

Spanish economic forecasts panel: May 2017¹

Funcas Economic Trends and Statistics Department

GDP is projected to grow by 2.8% in 2017, 0.2 percentage points more than in the previous Panel

GDP grew by 0.8% in the first quarter of 2017, according to provisional National Accounts data, stronger than the 0.6% forecast by panellists. A detailed breakdown is still to be released, but indicators point to a slowdown in consumption and a positive contribution from the external sector.

Annual growth is forecast at 2.8%, 0.2 percentage points higher than the previous Panel. All but one of the analysts have revised upward their forecasts. The upward revision reflects a better than expected outlook for exports, thanks to the pick-up in global trade and the favourable competitive position of Spanish companies. The external sector is set to contribute 0.5 percentage points to GDP growth, in line with 2016.

Private consumption is predicted to perform better than initially expected, thanks to the impact of robust job creation on household disposable income and a decline in the savings rate. Overall, domestic demand is expected to contribute 2.3 percentage points to GDP growth, 0.5 percentage points less than in 2016.

Growth is projected at 2.5% for 2018

The consensus is for GDP to grow by 2.5% in 2018, due to a slight slowdown, which is expected over the coming quarters. This represents a 0.2 percentage points upward revision on the previous Panel projection. The Spanish economy will therefore remain among the most dynamic in the European Union.

Domestic demand is expected to continue slowing as a result of weakening private consumption, reflecting more subdued household real income growth. Meanwhile, gross fixed capital formation is set to accelerate modestly as companies are in a better position to invest following the deleveraging process and strong margins. The outlook for international trade is favourable, with external demand likely to continue making a positive contribution to growth, albeit somewhat less than this year.

Spike in inflation in 2017 and moderation in 2018

Inflation came in significantly lower in March and April than the consensus forecast in the last Panel. Headline inflation fell more sharply than expected in March due to an unexpected drop in electricity prices and an easing of core inflation.

¹ *The Spanish Economic Forecasts Panel* is a survey of seventeen analysis services carried out by Funcas and presented in Table 1. The survey has been undertaken since 1999 and is published every two months during the first fortnight of January, March, May, July, September and November. Panellists' responses to this survey are used to create consensus forecasts, which are based on the arithmetic mean of the seventeen individual forecasts. For comparison purposes the Government, Bank of Spain and main international institutions' forecasts are also presented; however, these do not form part of the consensus.

Inflation is set to soften over the coming months assuming energy prices remain unchanged. Annual inflation in 2017 will average 2.1%, 0.2 percentage points lower than the previous consensus forecast. The moderation in price growth will take fuller effect in 2018, with inflation forecast to come in at 1.5%, 0.1 percentage points lower than previously forecast. Meanwhile, core inflation is expected to hold steady at low levels across the forecast period.

Positive employment developments

Employment grew strongly during the first quarter, and it even accelerated at the start of the second quarter, according to Social Security registrations data. The construction sector performance is particularly noteworthy.

The majority of analysts have revised upward their employment forecasts. Employment is now projected to grow by 2.4% in 2017 and 2.1% in 2018. The unemployment rate will fall to 15.8% next year. Based on the outlook for GDP and employment, productivity will barely increase over the forecast period. Unit labour costs will rise less than inflation.

Solid current account surplus maintained

The current account registered a cumulative surplus of 186 million euros to February, compared to a deficit of 1.54 billion euros over the same period last year. This result is primarily due to a significant reduction in the income account deficit, which outweighed the deterioration in the trade balance on the back of higher oil prices.

The current account is forecast to post another solid surplus, reaching 1.7% of GDP in 2017 and 1.6% in 2018, with no significant changes compared to the previous Panel. Goods and services exports are forecast to hold up, alongside a recovery in imports, which will outpace domestic

demand. These results are in sharp contrast with the major external imbalances generated by the Spanish economy in previous expansionary phases (from 1996-2007, the current account recorded an average annual deficit of 4.5% of GDP).

Public deficit to shrink but failing to meet targets

The public deficit, excluding local corporations, to February was 1.131 billion euros smaller than the same period last year, thanks to an increase in revenues and a decline in expenditures. Strong growth in employment is driving a significant pick-up in social security contributions.

Robust economic growth will underpin public deficit reduction. Revenues should increase significantly on the back of an increase in the revenue base and the consolidation measures adopted at the end of last year. Meanwhile, declining unemployment, rising inflation and the Budget carry over, will support modest growth in public spending. Overall, the consensus is for a public sector deficit of 3.3% of GDP in 2017 and 2.4% in 2018, 0.2 percentage points above official targets for both years.

Improvement in global economy outlook

US GDP growth eased slightly in the first quarter of the year to 0.7% annualised. However, first quarter results tend to be subdued and employment continues to grow at a healthy rate albeit slightly decelerating, meaning that first quarter results have not affected the favourable outlook for the US economy. Meanwhile, the euro area economy gained momentum in the first quarter of the year, positing 1.8% annualised growth. China saw renewed dynamism and grew at its fastest rate since the third quarter of 2015.

The majority of panellists have a favourable view of European markets – up from neutral in the

last Panel – which is expected to be sustained over the next six months. Most panellists see the outlook as neutral for non-European countries with the remainder believing it to be favourable – a notable improvement on the previous Panel. Non-European markets are expected to maintain the same outlook over the coming months.

Long-term interest rates to tick up

Short-term interest rates (3-month Euribor) have remained stable in recent weeks at -0.33%. Nearly all analysts consider rates to be low, given the dynamism of the Spanish economy. These favourable conditions are expected to be maintained over the next six months.

The yield on long-term 10-year sovereign debt has eased back slightly from around 1.8% in the first fortnight of March to close to 1.6%. The relaxation of concerns about the electoral prospects for anti-European parties has supported a generalised

decline in yields across the euro area. The yield on long-term debt is still considered to be relatively low. However, panellists now foresee an increase in interest rates in the near future.

Euro back to equilibrium levels

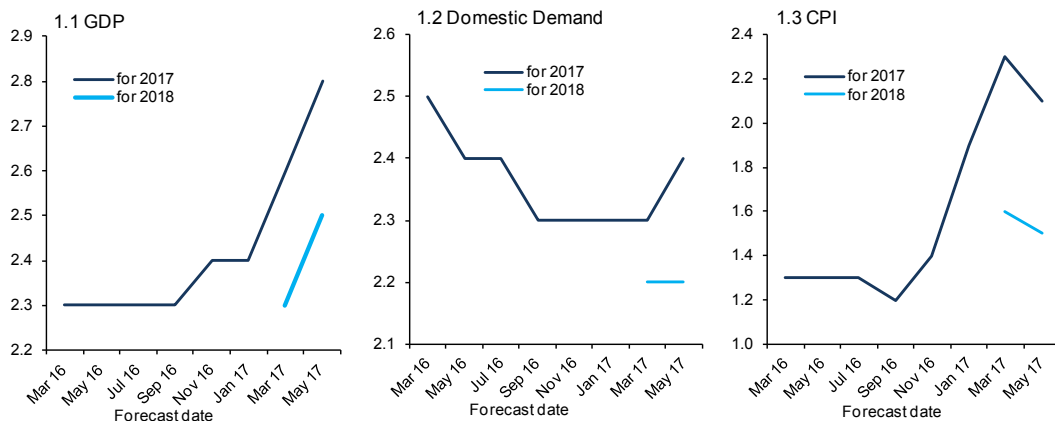
The Euro/Dollar exchange rate has risen to 1.09, also driven by an improvement in the political risk outlook. The majority of analysts see the Euro depreciating.

Fiscal policy is no longer expansionary

Most analysts judge fiscal policy to be neutral and consider this appropriate. Compared to the previous Panel, fewer analysts regard budgets as expansionary with an increase in analysts believing them to be restrictive. There are no major changes in opinion on monetary policy. All analysts consider it to be expansionary, with the majority judging this to be the right stance.

Exhibit 1

Change in forecasts (Consensus values) Percentage annual change



Source: Funcas Panel of forecasts.

Table 1

Economic Forecasts for Spain – May 2017

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	
	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018
Analistas Financieros Internacionales (AFI)	3.0	2.5	3.0	2.5	0.7	0.6	3.5	2.9	4.7	4.0	2.8	2.4	2.6	2.2
Axesor	2.8	2.3	2.3	1.8	1.2	1.6	2.8	3.4	2.6	3.4	2.6	3.0	2.2	2.2
Banco Bilbao Vizcaya Argentaria (BBVA)	3.0	2.7	2.5	2.4	1.0	2.0	3.3	4.5	3.6	4.4	2.8	4.2	2.3	2.6
Bankia	2.9	2.5	2.6	2.2	1.2	1.3	3.8	4.0	5.3	5.0	3.2	3.6	2.5	2.3
CaixaBank	2.8	2.4	2.6	2.0	0.8	0.8	3.6	3.5	3.9	3.3	3.3	3.5	2.5	2.1
Cámara de Comercio de España	2.8	2.4	2.7	1.8	0.9	0.5	3.4	2.9	4.9	5.0	2.6	2.0	2.3	1.9
Cemex	2.9	2.4	2.6	2.3	1.1	1.0	4.0	3.9	3.4	4.0	4.4	4.1	2.5	2.3
Centro de Estudios Económia de Madrid (CEEM-URJC)	2.8	2.6	2.5	2.3	1.4	1.6	3.0	3.1	3.6	3.9	2.7	2.9	2.3	2.3
Centro de Predicción Económica (CEPREDE-UAM)	2.8	2.6	2.7	2.3	1.0	1.4	3.5	4.5	5.1	5.5	2.8	4.3	2.5	2.6
CEOE	2.5	2.3	2.4	2.2	0.6	0.7	2.9	2.9	4.0	4.0	2.1	2.5	2.1	2.0
Funcas	2.8	2.5	2.4	2.1	0.6	0.6	4.0	3.9	4.0	3.9	4.0	4.0	2.3	2.2
Instituto Complutense de Análisis Económico (ICAE-UCM)	2.7	2.5	2.8	2.2	1.2	1.2	3.0	3.6	3.6	3.9	2.7	3.6	2.4	2.3
Instituto de Estudios Económicos (IEE)	3.0	2.4	2.9	2.3	0.6	0.4	2.6	3.8	2.7	5.2	2.5	2.8	2.4	2.1
Intermoney	2.8	2.3	2.8	2.2	0.8	0.8	2.3	2.3	3.2	2.9	1.6	1.8	2.3	1.9
Repsol	2.9	2.7	2.8	2.3	1.1	2.1	3.8	4.4	4.3	5.6	3.6	3.8	2.6	2.6
Santander	2.8	2.2	2.6	2.1	0.7	0.8	3.4	3.6	3.1	2.2	3.6	4.9	2.5	2.2
Solchaga Recio & asociados	3.1	2.7	3.0	2.2	1.0	0.9	3.5	4.0	3.4	4.5	3.8	4.0	2.7	2.3
CONSENSUS (AVERAGE)	2.8	2.5	2.7	2.2	0.9	1.1	3.3	3.6	3.8	4.2	3.0	3.4	2.4	2.2
Maximum	3.1	2.7	3.0	2.5	1.4	2.1	4.0	4.5	5.3	5.6	4.4	4.9	2.7	2.6
Minimum	2.5	2.2	2.3	1.8	0.6	0.4	2.3	2.3	2.6	2.2	1.6	1.8	2.1	1.9
Change on 2 months earlier ¹	0.2	0.2	0.2	0.1	-0.1	0.0	0.0	0.2	0.0	0.3	0.1	0.3	0.1	0.0
- Rise ²	16	12	10	9	5	4	6	10	7	10	9	9	11	10
- Drop ²	0	0	1	0	3	2	5	1	5	0	3	1	2	0
Change on 6 months earlier ¹	0.4	--	0.3	--	0.1	--	-0.6	--	-1.4	--	-0.4	--	0.1	--
Memorandum Items:														
Government (April 2017)	2.7	2.5	2.6	2.4	0.8	0.7	2.8	2.6	--	--	--	--	--	--
Bank of Spain (April 2017)	2.8	2.3	2.4	1.6	0.8	0.8	3.3	4.4	3.1	5.1	3.7	4.4	--	--
EC (May 2017)	2.8	2.4	2.5	2.0	0.9	0.8	3.4	3.9	3.9	3.7	3.0	3.9	2.4	2.2
IMF (April 2017)	2.6	2.1	2.6	2.1	0.7	0.7	3.1	2.7	--	--	--	--	2.3	2.0
OECD (March 2017)	2.5	2.2	2.2	1.6	0.9	1.2	3.6	4.7	--	--	--	--	2.3	2.2

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.

Table 1 (Continued)

Economic Forecasts for Spain – May 2017

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	
	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018
Analistas Financieros Internacionales (AFI)	4.8	3.4	4.1	2.6	2.0	1.8	1.1	1.3	1.1	1.3	2.7	2.2	17.4	15.7	1.9	1.8	-3.3	-2.4
Axesor	4.7	4.3	3.6	4.1	2.3	1.9	1.1	1.4	1.6	1.7	2.5	2.0	18.0	16.1	1.1	0.2	-3.8	-2.9
Banco Bilbao Vizcaya Argentaria (BBVA)	5.8	5.0	4.2	5.2	2.1	1.9	1.2	1.6	0.7	1.8	2.4	2.2	17.3	15.6	1.8	1.5	-3.1	-2.1
Bankia	5.0	4.2	3.8	3.8	2.2	1.6	1.2	1.3	0.6	1.2	2.6	2.2	17.2	15.2	2.0	1.8	--	--
CaixaBank	4.6	4.5	3.6	3.6	2.2	1.5	1.2	1.5	1.0	1.6	2.4	2.1	17.7	16.3	1.8	1.6	-3.4	-2.4
Cámara de Comercio de España	5.3	5.4	5.6	4.8	2.2	1.5	1.0	0.9	--	--	2.4	1.8	17.6	16.1	0.8	0.8	-3.1	-2.2
Cemex	5.3	4.4	4.5	4.6	2.0	1.4	1.1	1.3	--	--	2.5	2.3	17.5	16.1	1.5	1.5	-3.1	-2.2
Centro de Estudios Económica de Madrid (CEEM-URJC)	4.9	4.5	3.8	3.7	2.2	1.7	1.2	1.5	--	--	2.6	2.4	17.3	15.1	1.9	1.8	-3.1	-2.3
Centro de Predicción Económica (CEPREDE-UAM)	5.3	5.0	4.8	5.4	2.0	1.4	--	--	1.2	2.0	2.3	2.1	17.4	15.6	1.6	1.8	-3.1	-2.4
CEOE	4.3	3.9	3.3	3.4	2.0	1.1	0.9	0.9	0.5	0.8	2.3	2.1	17.5	15.8	1.7	1.6	-3.6	-3.0
Funcas	4.8	4.7	3.5	4.1	2.1	1.3	1.0	1.4	1.6	1.6	2.4	2.0	17.5	15.8	2.1	2.1	-3.3	-2.5
Instituto Complutense de Análisis Económico (ICAE-UCM)	5.0	4.0	4.1	4.0	2.2	2.0	1.2	1.5	--	--	2.3	2.0	17.7	15.8	1.8	1.8	-3.4	-2.6
Instituto de Estudios Económicos (IEE)	5.0	5.2	3.2	5.0	2.2	1.2	1.0	0.9	1.1	1.3	2.4	2.3	17.7	16.4	1.9	1.8	-3.1	-2.2
Intermoney	4.5	2.9	3.1	2.2	2.0	1.6	1.1	1.5	--	--	2.6	1.9	17.6	15.0	1.8	1.6	-3.1	--
Repsol	4.5	4.6	4.0	4.8	2.1	1.4	1.2	1.3	0.8	0.6	2.4	2.2	17.5	15.4	1.8	1.6	-3.1	-2.2
Santander	4.7	3.3	3.8	3.6	2.3	1.4	--	--	1.5	1.8	2.3	1.8	17.7	16.2	2.0	1.8	-3.1	-2.8
Solchaga Recio & asociados	5.3	4.6	4.3	3.8	2.1	1.7	1.2	1.6	--	--	2.6	2.1	17.6	15.9	2.0	1.9	-3.3	-2.6
CONSENSUS (AVERAGE)	4.9	4.3	4.0	4.0	2.1	1.5	1.1	1.3	1.1	1.4	2.4	2.1	17.5	15.8	1.7	1.6	-3.3	-2.4
Maximum	5.8	5.4	5.6	5.4	2.3	2.0	1.2	1.6	1.6	2.0	2.7	2.4	18.0	16.4	2.1	2.1	-3.1	-2.1
Minimum	4.3	2.9	3.1	2.2	2.0	1.1	0.9	0.9	0.5	0.6	2.3	1.8	17.2	15.0	0.8	0.2	-3.8	-3.0
Change on 2 months earlier ¹	0.6	0.2	0.3	0.0	-0.2	-0.1	-0.1	-0.1	0.0	0.1	0.1	0.2	-0.2	-0.3	0.0	0.1	0.1	0.3
- Rise ²	14	9	10	7	3	3	3	4	2	3	13	12	2	2	7	6	8	7
- Drop ²	0	2	3	5	9	7	6	4	2	1	0	1	13	11	1	2	1	2
Change on 6 months earlier ¹	0.3	--	-0.9	--	0.7	--	0.1	--	0.0	--	0.3	--	-0.7	--	0.1	--	0.3	--
Memorandum items:																		
Government (April 2017)	5.5	4.9	4.3	4.1	--	--	--	--	1.3	1.5	2.5	2.4	17.5	15.6	2.0 ⁽⁶⁾	1.9 ⁽⁶⁾	-3.1	-2.2
Bank of Spain (April 2017)	6.1	4.8	5.2	4.4	2.2	1.4	1.1	1.5	--	--	2.6	1.9	17.5	16.0	1.9 ⁽⁶⁾	1.8 ⁽⁶⁾	-3.3	-2.8
EC (May 2017)	5.7	4.8	4.8	4.4	2.0	1.4	--	--	1.0	1.3	2.3	2.1	17.6	15.9	1.6	1.6	-3.2	-2.6
IMF (April 2017)	4.6	4.2	4.1	4.1	2.4	1.4	--	--	--	--	2.4	1.5	17.7	16.6	1.5	1.6	-3.3	-2.7
OECD (March 2017)	4.3	4.4	3.7	4.5	1.9	1.8	1.1	1.5	--	--	2.4	1.9	17.5	16.1	2.2	2.2	-3.4	-2.8

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 - May 2017¹

	Quarter-on-quarter change (percentage)							
	17-IQ	17-IIQ	17-IIIQ	17-IVQ	18-IQ	18-IIQ	18-IIIQ	18-IVQ
GDP ²	0.8	0.7	0.7	0.6	0.6	0.6	0.6	0.6
Household consumption ²	0.7	0.6	0.6	0.5	0.5	0.5	0.5	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 – May 2017¹

	Monthly change (%)				Year-on-year change (%)	
	Apr-17	May-17	Jun-17	Jul-17	Dec-17	Dec-18
	1.2	0.6	0.5	-0.1	1.3	1.6

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

Table 4

Opinions – May 2017
Number of responses

	Currently			Trend for next six months		
	Favourable	Neutral	Unfavourable	Improving	Unchanged	Worsening
International context: EU	10	7	0	5	12	0
International context: Non-EU	8	9	0	3	14	0
	Low ¹	Normal ¹	High ¹	Increasing	Stable	Decreasing
Short-term interest rate ²	16	1	0	3	14	0
Long-term interest rate ³	15	2	0	11	6	0
	Overvalued ⁴	Normal ⁴	Undervalued ⁴	Appreciation	Stable	Depreciation
Euro/dollar exchange rate	3	6	8	4	6	7
	Is being			Should be		
	Restrictive	Neutral	Expansionary	Restrictive	Neutral	Expansionary
Fiscal policy assessment ¹	3	9	5	6	11	0
Monetary policy assessment ¹	0	0	17	0	5	12

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.