

# Spanish economic forecasts panel: March 2017<sup>1</sup>

## Funcas Economic Trends and Statistics Department

### **GDP growth in 2017 forecast at 2.6%, 0.2 percentage points higher than the previous Panel**

According to consensus, the economy will grow by 2.6% in 2017, 0.2 percentage points above the previous Panel (Table 1). The majority of analysts have revised their forecasts upward. Available indicators point to sustained growth in activity, albeit with a slight deceleration in comparison to the final part of last year. Consensus puts quarterly growth at 0.6% in the first quarter, 0.1 percentage points lower than in the fourth quarter of 2016. This growth rate is set to be sustained to the end of the year (Table 2).

Domestic demand will grow by 2.3%, 0.6 percentage points less than in 2016. The slowdown is mainly due to private consumption, which is forecast to moderate due to the impact of the pick-up in inflation on household purchasing power, to the stagnation in public spending, following the rollover of the General State Budget and the end of tax reductions. By contrast, consensus points to a modest acceleration in gross capital formation, especially in residential construction.

The export boom is set to continue, thanks to the favourable competitiveness position in both

goods and services and positive developments in international markets. Meanwhile imports should recover after weakening somewhat in 2016. Overall, the external sector is set to contribute 0.4 percentage points to growth, 0.1 percentage points less than in 2016.

### **2.3% growth forecast for 2018**

The Panel includes the first set of forecasts for 2018. The consensus forecast is for 2.3% GDP growth, which while below the 2017 forecast, remains elevated in comparison to the European Central Bank's overall eurozone forecast. The slowdown in growth reflects further weakening of private consumption, which will grow 0.4 percentage points less rapidly than in 2017, underpinning a moderation in the contribution from domestic demand. Public consumption is set to be anaemic, as a result of efforts to clean-up public sector finances. However, investment in both capital goods and construction is forecast to be more buoyant.

The external sector will sustain its positive contribution to growth, thanks to strong momentum in goods and services exports. Imports are set to be even more dynamic, closing in on their historic elasticity.

<sup>1</sup> The Panel of Projections for the Spanish economy is a survey of sixteen 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 sixteen 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.

## Spike in inflation in 2017 and moderation in 2018

Inflation reached 3% during the first two months of the year, due to the increase in oil prices and the evolution of electricity prices. However, core inflation has remained at moderate levels.

A stable oil price is assumed over the forecast horizon, which is coherent with fulfilment of the agreement between oil producing countries. Under these conditions, inflation is expected to decline from the second quarter onwards. The consumer price index will climb to 2.3% in 2017, 0.4 percentage points more than forecast in the previous Panel. Progressive price moderation will push inflation down towards 1.6% in 2018. The pick-up in energy prices will barely affect core inflation, which will stay at moderate levels over the forecast horizon.

of GDP in 2016, 0.5 percentage points more than in the previous year. This result is explained by the increase in the combined goods and services surplus and a reduction in the primary income deficit.

Consensus forecasts a slight reduction in the current account surplus, which could reach 1.7% of GDP in 2017, 0.3 percentage points more than in the previous Panel, and 1.5% in 2018. These developments reflect the increase in the energy bill and the forecast recovery in imports.

## Public deficit to shrink but failing to meet targets

The consolidated Public Sector accounts, excluding local corporations, registered a deficit of 37.2 billion euros to November 2016 or 3.33% of GDP. This compares to a deficit of 3.79% recorded over the same period last year. The State and Social Security system deficits increased, while the autonomous regions markedly reduced their deficit.

The Panel expects a significant reduction in the overall public sector deficit in 2017, which could fall to 3.4% of GDP, 0.1 percentage points lower than forecast in the last consensus publication. Undoubtedly the public spending freeze and consolidation measures adopted at the end of 2016 will contribute to this outturn, albeit remaining insufficient to meet the 3.1% of GDP target. A deficit of 2.7% of GDP is forecast for 2018, 0.5 percentage points above the target set for this year.

## Improvement in global economic outlook

The majority opinion of panellists regarding the external environment, both the EU and the rest of the world, continues to be neutral with few changes anticipated over the next six months. However, the number of analysts that consider the

## Positive employment developments

The labour market has continued to perform strongly since the start of the year as illustrated by data on registered unemployment and Social Security registrations. Consensus forecasts employment to grow by 2.3% in 2017 – 0.1 percentage points more than in the previous Panel – and by 1.9% next year. Combined with a slight decline in labour participation, this will serve to push the unemployment rate down to 16.1% in 2018.

Considering consensus forecasts for GDP, employment and wage remuneration, productivity will increase by a scant 0.3% in 2017 and 0.4% in 2018. Meanwhile, labour costs will rise by 1.1% and 1.3% respectively, *i.e.* less rapidly than inflation.

## Solid current account surplus maintained

The current account on the balance of payments is estimated to have recorded a surplus of 1.8%

current environment to be favourable and likely to improve over the next six months has increased compared to the previous Panel (Table 4).

### Long-term interest rates continue ticking up

Short-term interest rates (3-month Euribor) have remained stable in recent weeks at -0.33%. This level is still considered low given current cyclical conditions and is expected to remain stable over the next six months.

Yields on long-term debt (10-year sovereign debt) have climbed to around 1.8% in recent weeks, with a modest increase in the risk premium. Fears regarding elections taking place across various European countries over the coming months have spurred similar movements in debt across the continent. Panellists continue to believe that yields on long-term debt are low given the current cyclical position of our economy and that they will continue to track upwards over the coming months.

### Euro close to equilibrium levels

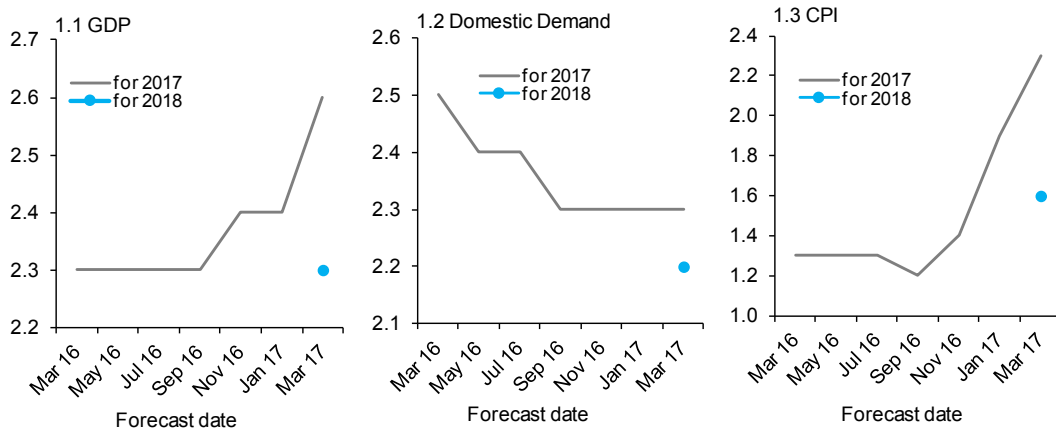
The Euro-Dollar exchange rate rose to 1.07 following Mario Draghi's comments after the European Central Bank's last monetary policy meeting. Most panellists believe the Euro is at equilibrium level, but that it is on course to weaken over the coming months.

### Fiscal policy is no longer expansionary

Overall opinion regarding fiscal policy has changed compared to previous Panels. While previously the majority of panellists judged the stance expansive, most now consider it to be neutral. The bulk believe this is appropriate. The panellists remain unanimous in considering monetary policy to be expansive, and while the majority continue to believe this to be appropriate, there has been an increase in the number who think it should be neutral.

Exhibit 1

### Change in forecasts (Consensus values) Percentage annual change



Source: Funcas Panel of forecasts.

Table 1

**Economic Forecasts for Spain – March 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)	2.8	2.4	2.8	2.4	0.7	0.6	3.2	2.7	4.4	3.7	2.6	2.2	2.4	2.1
Axesor	2.7	2.3	2.2	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)	2.7	2.7	2.5	2.4	1.8	1.9	3.3	4.4	4.1	4.3	2.5	4.2	2.4	2.6
Bankia	2.5	2.0	2.6	2.0	1.1	0.8	3.8	3.3	5.5	4.4	3.0	2.7	2.5	2.1
CaixaBank	2.6	2.2	2.6	1.9	0.5	0.8	2.7	2.9	2.1	2.8	3.1	3.0	2.3	1.9
Cemex	2.7	2.3	2.7	2.3	1.1	1.0	4.0	3.9	3.4	4.0	4.4	4.1	2.6	2.3
Centro de Estudios Economía de Madrid (CEEM-URJC)	2.4	2.4	2.4	2.3	1.3	1.6	3.3	3.1	4.1	3.9	2.7	2.9	2.3	2.3
Centro de Predicción Económica (CEPREDE-UAM)	2.7	2.4	2.7	2.1	1.0	1.4	3.1	4.1	4.2	5.0	2.7	4.0	2.4	2.4
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	2.5	2.2	2.3	1.7	0.6	0.6	4.0	4.0	4.0	3.9	3.8	4.1	2.2	1.9
Instituto Complutense de Análisis Económico (ICAE-UCM)	2.5	--	2.8	--	1.8	--	3.1	--	3.6	--	2.9	--	2.3	--
Instituto de Estudios Económicos (IEE)	2.5	2.2	2.3	2.3	0.7	0.6	3.1	2.8	5.1	5.2	2.7	1.9	2.0	2.0
Intermoney	2.5	1.9	2.5	1.9	0.8	0.9	2.4	1.7	2.9	2.5	1.8	1.0	2.1	1.7
Repsol	2.8	2.7	2.6	2.3	1.1	2.1	3.7	4.4	4.1	5.5	3.6	3.8	2.5	2.6
Santander	2.5	2.0	2.0	1.9	0.5	0.8	2.6	3.1	2.1	1.8	3.0	4.4	2.2	2.1
Solchaga Recio & asociados	2.8	2.3	2.6	2.0	1.0	0.8	3.9	3.7	5.2	4.2	3.4	3.5	2.6	2.1
<b>CONSENSUS (AVERAGE)</b>	<b>2.6</b>	<b>2.3</b>	<b>2.5</b>	<b>2.1</b>	<b>1.0</b>	<b>1.1</b>	<b>3.3</b>	<b>3.4</b>	<b>3.8</b>	<b>3.9</b>	<b>2.9</b>	<b>3.1</b>	<b>2.3</b>	<b>2.2</b>
Maximum	2.8	2.7	2.8	2.4	1.8	2.1	4.0	4.4	5.5	5.5	4.4	4.4	2.6	2.6
Minimum	2.4	1.9	2.0	1.7	0.5	0.6	2.4	1.7	2.1	1.8	1.8	1.0	2.0	1.7
Change on 2 months earlier <sup>1</sup>	0.2	--	0.1	--	-0.2	--	-0.1	--	-0.7	--	0.0	--	0.0	--
- Rise <sup>2</sup>	11	--	10	--	4	--	4	--	3	--	6	--	6	--
- Drop <sup>2</sup>	0	--	2	--	9	--	11	--	11	--	6	--	7	--
Change on 6 months earlier <sup>1</sup>	0.3	--	0.1	--	0.4	--	-0.7	--	-1.4	--	-0.6	--	0.0	--
<u>Memorandum items:</u>														
Government ( December 2016)	2.5	--	2.7	--	0.9	--	3.4	--	5.0	--	2.6	--	--	--
Bank of Spain (December 2016)	2.5	2.1	2.1	1.5	0.8	0.8	3.8	4.6	5.1 <sup>(3)</sup>	5.7 <sup>(3)</sup>	3.5	4.4	--	--
EC (February 2017)	2.3	2.1	2.1	1.8	0.9	0.8	3.4	3.8	4.0 <sup>(3)</sup>	3.8 <sup>(3)</sup>	3.0	3.6	2.1	2.0
IMF (January 2017)	2.3	2.1	--	--	--	--	--	--	--	--	--	--	--	--
OECD (March 2017)	2.5	2.2	2.2	1.6	0.9	1.2	3.6	4.7	--	--	--	--	2.3	2.2

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

<sup>2</sup> Number of panelists revising their forecast upwards (or downwards) since two months earlier.

<sup>3</sup> Investment in capital goods.

Table 1 (Continued)

**Economic Forecasts for Spain – March 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 <sup>3</sup>		Jobs <sup>4</sup>		Unempl. (% labour force)		C/A bal. of payments (% of GDP) <sup>5</sup>		Gen. gov. bal. (% of GDP) <sup>7</sup>	
	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018
Analistas Financieros Internacionales (AFI)	4.6	3.2	3.8	2.4	2.4	1.8	1.2	1.3	1.1	1.3	2.5	2.1	17.1	15.6	1.9	1.8	-3.6	-2.8
Axesor	4.7	4.3	3.6	4.1	2.5	2.1	1.4	1.6	1.6	1.7	2.3	2.0	18.1	16.3	1.1	0.2	-3.8	-2.9
Banco Bilbao Vizcaya Argentaria (BBVA)	4.5	5.2	3.8	5.5	2.1	1.9	1.2	1.6	0.5	1.4	2.3	2.1	17.5	15.8	1.9	1.8	-3.1	-2.2
Bankia	4.7	4.2	5.0	4.7	2.2	1.6	1.1	1.2	1.2	1.4	2.3	1.7	17.8	16.5	1.6	1.4	--	--
CaixaBank	4.4	4.1	3.6	3.2	2.6	1.6	1.3	1.6	1.1	1.6	2.0	2.0	17.8	16.5	1.6	1.4	-3.4	-2.4
Cemex	4.7	4.4	4.8	4.9	2.5	1.8	1.3	1.5	--	--	2.5	2.5	17.8	16.1	1.5	1.5	-3.6	-3.1
Centro de Estudios Economía de Madrid (CEEM-URJC)	4.1	4.8	3.9	4.9	2.1	1.7	1.2	1.5	--	--	2.3	2.2	17.4	15.4	1.7	1.6	-3.2	-2.5
Centro de Predicción Económica (CEPREDE-UAM)	5.2	4.9	4.7	5.2	2.2	1.8	--	--	1.2	1.5	2.2	1.9	17.7	16.3	1.6	1.9	-3.1	-2.7
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	3.6	4.6	3.1	4.0	2.2	1.1	1.0	1.2	1.6	1.6	2.0	1.7	17.8	16.0	1.5	1.5	-3.4	-2.4
Instituto Complutense de Análisis Económico (ICAE-UCM)	4.4	--	3.0	--	2.2	--	1.3	--	--	--	2.3	--	17.8	--	1.5	--	-3.6	--
Instituto de Estudios Económicos (IEE)	4.0	3.6	2.9	3.4	2.5	1.3	1.1	1.0	0.7	1.0	2.0	1.5	17.9	16.6	1.9	1.8	-3.3	-3.1
Intermoney	3.1	2.7	2.5	2.2	1.9	1.5	1.1	1.5	--	--	2.2	1.6	17.7	16.7	1.8	--	-3.2	--
Repsol	4.5	4.6	4.0	4.8	2.6	1.8	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	4.0	2.9	3.4	3.5	2.3	1.4	--	--	1.5	1.8	2.1	1.6	17.8	16.3	2.0	1.8	-3.1	-2.8
Solchaga Recio & asociados	4.3	4.2	3.8	3.9	2.2	1.8	1.2	1.5	--	--	2.5	2.0	17.7	16.0	1.8	1.7	-3.6	-2.9
<b>CONSENSUS (AVERAGE)</b>	<b>4.3</b>	<b>4.1</b>	<b>3.7</b>	<b>4.0</b>	<b>2.3</b>	<b>1.6</b>	<b>1.2</b>	<b>1.4</b>	<b>1.1</b>	<b>1.3</b>	<b>2.3</b>	<b>1.9</b>	<b>17.7</b>	<b>16.1</b>	<b>1.7</b>	<b>1.5</b>	<b>-3.4</b>	<b>-2.7</b>
Maximum	5.2	5.2	5.0	5.5	2.6	2.1	1.4	1.6	1.6	1.8	2.5	2.5	18.1	16.7	2.0	1.9	-3.1	-2.2
Minimum	3.1	2.7	2.5	2.2	1.9	1.1	0.9	0.9	0.5	0.6	2.0	1.5	17.1	15.4	1.1	0.2	-3.8	-3.1
Change on 2 months earlier <sup>1</sup>	0.4	--	-0.1	--	0.4	--	0.1	--	0.0	--	0.1	--	-0.4	--	0.3	--	0.1	--
- Rise <sup>2</sup>	13	--	5	--	14	--	9	--	4	--	9	--	0	--	11	--	5	--
- Drop <sup>2</sup>	2	--	11	--	2	--	0	--	5	--	3	--	13	--	2	--	2	--
Change on 6 months earlier <sup>1</sup>	-0.4	--	-1.4	--	1.1	--	0.3	--	0.0	--	0.2	--	-0.6	--	0.1	--	0.2	--
<b>Memorandum items:</b>																		
Government (December 2016)	5.9	--	5.9	--	--	--	--	--	--	--	2.4	--	17.6	--	1.8	--	-3.1	-2.2
Bank of Spain (December 2016)	4.2	4.5	3.7	4.6	1.6	1.5	1.0	1.4	--	--	2.3	1.8	17.0	15.6	2.1 <sup>(6)</sup>	1.9 <sup>(6)</sup>	-3.6	-3.2
EC (February 2017)	4.0	4.3	3.5	4.3	1.9	1.7	--	--	1.4	1.6	2.0	1.7	17.7	16.0	1.7	1.6	-3.5	-2.9
IMF (January 2017)	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
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

<sup>1</sup> Difference in percentage points between the current month's average and that of two months earlier (or six months earlier).<sup>2</sup> Number of panellists revising their forecast upwards (or downwards) since two months earlier.<sup>3</sup> Average earnings per full-time equivalent job.<sup>4</sup> In National Accounts terms: full-time equivalent jobs.<sup>5</sup> Current account balance, according to Bank of Spain estimates.<sup>6</sup> Net lending position vis-à-vis rest of world.<sup>7</sup> Excluding financial entities bail-out expenditures.

Table 2

**Quarterly Forecasts - March 2017<sup>1</sup>**

	Quarter-on-quarter change (percentage)							
	17-IQ	17-IIQ	17-IIIQ	17-IVQ	18-IQ	18-IIQ	18-IIIQ	18-IVQ
GDP <sup>2</sup>	0.6	0.6	0.6	0.6	0.6	0.6	0.5	0.6
Household consumption <sup>2</sup>	0.6	0.6	0.5	0.5	0.6	0.5	0.5	0.5

<sup>1</sup> Average of forecasts by private institutions listed in Table 1.

<sup>2</sup> According to series corrected for seasonality and labour calendar.

Table 3

**CPI Forecasts – March 2017<sup>1</sup>**

	Monthly change (%)				Year-on-year change (%)	
	Mar-17	Apr-17	May-17	Jun-17	Dec-17	Dec-18
	1.0	1.3	0.8	0.8	1.5	1.6

<sup>1</sup> Average of forecasts by private institutions listed in Table 1.

Table 4

**Opinions – March 2017**  
Number of responses

	Currently			Trend for next six months		
	Favourable	Neutral	Unfavourable	Improving	Unchanged	Worsening
International context: EU	7	9	0	4	9	3
International context: Non-EU	5	11	0	4	9	3
	Low <sup>1</sup>	Normal <sup>1</sup>	High <sup>1</sup>	Increasing	Stable	Decreasing
Short-term interest rate <sup>2</sup>	14	2	0	3	12	1
Long-term interest rate <sup>3</sup>	13	3	0	10	6	0
	Overvalued <sup>4</sup>	Normal <sup>4</sup>	Undervalued <sup>4</sup>	Appreciation	Stable	Depreciation
Euro/dollar exchange rate	2	8	6	3	6	7
	Is being			Should be		
	Restrictive	Neutral	Expansionary	Restrictive	Neutral	Expansionary
Fiscal policy assessment <sup>1</sup>	1	8	7	6	9	1
Monetary policy assessment <sup>1</sup>	0	0	16	0	5	11

<sup>1</sup> In relation to the current state of the Spanish economy.

<sup>3</sup> Yield on Spanish 10-year public debt.

<sup>2</sup> Three-month Euribor.

<sup>4</sup> Relative to theoretical equilibrium rate.