

Spanish economic forecasts panel: March 2019*

Funcas Economic Trends and Statistics Department

2019 GDP growth estimate unchanged at 2.2%

During the final quarter of 2018, GDP growth rose to 0.7%, an acceleration of 0.1 percentage points with respect to the first three quarters of the year. Judging from provisional figures, this growth was underpinned by a slowdown in national demand and a recovery in exports. Growth for the year came in at 2.5%.

The indicators available for the first quarter of this year are mixed. Industrial activity recovered in January but the PMI index, confidence indicators and Social Security contributor numbers for the manufacturing sector point to a downturn in February. Retail sales remained robust in January, as did the service sector indicators.

The consensus forecast for 2019 GDP growth stands at 2.2%, unchanged from the last set of forecasts. That figure is also in line with the current forecasts of the international organisations, the Spanish government and the Bank of Spain. The breakdown of that growth is expected to be even with quarterly growth of 0.5%, similarly unchanged.

National demand is forecast to contribute 2.4 percentage points of growth, unchanged from the January forecasts. The downward revision to the forecast for growth in investment is notable. The external sector, meanwhile, is expected to detract from growth by 0.2 percentage points.

The forecast for 2020: 1.9%

This was the first survey to gather estimates for 2020. The consensus forecast is for GDP growth of 1.9%, implying a 0.3 percentage point slowdown with respect to the 2019 forecast. Nevertheless, growth will likely remain above the eurozone average.

The anticipated slowdown is attributable mainly to a weaker contribution by national demand, in turn driven by a slowdown in private consumption and gross fixed capital formation, which are expected

to grow by 0.2 and 0.5 percentage points less than forecast in 2019, respectively. The negative contribution by the external sector is expected to narrow in 2020 compared to the 2019 forecast.

Subdued inflation in 2019 and 2020

The inflation rate has eased since the start of the year and is hovering at around 1% in year-on-year terms. Elsewhere, oil prices, having finished 2018 at an 18-month low, have begun a gradual ascent, reaching almost 68 dollars a barrel in mid-February. Since then, they have fallen back somewhat to around 64 dollars.

Inflation is expected to firm up until the start of the second quarter and to end the year at around 1.4%, 0.1 percentage points below the last set of consensus forecasts. As for 2020, inflation is forecast at 1.5%. However, it is worth highlighting the lack of consensus in this respect, with the forecasts ranging from a low of 1.1% to a high of 2%.

The year-on-year rates forecast for December 2019 and December 2020 are 1.6% and 1.5%, respectively.

The unemployment rate continues to trend lower

According to the Social Security numbers, average growth in contributors in January and February was somewhat lower than the average monthly growth observed in the preceding months, in line with the slowdown in economic activity. The numbers reveal a slight slowdown with respect to the prior quarter in manufacturing and services, whereas the construction sector is showing signs of acceleration.

In terms of full-time equivalent jobs, growth in 2019 is estimated at 1.9%, unchanged with respect to the last Panel, slowing to 1.6% in 2020. That would translate into the creation of the equivalent of 367,000 and 315,000 jobs (net) in 2019 and 2020, respectively.

The forecasts for growth in GDP, job creation and wage compensation yield implied forecasts for growth in productivity and unit labour costs (ULC): the implied growth in productivity is 0.3% in 2019 and 2020; implied growth in ULCs is 1.4% in both years.

The rate of unemployment is expected to fall to 13.9% in 2019 (0.1pp above the last set of forecasts) and to 12.8% in 2020.

Narrowing external surplus

According to provisional figures, the current account surplus amounted to 10.1 billion euros in 2018, down 52% year-on-year. The heavy correction is the result of the sharp increase in the trade deficit and, to a lesser extent, the reduction in the surplus in tourism and other services.

The consensus forecast is for a continued current account surplus throughout the projected period, amounting to 0.7% of GDP in 2019 (down 0.2pp from the last survey) and 0.6% in 2020.

The public deficit looks set to narrow, albeit missing targets

In the first 11 months of last year, the deficit at all levels of government (except for the local corporations) stood at 18 billion euros, down 29% year-on-year. The improvement can be observed at the state government, Social Security Funds and regional government levels. The regional governments recorded a surplus of 1.3 billion euros during that period. The Social Security Funds deficit narrowed thanks to the positive trends in the state public employment service (SEPE for its acronym in Spanish) and the Social Security System, whose deficit declined thanks to faster growth in revenue from contributions relative to benefits, despite acceleration in the latter.

The analysts are expecting the overall deficit to come down over the next two years. For 2019, they are forecasting a deficit equivalent to 2.3% of GDP (up 0.1pp from the last survey) and for 2020, they are forecasting 2%, suggesting the government will miss its deficit targets.

Sharp deterioration in the international environment

The global economy continues to weaken, prompting the main international organisations to

trim their forecasts once again. The IMF forecast global growth of 3.5% in 2019 in January (down 0.2pp from its previous update), while the OECD's interim outlook projections in March anticipate growth of 3.3% (similarly 0.2pp lower than it had previously forecast). The global economy is expected to recover slightly in 2020.

All of the factors singled out in our last report (trade tensions, a pronounced slowdown in China, financial turbulence in certain emerging markets) continue to weigh on the global economy. The downside is concentrated in the European economy, which has been weakening since mid-2018 and is not yet showing clear signs of recovery. In addition to the recession in Italy, the impact of social revolts in France and the increasing uncertainty surrounding Brexit, the German economy has experienced an expectedly sizeable slump. As a result, the European Commission and the ECB have cut their forecasts for the eurozone sharply. In 2019, GDP will grow by 1.3% according to the Commission and by 1.1% according to the ECB. For 2020, both organisations foresee growth of 1.6%.

The analysts have taken stock of the deterioration in the external environment. Twelve now view the European environment as unfavourable, twice the number who held that belief in the last survey. However, four analysts expect the environment to improve in the coming months, compared to only one in January. As for the situation outside the EU, the majority of analysts continue to see the environment as unfavourable or neutral. However, the number of analysts who expect to see an improvement in the coming months has increased somewhat (four are currently optimistic, compared to two in January).

Monetary policy remains expansionary

In the absence of inflationary pressure and in the context of weak growth, the ECB has decided to push back the normalisation of its monetary policy. It does not intend to raise the benchmark rate before the end of the year (at the time of the last survey, rate increases were expected to begin in the third quarter) and the buyback of public debt securities will continue, at least as long as rates remain stable. The ECB has announced it will organise a third round of targeted longer-term refinancing operations (TLTRO-III) as the securities repurchased during the second round

mature. Meanwhile, 12-month Euribor, despite a very slight uptick, remains in negative territory (-0.108% to date in March *vs.* -0.129% at the time of the last report).

This shift in monetary policy is evident in the analysts' assessments. All but two believe that the ECB's benchmark rate will stay at 0% all year. By year-end 2020, they are forecasting a rate of just 0.29%. Euribor is expected to track in parallel. At year-end it is expected to be at virtually nil (*versus* 0.14% in the last report), rising to 0.32% by the end of 2020. The yield on 10-year Spanish government bonds is expected to stand at 1.64% at the end of 2019 (down 22 basis points from the January assessment) and at 1.88% at the end of 2020.

Slight euro appreciation forecast

The euro has stabilised against the dollar at around 1.15, which is relatively low in comparison

with the average of recent years. The lag between the economic cycle and monetary policy in Europe *versus* the US may be contributing to euro weakness. However, as conditions converge, the euro may regain some of the ground lost in recent quarters. That is the opinion of the majority of analysts surveyed and is unchanged from January.

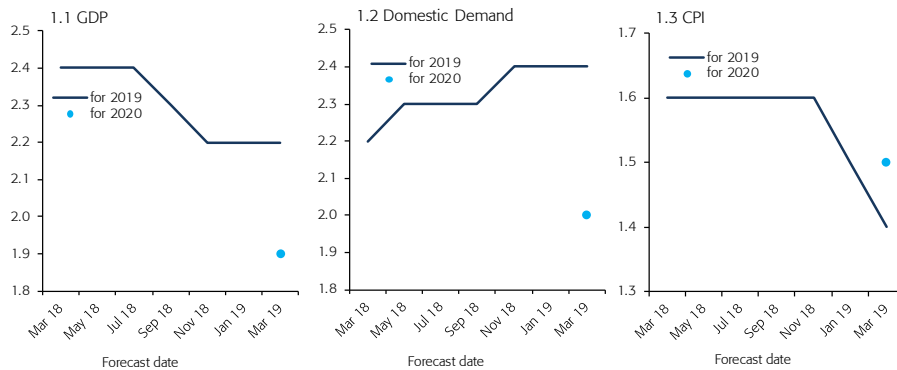
No major changes in analysts' take on macroeconomic policy

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 thirteen analysts believe it should be neutral (two more than in January), five would like to see fiscal tightening (two fewer).

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 months 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.

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Table 1

Economic Forecasts for Spain – March 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	
	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020
Analistas Financieros Internacionales (AFI)	2.1	2.0	2.1	1.9	2.1	2.0	3.0	3.6	3.2	3.8	3.4	3.9	2.3	2.2
Axesor	2.3	1.9	2.0	1.6	2.5	1.2	3.5	2.8	3.2	2.3	3.6	2.9	2.4	1.8
Banco Bilbao Vizcaya Argentaria (BBVA)	2.4	2.0	2.1	1.8	2.4	1.7	4.6	4.6	3.9	4.2	4.9	4.7	2.6	2.4
Bankia	2.2	1.8	2.0	1.5	2.1	1.8	4.4	3.6	5.3	4.0	4.0	3.4	2.6	2.0
CaixaBank	2.1	2.0	2.0	1.9	1.8	1.2	3.6	2.9	3.3	3.0	3.6	2.9	2.2	2.0
Cámara de Comercio de España	2.0	1.9	1.7	1.7	2.3	1.5	3.1	2.9	2.9	4.6	3.9	2.2	2.0	1.8
Cemex	2.2	2.0	2.1	2.0	1.7	1.7	4.4	4.2	4.2	4.0	5.0	5.0	2.5	2.3
Centro de Estudios Economía de Madrid (CEEM-URJC)	2.1	1.9	1.8	1.5	2.1	1.0	4.0	3.7	3.5	3.3	4.7	4.1	2.3	1.8
Centro de Predicción Económica (CEPREDE-UAM)	2.3	2.1	2.0	1.8	2.4	2.5	4.1	4.8	2.7	5.1	4.8	4.7	2.4	2.6
CEOE	2.2	1.8	2.0	1.9	2.1	1.8	3.9	3.1	3.5	3.4	4.1	3.0	2.3	2.1
Equipo Económico (Ee)	2.2	1.9	2.1	1.8	1.7	1.7	4.1	2.8	4.0	2.5	4.4	3.1	2.4	1.8
Funcas	2.1	1.8	2.2	1.8	1.3	1.2	4.0	3.0	3.8	2.9	4.1	3.1	2.4	1.9
Instituto Complutense de Análisis Económico (ICAE-UCM)	2.2	1.9	2.0	1.9	1.7	1.5	4.0	3.0	5.0	3.0	4.0	3.0	2.3	1.9
Instituto de Estudios Económicos (IEE)	2.1	--	1.9	--	2.1	--	5.1	--	5.8	--	6.3	--	2.7	--
Intermoney	2.1	1.8	1.8	1.6	2.0	1.2	3.4	2.6	2.7	2.2	4.0	3.0	2.2	1.7
Repsol	2.2	2.1	2.0	1.9	2.3	1.9	4.0	3.7	3.2	3.5	4.7	4.0	2.3	2.2
Santander	2.1	2.0	2.1	1.9	2.6	1.7	2.5	2.5	1.8	2.0	2.8	2.9	2.3	2.0
Solchaga Recio & asociados	2.2	2.0	1.8	1.6	2.0	1.4	4.5	3.4	5.0	3.5	4.8	4.0	2.5	2.0
CONSENSUS (AVERAGE)	2.2	1.9	2.0	1.8	2.1	1.6	3.9	3.4	3.7	3.4	4.3	3.5	2.4	2.0
Maximum	2.4	2.1	2.2	2.0	2.6	2.5	5.1	4.8	5.8	5.1	6.3	5.0	2.7	2.6
Minimum	2.0	1.8	1.7	1.5	1.3	1.0	2.5	2.5	1.8	2.0	2.8	2.2	2.0	1.7
Change on 2 months earlier ¹	0.0	--	0.0	--	0.1	--	-0.3	--	-0.9	--	0.0	--	0.0	--
- Rise ²	4	--	6	--	9	--	4	--	1	--	3	--	6	--
- Drop ²	3	--	3	--	3	--	10	--	10	--	7	--	4	--
Change on 6 months earlier ¹	-0.1	--	0.1	--	0.4	--	-0.4	--	-0.6	--	-0.2	--	0.1	--
Memorandum items:														
Government (January 2019)	2.2	--	1.7	--	1.4	--	4.4	--	5.0	--	4.5	--	--	--
Bank of Spain (December 2018)	2.2	1.9	1.9	1.5	1.6	1.2	4.7	3.6	5.9	3.8	4.5	3.7	--	--
EC (February 2019)	2.1	1.9	--	--	--	--	--	--	--	--	--	--	--	--
IMF (January 2019)	2.2	1.9	--	--	--	--	--	--	--	--	--	--	--	--
OECD (November 2018)	2.2	1.9	1.8	1.5	1.6	1.3	3.8	3.8	--	--	--	--	2.3	1.9

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 – March 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	
	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020
Analistas Financieros Internacionales (AFI)	2.3	2.6	3.1	3.4	1.0	1.4	1.1	1.4	1.4	1.5	2.0	1.9	13.8	12.6	0.7	0.7	-2.2	-1.6
Axesor	2.6	2.7	2.9	2.4	1.6	1.5	1.3	1.5	2.0	1.8	2.0	1.5	13.7	12.5	0.3	-0.2	-2.5	-1.9
Banco Bilbao Vizcaya Argentaria (BBVA)	5.2	4.5	6.2	5.7	1.3	1.5	--	--	1.9	2.2	2.2	1.7	13.8	12.6	1.0	0.7	-2.3	-2.0
Bankia	1.8	1.9	2.9	2.7	1.1	1.6	1.0	1.3	1.9	1.7	2.0	1.5	13.8	12.7	0.7	0.7	--	--
CaixaBank	3.1	4.0	3.5	4.1	1.6	1.7	1.0	1.5	2.3	2.7	2.2	1.6	13.6	12.2	0.6	0.6	-2.3	-1.9
Cámara de Comercio de España	2.8	2.9	2.9	2.9	1.5	1.1	0.9	0.9	--	--	1.7	1.6	14.4	13.3	0.8	0.8	--	--
Cemex	1.8	1.5	2.7	2.6	1.3	1.5	1.0	1.1	--	--	1.8	1.7	13.9	12.7	1.0	0.8	-2.5	-2.0
Centro de Estudios Economía de Madrid (CEEM-URJC)	3.1	3.3	3.8	3.2	1.2	1.7	1.1	1.7	--	--	1.8	1.6	14.0	13.0	0.7	0.8	-2.5	-2.1
Centro de Predicción Económica (CEPREDE-UAM)	3.3	3.9	3.8	5.6	1.4	1.5	--	--	1.4	1.3	1.9	1.7	14.0	12.9	0.7	0.1	-2.2	-1.9
CEOE	2.1	1.4	2.6	2.4	1.1	1.3	0.9	1.1	1.8	1.7	2.1	1.8	13.8	12.4	0.8	0.6	-2.2	-1.8
Equipo Económico (Ee)	2.4	2.6	3.1	2.7	1.2	1.3	1.2	1.4	1.4	1.7	2.1	1.7	13.8	12.6	1.0	0.9	-2.6	-2.5
Funcas	2.0	2.4	3.1	2.9	1.1	1.3	1.0	1.1	2.1	1.3	1.7	1.4	13.9	12.7	0.6	0.4	-2.1	-1.9
Instituto Complutense de Análisis Económico (ICAE-UCM)	2.7	2.5	3.2	3.0	1.5	1.4	1.4	1.3	--	--	1.9	1.5	13.8	12.8	0.9	0.8	-2.1	-1.9
Instituto de Estudios Económicos (IEE)	1.8	--	3.7	--	1.6	--	0.9	--	1.6	--	1.9	--	14.2	--	1.2	--	-2.2	--
Intermoney	2.0	2.2	2.2	1.9	1.3	1.5	1.1	1.4	--	--	1.9	1.5	14.0	13.2	0.7	0.7	-2.3	--
Repsol	2.3	2.1	2.5	2.7	1.6	1.6	1.2	1.3	1.6	1.5	2.2	2.0	13.8	12.4	0.6	0.3	-2.2	-1.8
Santander	2.0	2.1	2.5	2.3	1.3	2.0	1.1	1.5	1.5	1.7	1.8	1.6	14.1	13.0	0.5	0.4	-2.2	--
Solchaga Recio & asociados	3.0	3.8	4.0	4.0	1.7	1.7	1.4	1.6	--	--	1.5	1.5	14.4	13.5	0.6	0.5	-2.4	-2.1
CONSENSUS (AVERAGE)	2.6	2.7	3.3	3.2	1.4	1.5	1.1	1.3	1.7	1.7	1.9	1.6	13.9	12.8	0.7	0.6	-2.3	-2.0
Maximum	5.2	4.5	6.2	5.7	1.7	2.0	1.4	1.7	2.3	2.7	2.2	2.0	14.4	13.5	1.2	0.9	-2.1	-1.6
Minimum	1.8	1.4	2.2	1.9	1.0	1.1	0.9	0.9	1.4	1.3	1.5	1.4	13.6	12.2	0.3	-0.2	-2.6	-2.5
Change on 2 months earlier ¹	0.0	--	-0.1	--	-0.1	--	-0.1	--	0.0	--	0.0	--	0.1	--	-0.2	--	-0.1	--
- Rise ²	4	--	5	--	1	--	2	--	6	--	6	--	8	--	0	--	1	--
- Drop ²	9	--	8	--	10	--	10	--	2	--	4	--	2	--	11	--	9	--
Change on 6 months earlier ¹	-1.0	--	-0.5	--	-0.2	--	-0.2	--	0.1	--	0.0	--	0.2	--	-0.6	--	-0.3	--
Memorandum items:																		
Government (January 2019)	2.8	--	3.1	--	--	--	--	--	2.1	--	1.8	--	14.0	--	1.0	--	-1.3	--
Bank of Spain (December 2018)	3.4	4.0	4.1	4.1	1.6 ⁽⁷⁾	1.6 ⁽⁷⁾	1.5 ⁽⁸⁾	1.7 ⁽⁸⁾	--	--	1.6	1.6	14.3	13.3	0.8 ⁽⁹⁾	0.7 ⁽⁹⁾	-2.4	-2.0
EC (February 2019)	--	--	--	--	1.2 ⁽⁷⁾	1.5 ⁽⁷⁾	--	--	--	--	--	--	--	--	--	--	--	--
IMF (January 2019)	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
OECD (November 2018)	2.8	4.0	2.9	4.1	1.9 ⁽⁷⁾	1.7 ⁽⁷⁾	1.6 ⁽⁸⁾	1.7 ⁽⁸⁾	2.0	2.0	2.0	1.8	13.8	12.5	1.0	1.0	-1.8	-1.2

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

² Number of 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 – March 2019

	19-I Q	19-II Q	19-III Q	19-IV Q	20-I Q	20-II Q	20-III Q	20-IV Q
GDP ¹	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Euribor 1 yr ²	-0.11	-0.09	-0.04	0.02	0.08	0.19	0.25	0.32
Government bond yield 10 yr ²	1.35	1.45	1.54	1.64	1.67	1.75	1.81	1.88
ECB main refinancing operations interest rate ²	0.00	0.00	0.01	0.02	0.08	0.18	0.18	0.29
Dollar / Euro exchange rate ²	1.15	1.16	1.16	1.17	1.18	1.19	1.19	1.20

Forecasts in yellow.

¹ Qr-on-qr growth rates.

² End of period.

Table 3

CPI Forecasts – March 2019

	Monthly change (%)				Year-on-year change (%)	
	Mar-19	Apr-19	May-19	Jun-19	Dec-19	Dec-20
	0.4	0.8	0.4	0.3	1.6	1.5

Table 4

Opinions – March 2019

Number of responses

	Currently			Trend for next six months		
	Favourable	Neutral	Unfavourable	Improving	Unchanged	Worsening
International context: EU	0	6	12	4	10	4
International context: Non-EU	2	9	7	4	9	5
	Is being			Should be		
	Restrictive	Neutral	Expansionary	Restrictive	Neutral	Expansionary
Fiscal policy assessment ¹	0	1	17	5	13	0
Monetary policy assessment ¹	0	2	16	0	7	11

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