

Spanish economic forecasts panel: September 2014¹

FUNCAS Economic Trends and Statistics Department

The growth estimate for 2014 has been raised a tenth of a percent to 1.3%

GDP grew by 0.6% in the second quarter, beating the previous Forecast Panel consensus forecast estimate. As in the first quarter, this rise came entirely from domestic demand –specifically, private consumption, and investments, both in capital goods and in non-residential construction– while the external sector's contribution was again negative. This imbalanced composition is the most striking, as well as unexpected, feature of the current recovery.

The consensus forecast for GDP growth in 2014 has been raised one tenth of a percentage point to 1.3%, although what is most important is the change in the expected composition of this growth. In line with the pattern seen since the first quarter, the forecast for the contribution of national demand has been raised to 1.3 percentage points (compared with 0.8 pp in the previous Panel) and that of the external sector has been reduced to 0 pp (from 0.4).

The forecast for 2015 has been raised a tenth of a percent to 2.0%

The consensus GDP-growth forecast for 2015 has been raised one tenth of a percent to 2%. In this case too there has been a significant change in the composition of growth: the expected contribution from domestic demand has been

revised upwards to 1.8 pp (four tenths higher than in the previous forecasts) and that of the external sector downwards to 0.2 pp (three tenths lower).

Additionally, growth rates of 0.4% are expected from the third quarter of the year through to the first quarter of the next, and from 0.5%-0.6% in the subsequent quarters (Table 2).

Industrial activity is growing moderately

The industrial production index continued to grow in the second quarter, although in the case of manufacturing, the rate was slower than in the previous period. In July, both total and manufacturing activity registered a drop from the average in the second quarter. In the cumulative period from January to July, growth was 1.8% in comparison with the same period the previous year, a rate that, although modest, represents the best progress since 2006.

The consensus forecast for this indicator's growth in 2014 and 2015 has been revised downwards to 2.1% and 2.6%, respectively.

Expected inflation has been revised downwards again

The inflation rate has stayed low or even negative. In recent months the price of foodstuffs has

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.

dropped in particular, although this has just been the correction of the rises in the first half of last year; electricity prices have also come down. The forecast for the annual average has again been cut, this time to 0.1% for this year and 0.8% for the next.

The year-on-year rate at the end of the year (Table 3) is estimated at 0.2% for December 2014 (four tenths lower than in the previous Panel) and 1.0% for December 2015 (down one tenth).

The employment forecast has improved

In the second quarter, the number of full-time equivalent jobs grew by 0.6% in comparison with the previous quarter, and the number of people in employment according to the Labour Force Survey, rose by 0.8%. Employment continued to rise in the third quarter according to the figures for social security registrations in July-August, although the rate slowed somewhat.

The consensus forecasts for the progress of employment in 2014 and 2015 have been revised upwards to 0.7% and 1.5%, respectively. At the same time, the forecasts for the unemployment rate have been revised downwards to 24.6% and 23.2%.

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 0.5% in both 2014 and 2015, while ULCs, are expected to drop by 0.6% this year and 0.1% next year.

The external surplus forecast has been downgraded sharply

As a reflection of the negative contribution of the external sector to growth, the current account of the balance of payments continued worsening in the second quarter. Thus, in the

second half of the year as a whole, the current account deficit (not seasonally adjusted) rose to 1.9% of the period's GDP, compared with a deficit of 0.2% in the first half of 2013.

Consistent with this, and the new composition of expected growth, the forecast for the current account balance has been revised down sharply for this year and next, to 0.5% and 0.7% of GDP, seven and eight tenths of a percent lower than in the previous consensus.

The public deficit will exceed the government's forecast

In the period to May, the combined deficit of the central government, the autonomous regions, and the social security fund was 2.3% of GDP, compared with 2.7% 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 autonomous regions as a whole worsened.

The consensus forecast for 2014 has improved by one tenth of a percentage point since the previous Panel, to 5.6% of GDP. The consensus forecast for 2015 is now 4.7% of GDP. In both cases the deficit overshoots the government's targets (5.5% and 4.2% in 2014 and 2015, respectively).

The external context is expected to improve

U.S. GDP posted very solid growth in the second quarter of 2014, and the available indicators suggest this trend will continue into the third quarter. By contrast, the economy of the euro area as a whole remained stagnant, with zero or negative growth in the main countries. The emerging economies, for their part, have also posted disappointing results.

The panellists' opinion on the current state of play in the EU and elsewhere is that it is neutral,

although the number of panellists considering it to be unfavourable has grown. Moreover, whereas in previous Panels most respondents expected the situation to improve, opinions are now divided between those expecting an improvement and those expecting things to remain unchanged.

Long-term interest rates are considered to be too low

Short-term interest rates (three-month EURIBOR) have accentuated their downward trend since Draghi's statements in late August, anticipating the further measures the ECB subsequently took in the first week of September. As in previous Forecast Panels, rates are still regarded as being too low, but are expected to remain stable over the coming months.

In the case of long-term rates (10 years), the downward trend in yields on Spanish debt also became more pronounced following Draghi's comments, dipping below 2% at times. As a result of their continuing decline, against the backdrop of improved economic conditions, long-term rates

are considered to be too low. Rates are expected to remain stable over the coming months, however.

The euro is still overvalued

The euro-dollar exchange rate moved downwards sharply following the ECB meeting on September 4th, dropping to an annual low of 1.30. Almost all the participants in the Forecast Panel take the view that the euro is still overvalued, and the majority considering that it will continue to depreciate over the coming months has increased.

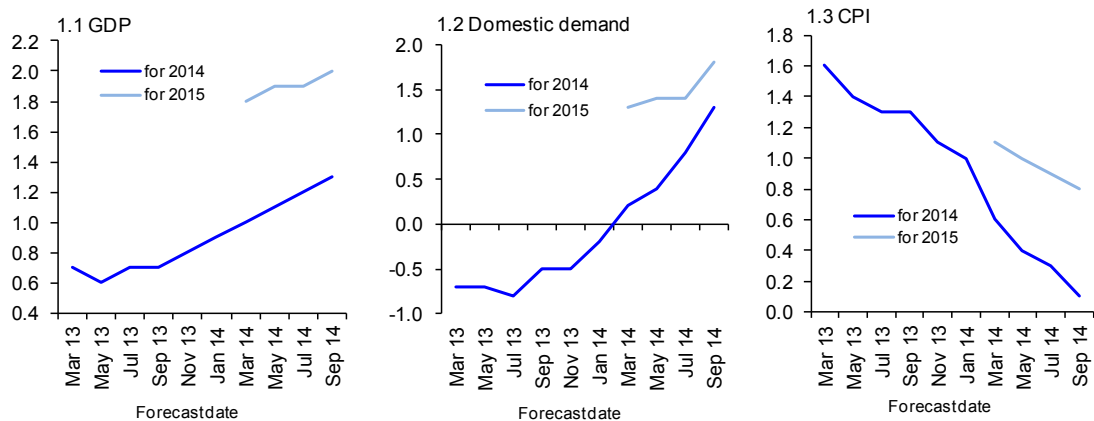
Fiscal policy should be neutral

On the subject of fiscal policy, the majority view still considers it to be restrictive, but for the first time since April 2010, this is no longer felt to be the appropriate stance; the majority of panellists now consider that it should be neutral. Almost all the panellists classified current monetary policy as expansionary, and the unanimous view was that it should stay so.

Exhibit 1

Change in forecasts (Consensus values)

Percentage annual change



Source: FUNCAS Panel of forecasts.

Table 1

Economic Forecasts for Spain – September 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)	1.3	1.9	2.1	1.5	0.6	0.6	0.6	3.0	8.5	6.0	-4.0	1.2	1.4	1.5
Banco Bilbao Vizcaya Argentaria (BBVA)	1.3	2.3	1.9	2.0	0.1	0.6	1.2	4.7	8.5	7.3	-4.3	2.8	1.4	2.2
Bankia	1.3	2.0	2.0	2.1	0.1	0.6	0.7	3.1	8.7	7.5	-4.2	0.4	1.3	2.0
CatalunyaCaixa	1.2	1.9	2.0	1.6	1.4	0.4	0.4	2.6	8.6	6.0	-4.7	-0.6	1.5	1.5
Cemex	1.3	2.0	1.9	2.0	0.5	1.1	1.1	4.0	9.1	6.6	-4.0	1.0	1.4	2.2
Centro de Estudios Económicos de Madrid (CEEM-URJC)	1.4	2.2	1.8	2.1	-0.8	0.2	0.9	3.7	6.6	6.4	-3.2	1.5	1.0	1.9
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	1.9	2.0	1.8	0.7	1.2	0.7	2.9	9.2	7.1	-4.4	0.0	1.5	1.8
ESADE	1.1	--	1.4	--	-1.7	--	1.0	--	7.5	--	3.5	--	0.5	--
Fundación Cajas de Ahorros (FUNCAS)	1.3	2.2	2.1	2.6	0.2	-0.7	0.8	3.0	8.6	7.3	-4.0	-0.1	1.5	2.1
Instituto Complutense de Análisis Económico (ICAE-UCM)	1.3	2.2	1.8	2.0	0.1	0.4	1.0	3.9	8.2	7.3	-4.0	1.7	1.3	2.0
Instituto de Estudios Económicos (IEE)	1.4	1.9	1.6	1.9	-1.2	-0.5	0.9	3.4	7.7	7.5	-4.3	0.6	0.9	1.7
Instituto Flores de Lemus (IFL-UC3M)	1.1	1.9	2.2	2.9	-0.4	-2.0	0.2	2.0	8.2	6.6	-4.8	-0.9	1.2	1.7
Intermoney	1.2	2.2	2.0	1.9	-0.9	-1.1	0.4	3.1	8.2	6.5	-4.2	1.3	1.4	2.1
La Caixa	1.2	1.7	2.1	1.6	-0.1	-1.8	0.7	4.3	8.8	7.7	-4.0	2.4	1.3	1.3
Repsol	1.4	2.0	2.0	1.5	1.5	0.1	1.0	2.8	9.4	8.2	-3.9	0.0	1.6	1.4
Santander	1.3	2.1	2.1	2.0	1.5	0.4	0.9	4.3	9.7	11.0	-4.1	1.1	1.8	2.1
Solchaga Recio & asociados	1.3	2.1	1.9	1.9	-0.5	0.0	0.8	3.9	7.3	6.7	-3.1	2.0	1.2	1.9
CONSENSUS (AVERAGE)	1.3	2.0	1.9	1.9	0.0	0.0	0.7	3.4	8.2	7.0	-3.6	1.0	1.3	1.8
Maximum	1.4	2.3	2.2	2.9	1.5	1.2	1.2	4.7	9.7	11.0	3.5	2.8	1.8	2.2
Minimum	1.1	1.7	1.1	1.3	-1.7	-2.0	0.1	2.0	4.9	3.6	-4.8	-0.9	0.5	1.3
Change on 2 months earlier ¹	0.1	0.1	0.4	0.3	0.9	0.5	0.2	0.5	0.4	0.3	0.6	0.8	0.5	0.4
- Rise ²	8	12	15	14	15	10	9	11	10	12	11	12	15	15
- Drop ²	1	0	0	0	0	5	4	3	4	3	2	2	0	0
Change on 6 months earlier ¹	0.3	0.2	0.9	0.5	2.0	0.3	0.6	0.9	3.0	1.3	0.2	0.7	1.1	0.5
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 (July 2014)	1.3	2.0	1.6	1.6	-0.8	-1.5	1.8	4.2	8.7 ⁽³⁾	7.7 ⁽³⁾	-3.2	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 (July 2014)	1.2	1.6	1.6	1.3	-1.0	-0.7	-0.5	2.1	7.2	5.4	-5.9	-0.3	0.7	1.0
OECD (September 2014)	1.2	1.6	2.1	1.8	-0.3	-1.5	0.6	2.9	--	--	--	--	1.4	1.3

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 – September 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)	3.5	5.4	4.3	4.7	--	--	-0.1	0.5	--	--	1.1	1.7	24.6	23.3	0.6	1.2	-5.5	-4.8
Banco Bilbao Vizcaya Argentaria (BBVA)	4.7	6.5	5.1	6.4	--	--	0.1	0.9	-1.4	0.3	0.8	1.7	24.5	23.1	0.3	1.1	-5.5	-4.5
Bankia	4.7	5.5	5.2	6.0	1.8	2.2	0.0	0.7	0.4	0.8	0.7	1.4	24.6	23.5	0.1	0.5	--	--
CatalunyaCaixa	3.3	5.3	5.1	5.4	--	--	0.0	0.8	--	--	0.8	1.2	24.5	23.8	--	--	--	--
Cemex	4.5	6.0	5.2	6.8	--	--	0.0	0.8	--	--	0.9	1.5	24.6	23.5	0.0	0.0	-5.5	-4.2
Centro de Estudios Economía de Madrid (CEEM-URJC)	5.3	6.1	4.7	5.8	--	--	0.1	0.7	--	--	0.9	1.5	24.5	22.8	1.1	1.6	-5.7	-4.8
Centro de Predicción Económica (CEPREDE-UAM)	5.5	6.5	3.5	5.0	2.0	2.6	0.1	0.7	0.3	0.5	0.4	1.3	24.9	23.5	1.0	0.5	-5.9	-4.3
CEOE	4.1	4.8	5.0	4.8	3.4	3.0	0.0	0.9	0.3	0.4	0.8	1.9	24.5	22.4	-0.3	0.0	-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)	4.4	5.4	5.5	5.3	1.6	2.0	-0.1	0.5	0.2	0.5	0.7	1.5	24.5	22.5	-0.3	-0.2	-5.5	-4.6
Instituto Complutense de Análisis Económico (ICAE-UCM)	4.2	6.2	4.2	6.0	1.7	2.2	0.1	1.0	-0.8	0.4	0.7	1.6	24.6	23.2	0.4	1.0	-5.6	-4.6
Instituto de Estudios Económicos (IEE)	5.1	5.5	3.7	5.0	--	--	0.2	0.5	0.3	0.3	0.7	1.5	24.5	23.0	0.8	1.2	-5.6	-4.8
Instituto Flores de Lemus (IFL-UC3M)	3.9	5.0	4.5	4.7	2.0	2.6	0.0	0.9	--	--	--	--	24.5	22.7	--	--	--	--
Intermoney	3.8	4.7	4.7	4.8	2.0	3.1	0.0	0.7	--	--	0.6	1.5	24.6	23.3	0.7	1.0	-5.9	-4.4
La Caixa	4.0	4.8	4.6	4.0	1.0	2.4	0.2	1.1	-0.3	0.2	1.1	1.6	24.6	23.3	0.4	0.9	-5.6	-4.2
Repsol	4.0	6.9	5.0	5.3	2.2	2.7	0.2	1.0	0.1	0.4	0.8	1.2	24.9	23.7	0.3	0.6	-5.5	-5.0
Santander	3.3	4.6	4.8	5.0	2.8	3.0	0.0	0.7	0.0	0.7	0.6	1.7	24.6	23.2	0.5	0.6	-5.5	-4.2
Solchaga Recio & asociados	5.0	6.2	5.0	5.9	--	--	0.0	0.7	--	--	0.7	1.7	24.6	23.1	0.0	0.5	-5.8	-5.3
CONSENSUS (AVERAGE)	4.4	5.6	4.7	5.3	2.1	2.6	0.1	0.8	-0.1	0.4	0.7	1.5	24.6	23.2	0.5	0.7	-5.6	-4.7
Maximum	5.5	6.9	5.5	6.8	3.4	3.1	0.5	1.1	0.4	0.8	1.1	1.9	25.0	23.8	1.9	1.6	-5.5	-4.2
Minimum	3.3	4.6	3.5	4.0	1.0	2.0	-0.1	0.5	-1.4	0.2	0.3	1.2	24.5	22.4	-0.3	-0.2	-5.9	-5.4
Change on 2 months earlier ¹	-0.8	-0.1	0.1	0.5	-0.1	-0.3	-0.2	-0.1	-0.1	-0.2	0.2	0.2	-0.3	-0.5	-0.7	-0.8	0.1	0.1
- Rise ²	2	6	8	11	3	2	0	0	2	1	11	11	0	1	0	0	2	4
- Drop ²	13	9	7	2	5	5	15	11	2	2	0	0	12	12	13	12	1	0
Change on 6 months earlier ¹	-1.0	-0.3	1.4	0.4	0.7	-0.2	-0.5	-0.3	-0.2	-0.3	0.3	0.4	-0.8	-1.0	-1.2	-1.3	0.3	0.3
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 (July 2014)	4.6	5.9	4.7	4.5	--	--	0.1	0.7	--	--	0.4	1.4	--	--	1.3 ⁽⁶⁾	1.6 ⁽⁶⁾	--	--
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 (July 2014)	4.7	5.1	3.6	3.9	--	--	0.1	0.8	--	--	0.2	0.8	24.9	23.8	0.6	0.7	-5.7	-4.7
OECD (September 2014)	3.7	5.9	4.3	5.2	--	--	0.1	0.5	--	--	0.8	1.1	24.6	23.6	0.6	0.7	-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 - September 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	0.6	0.4	0.4	0.4	0.5	0.6	0.6
Household consumption ²	0.5	0.7	0.3	0.4	0.5	0.6	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 – September 2014¹

Monthly change (%)				Year-on-year change (%)	
Sep-14	Oct-14	Nov-14	Dec-14	Dec-14	Dec-15
0.1	0.6	0.3	0.2	0.2	1.0

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

Table 4

Opinions – September 2014

Number of responses

	Currently			Trend for next six months		
	Favourable	Neutral	Unfavourable	Improving	Unchanged	Worsening
International context: EU	0	12	6	9	9	0
International context: Non-EU	3	11	4	9	8	1
	Low ¹	Normal ¹	High ¹	Increasing	Stable	Decreasing
Short-term interest rate ²	12	4	2	0	15	3
Long-term interest rate ³	12	4	2	0	15	3
	Overvalued ⁴	Normal ⁴	Undervalued ⁴	Appreciation	Stable	Depreciation
Euro/dollar exchange rate	16	2	0	0	2	16
	Is being			Should be		
	Restrictive	Neutral	Expansionary	Restrictive	Neutral	Expansionary
Fiscal policy assessment ¹	13	5	0	5	9	4
Monetary policy assessment ¹	1	0	17	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.