Spain
Macroeconomic & Financial Outlook

CaixaBank Research

September 2024

CaixaBank

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Key messages

Activity

- **Summer's batch of data on inflation and wages moved in the right direction and should encourage a rate cut in September.** After cutting rates in June (-25pb; depo at 3.75%) and leaving policy unchanged in July, financial markets are fully discounting 25bp rate cuts in both September and December 2024 (when the ECB updates its macroeconomic projections).
- **Spanish GDP grew by 0.8% qoq in the second quarter of the year (2.9% yoy),** well above the eurozone's growth (0.3% qoq) and above our expectations. The external sector was the main driver of growth, contributing 0.5 p. p. to qoq GDP growth, while domestic demand contributed 0.3 p. p.
- **GDP growth is expected to remain above 2% over 2024-2025 as it rebalances towards internal demand.** In 2022-2023 GDP largely grew on the back of public consumption and external demand. Looking ahead, we expect private consumption and investment will gain prominence. Tourism will contribute to growth in 2024-2025 albeit to a smaller extent than in 2023.
- **Early Q3 indicators have moderated somewhat compared to the previous quarter.** In the July-August average, employment has grown 0.3% qoq, below the 0.8% qoq rate of Q2 2024. The composite PMI ticked up 0.1 points in August compared to the previous. Nevertheless, the July-August average, at 53.5 points, remains below the Q2 average of 56.0 points.
- **Headline inflation declined 0.6 pp. to 2.2% in August, below our expectations.** The flash estimate points to lower gasoline and food prices behind the fall in headline inflation. At the same time, underlying inflation declined 0.1 pp. to 2.7%. Latest inflation data by component suggest an easing in inflationary pressures, particularly in services and food inflation.
- **Housing prices growth accelerates in Q2 2024.** According to INE (transaction prices), house prices grew 7.8% yoy in Q2 (6.3% in Q1) and grew 9.4% according to Registrars (repeated sales). Q2 data are not yet available for MIVAU (appraisal value). The introduction of this data, above expectations, will lead to a new upward revision of the housing prices forecast for 2024 and 2025.
- **Direct taxes and social security contributions are growing at a good pace.** The data is consistent with our forecast of a 3% public deficit in 2024.

Banking Sector

- **New lending shows positive dynamics.** In terms of new credit, activity recovers in the months to date in 2024, so the stock of credit to the Spanish resident private sector is stabilizing. Domestic NPL ratio stands at 3.4% in June, lower than in dic'23, and 139 bps below pre-covid level of February 2020. Profitability improves and ROE reaches 12.4% in 1Q24 (vs. 10.6% in Euro Zone), driven mainly by good performance of the interest margin.

Main economic forecasts

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%, YoY, unless otherwise specified	2015	2016	2017	2018	2019	2020	2021	2022	2023 (Forecast)	2024 (Forecast)	2025 (Forecast)
GDP	3.8	3.0	3.0	2.3	2.0	-11.2	6.4	5.8	2.5	2.4	2.3
Private Consumption	2.9	2.6	3.0	1.8	0.9	-12.4	7.2	4.8	1.8	2.2	2.4
Public Consumption	2.0	1.0	1.0	2.3	1.9	3.6	3.4	-0.2	3.8	1.7	1.0
Gross Fixed Capital Formation (GFCF)	4.9	2.4	6.8	6.3	4.5	-9.0	2.8	2.4	0.8	2.5	3.6
GFCF - equipment	9.1	1.8	9.2	4.7	2.0	-12.6	4.4	1.9	-1.6	2.2	4.6
GFCF - construction	1.5	1.6	6.7	9.5	7.2	-9.2	0.4	2.6	2.3	2.9	3.1
Exports	4.3	5.4	5.5	1.7	2.2	-20.1	13.5	15.2	2.3	3.6	2.4
Imports	5.1	2.6	6.8	3.9	1.3	-15.0	14.9	7.0	0.3	2.9	2.5
Unemployment rate	22.1	19.6	17.2	15.3	14.1	15.5	14.9	13.0	12.2	11.6	11.1
CPI (average)	-0.5	-0.2	2.0	1.7	0.7	-0.3	3.1	8.4	3.5	3.2	2.5
External current account balance (% GDP)	2.0	3.2	2.8	1.9	2.1	0.6	0.8	0.6	2.6	2.7	2.7
General Government Balance (% GDP)	-5.3	-4.3	-3.1	-2.6	-3.1	-10.1	-6.7	-4.7	-3.6	-3.0	-2.6
General government debt (% GDP)	103.3	102.7	101.8	100.4	98.2	120.3	116.8	111.6	107.7	106.0	105.0
Housing prices	1.1	1.9	2.4	3.4	3.2	-1.1	2.1	5.0	3.9	4.4	2.8
Risk premium (vs. 10Y Bund, bps, Dec.)	120	124	120	97	88	86	67	104	102	85	82
Bank credit (to the private domestic sector)	-4.3	-2.9	-1.9	-2.6	-1.2	2.5	0.5	-0.4	-3.4	-0.4	1.7

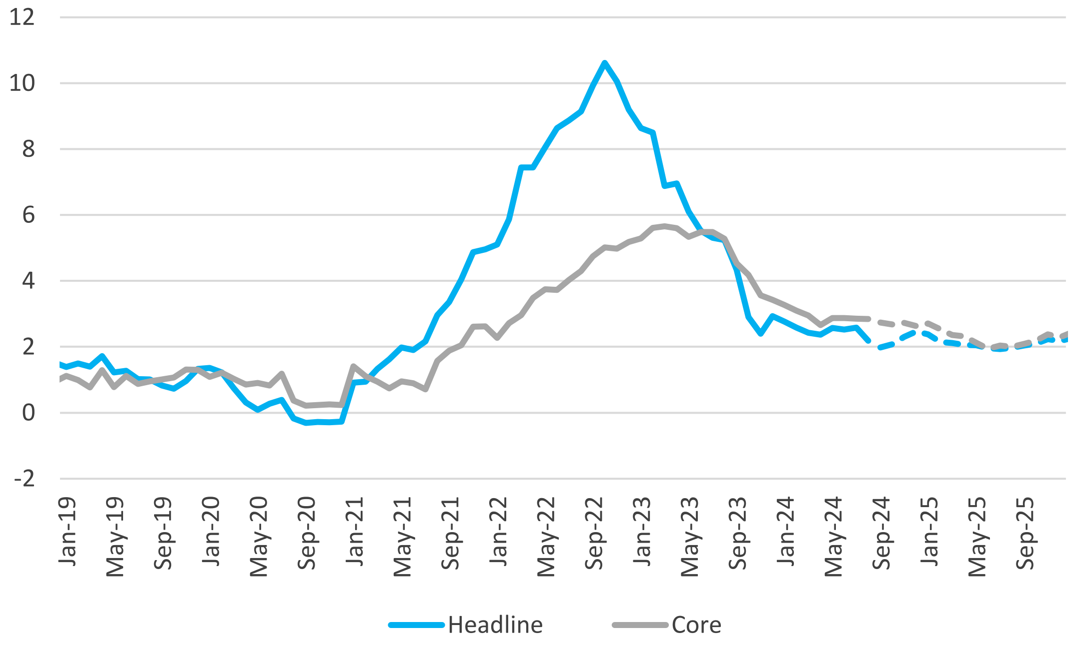
***Note**: All GDP figures are based on ESA-2010 methodology.*

***Source**: CaixaBank Research.*

The ECB should resume cutting rates after the summer

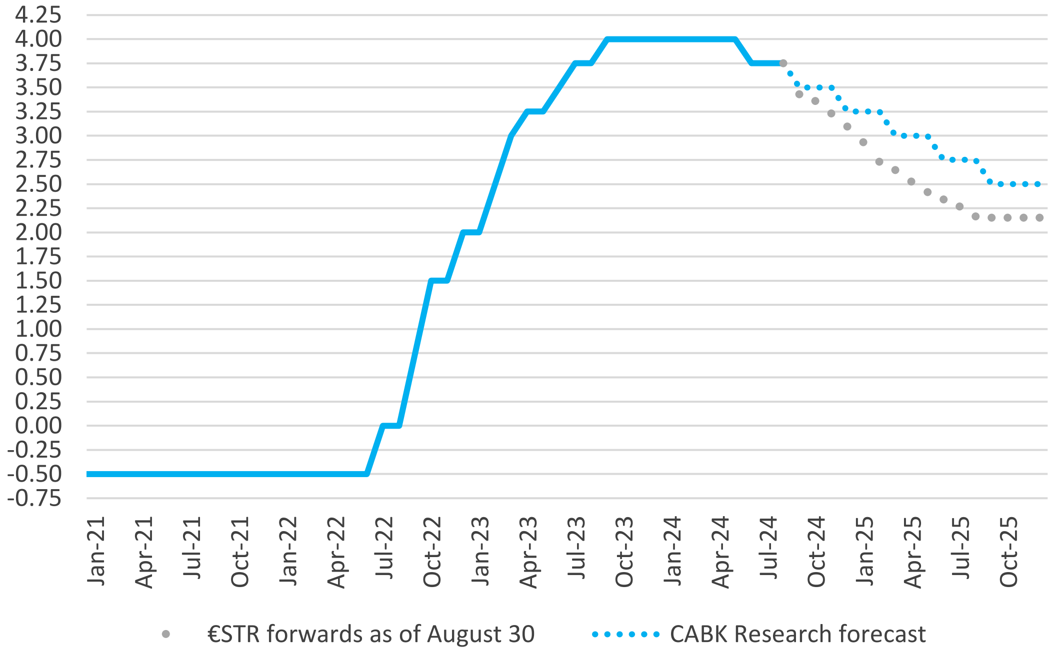
Euro area: HICP inflation

(%)



ECB deposit rate

(%)



- **The ECB is geared towards lower rates, but it will move cautiously**. ECB cuts are supported by a significant progress in the euro area's disinflation as well as the expectation that the inflation outlook will improve further. Yet, the ECB is likely to keep an anti-inflationary bias and move cautiously, responding to; a long period of above-target inflation; inertia in some prices (e.g., services); short-run volatility in data (e.g., due to the withdrawal of energy-related support measures); and the fact that second-round effects, which cannot be dismissed yet, play out with a lag.
- **Summer's batch of data on inflation and wages moved in the right direction and should encourage a rate cut in September.** After cutting rates in June (-25pb; depo at 3.75%) and leaving policy unchanged in July, financial market are fully discounting 25bp rate cuts in both September and December 2024 (when the ECB updates its macroeconomic projections). In 2025, markets see an additional decline of 125bp in ECB rates (to a depo rate of 2%).
- **Balance sheet reduction will continue in a passive way:** the last TLTROs will be repaid in 2024, the APP portfolio is mechanically declining under a zero-reinvestment strategy, and PEPP reinvestments will drop from 100% to ~50% in the second half of 2024 (and to 0% in 2025).

Growth concerns pair back commodity prices

Brent oil prices (and futures)

$ per barrel

Commodity prices

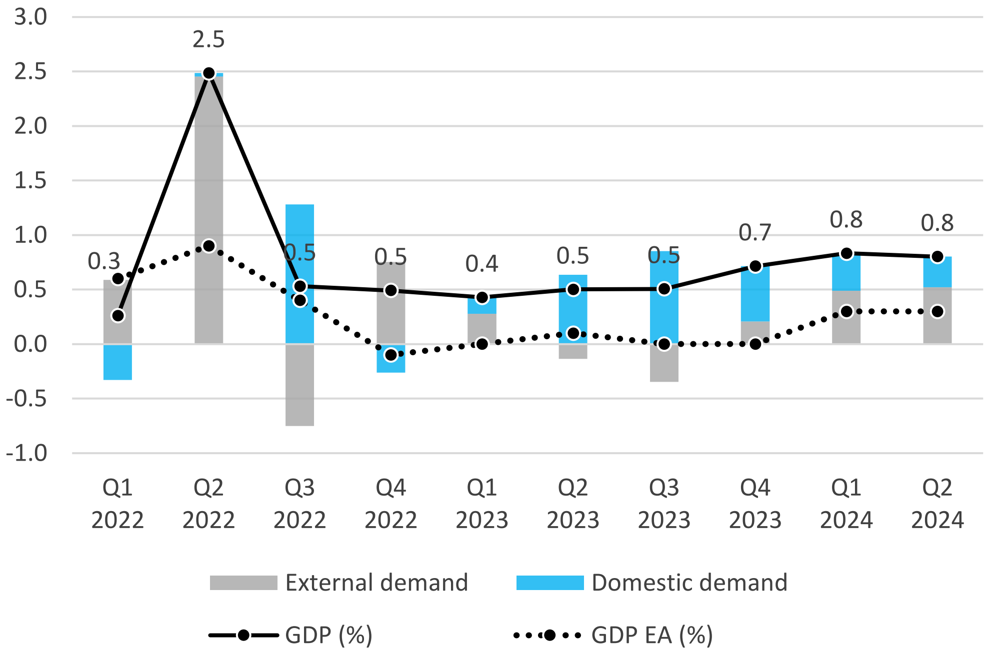
	Metric	Price	Change (%) Last Month	Year to Date	2022	2023
Commodities	**index**	**95,2**	**0,5**	**-3,5**	**13,8**	**-12,6**
Energy	**index**	**27,7**	**-2,1**	**-9,8**	**33,5**	**-25,6**
Brent	$/barrel	74,4	-3,1	-3,4	10,5	-10,3
Natural Gas (Europe)	€/MWh	36,6	-0,1	13,1	8,5	-57,6
Precious Metals	**index**	**257,7**	**1,2**	**15,2**	**-1,9**	**4,1**
Gold	$/ounce	2488,7	3,2	20,6	-0,3	13,1
Industrial Metals	**index**	**140,2**	**1,4**	**-1,7**	**-4,4**	**-13,7**
Aluminum	$/Tm	2407,5	6,4	1,0	-15,3	0,3
Copper	$/Tm	8954,5	-1,1	4,6	-13,9	2,2
Agricultural	**index**	**55,0**	**1,9**	**-11,9**	**13,2**	**-9,3**
Wheat	$/bushel	555,0	3,0	-11,6	2,8	-20,7

- **Oil prices fall as demand woes overshadow any possible supply recovery**. Brent prices have tumbled 9% between July and August on persistent concerns about the economic outlook in US and China (key consumers) and expectations of adequate global supply. In early trade sessions in September, the Brent price hit a new low since June 2023 (below $73 barrel), as markets priced that OPEC+ could be on track to gradually unwind production cuts in October (180.000 barrels a day). Additionally, while geopolitical risks remain (as the concerns on US elections in November), markets reduced the Middle East risk premium on prices as a truce in the conflict could be on the table. Although OPEC+ has reached a deal to extend production cuts for 2 months (until December) to prevent oil prices from dropping further, we consider they could extent them further following weak economic data (in the US and China) signaling soft demand prospects in 4Q and 1Q25. All in all, we are likely to revisit our forecast downwards as we consider the barrel price could hover around $72-$78 in December 2024 (vs $86 before).

Spain: Q2 2024 GDP growth surprised on the upside

Contributions to quarterly GDP growth

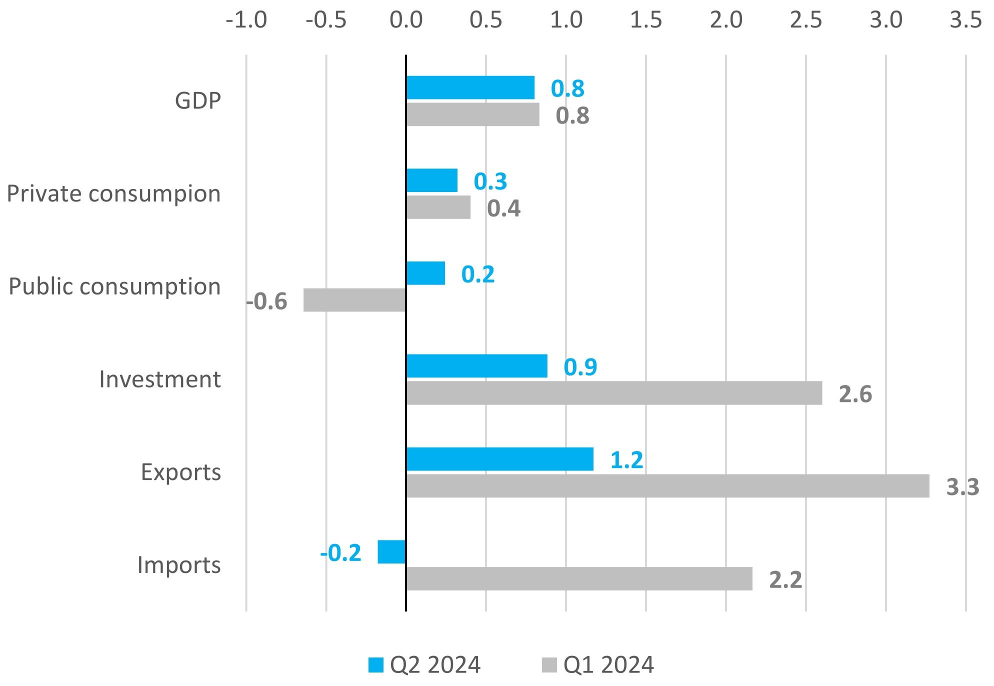
Percentage points and percentage change (%)



Note: GDP is quarter-on-quarter variation

Components of GDP

Quarter-on-quarter change (%)



- **Spanish GDP grew by 0.8% qoq in the second quarter of the year,** well above the eurozone's growth (0.3% qoq) and above our expectations, which anticipated a 0.5% qoq increase. In year-on-year terms, the rate accelerated compared to the previous quarter, from 2.6% to 2.9%.
- **The breakdown delivers a healthy composition of growth**, with the external sector as the main driver of growth, contributing 0.5 p. p. to qoq GDP growth, and domestic demand also growing, although at a more modest pace, contributing 0.3 p. p. to GDP growth. Private consumption advanced by 0.3% qoq and public consumption by 0.2%. Investment grew at a strong pace of 0.9% qoq, mainly driven by investment in construction. Regarding the external sector, exports grew by 1.2% qoq while imports declined by 0.2%. Growth in exports was broad-based, with substantial increases in both goods and services exports (1.3% and 1.0% qoq, respectively). Tourist exports' rate of growth was substantial, at 2.5% qoq, although it has softened a great deal relative to the first quarter reading (17.4% qoq).

Consumption and investment will gain importance in 2024-2025

Macroeconomic scenario

Year-on-year (%)

	2023	2024	2025	2026
GDP	2.5	*2.4*	*2.3*	*2.1*
Unemployment rate (% labor force)[2]	12.2	*11.6*	*11.1*	*10.8*
Inflation rate (average of period, %)	3.5	*3.2*	*2.5*	*2.1*
House prices	3.9	*4.4*	*2.8*	*2.6*

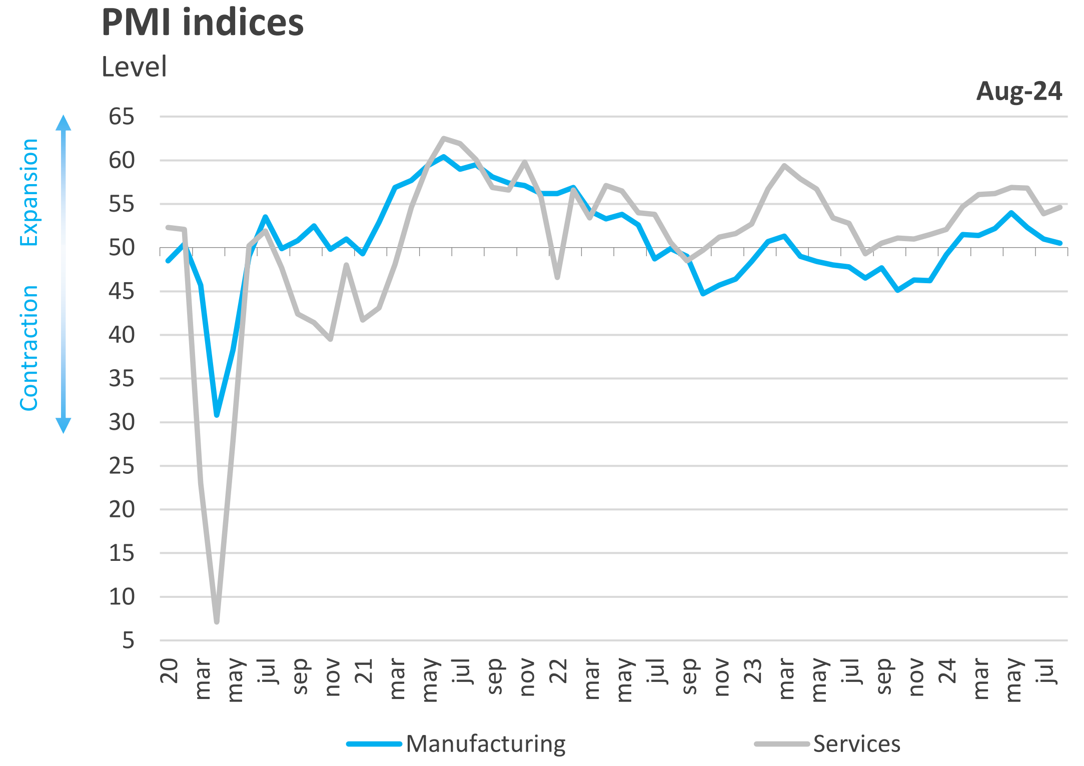
GDP: analysts' forecast

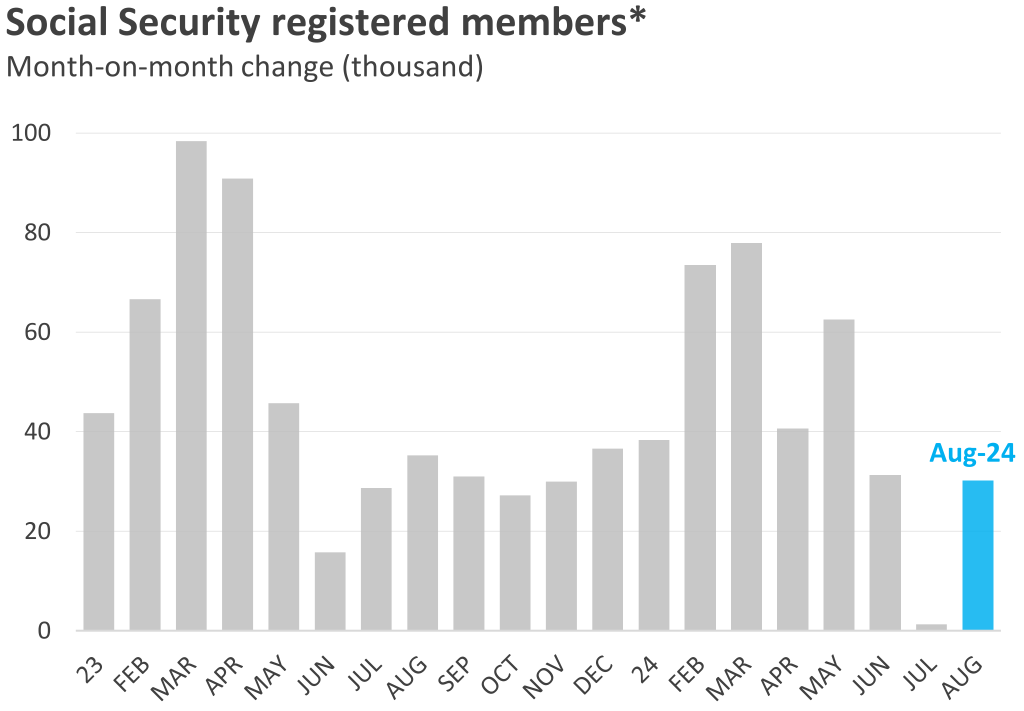
Year-on-year change (%)

	2024	2025	Cum. 2 years
BBVA Research (June)	2.5	2.1	4.7
Funcas (July)	2.5	1.8	4.3
CaixaBank Research (July)	2.4	2.3	4.8
Government (July)	2.4	2.2	4.7
IMF (July)	2.4	2.1	4.6
Funcas panel (July)	2.4	2.0	4.4
Airef (July)	2.4	-	-
Bank of Spain (June)	2.3	1.9	4.2
Consensus forecast (July)	2.3	1.9	4.2
European Commission (May)	2.1	1.9	4.0
OECD (May)	1.8	2.0	3.8

- **GDP is expected to sustain growth above 2% over 2024-2025** as it rebalances towards internal demand. In 2022-2023 GDP largely grew on the back of public consumption and external demand. Looking ahead, we expect private consumption and investment will gain prominence. There is room for these two components to grow: investment remains in Q2 2024 1.3% below its Q4 2019 level, whereas private consumption is just 0.7% above. **Investment** will grow at an average of 3.1% in 2024-2025 spurred by energy transition needs and NGEU funds. **Private consumption** will grow at an average of 2.3% against the backdrop of strong migration inflows and dynamic gross disposable income growth that has placed the savings rate at 11.7% at the end of 2023, above its historical average (8.2% in 2000-2019). **Tourism** will contribute to growth in 2024-2025 albeit to a smaller extent than in 2023.
- **There is further upside potential over the next years in private consumption and investment** that could be partially materialized. First, despite private consumption growing at 2.3% on average in 2024-2025, it will take time for the savings rate to normalize, and we expect it to sit in 2025 clearly above its historical average. Second, investment to GDP ratio will still remain below its 2000-2019 average.

Early Q3 indicators suggests growth may moderate slightly





Note: (*) Seasonally adjusted.

- **Early Q3 indicators have softened somewhat relative to the previous quarter.** Employment (as measured by workers registered to the S. S. system) added c. 30k workers in seasonally adjusted terms in August. In the July-August average, employment has grown 0.3% qoq, below the 0.8% qoq rate of Q2 2024. Employment in Spain stands at 21.2 million people, with an increase of 483k workers in the last year. Since June, the manufacturing PMI has been declining and in August reached 50.5 points, still within the growth region of the indicator (> 50 points), but suggesting growth in the sector has moderated. The services PMI, after declining in July, bounced back in August and reached 54.6 points, which suggests that growth in the sector remains strong.
- **We expect GDP growth of 0.5% qoq in Q3**, a solid figure, albeit more moderate than the rates of growth posted during the first half of 2024 (of 0.8% qoq on average).

Inflation will gradually converge to 2%

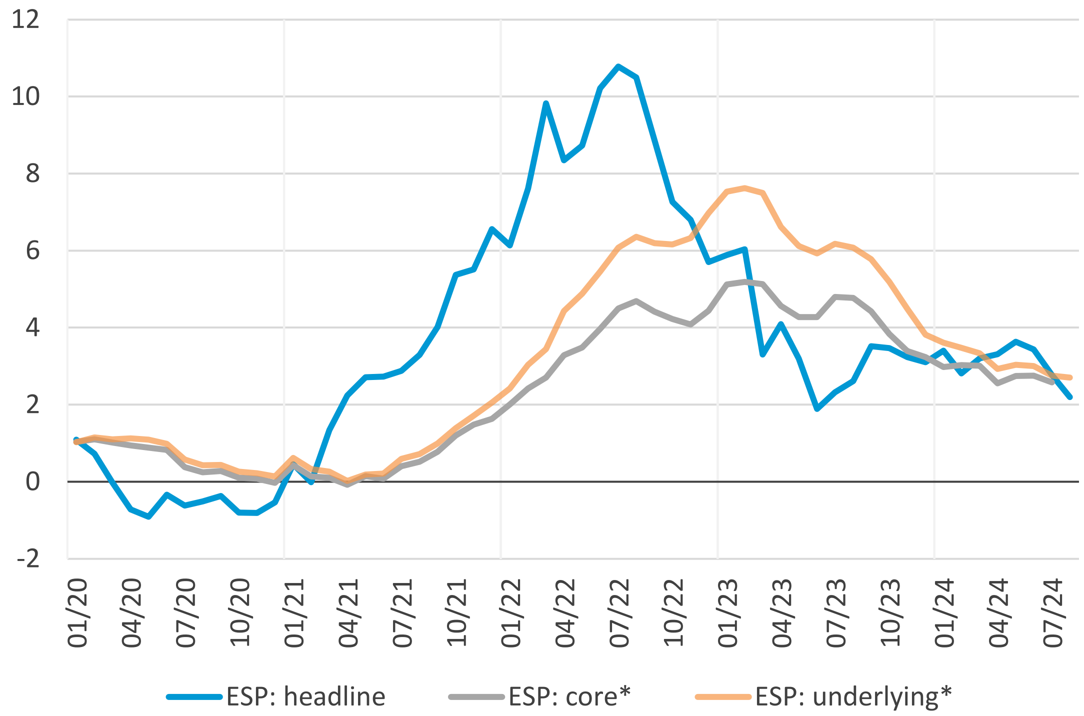
CPI and its components in Spain

Average year-on-year change (%)

	Jul.-24	Cum. since Dec. 2019 (%)
Headline inflation	2.8	17.9
Underlying inflation (excl. energy and non processed food)	2.8	15.6
Core inflation (excluding energy and food)	2.6	11.5
- Industrial goods	0.7	6.4
- Services	3.4	13.7
Food, beverages & tobacco	3.2	31.1
Energy	2.7	20.8
- Electricity	7.4	15.4
- Fuel	0.1	19.3

Headline, underlying and core CPI

Year-on-year change %

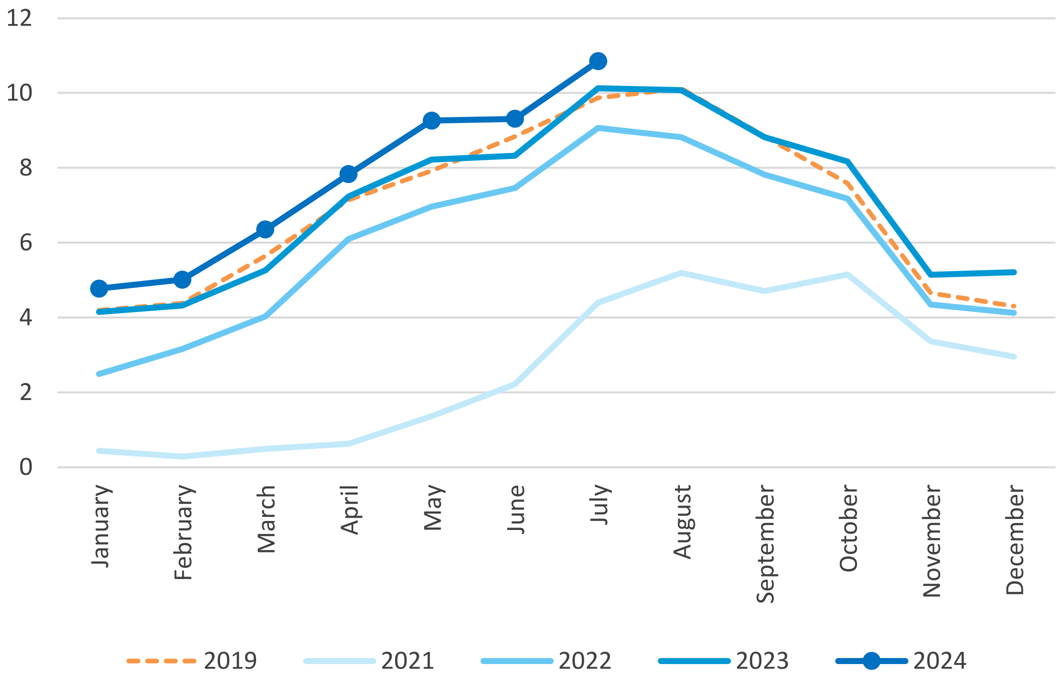


- **Headline inflation declined 0.6 pp. to 2.2% in August, below our expectations**. The release of the flash estimate points to lower gasoline and food prices behind the fall in headline inflation. In August, gasoline prices decreased 2.1% m/m compared to a 5.5% m/m increase in August 2023. At the same time, underlying inflation declined 0.1 pp. to 2.7%.
- **Latest inflation data by component suggest an easing in inflationary pressures.** In July, services and food inflation went down by 0.3 pp. and 0.9 pp. respectively. Together with early indicators, these indicate the kick-off of the disinflationary process in the categories with the highest inflation rates in 2024.

Strong tourism demand in 2024

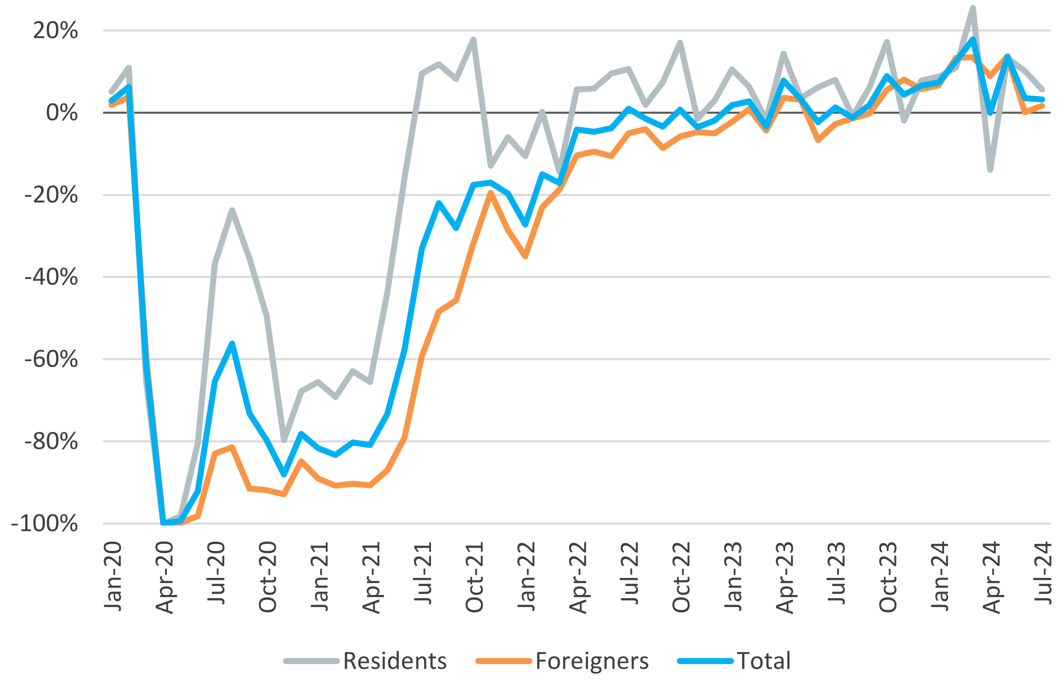
International tourists that visit Spain

Millions of people



Overnight stays in touristic accommodation

Gap with respect to 2019



- **International tourism demand remains strong.** International arrivals in July were 9.9% above the same month of 2019, while international tourist expenditure attained a level 30.1% above. Demand for tourist services is holding up despite the strong increase in tourism related prices: Inflation in tourism services is up 5.3% on average in 2024 and CPI hotel prices in July increased by 4.9% year-on-year, attaining a level 33.6% above the same month of 2019. Tourist arrival figures in July were boosted by stronger tourist flows from the Americas (+26.9% w.r.t. July 2019) and by tourism from the EU (+15.1% w.r.t. July 2019).
- **The persistent inflationary shock in tourism services has barely dented domestic tourism demand**. After achieving remarkable figures since mid-2022 (well above 2019 level), domestic tourism performance remains positive. Overnight stays by residents in touristic accommodations fell by a modest -2.1% year-on-year in July, landing at a level 5.7% above July 2019. Looking ahead, we expect a modest rate of growth but activity remaining at high levels.

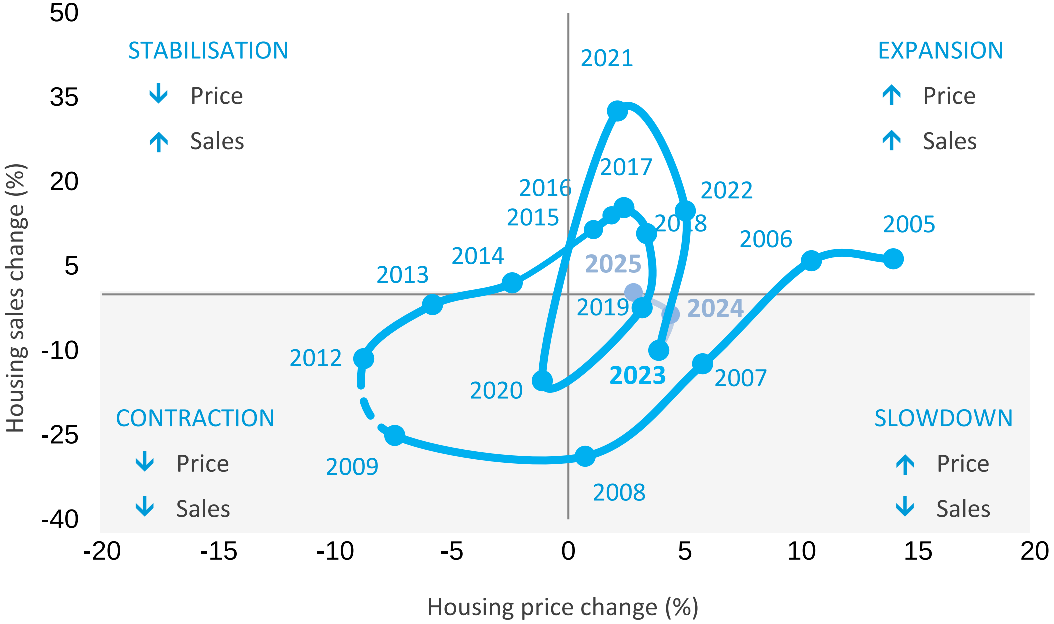
Renewed momentum in housing prices

Updated forecasts for the real estate market

	2014-19	2022	2023	2024	2025
Housing sales (Thousand)	428	650	586	565 (=)	566 (=)
New building permits (Thousand)	73	109	109	115 (=)	125 (=)
House price (appraisal, MIVAU) Year-on-year (%)	1.6	5.0	3.9	4.4 (4.0)	2.8 (=)
House price (transaction, INE) Year-on-year (%)	4.4	7.4	4.0	5.0 (4.0)	2.8 (=)

Note: Previous forecast in parenthesis (Feb. 2024).

CaixaBank Research housing clock



Note: The period 2010-2011 is excluded due to the impact of fiscal incentives.
Source: CaixaBank Research, based on data from INE and MIVAU.

- **Housing price growth picked up in Q2 2024:** 7.8% YoY according to INE price index (transaction price) and 9.4% YoY according to Registrars (repeated sales). Q2 data still not available for MIVAU (appraisal value). The introduction of this data, above expectations, will lead to a new upward revision of **the housing prices forecast for 2024 and 2025**.
  - The number of **housing sales** has decreased by 4.5% YoY in Jan.-June 2024. Despite this slight decline, housing sales continue to be at elevated levels from an historical perspective (570k cum. 12 months) due to strong demand factors, especially population growth.
  - **Housing supply continues to be very limited** and well below net household creation, which is pushing up housing prices. New building permits increased by 14.8% YoY in Jan.-May 2024 and we expect them to continue to gradually increase but it would be insufficient to close the gap with demand.
- **Outlook**: The supply-demand imbalance in the real estate market, the improvement in the economic outlook and the gradual decrease in interest rates suggest that the real estate market will gain traction in the coming quarters. The factors that have supported the real estate market will continue to be present (positive net job creation supporting growth in households' labor income, dynamic migration flows, resilience of foreign demand, favorable financial situation of households) and a relaxation in financial conditions will further support the demand for housing. We highlight a risk of faster house price increase than expected in our central scenario if the supply of housing does not pick up as projected.

Dynamic fiscal revenue growth in 2024 and gradual path of public deficit reduction in the medium term

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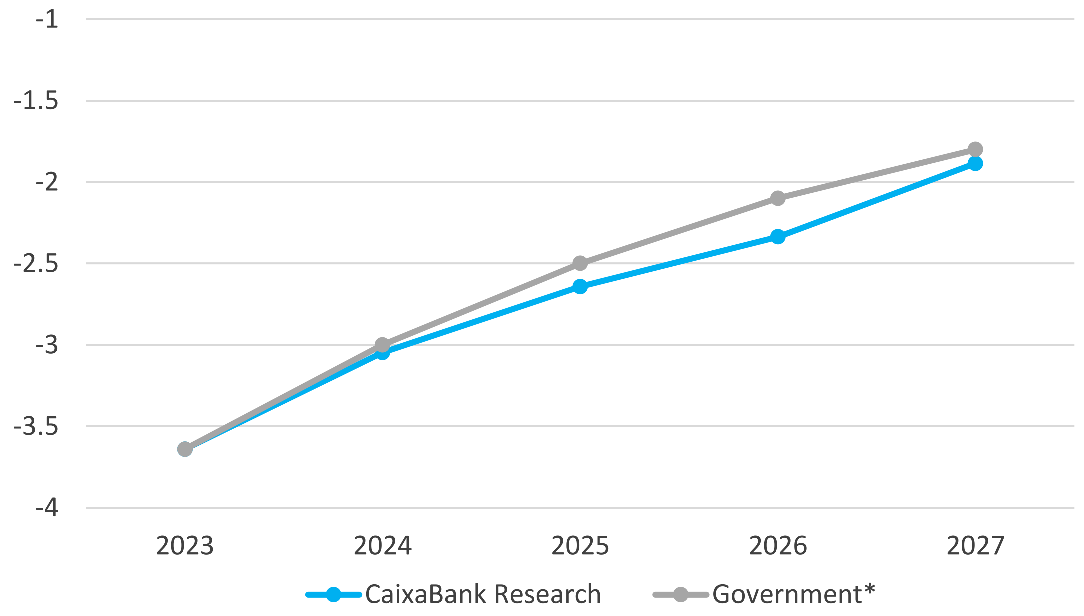
Public balance

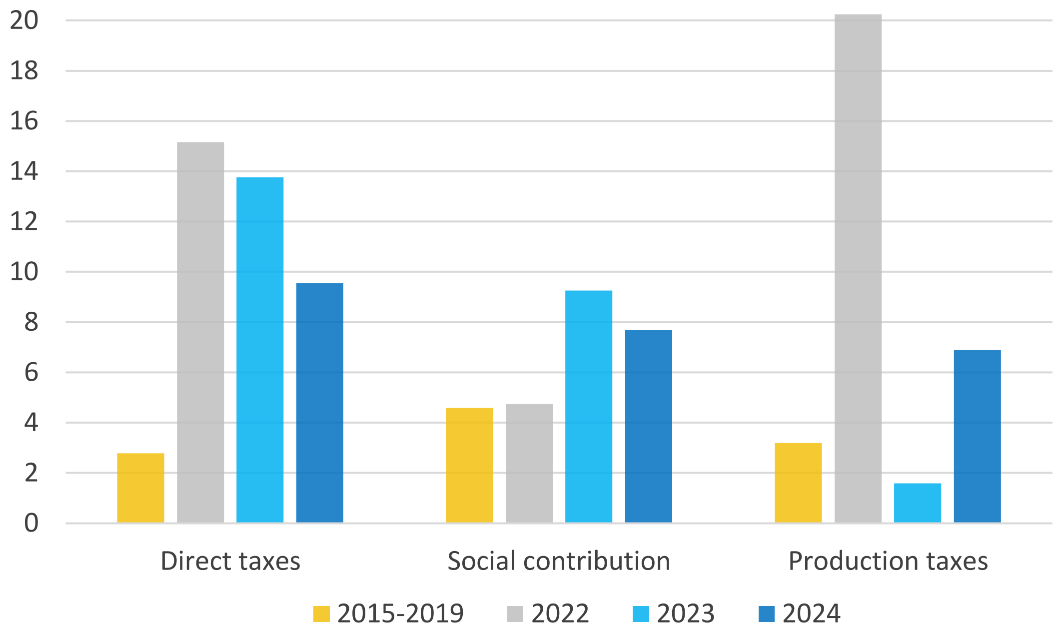
In % of GDP



Note: Deficit targets for 2025-2027 approved by the Council of Ministers, but subsequently rejected by Congress.
Source: CaixaBank Research.

Tax revenues: consolidated general government taxes*

Year-on-year change in the cumulative figure for the year to May in all years (%)



Note: *excluded Local Corporations.
Source: CaixaBank Research, with data from IGAE.

- **Direct taxes and social security contributions are growing at a good pace.** While public revenues grew at a year-on-year rate of 5.8% through May, expenditures grew by 4.8%, favoring a slight reduction in the deficit. Our forecasts are consistent with this data and point to a 3% deficit in 2024, in line with the government.
- In the medium term, dynamic revenues and relatively moderate expenditure growth (somewhat above inflation) in line with the new European fiscal rules should facilitate a gradual reduction in the deficit.
- **Expenditure ceiling and PGE25:** The ceiling in 2025 will be $195.4bn (excl. European funds), an increase of 3.2% over 2024 and which contrasts with the more than 9% increase in the 2024 ceiling over 2023 (although in the end there was no budget in 2024). Congress' rejection of the deficit target path for 2024-2027 increases the uncertainty as to whether the government will be able to approve a Budget for 2025.

NGEU: The Recovery Plan keeps being deployed

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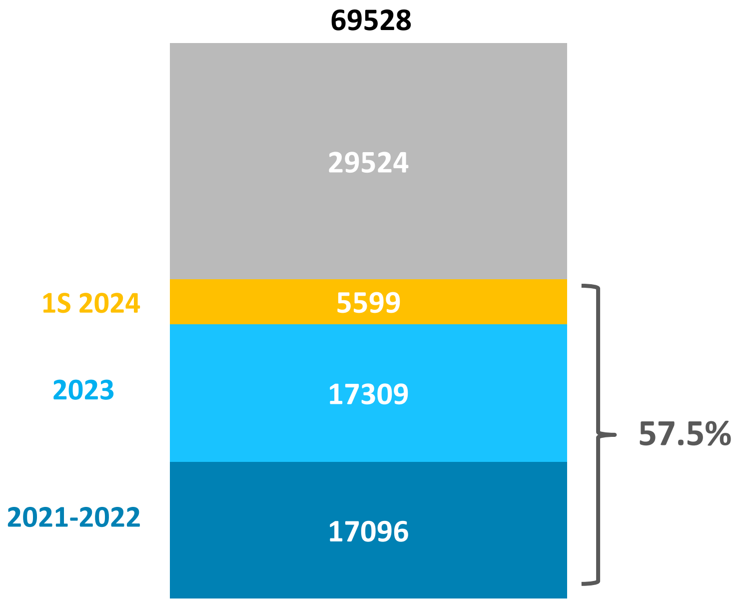
Execution of PRTR

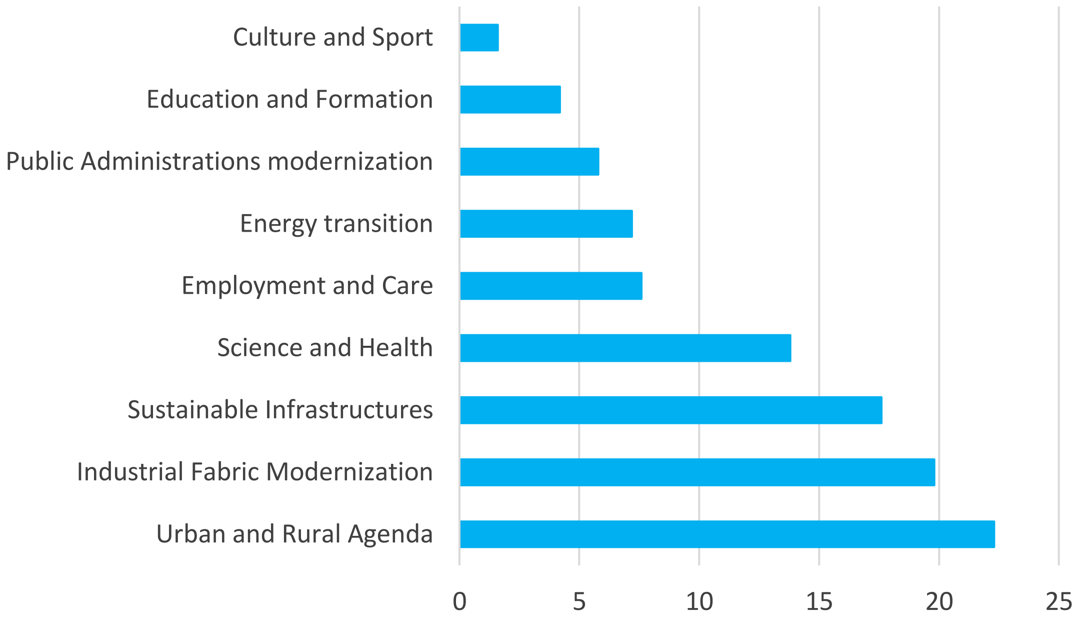
Phase 1 (Million euros)



Note: Execution is defined as the awarding of tenders and grants.
Source: CaixaBank Research, based on data from the ELISA portal, Government of Spain.

Resolved calls by area

% over the total resolved



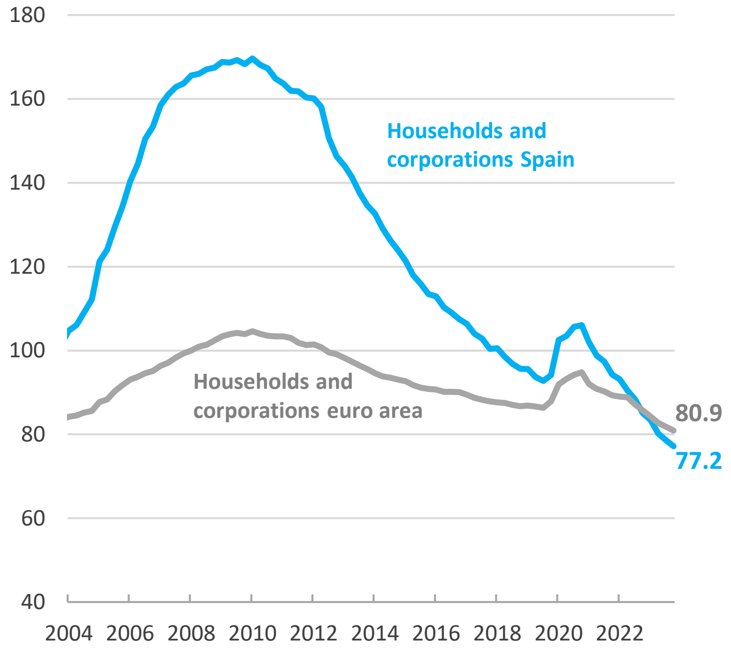
Source: CaixaBank Research, based on data from the ELISA portal, Government of Spain.

- As of June 30, tenders and grants have been resolved for **€40 billion**, 57.5% of the first phase of the original Plan. In 1H24, €5.6 billion have been executed compared to €7.2 billion in the first half of 2023.
- Spain received in July from the European Comission **the fourth disbursement of 9.9 billion**, 100 million less than the total. The Commission has satisfactorily evaluated 60 of the 61 milestones of the fourth disbursement, including the reform of unemployment benefits, the housing law and the second part of the pension reform.
- The Government has activated the €22 billion of the **ICO Verde** and the €8.15 billion of the **ICO de Empresas y Emprendedores** lines of loans of the Addendum.
- The agreement between the MIVAU and the ICO has been signed to mobilize the €4bn in loans of the Addendum to the **ICO Housing Line** for the construction of social and affordable housing. It is expected that the ICO will mobilize €2bn and the financial entities adhered to the loan line will mobilize the remaining €2bn.

Banking system: improved credit dynamics for all segments

Bank credit to the private sector

% GDP



Note: latest data available as of Mar-24.
Source: Caixabank Research with data from ECB, Eurostat.

Private domestic credit

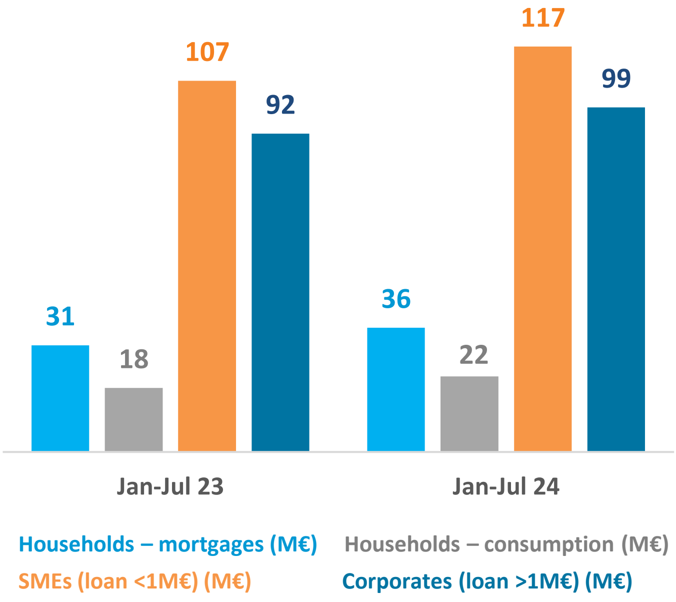
Year-on-year (%)

	Dec-23	Jul-24 (latest)	2024 (forecast)
	% yoy	% yoy	% yoy
Total credit	-3.4%	-1.1%	-0.2%
Households	-2.5%	-0.7%	0.4%
Housing mortgages	-3.2%	-1.0%	-0.1%
Other purposes	-0.5%	0.3%	1.6%
Of which consumption	2.8%	5.7%	4.1%
Businesses	-4.7%	-1.7%	-1.1%
Non-real estate developers[1]	-3.2%	-3.2%	-
Real estate developers[1]	-5.8%	-5.8%	-

Note: (1) latest data available Mar-24.
Source: Caixabank Research with data from Bank of Spain.

New lending activity by sector

YTD, €Bn

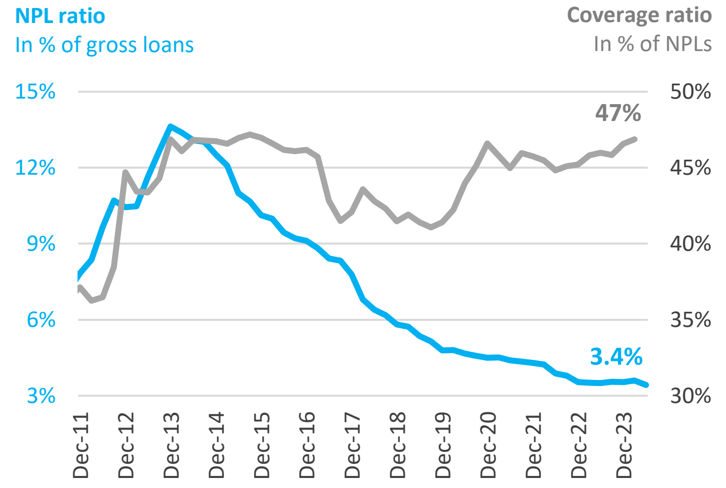


Source: Caixabank Research with data from Bank of Spain.

- **Households and corporate debt levels** (including debt securities) remain below euro area averages in 1Q24. Both sectors have deleveraged in terms of GDP, reaching levels below of pre-pandemic.
- **New mortgage production** shows notable dynamics in 2024 with the change in interest rate expectations.
- **New lending for consumption** increases favored by improvements of consumer confidence, and credit for consumer durables, exceeding pre-COVID-19 levels.
- **New lending to corporates** grows both in loans under 1M€ and in larger ones.
- **Consequently, the stock of credit to the Spanish resident private sector is moderating its fall rate**. We expect credit levels to stabilize in absolute terms during 2024 and start growing next year, albeit at a rate below nominal GDP growth.

Banking system: solid financials

NPLs and coverage ratios[1]

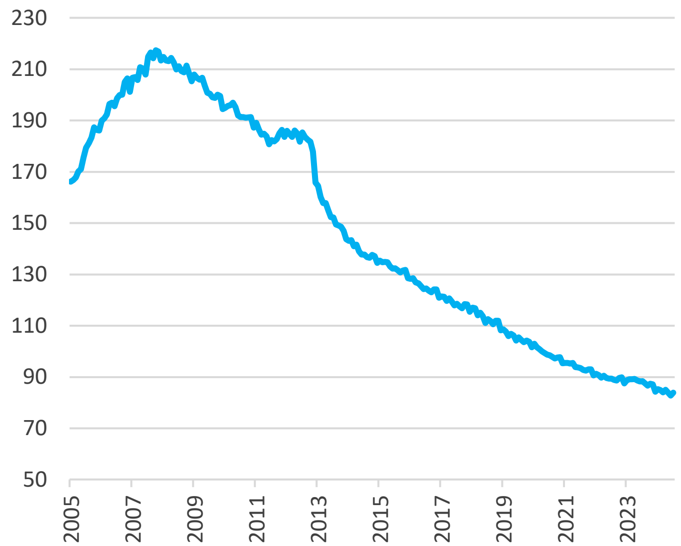


Cost of risk[2]
0.4% in Q1 2024
0.4% in Q2 2024

Note: (1) latest available data Jun-24 and Mar-24, respectively. (2) Spanish business. Accumulated 12 months based on the average of the 6 largest institutions.
Source: CaixaBank Research with data from BoS and Bank's financial statements.

HHs & NFCs loan to deposit ratio

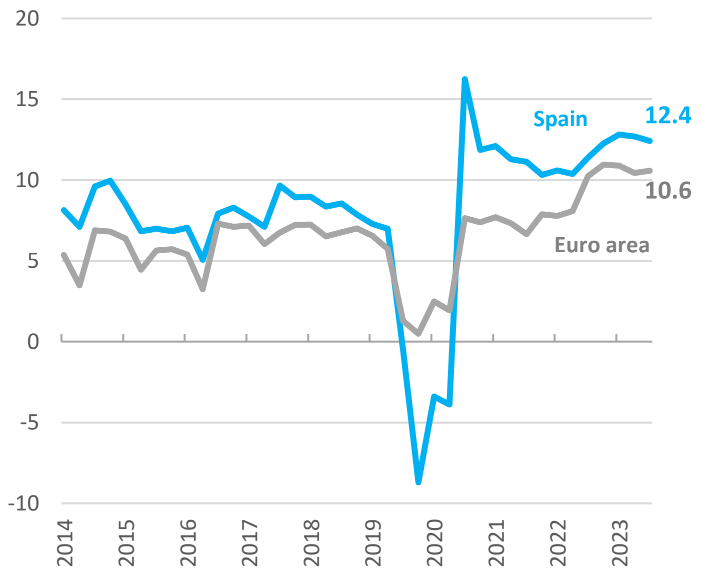
Percentage (%)



Note: loans and deposits to residents in Spain, on a non-consolidated basis. Latest data available Jul-24.
Source: CaixaBank Research with data from Bank of Spain.

Banks' profitability

ROE % (Q1 24; annualised)



Source: CaixaBank Research with data from EBA (Dashboard-Q1 24).

- **NPLs remain below 4%,** despite substantially higher interest rates. The share of stage 2 loans on a group level remained unchanged at 7.2% in 1Q24, remaining below EU level. At the end of 2022, the Government and the banks agreed to expand the scope of the Code of Good Practice (CGP) to protect households under financial strain due to surging Euribor.
- **Households and non-financial corporation (NFCs) deposits exceed the peak levels previously attained in August 2022.** Deposits declined between 2H22-1H23 due to higher remuneration of other investment alternatives. Since then, seasonally adjusted data shows a positive trend (+4.3% yoy in Jul'24). Loan to deposit ratio remains stable at very comfortable levels (c. 90%)
- **Profitability is recovering (ROE stood at 12.4% in 1Q24)** thanks to the widening of the net interest margin and despite inflationary pressures and the extraordinary and temporary banking tax (4.8% on domestic net interest and fee income, where such income exceeds €800 million).
- **The capital position of Spanish banks remains comfortable with a 12.6% CET1 ratio in 1Q24.** Under the adverse scenario considered, the Bank of Spain's stress test[1] for 2023-2025 shows that the CET1 ratio for the Spanish banks as a whole would fall by 3.3 pp but would remain above the regulatory minimum. The Bank of Spain has initiated the procedure to revise the framework for setting the CCyB and to establish the buffer rate from 4Q24 at 0.5% (to be applicable from Oct'25). It will foreseeably raise to 1% from 4Q25 Q4 (to be applicable from Oct'26).

Note: (1) Forward-Looking Exercise on Spanish Banks (FLESB). Additional adverse shocks are applied to credit risk under the FLESB framework compared with the EBA exercise. Financial Stability Report Autumn, 2023. Bank of Spain.