MR05

MONTHLY REPORT • ECONOMIC AND FINANCIAL MARKET OUTLOOK
NUMBER 456 | MAY 2021

ECONOMIC & FINANCIAL ENVIRONMENT

FINANCIAL MARKETS
Emerging economy outlook: an uneven recovery

INTERNATIONAL ECONOMY
The role of pent-up demand in the euro area recovery in 2021

SPANISH ECONOMY
Spain's Recovery Plan: turning words into action

DOSSIER: CONSUMPTION DURING THE PANDEMIC: A CROSS SECTION BY GENERATION

The consumption of each generation in normal times... and in times of pandemic

The transition to e-commerce during the pandemic: everyone in equal measure?

From banknotes to bizum: the intergenerational boost of the pandemic to digital payment methods

Income and expenditure between generations in times of pandemic

CaixaBank Research

MONTHLY REPORT - ECONOMIC AND FINANCIAL MARKET OUTLOOK
May 2021

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

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

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

Date this issue was closed:
30 April 2021

INDEX

1 EDITORIAL

3 KEY POINTS OF THE MONTH

4 FORECASTS

7 FINANCIAL MARKETS

9 *Emerging economy outlook: an uneven recovery*
Àlex Ruiz and Beatriz Villafranca

12 INTERNATIONAL ECONOMY

15 *The role of pent-up demand in the euro area recovery in 2021*
Álvaro Leandro and Eduard Llorens i Jimeno

17 *Disposable income stabilisers*
Luís Pinheiro de Matos

21 SPANISH ECONOMY

23 *Spain's Recovery Plan: turning words into action*
Javier Garcia-Arenas

26 PORTUGUESE ECONOMY

29 DOSSIER: CONSUMPTION DURING THE PANDEMIC: A CROSS SECTION BY GENERATION

29 *The consumption of each generation in normal times... and in times of pandemic*
Josep Mestres Domènech and Eduard Llorens i Jimeno

31 *The transition to e-commerce during the pandemic: everyone in equal measure?*
Eduard Llorens i Jimeno

33 *From banknotes to bizum: the intergenerational boost of the pandemic to digital payment methods*
Josep Mestres Domènech and Eduard Llorens i Jimeno

35 *Income and expenditure between generations in times of pandemic*
Javier Garcia-Arenas, Alberto Graziano, Josep Mestres and Eduard Llorens i Jimeno

No country for young men

This is no country for young men. We see it in our environment and the data increasingly expose the reality. The labour force survey for the first quarter of the year has reminded us once again: Spain's youth unemployment rate, the benchmark for assessing the situation of people aged under 25, remains extraordinarily high, at 40%.

These messages should not fall on deaf ears. The high rate of unemployment endured by young people only provides a partial view of the difficulty of their situation. Since they had more precarious working conditions before the crisis, they have received a lower level of protection: they have had less access to furlough (ERTE) schemes and, ultimately, a high proportion of them have been left with no income. According to CaixaBank Research's real-time inequality tracker (www.inequality-tracker.caixabankresearch.com), much of the increase in inequality that has occurred during the crisis is due to the deterioration in the economic situation of younger workers.

Young people are suffering the most from the economic crisis, and this is only rubbing salt into the wound. Their employment situation has been deteriorating for years. The increase in temporary employment and part-time employment has been particularly pronounced for those who, having completed their studies, want to start working. This makes them much more vulnerable when economic crises occur. It has also led to a reduction in their wage incomes and has made their employment prospects more limited and uncertain. The data help us to take stock of the situation. The median monthly wage income, in real terms, of young people between the ages of 18 and 20 in 2019 was 50% lower than that received by the young people of 1980, according to a recent study by Samuel Bentolila and co-authors. For people between the ages of 30 and 34, the decline has been 26%. The reason for these reductions is not a decrease in wages per hour worked, but the collapse in monthly wage incomes due to the shorter duration of contracts and the increase in part-time employment. What is more, this is ultimately what determines young people's decision to leave home or start a family. The picture becomes bleaker still when we consider the greater difficulties they have in accessing a home.

This situation requires action to bolster the safety net available to young people. In previous crises, the lack of adequate support has made the consequences particularly persistent for people who were joining the labour market. Although the encouraging rate of vaccination that is being achieved will imminently allow the economic recovery to gather strength, it will still take a long time to reach the entire population.

These actions must be accompanied by profound changes that once and for all improve young people's ability to integrate into the labour market. Action must be taken in the education system, connecting it better with the world of work. The knowledge acquired through short internships is of great help in choosing the training itinerary best suited to each person's interests and abilities. In this regard, there is room for improvement at all levels of education, but it is surely in vocational training that this aspect is most relevant and the potential for improvement is highest. It is here that the need for action is most urgent.

It is also essential to reshape certain areas of the labour market. The ultimate goal: to reduce its high duality. It is not optimal from an economic standpoint, nor is it just from a social point of view, to have such a big gap in the levels of protection available to different groups of workers. Formulae must be sought to help people who are joining the labour market to obtain more stable jobs and higher levels of protection. In other words, it would be very helpful to have a contractual framework that makes permanent contracts more attractive. A redundancy cost per year worked that gradually increases according to the worker's length of service could help in achieving these goals.

The Recovery Plan presented by the Government highlights young people as one of the groups in need of urgent support and points out some of the above aspects as ways to improve their situation. Over the coming months it will be time to negotiate and reach agreements, to refine specific plans and turn words into action. Young people deserve a country that pays them attention.

Oriol Aspachs
May 2021

Chronology

APRIL 2021

- **1** OPEC and its partners approve a gradual increase in oil production for May, June and July 2021.
- **27** The European Parliament gives its final approval for the agreement governing the new relationship between the EU and the United Kingdom, already in force since January.
- **30** Spain submits its Recovery Plan to the European Commission to gain access to NGEU funds.

FEBRUARY 2021

- **13** The US Senate absolves Donald Trump from impeachment for the second time.
- **24** Ghana is the first country to receive a vaccine package as part of COVAX, the WHO-led programme aimed at ensuring equitable access to COVID-19 vaccines among developing countries.

DECEMBER 2020

- **2** The United Kingdom becomes the first Western country to approve the use of a vaccine against COVID-19.
- **10** The ECB increases the PEPP budget to 1.85 trillion, prolongs its net purchases until March 2022 and launches three new TLTRO-III operations.
- **24** The EU and the United Kingdom reach a trade agreement to regulate their economic relations from 1 January 2021, when the United Kingdom leaves the single market and customs union.

MARCH 2021

- **5** The EU and the US suspend tariffs which they had imposed on each other in retaliation for state aid to their respective aerospace industries.
- **11** The ECB indicates that it will increase the rate of weekly debt purchases under the pandemic emergency purchase programme (PEPP), although it did not alter the programme's design or total capacity (1.85 trillion euros).
- **19** Various EU countries resume use of the AstraZeneca COVID-19 vaccine (suspended mid-month) after the European Medicines Agency reiterated its safety and efficacy.

JANUARY 2021

- **15** The official global COVID-19 death toll surpasses 2 million people.
- **20** Joe Biden takes the oath of office to become the new US president. Earlier in the month, Donald Trump supporters had stormed Congress in protest at the election results.

NOVEMBER 2020

- **15** Australia, New Zealand and 13 Asian economies (including China) sign a large-scale trade agreement known as the Regional Comprehensive Economic Partnership.
- **20** The first COVID-19 vaccines seek official approval from the authorities after the trial phase comes to an end.

Agenda

MAY 2021

- **5** Spain: registration with Social Security and registered unemployment (April).
- **6** Portugal: new lending (March).
- **7** Spain: industrial production index (March).
- **10** Portugal: turnover in industry (March).
- **12** Portugal: employment and unemployment (Q1).
- **14** Portugal: Fitch rating.
- **17** Spain: foreign trade (March).
- **18** GDP of Japan (Q1).
- **26** Spain: loans, deposits and NPL ratio (March).
- **28** Euro area: economic sentiment index (May).
  Portugal: business and consumer confidence indicator (May).
- **31** Spain: CPI flash estimate (May).
  Spain: state budget execution (April).
  Portugal: CPI flash estimate (May).

JUNE 2021

- **2** Spain: registration with Social Security and registered unemployment (May).
- **10** Governing Council of the European Central Bank meeting.
- **11** Spain: Fitch rating.
  Portugal: services activity indicator (April).
- **14** Portugal: tourism activity (April).
- **15-16** Federal Open Market Committee meeting.
- **17** Spain: quarterly labour cost survey (Q1).
- **22** Spain: loans, deposits and NPL ratio (Q1 and April).
- **23** Portugal: home prices (Q1).
- **24** Spain: quarterly national accounts (Q1).
  Spain: balance of payments and NIIP (Q1).
  Portugal: household savings rate (Q1).
- **24-25** European Council meeting.
- **29** Spain: CPI flash estimate (June).
  Euro area: economic sentiment index (June).
- **30** Spain: household savings rate (Q1).
  Spain: state budget execution (May).
  Portugal: employment and unemployment (May).
  Portugal: NPL ratio (Q1).

Reason for hope

The publication of the growth data for Q1 has continued to reflect the asymmetries in the recovery of global economic activity. The American economy, having grown by 1.6% between January and March, remains well ahead of a Europe once again plunged into recession by registering two consecutive quarters of negative growth. Nevertheless, the latest signs reflect a shift in the trend in our region, as in recent weeks there has been an acceleration in the vaccination rate, an easing of the restrictions with a consequent increase in mobility, a rise in confidence among economic players and an acceleration in the processing of the Recovery Plans that will lead to the disbursement of European funds. These signs allow us to anticipate that the worst could now be behind us.

It is true that we still have more questions than answers about this crisis. Furthermore, in a globalised world there are no airtight compartments or islands of supposed safety, so we can only put COVID behind us when herd immunity reaches all regions. Nevertheless, in recent weeks there has been greater optimism as the vaccination targets which Europe had set for this summer appear increasingly achievable, as these would allow us to exit containment mode and join the group of countries in expansive territory. The activation of the last 12 months of pent-up consumption in Europe thanks to this improvement in expectations could alone contribute slightly more than 1 pp to growth in 2021 in a conservative scenario (2.5 pps in the optimistic scenario), given that forced savings in the region last year amounted to just over 4% of GDP.

Spain is not excluded from this improvement in the signs, as 25% of the population is already covered with at least one dose, while the rate of vaccination in the last week of April (4,400 doses per 100,000 inhabitants) was 25% higher than that required to immunise 70% of the population by the end of September. In addition, the confidence of economic players measured by the composite PMI has managed to climb above 50 points (the line which separates expansion from stagnation), while CaixaBank's consumption indicator also improved in April, with a year-on-year drop of 5% (+0% Spanish cards) compared to –8% on average in Q1 2021.

In this environment of greater confidence, the question is whether the pendulum could swing too quickly and precipitately, anticipating a risk of overheating in the US economy that could spread to the rest of the industrialised countries. That said, the situation facing the US can hardly be extrapolated to other countries. After all, the accumulation of the country's expansive fiscal plans in the last year amounts to 6 trillion dollars (25% of GDP), with a barrage of cheques for households which in March alone led to an increase in the savings rate of up to 27% of disposable income. In addition, the country has achieved a high vaccination rate (44% of the population with at least one dose) and some business surveys anticipate incipient production bottlenecks. Despite all this, neither the markets nor the Federal Reserve in particular seem particularly concerned by the speed of a revival that will enable GDP to recover to Q4 2019 levels by this summer – at least not until all of the jobs lost last year are recovered. It is clear that inflation will continue to rally over the coming months, potentially reaching close to 4.0%, but it is also the case that by the end of the year it will return to 2.5% once the base effect has dissipated. This scenario could allow the Fed to stay on its road map, especially given that the new monetary policy strategy incorporates much more flexibility. Thus, in the face of the fears of the start of the year, the yield on the US bond appears to be stabilising at around 1.6% despite the upward revision of inflation expectations. If we consider the relative calm of the bond markets in conjunction the biggest stock market gains (10%) in the first 100 days of a presidency since the 1960s, it seem that investors are less worried than part of academia about Joe Biden's aggressive economic-policy shift. The new president is following the old rule that reforms should be concentrated into the first three months of office, especially when there is only a narrow majority in the chambers. Ultimately, there is reason for hope, but it is too early to consider a short-term withdrawal of the stimuli or to anticipate inflationary tensions that pose a risk to financial stability, even in the US. We will cross that bridge when, and if, we come to it.

José Ramón Díez

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	0.23	0.25	0.45
12-month Libor	3.86	1.26	3.08	1.97	0.34	0.50	0.80
2-year government bonds	3.70	0.80	2.68	1.63	0.13	0.25	0.50
10-year government bonds	4.70	2.58	2.83	1.86	0.93	1.90	2.10
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	–0.47	–0.45	–0.45
1-month Euribor	3.18	0.67	–0.37	–0.45	–0.56	–0.48	–0.43
3-month Euribor	3.24	0.85	–0.31	–0.40	–0.54	–0.50	–0.40
6-month Euribor	3.29	1.00	–0.24	–0.34	–0.52	–0.48	–0.38
12-month Euribor	3.40	1.19	–0.13	–0.26	–0.50	–0.45	–0.35
Germany							
2-year government bonds	3.41	0.55	–0.60	–0.63	–0.73	–0.60	–0.45
10-year government bonds	4.30	1.82	0.25	–0.27	–0.57	–0.35	0.00
Spain							
3-year government bonds	3.62	2.06	–0.02	–0.36	–0.57	–0.36	–0.06
5-year government bonds	3.91	2.59	0.36	–0.09	–0.41	–0.24	0.12
10-year government bonds	4.42	3.60	1.42	0.44	0.05	0.15	0.50
Risk premium	11	178	117	71	62	50	50
Portugal							
3-year government bonds	3.68	4.02	–0.18	–0.34	–0.61	–0.29	0.05
5-year government bonds	3.96	4.67	0.47	–0.12	–0.45	–0.28	0.14
10-year government bonds	4.49	5.35	1.72	0.40	0.02	0.15	0.53
Risk premium	19	353	147	67	60	50	53
EXCHANGE RATES							
EUR/USD (dollars per euro)	1.13	1.29	1.14	1.11	1.22	1.17	1.17
EUR/GBP (pounds per euro)	0.66	0.83	0.90	0.85	0.90	0.89	0.90
USD/GBP (pounds per dollar)	0.59	0.64	0.79	0.76	0.74	0.76	0.77
OIL PRICE							
Brent ($/barrel)	42.3	82.5	57.7	65.2	50.2	64.0	63.0
Brent (euros/barrel)	36.4	63.2	50.7	58.6	41.3	54.7	53.8

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	2.8	–3.3	5.9	4.3
Developed countries	*2.7*	*1.3*	*2.3*	*1.6*	*–4.7*	*5.1*	*3.5*
United States	2.7	1.5	3.0	2.2	–3.5	6.0	3.8
Euro area	2.2	0.7	1.9	1.3	–6.8	4.1	3.3
Germany	1.6	1.3	1.6	0.6	–5,1	3.0	3.2
France	2.2	0.8	1.7	1.5	–8.2	5.7	3.1
Italy	1.5	–0.5	0.8	0.3	–8.9	3.8	3.7
Portugal	1.5	0.0	2.9	2.5	–7.6	4.9	3.1
Spain	3.7	0.3	2.4	2.0	–10.8	6.0	4.4
Japan	1.4	0.5	0.6	0.3	–4.9	2.8	1.9
United Kingdom	2.9	1.1	1.3	1.4	–9.8	6.2	4.1
Emerging and developing countries	*6.5*	*5.1*	*4.5*	*3.6*	*–2.2*	*6.4*	*4.9*
China	10.6	8.3	6.7	6.0	2.3	8.3	5.6
India	9.7	6.9	6.7	4.7	–7.0	10.6	7.3
Brazil	3.6	1.6	1.8	1.4	–4.1	3.5	2.5
Mexico	2.4	2.1	2.2	0.0	–8.2	4.0	2.5
Russia	7.2	0.9	2.5	1.3	–3.1	3.0	2.2
Turkey	5.4	5.1	2.8	0.9	1.6	4.0	3.4
Poland	4.2	3.4	5.4	4.6	–2.7	3.7	4.3
INFLATION							
Global	4.1	3.7	3.6	3.5	3.2	3.7	3.1
Developed countries	*2.1*	*1.5*	*2.0*	*1.4*	*0.7*	*1.9*	*1.5*
United States	2.8	1.7	2.4	1.8	1.2	2.7	2.0
Euro area	2.1	1.4	1.8	1.2	0.3	2.0	1.2
Germany	1.7	1.3	1.9	1.4	0.4	2.5	1.4
France	1.8	1.2	2.1	1.3	0.5	2.0	1.2
Italy	1.9	1.5	1.2	0.6	–0.1	1.9	1.1
Portugal	3.0	1.2	1.0	0.3	0.0	0.9	1.3
Spain	3.2	1.4	1.7	0.7	–0.3	1.1	1.5
Japan	–0.3	0.3	1.0	0.5	0.0	0.1	0.6
United Kingdom	1.9	2.4	2.5	1.8	0.9	1.9	1.4
Emerging countries	*6.7*	*5.6*	*4.9*	*5.1*	*5.1*	*5.0*	*4.4*
China	1.7	2.6	2.1	2.9	2.5	1.3	1.7
India	4.5	8.0	3.9	3.7	6.6	4.3	4.6
Brazil	7.3	6.1	3.7	3.7	3.2	4.1	3.5
Mexico	5.2	4.2	4.9	3.6	3.4	3.8	3.7
Russia	14.2	8.7	2.9	4.5	4.9	3.5	4.0
Turkey	27.2	8.4	16.2	15.5	14.6	14.2	8.0
Poland	3.5	2.0	1.2	2.1	3.7	3.4	2.7

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	0.9	–12.4	6.8	4.0
Government consumption	5.0	0.9	2.6	2.3	3.8	3.7	1.7
Gross fixed capital formation	5.6	–2.8	6.1	2.7	–11.4	6.8	5.7
Capital goods	4.9	–0.5	5.4	4.4	–13.0	12.7	5.8
Construction	5.7	–5.2	9.3	1.6	–14.0	3.7	5.7
Domestic demand (vs. GDP Δ)	4.4	–0.7	3.0	1.4	–8.7	5.7	3.8
Exports of goods and services	4.7	3.1	2.3	2.3	–20.2	11.4	7.8
Imports of goods and services	7.0	–0.3	4.2	0.7	–15.8	11.3	6.2
Gross domestic product	**3.7**	**0.3**	**2.4**	**2.0**	**–10.8**	**6.0**	**4.4**
Other variables							
Employment	3.2	–1.0	2.6	2.3	–7.5	1.6	2.1
Unemployment rate (% of labour force)	10.5	20.5	15.3	14.1	15.5	16.5	15.3
Consumer price index	3.2	1.4	1.7	0.7	–0.3	1.1	1.5
Unit labour costs	3.0	0.1	1.2	2.4	5.3	–4.3	–0.6
Current account balance (% GDP)	–5.9	–0.8	1.9	2.1	0.7	1.5	1.6
External funding capacity/needs (% GDP)	–5.2	–0.3	2.4	2.6	2.6	1.7	1.8
Fiscal balance (% GDP) [1]	0.4	–6.7	–2.5	–2.9	–11.0	–8.8	–6.3

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	2.6	2.6	–5.9	3.8	4.1
Government consumption	2.3	–0.6	0.6	0.7	0.5	3.5	0.2
Gross fixed capital formation	–0.3	–2.0	6.2	5.4	–2.2	3.8	5.5
Capital goods	1.2	1.2	8.9	2.8	–	–	–
Construction	–1.5	–4.4	4.7	7.2	–	–	–
Domestic demand (vs. GDP Δ)	1.3	–0.5	3.1	2.8	–4.6	3.7	3.8
Exports of goods and services	5.2	4.0	4.2	4.0	–18.7	15.8	9.3
Imports of goods and services	3.6	2.2	5.0	4.7	–12.1	12.4	10.5
Gross domestic product	**1.5**	**0.0**	**2.9**	**2.5**	**–7.6**	**4.9**	**3.1**
Other variables							
Employment	0.4	–0.6	2.3	1.0	–2.0	–0.6	1.3
Unemployment rate (% of labour force)	6.1	11.8	7.0	6.5	6.8	9.1	7.7
Consumer price index	3.0	1.2	1.0	0.3	0.0	0.9	1.3
Current account balance (% GDP)	–9.2	–3.5	0.6	0.4	–1.2	–0.7	0.1
External funding capacity/needs (% GDP)	–7.7	–2.2	1.6	1.2	0.1	0.0	0.0
Fiscal balance (% GDP)	–4.6	–6.1	–0.3	0.1	–5.7	–5.7	–3.2

Forecasts

Investor sentiment gradually improves

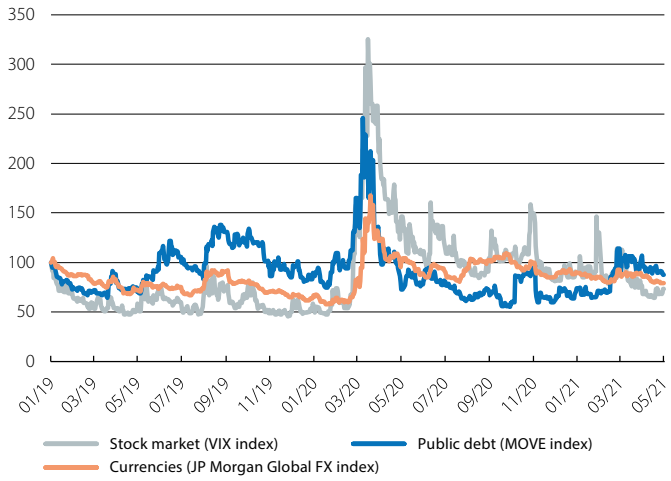
In search of new catalysts. In April, investor sentiment continued to recover thanks to two major aspects: the increasingly close prospect of a sustained economic revival, led by the good performance of economic activity in the US and China, and the continuation of very substantial support measures in both the fiscal and the monetary spheres. These two factors were joined during the month by the successful start of the Q1 corporate earnings campaign on both sides of the Atlantic. The Fed and the ECB, meanwhile, provided some relief to the markets by reiterating their messages of patience, commitment and continuity, with a highly dovish monetary policy for the coming months. Over the month as a whole, all of these factors helped to reduce volatility in the financial markets and led investors to cautiously increase their preference for higher-risk assets linked to the business cycle. However, the financial environment remains shrouded by uncertainty due to the evolution of the pandemic itself and the high valuations in some market segments, as well as the risks of overheating in certain regions and the imbalances that an uneven global recovery could generate.

The Fed maintains its dovish tone and the yield on treasuries moderates. As expected, the Fed kept its stimulus measures unchanged at its April meeting (rates in the 0.00%-0.25% range, and asset purchases at a monthly rate of around 120 billion dollars). The institution acknowledged the improvement in US activity and employment since March, driven by the lifting of restrictions and the implementation of new fiscal stimuli, but insisted that the recovery is still incomplete, especially in the labour market. It also reiterated its view that the inflation spikes in 2021 are due to temporary factors, so they should not condition monetary policy decisions. In this regard, Fed Chairman Jerome Powell reaffirmed the institution's intention to maintain the current monetary stimuli over the coming months and recalled that, when consideration is eventually given to withdrawing them, this will be communicated well in advance. These messages helped to calm the nerves of investors in the US fixed-income market, and following the sharp rise in interest rates in the first few months of the year, April brought a relaxation of the long tranches of the nominal rate curve (of around –10 bps on the 10-year bond, bringing the rate to 1.63%) triggered by the decline in real rates.

The ECB, unchanged. Like the Fed, at its April meeting the ECB also kept official interest rates low and assured the continuation of the stimulus programmes adopted during the health crisis. Indeed, the ECB also noted that the spikes

Implicit volatility in the financial markets

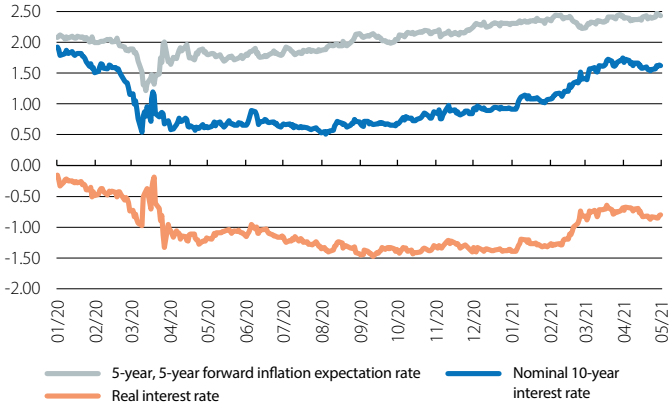
Index (100 = January 2019)



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

US: interest rates and inflation expectations

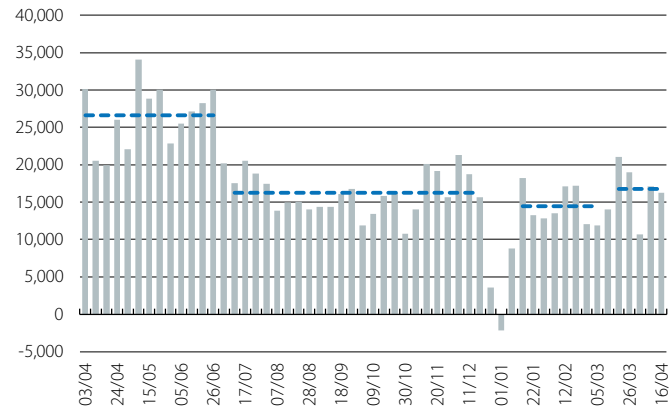
(%)



Note: *The real interest rate is the result of subtracting inflation expectations from the nominal interest rate.*
Source: *CaixaBank, based on data from Bloomberg.*

ECB: weekly net purchases under the PEPP

(EUR millions)



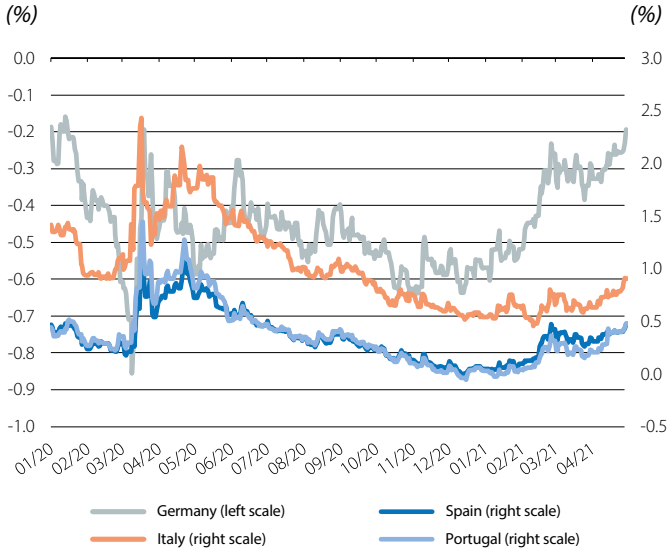
Note: *The dotted lines show, from left to right, the weekly average for Q2 2020, the second half of 2020, Q1 2021 (up until the ECB's March meeting), and after the «significant» increase up until the latest available date.*
Source: *CaixaBank Research, based on data from Bloomberg.*

in European inflation are due to technical and temporary factors, so they should not influence its actions. ECB President Christine Lagarde insisted that the dovish financial conditions will be maintained and reiterated that during Q2 the institution will conduct purchases under the PEPP at a «significantly higher» pace than in Q1. On this point, and to avoid discrepancies among analysts, Lagarde recommended tracking the monthly rather than weekly data in order to correctly assess the acceleration in the rate of purchases. The German sovereign yield curve, meanwhile, rose to –0.20% (+9 bps in the month), widening the gap with euro area periphery debt despite the ECB's purchases.

The stock markets continue to rise. In April, the major stock market indices continued the trend of growth and low volatility of recent months. On this occasion, part of the improvement in investor sentiment was due to the start of the Q1 corporate earnings campaign in the US and the euro area. Specifically, up until the time this report was written, around 90% of the S&P 500 companies that had published their figures had exceeded analysts' expectations, with the technology and financial sectors leading the recovery in earnings. The S&P 500 thus reached new all-time highs and ended the month with gains of around 5%. In the euro area, while the presentation of earnings is somewhat further behind, the stock markets followed a similar trend (EuroStoxx 50 +1.4%), with the Ibex 35 and the PSI-20 registering gains of over 2.5%.

The dollar depreciates while commodity prices rise. In the context of a yielding of long-term interest rates in the US and patience on the part of the Fed, the dollar receded against most advanced and emerging-economy currencies, while the euro stood at around 1.20 dollars. As in March, the Turkish lira was the focus of the most volatile episodes in the face of the sharp rise in inflation (16% year-on-year in March) and the rise in infections. The Brent oil price, meanwhile, rose to 67 dollars a barrel, spurred by improved expectations for crude oil demand this year, as well as by investors' confidence in OPEC and its allies' ability to manage supply. At the end of April, the oil-producing countries together ratified the decision to maintain the gradual pace of increases in production up to 2 million barrels a day by July. In addition, the revival of the business cycle and the acceleration of the decarbonisation and infrastructure plans in the US triggered a rise in the price of industrial metals. This was particularly the case for the copper price, which reached its highest point in recent decades and has risen by around 30% so far this year.

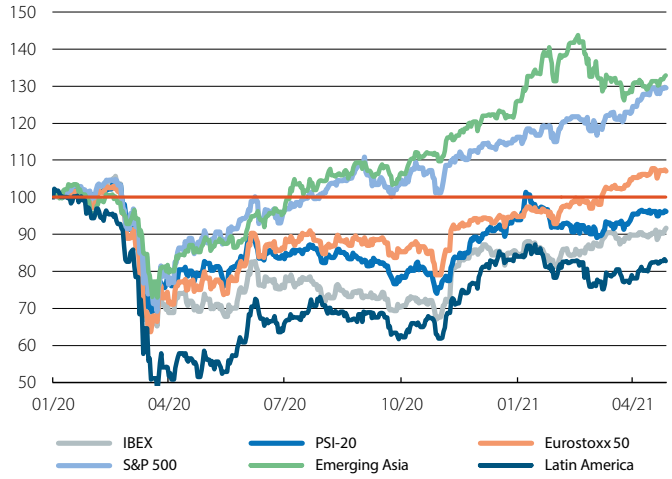
Yields on 10-year sovereign debt



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

Major international stock markets

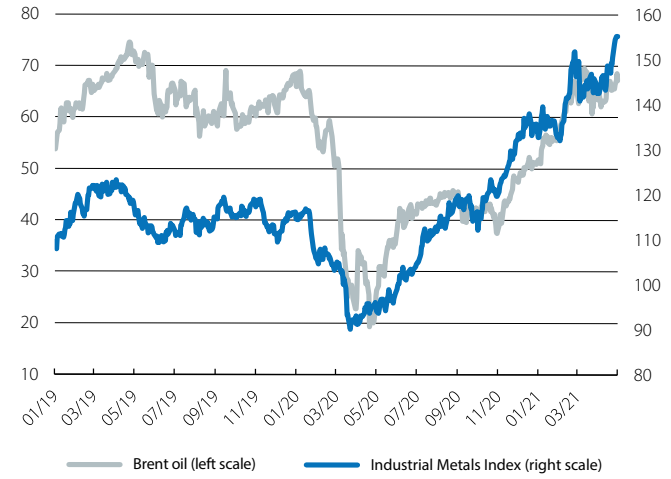
Index (100 = January 2020)



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

Oil and industrial metal prices

(Dollars per barrel) *(Price index in dollars)*



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

Emerging economy outlook: an uneven recovery

Emerging economies will experience a clear recovery in growth in 2021 and 2022. If we set aside China, a country with a different idiosyncratic dynamic which has already been analysed in this publication recently, the group of major emerging countries experienced a fall in GDP of 5.1% in 2020.[1] According to our latest projections, this decline will give way to growth of 4.8% in 2021 and of 3.8% in 2022. But the real key for the emerging world right now is not the recovery itself, but how unequal it is going to be. This asymmetry is going to produce winners and losers among emerging economies. Moreover, among the losers there will be a group of countries which, in addition to experiencing a loss of growth, will see their macroeconomic imbalances strained (we will call them the «fragile losers», to paraphrase the term «fragile emerging economies» which was widely used before the pandemic).

Pandemic outlook

The disparity in emerging countries' economic trajectory in 2021 and 2022 will depend on how the pandemic develops, how emerging economies are tied to the various global growth dynamics points of global growth and also their ability to deal with adverse economic shocks. Thus, the five most affected emerging countries relative to their population (Hungary, Brazil, Poland, Argentina and Chile) have more than twice as many infections as the average of the least affected emerging countries.

Furthermore, the outlook for the vaccination roll-out is vastly different among emerging countries. First of all, there is great disparity in the number of doses administered (for example, South Africa has vaccinated 0.5% of its population, while Hungary has reached 38%). More worryingly, however, the countries that are immunising the fewest people are also the ones that have ordered the lowest number of doses relative to their population.

It must be acknowledged, however, that there is some correspondence between the emerging countries that have been hardest hit by the pandemic and those which have guaranteed a greater number of doses. All in all, the outlook for the pandemic remains particularly sensitive in South Africa, Turkey, Indonesia, India, Malaysia, Colombia and Brazil.[2]

Emerging-economy ties with the engines of the global expansion

The second area that will generate asymmetry in emerging economies' recovery is the very nature of the global expansion. Given that in 2021 and 2022 the three major global economic engines (China, the EU and the US) are going to be operating at very different speeds, emerging economies will also see very different levels of foreign demand depending on the extent to which they are linked to these buying markets, in terms of exports of both goods (generally commodities) and services (most frequently tourism).

In this sphere, we consider countries that export a lot to China or the US, or those with a relatively lower exposure to tourism (or whose market of origin is Asia or North America), to be in a better position. As a result, the list of potential countries with the most worrying outlook includes Turkey, Russia, Poland and Hungary.

Emerging economies: pandemic and real channels

	Pandemic channel			Export channel [4]			Tourism channel[5]	Growth		
	Infection rate[1]	Population coverage[2]	Vaccination rate[3]	China	US	EU		2020	2021 (f)	2022 (f)
Turkey	54.0	33	15.8	0.4	1.2	8.0	11.3	1.6	4.0	3.4
Russia	32.1	500	7.8	3.2	0.8	8.3	5.0	–3.1	3.0	2.2
South Africa	26.5	50	0.5	2.7	1.8	4.7	9.0	–7.0	3.5	1.9
Poland	72.5	165	20.5	0.5	1.3	25.9	4.5	–2.7	3.7	4.3
Hungary	79.1	98	38	1.0	1.9	45.6	8.0	–5.1	3.9	4.0
India	12.0	23	8.7	0.6	1.9	1.5	6.8	–7.0	10.6	7.3
Indonesia	6.0	61	4.3	2.5	1.6	1.1	5.7	–2.0	4.3	5.8
Malaysia	12.0	10	2.4	9.2	6.3	5.1	5.9	–5.6	6.5	6.0
Brazil	67.0	133	12.9	3.4	1.6	1.7	7.7	–4.1	3.0	2.5
Mexico	18.0	102	9.4	0.6	29.5	1.6	15.5	–8.2	3.5	2.2
Argentina	62.5	73	14	1.5	0.9	1.5	9.8	–10.0	5.8	2.5
Chile	60.5	92	41.8	8.0	3.4	2.2	3.3	–5.8	6.1	3.8
Colombia	53.9	61	5.6	1.4	3.8	1.2	2.0	–6.8	5.1	3.6

Notes: *1. Thousands of cases per million inhabitants, April 2021. 2. Percentage of the population that can be vaccinated according to the quantity of doses ordered, March 2021. 3. Percentage of the population that has received at least one dose, April 2021. 4. Exports of goods as a percentage of GDP, in US dollars, 2019 5. Contribution to GDP, 2019 or latest year available. (f) indicates forecast. The shaded cells indicate weakness or vulnerability in the area in question and, in the case of growth, lower GDP growth.*
Source: *CaixaBank Research, based on data from DOTS-IMF, WEO-IMF, national sources, the WHO and the World Travel & Tourism Council.*

1. This set of countries is made up of Turkey, Russia, South Africa, Poland, Hungary, India, Indonesia, Malaysia, Brazil, Mexico, Argentina, Chile and Colombia.
2. In the case of Brazil, whilst in nominal terms the quantity of vaccines ordered provides relatively good coverage of the population, it has idiosyncratic difficulties (of a logistical and institutional nature) which justify considering it a country with a fragile health outlook.

Macroeconomic imbalances, economic policy margin and vulnerability to adverse shocks

Finally, the third area that could generate asymmetry is that of macroeconomic imbalances, and in particular whether the «legacy» of the COVID-19 crisis includes an increase in these imbalances which leaves countries vulnerable to potential adverse shocks.

What potential shock currently poses the biggest risk to emerging economies? Given that the emerging-economy growth cycle of recent years has very clearly benefited from highly accommodative global financial conditions which have favoured significant capital inflows, a tightening of these conditions would represent a considerable shift that could potentially hinder the outlook for this group of economies.

To further refine the assessment of the impact that a tightening of financial conditions could have on emerging economy growth, we analysed the impulse-response functions of an SVAR model. This is an illustrative exercise, but it confirms that the growth of the major emerging countries is highly sensitive to global financial conditions.

In this context, in order to identify which countries are particularly vulnerable, we pose two more specific questions: i) how can measures of country risk be expected to evolve in the major emerging countries in 2021 and 2022, and ii) which emerging countries combine a relatively high level of imbalances with a smaller margin to absorb potential negative shocks?

To answer the first question, we used historical data to estimate the credit score that would correspond to the main macroeconomic variables and we compared it with the current score.[3] This exercise indicates that there are two countries, namely Indonesia and Colombia, whose macroeconomic developments suggest greater pressures on sovereign solvency, and another larger group of countries whose situation suggests some cause for concern (South Africa, Russia, India, Brazil, Mexico, Chile and Malaysia).

With regard to the second question, when analysing the macroeconomic imbalances and the margin offered by economic policy to absorb shocks (see the second table), we identify a group of countries that are in the precarious position of showing higher imbalances. In particular, the central imbalance at present is that of indebtedness, which can take different forms. It can be mostly public or private, and more or less dependent on external financing (and, by extension, on global financial conditions). Moreover, in some cases, the problem is exacerbated by a more stressed liquidity situation. When a precarious position on these fronts is combined with less margin for manoeuvre, the names that appear are Turkey, South Africa, Indonesia and, albeit with a somewhat different balance of vulnerabilities, Malaysia, Brazil and Russia.

Let us recap the above analysis, which identifies three major groups of emerging economies. The first group is that of the «winners» – countries that benefit from a fairly good health outlook, have closer trade connections with the countries or regions that are going to grow the most, and have few imbalances. This category includes many emerging countries, especially those in Asia. The second group is that of the «losers», which, at least in relative terms, are enduring a more difficult health situation and have closer ties with less buoyant markets. This category would include Europe's emerging countries. But the third group, that of the «fragile losers», is the most concerning. This group comprises those emerging countries which are not only worse off in terms of the pandemic and looser connections to the pull of the most buoyant economies, but also show more pronounced macroeconomic imbalances. In this unfortunate situation are the countries already mentioned above (Turkey, South Africa, Indonesia, Colombia, Brazil, Russia and Malaysia).

In short, the emerging world, which entered the COVID-19 crisis relatively in sync, is going to experience a recovery at different speeds, which in turn will generate differentiated risks. While it may not be immediately obvious, there is a positive side to this development. Whereas practically all emerging economies appeared to be in a vulnerable position just a few months ago, the idiosyncratic situations have now changed.

Àlex Ruiz and Beatriz Villafranca

(See an extended version of this article at caixabankresearch.com)

Emerging economies: vulnerabilities and margin for manoeuvre

	Latest Data	Change since Q2 2013 (pps)	Five worst countries
Internal and external imbalances			
Current account balance (% of GDP)	1.16	3.43	Colombia, Turkey, Brazil, Argentina and Peru
Foreign debt (% of GDP)	48.22	9.13	Chile, Hungary, Argentina, Malaysia and Poland
Foreign debt s/t (% of GDP)	34.63	2.77	Malaysia, Turkey, Argentina, Hungary and South Africa
Inflation (%)	5.86	0.60	Argentina, Turkey, India, Russia and Brazil
Credit-to-GDP gap (% vs. trend)	3.19	0.01	Chile, Malaysia, Saudi Arabia, Argentina and Brazil
Mitigating factors for an adverse shock			
Foreign currency to s/t foreign debt ratio	3.28	–0.91	Saudi Arabia, Russia, Brazil, India and Indonesia
Government balance (% of GDP)	–5.92	–4.30	Hungary, Russia, Argentina, South Africa and Indonesia
Public debt (% of GDP)	54.77	18.83	Argentina, Brazil, Hungary, South Africa and Malaysia
Intervention rate (%)	5.26	–0.05	Argentina, Turkey, Mexico, Russia and India

Note: *The data correspond to the simple average of the variables calculated for a sample of emerging countries, consisting of Turkey, Russia, South Africa, Poland, Hungary, Saudi Arabia, India, Indonesia, Malaysia, Brazil, Mexico, Peru, Colombia, Argentina and Chile.*
Source: *CaixaBank Research, based on data from Refinitiv, the BIS and the IMF.*

3. We use a model estimated using ordinary least squares which allows a credit rating to be assigned to each country based on the evolution of a set of macroeconomic variables. More specifically, these variables are GDP per capita, public debt, inflation, GDP growth forecast for the next four quarters, volatility of GDP growth over the last three years, and a binary variable equal to 1 if there was a drop in the rating in the previous quarter.

Interest rates (%)

	30-Apr.	31-Mar.	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	–0.54	–0.54	0	1.0	–26.2
1-year Euribor	–0.48	–0.48	0	1.8	–36.3
1-year government bonds (Germany)	–0.64	–0.63	–1	7.1	–9.7
2-year government bonds (Germany)	–0.68	–0.69	1	1.8	7.8
10-year government bonds (Germany)	–0.20	–0.29	9	36.7	38.4
10-year government bonds (Spain)	0.48	0.34	14	42.9	–24.7
10-year government bonds (Portugal)	0.48	0.23	25	45.0	–33.7
US					
Fed funds (upper limit)	0.25	0.25	0	0.0	0.0
3-month Libor	0.18	0.19	–2	–6.2	–36.5
12-month Libor	0.28	0.28	0	–6.1	–55.4
1-year government bonds	0.05	0.06	–1	–5.6	–11.2
2-year government bonds	0.16	0.16	0	3.7	–3.2
10-year government bonds	1.63	1.74	–11	71.3	101.4

Spreads corporate bonds (bps)

	30-Apr.	31-Mar.	Monthly change (bp)	Year-to-date (bp)	Year-on-year change (bp)
Itraxx Corporate	50	52	–2	2.2	–32.4
Itraxx Financials Senior	58	60	–1	–0.6	–47.4
Itraxx Subordinated Financials	108	108	–1	–3.4	–119.6

Exchange rates

	30-Apr.	31-Mar.	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
EUR/USD (dollars per euro)	1.202	1.173	2.5	–1.6	9.5
EUR/JPY (yen per euro)	131.400	129.860	1.2	4.1	12.0
EUR/GBP (pounds per euro)	0.870	0.851	2.2	–2.6	–0.9
USD/JPY (yen per dollar)	109.310	110.720	–1.3	5.9	2.2

Commodities

	30-Apr.	31-Mar.	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
CRB Commodity Index	532.1	506.7	5.0	19.9	50.6
Brent ($/barrel)	67.3	63.5	5.8	29.8	154.3
Gold ($/ounce)	1,769.1	1,707.7	3.6	–6.8	4.0

Equity

	30-Apr.	31-Mar.	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
S&P 500 (USA)	4,181.2	3,972.9	5.2	11.3	47.7
Eurostoxx 50 (euro area)	3,974.7	3,919.2	1.4	11.9	35.8
Ibex 35 (Spain)	8,815.0	8,580.0	2.7	9.2	27.3
PSI 20 (Portugal)	5,050.7	4,929.6	2.5	3.1	17.9
Nikkei 225 (Japan)	28,812.6	29,178.8	–1.3	5.0	46.9
MSCI Emerging	1,347.6	1,316.4	2.4	4.4	47.0

Global economy: vaccination will be the decisive factor

2021, a year in two chapters: containment and expansion. With the exception of China, which, as will become clear later, is already in a post-COVID scenario, the economic pulse of the remaining major economies will be largely determined by the vaccinations. Thus, countries that have made more progress in their immunisation campaign will enter a phase of economic expansion sooner and more decisively. In contrast, those with a slower vaccination roll-out will remain in pandemic «containment mode» for longer. To add some names, the US, with 45% of the population vaccinated with at least one dose, is already in the expansion phase, whilst most EU countries, with around 25% of the population protected, and many emerging countries are still in the containment phase. As for the time scale, the global economy as a whole should definitively enter the expansion phase in the second half of the year. This is CaixaBank Research's outlook and it resembles that of other institutions, such as the IMF. Let us review the narrative of this latter institution, whose outlook is representative of the consensus and sheds some valuable light on what may lie ahead.

The IMF foresees a buoyant but asymmetric recovery in 2021. First and foremost, the Fund predicts a strong recovery in global growth: of 6.0% in 2021 and 4.4% in 2022. These figures are higher than the institution's forecasts at the beginning of the year and reflect a marked improvement in the outlook for advanced countries (especially the US), as well as promising performance among emerging countries. Behind this improvement lies the battery of extra fiscal support measures, as well as a better-than-expected recovery in the second half of the year as a result of the vaccination process. While this is the overall outlook, the Fund acknowledges that the recovery will take place at different speeds, with the US leading the way among advanced countries and China among emerging ones. The euro area, in contrast, will experience weaker growth, which will prevent the region from reaching pre-pandemic levels until 2022.

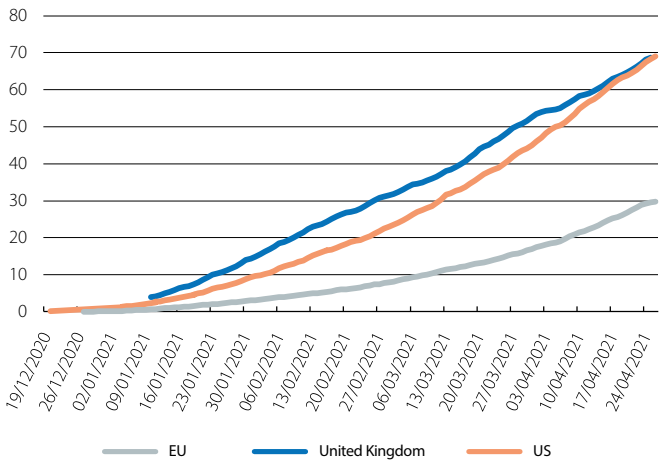
Exhibit signs of improvement. With regard to the balance of risks, the IMF highlights that in the short term they are balanced, whilst in the medium term the bias is towards a better outlook. The upside risks include a better-than-anticipated evolution of the pandemic, a greater effect of the fiscal stimuli, and better coordination of economic policies than in the past. The main downside risks, meanwhile, include the resurgence of the pandemic and the tightening of financial conditions, among other factors. Taken as a whole, this balance of risks is now different and has improved in recent months.

UNITED STATES

Advanced world post-COVID, chapter one. The US growth data for Q1 2021 were eagerly awaited, as it was a quarter in

COVID-19 vaccination roll-out around the world

(Vaccines administered per 100 inhabitants)



Source: *CaixaBank Research, based on data from Our World in Data.*

IMF: real GDP

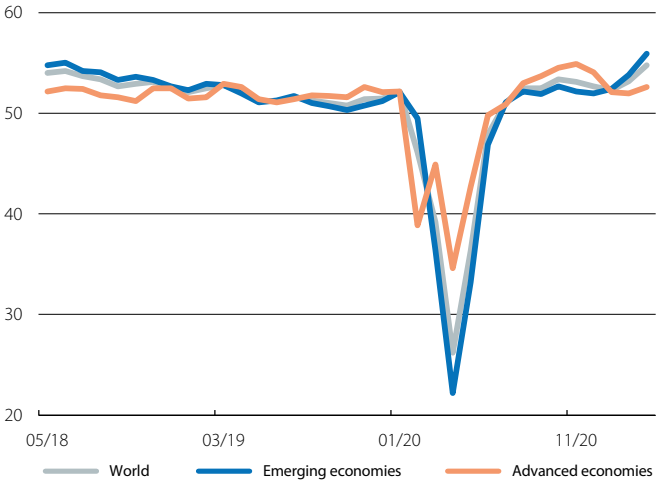
Annual change (%)

	2020	2021 (f)	2022 (f)
Global economy	–3.3	6.0	4.4
Advanced economies	–4.7	5.1	3.6
US	–3.5	6.4	3.5
Euro area	–6.6	4.4	3.8
Spain	–11.0	6.4	4.7
Emerging and developing economies	–2.2	6.7	5.0
China	2.3	8.4	5.6

Note: *(f) Forecast.*
Source: *CaixaBank Research, based on data from the IMF (WEO, April 2021).*

Composite PMI

Level



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

which positive factors (a notable vaccination rate and a general rise in economic indicators) were combined with others more difficult to interpret (in addition to the wave of the pandemic which hit several states at the end of 2020, there was the uncertain effect of the abnormally adverse meteorological events). Finally, the US economy registered solid growth, at 1.6% quarter-on-quarter, which seems to confirm that it is entering the aforementioned new expansionary phase. How is this expansion materialising? Essentially, it is being driven by private consumption. This is important, because there are three key factors that lie behind this spike in growth, and they are likely to be repeated in other economies, albeit to varying degrees. They include: the marked improvement in incomes, driven by the fiscal stimulus, the reopening of the economy and the high vaccination rate.

Advanced world post-COVID, chapter two. The fact that the US cycle is further ahead than that of most economies is of added interest because it sheds light on two key, inter-related issues which are going to be the focus of much attention in the future. The first concerns the debate on what degree of fiscal and monetary stimulus is needed in this new phase of more decisive expansion. The second is whether there is a risk that the economic stimulus, which is on an historic scale, will fuel a substantial and permanent rebound in inflation.

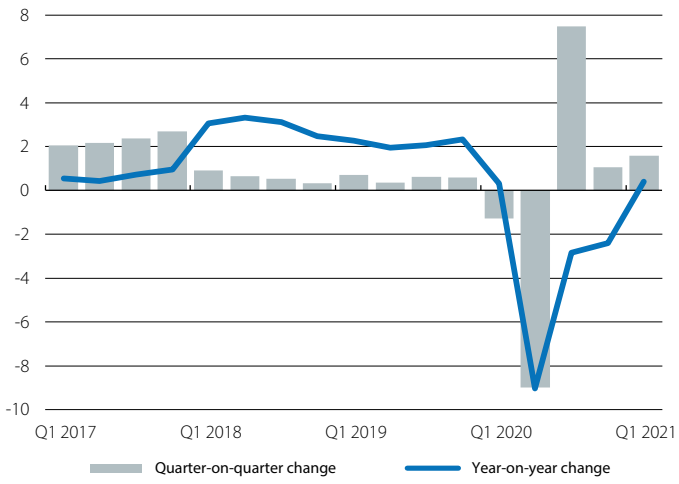
If in doubt, avoid causing harm. The consensus diagnosis in the US is quite clear: the economy still has some way to go before it fully recovers, leaving aside the overheating scenario. . On the contrary, the risks of reducing the fiscal and economic support too soon remain substantial. As for inflation, it is certainly going to experience a temporary rebound, largely due to the base effects of oil and the atypical consumption pattern of a year ago. However, it is expected to remain within a reasonably stable range in the medium term. In this regard, the Federal Reserve reiterates the maintenance of the monetary stimulus in its latest communications and the Board continues to forge ahead, proposing two new expansionary programmes. The first is the so-called American Jobs Plan, a 2.3-trillion-dollar infrastructure spending plan over an eight-year period which would be financed by a tax hike focused on large corporations. The second plan is known as *The American Family Plan*, representing some 1.8 trillion dollars over 10 years. This plan focuses on social benefits (primarily child care and education) and would be funded by raising taxes on high-earners.

EURO AREA

Advanced world post-COVID, final chapter. The euro area, as we said earlier, is on a different page. The growth data for Q1 2021 confirm that the winter COVID-19 wave, with its series of lockdowns and restrictions, has taken a toll on economic activity at the beginning of the year. In quarter-on-quarter terms, the euro area fell by 0.6% (–0.7% in Q4 2020). The available data by country, however, point to significant differences, generally determined by the variability of the

US: GDP

Change (%)



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

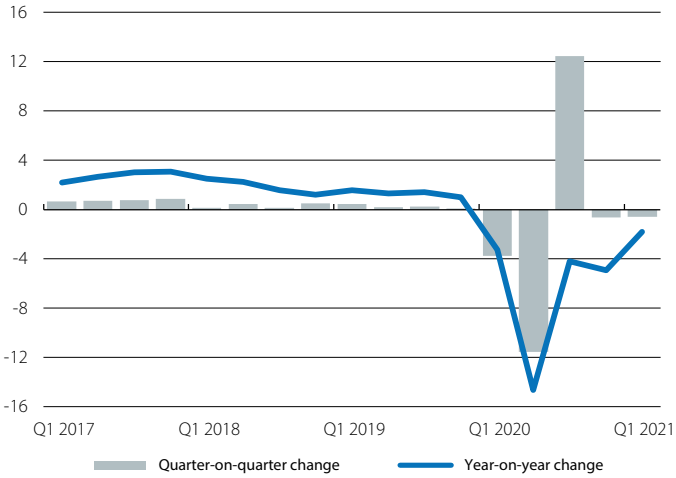
US: CPI

Year-on-year change (%)

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

Euro area: GDP

Change (%)



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

pandemic in different parts of the continent. The figures are slightly better than expected in France (+0.4% quarter-on-quarter), in line with expectations in Italy and Spain (–0.4% and –0.5%, respectively) and disappointing in Germany (–1.7%).

Inflation, a distant concern. The inflation debate is also taking place in Europe, but the conclusions are no different from those presented earlier: inflation is going to rise, but this will be temporary (mainly driven by base effects of oil in the first half and, in the second half, by base effects of the German VAT cut in July 2020), and it is expected to fall back down again at the end of the year. With regard to the medium-term outlook, the dominant interpretation is that it will remain at moderate levels. For the time being, the market indicators which capture inflation expectations support this reading and suggest long-term inflation around the 1.5% mark.

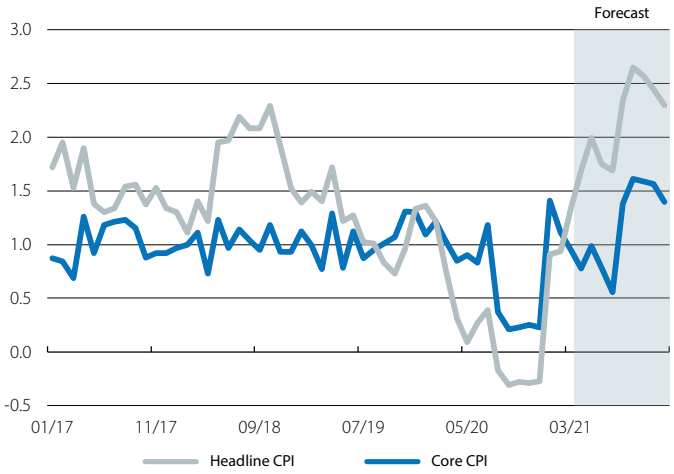
EMERGING ECONOMIES

Asia, the two sides of the coin. The two major Asian economies, China and India, represent the heads and tails of the pandemic. China, as we said, is in another phase altogether. With the pandemic confined to a few controlled local outbreaks, the country has a combination of higher growth and more restrictive financial conditions compared to the other major economies. Its agenda is very different too. Firstly, the emphasis is on the quality of the recovery, not its intensity, and the growth data for Q1 2021 suggest that the economy is on the right track. Thus, despite the fact that progress was relatively meagre, at least for normal times (+0.6% quarter-on-quarter; the year-on-year rate of 18.3% is rather uninformative given the base effect of last year's collapse), the figures show a more balanced composition with a greater role of private consumption. The government is also taking advantage of the margin provided by the growth that is now on track (remember that growth is expected to reach 8.3% in 2021) to persevere in achieving greater financial soundness (with a clean-up of low-quality debts).

The pandemic remains highly active in India and other emerging countries. The intensity of India's latest outbreak of the pandemic has captured public attention. Although the available data in terms of victims, relative to the population, do not yet reflect the severity of the situation besides a shift in the trend, the fact is that the expectations for growth and capital inflows have been instantly affected. To a somewhat lesser extent, the prevalence of the pandemic is very significant in Brazil, among other emerging countries. The outlook of the COVID-19 pandemic will certainly not be the only determining factor for growth in emerging economies (see the Focus «Emerging economy outlook: an uneven recovery» in this same *Monthly Report*). Nevertheless, the figures underscore our initial statement: vaccination will mark the real turning point for the world economy, and we have not yet reached it.

*Euro area: CPI **

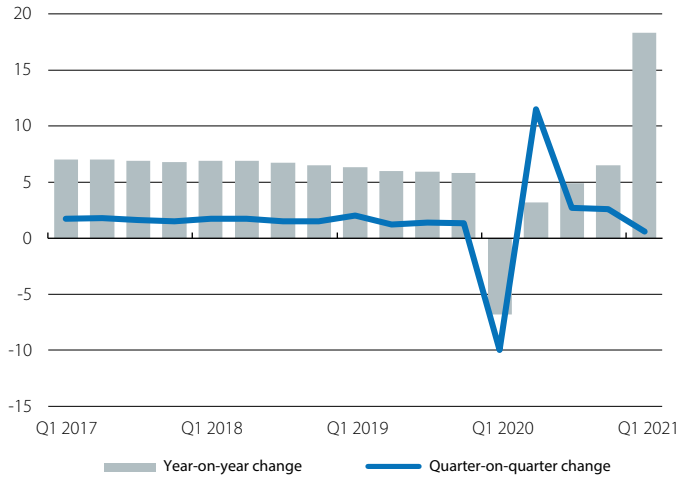
Year-on-year change (%)



Note: ** Data corresponding to the HICP.*
Source: *CaixaBank Research, based on data from Eurostat.*

China: GDP

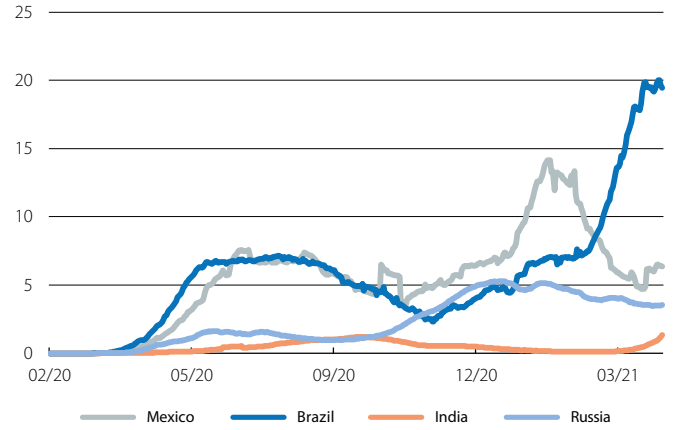
Change (%)



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

Cumulative deaths due to COVID-19

Deaths per 100,000 inhabitants, 14-day cumulative figure (since the day >1 death per million inhabitants was recorded)



Note: *Data available up until 21 April 2021.*
Source: *CaixaBank Research, based on data from Johns Hopkins CSSE, UN World Population Prospects.*

The role of pent-up demand in the euro area recovery in 2021

The lockdowns and other measures imposed to contain the spread of COVID-19 have led to a marked increase in the savings of European households. The closure of non-essential businesses and many leisure activities, together with restrictions on mobility and activity and increased uncertainty, have caused the savings rate in the euro area to rise, peaking at around 25% during Q2 2020 in contrast to the 13% prior to the pandemic.

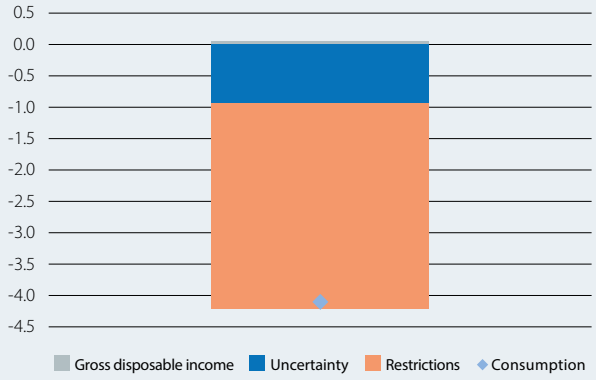
This level of saving that has been «forced» by the COVID-19 crisis is substantial and, therefore, has the potential to spur the economic recovery when the control of the pandemic allows for a more sustained revival of economic activity. Will European households spend these forced savings when the restrictions are lifted? At what speed? How will this impact economic growth?

The current situation has no modern precedent, as the income declines that accompany recessions usually take a heavy toll on savings. However, there are some examples of forced savings in history. In the US, rationing and supply restrictions during World War II led to a huge increase in American households' savings, of around 40% of GDP according to some estimates. After the war, American households quickly reduced their savings rates, providing an additional boost to the economic revival.[1]

Bridging the historical distance, in the current case of Europe, the amount of savings accumulated during the pandemic is also significant: slightly over 4% of pre-pandemic GDP in 2020 as a whole. The extent to which these savings could spur the recovery will depend on the factors which caused the drop in consumption and the rise in savings in the first place: the restrictions on consumption themselves, uncertainty surrounding the economic outlook and changes in household incomes. Using a simple model,[2] we identified the contribution of these three forces to the change in household consumption during 2020 as a whole.[3,4] According to these estimates, the bulk of the loss of consumption in 2020 was due to the restrictions, as shown in the first chart, although the increase in uncertainty also made a significant contribution to the fall in consumption. In contrast, the change in gross disposable income slowed some of the decline in consumption, as household income did not recede in 2020 as it would in traditional recessions, but rather was sustained by the fiscal support from European countries.[5]

Euro area: contribution to the fall in household consumption

Cumulative contribution for Q1 2020-Q4 2020 (%)



Source: *CaixaBank Research's own estimates, based on the model described in foot note 2 of this Focus.*

These contributions suggest that, when the control of the pandemic allows the restrictions to be lifted, much of the pent-up savings could be undone. To obtain more clues about how fast and to what extent these savings could boost the recovery, we will leverage the historical relationships from our consumption model to assess the impact in 2021 of the three major drivers we have just identified. In particular, we consider a scenario in which the immunisation of the risk groups triggers an easing of the restrictions and a more sustained economic recovery beginning in Q2 2021, with a relatively rapid reduction in uncertainty and a gradual growth in household incomes.[6] In this scenario, our model's prediction (see the grey line in the second chart) suggests a strong rebound in household spending over the coming quarters.

However, this projection is somewhat optimistic, since it assumes that the consumption which was lost in 2020

1. It is estimated that, between 1946 and 1949, they spent around 20% of the accumulated savings. See «Annual Report of the Council of Economic Advisors, Economic Report of the President», February 1970 (table C-15), available at https://fraser.stlouisfed.org/.
2. The model in question is a first-difference estimator using ordinary least squares. More specifically, we use data covering the period between Q1 1999 and Q4 2019 to estimate the following equation: $\Delta lnC_t = \beta_0 + \beta_1 \Delta lnGDI_t + \beta_2 \Delta Uncertainty_t + \Delta\varepsilon_t$, where C represents consumption and GDI is gross disposable income. The R^2 of the regression is 42%.
3. We measure uncertainty using the dispersion of GDP forecasts in the analyst panel of the ECB's Survey of Professional Forecasters. Specifically, we use the standard deviation of the year-on-year GDP growth forecast for two quarters ahead.
4. Following the methodologies of the ECB and the Bank of Spain, the contribution of the restrictions is estimated as the residual of the model (corrected for its historical forecasting error). See «COVID-19 and the increase in household savings: precautionary or forced?» in the ECB Economic Bulletin of 06/2020 and «Household saving during the pandemic and its possible effects on the future recovery in consumption» in the Bank of Spain Economic Bulletin of 1/2021.
5. With data up to Q3 2020, previous studies also find a similar composition of the savings amassed during the pandemic.
6. More specifically, in this scenario the restrictions do not disappear altogether, but they are reduced to levels equivalent to an Oxford Stringency Index of less than 30 points in the second half of the year. Uncertainty, meanwhile, falls by half and lies halfway between its levels of 2020 and the pre-pandemic starting point. Finally, we assume that gross disposable income (GDI) grows at an average quarter-on-quarter rate of slightly below 1% (i.e. slightly below our euro area GDP forecast given that, having been isolated from the crash in GDP, we can also expect GDI to benefit less from the rebound in GDP in 2021).

as a result of the uncertainty and restrictions will be recovered in 2021 to the same extent.[7] In other words, it assumes that up to two-thirds of the pent-up demand of 2020 will be undone and will materialise in 2021.[8] However, in practice, there are several factors that will alter this rebound in consumption.

Firstly, a significant portion of the savings accumulated in 2020 comes from a variety of services that cannot be deferred in time. For instance, when the restrictions are eased and we can go to see our favourite bands in concert, we will probably begin by going to more concerts than we used to in pre-pandemic times, but it is hard to image that this initial push will compensate for all the concerts we missed during 2020. In other words, pent-up demand is undone more slowly when the consumption previously sacrificed has been that of services.

Secondly, much of the savings accumulated in 2020 are concentrated among people with higher incomes,[9] and it is precisely those groups that have a lower marginal propensity to consume. Therefore, when the restrictions are eased and we begin to recover our pre-pandemic consumption habits, the households with the greatest purchasing power could also be those who spend their pent-up savings the least in relative terms. Also, the experience of countries such as the US shows that many households have used some of the savings they have accumulated in 2020 to reduce their debts rather than to consume.[10]

Thirdly, the pandemic is likely to dent expectations. On the one hand, recessions usually make households more risk-averse,[11] so precautionary factors continue to weigh on consumption even if uncertainty subsides. On the other hand, faced with the sharp rise in public debt driven by the support measures adopted during this crisis, there is a possibility that households may retain some of their accumulated savings as a precautionary measure to help them address potential future tax hikes.[12]

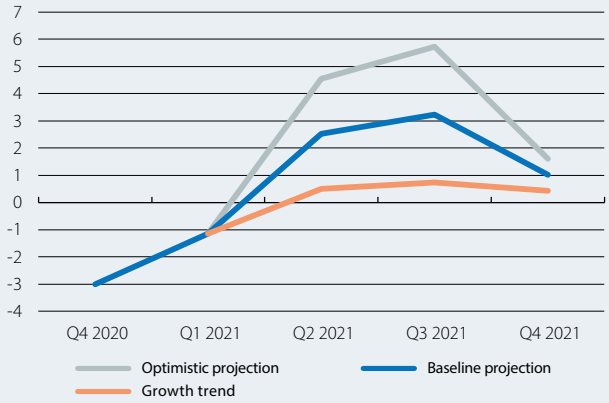
All these elements suggest that the reduction in uncertainty and the easing of restrictions will have a less pronounced effect on consumption. When we incorporate this less pronounced effect into our model,[13] we obtain a more moderate projection of consumption in 2021[14] (see the blue line in the second chart): one-third of the savings accumulated in 2020 would be undone.

All in all, pent-up demand is likely to help spur the recovery, and while it may not be fully undone, it will have a significant impact on economic activity as a whole (see third chart). Indeed, our estimates suggest that, in the optimistic scenario, the unwinding of pent-up savings could add 2.5 pps to euro area GDP in 2021, or slightly more than 1 pp in the more moderate scenario (in both cases relative to a scenario in which none of the pent-up demand is undone).[15]

Álvaro Leandro and Eduard Llorens i Jimeno

Euro area: household consumption

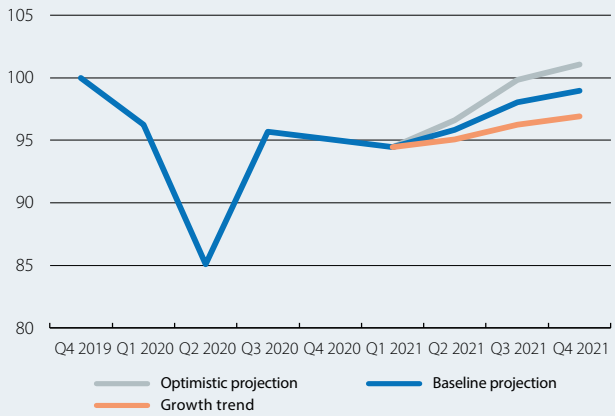
Quarter-on-quarter change (%)



Source: *CaixaBank Research's own estimates, based on the model described in footnote 2 of this Focus.*

Euro area: GDP

Index (100 = Q4 2019)



Source: *CaixaBank Research's own estimates, based on the model mentioned in footnote 15 of this Focus.*

7. In technical terms, the projection assumes a symmetry of elasticities between 2020 and 2021 of the forces of uncertainty, restrictions and income on consumption.
8. To obtain the fraction of the pent-up demand that is undone, we compare the projection of consumption with that represented by the orange line (see second chart), which corresponds to the growth in consumption that we would see if it were driven exclusively by household income (i.e. the orange line shows the evolution of consumption in a scenario in which the constraint of neither the restrictions nor uncertainty is lifted).
9. This is shown by data in the UK and France, among others. See «Spending and saving during the COVID-19 crisis: evidence from bank account data», The Institute for Fiscal Studies 2020, or Bounie, D. *et al.* (2020). «Consumption Dynamics in the COVID Crisis: Real Time Insights from French Transaction Bank Data». COVID Economics 59: 1-39.
10. See the Focus «Will consumption support the US recovery in 2021?» in the MR01/2021.
11. See U. Malmendier and S. Nagel (2011). «Depression babies: Do macroeconomic experiences affect risk taking?». The Quarterly Journal of Economics, 126(1), 373-416.
12. This phenomenon is known as Ricardian equivalence.
13. In technical terms, we assume that the elasticities of the aforementioned variables of uncertainty and restrictions are reduced by half.
14. The annual change in 2021 would be 3.5%, somewhat more conservative than the European Commission's forecast (4.3%) and slightly more optimistic than the ECB's forecast (3.0%).
15. We translate the consumption projections presented above to GDP by using CaixaBank Research's semi-structural model for the euro area. This is a general equilibrium model with eight estimated equations and 20 auxiliary equations which is determined by aggregate demand in the short term, whilst in the long term aggregate demand and supply are equal.

Disposable income stabilisers

The COVID-19 pandemic triggered a historic fall in household consumption in 2020. In the euro area, the decline reached 15.4% in Q2 and stood at –8.1% for the year as a whole, with bigger reductions in the countries hardest hit by the first wave of the pandemic. Unlike previous crises, however, the declines in consumption were not accompanied by similar declines in households' disposable income.

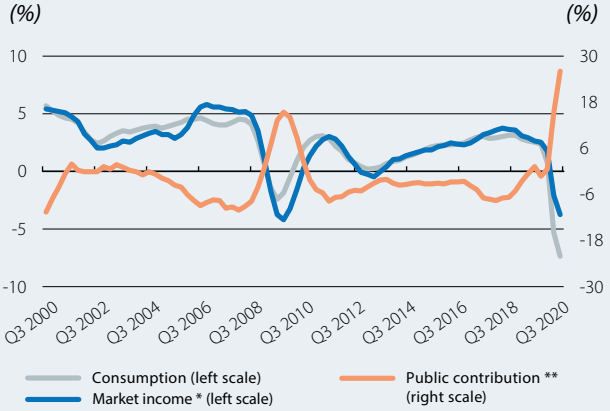
The evolution of disposable income in the euro area during the pandemic

In 2020, household gross disposable income (GDI) remained virtually unchanged in the euro area compared to the previous year.[1,2] This consistency can be explained by the performance of the labour market and the multitude of public programmes introduced to support jobs and household income.

Firstly, in the face of an unprecedented of collapse in GDP of 6.8% in 2020, the rise in the unemployment rate was very moderate (going from 7.6% to 8.0%). This was largely thanks to programmes which supported employment income – including some already in place but extended and others created in response to the pandemic – such as furlough schemes, which generally involve a subsidised temporary reduction in working hours (either «partially or in full»).[3] In the absence of these measures, it is estimated that the increase in the unemployment rate would have been between 1 and 1.5 pps higher in the EU on average.[4] In addition to the programmes aimed at directly supporting employee wages, others were introduced to support self-employed workers and businesses, which indirectly helped protect jobs and incomes. All in all, as the second chart shows, employment incomes in the euro area as a whole fell by just 2%, a relatively small figure compared to the collapse in economic activity. In fact, the third chart shows how the sensitivity of gross income to the fall in GDP has been much lower in this crisis than in the previous major recession.

Secondly, direct public aid (in the form of either grants or the deferral/reduction of taxes and social security contributions) offset the decline in wages at the aggregate level. Major fiscal measures directly aimed at supporting households were implemented. These included both public spending measures – with a large number of social benefits either created or extended to deal with months of turbulence – and taxation measures – mainly temporary measures aimed at giving households a temporary financial lifeline to help them meet unforeseen needs, such as the extension of sick leave benefits, child care allowances and the deferral of tax payments, among others.

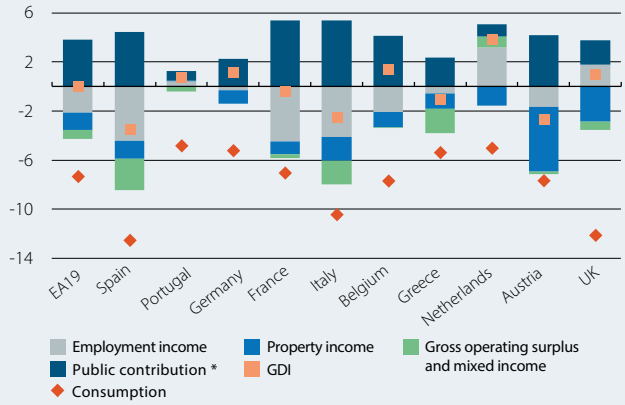
Automatic stabilisers, income and consumption



Notes: *Year-on-year change in the three-quarter cumulative balance up to Q3 2020. * Equivalent to employment income, property income, gross operating surplus and mixed income. ** Equivalent to social benefits net of personal taxes and social security contributions.*
Source: *CaixaBank Research, based on data from Eurostat.*

Consumption, disposable income and household support policies

Year-on-year change (%)



Note: ** «Public contribution» includes social benefits net of personal taxes and social security contributions. Year-to-date figures up to Q3 2020.*
Source: *CaixaBank Research, based on data from Eurostat.*

1. GDI includes workers' wages and capital income (including property income, such as rents, interest income or dividends, gross operating surplus and mixed income), international remittances and publicly-provided social benefits net of income taxes and social security contributions.
2. For comparison, at the height of the financial crisis the euro area's GDI amassed a decline of 0.9% in Q3 2009.
3. Furlough and other temporary workforce reduction schemes have helped to sustain some 50 million jobs in the OECD during the first wave of the pandemic, 10 times more than during the 2009 financial crisis (see OECD, 2020, «Job retention schemes during the COVID-19 lockdown and beyond»). It is therefore clear that the reduction was predominantly in the «intensive margin»: in Q3, the percentage of adults employed in the euro area fell by 1 pp compared to the previous year, while the number of hours worked decreased by around 5 pps.
4. That said, there are significant differences from country to country, and it is estimated that the increase in the unemployment rate could have been as much as 4 pps higher in some countries. See European Commission (2021) «SURE: Taking Stock After Six Months - Report on the European instrument for Temporary Support to mitigate Unemployment Risks in an Emergency (SURE) following the COVID-19 outbreak pursuant to Article 14 of Council Regulation (EU) 2020/672)».

Specifically, as the fourth chart shows, social benefits in the euro area contributed around 3 pps to helping to stabilise GDI and offset declines in household incomes. On the other hand, and unlike previous crises, tax measures also significantly helped to stabilise GDI, contributing 1 pp.

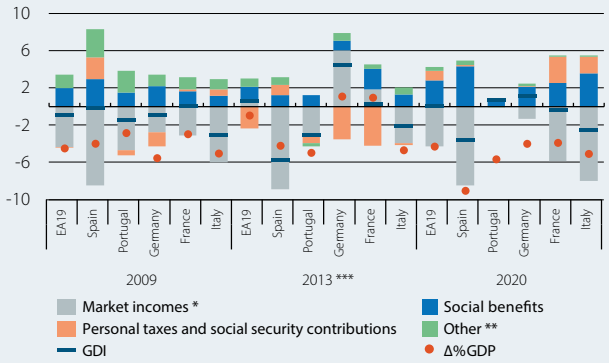
Differences between countries: the fiscal mix

The evolution of GDI and of the labour market in the euro area hides significant differences between countries, reflecting the varying severity of the pandemic and the resulting restrictions on activity, the differing sensitivity to these restrictions of each country's economic structure and the diversity of the fiscal policies implemented. Wages were harder hit in Spain, France and Italy, where they fell by around 4%, while in Germany and Portugal they remained almost unchanged and, at the other extreme, in the Netherlands they rose by 3%. In parallel, there were also substantial differences in the fiscal policy mix, illustrating countries' different strategies to address the immediate effects of the pandemic. The response in Spain, Portugal and Germany largely focused on social spending policies. In France and Italy, in contrast, tax measures played an important role in stabilising GDI (+3 and +2 pps, respectively).[5]

A large part of the differences between countries can also be explained by the varying design and generosity of the labour market support measures in place. For instance, these programmes may offer a subsidy for hours not worked (in the case of Spain, Portugal, Germany and France), a wage subsidy (equivalent to a subsidy for hours worked, as in Australia and Poland) or a hybrid system where companies receive a subsidy proportional to their loss of income (Netherlands).[6] There are also significant differences in the programmes' wage replacement rate, their upper limits, the types of contracts covered, their duration and the contribution from companies. All these differences are reflected in the effective replacement rate: if we focus on workers with average wages who endured a full reduction in their working hours, whilst in Spain, Italy and Belgium the effective replacement rate is around 50%, in Portugal, Germany and France these programmes guarantee between 60% and 70% of the worker's previous income. In the Netherlands, the effective replacement rate is 100%.[7] Many countries also limited these subsidies only to cases with a full reduction in working hours (the UK and Greece).

Social benefits and direct taxation as GDI stabilisers

Year-on-year change (%)



Notes: ** «Market incomes»: employment income, property income, gross operating surplus and mixed income. ** «Other»: all other categories not included above (capital transfers, other current transfers, etc.), in terms of both household incomes and household payments. Year-to-date figures up to Q3 2020. *** The change between Q3 2013 and Q3 2011 is calculated to reflect the double contraction of GDP in Spain, Portugal and Italy.*
Source: *CaixaBank Research, based on data from Eurostat.*

Stabilisers for the economic revival: time to reactivate targeting

In 2020, the fiscal policy response was better coordinated, larger and quicker than in previous crises, and it managed to isolate the economy from deeper scars in the labour market and the business fabric. Across euro area countries, automatic stabilisers and exceptional fiscal measures have also managed to protect households from significant fluctuations in their employment and capital incomes. Resilience was one of the key words of the year, but this would not have been possible without Germany's *Kurzarbeit*, France's *Activité partielle* or Spain's ERTE and a multitude of public programmes in place to support households and businesses. Going forward, fiscal policy will continue to play a key role. On the one hand, the recovery phase and the Next Generation EU funds now represent a unique opportunity to revive and transform the European economy. On the other hand, fiscal policy will have to refocus on its strengths: continue to help the most vulnerable social groups, provide assistance to the most sensitive economic sectors, and align private incentives to help build a more dynamic, inclusive and sustainable economy.

Luís Pinheiro de Matos

(See an extended version of this article at caixabankresearch.com)

5. For more details on the various fiscal responses to the pandemic in euro area countries, see Bruegel (2020), «The fiscal response to the economic fallout from the coronavirus» and S. Haroutunian *et al.* (2021). «The initial fiscal policy responses of euro area countries to the COVID-19 crisis» ECB Economic Bulletin, 1.
6. The case of the Netherlands is somewhat unique. Companies receive a subsidy which can reach up to 90% of their loss of income. However, they are also required to maintain a minimum contribution of 10% of the salary (in the case of a full reduction of working hours) while employees have their wages 100% guaranteed. Furthermore, similar to wage subsidy systems, the state subsidy can be used to compensate for hours worked.
7. In general, the effective replacement rate is higher for workers on lower wages. For workers with a full reduction in their working hours and two-thirds of average wages, the effective replacement rate rises to more than 70% in Spain, Belgium and France. For more details on the design of the temporary workforce reduction programmes, see OECD (2020), «Job retention schemes during the COVID-19 lockdown and beyond».

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

UNITED STATES

	2019	2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	01/21	02/21	03/21
Activity									
Real GDP	2.2	–3.5	–9.0	–2.8	–2.4	0.4	–	–	–
Retail sales (excluding cars and petrol)	4.0	2.2	–4.8	5.4	4.7	11.3	9.8	6.1	18.2
Consumer confidence *(value)*	128.3	101.0	90.0	93.1	93.8	96.1	88.9	90.4	109.0
Industrial production	0.9	–6.7	–14.2	–6.3	–4.3	–2.0	–2.1	–4.8	1.0
Manufacturing activity index (ISM) *(value)*	51.2	52.5	45.7	55.0	59.0	61.4	58.7	60.8	64.7
Housing starts *(thousands)*	1,295	1,395	1,079	1,432	1,584	1,613	1,642	1,457	1,739
Case-Shiller home price index *(value)*	217	228	224	229	239	...	245	248	...
Unemployment rate *(% lab. force)*	3.7	8.1	13.1	8.8	6.8	6.2	6.3	6.2	6.0
Employment-population ratio *(% pop. > 16 years)*	60.8	56.8	52.9	56.1	57.4	57.6	57.5	57.6	57.8
Trade balance[1] *(% GDP)*	–2.7	–3.3	–2.7	–2.9	–3.3	...	–3.3	–3.5	...
Prices									
Headline inflation	1.8	1.2	0.4	1.2	1.2	1.9	1.4	1.7	2.6
Core inflation	2.2	1.7	1.3	1.7	1.6	1.4	1.4	1.3	1.6

JAPAN

	2019	2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	01/21	02/21	03/21
Activity									
Real GDP	0.3	–4.9	–10.3	–5.8	–1.3	...	–	–	–
Consumer confidence *(value)*	38.9	31.1	24.6	30.5	33.0	33.3	29.9	33.9	36.1
Industrial production	–2.7	–10.6	–20.7	–12.7	–4.2	...	–2.2	–3.1	...
Business activity index (Tankan) *(value)*	6.0	–19.8	–34.0	–27.0	–10.0	5.0	–	5.0	–
Unemployment rate *(% lab. force)*	2.4	2.8	2.7	3.0	3.0	...	2.9	2.9	...
Trade balance[1] *(% GDP)*	–0.3	0.1	–0.5	–0.3	0.1	0.2	0.3	0.2	0.3
Prices									
Headline inflation	0.5	0.0	0.1	0.2	–0.8	–0.4	–0.6	–0.4	–0.1
Core inflation	0.6	0.2	0.3	0.1	–0.3	0.2	0.1	0.2	0.3

CHINA

	2019	2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	01/21	02/21	03/21
Activity									
Real GDP	6.0	2.3	3.2	4.9	6.5	18.3	–	–	–
Retail sales	8.1	–2.9	–4.0	0.9	4.6	33.9	...	33.8	34.2
Industrial production	5.8	3.4	4.4	5.8	7.1	24.5	...	35.1	14.1
PMI manufacturing *(value)*	49.7	49.9	50.8	51.2	51.8	...	51.3	50.6	51.9
Foreign sector									
Trade balance[1,2]	421	535	411	450	535	639	65	38	14
Exports	0.5	3.6	–0.2	8.4	16.7	49.0	24.8	–29.8	30.6
Imports	–2.7	–1.1	–9.9	2.9	5.0	27.9	26.9	–44.1	38.1
Prices									
Headline inflation	2.9	2.5	2.7	2.3	0.1	0.0	–0.3	–0.2	0.4
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	6.9	6.9	7.1	6.9	6.6	6.5	6.5	6.5	6.5

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

EURO AREA

Activity and employment indicators

Values, unless otherwise specified

	2019	2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	02/21	03/21	04/21
Retail sales *(year-on-year change)*	2.4	–1.0	–6.6	2.4	1.3	...	–2.9	...	...
Industrial production *(year-on-year change)*	–1.3	–8.6	–20.3	–6.9	–1.5	...	–1.6	...	...
Consumer confidence	–7.0	–14.3	–18.5	–14.4	–15.6	–13.7	–14.8	–10.8	–8.1
Economic sentiment	103.7	88.2	72.0	88.5	91.4	95.3	93.4	100.9	110.3
Manufacturing PMI	47.4	48.6	40.1	52.4	54.6	58.4	57.9	62.5	62.9
Services PMI	52.7	42.5	30.3	51.1	45.0	46.9	45.7	49.6	50.3
Labour market									
Employment (people) *(year-on-year change)*	1.2	–1.6	–2.9	–2.1	–1.9	...	...	–	–
Unemployment rate *(% labour force)*	7.6	8.0	7.6	8.6	8.3	8.2	8.2	8.1	...
Germany *(% labour force)*	3.1	4.2	4.2	4.5	4.6	4.5	4.5	4.5	...
France *(% labour force)*	8.5	8.1	7.2	9.1	8.1	7.9	8.0	7.9	...
Italy *(% labour force)*	10.0	9.3	8.5	9.9	9.8	10.2	–	10.1	...
Real GDP *(year-on-year change)*	1.3	–6.7	–14.6	–4.1	–4.9	–1.8	–	–	–
Germany *(year-on-year change)*	0.6	–5.1	–11.2	–3.8	–3.3	–3.0	–	–	–
France *(year-on-year change)*	1.5	–8.2	–18.6	–3.7	–4.8	1.5	–	–	–
Italy *(year-on-year change)*	0.3	–8.9	–18.1	–5.2	–6.6	–1.4	–	–	–

Prices

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

	2019	2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	02/21	03/21	04/21
General	1.2	0.3	0.2	0.0	–0.3	1.1	0.9	1.3	...
Core	1.0	0.7	0.9	0.6	0.2	1.2	1.1	0.9	...

Foreign sector

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

	2019	2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	02/21	03/21	04/21
Current balance	**2.5**	**2.4**	**2.3**	**2.2**	**2.4**	**...**	**2.5**	**...**	**...**
Germany	7.5	7.0	6.8	6.8	7.0	...	6.9	...	...
France	–0.7	–1.9	–1.4	–1.7	–1.9	...	–1.8	...	...
Italy	3.2	3.5	3.0	3.4	3.5	...	4.8	...	...
Nominal effective exchange rate[1] *(value)*	**92.4**	**93.9**	**93.3**	**95.6**	**95.7**	**...**	**95.3**	**94.9**	**95.4**

Credit and deposits of non-financial sectors

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

	2019	2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	02/21	03/21	04/21
Private sector financing									
Credit to non-financial firms[2]	3.8	6.3	7.1	7.1	7.0	6.4	7.0	5.3	...
Credit to households[2,3]	3.4	3.2	3.0	3.1	3.2	3.1	3.0	3.3	...
Interest rate on loans to non-financial firms[4] *(%)*	1.2	1.2	1.2	1.3	1.3	...	1.2	...	...
Interest rate on loans to households for house purchases[5] *(%)*	1.5	1.4	1.4	1.4	1.4	...	1.3	...	...
Deposits									
On demand deposits	8.0	12.9	12.9	14.1	15.2	16.1	17.0	14.2	...
Other short-term deposits	0.3	0.6	0.3	1.0	1.4	1.0	1.0	1.0	...
Marketable instruments	–1.9	10.0	7.1	10.9	18.3	13.1	13.8	7.1	...
Interest rate on deposits up to 1 year from households *(%)*	0.3	0.2	0.2	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.*

Spain: the vaccine sets the pace for the economic recovery

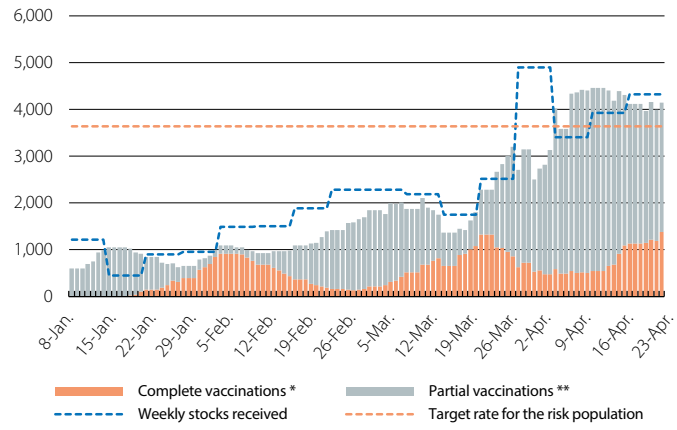
The race between the vaccines and the pandemic intensifies. Following the end of the third wave of infections in March and the subsequent easing of restrictions, in April the number of infections increased very gradually until it stabilised in the last two weeks at around 8,000 infections a day. While still a significant figure, this is a far cry from the peak of 36,000 registered at the height of the third wave. As such, it is still uncertain whether we are in the run-up to a new wave of the pandemic, or whether the contained rise in infections of recent weeks is a sign that the vaccinations are having an impact on aggregate transmission rates – the key to the economic recovery over the coming quarters. During the week of 22 to 29 April, the infection rate stood at 232 cases per 100,000 inhabitants, very close to the threshold of 250 that is considered critical, while the percentage of ICU beds occupied by COVID patients hovered around the critical threshold (25%). As far as the vaccination roll-out is concerned, the data show a marked acceleration driven by an increase in the receipt of stocks. In particular, the vaccination rate of the last three weeks was already above that required to achieve the government's target of vaccinating 70% of the population over 16 years of age by the end of September. The current rate is also higher than the rate required to have vaccinated 90% of the population over 60 years of age (the population most at risk) by the end of May, a key milestone to allow for further progress in the easing of restrictions, as well as allowing both a more sustained economic revival and a recovery in international mobility for the summer.

GDP fell slightly in Q1 2021 due to the tightening of restrictions and the impact of Storm Filomena. GDP fell by 0.5% quarter-on-quarter in Q1 2021, a figure in line with our forecasts, and stood 9.4% below the pre-crisis level (Q4 2019). The decline in economic activity in Q1 is hardly a surprise given that the quarter started off on a bad footing, severely affected by the third wave of infections (with the consequent tightening of restrictions) and the impact of Storm Filomena. However, there was a marked improvement during the course of the quarter and the final impact on economic activity was contained. By components of demand, the decline was mainly due to the drop in private consumption and investment (–1.0% and –1.9% quarter-on-quarter, respectively). In contrast, public consumption maintained the positive tone of the previous quarters and grew by 0.5% quarter-on-quarter, while foreign demand also made a positive contribution due to imports declining by far more than exports.

Uncertainty sets the pace in Q2. Although the vaccination process began several months ago, the race between the vaccines and the pandemic will never be more apparent than in the current quarter. With just over 25% of the population having already received a first dose of the vaccine at the end of April, the prospect of accelerating the vaccination roll-out could prove to be an impasse, especially given the evidence of its effectiveness and the experience of countries such as the United Kingdom, which has seen a significant decline in infections with just over 50% of the population immunised with at least one dose. However, uncertainty remains high. For the moment, economic activity indicators available for the month of April show that the recovery which began in March continues. CaixaBank's domestic consumption indicator remained flat

Spain: vaccination rate and weekly receipt of stocks

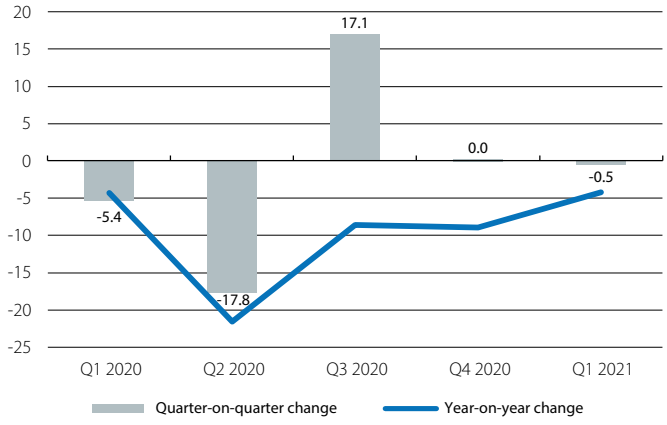
Doses per 100,000 inhabitants (7-day cumulative figure)



Notes: ** Complete vaccination: 2nd dose of the Pfizer, Moderna or AstraZeneca vaccines, or 1st dose of Janssen-J&J. ** Partial vaccination: 1st dose of the Pfizer, Moderna or AstraZeneca vaccines.*
Source: *CaixaBank Research, based on data from the Ministry of Health.*

Spain: GDP

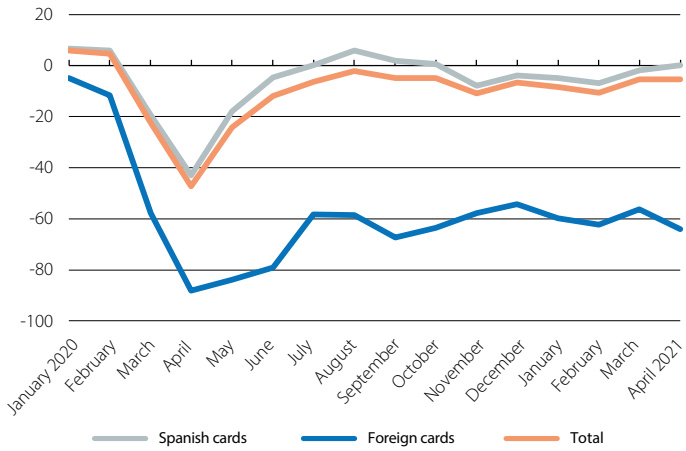
Change (%)



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

*Spain: CaixaBank consumption indicator **

Year-on-year change (%)



Note: ** This indicator includes spending on cards issued by CaixaBank, non-client spending on CaixaBank POS terminals and withdrawals from CaixaBank ATMs.*
Source: *CaixaBank Research, based on internal data.*

in year-on-year terms in April, above the –2% year-on-year registered in March and the –4% for Q1 2021 on average. The PMI for the industrial sector continued to rise, reaching 57.7 points in April (56.9 in March), the highest reading since December 1999. Furthermore, the counterpart index for the services sector rallied to 54.6 points, the first time that it indicates growth of economic activity in the sector since July last year and the highest level since the end of 2019.

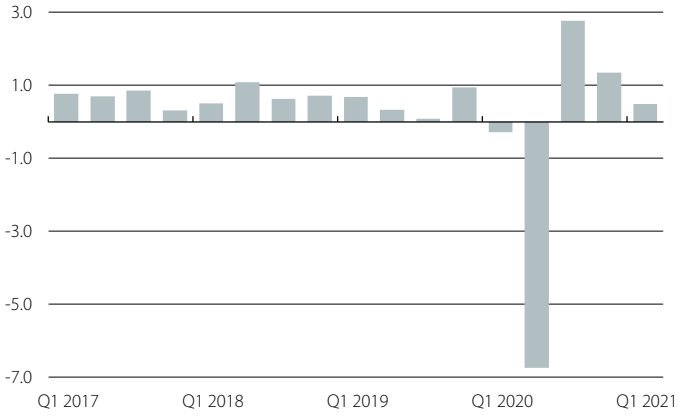
The Q1 LFS reflects the impact of the third wave of the virus. The employment and unemployment data were relatively encouraging in Q1, but the adverse weather conditions, the lockdowns in the wake of the third wave of COVID-19, and the re-introduction of mobility restrictions led to a fall in the number of hours worked and in the working population. In particular, on the upside, the decline in employment (–0.7% quarter-on-quarter) is common in Q1, and in seasonally adjusted terms it maintained a smaller but still positive growth (+0.5%). Unemployment also fell by 65,800, to 3.65 million, and the unemployment rate fell by 1 decimal point, reaching 16.0%. However, on the downside there was a reduction in the number of effective hours worked (–1.6% quarter-on-quarter), reflecting a sharp increase in the number of employed people who did not work due to sickness and disability (+96,300 in the quarter, +221,100 compared to a year ago). The labour force declined by as many as 203,400 people and broke the recovery trend of the previous quarters, perhaps a reflection that the mobility restrictions have reduced employment opportunities. The average number of people registered with social security, meanwhile, increased in April by 134,396 to 19.055 million people, placing the figure above 19 million for the first time since March last year. Employees affected by furlough (ERTE) schemes, who continue to be registered with S.S. and are not counted as unemployed, declined by 86,910 to 650,180 on average. Thus, according to our estimates, the number of registered workers not affected by an ERTE scheme will have fallen by 6.1% year-on-year in April, an improvement compared to the decline experienced in March (–6.5%).

Inflation continues to rise, driven by energy prices. In April, inflation continued to climb sharply and reached 2.2% year-on-year (1.3% in March). Pending the breakdown by component, this surge is likely to be entirely driven by energy prices. If this flash estimate is confirmed, electricity prices would register a new rebound, while fuel prices would continue to make a positive contribution due to the fall in April last year. In contrast, core inflation (which excludes the most volatile components) fell by 0.3 pps to 0.0%, reflecting the contained behaviour of economic activity.

Progress on the Recovery Plan in Spain. At the end of April, the Spanish government sent the Recovery Plan needed to access NGEU funds to the European Commission. This plan sets out the anticipated distribution of the 70 billion euros of transfers which Spain is due to receive from the European Recovery Mechanism between 2021 and 2023. It includes a combination of investments which can be quickly implemented, such as the refurbishment of housing (€6,820 million), transport infrastructure (€6,667 million) and sustainable mobility (€6,536 million), together with other more medium-term investments, such as digital networks and 5G (€4,000 million) and renewable hydrogen (€1,555 million). With regard to reforms, a simplification of labour contracts is proposed in order to reduce the pronounced duality of the labour market, although details on this reform, as well as on the pension and taxation reforms, remain scarce.

Spain: employment (seasonally adjusted data)

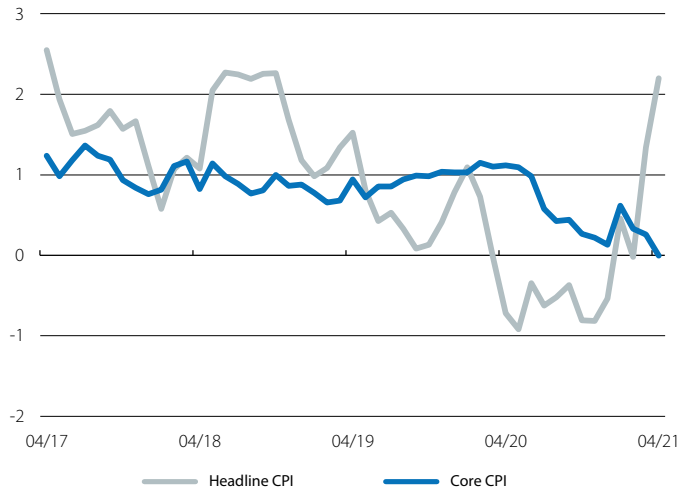
Quarter-on-quarter change (%)



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

Spain: CPI

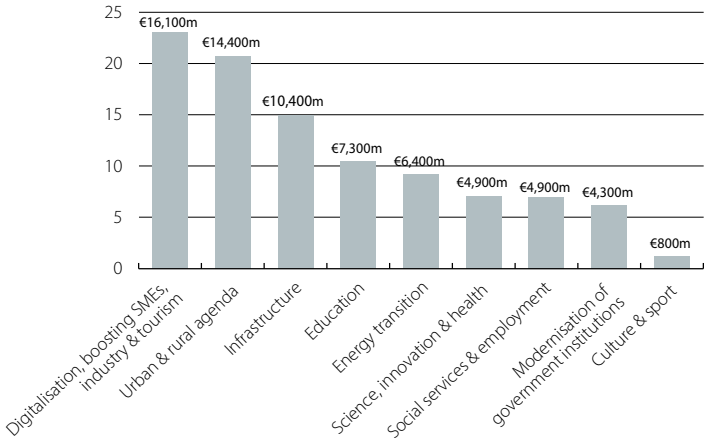
Year-on-year change (%)



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

Spain: allocation of European funds (key policies)

(% of the total)



Note: *Figures in rounded millions. Allocation of the 70 billion euros from the Recovery and Resilience Mechanism.*
Source: *CaixaBank Research, based on the Recovery, Transformation and Resilience Plan.*

Spain's Recovery Plan: turning words into action

The Spanish government has already sent the Recovery, Transformation and Resilience Plan to the European Commission. The Commission now has two months to evaluate it and the European Council has an additional month to approve it.

Budget and investments

Spain expects to receive some 70 billion euros between 2021 and 2023 in non-refundable grants from the European Recovery and Resilience Facility.[1] In addition to this amount, a further €70 billion could be received in the form of loans that Spain can apply for in order to complete the investments and finance public policy programmes. Once the European Council approves the Plan, Spain will receive an initial automatic payment of around €9 billion in pre-financing (the rest will be gradually released based on intermediate milestones being met and reforms being implemented).

The Recovery Plan outlines what the €70 billion in grants will go towards, as well as the key features of the reforms in 30 major areas (these, in turn, are to be deployed through 110 investment projects and 102 reforms). It combines investments that can be deployed quickly, with wide territorial and sectoral traction that can generate employment (refurbishment of housing, electric vehicles, solar panels, charging stations, investments in transport infrastructure, etc.), together with other more transformational investments (hydrogen, batteries, etc.). These investments will focus on key sectors, as shown in the first chart.

The government plans to spend €26.6 billion from the European funds in 2021 and the initial strategy is to focus this spending primarily on projects that can be implemented quickly (over 40% of the investments planned for this year are concentrated in energy, infrastructure, sustainable mobility and housing refurbishment).

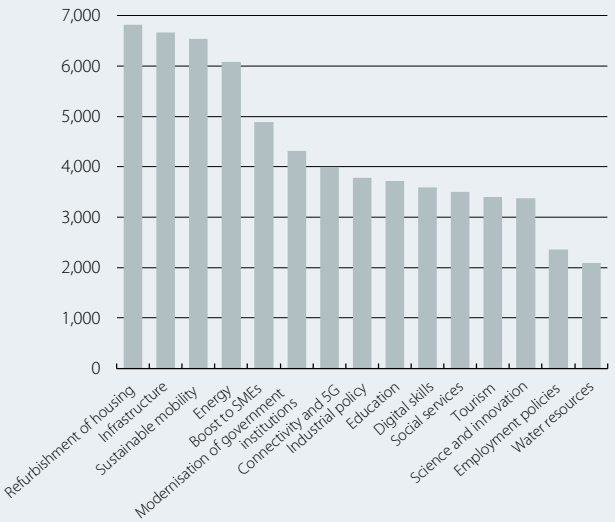
The scale of the Plan represents the main challenge for achieving a high degree of efficiency in its execution. Its final impact will largely depend on the capacity to implement it and on whether the funds are allocated to projects that have a greater expansionary effect on the economy. To make the most of these funds, it will be essential for the criteria and procedures used to evaluate and select the projects to be well designed.

Governance

The governance of the Plan could have benefited from a greater involvement of external experts, both from academia and from institutions and companies, in its management and oversight. In its current form, the Plan's main governance body will be an Inter-Ministerial Commission in which all ministers will participate. Each ministry will monitor and manage the implementation of the programmes that fall within their remit. In terms of coordination between government institutions, agreements between ministries and autonomous community regions will be used to channel funds for certain projects (e.g. housing) and there will be a Sector Conference, chaired by the minister of finance.

1. To complete the European funds from NGEU, Spain will also receive some 12 billion euros in grants from the REACT-EU programme, which will mainly be earmarked for health and education programmes in the Autonomous Communities.

Allocation of European funds: main sectors
(EUR millions)



Note: *We refer to the 70 billion euros from the Recovery and Resilience Facility. In addition, there are some 12 billion euros in funds from REACT-EU which will be largely spent on health and education.*
Source: *CaixaBank Research, based on data from the Spanish government.*

It should be noted that management of the Recovery Plan should be conceived as a structural reform in itself, as it represents a major opportunity to improve the efficiency of public policies. In this regard, given its magnitude and duration, rather than committing *ex ante* where to spend all the resources, it would be appropriate to include an initial learning phase in which the effectiveness of different projects or mechanisms could be tested for later evaluation, with the future disbursements of funds being focused in those areas with the greatest traction.

In order for this learning phase to succeed, it is essential to promote a culture and institutional structure centred around the evaluation of results in general government institutions. Mechanisms should be created to evaluate the various NGEU projects *ex post*, involving independent experts in order to redirect more resources to those projects that are working better.

Reforms

It is encouraging to see that there is a willingness to undertake profound reforms in all key areas (labour market, pensions, education, modernisation of general government institutions, business creation and business size, etc.), although the contents are still somewhat generic.

In the labour sphere, emphasis is placed on the labour market's great Achilles heel, its high degree of duality:

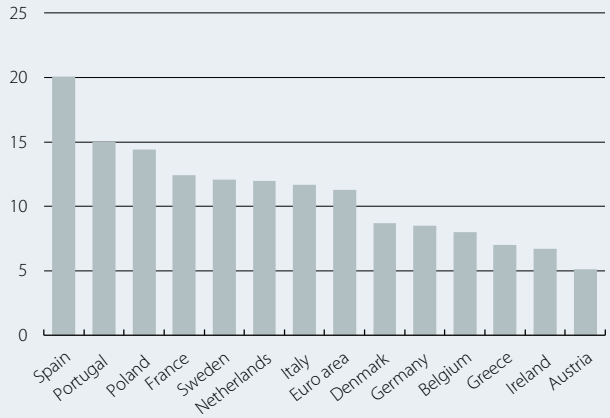
on the one hand, people with jobs for life, and on the other, workers – mostly young – with highly precarious situations who go from one temporary contract to the next or who work part-time.[2] The Plan calls for a simplification of the different types of employment contracts in order to make the use of permanent contracts more widespread and limit temporary contracts to circumstances which actually require a limited duration. The aim is to encourage the use of permanent-discontinuous contracts for recurring seasonal activities and penalise excessive use of very short-term contracts. This reform must be sufficiently ambitious so as to revise the types of contracts that exist and make permanent recruitment truly more attractive. The Plan also mentions the consolidation of an internal adjustment mechanism that would serve as an alternative to dismissals (a kind of structural furlough scheme)[3]. Such a mechanism could, for instance, allow the number of hours worked to be adjusted in the event of temporary declines in demand or to align with sectoral conversion processes. This would give companies more flexibility in reacting to adverse shocks and would also help to mitigate job destruction in difficult times. These reforms in the labour sphere are planned for 2021.

On pensions, it is essential to ensure the sustainability of the system through a reform which draws political consensus, is long-lasting and is transparent, thus allowing people to make proper long-term saving plans. The Plan contains several interesting proposals, such as i) greater incentives to increase the retirement age through economic improvements in the available pension and benefits for companies that continue to employ older workers (approval anticipated in 2021); ii) promoting workplace pension schemes (expected in the first half of 2022) with actions such as: workplace pension schemes that are publicly backed but managed by private companies, shifting tax incentives (yet to be specified) towards these sorts of schemes rather than individual schemes, transferring contribution rights from previous companies and extending the use of such schemes through sectoral agreements between companies and workers; and iii) revising the parameters of the pension system (anticipated in 2022 at the latest) to ensure the system's sustainability and avoid excess pressure being put on young people, including variables such as life expectancy, the ratio of pensioners to workers and aggregate expenditure.

In addition, the maximum contribution base amount will be raised, a measure that will increase companies' labour costs (social security contributions in Spain are above the European average). There are no figures for the expected increase, but to mitigate its impact it will be implemented very gradually over a 30-year period after it is approved before the end of 2022.

2. For full details on these dysfunctions, see the Focus «What the recruitment data hides» in the MR03/2019.
3. This will be financed through a fund with contributions from the private sector (it is planned to use the difference that is generated in expansive periods between social security contributions for unemployment and expenditure on unemployment benefits) and from the State.

Temporary contracts in 2020
(% of total employment)



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

As we said, the NGEU programme is in itself a great opportunity to modernise the general government institutions, which is critical in order for them to have the agility and technical capabilities to implement the funds in the best possible way. In this respect, a large amount of funds (€4,315 million) will be used to modernise government institutions. In addition to bolstering their technology infrastructures, it would be desirable to prioritise investments in human capital and training (upskilling and reskilling) and to implement methods for evaluating public policies.

Finally, a committee of experts would be put in charge of designing a tax reform, the bulk of which would be undertaken in 2023, aimed at reducing the high structural deficit mainly through generating an increase in tax collections. In this regard, it is encouraging to note that the bulk of the measures are expected to be implemented once the recovery is consolidated. In particular, the main measures proposed include a review of tax benefits, an increase in green taxes, changes to corporate tax – in order for digital economy activities to be taxed and to achieve a minimum taxation rate of 15% – and, in the case of wealth tax, the introduction of a minimal taxation rate in all autonomous communities. It would be beneficial if this upcoming tax reform took into account the impact of each measure on economic activity in order to avoid a decline in the economy's competitiveness. Furthermore, changes in revenues should be accompanied by a comprehensive analysis of the public accounts that focuses on shifting the priority for public spending towards the most productive uses and on improving its effectiveness.

In short, the Recovery Plan is an extensive document based on an accurate diagnosis of the main weaknesses that the Spanish economy must address, which coincide with those repeatedly highlighted by the European Commission. Over the coming months, these good intentions will be fleshed out with more content and it will be time to confirm that the measures are heading in the right direction. We must turn words into action.

Javier Garcia-Arenas

Activity and employment indicators

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

	2019	2020	Q1 2020	Q2 2020	Q3 2020	Q4 2020	01/21	02/21	03/21	04/21
Industry										
Industrial production index	0.7	–9.5	–6.7	–23.2	–5.3	–2.5	–2.3	–2.1	...	...
Indicator of confidence in industry *(value)*	–3.9	–14.0	–5.4	–27.8	–11.9	–11.0	–6.6	–9.6	–5.7	2.6
Manufacturing PMI *(value)*	49.1	47.5	48.2	39.4	51.4	51.1	49.3	52.9	56.9	57.7
Construction										
Building permits *(cumulative over 12 months)*	17.2	–12.8	0.1	–12.5	–19.1	–19.9	–19.8	–21.0	...	...
House sales *(cumulative over 12 months)*	3.6	–12.9	–3.6	–12.1	–18.0	–17.9	–18.8	–19.3	...	...
House prices	5.1	2.1	3.2	2.1	1.7	1.5	–	–	–	–
Services										
Foreign tourists *(cumulative over 12 months)*	1.4	–36.8	–1.0	–22.8	–50.7	–72.5	...	...	...	...
Services PMI *(value)*	53.9	40.3	42.5	28.4	47.3	43.0	41.7	43.1	48.1	54.6
Consumption										
Retail sales	2.3	–7.1	–3.6	–18.4	–3.5	–2.8	–9.5	–6.1	14.9	...
Car registrations	–3.6	–29.2	–27.6	–68.6	–7.5	–13.2	–51.5	–38.4	128.0	1,787.9
Consumer confidence index *(value)*	–6.3	–22.8	–10.3	–27.9	–26.9	–26.3	–23.7	–25.2	–17.4	–11.6
Labour market										
Employment [1]	2.3	–2.9	1.1	–6.0	–3.5	–3.1	–	–	–	–
Unemployment rate (% labour force)	14.1	15.5	14.4	15.3	16.3	16.1	–	–	–	–
Registered as employed with Social Security [2]	2.6	–2.0	1.2	–4.4	–3.0	–2.0	–1.7	–2.1	–0.5	3.2
GDP	**2.0**	**–10.8**	**–4.3**	**–21.6**	**–8.6**	**–8.9**	**–**	**–**	**–**	**–**

Prices

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

	2019	2020	Q1 2020	Q2 2020	Q3 2020	Q4 2020	01/21	02/21	03/21	04/21
General	0.7	–0.3	0.6	–0.7	–0.5	–0.7	0.5	0.0	1.3	2.2
Core	0.9	0.7	1.1	1.1	0.5	0.2	0.6	0.3	0.3	...

Foreign sector

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

	2019	2020	Q1 2020	Q2 2020	Q3 2020	Q4 2020	01/21	02/21	03/21	04/21
Trade of goods										
Exports *(year-on-year change, cumulative over 12 months)*	1.8	–10.0	1.0	–7.2	–8.9	–10.0	–11.1	–11.5	...	...
Imports *(year-on-year change, cumulative over 12 months)*	1.0	–14.7	–1.0	–9.3	–13.3	–14.7	–16.0	–16.6	...	...
Current balance	**26.6**	**7.4**	**27.5**	**18.1**	**11.5**	**7.4**	**7.7**	**4.6**	**...**	**...**
Goods and services	37.5	16.7	37.9	27.7	20.3	16.7	16.2	14.8	...	...
Primary and secondary income	–10.9	–9.3	–10.4	–9.6	–8.8	–9.3	–8.5	–10.3	...	...
Net lending (+) / borrowing (–) capacity	**30.8**	**12.4**	**32.0**	**22.6**	**16.3**	**12.4**	**12.4**	**9.2**	**...**	**...**

Credit and deposits in non-financial sectors [3]

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

	2019	2020	Q1 2020	Q2 2020	Q3 2020	Q4 2020	01/21	02/21	03/21	04/21
Deposits										
Household and company deposits	5.4	7.5	4.4	8.0	9.0	8.7	9.9	9.0	7.9	...
Sight and savings	10.7	12.3	8.9	13.0	13.8	13.7	15.4	14.0	12.6	...
Term and notice	–13.4	–16.5	–16.4	–16.1	–16.5	–17.1	–18.7	–19.7	–20.8	...
General government deposits	8.8	1.0	–6.2	–6.6	5.2	11.8	11.2	7.8	13.3	...
TOTAL	**5.6**	**7.1**	**3.8**	**7.1**	**8.7**	**8.9**	**10.0**	**9.0**	**8.2**	**...**
Outstanding balance of credit										
Private sector	–1.5	1.2	–1.0	1.5	2.0	2.4	2.3	2.6	1.8	...
Non-financial firms	–3.4	4.9	–1.7	6.1	7.1	7.9	8.0	9.1	6.1	...
Households - housing	–1.3	–1.8	–1.7	–2.1	–1.8	–1.5	–1.1	–1.1	–0.7	...
Households - other purposes	3.2	0.8	2.5	0.7	0.3	–0.1	–1.8	–2.4	–1.5	...
General government	–6.0	3.0	1.7	0.1	1.1	8.8	5.5	10.0	13.0	...
TOTAL	**–1.7**	**1.3**	**–0.9**	**1.5**	**1.9**	**2.7**	**2.5**	**3.0**	**2.5**	**...**
NPL ratio (%)[4]	**4.8**	**4.5**	**4.8**	**4.7**	**4.6**	**4.5**	**4.5**	**4.6**	**...**	**...**

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

Portugal resumes the recovery as it emerges from lockdown

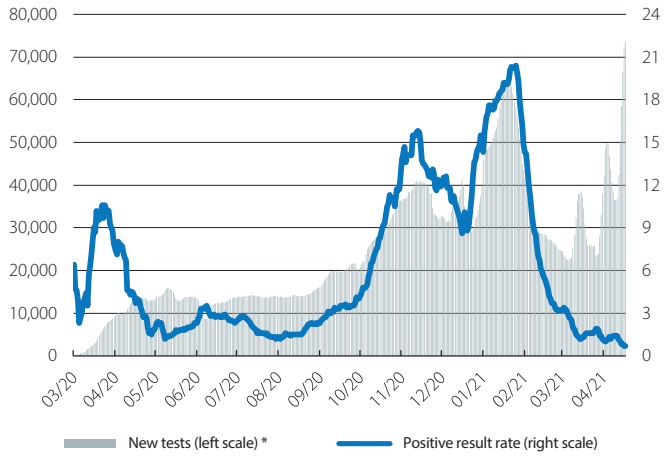
The pandemic dominated Q1 2021, but it is steadily losing its grip. As detailed below, the strict lockdown imposed at the beginning of the year has caused GDP to shrink in Q1 2021 (–3.3% quarter-on-quarter and –5.4% year-on-year). However, in recent months, the COVID-19 figures have steadily improved, both in relation to new infections and in terms of the pressure on hospitals and the vaccination process (by the end of April, around 25% of the population had received at least one dose, in line with most European countries and twice as many as a month ago). This has provided continuity to a gradual reopening of the economy, which has already included activities such as catering (albeit with capacity limits) and education at all levels.

The indicators point towards an improvement in economic activity following the contraction in GDP in Q1. With the heavy blow of the pandemic and the strict lockdown imposed at the start of the year, GDP shrank by 3.3% quarter-on-quarter (–5.4% year-on-year) in Q1 2021 and stood almost 10% below its pre-pandemic levels. Although the breakdown by component is not yet available, the indicators suggest that the contraction reflects the weakness in both domestic and foreign demand. Nevertheless, the initial data for March and April already suggest a significant recovery in Q2. For instance, by mid-April the Bank of Portugal's daily economic activity indicator had recovered to the levels of December 2020, while other indicators available up to March, such as car sales, cement sales and card payments, also reflect a significant improvement. The vaccination roll-out is a crucial factor for the recovery, and the immunisation of risk groups is expected to allow for a more sustained economic recovery beginning in Q2. In addition, European funds under the NGEU programme will help stimulate growth in the coming years (Portugal was the first country to deliver its Recovery Plan to the European Commission in April, requesting some 14 billion euros in grants between 2021 and 2026, equivalent to around 6% of GDP). Thus, in April the IMF adjusted its growth forecast for Portugal in 2021 to 3.9% and anticipated growth of 4.8% in 2022.

Ambivalent signs in the labour market. In March, employment increased by 13,300 people compared to the previous month, while the unemployment rate fell to 6.5% (6.8% in February). However, the labour market is still far from recovering pre-pandemic levels. On the one hand, there are still 55,300 fewer people in employment than before the COVID-19 crisis, while around 6% of employees are affected by furlough schemes (according to our estimates). Also, the decline in unemployment may not fully reflect the reality,

Portugal: COVID-19 tests and incidence of positive results

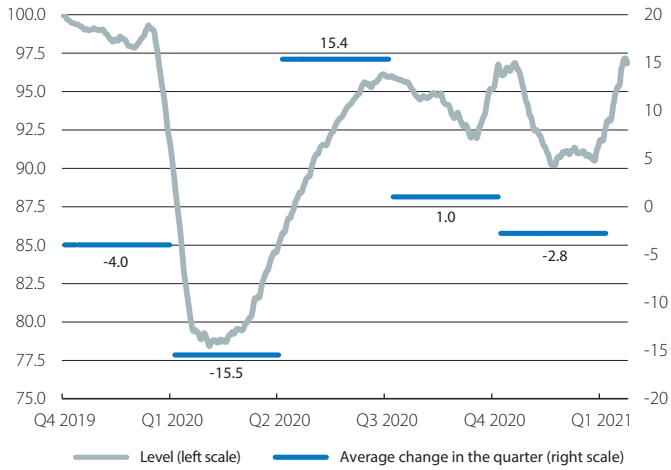
(Number of tests) *(%)*



Note: ** 7-day moving average.*
Source: *CaixaBank Research, based on data from Portugal's Directorate-General of Health.*

Portugal: daily economic activity indicator (DEI)

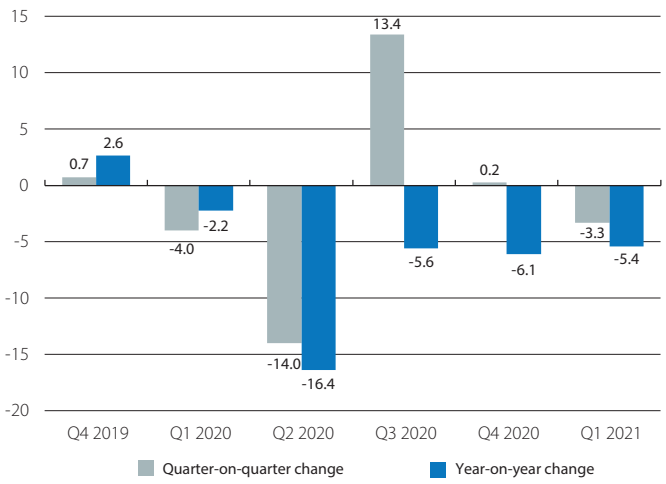
Index (100 = December 2019) *Quarter-on-quarter change (%)*



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

Portugal: GDP

Change (%)



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

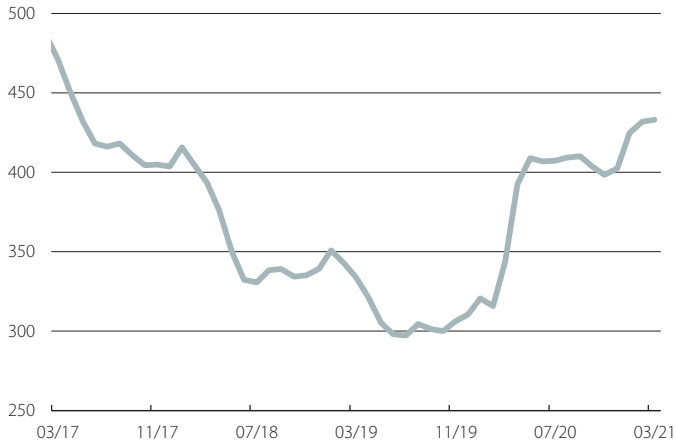
as it is driven by an increase in the non-working population (there are people available to work, but who cannot seek employment because of the mobility restrictions imposed to curb the pandemic). In fact, the absolute number of people registered as unemployed increased in March for the fourth consecutive month and reached a peak not seen since 2017. This increase in unemployment was mainly focused in retail and in accommodation and catering, two of the sectors hardest hit by the pandemic.

The pandemic drives the current account into deficit. The latest data show that the current account balance fell to –1.3% in February 2021 (versus a surplus of +0.6% in February 2020). This decline mostly reflects the weakness of tourism, which has dragged the surplus in the balance of services down to +3.7% of GDP, while on the upside the balance of goods has reduced its deficit to –5.4% of GDP, 2.4 pps less than a year ago. Nevertheless, a certain recovery in the current account balance is expected over the coming quarters, spurred by the start of the recovery in tourism.

Tourism remains weak. In the period between March 2020 and February 2021, the number of guests fell by 71% to 8 million and the number of overnight stays fell by 72% to 20 million relative to the year-on-year period. Non-resident tourists were the main factor behind these figures, with a decrease of 85% compared to 50% among residents. The total revenues of tourism establishments fell by 74%. In March 2021, 283,700 guests and 636,100 overnight stays were registered (–59% and –66%, respectively). While not as dire as the previous month, these figures are still a far cry from those of March 2019 (1.9 million guests and 4.6 million overnight stays). The sector's situation is expected to begin to improve in the coming quarters (especially in the second half of the year) as control of the pandemic improves and the vaccination campaign accelerates.

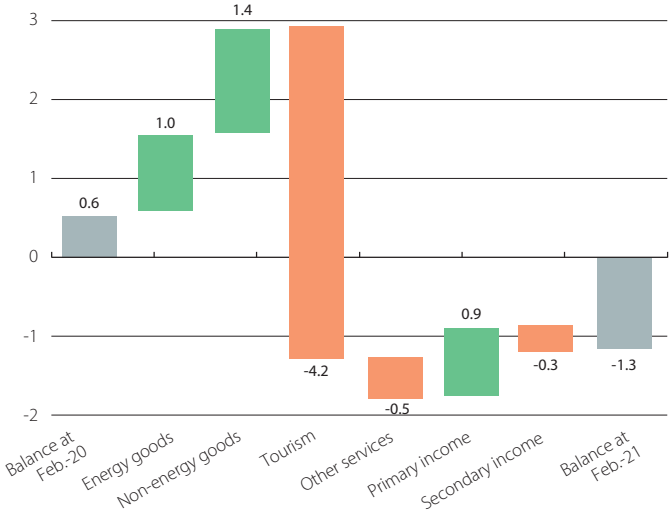
The stock of credit granted to the non-financial private sector continues to improve. In March, the stock of loans to private individuals increased by 1.8% year-on-year, driven by housing credit, while that of consumer credit continued to fall as a result of the impact of the lockdowns on household consumption. As for corporate credit, the stock of loans grew by 11.1% year-on-year. The trend in both segments reflects the support provided by credit moratoria. On the other hand, according to the credit market survey of banks, more restrictive lending criteria were observed in Q1 2021, especially in the case of SMEs, consumer credit and credit for other purposes. Demand for credit, meanwhile, increased slightly among SMEs and individuals, while it decreased in the case of large corporations.

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



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

Portugal: current account balance and contribution by component
(% of GDP)



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

Portugal: credit granted to the private sector *
March 2021

	Balance (EUR millions)	Year-on-year change (%)
Credit to individuals	124,333	1.8
Housing credit	98,799	2.6
Other purposes	25,535	–1.0
Consumption	18,834	–1.5
Credit to companies	75,402	11.1
Credit to the private sector	199,735	5.1

Note: ** Credit granted to the non-financial private sector. Excludes securitisations.*
Source: *CaixaBank Research, based on data from the Bank of Portugal.*

Activity and employment indicators

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

	2019	2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	02/21	03/21	04/21
Coincident economic activity index	1.1	–5.1	–6.1	–6.4	–5.1	–3.6	–3.7	–2.8	...
Industry									
Industrial production index	–2.2	–7.0	–23.5	–0.7	–2.5		–2.4	...	...
Confidence indicator in industry *(value)*	–3.2	–15.8	–24.8	–19.1	–14.5	–13.9	–14.1	–12.9	–10.1
Construction									
Building permits *(cumulative over 12 months)*	5.9	–0.7	–0.8	–0.6	–0.7	...	...	...	...
House sales	1.7	–5.7	–21.6	–1.5	1.0	...	...	...	...
House prices *(euro / m² - valuation)*	10.4	8.3	9.0	6.9	6.0	6.1	5.7	6.8	...
Services									
Foreign tourists *(cumulative over 12 months)*	7.8	–75.7	–29.7	–57.6	–75.7	–86.3	–84.8	–86.3	...
Confidence indicator in services *(value)*	12.9	–21.6	–36.9	–37.2	–18.0	–20.4	–21.3	–21.5	–19.3
Consumption									
Retail sales	4.4	–3.0	–12.1	–1.1	–1.9	–8.2	–14.9	0.3	...
Coincident indicator for private consumption	2.2	–5.0	–6.4	–6.5	–4.3	–1.3	–1.3	–0.3	...
Consumer confidence index *(value)*	–8.0	–22.4	–27.7	–26.9	–26.2	–24.4	–24.4	–23.0	–21.0
Labour market									
Employment	1.0	–2.0	–3.8	–3.0	–1.0	...	–1.4	–0.6	...
Unemployment rate *(% labour force)*	6.5	6.8	5.6	7.8	7.1	...	6.8	6.5	...
GDP	**2.5**	**–7.6**	**–16.4**	**–5.6**	**–6.1**	**–5.4**	**...**	**–**	**...**

Prices

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

	2019	2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	02/21	03/21	04/21
General	0.3	0.0	–0.3	0.0	–0.2	0.4	0.5	0.5	0.5
Core	0.5	0.0	–0.1	–0.1	–0.1	0.5	0.7	0.1	0.1

Foreign sector

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

	2019	2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	02/21	03/21	04/21
Trade of goods									
Exports *(year-on-year change, cumulative over 12 months)*	3.6	–10.2	–6.8	–7.8	–10.2	...	–11.2	...	...
Imports *(year-on-year change, cumulative over 12 months)*	6.0	–15.1	–7.6	–12.0	–15.1	...	–17.5	...	...
Current balance	**0.8**	**–2.4**	**–0.2**	**–2.2**	**–2.4**	**...**	**–2.4**	**...**	**...**
Goods and services	1.6	–3.6	–0.6	–3.0	–3.6	...	–3.4	...	...
Primary and secondary income	–0.7	1.2	0.4	0.8	1.2	...	1.1	...	...
Net lending (+) / borrowing (–) capacity	**2.6**	**0.3**	**2.4**	**0.3**	**0.3**	**...**	**0.3**	**...**	**...**

Credit and deposits in non-financial sectors

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

	2019	2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	02/21	03/21	04/21
Deposits [1]									
Household and company deposits	5.2	10.1	9.0	9.2	10.1	10.6	11.5	10.6	...
Sight and savings	14.8	18.8	20.1	18.4	18.8	18.5	21.1	18.5	...
Term and notice	–2.9	1.4	–1.0	0.4	1.4	2.4	1.8	2.4	...
General government deposits	5.6	–21.2	–15.7	–13.8	–21.2	–23.6	–10.3	–23.6	...
TOTAL	**5.2**	**9.0**	**7.9**	**8.2**	**9.0**	**9.4**	**10.7**	**9.4**	**...**
Outstanding balance of credit [1]									
Private sector	–0.1	4.6	0.5	2.1	4.6	5.1	5.0	5.1	...
Non-financial firms	–3.7	10.5	1.0	4.4	10.5	11.1	11.8	11.1	...
Households - housing	–1.3	2.1	–0.1	0.7	2.1	2.6	2.3	2.6	...
Households - other purposes	16.5	–1.2	1.5	1.3	–1.2	–1.0	–2.2	–1.0	...
General government	–4.7	–4.3	–9.7	–5.7	–4.3	–5.1	–4.3	–5.1	...
TOTAL	**–0.3**	**4.2**	**0.1**	**1.8**	**4.2**	**4.7**	**4.6**	**4.7**	**...**
NPL ratio *(%)* [2]	**6.2**	**4.9**	**5.5**	**5.3**	**4.9**	**...**	**...**	**...**	**...**

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

The consumption of each generation in normal times... and in times of pandemic

Each generation has its own consumption pattern. Young people, more prone to change and eager for novelty, tend to be the focus of attention for advertisers and marketing firms with the goal of attracting them and anticipating future consumer trends. However, it is the adult population that accounts for the majority of consumption: in 2019, the population from 30 to 64 years of age accounted for 73% of total card expenditure.[1] Also, those over the age of 65 have greater purchasing power than in the past and represent an increasing percentage of the population: in 2020, 1 in every 5 Spaniards were aged 65 or older, whereas in 2035, 26.5% of the population will be in this age range.[2]

We know that the COVID-19 crisis has had a big impact on consumption, both because of the mobility restrictions themselves and because of the increased economic uncertainty.[3] According to data from the national accounts maintained by the National Statistics Institute (NSI), private consumption in Spain fell by 12.4% in real terms in 2020, an even more pronounced decline than that of GDP (10.8%). But has the COVID-19 crisis affected the consumption habits of each generation or the same types of goods in equal measure? How did we consume before and during the pandemic?

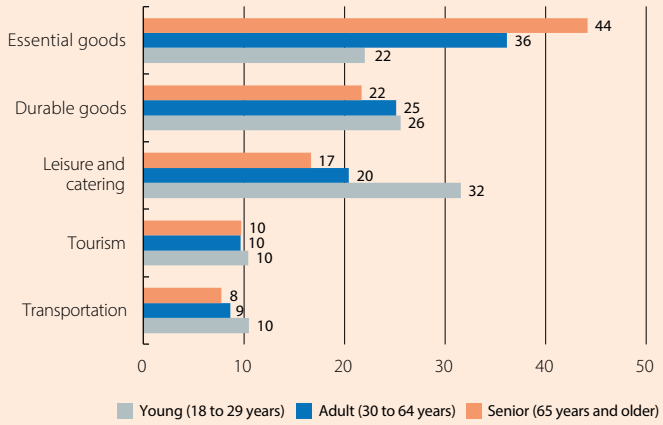
To answer these questions, given that public sources such as the NSI's household budget survey are only available up until 2019, we turned to CaixaBank's internal data, which already allow us to analyse how the consumption of each generation evolved in 2020 during the pandemic.[4] To do this, we analysed the card payment data of 13.4 million CaixaBank customers, completely anonymised and classified into three different age groups: young (from 18 to 29 years of age), adult (30 to 64) and senior (65 and over). Their consumption habits are representative of the consumption carried out by each generation in Spain.[5] We shall begin by studying them in normal times, in order to then compare them with what happened following the fateful events of 2020.

Consumption of millennials, adults and senior citizens in normal times

In Spain, in periods free of restrictions on activity (such as 2019, the year we take as a benchmark), young people, adults and older people have different tendencies in their consumption of each type of good, as a result of their differing preferences and resources (see first chart). Most of the consumption carried out by seniors is devoted to essential goods (food and pharmacy goods, 44%), whilst adults and young people spend a lower percentage on this category (36% and 22%, respectively). In contrast, young people are the generation that spends the most on leisure and catering (32%), far more than adults and seniors. The proportion of total consumption devoted to durable goods (electronics, textiles, furniture, etc.) is more similar between generations, accounting for around a quarter of the total, albeit with differences depending on the type. For instance, young people devote roughly half of their consumption of durable goods to textiles and sports (47%), compared to 41% among adults and 35% in the case of seniors. Finally, the proportion of consumption allocated to tourism and transportation is the closest between the generations, both representing around or slightly below 10%, although the spending levels differ.[6]

Spain: distribution of consumption by generation and type of expenditure

(% of each generation's total expenditure in 2019)



Note: *Internal consumption data for cards issued by CaixaBank (excludes cash withdrawals at ATMs).*
Source: *CaixaBank Research, based on internal data.*

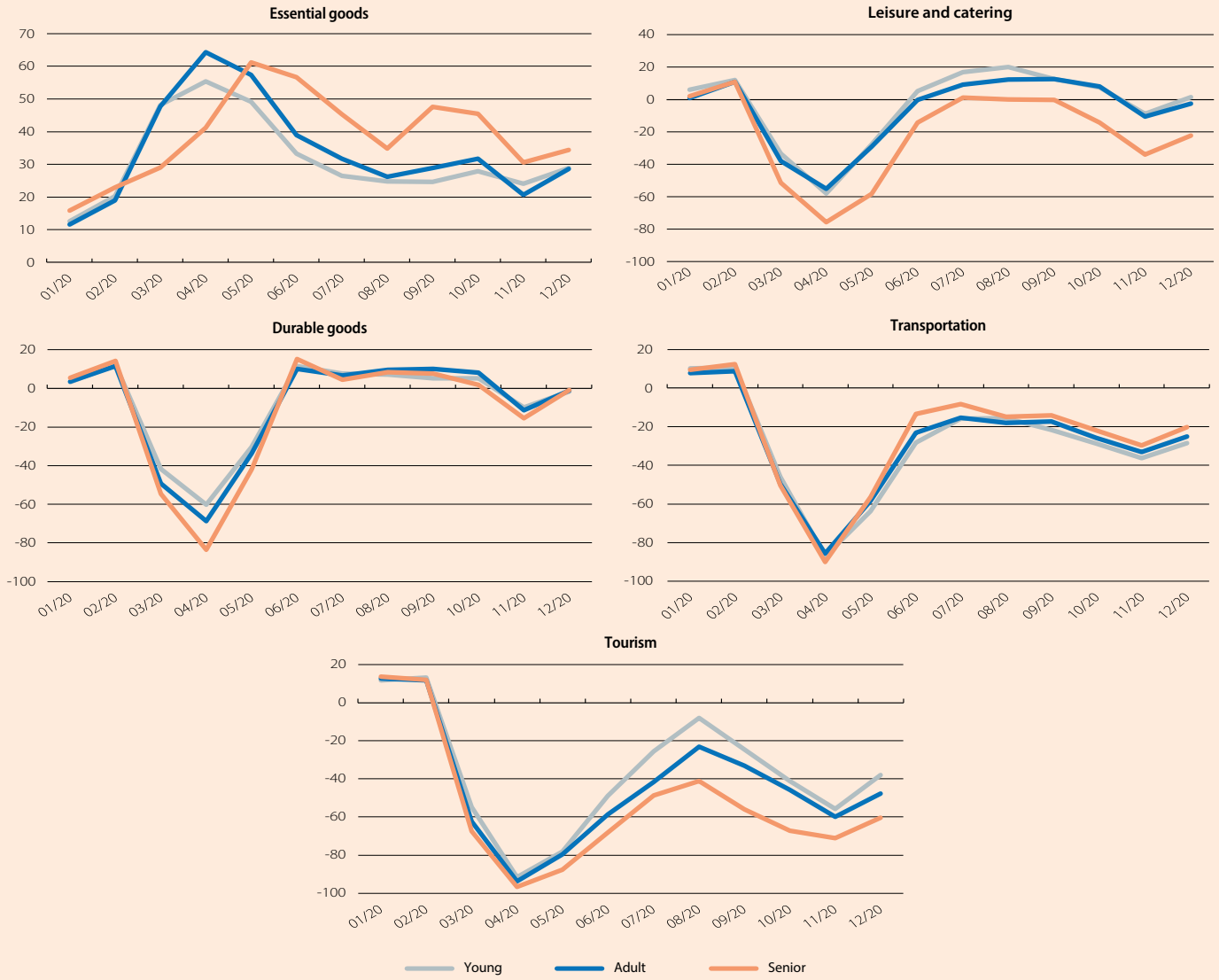
Consumption of millennials, adults and senior citizens in times of pandemic

During the first few months of the pandemic, the restrictions on activity made a significant dent in the consumption of all generations (measured in year-on-year terms). The biggest declines were registered in April, amounting to between 60% and 80% in leisure and catering and in durable goods, and exceeding 85% in the case of transportation and tourism (see second chart). The only exception was the improvement in the consumption of essential goods, which registered increases of more than 50%. This increase was delayed by a couple of months in the case of seniors, possibly because relatives and friends initially did the shopping for their elders in many cases.

1. According to internal consumption data for cards issued by CaixaBank (excludes cash withdrawals at ATMs).
2. National Statistics Institute. «Population projections. 2020-2070».
3. See, for example, J.M. González, A. Urtasun and M. Pérez (2020). «Consumption in Spain during the state of alert: an analysis based on payment card spending». Economic Bulletin of the Bank of Spain, nº 3, 2020. Or N. Cox *et al.* (2020). «Initial Impacts of the Pandemic on Consumer Behavior: Evidence from Linked Income, Spending, and Savings Data». BFI Working Paper.
4. For a general approach, see the Focus «Analysing private consumption during the COVID-19 crisis» in the MR07/2020.
5. The proportion of average consumption and that of each generation observed in the data from CaixaBank's Consumption Tracker is very similar to that of the NSI's household budget survey for types of goods that are comparable between the two databases (food and beverages, clothing and footwear, or restaurants and hotels).
6. A senior's average card spending in 2019 was half that of an adult's (49%), while that of a young person was 91% of an adult's.

Spain: average expenditure per client of each generation and by type of expenditure

Year-on-year change (%)



Note: *Internal consumption data for cards issued by CaixaBank (excludes cash withdrawals at ATMs).*
Source: *CaixaBank Research, based on internal data.*

The recovery in the following months, however, was more varied by age group. The consumption of essential goods among older people increased more than among young people and adults, and more persistently too. In the last quarter of 2020, the consumption of essential goods among seniors was 37% higher than in Q4 2019, 10 pps more than the increases registered among young people and adults. On the other hand, the consumption of the elderly in the categories of leisure and catering and in tourism recovered more slowly than in the other generations, and only partially. In the last quarter of 2020, their average consumption in leisure and catering was 23% lower than in the previous year, while in the case of tourism it was 66% lower. In contrast, young people and adults allocated a significant portion of their spending in the summer to leisure and catering and to tourism, categories on which they had spent very little in the preceding months. It therefore appears that there was greater intratemporal substitution of consumption in catering and tourism for essential goods among seniors than in the other generations. In contrast, young people and adults followed a pattern of intertemporal substitution, postponing spending on leisure and catering and on tourism from Q2 to Q3 rather than replacing it with other categories of goods. These differences in behaviour show that the recovery of pent-up demand for leisure and tourism was more concentrated in these latter two age groups in 2020. However, the senior group could play a greater role in the summer of 2021, when they will have been vaccinated and will have greater freedom of movement. On the other hand, as the autumn of 2020 progressed and the new restrictions imposed to control the second wave were tightened, all generations once again reduced their consumption in all types of goods.

In short, the differences in the recovery of consumption show that preferences and priorities matter, and that post-pandemic consumption could be different for each generation. In the following articles we analyse these patterns in greater detail for the cases of e-commerce, the use of cash and digital payment methods, and we compare the evolution of each generation's consumption with that of its income.

Josep Mestres Domènech and Eduard Llorens i Jimeno

The transition to e-commerce during the pandemic: everyone in equal measure?

There is no doubt that the outbreak of the pandemic has triggered a change in consumption habits in our society. The social distancing measures and lockdowns imposed to combat the spread of COVID-19 have led many purchases that were previously carried out in person, ranging from a garment of clothing to a household appliance, to move online. The aim of this article is to clarify whether this more intensive use of e-commerce has been uniform across all age groups and also whether it has remained constant throughout all phases of the pandemic.

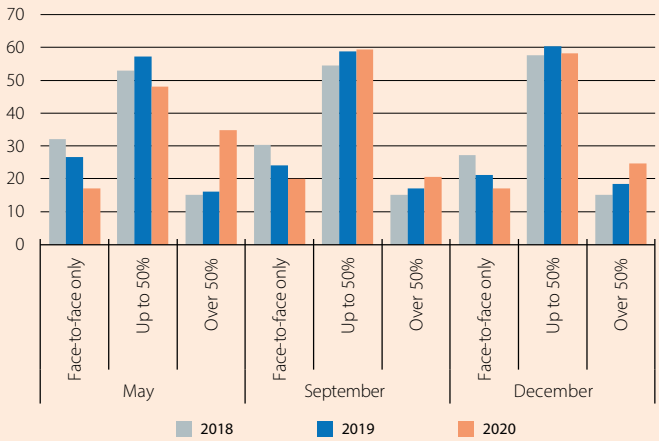
To answer these questions, as we did in the first article of this Dossier, we have used completely anonymised data on card payments carried out by 13.4 million CaixaBank customers. Firstly, we calculated for each card what proportion of its total expenditure corresponds to online purchases.[1,2] Having obtained this proportion, we assign each card a degree of e-commerce penetration, divided into three bands: face-to-face only (0% e-commerce expenditure), moderate penetration (up to 50% of the total expenditure allocated to e-commerce) and high penetration (more than 50% of the total expenditure on e-commerce). Finally, we split all the cards into three age brackets: young (18 to 29 years of age), adult (30 to 64) and senior (65 and over).

The results of this first analysis are shown in the first three charts, which show the picture at three distinct moments of the pandemic: May,[3] September and December. At first glance, the numbers fit in with our expectation. On the one hand, seniors are the group with the most exclusive face-to-face consumption. For example, the data tell us that in May 2020 76% of customers in this age group used their cards for face-to-face purchases only. In contrast, the percentage of young people and adults who consumed only face-to-face is significantly lower (especially among young people). On the other hand, across all age groups we can see a historical trend of growth in e-commerce: with each passing year, the percentage of cards with face-to-face consumption only decreases and is offset by an increase in the number of cards categorised as having moderate or high penetration.

Analysing how the pandemic has impacted e-commerce spending among the three age groups in further detail, a clear picture emerges: the biggest acceleration in this sales channel occurred in May and was focused mainly among young people (and, to a lesser extent, adults). If we look at young people in particular, in May 2020 35% of them allocated more than 50% of their total card expenditure to e-commerce purchases. This

Spain: distribution of e-commerce penetration among young people (2018-2020)

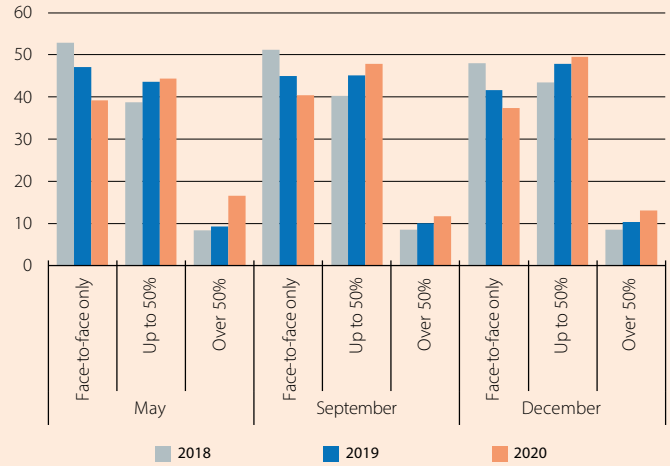
(% of the total number of CaixaBank cards)



Note: *The horizontal axis represents the percentage of the total expenditure of young people which corresponds to e-commerce and is split into three bands (face-to-face only, up to 50% and over 50%). The vertical axis represents the percentage of cards in each band. By construction, the sum of the grey, blue and orange bars is 100% in each of the three months analysed.*
Source: *CaixaBank Research, based on internal data.*

Spain: distribution of e-commerce penetration among adults (2018-2020)

(% of the total number of CaixaBank cards)



Note: *The horizontal axis represents the percentage of the total expenditure of adults which corresponds to e-commerce and is split into three bands (face-to-face only, up to 50% and over 50%). The vertical axis represents the percentage of cards in each band. By construction, the sum of the grey, blue and orange bars is 100% in each of the three months analysed.*
Source: *CaixaBank Research, based on internal data.*

1. It is important to note that the total expenditure data include cash withdrawals at ATMs. Therefore, the substitution of cash payments for card payments during the pandemic would have no effect on our analysis.
2. The proportion of e-commerce expenditure which we calculated for each card is defined as the ratio between e-commerce payments and the sum of face-to-face card payments, cash withdrawals and e-commerce payments.
3. May is the first full month after the outbreak of the pandemic with a sufficient level of face-to-face consumption to perform the analysis (in March and April, the mobility restrictions made spending of any kind besides e-commerce or the purchase of essential goods practically impossible).

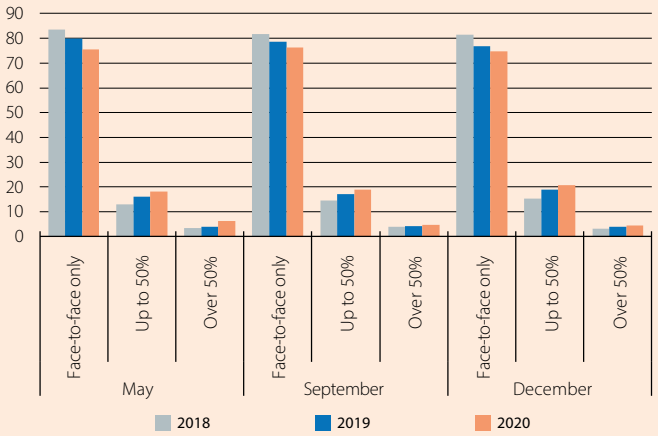
figure is much higher than that of 2018 or 2019 (15% and 16%, respectively). However, note how this acceleration relative to the historical trend is significantly diluted in September, among both young people and adults, whilst in December it once again intensifies, albeit not to the same extent as in May. This disparity in the acceleration of e-commerce relative to the historical trend could be associated with the strictness of the restrictions imposed to curb the spread of COVID-19: part of the acceleration witnessed in May and December can clearly be explained by the situation.[4]

Continuing with the analysis of young people, another interesting behaviour shown by the data is the trend in the percentage of cards with face-to-face consumption only. In May 2020, the decline compared to 2019 was 10 pps, twice that of 2018 to 2019. This leads us to believe that during the residential lockdown there were many young people who bought online for the first time. To analyse whether the relative importance of this age group in the e-commerce market has changed versus prior years, we can refer to the fourth chart, which shows the expenditure carried out by new users as a proportion of the total for young people (and adults) in each month analysed. These new young buyers accounted for 16-23% (more in May and less in December) of this age group's total e-commerce expenditure in 2020. In the case of adults, these new buyers accounted for a slightly lower proportion of the total. The relative weight of new buyers falls each year, as one would expect, given that as the e-commerce market grows larger the spending of these new users as a proportion of the total declines.

The same cannot be said for seniors, an age group in which e-commerce consumption did not accelerate relative to the historical trend in any of the three months of 2020 analysed (the increase is very similar to that of 2019), as shown in the third chart. In this regard, the senior age group has shown much more rigidity in its habits during the pandemic compared to young people and adults.[5] While it may seem somewhat circumstantial, this persistence of habits limits the potential growth of e-commerce in the short term, given that Spain is a country with a high proportion of elderly people in its population.

Spain: distribution of e-commerce penetration among seniors (2018-2020)

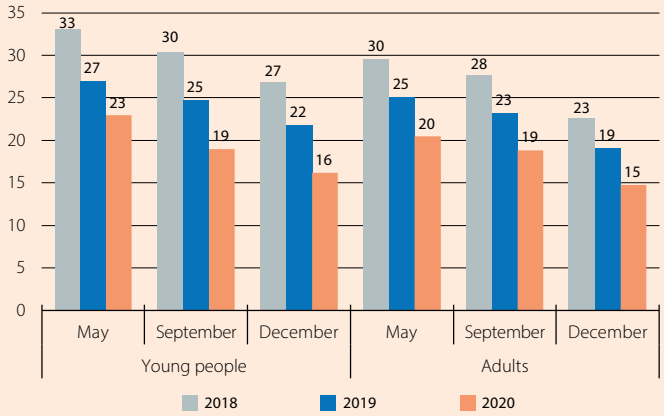
(% of the total number of CaixaBank cards)



Note: *The horizontal axis represents the percentage of the total expenditure of seniors which corresponds to e-commerce and is split into three bands (face-to-face only, up to 50% and over 50%). The vertical axis represents the percentage of cards in each band. By construction, the sum of the grey, blue and orange bars is 100% in each of the three months analysed.*
Source: *CaixaBank Research, based on internal data.*

Spain: relative weight of new young and adult e-commerce users (2018-2020)

(% of the total e-commerce expenditure)



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

Eduard Llorens i Jimeno

4. Of the months analysed, May was undoubtedly the one with the most restrictions on mobility and activity, since this was precisely when the residential lockdown began to be lifted. In contrast, the restrictions in place in September were much more lax, whilst in December they were once again intensified to contain the second wave of the pandemic.
5. This should not come as any surprise, since there is extensive literature documenting a positive correlation between age and the rigidity of thought and behaviour. See, for example, W. Schultz and A. Searleman (2002). «Rigidity of thought and behavior: 100 years of research». Genetic Social and General Psychology Monographs.

From banknotes to bizum: the intergenerational boost of the pandemic to digital payment methods

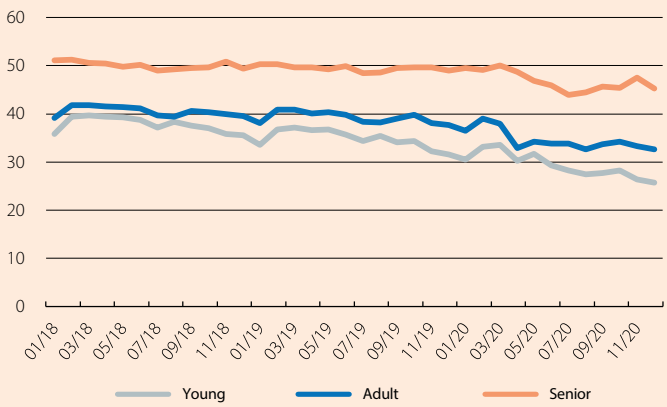
Soon we will once again be able to go to a restaurant for dinner with friends, like before. After enjoying the gathering, the food and the company, the time will come to pay the bill. Without giving it too much thought, we will most likely split it and each pay their share with their card or mobile, or perhaps one person will pay the full amount and the rest will *send them a bizum transfer* immediately afterwards. This situation which now seems so natural to us was not so just a few years ago, when everyone would most likely have paid their share in cash. The use of smartphones to pay a restaurant bill or share it among friends is a result of the spread of technological advances which, among many other transformations, facilitate digital means of payment over cash.[1] In the last 20 years, the use of digital means of payment has steadily increased in Spain. Card purchases in Spain have gone from around 1 billion transactions in the early 2000s to over 4.5 billion in 2019.[2] Over the same period, cash withdrawals have remained stable at around 900 million transactions a year. But are all generations joining this transition at the same speed? In this article we will analyse how young people, adults and seniors[3] are shifting from paying in cash to using digital payments, based on the card payment data, cash withdrawals and use of bizum of 13.4 million CaixaBank customers, completely anonymised. In particular, we will focus on how the pandemic we are currently enduring could act as a catalyst for relegating cash to a lower tier in the post-COVID world, and whether this catalyst will reach all generations.

The reduction in the use of cash of recent years was accentuated during the pandemic

According to our data, in 2019 (a pre-pandemic world), seniors withdrew the same amount of cash as they used for card payments, while card spending among adults and young people was already 30% and 40%, respectively, above the amount of cash they withdrew. This greater use of cash by older people relative to the younger generations has been observed in many countries and is largely due to the persistence of habits.[4] However, all generations are reducing their use of cash and increasing their card purchases, a trend which the pandemic accelerated significantly (see first chart).[5]

The use of cash during the first few months of the pandemic was sharply reduced across all generations. In April (see second chart), seniors withdrew on average 40% less cash than in the same month of the previous year; while adults withdrew 46% less and young people, 51% less. However, from June onwards, the older generation quickly returned to withdrawing the same amount of cash as a year earlier (or only slightly less). In contrast, this recovery was only partial among adults and young people: the reduced use of cash persisted during the second half of 2020 (between June and December they withdrew on average around 15% and 22% less cash than a year ago, respectively). This is a potential indication of a change that could persist in the post-pandemic world too. Thus, the health crisis may have accelerated not only the transition to e-commerce (as discussed in the previous article), but also to a greater use of digital means of payment.

Spain: cash withdrawals by each generation
(% of total card expenditure)



Note: *Amount of cash withdrawn by card relative to the total amount of card purchases and cash withdrawals of each generation.*
Source: *CaixaBank Research, based on internal data.*

The use of bizum as a means of payment increases exponentially

One of the electronic means of payment which has seen an exponential increase in its use in Spain is bizum. Bizum is a mobile payment solution of the Spanish banking system which allows users to send and receive money with nothing but the other person's mobile phone number. Its use was already growing rapidly before the pandemic, but has accelerated during it,

1. For more information on the evolution of the use of money, see the Dossier «Money: past, present and future» in the MR05/2018.
2. Bank of Spain (2021). Statistics on payment cards (https://www.bde.es/f/webbde/SPA/sispago/ficheros/es/estadisticas.pdf).
3. The three generations are classified as follows: young (18 to 29 years of age), adult (30 to 64) and senior (65 and over).
4. See J. Bagnall *et al.* (2014). «Consumer cash usage: a cross-country comparison with payment diary survey data». ECB Working Papers nº 1685.
5. This result has also been found in other studies. See, for example, «The paradox of banknotes: understanding the demand for cash beyond transactional use» in the ECB Economic Bulletin 2/2021.

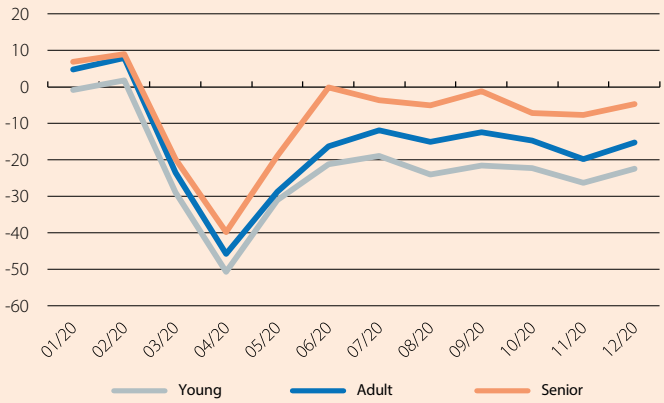
particularly among young people and adults (see third chart). In December 2020, young people were already using bizum for 11.6% of their expenditure (including card purchases, cash withdrawals from ATMs and payments made with bizum), 7.5 pps more than in December 2019. Adults, meanwhile, had increased their use of it to 4.5% of their total expenditure (a year earlier it accounted for 1.0%). Seniors also joined the trend, but are lagging further behind: in December 2020 they used the application to carry out 1.4% of their total expenditure (versus 0.2% a year earlier).

In short, the results of our analysis show that all generations are using more digital means of payment and more often, albeit at different rates. Young people have their mobile phone to hand for use as a regular means of payment, whilst adults reach for the card in their wallet. Even seniors are increasing their use of digital payments, although the acceleration in their adoption has not been as pronounced as among other age groups. These results, taken together, are encouraging in a context in which central banks – including the ECB – are analysing the pros and cons of digital currencies and their optimal design.[6] Creating a digital currency involves multiple challenges, such as questions over privacy or a potential impact on financial stability depending on how it is designed. The evidence presented in this article also underscores the importance of considering digital currency as an option that can serve to complement cash and other payment tools, but not to replace them.

Josep Mestres Domènech and Eduard Llorens i Jimeno

Spain: cash withdrawals by each generation during the pandemic *

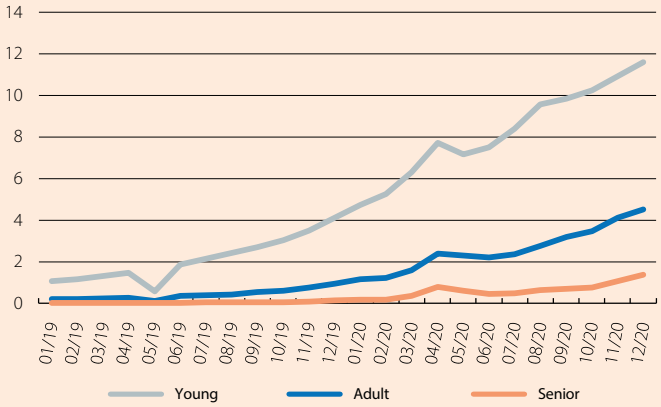
Year-on-year change (%)



Note: ** Average amount of cash withdrawn at ATMs per person for each generation.*
Source: *CaixaBank Research, based on internal data.*

Spain: use of bizum by generation *

(% of total card expenditure)



Note: ** The total expenditure includes the sum of purchases paid for by card, cash withdrawals at ATMs and payments made with bizum.*
Source: *CaixaBank Research, based on internal data.*

6. For more details, see the article «Central banks and digital currencies: a major challenge not without its difficulties» in the Dossier of the MR04/2021.

Income and expenditure between generations in times of pandemic

The economic crisis triggered by COVID-19 is not affecting all groups alike, as we have already witnessed in other articles of the *Monthly Report* since the start of the pandemic.[1] In this article we will analyse, using anonymised internal CaixaBank data, whether significant differences have been observed in Spaniards' incomes and expenditure depending on which generation they belong to. In order to take a snapshot of incomes,[2] we have taken into account the main sources: payroll, unemployment benefits, public pensions, public aids and income from private pension plans. As for consumption,[3] we have examined card transactions and cash withdrawals at ATMs, as well as including direct debits.

Young people are the hardest hit by the COVID-19 crisis

One of the main results that emerges from analysing the data[4] is that, in the three quarters of 2020 that were affected by the pandemic, the year-on-year drop in incomes was much more pronounced among young people (between 18 and 29 years of age) than among adults (30 to 64 years of age) and seniors (65 and over), as shown in the first chart.

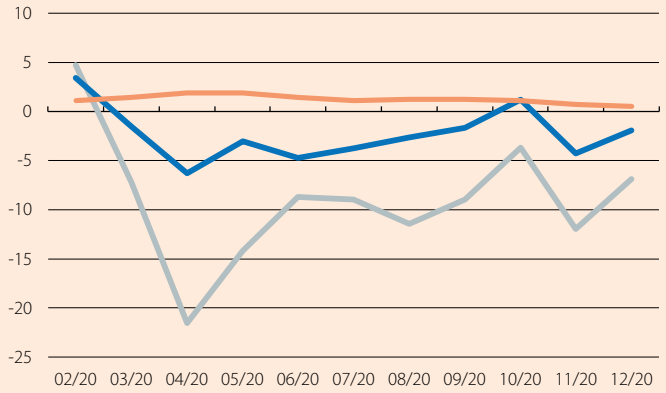
In fact, the decline in the median income of young people was quadruple that of adults in 2020.[5] In contrast, the median income of seniors increased in year-on-year terms in every quarter of last year and grew by 1.1% compared to 2019, a logical result given the pension increase implemented in 2020.

When we analyse the falls in income quarter by quarter, it is no surprise that the biggest declines suffered by young people and adults occurred in Q2 (the income of seniors, in contrast, did not suffer), since economic activity was heavily affected by the lockdown, especially in April at the height of the restrictions. In Q3, we see that while adult incomes were still down in year-on-year terms, they managed to recover quicker than in the case of young people. Finally, in Q4, the incipient recovery in the incomes of both young people and adults was slowed with the arrival of the second wave of COVID-19; in particular, the biggest fall in incomes in Q4 was recorded in November, the month in which the restrictions were reintroduced across the country to curb the new wave.

Looking at consumption, for each generation it has followed a parallel pattern to that of income. Q2 serves as a case in point: despite the lockdown being widespread and affecting all citizens to a similar extent, the fall in consumption was much more pronounced among young people than in adults, whilst the reduction in consumption was more limited among seniors. Moreover, in Q3, when the easing of restrictions coincided with the onset of summer, the year-on-year change in consumption was in positive territory for seniors, unlike in the case of young people and adults.

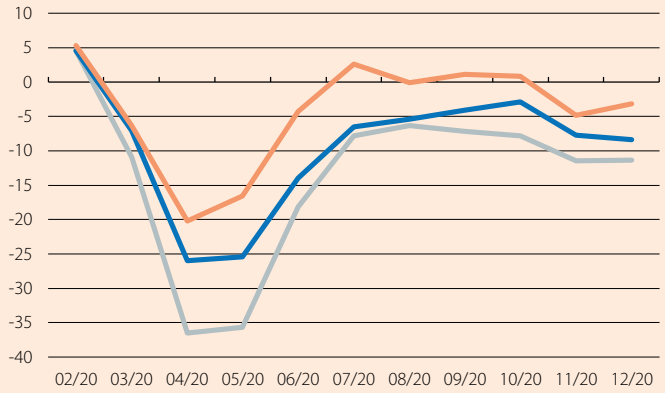
Spain: median incomes

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



Spain: median consumption

Year-on-year change (%)



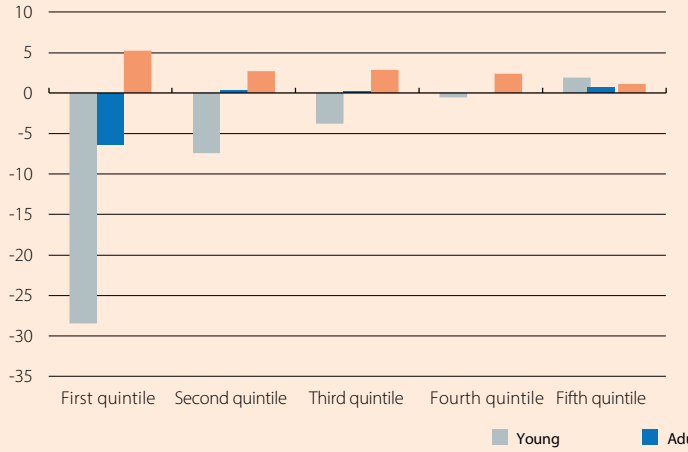
Young people Adults Seniors

Note: ** Two-month moving average.*
Source: *CaixaBank Research, based on internal data.*

1. See, for example, the Dossier «The impact of the COVID-19 crisis on inequality in Spain» in the MR11/2020.
2. In particular, in the sample for each month of 2019 and 2020 we included people with income as well as people with expenses who, despite having zero income, did have an income in at least 3 of the previous 12 months. In this article, we use median incomes. For 2020, we observe a 2% drop in incomes, halfway between the decline in household incomes calculated by the Spanish Tax Agency (–1%) and the fall in gross disposable income according to the National Statistics Institute (–3.3%).
3. We use median consumption.
4. In our sample, we have around five million observations each month.
5. The decline amounted to 8.1%% and 2% for young people and adults, respectively.

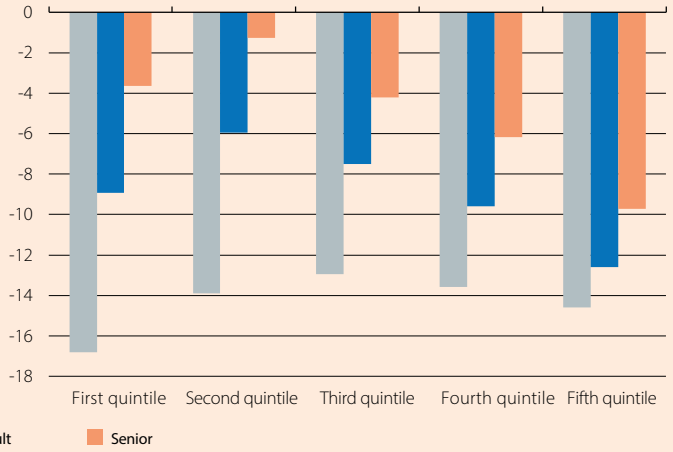
Spain: incomes in 2020 by income quintile

Year-on-year change (%)



Spain: consumption in 2020 by income quintile

Year-on-year change (%)



Note: *Change in incomes and consumption in 2020 versus 2019 for each income quintile of each generation. The first quintile corresponds to the lowest income band and the fifth, to the highest income band.*
Source: *CaixaBank Research, based on internal data.*

Income quintile analysis: it is not just age that matters

Before concluding, we studied whether these differences in the evolution of income and expenditure are solely due to demographics or whether it is also important to take income level into account.[6] The second chart presents the change in the median income and consumption in 2020 for each generation and, within each generation, for each income quintile.

When analysing changes in income, it is clear that both income level and age are very important factors. In particular, the drop in the incomes of young people within the first income quintile is particularly pronounced, as well as in the case of adults on lower incomes. As we progress through the quintiles, the decline in young people's incomes reduces considerably (in fact, in the upper quintile the year-on-year change is positive), whilst only adults in the first quintile saw their incomes decline. Finally, seniors saw their income increase in all quintiles.

The results relating to consumption are also revealing. Firstly, in line with the data aggregated by generation, young people reduced their consumption more than adults, and adults more than seniors, in all quintiles. Secondly, the decline in consumption among young people and adults was significant in all quintiles, and unlike in the case of income, there is no clear trend of smaller declines as incomes increase. Thirdly (and this may be the most striking finding), we see that for the bulk of the population – adults and seniors – the most significant declines in consumption occurred among those with higher incomes. This may seem surprising, but it would actually be logical if people with high purchasing power spend a larger proportion of their consumption on the categories of goods that have been most affected by the restrictions – and have thus fallen the most – compared to people in other quintiles. This is precisely the conclusion reached by the Bank of Spain in a recent study,[7] upon observing that the categories of expenditure most affected by the lockdowns – essentially those linked to greater mobility and social interaction, such as transportation services, recreational and cultural services, tour packages, and hotels, cafés and restaurants – represent a larger proportion of the total spending of higher-income households. This result has important consequences at the macroeconomic level, since people with high incomes tend to have a lower marginal propensity to consume than those in lower quintiles. This will tend to mitigate the impact of pent-up demand in the post-pandemic recovery.[8]

In short, in this article we have found that the big losers of the COVID-19 crisis have been young people, especially those with lower incomes. Adult workers with lower incomes have also seen them decimated, while the rest of adults have fared somewhat better. Finally, seniors have not been affected in terms of their income, but they have reduced their consumption, albeit by less than adults and young people. These patterns, which coincide with those of other European consumers,[9] allow us to declare with greater conviction that the pandemic is having a very different impact on each generation in Spain's domestic economy too.

Javier Garcia-Arenas, Alberto Graziano, Josep Mestres and Eduard Llorens i Jimeno

(See an extended version of this article at caixabankresearch.com)

6. We calculated the income quintiles for January 2019 and 2020. The sample is selected using the same criteria as in the previous analysis: having an income in a particular month or, in the absence of an income in that month, having incomes in at least three of the last 12 months. In addition, individuals are required to be part of the sample in January.
7. See J.A. Cuenca, C. Martínez Carrascal and A. del Río. «Household saving during the pandemic and its possible effects on the future recovery in consumption». Economic Bulletin 1/2021, Bank of Spain quarterly report on the Spanish economy. They analyse what portion of total expenditure is allocated to the various categories of goods for each quartile, using microdata from the 2019 household budget survey.
8. See the Focus «The role of pent-up consumption in the euro area recovery in 2021» in this same *Monthly Report*.
9. A recent study by the European Commission concludes that the financial situation of European consumers over the past 12 months has deteriorated dramatically for young people, whilst it has remained virtually unchanged for the elderly. European Commission (2021). «European Business Cycle Indicators 1st Quarter 2021». Technical Paper 047.

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

We recommend:

Challenges facing central banks in the post-pandemic world

Inflation, the after-effects of the pandemic in the monetary and fiscal spheres and the rise of digital money are just some of the major challenges facing central banks. Together with these challenges, will the central banks manage to preserve their independence, faced with the emergence of forces that could question it?

New fiscal package in the US: overheating in sight?

There are voices warning about the risks of overheating in the US economy, an idea that has permeated into the financial markets in the early stages of 2021. Is it a real risk? Will it trigger significant and/or persistent rallies in inflation?

The factors behind the rise in euro area inflation

Inflation has surged in early 2021. Is it only due to technical and temporary factors? Will they affect the ECB's monetary policy stance?

Taking stock of the «intermediate» sectors in Spain

Some sectors have suffered enormously as a result of the pandemic, while others have managed to continue to grow. What has happened to the rest, which lie between one extreme and the other?

Tourism Sector Report

2020 has been a very tough year for the tourism industry. In our latest Sector Report, we discuss the outlook for tourism in 2021 and analyse what impact the COVID-19 crisis has had on the sector.

How has the COVID-19 crisis affected inequality?

We analyse the evolution of inequality and the role of the welfare state in real time, based on internal CaixaBank data and the application of big data techniques. View it and download the data at: https://inequality-tracker.caixabankresearch.com/en

Follow us on: www.caixabankresearch.com @CABK_Research Newsletter CaixaBank

The *Monthly Report* is a publication drawn up jointly by CaixaBank Research and BPI Research (UEEF) which contains information and opinions from sources we consider to be reliable. This document is provided for information purposes only. Therefore, CaixaBank and BPI shall take no responsibility for however it might be used. The opinions and estimates are CaixaBank's and BPI's and may be subject to change without prior notice. The *Monthly Report* may be reproduced in part, provided that the source is adequately acknowledged and a copy is sent to the editor.

© CaixaBank, S.A., 2021
© Banco BPI, 2021

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

CaixaBank Research

ELEMENTAL CHLORINE FREE GUARANTEED

FSC www.fsc.org MIX Paper from responsible sources FSC® C015618