

CEOE's Outlook: Spanish economy recovery accelerates at the beginning of 2015 with upward revision of forecasts for this year

- *“CEOE has revised upward its GDP growth estimates for the Spanish economy by 3.0% in 2015, with a more moderate growth expected in 2016. Consequently, Spain’s rate of growth will be higher than the Eurozone’s average, increasing this positive differential during this period.”*
- *“Domestic demand acquires an increasingly important role in the path to recovery; external demand is not hindering growth in 2015 and may even contribute to it in 2016.”*
- *“All components of the GDP will record positive growth rates in 2015, the most dynamic ones being investment in capital goods and imports. Household consumption will exceed growth rates of 3% in 2015 and investment in construction will approach 5%.”*
- *“This scenario will have a positive influence on the labour market. Job creation between 2015 and 2016 may reach 1 million. The increase in the number of employed people will approach 520 thousand and 442 thousand in 2015 and 2016 respectively in LFS terms.”*
- *“Record inflation lows may continue. The average inflation in 2015 may once again be negative (-0.2%) and 2016 anticipates an upturn of up to 1.3%, so long as a gradual recovery of oil prices occurs and in the absence of tax increases.”*
- *“As a result of the global economy’s momentum, the Spanish economy would maintain a current account surplus in 2015 and 2016, the latter being nevertheless quite moderate.”*
- *“These growth rates for the Spanish economy make the public deficit targets feasible”.*

The short-term outlook has improved in view of the strength of the domestic demand at the beginning of 2015 and the information available in advance about the second quarter, where CEOE’s activity indicators point to a 0.9% growth for the second consecutive quarter. Specifically, the acceleration observed in first quarter data is a favourable starting point for this year and therefore the growth rate of the GDP for all of 2015 is set at 3.0%.

Furthermore, the external demand has stabilised its contribution to the GDP in 2015, as exports will see increases in their rate of growth driven by the depreciation of the euro and the recovery in the Eurozone. In turn, imports will experience more moderate growth rates than in 2014, which will nevertheless be higher than exports.

A similar growth pattern will be maintained in 2016 but with a more moderate growth in domestic demand and a slight positive contribution from the external demand.

The recovery of the labour market will continue in 2015 with an average annual increase in the number of employed people of 519 thousand in LFS terms. 2016 will see a consolidation of this trend with an additional 442 thousand people. Therefore, the number of unemployed people is expected to decrease progressively along with the unemployment rate, dropping below 20% by the end of 2016.

Both the inflation forecasts and the GDP deflator indicate the absence of inflationary pressure in 2015, which will again remain within negative rates on annual average and show growth rates of 1.3% in 2016. This scenario contemplates a progressive and moderate increase of oil prices with no tax increases.

Improvements in the trade balance will contribute to maintain the net lending of the economy in positive territory in 2015 and 2016.

This scenario is subject to both upside and downside risks, with the former predominating in 2015 and the latter in 2016.

Among the upside risks the following must be highlighted:

- A greater impact than expected of the measures adopted by the ECB in the improvement of the financial conditions and, as a result, in the reactivation of investment and lending in Europe.
- A greater than expected positive effect on spending as a result of less restrictive fiscal policies in Spain.
- Higher rates of job creation in Spain as a result of greater job market flexibility and new hiring measures.
- The absence of strong upward fluctuations of oil prices and its on-going contribution to the growth of disposable income and the reduction of the trade balance.

Downside risks include:

- Stagnation of central economies of the European Union and a lack of a coordinated response to the growth slowdown, which would affect our exports.
- Increased financial instability in Greece, Russia and Ukraine as well as in some emerging markets, which could spread to the most indebted economies.
- A sustained upturn in imports and a lack of boost in exports that prevent balancing the external sector.
- A lack of drive in new lending to businesses and families.

SPANISH ECONOMIC OUTLOOK					
(last update: June 2015)					
Annual rates of change, unless otherwise indicated					
	2012	2013	2014	2015	2016
GDP	-2,1	-1,2	1,4	3,0	2,7
<i>Private Consumption</i>	-3,0	-2,3	2,4	3,3	2,6
<i>Government Consumption</i>	-3,7	-2,9	0,1	0,5	0,2
<i>Gross fixed capital formation</i>	-8,1	-3,7	3,4	6,1	4,3
<i>Construction</i>	-9,3	-9,2	-1,4	4,9	4,1
<i>Equipment and cultivated assets</i>	-9,0	5,8	12,3	9,8	5,9
National Demand (*)	-4,3	-2,7	2,2	3,0	2,4
<i>Exports (goods and services)</i>	1,2	4,3	4,2	6,1	5,6
<i>Imports (goods and services)</i>	-6,3	-0,4	7,7	6,7	5,2
CPI	2,4	1,4	-0,2	-0,2	1,3
Employment (LFS)	-4,3	-2,8	1,2	3,0	2,5
Unemployment rate	24,8	26,1	24,4	22,3	20,5
Current Account Balance (% of GDP)	-0,3	1,4	0,8	0,9	1,1
General government net lending (+) / net borrowing (-) (% of GDP) (**)	-6,6	-6,3	-5,7	-4,2	-3,5

Source: CEOE

(*) Contribution to growth

(**) Excluding aid to the financial sector