

Spanish economic forecasts panel: May 2016¹

Funcas Economic Trends and Statistics Department

The forecast for 2016 remains unchanged at 2.7%

The provisional results for GDP growth in the first quarter of 2016 yielded a surprising 0.8%, which means the same rate of growth has been maintained as in the previous quarter, instead of the expected slowdown.

There has been no change in the expected composition of this growth. Although the forecasts for both exports and imports have been reduced, domestic demand is still expected to contribute 2.8 percentage points (pp), and net exports -0.1 pp.

The forecast for 2017 remains unchanged at 2.3%

There has been no change to the GDP growth forecast for 2017, which is still 2.3%. The slowdown from 2015 will come from domestic demand, which is expected to contribute 2.2 pp to growth, while the external sector is due to contribute -0.1 pp.

The rate of quarter-on-quarter growth from the second quarter of the year though to the end of the forecast period should remain stable in the

0.5% to 0.6% range, *i.e.*, almost unchanged since the last Panel.

The indicators for the manufacturing industry are contradictory

The industrial production index in the first quarter of 2016 slowed considerably, although the sector PMI reported a better result than in the preceding quarter. According to social security affiliation figures, employment in the sector continued to grow in the first four months of the year at the same rapid pace as throughout the previous year.

The consensus forecast for growth in IPI in 2016 has been cut one tenth of a percent to 2.9%, while the forecast for 2017 is unchanged at 2.7%.

Inflation is again surprisingly low

The inflation rate in April dropped to -1.1% as a result of lower electricity prices. The core rate remains positive, at around 1%, however.

The unexpected drop in the rate in April caused a downward revision of the consensus forecast for the average annual rate for 2016, which is now -0.2%. The forecast for 2017 remains unchanged

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.

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

Employment continues to grow, although more slowly

According to social security affiliation figures, the rate of employment growth remained stable, although private-sector non-farm employment growth slowed in the last two months. According to these data, employment growth between January and April was more moderate than in the fourth quarter of 2015. Nevertheless, according to the LFS, employment in the first quarter of this year grew faster than in the previous quarter.

Employment is expected to grow by 2.5% in 2016 –a tenth of a percentage point higher than in the previous Panel– while the forecast for 2017 is 2.0% –a tenth of a percentage point lower. Using the consensus estimates for GDP, employment and wage growth to deduce the implicit productivity and unit labour cost growth estimates, productivity per worker is expected to grow by 0.3% in 2016 and 0.2% in 2017, while ULCs are expected to change by 0.7% in 2016 and 0.9% next year.

The current account surplus will grow in 2016

The current account of the balance of payments posted a deficit of 2.1 billion euros in the first two months of 2016, compared with a deficit of 2.4 billion euros in the same period of the previous year. This improvement came from the reduction in the deficit in the income and transfers balance, while the trade surplus in goods and services shrank.

In any event, this deficit is driven by the negative seasonality in the early months of the year. For the current year as a whole, a surplus of 1.6% of

GDP is forecast, which is two tenths higher than the balance registered in 2015. For 2017, the consensus forecast indicates a surplus of 1.4%.

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

The consolidated deficit of the central government, the autonomous regions and the social security funds in the first two months of 2016 came to 12.9 billion euros, 3 billion 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 forecasts for the general government deficit for 2016 and 2017 have been revised up with respect to the previous Panel to 4% and 3.2% of GDP, respectively. In both cases these exceed the targets in the stability programme update (3.6% and 2.9%).

Slight improvement in the perception of the global economy

First quarter GDP growth in the United States was lower than expected, at an annualised 0.5%, while conversely there was a surprisingly strong quarter-on-quarter rise of 0.6% in the euro area. China's growth was also somewhat stronger than expected, although weakness persisted, and the uncertainties about its situation still linger.

The majority view of the current situation in the EU among panellists is that its impact on the Spanish economy is neutral, as in previous Panels, and this is not expected to change over the coming months. The majority also consider the situation outside the EU to be neutral, which is an improvement on the last Panel, when the view was negative. This is expected to remain unchanged over the coming months.

Long-term interest rates are very low

Short-term interest rates (three-month EURIBOR) remain in negative territory, and the average rate in April was -0.25%. As in previous Forecast Panels, interest rates are still felt to be too 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 (averaging 1.53% in April). 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 risen again

The euro appreciated in recent weeks to levels around 1.13 dollars. Panellists' opinions are divided between those who consider the euro to be at an appropriate level, and those who feel it is still undervalued. It is expected to remain stable over the coming months.

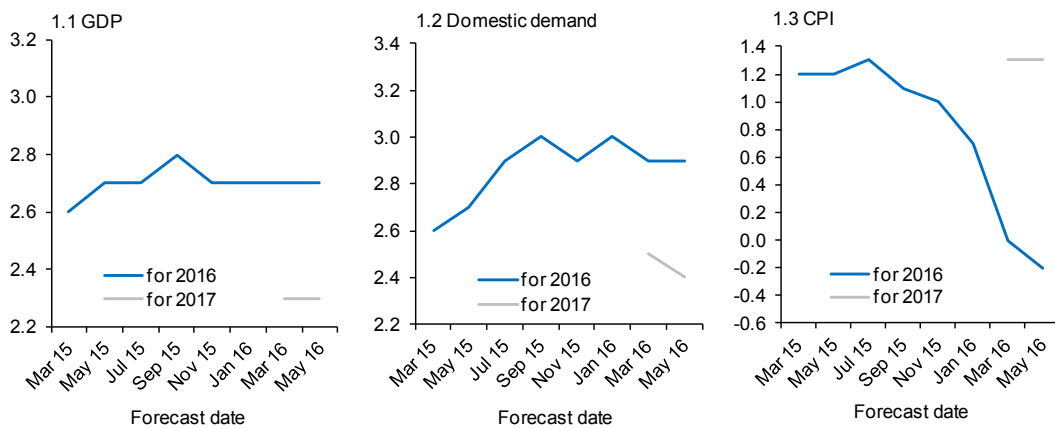
Fiscal policy should be neutral

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)

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Source: Funcas Panel of forecasts.

Table 1

Economic Forecasts for Spain – May 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)	2.7	2.3	2.9	2.1	1.6	1.3	5.0	4.9	7.0	6.1	4.6	4.9	2.9	2.5
Axesor	2.7	1.8	2.9	1.6	1.4	-0.7	3.8	3.7	5.1	3.9	3.1	3.9	2.8	1.6
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	3.0	2.2	2.0	1.3	4.8	4.3	8.2	6.8	3.2	3.0	3.2	2.5
CaixaBank	2.8	2.4	2.8	2.0	1.1	0.7	4.3	3.6	6.4	3.7	3.2	3.6	2.7	2.1
Cemex	2.8	2.3	3.1	2.3	1.4	1.2	5.1	4.6	6.1	4.8	4.9	5.2	3.1	2.6
Centro de Estudios Economía de Madrid (CEEM-URJC)	2.6	2.4	2.9	2.6	1.5	1.1	4.4	3.8	5.3	4.2	4.2	4.0	2.8	2.5
Centro de Predicción Económica (CEPREDE-UAM)	2.5	2.0	2.8	1.7	1.7	1.4	4.5	5.1	5.9	4.4	3.5	4.8	3.0	2.4
CEOE	2.7	2.5	2.9	2.3	1.2	1.5	5.1	4.1	7.2	5.1	4.3	3.8	2.8	2.4
Funcas	2.7	2.3	3.3	2.6	2.0	1.3	4.3	3.9	6.2	4.8	3.6	3.8	3.2	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)	2.8	2.3	2.9	2.2	1.8	1.6	4.2	3.0	6.6	3.8	3.1	2.6	2.7	2.3
Instituto Flores de Lemus (IFL-UC3M)	2.8	2.0	2.9	2.7	1.0	-1.0	4.8	4.6	8.1	7.8	3.1	3.0	2.8	2.3
Intermoney	2.6	2.1	2.9	2.1	1.1	1.4	4.3	2.9	5.1	3.9	3.5	2.0	--	--
Repsol	2.8	2.5	3.0	2.4	1.1	2.4	5.1	4.9	7.7	5.6	3.6	4.6	3.1	2.8
Santander	2.9	2.3	3.0	2.1	1.7	1.2	5.7	4.5	6.2	3.0	5.7	5.7	3.2	2.4
Solchaga Recio & asociados	2.6	2.3	3.1	2.5	1.3	1.0	4.8	4.7	7.3	6.9	3.7	4.0	3.1	2.7
CONSENSUS (AVERAGE)	2.7	2.3	2.9	2.2	1.4	1.1	4.7	4.2	6.5	5.0	3.7	3.9	2.9	2.4
Maximum	2.9	2.7	3.3	2.7	2.0	2.4	5.7	5.1	8.2	7.8	5.7	5.7	3.2	2.8
Minimum	2.5	1.8	2.7	1.6	1.0	-1.0	3.8	2.9	5.1	3.0	3.0	2.0	2.6	1.6
Change on 2 months earlier ¹	0.0	0.0	0.0	-0.2	0.1	0.0	-0.1	0.0	-0.1	-0.2	-0.2	0.1	0.0	-0.1
- Rise ²	1.0	1.0	3.0	1.0	3.0	3.0	3.0	3.0	4.0	2.0	2.0	2.0	3.0	2.0
- Drop ²	0.0	4.0	3.0	5.0	0.0	2.0	3.0	2.0	4.0	2.0	4.0	2.0	2.0	4.0
Change on 6 months earlier ¹	0.0	--	0.1	--	0.7	--	-0.7	--	-0.5	--	-1.2	--	0.0	--
Memorandum items:														
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 (November 2015)	2.7	2.5	3.0	2.4	0.3	1.1	5.1	4.1	--	--	--	--	2.9	2.5

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 – May 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	
	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017
Analistas Financieros Internacionales (AFI)	5.5	4.7	6.8	6.1	--	--	-0.2	1.1	--	--	2.5	2.0	20.1	18.9	--	--	-4.2	-3.2
Axesor	4.4	4.6	4.7	4.4	--	--	0.7	0.9	0.3	1.0	2.4	1.6	20.1	19.4	1.6	1.3	-4.6	-3.9
Banco Bilbao Vizcaya Argentaria (BBVA)	4.4	5.6	4.4	6.0	--	--	-0.3	1.7	1.8	1.1	2.8	2.5	19.8	18.5	2.1	2.5	-3.9	-2.7
Bankia	5.0	4.6	6.4	5.5	2.1	--	-0.3	1.4	0.8	1.1	2.4	2.0	20.0	18.5	2.0	1.8	--	--
CaixaBank	5.6	4.9	5.4	4.4	3.9	2.4	0.0	2.2	0.8	1.1	2.5	2.1	19.9	18.5	1.6	1.4	-3.9	-3.1
Cemex	5.4	5.0	6.8	6.2	--	--	-0.2	1.5	--	--	2.7	2.5	20.0	19.0	2.0	1.5	-4.1	-3.5
Centro de Estudios Economía de Madrid (CEEM-URJC)	4.7	5.2	5.6	5.9	--	--	-0.1	1.2	--	--	2.1	1.9	20.2	18.4	1.6	1.4	-4.2	-3.2
Centro de Predicción Económica (CEPREDE-UAM)	5.1	4.6	6.7	6.3	2.9	2.5	-0.2	1.2	1.2	1.3	1.8	1.1	20.6	20.3	0.9	-0.4	-4.2	-3.7
CEOE	5.3	5.4	5.9	5.6	--	--	-0.4	1.5	1.0	1.0	2.5	2.2	20.0	18.1	2.2	1.8	-4.1	-3.3
Funcas	3.8	4.8	5.7	6.0	2.3	2.4	-0.4	1.6	0.8	1.3	2.4	2.0	19.9	18.2	2.0	1.6	-4.0	-2.9
Instituto Complutense de Análisis Económico (ICAE-UCM)	5.6	5.5	6.0	6.0	2.9	--	0.5	1.3	--	--	2.5	2.1	20.4	19.0	1.7	1.5	-2.7	-1.9
Instituto de Estudios Económicos (IEE)	5.3	5.3	5.4	5.6	2.5	2.1	0.0	1.1	0.6	--	2.1	1.8	20.3	19.2	1.1	--	-3.4	--
Instituto Flores de Lemus (IFL-UC3M)	4.1	3.7	4.7	5.1	2.6	3.3	-0.8	0.9	--	--	2.9	2.4	19.6	18.0	--	--	--	--
Intermoney	4.9	3.7	5.9	4.4	2.8	3.0	-0.4	1.3	--	--	2.3	1.9	20.6	18.9	0.8	--	-4.0	-3.3
Repsol	4.0	5.0	5.6	6.6	4.0	3.5	-0.1	1.3	0.8	1.0	2.9	2.5	20.4	18.5	1.5	1.4	-3.8	-3.0
Santander	4.8	3.9	6.0	4.6	--	--	-0.5	0.9	1.0	1.5	2.6	1.9	19.6	18.0	1.0	0.8	-4.0	-3.2
Solchaga Recio & asociados	4.2	4.4	6.1	6.0	--	--	-0.5	0.9	--	--	2.6	2.2	20.1	18.2	1.4	1.4	-4.2	-3.5
CONSENSUS (AVERAGE)	4.8	4.8	5.8	5.6	2.9	2.7	-0.2	1.3	0.9	1.1	2.5	2.0	20.1	18.7	1.6	1.4	-4.0	-3.2
Maximum	5.6	5.6	6.8	6.6	4.0	3.5	0.7	2.2	1.8	1.5	2.9	2.5	20.6	20.3	2.2	2.5	-2.7	-1.9
Minimum	3.8	3.7	4.4	4.4	2.1	2.1	-0.8	0.9	0.3	1.0	1.8	1.1	19.6	18.0	0.8	-0.4	-4.6	-3.9
Change on 2 months earlier ¹	-0.2	0.0	-0.1	-0.1	-0.1	0.0	-0.2	0.0	-0.1	0.0	0.1	-0.1	-0.1	0.0	0.2	0.2	-0.5	-0.5
- Rise ²	1.0	0.0	3.0	1.0	1.0	1.0	1.0	3.0	1.0	1.0	6.0	2.0	0.0	1.0	4.0	2.0	0.0	0.0
- Drop ²	4.0	3.0	3.0	4.0	2.0	1.0	8.0	4.0	0.0	1.0	0.0	2.0	7.0	4.0	1.0	2.0	9.0	7.0
Change on 6 months earlier ¹	-0.5	--	-0.4	--	-0.4	--	-1.2	--	0.0	--	0.0	--	-0.3	--	0.5	--	-0.7	--
<u>Memorandum items:</u>																		
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 (November 2015)	5.1	5.4	5.8	5.8	--	--	0.3	0.9	0.6	1.2	2.7	2.4	19.8	18.2	1.3	1.2	-2.9	-1.8

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 - May 2016¹

	Quarter-on-quarter change (percentage)							
	16-1Q	16-2Q	16-3Q	16-4Q	17-1Q	17-2Q	17-3Q	17-4Q
GDP ²	0.8	0.5	0.5	0.5	0.6	0.6	0.6	0.6
Household consumption ²	0.8	0.6	0.5	0.5	0.6	0.6	0.5	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 – May 2016¹

	Monthly change (%)				Year-on-year change (%)	
	Apr-16	May-16	Jun-16	Jul-16	Dec-16	Dec-17
	0.2	0.0	0.0	-0.6	0.7	1.3

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

Table 4

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

	Currently			Trend for next six months		
	Favourable	Neutral	Unfavourable	Improving	Unchanged	Worsening
International context: EU	6	9	2	4	11	2
International context: Non-EU	0	9	8	3	13	1
	Low ¹	Normal ¹	High ¹	Increasing	Stable	Decreasing
Short-term interest rate ²	15	2	0	0	15	2
Long-term interest rate ³	13	4	0	2	14	1
	Overvalued ⁴	Normal ⁴	Undervalued ⁴	Appreciation	Stable	Depreciation
Euro/dollar exchange rate	5	6	6	1	10	6
	Is being			Should be		
	Restrictive	Neutral	Expansionary	Restrictive	Neutral	Expansionary
Fiscal policy assessment ¹	0	8	9	4	9	4
Monetary policy assessment ¹	0	0	17	0	0	17

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.