MR04

MONTHLY REPORT • ECONOMIC AND FINANCIAL MARKET OUTLOOK

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ECONOMIC & FINANCIAL ENVIRONMENT

DOSSIER: THE MILLENNIAL GENERATION

CaixaBank Research

MONTHLY REPORT - ECONOMIC AND FINANCIAL MARKET OUTLOOK
April 2018

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Letter to a Millennial

Dear Millennial,

This month we have devoted our *Monthly Report* to your generation, to those of you born between 1981 and 1995 who are known as Millennials because you came of age at the turn of the millennium. The name does not really matter – pure marketing. What is important is the fact that you represent 20% of the European Union's population (a little less in Spain) and no generation has ever been so well qualified: 4 out of every 10 of you have a university degree. You are the lifeblood of our economy and our companies.

As I have mentioned, you are highly qualified but I am not sure you have all received the best possible training. Some of you (perhaps many) had been taught as and what I was taught. Times may have changed but not so much how and what is taught. I sincerely hope this improves with the generation coming after you. In any case, learning is for life and I hope that, apart from facts and figures, you have also been taught how to continue learning. And, above all, that they have instilled in you a curiosity to do so. An addiction to learning comes highly recommended.

Finding work has been tough over the past few years, especially for those of you looking for your first job at the peak of the crisis. Spain's unemployment rate for people aged 20 to 24 went above 50%; and 35% for those aged 25 to 29. The situation has improved but the unemployment rate for your generation, close to 25%, is still unacceptably high. Even if you have found a job, you are very likely to be on a low wage, perhaps lower than it would have been 10 years ago. But, patience. History has shown that the effects of the crisis on your career are likely to dissipate, at least partly.

But apart from asking you to be patient, you also deserve an explanation. The repercussions of the crisis on youth employment have been worse in Spain than in other countries. This is partly because our labour market is strongly divided between what economists call insiders and outsiders. The former enjoy a lot of protection, making it difficult to reduce their wages, while the latter are on temporary contracts or unemployed. When economic crisis forces companies to drastically cut their costs, outsiders are particularly affected by these adjustments, either by losing their job (temporary contracts are not renewed) or because any work they find is considerably less well paid. By definition, young people looking for their first job are outsiders. We will see what happens in the next crisis but I hope it takes several years to appear. I am still not convinced that Spain has entirely managed to sort out the problem of its two-tier labour market.

With the advent of the digital revolution, you will have also heard that robots might take over your job. That could happen; many professions have disappeared throughout history. But in the vast majority of cases technological innovation tends to revamp professions as some tasks become automated. Do not be tempted to resist technological change. When it comes down to it, technological progress is what has driven improvements in people's lives since the First Industrial Revolution. Quite the opposite – we need your talent in order to innovate. Young people are great inventors: of technologies, of new ways of doing things, of new approaches to business...

Without doubt, things will be much better for you if the economy goes well. But, above all, things will be much better for the economy if they go well for you. Paraphrasing the famous line by John F. Kennedy, «do not ask what the economy can do for you but what you can do for the economy».

My warmest regards and the very best of luck.

Enric Fernández
Chief Economist
31 March 2018

CHRONOLOGY

MARCH 2018

8 President Trump imposes tariffs on imports of steel and aluminium.
21 The Fed raises the fed funds rate by 25 bp to a range of 1.50%-1.75%.

FEBRUARY 2018

5 Jerome Powell takes over as Chair of the US Federal Reserve, replacing Janet Yellen.

JANUARY 2018

19 The Fitch ratings agency raises Spain's credit rating from BBB+ to A–.
31 The European Banking Authority (EBA) begins stress tests for Europe's banks for the period 2018-2020.

DECEMBER 2017

13 The Fed raises the fed funds rate by 25 bp to a range of 1.25% to 1.50%.
15 Fitch ratings agency upgrades Portugal's credit rating to investment grade (BBB).
The European Council ratifies the agreement reached with the UK regarding the Brexit terms.
20 The US passes tax reforms.

NOVEMBER 2017

2 The Bank of England raises its benchmark interest rate by 25 bp to 0.50%.
30 OPEC announces it will extend oil production cuts until the end of 2018, nine months later than initially agreed.

OCTOBER 2017

22 Shinzō Abe is confirmed as Japan's Prime Minister.
24 The 19th National Congress of the Communist Party of China re-elects Xi Jinping as General Secretary for a second five-year mandate.
26 The ECB announces its plan to reduce the volume of asset purchases (QE). Specifically, from January to September 2018, the ECB will reduce monthly purchases from EUR 60 to 30 billion.

AGENDA

APRIL 2018

3 Registration with Social Security and registered unemployment (March).
6 Industrial production index (February).
16 Financial accounts (Q4).
18 Loans, deposits and NPL ratio (January and February).
20 International trade (February).
26 State budget execution (March).
Governing Council European Central Bank.
Labour force survey (Q1).
27 Flash GDP (Q1).
Flash CPI (April).
Economic sentiment index of the euro area (April).
US GDP (Q4).
30 Balance of payments (February).

MAY 2018

1-2 Fed Open Market Committee.
2 Euro area GDP (Q2).
4 Registration with Social Security and registered unemployment (April).
7 Japan GDP (Q1).
9 Industrial production index (March).
18 Loans, deposits and NPL ratio (March).
22 International trade (March).
29 State budget execution (April).
30 Flash CPI (May).
Economic sentiment index of the euro area (May).
31 Balance of payments (March).
Quarterly national accounts (Q1).

A diagnosis of the world economy? Global resilience, latent risks

Global economic activity remains firm. Q1 is likely to end with world growth at 4%, a figure not seen since 2014 and supporting the good outlook for 2018 as a whole (global growth is expected to reach 3.9%, slightly above the 3.7% achieved in 2017). One particularly positive aspect of this growth is that it seems to be occurring across several regions and sectors. Importantly, the underlying tone is still strong in the two main economic engines, the US and China, although the American economy may have been slightly less expansionary than expected early in 2018. The series of positive soft indicators in the US has been offset by other less favourable real indicators, pointing to moderate Q1 growth. Nevertheless, this somewhat more hesitant start to the year does not look like compromising the favourable outlook for the next few quarters. China's economic progress also seems to be fundamentally positive. In fact, industrial production and retail sales have been surprisingly high despite the distortions that always occur due to Chinese New Year celebrations. In summary, it is reasonable to expect this good growth rate to continue, supported by financial conditions remaining amply accommodative, oil prices staying within a reasonable range for both exporters and importers, and the recovery in large emerging economies such as Brazil and Russia, as well as good economic growth rates continuing in emerging Asia. We should also add the positive inertia for economic growth provided by the high levels of business and consumer confidence.

Arrhythmia in the financial markets. Although the macroeconomic lung is performing well, the financial heart is looking more erratic. After a long period of what was surely over-complacency, resulting in invariably low volatility, in Q1 instability returned to the financial markets due to expectations of a less accommodative monetary policy stance and fears of greater protectionism at a global level. After spikes in sovereign interest rates in January and equity corrections in February, in March the main international stock markets were still erratic and losses continued. However, while February's stock market corrections were triggered by expectations of a tighter monetary policy stance on the part of the US Federal Reserve (Fed), the losses in March followed announcements of higher customs tariffs by Trump's administration, both at the beginning and end of the month. With all eyes on US trade policy, March's central bank meetings had little effect on investor sentiment. This was the case both of the Fed's meeting, agreeing another hike in the fed funds rate, and also the ECB meeting, which hinted at quantitative easing soon coming to an end.

Europe, Spain and Portugal are in good shape. Europe, on the other hand, is still sailing through relatively calm waters. The latest economic activity figures confirm that Europe as a whole, and in particular the Iberian economies, are going through a positive moment in the business cycle. As this is partly due to the efforts made to correct macroeconomic imbalances, this good dynamic could continue for a significant period of time. Also related to cementing a better economic future for the continent, it is important an agreement has been reached and confirmed on the Brexit transition period, which should limit disruption for both parties. We should also celebrate the Grand Coalition reached in Germany, opening the door to implementing the adjustments required by the EU, to some extent compensating the uncertain political panorama in Italy. Even closer to home and to the present, indicators for Spain suggest that Q1 growth will have been similar to that of the second half of 2017. This good rate of GDP growth is expected to continue over the coming quarters, driven by global economic activity remaining strong, particularly in the euro area, as well as accommodative financial conditions thanks to the ECB's expansionary monetary policy stance. The trend is also favourable in Portugal as, together with its continued expansion (growth in 2017 was the highest of the past 17 years), there are increasing indications that this growth is more balanced. Importantly, in 2017 Portugal's public deficit (0.9% of GDP, without including the recapitalisation of the Caixa Geral de Depósitos) far outperformed the target set. This is the path to be taken, not only by Portugal and Spain but Europe as a whole: to grow more, provided we can also grow better.

FORECASTS

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

International economy

	2016	2017	2018	2019	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018
GDP GROWTH										
Global	3.2	3.7	3.9	3.8	3.9	3.9	4.0	4.0	3.9	3.9
Developed countries	*1.7*	*2.3*	*2.4*	*2.1*	*2.5*	*2.5*	*2.6*	*2.5*	*2.4*	*2.3*
United States	1.5	2.3	2.7	2.2	2.3	2.6	2.8	2.7	2.6	2.6
Euro area	1.8	2.5	2.5	2.0	2.7	2.7	2.7	2.5	2.4	2.3
Germany	1.9	2.5	2.5	2.1	2.7	2.9	2.7	2.6	2.4	2.3
France	1.1	2.0	2.3	2.0	2.3	2.5	2.4	2.3	2.3	2.2
Italy	1.0	1.5	1.5	1.2	1.7	1.6	1.6	1.5	1.5	1.5
Portugal	1.6	2.7	2.4	2.3	2.4	2.4	2.3	2.3	2.4	2.4
Spain	3.3	3.1	2.8	2.4	3.1	3.1	3.0	2.8	2.7	2.6
Japan	0.9	1.7	1.5	1.0	1.9	2.1	1.9	1.6	1.3	1.2
United Kingdom	1.9	1.7	1.6	1.8	1.8	1.4	1.5	1.7	1.5	1.5
Emerging countries	*4.4*	*4.7*	*5.0*	*5.0*	*4.8*	*4.9*	*5.0*	*5.0*	*4.9*	*5.0*
China	6.7	6.9	6.5	6.3	6.8	6.8	6.6	6.5	6.4	6.4
India	7.9	6.4	7.3	7.5	6.5	7.2	7.0	7.2	7.4	7.5
Indonesia	5.0	5.1	5.5	5.6	5.1	5.2	5.5	5.5	5.5	5.6
Brazil	–3.5	1.0	2.3	2.7	1.4	2.1	2.0	2.3	2.5	2.7
Mexico	2.9	2.1	2.2	2.4	1.6	1.5	1.6	2.2	2.5	2.4
Chile	1.3	1.5	3.1	3.0	2.5	3.3	3.1	3.5	2.9	3.0
Russia	–0.3	1.7	1.8	2.1	1.8	1.9	1.9	1.8	1.6	1.8
Turkey	3.2	7.3	4.0	3.6	11.3	7.3	5.0	4.5	3.3	3.2
Poland	2.9	4.6	3.7	3.0	5.2	4.3	4.1	4.0	3.5	3.3
South Africa	0.7	1.3	1.6	1.6	1.3	1.9	2.3	1.8	1.4	1.0
INFLATION										
Global	2.8	3.1	3.3	3.3	3.0	3.2	3.3	3.4	3.4	3.3
Developed countries	*0.8*	*1.7*	*2.1*	*1.9*	*1.6*	*1.7*	*2.0*	*2.2*	*2.2*	*2.1*
United States	1.3	2.1	2.6	2.1	2.0	2.1	2.3	2.8	2.7	2.4
Euro area	0.2	1.5	1.4	1.8	1.5	1.4	1.2	1.2	1.4	1.5
Germany	0.4	1.7	1.5	1.9	1.7	1.6	1.4	1.4	1.5	1.6
France	0.3	1.2	1.3	1.8	0.9	1.2	1.3	1.2	1.3	1.5
Italy	0.0	1.3	1.1	1.6	1.3	1.1	1.0	1.1	1.1	1.3
Portugal	0.6	1.6	1.5	1.6	1.3	1.8	0.9	1.5	1.6	1.9
Spain	–0.2	2.0	1.5	1.9	1.7	1.4	1.0	1.4	1.8	1.6
Japan	–0.1	0.5	1.2	0.9	0.6	0.6	1.4	1.2	1.4	1.0
United Kingdom	0.7	2.7	2.5	2.3	2.8	3.0	2.8	2.6	2.4	2.4
Emerging countries	*4.3*	*3.9*	*4.4*	*4.4*	*3.8*	*4.1*	*4.4*	*4.4*	*4.5*	*4.3*
China	2.0	1.6	2.2	2.4	1.6	1.8	2.3	2.4	2.2	1.8
India	4.9	3.3	4.6	4.9	3.0	4.6	4.7	4.6	4.9	4.3
Indonesia	3.5	3.8	4.2	4.6	3.8	3.5	3.6	4.0	4.5	4.7
Brazil	8.8	3.5	3.6	4.2	2.6	2.8	3.1	3.6	3.8	4.0
Mexico	2.8	6.0	4.0	3.6	6.5	6.6	4.9	3.8	3.8	3.6
Chile	3.8	2.2	2.6	2.7	1.7	2.0	2.0	2.5	3.1	2.9
Russia	7.1	3.7	3.1	4.0	3.4	2.6	2.6	2.6	3.4	3.9
Turkey	7.8	11.1	9.8	8.8	10.6	12.3	10.3	10.3	9.5	9.0
Poland	–0.2	1.6	1.6	2.4	1.5	1.8	1.1	1.5	1.7	2.0
South Africa	6.3	5.3	5.1	5.4	4.8	4.7	4.2	4.6	5.4	6.1

Forecasts

Spanish economy

	2016	2017	2018	2019	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018
Macroeconomic aggregates										
Household consumption	2.9	2.4	2.6	2.0	2.4	2.5	2.8	2.7	2.5	2.4
General government consumption	0.8	1.6	1.2	0.8	1.4	2.4	1.6	1.3	1.1	0.9
Gross fixed capital formation	3.3	5.0	3.3	3.0	5.6	5.6	3.5	3.6	3.0	3.0
Capital goods	4.9	6.1	3.8	2.6	6.6	7.7	4.5	5.2	2.9	2.7
Construction	2.4	4.6	3.1	3.2	5.1	4.8	3.0	2.8	3.4	3.2
Domestic demand (contr. Δ GDP)	2.5	2.8	2.5	1.9	3.0	3.2	2.7	2.6	2.3	2.2
Exports of goods and services	4.8	5.0	3.5	4.2	5.6	4.4	3.0	3.1	3.6	4.5
Imports of goods and services	2.7	4.7	2.8	3.2	5.9	5.2	2.4	2.8	2.6	3.4
Gross domestic product	**3.3**	**3.1**	**2.8**	**2.4**	**3.1**	**3.1**	**3.0**	**2.8**	**2.7**	**2.6**
Other variables										
Employment	3.0	2.8	2.4	2.1	2.9	2.9	2.7	2.4	2.2	2.3
Unemployment rate (% labour force)	19.6	17.2	15.3	13.5	16.4	16.5	16.5	15.5	14.6	14.6
Consumer price index	–0.2	2.0	1.5	1.9	1.7	1.4	1.0	1.4	1.8	1.6
Unit labour costs	–0.6	–0.2	0.8	1.4	–0.2	0.0	0.2	0.7	0.9	1.3
Current account balance (cum., % GDP)[1]	1.9	1.9	1.8	1.8	1.8	1.9	1.9	1.9	1.9	1.8
Net lending or borrowing rest of the world (cum., % GDP)[1]	2.2	2.1	2.0	2.0	2.0	2.1	2.1	2.1	2.1	2.0
Fiscal balance (cum., % GDP)[2]	–4.3	–3.1	–2.5	–1.8						

Financial markets

INTEREST RATES										
Dollar										
Fed Funds	0.51	1.10	1.96	2.67	1.25	1.30	1.58	1.83	2.08	2.33
3-month Libor	0.74	1.26	2.32	2.94	1.32	1.47	1.93	2.26	2.45	2.64
12-month Libor	1.37	1.79	2.64	3.02	1.73	1.92	2.39	2.63	2.73	2.82
2-year government bonds	0.84	1.39	2.54	3.23	1.36	1.69	2.16	2.41	2.67	2.92
10-year government bonds	1.84	2.33	3.05	3.57	2.24	2.38	2.77	3.00	3.15	3.30
Euro										
ECB Refi	0.01	0.00	0.00	0.08	0.00	0.00	0.00	0.00	0.00	0.00
3-month Euribor	–0.26	–0.33	–0.33	–0.07	–0.33	–0.33	–0.33	–0.33	–0.33	–0.33
12-month Euribor	–0.03	–0.15	–0.18	0.22	–0.16	–0.19	–0.19	–0.19	–0.18	–0.14
2-year government bonds (Germany)	–0.58	–0.75	–0.49	0.06	–0.72	–0.74	–0.59	–0.53	–0.45	–0.38
10-year government bonds (Germany)	0.10	0.36	0.74	1.44	0.42	0.38	0.59	0.68	0.79	0.91
EXCHANGE RATES										
$/€	1.11	1.13	1.22	1.22	1.17	1.18	1.23	1.23	1.22	1.21
¥/€	120.30	126.64	131.74	130.42	130.38	132.92	133.07	130.85	131.30	131.75
£/€	0.82	0.88	0.88	0.87	0.90	0.89	0.88	0.88	0.88	0.88
OIL										
Brent ($/barrel)	45.04	54.83	63.21	63.75	52.18	61.54	66.44	62.40	62.00	62.00
Brent (€/barrel)	40.73	48.62	51.97	52.29	44.84	51.95	55.38	50.71	50.73	51.04

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

Forecasts

FINANCIAL OUTLOOK · **Erratic performance by the financial markets**

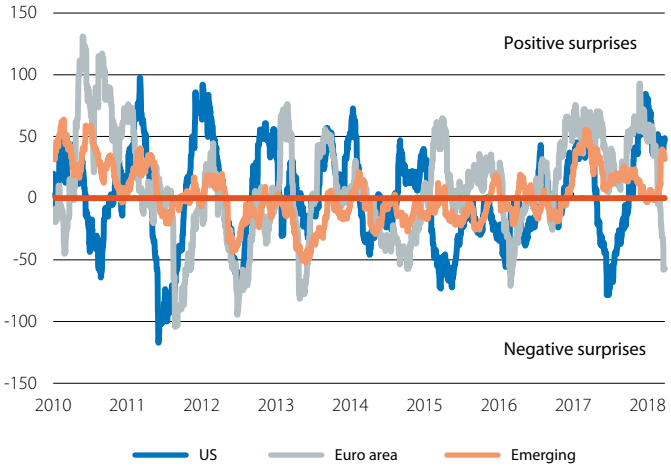
A more volatile financial environment. After very low volatility for several years, financial markets became more unstable in the first few months of 2018. This was due to expectations of a less accommodative monetary policy stance and fears of increased protectionism at a global level. After spikes in sovereign interest rates in January and equity corrections in February, the main international stock markets remained erratic in March and losses continued. However, while February's stock market corrections were triggered by expectations of a tighter monetary policy stance by the Fed, March's losses followed announcements of higher customs tariffs by Trump's administration, both at the beginning and the end of the month. March's central bank meetings had little effect on investor sentiment. Both the Fed and the European Central Bank (ECB) stressed the good performance of their respective economies. Consequently, the Fed raised the fed funds rate again in the US while, in the euro area, the ECB, which is at a much earlier stage of withdrawing stimuli, hinted that the end of net asset purchases is getting closer. For the month as a whole, the confidence conveyed by the central banks, supported by a positive macroeconomic environment, contrasted with an increase in protectionist concerns and in the sensitivity of financial asset prices to risk factors related to geopolitics and trade.

The main sources of risk: monetary policy, protectionism and geopolitics. The stock market corrections of the past few months illustrate the predominance of geopolitics, protectionism and the withdrawal of monetary stimuli as risk factors for the global macrofinancial scenario. On the one hand, February's episode of stock market corrections was triggered by an increase in inflationary fears in the US and the consequent readjustment of investor expectations regarding the Fed's monetary policy stance. This heightened doubts regarding the potential effect of higher interest rates on the country's high stock market valuations. Concerns also emerged in March concerning a more protectionist global environment, leading to stock market sell-offs. Both factors, together with a number of international geopolitical conflicts which have been analysed in recent issues of the *Monthly Report*, will continue to affect the scenario over the coming quarters. Consequently, we should not underestimate the risk of the financial environment remaining more volatile in spite of solid world economic growth.

Stock markets see more losses. In March, the main stock market indices were still erratic and the month saw three sell-off episodes. The first occurred between the end of February and early March, on the US government's announcement that it would impose stiff tariffs on steel and aluminium imports.

Index of economic surprises

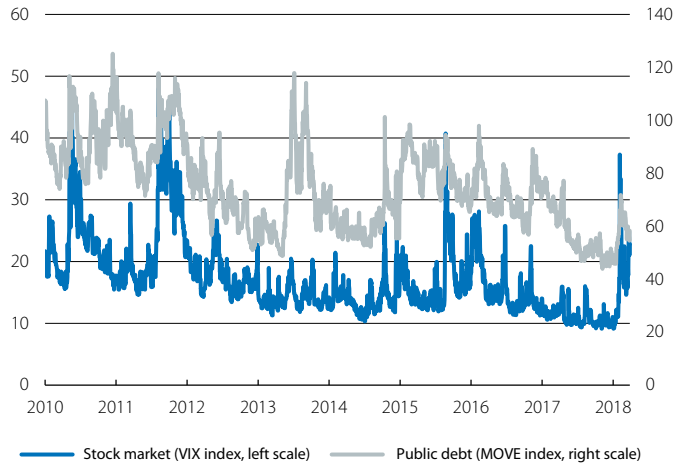
Level



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

Volatility implied in the financial markets

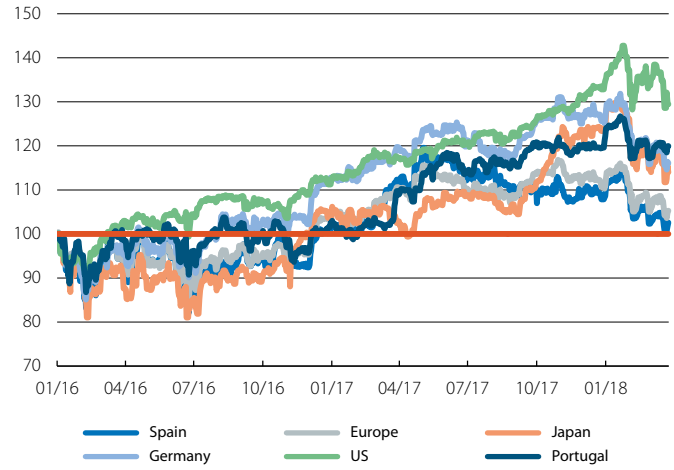
Index *Index*



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

Main advanced stock markets

Index (100 = January 2016)



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

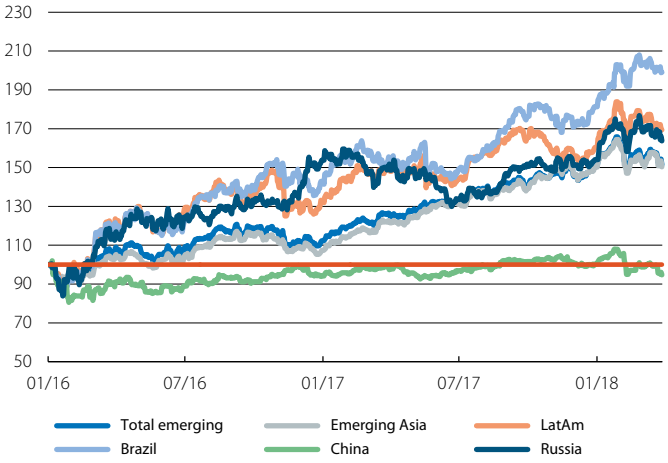
After this news, international stock markets experienced a week of losses totalling around 3.5%. Mid-March, equity suffered a second sell-off, this time concentrated among technology firms due to news relating political events, such as the last US presidential elections and Brexit, with the use of personal data from social media. This shorter episode led to the US index NASDAQ falling by more than 2.5% but had less of an effect on the rest of the indices and emerging equity hardly noticed. However, at the end of the month international stock markets went through a third episode of widespread losses among the advanced and emerging economies. This was triggered by further announcements of customs tariffs on imports from China by Trump's government. In this last episode, US equity fell by more than 3.5% while China saw losses of almost 5.0% and the rest of the international stock markets fell by around 2.0%. As a result, all the main international stock markets ended the month with losses (S&P 500: –2.7%, Eurostoxx 50: –2.3% and MSCI Emerging: –2.2%).

The Fed continues to tighten its monetary policy stance with another interest rate hike. As expected by investors and analysts, at its March meeting the Federal Open Market Committee (FOMC) raised the target range for the federal funds rate by 25 bp to 1.50%-1.75%. FOMC members were more optimistic about the macroeconomic environment, increasing the projected path of interest rate hikes by end-2019 to two more hikes in 2018 and three more in 2019, which would bring the benchmark rate to 2.75%-3.00% by December 2019. The Fed's quarterly update of the macroeconomic situation was also presented at this meeting. This substantially lowered the unemployment rate forecast, which is expected to remain well below its long-term level over the next few years. There was no substantial movement by the markets on receiving the news from this meeting. In fact, based on futures contracts, financial asset prices already assume a total of three interest rate hikes in 2018 (in line with the Fed's projections). However, for 2019 they still reflect expectations of between one and two hikes, slightly below the path indicated by the Fed.

The ECB takes another step towards ending its asset purchase programme. At its March meeting, the ECB's Governing Council (GC) decided to reflect its greater confidence in inflation's recovery with a less accommodative message. This is a way of indicating to investors that they should prepare themselves for a less expansionary monetary stance in the future. In particular, the GC stressed that the euro area's good economic performance over the past few quarters and indicators pointing to the continuation of this positive dynamic make it more likely that inflation will gradually recover. The ECB therefore decided, firstly, to slightly raise its growth forecasts for the euro area as a whole. Secondly, the GC removed from its official communication the explicit reference to the possibility of increasing the size and/or duration of its net asset purchases. It has therefore

Emerging stock markets by region

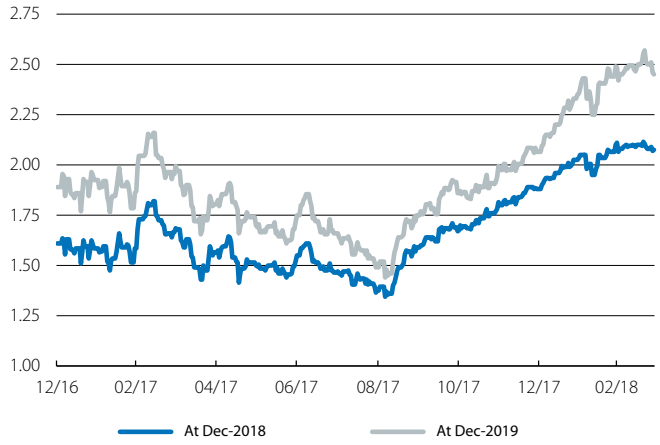
Index (100 = January 2016)



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

Fed funds rate futures

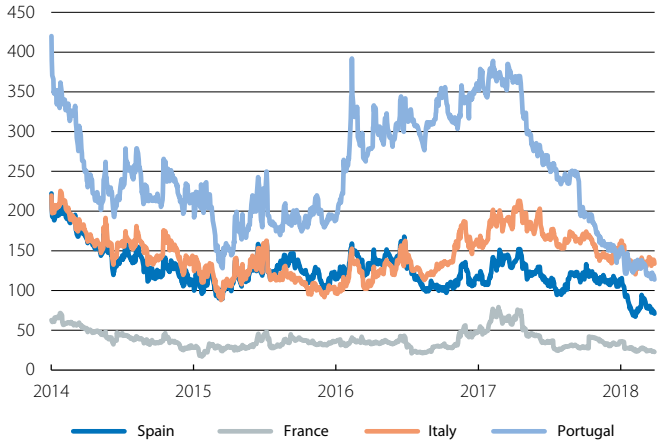
(%)



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

Euro area: risk premia on 10-year public debt

(bp)



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

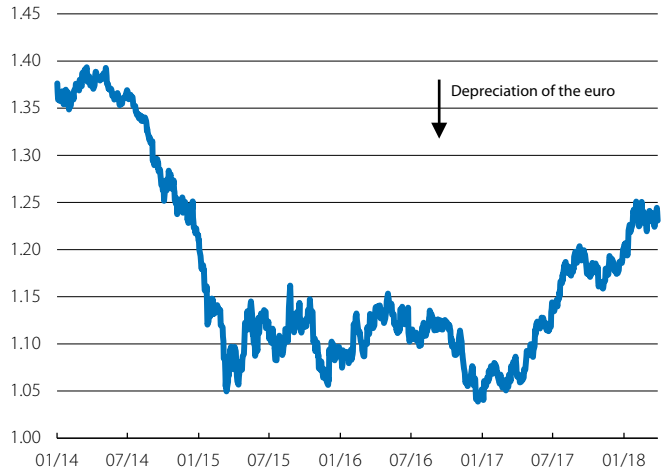
started to alter its forward guidance, gradually conveying to investors expectations of a less accommodative monetary stance in the future. However, the ECB also repeated its commitment to keep interest rates unchanged for a long period of time. This, together with the fact that, by reinvesting assets as they mature, it will still have a significant presence in the markets even after net asset purchases have ended, reinforces expectations that monetary stimuli will be withdrawn very gradually. Such messages helped to push down the sovereign risk premia for the euro area's peripheral countries. Also, Spain's sovereign debt interest rates were particularly helped by the S&P's revision of its credit rating, which was raised by one notch (from BBB+ to A–), maintaining a positive outlook.

The dollar weakens against the main advanced currencies. The dollar embarked on a slightly downward trend for the month of March as a whole, losing 0.7% against a basket of the main international currencies. The euro appreciated 0.9% against the US dollar and reached USD 1.23, while the Japanese yen rose by 0.4% against the US currency and the pound sterling by more than 1.8%, up to USD 1.40. Among the emerging currencies, while the Mexican peso appreciated by more than 3.5% against the dollar, the Brazilian real and Turkish lira both depreciated, by more than 2.0% and 3.9% respectively. Moreover, in the case of Turkey, Moody's downgraded its sovereign rating early in the month (from Ba1 to Ba2) and highlighted the deterioration in the country's institutional quality and macroeconomic imbalances.

Oil prices recover strongly. Although oil prices remained stable at around USD 64 per barrel during the first few weeks of March, the last 10 days of the month saw a notable upswing to USD 70 per barrel. This increase of almost 8.0% was driven by the publication of data pointing to a faster reduction in US crude oil stocks, as well as more speculation regarding the US imposing economic sanctions on Iran.

Dollar-euro exchange rate

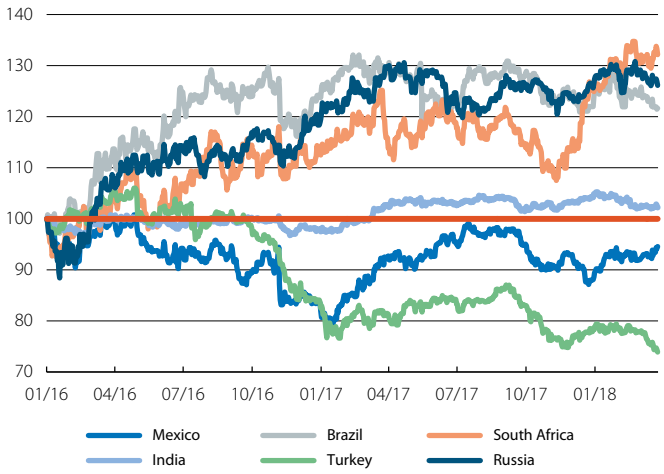
(Dollar-euro)



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

Emerging exchange rates against the dollar

Index (100 = January 2016)



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

Brent oil price

(Dollars per barrel)

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

FOCUS · How financial conditions are withstanding tighter monetary policy: part II

Although the US Federal Reserve (Fed) has gradually raised the fed funds rate since the end of 2015, financial conditions have not become tighter. In fact, they are still very loose, as can be seen in the first chart. Is this paradox, presented in a recent Focus,[1] an anomaly? To answer this question, we will examine other times when the Fed has tightened its monetary policy stance. We will also see how, over the past few weeks, financial conditions have been somewhat tighter due to February's stock market corrections.

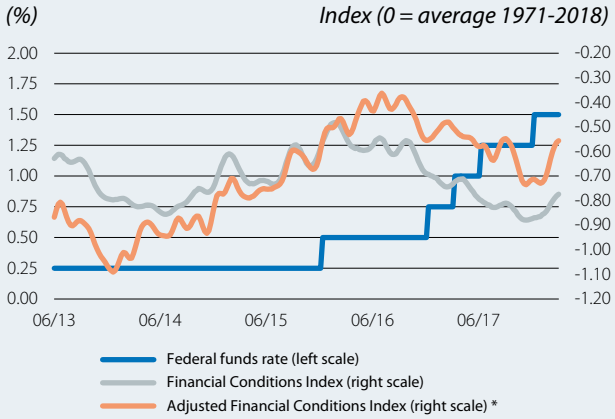
Tighter monetary policy and financial conditions: evidence from the past

As we saw in the previous Focus, to analyse the state and trend of financial conditions we use Financial Conditions Indexes (FCI): indicators which summarise a range of financial asset prices and act as a «thermometer» to gauge whether the financial environment is favourable or unfavourable for economic performance. In the US, the index produced by the Federal Reserve Bank of Chicago is one of the benchmark «thermometers» and both its simple version, the NFCI, as its version adjusted for the business cycle, the ANFCI,[2] show that the Fed's interest rate hikes between December 2015 and December 2017 were, paradoxically, accompanied by looser financial conditions (see the first chart).

Such contrasting dynamics have not been seen in other episodes. The second chart compares the current episode with the previous four cycles of the Fed tightening its monetary policy stance. Given that, in each cycle, interest rates were raised by different amounts, the changes in the NFCI and ANFCI have been standardised by the total variation in the interest rate in each cycle. For instance, between February 1994 and February 1995, the Fed raised the benchmark rate by 275 bp and was accompanied by an increase in the NFCI of 0.29 points: around 10.5 bp for each 100-bp rise in the benchmark interest rate. Similarly, between July 1999 and May 2000, the Fed raised the fed funds rate by 150 bp and the NFCI increased by 0.19 points: around 12.9 bp for each 100-bp increase in the benchmark interest rate. In the next cycle, between 2004 and 2006, although the NFCI did not seem to be very sensitive to the Fed's monetary policy stance, such sensitivity does appear if we look at the ANFCI, suggesting that the booming US economy played a key role in the failure of monetary policy to pass through to financial conditions (see also the third chart).

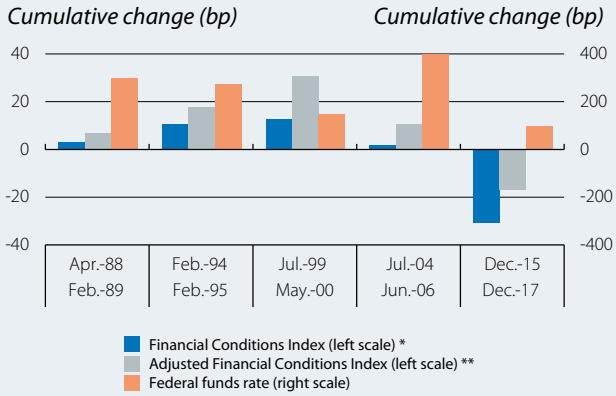
Finally, focusing on a selection of key financial variables (see the fourth chart), the current cycle of monetary policy tightening has three notable aspects: i) long-term interest rates are less sensitive to the Fed's interest rate hikes, ii) corporate debt spreads are more compressed (especially lower quality corporate bonds) and iii) US stock markets are more bullish.

US: tightening of monetary policy stance in 2015-2017



Note: ** Index adjusted for the business cycle.*
Source: *CaixaBank Research, based on data from the Federal Reserve Bank of Chicago.*

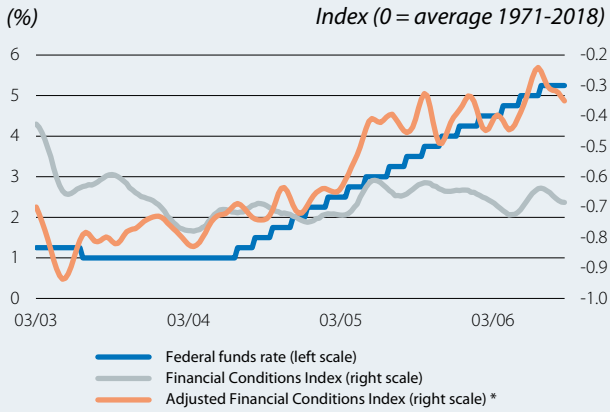
US: tightening of monetary policy stance and financial conditions



Notes: ** Change for each bp increase in the benchmark interest rate.*
*** Index adjusted for the business cycle.*
Source: *CaixaBank Research, based on data from the Federal Reserve Bank of Chicago.*

1. See the Focus «How financial conditions are withstanding tighter monetary policy» in MR03/2018.
2. The Adjusted National Financial Conditions Index (ANFCI) is the National Financial Conditions Index (NFCI) adjusted for the state of the economy. The ANFCI removes the impact of recent economic performance on current financial conditions and provides a financial «thermometer» as if the economy was always at the same point in the business cycle.

US: tightening of monetary policy stance in 2004-2006



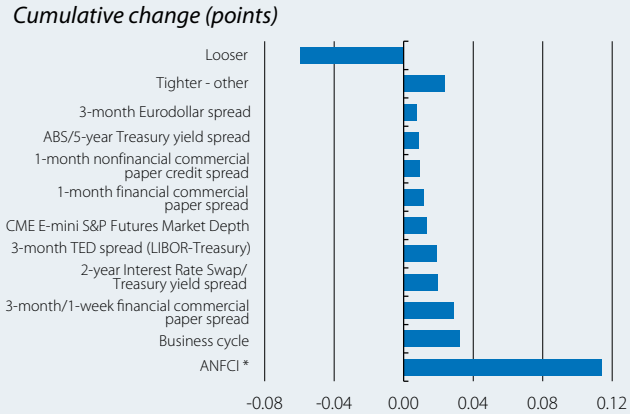
Note: ** Index adjusted for the business cycle.*
Source: *CaixaBank Research, based on data from the Federal Reserve Bank of Chicago.*

Recent stock market corrections and their impact on financial conditions

Lastly, since the end of January 2018, both the NFCI and ANFCI have pointed to financial conditions becoming tighter, a situation that started with the stock market corrections of the first fortnight of February 2018. When the previous Focus was written, the data showed that this deterioration in financial conditions was contained and almost entirely due to two indicators related to liquidity and stock market volatility. Since then this deterioration has continued to some extent but is still moderate. Nevertheless, and as can be seen in the fifth chart, in the past few weeks this has spread to other indicators, especially through higher risk premia on the cost of short-term debt in the interbank lending and commercial paper markets.

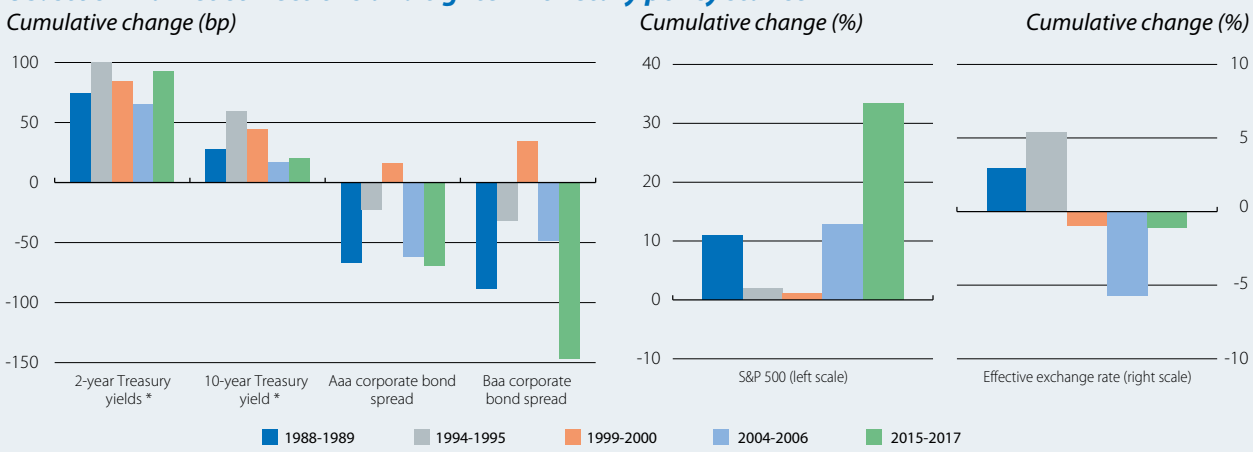
In short, in the previous four cycles, a close relationship can be seen between the trend in the Fed's monetary policy stance and financial conditions. In contrast, the current cycle has three substantial differences in monetary policy terms that help to explain the decoupling observed. Firstly, the unconventional measures implemented by central banks, particularly asset purchases, promoted a low interest rate environment over a long period of time. Given that the Fed is reducing its balance sheet very gradually (while central banks from other regions, such as Europe and Japan, are still enlarging theirs), these measures are still having a significant effect. Secondly, the Fed is using a much more predictable and gradual strategy to tighten its monetary policy stance than in previous cycles. And, thirdly, the recent stock market corrections and consequent increase in the NFCI and ANFCI occurred precisely because investors more readily believed the strategy announced by the Fed and started to raise their interest rate expectations accordingly. From now on, this readjustment in expectations and the Fed's reduction of its balance sheet should help any increases in the fed funds rate to be passed on more readily to financial conditions.

Financial conditions in 2018: from 26 January to 16 March



Note: ** Financial Conditions Index adjusted for the business cycle.*
Source: *CaixaBank Research, based on data from the Federal Reserve Bank of Chicago.*

US: stock market corrections and tighter monetary policy stance



Note: ** Change for each 100-bp increase in the federal funds rate.*
Source: *CaixaBank Research, based on data from Bloomberg.*

KEY INDICATORS

Interest rates (%)

	31-Mar	28-Feb	Monthly change (bp)	Year-to-date (bp)	Year-on-year change (bp)
Euro area					
ECB Refi	0.00	0.00	0	0.0	0.0
3-month Euribor	–0.33	–0.33	0	0.1	0.2
1-year Euribor	–0.19	–0.19	0	–0.4	–8.1
1-year government bonds (Germany)	–0.65	–0.65	0	–1.2	13.0
2-year government bonds (Germany)	–0.60	–0.54	–6	2.7	14.5
10-year government bonds (Germany)	0.50	0.66	–16	7.3	15.6
10-year government bonds (Spain)	1.16	1.54	–38	–40.7	–48.3
10-year spread (bps) [1]	66	88	–22	–48.0	–63.9
US					
Fed funds	1.75	1.50	25	25.0	75.0
3-month Libor	2.31	2.02	29	61.6	116.3
12-month Libor	2.66	2.50	16	55.3	86.6
1-year government bonds	2.08	2.06	2	34.8	104.8
2-year government bonds	2.27	2.25	2	38.7	100.0
10-year government bonds	2.74	2.86	–12	33.5	36.4

Spreads corporate bonds (bps)

	31-Mar	28-Feb	Monthly change (bp)	Year-to-date (bp)	Year-on-year change (bp)
Itraxx Corporate	60	52	8	15.5	–14.3
Itraxx Financials Senior	65	53	12	21.6	–22.1
Itraxx Subordinated Financials	129	114	16	24.6	–65.2

Exchange rates

	31-Mar	28-Feb	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
$/€	1.230	1.219	0.9	2.5	14.2
¥/€	130.910	130.080	0.6	–3.2	9.5
£/€	0.877	0.886	–1.0	–1.2	1.3
¥/$	106.430	106.680	–0.2	–5.6	–4.2

Commodities

	31-Mar	28-Feb	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
CRB Commodity Index	436.9	443.9	–1.6	1.1	1.2
Brent ($/barrel)	70.3	65.8	6.8	5.1	34.1
Gold ($/ounce)	1,325.5	1,318.4	0.5	1.7	5.7

Equity

	31-Mar	28-Feb	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
S&P 500 (USA)	2,640.9	2,713.8	–2.7	–1.2	11.8
Eurostoxx 50 (euro area)	3,361.5	3,439.0	–2.3	–4.1	–3.3
Ibex 35 (Spain)	9,600.4	9,840.3	–2.4	–4.4	–7.4
Nikkei 225 (Japan)	21,159.1	22,068.2	–4.1	–7.1	10.1
MSCI Emerging	1,169.3	1,195.2	–2.2	0.9	20.3
Nasdaq (USA)	7,063.4	7,273.0	–2.9	2.3	19.8

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

ECONOMIC OUTLOOK · **World growth withstands the protectionist wave**

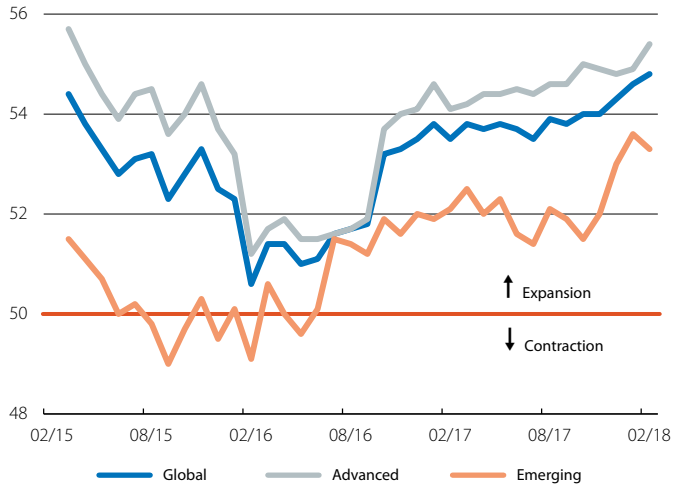
Good global economic data support a positive growth outlook for 2018. February's composite global business sentiment index (PMI) rose to 54.8 points, its highest level in almost three and a half years. This improvement was relatively widespread, both across sectors and regions. The latest global indicators support the CaixaBank Research scenario of a slight acceleration in world growth this year, to 3.9% from 3.7% in 2017. This acceleration should continue due to broadly accommodative financial conditions, reasonable oil prices both for exporters and importers, and the recovery of large emerging economies such as Brazil and Russia, as well as continued good economic growth in emerging Asia. Additionally, business and consumer confidence indicators are still at relatively high levels.

Risks are still high, especially related to trade. Trump has raised customs tariffs on imports of steel (25%) and aluminium (10%) and is threatening further tariff hikes on a large number of imports from China, after a US investigation accused the Asian giant of misappropriating intellectual property, among other rather unorthodox trade practices. Internally, these measures led to the resignation of Gary Cohn, the President's top economic advisor. Externally, such actions open the door to retaliations, especially by China, increasing fears of tenser trade relations and a detrimental protectionist shift. For the moment we believe this risk is appreciable but contained. One gesture by the US that encourages a more optimistic view is the fact that, in the end, the White House exempted the EU and other allies from its metal tariffs. We should also remember that imports of both products represent a relatively small share of all US imports (around 2%).

Geopolitical, political and macrofinancial risks still loom large. The geopolitical and political sphere has provided both good and bad news. While the restoration of diplomatic relations between the US and North Korea has lessened fears of a worsening conflict, the US, UK, Germany and France, among others, have all announced they are expelling Russian diplomats. The Americans because of cyber attacks and meddling in the US presidential elections at the end of 2016, and the Europeans in response to the attack against a former Russian spy and his daughter on British soil. Regarding European politics, the repetition of the Grand Coalition in Germany should boost the European agenda over the coming quarters but this might be hindered by the outcome of Italy's elections, with an increase in populist support. Lastly, in the macrofinancial area, although the worst of the correction at the end of January and early February appears to be behind us, the main stock market are still erratic with significant risk factors.

Global economic activity indicators: composite PMI

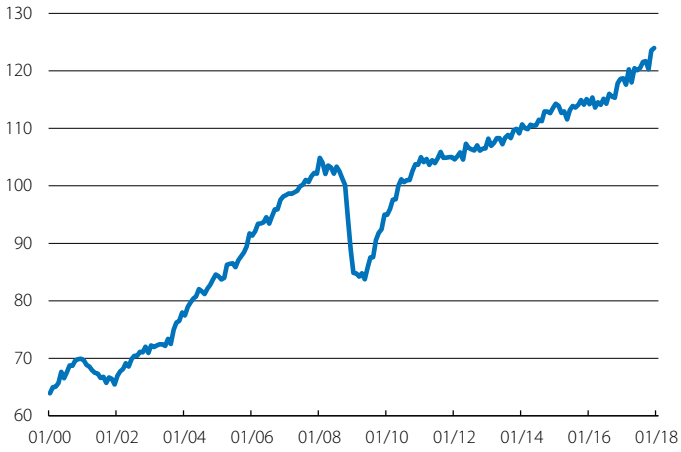
Level



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

*International trade by manufacturers **

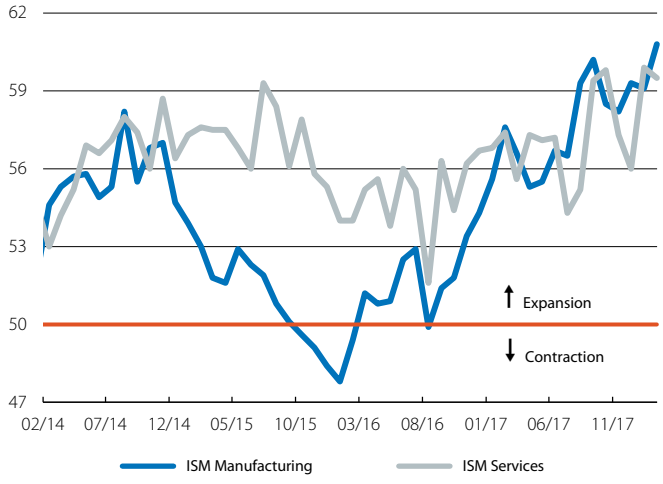
Index (100 = 2010)



Note: ** By volume.*
Source: *CaixaBank Research, based on data from the CPB World Trade Monitor.*

US: economic activity indicators

Level



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

UNITED STATES

Apart from the mire in which US trade policy now seems immersed, the economy is still strong in macroeconomic terms. Most US economic sentiment indicators continue to point to solid growth and slight acceleration in the first few months of 2018. In particular, the University of Michigan Consumer Sentiment Index reached a record high for the current business cycle in March. Along the same lines, the (ISM) Manufacturing Index rose to 60.8 points in February, also setting a new record for the cycle, while the Services Index remained comfortably in the expansionary zone (59.5, almost the same level as in January). Nevertheless, we should remember that Q1 GDP growth in the US often differs from the economic indicators (both soft and hard), due largely to seasonality problems with the GDP series produced by the country's statistics institute. Moreover, some hard indicators such as the latest figures for retail sales and some real estate market indicators have been a bit weaker than expected.

A close eye needs to be kept on overheating as US economic activity is accelerating precisely at a time when the economy is in a mature phase of its business cycle. Markedly expansionary fiscal policies are also being implemented (tax cuts and greater spending in 2018 and 2019). Within such an environment, US growth is likely to remain high in 2018 (at 2.7%), above the country's potential. In this mature phase, the risk is that growth will end up being lower than predicted while inflation could recover more strongly.

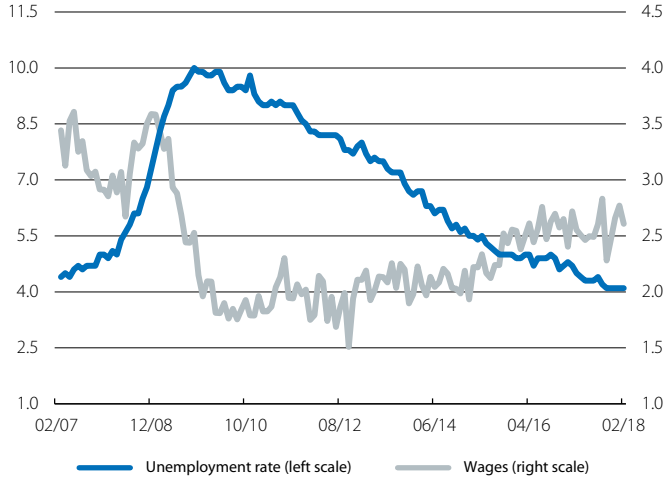
Watch out for inflation. Although inflation was in line with expectations in February, it will get stronger over the coming months and may even be higher than expected. Specifically, the CPI rose by 2.2% year-on-year in February, 0.1 pp more than the previous month's figure. Core inflation, which excludes both energy and food, remained at 1.8%. In spite of February's stability, we expect core inflation to accelerate over the coming months. This will partly be due to the acceleration in economic activity but also to a significant upward base effect (the sharp fall in wireless telephony prices observed the previous year will not be repeated this year). Given expectations of a stronger economy, the Fed decided to raise the fed funds rate again by 25 bp up to 1.50%-1.75%. The institution also presented its latest macroeconomic projections, which are somewhat more optimistic than the previous ones.

REST OF THE WORLD

The Japanese economy ended 2017 with a higher growth rate than previously estimated, namely 1.7% (previously 1.6%). Positive growth in Q4 2017 was broadly supported by private consumption and non-residential investment (including public). The upward revision of the Q4 figure has also affected the CaixaBank Research scenario for 2018 and the growth rate has been raised to 1.5% (+0.2 pp). Core

US: labour market

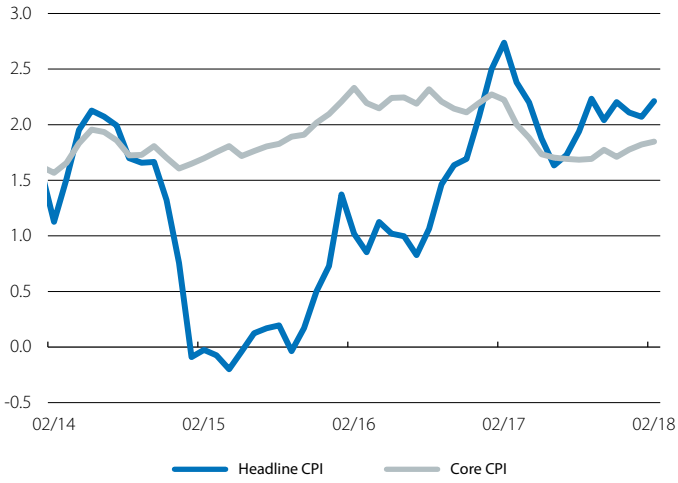
Year-on-year change (%) *(%)*



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

US: CPI

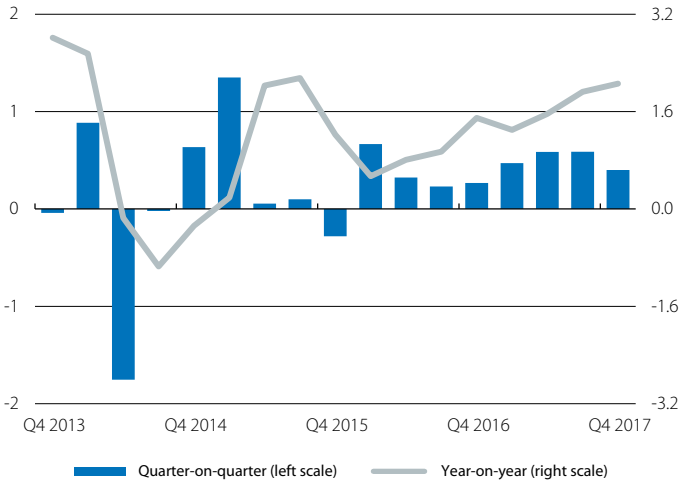
Year-on-year change (%)



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

Japan: GDP

Quarter-on-quarter change (%) *Year-on-year change (%)*



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

inflation continued to rise although still at a low level (0.5% in February). The wage rises predicted for 2018 could help to push up this inflation figure. At least this is suggested by the preliminary figures taken from the wage negotiations in spring: +2.16% annually, higher than 2017's figure of 1.98%.

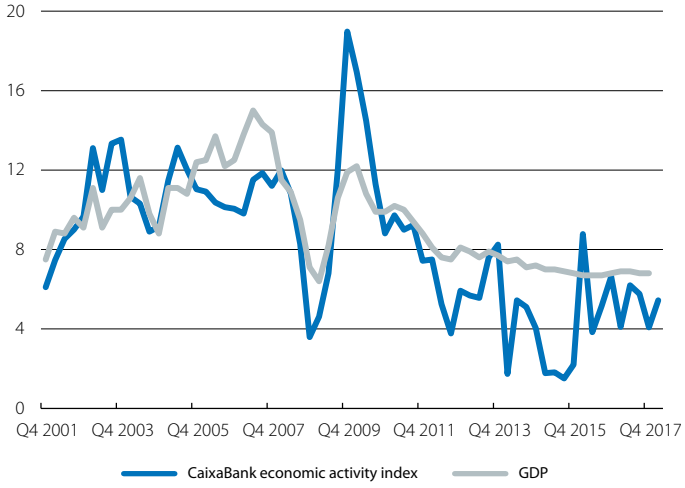
The National Congress of the Communist Party of China has set its 2018 growth target at 6.5%, a considerable figure but nonetheless a lower rate of growth for the country. The latest appointments to senior government positions, such as the economic advisor Liu He being made the new Vice Premier, have led to politics in favour of greater control and management of macrofinancial risks. In any case, economic activity indicators for the beginning of the year were generally positive, at least in the short term. As an aggregate for January and February, industrial production posted higher growth than expected, up year-on-year by 7.2% (6.2% in December). The January-February aggregate figure for retail sales also rose by a solid 9.7% year-on-year (9.4% in December). Nevertheless, business sentiment was slightly weaker. However, it should be noted that celebrations for the Chinese New Year, which can fall either in January or February, often cause distortions to indicators which are difficult to adjust for.

Brazil ends 2017 with positive growth (1.0%) for the first time since 2014. But its growth rate is still weak. In particular, in Q4, quarter-on-quarter GDP growth was just 0.1 pp (2.1% year-on-year), a minimal rate due essentially to a decline in exports and slightly weaker consumption. Growth in economic activity is expected to remain contained in 2018 and 2019 as consumption will recover slowly, political uncertainty will remain high and fiscal adjustments will continue.

Concerns increase in Turkey in spite of higher than expected GDP growth in 2017. In Q4 2017, Turkish GDP grew by a solid 7.3% year-on-year, bringing the annual figure to 7.4%, the highest since 2013. Nevertheless, Turkey's economy has significant macroeconomic imbalances. Inflation stood at 10.3% in February, the country's current account deficit was close to 5% in Q3 2017 and credit increased by more than 20% in year-on-year terms in Q4. Given this situation, Moody's downgraded Turkey's sovereign rating (from Ba1 to Ba2). In addition to the aforementioned macroeconomic weaknesses, which increase risk in the event of an external economic shock, the ratings agency also highlighted the deterioration in the country's institutional quality. In fact, neither of these two aspects is new but this downgrade could aggravate doubts regarding the emerging economy. For instance, the Turkish lira depreciated substantially after Moody's decision while the yield on its 10-year bond rose sharply. Taking all these factors into consideration, we expect Turkey's growth rate to slow down considerably by the end of 2018.

China: GDP vs. economic activity index

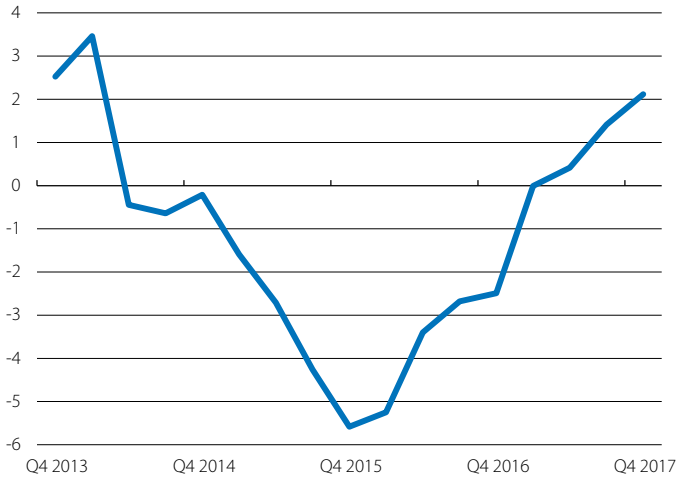
Year-on-year change (%)



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

Brazil: GDP

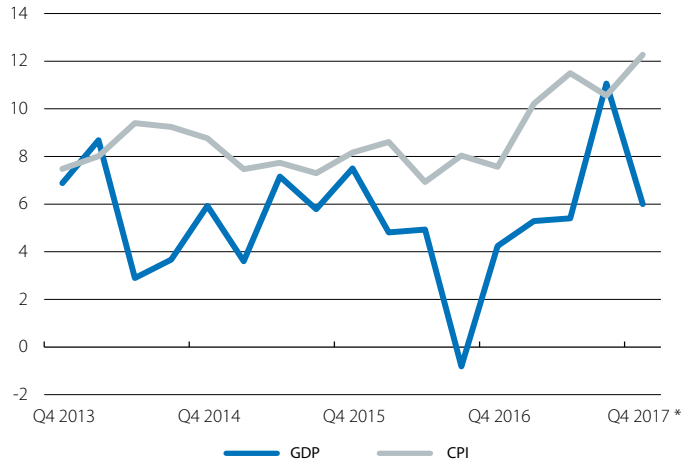
Year-on-year change (%)



Source: *CaixaBank Research, based on data from Thomson Reuters Datastream.*

Turkey: GDP and CPI

Year-on-year change (%)



Note: ** Estimate.*
Source: *CaixaBank Research, based on data from Thomson Reuters Datastream.*

FOCUS · The US investment situation and outlook

The US economy is at a mature stage in its business cycle, so cyclical factors are providing less and less support. Moreover, this trend is expected to intensify. In such a context, it is important to understand the situation and outlook of the underlying factors that determine US growth capacity, such as productivity gains, investment and labour. Previous issues of the *Monthly Report* analysed the situation of the labour market.[1] We will now look at investment.

The growth rate for gross investment has been slightly above the historical average according to recent figures. This situation could be positive as it should improve the US economy's medium-term growth capacity. However, two aspects detract from this optimistic interpretation. First, after the sharp adjustment in investment during the Great Recession, its rate of recovery has been the slowest of all recoveries post-World War II. Second, the composition of the stock of capital has altered radically over the past few decades. Technological and intangible capital, such as computers and software, have substantially increased their share. This kind of capital tends to have a much shorter useful life, thereby requiring a higher rate of investment.

We therefore need to look at the trend in investment net of depreciation for a more accurate analysis of the investment situation. The resulting picture is not so promising. Although net investment has recovered considerably over the past few years it is still clearly below the historical average (–2.2 pp as a percentage of GDP). This slower rate of increase in investment has a considerable effect on GDP growth. According to Conference Board estimates, physical capital's contribution to GDP growth has gone from almost 2 pp during the second half of the 90s and early 2000s to barely 1 pp at present.

It therefore seems that the tax reforms passed by Congress last December are moving in the right direction. Without doubt, the corporate tax cut (from 35% to 21%) and changes in accounting standards for deductible investment-related expenses[2] could boost investment.

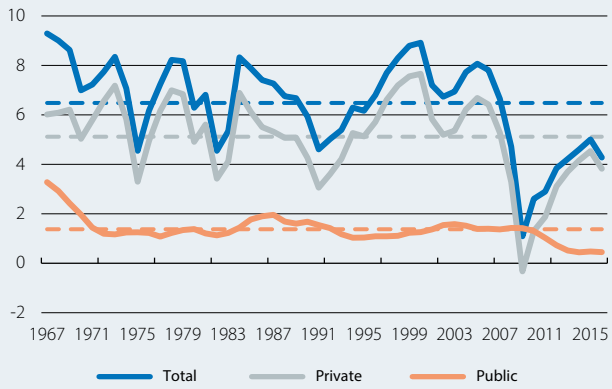
On the other hand, there are other aspects which, when taken into consideration, suggest investment may not have been as weak as implied by the aforementioned data. These therefore reduce the appropriateness of the latest tax reforms, as well as their ultimate effect on investment.

First, the mere fact that investment is recovering more slowly than usual does not necessarily mean a boost is required. This can be illustrated by a simple example. An economy that is increasingly focused on services and knowledge might require less investment.[3] For instance, compare the investment needs (in terms of physical capital) of General Motors and Google. Moreover, in the new knowledge economy, investment is often hard to measure and there are concerns it is underestimated. In fact, a significant proportion of investment in intangible assets, such as organisational capital, is not counted as investment by national accounts.

Finally, regarding the new tax system, although this should encourage more investment its impact is likely to be relatively small. The reason: the brake on investment does not seem to be companies not being able to get credit or a lack of liquidity. In fact, the situation is rather the opposite. Financial conditions have been highly accommodative for the past few years and the liquidity of many firms' balance sheets is at an all-time high.[4] Moreover, a tax boost does not seem very appropriate given the mature stage of the US economy's business cycle. Such a stimulus could generate inflationary pressures and lead to sharper rises in interest rates, which would also limit the impact of the tax reforms on investment.

US: investment net of depreciation

(% of GDP)



Note: *Data in real terms. Dotted lines represent the historical average.*
Source: *CaixaBank Research, based on data from the BEA (NIPA).*

1. See, for example, «US: the baby boomer effect on the cycle and in the long run» in MR11/2017.
2. An increase in the amount that can be deducted annually and a consequent reduction in the depreciation period.
3. Investment in technological and intangible capital requires more maintenance because this kind of capital has a faster depreciation rate. However, total investment may be lower than that required by a traditional industrial economy.
4. See «Liquidity in the business sector: more does not always mean better» in the Dossier of MR02/2017.

FOCUS · US stock market correction and its effect on emerging markets: is there a missing link?

The stock market correction occurring on Wall Street between the end of January and mid-February spread like wildfire to the rest of the international markets. Emerging stock markets were no exception, dropping by almost 9% in cumulative terms during the episode. This article compares the trend of emerging markets in the current episode with their behaviour in other episodes triggered by S&P 500 stock market corrections to better gauge the financial strength of the emerging economies. These countries have recorded remarkable growth rates in recent years but also substantial foreign capital inflows.

To carry out this analysis, we identified the major stock market corrections over the past 20 years originating in the US. As can be seen in the first chart, emerging stock market losses, measured by the MSCI index, have been similar in magnitude to those suffered in other episodes whose trigger was also an initial correction in the US. However, the cumulative drop in emerging equity during the current episode, on aggregate, is very similar to the drop suffered by the S&P 500. This is unlike most previous episodes, when emerging losses were comparatively smaller. The S&P 500 correction between July and October 1999 was the most similar to the current episode as this was caused by international investors' fears of a faster-than-expected fed funds rate hike due to inflationary pressures. Comparing these two episodes directly against a similar background, we can see that emerging equity markets have fallen more sharply in the current episode.

Another way to analyse the sensitivity of emerging markets to the US stock market is to estimate the correlation of daily variations in both indices over the two months following the start of the correction. In the current episode, emerging markets have reacted strongly to changes in the S&P 500, as in previous corrections.[1] This supports the theory that the US correction had significant impact on emerging markets. In fact, the correlation between US and emerging equity has been increasing steadily since September 2016. This suggests that any further corrections in the US will more than likely be passed on to the emerging markets.

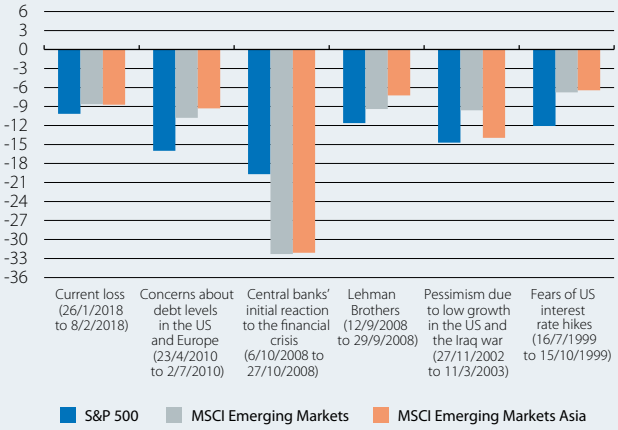
Finally, another factor that helps to assess the vulnerability of emerging markets to surprises in the US is their ability to react after a shock. Taking a broader time horizon, we can see that emerging stock markets have recovered pretty much in the same way as it did after the 1999 correction which, as we have already said, was due to similar causes. In fact, if this pattern continues, emerging stock markets should recoup their losses no later than four months after the start of the correction; in other words, by May or early June 2018.

The trend in the correlation between the MSCI index a nd the S&P 500 in the months following the 1999 shock also suggests the impact was temporary, given that the correlation between the two indices weakened noticeably as the months progressed. The question, however, is if the same trend will be observed in the coming months. This will depend largely on whether fears of increased protectionism and trade wars diminish and whether US monetary normalisation can be carried out gradually.

1. In all cases, except for the 2002 correction, the correlation index is around 0.9.

Comparison of episodes of stock market corrections originating in the USA

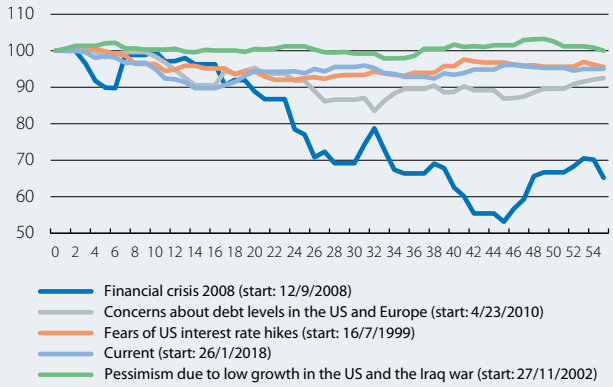
Cumulative loss (%)



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

Emerging stock markets: evolution after episodes of correction in the US

Index (100 = episode start)



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

KEY INDICATORS

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

UNITED STATES

	2015	2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	01/18	02/18	03/18
Activity									
Real GDP	2.9	1.5	2.0	2.2	2.3	2.6	–	...	–
Retail sales (excluding cars and petrol)	4.3	3.7	4.1	3.0	2.8	2.2	3.7	4.0	...
Consumer confidence *(value)*	98.0	99.8	117.5	118.1	120.3	126.0	124.3	130.0	127.7
Industrial production	–1.0	–1.9	0.2	1.9	1.3	3.0	2.9	4.3	...
Manufacturing activity index (ISM) *(value)*	51.3	51.4	56.6	55.8	58.7	58.7	59.1	60.8	...
Housing starts *(thousands)*	1.107	1.177	1.238	1.167	1.172	1.256	1.329	1.236	...
Case-Shiller home price index *(value)*	179	189	197	198	200	204	207.4	...	...
Unemployment rate *(% lab. force)*	5.3	4.9	4.7	4.3	4.3	4.1	4.1	4.1	...
Employment-population ratio *(% pop. > 16 years)*	59.4	59.7	60.0	60.1	60.2	60.1	60.1	60.4	...
Trade balance [1] *(% GDP)*	–2.8	–2.7	–2.7	–2.8	–2.9	–2.9	–3.0	...	...
Prices									
Consumer prices	0.1	1.3	2.5	1.9	2.0	2.1	2.1	2.2	...
Core consumer prices	1.8	2.2	2.2	1.8	1.7	1.8	1.8	1.8	...

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

	2015	2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	01/18	02/18
Activity								
Real GDP	1.4	0.9	1.3	1.6	1.9	2.1	–	...
Consumer confidence *(value)*	41.3	41.7	43.4	43.4	43.7	44.7	44.7	44.3
Industrial production	–1.2	–0.2	3.9	5.8	4.6	4.5	0.8	...
Business activity index (Tankan) *(value)*	12.8	7.0	12.0	17.0	22.0	25.0	–	...
Unemployment rate *(% lab. force)*	3.4	3.1	2.9	2.9	2.8	2.7	2.4	...
Trade balance [1] *(% GDP)*	–0.5	0.7	0.7	0.6	0.6	0.5	0.8	0.6
Prices								
Consumer prices	0.8	–0.1	0.3	0.4	0.6	0.6	1.3	1.5
Core consumer prices	1.4	0.6	0.1	0.0	0.2	0.3	0.4	0.5

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

	2015	2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	01/18	02/18
Activity								
Real GDP	6.9	6.7	6.9	6.9	6.8	6.8	–	...
Retail sales	10.7	10.4	10.0	10.8	10.3	9.9	9.7	9.7
Industrial production	6.1	6.0	6.8	6.9	6.3	6.2	7.2	7.2
PMI manufacturing *(value)*	49.9	50.3	51.6	51.4	51.8	51.7	51.3	50.3
Foreign sector								
Trade balance [1] *(value)*	608	512	466	458	435	435	405	449
Exports	–2.3	–8.4	7.8	9.0	6.9	10.1	10.3	43.7
Imports	–14.2	–5.7	23.9	14.3	14.7	13.2	36.9	6.7
Prices								
Consumer prices	1.4	2.0	1.4	1.4	1.6	1.8	1.5	2.9
Official interest rate [2] *(value)*	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35
Renminbi per dollar *(value)*	6.3	6.6	6.9	6.9	6.7	6.6	6.4	6.3

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 · **Euro area growth outlook remains robust**

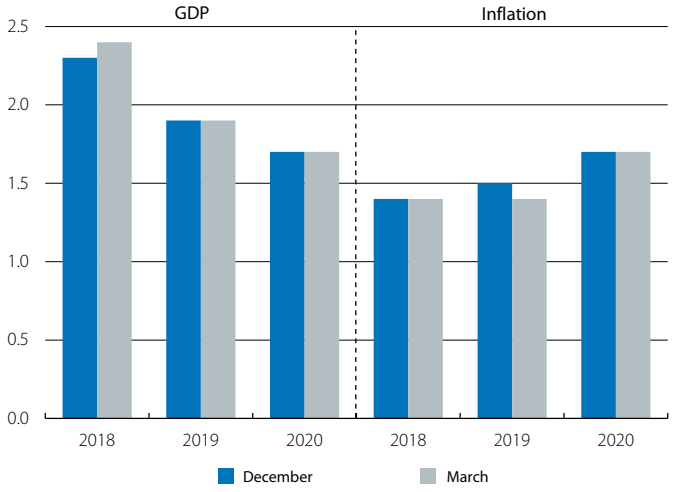
The euro area has started 2018 on the right foot. Q1 economic activity indicators confirm that the euro area is in a positive phase of the business cycle. Likewise, the ECB in its quarterly update of its macroeconomic projections, raised its 2018 forecast for euro area growth (+0.1 pp) to 2.4%and kept its forecast for 2019 at 1.9% –these are very similar figures to the CaixaBank Research forecasts of 2.5% and 2.0%, respectively. This revision is supported by macroeconomic fundamentals continuing to favour a expansion in the euro area over the medium-term. Specifically, domestic demand is expected to continue to benefit from the ECB's accommodative monetary policy, as well as from the improved labour market conditions. Similarly, exports will remain robust on the back of the improved global growth prospects. However, despite the good pace of economic activity, inflation is expected to remain at moderate levels in 2018-19 (1.4% and 1.8%, respectively). On the other hand, March was also marked by political events. Firstly, Italy's general elections resulted in a fragmented parliament where no single party or coalition achieved an absolute majority. M5S was the most voted party (32% of votes) but the Centre-Right bloc won the largest number of seats. This outcome prolongs political uncertainty in Italy and could extend Gentiloni's time in office. Secondly, members of Germany's Social Democratic Party (SPD) ratified the Grand Coalition agreement with Angela Merkel's Conservative Party (CDU). Finally, the UK and EU reached an agreement on the Brexit transition period. Although the UK will leave the EU in March 2019, it will remain in the single market and customs union until December 2020. Although this transition agreement may be conditional on both parties reaching a final agreement, it does allow both sides to start negotiations on future trade relations and the Northern Ireland border issue.

Q4 2017 euro area growth was more balanced. Eurostat confirmed that economic activity in the euro area increased by 2.7% year-on-year (0.6% quarter-on-quarter) in Q4 2017. By component, domestic demand decreased its contribution to year-on-year GDP growth to 1.4 pp (1.9 pp in Q3 2017) due to more moderate private consumption growth. However, investment remained strong, and was up by 2.5% year-on-year (2.4% in Q3 2017). On the other hand, external demand increased its contribution to 1.3 pp (0.8 pp in Q3). In particular, exports of goods and services remained strong, and increased by 2.9% year-on-year (0.2 pp higher than the previous quarter) while the increase in imports was smaller (1.6% year-on-year compared with 2.0% in Q3).

Business sentiment indicators point to a good pace of activity in the euro area in Q1 2018. The composite PMI index for the euro area as a whole stood at 57.1 points in Q1 2018, a similar figure to that of Q4 2017 (57.2) and comfortably in the

Euro area: ECB forecasts for GDP and inflation

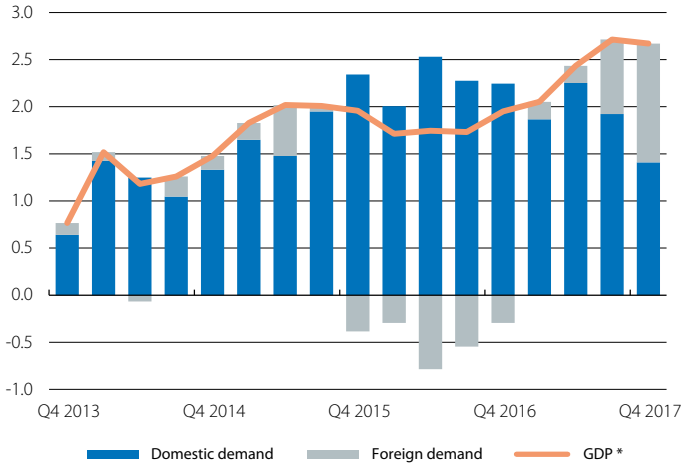
Annual change (%)



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

Euro area: GDP

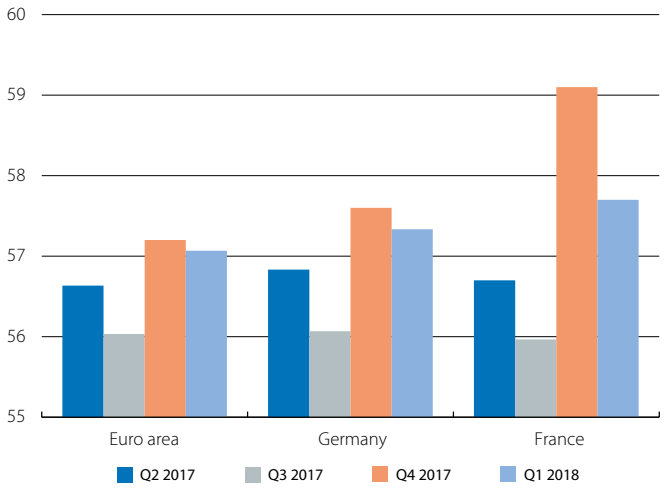
Contribution to year-on-year growth (pp)



Note: ** Year-on-year change (%).*
Source: *CaixaBank Research, based on data from Eurostat.*

Euro area: Composite PMI

Level



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

expansionary zone (above 50 points). Moreover, confidence remains high in the euro area. The economic sentiment index (ESI) produced by the European Commission reached 113.9 points in Q1 2018, a very similar figure to that of the previous quarter (114.3 points) and clearly above the 2017 average (110.7).

Private consumption continues to drive the euro area's economic expansion, as shown by the positive trend in euro area retail sales, that increased by 2.0% year-on-year in January, a similar rate to the Q4 2017 average (1.9% year-on-year). Similarly, consumer confidence remains high. In particular, the European Commission's consumer confidence indicator stood at 0.1 points in March, the same figure as the previous month and well above the 2017 average (–2.5). Together with continued improvements in the labour market and the low interest rate environment, this suggests that consumption will remain strong over the coming quarters.

The labour market continues to create jobs and support the economic recovery. Employment in the euro area rose by 1.6% year-on-year in Q4 2017, bringing the total number of employees to 156.7 million, an all-time high. Employment growth was widespread across countries, with sharp increases in Portugal (3.2%) and Spain (2.6%) while rises were slightly more moderate in Germany, France and Italy (1.2% on average). These improvements confirm the dynamism of the euro area labour market and are gradually translating into higher wages. In particular, hourly labour costs in the euro area as a whole grew by 1.7% year-on-year in Q4 2017, a rate 0.1 pp higher than that of the previous quarter. By country, the increase in wages was particularly high in Portugal (4.7% year-on-year), Germany (1.9%) and France (1.8%). On the other hand, wage costs fell by 0.4% year-on-year in Italy.

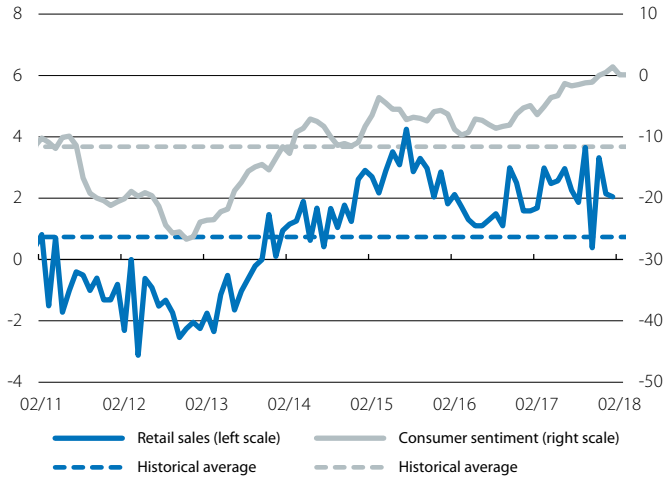
Inflation continues its upward trend. The harmonised index of consumer prices (HICP) of the main euro area economies increased in March. In particular, the recovery in France's inflation to 1.7% (0.4 pp higher than the previous month's figure) was particularly substantial, and so was Germany's, where inflation rose to 1.5%, (+0.3 pp with respect to the previous month's figure) thanks to a larger contribution from the energy and food components. Over the coming months, and as the labour market enters a more mature phase of the business cycle, wages are expected to increase moderately, helping inflation to recover gradually and reach 1.8% in 2019.

PORTUGAL

Portugal's growth remains solid. The Portuguese economy continued to enjoy solid GDP growth in Q4 2017 with growth of 2.4% year-on-year (0.7% quarter-on-quarter). This brought the total figure for 2017 to 2.7%, the highest growth rate since 2000 (1.6% in 2016). By components, private consumption remains one of the main drivers of this growth, even though it grew at a more moderate pace (2.0% year-on-year vs. 2.6% in Q3 2017). Similarly, investment grew by a solid 5.3% year-on-

Euro area: consumption indicators

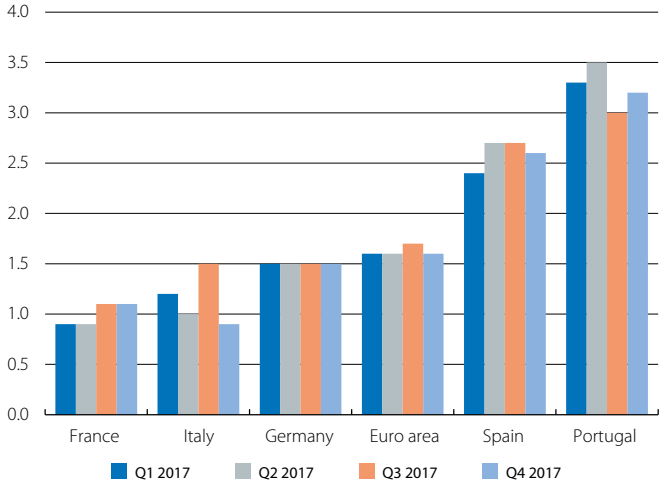
Year-on-year change (%) *Level*



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

Euro area: employment across countries

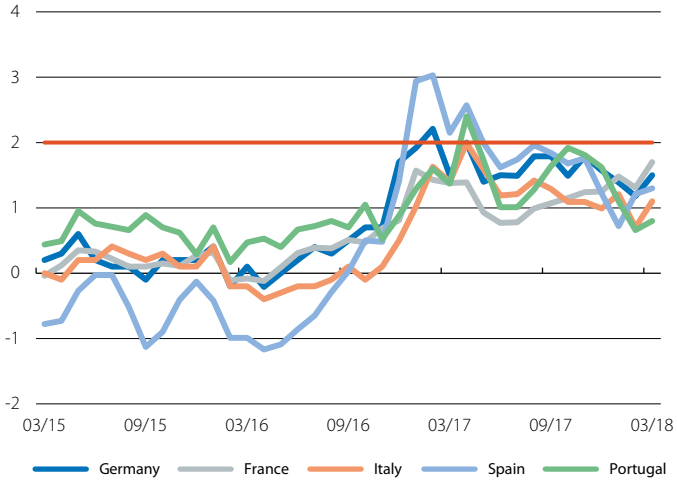
Year-on-year change (%)



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

Euro area: Harmonised CPI across countries

Year-on-year change (%)



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

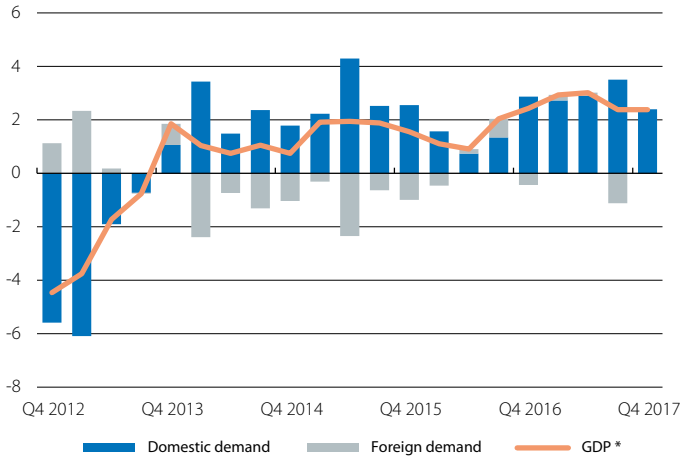
year, although this rate is lower than the exceptionally high figures posted over the past three quarters (10.3% on average). On the other hand, exports of goods and services growth accelerated to 7.2% year-on-year (6.2% in Q3). These data confirm that Portugal's economic growth is becoming more balanced, with domestic demand being the main driver of growth but exports also performing well. For 2018, the outlook remains positive. CaixaBank Research expects real GDP growth to be 2.4% in 2018 and 2.3% in 2019. The Bank of Portugal is forecasting a similar scenario. In particular, its March Economic Bulletin the Central Bank maintained its GDP growth forecasts for 2018 at 2.3% and for 2019 at 1.9%. Both domestic demand (particularly investment) and foreign demand are expected to support growth.

Public deficit at its lowest level for decades. In 2017, Portugal's public deficit (excluding the recapitalisation of Caixa Geral de Depósitos) totalled EUR 1.765 million, a figure equivalent to 0.9% of GDP and 0.5 pp below the government's target (1.4%). This figure is also 1.1 pp lower than the 2016 deficit (2.0%) and results from higher revenue (6.2%) boosted by the recovery in economic activity and employment, as well as contained expenditure (1.5%). However, as requested by Eurostat, the capital transfer of EUR 3.944 million (equivalent to 2.0% of GDP) to the state-owned bank Caixa Geral de Depósitos (CGD) must be included in the official deficit figure for 2017. This brings the deficit to 3.0% of GDP. Thanks to Portugal's good economic performance, we expect the public deficit to remain contained at 1.2% of GDP in 2018. As a result, public debt will continue to fall. We predict that this will go from 125.7% of GDP in 2017 to almost 123% of GDP by the end of this year.

Strong growth in new credit, supported by the economic recovery. Although growth in new housing loans for households slowed down slightly in January to 13.3% year-on-year, this is still a strong rate and indicative of the recovery in demand for real estate. Consumer credit also performed well, increasing by 16.2% year-on-year (20.2% in January 2017). Loans for SMEs (2.4% year-on-year) and large firms (70.1%) also rose again after three years of decline, in spite of the deleveraging being carried out by the private sector.

Portugal: GDP

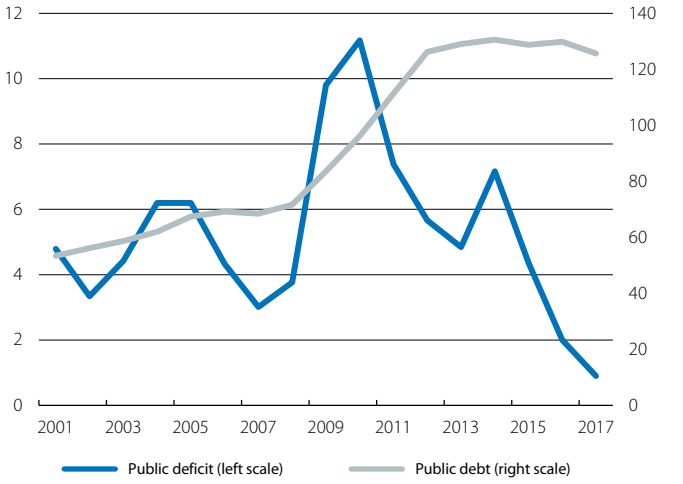
Contribution to year-on-year growth (pp)



Note: ** Year-on-year change (%).*
Source: *CaixaBank Research, based on data from the National Statistics Institute.*

Portugal: public deficit and debt

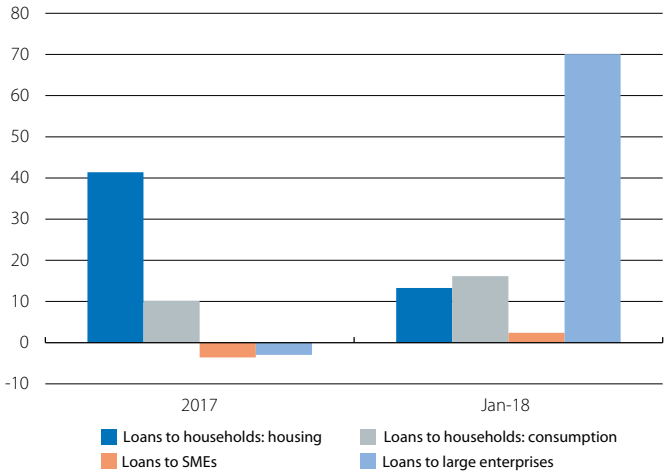
(% of GDP) *(% of GDP)*



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

Portugal: new loans granted

Year-on-year change (%)



Note: *Loans to households exclude refinancing.*
Source: *CaixaBank Research, based on data from the Bank of Portugal.*

FOCUS · Inflation will gradually recover in the euro area

Although euro area growth has been strong and its unemployment rate has been falling, inflation has yet to pick up. In the past, inflation tended to have a negative correlation with unemployment, known as the Phillips curve. However, in the current phase of the recovery this relationship seems to have weakened, even to the point of disappearing entirely. Nevertheless, as we will see, there are signs that the Phillips curve has not died and that the low inflation recorded over the past few years is transitory.

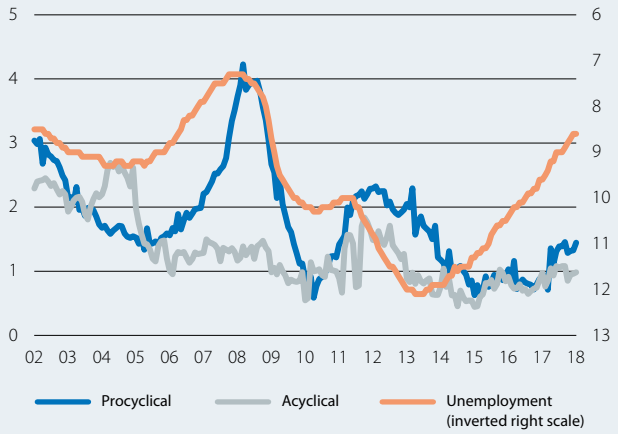
For greater insight into this change in the pattern of inflation, we have analysed the relationship between the unemployment trend and the different subgroups that make up the core HICP.[1] Specifically, following the method of Mahedy and Shapiro (2017),[2] we separated the different core HICP components into two groups: procyclical components, which had a negative correlation with the unemployment rate before the financial crisis, and the rest, which we shall consider acyclical.[3] Procyclical components include food and alcoholic beverages, restaurants and those related to household goods and services. Acyclical components include those related to clothing and different medical services, among others. Procyclical components account for 49% of the HICP basket compared with 51% for the acyclical group. Having classified the components, we can now calculate the price trend for both types.

As can be seen in the first chart, up to mid-2013 the trend for procyclical components had a negative correlation with the unemployment rate. However, since then the unemployment rate has been falling while price rises for procyclical components have remained contained and have not recovered. Specifically, inflation for the procyclical basket in 2017 was 0.6 pp lower than the level predicted by the Phillips curve. Acyclical components have behaved in a similar way to their historical average. The evidence therefore suggests that the anomalous behaviour of prices for procyclical goods is the reason why core inflation has remained subdued.

1. Core HICP refers to the harmonised index of consumer prices excluding energy and unprocessed food.
2. See Mahedy, T. and Shapiro, A. (2017), «What's Down with Inflation», FRBSF Economic Letter.
3. We have used euro area data between January 2002 and December 2008, the period when the Phillips curve behaved normally. Since more historical data are not available for the euro area, we have carried out the same exercise for Germany and France, countries which have data from 1991. We have therefore been able to verify that there is no significant change in the classification of components into acyclical and procyclical.

Inflation of procyclical and acyclical goods

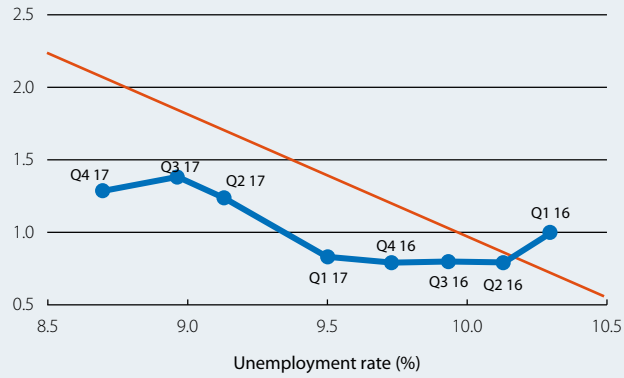
Year-on-year change (%) *Unemployment rate (%)*



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

Phillips curve for the basket of procyclical goods

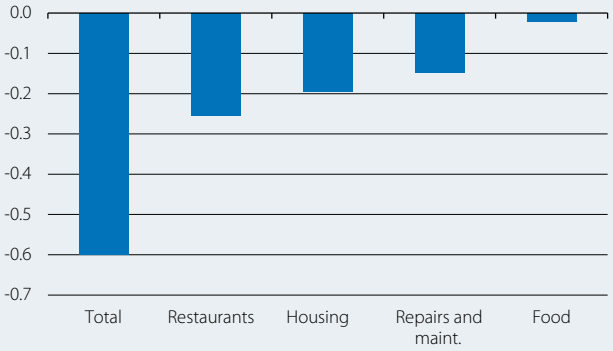
Inflation for procyclical goods (year-on-year change, %)



Note: *The red line represents the estimated Phillips curve with data from Jan.02 to Dec.08.*
Source: *CaixaBank Research, based on data from Eurostat.*

Difference between real and expected procyclical inflation in 2017

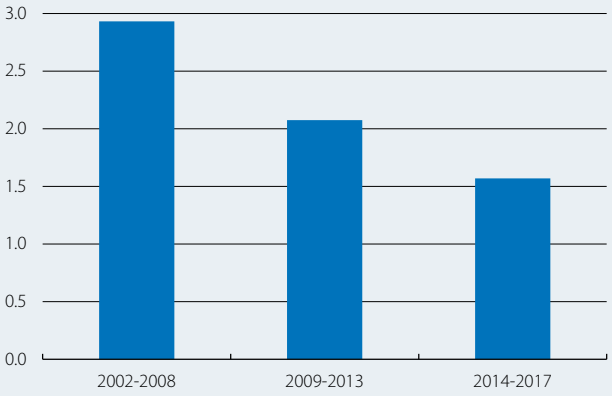
Contribution by the main components (pp)



Note: *The expected procyclical inflation has been calculated using Phillips curve estimates with data from Jan.02 to Dec.08 for each component.*
Source: *CaixaBank Research, based on data from Eurostat.*

Growth in nominal wages

Year-on-year change (%)



Note: *Average year-on-year growth between the years indicated.*
Source: *CaixaBank Research, based on data from Eurostat.*

If we look more closely at the price trends of the main components in the basket of procyclical goods, we can identify those with the most anomalous behaviour. For each of these we calculated the difference between the observed price and the price predicted by the Phillips curve (the price we would expect to see given the trend in the unemployment rate). As shown by the third chart on the previous page, the components of the basket of procyclical goods with the weakest price trend (compared with the Phillips curve projection) are repairs and maintenance of different goods, housing running costs (excluding rent) and restaurants. These explain 25%, 34% and 42%, respectively, of the difference between the observed procyclical inflation and expected inflation given the unemployment rate. In addition to being procyclical, these three types of goods share another feature: they belong to labour-intensive sectors.

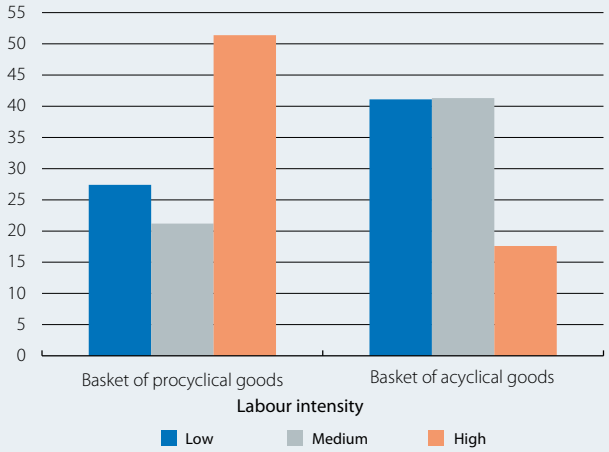
This feature might explain the weaker procyclical component prices. The reason why this may have happened is simple: the price of goods whose production is more labour-intensive tends to be more sensitive to wage changes, and vice versa. And during the current phase of economic recovery, wage growth has actually been more contained than usual.

To verify to what extent this weakness in inflation is due to moderate wage growth, we have classified the components of the core inflation basket according to the labour intensity of their production.[4] As expected, highly labour-intensive components explain most of the difference between real inflation and that projected by the Phillips curve. It is also interesting to note that the production of most of the goods in the procyclical basket is highly labour-intensive, specifically the 52%, while the opposite happens in the acyclical basket of goods whose production tends to be less labour-intensive.

Broadly speaking, the reason for inflation's slow recovery in the euro area is therefore mostly because of the slow recovery in wages. Previous Focuses noted that the euro area's labour market is less saturated than would be expected given the unemployment rate (see, for example, «Beyond the unemployment rate», in MR12/2017). Factors such as the increase in labour underutilisation and in the inactivity rate occurring during the recession, which are not reflected in the unemployment rate, have eased pressure on wages. However, these articles also noted that, given last year's good GDP growth, which is expected to continue this year, the underemployment rate has gradually fallen. As this trend consolidates, the pressure on wages and ultimately on inflation should recover.

Labour intensity

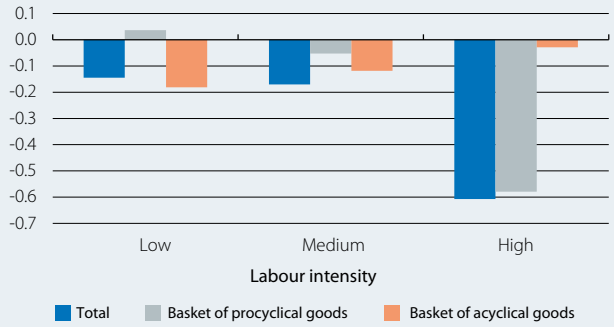
Share in each basket (%)



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

Difference between real and expected inflation in 2017

Contribution by labour intensity (pp)



Note: *Expected inflation for the procyclical components has been calculated using the Phillips curve estimates with data from Jan.02 to Dec.08. For the acyclical components, we have used the historical average of each component.*
Source: *CaixaBank Research, based on data from Eurostat.*

4. To do so, we obtained the percentage of labour costs out of total production costs for various sectors from Eurostat.

FOCUS · Germany: a change in direction for fiscal policy

Germany has managed to form a coalition government between conservatives and social democrats, known as the *GroKo III* as it is the country's third *Große Koalition*, six months after September's general elections. Agreeing on a coalition has been a complicated process and both parties have had to give up part of their programme. One of the strategic points in the agreement is fiscal policy. After three years in «austerity mode» it now seems to be changing direction. We will analyse this in more detail.

The agreement reached establishes a number of measures to increase social spending and also investment in education and infrastructures. These measures would come to around EUR 79.6 billion (2.4% of GDP) in the period 2018-2021.[1] This is a significant fiscal stimulus and, if all the measures are implemented, it could erode the government surplus enjoyed by the German economy. Let us take a brief look at the main measures announced for each area to better gauge their impact on economic growth.

Regarding the boost for social spending, the main aim is to increase aid for childcare and the generosity of the pension system. In the case of pensions, the idea is to guarantee a 48% replacement rate[2] up to 2025 (the system's current level), as well as broaden the pension rights of women with children. These measures will particularly benefit a group of people (the retired or those who will soon retire) who largely vote for the two coalition parties but, in the long run, it will put more pressure on the sustainability of the pension system.

These are not the only measures based more on political than economic reasoning which the coalition government has agreed. In the area of employment, the coalition has decided to implement measures that restrict the use of temporary contracts. This could particularly please those who have switched their vote from the government's coalition parties to the AfD, people whose employment conditions tend to be more precarious. They might therefore believe this measure helps them although the medium-term impact will probably be the opposite.

Returning to fiscal policy, the increased investment is mostly to be allocated to education, with federal government aid to the *länder* to improve their education systems, especially nurseries and full-time and professional training centres.[3] Regarding the larger investment in infrastructures, most should be aimed at improving the existing transport network which is felt to be quite obsolete. The coalition also wants to carry out actions that support the digitalisation of Germany's production system and society in general.

The boost intended by *GroKo III* for investment in education and infrastructures will help to offset a deficit in public investment in these two areas which, for instance, has been detected by the European Commission. Such measures could therefore have significant impact on Germany's long-term economic growth.

The overall impact of the measures agreed in the short and medium term is not negligible either, given the focus on social spending and investment. The impact on GDP growth could be around 0.5 pp over the next few years.[4] But there is a lot of uncertainty surrounding this figure. Firstly, because no specific schedule has been provided for implementing the different measures agreed. But especially because a reluctance to erode Germany's prized government surplus to any great extent may end up limiting the fiscal drive. In any case, the evidence suggests that Germany's fiscal policy will change direction over the coming years.

Budgetary impact of the GroKo III *agreement*

Cumulative 2018-2021

	EUR billion	% of GDP (2017)
Education, R&D	6	0.2
Family, children, Social Security	12	0.4
Construction and housing	4	0.1
Agriculture, transportation and local community aid	12	0.4
Security, development aid	2	0.1
Pensions for mothers (Müterrente II)	3.2	0.1
Larger contribution to European budget	7	0.2
Digitalisation	14.5	0.4
Reduction in tax revenue (solidarity surcharge)	10	0.3
Reduction in other tax revenue	7.6	0.2
Total estimate	**78.4**	**2.4**

Source: *CaixaBank Research, based on data from the coalition agreement between the CDU, CSU and SPD (7 February 2018) and Deutsche Bank Research.*

1. The government coalition has estimated that all the measures agreed total 1.4% of GDP. But the agreement includes other measures which are estimated to total 1.0% and these should also be included.
2. The replacement rate corresponds to the percentage of retirement income compared with prior income as an employee.
3. A recently created type of school where classes are held throughout the day, with a canteen service and extracurricular activities. Most schools in Germany only operate during the morning.
4. Using a fiscal multiplier of 0.77, corresponding to the average of Germany's public expenditure fiscal multipliers from several recent studies, including Ramey (2011), the ECB (2015), Carreras *et al.* (2016) and the IMF (2009, 2014).

KEY INDICATORS

Activity and employment indicators

Values, unless otherwise specified

	2016	2017	Q1 2017	Q2 2017	Q3 2017	Q4 2017	01/18	02/18	03/18
Retail sales *(year-on-year change)*	1.6	2.4	2.1	2.7	2.6	2.0	2.3	...	...
Industrial production *(year-on-year change)*	1.6	2.9	1.3	2.7	3.6	4.2	2.7	...	...
Consumer confidence	–7.8	–2.5	–5.5	–2.7	–1.5	–0.2	1.4	0.1	0.1
Economic sentiment	104.3	110.7	107.5	109.5	111.5	114.3	114.9	114.2	112.6
Manufacturing PMI	52.5	57.4	55.6	57.0	57.4	59.7	59.6	58.6	56.6
Services PMI	53.1	55.6	55.1	56.0	55.3	55.9	58.0	56.2	55.0
Labour market									
Employment (people) *(year-on-year change)*	1.3	1.6	1.6	1.6	1.7	1.6	–	...	–
Unemployment rate: euro area *(% labour force)*	10.0	9.1	9.5	9.1	9.0	8.7	8.6	...	...
Germany *(% labour force)*	4.2	3.8	3.9	3.8	3.7	3.6	3.6	...	...
France *(% labour force)*	10.0	9.4	9.6	9.5	9.5	9.1	9.0	...	...
Italy *(% labour force)*	11.7	11.3	11.6	11.2	11.2	11.0	11.1	...	...
Spain *(% labour force)*	19.6	17.2	18.2	17.3	16.8	16.6	16.3	...	...

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

	2016	2017	Q1 2017	Q2 2017	Q3 2017	Q4 2017	01/18	02/18
Current balance: euro area	3.7	3.8	3.7	3.5	3.8	3.8	3.9	...
Germany	8.6	8.0	8.5	8.0	8.0	8.0	8.3	...
France	–0.9	–1.2	–1.1	–1.2	–0.9	–1.2	–1.0	...
Italy	2.7	2.9	2.9	2.7	2.7	2.9	2.9	...
Spain	1.9	1.9	1.9	1.9	1.8	1.9	1.9	...
Nominal effective exchange rate [1] *(value)*	94.3	96.5	93.7	95.2	98.5	98.6	99.4	99.6

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

	2016	2017	Q1 2017	Q2 2017	Q3 2017	Q4 2017	01/18	02/18
Private sector financing								
Credit to non-financial firms [1]	1.8	2.5	2.2	2.3	2.4	3.0	3.4	3.1
Credit to households [1, 2]	1.7	2.6	2.3	2.6	2.7	2.8	2.9	2.9
Interest rate on loans to non-financial firms [3] *(%)*	1.4	1.3	1.3	1.3	1.3	1.3	1.2	...
Interest rate on loans to households for house purchases [4] *(%)*	1.8	1.7	1.8	1.7	1.7	1.7	1.7	...
Deposits								
On demand deposits	10.0	10.1	9.5	10.3	10.6	10.1	9.8	9.4
Other short-term deposits	–1.9	–2.7	–2.3	–2.9	–3.0	–2.4	–1.9	–2.3
Marketable instruments	2.7	0.9	5.7	0.6	–0.6	–2.2	–6.3	–6.4
Interest rate on deposits up to 1 year from households *(%)*	0.5	0.4	0.4	0.4	0.4	0.3	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 · **Growth prospects improve**

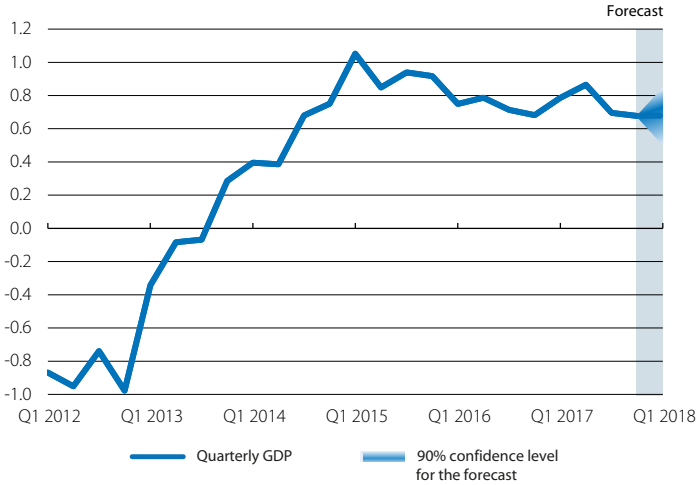
Spain's economy continues to look very dynamic at the beginning of 2018. The CaixaBank Research GDP forecast model predicts 0.7% quarter-on-quarter growth in Q1 2018, a similar rate to the second half of 2017. Over the next few quarters, our scenario expects strong GDP growth supported by economic activity remaining solid globally, and especially in the euro area, helped by accommodative financial conditions thanks to the ECB's expansionary monetary policy stance. In fact, in its update of the macroeconomic outlook, the Spanish government has raised its GDP growth forecast to 2.7%, an increase of 0.4 pp on the previous forecast carried out by the government in October 2017. The government forecast is therefore in line with those of the consensus of analysts and CaixaBank Research (2.8%), also raised recently. Standard & Poor's has also improved Spain's sovereign credit rating (from BBB+ to A–). Anticipating this revision, throughout March the Spanish risk premium fell from 90 bp at the beginning of the month to 70 bp. We expect it to remain at this level throughout 2018.

A favourable economic context helps Spain meet its public deficit target in 2017. This stood at 3.1% of GDP, in line with the stability target agreed with the European Commission. Compared with 2016's figure (4.3% of GDP), the deficit has fallen considerably (–1.2 pp) thanks to strong growth in economic activity and a neutral fiscal policy. This correction in the public deficit is largely explained by lower spending as a percentage of GDP, specifically by 1.0 pp. Interest payments have also decreased notably, as well as payments for unemployment benefit. The deficit also fell thanks to an increase in income as a percentage of GDP (+0.2 pp), very strong due to the substantial rise in tax revenue (5.2%) and Social Security contributions (4.9%). By public administration, central government and Social Security did not meet their targets but this was offset by the autonomous communities and local government corporations, which readily met theirs, allowing the overall government target to be achieved. Nevertheless, and in spite of the significant adjustments made over the past few years, Spain is the only country in the euro area that has not yet exited its excessive deficit procedure (EDP). The good economic outlook in 2018 will help the public deficit to fall, finally, below the 3% threshold set by the EDP. In fact, with the presentation of the State Budget for 2018, the public deficit target (2.2% of GDP) seems achievable. The Budget contains several fiscal measures such as reduced income tax for the low wage-earners, a rise in minimum and widow's pensions and wage increases for civil servants, among others.

Very positive trend in the labour market. In February, the number of registered workers affiliated to Social Security rose

GDP

Quarter-on-quarter change (%)



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

Government's macroeconomic scenario

Annual change (%), unless otherwise indicated

	2017 data	2018 Budget
Real GDP	**3.1**	**2.7**
Private consumption	2.4	2.0
Public consumption	1.6	1.1
Investment	5.0	4.7
Domestic demand (contrib.)	*2.8*	*2.3*
Exports goods and services	5.0	4.8
Imports goods and services	4.7	4.1
External balance (contrib.)	*0.3*	*0.4*

Source: *CaixaBank Research, based on data from the 2018 Budget.*

Public lending (+) and borrowing (–) by administration

(% of GDP)

	2016	2017		2018
	Figure	Target	Figure	Target
Central government	–2.5	–1.1	–1.9	–0.7
Autonomous communities	–0.8	–0.6	–0.3	–0.4
Local government corporations	0.6	0.0	0.6	0.0
Social Security	–1.6	–1.4	–1.5	–1.1
Total	**–4.3**	**–3.1**	**–3.1**	**–2.2**

Source: *CaixaBank Research, based on data from the Ministry of Finance and Civil Service.*

by 81,483, a larger increase than the same month in 2017 (74,080 people). This has increased the year-on-year rate of change by 0.1 pp to 3.5%. However, it is useful to look at the seasonally adjusted series to assess just how positive these figures are. In February, the increase was 62,006 people, similar to January's figure of 66,578, so both were far higher than the average of 59,919 monthly additions in 2017. We can therefore conclude that job creation has been very dynamic in the first few months of 2018. This good trend in the labour market is expected to continue over the coming months (see the Focus «Registered workers affiliated to Social Security: situation and outlook across sectors» in this *Monthly Report*).

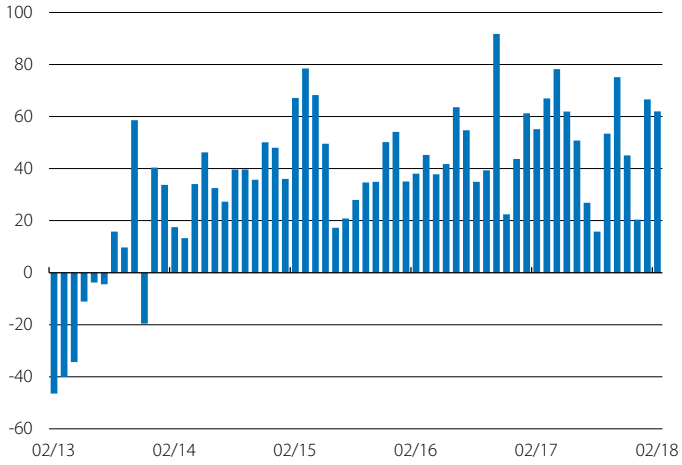
The dynamic labour market boosts private consumption. Specifically, retail and consumer goods rose by 1.9% year-on-year in February (2.2% in January), far more than the average 0.9% year-on-year increase in 2017. This figure, together with high consumer confidence in spite of a slight dip in March, indicates that private consumption was very strong in Q1 2018. Household savings should therefore remain at a historically low level, as was the case in 2017. Last year households saved just 5.7% of their gross disposable income (7.7% in 2016) as the growth in nominal consumption was notably higher than the growth in gross disposable income (4.2% and 2.0%, respectively).

Core inflation wakes up and rises to 1.1% in February (0.8% in January) due to an increase in services, specifically package holidays and telephony services. Headline inflation, for which the National Statistics Institute has already published March's figure, stood at 1.2% (1.1% in February). A large part of this slight price rise is probably due to the calendar effect of Easter, this year falling almost entirely in March while it was April last year. Because of this same effect, we expect inflation to moderate in April and then rise again slightly as from May, driven by oil prices and a gradual recovery in core inflation.

The foreign sector performs very well in spite of higher oil prices. The current account ended 2017 with a surplus of 1.9% of GDP, the same figure as the previous year. The balance of goods worsened, largely because of higher oil prices (the energy deficit went from –1.8% of GDP in 2016 to –2.3% in 2017) but also due to the increase in non-energy imports and despite exports doing well. The services balance improved on 2016 and reached 5% of GDP while the income balance also improved slightly. With a view to 2018, we expect the rise in oil prices to continue reducing the current account, as shown by January's figures. The balance of trade for goods posted a deficit of 2.2% of GDP (cumulative over 12 months), higher than the 1.6% posted in January 2017. This deterioration was largely due to the rise in energy imports. The non-energy balance, however, which is more indicative of the underlying trend in goods trade, looks more stable. Exports grew by 6.6% year-on-year (cumulative over 12 months), offsetting the solid performance of imports (+7.0%, also cumulative over 12 months).

*Registered workers affiliated to Social Security **

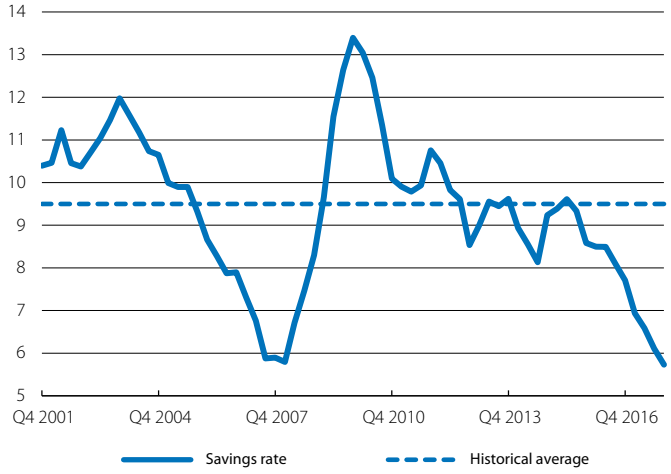
Month-on-month change (thousands of people)



Note: ** Seasonally adjusted.*
Source: *CaixaBank Research, based on data from the Ministry of Employment and Social Security.*

Savings rate

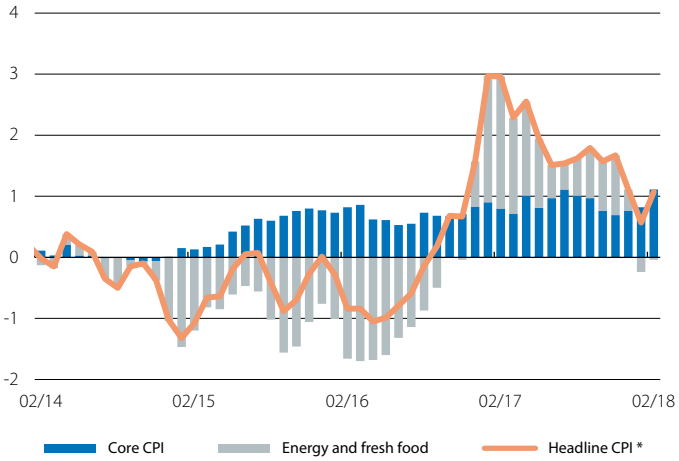
(% of gross disposable income)



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

CPI

Contribution to year-on-year growth (pp)



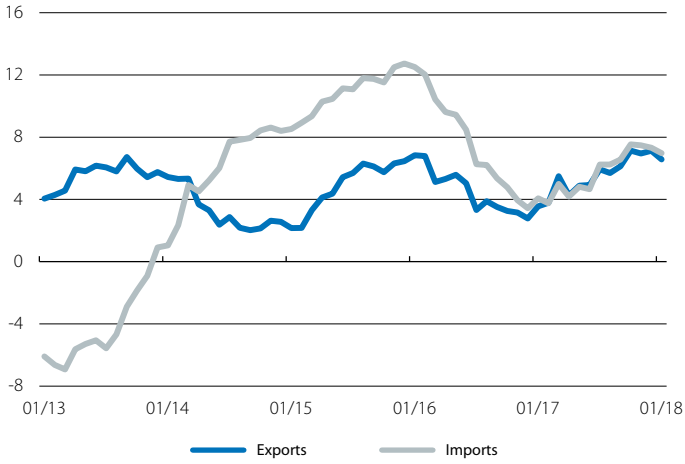
Note: ** Year-on-year change.*
Source: *CaixaBank Research, based on data from the National Statistics Institute.*

The real estate market continues to post good results. House sales rose in January by 15.1% year-on-year (cumulative over 12 months), reaching a total of 473,255 units sold. This boost in sales has affected the sale price for housing, up by 7.2% in year-on-year terms in Q4 2017 (0.9% in quarter-on-quarter terms), bringing average growth in 2017 to a considerable 6.2%. Over the coming quarters, the strong demand for housing, together with a timid recovery in supply and favourable credit conditions to buy housing, suggest that prices will continue to rise.

The credit trend is still favourable. New loans for consumption and to buy housing grew strongly in February: 17% and 16.5% year-on-year (cumulative for the year), respectively. Credit to enterprises also seems to have recovered substantially 2018, both in loans to SMEs (17.4% year-on-year, YTD) and large firms (12.7%). Although new loan transactions appear dynamic, the credit balance is still shrinking (–2.0% year-on-year in Q4 2017), with the notable exception of consumer credit, up by 14.3% year-on-year in Q4. The NPL ratio is also continuing to fall, especially in terms of developer credit (–7.4 pp in the last year) thanks to the sale of non-performing portfolios. Nevertheless this rate is still at a high 18.1% and is far above the NPL rates for the rest of the segments.

*Exports and imports of goods **

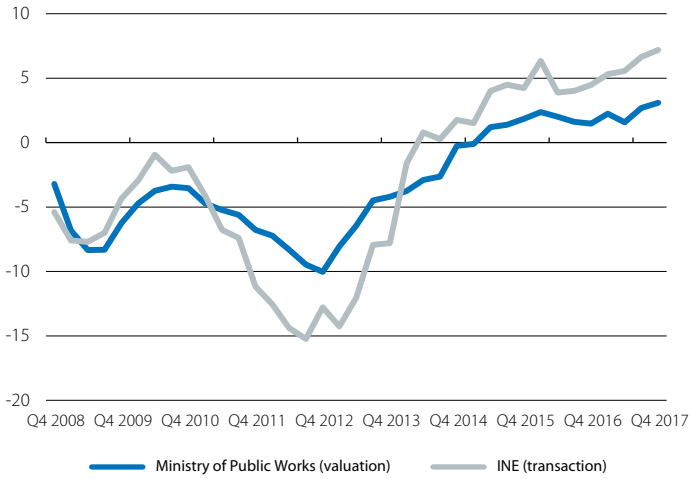
Year-on-year change (%)



Note: ** Nominal data, series not seasonally adjusted. Not including energy.*
Source: *CaixaBank Research, based on data from the Customs Department.*

Price of non-subsidised housing

Year-on-year change (%)



Source: *CaixaBank Research, based on data from the National Statistics Institute and Ministry of Public Works.*

Gross credit and NPL ratio in Q4 2017

	Balance (EUR billion)	Year-on-year change (%)	NPL ratio (%)
Loans to households	697	–1.0	–
To buy housing	530	–2.6	4.8
Other purposes	168	4.1	8.1
Consumption	76	14.3	–
Loans to enterprises	477	–3.3	–
Not developers	367	–1.5	10.1
Developers	110	–8.9	18.1
Loans to private sector *	**1,174**	**–2.0**	**7.8**

Note: ** The total balance does not include loans to financial services.*
Source: *CaixaBank Research, based on data from the Bank of Spain (chapter 8).*

FOCUS · A return to the markets for Spain's Autonomous Communities

The level of general government debt has been anchored at around 100% of GDP for the past five years and, so far, the recovery in economic activity has not been enough to bring public administration out of the red. Although most of this public debt comes from the central government, Spain's Autonomous Communities (AC) hold a significant proportion, equivalent to 25% of the country's GDP,[1] well above the 16% reached just five years ago. Debt has increased across all the Autonomous Regions although the levels are very different (see the enclosed chart). This article explains the deficit financing mechanisms and debt maturities in the case of the Autonomous Communities.

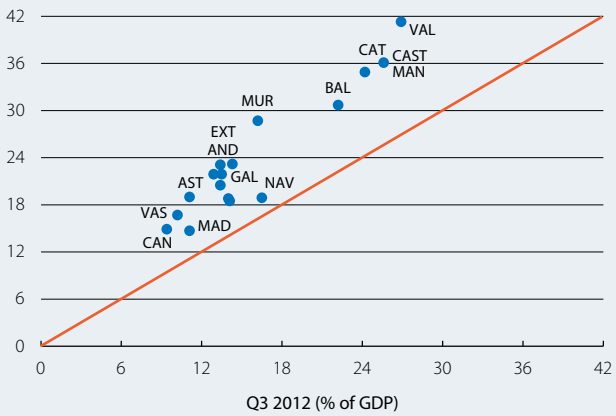
According to Spain's Organic Act on Autonomous Community Financing (LOFCA in Spanish), passed in 1980, ACs can issue debt to meet debt maturities or finance their deficit permitted according to principles of budget stability. Until 2012, ACs issued debt directly on the markets, albeit subject to central government authorisation. However, the economic and financial crisis made it difficult for the ACs to access markets. In view of this situation, the central government set up various mechanisms to improve the financial capacity of the ACs. The most important was the Autonomous Liquidity Fund (FLA in Spanish), set up in 2012. Through this mechanism, it was the central government that accessed the markets to raise funds, which were then passed on to the ACs via long-term loans.[2]

However, membership of the FLA entailed certain commitments: the AC in question must draw up an adjustment plan to ensure the deficit and debt targets are met. It must also report monthly on how the budget is being spent.

In 2015, the FLA was integrated within the Autonomous Financing Fund (FFA in Spanish).[3] The aim of this mechanism was twofold: continue to support ACs with liquidity problems and enable ACs without liquidity problems to take advantage of the lower financing costs enjoyed by central government. The fund was therefore divided into two parts. The first is the continuation of the FLA, compulsory for ACs that do not meet the stability targets. The second acts as a Financial Facility for those ACs that are on target in terms of stability.[4]

Public debt by Autonomous Community

Q3 2017 (% of GDP)



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

How much has the FLA been used?

Difficulties in accessing markets at costs similar to those available to the central government have led to these mechanisms being extensively used, to the extent of the state becoming their biggest lender (56% of AC debt is owed to the central government). In fact, 70% of the total debt from the FFA and the former FLA has been used to cover the financing needs of three communities: Catalonia (33%), Valencia (22%) and Andalusia (15%).

Despite the favourable conditions offered by these financing mechanisms,[5] they also create significant rigidities for ACs. The financing has highly standardised repayment and is subject to numerous budget conditions. As a result, given the current environment of low interest rates and lower public deficits in the autonomous regions, various ACs are reconsidering their financing strategy, turning increasingly to the markets. Several ACs issued debt on the market in 2017, such as Asturias, La Rioja and Castile & Leon. For 2018, the Community of Madrid has already announced it will dispense with the FFA. In fact, in February it issued a 10-year bond with an interest rate 21 bp above the Spanish Treasury's equivalent benchmark bond. Given the relatively low costs, other ACs are also considering going back to the markets, such as Andalusia and Aragon, and this trend will most likely increase.

1. In Q3 2017.
2. Royal Decree-Law 21/2012.
3. Article 21 of Royal Decree-Law 17/2014.
4. A Social Fund was also created to pay AC obligations regarding local authorities resulting from social spending agreements.
5. The total cumulative savings of ACs between 2012 and 2016 is estimated at EUR 15 billion. See De la Fuente, Á. (2017) «Los mecanismos adicionales de financiación: cantidades desembolsadas, subvenciones a los intereses y efectos sobre la financiación efectiva de las CCAA», FEDEA and IAE.

FOCUS · Registered workers affiliated to Social Security: situation and outlook across sectors

2017 was a particularly good year in terms of registered workers affiliated to Social Security. The increase in the number of workers affiliated, namely 611,000 (a year-on-year rise of 3.4%), was considerably greater than in the previous year (540,000 in 2016, +3.1%). It also outperformed the CaixaBank Research forecast (in January 2017 we predicted its annual increase would be similar to the growth observed in 2016). These good figures were in line with the gradual improvement in our GDP growth forecasts which were also revised upwards throughout the year, from 2.4% in January 2017 to an actual increase of 3.1%.

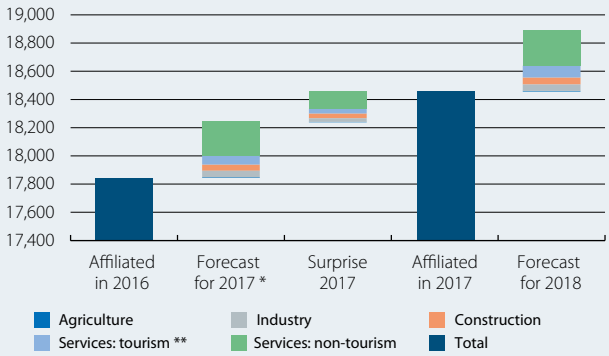
Most sectors posted good labour figures (see the enclosed chart). The sector with the largest growth in absolute terms was services, posting a cumulative rise of almost 77% in affiliated workers (470,000, up by 3.5%). Services' good performance is largely due to the buoyancy of economic activities related to tourism,[1] pushing up the number of affiliated workers by almost 100,000 (4.1% year-on-year). However, although this increase was substantially higher than the growth of the economy as a whole, there were hints of a slowdown in Q4. Social Security registration in the rest of the services subsectors (those not directly linked with tourism) grew more slowly (3.4% year-on-year) but still outperformed the forecasts published at the beginning of the year.

Construction was also positive, speeding up considerably and posting a notable rise in the number of affiliated workers of 7.4% year-on-year, its largest growth since before the crisis. This sector obviously suffered the most from job losses during the recession and its high growth has therefore occurred from a relatively low level. Indeed, the share of affiliated workers from this sector, namely 6.2%, is still very far from its 14.5% share observed in 2007.

The industrial sector also performed well in 2017 and increased its number of affiliated workers by 3.3% year-on-year, slightly more than expected. In this sector, the number of registered workers affiliated to Social Security is still much lower than in the pre-crisis period. In fact, this situation is widespread across most advanced economies, in part due to the industry's particularly large gains in productivity thanks to the impact of new technologies.[2]

Registered workers affiliated to Social Security by economic sector

(Thousands)



Notes: ** Forecasts made in January 2017.*
*** Affiliation in subsectors related to tourism.*
Source: *CaixaBank Research, based on data from the Ministry of Employment and Social Security.*

With a view to 2018, CaixaBank Research expects the number of registered workers affiliated to Social Security to increase by around 425,000, an annual rise of 2.3%. This strong growth will continue to be supported by a decreasing unemployment rate.[3] The breakdown of affiliated workers across sectors is expected to be similar to 2017, albeit with some slight differences. Services, which have been growing steadily since 2015, have now exceeded their 2007 level of affiliated workers. Growth in 2018 is therefore likely to be slightly lower than in 2017, although it will still be substantial (333,000 people, 2.4% year-on-year). With house demand and prices consolidating their upward trend in the real estate sector, the number of affiliated workers from the construction industry should continue to post large increases in 2018 (50,000 people, 4.4% annually). Finally, growth in the number of industrial workers affiliated to Social Security is also likely but at a slightly more moderate rate, continuing the trend of the past few years (46,000 people, 2.1%). The figures for registered workers affiliated to Social Security have already been published for the first two months of 2018 and confirm the good outlook for the year as a whole.

1. The following are considered to be economic activities related to tourism: land and pipeline transport; transport by sea and navigable waterways; air transport; accommodation services; food and beverage services; rental activities; travel agency and tourist operator activities; activities of creative and performance arts; activities of libraries, collections, museums and cultural centres, as well as sports, recreational and entertainment activities. Note that the whole sector is included, unlike the tourism satellite account which determines which jobs are directly attributable to tourism.

2. See the articles in the Dossier «Industry 4.0» in MR11/2016.
3. Forecasts based on ARIMA models.

KEY INDICATORS

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

Activity indicators

	2015	2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	01/18	02/18	03/18
Industry									
Electricity consumption	0.2	1.6	1.7	1.4	0.5	3.0	–2.0	3.7	...
Industrial production index	1.9	3.2	1.8	2.8	2.8	5.2	0.7	...	...
Indicator of confidence in industry *(value)*	–2.3	1.0	0.3	–0.5	–0.1	4.3	4.2	2.4	1.9
Manufacturing PMI *(value)*	53.2	54.8	54.8	54.9	53.6	55.9	55.2	56.0	...
Construction									
Building permits *(cumulative over 12 months)*	43.7	22.9	24.5	18.4	23.5	25.1	24.4	...	...
House sales *(cumulative over 12 months)*	13.1	13.8	15.2	12.2	13.3	14.5	15.1	...	...
House prices	1.9	2.4	2.2	1.6	2.7	3.1	–	...	–
Services									
Foreign tourists *(cumulative over 12 months)*	8.2	9.9	10.0	10.2	10.3	9.1	8.3	...	...
Services PMI *(value)*	55.0	56.4	56.4	57.8	56.8	54.5	56.9	57.3	...
Consumption									
Retail sales	3.8	0.9	0.3	2.0	1.1	0.3	2.1	2.0	...
Car registrations	11.4	7.9	7.8	6.3	6.7	10.8	20.3	13.0	...
Consumer confidence index *(value)*	–3.8	–0.7	–2.8	1.5	0.2	–1.5	1.3	0.4	–3.5

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

Employment indicators

	2015	2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	01/18	02/18
Registered as employed with Social Security [1]								
Employment by industry sector								
Manufacturing	2.8	3.1	3.0	3.1	3.1	3.2	3.3	3.4
Construction	2.6	6.1	5.3	6.1	6.1	7.1	7.6	7.2
Services	3.2	3.6	3.4	3.8	3.6	3.6	3.5	3.5
Employment by professional status	3.5	4.2						
Employees	3.5	4.2	4.0	4.4	4.1	4.1	4.1	4.0
Self-employed and others	1.0	0.8	0.9	0.9	0.7	0.5	0.5	0.9
TOTAL	**3.0**	**3.6**	**3.4**	**3.8**	**3.5**	**3.5**	**3.4**	**3.5**
Employment [2]	**2.7**	**2.6**	**2.3**	**2.8**	**2.8**	**2.6**	**–**	**...**
Hiring contracts registered [3]								
Permanent	14.2	12.4	15.4	10.2	11.0	12.9	15.2	15.4
Temporary	7.2	7.3	12.1	9.6	5.0	2.6	6.3	5.4
TOTAL	**7.8**	**7.7**	**12.4**	**9.6**	**5.5**	**3.4**	**7.1**	**6.5**
Unemployment claimant count [3]								
Under 25	–12.6	–12.2	–13.3	–17.3	–9.4	–8.7	–9.7	–8.5
All aged 25 and over	–8.2	–9.1	–9.2	–10.3	–8.7	–8.0	–7.4	–7.4
TOTAL	**–8.6**	**–9.3**	**–9.6**	**–10.9**	**–8.8**	**–8.0**	**–7.5**	**–7.5**

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

	2015	2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	01/18	02/18	03/18
General	**–0.2**	**2.0**	**2.7**	**2.0**	**1.7**	**1.4**	**0.6**	**1.1**	**1.2**
Core	0.8	1.1	1.0	1.1	1.3	0.8	0.8	1.1	...
Unprocessed foods	2.3	2.6	4.1	2.5	–0.2	4.0	1.6	0.3	...
Energy products	–8.4	8.2	15.3	8.0	5.4	4.1	–1.7	1.4	...

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

	2016	2017	Q1 2017	Q2 2017	Q3 2017	Q4 2017	01/18
Trade of goods							
Exports *(year-on-year change, cumulative over 12 months)*	2.6	8.1	5.7	6.0	7.0	8.1	7.4
Imports *(year-on-year change, cumulative over 12 months)*	–0.4	10.3	3.7	5.5	8.9	10.3	9.7
Current balance	**21.5**	**22.1**	**21.8**	**22.0**	**21.0**	**22.1**	**22.0**
Goods and services	33.7	33.5	32.2	33.4	32.7	33.5	32.8
Primary and secondary income	–12.2	–11.4	–10.4	–11.5	–11.7	–11.4	–10.8
Net lending (+) / borrowing (–) capacity	**24.2**	**24.8**	**24.2**	**24.3**	**23.5**	**24.8**	**25.0**

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

	2016	2017	Q1 2017	Q2 2017	Q3 2017	Q4 2017	01/18
Net lending (+) / borrowing (–) capacity [1]	**–4.5**	**–3.1**	**–0.4**	**–2.2**	**–1.5**	**–3.1**	**–**
Central government	–2.7	–1.9	–0.5	–1.1	–1.5	–1.9	–0.4
Autonomous regions	–0.8	–0.3	–0.2	–0.7	0.1	–0.3	0.0
Local government	0.6	0.6	0.1	0.1	0.5	0.6	–
Social Security	–1.6	–1.5	0.1	–0.5	–0.6	–1.5	0.1
Public debt *(% GDP)*	**99.0**	**98.3**	**99.7**	**99.5**	**98.5**	**98.3**	**–**

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

Credit and deposits in non-financial sectors [1]

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

	2016	2017	Q1 2017	Q2 2017	Q3 2017	Q4 2017	01/18	02/18
Deposits [2]								
Household and company deposits	2.5	2.8	3.2	2.5	2.3	3.2	2.5	...
Sight and savings	16.0	17.6	18.6	18.8	17.2	15.9	13.1	...
Term and notice	–16.0	–24.2	–22.0	–24.9	–25.1	–24.6	–23.6	...
General government deposits	–14.2	–8.7	–28.0	–26.7	6.8	13.1	12.9	...
TOTAL	**1.2**	**1.9**	**1.0**	**0.5**	**2.6**	**3.7**	**3.0**	...
Outstanding balance of credit [2]								
Private sector	–3.6	–2.1	–2.6	–1.9	–2.2	–1.8	–1.8	–2.1
Non-financial firms	–5.3	–3.6	–4.3	–3.0	–3.8	–3.3	–2.8	–4.4
Households - housing	–3.6	–1.5	–1.6	–1.4	–1.3	–1.7	–2.5	–3.9
Households - other purposes	1.7	0.1	–0.3	–0.6	–0.4	1.8	3.5	10.6
General government	–2.9	–9.7	–3.2	–12.6	–11.6	–11.4	–16.0	–10.4
TOTAL	**–3.6**	**–2.7**	**–2.6**	**–2.7**	**–2.9**	**–2.5**	**–2.9**	**–2.7**
NPL ratio *(%)* [3]	**9.1**	**7.8**	**8.8**	**8.4**	**8.3**	**7.8**	...	...

Notes: *1. Aggregate data from Spain's banks. 2. Residents in Spain. 3. Data up to end of period.*
Source: *CaixaBank Research, based on data from the Bank of Spain.*

THE MILLENNIAL GENERATION

Who are the Millennials?

Generations, like people, have personality and the Millennial generation is no exception. Also known as Generation Y or Next, Millennials reached adulthood at the start of the new millennium. According to the definition coined by the US think tank Pew Research Center, this includes all those born between 1981 and 1996. Therefore, Millennials are now aged between 22 and 37 years old. In this article, we try to identify the main features that define the Millennial generation and the reasons why this generation differs from previous ones.

Let's begin by comparing its size over the population. Globally, the Millennial generation is a larger cohort than previous ones. In particular, it is estimated that they represent almost 24.0% of the world's population, much more than the Generation X (19.5%) or Baby Boomers (17.0%).[1] In the US, 22% of the population belongs to this generation and it is estimated that, by 2019, Millennials will surpass Baby Boomers as the largest adult generation in the country.[2] In Europe, however, the generational composition is quite different. According to Eurostat data, in 2017 there were approximately 102 million Millennials living in the EU, roughly 20% of the population, while the Baby Boomers accounted for a larger share (23.4%). In Spain, the Millennial generation is even smaller (18.7%), and Generation X represents the largest share (26.2%).

So, what characterises this generation? The major events that define a period in history, such as scientific and technological advances or economic crises, affect the entire population, but tend to leave a greater mark on younger adults, since they are still forming their values and expectations. In fact, several studies show that this impact not only affects them while they are still young but tends to accompany them throughout their lives.[3] In this sense, and in order to characterise Millennials, we can look at how important events that took place at a global level while they were growing up (between 1995 and 2010 approximately) may have shaped them in one way or another. In particular, this generation has grown up during a period of rapid change, characterised by globalisation, the digital revolution and the great economic crisis of 2008. All these events have given them a set of preferences, attitudes and expectations that differ from those of previous generations.

Firstly, one of the main features of Millennials is that it tends to make its vital decisions, such as forming a household, later than previous generations. In particular, according to a study by the Pew Research Center for the US, the proportion of young people under 34 who are married is at an all-time low.[4] Data for the EU also suggest that Millennials are getting married later than the Gen X-ers. Nowadays, the average age at which Europeans marry for the first time has risen to 34 for men and 31 for women, compared to 30 and 27 in 1999, respectively. Similarly, Millennials also wait longer to have children. In particular, the average age at which women have their first child has been rincreasing over the past few years, reaching 29 in Europe, an all-time high.

This trend is due to the fact that many young people today have other priorities when they reach adulthood, such as getting a good education and financial security.[5] In fact, Millennials constitute the most educated generation in history. This is largely due to the demands of a modern knowledge-based economy, but also from the fact that many of them chose to continue studying due to the impossibility of finding work during the financial crisis. Thus, in Europe, the proportion of young adults with higher education is larger than ever: 4 out of 10 people aged 25 to 34 have completed university studies. In 1999, when the Gen X-ers were the same age, the percentage was 24%. This trend is even more pronounced in women aged 25 to 34: 44% of them have higher education compared to 33.6% of men.[6]

Another feature of Millennials is that they are the first digital native generation. Specifically, they grew up with the internet and many other technological advances, such as smartphones and tablets, and are very familiar with everything «digital». In fact, connectivity to the online world is deeply rooted in their personal and professional lives. In the EU, 9 out of 10 Millennials aged 20 to 34 use the internet on a daily basis, compared to 78% of the Gen X-ers and 48% of Baby Boomers. Also, 9 out of 10 European Millennials have a smartphone and spend an average of five hours a day online.[7]

1. The Generation X includes all those born between 1965 and 1980, while the Baby Boom generation refers to those born between 1946 and 1964. United Nations data for 2015.
2. According to data from the US Census Bureau.
3. See Pew Research Center (2010), «Millennials: Confident. Connected. Open to Change», Social & Demographic Trends.
4. See Pew Research Center (2014), «Record Share of Americans Have Never Married», Social & Demographic Trends.
5. See Vespa, J. (2017), «The Changing Economics and Demographics of Young Adulthood: 1975-2016», US Census Bureau Report.
6. Eurostat data for 2017. In 1999, this difference was much smaller, namely 0.2 pp.

Therefore, Millennials are an hyper connected generation, which makes an intensive use of new digital technologies, more than previous generations. For example: 6 out of 10 European Millennials make online purchases[8] compared with 53% Gen X-ers and 29% of Baby Boomers. Likewise, nearly 80% of Millennials report using the internet to find information on products and services (compared with 72% of Gen X-ers and 47% of Baby Boomers) while a third of them uses the internet to find and apply to jobs (compared with 18% of the Gen X-ers and 4% of Baby Boomers). In addition, they also have a larger presence on social media: 8 out of 10 European Millennials have a profile on social media (compared with 56% of Gen X-ers and 24% of Baby Boomers).[9] One of the motivations behind their participation in social media is connecting with other people (often in real time).[10] In fact, for many of them, digital relationships are intertwined with other forms of interaction.[11]

Similarly, their great affinity for technology has given them a a variety of behaviours and attitudes that, for now, are exclusive to this generation, such as their preference for immediacy.[12] Millennials value the convenience of being able to access information, compare products and services, buy and communicate from anywhere and at any time. This immediacy in the connection with the (digital) world has become part of the expectations of many Millennials, who value speed, efficiency, ease and simplicity in everything they do, also in the offline world.

On the other hand, despite having more facilities to work and study in other countries, the millennial generation does not seem to be more mobile than the previous generation (Generation X), at least in Europe. Specifically, data show that the percentage of European millennials who work in another EU-15 country –approximately 2%–, is similar to that of the Generation X at their age. Moreover, according to a survey of young people aged 16 to 30 in EU-28 countries, the vast majority (61%) of young Europeans do not feel inclined to travel to another member country to study or find work, while 9 out of 10 young young people reported they had never done it.[13]

Finally, Millennials tend to be more averse to risk than previous generations. According to a survey conducted by the Brookings Institute, the average investor aged 21 to 36 has most of their savings in cash and deposits, compared to 23% in older generations.[14] One of the reasons behind this trend is that, despite being highly educated and theirdigital skills, for most Millennials the entry into the labour market coincided with the financial crisis. This, among other factors, may have affected their attitude towards risk. In fact, according to a study by the economists Malmendier and Nagel for the US,[15] people who experience low market returns tend to be more averse to taking on financial risks and participate less in the stock market. Moreover, this effect is greater the younger the person is.

In short, the events that define the period in which Millennials have grown up have helped to shape their preferences, attitudes, values and future expectations that caracterise them as a generation. Although the economic environment was not entirely favourable during their youth, this generation, incredibly well-trained and with a great ability to adapt to the new technologies, is very well equipped to face the future successfully.

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7. See Telefónica (2013), «Telefónica Global Millennial Survey: Europe Results».
8. Over the past three months, according to Eurostat data for 2017.
9. According to Eurostat data for 2017.
10. Another reason is to keep up-to-date with the news and current affairs.
11. See Ipsos (2017), «The Millennial influence».
12. See The Boston Consulting Group (2012), «The Millennial Consumer: Debunking Stereotypes».
13. See EPRS (2016), «European Youth in 2016», 2016.
14. See Brookings Institute (2014), «11 Facts about the Millennial Generation», Brookings Now.
15. See Malmendier, U. and Nagel, S. (2011), «Depression Babies: Do Macroeconomic Experiences Affect Risk Taking?», The Quarterly Journal of Economics, volume 126.

Millennials: a new notion of work?

Millennials and the effects of the crisis

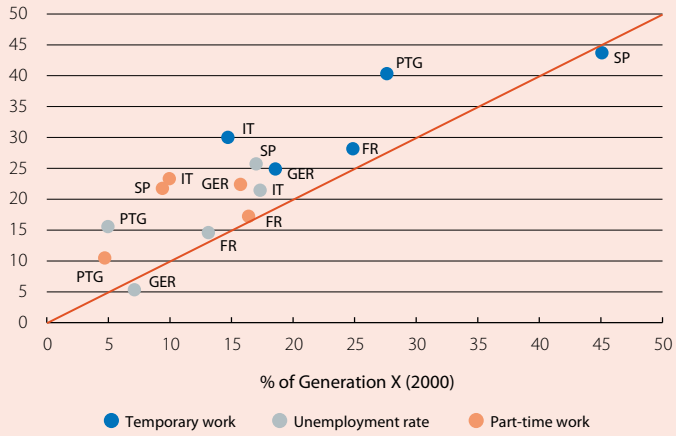
The economic situation was not always in their favour when Millennials first joined the job market. And it was particularly adverse for Spanish Millennials born after 1987 who, with a deep crisis in the making, saw many of their job expectations frustrated or, at the very least, had to put them on the back burner until better times.

Even now, finding a job is no easy task. The unemployment rate for Spanish Millennials is 26% (in 2016), much higher than for the previous generation (Generation X) when they were the same age as the Millennials now (17% in 2000).[1] This is also the case in other European countries such as Portugal and Italy. But such differences between generations are not limited to the difficulty of finding employment. Even once European Millennials have secured a job, their employment conditions, in terms of temporary and part-time contracts, have also tended to be worse than for the previous generation, especially in Spain, Italy and Portugal (see the first chart).

Several studies agree that joining the job market during an economic recession, as was the case for late Millennials, has a negative effect on employment and wages that can take years to disappear.[2] Although the negative impact on the probability of finding employment tends to dissipate after three years, the effect on wages can last ten. Studies suggest that, in the case of the UK, the disadvantage of having been unemployed at the beginning of one's working life can reduce the wages received 20 years later by almost 8%.[3] Moreover, such consequences are not limited to the most vulnerable groups but also affect university graduates, doctorates and even MBAs.[4] On the other hand, cohorts that join the job market during a boom tend to be promoted more quickly and reach higher positions.[5]

Labour conditions

% of Millennials (2016)



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

What makes Millennials different at work?

In spite of the adverse economic conditions they may have encountered, Millennials are a highly trained generation that can add value to the labour market. Although most generations appreciate similar aspects of their employment, such as the work-life balance and a competitive wage, there are some features which Millennials tend to consider more important than previous generations. So what kind of company policies are more likely to attract (or retain) Millennials? Most reports highlight the following aspects:[6] i) Opportunities to work with the latest technology and receive training, ii) Close relationship with superiors and regular feedback, and iii) A collaborative and flexible atmosphere.

Another area of speculation regarding how Millennials work is their alleged lack of commitment. However, are Millennials truly less committed to work than other generations?

For the case of the US, some studies suggest that Millennials change their job more often, warning of the costs incurred for the economy. However, if we take into account the overall increase in mobility, Millennials do not appear to be any less stable than other generations.[7]

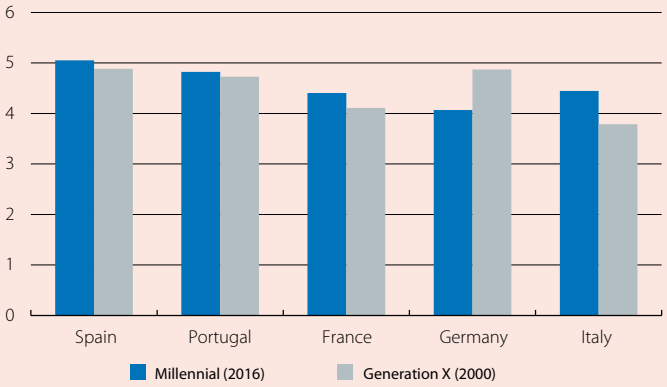
1. Millennials are defined as those born between 1981 and 1996, and Generation X as those born between 1965 and 1980.
2. See Kahn, L. B. (2010), «The long-term labor market consequences of graduating from college in a bad economy», Labour Economics, 17(2): 303-316.
3. See the European Commission (2014), «Scarring effects of the crisis» and Greeg, P. and Tominey, E. (2005), «The wage scar from male youth unemployment», Labour Economics vol. 12(4): 487-509.
4. See Oreopoulos, P., Von Wachter, T. and Heisz, A. (2012), «The Sort- and Long-Term Career Effects of Graduating in a Recession», American Economic Journal: Applied Economics, 4(1):1-29.
5. See Kwon, I., Milgrom, E. M. and Hwang, S. (2010), «Cohort Effects in Promotions and Wages: Evidence from Sweden and the United States», The Journal of Human Resources, 45(3):772-808.
6. See Human Resources Professionals Association (2016), «HR & Millennials: Insights into Your New Human Capital», HRPA Millennials Report.
7. See Adkins, A. (2016), «Millennials: The Job-Hopping Generation», Gallup Business Journal.

In fact, in European countries the data suggest that the average length of time spent by Millennials in a job is relatively similar to the previous generation, especially when we compare Millennials and Generation X members with similar employment and educational conditions (see the second chart). So these data do not point to any less commitment on the part of Millennials.

There are other, softer indicators which can also provide us with clues about whether they are less committed to work. For instance, whether Millennials tend to look for another job while they are still employed. Here the results differ across countries. In Spain and Portugal, more employed Millennials state that they are looking for work than their peers from Generation X, which could indicate a change compared with the previous generation. However, this is not the case of French or German Millennials, who behave in the same way as the previous generation.

Average length of service for people with a permanent contract and tertiary education

(Years)



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

In summary, the data seem to suggest that the main differences in employment terms between Millennials and other generations are not so much down to individual preferences but to a worse situation for this generation in the labour market. As we mentioned at the beginning, joining the job market during a recession leaves lasting scars in terms of employment and wages which, in turn, affect how Millennials live.

How do Millennials live?

A lack of job security for young people, in combination with their parents' jobs benefitting from greater protection, has led Millennials to delay the age at which they leave home,[8] this currently being 29 in Spain.[9] However, these consequences do not only influence when Millennials become independent but also how this emancipation occurs. A shift towards unemployment and modest wages creates difficulties in affording a home. It may be difficult to get a mortgage when employment conditions are unstable or perhaps Millennials cannot afford to buy a property. In fact, Millennials who have bought a home devote 19% of their income to housing-related payments, 0.7 pp more than Generation X at the same age. As a result, Millennials are more likely to rent (55% of young people aged 25 to 29 who have left home rent their accommodation), as well as to take different financial decisions, which are discussed in the next article.

All the evidence therefore seems to suggest that the differences in the labour market between Millennials and previous generations are mainly caused by the impact of the economic crisis. We must not forget that Millennials are one of the generations hardest hit by the crisis and, given that the repercussions will not disappear quickly, their economic performance might depend on the support they receive from society and especially from other generations.

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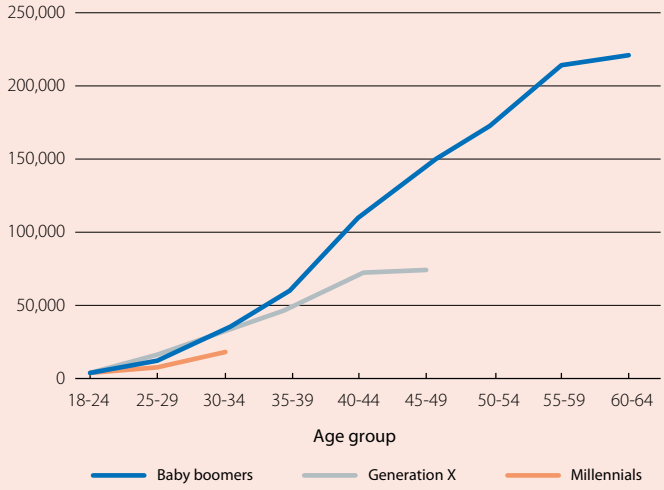
8. Becker, S. *et al.* (2004), «Job insecurity and children's emancipation», CEMFI Working Paper no. 0404.
9. Eurostat data for 2015.

The financial situation of Millennial households in the US and Spain: will they catch up with previous generations?

This Dossier's previous articles have characterised Millennials as a generation that has reached adulthood during a time of unfavourable and uncertain economic conditions, with a depressed labour market and shrinking real estate sector. Such economic conditions suggest that, generally speaking, the financial situation of these young people may not be very promising. In addition to the aforementioned adverse economic situation, certain aspects that characterise this generation, like postponing life decisions such as setting up a home, or the new challenges they face such as higher university tuition fees in the US, have also influenced their financial decisions, which are analysed in this article.

US: median net worth

(2013 dollars)



Source: *Dettling, L. and Hsu, J. W., «Playing Catch-up», IMF.*

Regarding the first factor, buying a home is the most important financial decision taken by a household as it is usually the highest value asset owned. It also constitutes the main way that households accumulate wealth since it acts as a forced saving mechanism. So what do the figures tell us? In the US, 34% of Millennials own their own home, a slightly lower percentage than the preceding generation (39%). A wider gap can be seen in the successive generations of young Spaniards: 44% of Millennial households own their home compared with 65% among Generation X.

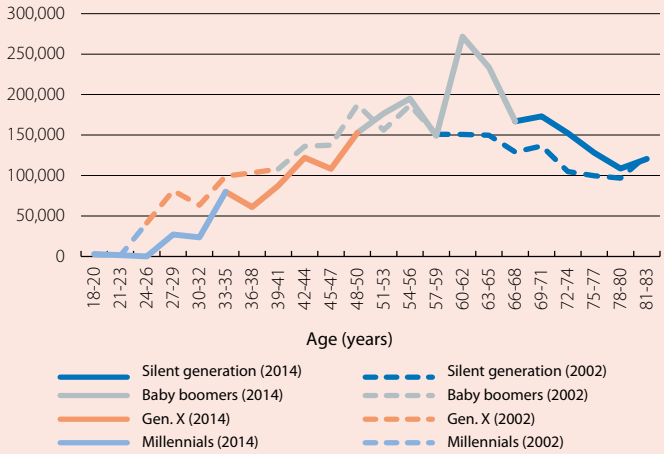
Taking this factor into account (the «composition effect») and focusing solely on those households that own their own home, we can see that the gap in median net worth disappears in the US while the difference decreases significantly in Spain but is still considerable (47%). Simply put: Millennial households that manage to buy their home have just over half the net worth

To analyse the financial situation of households headed by Millennials, we compare the evolution of the median net worth for each generation throughout their lives.[1,2] The charts show very significant differences between generations. In the US, the median net worth for Millennials aged 25 to 34 is 60% that of young people from Generation X within the same age range. The gap is even wider in Spain. The trend in net worth for each generation is less than that of the preceding generation. In the specific case of Millennials, their median net worth is EUR 3,000 compared with the EUR 63,400 accumulated by young people from the previous generation at the same age.

What is the reason behind this notable gap in net worth across generations? As we will see, there are two main causes. The most important aspect which explains most of this gap is whether they own their own home or not. The second is related to high non-mortgage debt.

Spain: median net worth

(2014 euros)



Note: *Net worth is financial and real state assets minus liabilities (debts).*
Source: *CaixaBank Research, based on data from the Encuesta Financiera de las Familias (2002 and 2014).*

1. These are young people who have set up a home independently of their parents. Specifically, the US data come from the Survey of Consumer Finances, while the Spanish data come from the Encuesta Financiera de las Familias (EFF). In Spain, Millennials are defined as young people aged 22 to 33 in the EFF from 2014 (born between 1981 and 1992) and Generation X are people in the same age range (22-33) in the EFF from 2002 (born between 1969 and 1980). For details on the US data, see Dettling, L. and Hsu, J. (2014), «The State of Young Adults' Balance Sheets: Evidence from the Survey of Consumer Finances». Federal Reserve Bank of St. Louis Review, Fourth Quarter 2014, 96(4).
2. Net worth is the variable that most accurately reflects the financial situation of households. It is calculated as the difference between a household's assets (financial and real state) and liabilities or debt. The median is the most representative value as half the households are in a better (or worse) situation with respect to this value. The age ranges allow us to compare different generations, adjusted for the life cycle.

achieved by their predecessors, around EUR 54,500 compared with EUR 103,000 for Generation X (see the enclosed table). The decision to buy a home and the trend in its price therefore have important consequences for wealth accumulation throughout one's life.

As we have already noted, the second factor behind Millennials' lower net worth is their high non-mortgage debt; i.e. borrowing not related to buying a home. In the US this debt is mainly incurred to fund university studies. Between 1997 and 2017, the number of students with this kind of debt has multiplied, going from half to two-thirds of all students. The average size of loans has also doubled, currently amounts to USD 27,000. The non-mortgage debt of Spanish Millennials is also higher than that of the preceding generation. 33% of those who do not own their own home have some kind of debt, mostly consumer credit. The financial burden of this debt (repayments) represents 21% of the household income, much higher than the 13% for comparable Generation X households, while 33% of Millennial households suffer from financial stress.[3]

Spain: financial situation of Millennials compared with Generation X

(% of households, unless otherwise indicated)

		Total	Do not own home	Own home
Median net worth * (2014 euros)	Gen. X (2002)	63,408	1,321	103,164
	Millennials (2014)	3,000	380	54,500
Assets				
Home ownership	Gen. X (2002)	65.5	0.0	100.0
	Millennials (2014)	43.9	0.0	100.0
Stocks	Gen. X (2002)	8.8	6.7	9.9
	Millennials (2014)	4.0	1.6	7.2
Mutual funds	Gen. X (2002)	5.3	2.0	7.1
	Millennials (2014)	2.7	1.9	3.6
Pension funds	Gen. X (2002)	16.9	11.2	19.8
	Millennials (2014)	10.6	4.7	18.1
Liabilities				
Some kind of debt	Gen. X (2002)	63.2	23.0	84.4
	Millennials (2014)	55.9	33.3	84.8
Mortgage debt	Gen. X (2002)	44.9	0.0	68.5
	Millennials (2014)	34.5	0.0	78.6
Financial stress				
Median financial burden** of households with debt (% of income)	Gen. X (2002)	17.6	12.9	18.2
	Millennials (2014)	21.5	21.1	23.9
Financial stress (financial burden >40%) of households with debt	Gen. X (2002)	9.9	15.5	9.0
	Millennials (2014)	23.2	32.7	18.4
Negative net worth	Gen. X (2002)	4.7	12.5	0.6
	Millennials (2014)	23.5	25.6	20.7

Notes: *Millennials are young people aged 22 to 33 in the EFF for 2014 and Generation X are people in the same age range (22-33) in the EFF for 2002. * Net worth is financial assets and property minus liabilities (debts). ** Financial burden is repayments for pending debts out of the income of households with some kind of pending debt.*
Source: *CaixaBank Research, based on data from the Encuesta Financiera de las Familias (2002 and 2014).*

This unfavourable financial situation of Millennials places them in a worse starting position to take on future challenges, the most relevant being managing their retirement income. There has been a radical change in the US in how employers manage their employees' pension plans. There used to be a defined benefit system which guaranteed a certain amount on retirement. Now, however, there is a contribution-based system in which both the employer and the employee make contributions into a private pension plan. Consequently, the responsibility of deciding how much to save for retirement and managing the pension plan now falls on the individual. In European countries, including Spain, the ageing population has led to reforms of public pension systems, which are now less generous. Millennials must therefore start to save for their retirement sooner rather than later, even though their level of income does not make this easy. In fact, the data show that there is still a lot to be done. Although young people appear to be participating more in pension plans, contributions have fallen due to the Great Recession. In Spain, only 10.6% of Millennials have a pension plan although the vast majority (70%) believe that the public pension will not be enough to live off.[4]

To sum up, the financial situation of Millennials is not very promising and it is vital they take the right financial decisions in the future. Unfortunately, although this is a generation with a lot of human capital, their financial education is not entirely satisfactory. According to findings by the S&P Global FinLit Survey[5] which assesses young people's financial knowledge, 57% of Americans pass the survey while only 52% of Europeans manage to do so. This figure falls to 49% in Spain. On a positive note, an increase has been observed (in comparison with the previous generation) in the number of young people resorting to experts or more experienced relatives, or using digital tools for advise. So Millennials have numerous resources at their disposal to help them take the best financial decisions. Only the future will tell if they are able catch up financially with their previous generations.

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3. Financial stress refers to households whose debt burden is more than 40% of the household's income.
4. See Barómetro de VidaCaixa (2016), «Desmitificando a la nueva generación de jóvenes de España».
5. See Klapper, L., Lusardi, A. and Van Oudheusden, P. (2015), «Financial Literacy Around the World», Standard & Poor's Ratings Services Global Financial Literacy Survey.

Millennials and politics: mind the gap!

Dear reader, without wishing to appear rude, may we ask how old you are? No, do not answer just yet. Rather, tell us if you believe the following statements describe your beliefs more than those of society as a whole. You would not say you are a religious person, you would be very willing to donate money to help the environment, marriage is an outdated institution, you approve of «single mothers» and strongly oppose the idea that men make better political leaders than women. If you are rather more in agreement with these statements than society at large, then it is likely you were born between 1981 and 1996. In other words, you belong to the Millennium generation. But we can go into even more detail. Let us now do the same with the following statements: you have no interest in politics, you have never signed a petition in favour of a cause and you have no confidence whatsoever in political parties. If you firmly agree with these statements, and more so than the population as a whole, then there is a big chance you are a Millennial. Numerous opinion polls and sociological surveys have repeatedly come to the same conclusion; namely that Millennials are not interested in politics, even compared with a society that, as a whole, is also paying less attention to political issues.[1]

Differences between Millennials and Generation X: values and politics

(pp of Millennials who... more than Generation X)

Note: *We have used the formula* $V = (V_M^{2010} - V_S^{2010}) - (V_X^{1995} - V_S^{1995})$, *where V is the variable in question (see the chart) and M, X and S indicate whether the answer is from Millennials, Generation X or Society in general, respectively. Orange indicates the variables for the relationship with the political system and blue for social values in general.*
Source: *CaixaBank Research, based on data from the World Values Survey, using the sample available of OECD countries.*

Could it be that the only truly generation-specific feature of Millennials is their disaffection with politics, this being understood in the classic sense of parties competing within a democracy that consists of voting when elections are held? Let us not come to any hasty conclusions. The fact that someone born between 1981 and 1996 does not seem to be very interested in politics may not have anything to do with being born at a specific time and, consequently, under certain socio-economic and cultural circumstances. It might simply be that they are young and, oh sacrilege, their parents were also non-conformist at the same age and believed the system only reflected some of their beliefs. It is therefore obvious that this question, namely how different the generations are, cannot be answered by comparing contemporary opinion. We have to look at standardised ages. For example, comparing what today's Millennials think, people aged from 22 to 37, with their equivalent from previous generations. In other words, what Generation X thought around 1995 and the Baby Boomers around 1980. But this is still not enough. We must also remember that society has changed as well. Being against politics in an apolitical society is not the same as being against politics in a society where this represents an extreme position and not participating is seen as disruptive.[2]

We therefore need to look at what the figures say and whether Millennials really are so different. In those areas where three generations can be compared (Millennials, Generation X and Baby Boomers), and concerning values related to fundamental aspects of society, the main conclusion is that, although there are differences between the first two generations, these are not so great. Both groups have a relatively similar view of religion, the role of women and the environment, as well as a similar tolerance of immigrants and willinguess to fight for their country. On the other hand, there is a much more appreciable difference between Millennials and Baby Boomers. Although less information is available, it can be assumed that Baby Boomers, compared with Millennials, would tend towards values associated with more conservative views of society, with greater confidence in marriage, more religious and believing that women should take on more traditional roles.

1. See, for example, Pew Research Center (2018), «The Generation Gap in American Politics» and https://www.millennialdialogue.com/
2. Formally, the exercise carried out here is $V = (V_M^{2010} - V_S^{2010}) - (V_X^{1995} - V_S^{1995})$, where *V* is the variable in question (see the chart) and *M, X* and *S* indicate whether the answer is from Millennials, Generation X or Society in general, respectively. 2010 and 1995 are such that the age range is comparable between Millennials and Generation X. Data from the World Values Survey and European Values Study.

In short, Millennials are not so different in terms of how they see essential aspects of society compared with members of Generation X. But what happens when we analyse their relationship with the political system? We have already mentioned their detachment from all political issues in contemporary surveys. This is still the case when we compare Millennials with their age equivalents in preceding eras and with the society of that time (as we have already said, the aim is to eliminate any bias, albeit simply, that comes from being young and changes in society as a whole). Millennials are considerably less interested in politics than those from Generation X and this discrepancy is even greater when we look at how they participate. Millennials have less confidence in political parties than Generation X, as well as in the use of petitions and participation in demonstrations. The gap widens even further with Baby Boomers, who were more interested in politics and used the alternative means proposed to a greater extent (they were not asked about their confidence in political parties, in itself indicative of the assumptions of the age).

So Millennials', shall we say, awkward relationship with politics is a characteristic feature of their generation. A conclusion that is important to remember. But let us delve a little deeper. One of the key elements of the issue analysed by this article, namely the relationship between Millennials' social values and their political attitude, is what this generation's values are like in conventional ideological terms; i.e. how they are positioned on the left-right spectrum. When Millennials are asked where they would place themselves on a scale ranging from 1 (far left) to 10 (far right), the dominant positions are central with a slight slant towards the left. Although today's society in general (always using advanced countries as a whole as our benchmark) is also centre-left, Millennials lean somewhat more to the left than their fellow citizens. But the aforementioned logical criticism for values is also relevant here. What if «being left-wing» (or a little more left-leaning) is part and parcel with being young, and afterwards we tend to become more conservative?

To improve our analysis, we have once again compared previous generations when they were the same age as Millennials today and with the society of that time. The main conclusion is that Generation X was slightly more left and quite a lot more centre (and therefore much less right) but it was much less left-leaning than the Baby Boomers. Regarding this point, namely the continuation of ideologies, one last pertinent question is related to what we might call «extremism». Are Millennials more «extremist» than preceding generations? In order to answer this question, we will compare the «populous» at the extreme positions of the scale of ideological beliefs. When we compare Millennials with Generation X, we can see that the former are indeed more «extremist» than the latter. The figures also suggest that neither of the two positions («1» corresponding to the far left and «10» to the far right) are different. In other words, they are more extreme than the preceding generation but this extremism is almost to the same degree on both the left and the right. In any case, and to avoid reading too much into this «extremism», we should remember that Millennials on the far left or far right are, as happens in all generations for which data are available, a minority (in the order of 10% for Millennials, adding both extremes together).

To conclude our tour of the Millennium generation and their attitude towards politics, we should now look to the future. Given their evident disaffection with the traditional political system, how might politics develop in western countries with traditional democracies? This article does not have the space, or the intention, to answer this question in any depth. However, we might conclude that two major types of change are possible. The first would be that the system gradually evolves, incrementally as it were, so that, as Millennials become more important in electorate terms, traditional parties (or other new parties that appeal to Millennials) may evolve, reducing the distance between political preferences and actual politics. The second may take the form of new ways to participate in a democracy, or the reinvention of how the party system works (and parties themselves). Which situation will prevail, or whether there will be a combination of incremental and radical changes, will depend on many different factors but it is useful to remember one fundamental fact: Millennials, as a generation, will not be the predominant cohort in the electorate, not in the immediate future or in the next few decades. However, insofar as they can establish, de facto, shared agendas with previous and subsequent generations, the «Millennisation» of politics will be an unavoidable reality. These new agendas may be a combined version of the preferences of Millennials with Generation X which, as we have seen, are not so different in many aspects. Or they may be combined with those of the next generation, so young that there is still no agreed name for them, although the term Z has been suggested. Based on the little we know about «Generation Z», they may indeed be different. In any event, notably different social scenarios may come about. And as is almost always the case with important issues, the solution will be intergenerational — or it will not be.

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Loans and advances to customers, gross	223,951
Profit attributable to Group, YTD	1,684
Market capitalisation	23,248
Customers in Spain (millions)	13.8
Employees	36,972
Branches	5,379
Retail branches in Spain	4,681
Number of ATMs in Spain	9,427

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Raising awareness of culture and knowledge	121.4
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