

Spanish economic forecasts panel: July 2014¹

FUNCAS Economic Trends and Statistics Department

The growth estimate for 2014 has been raised a tenth of a percent to 1.2%

The indicators available for the second quarter suggest that the upward trend in GDP will continue. The most significant of these indicators is the accelerating rate of new social security system registrations, together with qualitative indicators (confidence indicators and PMIs), which are almost all back to pre-crisis levels for the first time.

The consensus forecast for GDP growth in 2014 has risen by a tenth of a percentage point (pp), to 1.2%, as a consequence of the increased expected contribution of domestic demand to 0.8 percentage points, while the expected contribution of the external sector has dropped to 0.4 pp due to lower forecast export growth and higher expected import growth. A quarter-on-quarter increase of 0.4% is anticipated in the second quarter.

The forecast for 2015 remains unchanged at 1.9%

The consensus forecast for 2015 remains unchanged at 1.9%. Domestic demand is expected to contribute 1.4 pp, and the external sector 0.5 pp. Construction investment is set to grow again for the first time since 2007. A stable quarter-to-

quarter growth rate of between 0.4% and 0.5% is expected for the rest of 2014 and throughout 2015.

Further improvement in the industrial activity forecast

The industrial production index remained on its upward path in April and May, as did the other indicators of industrial activity.

The consensus forecast for this indicator's growth in 2014 has been revised upwards again, to 2.2%, while in 2015 a 2.9% increase is expected (one tenth of a percentage point higher than in the previous Panel).

Expected inflation has been revised downwards again

The inflation rate remains at historic lows. In June it dropped to 0.1%. Falling labour costs, limited pressure from domestic demand, and the surplus production capacity, will keep inflation low for some time to come. An annual average of 0.3% is forecast for this year and 0.9% for the next.

The year-on-year rate for the end of the year (Table 3) has also been revised downwards, to 0.6% in December 2014 and 1.1% in December 2015.

¹ 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 the main international organisations are also included for comparison, but do not form part of the consensus forecast.

Little change in the employment projections

New social security system registrations continued to pick up speed in the second quarter. The outlook for employment has remained virtually unchanged, with growth of 0.5% this year and 1.3% next year. The forecast for the unemployment rate now stands at 24.9% and 23.7% in 2014 and 2015, respectively.

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 0.6% in both 2014 and 2015, while ULCs are expected to drop by 0.6% this year, and rise marginally (by 0.1%) next year. This suggests that the rate at which cost competitiveness is being recovered is moderating.

The trade surplus will increase in 2014 and 2015

The worse than expected performance of the external sector in the first quarter has led to the expected current account surplus being cut to 1.2% of GDP in 2014 and 1.5% of GDP in 2015. In any event, these figures represent an increase on the 0.8% registered in 2013.

The public deficit will exceed the government's forecast

Up to April, the combined deficit of the central government, the autonomous regions, and the social security fund was 1.16% of GDP, compared with 1.43% registered in the same period the previous year. Both the central government and the social security fund improved their results compared with the same period in 2013, while the position of the autonomous regions taken as a whole worsened.

The consensus forecast for 2014 has improved by one tenth of a percentage point since the previous Panel, rising to 5.7% of GDP. The consensus forecast for 2015 remains unchanged at 4.8% of GDP. In both cases the deficit exceeds the government's objective (5.5% and 4.2% in 2014 and 2015, respectively).

The external context is expected to improve

U.S. GDP fell by 2.9% on an annualised basis in the first quarter of 2014, largely due to adverse weather conditions. The indicators for the second quarter suggest a return to a sustained rate of growth. The euro area disappointed with sluggish growth of 0.2%, without a significant improvement being perceptible in the second quarter. In the case of the emerging economies, the perception remains that of a loss of momentum. Additionally, in financial markets the climate of euphoria prevailing for several months now has been boosted by the measures adopted by the ECB at its meeting on June 5th.

The panellists' opinion on the current state of play in the EU and elsewhere is that it is neutral, although an improvement is expected over the coming months.

Long-term interest rates are considered to be too low

Short-term interest rates (three-month EURIBOR) have edged downwards since the recent ECB meeting, as the decisions made guarantee that rates will remain low for some considerable time. As in previous Forecast Panels, rates are still viewed as being too low, but are expected to remain stable over the coming months.

In the case of long-term rates, the downward trend in yields on Spanish debt also became more pronounced in the wake of the ECB's decisions, although it has since stabilised at around 2.7%

(ten years). As a result of its continuing drop, in conjunction with the improved economic conditions, this Forecast Panel is the first since 2008 to consider the long-term rates to be too low. Rates are expected to remain stable over the coming months.

by the ECB on June 5th. All the participants in the Forecast Panel take the view that the euro remains overvalued, and the majority view is that it will fall in value over the coming months.

The euro is still overvalued

The dollar-euro exchange rate, which is around 1.36 –down from the year’s peak at 1.39– has barely been affected by the measures adopted

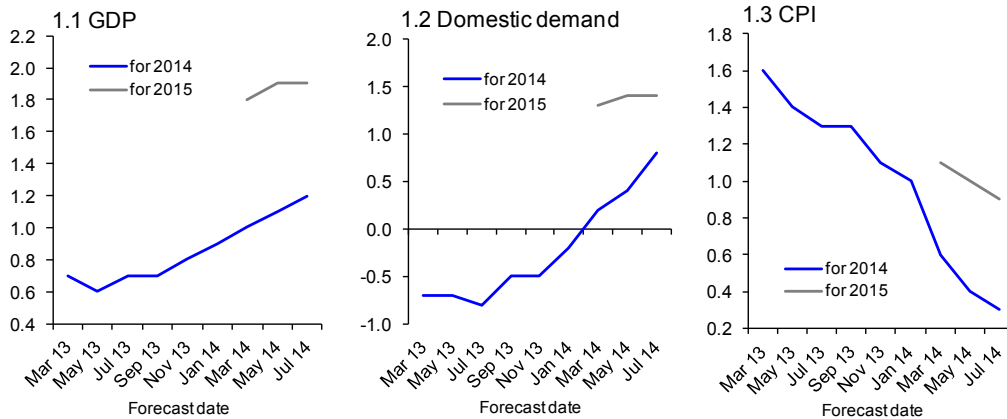
Fiscal policy should be restrictive

The majority view is that fiscal policy is restrictive, and that this orientation should be maintained. Almost all the panellists regard current monetary policy to be expansionary, and the almost unanimous view was that it should stay that way.

Exhibit 1

Change in forecasts (Consensus values)

Percentage annual change



Source: FUNCAS Panel of forecasts.

Table 1

Economic Forecasts for Spain – July 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)	1.1	1.5	1.5	1.3	-1.1	-1.4	0.1	2.7	7.7	5.8	-4.6	0.8	0.7	1.0
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	1.5	1.6	-0.9	-0.5	0.2	3.0	8.5	7.6	-4.7	0.3	0.7	1.5
CatalunyaCaixa	1.1	1.8	1.6	1.5	0.9	-0.5	0.6	2.7	8.8	5.9	-6.0	-1.1	1.2	1.3
Cemex	1.1	1.7	1.4	1.5	-1.2	-0.2	1.2	3.1	6.6	5.5	-4.0	0.0	0.8	1.4
Centro de Estudios Economía de Madrid (CEEM-URJC)	1.4	2.1	1.3	1.7	-1.1	-0.6	0.9	4.0	6.6	6.3	-3.2	2.1	0.7	1.6
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	1.7	1.8	-1.2	-1.3	-0.1	3.6	8.8	7.7	-6.8	0.4	0.7	1.5
ESADE	1.1	--	1.4	--	-1.7	--	1.0	--	7.5	--	3.5	--	0.5	--
Fundación Cajas de Ahorros (FUNCAS)	1.4	2.2	1.7	2.0	-0.8	-0.5	0.8	2.1	9.6	6.4	-4.9	-1.4	1.0	1.6
Instituto Complutense de Análisis Económico (ICAE-UCM)	1.1	1.8	1.4	1.4	-1.3	0.6	0.8	3.0	6.8	6.9	-3.5	0.5	0.7	1.6
Instituto de Estudios Económicos (IEE)	1.4	--	1.6	--	-1.2	--	0.9	--	7.7	--	-4.3	--	0.9	--
Instituto Flores de Lemus (IFL-UC3M)	0.8	1.3	1.7	2.1	-1.3	-1.9	0.8	1.5	10.7	9.5	-6.1	-3.7	0.9	1.1
Intermoney	1.2	2.1	1.6	1.7	-1.1	-0.8	0.3	2.6	7.0	6.1	-4.5	0.4	1.3	2.0
La Caixa	1.2	1.7	1.7	1.4	-1.1	-2.1	0.1	2.3	8.1	5.5	-5.4	0.2	0.7	0.8
Repsol	1.2	1.8	1.7	1.3	0.9	-0.9	-0.5	1.5	7.2	6.3	-5.9	-1.4	1.1	0.8
Santander	1.1	2.0	2.0	1.8	1.3	-0.2	1.2	3.9	10.2	10.8	-4.8	0.3	1.7	1.8
Solchaga Recio & asociados	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
CONSENSUS (AVERAGE)	1.2	1.9	1.5	1.6	-0.9	-0.5	0.5	2.9	7.8	6.7	-4.2	0.2	0.8	1.4
Maximum	1.4	2.2	2.0	2.1	1.3	1.4	1.2	4.7	10.7	10.8	3.5	2.8	1.7	2.0
Minimum	0.8	1.3	1.1	1.3	-1.7	-2.1	-0.5	1.5	4.9	3.6	-6.8	-3.7	0.4	0.8
Change on 2 months earlier ¹	0.1	0.0	0.3	0.1	1.0	-0.1	0.2	0.1	2.3	0.8	-0.6	-0.4	0.4	0.0
- Rise ²	6	3	15	7	14	6	9	5	15	7	2	3	15	6
- Drop ²	1	1	0	1	1	4	6	3	0	2	12	6	0	3
Change on 6 months earlier ¹	0.3	--	0.9	--	0.7	--	1.4	--	4.2	--	0.0	--	1.0	--
Memorandum items:														
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 ⁽³⁾	7.5 ⁽³⁾	-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 ⁽³⁾	8.2 ⁽³⁾	--	--	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 2014)	1.0	1.5	1.0	1.0	-3.6	-2.5	0.3	2.0	--	--	--	--	-0.1	0.5

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 – July 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)	4.8	6.1	3.9	5.0	--	--	0.2	0.7	--	--	0.8	1.2	25.0	24.1	1.5	1.8	-5.5	-5.2
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	6.5	6.0	5.1	5.4	1.4	2.2	0.2	0.8	0.5	0.7	0.4	1.0	24.8	23.2	1.6	1.9	--	--
CatalunyaCaixa	4.3	5.4	5.7	5.4	--	--	0.3	1.1	--	--	0.8	1.2	24.9	24.0	--	--	--	--
Cemex	6.1	6.2	5.7	5.9	--	--	0.2	1.0	--	--	0.5	1.0	25.5	24.7	1.0	1.5	-5.5	-4.2
Centro de Estudios Economía de Madrid (CEEM-URJC)	5.6	6.0	3.8	5.1	--	--	0.3	0.7	--	--	0.9	1.5	25.0	23.8	1.4	1.9	-5.7	-4.8
Centro de Predicción Económica (CEPREDE-UAM)	5.5	6.5	3.5	5.0	1.9	2.5	0.2	0.7	0.3	0.5	0.4	1.3	24.9	23.5	1.0	0.5	-5.9	-4.3
CEOE	6.6	5.7	5.4	4.8	3.4	3.0	0.3	1.1	0.3	0.4	0.4	1.4	24.7	23.3	1.1	1.8	-5.6	-5.4
ESADE	5.5	--	4.4	--	--	--	0.5	--	0.3	--	0.3	--	25.0	--	1.9	--	-5.7	--
Fundación Cajas de Ahorros (FUNCAS)	5.0	5.3	4.0	3.9	2.6	3.0	0.1	0.7	0.2	0.5	0.6	1.4	24.5	22.6	1.1	1.7	-5.5	-4.6
Instituto Complutense de Análisis Económico (ICAE-UCM)	5.7	5.8	4.8	5.4	1.8	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)	5.1	--	3.7	--	--	--	0.2	--	0.3	--	0.7	--	24.5	--	1.2	--	-5.6	--
Instituto Flores de Lemus (IFL-UC3M)	3.6	4.8	4.0	4.6	2.1	3.2	0.2	1.1	--	--	--	--	24.6	22.9	--	--	--	--
Intermoney	4.3	5.0	5.0	4.9	1.5	3.0	0.3	1.1	--	--	0.5	1.3	25.0	24.1	0.7	1.0	-5.9	-4.4
La Caixa	5.3	5.5	4.5	3.0	1.0	2.4	0.4	1.1	-0.9	0.8	0.8	1.4	24.8	23.6	1.1	1.4	-5.6	-4.2
Repsol	4.7	7.3	4.9	5.0	2.7	3.2	0.2	1.0	0.0	0.4	0.6	1.0	25.0	23.9	1.3	1.7	-5.5	-5.0
Santander	3.1	4.3	5.0	3.6	3.1	3.4	0.3	0.9	0.0	0.7	0.6	1.7	24.6	23.2	0.6	1.1	-5.5	-4.2
Solchaga Recio & asociados	5.5	6.4	3.5	5.1	--	--	0.2	0.8	--	--	0.5	1.5	24.6	23.1	1.4	1.5	-5.7	-6.0
CONSENSUS (AVERAGE)	5.2	5.7	4.6	4.8	2.2	2.9	0.3	0.9	0.0	0.6	0.5	1.3	24.9	23.7	1.2	1.5	-5.7	-4.8
Maximum	6.6	7.3	5.7	5.9	3.4	3.4	0.5	1.1	0.5	1.2	0.9	1.7	25.5	24.7	1.9	1.9	-5.5	-4.2
Minimum	3.1	4.3	3.5	3.0	1.0	2.2	0.1	0.7	-1.0	0.4	0.2	1.0	24.5	22.6	0.6	0.5	-5.9	-6.0
Change on 2 months earlier ¹	-0.1	0.0	1.1	0.0	0.5	0.1	-0.1	-0.1	-0.1	-0.1	0.0	0.1	-0.1	0.0	-0.2	-0.2	0.1	0.0
- Rise ²	5	3	14	9	6	3	1	3	0	0	6	4	0	0	1	0	7	3
- Drop ²	8	6	1	2	1	3	13	8	2	2	1	0	6	4	10	8	0	0
Change on 6 months earlier ¹	-0.6	--	1.6	--	1.4	--	-0.7	--	-0.1	--	0.5	--	-0.7	--	-0.6	--	0.2	--
Memorandum items:																		
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 ⁽⁶⁾	2.5 ⁽⁶⁾	-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 2014)	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

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 - July 2014¹

	Quarter-on-quarter change (percentage)							
	14-Q1	14-Q2	14-Q3	14-Q4	15-Q1	15-Q2	15-Q3	15-Q4
GDP ²	0.4	0.4	0.5	0.4	0.5	0.5	0.5	0.5
Household consumption ²	0.4	0.3	0.3	0.3	0.4	0.4	0.5	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 – July 2014¹

	Monthly change (%)				Year-on-year change (%)	
	Jun-14	Jul-14	Aug-14	Sep-14	Dec-14	Dec-15
	0.1	-0.4	0.2	0.1	0.6	1.1

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

Table 4
Opinions – July 2014

Number of responses

	Currently			Trend for next six months		
	Favourable	Neutral	Unfavourable	Improving	Unchanged	Worsening
International context: EU	1	16	1	14	4	0
International context: Non-EU	4	14	0	12	5	1
	Low ¹	Normal ¹	High ¹	Increasing	Stable	Decreasing
Short-term interest rate ²	10	7	1	0	16	2
Long-term interest rate ³	10	6	2	2	14	2
	Overvalued ⁴	Normal ⁴	Undervalued ⁴	Appreciation	Stable	Depreciation
Euro/dollar exchange rate	18	0	0	0	5	13
	Is being			Should be		
	Restrictive	Neutral	Expansionary	Restrictive	Neutral	Expansionary
Fiscal policy assessment ¹	13	4	1	8	7	3
Monetary policy assessment ¹	0	3	15	0	1	17

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

² Three-month Euribor.

³ Yield on Spanish 10-year public debt.

⁴ Relative to theoretical equilibrium rate.