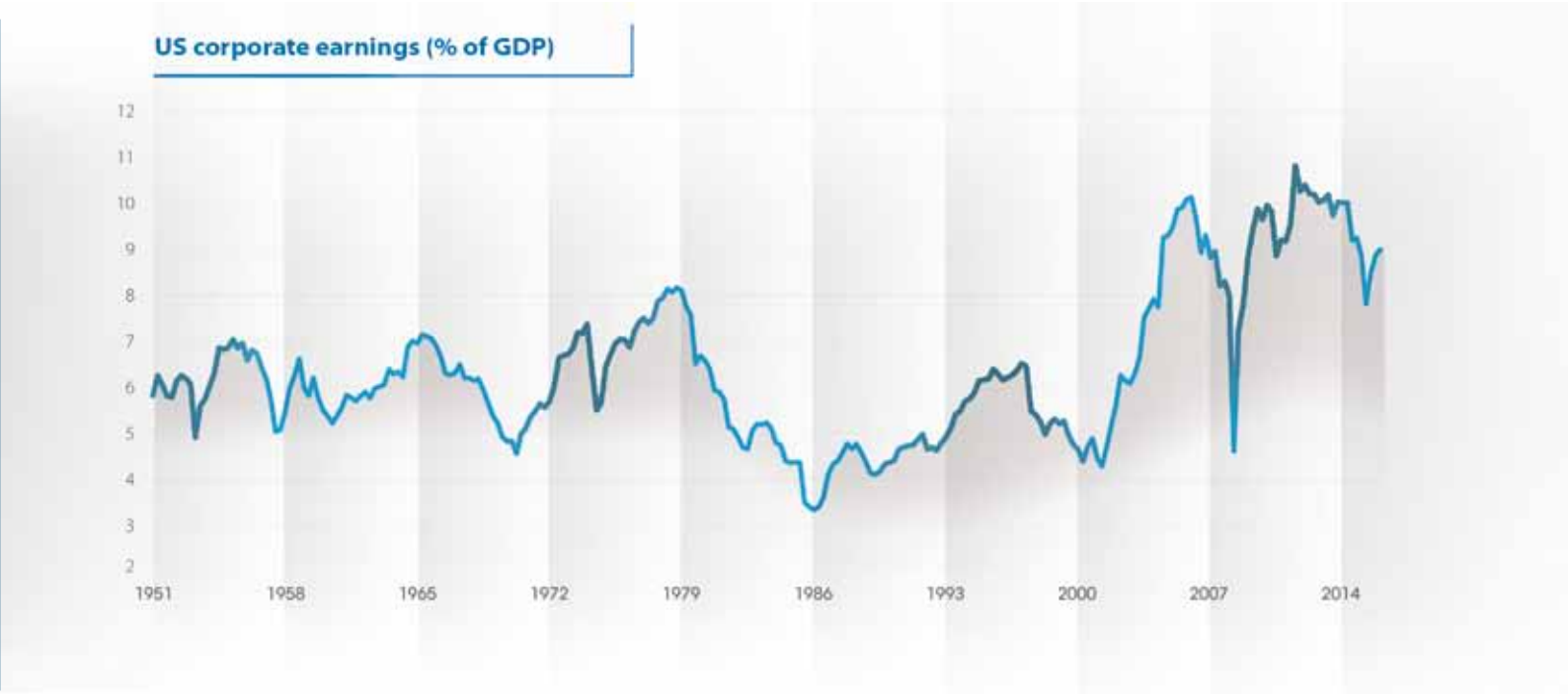
MR02

MONTHLY REPORT • ECONOMIC AND FINANCIAL MARKET OUTLOOK

NUMBER 409 | FEBRUARY 2017



ECONOMIC & FINANCIAL ENVIRONMENT

DOSSIER: CORPORATE EARNINGS ON THE RISE

CaixaBank Research

MONTHLY REPORT - ECONOMIC AND FINANCIAL MARKET OUTLOOK
February 2017

CaixaBank, S.A.
Strategic Planning and Research

Av. Diagonal, 629, torre I, planta 6
08028 BARCELONA
www.caixabankresearch.com
research@caixabank.com

Date this issue was closed:
31 January 2017

Enric Fernández
Corporate Director,
Strategic Planning and Research

Oriol Aspachs
Director, Macroeconomics

Avelino Hernández
Director, Financial Markets

Estel Martín
Director, Banking Strategy

INDEX

The future of world trade

January did not bode well for world trade. In his first week as President, Donald Trump confirmed the US would withdraw from the Trans-Pacific Partnership, repeated his intention to renegotiate the North American Free Trade Agreement and suggested he might finance the construction of a wall along the Mexican border by imposing 20% tariffs on imports from the neighbouring country. On the other side of the North Atlantic, Theresa May made it clear the UK was *en route* to a hard Brexit which would place it outside Europe's single market. Although she openly intends to negotiate free trade treaties with the EU and other countries, this might take years and it is not even sure that, once negotiated, they will foster such a fluid exchange of goods and services as at present.

The stance taken by the US administration will be particularly crucial for the future of world trade. Although «candidate» Trump displayed an overtly protectionist stance during his electoral campaign, «President» Trump was, and its still expected, to take a more pragmatic orientation.

The US is right that, in some countries, its exports of goods and services do not receive similar treatment to that offered by the US for imports from these same countries. This situation is essentially due to the contrast between two approaches to international trade: liberal or mercantilist. For decades now (with few exceptions), the US has embraced a liberal approach that prioritises making imports as easy as possible. The aim has been to benefit companies as they can take advantage of global supply chains while consumers enjoy access to a larger variety of better-priced products. Other countries have opted for a mercantilist approach, protecting some industries from international competition while boosting exports via subsidies or a weak currency.

The Trump administration has two possible ways of evening up the playing field, albeit with very different repercussions: negotiating better access to international markets for US exports or hindering US imports of goods and services by imposing trade barriers; i.e. through tariffs or other measures. It is not clear which option was meant by candidate Trump when he mentioned the possibility of introducing a 35%-45% tariff on Mexican and Chinese imports. It might have been a threat in order to achieve the first option or a proposal in order to achieve the second. In the recent words of leading Mexican businessman, Carlos Slim, whether Trump was speaking as a «negotiator» or as «terminator». For the good of the world economy, and of the US itself, we hope this is a negotiating strategy and the threat is never carried out. Otherwise there would be a serious risk of trade wars and a slump in world trade.

The US could also implement other measures to boost its companies' competitiveness and reduce its trade deficit, which is close to 3% of GDP. For instance, it could reform its corporate tax as this is among the highest in the world (approximately 39% including federal and state taxes), discouraging domestic production and the repatriation of profits by multinationals. In addition, it could implement an infrastructure investment programme to modernise the country's transport and energy supply systems. These two reforms would help to boost not only growth in trade but also economic growth, both in the US and at a global level. It is an encouraging sign that both proposals were included in the President's electoral programme. Let's hope he takes them seriously.

Enric Fernández
Chief Economist
31 January 2017

CHRONOLOGY

JANUARY 2017

23 Donald Trump signs an executive order formally withdrawing the US from the Trans-Pacific Partnership (TPP).

DECEMBER 2016

4 Italy holds a referendum, resulting in the rejection of the proposed constitutional reform. The Prime Minister, Matteo Renzi, resigns and is replaced by Paolo Gentiloni.
8 The ECB prolongs QE up to December 2017 and reduces its monthly asset purchases from 80 to 60 billion euros as from April.
14 The US Federal Reserve raises the fed funds rate by 25 bps to 0.50%-0.75%.
22 The Italian bank, Monte dei Paschi di Siena, fails in its attempt to increase its capital by 5 billion euros and the Italian government creates a 20 billion bailout fund to prop up the country's banking sector.

NOVEMBER 2016

8 Donald Trump is elected President of the US.
30 OPEC members reach an agreement to cut oil production to 32.5 million barrels a day.

OCTOBER 2016

29 Mariano Rajoy is sworn in as President of the Spanish government.

SEPTEMBER 2016

21 The Bank of Japan readjusts its ultra-expansionary monetary policy instruments in order to achieve a sharper interest rate curve.

AUGUST 2016

4 The Bank of England cuts its official interest rate to 0.25% and surprises by introducing more expansionary measures than expected.

AGENDA

FEBRUARY 2017

2 Registration with Social Security and registered unemployment (January).
8 Industrial production index (December).
13 Japan's GDP (Q4).
17 Loans, deposits and NPL ratio (December).
20 International trade (December).
27 CPI flash estimate (February).
Economic sentiment indicator of the euro area (February).
28 Balance of payments (December).

MARCH 2017

2 Affiliation to Social Security and registered unemployment (February).
Quarterly national accounts (Q4).
8 Industrial production index (January).
9 Governing Council of the European Central Bank.
15 Fed Open Market Committee.
16 Quarterly labour cost survey (Q4).
17 Loans, deposits and NPL ratio (January).
21 International trade (January).
23 European Council.
30 CPI flash estimate (March).
Economic sentiment indicator of the euro area (March).
31 Balance of payments (January).
State budget execution (December, January and February).
Fiscal balance (2016).

Higher growth, higher uncertainty

«Mr. President, the floor is yours». At conferences in English, after the customary introductions, this is often how the speaker is invited to talk. The new President of the US has certainly done more than merely take the floor: he has placed himself centre stage and dominated the agenda since winning the election. What the new Trump administration's programme hopes to achieve is laudable as it aims to improve capacity to create prosperity and bring back into the system some of the people who have been hit hard by economic developments over the past few years. It is not so much the end as the means that are in question, causing considerable doubts and therefore uncertainty. One initial area of action concerns fiscal expansion, combining tax cuts with increased infrastructure spending. Such proposals make sense as US corporate tax is among the highest in the world and many of the country's infrastructures are obsolete. Nonetheless, given that the US economy is close to full employment, this expansionary fiscal policy could have limited success in terms of growth, while inflation and the trade deficit may increase more than expected. To fan the flames of debate even further regarding whether any impulse is actually needed, the US economy was markedly dynamic at year-end 2016. Growth was 1.9% year-on-year in Q4 and 1.6% for the year as a whole, although this figure conceals a weak start to the year and unmistakable acceleration in the last six months. The country has also seen its largest wage increase since 2009 and inflation is picking up, a trend that will gain traction over the coming quarters. It comes as no surprise that the latest comments by the Federal Reserve (Fed) suggest interest rate hikes may end up being more aggressive if such unwanted effects of fiscal expansion come about. In line with this view, CaixaBank Research expects three increases in the Federal funds rate in 2017. The markets, however, have tended to assume higher growth but not so much inflationary risk, as can be seen by investors expecting only two hikes in 2017.

Local policy, global tension? The second course of action proposed by the US administration is even more controversial. Under the slogan «America first», it is planning, at least rhetorically, a clear shift towards protectionism. This formula openly contradicts an irrefutable lesson from history: economic integration is a powerful way to create wealth. It was how today's advanced countries became prosperous and is the way to get large numbers of people in emerging countries out of poverty. As protectionism is such an outmoded formula, economic analysts tend to expect the actual implementation of such an agenda to be pragmatic. Nonetheless, the profile of some of the people appointed in key positions, the first actions carried out after taking possession (the executive order pulling out of the TPP and the announcement of the renegotiation of the North American Free Trade Agreement or NAFTA) and declarations made by Trump himself have all fuelled uncertainty. Potential trade conflicts (especially with the revision of NAFTA) and diplomatic tensions (with already blatant disagreements with China and the EU) are the greatest risks.

But, even so, the economy is doing well. Fortunately this shock of uncertainty is occurring within a recovery in activity that looks like continuing. Towards the end of 2016, the growth rate speeded up in Europe and China and, as mentioned previously, remained at a reasonable rate in the US. In 2016 Q4 the euro area grew by 0.5% quarter-on-quarter (1.8% year-on-year), the UK by 0.6% quarter-on-quarter (2.2% year-on-year) and China accelerated to 6.8% year-on-year (6.7% in the three previous quarters). This good growth rate is being helped by a number of underlying global factors such as an easy money policy in most countries, the slight upward trend in oil prices and, except for some advanced countries, the lack of any inflationary tensions. All these factors will continue in 2017, and very much so. CaixaBank Research therefore predicts that, after growing by 3.1% in 2016, the world economy will expand by 3.4% in 2017.

The Spanish economy is on the verge of a moderate slowdown. After strong growth of 3.2% in 2016, the economy will grow a little more slowly in 2017 (2.6%) due to waning support from temporary factors (particularly oil prices and fiscal policy). This is nevertheless an enviable growth rate, better than most of our European partners. However, the balance of risks does not allow for complacency since external uncertainty, as we have seen, is not diminishing and there are still some sizeable domestic challenges (budget deficit, pensions, labour market, etc.). Spain should therefore focus strongly on reforms again, as the country's challenges may be medium and long-term but the time for discussion and action is now.

FORECASTS

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

International economy

	2015	2016	2017	2018	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2	2017 Q3
GDP GROWTH										
Global	3.2	3.1	3.4	3.6	3.1	3.1	3.2	3.3	3.4	3.4
Developed countries	*2.1*	*1.6*	*1.9*	*2.0*	*1.5*	*1.7*	*1.8*	*1.9*	*1.9*	*1.8*
United States	2.6	1.6	2.3	2.4	1.3	1.7	1.9	2.2	2.5	2.2
Euro area	1.9	1.7	1.5	1.6	1.6	1.8	1.8	1.6	1.6	1.5
Germany	1.5	1.8	1.5	1.6	1.7	1.7	1.9	1.5	1.4	1.7
France	1.2	1.1	1.1	1.3	1.1	0.9	1.1	0.8	1.2	1.3
Italy	0.6	0.9	0.8	0.8	0.8	1.0	0.9	0.7	0.8	0.7
Portugal	1.6	1.2	1.3	1.3	0.9	1.6	1.6	1.6	1.6	1.0
Spain	3.2	3.2	2.6	2.2	3.4	3.2	3.0	2.9	2.6	2.4
Japan	1.2	1.0	1.0	0.8	0.9	1.0	1.6	1.2	1.1	0.9
United Kingdom	2.2	2.0	1.0	1.5	2.0	2.2	2.2	1.7	1.1	0.7
Emerging countries	*4.1*	*4.2*	*4.5*	*4.8*	*4.2*	*4.2*	*4.3*	*4.5*	*4.6*	*4.6*
China	6.9	6.7	6.4	5.9	6.7	6.7	6.8	6.6	6.5	6.2
India [1]	7.6	6.9	7.4	7.7	7.1	7.3	6.4	6.7	6.9	7.4
Indonesia	4.8	5.1	5.4	5.6	5.2	5.0	5.3	5.3	5.4	5.4
Brazil	–3.8	–3.4	0.9	2.1	–3.6	–2.9	–1.8	–0.6	0.4	1.5
Mexico	2.6	2.3	1.8	2.3	2.6	2.0	2.2	1.5	1.5	2.0
Chile	2.3	1.7	2.0	2.5	1.6	1.6	1.5	1.8	1.9	2.1
Russia	–3.7	–0.6	1.3	1.6	–0.6	–0.4	–0.4	1.0	1.3	1.4
Turkey	6.0	1.8	2.4	3.0	4.5	–1.8	–0.1	1.5	2.5	2.7
Poland	3.9	2.7	3.3	3.1	3.1	2.2	2.8	3.4	3.4	3.4
South Africa	1.2	0.5	1.3	1.9	0.8	0.8	1.0	1.1	1.2	1.3
INFLATION										
Global	2.8	2.8	3.3	3.3	2.8	2.7	2.9	3.3	3.3	3.4
Developed countries	*0.3*	*0.7*	*1.9*	*1.9*	*0.5*	*0.6*	*1.1*	*1.9*	*1.9*	*2.0*
United States	0.1	1.3	2.5	2.4	1.0	1.1	1.8	2.5	2.4	2.6
Euro area	0.0	0.2	1.7	1.6	–0.1	0.3	0.7	1.7	1.6	1.8
Germany	0.1	0.4	2.0	1.8	0.0	0.4	1.0	1.9	2.0	2.2
France	0.1	0.3	1.6	1.6	0.1	0.4	0.7	1.4	1.5	1.9
Italy	0.1	0.0	1.1	1.4	–0.3	–0.1	0.2	0.8	1.1	1.4
Portugal	0.5	0.7	1.3	1.5	0.5	0.7	1.1	1.2	1.3	1.3
Spain	–0.5	–0.2	2.4	1.5	–0.9	–0.2	1.0	2.8	2.6	2.4
Japan	0.8	–0.1	0.7	0.9	–0.3	–0.5	0.3	0.7	0.6	1.1
United Kingdom	0.0	0.7	2.6	2.6	0.4	0.7	1.2	2.1	2.6	2.8
Emerging countries	*4.7*	*4.4*	*4.5*	*4.4*	*4.5*	*4.3*	*4.2*	*4.3*	*4.5*	*4.5*
China	1.4	2.0	2.2	2.2	2.1	1.7	2.2	1.6	2.1	2.5
India	4.9	4.9	5.1	5.4	5.7	5.2	3.7	4.1	4.1	4.7
Indonesia	6.4	3.5	3.8	5.0	3.5	3.0	3.3	3.3	4.0	3.6
Brazil	9.0	8.8	6.3	5.3	9.2	8.7	7.1	6.5	6.3	6.3
Mexico	2.7	2.8	3.6	3.3	2.6	2.8	3.2	3.7	3.8	3.6
Chile	4.3	4.0	3.2	3.3	4.2	3.8	3.3	3.0	3.1	3.2
Russia	15.5	7.1	5.1	5.2	7.3	6.8	5.7	5.3	5.1	5.0
Turkey	7.7	7.8	7.7	6.8	6.9	8.0	7.6	8.1	7.9	7.6
Poland	–0.9	–0.7	1.4	2.0	–1.1	–0.8	0.2	0.7	1.5	1.5
South Africa	4.6	6.3	5.6	6.0	6.2	6.0	6.6	5.8	5.2	5.4

Note: *1. Annual figures represent the fiscal year.*

Forecasts

Spanish economy

	2015	2016	2017	2018	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2	2017 Q3
Macroeconomic aggregates										
Household consumption	2.8	3.1	2.5	2.0	3.2	2.8	2.8	2.7	2.6	2.5
General government consumption	2.0	1.3	1.0	0.8	0.8	1.4	1.0	0.7	1.6	0.8
Gross fixed capital formation	6.0	3.6	2.9	2.9	3.6	3.1	2.8	2.8	2.4	3.1
Capital goods	8.9	5.7	2.8	2.8	6.2	5.0	4.0	3.6	2.1	2.6
Construction	4.9	2.3	3.1	3.0	2.0	2.0	2.3	2.5	2.8	3.4
Domestic demand (contr. Δ GDP)	3.3	2.8	2.2	1.8	2.9	2.6	2.3	2.2	2.3	2.2
Exports of goods and services	4.9	4.2	3.7	4.1	6.4	2.8	3.6	4.2	2.1	4.5
Imports of goods and services	5.6	3.1	3.0	3.2	5.1	0.9	1.5	2.5	1.4	4.2
Gross domestic product	**3.2**	**3.2**	**2.6**	**2.2**	**3.4**	**3.2**	**3.0**	**2.9**	**2.6**	**2.4**
Other variables										
Employment	3.0	2.9	2.3	2.0	2.8	2.9	2.9	2.6	2.5	2.3
Unemployment rate (% labour force)	22.1	19.6	17.9	16.6	20.0	18.9	18.6	18.9	18.1	17.3
Consumer price index	–0.5	–0.2	2.4	1.5	–0.9	–0.2	1.0	2.8	2.6	2.4
Unit labour costs	0.2	–0.3	0.2	1.4	–0.3	–0.1	–0.3	–0.4	0.0	0.5
Current account balance (cum., % GDP)[1]	1.4	2.0	1.6	1.4	1.7	1.9	2.0	1.9	1.8	1.7
Net lending or borrowing rest of the world (cum., % GDP)[1]	2.0	2.6	2.2	2.0	2.3	2.4	2.6	2.5	2.4	2.3
Fiscal balance (cum., % GDP)[2]	–5.0	–4.6	–3.4	–2.4						

Financial markets

INTEREST RATES										
Dollar										
Fed Funds	0.26	0.52	1.04	1.94	0.50	0.50	0.58	0.75	1.00	1.08
3-month Libor	0.32	0.74	1.41	2.20	0.64	0.79	0.92	1.11	1.31	1.51
12-month Libor	0.79	1.37	2.00	2.63	1.25	1.46	1.62	1.76	1.92	2.08
2-year government bonds	0.67	0.84	1.71	2.75	0.77	0.72	1.00	1.32	1.58	1.84
10-year government bonds	2.13	1.84	2.88	3.49	1.75	1.56	2.13	2.67	2.84	2.95
Euro										
ECB Refi	0.05	0.01	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
3-month Euribor	–0.02	–0.26	–0.31	–0.21	–0.26	–0.30	–0.31	–0.31	–0.31	–0.31
12-month Euribor	0.17	–0.03	–0.07	0.05	–0.02	–0.05	–0.07	–0.08	–0.07	–0.07
2-year government bonds (Germany)	–0.24	–0.58	–0.65	–0.29	–0.52	–0.64	–0.71	–0.71	–0.68	–0.65
10-year government bonds (Germany)	0.53	0.10	0.43	0.84	0.12	–0.12	0.11	0.27	0.40	0.48
EXCHANGE RATES										
$/€	1.11	1.11	1.03	1.04	1.13	1.12	1.08	1.04	1.02	1.02
¥/€	134.33	120.30	119.22	122.15	121.91	114.26	117.96	121.82	119.20	118.21
£/€	0.73	0.82	0.89	0.88	0.79	0.85	0.87	0.87	0.89	0.90
OIL										
Brent ($/barrel)	53.61	45.63	59.32	65.79	47.35	47.49	51.96	56.17	58.57	60.50
Brent (€/barrel)	48.30	41.28	57.73	63.04	41.94	42.55	48.25	53.84	56.96	59.31

Note: *1. Four quarter cumulative. 2. Cumulative over four quarters. Does not include aid to financial institutions.*

Forecasts

FINANCIAL OUTLOOK · **Time for reflection in the financial markets**

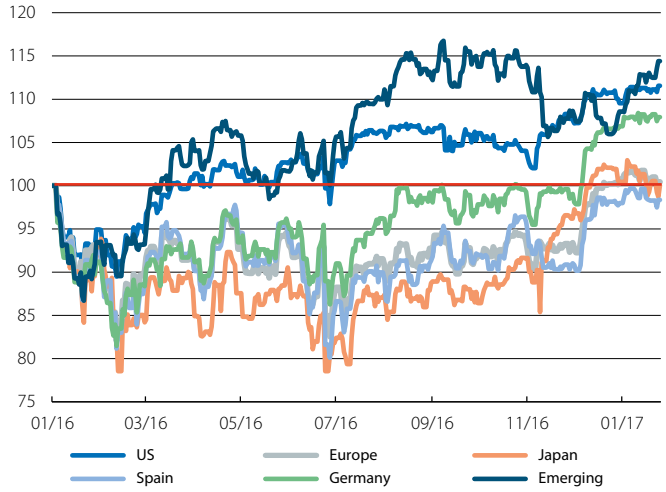
The markets are still expecting US reflation but rather more cautiously than before. The overriding theme in the markets is still US reflation; i.e. higher growth but also higher inflation, as a result of economic policy that will prioritise fiscal stimulus. Nevertheless, after the strong gains in risky asset prices following Donald Trump's victory, the tone was more restrained during most of January. In the first three weeks of the year the markets entered a more expectant phase but the perceived risk did not alter too much, as evidenced by volatility remaining at an all-time low in the US stock market in January. This seemed logical given the lack of any defined agenda from Trump and, from a strictly market point of view, the gains made just after the elections. But the rally continued, almost simultaneously with Trump taking over the White House. Such gains may not be as strong as in November and December but the underlying trend for risky assets is still upwards. Without doubt, this is partly due to the publication of favourable macroeconomic data showing that activity gained traction at year-end 2016. But the underlying drive seems to come from the market appreciating the positive effects of a pro-growth agenda in the US more than the negative effects.

Few new moves on the part of central banks. At its meeting on 19 January, the ECB repeated the mainstays of its monetary policy. It appreciated the recovery in activity but once again expressed doubts regarding the medium-term recovery in inflation (although inflation is expected to rise in 2017 it is still far from the ECB's long-term target of 2%). The ECB stated that it will ignore any spikes in inflation due to the base effect of the slump in oil prices although it will analyse any possible indirect effects. It was therefore confirmed that, after announcing at the end of 2016 that QE would be extended up to December 2017 and purchases would be reduced to 60 billion as from April 2017, tapering will be very gradual. CaixaBank Research therefore predicts a gradual reduction of purchases in 2018 and the first refi rate hike mid-2019.

US monetary policy will take a different path. Although the Federal Reserve (Fed) did not meet in January, various comments by its representatives helped to confirm the intended path for monetary policy after the decision to raise the fed funds rate last December, at a time when the reference rate was at 0.50%-0.75%. The messages provided by various Fed members in January suggest the US central bank is still monitoring any potential inflationary effects of the fiscal stimulus announced in an economy that is almost at full employment. From such messages, and from the hawkish tone accompanying December's hike, we can infer that monetary conditions are likely to get tougher in 2017 at a slightly faster rate than the market is currently expecting.

Main international stock markets

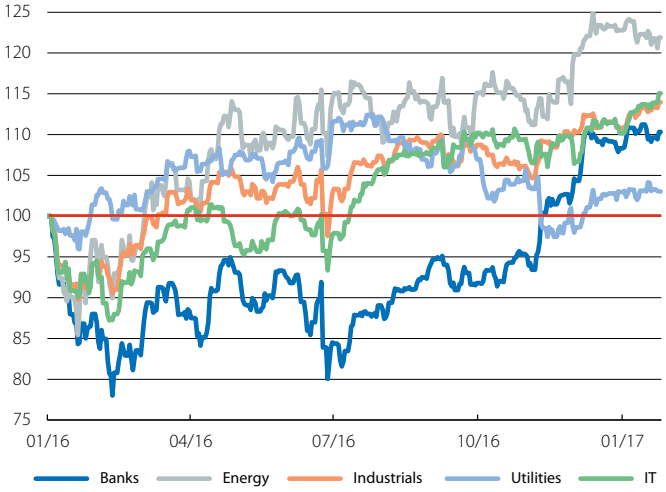
Index (100 = January 2016)



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

Global stock market: trend by sector

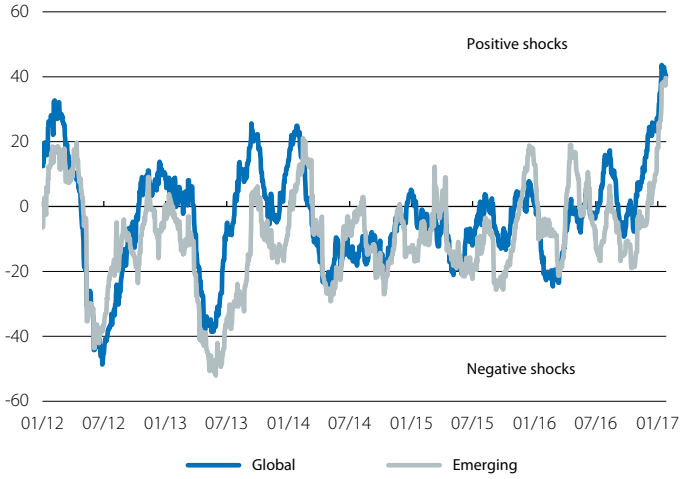
Index (100 = January 2016)



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

Index of economic shocks

Level



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

In line with this interpretation, CaixaBank Research predicts three hikes of the fed funds rate in 2017, while the market, apparently not very sensitive to the risks of US fiscal expansion, only expects two.

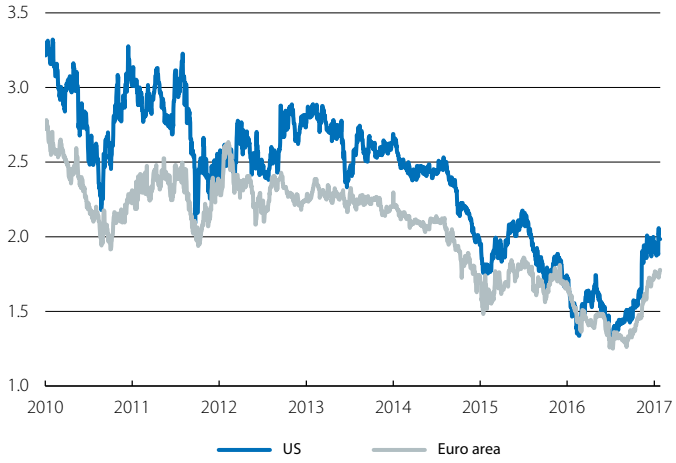
Yields on US Treasury bonds are starting to reflect more nuances related to reflation. In January, the yields on US 10-year bonds clearly reflected the uncertainty still hovering over the specifics of Trump's agenda and therefore its effects. After the upswing in yields between November and mid-December, investors shed some of their Treasury positions during the first few weeks of this year. Nonetheless, and as is also the case with US risky assets, yields spiked again towards the end of January. The net outcome of these fluctuations is a minimal rise in US Treasury bond yields during the month. It is not clear how long this relatively indecisive phase will last. It will probably be determined by how quickly Trump's administration reveals its intentions regarding government spending, taxation and trade policy and the economic effects of this new economic policy will also help to dispel doubts. It will therefore be vital to monitor price and wage indicators, given their increasingly strong upward trend, particularly in an environment of almost full employment.

Europe's sovereign debt moves away slightly from the US financial scenario. The trend in yields on the German bund in January was rather different from its US peer. While the rise in yield was minimal for the latter, the long-term German bond yield increased more substantially. Euro area sovereign debt interest rates saw two distinct stages in January. The ECB met in the first part of the month and, as already mentioned, did not announce any new moves. It merely confirmed that it would keep its monetary policy accommodative until the end of 2017. The German curve therefore remained stable while the spreads of other countries' sovereign debt narrowed with Germany. However, in the second half of the month the international markets reacted to the first moves taken by Trump's administration, with upswings in interest rates. Moreover, after December's higher inflation figure was announced, those ECB members less in favour of unconventional policies adopted a rather more aggressive public stance. This reversed the situation of the first half of the month, with rising German rates and wider spreads with the rest of the countries.

The foreign exchange market reflects investor doubts. The world's benchmark currency, the dollar, depreciated slightly, both against the euro and also in nominal effective terms (i.e. compared with the basket of currencies of its trading partners). CaixaBank Research believes this is a temporary change in trend that only minimally reverses the fast appreciation of the dollar over the past months. Unlike this technical correction, and given the diverging monetary policy stances of the ECB and Fed, the underlying trend will be further depreciation of the euro, which might return to its lower range of 1.05-1.10 dollars/euro or even break through this barrier temporarily.

*Inflation expectations: * US and euro area*

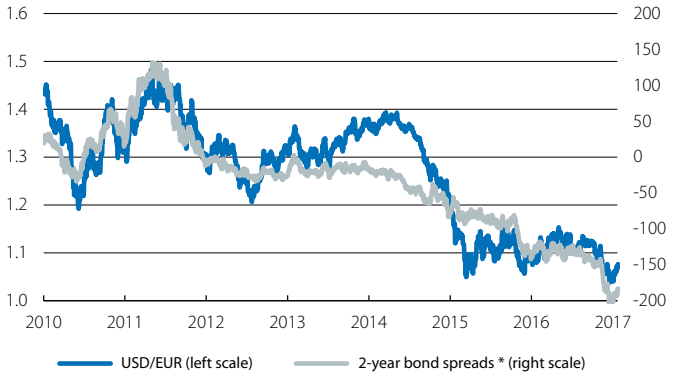
(%)



Note: ** 5Y5Y Inflation Swap Forward.*
Source: *CaixaBank Research, based on Bloomberg data.*

Dollar-euro exchange rate and 2-year bond yield spreads

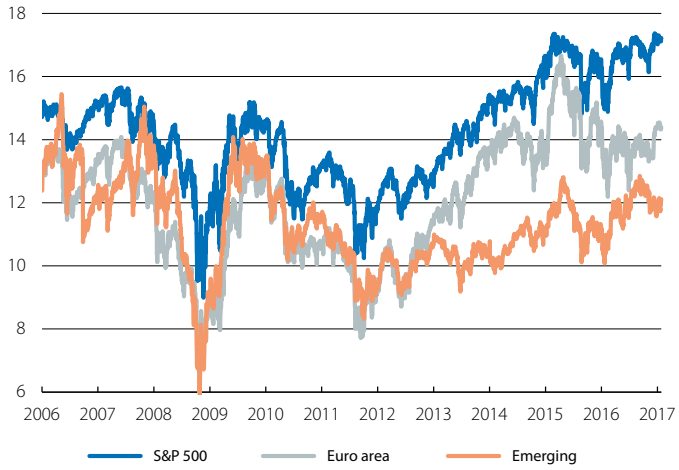
(Dollars per euro) *(bps)*



Note: ** Spread between the 2-year German bund and US Treasury bond.*
Source: *CaixaBank Research, based on Bloomberg data.*

*Regional stock markets: price-to-earnings ratio **

(PER)



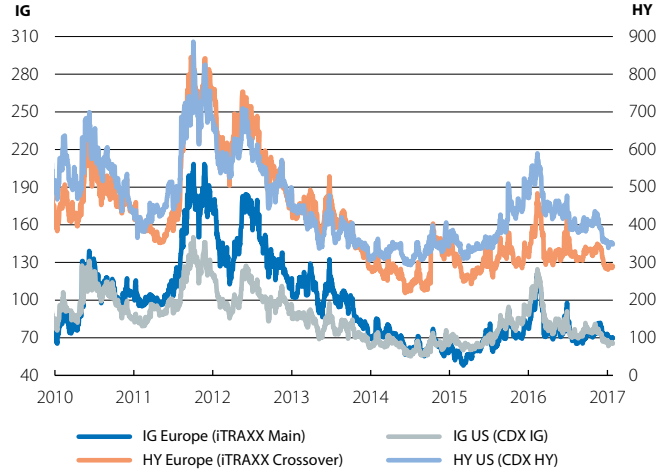
Note: ** Forward PER for the next 12 months.*
Source: *CaixaBank Research, based on Bloomberg data.*

The emerging currencies are gaining speed. As a whole, the emerging currencies were hit hard by the US presidential elections (in November, the J. P. Morgan index for emerging currencies fell by 4.4% against the dollar). Since then, almost half this decline has been reversed, timidly in December but more decisively in January. The Brazilian real and Russian rouble have performed particularly well against the dollar. In clear contrast, investors are discriminating between countries and punishing Mexico and particularly Turkey, whose currencies have depreciated strongly since last November. In line with this overall upward trend, emerging capital flows have continued to recover. In particular, the net portfolio capital inflows (debt and shares) for a representative group of emerging countries with a liberalised capital account (i.e. not China) show that the strong capital outflows from emerging economies following the US presidential elections have now been completely reversed.

Localised stock market gains and losses. The equity market is another of the segments digesting the different elements emerging from the current financial situation (namely the recent strong momentum, reflation theme and lack of economic policy specifics in the US). Although the record level achieved by the Dow Jones index on 26 January (above the psychological barrier of 20,000 points) was widely reported in the media, the trend in the US stock market has actually been more restrained. After growing by more than 3% in December, the Dow Jones index rose by a mere 0.5% in January. The more representative index of the US equity market, the S&P 500, was rather more dynamic and increased by 1.8%. Europe has been moving in a different direction. In January, the Eurostoxx 50 lost 1.8% of its value. However, this loss should be interpreted within the overall trend in the market as the euro area's benchmark index had grown by just under 8% in December. The emerging stock markets have been boosted by increased investor confidence, as already mentioned, posting gains in excess of 5% in January.

Europe and US: CDS premia by grade

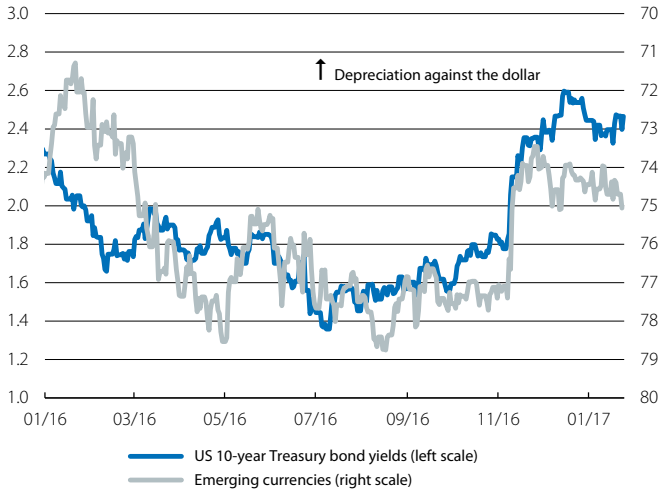
(bps)



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

Emerging currencies and bonds in the US

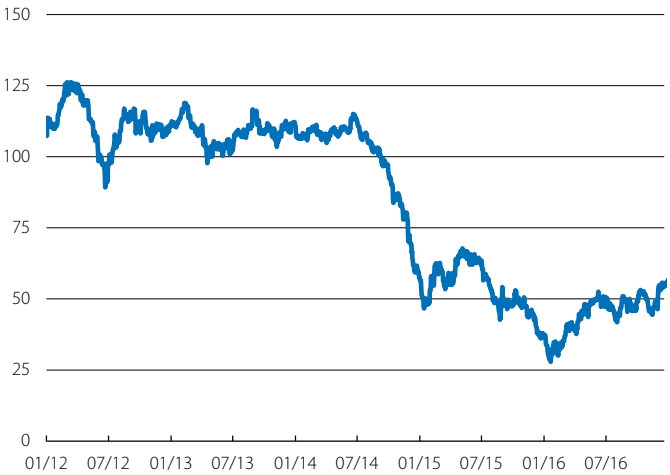
(%) *Index (100 = January 2014) inverted scale*



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

Brent oil prices

(Dollars per barrel)



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

FOCUS · The Fed's strategy in 2017: firmer steps but still cautious

Last December the Federal Reserve (Fed) carried out what turned out to be the only hike in the fed funds rate in 2016. In addition to its decision to raise the benchmark rate by 25 bps to the range of 0.50%-0.75%, attention was also focused on the institution's upgrade of its forecasts regarding the appropriate fed funds level in 2017.

FOMC members are now planning three hikes in 2017 compared with the two predicted last September, which would bring the benchmark rate to 1.25%-1.50% by December 2017. The interesting feature of this more aggressive interest rate scenario is that it is does not come from higher growth or inflation forecasts by the monetary authority. Therefore, this adjustment in the interest rate outlook is more likely to be due to a shift in the balance of risks surrounding the expected scenario. The strength shown by activity indicators in the last few months, the upswing in oil prices and prospect of more expansionary fiscal policies have reduced the risk of inflation falling again and remaining low for any substantial period. A scenario which the markets seem to confirm, particularly now that expansionary fiscal policy is more likely thanks to Donald Trump's election. An approximate view of this situation can be seen in the first graph, showing the price (or premium) paid by investors to hedge scenarios with inflation below 2% and 1% over the next five years.

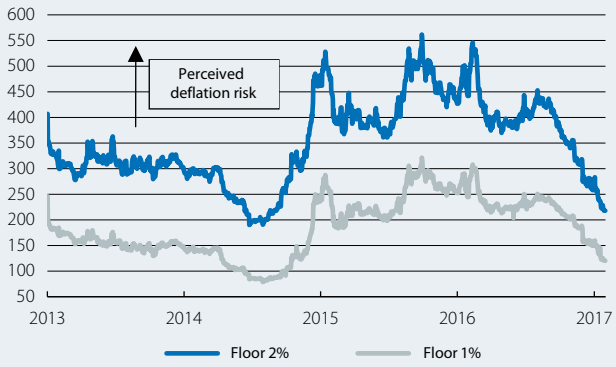
In fact, this potentially new direction for fiscal policy is becoming an important factor that might alter the central bank's interest rate policy in the coming quarters. CaixaBank Research expects the package of fiscal measures to have a modest effect on growth and inflation. However, as the US economy is very close to full employment, the impact of expansionary fiscal policy on growth may be lower than predicted and could, in turn, lead to higher inflationary pressure than expected.

The Fed is therefore likely to apply a more aggressive normalisation policy than the one discounted by the bond market, which predicts two hikes in 2017. The same conclusion can be drawn from the trend in the fed funds rate predicted by the Taylor rule. This rule suggests the level the benchmark rate should be at according to the macroeconomic conditions prevalent at any given time (essentially growth and inflation).

A traditional application of the rule's parameters indicates that the benchmark rate should be around 4%. However, an alternative interpretation, commonly known as the «Yellen rule», suggests the appropriate fed funds rate is currently much lower, around 1.75%, although still clearly higher than its actual rate.[1] What's more, the Yellen rule calls for the fed funds rate to rise over the next few quarters by around 75 bps, based on the forecast scenario published by the Fed last December.

US: 5Y inflation option premiums

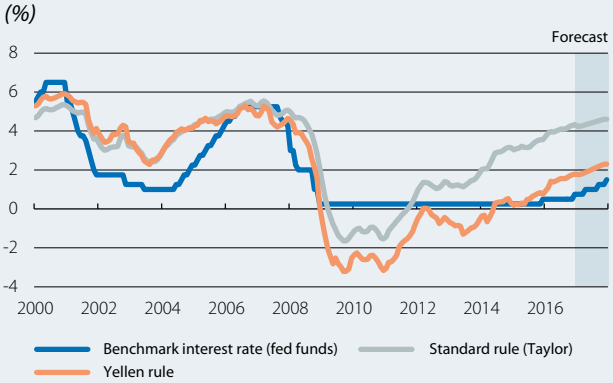
(bps)



Note: *For a description of inflation options, see the Focus «Inflation expectations and financial instruments: a valuable duo» in MR04/2014.*
Source: *CaixaBank Research, based on data from Bloomberg.*

*US: benchmark interest rate and predictions according to monetary policy rules **

(%)



Note: ** CaixaBank Research forecasts are used for the benchmark interest rate.*
Source: *CaixaBank Research, based on data from CBO, Federal Reserve and Bloomberg.*

1. The term «Yellen rule» refers to a Taylor rule using the inflation and output gap coefficients and parameters cited by the Fed's chairman in several of her speeches. See Yellen (2015): Normalizing Monetary Policy: Prospects and Perspectives.

FOCUS · A sector-based view of the new macroeconomic scenario

Since Donald Trump won the US presidential election, growth and inflation expectations have been revised upwards in the US, also reflected in bigger corporate profits being forecast. As a result, we have also witnessed significant gains in the major stock market indices. However, this «Trump Rally» hides a revealing disparity between sectors that is essentially due to three factors: markets discounting an economic boost thanks to fiscal expansion, an increase in risk-free Treasury returns due to higher inflation expectations and anticipation of more protectionist trade policies.

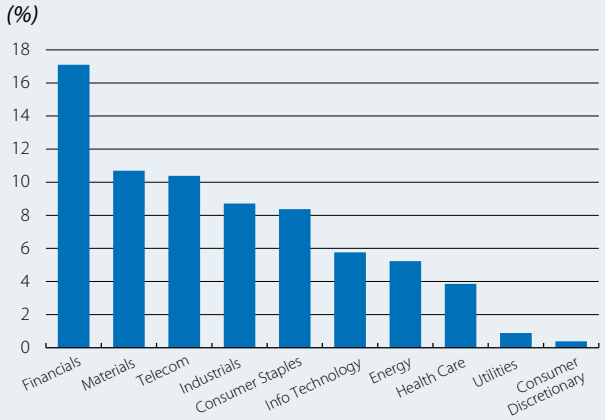
The sectors that benefit most from fiscal expansion are primarily related to infrastructure spending, such as materials, metals and mining. Investors have also anticipated an overall positive effect on earnings due to cuts in corporate taxes which could particularly boost those firms with greater domestic exposure. Faster growth and lower taxation could also free up space on balance sheets for more capex, which would have a positive effect on industry via larger manufacturing orders. Finally, investors also anticipate individual tax cuts, which would lift cyclical consumption. On the other hand, defensive sectors such as consumer discretionary, telecommunications[1] and utilities tend to lag under such scenarios.

Another factor that will affect share price trends is the expectation of higher interest rates, especially in the long end of the curve. Both banks and insurance companies will benefit from a steeper curve as it means larger profits from interest payments. Financials valuations have also become more attractive (both in terms of price-to-earnings and also price-to-book). However, higher interest rates will particularly hurt those industries with greater leveraging and higher long-term debt, such as oil, metals and mining, telecommunications, airlines and automobiles.

Finally, the Trump administration's protectionist stance appears to be achieving a scale that could end up hindering more import-dependent sectors (such as retail consumption and transport), as well as companies with a large share of their production overseas (e.g. Apple and Ford). The Fed's interest rate hikes will also keep the dollar strong, which will hit exporting firms, mainly technological (with 60% of their income from abroad) but also industrial (especially car manufacturers, facing increased competition from Europe and Japan, and with higher valuations and weaker balance sheets than the technological sector).

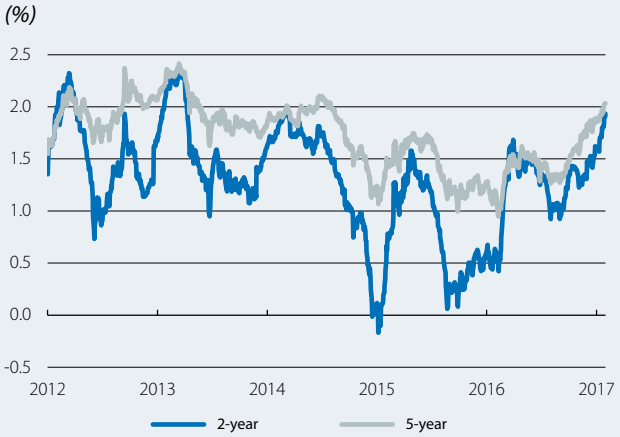
1. Telecom shares have rallied because the sector's regulation is likely to be reduced.

US: post-election stock market returns by sector



Note: *Change in the stock market index for each sector between 08/11/2016 and 31/01/2017.*
Source: *CaixaBank Research, based on data from Bloomberg.*

*US: inflation expectations **



Note: ** Spread between yields on Treasury bonds and inflation-linked bonds.*
Source: *CaixaBank Research, based on data from Bloomberg.*

KEY INDICATORS

Interest rates (%)

	31-Jan	30-Dec	Monthly change (bps)	Year-to-date (bps)	Year-on-year change (bps)
Euro area					
ECB Refi	0.00	0.00	0	0.0	–5.0
3-month Euribor	–0.33	–0.32	–1	–0.8	–16.5
1-year Euribor	–0.10	–0.08	–2	–1.8	–11.5
1-year government bonds (Germany)	–0.66	–0.80	14	14.1	–21.5
2-year government bonds (Germany)	–0.70	–0.77	7	6.6	–21.3
10-year government bonds (Germany)	0.44	0.21	23	23.2	11.5
10-year government bonds (Spain)	1.60	1.38	22	21.6	8.8
10-year spread (bps) [1]	116	118	–1	–1.5	–2.5
US					
Fed funds	0.75	0.75	0	0.0	25.0
3-month Libor	1.03	1.00	3	3.6	42.1
12-month Libor	1.72	1.69	3	3.9	58.5
1-year government bonds	0.76	0.81	–5	–5.1	31.1
2-year government bonds	1.20	1.19	1	1.2	42.6
10-year government bonds	2.45	2.44	1	0.6	52.9

Spreads corporate bonds (bps)

	31-Jan	30-Dec	Monthly change (bps)	Year-to-date (bps)	Year-on-year change (bps)
Itraxx Corporate	73	72	1	0.9	–19.4
Itraxx Financials Senior	91	93	–3	–2.8	–1.0
Itraxx Subordinated Financials	212	221	–10	–9.8	3.5

Exchange rates

	31-Jan	30-Dec	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
$/€	1.080	1.052	2.7	2.7	–0.3
¥/€	121.800	122.970	–1.0	–1.0	–7.2
£/€	0.858	0.854	0.6	0.6	12.8
¥/$	112.800	116.960	–3.6	–3.6	–6.9

Commodities

	31-Jan	30-Dec	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
CRB Commodity Index	432.5	423.1	2.2	2.2	12.8
Brent ($/barrel)	54.7	55.4	–1.3	–1.3	64.7
Gold ($/ounce)	1,210.7	1,152.3	5.1	5.1	8.3

Equity

	31-Jan	30-Dec	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
S&P 500 (USA)	2,278.9	2,238.8	1.8	1.8	17.5
Eurostoxx 50 (euro area)	3,230.7	3,290.5	–1.8	–1.8	6.1
Ibex 35 (Spain)	9,315.2	9,352.1	–0.4	–0.4	5.7
Nikkei 225 (Japan)	19,041.3	19,114.4	–0.4	0.0	8.7
MSCI Emerging	909.2	862.3	5.4	5.4	22.5
Nasdaq (USA)	5,614.8	5,383.1	4.3	4.3	21.7

Note: *1. Spread between the yields on Spanish and German 10-year bonds.*

ECONOMIC OUTLOOK · **Global growth is on the up, with downside risks**

World growth will accelerate in 2017. Activity indicators tended to improve towards the end of 2016, endorsing the CaixaBank Research benchmark scenario for 2017, when world GDP is expected to grow by 3.4% (compared with the estimated 3.1% growth for 2016). In 2018 the activity rate will increase even further to 3.6%. Inflation will rise slightly in 2017 and 2018, especially in advanced economies. The factors underlying this expansion are well known. Firstly, in the advanced economies monetary policy will still be expansionary (even in the US, whose monetary normalisation will continue to be very gradual). A second global factor supporting the acceleration in activity is the recovery in oil prices, which will boost exporters without excessively eroding growth for importers. Thirdly, the recovery of the emerging economies, glimpsed towards the end of 2016, will probably intensify: Russia and Brazil are expected to exit their recessions, with expansion likely in other economies such as India and emerging Europe. Obviously the most notable exception to this trend is China, which will continue its gradual slowdown in 2017 and 2018.

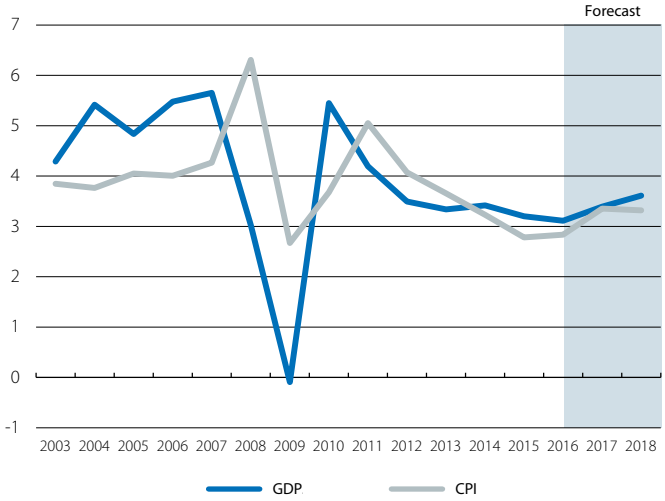
The balance of risks is still downside, leaning towards less growth. In spite of this reasonably satisfactory outlook, risks at a global level are still high. In particular, CaixaBank Research notes increasing global debt, the rise in populism, geopolitical uncertainty, questions regarding the policy stance of Trump's administration, doubts concerning China's soft landing and financial, real estate and foreign exchange risks, as well as the impact of tougher international financial conditions on emerging economies with more external vulnerabilities. This interpretation is broadly in line with consensus estimates, as can be seen in the IMF's recent update of its World Economic Outlook. Some of the risks highlighted by the IMF are protectionism, the combination of low growth (due to the absence of structural reforms) and high debt of some advanced economies and the vulnerabilities still shown by some large emerging countries.

UNITED STATES

The world's largest world economy; the world's largest risk? The US situation is paradoxical. Its activity rate is showing evident signs of acceleration, leaving behind the relative slump in the first part of 2016, but its favourable cyclical outlook is being affected by uncertainty regarding the economic policy of Trump's administration. In any case, the machine is still purring along, at least for the time being. For example, business confidence indicators (ISM) for manufacturing and services were clearly above 50 points in December, suggesting a clear expansion in secondary and

World GDP and CPI

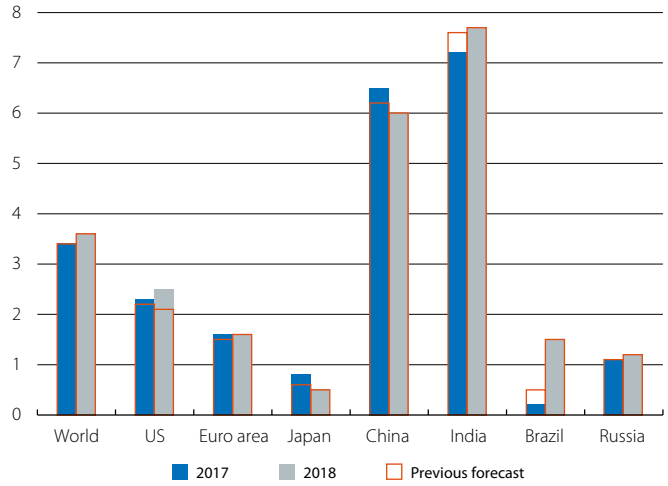
Annual change (%)



Source: *CaixaBank Research.*

IMF: GDP forecasts for 2017 and 2018

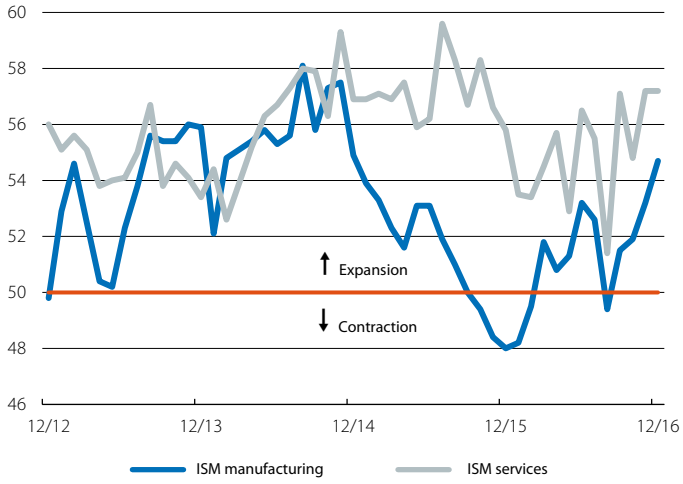
Annual change (%)



Source: *CaixaBank Research, based on IMF data (WEO, January 2017).*

US: activity indicators

Level



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

tertiary activity. The consumer confidence indicator suggests a similar view, at its highest level for the past 15 years.

The positive situation at the end of 2016 was confirmed overall with the publication of Q4 GDP figures. In this period, quarter-on-quarter growth was 0.5% (1.9% year-on-year). Although this rate is lower than in Q3, it is still high and its composition (with strong domestic demand) points to a momentum that should continue over the coming quarters. A complicated year has therefore come to an end, filled with moments of uncertainty and made up of two clearly different phases; a first half of the year with disappointing growth rates and a second half with clear economic expansion.

Is the proposed economic stimulus necessary? Activity is speeding up at a time when the economy is close to full employment. 156,000 jobs were created in December, bringing the monthly average for 2016 to the high figure of 180,000. Unemployment also ended the year at a low 4.7%, far from the 10% recorded in 2009, while wages continued to rise considerably (up by 2.9% year-on-year, the highest since 2009). Given this situation, the announcement of a substantial fiscal stimulus after the elections via a combination of tax cuts and increased public investment has sparked discussion, as it could end up causing inflationary tensions and an even greater trade imbalance, with merely a limited improvement in growth in return.

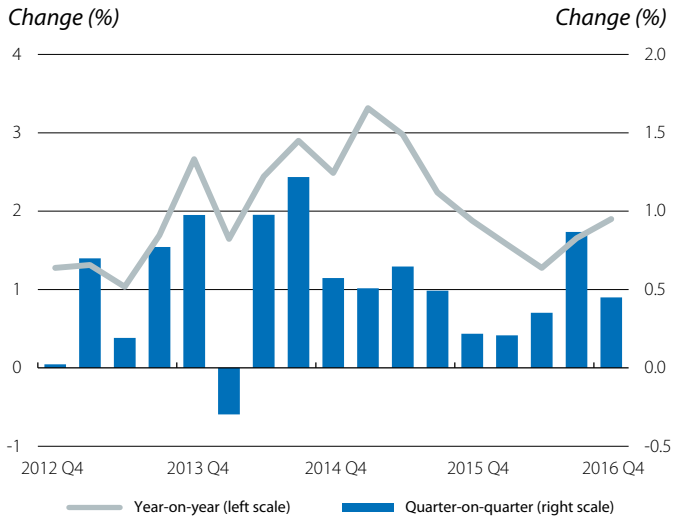
Inflation, about to hit higher levels. This diagnosis is reinforced by inflation's recent behaviour. In December, the CPI grew by 2.1% year-on-year, 0.4 pps above the previous month's figure, due to the contribution of owners' equivalent rent and energy. As oil prices are expected to rise over the coming months, inflation will exceed 2.5% in 2017 Q1. Adding together the different elements indicating a mature phase of the cycle, it is logical that the Federal Reserve (Fed), after months of hesitation, raised the Fed Funds rate last December to 0.5%-0.75%, and also to propose three additional hikes in 2017 (a scenario that CaixaBank Research agrees with completely but not the majority of the market).

EMERGING

Economic activity and capital flows boost the emerging economies. After several months of an uncertain trend in activity, indicators started to move upwards towards the end of 2016. Albeit with some exceptions (Turkey and Latin America are the most notable), the emerging economies are now enjoying more solid growth. This improvement has been accompanied by an upturn in net portfolio capital inflows (debt and shares), totally reversing the intense episode of capital outflows from the emerging countries that followed the US presidential elections.

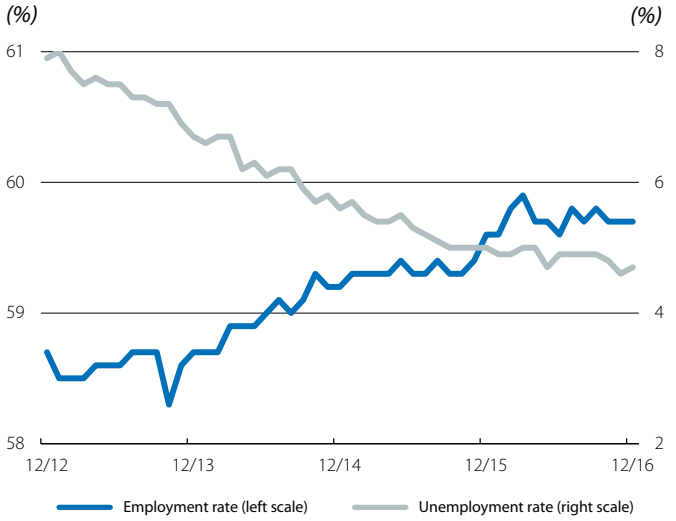
China dispels more immediate doubts but risks are still high. The trend in China's growth has been closely watched for several years now. The biggest doubt concerns the

US: GDP



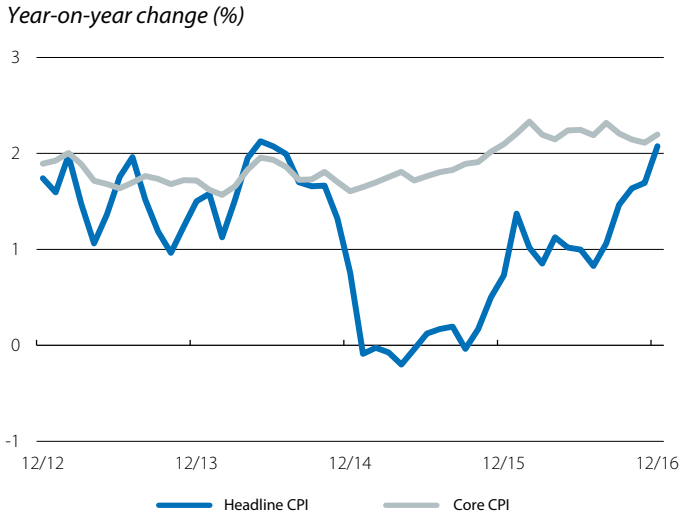
Source: *CaixaBank Research, based on BEA data.*

US: labour market



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

US: CPI



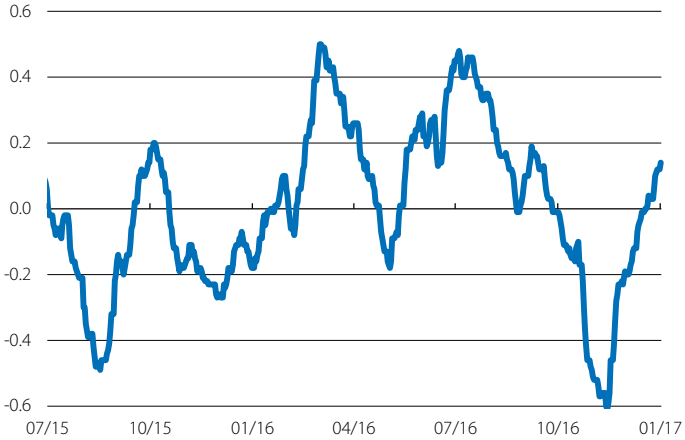
Source: *CaixaBank Research, based on data from the Bureau of Labor Statistics.*

economic slowdown being managed by the government and whether this will be orderly or abrupt (in other words a «soft landing» or a «hard landing»). For the time being, the first scenario is still the most likely. 2016 Q4 growth was 6.8%, almost identical to the 6.7% of the three preceding quarters, with the year's figure ending up at 6.7% (6.9% in 2015). This provides a solid starting point for 2017 and supports the CaixaBank Research forecast that China will grow by 6.4% this year. But the fact that the slowdown is proceeding according to plan does not dispel doubts concerning a number of risks, both financial (excessive debt, shadow banking, etc.) and also related to real estate and foreign exchange.

Russia and Mexico, the two sides of the emerging coin. The month has been a mixed bag for the other large emerging economies. Russia is the perfect example of an emerging commodities exporter that is starting to be perceived with a less severe balance of risks than in preceding months. The view of CaixaBank Research is much less complacent. Although Russia's activity is certainly benefitting from the upswing in oil prices, part of this improvement is more a «rebound» after a deep recession than a recovery based on solid macroeconomic adjustments. Nevertheless, it is true that other major emerging countries face more serious risks. For instance, Mexico. In particular, there are serious doubts concerning the impact of the new US trade policy on the structural foundations of Mexico's economy. For the time being, in 2016 Q4 the Mexican economy grew by 0.6% quarter-on-quarter, an appreciable slowdown compared with the 1.0% posted in Q3. The effects of the substantial depreciation in the peso during 2016 are also being passed on to the prices of imported goods, especially food and petrol. In this last case, the impact of the gradual liberalisation of petrol prices is in addition to the effect of the peso's depreciation. This is a necessary measure (public subsidies for petrol amount to approximately 0.7% of GDP) but one which is undoubtedly occurring at a sensitive time.

Emerging: portfolio capital inflows *

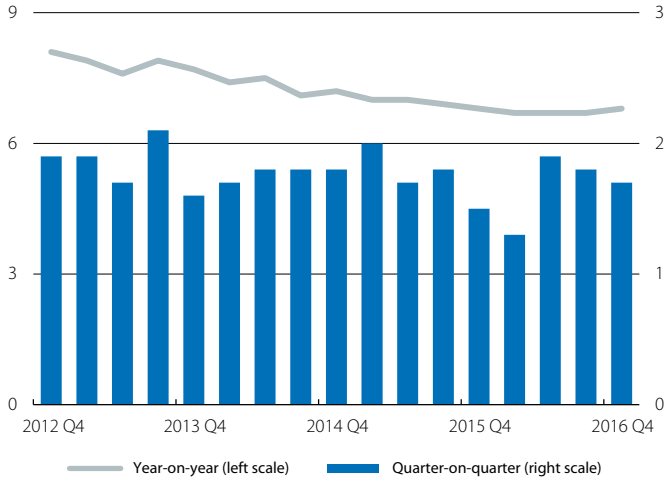
28-day moving average (billions of dollars)



Note: ** Countries included: Indonesia, India, Korea, Thailand, South Africa, Brazil, Turkey, Hungary and Mexico. Net inflows of debt and shares.*
Source: *CaixaBank Research, based on IIF data.*

China: GDP

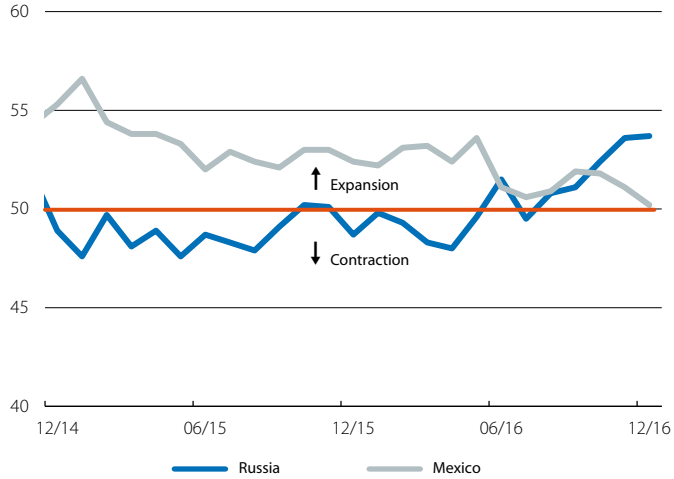
Change (%) *Change (%)*



Source: *CaixaBank Research, based on data from China's national statistics office.*

Russia and Mexico: manufacturing PMI

Level



Source: *CaixaBank Research, based on data from Thomsom Reuters Datrastream.*

FOCUS · Shadow banking in China: a looming shadow

In addition to China's high level of corporate debt, another factor fuelling concerns about the country's financial stability is the role played by shadow banking activities.[1]

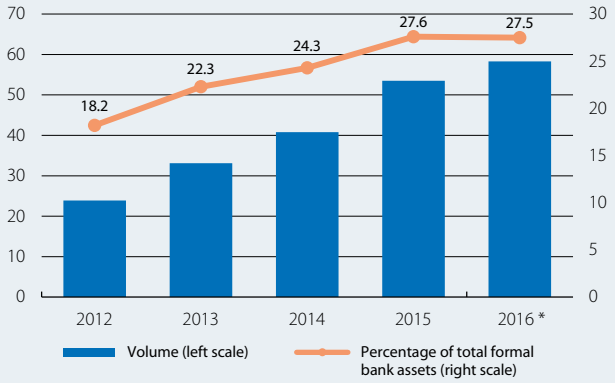
There is a great deal of uncertainty about the real size of shadow banking in China since official statistics fail to provide any direct estimate. Moody's estimates the sector at 58.3 trillion yuan in June 2016 (27.5% of all bank assets in the formal banking system).[2] This number represents 80% of Chinese GDP but is not especially large *per se* as it is far below the US, where it amounts to 150% of GDP. The real cause for concern comes from the recent surge observed in shadow banking activities. According to the Financial Stability Board, China's shadow banking has grown by more than 30% per year over the last three years compared with 10% growth in the rest of the world.

If we analyse the composition of China's shadow banking, the large amount of wealth management products (WMP) stands out with a 44% share of the total, doubling in volume since 2014.[3] WMPs are generally short-term savings products that offer high returns and often invest in risky assets. Given the tendency to assume excessive risks with these products, Chinese regulatory authorities have recently forced financial institutions with less than 5 billion yuan of net capital to invest the proceeds from any WMP they issue in less risky assets, such as government bonds. In second place come entrusted loans, namely loans between companies, which make up 21% of shadow banking. These are not seen as bank loans and have largely been used to channel credit at high interest rates (and high risk), although in this case shadow banking is merely acting as an intermediary for such transactions and therefore assumes no risk, at least not directly. Trust loans make up 10% of the total, which are loans offered by financial institutions in the informal banking system.

In theory, this expansion of shadow banking could be positive if it helps to diversify financial risks. This has not been the case in China, however, where shadow banking has been channelled towards high-risk financial vehicles and practices, often involving the formal banking system. For instance, 15% of WMPs have been bought by traditional banks in the interbank market. This percentage was just 3% at year-end 2014. Another source of concern is that a lot of traditional banks have used shadow banking to reclassify their loans, in many cases bad debt, as other financial products requiring far fewer provisions. As these reclassified loans actually involve a high risk not covered by adequate provisions, and in most cases banks have not managed to transfer the risk, such practices could create significant strains in the financial system. Bloomberg estimates that these «shadow loans» represented 15% of GDP in June 2016. Such malpractice is particularly prevalent in small and medium-sized regional banks, hence the recent intervention by Chinese regulators to limit their exposure to WMPs.

China: size of shadow banking

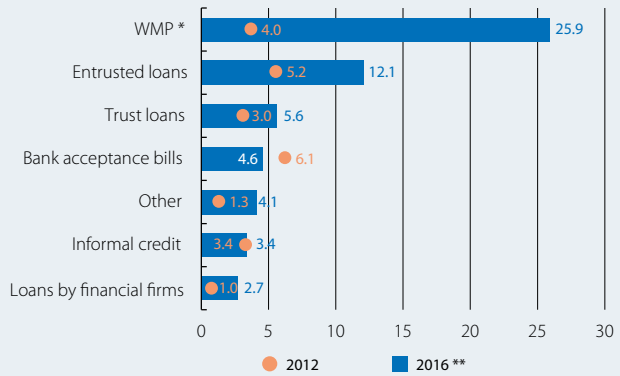
(Trillion yuan) *(%)*



Note: ** 2016 data from the first half of the year.*
Source: *CaixaBank Research, based on data from the People's Bank of China, Moody's, China Trustee Association and China's Wealth Management Registrations System.*

China: composition of shadow banking

(Trillion yuan)



Notes: ** Wealth management products (WMP) included within shadow banking comprise all WMP taken off banks' balance sheets and WMP sold in the informal system by financial agents, mainly trust companies and brokerage firms. ** 2016 data from the first half of the year.*
Source: *CaixaBank Research, based on data from the People's Bank of China, Moody's, China Trustee Association and China's Wealth Management Registrations System.*

1. Shadow banking refers to the financial institutions, infrastructure and practices that support financial activity outside the supervision of the regulatory authorities.
2. Other, more conservative estimates by *The Economist* place this at 40 trillion yuan.
3. See the Focus «China's financial system: a giant with feet of clay?» in MR11/2016 for more details on wealth management products (WMP).

FOCUS · Global trade slowdown: the role played by protectionism

International trade has been an important source of economic growth over the last few decades, both for emerging and advanced countries.[1] However, their growth rates have slowed down considerably in the past five years. Several factors lie behind this slowdown but the one that is causing the most controversy is the rise in protectionism, especially after Trump's election and his promise to levy large tariffs on Chinese and Mexican imports.[2]

Trade was boosted considerably during the 1980s and 1990s. The most far-reaching and successful multilateral agreement in history belongs to this period, namely the Uruguay Round which was implemented between 1986 and 1994, involved 123 countries, affected a wide range of sectors and concluded with the creation of the World Trade Organization (WTO) in 1995. In that period, there were also important regional trade agreements in Europe (Single European Act in 1986) and North America (NAFTA in 1994), and of relevance was also China's accession to the WTO in 2001. However, since then there have been almost no multilateral agreements to liberalise trade.

Protectionist trade policies have also increased over the past few years. The fact that a large number of countries are members of the WTO limits the use of more traditional trade distortions measures such as raising tariffs or imposing import quotas. Hence, today countries implement protectionist measures that are more difficult to detect, such as aid for corporate financing. According to data gathered by the Global Trade Alert (GTA), which include these less conventional measures, in 2015 the number of new discriminatory measures against foreign companies is 50% higher than in 2014, from 500 to 1,000, and the signs point to this trend increasing in 2016 (see the first graph). According to the WTO, the total number of protectionist measures in force by mid-2016 was almost four times higher than the number in 2010, 1,263 compared with 324 (see the second graph).[3]

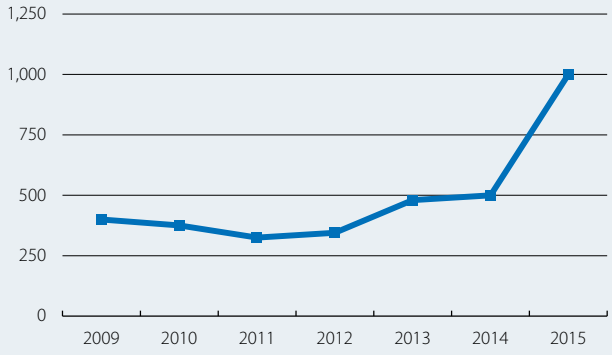
1. See Grossman, Gene M. and Elhanan Helpman (1990), «Trade, Innovation, and Growth», American Economic Review 80.2: 86-91, for the causal relationship between international trade and economic growth.
2. See the Focus «Slowdown in world trade and investment» in MR12/2016, which presents weak investment as a key factor in the slowdown in world trade flows.
3. It should be noted that it is difficult to quantify the number of protectionist measures as these are often concealed within other broader policies to escape notice by the WTO. The series produced by the GTA therefore differs considerably from that produced by the WTO, as it attempts to reflect these more opaque measures. The GTA estimates that the discriminatory measures considered by the WTO underestimate the real situation by more than 50%. Although both graphs in this Focus show a rise in protectionism, the second (which focuses on stock) could not be produced based on the first (which focuses on flows) as the data come from different sources.

Although there has been an evident rise in protectionism, this seems to have played a limited role in the weaker trend for world trade, at least to date, as the measures implemented have affected less than 2% of trade flows according to the GTA. In its latest World Economic Outlook, the IMF also states that the quantitative impact of protectionism has been limited. The IMF has analysed the effect of protectionism together with that of the deceleration in trade liberalisation since both factors are actually related, concluding that the latter has not played any key role either in the change in the world trade slowdown.

The message from the OECD is slightly less optimistic, however, attributing 25% of the trade slowdown in the past five years to both factors (increased protectionism and slower rate of liberalisation), albeit stressing that most of this effect comes from the waning pace of trade liberalisation. In any case, should the uptick in protectionism continue, it will also end up hindering global trade.

*Protectionist policies: new measures **

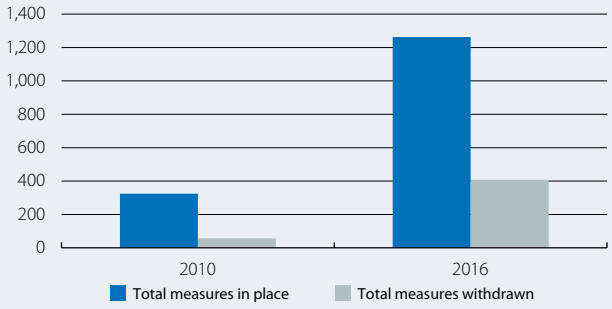
Number of new discriminatory measures implemented worldwide



Note: ** Including tariffs, trade finance, localisation requirements and state aid, among other measures.*
Source: *CaixaBank Research, based on data from the Global Trade Alert.*

*Protectionist policies: current and withdrawn measures **

Number of measures



Note: ** Protectionist measures since 2008 by the G20 countries. Counting the measures in forceto date and the total number eliminated to date. Data at October each year. See Note 3 in the text for more details regarding the differences between the measures included by the WTO and GTA.*
Source: *CaixaBank Research, based on data from the WTO.*

KEY INDICATORS

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

UNITED STATES

	2014	2015	2015 Q4	2016 Q1	2016 Q2	2016 Q3	10/16	11/16	12/16
Activity									
Real GDP	2.4	2.6	1.9	1.6	1.3	1.7	–	1.9	–
Retail sales (excluding cars and petrol)	4.5	4.3	3.6	4.0	4.4	3.6	4.2	4.0	3.1
Consumer confidence *(value)*	86.9	98.0	96.0	96.0	94.8	100.7	100.8	109.4	113.7
Industrial production	2.9	0.3	–1.6	–1.6	–1.1	–1.0	–0.7	–0.7	0.5
Manufacturing activity index (ISM) *(value)*	55.6	51.3	48.6	49.8	51.8	51.2	52.0	53.5	54.5
Housing starts *(thousands)*	1,001	1,108	1,135	1,151	1,159	1,145	1,320	1,102	1,226
Case-Shiller home price index *(value)*	171	179	183	187	188	188	190	...	...
Unemployment rate *(% lab. force)*	6.2	5.3	5.0	4.9	4.9	4.9	4.8	4.6	4.7
Employment-population ratio *(% pop. > 16 years)*	59.0	59.3	59.4	59.8	59.7	59.7	59.7	59.7	59.7
Trade balance [1] *(% GDP)*	–2.8	–2.8	–2.8	–2.7	–2.7	–2.7	–2.6	–2.7	...
Prices									
Consumer prices	1.6	0.1	0.5	1.1	1.0	1.1	1.6	1.7	2.1
Core consumer prices	1.7	1.8	2.0	2.2	2.2	2.2	2.1	2.1	2.2

Note: *1. Cumulative figure over last 12 months.*
Source: *CaixaBank Research, based on data from the Department of Economic Analysis, Department of Labor, Federal Reserve, Standard & Poor's, ISM and Thomson Reuters Datastream.*

JAPAN

	2014	2015	2015 Q4	2016 Q1	2016 Q2	2016 Q3	10/16	11/16	12/16
Activity									
Real GDP	0.2	1.2	1.2	0.3	0.9	1.0	–	...	–
Consumer confidence *(value)*	39.3	41.3	42.2	41.4	41.2	42.1	42.3	40.9	43.1
Industrial production	2.1	–1.2	–1.1	–3.2	–1.7	0.5	0.2	2.9	...
Business activity index (Tankan) *(value)*	13.5	12.8	12.0	6.0	6.0	6.0	–	10.0	–
Unemployment rate *(% lab. force)*	3.6	3.4	3.3	3.2	3.2	3.0	3.0	3.1	...
Trade balance [1] *(% GDP)*	–2.5	–0.5	–0.5	–0.2	0.1	0.5	0.8	0.9	1.0
Prices									
Consumer prices	2.8	0.8	0.2	0.0	–0.3	–0.5	0.2	0.5	0.3
Core consumer prices	1.8	1.0	0.7	0.6	0.6	0.2	0.2	0.1	0.0

Note: *1. Cumulative figure over last 12 months.*
Source: *CaixaBank Research, based on data from the Communications Department, Bank of Japan and Thomson Reuters Datastream.*

CHINA

	2014	2015	2015 Q4	2016 Q1	2016 Q2	2016 Q3	10/16	11/16	12/16
Activity									
Real GDP	7.3	6.9	6.8	6.7	6.7	6.7	–	6.8	–
Retail sales	12.0	10.7	11.1	10.3	10.2	10.5	10.0	10.8	10.9
Industrial production	8.3	6.1	5.9	5.9	6.1	6.1	6.1	6.2	6.0
PMI manufacturing *(value)*	50.7	49.9	49.7	49.5	50.1	50.2	51.2	51.7	51.4
Foreign sector									
Trade balance [1] *(value)*	383	608	608	588	576	554	541	532	513
Exports	6.0	–2.3	–5.2	–14.3	–7.5	–7.0	–7.9	–1.5	–6.1
Imports	0.4	–14.2	–11.8	–14.1	–7.1	–4.7	–1.9	4.7	3.1
Prices									
Consumer prices	2.0	1.4	1.5	2.1	2.1	1.7	2.1	2.3	2.1
Official interest rate [2] *(value)*	5.60	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35
Renminbi per dollar *(value)*	6.2	6.3	6.4	6.5	6.5	6.7	6.7	6.8	6.9

Notes: *1. Cumulative figure over last 12 months. Billion dollars. 2. End of period.*
Source: *CaixaBank Research, based on data from the National Bureau of Statistics of China and Thomson Reuters Datastream.*

ECONOMIC OUTLOOK · **The euro area begins 2017 with firmer growth**

Outlook of a more solid recovery in spite of continuing risks. In 2017, the euro area's economy will grow at a similar rate to 2016, supported by domestic demand. This can be seen in the IMF's latest forecasts which point to 1.6% growth both in 2017 and 2018, figures similar to CaixaBank Research's scenario (1.5% in 2017 and 1.6% in 2018). Although the forecasts indicate a slight slowdown compared with 2016, this is due to the dwindling of temporary factors that have been especially favourable over the last two years (low oil prices and the depreciation of the euro). Domestic demand will become increasingly solid, helped by underlying factors including the gradual recovery in the labour market and greater business confidence. Private consumption and investment will also continue to benefit from highly accommodative financial conditions as no change in the ECB's monetary policy stance is expected until the end of the year. Nevertheless, in spite of this favourable outlook the euro area is facing high political uncertainty. Brexit negotiations with the UK will start at the end of 2017 Q1 and these are likely to be complex, in addition to a very full electoral agenda in the euro area (elections in the Netherlands, France, Germany and perhaps Italy).

The UK's GDP increased by 0.6% quarter-on-quarter in Q4 and ended the year with 2.0% growth. This solid activity has surprised the consensus of analysts, which expected a marked slowdown in the economy after the Brexit victory in last June's referendum. Although the fast change in leadership of the British government and the expansionary policy implemented by the Bank of England have been crucial in reducing the impact on activity, the pound ended 2016 with a 14% depreciation against the euro and 16% against the dollar. This suggests that investor sentiment towards the UK has deteriorated and will also lead to a significant rise in inflation in 2017. The consequent loss of purchasing power, together with uncertainty surrounding the complex negotiations with the EU which will begin in 2017 Q2, could result in a less dynamic economy this year.

Slight acceleration in the euro area's GDP in Q4, with 0.5% quarter-on-quarter growth and domestic demand driving the economy. The euro area therefore grew by 1.7% for the year as a whole, a reasonably good figure given the repeated episodes of financial instability and political uncertainty throughout 2016. Across countries, Spain's figure was published (0.7% quarter-on-quarter) as well as France's (0.4%). Although the French economy looked healthier in the second half of 2016, growth prospects for 2017 are still moderate (1.1% according to CaixaBank Research), so the extent of the reformist ambitions of the new President from the elections this spring will be vital.

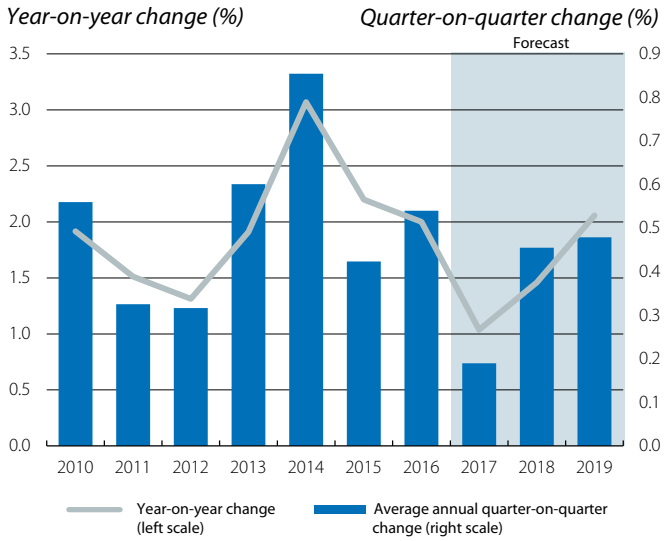
Euro area: IMF forecasts

Annual change (%)

		GDP forecast		Change from the October 2016 forecast	
	2016	2017	2018	2017	2018
Euro area	1.7	1.6	1.6	▲ 0.1	= 0.0
Germany	1.7	1.5	1.5	▲ 0.1	▲ 0.1
France	1.3	1.3	1.6	= 0.0	= 0.0
Italy	0.9	0.8	0.5	▼ 0.2	▼ 0.3
Spain	3.2	2.3	2.1	▲ 0.1	▲ 0.2

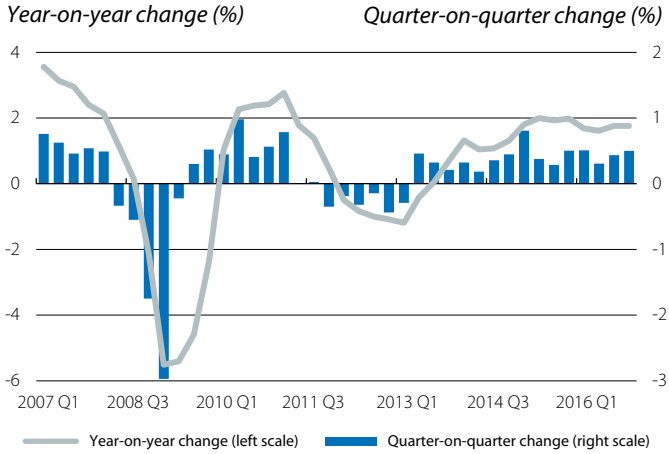
Source: *CaixaBank Research, based on IMF data (WEO, January 2017).*

UK: GDP



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

Euro area: GDP



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

Business indicators point to a slight acceleration in growth in the euro area. The composite business sentiment index (PMI) for the euro area stood at 54.3 points in January, a similar figure to the previous month (54.4) and clearly in the expansionary zone (above 50 points). Across countries, France posted a particularly good figure (53.8), in addition to the improvement already seen in December. Indicators therefore continue to suggest a slightly higher growth rate for activity at the start of the year.

Consumption indicators reflect the good performance by domestic demand. Retail sales in the euro area grew by more than 2% in October (2.8%) and November (2.2%), the best figures for the year. The consumer confidence index also reached –4.9 points in January, its highest for the past 21 months. On the whole, indicators show that private consumption is still the engine of the recovery and this will continue in 2017 thanks partly to the boost provided by the ECB's expansionary monetary policy.

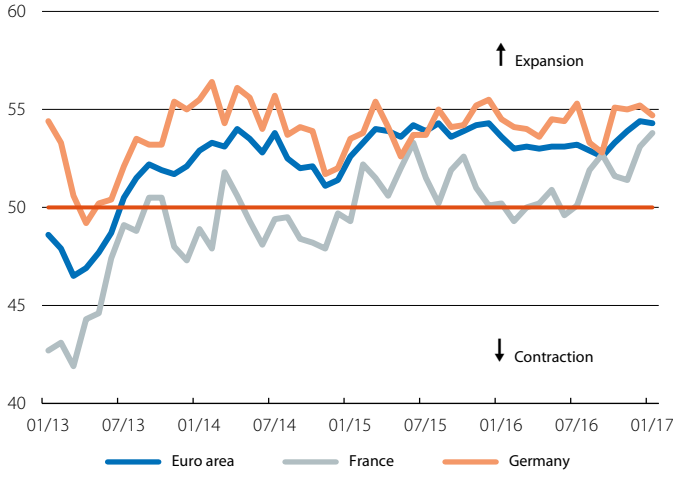
The improvement in activity is gradually spilling over to the labour market. The euro area's unemployment rate ended the year at 9.6%, 0.9 pps below the figure for December 2015 and the lowest rate since 2009. This fall in unemployment was widespread across almost all euro area countries. The most notable exception was Italy where unemployment increased to 12.0%, 0.4 pps higher than the rate in December 2015. The labour market will continue its gradual recovery in 2017, helping to reinforce growth in domestic demand and activity in the euro area.

Inflation picks up as predicted. The euro area's headline inflation, measured via the harmonised index of consumer prices (HICP), stood at 1.8% in January. The substantial recovery in headline inflation observed since June 2016 is mainly due to the correction of the base effect caused by falling oil prices in 2014 and 2015 and will continue over the coming months. The recovery in core inflation, indicative of medium-term inflationary trends, is more gradual (0.9% in January, the same as the previous month). We expect this gradual increase in core inflation to continue throughout 2017 thanks to an expanding economic activity and the improvement in the labour market. Specifically, headline and core inflation will reach values close to 1.5% by the end of the year. Although this is still not sufficiently close to the 2% target, with these figures the ECB will see signs of a sustained recovery in inflation, necessary to begin tapering its monetary policy throughout 2018.

Financial conditions are still very favourable. With the ECB's renewal of monetary stimulus at its December meeting (extending QE until December 2017 at a lower monthly rate of purchases), financial conditions will remain extraordinarily accommodative throughout 2017. Given this favourable monetary environment, demand for credit continued to rise in all segments in 2016 Q4, according to the bank lending survey of January 2017, and this trend is expected to continue in

PMI composite activity indicator

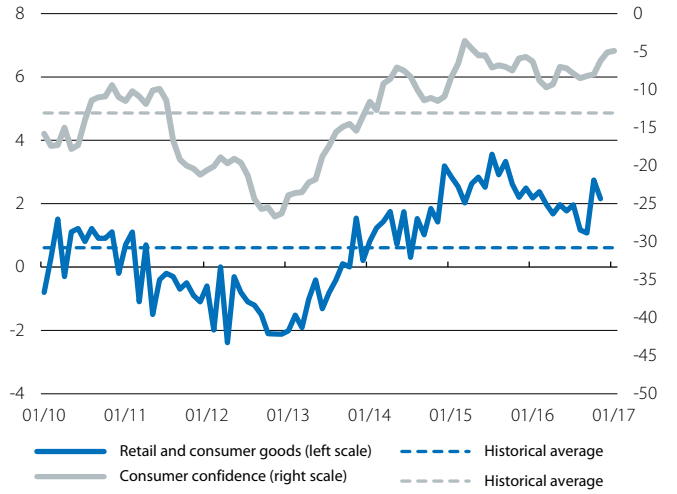
Level



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

Euro area: consumption indicators

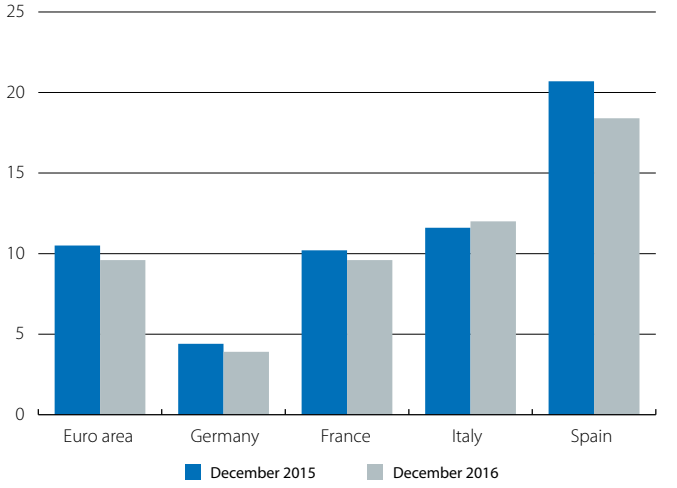
Year-on-year change (%) *Level*



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

Unemployment rate

(%)



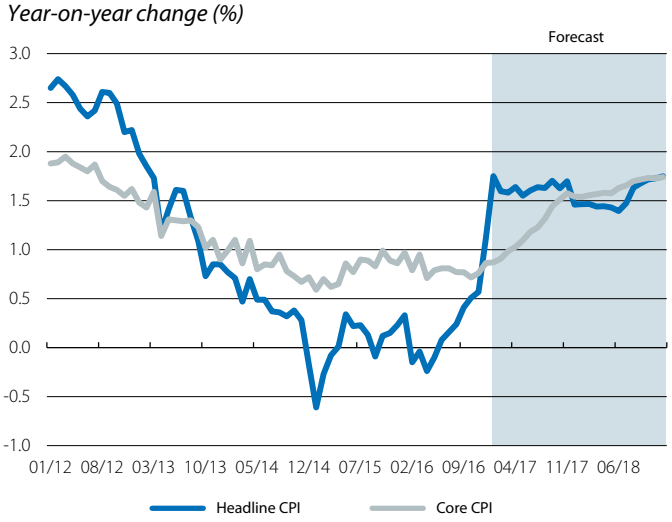
Source: *CaixaBank Research, based on Eurostat data.*

2017 Q1. The survey also shows that households found it easier to obtain consumer loans. All this suggests that financial conditions will continue to support growth in domestic demand.

The level of public debt is still high and falling very slowly. In the euro area as a whole public debt stood at 90.1% of GDP in 2016 Q3, almost the same level as in 2015 Q3 (91.5% of GDP). However, this stability hides disparate patterns across countries. Public debt is falling more quickly in those countries which, in 2015, started from a lower level of debt, such as Germany (69.4% in 2016 Q3, –2.6 pps compared with 2015 Q3), Ireland (77.1% in 2016 Q3, –8.5 pps compared with 2015 Q3) and the Netherlands (61.9% in 2016 Q3, –4.3 pps compared with 2015 Q3). On the other hand, in countries with higher levels of debt (Belgium, Spain, France, Italy and Portugal), public debt has remained almost stable or has even increased. In a context where most stimulus measures are disproportionately biased towards monetary policy, those countries with fiscal space can take advantage to boost growth and balance their monetary and fiscal policies. However, it is important for countries with high levels of public debt to reduce this more decisively and approach more sustainable levels.

Euro area: HICP

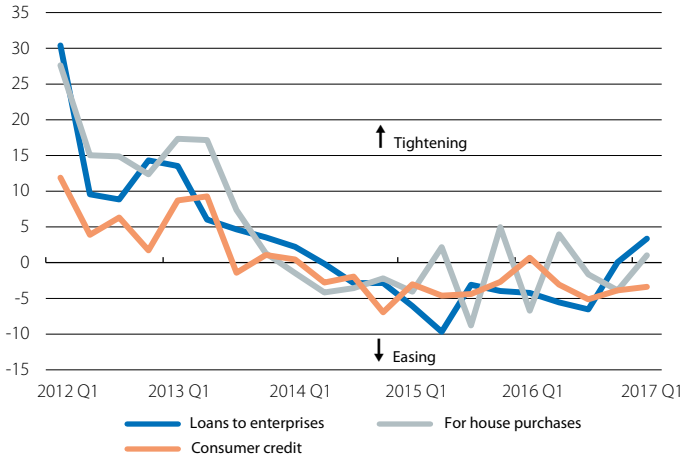
Year-on-year change (%)



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

Euro area: bank lending survey

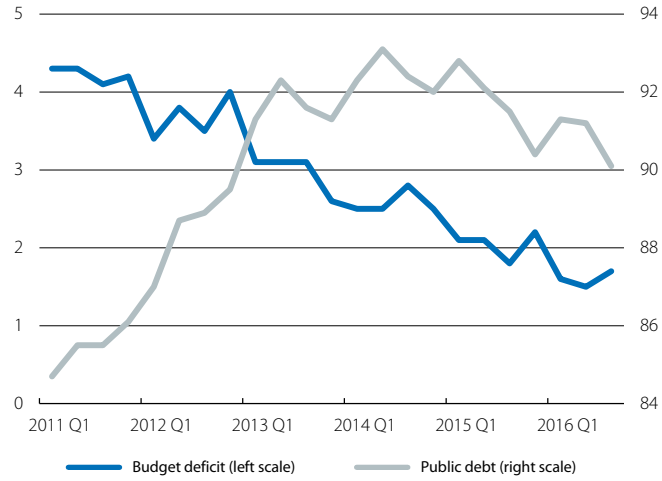
Banks tightening (+) or easing (–) their terms for loans or credit (net %)



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

Euro area: budget deficit and public debt

(% of GDP) *(% of GDP)*



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

FOCUS · Parity at last?

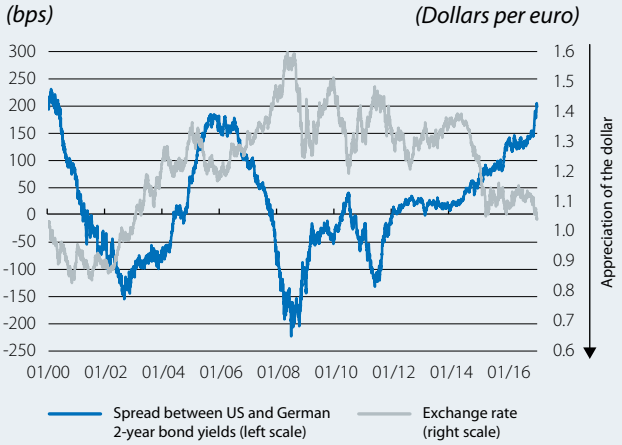
Since the euro-dollar exchange rate reached an all-time high of 1.6 dollars per euro in April 2008, the single currency has gradually depreciated against the dollar. This has been partly motivated by the growing monetary policy divergence between the Fed and the ECB: while the Fed has started to raise the policy rate in the US, interest rates have remained relatively stable in Europe. More recently, Trump's election and the possibility that his administration implements an expansionary fiscal policy in an economy that is already close to full production capacity has boosted inflation expectations in the US, further widening the spread between US and European bond yields (especially in the long end of the yield curve).

As shown in the first chart, the euro tends to depreciate against the dollar when the spread between US and German 2-year bond yields widens. For instance, in 2014, when the yield spread increased by 62 bps, the euro fell by 12% against the dollar. This happened when the Fed's and ECB's monetary policies started to diverge: while the Fed began its tapering, the ECB announced the implementation of unconventional monetary policy measures. Since then interest rate differentials have steadily increased and the euro has continued to lose value against the dollar.

In 2017, the monetary-policy stances of the US and euro area look set to diverge even further. According to the FOMC (Federal Open Market Committee) members' forecasts, the Fed Funds rate will be raised by 0.75 bps (see the Focus «The Fed's strategy in 2017: firmer steps but still cautious» in this *Monthly Report*). Meanwhile the ECB has announced it will extend its asset purchase programme to December 2017 and does not expect to start raising the benchmark rate until mid-2019. In order to determine the direct impact of interest rates on the exchange rate, we have analysed the historical relationship between the interest rate spread and the exchange rate on the days when there has been an FOMC meeting.[1] We found that, although the dollar has appreciated considerably over the last few quarters, it still has room to run. For instance, should the spread widen by 20 bps in 2017, as the Consensus of analysts forecasts, the dollar will appreciate by 1.7% this year. However, if CaixaBank Research forecasts are confirmed and the spread increases by 75 bps, the dollar will come very close to parity with the euro.

Nevertheless, beyond the dollar's upward trend, the exchange rate will still be relatively volatile, partly because of highly uncertain factors that could influence the monetary-policy stance of both the Fed and ECB, such as the effect of the policies implemented by the Trump administration, the consequences of Brexit or the various elections in Europe over the coming months.

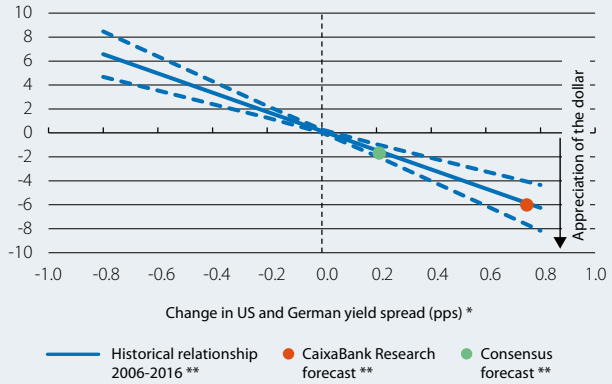
Spread between US and Europe yields and the exchange rate



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

Impact of changes in yield spreads on the exchange rate

Exchange rate variation ($/€)



Notes: *The forecasts refer to the increase in spread expected between 2016 Q4 and 2017 Q4. Confidence interval: 95%. * Spread between yields on 2-year government bonds. ** Calculated analysing the relationship between the interest rate spread and exchange rate on the days of FOMC meetings.*
Source: *CaixaBank Research, based on data from Thomson Reuters Datastream and Bloomberg.*

1. The benchmark period is 2006-2016.

FOCUS · The impact of demographics on the labour market: tackling the challenge

Demographics are often put forward as one of the factors that will hinder growth in the euro area. One particular source of concern is the working age population: in the euro area this began shrinking in 2010 and has fallen annually by 0.16% on average in the last five years.

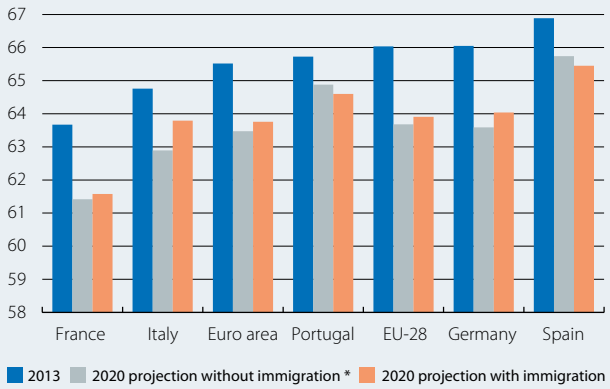
The euro area's population grew from 332 million in 2010 to 335 million in 2015. Nevertheless, demographic projections suggest that, without any positive net migration flows, it will have decreased slightly to 333 million by 2020.[1] The trend will not be the same for all age groups, however. The number of people of working age, i.e. between 15 and 64, will shrink faster: decreasing annually by 0.3% between 2015 and 2020 on average. This will significantly reduce the share of working age population in just five years, from 65.1% to 63.5%. This reduction in working age population is expected to be widespread across all euro area countries. This phenomenom is worrisome because, alongside other issues it could hamper growth without any compensatory increase in productivity, migration flows or participation rates.

According to European Commission projections, migration flows could bolster the euro area's total working age population by 1.6% between 2015 and 2020. There are important differences between countries, however. Net outflows of immigrants from some countries might even reduce their working age populations further, such as in Spain (–1.6%) and Portugal (–1.4%). On the other hand, immigration is expected to increase by +2.5% in Germany and +4.6% in Italy. Nevertheless migration flows are characteristically uncertain as they can alter rapidly due to both economic and geopolitical factors.

The potential contribution of a higher participation rate should also be taken into account. 72.5% of the working age population (around 158 million people) were employed or looking for employment in 2015. A 1.0 pp increase in the participation rate between 2015 and 2020, up to 73.5%, would keep the labour force constant (see the second graph).[2] In fact, the European Commission forecasts a 73.6% participation rate for the euro area as a whole by 2020, which would point to a slight increase in the labour force. Women of all ages and workers aged between 55 and 64 will increase their participation rate the most, up to 68.7% (+2.5 pps) and 63.3% (+8.5 pps) respectively. But their participation rate could go even higher, given the rates of male workers (78.5% in 2020) and people aged between 25 and 54 (86.1%). There are also big differences between countries in this respect, so there will still be ample room to improve the participation rate in some cases. For example, historically it has been difficult for women to balance work and family in Italy and the country's female participation rate is expected to remain low, namely 56.6% in 2020. On the other hand, France's low participation rate among people aged over 54 will continue, projected at 55.4% in 2020, due to their earlier exit from the labour market than their European peers.

Working age population

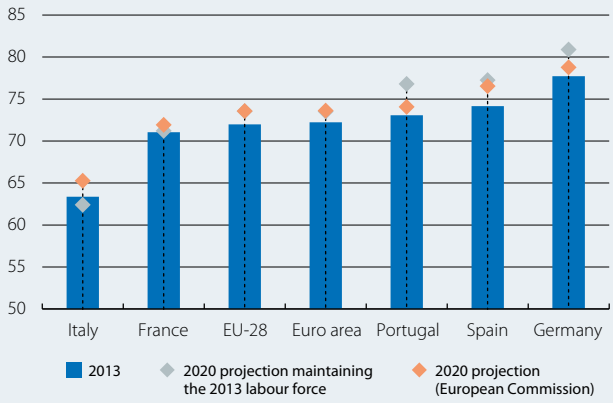
(% of total population)



Note: ** The projection without immigration assumes zero net international migration flows.*
Source: *CaixaBank Research, based on data from the European Commission.*

Labour participation rate

Labour force (% of population aged 15 to 64)



Note: *The European Commission's population projections correspond to EUROPOP2013, which uses 2013 as the base year.*
Source: *CaixaBank Research, based on data from the European Commission.*

1. All the projections stated in this article have been calculated based on the European Commission's forecasts in «The 2015 Ageing Report», which uses the population projections provided by Eurostat EUROPOP2013.
2. Including the contribution of immigration.

KEY INDICATORS

Activity and employment indicators

Values, unless otherwise specified

	2014	2015	2016 Q1	2016 Q2	2016 Q3	10/16	11/16	12/16	01/17
Retail sales *(year-on-year change)*	1.4	2.7	2.2	1.7	1.3	3.0	2.3	...	...
Industrial production *(year-on-year change)*	0.9	2.0	1.3	1.1	1.2	0.8	3.2	...	...
Consumer confidence	–10.2	–6.2	–8.3	–7.8	–8.2	–8.0	–6.2	–5.1	–4.9
Economic sentiment	101.5	104.2	104.0	104.3	104.3	106.4	106.6	107.8	108.2
Manufacturing PMI	51.8	52.2	51.7	52.0	52.1	53.5	53.7	54.9	55.1
Services PMI	52.5	54.0	53.3	53.1	52.6	52.8	53.8	53.7	53.6
Labour market									
Employment (people) *(year-on-year change)*	0.6	1.0	1.4	1.4	1.2	–	...	–	–
Unemployment rate: euro area *(% labour force)*	11.6	10.9	10.3	10.1	10.0	9.8	9.8	...	...
Germany *(% labour force)*	5.0	4.6	4.3	4.2	4.2	4.1	4.1	...	...
France *(% labour force)*	10.3	10.4	10.2	9.9	10.1	9.7	9.5	...	...
Italy *(% labour force)*	12.6	11.9	11.6	11.6	11.6	11.8	11.9	...	...
Spain *(% labour force)*	24.5	22.1	20.4	20.1	19.4	19.2	19.2	...	...

Source: *CaixaBank Research, based on data from the Eurostat, European Central Bank, European Commission and Markit.*

Foreign sector

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

	2014	2015	2016 Q1	2016 Q2	2016 Q3	10/16	11/16	12/16
Current balance: euro area	**2.5**	**3.2**	**3.2**	**3.5**	**3.4**	**3.5**	**3.6**	**...**
Germany	7.3	8.3	8.5	8.9	8.7	8.6	8.6	...
France	–1.1	–0.2	–0.8	–0.8	–1.1	–1.3	–1.2	...
Italy	1.9	1.6	1.9	2.3	2.6	2.7	2.8	...
Spain	1.1	1.4	1.4	1.7	1.9	1.9	2.0	...
Nominal effective exchange rate[1] *(value)*	**101.8**	**92.3**	**94.1**	**94.8**	**95.1**	**95.4**	**94.9**	**94.2**

Note: *1. Weighted by flow of foreign trade. Higher figures indicate the currency has appreciated.*
Source: *CaixaBank Research, based on data from the Eurostat, European Commission and national statistics institutes.*

Financing and deposits of non-financial sectors

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

	2014	2015	2016 Q1	2016 Q2	2016 Q3	10/16	11/16	12/16
Private sector financing								
Credit to non-financial firms[1]	–2.6	–0.4	1.2	1.7	2.0	2.2	2.1	2.3
Credit to households[1, 2]	–0.1	0.7	1.5	1.7	1.8	1.8	1.9	2.0
Interest rate on loans to non-financial firms[3] *(%)*	2.0	1.6	1.4	1.4	1.3	1.3	1.3	...
Interest rate on loans to households for house purchases[4] *(%)*	2.6	2.1	2.0	1.8	1.8	1.8	1.8	...
Deposits								
On demand deposits	6.0	11.1	11.2	10.1	9.5	8.8	9.4	9.7
Other short-term deposits	–2.0	–3.8	–2.4	–1.8	–1.2	–1.5	–1.7	–2.4
Marketable instruments	–7.2	2.6	–1.0	2.3	5.6	1.8	2.8	8.3
Interest rate on deposits up to 1 year from households *(%)*	1.3	0.8	0.6	0.6	0.5	0.5	0.4	...

Notes: *1. Data adjusted for sales and securitization. 2. Including NPISH. 3. Loans of more than one million euros with a floating rate and an initial rate fixation period of up to one year. 4. Loans with a floating rate and an initial rate fixation period of up to one year.*
Source: *CaixaBank Research, based on data from the European Central Bank.*

ECONOMIC OUTLOOK · **Spain: substantial growth in 2016 and a positive outlook for 2017**

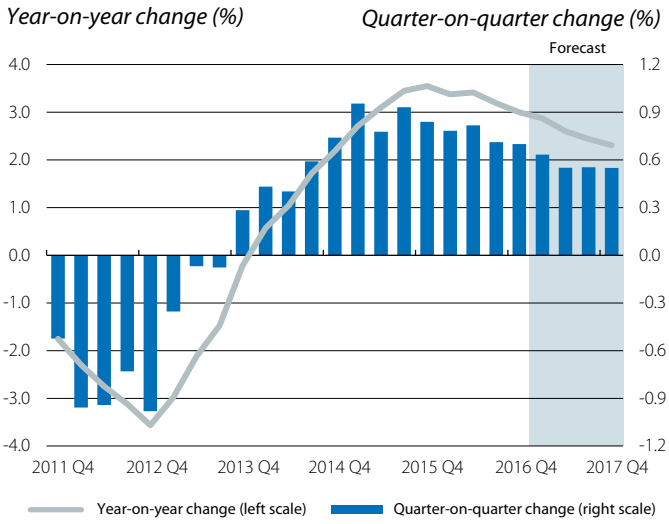
The Spanish economy grew strongly by 3.2% in 2016. In Q4, GDP growth was 0.7% quarter-on-quarter, a much higher figure than the average for euro area countries and similar to the one posted the previous quarter. The main engine for growth in 2016 was domestic demand, boosted by the improvement in the labour market and business confidence. Net external demand also performed well and is gradually moving centre stage thanks to the good trend in exports and a more contained increase in imports. This exceptional performance by the Spanish economy throughout the year is due to the convergence of several temporary support factors such as low oil prices and the ECB's highly expansionary monetary policy, as well as the positive effects of the structural reforms carried out over the past few years.

The outlook for 2017 remains positive. Growth in 2017 will be underpinned by the effects of structural reforms (which have helped to boost competitiveness), a more dynamic labour market, the upturn in the real estate sector and a healthier banking sector. However, the temporary support enjoyed by the Spanish economy will gradually lose traction, resulting in a slight slowdown in growth. According to the CaixaBank Research forecast, GDP growth will be 2.6% in 2017. Nonetheless, the risks surrounding this macroeconomic scenario are still high. In particular, the policy ultimately implemented by the new US administration, the electoral agenda in Europe and financial fragility of several emerging countries, especially China. Domestically both public debt and net external debt are still very high, making Spain's economy more vulnerable.

Business indicators already pointed to strong growth towards the end of 2016. Manufacturing indicators performed particularly well towards the end of the year after a weaker initial six months. The PMI business sentiment index for manufacturing rose to 55.3 points in December, the largest monthly increase since January 2016, and industrial production picked up strongly in November (3.2% year-on-year). The sharp rise in new industrial orders in November (5.4% year-on-year) confirms this good trend in manufacturing. The services sector has maintained its good growth rate. The PMI services index remained at 55.0 points in December, clearly above 50 points, the threshold as from which positive growth rates tend to be observed. Regarding demand, the main indicators for the trend in private consumption and business investment are at high levels. This suggests these two components of domestic demand will remain the main engines of growth.

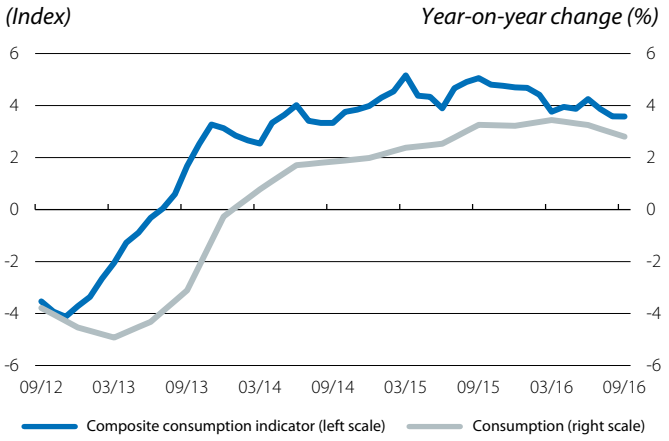
In spite of the figures posted in Q4, the labour market trend looks positive. According to the LFS, the number of employed

GDP



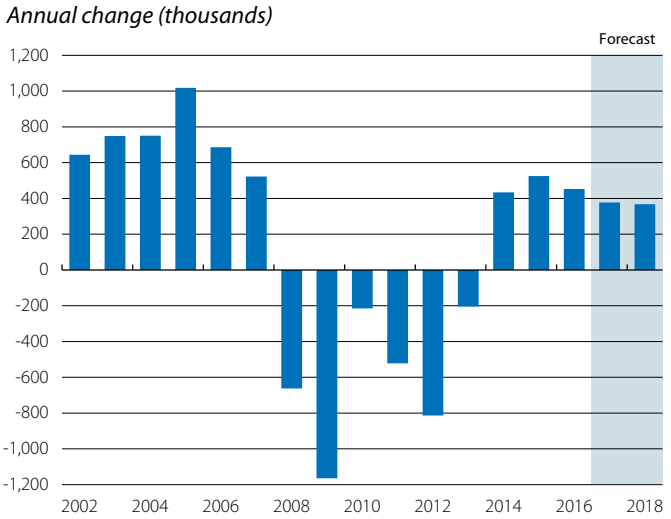
Source: *CaixaBank Research, based on INE data.*

Composite activity indicators



Note: *The composite consumption indicator is made up of the following indicators: automobiles registered, retail trade index, consumer supply, employee wages, domestic sales of consumer goods and services in large firms and the consumer confidence indicator.*
Source: *CaixaBank Research, based on data from the Ministry of Economy and Competitiveness.*

Employment



Source: *CaixaBank Research, based on INE data (EPA).*

fell by 19,400 in Q4. CaixaBank Research had predicted an increase (+85,000) in line with the good trend in registered workers affiliated to Social Security (+62,000 on average for the quarter) and the positive figures posted in 2015 Q4 and 2014 Q4. This deviation is partly due to job losses in education (fewer school days). Seasonally adjusted, job creation is still strong (0.4% quarter-on-quarter). 2016 saw an additional 452,700 employees (2.7% average annual growth) and unemployment fell to 18.6% in Q4. Most of the recovery in employment last year was concentrated in services, with 240,000 more jobs than in 2015 thanks partly to the extraordinary tourist season. 75.6 million tourists came to Spain in 2016, 10.3% more than in 2015. Job creation will be slightly less dynamic in 2017 with less support from the temporary factors that have boosted the economy to date. Nevertheless, in spite of the jobs created over the past few years, the quality of employment in Spain is still a source of concern (see the Focus «Investing in human capital: the key to good quality employment» in this *Monthly Report*).

Growth in employment has boosted gross disposable household income. In 2016 Q3, household gross disposable income (GDI) rose by 1.8% year-on-year (cumulative over four quarters), helped by employee wages, mostly due to the increase in employment. This higher GDI has undoubtedly helped private consumption, posting a year-on-year growth rate of 1.7% in Q3. The strong increase in retail sales in December (2.9% year-on-year) suggests this trend continued in Q4. In spite of the good growth in private consumption, the household savings rate was 8.2% in Q3, only 0.2 pps below the previous quarter.

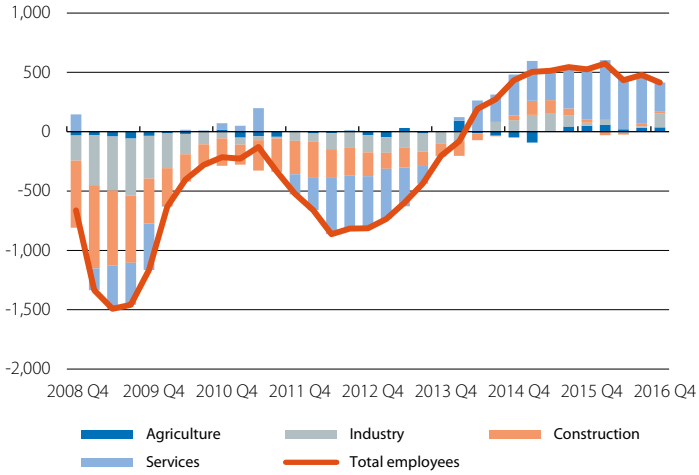
The upward trend in inflation is confirmed. In January, the CPI rose by 3.0% year-on-year as a consequence of higher electricity and oil prices. This figure contrasts with the negative rates of the past last years (–0.2% in 2016 and –0.5% in 2015) and will soon force us to raise our 2.4% forecast for the whole of 2017.

Given this favourable situation, the private sector is continuing to deleverage while banks improve their position. In 2016 Q3, the debt of households and non-financial firms stood at 65.2% and 102.3% of GDP respectively, similar levels to those of the euro area. Banks are also improving their balance sheets, as shown by the continued reduction in the NPL ratio (down to 9.2% in November). Financial institutions are therefore in a better position to increase bank lending. In fact, over the next three months banks expect credit demand from enterprises and households to increase, as shown in January's bank lending survey produced by the Bank of Spain.

Increased gross disposable income, investor appetite and credit supply boost housing demand. In November, house sales grew by 13.6% (cumulative over 12 months). This strong demand, which will continue in 2017, in addition to the slight recovery in real estate activity, albeit far from

Employment by sector

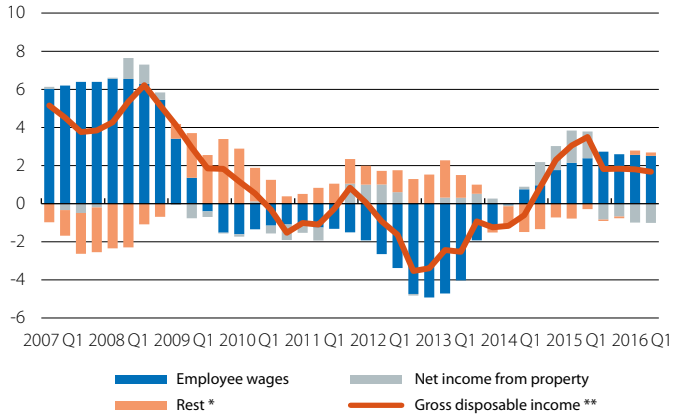
Year-on-year change (thousands)



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

Gross disposable income

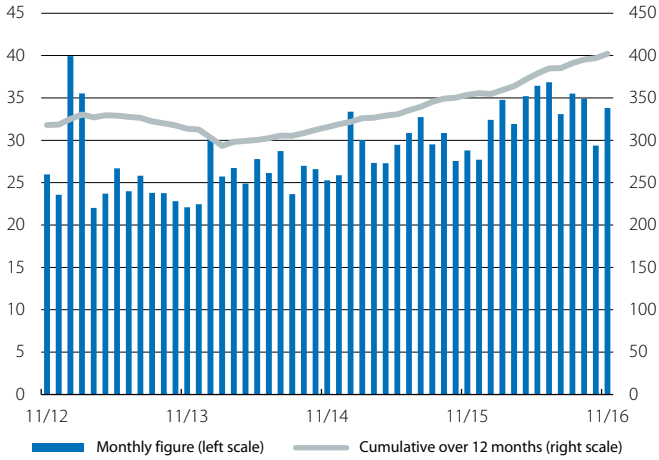
Contribution to year-on-year growth of the cumulative figure over four quarters (pps)



Notes: ** Rest of items used to calculate gross disposable income such as gross operating profit, social security contributions, etc. ** Year-on-year change.*
Source: *CaixaBank Research, based on INE data.*

House sales

(Thousands of residences) *Cumulative over 12 months (Thousands of residences)*



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

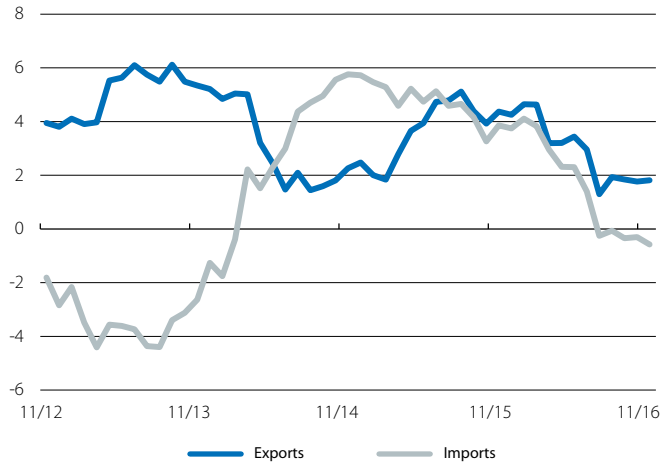
the peaks of 2008, suggests that the upward trend in house prices will continue throughout this year, especially in urban zones.

The foreign sector, an underlying factor that continues to underpin growth. In November the trade deficit fell to 18,101 million euros (cumulative over 12 months) due to a 1.8% rise in exports year-on-year and a 0.6% reduction in imports (cumulative over 12 months). Over the coming months, the upward trend in oil prices is likely to stop boosting the current account, although we expect it will remain in surplus. This will help the net international investment position, which stood at –88.7% of GDP in Q3, to gradually approach the benchmark threshold set by the European Commission (namely –35% of GDP). It is therefore vital to continue improving competitiveness and optimise the geographical composition of exports towards destinations with higher growth, as explained in the Focus «Spanish exports and world trade slowdown» in this *Monthly Report*.

Public finances are on the right track. Given the high public debt, approaching 100% of GDP, and the fact that interest rates will no longer provide a tailwind, as explained in the Focus «Public debt: the elephant in the room» in this *Monthly Report*, fiscal consolidation efforts need to continue. The European Commission, in its report evaluating the 2017 Budget, predicts that Spain will slightly fall short of the budget deficit target of 3.1% of GDP. However, it has concluded that, in general, the Stability and Growth Pact has been fulfilled. It estimates that the structural effort carried out is equivalent to 0.7% of GDP, more than the 0.5% of GDP required. It also suggests the Spanish authorities should be prepared to adopt further measures if necessary and to reinforce the budgetary framework. Regarding 2016, the data available so far indicate that the fiscal deficit in Q3 (cumulative over four quarters) stood at 4.8% of GDP, close to the target for the whole year (4.6%), indicating that the deficit target for 2016 was probably achieved.

*International trade of goods **

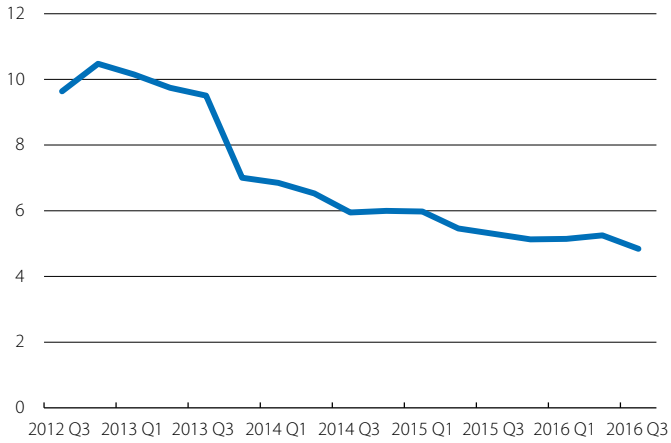
Year-on-year change (cumulative over 12 months) (%)



Note: ** Nominal data.*
Source: *CaixaBank Research, based on data from the Customs Dept.*

Budget deficit

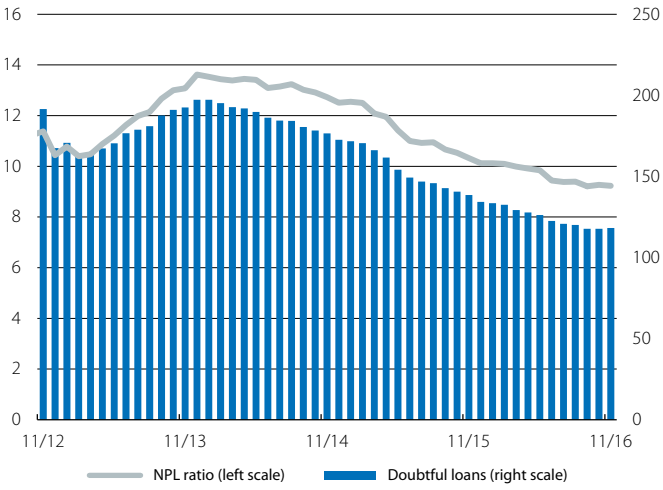
(% of GDP)



Note: *Cumulative data over four quarters.*
Source: *CaixaBank Research, based on data from the INE and the Ministry of Finance and Civil Service.*

NPL ratio and doubtful loans

(%) *(Billion euros)*



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

FOCUS · Public debt: the elephant in the room

High levels of public debt and deficit have aggravated the funding needs by general government in the last few years, bringing these to historically high levels. Given this situation, it is vital to manage government bond issuances properly.

Debt maturities totalling 185,017 million euros will have to be covered in 2017. Moreover, the Treasury plans net issuances of an additional 35 billion euros, raising funding needs to more than 220 billion euros. As in the last few years, the Treasury is going to finance this new debt by issuing medium and long-term bonds, so the average maturity of public debt will continue to rise. In 2016 this reached 6.8 years, a similar figure to the one recorded at the start of the crisis. Lengthening the average maturity helps to reduce refinancing risk, particularly important when a large amount of debt needs to be renewed each year.

This extension of the average maturity has been compatible with a reduction in its average cost thanks largely to the ECB's accommodative monetary policy.[1] In 2016, the average cost of Spain's debt stood at around 2.9%, far from the 4.1% recorded in 2011. This lower financing cost has led to considerable savings in interest payments, which have even fallen in nominal terms since 2014. Specifically, if the average cost had remained at the same value as in 2011, interest expenditure would represent 3.9% of GDP instead of the 2016 figure of 2.8%. Neither should we forget that the increase in debt has resulted in higher costs. If the ratio of government debt to GDP had remained at 2010 levels (60% of GDP), annual expenditure on interest payments would be 40% lower.[2]

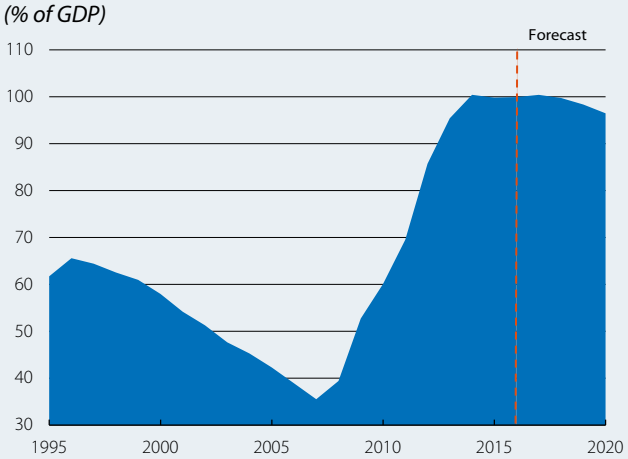
Although the ECB will continue its quantitative easing programme in 2017, interest rates will no longer be so favourable as they are likely to rise gradually, especially in the longer-term tranche of the curve. Given this scenario, it is the right decision to concentrate issuances in the longer-term tranches of the curve as this helps to take advantage of today's low interest rates at the same time as reducing refinancing risk.

Whatever the outcome, it is important for Spain to focus on continuing its process of fiscal consolidation and gradually reduce its levels of public debt to ensure that, once interest rates start to rise again, the elephant in the room will not become unruly.

1. In fact, in 2016 the ECB bought 93,514 million euros of Spanish government bonds, so the net issuance, including the effect of these purchases, was –58.5 billion euros.
2. This calculation merely illustrates the direct effect of the increase in debt on interest payments and assumes that the trend in the rest of the variables is the same as the observed trend.

Public debt

(% of GDP)



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

Treasury funding

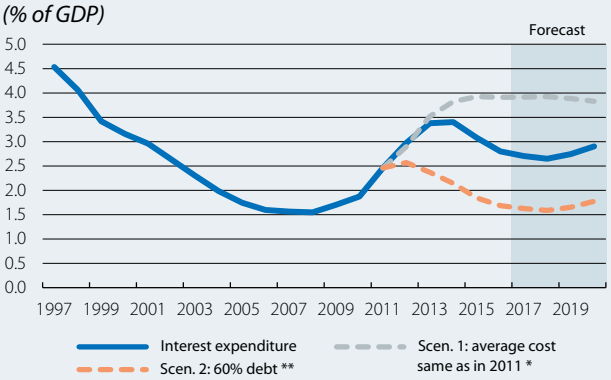
(Million euros)

	Net issuance	Gross issuance
2015	47,717	236,817
2016	35,043	221,364
2017 forecast	35,000	220,017

Source: *CaixaBank Research, based on Treasury forecasts (Estrategia de Emisión de Valores del Tesoro 2017).*

Illustrative scenarios for the trend in interest expenditure

(% of GDP)



Notes: ** Scenario 1 assumes that the average cost remains at the same level as in 2011 (4.1%). ** Scenario 2 assumes that the level of public debt remains at 60% of GDP (2010 level).*
Source: *CaixaBank Research, based on data from the Ministry of Finance, Industry and Competitiveness.*

FOCUS · Investing in human capital: the key to good quality employment

A large amount of empirical evidence shows that higher qualified workers tend to get better-paid and more stable jobs; in other words, higher quality employment. In Spain, according to the data from the 2014 wage structure survey, workers who had completed at least the first level of secondary education received, on average, a gross annual wage of 18,041 euros while employees with a university degree reached 35,494 euros. This difference is even more notable if we take into account the fact that this wage premium tends to continue throughout a person's working life.

In addition to wages, educational attainment also affects other characteristics of the labour relationship. As can be seen in the first graph, the temporary rate of workers with only a primary education is much higher than for those with a university degree. Moreover, individuals with a lower educational level also have higher rates of involuntary part-time employment. In fact, around 15% of employees with a primary education would like to work more hours compared with just 8% of those with a higher education.

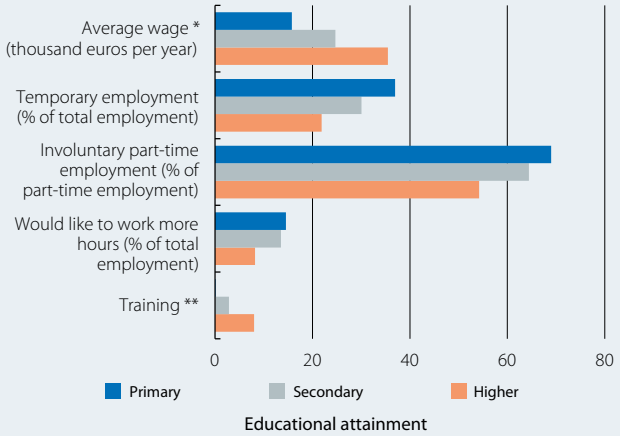
Investing in human capital is not only related to compulsory and further education. Gary Becker, winner of the Nobel Prize for Economics in 1992, defined human capital as workers' stock of knowledge (education and work experience) as well as other characteristics such as health and interpersonal skills which contribute to their productivity. In this respect, the continued training of workers plays a very important role in preventing the depreciation of knowledge and encouraging the development of new skills. Once again, workers with high educational attainment enjoy the best results. For example, according to the 2014 labour force survey in Spain, 8% of employees with a university qualification had received non-formal training from their company. This percentage falls to 2.9% of those workers with a secondary education and to just 0.1% of workers with only primary studies.

Nevertheless, we should not conclude from this analysis that all we need to do is increase workers' training. There also needs to be a good match between employees' qualifications and the skills required by the job in question. To allocate resources efficiently, those jobs that require basic qualifications should be carried out by workers with this type of education. On the other hand, jobs involving more advanced tasks should be carried out by workers with higher levels of training. It is revealing that, in Spain, a high percentage of workers have higher qualifications than those required by the job they are carrying out, a fact which, a priori, would suggest a large degree of over-qualification (see the second graph).[1]

Under some circumstances, however, this mismatch occurs when workers have a lower skills level than might be expected based on their qualifications, either because they did not acquire the necessary knowledge during their education or because their skills have depreciated over time. In this respect, the OECD Survey of Adult Skills shows that this could be particularly relevant in the case of Spain: in 2015, 41% of adults with higher qualifications scored low in the professional skills test compared with the OECD average of 27%. It therefore seems that the adult population's level of knowledge is, in many cases, lower than would be suggested by their educational attainment level and this might explain, in part, the apparent high degree of over-qualification in Spain's labour market.

1. Levels of educational attainment, according to CNED 2014 (National Classification of Education), are grouped as follows: primary (1, 2 and 10), secondary (21-41) and higher (51-81). Jobs, according to CNO 2011 (National Classification of Occupations), are grouped as follows: basic (5, 8 and 9), medium (0, 3, 4, 6 and 7) and advanced (1 and 2).

Job quality by education level



Notes: *Data for 2016 Q3. Workers are classified according to the highest level of education reached. * Data from 2014. ** Percentage of workers receiving non-formal training from the company; data from 2014.*
Source: *CaixaBank Research, based on data from the INE (labour force survey and wage structure survey).*

Match between workers' qualifications and job requirements

(% of total employees)

		Theoretical job requirements		
		Basic	Medium	Advanced
Worker's educational attainment	Primary	4.4	1.8	0.1
	Secondary	30.7	19.3	1.7
	Higher	7.5	14.9	19.7

Note: *Data for 2016 Q3. Workers aged between 16 and 65 are classified according to the level of education reached and according to the theoretical training required by each job. Green indicates a good match, orange indicates a moderate mismatch and red a poor match.*
Source: *CaixaBank Research, based on data from the INE (labour force survey).*

FOCUS · Spanish exports and world trade slowdown

Global trade is not growing like it used to. Between 2000 and 2007, the world trade volume grew at an average annual rate of 7.4%, faster than the 3.3% growth in global GDP. But these roles have reversed after the Great Depression, with the volume of trade growing less than GDP: 3.0% compared with 3.3% in the period 2012-2016. So far Spanish exports have not been affected by this reversal. The country has maintained a substantial growth rate (4.7% in 2000-2007 and 4.4% in 2012-2016 in volume terms), achieving a current balance of around 2.0% of GDP in 2016. As this positive balance will be hit by rising oil prices in 2017 and 2018, will there also be a faster slowdown in exports due to the deceleration in world trade? There are reasons to believe Spanish exports will continue to perform relatively well in spite of such setbacks.

Growth in goods exports[1] can essentially be affected by three factors. Firstly, global demand; secondly, the geographical composition of exports and, finally, changes in competitiveness. The first, global demand (defined as growth in global imports) is the most important in quantitative terms but is exogenous, so little can be done to rectify it. However, geographical composition and competitiveness are also important and here action can certainly be taken.

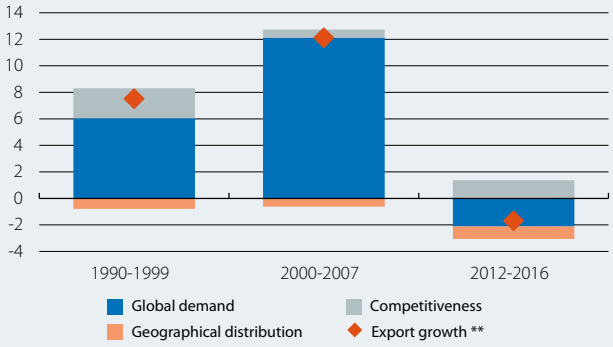
A good geographical spread consists of exporting more to those countries with the highest growth in imports. The idea is to focus the larger share of Spanish exports on those countries whose imports are growing faster than world trade.[2] This geographical factor has worked against Spain in the last few years, however. In aggregate terms, it deducted 0.8 pps from the growth in exports 1990-1999, 0.6 pps in 2000-2007 and 0.9 pps in 2012-2015. This suggests that Spanish exports are concentrated in markets that are growing less than world trade.

This unfavourable composition is mostly due to Spain's large share of exports to the euro area. These account for 50.9% of all the country's exports, a much higher percentage than its global share (23.4%). Given the euro area's lower growth in imports compared with the world average, it comes as no surprise that lack of geographical diversification outside the euro area is harming the performance of Spanish exports. The other obstacle is Asia's little importance as a destination for Spanish exports: it receives 4.1% of all Spanish exports compared with 10.0% in the case of Germany and France. As emerging Asia's long-term growth is much higher than that of the euro area, a larger share of Spanish exports to this region would have a positive effect. For instance, if the share went from the current figure of 4.1% to 10%, it would add 0.5 pps to the growth in Spanish exports.

Finally, the third component results from the difference between the growth observed in Spanish exports and the two components mentioned previously (global demand and geographical distribution). This residual figure, which reflects changes in competitiveness (the capacity to sell products at competitive prices that are in line with the trends in global demand), contributed an average of 2.3 pps to export growth between 1990 and 1999 (one third of the total). The rise in unit labour costs between 2000 and 2007 reduced this contribution by 0.6 pps. After the Great Recession, however, this trend has reversed and, in the period 2012-2016, the contribution made by this factor to export growth picked up again to 1.4 pps.

*Contribution to growth of Spanish goods exports **

Average annual contribution in each period (pps)



Notes: ** Data in current dollars.*
*** Annual change (%). The period 2008-2011 is excluded due to the slump in world trade.*
Source: *CaixaBank Research, based on data from the IMF.*

1. The rest of the article is based on nominal data (current dollars) provided by the IMF.
2. Specifically, this factor is calculated as the growth resulting from adjusting each destination country's growth in imports by its share of total Spanish exports, less the growth in global imports.

KEY INDICATORS

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

Activity indicators

	2014	2015	2016 Q1	2016 Q2	2016 Q3	10/16	11/16	12/16	01/17
Industry									
Electricity consumption	–0.1	1.7	–0.8	0.8	0.4	1.3	0.9	–2.0	...
Industrial production index	1.3	3.3	2.6	1.4	1.9	0.2	3.7	...	...
Indicator of confidence in industry *(value)*	–7.1	–0.3	–1.9	–2.8	–3.8	–0.1	0.9	–2.6	0.1
Manufacturing PMI *(value)*	53.2	53.6	54.3	52.5	51.4	53.3	54.5	55.3	...
Construction									
Building permits *(cumulative over 12 months)*	–7.7	20.0	45.2	48.1	44.8	43.4	...	...	...
House sales *(cumulative over 12 months)*	–5.6	10.9	10.6	14.1	13.3	13.4	13.6	...	...
House prices	–2.4	1.1	2.4	2.0	1.6	–	...	–	–
Services									
Foreign tourists *(cumulative over 12 months)*	7.2	5.6	5.9	7.5	9.3	10.1	10.0	10.3	...
Services PMI *(value)*	55.2	57.3	54.7	55.5	54.9	54.6	55.1	55.0	...
Consumption									
Retail sales	1.0	3.0	3.8	3.8	3.8	2.4	3.3	3.5	...
Car registrations	18.4	21.3	8.0	17.8	11.0	4.0	13.5	9.3	...
Consumer confidence index *(value)*	–8.9	0.3	–2.5	–3.2	–6.1	–4.8	–2.2	–2.7	–2.5

Source: *CaixaBank Research, based on data from the Ministry of Finance, Ministry of Public Works, INE, Markit and European Commission.*

Employment indicators

	2014	2015	2016 Q1	2016 Q2	2016 Q3	10/16	11/16	12/16
Registered as employed with Social Security [1]								
Employment by industry sector								
Manufacturing	0.1	2.2	2.8	2.7	2.7	2.9	2.9	2.7
Construction	–1.6	4.7	2.6	2.1	2.7	3.3	3.4	3.2
Services	2.2	3.5	3.1	3.0	3.3	3.6	3.6	3.4
Employment by professional status								
Employees	1.4	3.5	3.4	3.1	3.5	4.0	3.8	3.6
Self-employed and others	2.2	1.9	1.2	1.0	0.9	1.0	0.9	0.9
TOTAL	**1.6**	**3.2**	**3.0**	**2.7**	**3.0**	**3.4**	**3.2**	**3.1**
Employment [2]	**1.2**	**3.0**	**3.3**	**2.4**	**2.7**	**–**	**2.3**	**–**
Hiring contracts registered [3]								
Permanent	18.8	12.3	8.3	17.4	17.9	10.0	16.5	13.4
Temporary	13.1	11.2	6.2	9.1	7.1	5.7	7.9	6.0
TOTAL	**13.4**	**11.3**	**6.4**	**9.8**	**7.9**	**6.1**	**8.7**	**6.5**
Unemployment claimant count [3]								
Under 25	–8.2	–11.0	–10.9	–12.0	–14.4	–14.2	–11.3	–13.9
All aged 25 and over	–5.3	–7.2	–7.8	–7.5	–8.6	–9.4	–8.4	–9.1
TOTAL	**–5.6**	**–7.5**	**–8.1**	**–7.9**	**–9.1**	**–9.9**	**–8.7**	**–9.5**

Notes: *1. Mean monthly figures. 2. LFS estimate. 3. Public Employment Offices.*
Source: *CaixaBank Research, based on data from the Ministry of Employment and Social Security, INE and Public Employment Offices.*

Prices

	2014	2015	2016 Q1	2016 Q2	2016 Q3	10/16	11/16	12/16	01/17
General	**–0.1**	**–0.5**	**–0.7**	**–0.9**	**–0.2**	**0.7**	**0.7**	**1.6**	**3.0**
Core	0.0	0.6	1.0	0.7	0.8	0.8	0.8	1.0	...
Unprocessed foods	–1.2	1.8	2.1	2.7	3.5	0.2	0.6	2.1	...
Energy products	–0.8	–9.0	–13.1	–13.6	–8.6	0.1	–0.5	5.3	...

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

Foreign sector

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

	2014	2015	2016 Q1	2016 Q2	2016 Q3	09/16	10/16	11/16
Trade of goods								
Exports *(year-on-year change)*	2.5	4.3	0.2	4.3	–1.1	0.0	–1.6	8.5
Imports *(year-on-year change)*	5.7	3.7	–0.7	–0.3	–3.7	–1.4	–1.7	5.3
Current balance	**11.2**	**14.7**	**15.4**	**18.9**	**20.7**	**20.7**	**20.7**	**21.9**
Goods and services	25.5	26.2	26.0	29.3	31.3	31.3	31.7	32.1
Primary and secondary income	–14.3	–11.5	–10.6	–10.3	–10.6	–10.6	–10.9	–10.2
Net lending (+) / borrowing (–) capacity	**16.3**	**21.7**	**22.2**	**25.4**	**26.2**	**26.2**	**26.0**	**26.7**

Source: *CaixaBank Research, based on data from the Department of Customs and Special Taxes and Bank of Spain.*

Public sector

Percentage GDP, cumulative in the year, unless otherwise specified

	2014	2015	2016 Q1	2016 Q2	2016 Q3	09/16	10/16
Net lending (+) / borrowing (–) capacity [1]	**–6.0**	**–5.1**	**–0.7**	**–3.0**	**–2.8**	**–2.8**	**–**
Central government	–3.7	–2.6	–0.8	–1.9	–2.6	–2.6	–2.0
Autonomous regions	–1.8	–1.7	–0.1	–0.7	–0.2	–0.2	–0.3
Local government	0.5	0.5	0.1	0.1	0.5	0.5	–
Social Security	–1.0	–1.2	0.2	–0.6	–0.6	–0.6	–0.6
Public debt *(% GDP)*	**100.4**	**99.8**	**101.1**	**101.0**	**100.3**	**100.3**	**–**

Note: *1. Includes aid to financial institutions.*
Source: *CaixaBank Research, based on data from the IGAE, Ministry of Taxation and Bank of Spain.*

Financing and deposits of non-financial sectors

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

	2014	2015	2016 Q1	2016 Q2	2016 Q3	09/16	10/16	11/16	Balance 11/16 [1]
Financing of non-financial sectors [2]									
Private sector	–5.8	–3.9	–3.2	–2.9	–2.1	–1.8	–1.8	–2.3	1,635.0
Non-financial firms	–6.4	–4.0	–3.4	–3.2	–2.2	–1.8	–1.6	–2.6	914.0
Households [3]	–5.0	–3.6	–3.0	–2.5	–2.0	–2.0	–2.0	–1.9	720.9
General government [4]	5.9	4.0	3.5	4.2	4.6	3.8	3.9	2.5	1,098.6
TOTAL	**–1.8**	**–1.0**	**–0.6**	**–0.2**	**0.5**	**0.3**	**0.4**	**–0.4**	**2,733.6**
Liabilities of financial institutions due to firms and households									
Total deposits	–0.9	–1.0	–0.4	–0.3	–0.3	–0.1	0.0	0.0	1,152.3
On demand deposits	10.8	18.5	16.2	16.0	16.4	16.5	18.0	17.1	444.6
Savings deposits	5.8	12.9	13.4	12.1	11.5	11.1	11.8	12.3	279.6
Term deposits	–7.6	–15.3	–15.4	–16.4	–17.4	–17.4	–18.8	–19.1	406.8
Deposits in foreign currency	1.1	5.6	–4.0	1.6	–1.9	–1.4	3.1	1.6	21.3
Rest of liabilities [5]	–8.2	–13.0	–16.7	–16.3	–11.3	–14.2	–20.0	–19.1	84.0
TOTAL	**–1.7**	**–2.2**	**–1.9**	**–1.7**	**–1.2**	**–1.3**	**–1.6**	**–1.6**	**1,236.3**
NPL ratio *(%)* [6]	**12.5**	**10.1**	**10.0**	**9.4**	**9.2**	**9.2**	**9.3**	**9.2**	**–**
Coverage ratio *(%)* [6]	**58.1**	**58.9**	**59.0**	**58.7**	**59.3**	**59.3**	**60.7**	**59.8**	**–**

Notes: *1. Billion euros. 2. Resident in Spain. 3. Including NPISH. 4. Total liabilities (consolidated). Liabilities between different levels of government are deduced. 5. Aggregate balance according to supervision statements. Includes asset transfers, securitized financial liabilities, repos and subordinated deposits. 6. Data end of period.*
Source: *CaixaBank Research, based on data from the Bank of Spain.*

CORPORATE EARNINGS ON THE RISE

The trend in listed company profits: bullish but volatile

Corporate earnings are key to several areas of economic analysis, both theoretical and applied, such as macroeconomics, microeconomics, corporate finance and stock valuations, to cite just a few of those most keenly interested in this variable. An accurate idea of the trend in earnings is therefore elemental to compare and apply theoretical frameworks successfully. There are essentially two sources of information for corporate earnings. National accounting systems, which provide data on a country's businesses as a whole; and the accounts presented by companies themselves at an individual level, which can also be grouped together to form an aggregate view, such as the companies within a particular stock market index.

The methodological criteria and technical details of these two sources clearly differ in crucial aspects. This article focuses on the accounts published by listed companies in the US,[1] specifically the companies in the S&P 500, an index that provides standardised series over a long timescale with a sector breakdown. We will also look at some figures from the euro area's MSCI index which includes the main listed companies for the region's countries. Given their origin, these data can obviously be used directly when analysing the areas of corporate finance and share valuations; for instance, to gauge the expected return from a diversified portfolio of US and/or European stock. Such stock market records may provide very valuable information for other areas of analysis, although they also contribute a lot of noise which should not be ignored. Whatever the case, an examination of stock market data highlights seven distinctive features of the dominant trend over the last two decades.

Before looking at these features in detail, we should first deal with two methodological issues. Firstly, and given that the profit made by a company carrying out its business is, essentially, the difference between the revenue generated by sales and the costs incurred, it is useful to separate two components on examining any trends. One is the volume effect; i.e. the increase in sales. The other is the margin effect; i.e. the change in profit produced by each unit of sales. The profit margin (profit divided by sales) will depend on how efficient a company is in terms of its processes and the cost of its products and factors employed. Secondly, it is important to remember that earnings can be measured at different levels of the profit and loss depending on the expenditure (costs) that is deducted from the revenue (sales). The two most widely-used measurements are net profit, which deducts all expenses, and operating profit, which only deducts operating costs.

The seven previously mentioned features are as follows:

One: growth in earnings has speeded up. Between 1991 and 2015, the earnings per share of S&P 500 firms increased on average by 4.5% as the compound annual growth rate (CAGR) in real terms. Between 1946 and 1990 the CAGR was 2.9% and only 0.7% between 1871 and 1945 (see the graph).

Two: the profits of S&P 500 companies have grown at a slightly faster rate than those of listed firms in the euro area, which recorded a 1.7% CAGR between 1996 and 2015.

Three: earnings have performed better than most production or income variables. In particular, real GDP in the US grew by 2.3% CAGR between 1996 and 2015 and by 1.4% CAGR in the euro area.

Four: sales have risen slightly less than GDP. Specifically, 1.4% CAGR for listed companies in the US and 0.8% CAGR for those of the euro area between 1996 and 2015.

Five: profit margins have increased and are at an all-time high. For listed US firms, profit margins have gone from 7.2% in 1996 to 8.4% in 2015. In the euro area they have gone from 3.6% in 1996 to 5.1% in 2015. In both cases this improvement lies behind more than half the increase in profits during that period.

Six: earnings have been more volatile than in the past. In statistical terms, the net profit variance of S&P 500 companies between 1991 and 2015 was nine times greater than between 1946 and 1990 and almost 30 times greater than in the years prior to 1945. The huge spikes occurring during the dot.com (1998-2000) and real estate (2005-2008) bubbles were offset by the slumps in 2001

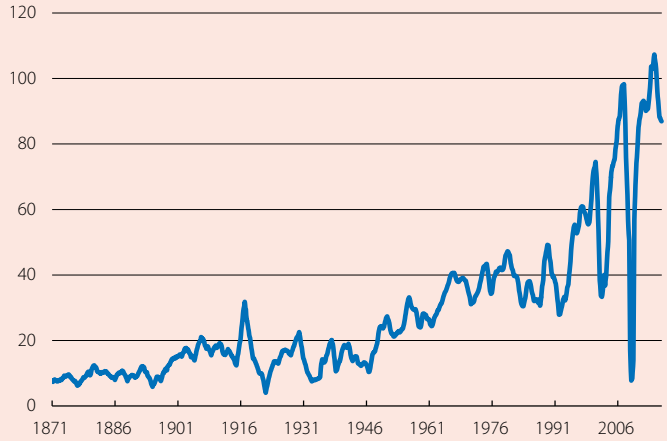
1. The article «On the distribution corporate income» in this Dossier analyses the national accounting data.

and 2009. The operating profit variance has been markedly less than net profit variance but, in any case, the trend has been towards greater volatility in recent years.

Seven: the profits made by some sectors have grown much faster than others. Between 1996 and 2015, and in the case of the US stock market, among the best performers were healthcare (6.3% CAGR) and information technology (6.1% CAGR). Among the worst were utilities (–0.4% CAGR) and telecom services (–2.5% CAGR).[2]

Real earnings per share of the S&P 500

(Dollars)



Source: *CaixaBank Research, based on data from the website of Robert J. Shiller.*

Over the last few years a lot of interest has been shown, by economists, investors and others, in the reasons behind this rise in earnings. Attention has focused primarily on the three usual suspects when widespread, persistent phenomena appear, as in this case. These are technological change, globalisation and demographics. In fact, these forces may have been particularly significant for the large corporations that make up the S&P 500. Globalisation has opened up huge markets so that, today, close to one third of the sales of this select group of firms occur outside the US. Technological changes have helped to boost productivity and increase margins, especially in those sectors where competition is of a «winner-takes-all» nature. Acting as a boost in the first part of the period in question, in numerous sectors the effect of demographic changes on growth in sales has deteriorated over the last few years. But their impact can still be seen in the form of exceptionally low real interest rates, an important factor in the increase in profits over the last 20 years.

In addition to these fundamental forces there are two specific factors of a methodological nature that affect the S&P 500 earnings series: the changing composition of the index and the accounting criteria used to calculate the profit made by each firm. S&P 500 companies and their respective relative weights alter with the regular updates carried out of the index's components (some companies are replaced while others are included). The bias of the sector-oriented changes introduced over the last few years lies behind part of the rise in aggregate earnings. Those sectors with a larger profit margin and growth potential are precisely the ones that account for relatively more of the S&P 500 index, in several cases more than their weight in the economy as a whole. This is particularly the case of the information technology sector. The weighting effect has been less pronounced for the euro area index, which still concentrates on sectors with smaller profit margins and growth rates. Regarding the calculation of earnings, accounting rules allow companies to be relatively flexible regarding when they recognise certain items of revenue and expenditure. But absolute limits or thresholds are also set, so that earnings data often contain discontinuities or gaps. Under normal conditions, positive and negative gaps tend to cancel each other out for a broad index as a whole, as is the case of the S&P 500. But under systemic stress, the convergence of many different gaps in the same downward direction can extensively alter the index's earnings. This actually happened in 2001 and 2009. This phenomenon naturally affects net profit much more than operating profit but which of the two is more useful will ultimately depend on the issue under examination.

To sum up, an analysis of the trend in corporate earnings over the last two decades reveals that the sharp increase observed is mainly due to the margin effect as opposed to the relatively weak volume effect. The next article in this Dossier identifies the main forces that may have contributed to this improvement in profit margins.

Mathieu Fort
Financial Markets Unit, Strategic Planning and Research Department, CaixaBank

2. Given the high volatility of its profits over the last few years, the energy industry has been excluded from this comparison of sectors.

On the distribution of corporate income

How is income split between labour and capital? A large number of economists have been trying to answer this question since 1817 when David Ricardo refered to it as the «principal problem of political economy». Although ultimately this is merely a question of how to divide up the «pie» among the factors of production (labour and capital) that help to produce it, there are important implications to how it is shared out. Not only does it directly affect the welfare of the owners of capital and workers but also influences decisions to invest in physical and human capital. Recently, this issue has become even more relevant as it is often used as a first approximation to measure social inequality. As a general rule, capital income is more concentrated among the wealthier population than labour income, so a decline in labour share tends to be associated with rising inequality in a society.

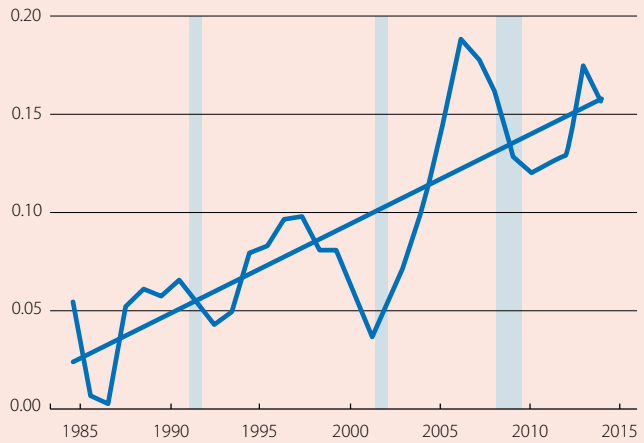
The empirical evidence is convincing: the labour share has fallen globally over the past decades.[1] There are many reasons for this decline and they have been widely documented in the academic literature.[2] Certain underlying trends such as technological advances and globalisation tend to encourage a greater use of capital in detriment to labour and consequently reduce workers' share of GDP.[3] The Great Recession of 2008-2009 also helped to speed up this decline as most of the adjustment was carried out via the labour factor. Now that we are in the phase of recovery, GDP growth is occurring without pushing up wages, accentuating the decline in the labour share even further.[4]

Consequently, as a result of both structural and cyclical factors the labour share has steadily fallen in most advanced countries and in many emerging. However, as we will see, there has also been a significant change in how capital income is distributed. A large part of debate focuses on associated methodological issues and it is therefore useful to clarify the concepts first.[5]

In the case of a company, its gross value added (GVA) is the difference between revenue from sales and the cost of the intermediate inputs used in production. The GVA is divided into two components: labour income (wages and other compensation received by the workers) and the rest, called gross operating surplus (GOS) in the national accounts.[6] An initial estimate of the capital share can be reached by dividing the GVA by the GOS. It does not matter whether we analyse this ratio or the labour share as they are both essentially the same, by definition. This albeit crude estimate leads us to conclude that capital income has clearly risen.

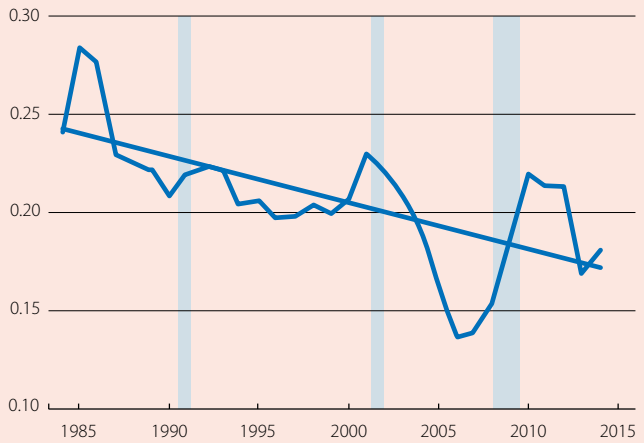
Corporate profits in the US

(% of the corporate gross value added)



Other capital payments in the US

(% of the corporate gross value added)



Source: *CaixaBank Research, based on data from Barkai, S. (2016).*

1. Karabarbounis, L. and Neiman, B. (2014a), «The global decline of the labor share», Quarterly Journal of Economics, 129.
2. See the Dossier «Wages in perspective» published in MR02/2014.
3. This is the view defended by both Pikkety and Karabarbounis & Neiman. The former stresses that the rise in savings at a global level implies greater accumulation of capital over time, increasing the share of capital stock and consequently the proportion of income allocated to compensate the capital factor. The latter authors note that the fall in price of capital goods compared with consumer goods is giving rise to this same phenomenon. See Pikkety, T. (2014), «Capital in the twenty-first century».
4. On the other hand, the countercyclical pattern of profit margins is well-known; i.e. during recessions, companies tend to increase the margin they operate to partly offset the drop in sales.
5. In this article, as is customary in the literature, we have limited our analysis to the corporate sector, excluding self-employed workers and civil servants.
6. A third component, with a much smaller relative weight, is taxation on production. Generally, the analysis is carried out at factor costs to exclude this component.

However, the definition does not take into account the fact that GOS is a very broad concept and includes payments made to a wide range of receivers. Some of this capital income is paid to lenders in the form of interest. Another part goes to the government in tax on profits, and the rest may be retained on the company's balance sheet (retained earnings) or distributed to shareholders in the form of dividends or share repurchases. Unfortunately national accounts do not provide such a level of detail.

In a pioneering study that analysed data from 59 countries over 35 years, Karabarbounis & Neiman[1] break down GOS into one component of pure company profit (including both dividends paid out and retained earnings) and another component that includes the rest of the capital payments (interest payments, among others). The authors establish that it is the first component, pure company profit, and not the second, other capital income, that tends to grow over time. Consequently, the decline in labour share is being offset by an overall increase in corporate earnings. At the same time the authors also show that dividend payments are increasing at a slower rate than total earnings, so the fall in labour income is coinciding with a spectacular rise in corporate savings.

Although these findings are certainly significant, it should be noted that the analysis carried out by Karabarbounis & Neiman assumes a constant real interest rate. This hypothesis, however, is not very appropriate when studying long-term trends and especially does not match the most recent recessionary experience when the real interest rate has actually fallen. This methodological limitation was resolved by Rognlie[7] who provides a measurement of the real interest rate that displays a downward trend over time.

Rognlie also stresses the use of capital net of depreciation, instead of gross. This distinction is important because part of the gross capital income is used to replace capital that has depreciated and cannot therefore be considered as compensating investors. This is particularly relevant in sectors such as information technology where capital plays a key role in production and depreciates rapidly. In fact, given that those sectors that have become increasingly important in the economy as a whole tend to have a capital stock that depreciates more quickly (such as software or intellectual copyright), capital depreciation might lie behind the increase in gross capital income at a global level. In effect, if net capital income and Rognlie's estimated return on capital are taken into account (both decreasing), we can see that the component of «other capital payments» is decreasing while, on the other hand, the component of pure profit is rising considerably.[8]

With the same aim of determining the trend in the capital share but focusing solely on the US, Barkai[9] has estimated the return on capital based on the return of a portfolio of bonds classed as Aaa by Moodys' and inflation expectations. Using this approach, Barkai finds that «other capital payments» have fallen dramatically over the past 30 years. Specifically, and according to this estimate, they have decreased by 30%, a larger decline than the one in the labour share, namely 10% over the same period. The other side of the coin to this decline in labour share and in «other capital payments» is a substantial increase in the share of pure corporate profit: in the US increasing from 2.2% of GVA in 1984 to 15.7% in 2014.

All the analyses consulted have found an increase in corporate earnings. However, determining exactly why they have increased is no easy task as the literature tends to measure earnings as a residual (the part of GVA that is not used to compensate labour or capital). In this respect, Barkai's study goes one step further, revealing a positive correlation between the increase in profit and the degree of industry concentration. This suggests that less competition in product markets and consequently the increase in company markups would be the reason for the decline in the «labour and other capital share».

In conclusion: labour and other capital shares have tended to decrease, offset by an increase in the share of pure corporate profit. One implication of this finding is that concern about inequality should not focus solely on the distribution of income among labour and capital but also on understanding the reasons behind the growth in company margins. The article «Why have profit margins increased?» in this Dossier provides a detailed explanation of the main factors that lie behind these larger markups. Another equally important question is why companies, given the notable increase in company margins, have not increased their distribution of profit but rather have chosen to accumulate savings in the form of liquidity on their balance sheets. This is explained in the article «Liquidity in the business sector: more does not always mean better».

Judit Montoriol Garriga
Macroeconomics Unit, Strategic Planning and Research Department, CaixaBank

7. Specifically, he estimates the real interest rate based on the difference between the market value of a company and its book value. See Rognlie, M. (2015), «Deciphering the Fall and Rise in the Net Capital Share: Accumulation or Scarcity? », Brookings Papers on Economic Activity.
8. In their first study, Karabarbounis & Neiman used gross figures. However, the authors subsequently demonstrated a strong correlation between the trend in net and gross labour income. See Karabarbounis, L. & Neiman, B. (2014b), «Capital depreciation and labor shares around the world: measurement and implications», Working paper, University of Chicago. Moreover, the use of net figures is quite controversial due to the arbitrary nature of how depreciation is calculated.
9. Barkai, S. (2016), «Declining labor and capital shares», Working paper, University of Chicago.

Why have profit margins increased?

As explained in the article «The trend in listed company profits: bullish but volatile» in this *Monthly Report's* Dossier, a large proportion of the increase in earnings reported by listed companies in the US and the euro area can be explained by the historically high levels of profit margins (defined as the ratio between earnings and sales). This rise, however, has not been evenly distributed across all sectors and firms. It is therefore important to analyse the factors underlying this trend.

One of the factors that determines the price companies can charge for their products is the degree of competition. For instance, when there are fewer competitors in the market, companies have more power to charge higher prices and can therefore obtain higher margins. Besides the number of competitors, the degree of competition also depends on factors such as the barriers to entry in the market (regulatory, economic, technological, etc.), the sector's degree of concentration, the market growth or how successful antitrust authorities are in preventing collusion between firms. Consequently, many of the factors affecting the degree of competition can vary depending on the sector in which the company operates.

In addition to these factors, companies can also implement strategies to improve their competitive position and thereby increase margins. Two ways to improve a firm's competitive position are product differentiation and production process improvements, two lines of action which have recently received a boost thanks to new technologies and globalisation.

Product differentiation helps to make demand less sensitive to price increases (i.e. it becomes more inelastic), which in turn allows firms to set higher margins. Products can be differentiated in several ways. One of these, at least in the short term, is through advertising campaigns so as to increase brand awareness for the product. Another way to differentiate the product is through innovation; i.e. improving the features and/or functions of an already existing product. If successful, product innovation can create a company-specific demand, thereby increasing consumers' willingness to pay and consequently profit margins.[1]

Innovation can also make a company's production process more efficient, which can push down production costs and result in higher profit margins if the competitors fail to innovate at the same pace. One study published recently uses data from a large sample of Spanish companies between 1990 and 2008 and analyses the relation between innovation and firms' markups. Specifically, the paper finds that product innovations increase markups by 5.1% on average, while production process innovation is associated with an average 3.8% increase in markups. Therefore, it is not surprising that margins are generally higher in the most innovative sectors, such as the pharmaceutical and information and communication technologies (ICTs) sectors.

Globalisation has also contributed to the increase in profit margins. Many firms have taken advantage of technological advances and the progressive reduction of barriers to trade to expand into new markets. The economics literature suggests that exporting firms enjoy a markup premium.[2] With regards to product differentiation, a large amount of empirical evidence also indicates that exporting firms tend to differentiate their products more and/or export higher quality goods (whose demand is more inelastic). Globalisation has also contributed to a reduction in production costs and an increase in firms' size.[3] This is partly because companies that internationalise their activities are usually more competitive but also because global competition forces firms to continue making their production processes more efficient and to innovate so as to differentiate their products.[4] For instance, many firms, especially those which already had a strong presence in the advanced economies, have taken advantage of technological advances and improvements in transportation to split their operations between several countries, creating global production chains that result in considerably lower production costs. This has given them a huge competitive advantage, making it easier for them to enter new markets and develop a business model that is very difficult for other competitors to emulate.

1. See Cassiman, B. and Vanormelingen, S. (2013), «Profiting From Innovation: Firm Level Evidence on Markups», Working paper, IESE Business School.
2. See De Loecker, J. and Warzynski, F. (2012), «Markups and Firm-Level Export Status», American Economic Review 102(6) and Cassiman, B. and Vanormelingen, S. (2013), «Profiting From Innovation: Firm Level Evidence on Markups», Working paper, IESE Business School.
3. The number of multinationals has more than doubled over the past 25 years: from 36,000 in 1990 to 81,000 in 2013, see McKinsey Global Institute (2015), «The new global competition for corporate profits».
4. See Altomonte, C. *et al.* (2014), «Internationalization and innovation of firms: evidence and policy», Special paper, Centre for Economic Performance; Cassiman, B. and Vanormelingen, S. (2013), «Profiting From Innovation: Firm Level Evidence on Markups», Working paper, IESE Business School; Forlani, E. *et al.* (2016), «Unraveling Firms: Demand, Productivity and Markups Heterogeneity», Centre for Economic Performance; Hallakyand, J. C. and Sivadasanz, J. (2009), «Firms' Exporting Behavior under Quality Constraints», Working paper, National Bureau of Economic Research; Manova, K. and Zhang, Z. (2012), «Export Prices Across Firms and Destinations», The Quarterly Journal of Economics 127, and Mayer, T., Melitz, M. and Ottaviano, G. (2016), «Product Mix and Firm Productivity Responses to Trade Competition», Discussion Paper, Centre for Economic Performance.

Moreover, since the financial crisis, the effects from the business cycle have added to the more structural factors. In a downturn, two opposing forces can affect profit margins. On the one hand, as demand falls, firms tend to compete via prices, which squeezes margins. In an economic recession, however, less competitive firms tend to exit the market, while others are forced to increase their profit margins so as to cover their fixed costs. This second force seems to have prevailed over the past few years.[5] A recent study examining a large sample of Spanish firms presents evidence to support this argument and concludes that part of the increase in profit margins observed since the crisis is due to a reduction in competition in some markets.[6] Another factor that has pushed up margins over the past few years has been the firms' fear of losing access to external financing or not being able to meet financial costs. Several studies show that companies which are more dependent on external financing or more leveraged also tend to set larger markups.[7]

To sum up, over the past few years both cyclical and structural factors have boosted profit margins. While the cyclical factors are likely to fade away over the coming years, structural factors, such as technological advances and globalisation, seem to have a long way to run. Both globalisation and technological progress are undoubtedly positive factors that contribute to economic growth and welfare. Nevertheless, we need to follow closely the extent to which this increase in profit margins is the result of comercially successful products or the result of less competition.

Roser Ferrer
Macroeconomics Unit, Strategic Planning and Research Department, CaixaBank

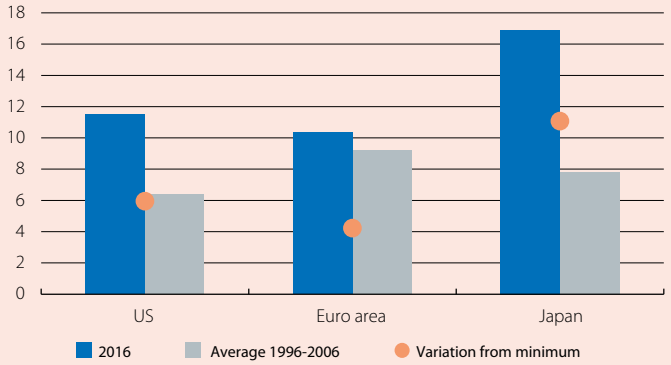
5. For a more detailed explanation of the countercyclical nature of company markups, see Rotemberg, J. and Woodford, M. (1991), «Markups and the Business Cycle», NBER Macroeconomics Annual, and Rotemberg, J. (2008), «Cyclical markups», The New Palgrave Dictionary of Economics.
6. See Montero *et al.* (2015), «Heterogeneity of markups at the firm level and changes during the Great Recession: the case of Spain», Working Paper Series, Bank of Spain.
7. See Chevalier, J. and Scharfstein, D. (1996), «Capital Market Imperfections and Countercyclical Markups: Theory and Evidence», The American Economic Review, Vol. 86, and Gilchrist *et al.* (2013), «Inflation Dynamics During the Financial Crisis», Mimeo. For Spanish firms, see Montero, J. and Urtasun, A. (2014), «Price-cost mark-ups in the Spanish Economy: a microeconomic perspective», Working Paper Series, Bank of Spain.

Liquidity in the business sector: more does not always mean better

The economic activity carried out by companies is compensated in monetary terms by the generation of cash flows. As these are produced, the company's managers (the «agent» in academic jargon) face a very significant challenge: deciding how such cash should be employed. Broadly speaking, and as a simplification, there are four possible options: boost investment to increase organic growth (in other words capex); reward the shareholders, either by paying out dividends or buying back shares; repay debts or, lastly, build up the company's liquidity in its cash accounts. Over the past few years companies have notably, and increasingly, opted to hold onto cash with levels reaching an all-time high. This phenomenon, known as cash hoarding, has sparked fierce discussion, both in an attempt to understand the underlying factors and also to gauge its consequences.

*Liquidity ratio by geographical region **

(%)



Note: ** The liquidity ratio is defined as the proportion of cash and other short-term assets easily converted into cash to total assets. Liquidity ratios are calculated for the non-financial companies in the S&P 500 (US), Eurostoxx (euro area) and Topix (Japan) indices. The variation from minimum shows the deviation, in percentage points, of the liquidity ratio in 2016 compared with each region's minimum. In the US, the minimum was reached in March 2007, in the euro area, in March 2008 and in Japan, in January 2007.*
Source: *CaixaBank Research, based on data from Bloomberg and MSCI.*

Cash hoarding by companies has been widely and amply documented by empirical studies. One of the most prominent has been carried out by the economists Karabarbounis and Neiman, showing an increase in company saving relative to GDP at a global level over the past three decades.[1] Another sign of this phenomenon is the increase observed over the past decade in the liquidity ratios of listed companies from the main countries in the developed bloc. The liquidity ratio consists of a company's cash and other liquid assets easily converted into cash (mostly short-term fixed interest instruments) relative to its total assets. The trend in this ratio shows that cash hoarding appears to be a global phenomenon but is particularly strong in the US and Japan. At year-end 2016, almost 12% of the total assets of US firms were liquid compared with an average of 6.4% in the period 1996-2006. But the liquidity ratio appears to be rising even more sharply in Japan: from an average of 7.8% in the period 1996-2006 to close to 17% in 2016. The cash hoarding by companies in the euro area has been less remarkable, however, going from an average of 9.2% over the period in question to 10.5% in 2016 (see the graph).

Whereas there is widespread consensus concerning the empirical evidence for cash hoarding, the same cannot be said for the theory. Academic discussion has focused on why corporate cash surpluses have increased, as well as the possible consequences for the real economy. Corporate finance literature has traditionally identified several factors behind cash surpluses in firms. There are four key causes: the volatility of cash flow, perceived uncertainty on the part of managers, corporate governance issues and fiscal aspects. However, economists disagree when it comes to a unified theory that explains the increase in corporate liquidity over the past decade. Cash flow volatility is often put forward as a major cause and forms the basis of a large number of the factors classically proposed to explain corporate cash surpluses. In an influential study, Almeida, Campello and Weisbach find a positive and statistically significant correlation between the variability of cash flows and levels of cash in a large sample of companies.[2] In particular, the authors demonstrate that the relationship between these two variables is even stronger among firms that share certain attributes, such as being smaller in size and more constrained in terms of their access to external financing. Other factors proposed by cash hoarding literature are the imperfections of capital markets as well as, more recently, the role played by regulation in the international financial system.

Other studies related to cash flow volatility have highlighted uncertainty as the underlying reason for cash hoarding, particularly after the outbreak of the financial crisis in 2008-2009.[3] Companies hoard cash for preventative or precautionary reasons in order to hedge, to a greater or lesser degree, against the risk of a future scarcity of liquidity because of, for instance, possible negative shocks of a macroeconomic or idiosyncratic nature (i.e. related particularly to the company). Hoarding helps to ensure that, if

1. See Karabarbounis, L. & Neiman, B. (2012), «Declining Labor Shares and the Global Rise of Corporate Saving», NBER, Working paper No. 18154. The authors base their analysis on the trend in profit (variable flow). Readers should not confuse this with the concept of surplus corporate liquidity or cash surplus (variable stock).
2. See Almeida, H., Campello, M. & Weisbach, M. (2004), «The Cash Flow Sensitivity of Cash», Journal of Finance 59(4): 1777-1804.
3. Readers will find an interesting reference in Sánchez, J. & Yurdagül, E. (2013), «Why Are U.S. Firms Holding So Much Cash? An Exploration of Cross-Sectional Variation», Federal Reserve Bank of St. Louis Review.

faced with such situations, companies still have enough resources to take advantage of opportunities or invest in profitable projects, as well as to avoid bankruptcy. Historically, uncertainty regarding business cycle trends or sales has had a positive correlation with liquidity provision. However, the association between these two variables alters over time and has actually been weak during the period in question.

Also relevant are the cash management implications of possible conflicts or diverging interests that may appear between a company's directors and owners (known as the «agency problem»). This issue has led to increasing mistrust in business and financial circles. Prominent Wall Street investors have even brought formal complaints against the boards of directors of some companies, claiming that their holding onto cash is clearly not in the shareholders' interest. There is evidence in the literature that the agency problem tends to increase cash hoarding through many different channels. In particular, companies tend to have higher levels of liquidity in countries where shareholders' rights and corporate governance are more deficient. According to various studies, Japan suffers from this problem. The fiscal factor has also come under scrutiny by researchers.[4] In the case of the US, high levels of corporate tax discourage the repatriation of profits made beyond the country's borders, so they tend to be kept abroad.

Probably one vital piece in the puzzle is the change in the sector composition of business and especially among listed companies. Sectors related to information and communication technology (ICT) have seen incredible growth over the past ten years. In 1996 only one ICT company was among the ten biggest in the S&P 500 index in terms of stock market capitalisation and this number was still the same in 2006; however, it had grown to six in 2016. Moreover, the five S&P 500 firms with the largest cash surpluses make up 25% of the total and all of them are involved with new technologies. The emphasis placed by such businesses on research and development (R&D) and the type of investment required (primarily in intangible capital, making external financing more difficult to obtain) may explain their propensity to accumulate savings. This has also been suggested by a recent Federal Reserve study, whose authors suggest that innovation is a first-order driver of cash hoarding.[5]

To recap, there is ample evidence of companies holding onto cash. However, the main causes of such hoarding and the relative weights of its potential underlying forces have yet to be satisfactorily defined. Nevertheless, the most recent evidence suggests that, for greater insight into this phenomenon, factors such as innovation and technological change should also be studied. Given the structural nature of such changes, corporate cash surpluses are likely to remain relatively high and certainly above the average levels seen in 1996-2006.

Carlos Martínez Sarnago
Financial Markets Unit, Strategic Planning and Research Department, CaixaBank

4. For example, see Foley, F., Hartzell, F., Titman, S. & Twite, G. (2007), «Why Do Firms Hold So Much Cash? A Tax-based Explanation», Journal of Financial Economics, 86, 579-607.
5. See Falato, A. & Sim, J. (2014), «Why Do Innovative Firms Hold so Much Cash? Evidence from Changes in State R&D Tax Credits», Finance and Economics Discussion Series 2014-72, Board of Governors of the Federal Reserve System (US).

CaixaBank Research

PUBLICATIONS

All publications are available online at **www.caixabankresearch.com**
E-mail: **research@caixabank.com**

WORKING PAPER SERIES

Nota Metodológica del Índice CaixaBank para la Internacionalización Empresarial (ICIE)
Sergio Mayordomo and María Rodríguez-Moreno, 11/2016

From missing disinflation to missing inflation: Understanding the recent path of inflation in the US
Nadim Elayan Balagué and Ayman El Dahrawy Sánchez-Albornoz, 03/2016

La posición externa de la economía española: claves para reducirla
Jorge Meliveo and Judit Montoriol, 02/2016

Radiografía de la productividad del trabajo en España
Maria Gutiérrez-Domènech, 01/2016

Termómetro inmobiliario de "la Caixa" Research
Ariadna Vidal Martínez, 01/2015

La internacionalización del renminbi: un largo camino por recorrer
Clàudia Canals, 03/2013

Vulnerabilidad de las economías emergentes
Àlex Ruiz, 02/2013

Sareb: claves estratégicas
Sandra Jódar-Rosell, 01/2013

Ajuste de capacidad en el sistema financiero español
Inmaculada Martínez, 09/2012

El ahorro y la eficiencia energéticos: un impulso para la competitividad de la economía española
Pere Miret, 08/2012

Commodity Cycles: What Has Changed during the Last Decade?
Eduardo Pedreira and Miguel A. Canela, 06/2012

Inversiones financieras en España: impacto de la inestabilidad en los mercados
Inmaculada Martínez, 05/2012

Is There a Property Bubble in China?
Clàudia Canals and Mercè Carreras-Solanas, 04/2012

El sobreendeudamiento de las empresas españolas: ¿problema común o de unas pocas?
Sandra Jódar-Rosell and Inmaculada Martínez, 03/2012

Hungría y la ayuda financiera de la UE y el FMI: ¿cambio en el mapa de riesgos?
Àlex Ruiz, 02/2012

DOCUMENTOS DE ECONOMÍA CAIXABANK

La eficiencia del sector público, clave para la consolidación fiscal
Oriol Aspachs, Anna Campos, Jordi Gual and Judit Montoriol

¿Por qué Europa genera poco crecimiento y empleo?
Jordi Gual

La prociclicidad del sistema financiero después de las reformas
Sandra Jódar-Rosell and Jordi Gual

Unión Bancaria: ¿de hormigón o de paja?
Jordi Gual

Enseñanzas latinoamericanas para una crisis europea
Àlex Ruiz

Los requisitos de capital de Basilea III y su impacto en el sector bancario
Jordi Gual

Perspectivas de desapalancamiento en España
Oriol Aspachs-Bracons, Sandra Jódar-Rosell and Jordi Gual

Diferencial de inflación con la eurozona: ¿mejora sostenible?
Pere Miret

La recuperación del comercio mundial. Lo que la crisis se llevó
Marta Noguer

Inmigración y mercado laboral: antes y después de la recesión
Joan Elias

CAIXABANK ECONOMIC PAPERS

Banking Union: made of concrete or straw?
Jordi Gual

European Integration at the Crossroads
Jordi Gual

Capital Requirements Under Basel III and Their Impact on the Banking Industry
Jordi Gual

Should the ECB Target Employment?
Pau Rabanal

Integrating Regulated Network Markets in Europe
Jordi Gual

MR MONTHLY REPORT - ECONOMIC AND FINANCIAL MARKET OUTLOOK

Report on the economic situation (available also in Spanish version)

CURRENT ECONOMY

FINANCIAL SYSTEM

COLECCIÓN COMUNIDADES AUTÓNOMAS

CÁTEDRA "la Caixa" ECONOMÍA Y SOCIEDAD

El tiempo que llega. Once miradas desde España
José Luis García Delgado (editor)

ECONOMIC STUDIES

Europe, Like America. The Challenges of Building a Continental Federation
Josep M. Colomer

El cambio climático: análisis y política económica. Una introducción
Josep M. Vegara (director), Isabel Busom, Montserrat Colldeforns, Ana Isabel Guerra and Ferran Sancho

CAIXABANK GROUP: KEY FIGURES
As of December 31, 2015

	MILLION €
Customer funds	296,599
Receivable from customers	206,437
Profit atributable to Group	814
Market capitalisation	18,702
Customers (million)	13.8
Staff	32,242
Branches in Spain	5,211
Self-service terminals	9,631

"la Caixa" BANKING FOUNDATION COMMUNITY PROJECTS: BUDGET 2016

	MILLION €
Social	308.8
Research and education	61.3
Spreading culture and knowledge	129.9
TOTAL BUDGET	**500**

CaixaBank Research on Twitter  @CABK_Research

Follow us on Twitter to get the latest news from CaixaBank Research.

All our publications are available at www.caixabankresearch.com

Our aim is to create and spread economic and social knowledge to contribute towards the development of Spanish and European society.

Design and production: www.cegeglobal.es
Legal Deposit: B. 21063-1988 ISSN: 1134-1920

CaixaBank Research