

Spanish economic forecasts panel: March 2016¹

Funcas Economic Trends and Statistics Department

The forecast for 2016 remains unchanged at 2.7%

The limited information available so far about the first quarter of 2016 generally points towards a slowdown in growth. The consensus forecast for this period estimates a quarter-on-quarter growth rate of 0.6% (Table 2), which is expected to remain stable for the rest of the year. The forecast for the year as a whole is for growth of 2.7%, which is unchanged from the last Panel forecast, and in line with international organisations' projections.

The composition of this growth has been altered slightly. A contribution to domestic demand of 2.8 percentage points is now expected –as against 2.9 pp in the previous Panel– along with a contribution from the external sector of -0.1, one tenth of a percentage point less negative than in the previous consensus forecast. Expected export and import growth have both been reviewed downwards significantly.

The forecast for 2017 is 2.3%

This Panel offers forecasts for 2017 for the first time. GDP growth is expected to be 2.3%, deriving from a contribution of 2.4 pp from domestic demand and -0.1 pp from the external sector. The

quarterly growth rate is expected to remain stable at around 0.6% throughout the period.

Strong growth in the manufacturing industry

January's industrial production index was somewhat weak, prolonging the decelerating trend this indicator has been showing for some months. The growth rate remains high, however. The year-on-year rate for the general index was 3.2%, while the manufacturing index showed much higher growth, at 6%, as the energy subsector has fallen sharply since the middle of last year. Based on social security affiliation numbers, job creation in the sector was also strong in both January and February.

The consensus forecast for IPI growth in 2016 has been revised downwards one tenth of a percentage point to 3%, and IPI growth in 2017 is forecast at 2.7%. Both these figures are well above the average for the pre-crisis growth period.

Falling oil prices mean inflation is lower than expected

February's inflation rate was again lower than expected, at -0.8%, held down by falling prices of

¹ The Spanish Economic Forecasts Panel is a survey run by Funcas which consults the 16 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 16 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.

energy products and foodstuffs. The consensus forecast for the annual average rate in 2016 has been revised downwards significantly to 0%, seven tenths of a percent lower than in the previous Panel. An annual rate of 1.3% is forecast for 2017. The December 2016 and 2017 year-on-year rates were 0.6% and 1.3%, respectively (Table 3).

Positive trend in employment

According to social security affiliation numbers, employment grew in January at a similar rate to previous months, but slowed in February. Nevertheless, this slowdown was due to the drop in agricultural sector employment caused by the olive harvest ending early and the freeze on public sector recruitment. Excluding the agricultural sector and public-sector employment to obtain a clearer view of the underlying trend in employment, the result is in line with previous months, despite the signs of an economic slowdown that may be observed in other activity and demand indicators.

Employment is expected to grow by 2.4% in 2016 –unchanged from the previous Panel– while the forecast for 2017 is 2.1%. Using consensus estimates for GDP, employment and wage growth to deduce the implicit productivity and unit labour cost growth estimates, productivity per worker is expected to grow by 0.3% in 2016 and 0.2% in 2017, while ULCs are expected to change by 0.7% in 2016 and 0.9% next year.

The current account surplus will shrink in 2016

There was a surplus of 1.5% of GDP on the current account of the balance of payments in 2015, compared with 1% the previous year. This improvement is partly the result of a declining energy balance deficit, due to falling oil prices, and also the smaller negative balance on the income and transfers account, owing to smaller interest payments abroad.

The consensus forecast for the current account balance is for a surplus of 1.4% of GDP in 2016, three tenths higher than forecast in the previous Panel, and 1.2% in 2017.

The government deficit will overshoot the target by a few tenths of a percent

In the period to November 2015, the combined deficit of the central government, the social security funds, and the autonomous regions came to 41.8 billion euros, 5.4 billion euros less than in the year-earlier period, a figure equivalent to 3.87% of annual GDP. This result is still under the 4.2% target, but given December's highly negative seasonality, particularly in the case of the social security accounts, the deficit will overshoot the target.

In line with the consensus forecasts for 2016 and 2017, the result will also exceed the targets established for both years (2.8% and 1.4%, respectively). A deficit of 3.5% of GDP is forecast for this year and 2.7% for 2017.

The perception of the global economy remains negative

In recent weeks, there has been an easing of the strains financial markets suffered in January, while expectations of further interest rate rises in the United States have receded, and the European Central Bank has stepped up its QE policy. In any event, the situation in China and other emerging economies continues to cause concern, while job growth in the United States remains strong, despite the signs of weakness in other indicators.

The majority view of the current situation in the EU among panellists is that its impact on the Spanish economy is neutral, as in previous panels, and this is not expected to change in the coming months. As in the previous Panel, the situation outside

the EU is mainly considered unfavourable, and is expected to remain so over the coming months.

Long-term interest rates are too low

Short-term interest rates (three-month EURIBOR) remain in negative territory, and even the one-year rate has dropped below 0%. As in previous Forecast Panels, interest rates are still felt to be too low for the state of the Spanish economy, but they are expected to remain stable over the coming months.

Since the start of the year, the long-term rate (Spanish ten-year bonds) has been in the 1.6% to 1.8% range, with a widening of the spread relative to German bonds. Most panellists continue to think this level is very low, but expect it to remain stable over the coming months.

The euro continues to depreciate

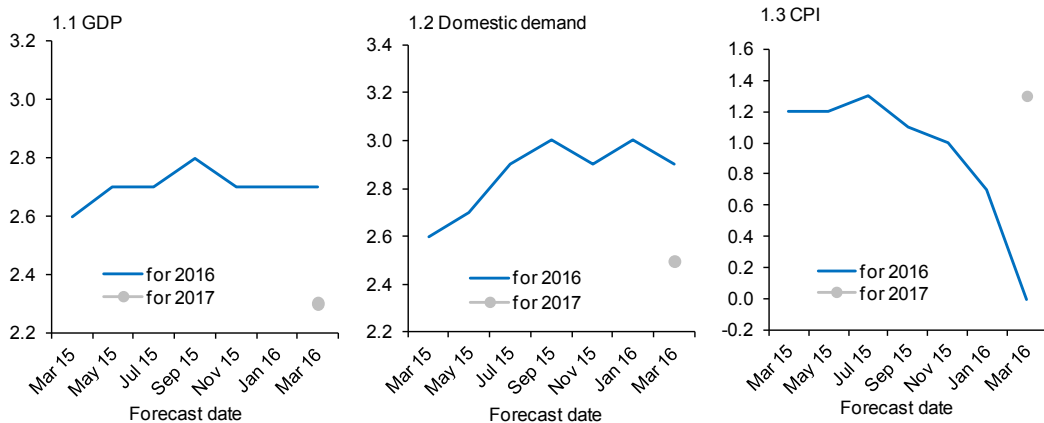
The euro remains over 1.09 dollars, where, for the time being, it seems to have bottomed out. Most panellists consider the level to be appropriate, but expect a downward trend over the next few months.

Fiscal policy is neutral

There has been a shift in the Panel's opinion on the current fiscal policy stance. This was previously considered expansionary, but is now felt to be neutral, which the majority of panellists considers appropriate. As regards monetary policy, there is still unanimity that it is expansionary, and that this is 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 2016

(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	
	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017
Analistas Financieros Internacionales (AFI)	2.7	2.3	2.9	2.1	1.6	1.3	5.0	4.9	7.0	6.1	4.6	4.9	2.9	2.5
Banco Bilbao Vizcaya Argentaria (BBVA)	2.7	--	2.9	--	0.4	--	5.5	--	6.3	--	5.0	--	2.9	--
Bankia	2.8	2.3	3.0	2.2	2.0	1.3	4.8	4.3	8.2	6.8	3.2	3.0	3.2	2.5
CaixaBank	2.8	2.1	2.9	2.1	0.4	-0.7	4.6	3.7	6.5	3.6	3.7	3.8	2.7	1.9
Cemex	2.8	2.5	3.1	2.6	1.4	2.0	5.1	4.6	6.0	4.8	4.9	5.2	3.1	2.8
Centro de Estudios Económica de Madrid (CEEM-URJC)	2.6	2.4	2.9	2.6	1.5	1.2	4.4	3.7	4.6	4.1	4.8	3.8	2.8	2.5
Centro de Predicción Económica (CEPREDE-UAM)	2.3	2.2	2.5	2.2	1.7	1.2	4.3	4.7	6.3	5.2	3.1	4.8	2.7	2.7
CEOE	2.7	2.5	2.9	2.3	1.2	1.5	5.1	4.1	7.2	5.1	4.3	3.8	2.8	2.4
Funcas	2.7	2.3	3.3	2.6	2.0	1.3	4.3	3.9	6.2	4.8	3.6	3.8	3.2	2.5
Instituto Complutense de Análisis Económico (ICAE-UCM)	2.8	2.4	2.9	2.5	1.0	1.2	4.9	4.0	6.7	5.0	3.0	2.7	3.0	2.5
Instituto de Estudios Económicos (IEE)	2.8	2.4	2.9	2.2	1.8	1.6	4.2	3.0	6.6	3.8	3.1	2.6	2.7	2.3
Instituto Flores de Lemus (IFL-UC3M)	2.8	2.1	3.1	3.1	1.0	-1.0	4.6	4.9	7.4	8.6	3.2	3.1	2.9	2.5
Intermoney	2.6	2.1	2.9	2.1	1.1	1.4	4.3	2.9	5.1	3.9	3.5	2.0	2.8	2.2
Repsol	2.8	2.5	2.9	2.5	1.1	2.4	4.8	4.9	7.1	5.6	3.5	4.6	3.0	2.9
Santander	2.9	2.3	3.0	2.1	1.7	1.2	5.7	4.5	6.2	3.0	5.7	5.7	3.2	2.4
Solchaga Recio & asociados	2.6	2.3	3.0	2.4	0.8	0.5	4.9	4.6	7.6	6.9	3.7	3.7	3.0	2.5
CONSENSUS (AVERAGE)	2.7	2.3	2.9	2.4	1.3	1.1	4.8	4.2	6.6	5.2	3.9	3.8	2.9	2.5
Maximum	2.9	2.5	3.3	3.1	2.0	2.4	5.7	4.9	8.2	8.6	5.7	5.7	3.2	2.9
Minimum	2.3	2.1	2.5	2.1	0.4	-1.0	4.2	2.9	4.6	3.0	3.0	2.0	2.7	1.9
Change on 2 months earlier ¹	0.0	--	-0.1	--	0.3	--	-0.2	--	-0.1	--	-0.8	--	-0.1	--
- Rise ²	4	--	5	--	9	--	3	--	4	--	2	--	4	--
- Drop ²	5	--	8	--	4	--	10	--	10	--	12	--	7	--
Change on 6 months earlier ¹	-0.1	--	0.0	--	0.5	--	-0.6	--	-0.5	--	-1.0	--	-0.1	--
Memorandum items:														
Government (September 2015)	3.0	--	3.0	--	0.3	--	5.4	--	--	--	5.5	--	3.0	--
Bank of Spain (June 2015)	2.7	--	2.3	--	0.1	--	6.1	--	8.9	--	4.5	--	--	--
EC (February 2016)	2.8	2.5	3.4	2.3	0.6	0.6	4.6	4.8	8.0 ⁽³⁾	5.9 ⁽³⁾	--	--	3.1	2.5
IMF (January 2016)	2.7	2.3	--	--	--	--	--	--	--	--	--	--	--	--
OECD (November 2015)	2.7	2.5	3.0	2.4	0.3	1.1	5.1	4.1	--	--	--	--	2.9	2.5

¹ Difference in percentage points between the current month's average and that of two months earlier (or six months earlier).

² Number of panellists revising their forecast upwards (or downwards) since two months earlier.

³ Investment in capital goods.

Table 1 (Continued)

Economic Forecasts for Spain – March 2016

(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	
	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017
Analistas Financieros Internacionales (AFI)	5.5	4.7	6.8	6.1	--	--	-0.2	1.1	--	--	2.5	2.0	20.1	18.9	--	--	-3.7	-2.7
Banco Bilbao Vizcaya Argentaria (BBVA)	5.2	--	6.0	--	--	--	1.2	--	1.7	--	2.5	--	20.5	--	1.9	--	-3.0	--
Bankia	5.0	4.6	6.4	5.5	2.6	--	-0.1	1.4	0.8	1.1	2.4	2.0	20.0	18.5	--	--	--	--
CaixaBank	5.6	4.9	5.4	4.4	3.9	2.4	0.1	2.2	0.8	1.1	2.5	2.0	19.9	18.5	1.7	1.5	-3.9	-2.1
Cemex	5.4	5.0	6.8	6.4	--	--	-0.2	2.0	--	--	2.7	2.5	20.0	19.0	2.0	1.5	--	--
Centro de Estudios Económicos de Madrid (CEEM-URJC)	4.9	5.2	6.0	5.9	--	--	0.1	1.2	--	--	2.1	1.9	20.3	18.7	0.9	0.7	-3.6	-2.7
Centro de Predicción Económica (CEPREDE-UAM)	5.0	4.7	6.4	6.7	2.9	2.5	0.4	1.1	1.2	1.4	1.4	1.2	20.7	19.8	0.4	-0.2	-4.1	-3.4
CEOE	5.3	5.4	5.9	5.6	--	--	-0.4	1.5	1.0	1.0	2.5	2.2	20.0	18.1	2.2	1.8	-3.3	-2.8
Funcas	3.8	4.8	5.7	6.0	2.3	2.4	-0.3	1.5	0.8	1.3	2.4	2.0	19.9	18.2	2.0	1.6	-4.0	-2.9
Instituto Complutense de Análisis Económico (ICAE-UCM)	5.6	5.5	6.0	6.0	2.9	--	0.5	1.3	--	--	2.5	2.1	20.4	19.0	1.7	1.5	-2.7	-1.9
Instituto de Estudios Económicos (IEE)	5.3	5.3	5.4	5.6	2.5	2.1	0.0	1.1	0.6	--	2.1	1.8	20.5	19.5	1.1	--	-3.4	--
Instituto Flores de Lemus (IFL-UC3M)	4.6	3.7	5.2	5.5	3.3	3.8	-0.8	1.1	--	--	2.8	2.9	20.0	18.8	--	--	--	--
Intermoney	4.9	3.7	5.9	4.4	2.8	3.0	-0.4	1.3	--	--	2.3	1.9	20.6	18.9	0.8	--	-3.6	--
Repsol	4.0	5.1	5.2	6.7	3.5	3.1	-0.3	1.2	0.8	1.0	2.8	2.5	20.6	18.5	0.9	1.0	-3.2	-3.0
Santander	4.8	3.9	6.0	4.6	--	--	-0.3	1.1	1.0	1.0	2.5	1.8	19.8	18.0	1.0	0.8	-3.2	-2.0
Solchaga Recio & asociados	4.5	5.0	6.0	5.9	--	--	0.0	1.0	--	--	2.5	2.2	20.1	18.3	1.4	1.4	-3.8	-3.0
CONSENSUS (AVERAGE)	5.0	4.8	5.9	5.7	3.0	2.7	0.0	1.3	1.0	1.1	2.4	2.1	20.2	18.7	1.4	1.2	-3.5	-2.7
Maximum	5.6	5.5	6.8	6.7	3.9	3.8	1.2	2.2	1.7	1.4	2.8	2.9	20.7	19.8	2.2	1.8	-2.7	-1.9
Minimum	3.8	3.7	5.2	4.4	2.3	2.1	-0.8	1.0	0.6	1.0	1.4	1.2	19.8	18.0	0.4	-0.2	-4.1	-3.4
Change on 2 months earlier ¹	-0.5	--	-0.9	--	-0.1	--	-0.7	--	0.0	--	0.0	--	-0.2	--	0.3	--	-0.2	--
- Rise ²	1	--	2	--	3	--	0	--	2	--	2	--	3	--	8	--	1	--
- Drop ²	12	--	13	--	4	--	15	--	2	--	5	--	9	--	1	--	6	--
Change on 6 months earlier ¹	-0.3	--	-0.5	--	-0.3	--	-1.1	--	0.0	--	-0.3	--	-0.3	--	0.5	--	-0.3	--
Memorandum items:																		
Government (September 2015)	6.0	--	6.4	--	--	--	--	--	1.4	--	3.0	--	19.7	--	1.2	--	-2.8	-1.4
Bank of Spain (June 2015)	5.7	--	5.9	--	--	--	1.3	--	--	--	2.6	--	--	--	1.1 ⁶	--	--	--
EC (February 2016)	6.1	5.8	7.4	6.2	--	--	0.1	1.5	0.5	1.0	2.6	2.0	20.4	18.9	1.4	1.3	-3.6	-2.6
IMF (January 2016)	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
OECD (November 2015)	5.1	5.4	5.8	5.8	--	--	0.3	0.9	0.6	1.2	2.7	2.4	19.8	18.2	1.3	1.2	-2.9	-1.8

¹ Difference in percentage points between the current month's average and that of two months earlier (or six months earlier).² Number of panellists 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 2016¹

	Quarter-on-quarter change (percentage)							
	16-1Q	16-2Q	16-3Q	16-4Q	17-1Q	17-2Q	17-3Q	17-4Q
GDP ²	0.6	0.6	0.5	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 2016¹

	Monthly change (%)				Year-on-year change (%)	
	Feb-16	Mar-16	Apr-16	May-16	Dec-16	Dec-17
	-0.3	0.4	1.1	0.4	0.6	1.3

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

Table 4

**Opinions – March 2016
(Number of responses)**

	Currently			Trend for next six months		
	Favourable	Neutral	Unfavourable	Improving	Unchanged	Worsening
International context: EU	4	12	0	1	14	1
International context: Non-EU	0	5	11	0	16	0
	Low ¹	Normal ¹	High ¹	Increasing	Stable	Decreasing
Short-term interest rate ²	13	3	0	0	11	5
Long-term interest rate ³	11	5	0	3	10	3
	Overvalued ⁴	Normal ⁴	Undervalued ⁴	Appreciation	Stable	Depreciation
Euro/dollar exchange rate	2	8	6	1	7	8
	Is being			Should be		
	Restrictive	Neutral	Expansionary	Restrictive	Neutral	Expansionary
Fiscal policy assessment ¹	0	10	6	3	7	6
Monetary policy assessment ¹	0	0	16	0	0	16

¹ In relation to the current state of the Spanish economy.

³ Yield on Spanish 10-year public debt.

² Three-month Euribor.

⁴ Relative to theoretical equilibrium rate.