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INTERNATIONAL ECONOMIES AND MARKETS

FINANCIAL MARKETS
Energy: revision of the scenario in turbulent times

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SPANISH ECONOMY

Upward revision of Spain's GDP growth forecast

Spain's tourism sector breaks all records in summer 2024

CaixaBank Research

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October 2024

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US elections in a new phase

This eventful election year, with over half of the world's population being called to the polls, will soon culminate with the US presidential elections on 5 November, which will also see one third of the Senate and the entire House of Representatives being up for re-election. The various possible combinations of results which will emerge from the nation's checks and balances between the legislative and executive branches of the world's leading economic power are particularly significant on this occasion. This is the case both due to the economic and geopolitical challenges that lie ahead and because of the antagonistic nature of the candidates' profiles and programmes, as this increases the uncertainty surrounding what path economic and foreign policy will take over the next four years. Moreover, the contest is likely to be decided in just a handful of swing-state counties, with the consequent risk of challenges, vote recounts and delays in the final result that this entails.

The starting point is an American economy which, having overcome the post-COVID inflationary phase and the period dominated by the decisive monetary policy response that followed, is losing steam now that the pent-up savings from the pandemic have evaporated and the effects of the monetary tightening are beginning to be felt in the labour market. In particular, there are still significant macroeconomic imbalances, both on the monetary side (inflation) despite the progress of the last 12 months and, above all, on the fiscal side, with a structural budget deficit of around 6% of GDP and public debt set to exceed 130% of GDP by the end of the decade. This is a reflection of the public spending and investment programmes approved since the pandemic, as well as the ongoing poor performance of tax revenues for a developed country (30% of GDP). The need for a medium-term budget consolidation programme clashes with both candidates' intentions, given that neither of them appear willing to break the current fiscal inertia, preferring instead to focus on either social spending and the energy and infrastructure transition (Kamala Harris) or tax cuts (Donald Trump). Therefore, the first conclusion we can draw is that fiscal policy will continue to show a clearly expansionary tone, regardless of who wins. This will increase the Treasury's already high funding needs, which in turn could drive up global interest rates and hinder the monetary policy normalisation process.

On the supply side, the differences are more substantial. The tightening of immigration controls in the event of a Republican victory could lead to a halt of the sharp rise in the labour force which we have seen in the last two years (+2.4% or 4 million people), 40% of which corresponds to foreign workers, and which has helped to narrow the huge gap between the supply and demand for labour seen in March 2022 (when there were two vacancies for every job seeker). In the sphere of trade, meanwhile, Trump will increase trade barriers regardless of whether the affected countries are allies (10% universal tariff) or not (60% minimum for products manufactured in China), and there are doubts over whether this could impact the USMCA, especially in the case of cars produced in Mexico with Chinese capital. In the case of Harris, the supply policies will entail a continuation of those seen in recent years: no noticeable changes in tariffs, a commitment to clean energy, bolstering competition policies and seeking a controlled de-risking process. All of this is normal during a campaign, but if we put all the promises on the table, the movement of the supply and demand curves would lead us to an equilibrium point with higher inflation, but not much more growth. The reality will no doubt be different and bond vigilantes can also do their job, but at the very least we should expect more instability in the financial markets in the short term. A risk scenario with a Republican sweep (Trump victory and Republican control of both houses) could lead us down a path towards a more closed economy with greater imbalances and lower potential growth, awaiting the productivity effects of AI.

In the geopolitical sphere, the multiple ongoing wars, structural changes in the globalisation process, the widespread search for strategic autonomy and even defence policy itself could be affected by the outcome of the election. Considering that in relations with China there will be no significant differences between the candidates (and probably not many in the country's stance on the Middle East conflict either), it is in the relationship with Europe, both in the management of the conflict between Russia and Ukraine and in the future role that the US will play in NATO, where the outcome of the elections will not be indifferent. In short, as Adam Tooze recently reminded us, at a time when the old US economic policy is dying, the next four years will determine the shape of the new one, which makes the outcome of this election all the more important.

José Ramón Díez
October 2024

Chronology

SEPTEMBER 2024

12 The ECB cut interest rates 25 bps, placing the depo rate at 3.50% and the refi rate at 3.65%.
18 The Fed cut interest rates 50 bps, placing them in the 4.75%-5.00% range, having raised them 500 bps since March 2022.

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).

Agenda

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).

NOVEMBER 2024

4 Portugal: public debt (Q3).
5 Spain: registration with Social Security and registered unemployment (October).
6 Portugal: employment (Q3).
6-7 Federal Open Market Committee meeting.
7 Spain: industrial production (September).
8 Spain: Fitch rating.
13 Portugal: labour cost (Q3).
14 Japan: GDP (Q3).
15 Portugal: Moody's rating.
19 Portugal: balance of payments (September).
22 Spain: loans, deposits and NPL ratio (September).
28 Portugal: loans and deposits (October).
Spain: CPI flash estimate (November).
Euro area: economic sentiment index (November).
29 Spain: DBRS rating.
Portugal: GDP breakdown (Q3).
Euro area: CPI flash estimate (November).

The five keys to Spain's Economic strength

The Spanish economy has demonstrated remarkable resilience in a challenging global environment. Despite the energy crisis, disruptions to global supply chains, the inflationary shock and the subsequent monetary tightening, Spain's GDP is well above pre-pandemic levels. According to the latest estimates from the National Statistics Institute, GDP in Q2 2024 was 5.7% higher than pre-pandemic levels, outpacing the euro area's modest growth of 3.9%.

The latest data reveal a strong economy. In Q2 2024, GDP beat expectations once again, registering quarterly growth of 0.8% and far exceeding the euro area's 0.2%. The outlook also remains promising, with ample room for further growth. The gap between Spain's GDP and the pre-pandemic trajectory is substantial, at approximately 6%. However, there are five factors that suggest that this gap will steadily close through growth remaining above the historical average of 2.0%.

Firstly, household finances are broadly healthy, with aggregate debt at 45% of GDP, compared to the 81% reached in 2012 or the euro area's current 52%. The high savings rate has also shored up households' balance sheets, standing at 13.4% of gross disposable income, well above the historical average of 8.6%. Finally, households' net financial wealth has reached 232% of gross disposable income. All this provides a strong foundation for consumption to continue to grow rapidly in the coming years. Indeed, the pace of consumption growth is likely to accelerate somewhat as inflation and interest rates normalise.

The second strength of Spain's economy is its diversified export base, which bolsters its economic resilience. In terms of both products and countries, our exports are more diversified now than they were in previous cycles, and more and more companies are exporting. In the last decade, the number of regular exporters has increased by almost 30%. All this has provided a major boost to Spain's exports, which now represent 38% of GDP, up from 26% in 2013. They have recorded particularly rapid growth in recent years and currently stand 10.9% above 2019 levels in real terms, driven by services exports, which are already 35.0% above pre-pandemic levels. All this has helped to maintain significant current account surpluses and reduce foreign debt, with the net international investment position (NIIP) standing at 47% of GDP, versus 86% in 2020.

Thirdly, but no less important, Spain's economy is highly diversified at the sector level, supported by the deployment of European NGEU funds. Tourism remains a significant driver of growth. CaixaBank Research estimates that tourism GDP will end 2024 11.5% above 2019 levels. However, other sectors also stand out: the GDP of the information and communications sector is 23.4% higher than in Q4 2019; in the case of real estate activities, it is 15.9% higher; professional activities, 15.6%; and the manufacturing industry, 10.2%. In the current international context, with a high degree of uncertainty and sector-specific shocks affecting various countries, sectoral diversification is an asset to be preserved. In fact, in the coming years and as interest rates normalise, business investment is likely to gather momentum, further bolstering the country's productive sectors.

Finally, there are two additional factors which have unexpectedly entered the scene during the current cycle and which are also playing a prominent role: population growth and the diversification of the energy mix. In the past two years, the population has increased by just over 1% annually, largely due to the arrival of one million people born abroad. This influx has increased and rejuvenated the labour force, and projections indicate that the population will continue to grow at a similar rate in the coming years. On the other hand, the diversification of the energy mix is a notable factor, as renewable energies take on an increasingly prominent role in Spain's electricity production. In 2023, renewables accounted for 50% of production, marking a 13-pp increase since 2019. This reduces the country's energy dependence, improves supply security and allows more energy-intensive sectors, such as manufacturing, to become more competitive.

In this context, at CaixaBank Research we have improved our growth forecasts for the Spanish economy. For 2024, expected GDP growth now stands at 2.8%, up 0.4 pps versus the previous forecast. Looking ahead to the next few years, the pace of progress is expected to remain dynamic, with growth exceeding 2.0%, driven by a greater role of domestic demand and, in particular, household consumption and investment.

Oriol Aspachs

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	4.50	3.25
3-month SOFR	3.62	0.99	0.21	4.74	5.37	4.16	3.07
12-month SOFR	3.86	1.42	0.52	5.48	4.95	3.62	3.10
2-year government bonds	3.70	0.99	0.67	4.30	4.46	3.60	3.35
10-year government bonds	4.69	2.44	1.46	3.62	4.01	3.80	3.80
Euro							
ECB depo	2.05	0.15	–0.50	1.77	4.00	3.25	2.25
ECB refi	3.05	0.69	0.00	2.27	4.50	3.40	2.40
€STR	–	–0.55	–0.58	1.57	3.90	3.18	2.20
1-month Euribor	3.18	0.42	–0.60	1.72	3.86	3.18	2.21
3-month Euribor	3.24	0.57	–0.58	2.06	3.94	3.19	2.21
6-month Euribor	3.29	0.70	–0.55	2.56	3.93	3.00	2.14
12-month Euribor	3.40	0.86	–0.50	3.02	3.68	2.80	2.06
Germany							
2-year government bonds	3.41	0.27	–0.69	2.37	2.55	2.15	2.05
10-year government bonds	4.30	1.38	–0.31	2.13	2.11	2.10	2.00
Spain							
3-year government bonds	3.62	1.53	–0.45	2.66	2.77	2.41	2.32
5-year government bonds	3.91	2.01	–0.25	2.73	2.75	2.50	2.41
10-year government bonds	4.42	2.96	0.42	3.18	3.09	2.90	2.80
Risk premium	11	158	73	105	98	80	80
Portugal							
3-year government bonds	3.68	3.05	–0.64	2.45	2.33	2.62	2.53
5-year government bonds	3.96	3.63	–0.35	2.53	2.42	2.63	2.56
10-year government bonds	4.49	4.35	0.34	3.10	2.74	2.80	2.75
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	1.12	1.13
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	76.0	73.5
Brent (euros/barrel)	36.4	60.6	66.2	76.8	70.9	68.1	65.0

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	3.3	3.1	3.3
Developed countries	*2.7*	*1.0*	*5.7*	*2.6*	*1.7*	*1.7*	*1.8*
United States	2.7	1.5	6.1	2.5	2.9	2.6	1.9
Euro area	2.3	0.3	6.2	3.4	0.5	0.7	1.3
Germany	1.6	0.8	3.6	1.4	–0.1	0.0	0.7
France	2.3	0.3	6.8	2.6	1.1	1.1	1.2
Italy	1.5	–1.0	8.3	4.1	1.0	0.8	1.1
Portugal	1.5	–0.2	5.7	6.8	2.3	1.7	2.3
Spain	3.6	–0.2	6.7	6.2	2.7	2.8	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	1.1	1.0
Emerging and developing countries	*6.4*	*4.4*	*7.0*	*4.1*	*4.4*	*4.2*	*4.2*
China	10.6	7.5	8.5	3.0	5.2	4.6	4.0
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	2.5	1.8
Mexico	2.3	0.7	6.1	3.7	3.2	2.1	2.1
Russia	–	1.0	5.9	–1.3	3.7	3.1	1.3
Türkiye	5.5	4.3	11.4	5.5	5.1	3.4	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	5.7	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	2.9	2.0
Euro area	2.2	1.3	2.6	8.4	5.4	2.4	2.2
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	1.3	2.0
Portugal	3.1	1.0	1.3	7.8	4.3	2.4	2.1
Spain	3.2	1.2	3.1	8.4	3.5	3.0	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	2.6	2.3
Emerging and developing countries	*6.7*	*5.5*	*5.9*	*9.8*	*8.3*	*7.9*	*5.7*
China	1.7	2.6	0.9	2.0	0.2	0.1	1.4
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	6.6	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	3.7	–0.9	7.2	4.9	1.7	2.5	2.5
Government consumption	4.5	1.1	3.6	0.6	5.2	3.6	1.6
Gross fixed capital formation	5.7	–1.8	2.6	3.3	2.1	2.7	3.4
Capital goods	4.9	–0.9	3.3	2.9	1.1	1.8	4.3
Construction	5.7	–3.0	0.5	2.2	3.0	3.5	3.0
Domestic demand (vs. GDP Δ)	4.4	–0.9	6.9	3.9	1.7	2.4	2.4
Exports of goods and services	4.7	1.1	13.4	14.3	2.8	3.0	2.3
Imports of goods and services	7.0	–1.0	15.0	7.7	0.3	1.9	2.8
Gross domestic product	**3.6**	**–0.2**	**6.7**	**6.2**	**2.7**	**2.8**	**2.3**
Other variables							
Employment	3.2	–1.0	7.3	4.1	3.2	2.3	2.1
Unemployment rate (% of labour force)	10.5	19.2	14.9	13.0	12.2	11.6	11.2
Consumer price index	3.2	1.2	3.1	8.4	3.5	3.0	2.5
Unit labour costs	3.1	1.2	1.2	1.9	6.1	4.5	3.3
Current account balance (% GDP)	–5.8	–0.2	0.8	0.4	2.7	3.1	3.1
External funding capacity/needs (% GDP)	–5.1	0.3	1.6	1.1	3.6	4.1	4.1
Fiscal balance (% GDP)[1]	0.3	–6.8	–6.7	–4.6	–3.5	–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	1.6	1.9
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	2.4	6.0
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	1.7	2.5
Exports of goods and services	5.3	2.2	12.3	17.4	4.1	3.7	4.6
Imports of goods and services	3.6	1.5	12.3	11.1	2.2	3.8	5.2
Gross domestic product	**1.5**	**–0.2**	**5.7**	**6.8**	**2.3**	**1.7**	**2.3**
Other variables							
Employment	0.4	–0.6	2.2	3.3	2.3	0.9	1.3
Unemployment rate (% of labour force)	6.1	11.1	6.7	6.1	6.5	6.5	6.4
Consumer price index	3.1	1.0	1.3	7.8	4.3	2.4	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

Various tailwinds support investors' risk appetite in September

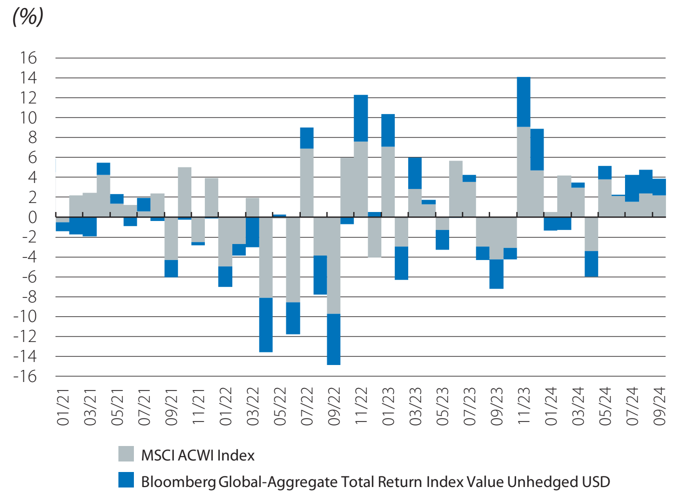
September sees Q3 end with widespread gains in the markets. In September, investors ended up shaking off the sharp correction of early August, thanks to various tailwinds that led to widespread gains in most markets and asset classes (September was the fifth consecutive month of simultaneous gains in global equities and fixed-income securities). The first of these tailwinds was the path of rate cuts onto which the vast majority of developed-market central banks settled, following in the footsteps of the Fed's 50-bp rate cut in September. This development occurred in a context of ongoing disinflation on both sides of the Atlantic and resilient labour markets, given the advanced stage of the business cycle. A second source of support was the decline in the price of crude oil during September, caused by both weak demand from China and the fact that Saudi Arabia is pondering a change of strategy by increasing production from December in order to gain market share. The escalation of tensions in the Middle East, however, reversed this trend and acted as a headwind for the market in early October. Finally, the Chinese authorities' decisive monetary and fiscal stimulus provided a major boost both for the country's equity markets (which had one of the worst performances in the year) and for the most highly-exposed regions, such as the euro area and Australia.

The cuts by central banks prolonged the falls in money market rates. The Fed's 50-bp interest rate cut announced at its September meeting, when it also confirmed the shift in its focus away from inflationary risks in favour of sustaining the labour market, raised investors' expectations of rapid and sharp rate cuts from other major central banks and induced a significant drop in money market rates. For the ECB, between August and late September, the implicit rates of this market went from anticipating a depo rate of 2% in Q1 2026 to one of 1.75% as early as September 2025. In the case of the Fed, the adjustment was similar in magnitude, with expectations for the terminal rate falling from 3% in late August to 2.75% by the end of September, albeit with a more prolonged downward path. These terminal rates anticipated for intervention benchmarks are below those currently estimated by the analyst consensus as being neutral levels. That said, the situation remains volatile and the unusual buoyancy of the US labour market in September sparked a new revision of expectations.

Sovereign debt yields fall and yield curves recover a positive slope. Sovereign debt yields also fell in September across the board on both sides of the Atlantic (although the decline was more pronounced in the shorter-term benchmarks, leading to positive yield curves), rounding off a quarter with investor profits. In the euro area, of particular note was the increase in France's risk premium, in a context of narrowing peripheral spreads. The poor performance of French debt took place in a month of political transition, during which the new government gradually recognised the magnitude of the fiscal problem. This, coupled with various rumours and pieces of news about cuts and reforms to tackle the deficit – which the finance minister

Monthly performance of global fixed-income securities and equities

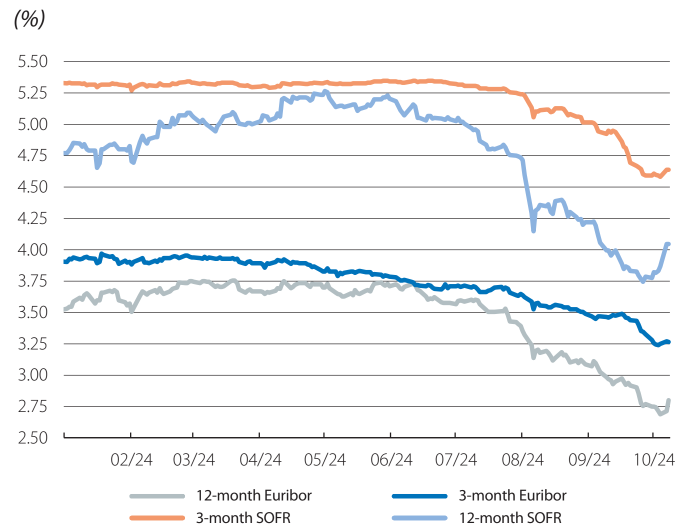
(%)



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

Interbank interest rates

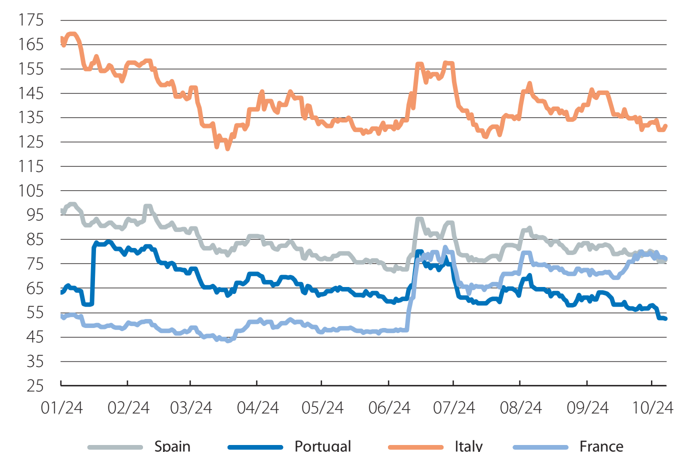
(%)



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

Risk premiums of the euro area periphery

Difference in the 10-year sovereign debt yield vs. the German benchmark (bps)



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

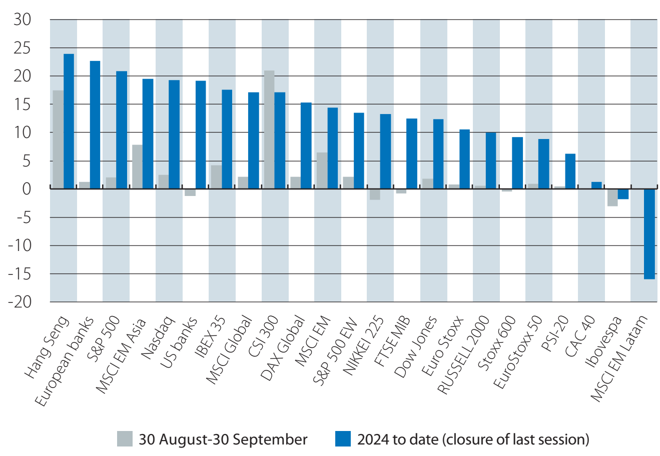
says could exceed 6% of GDP – caused France's risk premium to rise slightly above Spain's for the first time since 2007.

Global stock markets enjoy a rally. This was driven both by the fall in risk-free rates and by the monetary and fiscal stimulus measures announced by the Chinese authorities, aimed at supporting the real estate sector and stimulating a general economic recovery. The announcement of the measures sparked rapid gains in the country's main indices, as well as in Hong Kong, after having registered some of the worst performances in the world in the year up to September. It also triggered gains in the month in European stock markets, which have a large proportion of companies highly exposed to China (particularly those in the luxury sector, which are very numerous in Europe). Among the European indices, the IBEX 35 performed particularly well, thanks to companies exposed to the tourism sector, as well as others of a more cyclical nature, driven by the buoyancy of the Spanish economy. Finally, the US indices also closed the month and the quarter with gains. The S&P 500 reached all-time highs, driven once again by tech companies with the greatest exposure to AI.

The dollar shows weakness due to the rate cuts and political risk in the US. The US currency ended September with widespread depreciation – for the third consecutive month – against its main peers, especially the yen, yuan and Australian dollar, as well as against the euro, albeit to a lesser extent in the latter case. The dollar was highly sensitive to movements in the money markets which anticipated fast and aggressive rate cuts by the Fed. Moreover, some of its weakness also seemed to be attributable to sales prior to the election in November, given the uncertainty over how the various scenarios might affect the currency. The spike in geopolitical risk in the Middle East, on the other hand, triggered a sharp appreciation of the dollar in early October, as it acted as a safe-haven asset. As for other currencies, in September the yen prolonged its appreciation of the last three months, thanks to the Bank of Japan hinting throughout the month at the possibility of further rate hikes. On the other hand, the yuan capitalised on the widespread rise in Chinese financial asset prices triggered by the stimulus measures. These measures also facilitated the appreciation of the Australian dollar, driven by the rise in the price of metals, in view of the expectation of higher demand from China.

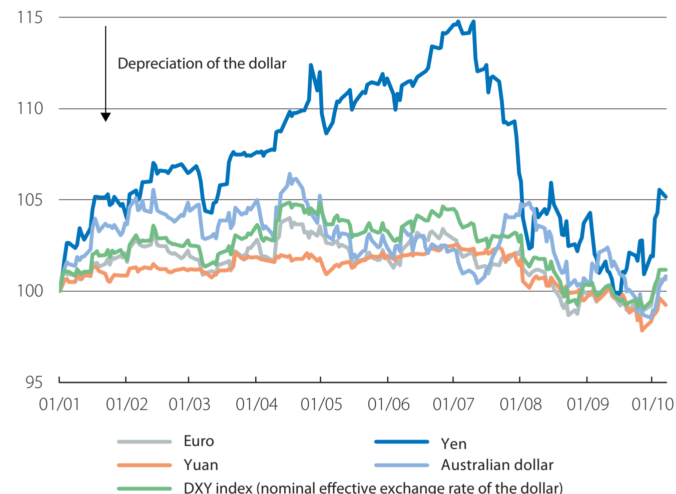
Following a summer of declines, the tensions in the Middle East drive up the price of crude oil. Oil prices ended a summer of declines in September, weighed down in the month by the news that Saudi Arabia was preparing to change its trade strategy, shifting from controlling production in order to reach 100 dollars a barrel to seeking an increase in OPEC+ production from December that will allow it to gain market share. While there was no increase in the price of oil in September despite China's stimulus package (which ought to increase demand) and the escalation of tensions in the Middle East, this latter factor did cause it to spike in the first week of October, given the increased risk of an escalation between Iran and Israel. Industrial metals, on the other hand, did capitalise on China's stimulus measures and the expected increase in demand, closing the month with gains. Finally, food futures rose sharply, particularly sugar and cereals, due to extreme weather events in several major producing countries, such as Brazil.

Performance of the main stock market indices
(%)



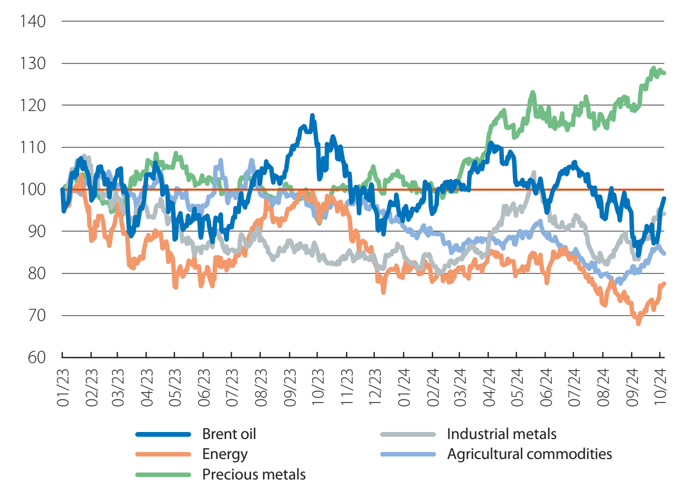
Source: *CaixaBank Research, based on data from Bloomberg.*

Select currencies against the dollar
Index (100 = 1 January 2024)



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

Commodity prices
Index (100 = 31 December 2022)



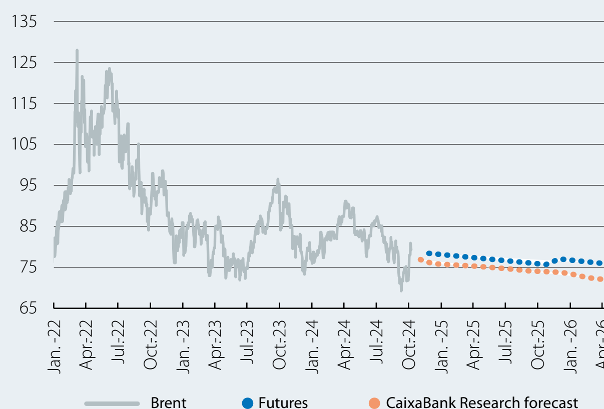
Source: *CaixaBank Research, based on data from Bloomberg.*

Energy: revision of the scenario in turbulent times

Since last July, commodity prices have fallen sharply,[1] driven by the downward adjustment of global growth expectations. Brent crude oil deserves a special mention, as the price of a barrel has been subject to a surge in volatility. The combination of fears of lower global energy demand, in a context of uncertainty over the extent of the monetary easing in the US, triggered a surge in sales which drove down the price per barrel from 87 to 69 dollars, marking a three-year low.

Given this deterioration in the expectations for the growth of oil demand, with doubts surrounding the ability of supply to adjust to the new scenario, we have considered it appropriate to revise our baseline scenario for energy prices, although we are aware of the difficulty of incorporating the uncertain geopolitical scenario into the forecasts.

Brent oil price
(Dollars/barrel)



Note: *Data as of 8 October.*
Source: *CaixaBank Research, based on data from Bloomberg.*

The supply of crude oil will outpace its demand

The expectations of a boost to oil demand coming from China faded after the slowdown of its economic growth in Q2 2024 was confirmed (GDP grew by 4.7% year-on-year in Q2, down from 5.1% in Q1). This statistic highlighted the slump in oil consumption that is taking place in the country, with a cumulative decline of 9% up until August 2024 compared to the peak reached in September last year. Considering that China is the second largest oil consumer in the world (16.7 million barrels per day [b/d] in 2023), behind only the US, and that it is the world's top net importer, this decline fuelled doubts about the growth rate of global oil demand in the short term. On the back of this figure,[2] and given the slim likelihood of the euro area or the US seeing an increase in the pace of their industrial activity growth in the coming months, the leading international energy organisations[3] have revised downwards their estimated growth for oil demand for this year and next. On average, they expect demand to grow in 2024 by around 103.4 million b/d, which is some 200,000 b/d less than was expected in February.

The recent expansionary economic policy measures adopted by the Chinese authorities at the end of September,[4] as well as the potential tailwind provided by the interest rate cuts in advanced economies, could have a positive impact on oil demand, but this will not be enough to boost its short-term growth rate.

1. The S&P Goldman Sachs Commodity Index (GSCI) fell by 8.8% between 1 July and 30 September.
2. See, «China's slowdown is weighing on the outlook for global oil demand growth», IEA, September 2024.
3. OPEC, IEA (International Energy Agency) and EIA (US Energy Information Administration).

On the other side of the coin, the global supply of oil is solid. The level of production by OPEC and its allies (currently 31.9 million b/d), which has been limited for almost two years now by internal agreements and voluntary cuts in order to keep the price per barrel above 80 dollars, suggests that we will see a steady increase during the course of 2025.[5] The total supply could be increased if Saudi Arabia opts to try to maintain its current market share rather than pursue a high price target. In addition, the production of non-OPEC countries (the US, Canada, Brazil and Guyana, among others), which in the last eight months has grown by 3% to 70.9 million b/d, could continue to increase by a further 1.5 million b/d in 2025, according to estimates by the IEA. However, we believe that the oil market could begin to show signs of oversupply sometime around next summer, which would favour an easing of prices. The fact is that this increase in supply has also been anticipated in the structure of the crude oil futures curve, with the price spreads between shorter-term maturities narrowing.

Taking all these aspects into account, our current predictions have become outdated in this new context and we have decided to lower our forecasts for the price of the Brent barrel to an average of 80.4 dollars for 2024 (76 dollars in December) and 74.7 dollars for 2025 (73.5 dollars in December 2025).

4. The latest package of measures adopted focuses mainly on new monetary easing measures, although at the time of writing the details of the fiscal stimulus package announced are still unknown. In addition, we believe that its impact on the demand for commodities, and in particular oil, will be modest and temporary, unless an exclusive plan for infrastructure development (a commodity-intensive sector) is announced.
5. According to OPEC, starting in December this year and over the next 12 months, the cuts will be reversed, in line with an increase in production at the rate of 180,000 b/d each month.

However, these forecasts are subject to a high degree of uncertainty, given the heightened geopolitical risks of recent weeks. The escalation of the conflict between Israel and Hezbollah has raised fears that we could be witnessing the beginning of a wider war in the region involving more countries, including Iran.[6] A war between Israel and Iran would directly affect the supply of crude oil, as well as distribution channels, triggering a surge in the price of the barrel and potentially even driving it temporarily as high as 100 dollars.

Gas prices set to stabilise

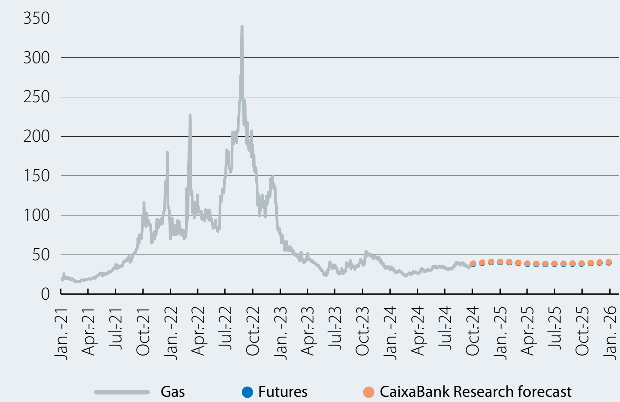
In the case of natural gas, since the summer the price of the Dutch TTF benchmark (the main measure used in the European market) has been subjected to upward pressures at the hand of rising demand from Asia and temporary constraints on the gas supply from some of the major producers (such as Australia and Norway), which have driven the price up to the 40 €/MWh mark. However, aspects such as mild weather in the northern hemisphere and the high level of strategic natural gas reserves in the EU[7] have limited the price rally.

Looking ahead to the coming quarters, we believe that the demand for natural gas in Europe will remain rather weak. The rise in the use of renewable and nuclear energy, energy efficiency measures, milder temperatures and the sluggish pace of industry in many countries have resulted in a 3.2% year-on-year decline in gas consumption in the EU during the first half of this year,[8] as well as a decline of –11% in imports of liquefied natural gas (LNG). Based on our economic growth scenario for the euro area,[9] we estimate that these dynamics in gas demand will persist for much of the remainder of this year and throughout the next.

As for the supply of natural gas, we expect that it will remain fairly healthy. On the one hand, the total LNG stored on ships has been above the average of the last five years since the beginning of this year, which ensures the short-term supply. On the other hand, it is estimated that the LNG export capacity of the US and Qatar will increase significantly in the coming quarters (by more than 30 billion cubic meters in Q4 2024 in the case

Natural gas price

(Euros/MWh)



Note: *TTF, the benchmark natural gas price in Europe. Data as of 8 October.*
Source: *CaixaBank Research, based on data from Bloomberg.*

of the US) and that Australia's terminals should be fully operational again by the end of the year. All these factors should help to offset the potential decline in natural gas flows entering Europe from Russia by land, starting from January 2025.[10]

All in all, we have revised our price forecasts upwards and now estimate that gas prices will remain between 37 and 42 €/MWh in Q4 2024, and at around 40 €/MWh for much of 2025.

In conclusion, and unless tensions in the Middle East continue to escalate and end up affecting trade flows through the Strait of Hormuz, the oil prices which we anticipate should serve as a lever for global growth, in addition to helping inflation to converge on the central banks' targets and increasing the likelihood of a soft landing in their economies.

Beatriz Villafranca

6. In terms of crude oil production, Iran is the third largest producer in OPEC (accounting for 12.2% of the total) and the fifth largest in the world (4.8% of the total). In addition, it controls the passage through the Strait of Hormuz, through which 21 million barrels pass daily, which is one fifth of the world's consumption of crude oil and derivative products.
7. EU strategic reserves stood at 94% of capacity at the end of September.
8. According to data from the European LNG Tracker (update as of 24 September), IEEFA.
9. See the Focus «Modest deterioration in the growth outlook for the international economy» in this same *Monthly Report*.

10. 31 December 2024 will mark the expiry of the five-year agreement for the transit of natural gas from Russia to Europe, which passes through Ukraine (this transportation route is over land and accounts for around 4.5% of the natural gas that is consumed in Europe). Ukraine's refusal to renew the agreement would lead to the diversion of flows through Turkey and Azerbaijan, which could increase costs, as well as the volume of cubic metres in transit.

Interest rates (%)

	30-September	31-August	Monthly change (bp)	Year-to-date (bp)	Year-on-year change (bp)
Euro area					
ECB Refi	3.65	4.25	–60	–85.0	–85.0
3-month Euribor	3.28	3.49	–21	–63.0	–68.5
1-year Euribor	2.75	3.09	–34	–76.6	–146.1
1-year government bonds (Germany)	2.47	2.83	–36	–79.4	–122.2
2-year government bonds (Germany)	2.07	2.39	–32	–33.6	–114.2
10-year government bonds (Germany)	2.12	2.30	–18	9.9	–84.5
10-year government bonds (Spain)	2.93	3.13	–21	–6.7	–114.4
10-year government bonds (Portugal)	2.70	2.91	–21	4.5	–101.0
US					
Fed funds (upper limit)	5.00	5.50	–50	–50.0	–50.0
3-month SOFR	4.59	5.02	–42	–73.9	–82.2
1-year government bonds	4.00	4.40	–40	–76.0	–147.8
2-year government bonds	3.64	3.92	–28	–60.9	–150.9
10-year government bonds	3.78	3.90	–12	–9.8	–101.5

Spreads corporate bonds (bps)

	30-September	31-August	Monthly change (bp)	Year-to-date (bp)	Year-on-year change (bp)
Itraxx Corporate	59	52	6	0.3	–24.4
Itraxx Financials Senior	67	60	7	0.1	–31.5
Itraxx Subordinated Financials	121	107	13	–2.1	–61.2

Exchange rates

	30-September	31-August	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
EUR/USD (dollars per euro)	1.114	1.105	0.8	0.9	6.4
EUR/JPY (yen per euro)	159.940	161.490	–1.0	2.7	2.5
EUR/GBP (pounds per euro)	0.833	0.841	–1.1	–4.0	–3.9
USD/JPY (yen per dollar)	143.630	146.170	–1.7	1.8	–3.6

Commodities

	30-September	31-August	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
CRB Commodity Index	540.3	536.4	0.7	5.9	–1.4
Brent ($/barrel)	71.8	78.8	–8.9	–6.8	–21.1
Gold ($/ounce)	2,634.6	2,503.4	5.2	27.7	44.5

Equity

	30-September	31-August	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
S&P 500 (USA)	5,762.5	5,648.4	2.0	20.8	36.2
Eurostoxx 50 (euro area)	5,000.5	4,958.0	0.9	10.6	22.1
Ibex 35 (Spain)	11,877.3	11,401.9	4.2	17.6	29.6
PSI 20 (Portugal)	6,792.9	6,760.2	0.5	6.2	15.2
Nikkei 225 (Japan)	37,919.6	38,647.8	–1.9	13.3	21.4
MSCI Emerging	1,170.9	1,099.9	6.4	14.4	24.7

Winds of change in the international economy

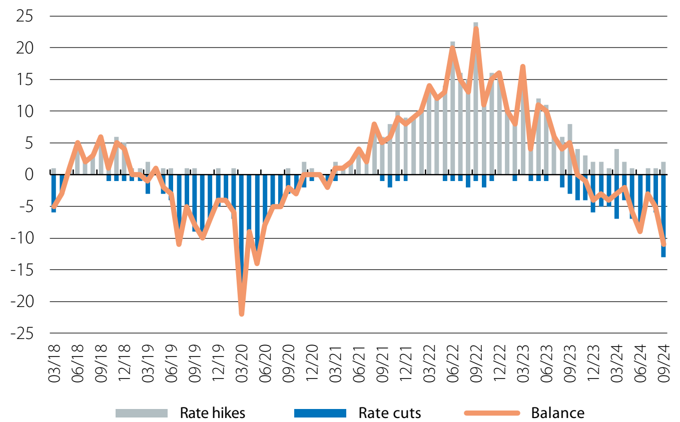
Temporary blip or a change of phase? The world economy ended the first half of the year with global GDP growth of slightly above 3%. This is a similar rate to those recorded recently and was achieved in a context of restrictive monetary conditions (aimed at combating inflation). At the same time, the data confirm a disparate behaviour among the major international economies, with the US enjoying strong growth while that of the euro area remains sluggish and China continues grappling with its difficulties. In autumn, these dynamics continue, but with new nuances. The composite PMI for the world economy stood at 52.0 points in September, suggesting a slight slowdown in global growth (Q3 average of 52.4 points vs. Q2 average of 53.0). In parallel, the latest inflation data have been favourable and give monetary authorities, such as those of the US and the euro area, greater confidence when it comes to cutting interest rates in a sustained way. However, the boost from these tailwinds and the strong labour markets coexist with a natural loss of cyclical momentum and, in particular, with an environment marked by high geopolitical risks - a combination of competing forces that combination of competing forces that will determine the pace of growth over the coming quarters.

Inflation: the arrival of autumn brings good news. The rate cuts introduced in September by the Fed (–50 bps, the first cut in the cycle) and by the ECB (–25 bps, the second cut in the cycle) were accompanied by increased confidence in the two central banks' victory against inflation. In the US, PCE inflation (the Fed's benchmark) fell to 2.2% in August (while the core index, which excludes energy and food, has been below 3.0% since February). In the same vein, in the euro area headline inflation reached 1.8% in September, falling below the ECB's 2.0% target for the first time since June 2021. In addition, core inflation in the euro area fell to 2.7%. On the one hand, this is a 30-month low, but on the other hand it reflects a much more gradual reduction of the more inertial price pressures (such as services, which remained at 4%) and also serves as a reminder that underlying inflation has not yet completed its trajectory towards 2%.

US economic activity remains strong, recording the fastest growth among advanced economies. After registering significant GDP growth of 0.7% quarter-on-quarter in Q2, the indicators suggest that the US continued to grow at a steady pace in Q3. In particular, in September the ISM index for services accelerated to 54.9 points, marking a new high since February 2023, although this contrasts with the weakness of the manufacturing ISM index, at 47.2 points. September's employment and unemployment indicators, for their part, remained positive in a context of transition towards a more balanced labour market. Specifically, the unemployment rate even fell 0.1 pp to 4.1%, while 254,000 new jobs were created, once again beating expectations. Thus, the activity trackers

Central bank rate hikes and cuts each month

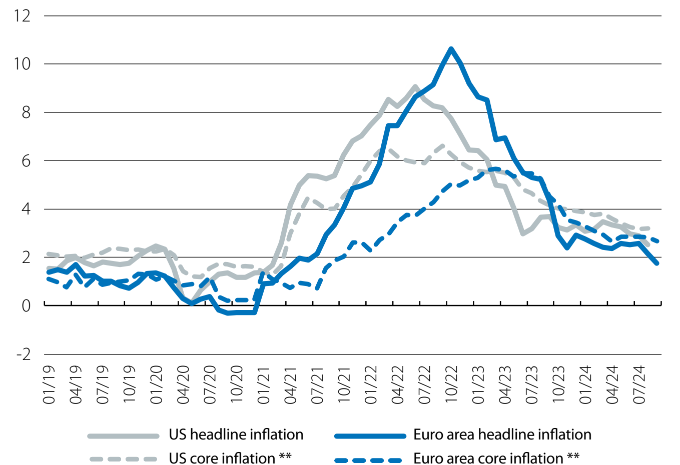
Number



Note: *Sample of 35 central banks from North America, South America, Europe, Africa, Asia and Oceania.*
Source: *CaixaBank Research, based on data from Bloomberg.*

Us and euro area: CPI *

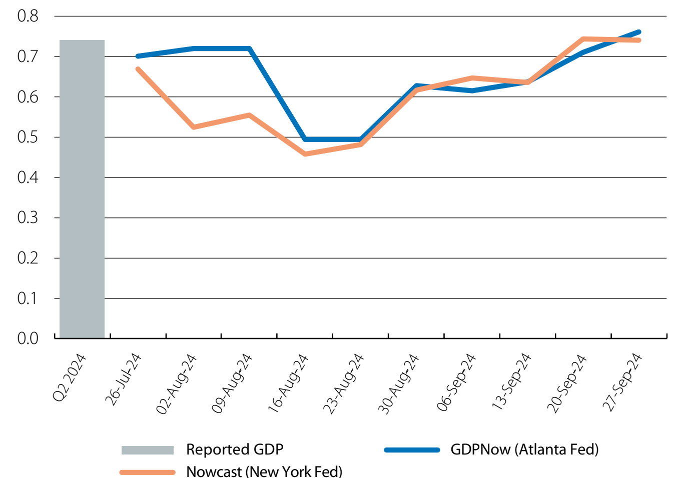
Year-on-year change (%)



Notes: ** HICP for the euro area. ** Core inflation excludes energy and all foods.*
Source: *CaixaBank Research, based on data from the Bureau of Labor Statistics and Eurostat.*

US: Q2 GDP and projections for Q3 2024

Quarter-on-quarter change (%)



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

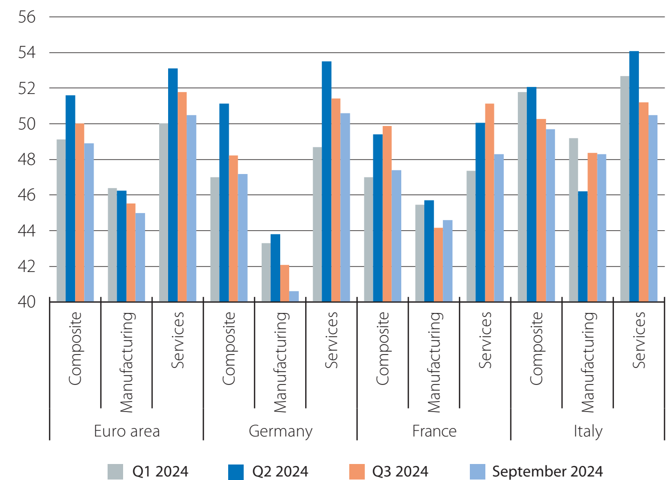
suggest that US GDP has sustained a growth rate of around 0.7% quarter-on-quarter in recent months.

Uneven slowdown in the euro area. The PMIs suggest that euro area activity has been losing steam in recent months, with the composite index falling to 49.6 points in September (slightly below the 50-point threshold that delimits contraction), weighed down by the difficulties in manufacturing (45.0) and the slowdown in the expansion of services (51.4 points, a seven-month low). However, the weaker momentum of the euro area as a whole masks very diverse situations at the country level. On the one hand, Germany continues to experience difficulties (composite PMI of 47.5 points in September, contracting throughout Q3 and in the last 15 months it has only surpassed the 50-point threshold three times). On the other hand, the periphery maintains a better tone, especially in economies such as Spain. In the middle we find the other two large economies, France and Italy, with a neutral PMI in the quarter as a whole (50.3 points in both cases) and where the public accounts are back under the microscope: the European Council placed both economies under an «excessive deficit procedure» in July, and at the end of September in France the new government led by Michel Barnier acknowledged that the public deficit may end up above 6% in 2024 (compared with 4.4% expected at the beginning of the year).

Japan and the United Kingdom enjoy a revival. Among the large advanced economies, the diverse realities go beyond the euro area. Also noteworthy are the cases of Japan and the United Kingdom, which are ahead of only Germany in terms of their post-pandemic recovery. However, in recent months both economies have begun to leave this weakness behind. In the first half of 2024, UK GDP recorded quarter-on-quarter growth of 0.7% in Q1, followed by 0.5% in Q2 (the best figures in two years), while Japan rebounded 0.7% quarter-on-quarter in Q2. The PMIs also suggest that the positive dynamics continued at the end of Q3, with the composite indicator at 52.6 points in the UK and 52.0 points in Japan.

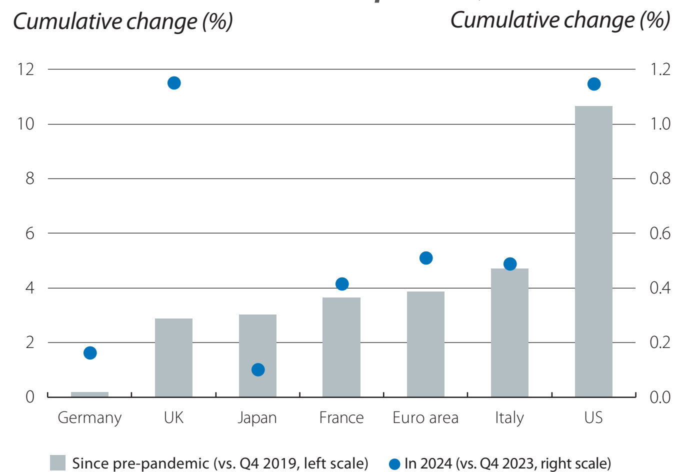
China approves new measures to boost the economy, although it continues to suffer from structural weaknesses. The Chinese economy is still struggling to find the momentum sought by the authorities, weighed down by the housing crisis and weak domestic demand, and with a growth outlook below the official target («around 5%» for 2024). In fact, in September the country's PMIs lost steam yet again, with the composite index sliding to 50.3 points, just above the 50-point barrier and leaving the Q3 average (50.1) well below that of the first semester (52.9). In this context, the Chinese authorities announced a new cyclical stimulus, with a combination of monetary easing measures (the central bank lowered interest rates by 20 bps and mortgage rates and the cash ratio by 50 bps) and support for the real estate sector (with lower liquidity requirements for buying homes). Moreover, while there has been no official announcement yet, everything indicates that a fiscal stimulus package is on the way.

Euro area: PMI
Index



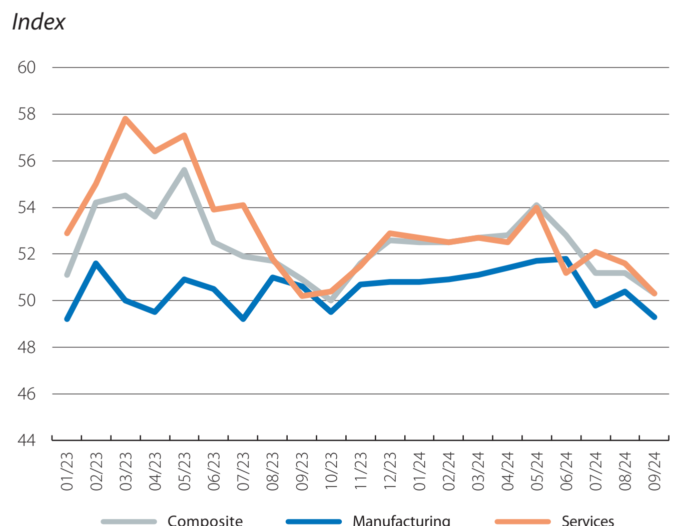
Source: *CaixaBank Research, based on data from S&P Global PMI.*

Advanced economies: GDP up until Q2 2024
Cumulative change (%) *Cumulative change (%)*



Note: *GDP volume at constant prices.*
Source: *CaixaBank Research, based on data from Eurostat, the ONS, the BEA and the Cabinet Office of Japan.*

China: Caixin PMI
Index



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

Modest deterioration in the growth outlook for the international economy

We are entering the final stretch of the year following a summer marked by the Olympic Games in Paris and a brief episode of financial turbulence which was triggered, in part, by fears that the US economy could fall into recession. Those fears have been shown to be somewhat exaggerated and the global economy has seen a continuation of the trend of recent quarters, although the outlook for the final part of the year has weakened. The time has therefore come to adjust the economic and financial outlook scenarios with all the new information that has come to light in recent months.

Crude oil feels the effects of the deterioration of global growth expectations

This cooling in growth expectations is one of the reasons for the fall in the price of the main commodities in recent months. Energy commodities have recorded a particularly sharp decline, causing us to revise our baseline scenario for their prices.[1] In the case of oil, our forecast for the average price of a Brent barrel in 2024 is 80.4 dollars, and 76 dollars in December, almost 7 and 10 dollars lower than in the scenario prior to the revision, respectively. For 2025, we expect an average price of under 75 dollars, and below 74 dollars in December, 7 and 4 dollars lower than in the previous scenario, respectively. However, these forecasts are subject to a high degree of uncertainty due to the heightened geopolitical instability in the Middle East, as the latest episode to date is demonstrating: the imminent risk of the armed conflict spreading across the region caused the oil price to rise by over 5.0% in less than two days. As for the price of gas, it has remained fairly stable thanks to favourable supply and demand conditions. However, the possible impact of the non-renewal in December of a five-year agreement to buy gas from Russia, due to Ukraine's refusal to allow gas to be transported through its territory, makes it advisable to revise its price upwards. For 2024, the average price could be 33.8 euros/kWh, standing at 40.8 euros/kWh in December, compared to the 30.2 and 35.5 euros/kWh, respectively, predicted in the previous scenario. In 2025, we place the average price for the year at 39.6 euros/kWh and that of December at 40.6 euros/kWh, compared to 32.9 and 34.3 euros/kWh, respectively, in the previous scenario.

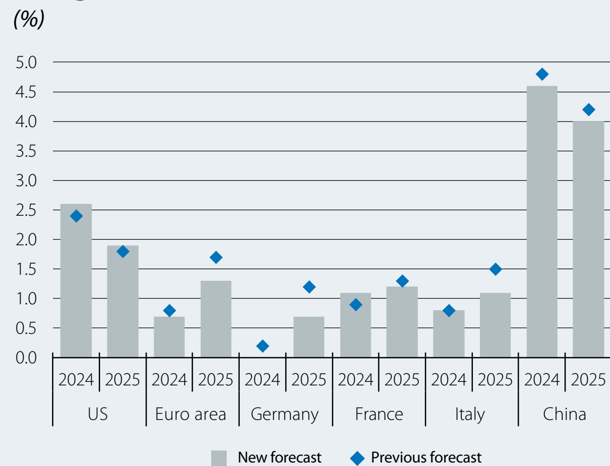
In the US, the focus shifts to the labour market, while inflation is considered of secondary importance

The big positive surprise in the first half of the year was the strength of the US economy, where growth accelerated from 0.3% quarter-on-quarter in Q1 to 0.7% in Q2. Indeed, this unexpected strength of economic activity automatically entails an upward revision of the

1. See the Focus «Energy: revision of the scenario in turbulent times», in this same *Monthly Report*.

GDP growth forecasts

(%)



Source: *CaixaBank Research.*

growth forecast this year and next. That said, as we have already anticipated, we are heading towards a scenario with a slowdown to more sustainable growth rates, close to their potential, in the coming quarters (around 0.5% quarter-on-quarter). Thus, we have revised upwards our estimated growth for 2024 by 0.2 pps, to 2.6%, and that of 2025 by 0.1 pp, to 1.9%.

The resilience of household consumption in the current context of high interest rates has been key. In addition, the latest data on retail sales, household spending and disposable income suggest that their momentum will continue in the short term. However, there is already evidence that private consumption is beginning to suffer: the default rate on consumer loans has risen to its highest level since 2011, the «extra» savings accumulated after the pandemic have been exhausted, while the savings rate has fallen to close to its lowest level in the last decade and job creation has disappointed in recent months.

In fact, since June, monthly job creation (168.000 on average) has been well below the average of the previous two years (314,000), while the unemployment rate has been gradually rising and now exceeds 4.0%. The job vacancy ratio, for its part, has fallen sharply from the peaks of late 2021 and is now close to its pre-pandemic levels. In addition, the US Department of Labor announced that the revision of non-farm employment statistics would result in the job figures for the period April 2023 to March 2024 being some 800,000 people lower than the current figures indicate.

Meanwhile, headline inflation has shown better results than we had anticipated, despite the downward resistance of services inflation. Thus, we have reduced our forecast for headline inflation in 2024 by 0.3 pps, to 2.9%, and that of 2025 by 0.2 pp, to 2.0%. For core

inflation, we estimate rates of 3.3% for 2024 and 2.4% for 2025, compared to the previous forecasts of 3.7% and 2.6%, respectively.

The labour market is now the key variable for the Fed, as Powell pointed out in Jackson Hole, acknowledging that the time had come to tighten monetary policy in order to prevent the labour market from cooling any further, while at the same time expressing his satisfaction with the path of inflation. In fact, his first rate cut in September – of 50 bps – was a statement of intent and demonstrated the Fed's commitment to avoiding an «unwanted weakening». This therefore forced us to reconsider our interest rate outlook and anticipate a more aggressive stance from the Fed. Thus, we now anticipate two further rate cuts of 25 bps each in the remainder of the year, ending the year at 4.5% (5.0% in the previous scenario). In 2025, we expect five cuts of 25 bps, placing rates in December at the neutral level of 3.25% and bringing forward to that year all of the cuts which we were previously expecting in 2026.

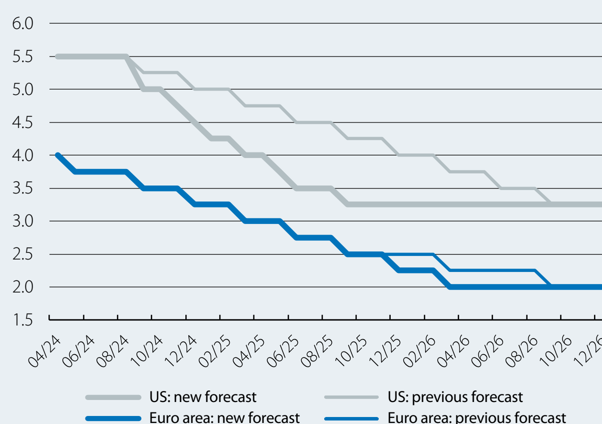
Germany's weakness is weighing down the euro area as a whole

The euro area has performed as expected, although the aggregate picture hides significant disparities from country to country. Germany's weakness is particularly worrying: it has grown by just 0.1% quarter-on-quarter in the year and the main business climate and opinion indicators show no hint of a significant rebound in the country's economic activity in the remainder of the year. Moreover, Germany faces a number of challenges that could compromise its capacity for growth and recovery in the medium term: high current account surpluses, very low public investment, the emergence of new competitors to its historical automotive industry, etc. We therefore lower our growth forecast for 2024 by 0.2 pps, to 0.0%, and that of 2025 by 0.5 pps, placing it at 0.7%. With regard to Italy, although it has performed even slightly better than expected, the delays in the execution of the NGEU funds lead us to be somewhat less optimistic about its future path. We therefore keep our 2024 forecast unchanged, with growth of 0.8% anticipated, and we cut that of 2025 by 0.4 pps, to 1.1%. For its part, France will see its growth rate accelerate in Q3 thanks to the boost provided by the Olympics held in Paris this summer, although this will be only temporary. Nevertheless, thanks to this event, we have raised our expected growth rate in 2024 by almost 0.2 pps, to 1.1%, but we have reduced our estimate for 2025 by 0.1 pp, to 1.2%. On balance, the growth forecast for the euro area is revised in 2024 by –0.1 pp, to 0.7%, and that of 2025 by –0.4 pps, to 1.3%.

In this context of cooling, inflation is behaving in line with expectations, although the increased downward resistance shown by services inflation raises our expectations slightly. Thus, we have raised our forecast for headline inflation by 0.1 pp in both 2024 and 2025, placing it at 2.2% and 2.0%, respectively. As for core inflation, we have raised our forecast for 2024 and 2025 by 0.2 pps and 0.1 pp, to 2.8% and 2.2%, respectively.

Expectations for benchmark interest rates

(%)



Source: *CaixaBank Research.*

Nevertheless, inflation will continue to converge towards its target rate over the coming months.

This slightly weaker economic growth outlook, with inflation moving towards its target, would allow the ECB to be somewhat more aggressive in its rate cuts. In this regard, we believe that between now and 2026 it could cut interest rates by 25 bps six times, reaching the neutral rate of 2.0% in March of that year.

China will not be able to achieve its growth target without new and bigger stimulus packages

The Asian giant's performance has also been disappointing: GDP growth slowed in Q2 2024 to 0.7% quarter-on-quarter (1.5% in Q1 2024) and it looks unlikely that economic activity will pick up in the coming quarters. The housing sector is reaffirmed as the great burden of the economy and the stimulus measures implemented to date are not having the desired effect, which is causing a marked deterioration in agents' confidence. This greater pessimism is also affecting private investment, which has stagnated, and private consumption, which is still struggling to take off, as households' willingness to save is close to its peak levels. As a result, we have revised our growth forecast for 2024 and 2025 down by 0.2 pps, to 4.6% and 4.0%, respectively. To ensure that the 5.0% target is met, more decisive fiscal stimulus measures than the current ones would be needed, although concern around the sustainability of the country's debt is a major constraint (it is expected to exceed 100% of GDP in 2028, according to the IMF). In fact, the latest package of measures adopted on 24 September focuses, above all, on new monetary easing measures (the reserve ratio is lowered once again), but no fiscal stimulus measures have been officially announced, beyond acknowledging that they will have to «issue and use» government bonds in order to improve the implementation of the «driving force of government investment».

Rita Sánchez Soliva

What is driving the cooling of the US labour market?

There is no doubt that the US labour market is cooling. The Fed acknowledges it and the statistics confirm it. The unemployment rate has increased 0.7 pps so far this year, reaching 4.1% in September, while job creation has slowed and in July hit its lowest level since 2021. In this article, we will analyse the causes of these changes by seeking to answer a key question: should the cooling we are beginning to observe in the US labour market concern us or does it respond to a normalisation following the post-pandemic turbulence? The answer is not simple, but it is of crucial importance.

Prior clarifications

The Bureau of Labor Statistics (BLS) produces two employment reports that offer different labour market metrics: the Establishment Survey, which is based on surveys of non-farm businesses, and the Household Survey. The former collects payroll data, providing information on hours worked, wages and job creation. This is where the well-known non-farm payrolls, the most widely used set of statistics for measuring job creation, come from. On the other hand, the Household Survey, which is similar to the Labour Force Survey published in Spain, classifies the people surveyed as employed, unemployed or inactive, thus generating the unemployment rate and the figure for the labour force. Each report has its limitations: the Household Survey includes farm workers, self-employed workers and domestic workers, but is based on a smaller sample. The Establishment Survey counts the number of non-agricultural jobs, rather than employed individuals, so it is possible to include several jobs that are held by a single person. The Household Survey, in contrast, counts each person only once, regardless of how many jobs they have. While the two reports have differed in the level of employment they have reported in 2024, the trend both suggest is similar. Here we will use the figures from the Household Survey, as they offer us a broader view beyond the data on payrolls and non-agricultural jobs.

From tightness...

The second chart clearly illustrates the imbalances in the US labour market since 2020.[1] The gap between the demand and supply series serves as an indicator of labour market tightness: when demand outstrips supply, the market is said to be tight; when the opposite happens, it is cooling.

At the peak of the pandemic, job demand fell sharply, as did supply to a lesser extent. However, once the restrictions were eased, demand recovered rapidly, while supply lagged further behind. This led to significant tension in the labour market, which saw an excess in demand of 6.5 million jobs at the peak of the overheating in March 2022. At that time, there were almost two vacancies per unemployed person (the historical average is 0.65). The two main factors behind the weakness of supply were the fall in immigration, due to border closures during the pandemic, and the reduction in the labour participation rate, as a consequence of the so-called Great Resignation.[2]

... to balance...

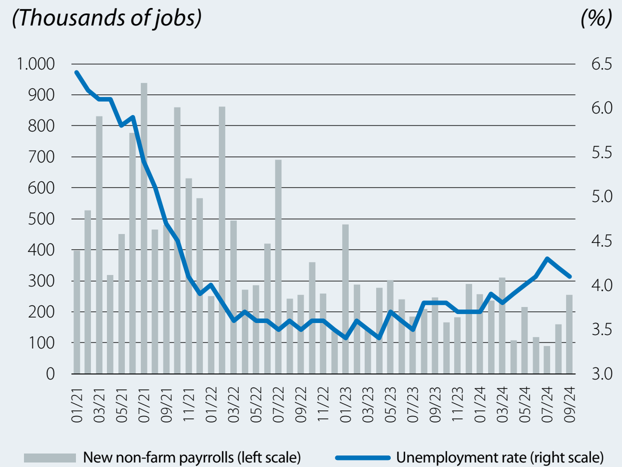
However, as supply recovered, the tensions in the labour market began to ease. In 2023 alone, the labour force

1. We measure demand as the sum of job vacancies (from the BLS JOLTS report) and the total employment per the Household Survey. We measure supply as the labour force, also according to the BLS Household Survey.

2. For further details, see the Focus «Analysing the tightness in the US labour market» in the MR03/2023.

US: labour market

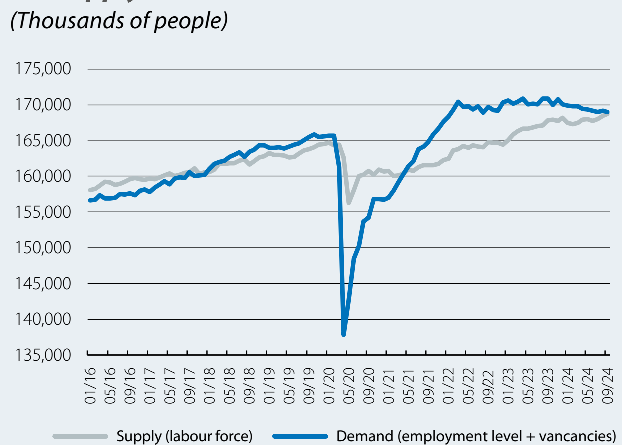
(Thousands of jobs)



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

US: supply and demand in the labour market

(Thousands of people)



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

grew by 2%, twice the pre-pandemic annual average, representing an increase of 3.6 million people (the total increase since March 2022 is 4.3 million). This is partly due to the end of the Great Resignation, once the savings accumulated during the pandemic were exhausted, and the rebound in migration flows since the end of 2020. The CBO estimates that between 2022 and 2023, net migration to the country was almost 6 million people: per year, that is more than double the annual average of the previous decade. While not all these migrants enter the labour market immediately, in 2023 almost 40% of the growth in the labour force came from foreign workers. The fall in the demand for labour of 0.3% (just 228,000 jobs) was negligible compared to this surge in supply. This increase in supply was key to filling the many vacancies, reducing the gap in the excess demand by 70%, to 1.9 million jobs, while the unemployment rate barely increased. This is particularly relevant given the context of high interest rates.

... and now cooling...

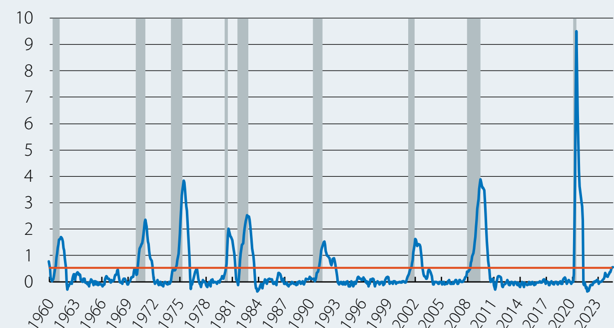
In 2024, the gap between supply and demand has continued to close. However, this time the improvement comes more from falling demand than from an increase in supply. In the last 12 months, the labour force grew by 0.8% and the participation rate remained at around 62.7%, while demand fell by more than 1% year-on-year, the fastest rate of decline since 2021. This drop in demand is mainly due to the reduction in the number of job vacancies (of 18%), while the level of employment has remained relatively stable. The Establishment Survey (payrolls) points in the same direction, although it suggests a sharper fall in job creation: in 2024, the average monthly number of new jobs was 184,000. This is down from an average of 314,000 between 2022 and 2023 and is below the pre-pandemic average of 191,000. Both statistics suggest that the labour market is absorbing new entrants at a slower pace, which has been reflected in an increase in the unemployment rate.

... to the point of indicating a recession?

It is worth considering whether this cooling reflects a normalisation or is a sign of recession. When the unemployment rate hit 4.3% in July, fears of economic recession were sparked by the signal provided by the Sahm rule. This historical pattern suggests that when the average unemployment rate for the past three months exceeds the three-month moving average of the last 12 months by 0.5 pps or more, we are on the verge of a recession.[3] This is not a hard and fast rule, and the fact that in recent months the unemployment rate has set record lows could distort the message. In fact, Powell called it a «statistical coincidence» rather than a rule, as there have been episodes of «false positives», as seen in the third chart. A more in-depth analysis is needed that puts the indicator within the full economic context in order to reach a more precise conclusion.

US: Sahm rule recession indicator

(pps)



Note: *The grey bars denote a recession and the red line indicates the limit of the Sahm rule.*
Source: *CaixaBank Research, based on data from C. Sahm (2019), Direct stimulus payments to individuals, Brookings Institute, and from the Federal Reserve Bank of St. Louis.*

In fact, other indicators suggest that the labour market is still in good health and that the cooling we are witnessing is due to a normalisation. For instance, the layoffs rate remains stable at around 1.0%, without any significant increases, and applications for unemployment benefits have not grown at a worrying pace either. Job demand has slowed, but has not collapsed. Moreover, an unemployment rate of 4.1% remains low in historical terms.

Our baseline scenario points to a moderation in economic activity growth towards its potential levels, but we do not anticipate a recession in the short or medium term. A slowdown in job demand falls within this moderation, but the risk is that it could cool down so much that it leads to a sharper increase in the unemployment rate. The Fed has been clear in its intention to avoid that scenario and has begun to relax its monetary policy, lowering interest rates by 50 bps and signalling a more aggressive approach than previously expected. It remains to be seen whether these measures will be sufficient to maintain the strength of the labour market in the face of the various risks affecting the economic outlook.

Isabela Lara White

3. See C. Sahm (2019). «Direct stimulus payments to individuals». Brookings Institute.

Draghi proposes a European industrial policy as a driving force to address the challenges of the coming decades

On 9 September, Mario Draghi presented his long-awaited report on the future of the EU economy and its competitiveness. This new exercise of strategic proposals for the EU, complementing the Letta report on the single market published in May, gives a stark diagnosis of the current state of the European economy. It also proposes a reorientation of its production in order to develop the industry necessary for the ecological transition and strategic autonomy, as well as ways to mobilise the investment needed to achieve this goal. The report lays the foundations for re-industrialisation in Europe, combining sweeping actions with a menu of specific proposals for 10 strategic sectors.

As for the diagnosis of the problem, the report exposes how the gap between GDP per capita in the EU relative to the US has widened in recent years due to lower European productivity – which is also explained by a composition effect, since the most productive sector in recent decades has been the technology sector, which is less present in the EU – and the fewer number of hours worked compared to the US. In addition to this comparatively worse economic performance, the slowdown in the trade of goods and the reconfiguration of supply chains render the EU's current export-oriented economic model vulnerable.

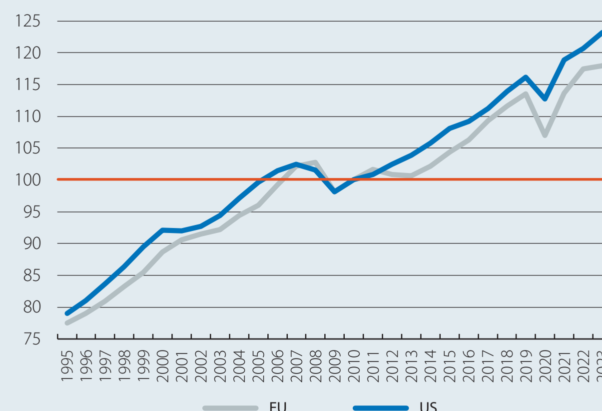
The challenge that the EU faces is considerable, because if it is not able to increase its productivity and potential growth in the context of an ageing population, its social model and the well-being of its citizens may be compromised. For the report, a key way to overcome this challenge is to offer opportunities to unlock the large volume of savings that households and other economic players in the EU have hoarded and to channel it towards greater investment in the most productive activities as a means to escape the current situation, which is described as an «intermediate technology trap».[1]

Draghi proposes a Copernican Revolution of the EU in this process: to develop an industrial policy at the European level. Industrial policy, a function which has hitherto fallen to individual Member States, must also become the guiding axis of European economic policy. Moreover, this revised economy policy must serve as the guide for both trade and competition policy (two of the main functions of the EU ever since the creation of the common market). Developing a European industrial policy must also facilitate the achievement of the EU's two main objectives for the coming decades: the

1. Described as a situation of low industrial buoyancy, low innovation, low investment and low productivity growth.

EU and US: real GDP per capita

Index (100 = 2010) in PPP terms



Source: *CaixaBank Research, based on data from the IMF (WEO).*

decarbonisation of the economy and greater European autonomy, in terms of both the economy and security.

Three major transformations that the EU economy needs

The first course of action – and the enabling vector for all the others – is to boost innovation in Europe, making it easier for ideas that are already emerging here not to die so often on their path to commercialisation before they are implemented (due to inefficiencies in the single market or a lack of funding). To this end, some of the measures proposed include improving coordination between Member States of public investment in R&D, adopting a unitary patent system and improving access to financing for innovative companies. In order to achieve the latter goal, it is important to improve the European capital market, as discussed below, in order to nurture the development of financial institutions that are more conducive to financing innovation, such as venture capital funds. In Europe, moreover, the majority of business financing to date has been obtained through the banking sector, and this sector has the handicap of having to face a greater regulatory burden than its US counterpart. Not only does this red tape act as an additional hurdle for financing innovation, but it is also a hindrance to the sector's profitability.

As for the second major objective, decarbonisation, Draghi suggests that the EU should refocus its support towards the manufacture of clean technologies, focusing on those where it is a leader or where building capacity is considered a strategic priority (such as batteries). One of the measures that stand out in this sphere is the need to reduce energy prices for the final consumer, as this is one

of the burdens that European industry faces relative to the industries of other markets. To achieve this reduction, the report proposes a series of options ranging from lower taxation to a change in the pricing mechanism that will allow the low cost of renewable energy to have a positive impact on the whole economy. Another of the ideas that is touched on throughout the report is reflected in this sphere, namely ensuring that the EU leverages its important role in the international economy to ensure it can purchase all kinds of inputs at the best possible price. In terms of energy, this would involve making joint purchases of oil and gas, as well as developing common strategies in times of emergency or crisis (such as the surge in gas prices after the outbreak of Russia's war against Ukraine) in order to avoid an array of different national measures that could distort the single market.

The ultimate objective and lever for boosting competitiveness is to reduce dependence on the outside world and to boost security, given the turbulent geopolitical environment we are living in. Once again, the idea of making joint purchases could play an important role in this sphere, in this case commodities that are critical to the ecological transition. On the other hand, developing a more autonomous defence policy will also require an industrial impetus that enables the development of trans-European companies similar to Airbus, as well as greater standardisation of defence equipment and systems across Member States.

Reforms in EU governance to unlock growth potential

In order to make progress in these three spheres, two major sweeping reforms will be needed. The first involves creating an environment that is more conducive to investment, both public and private. While most of the capital needed for this productive transformation has to come from the private sector, as has traditionally been the case, the public sector has to accompany and encourage these investments. One of the flagship proposals of the report is, in fact, that the public investment required should be carried out through the regular issuance of pooled safe assets (i.e. Eurobonds that extend what has already been achieved with the NGEU programme) in order to facilitate investment in pan-European industrial projects.

The development of Eurobonds should be complemented by deeper and more comprehensive capital markets and banking unions, as well as a greater boost to pension systems. This ought to unlock the large amount of pent-up savings that exists in the EU and allow investment to flow between all Member States. In addition to Eurobonds, another way to achieve such extremes would be to facilitate the securitisation of banking assets, such that financial institutions can free up capital and increase their lending capacity.

According to the European Commission, the investment required is estimated at least 800 billion euros per year (a volume equivalent to almost 5% of EU GDP in 2023, which would bring the total investment to around 27% of the EU's GDP, compared to 22% today). That said, it remains to be seen whether the productive sectors of the economy would be able to absorb this amount of funds. If this is achieved, the report estimates that GDP would increase by 6% in 15 years (relative to a scenario where no investments are made), with limited and temporary inflationary pressure. The report also considers that the high level of public investment will have a limited impact on fiscal sustainability if productivity increases are achieved.

The second major sweeping reform involves improving European governance at various levels. At the budgetary level, the report proposes designing a more flexible budget, with greater capacity to reallocate expenditure, given its long time span, and with fewer categories and a consolidation of priorities around the objectives set (i.e. reoriented to the needs of industrial policy in order to tackle the three major challenges described). At another more «constitutional» level, the report proposes speeding up decision-making through the extended or generalised use of majority voting, as opposed to the unanimity required in the EU Council.

Although the report has been well received by the European authorities, it remains to be seen how they will deal with the reluctance shown by some Member States towards the proposals, especially those which have been around the longest without being successfully implemented (such as the proposal for Eurobonds or the completeness of the banking and capital markets unions).

María Romero Meléndez and David del Val

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

UNITED STATES

	2022	2023	Q3 2023	Q4 2023	Q1 2024	Q2 2024	07/24	08/24	09/24
Activity									
Real GDP	2.5	2.9	3.2	3.2	2.9	3.0	–	–	–
Retail sales (excluding cars and petrol)	8.6	5.3	4.6	5.0	2.9	3.4	3.3	3.3	...
Consumer confidence *(value)*	104.5	105.4	109.0	102.7	106.3	98.9	101.9	105.6	98.7
Industrial production	3.4	0.2	–0.1	–0.1	–0.5	0.1	–0.7	0.0	...
Manufacturing activity index (ISM) *(value)*	53.5	47.1	47.6	46.9	49.1	48.8	46.8	47.2	47.2
Housing starts *(thousands)*	1,552	1,421	1,380	1,481	1,407	1,340	1,237	1,356	...
Case-Shiller home price index *(value)*	307	312	316	322	325	329	331	...	...
Unemployment rate *(% lab. force)*	3.6	3.6	3.7	3.7	3.8	4.0	4.3	4.2	4.1
Employment-population ratio *(% pop. > 16 years)*	60.0	60.3	60.4	60.3	60.2	60.1	60.0	60.0	60.2
Trade balance [1] *(% GDP)*	–3.8	–3.1	–3.0	–2.8	–2.8	–2.8	–2.9	...	...
Prices									
Headline inflation	8.0	4.1	3.5	3.2	3.2	3.2	2.9	2.5	...
Core inflation	6.2	4.8	4.4	4.0	3.8	3.4	3.2	3.2	...

JAPAN

	2022	2023	Q3 2023	Q4 2023	Q1 2024	Q2 2024	07/24	08/24	09/24
Activity									
Real GDP	1.2	1.7	1.3	0.9	–0.9	–1.0	–	–	–
Consumer confidence *(value)*	32.2	35.2	36.2	36.5	38.9	37.0	36.7	36.7	36.9
Industrial production	0.0	–1.4	–3.6	–0.9	–4.3	–2.9	–0.4	–3.3	...
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	2.7	2.5	...
Trade balance [1] *(% GDP)*	–2.1	–3.0	–2.7	–1.8	–1.2	–1.0	–1.0	–1.1	...
Prices									
Headline inflation	2.5	3.3	3.1	2.9	2.5	2.7	2.7	3.0	...
Core inflation	1.1	3.9	4.3	3.9	3.2	2.2	1.9	2.1	...

CHINA

	2022	2023	Q3 2023	Q4 2023	Q1 2024	Q2 2024	07/24	08/24	09/24
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	2.7	2.1	...
Industrial production	3.4	4.6	4.2	6.0	5.8	5.9	5.1	4.5	...
PMI manufacturing *(value)*	49.1	49.9	49.7	49.3	49.7	49.8	49.4	49.1	49.8
Foreign sector									
Trade balance [1,2]	899	865	901	865	841	864	872	895	...
Exports	7.1	–5.1	–10.8	–3.3	–1.7	4.4	6.7	8.3	...
Imports	0.7	–5.5	–8.5	0.9	1.6	2.5	7.2	0.5	...
Prices									
Headline inflation	2.0	0.2	–0.1	–0.3	0.0	0.3	0.5	0.6	...
Official interest rate [3]	3.65	3.45	3.5	3.5	3.5	3.5	3.4	3.4	3.4
Renminbi per dollar	6.7	7.1	7.2	7.2	7.2	7.2	7.3	7.2	7.1

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	07/24	08/24	09/24
Retail sales *(year-on-year change)*	1.4	–1.9	–2.2	–0.7	–0.2	0.3	–0.1	0.8	...
Industrial production *(year-on-year change)*	2.3	–2.1	–4.8	–3.7	–4.8	–3.6	–2.2	...	...
Consumer confidence	–21.9	–17.4	–16.3	–16.7	–15.5	–14.3	–13.0	–13.4	–12.9
Economic sentiment	102.1	96.4	94.3	94.8	96.0	95.9	96.0	96.5	96.2
Manufacturing PMI	52.1	45.0	43.2	43.9	46.4	46.3	45.8	45.8	45.0
Services PMI	52.1	51.2	49.2	48.4	50.0	53.1	51.9	52.9	51.4
Labour market									
Employment (people) *(year-on-year change)*	2.2	1.4	1.4	1.2	1.0	...	–	–	–
Unemployment rate *(% labour force)*	6.8	6.6	6.6	6.5	6.5	6.5	6.4	6.4	...
Germany *(% labour force)*	3.1	3.0	3.0	3.1	3.3	3.5	3.5	3.5	...
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	6.4	6.2	...
Real GDP *(year-on-year change)*	3.4	0.5	0.0	0.2	0.5	0.6	–	–	–
Germany *(year-on-year change)*	1.5	–0.1	–0.3	–0.2	–0.1	0.0	–	–	–
France *(year-on-year change)*	2.6	1.1	0.9	1.3	1.5	1.0	–	–	–
Italy *(year-on-year change)*	4.9	0.8	0.1	0.3	0.2	0.6	–	–	–

Prices

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

	2022	2023	Q3 2023	Q4 2023	Q1 2024	Q2 2024	07/24	08/24	09/24
General	8.4	5.5	5.0	2.7	2.6	2.5	2.6	2.2	1.8
Core	3.9	5.0	5.1	3.7	3.1	2.8	2.9	2.8	2.7

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	07/24	08/24	09/24
Current balance	0.0	2.1	1.6	2.1	2.6	3.2	3.4	...	...
Germany	4.4	5.9	5.5	5.9	6.2	6.5	6.5	...	...
France	–1.2	–1.0	–0.9	–1.0	–0.6	–1.1	–1.0	...	...
Italy	–1.5	0.5	0.0	0.5	1.1	1.6	1.5	...	...
Nominal effective exchange rate[1] *(value)*	**90.9**	**94.7**	**95.9**	**95.1**	**95.2**	**95.2**	**95.5**	**95.7**	**95.6**

Credit and deposits of non-financial sectors

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

	2022	2023	Q3 2023	Q4 2023	Q1 2024	Q2 2024	07/24	08/24	09/24
Private sector financing									
Credit to non-financial firms[2]	6.7	2.7	1.1	0.1	0.3	0.4	0.6	0.8	...
Credit to households[2,3]	4.4	1.7	1.1	0.5	0.3	0.3	0.5	0.6	...
Interest rate on loans to non-financial firms[4] *(%)*	1.8	4.6	5.0	5.2	5.1	5.1	5.1	5.0	...
Interest rate on loans to households for house purchases[5] *(%)*	2.0	4.4	4.7	4.9	4.9	4.8	4.8	4.7	...
Deposits									
On demand deposits	6.3	–8.5	–11.3	–10.7	–8.8	–5.5	–3.6	–2.5	...
Other short-term deposits	4.5	21.1	23.2	21.0	18.4	14.4	11.4	10.6	...
Marketable instruments	3.7	20.3	20.4	19.9	20.5	19.7	21.4	22.0	...
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.*

The Spanish economy, faring better than we thought

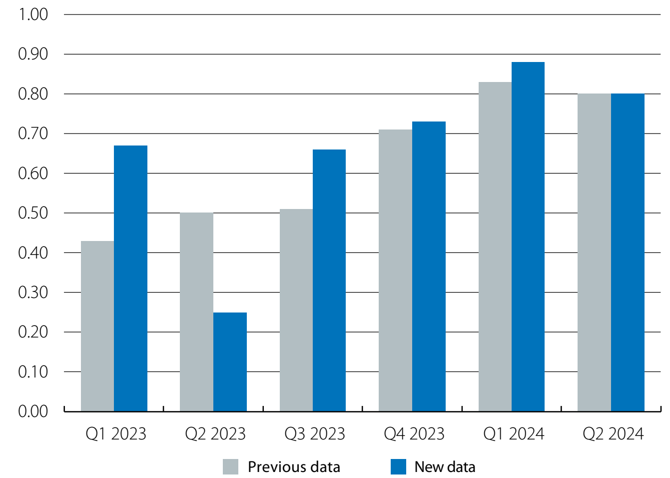
Spain's National Statistics Institute revises the growth of recent years upwards. At the end of September, Spain's National Statistics Institute (INE) revised its figure for quarter-on-quarter GDP growth in Q1 2024 upwards by 0.1 pp, to 0.9%, and maintained the growth of Q2 2024 at 0.8%. This revision confirms the Spanish economy's good performance so far this year thanks to the buoyancy of foreign demand. In addition, INE also revised the pattern of GDP growth during the period 2020-2023. Overall, the data show that the Spanish economy's post-pandemic recovery was more rapid than previously estimated. The review also offers a new perspective relative to the economy's recovery following the COVID crisis. In particular, the data show that private consumption has accumulated growth of 1.4% since Q4 2019, twice the previous estimate, while investment is now 0.4% above the pre-pandemic level instead of 1.3% below. Thus, while foreign demand was the main driver of growth during the recovery, the mix of the contribution between domestic and foreign demand was actually more balanced than originally estimated.

In this context, growth forecasts for the Spanish economy of various organisations and analysts are being revised upwards. Bank of Spain, for instance, has raised its GDP growth forecasts for 2024 by 0.5 pps, to 2.8%. For the following two years, the central bank revised its growth forecast upwards to 2.2% and 1.9%, respectively. During the same month, the government also improved its forecast for 2024 by 0.3 pps, to 2.7%, and its forecast for 2025 and 2026 by 0.2 pps, to 2.4% and 2.2%, respectively. These forecasts are in line with the upward revision of growth to 2.8% in our new scenario (see the Focus «Upward revision of Spain's GDP growth forecast» in this same report).

Flash indicators for Q3 point to an improvement in private consumption. With data available up until the third week of September, CaixaBank Research's consumption indicator points to an improvement in household consumption, growing by 4.0% year-on-year (3.5% in Q2), thanks to the 0.7-pp increase in in-person consumption to 1.8%. The increase in consumption is particularly notable in expenditure on essential goods (5.6% year-on-year vs. 5.0% in Q2), while the growth of expenditure on transport and at petrol stations moderated significantly (0.5% year-on-year vs. 5.1% in Q2) in line with the declines in the price of petrol. On the supply side, the Purchasing Managers' Index (PMI) for the manufacturing sector reversed three months of setbacks in September by climbing to 53 points, the highest record since May. Similarly, the services PMI rebounded to 57 points, the best figure since April 2023.

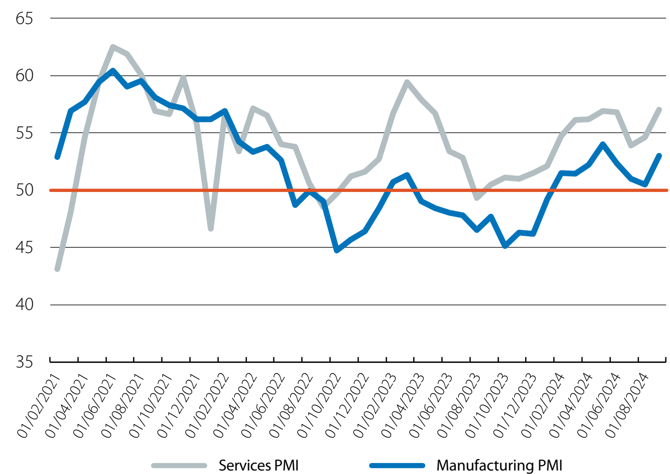
Labour market slows in Q3. In September, the number of registered workers increased by 22,220 in seasonally adjusted

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



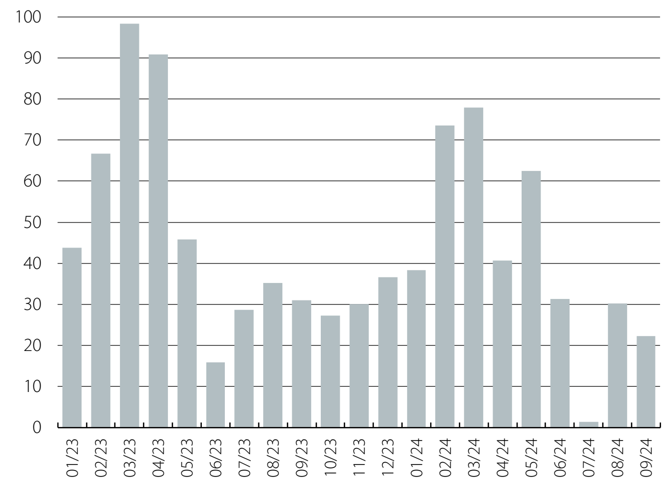
Source: *CaixaBank Research, based on data from the National Statistics Institute (INE).*

Spain: PMI
Level



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

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 (MISSM).*

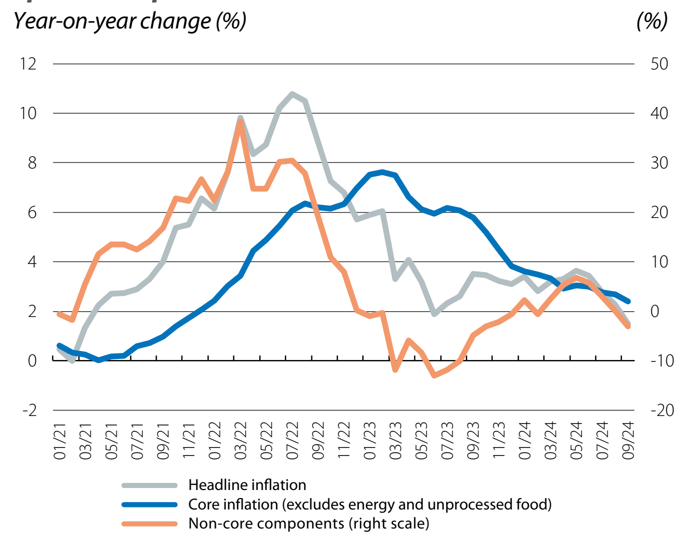
terms, closing Q3 with a quarter-on-quarter growth of 0.3%, 0.5 pps below that of Q2. Thus, the labour market began to show signs of moderation, after accelerating in Q2 and having sustained the growth of Spain's economic activity during the first two quarters of the year. The temporary employment rate fell again after three months of slight rebounds: of the total number of workers registered under the general social security scheme in September, 13.1% are on temporary contracts, which is 1.1 point less than the previous month and 0.9 points less than in September last year.

Inflation unexpectedly falls to 1.5% in September. According to the CPI flash indicator published by the INE, headline inflation fell 0.8 pps in September to 1.5% due to the decrease in fuel prices and, to a lesser extent, food and electricity prices. On the other hand, core inflation, which excludes energy and unprocessed food, fell 0.3 pps to 2.4% in September. Both headline and core inflation data have been lower than expected and hint at a further decline in food inflation, thus continuing the moderation of recent months. On the other hand, we will have to wait for the breakdown by component in mid-October to see whether there has been a fall in services inflation, which has remained above 3.5% so far this year.

Household savings remain high. During Q2, household gross disposable income rose 8.7% compared to the same quarter last year. This increase was bigger than expected and is 2 points above the increase in household spending (6.7%). Thus, the household savings rate reached a new peak in the post-pandemic period, standing at 13.4% of gross disposable income, well above the 2015-2019 average of 7.2%. This higher figure for Q2 is explained by the good performance of the labour market, which entailed a 7.4% increase in the total wage mass. In addition, in the context of the revision of the historical series, the INE also revised upwards the 2023 household savings rate by 0.3 pps, placing it at 12%.

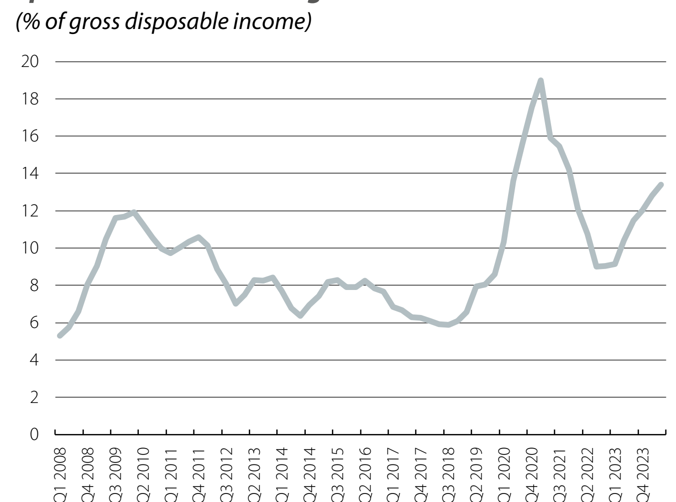
Housing demand is higher than expected. Sales rose sharply again in July, up 19% year-on-year, after two consecutive months of declines. The balance for the year to date shows a 1.3% decrease in the number of sales up to July, although this is a small reduction compared to the 6.1% slump recorded in the same period last year. The increase in July was widespread across both housing types (39% in new housing and 15.5% in the case of existing housing) and between autonomous communities (only the Balearic Islands and Melilla registered a decrease). On balance, in a context in which interest rates remain high, demand continues to be somewhat more robust than expected (some 579,000 sales have been closed in the last 12 months), and this is translating to prices. The main home price indicators show an acceleration during Q2, including both the appraisal value of unsubsidised housing published by the Ministry of Housing and Urban Agenda (MIVAU, 1.6% quarter-on-quarter vs. 1.3% in Q1) and the price of housing by INE (3.6% quarter-on-quarter vs. 2.6% in Q1).

Spain: components of inflation
Year-on-year change (%)



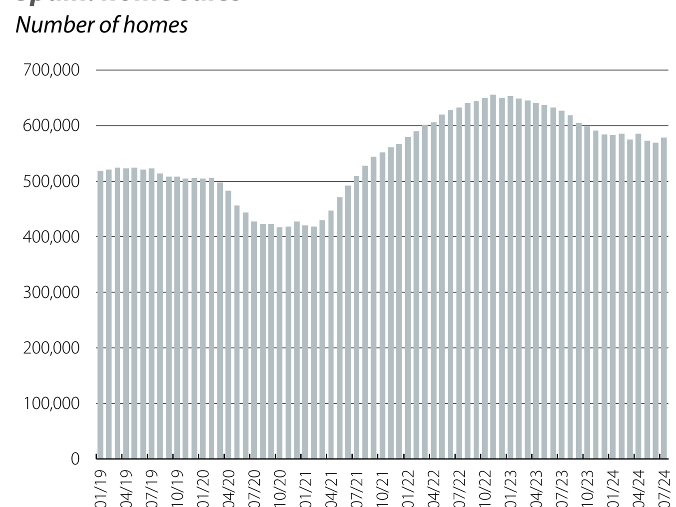
Source: *CaixaBank Research, based on data from the National Statistics Institute (INE).*

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



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

Spain: home sales
Number of homes



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

Upward revision of Spain's GDP growth forecast

Following the last update of the macroeconomic scenario in June this year, we have incorporated the new information that has come to light and have re-examined the main factors dominating the scenario.

Better starting point

The Spanish economy once again performed better than expected in Q2 2024, growing by 0.8% quarter-on-quarter. This is a strong growth rate and is also higher than the 0.2% registered in the euro area. Adding to this surprise, there has been an upward revision of the historical series. According to the National Statistics Institute's new estimates, between 2019 and Q2 2024, GDP grew by 5.7%, 1.0 pp above the previous estimate. Part of this upward revision of growth is concentrated in 2023, when GDP grew by 2.7% instead of the previously estimated 2.5%.

During the first half of this year, the Spanish economy enjoyed strong growth despite the many factors working against it, such as the stagnation of the German economy and inflation and interest rates that remain high. Underlying this good performance are elements such as the strength of the labour market and the excellent international tourism data, which once again exceeded expectations. Domestic demand has maintained a more modest growth rate, but private consumption has been experiencing a steady revival and in recent quarters has been outpacing GDP. In the case of investment, although it outpaced GDP in quarter-on-quarter terms in Q2, it stands just 0.4% above the level of Q4 2019, while private consumption is 1.4% higher, despite a 3.1% increase in the population during this same period.[1]

The first activity data published for Q3 are as expected, pointing to a buoyant but slightly more moderate growth rate than in the first half of the year.

It should be noted that in recent years (2022-2023) foreign demand and public consumption have been the main drivers of growth, but they are expected to give way to private consumption and investment as the latter components enjoy a boost from the recovery of household purchasing power, the reduction of interest rates and the sturdiness of households' and businesses' finances.

Revision of the underlying assumptions of the scenario

The underlying assumptions of the scenario have shifted in a direction that reinforces the narrative that consumption and investment ought to gain prominence at the expense of foreign demand.

Firstly, we anticipate somewhat more favourable financial conditions than those considered previously and the cycle of interest rate cuts will be more rapid than in our previous scenario. In the euro area, inflation has been moderating and is expected to reach the ECB's 2% target in the second half of 2025. In this context, our current scenario contemplates four rate cuts of 25 bps in 2025, one more than in the previous scenario, which would bring the depo rate down to 2.25% by the end of 2025.

As for the price of oil, the materialisation of the economic slowdown in China and the expectations of a possible increase in OPEC production have led to a notable fall in the price of Brent in recent months. This leads us to revise downwards our forecast for crude oil prices in 2024 and 2025, placing the average price in 2024 at 80.4 dollars per barrel (7 dollars less than in the previous scenario) and below 75 dollars per barrel in 2025 (also 7 dollars less). This change has a positive impact on our economy, given that we are a net importer of oil. In the field of energy, however, this positive impact from oil is partially offset by the upward revision in gas prices due to the possible changes to gas flows from Russia passing through Ukraine.[2]

In terms of activity in the foreign markets, the world economy remains robust, although the outlook for the latter part of the year has weakened. In the euro area, we have revised our growth forecast for 2024 down by –0.1 pp to 0.7%, and for 2025, –0.4 pps to 1.3%, mainly due to Germany's weakness. This slightly more adverse scenario reinforces the narrative that the growth of Spanish exports will slow in 2025.

Outlook

The good data for Q2 of this year, together with the upward revision in the growth rate for 2023, lead us to revise upwards our forecast for GDP growth for 2024 as a whole to 2.8% year-on-year (0.4 pps more than in the previous scenario). For 2025, the latest data and the global context discussed in the previous section reinforce the factors that support a GDP growth forecast of 2.3%, which is still a buoyant rate but is slightly lower than in 2024.

In terms of inflation, the latest data support our previous scenario and the changes are minor. In particular, we revised the average inflation for 2024 down from 3.2% to 3.0%, due to a better than expected evolution of inflation in food, energy and industrial goods. In contrast, services inflation is proving more persistent than expected, limiting the scope of the revision. For 2025, we maintain our forecast for average inflation at 2.5%.

Beyond this aggregate figure, the new scenario for the Spanish economy reflects a gradual change in the pattern of growth. Foreign demand (see first chart) will gradually give way to domestic demand as the main driving force.

1. Data from the National Statistics Institute's Continuous Population Statistics.

2. See the Focus «Modest deterioration in the growth outlook for the international economy» in this same report.

After all, the euro area is showing very modest growth rates, while the US and China economies are slowing. On the other hand, the tourism sector, after recovering and far exceeding pre-pandemic levels, should also normalise its rate of growth, although it will remain high.

As for domestic demand, on the side of private consumption, this will grow in excess of 2% in 2024 (1.7% in 2023) and will accelerate slightly in 2025. The factors behind the revival of consumption include the recovery of purchasing power and the fall in interest rates. Looking ahead, consumption has room to grow more rapidly given the high household savings rate in light of the sharp rise in gross disposable income in recent quarters – which has seen a year-on-year growth rate of 9.8% in the first half of 2024, far outpacing inflation and household creation. On the other hand, we expect investment to gain momentum in 2025 after receiving a boost from the cycle of interest rate cuts and greater traction in the execution of the Next Generation EU (NGEU) funds.

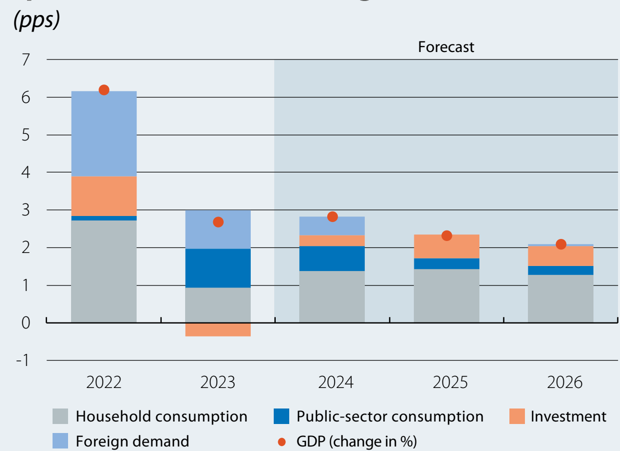
The good outlook in our scenario is not limited to activity growth. The labour market, although moderating slightly after the excellent results of the first half of the year, will continue to contribute to the growth of domestic demand. Specifically, we expect the average number of new registered workers to reach almost 500,000 in 2024 and to exceed 400,000 in 2025. We maintain our forecast for the unemployment rate at 12.2% in 2024 and 11.6% in 2025, as in the previous scenario. The rapid growth of the labour force, with an average annual rate of 1.6% anticipated in 2024 and of 1.5% for 2025, will limit the decline in the unemployment rate despite the significant job creation.

The risks surrounding the new forecast scenario are material. On the one hand, consumption and investment could grow at a faster rate than anticipated if the rate cuts accelerate or if households release their accumulated savings more quickly. The main downside risks are geopolitical in nature. At the international level, a further escalation of the conflict in the Middle East could lead to a spike in oil prices and reverse the process of moderating inflation, with the resulting impact on economic activity. Also, a deterioration of Germany's weakness or a widespread increase in tariffs, which will depend on the outcome of the US election, are other risks that must be taken into account, not forgetting the slowdown of the Chinese economy. At the national level, it is important that the execution of NGEU funds gains traction in order to support the recovery of business investment.

In conclusion, the economy faces the final stages of 2024 and 2025 with an encouraging outlook. The main challenges that the Spanish economy has faced so far, such as the impact of inflation and the interest rate hikes, are beginning to fade. On the other hand, the steady recovery of households' purchasing power, their solid financial position and a global context which, despite a slight deterioration, remains buoyant, paint a picture of a relatively favourable outlook.

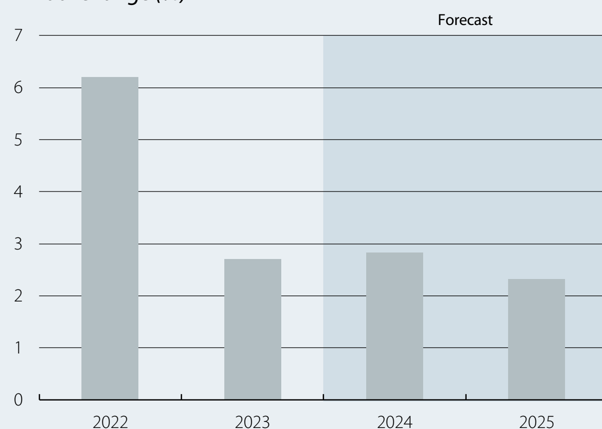
Oriol Carreras and Javier Garcia-Arenas

Spain: contribution to GDP growth
(pps)



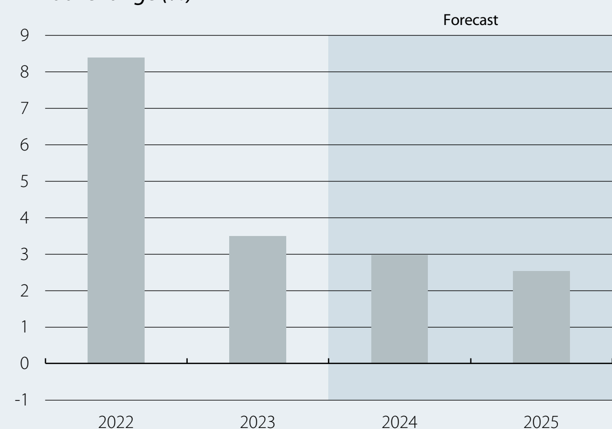
Source: *CaixaBank Research, based on data from the Spanish National Statistics Institute (INE).*

Spain: GDP
Annual change (%)



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

Spain: inflation
Annual change (%)



Spain's tourism sector breaks all records in summer 2024

The summer of 2024 has solidified Spain's tourism sector as one of the key drivers of the Spanish economy, surpassing nearly all historical records. These results are attributed to the recovery of incomes in source countries, Spain's geopolitical stability, and the high international competitiveness of its tourism sector. Despite the growing trend toward less seasonality in tourism, July and August posted extraordinary figures that warrant detailed analysis.

All-time record in overnight stays

Tourist overnight stays in Spain have reached historic highs this summer. According to data from the National Statistics Institute (INE), overnight stays increased by 1.9% in July and by 2.5% in August in year-on-year terms, surpassing 2019 levels by 3.2% and 1.3%, respectively. These figures not only represent an all-time record, but also significantly exceed the annual growth rates observed in 2023, which stood at 0.4% in July and 0.3% in August.

This growth has been mainly driven by international tourism, which has shown remarkable dynamism. Overnight stays by foreign visitors increased by 4.8% in July and August as a whole compared to the same period last year, exceeding 2019 levels by 2.6%. In contrast, overnight stays by domestic tourists experienced a slight contraction of 1.2% in July and August. However, despite this decline, the levels remain high, with increases of 1.7% compared to July and August 2019.

It should also be noted that the growth in overnight stays during the summer months was lower than in the first half of the year, when there was a total increase of 6.8% (1.4% for domestic tourists and 9.8% for international tourists). This relative slowdown reflects the aforementioned reduction in seasonality in tourism, which is redistributing the influx of tourists throughout the year. This reduction in seasonality is a positive development for the sector, as it helps reduce the rate of temporary employment and allows for greater utilization of the capital invested in tourism infrastructure.

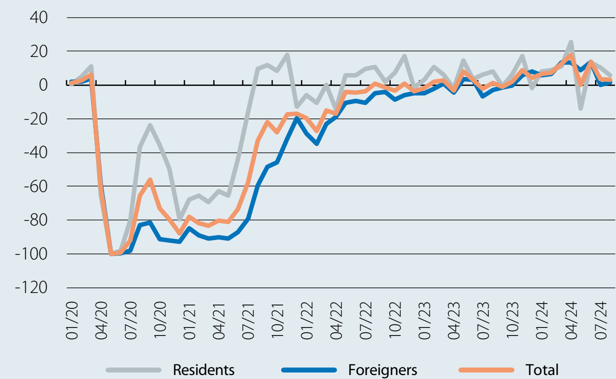
International arrivals: increasing across the board

The data on international arrivals have also been a source of excellent news. According to the INE's Frontur database, in July and August foreign tourist arrivals exceeded 2019 levels by 8.9%. This growth occurred across the board and is supported in particular by excellent figures for tourists from the EU, which increased by 14.3% in July and August, and from the Americas, with increases of 30.3% in the same months.

Among the main source markets, the United Kingdom shows a somewhat sluggish performance, with declines

Spain: tourist overnight stays

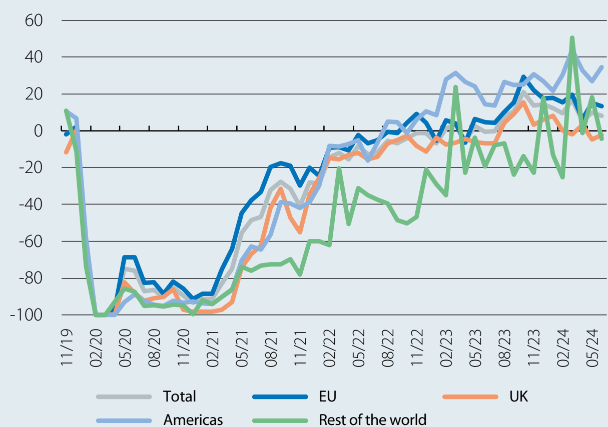
Change versus the same month of 2019 (%)



Notes: *Overnight stays in hotels, tourist apartments, rural tourism establishments and at campsites.*
Source: *CaixaBank Research, based on data from the Spanish National Statistics Institute (INE).*

Spain: international tourist arrivals

Change versus the same month of 2019 (%)



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

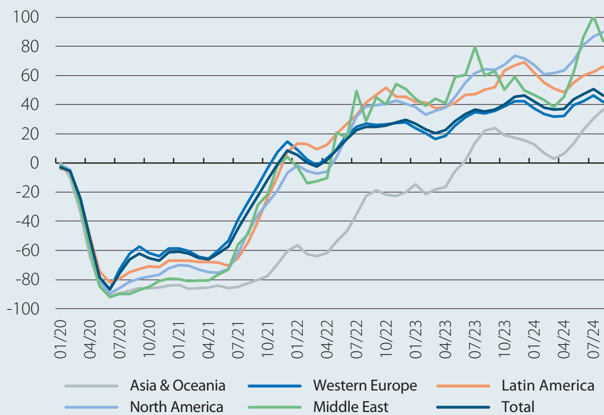
of 3.6% in July and August compared to 2019. Although British tourists are approaching pre-pandemic levels, they have yet to fully recover. Factors such as post-Brexit economic uncertainties and fluctuations in the sterling exchange rate could be influencing this trend. On the other hand, the increase in the influx of tourists from markets further afield, such as North America and Latin America, indicates a growing interest in Spain as a long-haul tourist destination.

Substantial increase in tourist expenditure

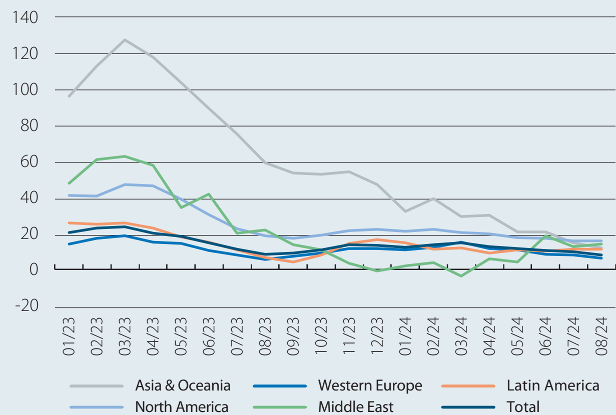
Tourist expenditure figures are highly positive, driven by both strong real numbers and price increases during the post-pandemic period. The analysis of tourist expenditure is based on internal CaixaBank Research data on purchase transactions – duly aggregated and anonymised – carried out using international cards on

Spain: international tourist expenditure

Change versus the same month of 2019 (%)



Year-on-year change (%)



***Source:** CaixaBank Research.*

CaixaBank POS terminals. The data indicate that international expenditure in July and August 2024 stood 50.4% and 46.2% above 2019 levels, respectively.

Particularly noteworthy is the growth in expenditure by tourists from North America, with increases of 86.6% in July and 89.9% in August. Expenditure by Latin American tourists also shows significant growth, with increases of 62.5% and 66.0% in the same months. These data reflect not only a greater number of visitors, but also an increase in expenditure per tourist, which has a significant economic impact on the sector.

On the other hand, tourists from Asia and Oceania show more moderate increases in their expenditure, standing 30.6% and 36.5% above 2019 in July and August, respectively. However, the year-on-year growth rates are robust, with increases of 14.6% in July and 11.6% in August. This sustained growth indicates a potential for further growth in the future as these markets continue to recover. According to UN Tourism (UNWTO), in 2030, Asia will emit 165% more tourists than in 2010, versus 64% growth in the case of Europe.[1] The ability to attract tourists from these emerging markets will thus be crucial for the diversification and resilience of the sector in the long term.

Challenges and opportunities in the Asian market

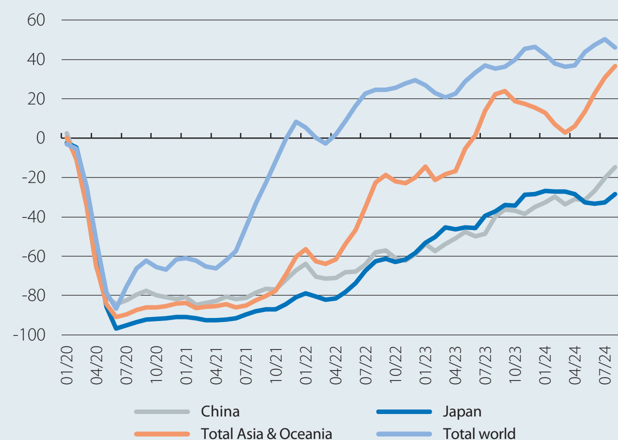
The relatively muted performance of Asian tourism is mainly due to the slower recovery of tourism from China and Japan. Tourist expenditure from these countries has lagged behind and still lies below the levels recorded in 2019. In the case of tourists from China, in July and August tourist expenditure was 20.5% and 14.8% below the levels of the same months of 2019, respectively. The figures for Japan are also below those of 2019, specifically –32.6% in July and –28.4% in August.

The slow recovery of Chinese tourism is largely due to the later lifting of COVID-19 lockdowns in the country, as well as the challenges in the Chinese economy and their impact on household confidence. However, the indicators point to a significant revival, with year-on-year growth of 55.2% in July and 42.8% in August. In addition, the resumption of direct air connections, such as the Shanghai-Barcelona route in August 2024, reinforces expectations of robust growth in the short and medium term.

In the case of Japan, the weakness of the yen has negatively affected Japanese tourists' purchasing power abroad. The yen is expected to recover part of its value in the coming years, which could once again boost Japanese tourism to Spain. The improvement in economic and monetary conditions in Japan will be a determining factor in revitalising this market.

Spain: expenditure by tourists from Asia

Change versus the same month of 2019 (%)



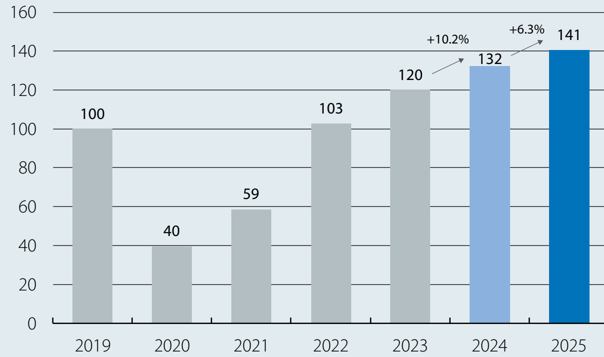
***Source:** CaixaBank Research.*

1. See the UN World Tourism Organization, «Tourism towards 2030/Global Overview».

Spain: evolution of tourism GDP

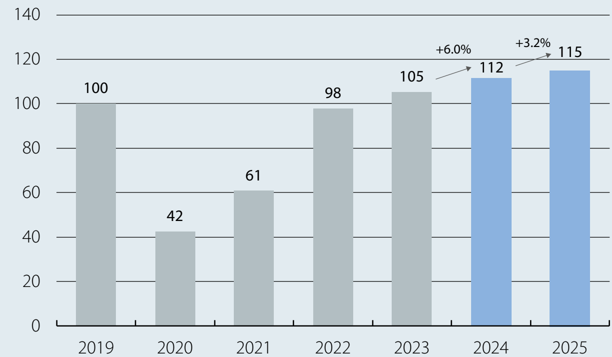
Nominal terms

Index (100 = 2019)



Real terms

Index (100 = 2019)



Note: *Forecasts from Q3 2024 onward.*
Source: *CaixaBank Research, based on data from the Spanish National Statistics Institute (INE).*

Projection for tourism GDP

In view of the strong summer season, we have revised upwards our growth forecast for the sector. We estimate that tourism GDP will grow by 6% in 2024 in real terms, placing it 12% above 2019 levels. In nominal terms, the increase reaches 32%, reflecting not only a higher volume of activity but also an increase in prices and in the added value generated by the sector. The summer of 2024 consolidates the tourism sector as a pillar of Spain's economic growth. We predict that this 6% growth in tourism GDP will contribute 0.76 pps of growth to Spain's GDP in 2024, representing 27% of the total growth this year. We also estimate that tourism GDP will account for 13% of total GDP this year.

Beyond 2024, we expect the tourism sector to continue to expand in 2025, with growth of 3.2% in real terms. The recovery of gross disposable income in the source countries, as the inflationary shock finishes dissipating, and the perception of geopolitical stability in Spain will continue to provide a boost to the sector over the coming quarters. We also expect the reduction of the sector's seasonality to continue and to see stronger growth outside the peak season. The strength of tourism makes the discussions around sustainability and the commitment to high-quality tourism even more relevant: this is the great challenge for tourism in Spain in the medium term.

David Cesar Heymann

Activity and employment indicators

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

	2022	2023	Q3 2023	Q4 2023	Q1 2024	Q2 2024	07/24	08/24	09/24
Industry									
Industrial production index	2.2	–1.1	–2.1	–0.8	–0.4	0.1	–0.4	–0.1	...
Indicator of confidence in industry *(value)*	–0.8	–6.5	–8.2	–8.1	–5.1	–5.5	–4.3	–3.4	–0.7
Manufacturing PMI *(value)*	51.0	48.0	47.3	45.9	50.7	52.8	51.0	50.5	53.0
Construction									
Building permits *(cumulative over 12 months)*	15.4	1.3	4.3	0.8	2.9	4.0	4.8	...	...
House sales *(cumulative over 12 months)*	29.0	0.1	–3.5	–9.3	–10.5	–9.6	–7.7	...	...
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	13.7	12.8	...
Services PMI *(value)*	52.5	53.6	50.9	51.2	54.3	56.6	53.9	54.6	57.0
Consumption									
Retail sales[1]	2.3	2.5	2.0	2.8	1.1	0.4	1.1	2.3	...
Car registrations	–3.0	18.5	6.9	11.9	4.2	9.6	3.4	–6.5	6.3
Consumer confidence index *(value)*	–26.5	–19.2	–16.1	–19.1	–17.2	–14.4	–13.6	–15.0	–12.3
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	2.4	2.3	2.3
GDP	**6.2**	**2.7**	**2.2**	**2.3**	**2.5**	**3.1**	–	–	–

Prices

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

	2022	2023	Q3 2023	Q4 2023	Q1 2024	Q2 2024	07/24	08/24	09/24
General	8.4	3.6	2.8	3.3	3.1	3.5	2.8	2.3	1.5
Core	5.1	6.1	6.0	4.5	3.5	3.0	2.8	2.7	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	07/24	08/24	09/24
Trade of goods									
Exports *(year-on-year change, cumulative over 12 months)*	22.9	–1.4	4.5	–1.4	–6.9	–4.9	–3.8	...	...
Imports *(year-on-year change, cumulative over 12 months)*	33.4	–7.2	–1.2	–7.2	–9.8	–7.1	–6.2	...	...
Current balance	**4.8**	**39.8**	**36.3**	**39.8**	**41.2**	**45.3**	**47.8**	**...**	**...**
Goods and services	12.1	58.8	52.6	58.8	60.5	65.4	68.0	...	...
Primary and secondary income	–7.3	–19.1	–16.3	–19.1	–19.2	–20.2	–20.2	...	...
Net lending (+) / borrowing (–) capacity	**17.5**	**56.0**	**50.5**	**56.0**	**56.0**	**61.4**	**63.9**	**...**	**...**

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	07/24	08/24	09/24
Deposits									
Household and company deposits	3.1	0.3	–1.3	0.3	3.3	5.2	4.2	4.8	...
Demand and notice deposits	3.6	–7.4	–6.8	–7.4	–5.2	–1.9	–2.6	–1.5	...
Time and repo deposits	–3.0	100.5	74.4	100.5	96.7	68.0	58.6	52.9	...
General government deposits[5]	–0.8	0.5	14.6	0.5	–4.6	–4.1	6.3	9.4	...
TOTAL	**4.8**	**0.3**	**–0.2**	**0.3**	**2.7**	**4.5**	**4.4**	**5.1**	**...**
Outstanding balance of credit									
Private sector	–0.4	–3.4	–3.5	–3.4	–2.6	–1.3	–1.1	–0.7	...
Non-financial firms	–0.7	–4.7	–4.8	–4.7	–3.6	–1.8	–1.7	–1.3	...
Households - housing	–0.2	–3.2	–3.3	–3.2	–2.5	–1.5	–1.0	–0.7	...
Households - other purposes	0.0	–0.5	–0.4	–0.5	–0.1	0.7	0.3	0.5	...
General government	0.6	–3.5	–4.1	–3.5	–4.8	–2.7	–6.3	–7.5	...
TOTAL	**–0.3**	**–3.4**	**–3.5**	**–3.4**	**–2.7**	**–1.4**	**–1.4**	**–1.2**	**...**
NPL ratio (%)[6]	**3.5**	**3.5**	**3.6**	**3.5**	**3.6**	**3.4**	**3.4**	**...**	**...**

Notes: *1. Deflated, excluding service stations. 2. LFS estimate. 3. Average monthly figures. 4. Aggregate figures for the Spanish banking sector and residents in Spain. 5. Public-sector deposits, excluding repos. 6. Data at the period end.*

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.*

Portugal: the revision of the National Accounts points to a more robust economy

The Portuguese economy's performance in recent years has been more robust than previously estimated. After reconsidering the key macroeconomic variables on the basis of the updated data series of the National Accounts, real GDP growth for 2023 was revised up from 2.3% to 2.5%. When combined with the revisions made in Q1 and Q2 2024, this places real GDP 6.8% above the level of Q4 2019. The new estimates reflect a greater contribution from domestic demand, via private consumption, and a lower contribution from foreign demand, due to an upward revision of import growth. Household savings have also been revised upwards. According to the revised series, in 2023 this variable stood at 14.3 billion euros, which places the savings rate at the end of 2023 at 8%, 1.4 pps higher than previously reported. The trend of a steady rise in the savings rate continued in S1 2024, bringing it to 9.8%. This was driven by a significant increase in nominal disposable income (+7.6% year-on-year), which exceeded the rise in nominal private consumption (4.6%).

As for recent developments, the indicators for Q3 continue to show mixed signals, with a steady improvement over the course of the quarter. The main synthetic indicators suggest an acceleration of activity in September. Among them, the European Commission's economic sentiment indicator showed a particularly strong recovery, rising to 104 points in September and up 2.9 points versus August. Consumer sentiment also showed improvement, as did all other sectors with the exception of construction.

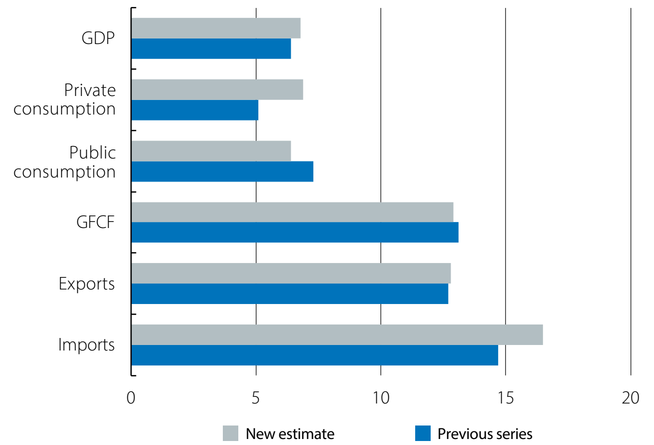
Inflation rebounds above 2% in September. Headline inflation rose by 0.2 pps to 2.1% due to the rebound of the core components, while unprocessed food and energy inflation were more favourable (year-on-year inflation of 0.9% and –3.5%, respectively). Thus, the core index was worse than anticipated, rising to 2.8% (2.4% previously). We expect inflation to remain above 2% in the final quarter of the year, such that average inflation for the year as a whole will be 2.4%.

Employment loses momentum and in August its growth slowed to a year-on-year rate of 0.9%. Nevertheless, the unemployment rate declined again in August, reaching 6.4%. In this context, we have slightly revised our expectations for the unemployment rate downwards and we now expect it to stabilise at 6.5% in 2024 (versus 6.6% previously), moderating to 6.4% next year.

Sharp rise in home prices. In Q2 2024, the home price index registered the biggest quarterly increase in the series, at 3.9%. This was a far higher growth rate than those recorded in previous quarters (+1.3% and +0.6% in Q4 2023 and Q1 2024, respectively). The number of sales also recovered, up 10.4% year-on-year and breaking a cycle of seven quarters of decline. In this context, we have revised our forecasts and now expect home prices to climb by an average of 6.8% in 2024.

Portugal: GDP and its components

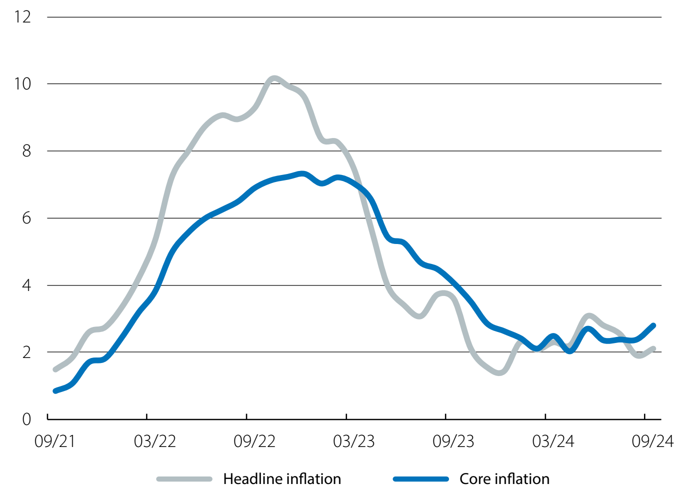
Growth in Q2 2024 vs. Q4 2019 (%)



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

Portugal: inflation

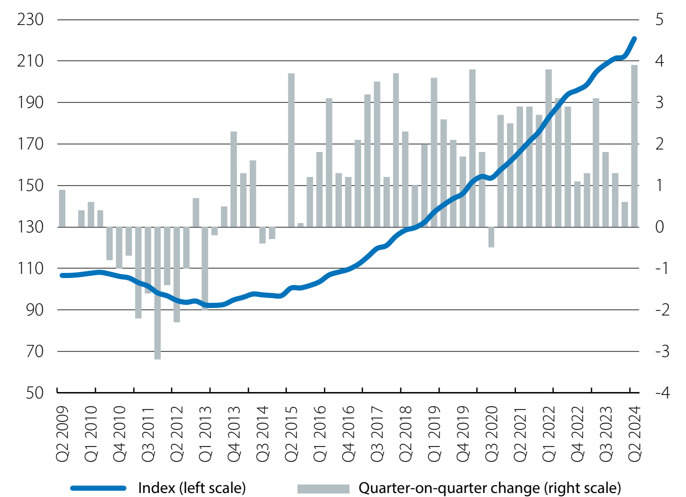
Year-on-year change (%)



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

Portugal: home prices

Index (100 = 2015) *Quarter-on-quarter change (%)*



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

Activity and employment indicators

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

	2022	2023	Q4 2023	Q1 2024	Q2 2024	Q3 2024	07/24	08/24	09/24
Coincident economic activity index	5.7	3.3	2.6	2.0	1.4	...	1.1	0.9	...
Industry									
Industrial production index	0.8	–3.1	–3.5	1.4	1.4	...	–3.9	–1.7	...
Confidence indicator in industry *(value)*	–3.4	–7.4	–9.3	–7.9	–6.7	–6.2	–6.7	–6.5	–5.5
Construction									
Building permits - new housing (number of homes)	6.2	7.5	4.9	–19.6	6.1	...	13.4	...	...
House sales	1.3	–18.7	–11.4	–4.1	10.4	...	–	–	–
House prices *(euro / m^2 - valuation)*	13.8	9.1	6.4	5.5	6.8	...	7.4	8.2	...
Services									
Foreign tourists *(cumulative over 12 months)*	158.9	19.1	19.1	13.1	9.5	...	9.4	8.8	...
Confidence indicator in services *(value)*	15.2	7.6	1.7	6.3	4.3	–0.4	–0.4	–1.6	0.8
Consumption									
Retail sales	5.5	1.1	0.6	1.8	2.2	...	2.4	5.4	...
Coincident indicator for private consumption	3.9	2.4	2.2	1.7	1.5	...	1.6	1.7	...
Consumer confidence index *(value)*	–29.7	–28.6	–27.2	–24.6	–18.7	–14.3	–15.4	–14.3	–13.1
Labour market									
Employment	3.3	2.3	2.3	1.4	1.0	...	0.8	0.9	...
Unemployment rate (*% labour force*)	6.1	6.5	6.6	6.8	6.1	...	6.5	6.4	...
GDP	**7.0**	**2.5**	**2.1**	**1.4**	**1.6**	**...**	**–**	**–**	**–**

Prices

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

	2022	2023	Q4 2023	Q1 2024	Q2 2024	Q3 2024	07/24	08/24	09/24
General	7.8	4.4	1.7	2.2	2.7	2.2	2.5	1.9	2.1
Core	5.6	5.1	3.0	2.3	2.4	2.5	2.4	2.4	2.8

Foreign sector

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

	2022	2023	Q4 2023	Q1 2024	Q2 2024	Q3 2024	07/24	08/24	09/24
Trade of goods									
Exports *(year-on-year change, cumulative over 12 months)*	23.2	–1.4	–1.4	–5.5	–3.7	...	–0.8	...	...
Imports *(year-on-year change, cumulative over 12 months)*	31.7	–4.0	–4.0	–7.3	–5.6	...	–3.7	...	...
Current balance	**–2.8**	**3.6**	**3.6**	**5.1**	**5.8**	**...**	**6.3**	**...**	**...**
Goods and services	–4.7	3.3	3.3	4.6	5.3	...	5.1	...	...
Primary and secondary income	1.9	0.4	0.4	0.5	0.6	...	1.1	...	...
Net lending (+) / borrowing (–) capacity	**–0.5**	**7.2**	**7.2**	**8.8**	**9.2**	**...**	**9.6**	**...**	**...**

Credit and deposits in non-financial sectors

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

	2022	2023	Q4 2023	Q1 2024	Q2 2024	Q3 2024	07/24	08/24	09/24
Deposits [1]									
Household and company deposits	6.4	–2.3	–2.3	2.7	5.6	...	5.1	5.8	...
Sight and savings	7.3	–14.8	–14.8	–11.2	–4.6	...	–5.2	–7.5	...
Term and notice	5.2	14.8	14.8	20.2	17.7	...	17.3	22.5	...
General government deposits	12.4	–12.4	–12.4	9.1	4.5	...	15.0	10.2	...
TOTAL	**6.5**	**–2.6**	**–2.6**	**2.9**	**5.6**	**...**	**5.4**	**6.0**	**...**
Outstanding balance of credit [1]									
Private sector	1.7	–1.5	–1.5	–0.8	–0.3	...	0.2	0.5	...
Non-financial firms	–0.6	–2.1	–2.1	–1.7	–1.7	...	–1.0	–1.2	...
Households - housing	3.2	–1.5	–1.5	–0.8	0.0	...	0.2	0.9	...
Households - other purposes	2.9	0.2	0.2	2.0	2.7	...	3.3	3.7	...
General government	–2.7	–5.5	–5.5	5.9	–5.8	...	–2.3	–3.4	...
TOTAL	**1.6**	**–1.6**	**–1.6**	**–0.5**	**–0.5**	**...**	**0.1**	**0.4**	**...**
NPL ratio *(%)* [2]	**3.0**	**2.7**	**2.7**	**2.7**	**2.6**	**...**	**–**	**–**	**–**

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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Agrifood Sector Report 2024

Activity in Spain's agrifood sector grew quicker than for the economy as a whole and the outlook for the 2024-2025 campaign is encouraging. Exports are faring well in the challenging environment of recent years and the food price rally has begun to slow, although the cumulative increase since 2019 remains significant.

Real Estate Sector Report S2 2024

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.

Through our studies, we help to stimulate debate and the exchange of views among all sectors of society, as well as to promote the dissemination of the major themes of the socio-economic environment of our time. Both the *Monthly Report* and the rest of CaixaBank Research's publications are available at: www.caixabankresearch.com

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