

Spanish economic forecasts panel: January 2019*

Funcas Economic Trends and Statistics Department

The Spanish economy grew by 2.5% in 2018

The consensus forecast is for GDP growth of 2.5% in 2018, down 0.1pp from the November survey, even though the forecast for fourth-quarter growth is unchanged at 0.6%. The lower forecast is the result of the downward revision of the first-quarter growth figure (Table 2). Domestic demand is expected to contribute 2.9 percentage points and foreign demand to detract from growth by 0.4%, which is 0.1pp less than was estimated in November. The consensus estimate for growth in exports has been cut to 2% and for growth in imports, increased to 3.6%.

Growth forecast for 2019: unchanged at 2.2%

There have been no changes in the average estimate for GDP growth in 2019, even though nine analysts have lowered their forecasts since November. Also unchanged are the estimated contributions by domestic demand (+2.3pp) and foreign trade (-0.1pp). The quarterly forecasts point to stable growth of around 0.5% throughout the year (Table 2).

The 2019 inflation forecast has been cut

In 2018, the annual rate of inflation averaged 1.7%, compared to 2% the previous year. The reduction was shaped primarily by a slowdown in growth in energy prices, despite the fact that the price of a barrel of Brent oil went up by 30% (25% in euros) compared to 2017.

The drop in oil prices in December drove the year-on-year rate of inflation to 1.2%, which was lower than forecast, prompting analysts to trim their forecast for average inflation in 2019 by 0.1pp to 1.5%. The forecast for core inflation is unchanged at 1.2%. The forecasts imply a year-on-year inflation rate in December 2019 of 1.5% (Table 3).

The unemployment rate continues to trend lower

In terms of full-time equivalent jobs, the growth in 2018 is estimated at 2.5% (up 0.1pp from the

forecast gleaned from the November Panel) and is expected to slow to 1.9% in 2019 (down 0.1pp from the last set of forecasts).

Using the forecasts for growth in GDP, job creation and wage compensation yields implied forecasts for growth in productivity and unit labour costs (ULC): the former registered growth of 0% in 2018 and is expected to increase by 0.3% in 2019, while ULCs increased by 1% in 2018 and are expected to increase a further 1.4% in 2019.

The unemployment rate is expected to fall to 15.3% in 2018 and to 13.8% in 2019 (no change from the last Panel).

Narrowing external surplus

The current account surplus stood at 3.7 billion euros to October, compared to 12.9 billion euros in the same period of 2017. That significant decline is attributable to the increase in the deficit in the balance of trade in goods, in turn shaped by the increase in oil prices in 2018. The surplus in the balance of trade in services narrowed slightly, due mainly to non-tourism services, while the deficit in rents has registered a small decline.

The consensus forecast is for a surplus equivalent to 1% of GDP in 2018 and of 0.9% in 2019, both of which have been revised downwards since the November survey.

Spain expected to deliver its public deficit target in 2018 but not in 2019

In the first 10 months of the year, the deficit at all levels of government except for the local corporations stood at 12.9 billion euros, down from 20.2 billion euros at the same juncture of 2017, thanks to faster growth in revenue (+6.8%) relative to spending (+4.3%). The improvement came at the state and regional government levels (with the regional governments recording a fiscal surplus on the whole). The Social Security funds managed to reduce their deficit slightly thanks to transfers from the state government and momentum

in contributions (increase in bases and growth in contributor numbers). The growth in contributions offset the growth in benefits paid and drove a small overall decrease in the system's deficit of 500 million euros.

A majority of analysts believe Spain will meet its target deficit in 2018. However, the consensus forecast is for a deficit of 2.2% of GDP in 2019, which is 0.9pp above the target laid down in the draft general state budget (note that the state budget was presented after the forecasts presented here were compiled). That marks a 0.1pp deterioration with respect to the November forecasts.

Sharp deterioration in the international environment

Recent indicators point to a sharper downturn in global growth than was anticipated in November. Protectionist measures are taking a toll on international trade and hurting the economies more dependent on exports, such as China, in particular. In its *World Economic Outlook Update* of January, the IMF forecasts global growth of 3.5%, which is down 0.2pp from its previous update in October (which had in turn been trimmed by 0.2pp compared to April).

The slowdown is expected to be even more pronounced in the European economy, in part due to its exposure to international trade. The IMF is forecasting growth in the eurozone of 1.6%, which is down 0.3pp from its October forecast. The German manufacturing industry appears to be being hit particularly hard by the global turbulence, contributing to a slump in that economy's growth in the latter part of the year. The European economy is also exposed to specific factors besides the impact of the deterioration in international trade. The French economy is feeling the pinch from the *gilets jaunes* movement, while the Italian economy is on the verge of recession as a result of the increase in public and private sector borrowing costs. Lastly the British Parliament's rejection of the agreement the government negotiated with the EU has done nothing to dissipate uncertainty about how Brexit will materialise.

The downturn in the international context is evident in the survey responses. The number of analysts who see the international context –in the EU and beyond– as unfavourable has increased.

Just one analyst sees the environment in the EU as favourable (*versus* three in the last survey) and three view the situation outside of Europe as favourable (down from four). In addition, a wide majority believes that the current trend will persist or even deteriorate in the coming months.

Monetary policy remains expansionary

The ECB has signalled its intention to roll back its monetary stimuli more gradually than initially anticipated. Europe's central bank stopped buying back sovereign bonds at the start of the year. Now it is only reinvesting principal from bonds that mature. However, the fresh drop in inflation, in tandem with a weakening economy, is warding off the likelihood of benchmark rate hikes. Indeed, the market is pricing in persistently low interest rates. 12-month Euribor remains in negative territory (-0.129% in December *vs.* -0.147% at the time of the last report). In addition, if the circumstances warrant, the ECB could inject liquidity by means of a new round of long-term refinancing operations (TLTRO) or another non-conventional instrument.

The analysts' forecasts similarly reflect this gradual normalisation of monetary policy. The consensus is that the ECB will not raise its benchmark rate before the third quarter (unchanged). Euribor is expected to trend in line with benchmark rates. Euribor is now expected to be trading at 0.14% by the end of the year, 0.05pp down from the last survey. The yield on 10-year sovereign bonds is forecast at 1.86% (unchanged).

Slight euro appreciation forecast

The euro has stabilised against the dollar at around 1.14, which is below the average of recent years. The continued spread between interest rates in the US and Europe, which in turn reflects the two economies' fortunes, may be responsible for this trend. A majority of analysts believe that the euro may make up some of the ground lost in recent quarters over the course of 2019; this prognosis is unchanged from November.

No changes in analysts' take on macroeconomic policy

Most analysts continue to view monetary policy as expansionary and believe that that is the correct stance in the current environment. The analysts

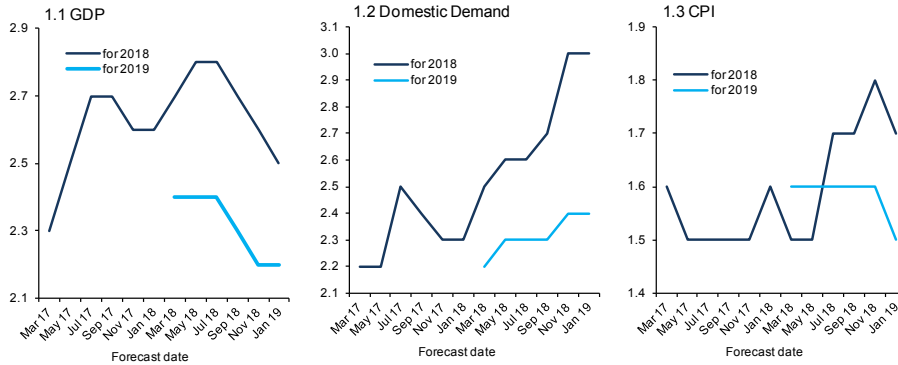
are more divided on fiscal policy. Most view it as expansionary. However, while 11 analysts believe it should be neutral, seven would like to

see counter-cyclical tightening. Those opinions have not changed substantially since the last set of forecasts.

Exhibit 1

Change in forecasts (Consensus values)

(Percentage annual change)



Source: Funcas Panel of Forecasts.

* The Spanish Economic Forecasts Panel is a survey run by Funcas which consults the 18 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 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.

Spanish economic forecasts panel: January 2019*

Funcas Economic Trends and Statistics Department

Table 1

Economic Forecasts for Spain – January 2019

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	
	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019
Analistas Financieros Internacionales (AFI)	2.6	2.3	2.3	1.9	2.3	2.3	5.8	3.8	6.5	3.2	6.0	4.6	3.0	2.3
Axesor	2.5	2.2	2.4	2.4	2.2	3.1	5.5	4.0	6.7	4.4	4.3	1.8	3.1	3.0
Banco Bilbao Vizcaya Argentaria (BBVA)	2.6	2.4	2.4	1.8	2.3	2.3	6.0	5.0	7.9	5.5	6.1	5.0	3.1	2.5
Bankia	2.5	2.2	2.4	2.0	2.0	2.1	5.4	4.3	6.4	5.0	5.6	4.0	3.1	2.6
CaixaBank	2.5	2.1	2.4	1.9	2.0	1.2	5.5	3.7	6.7	4.3	5.7	3.7	3.0	2.2
Cámara de Comercio de España	2.5	2.2	2.4	2.0	2.1	2.1	5.5	4.0	6.9	6.1	5.4	4.2	2.9	2.3
Cemex	2.5	2.3	2.4	2.1	1.8	1.7	5.6	4.8	7.1	5.3	5.7	5.0	2.9	2.5
Centro de Estudios Economía de Madrid (CEEM-URJC)	2.6	2.1	2.3	1.8	2.0	1.8	5.8	3.9	6.7	3.5	6.0	4.5	2.9	2.2
Centro de Predicción Económica (CEPREDE-UAM)	2.6	2.2	2.4	2.2	2.2	2.1	5.4	3.6	6.5	4.5	5.7	3.3	3.2	2.3
CEOE	2.5	2.2	2.4	1.8	2.0	1.9	5.6	4.4	6.8	5.3	5.7	4.1	2.9	2.3
Equipo Económico (Ee)	2.6	2.2	2.3	2.0	1.8	1.7	5.5	4.1	6.0	4.0	5.6	4.4	2.8	2.2
Funcas	2.5	2.1	2.5	2.2	2.1	1.3	5.6	4.0	6.8	3.8	6.0	4.1	3.1	2.4
Instituto Complutense de Análisis Económico (ICAE-UCM)	2.5	2.2	2.4	2.0	2.0	2.0	5.6	4.0	7.4	5.0	5.8	4.0	2.9	2.3
Instituto de Estudios Económicos (IEE)	2.6	2.1	2.4	1.9	2.1	2.1	6.0	5.1	7.8	5.8	6.0	6.3	3.1	2.7
Intermoney	2.5	2.1	2.3	1.8	2.0	1.9	5.5	3.8	6.2	3.4	5.9	4.6	2.9	2.3
Repsol	2.5	2.1	2.4	1.8	2.1	2.1	5.7	4.6	6.7	4.8	6.0	5.1	3.0	2.2
Santander	2.5	2.1	2.4	2.1	2.1	2.1	5.6	3.9	6.7	4.1	5.8	4.0	3.1	2.5
Solchaga Recio & asociados	2.5	2.0	2.4	1.8	2.1	2.0	5.5	4.4	6.5	5.0	6.0	4.8	3.0	2.4
CONSENSUS (AVERAGE)	2.5	2.2	2.4	2.0	2.1	2.0	5.6	4.2	6.8	4.6	5.7	4.3	3.0	2.4
Maximum	2.6	2.4	2.5	2.4	2.3	3.1	6.0	5.1	7.9	6.1	6.1	6.3	3.2	3.0
Minimum	2.5	2.0	2.3	1.8	1.8	1.2	5.4	3.6	6.0	3.2	4.3	1.8	2.8	2.2
Change on 2 months earlier ¹	-0.1	0.0	0.1	0.1	0.1	0.1	0.0	-0.2	0.0	-0.3	0.0	-0.2	0.0	0.0
- Rise ²	0	0	4	7	6	7	6	2	6	4	5	6	5	4
- Drop ²	5	9	0	2	5	1	8	9	7	8	9	5	6	4
Change on 6 months earlier ¹	-0.3	-0.2	0.0	0.0	0.5	0.5	1.3	0.1	3.0	0.6	0.8	-0.2	0.4	0.1
Memorandum items:														
Government (January 2019)	2.6	2.2	2.3	1.7	1.9	1.4	5.7	4.4	6.3	5.0	6.0	4.5	--	--
Bank of Spain (December 2018)	2.5	2.2	2.4	1.9	2.1	1.6	6.2	4.7	7.8	5.9	6.1	4.5	--	--
EC (November 2018)	2.6	2.2	2.3	1.8	1.9	1.7	5.4	3.9	6.0	4.1	5.8	4.2	2.8	2.2
IMF (January 2019)	2.5	2.2	--	--	--	--	--	--	--	--	--	--	--	--
OECD (November 2018)	2.6	2.2	2.4	1.8	2.1	1.6	6.1	3.8	--	--	--	--	3.2	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 panellists revising their forecast upwards (or downwards) since two months earlier.

Table 1 (Continued)

Economic Forecasts for Spain – January 2019

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) ⁶	
	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019
Analistas Financieros Internacionales (AFI)	2.2	2.8	3.6	3.2	1.7	1.2	0.9	1.2	1.4	1.6	2.6	2.0	15.3	14.1	1.2	1.0	-2.7	-2.2
Axesor	1.7	0.3	3.5	2.6	1.7	1.1	1.0	1.0	1.2	1.7	2.4	2.0	15.2	13.0	0.9	0.3	-2.6	-2.4
Banco Bilbao Vizcaya Argentaria (BBVA)	2.8	5.7	4.7	6.2	1.8	1.6	--	--	0.9	2.1	2.4	2.1	15.3	13.7	1.4	1.3	-2.8	-2.1
Bankia	2.1	1.8	3.5	2.9	1.7	1.3	0.9	1.1	0.9	1.7	2.5	1.9	15.4	13.9	1.1	0.9	--	--
CaixaBank	2.0	3.3	3.6	3.5	1.7	1.8	1.0	1.2	0.9	2.2	2.5	2.1	15.3	13.6	0.8	0.6	-2.7	-2.0
Cámara de Comercio de España	2.4	3.8	3.4	3.5	1.8	1.8	1.0	1.4	--	--	2.4	1.8	15.4	14.1	1.0	0.9	-2.7	-1.8
Cemex	1.9	1.9	3.4	2.9	1.7	1.5	0.9	1.2	--	--	2.5	1.8	15.2	13.9	1.0	1.0	-2.7	-2.5
Centro de Estudios Economía de Madrid (CEEM-URJC)	2.1	3.1	3.2	3.6	1.8	1.5	0.9	1.0	--	--	2.3	1.9	15.2	13.7	1.1	1.0	-2.7	-2.4
Centro de Predicción Económica (CEPREDE-UAM)	2.0	3.3	3.6	3.6	1.6	1.4	--	--	0.9	1.3	2.5	1.8	15.3	13.7	0.6	0.8	-2.7	-2.1
CEOE	2.0	1.6	3.6	2.3	1.7	1.1	0.9	1.0	0.9	1.5	2.5	2.1	15.3	13.6	0.6	0.8	-2.8	-2.5
Equipo Económico (Ee)	2.5	3.1	3.4	3.5	1.7	1.6	1.2	1.3	1.2	1.4	2.5	2.1	15.2	13.8	1.3	1.1	-2.8	-2.6
Funcas	1.9	2.0	3.7	3.1	1.7	1.1	0.9	1.1	1.0	2.1	2.5	1.7	15.3	13.9	0.7	0.6	-2.7	-2.1
Instituto Complutense de Análisis Económico (ICAE-UCM)	1.7	4.0	3.6	4.7	1.8	1.5	1.1	1.4	--	--	2.5	2.1	15.3	13.8	1.5	1.4	-2.8	-2.1
Instituto de Estudios Económicos (IEE)	1.7	1.8	3.6	3.7	1.7	1.6	1.0	0.9	1.0	1.6	2.4	1.9	15.3	14.2	1.5	1.2	-2.7	-2.2
Intermoney	2.0	2.5	3.6	3.0	1.7	1.5	1.0	1.1	--	--	2.4	1.8	15.3	14.0	0.8	0.7	-2.7	-2.2
Repsol	1.9	1.9	3.6	2.7	1.7	1.6	0.9	1.2	1.0	1.6	2.5	2.0	14.9	13.2	0.9	0.9	-2.6	-2.0
Santander	1.8	1.3	3.6	2.4	1.7	1.7	1.0	1.3	1.0	1.3	2.5	1.8	15.4	14.1	1.1	0.8	-2.7	-1.8
Solchaga Recio & asociados	2.0	3.3	3.6	4.2	1.7	1.7	1.0	1.5	--	--	2.5	1.7	15.4	14.2	1.3	1.0	-2.7	-2.3
CONSENSUS (AVERAGE)	2.0	2.6	3.6	3.4	1.7	1.5	1.0	1.2	1.0	1.7	2.5	1.9	15.3	13.8	1.0	0.9	-2.7	-2.2
Maximum	2.8	5.7	4.7	6.2	1.8	1.8	1.2	1.5	1.4	2.2	2.6	2.1	15.4	14.2	1.5	1.4	-2.6	-1.8
Minimum	1.7	0.3	3.2	2.3	1.6	1.1	0.9	0.9	0.9	1.3	2.3	1.7	14.9	13.0	0.6	0.3	-2.8	-2.6
Change on 2 months earlier ¹	-0.2	-0.4	0.2	0.0	-0.1	-0.1	0.0	0.0	0.0	0.1	0.1	-0.1	0.0	0.0	-0.2	-0.1	0.0	-0.1
- Rise ²	7	3	8	6	0	0	0	2	4	6	4	2	2	4	1	2	1	2
- Drop ²	5	9	4	6	6	9	3	5	1	1	0	5	2	3	8	6	1	6
Change on 6 months earlier ¹	-2.1	-1.5	-0.3	-0.8	0.0	-0.1	-0.2	-0.2	-0.1	0.2	0.1	-0.1	0.0	0.2	-0.5	-0.5	-0.2	-0.2
Memorandum items:																		
Government (January 2019)	2.4	2.8	3.5	3.1	--	--	--	--	1.0	2.1	2.5	1.8	15.5	14.0	1.1	1.0	-2.7	-1.3
Bank of Spain (December 2018)	1.8	3.4	3.8	4.1	1.8 ⁽⁷⁾	1.6 ⁽⁷⁾	1.1 ⁽⁸⁾	1.5 ⁽⁸⁾	--	--	2.5	1.6	15.3	14.3	1.0 ⁽⁹⁾	0.8 ⁽⁹⁾	-2.7	-2.4
EC (November 2018)	2.6	3.3	3.5	3.5	1.8	1.7	--	--	1.0	2.4	2.4	1.7	15.6	14.4	1.2	1.0	-2.7	-2.1
IMF (January 2019)	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
OECD (November 2018)	1.6	2.8	3.5	2.9	1.9	1.9	1.2	1.6	1.4	2.0	2.6	2.0	15.3	13.8	1.0	1.0	-2.7	-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 Excluding financial entities bail-out expenditures.⁷ Harmonized Index of Consumer Prices (HIPC).⁸ HIPC excluding energy and food.⁹ Net lending position vis-à-vis rest of world.

Table 2

Quarterly Forecasts – January 2019

	Quarter-on-quarter change (percentage)							
	18-IQ	18-IIQ	18-IIIQ	18-IVQ	19-IQ	19-IIQ	19-IIIQ	19-IVQ
GDP ¹	0.6	0.6	0.6	0.6	0.5	0.5	0.5	0.5
Euribor 1 yr ²	-0.19	-0.18	-0.17	-0.13	-0.09	-0.04	0.05	0.14
Government bond yield 10 yr ²	1.34	1.37	1.46	1.43	1.57	1.68	1.76	1.86
ECB main refinancing operations interest rate ²	0.00	0.00	0.00	0.00	0.00	0.00	0.03	0.16
Dollar / Euro exchange rate ²	1.23	1.17	1.17	1.14	1.18	1.17	1.18	1.19

Forecasts in blue.

¹ Qr-on-qr growth rates.

² End of period.

Table 3

CPI Forecasts – January 2019

Monthly change (%)				Year-on-year change (%)	
Dec-18	Jan-19	Feb-19	Mar-19	Dec-18	Dec-19
-0.4	-0.8	0.0	0.3	1.2	1.5

Table 4

Opinions – January 2019

Number of responses

	Currently			Trend for next six months		
	Favourable	Neutral	Unfavourable	Improving	Unchanged	Worsening
International context: EU	1	11	6	1	11	6
International context: Non-EU	3	8	7	2	10	6
	Is being			Should be		
	Restrictive	Neutral	Expansionary	Restrictive	Neutral	Expansionary
Fiscal policy assessment ¹	0	4	14	7	11	0
Monetary policy assessment ¹	0	1	14	0	8	10

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