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INTERNATIONAL ECONOMIES AND MARKET

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Deficit and debt on the rise: the future of the US' public finances
The decoupling of the US and China accentuates the fragmentation

PORTUGUESE ECONOMY
How is Portugal's household wealth distributed?

SPANISH ECONOMY

The factors driving Spanish household savings
Capital investment in Spain: comparison versus the euro area
Spanish firms' profitability and financing costs
The dynamics of services inflation in Spain

CaixaBank Research

MONTHLY REPORT - ECONOMIC AND FINANCIAL MARKET OUTLOOK

September 2024

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We are where we left off

The last few summers have been rather hectic. Between the pandemic, the tensions in international trade, the war in Ukraine, inflationary pressures and the shift in monetary policy, it has been difficult to wind down during the holidays. Fortunately, despite the financial cold drop at the beginning of August, this year has been different, at least in economic terms. The Spanish economy is where we left it, or even in slightly better shape than what we had anticipated. Shall we pick up where we left off?

The Spanish economy grew by 2.5% in 2023. This was much faster than expected, and during the early stages of this year it has maintained an equally vigorous growth rate. At the end of July, the National Statistics Institute published the GDP growth rate for Q2 and placed it at 0.8% quarter-on-quarter. This is the same growth rate as in Q1 and is somewhat higher than that anticipated by CaixaBank Research, as we had expected growth to stand at 0.5%. In addition, the composition of this growth was also favourable: both domestic and foreign demand provided a positive contribution to growth, with a special mention going to exports of goods, which posted an increase of 1.3% after a string of rather weak quarters. As for the breakdown by sector, of particular note was the buoyancy of the manufacturing industry, which recorded growth of 1.1%, as well as that of tourism.

The starting point is somewhat better than we expected before the summer break and this will force us to revise our GDP growth forecast for this year slightly upwards. Currently, the CaixaBank Research scenario forecasts growth of 2.4% for 2024, whereas the latest data indicate that it will be above 2.5%. For instance, incorporating the figure for Q2, while keeping the growth forecast for the second half of the year unchanged, would bring growth in 2024 as a whole up to 2.7%. Beyond this revision, the underlying trends remain unchanged and continue to point to a moderate slowdown over the coming years, with growth likely to lie slightly above 2%, as contemplated in the current forecast scenario.

On the one hand, foreign demand is expected to lose some steam. The euro area maintains a very modest pace of growth, while the US and Chinese economies are slowing. On the other hand, the tourism sector, after recovering and far exceeding pre-pandemic levels, is bound to experience a moderation in its growth rate. The indicators in July continue to show significant growth (the expenditure of international tourists grew by 12,1% compared to July last year), but the pace is now slower than it was at the beginning of the year, when growth of 27.6% was recorded for Q1 as a whole.

Domestic demand, on the other hand, could experience an acceleration in its growth rate, especially in the case of household consumption and investment, and this would partially offset the weaker foreign demand. Three factors should help in this regard. Firstly, the completion of the inflationary cycle. In August, inflation fell to 2.2% and there is no indication that it will rise again to the heights observed a few quarters ago. Over the coming months, we could see it rebound to around 3%, given the rate at which food and services prices are still rising. However, on the whole households should continue to recover their lost purchasing power.

The decline in inflation will allow the ECB to continue to lower interest rates. This is the second element that ought to encourage greater growth in consumption and investment over the coming quarters, especially in 2025 and 2026. The interest rate expectations implicit in money market prices reflect that the ECB is expected to cut its benchmark rate by 1.5 pps between now and December 2025, and that the 12-month Euribor, which currently lies at 3.1%, could fall slightly below 2.5%. Finally, the financial position of households and businesses, with healthy levels of debt below those of the euro area as a whole, should also facilitate a revival of consumption and investment.

The main risks surrounding the forecast scenario for Spain's economy remain external. The US presidential election is undoubtedly the next milestone on the path ahead, given its implications for international geopolitics, as well as for trade tariffs. The slowdown of the Chinese economy and its ability to further adjust its real estate sector in a gradual and orderly manner is also another key aspect to follow. Moreover, future developments in the various ongoing armed conflicts, and the geopolitical tensions surrounding them, will be decisive. Fortunately, we are where we left off or even slightly better, but, unfortunately, the risks that surround the Spanish economy remain ever-present.

Oriol Aspachs
September 2024

Chronology

AUGUST 2024

1-5 Strong turbulence in the financial markets triggered by the Bank of Japan's decision and worse-than-expected employment data for July in the US.
12 OPEC revises its forecasts for global oil demand in 2024 and 2025 slightly downwards, mainly due to slowing consumption in China.
23 The Fed will begin cutting interest rates in September, according to Powell's speech in Jackson Hole.

JULY 2024

26 The Olympic Games begin in Paris.
31 The Bank of Japan announces a surprise rate hike to 0.25% (up from the previous 0.0%-0.1% range), marking the highest level since late 2008.

JUNE 2024

2 OPEC agrees to extend its cuts to crude oil production (3.66 million bpd through to December 2025 and 2.2 million bpd to September 2024, but with a gradual withdrawal through to September 2025).
6 The ECB cuts rates by 25 bps, placing the depo rate at 3.75% and the refi rate at 4.25%.

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%.

Agenda

SEPTEMBER 2024

3 Spain: registration with Social Security and registered unemployment (August).
12 Portugal: coincident economic activity indicators (August).
Governing Council of the European Central Bank meeting.
13 Spain: Moody's and S&P ratings.
17 Spain: quarterly labour cost survey (Q2).
17-18 Federal Open Market Committee meeting.
20 Portugal: Fitch rating.
Portugal: home prices (Q2).
22 Spain: balance of payments and NIIP (Q2).
23 Spain: loans, deposits and NPL ratio (July and Q2).
Portugal: GDP breakdown (Q2).
26 Portugal: NPL ratio (Q2).
27 Spain: GDP breakdown (Q2).
Spain: CPI flash estimate (September).
Euro area: economic sentiment index (September).
30 Spain: household savings rate (Q2).
Portugal: CPI flash estimate (September).

OCTOBER 2024

1 Portugal: employment and unemployment (August).
Euro area: CPI flash estimate (September).
2 Spain: registration with Social Security and registered unemployment (September).
6 European Council meeting.
9 Spain: financial accounts (Q2).
10 Portugal: financial accounts (Q2).
15 Portugal: bank loan survey (October).
17 Governing Council of the European Central Bank meeting.
18 China: GDP (Q3).
21 Spain: loans, deposits and NPL ratio (August).
25 Spain: labour force survey (Q3).
30 Spain: GDP flash estimate (Q3).
Spain: CPI flash estimate (October).
Portugal: GDP flash estimate (Q3).
Euro area: GDP (Q3).
Euro area: economic sentiment index (October).
US: GDP (Q3).
31 Portugal: budget execution (September).
Portugal: tourism activity (September).
Euro area: CPI flash estimate (October).

Summer storms and underlying trends

One more year, following the prevailing trend in most months of August, we witnessed a new episode of volatility in the markets at the beginning of the month. The pattern is well known: just as the summer is prone to extreme weather phenomena when pockets of cold air coincide with very warm temperatures on the sea surface, August is also often a tumultuous month for the financial markets, as the effect which unexpected announcements in the macroeconomic data, in corporate earnings or in the geopolitical sphere have on asset prices can be amplified by low levels of liquidity in the markets.

This time the spark was an unexpected rate hike in Japan, which caused a sharp appreciation of the yen, triggering the closure of carry-trade positions (low-cost financing denominated in the Japanese currency used to invest in higher-yielding assets in other locations). This thus entailed the sale of assets in the US, the euro area, etc. In addition to this sudden shift in financial flows, the US employment data for July fell short of expectations, increasing fears of a recession in the country, as did the earnings reported by some tech firms, which are beginning to reflect the time lag between the enormous investments required to avoid falling behind in the AI race and its monetisation.

All of the above provided a perfect breeding ground for corrections in the stock markets, which were at high temperatures following the gains recorded in the first seven months of the year (+11% between January and July), with the additional potential instability posed by the significant accumulation of leveraged positions during the spring in a low-volatility environment. The cumulative fall from peak to trough recorded in the stock markets was 8.2% in developed economies and 9.3% in emerging markets. Most notably, some of the big tech firms, such as NVDIA and TESLA, experienced corrections in excess of 25%, while Japan's Nikkei 225 index suffered the biggest setback (12.5%) in a single session recorded in recent decades. The good news is that, after the storm, calm has returned, now that the economic activity data published throughout August has once again revealed that the soft-landing scenario is currently the most likely, while inflation on both sides of the Atlantic is making progress on its path towards 2%.

This normalisation of the financial situation following the summer storms has also been facilitated by the clarification of the prospect of monetary easing in the US, after Jerome Powell confirmed in Jackson Hole that the Fed will begin to cut rates from September. In his speech, the chair of the American central bank pointed out that, now that progress has been made in the battle against inflation, it is time to focus on economic activity and employment, and that means that the current tone of monetary policy is excessively restrictive, so it is time to begin returning to neutral territory. In our opinion, this will mean placing interest rates in the 3%-3.25% range by mid-2026, and along the way the Federal Reserve will take the opportunity to review its monetary policy strategy, which has been somewhat stagnant since its last update in 2020. A similar exercise will be carried out by the ECB, although Lagarde has already stated that there will be no adjustment of the target this time. In the case of the euro area, we believe that, following the structural changes of recent years, the neutral interest rate will lie in the 2%-2.25% range. This is thus the theoretical medium-term terminal rate, subject to any new surprises that may arise on the horizon.

Therefore, with the yo-yo movement in the markets in August, it has once again become evident that in the absence of any changes in the underlying trends, it is best not to overreact to spikes in financial instability but rather to rely on the soundness provided by portfolios that are well-diversified in terms of both assets and regions. In fact, an investor returning from an idyllic holiday destination without any access to the internet or social media (if that still exists) would have seen good returns on a 60/40 portfolio, avoiding the scare of the first week of the month.

In short, having overcome the traditional financial cold drop of the summer, the underlying trends in the business cycle will continue to play a key role, and these will be determined by the central banks' ability to finish the work of the last two years without causing a sharp adjustment in economic activity. For now, the data continue to support the soft-landing hypothesis. However, this does not mean that we will be immune from potential turbulence in the markets over the coming months, given the high levels of geopolitical risk and the fact that monetary policy will remain in restrictive territory for some time to come. In the meantime, we will be preparing the popcorn or coffee for the long night of 5 November.

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	0.67	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	3.25	2.50
ECB refi	3.05	0.69	0.00	2.27	4.50	3.40	2.65
€STR	–	–0.55	–0.58	1.57	3.90	3.18	2.45
1-month Euribor	3.18	0.42	–0.60	1.72	3.86	3.18	2.47
3-month Euribor	3.24	0.57	–0.58	2.06	3.94	3.19	2.49
6-month Euribor	3.29	0.70	–0.55	2.56	3.93	3.20	2.52
12-month Euribor	3.40	0.86	–0.50	3.02	3.68	3.20	2.55
Germany							
2-year government bonds	3.41	0.27	–0.69	2.37	2.55	2.60	2.05
10-year government bonds	4.30	1.38	–0.31	2.13	2.11	2.40	2.10
Spain							
3-year government bonds	3.62	1.53	–0.45	2.66	2.77	2.71	2.38
5-year government bonds	3.91	2.01	–0.25	2.73	2.75	2.79	2.49
10-year government bonds	4.42	2.96	0.42	3.18	3.09	3.20	2.90
Risk premium	11	158	73	105	98	80	80
Portugal							
3-year government bonds	3.68	3.05	–0.64	2.45	2.33	2.94	2.60
5-year government bonds	3.96	3.63	–0.35	2.53	2.42	2.93	2.65
10-year government bonds	4.49	4.35	0.34	3.10	2.74	3.10	2.85
Risk premium	19	297	65	97	63	70	75
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	1.8	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	1.7	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	2.2	4.6
Construction	5.7	–3.4	0.4	2.6	2.3	2.9	3.1
Domestic demand (vs. GDP Δ)	4.5	–0.9	6.6	2.9	1.7	2.0	2.3
Exports of goods and services	4.7	1.1	13.5	15.2	2.3	3.6	2.4
Imports of goods and services	7.0	–1.0	14.9	7.0	0.3	2.9	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	1.6	1.7	2.0
Government consumption	2.3	–0.2	4.5	1.4	1.0	1.0	0.8
Gross fixed capital formation	–0.4	–0.8	8.1	3.0	2.6	2.9	5.7
Capital goods	3.2	2.0	15.3	5.5	4.6	–	–
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	1.5	2.5
Exports of goods and services	5.3	2.2	12.3	17.4	4.1	3.9	5.0
Imports of goods and services	3.6	1.5	12.3	11.1	2.2	3.3	5.4
Gross domestic product	**1.5**	**–0.2**	**5.7**	**6.8**	**2.3**	**1.8**	**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	6.6	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	2.8	3.1
Fiscal balance (% GDP)	–4.6	–5.1	–2.9	–0.3	1.2	0.3	0.4

Forecasts

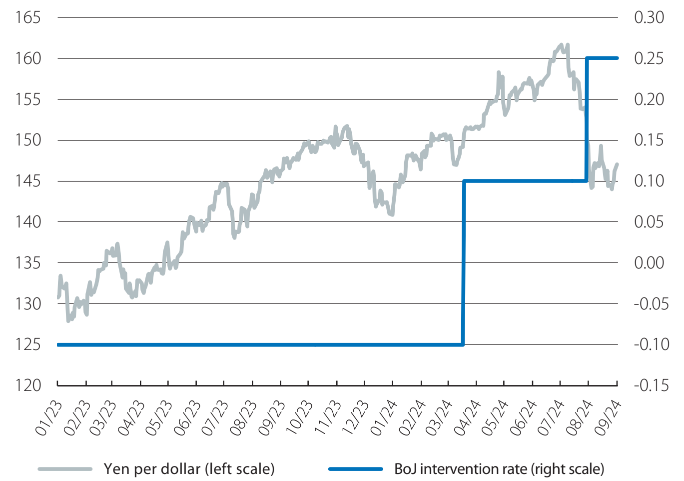
Volatile summer for the financial markets

Between the 2nd and 5th of August, the financial markets experienced their most turbulent sessions in years, triggered by hasty fears of a US recession and an unexpected decision by the Bank of Japan that caused a spike in volatility. Since then the markets have turned a page, rendering those declines of early August no more than a scare and restating the soft-landing scenario as being the most likely.

Anatomy of a fall. It all started on 31 July, when the Bank of Japan (BoJ) unexpectedly announced an increase in its benchmark interest rate from 0.10% to 0.25%. The surprise caused a rally in the value of the yen within the space of just a few days, and this triggered a sharp fall in the Japanese stock market and prompted the closure of carry-trade positions (whereby low-cost financing denominated in yen is used to invest in higher-yield assets). This, in turn, exacerbated the movements in the foreign exchange and stock markets. Two days after the BoJ's decision, the employment data for July in the US were published, with the figures falling somewhat short of expectations (see the International Economy - Economic Outlook section). This triggered fears of a possible recession, intensifying the state of nervousness around the globe. What began as a downturn in the Japanese stock market ended in a global sell-off of shares. Japan's Nikkei 225 index experienced its worst day in almost 40 years, falling 12.5%; the S&P 500 recorded its biggest fall since November 2022, while developed-economy stock markets fell to 8.2% below their July peaks. The dollar lost up to 3% of its value, while the yen appreciated by as much as 6%. The VIX volatility index reached heights not seen since the pandemic, further exacerbated by the low liquidity that is typical of the summer. The money markets, meanwhile, increased their expectation regarding the Fed's rate cuts for 2024 from 50 bps to 100 bps, placing rates within the 4.25%-4.50% range by the end of the year.

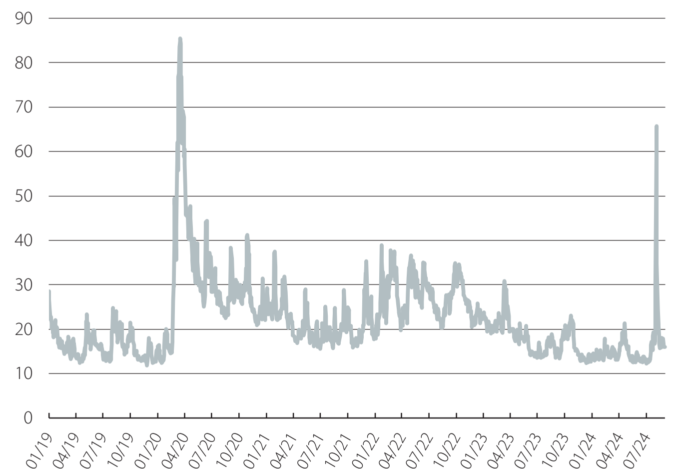
Anatomy of a recovery. Since then, calm seems to have gradually returned to the markets, supported by the latest activity and inflation data which paint a picture of a gentle slowdown scenario with inflation almost under control. Thus, most of the major stock market indices ended the month of August with gains of more than 1%, except the Nikkei 225, which, despite managing to recover much of the setback endured at the beginning of the month, closed slightly in red. In the euro area, the IBEX 35 performed particularly well, driven by the consumer sector. In the US the sector breakdown reveals that the recovery of equities presented a more defensive bias, led by sectors such as consumer staples and utilities. The big tech firms, meanwhile, lagged behind, with the Nasdaq closing the month below the S&P 500 and the Magnificent Seven climbing just 0.20% in August. After all, with the latest earnings season now concluded, the results of the big tech firms have highlighted once again the challenges of monetising AI in the short term.

Japan: official interest rate and foreign exchange rate
(Yen per dollar) *(%)*



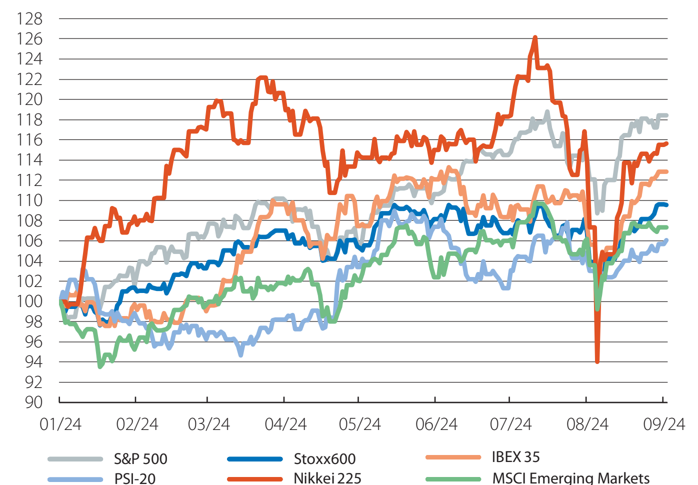
Source: *CaixaBank Research, based on data from Bloomberg and the Bank of Japan.*

VIX volatility index
Index (daily maximum)



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

Developed-economy stock markets
Level (100 = 1 January 2024)



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

The change of expectations regarding the Fed is here to stay, for now. The futures markets have also calmed down, albeit to a lesser extent. At the peak of the volatility, the markets severely penalised the Fed's decision to maintain interest rates in the 5.25%-5.50% range at its July meeting. They began speculating about a rate cut in the lead-up to the September meeting and assigned an almost 100% probability that the Fed would lower rates by 50 bps, instead of 25 bps. That probability is now at just 35%. What did not change was the expectation that the Fed will make 100 bps of cuts by the end of the year, compared to the 50 bps anticipated prior to the release of the employment data. Behind this expectation lies the shift in the Fed's focus from inflation to labour market risks, noting that any further cooling would not be welcome. In addition, Powell stressed that the Fed has ample room to act on any risk that might emerge, suggesting they could be more aggressive in their monetary easing. So, while the Fed is almost certain to lower rates in September, as Powell assured by stating that «the time has come for policy to adjust», the speed and intensity of subsequent movements will be determined by how things pan out in the labour market over the coming months. The adjustment of expectations in the US caused treasury yields to fall by as much as 35 bps in August in the case of the 2-year yield, which is especially sensitive to short-term monetary policy.

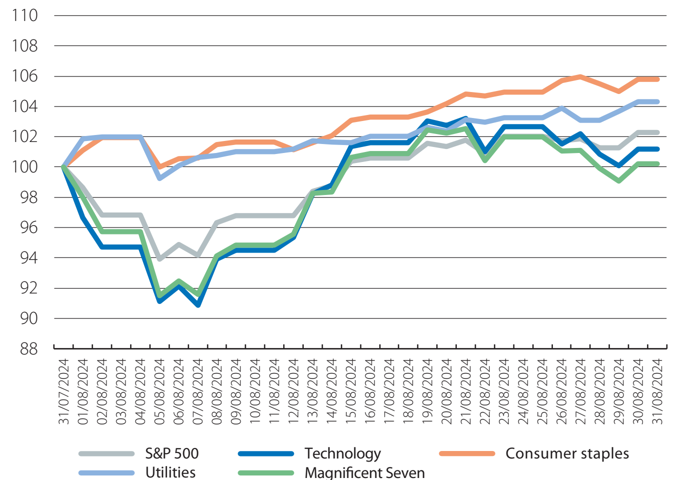
With no changes ECB's, caution is advised. The adjustment of expectations for the ECB was less pronounced and, after some initial volatility due to the contagion effect of events in the US, expectations once again settled on two rate cuts of 25 bps each for the rest of the year. The ECB's position, generally speaking, has been that the recent data open the door to rates being reduced even further, provided that the disinflationary process continues, and that the slowdown in wage growth is a particularly promising sign. That said, the ECB has also generally adopted a cautious tone and has advocated a gradual approach to monetary policy formulation. Consequently, sovereign yields in the euro area ended the month almost flat.

The dollar loses steam. The foreign exchange markets have felt much of the impact of the shift in interest rate expectations in the US. The dollar weakened 2.30% against its main peers, and against the euro it reached 1.12 dollars/euro, before finally closing at 1.10 dollars/euro. The yen, meanwhile, oscillated in the 154-144 yen/dollar range, finally settling at around 146 yen/dollar, representing an appreciation of 5% since the BoJ's announcement.

Commodities remain on the sidelines. Their market prices thus continued to respond mainly to the fundamentals of each market, and even the increase in geopolitical tensions in the Middle East was insufficient to cause a significant rise in oil and gas prices. Towards the end of the month, downward pressures on oil prices increased due to growing doubts about demand in the US and China amid continued weakness in manufacturing activity coupled with an increase in global crude oil supply. The Brent barrel price reached around 73 dollars, its lowest level this year, undoing the gains accumulated in 2024.

Sectors of the S&P 500

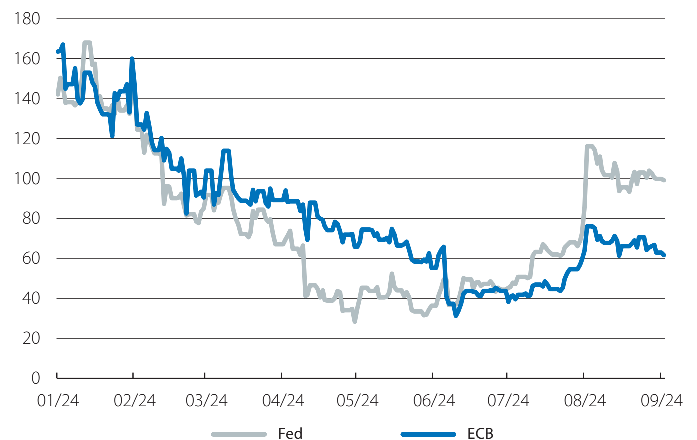
Level (100 = 31 July 2024)



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

Expected interest rate cuts by the end of December 2024

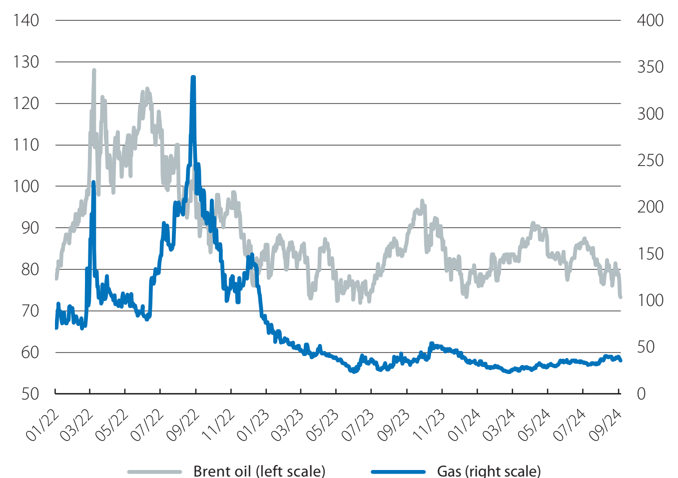
(bps)



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

Oil and gas prices

(Dollar/barrel) *(Euro/MWh)*



Note: *TTF natural gas and Brent crude oil.*
Source: *CaixaBank Research, based on data from Bloomberg.*

Interest rates (%)

	31-August	31-July	Monthly change (bp)	Year-to-date (bp)	Year-on-year change (bp)
Euro area					
ECB Refi	4.25	4.25	0	–25.0	25.0
3-month Euribor	3.49	3.65	–16	–41.9	–10.7
1-year Euribor	3.09	3.39	–30	–42.5	–105.7
1-year government bonds (Germany)	2.83	3.00	–18	–43.7	–79.1
2-year government bonds (Germany)	2.39	2.53	–14	–1.3	–86.9
10-year government bonds (Germany)	2.30	2.30	0	27.5	–13.8
10-year government bonds (Spain)	3.13	3.12	2	14.0	–30.7
10-year government bonds (Portugal)	2.91	2.93	–1	25.5	–27.7
US					
Fed funds (upper limit)	5.50	5.50	0	0.0	25.0
3-month SOFR	5.02	5.24	–22	–31.5	–25.2
1-year government bonds	4.40	4.74	–34	–36.0	–99.4
2-year government bonds	3.92	4.26	–34	–33.3	–101.9
10-year government bonds	3.90	4.03	–13	2.4	4.9

Spreads corporate bonds (bps)

	31-August	31-July	Monthly change (bp)	Year-to-date (bp)	Year-on-year change (bp)
Itraxx Corporate	52	55	–2	–6.2	–21.1
Itraxx Financials Senior	60	62	–1	–6.7	–24.1
Itraxx Subordinated Financials	107	111	–4	–15.4	–50.7

Exchange rates

	31-August	31-July	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
EUR/USD (dollars per euro)	1.105	1.083	2.1	0.1	1.2
EUR/JPY (yen per euro)	161.490	162.360	–0.5	3.7	2.3
EUR/GBP (pounds per euro)	0.841	0.842	–0.1	–2.9	–2.1
USD/JPY (yen per dollar)	146.170	149.980	–2.5	3.6	1.0

Commodities

	31-August	31-July	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
CRB Commodity Index	536.4	535.2	0.2	5.1	–3.0
Brent ($/barrel)	78.8	80.7	–2.4	2.3	5.6
Gold ($/ounce)	2,503.4	2,447.6	2.3	21.3	30.3

Equity

	31-August	31-July	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
S&P 500 (USA)	5,648.4	5,522.3	2.3	18.4	26.8
Eurostoxx 50 (euro area)	4,958.0	4,872.9	1.7	9.7	12.7
Ibex 35 (Spain)	11,401.9	11,065.0	3.0	12.9	18.2
PSI 20 (Portugal)	6,760.2	6,708.4	0.8	5.7	12.9
Nikkei 225 (Japan)	38,647.8	39,101.8	–1.2	15.5	14.5
MSCI Emerging	1,099.9	1,084.8	1.4	7.4	9.4

With inflation relatively under control on the international stage, the focus is now on growth

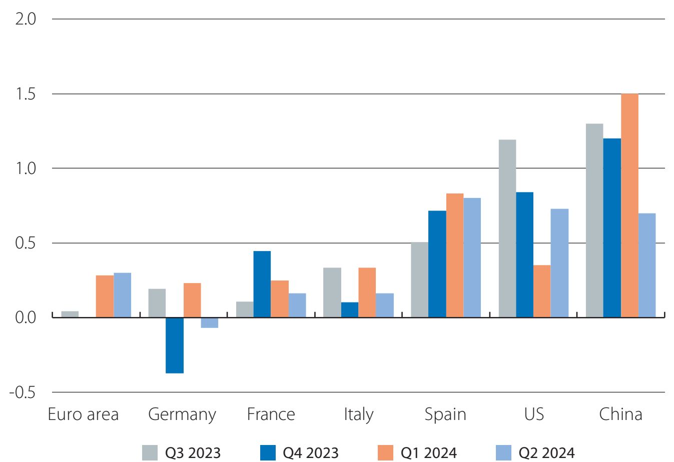
The global economy continues to grow at different speeds in Q2. The US continues to show remarkable resilience and surprised analysts by growing 0.7% quarter-on-quarter (vs 0.4% in Q1), which will automatically lead to an upward revision of our growth forecast for 2024 (currently 2.4%). Meanwhile, the UK and Japan are growing at rather high rates (0.6% and 0.8%, respectively). The euro area, for its part, places its quarterly growth at 0.2%, after 0.3% in Q1, but there is substantial disparity between countries. Germany has disappointed by contracting 0.1%, while France and Italy grew slightly above expectations (both 0.2%), and Spain stood out by repeating the strong 0.8% growth of Q1. Finally, China disappointed by growing at a rate of just 0.7%, the lowest in two years. In Q3, it seems unlikely that growth in the major economies will accelerate relative to Q2.

The US labour market is beginning to show signs of moderation. The employment data have been one of the major protagonists of the last month. In July, non-agricultural job creation disappointed by standing at only 89,000 jobs (after a downward revision), while the unemployment rate rebounded 0.2 pps to 4.3%. The market reaction was significant (see the Financial Markets Economic Outlook section) due to the apparent sign of recession indicated by the rise in unemployment: the Sahm Rule states that, when the average unemployment rate for the past 3 months exceeds the lowest level of the last 12 months by 0.5 pps, we are on the verge of a recession. We believe that this hypothesis is excessive and that it also does not match the message sent by job creation in August: 142,000 new jobs and an unemployment rate that fell 0.1 pp to 4.2%. What is evident is that in recent months job creation is slowing down (the average monthly creation in the first half of the year exceeded 200,000). However, this pattern reflects an orderly normalisation of the labour market, consistent with a steady slowdown of the economy in the second half of the year due to the impact of the monetary tightening process. Therefore, we believe that the likelihood of a recession in the short term is very small.

The main business climate and consumer confidence indicators, meanwhile, suggest that we could see a greater cooling of the industrial sector in Q3. The PMIs for July (54.3) and August (54.1) are above the average for Q2 (53.5) and clearly exceed the 50-point threshold which denotes positive growth. This good performance is likely explained by the renewed dynamism observed in services (55.2 in August), which more than offset the sharp deterioration recorded in industry (48.0). The hard data for July point in this direction: the monthly rates for retail sales grew by 1.0% and household consumption by 0.4%, while industrial production fell by 0.6% and orders of capital goods, excluding transport and defence (a proxy for investment in fixed capital), fell by 0.1%.

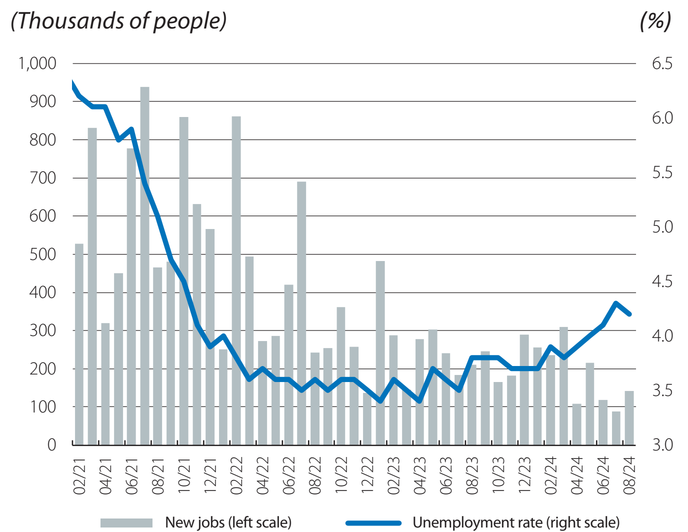
US inflation continues its slow downward trickle. In July, both headline and core inflation fell 0.1 pp, to 2.9% and 3.2%, respectively. The private consumption deflator, meanwhile, kept its year-on-year growth rate unchanged at 2.5% for the total

Global: GDP
Quarter-on-quarter change (%)



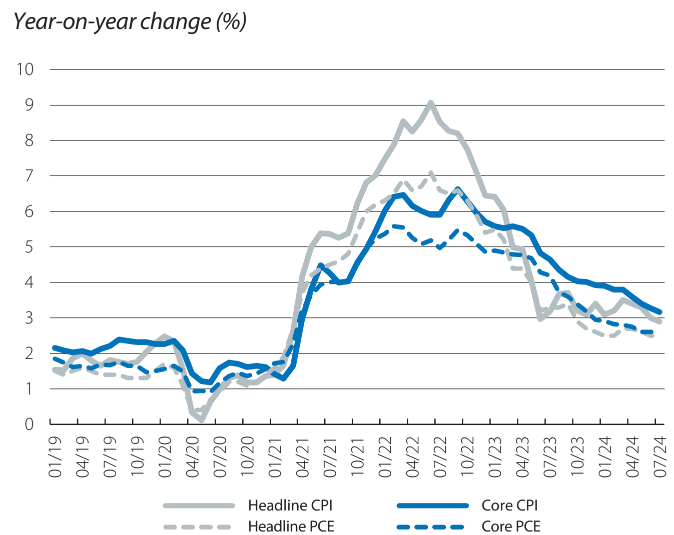
Source: *CaixaBank Research, based on data from Eurostat, the Bureau of Economic Analysis and the Statistics Office of China.*

US: labour market
(Thousands of people) *(%)*



Source: *CaixaBank Research, based on data from the Bureau of Labor Statistics.*

US: measures of inflation
Year-on-year change (%)



Source: *CaixaBank Research, based on data from the Bureau of Labor Statistics.*

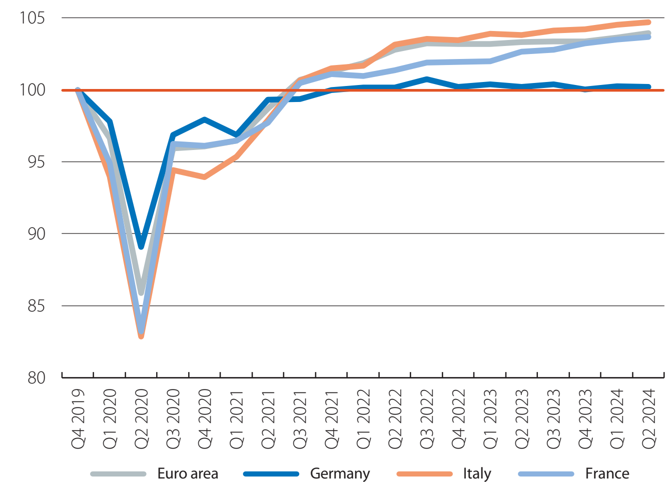
rate and at 2.6% for the core index. Although inflation has slowed its convergence towards the 2.0% target rate in recent months, expectations are well anchored, which explains the change in the Fed's discourse (see the Financial Markets Economic Outlook section).

Germany's weakness holds back the euro area as a whole. Germany's GDP contracted in Q2 (–0.1% quarter-on-quarter) and the pattern in the main industrial climate and confidence indicators over the summer render the chances of a significant rebound in economic activity in Q3 somewhat unlikely. According to the ZEW, in August the percentage of respondents who see no change in the situation rose to almost 50%; the Ifo fell in July and August, standing at 86.6 (100 indicates growth at around its average rate), and the PMIs fell over the summer months below the 50-point threshold which indicates positive growth. All the indicators suggest that the economy will not be able to recover the lost ground in the short term, thus a downward revision of the already modest 0.2% growth estimated for 2024 is required. With regard to the other large economies in the region, the «pull effect» for the French economy of the Olympic Games in Paris stands out: the business climate and confidence indicators in August reached levels compatible with growth in Q3 exceeding that of Q2 thanks to the services sector. Consequently, the GDP of the euro area as a whole could maintain the growth rate recorded in Q2 in Q3, although the risks are concentrated to the downside.

The higher inflation in services counteracts the lower energy prices in the euro area. Headline inflation fell 0.4 pps in August to 2.2%, while core inflation fell 0.1 pp to 2.8%. In addition to the significant fall in energy prices (–3.0% vs. 1.2%), there was also a slowdown in the price of goods (0.4% vs. 0.7%), indicating that the disinflationary process is beginning to spread to more components of the price index. In addition, the moderation in negotiated wages (3.6% year-on-year in Q2 vs. 4.7%) reduces the risk of second-round inflationary tensions. Nevertheless, inflation in services remains rather high and in August it even rebounded 0.2 pps to 4.2%, marking its highest level since October 2023, although the impact of the Paris Olympics must be taken into account.

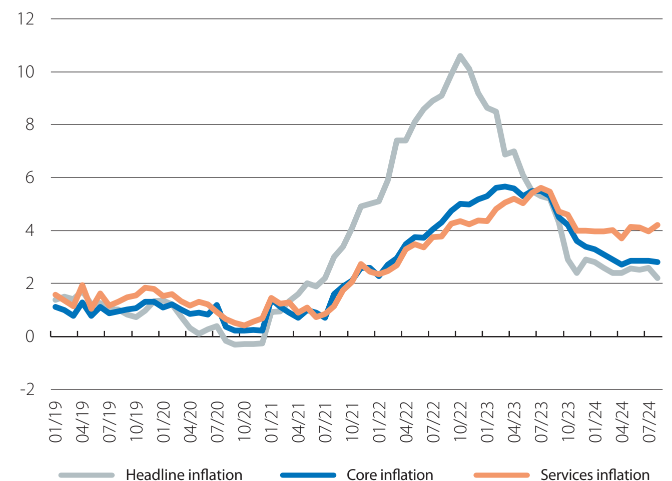
Modest outlook for the Chinese economy in Q3. The residential sector remains the biggest drag on the Chinese economy: home prices continue to fall and in July they fell relative to their cyclical peak by 7.6% for new housing and by around 14% in in the case of existing housing. In addition, the number of homes for which construction was started fell by more than 23% in the current year to July and the number of homes completed, by almost 22%. Investment in fixed assets is also struggling to bounce back, and in the year to date up until July the growth of this variable slowed to 3.6% (3.9% up until June). Consumption is also struggling to gain momentum and the apparent recovery in retail sales in July (2.7% year-on-year vs. 2.0%) responds to a base effect, with a breakdown by component that shows that households are cutting back on anything they can other than essential goods. Industrial production also lost some momentum in July (5.1% year-on-year vs. 5.3% previously), most notably in the case of car production: 4.4% year-on-year, compared to 9.0% on average in the first half of the year, and a far cry from the double-digit growth of the previous years. In short, this evidence of a slowdown would justify greater fiscal stimulus to ensure that the growth target of 5.0% in 2024 is achieved.

Euro area: real GDP
Index (100 = Q4 2019)



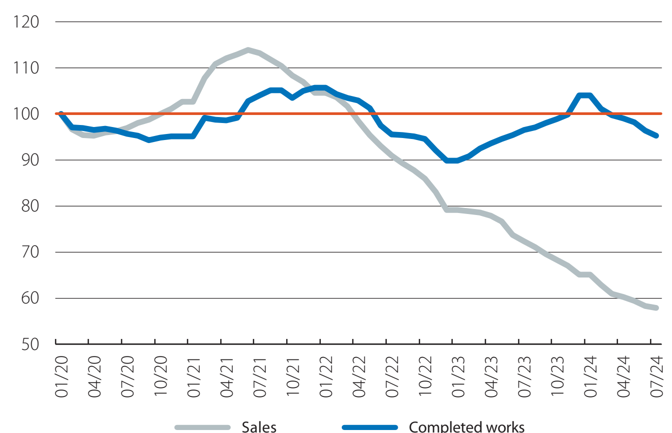
Source: *CaixaBank Research, based on data from Eurostat.*

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



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

*China: residential sector indicators **
Index (100 = January 2020)



Note: ** The data refer to the total surface area (in million m2) built and sold, and are 12-month averages (excluding the months of January and February each year).*
Source: *CaixaBank Research, based on data from the National Statistics Office of China.*

Deficit and debt on the rise: the future of the US' public finances

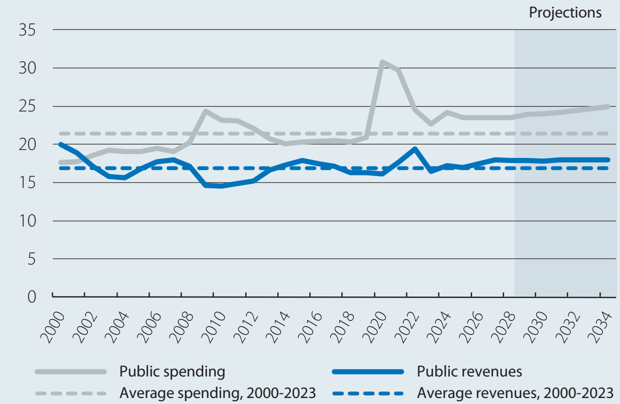
Ever year, the US Congressional Budget Office (CBO) publishes a report with 10-year projections for public revenues and expenditure, the resulting surpluses or deficits, and the public debt required to finance the federal government. These projections are prepared on the assumption that, over the next decade, both revenues and expenditure will follow current policy trends and that inflation and GDP will grow at an average rate of 2.0% and 1.8%, respectively. As with all exercises of this nature, the projections published by the CBO are not intended to offer a precise measure of where the public accounts will stand in the future (no one can predict a change of legislation or an economic shock). They do, however, provide a clear picture of the current fiscal situation and how it might evolve under different assumptions.

With these considerations in mind, the report published in June by the CBO reveals that, in the absence of any substantial changes in the current fiscal policies, the public accounts would deteriorate significantly over the coming decade: by 2034 the deficit would represent 7% of GDP, well above the historical level of 3.7%, while public debt would continue to climb to new highs, reaching 122% of GDP.

Spending on debt interest and social programmes will increase total public spending

In 2024, public spending is estimated to reach 6.8 trillion dollars, while by 2034 it will reach 10.3 trillion. These sums represent 24% and 25% of GDP, respectively, compared to a historical average of 21%. This increase will be driven primarily by mandatory items, as well as by an increase in interest expenditures. Mandatory expenditures, which include commitments such as social security and healthcare, will be pushed up mainly by an ageing population and rising health costs.[1] In fact, by 2034, health expenditure as a proportion of GDP is expected to reach double the average of the last 50 years. Interest payments will also increase, going from 2.4% of GDP in 2024 to 4.1% in 10 years time. This will be this component's highest level since 1940 and places it at the same level as spending on Medicare,[2] primarily due to the rise in debt (the projected average 10-year treasury rate is 3.80%, which is similar to the average for the past 20 years). On the other hand, discretionary spending, which is approved annually by Congress and includes items such as defence, transportation and education,

US: CBO projections for public spending and revenues
(% of GDP)



Source: *CaixaBank Research, based on data from the US CBO and Department of the Treasury.*

is set to fall over the coming decade, reaching an all-time low of 5.5% of GDP by 2034 (6.3% in 2024).

Revenues will increase if the tax cuts are not extended

In 2024, it is estimated that the government will record revenues totalling some 4.9 trillion dollars, or 17% of GDP, and that this figure will steadily increase to reach 7.5 trillion by 2034, which is 18% of GDP. This is slightly above the average of 17% of GDP of the last 20 years, given the expiry in late 2025 of the tax cuts introduced in 2017 under Trump's presidency.[3] Thus, revenues from corporate taxes, personal income taxes and social security contributions, which account for over three quarters of all federal government resources, will increase from 15.5% to 16.7% of GDP. The other revenue components will remain fairly stable in GDP terms in the coming years.

The deficit and public debt will reach historic highs

According to the CBO's projections, the fiscal deficit in 2024 will stand at 1.9 trillion dollars, or 7% of GDP, and by 2034 it will rise to 2.8 trillion, or 6.9% of GDP. This means that by the end of the projected period, the deficit in GDP terms will still be twice the average level recorded during the five years immediately prior to the pandemic. In addition, it will be the first time since 1930 that the deficit will exceed 5.5% of GDP for more than five consecutive years. The primary deficit, which excludes interest payments on debt, will fall from 3.9% of GDP to 2.8%, placing it even below the 4.1% average of the

1. The CBO estimates that the number of Social Security beneficiaries is growing faster than the total population, and that the cost of healthcare per beneficiary is growing faster than GDP per capita.
2. *Medicare* is the healthcare programme for people over the age of 65 and people with certain disabilities.

3. The Tax Cuts and Jobs Act cut corporation tax from 35% to 21% and reduced the maximum rates of each bracket of personal income tax.

last decade. However, this will be insufficient to offset the aforementioned increase in interest spending. Consequently, these larger deficits will be financed by the issuance of greater sums of public debt, which is forecast to rise from 28.2 trillion dollars (99% of GDP) to 50.6 trillion (122% of GDP) in 2024.

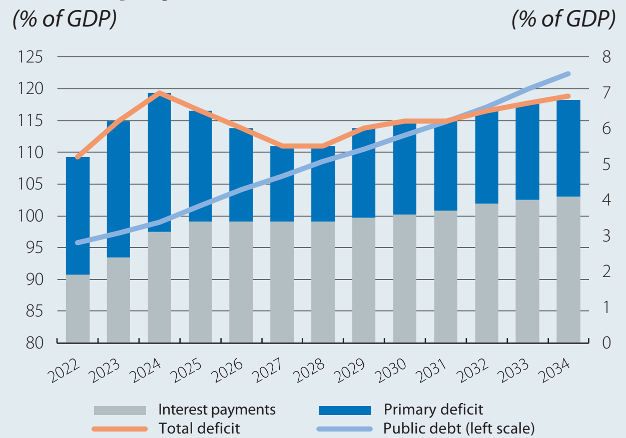
What could change?

Beyond any unexpected economic shocks that could significantly alter the growth, inflation and interest rate forecasts of the CBO's baseline scenario, the main factor that will determine the future evolution of the public finances will be what form of fiscal policy is implemented by the upcoming administration. However, the economic proposals from both candidates thus far appear likely to aggravate the already deteriorated fiscal landscape: from the expansion of spending on social programmes, to further tax cuts for both corporations and individuals. *A priori*, it does not appear that either of the two major political parties intend to adopt policies aimed at reducing the public deficit, although this may be an electoral strategy.

But promises made during an election campaign are one thing, and the reality that follows is another. In fact, the Federal Reserve and various institutions have issued warnings about the path that debt is on, as they consider it to be unsustainable. Even the rating agency Moody's downgraded its outlook for the US' credit rating from stable to negative last November. For now, the financial markets have not been too concerned about the US' fiscal sustainability. However, history (events such as the «Truss effect» in the UK) warns us that the sensitivity of «bond vigilantes» can spike in the event of a deterioration in the fiscal outlook, and the lack of clarity in the fiscal plans remains a risk for the financial markets.

Isabela Lara White

US: CBO projections for the deficit and debt



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

The decoupling of the US and China accentuates the fragmentation

The data from recent quarters seem to support the hypothesis that globalisation is transforming relative to the form is has taken in the previous three decades. These data show growing evidence of two major phenomena: the slowdown in trade in goods, but not in services, and the growing fragmentation of global trade and production. At the epicentre of it all is China, with its increasingly key role in global manufacturing as it produces ever more sophisticated goods (which favours its decoupling from other economies in a challenging geopolitical time), and which is decoupling from the US through an ever-increasing number of channels.

From a globalisation of goods... to one based on services?

In 2023, the global trade in goods continued the gradual slowdown that had begun in the last decade with China's transition towards a greater role of domestic consumption. The figure for 2023 is mainly explained by the contraction of trade in Europe, which is still weighed down by high energy prices. This slowdown, however, was not observed in the case of trade in services, which continued to grow at high rates (global services exports in current terms grew by 8.4% in 2023, compared with an average annual growth of 4.6% between 2012 and 2019). Although trade in services still represents a much smaller share of global trade than trade in manufactured goods, at around 7.5% and over 15% of global GDP, respectively, the gap has narrowed (in 2008 they accounted for 6.3% and 16.4% of world GDP, respectively).

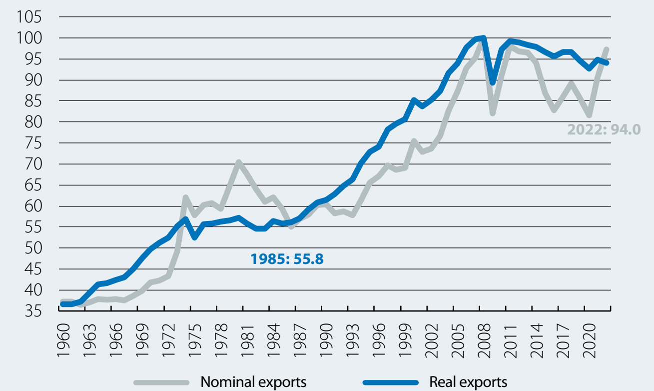
On the other hand, the strength of the dollar and, in general, the tightening of financial conditions throughout 2023 was an additional constraint for the growth of trade in goods. This is because it tends to hinder the financing of complex production and export processes, as we already explained in our first review of the state of globalisation.[1]

In this regard, if the rate cuts by the Fed and other central banks materialise in the coming quarters as expected, then we will see a steady easing of global financial conditions and the depreciation of the dollar seen in recent weeks is likely to continue. This, in turn, would favour an improvement in global trade in goods in both 2024 and 2025 (the WTO expects trade in goods to grow by 2.6% and 3.3% annually in these two years, respectively). Global export volume data for Q1, as well as trade data for Asian countries up until the summer, are already showing signs of improvement in the current year to date.

1. See the Focus «¿Quo vadis, globalisation? (part I): the long slowdown», in the MR10/2023.

Evolution of the ratio of exports of goods to world GDP

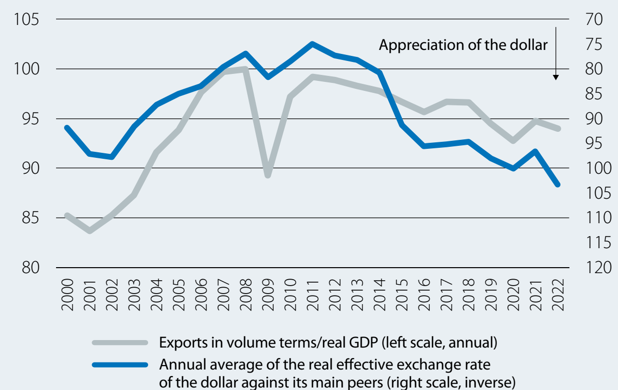
Index (100 = 2008)



Source: *CaixaBank Research, based on data from the WTO and the World Bank.*

Global exports of goods/GDP and evolution of the dollar

Index (100 = 2008) *Index, inverse*



Source: *CaixaBank Research, based on data from the WTO, the World Bank and Bloomberg.*

The global economy shows signs of fragmentation across all sectors and metrics

In addition to the slowdown in trade in goods, there is also evidence of further fragmentation of trade and global value chains (GVCs). Several studies have identified the lower levels of trade between geopolitical blocs since the outbreak of the war in Ukraine, with intra-bloc trade growing at a faster rate than inter-bloc trade.[2] Similarly, the decoupling between China and the US is continuing its course, and trade in goods and services between the two countries between 2018 and 2024 so far grew 25 pps less than US trade with the rest of the world (Mexico being the main beneficiary).

2. See M. Blanga-Gubbay and S. Rubínová (2023). «Is the global economy fragmenting?». WTO Staff Working Papers ERSD-2023-10, World Trade Organization (WTO), Economic Research and Statistics Division.

These signs of fragmentation are not only evident in the case of trade in goods. The US is importing higher-value-added services predominantly from countries that are located nearby and are politically aligned. Its imports of ICT services (ranging from IT activities to financial services) from other developed countries, such as the euro area and Canada, have steadily increased since 2018, to the detriment of Asian countries, mainly India.

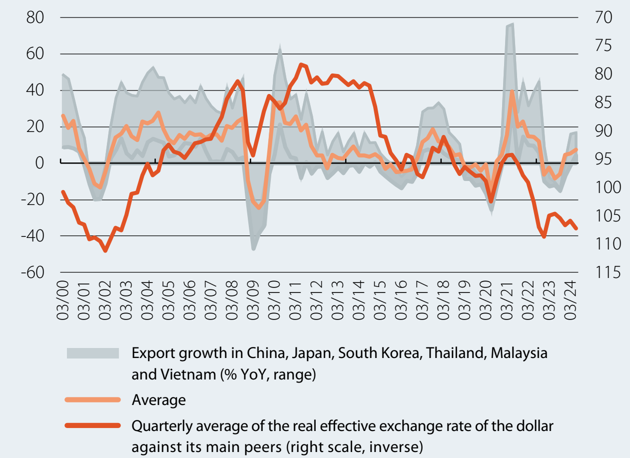
Foreign direct investment (FDI) flows are also being affected by this fragmentation and are being reorienting towards neighbouring countries. Indeed, this trend has been increasing in recent years and is particularly pronounced in sectors that are sensitive to the digital and green transitions.[3] This trend is evident in flows from the US to China (and vice versa), although euro area firms have even increased their investment in China in recent years. Also with regard to FDI, the main beneficiary of the China-US decoupling is Mexico, which is set to benefit greatly from the subsidies included in the US' Inflation Reduction Act (IRA).

China's size distorts the global picture

One caveat that should be taken into account when analysing global trends is that the sheer size of the Chinese and US economies can distort the global picture, so we must exercise caution when drawing conclusions about globalisation. This factor is particularly relevant in the case of China and GVCs, given the country's dominant role in global manufacturing production: China produced 35.4% of the world's manufactured goods in 2020 (the latest year with available data), a figure equivalent to the production of the next nine countries combined (namely the US, Japan, Germany, India, South Korea, Italy, France, Taiwan and Brazil).

Growth of exports of the main Asian economies and evolution of the dollar

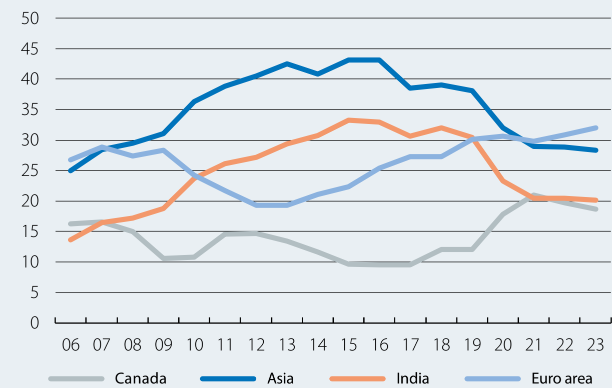
Year-on-year growth (%) *Index, inverse*



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

US ICT imports by source country

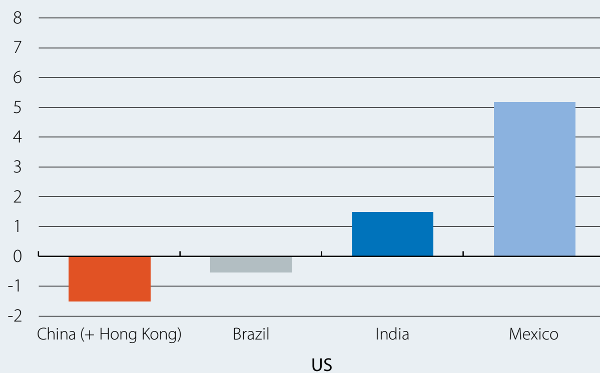
(% with respect to total ICT imports)



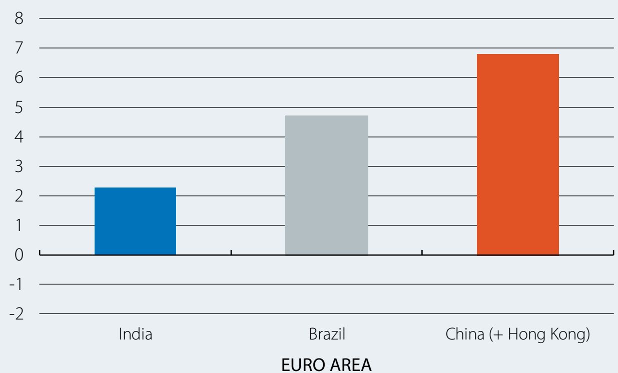
Source: *CaixaBank Research, based on data from the Bureau of Economic Analysis.*

Increase in FDI from the US and euro area post-COVID

(USD billions)



(EUR billions)



Note: *Difference between the post-COVID average (Q2 2021 - Q1 2024) and the pre-COVID average (2009-2019) of the 4-quarter moving sum of FDI flows.*
Source: *CaixaBank Research, based on data from the Bureau of Economic Analysis and the ECB.*

3. See IMF. Research Dept. (2023). «Chapter 4: Geoeconomic Fragmentation and Foreign Direct Investment». World Economic Outlook, April 2023: A Rocky Recovery.

If we look at the overall picture of GVCs, they appear to have already reached the peak of their development, but the picture they paint in terms of the fragmentation of the world economy is not so negative. However, China's value chains remain highly complex and are increasingly domestic, meaning that the country has become more sophisticated and has turned towards its domestic market. On the other hand, the value chains of the rest of the world are becoming shorter, although rather than becoming more domestic-orientated they are undoubtedly becoming more regional in nature, based on all of the above.

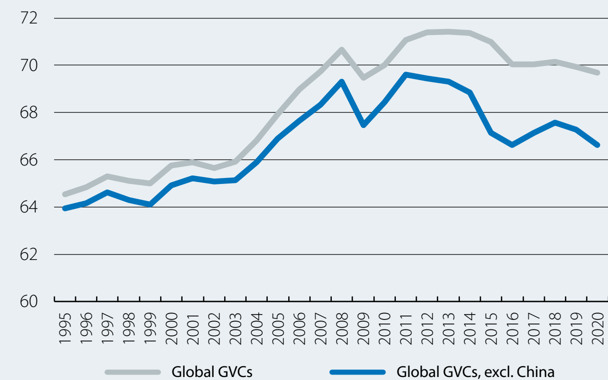
The sophistication of China's economy can be seen, for instance, in its leadership in the manufacture of electric vehicles. In 2023, China was the world's largest exporter of electric vehicles. Coupled with its significant growth in the manufacture and export of internal-combustion-engine vehicles, this made the country the world's leading vehicle exporter in 2023.[4] The current context of Western geopolitical realignment makes these goods vulnerable to trade barriers, which could deepen the fragmentation of the world economy in the coming quarters.

In short, the fragmentation of the world economy is increasingly evident, although China and its relationship with the US is clearly the epicentre. Laxer financial conditions and a slightly weaker dollar in the coming quarters ought to favour global trade in goods. However, if the EU disconnects from China in a similar way to the US, this could deal an additional blow to globalisation in the form we have known it up until the last decade.

David del Val

Depth of Global Value Chains (GVCs)

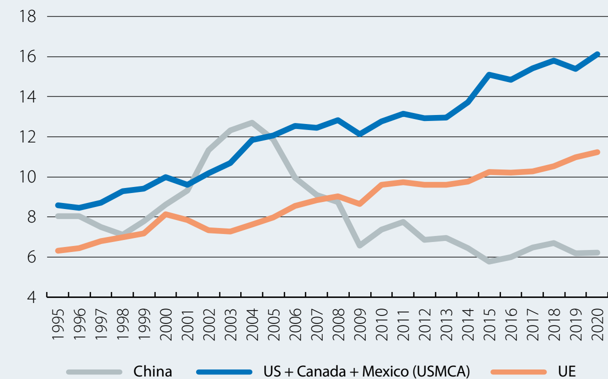
(% of the production of intermediate manufactured goods relative to the total production of manufactured goods)



Source: *CaixaBank Research, based on data from the OECD (TiVA).*

Localisation of Global Value Chains (GVCs)

(% of the import of intermediate goods with respect to their production)



Source: *CaixaBank Research, based on data from the OECD (TiVA).*

4. See E. Ng Shing and R. Santana (2024). Data Blog - trade data reveal changing patterns in electric vehicles market, WTO Blog.

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

UNITED STATES

	2022	2023	Q3 2023	Q4 2023	Q1 2024	Q2 2024	06/24	07/24	08/24
Activity									
Real GDP	1.9	2.5	2.9	3.1	2.9	3.1	–	–	–
Retail sales (excluding cars and petrol)	8.6	5.3	4.6	5.0	2.9	3.4	3.6	3.4	...
Consumer confidence *(value)*	104.5	105.4	109.0	102.7	106.3	98.9	97.8	101.9	103.3
Industrial production	3.4	0.2	–0.1	–0.1	–0.5	0.2	1.1	–0.2	...
Manufacturing activity index (ISM) *(value)*	53.5	47.1	47.6	46.9	49.1	48.8	48.5	46.8	47.2
Housing starts *(thousands)*	1,552	1,421	1,380	1,481	1,407	1,340	1,329	1,238	...
Case-Shiller home price index *(value)*	307	312	316	321	325	329	330	...	...
Unemployment rate *(% lab. force)*	3.6	3.6	3.7	3.7	3.8	4.0	4.1	4.3	4.2
Employment-population ratio *(% pop. > 16 years)*	60.0	60.3	60.4	60.3	60.2	60.1	60.1	60.0	60.0
Trade balance [1] *(% GDP)*	–3.8	–3.1	–3.0	–2.9	–2.8	–2.8	–2.9	...	...
Prices									
Headline inflation	8.0	4.1	3.5	3.2	3.2	3.2	3.0	2.9	...
Core inflation	6.2	4.8	4.4	4.0	3.8	3.4	3.3	3.2	...

JAPAN

	2022	2023	Q3 2023	Q4 2023	Q1 2024	Q2 2024	06/24	07/24	08/24
Activity									
Real GDP	1.2	1.7	1.3	0.9	–0.9	–0.8	–	–	–
Consumer confidence *(value)*	32.2	35.2	36.2	36.5	38.9	37.0	36.4	36.7	36.7
Industrial production	0.0	–1.4	–3.6	–0.9	–4.3	–2.9	–4.8	–0.7	...
Business activity index (Tankan) *(value)*	9.5	7.0	9.0	13.0	11.0	13.0	–	–	–
Unemployment rate *(% lab. force)*	2.6	2.6	2.6	2.5	2.5	2.6	2.5	2.7	...
Trade balance [1] *(% GDP)*	–2.1	–3.0	–2.7	–1.8	–1.2	–1.0	–1.0	–1.0	...
Prices									
Headline inflation	2.5	3.3	3.1	2.9	2.5	2.7	2.9	2.7	...
Core inflation	1.1	3.9	4.3	3.9	3.2	2.2	2.1	1.9	...

CHINA

	2022	2023	Q3 2023	Q4 2023	Q1 2024	Q2 2024	06/24	07/24	08/24
Activity									
Real GDP	3.0	5.2	4.9	5.2	5.3	4.7	–	–	–
Retail sales	–0.8	7.8	4.2	8.3	4.7	2.6	2.0	2.7	...
Industrial production	3.4	4.6	4.2	6.0	5.8	5.9	5.3	5.1	...
PMI manufacturing *(value)*	49.1	49.9	49.7	49.3	49.7	49.8	49.5	49.4	49.1
Foreign sector									
Trade balance [1,2]	899	865	901	865	841	...	868	872	...
Exports	7.1	–5.1	–10.8	–3.3	–1.7	...	7.9	6.7	...
Imports	0.7	–5.5	–8.5	0.9	1.6	...	–2.4	7.2	...
Prices									
Headline inflation	2.0	0.2	–0.1	–0.3	0.0	0.3	0.2	0.5	...
Official interest rate [3]	3.65	3.45	3.5	3.5	3.5	...	3.5	3.4	3.4
Renminbi per dollar	6.7	7.1	7.2	7.2	7.2	...	7.3	7.3	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	Q3 2023	Q4 2023	Q1 2024	Q2 2024	06/24	07/24	08/24
Retail sales *(year-on-year change)*	1.2	–2.0	–2.3	–0.7	–0.2	0.3	–0.3	...	...
Industrial production *(year-on-year change)*	2.3	–2.2	–4.8	–3.8	–4.7	–3.4	–3.9	...	...
Consumer confidence	–21.9	–17.4	–16.3	–16.7	–15.5	–14.3	–14.0	–13.0	–13.5
Economic sentiment	102.1	96.4	94.3	94.8	96.0	95.9	96.0	96.0	96.6
Manufacturing PMI	52.1	45.0	43.2	43.9	46.4	46.3	45.8	45.8	45.8
Services PMI	52.1	51.2	49.2	48.4	50.0	53.1	52.8	51.9	53.3
Labour market									
Employment (people) *(year-on-year change)*	2.2	1.4	1.4	1.2	1.0	...	–	–	–
Unemployment rate *(% labour force)*	6.7	6.6	6.6	6.5	6.5	6.5	6.5	6.4	...
Germany *(% labour force)*	3.1	3.0	3.0	3.1	3.3	3.4	3.4	3.4	...
France *(% labour force)*	7.3	7.4	7.4	7.5	7.5	7.5	7.5	7.5	...
Italy *(% labour force)*	8.1	7.7	7.7	7.4	7.2	6.8	6.9	6.5	...
Real GDP *(year-on-year change)*	3.5	0.5	0.1	0.2	0.5	0.6	–	–	–
Germany *(year-on-year change)*	1.7	–0.1	–0.3	–0.2	–0.1	–0.1	–	–	–
France *(year-on-year change)*	2.6	1.1	0.9	1.3	1.5	1.0	–	–	–
Italy *(year-on-year change)*	4.2	1.0	0.6	0.7	0.6	0.9	–	–	–

Prices

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

	2022	2023	Q3 2023	Q4 2023	Q1 2024	Q2 2024	06/24	07/24	08/24
General	8.4	5.5	5.0	2.7	2.6	2.5	2.5	2.6	2.2
Core	3.9	5.0	5.1	3.7	3.1	2.8	2.9	2.9	2.8

Foreign sector

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

	2022	2023	Q3 2023	Q4 2023	Q1 2024	Q2 2024	06/24	07/24	08/24
Current balance	–0.4	1.9	1.5	1.9	2.6	3.1	3.1	...	...
Germany	4.2	6.2	5.9	6.2	6.5	6.8	6.8	...	...
France	–1.2	–1.0	–0.9	–1.0	–0.6	–1.1	–1.1	...	...
Italy	–1.6	0.5	0.0	0.5	1.1	1.6	1.6	...	...
Nominal effective exchange rate [1] *(value)*	**90.9**	**94.7**	**95.9**	**95.1**	**95.2**	**95.2**	**95.0**	**95.5**	**95.7**

Credit and deposits of non-financial sectors

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

	2022	2023	Q3 2023	Q4 2023	Q1 2024	Q2 2024	06/24	07/24	08/24
Private sector financing									
Credit to non-financial firms [2]	6.7	2.7	1.1	0.1	0.3	0.4	0.7	0.6	...
Credit to households [2,3]	4.4	1.7	1.1	0.5	0.3	0.3	0.3	0.5	...
Interest rate on loans to non-financial firms [4] *(%)*	1.8	4.6	5.0	5.2	5.1	5.1	5.0	5.1	...
Interest rate on loans to households for house purchases [5] *(%)*	2.0	4.4	4.7	4.9	4.8	4.8	4.8	4.8	...
Deposits									
On demand deposits	6.3	–8.5	–11.3	–10.7	–8.8	–5.5	–4.0	–3.6	...
Other short-term deposits	4.5	21.1	23.2	21.0	18.4	14.4	12.8	11.4	...
Marketable instruments	3.7	20.4	20.4	19.8	20.1	19.7	18.7	21.0	...
Interest rate on deposits up to 1 year from households *(%)*	0.5	2.7	3.0	3.3	3.2	3.1	3.0	3.0	...

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.*

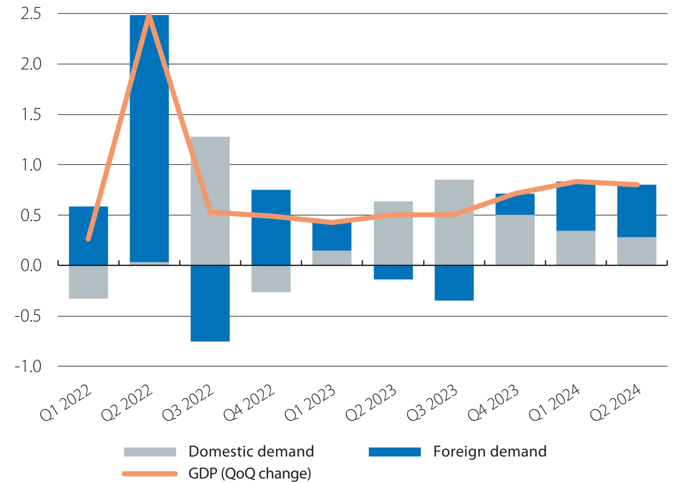
Spain: strong growth outlook, albeit more moderate than in the first half

The Spanish economy performed better than expected in the first half of the year, but a slight moderation is anticipated in the second half. GDP grew at a quarter-on-quarter rate of 0.8% in both Q1 and Q2 of this year. This strength is mainly due to the good performance of the foreign sector, driven by a booming tourism sector in Q1, as well as the strength of foreign sales of goods in a context of moderating imports in Q2. Looking ahead to the coming quarters, the foreign sector could gradually give way to domestic demand as the main driving force, in view of the normalisation of the pace of growth in the tourism sector and the weakness shown by our main trading partners in the euro area. Domestic demand, for it part, should gain strength as purchasing power continues to recover and uncertainty surrounding the monetary policy outlook diminishes. However, the stronger domestic demand is not expected to fully compensate for the slowdown in the foreign sector.

Spain's GDP growth for Q2 2024 beats expectations. GDP expanded 0.8% quarter-on-quarter in Q2, surpassing both the euro area average (0.3% quarter-on-quarter) and our own expectations, with a growth forecast of 0.5%. In year-on-year terms, the rate accelerated to 2.9% from the 2.6% recorded in the previous quarter. The foreign sector remains the main growth driver, with a 0.5-pp contribution to quarter-on-quarter GDP growth. Domestic demand is also on the rise, albeit at a more modest rate, contributing 0.3 pps to GDP growth. Private consumption rose by 0.3% quarter-on-quarter and public consumption by 0.2%. Investment continued to record strong growth, at 0.9% quarter-on-quarter, driven mainly by investment in construction. Exports, meanwhile, expanded 1.2% quarter-on-quarter thanks to exports of goods, while imports fell by 0.2%.

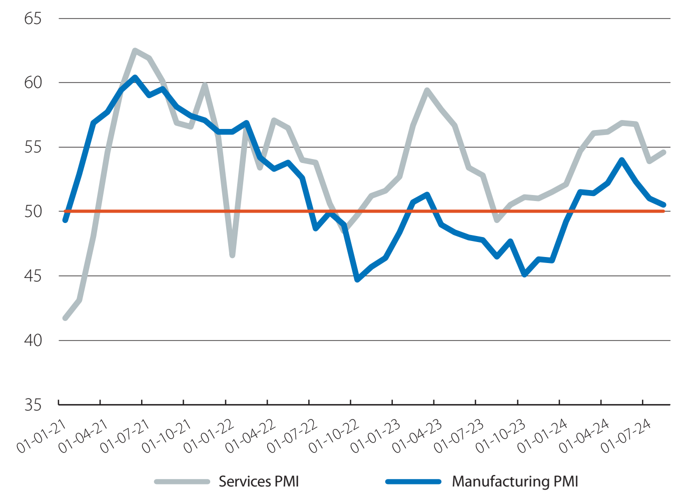
The first economic activity indicators available for Q3 reflect a more contained tone. The Purchasing Managers' Index (PMI) for the manufacturing sector has steadily slowed during July and August, and in its last reading it stood at 50.5 points, down from 52.3 points in June. The PMI for the services sector, for its part, has rebounded in August after suffering a slump in July and stands at 54.6 points (56.8 points in June). Given that they remain above the threshold denoting growth (50 points), both of these readings point to activity growth in the respective sectors, albeit at more moderate rates than in the previous quarter. On the consumption side, consumer confidence fell in August and scored –15.2 points, compared to –13.7 points in July. In contrast, the retail trade index rose by 0.5% month-on-month in July and brought the year-on-year rate to 1.0%, compared to 0.4% in the previous month.

Spain: contribution to GDP growth
Pps and quarter-on-quarter change (%)



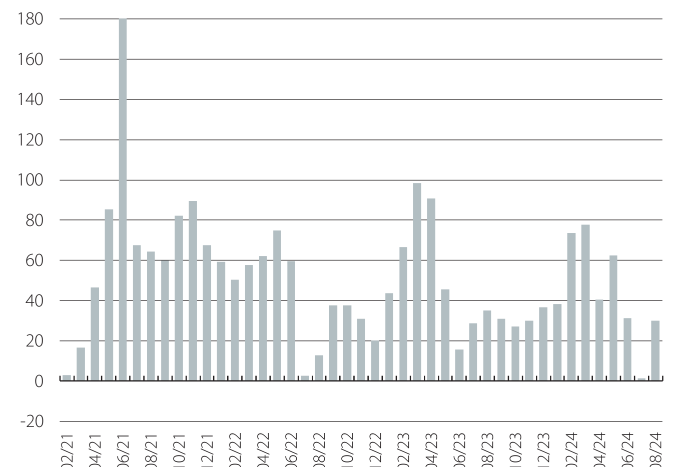
Source: *CaixaBank Research, based on data from the Spanish National Statistics Institute (INE).*

Spain: PMI
Level



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

Spain: registered workers affiliated with Social Security
*Month-on-month change (thousands) **



Note: ** Seasonally-adjusted data.*
Source: *CaixaBank Research, based on data from the Ministry of Inclusion, Social Security and Migration (MSSM).*

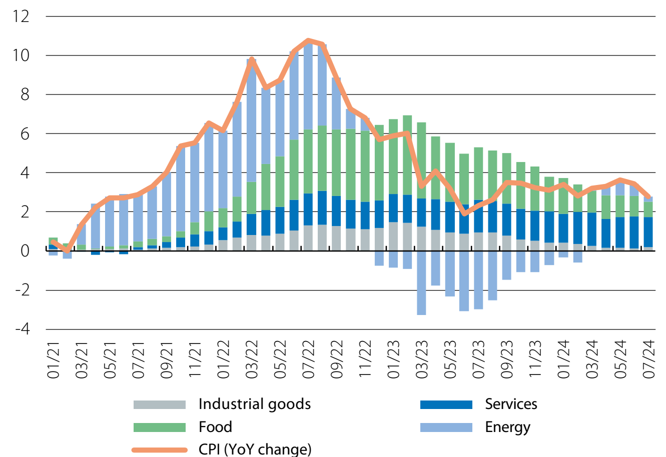
The labour market is also advancing more timidly. As is commonplace in the month of August, the number of registered workers affiliated with Social Security fell. This month it did so by 193,704 workers compared to the previous month, or –0.91%. This decrease is consistent with past experience in the month of August: last year the number of registered workers fell by a monthly rate of 0.89%, while the average decline recorded in the month of August during the period 2014-2019 was 0.88%. The total number of registered workers stands at 21,189,402, which is 482,902 more people than a year ago and represents a year-on-year growth rate of 2.3% (2.4% in July). Correcting for seasonality, employment in August registered a rise of 30,189 registered workers, after having remained practically flat in July (+1,335). So far in Q3, quarter-on-quarter growth in the number of affiliates slowed to 0.3%, down from 0.8% in Q2.

Headline inflation approaches 2% in August. According to the CPI flash indicator published by the National Statistics Institute (INE), headline inflation fell 0.6 pps in August to 2.2%, as a result of the decrease in fuel prices and, to a lesser extent, unprocessed food. In the absence of the breakdown by category, the fall in food prices indicated by the INE could offer a respite for the component that has been experiencing the highest rate of inflation this year (4.7% on average). On the other hand, core inflation (excluding energy and unprocessed food) stood at 2.7% (0.1 pps lower than in July). The figure for this month represents a further step towards a normalisation of inflation; however, the increase in electricity prices anticipated by the futures markets could hold back this corrective trend in the closing stages of the year.

Despite the fall in exports, the trade deficit narrows rapidly in June. For the first time in three months, exports of goods fell in June, at a rate of 3% year-on-year. However, the fall in imports was even more pronounced (–7.3%), causing the deficit to decline to 713 million euros (–2.355 billion in June 2023). By component, the deficit in the energy balance stood at 2.158 billion, down from the 2.454 billion recorded in June 2023. The non-energy balance, meanwhile, showed a surplus position of 1.445 billion euros, compared to 99 million a year ago. With this data, the first half of 2024 closed with a deficit of 15.822 billion, marking a slight improvement over the first half of 2023 (–16.420 billion), but exceeding the average for the period 2014-2019 (–11.938 billion).

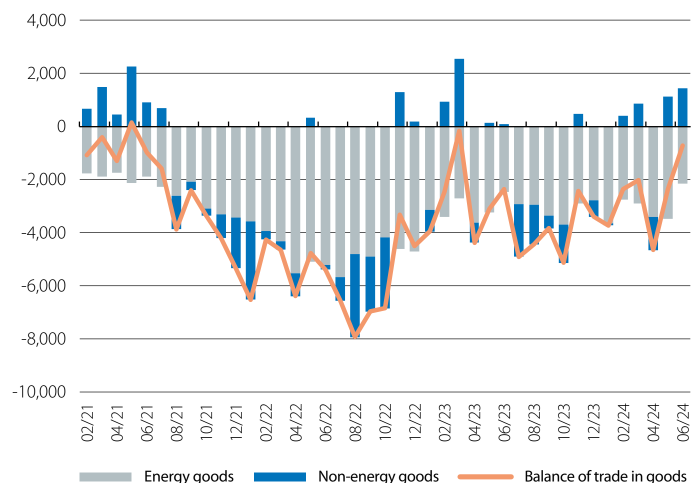
Home sales continue to moderate. In June, homes sales decreased by 6.1% year-on-year. By type of housing, the timid increase of 0.9% year-on-year in new home sales was not enough to offset the 7.8% year-on-year decline among existing homes. Despite the setback, home sales remain at a high level: in the past 12 months there have been some 570,000 transactions, 12.8% more than in 2019.

Spain: contribution to inflation by component
Pps and year-on-year change (%)



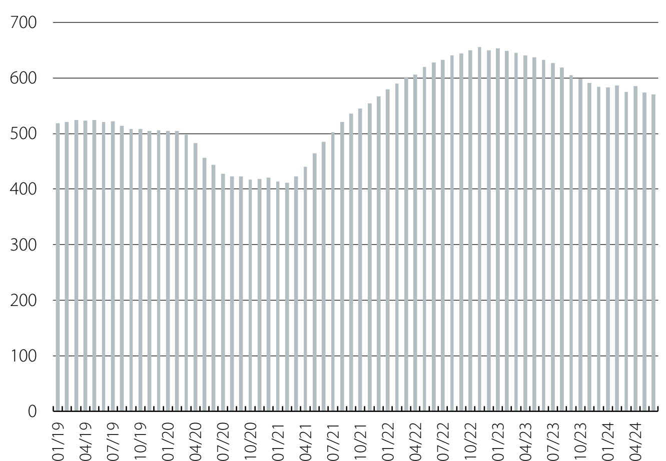
Source: *CaixaBank Research, based on data from the Spanish National Statistics Institute (INE).*

Spain: balance of trade in goods
Monthly data (EUR millions)



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

Spain: home sales
*(Thousands)**



Note: ** 12-month cumulative total.*
Source: *CaixaBank Research, based on data from the Spanish National Statistics Institute (INE).*

The factors driving Spanish household savings

In 2023, the growth of households' gross disposable income (GDI) in nominal terms was an impressive 11% year-on-year. On the other hand, household spending in nominal terms grew more timidly, rising by 6.1%. As a result, the savings rate reached 11.7% of disposable income at the end of 2023, far exceeding the historical average of 6.7% recorded in the period 2014-2019. Several explanations have been proposed as to why consumption has experienced more modest growth than income. In this article we start by describing the pattern observed in Q1 2024, before offering some clues that may help us to understand what is going on.

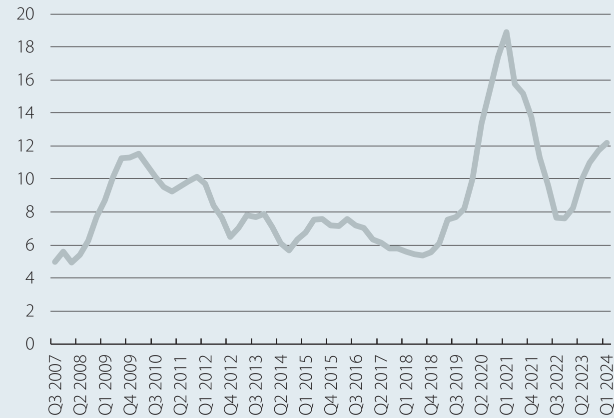
The data for Q1 2024 confirm that the gap between disposable income and consumption has continued and this has provided a new boost to the savings rate. In particular, nominal disposable income grew by a significant 8.0% year-on-year,[1] despite its moderation with respect to 2023, while final household consumption expenditure rose by 5.3% year-on-year. As a result, the household savings rate climbed to 12.2% of income in the total for the last four quarters, 50 basis points higher than where it stood at the end of 2023. This increase in savings can also be seen if we focus on the stagnant figure for Q1: gross savings stood at 14 billion euros, twice as high as in Q1 2023. This figure is significant, since Q1 tends to be a period of low savings. After all, together with Q4, it is traditionally the time of the year with the highest level of consumption; in fact, gross savings were negative in all of the first quarters between 2005 and 2019.

What is driving disposable income?

The growth in nominal disposable income of 8.0% is largely explained by the recent strength of the labour market. In particular, in Q1, wage earners' remuneration rose by 8.3% year-on-year, and this increase was broken down into a 3.8% year-on-year increase in the number of people in full-time employment and a 4.5% increase in wages per person. Also of note is the good performance of net property income. This was thanks to an increase in incomes distributed by companies which more than offset the rise in rates, with a year-on-year increase of 54.7%, as well as a gross operating surplus, which includes self-employed workers' income and attributed rents (+5.8%). Despite these excellent figures, the growth of disposable income has nevertheless gradually moderated in the last year: in the first half of 2023 it grew by 11.7% year-on-year; in Q2 it grew by 10.3% year-on-year; and in Q1 2024, by the aforementioned 8.0%. The

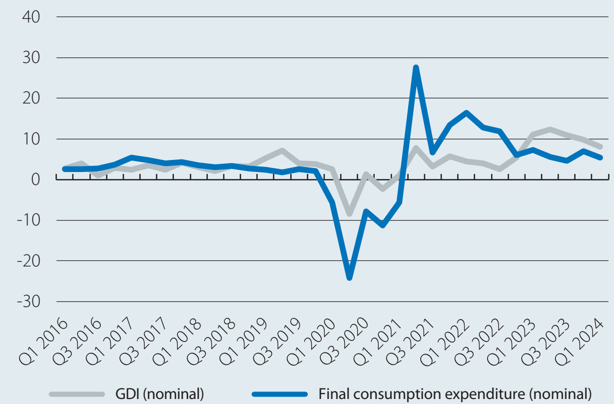
1. The data throughout the article is presented before any seasonal adjustments, except for the fourth chart, which shows seasonally adjusted data.

Spain: household savings rate
(% of gross disposable income)



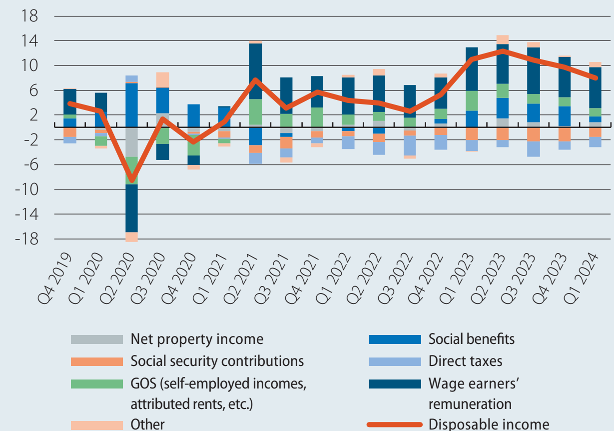
Note: *4-quarter cumulative data.*
Source: *CaixaBank Research, based on data from the Spanish National Statistics Institute (INE).*

Spain: household gross disposable income and nominal consumption
Year-on-year change (%)



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

Spain: household nominal disposable income, breakdown by component
Annual change (%) and contributions



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

main reason for this moderation is the increase in payments to the public sector: a year ago, direct taxes and social security contributions net of benefit payments accounted for 1.2 pps of disposable income, compared to 2.2 pps today.

It should be borne in mind that one of the reasons behind the increase in nominal disposable income – a variable measured at the aggregate level – is the increase in the population spurred by migratory flows. Specifically, in the twelve months to Q1 2024, the population grew by 492,560 people, driven by a rise in the population born abroad of 558,652 people.[2] This population increase has led to the creation of households, which grew by around 1% year-on-year in Q1 2024.[3] In this regard, it is interesting to analyse whether the buoyancy of nominal disposable income is also observed in disposable income per household, given the increase in household creation. We observe that, in fact, this variable increased by 6.6% year-on-year in Q1 2024, only slightly below the growth of aggregate income. Finally, when we look at real disposable income per household, in order to take into account changes in the purchasing power of that income in the face of price increases, we see that it has indeed increased by a significant 3.4% year-on-year. In other words, Spanish households are recovering their purchasing power, and sooner or later this ought to be reflected in consumption. Compared to the pre-pandemic period, both nominal disposable income per household and real disposable income per household are already much higher (see fourth chart).

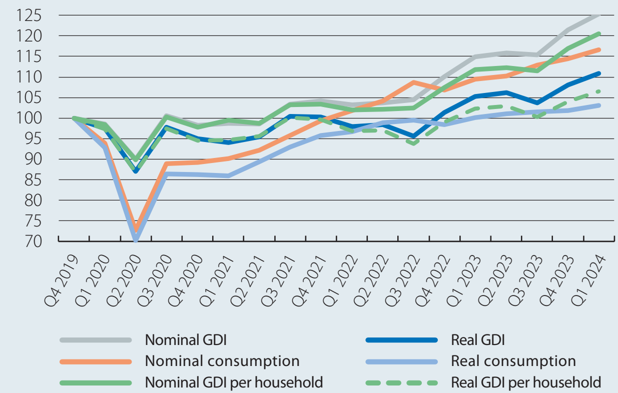
Where are savings being allocated?

At the aggregate level, over the past few quarters, households have significantly increased their savings, especially in response to an environment of relatively high interest rates. Thus, there has been an increase in the acquisition of financial assets and a reduction in debt in order to weather the rate hikes.

The net acquisition of financial assets on the part of households amounted to +55 billion euros in four-quarter cumulative terms through to Q1 2024, compared to a Q1 average of just under 13.5 billion during the period 2015-2019.[4] Specifically, in net terms they acquired deposits and cash amounting to 12.385 billion (5.144 billion Q1 average in 2015-2019), investment funds for 23 billion (20.340 billion Q1 average in 2015-2019), debt securities for 14.923 billion (–10.369 billion euros average in Q1 2015-2019), and insurance and pension plans for 4.770 billion euros (5.466 billion euros in Q1 2015-2019). In the coming quarters, we can expect household

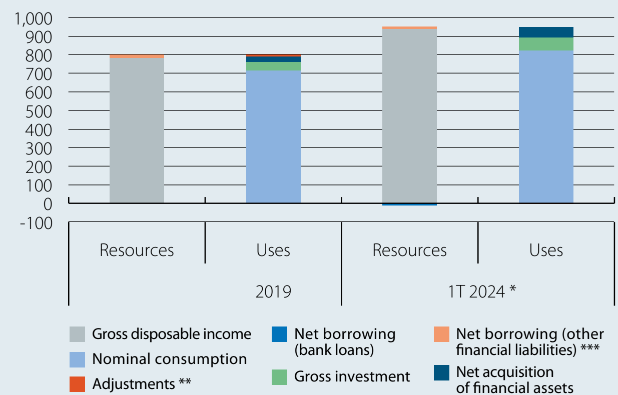
2. Data from the National Statistics Institute's Continuous Population Statistics (CPS).
3. Data from the Labour Force Survey (LFS).
4. Four-quarter cumulative data.

Spain: household gross disposable income and consumption
(100 = Q4 2019)



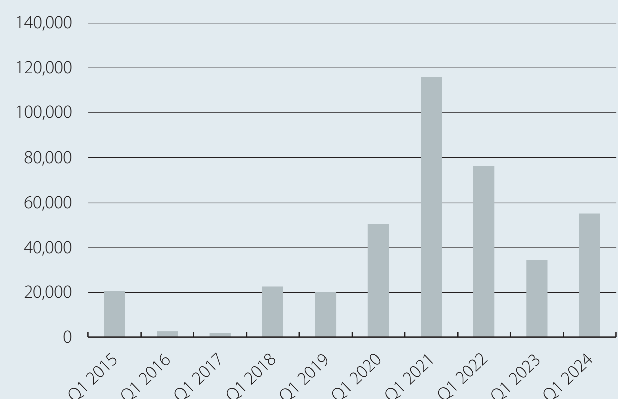
Note: *Seasonally-adjusted data.*
Source: *CaixaBank Research, based on data from the Spanish National Statistics Institute (INE).*

Spain: households, resources and uses
(Millions)



Notes: ** 4-quarter cumulative data. ** Adjustment between financial and non-financial accounts, among others. Data in nominal terms. *** Includes commercial loans and other amounts payable (interest accrued on loans, and outstanding taxes and social security contributions).*
Source: *CaixaBank Research, based on data from the Spanish National Statistics Institute (INE).*

Spain: net acquisition of financial assets by households
*(EUR millions) **



Note: ** 4-quarter cumulative data.*
Source: *CaixaBank Research, based on data from the Bank of Spain.*

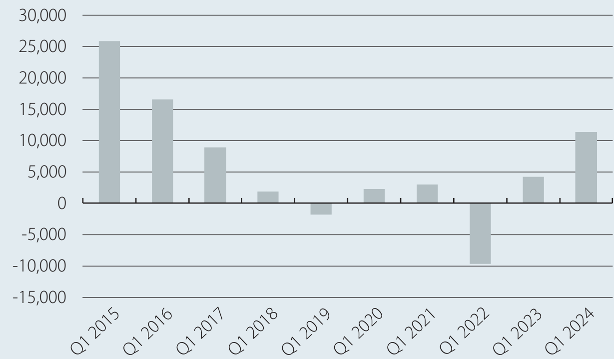
incomes to continue enjoying dynamic grow and purchasing power to steadily recover. This, combined with the reduction in interest rates, ought to facilitate more dynamic consumption.

On the other hand, households continued to deleverage in Q1 2024, reducing their debt in the last year by 4.4 points of GDP to 46%, the lowest level since the first half of 2001. This debt level is 7.3 points lower than that of the euro area. After all, as a result of the rate hikes, households prolonged the trend that began in the second half of 2022 and used their greater savings to make net repayments of bank loans to the tune of 11.357 billion euros,[5] compared to an average of 10.3 billion in the first quarters of the period 2015-2019.

As a result of the increase in the net acquisition of financial assets and the fall in debt, coupled with a significant revaluation effect on financial assets amounting to 125 billion euros in the past year, net household financial wealth has risen by 190 billion euros compared to Q1 2023, placing it at a new all-time peak of just over 2.14 trillion euros.

Javier Garcia-Arenas

Spain: net repayment of bank loans by households
*(EUR millions) **



Note: ** 4-quarter cumulative data.*
Source: *CaixaBank Research, based on data from the Bank of Spain.*

5. Four-quarter cumulative data.

Capital investment in Spain: comparison versus the euro area

Investment in Spain is struggling to take off. After the COVID-19 pandemic, the 2022 energy crisis and in a context of strong economic growth, investment is still below pre-COVID levels. To the extent that an economy's medium-term growth capacity is determined by the increase in the stock of capital, the recent weakness shown by investment deserves to be analysed.

In this first article in a series of two, we review the recent trends in capital investment in Spain and make a comparison with the rest of the euro area. In a second article in this same *Monthly Report*, we investigate the incentives for investing, based on an analysis of the evolution of profitability and the cost of financing, sector by sector.

Recent trends in investment in Spain

The first chart shows the change in GDP and its components between the pre-pandemic period (Q4 2019) and Q2 2024. As can be seen, investment[1] is the component that shows the worst performance: in Q2 2024, all components of GDP are above their values of Q4 2019, except for investment, which lies 1.3% below.

If we focus on the breakdown of investment, we see significant variation between its components. For instance, whereas investment in non-residential construction or in intangible assets are well above their pre-pandemic values, investment in transport equipment or in residential construction remain well below those levels (15.1% and 7.3% below, respectively).

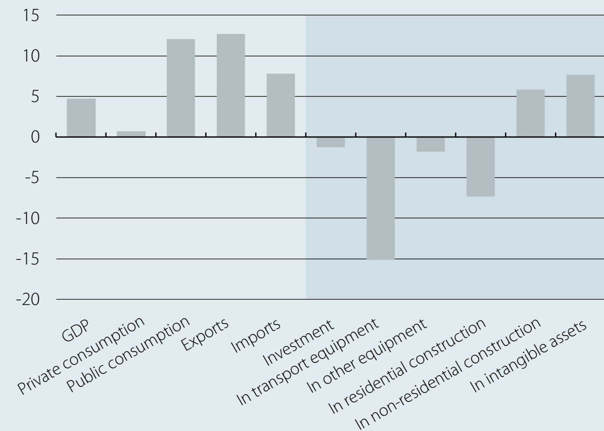
In this article, we will focus on the analysis of investment in capital goods, which is broken down into investment in transportation equipment and investment in other capital goods. We exclude from the analysis investment in construction, because investment in residential construction presents its own dynamics linked to the real estate market which are not the subject of analysis in this study, and also investment in intangible assets, the analysis of which also deserves a separate chapter.

Comparison versus the euro area

To assess the weakness of capital investment, it is useful to compare the pattern of behaviour vis-à-vis our main trading partners in the euro area. To this end, we compared average investment in 2023 against the pre-pandemic level of 2019.[2] The second chart shows the data for total investment in capital goods.

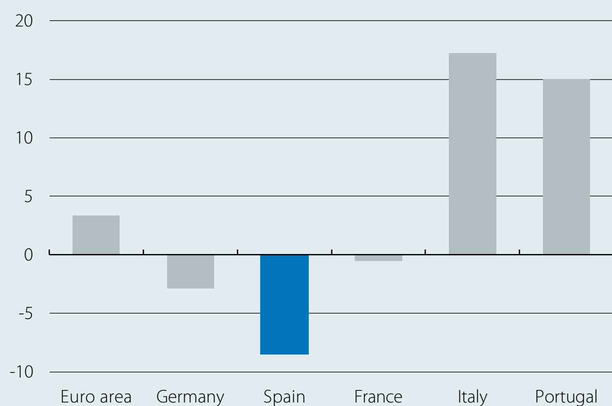
1. Understood as gross fixed capital formation, which therefore excludes the accumulation of inventories.
2. We focus on the average figure for 2023, given that no data for the euro area as a whole are available yet for Q2 2024 and focusing on data for one quarter only (Q1 2024) would be inappropriate due to the inherently volatile nature of quarterly data.

Spain: GDP and components (Q2 2024)
Change versus Q4 2019 (in % terms)



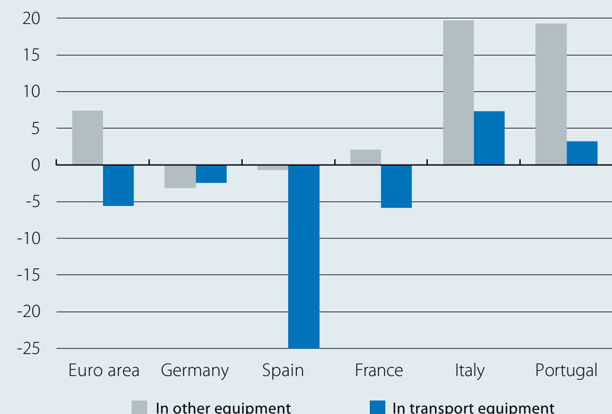
Source: *CaixaBank Research, based on data from the Spanish National Statistics Institute (INE).*

Investment in capital goods
Change between 2019 and 2023 (%)



Note: *Investment in real terms.*
Source: *CaixaBank Research, based on data from Eurostat.*

Capital investment, breakdown
Change between 2019 and 2023



Note: *Investment in real terms.*
Source: *CaixaBank Research, based on data from Eurostat.*

As we pointed out earlier, capital investment in Spain has shown weak performance, even compared to the euro area. However, if we break down investment in capital goods into two components – investment in transport goods and investment in other capital goods – we see very different dynamics.

In the third chart we can see that, while investment in other capital goods is far from the euro area average, it does show a similar pattern of behaviour to that of other major European economies such as Germany or France. In contrast, we also see that the area in which investment in Spain falls short of other European economies is that of transport equipment. While investment in this category in 2023 on average stood 5.6% below the 2019 level in the euro area, in Spain it was 25.1% below.

A sector-level perspective

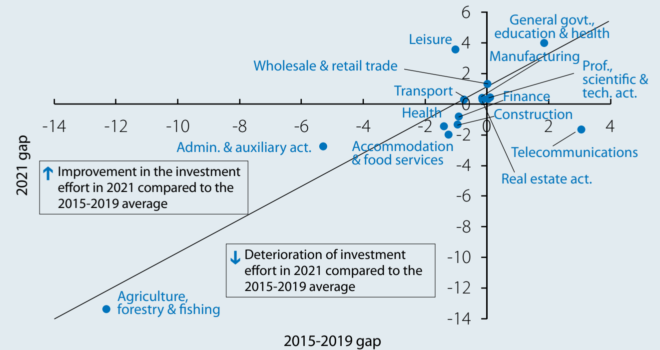
In order to improve our understanding of the dynamics shown by investment, we delved into the detail by sector in Spain. Unfortunately, the available data on investment by type of asset and sector only reaches up until 2021, for now. However, the 2021 data already offer some interesting results.[3]

The fourth chart shows the gap in the investment effort in other capital goods for each sector of the Spanish economy relative to the investment effort of each sector in the euro area average. We define investment effort as the ratio of investment to gross value added (GVA). The chart presents this gap in 2021 on the vertical axis and the gap in the average for the 2015-2019 period on the horizontal axis. If a sector is located directly along the black diagonal line, it means that the gap has remained unchanged between the two periods analysed. Points located above the line indicate that the sector has improved its investment effort with respect to the euro area average in 2021 versus the period 2015-2019, and vice versa in the case of points located below the line.

As can be seen, the gap in investment effort in other capital goods has improved for most sectors in 2021 compared to the 2015-2019 average. The main exception is the information and telecommunications sector, which presented a positive gap of around 3 pps in 2015-2019 but a negative gap of around 2 pps in 2021.

In contrast, when we look at the investment effort in transport equipment (see fifth chart), we see that the gap in 2021 had slightly deteriorated for most sectors, resulting in many sectors showing negative gaps. In addition, there are three cases that stand out: the transport and storage sector itself, which shows a very marked deterioration in its positive gap (of –5.5 pps); the

Investment effort in other capital goods: gap versus the euro area by sector
(pps)



Notes: *Data at the first-digit level of detail in the National Classification of Economic Activities (CNAE). Investment effort is the investment in each sector over its GVA.*
Source: *CaixaBank Research, based on data from Eurostat.*

retail and wholesale trade sector, which also shows a substantial deterioration of the gap, albeit not quite as pronounced (–0.7 pps); and the administrative and auxiliary activities sector, which shows a significant improvement in its gap (+4.2 pps) and has thus gone from a negative gap in 2015-2019 to a positive one in 2021.

It should be borne in mind that these three sectors are the most important in investment in transport equipment in Spain: combined they account for around 77% of all investment in transport equipment, with a very even weighting among them. Thus, we see that the investment effort in transport equipment has deteriorated slightly in the economy as a whole, and that the deterioration has been particularly pronounced in two of the three main sectors that invest the most in transport equipment, while there has been a substantial improvement in the other major sector.

Unfortunately, the national accounting data only provide information on investment in transport equipment at the first-digit level in the National Classification of Economic Activities (CNAE) codes, but not at the two-digit level of detail. Therefore, it is not possible for us to investigate the investment effort dynamics within the sectors mentioned above: transport and storage, retail and wholesale trade, and administrative and auxiliary activities.

Conclusions

Capital investment in Spain has shown a rather weak performance in recent years. However, if we differentiate between investment in transport equipment and in other capital goods, we see that, with respect to the euro area, it is investment in transport goods that falls short. In contrast, the dynamics of investment in other capital goods show a more similar pattern to the other major European economies.

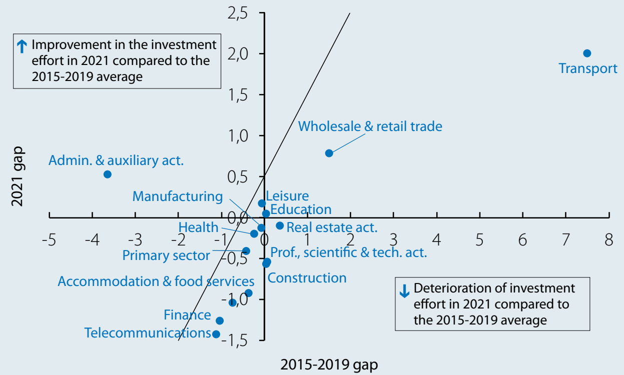
3. In qualitative terms, the results of the previous section remain unchanged if we focus on comparing the average for 2021 with that of 2019.

When we look at the detail by individual sector, we observe a weak performance of investment in transport equipment across the various sectors of our economy. Nevertheless, the deterioration in the investment effort is especially pronounced in two sectors in particular – transport and storage, and retail and wholesale trade.

Beyond the special case of investment in transport equipment, the weak tone shown by capital investment as a whole may be in response to a decrease in companies' profitability in recent years, due to the shocks which our economy has endured, and/or the increase in the cost of financing associated with the tightening of monetary policy since mid-June 2022. Our second article devoted to investment in this report inquires into this issue.

Oriol Carreras Baquer

Investment effort in transport equipment: gap versus the euro area by sector
(pps)



Notes: *Data at the first-digit level of detail in the National Classification of Economic Activities (CNAE). Investment effort is the investment in each sector over its GVA.*
Source: *CaixaBank Research, based on data from Eurostat.*

Spanish firms' profitability and financing costs

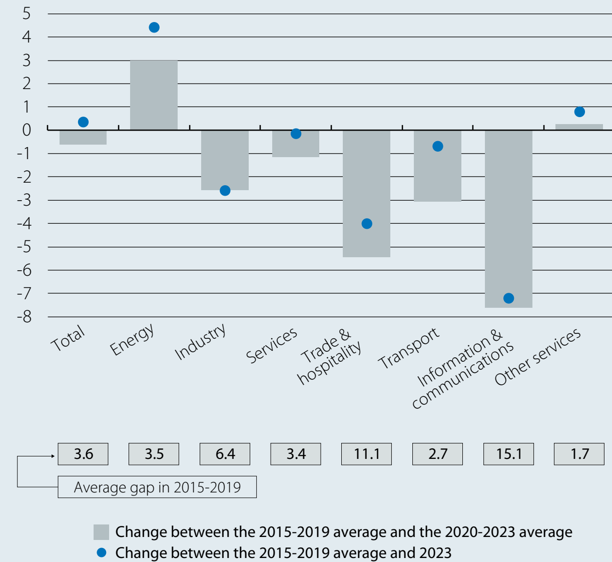
In the previous Focus of this *Monthly Report* dedicated to analysing the evolution of investment in Spain, we focused on describing the pattern of investment by type of asset and by sector, and on comparing it with the euro area. In this article, we want to focus on incentives for investment.

To this end, we will analyse, sector by sector, the evolution of the gap between return on assets and financing costs.[1] Intuitively, if this gap widens, we ought to see greater investment, and vice versa. For this purpose, we use information from the quarterly reports produced by the Bank of Spain's Central Balance Sheet Data Office, which provide data on profitability and financing cost up until Q1 2024.[2]

The first chart shows the change in the gap between profitability and financing costs for the economy as a whole, for the energy, industrial and services sectors, as well as for a set of service subsectors. The grey bars show the change between the average gap during the period 2015-2019 and the average gap in 2020-2023.[3] The blue dots show the change between the 2015-2019 average and 2023, which offers us a picture of where the gap lay in the most recent year for which data is available, as well as the year most affected by the ECB's interest rate hikes.[4]

For the total of all sectors, we can see that the average gap in the period 2020-2023 remains slightly below the pre-pandemic level of 2015-2019, although the difference

Spain: change in the gap between profitability and financing costs
(pps)



Source: *CaixaBank Research, based on data from the quarterly report produced by the Central Balance Sheet Data Office (Bank of Spain).*

is very small. However, at the individual sector level we see a much more varied picture. Whereas the energy sector shows an average gap in 2020-2023 that far exceeds its pre-pandemic level, thanks to the rise in energy prices during this period, we see that the average gap in services, and above all in industry, still lies well below the pre-pandemic level. In the case of industry, even in 2023 there are still no signs of a recovery of the gap. The picture within the services sector is also highly varied: whereas in the trade and hospitality, the transport and the information and telecommunications sectors we see that the gap between profits and financing costs still lies well below pre-pandemic levels, in the other categories of services the gap has already recovered to the average pre-pandemic level.

However, not all sectors have the same share of capital investment. In this regard, the evolution of the gap between profitability and financing costs is most relevant for the sectors with the greatest relative weight in total investment. In descending order, of particular note is the manufacturing industry, which in 2019 accounted for 19.4% of total capital investment; this is followed by the trade and hospitality sector, which accounted for 14.4%, and the transport and storage sector, with 13.9%. These three sectors combined represent almost 50% of all capital investment,

1. Return on assets is defined as:

$$\frac{\text{(Ordinary net profit + finance costs)}}{\text{(Net assets + market-price adjustment)}}$$

Ordinary net profit is gross value added, less staff costs, net finance costs, depreciation and amortisation and operating provisions. Net assets includes own funds plus external resources at cost.
Finance costs are defined as the financial costs of external resources at cost.
2. We take data from the quarterly reports produced by the Central Balance Sheet Data Office (CBT), rather than the Integrated version (CBI), which has more representative data, because the CBI data is only available up until 2022 and thus they do not reflect the impact of the rate hikes of 2023. The CBT data reach up until Q1 2024. We have used the available historical data to compare the evolution of the variables considered by the CBT and the CBI. Although there are differences in level and in volatility, the trends are similar in both sources.
3. We take the 2020-2023 average in order to capture both the declines in profitability witnessed during the COVID-19 pandemic and the subsequent recoveries.
4. As an example, the average gap between profitability and financing costs during the period 2015-2019 was 6.4 pps for industry. In the period 2020-2023, the average gap deteriorated by 2.6 pps (grey bar), so it went on to present an average gap of 3.8 pps.

sand in all of them the return on assets has deteriorated relative to the pre-pandemic period.[5]

It is also interesting to investigate whether the variations in the gap between profitability and finance costs are due to changes in the former or in the latter. To this end, the last chart breaks down the difference between the gap in 2023 and the 2015-2019 average according to changes in profitability (grey bars) and changes in financing costs (blue bars).

The chart shows that the increase in the cost of financing accounts for over half of the reduction in the gap in 2023 compared to 2015-2019 for the manufacturing industry and the transport sector, and half of the reduction in the case of the trade and hospitality sector. These gaps are expected to improve in 2024 and 2025 as the ECB continues to lower interest rates.

Conclusions

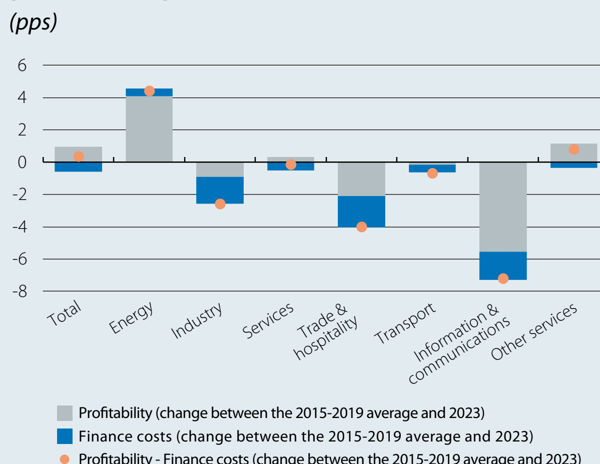
In the average of 2020 and 2023, the gap between the return on assets and the cost of financing for the economy as a whole has suffered only a slight decrease compared to the average in the period 2015-2019. However, the sectors that are more intensive in capital investment have experienced a more pronounced narrowing of the gap between profitability and finance costs, while in some cases, such as industry, there is still no sign of recovery. This deterioration in the gap is due both to a fall in profitability and to rising financing costs, the latter being linked to the cycle of monetary policy tightening which the ECB embarked on in mid-2022.

The deterioration in the gap between profitability and financing costs may be adversely affecting firms' investment decisions, although we expect that this narrowing will reverse slightly over the coming quarters as interest rates continue to fall.

Oriol Carreras Baquer

Spain: change in the gap between ordinary return on assets and finance costs (breakdown)

(pps)



Source: *CaixaBank Research, based on data from the quarterly report produced by the Central Balance Sheet Data Office (Bank of Spain).*

5. The information in the CBT does not allow the trade sector to be disaggregated from the hospitality sector. Furthermore, the figures may be dominated by the trade segment, which accounted for 70% of this category according to National Accounting data for 2022, compared to 30% in the case of hospitality. Also, according to the CBI, in 2022 the gap between profitability and financing costs in the trade and hospitality sector had already reached the pre-pandemic level of 2019.

The dynamics of services inflation in Spain

Over the past two years, the behavior of services inflation has been relegated to the background by the sharp rise in energy and food prices. However, in recent months services have contributed more to inflation than any other component. Moreover, they represent almost 50% of the basket of components of the CPI, which means they are holding back the speed at which headline inflation is converging on the 2% target. In this article, we review the recent dynamics in services inflation and their relationship with wages and energy, two key factors for understanding what pattern this component will follow in the coming months.

Recent dynamics

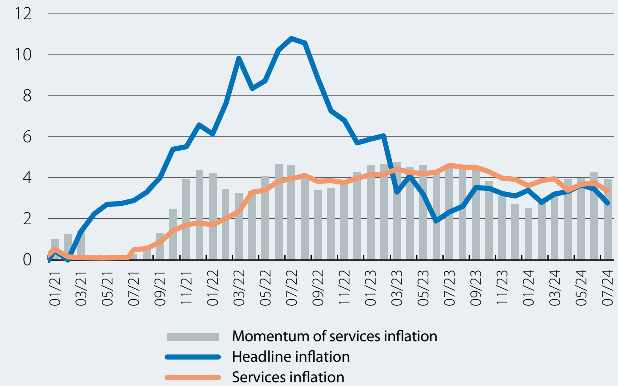
As we can see in the first chart, the services component has followed a much less volatile pattern than headline inflation. Inflation of this component began to climb in early 2022, reaching around 4.0%. Since then, it has fallen very little from that level, despite the fact that headline inflation has plummeted from an average of 8.4% in 2022 to 2.8% in July. In the same month, services inflation stood at 3.4%, while the momentum[1] of services inflation – a measure less sensitive to monthly oscillations – stood 0.6 pps higher, thus indicating the greater resistance of this component in the disinflation process.

When analysing the dynamics of services inflation, we must bear in mind that this component encompasses services with very different price patterns, ranging from general services, to tourism services, to those regulated by the government.[2]

The second chart shows the contribution of each of these categories to total services inflation. Services of a general nature contribute more to services inflation and show more persistence than tourism services.[3,4] As we can see, services inflation has been marked by two opposing trends: while the contribution of general services has diminished over the past year and a half, that of tourism services has declined to a lesser extent. In July, general services showed an inflation rate of 3.4% and they contributed 3 pps to the 3.4% inflation recorded by all services as a whole (representing 88% of the total). Inflation of tourism services, meanwhile, stood at 4.2% and contributed 0.3 pps (9% of the total).

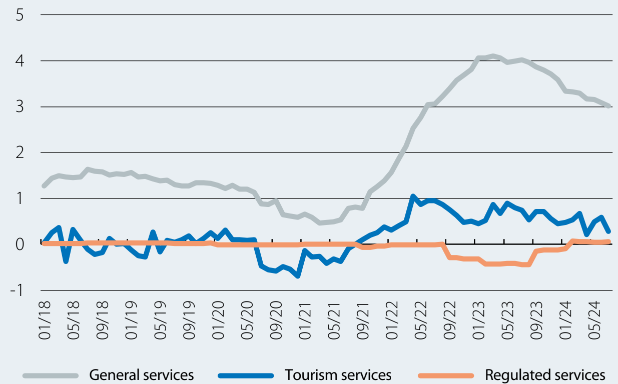
1. Momentum is obtained by annualising the change in the seasonally-adjusted 3-month average CPI relative to the previous three months.
2. Given the discretionary nature of the latter group, we will focus our analysis on the first two.
3. General services account for 87% of the CPI basket of all services, while tourism and regulated services represent 7% and 6%, respectively.
4. The tourism services category includes air and sea transportation, tour packages, accommodation and recreational services.

Spain: CPI services
Year-on-year change (%)



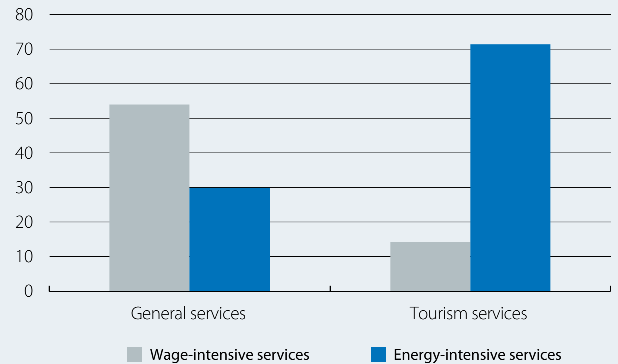
Note: *Inflation momentum is defined as the annualised rate of change in the seasonally-adjusted 3-month average CPI relative to the previous three months.*
Source: *CaixaBank Research, based on data from the Spanish National Statistics Institute (INE).*

Spain: contribution to services inflation
(pps)



Note: *The contribution is calculated by multiplying the year-on-year change of the subclasses in each category by their relative weight in the CPI basket.*
Source: *CaixaBank Research, based on data from the Spanish National Statistics Institute (INE).*

Spain: wage- and energy-intensive services
(% of CPI subclasses classified as wage- or energy-intensive over the total of each group)



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

The factors behind services inflation

The disparate pattern of inflation between general services and tourism services is largely explained by the differing trends in demand, as well as by their differing cost structures. In particular, energy costs have a greater weight in tourism services, while in the case of general services the main cost component is wages.

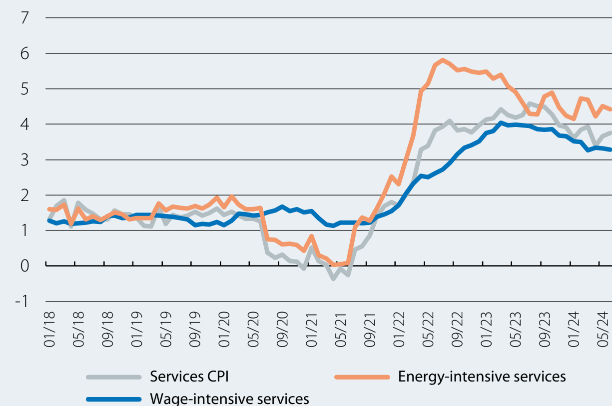
Over the past two years, inflation in energy-intensive services has exceeded the inflation of all services as a whole, while that of wage-intensive services has been lower.[5] This gap, which was not present in the period 2018-2019, suggests that energy costs account for a significant part of the rise in services inflation.

Our forecast is that services inflation will moderate over the coming months, standing slightly above 3%. On the one hand, the containment of wage growth reduces the likelihood of second-round effects. On the other hand, the moderation in the pace of growth in tourism demand and the stabilisation of energy prices should also relieve pressure on the prices of tourism services.

Zoel Martín Vilató

Spain: inflation of wage- and energy-intensive services

Year-on-year change (%)



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

5. For further details, see «Decomposing HICPX inflation into energy-sensitive and wage-sensitive items». ECB Economic Bulletin, Issue 3/2024.

Activity and employment indicators

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

	2022	2023	Q3 2023	Q4 2023	Q1 2024	Q2 2024	06/24	07/24	08/24
Industry									
Industrial production index	2.2	–1.2	–2.3	–0.9	–0.3	0.4	0.6	...	...
Indicator of confidence in industry *(value)*	–0.8	–6.5	–8.2	–8.1	–5.2	–5.5	–5.9	–4.4	–3.5
Manufacturing PMI *(value)*	51.0	48.0	47.3	45.9	50.7	52.8	52.3	51.0	50.5
Construction									
Building permits *(cumulative over 12 months)*	15.4	1.3	4.3	0.8	2.9	–	...	...	...
House sales *(cumulative over 12 months)*	29.0	0.1	–3.4	–9.2	–10.4	–9.5	–9.9	...	...
House prices	7.4	4.0	4.5	4.2	6.3	7.8	...	...	...
Services									
Foreign tourists *(cumulative over 12 months)*	129.8	18.9	21.9	18.9	15.8	14.3	14.3	13.7	...
Services PMI *(value)*	52.5	53.6	50.9	51.2	54.3	56.6	56.8	53.9	54.6
Consumption									
Retail sales[1]	2.3	2.5	2.0	2.8	1.1	0.4	0.4	1.0	...
Car registrations	–3.0	18.5	6.9	11.9	4.2	9.6	2.2	3.4	–6.5
Consumer confidence index *(value)*	–26.5	–19.2	–16.1	–19.0	–17.2	–14.4	–14.2	–13.7	–15.2
Labour market									
Employment[2]	3.6	3.1	3.4	3.6	3.0	2.0	–	–	–
Unemployment rate (% labour force)	13.0	12.2	11.9	11.8	12.3	11.3	–	–	–
Registered as employed with Social Security[3]	3.9	2.7	2.7	2.6	2.6	2.4	2.5	2.4	2.3
GDP	**5.8**	**2.5**	**1.9**	**2.2**	**2.6**	**2.9**	–	–	–

Prices

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

	2022	2023	Q3 2023	Q4 2023	Q1 2024	Q2 2024	06/24	07/24	08/24
General	8.4	3.6	2.8	3.3	3.1	3.5	3.4	2.8	2.2
Core	5.1	6.1	6.0	4.5	3.5	3.0	3.0	2.8	2.7

Foreign sector

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

	2022	2023	Q3 2023	Q4 2023	Q1 2024	Q2 2024	06/24	07/24	08/24
Trade of goods									
Exports *(year-on-year change, cumulative over 12 months)*	22.9	–1.4	4.5	–1.4	–6.9	–4.9	–4.9	...	...
Imports *(year-on-year change, cumulative over 12 months)*	33.4	–7.2	–1.2	–7.2	–9.8	–7.1	–7.1	...	...
Current balance	**8.2**	**37.7**	**35.8**	**37.7**	**39.2**	**44.0**	**44.0**	**...**	**...**
Goods and services	16.3	60.1	54.6	60.1	62.0	67.1	67.1	...	...
Primary and secondary income	–8.1	–22.4	–18.8	–22.4	–22.8	–23.1	–23.1	...	...
Net lending (+) / borrowing (–) capacity	**20.7**	**53.7**	**50.0**	**53.7**	**53.5**	**58.8**	**58.8**	**...**	**...**

Credit and deposits in non-financial sectors[4]

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

	2022	2023	Q3 2023	Q4 2023	Q1 2024	Q2 2024	06/24	07/24	08/24
Deposits									
Household and company deposits	4.9	0.6	–0.3	0.4	2.5	3.4	4.5	3.5	...
Sight and savings	7.9	–4.5	–6.9	–7.6	–6.6	–4.0	–1.9	–2.6	...
Term and notice	–19.6	52.2	69.8	90.2	104.4	77.4	68.0	58.6	...
General government deposits	9.5	8.8	11.3	9.4	–1.5	–2.2	–4.1	6.3	...
TOTAL	**5.2**	**1.1**	**0.5**	**1.1**	**2.2**	**3.1**	**3.9**	**3.7**	**...**
Outstanding balance of credit									
Private sector	0.7	–2.5	–3.4	–3.7	–2.9	–1.9	–1.3	–1.1	...
Non-financial firms	0.9	–3.4	–4.6	–5.2	–4.0	–2.7	–1.8	–1.7	...
Households - housing	1.0	–2.6	–3.4	–3.3	–2.8	–2.0	–1.5	–1.0	...
Households - other purposes	–0.6	–0.2	0.0	–0.5	–0.3	0.5	0.7	0.3	...
General government	0.2	–3.4	–4.6	–5.5	–2.9	–3.2	–2.7	–6.3	...
TOTAL	**0.7**	**–2.6**	**–3.4**	**–3.8**	**–2.9**	**–2.0**	**–1.4**	**–1.4**	**...**
NPL ratio (%)[5]	**3.5**	**3.5**	**3.5**	**3.6**	**3.6**	**3.5**	**3.4**	**...**	**...**

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.*

The Portuguese economy loses momentum in Q2

In Q2, GDP registered only a small advance, although the composition of the growth offers some cause for optimism. In Q2 2024, GDP grew by just 0.1% quarter-on-quarter, marking a significant slowdown from the 0.8% recorded in Q1. This pattern is explained by the slowdown of exports and the acceleration of imports, which has led to foreign demand making a negative contribution to quarter-on-quarter GDP growth (–0.4 pps). This contrasts with the positive contribution from domestic demand (+0.5 pps), which has been supported by investment in machinery and transport equipment. Private consumption, on the other hand, is slowing. In annual terms, GDP growth remains at 1.5%.

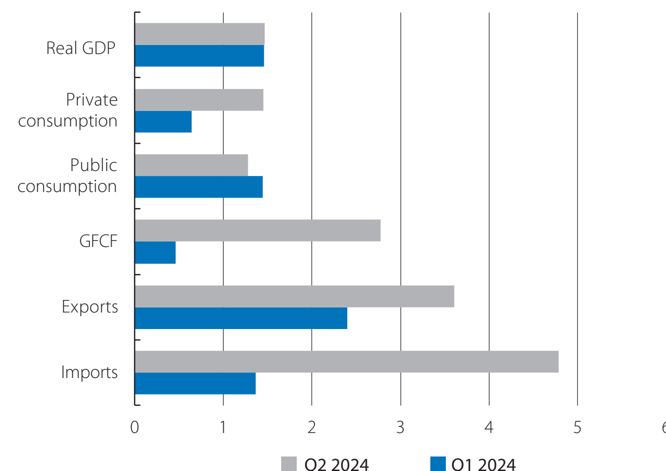
Although the figure for Q2 was lower than that anticipated by CaixaBank Research, we remain reasonably optimistic about the path of economic activity in the second half of the year thanks to tourism, the correction of inflation and the fall in financing costs. Moreover, the gradual increase in the execution of European funds will support investment. Consequently, we continue to project GDP growth in excess of 1.5% in 2024, and with upside risks.

The economic activity indicators for Q3 show a mixed performance. On the one hand, the Bank of Portugal's economic activity indicator slowed in July, pointing to a year-on-year growth of 1.2%, while the indicator corresponding to private consumption accelerated once again in July, to 1.8% year-on-year. The sentiment indicators for August, meanwhile, reveal signs of caution among consumers and optimism in the construction and industrial sectors. Finally, tourism continues to show strong growth, with year-on-year increases in the number of tourists and overnight stays of 6% and 5%, respectively.

Inflation slowed to 1.9% in August, 60 pps lower than in July, as a result of a 1.4% fall in energy prices and a slowdown to 0.8% (2.8% in July) in the case of food. Excluding these two components, the core inflation rate has stabilised at 2.4%, confirming the slow pace of the disinflationary process. The story over the coming months could be less favourable, especially given the pattern in energy prices: the government recently announced the partial withdrawal of the fuel support measures. Also, starting from October, electricity and gas prices and tariffs will be updated. These factors support our expectation of a rebound in inflation in the closing months of the year, while the core rate will remain at around 2.4%.

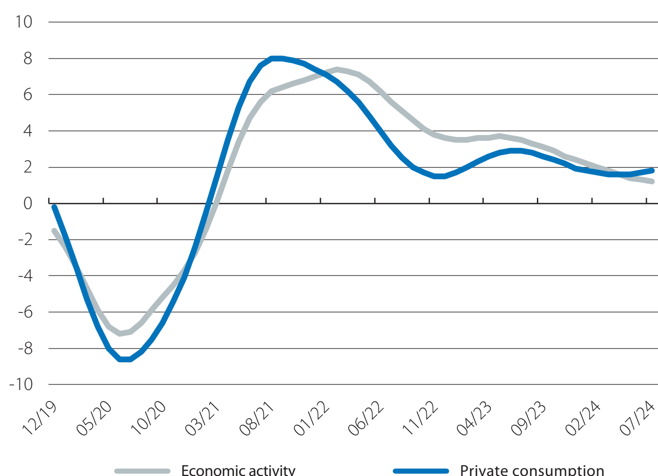
Job creation slows. In Q2, the pace of jobs growth slowed from 2.8% year-on-year in Q1 to 1.0%. This brings the total number of workers to 5.1 million, the highest figure since Q3 2008. As for wages, the average real monthly gross remuneration per worker increased by 3.6% in Q2, pointing to a recovery in the purchasing power of those in employment – a positive sign for the momentum of private consumption.

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



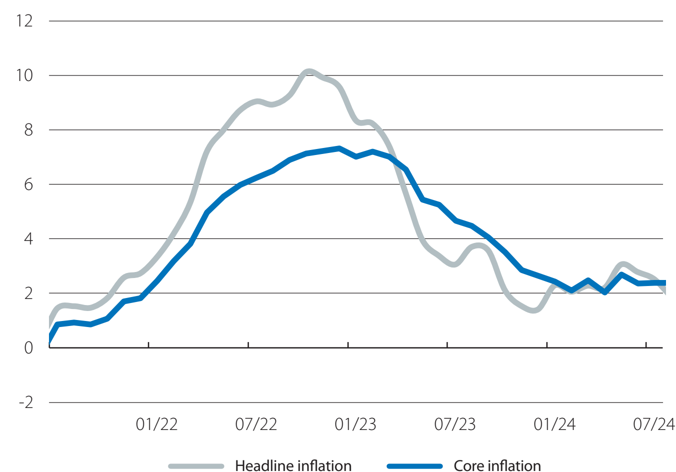
Source: *CaixaBank Research, based on data from the National Statistics Institute of Portugal.*

Portugal: coincident indicators
Year-on-year change (%)



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

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



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

How is Portugal's household wealth distributed?

In 2023, the net wealth of Portuguese households reached 855 billion euros, representing an increase of 6% compared to 2022 and of around 28% compared to 2019. A less pronounced movement occurred in real net wealth, which, at 2019 prices, rose 1.6% year-on-year and stood 12% above the 2019 level. Real net wealth per household, for its part, has also registered positive growth, and at the end of 2023 it stood 9.6% above the figure for 2019.

The appreciation of the housing market has been the main driver of the increase in nominal wealth, given that since the end of 2019 home prices have grown by 45%. Another factor that has influenced the increase in net wealth has been the fall in financial liabilities.

Housing is the main destination of Portuguese household wealth; not only does it account for 51% of total wealth, but the portion it represents of the total has increased by around 3 pps since 2019. Looking at the breakdown of financial wealth, deposits stand out, representing 48% of financial assets and 23% of total net worth.

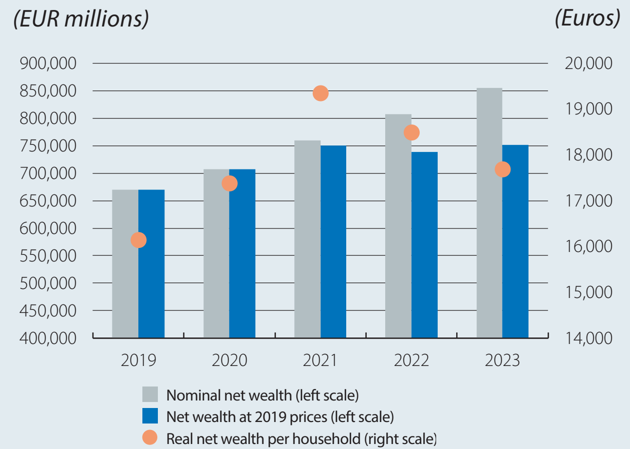
Assets by level of household wealth

In early 2024, the ECB began publishing statistics on household wealth, which allowed for a more detailed analysis of the data, in particular with the classification of households by wealth percentile and according to their situation in the labour market.

With data from 2023, we can observe that the concentration of wealth within the top 10% of the population in terms of net wealth in Portugal is similar to that of the euro area: more than half of all assets are concentrated in this 10% of the population. Among the lower 50% of the population in terms of wealth, the percentage of assets held is higher in Portugal than in the euro area and no significant changes have been observed since 2019. It should be mentioned that in 2023 total assets decreased by 1.5% compared to 2022, but they are still 15.4% above the 2019 level, mainly due to the almost 13% appreciation recorded by real estate assets.

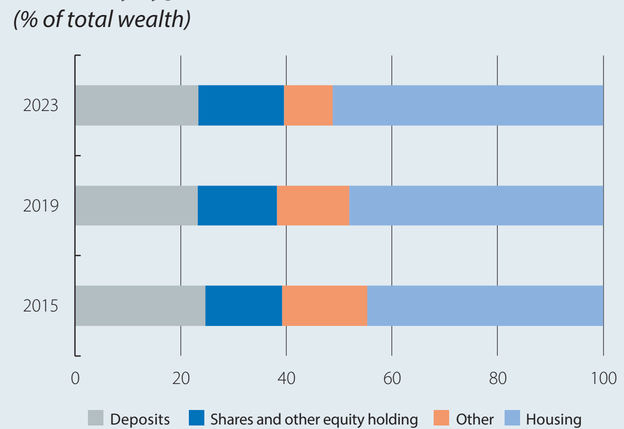
However, liabilities are concentrated in the population with the lowest net wealth: 40% of all loans for home purchases are concentrated in this segment, as is 42% of other forms of credit, primarily consumer credit. It is also in the lower segment of wealth that there was an increase in liabilities compared to 2022: more than 945 million euros, of which 649 million were for the purchase of homes.

Portugal: net wealth of Portuguese households
(EUR millions) *(Euros)*



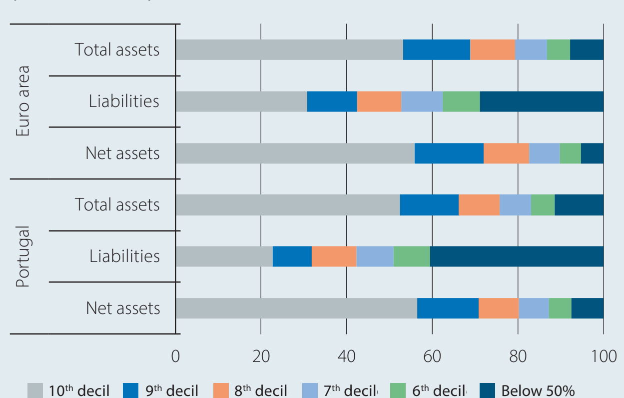
Source: *CaixaBank Research, based on data from the National Statistics Institute of Portugal and the Bank of Portugal.*

Portugal: structure of Portuguese household wealth by type of asset
(% of total wealth)



Fuente: *CaixaBank Research, based on data from the Bank of Portugal.*

Portugal: wealth distribution by decile *
(% of the total)



Note: ** By decile of net wealth.*
Source: *CaixaBank Research, based on data from the ECB.*

Among Portuguese households with the lowest net wealth, the portion of their wealth that corresponds to housing is substantially greater than in the euro area as a whole, at 75% versus 63%. This also explains why liabilities are higher in this group of the population. In turn, financial assets, especially deposits, account for just 21% of the assets of the lower 50% of Portuguese households, contrasting with the euro area average of 33%. The other components of wealth, which are similar in Portugal and the euro area, correspond to financial and non-financial assets associated with commercial activities or freelance professions.

Household wealth according to employment status

The data on household wealth, taking into account people's situation in the labour market, show that the distribution of assets and liabilities is similar in Portugal and in the euro area for those in employment. However, the share of wealth that is in the hands of the retired population is higher in the euro area than it is in Portugal: specifically, Portuguese retirees account for 23% of total assets, which is around 6 pps less than in the euro area as a whole. The opposite situation is observed among self-employed workers, who in Portugal hold 22% of all household assets, some 2 pps more than in the euro area.

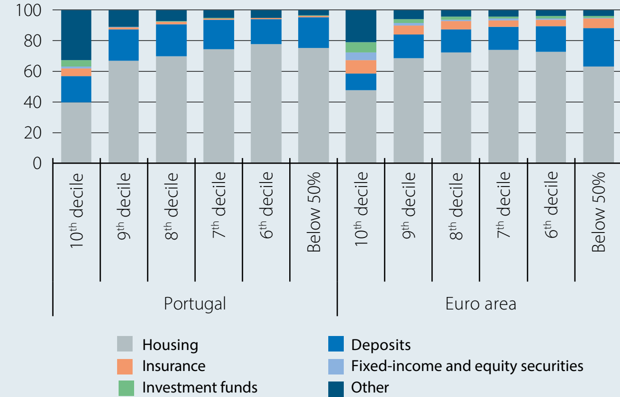
In terms of liabilities, these are mainly concentrated among those in employment: in Portugal, around 70% of total liabilities correspond to this group, and they are the ones with the greatest capacity to pay off debts. In addition, it is observed that the liabilities of the unemployed are quite low: just 2.8% of all liabilities are held by these people.

Conclusion

Portuguese households have increased their wealth in recent years and do not show any significant differences in its distribution by level of wealth or according to employment status with respect to the euro area. Only the proportion of liabilities that are borne by the less wealthy half of the population is relatively higher in Portugal. This no doubt reflects the effort required by this segment of the population in recent years in purchasing homes, as they tend to be younger and have not yet accumulated significant assets.

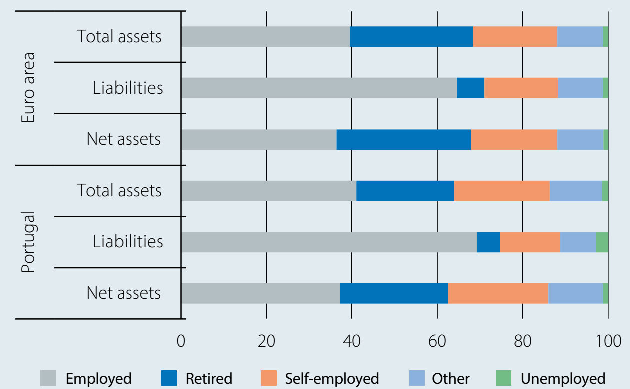
Teresa Gil Pinheiro

Portugal: composition of household wealth
(% of assets)



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

Portugal: wealth distribution according to employment status
(of the total)



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

Activity and employment indicators

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

	2022	2023	Q3 2023	Q4 2023	Q1 2024	Q2 2024	06/24	07/24	08/24
Coincident economic activity index	5.7	3.3	3.3	2.6	2.0	1.4	1.3	1.2	...
Industry									
Industrial production index	0.8	–3.1	–4.5	–3.5	1.4	1.4	–2.7	–4.0	...
Confidence indicator in industry *(value)*	–3.4	–7.4	–9.0	–9.3	–7.9	–6.7	–6.5	–6.7	–6.5
Construction									
Building permits - new housing (number of homes)	6.2	7.5	12.1	4.9	–19.9	3.6	–5.6	...	...
House sales	1.3	–18.7	–18.9	–11.4	–4.1	...	–	–	–
House prices *(euro / m² - valuation)*	13.8	9.1	8.1	6.4	5.5	6.8	6.6	7.4	...
Services									
Foreign tourists *(cumulative over 12 months)*	158.9	19.1	24.9	19.1	13.1	9.5	9.5	9.3	...
Confidence indicator in services *(value)*	15.2	7.6	5.8	1.7	6.3	4.3	1.4	–0.4	–1.6
Consumption									
Retail sales	5.5	1.1	0.6	0.6	1.8	2.2	3.2	2.1	...
Coincident indicator for private consumption	3.9	2.4	2.8	2.2	1.7	1.6	1.7	1.8	...
Consumer confidence index *(value)*	–29.7	–28.6	–22.8	–27.2	–24.6	–18.7	–17.2	–15.4	–14.3
Labour market									
Employment	2.3	2.3	2.2	1.6	2.6	1.0	0.8	0.5	...
Unemployment rate (*% labour force*)	6.2	6.5	6.1	6.6	6.8	6.1	6.4	6.2	...
GDP	**6.8**	**2.3**	**1.9**	**2.1**	**1.5**	**1.5**	–	–	–

Prices

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

	2022	2023	Q3 2023	Q4 2023	Q1 2024	Q2 2024	06/24	07/24	08/24
General	7.8	4.4	3.5	1.7	2.2	2.7	2.8	2.5	1.9
Core	5.6	5.1	4.4	3.0	2.3	2.4	2.4	2.4	2.4

Foreign sector

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

	2022	2023	Q3 2023	Q4 2023	Q1 2024	Q2 2024	06/24	07/24	08/24
Trade of goods									
Exports *(year-on-year change, cumulative over 12 months)*	23.2	–1.4	2.9	–1.4	–5.5	–3.6	–3.6	...	...
Imports *(year-on-year change, cumulative over 12 months)*	31.7	–4.0	1.4	–4.0	–7.3	–5.7	–5.7	...	...
Current balance	**–2.8**	**3.6**	**4.1**	**3.6**	**5.1**	**5.8**	**5.8**	**...**	**...**
Goods and services	–4.7	3.3	2.1	3.3	4.6	5.3	5.3	...	...
Primary and secondary income	1.9	0.4	2.0	0.4	0.5	0.6	0.6	...	...
Net lending (+) / borrowing (–) capacity	**–0.5**	**7.2**	**7.3**	**7.2**	**8.8**	**9.2**	**9.2**	**...**	**...**

Credit and deposits in non-financial sectors

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

	2022	2023	Q3 2023	Q4 2023	Q1 2024	Q2 2024	06/24	07/24	08/24
Deposits [1]									
Household and company deposits	6.4	–2.3	–2.6	–2.3	2.7	5.6	5.6	5.1	...
Sight and savings	7.3	–14.8	–9.4	–14.8	–11.2	–4.6	–4.6	–5.2	...
Term and notice	5.2	14.8	6.9	14.8	20.2	17.7	17.7	17.3	...
General government deposits	12.4	–12.4	5.5	–12.4	9.1	4.5	4.5	15.0	...
TOTAL	**6.5**	**–2.6**	**–2.4**	**–2.6**	**2.9**	**5.6**	**5.6**	**5.4**	**...**
Outstanding balance of credit [1]									
Private sector	1.7	–1.5	–1.8	–1.5	–0.8	0.0	0.0	0.5	...
Non-financial firms	–0.6	–2.1	–3.5	–2.1	–1.7	–1.4	–1.4	–0.6	...
Households - housing	3.2	–1.5	–0.9	–1.5	–0.9	0.2	0.2	0.4	...
Households - other purposes	2.9	0.2	–0.8	0.2	2.0	2.7	2.7	3.3	...
General government	–2.7	–5.5	–1.4	–5.5	5.9	–5.8	–5.8	–2.3	...
TOTAL	**1.6**	**–1.7**	**–1.8**	**–1.7**	**–0.5**	**–0.2**	**–0.2**	**0.4**	**...**
NPL ratio *(%)* [2]	**3.0**	**2.7**	**2.9**	**2.7**	**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.*

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The rapid growth of Spain's real estate sector during the first half of the year has led us to revise upwards our forecasts for 2024 and 2025. Even so, the mismatch between supply and demand will determine the sector's behaviour, as it tackles major challenges such as climate change and the housing affordability problems for the young and the most vulnerable segments of society.

Tourism Sector Report S2 2024

The record figures reached by tourism in Spain in the opening months of 2024 and the effects of climate change on the sector highlight the need to continue improving the management of tourism flows and to promote innovation and investment, in order to minimise the negative impacts of tourism activity and move towards a less seasonal model that reinforces sustainability.

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360º report on the state and outlook for Spain's economic sectors. We take a more in-depth look at the underlying dynamics behind macroeconomic developments, offer-ing a comprehensive view of the various economic sectors' performance over time.

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