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2024 Ageing Report *and pension reform: everything you need to know (and a little bit more)*

CaixaBank Research

MONTHLY REPORT - ECONOMIC AND FINANCIAL MARKET OUTLOOK
May 2024

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

CaixaBank Research
www.caixabankresearch.com
research@caixabank.com
Enric Fernández
Chief Economist
José Ramón Díez
Head of International Economies and Financial Markets
Oriol Aspachs
Head of Spanish Economy
Sandra Jódar
Head of Strategic Planning
Adrià Morron Salmeron and Nuria Bustamante
Monthly Report coordinators
Javier Garcia-Arenas
Dossier coordinator

BPI Research (UEEF)
www.bancobpi.pt / http://www.bancobpi.pt/grupo-bpi/estudos-e-mercados/mercados-financeiros
deef@bancobpi.pt
Paula Carvalho
Chief Economist

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Positives and negatives in the global economy in the short and medium term

In the first third of the year, the pieces of the puzzle that makes up the soft landing of the international economy have been gradually coming together, despite the increase in geopolitical instability and the higher than expected figures for growth and inflation, which in any case reduces the likelihood of a recession. These more buoyant activity data and business earnings, particularly at this point in the spring, serve as a good foundation for growth in the rest of the year and have gone hand-in-hand with a recovery in confidence among economic agents, despite all the geopolitical noise. The only discordant note, though not unexpected, is the sign of some resistance shown by inflation on its path to the target, now that we have entered the last mile. The most unusual pattern that must be taken into consideration when shaping the monetary normalisation process is the divergences that are beginning to emerge in this last mile, as inflation aims for 2%, reflecting the uneven recovery rates recorded in recent quarters, as well as the differing patterns between sectors. This will likely result in less coordination in the interest rate cuts compared to the restrictive movement of the last two years, in the absence of overreactions in exchange rates.

All this denotes «resilience amid divergence» in the business cycle, to quote the IMF, thanks to the support which the strength of the labour market, public spending and the savings accumulated during the pandemic have provided to demand. Perhaps the most novel factor, however, is the fact that the positive dynamics that are present on the supply side have been strengthened, since the normalisation of supply chains and the fading of the energy shock have now been joined by the growth of the labour force (no one remembers the Great Resignation anymore). Therefore, the rebalancing achieved in the last half-year between global supply and demand leaves the path quite clear for the economy's return to potential growth rates, provided there are no further shocks or surprises in the geopolitical scenario that trigger a disruptive rally in the oil price relative to current levels. For now, in an environment with global demand gaining strength, disruptions to shipping and high political instability, prices have remained largely contained in recent weeks, suggesting that the supply is flexible enough to keep prices at around 85 dollars a barrel.

The problem is that the improvement in the economic scenario will not prevent short-term growth rates from remaining rather mediocre, especially in Europe, due to: the persistence of high interest rates, the gradual withdrawal of fiscal support, the delayed consequences of the shocks of recent years and the caution that economic agents continue to show when making investment or consumption decisions in an unstable context. Strengthening the balance sheets of businesses and households would help to compensate for the high funding needs of the public sector. That said, this can hold back economic activity as the fiscal stimulus disappears, especially in a world in which the growth of foreign demand may be limited by the fragmentation caused by protectionist policies under the umbrella of strategic autonomy, friendshoring or similar concepts. This increases the importance of private investment as a key variable in order for growth to return to its potential in developed economies, which is a necessary condition for achieving economic policy objectives such as those linked to the energy transition. After all, hoping for an imminent recovery in productivity is not a strategy, but wishful thinking. As the *Letta Report* has highlighted, Europe faces the additional problem of its competitive disadvantage due to the absence of adequate channels to direct domestic savings towards large investment projects, in the absence of a (complete) capital markets union. The report calls for the creation of a Savings and Investment Union that reduces the significant outflows of savings abroad (around 250 billion euros per year) and facilitates the funding of both the green and digital transitions and the defence spending requirements that come with tackling the continent's current security issues, as well as addressing the challenges faced by its pension systems. Therefore, improving the visibility of the economy's performance in the short term remains fraught with significant challenges in the medium term, in an environment in which we will see major transformations in the coming years.

José Ramón Díez
May 2024

Chronology

APRIL 2024

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

MARCH 2024

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

FEBRUARY 2024

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

JANUARY 2024

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

DECEMBER 2023

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

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.

Agenda

MAY 2024

3 Spain: registration with Social Security and registered unemployment (April).
8 Spain: industrial production index (March).
Portugal: employment and unemployment (Q1).
16 Portugal: labour cost index (Q1).
17 Spain: Fitch rating.
Portugal: Moody's rating.
Japan: GDP (Q1).
20 Spain: foreign trade (March).
24 Spain: loans, deposits and NPL ratio (March).
29 Portugal: loan and deposit portfolio (April).
30 Spain: CPI flash estimate (May).
Euro area: economic sentiment index (May).
31 Spain: DBRS rating.
Portugal: GDP breakdown (Q1).
Portugal: industrial production (April).
Euro area: CPI flash estimate (May).

JUNE 2024

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

The Spanish economy surprises the most optimistic analysts

All the indicators were suggesting that the growth of the Spanish economy was still strong, just as we have been stating in the pages of the CaixaBank Research *Monthly Report* in recent months. Job creation is not showing any signs of exhaustion and, in fact, it even accelerated in Q1 of this year. The business activity indicators have rebounded, both in the services sector and in industry. Industrial production also rebounded and household consumption is holding up well. Yet despite all this, the GDP figure published by the National Statistics Institute has exceeded even the most optimistic expectations. In Q1 2024, the Spanish economy recorded a quarter-on-quarter growth rate of 0.7%.

This figure reveals a buoyant economy, especially taking into account the context in which it has occurred, amid the uncertainty generated by the recent geopolitical tensions, an inflationary cycle that, although moderating, is not yet over, and interest rates at their highest levels in over 10 years. Europe's other main economies have also recorded an acceleration in their growth rates in Q1, yet their growth is clearly lower than that of Spain's, which makes the figure all the more remarkable.

When we take a closer look at the factors supporting this growth, important nuances emerge. It is largely supported by the foreign sector and, more specifically, by the strong boost provided by service exports, which grew by 11.1% and now lie 37.0% above their pre-pandemic levels. Since the growth of imports was more timid, the contribution of the foreign sector to economic growth was 0.5 pps.

Domestic demand also played an important role. In Q1 2024, of particular note is the leap made by investment, both in construction and in capital goods, recording growth rates of 3.0% and 3.7%, respectively. Although in both cases they still remain far from their pre-pandemic levels, and last year their growth was very weak, this recent turning point is significant. Household consumption did not offer any surprises and maintained a modest rate of growth, at 0.3%, in line with what was anticipated by CaixaBank Research's real-time consumption tracker. In any case, given the current state of household finances, with a higher-than-usual savings rate, there is plenty of scope for consumption to drive up the growth rate. This could happen when the ECB cuts interest rates and households perceive that the inflationary cycle has finally come to an end.

The various sectors of the economy have followed very disparate patterns in recent years. First the pandemic, and then the energy and inflationary crisis, affected each one very differently. The latest available data show that the sectors that have performed the best in recent years continue to enjoy dynamic growth. For example, the manufacturing industry grew 3.3% year-on-year and now lies 7.0% above pre-pandemic levels. Above all, however, it is the services sector that stands out, particularly information and communications, and professional, scientific and technical activities. These sectors grew by 5.3% and 2.3%, respectively, and now lie 19.6% and 10.1% above their pre-pandemic levels.

The buoyancy of these three sectors is particularly relevant, as they are sectors which tend to show the highest productivity growth. Thus, while GDP growth per hour worked in the Spanish economy since 2014 stands at around 0.5% on average, these sectors show a productivity growth rate of over 1% during this period.

The better performance of the economy at the start of the year, together with the different factors that are driving it, will force us to improve our CaixaBank Research forecast scenario soon. Currently, we forecast growth of 1.9%. However, following the publication of these data, and if there are no new plot twists on the international stage, Spain's economic growth this year could approach 2.5% and thus maintain a very similar growth rate to last year.

Oriol Aspachs

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

Financial markets

	Average 2000-2007	Average 2008-2020	2021	2022	2023	2024	2025
INTEREST RATES							
Dollar							
Fed funds (upper limit)	3.43	0.77	0.25	4.50	5.50	4.50	3.50
3-month SOFR	3.62	0.99	0.21	4.74	5.37	3.85	2.85
12-month SOFR	3.86	1.42	0.52	5.48	4.95	3.40	3.00
2-year government bonds	3.70	0.99	0.66	4.30	4.46	3.40	2.80
10-year government bonds	4.69	2.44	1.46	3.62	4.01	3.50	3.10
Euro							
ECB depo	2.05	0.15	–0.50	1.77	4.00	3.00	2.25
ECB refi	3.05	0.69	0.00	2.27	4.50	3.50	2.75
€STR	–	–0.55	–0.58	1.57	3.90	2.93	2.30
1-month Euribor	3.18	0.42	–0.60	1.72	3.86	2.83	2.33
3-month Euribor	3.24	0.57	–0.58	2.06	3.94	2.74	2.36
6-month Euribor	3.29	0.70	–0.55	2.56	3.93	2.76	2.40
12-month Euribor	3.40	0.86	–0.50	3.02	3.68	2.78	2.45
Germany							
2-year government bonds	3.41	0.27	–0.69	2.37	2.55	1.90	2.00
10-year government bonds	4.30	1.38	–0.31	2.13	2.11	2.00	2.20
Spain							
3-year government bonds	3.62	1.53	–0.45	2.66	2.77	2.32	2.42
5-year government bonds	3.91	2.01	–0.25	2.73	2.75	2.46	2.57
10-year government bonds	4.42	2.96	0.42	3.18	3.09	2.90	3.00
Risk premium	11	158	73	105	98	90	80
Portugal							
3-year government bonds	3.68	3.05	–0.64	2.45	2.33	2.54	2.66
5-year government bonds	3.96	3.63	–0.35	2.53	2.42	2.61	2.75
10-year government bonds	4.49	4.35	0.34	3.10	2.74	2.80	3.00
Risk premium	19	297	65	97	63	80	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	0.84	0.86
EUR/JPY (yen per euro)	129.56	126.06	128.82	142.85	156.99	160.00	156.00
OIL PRICE							
Brent ($/barrel)	42.3	77.3	74.8	81.3	77.3	78.0	73.0
Brent (euros/barrel)	36.4	60.6	66.2	76.8	70.9	69.2	63.9

Forecasts

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

International economy

	Average 2000-2007	Average 2008-2020	2021	2022	2023	2024	2025
GDP GROWTH							
Global	4.5	2.9	6.3	3.5	3.0	3.0	3.2
Developed countries	*2.7*	*1.0*	*5.6*	*2.6*	*1.6*	*1.4*	*1.7*
United States	2.7	1.5	5.8	1.9	2.5	2.2	1.6
Euro area	2.2	0.3	5.9	3.4	0.5	0.7	1.7
Germany	1.6	0.8	3.1	1.9	–0.1	0.2	1.3
France	2.2	0.3	6.4	2.5	0.9	0.6	1.4
Italy	1.5	–1.0	8.3	3.9	0.7	0.6	1.6
Portugal	1.5	–0.2	5.7	6.8	2.3	1.6	2.3
Spain	3.7	–0.3	6.4	5.8	2.5	1.9	2.2
Japan	1.4	0.1	2.6	0.9	1.9	0.8	1.0
United Kingdom	2.7	0.3	8.7	4.3	0.1	0.0	0.6
Emerging and developing countries	*6.5*	*4.4*	*6.9*	*4.1*	*4.0*	*4.0*	*4.2*
China	10.6	7.5	8.5	3.0	5.2	4.6	4.4
India	7.2	5.7	9.0	7.3	7.7	6.7	5.5
Brazil	3.6	1.2	4.8	3.0	2.9	1.8	1.8
Mexico	2.3	0.7	5.7	4.0	3.2	2.1	2.1
Russia	–	1.0	5.6	–2.1	3.6	1.5	1.3
Türkiye	5.5	4.3	11.4	5.5	4.5	2.6	3.5
Poland	4.2	3.2	6.9	5.5	0.1	2.9	3.6
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*	*2.5*	*2.0*
United States	2.8	1.7	4.7	8.0	4.1	2.6	2.0
Euro area	2.2	1.3	2.6	8.4	5.4	2.2	2.1
Germany	1.7	1.4	3.2	8.7	6.0	2.5	2.2
France	1.9	1.3	2.1	5.9	5.7	2.4	2.0
Italy	2.4	1.3	1.9	8.7	5.9	1.5	2.0
Portugal	3.1	1.0	1.3	7.8	4.3	2.3	2.0
Spain	3.2	1.2	3.1	8.4	3.5	3.0	2.5
Japan	–0.3	0.4	–0.2	2.5	3.3	2.0	1.5
United Kingdom	1.6	2.2	2.6	9.1	7.3	2.8	2.3
Emerging and developing countries	*6.7*	*5.5*	*5.9*	*9.8*	*8.5*	*7.2*	*5.4*
China	1.7	2.6	0.9	2.0	0.2	0.8	1.7
India	4.5	7.3	5.1	6.7	5.5	5.0	4.5
Brazil	7.3	5.5	8.3	9.3	4.8	4.3	3.7
Mexico	5.2	4.1	5.7	7.9	5.5	4.5	3.9
Russia	14.2	7.5	6.7	13.8	5.9	5.4	4.5
Türkiye	22.6	9.8	19.6	72.3	53.9	52.6	29.0
Poland	3.5	2.1	5.2	13.2	10.8	4.6	4.6

Forecasts

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

Spanish economy

	Average 2000-2007	Average 2008-2020	2021	2022	2023	2024	2025
Macroeconomic aggregates							
Household consumption	3.6	–0.9	7.2	4.8	1.8	2.3	2.3
Government consumption	5.0	1.3	3.4	–0.2	3.8	2.7	1.6
Gross fixed capital formation	5.6	–2.0	2.8	2.4	0.8	0.6	3.1
Capital goods	4.9	–0.8	4.4	1.9	–1.6	0.2	3.8
Construction	5.7	–3.4	0.4	2.6	2.3	0.2	2.8
Domestic demand (vs. GDP Δ)	0.2	0.1	0.3	0.1	0.0	0.1	0.1
Exports of goods and services	4.7	1.1	13.5	15.2	2.3	0.1	2.1
Imports of goods and services	7.0	–1.0	14.9	7.0	0.3	1.1	2.3
Gross domestic product	**3.7**	**–0.3**	**6.4**	**5.8**	**2.5**	**1.9**	**2.2**
Other variables							
Employment	3.2	–0.9	7.1	3.7	3.2	2.4	1.8
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	3.0	2.5
Unit labour costs	3.0	1.2	1.0	0.9	5.9	4.4	2.5
Current account balance (% GDP)	–5.9	–0.2	0.8	0.6	2.6	2.4	2.6
External funding capacity/needs (% GDP)	–5.8	0.2	1.6	1.4	3.6	3.6	3.7
Fiscal balance (% GDP)[1]	0.3	–6.8	–6.8	–4.7	–3.6	–3.4	–2.9

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

Forecasts

Portuguese economy

	Average 2000-2007	Average 2008-2020	2021	2022	2023	2024	2025
Macroeconomic aggregates							
Household consumption	1.7	–0.1	4.7	5.6	1.7	1.0	1.7
Government consumption	2.3	–0.2	4.5	1.4	1.0	1.9	1.1
Gross fixed capital formation	–0.4	–0.8	8.1	3.0	2.6	3.3	5.1
Capital goods	3.2	2.0	15.3	5.5	4.3	–	–
Construction	–1.5	–2.3	7.4	1.3	–0.3	–	–
Domestic demand (vs. GDP Δ)	1.3	–0.4	6.0	4.7	1.4	1.8	2.2
Exports of goods and services	5.3	2.2	12.3	17.4	4.1	2.6	5.2
Imports of goods and services	3.6	1.5	12.3	11.1	2.2	2.9	5.1
Gross domestic product	**1.5**	**–0.2**	**5.7**	**6.8**	**2.3**	**1.6**	**2.3**
Other variables							
Employment	0.4	–0.6	2.2	2.2	2.0	1.1	1.4
Unemployment rate (% of labour force)	6.1	11.0	6.7	6.2	6.5	6.7	6.5
Consumer price index	3.1	1.0	1.3	7.8	4.3	2.3	2.0
Current account balance (% GDP)	–9.2	–2.7	–0.8	–1.4	1.4	1.2	1.4
External funding capacity/needs (% GDP)	–7.7	–1.5	1.0	–0.5	2.7	2.5	2.7
Fiscal balance (% GDP)	–4.6	–5.1	–2.9	–0.3	1.2	0.4	0.6

Forecasts

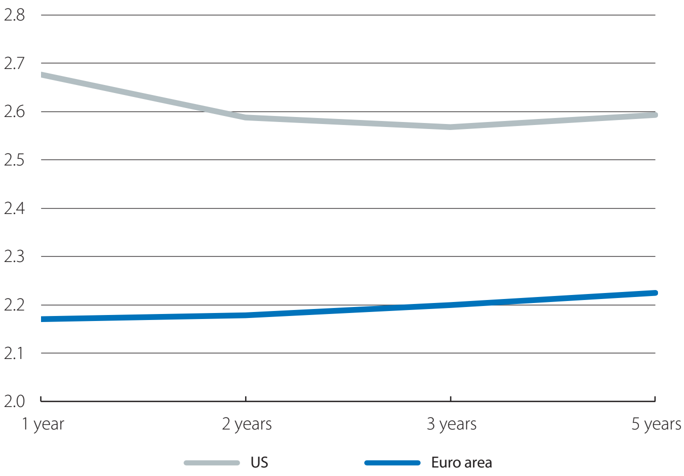
The markets assume high rates for longer

Volatility gains prominence. For much of April, the tone in the financial markets was marked by geopolitical risks and investors' bets about the near future of monetary policy in the major developed economies. The increase in hostilities in the Middle East and in the war between Russia and Ukraine, combined with renewed trade tensions between the US and China over tariffs on various metals, led to a rise in uncertainty among investors. In addition, signs of downward resistance in US inflation, amid a strong economy, led investors to postpone their expectations regarding the Fed's rate cuts, and this had repercussions for a broad range of interest rates, for spreads in the yields between different regions and for exchange rate movements.

The Fed remains cautious about the path to 2%. As investors had anticipated, in April the Fed kept interest rates in the 5.25%-5.50% range and, responding to investors' doubts, indicated that the latest data have not helped to gain the confidence needed to prepare for a first rate cut. However, Fed chair Jerome Powell tempered this hawkish signal with some dovish messages, for instance by rejecting the possibility of an interest rate hike. In particular, the Fed wanted to convey a more balanced view, focusing the debate on how long interest rates should be kept high for and how long the central bank should wait before implementing a first rate cut. Thus, the Fed refused to open the door to a possible rate hike, pointing out that the current restrictive environment should be enough to end up bringing inflation down to 2%, although it will take longer than expected. On the other hand, at its April meeting the Fed also announced that it will slow down its quantitative tightening (balance sheet reduction process) from June. Specifically, treasuries will be allowed to expire at a rate of 25 billion dollars per month (previously 60 billion), while MBSs will continue to be allowed to expire at the rate of 35 billion per month. With all this, the markets ended the month betting on a first Fed rate cut in November and assigning almost a 50% probability to a second cut at the end of 2024.

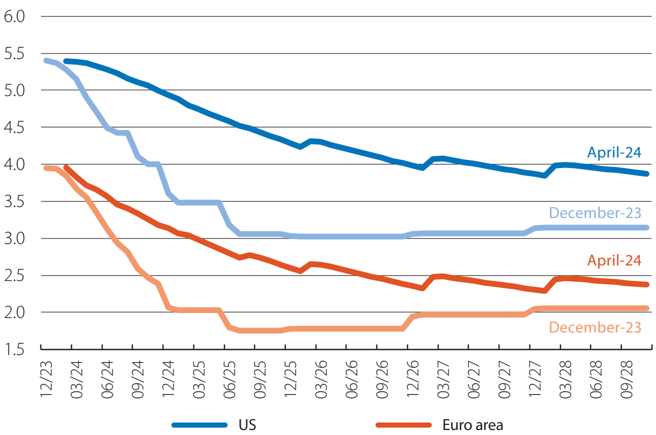
The ECB signals a rate cute in June. In the euro area, the central bank also kept its monetary policy unchanged in April (the depo rate at 4.00% and the refi rate at 4.50%), but it did reinforce the expectation that in June it will make a first cut in its reference rates. This signal from the ECB was supported, on the one hand, by the sustained slowdown seen in most price indicators, despite the fact that some items are showing a little more inertia (such as services). On the other hand, the intention to cut rates was also underpinned by the euro area's economic activity, which continues to show weakness despite some signs of improvement in the latest indicators. However, Christine Lagarde pointed out that we should not anticipate a path of sustained interest rate reductions beyond June, but rather that decisions will be taken «meeting by meeting» and based on the data. Finally, and in the face of the Fed's greater caution before cutting rates, Lagarde was keen to distance the

Inflation swaps at different maturities
(%)



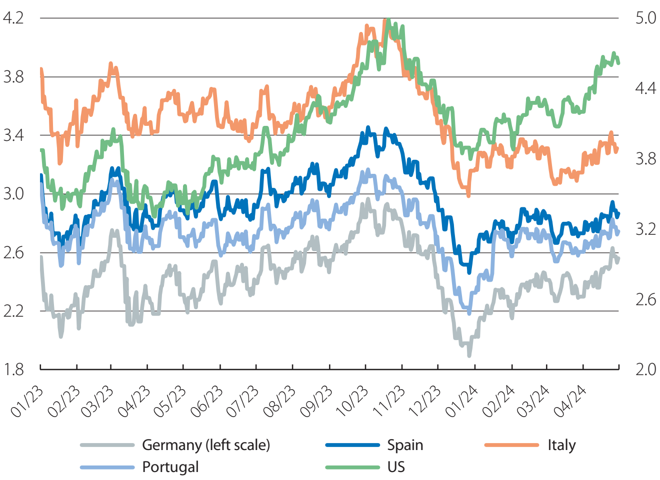
Source: *CaixaBank Research, based on data from Bloomberg.*

Expectations for Fed and ECB reference interest rates
(%)



Note: *Forwards on the EFFR and the OIS of the euro area based on market yield curves.*
Source: *CaixaBank Research, based on data from Bloomberg.*

Interest rates on 10-year sovereign debt
(%) *(%)*



Note: *US, Spain, Italy and Portugal, right-hand scale.*
Source: *CaixaBank Research, based on data from Bloomberg.*

two institutions and reiterated that the ECB is governed by the needs of the euro area's economic outlook, recalling that it is significantly different from that of the US, and she downplayed the consequences of a monetary divergence between the Fed and the ECB. With all this, the markets closed the month of April assigning a 90% probability to a cut of 25 bps in the ECB's rates in June, and betting on a total of 75 bps of reductions in 2024 as a whole (with which the depo rate would end the year at 3.25%).

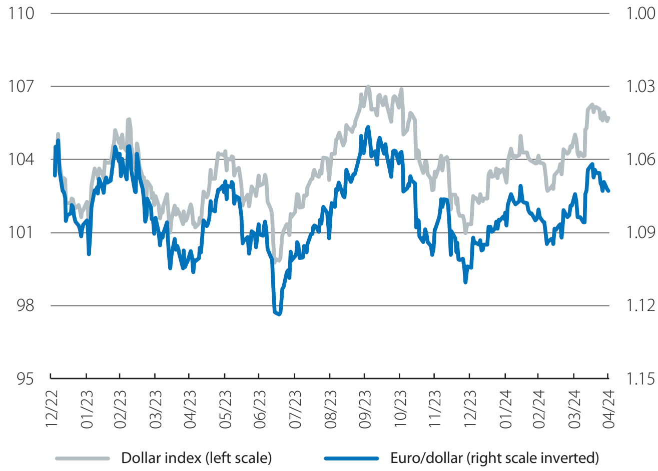
Sovereign interest rates at their highest in five months. In April, the fixed-income markets were dominated by the combination of geopolitical risk and adjustments to expectations regarding monetary policy, and the month as a whole saw a widespread increase in interest rates on US and euro area sovereign debt. In the case of treasuries, there was an upward shift across the entire curve, with the yield on the 2-year bond reaching the 5% barrier for the first time since November, while the 10-year yield rebounded almost 50 bps. The euro area's sovereign yield curves, meanwhile, moved in the same direction, albeit to a lesser degree, responding to the monetary divergence between the Fed and the ECB and the prospect of monetary policy being eased in the euro area sooner than in the US. This difference between the increase in yields on the two sides of the Atlantic, coupled with the US currency's role as a safe-haven asset, favoured the appreciation of the US dollar against the euro to 1.067 dollars, as part of a movement in which the dollar gained strength against a broad swathe of major advanced and emerging-economy currencies (e.g. the dollar strengthened to a three-decade high against the yen).

Commodity prices rise with the increased hostilities in the Middle East and the growth of global economic activity. The conjunction of the attacks between Iran and Israel, with their potential repercussions for the oil supply (Iran is the third-largest producer of OPEC), and the extension of the production cuts by OPEC and its allies caused the Brent barrel price to trade at around 90 dollars for much of April. Industrial metal prices also rose, with copper leading the charge, as the growth expectations for global economic activity improved, especially in China.

The stock markets register setbacks. In this scenario, and fearing that the restrictive monetary conditions could continue to strain corporate margins, the major stock market indices suffered widespread losses in April. The US indices accumulated the largest decreases (S&P 500 –4.2%, Nasdaq –4.5%), weighed down by the sharp rise in treasury yields and faced with a Q1 business earnings season getting underway with more contained profits than expected in some of the big financial and tech companies. In the euro area (EuroStoxx 50 –3.2%), the declines were more moderate thanks to the ECB's anticipated rate cut, and with a somewhat differential performance between the stock markets of the bloc's core (DAX –3.0%, CAC 40 –2.7%) and periphery (IBEX 35 –2.0%, PSI-20 +5.3%).

Currencies: dollar and euro index

(Index) *(Dollars per euro)*



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

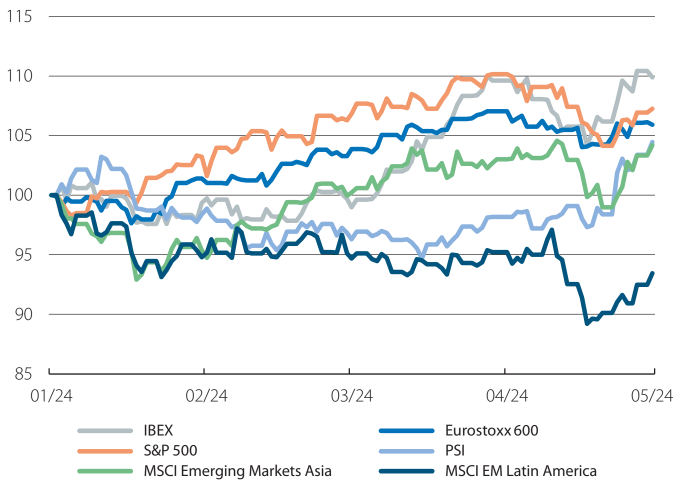
Commodity prices

	Measure	Price	Change (%) Last month	Year to date	2022	2023
Commodities	Index	101.7	2.2	3.1	13.8	–12.6
Energy	Index	31.6	–0.4	3.0	33.5	–25.6
Brent	$/barrel	87.9	0.4	14.0	10.5	–10.3
Natural gas (Europe)	€/MWh	29.2	6.8	–9.7	8.5	–57.6
Precious metals	Index	244.5	3.9	9.3	–1.9	4.1
Gold	$/ounce	2,286.3	2.5	10.8	–0.3	13.1
Industrial metals	Index	157.4	12.6	10.3	–4.4	–13.7
Aluminium	$/MT	2,590.0	10.8	8.6	–15.3	0.3
Copper	$/MT	10,135.5	14.3	18.4	–13.9	2.2
Agricultural commodities	Index	59.3	–0.9	–5.1	13.2	–9.3
Wheat	$/bushel	581.3	3.7	–7.4	2.8	–20.7

Note: *Data as of 30 April 2024.*
Source: *CaixaBank Research, based on data from Bloomberg.*

International stock markets

Index (100 = January 2024)



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

Phase changes in monetary policy

Monetary policy is at an unusually restrictive point, resulting from the inflationary aftermath of the COVID-19 pandemic and the war in Ukraine which have raised our estimates for global interest rates above the peak reached in 2007. However, the evolution of the economy points to a change of phase: the beginning of a relaxation of monetary policy worldwide.

This change is clearly visible in the first chart and in the first rate cuts that have been introduced between late 2023 and early 2024 in Switzerland, Hungary, the Czech Republic, Mexico, Brazil, Colombia, Peru and Chile (most of which also led the cycle of rate hikes in 2021). One common factor behind these first cuts is the global decline in inflation, which has been significant compared to the peaks reached in 2022, although not yet definitive.

Idiosyncrasies and divergences

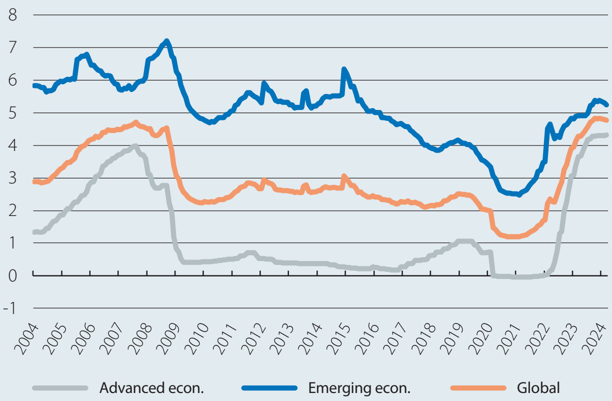
However, the trend of global disinflation and the change of phase in monetary policy hide disparities between countries. For example, the dynamics of the bloc of emerging economies are affected by the acceleration of inflation in Turkey (which stood at around 70% in early 2024, compared with rates of around 40% in mid-2023) and, to a lesser extent, Russia (almost 8% in recent months),[1] while at the other extreme China has inflation levels close to 0% or even slightly negative.

Among advanced economies, Japan is the most notable exception. The country's inflation is also slowing down, but having been above 2% for two years now, the central bank has been able to take a different path and to begin raising interest rates. More subtle, but somewhat more prominent, is the divergence between the US and the euro area. On both sides of the Atlantic, the Fed and the ECB have pointed out that the gradual withdrawal of the restrictive monetary policy is approaching. Moreover, in both cases this stance is a response to a significant decline in inflation. But the recent dynamics are changing the tempos with which the Fed and the ECB plan to execute this monetary policy easing. As can be seen in the third chart, underlying price pressures in the euro area continue to decline at a steady pace, thanks to the fading of the direct and indirect energy and food shocks, as well as the absence of any significant second-round effects between prices, wages and business margins. In contrast, in the US, the underlying inflationary pressures have shown more resilience in recent months, driven up by both observed and owner-equivalent rents (a component which has not quite begun the sharp slowdown it was expected to

1. In addition to extreme cases such as Argentina, where inflation is running into three digits.

World: central bank interest rates

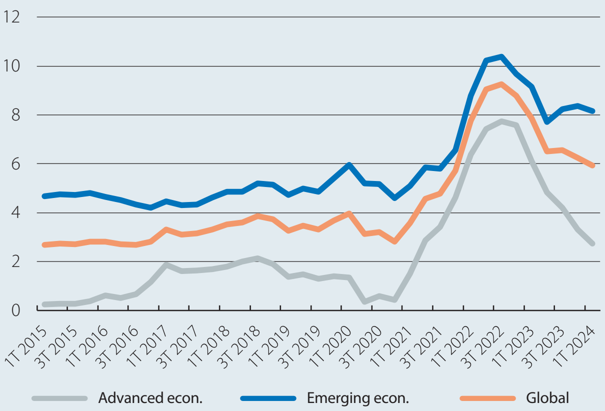
(%)



Notes: *Aggregate of 14 central banks from advanced economies and 11 from emerging economies representing 39% and 38% of world GDP, respectively. For China, the Household Savings Deposits Rate is used.*
Source: *CaixaBank Research, internal calculations based on data from the IMF and Bloomberg.*

World: CPI

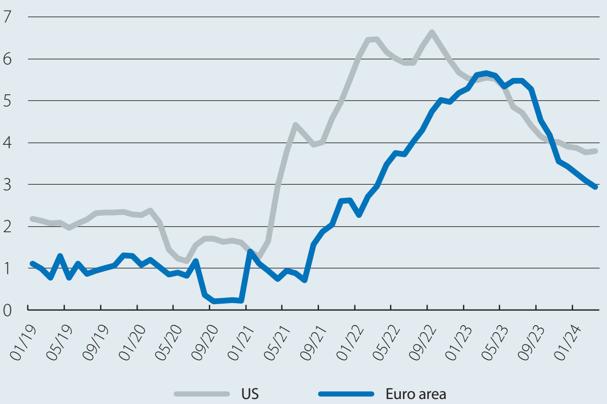
Year-on-year change (%)



Source: *CaixaBank Research, internal calculations based on data from the IMF and national statistics agencies.*

Advanced economies: core CPI *

Year-on-year change (%)



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

follow according to most of the leading indicators) and, more recently, a certain acceleration in the prices of other services. The Fed continues to state that its next step will be a rate cut. However, the uncertainty over whether these tensions reflect temporary idiosyncratic factors or whether, in a context of robust economic activity, they are signs of an underlying resistance in prices is causing the Fed to be more cautious before making a move. On the other hand, in Europe the data are giving the ECB more cause for confidence and the communications pointing to a rate cut on 6 June are becoming increasingly explicit.

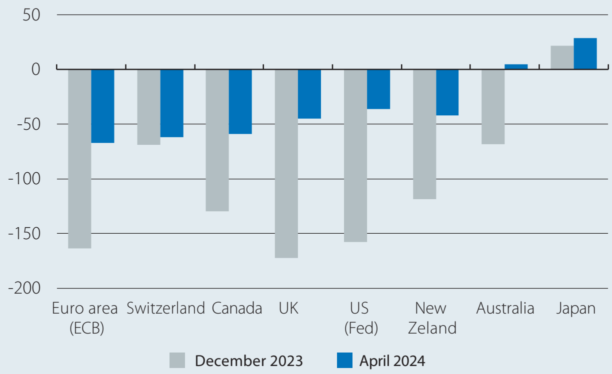
It is thus understandable that the financial markets have adjusted their expectations in recent months. Whereas, in Europe, they are assigning a 90% probability to a first rate cut in June and a total reduction of 75 bps is anticipated in 2024 as a whole, investors are not expecting the Fed's first rate cut until November and they doubt whether there will be any further cuts before the end of the year. However, the distinction made by the markets regarding the outlook for each economy is not applicable to all aspects. In fact, the change in expectations in the financial markets has been quite widespread across the major advanced economies. At the end of 2023, investors had expected generally aggressive rate cuts and this vision has been corrected in favour of a more gradual easing.

ECB: data-dependence or Fed-dependence?

The synchronisation of investors' expectations has several explanations (e.g., the possibility that US inflation and the Fed are anticipating the dynamics of other economies; financial markets' tendency not to discriminate between the nuances of each region; etc.). In any case, it is reasonable to ask to what extent a more cautious Fed could affect the rest of the central banks. Focusing on the ECB, there are three main channels through which it could be affected: financial conditions, global demand and exchange rate. Firstly, restrictive conditions in the US will tend to strain those in the euro area. If this contagion is unwanted, it could reinforce the ECB's determination to ease its monetary policy and keep European financial conditions in check. The two other channels, however, could favour a more cautious ECB. On the one hand, the strength of the US could boost global demand, put pressure on commodity prices and lead to an appreciation of the dollar. On the other hand, there is the threat of the impact that the exchange rate could have on inflation in the euro area, although estimates suggest that the transmission would be limited: a depreciation of 1% in the euro's nominal effective exchange rate would push inflation up by less than 0.1 pp.[2] Given that the euro has resisted against other currencies besides the dollar despite the latter's strength,[3] we could expect to see contained inflationary pressures even in the face of a

Market expectations for monetary policy in 2024

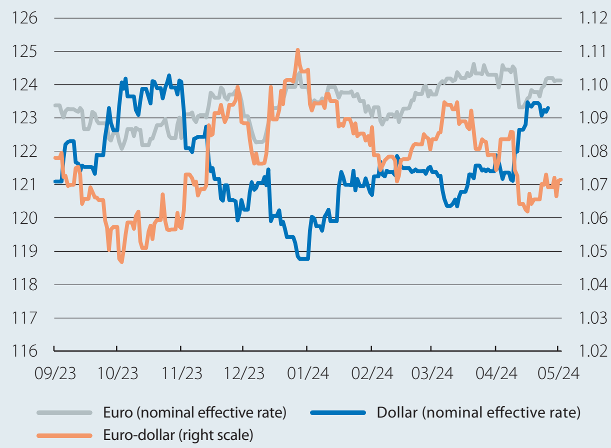
Change in the official rate of each central bank (bps)



Notes: *Change between December 2023 and December 2024, according to expectations inferred from market prices. In Switzerland and Japan, the April 2024 expectation already incorporates adjustments actually made.*
Source: *CaixaBank Research, based on data from Bloomberg.*

Exchange rates

Index *(Dollars per euro)*



Notes: *The effective rates indicate the exchange rate relative to a large basket of currencies (weighted according to the various countries' importance in terms of trade). A higher figure indicates the currency's appreciation against this basket.*
Source: *CaixaBank Research, based on data from Bloomberg, the Fed and the ECB.*

weakening of the euro-dollar exchange rate to parity (and, in any case, lower pressures than the disinflation which is yet to be transmitted via other channels).

Throughout the readjustment of market expectations, the ECB has reiterated its independence from the Fed and has emphasised the different nature of the economic scenarios in the US and the euro area. Starting in June, and with the permission of a challenging risk map, the ECB will have the first opportunity to translate these words into rate cuts.

2. E. Ortega and C. Osbat (2020). «Exchange rate pass-through in the euro area and EU countries». Bank of Spain Occasional Paper (2016).
3. The dollar accounts for 16% of the basket of the euro's nominal effective exchange rate against the top 41 currencies.

Interest rates (%)

	30-April	31-March	Monthly change (bp)	Year-to-date (bp)	Year-on-year change (bp)
Euro area					
ECB Refi	4.50	4.50	0	0.0	100.0
3-month Euribor	3.83	3.89	–7	–8.4	56.0
1-year Euribor	3.70	3.67	3	18.3	–18.4
1-year government bonds (Germany)	3.44	3.34	10	17.7	34.9
2-year government bonds (Germany)	3.03	2.85	19	63.0	34.3
10-year government bonds (Germany)	2.58	2.30	29	56.0	27.1
10-year government bonds (Spain)	3.35	3.16	19	36.1	–0.5
10-year government bonds (Portugal)	3.21	3.01	20	55.2	7.5
US					
Fed funds (upper limit)	5.50	5.50	0	0.0	50.0
3-month SOFR	5.33	5.30	3	–0.3	23.9
1-year government bonds	5.24	5.02	21	47.3	38.4
2-year government bonds	5.04	4.62	42	78.5	89.4
10-year government bonds	4.68	4.20	48	80.1	111.2

Spreads corporate bonds (bps)

	30-April	31-March	Monthly change (bp)	Year-to-date (bp)	Year-on-year change (bp)
Itraxx Corporate	56	54	2	–2.9	–27.4
Itraxx Financials Senior	63	63	0	–3.5	–34.6
Itraxx Subordinated Financials	116	114	2	–6.6	–71.3

Exchange rates

	30-April	31-March	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
EUR/USD (dollars per euro)	1.067	1.079	–1.1	–3.4	–2.8
EUR/JPY (yen per euro)	168.220	163.300	3.0	8.0	11.4
EUR/GBP (pounds per euro)	0.854	0.855	–0.1	–1.5	–2.8
USD/JPY (yen per dollar)	157.800	151.350	4.3	11.9	14.8

Commodities

	30-April	31-March	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
CRB Commodity Index	546.2	536.4	1.8	7.0	0.2
Brent ($/barrel)	87.9	87.5	0.4	14.0	10.8
Gold ($/ounce)	2,286.3	2,229.9	2.5	10.8	15.3

Equity

	30-April	31-March	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
S&P 500 (USA)	5,035.7	5,254.4	–4.2	5.6	20.8
Eurostoxx 50 (euro area)	4,921.2	5,083.4	–3.2	8.8	12.9
Ibex 35 (Spain)	10,854.4	11,074.6	–2.0	7.4	17.5
PSI 20 (Portugal)	6,615.6	6,280.5	5.3	3.4	6.5
Nikkei 225 (Japan)	38,405.7	40,369.4	–4.9	14.8	31.9
MSCI Emerging	1,046.0	1,043.2	0.3	2.2	7.1

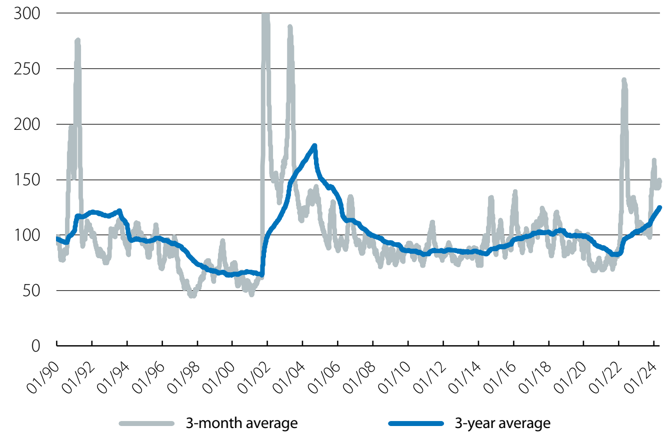
International fragmentation in the economic outlook

Smooth landing, with areas of high turbulence. As the global economy's landing is turning out to be smoother than anticipated a few months ago, the last few weeks reminded us that the environment continues to be marked by a high degree of uncertainty. The direct attacks between Israel and Iran led to a moment of maximum tension in the conflict. Moreover, while the attacks did not escalate further and the scenario of an outbreak of a regional conflict seems to have been avoided for the time being, a further escalation leading to new tensions in the international economy, particularly in commodity markets, cannot be ruled out. The macroeconomic scenario will thus remain subject to geopolitical risks, on various fronts. The GPR geopolitical risk index has stood at around 150 points for the last 6 months (50% above its historical average of 100 points) and its 3-year average exceeded 125 points for the first time since 2006, when we went through a period of «de-escalation» following the historical peaks at the beginning of the century.

«–Control tower: OK», good GDP performance in Q1 in advanced economies. In the US, GDP grew by 0.4% quarter-on-quarter in Q1 2024. Although below expectations, this figure reflects the health of the US economy. The reading at the component level reveals that private consumption grew by a significant 0.6% quarter-on-quarter (vs. 0.8% in the previous quarter) and that investment in fixed capital accelerated (+1.3% in Q1 vs. 0.9% previously). The data thus paint a picture of robust domestic demand, in a context in which foreign demand is cooling. In the euro area, GDP grew by 0.3% quarter-on-quarter, surpassing expectations after having fallen in the previous two quarters and placing the year-on-year growth rate at 0.4%. The large economies accelerated relative to the previous quarter. Germany managed to grow by 0.2% quarter-on-quarter (vs. –0.5% in Q4 2023, revised downwards), France grew by 0.2% (vs. 0.1% previously), mainly due to a solid acceleration in fixed capital investment, while Italy advanced 0.3% (vs. 0.2% previously). Spain stood out above the rest, growing by a significant 0.7% at the beginning of this year (see the Spanish economy economic outlook section). These figures helped to mitigate the divergence between the US and European economies, while the gap in growth between the central and peripheral economies of the euro area persists. However, in a context of persistent weakness in European industry, which is also reflected in the main opinion polls and business climate surveys, the growth expectations remain somewhat modest. In fact, in the latest update of its World Economic Outlook, the IMF highlighted the divergence in growth rates between advanced economies, as well as between this group and developing economies, revising US growth upwards for 2024 and 2025 (2.7% and 1.9%, +0.6 pps and +0.2 pps vs. the previous forecast, respectively) and downwards in the case of euro area growth (0.8% and 1.5%, –0.1% pps and –0.2 pps vs. the previous forecast, respectively).

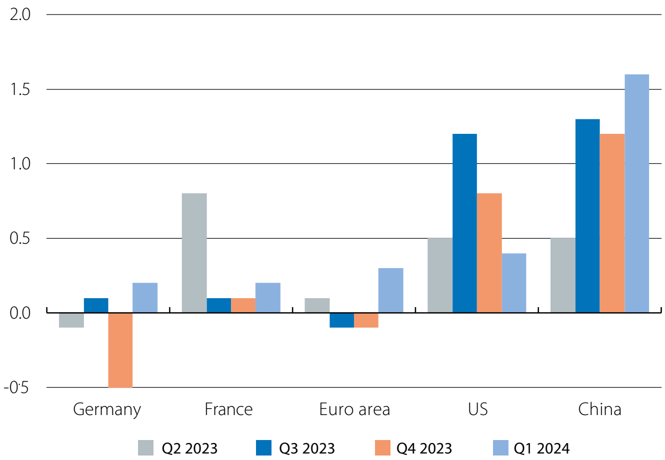
The high for longer rhetoric strikes back... with more force in Washington than in Frankfurt. Inflation continues to be a source of concern and remains on the risk map, especially in

Global: geopolitical risk
GPR index



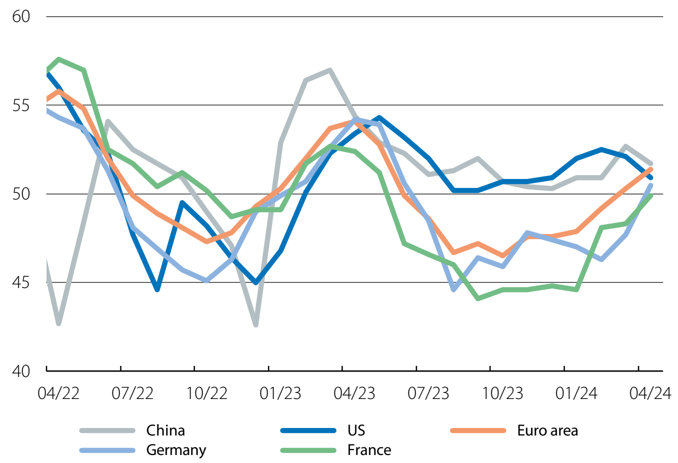
Source: *CaixaBank Research, based on data from D. Caldara and M. Iacoviello (2022). «Measuring Geopolitical Risk», AER, 112 (4), 1194-225 (downloaded from https://www.matteoiacoviello.com/gpr.htm, on 30/04/2024).*

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



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

Global: composite PMI
Index



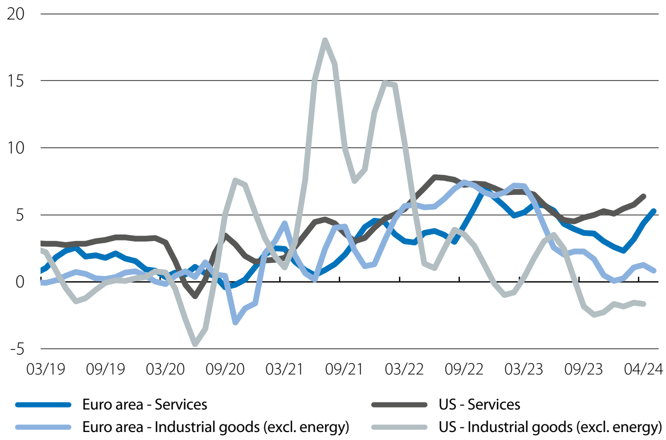
Source: *CaixaBank Research, based on data from S&P Global and the National Statistics Office of China, via Bloomberg.*

the US, where the publication of the GDP data not only showed the strength of US consumption but also that of the domestic inflationary pressures. The rise in the GDP deflator (from +2.0% to 3.1% year-on-year) and in the core PCE measure of inflation (from 1.6% to 3.7%) helped to fuel a delay in expectations for rate cuts, both in the financial markets and in the communications from the Federal Reserve itself (for more details, see the Financial markets economic outlook section). This opens up a further source of divergence between the US and European economies, with confidence increasing in the latter case that the ECB could begin to cut rates as early as June. In April, headline inflation in the euro area stood at 2.4%, while the core index fell to 2.7%, marking its lowest point since February 2022. Of particular note was the slowdown in services to 3.7% and the sustained moderation in the inflation of industrial goods. Moreover, in a context of high uncertainty, at its latest meeting the ECB underlined its strategy of relying on the data, not on the Fed.

The mixed signals in the Q2 suggest low altitude flights. While on the one hand consumption remained strong in Q1 in the US, the decline in April of the composite Purchasing Managers' Index (PMI) to 50.9 points (vs. 52.1 previously), placing it only just above the 50-point threshold that denotes expansion in production, suggests that economic activity could lose some momentum in Q2. In the euro area, the composite PMI rose again by more than 1 point in April, reaching 51.7 points (vs. the previous 50.3). This increased dynamism is mainly explained by the revival of the services sector (53.3 points vs. 51.5 previously), while the industrial sector has not yet recovered from the crisis triggered by the outbreak of the war in Ukraine (45.7 points vs. 46.1 previously). Germany's Ifo business sentiment index also climbed 1.5 points in April, to 89.4. This marked its third consecutive increase, although it remains well below the 100-point threshold that denotes growth around its long-term average. On the other hand, the economic sentiment indicator (ESI) declined slightly in the euro area (95.6 points vs. the previous 96.2).

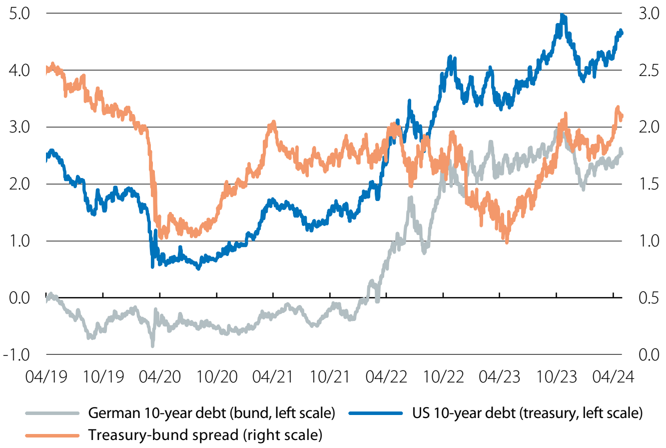
In China, Q1 was better than expected, but a more fragile «year of the dragon» is anticipated. The Chinese economy performed better than expected in Q1, recording quarter-on-quarter growth of 1.6% (vs. 1.2% in Q4 2023). However, it was not all good news. The acceleration observed in Q1 can be attributed above all to the boost in investment, while consumption continues to show signs of significant weakness, indicating a growing fragmentation between the buoyancy of supply and the fragility of demand. The economic activity indicators show a loss of steam in retail sales at the beginning of the year, while the PMIs for April reveal a slowdown in activity at the start of Q2 (the official composite PMI fell from 52.7 points in March to 51.7 in April). This slowdown is particularly concentrated in the services sector, for which the official PMI fell more than 2 points (from 52.4 to 50.3 points). The slowdown in China's economy is also likely to become more visible in the coming months as the boost provided by fiscal policy loses steam, amid persistent low consumer confidence and overcapacity issues in the country's industry. Indeed, this overcapacity was the target of criticism from the US treasury secretary, Janet Yellen, after her last visit to China, showing that geopolitics will continue to play a central role in these latitudes as well.

US and euro area: inflation momentum
(%)



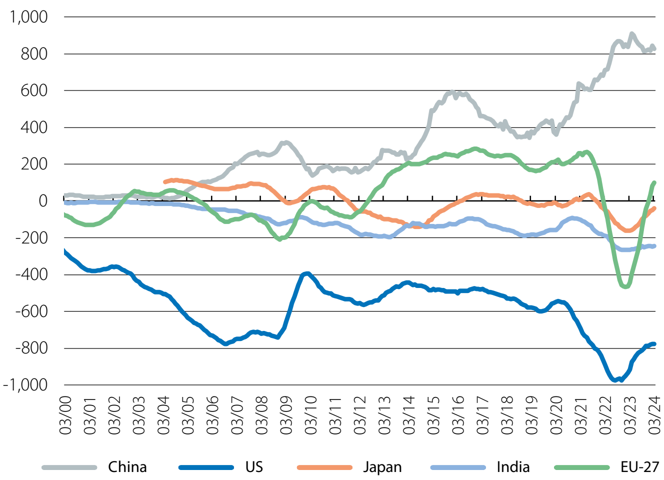
Notes: Core inflation excludes energy and food from the price index. Inflation momentum is calculated as the annualised change in the three-month average of the seasonally-adjusted CPI relative to the previous three months.
***Source:** CaixaBank Research, based on data from the ECB and the Bureau of Labor Statistics.*

US and euro area: sovereign debt yields
(%) (%)



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

Global: balance of trade in goods by country
(USD billions)



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

Whoever has a home has a treasure

The ECB has begun publishing an experimental statistic[1] that makes it possible to perform a broad analysis of how wealth is distributed in the euro area by providing disaggregated data for different tranches of wealth for the first time. Specifically, the information is broken down for each of the upper 6th, 7th, 8th, 9th and 10th deciles of net wealth, as well as for the bottom 50%.[2] In this article we will show a comparison between the main countries in order to determine whether there are significant differences in the way in which household wealth is distributed, not only between countries, but also between the different tranches of the distribution. To this end, we will analyse how wealth and its main components have evolved between the beginning of the pandemic (Q4 2019) and the latest available data (Q3 2023).

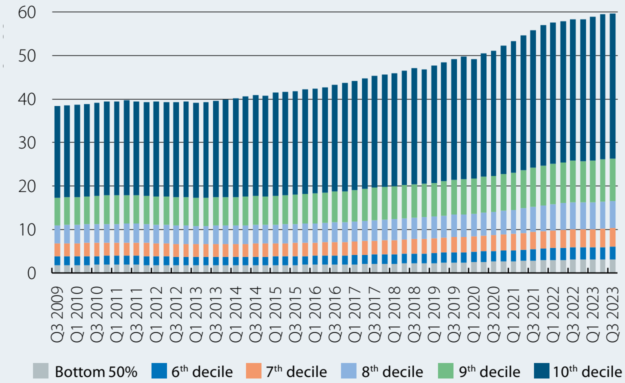
Wealth distribution in the euro area

Since the pandemic (Q4 2019), the net household wealth[3] in the euro area has increased by almost 20%. This is above all a result of the increase in net wealth in housing[4] (around 24%), in a context of a significant rise in the value of this asset category (up until Q3 2023, home prices rose by more than 18%). The importance of housing as a vehicle for generating wealth in the current context of rising property values explains how homeowners have seen their wealth increase by 21%, compared to the 12% increase observed among the rental population.

On the other hand, deposits continue to remain attractive (they represent almost 15% of total net wealth) and have grown almost 16% since Q4 2019. However, there has been a clear moderation in their year-on-year growth rate since mid-2022: in Q3 2023, they grew by just 0.3%, compared to an average rate of 3.4% in the five years prior to the pandemic. This slowdown in the accumulation of deposits is occurring despite the higher remuneration offered by this type of product. In fact, during the period from September 2015 to June 2022, deposits offered, on average, the lowest nominal return in their history (below 1.0%), whereas since the summer of 2022, and coinciding with the ECB's cycle of rate hikes, the return offered by deposits has increased to levels not seen since 2011.

1. https://www.ecb.europa.eu/press/pr/date/2024/html/ecb.pr240108~ae6f7ef287.en.html.
2. The deciles divide the net wealth series ordered from lowest to highest into 10 equal parts and allow us to differentiate the population according to its net wealth. Thus, the lowest deciles represent the population with the least wealth, while the 10th decile represents the wealthiest portion of the population.
3. By net household wealth we refer to the difference between the value of their assets (deposits, debt securities, listed shares, unlisted shares and other equity holdings, holdings in investment funds, life insurance policies, real estate and non-financial assets used for production purposes) less their liabilities (mortgage and non-mortgage loans).
4. Wealth in housing net of mortgage loans.

Euro area: evolution of net household wealth *
(EUR trillions)



Note: ** Net financial and non-financial wealth.*
Source: *CaixaBank Research, based on data from the ECB.*

Euro area: Gini index
(0 = perfect equality; 100 = maximum inequality)

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

Housing as a wealth equalizer

The data show that housing (net of mortgages) accounts for almost 57% of the total net wealth of households in the euro area. Moreover, it is the main component of wealth in all tranches of wealth (representing between 58% and 73% of total wealth), with the exception of households in the highest tranche, where it accounts for 47% of their total net worth. The widespread acquisition of housing in recent years has enabled an increase in net wealth across all tranches.[5] In fact, net wealth among the population in the bottom half of the distribution increased by 28%, compared to an increase of less than

5. The ECB offers the wealth distribution by decile for the aggregate population, but not separately for homeowners or renters. However, as we have already pointed out, the data show that the increase in wealth among homeowners has been much greater than among the rental population.

19% in the richest portion of the population. This has contributed to a modest reduction in wealth inequality within the bloc, although it still remains high: the Gini index has fallen to 71.5% in Q3 2023, from 72.2% prior to the pandemic.

Deposits for the less wealthy and more sophisticated savings products as wealth increases

As for deposits, they represent over 15% of the total net wealth of the euro area, although this figure varies widely depending on the degree of wealth: among less wealthy households, deposits represent more than 40% of their wealth, while for the population with medium and medium-high wealth it represents between 17% and 20%; falling to 11% in the case of the richest group. On the other hand, life/savings insurance policies[6] account for around 8.0% of wealth in the euro area, rising to 9.7% of household wealth for the bottom 50% and 9.0% in the case of the wealthiest groups. It is also apparent that more sophisticated financial investment instruments (such as listed shares and/or investment funds) account for around 20% of total wealth in the euro area, although these figures are only significant in the composition of the wealth of the richest 10% of the population.

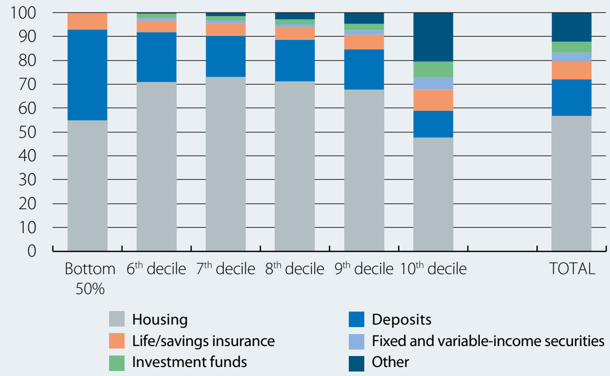
Conclusion

The data show that wealth inequality in the euro area has declined modestly in recent years thanks to the substantial increase in the value of housing, an asset class which accounts for a particularly large portion of the wealth of households in the bottom half of the distribution. There are also significant differences in the composition of household wealth. In the less wealthy half of the distribution, this wealth consists of housing and low-risk assets (deposits and life/savings insurance policies), while the wealth structure of the richest households includes a much higher proportion of more sophisticated financial instruments. This clear difference between households can affect the transmission of monetary policy, as has been demonstrated in multiple studies. We must therefore begin to consider that the functioning and the effectiveness of monetary policy measures depend on the distribution and structure of wealth, as one member of the ECB already acknowledged some time ago.[7]

Rita Sánchez Soliva

Euro area: composition of net wealth by instrument and tranche of wealth *

(% of the total net wealth of each tranche of wealth)



Note: ** Data as of Q3 2023.*
Source: *CaixaBank Research, based on data from the ECB.*

6. This form of savings is particularly common in Germany and France. It consists of a savings method in which the policyholder receives the income from the insurance policy after retiring; or, if they die before reaching retirement age, the insurance premium is received by their beneficiaries.
7. Dinner address by Peter Praet, member of the ECB Executive Board, ECB Conference on Household Finance and Consumption, Frankfurt am Main, 17 October 2013.

Distribution of wealth in Europe's large economies

The patterns observed in the aggregate data for the euro area are repeated, with varying degrees of differences, among the major countries of the bloc. Spain is the country where net wealth[1] has increased the most since the pandemic: from Q4 2019 to Q3 2023 there was a significant increase of 25%, followed closely by Germany with 22%, France with 16% and, further behind, Italy with 6.0%. This disparate evolution of total wealth from country to country is explained by the uneven pattern followed by net wealth held in the form of housing.[2] In Germany and Spain, net wealth in housing has increased by almost 25%, in France by more than 20% and, trailing somewhat behind, in Italy by less than 5.0%.

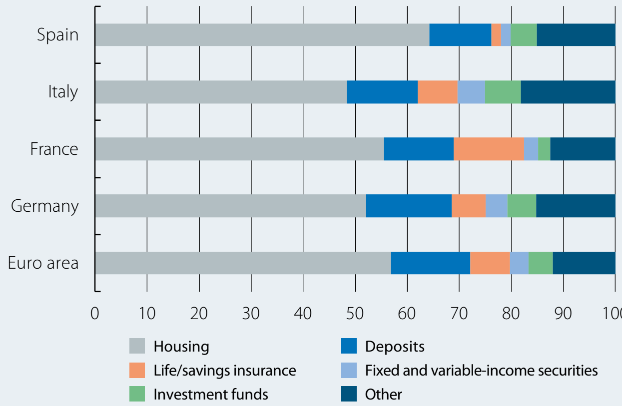
Thus, housing is reaffirmed as the main source of household wealth, and its relative weight within total wealth has been increasing since the outbreak of the pandemic in all countries, except in Italy, where it has remained fairly stable in the last three years around the level of 48.4% which it represented in Q3 2023 (50.5% in Q4 2019). Meanwhile, in Spain the portion of total net wealth attributable to housing climbed to 64.2% in Q3 2023 (61.8% pre-pandemic), while in France it rose to 55.5% (vs. 53.5%) and in Germany to 52.1% (vs. 51.0%).

Much of the pattern shown by housing wealth is explained by the increase in home prices since the start of the pandemic throughout the region. In the specific case of Germany, prices in Q2 2022 were 25% higher than prior to the pandemic, marking the biggest increase in value that housing has experienced among the four major economies in the period analysed. However, the increase in home prices in Germany has experienced a notable correction since the peak and, in Q4 2023, they lay just 10% above the pre-pandemic level. In the other countries, the correction in prices from their peaks in France is very modest, in Italy prices have been quite stable, and in Spain not only has there been no correction, but real estate property has registered a new rally since Q4 2022, such that at the end of 2023 Spain is the country with the biggest growth in home prices since the pandemic among the large economies (19%).

With regard to deposits, they are confirmed as the second source of household wealth, although in Q3 2023 their role within total net wealth has reduced slightly compared to Q4 2019 in Spain (12.0% vs. 12.9%) and, more markedly, in Germany (16.4% vs. 17.6%); while in Italy their relative weight within total net wealth has remained practically stable (13.7%) and in France it has even increased slightly (13.3% vs. 12.4%).

Country comparison: composition of wealth by instrument *

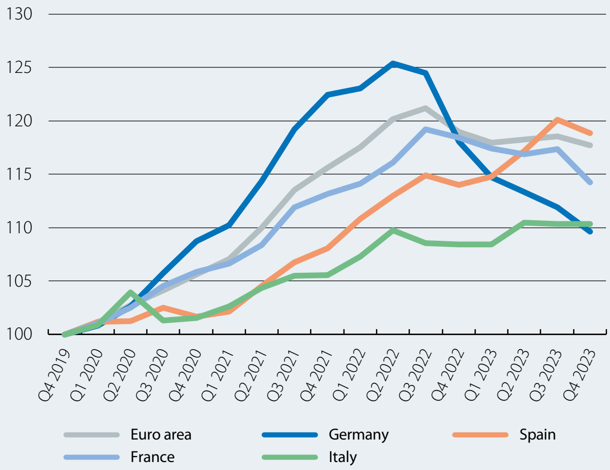
(% of total net wealth)



Note: ** Data as of Q3 2023.*
Source: *CaixaBank Research, based on data from the ECB.*

Home prices

Index (100 = Q4 2019)



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

The importance of life/savings insurance as an investment vehicle stands out in France, Germany and Italy,[3] while in Spain this item is less relevant. However, since the pandemic the role of these policies within total net wealth has been gradually declining, especially in France (13.5% vs. 17.2%) and Germany (6.6% vs. 8.6%). As for other somewhat more sophisticated investment alternatives, such as stocks and investment funds, their role within total wealth has remained relatively stable in the study period, although as we have already seen

1. By net household wealth we refer to the difference between the value of their assets (deposits, debt securities, listed shares, unlisted shares and other equity holdings, holdings in investment funds, life insurance policies, real estate and non-financial assets used for production purposes) less their liabilities (mortgage and non-mortgage loans).
2. Wealth in housing net of mortgage loans.

3. In France and Germany, life insurance is not limited to covering a contingency in the event of the death of the insured person: upon reaching retirement age, the insured person can also access the accumulated funds. They thus act as savings tools similar to pension plans in Spain. In Spain, life insurance is a financial instrument that provides a payout to the insured person's heirs after their death.

in the aggregate data for the euro area, they are only relevant for households belonging to the richest 10%-20% of the population.

To own or not to own a home... that is the question

The aggregate data show that housing has been a determining factor in the increase in wealth in recent years. However, when we look at the detail of households classified into the different wealth tranches, we see quite different patterns from country to country. The case of Germany is particularly striking. In fact, in Germany only 47% of households own a home (compared to the European average of almost 70%), and this percentage falls to 26% for the lowest income brackets (50% on average across Europe). This constrains the pattern of wealth distribution in Germany: for the bottom 50% of the population in terms of wealth, housing wealth represents just 20% of their total wealth, whereas for the medium and medium-high wealth tranches it exceeds 60%; and it is just under 47% for the wealthiest group.

The relative weight of housing in the net worth of the bottom half of the population stands in stark contrast with the figure found in the other major economies, where housing accounts for over half of households' wealth in the lowest tranches: 54% in France, 75% in Italy and almost 80% in Spain. On the other hand, deposits in Germany account for more than two thirds of household wealth for the bottom 50%, compared to 45% in France and just over 20% in Italy and Spain.

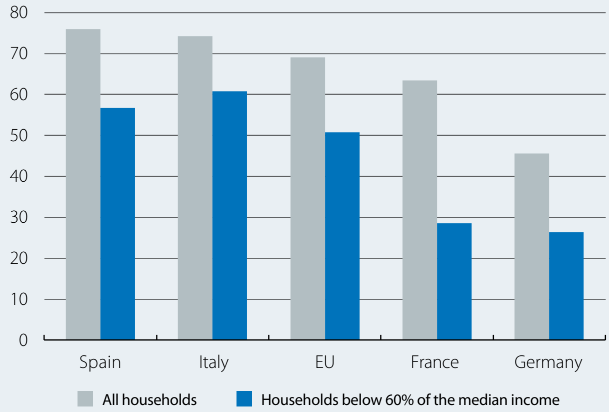
This composition of wealth no doubt explains the lag observed among the less wealthy part of the population in Germany relative to its counterparts in other countries. The wealth of a household belonging to the bottom half of the population stands at around 18,360 euros in Q3 2023. This figure contrasts with the 45,320 euros observed in France, 58,800 in Italy and 75,000 in Spain.

These figures help us to understand why Germany's inequality in terms of wealth distribution, measured using the Gini index, is the highest among the countries analysed here despite the significant progress made since 2014, and why it is the only country where inequality has increased since the start of the pandemic. Spain, for its part, stands out as the economy of the big four with the lowest inequality and where the most progress has been made since the pandemic (see last chart).

Conclusions

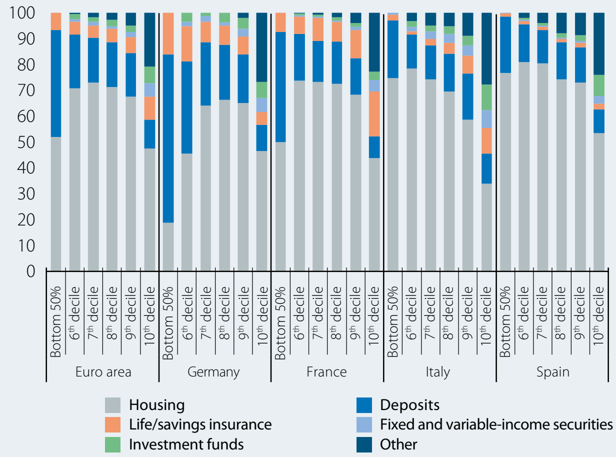
The data show significant differences between household wealth patterns in the four major countries of the EU. One notable insight is the limited role of housing within the total net wealth of the least wealthy households in Germany, while in the other countries studied it is the main vehicle of wealth for this group of the population. A more consistent pattern from country to country is the fact that the net worth of less wealthy households is highly concentrated in low-risk assets

Households that owned a home in 2022
(% of households)



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

Comparison of wealth distribution by instrument *
(% of the total wealth of each percentile of wealth)



Note: ** Data as of Q3 2023.*
Source: *CaixaBank Research, based on data from the ECB.*

(deposits and life/savings insurance policies) in all the countries, although in Germany these instruments player a bigger role in the wealth of this tranche of the population. This composition of wealth can help to explain why inequality in Germany is the highest among the large economies. The data show a mixed pattern among European households in terms of the composition of their wealth, and this will determine their response to the various economic shocks.[4]

Rita Sánchez Soliva

4. Dinner address by Peter Praet, member of the ECB Executive Board, ECB Conference on Household Finance and Consumption, Frankfurt am Main, 17 October 2013.

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

UNITED STATES

	2022	2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	02/24	03/24	04/24
Activity									
Real GDP	1.9	2.5	2.4	2.9	3.1	3.0	–	–	–
Retail sales (excluding cars and petrol)	8.6	5.2	4.3	4.6	5.0	3.3	3.0	5.3	...
Consumer confidence *(value)*	104.5	105.4	105.4	109.0	102.7	106.3	104.8	103.1	97.0
Industrial production	3.4	0.2	0.0	–0.1	0.1	–0.3	–0.3	0.0	...
Manufacturing activity index (ISM) *(value)*	53.5	47.1	46.7	47.6	46.9	49.1	47.8	50.3	49.2
Housing starts *(thousands)*	1,551	1,423	1,450	1,371	1,485	1,415	1,549	1,321	...
Case-Shiller home price index *(value)*	307	312	308	316	321	...	324	...	...
Unemployment rate *(% lab. force)*	3.6	3.6	3.6	3.7	3.7	3.8	3.9	3.8	3.9
Employment-population ratio *(% pop. > 16 years)*	60.0	60.3	60.3	60.4	60.3	60.2	60.1	60.3	60.2
Trade balance [1] *(% GDP)*	–3.8	–3.1	–3.2	–3.0	–2.9	–2.8	–2.8	–2.8	...
Prices									
Headline inflation	8.0	4.1	4.0	3.5	3.2	3.2	3.2	3.5	...
Core inflation	6.2	4.8	5.2	4.4	4.0	3.8	3.8	3.8	...

JAPAN

	2022	2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	02/24	03/24	04/24
Activity									
Real GDP	1.0	1.9	2.3	1.6	1.2	...	–	–	–
Consumer confidence *(value)*	32.2	35.2	35.7	36.2	36.5	38.9	39.0	39.5	38.3
Industrial production	0.0	–1.4	0.9	–3.6	–0.9	–4.5	–6.8	–3.6	...
Business activity index (Tankan) *(value)*	9.5	7.0	5.0	9.0	13.0	11.0	–	–	–
Unemployment rate *(% lab. force)*	2.6	2.6	2.6	2.6	2.5	2.5	2.6	2.6	...
Trade balance [1] *(% GDP)*	–2.1	–3.0	–3.6	–2.7	–1.8	...	–1.2	...	...
Prices									
Headline inflation	2.5	3.3	3.4	3.1	2.9	2.5	2.8	2.7	...
Core inflation	1.1	3.9	4.2	4.3	3.9	3.2	3.2	2.9	...

CHINA

	2022	2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	02/24	03/24	04/24
Activity									
Real GDP	3.0	5.2	6.3	4.9	5.2	5.3	–	–	–
Retail sales	–0.8	7.8	10.7	4.2	8.3	4.7	5.5	3.1	...
Industrial production	3.4	4.6	4.5	4.2	6.0	5.8	7.0	4.5	...
PMI manufacturing *(value)*	49.1	49.9	49.0	49.7	49.3	49.7	49.1	50.8	50.4
Foreign sector									
Trade balance [1,2]	899	866	947	901	866	842	877.2	845.6	...
Exports	7.1	–5.1	–5.4	–10.8	–3.3	–1.7	2.9	–11.4	...
Imports	0.7	–5.5	–7.0	–8.5	0.8	1.5	–8.1	–1.9	...
Prices									
Headline inflation	2.0	0.2	0.1	–0.1	–0.3	0.0	0.7	0.1	...
Official interest rate [3]	3.65	3.45	3.6	3.5	3.5	3.5	3.5	3.5	3.5
Renminbi per dollar	6.7	7.1	7.0	7.2	7.2	7.2	7.2	7.2	7.2

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

EURO AREA

Activity and employment indicators

Values, unless otherwise specified

	2022	2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	02/24	03/24	04/24
Retail sales *(year-on-year change)*	1.2	–2.1	–2.2	–2.3	–0.8	...	–0.7	...	...
Industrial production *(year-on-year change)*	2.1	–2.1	–0.8	–4.7	–3.7	...	–6.4	...	...
Consumer confidence	–21.9	–17.4	–26.9	–26.9	–26.9	–26.9	–15.5	–14.9	–14.7
Economic sentiment	102.1	96.4	96.5	96.5	96.5	96.5	95.4	96.2	95.6
Manufacturing PMI	52.1	51.2	44.7	43.2	43.6	43.9	46.5	46.1	45.7
Services PMI	52.1	52.1	54.4	49.2	48.4	48.4	50.2	51.5	53.3
Labour market									
Employment (people) *(year-on-year change)*	2.3	1.4	1.4	1.4	1.2	...	–	–	–
Unemployment rate *(% labour force)*	6.8	6.6	6.5	6.6	6.5	6.5	6.5	6.5	...
Germany *(% labour force)*	3.1	3.0	2.9	3.0	3.1	3.2	3.2	3.2	...
France *(% labour force)*	7.3	7.3	7.4	7.4	7.5	7.4	7.4	7.3	...
Italy *(% labour force)*	8.1	7.7	7.7	7.6	7.5	7.3	7.4	7.2	...
Real GDP *(year-on-year change)*	3.5	0.5	0.6	0.1	0.1	0.4	–	–	–
Germany *(year-on-year change)*	1.9	0.0	0.2	–0.1	–0.2	–0.2	–	–	–
France *(year-on-year change)*	2.6	0.9	1.1	0.7	0.8	1.1	–	–	–
Italy *(year-on-year change)*	4.2	1.0	0.6	0.6	0.7	0.6	–	–	–

Prices

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

	2022	2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	02/24	03/24	04/24
General	8.4	5.5	6.2	5.0	2.7	2.6	2.6	2.4	2.4
Core	3.9	5.0	5.5	5.1	3.7	3.1	3.1	3.0	2.7

Foreign sector

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

	2022	2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	02/24	03/24	04/24
Current balance	–0.7	4.1	0.2	1.8	4.1	...	10.1	...	...
Germany	4.3	12.1	4.8	7.8	12.1	...	26.0	...	...
France	–2.0	–1.5	–1.8	–1.8	–1.5	...	–2.7	...	...
Italy	–1.6	1.0	–1.1	0.1	1.0	...	3.8	...	...
Nominal effective exchange rate[1] *(value)*	**90.9**	**94.7**	**94.6**	**95.9**	**95.1**	**95.2**	**94.9**	**95.5**	**95.1**

Credit and deposits of non-financial sectors

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

	2022	2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	02/24	03/24	04/24
Private sector financing									
Credit to non-financial firms[2]	6.7	2.7	4.0	1.1	0.1	0.3	0.3	0.4	...
Credit to households[2,3]	4.4	1.7	2.1	1.1	0.5	0.2	0.3	0.2	...
Interest rate on loans to non-financial firms[4] *(%)*	1.8	4.6	4.5	5.0	5.2	5.1	5.1	5.2	...
Interest rate on loans to households for house purchases[5] *(%)*	2.0	4.4	4.3	4.7	4.9	4.8	4.8	4.8	...
Deposits									
On demand deposits	6.3	–8.5	–8.1	–11.3	–10.7	–8.8	–8.9	–7.6	...
Other short-term deposits	4.5	21.1	22.5	23.2	21.0	18.5	18.8	16.9	...
Marketable instruments	3.7	20.4	22.0	20.4	19.9	19.7	17.5	19.2	...
Interest rate on deposits up to 1 year from households *(%)*	0.5	2.7	2.5	3.0	3.3	3.2	3.2	3.2	...

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

Spain's growth beats expectations in Q1

The indicators published in recent weeks confirm the good health of the Spanish economy, with growth in Q1 once again beating expectations and recording the highest rate among the major euro area economies.

During Q1 of the year, GDP posted an increase of 0.7% quarter-on-quarter (2.4% year-on-year). The figure published represents a similar level to that of Q4 2023 (revised, in turn, upwards by 0.1 pp from 0.6% quarter-on-quarter) and is substantially higher than the average growth of the euro area (0.3% quarter-on-quarter). Foreign demand emerged as the main driver of growth and contributed 0.5 pps to quarter-on-quarter GDP growth, thanks in particular to the strength of service exports. Growth in domestic demand, which contributed 0.2 pps to quarter-on-quarter GDP growth, was driven by investment – which following the sharp decline recorded during Q4 2023 (–1.6% quarter-on-quarter) rose by a significant 2.6% quarter-on-quarter – and, to a lesser extent, by private consumption, which maintained a moderate growth rate (0.3% quarter-on-quarter).

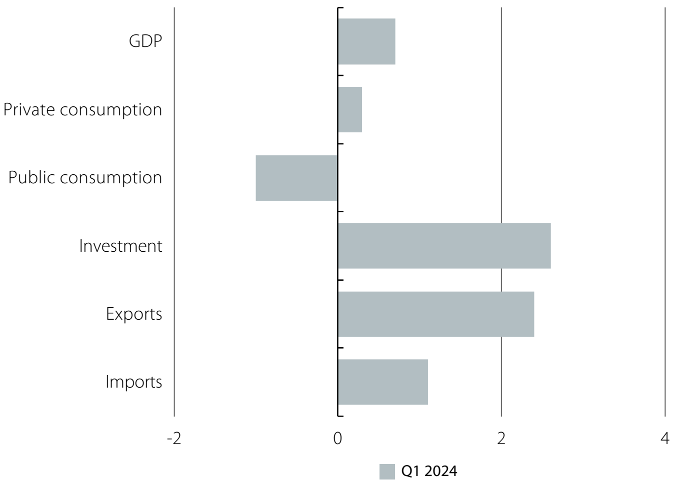
The economic activity indicators available for Q2 of the year indicate that the economy remains in good shape. The PMI for the industrial sector rose 0.8 points to 52.2 in April, representing its best level since June 2022. The PMI for the services sector, meanwhile, climbed 0.1 points, to 56.2, thanks to the growth of new orders. Finally, Spanish card activity ended the month of April with 3.2% year-on-year growth (3.3% in March), according to the CaixaBank Consumption Indicator.

Job creation remains strong. The data on the growth of Spain's economic activity during Q1 2024 were supported by a labour market which continued to grow at a steady pace and which has maintained that growth rate in the first month of Q2. In April, the number of registered workers affiliated with Social Security increased by 199,538 people, down from last year's exceptional figure (238,436) when Easter fell in the first week of April, but above the usual level for the month of April (173,777 on average in the period 2014-2019). For the first time, the total number of affiliates now exceeds the psychological barrier of 21 million, specifically at 21,101,505 workers, which is 486,516 more workers than a year ago. In seasonally adjusted terms, employment grew in the month by 40,677 workers, which is still a high figure. As for registered unemployment, it fell in the month by 60,503 people, to 2.666 million, the lowest figure since September 2008.

The VAT rise on gas and food keeps headline inflation above 3%. Headline inflation rose by 0.1 pp in April and

Spain: GDP and its components

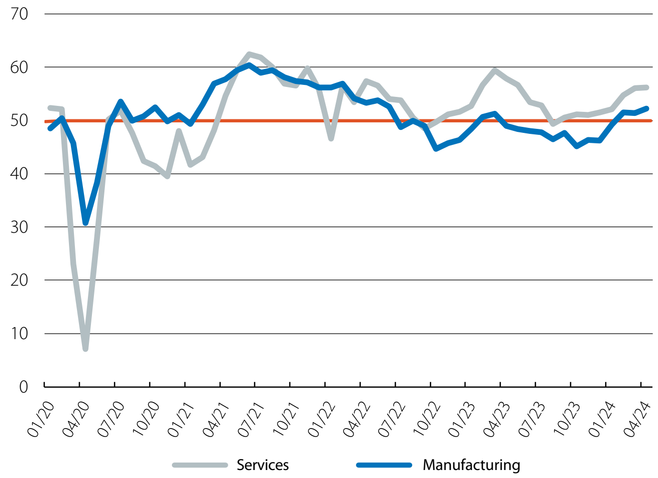
Quarter-on-quarter change (%)



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

Spain: PMI

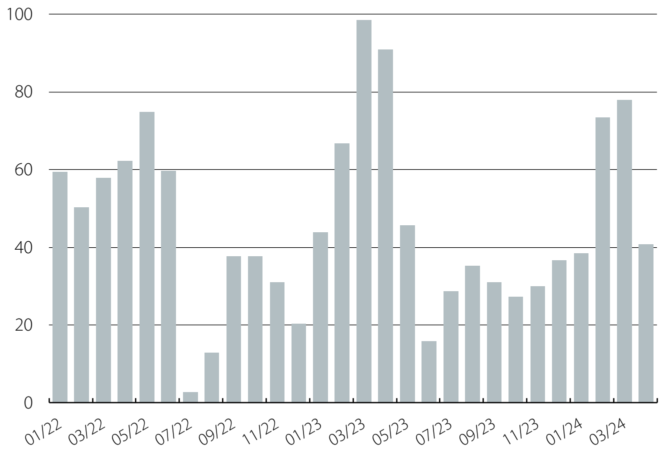
Level



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

Spain: registered workers affiliated with Social Security *

Month-on-month change (thousands of people)



Note: ** Series corrected for seasonality.*

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

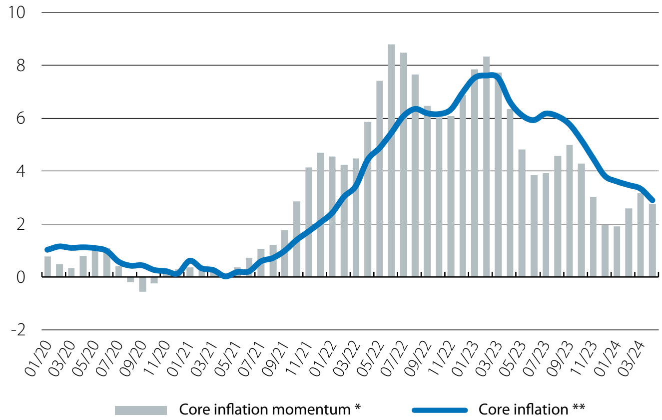
stood at 3.3%, according to the flash estimate of the CPI published by the National Statistics Institute. However, this increase was driven by the rise in gas prices, given that on 1 April the VAT rate on gas, which had been reduced to 10%, returned to its usual level of 21%. In any case, the process of price moderation continued in the case of core inflation (which excludes energy and unprocessed food), as it experienced a sharp reduction, placing it at 2.9% (0.4 pps less than in March). The headline inflation figure is within the range anticipated by CaixaBank Research, while core inflation is lower than expected.

The improvement in Spain's trade deficit consolidates a good start to the year for foreign trade. In line with the good data on foreign demand, the trade deficit decreased by 4.7% in year-on-year terms in February, thanks to a 27.8% year-on-year correction of the energy deficit. Non-energy exports, meanwhile, improved compared to the previous month, despite being below the level of February last year. In cumulative terms during the first two months of the year, the trade deficit showed a reduction of 5.6% year-on-year, corresponding to a fall of 17.3% in the non-energy deficit and one of 4.3% in the case of energy. The trade deficit with countries outside the euro area fell by 25% year-on-year, while the surplus with EU countries fell by 32% year-on-year.

Tourism, which is key to the good performance of the foreign sector, also recorded rapid growth during the first quarter of the year. The provisional data from FRONTUR indicate that in the first three months of the year 16.1 million foreign tourists arrived in the country, representing a 17.7% increase compared to the same period last year. Also, according to data from EGATUR, spending by international tourists reached just shy of 22 billion euros in this same period, marking a 27.2% increase over the same period last year. These figures, in turn, represent a 5% increase in the average daily expenditure of international tourists compared to Q1 2023.

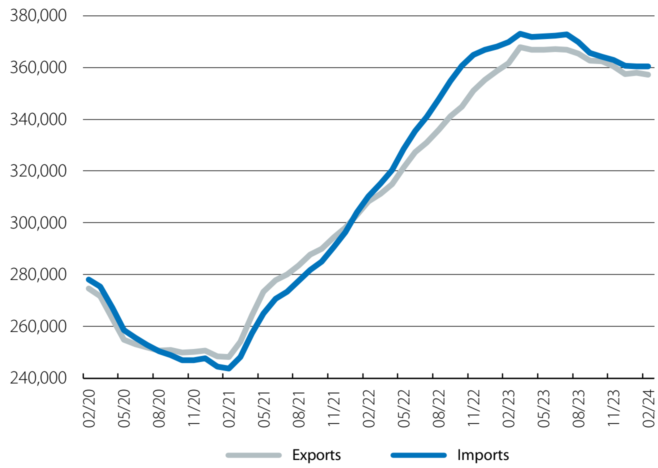
Home sales in Spain regain some vigour at the beginning of the year. In February, home sales rose 5.8% year-on-year, marking a significant improvement after falling at double-digit rates throughout the second half of 2023. The increase was widespread across the different types of housing, but was especially pronounced in the case of new homes, which recorded an increase of 20.8% year-on-year, compared to 2.2% in the case of existing homes. As for the pattern from region to region, the increase in sales was recorded throughout most of the country, except for in six autonomous communities which registered declines (the Balearic Islands, the Canary Islands, Andalusia, the Community of Madrid, the Basque Country and La Rioja). In cumulative terms, in the first two months of the year 107,000 sales were closed throughout the country, which is the best start to the year in terms of real estate activity since 2008.

Spain: core inflation and its momentum
Change (%)



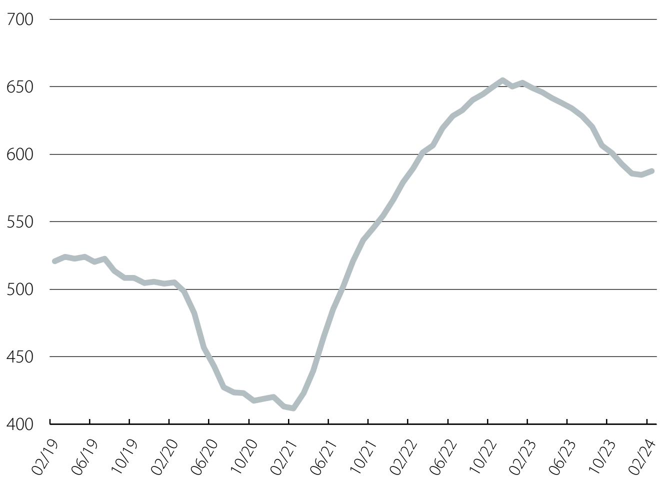
Notes: ** Core inflation momentum is the change in the moving average of the last three months relative to the previous three months. ** Core inflation excludes unprocessed food and energy.*
Source: *CaixaBank Research, based on data from the National Statistics Institute.*

Spain: foreign trade in goods *
12-month cumulative data (EUR millions)



Notes: ** Nominal data, not seasonally adjusted. Excludes energy.*
Source: *CaixaBank Research, based on data from the Customs Department.*

Spain: home sales
12-month cumulative data (thousands of homes)



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

A closer look at the increase in Spanish household savings in 2023

The savings rate has risen to even exceed the level reached during the pandemic thanks to the significant growth of disposable income. Households' saving capacity has increased significantly in 2023. Specifically, the savings rate rose to 11.7% of gross disposable income (GDI), well above the 7.6% recorded in 2022 and the historical average of 8.2% recorded between 2000 and 2019 (see first chart). This amounts to 108 billion euros in gross savings, which is 44.76 billion more than in 2022 and 59 billion more than the average in the period 2015-2019. In other words: in a context still marked by high inflation in 2023, households have managed to increase their savings buffer at the aggregate level – a remarkable feat.

What is behind these figures that may surprise more than one reader? The increase in the savings rate was the result of an 11% year-on-year growth in GDI, which is the highest in the historical series and much higher than the growth in nominal consumption, which rose by 6.1% (see second chart). The increase in GDI was well above inflation (3.5%) and the strong growth in the number of households (1.4%), and this allowed the purchasing power that had been lost with the inflationary shock of 2022 to rapidly recover. Let us not forget that in 2022 GDI grew by 4.1% year-on-year, but inflation stood at 8.5%, and the number of households grew by 1.6%.

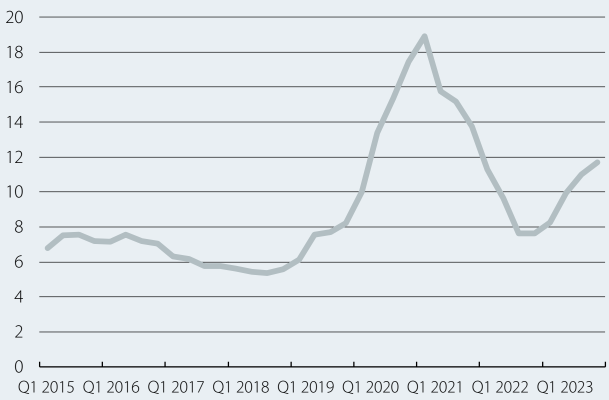
The buoyancy of GDI exceeded all expectations thanks to a significant 8.8% year-on-year growth in the remuneration of wage-earners, reflecting the intense job creation in 2023 – with a 3.4% increase in the number of wage earners – as well as the greater buoyancy of wages demonstrated by the 5.4% increase in the remuneration per worker. Other components of gross income which also contributed to the growth in household income included social benefits, which rose by +9.9% year-on-year, driven by the pension increase of 8.4%, self-employed workers' income, as well as net property income thanks to the increase in the collection of dividends and other investment income. All this has more than offset the higher net interest payments, which rose to 16.6 billion euros, 5.2 billion higher than in 2022, as well as the negative contribution from direct taxes and social security contributions (see third chart).

2023 was the first year in which real GDI per household has exceeded the pre-pandemic level; whereas in 2022 this variable still stood 4.4% below the 2019 level, in 2023 it was 1.5% above it, as shown in the fourth chart.

As for this year, GDI growth is expected to remain dynamic thanks to the strength of the labour market and the

Spain: household savings rate

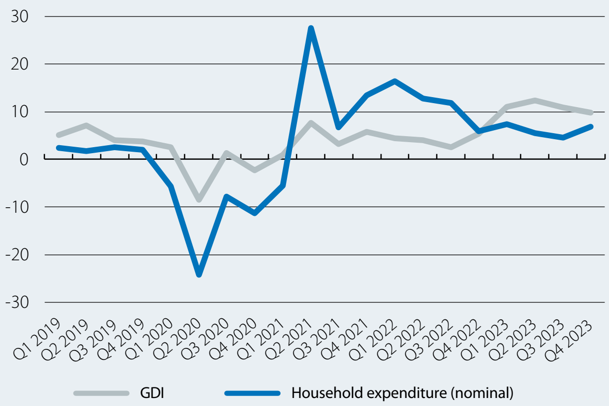
(% of GDI)



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

Spain: gross disposable income and nominal household consumption

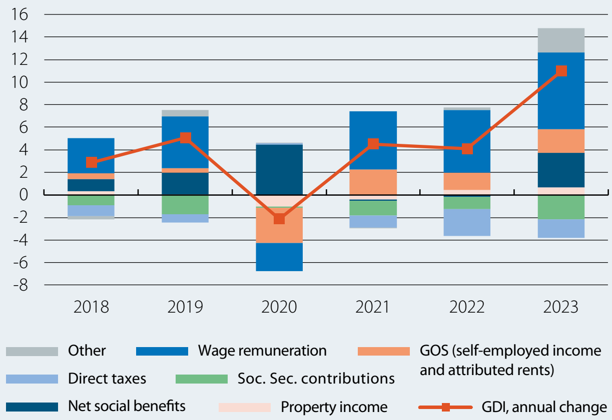
Year-on-year change (%)



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

Spain: gross disposable household income

Annual change (%) and contributions (pps)



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

increase in pension incomes, which is expected to reach around 6% when taking into account the entry of new pensioners. In fact, a better-than-expected figure for the 2023 year end, combined with good labour market data in Q1 2024, suggest that GDI growth could reach around 6.0% this year. Thus, if household spending maintains a similar pace of growth to that of 2023, the savings rate would remain at similar levels to last year.

Consequences and use of the greater savings

Households' lending capacity increased significantly in 2023, going from 2.5 billion in 2022 to 42.361 billion in 2023. The reasons for this rally included increased savings coupled with stagnant investment on the part of households (see fifth chart): gross fixed capital formation, which includes the purchase of real estate (new builds) and self-employed workers' investments in physical assets, was 59.8 billion euros in in 2023, just 800 million more than in 2022, in a context of higher interest rates.

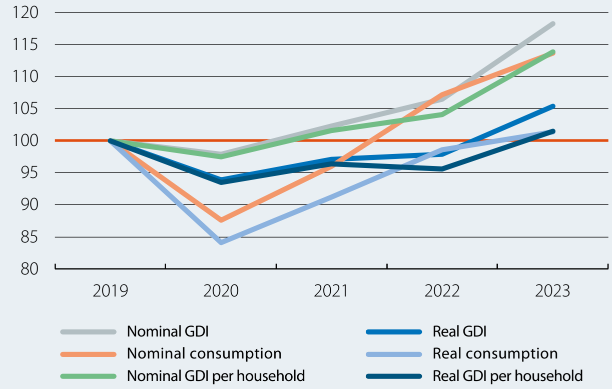
In addition, households' financial wealth continued to increase in 2023: their financial assets at the 2023 year end amounted to 2.83 trillion euros, compared to 2.67 trillion at the end of 2022. This increase of 159 billion is broken down into a net acquisition of financial assets of 39 billion euros, exceeding the average of 21.5 billion in the period 2015-2019 in which interest rates were very low, and a revaluation effect of 120 billion (see sixth chart). When we look at the breakdown of the net acquisition of assets, since late 2022 there has been a greater appetite for instruments that have increased their yield on the back of the rate hikes, such as Treasury bills and investment funds. In particular, households invested in debt securities – mostly public – amounting to 22.85 billion euros, and in equities and investment funds of 20.25 billion.

As for the structure of this wealth, it is still dominated by equities and investment funds, which accounted for 45.6% of the total, 2 points more than in the previous year (see seventh chart). These assets were followed by bank deposits, accounting for 35.9% of the total, just over 2 points less than in the previous year but still higher than the average for the period 2015-2019, which was 34.4%. In contrast, the portion allocated to insurance policies and pension funds increased slightly compared to 2022, reaching 12.7% of the total, but it remains below the 2015-2019 average of 15.2%.

On the other hand, households continued to deleverage in 2023 and, at the end of the year households' financial liabilities[1] stood at 51.0% of GDP, compared to 56.7% in 2022. This is the lowest figure since Q1 2001 (see last chart). This decrease, in conjunction with the increase

Spain: households' gross disposable income and consumption

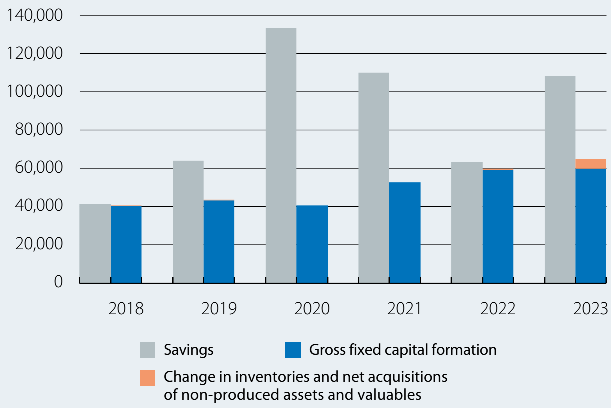
Index (100 = 2019)



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

Spain: households' savings and investment

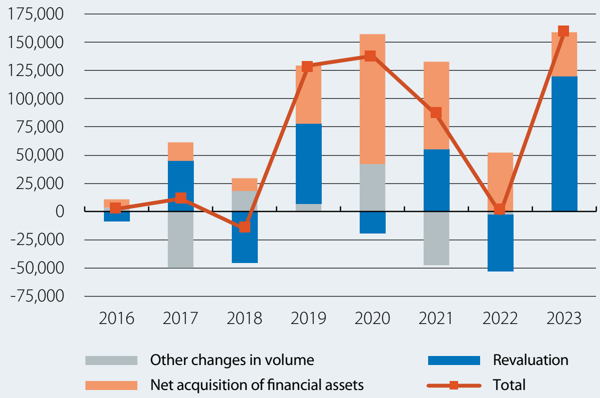
(EUR millions)



Note: *Investment is the sum of gross fixed capital formation (acquisition of new housing and self-employed workers' investments in machinery and cars) and the change in inventories, the net acquisition of valuable assets and the net acquisition of non-produced assets.*
Source: *CaixaBank Research, based on data from the National Statistics Institute.*

Spain: change in households' financial assets

Annual change (EUR millions)



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

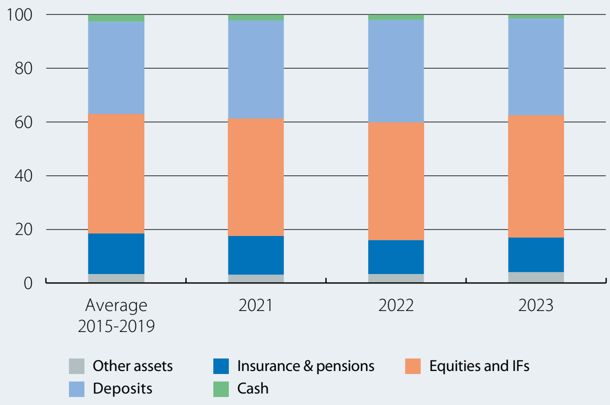
in nominal GDP, shows that in 2023 as a whole households made net repayments amounting to 8.5 billion on their liabilities, which contrasts with the net acquisition of liabilities of +39.7 billion in 2022 and +25.86 billion in 2021. In other words, in a context of higher interest rates, households have reduced their debt positions. Early repayments of mortgages in the face of the increase in rates have also contributed to this trend: in particular, the Bank of Spain[2] estimates that, for the quintile of households with the highest incomes, early repayments in 2023 amounted to 5% of the balance of outstanding variable-rate mortgages.

Due to this sharp fall in financial liabilities as a percentage of GDP in 2023, there was a slight increase 0.9 points in households' net financial wealth compared to 2022, reaching 142.8% of GDP; a ratio which significantly exceeds that recorded in 2019 in any case (136%).

In short, the strength of the labour market has allowed households' GDI to rapidly grow in 2023. This growth, together with a more moderate pattern of expenditure, has significantly increased households' lending capacity, and this has been used to acquire financial assets and to repay debts. In this way, households began 2024 with a stronger financial balance sheet, which should support economic activity growth during the course of the year.

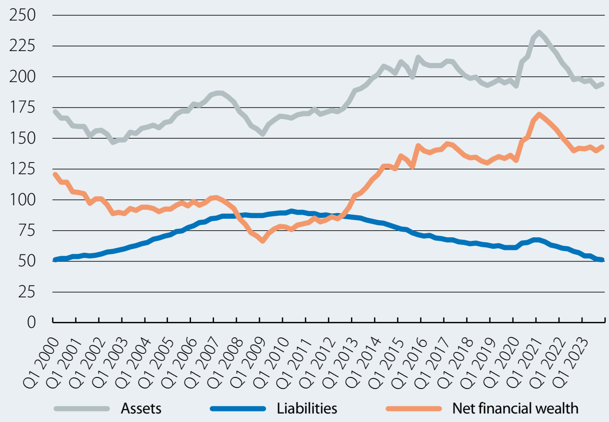
Javier Garcia-Arenas

Spain: structure of households' financial wealth
(% of the total)



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

Spain: households' balance sheet
(% of GDP)



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

1. Financial liabilities include the outstanding balance of bank loans, commercial loans and other payables (interest accrued on loans, taxes and outstanding social security contributions).
2. See the Bank of Spain's Financial Stability Report for April 2024.

Spanish firms remain financially sound

Spanish businesses, on the whole, have been relatively successful in overcoming the impact of the various shocks that have shaken the economy in recent years, such as the crisis triggered by the pandemic; the increase in production costs, especially energy costs following the outbreak of the war in Ukraine, and the tightening of the ECB's monetary policy. The year-end data for 2023 confirm that, despite a fall in their revenues, businesses have continued to generate lending capacity and to reduce their levels of debt to the lowest they have been in over two decades.

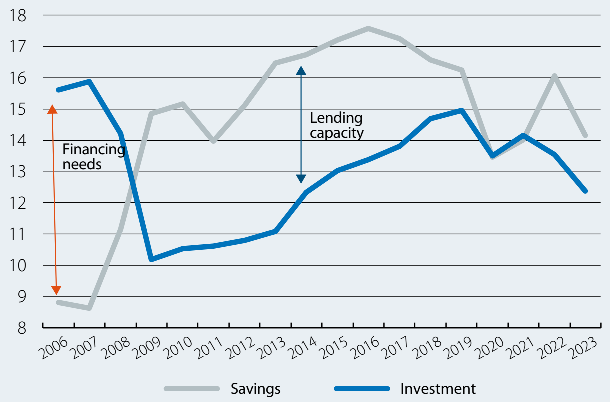
After two years of strong growth, in 2023 firms' disposable income[1] fell by 4.3% year-on-year, as the increase in operating profits[2] (3.6%) was dwarfed by the rise in outflows such as corporate tax payments (up 21%) and, above all, net charges on capital payable (42.3%), due to both interest payments[3] and dividends. Despite the fall in disposable income, firms continued to generate lending capacity – something that has been happening continuously since 2009 – as investment also contracted by 0.7% year-on-year, placing it at 12.4% of GDP (13.5% in 2022): this capacity amounted to 32.028 billion euros (2.2% of GDP), as can be seen in the first chart.

How have businesses put this funding capacity to use? According to the data provided by the Bank of Spain's financial accounts, it has been used exclusively for deleveraging and not for acquiring financial assets. Let's take a closer look: firstly, consolidated debt (excluding corporate debt) fell in 2023 for the second consecutive year, with a reduction of 11.866 billion euros (–1.2%) which placed it at 946.529 billion. This level is equivalent to 64.7% of GDP and is 6.5 points less than the previous year. Moreover, this is the lowest ratio since 2001, it is almost 3 points below the euro area average and it is a far cry from the highs of 2009-2010, when it peaked at 120%[4] (see second chart). Thus, last year the business deleveraging process, which had begun in 2010 but was abruptly interrupted in 2020 by the pandemic, continued. This was

1. Earnings after tax payments and the distribution of dividends, equivalent to business savings.
2. Gross operating surplus (GOS).
3. Although interest income grew at a faster rate, the volume of payments is greater: before financial brokerage services (SIFMI), interest received grew by 226% to 14.046 billion euros, while the amount paid was 40.178 billion. Thus, interest payments amounted to over 16% of GOS in Q4 2023, almost doubling the previous year's figure. In any event, the adverse effects associated with higher interest costs were generally limited. See Bank of Spain (2024): Financial Stability Report, spring 2024, and Bank of Spain (2023): «The impact of interest rate hikes on firms' financial pressure», Box 2, *Report on the financial situation of households and firms*, 2nd half of 2023.
4. In unconsolidated terms, the debt ratio stood at 81.7% of GDP, compared to 92.2% in 2022, 13.7 points below the euro area average.

Spain: savings and investment of non-financial corporations

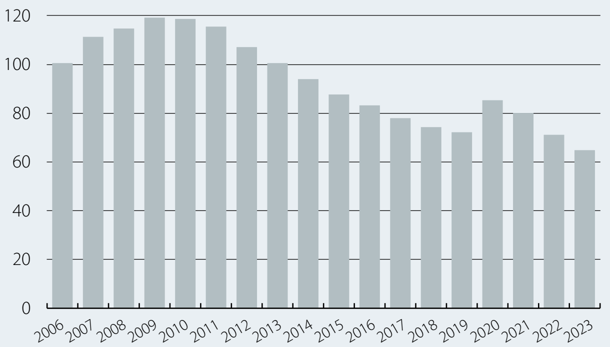
(% of GDP)



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

Spain: consolidated debt of non-financial corporations

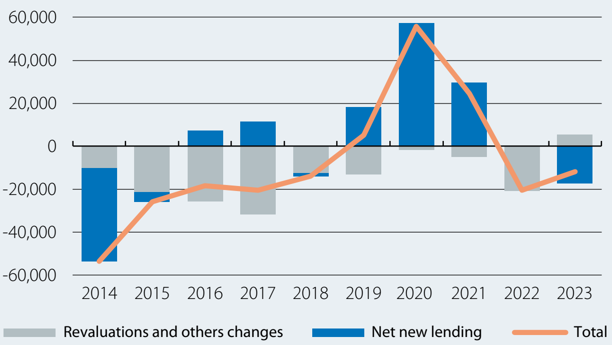
(% of GDP)



Note: *Debt in the form of debt securities and loans; excluding debts with other companies.*
Source: *CaixaBank Research, based on data from the Bank of Spain.*

Spain: change in the consolidated debt of non-financial corporations

(EUR millions)



Note: *Debt in the form of loans and debt securities; excluding debts with other companies.*
Source: *CaixaBank Research, based on data from the Bank of Spain.*

due both to the sharp rise in nominal GDP (denominator), of 8.6%, and to the decline in the debt balance (numerator). This decline of 11.866 billion in the debt balance corresponds to a negative net balance in new lending to businesses of 17.262 billion euros, which represents the largest repayment of debt since 2014. Of this amount, the majority was in the form of loans (about 70%), while the rest was in fixed-income securities (see third chart).

As a result, the trend observed in recent years of a declining role of bank loans – i.e. those granted by monetary financial institutions, or MFIs – in businesses' external financing is confirmed: in 2023 they accounted for 47.3% of total consolidated debt, almost 5 points less than prior to the pandemic (see fourth chart). The use of these forms of loans is being replaced by issues of fixed-income securities, which are predominantly acquired by financial institutions and, above all, loans granted by non-residents.

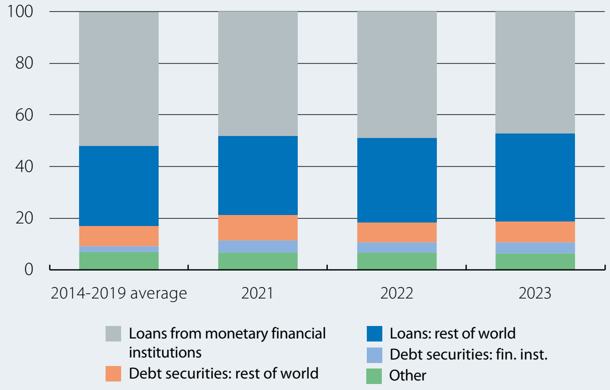
As for firms' financial assets, they increased in 2023 by 85.759 billion euros (2.8%, reaching a total of 3.13 trillion). This increase in the balance of assets is fully explained by their significant rise in value (101.711 billion), especially in the case of shares and investment funds (IFs), in line with the increase in stock prices, given that the net acquisition of assets was negative, at –16.234 billion (see fifth chart). In other words, in a trend not seen since 2023, companies divested: they reduced their assets held in the form of shares, IFs and, most notably, loans. On the other hand, their holdings of cash, deposits and fixed-income securities increased.

In any case, firms' financial wealth continues to be held mainly in equity holdings in other companies and in IFs. An increase is even observed in their relative weight after the pandemic, as they now account for 57% of the total, 2 points more than the average during the period 2014-2019. Cash and deposits are also increasing, albeit to a lesser extent, while the role of loans and other assets, mainly trade receivables, is diminishing (see last chart).

In short, in a context marked by the resilience of economic activity, and with an outlook in which financing conditions will gradually ease and the deployment of NGEU funds should intensify, all the indicators suggest that business' financial position will remain strong at the aggregate level in 2024. In this regard, the percentage of firms with high levels of debt fell to 18.2% at the 2023 year end, compared to 20% the previous year. All this should facilitate the revival of investment, which is the component of demand that is lagging the most behind its pre-pandemic levels, and the definitive recovery of which is considered essential if the current expansionary cycle is to continue.

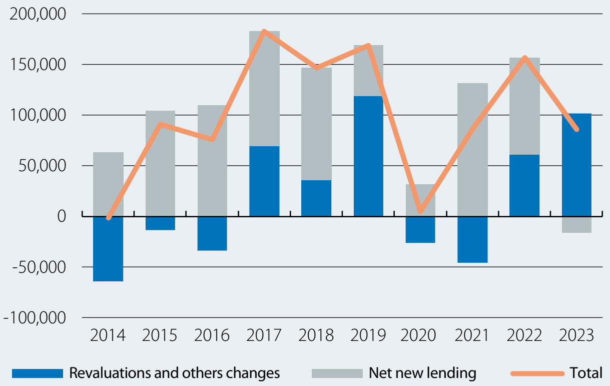
Sergio Díaz Valverde

Spain: structure of the consolidated debt of non-financial corporations
(% of the total)



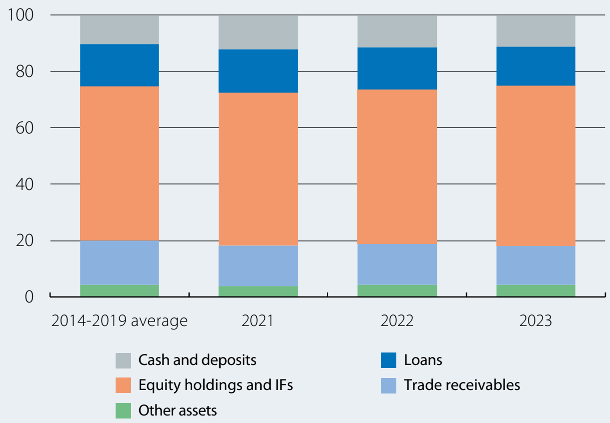
Note: *Excluding debts with other companies.*
Source: *CaixaBank Research, based on data from the Bank of Spain.*

Spain: annual change in the financial assets of non-financial corporations
(EUR millions)



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

Spain: structure of the financial assets of non-financial corporations
(% of the total)



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

2024 Ageing Report and pension reform: everything you need to know (and a little bit more)

The recent publication of the European Commission's *2024 Ageing Report* is an important milestone for the Commission's evaluation of the 2021-2023 pension reform planned for 2025 and will determine whether further measures are needed to ensure the system's sustainability.

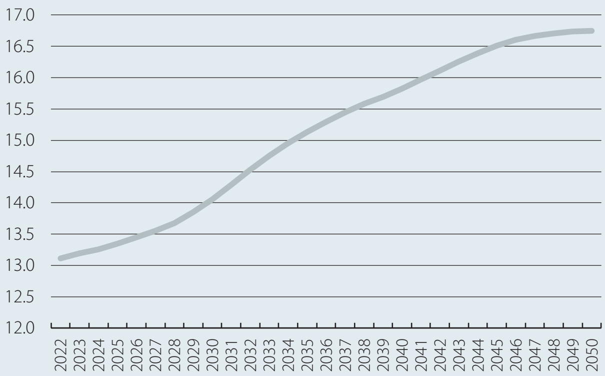
Let's recall the rules of the game: the government pledged to the European Commission as part of the Recovery Plan that the average expenditure on pensions in the period 2022-2050 would not exceed 13.3% of GDP plus the average contribution of the measures included in the 2021-2023 reforms to boost income levels.[1]

This rule seems complex, but in reality it is very intuitive: 13.3% is a very similar figure to the expenditure on pensions as a percentage of GDP recorded in 2022. Beyond that, the rule states: if you want to increase expenditure relative to current levels as a percentage of GDP, you have to offset that increase with income measures of a similar amount such that the pension system's deficit does not increase.

The pension expenditure rule anticipates that AIReF will provide a definitive estimate in 2025 of the expected contribution of these income measures and that, taking into account the expenditure estimate set out in the last ageing report (i.e. the current one, as the next one will not be published until 2027), it will determine whether any adjustments are required in order to fulfil the government's commitment. So, in the absence of knowing the AIReF's estimate, this report already offers the pension expenditure estimate that will be used: specifically, 15.1% of GDP[2] on average in 2022-2050.

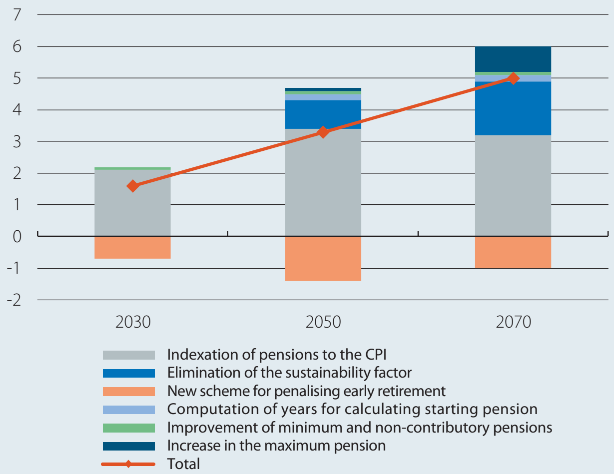
This is a higher average expenditure than we would have in a scenario without the 2021-2023 pension reforms (see second chart), due to the increase in expenditure associated with the indexation of pensions to inflation and the elimination of the sustainability factor.[3] However, these reforms are not the main factor behind the increase

Spain: expenditure on pensions
(% of GDP)



Note: *Includes, besides contributory pensions, passive categories of pensions and non-contributory pensions.*
Source: *CaixaBank Research, based on data from the 2024 Ageing Report (European Commission).*

Spain: increase in pension expenditure compared to pre-reform scenario and contributions from reform elements
(% of GDP)



Source: *CaixaBank Research, based on data from the 2024 Ageing Report (European Commission).*

in pension expenditure as a percentage of GDP. In fact, adverse demographics, especially up until 2050, will be the main factor behind the increase in expenditure: the Commission estimates that demographics will push up pension expenditure by 10.5 pps between 2022 and 2050, which will be partially offset by the projected fall in the replacement ratio (the ratio between the average pension and the average wage will go from the current 64% to 56% in 2050), as a result of the increase in the employment rate and for the incentives to delay the retirement age. The reason for the importance of demographics is that the number of retirees will increase significantly in the period 2022-2050 and this increase

1. Increase of 1.2 points in the social security contribution rate in 2029, starting with 0.6 points in 2023 (the so-called intergenerational equity mechanism), increase in the base amounts used to calculate social security contributions, a «solidarity» contribution for high incomes and a new contributions scheme for self-employed workers.
2. It remains to be seen whether the figure of 15.1% is taken or it is slightly updated based on the macroeconomic data that will be released over the next year (the report uses the European Commission's forecasts from autumn 2023).
3. This mechanism automatically linked the pension increase to life expectancy, which ensured the balance of the social security accounts in the long term, but meant a cut in the initial pension ranging from 2% for a person who is 60 years old today to 10% for a person who is 25 years old today.

will not be offset by new entrants into the labour market, even with significant migration flows. It should be noted that the Commission projects that the ratio between the population aged over 64 and the population between 20 and 64 years of age will increase from the current 0.33 to 0.64 in 2050, where it will stabilise between 2050 and 2070.

In the event that AIReF finds there is an imbalance between income and expenditure, the government must propose a menu of potential measures which AIReF will evaluate. These conclusions should be used by the government to negotiate with the social partners a proposal for the Toledo Pact, whether it be an increase in incomes, a reduction in expenditure or a combination of both. In 2025, the government will have to present a bill to parliament and, if it is not approved, the contribution of the Intergenerational Equity Mechanism will increase linearly for five years to compensate for the excess estimated by AIReF.

Spain: underlying macroeconomic assumptions of the pension expenditure projections

	MISSM	AIReF	AR24
Real GDP growth 2023-2050 *	1.9%	1.3%	1.2%
Growth of productivity per hour worked 2023-2050 *	1.5%	1.1%	1.2%
Employment growth (hours) 2023-2050 *	0.4%	0.2%	0%
Net migration flows 2023-2050 *	308,000	229,000	242,000
Participation rate in 2050 **	84.0%	68.4%	82.2%
Unemployment rate in 2050 ***	5.5%	7.0%	6.6%

Notes: ** Average annual growth between 2023 and 2050. ** The participation rate reported by AIReF is not comparable with that of the Ministry of Inclusion, Social Security and Migration (MISSM) or AR24 since it is for the age group between 15 and 74 years, while those of MISSM and AR24 are for the group aged between 20 and 64 years. *** The unemployment rate of AIReF is between 15 and 74 years and those of AR24 and MISMM, between 20 and 64 years.*
Source: *CaixaBank Research, based on data and projections from the 2024 Ageing Report (European Commission), the MISSM Pension Sustainability Report of autumn 2023 and AIReF technical documents.*

Epilogue: three examples of how the expenditure rule works

To see in practice how the pension expenditure rule works, an example (or in this case, three) is worth a thousand words. We will compare what adjustment the expenditure rule would entail based on the expenditure projections set out in the *2024 Ageing Report* and the income projections from the report itself, those produced by AIReF in the spring of 2023 and those from the *Pension Sustainability Report of autumn 2023* produced by the Ministry of Social Security (MISMM).

The *Ageing Report* forecasts average pension expenditure in 2022-2050 of 15.1% of GDP. It does not explicitly mention its estimate of the contribution of the income measures, but it does envisage an increase in incomes from social security contribution of 1.2% of GDP on average over the period 2022-2050, which is expected to predominantly come from these new measures.[4] With this figure, the maximum pension expenditure on average in the period 2022-2050 would be 13.3%+1.2%, or 14.5% of GDP. This 14.5% compares with the average expenditure of 15.1% envisaged in the *Ageing Report*, which, foreseeably, corresponds mostly to these new measures in order to cover this deviation of 0.6% of GDP (8.8 billion euros).

AIReF, for its part, initially quantified (a year ago, before the revision of the National Statistics Institute's historical GDP series last autumn and the strong labour market data of the last year) the impact of the new income measures at 1.0% of GDP, which would allow for pension expenditure of 14.3% of GDP (13.3%+1%). Thus, and again comparing with the 15.1% expenditure figure given by the *Ageing Report*, and which coincides with the estimate given by AIReF a year ago, the adjustment would be 0.8% of GDP (11.7 billion euros).

Finally, MISMM quantified the new income measures at 1.7% of GDP, which means that expenditure on pensions could amount to 13.3%+1.7% = 15.0% of GDP. Taking the expenditure benchmark of the *Ageing Report* of 15.1%, the adjustment required would be minimal. It should be noted that this 1.7% is in the high band of the various estimates made and reflects a more optimistic macroeconomic scenario than that envisaged in the *Ageing Report*, with higher potential growth, higher net migration flows and a more buoyant economic activity rate (see the differences set out in the table).

In short, in order to determine whether additional pension measures will be required in 2025, we need only two numbers. One is the average pension expenditure in 2022-2050 provided by the *Ageing Report*, and we already have it. The other is AIReF's final estimate of the average impact over the same time horizon of the income measures included in the recent pension reforms, and we will know this within a year.

Javier Garcia-Arenas

4. In previous ageing reports, the income from social security contributions as a percentage of GDP remained flat throughout the projection horizon, as they did not yet incorporate the new measures.

Activity and employment indicators

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

	2022	2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	02/24	03/24	04/24
Industry									
Industrial production index	2.2	–1.1	–2.3	–2.2	–0.5	–	1.5	...	...
Indicator of confidence in industry *(value)*	–0.8	–6.5	–5.2	–8.2	–8.1	–5.2	–4.6	–5.7	–4.4
Manufacturing PMI *(value)*	51.0	48.0	48.5	47.3	45.9	50.7	51.5	51.4	52.2
Construction									
Building permits *(cumulative over 12 months)*	15.4	1.2	1.7	4.3	0.6	–	–0.8	...	...
House sales *(cumulative over 12 months)*	29.0	0.3	3.3	–3.2	–9.0	–	–9.5	...	...
House prices	7.4	4.0	3.6	4.5	4.2	...	–	–	–
Services									
Foreign tourists *(cumulative over 12 months)*	129.8	18.9	40.7	21.9	18.9	15.8	16.2	15.8	...
Services PMI *(value)*	52.5	53.6	56.0	50.9	51.2	54.3	54.7	56.1	56.2
Consumption									
Retail sales[1]	2.3	2.5	2.5	2.1	2.8	0.9	1.8	0.6	...
Car registrations	–3.0	18.5	9.9	6.9	11.9	4.2	9.9	–4.7	23.1
Consumer confidence index *(value)*	–26.5	–19.2	–19.1	–16.1	–19.1	–17.3	–17.2	–15.9	–14.7
Labour market									
Employment[2]	3.6	3.1	3.2	3.4	3.6	3.0	–	–	–
Unemployment rate (% labour force)	13.0	12.2	11.7	11.9	11.8	12.3	–	–	–
Registered as employed with Social Security[3]	3.9	–	2.8	2.7	2.6	2.6	2.7	2.6	2.4
GDP	**5.8**	**2.5**	**2.0**	**1.9**	**2.1**	**2.4**	–	–	–

Prices

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

	2022	2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	02/24	03/24	04/24
General	8.4	3.6	3.1	2.8	3.3	3.1	2.8	3.2	3.3
Core	5.1	6.1	6.2	6.0	4.5	3.5	3.5	3.3	2.9

Foreign sector

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

	2022	2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	02/24	03/24	04/24
Trade of goods									
Exports *(year-on-year change, cumulative over 12 months)*	22.9	–1.4	12.3	4.5	–1.4	–	–3.7	...	...
Imports *(year-on-year change, cumulative over 12 months)*	33.4	–7.2	10.7	–1.2	–7.2	–	–8.3	...	...
Current balance	**8.2**	**38.0**	**28.7**	**35.8**	**38.0**	**–**	**40.5**	**...**	**...**
Goods and services	16.3	60.3	42.6	54.6	60.3	–	62.5	...	...
Primary and secondary income	–8.1	–22.3	–14.0	–18.8	–22.3	–	–22.0	...	...
Net lending (+) / borrowing (–) capacity	**20.7**	**53.9**	**42.6**	**50.0**	**53.9**	**–**	**55.7**	**...**	**...**

Credit and deposits in non-financial sectors[4]

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

	2022	2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	02/24	03/24	04/24
Deposits									
Household and company deposits	4.9	0.6	0.4	–0.3	0.4	2.4	2.2	3.4	...
Sight and savings	7.9	–4.5	–4.0	–6.9	–7.6	–6.6	–7.0	–5.2	...
Term and notice	–19.7	51.9	40.1	69.5	90.4	103.7	109.2	95.7	...
General government deposits	9.6	8.7	6.8	11.3	9.4	27.2	38.4	43.6	...
TOTAL	**5.2**	**1.1**	**0.8**	**0.5**	**1.0**	**4.1**	**4.6**	**6.2**	**...**
Outstanding balance of credit									
Private sector	0.7	–2.5	–2.2	–3.4	–3.7	–2.9	–2.8	–2.5	...
Non-financial firms	0.9	–3.4	–2.7	–4.6	–5.2	–4.0	–3.9	–3.7	...
Households - housing	1.0	–2.6	–2.4	–3.4	–3.3	–2.8	–2.8	–2.5	...
Households - other purposes	–0.6	–0.2	–0.4	0.0	–0.5	–0.1	–0.1	0.3	...
General government	0.2	–3.4	–3.3	–4.6	–5.5	–2.9	–1.8	–4.7	...
TOTAL	**0.7**	**–2.6**	**–2.3**	**–3.4**	**–3.8**	**–2.9**	**–2.8**	**–2.7**	**...**
NPL ratio (%)[5]	**3.5**	**3.5**	**3.5**	**3.5**	**3.6**	**...**	**3.6**	**...**	**...**

Notes: *1. Excluding service stations and deflated. 2. Estimate based on the Active Population Survey. 3. Average monthly figures. 4. Aggregate figures for the Spanish banking sector and residents in Spain. 5. 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.*

The Portuguese economy kicked off 2024 stronger than expected

GDP provides a positive surprise in Q1, with quarter-on-quarter growth of 0.7%, according to the first provisional estimate published by the country's National Statistics Institute. This exceeds our forecast of 0.4% and, therefore, introduces upward risks to our forecast for the year as a whole, which until now has stood at 1.6%. This performance was driven by foreign demand making a positive contribution to the quarterly growth, while domestic demand was impacted by the fall in investment, although private consumption recorded an acceleration.

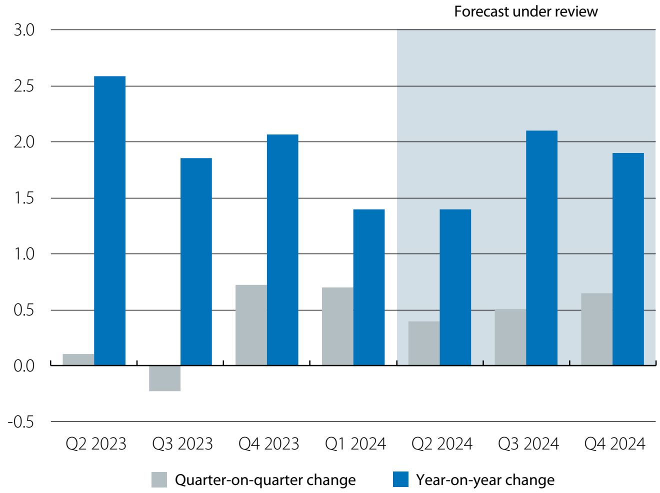
Inflation resumes its downward path. Headline inflation moderated 10 percentage points to 2.2% in April, while core inflation dropped to 2.0%, from 2.5% in March. However, the monthly dynamics of core inflation remain higher than the pre-pandemic average, which may be linked to the persistence of high inflation in the services component. Looking ahead to the next few months, we do not rule out the possibility of another uptick in inflation. In fact, it is expected that in May the base effects will also be felt in the inflation of unprocessed food and energy products (in May 2023 they fell at a monthly rate of 2.3% and 1.7%, respectively).

Employment continues to perform well with growth rates of around 2% year-on-year. The unemployment rate, meanwhile, stabilised at 6.5% in March, for the fifth consecutive month, and registered unemployment fell in March for the second consecutive month. On the downside, job offers, despite recovering in the first three months of the year, remain at very low levels.

The foreign trade deficit continues to shrink. The publication of the estimate of exports and imports of goods in Q1 suggests that, in nominal terms, the trade deficit has decreased by 12% year-on-year and has reached around 5.8 billion euros. This pattern has been due to the notable weakness of imports, which have been held back primarily by the correction of energy prices, while exports of goods will have contracted.

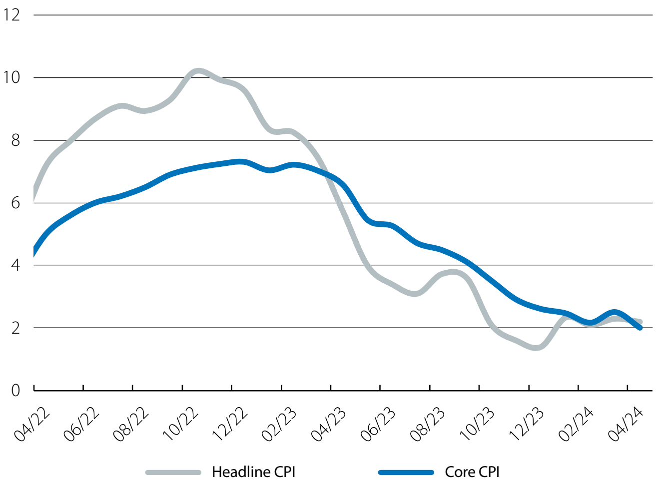
Good results for the tourism sector in Q1. In the first three months of the year there were 5.5 million guests and 13.4 million overnight stays in tourist accommodation establishments, representing an increase of 7.7% and 7.1% compared to the same period of 2023, respectively. This good performance was influenced in part by the calendar effect, since this year the Easter holiday period fell in late March, whereas last year it was in April. The growth was higher among non-residents (+8.7% in the case of overnight stays) than among residents (+3.9% in overnight stays). Among non-residents, the British were the main source market, accounting for 16% of overnight stays, although North Americans recorded one of the highest growth rates (+18% compared to Q1 2023).

Portugal: GDP
Change (%)



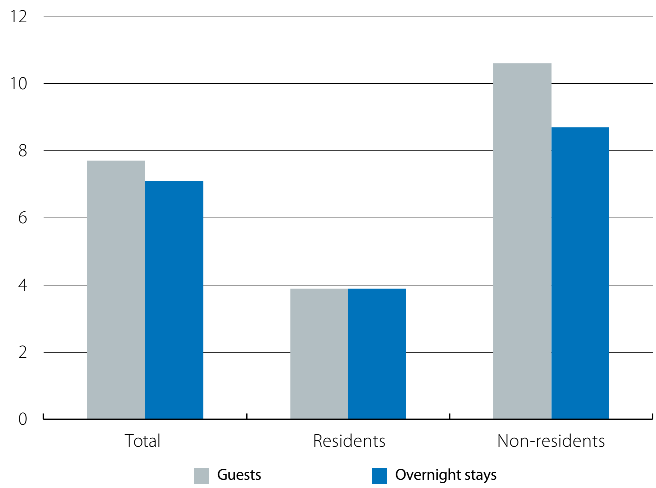
Source: *CaixaBank Research, based on data from the National Statistics Institute of Portugal.*

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



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

Portugal: guests and overnight stays
Change between Q1 2023 and Q1 2024 (%)



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

Activity and employment indicators

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

	2022	2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	02/24	03/24	04/24
Coincident economic activity index	5.7	3.3	3.6	3.3	2.7	2.3	2.3	2.2	...
Industry									
Industrial production index	0.8	–3.1	–5.4	–4.5	–3.5	1.1	0.8	3.5	...
Confidence indicator in industry *(value)*	–3.4	–7.4	–5.6	–9.4	–9.5	–7.5	–7.7	–6.6	–6.2
Construction									
Building permits - new housing (number of homes)	6.2	5.8	1.3	9.7	2.2	...	–9.8	...	...
House sales	1.3	–18.7	–22.9	–18.9	–11.4	...	–	–	–
House prices *(euro / m^2 - valuation)*	13.8	9.1	9.1	8.1	6.4	5.5	5.5	6.5	...
Services									
Foreign tourists *(cumulative over 12 months)*	158.9	19.1	52.6	24.9	19.1	13.1	14.5	13.1	...
Confidence indicator in services *(value)*	15.1	7.5	13.4	5.8	–0.2	6.9	7.1	8.7	8.4
Consumption									
Retail sales	5.5	1.1	1.8	0.6	0.6	1.4	2.6	1.4	...
Coincident indicator for private consumption	3.9	2.5	2.8	2.8	2.4	2.4	2.4	2.6	...
Consumer confidence index *(value)*	–29.7	–28.6	–29.4	–22.8	–27.2	–24.6	–24.4	–22.6	–20.4
Labour market									
Employment	2.2	2.0	2.8	2.2	1.6	...	1.9	2.0	...
Unemployment rate (*% labour force*)	6.2	6.5	6.1	6.1	6.6	...	6.6	6.5	...
GDP	**6.8**	**2.3**	**2.6**	**1.9**	**2.1**	**1.4**	–	–	–

Prices

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

	2022	2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	02/24	03/24	04/24
General	7.8	4.4	4.4	3.5	1.7	2.2	2.1	2.3	2.2
Core	5.6	5.1	5.7	4.4	3.0	2.3	2.1	2.5	2.0

Foreign sector

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

	2022	2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	02/24	03/24	04/24
Trade of goods									
Exports *(year-on-year change, cumulative over 12 months)*	23.2	–1.1	11.8	3.0	–1.1	...	–2.2	...	...
Imports *(year-on-year change, cumulative over 12 months)*	31.7	–4.2	12.5	1.1	–4.2	...	–5.5	...	...
Current balance	**–2.8**	**3.6**	**1.5**	**4.1**	**3.6**	**...**	**4.6**	**...**	**...**
Goods and services	–4.7	3.3	–0.3	2.1	3.3	...	4.1	...	...
Primary and secondary income	1.9	0.4	1.9	2.0	0.4	...	0.6	...	...
Net lending (+) / borrowing (–) capacity	**–0.5**	**7.2**	**4.5**	**7.3**	**7.2**	**...**	**8.4**	**...**	**...**

Credit and deposits in non-financial sectors

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

	2022	2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	02/24	03/24	04/24
Deposits [1]									
Household and company deposits	6.4	–2.3	–2.1	–2.6	–2.3	2.7	1.0	2.7	...
Sight and savings	7.3	–14.8	–9.0	–9.4	–14.8	–11.2	–13.6	–11.2	...
Term and notice	5.2	14.8	7.5	6.9	14.8	20.2	20.1	20.2	...
General government deposits	12.4	–12.4	1.4	5.5	–12.4	9.1	–4.4	9.1	...
TOTAL	**6.5**	**–2.6**	**–2.0**	**–2.4**	**–2.6**	**2.9**	**0.8**	**2.9**	**...**
Outstanding balance of credit [1]									
Private sector	1.7	–1.5	–1.2	–1.8	–1.5	–0.8	–1.1	–0.8	...
Non-financial firms	–0.6	–2.1	–3.5	–3.5	–2.1	–1.9	–2.0	–1.9	...
Households - housing	3.2	–1.5	0.1	–0.9	–1.5	–0.8	–1.2	–0.8	...
Households - other purposes	2.9	0.2	0.4	–0.8	0.2	2.0	1.7	2.0	...
General government	–2.7	–5.5	0.6	–1.4	–5.5	5.9	–3.2	5.9	...
TOTAL	**1.6**	**–1.7**	**–1.1**	**–1.8**	**–1.7**	**–0.6**	**–1.2**	**–0.6**	**...**
NPL ratio *(%)* [2]	**3.0**	**2.7**	**3.1**	**2.9**	**2.7**	**...**	–	–	–

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

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