

Spanish economic forecasts panel: September 2016¹

Funcas Economic Trends and Statistics Department

The growth forecast for 2016 increases to 3.1%, up from the last Panel forecast of 2.9%

The Spanish economy registered growth of 0.8% in the second quarter of the year, greater than the previous Panel forecast. Domestic demand eased on the back of the drop in public consumption and private consumption also slowed. The loss of momentum in domestic demand was mitigated by a higher contribution to growth by foreign trade, driven by very significant growth in exports - goods and services alike, particularly those not related to tourism.

As a result of the stronger than forecast growth in exports, all of the Panel participants have revised their growth forecasts upwards, so that the average forecast for GDP growth in 2016 currently stands at 3.1%, up from the prior Panel estimate of 2.9%. This puts the consensus Panel forecast above the forecasts of all the public and international organisations. However, the revised numbers mask a shift in the composition of growth: forecast growth in domestic demand has been shaved by 0.2 percentage points to 3.0%, so that it is now expected to make a smaller contribution to GDP growth, while the forecast contribution by foreign demand has been increased to +0.2 percentage points.

The forecast for 2017: Unchanged at 2.3%

The consensus forecast for GDP growth in 2017 remains unchanged at 2.3%, implying a more pronounced slowdown than previously anticipated. The slowdown is attributable above all to domestic demand and, to a lesser extent, a reduced contribution by foreign trade compared to this year, albeit remaining in positive territory (+0.1 percentage points).

In quarter-on-quarter terms, growth is expected to range between 0.5% and 0.6% in the second half of this year and 2017.

Inflation edging its way out of negative territory

The inflation rate firmed to -0.1% in August, compared to a low of -1.1% last April. This increase is attributable to a slower pace of decline in energy prices. Core inflation, meanwhile, has been hovering at around 0.7% since April, below the readings observed during the first few months of the year.

The forecast for headline inflation for all of 2016 has been reduced by 0.1 percentage points to

¹ The Spanish Economic Forecasts Panel is a survey run by Funcas which consults the 17 research departments listed in Table 1. The survey, which dates back to 1999, is published bi-monthly in the first fortnights 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.

– 0.3%, with inflation in December forecast at 0.7% year-on-year (Table 3). For 2017, the Panel is forecasting an average headline rate of 1.2%, with inflation ending the year at 1.3% year-on-year. The forecasts for core inflation stand at 0.8% for this year and 0.9% for 2017.

Healthy job readings

According to the Quarterly National Accounts, the pace of job creation slowed in the second quarter. Although the rate of growth in social security affiliates, adjusted for seasonality, was somewhat slower month-on-month in July and August than in previous months, it remains relatively strong.

The forecast for job creation in 2016 is now 2.8% – up from the last Panel forecast of 2.6% – and the forecast for 2017 has been increased by 0.1 percentage points to 2.1%. Using the consensus forecasts for growth in GDP, job creation and wage compensation yields implied forecasts for growth in labour productivity and unit labour costs: for productivity, the numbers point to growth of around 0.3% in 2016 and 0.2% in 2017, respectively, and for ULC, 0.4% and 0.9% in 2016 and 2017, respectively.

Current account surplus set to rise in 2016

The current account surplus to June stood at 6.3 billion euros, up from 1 billion euros for the same period in 2015. The improvement has been driven by a strong trade surplus in goods and services coupled with a narrower income deficit.

The current consensus forecast is for a surplus of 1.8% of GDP in 2016 as a whole and a surplus of 1.6% in 2017, in both cases up 10 basis points from the last Panel forecasts.

On track for delivery of the public deficit target this year

In the first five months of the year, the deficit at all levels of government except for the local

corporations stood at 24.6 billion euros, up 1.6 billion euros year-on-year. The deterioration is attributable to higher deficits at the central government level, resulting from a drop in personal income tax and, more particularly, corporate income tax receipts, and the social security regime. The regional governments have reined in their deficit by 1.3 billion euros thanks to growth in revenue from the regional financing system.

Panellists have revised their forecasts for the overall deficit in 2016 and 2017 significantly higher to 4.5% and 3.6% of GDP, respectively. However, because the deficit targets have been similarly revised upwards to 4.6% and 3.1%, it looks as if the target will be met this year. The same cannot be said of the 2017 target.

No major changes in the outlook for global growth

Financial markets have stabilised in the aftermath of the turbulence caused by Brexit at the end of June and the outlook for the global economy is largely unchanged since the last Panel was published. Recent economic indicators in the US point to a slowdown in growth and expectations are now for the Federal Reserve to push back its next rate hike. The European economy continues to grow slowly (+0.3% in the second quarter), albeit in line with expectations. Nor has there been much of a shift in the outlook for the emerging economies.

When asked for their view on the international context, including the EU and the rest of the world, most panellists see the situation as neutral and expect it to remain that way for the coming months.

Low long-term rates

Short-term rates (3-month Euribor) have fallen slightly in the last two months from -0.28% to -0.30%. Panellists continue to believe that rates are and will remain low over the coming months in relation to the state of the Spanish economy.

Long-term rates (10-year Spanish bond yields) have also fallen in the last couple of months, from 1.15% to around 1% in recent weeks, driven by a simultaneous reduction in the country risk premium. Most panellists continue to view this level as very low and expect long-term rates to remain stable at current levels.

Fiscal policy remains expansionary

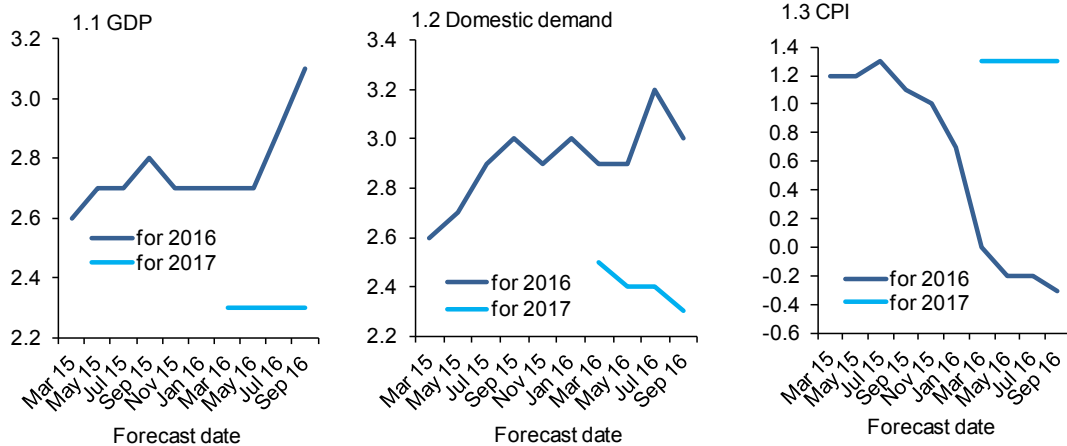
The view is that fiscal policy is expansionary. Most panellists believe that it should be shifted to neutral or even restrictive. As for monetary policy, there is virtual consensus that it is expansive and that this is as it should be.

The euro weakens

In August, the euro made up some of the ground lost in the wake of Brexit, at around 1.115 dollars in the first few days of September. Most panellists are expecting exchange rates to remain stable in the coming months.

Exhibit 1

Change in forecasts (Consensus values) Percentage annual change



Source: Funcas Panel of forecasts.

Table 1

Economic Forecasts for Spain – September 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)	3.2	2.3	3.5	2.5	1.2	0.9	4.1	3.7	7.4	5.6	2.7	3.1	3.0	2.2
Axesor	3.2	2.6	3.3	2.1	0.3	-0.4	4.2	5.2	7.4	5.2	2.8	6.4	3.0	2.3
Banco Bilbao Vizcaya Argentaria (BBVA)	3.1	2.3	3.3	1.9	0.8	1.8	3.9	3.5	7.0	3.9	2.3	3.0	3.0	2.2
Bankia	3.2	2.5	3.4	2.5	1.5	1.2	4.4	4.6	8.1	7.6	2.7	3.3	3.3	2.7
CaixaBank	3.1	2.4	3.4	2.4	0.1	0.1	3.9	3.2	7.0	3.2	2.3	3.4	3.0	2.1
Cemex	3.1	2.4	3.4	2.6	1.6	0.9	4.0	4.3	7.0	4.8	2.1	4.0	3.2	2.6
Centro de Estudios Económicos de Madrid (CEEM-URJC)	3.0	2.3	3.2	2.5	1.9	1.3	4.5	3.7	5.9	4.2	3.4	3.5	3.1	2.4
Centro de Predicción Económica (CEPREDE-UAM)	2.9	1.9	3.1	1.6	0.9	1.2	3.9	3.9	6.8	3.5	2.4	4.0	2.9	2.0
CEOE	3.1	2.3	3.4	2.4	0.9	0.8	4.2	3.1	7.5	4.9	2.5	2.2	3.1	2.1
Funcas	3.1	2.3	3.3	2.2	0.6	0.6	4.2	4.8	7.7	7.1	2.4	3.7	3.1	2.4
Instituto Complutense de Análisis Económico (ICAE-UCM)	3.0	2.4	3.2	2.5	1.0	1.2	4.9	4.0	6.7	5.0	2.8	3.0	3.0	2.5
Instituto de Estudios Económicos (IEE)	3.1	2.3	3.4	2.9	-0.6	-0.7	4.5	5.2	7.9	8.3	2.4	3.3	2.5	2.4
Instituto Flores de Lemus (IFL-UC3M)	3.1	2.1	3.4	3.1	1.0	-1.5	3.9	3.3	7.4	6.1	2.1	1.8	3.0	2.1
Intermoney	3.0	2.0	3.2	2.1	1.2	1.2	3.7	2.5	6.8	3.4	2.0	1.6	3.0	2.0
Repsol	3.2	2.6	3.4	2.6	0.5	1.0	4.2	5.0	7.6	6.6	2.5	4.2	3.1	2.8
Santander	3.1	2.2	3.3	2.4	0.5	0.7	4.1	3.9	7.3	3.1	2.4	4.8	3.0	2.4
Solchaga Recio & asociados	3.0	2.2	3.4	2.4	1.0	0.7	4.4	3.7	7.6	5.2	3.1	3.6	3.1	2.3
CONSENSUS (AVERAGE)	3.1	2.3	3.3	2.4	0.8	0.6	4.2	4.0	7.2	5.2	2.5	3.5	3.0	2.3
Maximum	3.2	2.6	3.5	3.1	1.9	1.8	4.9	5.2	8.1	8.3	3.4	6.4	3.3	2.8
Minimum	2.9	1.9	3.1	1.6	-0.6	-1.5	3.7	2.5	5.9	3.1	2.0	1.6	2.5	2.0
Change on 2 months earlier ¹	0.2	0.0	0.0	0.0	-1.0	-0.4	0.2	0.1	0.6	0.4	-0.2	-0.1	-0.2	-0.1
- Rise ²	17	7	9	6	1	3	8	6	14	8	6	8	3	4
- Drop ²	0	3	5	7	15	11	5	9	2	6	9	9	10	10
Change on 6 months earlier ¹	0.4	0.0	0.4	0.0	-0.5	-0.5	-0.6	-0.2	0.6	0.0	-1.4	-0.3	0.1	-0.2
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	2.1	--	--	--	--	--	--	--	--	--	--	--	--
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 – September 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)	5.4	4.2	5.5	4.4	-0.4	1.4	0.8	1.1	0.9	1.3	2.9	2.1	19.7	17.9	1.9	1.8	-4.7	-3.5
Axesor	5.3	4.1	4.8	3.2	-0.2	1.5	1.0	1.4	0.4	0.8	2.6	2.0	20.1	18.4	1.9	1.5	-4.5	-3.8
Banco Bilbao Vizcaya Argentaria (BBVA)	5.6	4.5	5.3	4.5	-0.3	1.7	0.8	1.1	1.0	1.5	2.9	1.9	19.6	18.5	1.5	1.9	-4.4	-3.6
Bankia	5.5	4.7	6.1	5.6	-0.3	1.4	0.8	1.0	0.7	1.1	2.8	2.2	19.8	18.2	2.0	1.8	--	--
CaixaBank	5.7	5.2	5.4	4.6	-0.2	1.8	0.9	1.1	0.5	0.9	2.7	2.0	19.8	18.4	1.8	1.6	-4.6	-3.8
Cemex	5.1	4.5	5.8	5.4	-0.4	1.3	0.7	0.7	--	--	3.0	2.5	19.5	18.5	2.0	1.5	-4.6	-3.1
Centro de Estudios Económica de Madrid (CEEM-URJC)	4.7	4.2	5.3	4.9	-0.3	1.3	0.9	0.8	--	--	2.3	1.8	20.0	18.5	1.6	1.4	-4.6	-3.5
Centro de Predicción Económica (CEPREDE-UAM)	5.5	4.7	5.6	5.2	-0.5	1.1	0.9	1.0	0.8	1.4	2.5	1.2	20.1	19.6	1.5	0.7	-4.1	-3.6
CEOE	5.9	5.7	6.1	5.6	-0.2	1.3	0.7	0.7	0.4	0.5	2.9	2.2	19.6	17.8	2.0	1.8	-4.6	-3.6
Funcas	5.1	4.2	5.8	4.9	-0.3	1.3	0.8	0.9	0.6	1.1	2.7	1.9	20.0	18.5	2.0	1.9	-4.6	-3.6
Instituto Complutense de Análisis Económico (ICAE-UCM)	5.6	5.5	5.7	5.5	-0.2	1.3	0.9	1.0	--	--	2.7	2.1	19.8	18.5	1.7	1.5	-4.3	-3.0
Instituto de Estudios Económicos (IEE)	7.4	4.9	6.5	5.9	-0.5	0.6	0.8	0.9	0.7	1.1	2.8	2.0	19.7	17.9	1.7	1.7	-4.6	-4.0
Instituto Flores de Lemus (IFL-UC3M)	5.0	4.8	5.2	5.1	-0.3	1.2	0.8	0.5	--	--	2.8	3.2	19.8	18.1	--	--	--	--
Intermoney	5.1	3.8	5.1	4.0	-0.4	1.2	0.8	0.9	--	--	2.9	1.8	19.7	18.3	1.6	1.5	-4.5	-4.0
Repsol	7.6	6.6	7.8	7.6	-0.3	1.2	0.8	0.9	0.8	1.0	3.2	2.7	19.8	18.0	1.8	1.7	-4.6	-3.1
Santander	5.5	3.8	5.4	4.7	-0.6	0.7	--	--	1.0	1.5	2.5	1.7	19.7	18.0	1.5	1.3	-4.6	-3.2
Solchaga Recio & asociados	5.1	4.6	5.8	5.3	-0.5	0.8	0.8	1.1	--	--	2.8	2.3	20.0	18.1	2.0	1.8	-4.8	-4.1
CONSENSUS (AVERAGE)	5.6	4.7	5.7	5.1	-0.3	1.2	0.8	0.9	0.7	1.1	2.8	2.1	19.8	18.3	1.8	1.6	-4.5	-3.6
Maximum	7.6	6.6	7.8	7.6	-0.2	1.8	1.0	1.4	1.0	1.5	3.2	3.2	20.1	19.6	2.0	1.9	-4.1	-3.0
Minimum	4.7	3.8	4.8	3.2	-0.6	0.6	0.7	0.5	0.4	0.5	2.3	1.2	19.5	17.8	1.5	0.7	-4.8	-4.1
Change on 2 months earlier ¹	1.7	0.2	0.6	-0.2	-0.1	-0.1	-0.2	0.0	-0.1	0.0	0.2	0.1	-0.1	-0.2	0.1	0.1	-0.4	-0.4
- Rise ²	15	10	13	7	1	5	1	3	3	2	12	7	3	1	8	9	2	4
- Drop ²	1	5	2	9	10	6	6	4	3	4	3	2	11	11	1	1	13	9
Change on 6 months earlier ¹	0.6	-0.1	-0.2	-0.6	-0.3	-0.1	--	--	-0.3	0.0	0.4	0.0	-0.4	-0.4	0.4	0.4	-1.0	-0.9
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	-4.6 ⁽⁸⁾	-3.1 ⁽⁸⁾
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)	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
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.

⁸ Target July 2016.

Table 2

Quarterly Forecasts - September 2016¹

	Quarter-on-quarter change (percentage)							
	16-I Q	16-II Q	16-III Q	16-IV Q	17-I Q	17-II Q	17-III Q	17-IV Q
GDP ²	0.8	0.8	0.6	0.5	0.5	0.6	0.6	0.6
Household consumption ²	1.0	0.7	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 – September 2016¹

	Monthly change (%)				Year-on-year change (%)	
	Sep-16	Oct-16	Nov-16	Dec-16	Dec-16	Dec-17
	0.0	0.5	0.4	0.2	0.7	1.3

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

Table 4

Opinions – September 2016**Number of responses**

	Currently			Trend for next six months		
	Favourable	Neutral	Unfavourable	Improving	Unchanged	Worsening
International context: EU	2	11	4	0	13	4
International context: Non-EU	0	14	3	1	12	4
	Low¹	Normal¹	High¹	Increasing	Stable	Decreasing
Short-term interest rate ²	16	1	0	1	15	1
Long-term interest rate ³	15	2	0	2	13	2
	Overvalued⁴	Normal⁴	Undervalued⁴	Appreciation	Stable	Depreciation
Euro/dollar exchange rate	3	11	3	2	8	7
	Is being			Should be		
	Restrictive	Neutral	Expansionary	Restrictive	Neutral	Expansionary
Fiscal policy assessment ¹	1	1	15	8	7	2
Monetary policy assessment ¹	0	0	17	0	1	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.