

Spanish economic forecasts panel: November 2017*

Funcas Economic Trends and Statistics Department

The consensus forecast for GDP growth in 2017 is unchanged at 3.1%

GDP grew by 0.8% QoQ in the third quarter of 2017. This was in line with expectations and represents a slowdown of 0.1 percentage points on the previous quarter. The latest available indicators suggest there was a reduction in the external sector's contribution to growth, which may even have turned negative, alongside a moderation in consumption growth and a possible acceleration in capital goods investment.

Consensus forecasts growth of 3.1% for the year, unchanged from the September panel despite a slight downward revision to the outlook for the fourth quarter to 0.7% QoQ. The expected composition of growth is unaltered with domestic demand set to contribute 2.5 percentage points and the external sector 0.6 percentage points, albeit with downward revisions to expected export and import growth.

Downward revision to 2018 forecast by 0.1 percentage points

Consensus forecasts GDP growth of 2.6% in 2018, down 0.1 percentage points, in part because of the political crisis in Catalonia. Thirteen out of the seventeen panellist have lowered their forecasts for 2018, the bulk - completely or partially - reflecting the impact of tensions in the autonomous region.

The remaining panellists believe it is still too early to quantify the potential effect. Should the stand-off perpetuate, it is possible that more panellists will reflect the situation in their forecasts included in future panels. Either way, the 2018 forecast is subject to significant uncertainty reflecting the difficulties in estimating the economic impact of such an unprecedented event and will depend on how developments unfold over the coming months.

Spike in inflation in 2017 and moderation in 2018

Headline inflation rebounded to 1.8% in September due to an increase in the price of some unprocessed

foods, but dropped back to 1.6% in October. This is in line with inflation rates during the middle of the year and well below the 3% reached in January-February. The oil price climbed to 65 dollars per barrel at the end of October and beginning of November. This represents a potentially substantial change to the scenario underpinning the forecast in the panel and if sustained would have a potentially significant impact not only on the expected outlook for inflation but also consumption and investment.

Headline inflation is now forecast to come in at an average annual rate of 2% in 2017, 0.1 percentage points more than the September panel, and to ease to 1.5% in 2018. Core inflation is forecast to be 1.2% in 2017 and 1.4% in 2018, as in the previous Panel. Year-on-year inflation rates in December are predicted to be 1.2% this year and 1.6% in 2018 (Table 3).

Slowing employment growth

According to Social Security registrations data, employment growth slowed significantly in July and August but rebounded strongly in September and October. Overall, employment slowed in the third quarter relative to the previous three months, as evidenced by both Social Security and LFS figures.

Consensus forecasts employment growth of 2.8% for 2017 - up 0.1ppts - while the outlook for 2018 has been revised down 0.2ppts to 2.2%. An implicit forecast for productivity and ULC growth can be obtained from the forecasts for GDP, employment and wage remuneration growth. Productivity is set to grow by 0.3% this year and 0.4% next year, while ULCs are implicitly forecast to rise by 0.2% in 2017 and 0.7% in 2018.

The annual unemployment rate is on track to fall to 17.1% in 2017 and 15.3% in 2018; the latter is an upward revision relative to the previous Panel.

Downward revision to current account surplus

The current account registered a cumulative surplus of 10.3 billion euros to August; down 750 million euros on the same period last year.

The deterioration in the surplus reflects a worsening of the trade balance, which according to Customs data was due to both an increase in the energy deficit and a reduction in the non-energy surplus fuelled by a pick up in import growth.

Consensus forecasts a surplus of 1.7% of GDP for the year and 1.6% in 2018; this is a downward revision to both figures.

Deficit target to be met in 2017

The public deficit, excluding local corporations, to August was 10.3 billion euros smaller than the same period last year, thanks to an increase in revenues and stable spending. The state and autonomous regions posted an improved performance – the latter even registering a surplus – while the social security system deteriorated.

Consensus forecasts the deficit to come in at 3.1% of GDP, in line with the deficit target. A deficit of 2.4% of GDP is forecast for 2018, which would be 0.2ppts above the current target.

The global economic outlook is favourable

The external outlook is one of the most favourable seen in recent years. Some of the main challenges facing the global economy have so far failed to materialise (bursting of the credit bubble in China, end of expansive cycle in the US). The euro area is growing more robustly than expected, including countries, such as Greece and Italy, which were in recession until recently. However, new tensions have emerged in the Middle East with an impact on oil prices.

Nearly all panellists consider the EU backdrop to be favourable and are upbeat regarding the international environment outside of Europe. The prevailing view is that that it will remain this way over the coming months. None of the panellists expect the situation to deteriorate in the EU. However, two panellists believe the global environment could weaken, as in the previous Panel.

Long-term interest rates ticking up

The European Central Bank left interest rates on hold (main refinancing operations, marginal lending facility and deposit facility). This stability

is reflected in 3-month Euribor (cost of short-term interbank lending) which remains historically low at around -0.33%. All panellists agree that current levels are low and most expect the favourable conditions to be maintained over the coming months.

Despite the situation in Catalonia, the yield on Spanish long-term debt (10-year sovereign) remains at similar levels to the previous Panel, at around 1.53%, while the risk premium has fluctuated without any clear direction. The panellists regard current long-term interest rates as low, but foresee a pick up in debt yields over the coming months.

The euro is set to stabilise against the dollar

The euro has lost some ground against the dollar in the face of a tightening of Federal Reserve monetary policy and the extension of the ECB's expansionary stance, with a withdrawal of stimulus more gradual than expected. The euro is trading at around 1.18 against the dollar, compared to 1.20 in the previous Panel.

Most panellists continue to believe the euro is close to equilibrium with the exchange rate likely to trade around current levels over the coming months.

Fiscal policy is neutral and monetary policy expansive

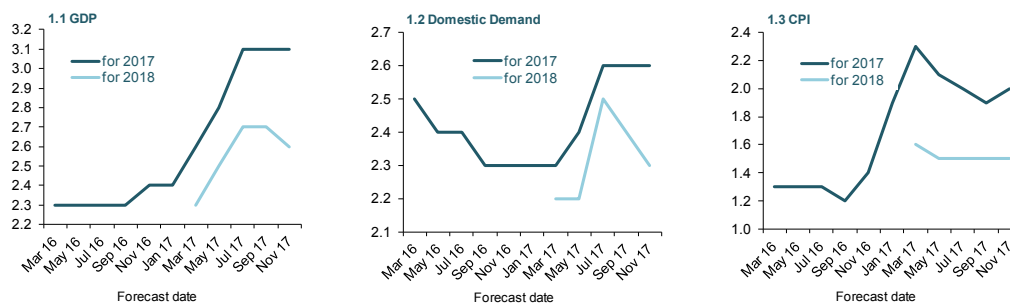
The panellists have not changed their opinion on the macroeconomic policy stance from the last panel. A majority see fiscal policy as neutral and judge this to be appropriate. Some panellists argue in favour of more restrictive fiscal policy while nobody recommends a more expansive stance.

All panellists regard monetary policy as expansive. As in the last Panel, none of the panellists envisage more restrictive monetary policy in the coming months.

Exhibit 1

Change in forecasts (Consensus values)

Percentage annual change



Source: Funcas Panel of forecasts.

* The Spanish economic forecasts panel is a survey of seventeen research 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.

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Table 1

Economic Forecasts for Spain – November 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)	3.1	2.7	2.4	2.1	1.0	2.0	3.6	4.0	4.8	4.3	2.9	4.2	2.4	2.3
Axesor	3.1	2.5	2.5	2.0	1.2	1.6	3.9	2.6	4.9	2.0	3.3	3.2	2.6	2.1
Banco Bilbao Vizcaya Argentaria (BBVA)	3.1	2.5	2.6	2.1	1.3	1.8	4.7	3.6	5.6	2.8	4.5	3.8	2.6	2.3
Bankia	3.3	3.0	2.6	2.6	1.1	1.0	4.4	4.6	5.5	5.0	3.9	4.6	2.7	2.7
CaixaBank	3.1	2.4	2.5	2.0	1.0	1.0	4.5	3.0	5.1	2.8	4.3	3.2	2.6	2.0
Cámara de Comercio de España	3.0	2.4	2.5	2.5	1.1	0.8	4.3	3.6	5.9	5.3	3.7	2.8	2.6	2.5
Cemex	3.1	2.7	2.6	2.6	1.0	1.1	4.4	3.9	4.6	4.0	4.6	4.2	2.5	2.5
Centro de Estudios Economía de Madrid (CEEM-URJC)	3.1	2.5	2.7	2.3	1.4	1.3	3.2	3.6	3.6	3.6	3.1	3.9	2.6	2.3
Centro de Predicción Económica (CEPREDE-UAM)	3.1	2.5	2.4	2.1	1.2	1.4	4.1	3.7	4.5	4.2	4.3	3.3	2.5	2.3
CEOE	3.0	2.5	2.4	2.1	1.0	0.9	4.0	2.9	4.6	3.2	3.6	2.4	2.3	1.9
Funcas	3.1	2.6	2.7	2.4	1.3	1.0	4.7	5.3	5.9	5.4	4.0	5.2	2.8	2.5
Instituto Complutense de Análisis Económico (ICAE-UCM)	3.1	2.5	2.6	2.3	1.1	0.8	4.5	3.7	5.5	3.8	4.2	3.9	2.6	2.3
Instituto de Estudios Económicos (IEE)	3.2	2.6	2.6	2.1	0.9	0.7	4.2	3.8	5.4	3.5	3.5	3.7	2.6	2.2
Intermoney	3.1	2.5	2.5	2.2	1.2	0.9	4.8	3.4	5.2	3.7	4.6	3.1	2.6	2.1
Repsol	3.2	2.4	2.5	2.0	1.2	1.0	4.7	3.7	5.6	5.2	4.5	2.6	2.6	2.1
Santander	3.2	2.7	2.6	2.4	1.2	1.1	4.9	4.2	6.0	4.5	4.6	4.1	2.7	2.5
Solchaga Recio & asociados	3.1	2.6	2.5	2.0	1.0	0.8	4.4	4.1	5.2	4.7	3.9	4.0	2.6	2.2
CONSENSUS (AVERAGE)	3.1	2.6	2.5	2.2	1.1	1.1	4.3	3.7	5.2	4.0	4.0	3.7	2.6	2.3
Maximum	3.3	3.0	2.7	2.6	1.4	2.0	4.9	5.3	6.0	5.4	4.6	5.2	2.8	2.7
Minimum	3.0	2.4	2.4	2.0	0.9	0.7	3.2	2.6	3.6	2.0	2.9	2.4	2.3	1.9
Change on 2 months earlier ¹	0.0	-0.1	-0.1	-0.2	0.0	-0.1	0.1	-0.4	0.1	-0.5	0.3	-0.2	0.0	-0.1
- Rise ²	0	0	4	2	6	4	11	1	6	1	10	3	4	3
- Drop ²	4	13	6	10	6	5	2	13	5	12	1	9	4	12
Change on 6 months earlier ¹	0.3	0.1	-0.2	0.0	0.2	0.0	1.0	0.1	1.4	-0.2	1.0	0.3	0.2	0.1
Memorandum items:														
Government (October 2017)	3.1	2.3	2.5	1.8	0.9	0.7	4.2	3.4	--	--	--	--	--	--
Bank of Spain (September 2017)	3.1	2.5	2.4	2.0	1.0	0.8	4.3	4.4	5.4	4.8	3.6	4.7	--	--
EC (November 2017)	3.1	2.5	2.6	2.2	0.9	0.8	4.1	4.0	5.1	4.5	3.8	4.0	2.5	2.3
IMF (October 2017)	3.1	2.5	2.6	2.4	0.9	0.4	--	--	--	--	--	--	2.6	2.2
OECD (June 2017)	2.8	2.4	2.3	1.9	0.8	0.7	3.9	4.9	--	--	--	--	2.3	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 – November 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)	5.3	5.0	3.5	4.2	1.9	1.4	1.1	1.3	1.2	1.4	2.6	2.4	17.2	15.3	1.9	1.8	-3.3
Axesor	6.1	4.4	4.6	3.1	2.1	1.4	1.2	1.5	1.0	1.2	2.7	2.0	17.0	15.2	1.5	1.0	-3.1	-2.6
Banco Bilbao Vizcaya Argentaria (BBVA)	5.0	4.3	3.8	3.8	1.9	1.4	1.1	1.3	0.1	1.4	2.8	2.1	17.1	15.5	1.8	1.5	-3.1	-2.4
Bankia	6.0	4.9	4.4	4.2	1.9	1.6	1.1	1.5	0.5	1.4	2.8	2.5	17.1	14.9	2.0	2.3	--	--
CaixaBank	5.8	4.2	4.5	3.2	1.9	1.4	1.1	1.3	0.2	1.2	2.7	2.1	17.2	15.8	1.8	1.8	-3.1	-2.5
Cámara de Comercio de España	5.3	4.0	3.7	3.0	2.1	1.5	1.2	1.3	--	--	2.8	2.2	17.1	15.2	1.6	1.6	-3.1	-2.2
Cemex	6.4	4.5	5.0	4.2	1.9	1.4	1.1	1.3	--	--	2.6	2.3	17.2	15.4	1.5	1.5	-3.1	-2.2
Centro de Estudios Economía de Madrid (CEEM-URJC)	4.9	4.4	3.9	4.2	2.0	1.8	1.2	1.5	--	--	2.9	2.2	17.1	15.0	1.8	1.7	-3.1	-2.4
Centro de Predicción Económica (CEPREDE-UAM)	5.5	4.4	3.8	4.0	1.8	1.7	--	--	0.3	1.3	2.8	2.0	17.1	15.6	1.5	1.1	-3.1	-2.4
CEOE	5.8	5.2	3.9	3.8	2.0	1.1	1.1	1.1	0.3	0.8	2.8	2.3	17.1	15.0	1.7	1.6	-3.1	-2.5
Funcas	5.6	5.0	5.0	5.3	1.9	1.2	1.1	1.4	0.8	1.0	2.9	2.2	17.0	15.1	1.8	1.6	-3.2	-2.4
Instituto Complutense de Análisis Económico (ICAE-UCM)	5.7	4.7	4.5	4.6	1.9	1.3	1.1	1.3	--	--	2.8	2.2	17.2	15.5	1.8	1.6	-3.2	-2.3
Instituto de Estudios Económicos (IEE)	6.5	5.4	5.1	4.3	2.1	1.8	1.2	1.3	0.0	0.5	2.8	2.5	17.1	14.6	1.5	1.8	-3.2	-2.3
Intermoney	5.6	4.7	4.4	3.7	1.9	1.6	1.2	1.5	0.3	0.9	2.8	2.2	17.2	15.2	1.8	1.6	-3.1	-2.3
Repsol	6.3	4.3	4.9	3.6	1.9	1.5	1.2	1.3	0.4	1.0	2.8	2.2	17.1	15.6	1.8	1.6	-3.1	-2.2
Santander	5.9	4.1	4.8	3.7	2.0	1.6	1.2	1.6	0.4	1.6	2.7	2.3	17.1	15.2	2.0	1.8	-3.1	-2.8
Solchaga Recio & asociados	6.0	4.7	4.7	4.0	2.0	1.4	1.2	1.6	--	--	2.7	2.2	17.6	15.8	1.7	1.6	-3.1	-2.4
CONSENSUS (AVERAGE)	5.7	4.6	4.4	3.9	2.0	1.5	1.2	1.4	0.5	1.1	2.8	2.2	17.1	15.3	1.7	1.6	-3.1	-2.4
Maximum	6.5	5.4	5.1	5.3	2.1	1.8	1.2	1.6	1.2	1.6	2.9	2.5	17.6	15.8	2.0	2.3	-3.1	-2.2
Minimum	4.9	4.0	3.5	3.0	1.8	1.1	1.1	1.1	0.0	0.5	2.6	2.0	17.0	14.6	1.5	1.0	-3.3	-2.8
Change on 2 months earlier ¹	-0.5	-0.3	-0.3	-0.4	0.1	0.0	0.0	0.0	-0.1	-0.1	0.1	-0.2	-0.1	0.1	-0.1	-0.1	0.1	0.0
- Rise ²	0	3	1	3	5	3	1	2	1	1	5	1	2	10	4	4	3	1
- Drop ²	11	11	9	9	2	4	6	6	5	5	0	10	6	2	5	4	1	5
Change on 6 months earlier ¹	0.8	0.3	0.4	-0.1	-0.1	0.0	0.1	0.1	-0.6	-0.3	0.4	0.1	-0.4	-0.5	0.0	0.0	0.2	0.0
Memorandum items:																		
Government (October 2017)	6.2	5.1	4.4	4.1	--	--	--	--	1.1	1.1	2.9	2.4	17.2	15.5	1.7	1.6	-3.1	-2.2
Bank of Spain (September 2017)	6.4	4.6	5.0	4.1	1.9	1.3	1.1	1.4	--	--	2.7	2.2	17.1	15.1	2.1 ⁽⁶⁾	2.3 ⁽⁶⁾	-3.2	-2.6
EC (November 2017)	6.0	4.8	4.4	4.3	2.0	1.4	--	--	0.5	1.2	2.7	2.1	17.4	15.6	1.7	1.9	-3.1	-2.4
IMF (October 2017)	5.9	4.8	4.7	4.2	2.0	1.5	--	--	--	--	2.8	1.7	17.1	15.6	1.9	2.0	-3.2	-2.5
OECD (June 2017)	6.7	5.0	5.5	4.9	2.3	1.4	--	--	1.1	1.7	2.5	2.1	17.5	16.0	2.1	2.1	-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 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 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	0.9	0.8	0.7	0.6	0.6	0.6	0.6
Household consumption ²	0.6	0.8	0.7	0.5	0.5	0.5	0.5	0.4

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 2017¹

Monthly change (%)				Year-on-year change (%)	
Nov-17	Dec-17	Jan-18	Feb-18	Dec-17	Dec-18
0.5	0.3	-0.6	0.1	1.2	1.6

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

Table 4

Opinions – November 2017

Number of responses

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