

Spanish economic forecasts panel: January 2016¹

Funcas Economic Trends and Statistics Department

Growth in 2015 is estimated at 3.2%

Economic indicators for the fourth quarter give a mixed picture. Confidence indicators, including sector indicators, consumer confidence and the economic sentiment index, improved relative to the previous quarter, and job creation, according to the number of Social Security affiliates, accelerated. However, the PMI indicators suggest a moderation in growth. The consensus estimate for GDP growth in this period is 0.8%, which means the same rate of growth has been maintained as in the previous period. The estimated growth figure for the year as a whole is 3.2%.

In line with the consensus estimates, domestic demand contributed 3.4 percentage points of GDP growth, while net exports subtracted 0.2 pp.

The forecast for 2016 remains unchanged at 2.7%

The consensus forecast for GDP growth in 2016 is 2.7%, with no change since the previous Panel. Domestic demand is expected to contribute 2.9 pp, and the external sector -0.2 pp.

The quarterly growth rate is expected to remain stable at around 0.6% throughout the year.

Good outlook for the industrial sector

The industrial production index began to slow in the third quarter and the trend persisted into the

fourth. This was more marked in the total index than in manufacturing, due to the negative trend in the energy sector. In the period to November, the general IPI rose by 3.3% relative to the year-earlier period.

The consensus forecast for IPI growth over 2015 as a whole is 3.3%, dropping to 3.1% in 2016. Both these figures are well above the average for the pre-crisis growth period.

Falling oil prices mean inflation is lower than expected

The downward trend in the oil price has accelerated in recent months, with prices dropping to close to 30 dollars per barrel in the first few weeks of January. As a result, December's inflation rate was significantly lower than expected, at 0% compared to the previous consensus forecast of 0.5%. The average annual rate for 2015 was -0.5%, although core inflation has remained positive throughout the year and is on an upward trend.

Consequently, the forecast for 2016 has been cut by three tenths of a percent to 0.7%. The forecast for the December 2016 year-on-year rate is 1.3% (Table 3).

Positive trend in employment

Growth in the number of social security system affiliates picked up speed in the fourth quarter of the year, rising by 3.2% over the year as a whole,

¹ The Spanish Economic Forecasts Panel is a survey run by Funcas which consults the 16 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 16 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.

which is equivalent to 530,000 new affiliates. According to national accounts figures, growth in the number of full-time equivalent jobs in 2015 is estimated at 3.0%, while the forecast for 2016 has been cut by one tenth of a percentage point to 2.4%.

The consensus estimates for GDP, employment and wage growth can be used to deduce the implicit productivity and unit labour cost growth estimates. On this basis, productivity per worker is expected to grow by 0.2% in 2015 and 0.3% in 2016, while ULC are expected to change by 0.4% in 2015 and 0.7% this year.

The current account surplus will shrink in 2016

The current account of the balance of payments to October recorded a surplus of 10.1 billion euros, compared with a surplus of 3.3 billion euros in the same period of the previous year. This improvement is partly the result of a shrinking energy balance deficit, due to falling oil prices, along with the smaller negative balance on the income and transfers account, owing to smaller interest payments abroad.

The consensus forecast for the current account balance is for a surplus of 1.3% of GDP in 2015, one tenth higher than forecast in the previous panel, and 1.1% in 2016, which is unchanged from the previous consensus forecast.

The government deficit will overshoot the target by a few tenths of a percent

The overall balance of the central government, the social security funds and autonomous regions came to 3.4% of annual GDP in the period to October, five tenths of a percent lower than in the same period in 2014, compared to target of a reduction of 2.1 percentage points for the year as a whole for these bodies and levels of government. The trend in the central government accounts

suggests it will meet its deficit target. However, this is not the case of the social security system or the autonomous regions, which will probably register a deviation from their targets.

Consequently, the consensus forecast for the public deficit is higher than the target, at 4.7% of GDP, and one tenth of a percent higher than in the previous panel forecast. The forecast for 2016 remains unchanged and is also over its target, at 3.3%.

The state of the global economy is perceived to have worsened

The situation in China is raising significant concern, with fears that its economy is slowing faster than official figures suggest. Moreover, in 2015, China suffered significant capital outflow, its currency is under strong downward pressure, and its stock markets have started the year with sharp drops that have had spillover effects onto global markets. Another focus of concern is the possible impact on emerging economies of the start of the United States interest rate hike cycle. As regards the developed economies, the United States is maintaining an acceptable trend rate of growth, while the euro area is recovering very slowly.

The majority view among panellists of the current situation in the EU is that its impact on the Spanish economy is neutral, as in previous Panels, and this is not expected to change in the coming months. As regards the situation outside the EU, the perception has worsened, and is now considered unfavourable (in the previous panel, opinions were divided between neutral and unfavourable), and expected to continue to be so over the coming months.

Long-term interest rates are too low

Short-term interest rates (three-month EURIBOR) have continued to fall in recent weeks from rates that have been negative since last April. As in

previous panel forecasts, the rate is still felt to be too low, but is expected to remain stable over the coming months.

Since October, long-term interest rates (Spanish ten-year bonds) have been in the 1.7% to 1.9% range, after having been over 2% in the summer. However, this level is still higher than in the first few months of the year. Most panellists continue to think this level is very low, but expect it to remain stable over the coming months.

The euro continues to depreciate

The euro has stood at around 1.08 dollars in recent weeks, compared to 1.12 in the summer months.

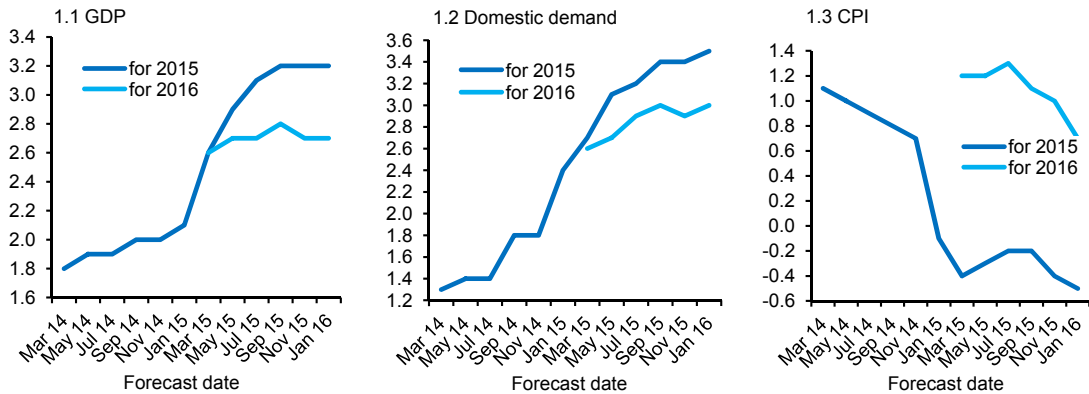
Panellists' opinions are divided between those who consider this to be the right level and those who consider the euro undervalued. The euro is expected to remain on a downward trend over the next few months.

Fiscal policy is too expansionary

Panellists are divided between those who consider fiscal policy to be expansionary in relation to the state of the Spanish economy, and those who consider it to be neutral. The majority view is that it should 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 – January 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	
	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016
Analistas Financieros Internacionales (AFI)	3.2	2.7	3.5	3.0	1.2	1.1	5.8	5.0	8.6	7.1	5.3	4.9	3.4	2.9
Banco Bilbao Vizcaya Argentaria (BBVA)	3.2	2.7	3.1	2.9	1.8	0.4	6.2	5.5	8.9	6.3	5.6	5.0	3.4	2.9
Bankia	3.2	2.8	3.2	3.2	2.0	1.0	6.2	5.0	9.6	7.1	5.5	4.5	3.6	3.2
CaixaBank	3.2	2.7	3.0	2.6	2.7	1.0	6.2	4.4	9.6	5.8	5.5	3.8	3.6	2.6
Cemex	3.2	2.8	3.1	3.1	2.5	1.4	6.2	5.0	9.7	6.0	5.4	4.9	3.5	3.1
Centro de Estudios Económica de Madrid (CEEM-URJC)	3.2	2.5	3.3	2.7	1.0	0.8	5.5	4.7	6.7	4.8	5.4	5.2	3.2	2.6
Centro de Predicción Económica (CEPREDE-UAM)	3.1	2.4	3.5	2.8	0.9	1.0	6.2	5.4	9.5	7.0	5.0	4.6	3.5	2.9
CEOE	3.2	2.7	3.1	2.8	2.0	1.0	6.2	4.6	9.6	6.8	5.5	4.0	3.4	2.7
Funcas	3.2	2.8	3.1	3.2	2.3	1.4	6.3	5.3	9.7	7.6	5.6	4.5	3.6	3.3
Instituto Complutense de Análisis Económico (ICAE-UCM)	3.2	2.8	3.3	2.6	1.8	0.9	6.0	5.1	8.9	7.0	5.5	4.8	3.4	2.8
Instituto de Estudios Económicos (IEE)	3.2	2.7	3.1	3.0	2.4	1.3	6.1	4.4	9.7	6.9	5.8	4.8	3.5	2.9
Instituto Flores de Lemus (IFL-UC3M)	3.2	2.5	3.1	3.4	2.4	-0.7	6.2	5.2	9.6	8.4	5.6	3.8	3.6	2.9
Intermoney	3.2	2.7	3.1	3.1	2.5	1.4	6.3	4.3	8.9	5.3	5.5	3.4	3.6	3.0
Repsol	3.2	2.9	3.1	3.1	2.6	1.5	6.3	5.3	10.0	7.6	5.6	4.3	3.7	3.4
Santander	3.2	2.9	3.2	3.2	2.5	1.7	6.4	6.0	9.9	6.3	5.7	6.3	3.7	3.5
Solchaga Recio & asociados	3.2	2.7	3.4	3.0	0.9	1.0	6.4	5.5	8.8	6.9	5.4	5.5	3.5	3.1
CONSENSUS (AVERAGE)	3.2	2.7	3.2	3.0	2.0	1.0	6.2	5.0	9.2	6.7	5.5	4.7	3.5	3.0
Maximum	3.2	2.9	3.5	3.4	2.7	1.7	6.4	6.0	10.0	8.4	5.8	6.3	3.7	3.5
Minimum	3.1	2.4	3.0	2.6	0.9	-0.7	5.5	4.3	6.7	4.8	5.0	3.4	3.2	2.6
Change on 2 months earlier ¹	0.0	0.0	-0.1	0.2	0.7	0.3	0.1	-0.4	0.2	-0.3	0.3	-0.2	0.1	0.1
- Rise ²	3	1	3	7	11	9	7	2	6	5	10	2	11	9
- Drop ²	1	4	8	1	0	0	1	8	1	7	0	7	0	4
Change on 6 months earlier ¹	0.1	0.0	-0.1	0.2	1.0	0.3	0.5	-0.5	0.9	-0.5	1.0	-0.2	0.3	0.1
Memorandum items:														
Government (September 2015)	3.3	3.0	3.4	3.0	0.1	0.3	6.2	5.4	--	--	5.5	5.5	3.4	3.0
Bank of Spain (June 2015)	3.1	2.7	3.4	2.3	0.1	0.1	5.9	6.1	8.8	8.9	4.8	4.5	--	--
EC (November 2015)	3.1	2.7	3.4	2.7	0.8	0.2	6.3	5.4	9.6 ⁽³⁾	8.2 ⁽³⁾	--	--	3.5	2.8
IMF (October 2015)	3.1	2.5	4.1	2.8	0.5	-0.2	5.9	3.8	--	--	--	--	3.7	2.4
OECD (November 2015)	3.2	2.7	3.1	3.0	1.4	0.3	6.4	5.1	--	--	--	--	3.4	2.9

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.

³ Investment in capital goods.

Table 1 (Continued)

Economic Forecasts for Spain – January 2016
(Average year-on-year change, as a percentage, unless otherwise stated)

	Exports of goods & services		Imports of goods & services		Industrial output		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	
	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016
Analistas Financieros Internacionales (AFI)	5.3	5.6	6.4	6.9	--	--	-0.4	1.0	--	--	3.0	2.5	22.4	20.9	1.0	0.9	-4.7	-3.7
Banco Bilbao Vizcaya Argentaria (BBVA)	5.2	5.2	6.4	6.0	3.2	--	-0.5	1.2	0.9	1.7	3.0	2.5	22.2	20.5	1.5	1.9	-4.5	-3.0
Bankia	5.9	5.5	7.4	7.0	3.2	2.9	-0.5	0.4	0.5	0.7	2.9	2.4	22.2	20.3	1.7	1.9	--	--
CaixaBank	6.1	6.5	7.8	6.6	3.3	3.9	-0.5	1.2	0.7	1.2	3.0	2.5	22.2	20.3	1.9	1.7	-4.8	-3.3
Cemex	6.2	5.3	8.0	7.1	--	--	-0.5	0.7	--	--	3.0	2.7	22.2	20.5	1.8	1.5	-4.2	-2.8
Centro de Estudios Economía de Madrid (CEEM-URJC)	5.6	4.9	6.1	5.7	--	--	-0.5	0.7	--	--	3.2	2.4	21.9	20.0	0.9	0.6	-4.2	-3.1
Centro de Predicción Económica (CEPREDE-UAM)	5.7	5.4	7.3	7.4	3.3	2.7	-0.5	1.0	0.4	1.1	2.8	1.6	22.2	21.4	0.3	-0.2	-4.9	-3.6
CEOE	5.8	5.3	7.1	5.8	--	--	-0.5	0.4	0.5	1.0	3.0	2.5	22.1	20.3	1.4	1.2	-4.4	-3.3
Funcas	5.9	5.1	7.7	6.9	3.3	3.5	-0.5	0.0	0.5	0.8	3.0	2.4	22.2	20.2	1.6	1.4	-5.0	-3.9
Instituto Complutense de Análisis Económico (ICAE-UCM)	5.4	6.6	6.4	7.1	3.2	2.8	-0.5	1.1	--	--	3.0	2.5	22.2	20.6	1.2	1.2	-4.5	-3.0
Instituto de Estudios Económicos (IEE)	5.9	5.4	7.2	6.4	3.1	1.9	-0.5	0.7	0.6	0.8	3.2	2.2	22.2	19.9	0.9	0.8	-4.6	-3.4
Instituto Flores de Lemus (IFL-UC3M)	5.7	4.8	7.5	6.3	3.5	3.7	-0.5	0.6	--	--	2.9	1.9	22.2	20.4	--	--	--	--
Intermoney	6.0	5.3	7.8	6.6	--	--	-0.5	0.7	--	--	3.0	2.4	22.1	20.6	1.1	0.8	-4.9	-3.6
Repsol	6.1	5.7	8.1	7.5	3.2	3.6	-0.5	0.6	0.6	0.8	3.1	2.8	22.2	20.6	1.1	0.9	-4.7	-3.2
Santander	6.5	6.7	8.6	9.3	--	--	-0.5	0.2	0.8	1.0	3.0	2.4	22.1	19.8	1.4	0.7	-5.1	-2.8
Solchaga Recio & asociados	5.3	4.7	6.8	6.4	--	--	-0.3	1.3	--	--	3.0	2.8	22.2	19.9	1.5	1.6	-4.7	-3.6
CONSENSUS (AVERAGE)	5.8	5.5	7.3	6.8	3.3	3.1	-0.5	0.7	0.6	1.0	3.0	2.4	22.2	20.4	1.3	1.1	-4.7	-3.3
Maximum	6.5	6.7	8.6	9.3	3.5	3.9	-0.3	1.3	0.9	1.7	3.2	2.8	22.4	21.4	1.9	1.9	-4.2	-2.8
Minimum	5.2	4.7	6.1	5.7	3.1	1.9	-0.5	0.0	0.4	0.7	2.8	1.6	21.9	19.8	0.3	-0.2	-5.1	-3.9
Change on 2 months earlier ¹	0.5	0.2	0.9	0.6	0.2	-0.2	-0.1	-0.3	0.0	0.1	0.0	-0.1	0.0	0.0	0.1	0.0	-0.1	0.0
- Rise ²	8	7	11	8	5	3	0	0	2	4	3	0	0	3	4	3	1	2
- Drop ²	3	3	0	3	2	2	7	10	1	1	1	6	3	2	3	5	4	4
Change on 6 months earlier ¹	0.2	-0.3	0.8	0.1	0.7	0.1	-0.3	-0.6	0.2	0.1	0.1	-0.1	0.0	0.0	0.6	0.4	-0.3	-0.1
Memorandum items:																		
Government (September 2015)	5.5	6.0	6.0	6.4	--	--	--	--	0.5	1.4	3.0	3.0	22.0	19.7	1.2	1.2	-4.2	-2.8
Bank of Spain (June 2015)	5.1	5.7	5.3	5.9	--	--	-0.2	1.3	--	--	2.9	2.6	--	--	1.2 ⁽⁶⁾	1.1 ⁽⁶⁾	--	--
EC (November 2015)	4.9	5.3	6.1	5.8	--	--	-0.5	0.7	0.7	0.6	2.8	2.5	22.3	20.5	1.4	1.3	-4.7	-3.6
IMF (October 2015)	5.1	5.1	7.4	4.8	--	--	-0.3	0.9	--	--	3.0	2.0	21.8	19.9	0.9	1.1	-4.4	-3.2
OECD (November 2015)	5.6	5.1	6.5	5.8	--	--	-0.6	0.3	--	--	3.0	2.7	22.1	19.8	1.5	1.3	-4.2	-2.9

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.

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 - January 2016¹

	Quarter-on-quarter change (percentage)							
	15-Q1	15-Q2	15-Q3	15-Q4	16-Q1	16-Q2	16-Q3	16-Q4
GDP ²	0.9	1.0	0.8	0.8	0.6	0.6	0.6	0.6
Household consumption ²	0.7	0.9	1.0	0.9	0.6	0.6	0.6	0.6

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 – January 2016¹

	Monthly change (%)				Year-on-year change (%)	
	Dec-15	Jan-16	Feb-16	Mar-16	Dec-15	Dec-16
	-0.2	-0.8	0.0	0.4	0.0	1.3

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

Table 4

**Opinions – January 2016
(Number of responses)**

	Currently			Trend for next six months		
	Favourable	Neutral	Unfavourable	Improving	Unchanged	Worsening
International context: EU	7	9	0	5	11	0
International context: Non-EU	0	5	11	1	13	2
	Low ¹	Normal ¹	High ¹	Increasing	Stable	Decreasing
Short-term interest rate ²	13	3	0	0	15	1
Long-term interest rate ³	12	4	0	2	14	0
	Overvalued ⁴	Normal ⁴	Undervalued ⁴	Appreciation	Stable	Depreciation
Euro/dollar exchange rate	2	7	7	0	7	9
	Is being			Should be		
	Restrictive	Neutral	Expansionary	Restrictive	Neutral	Expansionary
Fiscal policy assessment ¹	0	8	8	4	8	4
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.