MONTHLY REPORT • ECONOMIC AND FINANCIAL MARKET OUTLOOK
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ECONOMIC & FINANCIAL ENVIRONMENT

FINANCIAL MARKETS
The buzzword in the new international scenario: divergence

INTERNATIONAL ECONOMY
China's real estate sector: an updated diagnosis

SPANISH ECONOMY
New economic outlook: Spain's economy once again surpasses expectations

CaixaBank Sector Observatory*: a look at the evolution of the Spanish economy from the perspective of its sectors*

Survey of Household Finances: Spain is not a country for the young

Where has the fall in the temporary employment rate been concentrated?

DOSSIER: UNITED IN DIVERSITY: EUROPE'S ECONOMIC CHALLENGES

Europe's moment: it is time to bolster our competitiveness

Artificial intelligence: challenges and opportunities for Europe

Productivity growth in Europe: low, uneven and slowing

Why does Europe need a Capital Markets Union?

MONTHLY REPORT - ECONOMIC AND FINANCIAL MARKET OUTLOOK
June 2024

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The great challenge of the Spanish economy: to improve productivity

Spain's economy is currently enjoying a dynamic growth rate, but such a rate will be difficult to sustain in the medium term. To a large extent, it is based on job growth. On the other hand, productivity growth is rather modest. If economic growth is to last and translate into an improvement in the well-being of all citizens, it is essential to turn this situation around. Ideally, economic growth should be fundamentally driven by improvements in what occurs during the working day: productivity.

This challenge is far from a new one. Since 1996, GDP has grown by an annual average of 2.0%. Job growth, meanwhile, has averaged 1.6% over the same period. On the other hand, the rate at which productivity has grown (measured as GDP in real terms per hour worked) has been 0.7% (the number of hours worked per worker decreased). The road ahead is long. Moreover, in recent years the economy has moved in the opposite direction to where we ought to be headed. Since 2014, GDP has continued to grow at an average rate of 2.0% per year. In contrast, employment has advanced by 1.8% and productivity, by 0.4%.

Not only has productivity growth decelerated, but it has also remained below that of the EU. Productivity growth in the European economy as a whole has been 0.8% on average since 2014. Thus, whereas in 2014 the Spanish economy had a similar level of productivity to that of the EU as a whole (in terms of GDP measured in purchasing power parity per hour worked), by 2023 it was more than 4% below. Recovering the lost ground is no easy task. If EU productivity continues to grow at the same rate and the Spanish economy manages to quadruple its rate of progress, it will catch up with the EU by around 2030.

Between 2010 and 2014, productivity in Spain grew by 1.6%, so the challenge is not unattainable, although this was the result of a very specific context. There is no magic recipe for boosting productivity growth in a lasting way, and the challenge must be addressed from multiple angles. I would highlight three areas where action must be taken. Firstly: investment, both in physical capital and in human capital, and in terms of both quantity and quality. There is plenty of scope for improvement when comparing the figures for Spain's economy with those of the major developed countries.

Secondly: the size of companies. In Spain, large corporations account for a smaller proportion of all companies compared to in the major advanced economies. Larger companies are generally more productive than smaller ones. This is partly because the most successful companies, which tend to be the most productive ones, grow the most. But larger companies also tend to be more productive because they have critical mass for certain investments and are in a better position to get the most out of them. Thus, their ability to innovate and invest in talent tends to be greater. In the current context, this is key.

Finally: the sectoral composition of the economy. Different sectors have different productivity levels and, moreover, productivity grows at different rates depending on the sector. In Spain, sectors with lower productivity represent a larger proportion of the economy than in the benchmark countries, and their relative weight has even increased in recent years. However, Spain's economy also has sectors which are both highly productive and are enjoying steady productivity growth, such as manufacturing, professional, scientific and technical activities, and information and telecommunications services. Any measures that facilitate these sectors' development will lead to greater productivity growth across the Spanish economy as a whole.

The goal has been identified and diagnosed for some time, but it is difficult to achieve. It requires patience, because it takes time. It requires resources, both public and private, because transforming the productive fabric of the economy is both costly and risky, especially in times of disruptive technological changes. Furthermore, it requires determination and cooperation among the various institutions and agents involved, precisely because the challenge is so great. There are many requirements, all difficult to achieve. That is why increasing productivity is the great challenge of the Spanish economy.

Oriol Aspachs
June 2024

Chronology

MAY 2024

31 The rating agency Standard & Poor's downgrades France's credit rating from AA to AA–.

APRIL 2024

9 The EU's Copernicus programme reports that March 2024 is the 10th consecutive month to set record temperatures in the month since records began (1850).

MARCH 2024

13 The ECB adjusts the operational framework through which it implements its monetary policy.
19 The Bank of Japan raises its reference rate from –0.1% to 0.1%.

FEBRUARY 2024

22 The US returns to the Moon after more than 50 years with the landing of Odysseus, the first commercial module to touch down on the lunar surface.

JANUARY 2024

11 NASA confirms that 2023 was the warmest year since records began (1880).
19 Japan becomes the fifth country to land on the Moon.

DECEMBER 2023

13 COP28 (United Nations Climate Change Conference) ends with a commitment to transition away from fossil fuels.
20 The European Council approves the reform of EU fiscal rules.

Agenda

JUNE 2024

4 Spain: registration with Social Security and registered unemployment (May).
6 Governing Council of the European Central Bank meeting.
11 Portugal: turnover in industry (April).
11-12 Federal Open Market Committee meeting.
17 Spain: quarterly labour cost survey (Q1).
18 Portugal: resident population (2023).
21 Spain: loans, deposits and NPL ratio (Q1 and April).
Spain: balance of payments and NIIP (Q1).
Portugal: home prices (Q1).
24 Portugal: GDP breakdown (Q1).
25 Spain: quarterly national accounts (Q1).
27 Euro area: economic sentiment index (June).
Portugal: NPL ratio (Q1).
27-28 European Council meeting.
28 Spain: CPI flash estimate (June).
Spain: household savings rate (Q1).
Portugal: CPI flash estimate (June).

JULY 2024

4 Portugal: employment and unemployment (May).
2 Spain: registration with Social Security and registered unemployment (June).
Euro area: CPI flash estimate (June).
10 Spain: financial accounts (Q1).
15 China: GDP (Q2).
18 Governing Council of the European Central Bank meeting.
19 Portugal: DBRS rating.
22 Spain: loans, deposits and NPL ratio (May).
25 Portugal: credit and deposit portfolio (June).
US: GDP (Q2).
26 Spain: labour force survey (Q2).
30 Spain: GDP flash estimate (Q2).
Spain: CPI flash estimate (July).
Portugal: GDP flash estimate (Q2).
Euro area: GDP (Q2).
Euro area: economic sentiment index (July).
30-31 Federal Open Market Committee meeting.
31 Spain: state budget execution (June).
Portugal: CPI flash estimate (July).
Portugal: budget execution (June).
Euro area: CPI flash estimate (July).

Quo vadis Europe?

The European Parliament elections this June were held at a key moment for the European construction process, taking into account the economic, political and social challenges that our continent must address in the coming years. Many of these challenges are discussed in the Dossier of this Monthly Report dedicated to the topic. They range from the loss of competitiveness in a world that is undergoing a reconfiguration of value chains and relationships between economic blocs, to the financial challenges involved in strengthening a defence policy in the midst of the energy transition, while not forgetting the challenges linked to the bloc's enlargement and the need to bolster its institutional framework.

If Europe only moves forward in times of crisis, as has become apparent in the last 15 years with the NGEU funds (COVID) and the Single Supervisory Mechanism (financial crisis), then the current opportunity is unequalled, given the scale of the challenges in the international geopolitical context. This Zeintenwende (turning point or change of era), to coin the phrase used recently by Macron and Scholz, should be addressed with ambition in order to lay the pillars of the economic and political union for the coming decades. The alternative is to hesitate, falter, and delay decisions, with a return of the Hamlet-like avatar that has represented the EU many times throughout its history, as Timothy Garton Ash reminded us in his excellent *Homelands: a personal history of Europe*. And the risk of this inaction is the «death of Europe» as we currently know it, as the French President has highlighted in recent weeks, not without a degree of drama.

Therefore, the solution to the challenges, as is almost always the case, is more, not less, Europe. It is essential to maintain the pace of the transfer of sovereignty to European institutions, while remaining aware that progress in the fiscal or political union will face centrifugal forces of all kinds, at a time when the next enlargement will introduce new complications across the entire institutional (and financial) framework. In this context, the list of priority economic issues for advancing the euro area is not all that different from the one that existed prior to the 2019 European elections: completing the banking union with a European deposit guarantee fund, making progress in the union of capital markets and the integration of services markets, strengthening the role of the euro as an international reserve currency or creating a European risk-free asset. It is true that the context has been challenging, and this has delayed progress on structural matters that demanded a high degree of consensus, but it is increasingly important to seal any leaks if we are to make progress with the Economic and Monetary Union. Meanwhile, on the horizon we see an economic policy trilemma, which must be addressed in the medium term and which comprises three spheres: new security and defence policy, open strategic autonomy and the energy transition. This is an enormous financial challenge that will require the multi-annual funding framework to be rebuilt and aligned with the limits of the new Stability Pact, taking into account that the European coffers have been drained by cushioning the supply shocks of recent years, as evidenced by the current public debt ratios in the EU-27 (82.6%) or in the euro area (89.9%). Therefore, many challenges will have to be tackled with limited fiscal margin for manoeuvre and with an ECB that will have to adapt the size of its public debt portfolio to a very different environment than the one which justified the intensive use of unconventional tools.

With the analysis of the challenges that need to be addressed now covered by the publication of the Letta report and, shortly, the Draghi report (innovation, competitiveness, scale, savings deficit, economic and defence security, European public goods, etc.), it is time to get to work. The extent of the ambition of the next term will determine the region's role in a world that is irreversibly doomed to be divided up into blocs, which increases the risk posed by failing to reduce our dependence on the outside for energy or technology (chips, AI, etc.). or allowing growth to remain close to «secular stagnation». Political balances in the region will not facilitate this task and may result in the next advances occurring at different speeds in the face of reluctance from certain jurisdictions to cede more sovereignty; in the meantime, a new enlargement will have to be handled, and this will be no easy task given the countries involved. It may seem that there are too many things on the table, but the only thing that is not permitted at the crossroads at which Europe finds itself is paralysis and complacency.

José Ramón Díez

Average for the last month in the period, unless otherwise specified

Financial markets

	Average 2000-2007	Average 2008-2020	2021	2022	2023	2024	2025
INTEREST RATES							
Dollar							
Fed funds (upper limit)	3.43	0.77	0.25	4.50	5.50	5.00	4.00
3-month SOFR	3.62	0.99	0.21	4.74	5.37	4.35	3.35
12-month SOFR	3.86	1.42	0.52	5.48	4.95	3.90	3.50
2-year government bonds	3.70	0.99	0.66	4.30	4.46	3.90	3.30
10-year government bonds	4.69	2.44	1.46	3.62	4.01	4.00	3.60
Euro							
ECB depo	2.05	0.15	–0.50	1.77	4.00	3.00	2.25
ECB refi	3.05	0.69	0.00	2.27	4.50	3.15	2.40
€STR	–	–0.55	–0.58	1.57	3.90	2.93	2.25
1-month Euribor	3.18	0.42	–0.60	1.72	3.86	2.93	2.28
3-month Euribor	3.24	0.57	–0.58	2.06	3.94	2.94	2.30
6-month Euribor	3.29	0.70	–0.55	2.56	3.93	2.98	2.38
12-month Euribor	3.40	0.86	–0.50	3.02	3.68	3.03	2.46
Germany							
2-year government bonds	3.41	0.27	–0.69	2.37	2.55	1.90	2.00
10-year government bonds	4.30	1.38	–0.31	2.13	2.11	2.00	2.20
Spain							
3-year government bonds	3.62	1.53	–0.45	2.66	2.77	2.30	2.42
5-year government bonds	3.91	2.01	–0.25	2.73	2.75	2.43	2.57
10-year government bonds	4.42	2.96	0.42	3.18	3.09	2.85	3.00
Risk premium	11	158	73	105	98	85	80
Portugal							
3-year government bonds	3.68	3.05	–0.64	2.45	2.33	2.51	2.66
5-year government bonds	3.96	3.63	–0.35	2.53	2.42	2.57	2.75
10-year government bonds	4.49	4.35	0.34	3.10	2.74	2.75	3.00
Risk premium	19	297	65	97	63	75	80
EXCHANGE RATES							
EUR/USD (dollars per euro)	1.13	1.26	1.13	1.06	1.09	1.06	1.10
EUR/GBP (pounds per euro)	0.66	0.84	0.85	0.87	0.86	0.84	0.86
EUR/JPY (yen per euro)	129.56	126.06	128.82	142.85	156.99	160.00	156.00
OIL PRICE							
Brent ($/barrel)	42.3	77.3	74.8	81.3	77.3	86.0	78.0
Brent (euros/barrel)	36.4	60.6	66.2	76.8	70.9	81.1	70.9

Forecasts

Change in the average for the year versus the prior year average (%), unless otherwise indicated

International economy

	Average 2000-2007	Average 2008-2020	2021	2022	2023	2024	2025
GDP GROWTH							
Global	**4.4**	**2.9**	**6.5**	**3.5**	**3.2**	**3.1**	**3.3**
Developed countries	***2.7***	***1.0***	***5.7***	***2.6***	***1.6***	***1.6***	***1.7***
United States	2.7	1.5	5.8	1.9	2.5	2.4	1.8
Euro area	2.2	0.3	5.9	3.5	0.5	0.8	1.7
Germany	1.6	0.8	3.1	1.9	0.0	0.2	1.2
France	2.2	0.3	6.4	2.5	0.9	0.9	1.3
Italy	1.5	–1.0	8.3	4.1	1.0	0.8	1.5
Portugal	1.5	–0.2	5.7	6.8	2.3	1.7	2.3
Spain	3.7	–0.3	6.4	5.8	2.5	2.4	2.3
Japan	1.4	0.1	2.6	0.9	1.9	0.8	1.0
United Kingdom	2.7	0.3	8.7	4.3	0.1	0.5	0.6
Emerging and developing countries	***6.4***	***4.4***	***7.0***	***4.1***	***4.3***	***4.1***	***4.3***
China	10.6	7.5	8.5	3.0	5.2	4.8	4.2
India	7.2	5.7	10.3	6.7	7.7	6.6	6.8
Brazil	3.6	1.2	4.8	3.0	2.9	1.8	1.8
Mexico	2.3	0.7	5.7	4.0	3.2	2.1	2.1
Russia	–	1.0	5.9	–1.3	3.7	1.5	1.3
Türkiye	5.5	4.3	11.4	5.5	4.5	2.6	3.5
Poland	4.2	3.2	6.9	5.9	0.1	2.8	3.6
INFLATION							
Global	**4.2**	**3.7**	**4.7**	**8.7**	**6.8**	**5.8**	**4.3**
Developed countries	***2.1***	***1.5***	***3.1***	***7.3***	***4.6***	***2.7***	***2.1***
United States	2.8	1.7	4.7	8.0	4.1	3.2	2.2
Euro area	2.2	1.3	2.6	8.4	5.4	2.4	2.1
Germany	1.7	1.4	3.2	8.7	6.0	2.5	2.2
France	1.9	1.3	2.1	5.9	5.7	2.5	2.0
Italy	2.4	1.3	1.9	8.7	5.9	1.5	2.0
Portugal	3.1	1.0	1.3	7.8	4.3	2.5	2.1
Spain	3.2	1.2	3.1	8.4	3.5	3.2	2.5
Japan	–0.3	0.4	–0.2	2.5	3.3	2.0	1.5
United Kingdom	1.6	2.2	2.6	9.1	7.3	2.8	2.3
Emerging and developing countries	***6.7***	***5.5***	***5.9***	***9.8***	***8.3***	***7.9***	***5.9***
China	1.7	2.6	0.9	2.0	0.2	0.5	1.7
India	4.6	7.2	5.1	6.7	5.7	4.8	4.6
Brazil	7.3	5.5	8.3	9.3	4.6	4.3	3.7
Mexico	5.2	4.1	5.7	7.9	5.5	4.5	3.9
Russia	14.2	7.5	6.7	13.8	5.9	5.4	4.5
Türkiye	22.6	9.8	19.6	72.3	53.9	52.6	29.0
Poland	3.5	2.1	5.2	13.2	10.8	4.1	4.6

Forecasts

Change in the average for the year versus the prior year average (%), unless otherwise indicated

Spanish economy

	Average 2000-2007	Average 2008-2020	2021	2022	2023	2024	2025
Macroeconomic aggregates							
Household consumption	3.6	–0.9	7.2	4.8	1.8	2.2	2.4
Government consumption	5.0	1.3	3.4	–0.2	3.8	1.4	1.0
Gross fixed capital formation	5.6	–2.0	2.8	2.4	0.8	2.5	3.6
Capital goods	4.9	–0.8	4.4	1.9	–1.6	2.1	4.6
Construction	5.7	–3.4	0.4	2.6	2.3	3.1	3.1
Domestic demand (vs. GDP Δ)	4.5	–0.9	6.6	2.9	1.7	1.9	2.3
Exports of goods and services	4.7	1.1	13.5	15.2	2.3	2.7	2.4
Imports of goods and services	7.0	–1.0	14.9	7.0	0.3	1.8	2.5
Gross domestic product	**3.7**	**–0.3**	**6.4**	**5.8**	**2.5**	**2.4**	**2.3**
Other variables							
Employment	3.2	–0.9	7.1	3.7	3.2	2.7	2.2
Unemployment rate (% of labour force)	10.5	19.2	14.9	13.0	12.2	11.6	11.1
Consumer price index	3.2	1.2	3.1	8.4	3.5	3.2	2.5
Unit labour costs	3.0	1.2	1.0	0.9	6.0	4.6	3.0
Current account balance (% GDP)	–5.9	–0.2	0.8	0.6	2.6	2.7	2.7
External funding capacity/needs (% GDP)	–5.8	0.2	1.6	1.4	3.6	3.6	3.7
Fiscal balance (% GDP)[1]	0.3	–6.8	–6.7	–4.7	–3.6	–3.0	–2.6

Note: *1. Excludes losses for assistance provided to financial institutions.*

Forecasts

Portuguese economy

	Average 2000-2007	Average 2008-2020	2021	2022	2023	2024	2025
Macroeconomic aggregates							
Household consumption	1.7	–0.1	4.7	5.6	1.7	1.7	2.2
Government consumption	2.3	–0.2	4.5	1.4	1.0	1.2	0.8
Gross fixed capital formation	–0.4	–0.8	8.1	3.0	2.5	3.6	5.1
Capital goods	3.2	2.0	15.3	5.5	4.3	–	–
Construction	–1.5	–2.3	7.4	1.3	–0.3	–	–
Domestic demand (vs. GDP Δ)	1.3	–0.4	6.0	4.7	1.4	2.2	2.5
Exports of goods and services	5.3	2.2	12.3	17.4	4.1	3.4	5.3
Imports of goods and services	3.6	1.5	12.3	11.1	2.2	4.4	5.7
Gross domestic product	**1.5**	**–0.2**	**5.7**	**6.8**	**2.3**	**1.7**	**2.3**
Other variables							
Employment	0.4	–0.6	2.2	2.2	2.0	1.4	1.4
Unemployment rate (% of labour force)	6.1	11.0	6.7	6.2	6.5	6.8	6.5
Consumer price index	3.1	1.0	1.3	7.8	4.3	2.5	2.1
Current account balance (% GDP)	–9.2	–2.7	–0.8	–1.1	1.4	1.2	1.4
External funding capacity/needs (% GDP)	–7.7	–1.5	1.0	–0.2	2.7	2.3	2.6
Fiscal balance (% GDP)	–4.6	–5.1	–2.9	–0.3	1.2	0.3	0.4

Forecasts

Uncertainty in the interest rate outlook

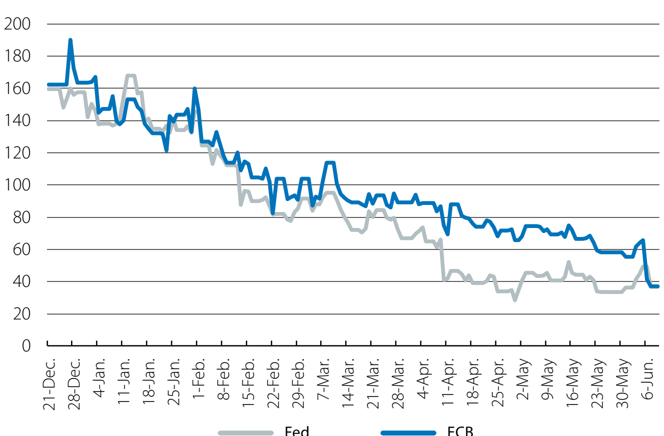
When will the ECB and the Fed lower interest rates and how many times will they do so in 2024? These are the two key questions on investors' minds and the central theme of the financial markets for much of the year, particularly in the last month. Investors are seeking the answer to these two unknowns amid any macroeconomic data and comments from central bank officials that might shed some light on the path ahead. Thus, in recent weeks, the direction of the markets has been shifting to the tune of what the data has suggested at each given moment. Initially, with indicators showing an easing in the inflation data and a certain cooling of economic activity, sovereign yields fell and stock markets rebounded, but this trend soon turned around amid data that raised doubts over the prospect of a rapid return of inflation to 2%, as well as rather hawkish comments from the central banks. On balance, in May and early June the markets saw volatility in financial asset prices as investors sought clarity on the ECB's and the Fed's future decisions.

Europe leads the rate cut cycle. In May, Sweden's central bank, the Riksbank, announced a 25-bp cut in interest rates to 3.75%. In doing so, it became the second developed-economy central bank to lower rates, following the Bank of Switzerland, which began the cycle of rate cuts in March. They were then joined by the ECB, which announced a 25 bp cut at its June meeting, bringing the depo rate to 3.75% and the refi rate to 4.25%, as had been already widely anticipated by the markets. The question is now the pace of cuts during the rest of the year. President Lagarde was very emphatic in her message that any new decisions would be guided by the data, and stressed that lowering rates in June does not entail a commitment to future cuts. The markets read this emphasis as a hawkish statement and, whereas in early May money markets were anticipating three rate cuts this year, at the close of this publication they were only anticipating one more (bringing the total expected number of cuts in 2024 to two). After all, besides Lagarde's comments, we must take into account the better-than-expected GDP growth in Q1 and the fact that inflation is falling more slowly than anticipated, which is raising doubts in the markets about whether the ECB will implement as many rate cuts as had been anticipated at the beginning of May.

Meanwhile, others will wait until the autumn. Also in Europe, while the Bank of England opted not to lower rates at its May meeting, it showed a more dovish tone and two of its members even voted in favour of a rate cut. However, following an uptick in inflation in April and the announcement of an early general election at the beginning of July, it appears likely that interest rate cuts will begin after the summer. It is also around that time that the Fed is expected to lower rates for the first time by 25 bps, with some uncertainty surrounding the exact month and how many times it will do so this year. In recent weeks, the Fed has appeared concerned about inflation, which remains above 2% and for which the outlook is shrouded in uncertainty.

Expected interest rate cuts by December 2024

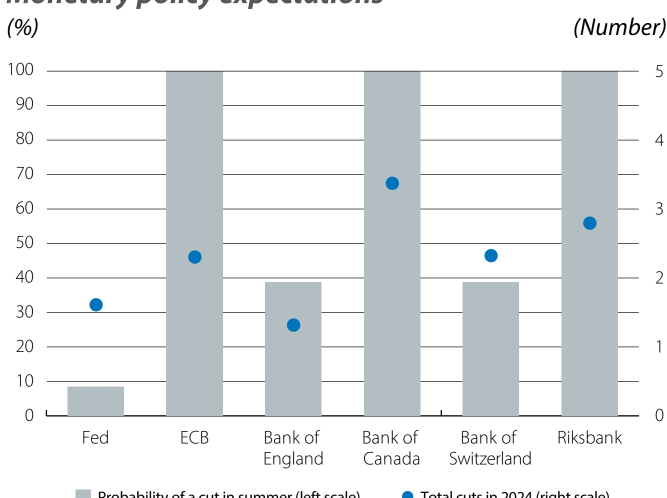
(bps)



Note: *Forwards on OIS curves as of 10 June 2024.*
Source: *CaixaBank Research, based on data from Bloomberg.*

Monetary policy expectations

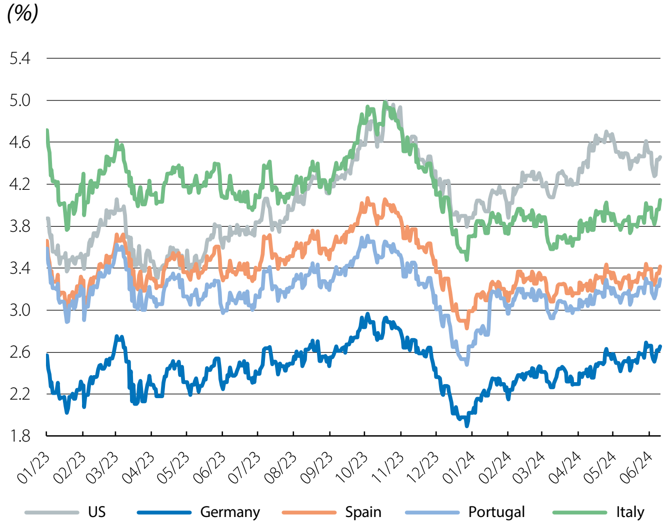
(%) *(Number)*



Note: *Forwards on OIS curves as of 10 June 2024.*
Source: *CaixaBank Research, based on data from Bloomberg.*

Interest rates on 10-year sovereign debt

(%)



Source: *CaixaBank Research, based on data from Bloomberg.*

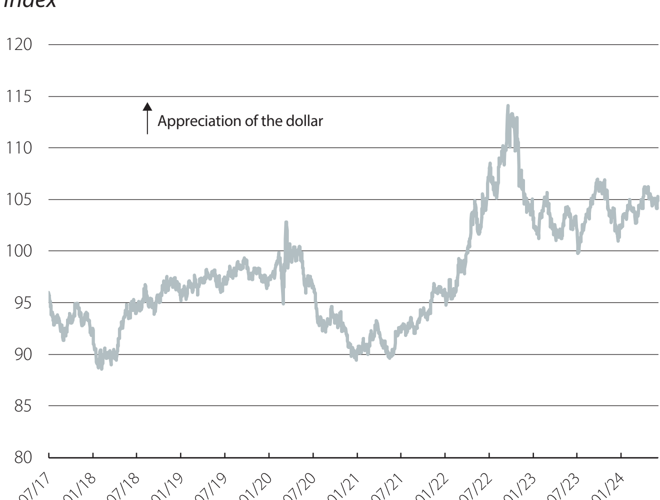
At the close of this report, the markets were clearly anticipating only a single rate cut in the remainder of the year, as the Fed is expected to keep rates high for longer, until it is sufficiently confident that inflation will steadily fall.

Sovereign interest rates fall but bounce back. The same uncertainty that concerns the Fed is also affecting the financial markets. In the sovereign debt markets, yields began the month by falling after new data indicated signs of cooling in US economic activity (a slight increase in the unemployment rate and a fall in the ISM manufacturing index) and particularly after it was revealed that inflation fell in April. The 10-year benchmarks accumulated falls of up to 35 bps in the US and up to 15 bps in the euro area. However, more hawkish comments from members of the ECB and the Fed, as well as the publication of PMIs which showed a rebound in economic activity, were enough to turn market sentiment around. Since then, yields on sovereign bonds have steadily risen, even pushing the German 10-year benchmark to its six-month high (2.70%). This rally received additional impetus from the ECB's restrictive message at its June meeting regarding its future decisions, as well as from US labour market data for the month of May, which stoked expectations of rates remaining higher for longer. Given this scenario, the dollar, which traded most of the month within a narrow range, appreciated in the latest sessions against its main peers, bringing the euro to 1.07.

The stock markets record ups and downs. The sharp fall in sovereign yields at the beginning of the month, coupled with the conclusion of an earnings season that showed better-than-expected profit growth in Q1, triggered a new rally in the stock markets after having experienced setbacks in the previous month. In fact, the S&P 500, the Nasdaq, and the French and German indices reached new all-time highs. However, as sovereign yields made a U-turn, the stock markets lost momentum and during the second half of May they recorded losses, although these were not significant enough for the main indices to close the month in the red. By sector, US tech stood out, climbing +10% during May, as did the euro area's banking sector, which after having advanced almost 4% last month has now accumulated a gain of around 20% in 2024 to date.

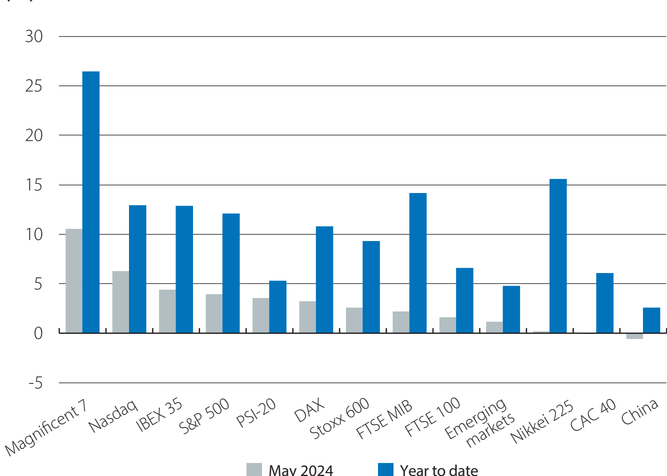
Non-energy commodity prices are pressured upwards. For the first time this year, the Brent barrel price fell (–7.7% monthly in May), placing it at around 81 dollars, mainly due to the weakening of China's economic outlook. All this occurred in the lead-up to the meeting of OPEC and its allies on 2 June, at which members agreed to extend the voluntary production cuts in some countries (2.2 million barrels per day, or bpd) until Q3 2024, with a gradual phase-out planned through to the end of 2025, as well as the extension of the general cuts of 3.66 million bpd through to December 2025. Conversely, metal prices, both precious and industrial, recorded new advances (accumulating growth of over 12% since the beginning of the year). These were driven, on the one hand, by the tensions between supply and demand that exist in many of these assets and, on the other, due to the attractiveness of the financial performance of these assets compared to others such as equities or currencies.

Set of currencies against the dollar
Index



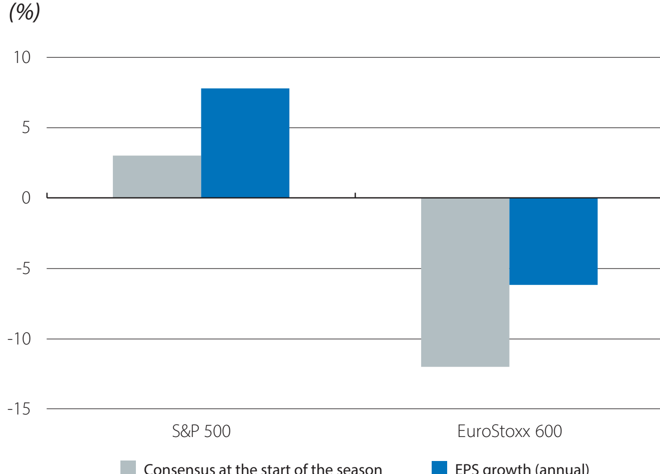
Source: *CaixaBank Research, based on data from Bloomberg.*

Performance of the main stock market indices
(%)



Source: *CaixaBank Research, based on data from Bloomberg as of 7 June 2024.*

Q1 2024 earnings campaign
(%)



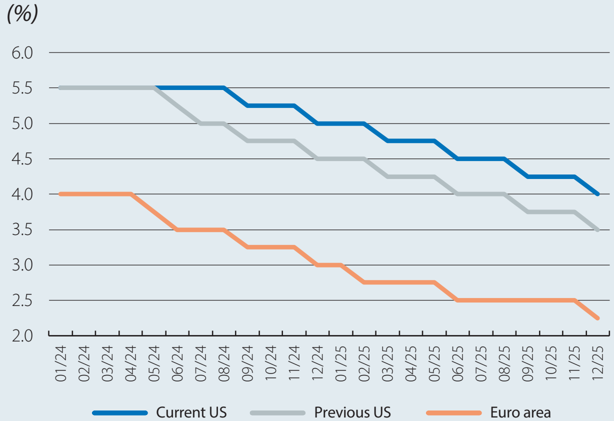
Note: *Estimated EPS growth based on companies that have reported their earnings to date: 98% of the S&P 500 and 81% of the EuroStoxx 600.*
Source: *CaixaBank Research, based on data from Bloomberg.*

The buzzword in the new international scenario: divergence

We are already almost half way through the year and it is time to take stock in order to update the economic scenarios. The indicators that have been published seem to show that the US economy has already begun the long-anticipated soft landing, while the euro area and the United Kingdom surprised analysts with a more dynamic start to the year than expected. At the same time, inflation is proving more persistent than expected in the US, while in Europe its decline is adhering somewhat better to the «script» that we had anticipated. This divergence in the inflation pattern has been key in explaining the adjustments to our interest rate forecasts.

Expectations for benchmark interest rates

(%)



Source: *CaixaBank Research, based on internal forecasts.*

Rising commodity prices, volatile crude oil prices and stabilised gas prices

Despite the fact that inflation is turning out to be more persistent in the US than in other regions, one trend that is common to all cases is that its rate of decline has slowed substantially. In part, this slowdown is natural as the most abrupt forces of the inflationary crisis fade and the composition of the disinflation process changes. However, it also responds to greater demand-side pressure than had been expected a few months ago, as well as to the impact of the rise in commodity prices, some of which are trading at all-time highs (cocoa, copper, coffee, etc.). Moreover, in the specific case of industrial metals, part of their price rise responds to the impact of the new sanctions imposed on Russia, which prohibit Russian metals from trading on international exchanges from 13 April, thus introducing a more persistent upside risk to their prices.

Crude oil prices have shown notable volatility, reflecting the swings in the conflict in the Middle East. As long as this conflict remains active, the risks to the price of crude oil will continue to rise, in a context in which the conditions of its supply are also exerting upward pressures: the productive capacity of the US is reaching its limit, global stocks are at an eight-year low and OPEC has extended its current cuts until October. As a result, we anticipate that the average price of a barrel of Brent oil in 2024 will be around 87 dollars, eight dollars higher than the previous forecast, and 82 dollars on average in 2025, five dollars more than previously projected.

As for the price of gas in Europe, it has remained relatively stable and no significant rebounds are anticipated on the horizon, thanks to gas reserves being at an all-time high. This significant accumulation of stocks has been made possible by an uninterrupted supply of gas in a context of a milder winter than usual, which has kept demand in check. Consequently, we have hardly changed our forecast for the TTF gas price, which we expect to continue to trade at around the 30 euros/MWh mark through to the end of 2025.

The US begins its soft landing with somewhat more persistent inflation

The impressive resistance displayed by the US economy in 2023 seems to be starting to run out, although in reality this reflects a normalisation towards more sustainable growth rates and the indicators seem to suggest some stability in the country's growth in the coming months. The sentiment indicators have tempered (for the manufacturing sector, they even anticipate a stagnation) and the extra savings accumulated during the pandemic have now been practically exhausted. Even the labour market indicators show emerging signs of exhaustion, although it is still very dynamic.

Consequently, all the indicators suggest that the economy has left behind the extraordinary growth rates of last year and that it will converge at rates closer to its potential of 0.4% quarter-on-quarter during the course of 2024 and much of 2025. These forecasts are based on the resilience that household consumption will continue to show, sustained by a labour market that remains buoyant. In addition, a revival of public spending cannot be ruled out, given that we are in an election year. In terms of investment, it will continue to benefit from the stimulus provided by the adoption of new technologies (such as artificial intelligence) and the development of the «green economy» under the Inflation Reduction Act (IRA); a programme with a budget of almost 416 billion dollars between 2023 and 2031. Thus, we revise the expected growth rate for 2024 and 2025 up by 0.2 pps, to 2.4% and 1.8%, respectively.

In this context, inflation in the US is showing greater resistance to the downside than we expected a few months ago, mainly because of the strong inertia of core inflation due to the shelter component, which includes both observed and attributed rental prices. Thus, we revised our headline inflation forecast for 2024 upwards by 0.6 pps, to 3.2%, and raised that of 2025 by 0.2 pps, to 2.2%. For core inflation, we raised the forecast for 2024 and 2025 by 0.5 pps, to 3.2%, and by 0.2 pps, to 2.6%, respectively.

The recovery in the euro area is underway, but it will be rather modest

As for the euro area, and after two quarters of declines, economic activity grew in Q1 2024 by 0.3% quarter-on-quarter, slightly beating expectations. The main indicators suggest that the recovery is underway, albeit a rather modest one, which supports our forecast that growth in the euro area will not exceed 0.4% quarter-on-quarter for the rest of the year. The three major economies will also show relatively stable performance and will grow at rates similar to those recorded in Q1 during the rest of the year. These forecasts are supported by the revival which we expect to see in private consumption, especially in the second half of the year. A labour market that is expected to remain buoyant (the unemployment rate is expected to remain close to its all-time lows), combined with further declines in inflation and the anticipated interest rate cuts, will help to boost consumption. Households will also have a significant savings buffer that will strengthen their balance sheets (it is estimated that, as a result of the pandemic, households have accumulated savings that exceed their usual level of savings by almost 8.0% of GDP). We also expect fixed capital investment to benefit from a wider deployment of NGEU funds: to date, some 224 billion euros (between grants and loans) have been distributed, out of the 672 billion that the Recovery and Resilience Facility has been allocated up until 2026. This scenario barely differs from the one we had previously been defending, so the adjustment to the growth forecast for the euro area is marginal and responds above all to the impact of a somewhat better than expected Q1: we have revised our growth forecast for 2024 by 0.1 pp to 0.8% and we keep the forecast for 2025 unchanged at 1.7%.

Regarding inflation, both the headline and the core measures have shown a marked correction from their peaks, adhering relatively well to the scenario that we have been showing, and we continue to anticipate that headline inflation will converge towards the target over the coming quarters. Therefore, we have revised our inflation forecast for 2024 up by just 0.2 pps, to 2.4%, due to the aforementioned revision of energy prices, and we keep the forecasts for the rest of inflation measures unchanged.

As for the outlook for other economies, of particular note is the upward revision of almost 0.5 pps in the United Kingdom's 2024 growth forecast, placing it at 0.5%, due to an unexpected good Q1 (0.6% quarter-on-quarter, after two quarters of contraction). In China, an also slightly more dynamic Q1 than expected leads us to raise the expected growth rate for 2024 by 0.2 pps to 4.8%. Nevertheless, the questions that continue to hang over the country's residential sector advise caution over the coming quarters, and we cut the growth forecast for 2025 by 0.2 pps to 4.2%.

The ECB will cut rates before the Fed, which has not been the case since July 2012

To close, another of the most significant changes in the scenario has been the adjustment of expectations regarding the Fed's official interest rates. In fact, the resilience of inflation and the buoyancy of economic activity lead us to delay when we expect the Fed's first rate cut to occur until after the summer, and we expect only two rate cuts of 25 bps in 2024, compared to the four initially forecast (–50 bps for the year as a whole vs. –100 bps in the previous scenario). Meanwhile, we keep our scenario of four cuts by the ECB of 25 bps each unchanged, beginning in June, which would bring the official rate down to 3.0% by December (although we do not rule out the possibility of just three cuts in the end). This «de-synchronisation» between the Fed and the ECB will likely be reflected in a stronger dollar in the short term, although in the medium term a convergence in growth rates and monetary policy between the euro area and the US would favour the euro, which we expect to recover an exchange rate of around 1.10 dollars per euro in 2025.

Rita Sánchez Soliva

Interest rates (%)

	31-May	30-April	Monthly change (bp)	Year-to-date (bp)	Year-on-year change (bp)
Euro area					
ECB Refi	4.50	4.50	0	0.0	75.0
3-month Euribor	3.79	3.83	–4	–12.4	29.5
1-year Euribor	3.71	3.70	1	19.8	–16.4
1-year government bonds (Germany)	3.43	3.44	0	17.2	20.8
2-year government bonds (Germany)	3.10	3.03	6	69.3	29.5
10-year government bonds (Germany)	2.66	2.58	8	64.0	35.2
10-year government bonds (Spain)	3.39	3.35	4	39.9	7.7
10-year government bonds (Portugal)	3.26	3.21	5	60.5	26.2
US					
Fed funds (upper limit)	5.50	5.50	0	0.0	25.0
3-month SOFR	5.34	5.33	1	1.1	11.3
1-year government bonds	5.18	5.24	–6	41.3	–5.0
2-year government bonds	4.87	5.04	–16	62.3	37.6
10-year government bonds	4.50	4.68	–18	61.9	80.8

Spreads corporate bonds (bps)

	31-May	30-April	Monthly change (bp)	Year-to-date (bp)	Year-on-year change (bp)
Itraxx Corporate	53	56	–3	–6.1	–25.4
Itraxx Financials Senior	59	63	–4	–7.9	–28.5
Itraxx Subordinated Financials	106	116	–10	–16.4	–59.6

Exchange rates

	31-May	30-April	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
EUR/USD (dollars per euro)	1.085	1.067	1.7	–1.7	1.3
EUR/JPY (yen per euro)	170.620	168.220	1.4	9.6	13.9
EUR/GBP (pounds per euro)	0.851	0.854	–0.3	–1.8	–1.0
USD/JPY (yen per dollar)	157.310	157.800	–0.3	11.5	12.4

Commodities

	31-May	30-April	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
CRB Commodity Index	546.2	546.2	0.0	7.0	0.1
Brent ($/barrel)	81.6	87.9	–7.1	5.9	12.3
Gold ($/ounce)	2,327.3	2,286.3	1.8	12.8	19.5

Equity

	31-May	30-April	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
S&P 500 (USA)	5,277.5	5,035.7	4.8	10.6	23.2
Eurostoxx 50 (euro area)	4,983.7	4,921.2	1.3	10.2	15.3
Ibex 35 (Spain)	11,322.0	10,854.4	4.3	12.1	21.5
PSI 20 (Portugal)	6,870.8	6,615.6	3.9	7.4	16.4
Nikkei 225 (Japan)	38,487.9	38,405.7	0.2	15.0	22.1
MSCI Emerging	1,049.0	1,046.0	0.3	2.5	6.6

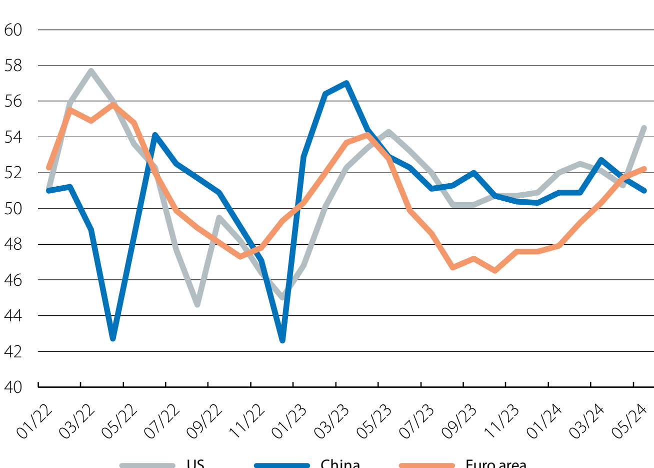
The international economy, in search of an orderly landing

Global economic resilience, but with regional disparity. As the general elections in India and Mexico were being brought to a close at the beginning of June, the electoral year continued its course with the European Parliament elections held from 6 to 9 June. These latter elections mark the beginning of the 2024-2029 term, which will involve significant challenges, as we analyse in this month's Dossier. With the latest data to hand, the global economy is navigating this electoral calendar with resilience: the global composite PMI accelerated steadily to 53.7 points in May, and it is expected that for 2024 as a whole global GDP will grow by just over 3% (a similar figure to 2023 but below the average of the last 20-30 years), supporting a recovery in international trade. This resilience at the aggregate level, which is quite remarkable given the significant geopolitical uncertainty and restrictive financial conditions dominating the scenario, reflects disparate dynamics among the various international economies, with each one seeking to make an orderly landing amidst their own challenges: the US is experiencing strong growth and is seeking to normalise towards more sustainable rates, while the euro area is showing signs of less apathetic growth and China maintains mixed dynamics between industry and domestic demand.

Solid economic activity in the US. On the one hand, US indicators continue to show solid economic growth, with its composite PMI standing at 54.5 points in May (54.4 in April) and trackers that point to GDP growing at rates of slightly above 0.4% quarter-on-quarter in Q2. On the other hand, there are various signs suggesting a slight moderation in growth towards more sustainable rates after a much more robust 2023 than expected. Thus, in May the quarter-on-quarter GDP growth rate for Q1 was revised downwards to 0.3% (–0.1 pp), mainly due to a slightly less dynamic private consumption than anticipated (a trend also reflected in the latest data on personal consumption, decelerating from 0.7% month-on-month in March to 0.2% in April). Also, in May the Fed's Beige Book reported that, so far in Q2, «slight or modest» growth has been observed in most districts of the United States. Finally, these disparate signs are also reflected in the labour market, with an unemployment rate that rose to 4.0% in May (+0.3 pps year-on-year), but at the same time with dynamic job creation (+272,000).

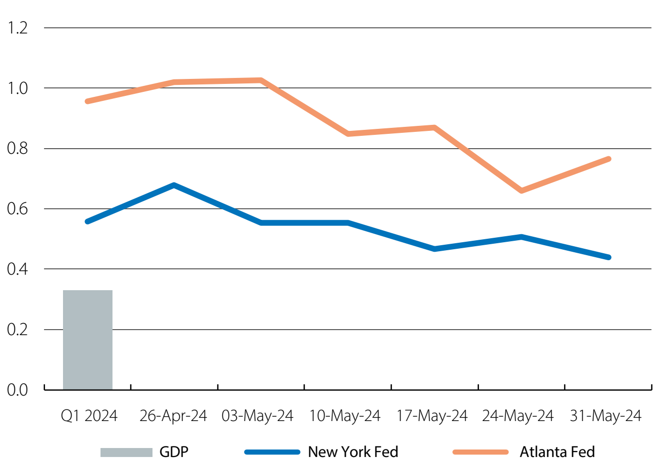
American inflation offered a respite in April. After two months on the rise, in April headline inflation fell by 0.1 pp to a year-on-year growth in the CPI of 3.4%. The 0.2-pp moderation of core inflation (3.6%) was a particularly positive development, as this indicator had been showing significant persistence since the end of 2023. However, items such as shelter (services related to housing) remain at very high levels (5.5%) and, given their weight in the CPI basket (accounting for over 35% of the index), they are preventing headline inflation from making further downward progress. Shelter accounts for a smaller portion of the PCE price index, which is why this inflation measure, which is preferred by the Fed, is lower.

International economic activity: composite PMI
Level



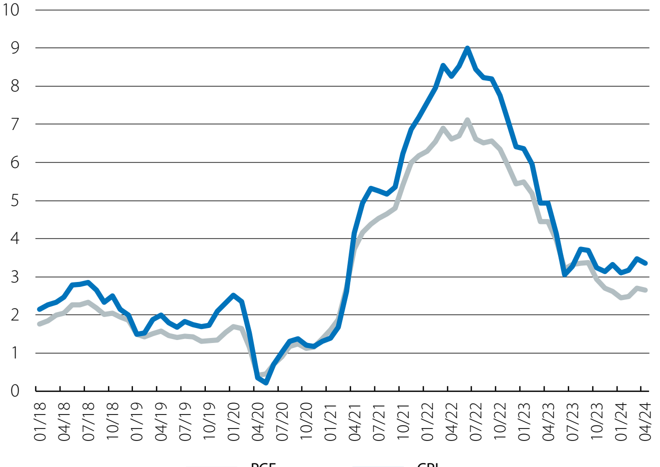
Source: *CaixaBank Research, based on data from the S&P Global PMI and the National Statistics Office of China.*

US: economic activity indicators for GDP in Q2 2024
Quarter-on-quarter change (%)



Source: *CaixaBank Research, based on data from the BEA, the New York Fed and the Atlanta Fed.*

US: headline inflation
Year-on-year change in the price index (%)



Source: *CaixaBank Research, based on data from the FRED.*

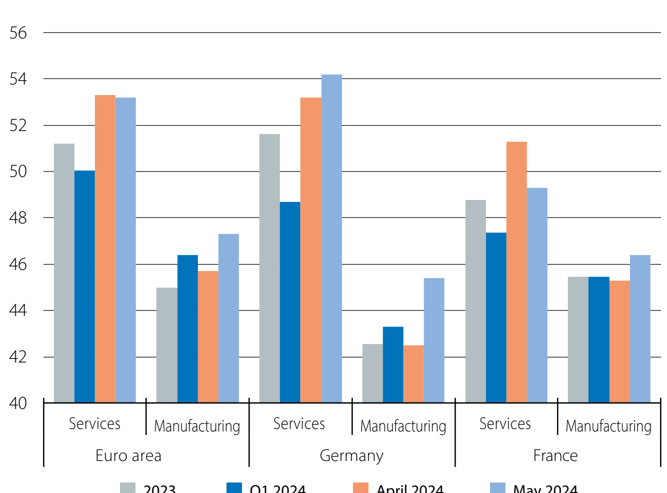
That said, it has also recently exhibited more inertia than expected (rising from 2.5% year-on-year in January to 2.7% in April), which supports the expectation of a more cautious Fed when it comes to implementing rate cuts.

Signs of revival in the euro area. In Q1, with GDP growth of 0.3% quarter-on-quarter, the euro area managed to leave behind the ±0.1% range in which it had been stranded since Q4 2022, and it did so with a positive performance in all major economies. This dynamic is continuing in Q2, with the region's composite PMI accelerating to 52.2 points in May (12-month high) and reflecting both an improvement in services (53.2) and signs of stabilisation in industry (47.3 points in May, which marks the best figure in the last 14 months, although it is still in slightly recessionary territory). This improvement is primarily led by the countries of the periphery, although the data also point to a certain revival in Germany, one of the economies with the most sluggish growth so far. The recovery of sentiment in the euro area as a whole is also taking place in a context of continued strength in the labour market, with an unemployment rate that fell to a low of 6.4% last April. All this gives greater confidence in the expected reinvigoration of economic activity, although we do not expect a very significant acceleration; rather, GDP is expected to maintain the growth rate of around 0.3% recorded in Q1 over the following quarters.

European disinflation shifted down a gear in May, with the headline HICP up 2.6% year-on-year in the euro area as a whole and an acceleration in core inflation (excluding food and energy) to 2.9% (+0.2 pps with respect to April in both cases). Although the euro area has recorded a very sharp decline in price pressures from its peak of 10.6% (in October 2022), the disinflationary process has slowed down in recent months (e.g. in December 2023 it already stood at 2.9%). This is a result of disparate dynamics between components: whereas the source of energy disinflation is now practically exhausted (+0.3% in May, marking the first positive year-on-year rate of change in a year), services are more inertial and still have a long way to go (4.1% in May). In addition to all this, base effects related to support measures introduced to tackle the energy crisis are persisting, and although they will not compromise inflation's return to 2%, they will lead to volatility in the coming months.

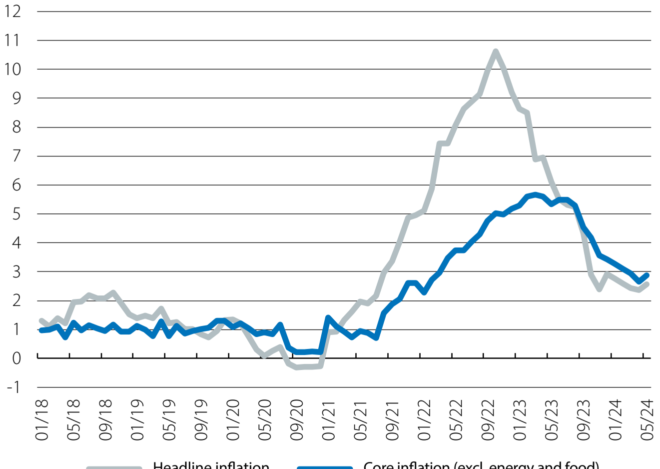
China, at two speeds. The data for Q2 continue to paint a picture of a duality in the Chinese economy, with the momentum of industry on one side and the weakness of domestic demand on the other. In April, industrial production accelerated to 6.7% year-on-year (4.5% in March), while retail sales slowed to 2.3% (3.1% in March). Adding to these mixed dynamics, in May the PMIs showed signs of a slowdown, with a decline in the manufacturing sector to 49.5 points (50.4 in April), stagnation in the services sector (50.5 points in May vs. 50.3 in April) and a drop of almost 2 points in the construction PMI, to 54.4. Overall, the composite PMI stood at 51.0 points (vs. 51.7 previously), reflecting an economy that grew with less intensity in Q2. Looking ahead over the coming months, China's ability to revive domestic demand will remain one of the key questions while a relaxation of fiscal policy is awaited in the short term. India's GDP, meanwhile, beat expectations once again, recording a year-on-year increase of 7.8% in Q1.

Euro area: PMI
Level



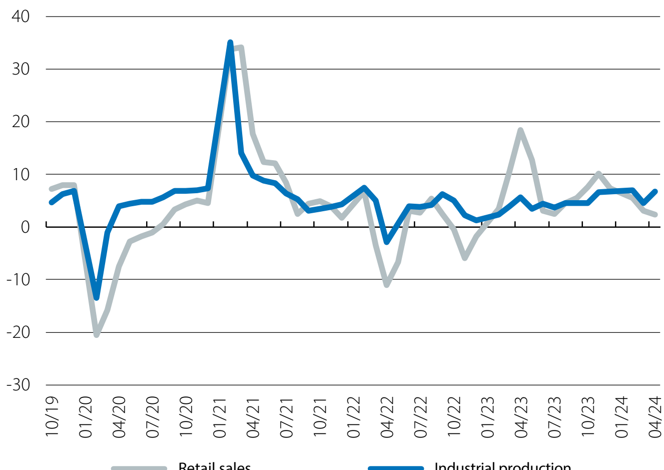
Source: *CaixaBank Research, based on data from S&P Global PMI.*

Euro area: HICP
Year-on-year change (%)



Source: *CaixaBank Research, based on data from Eurostat.*

China: economic activity indicators
Year-on-year change (%)



Source: *CaixaBank Research, based on data from the National Statistics Office of China.*

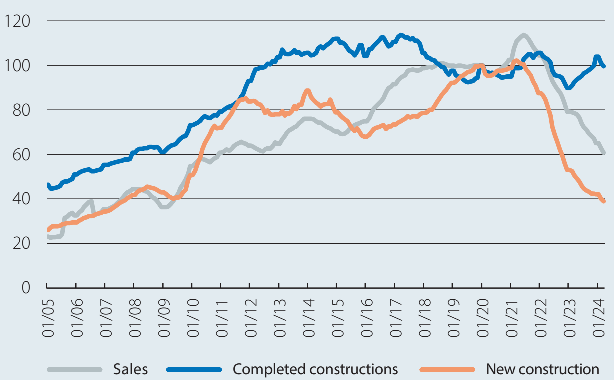
China's real estate sector: an updated diagnosis

After years of rapid expansion, the Chinese authorities have decided to put a stop to excessive leveraging in the real estate sector. On the one hand, they were concerned about the financial risks stemming from an uncontrolled housing bubble and, on the other hand, they had in mind the new guidelines of the «Common Prosperity» agenda, which in the real estate sector translated into the mantra «houses are for living in, not for speculation». In this context, beginning in the summer of 2020 new limits on access to credit for property developers were imposed and the sector entered a prolonged phase of adjustment in which it still remains today.

A quick take of the pulse suggests that this adjustment is proving to be rather dizzying, especially since 2021, when the crisis affecting the real estate giant Evergrande broke out, triggering intense scrutiny of the sector among investors while leading to a crisis of confidence among buyers and fears of contagion to the financial sector. Sales have plummeted by almost 50% since their peak and new construction has fallen by 60%, reaching levels similar to the post-financial crisis era (see first chart).

China: real estate sector indicators

Index (100 = December 2019)



Note: *The indices are calculated based on the 12-month averages.*
Source: *CaixaBank Research, based on data from the National Statistics Office of China, via Bloomberg.*

Vital signs stabilised, but with persistent symptoms

In this environment, the central role of real estate as a savings vehicle has led to a significant negative «wealth effect» among Chinese households. Moreover, while real estate was one of the main engines of the Chinese

China: map of indicators of the real estate and construction sectors

Activity indicators	2010-2019	2021	2023	*Latest figure*	2023 vs. 2021 (%)	vs. 2010-2019 (%)
Sales (mill. m^2) *	125.0	163.1	101.6	95.0	–37.7	–18.8
New construction (mill. m^2) *	168.0	180.8	86.7	80.5	–52.0	–48.4
Completed constructions (mill. m^2) *	88.2	92.2	90.8	87.0	–1.6	2.8
New construction (mill. m^2) *						
Property developer survey **	6,871.2	9,753.9	8,383.6	–	–14.0	22.0
Construction sector survey **	11,593.6	15,754.6	15,134.3	–	–3.9	30.5
Land sales (mill. m^2) *	83.7	99.5	80.0	77.1	–19.6	–4.4
Tier 1 and 2 cities	64.3	71.4	54.4	52	–23.8	–15.4
Tier 3 cities	19.4	28.1	25.6	25.1	–8.7	32.2
Total investment (construction) (CNY billions)	9,009.8	14,224.8	11,091.3	–	–22.0	23.1

Real GDP and price growth (%, YoY change)	2010-2019	2021	2023	*Latest figure*	2023 vs. 2021 (%)	vs. 2010-2019 (%)
GDP (aggregate)	7.7	8.4	5.2	5.3	–3.2	–2.5
Sectoral GDP						
Construction	8.3	4.1	7.1	5.8	3.0	–1.2
Real estate	5.4	4.3	–1.3	–5.4	–5.7	–6.7
Home prices (new builds)						
Tier 1 and 2 cities	5.5	4.3	0.1	–2.0	–4.2	–5.4
Tier 3 cities	3.5	4.2	–1.7	–3.3	–5.9	–5.2
Home prices (existing homes)	3.0	2.9	–3.1	–6.0	–6.0	–6.1

Notes: ** 12-month averages of monthly data. ** Cumulative annual data. The figure reported for each year corresponds to the last period (quarter or month). The GDP growth data refer to year-on-year rates of change.*
Source: *CaixaBank Research, based on data from Bloomberg.*

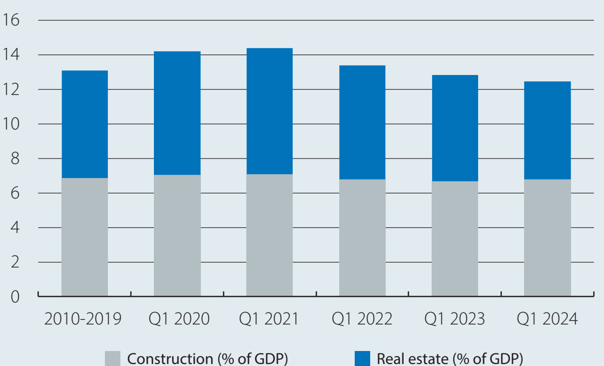
economy in the last decade, its weakness has diminished the Asian giant's growth outlook and has degenerated into a crisis of confidence. Faced with this scenario, and in a context marked by the country's structural slowdown, the authorities began to steadily relax regulations beginning in the second half of 2022.

Specifically, limits on the granting of new mortgages and on the purchase of housing were relaxed in 2023, and several incentive mechanisms were introduced to encourage developers to complete projects already underway.[1] All in all, these policies have led to a rebound in the number of finished construction projects, while the fall in new construction projects appears to have stabilised in recent months.[2] On the other hand, if we analyse the data on the total area under construction for different purposes, we can see how the fall in activity overall is far more modest than in the real estate sector specifically. The total area under construction by housing developers has fallen by 14% since 2021, while the total area under construction that also includes infrastructure, construction in rural areas and social housing has fallen by just 4%. Also, although residential activity in urban areas has fallen significantly in recent years, construction activity as a whole still shows a moderate adjustment, partly due to direct action by the authorities and their investment in infrastructure and social housing, as well as the fiscal measures introduced to support non-residential investment.

This dichotomy between the sharp adjustment on the demand side and the much more moderate adjustment on the supply side is illustrative that it will still take some time before the real estate crisis can be resolved. Thus, the slowdown has been much more acute in real estate than in the construction sector. In 2022 and 2023, the real estate sector registered negative year-on-year growth (of –3.9% and –1.3%, respectively), compared with an average growth of 5.4% between 2010 and 2019. In particular, real estate went from making a

China: relative weight of the real estate and construction sectors in GDP

Value added of each sector (% of GDP)



Source: *CaixaBank Research, based on data from the National Statistics Office of China, via Bloomberg.*

positive direct contribution of 0.3 pps to average GDP growth between 2010 and 2019 to making a negative contribution of –0.3 pps in 2022 and one of –0.1 pp in 2023 (the contribution of construction went from +0.6 pps to 0.2 pps and 0.5 pps in 2022 and 2023, respectively). Thus, the role of the real estate sector relative to the total economy has been steadily declining (see second chart).[3]

A chronic patient, with a diet recommendation

The latest activity data suggest that the most acute phase of the housing crisis may now be behind us, but there is still a long way to go. In this context, it is important to highlight four key elements for monitoring the sector's future evolution.

Firstly, with demand at an all-time low, once the stock of housing currently under construction is exhausted, the adjustment in construction activity will intensify, and this could be reinforced by the slowdown that is expected in investment in infrastructure and in the manufacturing sector. Secondly, the rigidity observed in prices to date (new home prices have fallen by 6% or less since 2021 in the largest cities) makes the reduction in sales sharper and more prolonged, even if it may have limited the contagion to the banking sector. In this regard, further price declines in future could signal the willingness of the Chinese authorities to accelerate the adjustment process, but this would entail added risks for the banking sector and for household expectations. Thirdly, the international comparison suggests that the imbalances in the real estate sector tend to trigger long corrections, in terms of both their duration and their magnitude.[4]

1. The most common financing model, based on pre-sales, made this a key element of the intervention in the real estate sector, particularly as an instrument to ensure social peace, given that in the event of a large developer's failure to comply, many households would find themselves in a highly vulnerable situation. In the last month, the Chinese authorities announced another series of support measures, with incentives for local governments to buy up housing stock not yet sold by developers and to allocate it for social housing. It is estimated that, between finished housing and construction in progress, developers may have between 1 and 2 billion m^2 of unsold housing on their balance sheets.

2. In the last 12 months, an average of 80 million m^2 of new housing has been built per month, while around 90 million m^2 per month has been completed. This contrasts with the average for the period 2010-2019, when 170 million m^2 of new housing was built per year, while the amount completed was also 90 million m^2.

3. «Construction» includes any activity related to the construction (or demolition) of homes, commercial spaces and infrastructure. «Real estate» encompasses all services related to housing, such as purchasing, rental, maintenance or consulting services.

Furthermore, despite the fact that the weight of the construction sector in China's GDP is not too high compared with other large economies, the limited adjustment observed to date and its capacity to generate significant knock-on effects suggest that the sector will continue to hold back the economy's growth in the medium term. Fourthly, it is important to stress that the situation is very different from region to region. For instance, the quarterly survey of construction companies reveals that, while the total area under construction in Beijing has increased by 15% since 2021, the reductions in other major cities, such as Hubei or Chongqing, exceed 15%. Also, the impact on local finances varies significantly between the different provinces and the fiscal capacity to respond to a protracted crisis in the sector will also be very different.

It seems that the Chinese authorities are managing to change the paradigm in the real estate sector and stabilise the first phase of the crisis. The adjustment on the demand side has been rapid, and a complete paralysis on the supply side has been avoided. However, this approach is also delaying the resolution of the structural problems within the real estate sector. China has gone from having virtually no private housing market in the early 1980s to a homeownership index of 90% today. This is one of the highest rates in the world, yet the country also has one of the highest rates of uninhabited housing, at around 20%. The next phase of the adjustment will thus present a more fundamental challenge: supply = demand.

Luís Pinheiro de Matos

4. China has had three years of adjustment, with a cumulative fall in prices of 10%. Although the experiences are very different, other historical examples with significant imbalances have led to longer adjustments. For example, the post-crisis financial adjustments in Spain and the US lasted between 5 and 7 years, with cumulative price declines in excess of 30%, while in Japan the real estate adjustment lasted almost two decades, with a cumulative drop in prices of around 50%. In addition, in the case of China, it is also important to highlight the significant differences between so-called Tier 1 cities, where there was a significant rebound in prices relative to income growth in the period 2010-2019, and Tier 3 cities, where the price increase recorded in the period 2010-2019 was far lower than in Tier 1 and 2 cities, and the problem seems to be focused in a chronic excess of supply.

Year-on-year (%) change, unless otherwise specified

UNITED STATES

	2022	2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	03/24	04/24	05/24
Activity									
Real GDP	1.9	2.5	2.4	2.9	3.1	2.9	–	–	–
Retail sales (excluding cars and petrol)	8.6	5.3	4.4	4.6	5.0	2.9	4.5	3.5	...
Consumer confidence *(value)*	104.5	105.4	105.4	109.0	102.7	106.3	103.1	97.5	102.0
Industrial production	3.4	0.2	0.0	–0.1	0.0	–0.2	0.1	–0.4	...
Manufacturing activity index (ISM) *(value)*	53.5	47.1	46.7	47.6	46.9	49.1	50.3	49.2	48.7
Housing starts *(thousands)*	1,552	1,421	1,455	1,380	1,481	1,403	1,287	1,360	...
Case-Shiller home price index *(value)*	307	312	308	316	321	324	325	...	...
Unemployment rate *(% lab. force)*	3.6	3.6	3.6	3.7	3.7	3.8	3.8	3.9	...
Employment-population ratio *(% pop. > 16 years)*	60.0	60.3	60.3	60.4	60.3	60.2	60.3	60.2	...
Trade balance [1] *(% GDP)*	–3.8	–3.1	–3.2	–3.0	–2.9	–2.8	–2.8	...	...
Prices									
Headline inflation	8.0	4.1	4.0	3.5	3.2	3.2	3.5	3.4	...
Core inflation	6.2	4.8	5.2	4.4	4.0	3.8	3.8	3.6	...

JAPAN

	2022	2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	03/24	04/24	05/24
Activity									
Real GDP	1.0	1.9	2.3	1.6	1.2	–0.2	–	–	–
Consumer confidence *(value)*	32.2	35.2	35.7	36.2	36.5	38.9	39.5	38.3	36.2
Industrial production	0.0	–1.4	0.9	–3.6	–0.9	–4.3	–3.1	–3.4	...
Business activity index (Tankan) *(value)*	9.5	7.0	5.0	9.0	13.0	11.0	–	–	–
Unemployment rate *(% lab. force)*	2.6	2.6	2.6	2.6	2.5	2.5	2.6	2.6	...
Trade balance [1] *(% GDP)*	–2.1	–3.0	–3.6	–2.7	–1.8	–1.2	–1.1	–1.0	...
Prices									
Headline inflation	2.5	3.3	3.4	3.1	2.9	2.5	2.7	2.5	...
Core inflation	1.1	3.9	4.2	4.3	3.9	3.2	2.9	2.4	...

CHINA

	2022	2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	03/24	04/24	05/24
Activity									
Real GDP	3.0	5.2	6.3	4.9	5.2	5.3	–	–	–
Retail sales	–0.8	7.8	10.7	4.2	8.3	4.7	3.1	2.3	...
Industrial production	3.4	4.6	4.5	4.2	6.0	5.8	4.5	6.7	...
PMI manufacturing *(value)*	49.1	49.9	49.0	49.7	49.3	49.7	50.8	50.4	49.5
Foreign sector									
Trade balance [1,2]	899	865	947	901	865	842	845.4	825.3	...
Exports	7.1	–5.1	–5.4	–10.8	–3.3	–1.7	–11.4	–1.0	...
Imports	0.7	–5.5	–7.0	–8.5	0.9	1.5	–1.9	8.4	...
Prices									
Headline inflation	2.0	0.2	0.1	–0.1	–0.3	0.0	0.1	0.3	...
Official interest rate [3]	3.65	3.45	3.6	3.5	3.5	3.5	3.5	3.5	3.5
Renminbi per dollar	6.7	7.1	7.0	7.2	7.2	7.2	7.2	7.2	7.2

Notes: *1. Cumulative figure over last 12 months. 2. Billion dollars. 3. End of period.*
Source: *CaixaBank Research, based on data from the Department of Economic Analysis, Bureau of Labor Statistics, Federal Reserve, Standard & Poor's, ISM, National Bureau of Statistics of Japan, Bank of Japan, National Bureau of Statistics of China and Refinitiv.*

EURO AREA

Activity and employment indicators

Values, unless otherwise specified

	2022	2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	03/24	04/24	05/24
Retail sales *(year-on-year change)*	1.2	–2.1	–2.3	–2.3	–0.8	–0.2	0.7	...	...
Industrial production *(year-on-year change)*	2.1	–2.1	–0.8	–4.7	–3.7	–4.6	–1.0	...	...
Consumer confidence	–21.9	–17.4	–26.9	–26.9	–26.9	–26.9	–14.9	–14.7	–14.3
Economic sentiment	102.1	96.4	96.5	96.5	96.5	96.5	96.3	95.6	96.0
Manufacturing PMI	52.1	51.2	44.7	43.2	43.6	43.9	46.1	45.7	47.3
Services PMI	52.1	52.1	54.4	49.2	48.4	48.4	51.5	53.3	53.2
Labour market									
Employment (people) *(year-on-year change)*	2.3	1.4	1.4	1.4	1.2	1.0	–	–	–
Unemployment rate *(% labour force)*	6.8	6.6	6.5	6.6	6.5	6.5	6.5	6.4	...
Germany *(% labour force)*	3.1	3.0	2.9	3.1	3.1	3.2	3.2	3.2	...
France *(% labour force)*	7.3	7.3	7.4	7.4	7.5	7.4	7.4	7.3	...
Italy *(% labour force)*	8.1	7.7	7.7	7.6	7.4	7.2	7.1	6.9	...
Real GDP *(year-on-year change)*	3.5	0.5	0.6	0.1	0.1	0.4	–	–	–
Germany *(year-on-year change)*	1.9	0.0	0.2	–0.1	–0.2	–0.2	–	–	–
France *(year-on-year change)*	2.6	0.9	1.1	0.7	0.8	1.1	–	–	–
Italy *(year-on-year change)*	4.2	1.0	0.6	0.6	0.7	0.7	–	–	–

Prices

Year-on-year change (%), unless otherwise specified

	2022	2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	03/24	04/24	05/24
General	8.4	5.5	6.2	5.0	2.7	2.6	2.4	2.4	2.6
Core	3.9	5.0	5.5	5.1	3.7	3.1	3.0	2.7	2.9

Foreign sector

Cumulative balance over the last 12 months as % of GDP of the last 4 quarters, unless otherwise specified

	2022	2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	03/24	04/24	05/24
Current balance	–0.7	4.1	0.2	1.8	4.1	10.6	10.6	...	...
Germany	4.3	12.1	4.8	7.8	12.1	26.1	26.1	...	...
France	–2.0	–1.5	–1.8	–1.7	–1.5	–2.3	–2.3	...	...
Italy	–1.6	1.0	–1.1	0.1	1.0	4.2	4.2	...	...
Nominal effective exchange rate [1] *(value)*	**90.9**	**94.7**	**94.6**	**95.9**	**95.1**	**95.2**	**95.5**	**95.2**	**95.3**

Credit and deposits of non-financial sectors

Year-on-year change (%), unless otherwise specified

	2022	2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	03/24	04/24	05/24
Private sector financing									
Credit to non-financial firms [2]	6.7	2.7	4.0	1.1	0.1	0.3	0.4	0.3	...
Credit to households [2,3]	4.4	1.7	2.1	1.1	0.5	0.3	0.2	0.2	...
Interest rate on loans to non-financial firms [4] *(%)*	1.8	4.6	4.5	5.0	5.2	5.1	5.2	5.2	...
Interest rate on loans to households for house purchases [5] *(%)*	2.0	4.4	4.3	4.7	4.9	4.8	4.8	4.8	...
Deposits									
On demand deposits	6.3	–8.5	–8.1	–11.3	–10.7	–8.8	–7.5	–7.0	...
Other short-term deposits	4.5	21.1	22.5	23.2	21.0	18.4	16.7	15.7	...
Marketable instruments	3.7	20.4	22.0	20.4	19.8	20.1	19.3	22.6	...
Interest rate on deposits up to 1 year from households *(%)*	0.5	2.7	2.5	3.0	3.3	3.2	3.2	3.1	...

Notes: *1. Weighted by flow of foreign trade. Higher figures indicate the currency has appreciated. 2. Data adjusted for sales and securitization. 3. Including NPISH. 4. Loans of more than one million euros with a floating rate and an initial rate fixation period of up to one year. 5. Loans with a floating rate and an initial rate fixation period of up to one year.*
Source: *CaixaBank Research, based on data from the Eurostat, European Central Bank, European Commission, national statistics institutes and Markit.*

Spain's economic activity remains buoyant

The Spanish economy continues to show greater buoyancy than had been expected at the start of the year, thanks above all to the momentum of the tertiary sector, especially tourism-related activities, as well as the strength of job creation. In addition, over the coming quarters supporting factors will emerge, such as a less restrictive monetary policy, an easing of inflationary tensions and an expected acceleration in the execution of the European NGEU funds.

The surprising GDP growth figure for Q1 2024 (0.7% quarter-on-quarter, a rate that far exceeds that of the euro area), combined with the vigour observed in the indicators available for Q2 (PMI, employment, consumption, etc.), confirms the good tone of the Spanish economy. We must also consider the positive impact that the upward revision of GDP growth in the last three quarters of 2023 will have on growth in 2024. All this leads us to raise our growth forecast for the current year by 0.5 points to 2.4% (see the Focus «New economic outlook: Spain's economy once again surpasses expectations» in this same report).

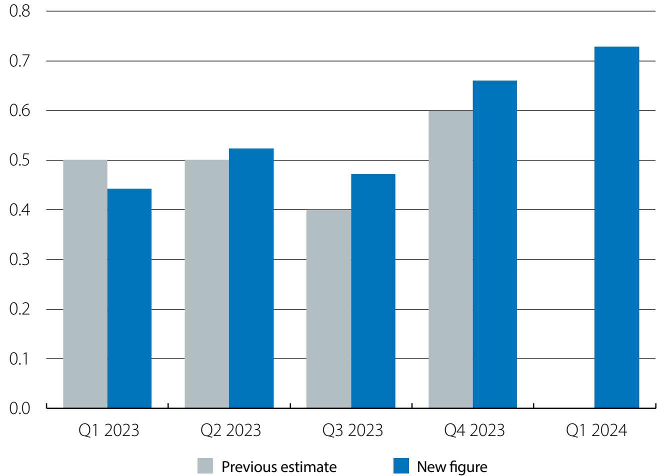
The indicators available for Q2 offer positive signals and indicate that the economy continues to grow at a steady pace. The PMI business climate survey for the services sector stood at 56.9 points in May (56.2 in April), which is well above the level that marks expansion (50 points) and marks a peak since April 2023. Within the tertiary sector, the exceptional performance of tourism continues to stand out: in April, 7.83 million tourists arrived, which is 8.3% more than in April last year, and they spent 9.565 billion euros, the highest figure in the series in that month, hinting at a new record year for the sector. As for the manufacturing sector, its revival is consolidated, with its PMI standing within expansionary territory for the fourth consecutive month, reaching 54 points, which is 1.8 points more than the previous month and the highest level since March 2022.

The consumption-related indicators also offer positive signals. On the one hand, the retail trade index in real terms, corrected for seasonal and calendar effects and excluding service stations, grew by 0.8% month-on-month in April, compared to an average monthly fall of 0.2% in Q1. Also, according to the CaixaBank Consumer Indicator, Spanish bank card usage recovered in May, following the cooling of the previous month. Specifically, it grew by 4.4% year-on-year (with data up until the 21st), exceeding the 3.2% recorded in April and similar to the pace of Q1 (4.3%).

Employment remains solid and marks a new high in May. The number of registered workers increased by 220,289 people in May, improving on the figure for May last year (200,411) and the pre-pandemic average for the same month (213,582 in the period 2014-2019), and bringing the total number of registered workers to over 21.3 million. With seasonally adjusted data, employment increased in the month

Spain: GDP

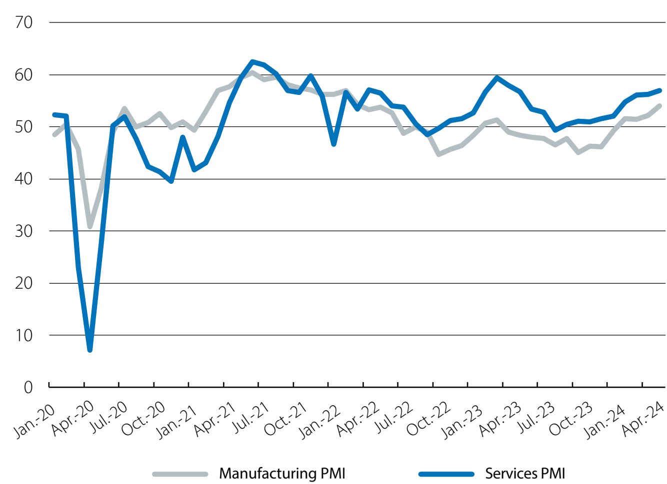
Quarter-on-quarter change (%)



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

Spain: PMI

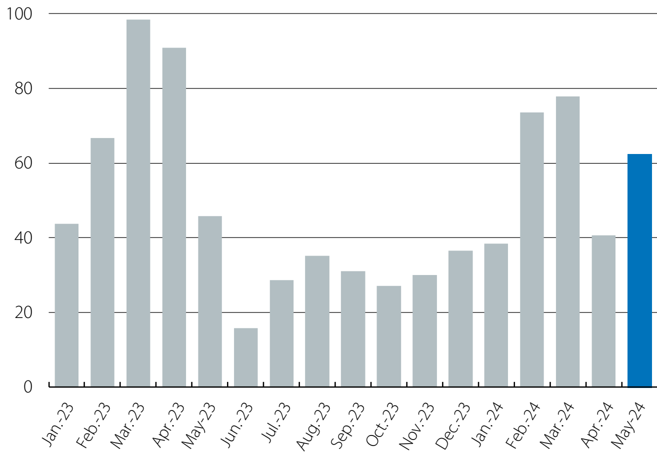
Level



Source: *CaixaBank Research, based on data from S&P Global PMI.*

Spain: registered workers affiliated with Social Security *

Month-on-month change (thousands of people)



Note: ** Series corrected for seasonality.*
Source: *CaixaBank Research, based on data from the Ministry of Inclusion, Social Security and Migration (MISSM).*

by 62,505 workers, in line with the monthly average for Q1 (63,242); in Q2 to date, the quarter-on-quarter growth in the number of registered workers remains at 0.7%.

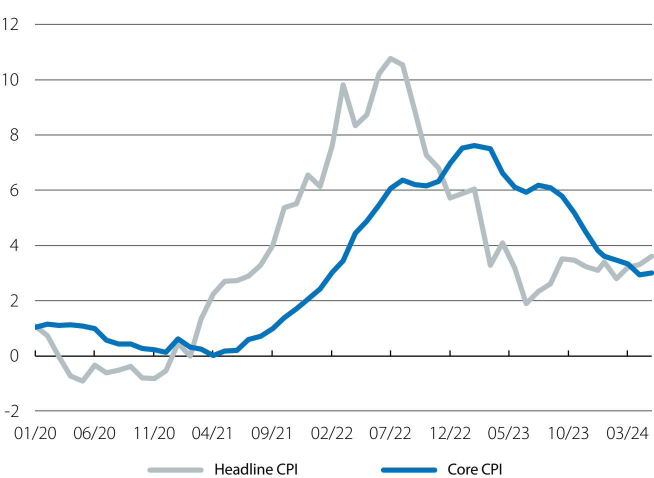
Inflation picks up again in May, but driven by non-core components. According to the CPI flash indicator published by the National Statistics Institute (INE), headline inflation increased in May for the third consecutive month, climbing 10 pps to 3.6%, which is the highest rate since April 2023. This rebound is due to the rise in electricity and fuel prices, which decreased to a lesser extent than in May in 2023: the upward contribution from energy is due to increases in the various taxes that apply to electricity bills. As for core inflation, which excludes energy and unprocessed food, it truncated its downward path of previous months and rose slightly to 3.0% (2.9% in April), due to a calendar effect influencing the price of services (Easter Week in 2023 was celebrated in April and this year, in March). In short, the rebound in inflation in May is due to specific factors and is within expectations, so it does not introduce any upside risks for our forecasts of a steady moderation over the coming months.

Home prices grow faster than expected in Q1. The home price index produced by the INE stood at a peak in the available series since 2007, after rebounding 2.6% quarter-on-quarter in Q1, which raises the year-on-year rate of change to 6.3% (4.2% previously). This acceleration in prices is occurring across all types of housing, although new homes are showing higher year-on-year growth rates than existing homes (10.1% versus 5.7%), reflecting a greater imbalance between supply and demand in this segment. By region, they all registered an acceleration in their year-on-year rate compared to Q4. Andalusia stands out as the market where home prices have risen the most in this early part of the year (7.9% year-on-year), compared to regions such as Castilla-La Mancha, Galicia or Asturias, where the growth rate is more moderate, at around 5%.

Deterioration of the trade deficit in Q1 2024 due to weak exports of non-energy goods. The trade deficit stood at 8.105 billion euros in Q1, surpassing the figure of a year earlier (–6.578 billion) and the average for the first quarters in the period 2014-2019 (–6.760 billion). This increase in the deficit is explained by the deterioration of the balance of non-energy goods, as the energy deficit remained fairly stable. Specifically, the balance of non-energy goods posted a surplus of 9 million euros, in contrast to the positive balance of 1.639 billion in the same period of 2023; this was due to a fall in exports, which were weighed down mainly by lower sales of medicines and organic chemicals (–7.2% year-on-year, corresponding to a 6.9% fall in volume and a 0.3% drop in prices), which was more intense than the decline in imports (–5.5%, with a 3.8% decrease in volume and a 2% decline in prices). The energy deficit, meanwhile, fell very slightly from 8.218 billion in Q1 2023 to 8.114 billion this year: exports fell by 28.2% (–21.9% in volume, with prices falling by 8.4%), which was more than imports, which fell by 15.3% (–12.3% in volume and –3.6% in terms of prices).

Spain: CPI

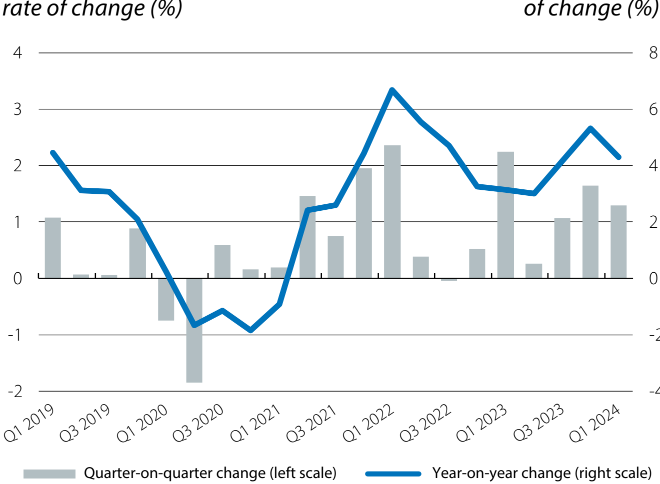
Year-on-year change (%)



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

Spain: home prices (appraisal value)

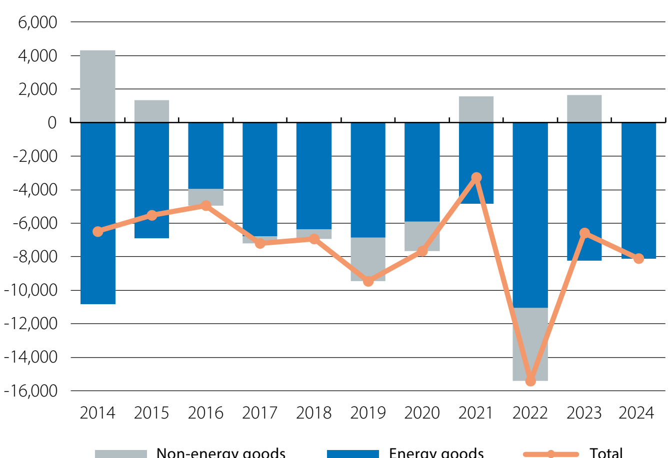
Quarter-on-quarter rate of change (%) *Year-on-year rate of change (%)*



Source: *CaixaBank Research, based on data from the Ministry of Transport, Mobility and Urban Agenda (MITMA).*

Spain: balance of trade in Q1

(EUR millions)



Note: *Data according to the Standard International Trade Classification (SITC).*
Source: *CaixaBank Research, based on data from the Customs Department.*

New economic outlook: Spain's economy once again surpasses expectations

The Spanish economy has once again exceeded our expectations in the opening months of 2024. While the GDP growth figure for the final quarter of 2023 was higher than expected, that of the first quarter of this year confirms the good performance of Spain's economy and leads us to revise our forecasts upwards. Let's re-examine the main factors that will determine the outlook for Spain's economy, after incorporating the latest available information.

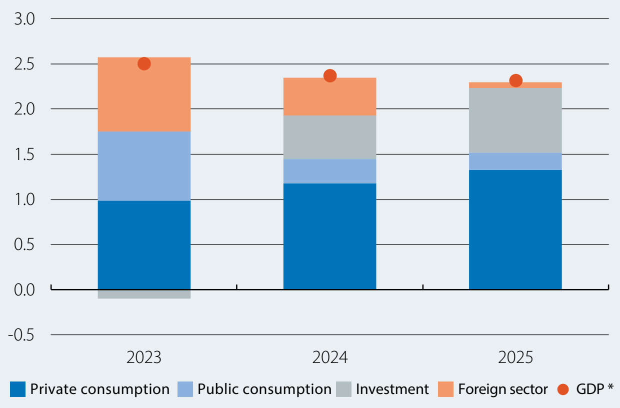
Starting point

The performance of Spain's economy provided a positive surprise for the second consecutive quarter, growing by 0.7% quarter-on-quarter during Q1 2024. This better-than-expected performance comes in addition to the upward revision of the figure for the final quarter of 2023, when GDP also grew by 0.7% quarter-on-quarter. Thus, the Spanish economy has managed to maintain a steady growth rate despite the multiple factors it has had to contend with, such as the weakness of the euro area economies, persistent inflation and the impact of the interest rate hikes, which were expected to peak in Q1 2024. Underlying this good performance are several key factors: the strength of the labour market, the boost provided by immigration flows, which remain dynamic, and the buoyancy of international tourism, which once again exceeded expectations and explains the strong contribution of foreign demand to growth. In contrast, domestic demand has maintained a more modest pace of progress. In the case of investment, although it rebounded significantly in Q1 2024, it remains 2.2% below the level of Q4 2019, and private consumption is just 0.4% above, despite the fact that the population has increased by 3% since 2019.

On the other hand, inflation, which has averaged 3.3% between January and May this year, has behaved in line with our expectations, albeit with some nuances when we go into the detail of the different components. In recent months, opposing dynamics between the various components of the CPI basket have been accentuated. On the one hand, core inflation, which excludes energy and food, has gradually fallen to 2.7% in May (4.4% in 2023), despite persistent inflation in services. On the other hand, the rest of the components continue to show relatively high inflation rates. The rise in energy inflation is mainly due to temporary factors: although the price of electricity in the wholesale market has remained relatively low, the final price has been affected by increases in the various taxes that apply to electricity bills. In the case of food, inflation rates are well below those of last year (4.6% year-on-year in April vs. 11.1% on average in 2023), but this decline is largely due to base effects. With month-on-month increases still above the average of the period 2015-2019, food inflation remains far from normalised.

Spain: GDP

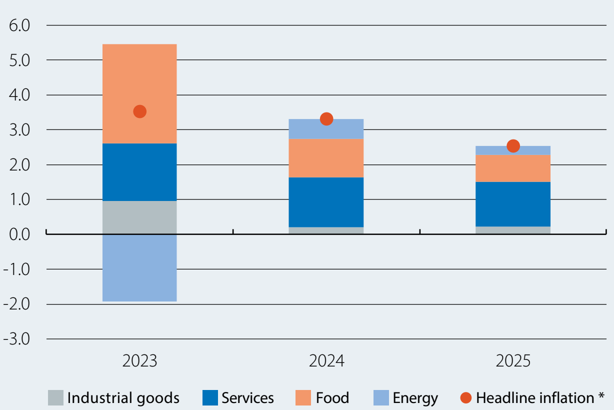
Contribution to annual growth (pps)



Note: ** Year-on-year growth in percentage terms.*
Source: *CaixaBank Research, based on data from the National Statistics Institute (INE) and internal forecasts.*

Spain: inflation

Contribution to annual growth (pps)



Note: ** Year-on-year growth in percentage terms.*
Source: *CaixaBank Research, based on data from the National Statistics Institute (INE) and internal forecasts.*

Revision of the underlying assumptions of the scenario

In the international scenario, the main assumptions of two months ago regarding the outlook remain in place. For the euro area, where economic growth is still weak and average inflation has been 2.5% up until May, we maintain our forecast of four rate cuts in 2024 (bringing the depo rate to 3.0% in December 2024), followed by three more in 2025. As such, monetary policy will

continue to favour the recovery of investment. In terms of the price of the main commodities, the upward revision of the price of Brent oil to an average of 87 dollars/barrel in 2024 (79 dollars/barrel in the previous scenario) means that fuels will no longer contribute to the decline in inflation. However, the impact of this revision is relatively moderate, as oil already experienced a peak in prices during the second half of 2023.[1]

Outlook

The good data for this year's Q1, together with a somewhat more favourable global environment, lead us to revise upwards our GDP growth forecast for 2024 as a whole to 2.4% year-on-year and for 2025, to 2.3% year-on-year (0.5 and 0.1 pps more than in the previous scenario, respectively). Beyond the aggregate data, this revision is accompanied by a change in the pattern of growth. Firstly, we expect domestic demand to take over from foreign demand as the driver of growth, in light of the expected cooling of exports of goods and the anticipated normalisation of tourist flows.[2] In turn, we also expect that domestic demand will be less driven by public consumption and that we will see a gradual revival of both private consumption and investment.

On the private consumption side, the good data on job creation and population growth have resulted in a sharp increase in household gross disposable income (GDI), which rose by 11.0% year-on-year in 2023. This increase in GDI has placed the savings rate at 11.7%, above the historical average of 8.2%.[3] Given the anticipated interest rate cuts on the part of the ECB, we expect a portion of these savings to contribute to an increase in private consumption, which would improve the growth rate to 2.2% in 2024 (1.7% in 2023) before accelerating to 2.4% in 2025. In terms of investment, our forecast is that it will begin to gain momentum with a growth rate of 2.5% in 2024, spurred on by the first interest rate cuts on the part of the ECB and by greater traction in the execution of the NGEU funds, the maximum disbursement of which is expected to take place in 2025.

The good outlook in our scenario is not limited to economic activity growth. In line with the upward revision of GDP and the good performance of employment so far this year, we have revised our forecast for the unemployment rate down to 11.6% on average in 2024 and to 11.1% in 2025 (0.2 and 0.3 pps less than in the previous scenario, respectively). This forecast is relatively moderate given that we have also revised the growth of the labour force upwards in the face of immigration flows that are still projected to be high.

On the other hand, the real estate market will continue to benefit from the low level of leverage among households at the aggregate level and the resilience of foreign demand, in addition to the robust labour market and the decline in interest rates. In this regard, we have also revised upwards our forecast for the annual number of home sales to 565,000 (15,000 more than in the previous scenario) and, above all, we have raised our forecast for the growth of home prices to 4.0% year-on-year (1.3 pps more than in the previous scenario).

As for inflation, we have revised our forecast for 2024 slightly upwards to an annual average of 3.2% (0.2 pps higher than in the previous scenario). The main factors behind this revision are a slightly worse than expected pattern of inflation in food and the rise in VAT on electricity due to the low wholesale market prices.[4] On the other hand, we maintain the forecast of a decline in core inflation, which would average 2.7% year-on-year in 2024 (4.4% in 2023), although it will be marked by a degree of persistence in the case of inflation in services.

The risks surrounding the new forecast scenario are high. On the one hand, private consumption could benefit from a somewhat faster normalisation of the savings rate than we expect, and investment could recover quicker than expected as interest rates come down. In addition, immigration flows and the growth in spending by international tourists could remain higher than anticipated. As for the downside risks, they are mainly geopolitical in nature. At the international level, a potential escalation of the conflict in the Middle East could drive up the price of oil and reverse the moderation process in inflation, with the consequent impact on economic activity. At the national level, it is important that the execution of the NGEU funds gains traction in order to support the recovery of business investment.

Zoel Martín Vilató

1. See the Focus «The buzzword in the new international scenario: divergence» in this same *Monthly Report*.
2. See the article «Which of Spain's sectors have been hardest hit by the slowdown of the country's trading partners?» in the *Sectoral Observatory*.
3. See the Focus «A closer look at the increase in Spanish household savings in 2023» in the MR05/2024.
4. In March, VAT on electricity temporarily rose to 21% (from 10%) as electricity prices in the wholesale market fell below the threshold of 45 euros/MWh. Right now, the futures markets are anticipating an increase in the wholesale price of electricity above the threshold, which would cause VAT to drop back down to the reduced rate in the summer through to January 2025.

CaixaBank *Sector Observatory*: a look at the evolution of the Spanish economy from the perspective of its sectors

In this Focus we present the main conclusions of the *Sector Observatory*, a new publication by CaixaBank Research in which we offer a clear and detailed analysis of the evolution of the Spanish economy from the point of view of its sectors. To this end, we have developed a new tool, the CaixaBank Research Sector Indicator, which allows us to track the evolution of 24 sectors in the spheres of economic activity, the foreign sector and the labour market. This indicator allows us to visualise the health of the various sectors in Spain and where they lie in the cycle, making it easier to assess their future outlook at the individual level.[1]

From the dispersion of economic activity following the pandemic...

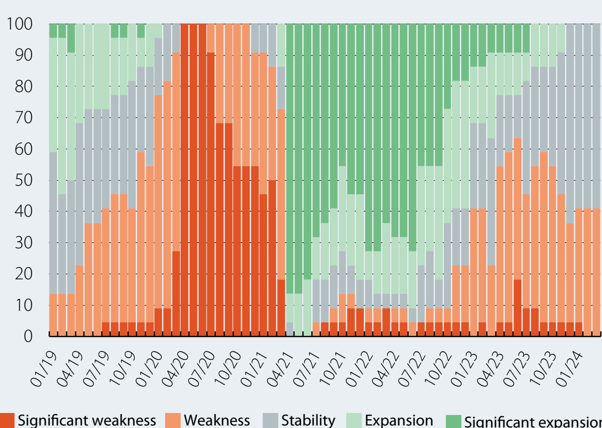
Thanks to the new indicator, we observe that the major shocks the Spanish economy endured between 2020 and 2023 have had a widely varying impact on the different sectors, which increased the degree of dispersion between them in the pattern of economic activity:

- The COVID-19 pandemic in 2020 caused a sharp and widespread fall in economic activity, especially in the sectors most dependent on social interaction: leisure and entertainment, catering and accommodation. Subsequently, the rapid and intense recovery generated significant rebounds in activity.
- The bottlenecks in global value chains that followed beginning in 2021 dealt a blow to the manufacturing industry, especially the automotive sector.
- The war in Ukraine and the energy crisis in 2022 drove up production costs, which had a more severe impact on the most energy-intensive branches of industry: the agrifood sector (primary and processing industries), the extractive industry, the construction auxiliary industry, textile and footwear, paper and refining were the branches that were hardest hit.
- Finally, the increase in interest rates since mid-2022 harmed the sectors that are most dependent on external financing, such as real estate and some branches of industry.

...to a gradual homogenisation of the performance among the sectors

As these shocks have been gradually absorbed, the performance of the various sectors is becoming increasingly homogeneous. Our sector traffic light chart shows that, in the first few months of 2024, around 60% of the sectors have maintained stable growth.[2] Furthermore, our analysis of the indicators in the different spheres (economic activity, the labour market and the external sector) allows us to conclude that the strength of the labour market is the primary factor behind the resilience shown by all sectors across the board. On the other hand, it also reveals that the support provided by the foreign sector steadily faded from mid-2023 onwards and there are few signs of improvement in the latest data.

Sector traffic light for the Spanish economy
(% of the total number of sectors)



Notes: *The traffic light chart indicates the percentage of sectors that fall within each of the 5 growth categories, which are defined as follows: «significant weakness» if the value taken by the sector 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.*
Font: *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).*

Where in the cycle does each sector lie?

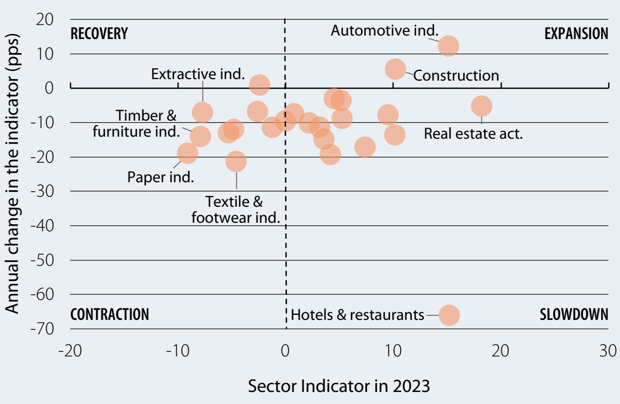
Taking a closer look at the various economic sectors, the CaixaBank Research Sector Clock allows us to visualise where in the cycle each sector lies at any given time. Specifically, the Sector Clock shows the indicator's level on the horizontal axis and its change in the last year on the vertical axis. In this way, the resulting quadrants offer a picture of the sector's current position and its recent

1. For further details of the methodology used to build this indicator, see the methodology box in the Sector Observatory 2024 (https://www.caixabankresearch.com/en/analisis-sectorial/observatorio-sectorial/indicador-sectorial-caixabank-research).

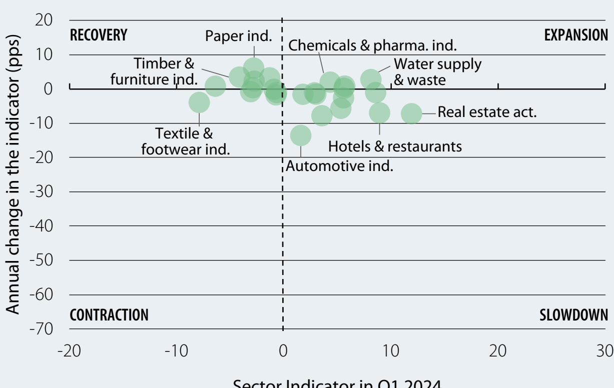
2. The sector traffic light is a chart in which the various economic sectors are classified into five categories according to their rate of growth. In particular, a sector is considered to be in a position of significant weakness if the value taken by the sector indicator lies below the 15th percentile (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.

CaixaBank Research Sector Clock

2023



Q1 2024



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).*

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). Comparing the Clock for 2023 with that of the opening months of 2024, we can see where the sectors currently lie in the cycle, as well as their recent trend:

- In the opening months of 2024, the sectors are grouped near the centre of the clock, which indicates less dispersion between them.
- The chemicals and pharmaceutical industry, water supply, retail, and professional and administrative activities show an improvement and have moved into the expansion quadrant.
- Many industries have also improved, having moved into the recovery quadrant after several years weighed down by the rise in costs (the timber, paper, extractive, refining and construction auxiliary industries).
- Real estate activities, transport equipment manufacturing and the hotels and restaurants sector have moved into the slowdown quadrant, although they remain among the best performing sectors.
- The agrifood sector and the textile and footwear industry remain in the contraction quadrant and are joined by wholesale trade.

Outlook for the Spanish economy and its sectors: what we expect in 2024 and 2025

The outlook for the Spanish economy for 2024-2025 is positive, although a slight moderation is anticipated in GDP growth. Specifically, it is expected to fall from 2.5% in 2023 to 2.4% in 2024, before consolidating at a rate of 2.3% in 2025, according to CaixaBank Research's latest forecasts. In this scenario, we expect that the dispersion of growth rates between sectors will continue to

Sector forecasts for 2024-2025

Group	→	Rationale
Above-average expansion: • Information & communications (ICT) • Pharmaceutical industry • Tourism • Construction	→	They share very positive secular trends or a significant 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 pattern of behaviour
Moderate weakness: • Textile industry • Paper industry	→	They share weaker secular trends, due to cost pressures and greater exposure to international competition

gradually reduce, as the impact of the rise in production costs and the interest rate hikes is gradually diluted. In fact, we do not expect GVA to contract in any of the sectors analysed, and the different growth rates will be largely determined by the medium and long-term trends.

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). At the other extreme, the textile and paper industries are the sectors we expect to show more moderate growth.

Pedro Álvarez Ondina

Survey of Household Finances: Spain is not a country for the young

Generation gap: a phenomenon that is intensified in income and wealth

This spring, the Bank of Spain published the 2022 Survey of Household Finances (EFF). This is the eighth edition of this study, which involves over 6,000 household surveys that are used to characterise the distribution of the main income and wealth variables of the more than 18 million households in Spain.

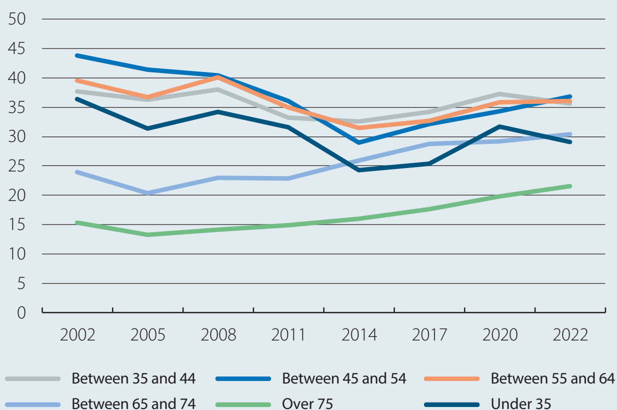
At the aggregate level, median household income increased by 1.1% between 2019 and 2021,[1] while net wealth[2] rose by 3.7% between 2020 and 2022.[3] In 2022, therefore, the median income per household in Spain stood at 32,400 euros (mean average of 43,100 euros), while the median net wealth, the bulk of which comes from the value of real estate assets,[4] was 142,700 (mean average of 309,000 euros).

However, this situation at the aggregate level masks stark differences between generations. According to the data collected by the EFF, the generation gap is a question of both income and, above all, wealth: between 2001 and 2021, the median income of households with a head of the household aged under 35 (in 2022 prices) fell by 19.8%, while in the case of those over 74 years of age it rose by 40.5%. It should be noted, however, that both of these groups have a lower median income than other households. Moreover, households where the head of the household is older came from a more precarious starting point and remain the households with the lowest income. In addition, the wealth gap between the younger and older generations has also widened over the past two decades: the total net wealth of households with a head under the age of 35 fell by 72.7% between 2002 and 2022 and that of households headed by someone over the age of 74 rose by 98.7%.

Another way to illustrate the evolution of the generation gap is by analysing the income and wealth of young people and older people relative to the main working age group (35-44 years). The third chart reveals that the incomes of young people have fallen by more than 14 points since 2002 relative to the working-age population, starting from a very similar level, while those aged over 74 have seen their income gap narrow by 20 points. Performing a similar exercise with net wealth, we see that the ratio of young people relative to the working-age population has gone from 55% in 2002 to 26% in 2022, while for the elderly it has risen from 84%... to almost triple the wealth of households aged between 35 and 44 years in 2022!

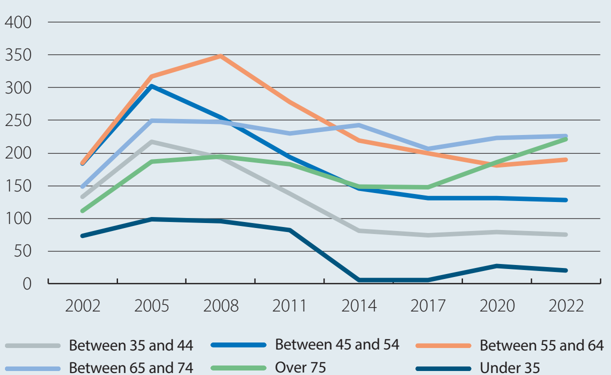
1. The income data correspond to the year prior to the survey, while the wealth data correspond to the same year as the survey. For instance, the 2022 EFF poses questions about households' wealth in 2022 and their income in 2021, while the 2020 EFF asked about their wealth in 2020 and their income in 2019.
2. Sum of real estate assets and financial assets, subtracting financial liabilities.
3. All amounts in this article are at constant prices of 2022, i.e. corrected for inflation.
4. In 2022, 83.8% of households owned real assets and the median value was 181,300 euros. On the other hand, 97.7% of households held financial assets and the median value of these was 16,200 euros.

Spain: median income by age group
(EUR thousands)



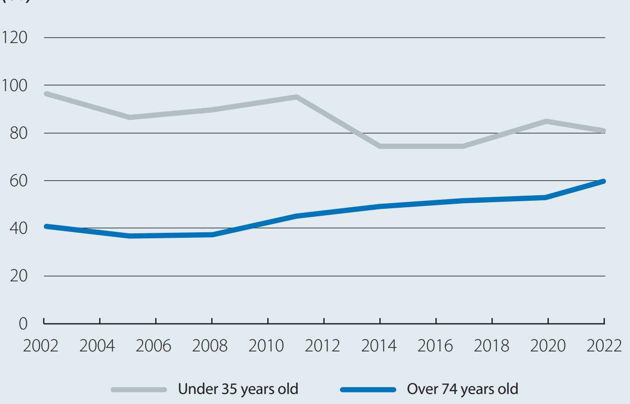
Source: *CaixaBank Research, based on data from the Survey of Household Finances (Bank of Spain).*

Spain: median net wealth by age group
(EUR thousands)



Source: *CaixaBank Research, based on data from the Survey of Household Finances (Bank of Spain).*

Spain: income gap with respect to the working population between 35 and 44 years old
(%)



Source: *CaixaBank Research, based on data from the Survey of Household Finances (Bank of Spain).*

Homeownership, a key factor in the widening of the generation gap

The divergence in net wealth between young and old is largely explained by real estate: over the past 20 years, there has been a marked decline in the proportion of young people who own a home, going from 66% in 2002 to 31.8% in 2022. Moreover, among those who have bought a home, the ratio of the median value of their primary residence relative to that of the elderly has gone from 1.5 in 2002 to 1 in 2022, possibly reflecting the fact that young people are buying smaller properties or ones located in cheaper areas than was the case a few years ago.

If we focus on financial assets, there have also been significant changes that have caused the generation gap to widen and which suggest a lower capacity to save among the young. In 2002, the median balance held by young people in accounts and deposits available for making payments was 2,120 euros, and in 2022 it was 3,270 euros. For those over 75 years of age, meanwhile, it has gone from 2,650 to almost 15,000 euros. The participation of young people in other types of financial assets, such as investment funds and pension or insurance schemes, has also declined significantly.[5] In any event, financial assets account for just 21% of total gross household wealth in 2022 (21% for young people and 28% for those over 74), meaning that the affordability of homeownership is the main cause of the widening of the generation gap.

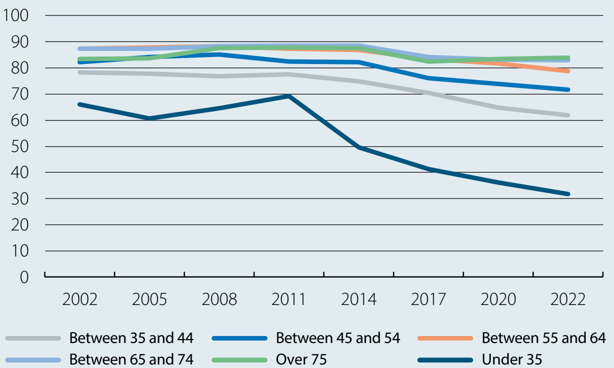
Fall in households' outstanding debt and financial stress: widespread, including for young people

On the liabilities side, there has been a widespread fall in household debt across all segments, reflecting the marked deleveraging process that has taken place among Spanish households since 2010. Focusing on the most recent period, the median outstanding balance of debt on a primary home among all households with debt fell by 9.7% between 2020 and 2022, the balance related to other properties has fallen by 27.3% and that of consumer loans has fallen by 9.2%.[6]

If we look at the reduction of the outstanding balance of households with debt by age group, we see that young people are among those who have seen the biggest reduction in their median balance of debt on a primary home (–14.2% between 2020 and 2022). This is a slightly bigger reduction than for households where the head of the household is aged between 35 and 55, but slightly smaller than for those between 65 and 74 years old. With a smaller proportion of young households owning a home, the proportion of households with mortgage debt

Spain: households who own their primary home, by age group

(% of households in each age group)



Source: *CaixaBank Research, based on data from the Survey of Household Finances (Bank of Spain).*

has also decreased: only 20.6% of households with a head of the household under the age of 35 have taken out a mortgage to acquire their primary home (–24.4 pps compared to 2002). Furthermore, the degree of indebtedness among young people seems reasonable relative to their income (as we shall see, the financial stress indicators for young people are below average). However, a higher proportion of young households have debts related to consumer loans (28.5% in 2022, +5.2 pps compared to 2002).

The decline in the level of indebtedness has enabled a reduction of the financial burden between 2020 and 2022, despite the rise in interest rates. In fact, the median financial burden, measured as debt service payments (repayments + interest) as a proportion of indebted households' incomes, declined significantly between 2020 and 2022, going from from 15.8% to 13.7%, the lowest in the entire historical series. The reduction in the financial burden has been even greater for households under 35 years of age (going from 15.5% in 2020 to 12.1% in 2022).

Finally, the proportion of households that are usually considered financially vulnerable – those with financial burdens in excess of 40% of the household's gross income – has also decreased significantly between 2020 and 2022, from 10.5% to 8.1% of all households (the peak reached during the financial crisis was 16.8%). In the case of young people, just 4.7% of those in debt are considered vulnerable, although it should once again be recalled that only 58% of households with a young head of the household (which obviously do not include young people living with their parents) had taken out some form of debt.

In short, the 2022 EFF reveals that households are in a stronger financial position at the aggregate level, with a decrease in the level of debt that has allowed them to reduce their financial burden. However, when it comes to distribution, the gap between generations continues to widen, especially in terms of wealth.

Javier Garcia-Arenas, Josep Mestres and Judit Montoriol

5. In 2002, 5.5% of young households had investment funds and 18.6% had pension or insurance schemes. By 2022, these percentages had fallen to 4.9% and 12.5%, respectively. In the case of households over 75 years of age, 2.6% had investment funds and 2.1% had pension or insurance schemes in 2002; by 2022 these percentages had surged to 14.8% and 12.1%, respectively.
6. Note that the reduction in the balance of debt reflects both repayments of existing debt (including normal and early repayments) and the balance of new loans and credit. The interviews of the 2022 EFF were conducted between Q2 2022 and Q1 2023, such that it already partially reflects the impact of the interest rate hikes.

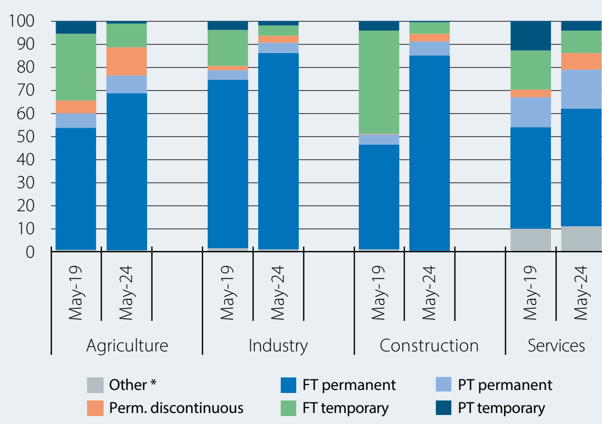
Where has the fall in the temporary employment rate been concentrated?

One of the pillars on which the resilience of the Spanish economy has been supported in recent years is the remarkable buoyancy of the labour market. Not only have record employment figures been reached, but major progress has also been made in bringing down the high rate of temporary employment. This is considered to be one of the main handicaps of Spain's labour market and addressing it was one of the objectives pursued by the last labour reform approved in December 2021.[1] The reduction of temporary employment has been widespread across different sectors, age groups and regions, although there are certain differences.

In May, the number of registered workers affiliated with Social Security reached a new record high, surpassing 21.3 million, which is 1.88 million more than in the same month of 2019: in the last year alone the number has increased by more than 506,000 affiliates. During this period the temporary employment rate has decreased significantly: of the total number of affiliates registered under the General Scheme in May, 12.7% were temporary workers, which contrasts with the 30% observed in the same month of 2019. This decrease in the temporary employment rate has been more pronounced in the private sector, with a decrease of 18.6 pps to 10.5%, while in the public sector this ratio has fallen to 25.1% from 32.2%.[2]

Spain: structure of registered workers by sector and contract type

(% of total registered workers in the sector)

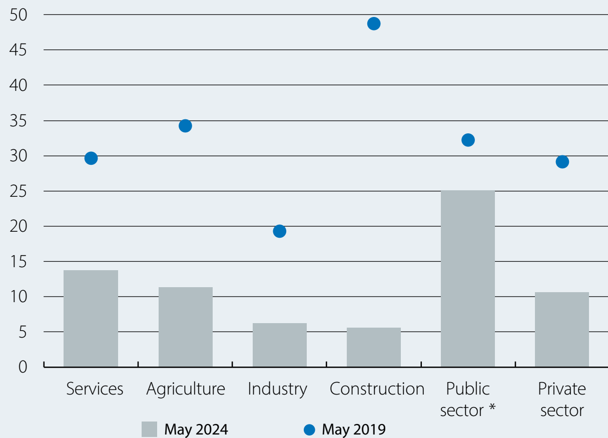


Notes: *Registered workers under the General Scheme. * Learning, training, internships, affiliates without a contract (public-sector workers), non-professional caregivers, training programmes and non-work placements in companies, etc.*
Source: *CaixaBank Research, based on data from the Ministry of Inclusion, Social Security and Migration (MISSM).*

By sector and branch of activity, the fall in the temporary employment rate has been greatest in those which started from higher rates before the labour reform. These include construction, with a reduction of 43.2 pps, and agriculture, down 22.9 pps; on the services side the declines have been most notable in the cases of hotels and restaurants, recreational activities and administrative

Spain: temporary employment rate by sector

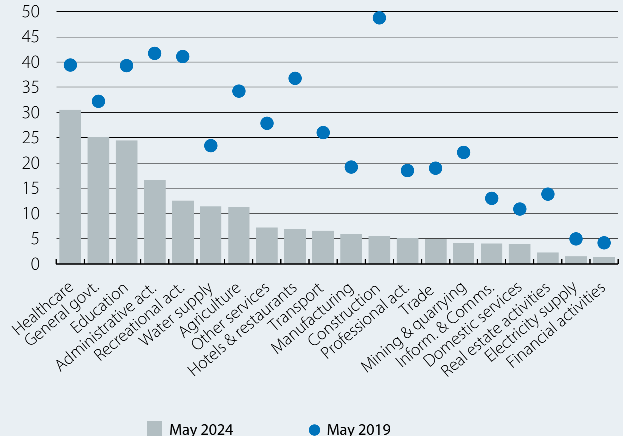
Temporary workers/Total workers (%)



Notes: *Registered workers under the General Scheme. * Affiliates with a temporary contract in general government (public administration) and defence and compulsory social security (section O).*
Source: *CaixaBank Research, based on data from the Ministry of Inclusion, Social Security and Migration (MISSM).*

Spain: temporary employment rate by activity

Temporary workers/Total workers (%)



Note: *Registered workers under the General Scheme.*
Source: *CaixaBank Research, based on data from the Ministry of Inclusion, Social Security and Migration (MISSM).*

1. Royal Decree-Law 32/2021 on urgent measures for labour reform, the guarantee of stability in employment and the transformation of the labour market. For more details, see the Focus «The labour reform: a balancing act with a focus on temporary employment», in the MR02/2022.
2. Considering affiliates in the general government (public administrations), defence and compulsory social security categories (section O of the CNAE classification of economic activities), thus excluding public-sector workers in Healthcare and Education. In December 2023, the weight of public-sector registered workers in Education was 45.4% and in Health it was 61.0%.

activities, with adjustments of –29.8 pps, –28.6 pps and –25.1 pps, respectively.

In the period under review, the proportion of registered workers with a permanent contract has increased from 61.7% to 78.0% of the total. Specifically, the number of full-time registered workers grew by 34.2% and 2.45 million people; those on part-time contracts, by 49.4% with an increase of 820,000 people, while those on permanent discontinuous contracts increased by 637,000 people to slightly exceed a million, a figure 2.4 times higher than in 2019. However, this increase in the number of affiliates with permanent discontinuous contracts is far smaller than the fall in temporary contracts, which were down 52.6%, representing a decrease of 2.38 million. Permanent discontinuous contracts have gone from representing 3.0% of the total in May 2019 to 6.5% in May this year, while permanent full-time contracts account for 56.9% of the total and part-time contracts, 14.7% (vs. 47.6% and 11.0% in 2019, respectively).

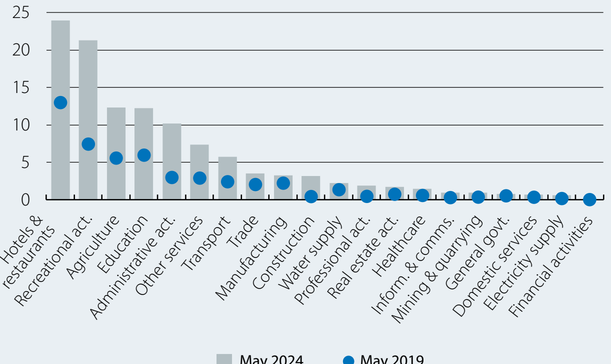
Permanent discontinuous contracts have gained prominence in all sectors, but especially in those where the work is more seasonal or intermittent throughout the year, such as agriculture, where they now represent 12.3% of the total compared to just 5.6% in 2019; in the case of construction they now represent 3.2%, an increase of 2.8 pps, and in services, 7.2%. On the other hand, in industry they have grown by just 1 pp, to 3.1%. By activity, permanent discontinuous contracts account for a very high proportion of the total in hotel and restaurants and recreational activities (24.0% and 21.3% of the total, respectively); moreover, this latter category has seen the biggest increase in this type of contract relative to the total (13.9 points), well above the increase recorded in hotels and restaurants (11 points).

Looking at the age of workers, the fall in the temporary employment rate has been much more intense among young people, specifically of almost 38 pps in the case of those between 16 and 24 years of age. Consequently, the dispersion by age group has been significantly reduced: whereas in 2019 the gap between the highest rate and the lowest rate (corresponding to the 55 to 59 age group) was 36.4 pps, in 2024 it was just 8.6 pps.

Although the type of permanent contract that has seen the biggest increase in its share of the total in all age groups is the full-time variant, this increase has been particularly pronounced in the case of workers under the age of 25, where their share has doubled to around 30% of the total; moreover, this is the age group in which permanent discontinuous contracts have seen the sharpest increase, specifically of more than 12 pps, to 15.0%.

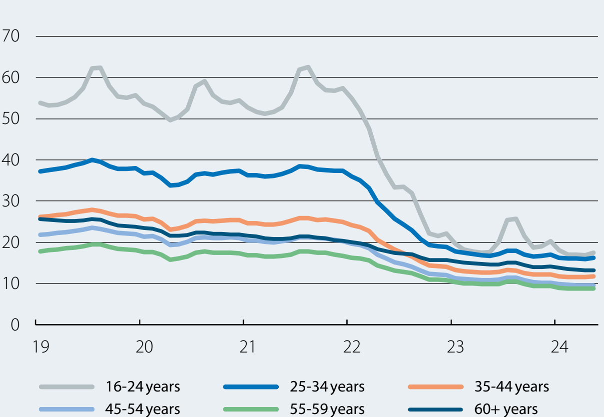
By region, the autonomous communities most dependent on agricultural activities, such as Andalusia, Murcia and

Spain: registered workers on a permanent discontinuous contract, by activity
(% of total registered workers in the sector)



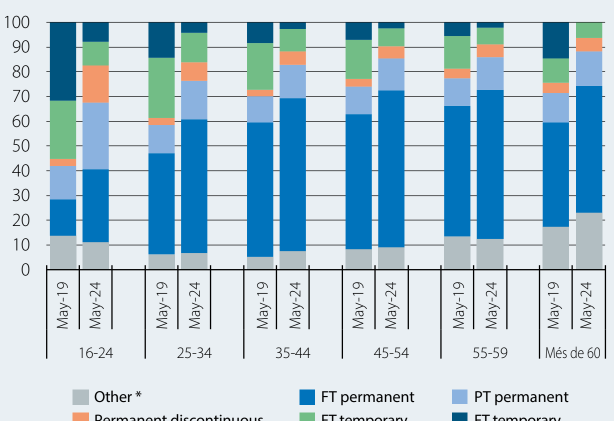
Note: *Registered workers under the General Scheme.*
Source: *CaixaBank Research, based on data from the Ministry of Inclusion, Social Security and Migration (MISSM).*

Spain: temporary employment rate by age group
(%)



Note: *Registered workers under the General Scheme.*
Source: *CaixaBank Research, based on data from the Ministry of Inclusion, Social Security and Migration (MISSM).*

Spain: structure of registered workers by age group and contract type
(% of registered workers in the age group)



Notes: *Registered workers under the General Scheme. * Learning, training, internships, affiliates without a contract (public-sector workers), non-professional caregivers, training programmes and non-work placements in companies, etc.*
Source: *CaixaBank Research, based on data from the Ministry of Inclusion, Social Security and Migration (MISSM).*

Extremadura, or on tourism, such as the island regions and the Community of Valencia, are the ones that have recorded the greatest falls in the temporary employment rate since 2019, of around 20 pps. This contrasts with the smaller adjustment recorded in the more industrial regions of northern Spain and Madrid.

Immigration is playing a key role in cushioning the impact of the demographic dynamics, particularly the falling birth rate and the ageing of the population, by expanding and rejuvenating the labour force.[3] In fact, the excellent performance of the labour market in recent years is largely explained by the contribution of the foreign population: between April 2019 and April 2024, 38.4% of new Social Security affiliates, some 719,000 people, are foreign, and as a proportion of the total they slightly exceed 13%.[4]

In recent years the increase in the proportion of foreign workers has been widespread across the different sectors, except in the case of general government, where it has stabilised at very low levels, and education, where it has fallen slightly. These two activities, along with health care, where the relative weight of foreigners has grown by just 1.7 pps, are the ones that present the highest rates of temporary employment.

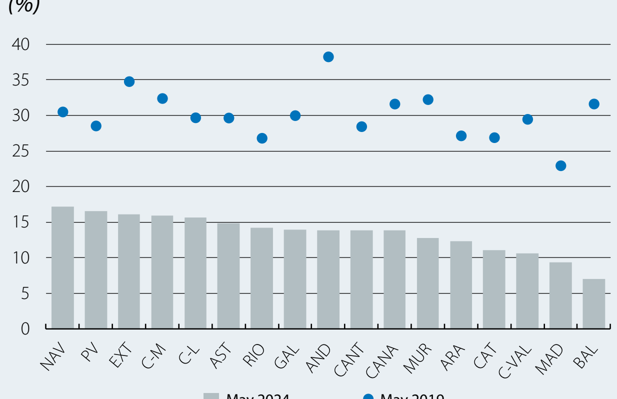
Although we do not have any data on the breakdown of registered workers by type of contract and nationality, the last chart shows that the increase in the role of foreigners has been sharper in some of the activities where the temporary employment rate has fallen the most, such as administrative activities, hotels and restaurants and, above all, construction.

In short, the combination of restrictions on the use of temporary contracts, coupled with the push for the use of permanent discontinuous contracts to channel work that is intermittent but recurring, has contributed to the reduction in the temporary employment rate – something which traditionally only happened in times of recession and job destruction, when temporary workers would be the first to suffer the cutbacks. Now, in contrast, the temporary employment rate has been reduced through a transformation of temporary employment into permanent employment. Although the growth of permanent discontinuous contracts has been significant, the increase in the number of registered workers on ordinary permanent contracts has been much higher, giving rise to greater job stability and a stronger link between workers and companies.

Nuria Bustamante and Sergio Díaz

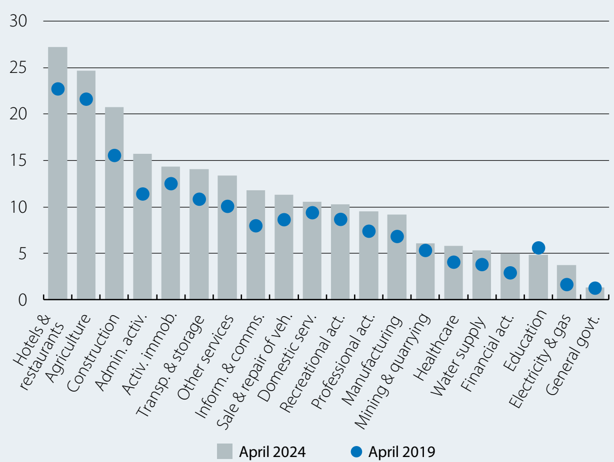
3. For more information, see the Focus «The changing composition of the immigrant population in recent years», in the MR07/2023.
4. If we consider only the General Scheme of Social Security, the number of foreign affiliates has increased by 595,000, accounting for 31.3% of the total increase, while they account for 11.6% of all registered workers.

Spain: temporary employment rate by autonomous community region
(%)



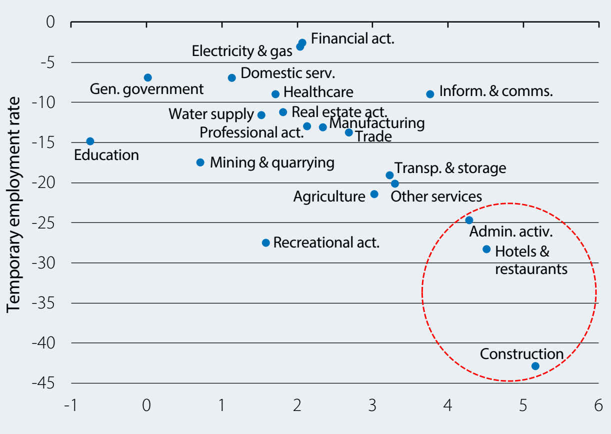
Note: *Registered workers under the General Scheme.*
Source: *CaixaBank Research, based on data from the Ministry of Inclusion, Social Security and Migration (MISSM).*

Spain: foreign registered workers by activity
(% of total registered workers in the sector)



Note: *Registered workers under the General Scheme.*
Source: *CaixaBank Research, based on data from the Ministry of Inclusion, Social Security and Migration (MISSM).*

Spain: temporary employment rate and relative weight of foreign workers by activity
Change between April 2019 and April 2024 (pps)



Note: *Registered workers under the General Scheme.*
Source: *CaixaBank Research, based on data from the Ministry of Inclusion, Social Security and Migration (MISSM).*

Activity and employment indicators

Year-on-year change (%), unless otherwise specified

	2022	2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	03/24	04/24	05/24
Industry									
Industrial production index	2.2	–1.2	–2.2	–2.2	–0.7	0.0	–1.3	0.8	...
Indicator of confidence in industry *(value)*	–0.8	–6.5	–5.2	–8.2	–8.1	–5.2	–5.7	–4.3	–6.3
Manufacturing PMI *(value)*	51.0	48.0	48.5	47.3	45.9	50.7	51.4	52.2	54.0
Construction									
Building permits *(cumulative over 12 months)*	15.4	1.2	1.7	4.3	0.6	–0.7	–2.9	...	...
House sales *(cumulative over 12 months)*	29.0	0.3	3.2	–3.2	–9.0	–10.2	–10.7	...	...
House prices	7.4	4.0	3.6	4.5	4.2	6.3	...	...	...
Services									
Foreign tourists *(cumulative over 12 months)*	129.8	18.9	40.7	21.9	18.9	15.8	15.8	14.9	...
Services PMI *(value)*	52.5	53.6	56.0	50.9	51.2	54.3	56.1	56.2	56.9
Consumption									
Retail sales[1]	2.3	2.5	2.4	2.1	2.9	1.1	0.9	0.3	...
Car registrations	–3.0	18.5	9.9	6.9	11.9	4.2	–4.7	23.1	3.4
Consumer confidence index *(value)*	–26.5	–19.2	–19.1	–16.1	–19.1	–17.2	–15.8	–14.7	–14.5
Labour market									
Employment[2]	3.6	3.1	3.2	3.4	3.6	3.0	–	–	–
Unemployment rate (% labour force)	13.0	12.2	11.7	11.9	11.8	12.3	–	–	–
Registered as employed with Social Security[3]	3.9	2.7	2.8	2.7	2.6	2.6	2.6	2.4	2.4
GDP	**5.8**	**2.5**	**2.0**	**1.9**	**2.1**	**2.4**	–	–	–

Prices

Year-on-year change (%), unless otherwise specified

	2022	2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	03/24	04/24	05/24
General	8.4	3.6	3.1	2.8	3.3	3.1	3.2	3.3	3.6
Core	5.1	6.1	6.2	6.0	4.5	3.5	3.3	2.9	3.0

Foreign sector

Cumulative balance over the last 12 months in billions of euros, unless otherwise specified

	2022	2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	03/24	04/24	05/24
Trade of goods									
Exports *(year-on-year change, cumulative over 12 months)*	22.9	–1.4	12.3	4.5	–1.4	–6.9	–6.9	...	...
Imports *(year-on-year change, cumulative over 12 months)*	33.4	–7.2	10.7	–1.2	–7.2	–9.8	–9.8	...	...
Current balance	**8.2**	**38.0**	**28.7**	**35.8**	**38.0**	**37.9**	**37.9**	**...**	**...**
Goods and services	16.3	60.3	42.6	54.6	60.3	61.0	61.0	...	...
Primary and secondary income	–8.1	–22.3	–14.0	–18.8	–22.3	–23.1	–23.1	...	...
Net lending (+) / borrowing (–) capacity	**20.7**	**53.9**	**42.6**	**50.0**	**53.9**	**52.5**	**52.5**	**...**	**...**

Credit and deposits in non-financial sectors[4]

Year-on-year change (%), unless otherwise specified

	2022	2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	03/24	04/24	05/24
Deposits									
Household and company deposits	4.9	0.6	0.4	–0.3	0.4	2.5	3.5	2.4	...
Sight and savings	7.9	–4.5	–4.0	–6.9	–7.6	–6.6	–5.2	–5.7	...
Term and notice	–19.7	51.9	40.1	69.5	90.4	104.3	96.5	86.8	...
General government deposits	9.6	8.7	6.8	11.3	9.4	27.2	43.6	62.6	...
TOTAL	**5.2**	**1.1**	**0.8**	**0.5**	**1.0**	**4.1**	**6.3**	**6.6**	**...**
Outstanding balance of credit									
Private sector	0.7	–2.5	–2.2	–3.4	–3.7	–2.9	–2.6	–2.4	...
Non-financial firms	0.9	–3.4	–2.7	–4.6	–5.2	–4.0	–3.6	–3.2	...
Households - housing	1.0	–2.6	–2.4	–3.4	–3.3	–2.8	–2.5	–2.4	...
Households - other purposes	–0.6	–0.2	–0.4	0.0	–0.5	–0.3	–0.1	–0.1	...
General government	0.2	–3.4	–3.3	–4.6	–5.5	–2.9	–4.8	–3.6	...
TOTAL	**0.7**	**–2.6**	**–2.3**	**–3.4**	**–3.8**	**–2.9**	**–2.7**	**–2.4**	**...**
NPL ratio (%)[5]	**3.5**	**3.5**	**3.5**	**3.5**	**3.6**	**3.6**	**3.6**	**3.6**	**...**

Notes: *1. Deflated, excluding service stations. 2. Active Population Survey. 3. Average monthly figures. 4. Aggregate figures for the Spanish banking sector and residents in Spain. 5. Period-end figure.*
Sources: *CaixaBank Research, based on data from the Ministry of Economy, the Ministry of Transport, Mobility and Urban Agenda (MITMA), the Ministry of Inclusion, Social Security and Migration (MISSM), the National Statistics Institute (INE), S&P Global PMI, the European Commission, the Department of Customs and Excise Duties and the Bank of Spain.*

Adjustment of Portugal's macroeconomic outlook

In this article we briefly review the main factors that have led us to slightly revise the macroeconomic outlook for 2024 and 2025.

The main change is derived from GDP growth in Q1 2024 (0.8% quarter-on-quarter, according to the estimate by the National Statistics Institute, or INE), which was 40 pps higher than we forecast at the beginning of the year. According to the INE, the solid performance of Q1 is supported by the improvement in foreign demand, thanks to a 1.6% quarter-on-quarter increase in exports, which was accompanied by a 0.6% quarter-on-quarter contraction in imports.

The growth of domestic demand, meanwhile, slowed mainly due to the fall in investment, while private consumption remained buoyant and accelerated relative to Q4 2023. The fact that the Easter break fell mostly in March this year should have also favoured tourism activity in Q1.

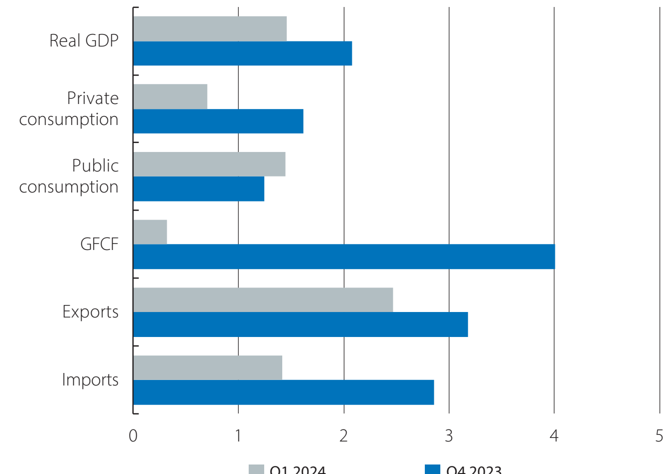
The data for Q2 are still scarce, but reflect a good tone. Retail sales increased by 1.8% year-on-year in April and, excluding fuels, exceeded the average year-on-year growth registered in Q1 by 2.8%; the economic climate indicator improved by 10 pps in May, standing at 1.9%. Conversely, consumer sentiment declined marginally in May to –17.6 points, down from –17.4 in April.

We expect economic activity to steadily pick up in the second half of the year as the disinflation process progresses and monetary policy is eased, and this will be reflected in financing costs and in economic agents' expectations, as well as in the demand from our main trading partners.

In terms of prices, we revise the forecast for average inflation in 2024 and 2025 slightly upwards, thus delaying when the 2% target will be reached until 2026. While we expect the inflationary pressures to gradually fade, we do not rule out the possibility of a temporary rebound, as we saw in March when the core inflation rate interrupted its 12-month consecutive decline. There are months where the upward base effects may be felt more strongly, such as May, as this was the month when the VAT reduction for certain foods was implemented in 2023.

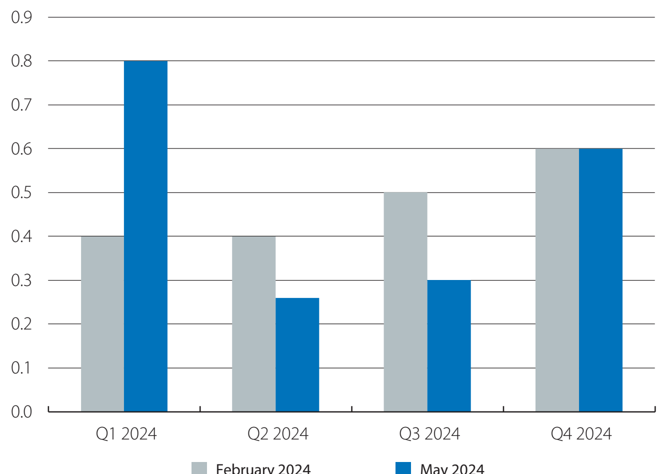
Energy commodities showed a mixed behaviour: on the one hand, gas prices in international markets are well below the levels of 2022-2023 and remain fairly stable, due to reserves being above historical averages; on the other hand, Brent oil has recorded prices above the levels we were predicting at the beginning of the year. Although in recent months the relationship between supply and demand for crude oil does not appear to be under strain, the geopolitical tensions

Portugal: GDP and components of demand
Year-on-year change (%)



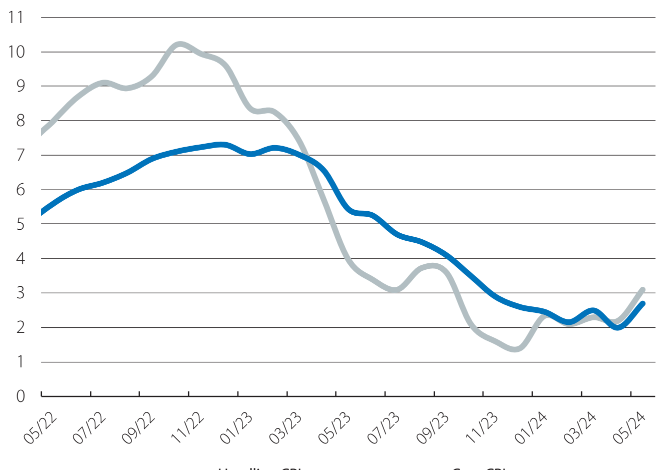
Source: *CaixaBank Research, based on data from the National Statistics Institute of Portugal.*

Portugal: GDP forecast
Quarter-on-quarter change (%)



Source: *CaixaBank Research, based on data from the National Statistics Institute of Portugal and internal forecasts.*

Portugal: CPI
Year-on-year change (%)



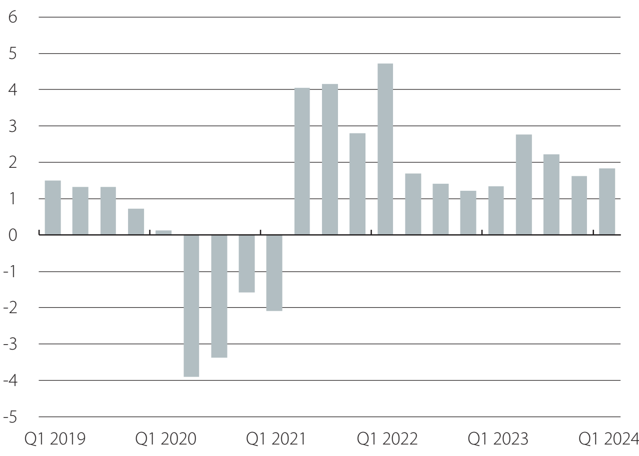
Source: *CaixaBank Research, based on data from the National Statistics Institute of Portugal.*

triggered by the war between Israel and Hamas have significant potential to cause oil price disruptions: Iran is OPEC's fourth largest producer and more than 30% of all crude oil exported by sea passes through the Hormuz and Bab el-Mandeb Straits. The persistence of inflation in services is noteworthy, as they account for over 40% of the headline index and in the first four months of 2024 it stood above 4% year-on-year. In short, our slight upward revision of inflation reflects the revision – also upwards – of Brent oil prices, and while there remains considerable uncertainty, we estimate that the dominant trend will be one of gradual normalisation.

With regards to the labour market, the adjustment to the forecasts is slight, with an increase of just 10 pps in the unemployment rate in 2024 to 6.8%. This revision is due to the more significant growth of the labour force in Q1 compared to the initial forecast. The labour market continues to perform well, as reflected in the record number of people in employment at the end of March (over 5 million), as well as in the wage rises slightly above inflation since March 2023 and in the fact that the sector that created the most jobs in Q1 2024 (civil construction) is pro-cyclical and labour-intensive. However, the slowdown in the economy compared to the previous year, combined with positive migration balances and below-peak (although still high) job offers, will likely result in a lower capacity to absorb workers.

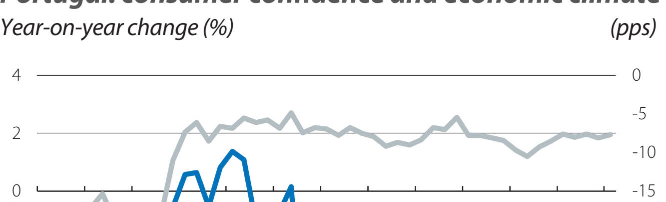
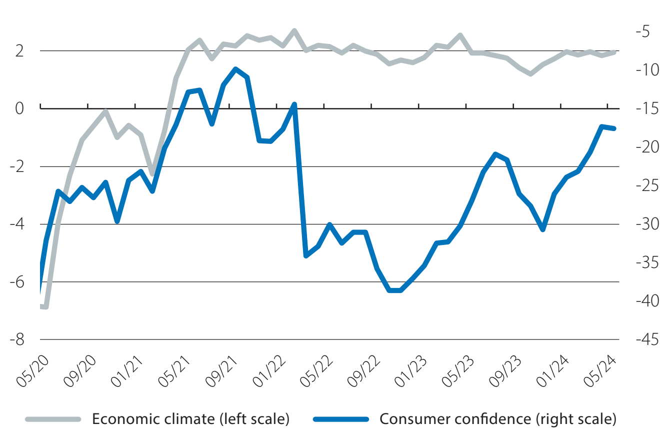
Finally, we revise upwards our forecast for the home price index for 2024 and 2025. In the previous estimate, we did not yet have data for the final quarter of 2023, which have proved to be higher than projected. This has resulted in a greater knock-on effect, which partly explains the upward revision for 2024 (from 3.5% to 4.3%). More relevant, however, are the data we now have for the beginning of this year: on average, prices rose by 0.7% per month in each of the first three months of the year, while the number of property sales grew in the quarter, both in quarter-on-quarter and year-on-year terms. On the other hand, in March, prices based on bank valuations published by the INE recorded the sharpest monthly increase since January 2023 (+1.28% to 1,580 euros per square metre). This pattern appears to reflect a market that remains highly resilient in a context of still limited supply and strong demand.

Portugal: employment growth
Year-on-year change (%)



Source: *CaixaBank Research, based on data from the National Statistics Institute of Portugal.*

Portugal: consumer confidence and economic climate
Year-on-year change (%) *(pps)*

Source: *CaixaBank Research, based on data from the National Statistics Institute of Portugal.*

Portugal: new macroeconomic scenario

	2023	2024	2025
GDP			
May 2024	**2.3**	**1.7**	**2.3**
February 2024	2.3	1.6	2.3
Inflation			
May 2024	**4.3**	**2.5**	**2.1**
February 2024	4.3	2.3	2.0
Home prices			
May 2024	**8.2**	**4.3**	**2.4**
February 2024	8.2	3.5	2.0
Unemployment rate			
May 2024	**6.5**	**6.8**	**6.5**
February 2024	6.5	6.7	6.5

Source: *CaixaBank Research, based on internal forecasts.*

Tourism in Portugal: 2023 recap and 2024 so far

In 2023, the tourism sector in Portugal continued its path of recovery, exceeding expectations and setting new records in various parameters. For 2024, we expect this good performance to be maintained, albeit at a pace closer to cruising speed.

Several records set in 2023

It is difficult to point out a metric in which no historical records were exceeded last year. Starting with the number of overnight stays, these reached 77.1 million, while the number of guests exceeded 30 million. This latter figure is approximately twice that recorded 10 years ago and demonstrates the rapid growth that the sector is enjoying.

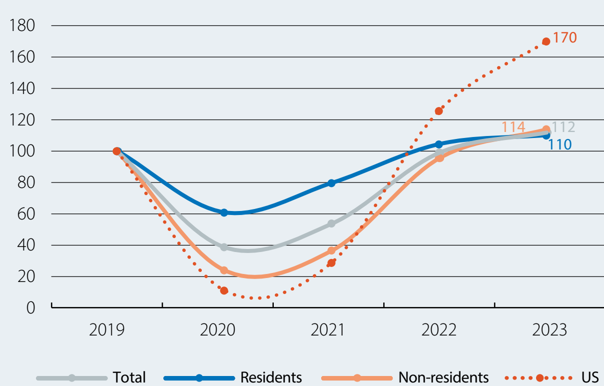
Portugal is one of the destinations that has shown the greatest capacity to recover pre-pandemic levels of international tourists. This strong performance in 2023 was also influenced by factors such as the buoyant growth of the US, which is a major source market, as well as specific events such as the World Youth Days.

The increase in overnight stays was more pronounced among non-resident tourists (+15%) than among residents (+2%), in a return to pre-pandemic patterns (70% of overnight stays corresponded to non-residents and 30% to residents). Resident guests exceeded the pre-pandemic level by 10% (they had already done so by 4% in 2022) and non-residents did so for the first time by 14%.

Among non-residents, the growth of tourists from the US was exceptional, surpassing the pre-pandemic level by 70%, which made it the third largest issuing market.[1] By type, around 82% of overnight stays were in hotels, although overnight stays in tourist rentals registered the highest year-on-year growth (+16%, compared to 10% in the case of hotels and 11% for rural tourism establishments). By region, the most intense growth in overnight stays was in the North (+15%) and in the Lisbon Metropolitan Area (+13%). It is noteworthy that in the Algarve, overnight stays by residents decreased both in comparison to the pre-pandemic period (–6%) and compared with 2022 (–7%), possibly due to price factors[2] and competition with similar and geographically nearby destinations in southern Spain.

These figures resulted in total revenues in tourist accommodation establishments of 6 billion euros, representing a nominal growth of +20.1% compared to 2022, also evident in real terms (average annual global inflation in 2023 was 4.3% and inflation in accommodation services was 17.2%). In the balance of payments, the tourism balance in 2023 grew by 20.7%, with a surplus of 7.1% of GDP. However, it is interesting to note that in the strongest quarter for tourism (the third quarter), the year-on-year growth of tourism imports was more intense than that of exports, since the number of trips abroad by the Portuguese grew by 30.3% year-on-year in Q3 2023, compared with a 3.1% drop in travel within the country. Although domestic travel continues to dominate among Portuguese residents (accounting for 86% of all trips taken by residents), the growth of foreign travel in 2023 (21.5%) was greater than that of domestic travel (2.4%). The main destinations for foreign travel were Spain (41.6%), France (10.1%) and Italy (6.9%).

Portugal: number of guests (residents vs. non-residents)
Index (100 = 2019)



Source: *CaixaBank Research, based on data from the National Statistics Institute of Portugal.*

A timid start to 2024, although the Easter holidays have helped

In Q1 2024, there was growth in both the number of tourists and the number of overnight stays compared to the same quarter of 2023 (+7.7% and +7.1%, respectively) – significant rates considering that the comparison is with an exceptional 2023. However, these figures hide some variations in the first three months of the year, as can be seen in the fourth chart, which shows the change in overnight stays in each of the first three months of the year compared to the same month of the previous year. In January, the performance was very modest, even falling compared to January 2023 (–0.3%), with a sharper drop in overnight stays by residents (–3%). The performance steadily improved throughout the quarter, and in March overnight stays by both residents and non-residents grew by over 10% year-on-year. Part of this good performance was due to the effect of the holiday period associated with Easter: this year the festive period was spread across March and April, whereas in 2023 it fell entirely in April. Naturally, this translated into a lower bed occupancy rate in January (and still in February), while March saw the highest record of the series in that month (42%).

By region and in terms of volume, the North and the Algarve recorded the greatest increase in overnight stays in Q1 2024 compared to the same period of the previous year. In terms of the rate of change, the West and Tagus

1. See the Focus «The American friend: the boom of tourism from the US in Portugal» in the MR07/2023.
2. In August in 2023 it reached an historic RevPAR of 157.9 euros.

Portugal: monthly trips taken by the Portuguese, by destination

(Thousands)

Month	Total (nº)			Within Portugal (nº)			Abroad (nº)		
	2019	2022	2023	2019	2022	2023	2019	2022	2023
Total	**24,463**	**22,627**	**23,668**	**21,363**	**19,969**	**20,440**	**3,100**	**2,657**	**3,228**
January	1,501	1,373	1,570	1,313	1,275	1,423	188	97	148
February	1,539	1,538	1,781	1,363	1,401	1,529	176	137	252
March	1,634	1,431	1,502	1,422	1,261	1,352	212	170	150
April	2,060	1,972	2,177	1,739	1,666	1,873	321	306	304
May	1,539	1,456	1,546	1,356	1,282	1,334	184	174	212
June	2,001	1,901	1,933	1,677	1,641	1,636	323	260	297
July	2,607	2,565	2,523	2,304	2,294	2,192	303	271	330
August	4,122	3,614	3,685	3,595	3,206	3,136	527	408	548
September	1,939	1,778	1,806	1,705	1,549	1,502	234	229	305
October	1,443	1,270	1,297	1,278	1,103	1,130	165	167	166
November	1,555	1,350	1,266	1,365	1,188	1,080	190	161	187
December	2,524	2,381	2,583	2,246	2,103	2,252	278	278	331

Source: *CaixaBank Research, based on data from the National Statistics Institute of Portugal.*

Valley region stands out (+23%), as does the North (+10%) and the Central region (+10%). By source market, the greatest growth rates have occurred in places which represent a small proportion of the total, underlining the growing diversification of Portuguese tourism. Countries with growth of over 20% compared to Q1 2023 in terms of number of guests include Ireland (23%), Denmark (25%), Poland (26%) and Canada (30%). At the opposite end of the spectrum we find that the number of guests from one of the most representative source markets, France, has plummeted (–71%). In volume terms, the US continues to stand out with 41,600 more tourists.

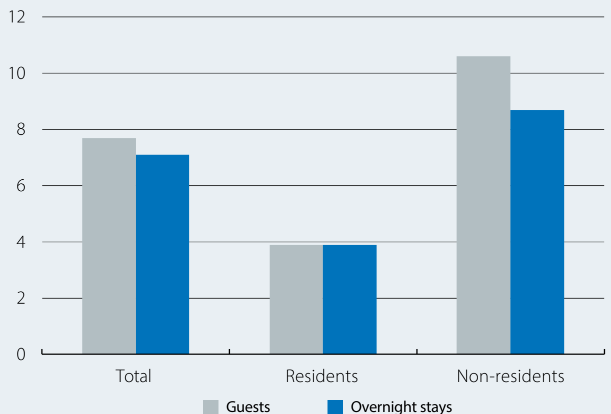
Overall, the figures for Q1 are in line with our outlook for the evolution of tourism in 2024, with an expected increase in tourists of around 5%. The post-pandemic rebound effect is running out of steam, the use of the installed airport capacity is approaching its limit and a degree of caution is perceived among travellers from central European markets who are closer to the conflict in Ukraine. On the other hand, the central macroeconomic forecast scenario, which rules out a recession in the euro area (the main source markets for tourists visiting Portugal), will continue to support the sector's growth in the country thanks to a certain recovery in purchasing power derived from wage growth, falling inflation and declining interest rates. In Q2 2024, in April, the number of flights at domestic airports continued to exceed last year's figures, which bodes well for the near future.

In short, while these first figures for the year are in line with our forecasts, it remains to be seen whether the strong trend observed in March will continue or whether the modest performance of January and February will prevail.

Tiago Belejo Correia

Portugal: number of guests and overnight stays

Change between Q1 2023 and Q1 2024 (%)



Source: *CaixaBank Research, based on data from the National Statistics Institute of Portugal.*

Portugal: number of overnight stays

Change versus the same month of 2023 (%)

Source: *CaixaBank Research, based on data from the National Statistics Institute of Portugal.*

Activity and employment indicators

Year-on-year change (%), unless otherwise specified

	2022	2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	03/24	04/24	05/24
Coincident economic activity index	5.7	3.2	3.6	3.3	2.6	2.1	2.0	1.9	...
Industry									
Industrial production index	0.8	–3.1	–5.4	–4.5	–3.5	1.4	4.0	5.2	...
Confidence indicator in industry *(value)*	–3.4	–7.4	–5.9	–9.0	–9.3	–7.9	–7.1	–6.8	–6.8
Construction									
Building permits - new housing (number of homes)	6.2	6.0	1.4	9.7	2.3	–23.1	–42.2	...	...
House sales	1.3	–18.7	–22.9	–18.9	–11.4	...	–	–	–
House prices *(euro / m² - valuation)*	13.8	9.1	9.1	8.1	6.4	5.9	6.5	7.0	...
Services									
Foreign tourists *(cumulative over 12 months)*	158.9	19.1	52.6	24.9	19.1	13.1	13.1	11.0	...
Confidence indicator in services *(value)*	15.2	7.6	12.4	5.8	1.7	6.3	7.0	6.4	5.0
Consumption									
Retail sales	5.5	1.1	1.8	0.6	0.6	1.9	2.2	0.5	...
Coincident indicator for private consumption	3.9	2.4	2.7	2.7	2.1	2.1	2.2	2.5	...
Consumer confidence index *(value)*	–29.7	–28.6	–29.4	–22.8	–27.2	–24.6	–22.6	–20.4	–18.5
Labour market									
Employment	2.3	2.0	2.8	2.2	1.6	1.8	2.2	1.5	...
Unemployment rate (*% labour force*)	6.2	6.5	6.1	6.1	6.6	6.8	6.4	6.3	...
GDP	**6.8**	**2.3**	**2.6**	**1.9**	**2.1**	**1.5**	–	–	–

Prices

Year-on-year change (%), unless otherwise specified

	2022	2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	03/24	04/24	05/24
General	7.8	4.4	4.4	3.5	1.7	2.2	2.3	2.2	3.1
Core	5.6	5.1	5.7	4.4	3.0	2.3	2.5	2.0	2.7

Foreign sector

Cumulative balance over the last 12 months in billions of euros, unless otherwise specified

	2022	2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	03/24	04/24	05/24
Trade of goods									
Exports *(year-on-year change, cumulative over 12 months)*	23.2	–1.1	11.8	3.0	–1.1	–5.0	–5.0	...	...
Imports *(year-on-year change, cumulative over 12 months)*	31.7	–4.2	12.5	1.1	–4.2	–7.5	–7.5	...	...
Current balance	**–2.8**	**3.6**	**1.5**	**4.1**	**3.6**	**5.1**	**5.1**	**...**	**...**
Goods and services	–4.7	3.3	–0.3	2.1	3.3	4.6	4.6	...	...
Primary and secondary income	1.9	0.4	1.9	2.0	0.4	0.5	0.5	...	...
Net lending (+) / borrowing (–) capacity	**–0.5**	**7.2**	**4.5**	**7.3**	**7.2**	**8.8**	**8.8**	**...**	**...**

Credit and deposits in non-financial sectors

Year-on-year change (%), unless otherwise specified

	2022	2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	03/24	04/24	05/24
Deposits [1]									
Household and company deposits	6.4	–2.3	–2.1	–2.6	–2.3	2.7	2.7	3.5	...
Sight and savings	7.3	–14.8	–9.0	–9.4	–14.8	–11.2	–11.2	–10.3	...
Term and notice	5.2	14.8	7.5	6.9	14.8	20.2	20.2	20.9	...
General government deposits	12.4	–12.4	1.4	5.5	–12.4	9.1	9.1	3.6	...
TOTAL	**6.5**	**–2.6**	**–2.0**	**–2.4**	**–2.6**	**2.9**	**2.9**	**3.5**	**...**
Outstanding balance of credit [1]									
Private sector	1.7	–1.5	–1.2	–1.8	–1.5	–0.8	–0.8	–0.6	...
Non-financial firms	–0.6	–2.1	–3.5	–3.5	–2.1	–1.9	–1.9	–1.9	...
Households - housing	3.2	–1.5	0.1	–0.9	–1.5	–0.8	–0.8	–0.5	...
Households - other purposes	2.9	0.2	0.4	–0.8	0.2	2.0	2.0	2.5	...
General government	–2.7	–5.5	0.6	–1.4	–5.5	5.9	5.9	–1.4	...
TOTAL	**1.6**	**–1.7**	**–1.1**	**–1.8**	**–1.7**	**–0.6**	**–0.6**	**–0.6**	**...**
NPL ratio *(%)* [2]	**3.0**	**2.7**	**3.1**	**2.9**	**2.7**	**...**	–	–	–

Notes: *1. Residents in Portugal. The credit variables exclude securitisations. 2. Period-end figure.*
Source: *CaixaBank Research, based on data from the National Statistics Institute of Portugal, Bank of Portugal and Refinitiv.*

Europe's moment: it is time to bolster our competitiveness

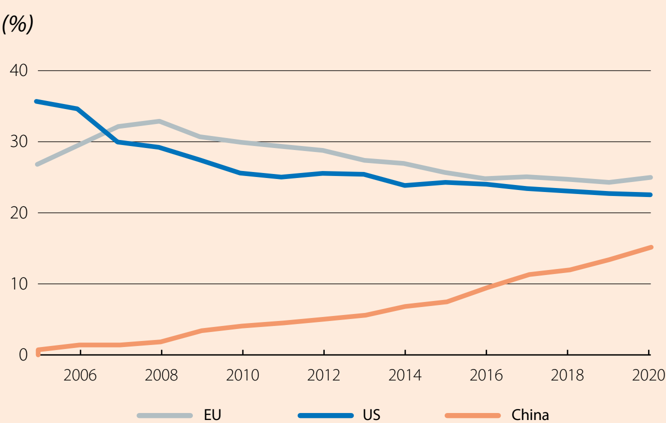
The years of European elections that mark the renewal of the main EU institutions are the ideal time to reflect on the strengths and weaknesses of the single market at an economic level and the challenges that lie ahead. This is the topic of this Dossier of the *Monthly Report*. In particular, one of the hottest topics in the public policy debate is that of competitiveness, in a very specific context marked by the restructuring of global value chains, the rise of China and the acceleration of the energy and digital transitions. In other words, we talk about the extent to which the European economy is capable of producing attractive goods and services, while maintaining and improving the well-being of its citizens in the long term. The determining factors include a set of institutions, policies and other elements that are interrelated and they include concepts such as human capital, the degree of innovation incorporated into the products and services that are produced by its companies, the efficiency of the productive and organisational processes of these companies, and many others. In which of them is the EU doing well and in which ones is it failing?

In order to organise ideas and narrow down the debate, the European Commission has published a revealing analysis that sheds some light on this complex issue.[1] It identifies the nine major pillars that determine Europe's competitiveness and analyses the European economy's position in each of them.

This analysis reveals that the EU is making good progress and is in a relatively comfortable position in the following three dimensions: reducing regulatory barriers that hinder the functioning of the single market, energy and international trade. The EU is doing particularly well in the case of energy thanks to the growth of renewable energies, which now account for 23% of energy generation in the EU, with the goal to reach 45% by 2030. If we look at the proportion that the EU represents in the total number of patents registered worldwide related to green technologies (see first chart), we can see that we remain in the lead, despite our relative weight in the total dwindling in recent years due to the emergence of China. Europe's leadership is based on innovation in wind energy, where the EU held 62% of all patents in 2020, by which time China had already caught up with the EU-27 in patents related to solar energy. Despite the relatively positive assessment in the energy sphere, we cannot rest on our laurels: in a world in constant transformation, the EU faces the Herculean challenge of electrifying its energy demand, and this will require significant investments and the need to redesign the European electricity market in order to connect new clean energy production centres with consumption centres. In terms of international trade, the report highlights that the EU is the largest global exporter (accounting for 16% of all countries' imports, slightly above China and well above the US) and that it is especially strong in the sphere of high-tech products and services.

Share of total global patents related to green transition

(%)



Source: *European Commission, «European Monitor of Industrial Ecosystems 2023».*

Before moving on to the four areas where improvement is needed, it should be mentioned that there are two pillars with a more neutral assessment, where the European economy is showing signs of improvement, and which pose a major challenge. Specifically, these are public investment and the circular economy. In public investment, the starting point is that the Next Generation programme is making a positive contribution in terms of mobilising investment and that the level of public investment in the EU (3.3% of GDP) is similar to that in the US. Looking ahead, if the digital and energy transitions are to be successful, it is essential that private investment be supported by public investment, to guarantee both the quantity and the quality of the investor mix. This will help ensure that the digitalisation and decarbonisation processes give rise to more vibrant European economic sectors. In this regard, the EU's role in coordinating and accelerating large cross-border investments and ensuring that productive sectors are transformed without losing competitiveness will be essential. With regards to the circular economy, steady progress is being made towards a more efficient and sustainable use of commodities and we are halfway towards the targets set for 2030.

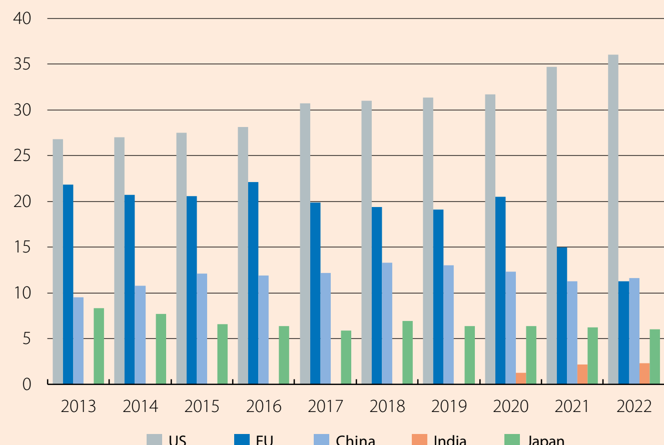
Finally, the four dimensions with the greatest room for improvement are digitalisation, access to private capital, research and innovation and human capital. With regards to digitalisation, there is one particularly revealing piece of data: the EU's global share of the information and communications technology (ICT) market fell from 21.8% in 2013 to 11.3% in 2022 (see second chart), while in the US it rose from 26.8% to 36.0% in the same period. If we look at the EU's global weight in digital patents, it fell by 4 pps between 2015 and 2020 to 21% of the total, a decline similar to that of the US. In technologies related to manufacturing and the Internet of Things, the report notes the EU has maintained its strength, but it has lost its edge in the robotics industry to China. Finally, the use of artificial intelligence (AI), a new technology with enormous disruptive potential as explained in the following

1. See «The 2024 Annual Single Market and Competitiveness Report» published by the European Commission in February 2024.

article in this Dossier,[2] is still low: it is used by 9% of European SMEs and 30% of large corporations.[3] In order to redress the situation in the digital sphere, in his report on the single market, Enrico Letta[4] proposes establishing a single market for telecommunications that allows pan-European operators to flourish, as well as a common regulatory framework in order to provide a boost to technologies such as 5G and reduce Europe's dependence on digital services from outside countries.

Market shares in ICT technologies

(% of the total)

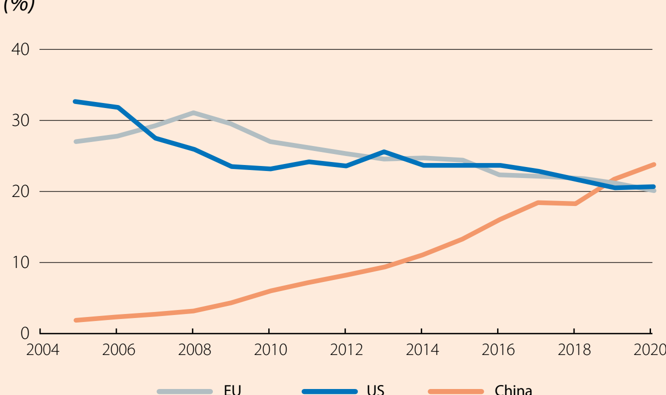


Source: *Information and Communication Technology Statistics and Facts (market.us).*

As for access to private capital,[5] this is an Achilles heel of the EU market and a shortcoming that we cannot afford to live with if private investment is to pick up. In this regard, the Commission emphasises that the size and highly disaggregated nature of the EU's capital markets is clearly inadequate to support growth in the medium term. In fact, the capitalisation of the EU stock market, as a percentage of GDP, is less than half that of the US, despite the higher level of savings in Europe. Venture capital, which allows innovative companies with limited access to external financing to thrive, is 0.09% of GDP, paling compared to the US (0.75%) or China (0.58%). In his report on the single market, Enrico Letta has also raised the alarm about the lack of a capital market in Europe and has put forward bold proposals to address this. The proposals include launching a long-term savings financial product at the European level in order to stimulate retail investments and creating a European risk-free asset with a view to ensuring the stability and uniformity of the EU's financial market.

Share of total global patents related to digital technologies

(%)



Source: *European Commission, «European Monitor of Industrial Ecosystems 2023».*

Finally, it is worth making two brief comments on innovation and human capital. The total investment (public and private) in innovation in the EU is 2.2% of GDP; this is well below that of the US (3.4%) and varies significantly from region to region, making it difficult to extend it throughout the continent. Here the EU can promote policies and tools to enhance synergies between business sectors and academic institutions, thus facilitating a better diffusion of innovation while also supporting start-ups and scale-ups.[6]

In terms of human capital, the widespread setback of European countries in the education sphere, according to the PISA report, has caused cold sweats that are fully justified. We are at a delicate juncture, as we do not know how educational needs will evolve in the face of accelerated and continuous changes in technology. Continuous learning is key, but currently only 1 in 3 adults in the EU participates in training activities each year. The difficulties in attracting qualified staff who are fully trained in digital and green skills (so-called white blackbirds) will be the order of the day, but the low level of labour mobility in Europe does not help.[7]

In short, the EU faces a triple challenge: (i) how to successfully incorporate new technologies, with a special mention of AI, to increase its potential growth while mitigating labour market disruptions to prevent the rise of Neo-Luddism; (ii) how to boost investment and improve productivity in a context of marked variations between countries and high investment needs,[8] and (iii) how to achieve a true integration of its capital markets in order to finance these investments. These are precisely the topics covered in depth in the following three articles of this Dossier. Read on!

Javier Garcia-Arenas

2. See the article «Artificial intelligence: challenges and opportunities for Europe» in this same Dossier for an in-depth analysis.
3. Data from the European Commission's Digital Decade Report (2023) with data from 2022. These adoption rates appear to be slightly higher than those in the US. According to the National Science Foundation, in 2022 25% of large corporations and 4% of SMEs in the US had adopted AI.
4. See E. Letta (2024), «Much more than a market: Empowering the Single Market to deliver a sustainable future and prosperity for all EU Citizens», European Commission.
5. See the article «Why does Europe need a Capital Markets Union?» in this same Dossier for an in-depth analysis.
6. Companies that have grown for three consecutive years at a rate of over 20% in turnover and number of jobs.
7. Only 3.8% of workers born in the EU work in a European economy other than the one in which they were born and only 17% of EU citizens have lived or worked at some point in their lives in a country other than their own.
8. See the article «Productivity growth in Europe: low, uneven and slowing» in this same Dossier.

Artificial intelligence: challenges and opportunities for Europe

What is generative artificial intelligence and why is it important for productivity?

Generative artificial intelligence (AI) is one of the most disruptive and promising technologies of our time. Its ability to create, imitate and improve content of all kinds makes it a general purpose technology (GPT) with a potential for economic and social transformation comparable to that of electricity or computer science. Its potential impact and how to use it in the best possible way – a major challenge for Europe and for the whole world – is what we will discuss in this article.

The transformative capacity of a GPT derives from its multi-purpose nature and its impact on a wide range of tasks in many different sectors and activities, as well as its potential for continuous growth and to facilitate the development of other technologies and processes. AI, moreover, has the peculiarity of being a very accessible and adaptable GPT, since using it does not require a great deal of knowledge and the infrastructure that it requires already exists (at least in developed countries). Thus, while in pre-ChatGPT Europe only 10% of companies used AI, it is expected that this percentage will increase dramatically in the coming years (the goal is to reach 75% by 2030, according to the European Digital Strategy). This implies that AI's impact on productivity could materialise within a much shorter time frame than what has been experienced on previous occasions, that is, in the space of years rather than decades.

What do we know right now about the impact of AI? The first empirical studies available have a microeconomic spectrum and refer to specific occupations, but they already show that AI has a very high potential to increase worker productivity. For example, in a controlled experiment, it is found that the time spent performing a task that involves writing a text decreases by about 40% in workers who used ChatGPT.[1] It has also been estimated that the productivity of a contact centre, measured by the number of problems resolved per hour, increased by 14% thanks to the impact of AI on less experienced workers, although the impact was not significant in the case of more experienced workers.[2] One conclusion that emerges from these studies, therefore, is that productivity improvements are greater for workers who start with a lower level of productivity, because AI enhances their skills and allows them to traverse the learning curve more quickly.

AI and the labour market: impact, past experiences and institutional framework

Beyond these initial results, the impact of AI on the labour market is still uncertain. On the one hand, we must take account of the effect on existing occupations, which will depend in each case on: (i) the degree of overlap between the capabilities of AI applications and the tasks performed by the worker, and (ii) the degree of protection of the workplace (due to technical, legal, or ethical reasons, etc.). Thus, we can distinguish between three types of occupations:

1. High exposure, high protection. The technical potential of AI is high, but so is the degree of protection of the workplace. In these cases, AI will tend to enhance workers' skills. Example: judges, doctors, etc.

2. High exposure, low protection. High technical potential of AI and low level of protection. In these cases, although AI could enhance workers' skills, it could also replace them. Example: telephone operators.

3. Low exposure, low technical potential of AI. These occupations would not be widely affected by AI. Example: artists and show workers.

According to an IMF study,[3] in advanced economies, which naturally include those of Europe, the first two categories account for 60% of current employment, spread approximately equally between them. This percentage is lower in emerging economies, where the figure is less than 40%. Due to the multi-purpose nature of AI, it is estimated that the potentially substitutable occupations are both skilled and unskilled in nature and that workers at all income levels will be affected. In contrast, occupations with low substitutability tend to be concentrated at high income levels.

In any case, it is difficult to anticipate precisely what the effect on employment may be in a given occupation. In occupations with high exposure to AI and high protection, increasing the productivity of these workers would decrease the number of employees

1. See S. Noy and W. Zhang, 2023. «Experimental evidence on the productivity effects of generative artificial intelligence», SSRN 4375283.
2. See E. Brynjolfsson, Danielle Li and Lindsey R. Raymond, 2023, «Generative AI at work», NBER Working Paper 31161.
3. See IMF, 2024, «Gen-AI: Artificial Intelligence and the Future of Work».

required for a certain level of production. However, if the demand for the goods or services produced by these types of workers increases sufficiently, then the number of people employed in these categories may increase (demand should rise, because the cost of these goods and services would fall thanks to the increase in productivity). For instance, will the number of surgeons increase if they become more productive with AI? It would not be necessary to perform the same number of interventions, but it would no doubt increase the demand for interventions (some that are currently on a waiting list, due to unsatisfied demand because they are currently too expensive, such as cosmetic surgeries; others because advances in AI will allow more pathologies to become «operable», etc.). Depending on which effect prevails, there will be either a decrease or an increase in the number of surgeons.

The same effects, albeit with varying intensity, are at play in high-exposure and low-protection occupations. Will the number of employees working in contact centres decline? Although in theory we could assume so, if much of this work can be done by AI, some companies may also choose to hire more people to carry out these tasks, since they can be much more productive with the help of AI. After all, it will depend on whether the company uses AI basically to replace what a human has been doing or whether it uses it to expand and improve the service. In this latter case, it could even lead to an increase in the number of workers offering customer service remotely.

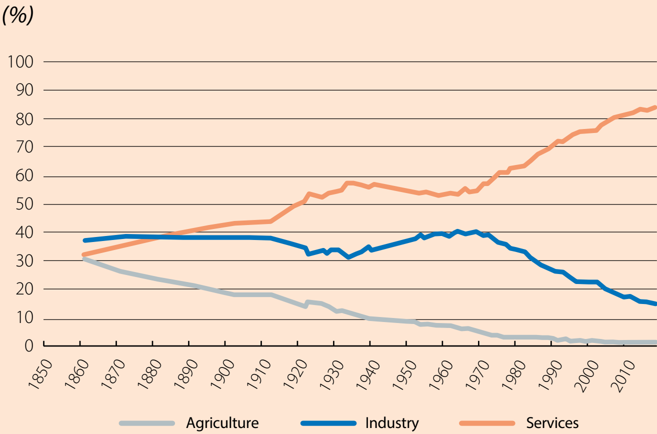
In addition, we must take into account new occupations that will arise as a result of AI, such as that of prompt engineer, algorithm auditor, experts in AI-related legal regulation or ethics, etc.

Ultimately, the aggregate impact of AI will depend on (i) the balance between jobs that are supplemented by AI versus those that are replaced; (ii) the aggregate productivity gains, which will drive income levels and, with it, a general increase in demand for goods and services which will require workers, and (iii) the new occupations that arise as a result of AI, either directly or due to the emergence of new products, services or business models.

Although this time may be different, the impact that disruptive technological changes have had on the labour market in the past, such as the Industrial Revolution in the 19th century or the introduction of computers 40 years ago, can offer some clues. Notably, despite the rapid technological change of the last 150 years, the employment rate has not changed significantly in developed economies. Generally speaking, employment has shifted from more automated sectors to new sectors created by technology and those that are less automated. In the Industrial Revolution, for example, a lot of employment was destroyed in agriculture, but a great deal was created in industry, as the chart shows. One of the most powerful lessons we can learn from processes of technological change is that the dissemination throughout society of the opportunities generated by technical progress depends on the institutions. If they are flexible and dynamic, they will facilitate the emergence of new sectors and occupations that take full advantage of the new technology and cushion the negative effects on the most exposed occupations.

Proportion of workers by sector: United Kingdom

(%)



Source: *J. Pijoan-Mas (2017). «Cambio tecnológico y el futuro del empleo».*

The challenges for economic policy and institutions in general are vast, covering areas ranging from education (what kind of training do we need to prepare for the AI era?) to competition and innovation (AI offers opportunities for innovation, but it carries risks, such as market concentration) and even inequality (how can we protect those segments of the population that suffer the negative effects of AI on wages and employment?). There is no doubt that European public policies must, at the very least, promote the adaptation of the education system to AI; manage the costs derived from the possible destruction of jobs, through active employment policies; ensure European «strategic autonomy» in infrastructures that support the development of AI, and develop a regulatory framework that provides legal certainty in this area.

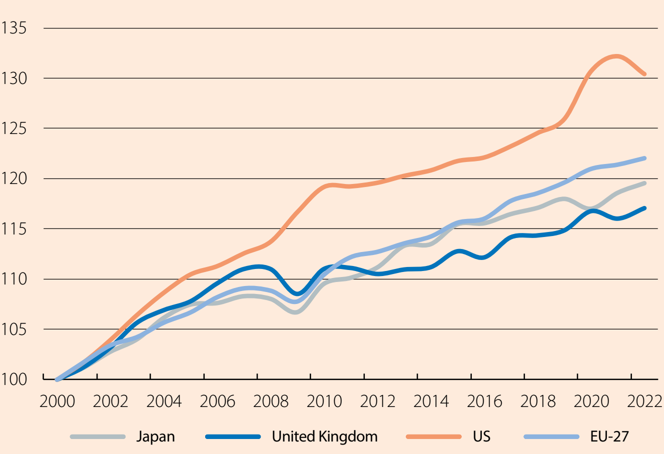
CaixaBank Research

Productivity growth in Europe: low, uneven and slowing

Increasing productivity growth is one of the major challenges that Europe faces. As stated in the introductory article of this Dossier, «Europe's moment: it is time to bolster our competitiveness», it is urgent to update the productive fabric of Europe's economy. Rapid technological change allows this. Moreover, the global context, which is increasingly competitive and with a growing distrust of multilateral institutions, makes it imperative.

Evolution of productivity

Index (100 = 2000)



Note: *GDP in real terms per hour worked.*
Source: *CaixaBank Research, based on data from the OECD.*

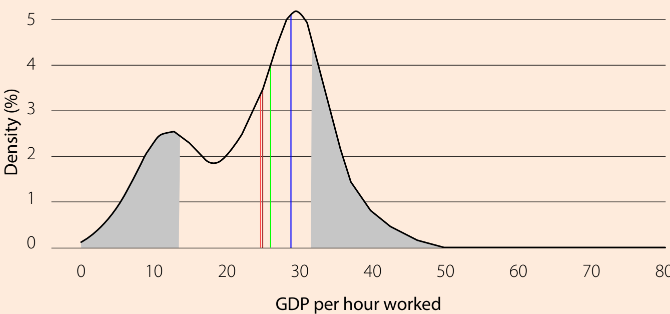
Productivity has grown steadily in the EU over the past two decades. The average annual growth of GDP per hour worked[1] between the year 2000 and 2022 was 1.2%, and negative growth rates were only observed in 2008 and 2009, in the midst of the global financial crisis. Thus, in 2022 productivity was 26.6% higher than in the year 2000.

However, it should be noted that the rate at which productivity is growing has slowed in recent years. Across the EU as a whole, productivity grew by an average of 1.9% per year between 2000 and 2006. In contrast, since the financial crisis, the pace of growth has slowed significantly. Between 2007 and 2022, average annual growth stood at 0.9%. Declining productivity growth is a pervasive phenomenon in the major developed economies. In the US, productivity has gone from growing by 2.4% to 1.3%; in the UK, from 1.8% to 0.4%; and in Japan, from 1.5% to 0.8%.

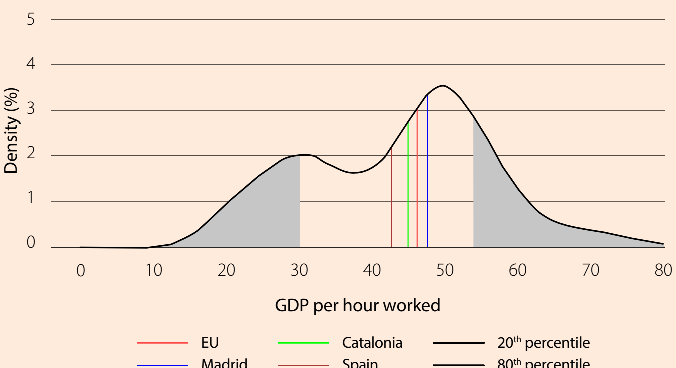
These figures also reveal another element: productivity growth in the EU has been lower than in the US economy over the last few decades. The difference may seem small: it is just 0.4 pps lower between the years 2000 and 2022, on average. However, as the difference in growth persists for many years, the implications end up being significant: the gap between the productivity of the European economy and that of the US has widened by 8.4% since the year 2000.

Analyzing the state of productivity in the various European regions helps us understand the figures for the EU as a whole. As shown in the second chart, the distribution of productivity is concentrated at two different points. There is a first group of regions with a relatively low level of productivity, and a second group of regions with a higher level. The peak of the first group lies around the first quintile of the distribution, which in the year 2000 is at a level of GDP per hour worked of 13.6 euros. The peak of the second group corresponds, also closely, to the 80th percentile of the distribution, with a GDP per hour worked of 31.4 euros. In between these two groups is where all Spanish regions lie.[2]

Distribution of productivity in the various European regions in the year 2000



Distribution of productivity in the various European regions in the year 2000



Notes: *The chart shows the probability of observing a region (on the vertical axis) with a certain level of productivity (horizontal axis). For example, the probability of observing a region with a productivity of 20 was 2% in the year 2000. A continuous distribution of probability has been estimated. GDP measured in PPP terms per hour worked. Data for all NUTS 2 regions of the EU, except Ireland, Luxembourg, Malta, Cyprus, Croatia, the French overseas regions, the Azores, Madeira, Ceuta and Melilla.*
Source: *CaixaBank Research, based on data from the Annual Regional Database of the European Commission (ARDECO).*

1. To calculate the rate of productivity growth, GDP is used at constant prices of 2015 per hour worked in order to eliminate the effect of inflation and obtain a measure of productivity growth in real terms.
2. For a more detailed analysis, see «Evolución de la productividad en Europa: una mirada regional», at www.cercledeconomia.com.

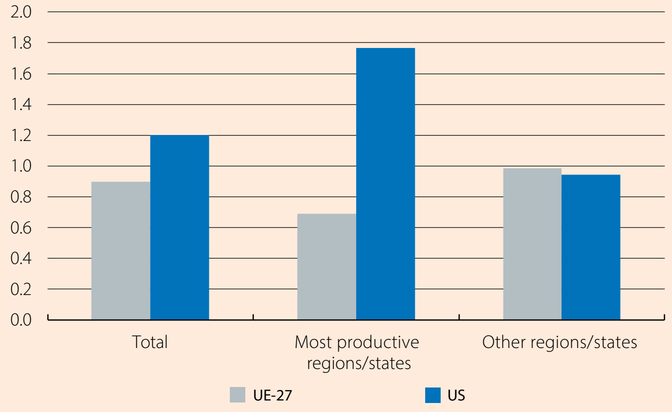
In recent decades, the growth in regions with lower productivity levels has not been strong enough to narrow the gap between them in absolute terms; in fact, it is quite the contrary. The gap between the first group of regions (the least productive) and the group formed by the most productive regions has actually widened over the last two decades. Specifically, the first quintile increased to 30.1 euros in 2022 and the 80th percentile stood at 53.8. Thus, the distance between the two mountains has widened by 5.9 euros, or 33 4%.[3]

The belt of regions that begins in Denmark, the Netherlands and Belgium, and runs down through Germany to Austria, is the one that has strengthened the most in recent years (see third chart). This group of countries accounts for 82% of the regions that were in the highest productivity range in 2022, while in 2000 this figure stood at 75%. Seen differently, 48% of the regions in these countries were in the top 20 most productive regions in 2022, while in 2000 this was the case for «only» 43% of them.

In contrast, many of the French and Italian regions have lost dynamism in recent years. Italy had five regions in the highest productivity group in the year 2000, whereas by 2022 it had only one, namely the autonomous province of Bolzano, and the country's southern regions have moved to a low level of productivity. France has only two regions left with a very high level of productivity, and the number of regions in the high productivity range has declined.

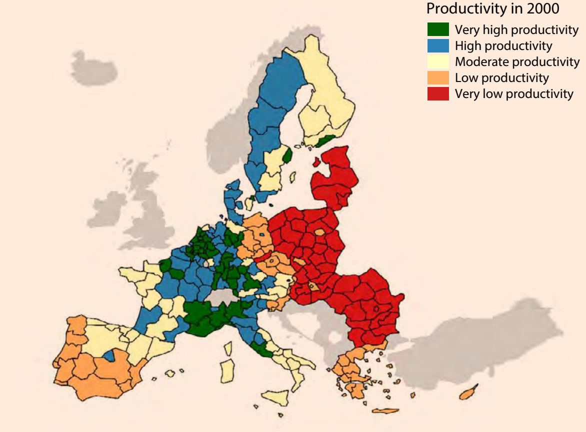
Productivity in the EU-27 and the US

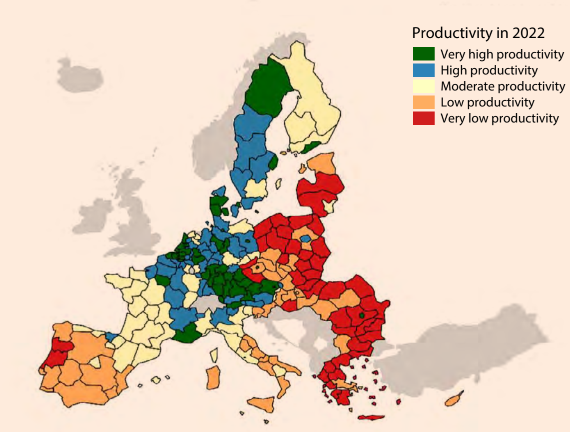
Average annual growth between 2007 and 2022 (%)



Notes: *Productivity refers to GDP in real terms per hour worked. The productivity growth of the most productive European regions and US states relates to the quintile of most productive regions/states.*
Source: *CaixaBank Research, based on data from the European Commission (ARDECO) and the US Bureau of Labor Statistics.*

Distribution of productivity by region in the years 2000 and 2022





Note: *GDP measured in PPP terms per hour worked. The classification of the level of productivity is produced based on quintiles, dividing the distribution of productivity into five equally sized groups, with each one comprising 20% of the total sample of regions in ascending order. Thus, the first group contains the 20% of regions with the lowest level of productivity, the next group contains the 20% of regions with a higher productivity than the previous group, and so on until the European regions are separated into five groups of equal size, where each group denotes a «step» in the distribution of productivity.*
Source: *CaixaBank Research, based on data from the European Commission (ARDECO).*

However, productivity growth in the most productive European regions has been modest compared to the improvement experienced by the most productive US states.[4] As can be seen in the fourth chart, the difference is significant: between 2007 and 2022, on average, growth was 1.1 pp higher. In contrast, US productivity growth without these regions is quite similar to that of the rest of the European regions.

As for the Spanish regions, in 2000 the majority (58.82%, specifically) were in the middle section of the distribution (in the third quintile of the productivity distribution), while Madrid had high productivity and the remaining regions of the country had low productivity. In general, the regions of

3. The distance between the 80th percentile and the 20th percentile widened between 2000 and 2022, regardless of whether the evolution of the distribution of GDP per hour worked is analysed in real terms or adjusted for PPP.
4. The most productive quintile of US states, which includes California, New York and Massachusetts, accounts for 31% of US GDP. The quintile of the most productive European regions accounts for 29% of Europe's GDP.

the northern half are in the moderate productivity group, while those of the southern half are in the low productivity group. Between 2000 and 2022, there are three regions that dropped down to the low productivity level, such that most regions, specifically 52.9%, fall into this group in 2022. The Community of Madrid ends up in the moderate productivity group and the Basque Country is the only region to climb up a level, becoming part of the high productivity group.

In the lower part of the distribution, of particular note is the collapse of the regions of Greece, which now find themselves at the tail end of the distribution of European productivity. Indeed, 78.6% of the regions falling from quintile 2 to 1 are Greek. In contrast, all the regions that climb from quintile 1 to 2 correspond to different countries in Eastern Europe.

Oriol Aspachs and Erik Solé

Why does Europe need a Capital Markets Union?

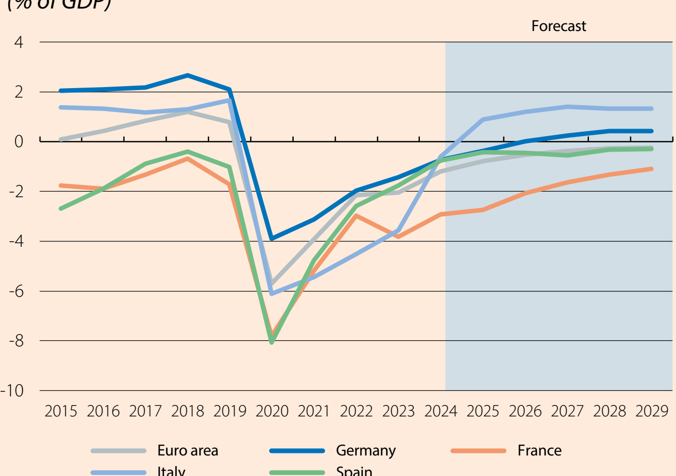
Europe is facing not only a demanding economic situation, but also a trident of underlying challenges: the decarbonisation of the economy, the revitalisation of productivity and technological development, and the growing geopolitical fragmentation in the world. Addressing these challenges will not be possible without mobilising significant investment and financing, on the one hand, or without strengthening the international role of the euro, on the other. And this is precisely what the Capital Markets Union (CMU) is pursuing.

Is Europe falling behind?

In order to tackle these underlying challenges, several estimates suggest that Europe will need to deploy between 0.5 and 1 trillion euros per year through to 2030.[1] These additional investment needs, which are equivalent to the annual GDP of countries such as Austria or the Netherlands, arise in a context in which fiscal policy has less margin for manoeuvre, being weighed down by high public debt ratios, with underlying pressures on public spending (e.g. population ageing) and with the need for and the prospect of a gradual correction of budget deficits (see first chart). On the other hand, there is a large stock of private savings which is not mobilised and, for Europe's purposes, it is vitally important to develop a strong common capital market,[2] that is, a market in which savings and investment flow between all EU countries through bonds, shares and other financial assets.

Euro area: primary fiscal balance

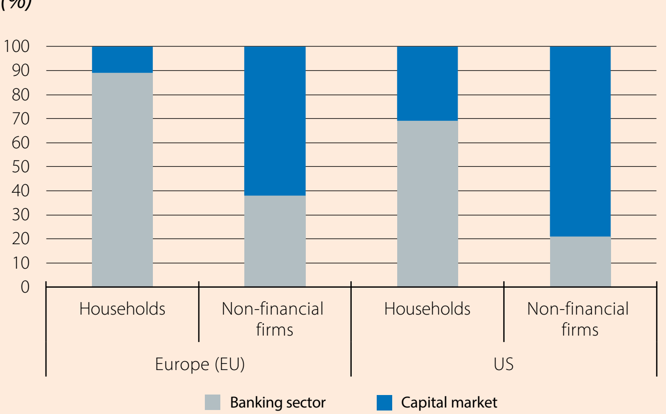
(% of GDP)



Source: *CaixaBank Research, based on data and forecasts from the IMF (WEO of April 2024).*

Sources of financing for households and businesses in 2022

(%)



Source: *DG Trésor (2024), «Developing European capital markets to finance the future: Proposals for a Savings and Investments Union», Ministère de l'Économie, des Finances et de la Souveraineté industrielle et numérique.*

However, there is consensus that the European capital market is underdeveloped (see second chart). This can be seen in a long list of cases which, if read in positive terms, indicate the potential to mobilise funds that an effective capital markets union would allow to materialise. As an example, while the EU accounts for around 20% of the world's GDP, its stock markets represent just 10% of global capitalisation, and within the technology sector there are just two European companies in the top 20 in terms of capitalisation. Moreover, the liquidity of Europe's stock markets is lower than that of other regions (the US), especially in the case of so-called small-cap companies (which are younger and have greater growth potential). The emergence of tech firms also requires a developed venture capital market,[3] which is currently too small in Europe (the size of Europe's venture capital markets is only 20% of that of the US) and is also fragmented (portfolios have a significant

1. M. Demertzis, D. Pinkus and N. Ruer (2024), «Accelerating strategic investment in the European Union beyond 2026», Report 01/2024, Bruegel, and DG Trésor (2024), «Developing European capital markets to finance the future: Proposals for a Savings and Investment Union», Ministère de l'Économie, des Finances et de la Souveraineté industrielle et numérique. These figures include investments to decarbonise all economic sectors, transform the energy industry, address various environmental challenges, develop key digital technologies (communications, AI, semiconductors, etc.) and strengthen supply chains related to the defence industry.
2. Enrico Letta talks about more than 30 trillion euros, largely stored in cash and deposits. Moreover, he estimates that around 300 billion euros of European households' savings leave Europe each year (primarily destined for the US). E. Letta (2024), «Much More Than a Market», Report to the European Council.
3. Innovation produces projects that are high-risk, offer uncertain returns and have few tangible assets to back them up. The venture capital industry has specialised in financing innovation, detecting and supporting the birth of tech firms with a high potential thanks to its governance system, with phased financing and active participation in the companies in question. See J. Lerner and R. Nanda (2020). «Venture capital's role in financing innovation: What we know and how much we still need to learn», Journal of Economic Perspectives, 34(3), 237-261.

national bias). European public and private bond markets are also relatively small (130% of GDP in the EU vs. 200% in the US). All this affects the cost of financing European companies, as well as their ability to expand, to the point that some start-ups born in Europe have ended up migrating to the US in search of funds.[4] Similarly, Europe's financial sector has been gradually losing market share with respect to its US counterparts, both in terms of asset management and in investment and corporate banking.[5]

Background, current situation and outlook for the CMU

The CMU project was born a decade ago in the face of a combination of considerations, ranging from financial stability (e.g. reducing the fragmentation of European markets, increasing the capacity to absorb economic shocks and diversifying sources of business financing), to social justice (ensuring that all EU citizens have equal access to capital markets), to economic efficiency and ensuring the availability of financing for innovation and investment. However, as we have already seen, this initial ambition has not resulted in a significant development of the European capital market, nor has it led to an effective transformation of policies.

In fact, in 10 years the progress has been more incremental, rather than one of structural transformation.[6] This is illustrated by the nature of the key milestones achieved to date, which include the so-called «single access point» (a facility that centralises and gives access to publicly available financial information on European companies and investment products, the legislative framework of which was formalised in December in 2023 but which will still take some years to be developed), the «European Long-Term Investment Fund» (ELTIF, which is a vehicle for channelling private capital towards investment in infrastructure and other long-term projects and enterprises, which the EU has tried to stimulate but without managing to raise significant amounts of capital so far) and a revision of the trading rules to improve transparency in financial instruments markets (MiFIR regulation and MiFID directive).

In the run-up to the European elections in June, which mark the beginning of a new term for 2024-2029, a number of voices have pushed for a reignition of the CMU project. In March, both the Eurogroup and the ECB launched manifestos to develop the CMU with an agenda of concrete measures related to developing markets (e.g. asset securitisation), supervision and regulation (advocating a direct role of European supervisory agencies and reducing the regulatory burden) and European harmonisation of national regulations and frameworks (in areas such as insolvency, accounting, debt issuance, collateral management, securities markets, etc.), among other initiatives.

The CMU joins a list of European economic integration projects that remain incomplete. These include the Banking Union, as negotiations on the European Deposit Insurance Scheme (EDIS) remain at an impasse,[7] and the ESM reform, which was agreed in 2021 but is not yet effective.[8] The difficulty of all these initiatives is that, when the integration being pursued is ambitious (whether a European deposit guarantee scheme or harmonising insolvency and accounting frameworks), it is necessary to overcome a clash between national jurisdictions and pan-European authorities. This requires political capital and/or an environment that rewards change. And therein lies one of the intrinsic difficulties of the underlying transformations: the green and digital transitions and geopolitical fragmentation are formidable challenges, but in the short term their severity is not felt to the same degree as other crises that are more short-term in nature and in which the threat to Europe's survival is so palpable that the inertia and resistance to change can be overcome. The question, therefore, is how much political capital the 2024-2029 European term will be able to garner.

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4. The European Investment Fund speaks of a «technology drain». See https://www.eif.org/etci/scale-up-financing-gap/index.htm.
5. DG Trésor (2024) cited in footnote 1.
6. N. Veron (2024), «Capital Markets Union: Ten Years Later», In-depth analysis, PE 747.839, requested by the ECON Committee (European Parliament).
7. The EDIS would protect the bank deposits of euro area citizens, regardless of which European country they are located in, and it would do so more evenly than the current national system for guaranteeing deposits. This would help to weaken the national link between the public sector and the financial system (the so-called doom loop, which amplifies and exacerbates economic recessions) and would help economic shocks to be better absorbed, thus improving the effectiveness of all economic policies.
8. It is yet to be ratified by the Italian Parliament. The ESM reform is intended to bolster the European Stability Mechanism, strengthening its role as a backstop in the event of bank resolutions, facilitating access to its credit lines and assigning it a greater role in country support programmes (alleviating the burden of the *Troika* [ECB, IMF and European Commission]).

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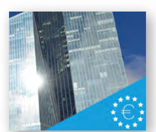

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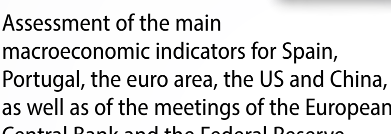

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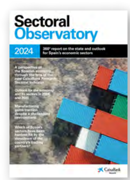

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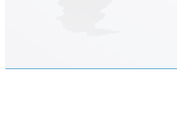

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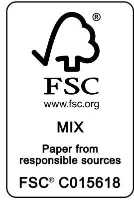
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