

Spanish economic forecasts panel: July 2016¹

Funcas Economic Trends and Statistics Department

Growth could reach 2.9% in 2016, two tenths more than in the previous Panel

The results for the first half of the year suggest the Spanish economy has grown steadily and faster than projected. Instead of the expected net deceleration, GDP growth in the second quarter could reach 0.7%, just one tenth less than in the previous quarter.

The revision of the growth forecast was largely due to the fact that household consumption grew more strongly than expected. Public consumption has also grown slightly more than anticipated. By contrast, the forecasts for construction investment and for exports have been revised downwards. Investments in capital goods could continue to grow in line with previous forecasts. Nevertheless, the contribution of domestic demand is less positive than predicted, while external demand is making a more negative contribution than foreseen in the previous Panel.

The forecast for 2017 remains unchanged at 2.3 %

The GDP growth forecast for 2017 remains unchanged at 2.3%, which suggests a stronger slowdown than predicted. The deceleration will come from slower domestic demand,

particularly consumption by households and the general government. The external sector will continue to make a slightly negative contribution.

The quarter-on-quarter growth rate for the second part of the year should be around 0.4% – one tenth less than in the previous forecasts. Next year's quarter-on-quarter growth should stay stable at around 0.6%, with no change since the previous Panel.

Impact of Brexit

This growth profile does not fully take into account the potential impact of the United Kingdom's departure from the European Union. Brexit could have an impact on investment, tourism and international trade.

Deceleration in industry and robust growth in services

Growth of the industrial production index has slowed sharply, reflecting the deceleration in goods exports. Industrial production fell in May to a seasonally-adjusted annual growth rate of 1%.

The indicators for the services sector suggest a more positive direction, in line with the trend in

¹ The Spanish Economic Forecasts Panel is a survey run by Funcas which consults the 17 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 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.

household consumption. In May, spending by tourists visiting Spain grew at an annual rate of 7.8%, suggesting that 2016 will be a good year for the hospitality sector.

Prices are dropping more slowly due to the rise in the oil price

The annual inflation rate in June dropped below its level in the preceding months to -0.8%. Fuel and electricity prices rose, pushed up by higher oil prices. The core rate remains positive, at around 1%.

The projection for 2017 remains unchanged at 1.3%. The year-on-year rate for December is forecast to be 0.7% this year and 1.2% the next (Table 3).

Positive trend in employment

According to social security affiliation figures, the rate of employment growth remained strong in the first six months of the year, at around 2.9% in annualised terms. The number of registered unemployed has also fallen rapidly.

Employment is expected to grow by 2.6% in 2016 – a tenth of a percentage point higher than in the previous Panel – while the forecast for 2017 remains 2.0%. Using the consensus estimates for GDP, employment and wage growth to deduce the implicit productivity and unit labour cost growth estimates, productivity growth of around 0.3% is expected in 2016 and 2017, while ULCs are expected to change by a moderate 0.8% in 2016 and 1.1% next year.

The current account surplus will grow in 2016

The current account of the balance of payments posted a surplus of 1.5 billion euros in the first four months of 2016, compared with a deficit of 1.9 billion euros in the same period of the previous

year. This improvement was driven by the increased goods and services surplus, resulting in particular from the strong performance of the tourism industry, and the reduction in the deficit on the income and transfers account.

For the current year as a whole, a surplus of 1.7% of GDP is forecast, which is two tenths higher than in 2015. The consensus forecast for 2017 suggests a surplus of 1.5%, *i.e.* one tenth more than in the previous Panel.

The government deficit will overshoot the target

The consolidated general government deficit in the first quarter came to 8.3 billion euros, 500 million euros more than the deficit in the year-earlier period. This deterioration was caused by a slowdown in tax collection combined with an increase in expenditure.

The consensus forecast for the general government deficit for 2016 remains unchanged at 4.1%, as does the forecast for 2017 at 3.2% of GDP. In both cases, these exceed the targets in the Stability Programme Update (3.6% and 2.9%).

Worsening perception of the global economy

Global economic growth has shown signs of stagnating at around 3%. The U.S. economy grew more slowly than in 2015, while growth in the euro area remained moderate. The emerging economies have cooled (China, Russia) or are in recession (Brazil). International trade has slowed, and, for the first time in recent history, is now growing at rates similar to or below that of world GDP growth. Brexit, the state of the financial sector in emerging countries, and financial market volatility have created a climate of uncertainty.

As a result, the majority opinion among panellists with regard to the current situation in the EU is

that, as a factor influencing the Spanish economy, it is neutral or unfavourable. This represents a worsening from the previous Panels. The situation is expected to remain neutral or worsen over the coming months. The situation outside the EU is also mainly considered to be neutral or unfavourable, in line with the previous consensus, and is expected to remain so over the coming months.

Long-term interest rates are low

Short-term interest rates (three-month EURIBOR) remain in negative territory. As in previous Forecast Panels, interest rates are still felt to be low for the state of the Spanish economy, but they are expected to remain stable over the coming months.

In recent weeks, long-term rates (Spanish ten-year debt) have been somewhat lower than those observed in the first two months of the year. The majority opinion among panellists is that this level is very low, but that it will remain stable over the coming months.

The euro has depreciated

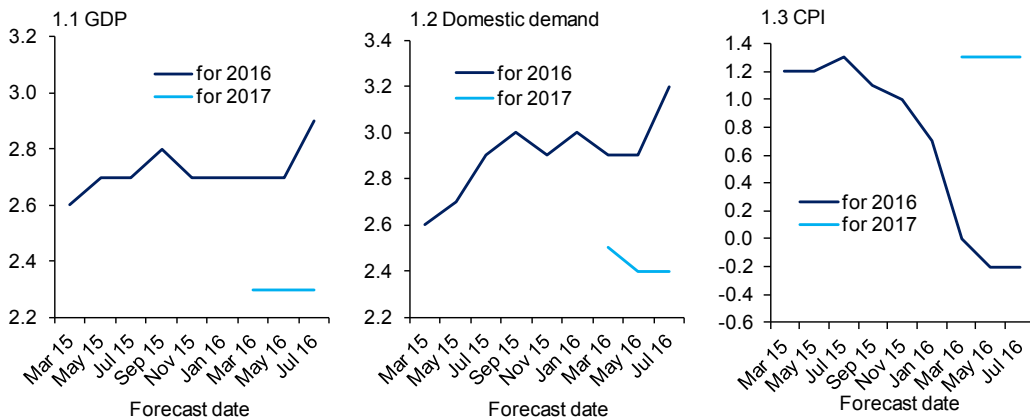
As a result of financial turbulence, the euro has depreciated in recent weeks to levels around 1.10 dollars. It is expected to remain stable over the coming months or to depreciate further.

Fiscal policy is expansionary

Fiscal policy is considered to be expansionary. The majority view is that the appropriate stance would be neutral. 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 – July 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)	3.0	2.2	3.4	2.5	2.5	2.0	5.0	3.9	7.7	6.1	3.6	3.7	3.4	2.5
Axesor	3.0	2.2	3.4	2.2	1.4	0.1	3.8	4.0	6.6	4.1	2.5	4.7	3.3	2.2
Banco Bilbao Vizcaya Argentaria (BBVA)	2.7	2.7	2.7	2.4	1.6	1.8	4.1	4.5	5.5	4.7	3.1	4.1	2.6	2.6
Bankia	2.8	2.3	3.2	2.3	2.0	1.3	4.5	4.2	7.9	6.5	2.9	3.0	3.3	2.5
CaixaBank	2.8	2.2	3.2	2.2	1.9	0.8	3.4	2.9	5.9	2.5	2.0	3.2	3.1	2.0
Cemex	2.9	2.3	3.4	2.5	2.0	0.9	3.8	4.5	6.2	4.8	2.3	4.4	3.1	2.6
Centro de Estudios Economía de Madrid (CEEM-URJC)	2.7	2.3	3.0	2.6	1.5	1.1	4.4	3.9	5.3	4.2	4.2	4.0	2.9	2.5
Centro de Predicción Económica (CEPREDE-UAM)	2.7	1.9	3.0	1.6	2.1	1.3	3.9	4.9	6.4	4.9	2.6	4.8	3.1	2.2
CEOE	2.9	2.3	3.2	2.4	1.4	0.5	3.9	2.6	6.7	4.0	2.5	1.9	3.1	2.0
Funcas	3.0	2.3	3.5	2.1	2.1	1.0	4.2	5.0	7.5	7.3	2.3	3.6	3.3	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)	3.0	2.5	3.7	3.4	2.6	0.6	3.5	3.2	6.3	4.1	2.7	3.8	3.2	2.5
Instituto Flores de Lemus (IFL-UC3M)	2.7	2.0	3.4	2.8	1.5	-0.3	4.1	4.2	8.5	8.0	1.7	2.0	3.2	2.3
Intermoney	2.8	2.0	3.2	2.0	1.6	1.0	3.7	2.7	5.6	3.0	2.7	2.4	3.1	2.1
Repsol	3.1	2.6	3.5	2.7	2.0	1.9	4.4	5.1	7.5	6.2	2.5	4.6	3.5	3.0
Santander	2.9	2.1	3.5	2.5	2.2	1.2	3.1	3.1	5.6	1.6	1.7	4.4	3.3	2.4
Solchaga Recio & asociados	2.7	2.3	3.1	2.6	2.0	1.0	4.3	3.7	6.8	5.4	3.0	3.5	3.1	2.5
CONSENSUS (AVERAGE)	2.9	2.3	3.3	2.4	1.8	1.0	4.0	3.9	6.6	4.8	2.7	3.6	3.2	2.4
Maximum	3.1	2.7	3.7	3.4	2.6	2.0	5.0	5.1	8.5	8.0	4.2	4.8	3.5	3.0
Minimum	2.7	1.9	2.7	1.6	1.0	-0.3	3.1	2.6	5.3	1.6	1.7	1.9	2.6	2.0
Change on 2 months earlier ¹	0.2	0.0	0.4	0.2	0.4	-0.1	-0.7	-0.3	0.1	-0.2	-1.0	-0.3	0.3	0.0
- Rise ²	11	3	14	11	12	4	0	5	7	6	0	3	12	3
- Drop ²	1	7	0	3	0	7	12	10	7	6	14	8	0	4
Change on 6 months earlier ¹	0.2	--	0.3	--	0.8	--	-1.0	--	-0.1	--	-2.0	--	0.2	--
<u>Memorandum Items:</u>														
Government (April 2016)	2.7	2.4	3.2	2.6	1.0	0.9	5.6	4.6	8.2	5.4	4.5	4.7	3.2	2.7
Bank of Spain (April 2016)	2.7	2.3	2.9	2.0	1.0	0.5	5.0	5.4	8.3 ⁽³⁾	7.3 ⁽³⁾	3.5	4.9	--	--
EC (May 2016)	2.6	2.5	3.0	2.3	1.0	1.0	4.7	5.0	7.7 ⁽³⁾	6.5 ⁽³⁾	3.5	5.1	3.0	2.6
IMF (April 2016)	2.6	2.3	3.0	2.3	0.6	0.3	4.5	2.9	--	--	--	--	2.8	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 – July 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)	3.7	4.1	5.5	5.7	-0.3	1.2	0.8	1.0	0.8	1.4	2.7	2.0	20.0	18.8	1.9	1.6	-4.2	-3.2
Axesor	2.3	3.0	3.7	3.0	0.7	0.9	0.8	0.9	0.2	1.0	2.5	1.6	20.3	19.5	1.6	0.9	-4.6	-3.9
Banco Bilbao Vizcaya Argentaria (BBVA)	4.4	5.6	4.4	6.0	-0.3	1.7	0.9	1.3	1.8	1.1	2.4	2.2	19.8	18.5	2.1	2.5	-3.9	-2.9
Bankia	4.4	4.5	6.0	5.4	-0.3	1.4	0.8	1.1	0.8	1.1	2.4	2.0	20.0	18.5	2.0	1.8	--	--
CaixaBank	3.7	4.6	4.7	4.3	-0.2	1.9	1.0	1.1	0.5	1.0	2.5	1.9	20.0	18.7	1.6	1.4	-3.9	-3.1
Cemex	4.8	5.0	5.8	6.2	-0.2	1.5	0.8	1.0	--	--	2.7	2.5	19.5	18.5	2.0	1.5	-4.1	-3.5
Centro de Estudios Económica de Madrid (CEEM-URJC)	4.9	4.4	5.7	5.4	-0.2	1.2	0.9	0.8	--	--	2.3	1.8	20.0	18.5	1.6	1.4	-4.2	-3.2
Centro de Predicción Económica (CEPREDE-UAM)	3.6	5.0	5.0	6.3	-0.3	1.0	0.9	1.0	0.6	1.4	2.3	1.2	20.3	19.9	1.4	0.6	-4.2	-3.7
CEOE	4.6	5.2	5.6	4.7	-0.1	1.4	0.8	0.7	0.7	0.7	2.7	2.1	19.8	18.1	2.0	1.8	-4.1	-3.3
Funcas	4.0	4.3	5.4	5.3	-0.3	1.3	0.8	0.9	0.6	1.0	2.6	1.9	19.8	18.1	1.7	1.6	-3.8	-3.0
Instituto Complutense de Análisis Económico (ICAE-UCM)	5.6	5.5	6.0	6.0	0.5	1.3	2.9	--	--	--	2.5	2.1	20.4	19.0	1.7	1.5	-4.0	-3.0
Instituto de Estudios Económicos (IEE)	3.4	4.9	5.0	6.0	-0.2	1.1	--	--	0.7	1.1	2.9	2.2	20.0	18.3	1.7	1.6	-4.0	-3.0
Instituto Flores de Lemus (IFL-UC3M)	2.7	3.7	4.3	4.9	-0.4	1.1	0.8	0.5	--	--	2.9	2.6	19.7	18.2	--	--	--	--
Intermoney	3.5	3.4	4.9	4.0	-0.4	1.2	0.8	0.8	--	--	2.7	1.8	19.9	18.5	1.3	1.5	-4.1	-3.3
Repsol	3.8	5.1	5.4	6.6	0.0	1.3	0.8	0.9	0.8	1.0	3.2	2.7	19.8	18.0	1.7	1.6	-3.9	-3.1
Santander	2.7	2.9	4.0	4.1	-0.4	1.5	0.8	0.9	1.0	1.5	2.6	1.7	19.6	18.0	1.0	0.7	-3.2	-2.0
Solchaga Recio & asociados	4.0	4.5	5.6	5.4	-0.5	0.8	0.9	1.3	--	--	2.6	2.2	20.1	18.2	1.6	1.5	-4.6	-4.2
CONSENSUS (AVERAGE)	3.9	4.5	5.1	5.3	-0.2	1.3	1.0	0.9	0.8	1.1	2.6	2.0	19.9	18.5	1.7	1.5	-4.1	-3.2
Maximum	5.6	5.6	6.0	6.6	0.7	1.9	2.9	1.3	1.8	1.5	3.2	2.7	20.4	19.9	2.1	2.5	-2.7	-1.9
Minimum	2.3	2.9	3.7	3.0	-0.5	0.8	0.8	0.5	0.2	0.7	2.3	1.2	19.5	18.0	1.0	0.6	-4.6	-4.2
Change on 2 months earlier ¹	-0.9	-0.3	-0.7	-0.3	0.0	0.0	--	--	-0.1	0.0	0.1	0.0	-0.2	-0.2	0.1	0.1	0.0	0.0
- Rise ²	2	3	1	1	5	3	--	--	1	1	9	4	3	4	5	3	2	1
- Drop ²	13	10	14	11	5	6	--	--	5	3	1	7	9	7	2	2	4	4
Change on 6 months earlier ¹	-1.6	--	-1.7	--	-0.9	--	--	--	-0.2	--	0.2	--	-0.5	--	0.6	--	-0.7	--
Memorandum items:																		
Government (April 2016)	5.3	5.7	7.0	6.7	--	--	--	--	--	--	2.5	2.2	19.9	17.9	1.7	1.5	-3.6	-2.9
Bank of Spain (April 2016)	4.4	5.2	5.3	5.9	-0.1	1.6	--	--	--	--	2.3	1.9	20.3	18.9	1.9 ⁽⁶⁾	1.5 ⁽⁶⁾	--	--
EC (May 2016)	4.5	5.2	5.8	5.8	-0.1	1.4	--	--	0.8	1.0	3.0	2.5	20.0	18.1	1.5	1.3	-3.9	-3.1
IMF (April 2016)	4.5	4.4	5.1	4.1	-0.4	1.0	--	--	--	--	2.5	1.8	19.7	18.3	1.9	2.0	-3.4	-2.5
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 - July 2016¹

	Quarter-on-quarter change (percentage)							
	16-IQ	16-IIQ	16-IIIQ	16-IVQ	17-IQ	17-IIQ	17-IIIQ	17-IVQ
GDP ²	0.8	0.7	0.4	0.4	0.6	0.6	0.6	0.6
Household consumption ²	0.9	0.8	0.6	0.5	0.6	0.6	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 – July 2016¹

	Monthly change (%)				Year-on-year change (%)	
	July-16	Aug-16	Sep-16	Oct-16	Dec-16	Dec-17
	-0.6	0.1	0.3	0.7	0.7	1.2

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

Table 4

Opinions – July 2016
Number of responses

	Currently			Trend for next six months		
	Favourable	Neutral	Unfavourable	Improving	Unchanged	Worsening
International context: EU	1	9	6	1	10	5
International context: Non-EU	0	12	4	0	11	5
	Low ¹	Normal ¹	High ¹	Increasing	Stable	Decreasing
Short-term interest rate ²	13	3	0	0	14	2
Long-term interest rate ³	13	3	0	0	14	2
	Overvalued ⁴	Normal ⁴	Undervalued ⁴	Appreciation	Stable	Depreciation
Euro/dollar exchange rate	3	8	5	1	9	6
	Is being			Should be		
	Restrictive	Neutral	Expansionary	Restrictive	Neutral	Expansionary
Fiscal policy assessment ¹	0	6	10	5	10	1
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.