

# Spanish economic forecasts panel: July 2013<sup>1</sup>

## Funcas Economic Trends and Statistics Department

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

The economic indicators available for the second quarter seem to confirm the scenario in which the economic slowdown is gradually bottoming out, as envisaged in the consensus view in earlier Forecast Panels. Thus, the GDP growth forecast for this year remains -1.5%, although there has been a change in its expected composition: a smaller drop is anticipated in the domestic demand components, while the forecast for exports has been revised downwards. This implies domestic demand will make a less negative contribution to growth (-3.9 percentage points, compared to -4 in the previous Panel) and the external sector will make a smaller positive contribution (2.4 pp compared with 2.5 pp in the preceding consensus).

This change in composition derives, on the upside, from the fact that the consumption indicators are slowing their fall faster than expected and that the fiscal adjustment will be less than envisaged earlier, due to the change in the deficit targets, and on the downside, from the less buoyant international context.

### The forecast for 2014 has been raised to 0.7%

The GDP-growth forecast for 2014 has been revised upwards slightly to 0.7%. This growth is still expected to come from a positive contribution

from the external sector, offset by a negative contribution from domestic demand. The quarterly profile that emerges from the consensus figures (Table 2) is almost unchanged from that of the previous Panel Forecast. The economy is expected to stabilise in the third quarter, and positive growth, albeit at modest rates, to begin in the fourth.

### Industrial activity remains on a downward path

The decline in industrial activity, measured using the industrial production index, slowed considerably in the first quarter of 2013, probably owing to the improvement in export activity. The forecast for this year has improved, but remains negative: -3.4%. The forecast for 2014 is -0.2%.

### Transitory rise in inflation

The inflation rate rose to 1.7% in May. The consensus forecast for the coming months suggests it will rise again in June, and then resume its downward trend in July (unless there are any regulatory or tax changes that affect consumer prices).

The average rates expected for 2013 as a whole and for 2014 have both been cut by one tenth of a point, to 1.6% and 1.3%, respectively. The forecast for the year-on-year rate to December of

<sup>1</sup> The Spanish Economic Forecasts Panel is a survey run by FUNCAS which consults the 19 analysis departments listed in Table 1. The survey, which has been produced since 1999, is published bi-monthly in the first half of January, March, May, July, September and November. The responses to the survey are used to produce a "consensus" forecast, which is calculated as the arithmetic mean of the 19 individual contributions. The forecasts of the Spanish Government, the Bank of Spain, and the main international organisations are also included for comparison, but do not form part of the consensus forecast.

this year has been cut significantly to 0.9% while the year-on-year rate to December of next year remains unchanged at 1.5% (Table 3).

## **The outlook for employment is negative**

The seasonally adjusted unemployment and social security system registration figures in the second quarter indicate a significant slowing in the rate of job losses. The rise in the unemployment rate has consequently slowed, although this was also influenced by the contraction of the labour force. The expected variation in employment for 2013 is a decrease of 3.4% –unchanged from the previous consensus– while that expected for 2014 is -0.4%.

The consensus estimates for GDP, employment and salary growth can be used to deduce the implicit productivity and unit labour cost growth estimates. Thus, productivity is expected to grow by 2% in 2013 and 1.1% in 2014, while unit labour costs (ULCs), which fell by 3.4% last year, are forecast to drop by a further 1.8% and 1% this year and next, respectively. This latter figure is more negative than that in the previous Panel as the expected rise in wage costs for next year has been revised downwards. The process of recovering cost-competitiveness is, therefore, expected to continue.

## **The trade balance will be positive in 2013 and 2014**

The current account balance, which moved into surplus in the second half of 2012, returned to negative figures in the first quarter of this year, although this was due to seasonal factors. Comparing it with the same quarter of the previous year shows a reduction of 76%. The trend is therefore still towards a correction. The consensus forecast for this variable has improved to 1% and 1.7% of GDP in 2013 and 2014, respectively.

## **The government deficit targets will be met**

The central government deficit between January and April came to 2.3% of GDP in national accounts terms, and that of the autonomous regions came to 0.3%, while the social security funds registered a surplus of 0.4%. The tax revenues on a cash basis dropped in this same period by 6.9%, compared with the same period of the previous year, even if this is largely due to the delaying of refunds from late 2012 until early 2013. In uniform terms, i.e. adjusting the figures to a single rate of refund payments, tax revenues grew by 1.4%.

The relaxation of the deficit targets has resulted in a corresponding upward revision of the forecasts for this variable to 6.5% of GDP this year, and 5.7% the next.

## **The external context is expected to improve**

The assessment of the global economy has not changed since the last Panel Forecast. As regards the EU, the most recent indicators suggest conditions will remain weak. Outside the EU, the United States continues to grow at a modest pace, the strength of its property market being particularly noteworthy, clearly having left behind the crisis caused by the bursting of the bubble in 2006. The main concern now is the potentially destabilising effect on financial markets of the Federal Reserve's announcement of its progressive withdrawal of the asset purchase programme. The emerging economies, particularly China, have performed worse than expected.

Panellists' opinion of the current situation in the EU remains largely negative, while the opinion on the situation outside the EU remains neutral. In both cases the trend is expected to improve over the coming months.

## Interest rates on government debt are not expected to rise further

Short-term interest rates (three-month Euribor) have remained stable at around 0.2% in recent months, although there was a slight increase in the second half of June. Long-term rates (ten-year bond yields) are around 4.5%, although rates rose slightly after the Federal Reserve's announcement that it would be winding down its massive bond purchase programme.

Short-term interest rates are still regarded as being appropriate for the Spanish economy's situation, and the number of panellists expecting them to remain stable over the coming months has increased. In the case of long-term rates, there has been almost no change in the opinion in the preceding panel forecasts that the current level is too high to enable the economy to recover, but most panellists expect them to remain stable over the next few months.

## The euro is overvalued

The euro, which most panellists have considered to be overvalued against the dollar for some time, continued its moderate upward trend in June. It is also expected to remain stable over the coming months.

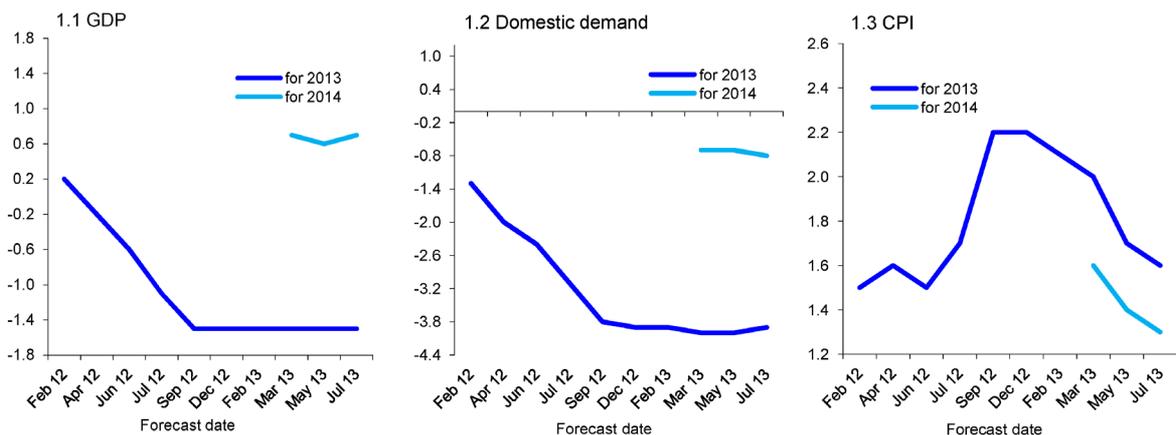
## Expansionary monetary policy is warranted

There has been no change in the view of fiscal policy either, which continues to be unanimously considered to be restrictive, an orientation the majority considers necessary. The overwhelming majority of panellists also consider current monetary policy to be expansionary, and all the participants believe that this orientation should be maintained.

Exhibit 1

### Change in forecasts (Consensus values)

Percentage annual change



Source: FUNCAS Panel of forecasts.

Table 1

**Economic Forecasts for Spain – July 2013**

Average year-on-year change, as a percentage, unless otherwise stated

	GDP		Household consumption		Public consumption		Gross fixed capital formation		GFCF machinery and capital goods		GFCF Construction		Demand domestic	
	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014
Analistas Financieros Internacionales (AFI)	-1.7	0.4	-3.0	-0.3	-3.9	-3.3	-7.1	-0.8	-5.0	1.7	-9.2	-2.5	-3.9	-0.9
Banco Bilbao Vizcaya Argentaria (BBVA)	-1.4	0.9	-3.0	-0.5	-5.1	-1.8	-8.5	1.3	-4.7	4.9	-10.9	-1.0	-4.5	-0.4
Bankia	-1.5	0.7	-2.9	-0.7	-5.0	-3.0	-7.4	-0.6	-5.6	0.7	-9.1	-1.6	-4.2	-1.2
CatalunyaCaixa	-1.5	0.7	-2.9	-0.1	-4.6	-1.9	-7.7	-3.8	-6.4	-3.4	-9.0	-4.1	-4.2	-1.2
Cemex	-1.6	0.4	-3.0	0.1	-3.6	-1.7	-7.9	-0.3	-6.0	1.7	-10.0	-2.6	-4.1	-0.3
Centro de Estudios Economía de Madrid (CEEM-URJC)	-1.2	1.0	-2.5	0.1	-4.2	-2.6	-5.5	0.3	-3.6	2.5	-7.2	-1.1	-3.4	-0.4
Centro de Predicción Económica (CEPREDE-UAM)	-1.3	0.9	-2.5	0.1	-3.8	-0.8	-7.2	-1.5	-5.8	-0.1	-8.9	-2.6	-4.1	-0.8
CEOE	-1.5	0.8	-2.8	-0.2	-4.1	-2.4	-7.4	-1.4	-3.1	3.5	-10.5	-4.7	-3.9	-0.9
ESADE	-1.0	--	-2.0	--	-4.0	--	-6.0	--	--	--	--	--	-3.3	--
Fundación Cajas de Ahorros (FUNCAS)	-1.5	0.7	-3.0	-0.3	-3.4	-1.5	-7.4	-2.5	-5.7	0.1	-9.2	-4.6	-3.9	-1.0
Instituto Complutense de Análisis Económico (ICAE-UCM)	-1.5	0.8	-2.6	0.2	-4.7	-2.5	-7.7	-1.3	-6.0	1.3	-10.0	-2.8	-4.3	-0.8
Instituto de Estudios Económicos (IEE)	-1.5	0.7	-3.0	-0.1	-4.4	-1.8	-7.0	-1.6	-3.5	2.5	-9.0	-4.0	-3.9	-0.7
Instituto de Macroeconomía y Finanzas (Universidad CJC)	-1.5	0.6	-3.1	-0.4	-3.6	-2.5	-6.0	1.5	-3.6	5.6	-8.0	-0.6	-3.7	-0.4
Instituto Flores de Lemus (IFL-UC3M)	-1.7	-0.2	-2.6	-0.4	-3.9	-3.1	-7.8	-4.4	-6.5	-3.4	-9.7	-6.0	-3.8	-1.7
Intermoney	-1.6	0.5	-2.9	-0.4	-4.2	-2.5	-8.2	-2.7	-7.3	-2.4	-9.7	-3.7	-4.1	-1.2
La Caixa	-1.4	0.8	-2.7	0.1	-4.2	-2.1	-6.6	-1.0	-4.1	1.8	-8.7	-2.4	-3.7	-0.5
Repsol	-1.5	0.7	-2.8	0.1	-3.1	-2.4	-6.7	-0.1	-4.9	2.5	-8.8	-2.2	-3.7	-0.5
Santander	-1.4	0.9	-2.9	0.5	-5.0	-3.0	-6.8	-0.9	-4.2	2.5	-7.9	-2.9	-4.0	-0.5
Solchaga Recio & asociados	-1.5	0.7	-2.7	0.1	-4.2	-1.7	-8.1	-1.5	-4.6	1.6	-11.0	-3.1	-4.2	-0.6
<b>CONSENSUS (AVERAGE)</b>	<b>-1.5</b>	<b>0.7</b>	<b>-2.8</b>	<b>-0.1</b>	<b>-4.2</b>	<b>-2.3</b>	<b>-7.2</b>	<b>-1.2</b>	<b>-5.0</b>	<b>1.3</b>	<b>-9.3</b>	<b>-2.9</b>	<b>-3.9</b>	<b>-0.8</b>
Maximum	-1.0	1.0	-2.0	0.5	-3.1	-0.8	-5.5	1.5	-3.1	5.6	-7.2	-0.6	-3.3	-0.3
Minimum	-1.7	-0.2	-3.1	-0.7	-5.1	-3.3	-8.5	-4.4	-7.3	-3.4	-11.0	-6.0	-4.5	-1.7
Change on 2 months earlier <sup>1</sup>	0.0	0.1	0.0	-0.1	0.6	0.1	-0.1	-0.1	0.7	-0.2	-0.2	0.0	0.1	-0.1
- Rise <sup>2</sup>	8	5	8	3	10	10	7	7	10	6	2	6	12	6
- Drop <sup>2</sup>	1	2	4	4	2	1	6	3	4	4	9	4	2	5
Change on 6 months earlier <sup>1</sup>	0.0	--	-0.5	--	2.3	--	-0.6	--	-1.3	--	-0.4	--	0.0	--
<b>Memorandum items:</b>														
Government (April 2013)	-1.3	0.5	-2.5	0.0	-4.4	-3.1	-7.1	-0.9	--	--	--	--	--	--
Bank of Spain (March 2013)	-1.5	0.6	-3.0	-0.3	-4.4	-1.5	-8.1	-0.9	-5.6 <sup>3</sup>	1.4 <sup>3</sup>	-10.1	-2.5	-4.2	-0.6
EC (May 2013)	-1.5	0.9	-3.1	-0.1	-3.7	-0.4	-7.6	-1.1	-5.8	0.1	--	--	-4.1	-0.4
IMF (April 2013)	-1.6	0.7	-3.4	0.5	-3.2	-1.2	-7.5	-1.7	--	--	--	--	-4.1	-0.2
OECD (November 2012)	-1.4	0.5	-2.3	-0.5	-4.0	-0.8	-9.0	-2.7	--	--	--	--	-4.0	-0.9

<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 panellists revising their forecast upwards (or downwards) since two months earlier.

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

Table 1 (Continued)

**Economic Forecasts for Spain – July 2013**

Average year-on-year change, as a percentage, unless otherwise stated

	Exports of goods & serv.		Imports of goods & serv.		Industrial output		CPI (annual av.)		Labour costs <sup>3</sup>		Jobs <sup>4</sup>		Unemployment. (% labour force)		C/A bal. pymts (% of GDP) <sup>5</sup>		Gen. Government Balance (% of GDP)	
	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014
Analistas Financieros Internacionales (AFI)	2.9	6.2	-4.4	2.8	--	--	1.6	1.0	--	--	-3.6	-0.2	27.1	26.8	0.9	1.5	-6.5	-5.8
Banco Bilbao Vizcaya Argentaria (BBVA)	4.7	6.4	-4.9	2.8	--	--	1.7	1.2	0.3	-0.2	-3.9	-0.5	27.1	26.4	0.5	1.0	-6.5	-5.7
Bankia	4.7	5.4	-3.9	0.0	-2.6	--	1.5	1.7	-0.3	0.3	-3.7	-0.4	26.8	26.6	1.3	3.0	--	--
CatalunyaCaixa	2.5	5.3	-5.2	2.0	--	--	1.5	1.8	--	--	-3.5	-0.4	26.9	26.0	--	--	--	--
Cemex	4.1	5.0	-3.1	3.2	--	--	1.5	1.2	--	--	-3.0	0.1	26.8	26.3	0.6	1.0	-6.5	-5.5
Centro de Estudios Económica de Madrid (CEEM-URJC)	4.3	5.7	-2.4	1.6	--	--	1.5	1.0	--	--	-2.8	0.2	26.8	26.2	1.8	2.6	-6.5	-5.7
Centro de Predicción Económica (CEPREDE-UAM)	3.5	4.8	-3.9	1.0	-4.4	-1.0	1.7	1.4	-0.4	0.2	-3.1	-0.3	26.8	26.9	0.8	1.9	-6.2	-6.1
CEOE	4.6	5.6	-3.4	0.7	-2.9	1.5	1.6	1.1	0.2	0.0	-3.5	-0.5	27.0	26.7	1.4	2.1	-6.3	-5.0
ESADE	5.5	--	-3.0	--	--	--	2.5	--	--	--	-2.5	--	26.0	--	1.8	--	--	--
Fundación Cajas de Ahorros (FUNCAS)	3.0	6.3	-4.4	1.7	-2.9	0.5	1.6	1.3	0.4	-0.2	-3.7	-0.9	26.5	25.8	1.3	2.5	-6.5	-5.8
Instituto Complutense de Análisis Económico (ICAE-UCM)	4.0	6.0	-5.0	1.5	-3.5	-0.2	1.8	1.5	--	--	-3.4	-0.1	27.0	26.7	1.0	1.8	-6.4	-5.8
Instituto de Estudios Económicos (IEE)	4.3	6.0	-3.5	1.6	--	--	1.8	1.3	0.8	0.2	-3.5	-0.4	27.1	26.9	1.0	2.0	-6.3	-5.2
Instituto de Macroeconomía y Finanzas (Universidad CJC)	3.7	3.8	-3.3	0.9	-3.1	-1.0	1.5	1.0	--	--	-3.8	-1.2	27.2	27.7	0.8	0.8	-7.0	-6.0
Instituto Flores de Lemus (IFL-UC3M)	1.2	3.6	-5.5	-1.1	-3.7	-3.2	1.4	1.4	--	--	--	--	27.2	27.2	--	--	--	--
Intermoney	2.1	2.5	-5.6	-2.9	-4.0	-1.0	1.4	1.0	--	--	-3.7	-1.0	27.3	27.0	0.8	1.0	-6.6	-5.8
La Caixa	2.3	4.2	-5.1	0.4	-2.1	2.1	1.6	1.4	-0.2	0.6	-3.4	0.3	26.7	25.9	0.7	2.0	-6.3	-5.5
Repsol	2.8	4.9	-4.1	1.5	-4.5	0.5	1.7	1.3	0.4	-0.8	-3.5	-0.9	26.5	26.0	0.4	0.8	-6.6	-5.8
Santander	5.0	5.7	-4.6	1.7	--	--	1.8	1.7	0.2	0.4	-3.5	-0.2	26.9	26.3	1.0	1.5	--	--
Solchaga Recio & asociados	3.5	5.5	-4.9	1.9	--	--	1.6	1.4	--	--	-3.5	-0.4	27.1	26.6	1.5	2.5	-6.3	-5.5
<b>CONSENSUS (AVERAGE)</b>	<b>3.6</b>	<b>5.2</b>	<b>-4.2</b>	<b>1.2</b>	<b>-3.4</b>	<b>-0.2</b>	<b>1.6</b>	<b>1.3</b>	<b>0.2</b>	<b>0.1</b>	<b>-3.4</b>	<b>-0.4</b>	<b>26.9</b>	<b>26.6</b>	<b>1.0</b>	<b>1.7</b>	<b>-6.5</b>	<b>-5.7</b>
Maximum	5.5	6.4	-2.4	3.2	-2.1	2.1	2.5	1.8	0.8	0.6	-2.5	0.3	27.3	27.7	1.8	3.0	-6.2	-5.0
Minimum	1.2	2.5	-5.6	-2.9	-4.5	-3.2	1.4	1.0	-0.4	-0.8	-3.9	-1.2	26.0	25.8	0.4	0.8	-7.0	-6.1
Change on 2 months earlier <sup>1</sup>	-0.1	-0.1	0.1	-0.3	0.3	-0.2	-0.1	-0.1	0.1	-0.2	0.0	-0.1	0.0	-0.1	0.3	0.2	-0.3	-0.4
- Rise <sup>2</sup>	5	4	4	4	6	2	4	2	2	1	4	3	2	3	8	7	1	1
- Drop <sup>2</sup>	7	6	8	6	1	2	8	8	3	4	8	5	6	6	3	2	7	6
Change on 6 months earlier <sup>1</sup>	-0.8	--	-0.8	--	0.2	--	-0.5	--	-0.4	--	-0.3	--	0.2	--	1.0	--	-0.9	--
<b>Memorandum items:</b>																		
Government (April 2013)	4.1	5.9	-3.7	2.6	--	--	--	--	1.1	0.4	-3.4	-0.4	27.1	26.7	1.9	2.9	-6.3	-5.5
Bank of Spain (March 2013)	3.8	5.4	-4.9	2.0	--	--	1.8	1.0	1.7	-0.1	-3.8	-0.6	27.1	26.8	2.5 <sup>6</sup>	3.5 <sup>6</sup>	-6.0	-5.9
EC (May 2013)	4.1	5.7	-4.0	2.0	--	--	1.5	0.8	1.4	0.1	-3.4	0.0	27.0	26.4	1.6	2.9	-6.5	-7.0
IMF (April 2013)	3.3	4.2	-4.7	1.5	--	--	1.9	1.5	--	--	-2.5	0.9	27.0	26.5	1.1	2.2	-6.6	-6.9
OECD (November 2012)	6.4	6.2	-1.3	2.4	--	--	1.2	0.4	--	--	--	--	26.9	26.8	0.5	1.8	-6.3	-5.9

<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 panellists 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> Net lending position vis-à-vis rest of world.

Table 2

**Quarterly Forecasts - July 2013<sup>1</sup>**

	Quarter-on-quarter change (percentage)							
	13-Q1	13-Q2	13-Q3	13-Q4	14-Q1	14-Q2	14-Q3	14-Q4
GDP <sup>2</sup>	-0.5	-0.2	0.0	0.1	0.1	0.3	0.3	0.4
Household consumption <sup>2</sup>	-0.4	-0.3	-0.3	-0.2	0.0	0.2	0.2	0.2

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

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

Table 3

**CPI Forecasts – July 2013<sup>1</sup>**

	Monthly change (%)				Year-on-year change (%)	
	Jun-13	Jul-13	Aug-13	Sep-13	Dec-13	Dec-14
	0.0	-0.6	0.3	0.3	0.9	1.5

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

Table 4

**Opinions – July 2013**

Number of responses

	Currently			Trend for next six months		
	Favourable	Neutral	Unfavourable	Improving	Unchanged	Worsening
International context: EU	0	2	17	10	9	0
International context: Non-EU	5	14	0	13	6	0
	Low <sup>1</sup>	Normal <sup>1</sup>	High <sup>1</sup>	Increasing	Stable	Decreasing
Short-term interest rate <sup>2</sup>	6	9	4	1	17	1
Long-term interest rate <sup>3</sup>	1	4	15	1	12	6
	Overvalued <sup>4</sup>	Normal <sup>4</sup>	Undervalued <sup>4</sup>	Appreciation	Stable	Depreciation
Euro/dollar exchange rate	18	1	0	0	11	8
	Is being			Should be		
	Restrictive	Neutral	Expansionary	Restrictive	Neutral	Expansionary
Fiscal policy assessment <sup>1</sup>	19	0	0	10	6	3
Monetary policy assessment <sup>1</sup>	2	1	16	0	0	19

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

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

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

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