

# Spanish economic forecasts panel: May 2015<sup>1</sup>

## FUNCAS Economic Trends and Statistics Department

### **The growth forecast for 2015 has been raised three tenths of a percent to 2.9%**

According to preliminary INE data, GDP grew by 0.9% in the first quarter of 2015, beating expectations. Consequently, in conjunction with the recent trends in demand, output and employment indicators, the average or consensus GDP growth forecast for 2015 has been raised by three tenths of a percent to 2.9%. This forecast is above those of international organisations and in line with the government's. The panel participants' range of forecasts oscillates between a minimum of 2.6% and a maximum of 3.1%.

Growth in 2015 will be driven by domestic demand, which will contribute 3 percentage points, while the external sector will make a contribution of -0.1 percentage points. Household consumption is expected to expand by 3.3% and gross fixed capital formation (GFCF) by 5.4%. The strong upward revision of the construction investment forecast, by seven tenths of a percent to 3.5%, stands out. The forecast for exports is unchanged, but imports are predicted to rise, in line with the expected acceleration in domestic demand.

### **The forecast for 2016 has been raised a tenth of a percent**

The consensus forecast for 2016 has been revised upwards one tenth of a percentage point to 2.7%,

which is also above international organisations' estimates, although two tenths short of the government's forecast. National demand will contribute 2.6 pp to this growth, while external demand will contribute 0.1 pp.

A slight moderation in growth is expected over the course of the quarter, dropping to quarter-on-quarter growth of 0.6% in 2016 (Table 2).

### **Industrial activity will pick up speed in 2015 and 2016**

There was an upturn in the industrial production index in the first quarter of the year, after the dip in the second half of last year, and, according to social security and labour-force survey data, employment creation in the sector has been solid.

The consensus forecast for growth in IPI in 2015 has been raised one tenth of a percent to 2.2%, while an increase of 2.8% is foreseen for 2016.

### **Expected inflation has been revised upwards**

The inflation rate has remained on an upward trend since the low of -1.3% reached in January, standing at -0.6% in April, and the recovery in

<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 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.

the oil price suggests this trend will strengthen. Consequently, the average annual inflation rate forecast has been revised upwards to -0.3% for 2015, and kept at 1.2% for 2016. The year-on-year rate is expected to stand at 0.9% in December of this year, and 1.1% next year (Table 3).

## **The employment forecast has improved**

According to the social security membership figures, employment growth picked up speed gradually over the first four months of the year. However, the results of the first quarter's LFS were somewhat disappointing, suggesting a more modest increase than in the previous quarter, although this survey's figures for trends in the labour force have been somewhat erratic recently, which may be distorting the employment and unemployment figures.

The job creation forecast for 2015 has been revised upwards to 2.6% and that for 2016 to 2.4%. The forecast average annual unemployment rates for this year and the next have been revised downwards to 22.2% and 20.5%, respectively, three and four tenths of a percentage point lower than in the previous panel forecast.

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 0.2% in both 2015 and 2016, while ULCs, are expected to remain unchanged this year, and rise by 0.6% next year.

## **Cheaper oil has stemmed the deterioration of the balance of payments**

The current account of the balance of payments in 2014 has been revised upwards to a surplus of almost 8.5 billion euros, although this figure is a considerable drop from the 15 billion euro surplus

the previous year. According to provisional data, there was a deficit of almost 2.5 billion euros in the first two months of 2015, compared with 3 billion euros in the year-earlier period. This improvement was due to the oil price.

The consensus forecast for the 2015 current account balance has been revised upwards from previous forecasts, to a surplus of 0.8% of GDP, and the same figure is expected for 2016.

## **The government deficit will slightly overshoot the target**

The combined deficit of central government, the Social Security system and the autonomous regions to February 2015 came to 10.285 billion euros, a deficit 420 million euros smaller than in the year-earlier period. The improvement is due to the autonomous regions, whose deficit was a billion euros less than that in the year-earlier period, while the central government increased its deficit by 300 million euros, and the social security system reduced its surplus by 300 million euros.

The consensus forecast for the general government deficits for 2015 and 2016 are unchanged from the last panel forecast, at 4.4% and 3.2% of GDP, respectively.

## **The situation in the EU is expected to improve**

U.S. GDP stagnated in the first quarter of 2015, largely as a result of bad weather conditions and a port strike. This unexpected weakening has pushed back the expectations of an interest rate rise by the Federal Reserve. The indicators in the euro area suggest that the recovery has gained traction, although the rate of growth remains modest, while in emerging economies the situation remains weak and vulnerable to the expected change in U.S. monetary policy.

The panellists' view of the current situation in the EU is neutral (Table 4) and an improvement is now expected in the coming months. The context outside the EU continues to be seen as neutral, and it is also expected to improve over the coming months.

### Long-term interest rates are considered to be too low

Short-term interest rates (three-month EURIBOR) have been slightly negative since mid-April. As in previous Forecast Panels, the rate is still felt to be too low, but is expected to remain unchanged over the months ahead.

In the case of long-term rates (10 years), there was a sharp upturn in yields on international markets in the last two weeks of April and first week of May, rising from record lows which, in the case of Spanish debt, meant an increase in yield of 0.65 percentage points, and an increase in the risk premium. In any event, levels remain very low in historical terms, and in relation to the current state of the Spanish economy, in the view of most of the panellists.

They are expected to remain stable over the coming months, however.

### The euro is no longer overvalued against the dollar

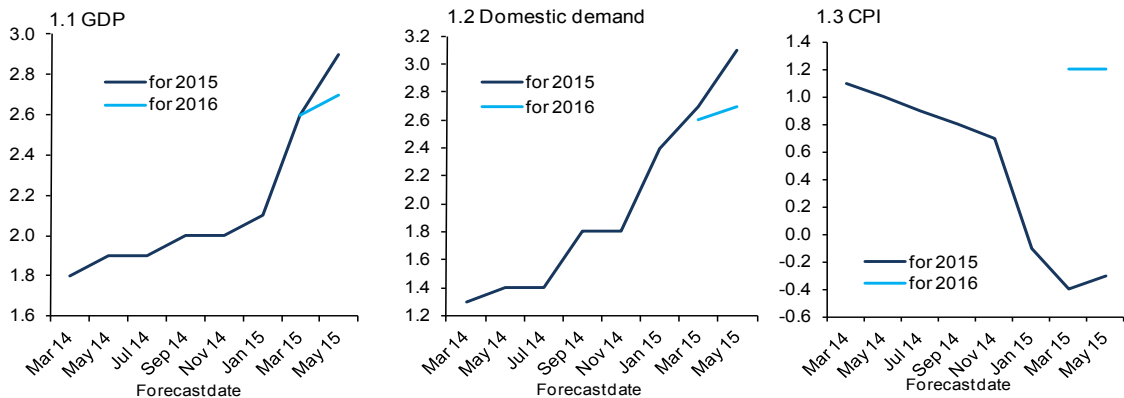
The poor performance of the U.S. economy in the first quarter has delayed the expected timing of the Federal Reserve's monetary-policy interest rate rise, resulting in a slight recovery in the exchange rate of the euro. Nevertheless, for the first time in many years, the panel considers the euro to be undervalued. Meanwhile, 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 – May 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)	3.0	2.5	3.5	2.5	1.5	0.9	6.3	5.5	9.5	7.6	4.4	5.2	3.5	2.7
Banco Bilbao Vizcaya Argentaria (BBVA)	3.0	2.7	3.1	2.4	0.8	0.6	5.7	6.4	7.8	6.7	4.3	5.4	3.0	2.7
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	2.9	2.7	3.3	2.2	0.1	0.6	5.3	5.4	7.6	7.0	3.7	3.8	3.1	2.5
Cemex	3.0	2.5	3.3	2.4	1.6	1.2	5.4	5.7	8.0	5.5	3.3	5.9	3.3	2.8
Centro de Estudios Economía de Madrid (CEEM-URJC)	3.0	2.8	3.1	2.7	0.9	0.8	5.5	4.1	6.8	5.1	5.2	3.6	3.0	2.5
Centro de Predicción Económica (CEPREDE-UAM)	2.6	2.4	3.0	2.5	0.8	0.9	5.2	6.4	8.8	8.3	3.6	5.6	2.9	3.0
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	2.6	--	2.5	--	1.0	--	4.5	--	7.3	--	0.3	--	2.6	--
Fundación Cajas de Ahorros (FUNCAS)	3.0	2.8	3.5	2.9	0.6	0.5	6.6	5.7	9.7	7.7	5.1	4.5	3.5	3.0
Instituto Complutense de Análisis Económico (ICAE-UCM)	2.9	2.6	3.0	2.8	0.7	0.7	5.5	5.8	7.6	7.0	3.6	4.5	2.9	2.7
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)	2.8	2.6	3.3	3.5	0.1	-1.0	4.0	4.3	7.1	7.2	2.6	3.0	2.9	2.6
Intermoney	3.0	2.8	3.5	2.8	1.2	0.8	5.7	5.4	7.1	6.3	3.4	5.3	3.0	2.9
La Caixa	2.8	2.5	3.5	2.1	0.5	0.1	4.6	4.2	7.7	5.3	2.9	3.4	3.0	2.1
Repsol	3.1	2.8	3.3	2.7	0.1	0.2	6.5	5.1	4.2	8.9	2.9	2.8	3.3	2.6
Santander	3.1	2.9	4.0	2.8	0.7	1.5	5.6	5.6	7.2	5.0	4.9	6.1	3.6	3.1
Solchaga Recio & asociados	2.8	2.6	3.4	2.8	0.6	0.5	5.7	5.4	8.0	6.5	4.8	5.5	3.3	2.9
<b>CONSENSUS (AVERAGE)</b>	<b>2.9</b>	<b>2.7</b>	<b>3.3</b>	<b>2.7</b>	<b>0.7</b>	<b>0.6</b>	<b>5.4</b>	<b>5.3</b>	<b>7.8</b>	<b>6.9</b>	<b>3.5</b>	<b>4.4</b>	<b>3.1</b>	<b>2.7</b>
Maximum	3.1	2.9	4.0	3.5	1.6	1.5	6.6	6.4	9.8	9.3	5.2	6.1	3.6	3.2
Minimum	2.6	2.4	2.5	2.1	0.1	-1.0	4.0	4.1	4.2	5.0	0.3	2.8	2.6	2.1
Change on 2 months earlier <sup>1</sup>	0.3	0.1	0.4	0.1	0.1	-0.1	0.6	0.4	0.6	0.4	0.7	0.6	0.4	0.1
- Rise <sup>2</sup>	12	7	12	9	7	3	12	9	8	8	12	8	14	9
- Drop <sup>2</sup>	1	1	1	2	3	6	1	3	1	2	1	3	0	1
Change on 6 months earlier <sup>1</sup>	0.9	--	1.4	--	0.7	--	1.9	--	0.9	--	2.3	--	1.3	--
<b>Memorandum items:</b>														
Government (April 2015)	2.9	2.9	3.3	2.9	0.1	0.1	6.3	5.8	9.2	7.5	5.3	5.4	3.1	2.8
Bank of Spain (March 2015)	2.8	2.7	3.3	2.4	-0.4	-0.1	5.9	6.7	9.1 <sup>3</sup>	9.1 <sup>3</sup>	4.1	5.1	--	--
EC (May 2015)	2.8	2.6	3.5	2.8	0.4	0.3	5.5	5.1	8.8 <sup>3</sup>	7.9 <sup>3</sup>	--	--	3.3	2.8
IMF (April 2015)	2.5	2.0	3.9	2.5	0.3	-1.1	4.5	3.1	--	--	--	--	3.1	1.7
OECD (November 2014)	1.7	1.9	1.9	1.7	-1.1	-0.5	3.6	4.9	--	--	--	--	1.6	1.9

<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 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 <sup>3</sup>		Jobs <sup>4</sup>		Unempl. (% labour force)		C/A bal. of payments (% of GDP) <sup>5</sup>		Gen. gov. bal. (% of GDP) <sup>7</sup>	
	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016
Analistas Financieros Internacionales (AFI)	5.6	6.1	7.8	7.2	--	--	-0.4	1.1	--	--	3.1	2.2	22.2	20.8	0.1	0.1	-4.7	-3.5
Banco Bilbao Vizcaya Argentaria (BBVA)	6.1	7.5	6.6	7.8	--	--	-0.2	1.4	0.3	1.7	2.6	2.4	22.3	20.7	0.9	1.0	-4.4	-3.0
Bankia	5.6	5.4	7.9	7.9	1.9	--	-0.4	1.0	0.1	0.6	2.5	2.3	22.2	20.4	0.8	0.7	--	--
CatalunyaCaixa	5.4	5.5	6.1	5.8	--	--	-0.2	1.5	--	--	2.5	2.5	22.4	20.6	--	--	--	--
Cemex	5.0	5.4	6.7	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)	5.7	6.3	6.2	5.8	--	--	-0.5	0.7	--	--	2.9	2.6	22.0	19.9	0.9	1.4	-4.1	-3.0
Centro de Predicción Económica (CEPREDE-UAM)	6.2	6.3	7.9	8.6	2.5	3.0	-0.3	1.4	0.3	1.2	2.1	1.7	22.2	21.3	-0.2	-0.6	-4.7	-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	5.5	--	5.5	--	--	--	0.2	--	0.5	--	2.5	--	21.5	--	0.1	--	-4.0	--
Fundación Cajas de Ahorros (FUNCAS)	5.2	5.5	7.3	6.7	2.9	4.1	-0.5	0.9	0.3	0.7	2.6	2.3	22.3	20.4	1.5	1.2	-4.7	-3.6
Instituto Complutense de Análisis Económico (ICAE-UCM)	5.6	7.0	7.0	7.7	2.0	2.6	-0.3	1.2	--	--	2.5	2.3	22.4	20.8	0.7	0.8	-4.5	-3.1
Instituto de Estudios Económicos (IEE)	5.7	6.0	6.2	6.5	1.9	2.1	-0.4	1.0	0.5	1.0	2.0	1.9	22.2	20.0	0.4	0.8	-4.4	-3.3
Instituto Flores de Lemus (IFL-UC3M)	4.6	4.5	5.1	5.3	1.9	3.6	-0.5	1.0	--	--	3.2	3.3	21.8	20.2	--	--	--	--
Intermoney	5.7	5.9	6.2	6.7	2.5	3.5	-0.3	1.1	--	--	2.8	2.9	22.2	20.2	0.7	0.8	-4.2	-2.9
La Caixa	5.3	5.9	6.1	5.0	2.4	2.8	0.0	1.9	-0.3	0.8	2.9	2.4	22.4	20.9	1.1	1.1	-4.8	-3.3
Repsol	5.7	6.9	6.7	7.0	1.9	2.2	-0.6	1.2	-0.2	0.0	2.8	2.6	22.2	20.8	1.0	0.5	-4.3	-3.2
Santander	4.3	4.5	6.1	5.4	--	--	-0.7	0.8	0.5	1.0	2.4	2.2	22.4	20.3	1.8	1.2	-4.2	-2.8
Solchaga Recio & asociados	4.5	4.9	6.4	6.3	--	--	-0.4	1.1	--	--	3.0	2.7	22.2	20.1	1.2	1.5	-4.5	-3.4
<b>CONSENSUS (AVERAGE)</b>	<b>5.4</b>	<b>5.8</b>	<b>6.6</b>	<b>6.6</b>	<b>2.2</b>	<b>2.8</b>	<b>-0.3</b>	<b>1.2</b>	<b>0.2</b>	<b>0.8</b>	<b>2.6</b>	<b>2.4</b>	<b>22.2</b>	<b>20.5</b>	<b>0.8</b>	<b>0.8</b>	<b>-4.4</b>	<b>-3.2</b>
Maximum	6.2	7.5	7.9	8.6	2.9	4.1	0.2	1.9	0.5	1.7	3.2	3.3	22.8	21.4	1.8	1.5	-4.0	-2.8
Minimum	4.3	4.5	5.1	5.0	1.9	1.5	-0.7	0.7	-0.3	0.0	2.0	1.7	21.5	19.9	-0.2	-0.6	-4.8	-3.8
Change on 2 months earlier <sup>1</sup>	0.0	0.1	0.3	0.5	0.1	0.2	0.2	0.0	0.0	-0.1	0.3	0.2	-0.3	-0.4	0.1	0.2	0.0	0.0
- Rise <sup>2</sup>	9	7	8	10	5	2	11	3	2	1	10	9	1	0	7	7	3	2
- Drop <sup>2</sup>	3	2	5	2	1	2	1	4	2	3	1	1	13	11	2	1	3	4
Change on 6 months earlier <sup>1</sup>	0.3	--	1.4	--	-0.2	--	-1.0	--	-0.3	--	1.1	--	-0.8	--	0.0	--	0.1	--
<b>Memorandum items:</b>																		
Government (April 2015)	5.4	6.0	6.7	6.4	--	--	--	--	--	--	3.0	3.0	22.1	19.8	1.3	1.3	-4.2	-2.8
Bank of Spain (March 2015)	5.2	5.8	6.2	6.3	--	--	-0.2	1.2	--	--	2.7	2.6	22.2	20.5	1.0 <sup>6</sup>	0.8 <sup>6</sup>	-4.5	-3.9
EC (May 2015)	5.5	6.2	7.2	7.1	--	--	-0.6	1.1	0.3	0.4	2.7	2.5	22.4	20.5	1.2	1.0	-4.5	-3.5
IMF (April 2015)	6.3	5.8	8.7	5.0	--	--	-0.7	0.7	--	--	2.0	1.5	22.6	21.1	0.3	0.4	-4.3	-2.9
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

<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 2015<sup>1</sup>**

	Quarter-on-quarter change (percentage)							
	15-Q1	15-Q2	15-Q3	15-Q4	16-Q1	16-Q2	16-Q3	16-Q4
GDP <sup>2</sup>	0.9	0.8	0.7	0.7	0.6	0.6	0.6	0.6
Household consumption <sup>2</sup>	0.9	0.8	0.7	0.7	0.6	0.7	0.6	0.6

<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 2015<sup>1</sup>**

	Monthly change (%)				Year-on-year change (%)	
	May-15	Jun-15	Jul-15	Aug-15	Dec-15	Dec-16
	0.0	0.0	-0.7	0.1	0.9	1.1

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

Table 4

**Opinions – May 2015**

Number of responses

	Currently			Trend for next six months		
	Favourable	Neutral	Unfavourable	Improving	Unchanged	Worsening
International context: EU	5	11	2	16	2	0
International context: Non-EU	4	13	1	9	8	1
	Low <sup>1</sup>	Normal <sup>1</sup>	High <sup>1</sup>	Increasing	Stable	Decreasing
Short-term interest rate <sup>2</sup>	13	5	0	0	16	2
Long-term interest rate <sup>3</sup>	14	4	0	3	12	3
	Overvalued <sup>4</sup>	Normal <sup>4</sup>	Undervalued <sup>4</sup>	Appreciation	Stable	Depreciation
Euro/dollar exchange rate	2	6	10	0	6	12
	Is being			Should be		
	Restrictive	Neutral	Expansionary	Restrictive	Neutral	Expansionary
Fiscal policy assessment <sup>1</sup>	4	12	2	5	9	4
Monetary policy assessment <sup>1</sup>	0	0	18	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.