

Spanish economic forecasts panel: January 2015¹

FUNCAS Economic Trends and Statistics Department

Growth forecasts for 2014 remain at 1.4%

The indicators available for the last quarter of 2014 suggest growth may have been similar to that in the preceding two quarters. According to the consensus estimate (Table 2), quarterly growth was 0.53%, implying average annual growth of 1.4%, compared with 1.3% in the previous Forecast Panel.

The biggest change in the estimates for 2014 was in the expected composition of this growth. The forecast contribution of domestic demand has been raised to 2.0 percentage points (p.p.) and the contribution of the external sector has been cut to -0.6 p.p.

The forecast for 2015 has risen to 2.1%

The forecast for GDP growth in 2015 has been revised upwards by one tenth of a percentage point to 2.1%, significantly exceeding international organisations' forecasts. Of the 18 participants in the Panel, 13 have revised their forecasts upwards.

Not only has the growth forecast been raised, but its expected composition has been radically altered in the same way as the provisions for 2014, i.e. the forecast contribution of domestic demand has been raised significantly to 2.4 p.p., and the contribution of the external sector, which the previous Panel projected to be positive, is now expected to be negative (-0.3 p.p.). All the panellists anticipate that construction investment will grow in 2015.

The rate of quarter-on-quarter growth will remain stable in the first half of the year around that registered in previous quarters, and it will rise slightly in the second half (Table 2).

Industrial activity slowed in the second half of 2014

The progress of the industrial production index in the second half of 2014 was disappointing. It suffered a quarter-on-quarter drop of 2.4% in annualised terms in the third quarter, and the data for October and November point to a further drop in the fourth quarter. The drop in the last period of the year is due to the fall registered in the energy subsector, while manufacturing registered growth, although somewhat more sluggish growth than expected.

It is estimated that industrial production measured by the IPI grew by 1.6% over the year as a whole, and growth is forecast to accelerate in 2015 to reach a rate of 2%.

Expected inflation has been revised downwards again

The inflation rate, which has been in negative territory almost every month since July, dropped to -1.0% in December, according to INE data. This is mainly a consequence of the sharp drop in the energy component caused by falling oil price. This result brings the annual average to -0.2%.

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 taken place 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.

As a consequence of the continuing slide in the price of crude, which in the last few days was close to 45 dollars a barrel, the inflation forecast for 2015 has been revised sharply downwards to an annual average of -0.1%, from 0.7% in the previous Forecast Panel. The year-on-year rate to December 2015 is projected to be 0.7%.

The employment forecast has improved

Growth in the number of Social Security System affiliates picked up speed in the fourth quarter of 2014, rising to 3% in annualized terms. A positive feature of the figures for the period, as was already observed in the previous quarter and confirmed by LFS figures, is that employment growth is not just in the form of part-time and temporary jobs, but also full-time jobs and permanent contracts.

It is estimated that, measured in terms of full-time equivalent jobs, employment grew by 0.8% in 2014, bringing the unemployment rate to 24.4%. The growth forecast for 2015 has been raised by two tenths of a percent to 1.7%, and the expected unemployment rate has been cut by two tenths of a percent to 22.8%.

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 0.5% in 2014 and 0.4% in 2015, while ULCs, are expected to drop by 0.5% this year and 0.1% the next.

The upturn in demand has worsened the balance of payments

Between January and October, a current account deficit on the balance of payments of almost 5.4 billion euros was posted, compared with a surplus of 11.2 billion euros in the same period the previous year. This deterioration in the balance of payments is due to worsening income and trade balances, as a consequence of the upturn in imports driven by the recovery in durable goods consumption and investments in capital goods.

The consensus forecast for the 2014 current account balance has been revised downwards to a surplus of 0.2% of GDP, while that for 2015 anticipates the surplus rising to 0.8% of GDP. This is despite the negative contribution of the external sector to real GDP growth and is explained by the reduction in the energy bill.

The government deficit will slightly overshoot the target

The combined deficit of the Central Government, Social Security and the Autonomous Regions to October 2014, excluding aid to the financial system, came to 4.05% of annual GDP, compared with 4.63% in the same period the previous year. The improvement came entirely from increased revenues, as expenditure, excluding aid to financial institutions, was practically the same as in the same period the previous year. The Central Government and the Social Security funds reduced their deficit, while the Autonomous Regions increased theirs by three tenths of a percentage point to 1.33% of GDP, exceeding their objective for the entire year, which was set at 1% of GDP. In the case of Social Security, the improvement in its balance came from the increase in the National Employment Service surplus –unemployment benefits, while the Social Security System –basically the pensions system– worsened its deficit.

The consensus forecast for the General Government deficit for 2014 and 2015 is unchanged with respect to the previous Panel at 5.6% and 4.5% of GDP, respectively. In both cases, this exceeds the government's targets (5.5% and 4.2%).

Little change in the opinion about the external environment

Following the drop in GDP in the first quarter in the United States due to meteorological factors, growth was solid throughout the rest of the year, in

contrast with the fragility of the Eurozone, where growth after the second quarter was negligible. The emerging economies also continue to show signs of weakness.

The Panellists' view of the current situation in the EU remains unfavourable (Table 4). Opinions about how things will develop over the coming months are divided, with half of the Panellists expecting no change and half expecting an improvement. The context outside the EU continues to be considered neutral, and it is envisaged that the situation will remain the same over the next six months.

Long-term interest rates are considered to be too low

Short-term interest rates (three-month EURIBOR) remained stable in the final months of 2014 at 0.08%. As in previous Forecast Panels, the rate is felt to be too low, and is expected to remain unchanged over the months ahead.

In the case of the long-term rate (ten years), after a slight upturn in mid-October in the wake of the

turbulence caused by fears of a recession in the Eurozone, in the subsequent weeks it returned to its downward trend and ended the year at 1.7%. This is also felt to be very low, and is expected to remain stable over the coming months.

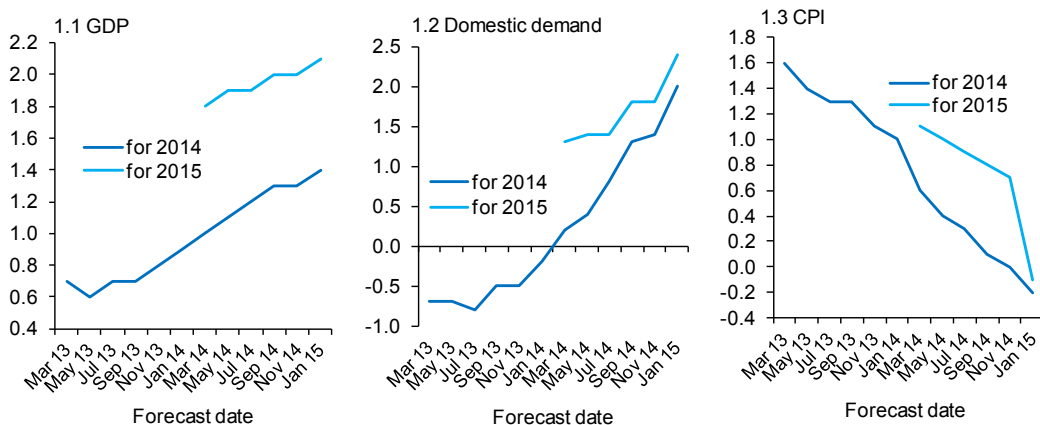
The euro is no longer overvalued against the dollar

The euro-dollar exchange rate has been falling below 1.25. Although most of the panellists consider that the euro is still overvalued, the trend in recent months means that this majority has shrunk and an increasing number of participants think it is at an appropriate level. The majority believe that the depreciation will continue over the coming months.

Fiscal policy should be neutral

Fiscal policy is now considered neutral rather than restrictive, and this is the stance most panellists considered appropriate. Almost all the panellists believe current monetary policy is 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 – January 2015

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)	1.4	2.0	2.3	2.5	0.8	0.8	2.6	3.3	11.6	6.4	-2.8	1.5	2.0	2.2
Banco Bilbao Vizcaya Argentaria (BBVA)	1.3	2.0	2.1	1.8	1.0	0.9	0.6	4.3	8.2	6.5	-3.9	2.9	1.6	2.0
Bankia	1.3	2.0	2.3	3.0	0.7	0.8	2.5	3.7	11.5	7.8	-3.0	0.9	2.2	2.8
CatalunyaCaixa	1.4	2.3	2.3	2.7	0.8	0.7	2.8	4.7	11.9	7.8	-2.8	2.0	2.1	2.7
Cemex	1.3	2.0	2.2	2.3	0.8	1.2	2.7	4.2	11.7	7.1	-2.8	2.0	2.1	2.4
Centro de Estudios Economía de Madrid (CEEM-URJC)	1.4	2.4	2.3	2.8	0.6	0.7	2.6	4.6	11.0	7.1	-3.2	3.3	1.9	2.6
Centro de Predicción Económica (CEPREDE-UAM)	1.3	2.0	2.0	1.7	-0.1	-0.2	1.1	3.3	7.9	3.7	-3.2	2.7	1.5	1.6
CEOE	1.4	2.0	2.4	2.2	0.8	1.0	2.5	3.9	11.2	7.4	-2.9	1.5	2.1	2.2
ESADE	1.3	2.0	1.4	1.8	0.1	0.7	1.2	4.2	7.5	6.6	-3.5	2.0	1.4	2.0
Fundación Cajas de Ahorros (FUNCAS)	1.4	2.4	2.3	3.0	0.6	0.6	3.2	4.3	13.4	8.0	-2.9	1.8	2.1	2.7
Instituto Complutense de Análisis Económico (ICAE-UCM)	1.4	2.3	2.1	2.5	0.4	0.6	2.8	4.0	10.0	6.5	-3.0	2.0	2.1	2.5
Instituto de Estudios Económicos (IEE)	1.4	2.5	2.3	3.1	0.6	0.8	2.2	4.0	10.5	7.5	-2.6	1.9	1.9	2.8
Instituto Flores de Lemus (IFL-UC3M)	1.3	1.9	2.3	2.6	0.2	-1.0	2.7	3.4	11.6	6.1	-2.7	2.2	2.0	2.0
Intermoney	1.4	2.2	2.2	2.1	0.2	0.5	2.4	3.4	9.3	6.5	-2.8	2.0	2.1	2.6
La Caixa	1.3	1.9	2.3	2.1	0.6	-0.6	2.7	5.0	11.9	8.6	-2.8	2.6	2.1	2.1
Repsol	1.4	2.2	2.3	2.4	0.8	-0.1	2.5	4.0	11.0	5.7	-2.8	1.5	2.1	2.1
Santander	1.4	2.3	2.3	2.9	0.8	1.1	2.7	4.3	11.6	5.2	-2.6	3.4	2.2	2.9
Solchaga Recio & asociados	1.4	2.2	2.4	2.8	0.6	0.0	2.3	4.4	11.2	6.8	-2.8	3.3	2.1	2.5
CONSENSUS (AVERAGE)	1.4	2.1	2.2	2.5	0.6	0.5	2.3	4.1	10.7	6.7	-3.0	2.2	2.0	2.4
Maximum	1.4	2.5	2.4	3.1	1.0	1.2	3.2	5.0	13.4	8.6	-2.6	3.4	2.2	2.9
Minimum	1.3	1.9	1.4	1.7	-0.1	-1.0	0.6	3.3	7.5	3.7	-3.9	0.9	1.4	1.6
Change on 2 months earlier ¹	0.1	0.1	0.2	0.6	0.3	0.5	1.5	0.6	2.3	-0.2	0.9	1.0	0.6	0.6
- Rise ²	11	13	15	14	12	13	15	14	15	9	14	15	15	16
- Drop ²	0	0	0	1	3	2	0	0	0	5	0	0	0	0
Change on 6 months earlier ¹	0.2	0.2	0.7	0.9	1.5	1.0	1.8	1.2	2.9	0.0	1.2	2.0	1.2	1.0
Memorandum items:														
Government (September 2014)	1.3	2.0	2.0	2.1	0.2	-1.0	--	--	7.0	6.0	-3.3	3.1	--	--
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 (November 2014)	1.2	1.7	2.0	2.2	0.4	-1.4	1.1	4.2	8.8 ³	7.1 ³	-3.8	1.8	1.5	1.7
IMF (October 2014)	1.3	1.7	2.0	1.6	0.0	-0.7	--	--	--	--	-5.9	-0.3	1.3	1.2
OECD (November 2014)	1.3	1.7	2.1	1.9	0.4	-1.1	1.0	3.6	--	--	--	--	1.6	1.6

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 2015

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

	Exports of goods & services		Imports of goods & services		Industrial output		CPI (annual av.)		Labour costs ³		Jobs ⁴		Unempl. (% labour force)		C/A bal. of 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)	4.5	4.6	7.7	5.7	--	--	-0.2	-0.3	--	--	0.9	1.8	24.4	22.9	0.2	1.0	-5.5	-4.8
Banco Bilbao Vizcaya Argentaria (BBVA)	3.7	5.3	4.8	5.5	1.5	--	-0.2	-0.2	--	--	0.8	1.5	24.4	23.1	1.2	2.1	-5.5	-4.2
Bankia	4.2	5.0	7.5	8.2	1.2	1.8	-0.2	-0.7	0.3	0.7	0.8	1.6	24.5	23.2	0.6	1.2	--	--
CatalunyaCaixa	4.6	5.8	8.0	7.4	--	--	-0.2	-0.3	--	--	0.9	1.8	24.4	23.0	--	--	--	--
Cemex	4.4	4.5	7.8	6.4	--	--	-0.2	0.0	--	--	0.9	1.5	24.4	23.0	-0.5	--	-5.5	-4.2
Centro de Estudios Economía de Madrid (CEEM-URJC)	4.6	5.2	7.1	6.4	--	--	-0.2	-0.3	--	--	0.9	2.0	24.5	22.4	0.1	0.3	-5.6	-4.4
Centro de Predicción Económica (CEPREDE-UAM)	4.1	4.6	4.8	5.2	2.0	2.6	-0.2	0.2	0.2	0.3	0.7	1.5	24.5	23.0	0.1	0.3	-6.1	-4.8
CEOE	4.0	4.5	7.1	5.7	1.5	1.5	-0.2	-0.5	0.1	0.4	0.8	1.8	24.4	22.4	-0.4	0.0	-5.5	-4.4
ESADE	4.4	5.0	5.0	5.5	--	--	-0.2	0.2	0.3	0.5	0.8	1.5	24.5	22.5	1.9	1.5	-5.7	-4.2
Fundación Cajas de Ahorros (FUNCAS)	4.2	4.6	7.3	6.3	1.5	1.8	-0.2	-1.2	0.1	0.5	0.9	2.0	24.4	22.5	0.1	1.2	-5.4	-4.6
Instituto Complutense de Análisis Económico (ICAE-UCM)	4.2	3.6	7.0	8.0	1.8	2.6	-0.2	0.6	--	--	1.0	1.7	24.5	23.0	0.4	0.7	-5.6	-4.6
Instituto de Estudios Económicos (IEE)	4.3	4.6	6.7	5.7	--	--	-0.2	0.4	-0.5	0.0	0.9	1.8	24.4	22.5	0.2	0.8	-5.5	-4.5
Instituto Flores de Lemus (IFL-UC3M)	4.6	5.4	7.6	6.5	1.7	1.5	-0.2	-0.1	--	--	--	--	24.5	22.7	--	--	--	--
Intermoney	4.7	5.0	7.4	6.4	1.5	2.2	-0.2	0.1	--	--	0.9	1.8	24.5	23.1	0.3	0.7	-5.6	-4.4
La Caixa	4.6	5.9	7.8	6.8	1.5	2.4	-0.2	0.3	-0.1	0.3	0.9	1.7	24.5	22.9	-0.2	0.1	-5.7	-4.5
Repsol	4.9	6.3	8.1	6.6	1.5	2.2	-0.2	0.0	0.1	0.4	0.9	1.6	24.5	23.1	0.4	1.0	-5.6	-4.4
Santander	4.5	5.0	7.7	7.6	1.4	1.0	-0.2	-0.8	-0.1	0.0	0.6	1.7	24.5	22.6	-0.5	0.9	-5.5	-4.2
Solchaga Recio & asociados	4.5	4.7	7.6	6.4	--	--	-0.2	0.1	--	--	0.9	1.8	24.3	22.8	-0.1	0.0	-5.6	-4.8
CONSENSUS (AVERAGE)	4.4	5.0	7.0	6.5	1.6	2.0	-0.2	-0.1	0.1	0.3	0.8	1.7	24.4	22.8	0.2	0.8	-5.6	-4.5
Maximum	4.9	6.3	8.1	8.2	2.0	2.6	-0.2	0.6	0.3	0.7	1.0	2.0	24.5	23.2	1.9	2.1	-5.4	-4.2
Minimum	3.7	3.6	4.8	5.2	1.2	1.0	-0.2	-1.2	-0.5	0.0	0.6	1.5	24.3	22.4	-0.5	0.0	-6.1	-4.8
Change on 2 months earlier ¹	0.2	-0.1	2.1	1.3	-0.2	-0.4	-0.2	-0.8	0.0	-0.2	0.0	0.2	-0.1	-0.2	-0.3	0.0	0.0	0.0
- Rise ²	7	6	15	16	2	1	0	0	0	0	6	11	1	1	3	4	3	4
- Drop ²	7	9	0	0	5	5	18	17	5	4	2	1	8	10	8	8	2	2
Change on 6 months earlier ¹	-0.8	-0.7	2.4	1.7	-0.6	-0.9	-0.5	-1.0	0.1	-0.3	0.3	0.4	-0.5	-0.9	-1.0	-0.7	0.1	0.3
Memorandum items:																		
Government (September 2014)	3.6	5.2	4.4	5.0	--	--	--	--	0.8	1.0	0.7	1.4	24.7	22.9	0.9	1.1	-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 (November 2014)	3.8	4.9	4.8	5.1	--	--	-0.1	0.5	0.5	0.9	0.7	1.1	24.8	23.5	0.5	0.7	-5.6	-4.6
IMF (October 2014)	4.1	5.5	4.2	4.5	--	--	0.0	0.6	--	--	0.6	0.8	24.6	23.5	0.1	0.4	-5.7	-4.7
OECD (November 2014)	3.5	4.9	4.5	4.9	--	--	-0.1	0.1	0.5	0.6	0.9	1.3	24.5	23.1	0.7	0.8	-5.5	-4.4

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 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 2015¹

	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	0.5	0.5	0.5	0.5	0.5	0.6	0.6
Household consumption ²	0.6	0.9	0.8	0.6	0.6	0.6	0.6	0.6

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 2015¹

	Monthly change (%)				Year-on-year change (%)	
	Jan-15	Feb-15	Mar-15	Apr-15	Dec-14	Dec-15
	-1.2	-0.2	0.1	0.5	-1.0	0.7

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

Table 4

Opinions – January 2015

Number of responses

	Currently			Trend for next six months		
	Favourable	Neutral	Unfavourable	Improving	Unchanged	Worsening
International context: EU	0	5	13	9	9	0
International context: Non-EU	3	13	2	7	10	1
	Low ¹	Normal ¹	High ¹	Increasing	Stable	Decreasing
Short-term interest rate ²	12	6	0	0	18	0
Long-term interest rate ³	11	7	0	0	13	5
	Overvalued ⁴	Normal ⁴	Undervalued ⁴	Appreciation	Stable	Depreciation
Euro/dollar exchange rate	4	12	2	0	5	13
	Is being			Should be		
	Restrictive	Neutral	Expansionary	Restrictive	Neutral	Expansionary
Fiscal policy assessment ¹	7	11	0	5	11	2
Monetary policy assessment ¹	1	0	17	0	0	18

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.