

Spanish economic forecasts panel: November 2016¹

Funcas Economic Trends and Statistics Department

The growth forecast for 2016 has increased to 3.2%, up from the last Panel forecast of 3.1%

Spanish GDP registered growth of 0.7% in the third quarter according to the provisional numbers released by the national statistics bureau, the INE, 10 basis points above the consensus forecast as per the last Forecasts Panel. Meanwhile, the INE has revised the second-quarter year-on-year rate upwards, from 3.2% to 3.4%. Combined, these circumstances mean that growth in the first three quarters of the year was higher than had been estimated.

As a result of this better than forecast performance, the average forecast for GDP growth in 2016 has been revised upwards from 3.1% to 3.2%. Underlying this revision is a higher expected contribution to growth by national demand - 3.1 percentage points - derived in turn from higher estimated growth in private and public consumption.

The forecast for 2017 has also been raised by 10 basis points

The consensus growth forecast for 2017 has also been raised by 10 basis points. However, the estimated quarterly growth rates remain unchanged (in fact the fourth quarter rate has been cut slightly); the upward revision to the annual rate reflects the knock-on effect of the better-than-forecast results in the last two quarters of 2016 (the

consensus forecast for growth in the fourth quarter of this year has increased from 0.5% to 0.6%).

Inflation is back in positive territory

The inflation rate was positive in September for the first time this year and in October rose to 0.7%, driven mainly by a narrower year-on-year correction in energy prices. The year-on-year rate of inflation forecast for December has increased from 0.7% to 0.9%; however, this does not affect the average annual rate estimated for all of 2016, which remains -0.3%. However, the average annual rate forecast for 2017 has been revised upwards, to 1.4%. The consensus inflation forecast for December 2017 is currently 1.2%.

Healthy job readings

Both the official job report (EPA) and social security affiliation numbers revealed accelerating growth in job creation in the third quarter of 2016, with job growth outperforming GDP growth.

The consensus forecasts for job creation in 2016 and 2017 stand at 2.8% and 2.1%, respectively, unchanged from the last Forecasts Panel even though the average rates of unemployment forecast for those years have been reduced slightly, to 19.7% and 18.2%, respectively. Using the consensus forecasts for growth in GDP, job creation and wage compensation yields implied forecasts for growth in labour productivity and unit

¹ The Spanish Economic Forecasts Panel is a survey run by Funcas which consults the 17 research departments listed in Table 1. The survey, which dates back to 1999, is published bi-monthly in the first fortnights 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.

labour costs: for productivity, the numbers point to growth of around 0.4% in 2016 and 0.2% in 2017, and for ULCs, growth of 0.2% and 0.9% in 2016 and 2017, respectively.

Current account surplus set to rise in 2016

The current account surplus to August stood at 12.5 billion euros, twice the surplus in the same period of 2015. The improvement has been driven by a strong trade surplus in goods and services coupled with a narrower income deficit.

The current consensus forecast is for a surplus of 1.8% of GDP in 2016 as a whole and a surplus of 1.6% in 2017, in both cases unchanged with respect to the last Panel forecasts.

On track for delivery of the public deficit target this year

In the first eight months of the year, the deficit at all levels of government except for the local corporations stood at 36.8 billion euros, up 635 million euros year-on-year. The deterioration is attributable to a higher deficits at the central government level – due to a drop in personal income tax and, more particularly, corporate income tax receipts – and in the social security regime. The regional governments have reined in their deficit by 7.7 billion euros thanks to growth in revenue from the regional financing system.

The panellists have revised their forecast for the overall government deficit in 2016 slightly higher to 4.6% of GDP, leaving their forecast for 2017 unchanged at 3.6%. This means that the consensus is that Spain will meet its deficit target this year but not in 2017.

No major changes in the outlook for global growth

The forecasts reflected in this Panel were compiled the day before the US presidential elections so

that their outcome does not reflect the panellists' most up to date appraisal of the international situation. The US economy registered higher than forecast growth in the third quarter, while the European economy continues to grow slowly, albeit in line with expectations. Chinese growth remains steady at 6.7%, while Brazil and Russia are showing signs of recovery.

When asked for their view on the international context, including the EU and the rest of the world, most panellists continue to view the situation as neutral and the number seeing it as negative has fallen. The expectation is that the external context will remain neutral over the next six months. The number of panellists expecting it to deteriorate has declined.

Low long-term rates

Short-term rates (3-month Euribor) continue to trend lower, trading at -0.31% in recent weeks. The panellists continue to believe that rates are and will remain low over the coming months in relation to the state of the Spanish economy.

Long-term bond yields (10-year Spanish bonds) have been widening across the board in recent weeks. The Spanish bond yield is currently at around 1.23%, above the 1% registered in September. Most panellists continue to view this level as very low for prevailing economic conditions in Spain and expect long-term rates to remain stable at current levels.

The euro weakens

The euro has weakened further against the dollar, depreciating from an average rate of 1.12 in September to 1.10 in October and weakening further in early November. As a result, the number of panellists who believe that the euro is undervalued has increased, although most continue to think it is at its equilibrium level. The outlook is for stability in the coming months.

Fiscal policy remains expansionary

The view is that fiscal policy is expansionary. Most panellists believe it should be shifted to restrictive, although the sum of panellists who believe it should be neutral and those who believe it should be expansionary outnumber those who believe it should be restrictive. As for monetary policy, there is virtual consensus that it is expansionary and that this is as it should be.

Uncertainty regarding the direction Donald Trump’s public policies will take

The forecasts presented in this Panel were prepared before the results of the US presidential elections were known. During his campaign, the president-elect, Donald Trump, announced a series of measures which, if implemented, would affect the outlook for the Spanish economy.

Risk of protectionism

Any questioning of the multilateral trading system and/or the introduction of protectionist measures would be particularly harmful for exports, the engine of Spain’s economic recovery. Before

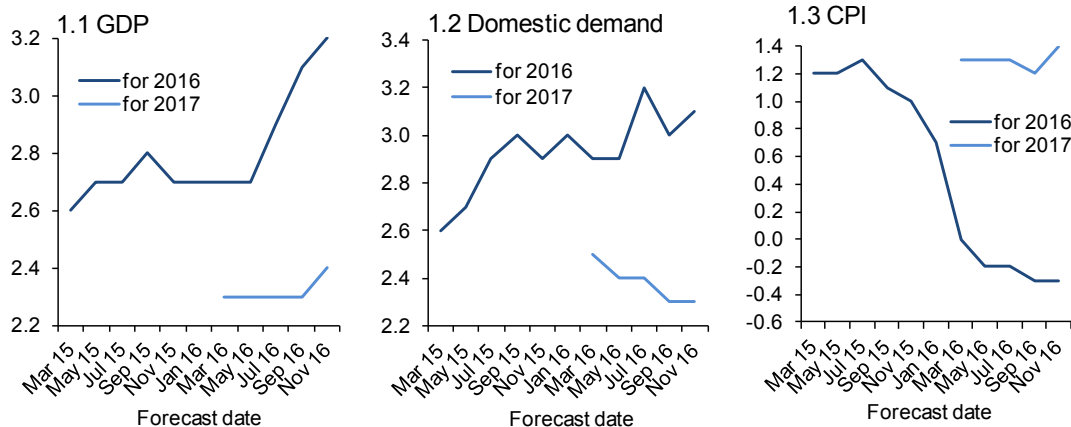
the elections, the expectation was that the international context would not change over the next six months. The IMF’s October forecasts, meanwhile, foreshadowed accelerating growth in international trade. This international organisation was forecasting growth in the world trade volume of 3.8% in 2017, *i.e.*, 1.5 points higher than the estimate for this year. In his most recent statements, the president-elect has adopted a more conciliatory tone, particularly regarding trade relations with Europe. Either way, there now lies ahead a period of uncertainty and this could undermine certain international investment projects.

Fiscal and monetary policy tension

On the domestic front, he has promised to cut taxes for top earners and corporations, and to spend more on infrastructure and job creation programmes. These measures could affect the public deficit and debt to GDP ratios, which are already at 4.1% and 108.2% of GDP, respectively, according to the IMF’s estimates for 2016. The impact on growth and prices remains to be seen. If inflation were to move higher, the Federal Reserve would be forced to roll back its quantitative easing measures faster than initially contemplated, which would have a significant impact on interest rates,

Exhibit 1

Change in forecasts (Consensus values) Percentage annual change



Source: Funcas Panel of forecasts.

the dollar, risk premiums and financial market volatility in general.

Uncertainty in Europe

In sum, global political uncertainty has increased and we would not rule out fresh turbulence ahead of the elections scheduled for next year in France and Germany. The European Union could help

to contain these risks. However, Europe's weak reaction to Brexit does not bode well for greater activism in this respect.

We will have to wait to see precisely what measures the US government ultimately takes. In the meantime, the global economy is facing a new challenge which could have adverse repercussions for the outlook for the Spanish economy over both the short and the medium term.

Table 1

Economic Forecasts for Spain – November 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)	3.2	2.3	3.5	2.5	1.1	0.8	4.1	3.7	7.4	5.6	2.7	3.1	3.0	2.2
Axesor	3.2	2.6	3.3	2.1	0.3	-0.4	4.2	5.2	7.4	5.2	2.8	6.4	3.0	2.3
Banco Bilbao Vizcaya Argentaria (BBVA)	3.3	2.5	3.3	2.3	1.2	1.8	4.1	3.4	6.3	3.8	2.6	2.7	3.0	2.3
Bankia	3.2	2.5	3.4	2.5	1.5	1.2	4.4	4.6	8.1	7.6	2.7	3.3	3.3	2.7
CaixaBank	3.2	2.4	3.3	2.3	1.2	1.0	3.9	3.1	6.8	3.0	2.5	3.2	3.1	2.1
Cemex	3.2	2.5	3.4	2.6	1.6	0.9	4.1	4.3	6.8	4.8	2.1	4.0	3.2	2.5
Centro de Estudios Económica de Madrid (CEEM-URJC)	3.2	2.3	3.3	2.3	1.9	1.2	4.6	3.9	5.9	4.4	3.6	3.5	3.2	2.3
Centro de Predicción Económica (CEPREDE-UAM)	3.1	2.1	3.1	2.0	1.2	1.4	3.9	3.5	6.1	3.5	2.5	3.1	2.9	2.1
CEOE	3.1	2.3	3.4	2.4	0.9	0.8	4.2	3.1	7.5	4.9	2.5	2.2	3.1	2.1
Funcas	3.1	2.3	3.3	2.2	0.6	0.6	4.2	4.8	7.7	7.1	2.4	3.7	3.1	2.4
Instituto Complutense de Análisis Económico (ICAE-UCM)	3.2	2.5	3.4	3.2	0.9	1.1	4.2	4.0	6.7	6.3	3.6	3.2	3.1	2.4
Instituto de Estudios Económicos (IEE)	3.2	2.4	3.4	2.3	0.8	1.5	4.1	4.0	7.7	6.6	2.3	2.7	2.9	2.4
Instituto Flores de Lemus (IFL-UC3M)	3.1	2.1	3.4	3.0	1.0	-1.5	3.9	3.4	7.2	6.3	2.1	1.8	3.0	2.1
Intermoney	3.2	2.2	3.3	2.2	1.3	1.3	3.9	3.4	6.3	4.5	2.2	2.2	3.1	2.3
Repsol	3.2	2.6	3.4	2.6	0.5	1.0	4.2	5.0	7.6	6.6	2.5	4.2	3.1	2.8
Santander	3.1	2.2	3.4	2.5	0.5	0.7	4.2	4.0	7.5	3.2	2.4	4.8	3.1	2.5
Solchaga Recio & asociados	3.2	2.2	3.5	2.3	1.2	0.8	4.4	3.6	7.6	5.2	2.9	3.5	3.2	2.3
CONSENSUS (AVERAGE)	3.2	2.4	3.4	2.4	1.0	0.8	4.2	3.9	7.1	5.2	2.6	3.4	3.1	2.3
Maximum	3.3	2.6	3.5	3.2	1.9	1.8	4.6	5.2	8.1	7.6	3.6	6.4	3.3	2.8
Minimum	3.1	2.1	3.1	2.0	0.3	-1.5	3.9	3.1	5.9	3.0	2.1	1.8	2.9	2.1
Change on 2 months earlier ¹	0.1	0.1	0.1	0.0	0.2	0.2	0.0	-0.1	-0.1	0.0	0.1	-0.1	0.1	0.0
- Rise ²	9	6	5	5	6	5	5	4	1	5	6	2	7	4
- Drop ²	0	0	1	5	2	3	2	5	7	3	2	5	0	3
Change on 6 months earlier ¹	0.5	0.1	0.5	0.2	-0.4	-0.3	-0.5	-0.3	0.6	0.2	-1.1	-0.5	0.2	-0.1
Memorandum Items:														
Government (October 2016)	2.9	2.3	3.3	2.6	1.0	0.9	5.4	4.2	8.0	5.2	4.3	3.9	--	--
Bank of Spain (September 2016)	3.2	2.3	3.4	2.0	1.0	0.8	4.0	4.8	7.9 ⁽³⁾	6.6 ⁽³⁾	2.1	4.2	--	--
EC (November 2016)	3.2	2.3	3.2	2.1	0.9	0.8	4.2	3.6	6.7 ⁽³⁾	4.5 ⁽³⁾	2.5	3.1	3.0	2.1
IMF (October 2016)	3.1	2.2	3.3	2.3	0.9	0.4	4.2	3.0	--	--	--	--	3.0	2.1
OECD (June 2016)	2.8	2.3	3.1	2.1	1.5	1.2	4.6	3.8	--	--	--	--	3.1	2.3

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 Investment in capital goods.

Table 1 (Continued)

Economic Forecasts for Spain – November 2016

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

	Exports of goods & services		Imports of goods & services		CPI (annual av.)		Core 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)	5.4	4.2	5.5	4.5	-0.3	1.3	0.8	0.9	0.9	1.3	2.9	2.1	19.6	17.8	1.9	1.8	-4.8	-3.8
Axesor	5.3	4.1	4.8	3.2	-0.2	1.5	1.0	1.4	0.4	0.8	2.6	2.0	20.1	18.4	1.9	1.5	-4.5	-3.8
Banco Bilbao Vizcaya Argentaria (BBVA)	5.5	3.5	5.1	3.1	-0.3	1.7	0.9	1.1	0.8	1.2	2.8	2.2	19.7	18.1	1.3	1.7	-4.6	-3.6
Bankia	5.5	4.7	6.1	5.6	-0.3	1.4	0.8	1.0	0.7	1.1	2.8	2.2	19.7	18.2	2.0	1.8	--	--
CaixaBank	6.0	5.0	5.7	4.4	-0.3	1.8	0.8	1.0	0.2	0.8	2.8	2.1	19.7	18.2	2.0	1.8	-4.6	-3.8
Cemex	5.4	4.5	5.7	5.0	-0.3	1.5	0.8	0.9	--	--	2.8	2.5	19.5	17.8	2.0	1.5	-4.6	-3.6
Centro de Estudios Economía de Madrid (CEEM-URJC)	5.6	4.9	5.9	5.4	-0.3	1.5	0.9	1.2	--	--	2.7	2.1	19.7	18.0	1.6	1.4	-4.6	-3.5
Centro de Predicción Económica (CEPREDE-UAM)	6.1	4.8	5.7	5.2	-0.4	1.2	--	--	0.6	1.4	2.6	1.4	19.8	19.1	1.5	0.3	-3.9	-3.3
CEOE	5.9	5.7	6.1	5.6	-0.2	1.3	0.7	0.7	0.4	0.5	2.9	2.2	19.6	17.8	2.0	1.8	-4.6	-3.6
Funcas	5.1	4.2	5.8	4.9	-0.3	1.5	0.8	0.9	0.6	1.1	2.7	1.9	20.0	18.5	2.0	1.9	-4.6	-3.6
Instituto Complutense de Análisis Económico (ICAE-UCM)	5.3	4.3	5.4	4.6	-0.3	1.4	0.9	1.0	--	--	2.3	1.9	19.8	18.5	1.7	1.5	-4.5	-3.5
Instituto de Estudios Económicos (IEE)	5.4	3.7	5.4	4.4	-0.2	1.5	0.8	0.9	0.8	1.1	2.9	2.2	19.6	18.0	1.9	1.8	-4.6	-3.9
Instituto Flores de Lemus (IFL-UC3M)	5.0	4.8	5.2	5.1	-0.3	1.1	0.8	0.4	--	--	2.8	3.1	19.7	18.0	--	--	--	--
Intermoney	5.5	4.1	5.5	4.5	-0.3	1.3	0.8	0.9	--	--	3.0	2.0	19.7	18.2	1.7	1.6	-4.6	-3.8
Repsol	7.6	6.6	7.8	7.6	-0.3	1.2	0.8	0.9	0.8	1.0	3.2	2.7	19.8	18.0	1.8	1.7	-4.6	-3.1
Santander	5.5	3.8	5.5	4.9	-0.3	1.7	--	--	0.5	1.5	2.7	1.8	19.7	18.1	1.5	1.2	-4.9	-3.1
Solchaga Recio & asociados	5.2	4.6	5.6	5.2	-0.3	1.3	0.8	1.2	--	--	2.9	2.1	20.0	18.2	2.0	1.8	-4.6	-4.0
CONSENSUS (AVERAGE)	5.6	4.6	5.7	4.9	-0.3	1.4	0.8	1.0	0.6	1.1	2.8	2.1	19.7	18.2	1.8	1.6	-4.6	-3.6
Maximum	7.6	6.6	7.8	7.6	-0.2	1.8	1.0	1.4	0.9	1.5	3.2	3.1	20.1	19.1	2.0	1.9	-3.9	-3.1
Minimum	5.0	3.5	4.8	3.1	-0.4	1.1	0.7	0.4	0.2	0.5	2.3	1.4	19.5	17.8	1.3	0.3	-4.9	-4.0
Change on 2 months earlier ¹	0.0	-0.1	0.0	-0.2	0.0	0.2	0.0	0.1	-0.1	0.0	0.0	0.0	-0.1	-0.1	0.0	0.0	-0.1	0.0
- Rise ²	6	3	5	4	7	9	2	3	1	0	7	7	1	3	3	3	2	5
- Drop ²	3	4	5	6	2	2	1	3	4	2	3	3	7	8	1	3	5	3
Change on 6 months earlier ¹	0.8	-0.2	-0.1	-0.7	-0.1	0.1	0.8	--	-0.3	0.0	0.3	0.1	-0.4	-0.5	0.2	0.2	-0.6	-0.4
Memorandum items:																		
Government (October 2016)	5.4	5.7	7.0	6.7	--	--	--	--	--	--	2.7	2.2	19.7	17.8	1.7	1.5	-4.6	-3.6
Bank of Spain (September 2016)	5.3	4.5	5.4	4.9	-0.3	1.5	0.9	1.3	--	--	2.9	2.0	19.0	17.8	2.6 ⁽⁶⁾	2.2 ⁽⁶⁾	-4.9	-3.6
EC (November 2016)	6.1	4.5	5.8	4.3	-0.4	1.6	--	--	1.2	1.2	2.8	2.1	19.7	18.0	1.7	1.5	-4.6	-3.8
IMF (October 2016)	5.9	4.4	6.1	4.4	-0.3	1.0	--	--	--	--	2.9	1.9	19.4	18.0	1.9	1.7	-4.5	-3.1
OECD (June 2016)	4.8	5.0	5.5	5.2	-0.5	1.0	--	--	0.7	1.1	2.9	2.1	19.8	18.4	1.1	0.9	-3.7	-2.7

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 - November 2016¹

Quarter-on-quarter change (percentage)								
	16-I Q	16-II Q	16-III Q	16-IV Q	17-I Q	17-II Q	17-III Q	17-IV Q
GDP ²	0.8	0.8	0.7	0.6	0.5	0.6	0.6	0.5
Household consumption ²	1.0	0.7	0.7	0.6	0.6	0.5	0.6	0.5

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 – November 2016¹

Monthly change (%)				Year-on-year change (%)	
Nov-16	Dec-16	Jan-17	Feb-17	Dec-16	Dec-17
0.4	0.1	-0.6	0.3	0.9	1.2

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

Table 4

Opinions – November 2016
Number of responses

	Currently			Trend for next six months		
	Favourable	Neutral	Unfavourable	Improving	Unchanged	Worsening
International context: EU	1	15	1	2	12	3
International context: Non-EU	0	17	0	1	14	2
	Low ¹	Normal ¹	High ¹	Increasing	Stable	Decreasing
Short-term interest rate ²	16	1	0	1	15	1
Long-term interest rate ³	15	2	0	4	13	0
	Overvalued ⁴	Normal ⁴	Undervalued ⁴	Appreciation	Stable	Depreciation
Euro/dollar exchange rate	3	9	5	1	11	5
	Is being			Should be		
	Restrictive	Neutral	Expansionary	Restrictive	Neutral	Expansionary
Fiscal policy assessment ¹	1	1	15	8	6	3
Monetary policy assessment ¹	0	0	17	0	1	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.