

Spanish economic forecasts panel: March 2015¹

FUNCAS Economic Trends and Statistics Department

The growth forecast for 2015 has been raised to 2.6%

GDP grew by 1.4% in 2014. The quarterly trend was upward, from a rate of 0.3% in the first quarter of the year to 0.7% in the last quarter. This growth was driven by domestic demand, which contributed 2.2 percentage points (pp) to GDP growth overall, while the contribution of the external sector was -0.8 pp. In turn, the rise in domestic demand was supported by private consumption and capital goods investments. One of the key features of the 2014 figures was the recovery in construction investment, in both the residential and non-residential subsectors, which grew on a quarter-to-quarter basis practically throughout all the year, although average annual growth with respect to 2013 was negative.

The average or consensus forecast for GDP growth in 2015 has risen by five tenths of a percentage point to 2.6%. The consensus forecast is markedly higher than the figure given by international organisations. The panel participants' range of forecasts oscillates between a minimum of 2% and a maximum of 3%.

Growth in 2015 will be driven entirely by domestic demand, which will contribute all 2.6 percentage points of growth, with the external sector making no contribution. Household consumption is expected to progress by 2.9% and construction

investment by 2.8%, while exports are expected to grow by 5.4%.

The forecast for 2016 also stands at 2.6%

This Panel presents forecasts for 2016 for the first time. The consensus forecast is for GDP growth also of 2.6%. According to this forecast, the contribution from domestic demand will be 2.5 pp and that from the external sector 0.1 pp. The rate of quarter-to-quarter growth will remain stable at around 0.6% in 2015 and 2016 (Table 2).

Industrial activity will pick up speed in 2015 and 2016

The industrial production index grew by 1.2% in 2014, although the index for manufacturing grew somewhat faster, at 1.9%. This is basically the result of the growth registered in the first half of the year, as the performance of industrial activity measured by this indicator in the second half was negative. A slight upturn was seen in January of this year, with growth of 0.2% on the previous month, but the manufacturing index remained as weak as in the preceding months.

The consensus forecast for growth in the IPI in 2015 has been raised one tenth of a percent to 2.1%, while for 2016 an increase of 2.6% is foreseen.

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.

Expected inflation has been revised downwards again

The inflation rate, which since last July has been negative almost every month, dropped to a minimum of -1.3% in January and rose to -1.1% in February. The core rate, however, remains positive, albeit very low.

The consensus forecast for 2015's average annual rate has been cut by four tenths of a percent to -0.5%, while an average annual rate of 1.2% is forecast for 2016. A year-on-year rate of 0.7% is foreseen in December 2015 and a rate of 1.2% in December 2016 (Table 3).

The employment forecast has improved

The number of social security affiliates continued to grow rapidly in the first two months of 2015. The sharp rise in the number of affiliates in the construction industry stands out, as does growth in permanent and full-time contracts.

The forecast increase in employment in 2015 has been raised considerably in line with the revision of the GDP growth figure to 2.3%. An increase of 2.2% is forecast for 2016.

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 0.3% in 2015 and 0.4% in 2016, while ULCs are expected to decrease by 0.1% this year and rise by 0.5% the next.

The upturn in demand has worsened the balance of payments

The provisional figures for the 2014 balance of payments show a surplus of 1.2 billion euros, compared with 15 billion euros the previous year. This deterioration is due to the worsening trade

balance, resulting from the upturn in imports driven by the recovery in durable goods consumption and investments in capital goods. The income account also worsened.

The consensus forecast for the 2015 current account balance has been revised downward from previous forecasts, to a surplus of 0.7% of GDP, while a surplus of 0.6% of GDP is expected for 2016.

The government deficit will slightly overshoot the target

The combined deficit of the central government, the Social Security system and the autonomous regions to November 2014, excluding aid to the financial system, came to 4.62% of annual GDP, compared with 5.15% in the same period the previous year. The improvement basically came from increased income, which grew by 1.7%, while expenditure, excluding aid to financial institutions, dropped by just 0.9%. The central government and the social security funds reduced their deficit, while the autonomous regions increased theirs. 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 forecasts for the general government deficits for 2015 and 2016 are 4.4% and 3.2% of GDP, respectively.

The opinion on the situation in the EU has improved

U.S. GDP growth slowed in the last quarter of 2014, although the trend remains dynamic, while in the euro area the recovery picked up somewhat, with quarter-to-quarter growth of 0.3%. At the start of the year the confidence and PMI indicators suggested a continuation of the upward trend. For

their part, the emerging economies also continue to show signs of weakness.

The panellists' view of the current situation in the EU has moved from unfavourable to neutral (Table 4) and there has also been a change of opinion about how things will develop over the coming months, with an improvement now expected. The context outside the EU continues to be considered neutral, but unlike the case in previous panels, an improvement is now foreseen over the coming months.

Long-term interest rates are considered to be too low

Short-term interest rates (three-month EURIBOR) dropped in recent weeks to around 0.04%. As in previous Forecast Panels, the rate is still felt to be too low, but is expected to remain unchanged over the months ahead.

Long-term rates (10 years) rose slightly in mid-February due to the uncertainty generated by the new negotiations over Greece's bail-out, but

they immediately resumed their downward trend, reaching new lows of around 1.3%. The majority opinion among respondents is that this level is too low but that it will remain stable over the coming months.

The euro is no longer overvalued against the dollar

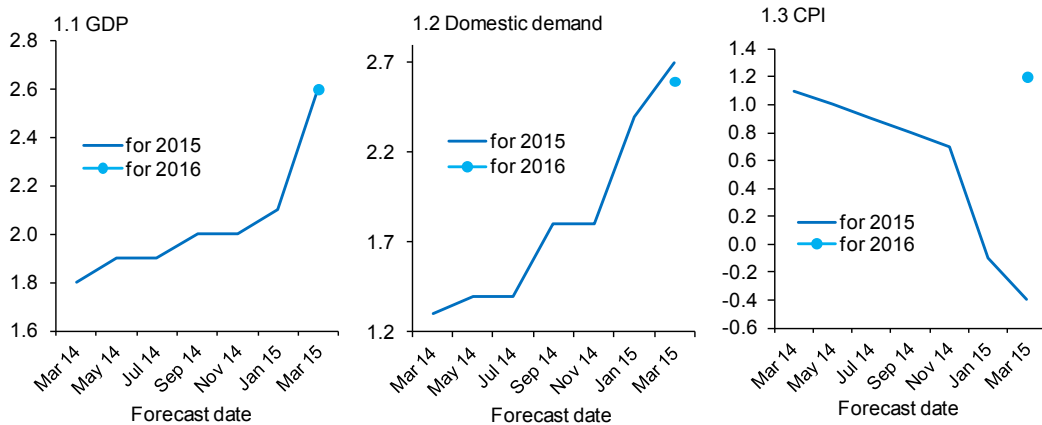
The euro's exchange rate against the dollar has continued to head downward, falling to below 1.10 in the last few days. After the depreciation seen in recent months, the majority of panellists now consider the current level to be appropriate. The euro is expected to depreciate further over the next few months.

Fiscal policy should be neutral

Fiscal policy is now considered neutral rather than restrictive, and this is the orientation most panellists considered appropriate. All the panellists classified current monetary policy as expansionary, and the unanimous view was that this was the appropriate stance.

Exhibit 1

Change in forecasts (Consensus values) Percentage annual change



Source: FUNCAS Panel of forecasts.

Table 1

Economic Forecasts for Spain – March 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	
	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016
Analistas Financieros Internacionales (AFI)	2.5	2.2	3.1	2.3	1.4	0.9	4.9	4.6	8.1	7.1	3.2	3.4	3.0	2.4
Banco Bilbao Vizcaya Argentaria (BBVA)	2.7	2.7	2.5	1.7	1.5	1.4	5.2	6.2	7.2	6.3	3.2	5.6	2.7	2.4
Bankia	2.7	2.6	3.6	3.2	0.4	1.0	5.0	5.4	9.8	9.3	2.3	2.9	3.3	3.2
CatalunyaCaixa	2.5	2.7	2.8	2.0	0.1	0.8	4.8	3.8	7.6	5.9	2.8	1.6	2.7	2.1
Cemex	2.5	2.5	2.7	2.4	1.5	1.2	5.3	5.7	8.0	5.5	3.0	5.9	2.9	2.8
Centro de Estudios Economía de Madrid (CEEM-URJC)	2.5	2.7	2.6	2.3	0.9	1.0	4.2	4.5	5.5	5.7	3.6	3.8	2.5	2.3
Centro de Predicción Económica (CEPREDE-UAM)	2.0	2.2	1.7	2.3	-0.2	0.4	3.0	4.6	3.0	4.6	2.3	4.9	1.5	2.2
CEOE	2.8	2.6	3.1	2.5	0.6	0.2	5.5	4.4	8.4	5.0	3.9	4.2	2.9	2.1
ESADE	2.2	--	2.3	--	0.7	--	4.2	--	6.6	--	2.0	--	2.0	--
Fundación Cajas de Ahorros (FUNCAS)	3.0	2.8	3.5	2.9	0.6	0.5	6.6	5.6	9.7	7.7	5.1	4.5	3.5	3.0
Instituto Complutense de Análisis Económico (ICAE-UCM)	2.2	2.5	3.0	2.9	0.4	1.1	3.2	5.2	7.6	8.7	0.8	2.8	2.6	3.0
Instituto de Estudios Económicos (IEE)	2.8	2.8	3.2	3.1	0.8	0.5	4.4	5.0	7.9	8.1	2.3	3.2	2.9	2.9
Instituto Flores de Lemus (IFL-UC3M)	3.0	2.8	3.4	4.3	0.1	-1.0	3.7	4.8	7.1	7.2	1.4	3.1	2.6	2.5
Intermoney	2.6	2.8	2.4	2.5	0.7	1.1	6.0	6.7	6.7	5.9	2.8	4.5	2.8	2.8
La Caixa	2.5	2.3	2.6	1.6	0.5	0.1	4.6	4.2	7.7	5.3	2.9	3.4	2.6	1.8
Repsol	2.8	2.7	3.0	2.7	0.4	0.0	5.6	4.4	3.1	7.9	1.9	2.1	2.8	2.6
Santander	2.5	2.6	3.1	2.6	0.1	1.4	4.6	3.7	7.3	4.8	2.5	2.6	2.7	2.6
Solchaga Recio & asociados	2.8	2.6	3.2	2.7	0.7	0.8	5.2	5.3	7.6	5.9	4.1	5.4	3.1	2.9
CONSENSUS (AVERAGE)	2.6	2.6	2.9	2.6	0.6	0.7	4.8	4.9	7.2	6.5	2.8	3.8	2.7	2.6
Maximum	3.0	2.8	3.6	4.3	1.5	1.4	6.6	6.7	9.8	9.3	5.1	5.9	3.5	3.2
Minimum	2.0	2.2	1.7	1.6	-0.2	-1.0	3.0	3.7	3.0	4.6	0.8	1.6	1.5	1.8
Change on 2 months earlier ¹	0.5	--	0.4	--	0.1	--	0.7	--	0.5	--	0.6	--	0.3	--
- Rise ²	16	--	16	--	9	--	13	--	12	--	13	--	13	--
- Drop ²	1	--	1	--	5	--	4	--	5	--	4	--	3	--
Change on 6 months earlier ¹	0.6	--	1.0	--	0.6	--	1.4	--	0.2	--	1.8	--	0.9	--
Memorandum items:														
Government (September 2014)	2.0	--	2.1	--	-1.0	--	--	--	6.0	--	3.1	--	--	--
Bank of Spain (July 2014)	2.0	--	1.6	--	-1.5	--	4.2	--	7.7 ⁽³⁾	--	1.7	--	--	--
EC (November 2014)	2.3	2.5	2.7	2.6	0.3	0.1	4.7	5.2	4.7 ⁽³⁾	5.2 ⁽³⁾	--	--	2.6	2.6
IMF (January 2015)	2.0	1.8	--	--	--	--	--	--	--	--	--	--	--	--
OECD (November 2014)	1.7	1.9	1.9	1.7	-1.1	-0.5	3.6	4.9	--	--	--	--	1.6	1.9

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 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	
	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016
Analistas Financieros Internacionales (AFI)	5.3	5.8	7.4	6.9	--	--	-0.8	1.1	--	--	2.3	1.6	22.6	21.5	0.0	-0.6	-4.5	-4.0
Banco Bilbao Vizcaya Argentaria (BBVA)	6.1	7.2	6.8	7.1	--	--	-0.4	1.4	-0.9	0.6	2.6	2.3	22.5	20.9	0.9	1.0	-4.2	-2.8
Bankia	5.6	5.4	7.9	7.9	1.5	--	-0.6	1.1	0.1	0.6	2.5	2.3	22.5	20.6	0.8	0.7	--	--
CatalunyaCaixa	4.9	5.2	5.5	4.1	--	--	-0.4	1.4	--	--	2.7	2.5	22.6	20.8	--	--	--	--
Cemex	4.9	5.4	6.8	7.0	--	--	-0.5	1.6	--	--	2.7	2.7	22.8	21.4	--	--	-4.2	-2.8
Centro de Estudios Economía de Madrid (CEEM-URJC)	5.6	6.1	5.9	5.5	--	--	-0.7	0.7	--	--	2.4	2.4	22.5	20.5	0.9	1.4	-4.3	-3.0
Centro de Predicción Económica (CEPREDE-UAM)	6.1	6.2	5.0	6.4	2.5	3.0	-0.7	1.6	0.4	1.7	1.4	1.5	23.1	21.6	0.5	0.3	-4.9	-3.8
CEOE	5.8	5.6	6.8	5.2	2.0	1.5	-0.3	1.4	0.4	0.6	2.6	2.4	22.1	20.0	0.6	0.9	-4.3	-3.5
ESADE	5.0	--	5.5	--	--	--	0.7	--	0.5	--	1.5	--	20.5	--	1.5	--	-4.2	--
Fundación Cajas de Ahorros (FUNCAS)	5.2	5.5	7.3	6.7	2.6	2.9	-0.7	0.6	0.3	0.7	2.6	2.3	22.3	20.4	0.8	0.5	-4.4	-3.3
Instituto Complutense de Análisis Económico (ICAE-UCM)	5.6	7.0	7.7	8.2	1.6	2.6	-0.3	1.2	--	--	1.3	2.0	23.1	22.2	0.7	0.0	-4.5	-3.5
Instituto de Estudios Económicos (IEE)	5.7	6.0	6.2	6.5	1.9	2.2	-0.4	1.0	0.5	1.0	2.0	2.1	22.2	20.0	0.4	0.8	-4.4	-3.0
Instituto Flores de Lemus (IFL-UC3M)	4.7	4.5	4.7	4.2	1.4	3.0	-0.5	1.1	--	--	2.4	2.1	23.0	--	--	--	--	--
Intermoney	5.5	5.8	6.3	6.2	2.0	3.5	-0.3	1.1	--	--	2.4	2.5	22.6	20.8	0.5	0.8	-4.2	-2.9
La Caixa	5.2	6.0	5.5	4.9	2.4	2.8	-0.1	1.9	0.4	1.4	2.3	2.0	22.7	21.5	0.6	0.6	-4.8	-3.3
Repsol	5.5	5.9	6.3	5.4	2.2	2.5	-0.7	1.4	-0.5	0.2	2.4	1.8	22.9	21.8	0.6	0.2	-4.3	-2.8
Santander	4.9	4.5	5.7	4.7	2.9	1.6	-0.8	0.8	0.5	1.0	2.1	2.2	22.7	20.3	0.8	1.0	-4.2	-2.8
Solchaga Recio & asociados	5.1	5.4	6.6	6.5	--	--	-0.7	1.0	--	--	3.0	2.7	22.3	20.2	0.5	0.7	-4.5	-3.4
CONSENSUS (AVERAGE)	5.4	5.7	6.3	6.1	2.1	2.6	-0.5	1.2	0.2	0.9	2.3	2.2	22.5	20.9	0.7	0.6	-4.4	-3.2
Maximum	6.1	7.2	7.9	8.2	2.9	3.5	0.7	1.9	0.5	1.7	3.0	2.7	23.1	22.2	1.5	1.4	-4.2	-2.8
Minimum	4.7	4.5	4.7	4.1	1.4	1.5	-0.8	0.6	-0.9	0.2	1.3	1.5	20.5	20.0	0.0	-0.6	-4.9	-4.0
Change on 2 months earlier ¹	0.4	--	-0.2	--	0.1	--	-0.4	--	-0.1	--	0.6	--	-0.3	--	-0.1	--	0.1	--
- Rise ²	12	--	7	--	3	--	4	--	4	--	14	--	5	--	5	--	9	--
- Drop ²	5	--	10	--	5	--	13	--	3	--	2	--	13	--	8	--	2	--
Change on 6 months earlier ¹	-0.2	--	1.0	--	-0.5	--	-1.3	--	-0.2	--	0.8	--	-0.7	--	0.0	--	0.3	--
Memorandum items:																		
Government (September 2014)	5.2	--	5.0	--	--	--	--	--	1.0	--	1.4	--	22.9	--	1.1	--	-4.2	-2.8
Bank of Spain (July 2014)	5.9	--	4.5	--	--	--	0.7	--	--	--	1.4	--	--	--	1.6 ⁽⁶⁾	--	--	--
EC (November 2014)	5.4	6.0	6.9	6.7	--	--	-1.0	1.1	0.7	0.8	1.8	2.0	22.5	20.7	0.6	0.5	-4.5	-3.7
IMF (January 2015)	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
OECD (November 2014)	4.9	5.4	4.9	5.5	--	--	0.1	0.5	--	--	1.3	1.4	23.1	21.9	0.8	0.9	-4.4	-3.3

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 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 2015¹

	Quarter-on-quarter change (percentage)							
	15-Q1	15-Q2	15-Q3	15-Q4	16-Q1	16-Q2	16-Q3	16-Q4
GDP ²	0.6	0.7	0.6	0.6	0.6	0.6	0.6	0.6
Household consumption ²	0.7	0.6	0.6	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 – March 2015¹

	Monthly change (%)				Year-on-year change (%)	
	Feb-15	Mar-15	Apr-15	May-15	Dec-15	Dec-16
	0.2	0.4	0.8	0.2	0.7	1.2

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

Table 4

Opinions – March 2015

Number of responses

	Currently			Trend for next six months		
	Favourable	Neutral	Unfavourable	Improving	Unchanged	Worsening
International context: EU	3	9	6	15	3	0
International context: Non-EU	5	11	2	11	6	1
	Low ¹	Normal ¹	High ¹	Increasing	Stable	Decreasing
Short-term interest rate ²	10	8	0	0	16	2
Long-term interest rate ³	12	5	1	1	12	5
	Overvalued ⁴	Normal ⁴	Undervalued ⁴	Appreciation	Stable	Depreciation
Euro/dollar exchange rate	2	9	7	0	4	14
	Is being			Should be		
	Restrictive	Neutral	Expansionary	Restrictive	Neutral	Expansionary
Fiscal policy assessment ¹	7	9	2	4	11	3
Monetary policy assessment ¹	0	0	18	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.