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MONTHLY REPORT • ECONOMIC AND FINANCIAL MARKET OUTLOOK

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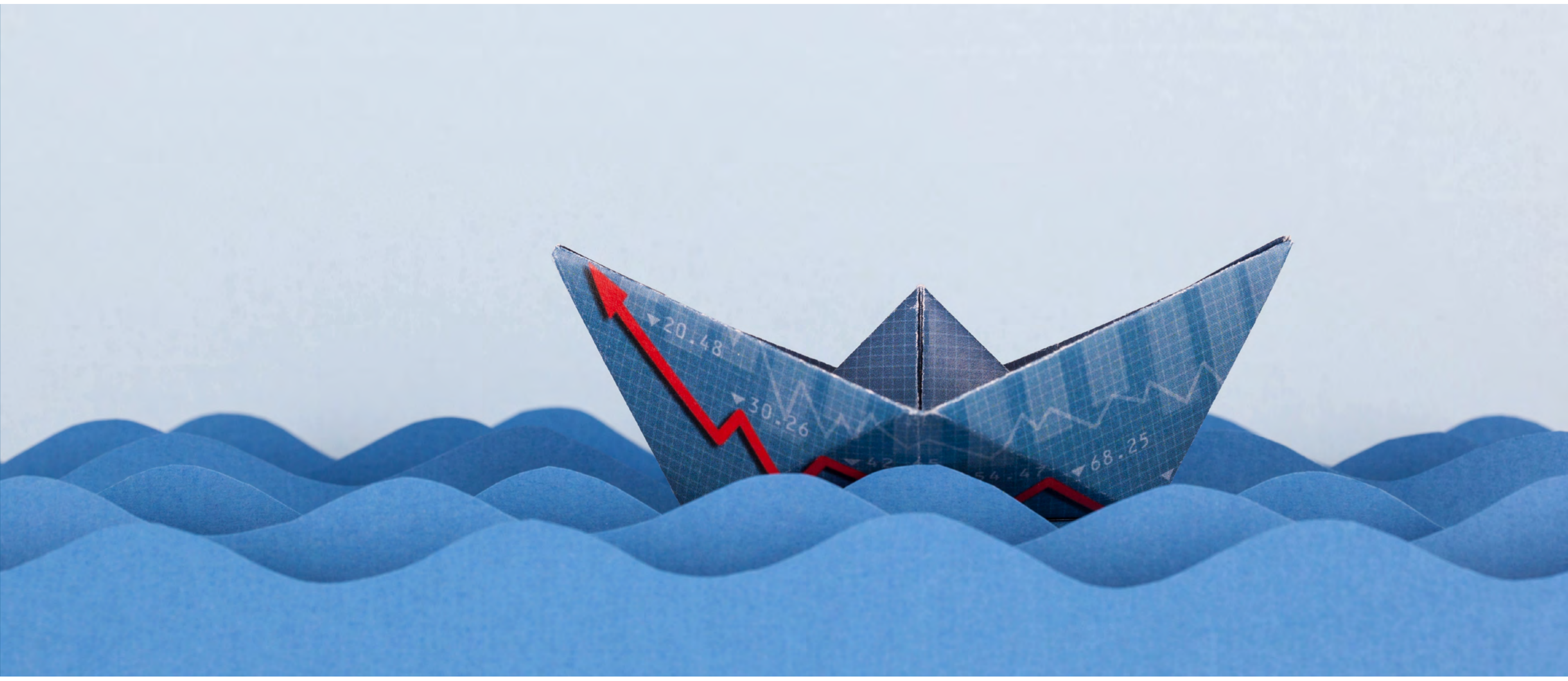

INTERNATIONAL ECONOMIES AND MARKET

FINANCIAL MARKETS
Changes in the financial markets' monetary policy expectations

INTERNATIONAL ECONOMY
Election year in the US

PORTUGUESE ECONOMY
Portuguese companies maintain their export momentum

SPANISH ECONOMY

2024 Treasury: the increased participation of domestic and non-resident investors will absorb the greater funding needs

The growth of disposable income strengthens Spanish household finances

Spanish household spending on bills in 2023, a respite after a gruelling 2022

Impact on the national accounts of the partial extension of anti-inflation measures in 2024

CaixaBank Research

MONTHLY REPORT - ECONOMIC AND FINANCIAL MARKET OUTLOOK
February 2024

The *Monthly Report* is a publication developed jointly by CaixaBank Research and BPI Research (UEEF)

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A good 2023. But what about 2024?

All the indicators suggested that 2023 was going to be a difficult year for the Spanish economy. At the start of the year, CaixaBank Research was forecasting growth of 1.0% and emphasising the downside risks surrounding the scenario. The consensus was somewhat more pessimistic and expected economic growth to be lower. Finally, the Spanish economy closed 2023 with growth of 2.5%, far exceeding expectations.

The positive surprises kept coming throughout the year. Not only did the economy manage to avoid a recession, but it maintained a significant growth rate throughout and, far from losing traction, even ended the year with a slight acceleration. In the final quarter, growth climbed to 0.6% quarter-on-quarter, compared to 0.5% on average in the previous five quarters.

When we compare these figures with those recorded in most developed countries, and especially in Europe, the message becomes even more encouraging. In a context marked by the energy crisis, high inflation and rising interest rates, the growth of the euro area finally stood at 0.5% and some countries, such as Germany, noted a slight drop in economic activity. Unlike Spain, the European economy followed the anticipated script more closely.

Will the Spanish economy be able to maintain this pace of progress in 2024? The assessment of the various factors that drove economic activity last year should provide us with some clues. GDP growth in 2023 was driven almost equally by household consumption, public consumption and the external sector. Specifically, they contributed 1 pp, 0.8 pps and 0.9 pps to growth, respectively. To reach the 2.5% at which the economy as a whole grew, we must take into account the fall in investment, which deducted 0.1 pp from GDP growth. Also, the second decimal places sometimes do not help the totals to add up when rounding the figures to a single decimal place.

With regard to the external sector, this was one of the main drivers of the economy at the beginning of the year. Exports of goods and services grew by almost 10% in Q1 2023, but they slowed as our main trading partners weakened, closing the year up 1.2% year-on-year. The weak international context does not invite optimism, with the sluggishness of European countries being a particular source of concern. In 2024 they are expected to experience an acceleration, but for the year as a whole they will probably maintain a similar growth rate to that of 2023. Thus, exports are unlikely to regain the buoyancy they showed at the beginning of last year.

Public consumption will probably not be able to continue growing so dynamically either. The new European fiscal rules, although more flexible than the previous ones, recall the importance of keeping the national accounts in order when part of a monetary union, and the government has already set a target to reach a budget deficit of 3.0% of GDP this year. The details of the new budget are not yet known and neither is the final deficit for 2023. However, it should be noted that in Q3 2023 the general government budget deficit (four-quarter cumulative balance) was still in excess of 4%. Therefore, the reduction required this year in order to meet the target is significant.

All this could be partially offset by more dynamic household consumption. The strength of the labour market, together with significant wage growth, allowed household income to grow in excess of 10% in Q3 2023 and the savings rate to rebound. Thus, the state of household finances as a whole, now less stressed than expected, together with the fact that inflation and interest rates are likely to fall somewhat faster than expected, should allow consumption to continue to record strong growth this year. Moreover, it is reasonable to assume that investment will stop falling as interest rates gradually come down and as more NGEU funds are deployed.

CaixaBank Research forecasts growth of 1.4% for 2024, but this year we are pointing out the risks to the upside. The good growth data for Q4 2023 and the improvement in the outlook for household consumption will lead us to revise our growth forecast and place it close to 2.0%. However, in order to improve on a strong 2023, the improvement in investment will need to be substantial. Such an outcome would be great news, and not just for the good performance of the economy in the short term. Expanding and modernising the stock of capital is key to improving productivity and ensuring that growth remains sustainable in the medium and long term.

Oriol Aspachs
February 2024

Chronology

JANUARY 2024

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

DECEMBER 2023

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

NOVEMBER 2023

10 The EU's Copernicus programme reports that 2023 saw the hottest January-October period on record globally, 1.43°C above the 1850-1900 average, and records in the months of June, July, August, September and October.

OCTOBER 2023

7 A new war breaks out between Hamas and Israel.
20 Greece regains an investment grade sovereign rating after S&P raises it to BBB–.

SEPTEMBER 2023

14 The ECB raises rates by 25 bps, placing the depo rate at 4.00% and the refi rate at 4.50%.

AUGUST 2023

14 The United Nations declares July 2023 the hottest month since records began (174 years ago).

Agenda

FEBRUARY 2024

1 Portugal: industrial production (December).
Euro area: CPI flash estimate (January).
2 Spain: registration with Social Security and registered unemployment (January).
7 Portugal: employment and unemployment (Q4).
9 Portugal: turnover in the services sector (December).
12 Portugal: labour costs (Q4).
15 Japan: GDP (Q4).
19 Spain: foreign trade (December).
23 Spain: loans, deposits and NPL ratio (December).
28 Euro area: economic sentiment index (January).
29 Spain: CPI flash estimate (February).
Spain: balance of payments (December).
Portugal: GDP breakdown (Q4).

MARCH 2024

1 Portugal: rating S&P.
Euro area: CPI flash estimate (February).
4 Spain: registration with Social Security and registered unemployment (February).
7 Governing Council of the European Central Bank meeting.
11 Portugal: international trade (January).
15 Spain: quarterly labour cost survey (Q4).
Spain: Moody's and S&P ratings.
19-20 Federal Open Market Committee meeting.
21-22 European Council meeting.
22 Spain: loans, deposits and NPL ratio (Q4).
Portugal: Fitch rating.
25 Portugal: general government aggregates (2023).
Portugal: GDP breakdown (Q4).
26 Spain: GDP flash estimate (Q4).
27 Spain: CPI flash estimate (March).
Euro area: economic sentiment index (March).
28 Portugal: portfolio of loans and deposits (February).

Surprises, resilience and central banks

The publication of Q4 economic activity data has confirmed that the global economy closed last year with a much better combination of growth and inflation than had been anticipated at the beginning of the year. In countries such as the US and Spain, average growth in 2023 stood at 2.5%, whereas 12 months ago the forecast according to the analyst consensus placed it in the 0.5%-1% range and a recession in the US was considered highly likely, supported by signals such as the inversion of the yield curve slope. Similarly, on the inflation front, the trend in recent months has been much more benign than most projections, thanks to the fading of the energy shock and the gradual disappearance of its indirect effects, pending confirmation from the wage data that the second-round effects remain under control.

Therefore, in an environment characterised since 2020 by a string of negative disturbances, the positive surprise in 2023 was once again the resilience of the global business cycle, understood as «the ability of a living being to adapt to a disturbing agent or an adverse state or situation» (the first definition of «resilience» according to the Royal Spanish Academy, the authority on the Spanish language). As the chair of the Fed himself recently acknowledged, it is very unusual from a historical point of view that the monetary tightening implemented in the last two years has not had a much greater impact on economic activity and, above all, on employment. In this context, it is understandable that the central banks have not used their latest meetings to try to counteract (or at least not decisively) the significant easing of financial conditions observed in recent weeks, which indicates that investors are anticipating an immaculate disinflationary process. The latest inflation data speak for themselves and reflect both the improvements on the supply side (beyond short-term shocks caused by geopolitical risk) and the speed with which the monetary tightening process has been transmitted to demand this time through the credit channel.

The question is what could alter the roadmap that the financial markets are anticipating for the central banks. Beyond the ever-complex calibration of geopolitical risks (with the inscrutable Trump factor hovering over the medium-term outlook), the unexplored territory of the last mile in the fight against inflation and the effects of sectoral and regional cyclical divergences (they ought to be reduced in this first semester), the biggest risk for economies such as the US is that they could end up dying by success and go from a soft-landing scenario to one with no landing at all. This is not our central scenario, but the reality is that the recent growth of GDP (4% annualised in the second half of 2023) and employment (almost 3 million jobs in the last 12 months) are clearly above their potential rates, no matter how optimistic we may be about the effects of artificial intelligence on productivity. For now, the steady drip of positive economic activity data in the US has only led the markets to push back the date when they expect the Fed to make its first rate cut, from its March meeting to that of May or June. This delay has also entailed a reduction in the cumulative declines that are expected for 2024 (from 150 to 100 bps) and a correction in debt yields of around 20 bps since the start of the year, following the rally in November and December. This movement has also occurred in Europe, in this case primarily driven by the reluctance of core members of the ECB Council to allow their arms to be twisted so soon, rather than a lack of improvement in the economic activity data.

In short, with the outlook of rate cuts now incorporated into the markets' radar, the questions going forward will focus on what path the monetary normalisation process will take and what level rates will end up at. The options are either to start early and have the pace determined by the data or, on the contrary, to wait for definitive signs that inflation has reached the target and then set a path for rate cuts. With the first option, there is a risk of inflation not falling as expected, especially due to supply-side factors, which could complicate the last mile. In the second case, meanwhile, the risks of second-round effects and those associated with a challenging geopolitical environment (Middle East, US elections, etc.) are minimised, but on the other hand there is a risk of being too heavy on the brakes.

Therefore, the key for this year is whether the resilience of the world economy will also meet the second definition of the Royal Spanish Academy: «ability of a material, mechanism or system to regain its initial state when the disturbance to which it had been subjected has ceased». This normalisation will depend on the ability of economic policy (monetary and fiscal) to adjust demand to a supply that continues to digest the effects of geopolitical uncertainty, changes in the labour market and the widespread pursuit of strategic autonomy.

José Ramón Díez

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

Financial markets

	Average 2000-2007	Average 2008-2020	2021	2022	2023	2024	2025
INTEREST RATES							
Dollar							
Fed funds (upper limit)	3.43	0.77	0.25	4.50	5.50	4.25	2.50
3-month SOFR	3.62	0.99	0.21	4.74	5.37	3.85	2.40
12-month SOFR	3.86	1.42	0.52	5.48	4.95	3.15	2.80
2-year government bonds	3.70	0.99	0.66	4.30	4.46	2.80	2.50
10-year government bonds	4.69	2.44	1.46	3.62	4.01	3.10	3.00
Euro							
ECB depo	2.05	0.15	–0.50	1.77	4.00	3.50	2.50
ECB refi	3.05	0.69	0.00	2.27	4.50	4.00	3.00
€STR	–	–0.55	–0.58	1.57	3.90	3.45	2.55
1-month Euribor	3.18	0.42	–0.60	1.72	3.86	3.19	2.48
3-month Euribor	3.24	0.57	–0.58	2.06	3.94	2.94	2.40
6-month Euribor	3.29	0.70	–0.55	2.56	3.93	3.00	2.43
12-month Euribor	3.40	0.86	–0.50	3.02	3.68	3.06	2.45
Germany							
2-year government bonds	3.41	0.27	–0.69	2.37	2.55	2.50	2.25
10-year government bonds	4.30	1.38	–0.31	2.13	2.11	2.60	2.50
Spain							
3-year government bonds	3.62	1.53	–0.45	2.66	2.77	2.82	2.67
5-year government bonds	3.91	2.01	–0.25	2.73	2.75	2.99	2.83
10-year government bonds	4.42	2.96	0.42	3.18	3.09	3.60	3.30
Risk premium	11	158	73	105	98	100	80
Portugal							
3-year government bonds	3.68	3.05	–0.64	2.45	2.33	3.04	2.93
5-year government bonds	3.96	3.63	–0.35	2.53	2.42	3.14	3.03
10-year government bonds	4.49	4.35	0.34	3.10	2.74	3.45	3.30
Risk premium	19	297	65	97	63.00	85.00	80
EXCHANGE RATES							
EUR/USD (dollars per euro)	1.13	1.26	1.13	1.06	1.09	1.12	1.15
EUR/GBP (pounds per euro)	0.66	0.84	0.85	0.87	0.86	0.83	0.87
EUR/JPY (yen per euro)	129.56	126.06	128.82	142.85	156.99	158.00	146.00
OIL PRICE							
Brent ($/barrel)	42.3	77.3	74.8	81.3	77.3	79.0	73.0
Brent (euros/barrel)	36.4	60.6	66.2	76.8	70.9	70.5	63.5

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	4.5	2.9	6.3	3.5	2.8	2.9	3.1
Developed countries	*2.7*	*1.0*	*5.6*	*2.6*	*1.4*	*1.1*	*1.7*
United States	2.7	1.5	5.8	1.9	2.5	0.8	1.7
Euro area	2.2	0.3	5.6	3.4	0.5	0.7	1.6
Germany	1.6	0.8	3.1	1.9	–0.3	0.3	1.4
France	2.2	0.3	6.4	2.5	0.9	0.7	1.4
Italy	1.5	–1.0	7.0	3.8	0.7	0.6	1.7
Portugal	1.5	–0.2	5.7	6.8	2.3	1.8	2.4
Spain	3.7	–0.3	6.4	5.8	2.5	1.4	2.0
Japan	1.4	0.1	2.3	1.1	1.3	1.1	1.1
United Kingdom	2.7	0.3	8.7	2.5	0.6	0.5	0.0
Emerging and developing countries	*6.5*	*4.4*	*6.9*	*4.1*	*3.9*	*4.2*	*4.1*
China	10.6	7.5	8.5	3.0	5.2	4.6	4.4
India	7.2	5.7	9.0	7.3	6.0	6.7	5.5
Brazil	3.6	1.2	5.0	2.9	3.0	1.8	1.8
Mexico	2.3	0.7	5.7	4.0	3.2	2.1	2.1
Russia	–	1.0	5.6	–2.1	2.7	1.5	1.3
Türkiye	5.5	4.3	11.4	5.5	4.3	2.6	3.5
Poland	4.2	3.2	6.9	5.5	0.3	2.6	3.2
INFLATION							
Global	4.2	3.7	4.7	8.7	6.9	5.2	4.0
Developed countries	*2.1*	*1.5*	*3.1*	*7.3*	*4.6*	*2.6*	*1.9*
United States	2.8	1.7	4.7	8.0	4.1	2.4	1.7
Euro area	2.2	1.3	2.6	8.4	5.4	3.1	2.1
Germany	1.7	1.4	3.2	8.7	6.0	3.3	2.2
France	1.9	1.3	2.1	5.9	5.7	2.9	2.0
Italy	2.4	1.3	1.9	8.7	5.9	2.9	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	3.6	2.2
Japan	–0.3	0.4	–0.2	2.5	3.3	1.5	1.5
United Kingdom	1.6	2.2	2.6	9.1	7.4	3.6	2.3
Emerging and developing countries	*6.7*	*5.5*	*5.9*	*9.8*	*8.5*	*7.1*	*5.4*
China	1.7	2.6	0.9	2.0	0.3	2.0	1.6
India	4.5	7.3	5.1	6.7	5.7	5.0	4.5
Brazil	7.3	5.5	8.3	9.3	4.6	4.3	3.7
Mexico	5.2	4.1	5.7	7.9	5.6	4.5	3.9
Russia	14.2	7.5	6.7	13.8	5.9	5.4	4.5
Türkiye	22.6	9.8	19.6	72.3	53.4	52.6	29.0
Poland	3.2	2.0	5.2	13.2	10.9	4.2	3.1

Forecasts

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

Spanish economy

	Average 2000-2007	Average 2008-2020	2021	2022	2023	2024	2025
Macroeconomic aggregates							
Household consumption	3.6	–0.9	7.2	4.8	1.7	1.9	2.2
Government consumption	5.0	1.3	3.4	–0.2	3.8	1.7	1.2
Gross fixed capital formation	5.6	–2.0	2.8	2.4	0.6	2.4	3.0
Capital goods	4.9	–0.8	4.4	1.9	–1.8	3.6	3.1
Construction	5.7	–3.4	0.4	2.6	2.2	1.4	3.0
Domestic demand (vs. GDP Δ)	0.2	0.1	0.3	0.1	2.8	0.1	0.1
Exports of goods and services	4.7	1.1	13.5	15.2	2.4	–1.6	1.8
Imports of goods and services	7.0	–1.0	14.9	7.0	0.3	–0.7	2.4
Gross domestic product	**3.7**	**–0.3**	**6.4**	**5.8**	**2.5**	**1.4**	**2.0**
Other variables							
Employment	3.2	–0.9	7.1	3.7	3.2	1.4	1.6
Unemployment rate (% of labour force)	10.5	19.2	14.8	12.9	12.1	11.8	11.4
Consumer price index	3.2	1.2	3.1	8.4	3.5	3.6	2.2
Unit labour costs	3.0	1.2	1.0	0.9	3.9	3.1	2.6
Current account balance (% GDP)	–5.9	–0.2	0.8	0.6	1.8	1.7	1.9
External funding capacity/needs (% GDP)	–5.2	0.2	1.9	1.5	1.5	2.0	2.4
Fiscal balance (% GDP)[1]	0.3	–6.8	–6.8	–4.7	–4.2	–3.6	–3.0

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	0.9	0.7	1.8
Government consumption	2.3	–0.2	4.5	1.4	1.2	1.3	1.0
Gross fixed capital formation	–0.4	–0.8	8.1	3.0	1.3	5.0	6.4
Capital goods	3.2	2.0	15.3	5.5	–	–	–
Construction	–1.5	–2.3	7.4	1.3	–	–	–
Domestic demand (vs. GDP Δ)	1.3	–0.4	6.0	4.7	0.7	1.6	2.5
Exports of goods and services	5.3	2.2	12.3	17.4	5.5	2.7	4.5
Imports of goods and services	3.6	1.5	12.3	11.1	1.6	2.5	4.8
Gross domestic product	**1.5**	**–0.2**	**5.7**	**6.8**	**2.3**	**1.8**	**2.4**
Other variables							
Employment	0.4	–0.6	2.2	2.2	1.1	0.4	0.3
Unemployment rate (% of labour force)	6.1	11.0	6.7	6.2	6.6	6.5	6.3
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	–1.4	1.2	1.2	1.6
External funding capacity/needs (% GDP)	–7.7	–1.5	1.0	–0.4	2.3	2.6	3.0
Fiscal balance (% GDP)	–4.6	–5.1	–2.9	–0.3	0.7	0.4	0.6

Forecasts

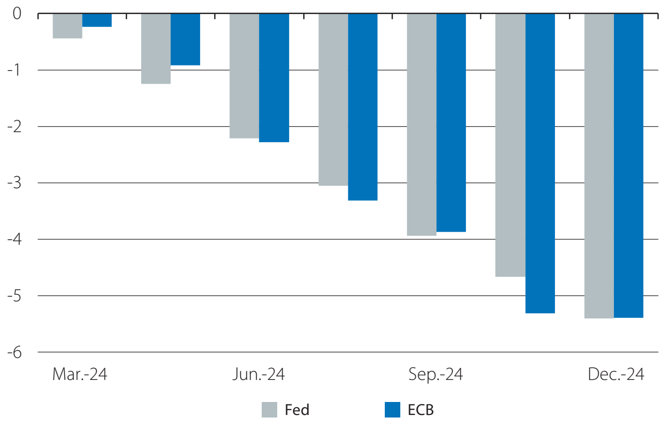
A good start to the year in the financial markets

Expectations of interest rate cuts drive market sentiment. Markets kicked off 2024 with risk appetite, supported by rhetoric of a soft landing in the major advanced economies and a positive assessment of the macroeconomic data. Thus, taking the view that the central banks have managed to bring down inflation without having a significant impact on economic activity and employment, for now, investors have turned their focus to the next step: interest rate cuts to return monetary policy to neutral territory. Markets maintained a dovish reading of the central banks, and thus expect the first rate cuts to occur in the spring, with a total of five reductions (of 25 bps each) anticipated during 2024 as a whole in both the euro area and the US. These expectations spurred a degree of optimism in equities, which was further reinforced by the publication of corporate earnings, which, in general, were better than expected by the analyst consensus.

The Fed and ECB see future rate reductions as likely, but remain cautious. There were no surprises after the January meetings, when the central banks of the major advanced economies once again kept interest rates unchanged (the ECB maintained the depo rate at 4.00% and the refi rate at 4.50%, while the Federal Reserve kept its benchmark rate in the 5.25%-5.50% range). The novelty was that, in their subsequent communications, the tone seemed to soften a little and the officials acknowledged that there has been good progress in the fight against inflation (despite stressing that the battle is not yet won and that there is still some way to go). In fact, the recent inflation data and the strength of the labour market are causing the ECB and the Fed to remain cautious and to not rush into cutting rates too early. Christine Lagarde stressed that it is still too early to discuss cuts and avoided talking about a timetable for the ECB. Jerome Powell, meanwhile, was explicit in pushing the Fed's first rate cut beyond March, and market expectations shifted to May (prior to the FOMC meeting, markets were assigning around a 50% probability to the first rate cut occurring as early as March). Other central banks followed a similar rhetoric, with the Bank of England, the Bank of Canada and Norway's Norges Bank holding rates and signalling that they are cautiously moving towards cuts. The Bank of Japan, for its part, also kept rates unchanged and made no alterations to its monetary policy, although it left a window open to a possible easing of its yield curve control policy by signalling greater confidence about the possibility of reaching its inflation target.

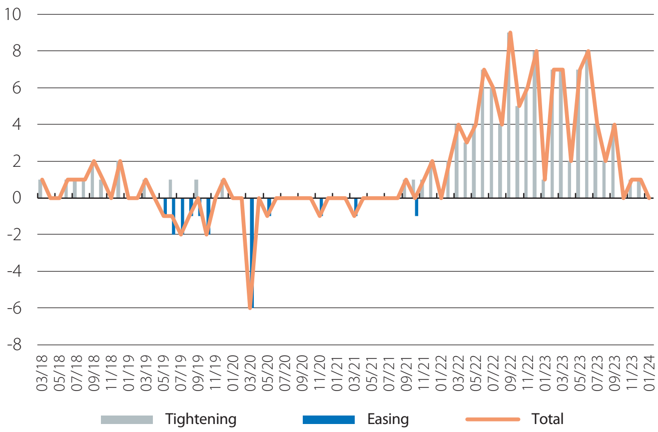
Sovereign yields see-saw. The cautious easing of the central banks' tone led, as mentioned above, to markets anticipating the first rate cuts in the near future. However, the search for precision regarding the exact month in which these cuts will

Amount of interest rate cuts anticipated by the market
(Number)



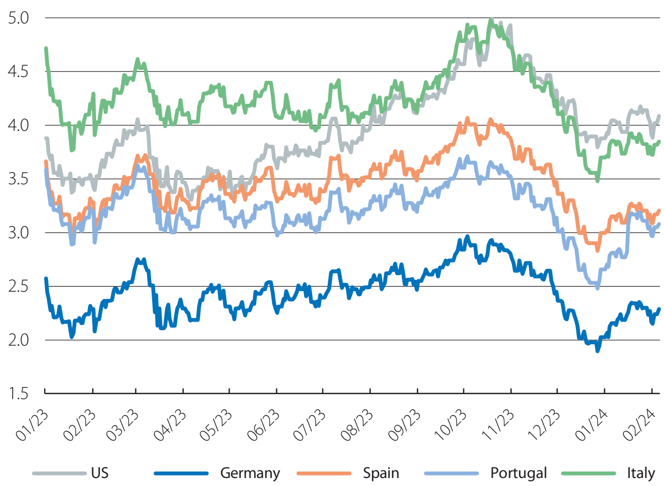
Note: *Number of rate cuts (of 25 bps each) implied by forwards on the EFFR and the OIS of the euro area.*
Source: *CaixaBank Research, based on data from Bloomberg.*

Advanced economy central banks that adjust rates
(Number)



Note: *Sample of 11 advanced economies.*
Source: *CaixaBank Research, based on data from Bloomberg.*

Yield on 10-year sovereign debt
(%)



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

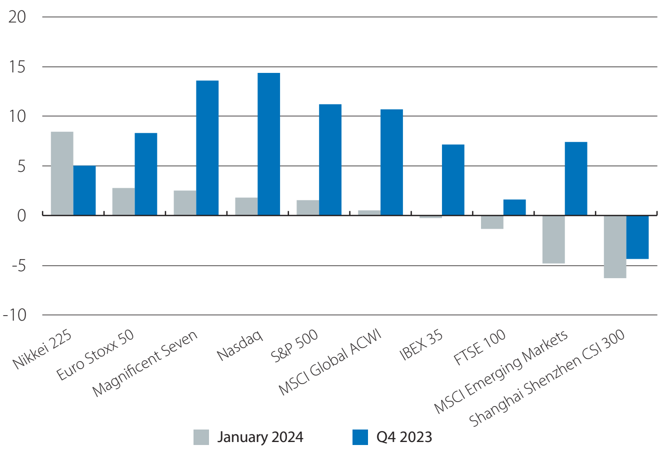
begin caused volatility in sovereign debt yields and in the financial markets' implied likelihood of rate declines. Whereas in the first half of January sovereign rates rose by as much as 30 bps in the case of the 10-year German *bund* and 20 bps in the case of the 10-year US bond, the trend reversed sharply following the ECB and Fed meetings, with particularly significant declines in the shorter ends of the curves. However, the release of strong employment data in the US brought a new change of course in the last week of January, with rebounds in sovereign bond yields and volatility in expectations regarding the central banks' rate cuts.

The international stock markets enjoy another consecutive month of gains. Overall, stock markets registered yet another month of gains, thus extending last quarter's rally, with investor sentiment supported by the publication of strong economic data and generally better-than-expected news at the start of the Q4 2023 corporate earnings season. The Japanese stock market performed particularly well, kicking off the year with a rally of almost 8%, benefiting from the prospect that the Bank of Japan will still take a few more months to abandon negative rates. In the euro area, the results were mixed from country to country, but the overall balance was positive and the major stock markets climbed around 1% (Spain's IBEX 35 and Portugal's PSI-20 were the exceptions, closing slightly down). In the US, the big tech companies once again led the charge and drove the S&P 500 to hit an all-time highs for five consecutive sessions, closing the month with new gains. The exception to the positive tone was China, where the Shanghai stock market posted losses in excess of 5% in the face of the persistent difficulties in the real estate market and the negative sentiment that was accentuated following a court order in Hong Kong to liquidate the real estate giant Evergrande.

The dollar turns a corner. The dollar was another asset that capitalised on the narrative and the changes in interest rate expectations. In the face of strong economic activity data in the US and the possibility it could delay the Fed's first rate cuts, the currency appreciated against its main counterparts (except the yen) by up to 2%, following significant weakness at the end of last year. The exchange rate with the euro remained within the 1.08-1.09 dollar range, after reaching 1.10 dollars in December.

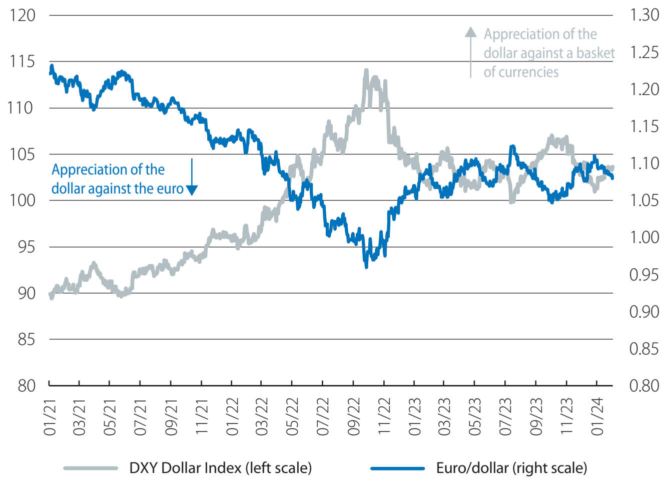
The economic resilience stabilises energy prices. Following three consecutive months of declines in oil prices, the Brent barrel price remained relatively stable in January at around 80 dollars/barrel, supported by encouraging economic activity data in the world's major economies, which helped to sustain expectations of the demand for crude oil, and by the uncertainty around tensions in the Middle East. The price of European gas (TTF), meanwhile, continued to fluctuate just below 30 euros/MWh, slightly lower than the average level recorded in Q4 2023 but still significantly higher than pre-pandemic prices.

Performance of the major stock market indices
(%)



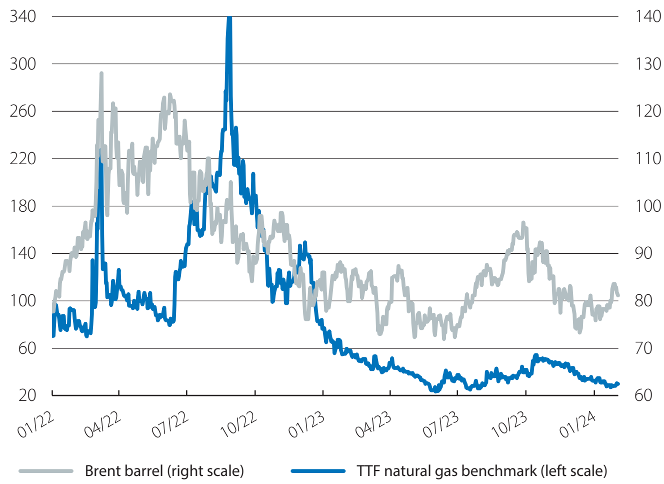
Source: *CaixaBank Research, based on data from Bloomberg.*

US: valuation of the dollar
(Dollar) *(Euro/dollar)*



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

Oil and gas: evolution of energy prices
(€/MWh) *($/barrel)*



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

Changes in the financial markets' monetary policy expectations

After almost two years raising interest rates, in 2023 the major central banks reached the peak and adjusted their strategy: instead of raising official rates further, the monetary tightening was going to be implemented by keeping rates at that peak for longer. However, by the autumn the financial markets were already questioning this narrative. Why?

Past market narratives...

The first two charts show the daily evolution of expectations in the financial markets regarding the future path of the Fed and the ECB's interest rates (i.e. the implied, or forward, rates).[1] If we look at where expectations stood in late 2021, we see how the monetary tightening of the last two years took investors by surprise: in the US, the markets were expecting the Fed's interest rates to lie in the 1.25%-1.50% range 3 years ahead (compared to the current level of 5.25%-5.50%), while in Europe they were betting on rates of –0.20% (versus the 4.00% observed). As the Fed and the ECB raised rates, the markets also raised their expectations accordingly, to the point that the cyclical tightening of monetary policy translated into a structural shift in interest rate expectations, with investors abandoning the narrative of a «sustained low interest rate environment for structural reasons» (such as productivity and demography). This was so much so that by last September the markets were forecasting long-term rates of 3.75%-4.00% for the Fed (+250 bps vs. pre-pandemic expectations) and 3.25% in the case of the ECB (+275 bps).

Before long, this narrative in the markets shifted yet again. By analysing daily fluctuations in the markets' monetary policy expectations, we can identify the key economic events and data releases that accompanied the shift towards a new narrative of rapid and sustained rate cuts for 2024. The first big swing occurred on 1 November in the US, when 1-year forwards for the Fed's official rate plummeted by over 15 bps following the central bank's meeting (at which it announced no changes) and the publication of tenuous data regarding manufacturing activity (the ISM index). The adjustment gained momentum two days later, with a further decline in forward rates of almost 20 bps following a cooling in the employment statistics and the ISM services index. With no major surprises in the data in Europe, the forward interest rates for the ECB were partially dragged down by the US until 14 November. This date marked a milestone in the narrative shift, as the Fed and the ECB's as forward rates for the Fed and the ECB fell by interest rates fell by almost 25 bps and more than 10 bps, respectively, after the publication of a sluggish GDP figure for the euro area (–0.1% quarter on quarter in Q3) and, above all, lower-than-expected US inflation data (CPI). Between late November and early December, the market's shift was completed, coinciding with weak sentiment and economic activity data (consumer confidence, ISM and PMI indices), the slowdown in European inflation to 2.4% in November and Christine Lagarde's testimony before the European Parliament (in which signs of cooling in the labour market were highlighted). At that point, the forward interest rates barely reacted to November's US inflation figures and corrected slightly upwards following the release of data reflecting an acceleration in the US labour market in November.

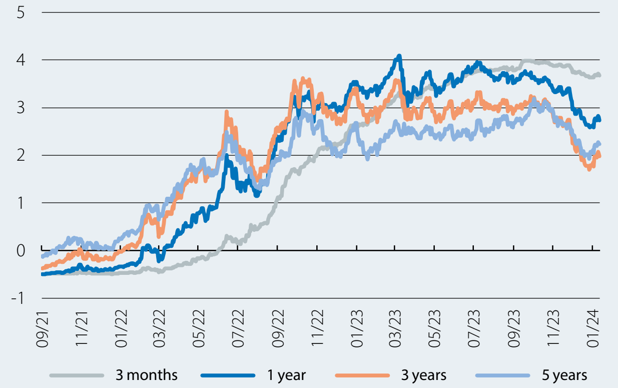
US: market expectations of the Fed's official rate at different time horizons

(%)

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

Euro area: market expectations of the ECB's official rate at different horizons

(%)



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

1. These expectations are not observable, but rather we infer them using the implied (or implicit) forward interest rates estimated according to L.E. Svensson (1994). «Estimating and interpreting forward interest rates: Sweden 1992-1994». NBER Working Paper.

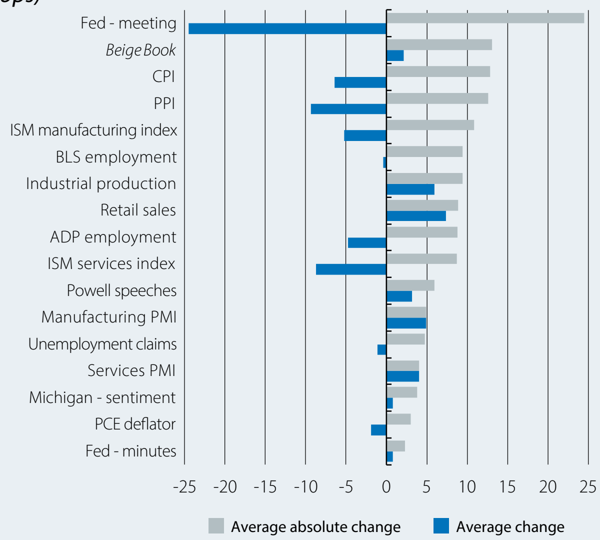
... and present narratives

Following a final collapse of the forward rates on the days of the Fed and the ECB's December meetings (–32 and –9 bps in a single day, respectively), investor expectations have stabilised around a scenario in which the markets see the Fed and the ECB cutting rates in the spring and lowering them by around 150 bps in 2024 as a whole. Beyond the casuistry that appears to accompany each market session and every economic statistic that is published, the major daily movements reflect a realignment of expectations, led by the US and followed by Europe. This realignment is dominated by a dovish reading of the Fed and the ECB's meetings and has been particularly triggered by good inflation data, as well as by a cooling in the economic activity data (see third chart). These ingredients have left the 1-year forwards ahead between 80 and 100 bps lower than where they stood in September 2023. Moreover, they have significantly dragged down long-term forward rates (by around 70 bps), despite the cyclical nature of the movement.[2]

The shift in expectations in the financial markets has been sudden[3] and, once consolidated, rather insensitive to new economic activity or inflation data. The evolution of inflation and its outlook, meanwhile, has been somewhat more gradual. Beyond the base effects which, especially in the year-on-year comparison of energy prices, contributed to rapid disinflation, more real-time indicators such as momentum[4] already suggest that the 2% inflation target is in sight, although they also stress that there is still some way to go. For instance, in the euro area the percentage of components of the price index with a momentum above 2.5% fell from 65% in the summer to 38% in December. This is a significant decline, although it remains a far cry from the pre-pandemic norm of 15%. In the US, this percentage has normalised to pre-pandemic levels, albeit with an important difference: housing, which is one of more than 80 components in the analysis, represents over 30% of the basket for the headline index, it has a momentum in excess of 5% and it is taking longer than expected to cool down.[5]

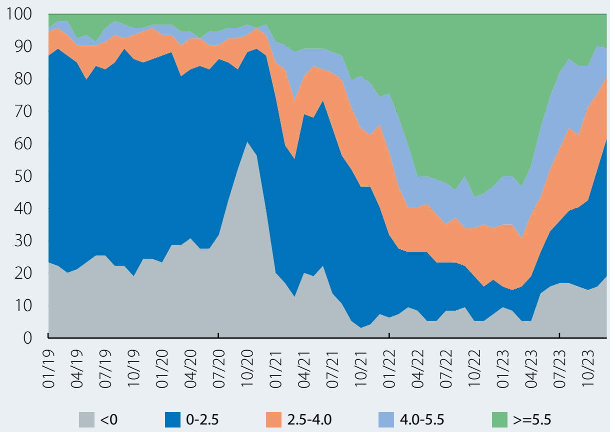
Alongside this new market narrative, the central banks are also targeting rate cuts in 2024, but with greater caution. This is perhaps because, like the markets, they acknowledge the good inflation data, but before moving their chips they want to have a high degree of confidence that inflation will soon return to the target rate, especially given the strength of the labour market and the need to boost their credibility after two years of an inflationary crisis. The inflation figures in the coming months, among a wide range of indicators, will be key for determining whether the view of the markets or the greater caution of the central banks will win out.

Change in the Fed's forward rates on the day of a given event or data release
(bps)



Notes: *The period analysed spans from 30/09/2023 to 19/01/2024. Forwards for the fed funds rate one year ahead.*
Source: *CaixaBank Research, own estimates based on data from Bloomberg.*

Euro area: composition of the headline HICP according to the momentum of the components
(% of items of the basket)



Notes: *Momentum is defined as the annualised quarter-on-quarter change in the HICP (with seasonally adjusted data). The composition is based on a breakdown of the HICP into 94 items.*
Source: *CaixaBank Research, based on data from Eurostat.*

2. Formally, long-term Fed and ECB rates should reflect structural factors and should not be significantly influenced by short-term fluctuations in the economic data. However, the volatility observed in the forward rates suggests that market expectations are not meeting this premise.
3. In the US, four sessions alone produced (in aggregate) a gross decline in expectations of 90 bps.
4. Momentum refers to the annualised quarter-on-quarter change in the seasonally adjusted CPI, and captures recent trends better than year-on-year changes (which are more influenced by base effects). In December, it stood at 1.2% in the euro area and at 2.8% in the US.
5. See the Focus «The importance of rents in US inflation» in the MR09/2023.

Interest rates (%)

	31-January	31-December	Monthly change (bp)	Year-to-date (bp)	Year-on-year change (bp)
Euro area					
ECB Refi	4.50	4.50	0	0.0	150.0
3-month Euribor	3.91	3.91	0	–0.4	134.0
1-year Euribor	3.57	3.51	6	5.9	17.1
1-year government bonds (Germany)	3.15	3.26	–11	–11.0	49.1
2-year government bonds (Germany)	2.43	2.40	2	2.4	–19.6
10-year government bonds (Germany)	2.17	2.02	14	14.2	–13.0
10-year government bonds (Spain)	3.09	2.99	10	9.7	–13.8
10-year government bonds (Portugal)	2.97	2.66	31	31.3	–16.7
US					
Fed funds (upper limit)	5.50	5.50	0	0.0	75.0
3-month SOFR	5.32	5.33	–2	–1.6	60.8
1-year government bonds	4.71	4.76	–6	–5.5	–13.7
2-year government bonds	4.21	4.25	–4	–4.3	–26.6
10-year government bonds	3.91	3.88	3	3.3	27.3

Spreads corporate bonds (bps)

	31-January	31-December	Monthly change (bp)	Year-to-date (bp)	Year-on-year change (bp)
Itraxx Corporate	60	59	1	1.3	–14.8
Itraxx Financials Senior	70	67	3	3.4	–14.0
Itraxx Subordinated Financials	131	123	8	8.4	–16.7

Exchange rates

	31-January	31-December	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
EUR/USD (dollars per euro)	1.082	1.104	–2.0	–2.0	0.9
EUR/JPY (yen per euro)	158.950	155.720	2.1	2.1	11.7
EUR/GBP (pounds per euro)	0.853	0.867	–1.7	–1.7	–4.5
USD/JPY (yen per dollar)	146.920	141.040	4.2	4.2	10.7

Commodities

	31-January	31-December	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
CRB Commodity Index	521.5	510.3	2.2	2.2	–5.4
Brent ($/barrel)	81.7	77.0	6.1	6.1	0.9
Gold ($/ounce)	2,039.5	2,063.0	–1.1	–1.1	9.2

Equity

	31-January	31-December	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
S&P 500 (USA)	4,845.7	4,769.8	1.6	1.6	17.9
Eurostoxx 50 (euro area)	4,648.4	4,521.4	2.8	2.8	10.5
Ibex 35 (Spain)	10,077.7	10,102.1	–0.2	–0.2	10.0
PSI 20 (Portugal)	6,322.8	6,396.5	–1.2	–1.2	7.0
Nikkei 225 (Japan)	36,286.7	33,464.2	8.4	8.4	31.0
MSCI Emerging	975.8	1,023.7	–4.7	–4.7	–3.8

International economy: on the rise

From the fear of stagflation to the hope of a soft landing. In an environment marked by geopolitical uncertainty, high interest rates and cooling global demand, the major advanced economies ended 2023 more resilient than had been anticipated a few quarters ago, supported by strong labour markets and certain supply-side factors (such as the delayed effects of the clearing of global bottlenecks and the definitive post-pandemic normalisation of sectors lagging behind). Coupled with a rapid decline in inflation in recent months, all this has translated into a shift in the narrative for advanced economies. The fears of stagflation which dominated 2023 have now been left behind, replaced by hopes of a soft landing in 2024 in order to definitively bring inflation under control without any further deterioration in economic activity (or even giving it a respite, through a recovery in purchasing power and the easing of financial conditions which the central banks' first rate cuts should bring). This change in narrative was well reflected in the IMF's latest world economic outlook in January, with the forecast that 2024 will bring an improvement in the euro area and a mild slowdown in the US, while the Chinese economy continues to be hampered by the ramifications of its real estate crisis and the consequent drag on consumption and investment.

No let up in the risk map. The hope of a soft landing coexists with a constellation of risks, dominated above all by the geopolitical factor. Indeed, the beginning of the year provided us with a reminder of just that. Among all the active and latent conflicts, in January tensions in the Red Sea triggered a significant rise in shipping costs (especially between Europe and Asia), while various soft indicators reflected delays in deliveries of goods. These signals cast the shadow of new bottlenecks, although for the time being it appears that the situation will have a very limited macroeconomic impact on inflation and economic activity (for example, some estimates suggest an impact of just +0.1 or +0.2 pps on core inflation in European economies).

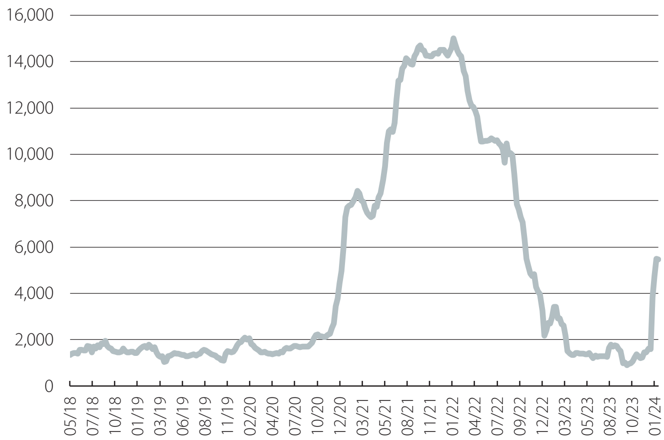
Uneven cooling of economic activity at the end of 2023... The GDP figures released in January show mixed dynamics among the major international economies at the end of 2023. On the one hand, the euro area continued to show the sluggishness of recent quarters, with stagnant GDP in Q4 (0.0% quarter-on-quarter, after –0.1% in Q3 and +0.1% in Q2). This was particularly driven by the weakness of Germany (–0.3%) and the stagnation of France (0.0%), while Italy (+0.2%) and especially Spain (+0.6%) showed a better tone. In contrast, US GDP grew a solid 0.8% quarter-on-quarter, exceeding both what the indicators had suggested and what the consensus of analysts had predicted, and with a notable boost in consumption. Thus, the US managed to record growth of 2.5% in 2023 as a whole, an impressive figure not only compared to the 1.9% recorded in 2022 but especially compared to the 0.4% predicted a year ago by the consensus of analysts. Finally, China's economy slowed to +1.0% quarter-on-quarter in Q4 (1.5% in Q3), but managed to meet the authorities' target by registering growth of 5.2% for the year as a whole.

IMF: GDP forecasts
Annual change (%)

	Estimate	Forecast		Change vs. Oct. WEO 2023	
	2023	2024	2025	2024	2025
World economy	3.1	3.1	3.2	0.2	0.0
Advanced economies	1.6	1.5	1.8	0.1	0.0
US	2.5	2.1	1.7	0.6	–0.1
Euro area	0.5	0.9	1.7	–0.3	–0.1
Germany	–0.3	0.5	1.6	–0.4	–0.4
France	0.8	1.0	1.7	–0.3	–0.1
Italy	0.7	0.7	1.1	0.0	0.1
Spain	2.4	1.5	2.1	–0.2	0.0
Emerging & developing economies	4.1	4.1	4.2	0.1	0.1
China	5.2	4.6	4.1	0.4	0.0
India	6.7	6.5	6.5	0.2	0.2
Russia	3.0	2.6	1.1	1.5	0.1
Brazil	3.1	1.7	1.9	0.2	0.0
South Africa	0.6	1	1.3	–0.8	–0.3

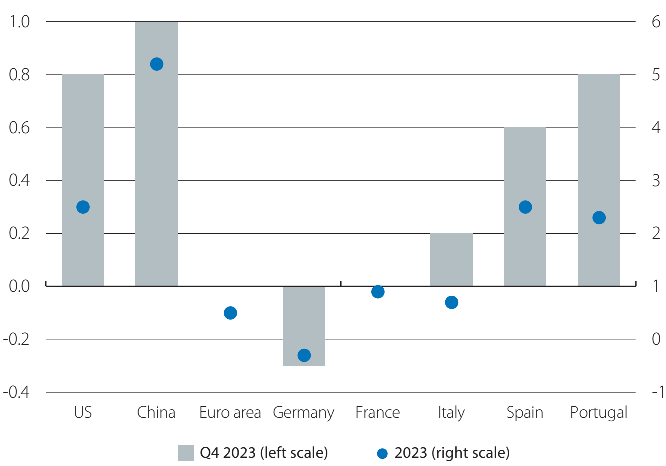
Source: *CaixaBank Research, based on data from the IMF (WEO, January 2024 update).*

Cost of shipping goods between China and Europe
(Dollars per FEU container)



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

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



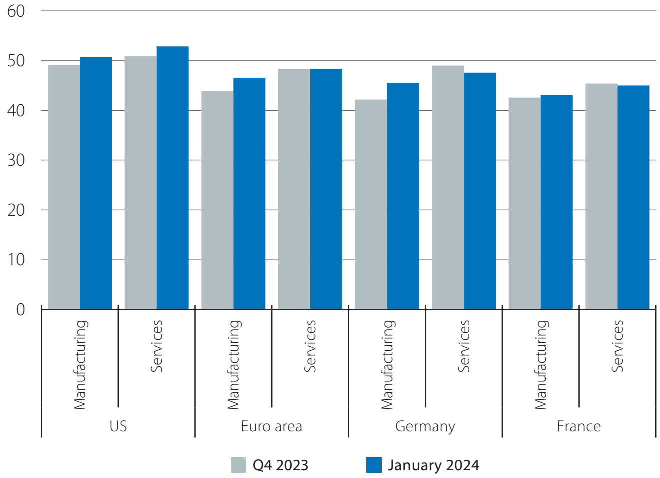
Source: *CaixaBank Research, based on data from the BEA, the National Statistics Office of China and Eurostat.*

... and 2024 kicks off with similar dynamics. The first economic activity data of the year continued to paint a picture of advanced economies moving at different speeds. The Purchasing Managers' Indices (PMIs) for the euro area remained close to but below the 50-point threshold which separates economic expansion from contraction, both in the manufacturing sector (46.6 points in January, marking the best score in the last 10 months but the 19th consecutive month in contractionary territory) and in services (48.4 points, and in contractionary territory for the sixth consecutive month). Economic sentiment also remained in the grey zone (the ESI stood at 96 points in January, slightly below the historical average). As for the labour market, despite its current strength (the unemployment rate remained at a low of 6.4% in December), some signs of a slowdown in job creation are beginning to show (the European Commission's employment expectations indicator fell to 102.5 points, still above its historical average). In contrast, on the other side of the Atlantic the US economy has remained buoyant in the opening weeks of the year, with the Atlanta and New York Federal Reserves' nowcasting models pointing to GDP growth of 0.8%-1.0% quarter-on-quarter in Q1. Moreover, the US labour market remained much stronger than expected in January, with 353,000 jobs created (and upward statistical revisions in the preceding months) and unemployment at a low of 3.7%.

The 2% inflation target comes into view, but the last mile remains. Alongside the good employment and unemployment figures, wages are showing growth of between 4% and 5% on both sides of the Atlantic, while the containment of second-round effects (driven by the interrelationship between prices, wages and profits) appears to pave the way for inflation to fall to 2% in the coming quarters. So far, the inflation figures have been moving in the right direction, driven by the end of the direct energy shock and the almost complete fading of its indirect effects. Thus, in the euro area the January data reflected headline inflation of 2.8%, with a fall of 6.3% year-on-year in energy prices and core inflation falling to 3.3% (favoured by the disinflation of non-energy industrial goods, at 2.0%, but held back by stable inflation in services at 4.0%). In the US, with a longer lag in the data, in December headline inflation according to the CPI was 3.4% year-on-year and core inflation stood at 3.9%, slowed by the still high rates in the shelter component (which responds with a lag time), while the PCE price index (the measure preferred by the Fed) stood at 2.6%.

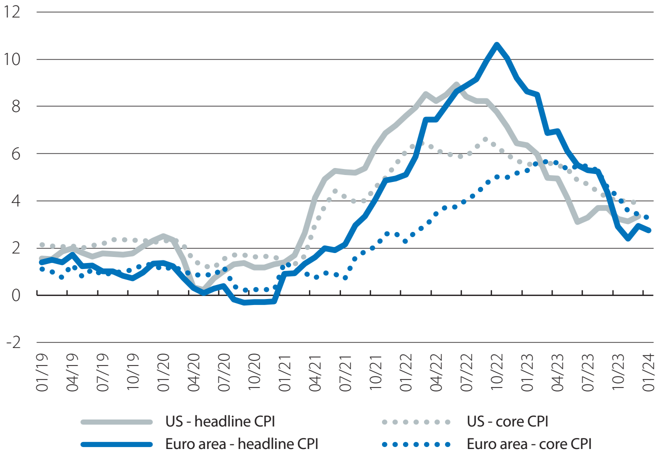
China's economic activity meets expectations but questions remain. China's GDP comfortably met the target of «around 5%» for 2023, in part thanks to statistically favourable base effects (it should be recalled that the country abandoned its zero-COVID policies just over a year ago). However, the last few months have seen a downturn in the GDP outlook for 2024 (the latest analyst consensus suggests a rate of 4.6%). Indeed, in the last month the indicators continued to offer no clear signs of improvement. In particular, the official PMI for the non-manufacturing sector rose 0.3 points in January, to 50.7, just above the 50-point threshold denoting growth, while that of the manufacturing sector remained for the fourth consecutive month at levels compatible with a contraction of activity, albeit an increasingly modest one (49.2 vs. 49.0).

Advanced economies: PMI
(Index)



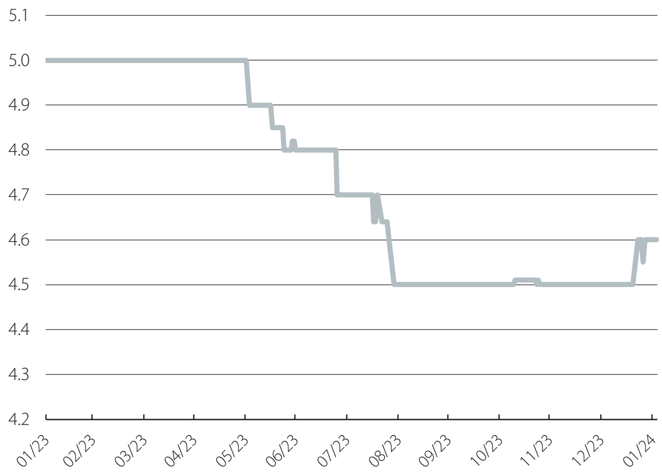
Source: *CaixaBank Research, based on data from S&P Global PMI.*

Advanced economies: CPI
Year-on-year change (%)



Note: *The core index excludes energy and all foods.*
Source: *CaixaBank Research, based on data from the Bureau of Labor Statistics and Eurostat.*

China: GDP forecast for 2024
Annual change (%)



Source: *CaixaBank Research, based on Bloomberg consensus forecasts.*

Election year in the US

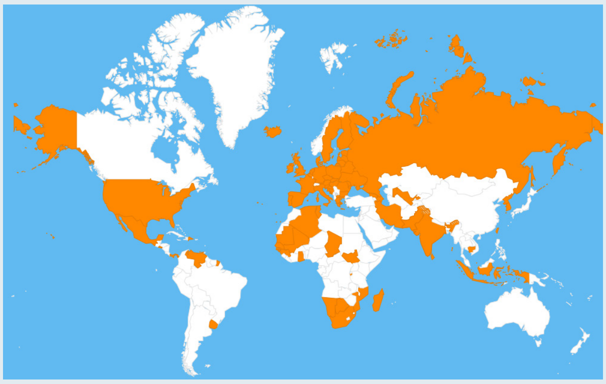
In 2024, more than half of the world's population is being called to the polls to vote in elections. We have already experienced an election in Taiwan, which was won by the Democratic Progressive Party, the option that marks the biggest distance with mainland China, and before July we will witness elections in Indonesia (14 February), Russia (17 March), India (between April and May), Mexico (2 June) and those of the European Parliament (9 June). However, the one that will likely have the biggest economic impact and also attract the most global media attention will be the US presidential election on November 5th, in which the polls point to a rematch between current President Joe Biden and former President Donald Trump. In this article we will offer some context to shed light on the election race between now and November 5th and we will set out some of the implications it may have for the financial markets and the Federal Reserve.

An uncertain election race, but with another Biden-Trump showdown on the cards

This January the electoral race kicked off with the primaries to determine who will be the Republican Party's candidate for the presidential election and all the polls indicate that former President Donald Trump will be picked as the party's nominee. The votes held so far as of the date this article was written have been the Iowa caucus and the New Hampshire primary. In Iowa, Trump won with just over 50% of the votes, after which the second and fourth-placed candidates (Ron DeSantis and Vivek Ramaswamy, respectively) suspended their campaigns and endorsed the former president. In the second contest, in New Hampshire, Trump won again, albeit with a smaller margin over the second and only alternative, the former US ambassador to the UN, Nikki Haley.

If there are no surprises in the judicial sphere and as all the polls suggest Trump's nomination by Republicans is confirmed, and in the absence of any major shocks in the Democratic Party, we will see a rematch between Joe Biden and Donald Trump. In that scenario, the polls indicate a very equal contest between these two candidates. However, the key will be how each candidate performs in the swing states, which are the ones that end up tipping the balance (the states where the race was closest in 2020 and which ended up handing victory to Joe Biden were Nevada, Arizona, Wisconsin, Michigan, Georgia and Pennsylvania). The latest state polls project a Republican victory in most of these states, meaning that right now the balance would be tipped in favour of Donald Trump. However, some of the key factors that will end up tipping the balance one way or the other include:

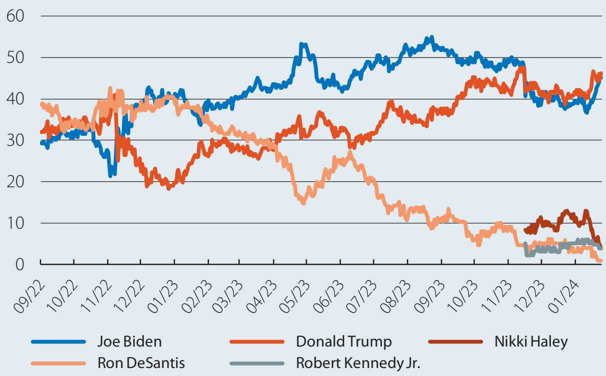
Countries holding presidential and/or legislative elections in 2024



Source: *CaixaBank Research, based on data from* Time magazine.

Probability of victory in the presidential election

(%)



Note: *Implicit probability of victory based on the betting odds on the web portal PredictIt.*
Source: *CaixaBank Research, based on data from Bloomberg.*

(i) the presence of independent candidates, such as Robert Kennedy Jr., who according to some polls could garner around 20% of the votes in some states[1] and (ii) the economic situation. Should the US economy, and in particular its labour market, approach the election with their current level of buoyancy, and with more moderate inflation, this could favour the incumbent. On the other hand, in the event of a hard landing of the economy or a shift in the inflationary dynamics that pushes it back upwards, the context would be more favourable to the Republican candidate.

However, beyond the performance of the macroeconomic data, the indicators that could prove decisive in determining the degree of support for current President Biden are those related to economic sentiment. A good example is

1. Typically, the popularity of these independents is gradually diluted in the polls as voters appreciate that their vote may not end up being a useful one.

the University of Michigan's Consumer Sentiment Index, which seeks to capture the perception that consumers, and ultimately voters, have about recent and expected developments in the economy. As can be seen in the third chart, in elections in which the party holding the US presidency lost, the University of Michigan's Economic Sentiment Index was, on average, 10 points lower than in the years in which they managed to hold on to the presidency.

Right now, however, the strength of the US economy does not translate into a good perception of it: a study[2] explains that consumer confidence is around 20% below what its historical relationship with the labour market, inflation and private consumption would suggest, in what some analysts have dubbed a «vibecession».

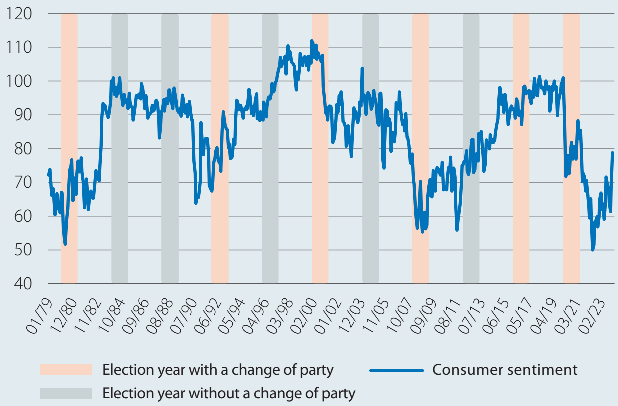
The effect of the presidential election on the financial markets and the Federal Reserve

In election years, uncertainty is generated regarding who the next president of the United States will be and what kind of economic, foreign and domestic policy they will pursue.[3] Proof of this is how the VIX index, which serves as a proxy for volatility in the US stock market, fluctuates in election years. As can be seen in the last chart, around 60 days before election day, this index tends to spike, reaching close to its annual peaks.

One of the implications that the election will have for the Federal Reserve will be related to the nominations for the FOMC. Throughout his or her term, the president-elect will have to select a new chair of the Fed (Jerome Powell's term as chair ends in May 2026) and two vacant FOMC seats (those of Adriana Kugler, whose term ends in January 2026, and Jerome Powell himself, in January 2028). On the other hand, it is often said that, in the months leading up to elections, the Fed tries to keep interest rates unchanged so as not to add or remove stimulus for the economy and thus to remain neutral with respect to the incumbent and the other candidate.[4] However, in view of the current economic situation, the state of inflation and expectations regarding interest rates, we believe that the Federal Reserve will prioritise adapting its monetary policy to the needs of the scenario and, therefore, it could end up cutting rates in the months leading up to the election. Among other reasons, the Fed will want to normalise interest rates along a well-reported downward path, so that the financial markets, businesses and consumers can anticipate it and adjust their behaviour without causing any major shocks.

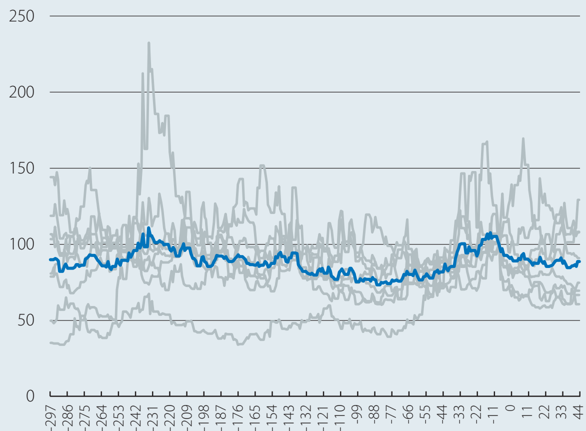
Ricard Murillo Gili

US: University of Michigan Consumer Sentiment Index
Index



Source: *CaixaBank Research, based on data from the University of Michigan.*

VIX index in election years
Index (100 = election day)



Notes: *Along the horizontal axis we show the days relative to the day of the presidential elections. The blue line corresponds to the average since the 1992 election.*
Source: *CaixaBank Research, based on data from Bloomberg.*

2. See R. Cummings and N. Mahoney. «Asymmetric amplification and the consumer sentiment gap» in Briefing Book.
3. It is important to note that on November 5th this year voters will also be choosing 34 of the 100 seats in the Senate and all 435 seats in the House of Representatives. Of these 34 seats being disputed in the Senate, 7 of them are currently in the hands of the Democrats and are up for grabs in states where there is a majority support for Republicans, and this could break the current tie at 50 seats each that currently exists in the Upper House. In the House of Representatives, the polls indicate a closer result. In the event of a Republican (Democratic) victory in the presidential election, but where the Senate and House of Representatives are controlled by the Democrats (Republicans), Donald Trump (Joe Biden) would find it more difficult to pass new bills.
4. In 1996, 2000, 2012, 2016 and 2020, the Fed left interest rates unchanged during the six months leading up to the election.

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

UNITED STATES

	2021	2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023	11/23	12/23	01/24
Activity									
Real GDP	5.8	1.9	1.7	2.4	2.9	3.1	–	–	–
Retail sales (excluding cars and petrol)	15.8	9.3	5.8	3.2	2.2	1.1	5.1	5.8	...
Consumer confidence *(value)*	112.7	104.5	105.5	106.1	104.5	103.7	101.0	108.0	114.8
Industrial production	4.4	3.4	1.3	1.0	0.9	0.5	–0.6	1.0	...
Manufacturing activity index (ISM) *(value)*	60.7	53.5	48.3	47.8	47.2	47.1	46.6	47.1	49.1
Housing starts *(thousands)*	1,606	1,551	1,375	1,378	1,385	1,388	1,525	1,460	...
Case-Shiller home price index *(value)*	267	307	303	302	302	303	320.8	...	...
Unemployment rate *(% lab. force)*	5.4	3.6	3.5	3.5	3.5	3.5	3.7	3.7	3.7
Employment-population ratio *(% pop. > 16 years)*	58.4	60.0	60.1	60.2	60.3	60.3	60.4	60.1	60.2
Trade balance [1] *(% GDP)*	–3.6	–3.7	–3.6	–3.5	–3.3	–3.2	–2.9	...	...
Prices									
Headline inflation	4.7	8.0	6.7	6.3	5.8	5.3	3.1	3.4	...
Core inflation	3.6	6.2	5.7	5.6	5.6	5.5	4.0	3.9	...

JAPAN

	2021	2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023	11/23	12/23	01/24
Activity									
Real GDP	2.6	1.0	2.5	2.2	1.5	...	–	–	–
Consumer confidence *(value)*	36.3	32.2	30.7	31.2	32.2	33.5	36.1	37.2	38.0
Industrial production	5.8	0.0	–1.8	–1.8	–2.0	–0.7	–1.4	1.0	...
Business activity index (Tankan) *(value)*	13.8	9.5	1.0	5.0	9.0	12.0	–	–	–
Unemployment rate *(% lab. force)*	2.8	2.6	2.5	2.5	2.6	2.7	2.5	2.4	...
Trade balance [1] *(% GDP)*	–0.3	–3.7	–4.0	–4.0	–3.9	–5.2	–1.9	...	...
Prices									
Headline inflation	–0.2	2.5	4.1	3.9	3.6	3.4	2.9	2.6	...
Core inflation	–0.5	1.1	3.0	3.2	3.5	3.8	3.8	3.7	...

CHINA

	2021	2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023	11/23	12/23	01/24
Activity									
Real GDP	8.4	3.0	4.5	6.3	4.9	5.2	–	–	–
Retail sales	12.4	–0.8	5.8	10.7	4.2	8.3	10.1	7.4	...
Industrial production	9.3	3.4	3.2	4.5	4.2	6.0	6.6	6.8	...
PMI manufacturing *(value)*	50.5	49.1	51.5	49.0	49.7	49.3	49.4	49.0	49.2
Foreign sector									
Trade balance [1,2]	681	899	948	946	901	...	871.7	868.8	...
Exports	30.0	7.1	0.1	–5.4	–10.8	...	–1.4	–0.8	...
Imports	30.0	0.7	–7.2	–7.0	–8.5	...	–0.7	0.2	...
Prices									
Headline inflation	0.9	2.0	1.3	0.1	–0.1	–0.3	–0.5	–0.3	...
Official interest rate [3]	3.8	3.7	3.7	3.6	3.5	...	3.5	3.5	3.5
Renminbi per dollar	6.5	6.7	6.8	7.0	7.2	...	7.2	7.1	7.2

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

EURO AREA

Activity and employment indicators

Values, unless otherwise specified

	2021	2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023	11/23	12/23	01/24
Retail sales *(year-on-year change)*	5.4	1.0	–2.6	–1.9	–1.8	–0.7	–0.5	–0.8	...
Industrial production *(year-on-year change)*	9.8	2.3	0.3	–1.2	–4.7	...	–6.8	...	...
Consumer confidence	–7.5	–21.9	–26.9	–26.9	–26.9	–26.9	–17.0	–15.1	–16.1
Economic sentiment	111.2	102.1	96.5	96.5	96.5	96.5	94.3	96.5	96.2
Manufacturing PMI	60.2	52.1	48.2	44.7	43.2	43.2	44.2	44.4	46.6
Services PMI	53.6	52.1	52.8	54.4	50.3	49.2	48.7	48.8	48.4
Labour market									
Employment (people) *(year-on-year change)*	1.5	...	1.6	1.4	1.3	...	–	–	–
Unemployment rate *(% labour force)*	7.7	6.7	6.6	6.5	6.5	...	6.4	6.4	...
Germany *(% labour force)*	3.6	3.1	2.9	2.9	3.0	...	3.1	3.1	...
France *(% labour force)*	7.9	7.3	7.1	7.3	7.4	...	7.3	7.3	...
Italy *(% labour force)*	9.5	8.1	7.9	7.7	7.5	...	7.4	7.2	...
Real GDP *(year-on-year change)*	6.1	3.5	1.3	0.6	0.0	0.1	–	–	–
Germany *(year-on-year change)*	3.3	1.9	–0.1	0.1	–0.3	–0.2	–	–	–
France *(year-on-year change)*	6.8	2.6	0.9	1.2	0.6	0.7	–	–	–
Italy *(year-on-year change)*	8.6	3.9	2.1	0.3	0.1	0.5	–	–	–

Prices

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

	2021	2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023	11/23	12/23	01/24
General	2.6	8.4	8.0	6.2	5.0	2.7	2.4	2.9	2.8
Core	1.5	3.9	5.5	5.5	5.1	3.7	3.6	3.4	3.3

Foreign sector

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

	2021	2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023	11/23	12/23	01/24
Current balance	3.1	–0.6	–0.4	0.3	2.0	...	4.1	...	...
Germany	7.7	4.4	4.6	5.3	8.6	...	13.8	...	...
France	0.4	–2.0	–1.9	–1.8	–1.9	...	–3.0	...	...
Italy	2.4	–1.5	–1.4	–1.1	–0.1	...	0.3	...	...
Nominal effective exchange rate [1] *(value)*	**94.3**	**90.9**	**93.4**	**94.6**	**95.9**	**95.1**	**95.3**	**94.9**	**95.0**

Credit and deposits of non-financial sectors

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

	2021	2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023	11/23	12/23	01/24
Private sector financing									
Credit to non-financial firms [2]	3.5	6.7	5.7	3.9	1.0	0.1	0.0	0.4	...
Credit to households [2,3]	3.8	4.4	3.2	2.1	1.0	0.5	0.5	0.3	...
Interest rate on loans to non-financial firms [4] *(%)*	1.2	1.8	3.8	4.5	5.0	5.2	5.1	5.2	...
Interest rate on loans to households for house purchases [5] *(%)*	1.3	2.0	3.7	4.3	4.7	4.9	4.9	4.9	...
Deposits									
On demand deposits	12.8	6.3	–3.9	–8.1	–11.3	–10.7	–10.9	–9.8	...
Other short-term deposits	–0.8	4.5	17.6	22.5	23.2	21.0	20.8	20.9	...
Marketable instruments	11.6	3.7	19.4	22.0	20.5	20.0	17.8	19.3	...
Interest rate on deposits up to 1 year from households *(%)*	0.2	0.5	1.9	2.5	3.0	3.3	3.3	3.3	...

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.*

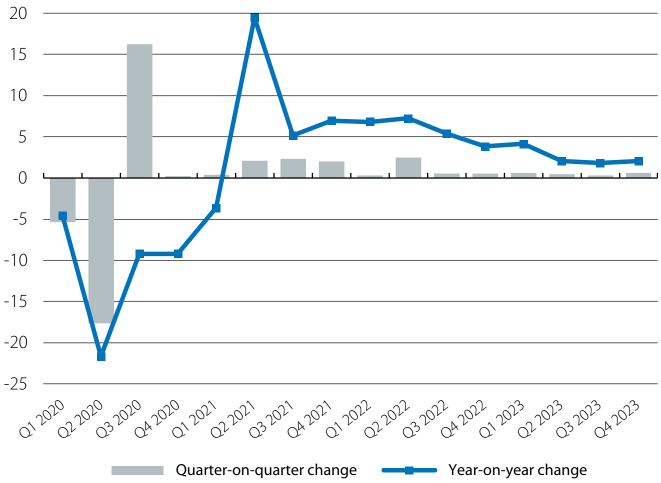
The Spanish economy ended 2023 on a good note and kicks off 2024 with optimism

Economic activity holds up well in a challenging environment. While in December 2022 our GDP growth forecast for 2023 was 1%, finally the Spanish economy has managed to grow by an impressive 2.5%, in spite of the geopolitical uncertainty, persistent high inflation (despite its decline in recent months) and rising interest rates. This positive surprise is mainly explained by the faster-than-expected fading of the energy crisis (recall the sharp drop in gas prices in the final weeks of 2022 and, above all, in Q1 2023), as well as by the strong performance of Spain's foreign sector, which was closely linked to both tourism and non-tourism services. In the coming quarters, the Spanish economy will continue to face a challenging context marked by geopolitical uncertainty and interest rates at restrictive levels, particularly given the lag with which interest rates affect the real economy, which means that their macroeconomic impact will continue to be felt during the opening weeks of 2024. However, there are also some elements of the economy that will support growth, such as the acceleration of the deployment of NGEU funds and the buoyancy of consumption, propped up by stronger household finances and the gradual recovery of purchasing power. Inflation, while remaining above 2%, is likely to continue to moderate. All this suggests that we will see an improvement during the course of 2024 and that the Spanish economy will likely continue to grow above the euro area average.

Renewed GDP growth in the last quarter. Specifically, in Q4 2023, GDP grew by 0.6% quarter-on-quarter (2.0% year-on-year), an improvement compared to both Q3 (0.4% quarter-on-quarter) and what was expected by the consensus of analysts. It should be noted that the composition of growth, according to preliminary data from the National Statistics Institute, shows an improvement in domestic demand thanks to the resilience of private consumption and the pull of public consumption. Domestic demand contributed 0.5 pps to quarter-on-quarter GDP growth, thanks to the increase in both public consumption, which contributed 0.3 pps, and private consumption, contributing 0.2 pps, which more than offset the sluggish performance of investment. Foreign demand, meanwhile, made a positive contribution of 0.1 pp to quarterly GDP growth, after two quarters of negative contributions, driven by a significant rebound in trade flows (in Q4 2023, both exports and imports recorded substantial gains of +2.9% and +2.7% quarter-on-quarter, respectively). The better-than-expected GDP growth in Q4 will lead us to revise upwards our 2024 growth forecast due to the drag effect generated by the higher growth in Q4 2023.

Spain: GDP

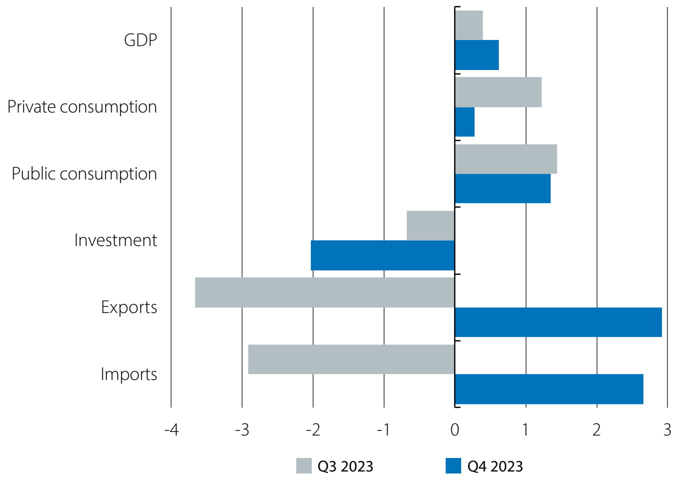
Change (%)



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

Spain: components of GDP

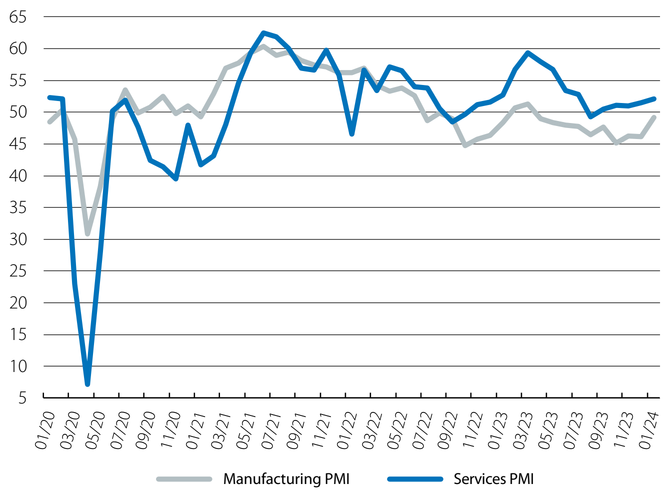
Quarter-on-quarter change (%)



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

Spain: PMI

Level



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

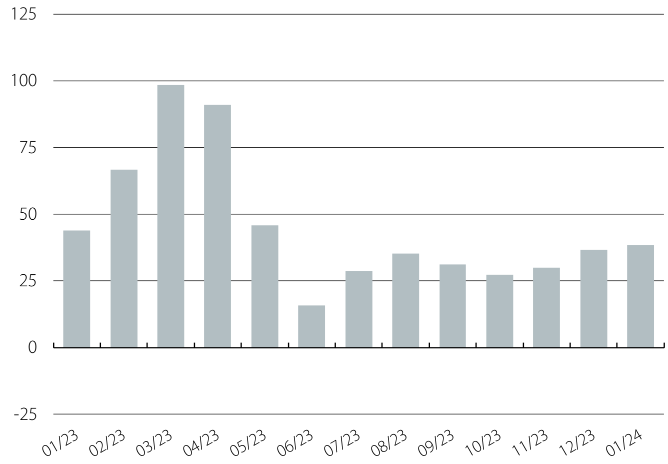
The first economic activity indicators available for 2024 offer encouraging signs. In January, the Purchasing Managers' Index (PMI) for the manufacturing sector climbed 3 points, reaching 49.2 points, just shy of the threshold denoting growth (50) but suggesting that the deterioration of industrial activity is moderating. Also, the counterpart indicator for the services sector advanced 0.6 points to 52.1 points, placing it firmly within expansive territory. With regard to registered workers affiliated with Social Security, according to the data the year started on a good footing. Although the number of registered workers fell, as is usual in the month of January, in seasonally adjusted terms employment registered an increase of 38,000 affiliates, which represents an acceleration compared to the monthly average in Q4 2023 (31,250). Also, on the consumer side, the CaixaBank Research consumption tracker shows that spending using Spanish cards was more buoyant in January, with 5.6% year-on-year growth, compared to 5% in December and 7% in November.

Core inflation continues to decline in January, while headline inflation rebounds slightly due to electricity. Headline inflation truncated its recent downward trend and rose to 3.4% in January, 0.3 pps above the December figure. In contrast, core inflation (which excludes energy and unprocessed food) fell 0.2 pps to 3.6%. As the National Statistics Institute pointed out, the slight upturn in headline inflation in January is explained by the rise in electricity prices. This increase partly reflects the rise in taxes applicable to electricity bills (for example, VAT on electricity rose from 5% to 10% on 1 January). However, these upward dynamics in the electricity component were partly mitigated by the fall in fuel prices.

The fall in imports of goods and the strength of tourism in Spain allow for a substantial improvement in the current account balance. In the year up until November, exports of goods showed a slight reduction of 0.7% year-on-year, while imports fell considerably (–6.8% year-on-year), affected to some extent by the lower energy prices. Thus, the trade deficit to November stood at –2.9% of GDP, representing a substantial improvement compared to the –5.1% recorded in the first 11 months of the previous year. This fall in the trade deficit occurred at the same time as a dramatic improvement in the services surplus. Specifically, the cumulative surplus in services to November was 6.8% of GDP (6.1% in November 2022), supported by the enviable health of tourism, which closed 2023 with extraordinary figures. In 2023 as a whole, tourist arrivals exceeded 85 million, 1.9% more than in 2019, and they spent 18.2% more than in 2019.

Spain: registered workers affiliated with Social Security *

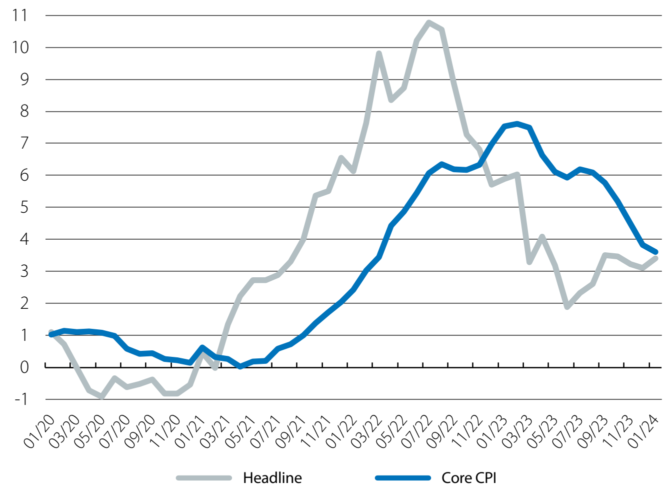
Month-on-month change (thousands)



Note: ** Seasonally adjusted series.*
Source: *CaixaBank Research, based on data from the Ministry of Labour and Social Economy.*

Spain: CPI

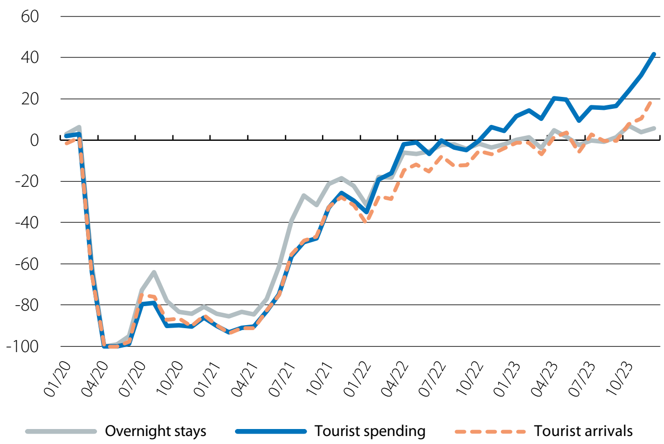
Year-on-year change (%)



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

Spain: foreign tourism indicators

Change versus the same month of 2019



Note: *Overnight stays of tourists in hotels, rural tourism establishments, tourist apartments and campsites.*
Source: *CaixaBank Research, based on data from the National Statistics Institute.*

2024 Treasury: the increased participation of domestic and non-resident investors will absorb the greater funding needs

Despite the goal to reduce the government deficit to 3% of GDP in 2024, the Treasury's funding needs will remain high. In addition, the market will have to absorb all the debt that is currently in the hands of the ECB and which it will not reinvest. In this context, we provide some perspective on the volume of debt that the market will have to absorb during this year.

The Treasury's strategy following the end of the ECB's net purchases

The Treasury's financing strategy for 2024, published in mid-January, includes projected net issues of 55 billion euros, which will be covered entirely by medium- and long-term instruments. This is a significant amount, but less than the 65 billion issued in 2023. The gross issues of medium- and long-term debt, which is the sum of the anticipated repayments, will amount to 173,118 million euros, slightly higher than the 167,500 million of 2023.

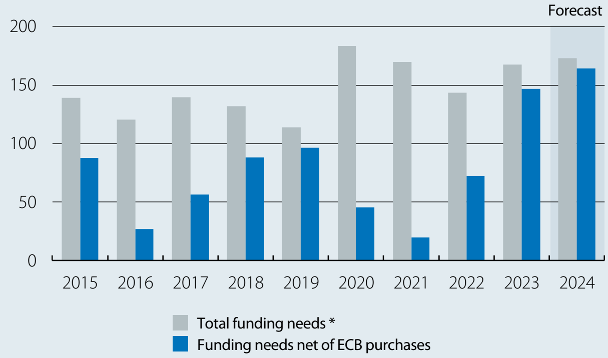
The change of scenario is significant because the ECB will continue – and in fact intensify – its withdrawal initiated in 2022. It should be recalled that under the APP (Asset Purchase Programme),[1] net purchases were extended until June 2022; from July 2022 to February 2023, 100% of the bonds that matured were reinvested; between March and June 2023, partial reinvestments were made, and since July last year the reinvestments have been reduced to 0, such that the portfolio is shrinking at the rate at which the assets mature. In the case of the PEPP (Pandemic Emergency Purchase Programme), net purchases were extended until March 2022; between April 2022 and June 2024, 100% of maturities will be reinvested; between July and December 2024, the reinvestments will be partial, and finally, from 2025 onwards, they will cease and the portfolio will shrink as the remaining assets mature.

Taking all this information into account, in 2023 the ECB made negative net purchases of Spanish sovereign debt amounting to –15 billion euros and reinvested maturities worth 36 billion. In 2024, we estimate that the ECB will make net purchases worth –38 billion and will reinvest medium- and long-term debt worth around 47 billion. As a result, the ECB's gross purchases in 2024 would be 12 billion less than in 2023 (0.8% of GDP).

Despite the reduced role of the ECB, the context of higher interest rates compared to the period 2016-2022 should make these assets more attractive to investors, whether domestic or non-resident, and facilitate the absorption of Spain's funding needs, a trend which has already been observed in 2023. Thus, the holdings of Spanish debt show a good diversification of the investor base (see second and third charts). In 2023 (with data to October), foreign investors showed their confidence by increasing their holdings of Spanish debt (excluding Treasury bills) by

Spain: treasury funding needs

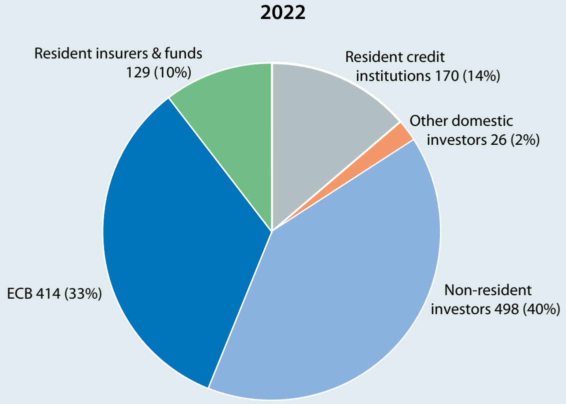
(EUR billions)

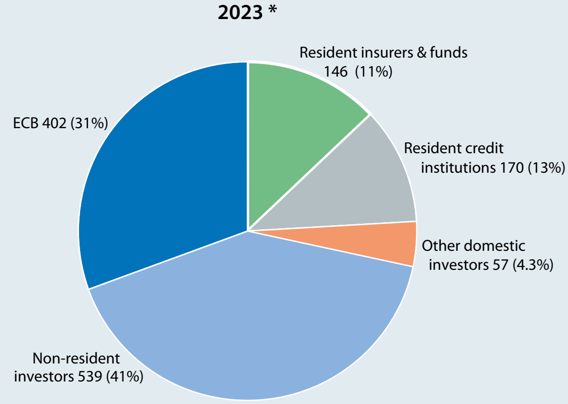


Note: ** The repayment figures do not include Treasury bills. For instance, 89,348 million euros in bills will be repaid in 2023 and the Treasury Strategy anticipates that 84,454 million will be repaid in 2024.*
Source: *CaixaBank Research, based on data from the General Secretariat of the Treasury.*

Spain: state debt holdings (bills and bonds)

(EUR billions) Structure (%)





Note: ** Data as of October 2023.*
Source: *CaixaBank Research, based on data from the General Secretariat of the Treasury.*

1. Since 2014, the ECB has acquired assets under its Asset Purchase Programme (APP), including government debt securities, corporate bonds, asset securitisation bonds and covered bonds.

65 billion euros compared to the end of 2022, well above the historical average for 2003-2021 (16.4 billion). In this way, of the total holdings of our debt (including Treasury bills, which account for just 5% of the debt portfolio), the portion held by foreign investors has risen to 41%, compared to 40% at the end of 2022, and their participation was particularly high in the syndicated issues of 2023.

On the other hand, international investors have reduced their holdings of Treasury bills in favour of domestic investors. Retail investors have led the domestic interest in Treasury bills, becoming their main holder, with an historical increase of 21 billion euros through to October 2023. As a result, retail investors accounted for 31.7% of the total holdings of bills at that date, amounting to 22,893 million euros, making them the biggest category of investors in this segment. Thus, domestic investors as a whole hold 28.4% of all debt (26.3% at the end of 2022).

Looking at the total stock of debt, we estimate that public debt held by the ECB will account for 30% of total debt in 2024 (32% of GDP), leaving the remaining 70% (75% of GDP) in the hands of other investors. Between 2012 and 2015, the portion of the total debt held by investors other than the ECB far exceeded this figure (peaking at 102% of GDP in 2014).

Other supporting factors

There are other factors beyond the greater role of private investors that help us to understand under what conditions the Treasury will have to meet these funding needs in 2024, such as more favourable financing costs despite the monetary tightening of the last year, which now looks set to be gradually unwound, and a long average life of the debt.

In particular, in 2023 the average financing cost of new emissions (including bills) rebounded to 3.44%, after standing at 1.35% in 2022 and in negative territory (–0.04%) in 2021. Despite this, the average cost of the stock of debt as a whole has increased only slightly, from 1.64% in 2021 to 1.73% in 2022 and to 2.1% in 2023. This is because, in order to anchor the low financing costs of recent years, the Treasury chose to issue debt in the longer sections of the maturity curve. This has allowed the average life of Spanish debt to be increased, now standing at 7.8 years.

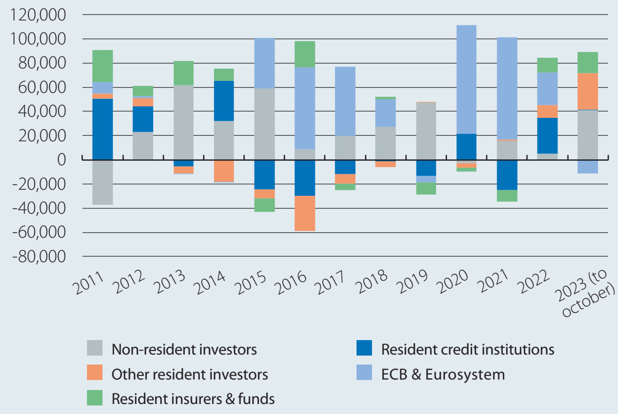
In 2024, the average cost of the total stock of debt is expected to rise very slightly, due to the maturity of debt issued years ago at rates above the current ones and because of the long average duration. In this way, the interest payments on the total stock of general government debt, taking into account the markets' current expectations of a somewhat bigger decline in interest rates than had been anticipated a few months ago, could reach 2.5% of GDP in 2024. Although similar to the level of 2023, this is much lower than a decade ago – in 2014, for example, it reached 3.5%.

Looking ahead to the medium term, in 2026 the general government may have incurred interest costs of around 2.6% of GDP, which would amount to around 44 billion euros, compared to the 35 billion which we forecast for 2023. Thus, even if the monetary tightening is gradually unwound, the cost of debt will still be higher than it was during the years of ultra-low rates, such that there will be a gradual rise in the cost of debt. Therefore, given the high level of public debt, it will be essential to design a fiscal consolidation strategy that is gradual but sustained over time and which conforms to the new fiscal rules approved by the EU.

Javier Garcia-Arenas

Spain: annual change in state debt holdings (bills and bonds)

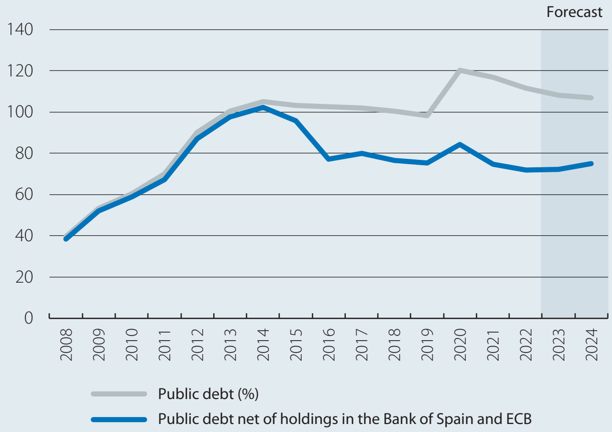
(EUR millions)



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

Spain: public debt

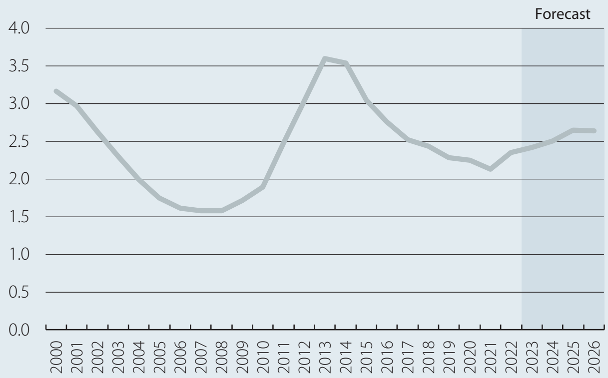
(% of GDP)



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

Spain: interest payments on public debt

(% of GDP)



Note: *Since the average maturity is 8 years, the prediction is made using the implied 8-year market rate.*
Source: *CaixaBank Research.*

The growth of disposable income strengthens Spanish household finances

Disposable income is growing well above household spending

The total gross disposable income (GDI) of all households grew by an impressive 10.6% year-on-year in Q3 2023 (stagnant figure). This is well above both the rate of inflation in Q3 (2.8%) and the growth in the number of households (1.5%), allowing for a significant recovery of the purchasing power that had been lost due to the inflationary shock unleashed in 2022. Household income growth in Spain was much more buoyant than in the euro area as a whole (6.4%). In the first three quarters of 2023, disposable income grew by 11.4% year-on-year.

One of the drivers of disposable income has been the labour market; this is not surprising, as the total remuneration of wage earners grew by 9.0% year-on-year in Q3, reflecting both job growth (+3.9% year-on-year growth in the number of wage earners) and higher wages (+5% in the remuneration per worker). Other components of gross income which also contributed to this growth included social benefits (increase of +9.7% year-on-year, driven by the 8.4% rise in pensions in 2023), self-employment income and property income, due to the increase in the payment of dividends and other investment income. All this has more than offset the increase in net interest payments, which amounted to 3.7 billion euros (up 1.2 billion compared to the stagnant figure for Q3 2022).

This increase in aggregate gross income occurred in the context of a rise in household creation. Indeed, Spain's population increased in Q3 2023 by 525,000 people versus Q3 2022, driven by a rise in migratory flows. Thus, in the last year, 285,000 households have been created in net terms. Consequently, the increase in disposable income per household in Q3 was slightly below that of aggregate income, although it still registered rapid growth: an impressive 9.0% in nominal terms and 6.1% in real terms.

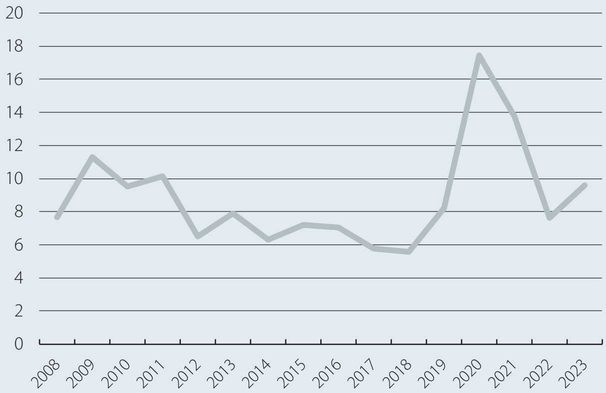
In contrast, household consumption expenditure has grown at a lower rate than household income. Specifically, in the cumulative period of the first three quarters of 2023, household disposable income rose well above household expenditure (10.6% vs. 5.7% year-on-year, respectively).

In 2023 as a whole, following these very positive statistics, we predict that the growth of GDI will exceed 9.0%, and this should allow aggregate household consumption in real terms to close the year well above the level of 2022, despite the rise in interest rates and the still high inflation.

By 2024, we expect that disposable income could grow by around 5.0%, driven by the resilience of the labour market, the gradual reversal of the recent increase in gross interest payments, and a rise in social benefits that could be around 5% (contributory pensions have risen by 3.8% year-on-year in 2024, but total expenditure on pensions will be greater taking into account the entry of new pensioners and the bigger increases in non-contributory and minimum pensions). Thus, with the buoyancy of disposable income and the moderation of inflation, purchasing power should continue to recover.

Spain: household savings rate

(% of gross disposable income)



Note: *The figure for 2023 refers to only the first three quarters (available data).*
Source: *CaixaBank Research, based on data from the National Statistics Institute.*

Spain: non-financial accounts of households

	Q3 2022 (€ millions)	Q3 2023 (€ millions)	Year-on-year change (%)
Total wage-earner remuneration (+)	159,250	173,630	9.0
GOS (self-employment income, attributed rents, etc.) (+)	54,515	57,374	5.2
Net property income (+)	5,193	6,856	32.0
Net interest payments (–)*	*–2,510*	*–3,733*	*48.7*
Other (dividends, other investment income, etc.) (+)	*7,703*	*10,589*	*37.5*
Income taxes (–)	–39,539	–44,259	11.9
Net soc. sec. contributions (–)	–47,963	–52,482	9.4
Social benefits (+)	54,458	59,763	9.7
Other (+)	4,715	9,964	111.3
Final GDI (national accounting)**	**190,629**	**210,846**	**10.6**

Notes: ** Before the allocation of financial brokerage services (SIFMI).*
*** GDI refers to gross disposable income.*
Source: *CaixaBank Research, based on data from the National Statistics Institute.*

The destination of savings and the improvement in household finances

As a result of the wide gap in growth between income and consumption, the savings rate increased to 9.6% in the first nine months of 2023, representing a 2-pp increase compared to the figure for 2022 as a whole. In addition, this figure is well above the average recorded between 2015 and 2019 (6.8%).

How have the savings generated been channelled? The financial accounts of the Bank of Spain provide a detailed picture in this regard. The main conclusion is that households' lending capacity was partly directed towards acquiring financial assets, amounting to 10,600 million in the first nine months of 2023, and partly to deleveraging (household debt fell by 14,480 million euros compared to the end of 2022).

On the asset side, of particular note is the fact that the stock of gross financial assets increased by 82,300 million euros between Q4 2022 and Q3 2023, reflecting a rise in value of 71,700 million euros and the aforementioned net acquisition of financial assets of 10,600 million euros in the last three quarters.

When we analyse the breakdown of this net acquisition of assets, we observe a restructuring of financial assets since the end of 2022, moving away from deposits in favour of instruments offering a higher return, such as Treasury bills and investment funds. In particular, households invested in public debt securities worth 19,800 million euros and in equities and investment funds amounting to 18,440 million euros. In contrast, they reduced their cash and deposits by 28,200 million euros.

On the liabilities side, households continued to deleverage in the first three quarters of 2023, reducing their debt by 14,480 million euros compared to the end of 2022 (–2.1%) to 689,000 million. This new level represents 48% of GDP, 4.3 points less than at the close of the previous year and the best level since 2002.

As a result of these trends, aggregate household net financial wealth has grown by 97,300 million euros compared to Q4 2022, to slightly exceed 2.05 trillion euros; this represents 142.9% of GDP, a ratio 2.4 pps lower than at the end of 2022, due to the increase in nominal GDP.

In short, the improvement in household finances at the aggregate level gives us some cause for optimism. Thanks to this buffer, household consumption will be able to continue to grow in the coming quarters and will remain an important supporting factor for the Spanish economy as a whole.

Javier Garcia-Arenas

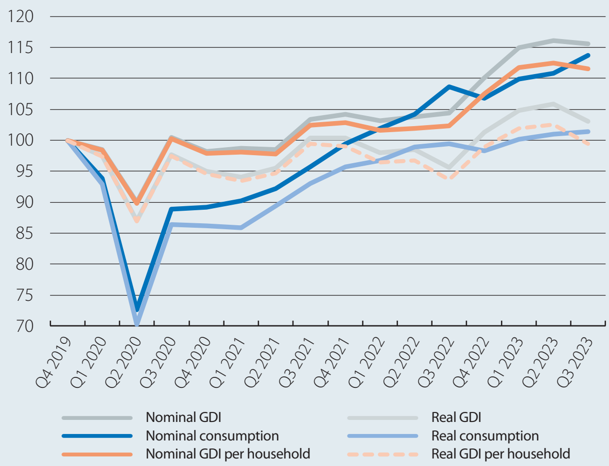
Spain: household disposable income

Annual change (%) and contributions (pps)

Notes: ** GOS refers to gross operating surplus. ** GDI refers to gross disposable income.*
Source: *CaixaBank Research, based on data from the National Statistics Institute.*

Spain: household gross disposable income and consumption

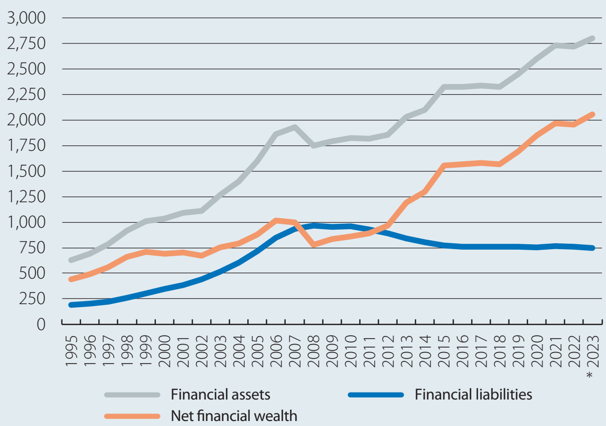
Level (100 = Q4 2019)



Notes: *Seasonally-adjusted data. GDI refers to gross disposable income.*
Source: *CaixaBank Research, based on data from the National Statistics Institute.*

Spain: financial balance sheet of households

(EUR billions)



Note: ** Q3 2023.*
Source: *CaixaBank Research, based on data from the Bank of Spain.*

Spanish household spending on bills in 2023, a respite after a gruelling 2022

The recent inflation surge has hit households hard since the end of the pandemic, although during the course of 2023 it moderated and ended the year at more manageable levels. In December, specifically, it stood at 3.1%. This moderation has largely been due to the considerable decline in energy prices. For instance, the electricity component of the CPI fell by 36.8% in the year as a whole.[1] But how has household expenditure evolved in terms of essential items, such as utilities?

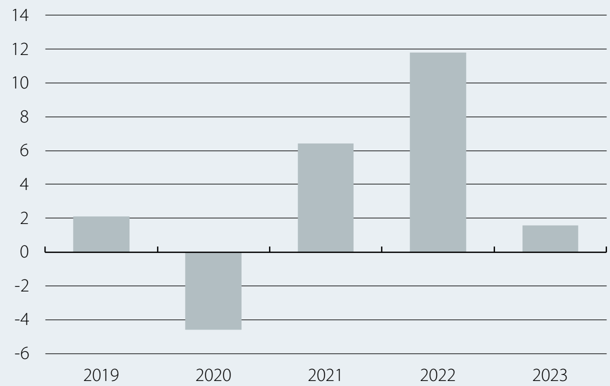
At CaixaBank Research we analyse card spending and cash withdrawals on a weekly basis in our Consumption Tracker, which can be found on our website, and on a monthly basis in our Real-Time Economics portal. We have also examined how the impact of the energy crisis in 2022 was translated to household electricity and gas bills.[2] In this article, we will explore what has happened to total household expenditure on direct debit bills, with a particular focus on the key component of utilities (water, electricity, gas and telephony).[3] To this end, we will analyse fully anonymised information on direct debit payments made from CaixaBank accounts, as one of the main payment channels used by households.[4]

The evolution of expenditure by direct debit over the last five years has been driven by the pandemic and the subsequent energy crisis. The restrictions imposed due to COVID-19 impacted Spaniards' consumption and this was reflected in a 4% reduction in total direct debit expenditure in 2020. This pause was followed by two years of sharp increases: expenditure on direct debit bills grew by 6.4% in 2021 and by 11.8% in 2022. By comparison, the headline CPI stood at 3.1% in 2021 and at 8.4% in 2022. That is, the amount spent on bills increased some 3 pps more than the cost of living. In 2023, the situation has changed: expenditure by direct debit grew by 1.5% this past year, 2 pps below the year's average inflation.

In the case of utility bills (water, electricity, gas and telephony), where consumers have less room for adjustment in the event of a crisis, we see marked differences (see second chart). In water and telephony, the expenditure was quite similar throughout the period analysed. The average water bill in 2023 was 2% lower than in 2022, while in the case of telephone bills it was 1% higher. In contrast, expenditure on energy has been much more volatile. The average electricity bill rose 23% in 2022 but fell 21% in 2023, meaning that household bills in 2023 were 6% lower than in 2019. Similarly, gas bills increased 17% in 2022, but fell 13% in 2023, and ended up being 10% lower than in 2019. Since the changes in gas and electricity prices between 2019 and 2023 have been smaller than this, these reductions essentially reflect households' efforts to reduce their energy consumption.

Spain: evolution of total expenditure on direct debit bills

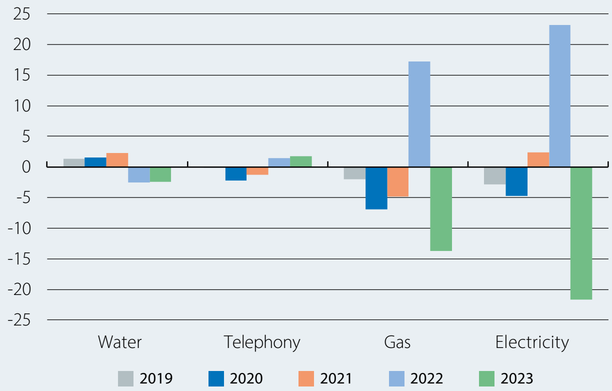
Year-on-year change (%)



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

Spain: evolution of the average bill by utility category

Year-on-year change (%)



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

1. For more details on the energy component's contribution to inflation, see the Focus «The importance of intermediate costs in inflation dynamics in Spain» in the MR01/2024.
2. See, for example, the Focuses «The evolution of Spanish households' electricity bills in 2022» in the MR12/2022 and «Electricity prices are sky high, but what about household bills?» in the MR01/2022.
3. The breakdown of direct debit expenditure reveals that it corresponds mostly to utilities (27%), insurance (21%) and rents (15%).
4. Direct debit expenditure accounts for 20% of the total 2023 expenditure carried out by card, cash withdrawals and direct debit payments, according to internal data.

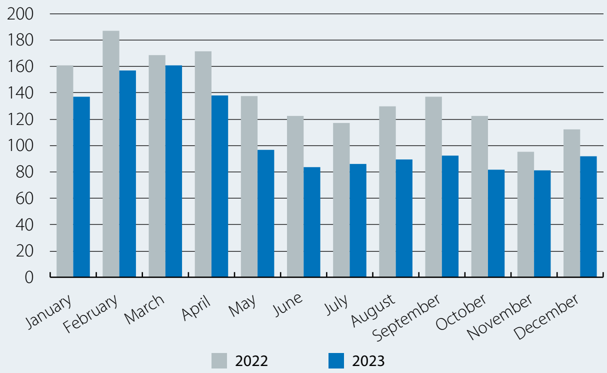
Analysing the cost of energy bills month by month, we see that in all months of 2023 they were lower than in 2022 (around 30 euros on average), and especially between May and October (when they were 31% lower). Thus, households spent an average of 108 euros on electricity and gas in 2023, down from 138 euros in 2022 (and 115 euros in 2019).

For 2024, the gradual withdrawal of the various anti-inflation measures planned throughout the year can be expected to have some impact on energy bills. Here at CaixaBank Research we will continue to monitor the situation in real time.[5]

Zoel Martín Vilató and Josep Mestres Domènech

Spain: average cost of energy bills

(Euros)



Note: *Includes electricity and gas bills.*
Source: *CaixaBank Research, based on internal data.*

5. This year we will include the evolution of direct debit payments alongside card spending and cash withdrawals in the Consumption Tracker and in the Real-Time Economics portal.

Impact on the national accounts of the partial extension of anti-inflation measures in 2024

In late 2023, the government approved a decree, which was validated by Congress in January, to partially extend in 2024 the economic support measures implemented in 2022-2023 aimed at mitigating the impact of inflation. The extension of some of these measures will apply upward pressure on the relatively contained government deficit, while avoiding the spike in inflation that would have occurred had the measures expired in their entirety in January 2024. Below, we review the current state of the national accounts in Spain and the impact of the partial extension of the measures to support households and the productive sector, evaluating their fiscal cost.

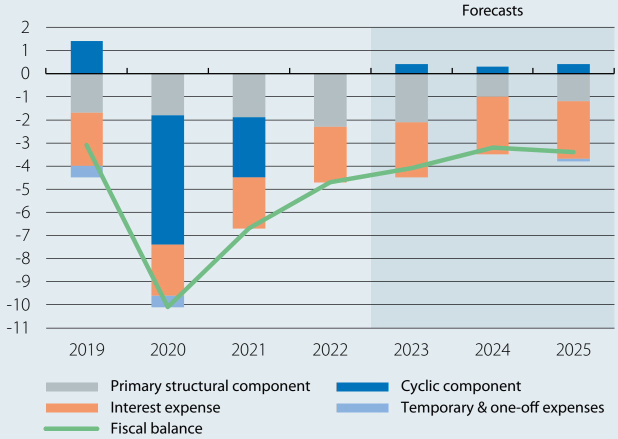
The budget deficit in Spain: statusas of early 2024

In recent years, Spain has significantly reduced its budget deficit, following the sharp rise recorded in 2020 due to the support measures introduced in response to the pandemic (it reached 10.1% of GDP). In 2023, the deficit is expected to stand at around 4.0% of GDP (we will find out the final figure in March). For 2024, the Budget Plan published in October placed the budget deficit for 2024 at 3.0% of GDP. This assumed an inertial scenario with no new measures such as the partial extension of the action plan and was based on the assumption that public revenues would increase by 5.8% year-on-year and public expenditure by 3.7%. These projections do not differ much from those of the European Commission. In particular, the Commission expected a budget deficit before the extension of the action plan of 3.2% of GDP in 2024 and of 3.4% of GDP in 2025, which is mainly explained by the structural deficit – in 2024 the forecast is for a primary structural deficit of 1% and interest expenditure of 2.5%. On the other hand, the cyclical balance no longer presents a deficit now that the Spanish economy has recovered its potential GDP.

Extension of measures and impact on the national accounts

In 2023, the government implemented an action plan to mitigate the high levels of inflation, which had a fiscal cost of 15 billion euros, or 1% of GDP, according to AiREF. The plan consisted of a series of tax cuts applicable to energy and food which reduced public revenues by 6 billion euros, as well as a series of measures to support individuals and the productive sector – blanket support for users of public transport, financing of the regulated TUR gas tariff and a series of sectoral support measures –[1] which increased public expenditure by 9 billion euros. The forecasts for the 2024 budget deficit presented in the previous section assumed that the 2023 action plan would be withdrawn in its entirety on 1 January 2024, resulting in savings of 15 billion euros this year. However, at the end of December the government announced a partial extension in 2024 of some of the measures included in the action plan, which parliament approved in January. To what extent will this partial extension entail a deviation from the 2024 deficit targets? To answer this question, we must analyse the new measures in detail and evaluate their fiscal cost:

Spain: fiscal balance
(% of GDP)



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

- Firstly, the new measures include the partial and phased reversal throughout 2024 of the tax cuts on electricity bills that were implemented in 2022-2023. In the case of gas bills, on 1 January VAT rose from 5% to 10% and it will increase again after 31 March, returning to the original rate of 21%. In the case of VAT on electricity, this also rose from 5% to 10% on 1 January, but it will remain at 10%[2] throughout 2024 and will not return to 21% until 2025. As for electricity excise duty (IEE), which since September 2021 has been reduced from 5.11%[3] to the legal minimum of 0.5%, this will

1. These included: discounts on fuels for professional haulers using diesel; for farmers, direct aid for those holding a transport licence based on their estimated consumption; direct aid to the agricultural sector to mitigate the higher fertilizer prices; aid to the fishing and ceramics sectors; sectoral aid from the Spanish Agrarian Guarantee Fund (FEGA) in response to the drought, etc.
2. The VAT cut affects consumers with a contracted capacity of less than or equal to 10 kW. Virtually all households therefore benefit from this reduction. The 10% VAT rate will also apply to 70% of electricity supply contracts for businesses (non-domestic).
3. The tax base is the electricity bill determined on the basis of electricity consumption and contracted capacity.

increase during 2024 following a phased pattern. The partial extension of these tax cuts will deduct around 1.8 billion euros of revenues compared to a scenario with a return to normal rates in January 2024.

- In food, the 0% VAT rate on essential foods and the 5% rate on pasta are extended until 30 June. The major change is that VAT on oil, which had been reduced to 5% (its normal rate is 10%), will be lowered even further to 0%.[4] These measures will deduct around 1.2 billion euros of public revenues compared to a return to normal rates in January 2024.
- On the expenditure side, the funding during the first half of 2024 of the limits applicable to increases in the regulated TUR gas tariff[5] could have a fiscal cost of 500 million. With regard to public transport, the measures in place during 2023 have been extended throughout 2024. 1.4 billion euros are allocated to offering free rail travel to frequent users of the Cercanías, Rodalies and Media Distancia networks, as well as a 30% discount for public transport networks under regional and local government ownership.[6]

In short, we estimate that the fiscal cost of all these measures could amount to around 5 billion euros, or 0.3% of GDP.

The partial extension of the action plan will therefore apply upward pressure on the fiscal deficit this year of around 0.3 pps relative to the forecasts set out in the Budget Plan and those of the European Commission, which assumed that there would be no extension for this year, thus increasing the deficit to around 3.3%-3.5% of GDP. Offsetting this 0.3-pp increase in the deficit will be a 0.1-0.2-pp reduction due to GDP growth being greater than expected a few months ago; nominal GDP growth in 2023 was 8.6%, exceeding the forecasts (the European Commission expected growth of 7.7% and the Budget Plan, 8.3%), and the good figure for Q4 2023 will have a knock-on effect on growth in 2024. Thus, taking into account the fiscal cost of the extension and the incorporation of the latest macro data, the deficit in 2024 is likely to be within the range of 3.1%-3.4% of GDP. Where exactly it will end up within this range will depend, among other factors, on the final deficit figure for 2023 – i.e. the starting point for 2024 – and on whether the budget for this year ends up incorporating any additional measures.

Javier Garcia-Arenas

Spain: impact of the partial extension of anti-inflation measures in 2024 compared to a full withdrawal in January 2024

	Annual impact on the deficit (EUR millions)
Revenue measures (lower incomes)	
VAT on electricity: rise from 5% to 10% (normal rate: 21%) throughout 2024	–1,500
Excise duty on electricity: from 0.5% to 2.5% in Q1, 3.8% in Q2 and then 5.11%	–200
VAT on gas: from 5% to 10% in Q1, 21% (foreseeably) thereafter	–50
VAT on food: until 30 June, 0% on essential foods and oil, 5% on pasta	–1,200
Expenditure measures (higher expenditure)	
Transport aid	1,440
Financing of the regulated TUR gas tariff	500

Source: *CaixaBank Research, based on an extrapolation of the impact in 2023.*

4. However, this measure is not yet in effect; as Congress still needs to approve the amendment to the decree that lowers it to 0%.
5. These limits prevent the commodity cost from rising by more than 15%, limiting the quarterly increase to approximately 5% as well as the existence of the neighbourhood TUR tariff, which is available to blocks of flats with gas central heating.
6. Unlike last year, these discounts will apply regardless of whether or not the regional/local authorities supplement them with an additional discount of 20%.

Activity and employment indicators

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

	2022	2023	Q1 2023	Q2 2023	Q3 2023	Q4 2023	11/23	12/23	01/24
Industry									
Industrial production index	2.8	–	1.3	–1.8	–1.9	–	0.8	...	...
Indicator of confidence in industry *(value)*	–0.8	–6.5	–4.5	–5.3	–8.2	–8.1	–9.5	–6.5	–5.2
Manufacturing PMI *(value)*	51.0	48.0	50.1	48.5	47.3	45.9	46.3	46.2	49.2
Construction									
Building permits *(cumulative over 12 months)*	15.4	–	–1.8	1.7	4.2	–	–1.1	...	...
House sales *(cumulative over 12 months)*	29.0	–	10.2	3.5	–3.0	–	–9.4	...	...
House prices	7.4	3.9	3.5	3.6	4.5	...	–	–	–
Services									
Foreign tourists *(cumulative over 12 months)*	129.8	–	90.7	40.6	21.8	...	19.2	...	...
Services PMI *(value)*	52.5	53.6	56.3	56.0	50.9	51.2	51.0	51.5	52.1
Consumption									
Retail sales	0.9	6.0	6.7	6.1	6.9	4.4	5.0	3.1	...
Car registrations	–3.0	18.5	45.5	9.9	6.9	11.9	7.0	10.6	7.3
Consumer confidence index *(value)*	–26.5	–19.2	–22.5	–19.0	–16.1	–19.2	–19.4	–18.5	–18.8
Labour market									
Employment [1]	3.1	3.0	1.8	2.9	3.5	3.8	–	–	–
Unemployment rate (% labour force)	12.9	12.1	13.3	11.6	11.8	11.8	–	–	–
Registered as employed with Social Security [2]	3.9	–	2.5	2.8	2.7	2.6	2.6	2.7	2.6
GDP	**5.8**	**2.5**	**4.1**	**2.0**	**1.9**	**2.0**	–	–	–

Prices

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

	2022	2023	Q1 2023	Q2 2023	Q3 2023	Q4 2023	11/23	12/23	01/24
General	8.4	3.6	5.1	3.1	2.8	3.3	3.2	3.1	3.4
Core	5.1	6.1	7.6	6.2	6.0	4.5	4.5	3.8	3.6

Foreign sector

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

	2022	2023	Q1 2023	Q2 2023	Q3 2023	Q4 2023	11/23	12/23	01/24
Trade of goods									
Exports *(year-on-year change, cumulative over 12 months)*	22.9	–	20.5	12.3	4.5	–	0.5	...	...
Imports *(year-on-year change, cumulative over 12 months)*	33.4	–	24.0	10.7	–1.2	–	–5.5	...	...
Current balance	**8.2**	**–**	**22.1**	**28.2**	**35.2**	**–**	**36.4**	**...**	**...**
Goods and services	16.3	–	31.6	42.8	54.6	–	58.0	...	...
Primary and secondary income	–8.1	–	–9.5	–14.6	–19.4	–	–21.6	...	...
Net lending (+) / borrowing (–) capacity	**20.7**	**–**	**36.3**	**42.1**	**49.4**	**–**	**51.4**	**...**	**...**

Credit and deposits in non-financial sectors [3]

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

	2022	2023	Q1 2023	Q2 2023	Q3 2023	Q4 2023	11/23	12/23	01/24
Deposits									
Household and company deposits	4.9	0.6	1.7	0.4	–0.3	0.4	0.3	1.0	...
Sight and savings	7.9	–4.6	0.3	–4.0	–6.9	–7.7	–7.8	–7.5	...
Term and notice	–19.7	51.7	7.7	40.1	69.5	89.4	89.4	99.2	...
General government deposits	9.6	8.7	7.4	6.8	11.3	9.4	13.6	0.6	...
TOTAL	**5.2**	**1.1**	**2.1**	**0.8**	**0.5**	**1.0**	**1.2**	**1.0**	**...**
Outstanding balance of credit									
Private sector	0.7	–2.6	–0.9	–2.2	–3.4	–3.7	–3.8	–3.4	...
Non-financial firms	0.9	–3.4	–1.0	–2.7	–4.6	–5.3	–5.6	–4.8	...
Households - housing	1.0	–2.6	–1.2	–2.4	–3.4	–3.3	–3.4	–3.2	...
Households - other purposes	–0.6	–0.3	–0.1	–0.4	0.0	–0.6	0.0	–0.6	...
General government	0.2	–3.4	–0.2	–3.3	–4.6	–5.5	–7.1	–3.6	...
TOTAL	**0.7**	**–2.6**	**–0.9**	**–2.3**	**–3.4**	**–3.8**	**–4.0**	**–3.5**	**...**
NPL ratio (%) [4]	**3.5**	**–**	**3.5**	**3.5**	**3.5**	**...**	**3.6**	**...**	**...**

Notes: *1. Estimate based on the Active Population Survey. 2. Average monthly figures. 3. Aggregate figures for the Spanish banking sector and residents in Spain. 4. Period-end figure.*
Source: *CaixaBank Research, based on data from the Ministry of Economy, the Ministry of Public Works, the Ministry of Employment and Social Security, the National Statistics Institute, the State Employment Service, Markit, the European Commission, the Department of Customs and Special Taxes and the Bank of Spain.*

Renewed buoyancy in the Portuguese economy

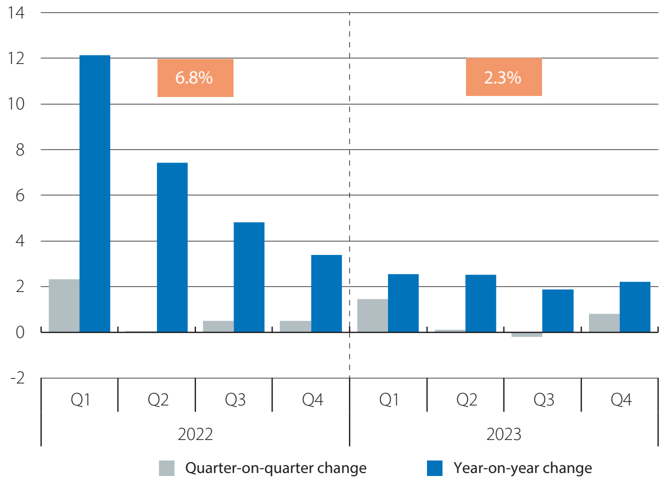
The Portuguese economy grew by 2.3% in 2023. Preliminary GDP data published by the National Statistics Institute indicate a notable acceleration in growth in the final quarter of 2023, with an increase of 0.8% quarter-on-quarter and 2.2% year-on-year in Q4. Thus, growth for 2023 as a whole stood at 2.3%, 0.1 pp below CaixaBank Research's forecast. The buoyancy of the quarterly growth was supported by an acceleration in domestic demand, especially private consumption, with spending on durable goods standing out, as deduced from the surge in car sales in the final months of the year. Foreign demand, meanwhile, reduced its negative contribution to GDP growth, thanks to the good performance of services exports, especially tourism, which performed better than expected during the low season. The first known indicators for January show encouraging signs, both in the synthetic economic activity indicators and in those related to confidence.

Rebound in inflation in January. Headline inflation rebounded in January to 2.3% from 1.4% in December. This increase was explained by the spike in electricity inflation, compared to the decrease in January last year, as well as by the end of the VAT exemption on some basic food items. However, core inflation continued to decline and stood at 2.5% (vs. 2.6% the previous month). In 2024 we do not expect inflation for the year as a whole to fall below 2%. Energy prices, which were a major factor in the moderation of inflation in 2023, will have a more residual contribution.

Excellent year for tourism in 2023. For the first time, the number of visitors surpassed the milestone of 30 million, exceeding CaixaBank Research's estimate by around 2.5%. This figure places the number of tourists at 12% above the year before the pandemic. The United Kingdom remained the main source market in 2023 (18.4% of overnight stays by non-residents), although the biggest growth was in tourists from Canada and the US. For 2024, we expect to see new growth in the sector, albeit a more moderate one taking into account the slowdown both in economic activity in the main source countries and in domestic tourism by residents.

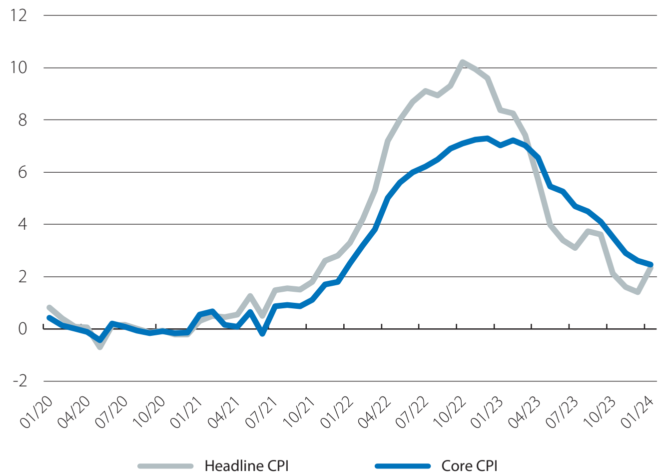
Significant improvement in the public accounts. The monthly execution data in the public accounts point to a surplus of 1.6% of GDP in 2023 (excluding the exceptional item related to the pension fund of CGD), in contrast to the 1.4% deficit in 2022. This performance is explained by the significant growth in income (+12.1%) compared to a more contained increase in expenditure (+4.4%). The public debt ratio, meanwhile, stood at 98.7% of GDP (112.2% in 2022), its lowest since 2010.

Portugal: GDP
Change (%)



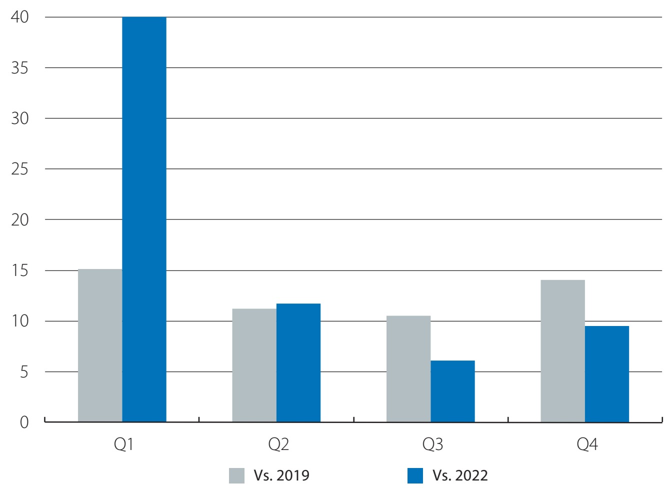
Source: *CaixaBank Research, based on data from the National Statistics Institute of Portugal.*

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



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

Portugal: number of guests per quarter
Change in the quarters of 2023 with respect to the same period (%)



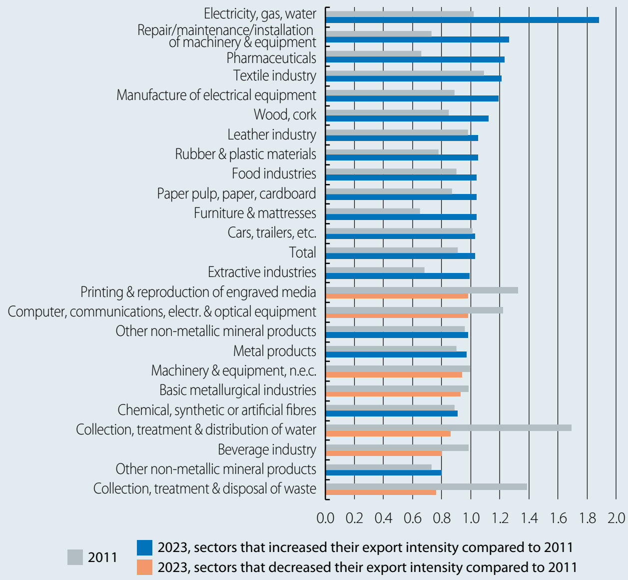
Source: *CaixaBank Research, based on data from the National Statistics Institute of Portugal.*

Portuguese companies maintain their export momentum

Since the 2008 financial crisis, Portuguese companies have increasingly turned to the foreign market in search of business. So much so that, since 2011, the average annual growth in exports of goods and services (excluding tourism)[1] has been 5.6% at current prices. In this article, we analyse how the Portuguese economy has managed to maintain the momentum in its exports over the last decade and what their main characteristics are.

Firstly, in recent years the categories of goods and services which previously had the highest exports are also the ones that have seen the biggest export growth. Thus, the top 15 categories account for 79% of total exports in 2023, which is 3 pps more than in 2011. The categories that have seen their share of the total increase have included IT services, R&D services and pharmaceutical products. In contrast, textile exports saw their share drop to 6% of the total value exported, compared to 8% in 2011. Sales of machinery and electrical appliances and transport equipment continue to occupy the top positions, with 12.1% and 10.4%, respectively.

Portugal: export intensity of industry
(Growth of the foreign turnover of each sector/growth of the total turnover of each sector)

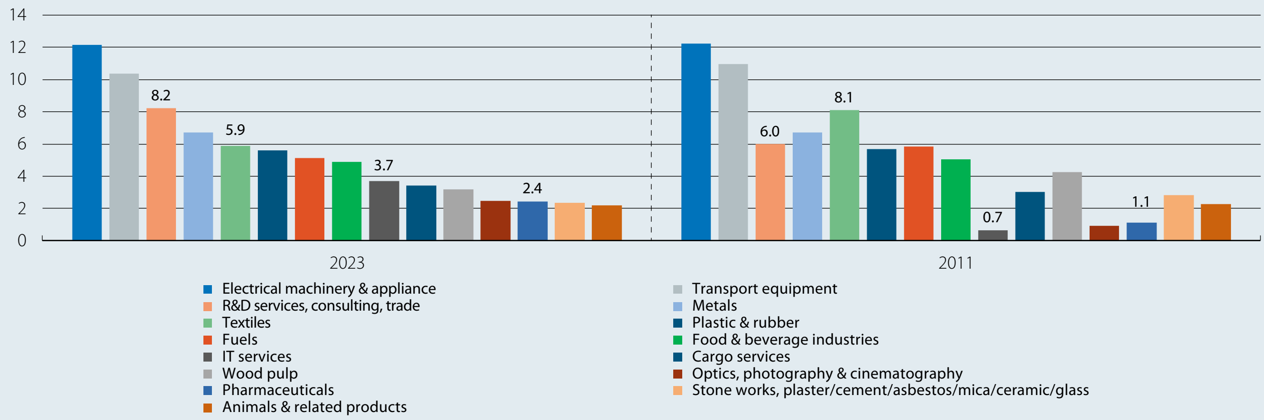


Source: *CaixaBank Research, based on data from the National Statistics Institute of Portugal.*

Secondly, the export intensity of industry has also increased.[2] Between 2011 and 2023, the total turnover of the industrial sector grew by around 25%, and this figure rises to 40% in the case of foreign markets, which translates into a 12-pp increase in the export intensity of Portugal's industry. In fact, generally speaking, the sectors which have seen their export intensity increase have performed better than those that are more dependent on domestic activity for their turnover.

By sector, utilities stand out, with a significant portion of the total turnover (15%) coming from exports. However, significant increases were also recorded in smaller sectors, such as pharmaceuticals and the repair, maintenance and installation of equipment and machinery. These two segments, which represent only 1.3% and 1.6% of total turnover, respectively, recorded notable increases in their turnover in international markets, as shown in the second chart.

Portugal: structure of exports of goods and services (excluding tourism)
Exports of each sector over total exports (%)



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

1. For the purposes of the analysis in this article, we exclude the travel and tourism category, as well as that of passenger transportation.
2. Export intensity is calculated as the ratio of turnover in foreign markets relative to the total turnover of each sector.

Portugal: exports of goods and services (excluding tourism) by destination country

EUR millions	2011	2023	Av. annual growth (%)	Share of total exports (%)		2011	2023	Av. annual growth (%)	Share of total exports (%)
Spain	11,222	21,238	5.5	22.1	Ireland	329	1,580	14.0	1.6
France	5,920	11,971	6.0	12.5	Poland *	372	1,056	9.1	1.1
Germany	6,405	10,566	4.3	11.0	Sweden *	407	992	7.7	1.0
UK	3,286	7,009	6.5	7.3	Morocco *	354	914	8.2	1.0
US	1,908	6,607	10.9	6.9	Turkey *	276	845	9.8	0.9
Netherlands	2,005	3,635	5.1	3.8	China *	330	715	6.7	0.7
Italy	1,819	3,569	5.8	3.7	Romania *	215	604	9.0	0.6
Belgium	1,568	2,545	4.1	2.7	Czech Rep. *	276	592	6.6	0.6
Brazil	1,108	2,040	5.2	2.1	Slovakia *	84	528	16.6	0.6
Switzerland	819	1,741	6.5	1.8	Luxembourg	172	499	9.3	0.5
Angola	2,812	1,719	–4.0	1.8					
Exports of goods & services						49,662	95,972	5.6	

Note: ** No available information for services, only export of goods.*
Source: *CaixaBank Research, based on data from the National Statistics Institute of Portugal and the Bank of Portugal.*

As a result of this greater export intensity, exports have also gained prominence in Portugal's GDP. Excluding the tourism sector, all other exports represented 35% of GDP in 2023, i.e. 8 pps more than in 2011. This was largely driven by exports of goods, although those of services also made an important contribution, particularly IT, communication and R&D services, which grew at an annual average rate of 14.4% during the period analysed.

Finally, with regard to the main destinations of Portuguese exports, it is worth noting that the top five (Spain, France, Germany, the United Kingdom and the US) have have not changed since 2011, although there have been changes of position among them and there are signs of greater penetration in smaller markets, such as Ireland, Poland and Sweden. The cases of Ireland, Germany and the US are particularly noteworthy, with exports of technology, IT services and information services recording significant annual growths of 32%, 24% and 18%, respectively. Among exported goods, pharmaceutical products recorded particularly strong growth, at an annual average of 13%. In this case, the North American, Irish, Polish and Italian markets stand out, with average annual growth of 37%, 34%, 28% and 17%, respectively (see first table).

Teresa Gil Pinheiro

Portugal: exports

	EUR millions		% of GDP		
	2011	2023	2011	2023	Pp change
Goods	39,554	71,852	22.5	27.4	4.9
Services	17,681	47,834	10.0	18.2	8.2
Excl. tourism	10,108	24,121	5.7	9.2	3.4
Excl. tourism & passenger transport.	7,782	19,579	4.4	7.5	3.0
Goods & services	57,235	119,685	32.5	45.6	13.1
Goods & services excl. tourism	49,662	95,972	28.2	36.5	8.3
Goods & services excl. tourism & passenger transport.	47,336	91,431	26.9	34.8	7.9

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

Activity and employment indicators

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

	2022	2023	Q1 2023	Q2 2023	Q3 2023	Q4 2023	11/23	12/23	01/24
Coincident economic activity index	5.8	3.4	3.7	3.7	3.4	2.8	2.6	2.9	...
Industry									
Industrial production index	0.4	...	1.0	–5.0	–4.6	...	–1.1	...	...
Confidence indicator in industry *(value)*	–3.4	–7.4	–5.0	–5.6	–9.4	–9.5	–9.1	–9.2	–8.2
Construction									
Building permits - new housing (number of homes)	6.2	...	9.3	0.5	7.5	...	...	...	...
House sales	1.3	...	–20.8	–22.9	–18.9	...	–	–	–
House prices *(euro / m² - valuation)*	13.8	9.1	12.9	9.1	8.1	6.4	5.6	5.3	...
Services									
Foreign tourists *(cumulative over 12 months)*	158.9	19.1	117.2	52.6	24.9	19.1	21.1	19.1	...
Confidence indicator in services *(value)*	15.1	7.5	11.1	13.4	5.8	–0.2	–1.0	1.1	5.1
Consumption									
Retail sales	4.8	...	1.7	3.0	1.5	...	2.3	...	...
Coincident indicator for private consumption	3.9	2.3	2.1	2.8	2.7	1.8	1.6	1.7	...
Consumer confidence index *(value)*	–29.7	–28.6	–35.1	–29.4	–22.8	–27.2	–28.2	–28.2	–26.9
Labour market									
Employment	2.3	...	1.4	2.8	2.2	...	1.7	1.8	...
Unemployment rate (*% labour force*)	6.2	...	7.2	6.1	6.1	...	6.6	6.6	...
GDP	**6.8**	**2.3**	**2.5**	**2.6**	**1.9**	**...**	**–**	**–**	**–**

Prices

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

	2022	2023	Q1 2023	Q2 2023	Q3 2023	Q4 2023	11/23	12/23	01/24
General	7.8	4.4	8.0	4.4	3.5	1.7	1.5	1.4	2.3
Core	5.6	5.1	7.1	5.7	4.4	3.0	2.9	2.6	2.5

Foreign sector

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

	2022	2023	Q1 2023	Q2 2023	Q3 2023	Q4 2023	11/23	12/23	01/24
Trade of goods									
Exports *(year-on-year change, cumulative over 12 months)*	23.2	...	21.6	11.8	3.0	...	–0.4	...	...
Imports *(year-on-year change, cumulative over 12 months)*	31.7	...	24.5	12.5	1.1	...	–3.0	...	...
Current balance	**–2.8**	**...**	**–1.2**	**1.5**	**4.1**	**...**	**4.3**	**...**	**...**
Goods and services	–4.7	...	–2.8	–0.3	2.1	...	3.0	...	...
Primary and secondary income	1.9	...	1.6	1.9	2.0	...	1.3	...	...
Net lending (+) / borrowing (–) capacity	**–0.5**	**...**	**1.5**	**4.5**	**7.3**	**...**	**7.7**	**...**	**...**

Credit and deposits in non-financial sectors

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

	2022	2023	Q1 2023	Q2 2023	Q3 2023	Q4 2023	11/23	12/23	01/24
Deposits [1]									
Household and company deposits	6.4	–2.3	0.5	–2.1	–2.6	–2.3	–1.9	–2.3	...
Sight and savings	7.3	–14.8	–3.1	–9.0	–9.4	–14.8	–12.0	–14.8	...
Term and notice	5.2	14.8	5.4	7.5	6.9	14.8	11.9	14.8	...
General government deposits	12.4	–12.4	11.1	1.4	5.5	–12.4	0.4	–12.4	...
TOTAL	**6.5**	**–2.5**	**0.8**	**–2.0**	**–2.4**	**–2.5**	**–1.8**	**–2.5**	**...**
Outstanding balance of credit [1]									
Private sector	1.7	–1.4	0.0	–1.2	–1.8	–1.4	–2.0	–1.4	...
Non-financial firms	–0.6	–1.9	–2.1	–3.5	–3.5	–1.9	–3.8	–1.9	...
Households - housing	3.2	–1.4	1.5	0.1	–0.9	–1.4	–1.2	–1.4	...
Households - other purposes	2.9	0.2	0.0	0.4	–0.8	0.2	–0.2	0.2	...
General government	–2.7	–5.5	–2.0	0.6	–1.4	–5.5	–0.5	–5.5	...
TOTAL	**1.6**	**–1.5**	**–0.1**	**–1.1**	**–1.8**	**–1.5**	**–2.0**	**–1.5**	**...**
NPL ratio *(%)* [2]	**3.0**	**...**	**3.1**	**3.1**	**2.9**	**...**	**–**	**–**	**–**

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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