

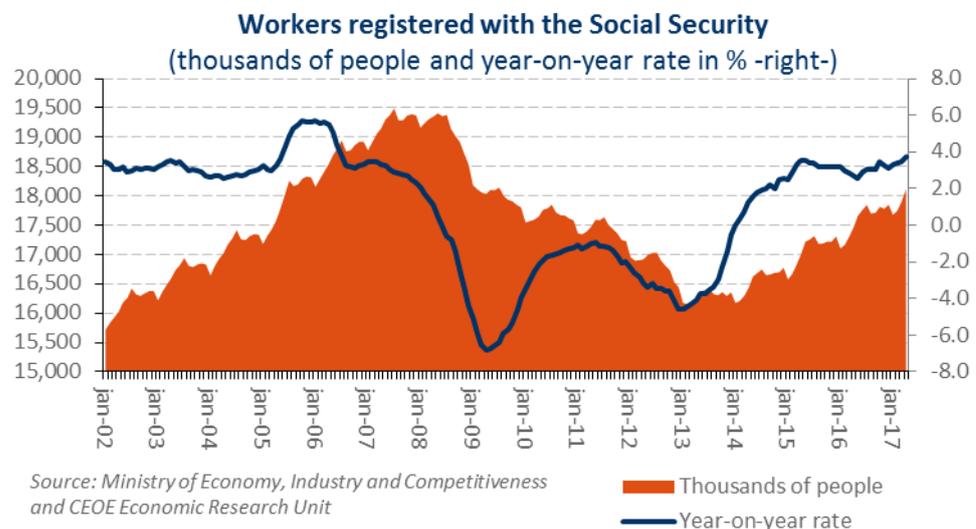
# ECONOMIC OUTLOOK

May 2017

- *Awaiting the upcoming figures relative to the Quarterly Spanish National Accounts, CEOE, in line with other organizations such as the European Commission and the Bank of Spain, estimates GDP growth for 2017 at around 2.8%, in comparison with our last estimation which stood at 2.5%.*
- *Forecasts from the IMF and the European Commission foresee greater momentum for the global economy in 2017, which should keep improving in 2018.*
- *Confidence indicators for March and April point to strong growth in the global economy, although growth figures for the first quarter were weaker than expected in some regions.*
- *The stock markets performed well in April, supported by central bank decisions and election results in France.*
- *Oil prices increased slightly in April, although they've initiated a drop in the second half of the month due to increased supply by some of the producers.*
- *Data available for the second quarter, mainly confidence indicators, points to continuance of the good performance of the Spanish economy.*
- *The number of workers registered with Social Security posted improved momentum in April, with a year-on-year rate close to 4%, the highest since 2006.*
- *Inflation in April accelerated to 2.6% and core CPI to 1.2%, due to the effect of the change in the Easter month.*

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## INTERNATIONAL SCENE: improved growth forecasts

Global growth continues to show signs of improvement, which are reflected in the good performance of the confidence indicators. Thus, the global PMIs for March and April point to solid growth in world activity. In the Eurozone, the Economic Sentiment Indicator, prepared by the European Commission, was set in April at its highest level since August 2007.

However, GDP growth in the first quarter of the year has been uneven. In the Eurozone, GDP increased 0.5% in quarterly terms, the same rate as in the previous quarter, while in the United Kingdom and the United States there was a slowdown to 0.3% and 0.2%, which is four and three tenths less, respectively, than in the fourth quarter of 2016. However, activity is expected to regain strength in the coming months.

In this regard, the IMF revised its forecasts for the world economy in 2017 up by one-tenth, while the European Commission maintained its estimates published in February. Both institutions pointed to an improvement in global activity for this year, which will continue through 2018, supported by the greater dynamism of world trade. However, the IMF warns of the risk that a shift towards protectionism would mean for global growth.

The behaviour of the stock markets was generally positive during April, encouraged by the on-going monetary stimuli in both, Europe and Japan, and the results after the first round of the French elections, with Emmanuel Macron resulting in the most voted candidate, and who, after the second round on May 7, was elected as the next president of France.

The main central banks, as indicated previously, kept their monetary policies unchanged. In Europe, the ECB stated that asset purchases would continue at a rate of € 60 billion per month until the end of December 2017, or until a later date if necessary. In addition, it left its interest rates at the current minimum levels and indicated that they will remain at those levels, or at lower levels, over an extended period of time. In Japan, its central bank also decided to keep interest rates at record lows and continue with its monetary stimuli program. Meanwhile, the Federal Reserve, at its meeting on May 2 and 3, left interest rates within the 0.75%-1% range, which is where they were set at the meeting last March, and it stated that a gradual adjustment in their monetary policy is to be expected, since they believe that the economy and the labour market will continue to improve.

As for oil prices, in April, Brent crude stood at \$52.3 per barrel on average, 1.8% higher than in March and 27.1% higher than in April 2016. In euros, it is 34.4% more expensive, in year-on-year terms. Nonetheless, at the beginning of the month the price increased progressively up to \$55 per barrel, following statements from OPEC members on the possibility of applying additional cuts in the coming months. Subsequently, it initiated a decline, which is extending over the first few days of May, to levels close to \$45 per barrel. This rise is due to the increase in supply by some producers, such as the United States and Libya, and the uncertainty about compliance with the OPEC's programmed cuts.

### Growth forecasts. IMF (April) and European Commission (May)

	IMF				European Commission		
	2015	2016	2017	2018	2016	2017	2018
GDP (y-o-y rate)							
<b>WORLD</b>	3.4	3.1	3.5	3.6	3.0	3.4	3.6
<b>United States</b>	2.6	1.6	2.3	2.5	1.6	2.2	2.3
<b>Japan</b>	1.2	1.0	1.2	0.6	1.0	1.2	0.6
<b>Euro Area</b>	2.0	1.7	1.7	1.6	1.8	1.7	1.8
<b>Germany</b>	1.5	1.8	1.6	1.5	1.9	1.6	1.9
<b>France</b>	1.3	1.2	1.4	1.6	1.2	1.4	1.7
<b>Spain</b>	3.2	3.2	2.6	2.1	3.2	2.8	2.4
<b>Italy</b>	0.8	0.9	0.8	0.8	0.9	0.9	1.1
<b>United Kingdom</b>	2.2	1.8	2.0	1.5	1.8	1.8	1.3
<b>China</b>	6.9	6.7	6.6	6.2	6.7	6.6	6.3
<b>Advanced economies</b>	2.1	1.7	2.0	2.0			
<b>Emerging economies</b>	4.2	4.1	4.5	4.8			
<b>World trade</b>	2.7	2.2	3.8	3.9	2.0	3.4	3.8

Source: IMF and European Commission

## THE SPANISH ECONOMY: outlook for 2017 revised upward

The outlook for the Spanish economy for 2017 was revised upwards. The positive activity results in the first quarter, with GDP possibly reaching a quarterly rate of 0.8%, and the good employment data, with strong growth in the number of workers registered with Social Security, which actually rose up in April, indicate that the Spanish economy is gaining momentum in the first part of the year. In fact, the main national and international organizations have improved their growth forecasts for the country in 2017. The first one to do so was the Bank of Spain, estimating a GDP of 2.8%, then the Government, which increased its forecast to 2.7% (previous 2.5%), and lastly, the European Commission, which forecasts growth at 2.8%. CEOE, in line with these organizations, also foresees a GDP increase of around 2.8% for 2017.

On the other hand, the Government presented its National Reform Programme 2017 and the Stability Plan for the 2017-2020 period. The fiscal strategy is based on a

macroeconomic environment resulting from the consolidation of the expansion cycle, albeit with moderate rates, and progress in the correction of macroeconomic imbalances. In fact, there will still be an external surplus during this period, the unemployment rate is expected to decrease to 12% by 2020 and budget balance is also expected to be reached by 2020.

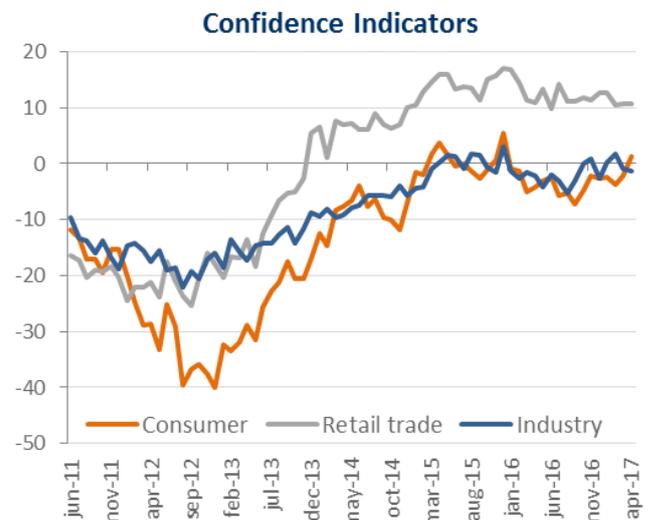
The path to fiscal consolidation is explained by a drop in the weight of expenditures in the GDP to 39.2% and an increase in the fiscal pressure to 38.7% of GDP by 2020. This means that the public sector resources are expected to increase more than nominal GDP due to the positive economic performance, while spending would do so at a slower pace. In the area of reforms, there has been little activity in recent years, and although there are important reforms pending for the coming years (pensions, regional financing), there seems to be no firm commitment to implement them in the near future.

## DEMAND AND ACTIVITY: the economy remains strong at the start of the second quarter

The information available for the second quarter refers mainly to expectations indicators, which show continuity of the good performance shown by the economy in the first quarter. The favourable development of the labour market and the better outlook for external markets are reflected in the expectations of consumers and sectors. In this sense, both the manufacturing PMI and the services PMI improved in April, in comparison to March. The global activity composite PMI for Spain was set at the highest it's been in the last 20 months, only behind Ireland within the main Eurozone economies with stronger PMI levels. These improvements are due to a higher volume of new orders, especially those that are intended for export.

The consumer confidence indicator also rose in April in comparison to the first quarter, reaching its highest level of the last 15 months. This was due to a significant improvement in all its components, and in particular to a more favourable perspective for the labour market and a positive outlook for the savings component, within a context of increased employment and low interest rates. Retail trade indicators continue to show robust growth, as reflected in both the retail trade index and large-company sales in March. Disaggregating by destination, large-company sales abroad grew at double-digit rates in February and in March, while domestic sales recorded a more moderate but also quite remarkable increase of around 2.7-2.8% in real terms.

The improved international environment is favouring both export and tourist forecasts. In this sense, the Synthetic Indicator of Export Activity (Spanish acronym: ISAE) increased 5.1 points in the first quarter in comparison to the previous quarter, to be set at +26.2 points, its highest value since 2007, and the expectations for the second quarter raises an additional seven points. Tourism spending in March was 10.3% higher than in the previous year and tourist arrivals increased by 6.1% over the record figures for 2016.

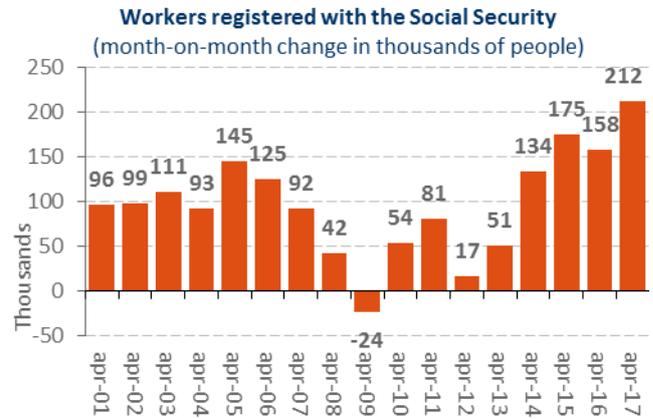


Source: European Commission

## THE LABOUR MARKET: the number of workers registered with Social Security increases its year-on-year rate of growth in April, up to 3.8%

According to the LFS, the employment creation rate remained stable in the first quarter at 2.3% (+408,700 workers, all of them in the private sector). Even so, the number of unemployed persons stands at almost 4.3 million people, and the unemployment rate is set at 18.8%, both of which are higher than the figures for the fourth quarter of 2016.

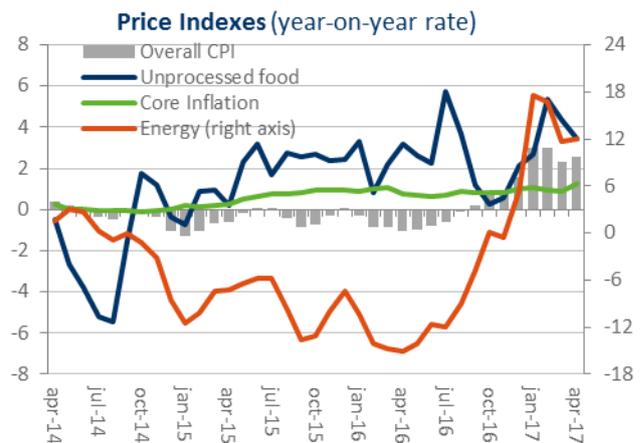
However, the number of workers registered with Social Security in April was very positive. There was an increase of 212,216 people in comparison to March, the highest number for April within the historic series. Furthermore, the y-o-y rate rebounded to 3.8% (the highest since 2006), which means there are 658,387 new workers. Thus, the total number of workers exceeds 18.1 million people, reaching levels last seen in 2009.



Source: Ministry of Economy, Industry and Competitiveness and CEOE Economic Research Unit

## PRICES: inflation accelerates due to the effect of the Easter change

In April, the general CPI rebounded to 2.6%, due to the increase in core inflation, which stands at 1.2%, three tenths higher than in the previous month. This spike in core inflation is mainly due to the change in the Easter break, which landed in April this year whereas last year it was celebrated in March, fact that accounts for the high prices in tourist offers and accommodation services in comparison to April 2016. Energy prices continue to be the CPI's pressuring factor. Oil prices in April (\$52.3 per barrel) are still higher than those recorded a year ago, but the increase is lower than in previous months and in the coming months the impact will decrease even more. It is expected that, in the coming months, core inflation will remain very restrained and inflation will gradually slow down.



Source: INE

## THE PUBLIC SECTOR: restraint in expenditures and some momentum in revenues at the beginning of 2017

The accumulated deficit of General Government (excluding Local Government) up to February 2017 fell to 0.9% of GDP from the 1.1% of GDP registered in the same period in 2016. Although the first two months are not decisive in the evolution of the budget execution for the whole of the year, in general terms one can notice some containment in expenditures and a greater dynamism in revenues.

Broken down by the various levels of Government, it is worth mentioning the slight decrease from the Regional Governments, as well as from the Central Government, while the Social Security Funds accumulate a reduced surplus, as is usually the case in the first few months of the year.

With preliminary information for the implementation of the State budget, the deficit up to March amounts to €5.659 billion, 43.8% less than in the same period in 2016. In GDP terms, the State accumulates a 0.5% deficit, half of what was posted in the first quarter of the previous year and, in addition, it reached a positive primary balance of €651 million. Tax resources are growing by 3.2%, aided by a 5.2% increase in VAT as a result of positive consumption rates. On the expenditure side, it is worth noting the -7.4% drop in comparison to the first quarter of 2016, which is explained by the decrease in current transfers between levels of Government (Social Security and State Public Employment Service-SEPE, mainly).