

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

## FUNCAS Economic Trends and Statistics Department

### The forecast for 2013 remains unchanged at -1.3%

The rate of the decline in Spain's economic indicators began to slow at the start of the year –with signs of recovery in many cases– and this trend has continued into the third quarter. According to the preview of the quarterly national accounts, quarter-on-quarter GDP growth was 0.1% in the period, although there is no information yet about its breakdown.

The consensus growth forecast for the year as a whole has been kept at -1.3%. Nevertheless, there has been a slight change in its composition, such that a slightly larger –or somewhat less negative– contribution is now expected from domestic demand than was forecast by the previous Panel (-3.3 percentage points), along with a slightly smaller external demand contribution (2.0 pp).

### The forecast for 2014 has been raised a tenth of a percent to 0.8%

The GDP growth forecast for 2014 has been revised upwards one tenth of a percent to 0.8%. The key difference was the upward revision in household consumption. The estimate is now for a rise of 0.2%, compared with the zero growth expected in the September Panel forecast.

The quarterly profile derived from the consensus figures (Table 2) continues to indicate positive, although modest, growth rates in the coming quarters.

### Marked improvement in the industrial activity forecast

Based on data to August, industrial activity, as measured by the industrial production index, is now showing an upward trend. In August it contracted by 2% on a year-on-year basis, which would seem to suggest a worsening of the trend. However, this drop was due to an abnormal burst of activity in August last year as purchases were brought forward ahead of the VAT rise in September. Using seasonally adjusted figures, the IPI for August this year grew by 0.7% on the preceding month, and the average for July and August compared to the previous year showed growth of 0.1%.

The consensus forecasts for this year and next have improved substantially, rising to -2.2% and 0.4%, respectively, compared with -2.6% and 0% in the previous Panel.

### Inflation falls by more than expected

According to provisional data, the inflation rate fell in October to -0.1%. This is a much lower rate than expected. Now that the step effects caused by the government's measures last year have disappeared, underlying inflation is so low that the highly erratic behaviour of the two most volatile components, i.e. energy and, particularly, unprocessed foods, can cause the general rate to drop momentarily to negative levels. However, this does not mean that the economy is in deflation.

<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.

The consensus forecast for the year-on-year rate in December this year has been cut slightly to 0.7%, while the year-on-year rate for December next year has dropped two tenths to 1.3% (Table 3). The average rates forecast for 2013 and 2014 are 1.5% and 1.1%, respectively. These figures are both two tenths of a percentage point lower than in the previous Panel.

### **No changes in the forecasts for employment**

According to the Labour Force Survey, after removing seasonal effects, jobs continued to be lost in the third quarter at a rate similar to that registered in the previous quarter. Nevertheless, this result is somewhat skewed by the highly uneven behaviour of farming employment. If the agricultural sector is excluded, the result is a much smaller drop in employment than in the second quarter, and if public employment is also excluded (given that it is undergoing an adjustment of its own) the result is a slight increase in private-sector non-farm employment.

The consensus forecasts on how employment will progress have not changed with respect to the September panel: a drop this year of 3.2% is forecast, and 0.2% next year. The forecast for the unemployment rate has been revised downwards in both years by one tenth of a percentage point, to 26.4% and 25.8%, respectively.

The consensus estimates for GDP, employment and wage growth can be used to deduce the implicit productivity and unit labour cost growth estimates. On this basis, productivity is expected to grow by 2% in 2013 and 0.9% in 2014, while ULCs, are expected to drop by 1.8% and 0.9% this year and next, respectively. The process of recovering cost-competitiveness is, therefore, expected to continue.

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

The current account balance of payments continued improving in July and August. A surplus

of 2.6 billion euros was posted for the period, compared with a deficit of 15.3 billion euros for the same period last year. The rapid correction in the deficit observed over the course of this year in particular is partly due to the change in sign in the trade balance in goods and services, which is now in surplus, and the drop in the deficit on the income balance.

The consensus forecast for this variable has remained unchanged, with a positive balance of 1.3% of GDP in 2013 and 2.1% in 2014.

### **The public deficit forecast is almost unchanged**

In the first half of the year the overall general government deficit came to 3.1% of GDP, an improvement on the same period of the previous year, when it was 3.5%. Broken down by areas of government, the central government deficit improved by six tenths of a percentage point, and that of the social security administration by one tenth, whereas the deficit of the autonomous regions and local authorities remained almost unchanged. In the case of the autonomous regions this is not a good sign, however, as their deficit target for this year demands a reduction of five percentage points from last year.

The consensus forecast for the public deficit has barely changed since the last Panel: the estimated figure for 2013 is -6.6% of GDP, which represents an improvement of one tenth of a point on September's forecast, and the forecast for 2014 is -5.9%.

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

Economic conditions in the Euro area have improved in recent months. This can be seen in indicators such as the composite PMI, which rose to over 50 points in the third quarter, thus pointing to economic growth, for the first time in nine quarters, or the economic sentiment index, which rose to its highest level in seven quarters.

Job creation in the United States was disappointing in the third quarter, although the trend growth rate remains acceptable. The conditions in the emerging countries, although not as negative as a few months ago, are still unfavourable.

Until now, while panellists' view of the current situation in the EU context had improved over the course of recent panel forecasts, it still remained mostly unfavourable. This has now changed, with a balance of opinion between neutral and unfavourable for the first time since July 2011. The expectations for the next six months are for an improvement.

In the case of the assessment of the situation outside the EU, the majority view is neutral, with a trend towards an improvement 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 in recent months, with minor variations around the 0.22% level. Panellists think that their current level may be considered either low or normal, and that they will remain stable over the months ahead.

In the case of long-term rates, their downward trend has continued in recent weeks, and since October they have been below 4.1%, which has made it possible to narrow the spread over German debt. There has been almost no change from 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

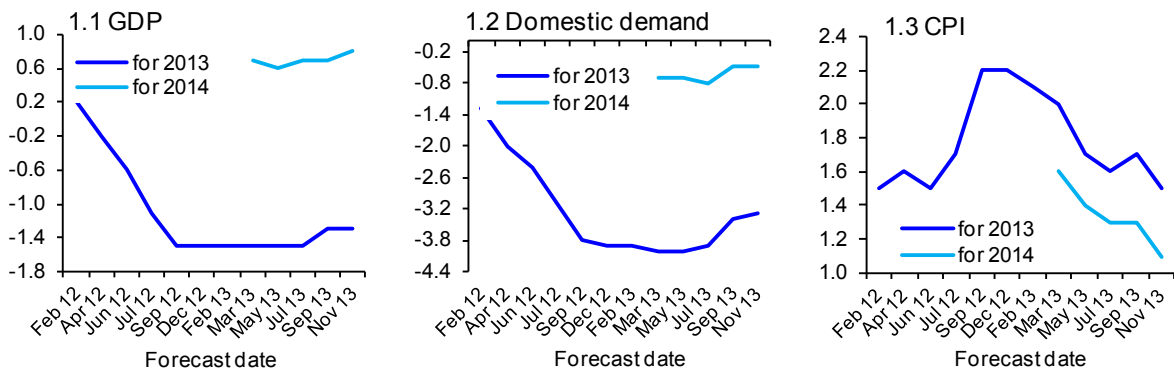
The euro, which most panellists have considered to be overvalued against the dollar for some time, rose in October and early November to over 1.35 dollars. Opinions about its course over the coming months are divided between those who think it will remain stable and those who expect a devaluation.

### Expansionary monetary policy is warranted

There has been no change in the view of fiscal policy, which continues to be unanimously considered to be restrictive, an orientation the majority of panellists considers necessary. An overwhelming majority also consider current monetary policy to be expansionary, and all the participants agree 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 – November 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		Domestic demand	
	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014
Analistas Financieros Internacionales (AFI)	-1.3	0.5	-2.8	-0.6	-2.7	-2.4	-6.0	-1.0	-0.5	2.8	-10.5	-3.8	-3.5	-1.2
Banco Bilbao Vizcaya Argentaria (BBVA)	-1.3	0.9	-2.6	0.1	-1.7	-1.6	-6.4	0.7	1.1	6.5	-11.0	-3.2	-3.1	-0.1
Bankia	-1.3	0.8	-2.7	-0.2	-3.4	-3.3	-6.7	-0.7	0.3	5.4	-10.7	-4.3	-3.6	-0.9
CatalunyaCaixa	-1.3	0.6	-2.5	0.8	-2.0	-2.3	-6.2	-1.4	1.3	4.6	-11.1	-6.3	-3.1	-0.3
Cemex	-1.3	0.8	-2.6	0.4	-2.7	-2.4	-6.1	0.1	-0.2	3.2	-11.7	-3.8	-3.3	-0.3
Centro de Estudios Economía de Madrid (CEEM-URJC)	-1.2	1.1	-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)	-1.2	1.0	-2.7	0.2	-2.5	-0.7	-6.2	-0.8	-0.3	1.5	-10.1	-2.4	-3.2	-0.7
CEOE	-1.2	0.8	-2.7	0.1	-3.0	-2.6	-5.9	-1.2	1.2	5.4	-10.4	-6.0	-3.3	-0.7
ESADE	-1.0	0.5	-2.0	0.1	-4.0	-2.3	-6.0	-1.2	--	-0.9	--	-3.6	-3.3	-0.6
Fundación Cajas de Ahorros (FUNCAS)	-1.2	1.0	-2.6	0.3	-2.1	-1.6	-6.2	-2.1	-0.3	1.0	-10.3	-4.8	-3.2	-0.5
Instituto Complutense de Análisis Económico (ICAE-UCM)	-1.3	0.6	-2.8	0.0	-3.0	-1.5	-6.8	-1.2	-0.8	1.8	-10.0	-3.0	-3.5	-0.6
Instituto de Estudios Económicos (IEE)	-1.4	0.7	-2.8	-0.1	-3.5	-1.8	-7.3	-1.6	-2.5	2.5	-10.1	-4.0	-3.7	-0.7
Instituto de Macroeconomía y Finanzas (Universidad CJC)	-1.3	0.7	-2.7	-0.2	-2.2	-2.8	-5.8	1.7	0.8	7.5	-10.0	-1.5	-3.2	-0.4
Instituto Flores de Lemus (IFL-UC3M)	-1.4	0.4	-2.6	0.9	-2.3	-2.9	-6.3	-1.1	0.4	2.7	-10.5	-3.8	-3.1	-0.3
Intermoney	-1.3	0.6	-2.5	0.4	-2.7	-2.5	-6.4	-2.5	0.1	1.8	-10.4	-5.7	-3.0	-0.1
La Caixa	-1.2	0.8	-2.7	0.2	-1.5	-1.2	-6.5	-1.1	-0.1	2.6	-10.3	-3.1	-3.1	-0.3
Repsol	-1.3	0.7	-2.5	0.6	-2.1	-2.8	-6.2	-0.8	1.3	5.0	-10.6	-4.9	-3.1	-0.4
Santander	-1.3	0.9	-2.6	0.5	-1.9	-2.1	-6.9	-1.2	-0.9	2.5	-9.7	-3.6	-3.3	-0.4
Solchaga Recio & asociados	-1.2	1.0	-2.5	0.5	-3.1	-1.7	-6.2	-1.0	-1.2	2.1	-8.8	-3.1	-3.5	-0.3
<b>CONSENSUS (AVERAGE)</b>	<b>-1.3</b>	<b>0.8</b>	<b>-2.6</b>	<b>0.2</b>	<b>-2.7</b>	<b>-2.2</b>	<b>-6.3</b>	<b>-0.8</b>	<b>-0.2</b>	<b>3.2</b>	<b>-10.2</b>	<b>-3.8</b>	<b>-3.3</b>	<b>-0.5</b>
Maximum	-1.0	1.1	-2.0	0.9	-1.5	-0.7	-5.5	1.7	1.3	7.5	-7.2	-1.1	-3.0	-0.1
Minimum	-1.4	0.4	-2.8	-0.6	-4.2	-3.3	-7.3	-2.5	-3.6	-0.9	-11.7	-6.3	-3.7	-1.2
Change on 2 months earlier <sup>1</sup>	0.0	0.1	0.1	0.2	0.1	-0.2	0.1	0.2	0.6	0.3	-0.2	-0.1	0.1	0.0
- Rise <sup>2</sup>	6	6	7	9	5	4	5	7	8	8	1	2	7	7
- Drop <sup>2</sup>	0	2	1	0	1	4	2	2	2	2	7	7	0	2
Change on 6 months earlier <sup>1</sup>	0.2	0.2	0.2	0.2	2.1	0.2	0.8	0.3	5.5	1.7	-1.1	-0.9	0.7	0.2
<b>Memorandum items:</b>														
Government (September 2013)	-1.3	0.7	-2.6	0.2	-2.3	-2.9	-6.1	0.2	--	--	--	--	-3.2	-0.4
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 (November 2013)	-1.3	0.5	-2.6	0.1	-3.0	-2.1	-6.6	-2.4	-0.3 <sup>3</sup>	2.6 <sup>3</sup>	-10.5	-5.8	-3.4	-0.8
IMF (October 2013)	-1.3	0.2	-2.8	-0.4	-2.0	-2.9	-7.3	-2.8	--	--	--	--	-3.5	-1.4
OECD (June 2013)	-1.7	0.4	-3.0	-1.5	-2.9	-1.4	-9.9	-2.9	--	--	--	--	-4.3	-1.7

<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 – November 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) <sup>7</sup>	
	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014
Analistas Financieros Internacionales (AFI)	6.2	7.1	-0.4	3.1	--	--	1.8	1.0	--	--	-3.2	-0.2	26.6	26.3	0.9	1.5	-6.5	-5.8
Banco Bilbao Vizcaya Argentaria (BBVA)	4.6	6.3	-1.0	3.4	--	--	1.5	1.1	0.3	0.0	-3.3	-0.1	26.3	25.6	1.2	1.8	-6.8	-5.8
Bankia	6.3	6.9	-1.0	1.9	-1.5	--	1.5	1.1	-0.3	0.3	-3.4	-0.4	26.5	25.8	1.6	3.0	--	--
CatalunyaCaixa	4.6	5.2	-0.9	3.9	--	--	1.4	1.4	--	--	-3.2	-0.2	26.4	25.7	--	--	--	--
Cemex	5.1	6.2	-0.8	3.6	--	--	1.5	1.3	--	--	-3.0	0.1	26.0	25.5	0.8	1.4	-6.7	-5.5
Centro de Estudios Económicos de Madrid (CEEM-URJC)	5.8	5.7	-1.1	1.6	--	--	1.5	0.8	--	--	-2.8	0.2	26.1	25.2	1.8	2.6	-6.5	-5.7
Centro de Predicción Económica (CEPREDE-UAM)	5.5	5.4	-0.7	2.4	-3.4	-0.9	1.3	1.1	-0.1	0.3	-3.1	-0.2	26.4	26.1	0.5	1.7	-6.9	-6.4
CEOE	6.8	6.0	0.2	1.8	-2.6	1.5	1.6	1.5	0.4	0.0	-3.3	-0.1	26.4	25.8	1.6	3.1	-6.5	-6.0
ESADE	5.5	4.5	-3.0	1.0	--	--	--	--	--	--	-2.5	-0.3	26.0	25.5	1.8	1.5	--	-5.9
Fundación Cajas de Ahorros (FUNCAS)	5.6	6.0	-0.2	1.9	-1.8	1.1	1.5	0.9	0.5	-0.2	-3.4	-0.4	26.4	25.8	1.8	2.9	-6.8	-6.0
Instituto Complutense de Análisis Económico (ICAE-UCM)	4.3	6.0	-1.7	2.0	-2.5	0.6	1.7	1.3	--	--	-3.1	0.0	26.6	26.0	1.0	1.8	-6.4	-5.7
Instituto de Estudios Económicos (IEE)	4.8	6.0	-2.5	1.6	--	--	1.8	1.3	0.6	0.2	-3.3	-0.4	26.8	26.0	1.0	2.5	-6.5	-5.8
Instituto de Macroeconomía y Finanzas (Universidad CJC)	6.4	4.5	0.6	1.6	-2.1	-0.5	1.5	0.9	-0.6	-0.9	-3.3	-1.0	26.5	26.3	1.8	2.8	-7.0	-5.8
Instituto Flores de Lemus (IFL-UC3M)	4.2	5.4	-1.3	3.5	-1.4	0.8	1.5	1.3	--	--	--	--	26.5	26.0	--	--	--	--
Intermoney	4.4	4.5	-0.7	2.9	-2.1	-0.7	1.5	1.2	--	--	-3.3	-0.5	26.6	26.4	1.5	2.2	-6.6	-5.8
La Caixa	5.2	5.6	-0.6	2.4	-1.6	1.0	1.5	1.1	0.1	0.8	-3.2	0.3	26.4	25.5	1.8	2.4	-6.6	-6.0
Repsol	5.7	6.4	0.1	3.5	-2.5	0.5	1.4	0.6	0.4	-0.1	-3.5	-0.2	26.1	25.5	1.1	1.4	-6.6	-5.9
Santander	5.5	5.7	-2.1	2.0	--	--	1.4	0.8	0.0	0.4	-3.4	-0.2	26.5	26.2	1.0	1.5	--	--
Solchaga Recio & asociados	5.2	5.6	-1.8	2.1	--	--	1.5	1.1	--	--	-3.2	0.1	26.5	25.5	1.5	2.0	-6.5	-5.8
<b>CONSENSUS (AVERAGE)</b>	<b>5.4</b>	<b>5.7</b>	<b>-1.0</b>	<b>2.4</b>	<b>-2.2</b>	<b>0.4</b>	<b>1.5</b>	<b>1.1</b>	<b>0.1</b>	<b>0.1</b>	<b>-3.2</b>	<b>-0.2</b>	<b>26.4</b>	<b>25.8</b>	<b>1.3</b>	<b>2.1</b>	<b>-6.6</b>	<b>-5.9</b>
Maximum	6.8	7.1	0.6	3.9	-1.4	1.5	1.8	1.5	0.6	0.8	-2.5	0.3	26.8	26.4	1.8	3.1	-6.4	-5.5
Minimum	4.2	4.5	-3.0	1.0	-3.4	-0.9	1.3	0.6	-0.6	-0.9	-3.5	-1.0	26.0	25.2	0.5	1.4	-7.0	-6.4
Change on 2 months earlier <sup>1</sup>	0.0	-0.2	0.2	0.0	0.4	0.4	-0.2	-0.2	0.0	0.0	0.0	0.0	-0.1	-0.1	0.0	0.0	0.1	0.0
- Rise <sup>2</sup>	5	3	4	5	6	4	0	1	2	2	5	5	2	3	3	1	4	2
- Drop <sup>2</sup>	3	3	2	2	1	1	13	12	0	1	2	3	8	9	1	2	3	1
Change on 6 months earlier <sup>1</sup>	1.7	0.4	3.3	0.9	1.5	0.4	-0.2	-0.3	0.0	-0.2	0.2	0.1	-0.5	-0.9	0.6	0.6	-0.4	-0.6
<b>Memorandum items:</b>																		
Government (September 2013)	5.7	5.5	-0.3	2.4	--	--	--	--	0.5	0.3	-3.4	-0.2	26.6	25.9	1.7	2.8	-6.5	-5.8
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	3.5	-6.0	-5.9
EC (November 2013)	4.5	5.2	-1.9	1.5	--	--	1.8	0.9	1.0	0.1	-3.6	-0.7	26.6	26.4	1.4	2.6	-6.8	-5.9
IMF (October 2013)	5.7	5.8	-1.0	1.8	--	--	1.8	1.5	--	--	-3.9	-0.7	26.9	26.7	1.4	2.6	-6.7	-5.8
OECD (June 2013)	4.5	6.7	-3.7	0.8	--	--	1.5	0.4	-1.0	-1.0	-4.2	-1.6	27.3	28.0	2.1	3.5	-6.9	-6.4

<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.<sup>7</sup> Excluding financial entities bail-out expenditures.

Table 2

**Quarterly Forecasts - November 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>	-0.4	-0.1	0.1	0.1	0.2	0.2	0.3	0.4
Household consumption <sup>2</sup>	-0.5	-0.1	0.0	0.0	0.0	0.1	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 – November 2013<sup>1</sup>**

	Monthly change (%)				Year-on-year change (%)	
	Sep-13	Oct-13	Nov-13	Dec-13	Dec-13	Dec-14
	0.2	0.2	-0.7	0.1	0.7	1.3

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

Table 4

**Opinions – November 2013**

Number of responses

	Currently			Trend for next six months		
	Favourable	Neutral	Unfavourable	Improving	Unchanged	Worsening
International context: EU	3	8	8	15	4	0
International context: Non-EU	5	12	2	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>	8	8	3	2	16	1
Long-term interest rate <sup>3</sup>	1	3	15	0	12	7
	Overvalued <sup>4</sup>	Normal <sup>4</sup>	Undervalued <sup>4</sup>	Appreciation	Stable	Depreciation
Euro/dollar exchange rate	17	1	1	3	8	8
	Is being			Should be		
	Restrictive	Neutral	Expansionary	Restrictive	Neutral	Expansionary
Fiscal policy assessment <sup>1</sup>	19	0	0	12	5	2
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.