led to a slightly smaller drop in GDP for the year as a whole than was forecast. If the previous panel already began to anticipate this result with an upward review of a tenth of a percentage point in the rate, in this adjustment the upward change is an additional two tenths of a percentage point, to -1.4%.

### The forecast for 2013 remains unchanged at -1.5%

The consensus growth forecast for 2013 remains unchanged at -1.5%. The panellists' range of forecasts lies between a maximum of -1.0% and a minimum of -2.0%. This figure is between one and two tenths worse than that published by the main international organisations (IMF, OECD, and EC).

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 quarters. The contributions from domestic and external demand will be similar to those expected for 2012, i.e. -3.9 and 2.4 percentage points, respectively.

### Industrial activity has resumed its downward trend

The industrial production index (IPI) suffered a sharp drop in September, returning it to a downward trend, despite the improvement in the third quarter of the year resulting from the strong performance of exports and consumers bringing purchases forward in August ahead of the VAT increase. Between January and October the IPI dropped by 5.9% in comparison with the same period the previous year. The forecast for 2012 as a whole has worsened to -5.3%, whereas the consensus forecast for 2013 is -2.9%. This is also worse than in the previous panel forecast.

### Recent change in the inflation trend

Inflation picked up in July and October as a result of regulatory and fiscal changes and a rise in energy prices. The fall in November was bigger than expected, however, due to the sharp drop in fuel prices. This led to a slight downward modification of the expected year-on-year rate for December 2012 (Table 3) to 3.0%. The forecasts for annual averages in 2012 and 2013 were unchanged at 2.4% and

<sup>1</sup> The Spanish Economic Forecasts Panel is a survey run by Funcas in which it consults the 19 analysis departments listed in Table 1. The survey has been operating since 1999 and is published bimonthly in the first half of January, March, July, September, and November. The survey responses are used to produce a "consensus" forecast, which is calculated as the arithmetic mean of the 19 individual survey responses.

2.2%, respectively, and the expected year-on-year rate for December 2013 is 1.6%.

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

The number of full-time jobs shrank by 0.9% in the third quarter of the year, a slightly smaller drop than in the preceding quarter. The figures for Social Security affiliations in October and November seem to suggest a similar drop in employment in the fourth quarter as was seen in the third. The consensus forecast for 2013 has worsened, predicting a decline of 4.2%. For 2013 the forecast is -2.9%, three tenths of a point more negative than in the preceding panel forecast.

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 2.9% this year and 1.5% the next, whereas ULCs are expected to fall by 2.5% and 0.9%, respectively.

### **The improvement in the current account balance gathers pace**

In the first nine months of 2012 the current account deficit shrank by 45.5% compared to the same period the previous year. This reduction was the result of a change in 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 remains -1.8% of GDP this year, with equilibrium expected in 2013 (0.0% of GDP).

### **The deficit targets will be hard to meet**

Through September 2012 the general government deficit stood at 8.4% of GDP over the period. Excluding the effect of supporting the financial system, the figure was 7.1% of GDP, above the 6.3% target for the year as a whole. The main deficit containment measures are focused on the fourth

quarter, but a substantial effort will be necessary to meet this target given the negative seasonality of this quarter.

Panel participants' consensus forecast has become more negative, predicting a budgetary balance of 7.2% of GDP in 2012. This deficit figure does not take into account the impact of the support given to financial institutions. The estimate for 2013 has also worsened a few tenths of a percent to -5.6%.

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

GDP in the euro area shrank by 0.1% in the third quarter of 2012. Of the area's large economies, Germany and France have managed to remain in positive territory, but Italy and Spain are still 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, while growth in emerging economies, particularly China, has slowed considerably. 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 the interest rates on government debt are expected**

The three-month Euribor has continued downwards, dropping to 0.18%, which is well below the ECB benchmark rate, thus reflecting the excess liquidity in the financial system. The majority of panellists consider that this rate is appropriate for the economies' conditions, and as in previous panels, it is expected to remain stable.

Following the announcement by the President of the ECB of a secondary-market debt purchase programme, the risk premium on Spanish debt has relaxed considerably. It subsequently fell further after

an agreement was reached to release another tranche of aid to Greece, and after recent progress on recapitalising and restructuring the Spanish financial system. Nevertheless, the easing of market tensions may be only temporary and the situation remains fragile. There is a growing and near unanimous opinion that long-term interest rates are too high to allow the Spanish economy to recover, although, unlike the case in previous panels, in which most participants expected them to remain stable, the number of panellists who anticipate a fall in the coming months has increased, and there is a split between those who expect a drop and those who expect rates to remain unchanged.

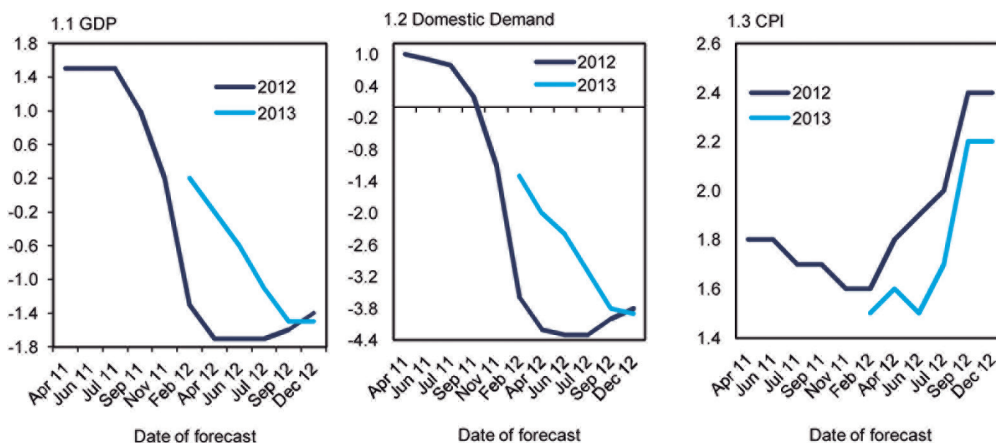
### Expansionary monetary policy is warranted

There has been no change in opinions on fiscal policy either, which is still unanimously viewed as restrictive. This is mainly considered to be the right approach, although a growing number of panellists believe it should be neutral. The overwhelming majority of panellists also consider current monetary policy to be expansionary, and still unanimously agree that this orientation should be maintained.

### The euro is overvalued

There have been no changes in the valuation of the euro, which remains strong. The large majority of panellists consider that the European currency is overvalued and expect it to decline in value over the coming months.

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



Source: Funcas forecasts panel.

Table 1

**Economic Forecasts for Spain – December 2012**

Annual change (percentage) unless stated otherwise

	GDP		Household consumption		Public consumption		Gross fixed capital formation		GFCF machinery and 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	-2.9	-3.6	-6.9	-9.7	-7.5	-7.7	-3.8	-11.8	-10.0	-4.0	-4.7
Bankia	-1.4	-1.5	-2.0	-2.4	-4.1	-5.9	-8.9	-4.2	-6.3	-3.1	-11.3	-5.5	-3.9	-3.5
CatalunyaCaixa	-1.4	-1.4	-1.9	-3.8	-4.4	-8.2	-9.0	-5.3	-6.1	2.8	-12.8	-10.6	-3.8	-3.9
Cemex	-1.3	-1.6	-1.8	-2.7	-4.2	-4.0	-8.9	-6.9	-6.1	-3.0	-11.8	-11.2	-3.9	-3.8
Centro de Estudios Economía de Madrid (CEEM-URJC)	-1.4	-1.4	-1.9	-2.4	-4.2	-7.0	-9.2	-5.7	-7.5	-3.3	-10.3	-7.1	-3.9	-3.9
Centro de Predicción Económica (CEPREDE-UAM)	-1.6	-1.2	-1.8	-1.2	-4.2	-7.7	-8.8	-5.8	-6.9	-1.5	-11.1	-6.1	-3.8	-3.4
CEOE	-1.3	-1.3	-1.8	-2.1	-4.2	-6.0	-9.0	-6.8	-6.2	-1.6	-11.5	-9.8	-3.8	-3.9
ESADE	-1.5	-1.0	-1.0	-1.0	-6.9	-4.5	-1.3	-0.9	--	--	--	--	-2.2	-1.7
Fundación Cajas de Ahorros (Funcas)	-1.4	-1.6	-1.8	-3.3	-4.0	-4.9	-9.0	-7.9	-6.0	-3.4	-11.6	-11.1	-3.8	-4.5
Instituto Complutense de Análisis Económico (ICAE-UCM)	-1.5	-1.4	-1.8	-2.3	-4.7	-6.2	-9.3	-5.9	-6.8	-3.5	-11.1	-7.5	-4.0	-4.0
Instituto de Estudios Económicos (IEE)	-1.5	-1.5	-1.8	-2.5	-4.2	-4.5	-7.1	-5.1	-4.6	-3.0	-11.8	-9.0	-3.7	-3.8
Instituto de Macroeconomía y Finanzas (Universidad CJC)	-1.4	-1.3	-1.9	-2.1	-4.0	-5.1	-9.2	-4.2	-6.6	-0.8	-11.5	-6.2	-3.9	-3.2
Instituto Flores de Lemus (IFL-UC3M)	-1.3	-1.3	-1.7	-1.1	-4.1	-7.4	-8.7	-6.8	-5.9	-4.2	-11.3	-9.2	--	--
Intermoney	-1.3	-2.0	-1.8	-3.7	-4.0	-5.2	-9.1	-11.3	-4.5	-12.0	-11.6	-10.8	-3.8	-5.4
La Caixa	-1.4	-1.5	-1.8	-1.7	-4.3	-9.2	-8.9	-4.8	-6.1	-1.7	-11.4	-6.6	-3.8	-3.8
Repsol	-1.4	-1.5	-1.9	-2.5	-3.8	-5.6	-8.7	-3.2	-5.9	0.6	-11.4	-5.7	-3.7	-3.3
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	-1.4	-1.8	-1.8	-2.5	-4.3	-7.5	-8.8	-8.1	-6.0	-5.5	-11.5	-10.8	-3.9	-4.7
<b>CONSENSUS (AVERAGE)</b>	<b>-1.4</b>	<b>-1.5</b>	<b>-1.8</b>	<b>-2.3</b>	<b>-4.3</b>	<b>-6.4</b>	<b>-8.3</b>	<b>-6.1</b>	<b>-6.3</b>	<b>-3.0</b>	<b>-11.5</b>	<b>-8.4</b>	<b>-3.8</b>	<b>-3.9</b>
Maximum	-1.3	-1.0	-1.0	-1.0	-3.6	-4.0	-1.3	-0.9	-4.5	2.8	-10.3	-5.2	-2.2	-1.7
Minimum	-1.7	-2.0	-2.2	-3.8	-6.9	-9.2	-9.7	-11.3	-7.8	-12.0	-12.8	-11.2	-4.3	-5.4
Change on 2 months earlier <sup>1</sup>	0.2	0.0	0.2	-0.1	0.5	0.5	0.5	-0.2	1.2	0.9	0.0	-1.0	0.2	-0.1
- Up <sup>2</sup>	12	5	10	4	13	9	12	7	14	12	9	5	14	6
- Down <sup>2</sup>	0	3	2	10	2	5	2	8	0	2	2	9	1	9
Change on 6 months earlier <sup>1</sup>	0.3	-0.9	-0.1	-1.3	2.6	-1.0	0.4	-2.3	0.6	-1.1	-0.7	-3.2	0.5	-1.5
<u>Memorandum entry:</u>														
Government (Sept. 2012)	-1.5	-0.5	-1.5	-1.4	-4.8	-8.2	-9.9	-2.1	--	--	--	--	-4.0	-2.9
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 (November 2012)	-1.4	-1.4	-1.9	-2.1	-4.9	-7.2	-9.0	-5.6	-6.6	-3.5	-11.3	-7.3	-4.0	-3.8
IMF (October 2012)	-1.5	-1.3	-2.2	-2.4	-4.1	-5.4	-8.9	-4.1	--	--	--	--	-4.0	-3.3
OECD (November 2012)	-1.3	-1.4	-1.9	-2.3	-4.1	-4.0	-9.1	-9.0	--	--	--	--	-3.9	-4.0

<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> Investment in capital goods.

Table 1 (Continued)

**Economic Forecasts for Spain – December 2012**

Annual change (percentage) unless stated otherwise

	Exports goods & services		Imports goods & services		Industrial production (IPI)		CPI (annual average)		Labour costs <sup>3</sup>		Employment <sup>4</sup>		Unemp. (LFS) (% labour force)		C/A bal. payments (% of GDP) <sup>5</sup>		Gen. gov. bal. (% of GDP) <sup>6</sup>	
	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)	3.8	8.2	-4.7	-1.8	--	--	2.5	2.3	--	--	-4.2	-3.2	25.0	26.1	-1.4	-0.5	-7.2	-5.9
Bankia	3.2	3.6	-5.7	-2.7	-5.5	-2.5	2.4	2.0	0.1	0.1	-4.3	-3.1	25.0	26.4	-2.1	0.6	--	--
CatalunyaCaixa	3.7	6.4	-4.5	-3.4	--	--	2.4	2.8	--	--	-4.4	-2.6	25.0	26.6	--	--	--	--
Cemex	2.9	3.6	-5.0	-2.8	--	--	2.5	2.3	--	--	-4.5	-3.0	25.0	25.5	-1.3	0.0	-7.0	-5.3
Centro de Estudios Económica de Madrid (CEEM-URJC)	3.4	5.5	-4.8	-2.3	--	--	2.5	2.2	--	--	-4.0	-1.8	24.8	25.8	-1.3	0.0	-6.9	-5.2
Centro de Predicción Económica (CEPREDE-UAM)	3.5	4.0	-4.4	-2.2	-3.7	-0.9	2.4	2.4	1.3	1.3	-4.2	-2.1	24.8	26.2	-1.7	0.8	-7.5	-4.3
CEOE	3.5	4.7	-4.6	-3.4	-5.5	-4.0	2.5	1.9	-0.6	1.4	-4.3	-2.7	25.0	26.3	-2.1	0.0	-7.1	-5.3
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)	3.2	4.5	-4.7	-4.6	-5.7	-3.2	2.4	1.9	0.1	0.5	-4.3	-3.2	25.1	27.3	-2.0	0.3	-7.4	-5.6
Instituto Complutense de Análisis Económico (ICAE-UCM)	3.2	4.7	-5.2	-2.6	-4.5	-2.0	2.4	2.3	0.2	0.7	-4.0	-2.7	24.8	26.2	-2.0	-0.2	-7.1	-5.7
Instituto de Estudios Económicos (IEE)	3.0	4.5	-5.0	-4.0	-5.5	--	2.4	2.2	0.1	1.0	-4.2	-3.1	25.0	26.5	-2.2	0.1	-7.1	-5.5
Instit. Macroecon. y Finanzas (Univ. CJC)	3.5	4.6	-4.8	-2.3	--	--	2.5	2.5	0.7	--	-3.9	-3.3	25.1	27.3	-1.7	-0.7	-7.3	-6.0
Instituto Flores de Lemus (IFL-UC3M)	3.4	5.2	-4.3	-2.0	-5.5	-5.2	2.5	2.4	--	--	--	--	25.0	27.0	-1.8	-0.2	--	--
Intermoney	3.0	-2.2	-4.9	-13.1	--	--	2.4	1.1	0.0	-0.9	-4.4	-4.2	25.1	28.1	-2.0	1.5	-7.5	-6.6
La Caixa	4.0	9.3	-3.7	2.2	-6.1	-1.1	2.5	2.4	0.5	1.0	-4.4	-3.2	24.9	26.3	-2.2	0.7	-7.4	-6.2
Repsol	4.0	6.5	-4.1	-0.3	-5.4	-3.9	2.5	2.2	0.3	0.4	-4.2	-3.1	24.9	26.6	-1.8	-0.2	-7.4	-5.8
Santander	2.9	3.8	-5.6	-4.0	--	--	2.4	1.9	0.4	0.3	-4.5	-2.7	25.0	26.7	-2.1	-0.9	--	--
Solchaga Recio & asociados	3.5	4.4	-4.4	-4.5	--	--	2.4	1.9	--	--	-4.4	-3.5	25.1	27.5	-1.9	0.3	-7.3	-5.5
<b>CONSENSUS (AVERAGE)</b>	<b>3.3</b>	<b>4.7</b>	<b>-4.5</b>	<b>-3.0</b>	<b>-5.3</b>	<b>-2.9</b>	<b>2.4</b>	<b>2.2</b>	<b>0.3</b>	<b>0.6</b>	<b>-4.2</b>	<b>-2.9</b>	<b>24.9</b>	<b>26.5</b>	<b>-1.8</b>	<b>0.0</b>	<b>-7.2</b>	<b>-5.6</b>
Maximum	4.0	9.3	1.0	2.2	-3.7	-0.9	2.5	2.8	1.3	1.4	-3.0	-1.8	25.1	28.1	-1.3	1.5	-6.9	-4.3
Minimum	1.7	-2.2	-6.8	-13.1	-6.1	-5.2	1.7	1.1	-0.6	-0.9	-4.5	-4.2	24.0	24.5	-2.2	-2.5	-7.5	-6.6
Change on 2 months earlier <sup>1</sup>	1.0	0.6	1.3	0.3	-0.6	-0.3	0.0	0.0	-0.3	0.1	-0.3	-0.3	0.2	0.4	0.0	0.1	-0.3	-0.5
- Up <sup>2</sup>	15	10	14	8	4	3	7	6	3	3	3	3	12	11	8	9	2	0
- Down <sup>2</sup>	0	3	1	7	4	4	7	7	5	1	9	9	2	1	5	4	9	11
Change on 6 months earlier <sup>1</sup>	1.1	-0.6	1.8	-2.7	-0.6	-1.0	0.5	0.7	0.4	0.2	-0.6	-1.2	0.6	1.5	-0.1	0.5	-1.3	-1.8
<b>Memorandum entry:</b>																		
Government (Sep 2012)	1.6	6.0	-6.7	-1.5	--	--	--	--	-1.0	1.5	-3.7 <sup>8</sup>	-0.2 <sup>8</sup>	24.6	24.3	-1.9	0.1	-6.3	-4.5
Bank of Spain (January 2012)	3.5	5.9	-4.8	1.2	--	--	1.5 <sup>7</sup>	1.2 <sup>7</sup>	-0.8	0.1	-3.0	-0.7	23.4	23.3	-1.4 <sup>9</sup>	0.0 <sup>9</sup>	-4.4	-3.0
EC (November 2012)	2.1	4.2	-6.3	-3.2	--	--	2.5	2.1	0.4	1.4	-4.5	-2.7	25.1	26.6	-2.4	-0.5	-8.0	-6.0
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 (Nov. 2012)	4.0	6.4	-4.5	-1.3	--	--	2.2	1.2	--	--	--	--	25.0	26.9	-2.0	0.5	-8.1	-6.3

<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.<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> Excluding effect of support to financial system, except EC and OECD.<sup>7</sup> Private consumption deflator.<sup>8</sup> Employment according to LFS.<sup>9</sup> Net borrowing vis-à-vis rest of world.

Table 2  
**Quarterly Forecasts - December 2012<sup>1</sup>**

	Quarter-on-quarter change (percentage)							
	12-Q1	12-Q2	12-Q3	12-Q4	13-Q1	13-Q2	13-Q3	13-Q4
GDP <sup>2</sup>	-0.4	-0.4	-0.3	-0.8	-0.5	-0.2	0.0	0.0
Household consumption <sup>2</sup>	0.5	-1.0	-0.5	-1.2	-0.5	-0.5	-0.3	-0.3

<sup>1</sup> Average forecasts of private institutions listed in Table 1.

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

Table 3  
**CPI Forecasts – December 2012<sup>1</sup>**

Monthly change (%)				Year-on-year change (%)	
Nov-12	Dec-12	Jan-13	Feb-13	Dec-12	Dec-13
-0.1	0.2	-1.1	0.0	3.0	1.6

<sup>1</sup> Average forecasts by private institutions listed in Table 1.

Table 4  
**Opinions – December 2012**

Number of responses

	Currently			Trend for next 6 months		
	Favourable	Neutral	Unfavourable	Improving	Unchanged	Worsening
International context: EU	0	0	19	4	13	2
International context: Non-EU	1	16	2	3	15	1
	Low <sup>1</sup>	Normal <sup>1</sup>	High <sup>1</sup>	Increasing	Stable	Decreasing
Short-term interest rate <sup>2</sup>	6	10	3	1	13	5
Long-term interest rate <sup>3</sup>	0	1	18	1	9	9
	Overvalued <sup>4</sup>	Normal <sup>4</sup>	Undervalued <sup>4</sup>	Appreciation	Stable	Depreciation
Euro/dollar exchange rate	14	4	1	0	8	11
	<b>Is</b>			<b>Should be</b>		
	Restrictive	Neutral	Expansionary	Restrictive	Neutral	Expansionary
Fiscal policy assessment <sup>1</sup>	19	0	0	12	6	1
Monetary policy assessment <sup>1</sup>	2	2	15	0	0	19

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

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

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

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