

# Spanish economic forecasts panel: July 2019\*

Funcas Economic Trends and Statistics Department

## **The consensus forecast for GDP growth in 2019 has been raised by 0.1pp to 2.3%**

The analysts' average forecast for GDP growth in Spain in 2019 has increased by 0.1pp since the last report to 2.3%. The consensus forecast for second-quarter GDP growth is 0.6%, down 0.1pp from 1Q19. Generally speaking, the industrial activity indicators are pointing to a slowdown in the second quarter, with the weak June PMI reading standing out. The services indicators, while slightly stronger, also foreshadow a slowdown in growth in the second quarter, particularly those related with tourism. Growth during each of the last two quarters of the year is estimated at 0.5% (Table 2).

As for the breakdown of that growth, there have been a few changes including a small increase in the forecast for investment in machinery and equipment, as well as a slight decrease in forecast investment in construction. The analysts have also lowered their forecasts for growth in both imports and exports. Domestic demand is expected to contribute 2.3pp, with net trade having a neutral impact (as opposed to eroding growth by 0.1pp as per the last set of estimates).

## **No change in forecasts for 2020**

The consensus forecast for GDP growth in 2020 is unchanged at 1.9%, underpinned by quarterly growth of 0.5% in the first half of the year, slowing in the third and fourth quarters (Table 2).

The slower growth in 2020 is attributed to a weaker contribution by domestic demand, via both consumption and investment, and by net trade, which is expected to detract from growth by 0.1pp (compared to a neutral impact estimated for 2019).

## **Lower inflation forecasts**

Inflation fell sharply in June, to 0.4%, from rates of over 1% between January and April, shaped by the decline in energy prices and, to a lesser degree, unprocessed food.

The consensus forecasts for average inflation in 2019 and 2020 have been cut by 0.2pp to 1.1% and 1.3%, respectively. As for core inflation, the forecasts are unchanged at 1% this year and 1.2% in 2020. The year-on-year rates forecast for December 2019 and 2020 stand at 1.4% and 1.3%, respectively.

## **Dynamic job market to push unemployment down to 12.7% by 2020**

According to the Social Security contributor numbers, the pace of job creation lost some steam in May and June, albeit masked somewhat by the growth in non-professional caretakers, derived from the dependent care act. This loss of momentum meant that employment increased by a little less in the second quarter than in the first. Nevertheless, employment reached a series high, though this figure includes the new public officials since 2011.

According to the consensus forecasts, employment will increase by 2.2% in 2019 (up 0.2pp from the last survey) and by 1.7% in 2020 (unchanged). The forecasts for growth in GDP, job creation and wage compensation yield implied forecasts for growth in productivity and unit labour costs (ULC): the implied growth in productivity is 0.1% in 2019 (down 0.1pp from last set of forecasts) and 0.2% in 2020. They also imply growth in ULCs of 1.7% both this year and next.

The average annual unemployment rate is expected to continue to decline to 13.7% in 2019 and 12.7% in 2020.

## **External surplus continues to shrink**

Until April, Spain presented a current account deficit of 5.9 billion euros, compared to a deficit of 3.2 billion euros in the same period of 2018. This is due to a narrower trade surplus and a wider income deficit.

The balance of payments deficit presented in the first few months of the year is highly seasonal. In fact, the analysts are forecasting a surplus for the

year as a whole equivalent to 0.6% of GDP, down 0.1pp from the last set of forecasts. The forecast for 2020 has also been cut by 0.1pp to 0.5%.

### **Fiscal deficit targets expected to be missed**

The fiscal deficit, excluding local authorities, amounted to 7.32 billion euros in the first four months of 2019, compared to 6.38 billion euros in the same period of 2018. This deterioration is the result of faster growth in spending relative to revenue at both the regional and central government levels. In contrast, the Social Security increased its surplus compared to the same period of 2018, thanks largely to sharp growth in contributions, which more than offset the increase in expenditure.

The forecasts for the public deficit are unchanged from the last report: 2.3% in 2019 and 1.9% in 2020. Those numbers imply missing the government's targets by 0.3pp and 0.8pp, respectively.

### **A marked external slowdown coupled with heightened global uncertainty**

The main indicators point to a slowdown in activity, particularly in the manufacturing industry. Indeed, the global manufacturing PMI index has been falling sharply and, in the case of Europe, currently implies a contraction in manufacturing activity. The services sector is holding up better, with its PMI index pointing to ongoing growth, albeit slowing from prior quarters, both globally and in Europe. These developments are framed by intensified global uncertainty, as reflected in the main indices.

This trend reflects the slump in international trade, which according to the projections published this month by the European Commission, will register growth of 1.6% in 2019, down from a forecast of 3% in the Spring and nearly 5% in 2018. Trade is suffering from the geopolitical tensions between the US and China and exacerbated by the advent of fresh trade conflicts, such as that affecting trade between Japan and South Korea. Overall, the Commission is forecasting global growth of 3.4% this year, compared to 3.8% in 2018. The eurozone is expected to register growth of 1.2%, down 0.7pp from 2018.

The analysts' prognoses embody the deterioration in the external context. The majority believe that the

external environment is unfavourable, particularly in the EU. That sentiment is even more entrenched than it was at the time of the last survey. Moreover, not a single analyst is expecting any improvement in the coming months, globally or in Europe. That unanimity contrasts with the last assessment, when the analysts were less pessimistic.

### **Less consensus about the expansionary nature of monetary policy**

The ECB has begun to react to the downturn in Europe's economic prospects and the subdued trend in prices, which is anchoring inflation expectations well below the targeted 2%. The central bank has expressed its willingness to reduce benchmark rates, a development which would further penalise remuneration of banks' surplus liquidity. It has also indicated that it will proceed with new long-term refinancing operations (TLTRO-III) as the current round matures. Lastly, and most notably, the ECB has alluded to the possibility of renewing its repurchasing of government bonds (APP programme).

The markets have begun to price in the shift in monetary policy. The 12-month EURIBOR rate has dipped from the readings anticipated in the last report, staying solidly in negative territory. The yield on 10-year Spanish government bonds has plummeted to record lows. At present, they stand close to 0.4%, which is less than half the level they were trading at in the first quarter.

Nearly all the analysts believe that monetary policy is expansionary (unchanged). They also expect these conditions to persist throughout the coming quarters. The yield on the 10-year bond is barely expected to move in the near future and is forecast at 0.92% at the end of 2020, down from the last forecast of 1.69%. The 12-month EURIBOR is expected to remain in negative territory for the projection period in contrast to the May assessment when analysts predicted rates would move into positive territory by the end of this year. Similarly, very few analysts are expecting the ECB to increase its benchmark rates (on main refinancing operations). However, the number of analysts who believe that the prevailing accommodative monetary policy meets the present needs of the Spanish economy has fallen (from 13 to 11), with the number who believe monetary policy should be neutral increasing (from 5 to 8).

**The euro is expected to appreciate slightly against the dollar**

The euro has been fluctuating since May without mapping out a clear trend. However, the analysts believe that the US Federal Reserve’s easing of monetary policy, which could be more pronounced than in Europe, will translate into a slight appreciation of the euro against the dollar in the quarters to come. They are forecasting an exchange

rate of 1.16 USD per Euro at the end of the projection period, up USD0.03 from the last Panel.

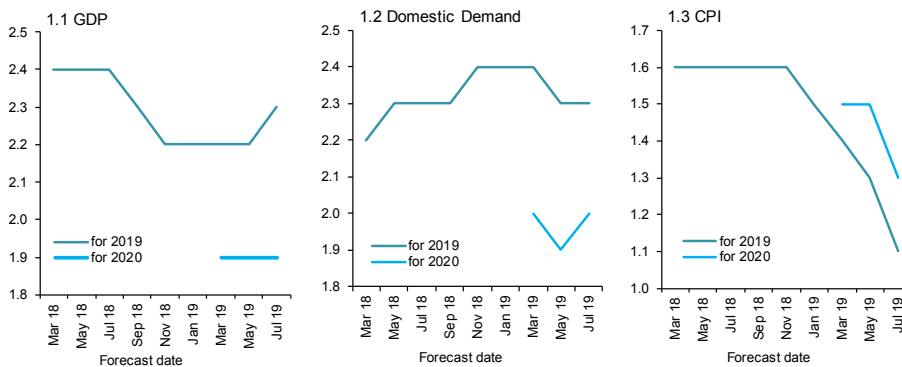
**Fiscal policy remains expansionary**

There is little change in the analysts’ assessment of fiscal policy. A wide majority continues to believe that fiscal policy is expansionary when it should be neutral or restrictive.

Exhibit 1

**Change in forecasts (Consensus values)**

(Annual rates in %)



Source: Funcas Panel of Forecasts.

\* The Spanish Economic Forecasts Panel is a survey run by Funcas which consults the 19 research departments listed in Table 1. The survey, which dates back to 1999, is published bi-monthly in the months 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 19 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.

# Spanish economic forecasts panel: July 2019\*

Funcas Economic Trends and Statistics Department

Table 1

## Economic Forecasts for Spain – July 2019

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	
	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020
Analistas Financieros Internacionales (AFI)	2.4	2.1	2.1	1.9	2.0	2.0	4.3	3.6	5.0	3.5	4.8	4.2	2.5	2.2
Axesor	2.5	2.0	1.5	1.8	1.9	1.2	4.5	3.6	3.8	3.1	4.5	4.2	2.3	2.1
BBVA Research	2.3	1.9	1.8	1.7	1.8	1.7	3.1	3.4	3.9	3.0	3.1	3.5	2.1	2.1
Bankia	2.2	1.8	2.0	1.5	2.1	1.8	4.4	3.6	5.3	4.0	4.0	3.4	2.6	2.0
CaixaBank Research	2.3	1.9	1.8	1.7	1.7	1.5	3.5	2.9	4.9	3.0	3.2	2.9	2.1	1.9
Cámara de Comercio de España	2.2	1.9	1.9	1.7	2.2	1.8	4.5	4.6	4.3	4.4	4.8	4.8	2.2	1.7
Cemex	2.3	2.0	1.8	1.8	1.7	1.7	4.3	4.1	4.4	4.0	4.9	4.7	2.3	2.2
Centro de Estudios Economía de Madrid (CEEM-URJC)	2.3	1.9	1.8	1.6	2.0	1.5	4.4	3.7	4.5	3.3	4.8	4.1	2.4	2.0
Centro de Predicción Económica (CEPREDE-UAM)	2.4	2.0	1.9	1.9	1.8	1.7	4.4	4.7	6.2	5.9	4.1	4.5	2.3	2.3
CEOE	2.1	1.8	1.9	1.9	1.9	1.8	3.9	3.0	3.7	3.2	4.4	2.9	2.3	2.0
Equipo Económico (Ee)	2.4	2.1	2.0	1.8	2.2	2.0	4.1	3.5	4.0	3.4	4.3	3.5	2.2	2.0
Funcas	2.2	2.0	1.9	1.7	1.7	0.9	4.9	3.9	4.0	3.9	5.6	4.0	2.5	2.1
Instituto Complutense de Análisis Económico (ICAE-UCM)	2.2	1.9	2.0	1.9	2.0	1.5	4.0	3.2	3.8	3.0	4.2	3.4	2.3	1.9
Instituto de Estudios Económicos (IEE)	2.3	1.8	1.7	1.5	1.9	1.6	4.2	3.9	4.0	3.6	4.4	4.1	2.2	2.0
Intermoney	2.2	1.9	1.7	1.6	1.3	1.3	3.6	2.7	3.5	2.3	3.8	3.1	2.1	1.8
Repsol	2.2	1.9	1.7	1.7	1.7	1.9	3.7	3.3	4.1	3.4	4.4	3.8	1.9	2.0
Santander	2.3	1.9	1.7	1.8	1.7	1.3	4.2	2.7	7.0	3.1	2.8	2.4	2.2	1.9
Solchaga Recio & asociados	2.4	1.9	1.7	1.5	1.9	1.6	4.1	3.4	4.0	3.3	4.7	4.1	2.3	2.0
Universidad Loyola Andalucía	2.4	2.0	1.8	1.7	2.1	1.6	3.8	3.3	4.8	3.2	3.7	3.3	2.3	2.0
<b>CONSENSUS (AVERAGE)</b>	<b>2.3</b>	<b>1.9</b>	<b>1.8</b>	<b>1.7</b>	<b>1.9</b>	<b>1.6</b>	<b>4.1</b>	<b>3.5</b>	<b>4.5</b>	<b>3.5</b>	<b>4.2</b>	<b>3.7</b>	<b>2.3</b>	<b>2.0</b>
Maximum	2.5	2.1	2.1	1.9	2.2	2.0	4.9	4.7	7.0	5.9	5.6	4.8	2.6	2.3
Minimum	2.1	1.8	1.5	1.5	1.3	0.9	3.1	2.7	3.5	2.3	2.8	2.4	1.9	1.7
Change on 2 months earlier <sup>1</sup>	0.1	0.0	0.0	0.0	0.0	0.0	0.1	0.2	0.2	0.1	-0.2	0.3	0.0	0.1
- Rise <sup>2</sup>	8	4	2	2	1	5	5	6	7	6	3	5	5	4
- Drop <sup>2</sup>	0	1	2	1	6	2	4	1	3	2	6	2	4	1
Change on 6 months earlier <sup>1</sup>	0.1	--	-0.2	--	-0.1	--	-0.1	--	-0.1	--	-0.1	--	-0.1	--
Memorandum items:														
Government (April 2019)	2.2	1.9	1.9	1.6	1.9	1.5	4.0	3.5	--	--	--	--	--	--
Bank of Spain (June 2018)	2.4	1.9	1.8	1.7	1.7	1.3	4.1	3.9	3.7	3.5	4.6	4.3	--	--
EC (July 2019)	2.3	1.9	--	--	--	--	--	--	--	--	--	--	--	--
IMF (April 2019)	2.1	1.9	2.0	1.7	1.7	0.8	2.9	2.7	--	--	--	--	2.2	1.7
OECD (May 2018)	2.2	1.9	1.7	1.6	1.9	1.6	3.8	3.9	--	--	--	--	2.2	2.1

<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.

Table 1 (Continued)

**Economic Forecasts for Spain – July 2019**

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>6</sup>	
	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020
Analistas Financieros Internacionales (AFI)	2.7	2.8	3.2	3.4	0.8	1.0	0.8	1.1	1.4	1.5	2.4	2.1	13.8	12.6	0.5	0.5	-2.3	-1.8
Axesor	2.5	2.8	2.4	2.9	1.5	1.3	1.1	1.0	2.0	1.8	2.9	1.7	13.4	12.8	0.9	0.8	-2.6	-2.0
BBVA Research	1.7	3.5	0.8	4.1	0.8	1.3	--	--	2.6	2.5	2.2	1.6	13.7	12.7	0.7	0.4	-2.2	-1.9
Bankia	1.8	1.9	2.9	2.7	1.2	1.5	1.0	1.5	1.9	1.7	2.0	1.5	13.4	12.1	0.7	0.7	--	--
CaixaBank Research	1.5	3.7	0.8	3.9	1.1	1.5	0.9	1.3	1.8	2.7	2.4	1.9	13.4	11.8	0.6	0.6	-2.3	-1.5
Cámara de Comercio de España	1.5	2.9	2.0	2.9	0.8	1.4	0.7	1.1	--	--	2.2	1.7	13.8	12.9	0.8	0.8	-2.4	-1.8
Cemex	1.7	1.5	1.7	2.2	1.0	1.2	1.0	1.1	--	--	2.0	1.7	13.9	12.7	0.5	0.3	-2.5	-2.0
Centro de Estudios Economía de Madrid (CEEM-URJC)	1.6	2.5	2.0	2.9	1.2	1.4	0.9	1.3	--	--	1.9	1.7	13.9	12.8	0.8	0.6	-2.5	-2.1
Centro de Predicción Económica (CEPREDE-UAM)	0.7	3.4	0.4	4.6	0.9	1.3	--	--	1.5	1.6	2.3	1.7	13.8	13.0	0.9	0.6	-2.1	-1.7
CEOE	1.3	1.5	2.2	2.4	1.0	1.2	0.8	1.1	1.8	1.7	2.0	1.8	13.8	12.4	0.8	0.6	-2.2	-1.8
Equipo Económico (Ee)	2.4	2.6	2.1	2.7	1.2	1.5	1.1	1.3	1.8	1.7	2.1	1.7	13.8	12.6	0.8	0.7	-2.5	-2.3
Funcas	2.0	2.3	2.8	2.7	0.8	1.1	1.0	1.2	2.1	1.4	2.2	1.7	13.7	12.4	0.6	0.5	-2.2	-2.0
Instituto Complutense de Análisis Económico (ICAE-UCM)	2.7	2.5	3.2	3.0	1.5	1.4	1.2	1.3	--	--	1.9	1.5	13.8	12.8	0.7	0.7	-2.2	-1.9
Instituto de Estudios Económicos (IEE)	1.4	2.1	1.2	3.2	1.1	1.3	1.2	1.5	1.9	2.2	2.0	1.6	14.0	13.1	0.5	0.4	-2.3	-1.8
Intermoney	1.5	2.8	1.2	2.5	1.0	1.2	0.9	1.1	--	--	2.3	1.8	13.6	12.8	0.2	0.1	-2.3	--
Repsol	0.4	1.6	-0.6	2.2	1.1	1.3	0.9	1.1	1.6	1.5	2.3	1.9	13.8	12.4	0.6	0.3	-2.2	-1.8
Santander	0.8	2.1	0.5	2.2	1.1	1.5	0.9	1.2	1.7	2.0	2.6	1.9	13.9	13.0	0.5	0.4	--	--
Solchaga Recio & asociados	1.5	2.9	1.1	3.2	1.2	1.4	1.1	1.3	--	--	2.2	1.7	14.0	13.2	0.6	0.4	-2.3	-1.9
Universidad Loyola Andalucía	1.2	2.2	0.9	2.0	1.1	1.3	1.0	1.1	--	--	2.0	1.7	13.7	12.6	0.6	0.4	-2.3	-1.8
<b>CONSENSUS (AVERAGE)</b>	<b>1.6</b>	<b>2.5</b>	<b>1.6</b>	<b>2.9</b>	<b>1.1</b>	<b>1.3</b>	<b>1.0</b>	<b>1.2</b>	<b>1.8</b>	<b>1.9</b>	<b>2.2</b>	<b>1.7</b>	<b>13.7</b>	<b>12.7</b>	<b>0.6</b>	<b>0.5</b>	<b>-2.3</b>	<b>-1.9</b>
Maximum	2.7	3.7	3.2	4.6	1.5	1.5	1.2	1.5	2.6	2.7	2.9	2.1	14.0	13.2	0.9	0.8	-2.1	-1.5
Minimum	0.4	1.5	-0.6	2.2	0.8	1.0	0.7	1.0	1.4	1.4	1.9	1.5	13.4	11.8	0.2	0.1	-2.6	-2.3
Change on 2 months earlier <sup>1</sup>	-0.1	-0.1	-0.3	0.0	-0.2	-0.2	0.0	0.0	0.0	0.1	0.2	0.0	-0.1	0.0	-0.1	-0.1	0.0	0.0
- Rise <sup>2</sup>	6	1	6	2	3	2	4	2	3	2	10	7	0	1	4	3	4	3
- Drop <sup>2</sup>	5	3	6	5	10	10	6	6	2	0	0	2	8	8	4	5	2	1
Change on 6 months earlier <sup>1</sup>	-1.0	--	-1.8	--	-0.4	--	-0.2	--	0.1	--	0.3	--	-0.1	--	-0.3	--	-0.1	--
Memorandum items:																		
Government (April 2019)	2.7	2.8	3.1	2.9	--	--	--	--	2.1	2.2	2.1	1.8	13.8	12.3	0.7	0.7	-2.0	-1.1
Bank of Spain (June 2018)	1.6	3.2	1.4	3.8	1.1 <sup>(7)</sup>	1.3 <sup>(7)</sup>	1.2 <sup>(8)</sup>	1.5 <sup>(8)</sup>	--	--	2.0	1.6	13.9	13.0	1.0 <sup>(9)</sup>	0.9 <sup>(9)</sup>	-2.4	-1.8
EC (July 2019)	--	--	--	--	0.9 <sup>(7)</sup>	1.2 <sup>(7)</sup>	--	--	--	--	--	--	--	--	--	--	--	--
IMF (April 2019)	2.5	3.5	2.7	3.2	1.2	1.6	--	--	--	--	1.6	0.6	14.2	14.1	0.8	0.8	-2.3	-2.3
OECD (May 2018)	0.8	3.7	0.6	4.3	1.0 <sup>(7)</sup>	1.6 <sup>(7)</sup>	1.0 <sup>(8)</sup>	1.5 <sup>(8)</sup>	1.8	2.0	2.3	1.6	13.8	12.7	0.8	0.7	-2.0	-1.4

<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> Excluding financial entities bail-out expenditures.

<sup>7</sup> Harmonized Index of Consumer Prices (HIPC).

<sup>8</sup> HIPC excluding energy and food.

<sup>9</sup> Net lending position vis-à-vis rest of world.

Table 2

### Quarterly Forecasts – July 2019

	19-I Q	19-II Q	19-III Q	19-IV Q	20-I Q	20-II Q	20-III T Q	20-IV Q
GDP <sup>1</sup>	0.7	0.6	0.5	0.5	0.5	0.5	0.4	0.4
Euribor 1 yr <sup>2</sup>	-0.11	-0.19	-0.19	-0.18	-0.17	-0.13	-0.07	-0.06
Government bond yield 10 yr <sup>2</sup>	1.13	0.50	0.47	0.54	0.66	0.74	0.84	0.92
ECB main refinancing operations interest rate <sup>2</sup>	0.00	0.00	-0.01	-0.02	-0.01	0.01	0.02	0.06
Dollar / Euro exchange rate <sup>2</sup>	1.13	1.13	1.13	1.15	1.14	1.15	1.15	1.16

Forecasts in yellow.

<sup>1</sup> Qr-on-qr growth rates.

<sup>2</sup> End of period.

Table 3

### CPI Forecasts – July 2019

Monthly change (%)				Year-on-year change (%)	
Jul-19	Aug-19	Sep-19	Oct-19	Dec-19	Dec-20
-0.4	0.2	0.3	0.7	1.4	1.3

Table 4

### Opinions – July 2019

Number of responses

	Currently			Trend for next six months		
	Favourable	Neutral	Unfavourable	Improving	Unchanged	Worsening
International context: EU	0	5	14	0	19	0
International context: Non-EU	1	7	11	0	16	3
	Is being			Should be		
	Restrictive	Neutral	Expansionary	Restrictive	Neutral	Expansionary
Fiscal policy assessment <sup>1</sup>	0	2	17	6	12	1
Monetary policy assessment <sup>1</sup>	0	2	17	0	8	11

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