

Spanish economic forecasts panel: March 2014¹

FUNCAS Economic Trends and Statistics Department

The growth estimate for 2014 has been raised a tenth of a percent to 1.0%

The indicators available for the first few months of 2014, basically Social Security system registration figures, business climate indices, and PMIs, suggest that the Spanish economy's recovery has gained strength in the first quarter. At the same time, the return on Spanish debt has continued to fall, in line with the risk premium. Consequently, the consensus GDP-growth forecast for 2014 has been revised upwards one tenth of a percent to 1.0%. Of the 19 participants in the consensus, 14 have revised their 2014 growth estimates upwards.

The expected composition of this growth has also changed. Domestic demand is now expected to make a positive contribution of 0.2 pp (previously expected to be negative) and the external sector 0.8 pp. All the components of domestic demand have been revised upwards significantly (public and private consumption, and gross fixed capital formation) as have imports (in keeping with the larger expected domestic demand), while exports have been revised downwards.

At the same time, the consensus estimate is that GDP will grow by 0.3% (Table 2) in the first quarter, a tenth of a point higher than in the previous Panel, and growth will stay at 0.4% until the end of the year.

The forecast for 2015 stands at 1.8%

Forecasts for 2015 were requested for the first time in this Panel. The consensus forecast stands at 1.8%, which is higher than the figure given by international organisations. The contribution of domestic demand will be 1.3 pp, and that of the external sector 0.5 pp. Private consumption will advance by 1.4% and construction investment will increase for the first time since the start of the crisis. The expected quarterly profile is a stable rate of growth of 0.4% to 0.5%.

Further improvement in the industrial activity forecast

Industrial activity, measured by the industrial production index, followed a modest upward trend in 2013. This was more pronounced in the specific case of the manufacturing industry, while in the energy sector the trend was negative. January's data –the most recent month for which data are available– confirm this path. The consensus forecast for this indicator's growth in 2014 has again been revised upwards to 1.4%, while in 2015 a 2.8% increase is expected.

Inflation was lower than expected

Inflation remained very low during the first few months of 2014. The rate was even negative, if

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.

foodstuffs and energy products are excluded. Despite the envisaged economic recovery, inflationary pressures on both the supply and demand sides will remain very weak in 2014, such that the forecast average rate is 0.6%, which is three tenths of a percentage point lower than in the previous Panel. The forecast for 2015 is 1.1%.

The year-on-year rate in December (Table 3) is expected to be 0.8% this year and 1.2% the next.

The employment forecast has improved

According to Social Security registration figures, the timid growth in employment in the final months of 2013 picked up speed in January and February 2014. The outlook for employment has improved considerably, such that growth of 0.4% is expected this year –the previous forecast was for zero change– and 1.1% in 2015.

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 0.6% in 2014 and 0.7% in 2015, while ULCs, are expected to drop by 0.5% this year, and no change is anticipated next year. This implies a slowing of the rate of recovery of cost competitiveness.

The trade surplus will increase in 2014 and 2015

Last year's balance of payments on the current account was a surplus of 0.7% of GDP, the result of a positive total trade balance –deficit in goods trade, but a surplus in the case of services– with negative balances on the income and current transfers accounts.

As a consequence of domestic demand's being stronger than expected, the forecast for 2014 has been revised downwards slightly, to a balance

of 1.7% of GDP, while the projection for 2015 is now 2.0% of GDP.

The government deficit targets will not be met

The public deficit data for 2013 have not yet been published, but in light of the information available to November, a slight deviation from the 6.5% of GDP target is expected. For 2014, a deviation of just one tenth of a percentage point is expected, i.e. a deficit of 5.9% of GDP. The deviation is likely to be larger in 2015, however, as a negative balance of 5.0% of GDP is projected, compared with a target of 4.2%.

The external context is expected to improve

The recovery in the developed economies is gradually gaining strength. The United States continued to grow and create jobs, while the recovery in the euro area is consolidating, with a rise in GDP of 0.3% in the last quarter of 2013. The available PMI and confidence indicators suggest that this gained traction in the first quarter of this year. In the case of the emerging economies, however, the perception remains that of a loss of momentum.

The panellists' opinion on the current situation of the environment in the EU is that it is neutral, and the unanimous expectation is for the trend over the coming months to be one of improvement. In the case of the situation outside the EU, as in previous Panels, the opinion is also that it is neutral, and that the trend over the coming months will be towards an improvement.

Interest rates on government debt are not expected to rise further

Short-term interest rates (three-month EURIBOR) have remained stable in recent weeks at around

0.29%, which is slightly higher than the monetary policy benchmark rate of 0.25%. However, the panellists think their current level could be considered low for the actual state of the Spanish economy. Rates are still expected to remain stable over the coming months.

In the case of long-term rates, their downward trend has become more pronounced in recent weeks, and they are now around 3.3%, enabling a narrowing of the spread over German debt, which has dropped to below 180 basis points. Consequently, whereas in previous panels it was estimated that the level was too high for the economy to recover, most panellists now take the view that the current level is appropriate.

The euro is overvalued

The euro-dollar exchange rate, which most panellists have considered overvalued for a long time, has even appreciated in the last few weeks, reaching almost 1.39 dollars, despite the Federal Reserve's announcing the gradual withdrawal of its monetary stimulus.

The majority expect the likely trend in the coming months to be depreciation, although this will probably require much more aggressive monetary policy from the ECB.

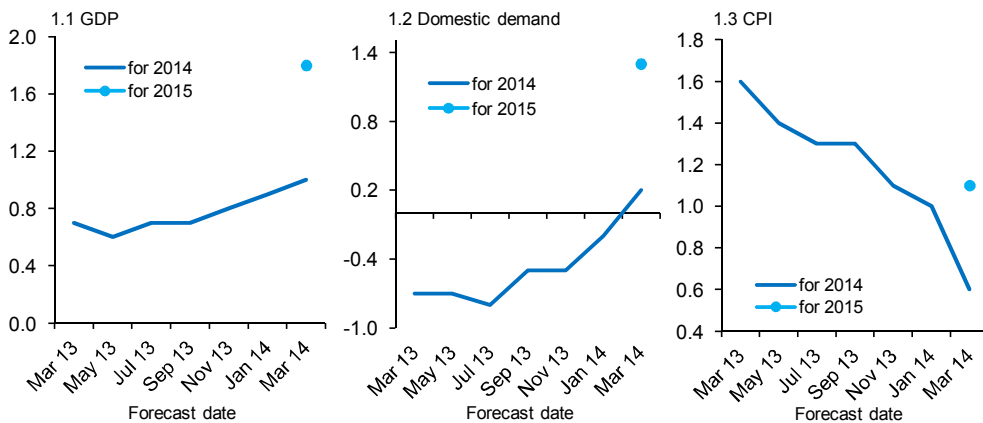
Fiscal policy should be restrictive

As regards fiscal policy, it is unanimously considered to be restrictive, and that this orientation should be maintained. Almost all the opinions also suggest that monetary policy is expansionary, despite the limited effect this is having on the liquidity in circulation, due to the poor functioning of the transmission mechanisms, and the ECB's unwillingness to take quantitative easing measures. All the participants agree that the stance should be expansionary.

Exhibit 1

Change in forecasts (Consensus values)

Percentage annual change



Source: FUNCAS Panel of forecasts.

Table 1

Economic Forecasts for Spain – March 2014

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	
	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015
Analistas Financieros Internacionales (AFI)	0.8	--	0.6	--	-1.3	--	-1.4	--	2.6	--	-4.4	--	-0.2	--
Banco Bilbao Vizcaya Argentaria (BBVA)	0.9	1.9	0.9	1.3	-1.1	1.3	0.2	5.2	5.8	7.8	-3.8	3.1	0.4	2.0
Bankia	1.1	1.5	1.0	1.1	-1.6	-0.6	-1.0	2.6	5.4	7.0	-4.7	0.0	0.0	1.0
CatalunyaCaixa	0.9	1.5	1.5	1.5	-4.7	-1.1	1.2	0.7	6.3	2.3	-3.5	-0.8	0.2	0.8
Cemex	1.1	1.7	1.1	1.5	-2.1	-0.2	1.5	3.1	4.6	5.5	-2.3	0.0	0.5	1.4
Centro de Estudios Economía de Madrid (CEEM-URJC)	1.2	1.9	0.4	1.4	-0.8	0.2	-0.9	2.1	2.5	2.6	-3.3	1.6	-0.1	1.2
Centro de Predicción Económica (CEPREDE-UAM)	1.3	2.2	1.1	1.4	-1.3	1.1	0.3	2.8	5.7	3.1	-3.5	2.4	0.6	1.6
CEOE	1.2	1.8	1.4	1.6	-1.7	-1.4	0.3	3.9	8.6	8.1	-5.9	0.9	0.5	1.5
ESADE	1.0	--	1.2	--	-2.3	--	-1.2	--	-0.9	--	-3.6	--	-0.6	--
Fundación Cajas de Ahorros (FUNCAS)	1.2	1.8	1.3	1.5	-1.3	-0.9	0.6	2.5	4.1	4.4	-1.9	1.1	0.7	1.3
Instituto Complutense de Análisis Económico (ICAE-UCM)	0.9	1.7	0.8	1.3	-1.5	0.0	0.2	2.0	4.5	6.0	-3.5	0.0	0.1	1.4
Instituto de Estudios Económicos (IEE)	1.0	--	0.6	--	-1.8	--	-0.1	--	5.0	--	-5.0	--	-0.1	--
Instituto de Macroeconomía y Finanzas (Universidad CJC)	1.0	--	0.2	--	-1.9	--	1.3	--	7.6	--	-2.3	--	0.0	--
Instituto Flores de Lemus (IFL-UC3M)	0.9	1.6	1.5	1.8	-3.4	-0.5	0.3	1.3	7.7	5.8	-4.8	-1.8	0.3	1.2
Intermoney	1.1	2.1	1.2	1.5	-1.9	-0.5	-1.0	2.6	4.1	6.2	-4.7	0.4	0.8	1.9
La Caixa	1.0	1.5	1.1	0.8	-3.6	-0.5	1.0	1.4	6.6	3.6	-2.4	0.0	0.1	0.6
Repsol	0.8	1.5	0.8	1.0	-1.3	-0.4	-1.1	0.7	5.9	5.3	-6.7	-2.2	0.0	0.6
Santander	1.1	2.0	1.3	1.7	-3.1	-0.2	1.6	3.5	7.9	10.4	-2.0	0.1	0.4	1.6
Solchaga Recio & asociados	1.3	2.0	1.2	1.6	-1.4	-0.5	0.4	2.6	5.7	6.6	-3.3	-0.3	0.4	1.3
CONSENSUS (AVERAGE)	1.0	1.8	1.0	1.4	-2.0	-0.3	0.1	2.5	5.2	5.7	-3.8	0.3	0.2	1.3
Maximum	1.3	2.2	1.5	1.8	-0.8	1.3	1.6	5.2	8.6	10.4	-1.9	3.1	0.8	2.0
Minimum	0.8	1.5	0.2	0.8	-4.7	-1.4	-1.4	0.7	-0.9	2.3	-6.7	-2.2	-0.6	0.6
Change on 2 months earlier ¹	0.1	--	0.4	--	-0.4	--	1.0	--	1.6	--	0.4	--	0.4	--
- Rise ²	14	--	16	--	5	--	12	--	13	--	11	--	15	--
- Drop ²	0	--	0	--	8	--	3	--	1	--	4	--	0	--
Change on 6 months earlier ¹	0.3	--	1.0	--	0.0	--	1.1	--	2.3	--	-0.1	--	0.7	--
Memorandum items:														
Government (September 2013)	0.7	--	0.2	--	-2.9	--	0.2	--	--	--	--	--	-0.4	--
Bank of Spain (March 2013)	0.6	--	-0.3	--	-1.5	--	-0.9	--	1.4 ³	--	-2.5	--	-0.6	--
EC (February 2014)	1.0	1.7	0.6	1.1	-0.9	-0.2	0.1	2.0	5.8 ³	6.7 ³	--	--	0.2	1.0
IMF (January 2014)	0.6	0.8	--	--	--	--	--	--	--	--	--	--	--	--
OECD (November 2013)	0.5	1.0	-0.4	0.2	-2.9	-2.6	-1.6	-0.1	--	--	--	--	-1.2	-0.4

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 – March 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	
	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015
Analistas Financieros Internacionales (AFI)	5.6	--	3.2	--	--	--	0.5	--	--	--	0.6	--	25.7	--	1.5	--	-5.8	--
Banco Bilbao Vizcaya Argentaria (BBVA)	6.5	6.7	5.2	7.4	--	--	0.5	1.0	0.2	0.5	0.3	0.9	25.6	24.8	1.6	1.7	-5.8	-5.1
Bankia	5.8	6.2	3.0	5.3	1.5	2.5	0.5	0.9	0.6	0.7	0.2	0.6	25.3	23.8	2.5	3.0	--	--
CatalunyaCaixa	5.6	5.5	4.3	5.2	--	--	0.6	1.5	--	--	0.3	0.5	25.7	25.0	--	--	--	--
Cemex	6.1	6.2	4.7	5.9	--	--	0.6	1.2	--	--	0.7	1.0	25.5	24.7	1.7	1.5	-5.8	-4.2
Centro de Estudios Economía de Madrid (CEEM-URJC)	5.7	5.3	2.2	3.5	--	--	0.4	0.7	--	--	0.7	1.2	25.2	24.1	2.0	2.7	-5.7	-4.8
Centro de Predicción Económica (CEPREDE-UAM)	5.4	6.5	3.5	5.0	1.1	2.2	0.8	1.6	0.2	0.7	0.5	1.3	25.3	24.3	1.8	2.6	-6.6	-6.5
CEOE	5.6	5.7	3.8	4.7	2.1	4.5	0.4	0.9	0.1	0.1	0.6	1.2	25.1	23.8	1.2	1.9	-6.0	-5.4
ESADE	4.5	--	1.0	--	--	--	1.0	--	--	--	0.5	--	25.5	--	1.5	--	-5.9	--
Fundación Cajas de Ahorros (FUNCAS)	3.6	4.8	2.3	3.5	1.5	2.4	0.3	0.6	0.4	0.5	0.5	1.1	25.1	23.5	1.3	1.7	-6.0	-5.5
Instituto Complutense de Análisis Económico (ICAE-UCM)	6.5	7.1	2.9	6.7	1.2	2.3	0.6	1.2	--	--	0.3	0.9	25.3	24.5	1.6	1.4	-5.8	-4.7
Instituto de Estudios Económicos (IEE)	6.0	--	2.8	--	--	--	0.5	--	0.3	--	0.1	--	26.0	--	2.1	--	-5.8	--
Instit. Macroec. y Finanzas (Univ. CJC)	4.5	--	1.6	--	0.9	--	0.9	--	-0.9	--	-0.5	--	25.4	--	2.0	--	-5.8	--
Instituto Flores de Lemus (IFL-UC3M)	6.3	6.4	4.7	5.7	1.3	3.3	0.5	1.1	--	--	--	--	--	--	--	--	--	--
Intermoney	5.0	5.1	4.3	4.7	0.9	3.4	0.5	1.2	--	--	0.3	1.3	25.5	24.6	1.3	1.4	-5.9	-4.7
La Caixa	5.4	4.9	3.2	2.6	1.0	2.4	0.6	1.3	0.8	1.7	0.6	1.2	25.2	24.1	1.3	1.6	-5.8	-4.2
Repsol	5.1	6.8	3.0	4.7	1.9	1.7	0.4	1.1	-0.2	0.4	0.1	0.5	25.6	24.5	1.7	2.4	-6.0	--
Santander	4.8	4.4	3.1	3.4	2.0	3.1	0.5	1.0	0.0	1.0	0.9	1.7	25.0	23.5	2.0	2.5	-5.8	-4.2
Solchaga Recio & asociados	5.5	6.4	3.5	5.1	--	--	0.5	1.0	--	--	0.5	1.5	24.9	23.4	1.4	1.5	-5.8	-6.1
CONSENSUS (AVERAGE)	5.4	5.9	3.3	4.9	1.4	2.8	0.6	1.1	0.1	0.7	0.4	1.1	25.4	24.2	1.7	2.0	-5.9	-5.0
Maximum	6.5	7.1	5.2	7.4	2.1	4.5	1.0	1.6	0.8	1.7	0.9	1.7	26.0	25.0	2.5	3.0	-5.7	-4.2
Minimum	3.6	4.4	1.0	2.6	0.9	1.7	0.3	0.6	-0.9	0.1	-0.5	0.5	24.9	23.4	1.2	1.4	-6.6	-6.5
Change on 2 months earlier ¹	-0.4	--	0.3	--	0.6	--	-0.4	--	0.0	--	0.4	--	-0.2	--	-0.1	--	0.0	--
- Rise ²	3	--	10	--	5	--	0	--	3	--	15	--	2	--	5	--	1	--
- Down ²	10	--	4	--	2	--	16	--	3	--	0	--	9	--	8	--	5	--
Change on 6 months earlier ¹	-0.5	--	0.9	--	1.4	--	-0.7	--	0.0	--	0.6	--	-0.5	--	-0.4	--	0.0	--
Memorandum items:																		
Government (September 2013)	5.5	--	2.4	--	--	--	--	--	0.3	--	-0.2	--	25.9	--	2.8	--	-5.8	-4.2
Bank of Spain (March 2013)	5.4	--	2.0	--	--	--	1.0	--	-0.1	--	-0.6	--	26.8	--	3.5 ⁶	-- ⁶	-5.9	--
EC (February 2014)	5.4	6.4	3.3	4.9	--	--	0.3	0.9	0.6	0.6	0.1	1.1	25.7	24.6	1.6	1.8	-5.8	-6.5
IMF (January 2014)	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
OECD (November 2013)	5.4	6.5	0.7	3.1	--	--	0.5	0.6	--	--	-0.6	0.3	26.3	25.6	1.6	3.1	-6.1	-5.1

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 - March 2014¹

	Quarter-on-quarter change (percentage)							
	14-Q1	14-Q2	14-Q3	14-Q4	15-Q1	15-Q2	15-Q3	15-Q4
GDP ²	0.3	0.4	0.4	0.4	0.4	0.5	0.4	0.5
Household consumption ²	0.1	0.2	0.2	0.4	0.3	0.4	0.4	0.5

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 – March 2014¹

	Monthly change (%)				Year-on-year change (%)	
	Feb-14	Mar-14	Apr-14	May-14	Dec-14	Dec-15
	0.0	0.4	0.6	0.1	0.8	1.2

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

Table 4
Opinions – March 2014

Number of responses

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