

Sectoral Observatory

2024

360° report on the state and outlook
for Spain's economic sectors

A perspective of
the Spanish economy
through the lens of the
new CaixaBank Research
Sectoral Indicator

Outlook for the economy
and its sectors in 2024
and 2025

Manufacturing
gains traction
despite a challenging
environment

Which of Spain's
sectors have been
hardest hit by the
slowdown of the
country's trading
partners?



SECTORAL OBSERVATORY

Observatory of 2024 The *Sectoral Observatory* is a publication produced by CaixaBank Research

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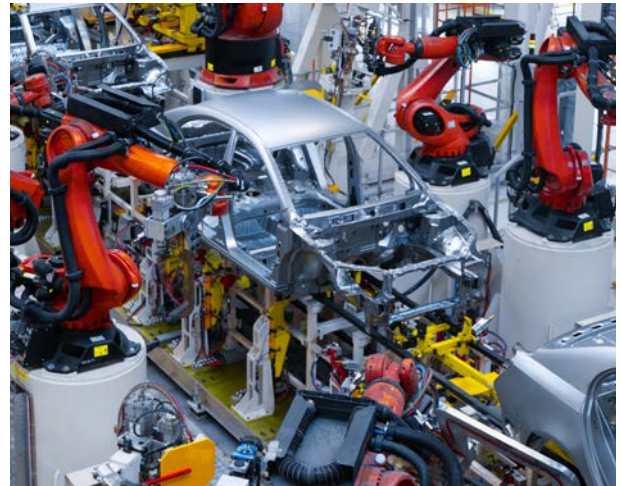
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2024



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«Our industry does not respect tradition.
It only respects innovation.»
SATYA NADELLA, CEO OF MICROSOFT



Sectoral Observatory

CAIXABANK RESEARCH SECTORAL OBSERVATORY

Monitors the evolution of the Spanish economy from the point of view of its sectors



CaixaBank Research Sectoral Indicator

Allows the evolution of **24 sectors** to be compared in terms of:



ECONOMIC ACTIVITY

- Total sales
- Turnover
- Electricity consumption
- Domestic sales
- Number of companies



LABOUR MARKET

- Employment
- Registered workers



FOREIGN SECTOR

- Exports
- Imports

Recent situation

The impact of the significant shocks that the economy has endured has varied widely

SHOCK



SECTORS MOST AFFECTED

COVID-19		Tourism: leisure and entertainment, catering and accommodation
Disruptions to global value chains		Manufacturing, especially the automotive industry
War in Ukraine: energy crisis and increased costs		Energy-intensive branches of industry, transport, agrifood sector
Increase in interest rates		Real estate sector and some branches of industry
Slowdown in the euro area		Agrifood sector, timber industry and machinery and equipment

SECTORAL FORECASTS FOR 2024-2025

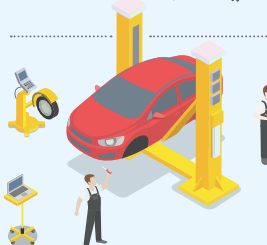


ABOVE-AVERAGE EXPANSION:

- Information and communication (ICT)
- Pharmaceutical industry
- Tourism
- Construction



They share very positive secular trends or a strong international competitive advantage



NEAR-AVERAGE GROWTH:

- Agrifood sector
- Automotive industry
- Real estate activities
- Trade



With the normalisation following the recent shocks, they will show a more stable behaviour



MODERATE WEAKNESS:

- Textile industry
- Paper industry



They share weaker secular trends, due to cost pressures and greater exposure to international competition

Executive summary

The CaixaBank Research Sectoral Observatory

With this report we inaugurate the **Sectoral Observatory**, a new publication by CaixaBank Research in which we offer an analysis of the evolution of the Spanish economy from the perspective of its sectors. This publication complements the *Sector Report* series, in which we offer an in-depth analysis of some of Spain's key economic sectors: real estate, tourism, agrifood and industry.

The goal of the *Sectoral Observatory* is to take a deeper look at the underlying dynamics behind macroeconomic developments, offering a comprehensive view of the various economic sectors' performance over time. In order to compare the evolution of the different sectors, we have built the **CaixaBank Research Sectoral Indicator**, an innovative tool that combines information from various economic activity indicators, the labour market and the foreign sector. This information is then homogenised in order to provide a comparative view of the performance of each of Spain's economic sectors. In the methodology note of the first article of this Observatory we provide details of how the indicator is calculated.

The analysis we have carried out, based on the CaixaBank Research Sectoral Indicator, reveals that the significant shocks which Spain's economy endured between 2020 and 2023 (the COVID-19 pandemic, the energy crisis triggered by the war in Ukraine, and the rise in inflation and in interest rates), had a widely varying impact on each of the 24 sectors considered in the analysis, leading to greater **dispersion in their rate of economic activity growth**. As these shocks have been gradually absorbed, the behaviour of the different sectors is becoming increasingly homogeneous. This trend towards decreased dispersion is particularly apparent in the closing months of 2023 and the first few months of 2024, reflecting the fact that the

economy is moving towards a more stable growth cycle, as foreseen by our sector forecasts, which we present in the second article of this report. Some of the sectors in which we expect to see the highest growth rates in 2024-2025 include those linked to the digital transition (such as information and communication technologies, and professional services) and sectors in which Spain is highly competitive (such as the pharmaceutical or tourism sectors).

In the third article of this report, we focus on **Spain's manufacturing**, a sector that is beginning to show signs of recovery after having endured global supply chain disruptions, a sharp increase in costs (energy and other inputs), the impact of rising interest rates and a slowdown of foreign demand. Looking back on 2023 we see a mix of positives and negatives. On the one hand, in terms of GVA and employment, the sector continued to grow and now exceeds pre-pandemic values. In contrast, manufacturing exports, weighed down by higher costs and weakened foreign demand, fell by 7.6% in volume terms in 2023.

Indeed, in the last article of this report we analyse the **pattern of exports by sector**. While exports of goods fell in 2023, we find that exports of services – both tourism and non-tourism – performed very well indeed. Considering the decline in energy prices and interest rates, coupled with the prospect of a revival of the major European economies over the coming quarters, all the indications suggest that exports of goods will recover during the course of 2024. As for services, the growth potential in the medium and long term is significant, taking into account the international appeal which Spain currently enjoys in sectors such as tourism and the residential market, as well as the boost which digitalisation is providing to the professional services and ICT sectors.



Current situation and future outlook

A perspective of the Spanish economy through the lens of the new CaixaBank Research Sectoral Indicator

In this article we present the CaixaBank Research Sectoral Indicator, an innovative tool that combines information from various economic activity indicators, the labour market and the foreign sector, allowing us to analyse the evolution of the economy from a sector-based perspective. According to the new indicator, the most energy-intensive branches of the manufacturing and the agrifood sector are the ones which suffered the most in 2023, especially in the middle two quarters of the year. At the other end of the spectrum we find sectors such as accommodation and food services and the automotive industry, which performed rather well. In recent months we have witnessed a turning point and an increasingly homogeneous performance among the various branches of economic activity, as the different sectors overcome the multiple obstacles that have arisen in recent years and move towards a more stable and sustainable pattern of growth.

Brief recap of the Spanish economy in 2023: better than expected performance

The Spanish economy slowed in 2023, but ended the year with growth of 2.5%, taking the consensus of analysts by surprise, having forecast growth of 1.0% at the beginning of the year. In year-on-year terms, the economy went from growing by 4.1% in Q1, a figure influenced by the base effect of the pandemic (the comparison is with the first quarter of 2022, when the effects of the pandemic were still notable in sectors linked to tourism), to growing by 2.0% in Q4 2023.¹ This slowdown, which was less pronounced than anticipated, occurred in an adverse context marked by weak foreign demand, inflation that remained high and the impact of the rise in interest rates, as well as the consequences of the energy shock triggered by the war in Ukraine. These are factors which affected all productive sectors of the economy.

¹ In quarterly terms, the economy only lost some momentum in Q3 (0.4% quarter-on-quarter compared to 0.5% on average in the first half), before accelerating once again in the closing stages of the year (0.6% quarter-on-quarter in Q4).

The relatively good performance of Spain's economy in this unfavourable environment is explained by three key factors: the strength of the labour market (the number of people in employment grew by 783,000 people in 2023) which stimulated private consumption; a foreign sector that held up rather well in the first half of the year (although it slowed significantly in the second half), and the boost provided by public spending (which contributed 0.8 pps to GDP growth in 2023). This last figure is significant, since, if we exclude the sectors linked to the public sector,² we see that economic activity cooled to a much greater degree, going from 4.2% year-on-year growth at the end of 2022 to 1.7% in Q4 2023.

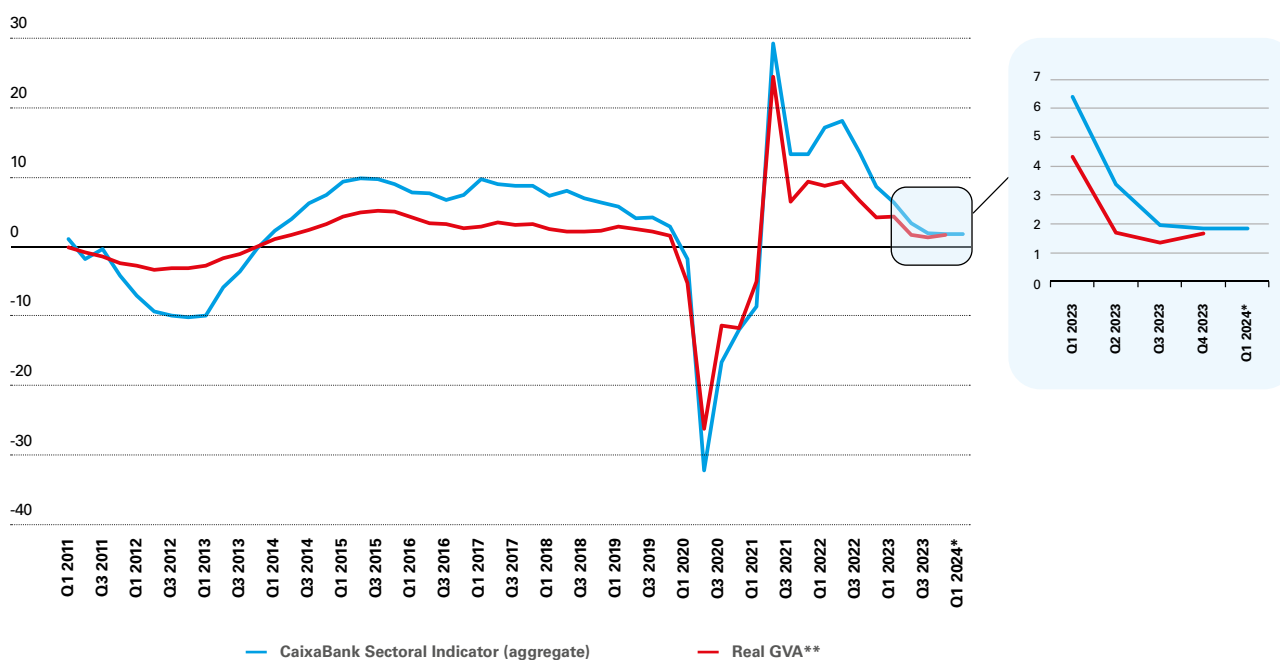
② The analysis excludes general government and defence, education and health activities, as well as highly regulated sectors (the energy and financial sectors).

③ For further details on how the sectoral indicator is built, see the «Methodology note» on the CaixaBank Research Sectoral Indicator in this same article.

This is corroborated by the new **CaixaBank Research Sectoral Indicator**,³ which captures a slowdown in the growth rate during the first half of 2023 across every one of the 24 sectors it encompasses, as shown in the following chart. However, the same indicator suggests that the slowdown may have bottomed out in Q3 2023 and that economic activity may have gained some traction in Q4 and in the opening months of 2024, based on the available information, which is still only partial.

CaixaBank Research Sectoral Indicator and real GVA**

Year-on-year change (%)



Notes: (*) The figure for Q1 2024 is an average for January and February. (**) The GVA excludes the general government and defence, education and health sectors, as well as the energy and financial sectors.

Source: CaixaBank Research, based on data from the Spanish National Statistics Institute (INE), the Spanish Tax Agency (AEAT), the Ministry of Inclusion, Social Security and Migration (MISSM), DataComex and the Spanish national grid (REE).

The CaixaBank Research Sectoral Indicator suggests that the slowdown may have bottomed out in Q3 2023 and that the growth rate may have stabilised in Q4 and Q1 2024

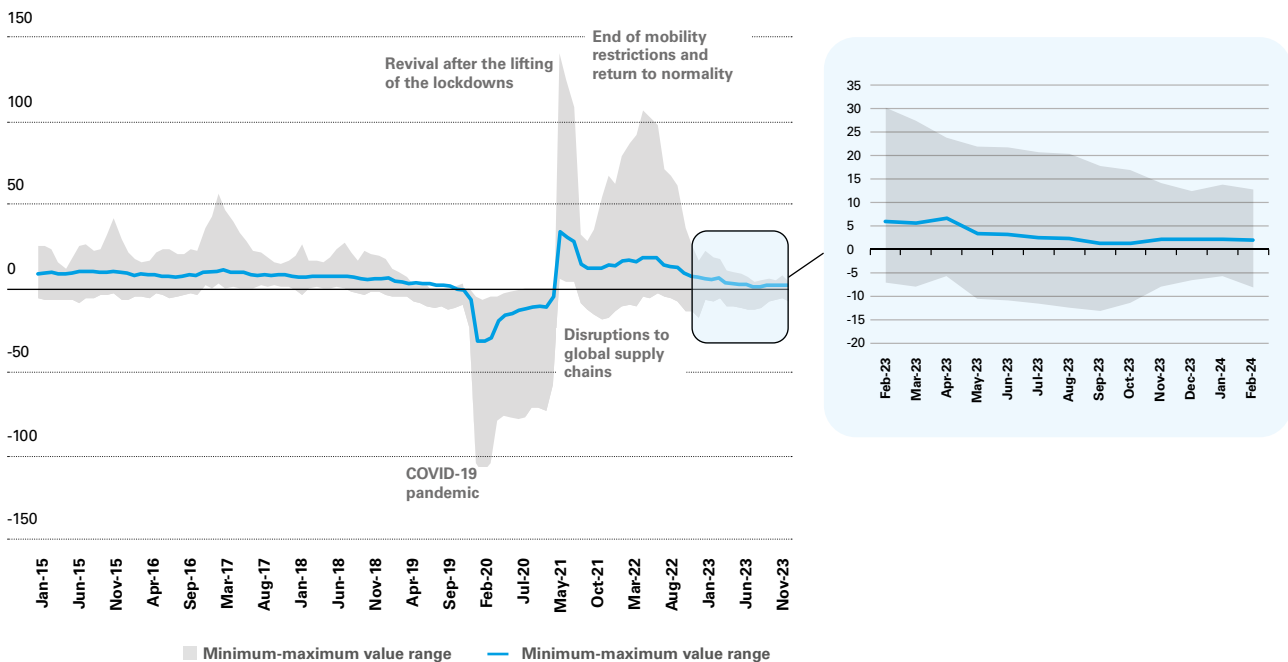


Disparate pattern in the growth rate of Spain's economic sectors

In addition to this first reading of the aggregate performance of the Spanish economy, the CaixaBank Research Sectoral Indicator also allows us to characterise the individual performance of each of Spain's economic sectors. Did they perform similarly throughout 2023 or, on the contrary, did they follow different trajectories? To answer this question, we look at the dispersion of the indicator, that is, the range of values (minimum and maximum) and the average value that the indicator takes among the 24 economic sectors that are analysed at any given time (see the following chart).

Dispersion of the CaixaBank Research Sectoral Indicator

Year-on-year change (%)



Note: The chart shows the range of values taken by the Sectoral Indicator among the 24 economic sectors analysed together with the average value.

Source: CaixaBank Research, based on data from the Spanish National Statistics Institute (INE), the Spanish Tax Agency (AEAT), the Ministry of Inclusion, Social Security and Migration (MISSM), DataComex and the Spanish national grid (REE).

The chart clearly shows how the significant external shocks that the Spanish economy endured between 2020 and 2022 caused a sharp spike in the dispersion between sectors. First, the COVID-19 pandemic in 2020 caused a sharp drop in economic activity across the board (the sectoral indicator takes negative values in all sectors), and this drop was particularly intense in the sectors most dependent on social interaction (leisure and entertainment, catering and accommodation). The following years saw a rapid reversal of this effect, causing a surge in year-on-year economic activity growth rates. Second, the bottlenecks that emerged in global supply chains beginning in 2021 hurt manufacturing, which is more dependent on trade flows and the import of inputs (such as chips). In 2022, the war in Ukraine and the energy crisis drove up production costs, affecting more energy-intensive sectors the most. Finally, the rise in interest rates since mid-2023 harmed those sectors that are most dependent on external financing, such as the real estate sector and certain branches of industry.

However, the gradual absorption of these shocks during the course of 2023 has led to an increasingly even performance across the various sectors. This trend towards decreased dispersion is particularly apparent in the closing months of 2023 and the opening months of 2024, reflecting the fact that the economy is moving towards a more stable growth cycle, similar to the pre-pandemic period of 2015-2019.

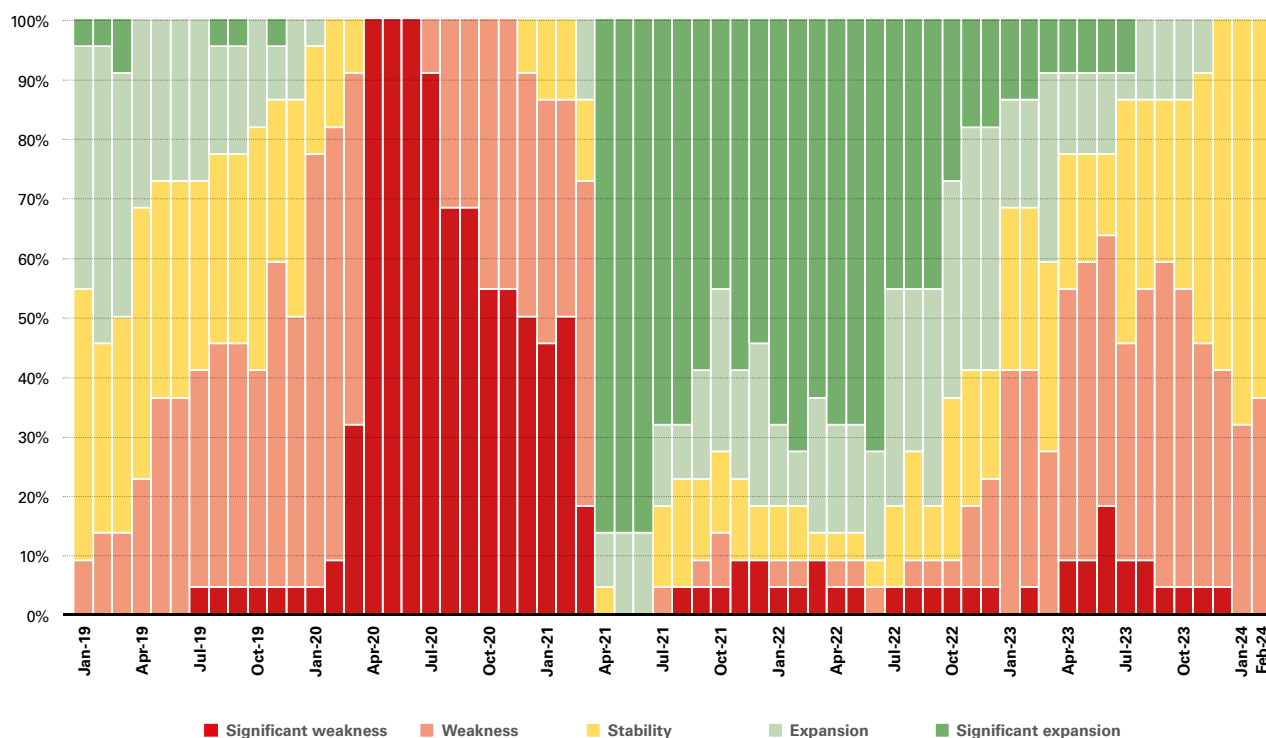
The sector traffic light: how rapidly are the various economic sectors growing?

Another way to characterise the performance of the different sectors is to use the so-called sector traffic light, a chart in which the sectors are classified into five categories according to their rate of growth/contraction.⁴ In this way, conclusions can be drawn on the degree of synchronisation in the growth/slowdown of Spain's various economic sectors.

④ In particular, a sector is considered to be in a position of «significant weakness» if the value taken by the sectoral indicator lies below the 15th percentile (P15) of that indicator's historical distribution; a position of «weakness» when it takes a value between P15 and P40; «stability» between P40 and P60; «expansion» between P60 and P85, and «significant expansion» when the indicator lies above P85.

Sector traffic light for the Spanish economy

Percentage of the total number of sectors



Note: The traffic light chart indicates the percentage of sectors classified in each of the 5 growth categories, which are defined as follows: «Significant weakness» if the value taken by the sectoral indicator lies below the 15th percentile (P15) of that indicator's historical distribution; a position of «weakness» when it takes a value between P15 and P40; «stability» between P40 and P60; «expansion» between P60 and P85, and «significant expansion» when the indicator lies above P85.
Source: CaixaBank Research, based on data from the Spanish National Statistics Institute (INE), the Spanish Tax Agency (AEAT), the Ministry of Inclusion, Social Security and Migration (MISSEM), DataComex and the Spanish national grid (REE).

The significant shocks which Spain's economy endured between 2020 and 2022 had a widely varying impact on the different sectors, leading to greater dispersion in their rate of economic activity growth. As these shocks are gradually absorbed, the performance of the various sectors is becoming increasingly homogeneous



The chart provides a very visual picture of how the pandemic impacted our economy: economic activity plummeted between March and April 2020, when all sectors showed significant weakness. Since then, the recovery has been evident, with very high growth rates. If we look at the most recent pattern, since April 2023 there has been a slight slowdown in activity: the percentage of sectors with weak or very weak growth reached as high as 60% of the total (the worst figure since 2020). This slowdown was concentrated in various branches of the economy that make up manufacturing, especially those hardest hit by the rise in production costs, the increase in financing costs and the fall in foreign demand. In particular, the agrifood sector (agriculture, forestry and fishing and processing industry), mining and quarrying, construction, textiles, paper and the refining industry were the branches that performed the worst.

The slight slowdown in middle two quarters of 2023 was concentrated in the agrifood sector and manufacturing, which were harder hit by the fall in foreign demand and the high production costs

In any case, this deterioration was short-lived: it was concentrated in the middle two quarters of 2023 and did not extend to the whole economy. In the most recent months, there has been a clear improvement in the sectors that suffered the most, and none are in a situation of significant weakness. Behind this improvement there are incipient signs of a revival in manufacturing and the agrifood sector, which we expect will be consolidated during the course of 2024, as we will see in detail in the next article of this *Sector Report*.

In the first few months of 2024, around 60% of sectors maintained stable growth. In other words, just as in the dispersion chart, we can see that the economy is moving towards more constant growth rates, after several years of significant distortions (the pandemic, supply chain disruptions, geopolitical conflicts, the energy crisis, etc.) in which sectors enjoying strong growth coexisted with others in contraction.

Economic activity, the labour market and the foreign sector: the pillars that explain the performance of the various economic sectors

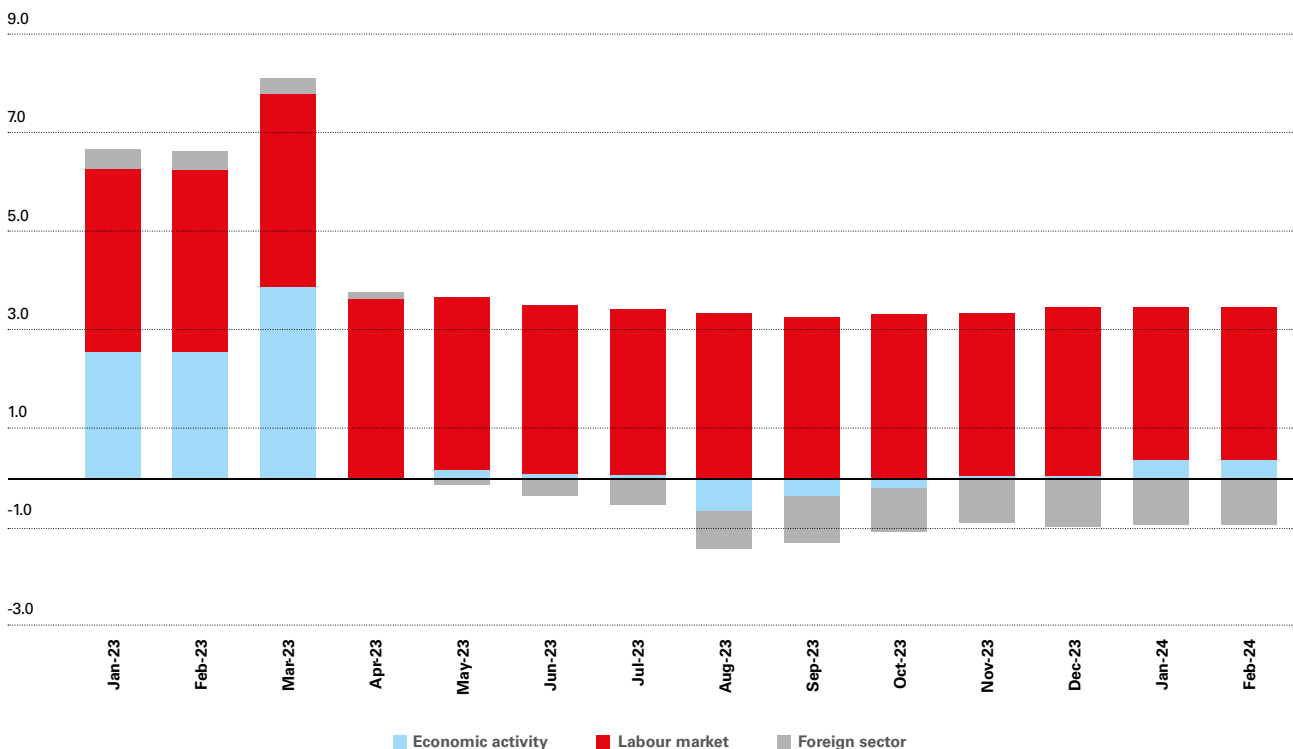
CaixaBank Research's Sectoral Indicator is calculated using indicators from different spheres that can be grouped into three major pillars: economic activity, the labour market and the foreign sector. Analysing the contribution of these three pillars to the indicator allows us to take a closer look at the factors that explain the economy's behaviour throughout the cycle. Firstly, we can see that the strength of Spain's labour market has played an important role across all sectors, and this pillar has been keeping the sectoral indicator in positive territory since Q2 2023.



Secondly, we note a turning point in the economic activity indicators in April 2023, across all indicators and sectors, when this pillar ceased making a positive contribution to the indicator. In any case, these activity indicators have recovered and in the most recent months they have once again been making a positive contribution to the indicator. Finally, the foreign sector pillar has also deteriorated since April 2023 but shows little sign of improvement in the latest data. The improved growth outlook for our main trading partners in 2024 should help the foreign sector to improve.

Contribution of economic activity, the labour market and the foreign sector to the CaixaBank Research Sector Index

Percentage points



Source: CaixaBank Research, based on data from the Spanish National Statistics Institute (INE), the Spanish Tax Agency (AEAT), the Ministry of Inclusion, Social Security and Migration (MISSM), DataComex and the Spanish national grid (REE).

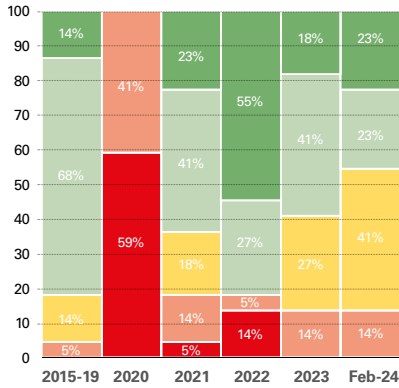


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If we replicate the idea of the traffic light chart for each of the three pillars, we can also draw interesting conclusions that shed more light on the behaviour of the sectors.

Sector traffic light for the labour market

Percentage of the total number of sectors

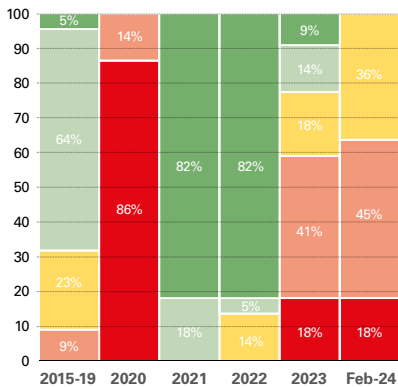


The traffic light for the labour market⁵ shows that only four of the sectors analysed currently exhibit weak growth in the indicators related to the labour market: agriculture, forestry and fishing, mining and quarrying, textiles, and timber industry. On the contrary, **almost half of the sectors are currently in a phase of expansion** through this pillar, with transport and logistics, accommodation and food services, and information and telecommunications sectors performing the best.

⁵ The chart shows the percentage of sectors classified in each of the 5 growth categories, which are defined as follows: «significant weakness» if the value taken by the sectoral indicator lies below the 15th percentile (P15) of that indicator's historical distribution; «weakness» when it takes a value between P15 and P40; «stability» between P40 and P60; «expansion» between P60 and P85, and «significant expansion» when the indicator lies above P85.

Sector traffic light for economic activity

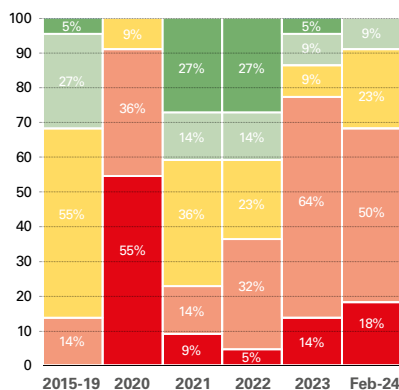
Percentage of the total number of sectors



The traffic light for economic activity shows a **significant deterioration in this pillar in 2023**, when around 60% of the sectors were in a situation of weakness. This stands in stark contrast to the significant expansion recorded in 2021 and 2022 (years of rapid economic recovery following the blow dealt by the pandemic). This poorer performance in 2023 is essentially due to the deterioration in manufacturing and the agrifood sector.

Sector traffic light for the foreign sector

Percentage of the total number of sectors

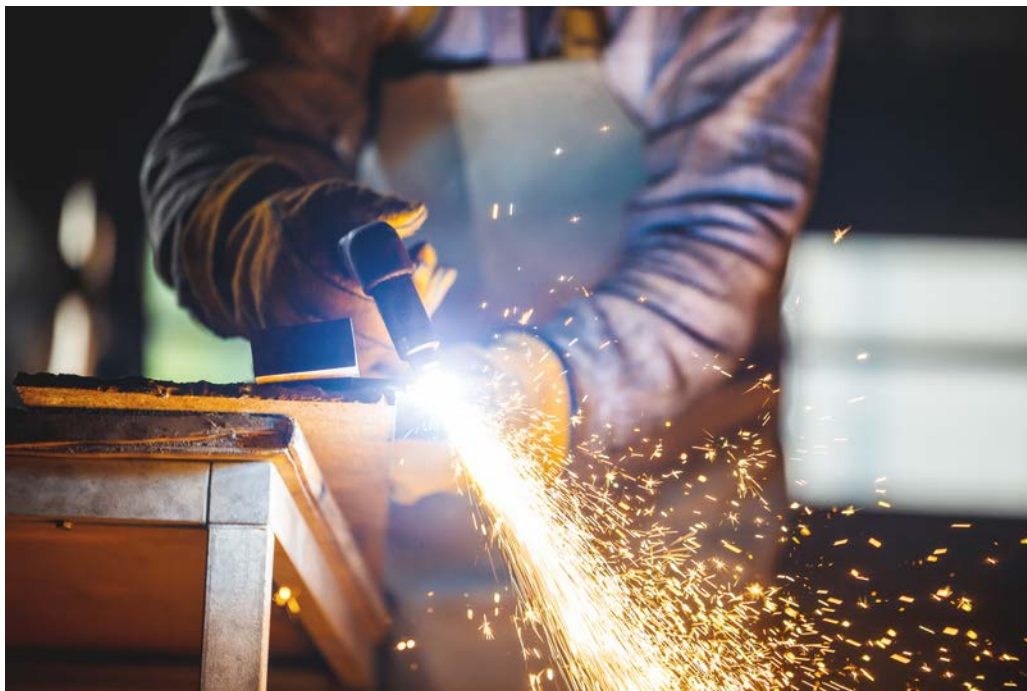


Finally, the traffic light for the foreign sector has been subtracting from overall economic activity since 2022 and its deterioration intensified in 2023. Indeed, it represents a significant burden for the wider economy: **Around 70% of sectors show a deterioration in their trade flows**, and it is especially intense in the extractive, paper and textiles. In the article «Which of Spain's sectors have been hardest hit by the slowdown of our trading partners?» in this report, we analyse how foreign demand has acted as a brake on the economy as a whole and which sectors have been most affected by this decline in trade flows.

■ Significant weakness ■ Weakness ■ Stability ■ Expansion ■ Significant expansion

Note: The traffic light chart indicates the percentage of sectors classified in each of the 5 growth categories, which are defined as follows: «significant weakness» if the value taken by the sectoral indicator lies below the 15th percentile (P15) of that indicator's historical distribution; a position of «weakness» when it takes a value between P15 and P40; «stability» between P40 and P60; «expansion» between P60 and P85, and «significant expansion» when the indicator lies above P85.

Source: CaixaBank Research, based on data from the Spanish National Statistics Institute (INE), the Spanish Tax Agency (AEAT), the Ministry of Inclusion, Social Security and Migration (MISSM), DataComex and the Spanish national grid (REE).



The CaixaBank Research sector clock: where in the cycle do the various economic sectors currently lie?

A final analysis in this article involves determining where each sector currently lies in the business cycle. To this end, **the CaixaBank Research sector clock** considers, on the one hand, the level of the indicator (horizontal axis) and, on the other, its change in the last year (vertical axis). The resulting quadrants offer a picture of the sector's current position and its recent trend: expansion (indicator in positive territory and with growth in the last year); slowdown (positive indicator, but with a decrease in the last year); contraction (negative indicator and in decline in the last year); and recovery (negative indicator, but growing in the last year).

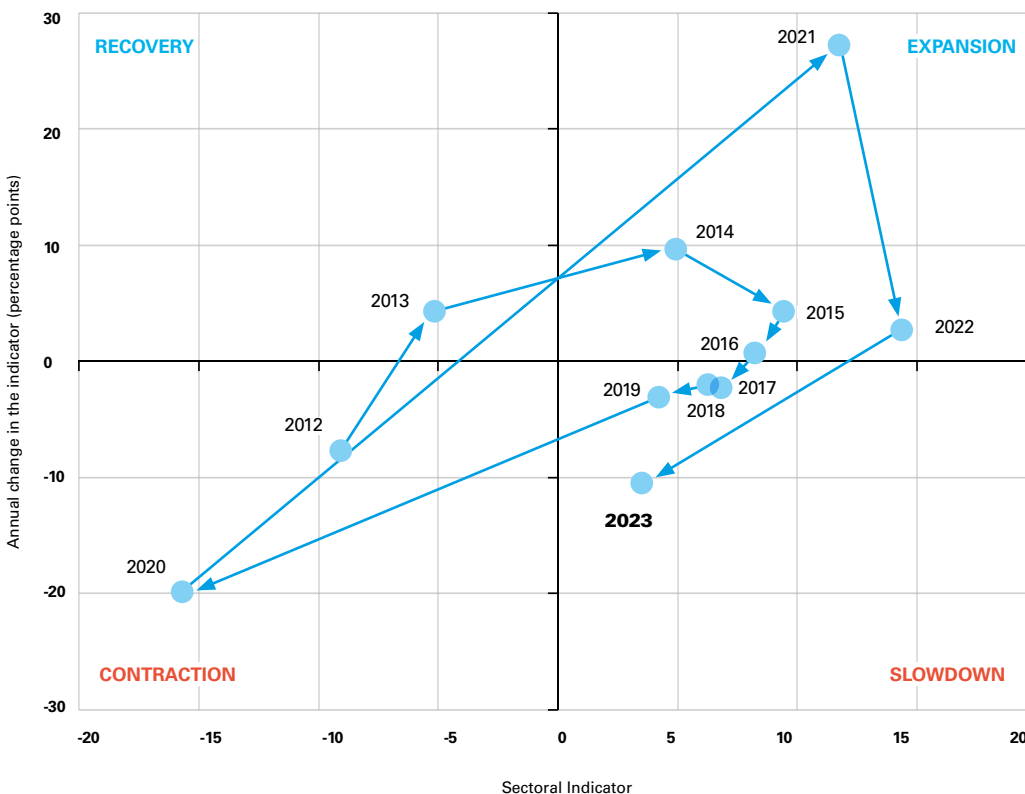
Firstly, we will examine the aggregate behaviour of the sectors over time in order to observe how Spain's economy has been moving throughout the cycle. In this «aggregate clock» (see the chart on the next page), we can see the significant impact that the pandemic had on Spain's economy: in 2020 the economy was in a clearly contractionary position, but in 2021 it moved directly into a highly expansionary phase without passing through the recovery phase. This is due to the very nature of the health crisis: a widespread collapse of the economy at first, due to unprecedented mobility and business restrictions, before entering a phase of rapid acceleration when those restrictions were lifted. The almost instant nature of this step change reflects the fact that the productive capacity of Spain's economy had been left relatively unscathed at the height of the crisis.



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In 2022, the economy continued to enjoy strong growth (the indicator is above 2021 levels), although the comparison with the exceptional prior year of 2021 results in it moving towards the slowdown quadrant. In 2023, the slowdown in economic activity was more evident (the indicator decreases, although it remains positive) and the comparison with the previous year is unfavourable, resulting in it lying well within the slowdown quadrant. It is also approaching the centre of the clock's coordinates, indicating an increasingly stable behaviour.

Aggregate clock for the Spanish economy

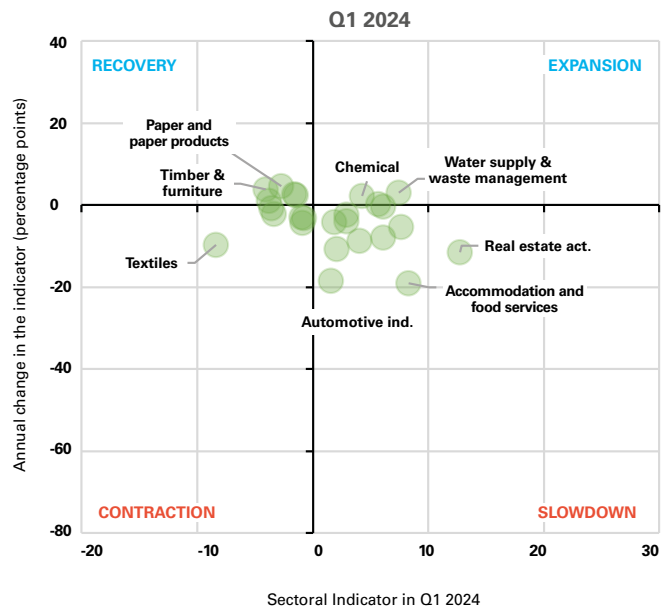
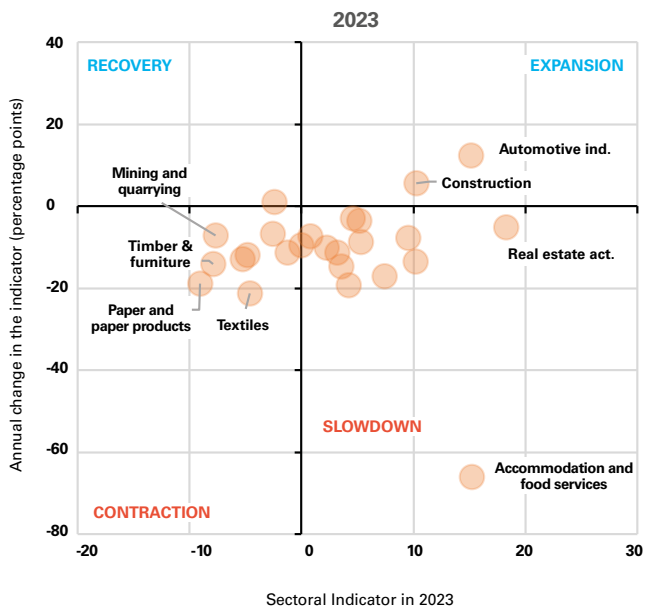
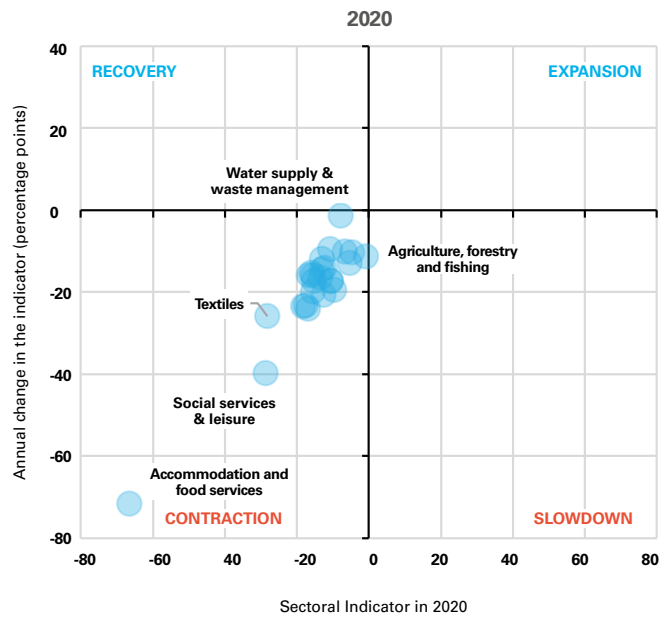
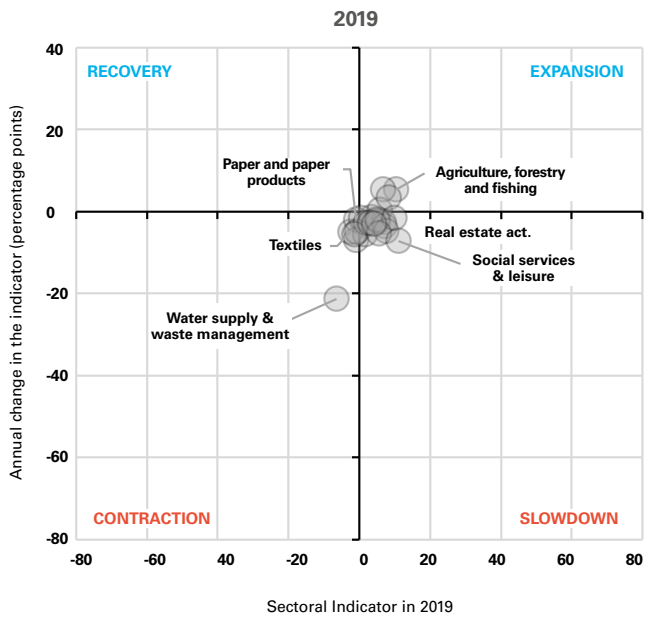


Source: CaixaBank Research, based on data from the Spanish National Statistics Institute (INE), the Spanish Tax Agency (AEAT), the Ministry of Inclusion, Social Security and Migration (MISSM), DataComex and the Spanish national grid (REE).

Next, comparing the clock at different points in time and for the various sectors of the economy allows us to see how the sectors move between the quadrants. To this end, we show how the various sectors have moved through the cycle beginning in 2019 (pre-pandemic situation), in 2020 (to observe the effects of the pandemic), in 2023 and, finally, in the latest available month.

The CaixaBank Research sector clock allows us to determine where each sector currently lies in the business cycle (expansion, slowdown, contraction and recovery) and to see the movements over time.

CaixaBank Research sector clock



Source: CaixaBank Research, based on data from the Spanish National Statistics Institute (INE), the Spanish Tax Agency (AEAT), the Ministry of Inclusion, Social Security and Migration (MISSM), DataComex and the Spanish national grid (REE).



The **2019 sector clock** provides a clear picture of the pre-pandemic situation, when the economy was broadly stationary, with growth close to its potential rate and a highly homogeneous pattern across the different sectors (low dispersion, with most sectors near the centre of the clock). The only obvious sources of weakness are the textile, paper and water supply industries.

Moving on to the **2020 sector clock**, the effects of the pandemic are apparent as the collapse of the economy placed all sectors in the contraction quadrant. However, there is considerable dispersion between sectors, as the impact of the pandemic was felt the most in the sectors most dependent on social interaction (accommodation and food services, and social services and leisure), while its impact was somewhat less pronounced in the case of activities that are considered essential (most notably agriculture, forestry and fishing). It should be noted that in 2021 and 2022, as the mobility restrictions were lifted, the situation in accommodation and food services and leisure sectors was reversed, as they became the sectors that were providing the biggest boost to Spain's economy.

The **sector clock for 2023** shows significant dispersion between sectors, as the factors that have characterised the economic scenario in 2022 and 2023 have affected the various branches of the economy very differently. Manufacturing has been particularly affected by the sharp rise in production costs, especially the more energy-intensive branches (most notably the paper, timber and extractive industries). On the other hand, transport equipment stands out positively, as it has enjoyed a revival after having been held back for several years by the drop in demand, the rise in costs and the disruptions to global supply chains. Accommodation and food services stands out, as it remains one of the best performing sectors in the economy yet it appears in the slowdown quadrant because of the comparison with the sector's exceptional revival in 2022, which has caused the indicator to fall in annual terms.

The CaixaBank Research sector clock for the opening months of 2024 indicates an improvement in chemical and pharmaceutical, water supply and retail industries, which now lie in expansionary territory

The **sector clock for Q1 2024** shows only a few minor changes from that of 2023. Firstly, there is less dispersion between sectors, which are grouped closer to the centre of the clock, and there are no «step changes» as abrupt as those observed in 2023, as in the case of accommodation and food services.

Secondly, there are certain positive trends: chemical, water supply and retail industries are improving and lie within the expansion quadrant. Many industries also show an improvement, having been weighed down by the rise in costs in recent years but now lying in the recovery quadrant (the timber, paper, extractive, and construction), as does agriculture, forestry and fishing. Real estate activities, transport equipment and accommodation and food services remain among the best performing sectors, although their growth rate has moderated relative to last year (they are in the slowdown quadrant).

Finally, industries that remain in the contraction quadrant include food products (weighed down by costs) and textiles, while the wholesale trade sector has deteriorated and now also lies in this quadrant.

In the next article of this report «Outlook for the Spanish economy and its sectors» we analyse where the various economic sectors will be in 2024 and 2025 according to our forecasts.



Methodology note

CaixaBank Research Sectoral Indicator

The CaixaBank Research Sectoral Indicator is a synthetic indicator that encompasses information from 17 variables into a single indicator. It is a monthly indicator and it compiles data dating back to January 2011. It is calculated for 24 economic sectors, including the four major ones: agriculture, forestry and fishing, manufacturing, construction and services. Within manufacturing there is a breakdown of 10 sub-sectors: agrifood, textiles, paper and paper products, oil refining, chemical, construction, machinery and equipment, transport equipment, timber and furniture, and others. Within services, 8 sub-sectors are considered: wholesale trade, retail trade, transport and logistics, accommodation and food services, information, real estate activities, professional, scientific and technical activities, and social services and leisure. The indicator is also available for mining and quarrying and water supply and waste management. The following table shows the sectors that are considered in the indicator and their correspondence with the CNAE classification of economic activities.⁶

⁶ The branches not included are: energy supply (section D) within industry; and, within services, the financial sector (section K), general government and defence (section O), education (section P) and health activities (CNAE category 86).

Classification of sectors comprising the CaixaBank Research Sectoral Indicator

	SECTIONS	CNAE category	% of registered workers in 2023
Agriculture, forestry and fishing	A	01-03	1.7%
Mining and quarrying	B	05-09	0.1%
Manufacturing	C	10-33	11.0%
Food products	-	10-12	2.4%
Textiles	-	13-15	0.7%
Paper and paper products	-	17-18	0.6%
Refining	-	19	0.0%
Chemical	-	20-21	0.9%
Construction	-	23-25	2.3%
Machinery and equipment	-	26-28 and 33	1.7%
Transport equipment	-	29-30	1.1%
Timber and furniture	-	16+31	0.7%
Other manufacturing	-	22+32	0.7%
Water supply and waste management	E	36-39	0.8%
Construction	F	41-43	7.1%
Services	G-U	45-99 (ex. 84-86)	58.4%
Wholesale trade	-	45-46	7.0%
Retail trade	-	47	9.8%
Transport and logistics	H	49-53	5.3%
Accommodation and food services	I	55-56	9.0%
Information	J	58-63	3.6%
Real estate activities	L	68	0.8%
Professional, scientific and technical activities	M and N	69-82	14.1%
Social services and leisure	R-U	87-99	8.6%
TOTAL ECONOMY	-	-	79.1%

Source: CaixaBank Research.

The 17 variables that make up the indicator are grouped into three pillars, allowing us to analyse the contribution of each of these spheres to the performance of each economic sector:

- **Pillar 1:** Economic activity (9 variables)
- **Pillar 2:** Labour market (3 variables)
- **Pillar 3:** Foreign sector (5 variables)

To reduce the scale of this dataset, an analysis of the main components is performed. First, for each variable, the year-on-year change is calculated and standardised. Next, a main component is calculated for each pillar and, subsequently, the synthetic indicator is calculated as the first main component of these three pillars. The following table summarises the indicators used, how they are grouped according to the different pillars, the data source used, the relative weight of each variable within each pillar and the weight of each pillar in the CaixaBank Research Sectoral Indicator (in both cases, these relative weights are obtained from the result of the main component analysis).

The data for each variable is incorporated into month t as they are published, such that the value for any given month is subject to revision until all the variables have been incorporated.⁷

⑦ The number of days that pass between the month of reference (t) and the publication of the data varies depending on the indicator: Number of registered workers affiliated with Social Security: t + 2 days; Spanish Tax Agency (AEAT): t + 40 days; Turnover: t + 55 days; DataComex: t + 80 days.

Pillars and variables that comprise the CaixaBank Research Sectoral Indicator

PILLAR	Variables	Source	Relative weight in the indicator	Relative weight in the pillar
ECONOMIC ACTIVITY (62.7%) ¹	Total sales	AEAT (monthly)	13.0%	37.5%
	Total sales	AEAT (quarterly)	15.0%	
	N° of companies	MISSM	4.8%	
	Turnover	INE	9.7%	
	Electricity consumption	REE	7.4%	
	Domestic sales	AEAT (monthly)	11.5%	
	Domestic sales	AEAT (quarterly)	14.6%	
	Total purchases	AEAT (monthly)	11.8%	
	Domestic purchases	AEAT (quarterly)	12.3%	
LABOUR MARKET (83.6%) ¹	Employment	AEAT (monthly)	34.1%	38.9%
	Employment	AEAT (quarterly)	35.4%	
	S. S. affiliates	AEAT (monthly)	30.5%	
FOREIGN SECTOR (34.8%) ¹	Exports	AEAT (monthly)	24.3%	23.6%
	Exports	AEAT (quarterly)	40.6%	
	Imports	AEAT (quarterly)	34.1%	
	Exports	DataComex	0.3%	
	Imports	DataComex	0.7%	

Note: (1) The percentages in brackets indicate the variance that is explained by the first main component in each pillar and for the Sectoral Indicator.
Source: CaixaBank Research.



Trends

Outlook for the economy and its sectors in 2024 and 2025

The outlook for the Spanish economy and its sectors in 2024 and 2025 is positive. Moreover, we expect the dispersion of growth rates between the various sectors to continue to reduce as the shocks of recent years (the pandemic, energy crisis, inflation rally and interest rate hikes) dissipate. While we do not foresee negative growth for any of the sectors considered, there are some branches of industry, such as textiles and paper, which could see their growth rates slowed by cost pressures and fierce international competition. We expect to see the highest growth rates in sectors linked to the digital transition (such as information and communication technologies, and professional services) and sectors in which the Spanish economy is highly competitive (such as the pharmaceutical and tourism sectors).

Sectoral trends in Spain: recent developments and future outlook

In 2023, the Spanish economy grew by 2.5%, a robust rate but below that registered in 2022 (5.8%). Analysing the breakdown of this growth by sector, we see a substantial dispersion of growth rates from sector to sector. This is a result of the ongoing dynamics generated by the absorption of the various shocks that the Spanish economy has endured in recent years. At the top end of the scale we find the tourism sector, with an estimated growth of 6.9%. This is a sector which in 2023 benefited from the arrival of more than 85 million international tourists, a figure that exceeds pre-pandemic levels.⁸ The gross value added (GVA) of manufacturing grew by a solid 3.3% according to the Spanish National Statistics Institute (INE), as a result of the good performance of the automotive and pharmaceutical industries.⁹ In contrast, other branches of industry, particularly the more energy-intensive ones, experienced a decline in industrial production.¹⁰ Similarly, data from the INE reveals that the GVA of real estate activities contracted by 2.5%, as a result of the decline in home sales in an environment of higher interest rates.¹¹ The GVA of agriculture, forestry and fishing also contracted – in this case by 2% – following sharp decline already recorded in 2022 (–19.8%), due to the persistence of the crisis in the sector associated with the drought and high production costs.

⁸ See the *Tourism Sector Report S1/2024*.

⁹ Internal estimates of the GVA by branch of industry in 2023, obtained using a series of indicators (registered workers, industrial production, etc.).

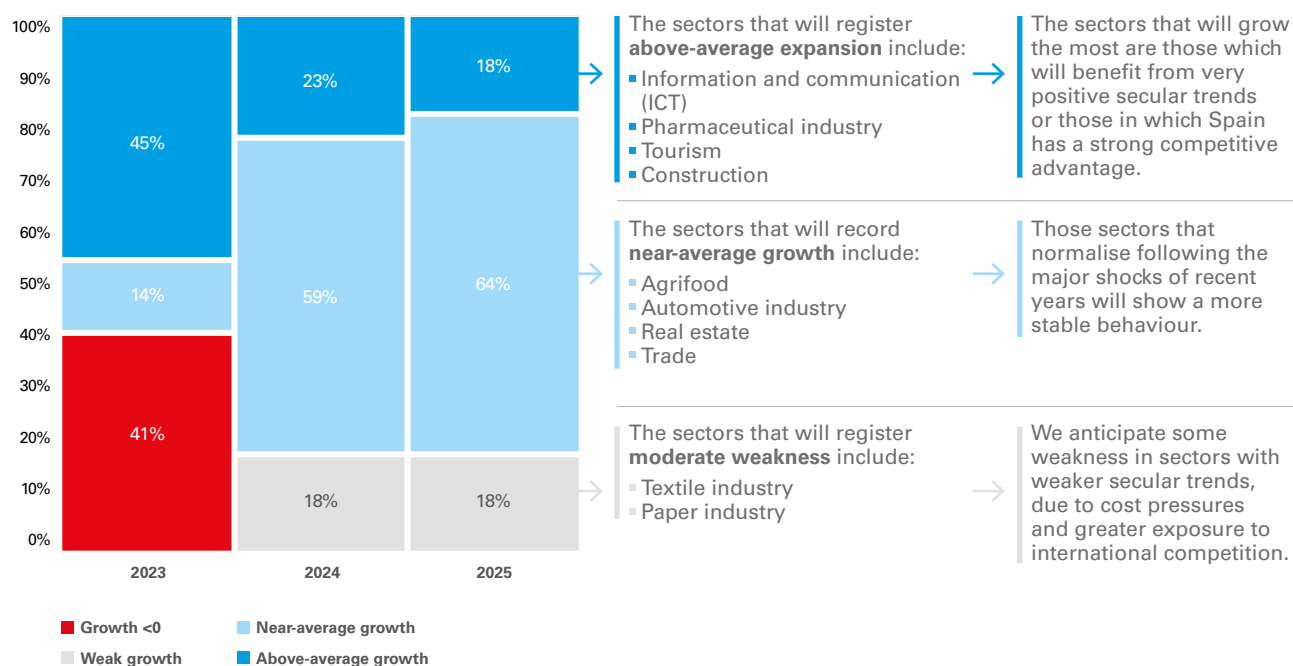
¹⁰ See the article «Spain's manufacturing industry gains traction despite the energy shock, the rise in interest rates and the slowdown in foreign demand» in this same report.

¹¹ The GVA of real estate activities includes the attributed rents of homes that are occupied by their owners. If we exclude this component (internal estimates based on the CPI for rents), we estimate that the GVA of real estate activities excluding rents contracted by around 10% in 2023.

The outlook for the Spanish economy for 2024-2025 is positive, although we anticipate a slight moderation in GDP growth. Specifically, CaixaBank Research expects GDP growth to fall from 2.5% in 2023 to 1.9% in 2024, before consolidating at a rate of 2.2% in 2025. In this scenario, we foresee a reduction in the dispersion of growth rates between sectors, as the impact of the rise in production costs and the interest rate hikes gradually dissipates. In fact, in these two years, we do not expect negative growth rates for the GVA of any of the sectors analysed. Also, the differences in growth rates between the various rates of growth in the various economic sectors will be determined to an increasing extent by medium- and long-term trends. In the table below, we classify sectors into four groups according to their expected growth rates in 2024-2025: sectors with negative growth rates, weak growth, average growth and above-average growth.

Classification of economic sectors according to the growth rate forecast by CaixaBank Research

(% of sectors)



Source: CaixaBank Research, based on data from the Spanish National Statistics Institute (INE) and internal forecasts.

1) Sectors with high growth

These are sectors with a high growth potential, which will acquire an increasingly prominent role in the economy over time. Among them we find:

- **Information and communication technologies (ICT) and professional services:** these sectors provide high-value-added services and benefit from high structural growth, given their increasing relevance in an environment in which digitalisation and new technologies are gaining prominence.

- **Pharmaceutical industry:** in the last 25 years, this sector has gained enormous importance, becoming a key driver of Spanish exports and of private investment in R&D. Its high degree of competitiveness in international markets and of specialisation suggest that the sector has room for strong growth.¹²

See «The Spanish pharmaceutical industry» published in the *Industry Sector Report 2022*.



▪ **Tourism:** although it has already surpassed pre-pandemic levels, this sector will benefit from the recovery of purchasing power in the main source countries for tourists visiting Spain, thanks to a decline in inflation and a moderate increase in wages. Spain's greater geopolitical stability relative to that of competing countries will also continue to play in the sector's favour. Nevertheless, the weak economic growth of the euro area and a greater willingness among Spanish tourists to travel abroad are factors that will limit its expansion.

▪ **Construction:** the supply of new housing (around 110,000 units per year) is much lower than the structural demand due to demographic changes (287,000 net households were created in 2023, according to the Labour Force Survey, due to the significant increase in migratory flows). In 2024, we expect the housing supply to enjoy somewhat more dynamic growth, despite the ongoing presence of short-term factors that are preventing a further revival in the supply (high construction and financing costs, although they are expected to decline over time). For 2025, housing production could increase more rapidly if the right conditions are in place (availability of land, greater public-private collaboration for the development of affordable housing, etc.). Furthermore, construction will benefit from the deployment of NGEU funds, providing a boost to both residential construction through support for the refurbishment of homes, and non-residential construction, thanks to infrastructure development projects such as those related to rail networks.

2) Sectors with near-average growth

There are several sectors for which we anticipate a similar growth rate to that of the economy as a whole, most notably:

▪ **Agrifood:** we anticipate that agriculture, forestry and fishing, after contracting by 19.8% in 2022 and by an additional 2% in 2023, could start to recover thanks to the stabilisation of production costs (energy, fertilisers and animal feed). However, the sector is still heavily impacted by the drought affecting much of Spain and its performance remains largely dependent on the improvement of weather conditions and on the sector's ability to adapt to climate change. **Food products** will continue to enjoy a trend of recovery, in line with production in agriculture, forestry and fishing and the decline in the prices of its inputs.

▪ **Automotive industry:** it endured significant hardship after the pandemic, first due to the disruptions to global value chains and later due to the rise in production costs. This highly unfavourable situation was exacerbated by the structural challenges of a sector that is undergoing technological transformation in the context of the transition to electrification.¹³ In 2023, the automotive sector enjoyed strong growth (industrial production grew by 9.3%, although it still lies 5% below the level of 2019). We expect the sector to record more normalised but nonetheless significant growth rates in 2024-2025, slightly above 2%.

¹³ See «Spain's automotive industry: strategic and undergoing a transformation» published in the *Industry Sector Report of July 2021*.



▪ **Real estate activities:** home purchases held up much better than expected in the face of the rise in interest rates, resulting in a stronger overall performance in 2023 than anticipated. We expect that the number of home sales will continue to decline in the first half of 2024. However, in the second half of the year, as the decline in interest rates takes hold and economic activity gains traction, we expect the real estate market to regain vigour and record new growth. Thus, 2024 will be a year of transition and in 2025 we expect the real estate sector to expand more substantially.

▪ **Wholesale and retail trade:** the outlook for consumption for 2024 and 2025 is favourable, thanks to falling inflation, job creation (closely linked to higher immigration flows) and a robust increase in incomes as a result of both employment growth (1.9%) and a recovery in the purchasing power of wages. Thus, we expect real private consumption to grow by 2.4% in 2024 and by 2.3% in 2025, up from the 1.7% recorded in 2023. These favourable dynamics will support the trade sector, for which we anticipate positive growth rates only slightly below the average for the economy as a whole.

3) Sectors with weaker growth

We do not anticipate a decline for any of the economic sectors considered (in the absence of new shocks), but there are some sectors for which we forecast weak growth, below the average for the economy as a whole. These include certain industrial sectors, such as **textiles and paper**, which have less favourable secular trends due to fierce international competition and structural cost pressures relative to those competitors. While these industries will benefit from an environment of more stable energy prices, the structural challenges they face will likely continue to limit their capacity for growth.



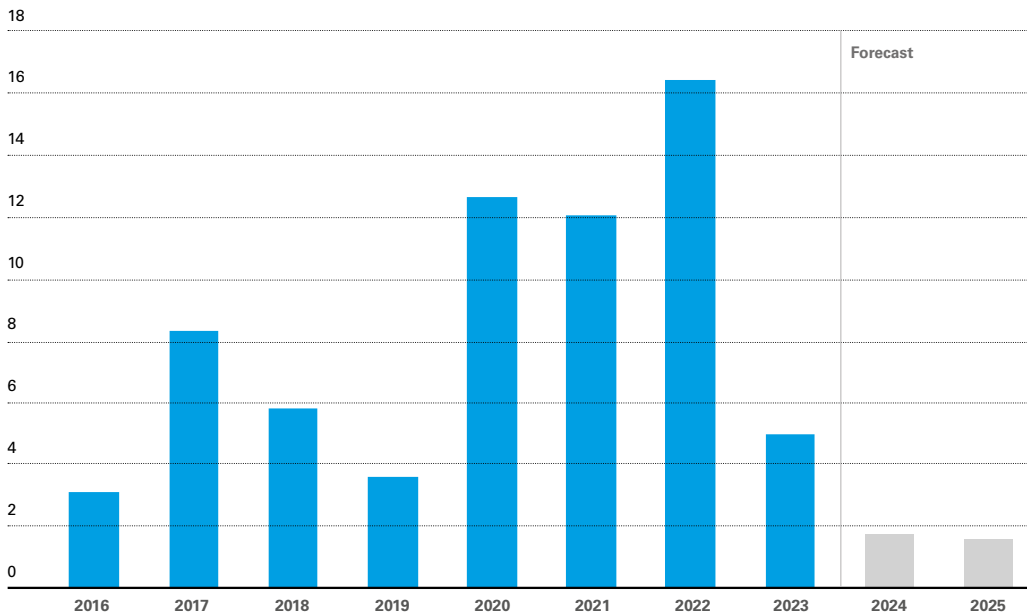
Reduction of the dispersion of growth rates between sectors

One aspect that will characterise the evolution of Spain's economic sectors in 2024-2025 is the **reduction of the dispersion of growth rates between sectors**. This lower variance in growth at the sector level is a consequence of the absorption of – and the adaptation to – the recent shocks that have affected the Spanish economy. Indeed, these trends have already begun to be observed in the first few months of 2024. In the following chart, we show the standard deviation of the annual growth rates between sectors, excluding the refining industry due to its high volatility.

Our forecasts point to a sharp reduction in the dispersion between sectors, especially in 2025, when the various sectors are expected to grow at rates more commensurate with their long-run potential. These forecasts are based on the fundamental assumption that no new major shocks will materialise in the economy and, therefore, that each sector will converge towards its potential growth rate. The state of the economy would resemble the pre-pandemic period, with sustained growth and a more homogeneous performance between sectors.

Reduction of the dispersion of growth rates between sectors

Standard deviation of GVA growth between sectors (pps)



Note: Excludes the refining sector.

Source: CaixaBank Research based on data from the Spanish National Statistics Institute (INE) and internal forecasts.

In 2025 the state of the economy would resemble the pre-pandemic period, with sustained growth and a more homogeneous performance between sectors

Forecasts for GVA growth by industry

Annual change (%)

	2015-2019	2020	2021	Estimate 2022	Estimate 2023	Forecast 2024	Forecast 2025
Agriculture, forestry and fishing	1.5	1.1	4.2	-19.8	-2.0	1.5	3.0
Mining and quarrying	11.2	-1.9	27.2	56.1	6.0	-	-
Manufacturing	2.4	-15.1	13.1	4.4	3.3	1.8	2.0
Food products	0.7	-15.6	10.9	0.2	-1.5	1.5	3.0
Textiles	1.0	-14.4	9.5	1.0	-1.0	0.7	0.7
Paper and paper products	0.0	-11.0	3.3	-2.0	-1.0	0.5	0.5
Refining	88.6	-100.0	57.5	9.0	-0.8	-	-
Chemical	1.1	2.7	5.3	6.5	8.0	5.0	5.0
Construction	0.6	-12.0	-14.0	-2.0	-1.0	-	-
Machinery and equipment	3.4	-11.9	15.8	5.8	5.0	1.7	1.5
Transport equipment	0.9	-17.8	15.8	8.0	10.8	2.4	2.2
Timber and furniture	3.1	-16.1	25.8	3.8	-1.5	-	-
Other manufacturing	3.1	-8.4	15.2	3.0	-2.5	-	-
Water supply and waste management	1.6	-2.1	11.1	33.7	4.0	-	-
Construction	3.6	-14.6	-1.0	3.2	1.9	2.7	3.1
Services	3.9	-18.3	11.3	8.0	3.2	2.5	2.4
Wholesale trade	4.0	-7.2	7.3	5.2	4.3	2.1	1.9
Retail trade	3.3	-8.9	7.2	6.6	2.6	1.6	1.4
Transport and logistics	2.4	-27.4	17.2	21.1	5.5	2.0	1.8
Accommodation and food services	3.6	-56.9	46.7	41.9	16.0	3.5	3.0
Information and communication	5.4	-4.2	7.9	9.5	5.6	6.5	4.8
Real estate activities ¹	3.0	-2.5	6.1	10.4	-10.9	1.7	2.6
Professional, scientific and technical activities	5.6	-11.8	11.1	8.7	1.7	3.4	3.8
Social services and leisure	3.2	-21.6	2.0	14.1	8.9	3.5	3.0
Total economy	2.7	-11.1	6.1	5.9	2.5	1.9	2.2
Tourism GDP²	4.6	-54.9	37.4	58.6	6.9	3.5	3.0

Notes: The figures shaded in blue and dark grey are internal estimates and forecasts. (1) Real estate activities excluding attributed rents. (2) Tourism GDP is shown separately, since tourism demand includes activities in several sectors (accommodation and food services, trade, transportation, etc.).
Tourism GDP data since 2016.

Source: CaixaBank Research, based on data from the Spanish National Statistics Institute (INE) and internal forecasts.



Sector overview

Manufacturing gains traction despite a challenging environment

Spain's manufacturing has been relatively successful in overcoming the impact of the various exogenous shocks that have shaken the European economic scenario in recent years. First came the disruptions to global supply chains in the wake of the pandemic, which were followed in 2022 by the energy crisis triggered by the war in Ukraine, with the consequent impact on inflation and the tightening of the ECB's monetary policy. Despite all the adversities, the sector recovered pre-pandemic levels in 2023, in terms of both GVA and employment, thanks to a relatively strong financial position, the easing of the bottlenecks and the containment of production costs.

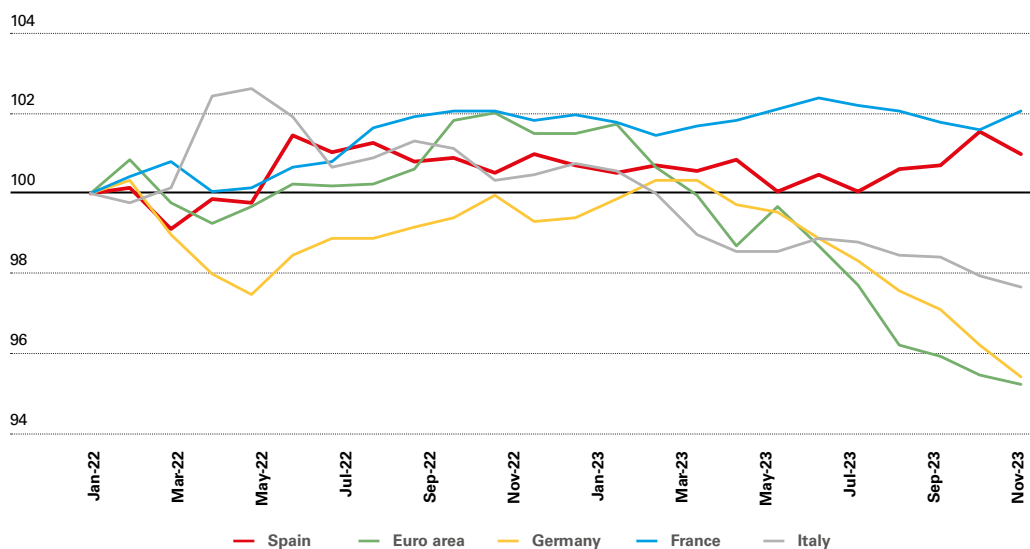
2023: a challenging year for manufacturing

In the wake of the energy shock triggered by the war in Ukraine, Spain's manufacturing showed weak performance, although it held up better than that of other surrounding countries. This has essentially been due to the less prominent role of energy-intensive sectors in our country, together with a lower dependence on Russian gas, as well as our economy's greater capacity to diversify its energy sources.

Spain's manufacturing showed weak performance in 2023, although it held up better than that of other surrounding countries, essentially due to the our economy's greater energy diversification

Industrial production of branches of manufacturing in the euro area

Index (100 = January 2022)



Note: Quarterly moving average.

Source: CaixaBank Research, based on data from Eurostat.

Looking back on 2023 we see a mix of positives and negatives. Firstly, gross value added (GVA) in real terms continued to grow, specifically by 3.3%, which is slightly below the rate of the previous year (4.4%) but above that of the economy as a whole (2.5%).¹³ As a result, by the end of 2023 it stood 3.6% higher than the pre-pandemic level of 2019. On the other hand, the number of registered workers grew by an annual average rate of 1.5%, falling short of the growth recorded in both 2022 (2.3%) and in the economy as a whole (2.7%). The fact that GVA grew in excess of employment shows the continuous improvements in productivity recorded by the manufacturing sector.

¹³ Manufacturing contributed 0.38 pps to GDP growth, marking the lowest contribution in three years (0.51 pps in 2022) but still above the 2014-2019 average (0.26 pps).

Positives and negatives in the manufacturing sector in 2023: the energy shock corrected faster than expected, but other limiting factors emerged

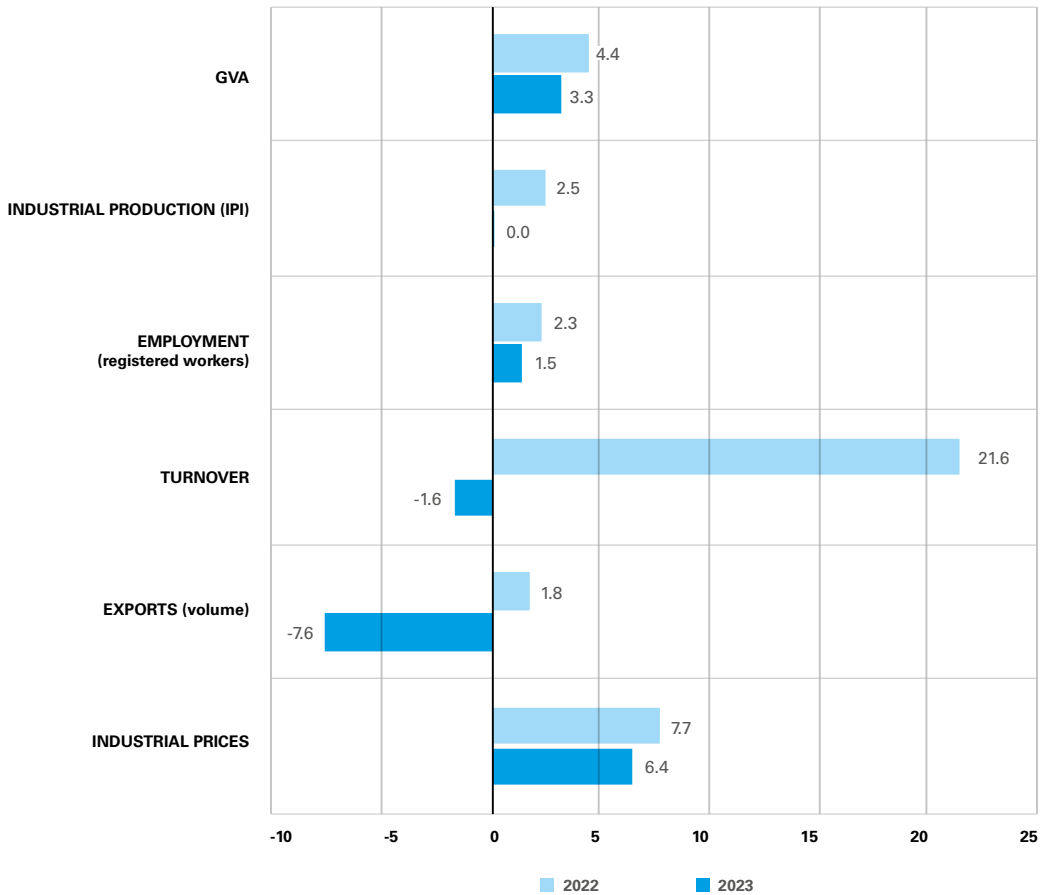
On a less positive note, following the extraordinary growth of the previous year (against a backdrop of a sharp price increases that reached 7.7% in 2022), turnover fell slightly in 2023 (-1.6%), while output (per the IPI) stagnated. Lastly, manufacturing exports, weighed down by higher costs and weaker foreign demand, registered a 7.6% decline in volume.¹⁴

¹⁴ In nominal terms, manufacturing exports fell by 0.4%.



Activity indicators and prices in the manufacturing sector

Year-on-year change (%)



Source: CaixaBank Research, based on data from the Spanish National Statistics Institute (INE), the Ministry of Inclusion, Social Security and Migration (MISSM) and DataComex.

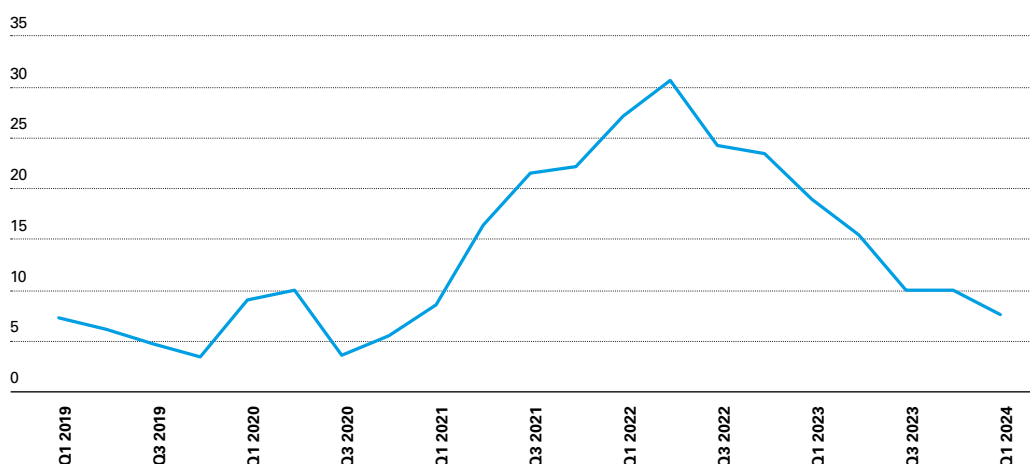
In short, 2023 was a challenging year for the manufacturing sector. While the shocks that weighed down its performance in previous years gradually faded (in the case of the energy crisis, even faster than we had anticipated at the start of the year), new bearish factors appeared on the scene, including the weakening of our main trading partners and the rise in interest rates, which limited the sector's growth.

Spain's manufacturing sector benefits from the easing of the bottlenecks

The disruptions to global supply chains, which were felt in the second half of 2021 and especially in 2022, particularly affected certain branches of manufacturing, such as paper, metal products, electrical equipment and, most notably, computer products and motor vehicles, which had to deal with the microchip and semiconductor shortages.

The percentage of companies that report a shortage of materials or equipment as a limiting factor for their production capacity is declining

(% of the total number of companies)



Source: CaixaBank Research, based on data from the European Commission.

During 2023, the tables turned and the manufacturing sector found itself operating in a more favourable environment. According to the quarterly business sentiment survey conducted by the European Commission, in Q1 2024 7.6% of manufacturing companies reported a shortage of materials or equipment as a limiting factor for their production. This is a significantly lower proportion than in the same survey a year earlier (19.0%) and, above all, in 2022 as a whole, when it exceeded 26.0%.

The manufacturing sector is now in a better position to face new disruptive episodes in the global markets

More recently, the attacks on merchant ships in the Red Sea by the Houthi rebels in Yemen since mid-December are forcing them to take longer alternative routes, with the consequent increase in transport costs. However, the current increase in costs is not as sharp as the one that occurred during the pandemic, so the impact of this situation on manufacturing production ought to be very contained for now. Contributing to this contained impact is the weakness of global demand, as well as the decongestion in the logistics industry prior to the attacks.¹⁵

¹⁵ Bank of Spain (2024): «What does the Banco de España's bottleneck index tell us about the economic impact of the tensions in the Red Sea?», blog post of 31 January.



The impact of the energy shock on Spain's manufacturing has not been even across all sectors

While it is true that the energy crisis was resolved faster than expected and energy prices fell very significantly following the sharp spike of the previous year, the impact of the cost increase was gradually absorbed during the course of 2023; that is, the consequences of the energy shock of 2022 continued to have a significant impact on the manufacturing sector in 2023. Within the context of weak performance in the manufacturing over the last two years, the pattern has not been equal across all sectors, depending essentially on their degree of exposure to the rise in international oil and gas prices: it was the branches of industry that are most dependant on an intensive use of these inputs that showed the greatest fragility¹⁶ (see the following series of charts). These branches include construction (which includes metallurgy and the manufacture of non-metallic mineral products and metal products), paper, chemicals, timber and plastics.¹⁷

The rise in international oil and gas prices, triggered by the war in Ukraine, has had a significant impact on the manufacturing energy costs

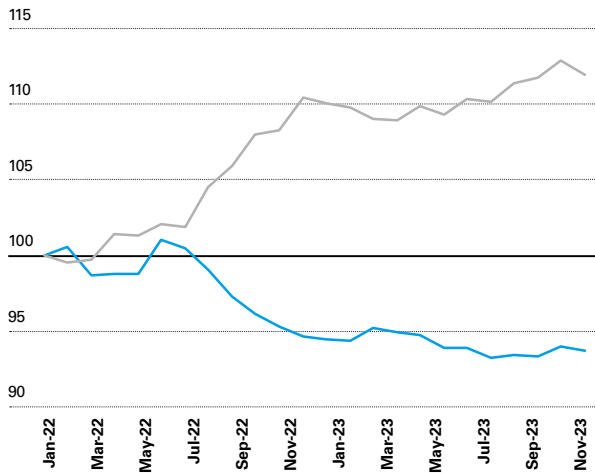
¹⁶The manufacturing branches most exposed to the energy shock are identified using the input-output tables published by the National Statistics Institute (INE) for the year 2016, from which the relative weight of energy within each branch's cost structure can be identified. For further details, see «Rising energy prices and their impact on the manufacturing industry: which sectors are being hit the hardest?», in the *Manufacturing Industry Sector Report 2022*.

¹⁷The coke and oil refining sector is excluded, as it could distort the analysis.

Activity indicators in the manufacturing sector

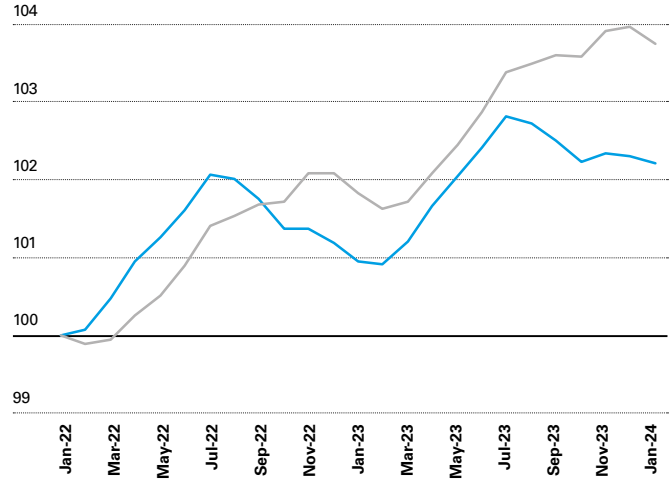
Industrial production (IPI)

Index (100 = January 2022)



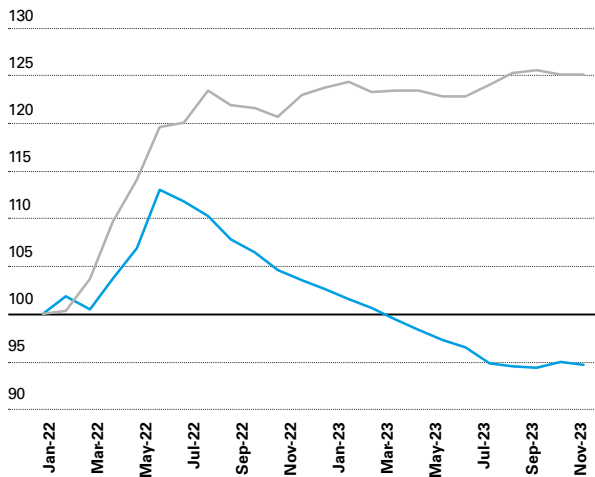
Registered workers affiliated with Social Security

Index (100 = January 2022)



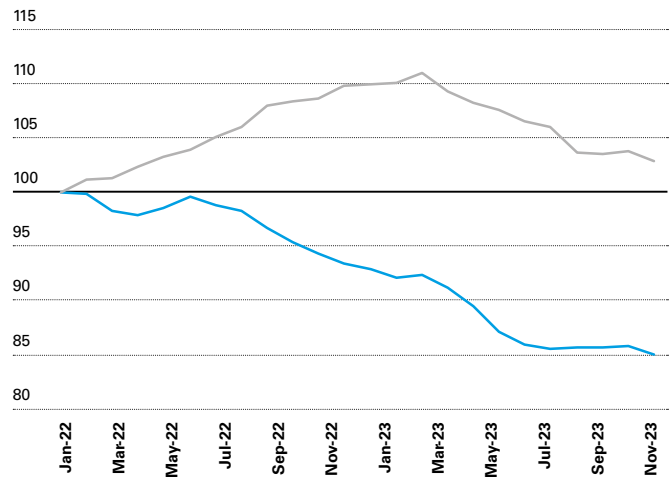
Turnover

Index (100 = January 2022)



Volume of manufacturing exports

Index (100 = January 2022)



— Energy-intensive branches of industry — Rest

Notes: The coke and oil refining sector is excluded from the analysis. To remove volatility from the indicators, a three-month moving average is applied, except for in the case of exports (12-month average).

Source: CaixaBank Research, based on data from the Spanish National Statistics Institute (INE), DataComex and the Ministry of Inclusion, Social Security and Migration (MISSM).



Manufacturing output in the most energy-dependent branches fell by 3.9% in 2023, compared with 5.6% growth in the rest of the branches, causing the levels of December 2023 to remain below those of 2021 (-5.3% vs. 14.4% for the other branches). In terms of employment, the number of registered workers in the branches most exposed to the shock grew in December 2023 by 1.2% year-on-year and by 2.2% compared to December 2021, again below the other branches (2.0% and 3.7%, respectively).

As for turnover, the decrease recorded in 2023 by the energy-intensive branches (-8.9%) stands in stark contrast with the increase in the rest (+6.0%): compared to 2021, the levels were 7.6% and 33.0% higher, respectively. Finally, the deterioration of exports in 2023 was widespread across the various branches of manufacturing, although it was deeper in the energy-intensive ones, which experienced a 9.0% decline in volume (-6.4% in the other branches); as a result, the former accumulated a 14.8% decline compared to 2021 levels, in contrast with the other branches, where exports are 3.7% above 2021 levels.

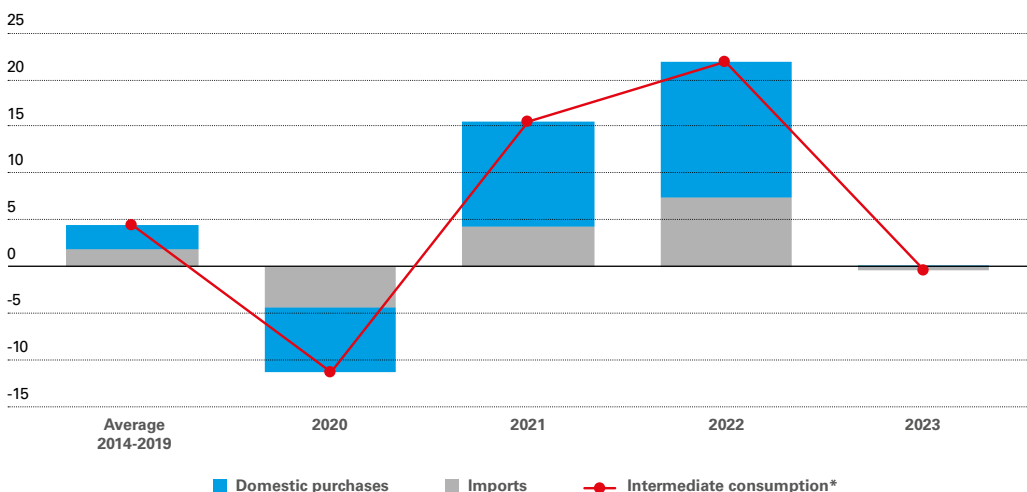
Production costs slow and margins recover in Spain's manufacturing

Although the rise in production costs in recent years has been largely driven by energy prices, other commodities and intermediate goods have also been affected, with the consequent impact on the manufacturing sector.¹⁸ Following significant growth in 2021 and 2022, intermediate consumption registered a slight decrease last year (-0.4%), as a result of the decline in the value of imports (-1.4%) in a context of containment of international energy prices, while this was partially offset by the slight increase in domestic purchases (+0.1%).

¹⁸ It is the sector most affected by episodes of this nature, given that the value of its intermediate consumption is equivalent to around three quarters of its revenues – a far higher proportion than in services or agriculture, forestry and fishing (38% and 45%, respectively).

Intermediate consumption in manufacturing

Contribution to the annual change (pps)



Notes: Excludes the coke and oil refining sector. (*) Year-on-year change in percentage terms.
Source: CaixaBank Research, based on data from the Spanish Tax Agency (AEAT).

The containment of intermediate consumption in 2023 allowed manufacturing to moderate its strategy of sharp sales price increases which it had implemented in previous years to offset the cost pressures. Thus, whereas in 2022 the revenues of these companies grew by 17.4%, driven partly by increases in sales volumes (+4.1%) but above all by higher sales prices (+12.7%), in 2023 the growth in revenues was 2.6%, with prices rising by 2.8% and sales volume remaining practically stagnant.

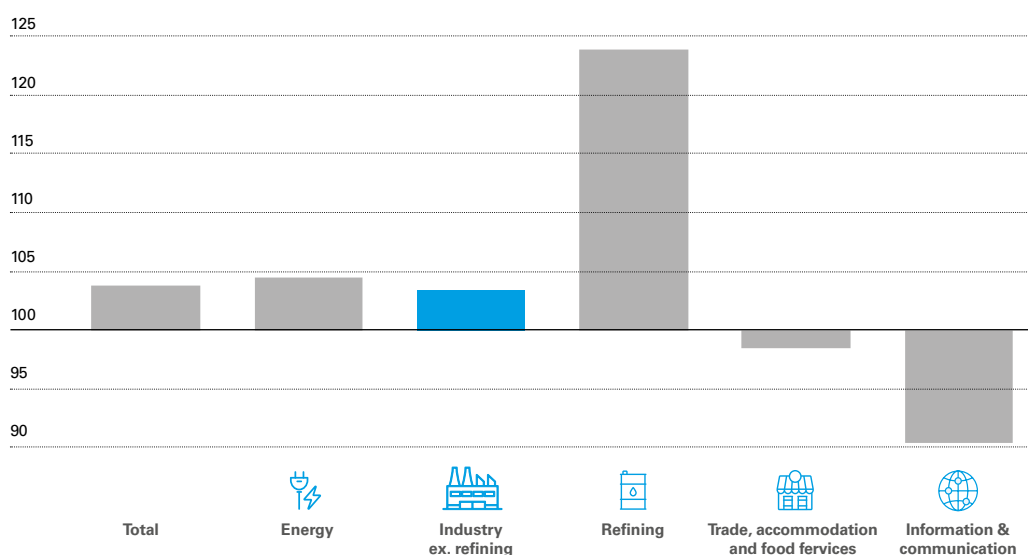
The moderation of the costs of commodities and intermediate goods has enabled a reversal of the price increases in the manufacturing sector

Through this price strategy, manufacturing has managed to cushion the increase in costs of recent years while simultaneously sustaining its profit levels. In this regard, sales margins in industry, excluding the energy and food sectors, began to climb in late 2022, eventually surpassing pre-pandemic levels in Q3 2023. This recovery has been largely supported by the reduction in commodity prices and is concentrated in the sectors related to the production of capital goods and transport equipment; in other branches, their profits have recovered to a lesser extent and they remain slightly below pre-pandemic levels.¹⁹

¹⁹ Bank of Spain (2024): *Observatorio de Márgenes Empresariales*, Quarterly report of Q3 2023.

Sales margins of non-financial corporations*

Index (100 = 2019)



Notes: Sales margins defined as REB (sales-purchases-wage remuneration)/Sales, and calculated as a four-quarter moving total. (*) Average for the first three quarters of 2023.

Source: CaixaBank Research, based on data from the Bank of Spain.



The impact of the rise in interest rates on Spain's manufacturing has been contained and will moderate further

The financing costs of manufacturing firms have increased as the rise in market interest rates has gradually translated to the cost of loans. According to the Bank of Spain's quarterly balance sheet database, the cost of loan instalments relative to net revenues (the so-called finance burden) in the manufacturing sector (excluding the energy and refining industries) was 10.9% in the first three quarters of 2023 (compared to 5.9% in 2022 and 7.9% in 2019). In any event, the increase in the finance burden has not been as pronounced as it otherwise would have been, thanks to the reduced indebtedness of the manufacturing sector and stronger business earnings.²⁰ Also, 2023 will have marked the height of the impact of the tighter financial conditions on loan repayments, as market interest rates have already fallen from their peak of last autumn and they are expected to continue to decline throughout 2024. In any case, market expectations suggest that interest rates will remain slightly above the levels of 2021, before the monetary tightening cycle began.

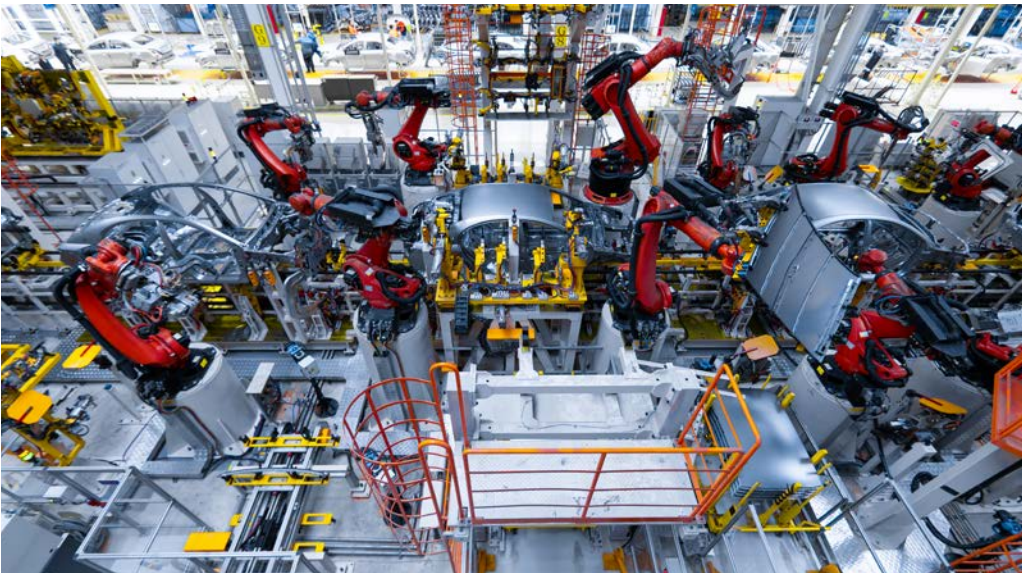
²⁰ See «Report on the financial situation of households and firms, second half of 2023», Bank of Spain, January 2024.

Reduced indebtedness and improved business earnings have mitigated the impact of the rise in interest rates on the manufacturing sector

According to the ECB's semi-annual survey on access to finance of enterprises (SAFE), out of the four major euro area countries, Spain is the only one where the percentage of financially vulnerable companies fell:²¹ in mid-2023 it stood at 7.3%, a similar percentage to that of France and 2 points lower than that of Germany and Italy. The funding gap,²² meanwhile, which had increased sharply in 2022 when interest rates began to rise, remained positive but narrowed significantly in 2023. In particular, 4% of companies reported a widening of this gap (compared to 6% in the previous survey), while in the case of industry the percentage fell even further, reaching 1% compared to the previous 11%, while expectations for the availability of financing also improved.

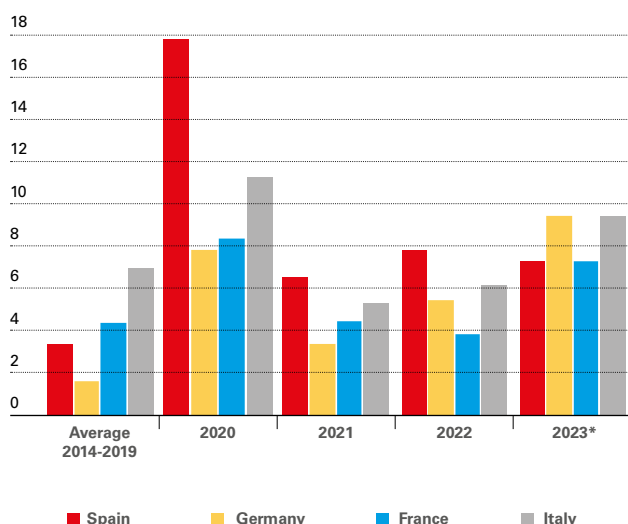
²¹ A company is considered vulnerable if it simultaneously records a fall in its turnover and profits, an increase in its interest expenses and an increase or stabilisation of its debt-to-asset ratio during the previous six months.

²² Difference between the needs and availability of external financing, in net terms; i.e. the percentage of companies that report that they have registered an increase in this gap, less the percentage of those that report a decrease.



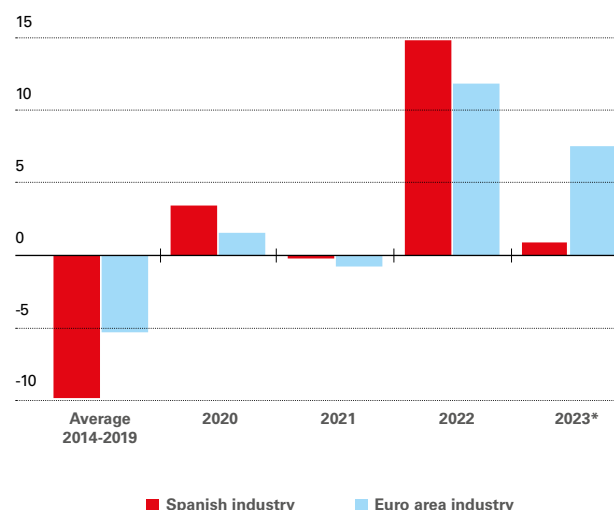
The vulnerability of Spanish companies is contained¹

(% of financially vulnerable companies)



The funding gap is rapidly narrowing in Spain's industrial sector

(% of companies)



Notes: (1) Companies of all sectors. (*) Data for the first semester. A company is considered vulnerable if it simultaneously records a fall in its revenue and profits, an increase in its finance costs and a deterioration in its debt ratio. The funding gap is the difference between the needs and availability of external financing, in net terms.

Source: CaixaBank Research, based on the ECB's survey on access to finance of enterprises (SAFE).

Favourable outlook for Spain's manufacturing in 2024

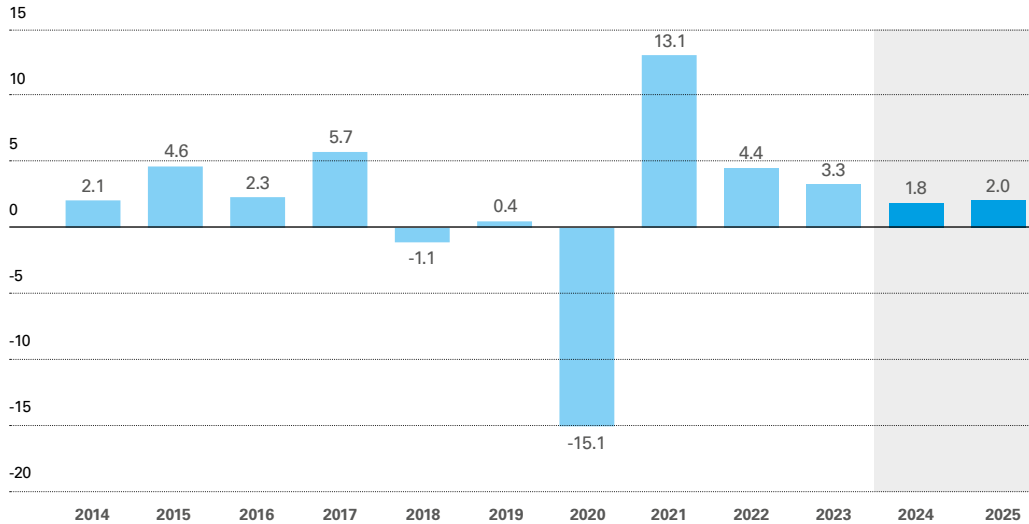
The Spanish economy ended 2023 with stronger growth than expected, mainly thanks to the energy crisis being resolved quicker than had been anticipated, as well as the strength of Spain's foreign sector, which was closely linked to services (both tourism and non-tourism). The expectations for Spain's economy in 2024 are encouraging. Although the context at the beginning of the year will remain marked by geopolitical uncertainty and high interest rates, other factors will support growth, especially the strength of household spending, thanks to solid household finances and the gradual recovery of purchasing power, as well as the deployment of NGEU funds. Consequently, all the indicators suggest that the economy will gradually gain traction during the course of the year to achieve growth of 1.9% for the year as a whole – well above that of the euro area.

All the indicators suggest that the economy will gradually gain traction during the course of the year to achieve growth of 1.9% for the year as a whole



GVA of manufacturing

Year-on-year change (%)



Source: CaixaBank Research, based on data from the Spanish National Statistics Institute (INE).

In this relatively favourable context, we expect the buoyancy that manufacturing is currently enjoying will persist, albeit with slightly less rapid growth. Thus, the sector's GVA will grow by around 1.8% in 2024, a rate very close to that of the economy as a whole. Looking at the breakdown by branch of industry, according to CaixaBank's Sectoral Indicator, in recent months transport equipment has performed particularly well, in contrast to the paper, graphics and textile industries, which are showing the weakest performance.

Foreign sector

Which of Spain's sectors have been hardest hit by the slowdown of our trading partners?

The slowdown in exports has been one of the main sources of weakness in the Spanish economy in recent quarters. Manufacturing is particularly dependent on sales abroad and has been the epicentre of the deterioration in exports of goods as a result of the multiple hurdles that have emerged in recent years. Recently, the slowdown in our main European trading partners has placed an additional burden on the sectors that are most dependent on exports to Europe, notably agriculture, forestry and fishing, timber industry and machinery and equipment. In the case of services, revenues from abroad have performed somewhat better, as they are benefiting from the growing international appeal of Spain's residential market and tourism sector, as well as the acceleration of the economy's digitalisation process, which have provided a boost to international consulting, information and telecommunications services in recent years.

Spanish exports slowed in 2023

The slowdown in trade flows has been one of the main sources of weakness in the Spanish economy since Q2 2023. Specifically, the CaixaBank Research Sectoral Indicator, the workings of which we illustrate in more detail in the first article of this report, shows that the foreign sector was one of the main factors behind the loss of buoyancy in the economy over the past year, since more than 70% of the sectors analysed registered a deterioration in the indicators of their trade flows.²³ On the other hand, data from the national accounts clearly show that the cooling of exports was concentrated in goods and products, which subtracted 0.5 pps from annual GDP growth following the positive contributions of the previous two years. On the other hand, services exports continued to grow significantly, consolidating the excellent figures recorded in 2022, with international tourist spending and exports of non-tourism services showing particular strength (with contributions of 0.3 pps to GDP growth in both cases).²⁴

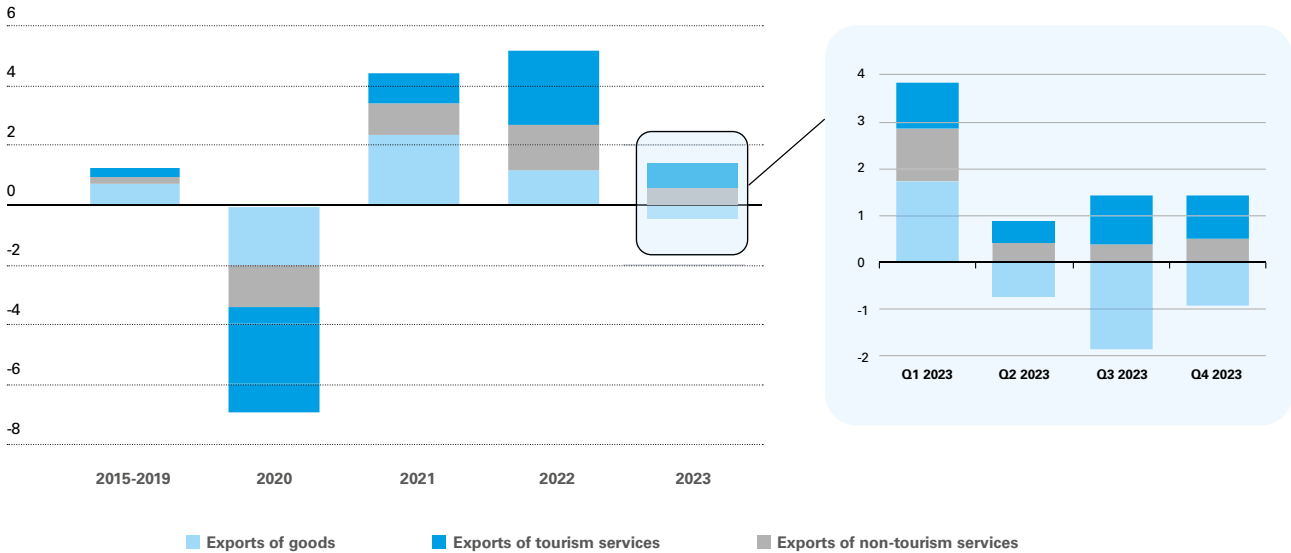
²³ For a more detailed account of the factors that have limited Spain's economic growth in recent quarters, see the article on the economic environment in this very Sectoral Observatory «The resilience of the Spanish economy in 2023: a sector-based perspective through the lens of the new CaixaBank Research Sectoral Indicator».

²⁴ According to data from the national accounts, total exports in volume terms grew by 2.4% in 2023, driven by exports of services (12.3%) but weighed down by exports of goods (-1.7%).



Exports of goods and services

Contribution to annual GDP growth (pps)



Source: CaixaBank Research, based on data from the Spanish National Statistics Institute (INE).

With this reading of the aggregate economy as a starting point, in this article we begin by analysing **which of Spain’s economic sectors are the most export-intensive** and, therefore, may have been more affected by this slowdown of trade flows in 2023. Then, distinguishing between exports of goods and services, **we analyse the impact of the slowdown of our main trading partners**, disaggregated by sector.

Which of Spain’s economic sectors are most dependent on exports?

We define a sector’s **export intensity** as the value of its sales abroad as a percentage of the sector’s total sales.²⁵ In the table below, we can see that all branches of manufacturing have a relatively high export intensity, with foreign sales accounting for at least 20% of total income in all cases. The most outward-oriented branches are the automotive industry (64%), refining (59%), chemicals and pharmaceuticals (46%), machinery (41%) and other manufacturing (such as jewellery or toys) (38%). Within services, only the cases of transport and logistics and information and telecommunications (both 19%) are notable. At the other end of the spectrum, real estate activities, retail trade, and social and leisure services have the lowest export intensity.

Manufacturing is particularly export-intensive, with refining, automotive, and chemical and pharmaceutical industries selling the most abroad

²⁵ Data from the National Statistics Institute’s structural enterprise statistics, except for some sectors for which no data are available, where we have used export data from the Spanish Tax Agency (AEAT). The latest available data for this survey is from 2021. However, given the impact of the multiple factors that have affected the Spanish and global economy in recent years, for this analysis of export intensity we have opted to use 2019 data in order to avoid the effects of the pandemic and the post-pandemic period.

Export intensity of Spain's economic sectors

	Exports (% of total income)	Export intensity ¹	GVA (% of total)
Agriculture, forestry and fishing ²	10	Moderate	3.0
Mining and quarrying	27	Moderate	0.4
Manufacturing	39	Intensive	12.5
Food products	22	Moderate	2.3
Textiles	33	Moderate	0.7
Paper and paper products	25	Moderate	0.5
Refining ²	59	Intensive	0.2
Chemical	46	Intensive	1.8
Construction	36	Moderate	2.3
Machinery and equipment	41	Intensive	1.8
Transport equipment	64	Intensive	1.5
Timber and furniture	21	Moderate	0.7
Other manufacturing	38	Intensive	0.6
Water supply and waste management	7	Low	1.2
Construction ²	7	Low	5.7
Services	13	Moderate	43.2
Wholesale trade	15	Moderate	8.3
Retail trade	4	Low	5.4
Transport and logistics	19	Moderate	4.0
Accommodation and food services	7	Low	4.3
Information	19	Moderate	3.9
Real estate activities	2	Low	4.1
Professional, scientific and technical activities	16	Moderate	9.1
Social services and leisure	5	Low	4.1

Notes: Data corresponding to 2019. (1) A sector is considered intensive when its export intensity ratio exceeds the 75th percentile (P75), moderate when it is between P75 and P25 and low if it is below P25. (2) The data for these sectors have been obtained from the database of the Spanish Tax Agency (AEAT).

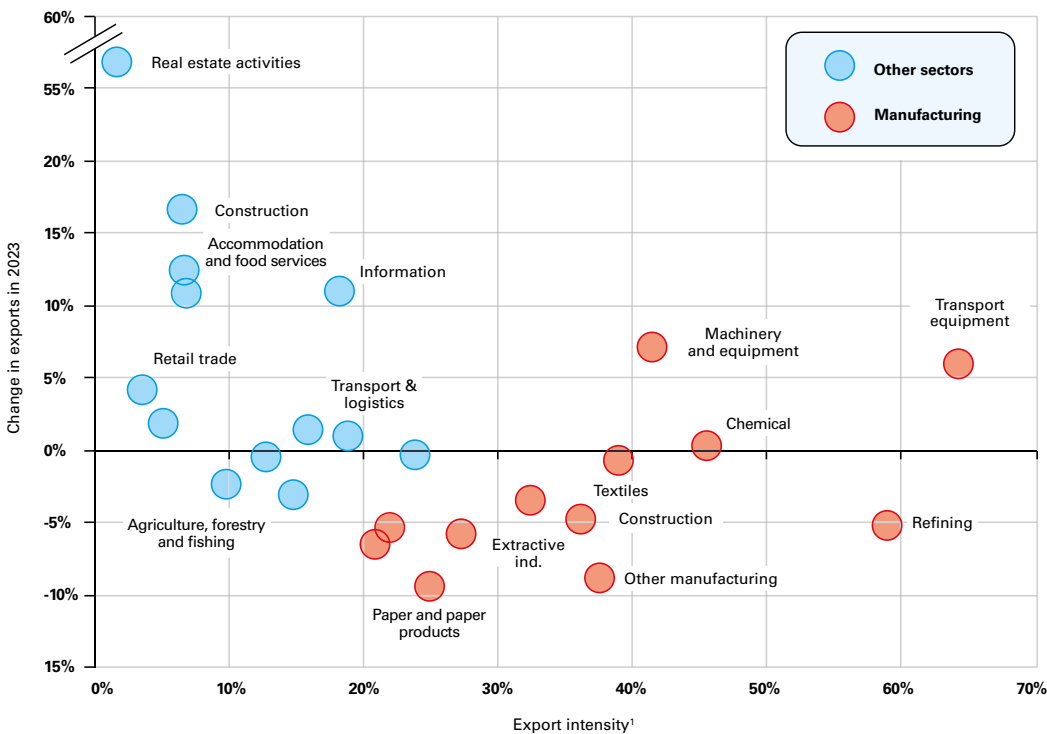
Source: CaixaBank Research, based on data from the Spanish National Statistics Institute (INE) and the Spanish Tax Agency (AEAT).

Next, we ask ourselves how exports have behaved in 2023 in Spain's various economic sectors. The chart on the following page shows the change in exports in 2023 (vertical scale) relative to their export intensity (horizontal scale). Firstly, this chart reveals what we already suspected: the various branches of manufacturing, which are the most export-intensive sectors according to the table above, generally recorded a decline in foreign sales in 2023. The only exceptions were two sectors for which the economic situation in 2023 was favourable: the manufacture of transport equipment (6%), where exports received a boost from the revival of the automotive sector, and the manufacture of machinery and equipment (7%), where sales abroad benefited from the end of the supply chain disruptions (specifically, the end of the microchip crisis).



In contrast, exports in services generally performed better in 2023. Of particular note are the cases of real estate activities (up 57%, a very positive figure which was affected by certain specific transactions in the sector), construction (16%), accommodation and food services (12%, driven by the strong tourist season) and the information and telecommunications sector (11%).

Behaviour of exports in 2023 according to export intensity



Note: (1) Export intensity is measured as nominal exports as a percentage of nominal GVA.
Source: CaixaBank Research, based on data from the Spanish National Statistics Institute (INE) and the Spanish Tax Agency (AEAT).

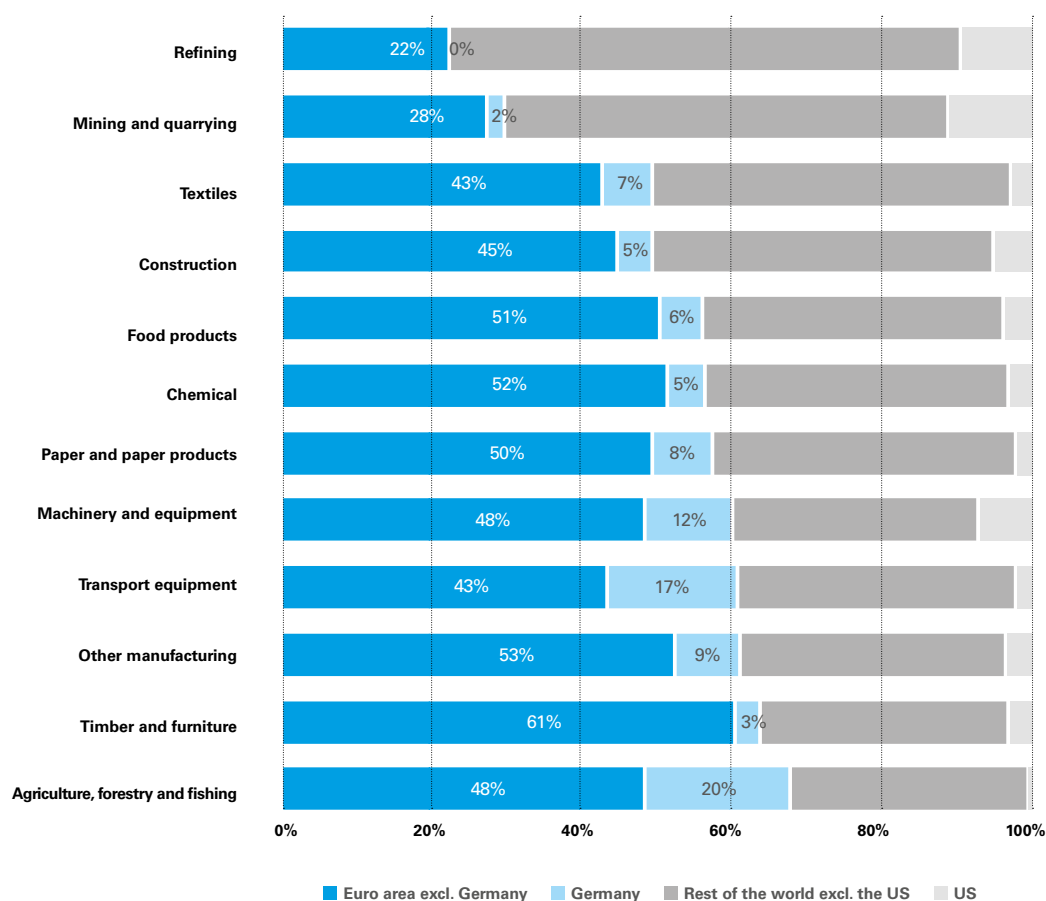
Which sectors have been most affected by the weakening of foreign demand?

In 2023, the euro area slowed significantly: it grew by just 0.5%, compared to 3.4% in 2022, and the region's largest economy, Germany, weakened the most (-0.1% vs. 1.9% previously). To gain a better understanding of the impact of this slowdown in Spain's main goods export market, we disaggregate the non-tertiary sectors (industry and agriculture, forestry and fishing) according to the destination of their exports and we group these destinations into four categories: (i) Germany, being the fourth largest destination of Spanish exports and the European economy that performed the worst in 2023; (ii) the rest of the euro area, as the main destination region for Spanish sales abroad; (iii) the US, which is the third most important destination for Spanish exports and one of the most buoyant in 2023,²⁶ and finally (iv) the rest of the world.

²⁶ The US economy was particularly buoyant in the second half of 2023, with average quarterly growth of 1.0%, closing the year with a year-on-year growth rate slightly above 3.0%. For the year on average it grew by 2.5%, compared to 1.9% in 2022.

Destination of Spanish exports disaggregated by non-tertiary sector

(% of total exports)



Notes: Sectors sorted according to their dependence on the euro area relative to their total exports. Average for the period 2018-2022.

Source: CaixaBank Research, based on data from DataComex.

The sectors most dependent on the euro area are agriculture, forestry and fishing, timber industry, other manufacturing, transport equipment and machinery and equipment, all of which see over 60% of their exports go to the region. At the opposite end of the scale we find the extractive industries and refining industry, which are the most diversified branches of industry. These are followed, albeit to a lesser extent, by textiles and construction, with over half of their exports going to non-European destinations.

The sectors that export the most to the euro area are the ones that have moderated their exports the most in 2023. These include the agrifood sector, timber industry and other manufacturing



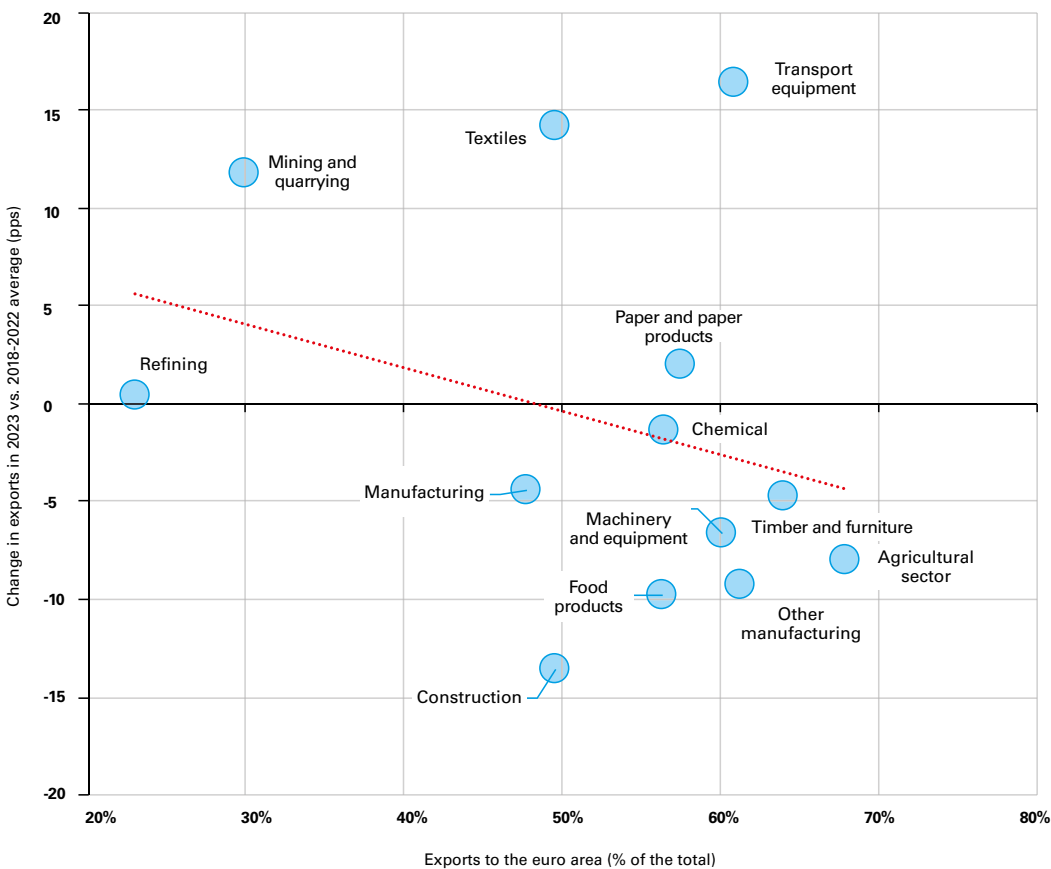
Sectoral Observatory

The following chart compares, for each sector, the recent performance of their exports of goods (vertical axis) and their dependence on sales to the euro area (horizontal axis). In general, **the growth of exports has moderated more in the sectors that are most dependent on sales to the region**. The clearest cases include the agricultural sector (where Germany accounts for a huge portion of exports), as well as timber industry and machinery and equipment, where exports fell sharply. On the opposite side we find mining and quarrying, which is much less dependent on the region and where the United States is one of its main destination markets (accounting for more than 10% of its exports), such that the rebound in exports in 2023 coincides with the buoyancy of the US economy.

The big exceptions include, on the negative side, construction, where exports are relatively diversified but are falling sharply, potentially due to the difficult times construction is currently going through in many advanced economies.²⁷ On the positive side we find the exception of transport equipment, which is enjoying a favourable economic context following the end of the disruptions to global supply chains and the revival of production in the sector after several years of difficulties.

²⁷ For an in-depth analysis of how the supply of housing in advanced residential markets is at modest levels versus ongoing strong demand, even in a context of high interest rates, see the article «Advanced-economy real estate markets: home price resilience and supply shortages» in the *Real Estate Sector Report S1/2024*.

Change in exports and dependence on the euro area



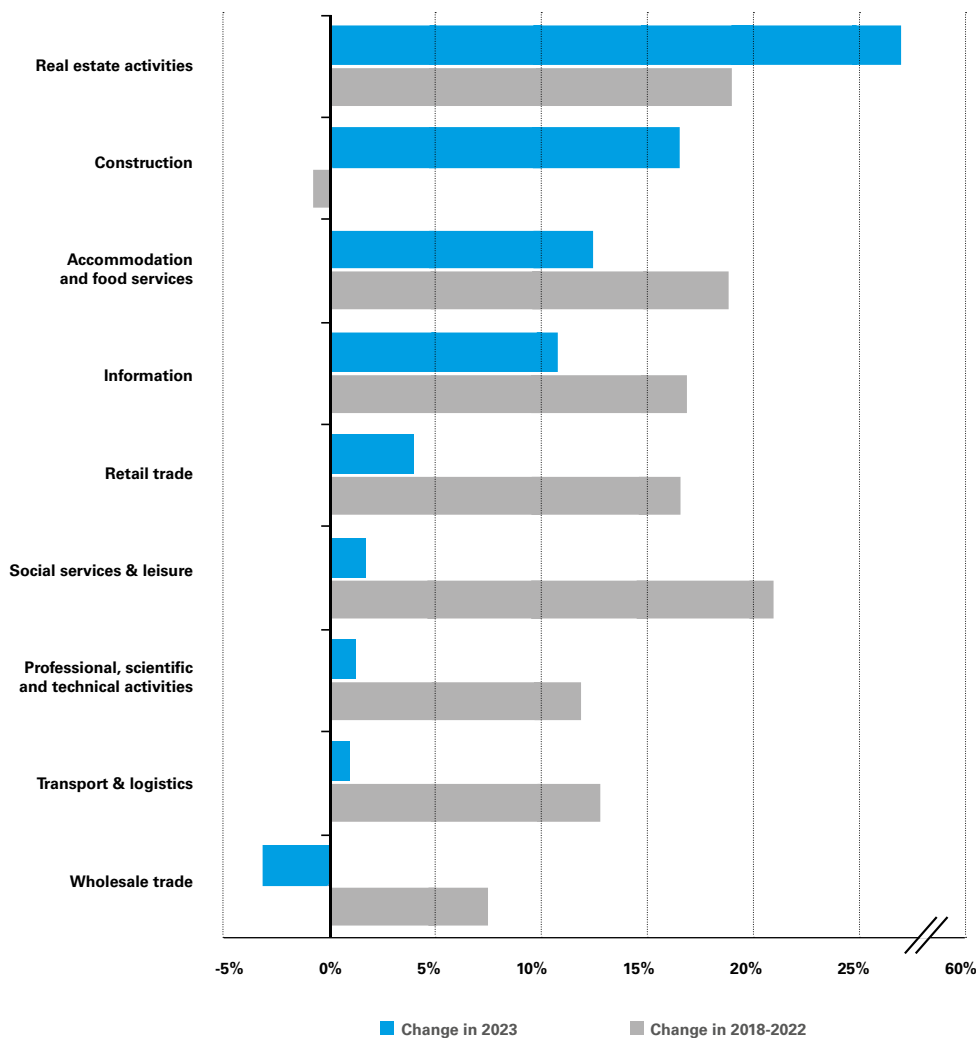
Source: CaixaBank Research, based on data from DataComex.

Spanish services exports are performing somewhat better

Foreign revenues in services have been performing better than those in goods, no doubt benefiting from not being subject to the same constraints that exports of goods have recently endured, but also thanks to a certain structural shift in the Spanish economy's export model, whereby the role of services is becoming increasingly relevant.²⁸ In particular, real estate activities, accommodation and food services, and information and telecommunications have performed particularly well in 2023, recording double-digit annual growth. Nevertheless, they were also growing rapidly in the pre-pandemic period, as shown in the chart below.

²⁸ The balance of payments also shows the increasingly important role of services, and not just tourism, which has made it possible to offset the deficit in the Spanish economy's goods and income balances in recent years. For further analysis of the boom in tourism and non-tourism services in the balance of services, and a comparison of the situation with that of other European economies, see the article «Spain's current account balance in the European context» in the *Monthly Report* of March 2024.

Foreign sales of services and construction



Source: CaixaBank Research, based on data from the Spanish Tax Agency (AEAT).



In the case of real estate activities and accommodation and food services, the strength of revenues from abroad seems to respond to the growing international appeal of Spain's residential and tourism sectors. In the case of the former, these exports reflect the income generated by property sale or rental services rendered to clients outside Spain. In 2023, these exports surged by around 60% in a year, which shows the growing interest of Spain's residential market among non-residents (in terms of ownership, non-residents accounted for 15% of sales in 2023 compared to 13% prior to the pandemic).²⁹ On the other hand, revenue generated from services related to accommodation and food services rendered to non-resident customers rose by 12% in 2023. This figure is not surprising either, considering that all the indicators related to international tourism exceeded their pre-pandemic figures in 2023.³⁰

However, the upturn in exports in the information and telecommunications sector (11% in 2023) is more related to the acceleration of the digitalisation process in developed economies in recent years. In this case, the increase is driven by information technology services, telecommunications service providers, or information technology (ICT) consulting services – sectors in which Spain has a strong position in international markets. The rise in the demand for digital services, the expansion of connectivity (following the deployment of advanced telecommunications networks such as 5G technology), technological innovation (artificial intelligence, the Internet of Things, cloud computing and cybersecurity), the increased penetration of e-commerce (increased demand for digital infrastructure) and the rise of teleworking (as a result of the pandemic, with the consequent increase in demand for online communication and collaboration tools) are some of the areas with the greatest potential.

²⁹ It should be noted that, for VAT purposes, home sales in the Canary Islands (which account for 4% of the national total) are treated as an export in the statistics of the Spanish Tax Agency (AEAT). However, this classification does not seem to be distorting the data, considering that the residential market of the Canary Islands accounts for just 4% of the national total and, moreover, the number of home sales fell by 7% in 2023, according to the Spanish National Statistics Institute (INE).

³⁰ For a more detailed analysis of the excellent phase that non-resident tourism in Spain is currently enjoying, refer to the *Tourism Sector Report S1/2024*.

Outlook for Spanish exports in 2024

Exports of goods have been affected by multiple shocks in recent years: disruptions to global supply chains (as a consequence of COVID-19 and, later, armed conflicts), the impact of increased production costs on activity (particularly in the more energy intensive branches of industry) and, most recently, the deterioration of foreign demand due to the widespread slowdown in Europe in 2023.

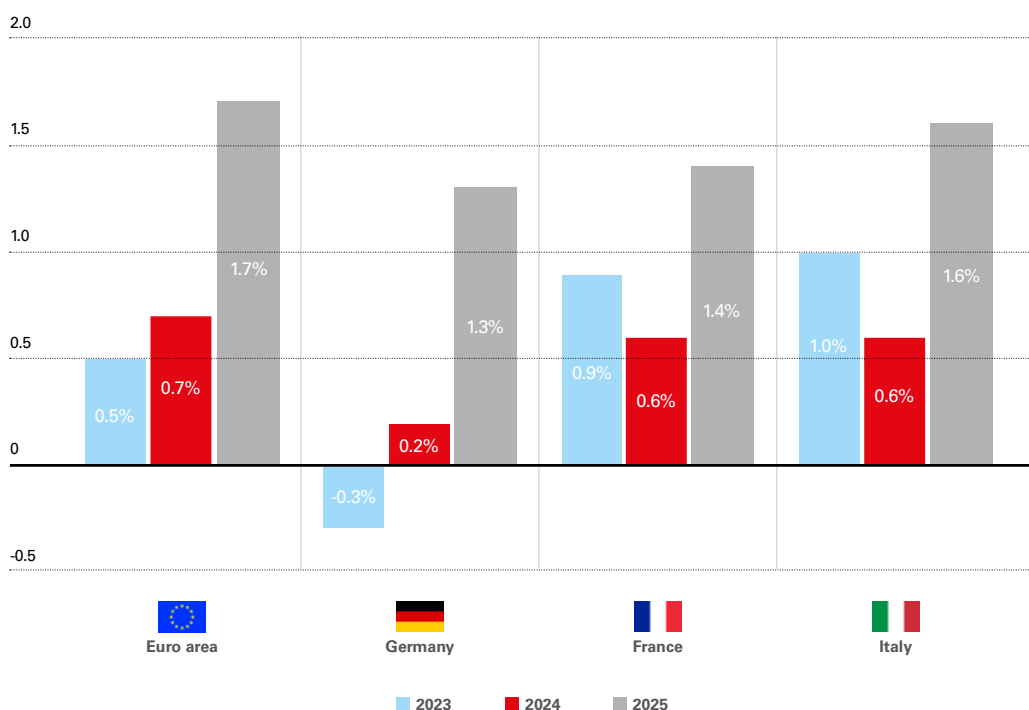
In fact, some of the export sectors that are most dependent on European destinations were those that recorded the greatest drop in foreign sales, particularly agriculture, forestry and fishing, the timber industry and machinery and equipment, among others. In any case, we expect this burden to dissipate over the coming quarters as the euro area economy gradually gains traction, given that we expect it to shift from growing by 0.7% in 2024 to 1.7% in 2025, thus acting as another tailwind for Spain's export sectors that are most dependent on the region.

On services side, in addition to the international appeal that our country is currently enjoying in sectors such as tourism and the residential market, international services are also taking on an increasingly important role in sectors such as information and telecommunications, reflecting the recent momentum in the transition to a more digital economy. Given that revenues from abroad have already been growing rapidly in recent years, suggesting this is not a short-term phenomenon, we expect foreign revenues in these sectors to remain buoyant in the medium and long term.³¹

³¹ For an analysis of how the weight of exports relative to total revenues has changed in the various sectors of the Spanish economy, see the article «The export intensity of Spain's economic sectors» in the *Monthly Report of December 2023*.

Real GDP forecasts for the euro area's major economies

Annual change (%)



Source: CaixaBank Research forecasts.



CaixaBank Research Sectoral Indicator

	Average 2011-2014	Average 2015-2019	2020	Average 2021-2023	Q1 2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024 ⁽²⁾	Change in the past (pps)		
										3 months	6 months	12 months
Agriculture, forestry and fishing	2.7	8.0	-0.8	8.0	-2.8	-1.0	-2.0	-2.9	-1.5	1.4	0.6	1.3
Mining and quarrying	-7.1	3.6	-10.5	3.6	-4.2	-10.2	-9.9	-4.4	-3.7	0.7	6.1	0.4
Manufacturing	-3.8	4.9	-13.0	4.9	3.8	0.9	-0.3	-0.5	-0.9	-0.5	-0.7	-4.8
Food products	0.1	5.2	-6.8	5.2	2.6	-1.1	-1.7	-2.9	-1.0	1.9	0.7	-3.6
Textiles	-2.5	2.8	-28.3	2.8	1.7	-4.2	-6.8	-6.8	-8.3	-1.5	-1.5	-10.0
Paper and paper products	-6.9	1.4	-13.1	1.4	-6.8	-11.0	-12.4	-5.7	-2.8	2.9	9.6	4.0
Refining	2.4	-0.1	-15.4	-0.1	0.0	-6.3	-4.5	-2.4	-3.5	-1.0	1.1	-3.5
Chemical	-1.1	4.7	-4.6	4.7	2.2	0.6	3.1	3.5	4.2	0.7	1.1	1.9
Construction	-10.1	4.4	-16.1	4.4	-2.8	-6.7	-6.5	-2.3	-1.6	0.7	5.0	1.2
Machinery and equipment	-5.4	6.8	-12.5	6.8	5.6	6.0	3.2	3.4	2.9	-0.4	-0.3	-2.7
Transport equipment	-1.1	6.4	-16.8	6.4	20.0	20.2	12.7	7.8	1.6	-6.2	-11.2	-18.4
Timber and furniture	-12.6	6.2	-15.4	6.2	-6.4	-9.3	-9.1	-5.5	-4.0	1.5	5.1	2.4
Other manufacturing	-2.5	4.3	-10.9	4.3	-2.1	-6.3	-7.0	-4.7	-3.6	1.1	3.4	-1.5
Water supply and waste management	-0.3	14.1	-7.9	14.1	5.4	3.3	4.1	9.7	7.4	-2.2	3.4	2.0
Construction	-20.0	8.4	-10.6	8.4	12.9	17.7	9.6	5.3	4.1	-1.2	-5.5	-8.8
Services	-0.3	8.6	-18.3	8.6	7.1	3.8	2.6	2.6	2.9	0.3	0.3	-4.2
Wholesale trade	-1.3	6.9	-13.5	6.9	3.0	0.1	-0.4	-1.0	-0.8	0.2	-0.4	-3.8
Retail trade	0.4	8.0	-12.6	8.0	5.8	4.8	5.1	5.9	5.6	-0.3	0.5	-0.1
Transport and logistics	-2.0	9.1	-17.0	9.1	14.4	7.6	4.8	5.7	6.1	0.4	1.4	-8.3
Accommodation and food services	1.8	14.5	-66.7	14.5	27.0	16.2	11.5	8.8	8.2	-0.6	-3.3	-18.8
Information	0.7	10.6	-5.3	10.6	12.9	9.5	8.7	7.7	7.6	-0.1	-1.1	-5.3
Real estate activities	-4.7	17.2	-9.8	17.2	23.9	21.2	18.3	13.3	12.7	-0.6	-5.5	-11.2
Professional, scientific and technical activities	0.9	12.1	-17.7	12.1	6.6	4.2	4.0	4.3	6.1	1.8	2.1	-0.5
Social services and leisure	2.2	13.0	-28.7	13.0	12.4	10.8	10.2	10.3	5.2	-5.1	-5.1	-7.3
Total economy ⁽¹⁾	-2.6	7.5	-15.6	7.5	6.4	3.4	2.0	1.8	1.8	0.0	-0.1	-4.6

Notes: (1) Excludes general government and defence, education and health activities, as well as highly regulated sectors (the energy and financial sectors). (2) Q1 2024 is the average for January and February.

Source: CaixaBank Research, based on data from the Spanish National Statistics Institute (INE), the Spanish Tax Agency (AEAT), the Ministry of Inclusion, Social Security and Migration (MISSM) and the Spanish national grid (REE).

CaixaBank Research

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Despite the challenging macroeconomic scenario, our analysis of the state of the tourism industry makes us optimistic about the 2024 outlook.



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The war in Ukraine and its impact on energy and agricultural commodity prices will continue to determine the outlook for Spain's agrifood sector.



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