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ECONOMIC & FINANCIAL ENVIRONMENT

FINANCIAL MARKETS

Yield curve control: a new tool for the Fed?

INTERNATIONAL ECONOMY

The fiscal response to COVID-19 in Europe: will it be enough?

PORTUGUESE ECONOMY

The Portuguese labour market in times of the pandemic

DOSSIER: TELEWORKING, A LEGACY OF THE PANDEMIC: CHALLENGES AND OPPORTUNITIES

The office of the future: a return to the past?

Teleworking and productivity: a complex binomial

How does teleworking affect society and our way of life?

How will teleworking change urban mobility and residential decisions?

**MONTHLY REPORT -
ECONOMIC AND FINANCIAL
MARKET OUTLOOK**
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The case of Messi: lessons in economics and management

I wanted to write this article in a few years' time, with Messi leaving Barça on good terms to go to Newell's, the team where he has always said he would like to play the last few years of his career. But, in view of the recent developments, I have decided not to wait. It is not my intention to thank him for the moments of happiness that he has given us Barça fans and many other football fans alike, because I would lack words. Nor am I writing to ask him to stay. Rather, I would like to highlight some lessons in economics and management that can be drawn from his story and from the point we have reached.

The first lesson is that Messi reminds us of the importance of everyone having the opportunity to develop their talent and passion. Messi had such an opportunity despite his humble origins and a hormonal problem that stunted his growth. No doubt he was lucky that this problem arose when he had already caught the attention of a club capable of financing that treatment. A few years earlier, he would not have found anyone willing to do so and perhaps he may not even have become a professional footballer. He also had the fortune that his passion was football, a sport that does not require large investments in order to play. Indeed, it is no surprise that many of the world's best footballers come from humble origins.

What we should ask ourselves is how many Messi-calibre physicists, doctors, engineers and mathematicians we are missing out on because many children do not have sufficient opportunities to discover their passion and reveal their talent. This happens in developed countries, but even more so in developing ones. I suspect that a monumental amount of talent is being wasted: there are many more Golden Ball winners with humble origins than Nobel Prize winners.

Messi also illustrates the importance of perseverance and the values that underpin a strong work ethic. Part of his success can likely be explained by innate physical conditions that are well-suited to playing football, but no doubt they are not so different from those of hundreds of thousands of people across the globe. The most important difference lies in the work that the player has put in and the sacrifices made over many years. His perseverance, discipline, ambition to better himself and competitive drive is what made the difference. It seems that Messi was not a great free-kick taker, but he practised to improve his technique and went on to become one of the best in the world. He is a player who cannot stand losing or feeling that his team has not put up a fight. All of this has led him to be one of the best football players ever... and no doubt also to the point of wanting to leave a club where he feels he can no longer give his best and win. Messi reminds us how essential it is to instil so-called soft skills from childhood, both in school and in the family. Clearly, someone did a great job with him.

Finally, his career and the present juncture underscore the importance of the team. Messi alone has not been able to win systematically. As Michael Jordan once said: «Talent wins games, but teamwork and intelligence wins championships». To win championships, a star must be surrounded by a great team and a good coach, someone who prepares the players tactically, physically and mentally. Meticulous planning at the club level is also necessary, because teams need to be renewed in order to maintain excellence and a sufficient competitive grip –a complex task as it is difficult to push for changes in a winning team. The same is true in the business world: when a great company stops innovating because it resists cannibalising itself, it might as well start writing the epitaph of its brilliant trajectory.

Who would have said that, in addition to football, Messi would teach us lessons in economics and management? Thank you, Leo, for everything.

Enric Fernández
Chief economist
31 August 2020

Chronology

JULY 2020

- 21** The European Council approves a 750-billion-euro recovery plan to combat the COVID-19 crisis (360 billion in loans and 390 billion in transfers), to be financed with debt issued by the EU.

MAY 2020

- 5** The German Constitutional Court rules that the PSPP (the Public Sector Purchase Programme that the ECB has been implementing since 2015) does not take due account of the principle of proportionality and calls for an analysis of its costs and benefits within three months.
- 27** The European Commission proposes a recovery plan which includes a 750 billion-euro fund financed by issues of debt by the Commission itself and in which 500 billion euros would be distributed among EU countries in the form of (non-refundable) transfers.

AUGUST 2020

- 27** The Fed updates the strategic framework for monetary policy and announces that it will pursue an average inflation rate of 2%, temporarily tolerating higher inflation following periods with inflation below 2%.

JUNE 2020

- 4** The ECB expands the envelope for the pandemic emergency purchase programme (PEPP) by 600 billion euros (to 1.35 trillion), extends its duration until mid-2021 and announces a programme of reinvestments for the PEPP until the end of 2022.
- 21** The Government of Spain ends the state of alarm.

APRIL 2020

- 9** The Eurogroup agrees on a 540 billion-euro rescue package in the form of loans to help combat the COVID-19 crisis.
- 12** OPEC and its allies reach a new agreement on crude oil production cuts until early 2022.
- 30** The ECB reinforces the abundance of liquidity with improvements in the TLTRO-III and the launch of additional injections to combat the pandemic (PELTRO).

Agenda

SEPTEMBER 2020

- 2** Spain: registration with Social Security and registered unemployment (August).
- 10** Governing Council of the European Central Bank meeting.
- 11** Portugal: S&P rating.
- 15-16** Federal Open Market Committee meeting.
- 17** Spain: quarterly labour cost survey (Q2).
- 18** Spain: Moody's and S&P ratings.
- 21** Portugal: credit portfolio (July).
- 22** Spain: loans, deposits and NPL ratio (July and Q2).
Portugal: home prices (Q2).
- 23** Spain: balance of payments and NIIP (Q2).
Portugal: state budget execution (Q2).
- 29** Spain: CPI flash estimate (September).
Portugal: business and consumer confidence indicator (September).
- 30** Spain: GDP breakdown (Q2).
Spain: household savings rate (Q2).

OCTOBER 2020

- 1** Portugal: NPL ratio (Q2).
- 2** Spain: registration with Social Security and registered unemployment (September).
- 8** Portugal: industry turnover (August).
- 12** Portugal: services turnover (August).
- 15** Spain: financial accounts (Q2).
- 15-16** European Council meeting.
- 20** Portugal: credit portfolio (August).
- 22** Spain: loans, deposits and NPL ratio (August).
- 23** Portugal: coincident economic activity indicators (September).
- 27** Spain: labour force survey (Q3).
- 29** Spain: CPI flash estimate (October).
Governing Council of the European Central Bank meeting.
US: GDP (Q3).
- 30** Spain: GDP flash estimate (Q3).
Euro area: GDP (Q3).

Recalibrating the outlook: cautious optimism

The unexpected COVID-19 outbreak placed us suddenly in unknown territory. Without recent historical references to help us understand the new context, the information published in recent weeks has come as a godsend for us economic analysts. While there are still many unknowns, the data released provide us with a more solid foundation upon which to lay out the economic scenario we are dealing with, as well as the characteristics of the recovery that we are beginning to glimpse. Broadly speaking, there are three key dimensions of the macroeconomic picture that we are now in a better position to gauge and which, when viewed together, invite cautious optimism.

Firstly, we have found that the sensitivity of economic activity to the measures adopted to combat the COVID-19 epidemic is very high. During the month of April, when mobility restrictions were stricter, the economic collapse reached unprecedented levels. This was initially suggested by less conventional indicators that seek to estimate the evolution of the economy in real time, and the publication of official statistics have since corroborated this hypothesis more accurately. For example, the decline in GDP for Q2 as a whole stood at around 10% quarter-on-quarter in economies where the lockdown measures were less severe, such as the US and Germany, while it exceeded 15% in those where they were stricter, such as in the case of the Spanish economy where GDP fell by 18.5% quarter-on-quarter.

But it is important to emphasise that economic activity is also proving to be highly sensitive to the lifting of social distancing measures and the recovery in mobility. In fact, the highest-frequency indicators now paint a picture of a notable rebound in economic activity and suggest that about half of the activity lost during the first half of the year could be recovered in Q3. In the case of the Spanish economy, for instance, GDP growth could reach around 12% in Q3. All this highlights the care that must be taken when choosing how strict the measures imposed to deal with the pandemic should be.

Secondly, we are now much more aware of the effectiveness of the various measures implemented to combat the pandemic. In the sphere of health, we know that by imposing strict lockdown measures, if necessary, we will once again be able to curb the spread of the pandemic relatively quickly. We also know that, when an outbreak occurs, if mass tests are carried out and rapid action is taken, local measures can be sufficient to curb the spread. The increase in social interactions that the end of the holiday season and the return to school will bring will once again put us to the test. However, it seems likely

that over the coming months the rapid scientific advances that are taking place will allow us to perform mass tests more often, perhaps even at home. This would certainly be great news, as it would further reduce the likelihood of having to impose a strict lockdown like that of the spring. The speed at which research into obtaining effective COVID-19 vaccines is progressing is also very encouraging.

In addition, the measures adopted in the economic sphere give us further reason to be cautiously optimistic. On the one hand, the rapid and decisive action of the major central banks has managed to maintain stable and accommodative financial conditions in an extremely demanding context. On the other hand, among the many other economic policy measures adopted, the temporary workforce reduction programmes that have been widely implemented in most developed countries have proved rather successful. They made it easier for many firms to reduce their workforce during the weeks of less activity, as well as helping to preserve labour relations between firms and workers. Proof of this is the fact that, with the rebound in economic activity that is currently taking place, people who were furloughed are quickly resuming their job positions. In Spain, between April and August, the number of people temporarily out of work under the country's ERTE scheme has decreased by 2.6 million.

Finally, the third dimension of the macroeconomic scenario worth highlighting is the fact that the pandemic is having a highly heterogeneous impact, both between sectors and among the various groups of society. In this regard, here at CaixaBank Research we have launched a globally-pioneering project, in collaboration with researchers from Pompeu Fabra University and the Institute of Political Economy and Governance, to monitor the impact of the crisis on wage inequality in Spain in real time. The initial results – [which can be found on our website](#) – indicate that the rise in inequality would have been profound if it had not been for the activation of the mechanisms that define our welfare state. Nevertheless, there remain certain vulnerable groups to whom it is imperative that we provide effective protection. We can be cautiously optimistic and confident that the recovery will gather strength over the coming months. However, in order to take full advantage of the potential of our society and our economy, it will be necessary to continue to support those sectors and groups that the crisis is hitting the hardest.

Oriol Aspachs
Head of Research

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

Financial markets

	Average 2000-2007	Average 2008-2017	2018	2019	2020	2021	2022
INTEREST RATES							
Dollar							
Fed funds (upper limit)	3.43	0.55	2.50	1.75	0.25	0.25	0.25
3-month Libor	3.62	0.75	2.79	1.91	0.40	0.40	0.45
12-month Libor	3.86	1.26	3.08	1.97	0.80	0.90	1.20
2-year government bonds	3.70	0.80	2.68	1.63	0.40	0.50	0.80
10-year government bonds	4.70	2.58	2.83	1.86	0.95	1.10	1.40
Euro							
ECB depo	2.05	0.32	-0.40	-0.50	-0.50	-0.50	-0.50
ECB refi	3.05	0.90	0.00	0.00	0.00	0.00	0.00
Eonia	3.12	0.55	-0.36	-0.46	-0.45	-0.45	-0.45
1-month Euribor	3.18	0.67	-0.37	-0.45	-0.43	-0.43	-0.42
3-month Euribor	3.24	0.85	-0.31	-0.40	-0.40	-0.40	-0.38
6-month Euribor	3.29	1.00	-0.24	-0.34	-0.33	-0.33	-0.31
12-month Euribor	3.40	1.19	-0.13	-0.26	-0.25	-0.25	-0.23
Germany							
2-year government bonds	3.41	0.55	-0.60	-0.63	-0.60	-0.50	-0.45
10-year government bonds	4.30	1.82	0.25	-0.27	-0.30	-0.15	0.00
Spain							
3-year government bonds	3.62	2.06	-0.02	-0.36	0.09	0.21	0.26
5-year government bonds	3.91	2.59	0.36	-0.09	0.28	0.37	0.43
10-year government bonds	4.42	3.60	1.42	0.44	0.70	0.65	0.70
Risk premium	11	178	117	71	100	80	70
Portugal							
3-year government bonds	3.68	4.02	-0.18	-0.34	0.22	0.32	0.38
5-year government bonds	3.96	4.67	0.47	-0.12	0.48	0.53	0.58
10-year government bonds	4.49	5.35	1.72	0.40	0.75	0.75	0.80
Risk premium	19	353	147	67	105	90	80
EXCHANGE RATES							
EUR/USD (dollars per euro)	1.13	1.29	1.14	1.11	1.18	1.20	1.22
EUR/JPY (yen per euro)	129.50	126.40	127.89	121.40	126.47	128.40	130.54
USD/JPY (yen per dollar)	115.34	98.97	112.38	109.25	107.18	107.00	107.00
EUR/GBP (pounds per euro)	0.66	0.83	0.90	0.85	0.91	0.91	0.90
USD/GBP (pounds per dollar)	0.59	0.64	0.79	0.76	0.77	0.76	0.74
OIL PRICE							
Brent (\$/barrel)	42.3	82.5	57.7	65.2	42.0	55.0	60.0
Brent (euros/barrel)	36.4	63.2	50.7	58.6	35.6	45.8	49.2

Forecasts

Percentage change versus the same period of the previous year, unless otherwise indicated

International economy

	Average 2000-2007	Average 2008-2017	2018	2019	2020	2021	2022
GDP GROWTH							
Global	4.5	3.4	3.6	2.9	-4.2	6.1	4.1
Developed countries	2.7	1.3	2.2	1.7	-7.6	6.3	3.0
United States	2.7	1.5	3.0	2.2	-6.1	5.1	3.8
Euro area	2.2	0.7	1.9	1.2	-10.4	8.4	2.2
Germany	1.6	1.3	1.6	0.6	-7.3	5.9	1.7
France	2.2	0.8	1.7	1.2	-12.9	9.6	2.7
Italy	1.5	-0.5	0.7	0.3	-14.0	10.0	1.8
Portugal	1.5	0.0	2.6	2.2	-12.0	8.2	3.5
Spain	3.7	0.3	2.4	2.0	-14.0	10.5	3.3
Japan	1.5	0.5	0.3	0.7	-6.9	3.3	1.4
United Kingdom	2.9	1.1	1.3	1.4	-12.0	8.0	2.0
Emerging and developing countries	6.5	5.1	4.5	3.7	-2.1	6.0	4.8
China	10.5	8.3	6.6	6.1	2.0	8.0	4.6
India	9.7	6.9	6.8	4.9	-4.5	5.0	7.5
Indonesia	5.5	5.6	5.2	5.0	-1.0	4.0	5.0
Brazil	3.6	1.6	1.3	1.1	-4.5	1.9	2.4
Mexico	2.4	2.1	2.2	-0.3	-8.5	2.6	2.2
Chile	5.0	3.0	4.0	1.1	-4.7	3.5	2.5
Russia	7.2	1.0	2.5	1.3	-6.3	2.5	2.2
Turkey	5.4	5.1	2.8	0.9	-5.3	3.3	3.4
Poland	4.0	3.4	5.2	4.1	-4.6	4.2	2.2
South Africa	4.4	1.8	0.8	0.2	-7.6	0.7	3.7
INFLATION							
Global	4.2	3.8	3.6	3.6	2.8	3.5	3.2
Developed countries	2.1	1.5	2.0	1.4	0.7	1.7	1.8
United States	2.8	1.7	2.4	1.8	0.7	1.9	2.4
Euro area	2.1	1.4	1.8	1.2	0.4	0.9	1.3
Germany	1.7	1.3	1.9	1.4	0.7	1.0	1.5
France	1.8	1.2	2.1	1.3	0.6	1.0	1.4
Italy	1.9	1.5	1.2	0.6	0.0	0.7	1.3
Portugal	3.0	1.2	1.0	0.3	-0.1	0.9	1.5
Spain	3.2	1.4	1.7	0.7	-0.5	1.5	1.6
Japan	-0.3	0.3	1.0	0.5	-0.1	0.5	0.5
United Kingdom	1.9	2.4	2.5	1.8	0.9	1.3	1.5
Emerging countries	6.7	5.7	4.8	5.0	4.2	4.6	4.3
China	1.7	2.5	2.1	2.9	2.4	2.6	3.4
India	4.5	8.0	3.9	3.7	2.5	3.5	4.4
Indonesia	8.4	5.5	3.3	2.8	2.0	4.4	4.4
Brazil	7.3	6.1	3.7	3.7	3.0	3.5	4.0
Mexico	5.2	4.2	4.9	3.6	2.0	2.5	3.5
Chile	3.1	3.4	2.7	2.3	2.9	3.1	3.3
Russia	14.2	8.7	2.9	4.5	2.6	3.3	4.0
Turkey	27.2	8.4	16.2	15.5	8.5	9.8	8.0
Poland	3.5	2.0	1.2	2.1	2.8	2.7	2.7
South Africa	5.3	6.1	4.6	4.1	3.9	4.2	4.4

Forecasts

Percentage change versus the same period of the previous year, unless otherwise indicated

Spanish economy

	Average 2000-2007	Average 2008-2017	2018	2019	2020	2021	2022
Macroeconomic aggregates							
Household consumption	3.6	-0.6	1.8	1.1	-12.7	8.5	3.1
Government consumption	5.0	0.9	1.9	2.3	5.2	2.4	1.1
Gross fixed capital formation	5.6	-2.9	5.3	1.8	-31.1	25.5	5.9
Capital goods	4.9	-0.6	5.7	2.6	-32.2	25.5	5.9
Construction	5.7	-5.2	6.6	0.8	-32.5	25.6	5.9
Domestic demand (vs. GDP Δ)	4.5	-0.8	2.6	1.5	-12.5	9.7	3.3
Exports of goods and services	4.7	3.1	2.2	2.6	-24.0	17.6	5.3
Imports of goods and services	7.0	-0.3	3.3	1.2	-21.2	15.6	5.0
Gross domestic product	3.7	0.3	2.4	2.0	-14.0	10.5	3.3
Other variables							
Employment	3.2	-1.0	2.5	2.3	-6.4	0.8	2.7
Unemployment rate (% of labour force)	10.5	20.5	15.3	14.1	19.3	19.5	17.7
Consumer price index	3.2	1.4	1.7	0.7	-0.5	1.5	1.6
Unit labour costs	3.0	0.1	1.2	2.3	10.3	-7.9	1.7
Current account balance (% GDP)	-5.9	-0.8	1.9	2.0	1.3	1.8	2.0
External funding capacity/needs (% GDP)	-5.2	-0.4	2.4	2.4	1.6	2.1	2.1
Fiscal balance (% GDP) ¹	0.4	-6.7	-2.5	-2.8	-13.6	-7.6	-4.8

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

■ Forecasts

Portuguese economy

	Average 2000-2007	Average 2008-2017	2018	2019	2020	2021	2022
Macroeconomic aggregates							
Household consumption	1.7	0.1	2.9	2.2	-10.6	9.2	2.8
Government consumption	2.3	-0.6	0.9	1.1	3.8	-1.6	0.4
Gross fixed capital formation	-0.3	-2.0	5.8	6.3	-25.7	9.7	11.9
Capital goods	1.2	1.2	7.5	3.6			
Construction	-1.5	-4.4	4.6	9.0			
Domestic demand (vs. GDP Δ)	1.3	-0.5	3.1	2.8	-11.2	7.5	3.7
Exports of goods and services	5.2	4.0	4.5	3.7	-33.7	51.1	10.2
Imports of goods and services	3.6	2.2	5.8	5.3	-32.4	46.0	11.0
Gross domestic product	1.5	0.0	2.6	2.2	-12.0	8.2	3.5
Other variables							
Employment	0.4	-0.6	2.3	1.0	-4.8	1.3	1.6
Unemployment rate (% of labour force)	6.1	11.8	7.0	6.5	10.0	9.1	7.7
Consumer price index	3.0	1.2	1.0	0.3	-0.1	0.9	1.5
Current account balance (% GDP)	-9.2	-3.6	0.4	-0.1	-0.5	-0.3	-0.3
External funding capacity/needs (% GDP)	-7.7	-2.2	1.4	0.9	0.8	1.0	1.0
Fiscal balance (% GDP)	-4.6	-6.1	-0.4	0.2	-11.8	-6.2	-3.7

■ Forecasts

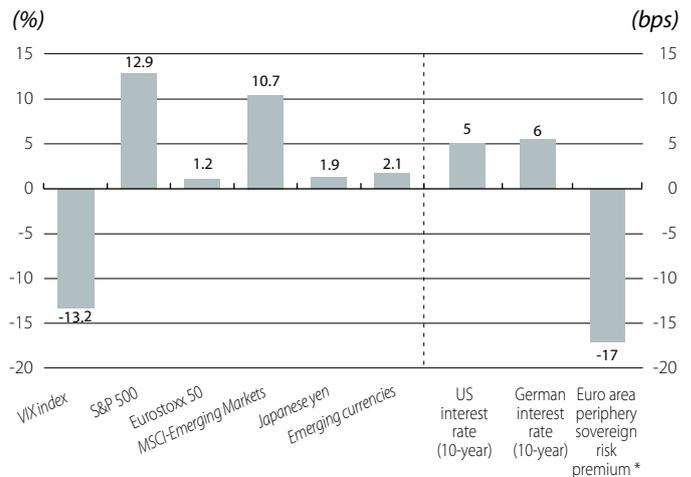
An unusually placid summer in the financial markets

The economic revival rekindles risk appetite. In a context of a revival of economic activity and support for the recovery from economic policies on the one hand, but with the emergence of new outbreaks of COVID-19 and a moderation in the improvement in mobility on the other, during the course of July and August investor sentiment was generally optimistic and led to a relatively calm summer in the financial markets. The recovery in risk appetite favoured the performance of risky assets (with widespread gains in the stock markets, a recovery in commodity prices and a reduction in both sovereign and corporate risk premiums), and it also reduced the pressure that safe-haven assets had endured with the outbreak of the pandemic (such as the US dollar, which appreciated significantly in the spring, or US and German sovereign bonds). However, in the closing days of August and with the holiday season coming to a close, investor sentiment became more cautious and susceptible to news of new cases of COVID-19, and there were several sessions of volatility and setbacks among risky assets.

Stock markets on the rise, especially in the US, where pre-pandemic levels were recovered. Investors' optimistic tone was well reflected in the widespread recovery of the major global stock markets throughout July and August. In general, the improvement was led by sectors more sensitive to the business cycle, while, by region, significant gains were registered in China (where economic activity has rebounded significantly) and the US (favoured by the stock prices of technology and e-commerce companies). In both countries, the trading floors closed August having comfortably exceeded pre-pandemic levels and registering new highs for the year. By contrast, while stock market gains were also registered in Europe as a whole, at the end of August they showed more disparity and still amassed significant losses compared to the end of 2019. At one extreme, the decline of the Spanish Ibex 35 index since the beginning of the year was close to -30%, while at the other, the German DAX ended August just 2% below its 2019 close. In the middle of the spectrum, losses still accumulated in Italy, France and Portugal at the end of August stood at around -15%. Similarly, emerging markets experienced a general upward trend, but performed much better in Asia (MSCI index +12.5% since the end of June and +7.2% in the year to date) than in Latin America (+3.7% and -33.7%, respectively). Among the more fragile emerging markets, meanwhile, Turkish stock prices performed particularly poorly (Istanbul stock market -7.4% in July-August as a whole).

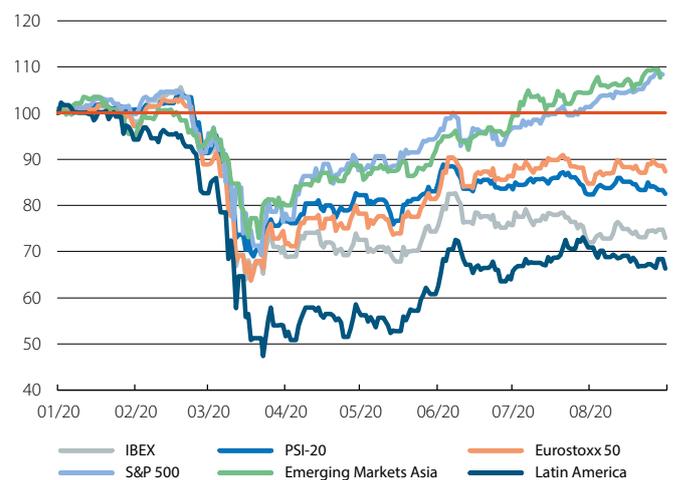
Currencies recover against the dollar. With the notable exception of the Turkish lira (which depreciated by around 7% compared to the end of June), the overall tone of the currency markets was positive and the improvement in sentiment led to a recovery of most currencies against the US dollar. This advance was widespread among emerging-economy currencies, albeit relatively moderate, while advanced-economy currencies registered a sharp appreciation (euro +6%, pound sterling +8% and Japanese yen +2%). In fact, while these advanced currencies were at annual highs, at the

Select financial variables: change between 30 June and 31 August 2020



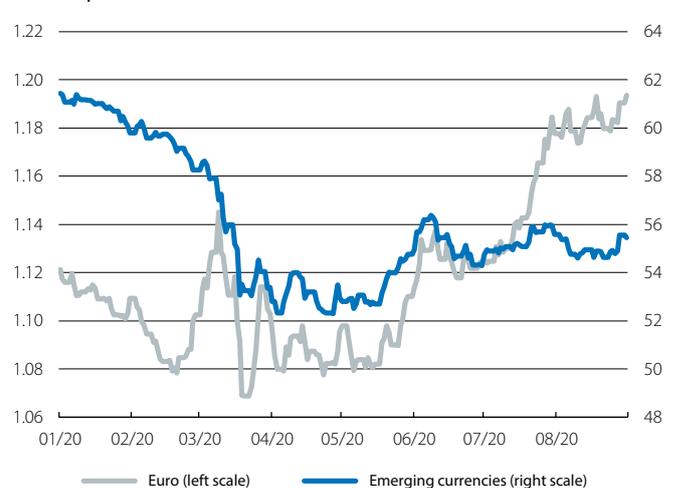
Note: * Weighted average for Spain, Italy and Portugal.
Source: CaixaBank Research, based on data from Bloomberg.

Major international stock markets Index (100 = January 2020)



Source: CaixaBank Research, based on data from Bloomberg.

International currencies against the US dollar (Dollars per euro)



Source: CaixaBank Research, based on data from Bloomberg.

end of August emerging currencies were still well below their rates of the beginning of the year.

The improvement in sentiment boosts commodity prices.

In the same vein, the commodity markets experienced a widespread recovery in prices over the summer, both in the case of energy commodities and among agricultural products and metals. In the oil market, the barrel of Brent also benefited from the cuts by OPEC and its allies (as agreed, in order to accommodate the global economy's recovery, in August the cuts were relaxed from 9.7 million barrels a day to 7.7 million) and its price rose to around 45 dollars. Furthermore, in combination with the revival in demand, accumulated oil inventories have begun to decline. Nevertheless, they still remain high (for instance, in the US they remain 15% above the average for the last five years) and should serve to cushion any potential spikes in demand and thus mitigate their impact on prices.

Interest rates remain anchored at low levels. The improvement in risk appetite led to a certain recovery in the yields of «safer» sovereign debt, such as that of the US and Germany, and the yield curves became somewhat steeper. In any case, interest rates remain well below their levels of the beginning of the year (US and German 10-year yields closed August 122 and 21 bps below their 2019 year-end levels, respectively). Furthermore, euro area risk premiums continued to narrow and approached their low point for the year to date (in spring they had surged by more than 90 and 110 bps in Spain and Portugal, respectively, and by around 150 bps in Italy).

Monetary policy locks in accommodative financial conditions.

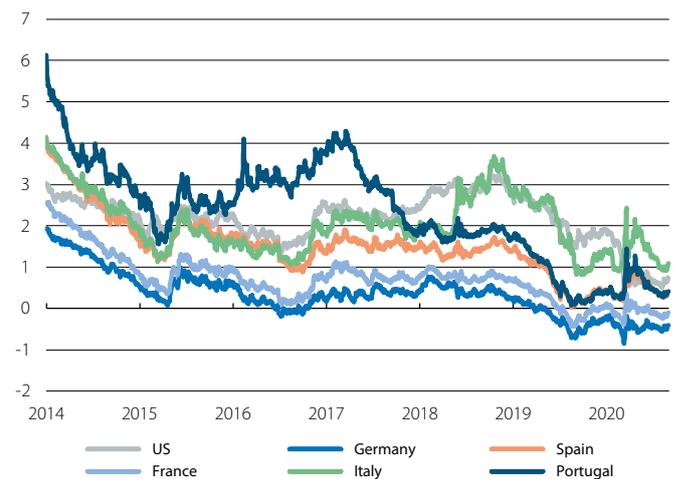
The expectations implicit in the low market interest rates point towards a long period of dovish monetary policy (at the end of August, implicit rates did not price in any rate movements from the Fed before 2023 or any from the ECB before 2024). Indeed, after stabilising the financial environment, at their July meetings the major central banks did not change their monetary policy, but rather reiterated that it must be very accommodative in order to support the economic recovery. Thus, while no significant announcements are expected at their September meetings given the scale of the measures already implemented, both the Fed and the ECB reminded the markets that they are prepared to redouble their efforts if the economy should need it. For the time being, however, the central banks have parked their role as «fire-fighters» and have set their sights on longer-term goals. A sign of this was the fact that, at the end of August, the Fed announced a recalibration of its long-term objectives and of the strategic framework that governs its monetary policy. On the one hand, the Fed will pursue an inflation rate of 2% *on average over time*, meaning that it will tolerate periods of inflation slightly above 2% if they are preceded by periods with figures slightly below 2%. On the other hand, from now on it will assess the labour market from an asymmetrical perspective: in terms of *shortfalls* from maximum employment (to date, it had done so in terms of *deviations*, which could be either down or up). It also emphasises the importance of adopting an «inclusive» approach when considering maximum employment. In the current context, all of this suggests that the Fed will keep rates low for longer than it would have done under its previous strategic framework.

Brent oil price
(Dollars per barrel)



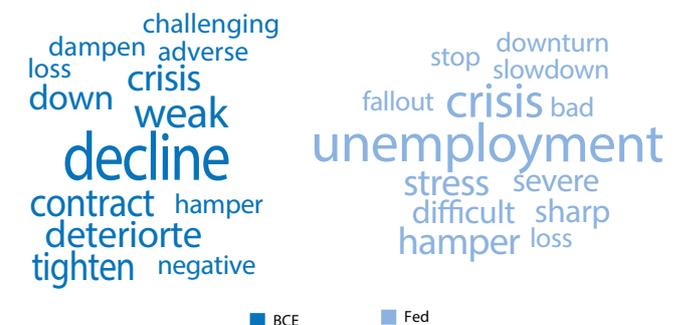
Source: CaixaBank Research, based on data from Bloomberg.

10-year yield on public debt
(%)



Source: CaixaBank Research, based on data from Bloomberg.

July meetings: main negative words from the press releases



Source: CaixaBank Research.

Yield curve control: a new tool for the Fed?

- The Fed is considering the possibility of incorporating new instruments into the central bank’s toolbox. Yield curve control (YCC) is one option being considered.
- Despite entailing significant risks, the Bank of Japan has shown that a credible central bank can use YCC as an efficient tool. Thus, it will be a relevant option if the US Federal Reserve decides to take further measures.

The US Federal Reserve’s response to the COVID-19 crisis has been quick and decisive, slashing the reference rate (–150 bps) and introducing a battery of measures aimed at boosting liquidity, supporting lending and anchoring a low-interest-rate environment (swap lines with other central banks, purchases of sovereign and corporate debt, and lending programmes to small and medium-sized enterprises, among others). Even so, the environment is still very demanding. If the Fed needs to boost the stimulus, it may choose to ramp up the current measures, but the option of adopting new tools has also been put on the table. In particular, the possibility of controlling the yield curve directly, especially in the medium/short-term section, has been raised. This is known as yield curve control, or YCC.¹ Is this a plausible option? How effective is it and what risks does it entail?

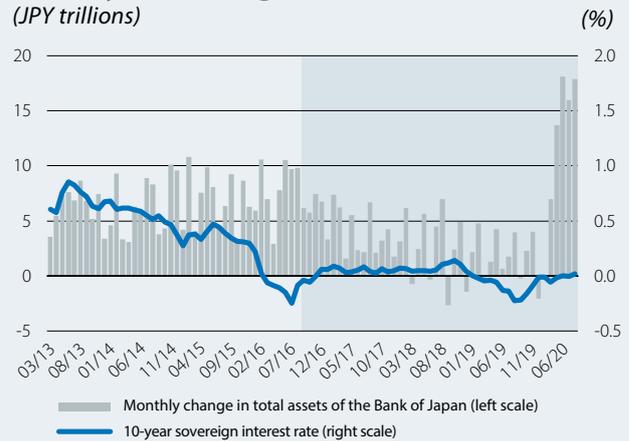
Direct yield curve control consists of setting a target interest rate for a particular maturity of the sovereign yield curve (e.g. for 3, 5 or 10-year bonds) and communicating the intention to acquire the necessary amount of that type of asset in order to maintain the interest rate at the desired level. While unconventional, this tool has already been used on some occasions. In 1942, during the Second World War, the Federal Reserve agreed with the US Treasury to temporarily set interest rates for the entire yield curve (for as long as the cost of sovereign debt was sky-high due to financing the war effort). For instance, the long-term Treasury rate was initially set at 2.5%, while the rate from seven to nine years was set at 2% and the one-year rate at 0.875%. More recently, the central banks of Japan and Australia have also implemented a sovereign yield curve control scheme. In particular, since September 2016 the Bank of Japan has kept the 10-year sovereign interest rate at 0%, while its Australian counterpart set the 3-year interest rate at 0.25% following the outbreak of the COVID-19 pandemic.

Sovereign yield curve control can be highly efficient...

On the one hand, with YCC the Fed could communicate its monetary policy more clearly and transparently and convey greater certainty to the financial markets. For example, while the current asset purchases are helping

1. An alternative option would be to implement negative rates, but the Fed has been very clear in expressing its doubts about this tool.

Japan: total assets of the central bank and 10-year sovereign rate
(JPY trillions)



Note: The shaded area indicates the period in which the Bank of Japan has been using YCC. The recent increase in the balance sheet is due to the response to the economic crisis triggered by the COVID-19 pandemic.
Source: CaixaBank Research, based on data from Bloomberg.

to anchor a low-interest-rate environment, there is uncertainty about «how low» the Fed wants these rates to be – or how long it considers it necessary to keep them low.

On the other hand, YCC has the potential to be a more efficient tool than the Fed’s current asset purchases.² In particular, if investors were convinced of the Fed’s intention and ability to set an interest rate at a given level, then the central bank could achieve its target with a less active participation in the treasuries market than at present. Take the Bank of Japan as an example. Since it announced its use of YCC, the Bank of Japan has been reasonably successful in achieving its goal of maintaining the 10-year sovereign interest rate at 0%, while the size of its balance has increased much more gradually than it did prior to the use of YCC (see first chart). Moreover, in Australia (see second chart), since the central bank announced this tool sovereign debt purchases have no longer been necessary. This apparent paradox is due to the effect of the central bank’s credibility on the markets: if investors believe that it will act decisively to meet the target that has been set, then their transactions will already be highly driven by the expectation that the price pursued by the central bank will dominate in the market, hence it will not be necessary for it to act so forcefully.

2. At present, the Fed announces the monthly rate at which it intends to make asset purchases (approximately 80 billion dollars).

However, this is a double-edged reflection. In order to dispel any doubts over the credibility of YCC, the Fed would need to be both willing and able to acquire assets without limit.³ Therefore, in times of low confidence, it could be forced to make a much greater volume of purchases than initially desired.

... but it is a risky tool

YCC raises some doubts,⁴ firstly over the independence of the central bank. In the 1940s, the Fed used it to deliberately lower the cost of treasury financing, which today could raise doubts about the central bank's independence. Secondly, the size of the Fed's balance sheet could become more volatile and the Fed could lose a certain degree of control over it. In particular, any element that raised doubts about the Fed's willingness or ability to implement YCC would force it to acquire large volumes of sovereign debt in order to keep the interest rate on target. Thirdly, the process of withdrawing this tool also raises questions. In the early 1950s, when the Fed ended the deal with the US Treasury, the withdrawal from the programme proved more difficult than initially anticipated and the US Treasury (or taxpayers, at the end of the day) absorbed much of the associated losses.⁵ Finally, in an environment in which sovereign yields are already at historically low levels (see third chart), this tool would not provide a significant additional stimulus (although it would serve as a communication tool and provide greater certainty).

All in all, this tool has its benefits and drawbacks. Its use in the US in the 1940s was somewhat turbulent, but to date the experience in Japan has been reasonably positive thanks to the central bank's credibility. Given that the Fed has no shortage of this, it could benefit from the advantages offered by YCC if implemented in the medium/short-term section of the yield curve.⁶

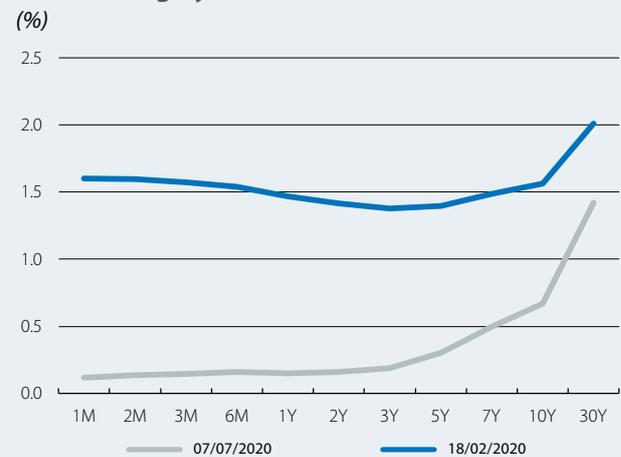
Ricard Murillo Gili

Australia: sovereign interest rates during the central bank meeting held on 19 March



Note: The central bank's statement was published at 4:30 Central European Time. Source: CaixaBank Research, based on data from Bloomberg.

US: sovereign yield curve



Source: CaixaBank Research, based on data from Bloomberg.

3. The need for there to be no pre-defined limits on purchases suggests that the ECB is unlikely to be able to opt for YCC in Europe. Indeed, in May, Germany's Constitutional Court highlighted the existence of pre-defined limits on the ECB's purchase programmes as one of the guarantees for preventing them from entailing a monetisation of sovereign debt (which is prohibited in the treaties).

4. Expressed among others in the minutes of the Fed's meeting held on 9 and 10 June 2020.

5. With the Federal Reserve's withdrawal from its role as a holder of sovereign bonds, their price fell and left the balance sheets of other holders (mainly financial institutions) compromised, forcing the treasury to act to support these institutions.

6. Several studies indicate that YCC is more effective when it focuses on short- or medium-term interest rates. The reason for this is that, in order to be credible, the interest rate set through YCC must be consistent with expectations for future reference rates. As an example, if a target of X% is set for the 3-year US sovereign interest rate, then the target X must be consistent with the expectation for the Fed funds rate over the next three years. This consistency is easier to ensure with short- and medium-term rates.

Interest rates (%)

	31-Aug.	30-June	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	-0.48	-0.42	-6	-9.4	-4.4
1-year Euribor	-0.38	-0.23	-16	-13.4	0.0
1-year government bonds (Germany)	-0.54	-0.55	0	9.1	30.3
2-year government bonds (Germany)	-0.65	-0.69	4	-5.1	27.5
10-year government bonds (Germany)	-0.40	-0.45	6	-21.2	30.3
10-year government bonds (Spain)	0.41	0.47	-6	-5.9	30.4
10-year government bonds (Portugal)	0.42	0.48	-5	-2.0	29.7
US					
Fed funds	0.25	0.25	0	-150.0	-200.0
3-month Libor	0.24	0.30	-6	-166.8	-189.7
12-month Libor	0.45	0.55	-10	-155.1	-152.9
1-year government bonds	0.11	0.15	-4	-145.4	-165.1
2-year government bonds	0.13	0.15	-2	-143.8	-137.3
10-year government bonds	0.70	0.66	5	-121.3	-79.1

Spreads corporate bonds (bps)

	31-Aug.	30-June	Monthly change (bp)	Year-to-date (bp)	Year-on-year change (bp)
Itraxx Corporate	54	67	-13	10.1	5.8
Itraxx Financials Senior	61	80	-18	9.7	-0.2
Itraxx Subordinated Financials	129	167	-38	15.5	-5.8

Exchange rates

	31-Aug.	30-June	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
EUR/USD (dollars per euro)	1.194	1.123	6.2	6.4	8.7
EUR/JPY (yen per euro)	126.410	121.240	4.3	3.8	8.2
EUR/GBP (pounds per euro)	0.893	0.906	-1.4	5.5	-1.3
USD/JPY (yen per dollar)	105.910	107.930	-1.9	-2.5	-0.3

Commodities

	31-Aug.	30-June	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
CRB Commodity Index	394.8	360.1	9.6	-1.7	2.0
Brent (\$/barrel)	45.3	41.2	10.0	-31.4	-25.1
Gold (\$/ounce)	1,967.8	1,781.0	10.5	29.7	29.4

Equity

	31-Aug.	30-June	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
S&P 500 (USA)	3,500.3	3,100.3	12.9	8.3	19.6
Eurostoxx 50 (euro area)	3,272.5	3,234.1	1.2	-12.6	-4.5
Ibex 35 (Spain)	6,969.5	7,231.4	-3.6	-27.0	-20.9
PSI 20 (Portugal)	4,301.1	4,390.3	-2.0	-17.5	-12.0
Nikkei 225 (Japan)	23,139.8	22,288.1	3.8	-2.2	11.8
MSCI Emerging	1,101.5	995.1	10.7	-1.2	11.9

A highly uncertain global recovery

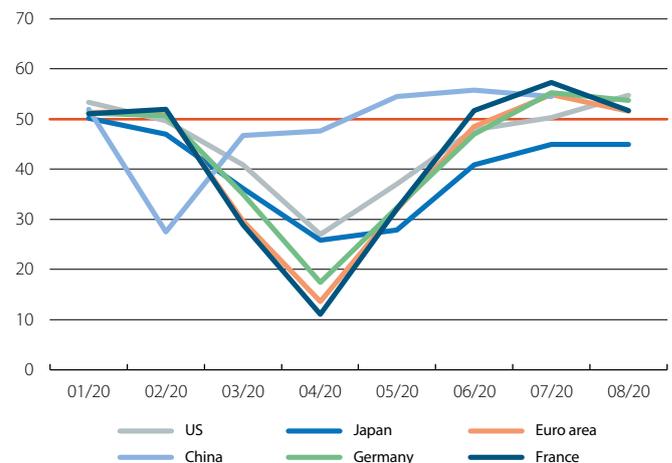
On the return from the holidays, the global economy brings both good and bad news. The good news is that, despite reflecting the intense impact of the extraordinary lockdown measures across practically the entire globe at the beginning of the quarter, the GDP data for Q2 has been somewhat better than expected. The bad news is that Q3 has got off to a rather shaky start. The health data for Q3 indicate that in the US and Latin America the pandemic remains very active, while in Europe, which seemed to be entering a phase of greater control, the outbreaks of recent weeks are a source of concern and new mobility restrictions cannot be ruled out. The economic indicators, meanwhile, suggest that the pace of the recovery has slowed somewhat during the course of the quarter. All of this fuels a very high level of global uncertainty. Despite this context, the CaixaBank Research scenario is broadly compatible with the latest developments: global GDP will fall on the order of 4% in 2020, and then, supported by stimulus measures and assuming that the impact of subsequent waves of the pandemic is lower than last spring, it should recover in 2021.

ADVANCED ECONOMIES

The US remains one of the most concerning active focal points of the pandemic. The available figures on COVID-19 infections and deaths in the US indicate two aspects: the pandemic is still very much present in the world's leading economy, but the curve appears to be flattening. In any case, both the infection and death rates and the risks of potential further outbreaks remain high. Despite this situation, the US health strategy in many states remains more lax than those being followed elsewhere, such as in Europe. In contrast, the fiscal and monetary measures introduced to support the economy have been among the most comprehensive of all advanced economies. In particular, we estimate that the direct-spending measures approved to date could exceed 1.7 trillion dollars (~9% of GDP), while the guarantees and other liquidity measures could exceed 1 trillion dollars (~6% of GDP). In addition, new aid proposals (worth a further 1 trillion dollars) are currently being drawn up in Congress. The Fed has also taken decisive action. In the first half of the year it cut interest rates by 150 bps, bringing them down to the 0.00%-0.25% range, it continues to conduct mass asset purchases (it is purchasing treasuries and MBSs at a rate of 80 billion dollars a month), and it is supporting firms and households through initiatives such as the Main Street Lending programme.

US economic activity shrinks somewhat less than that of other economies. This combination of a more lax lockdown and strong support from economic policy helps to explain why this figure is one of the least negative among advanced

Composite PMI Level

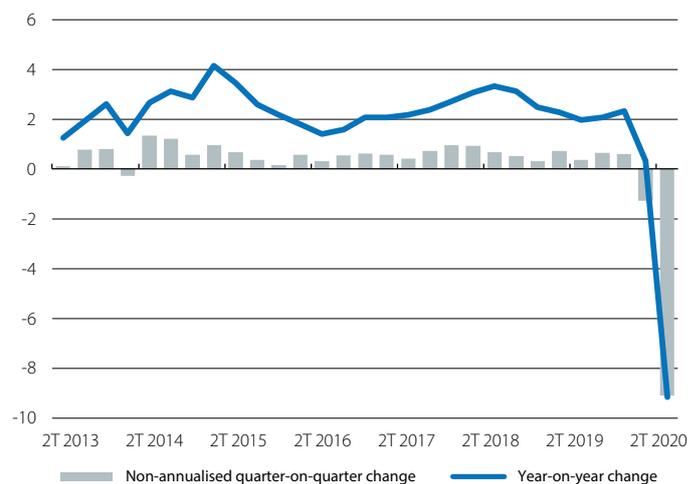


Note: Values greater than 50 indicate expansion in economic activity, while those less than 50 indicate contraction.

Source: CaixaBank Research, based on data from Markit.

US: GDP

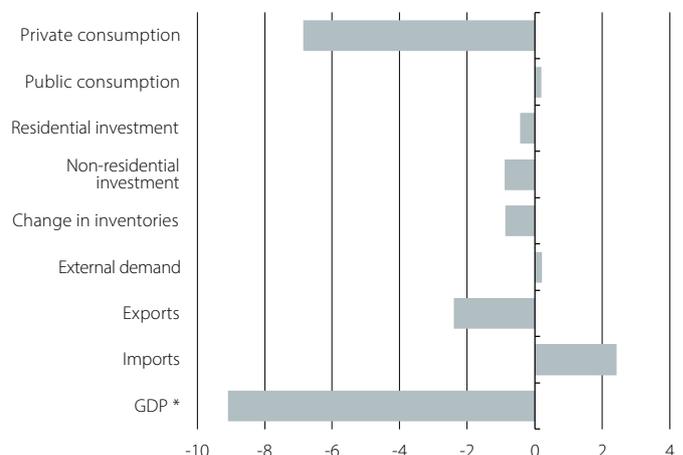
Change (%)



Source: CaixaBank Research, based on data from the Bureau of Economic Analysis.

US: components of GDP in Q2 2020

Contribution to non-annualised quarter-on-quarter growth (pps)



Note: * Non-annualised quarter-on-quarter change (%).

Source: CaixaBank Research, based on data from the Bureau of Economic Analysis.

economies, despite US GDP falling by 9.1% quarter-on-quarter in Q2 2020 (–31.7% quarter-on-quarter on an annualised basis, placing GDP –9% below its levels in the same quarter of the previous year), the biggest quarter-on-quarter decline since the Great Depression. By components of demand, the contraction was widespread, although private consumption registered a particularly sharp decline, having been heavily affected by the country’s severe restrictions on mobility. On the other hand, exports also registered a sharp contraction. That said, as was the case in the previous quarter, the large decline in imports led to a small positive contribution from the external demand. Similarly, public expenditure also made a positive contribution to GDP. However, both elements fell well short of offsetting the huge declines registered in other components. In the second half of the year, we expect to see a rebound in economic activity, although this improvement looks fragile and will be highly dependent on how the pandemic develops. For the time being, and although some figures registered a deceleration in the summer, the latest indicators appear to support this picture of improvement.

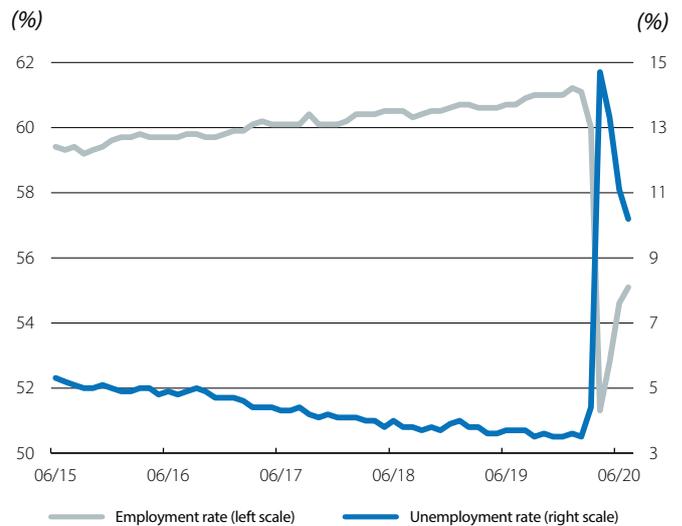
European economies plummet in Q2 2020. The EU perfectly exemplifies the aforementioned evolution at the global level. Specifically, the GDP declines in Q2 were on a scale not witnessed since the Second World War (in quarter-on-quarter terms, –12.1% for the euro area as a whole, –9.7% in Germany, –13.8% in France, –12.4% in Italy and –18.5% in Spain). Nevertheless, and despite the dismal figures, the GDP declines were somewhat smaller than expected. This marginally positive reading, however, has been overshadowed by the fact that the August PMI activity indicators clearly show that while the recovery continues, it is losing momentum as Q3 progresses.

The EU takes exceptional measures, consistent with the scale of the challenge. In this context, and with the benefit of a broader time perspective, we can see that the decisions taken by the European Council at the end of July in relation to the recovery plan (called Next Generation EU) and the new multiannual financial framework (EU budget) are of critical importance. In addition to the strong signal that it sends out about Europe’s commitment to the recovery (the ECB and Member States are no longer battling alone), we welcome the fact that the new plans maintain the same total amount as envisaged in the ambitious initial proposal (750 billion euros), as well as the requirement for certain conditions to be met and the strategy of continuing to finance the plan through the European Commission issuing bonds backed by the increase in the EU’s own resources (the EU budget).

EMERGING ECONOMIES

The pandemic highlights the differences among emerging economies. The short-term impact of the COVID-19 outbreak is being felt simultaneously across the globe, and emerging

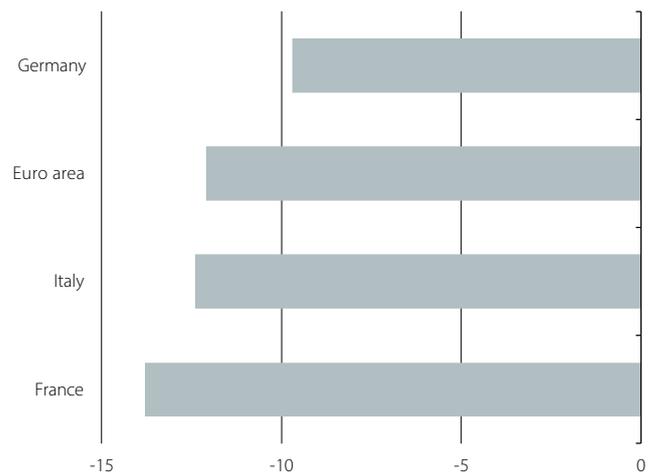
US: labour market



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

European Union: GDP of Q2 2020

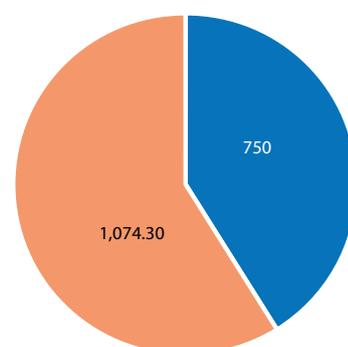
Quarter-on-quarter change (%)



Source: CaixaBank Research, based on data from Eurostat.

EU expenditure 2021-2027

(EUR billions)



■ Next Generation EU (COVID-19 recovery plan)
 ■ Multiannual financial framework (ordinary EU budget)

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

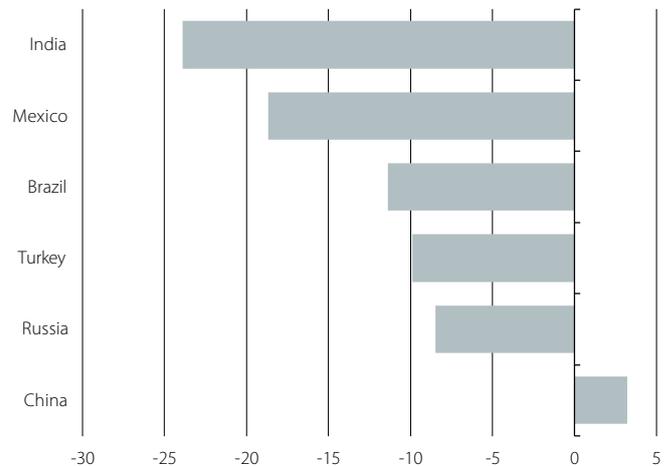
economies are no different, although discrepancies are apparent in the toll it is taking on economic activity. In general, the degree to which these countries are currently suffering depends on whether they had macro imbalances (inflation, public deficit, private debt, etc.) prior to the current shock, as well as on their degree of exposure to the focal points of the pandemic (Europe and America, at present). This, in turn, drives how strict or lax the social distancing measures and mobility restrictions are, which is the most important factor in determining the rate of decline in economic activity and its subsequent recovery.

Russia and Turkey fare better than the likes of Mexico and India. The slump in GDP in Q2, the period in which economies registered productive shutdowns, varies widely from country to country, ranging from the (relatively) less dramatic fall in GDP in Russia (-8.5% year-on-year) or Turkey (-9.9% year-on-year) to unprecedented setbacks in countries such as Mexico (-18.7% year-on-year) or India (-23.9% year on year). Other emerging countries, such as Brazil (-11.4% year-on-year), lie somewhere in the middle of the spectrum. With such a dramatic impact in Q2, the available data suggest a somewhat more dynamic recovery in early Q3 in countries such as Turkey, Brazil, Poland, Indonesia, India and Russia. However, it remains to be seen whether the new outbreaks of the virus in different locations recede and whether the recovery is consolidated, or, as has happened in other economies, loses strength as the quarter progresses. On the other hand, in the case of Turkey, it remains to be seen whether other sources of uncertainty besides the economic recovery itself, such as the credibility of monetary policy, cease to cast doubts and apply pressure on the currency.

China, an indication of what is to come? The case of China can be of interest for drawing some lessons, as it was the first country to suffer the economic consequences of the COVID-19 outbreak and it is also the first to relax the lockdown measures and return to relative normality. What does its evolution tell us? Firstly, it tells us that the initial rebound when the restrictions on activity and mobility are lifted can be quite strong. Indeed, growth in Q2 2020 was notably higher than expected, reaching 11.5% quarter-on-quarter (+3.2% year-on-year). This represents a rapid and significant rebound following the collapse in economic activity in Q1 caused by the impact of the coronavirus (-10.0% quarter-on-quarter and -6.8% year-on-year). Can this behaviour be extrapolated to other emerging economies? Only in part. The recovery in domestic demand, with a sharp recovery in «pent-up demand» in sectors such as manufacturing and real estate in the case of China, is likely to occur in other countries. In contrast, the strong support from the foreign sector, which was partially driven by exports of Chinese products related to the COVID-19 outbreak, seems more idiosyncratic. As for Q3, China's economic activity indicators suggest a slight loss of momentum in the recovery.

Emerging economies: GDP of Q2 2020

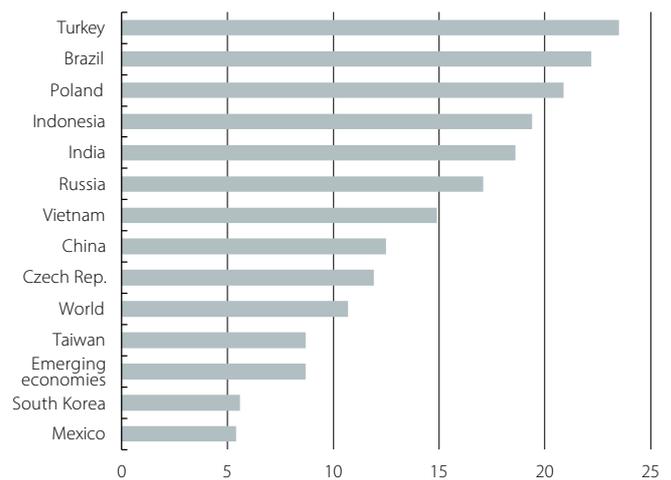
Year-on-year change (%)



Source: CaixaBank Research, based on data from national statistics institutes.

Emerging economies: manufacturing PMI

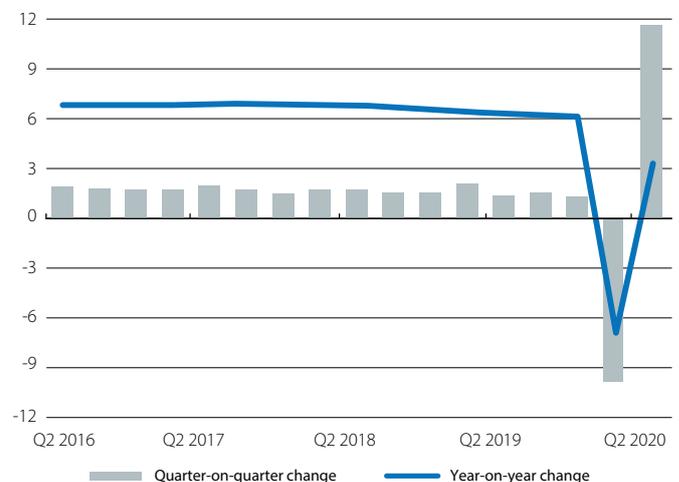
Difference between the latest available figure and the low point of the year (points)



Source: CaixaBank Research, based on data from Markit.

China: GDP

Change (%)



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

Rebound in mobility and economic activity

The strict lockdown measures led to economic contractions in Q2 that were unparalleled in modern times. However, the disparities between countries in the severity and duration of the social distancing measures imposed led to significant differences in GDP declines. For instance, in Germany or the US, where the mobility restrictions were relatively laxer (see first chart), the declines in GDP reached around 10% quarter-on-quarter (−9.7% for Germany and −9.1% for the US), while in countries that imposed stricter measures, such as Spain, the fall was substantially higher (−18.5%).

During Q3, the restrictions on mobility have generally been much less severe than in Q2, but the threat of further coronavirus outbreaks has continued to limit it. Furthermore, as was the case in Q2, the measures taken by the major advanced countries have been different, so the rebound in economic activity is likely to vary markedly as well. Specifically, the strong statistical relationship between mobility and economic activity (see second chart) allows us to obtain an initial estimate of the rebound in economic activity that is taking place in Q3.

As can be seen in the third chart, the mobility data suggest that economic activity has rebounded significantly in Q3, but in most of the countries analysed GDP remains well below the levels of late 2019¹. For instance, in Spain and Italy we are likely to witness an increase in economic activity of more than 10% quarter-on-quarter in Q3. While substantial, this is still insufficient to counter the declines registered in the first half of the year. In the US, meanwhile, the slower revival of mobility (the pandemic has not given the American economy any respite) suggests that US GDP will grow below that of Germany (approximately 3% versus 7%), despite a similar decline in Q2 in both countries.

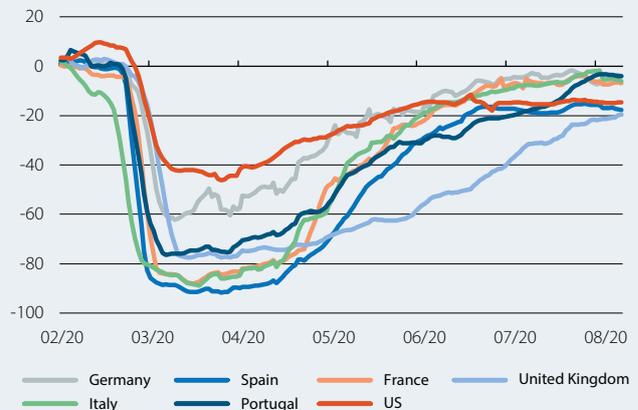
Finally, it should be mentioned that these estimates are subject to a great deal of uncertainty. The mobility indicator may not be adequately capturing the significant seasonal movements generated by tourism, for example, or the impact of teleworking.² Even so, it gives us an idea of how far off «normal» levels economic activity is in the major advanced economies.

Clàudia Canals

1. We estimate a regression of the quarterly change in GDP in Q1 and Q2 2020 of the major advanced economies (20 countries) with the quarter-on-quarter change in visits to retail and recreational areas based on data from Google (Google Mobility Report).
 2. The mobility indicator is drawn up on the basis of a baseline («normal») level which corresponds to the level of mobility recorded between 3 January and 6 February 2020. However, the typical level of mobility during the summer months in countries such as Spain, with a huge influx of international tourists, bears little resemblance to that of winter months.

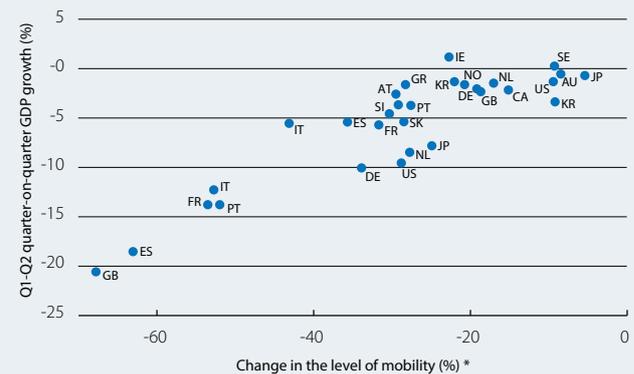
Mobility in Retail and Recreation

Change relative to the baseline level (%) *



Note: * 7-day average figures. The baseline level corresponds to the average mobility recorded on the same day of the week between 3 January and 6 February.
 Source: CaixaBank Research, based on data from Google Mobility Report.

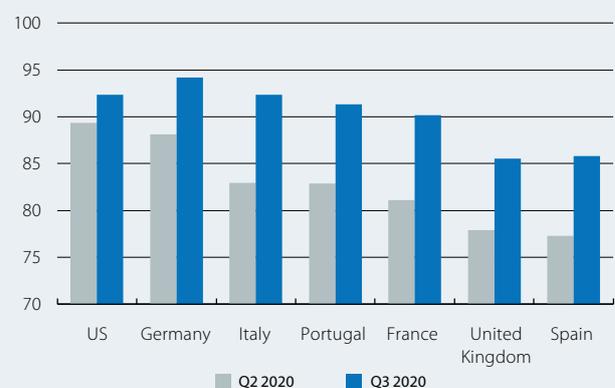
Mobility and economic activity



Note: * The change in the level of mobility is built using Google's mobility reports, which measure how visits to retail and recreational areas have changed compared to the average for the same day of the week between 3 January and 6 February (a situation they define as «normal»). We compute the final value for Q1 2020 and Q2 2020 using the average of the daily data.
 Source: CaixaBank Research, based on data from Google Mobility Report and Refinitiv.

Estimated real GDP based on mobility data for Q3 2020

Level (100 = Q4 2019)



Note: Estimates obtained from the result of the regression detailed in note 1 of the text, the observed trend in mobility in July and August and estimates for September.
 Source: CaixaBank Research, based on data from Google Mobility Report and Refinitiv.

The fiscal response to COVID-19 in Europe: will it be enough?

- European national governments have responded to this crisis by announcing a battery of fiscal measures of various different types and sizes.
- The figures announced suggest a disparate national response among the major euro area economies. Nevertheless, they are not a good measure of the fiscal stimulus in 2020.
- Based on public deficit forecasts, we estimate that the national fiscal stimuli in 2020 will be of a similar scale in Germany, Spain, France and Italy. However, there are significant differences between the automatic and discretionary contributions from fiscal policy in each country.

The COVID-19 epidemic is proving to be an unprecedented economic shock for the European economy (according to our forecasts, euro area GDP will shrink by around 10% in 2020). In this context, a rapid, robust and effective economic policy response is essential to cushion the heavy toll it is taking on many families and firms, and to support the economic recovery. The ECB has once again been the first player to move decisively and effectively, but monetary policy alone will not be enough. Fiscal policy must also play a leading role.

In this regard, the governments of the various euro area countries have announced a large number and wide variety of fiscal measures since this crisis began. We summarise these measures in the table, classifying them into those with a direct impact (such as VAT cuts or temporary staff furlough measures like Spain's ERTes), tax deferrals and guarantees for firms. This table highlights the differences in the scale and strategies of the fiscal responses between the various countries. In Italy, for instance, the direct-impact fiscal measures announced so far (3.4% of GDP) have been much smaller than those announced by Germany (8.3% of GDP), while the amount of the guarantees proposed has been considerable. In Spain, the measures in all three categories seem timid compared to the rest of the major euro area countries.

While the figures in this table receive considerable media attention, there are several reasons why they are not, in actual fact, an accurate measure of the fiscal stimulus in 2020 in each country. Firstly, not all the measures announced will have an impact this year. For example, part of the German stimulus package includes long-term green investments with a budgetary impact well beyond 2020. Also, of the large quantity of state guarantees announced in each country, only a fraction has actually been used.¹ In addition, the table only reflects discretionary measures, so it does not provide an indication of the magnitude of the automatic stabilisers

1. See Anderson, Papadia and Véron (2020). «Government-guaranteed bank lending in Europe: Beyond the headline numbers». PIIE Realtime Economic Issues Watch, July 2020.

in place in each country (such as the automatic increase in spending on unemployment benefits or the fall in tax revenues), which also form part of the fiscal policy contribution to the stabilisation of the economy.

One way to estimate the effective fiscal stimulus in 2020 in each country is to compare the projected fiscal balance in 2020 with that of 2019. According to the latest forecasts from the consensus of analysts (July 2020), the deterioration in the fiscal balance in 2020 will amount to 8.6% of GDP in Germany, 8.1% in Spain, 7.6% in France and 9.4% in Italy.² This suggests that the fiscal stimulus of the major economies in 2020 will, in fact, be more similar than one might be led to believe based on the measures summarised in the table.

The deterioration in the fiscal balance is not only due to discretionary measures taken during the crisis, but also to the economies' automatic stabilisers. As an example, countries with a more generous unemployment system and a more acute increase in unemployment will automatically see a greater increase in their public spending (i.e. an automatic fiscal stimulus), without having to take any further action. We can estimate the contribution from the automatic stabilisers by using

Fiscal measures announced by the main European national governments

	Direct fiscal measures	Tax deferrals	Guarantees
Spain	3.8	4.3	13.3
Germany	8.3	7.3	24.3
France	4.4	8.7	14.2
Italy	3.4	13.2	32.1

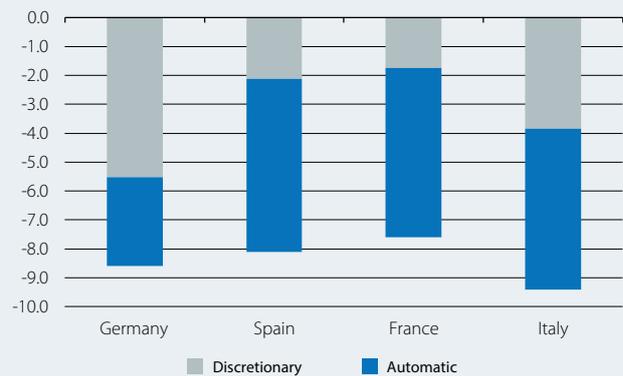
Source: CaixaBank Research, based on own estimates (Spain) and estimates by Bruegel.

2. These figures are calculated using consensus forecasts from Focus Economics. While the change in the primary balance would be a better measure of the fiscal stimulus, information at this level of detail is not available. Nevertheless, according to the European Commission's own estimates, interest expenditure will remain relatively stable between 2019 and 2020, so the change in the total balance should be similar to the change in the primary balance.

the historical relationship between changes in the fiscal balance and the economic activity of each country.³ In this way, we can distinguish what portion of the deterioration in the fiscal balance is due to the automatic stabilisers and what portion is due to new discretionary measures taken during the crisis. According to our calculations (see chart), a large part of the fiscal boost in Spain and France will be automatic, while in Italy, and above all in Germany, the discretionary stimulus is more important. In fact, while the overall deterioration in the fiscal balance is similar among the different countries, the breakdown between automatic and discretionary stimulus once again reveals significant differences.

Finally, the effectiveness of the measures taken, and not just their size, will be key to how they impact growth. During the crisis, the most efficient measures will be those that manage to maintain the productive fabric of the economy. In this regard, the temporary workforce reduction programmes, such as ERTes in Spain, *Kurzzeitgeld* in Germany and *chômage partiel* in France, which represent a large part of the increase in expenditure in these countries, play a particularly important role, as they maintain the labour relations that exist between firms and their workers and thus prevent a sharper and more persistent increase in unemployment. During the recovery phase, however, it will be important to take measures that help the economy to recover to its potential level as quickly as possible. Furthermore, these measures should facilitate the economies' transformation towards more sustainable models that are also more productive. Lastly, given the important economic links between European economies, one of the key factors for ensuring that the fiscal stimulus is effective will be for it to occur in a coordinated manner. Indeed, it is widely documented that a fiscal stimulus in one euro area country generates positive externalities in the rest of Europe's economies.⁴ In this respect, the suspension of European deficit limits is a positive development, since these restrictions are not compatible with the fiscal support required in these circumstances. Finally, the

Change in the fiscal balance in 2020
(pps of GDP)



Source: CaixaBank Research estimates, based on data from Focus Economics (July 2020) and the European Commission. Breakdown based on the methodology described in footnote 3 to the article.

recovery plan agreed in July by the European Council, which includes some 390 billion in grants to Member States, will also provide important support for the recovery of the European economy and represents an addition to the national fiscal responses.

Álvaro Leandro

3. i.e. using the relationship between the fiscal balance as a percentage of GDP and GDP growth. Specifically, for each country, the contribution from the automatic stabilisers to the change in the fiscal balance is the product of the semi-elasticities estimated by the European Commission (Mourre, Poissonnier y Lauegger, «The semi-elasticities underlying the cyclically-adjusted balance: an update & further analysis») and the fall in GDP in 2020 projected by the analysts' consensus (according to Focus Economics). The semi-elasticity is calculated as

follows: $\epsilon = \frac{d(\frac{B}{Y})}{\frac{dy}{Y}}$, where B is the fiscal balance and Y is GDP. Finally, we

estimate the contribution from the discretionary measures as a residual: the difference between the change in the total balance and the contribution from the automatic stabilisers.

4. See Dabla-Norris, Dallari and Poghosyan (2017). «Fiscal Spillovers in the Euro Area: Letting the Data Speak». IMF Working Paper November 2017.

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

UNITED STATES

	2018	2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	05/20	06/20	07/20
Activity									
Real GDP	3.0	2.2	2.1	2.3	0.3	-9.1	-	-	-
Retail sales (excluding cars and petrol)	4.7	3.9	4.3	4.0	3.1	-5.0	-3.9	2.9	3.9
Consumer confidence (value)	130.1	128.3	132.1	127.0	127.3	90.0	85.9	98.3	91.7
Industrial production	3.9	0.9	0.2	-0.7	-1.9	-14.4	-15.8	-11.0	-8.2
Manufacturing activity index (ISM) (value)	58.9	51.2	49.4	48.1	50.0	45.7	43.1	52.6	54.2
Housing starts (thousands)	1,248	1,295	1,288	1,433	1,484	1,064	1,038	1,220	1,496
Case-Shiller home price index (value)	211	217	217	219	222	224	223	224	...
Unemployment rate (% lab. force)	3.9	3.7	3.6	3.5	3.8	13.0	13.3	11.1	10.2
Employment-population ratio (% pop. > 16 years)	60.4	60.8	60.9	61.0	60.8	52.9	52.8	54.6	55.1
Trade balance ¹ (% GDP)	-2.2	-2.7	-2.9	-2.7	-2.6	-2.6	-2.6	-2.6	...
Prices									
Headline inflation	2.4	1.8	1.8	2.0	2.1	0.4	0.1	0.6	1.0
Core inflation	2.1	2.2	2.3	2.3	2.2	1.3	1.2	1.2	1.6

JAPAN

	2018	2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	05/20	06/20	07/20
Activity									
Real GDP	0.3	0.7	1.7	-0.7	-2.0	-10.0	-	-	-
Consumer confidence (value)	43.6	38.9	37.1	38.1	36.0	24.7	24.0	28.4	29.5
Industrial production	1.0	-2.7	-1.9	-6.7	-4.3	-20.5	-24.5	-21.0	-15.3
Business activity index (Tankan) (value)	20.8	6.0	5.0	0.0	-8.0	-34.0	-34.0	-	-
Unemployment rate (% lab. force)	2.4	2.4	2.3	2.3	2.4	2.8	2.9	2.8	2.9
Trade balance ¹ (% GDP)	-0.1	-0.3	-0.4	-0.3	-0.2	-0.5	-0.4	-0.5	-0.7
Prices									
Headline inflation	1.0	0.5	0.3	0.5	0.5	0.1	0.0	0.1	0.3
Core inflation	0.3	0.6	0.6	0.7	0.7	0.3	0.4	0.4	0.4

CHINA

	2018	2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	05/20	06/20	07/20
Activity									
Real GDP	6.7	6.1	6.0	6.0	-6.8	3.2	...	-	-
Retail sales	9.0	9.0	7.6	7.7	-18.2	-4.0	-2.8	-1.8	-1.1
Industrial production	6.2	5.8	5.0	5.9	-7.3	4.4	4.4	4.8	4.8
PMI manufacturing (value)	50.9	49.7	49.7	49.9	45.9	50.8	50.6	50.9	51.1
Foreign sector									
Trade balance ^{1,2}	352	421	426	421	361	412	415	412	430
Exports	9.9	0.5	-0.3	1.9	-13.4	0.1	-3.3	0.5	7.2
Imports	15.8	-2.7	-6.2	3.4	-3.0	-9.7	-16.7	2.7	-1.4
Prices									
Headline inflation	2.1	2.9	2.9	4.3	5.0	2.7	2.4	2.5	2.7
Official interest rate ³	4.4	4.4	4.4	4.4	4.4	4.4	4.4	4.4	4.4
Renminbi per dollar	6.6	6.9	7.0	7.0	7.0	7.1	7.1	7.1	7.0

Notes: 1. Cumulative figure over last 12 months. 2. Billion dollars. 3. End of period.

Source: CaixaBank Research, based on data from the Department of Economic Analysis, Bureau of Labor Statistics, Federal Reserve, Standard & Poor's, ISM, National Bureau of Statistics of Japan, Bank of Japan, National Bureau of Statistics of China and Thomson Reuters Datastream.

EURO AREA

Activity and employment indicators

Values, unless otherwise specified

	2018	2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	05/20	06/20	07/20
Retail sales (year-on-year change)	1.6	2.4	2.7	2.1	-1.1	-7.1	-3.1	1.3	...
Industrial production (year-on-year change)	0.7	-1.3	-1.6	-2.1	-5.8	-20.4	-20.4	-12.3	...
Consumer confidence	-4.9	-7.1	-6.8	-7.6	-8.8	-18.5	-18.8	-14.7	-15.0
Economic sentiment	111.5	103.1	102.0	100.6	100.0	69.4	67.5	75.8	82.4
Manufacturing PMI	55.0	47.4	46.4	46.4	47.2	40.1	39.4	47.4	55.3
Services PMI	54.5	52.7	52.8	52.3	43.8	30.3	30.5	48.3	54.7
Labour market									
Employment (people) (year-on-year change)	1.5	1.2	1.1	1.1	0.4	...	...	-	-
Unemployment rate (% labour force)	8.2	7.6	7.5	7.4	7.3	7.5	7.5	7.7	7.9
Germany (% labour force)	3.4	3.1	3.0	3.2	3.6	4.2	4.2	4.3	4.4
France (% labour force)	9.0	8.5	8.5	8.2	7.7	7.1	6.9	6.6	6.9
Italy (% labour force)	10.6	9.9	9.6	9.5	9.2	8.4	8.5	9.3	9.7
Real GDP (year-on-year change)	...	...	1.4	1.0	-3.1	-15.0	-	-	-
Germany (year-on-year change)	...	...	0.8	0.4	-2.2	-11.3	-	-	-
France (year-on-year change)	...	...	1.6	0.8	-5.7	-18.9	-	-	-
Italy (year-on-year change)	...	...	0.5	0.1	-5.6	-17.7	-	-	-

Prices

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

	2018	2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	05/20	06/20	07/20
General	1.8	1.2	1.0	1.0	1.1	0.2	0.1	0.3	0.4
Core	1.2	1.2	1.1	1.3	1.3	1.1	1.2	1.1	1.3

Foreign sector

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

	2018	2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	05/20	06/20	07/20
Current balance	3.2	2.8	2.8	2.8	2.5	2.5	2.4	2.2	...
Germany	7.4	7.1	6.9	7.1	7.1	6.8	6.7	6.2	...
France	-0.6	-0.7	-0.7	-0.7	-0.8	-1.8	-1.7	-1.8	...
Italy	2.5	3.0	2.6	3.0	3.1	2.8	2.7	2.3	...
Nominal effective exchange rate¹ (value)	95.1	92.4	92.4	91.4	91.2	93.4	93.0	94.1	95.1

Credit and deposits of non-financial sectors

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

	2018	2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	05/20	06/20	07/20
Private sector financing									
Credit to non-financial firms ²	3.9	3.8	3.9	3.5	3.9	7.0	7.3	7.1	7.0
Credit to households ^{2,3}	3.0	3.4	3.4	3.5	3.6	3.0	3.0	3.0	3.0
Interest rate on loans to non-financial firms ⁴ (%)	1.2	1.2	1.1	1.2	1.1	1.2	1.2	1.2	...
Interest rate on loans to households for house purchases ⁵ (%)	1.6	1.5	1.5	1.4	1.4	1.4	1.5	1.4	...
Deposits									
On demand deposits	7.9	8.0	8.6	8.8	9.3	12.9	13.0	13.1	14.1
Other short-term deposits	-1.5	0.3	0.7	0.3	-0.2	0.4	0.7	0.8	1.4
Marketable instruments	-4.2	-1.9	0.1	-3.3	3.8	7.2	6.3	9.2	12.8
Interest rate on deposits up to 1 year from households (%)	0.3	0.3	0.3	0.2	0.3	0.2	0.2	0.2	...

Notes: 1. Weighted by flow of foreign trade. Higher figures indicate the currency has appreciated. 2. Data adjusted for sales and securitization. 3. Including NPISH. 4. Loans of more than one million euros with a floating rate and an initial rate fixation period of up to one year. 5. Loans with a floating rate and an initial rate fixation period of up to one year.

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

The unprecedented impact of the COVID-19 crisis in Q2 overshadows the gradual recovery in Q3

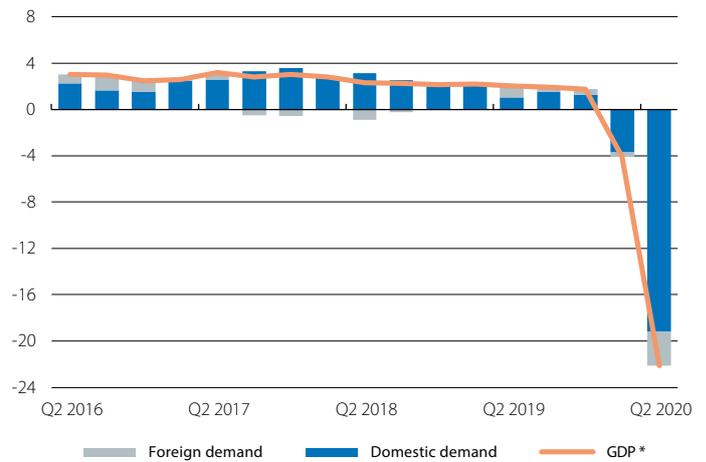
Economic activity registered its biggest decline in Q2 2020 since the National Statistics Institute's historical series began. GDP fell by 18.5% quarter-on-quarter (22.1% year-on-year), the biggest drop since 1995 (the second biggest was in the previous quarter, of 5.2% quarter-on-quarter) due to the strict lockdown measures in place during much of Q2 2020. In particular, the collapse in private consumption and investment, of 21.2% and 22.3% quarter-on-quarter, could not be offset by the rise in public consumption (0.4% quarter-on-quarter) and the contribution of domestic demand to growth was as low as -19.2 pps. In addition, exports fell by more than imports (33.5% and 28.8% quarter-on-quarter, respectively), resulting in the contribution of external demand to growth dropping to a negative balance of 2.9 pps. The sharp decline in exports was led by the fall in service exports, amounting to 55.4% quarter-on-quarter, largely driven by the severe crisis that the tourism sector is facing.

Economic activity in the third quarter will crucially depend on how the pandemic develops. In recent weeks, there has been an increase in the number of confirmed COVID-19 cases in Spain (around 10,000 cases at the end of August). Despite this increase, most cases are asymptomatic and less severe, so hospital capacity is far from suffering the stress endured in the spring, and the number of deaths remains low and well below those of March and April. To the extent that the new outbreaks of the virus remain localised and are dealt with using limited measures, the economy should experience a notable rebound in growth in Q3 2020 thanks to the lifting of restrictions on activity. That said, the recovery will remain incomplete as long as there is no vaccine, and given the scale of the declines it may take years for the pre-crisis levels of activity to be recovered.

The economic activity indicators show a gradual but incomplete recovery. In July, the manufacturing PMI index rose to 53.5 points (49.0 in June), placing it in expansionary territory (above the 50-point threshold). The counterpart indicator for the services sector also remained in expansionary territory (51.9 points) slightly above the figure for the previous month (50.2 points). The retail trade index, meanwhile, rose in July by a moderate 1.1% compared to June. In year-on-year terms, the retail trade index was still in negative territory (-9.9% versus July 2019), although it has at least left the double-digit declines of recent months behind. Based on data for August, the total amount of card spending on CaixaBank POS terminals and cash withdrawals shows a 6.8% year-on-year decline during the first three weeks of the month, a 5.3-pp improvement over the figure for July. This improvement almost entirely reflects the recovery in domestic spending, which increased by 3.9% year-on-year (+8.2 pps). In contrast, spending by foreign visitors registered a 58.8% year-on-year fall in the first three weeks of August, a very similar figure to that of July (see our tracker at www.caixabankresearch.com for real-time monitoring).

Spain: GDP

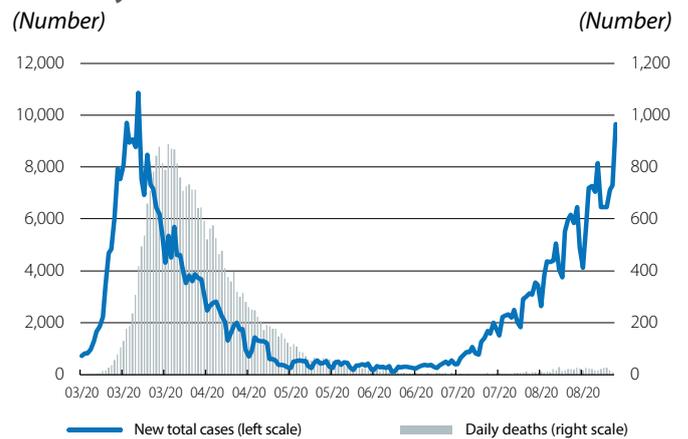
Contribution to year-on-year growth (pps)



Note: * Year-on-year change (%).

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

Spain: new confirmed COVID-19 cases* and daily deaths

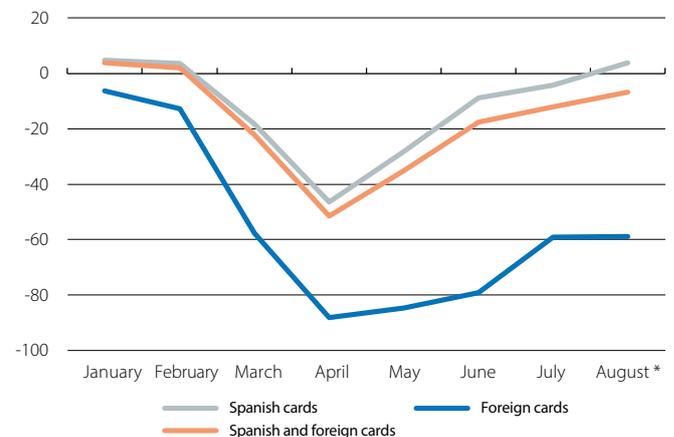


Note: For the last few days, cases are shown by test result notification date in order to correct the possible under-reporting of cases based on the date of first symptoms (the difference between symptom onset and notification is estimated to be around 5 days).

Source: CaixaBank Research, based on data from the Ministry of Health.

Spain: card spending on POS terminals and cash withdrawals at CaixaBank ATMs

Year-on-year change (%)



Note: * The figure for August corresponds to the first three weeks of the month.

Source: CaixaBank Research, based on internal data.

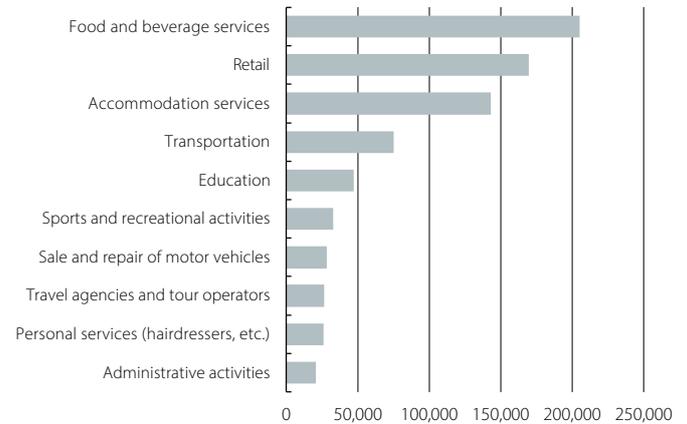
The labour market continues to make progress in what remains an incomplete recovery. According to data from the LFS, employment fell by 1.07 million people in Q2 2020. The number of actual working hours, meanwhile, decreased by 22.6% quarter-on-quarter, much greater than the drop in employment and more in line with the fall in GDP. Furthermore, due to the lockdown 16.3% of people in employment worked from home in Q2 2020, a far higher percentage than in 2019 (4.8%). The increase in the number of unemployed people was much more contained (+55,000 in Q2 2020), since the vast majority of individuals who were without work but willing to work became classified as inactive, as they were unable to actively seek employment. Thus, the unemployment rate stood at 15.3% in Q2 2020 (+0.9 pps compared to Q1 2020). The developments in the labour market in Q3 paint a somewhat more positive picture with a partial recovery, particularly in sectors such as retail, catering and hospitality. Social Security data show that in July the average number of affiliated people increased by 161,000 to 18.8 million, while registered unemployment fell by 90,000 people to 3.8 million. Despite this improvement, both levels are worse than those recorded in July 2019 (-3.8% and +25%, respectively). In addition, the number of people receiving benefits under ERTE furlough schemes decreased significantly during July and August. As of mid-August, there were some 850,000 people receiving benefits under such schemes, around one million less than at the end of June and well below the peak in April (3.4 million). 000

The foreign sector suffers the stagnation in tourism. The current account balance stood at 18 billion in May 2020, a sharp decline compared to the level of May 2019. By component, the fall in energy prices helped to boost the energy balance up by 6.1 billion euros compared to May 2019. The rest of the sub-balances showed slight progress, but neither these nor the improvement in the energy balance were sufficient to offset the deterioration in tourism. The fall in tourism reduced the tourism services surplus by 11.9 billion in May, and this was the main factor behind the deterioration of the current account balance, even before the summer season. Moreover, the drastic reduction in foreign tourism in summer will exacerbate the deterioration of the tourism balance and will continue to erode the total current account balance.

The public finances, another weak flank of the Spanish economy following the COVID-19 outbreak. The unprecedented state action to help people, workers and businesses during this pandemic is having an impact on the public accounts. State expenditure already increased by +23.7% year-on-year on a cumulative basis between January and June, while revenues reduced by 14.4% year-on-year (cumulative amount up to June) due to the reduction in economic activity. As a result, the government deficit stood at 4.4% of GDP in January-June, 3.6 pps higher than in June 2019. This deterioration is expected to continue and, for the year as a whole, the deficit is expected to reach around 13.5% of GDP. In any case, the EU programmes (it has been confirmed that Spain will receive 21.3 billion euros this year) will help to cover the financing needs, and the cost of debt remains low, aided by the ECB's accommodative monetary policy.

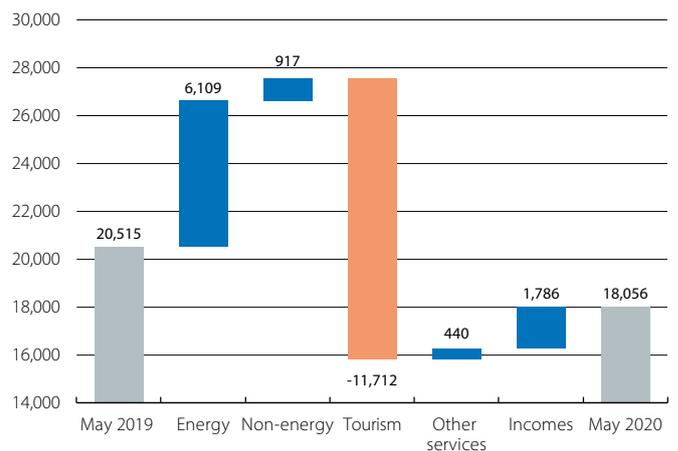
Social Security affiliates affected by ERTE schemes by sector *

(Number at the end of July)



Note: * The 10 sectors with the highest number of Social Security affiliates affected by ERTE schemes, covering 69.3% of the total number of people affected by such schemes (totalling 1.118 million). Includes total and partial ERTE schemes due to force majeure as well as those based on objective grounds. **Source:** CaixaBank Research, based on data from MITRAMISS (the Ministry of Work and Social Economy, and the Ministry of Inclusion, S.S. and Migration).

Spain: deterioration in the current account balance
12-month cumulative balance (EUR millions)



Note: Improvement or deterioration of the current account sub-balances. **Source:** CaixaBank Research, based on data from the Bank Spain.

Spain: net state lending/funding needs
(% of GDP)



Source: CaixaBank Research, based on data from the IGAE.

Activity and employment indicators

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

	2018	2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	06/20	07/20	08/20
Industry									
Industrial production index	0.3	0.7	0.8	0.4	-6.1	-24.3	-14.0	...	...
Indicator of confidence in industry (value)	-0.1	-3.9	-2.0	-5.2	-5.4	-27.8	-23.2	-12.7	-11.8
Manufacturing PMI (value)	53.3	49.1	48.2	47.2	48.2	39.4	49.0	53.5	
Construction									
Building permits (cumulative over 12 months)	25.7	17.2	13.0	8.0	0.0	...	...	...	...
House sales (cumulative over 12 months)	14.2	3.4	1.7	-2.4	-4.2	-12.7	-15.8	...	...
House prices	6.7	5.1	4.7	3.6	3.2	...	-	-	-
Services									
Foreign tourists (cumulative over 12 months)	4.0	1.5	2.1	1.4	-0.9	-22.6	-32.7	-41.5	...
Services PMI (value)	54.8	53.9	53.5	53.6	42.5	28.4	50.2	51.9	...
Consumption									
Retail sales	0.7	2.3	3.3	2.3	-3.7	-18.4	-4.7	-3.9	...
Car registrations	7.8	-3.6	-7.9	5.1	-27.6	-68.6	-36.7	1.1	-10.1
Consumer confidence index (value)	-4.2	-6.3	-5.8	-10.5	-10.3	-27.9	-25.6	-25.6	-28.7
Labour market									
Employment ¹	2.7	2.3	1.8	2.1	1.1	-6.0	-	-	-
Unemployment rate (% labour force)	15.3	14.1	13.9	13.8	14.4	15.3	-	-	-
Registered as employed with Social Security ²	3.1	2.6	2.5	2.2	1.2	-4.4	-4.6	-3.8	...
GDP	2.4	2.0	1.9	1.8	-4.1	-22.1	-	-	-

Prices

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

	2018	2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	06/20	07/20	08/20
General	1.7	0.7	0.3	0.4	0.6	-0.7	-0.3	-0.6	-0.5
Core	0.9	0.9	0.9	1.0	1.1	1.1	1.0	0.6	...

Foreign sector

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

	2018	2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	06/20	07/20	08/20
Trade of goods									
Exports (year-on-year change, cumulative over 12 months)	2.9	1.8	1.7	1.8	1.0	-7.2	-7.2	...	...
Imports (year-on-year change, cumulative over 12 months)	5.6	1.0	3.0	1.0	-1.0	-9.3	-9.3	...	...
Current balance	23.3	24.6	22.2	24.6	25.6	16.3	16.3	...	...
Goods and services	32.6	34.8	32.5	34.8	35.1	24.8	24.8	...	...
Primary and secondary income	-9.3	-10.2	-10.2	-10.2	-9.5	-8.5	-8.5	...	...
Net lending (+) / borrowing (-) capacity	29.1	28.6	28.0	28.6	29.6	20.2	20.2	...	...

Credit and deposits in non-financial sectors³

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

	2018	2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	06/20	07/20	08/20
Deposits									
Household and company deposits	3.2	5.4	5.4	5.4	4.5	7.9	7.6	9.1	...
Sight and savings	10.9	10.7	10.3	10.3	8.9	13.0	12.1	14.1	...
Term and notice	-19.9	-13.4	-13.2	-13.9	-16.4	-16.1	-15.9	-16.9	...
General government deposits	15.4	8.8	3.7	-2.1	-6.2	-6.6	-3.2	5.8	...
TOTAL	3.9	5.6	5.3	4.8	3.8	7.0	6.9	8.9	...
Outstanding balance of credit									
Private sector	-2.4	-1.5	-1.1	-1.5	-1.0	1.5	1.9	1.8	...
Non-financial firms	-5.5	-3.4	-2.3	-3.0	-1.7	6.1	7.1	6.7	...
Households - housing	-1.1	-1.3	-1.6	-1.5	-1.7	-2.1	-2.2	-1.9	...
Households - other purposes	2.8	3.2	3.4	2.2	2.5	0.6	0.9	0.5	...
General government	-10.6	-6.0	-5.4	-1.2	1.7	0.1	-1.5	0.5	...
TOTAL	-2.9	-1.7	-1.4	-1.5	-0.9	1.5	1.7	1.7	...
NPL ratio (%)⁴	5.8	4.8	5.1	4.8	4.8	...	...	...	...

Notes: 1. Estimate based on the Active Population Survey. 2. Average monthly figures. 3. Aggregate figures for the Spanish banking sector and residents in Spain. 4. Period-end figure.

Source: CaixaBank Research, based on data from the Ministry of Economy, the Ministry of Public Works, the Ministry of Employment and Social Security, the National Statistics Institute, the State Employment Service, Markit, the European Commission, the Department of Customs and Special Taxes and the Bank of Spain.

An incomplete recovery following the historical fall in Portuguese economic activity in Q2

GDP contracted by 16.3% year-on-year and by 13.9% quarter-on-quarter in Q2, a historic drop but slightly less negative than the indicators had suggested. Domestic demand contributed -11.9 pps to the decline, reflecting the sharp contraction in household consumption (-14.5% year-on-year) and investment (-10.8%), while external demand contributed -4.4 pps due to the profound decline in exports (-39.5%). As for Q3, there is an incomplete recovery in economic activity. In August, the confidence indicators suggested an improvement in all sectors, albeit still a far cry from the levels prior to the COVID-19 outbreak. Other indicators available up to July paint a similar picture. These include car sales (-16.9% year-on-year, versus -54% in June), spending registered on POS terminals (-9.7% year-on-year in July, versus -14.4% in June), and electricity consumption (-3.4% in July, versus -8.7% in June). Some indicators even slowed down following the boost from the initial rebound. For instance, the coincident economic activity indicator decreased in July to -11.9% year-on-year (-10.8% in June). In this context, it should also be recalled that the outlook will largely be determined by how the pandemic develops over the autumn and winter.

The pandemic hits unemployment. In Q2, employment fell by 185,500 people, a decline largely concentrated in the services sector (-130,700) and particularly in retail, accommodation and catering, sectors that depend heavily on tourism activity. In July, unemployment registered in job centres reached 407,000 (+100,000 year-on-year and +91,000 compared to February). At the same time, job openings fell by 34.2% year-on-year in July and the unemployment rate deteriorated to 8.1% (+1.6 pps year-on-year). Over the coming months, unemployment is likely to continue to rise due to the pandemic continuing to hold back the economic recovery.

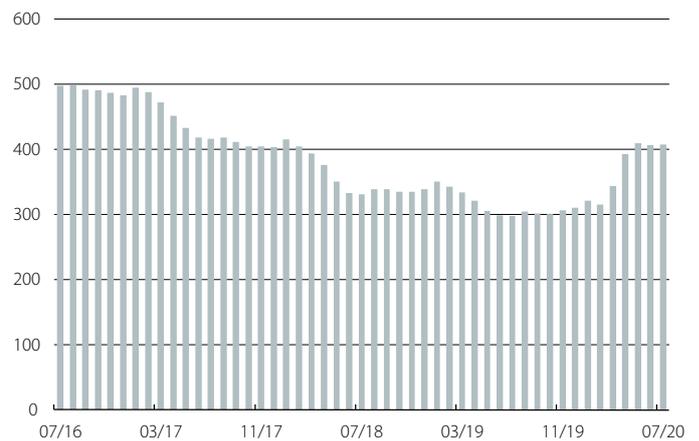
Sharp increase in the fiscal deficit to combat the coronavirus crisis. The general government's budget balance reached -7.6% of GDP on a cumulative basis up to July (it had been -0.4% in the same period of 2019). This larger deficit reflects both the substantial decline in revenues (-10.5% year-on-year) and the increase in expenditure (+5.3%). The decline in revenues was due not only to the measures to defer or suspend the payment of taxes (equivalent to 672 million euros up to July), but also to the progress of the economy, the impact of which was particularly visible in the fall in the collection of VAT, the tax on oil products and the tax on vehicles. As for expenditure items, the measures to support

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

	Q3 2019	Q4 2019	Q1 2020	Q2 2020
GDP	1.9	2.2	-2.3	-16.3
Private consumption	2.6	1.9	-1.0	-14.5
Public consumption	1.2	1.5	0.4	-3.4
Investment	8.2	-2.0	-3.5	-10.8
Exports	2.2	6.2	-5.1	-39.5
Imports	5.7	3.6	-2.5	-29.9

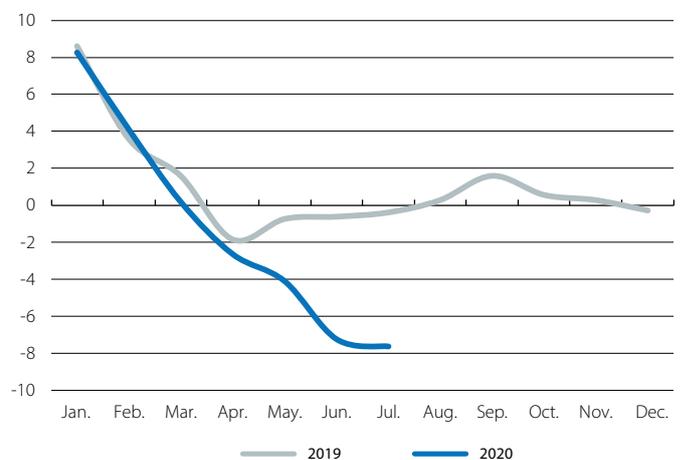
Source: CaixaBank Research, based on data from the National Statistics Institute of Portugal.

Portugal: unemployment registered in job centres
(Thousands of people)



Source: CaixaBank Research, based on data from the IEFP.

Portugal: general government balance *
(% of GDP)



Note: * Public accounting data.

Source: CaixaBank Research, based on data from the DGO.

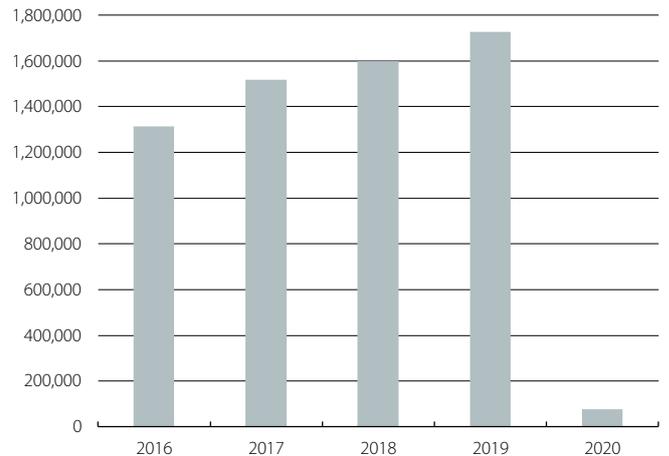
firms and households and expenditure related to the health sector totalled 1,599 million euros, of which around 752 million relates to expenditure on furlough schemes.

The recovery of tourism is delayed and the external accounts deteriorate. In June, the current account deficit reached -0.5% of GDP (12-month cumulative balance), compared to -0.1% at the end of 2019. On the one hand, the deficit in the balance of goods improved to -7.4% (-8.1% at the end of 2019), but on the other hand the surplus in services fell to 6.8% of GDP, its worst record since early 2016. This reduction is mainly explained by the performance of the tourism balance, with the number of foreign tourists falling by more than 95% year-on-year in June. At the same time, the average revenue per available room fell significantly (-79% year-on-year) to 13 euros, and 46.3% of tourist accommodation establishments were either closed or did not register any movement of guests (74.1% in May). Similarly, in June the level of mobility at domestic airports (around 318,000 passengers) was 94.6% lower than in June 2019, reflecting a very slow revival of activity at domestic airports following the lockdown. However, the outlook is more positive for the months of September and October, with the opening of the British air corridor and the increase in bookings for this period.

Strong credit flows in response to the demand from firms. In particular, new lending to the non-financial private sector increased by 21.3% year-on-year in the first half of the year, with a 32.0% rise in the business segment and a slowdown, for the fifth consecutive month, in the case of households (4.4%). Analysing the month of June in isolation, new lending to firms increased by 43.5% year-on-year, while it fell by 8.1% in the case of households. This divergence is explained by the greater need for liquidity among firms in a context of low activity, while households accumulate savings faced with the fear of a loss of income and the heightened economic uncertainty. Furthermore, according to data up to the end of June, credit moratoriums have been applied to 741,623 contracts, 70% of which related to households; of these, more than 62% are loan contracts for housing and other mortgage loans.

The real estate market gradually cools. The average value of bank appraisals continued to rise in July (+8.0% year-on-year, reaching 1,127 euros per square metre), albeit at a gentler pace than in previous months. However, there has been a decline in appraisal requests related to potential housing loans (-15.9%), consistent with the reduced buoyancy noted in new lending. On the other hand, the construction sector continues to show greater resilience than other economic sectors, with cement sales increasing by 10.7% year-on-year in July.

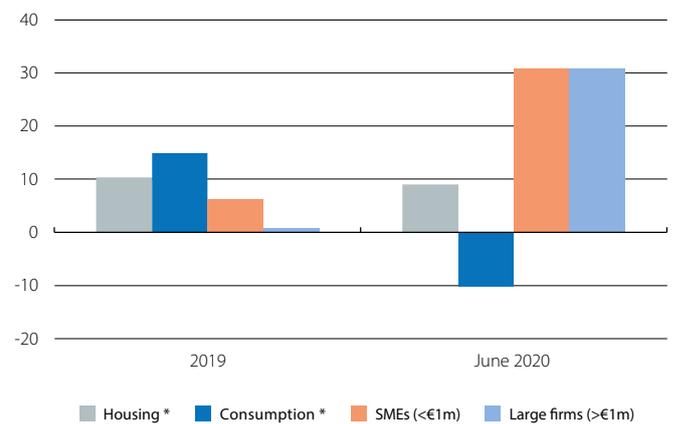
Portugal: arrivals of foreign tourists in June
(Number of people)



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

Portugal: new lending

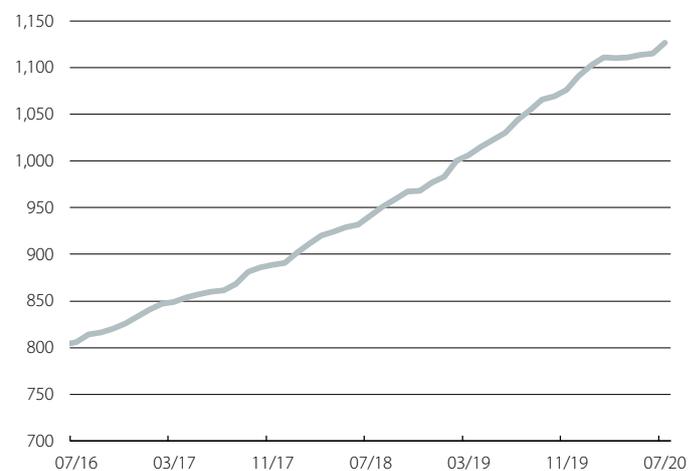
Year-on-year change in the year-to-date amount (%)



Nota: * Excludes renegotiations.

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

Portugal: real estate appraisal prices
(Euros per square metre)



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

The Portuguese labour market in times of the pandemic

- The COVID-19 outbreak has brought about substantial changes in the Portuguese labour market: workers who had never teleworked have begun to do so, others have seen their employment contracts temporarily suspended, while others have lost their jobs.
- However, while the fall in economic activity has been unusually sharp, the impact on the labour market is, for now, more contained. This is due to temporary workforce reduction programmes and teleworking, which will continue to be key in containing the rise in unemployment.

At the beginning of the year, we had little idea that an unknown virus would force us to go into lockdown and that some sectors of the economy would have to shut down in order to prevent contagion. However, the European Commission estimates that almost 11% of employment in Portugal is in sectors that were forced to shut down almost entirely as a result of the COVID-19 outbreak. This figure is similar to that of the EU as a whole (10%), although less than that of countries such as Malta, Spain or Greece.¹ In addition, it is estimated that around 50% of Portuguese workers have jobs that involve a risk of COVID-19 transmission because they require physical proximity to colleagues or interaction with the public.²

How was the labour market in Portugal affected by the pandemic? The population in employment decreased by 3.8% year-on-year in Q2 (-185,500 people), but the unemployment rate fell to 5.6%. Although the reduction in unemployment is surprising, it should be borne in mind that some traditional indicators are not adequate in the current context: firstly, the lockdown made it difficult to obtain statistical data, and secondly, the restrictions on activity prevented unemployed people from seeking work or being immediately available to work, so they were not formally considered unemployed. In contrast, if we look at the labour underutilisation rate,³ this increased to 14.0% in Q2 (12.9% in Q1), driven mainly by the increase in the number of people who have not actively sought employment. At the same time, unemployment registered in job centres rose to a peak of 409,000 people in May (+29.6% versus February).⁴

While these figures are obviously worrying, they also indicate that the pandemic has had a lower impact on the labour market than on economic activity. This is mainly due to two factors: temporary workforce reduction programmes and teleworking.

Temporary workforce reduction programmes

The main tool for mitigating the negative impact of the COVID-19 outbreak on the labour market has been

1. 15.7%, 14.2% and 13.0% for Malta, Spain and Greece, respectively. See European Commission (2020). «The impact of COVID confinement measures on EU labour market».

2. This percentage ranges from 39.3% in Luxembourg to 55.9% in Spain. See OECD (2020). «Employment Outlook 2020».

3. This includes the population out of work, people who involuntarily work part-time, inactive people in search of employment but not available to work, and inactive people who are available to work but are not seeking employment.

temporary workforce reduction programmes (involving either a temporary reduction in working hours or a temporary suspension of contracts), a scheme used throughout Europe (at the end of April, it is estimated that such reductions had been requested for 27% of EU workers). Portugal has been no exception and it will also receive around 6 billion euros from the EU's SURE programme to help cover the costs of the temporary workforce reduction programmes implemented.

In Portugal, more than 880,000 people were affected by such schemes at the beginning of July (almost 19% of the population in employment).⁵ This has been key in preventing the collapse in GDP from triggering a sharp rise in unemployment: we estimate that, in the absence of these measures, the unemployment rate would have reached around 22% (compared to the 5.6% registered in Q2). As a result of these schemes, the impact of the COVID-19 pandemic on the labour market is more visible in the reduction in the total number of hours worked in Portugal (-26.1% year-on-year in Q2).⁶

By sector, although no official figures have been published, we estimate⁷ that more than half of the workers affected by temporary workforce reduction programmes belong to the manufacturing, vehicle trade

4. The latest figures are somewhat lower and in July the increase (compared to February) was 407,302 (+29.1%).

5. This includes workers affected under the traditional scheme and under the new simplified scheme, according to information provided by the Government of Portugal and the Social Security institute. The simplified scheme was created specifically to address the pandemic. Firms can use it to temporarily reduce staff working hours or to suspend employment contracts, whereby the employee affected receives two-thirds of their usual remuneration. This scheme applies to companies that had either partially or completely closed due to the state of emergency, as a result of interruption of global supply chains or cancellation of orders, or those that had suffered a reduction in revenues of at least 40% in the 30 days prior to the request compared to the monthly average recorded in the previous two months or the year-on-year period.

6. Replacing the simplified workforce reduction programme, firms with a drop in turnover of 40% or more that were using these schemes can sign up for a programme to support them with the gradual recovery in activity up until December. This other mechanism allows firms to reduce their normal working hours, such that they only pay for the hours actually worked and the workers will be supported with Social Security remuneration covering 70% of the hours not worked.

7. The data from the Strategy and Planning Department include the entire workforce of companies that have implemented temporary workforce reduction programmes (rather than the specific number of workers that those companies have placed under these programmes). Nevertheless, it is estimated that the number of workers under temporary workforce reduction programmes corresponds to around 60% of the figures published by this Department.

and repair, and accommodation and catering sectors. In the accommodation and catering sector, more than half of workers would have been affected under these programmes in early July. On the other hand, around 25% of employees working in manufacturing and in the trade and repair of vehicles were also affected under temporary workforce reduction programmes.

Teleworking during the lockdown

Another solution to keep companies active has been teleworking. In a country where, prior to the pandemic, 15.5% of people in employment had regularly or occasionally teleworked,⁸ it is estimated that, in early April, 38.3% of Portuguese employees began working from home as a result of the health crisis. This is a higher figure than in countries such as Germany (36.9%) or France (37.2%).⁹ In the same regard, it is estimated that over a million employees worked entirely or almost entirely from home in Q2, which is equivalent to 23.1% of the employed population.¹⁰ These are significant figures, considering that some estimates place Portugal's teleworking potential¹¹ at around 30%.¹²

A good way to see how teleworking helps to mitigate the impact of the COVID-19 pandemic is to compare the teleworking potential of the various economic sectors with how their level of activity has been affected in recent months. As the first chart shows, a higher teleworking potential mitigates the negative impact of the COVID-19 pandemic: the sectors that suffered the greatest decline in activity in Q2 are, in general, those that have the lowest teleworking potential.

The new normal

What can happen over the next few months in the labour market? In July, registered unemployment rose by 0.2% over the previous month, after having fallen slightly in June (-0.6% month-on-month), and it continues to affect some 407,000 people. However, this increase may be limited by the fact that companies that resorted to temporary workforce reduction programmes are not allowed to dismiss their staff for a certain period,¹³ so unemployment could increase more in a few months' time.

8. Data from the 2019 EU Labour Force Survey. This figure is close to the EU average (16.1%) but below that of countries that lead the field in terms of teleworking, such as Sweden (37.2%) or the Netherlands (37.1%).

9. See «Work, teleworking and COVID-19» (<https://www.eurofound.europa.eu/data/covid-19/working-teleworking>)

10. Data from the National Statistics Institute of Portugal.

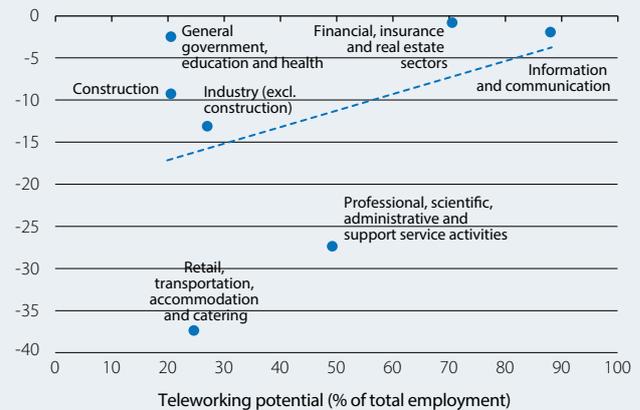
11. For more details on teleworking potential, see the Focus «The COVID-19 outbreak boosts remote working» in the MR06/2020.

12. See Pedro S. Martins (2020). «O potencial do teletrabalho em Portugal». This study draws on data from company workforces and excludes self-employed workers, public sector employees, the unemployed and the inactive. It consists of an analysis of the 200 professions that comprise the National Statistics Institute's Portuguese Classification of Professions. I. Dingel and B. Neiman (2020). «How many jobs can be done at home» (<http://www.nber.org/papers/w26948>), places the figure at 33.2%.

13. They must maintain all jobs during the temporary reduction period and for 60 days thereafter.

Portugal: economic impact of the COVID-19 pandemic and teleworking potential

Cumulative change in GVA between Q4 2019 and Q2 2020 (%)



Source: CaixaBank Research, based on data from Martins (2020) and Eurostat.

Portugal: unemployment and perspectives for the next 12 months

Index



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

Similarly, according to the latest consumer confidence survey by the National Statistics Institute of Portugal (see second chart), the outlook for unemployment over the next 12 months is rather unfavourable.

Teleworking, meanwhile, has come to stay, and many firms are expected to apply mixed working arrangements. Some have already indicated that they will maintain teleworking, and many Portuguese people who have teleworked are satisfied with the possibility of doing so.¹⁴ Furthermore, and despite the likely destruction of jobs caused by the COVID-19 pandemic, the digital transformation that it is forcing upon us and the challenges that firms are currently facing should contribute to an increase in the recruitment of new professionals, such as ICT specialists.

However, despite efforts to safeguard jobs, in the short term the uncertainty generated by the pandemic and the incomplete recovery in economic activity will likely lead to a deterioration in the unemployment figures over the coming months, especially given the important role of tourism.

Vânia Duarte

14. Study conducted by Robert Walters.

Activity and employment indicators

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

	2018	2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	06/20	07/20	08/20
Coincident economic activity index	3.0	0.9	0.5	-1.1	-4.2	-9.2	-10.8	-11.9	...
Industry									
Industrial production index	0.1	-2.2	-4.0	0.4	-1.4	-23.5	-14.6		
Confidence indicator in industry (<i>value</i>)	0.8	-3.2	-3.7	-4.3	-4.6	-24.8	-31.7	-25.6	-17.3
Construction									
Building permits (<i>cumulative over 12 months</i>)	20.3	5.9	12.5	5.9	1.5	-2.3	-2.3	...	...
House sales	16.8	1.7	-0.2	6.1	-0.7	...	...	...	...
House prices (<i>euro / m² - valuation</i>)	8.6	10.4	11.0	11.1	11.2	8.9	8.3	8.0	...
Services									
Foreign tourists (<i>cumulative over 12 months</i>)	4.8	7.8	6.8	7.8	3.2	-29.6	-29.6	...	...
Confidence indicator in services (<i>value</i>)	14.1	12.9	11.5	10.6	5.8	-36.9	-52.9	-46.9	-37.1
Consumption									
Retail sales	4.2	4.4	4.3	3.7	3.0	-12.9	-5.2	-3.6	...
Coincident indicator for private consumption	2.5	2.2	2.7	1.3	-3.4	-10.0	-12.0	-13.5	...
Consumer confidence index (<i>value</i>)	-4.6	-8.0	-7.6	-7.1	-8.6	-27.7	-33.1	-28.3	-26.0
Labour market									
Employment	2.3	1.0	0.9	0.5	-0.3	-3.8	-3.4	-3.6	...
Unemployment rate (<i>% labour force</i>)	7.0	6.5	6.1	6.7	6.7	5.6	7.3	8.1	...
GDP	2.6	2.2	1.9	2.2	-2.3	-16.3	...	...	...

Prices

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

	2018	2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	06/20	07/20	08/20
General	1.0	0.3	-0.2	0.3	0.4	-0.3	0.1	0.1	0.0
Core	0.7	0.5	0.1	0.4	0.2	-0.1	0.2	0.1	0.0

Foreign sector

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

	2018	2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	06/20	07/20	08/20
Trade of goods									
Exports (<i>year-on-year change, cumulative over 12 months</i>)	5.2	3.5	2.1	3.5	1.4	-6.9	-6.9	...	...
Imports (<i>year-on-year change, cumulative over 12 months</i>)	8.3	6.4	7.8	6.4	2.5	-8.1	-8.1	...	...
Current balance	0.8	-0.2	-0.6	-0.2	-0.6	-0.9	-0.9	...	...
Goods and services	1.5	0.8	0.2	0.8	0.4	-1.1	-1.1	...	...
Primary and secondary income	-0.7	-1.0	-0.8	-1.0	-1.0	0.2	0.2	...	...
Net lending (+) / borrowing (-) capacity	2.8	1.9	1.4	1.9	1.5	1.5	1.5	...	...

Credit and deposits in non-financial sectors

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

	2018	2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	06/20	07/20	08/20
Deposits¹									
Household and company deposits	3.8	5.0	5.3	5.2	5.7	7.8	9.1	...	...
Sight and savings	14.3	14.4	15.1	14.9	16.5	18.7	20.1	...	...
Term and notice	-3.0	-2.4	-2.5	-2.8	-3.4	-1.9	-1.0	...	...
General government deposits	-1.9	-13.6	-17.1	-13.7	-8.6	-13.7	-15.7	...	...
TOTAL	3.5	4.0	4.1	4.2	5.1	6.9	7.9	...	...
Outstanding balance of credit¹									
Private sector	-1.7	-1.7	-1.4	-1.1	-0.8	0.3	0.5	...	...
Non-financial firms	-3.8	-3.9	-3.0	-3.2	-3.5	-0.1	1.0	...	...
Households - housing	-1.5	-1.5	-1.6	-1.4	-0.9	-0.5	-0.3	...	...
Households - other purposes	4.5	4.3	4.5	6.3	8.3	4.7	2.4	...	...
General government	2.4	-8.5	-6.4	-7.1	-5.0	-6.8	-9.7	...	...
TOTAL	-1.6	-2.0	-1.6	-1.4	-1.0	0.0	0.1	...	...
NPL ratio (%)²	9.4	6.2	7.7	6.2	6.0	...	...	...	...

Notes: 1. Residents in Portugal. The credit variables exclude securitisations. 2. Period-end figure.

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

The office of the future: a return to the past?

The COVID-19 outbreak has had a profound impact in many spheres and on many social and economic habits. Where and how we work is just one of them. Up until now, offices were spaces for working, meeting and socialising. Nonetheless, working can be increasingly carried out from anywhere. Meetings can also often be held remotely. As for socialising, with the current physical distancing measures, doing so in the office is made all the more difficult. In times of coronavirus, are offices doomed?

The origin of the office: from monasteries to skyscrapers

During the Middle Ages and the Age of Discovery, only a few organisations dealt with written documentation and had places remotely similar to today's offices. Monasteries, with their copyist chambers or *scriptorium*, and companies that exploited the trade routes with Asia and the New World are some examples of this. In the early 18th century, the British East India Company, which specialised precisely in trade with Asia, had as many as 300 secretaries, notaries and accountants who often worked side by side. But they did so in private homes or in old palaces, not in buildings specifically designed for this purpose.

Other professionals for whom written documentation was essential, such as lawyers, also worked in their homes for centuries. In a way, «teleworking»¹ was the norm at that time, even in professions which today we associate with an office environment. One clearly illustrative case is that of the insurance company Lloyd's of London. In the 17th century, independent maritime insurance brokers worked in their homes, but they would meet in Edward Lloyd's coffee house located near the Tower of London to share information and close negotiations, so the coffee house informally served as an office. Years later, with the arrival of the Industrial Revolution, these insurance brokers became associated under the name of Lloyd's, and in 1774 they decided to rent different spaces in the Royal Exchange of London in order to conduct their activities together.

In fact, the origin of the modern office is closely linked to the Industrial Revolution. With the boom in manufacturing production and international trade that it brought, certain professions gained prominence and new economic activities emerged, the natural habitat of which was the office. Besides the offices of insurance companies, banks or trading companies, factories themselves needed to adapt new spaces in which to carry out these new activities: offices were born.

In the last few decades of the 19th century and the first three of the 20th century, advances in telecommunications (the electric telegraph first, followed later by the telephone) enabled a physical separation between administrative and manufacturing tasks. With this development, offices acquired an identity of their own in buildings exclusively designed for performing these administrative tasks.

This separation between offices and manufacturing centres, combined with the enormous industrial development of the US, gave rise to the phenomenon of skyscrapers. The large American industrial companies of the time decided to «relocate» their administrative headquarters in the big cities, taking the form of very tall buildings that also served as a symbol of their prestige and power. Chicago and New York were the pioneering cities in this race to the sky. The Home Insurance Building, which opened in 1885 in Chicago and was the headquarters of the Home Insurance Company, was the first skyscraper in the world. And it is well known that the Chrysler Building in New York, home to the American automotive company, held the title of the world's tallest skyscraper for just 11 months - a title that was snatched from it by the Empire State Building, partly funded by General Motors. The history of offices would be linked to architecture and urban planning forever.

The office of today...

After the Second World War, offices continued to proliferate as the services economy grew. Over the next 70 years, they would also undergo major transformations as a result of the economic and technological changes in our society. In particular, the transition towards the knowledge economy has led offices to turn from what some experts have called «paperwork factories» into «idea factories». And in order to enhance the flow of these ideas, office designs with more open and flexible workstations, informal meeting areas, and welcoming and homely spaces for leisure and rest have come to dominate. In a way, offices have tried to make us feel «at home».

1. In this and the subsequent articles of this Dossier, we will use the terms teleworking and remote working interchangeably to refer to the format of working from home, although in legal terms the two concepts can denote different ways of working.

Past, present and future of the office



5th-15th c.
MIDDLE AGES

15th-16th c.
RENAISSANCE



18th c. - early 20th c.
INDUSTRIAL REVOLUTION /
AGE OF THE SKYSCRAPERS
IN AMERICA



1945-1960
POST-WAR



The office of today
VERSATILE, OPEN
OFFICES

The office of the future
TELEWORKING
+ SOCIALISING



Indeed, since the advent of the Internet in our lives more than a quarter of a century ago, numerous voices had predicted precisely the end of offices in favour of the comfort of the home thanks to teleworking. But nothing could have been further from the truth. Even the technology companies of Silicon Valley, as curious as it may seem, had mostly not opted for teleworking prior to the current health crisis. On the contrary, they had overwhelmingly opted for these informal offices with versatile, open spaces. The main reason for this is the belief that innovative ideas emerge more readily in such an environment.

... and the office of tomorrow

While it is still early to determine the magnitude of the change that offices might undergo, the ever-cutting-edge technology companies can offer us some clues. Indeed, many of them have already begun to announce that the possibility to work remotely could be extended beyond what is dictated by the pandemic if employees so desire.

In fact, various factors support a shift towards increased teleworking. On the one hand, some studies already indicate that the flexibility of being able to work remotely on a regular basis boosts workers' productivity (see the article «[Teleworking and productivity: a complex binomial](#)» in this same Dossier). Furthermore, a better work-life balance or a more environmentally-friendly society are growing social demands that both push for teleworking (see the article «[How does teleworking affect society and our way of life?](#)» in this same Dossier). Another driving factor is the enormous improvement and evolution of ICT in recent years. These are innovations that facilitate teleworking, but were perhaps not fully disseminated in the economy. The shock of the COVID-19 outbreak, however, has accelerated this dissemination. Finally, in a world dominated by ideas, reflective work will gradually replace repetitive tasks, and such kinds of work can no doubt benefit from the tranquillity that remote working can offer.

But what about ideas that emerge from office chats? In a context of a lower incidence of the coronavirus, no doubt a mixed option, where working remotely is combined with working in a new kind of office that favours meeting, talking and collaborating with our peers even more than before, can be a good balance. In short, Edward Lloyd's coffee house could be our office of tomorrow.

Clàudia Canals and Oriol Carreras

Source: CaixaBank Research.

Teleworking and productivity: a complex binomial

COVID-19 and the social distancing measures imposed to curb its spread have forced a large number of people to telework. This is a practice which has been somewhat uncommon in our society to date, but which will no doubt persist long beyond the current pandemic. The shift from going to the office – where a large number of tasks are carried out that could easily be performed remotely – to teleworking has ramifications in many areas, ranging from the purely economic to the social. In this article, we focus on the economic sphere, and particularly on the impact of teleworking on productivity.

The pros and cons of teleworking: concentration versus collaboration

Nicholas Bloom, professor of economics at Stanford University, published an empirical analysis in 2015 on the benefits of teleworking in terms of labour productivity.¹ The study, based on the results of an experiment conducted over a nine-month period in one of the world's largest tourism service companies, concluded that remote working boosted workers' performance by 13%. This improvement is attributed to them having both fewer distractions and fewer breaks per shift worked.²

A significant insight from the study is that adapting to employees' preferences is a key factor. Thus, the increase in workers' performance goes from 13% to 22% when teleworking is voluntary rather than imposed. After all, while it offers a potentially excellent way to boost concentration levels, teleworking also leads to social and professional isolation, which can have a negative impact on worker productivity.

In addition to boosting performance, two additional elements favoured further increases in the company's productivity. Firstly, there was a lower staff turnover rate among the employees who worked remotely, which substantially reduces the costs associated with selecting and training new employees. Secondly, the lower maintenance costs of office buildings more than offsets the digital investment made in the homes of employees working remotely. These three elements (performance, staff turnover and maintenance cost savings), when taken together, represented an improvement in the productivity of the company analysed by Bloom of 20%-30%. But is creative work also more productive in a teleworking situation? Are there types of creativity that may particularly benefit from a shared working environment?

Open, flexible and versatile office environments facilitate creativity and innovation. In particular, an important element for innovation is knowledge sharing, a process that occurs more frequently and easily when face-to-face interactions occur between colleagues.³ The reason for this is none other than the climate of trust that this kind of face-to-face interaction generates. In fact, Silicon Valley's big technology companies had not opted for teleworking prior to the pandemic precisely because worker interaction and collaboration is essential to their constant innovation in products and services.

At this juncture, however, it is important to make two clarifications. Firstly, the use of advanced technologies that enable frequent and relatively personal contact with workers remotely can also foster a climate of trust and, therefore, knowledge sharing. Secondly, new generations of workers (digital natives) may require less face-to-face contact in order to establish the links of trust needed to collaborate among colleagues.

Finally, remote working is not exempt from other problems. For instance, it has been documented that working remotely still carries a certain «stigma», as the amount of time a worker spends in the office is often associated with their commitment to the company.⁴ Bloom's study, for example, identifies a negative relationship between teleworking and professional progress: if we consider two equally productive employees, the one working from the office was more likely to be promoted than the one working remotely.

1. See N. Bloom, J. Liang, J. Roberts and Z.J. Ying (2015). «Does working from home work? Evidence from a Chinese experiment». *The Quarterly Journal of Economics*, 130(1), 165-218.

2. Working overtime was not allowed during the experiment. The people working remotely used the time that they previously spent commuting to deal with personal matters, such that by the time they started their shift they did not need to take breaks to do so.

3. See T.D. Golden and S. Raghuram (2010). «Teleworker knowledge sharing and the role of altered relational and technological interactions». *Journal of Organizational Behavior*, 31(8), 1061-1085.

4. For example, J.C. Williams, M. Blair-Loy and J.L. Berdahl (2013). «Cultural Schemas, social class, and the flexibility stigma». *Journal of Social Issues*, 69(2), 209-234.

The case of Spain: how much are we talking about?

The work of Bloom and co-authors offers us a starting point for making a first approximation of the impact of teleworking on productivity in Spain. To perform this calculation, we will take as a starting point this study's estimates on the impact of teleworking on workers' productivity. We will then use the percentage of employees in Spain who could potentially work remotely (our estimates place this figure at around 33%).⁵ Finally, we will apply the so-called «translation rate»: as Bloom and co-authors warn, in order to make the most of teleworking, it is not enough merely for it to be possible to perform the work in question remotely; it is also necessary that the person wishes to do so and that they have the right conditions at home to perform their work (e.g. a separate room for working or a broadband internet connection).

In the table we show the results in two possible scenarios. In a first, more favourable scenario, we consider the upper bracket of the productivity increase range reported by Bloom and co-authors (30%). We also consider a high translation rate of 75%, which means that most workers whose jobs can be performed remotely actually wish to work from home and have the conditions in which to do so. In a second, much less favourable scenario, we consider the lower bracket of the productivity increase range (20%) and a low translation rate of 25%. As can be seen in the table, the widespread adoption of teleworking could boost Spain's productivity by between 1.4% and 6.2%.

Macroeconomic impact of teleworking: scenarios

	Increase in productivity due to teleworking	Teleworking potential *	Translation rate **	Aggregate increase in productivity
More favourable scenario	30%	32.6%	75%	6.2%
Less favourable scenario	20%	32.6%	25%	1.4%

Notes: * The calculations take into account that, in Spain, 4.9% of workers already worked remotely on a regular basis prior to the COVID-19 crisis.

** Percentage of workers (as a proportion of the total number of workers with the potential to telework) who are able to telework properly.

Source: CaixaBank Research.

At first glance, this may seem like a significant amount, especially given that the average growth in Spanish productivity between 2000 and 2018 was a modest 0.3% per year.^{6,7} However, when visualising a paradigm shift like the one we are proposing, we must picture a progressive change that could take several years. The arrival of computers in the 1970s and 1980s can serve as an example: their introduction led to substantial productivity gains, but these were gradual given that their introduction brought with them new ways of working and new products and services that are still having an impact on productivity growth to this day.

Conclusions

Teleworking increases productivity. This increase is due to the fact that remote working creates an environment that favours concentration, reduces the number of breaks taken per shift worked, and offers savings for the company in terms of the cost of space and a lower staff turnover.

Nevertheless, in order to realise its full potential, a change in business culture is also required in order to adapt each occupation's tasks to the working methods that are best suited to performing them. If the office remains the best space for innovation, then it may be interesting to explore ways of working that alternate remote working – a form that allows for higher concentration levels – with working face-to-face, so as to continue to drive innovation.

Similarly, the benefits of teleworking can only be realised if the worker can choose whether to work remotely or not, and if the space they have set aside for doing so and the other circumstances in which it is done are guaranteed to be suitable. Otherwise, the experience can prove counterproductive. As Nicholas Bloom, co-author of the article in favour of teleworking we mentioned earlier, said in a recent interview on the rise in teleworking during the COVID-19 crisis: «We are home working alongside our kids, in unsuitable spaces, with no choice and no in-office days... This will create a productivity disaster for firms.»⁸

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5. See the Focus «[The COVID-19 outbreak boosts remote working](#)» in the MR06/2020.

6. Source: Bank of Spain.

7. At a growth rate of 0.3% per year, it takes 19 years to achieve 6% growth.

8. Adam Gorlick. «Productivity pitfalls of working from home in the age of COVID-19». SIEPR, 30 March 2020.

How does teleworking affect society and our way of life?

Despite all the technology that makes it possible, the concept of teleworking can scarcely be considered a modern invention. Up until the 19th century, what we know today as remote working was the usual format for many: working from home was the norm for craftsmen and peasants, who conducted part or all of their occupation in a space set aside for this purpose in their homes. With the arrival of the Industrial Revolution, the factory and the office – as we have seen in the first article of this Dossier – replaced the domestic workshop and became the dominant working environment. With many nuances, this has been the case ever since.

Today, the coronavirus outbreak has once again brought remote working into vogue and has fuelled the debate about its social impact and the way we live. Nevertheless, the concept of teleworking had been recovered much earlier, when Jack Nilles, recognised as the «father» of teleworking, revived it in 1973 in a world still without the internet as a way for companies to offset the economic losses suffered as a result of the oil crisis.¹ As interest in teleworking as a way to save costs grew, so it did as a way to solve other social problems. In a world with a greater participation of women in the labour market, where all members of the household had to juggle work with domestic chores and childcare, teleworking was identified as a tool to address problems related to work-life balance or low birth rates. Let us take a closer look.

Better work-life balance under certain conditions...

One of the great attractions that has been attributed to teleworking is that it allows for a better reconciliation between people's professional and personal lives (commonly referred to as «work-life balance»). This issue is of great interest in societies where domestic and childcare tasks have gone from being exclusively the remit of one member of the family unit (usually the woman) to being an occupation shared by all members of the household, since they all work away from home.

According to the meta-analysis carried out by Allen *et al.* (2015), while teleworking is associated with a better work-life balance, and although the relationship is statistically significant, quantitatively it is rather tenuous. In particular, the study shows that if we were to ask 100 teleworkers whether teleworking has helped them to achieve a better work-life balance, on average we would «only» get 16 positive responses.

Other studies add important nuances to this result. Golden *et al.* (2006) show us that the positive relationship between teleworking and work-life balance grows with its intensity.² That is, the more a person works remotely, the greater the benefits of teleworking as a tool for achieving a better work-life balance: teleworking one day a month is not the same as three days a week. Furthermore, as one would expect, a person's experience in teleworking is also a key factor. Thus, people who have been working remotely for more than a year manage to achieve greater gains in their work-life balance than those who have been doing so for less time. Taking these nuances into account, the ratio of 16 positive responses per 100 respondents could increase to 25. While this is a considerable figure, it is by no means overwhelming.

Similarly, other studies analyse the relationship between teleworking and job satisfaction and also find a positive relationship. However, the effect in this case is not linear, and the benefits tend to disappear when the intensity of teleworking is high. This result is associated with the loss of social relationships and the greater sense of isolation that intense teleworking can generate.

... but a balance with limitations

As usual, the evidence available to date answers some of the questions raised, but opens the door to many more. For instance, how can it be that teleworking fails to report large gains in the eternal problem of achieving a work-life balance? In the end, teleworking saves us commuting time and gives us greater flexibility to combine professional and domestic tasks.

Let us highlight some channels that limit the potential benefits of teleworking. Firstly, just as teleworking makes it easier to prevent our work from interfering with our personal life, a concept that we will abbreviate with the acronym WIF (work interferes with family), the literature also explores the opposite effect: that our family life interferes with our work (FIW). According to the meta-analysis by Allen *et al.*, the greater the intensity of teleworking, the lower the WIF but the higher the FIW. It is easy to imagine, for example, that teleworking blurs the distinction between family and professional roles: while teleworking makes it possible to switch roles much more readily, which can contribute to a better work-life balance, it also increases the likelihood of FIW occurring. In other words, it increases the likelihood of interruptions and other problems from the domestic and family environment arising that can end up hindering job performance.

1. See Allen *et al.* (2015). «How effective is telecommuting? Assessing the status of our scientific findings». *Psychological Science in the Public Interest*, 16(2), 40-68.

2. T.D. Golden, J.F. Veiga and Z. Simsek (2006). «Telecommuting's differential impact on work-family conflict: Is there no place like home?». *Journal of Applied Psychology*, 91, 1340-1350.

Secondly, another reason cited as a possible mitigating factor in the relationship between teleworking and work-life balance is the servitude generated by the digital connection. The technological interface that enables teleworking can also lead to extended working hours, for instance by creating the need to constantly check our emails, even outside normal working hours. If teleworking were to widely lead to longer working hours, then it could not be expected to improve work-life balance.

From teleworking to childbirth

At a time when our societies must learn to deal with the slow but inevitable decline in the birth rate and all its repercussions,³ considering ways in which we can combine our family and professional lives is crucial. As we have seen, with teleworking serving as a way to improve work-life balance, it could also influence the very decision to have children. In this regard, could we consider teleworking «an engine of liberation», a way of working that would impose fewer restrictions on households' decisions related to having children?⁴

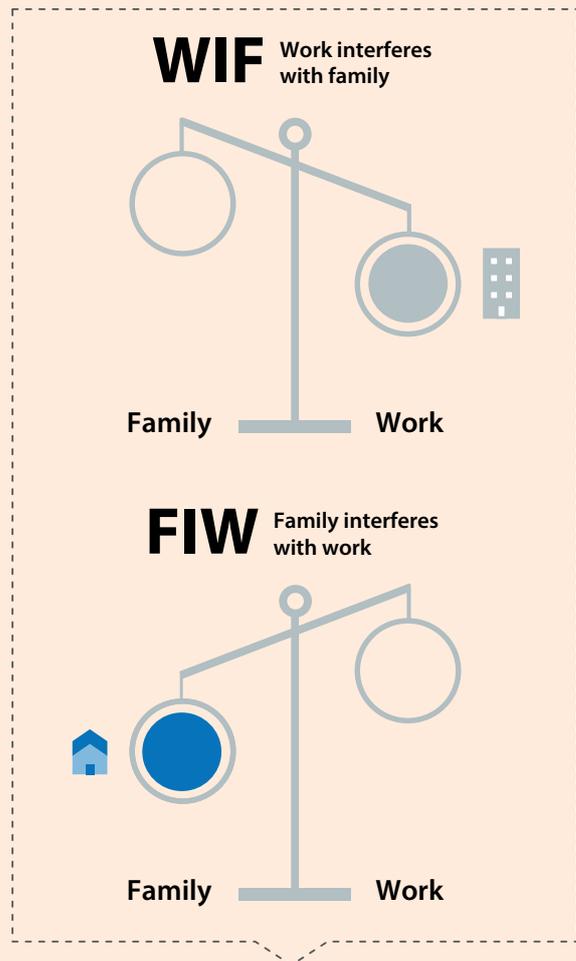
While we do not know of any studies that explicitly address this relationship, closely connected issues have been analysed. For example, in a relatively recent study conducted with data from German households, Billari *et al.* analysed whether broadband internet access affected decisions related to having children. They found a small but positive effect between access to high-quality internet and the birth rate in women between 25 and 45 years of age and with a high level of education.⁵ According to the authors, the reason for this is that broadband internet access opens the door to more flexible forms of working that facilitate a better reconciliation between work and family life, such as part-time work or telework.

Conclusions

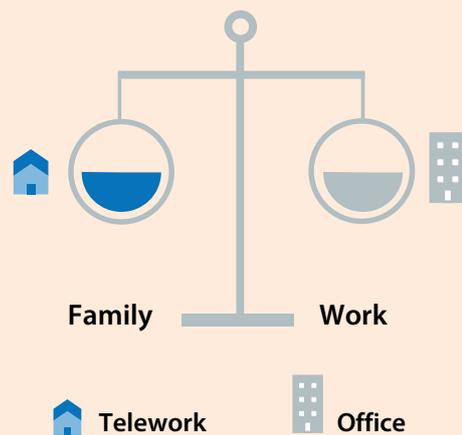
In short, the impact of teleworking is not just limited to the economic sphere – as we have explored in the previous article – but has very important social implications for key issues such as work-life balance, job satisfaction and even the birth rate. The empirical evidence to date indicates that teleworking as a more flexible form of work does indeed facilitate a better work-life balance, increase job satisfaction and may increase the likelihood of households having more children. Nevertheless, behind this evidence there are some important nuances that must be taken into consideration in order for these positive effects to occur effectively: a suitable implementation of teleworking and a learning process are essential. Otherwise, it can become a new form of servitude, rather than «an engine of liberation».

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Interference between personal and professional life



BALANCE



Source: CaixaBank Research.

3. See, for example, the Dossier «Impact of ageing in Spain and Portugal» in the MR04/2020.

4. See Billari, *et al.* (2017). «Does Broadband Internet Affect Fertility?». IZA DP n.º 10935.

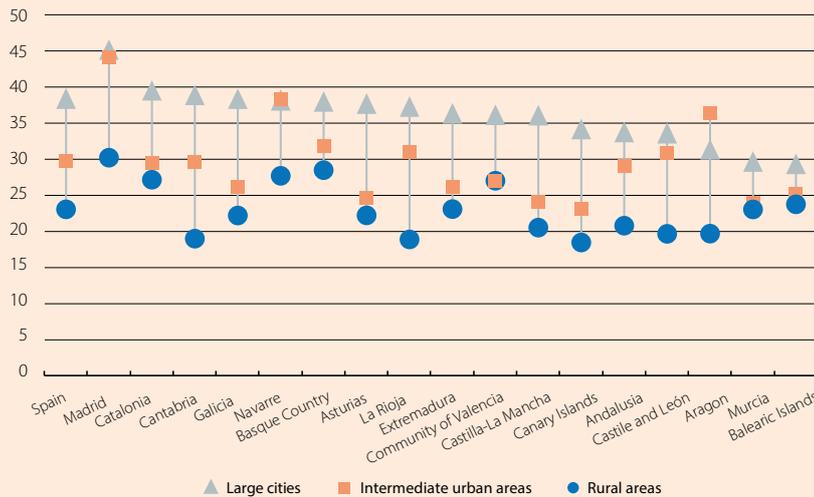
5. The authors find that broadband internet access increases the likelihood of having children by 12% among women between 25 and 45 years of age and with a high level of education.

How will teleworking change urban mobility and residential decisions?

The coronavirus pandemic forced a high percentage of Spaniards to telework. Although this percentage has been declining as the social distancing measures have been lifted, many companies are already considering the option of offering their employees a more flexible way of working, combining days working face-to-face in the office with working remotely.

Teleworking potential by autonomous community, according to the population density of the municipality of residence

(% of employees that could potentially telework)



Note: Municipalities are classified according to their population density into three groups: large cities (densely populated areas, described as cities in Eurostat), intermediate urban areas (areas of intermediate density, described as towns in Eurostat) and rural areas (sparsely populated areas, with the same name in Eurostat).

Source: CaixaBank Research, based on internal calculations and data from Eurostat (LFS) and Dingel and Neiman (2020).

taking into account the tasks carried out by workers in different professions, it is estimated that no less than a third of all Spanish employees could carry out their occupations remotely.² In other words, there is a high potential to increase the number of people who telework.

But is this potential uniform across the whole of Spain or are there significant geographical differences? What we see is that the potential for teleworking is much higher in big cities, as shown in the first chart. If we classify Spanish municipalities according to their population density, we see that 39% of workers residing in large cities could telework, compared to 30% in intermediate urban areas and 23% in rural areas.

It is no surprise that large cities have greater teleworking potential, as this is where a very high percentage of «office» jobs with high teleworking potential are concentrated, in contrast to factory or farm jobs that are more common in intermediate urban or rural areas.³ However, what may come as a surprise is the considerable difference between the two percentages: nearly 20 percentage points between large cities and rural areas.

If we conduct the same exercise at the regional (autonomous community) level, we generally observe the same distribution: a higher percentage of teleworking potential in urban areas than in rural areas. This list is topped by the Community of Madrid, which far exceeds the Spanish average, with a teleworking potential percentage in large cities of 45%. The location of numerous corporate headquarters, the concentration of universities and the percentage of civil servants (above the national average) certainly explain much of this difference.

1. According to data from Eurostat: <https://ec.europa.eu/eurostat/web/products-eurostat-news/-/DDN-20200424-1>.

2. Own estimate, based on microdata from the LFS and the methodology used by Dingel and Neiman (2020). See the Focus «[The COVID-19 outbreak boosts remote working](#)» in the MR06/2020.

3. The data we obtain refer to the teleworking potential of people who live in cities versus more rural areas, and not to the potential of the occupations that exist in these locations. Nevertheless, we are assuming that a significant percentage of people living in cities work in these cities, and likewise in rural areas.

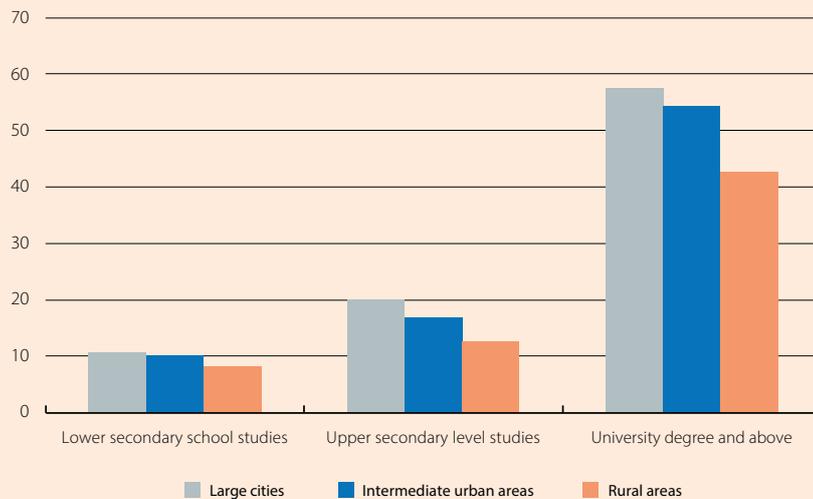
In view of this foreseeable rise in teleworking, in this article we will analyse its implications for urban mobility and, from a longer-term perspective, for the residential real estate market. After all, many families decide to buy a home near their workplace in order to minimise the time spent commuting. However, if the need to go to work in person is limited to just a few days a week, the decision on where to reside may change considerably.

Teleworking potential: greater in large cities and also among highly-skilled workers

To answer the two questions we are posing (urban mobility and place of residence), first of all it is necessary to analyse the potential for teleworking that exists according to workers' place of residence.

In 2019, only 4.9%¹ of employed people in Spain worked from home on a regular basis. However,

Teleworking potential of young people according to education level and the population density of the municipality of residence (% of employees that could potentially telework)



Notes: The education level refers to the maximum level reached. Municipalities are classified according to their population density into three groups: cities (densely populated areas), towns (areas of intermediate density) and rural areas (sparsely populated areas). We consider workers between 25 and 39 years of age.

Source: CaixaBank Research, based on internal calculations and data from Eurostat (LFS) and Dingel and Neiman (2020).

workers with higher education is much higher in the city than in the countryside (56.9% and 37.2%, respectively). It is therefore to be expected that the increase in teleworking will have a greater impact on the decisions of young university graduates living in cities.

Short term: teleworking and urban mobility

If teleworking becomes more prevalent, then the frequency with which workers will travel to their workplace will be reduced. In the short term, if we assume that workers do not change their place of residence, how many fewer daily commutes would we be talking about?

Recently, as a result of the COVID-19 outbreak, the National Statistics Institute of Spain has published highly-innovative mobility data based on mobile phone geolocation information.⁴ Although the data in question are not restricted to workers, they offer a good approximation for employees entering large Spanish cities. According to these figures, the 10 most populated cities in Spain receive just over 40,000 people per day on average. The ranking is led, naturally, by Madrid, with more than 100,000, followed by Barcelona, with more than 70,000. Bilbao is also high in the ranking, receiving some 34,000 people daily, which represents almost 10% of the city's residents (see third chart).

How many of these journeys could be affected by the rise in teleworking? While it is difficult to answer this question accurately, the available data can give us an idea. Assuming that around 35% of all journeys into large cities take place for occupational reasons⁵ and that the teleworking potential of the workers undertaking these journeys is around 40% (a figure that corresponds to the teleworking potential in urban areas, of which approximately 5% already telework), then the daily movements into large cities could be reduced by 12.5%. However, since working from home is often combined with days spent working face-to-face, the reduction in travel may be less. For instance, if these people were to work from home 60% of the time, then urban mobility would be reduced by around 7%. This figure has significant implications for reducing congestion on roads into cities and for cutting pollution.⁶

4. The data can be accessed interactively at: https://www.ine.es/covid/covid_movilidad.htm. In this article we use the data for the control week (18-21 November 2019).

5. Estimate based on the mobility study by ATM (EMEF.18).

6. Moreover, mobility within large cities would be affected as a result of the lower number of journeys conducted by citizens who both live and work in the city itself and also opt to telework. This would lead to a significant change in the environment given that, in the major European cities, 40% of CO₂ emissions from road transportation are the result of this internal urban mobility.

Long term: teleworking and the residential property market

Beyond the short-term implications for urban mobility, if these changes in working habits are consolidated, they could lead a considerable number of people, many of whom currently live in large cities, to rethink their place of residence. For instance, home buyers of the future may be able to acquire the most expensive homes in cities for less, since a large portion of the usual buyers (highly-educated people who work in offices) could opt for housing further away from the city centre. In addition, the buyer of such a home on the outskirts of big cities will no doubt demand more square metres in order to accommodate one or home offices where they can spend part of their working day, and they will likely demand gardens and common areas given that part of their free time will be spent within the home itself, since it would be located in an area with fewer leisure and cultural activities on offer.

Mobility to the 10 most populated Spanish cities
 (Number of travellers per day) (% of the city's population)



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

The rise in Google searches for the term «buy house» following the outbreak of the pandemic was indicative of a possible shift of trend in this vein, suggesting a rise in the appeal of owning a house rather than living in a flat. Thus, if teleworking ends up becoming the norm, the supply of residential housing will have to adapt to these new preferences in terms of location and type of housing. Urban planning schemes should also be reviewed to accommodate this increased demand for residential property, as well as for the related public services (schools, hospitals, etc.) and transport infrastructures.⁷ After all, these are transformations which could help to achieve a better territorial balance.⁸

This does not mean that nobody wants to live in the city! Many jobs, such as those related to tourism or personal services, can hardly be carried out remotely. On the other hand, the preferences of households are highly varied and some people choose to live in the city not because of their work but because of the wide range of shopping, cultural and leisure activities on offer. Cities have also been, and will continue to be, focal points for development thanks to the significant synergies that take place within them in terms of the generation, dissemination and accumulation of knowledge. It is therefore unlikely that the rise in teleworking will reverse the secular trend towards greater urbanisation and population density in cities, but it could help to moderate it.

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7. In this regard, there would be an increase in journeys into large cities on the days when people attend the workplace in person, so the long-term effect of teleworking on urban mobility would be somewhat uncertain.

8. The higher prevalence of teleworking could also lead to significant changes within the commercial property sector. All of these changes in demand and supply would result in price adjustments for offices, commercial premises, etc. between the different locations.

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

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How are consumer savings behaving in times of coronavirus? We document an increase in «pent-up savings» due to the lockdown, which is expected to be quickly undone, although savings driven by uncertainty will continue to weigh down on the outlook.



The ECB's firewall against the COVID-19 crisis

The ECB's speed and decisiveness have succeeded in defusing financial stress, restoring the functioning of the markets and protecting financial conditions. However, having successfully played the role of «fire-fighter», the ECB will have to remain highly active to support the revival of the economy.



Real-time changes in inequality and effectiveness of the welfare state to cushion the impact of the crisis

The team of researchers from Pompeu Fabra University, the Institute of Political Economy and Governance (IPEG) and CaixaBank Research has embarked on a globally-pioneering project: using big data techniques to track changes in inequality and the role of the welfare state in real time.



Tourism sector report: second semester

The COVID-19 crisis is having a major impact on Spain's economic activity, particularly on the tourism sector. We analyse the position from which the sector is facing this crisis and its future prospects.



Real estate sector report: second semester

Is the real estate sector ready to tackle the COVID-19 crisis? We take a closer look at the state of the sector, its strengths and the risks it faces.



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