

# Spanish economic forecasts panel: May 2014<sup>1</sup>

## FUNCAS Economic Trends and Statistics Department

### **The growth estimate for 2014 has been raised a tenth of a percent to 1.1%**

According to the preliminary quarterly national accounts data, GDP grew by 0.4% in the first quarter of 2014, beating the consensus estimate in the previous Forecasts Panel by one tenth of a percentage point. The only indicators available for the second quarter are the number of people registered with the social security system, registered unemployment, and PMI confidence indices for April, which all point towards a continuation of the upward trend.

The consensus GDP growth forecast for 2014 has been raised one tenth of a percent to 1.1%. Eight of the panel's participants have revised their estimates upwards.

This revision is due to faster than expected growth in domestic demand, which is projected to make a contribution to growth of 0.4 percentage points (pp), while the external sector's projected contribution dropped to 0.7 pp. All the components of domestic demand –public and private consumption, and gross fixed capital formation– have been revised upwards, as have imports –in line with the faster anticipated growth of domestic demand.

However, the consensus view is that quarter-on-quarter growth will stay at 0.4% throughout the year.

### **The forecast for 2015 has risen to 1.9%**

The consensus forecast for 2015 has also been raised one tenth of a percentage point, to 1.9%, while its composition has also been changed, with an increase in the expected contribution of domestic demand and decrease in that of the external sector. A quarter-on-quarter growth rate of 0.5% is expected throughout the period, which is only slightly higher than that envisaged for 2014.

### **Further improvement in the industrial activity forecast**

The industrial production index in the first quarter of 2014 rose by 2% (in annualised terms) compared with the previous quarter. This rise was 5.2% in the case of the manufacturing industry, as the change in the energy production component was highly negative.

The consensus forecast for this indicator's growth in 2014 has been revised upwards again, to 1.7%, while in 2015 a 2.8% increase is expected (which is the same as in the previous Panel).

### **Inflation was lower than expected**

The inflation rate turned negative in March due to the Easter calendar effect, turning positive again, albeit low, in April once the effect had passed. Despite the expected economic recovery, inflationary pressures on both the supply and

<sup>1</sup> The Spanish Economic Forecasts Panel is a survey run by FUNCAS which consults the 18 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 18 individual contributions. The forecasts of the Spanish Government, the Bank of Spain, and leading international organisations are also included for comparison, but do not form part of the consensus forecast.

demand sides will remain very weak, such that the forecast average rate for 2014 is 0.4%, which is two tenths of a percentage point lower than in the previous Panel, and the rate forecast for 2015 is 1.0%, one tenth of a percentage point lower.

The year-on-year rate for the end of the year (Table 3) has also been revised downwards, to 0.7% in December 2014 and 1.2% in December 2015.

### **The employment forecast has improved**

The two main statistics measuring employment in Spain (Labour Force Survey and social security enrolments) yield contradictory results for the first quarter of 2014: the LFS shows a drop in employment both on a seasonally adjusted quarter-on-quarter basis and on a year-on-year basis, while the social security enrolment figures show growth in both quarter-on-quarter and year-on-year terms. This growth continued and intensified at the start of the second quarter.

In any event, the outlook for this variable has again been revised upwards, as was the case in the previous Forecast Panels, with growth of 0.5% this year and 1.2% the next. The forecast for the unemployment rate has dropped substantially, and is down by four and five tenths of a percent to 25.0% and 23.7% in 2014 and 2015, respectively. This is basically due to the fact that the National Statistics Institute (INE) recently updated the population figures, resulting in a three tenths of a percentage point drop in the unemployment rate for 2013. The sharp contraction in the labour force in the first quarter of the year may also have been a factor.

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 both 2014 and 2015, while ULCs, are expected to drop by 0.5% this year, and rise marginally (by 0.1%) next year. This suggests that the rate of recovery of cost competitiveness is moderating.

### **The trade surplus will increase in 2014 and 2015**

The expected current account surplus has been revised downwards to 1.4% of GDP in 2014 and 1.7% in 2015, in line with expected faster growth in domestic demand. In any event, both figures represent an improvement on the 0.8% registered in 2013.

### **The public deficit is forecast to be smaller**

The public deficit, excluding aid to financial institutions, came to 6.6% of GDP in 2013, overshooting its target by a tenth of a percentage point. In the months to February 2014, the combined deficit of the central government, the autonomous regions, and the social security administration was 0.9% of GDP, one tenth of a percentage point less than in the same period the previous year. However, the early months of the year tend not to be very representative.

The government's forecast in the Stability Programme presented on April 30<sup>th</sup> is for the total general government deficit to come to 5.5% of GDP this year, three tenths of a percent below the target. According to the consensus forecast, the deficit will hit the initial target exactly, at 5.8% (the previous Panel forecast was 5.9%). The deficit forecast for 2015 is 4.8%, two tenths of a percent lower than in the previous Panel, but still somewhat higher than the 4.2% target.

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

U.S. GDP grew by just 0.1% in the first quarter of 2014, although this was negatively affected by the adverse weather conditions during the winter, while the economy of the euro area, according to the available indicators, gained strength. In the case of the emerging economies, however, the perception remains that of a loss of momentum. The atmosphere in the financial markets has been euphoric in recent weeks, with sharp rises in both fixed income and equities, and a drop in peripheral countries' risk premiums, to the extent

that even Greece was able to return to the markets with a bond issue. Although the upward trend began several months ago, in recent weeks it was boosted by the President of the European Central Bank saying that there was unanimity on the ECB's governing council over the need to take unconventional monetary policy measures if the inflation rate were to remain at very low levels for an extended period of time. Only tensions in the Ukraine have periodically slowed the rise.

The panellists' opinion on the current situation of the environment in the EU is that it is neutral, and the 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 maintained their gradual upward trend, due to the reduction in excess liquidity in the euro area. However, the 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, following the President of the European Central Bank's remarks, the downward trend in yields and the risk premium on Spanish public debt has intensified, dropping to historic lows. This drop, together with the more favourable perception of domestic economic conditions, has led to most panellists viewing the level to be appropriate. It is expected to remain stable over the coming months.

### The euro is overvalued

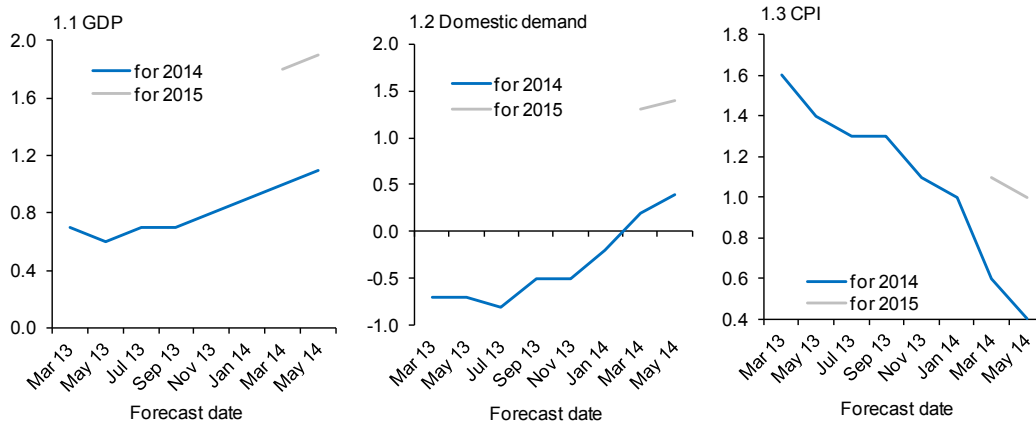
The euro, which most panellists have considered to be overvalued against the dollar for some time, reached its highest level for two and a half years. After the latest ECB meeting, which opened up the way for a future rate cut, the rise has slowed, and the majority view as to its future course anticipates a depreciation over the coming months.

### Fiscal policy should be restrictive

As regards fiscal policy, it is unanimously considered to be restrictive, and that this orientation should be maintained. Again, almost all the panellists regard current monetary policy to be expansionary, and they unanimously agree that this is the right approach.

Exhibit 1  
Change in forecasts (Consensus values)

Percentage annual change



Source: FUNCAS Panel of forecasts.

Table 1

**Economic Forecasts for Spain – May 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)	1.1	1.9	1.4	1.3	-1.6	1.4	1.0	4.7	7.9	6.9	-3.8	2.8	0.7	1.9
Bankia	1.3	1.8	1.3	1.6	-1.6	-0.8	0.0	3.0	7.3	7.6	-4.1	0.3	0.4	1.4
CatalunyaCaixa	1.0	1.7	1.5	1.5	-3.1	-0.9	1.5	1.2	6.4	3.1	-3.5	-0.8	0.3	0.9
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	1.1	1.6	-1.0	-0.5	-0.8	2.2	2.0	2.8	-2.8	1.7	0.3	1.2
Centro de Predicción Económica (CEPREDE-UAM)	1.3	2.2	1.1	1.3	-1.4	1.1	0.1	3.2	4.9	3.6	-3.4	2.7	0.5	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	0.7	2.5	4.1	4.4	-1.9	1.1	0.7	1.3
Instituto Complutense de Análisis Económico (ICAE-UCM)	1.1	1.8	1.2	1.4	-1.7	0.0	0.2	2.6	5.3	6.1	-3.5	0.5	0.5	1.6
Instituto de Estudios Económicos (IEE)	1.2	--	1.3	--	-1.8	--	0.2	--	6.3	--	-4.5	--	0.5	--
Instituto de Macroeconomía y Finanzas (Universidad CJC)	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
Instituto Flores de Lemus (IFL-UC3M)	1.2	2.1	1.1	1.3	-1.9	-0.6	-0.7	3.0	4.5	6.1	-4.3	1.3	0.9	1.9
Intermoney	1.2	1.7	1.3	0.9	-3.3	-0.4	2.0	2.3	7.9	4.8	-1.7	0.7	0.5	0.9
La Caixa	1.2	1.8	1.4	1.5	-1.2	-1.1	-0.2	1.5	5.9	7.1	-5.0	-1.7	0.5	0.9
Repsol	1.1	2.0	1.3	1.7	-2.6	-0.2	1.7	3.6	7.9	10.4	-2.0	0.1	0.6	1.6
Santander	1.3	2.1	1.2	1.6	-1.4	-0.5	0.4	3.3	5.7	6.6	-3.3	1.0	0.4	1.4
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
<b>CONSENSUS (AVERAGE)</b>	<b>1.1</b>	<b>1.9</b>	<b>1.2</b>	<b>1.5</b>	<b>-1.9</b>	<b>-0.4</b>	<b>0.3</b>	<b>2.8</b>	<b>5.5</b>	<b>5.9</b>	<b>-3.6</b>	<b>0.6</b>	<b>0.4</b>	<b>1.4</b>
Maximum	1.3	2.2	1.5	1.8	-1.0	1.4	2.0	4.7	8.6	10.4	-1.7	2.8	0.9	1.9
Minimum	0.8	1.6	0.6	0.9	-3.4	-1.4	-1.4	1.2	-0.9	2.8	-5.9	-1.8	-0.6	0.9
Change on 2 months earlier <sup>1</sup>	0.1	0.1	0.2	0.1	0.1	-0.1	0.2	0.3	0.3	0.2	0.2	0.3	0.2	0.1
- Rise <sup>2</sup>	8	6	7	5	4	3	10	10	7	7	7	8	10	6
- Drop <sup>2</sup>	0	0	1	2	4	4	1	1	2	2	0	1	1	1
Change on 6 months earlier <sup>1</sup>	0.3	--	1.0	--	0.3	--	1.1	--	2.3	--	0.2	--	0.9	--
<b>Memorandum items:</b>														
Government (April 2014)	1.2	1.8	1.4	1.8	-1.3	-1.9	0.5	3.0	5.5	4.5	-3.3	1.8	--	--
Bank of Spain (March 2014)	1.2	1.7	1.1	1.2	-1.5	-2.5	0.0	4.2	6.3 <sup>3</sup>	7.5 <sup>3</sup>	-4.4	1.7	--	--
EC (May 2014)	1.1	2.1	1.3	1.6	-0.8	-0.7	-1.4	4.2	6.5 <sup>3</sup>	8.2 <sup>3</sup>	--	--	0.4	1.6
IMF (April 2014)	0.9	1.0	1.2	0.9	-1.7	-2.2	0.6	1.2	--	--	--	--	0.5	0.3
OECD (May 2013)	1.0	1.5	1.0	1.0	-3.6	-2.5	0.3	2.0	--	--	--	--	-0.1	0.5

<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 – May 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 <sup>3</sup>		Jobs <sup>4</sup>		Unempl. (% labour force)		C/A bal. payments (% of GDP) <sup>5</sup>		Gen. gov. bal. (% of GDP) <sup>7</sup>	
	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)	6.0	5.1	5.4	5.4	--	--	0.3	0.9	-1.0	1.2	0.2	1.1	25.1	24.2	1.3	1.5	-5.8	-5.1
Bankia	5.8	6.1	3.5	5.3	1.4	2.2	0.3	0.9	0.5	0.7	0.4	1.0	24.8	23.2	1.8	2.0	--	--
CatalunyaCaixa	4.0	5.5	2.8	5.2	--	--	0.4	1.4	--	--	0.4	1.0	25.2	24.4	--	--	--	--
Cemex	6.1	6.2	4.7	5.9	--	--	0.4	1.2	--	--	0.5	1.0	25.5	24.7	1.7	1.5	-5.5	-4.2
Centro de Estudios Economía de Madrid (CEEM-URJC)	5.7	6.1	3.3	4.8	--	--	0.4	0.7	--	--	0.7	1.2	25.2	24.1	1.6	2.3	-5.7	-4.8
Centro de Predicción Económica (CEPREDE-UAM)	5.5	6.5	3.5	5.0	1.6	2.5	0.8	1.6	0.3	0.5	0.4	1.3	24.9	23.5	1.0	0.5	-5.9	-4.3
CEOE	5.6	5.7	3.8	4.7	2.1	4.5	0.2	0.8	0.3	0.4	0.4	1.4	24.7	23.3	1.2	1.9	-5.6	-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	0.1	0.5	0.4	0.5	0.5	1.1	24.5	22.7	1.4	2.0	-5.6	-4.8
Instituto Complutense de Análisis Económico (ICAE-UCM)	5.7	5.8	3.5	5.6	1.6	2.8	0.4	1.1	--	--	0.3	1.1	25.2	24.1	1.4	1.4	-5.9	-5.0
Instituto de Estudios Económicos (IEE)	5.3	--	3.2	--	--	--	0.5	--	0.3	--	0.5	--	25.1	--	1.5	--	-5.8	--
Instit. Macroec.y Finanzas (Univ. CJC)	6.3	6.4	4.7	5.7	2.7	3.4	0.3	1.0	--	--	--	--	24.6	22.9	--	--	--	--
Instituto Flores de Lemus (IFL-UC3M)	5.0	5.1	4.3	4.7	1.5	3.4	0.5	1.2	--	--	0.5	1.3	25.0	24.1	1.3	1.4	-5.9	-4.5
Intermoney	5.4	4.9	3.6	2.8	1.0	2.4	0.5	1.3	0.3	0.9	0.8	1.3	24.8	23.6	1.3	1.6	-5.8	-4.2
La Caixa	5.4	6.6	3.8	4.6	1.9	1.7	0.3	1.1	0.0	0.4	0.4	1.0	25.2	24.1	1.7	2.4	-5.5	-5.0
Repsol	4.8	4.4	3.3	3.4	2.0	3.1	0.5	1.0	0.0	1.0	0.6	1.7	24.6	23.2	1.4	1.9	-5.8	-4.2
Santander	5.5	6.4	3.5	5.1	--	--	0.2	0.8	--	--	0.5	1.5	24.6	23.1	1.4	1.5	-5.8	-6.1
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
<b>CONSENSUS (AVERAGE)</b>	<b>5.3</b>	<b>5.7</b>	<b>3.5</b>	<b>4.8</b>	<b>1.7</b>	<b>2.8</b>	<b>0.4</b>	<b>1.0</b>	<b>0.1</b>	<b>0.7</b>	<b>0.5</b>	<b>1.2</b>	<b>25.0</b>	<b>23.7</b>	<b>1.4</b>	<b>1.7</b>	<b>-5.8</b>	<b>-4.8</b>
Maximum	6.3	6.6	5.4	5.9	2.7	4.5	1.0	1.6	0.5	1.2	0.8	1.7	25.7	24.7	1.8	2.4	-5.5	-4.2
Minimum	3.6	4.4	1.0	2.8	1.0	1.7	0.1	0.5	-1.0	0.4	0.2	1.0	24.5	22.7	1.0	0.5	-5.9	-6.1
Change on 2 months earlier <sup>1</sup>	-0.1	-0.2	0.2	-0.1	0.3	0.0	-0.2	-0.1	0.0	0.0	0.1	0.1	-0.4	-0.5	-0.3	-0.3	0.1	0.2
- Rise <sup>2</sup>	2	1	8	2	4	3	0	0	3	2	6	7	0	0	1	1	5	3
- Down <sup>2</sup>	4	4	1	3	1	1	11	7	3	2	5	0	13	12	7	5	1	1
Change on 6 months earlier <sup>1</sup>	-0.4	--	1.1	--	1.3	--	-0.7	--	0.0	--	0.7	--	-0.8	--	-0.7	--	0.1	--
<b>Memorandum items:</b>																		
Government (April 2014)	5.0	6.1	3.6	5.0	--	--	--	--	0.2	0.6	0.6	1.2	24.9	23.3	1.4	1.7	-5.5	-4.2
Bank of Spain (March 2014)	5.1	6.1	3.0	4.4	--	--	--	--	--	--	0.4	0.9	25.0	23.8	2.1 <sup>6</sup>	2.5 <sup>6</sup>	-5.8	-5.5
EC (May 2014)	5.5	6.7	3.4	5.8	--	--	0.1	0.8	0.2	0.3	0.4	1.2	25.5	24.0	1.4	1.5	-5.6	-6.1
IMF (April 2014)	5.4	5.6	4.5	4.1	--	--	0.3	0.8	--	--	0.3	0.4	25.5	24.9	0.8	1.4	-5.9	-4.9
OECD (May 2013)	5.6	6.3	2.6	3.8	--	--	0.1	0.5	0.1	0.3	0.3	0.8	25.4	24.4	1.6	2.0	-5.5	-4.5

<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> Net lending position vis-à-vis rest of world.<sup>7</sup> Excluding financial entities bail-out expenditures.

Table 2  
**Quarterly Forecasts - May 2014<sup>1</sup>**

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

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

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

Table 3  
**CPI Forecasts – May 2014<sup>1</sup>**

	Monthly change (%)				Year-on-year change (%)	
	Apr-14	May-14	Jun-14	Jul-14	Dec-14	Dec-15
	0.7	0.2	0.1	-0.4	0.7	1.2

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

Table 4  
**Opinions – May 2014**

Number of responses

	Currently			Trend for next six months		
	Favourable	Neutral	Unfavourable	Improving	Unchanged	Worsening
International context: EU	2	13	3	16	2	0
International context: Non-EU	4	14	0	11	7	0
	Low <sup>1</sup>	Normal <sup>1</sup>	High <sup>1</sup>	Increasing	Stable	Decreasing
Short-term interest rate <sup>2</sup>	9	7	2	1	14	3
Long-term interest rate <sup>3</sup>	4	12	2	2	14	2
	Overvalued <sup>4</sup>	Normal <sup>4</sup>	Undervalued <sup>4</sup>	Appreciation	Stable	Depreciation
Euro/dollar exchange rate	18	0	0	1	3	14
	Is being			Should be		
	Restrictive	Neutral	Expansionary	Restrictive	Neutral	Expansionary
Fiscal policy assessment <sup>1</sup>	18	0	0	10	6	2
Monetary policy assessment <sup>1</sup>	2	2	14	0	0	18

<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.