

Spanish economic forecasts panel: January 2014¹

FUNCAS Economic Trends and Statistics Department

The growth estimate for 2013 has been raised a tenth of a percent to -1.2%

The economic indicators continued the trend shown over the course of 2013 into the fourth quarter, pointing to a modest recovery in consumption and investments in capital goods. In general, the industry and services activity indicators also improved, as did employment. Particularly noteworthy was the rise in the qualitative indicators, such as the PMI and the confidence indicators, especially in December. According to consensus estimates, GDP growth in the quarter was 0.2%. This yields a rate for the year as a whole of -1.2%, a tenth of a percentage point higher than the November panel forecast.

Domestic demand's expected contribution to growth has been revised upwards to -3.0 percentage points, and the contribution from the external sector has been revised downwards to 1.8 pp. The origin of the change in the domestic demand forecast is the expected growth correction for public consumption, which is now projected to drop by 1.6%, rather than the 2.7% decrease forecast in November. The change is because new data is now available on the progress of public expenditure from both the third quarter national accounts and the budgetary execution figures. These data confirm that the government's process of public deficit adjustment has stalled.

The forecast for 2014 has been revised upwards a tenth of a point to 0.9%

The growth forecast for 2014 has also been raised by one tenth of a percentage point, to 0.9%. This is significantly above both the government's and international organisations' forecasts. As in the previous panel, expected growth in household consumption has been revised upwards, and is now projected to reach 0.6%. The growth forecast for public consumption and investment in equipment has also been corrected upwards.

The quarterly profile derived from the consensus figures (Table 2) continues to indicate positive growth for the coming quarters at rates slightly higher than those in the previous panel.

Further improvement in the industrial activity forecast

Industrial activity, as measured by the industrial production index, showed a modest trend towards recovery over the course of 2013, although growth rates were negative in year-on-year terms. The annual change in 2013 is estimated to have been -2.0%, while the consensus forecast for 2014 is growth of 0.8%.

Inflation was lower than expected

After falling to -0.1% in October, inflation returned to positive terrain in the following months, confirming

¹ 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 drop to have been a transitory phenomenon. December's result was a rise of 0.2%, such that the average rate over the year as a whole came to 1.4%, which is one tenth of a percentage point lower than in the last Forecast Panel.

Inflationary pressures on both the supply and demand sides will remain very weak in 2014, such that the forecast average rate is 1%, which is a tenth of a percentage point lower than in the previous panel. The consensus forecast for the December year-on-year rate is 1.1% (Table 3).

The employment forecast has improved

Employment continued to improve in the last quarter of 2013, as shown by the social security registration figures, which showed positive quarter-on-quarter growth for the first time since early 2008.

Consensus estimates for 2013 as a whole point to a drop in employment (measured in full-time equivalent jobs) of 3.1%, while no change is now expected for 2014, in comparison with -0.2% expected in the previous Panel. The average annual unemployment rate is also expected to drop in 2014: to 25.6%, from the 26.4% estimated for 2013.

The consensus estimates for GDP, employment and wage growth can be used to deduce the implicit productivity and unit labour cost (ULC) 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 0.8% 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 of the balance of payments, which has been in surplus since August 2013, posted a positive balance of 4.2 billion euros between January and October. This contrasts

with the deficit of 15.3 billion euros over the same period of the previous year, and even more so with the 91.4 billion euro deficit in this period of 2008.

The consensus forecast for this variable continues to suggest a surplus, although its size has been revised downwards in both 2013 and 2014, in line with the anticipated more favourable behaviour of domestic demand, for which the forecasts are now 1.1% of GDP in 2013 and 1.8% in 2014.

The government deficit targets will not be met

The general government deficit to September came to 4.4% of the whole year's estimated GDP. Given that the last quarter of the year is always strongly in deficit, the expectation for meeting the 6.5% target is low. Indeed, the data for the period to November show the central government to have already overshoot its target for 2013 by 0.16 percentage points.

Consequently, the consensus forecast for the 2013 general government deficit has worsened by a tenth of a percentage point to 6.7% of GDP –two tenths of a percentage point over the target. The forecast for 2014 remains 5.9% of GDP, one tenth of a percentage point higher than the target for the year.

The external context is expected to improve

In recent weeks, perceptions over the outlook for the world's developed economies have become more optimistic. Key data include the revised third quarter GDP growth in the United States of 4.1%, and the PMI and euro zone confidence indicators, which improved markedly in the fourth quarter. In the case of the emerging economies, however, the perception remains that of a loss of momentum.

Panellists' view of the current situation in the EU is now neutral, compared with a negative majority view in November. As regards the situation outside the EU, as in previous panels, the view

remains neutral. In both instances, the situation 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 moved upwards reaching 0.29% in recent weeks, which is slightly higher than the monetary policy benchmark rate of 0.25%. However, panellists think its current level could be considered low for the current state of the Spanish economy. Rates are still expected to remain stable over the coming months.

In the case of long-term rates, the downward trend has become more pronounced in recent weeks, and since early January they have been below 4%, which has made it possible to narrow the spread over German debt, which has dropped to less than 200 basis points. The view in the preceding panel forecasts that long-term rates are currently at levels that are too high for the needs of the Spanish economy remains unchanged, but few panellists expect to see any change over the next few months.

The euro is overvalued

The euro's exchange rate against the dollar, which most panellists have considered to be overvalued for some time, has remained stable in the last few weeks at over 1.36 dollars.

In contrast to previous panel forecasts, the majority view on the progress of exchange rates over the coming months is now for a drop in the euro, which may be a reflection of the expected impact of the change in direction of US monetary policy.

Fiscal policy should be restrictive

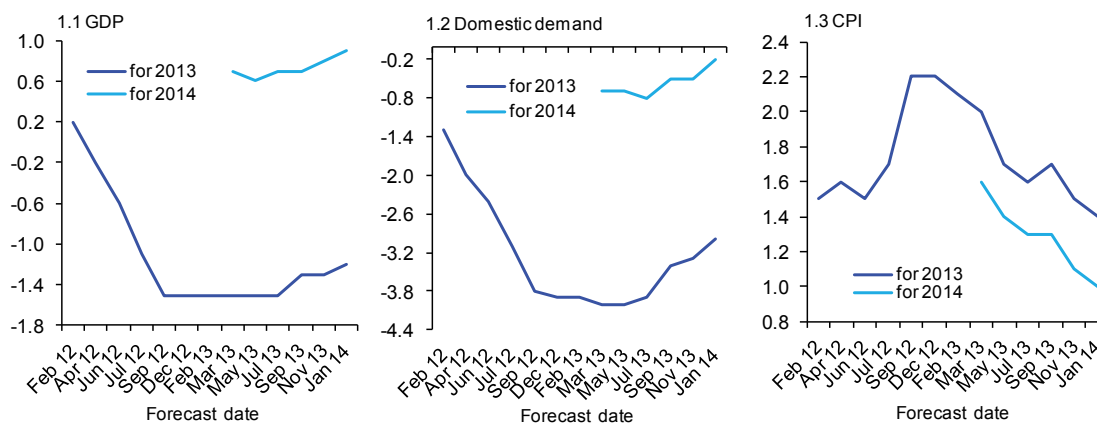
The panel still views fiscal policy to be restrictive, although not unanimously as in previous forecasts. This is a result of the perception that the fiscal adjustment process has stalled. The majority view is still that fiscal policy should be restrictive.

Almost all the panellists also consider current monetary policy to be expansionary. This is unanimously seen to be the right monetary policy stance to follow.

Exhibit 1

Change in forecasts (Consensus values)

Percentage annual change



Source: FUNCAS Panel of forecasts.

Table 1

Economic Forecasts for Spain – January 2014

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

	GDP		Household consumption		Public consumption		Gross fixed capital formation		GFCF machinery capital goods		GFCF Construction		Domestic demand	
	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014
Analistas Financieros Internacionales (AFI)	-1.2	0.8	-2.5	0.6	-1.1	-1.3	-6.0	-1.4	0.7	2.6	-10.3	-4.4	-2.9	-0.2
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	-1.2	1.1	-2.5	0.6	-1.2	-0.7	-6.4	-1.0	0.1	5.4	-10.3	-4.7	-3.1	0.0
CatalunyaCaixa	-1.3	0.8	-2.5	0.9	-1.3	-2.1	-6.0	-1.3	0.8	3.9	-10.5	-5.6	-2.9	-0.1
Cemex	-1.3	0.8	-2.6	0.4	-1.9	-2.4	-6.0	0.1	0.2	3.2	-11.0	-3.8	-3.1	-0.3
Centro de Estudios Economía de Madrid (CEEM-URJC)	-1.2	1.2	-2.5	0.4	-3.5	-2.0	-6.6	-0.4	-3.6	2.5	-9.0	-2.2	-3.4	-0.2
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	0.9	-2.5	0.8	-1.3	-1.3	-6.1	-1.2	0.7	6.2	-10.5	-6.6	-2.9	-0.1
ESADE	-1.2	0.8	-2.5	0.8	-3.0	-2.3	-6.0	-1.2	--	-0.9	--	-3.6	-3.3	-0.6
Fundación Cajas de Ahorros (FUNCAS)	-1.2	1.0	-2.5	0.7	-1.2	-1.3	-6.3	-2.2	-0.3	1.2	-10.3	-4.9	-3.0	-0.3
Instituto Complutense de Análisis Económico (ICAE-UCM)	-1.3	0.7	-2.5	0.2	-2.0	-1.5	-6.8	-1.2	0.5	3.4	-10.0	-4.0	-3.5	-0.6
Instituto de Estudios Económicos (IEE)	-1.2	0.9	-2.5	0.3	-1.5	-1.8	-6.3	-1.4	0.1	4.3	-10.3	-5.2	-3.0	-0.5
Instituto de Macroeconomía y Finanzas (Universidad CJC)	-1.2	1.0	-2.5	0.2	-1.6	-1.9	-6.2	1.3	-0.1	7.6	-10.2	-2.3	-3.0	0.0
Instituto Flores de Lemus (IFL-UC3M)	-1.3	0.7	-2.4	1.4	-1.4	-2.5	-5.8	-1.1	1.0	5.9	-10.3	-5.6	-2.8	0.1
Intermoney	-1.3	0.9	-2.5	0.8	-1.4	-1.5	-6.0	-1.6	0.7	3.5	-10.4	-5.5	-2.8	0.5
La Caixa	-1.2	0.8	-2.5	0.6	-1.1	-1.3	-5.9	-0.5	0.7	3.4	-10.2	-3.0	-2.9	0.0
Repsol	-1.3	0.7	-2.4	0.6	-1.1	-1.5	-5.9	-0.7	1.2	4.4	-10.5	-5.0	-2.8	-0.1
Santander	-1.2	0.9	-2.5	0.5	-1.0	-2.1	-6.0	-1.2	1.1	2.5	-10.4	-3.6	-2.8	-0.4
Solchaga Recio & asociados	-1.2	1.1	-2.4	0.9	-1.4	-1.5	-6.4	-1.5	0.2	2.1	-10.1	-4.1	-3.0	0.0
CONSENSUS (AVERAGE)	-1.2	0.9	-2.5	0.6	-1.6	-1.6	-6.2	-0.9	0.3	3.6	-10.3	-4.2	-3.0	-0.2
Maximum	-1.2	1.2	-2.4	1.4	-1.0	-0.7	-5.8	1.3	1.2	7.6	-9.0	-2.2	-2.8	0.5
Minimum	-1.3	0.7	-2.7	0.1	-3.5	-2.5	-6.8	-2.2	-3.6	-0.9	-11.0	-6.6	-3.5	-0.7
Change on 2 months earlier ¹	0.1	0.1	0.1	0.4	1.1	0.6	0.1	-0.1	0.5	0.4	-0.1	-0.4	0.3	0.3
- Rise ²	6	12	12	14	17	11	9	5	9	8	7	3	14	13
- Drop ²	1	0	1	0	0	1	5	6	5	3	6	11	0	0
Change on 6 months earlier ¹	0.3	0.2	0.3	0.7	2.6	0.7	1.0	0.3	5.3	2.3	-1.0	-1.3	0.9	0.6
<u>Memorandum items:</u>														
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 ³	1.4 ³	-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 ³	2.6 ³	-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 (November 2013)	-1.3	0.5	-2.6	-0.4	-2.3	-2.9	-6.2	-1.6	--	--	--	--	-3.2	-1.2

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 – January 2014

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

	Exports goods & services		Imports goods & services		Industrial output		CPI (annual av.)		Labour costs ³		Jobs ⁴		Unempl. (% labour force)		C/A bal. payments (% of GDP) ⁵		Gen. gov. bal. (% of GDP) ⁷	
	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014
Analistas Financieros Internacionales (AFI)	5.5	5.6	0.4	3.2	--	--	1.4	0.5	--	--	-3.1	0.6	26.4	25.7	1.0	1.5	-6.8	-5.8
Banco Bilbao Vizcaya Argentaria (BBVA)	4.6	6.3	-1.0	3.4	--	--	1.4	1.1	--	--	-3.3	-0.1	26.3	25.6	1.2	1.8	-6.8	-5.8
Bankia	5.5	6.0	0.2	3.0	-1.8	1.0	1.4	0.8	-0.3	0.3	-3.3	0.0	26.4	25.6	1.6	2.8	--	--
CatalunyaCaixa	5.3	6.2	0.4	4.9	--	--	1.4	1.5	--	--	-3.2	0.2	26.4	25.7	--	--	--	--
Cemex	5.1	6.2	-0.4	3.6	--	--	1.4	1.3	--	--	-3.0	0.1	26.2	25.3	0.8	1.4	-6.7	-5.5
Centro de Estudios Economía de Madrid (CEEM-URJC)	5.8	5.7	-1.1	2.0	--	--	1.4	0.8	--	--	-2.8	0.2	26.1	25.2	1.6	2.1	-6.5	-5.7
Centro de Predicción Económica (CEPREDE-UAM)	5.5	5.4	-0.7	2.4	-3.0	-0.7	1.4	1.1	-0.1	0.3	-3.1	-0.2	26.4	26.1	0.5	1.7	-6.9	-6.4
CEOE	5.3	5.5	0.1	2.8	-1.8	2.1	1.4	1.1	0.6	0.1	-3.3	0.1	26.4	25.6	0.5	1.4	-6.5	-6.1
ESADE	5.5	4.5	-1.9	1.0	--	--	1.4	1.0	--	--	-2.5	-0.3	26.0	25.5	1.8	1.5	--	-5.9
Fundación Cajas de Ahorros (FUNCAS)	5.3	5.4	0.1	2.0	-1.5	1.8	1.4	0.6	0.5	-0.1	-3.4	0.0	26.4	25.4	1.1	2.2	-6.8	-6.0
Instituto Complutense de Análisis Económico (ICAE-UCM)	4.8	6.0	-1.1	2.5	-2.1	0.6	1.4	1.2	--	--	-3.1	0.0	26.4	25.7	1.0	1.5	-6.4	-5.7
Instituto de Estudios Económicos (IEE)	5.8	6.1	0.4	2.1	--	--	1.4	1.0	0.6	0.3	-3.4	0.1	26.8	26.0	1.2	2.1	-6.5	-5.8
Instit. Macroec.y Finanzas (Univ. CJC)	5.3	4.5	-0.1	1.6	-1.6	0.9	1.4	0.9	-0.6	-0.9	-3.2	-0.5	26.4	25.4	1.1	2.0	-7.0	-5.8
Instituto Flores de Lemus (IFL-UC3M)	5.0	6.8	0.2	4.9	-1.9	0.3	1.4	1.1	--	--	--	--	26.5	26.0	--	--	--	--
Intermoney	4.9	5.3	0.5	4.3	--	--	1.4	1.2	--	--	-3.1	0.1	26.4	25.2	1.5	2.2	-6.6	-5.8
La Caixa	5.4	6.1	0.4	3.8	-1.4	1.1	1.4	0.8	0.0	0.3	-3.3	0.3	26.4	25.5	1.1	1.6	-6.6	-5.8
Repsol	5.6	6.6	0.8	4.8	-2.5	0.5	1.4	0.7	0.4	-0.1	-3.3	-0.2	26.3	25.7	1.1	1.4	-6.7	-5.9
Santander	5.5	5.7	0.6	2.0	--	--	1.4	1.1	-0.2	0.4	-3.1	0.0	26.4	26.0	1.0	1.5	--	--
Solchaga Recio & asociados	5.2	5.5	-0.5	2.2	--	--	1.4	0.7	--	--	-3.1	0.2	26.2	25.1	1.3	2.0	-6.6	-5.8
CONSENSUS (AVERAGE)	5.3	5.8	-0.1	3.0	-2.0	0.8	1.4	1.0	0.1	0.1	-3.1	0.0	26.4	25.6	1.1	1.8	-6.7	-5.9
Maximum	5.8	6.8	0.8	4.9	-1.4	2.1	1.4	1.5	0.6	0.4	-2.5	0.6	26.8	26.1	1.8	2.8	-6.4	-5.5
Minimum	4.6	4.5	-1.9	1.0	-3.0	-0.7	1.4	0.5	-0.6	-0.9	-3.4	-0.5	26.0	25.1	0.5	1.4	-7.0	-6.4
Change on 2 months earlier ¹	-0.1	0.1	0.9	0.6	0.2	0.4	-0.1	-0.1	0.0	0.0	0.1	0.2	0.0	-0.2	-0.2	-0.3	-0.1	0.0
- Rise ²	6	6	14	13	6	5	1	3	1	3	7	10	2	1	2	0	0	1
- Down ²	6	5	2	0	2	1	14	9	2	1	2	0	7	10	6	8	3	1
Change on 6 months earlier ¹	1.7	0.6	4.1	1.8	1.4	1.0	-0.2	-0.3	-0.1	0.0	0.3	0.4	-0.5	-1.0	0.1	0.1	-0.2	-0.2
Memorandum items:																		
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 ⁶	3.5 ⁶	-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 (November 2013)	4.8	5.4	-1.1	0.7	--	--	1.6	0.5	--	--	-3.2	-0.6	26.4	26.3	0.6	0.1	-6.7	-6.1

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.⁴ In National Accounts terms: full-time equivalent jobs.⁵ Current account balance, according to Bank of Spain estimates.⁶ Net lending position vis-à-vis rest of world.⁷ Excluding financial entities bail-out expenditures.

Table 2

Quarterly Forecasts - January 2014¹

	Quarter-on-quarter change (percentage)							
	13-Q1	13-Q2	13-Q3	13-Q4	14-Q1	14-Q2	14-Q3	14-Q4
GDP ²	-0.4	-0.1	0.1	0.2	0.2	0.3	0.4	0.4
Household consumption ²	-0.6	-0.1	0.4	0.2	0.1	0.2	0.3	0.3

¹ Average of forecasts by private institutions listed in Table 1.

² According to series corrected for seasonality and labour calendar.

Table 3

CPI Forecasts – January 2014¹

	Monthly change (%)				Year-on-year change (%)	
	Jan-14	Feb-14	Mar-14	Apr-14	Dec-13	Dec-14
	-0.9	0.0	0.4	0.8	0.2	1.1

¹ Average of forecasts by private institutions listed in Table 1.

Table 4

Opinions – January 2014

Number of responses

	Currently			Trend for next six months		
	Favourable	Neutral	Unfavourable	Improving	Unchanged	Worsening
International context: EU	1	12	6	17	2	0
International context: Non-EU	7	10	2	12	7	0
	Low ¹	Normal ¹	High ¹	Increasing	Stable	Decreasing
Short-term interest rate ²	10	6	3	2	17	0
Long-term interest rate ³	4	2	13	2	10	7
	Overvalued ⁴	Normal ⁴	Undervalued ⁴	Appreciation	Stable	Depreciation
Euro/dollar exchange rate	18	1	0	2	4	13
	Is being			Should be		
	Restrictive	Neutral	Expansionary	Restrictive	Neutral	Expansionary
Fiscal policy assessment ¹	17	2	0	10	6	3
Monetary policy assessment ¹	1	0	18	0	0	19

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

³ Yield on Spanish 10-year public debt.

² Three-month Euribor.

⁴ Relative to theoretical equilibrium rate.