

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

## FUNCAS Economic Trends and Statistics Department

### **The growth forecast for 2015 has been raised two tenths of a percent to 3.1%**

Economic indicators suggest that GDP growth in the second quarter of the year was slightly higher than expected. According to the consensus forecast, this growth was 0.9%, one tenth higher than anticipated in the previous Forecast Panel (Table 2). As a consequence of this better than expected performance two months ago, the consensus GDP growth forecast for 2015 has been revised upwards two tenths of a percentage point to 3.1% (Table 1).

This figure is higher than that forecast by the relevant international organisations (except the IMF), and also higher than the government's forecast. The panel participants' range of forecasts oscillates between a minimum of 2.6% and a maximum of 3.3%.

Growth in 2015 will be driven by domestic demand, which will contribute 3.1 percentage points of growth, while the external sector will not make any contribution. Household consumption is expected to grow by 3.3% and gross fixed capital formation (GFCF) by 5.7%. The marked upward revision of the construction investment forecast, by one percentage point to 4.5%, stands out. The forecast for exports has risen to 5.6% and that for imports has been cut to 6.5%.

### **The forecast for 2016 remains unchanged at 2.7%**

The consensus forecast for 2016 remains unchanged from the previous Panel at 2.7%. Domestic demand will contribute 2.8 pp to this growth, while external demand will subtract 0.1 pp. This differs from previous consensus forecasts, which pointed to a positive contribution from the external sector.

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

### **Industrial activity will gain momentum in 2015 and 2016**

At the start of the second quarter, industrial activity maintained the acceleration trend observed in the first quarter, according to indicators such as the industrial production index, the sector PMI, and growth in the number of social security system affiliates.

The consensus forecast for IPI growth in 2015 has been raised four tenths of a percent to 2.6%, while for 2016 an increase of 3.0% is foreseen.

<sup>1</sup> The Spanish Economic Forecasts Panel is a survey run by FUNCAS which consults the 17 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 17 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 upwards

The inflation rate continued its upward trend in May, rising from the low of -1.3% reached in January. The general rate stood at -0.2% and core inflation at 0.5%. The average annual inflation rate has been revised upwards to -0.2% for 2015, and to 1.3% for 2016. The year-on-year rate is expected to stand at 1.1% in December of this year, and 1.3% next year, both these figures also having been revised upwards since the previous survey (Table 3).

## The employment forecast has improved

According to the social security registration data, job creation has remained buoyant in the second quarter. The job creation forecast for 2015 has been revised upwards to 2.9% and that for 2016 to 2.5%. The average annual unemployment rate forecast for this year and next remains unchanged at 22.2%, while that for 2016 is expected to be 20.4%.

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 per worker is expected to grow by 0.1% in 2015 and 0.2% in 2016, while ULCs, are expected to change by 0.3% this year and 0.7% next year.

## Cheaper oil has slowed the deterioration of the balance of payments

The balance of payments on the current account in the first quarter of 2015 registered a current account deficit of 1.5 billion euros, compared with a balance of -3.7 billion euros in the year-earlier period. This improvement was due to lower oil prices, as, according to Customs data, the goods trade balance excluding energy products worsened in the period.

The consensus forecast for the current account balance is for a surplus of 0.7% of GDP in both 2015 and 2016.

## The government deficit will slightly overshoot the target

In the first quarter of 2015, the consolidated general government balance excluding local government (*i.e.* central government, autonomous regions, and social security funds) stood at -0.78% of GDP, compared with -0.69% of GDP in the year-earlier period. The central government increased its deficit and the social security funds reduced their surplus, while the autonomous regions as a whole enjoyed a slight improvement in their results. However, the early months of the year tend not to be very representative.

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. These figures are two and four tenths of a percent, respectively, higher than the government's targets.

## The situation in the EU is expected to improve

U.S. GDP contracted by 0.2% in the first quarter of 2015, largely as a result of bad weather conditions and a port strike. This unexpected weakening, together with the loss of vibrancy of other economic indicators, has pushed back the expectations of an interest rate hike 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.

Panellists opinions on the current situation in the EU have gradually shifted from neutral to favourable, with panellists now split between the

two views. The majority still think that the situation will improve over the coming months.

As regards the situation outside the EU, most panellists consider it to be neutral, but unlike the previous Panel, the majority do not expect an improvement, rather that it remain unchanged over the coming months.

### The consensus view is that long-term interest rates are 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.

As regards the long-term rate (10 years), the financial market tensions caused by uncertainty over the situation in Greece drove up the yield on Spanish debt to 2.45% in mid-June from lows of 1.10% in mid-March. The risk premium also rose over this period, from below 100 basis points to around 150 basis points. Nevertheless, in

subsequent days, there was a moderation in both variables.

In any event, the view remains that the interest rates in Spain are low for the Spanish economy's current state. However, they are expected to remain stable over the coming months.

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

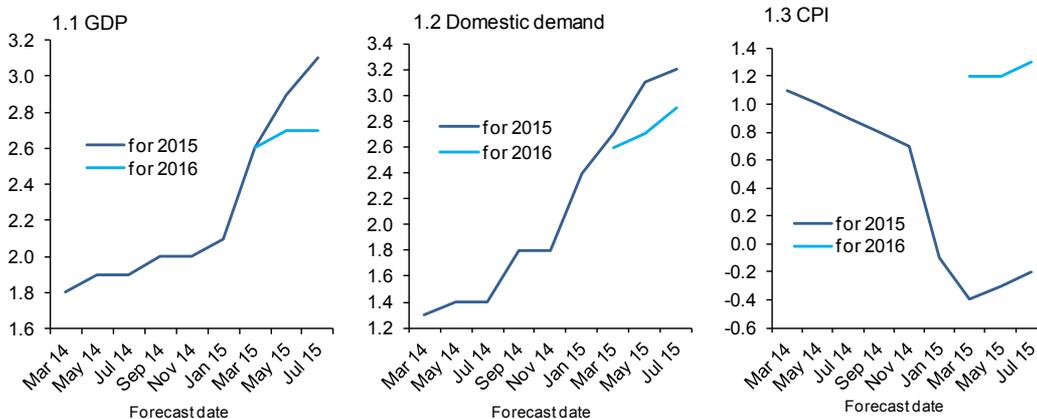
After a slight recovery in May, as a result of the delay to the expected rise in interest rates by the Federal Reserve, the euro has remained close to 1.12 in June. The common currency is still considered to be undervalued, and is expected to continue to lose value over the coming months.

### 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 classed current monetary policy as expansionary, and the almost 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 – July 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	1.3	0.9	6.0	5.6	9.0	7.7	5.1	5.1	3.4	2.8
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	3.2	2.8	3.4	3.0	0.6	0.8	6.2	5.5	9.5	8.2	4.9	4.0	3.4	3.1
Cemex	3.0	2.5	3.3	2.4	1.6	1.2	5.5	5.7	8.0	5.5	3.5	5.9	3.3	2.8
Centro de Estudios Económicos de Madrid (CEEM-URJC)	3.1	2.9	3.2	2.9	0.9	0.8	5.5	5.6	6.7	6.3	5.3	5.7	3.1	2.9
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	3.0	2.7	3.3	2.6	0.5	0.2	6.1	4.3	9.8	5.9	4.9	4.1	3.0	2.4
ESADE	2.6	--	2.5	--	1.0	--	4.5	--	7.3	--	0.3	--	2.6	--
Fundación Cajas de Ahorros (FUNCAS)	3.3	3.0	3.8	3.5	1.0	0.8	6.0	5.7	8.4	7.9	4.9	4.4	3.7	3.4
Instituto Complutense de Análisis Económico (ICAE-UCM)	3.0	2.8	3.3	2.6	0.6	1.3	5.3	4.0	8.9	8.0	4.3	4.8	3.0	2.7
Instituto de Estudios Económicos (IEE)	3.2	2.9	3.7	3.4	1.1	0.9	6.9	5.3	8.9	7.9	5.8	4.9	3.7	3.3
Instituto Flores de Lemus (IFL-UC3M)	3.1	2.9	3.2	3.3	1.2	0.2	5.6	6.5	8.6	11.1	4.9	4.7	3.2	2.9
Intermoney	3.3	2.9	3.6	3.1	1.4	0.8	5.6	5.7	7.1	6.5	4.4	4.8	3.3	3.0
La Caixa	2.8	2.5	2.9	2.1	1.6	0.1	4.9	4.2	7.2	5.3	4.1	3.4	2.8	2.1
Repsol	3.3	2.9	3.1	2.9	1.4	0.5	5.7	5.6	9.1	8.1	4.6	4.5	3.2	2.9
Santander	3.1	2.8	3.4	2.8	1.0	1.0	6.2	5.7	7.7	5.1	5.9	6.2	3.3	3.0
Solchaga Recio & asociados	3.2	2.7	3.3	2.8	0.9	0.7	6.0	5.4	8.5	6.6	5.2	5.5	3.4	2.9
<b>CONSENSUS (AVERAGE)</b>	<b>3.1</b>	<b>2.7</b>	<b>3.3</b>	<b>2.8</b>	<b>1.0</b>	<b>0.7</b>	<b>5.7</b>	<b>5.5</b>	<b>8.3</b>	<b>7.2</b>	<b>4.5</b>	<b>4.9</b>	<b>3.2</b>	<b>2.9</b>
Maximum	3.3	3.0	3.8	3.5	1.6	1.3	6.9	6.5	9.8	11.1	5.9	6.2	3.7	3.4
Minimum	2.6	2.4	2.5	2.1	0.5	0.1	4.5	4.0	6.7	5.1	0.3	3.4	2.6	2.1
Change on 2 months earlier <sup>1</sup>	0.2	0.0	0.0	0.1	0.2	0.1	0.3	0.2	0.5	0.4	1.0	0.5	0.1	0.2
- Rise <sup>2</sup>	10	10	6	6	9	6	8	8	7	9	13	7	9	8
- Drop <sup>2</sup>	0	1	6	3	3	2	5	2	5	3	1	4	4	2
Change on 6 months earlier <sup>1</sup>	1.0	--	0.8	--	0.5	--	1.6	--	1.6	--	2.3	--	0.8	--
<u>Memorandum items:</u>														
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 (June 2015)	3.1	2.7	3.4	2.3	0.1	0.1	5.9	6.1	8.8	8.9	4.8	4.5	--	--
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 (June 2015)	3.1	2.5	--	--	--	--	--	--	--	--	--	--	--	--
OECD (June 2015)	2.9	2.8	3.8	2.6	-0.8	0.0	5.4	6.3	--	--	--	--	3.1	2.9

<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 – July 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)	5.7	5.9	7.4	7.3	--	--	-0.2	1.3	--	--	3.1	2.0	22.1	20.7	0.1	-0.2	-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	6.7	6.0	7.6	7.3	2.2	--	-0.2	1.3	0.4	0.6	2.9	2.3	22.0	20.0	1.5	1.2	--	--
Cemex	5.0	5.4	6.7	7.0	--	--	0.0	1.6	--	--	2.7	2.7	22.8	21.4	--	--	-4.2	-2.8
Centro de Estudios Económicos de Madrid (CEEM-URJC)	5.7	6.1	6.1	6.4	--	--	-0.2	0.7	--	--	3.0	2.6	21.9	19.8	0.8	1.3	-4.1	-3.0
Centro de Predicción Económica (CEPREDE-UAM)	6.2	6.3	7.9	8.6	2.2	2.6	-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	6.1	5.6	6.7	5.2	2.0	1.5	-0.2	1.3	0.4	0.7	2.8	2.4	22.3	20.5	0.9	1.1	-4.2	-3.5
ESADE	5.5	--	5.5	--	--	--	0.2	--	0.5	--	2.5	--	21.5	--	0.1	--	-4.0	--
Fundación Cajas de Ahorros (FUNCAS)	4.6	5.4	6.3	7.2	3.1	4.0	-0.2	1.3	0.5	0.9	3.0	2.5	22.2	20.2	0.8	0.3	-4.6	-3.4
Instituto Complutense de Análisis Económico (ICAE-UCM)	5.8	6.6	6.8	7.1	2.6	2.6	-0.3	1.1	--	--	3.1	2.9	22.3	20.6	1.2	1.2	-4.3	-3.0
Instituto de Estudios Económicos (IEE)	5.8	5.7	7.9	7.5	2.6	2.6	-0.3	1.2	1.0	0.8	3.4	3.0	22.0	20.0	0.5	0.4	-4.4	-3.4
Instituto Flores de Lemus (IFL-UC3M)	4.6	4.2	5.2	6.1	2.9	4.5	-0.3	1.0	--	--	3.0	2.9	21.8	20.2	--	--	--	--
Intermoney	5.8	6.0	6.0	6.5	3.0	4.3	-0.3	1.1	--	--	3.0	2.7	22.2	20.2	0.9	0.8	-4.4	-2.9
La Caixa	5.1	5.9	5.5	5.0	3.0	3.0	0.0	1.9	-0.1	1.1	2.9	2.4	22.4	20.9	1.1	1.1	-4.8	-3.3
Repsol	6.3	6.3	6.2	7.0	2.2	2.2	-0.2	1.1	0.3	-0.2	3.2	2.9	22.7	20.6	0.6	0.0	-4.3	-3.0
Santander	4.9	4.5	5.6	5.4	--	--	-0.3	1.1	0.7	1.0	2.9	2.5	21.9	19.6	0.7	0.5	-4.2	-2.8
Solchaga Recio & asociados	5.4	5.1	6.4	6.3	--	--	0.0	1.3	--	--	3.1	2.8	22.1	19.8	1.3	1.6	-4.5	-3.4
<b>CONSENSUS (AVERAGE)</b>	<b>5.6</b>	<b>5.8</b>	<b>6.5</b>	<b>6.7</b>	<b>2.6</b>	<b>3.0</b>	<b>-0.2</b>	<b>1.3</b>	<b>0.4</b>	<b>0.9</b>	<b>2.9</b>	<b>2.5</b>	<b>22.2</b>	<b>20.4</b>	<b>0.7</b>	<b>0.7</b>	<b>-4.4</b>	<b>-3.2</b>
Maximum	6.7	7.5	7.9	8.6	3.1	4.5	0.2	1.9	1.0	1.7	3.4	3.0	22.8	21.4	1.5	1.6	-4.0	-2.8
Minimum	4.6	4.2	5.2	5.0	2.0	1.5	-0.3	0.7	-0.1	-0.2	2.1	1.7	21.5	19.6	-0.2	-0.6	-4.8	-3.8
Change on 2 months earlier <sup>1</sup>	0.2	-0.1	-0.1	0.1	0.4	0.2	0.2	0.1	0.2	0.1	0.2	0.1	0.0	-0.1	-0.1	-0.1	0.0	0.0
- Rise <sup>2</sup>	9	3	2	5	8	4	11	6	6	3	10	6	2	1	6	4	3	3
- Drop <sup>2</sup>	2	7	10	3	1	2	0	3	0	2	1	3	8	8	4	6	1	1
Change on 6 months earlier <sup>1</sup>	0.6	--	0.0	--	0.6	--	-0.1	--	0.1	--	1.2	--	-0.6	--	-0.1	--	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 (June 2015)	5.1	5.7	5.3	5.9	--	--	-0.2	1.3	--	--	2.9	2.6	--	--	1.2 <sup>(6)</sup>	1.1 <sup>(6)</sup>	--	--
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 (June 2015)	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
OECD (June 2015)	5.4	6.1	6.2	6.5	--	--	-0.7	0.7	--	--	2.9	2.8	22.3	20.3	1.3	1.3	-4.4	-3.0

<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 panellists 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 - July 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	0.9	0.7	0.7	0.7	0.7	0.6	0.6
Household consumption <sup>2</sup>	0.7	0.9	0.7	0.8	0.7	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 – July 2015<sup>1</sup>**

	Monthly change (%)				Year-on-year change (%)	
	May-15	Jun-15	Jul-15	Aug-15	Dec-15	Dec-16
	0.3	0.0	-0.6	0.2	1.1	1.3

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

Table 4

**Opinions – July 2015**  
Number of responses

	Currently			Trend for next six months		
	Favourable	Neutral	Unfavourable	Improving	Unchanged	Worsening
International context: EU	8	8	1	10	7	0
International context: Non-EU	3	14	0	7	8	2
	Low <sup>1</sup>	Normal <sup>1</sup>	High <sup>1</sup>	Increasing	Stable	Decreasing
Short-term interest rate <sup>2</sup>	11	6	0	1	16	0
Long-term interest rate <sup>3</sup>	11	5	1	5	9	3
	Overvalued <sup>4</sup>	Normal <sup>4</sup>	Undervalued <sup>4</sup>	Appreciation	Stable	Depreciation
Euro/dollar exchange rate	4	4	9	0	3	14
	Is being			Should be		
	Restrictive	Neutral	Expansionary	Restrictive	Neutral	Expansionary
Fiscal policy assessment <sup>1</sup>	3	8	6	4	10	3
Monetary policy assessment <sup>1</sup>	0	0	17	0	1	16

<sup>1</sup> In relation to the current state of the Spanish economy.

<sup>3</sup> Yield on Spanish 10-year public debt.

<sup>2</sup> Three-month Euribor.

<sup>4</sup> Relative to theoretical equilibrium rate.