

GENERAL OUTLOOK

The global economy continues its progressive but uneven recovery. While growth in the United States and China has slowed down in the first quarter, with some emerging economies experiencing a marked decline in their level of activity, Japan and Europe (with Spain leading and despite the situation in Greece) continue to consolidate their pace of recovery. This is confirmed in the OECD's last report, which foresees a slight slowdown of the world economy in 2015 (3.1% in comparison to 3.3% in 2014) but a more robust scenario in 2016, with a GDP increase of 3.8%. Low oil prices, an expansionary monetary policy and lower fiscal adjustments explain the improved outlook of the global economy for the remainder of 2015 and for 2016. World trade will gain greater momentum in 2015, with growth expectations rising to 3.9% and 5.3% for this year and 2016 respectively.

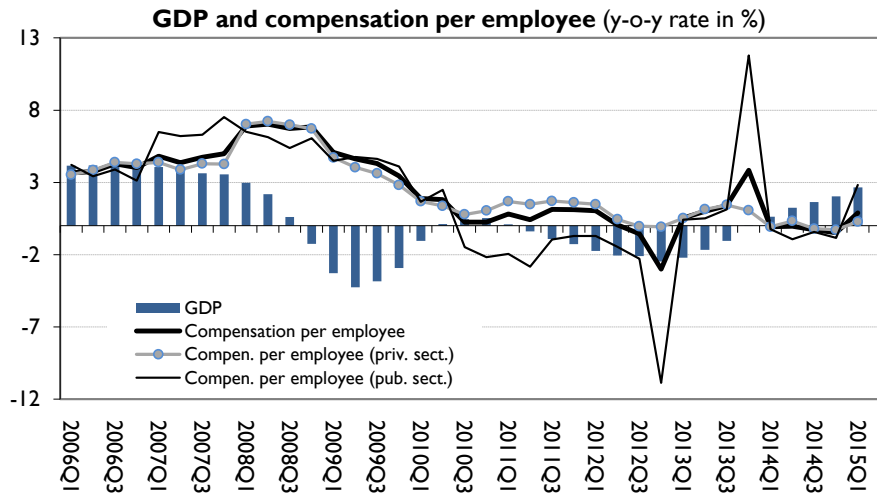
On this occasion, the OECD's report places more emphasis on investment, and concludes that the recovery in private investment during the current end of the crisis is slow, which undermines these economies' potential growth. Therefore, in order to boost the global economy, greater investment is required to increase productivity, create more jobs and new employment opportunities, so as to drive consumption demand. In this context, we must favour the business climate and reduce both financial restrictions and political uncertainty.

Just as the OECD moderates its economic outlook for the United States in 2015 with a GDP growth of 2.0%, the Eurozone is expected to consolidate its recovery, with its GDP advancing 1.4%. Both growth rates are expected to intensify in 2016, reaching 2.1% in the case of the Eurozone and 2.8% in the United States. The outlook improves for Spain, with a growth of 2.9% and 2.8% in 2015 and 2016 respectively.

Within Europe, the situation in Greece and its four-month long negotiations with the European Commission and other institutions continue to attract maximum attention. A firm agreement has not yet been reached due to discrepancies regarding the intensity of the reforms that the Greek economy must undertake. An agreement has been reached to delay the payment of 300 million euros to the IMF, with the possibility to accrue the outlay of the four payments that are planned for the end of June, which is the end date of the second aid package. This measure did not convince the financial markets, resulting in Greece's risk premium soaring coupled with great volatility in the bond and equity markets. The uncertainties surrounding Greece's capacity to meet the planned payments continue, at the same time that Athens threatens with the possibility to call for new elections if Brussels and the IMF do not facilitate the agreement.

In Spain, the National Statistics Institute has confirmed the accelerated growth of the Spanish economy in the first quarter of 2015, with a GDP increase of 0.9% with respect to the previous quarter. In year-on-year terms, the GDP has reached a positive rate of 2.7% when compared to the 2.0% growth rate of the fourth quarter of 2014. The following must be highlighted as a result of the analysis of these data:

- All of the components of the GDP on the demand side have increased in this period, as have all productive branches, with the exception of financial and insurance activities.
- Demand-side growth is more balanced. Net external demand shows a less negative contribution to the GDP (0.3 percentage points); however, the domestic demand has stepped up its contribution to growth, particularly in terms of gross fixed capital formation, both in construction and capital equipment, while household consumption moderates the momentum gained in previous quarters.
- Compensation per employee has picked up considerably in the first quarter, reaching a rate of growth of 0.9%. Nevertheless, part of this acceleration is due to the reimbursement in January of this year of 25% of the extra salary payment to civil servants corresponding to the month of December 2012, which had been originally eliminated. Thus, according to CEOE estimates, compensation per employee in the public sector increased 2.8%, whereas the increase in the private sector was 0.3%.



- Productivity per worker continued to decline in the first quarter (-0.1%) but less intensely than in the last quarter of 2014.
- The GDP deflator has once again recorded positive rates (0.5%) after a year of declines.

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 indicator points to a growth of about 1.0% in this period. Specifically, the marked acceleration observed in the data corresponding to the first semester 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% (the IMF estimates a growth of 3.1%). It must be pointed out that all domestic demand components have scored positively in 2015 and that the growth pattern will be more balanced, with the net external demand's contribution to the GDP being around zero.

As regards the behaviour of the foreign sector and based on preliminary trade balance data up to March, it is important to highlight how the current account surplus has increased with respect to the recorded surplus until March 2014 due to a greater surplus in the balance of goods and services and the stability of the primary and secondary income balance. Thus, when considering the past 12 months, the Spanish economy has improved its net lending until March.

In addition, the labour market continues to deliver good results. May's data regarding the number of workers registered with the Social Security showed an increase of 213,015 people, representing the highest monthly increase recorded in the historical series after the central months of 2005. As a result, the year-on-year rate has increased one tenth to 3.6% in May, with an increase of 593,000 new people registered with the Social Security during the past year. Furthermore, all sectors have shown a good performance in the month of May, the construction sector standing out in terms of intensity with a year-on-year growth rate of 6.0%, followed by services (3.8% y-o-y). This dynamic involving more employed people, coupled with the continuous drop in unemployment, have slightly improved the labour market outlook for 2015, with an average annual of job creation of about 520 thousand people.

Negative price rates are diminishing as manifested by the GDP deflator, which recorded a year-on-year 0.5% increase in the first quarter and by May's CPI data, with an annual variation of -0.2%, four decimals above that of April, while core inflation has experienced an upturn of up to 0.5%. Inflation will return to positive in the second part of 2015 and may reach a year-on-year rate near to 1.5% in December. Inflation will again be negative (-0.2%) for 2015 as a whole.