MR11

MONTHLY REPORT • ECONOMIC AND FINANCIAL MARKET OUTLOOK

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ECONOMIC & FINANCIAL ENVIRONMENT

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CaixaBank Research

MONTHLY REPORT - ECONOMIC AND FINANCIAL MARKET OUTLOOK
November 2021

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The search to recover the lost balance

The data published in recent weeks have confirmed the worsening combination of growth and inflation in the world economy during Q3 of this year. The slowdown in the growth rate of global economic activity has resulted from the loss of momentum in the three major global economies (China, the US and Germany), which have been hampered by the bottlenecks in global supply and the effects of rising energy prices. Particularly significant are the problems that are beginning to manifest themselves in the industrial sector in countries such as Germany as a result of the distortions in supply chains, as well as mismatches in the labour markets of some countries such as the US, Germany and even Spain, where the number of unfilled job vacancies is approaching 120,000 (the peak of the last decade). As a result, for the first time in years supply is unable to respond to the surge in demand which is occurring as a result of both the spending of pent-up savings accumulated during the lockdowns and the extraordinarily expansionary tone of economic policy. This mismatch continues to manifest itself in delays in deliveries of all kinds of goods and the de-supply of many product categories as the pressure relief valve (inflation) begins to reach levels not seen in decades. At this juncture, we must also consider the fact that the current disconnect between global supply and demand will continue in the last two months of the year, given the traditional increase in consumption that occurs in this period.

The trade-off for economic policy, especially on the monetary side, is either to continue to bank on the flexibility of supply and, therefore, on the transitory nature of the price rallies, or to begin easing the tensions on the demand side by adapting the financial conditions to an environment which now bears little resemblance to that of a year ago. What is more, as is almost always the case in economics, the time variable is the key. If there is no radical change in consumer preferences, the most likely outcome is that supply will move to respond to the rise in demand. But how long will it take to do this? And how will investors respond during this adjustment period to the unfavourable inflation data?

For the first question there is currently no answer. As for the second, we are beginning to see movement in the financial markets after months anaesthetised by the monetary authorities' messages of tranquillity. Yield curves are experiencing a flattening of their slopes as returns on short-term maturities rise (the increases in longer maturities have been more moderate). In other words, the market continues to place confidence in the central banks' ability to meet inflation targets (otherwise, the slope of the curve would have steepened), but to this end it considers it necessary to make moderate adjustments to the financial conditions in the coming quarters. In fact, a good number of central banks in the OECD (the US, Australia, the United Kingdom, Canada and New Zealand) are already in the first phase of the monetary policy normalisation process. However, the ECB, which has just revised its monetary policy strategy this summer, prefers to take things more slowly with a wait-and-see approach, even if that means falling behind the curve of market expectations. In this new scenario which has emerged in recent weeks, investors now anticipate official rate hikes next autumn, while five-year euro area inflation swaps rose to 2.3%. Therefore, rightly or wrongly, the financial markets are beginning to anticipate the need for monetary policy to help close the gap between supply and demand. Indeed, this is a necessity if we are to avoid second-round effects on prices which could turn the transitory shift into a permanent one. That will mean reduced rates of public and private debt purchases before the end of the year and gentle interest rate rises during the course of 2022.

The reality is that the imbalances in the markets for goods and production factors are a reflection of the current situation in the international economy, at a time when a large number of countries have not yet recovered their lost GDP levels. In most cases (commodities, transportation of goods, etc.), these imbalances are global in nature and result from the uniqueness of the COVID-19 crisis, making it difficult to anticipate when they might fade. The question is whether economic policy should try to reduce these imbalances in the short term or continue to rely on the capacity of supply to respond and on consumption's return to «normality». The risk is that the current mismatch becomes entrenched until well into next year, which could alter the global economy's path to recovery.

José Ramón Díez Guijarro
November 2021

Chronology

OCTOBER 2021

3 The International Consortium of Investigative Journalists publishes its investigation into accounts in tax havens: the Pandora Papers.
15 The delta plus variant of COVID-19 begins to spread.
30 G-20 summit at which the global minimum corporate tax is endorsed.

AUGUST 2021

1 The withdrawal from Afghanistan by the US and its European allies accelerates and the Taliban regain power.
9 The UN's Climate Change report talks of mankind's responsibility in relation to global warming and warns of changes that are irreversible for centuries.
17 The European Commission disbursed the first 9 billion euros of the NGEU funds to Spain.

JUNE 2021

11 G7 summit at which an agreement was reached on a global minimum tax on multinationals.
15 First issue linked to Next Generation EU, raising 20 billion euros.
Five-year truce agreed by the EU and the US in the trade dispute between Airbus and Boeing.
16 The European Commission endorses Spain's Recovery and Resilience Plan.

SEPTEMBER 2021

1 The crisis affecting Chinese real estate firm Evergrande intensifies.
17 Moody's upgrades Portugal's rating (from Baa3 to Baa2).
26 Elections in Germany, bringing an end to the 16-year Merkel era.

JULY 2021

6 Iran informed the International Atomic Energy Agency of its uranium enrichment activities, a decision quickly condemned by several countries.
15 The COVID-19 delta variant rapidly spreads around the world.
23 The 2020 Tokyo Olympic Games are held without any crowds in the stands.
30 First sentence in Hong Kong under the controversial national security law.

MAY 2021

10 New crisis between Israel and Hamas with attacks in Israel and the Gaza Strip lasting two weeks. The ceasefire was established at the end of the month.
19 The EU opens its borders to fully-immunised tourists.
20 Global Health Summit organised by the G-20 and the EU in which support was pledged for greater production and distribution of vaccines to poor countries.

Agenda

NOVEMBER 2021

2-3 Federal Open Market Committee meeting.
3 Spain: registration with Social Security and registered unemployment (October).
5 Spain: industrial production (September).
9 Portugal: turnover in industry (September).
10 Portugal: employment (Q3).
11 Portugal: turnover in services (September).
12 Portugal: Fitch rating.
15 Japan: GDP (Q3).
25 Spain: loans, deposits and NPL ratio (September).
29 Spain: CPI flash estimate (November).
Spain: state budget execution (October).
Euro area: economic sentiment index (November).
30 Portugal: CPI flash estimate (November).
Portugal: industrial production (October).

DECEMBER 2021

2 Spain: registration with Social Security and registered unemployment (November).
10 Spain: Fitch rating.
Portugal: turnover in industry (October).
14-15 Federal Open Market Committee meeting.
16 Governing Council of the European Central Bank meeting.
16-17 European Council meeting.
17 Spain: quarterly labour cost survey (Q3).
22 Spain: loans, deposits and NPL ratio (October and Q3).
23 Spain: quarterly national accounts (Q3).
Spain: balance of payments and NIIP (Q3).
Spain: household savings rate (Q3).
Spain: state budget execution (November).
Portugal: home prices (Q3).
Portugal: household savings rate (Q3).
30 Spain: CPI flash estimate (December).
Portugal: NPL ratio (Q3).
31 Portugal: CPI flash estimate (December).

The COVID-19 pandemic has been a V-shaped crisis

Last year, when we witnessed the heavy blow that the pandemic dealt to the economy, an intense debate began regarding what shape the recovery would take. The more pessimistic predictions opted for somewhat disheartening letters, such as L, W or K, while the more original ones proposed symbols of sports brands which did not convey much optimism either. Now that the outline of the recessive cycle has been completed, at least in terms of the main aspects that define our economy, the debate has taken second stage. But it is worthwhile revisiting it and taking stock.

In the labour market, the letter that best represents the COVID-19 crisis is, fortunately, V! The initial fall in the number of people registered with Social Security was unprecedented, both because of the magnitude of the debacle and due to the speed at which it took place. But the recovery that has taken place has been extraordinarily rapid. When the pandemic irrupted, in just two months more than 4 million people stopped working, counting those who actually lost their jobs as well as those who did not work because they were on furlough. Let us put these figures in context: in the financial and real estate crisis that occurred between 2008 and 2013, which at the time we described as historic, a little more than 3 million jobs were destroyed over a period spanning more than five years. The shape of the recovery on this occasion is also quite different. In just over a year, the number of people in work is already higher than before the pandemic. In the previous crisis, five years passed before this milestone was reached. Plot a chart comparing the two episodes and the V shape will quickly become clear.

Consumption, the pillar on which much of the Spanish economy is supported, is also showing very encouraging signs according to CaixaBank's internal data. Card payments, including both Spanish and foreign cards and purchases carried out face-to-face as well as online, plus cash withdrawals at CaixaBank ATMs, plummeted by more than 30% in Q2 2020. But in Q2 2021 the year-on-year rate of change had already turned positive, and in Q3 the growth rate exceeded 10% compared to pre-pandemic levels. In recent weeks, the sectors hardest by the crisis, such as retail, leisure and catering, have registered strong growth. Also of particular note is the trend in online sales, which continue to register very high growth rates despite the fact that the restrictions on mobility and the capacity limits have already been lifted. Over time we will see that the pandemic has acted as a catalyst for this sales channel.

The indicator where the V-shaped recovery is less evident is GDP. The figures published by Spain's National Statistics Institute (INE) have been lower than expected by the community of analysts, including those here at CaixaBank Research. We have all found it somewhat disconcerting to see the low growth figures suggested by the INE for Q2 and Q3 of this year. The forecasts we were all working with, based on the evolution of indicators such as those mentioned above, pointed towards a clearly higher growth rate. The exceptional nature of the crisis has made it very difficult to accurately measure the evolution of economic activity, and we have all been forced to reinvent our methods in order to obtain new sources of reliable information. In this context, therefore, we must all be highly cautious. But the evolution of the aforementioned indicators, such as those related to the labour market and consumption which are not revised because they are based on direct information, suggests that the INE will likely end up revising its GDP estimate upwards. Indeed, the Minister for Inclusion, Social Security and Migration has said as much himself. We hope that, in the end, GDP will also follow a V-shaped recovery.

However, the voices that constantly warn of the risks posed by the macroeconomic outlook remain very much active. In many developed countries there is a marked rebound in the number of COVID-19 cases and, to some extent, in the number of people hospitalised. A mutation of the virus or a faster than expected drop in the level of protection provided by the vaccines could lead to new waves of infections. This is the main risk we continue to face. The battle against the virus is not yet over and it seems as though we are already stumbling into another battle before we have even emerged from the last one. Added to this are fears that the economic recovery will lose momentum due to the rise in inflation brought about by the escalating energy prices and the tensions in global supply chains, which are already limiting the productive capacity of industry and pushing up the price of intermediate goods. These new sources of risk have intensified in recent months, causing some confusion in the financial markets. As usual at times of limited visibility, the markets overreact in one direction or another depending on the colour of the information they receive each day. For the time being, however, the most likely scenario remains that these pockets of risk will fade over the coming months. We hope that, following the V-shaped recovery we have just witnessed, we will be able to focus our energies on analysing the new expansionary cycle that opens up in order to ensure that it is more sustainable, from both a social and an environmental point of view.

Oriol Aspachs

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

Financial markets

	Average 2000-2007	Average 2008-2018	2019	2020	2021	2022	2023
INTEREST RATES							
Dollar							
Fed funds (upper limit)	3.43	0.68	1.75	0.25	0.25	0.50	1.25
3-month Libor	3.62	0.90	1.91	0.23	0.15	0.60	1.50
12-month Libor	3.86	1.40	1.97	0.34	0.30	1.05	1.80
2-year government bonds	3.70	0.96	1.63	0.13	0.40	0.80	1.45
10-year government bonds	4.70	2.61	1.86	0.93	1.75	2.00	2.40
Euro							
ECB depo	2.05	0.26	–0.50	–0.50	–0.50	–0.50	–0.50
ECB refi	3.05	0.82	0.00	0.00	0.00	0.00	0.00
Eonia	3.12	0.47	–0.46	–0.47	–0.48	–0.48	–0.48
1-month Euribor	3.18	0.58	–0.45	–0.56	–0.55	–0.51	–0.48
3-month Euribor	3.24	0.74	–0.40	–0.54	–0.53	–0.46	–0.40
6-month Euribor	3.29	0.88	–0.34	–0.52	–0.50	–0.41	–0.34
12-month Euribor	3.40	1.07	–0.26	–0.50	–0.46	–0.35	–0.27
Germany							
2-year government bonds	3.41	0.45	–0.63	–0.73	–0.70	–0.50	–0.45
10-year government bonds	4.30	1.69	–0.27	–0.57	–0.30	–0.10	0.20
Spain							
3-year government bonds	3.62	1.87	–0.36	–0.57	–0.35	–0.11	0.22
5-year government bonds	3.91	2.39	–0.09	–0.41	–0.20	0.06	0.42
10-year government bonds	4.42	3.40	0.44	0.05	0.30	0.50	0.85
Risk premium	11	171	71	62	60	60	65
Portugal							
3-year government bonds	3.68	3.66	–0.34	–0.61	–0.49	–0.14	0.26
5-year government bonds	3.96	4.30	–0.12	–0.45	–0.29	0.11	0.52
10-year government bonds	4.49	5.03	0.40	0.02	0.30	0.55	0.90
Risk premium	19	334	67	60	60	65	70
EXCHANGE RATES							
EUR/USD (dollars per euro)	1.13	1.28	1.11	1.22	1.17	1.19	1.21
EUR/GBP (pounds per euro)	0.66	0.84	0.85	0.90	0.86	0.85	0.84
OIL PRICE							
Brent ($/barrel)	42.3	81.5	65.2	50.2	80.0	65.0	63.0
Brent (euros/barrel)	36.4	62.9	58.6	41.3	68.4	54.6	52.1

Forecasts

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

International economy

	Average 2000-2007	Average 2008-2018	2019	2020	2021	2022	2023
GDP GROWTH							
Global	4.5	3.4	2.8	–3.1	6.1	4.5	3.8
Developed countries	*2.7*	*1.4*	*1.7*	*–4.5*	*5.2*	*4.0*	*2.4*
United States	2.7	1.6	2.3	–3.4	5.4	3.5	2.6
Euro area	2.2	0.8	1.5	–6.5	5.0	4.8	2.3
Germany	1.6	1.3	1.1	–4.9	2.6	4.6	1.8
France	2.2	0.9	1.8	–8.0	6.3	3.7	2.0
Italy	1.5	–0.4	0.4	–9.0	5.7	4.1	2.4
Portugal	1.5	0.3	2.7	–8.4	4.0	5.1	2.4
Spain	3.7	0.5	2.1	–10.8	5.0	6.2	3.3
Japan	1.4	0.5	0.0	–4.7	2.5	2.3	0.8
United Kingdom	2.9	1.2	1.7	–9.7	7.6	5.5	1.8
Emerging and developing countries	*6.5*	*5.0*	*3.7*	*–2.1*	*6.9*	*5.1*	*4.9*
China	10.6	8.2	6.0	2.3	8.3	5.7	5.4
India	7.2	6.9	4.8	–7.0	9.2	7.3	7.5
Brazil	3.6	1.7	1.4	–4.1	5.3	2.2	2.5
Mexico	2.4	2.1	–0.2	–8.3	6.2	3.0	2.3
Russia	7.2	1.1	1.3	–3.1	3.8	2.5	2.0
Turkey	5.4	4.9	0.9	1.6	8.3	3.3	3.9
Poland	4.2	3.5	4.8	–2.6	5.4	5.0	3.0
INFLATION							
Global	4.1	3.7	3.5	3.2	4.3	3.8	3.0
Developed countries	*2.1*	*1.6*	*1.4*	*0.7*	*2.8*	*2.4*	*1.5*
United States	2.8	1.8	1.8	1.2	4.5	3.6	1.7
Euro area	2.2	1.4	1.2	0.3	2.3	1.8	1.5
Germany	1.7	1.4	1.4	0.4	2.8	2.0	1.6
France	1.9	1.3	1.3	0.5	2.0	1.8	1.5
Italy	2.4	1.5	0.6	–0.1	1.7	1.7	1.5
Portugal	3.0	1.2	0.3	0.0	1.2	1.4	1.4
Spain	3.2	1.4	0.7	–0.3	2.4	1.7	1.3
Japan	–0.3	0.4	0.5	0.0	–0.3	0.6	0.7
United Kingdom	1.6	2.4	1.8	0.9	2.1	2.0	1.7
Emerging countries	*6.7*	*5.6*	*5.1*	*5.1*	*5.4*	*4.9*	*4.1*
China	1.7	2.6	2.9	2.5	1.0	1.7	1.4
India	4.5	7.7	3.7	6.6	5.0	5.5	4.5
Brazil	7.3	5.9	3.7	3.2	7.3	4.5	3.5
Mexico	5.2	4.2	3.6	3.4	5.4	3.9	3.5
Russia	14.2	8.2	4.5	4.9	6.3	4.4	4.1
Turkey	27.2	9.1	15.5	14.6	17.3	14.2	11.0
Poland	3.5	1.9	2.1	3.7	4.1	3.0	2.5

Forecasts

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

Spanish economy

	Average 2000-2007	Average 2008-2018	2019	2020	2021	2022	2023
Macroeconomic aggregates							
Household consumption	3.6	–0.1	0.9	–12.2	6.0	5.3	2.6
Government consumption	5.0	1.0	2.0	3.3	3.2	1.0	–0.5
Gross fixed capital formation	5.6	–1.9	4.5	–9.5	4.4	10.0	4.8
Capital goods	4.9	0.0	3.2	–12.9	13.4	8.0	3.6
Construction	5.7	–3.8	7.1	–9.6	–1.0	11.0	5.5
Domestic demand (vs. GDP Δ)	4.3	–0.4	1.6	–8.7	5.1	5.1	2.4
Exports of goods and services	4.7	2.9	2.5	–20.1	11.3	9.9	6.2
Imports of goods and services	7.0	0.1	1.2	–15.2	12.4	7.0	3.6
Gross domestic product	**3.7**	**0.5**	**2.1**	**–10.8**	**5.0**	**6.2**	**3.3**
Other variables							
Employment	3.2	–0.7	2.3	–7.5	5.5	3.8	2.6
Unemployment rate (% of labour force)	10.5	20.0	14.1	15.5	15.1	14.0	13.0
Consumer price index	3.2	1.4	0.7	–0.3	2.4	1.7	1.3
Unit labour costs	3.0	0.2	2.4	5.3	–0.5	0.2	2.0
Current account balance (% GDP)	–5.9	–0.5	2.1	0.7	1.5	1.6	1.7
External funding capacity/needs (% GDP)	–5.2	–0.1	2.6	1.1	1.7	1.8	1.9
Fiscal balance (% GDP)[1]	0.4	–6.3	–2.9	–11.0	–8.2	–5.6	–4.2

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

Forecasts

Portuguese economy

	Average 2000-2007	Average 2008-2018	2019	2020	2021	2022	2023
Macroeconomic aggregates							
Household consumption	1.7	0.3	3.3	–7.1	4.4	4.2	2.1
Government consumption	2.3	–0.5	2.1	0.4	4.4	0.5	0.2
Gross fixed capital formation	–0.3	–1.2	5.4	–2.7	5.3	7.4	8.0
Capital goods	3.2	2.7	1.6	–6.2	11.5	7.8	8.1
Construction	–1.5	–3.5	7.7	1.6	2.7	5.7	4.3
Domestic demand (vs. GDP Δ)	1.3	–0.2	3.0	–5.6	4.8	4.3	2.9
Exports of goods and services	5.2	4.0	4.1	–18.7	5.9	9.4	5.5
Imports of goods and services	3.6	2.5	5.0	–12.2	7.7	6.7	6.4
Gross domestic product	**1.5**	**0.3**	**2.7**	**–8.4**	**4.0**	**5.1**	**2.4**
Other variables							
Employment	0.4	–0.6	1.2	–1.9	2.0	1.2	0.6
Unemployment rate (% of labour force)	6.1	11.8	6.6	7.0	7.0	6.9	6.8
Consumer price index	3.0	1.2	0.3	0.0	1.2	1.4	1.4
Current account balance (% GDP)	–9.2	–3.2	0.4	–1.2	–0.7	–0.5	–0.4
External funding capacity/needs (% GDP)	–7.7	–1.9	1.2	0.1	1.2	1.8	1.9
Fiscal balance (% GDP)	–4.6	–5.5	0.1	–5.8	–4.3	–2.9	–1.5

Forecasts

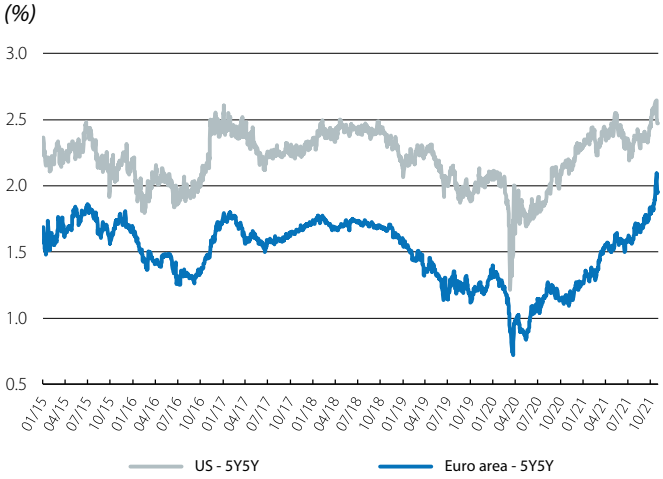
The financial markets reflect an outlook marked by inflation

Investors anticipate an earlier rise in interest rates. Inflation continued to dominate the financial markets' focus of attention. Confirmation of the rise in inflation rates at the global level, combined with the persistence of bottlenecks and high commodity prices, triggered the rally in inflation expectations in the major economies. In addition, several central banks (in Canada, the United Kingdom, Australia and New Zealand) announced their intention to tighten their monetary policies in the short term in the face of the persistent inflationary tensions. These messages also led to expectations among investors that, besides the confirmed withdrawals of monetary stimulus, the Fed and the ECB could implement their response sooner than previously anticipated. Moreover, in several emerging countries, central banks opted to accelerate the rise in their benchmark rates in the face of rising inflation rates and at the risk of compromising the pace of their economic recovery. In this context, the financial markets showed mixed behaviour, with sell-offs in the bond markets, the dollar holding up, and gains in the stock markets.

The slope of the US sovereign yield curve moderates. In the case of the US economy, the wage growth reflected in the latest employment data, coupled with the factors discussed above, drove medium-term inflation expectations above the Fed's 2% target, reaching levels not seen since 2014. It was precisely this movement that led interest rates to rise in the long-term segments of the sovereign yield curve in a context of high volatility. In particular, the yield on the 10-year US treasury rose by 6 bps in the month, reaching around 1.55%. There were also notable movements in the short section of the curve, driven on the one hand by the spread of inflationary pressures and, on the other, by the hawkish tone shown by some central banks (as we mentioned above). The result was a rise in money market rates, particularly the 12-month US Libor rate and the yield on the 2-year bond (which climbed 22 bps to 0.5%). In fact, at these levels investors seem to be anticipating that the first Fed funds rate hike will occur in the summer of 2022. This will certainly be one of the topics to watch at the Fed's November meeting, in addition to the official tapering timeline.

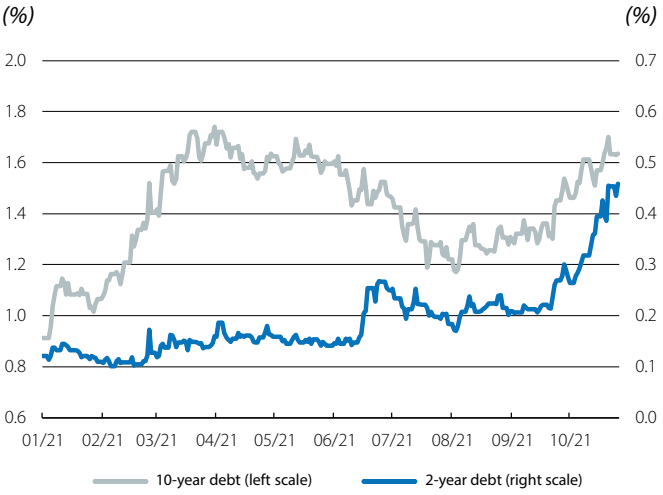
The ECB fails to fully convince investors. At its October meeting, the ECB kept both official interest rates and the rate of asset purchases under the PEPP and the APP unchanged, and it maintained its positive view of the pace of recovery of the economy as a whole. Regarding inflation, Christine Lagarde pointed out that the current high level is due to temporary factors which should fade during the course of 2022, and despite acknowledging the risk of second-round effects, the institution opted to keep its forward guidance unchanged (see the Nota Breve). This assertion contrasted

Inflation expectations according to inflation swaps



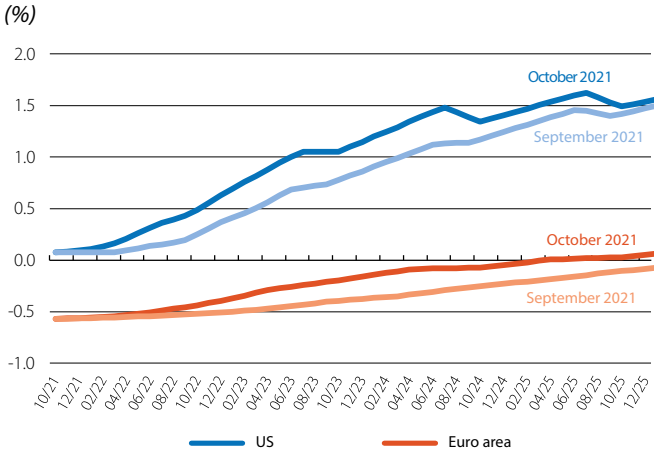
Note: *We show five-year five-year (5Y5Y) inflation swaps.*
Source: *CaixaBank Research, based on data from Bloomberg.*

US: yields on 2- and 10-year sovereign debt



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

Fed and ECB benchmark interest rate expectations



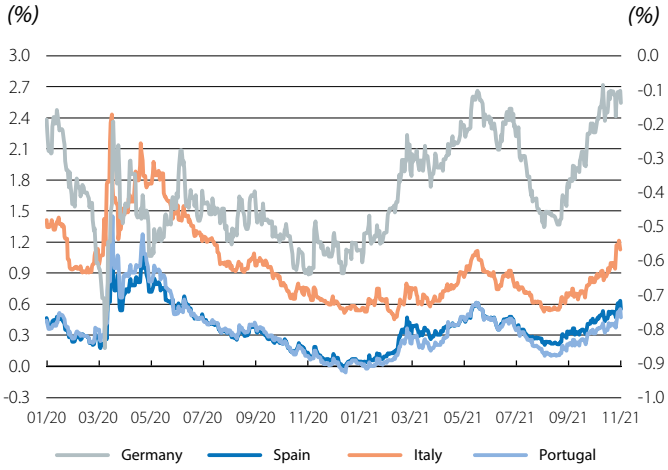
Note: *Forwards on the EFFR and the OIS euro area rate derived using the NSS model based on market yield curves.*
Source: *CaixaBank Research, based on data from Bloomberg.*

with investors' valuations, which forecast a scenario of high and less transient inflation, indicating that the monetary authority could bring forward its first deposit interest rate hike to sometime between late 2022 and early 2023. Thus, just like in the US, rates in the short sections of the euro area sovereign yield curve rose in the closing days of the month, increasing by slightly more than long-term interest rates (the 10-year bund climbed 9 bps to –0.11%). The lack of mention of the rate of purchases under the PEPP, meanwhile, pushed risk premiums of the euro area periphery slightly up, with the exception of Italy, which saw its risk premium rise by 7 bps.

The natural gas price rally slows. Following the surge in tensions in September, and for the first time since the beginning of the year, the price of natural gas ended the month down (the Dutch TTF, the European benchmark, fell by 29%). Factors which favoured the easing of prices included Russia's commitment to supply Europe over the coming months and the decline in the cost of coal (after China sold a portion of its strategic reserves). This latter element should favour lower pressure on the demand for liquefied natural gas in Asia for electricity generation. The other side of the coin was oil, which saw its price climb to a three-year peak in the face of declining inventories in the US and the need for investment in the Persian Gulf in order to sustain production. In this context, the rise in interest rates of the US yield curve favoured the strength of the dollar against emerging currencies, with the exception of the Russian rouble.

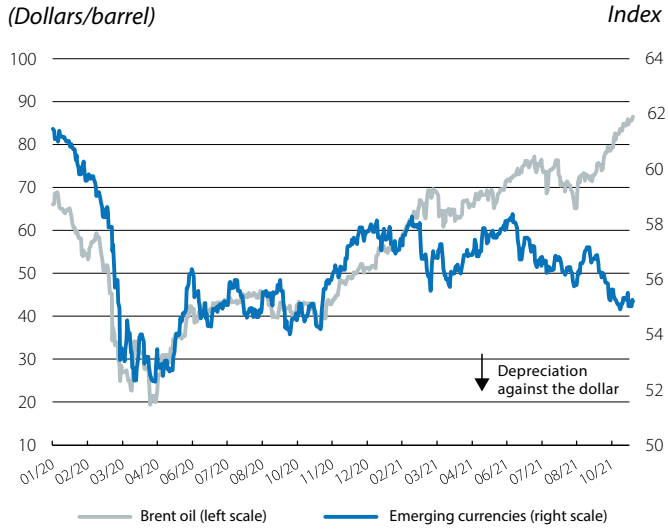
The stock markets recover their rhythm. In October, the major stock market indices registered significant gains in advanced economies, amounting to around 7% in the S&P 500 and 5% in the case of the Eurostoxx 50. The recovery in prices was mainly due to two factors: the resilience of the economic recovery and the good start to the Q3 corporate earnings campaign. This latter aspect was very well received by investors, since it highlighted the productive sector's capacity to maintain margins in an environment of higher input costs. Up until the closing date for this publication, more than 80% of the S&P 500 firms that have published their results have exceeded consensus earnings expectations. The rally in risk-free rates, meanwhile, limited the gains in emerging economies' equity markets, which showed a more modest performance (MSCI Emerging Markets +0.9%).

Euro area: yields on 10-year sovereign debt



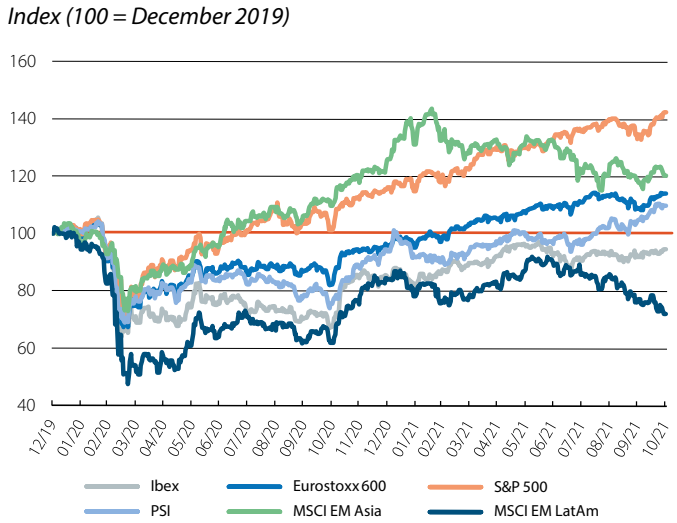
Note: *Spain, Italy and Portugal, left scale.*
Source: *CaixaBank Research, based on data from Bloomberg.*

Brent oil price and emerging currencies



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

International stock markets



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

Will the ECB meet its new inflation target?

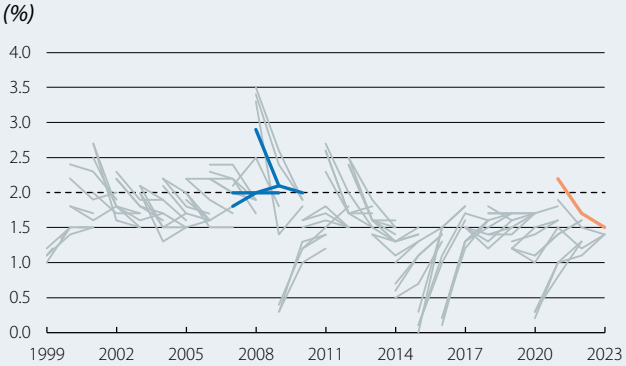
In July, the ECB changed its monetary policy strategy for the first time in 18 years. Moreover, it did so by adjusting its inflation target, abandoning the ambiguous target of «below, but close to, 2%» in favour of a «symmetric 2%» target, which leaves much less room for misinterpretation. Furthermore, in order to address the asymmetric effect of the effective lower bound (the minimum interest rate that the central bank can offer is estimated to be around –1.0%), the ECB made clear that it will tolerate inflation deviating above the target rate. With this shift, it seeks to respond to structural changes of the framework in which it operates: the fall in equilibrium interest rates and inflation expectations.[1]

In addition to the alteration of the inflation target, the ECB also changed its forward guidance on interest rates. Previously, the ECB indicated that it would not raise interest rates until its projections (stretching three or four years into the future, depending on the quarter in question) showed convergence towards levels below, but close to, 2%. Now, with the new forward guidance, three conditions will need to be met in order for the ECB to raise interest rates: (i) inflation should be projected to be 2% in the year preceding the end of the forecast horizon, (ii) inflation should be projected to remain at this level until the end of the forecasts and (iii) underlying inflation (core inflation and wage increases, among other indicators) observed at the time interest rates are raised should be consistent with the medium-term inflation target. These new conditions required for raising interest rates are more demanding than the previous ones. In fact, since 2002 there have only been three occasions when inflation forecasts were consistent with these conditions, marked in blue in the first chart.

Despite this increased demand for rate hikes, the financial markets are already anticipating a rise in official interest rates in 2023 (according to implicit market rates), whereas prior to the announcement of the strategic review the first rate hike was not expected until late 2024.[2] This movement has been accompanied by an increase in inflation expectations (both those based on financial instrument prices and those based on surveys), which in turn has been driven by a combination of the strength of the economic recovery, supply bottlenecks, the spike in energy prices and even the change in the ECB's strategy itself. On the one hand, inflation expectations based on swaps traded in the financial markets already exceed pre-pandemic levels, and in the short section of this curve in particular they are above 2%. On the other hand, among those based on surveys, the ECB's Survey of Professional Forecasters (SPF) assigns a higher probability to long-term inflation exceeding 2% (see third chart). But what factors could lead us to this scenario of higher inflation?

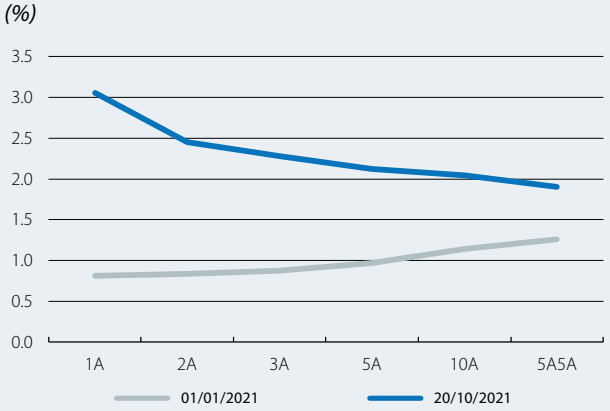
Some structural changes in the economy initiated in recent years are inflationary in nature (for instance, the potential reversal in globalisation or the transition to a decarbonised economy). However, there are also short-term elements that could lead the economy to this scenario envisaged by the SPF and financial instruments, and which could thus drive up inflation in the medium term. Specifically, the bottlenecks we are seeing in the production chains of various industries and the spike in energy prices could have second-round effects on inflation.

ECB inflation forecasts and new forward guidance



Note: *In blue we show the only times that the ECB's forecasts have been consistent with being able to raise official interest rates according to the current forward guidance, and in orange, the latest forecasts as of September 2021.*
Source: *CaixaBank Research, based on data from the ECB.*

Euro area: inflation expectations in the financial markets



Note: *Inflation swaps for different maturities.*
Source: *CaixaBank Research, based on data from Bloomberg.*

1. For more details on the motivation for this strategic review, see «The ECB and the Fed: two mandates, one target» in the MR02/2020.
2. At some points in the summer, implicit rates even placed the ECB's first rate hike in 2026.

For the time being, the impact on euro area inflation is moderate in the case of the bottlenecks, and it is limited to the energy component in the case of the spike in energy prices. However, various analysts and the ECB itself consider that these elements, although transitory in nature, could end up persisting through second-round effects. For illustrative purposes, in the last chart we see how an increase in the production prices of non-energy goods similar to that seen in 2021 can push up the price of the services component (which accounts for 45% and 61% of the headline and core CPI, respectively) by as much as 0.8 pps in two years.[3]

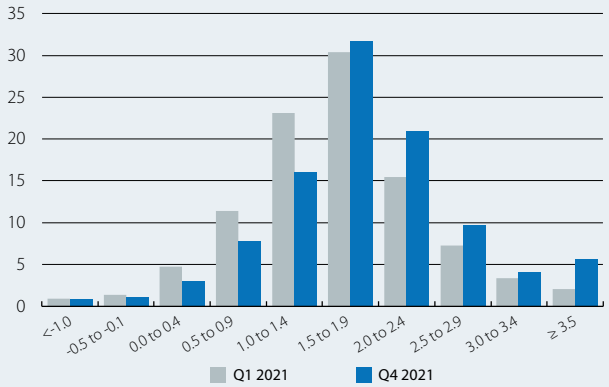
But it is not just two years from now that the ECB is interested in seeing inflation closer to 2% – it would like to see it in the medium term. It should be recalled that one of the fundamental problems of the European pre-pandemic economy was low inflation, so entering into a new scenario of higher inflation could even be desirable from the ECB's point of view. Indeed, provided that long-term inflation expectations remain anchored at around 2% and the higher inflation rates are driven by a recovery in demand, the ECB could even welcome the news.

Furthermore, in recent years both participants in the financial markets and analysts have been somewhat hasty in anticipating the ECB's first rate hike, postponing the anticipated date time and time again. With the Phillips curve half-asleep, there were few elements on which to support a rise in euro area inflation and the consequent rise in interest rates. Now, although the ECB has tightened the conditions required for an interest rate hike, there are more factors to support the idea that medium-term inflation could lie at 2%, and after more than a decade without doing so the ECB may finally raise interest rates.

Ricard Murillo Gili

Euro area: long-term inflation expectations per the Survey of Professional Forecasters

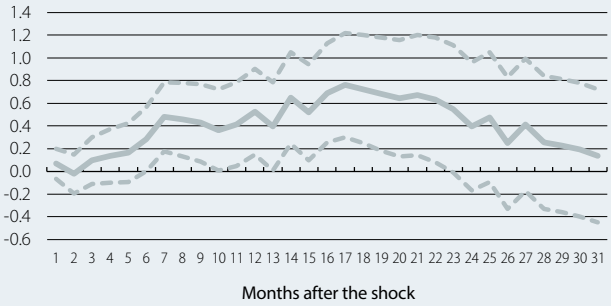
Probability (%)



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

*Euro area: response of the services component to a rise in production prices **

Impact on year-on-year growth (pps)



Note: ** Increase in the production price index excluding energy goods of 6 pps, in line with that observed in Q3 2021. The dotted lines show a 95% confidence interval.*
Source: *CaixaBank Research, based on data from Eurostat.*

3. In the case of energy prices, we have performed a similar exercise and we see how the increase in the energy component of the CPI is also transferred to the services component, albeit to a lesser extent.

Interest rates (%)

	31-October	30-September	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	–0.55	–0.55	–1	–0.8	–3.3
1-year Euribor	–0.46	–0.49	3	4.4	3.1
1-year government bonds (Germany)	–0.65	–0.67	3	6.4	5.8
2-year government bonds (Germany)	–0.59	–0.69	10	11.5	22.0
10-year government bonds (Germany)	–0.11	–0.20	9	46.3	53.4
10-year government bonds (Spain)	0.61	0.46	15	56.2	48.8
10-year government bonds (Portugal)	0.52	0.36	17	49.0	42.6
US					
Fed funds (upper limit)	0.25	0.25	0	0.0	0.0
3-month Libor	0.13	0.13	0	–10.6	–8.8
12-month Libor	0.36	0.24	12	1.9	2.9
1-year government bonds	0.12	0.07	5	1.5	0.3
2-year government bonds	0.50	0.28	22	37.6	34.3
10-year government bonds	1.55	1.49	6	63.9	70.9

Spreads corporate bonds (bps)

	31-October	30-September	Monthly change (bp)	Year-to-date (bp)	Year-on-year change (bp)
Itraxx Corporate	51	50	1	2.8	–12.3
Itraxx Financials Senior	58	57	2	–0.8	–23.0
Itraxx Subordinated Financials	113	110	3	2.3	–43.9

Exchange rates

	31-October	30-September	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
EUR/USD (dollars per euro)	1.156	1.158	–0.2	–5.4	–0.7
EUR/JPY (yen per euro)	131.770	128.880	2.2	4.4	8.1
EUR/GBP (pounds per euro)	0.845	0.859	–1.7	–5.5	–6.3
USD/JPY (yen per dollar)	113.950	111.290	2.4	10.4	8.8

Commodities

	31-October	30-September	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
CRB Commodity Index	571.2	553.7	3.1	28.7	39.6
Brent ($/barrel)	84.4	78.5	7.5	62.9	116.5
Gold ($/ounce)	1,783.4	1,757.0	1.5	–6.1	–5.9

Equity

	31-October	30-September	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
S&P 500 (USA)	4,605.4	4,307.5	6.9	22.6	39.1
Eurostoxx 50 (euro area)	4,250.6	4,048.1	5.0	19.6	40.8
Ibex 35 (Spain)	9,057.7	8,796.3	3.0	12.2	37.5
PSI 20 (Portugal)	5,732.0	5,460.8	5.0	17.0	42.6
Nikkei 225 (Japan)	28,892.7	29,452.7	–1.9	5.3	24.0
MSCI Emerging	1,264.8	1,253.1	0.9	–2.1	13.5

Global economy: winter is coming

Moving towards a more asymmetric global recovery. As we approach the end of 2021, it is becoming increasingly clear that, although the recovery is progressing, it is becoming more unequal from country to country. This is not big news in itself: when the pandemic irrupted in 2020 and as the various waves came and went, even though it was a global shock its intensity varied from place to place. These discrepancies depended on the characteristics of the local economy and its sectoral composition; on the strictness of the lockdown strategy first, and then on the vaccination strategy; and finally on the extent of the fiscal stimulus adopted. Just as the shock was global but the impact local, something similar is occurring with the return to normality. Now the key factors that have defined 2021 to date have been the delta variant, which has spread in a wide range of vaccination contexts, and the disruption to global supply chains. How are these two factors determining the latest macroeconomic trends? The IMF, in its latest forecasts, offers a scenario that summarises it perfectly.

The IMF revises down its forecasts slightly for 2021 due to the delta variant and the disruption to global supply chains. As a result of these two factors, the Fund has revised global growth for this year down by 0.1 percentage point to 5.9%, mainly due to the deterioration of expectations in advanced economies, as well as in certain emerging ones. For 2022, the IMF keeps its global growth forecast unchanged, albeit altering its composition to some extent, with an upward revision in some advanced economies and a downward correction in some emerging ones. All of this reaffirms the asymmetric nature of the recovery, which will continue to be led by China and major advances economies such as the US and the euro area. Finally, with regard to the balance of risks, the institution emphasises that in the short term these are concentrated in the dynamics of the pandemic, as has been the case for a year and a half now, and particularly in the risk of new variants emerging before a high level of vaccination is reached. In addition, as a relatively more recent threat, risks also lie in the developments in inflation. On this matter, the IMF interprets the spike in inflation as being the result of a combination of the mismatch between supply and demand related to the pandemic, on the one hand, and rising commodity prices on the other.

Short-term difficulties. The prevailing interpretation among economists is that this imbalance between supply and demand and the commodity price pressures are temporary. That said, even if this is the case, it must be acknowledged that their temporary nature is being increasingly questioned as the months pass. In any case, winter is coming, as was said in a famous television series, and with it increasing pressure on certain components of consumption (the season begins with Bachelor's Day in China and Black Friday in the West, and continues with Christmas and the sales) as well as on energy expenditure, which will experience its annual seasonal upturn.

Vaccination around the world

	% of population with at least one dose	% of population fully vaccinated	% of the population fully vaccinated in the last 30 days
EU	68%	64%	3.3% ≈
US	65%	56%	2.7% ≈
Europe (incl. EU)	58%	53%	3.3% ≈
North America	59%	49%	4.4% ≈
South America	64%	45%	9.9% ↑↑
Oceania	53%	40%	14.3% ↑↑↑
Asia	55%	39%	6.5% ↑
World	48%	36%	5.4% ≈
Africa	8%	5%	1.4% ≈

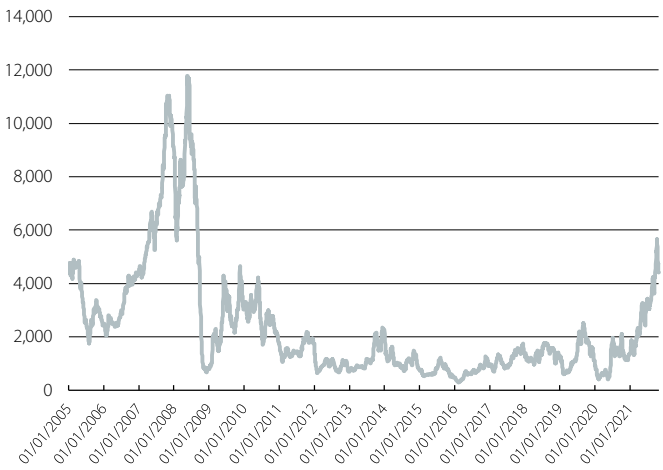
Note: *Data updated on 19 October 2021.*
Source: *CaixaBank Research, based on data from Our World in Data - Oxford University.*

IMF: GDP growth forecasts
Annual change (%)

		Projections		Change *vs.* the July WEO *	
	2020	2021	2022	2021	2022
Global economy	**–3.1**	**5.9**	**4.9**	**–0.1**	**0.0**
Advanced economies	**–4.5**	**5.2**	**4.5**	**–0.4**	**0.1**
US	–3.4	6.0	5.2	–1.0	0.3
Euro area	–6.3	5.0	4.3	0.4	0.0
Spain	–10.8	5.7	6.4	–0.5	0.6
Portugal	–8.4	4.4	5.1	0.5	0.3
Emerging and developing economies	**–2.1**	**6.4**	**5.1**	**0.1**	**–0.1**
China	2.3	8.0	5.6	–0.1	–0.1

Note: ** For Portugal, the change is calculated compared to the April WEO.*
Source: *CaixaBank Research, based on data from the IMF (WEO, October 2021).*

Baltic Dry Index
(Points)



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

In this context, the imbalance between supply and demand is unlikely to be alleviated. Besides continuing to impact prices, this will reinforce the asymmetric nature of the expansion, as the imbalance is more palpable in certain countries than in others.

US

Temporary cooling. One of the countries that exemplifies the asymmetry of the recovery is the US. It was the first of the large advanced economies to reach pre-pandemic GDP levels, as early as Q2 2021. Now, however, US indicators point towards a moderation of economic activity. In particular, US GDP growth slowed in Q3 2021, affected by the delta variant and the persistence of bottlenecks. Growth stood at 0.5% quarter-on-quarter (4.9% year-on-year), the lowest rate since the start of the pandemic. As for Q4, the first indicators are still at levels compatible with significant activity growth, albeit below the rates reached during the first half of the year (1.6% quarter-on-quarter on average) (see the Nota Breve). We have therefore revised down our forecasts for both 2021 (now at 5.4%, –0.6 percentage points) and 2022 (now at 3.5%, –0.6 percentage points). These are still considerable rates, but somewhat lower than those anticipated a few months ago.

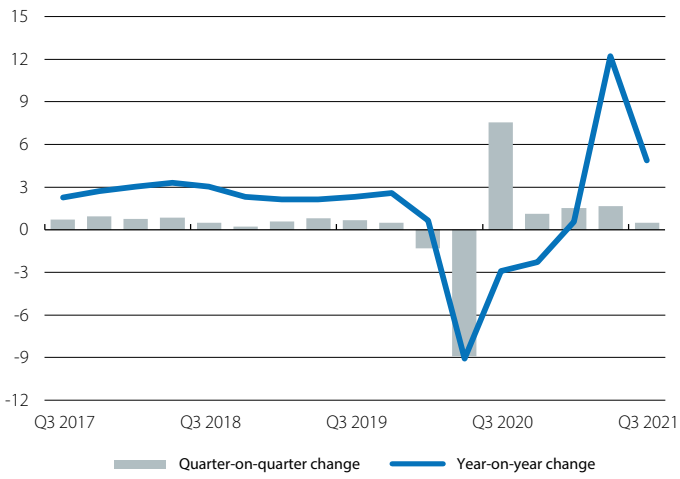
The risks in North America remain significant. Firstly, in a country which has a high level of vaccination, but which is still far from achieving herd immunity and where a portion of the population appears reluctant to get vaccinated, the spread of new variants of the virus poses a major risk to economic activity. Secondly, the spike in inflation in recent months has been much more pronounced than expected (headline inflation stood at 5.4% in September, while core inflation was 4.0%). While we still believe that some of the price increases will be temporary, the pressures that are beginning to be felt on wages and the persistence of supply delays will be transferred to some extent to consumer prices. This substantially increases the likelihood of a scenario arising in which US inflation remains high for longer than previously anticipated. Finally, a third source of risk, albeit within a more limited time frame, is that related to the budget. This remains open as a source of uncertainty, but with a temporary lull. As is well known, the Treasury cannot borrow beyond the limit marked by the debt ceiling. This was previously suspended, before being restored on 1 August (at 28.4 trillion dollars), giving the Treasury a certain margin to cover its payment obligations with extraordinary measures. However, by October this limit had already been reached. Temporarily, Congress has slightly raised the debt ceiling (to 28.9 trillion dollars), offering respite until December and alleviating the short-term risk.

EURO AREA

In the euro area, the imbalance between supply and demand is generating very different local effects. Europe is one of the regions where the asymmetric effects of this mismatch are most prevalent, as the growth data for Q3 have

US: GDP

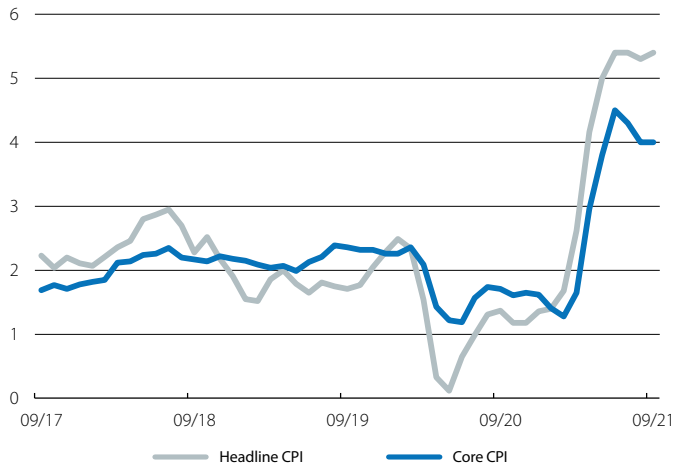
Change (%)



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

US: CPI

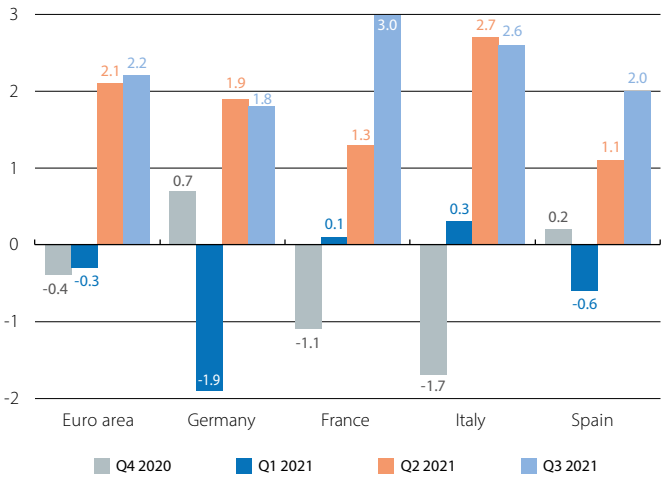
Year-on-year change (%)



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

Euro area: evolution of GDP

Quarter-on-quarter change (%)



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

shown, although the asymmetry is only incipient for now. However, what will happen in the final part of the year is the biggest source of concern. The cases of Germany and France exemplify this asymmetry. The German economy, heavily leveraged with world trade and deeply integrated into global flows of intermediate and final goods, could go from growing by 1.8% quarter-on-quarter in Q3 to just 0.5% in Q4. In contrast, France, which is more domestically oriented, will go from growing by 3.0% to around 1% at the end of the year, thus exceeding Germany's growth rate in both cases. The euro area as a whole more closely resembles the case of Germany than that of France, with growth sliding from 2.2% in Q3 to 0.8% in Q4 (see the Nota Breve).

Inflation spikes, but the risk is an escalation of tensions. As a result of this decoupling between supply and demand and the tensions in commodities, especially energy, inflation stood at 4.1% in October (3.4% in September) and a further jump in the closing stages of 2021 is likely. Looking ahead to the future, the trend in natural gas prices is a particular source of concern, as the context of increasing seasonal demand is compounded by a low level of stocks. In any case, this is an episode which should begin to fade when the winter draws to an end.

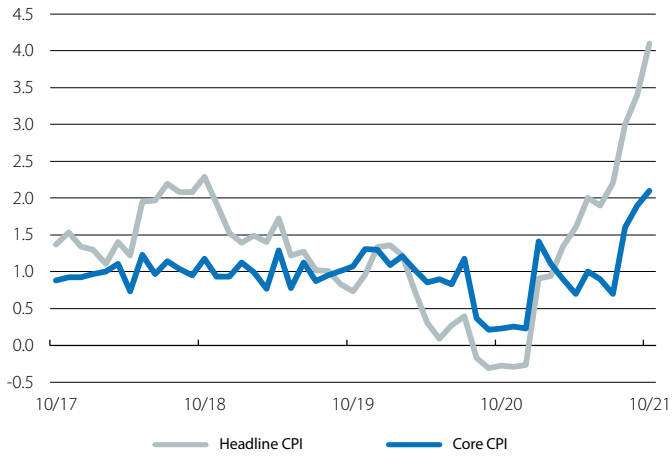
EMERGING ECONOMIES

Among emerging economies, all the attention is focused on China. The two big questions surrounding the Asian giant revolve around the pulse of economic activity and the effects of the Evergrande crisis on the country as a whole. With regard to the former, GDP grew by 4.9% year-on-year in Q3 2021, hampered by the delta variant and supply chain bottlenecks. In quarter-on-quarter terms, growth stood at a very contained 0.2% (see the Nota Breve). Beyond the slowdown in the quarter, the latest economic activity indicators show a somewhat mixed tone. For instance, industrial production disappointed in September (3.1% year-on-year, versus 3.8% expected and the 5.2% of August), while retail sales grew by 4.4% in September (above the 3.5% expected and the 2.5% of August). There were also encouraging signs from exports, which continued their rally in September registering year-on-year growth of 28.1% (25.6% in August), as well as from the PMI for September, which registered a rebound in services that offset August's decline.

Evergrande, a manageable risk. In relation to the solvency crisis surrounding Evergrande, China's largest real-estate developer with liabilities equivalent to roughly 2% of GDP, the main risk is that of contagion in the local housing market. This in turn could hamper economic growth, which is already under pressure. However, it should be recalled that the state has the capacity to counter this potential risk and that the central bank has already announced that the stability of the real estate sector is a priority which it is taking very seriously (a message that can be taken as laying the ground for potential future stabilising interventions).

*Euro area: CPI **

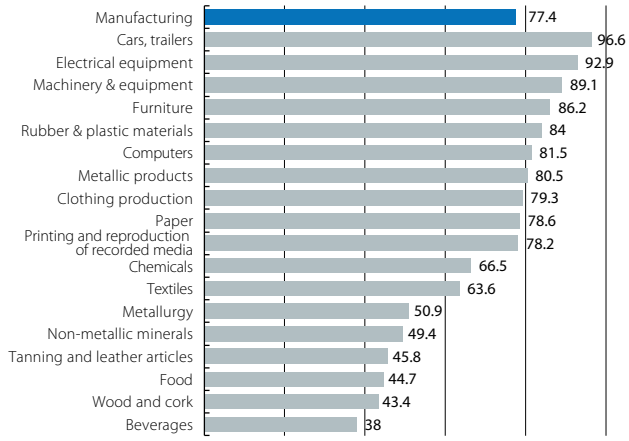
Year-on-year change (%)



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

Germany: shortage of intermediate products in the manufacturing industry

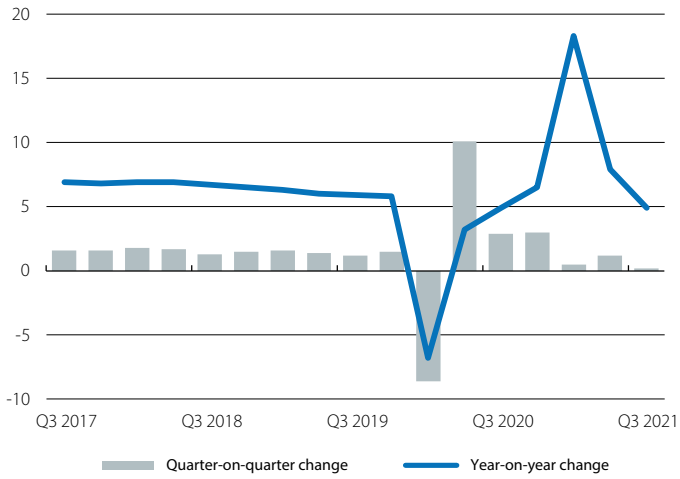
(% of respondents)



Source: *CaixaBank Research, based on data from the Ifo Business Survey, September 2021.*

China: GDP

Change (%)



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

Fiscal activism in the US: a lot of noise and little substance?

Fiscal activism is not declining in the US. Following the vast disbursements of 2020 and 2021, fiscal activity is now focusing on negotiations regarding the new stimulus packages proposed by the Biden administration: The American Jobs Plan (AJP, which revolves around infrastructure) and The American Family Plan (AFP, with a social focus). But what can we expect to come out of these negotiations?

First steps in the deployment of Biden's plans: disbursements and reconciliation

First, in early autumn Congress ought to have already approved part of the measures proposed in the AJP, focusing on improving the country's classic infrastructure (roads, water, etc.). Although the amount set out is small, at around 550 billion dollars in new expenditure to be distributed over 10 years, this is the first agreement on the proposals that Biden presented last spring.[1]

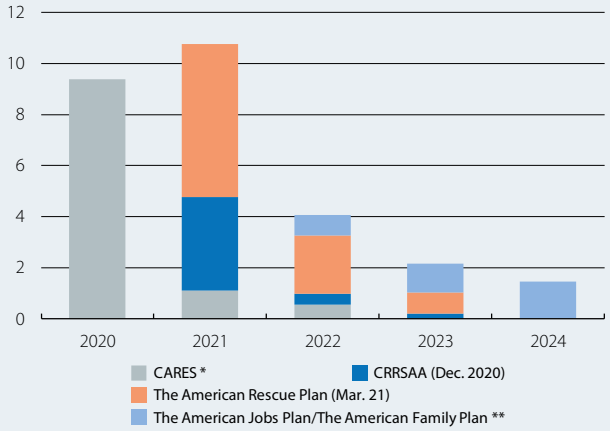
On the other hand, during the summer it was agreed that many of the proposals under the AJP and AFP would be discussed under a reconciliation process, thus establishing a budget of 3.5 trillion dollars to be distributed over 10 years. This legal path allows Congress to approve expenditure and taxes with a simple majority, and it usually facilitates the passage of the bill that is presented in the House of Representatives and the Senate (even more so when both chambers are in Democratic hands). Nevertheless, reconciliation entails a prior process of drafting proposals for the bill that can end up being complex. After all, views on fiscal matters vary widely, even within the Democratic party itself.[2]

Fiscal impacts: past, present and immediate future

There has been a frenzy of fiscal activity over the last year and a half in order to support citizens and businesses during the pandemic. Between March 2020 and March 2021, the US leadership approved measures amounting to around 6 trillion dollars (some 25% of the country's GDP).[3] Although some of these measures will be extended until 2022, most of the disbursements will have occurred between 2020 and 2021, with a very considerable increase in the country's public deficit (see first and second charts).

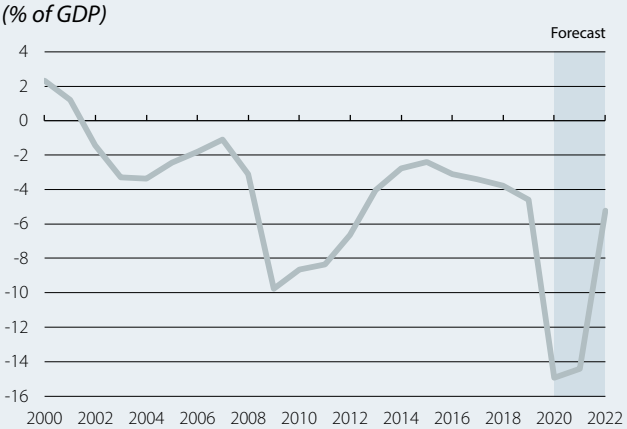
In this regard, the end of these massive programmes in the coming quarters will mean a substantial decline in fiscal support for the US economy (an effect we will see as early as the closing stages of 2021). The knock-on capacity of the new proposals (AJP and AFP) is limited, especially in the short term. Firstly, on an annual basis the

US: main fiscal spending measures
(% of GDP)



Notes: ** Includes the different phases of the CARES Act, including the HEROES Act.*
*** Forecast based on the figures being considered within the reconciliation process.*
Source: *CaixaBank Research, based on information published by the White House, the CBO and Bloomberg.*

US: fiscal balance *
(% of GDP)



Note: ** Federal balance, fiscal year (October to September).*
Source: *CaixaBank Research, based on data from FRED and the IMF (WEO).*

1. The federal infrastructure expenditure to be agreed amounts to 1 trillion dollars, but the new expenditure equates to 550 billion. Also, according to the Congressional Budget Office (CBO) and other agencies, the net stimulus could be even lower (between 250 and 400 billion) once other measures accompanying the agreement are considered, such as the reduction in spending in other areas. The first vote which was due to take place at the end of September was postponed.
2. The reconciliation process usually begins with a preliminary agreement between Democrats and Republicans on a budget resolution. Various committees are then established (with members of both parties) which must propose specific expenditure and tax elements. Based on these proposals, a bill is prepared and presented in the two chambers of Congress for approval and, finally, they must be ratified by the president. Today, the Democratic majority in the Senate is very fragile, since the tie-breaker is in the hands of the vice-president.

3. Most of the measures were in the form of direct spending.

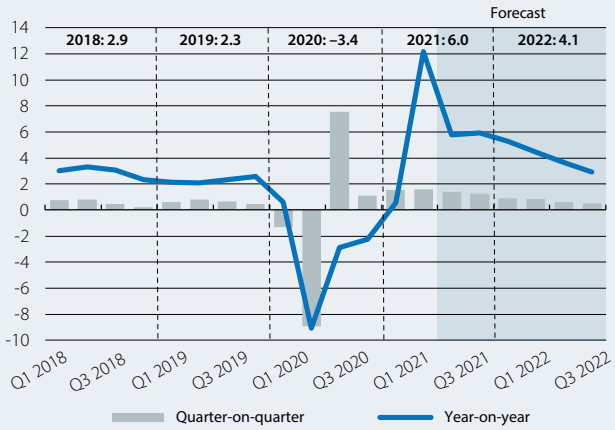
infrastructure and social spending could amount to some 300 billion dollars,[4] which pales in comparison to the more than 2 trillion dollars spent annually in the past two years. Furthermore, these programmes would be accompanied by tax hikes aimed at higher incomes, as well as large corporations, which detracts from their ability to stimulate the economy compared to if they were financed through deficits.[5] For illustrative purposes, following the disbursements which have added more than 6 pps to GDP growth rates, in the coming quarters fiscal measures could end up dragging down economic growth by around 4 pps.[6]

Nevertheless, this way of financing higher spending should not be viewed as negative. Today, the strong recovery we are witnessing in economic activity makes it unnecessary and even counter-productive to continue with large-scale fiscal stimulus measures. The withdrawal of the fiscal stimulus leaves way for the revival of private demand. In this regard, US growth will still be at solid levels in the coming quarters (see third chart).

Clàudia Canals

US: GDP

Change (%)



Notes: *Annual growth, above. CaixaBank Research forecasts before the Q3 2021 figure was published.*
Source: *CaixaBank Research, based on data from the Bureau of Economic Analysis.*

4. This is in a relatively optimistic scenario in terms of bipartisan consensus. Moreover, according to various analyses, the expected disbursements will likely be somewhat less in the first few years and will reach their peak between 2024 and 2026.
5. See the working paper by the Congressional Budget Office: J. Nelson and K. Phillips (2021). «The Economic Effects of Financing a Large and Permanent Increase in Government Spending». Working Paper 2021-03, nº 57021.
6. For the direct spending measures, we use the most recent tax multipliers published by the CBO for the CARES Act. For the infrastructure measures, we take multipliers in the low-medium range of estimates, since in the short term the impact is lower and many of the spending measures will also be accompanied by tax increases.

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

UNITED STATES

	2019	2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021	08/21	09/21	10/21
Activity									
Real GDP	2.3	–3.4	–2.3	0.5	12.2	4.9	–	–	–
Retail sales (excluding cars and petrol)	4.0	2.1	4.7	11.9	26.2	13.8	14.6	13.5	...
Consumer confidence *(value)*	128.3	101.0	93.8	99.1	122.1	116.7	115.2	109.8	113.8
Industrial production	–0.8	–7.2	–4.3	–1.6	14.7	5.7	5.7	4.6	...
Manufacturing activity index (ISM) *(value)*	51.2	52.5	59.0	61.4	60.8	60.2	59.9	61.1	60.8
Housing starts *(thousands)*	1,295	1,396	1,575	1,599	1,588	1,566	1,580	1,555	...
Case-Shiller home price index *(value)*	217	228	239	249	262	...	274	...	...
Unemployment rate *(% lab. force)*	3.7	8.1	6.8	6.2	5.9	5.1	5.2	4.8	...
Employment-population ratio *(% pop. > 16 years)*	60.8	56.8	57.4	57.6	58.0	58.5	58.5	58.7	...
Trade balance[1] *(% GDP)*	–2.7	–3.2	–3.2	–3.6	–3.7	...	–3.7	...	...
Prices									
Headline inflation	1.8	1.2	1.2	1.9	4.8	5.3	5.3	5.4	...
Core inflation	2.2	1.7	1.6	1.4	3.7	4.1	4.0	4.0	...

JAPAN

	2019	2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021	08/21	09/21	10/21
Activity									
Real GDP	0.0	–4.7	–0.8	–1.3	7.7	...	–	–	–
Consumer confidence *(value)*	38.9	31.1	33.0	33.3	35.4	37.3	36.7	37.8	39.2
Industrial production	–2.7	–10.6	–4.2	–1.5	19.9	5.9	7.1	–2.3	...
Business activity index (Tankan) *(value)*	6.0	–19.8	–10.0	5.0	14.0	18.0	–	–	–
Unemployment rate *(% lab. force)*	2.4	2.8	3.0	2.8	2.9	2.8	2.8	2.8	...
Trade balance[1] *(% GDP)*	–0.3	0.1	0.1	0.2	0.7	0.5	0.8	0.5	...
Prices									
Headline inflation	0.5	0.0	–0.9	–0.5	–0.7	–0.2	–0.4	0.2	...
Core inflation	0.6	0.2	–0.4	0.0	–0.9	–0.5	–0.5	–0.5	...

CHINA

	2019	2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021	08/21	09/21	10/21
Activity									
Real GDP	6.0	2.3	6.5	18.3	7.9	4.9	–	–	–
Retail sales	8.1	–2.9	4.6	34.0	14.1	5.1	2.5	4.4	...
Industrial production	5.8	3.4	7.1	24.6	9.0	4.9	5.3	3.1	...
PMI manufacturing *(value)*	49.7	49.9	51.8	51.3	51.0	50.0	50.1	49.6	49.2
Foreign sector									
Trade balance[1,2]	421	524	524	621	607	635	604	635	...
Exports	0.5	3.6	16.6	48.9	30.7	24.4	25.6	28.1	...
Imports	–2.7	–0.6	5.7	29.3	43.8	25.9	33.1	17.6	...
Prices									
Headline inflation	2.9	2.5	0.1	0.0	1.1	0.8	0.8	0.7	...
Official interest rate[3]	4.2	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9
Renminbi per dollar	6.9	6.9	6.6	6.5	6.5	6.5	6.5	6.5	6.4

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	Q4 2020	Q1 2021	Q2 2021	Q3 2021	08/21	09/21	10/21
Retail sales *(year-on-year change)*	2.4	–0.9	1.6	2.6	12.7	...	0.0	...	...
Industrial production *(year-on-year change)*	–1.3	–8.6	–1.5	3.6	23.6	...	5.1	...	...
Consumer confidence	–7.0	–14.3	–15.6	–13.7	–5.5	–4.6	–5.3	–4.0	–4.8
Economic sentiment	103.7	88.2	91.4	95.3	114.3	118.1	117.6	117.8	118.6
Manufacturing PMI	47.4	48.6	54.6	58.4	63.1	60.9	61.4	58.7	...
Services PMI	52.7	42.5	45.0	46.9	54.7	58.4	59.0	56.3	...
Labour market									
Employment (people) *(year-on-year change)*	1.2	–1.5	–1.8	–1.8	1.9	...	...	–	–
Unemployment rate *(% labour force)*	7.6	7.9	8.2	8.1	8.0	...	7.5	...	...
Germany *(% labour force)*	3.1	3.9	4.1	3.9	3.7	...	3.6	...	...
France *(% labour force)*	8.4	8.0	8.0	8.1	8.2	...	8.0	...	...
Italy *(% labour force)*	10.0	9.3	9.8	10.1	9.8	...	9.3	...	...
Real GDP *(year-on-year change)*	1.6	–6.5	–4.4	–1.2	14.2	...	–	–	–
Germany *(year-on-year change)*	1.1	–4.9	–2.9	–3.0	9.9	...	–	–	–
France *(year-on-year change)*	1.8	–8.0	–4.3	1.5	18.8	...	–	–	–
Italy *(year-on-year change)*	0.4	–9.0	–6.6	–0.7	17.0	...	–	–	–

Prices

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

	2019	2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021	08/21	09/21	10/21
General	1.2	0.3	–0.3	1.1	1.8	2.8	3.0	3.4	...
Core	1.0	0.7	0.2	1.2	0.9	1.4	1.6	1.9	...

Foreign sector

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

	2019	2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021	08/21	09/21	10/21
Current balance	**2.5**	**2.3**	**2.1**	**2.8**	**3.1**	**...**	**3.0**	**...**	**...**
Germany	7.4	7.0	7.0	7.1	7.5	...	7.2	...	...
France	–0.3	–1.9	–1.9	–1.8	–1.3	...	–0.8	...	...
Italy	3.2	3.5	3.8	3.8	4.3	...	5.4	...	...
Nominal effective exchange rate[1] *(value)*	**92.3**	**93.8**	**95.5**	**95.3**	**94.9**	**93.9**	**93.9**	**93.8**	**92.9**

Credit and deposits of non-financial sectors

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

	2019	2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021	08/21	09/21	10/21
Private sector financing									
Credit to non-financial firms[2]	3.8	6.3	7.0	6.4	2.3	...	1.5	...	...
Credit to households[2,3]	3.4	3.2	3.2	3.1	3.9	...	4.2	...	...
Interest rate on loans to non-financial firms[4] *(%)*	1.2	1.2	1.3	1.1	1.2	...	1.2	...	...
Interest rate on loans to households for house purchases[5] *(%)*	1.5	1.4	1.4	1.3	1.3	...	1.3	...	...
Deposits									
On demand deposits	8.0	12.9	15.2	16.1	12.3	11.4	11.4	11.4	...
Other short-term deposits	0.3	0.6	1.4	1.0	–0.6	–1.9	–1.5	–2.5	...
Marketable instruments	–1.9	9.6	17.5	12.6	9.8	7.9	10.0	5.7	...
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 securiti ation. 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 downside risks increase

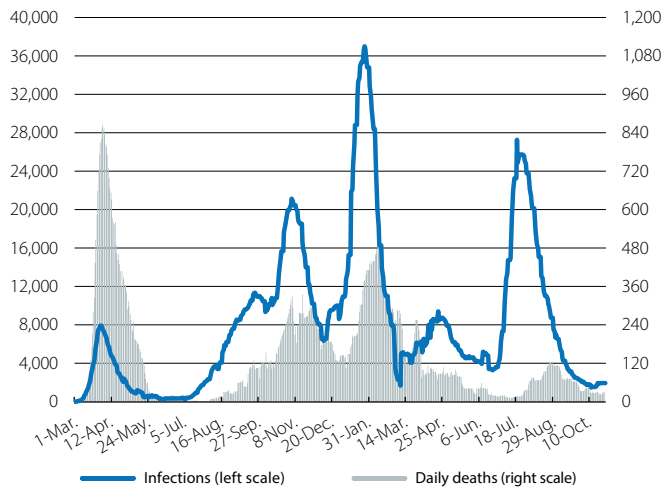
The pandemic remains under control, for now. Thanks to the widespread roll-out of the vaccine, with around 90% of the eligible population now immunised, both the infection rate and that of ICU occupancy by COVID patients remained at very contained levels last month. Looking ahead, although there could be new waves of the pandemic due to the emergence of new variants or a somewhat more adverse seasonal context, we anticipate that the impact on the economy will be more limited because the vaccines will continue to be effective in preventing serious cases of the disease. Although the need for restrictions on activity is no longer anticipated, the pandemic will continue to affect the economy's progress due to spikes in uncertainty or disruptions it could cause for global trade flows or international mobility to the extent that it may affect other countries with lower vaccination rates to a greater extent.

The recovery in GDP was less pronounced than expected in Q3. GDP increased by 2.0% quarter-on-quarter in Q3 (2.7% year-on-year). This is a high figure and exceeds that of the previous quarter (1.1%), but it is still lower than expected (3.0% according to CaixaBank Research) and leaves GDP 6.6% below the pre-crisis level (Q4 2019). Private consumption was weaker than expected (–0.5% quarter-on-quarter) given the boom in domestic tourism and the improvement in employment during the summer season. In contrast, exports increased by a notable 6.4% on a quarterly basis, driven mainly by the recovery of sales in the services sector (+24.4% quarterly). This latter figure most likely reflects the significant, albeit incomplete, recovery in foreign tourist flows during the summer season. We say incomplete because, despite the rally, services exports are still 29.2% below the pre-crisis level. Imports, on the other hand, showed a much more contained growth of 0.7% quarter-on-quarter. Thus, growth during Q3 came almost entirely from external demand, which contributed 1.8 pps to quarterly GDP growth, compared with a meagre 0.2 pp contribution from domestic demand. The figure for Q3 GDP, although positive, slightly tempers expectations of a very rapid economic revival following the somewhat gradual return to normality. It thus leads us to have to revise our outlook in order to accommodate a less vigorous recovery than originally anticipated. The need for this revision is further underscored by the uncertainties surrounding the growth forecast for Q4 2021. Thus, the impact on consumption of the sharp rally in inflation and the effect of the disruptions in global supply chains on the manufacturing sector could end up hampering the economy's performance in the closing stages of the year.

Buoyancy moderates in the early stages of Q4. In October, the manufacturing PMI fell 0.7 points to 57.4 points. Although the indicator remains well above the no-change threshold (50 points), a more detailed reading reveals a greater degree of concern among firms regarding the difficulties in dealing with the increase in demand due to the disruptions in supply chains. This concern is evident in the quarterly industrial sector survey published by the European Commission: 27% of

Spain: COVID daily infections and deaths

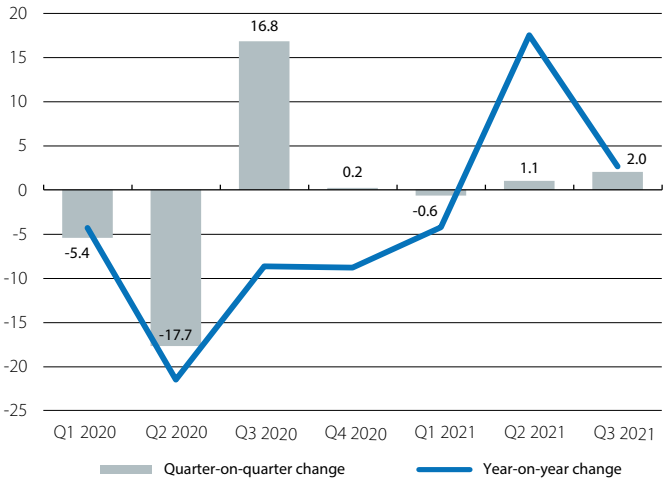
Infections *Daily deaths*



Note: *The 7-day average number of infections and deaths are shown. Data by notification date.*
Source: *CaixaBank Research, based on data from the Ministry of Health.*

Spain: GDP

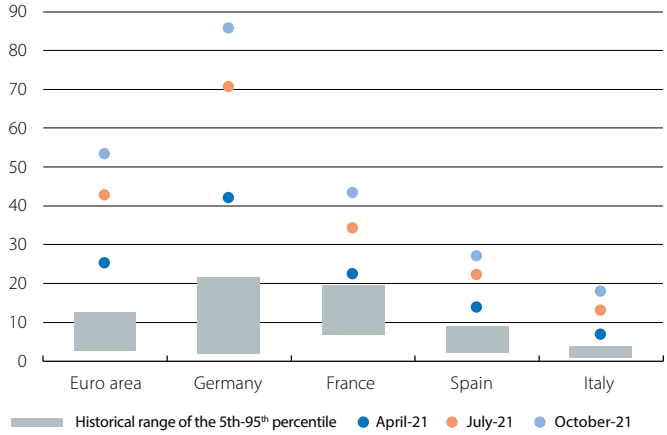
Change (%)



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

Limiting factors in manufacturing production: shortage of material or equipment

(% of companies)



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

firms mentioned the shortage of materials and/or equipment as a factor limiting their production capacity. This is a high figure considering that, according to the historical data, only 2% to 7% of firms in Spain usually mention this as a limiting factor. The PMI for the services sector, meanwhile, stood at 56.6 points. This is a similar figure to the previous month (56.9 points) and suggests a high rate of expansion. However, just as in the case of manufacturing, there were also heightened concerns over rising costs resulting from the supply chain problems.

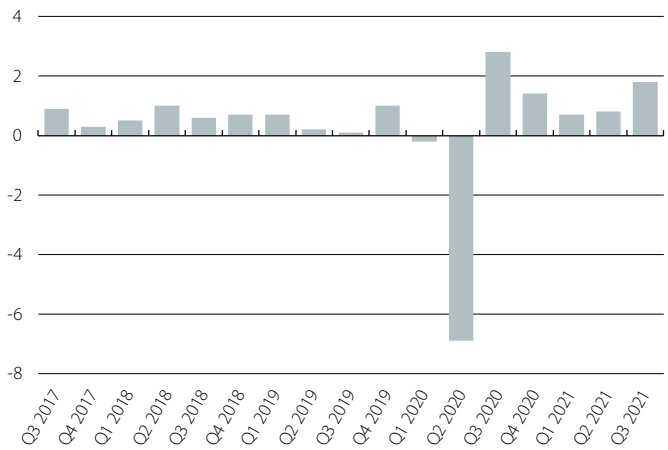
Strong recovery in employment in the summer. According to the results of the Q3 2021 Labour Force Survey, the labour market was highly buoyant during the summer, with an increase of 359,000 in the number of people in employment. This brings the total figure to over 20 million, the highest since 2008 and above the pre-pandemic level (19.97 million in Q4 2019). This is the second highest level of job creation in a third quarter, behind only last year's sharp rise following the lifting of the lockdown. Unemployment, meanwhile, fell by 127,000 people in the quarter to 3.42 million, and the unemployment rate fell to 14.6% from 15.3%, although it remains above the pre-pandemic level (13.8% in Q4 2019). Also of note was the marked increase in the labour force (+232,200), bringing the total to 23.45 million. This exceeds the pre-pandemic level (23.16 million) and could be an indication of an improved outlook for the labour market. Without this strong increase in the number of active workers, the unemployment rate would have been further reduced.

Inflation remains on the rise, driven by energy prices. The energy crisis continues to dominate inflation dynamics. In October, inflation rose to 5.5% (4.0% in September), the highest level since October 1992, and although the breakdown by component is not yet known, the National Statistics Institute points to the sharp rises in electricity and fuel prices, which contrast with the declines observed in October last year. Thus, in September, the month for which we have the breakdown by component, electricity contributed 1.6 pps to the increase in inflation, and it seems likely that this contribution will go up in October. Core inflation, meanwhile, rose by 0.4 pps to 1.4%. This is a significant increase which may be an indicator that businesses are beginning to pass the higher production costs on to consumers, after their margins have been squeezed by the rising energy prices as well as by the problems in global supply chains.

The government submits the Budget Plan to the European Commission. In terms of the public deficit, the Plan anticipates that it will stand at 5.0% in 2022, representing a reduction of 3.4 pps compared to the government's projected deficit for 2021, mainly thanks to the economic recovery. It is estimated that the consolidated public revenues of the general government as a whole will increase by 4.6% year-on-year (7.1% compared to 2019) thanks to the rise in tax collections and social security contributions. On the expenditure side, public expenditure in 2022 is expected to fall by 2.2% (the increase versus 2019 is 12.0%). Pensions will also be revalued in line with the average inflation from December 2020 to November 2021.

Spain: employment*

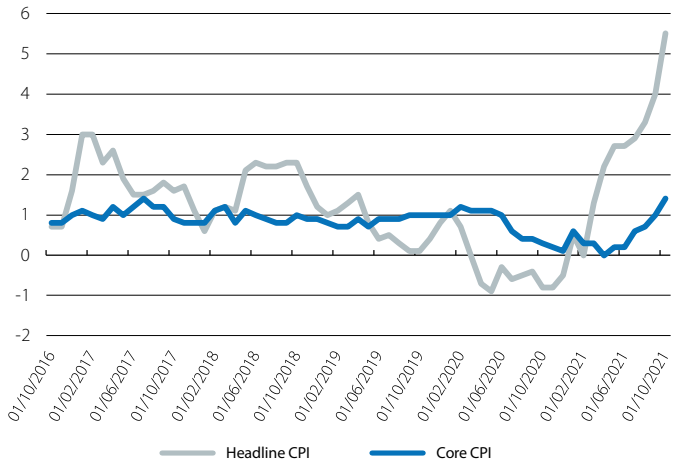
Quarter-on-quarter change (%)



Note: ** Seasonally adjusted series.*
Source: *CaixaBank Research, based on data from the National Statistics Institute (Labour Force Survey).*

Spain: CPI

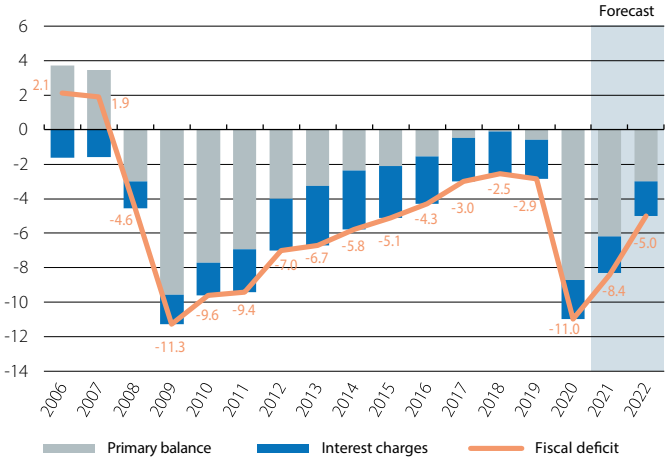
Year-on-year change (%)



Note: *The latest figure refers to the flash estimate.*
Source: *CaixaBank Research, based on data from the National Statistics Institute.*

Spain: forecast of the fiscal deficit according to the 2022 budget plan

(% of GDP)



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

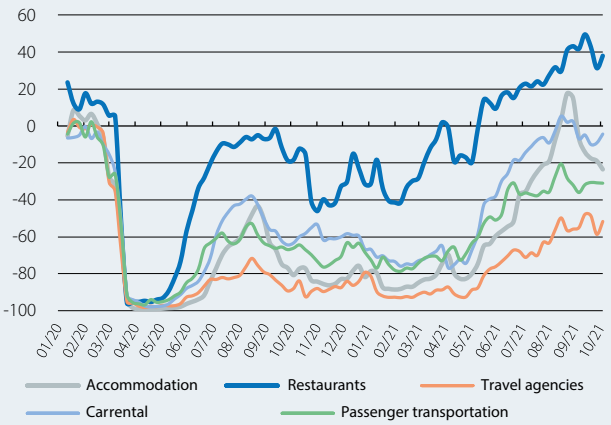
A promising summer harvest for Spanish tourism

The situation in the Spanish tourism sector[1] has improved dramatically during the summer months, beating the forecasts of many companies in the sector. The vaccination of a large part of the population, the implementation of the EU Digital COVID Certificate, high pent-up tourist demand and the easing of restrictions in the hospitality sector have been the compendium of factors that have supported a significant and necessary recovery for the sector, as well as laying a stronger foundation for the coming quarters.

Tourism demand indicators already showed a clear turning point during Q2, with the state of emergency coming to an end in early May and the approval of the EU's Digital COVID Certificate at the very end of the quarter. Thus, in July and August tourist demand sprung to life: tourist overnight stays went from falling by 81% in April compared to the same month of 2019 to 22% in August. The improvement in the figures was the result of the extraordinary growth of domestic tourist demand, which surpassed the level observed in August 2019 by 12%, supported by the substitution of international travel for domestic tourism.[2] International demand, meanwhile, improved significantly but with very marked differences depending on the country of origin. Tourism from the EU registered a 37% decline compared to August 2019 (–88% in April), while non-EU tourist arrivals ended August still well down (–69%).

CaixaBank consumption indicator

Change versus the same week in 2019 (%)



Note: *The indicator includes face-to-face card spending carried out on CaixaBank POS terminals, split by type of establishment.*
Source: *CaixaBank Research, based on internal data.*

Tourist card spending by country of origin

Change versus the same period in 2019

			2020	Apr.-21	May-21	Jun.-21	Jul.-21	Aug.-21	Sep.-21
Recovery potential		Domestic tourists	–32%	–40%	–5%	12%	14%	19%	17%
		International tourists	–63%	–68%	–55%	–48%	–29%	–17%	–14%
	Short term	France	–51%	–64%	–29%	–24%	–14%	–10%	–8%
		Germany	–62%	–54%	–23%	–23%	–7%	–5%	–1%
		Nordic countries	–72%	–81%	–70%	–59%	–36%	–21%	–12%
		Netherlands	–62%	–68%	–53%	–28%	–9%	22%	29%
		Italy	–64%	–64%	–54%	–44%	–37%	–34%	–27%
		Belgium	–55%	–68%	–32%	–27%	–7%	1%	12%
		Switzerland	–60%	–42%	–17%	–16%	16%	22%	7%
		Ireland	–74%	–77%	–76%	–73%	–53%	3%	8%
		Portugal	–57%	–70%	–30%	–32%	–34%	–26%	–8%
	Medium term	United Kingdom	–64%	–80%	–79%	–69%	–39%	–24%	–21%
		US	–72%	–76%	–72%	–63%	–39%	–22%	–26%
		LatAm and Canada	–67%	–72%	–72%	–68%	–50%	–34%	–25%
	Long term	Russia	–69%	–61%	–69%	–75%	–78%	–75%	–69%
		Rest of the world	–74%	–81%	–78%	–77%	–62%	–59%	–52%

Note: *Expenditure on CaixaBank POS terminals with foreign cards and Spanish cards outside their usual areas of consumption (residence, place of work, etc.), corrected for the penetration of CaixaBank POS terminals in each municipality.*
Source: *CaixaBank Research, based on internal CaixaBank data.*

1. For more details on the current situation and future outlook for the tourism sector, see the *Tourism Sector Report 2S 2021* published on our website: https://www.caixabankresearch.com
2. The substitution of destinations abroad for destinations within Spain in the face of obstacles at borders are still latent in many countries. According to the latest data from the National Statistics Institute's Resident Tourism Survey (FAMILITUR), only 10% of the expenditure of people resident in Spain was carried out abroad in June this year, compared to 32% in June 2019.

The number of tourism firms that were either inactive or shut declined dramatically, especially in the hotel sector. According to data from the National Statistics Institute, in August 2021 there were 13% fewer hotel establishments open than in August 2019. This represents a very vigorous recovery compared to the 40% drop in the number of establishments open in 2020 on average.

The recovery in tourism prices has shown mixed signals. Hotel prices in August, measured using the ADR (average daily rate), stood 5.2% above the same month of 2019. On the other hand, according to the Consumer Price Index, the catering sector has maintained a price level very similar to that of 2019 since the outbreak of the COVID-19 pandemic, whereas in the air transportation sector the marked price adjustment which has been in effect since the pandemic began still persists.

What big data tells us about the situation in the tourism industry

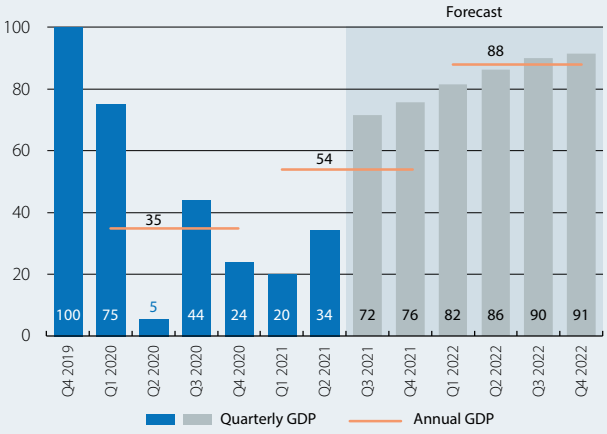
CaixaBank's POS terminal card expenditure indicator by branch of tourist activity, as shown in the first chart, reflects certain particularities between branches. Card spending on accommodation (hotels, campsites and the like) improved dramatically during August, standing 6% above the figure of August 2019. That said, in September there was a moderate cooling in the sector, falling 16% compared to the same month of 2019. Spending on catering, meanwhile, has remained well above the 2019 level, registering growth of 41% in September.[3] Other businesses linked to tourism are recovering at very different rates, with payments in travel agencies remaining particularly depressed during the summer season.

On the other hand, CaixaBank's POS terminal card payment data split by country of origin allow us to infer the recovery potential by source market. Domestic tourism thus confirms its complete recovery. The source markets of the EU came very close to the expenditure levels observed in the same period of 2019, even exceeding them in some cases. This, combined with the upward trend maintained in September, suggests a potential recovery in the short term. On the other hand, we see the United Kingdom, which is trailing a little further behind than expected, along with the US, Canada and Latin America, which show a very clear trend of improvement. Finally, the rest of the source markets show a weaker recovery.

3. It should be noted that the consumption indicator based on card payments registered on CaixaBank POS terminals indicates a higher growth in consumption than the reality, due to the effect of the greater use of cards as a means of payment following the COVID-19 outbreak. As an example, according to the turnover data published by the National Statistics Institute for the month of July, accommodation establishments and restaurants registered a 32% and 20% fall in turnover, respectively, compared to July 2019. In the same period, meanwhile, payments registered on CaixaBank POS terminals at accommodation establishments fell by 26%, while in restaurants they grew by 24%.

Evolution of tourism GDP

Index (100 = 2019)



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

CaixaBank Research's forecasts for the tourism sector in Spain

For the remainder of 2021, we expect that: (i) international tourist spending will continue to grow, supported by the recovery of tourism from the EU and the improvement of British tourism, and (ii) domestic tourism spending will maintain pre-COVID levels. Thus, we estimate that tourism GDP will grow by 55%, placing it at 54% of the 2019 level.

Looking ahead to 2022, we expect international tourist spending to double, thanks to the normalisation of EU tourism and the recovery of markets such as the United Kingdom and the Americas, mainly the US and Canada. As for domestic tourism, we expect the greater propensity to travel domestically will continue to prop up Spanish tourist spending at levels slightly above those of 2019. With this, we expect tourism GDP in 2022 to stand at 88% compared to 2019, registering 63% annual growth.

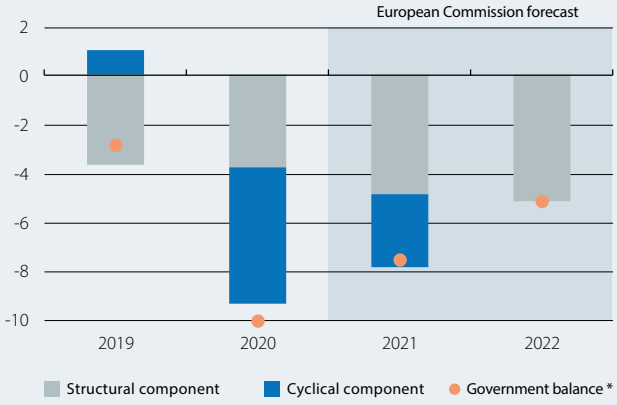
With this outlook, we expect that 2022 will be accompanied by a normalisation of the sector's profitability. Despite this, the role of economic policy over the coming months will remain key, including the ERTE furlough schemes and the management of the Fund for Supporting the Solvency of Strategic Companies, among others. In addition, agile and effective management of the Next Generation EU (NGEU) funds will also be important in supporting investments in digitalisation, sustainability and infrastructure improvements. These are aspects which a heavily damaged tourism industry is unlikely to be able to take on in its current state, but they will be much needed in order for Spain to emerge from this crisis maintaining its status as the most competitive tourist destination in the world.

Javier Ibáñez de Aldecoa Fuster

The public accounts in 2022: shifting from cyclical spending to structural spending

The Spanish government has presented to parliament the Draft General State Budgets for 2022 and has sent to Brussels its Budget Plan showing a picture of the consolidated general government accounts. In terms of the public deficit, this is expected to stand at 5.0% in 2022, representing a reduction of 3.4 pps compared to the deficit projected for 2021, mainly thanks to the economic recovery. Consolidated public revenues for the general government as a whole are expected to increase by 4.6% year-on-year (7.1% compared to 2019). On the expenditure side, pensions will be revalued based on the average inflation from December 2020 to November 2021, and public expenditure in 2022 is expected to fall by 2.2% year-on-year (the increase versus 2019 is 12.0%). But what lies behind these figures? In which categories will the deficit reduction be concentrated?

Spain: government balance
(% of GDP)



Note: ** Excludes losses for assistance provided to financial institutions.*
Source: *CaixaBank Research, based on data from the European Commission (10/2021).*

Revenues: picking up thanks to the economic recovery

The projected increase in revenues (excluding NGEU) for 2022 is essentially cyclical, as it will come from the improvement in the economy.[1] The biggest increases in revenues compared to 2019 will be in direct taxes (+16.3 billion euros, with an increase in revenues from personal income taxes of more than 13 billion euros) and social security contributions (+12.6 billion euros). Indirect taxes, meanwhile, will register more contained growth (5.2 billion euros), with VAT revenues increasing by 4.1 billion euros compared to 2019. These projections are based on the good income data in the 2021 budget execution[2], as well as on a forecast for revenue growth in 2022 which could be somewhat optimistic given the GDP growth on which it is based.[3]

Spending: cyclical spending declines but structural spending increases

With regards to public expenditure (excluding NGEU), there is a marked contrast between cyclical components, which naturally are expected to decrease compared to the years of the pandemic, and structural items, which look set to increase significantly compared to the years of the pandemic as well as compared to pre-COVID years.

In particular, the reduction in the consolidated general government expenditure projected for 2022 compared to 2021 is concentrated in the components related to boosting economic activity, as well as those related to the fading of the pressure on the public accounts of expenditures that have helped to attenuate the health and economic consequences of the pandemic. Thus, expenditure on unemployment benefits is expected to reduce by 6.6 billion euros compared to 2021. Also, expenditure on furlough schemes (excluding the exonerations of social security contributions) is expected to fall by 5.45 billion euros. On the other hand, state transfers to the Autonomous Community regions are expected to decrease significantly, since in 2022 special transfers under the COVID Fund, which amounted to 13 billion euros in 2021, will cease.[4] Finally, it should also be noted that the reduction in interest rates will provide a further boost to the public accounts: the burden of interest payments as a percentage of GDP will be reduced once again (from 2.1% in 2021 to 2.0% in 2022).

In contrast, structural expenditure, which is not directly dependent on the business cycle, will increase significantly and is the primary reason why public expenditure is expected to rise by 63 billion euros compared to 2019. In particular, social benefits (pensions, minimum subsistence income, etc.) are expected to increase by 27.1 billion euros compared to 2019 and staff costs by 15.1 billion euros.

1. Except for a minimum corporate tax rate of 15%, no additional income-side measures are included in the 2022 General State Budgets. The increase in corporate tax collections as a results of this measure (estimated by the Treasury at 400 million euros per year) would not occur until 2023.
2. The government projects growth of 2.3% in public revenues in 2021-2019 and the budget execution data up to August (cash accounting) indicate very strong growth of 3.9%.
3. Real GDP growth forecasts of 6.5% in 2021 and 7.0% in 2022.
4. This reduction will be offset slightly by the compensation to the regions of some 7 billion for negative settlements as well as the adoption of the computer-based VAT collection system.

The government's 2022 budget plan (excluding NGEU)

	As a % of GDP in 2019	As a % of GDP in 2022	2021-2022 change (EUR billions)	2019-2022 change (EUR billions)	2019-2022 Growth rate (%)
Total revenues	39.2	39.8	23.1	34.5	7.1
Indirect taxes (VAT, etc.)	11.5	11.3	10	5.2	3.7
Income and wealth taxes	10.4	11.1	4.7	16.3	12.6
Social security contributions	12.9	13.2	7.6	12.6	7.9
Total expenses	42.1	44.7	–13	63	12
Compensation of employees	10.8	11.4	3.3	15.1	11.3
Social benefits (excl. unemployment)	16.9	18.1	7.8	27.1	12.9
Unemployment benefits	1.5	1.8	–6.6	4.9	26.5
Interest payments	2.3	2	0.9	–2.4	–8.3
Balance	–2.9	–5	36.1	–28.6	...

Notes: *Consolidated public accounts for the general government as a whole. The nominal GDP forecasts used are those drawn up by the government, which take into account the impact of NGEU. The revenues and expenditure exclude the European NGEU funds budgeted for 2022 (according to the government, they will have a neutral impact on the deficit).*
Source: *CaixaBank Research, based on data from the Ministry of Finance.*

As a consequence, the structural deficit of the Spanish economy, which was already relatively high before the pandemic, is expected to increase further still. Specifically, according to CaixaBank Research estimates, it could rise from 3.7% of GDP before the pandemic to around 5% in 2022. The reduction in the public deficit anticipated in 2022 is a very encouraging sign given the high level of debt, but the increase in the structural deficit, if no action is taken, will make the process of cleaning up the public accounts more difficult in the medium term.

Javier Garcia-Arenas

Activity and employment indicators

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

	2019	2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021	08/21	09/21	10/21
Industry									
Industrial production index	0.7	–9.4	–2.2	3.0	28.0	...	1.7	...	...
Indicator of confidence in industry *(value)*	–3.9	–14.0	–11.0	–7.3	2.5	2.1	1.4	2.7	5.4
Manufacturing PMI *(value)*	49.1	47.5	51.1	53.0	59.2	58.9	59.5	58.1	57.4
Construction									
Building permits *(cumulative over 12 months)*	17.2	–12.8	–19.9	–19.1	–1.8	...	14.2	...	...
House sales *(cumulative over 12 months)*	3.6	–12.5	–17.2	–17.3	0.6	...	22.8	...	...
House prices	5.1	2.1	1.5	0.9	3.3	...	...	...	...
Services									
Foreign tourists *(cumulative over 12 months)*	1.4	–36.9	–72.7	–85.5	–81.3	...	–55.5	...	...
Services PMI *(value)*	53.9	40.3	43.0	44.3	58.8	59.6	60.1	56.9	...
Consumption									
Retail sales	2.3	–7.1	–3.0	–0.4	20.5	–0.3	–0.7	–0.1	...
Car registrations	–3.6	–29.2	–13.2	12.7	661.0	–24.5	–28.9	–15.7	...
Consumer confidence index *(value)*	–6.3	–22.8	–26.3	–22.1	–11.1	–9.1	–8.5	–8.6	–6.8
Labour market									
Employment [1]	2.3	–2.9	–3.1	–2.4	5.7	4.5	...	...	...
Unemployment rate (% labour force)	14.1	15.5	16.1	16.0	15.3	14.6	...	...	...
Registered as employed with Social Security [2]	2.6	–2.0	–2.0	–1.4	3.9	3.8	3.6	3.5	...
GDP	**2.1**	**–10.8**	**–8.8**	**–4.2**	**17.5**	**2.7**	**–**	**–**	**–**

Prices

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

	2019	2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021	08/21	09/21	10/21
General	0.7	–0.3	–0.7	0.6	2.6	3.4	3.3	4.0	5.5
Core	0.9	0.7	0.2	0.4	0.1	0.8	0.7	1.0	...

Foreign sector

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

	2019	2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021	08/21	09/21	10/21
Trade of goods									
Exports *(year-on-year change, cumulative over 12 months)*	1.8	–10.0	–10.0	–8.1	8.7	...	13.1	...	...
Imports *(year-on-year change, cumulative over 12 months)*	1.0	–14.7	–14.7	–14.0	3.3	...	10.2	...	...
Current balance	**26.2**	**9.3**	**9.3**	**8.3**	**9.2**	**...**	**10.3**	**...**	**...**
Goods and services	36.5	16.5	16.5	16.0	16.8	...	18.5	...	...
Primary and secondary income	–10.3	–7.3	–7.3	–7.6	–7.7	...	–8.2	...	...
Net lending (+) / borrowing (–) capacity	**30.4**	**13.7**	**13.7**	**12.7**	**15.5**	**...**	**17.4**	**...**	**...**

Credit and deposits in non-financial sectors [3]

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

	2019	2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021	08/21	09/21	10/21
Deposits									
Household and company deposits	5.4	7.5	8.7	8.9	4.9	4.9	4.8	5.0	...
Sight and savings	10.7	12.3	13.7	14.1	9.2	8.9	8.9	8.9	...
Term and notice	–13.4	–16.5	–17.1	–20.4	–23.5	–25.8	–26.3	–26.3	...
General government deposits	8.8	1.0	11.8	11.2	16.3	15.0	13.6	19.8	...
TOTAL	**5.6**	**7.1**	**8.9**	**9.1**	**5.5**	**5.5**	**5.3**	**5.9**	**...**
Outstanding balance of credit									
Private sector	–1.5	1.2	2.4	2.3	–0.4	–0.7	–0.9	–0.6	...
Non-financial firms	–3.4	4.9	7.9	7.8	–0.7	–1.9	–2.3	–1.9	...
Households - housing	–1.3	–1.8	–1.5	–1.0	0.0	0.5	0.5	0.6	...
Households - other purposes	3.2	0.8	–0.1	–1.8	–0.7	–1.1	–1.6	–0.9	...
General government	–6.0	3.0	8.8	9.5	17.4	22.7	22.2	23.3	...
TOTAL	**–1.7**	**1.3**	**2.7**	**2.7**	**0.6**	**0.7**	**0.4**	**0.8**	**...**
NPL ratio (%)[4]	**4.8**	**4.5**	**4.5**	**4.5**	**4.5**	**...**	**4.4**	**...**	**...**

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.*

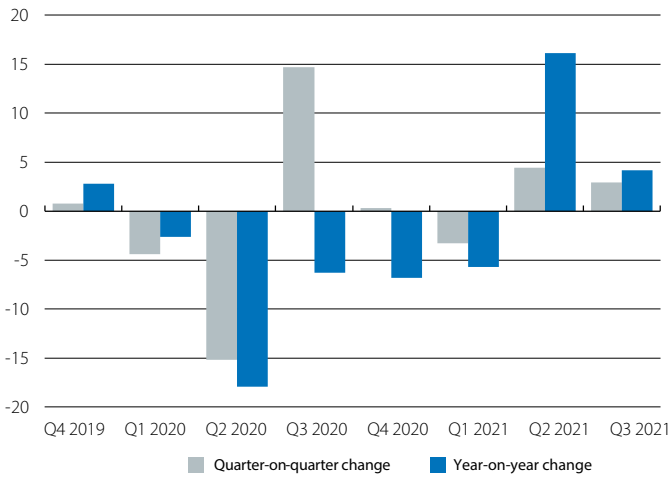
Portugal: the economy continues its way towards pre-pandemic levels

Growth exceeds expectations in Q3. GDP grew by 2.9% quarter-on-quarter and 4.2% year-on-year, narrowing the gap compared to the pre-pandemic level to 3.1%. This growth has been stronger than that anticipated by CaixaBank Research, and calls into question the current 4% forecast for GDP growth in 2021, suggesting the need for a possible upward revision. In turn, the indicators available for Q4, while still scarce, point towards a steady pace of recovery. In the first 20 days of October, the daily economic activity indicator continues to suggest growth in economic activity of around 3% year-on-year. In addition, the economic climate indicator rose in October, reaching its highest value since the beginning of the pandemic. The outlook for 2022 is positive. Progress in the control of the disease, a favourable financial environment and an expansive budgetary policy are the main reasons why growth is expected to remain above its potential (between 0.5% and 0.6% quarterly). Despite this, there are risk factors, such as those related to the shortage of supplies and the evolution of the pandemic itself. The political instability generated following the parliamentary rejection of the 2022 budget proposal also poses a risk, insofar as it could limit the receipt of European funds, dent confidence and lead to the postponement of investment decisions.

The labour market continues to recover. Employment now exceeds pre-pandemic levels (+34,700 jobs in August compared to August 2019) and the unemployment rate has fallen to 6.4%. Registered unemployment continues to decline, although it remains above pre-COVID levels (+57,800 people unemployed). Nevertheless, there is an increase in unfilled job vacancies, with the figure standing at 23,800 in September (+26% compared to pre-pandemic levels). This rise is driven by certain sectors, such as construction, accommodation and catering, retail, real estate, administrative activities, public administration and health activities. Some of these sectors, especially accommodation, catering and retail, may have been adversely affected by the flight of workers to other sectors that have been less affected by the pandemic. In addition, COVID-19 has affected international mobility, which may have reduced the number of immigrants. With regard to construction, the increase in investment and the labour shortage have also influenced the increase in vacancies.

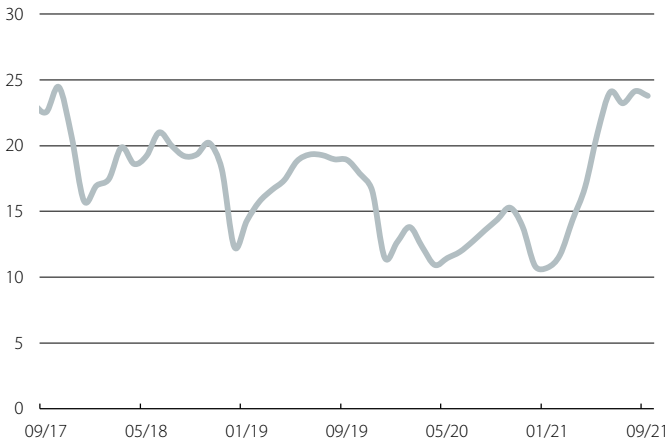
No signs of slowdown in the real estate market. In Q3 there were 48,770 home sales according to Confidencial Imobiliário, representing 1,346 less than in Q2 but 1,765 more than in Q4 2019. In the same period, the price indices registered year-on-year increases in excess of 9%. This market buoyancy appears to be justified by the favourable global financial environment, with ample liquidity and interest rates at all-time lows, combined with the potential increase in demand among foreigners as the end of the golden visa scheme looms in some parts of the country.

Portugal: GDP
Change (%)



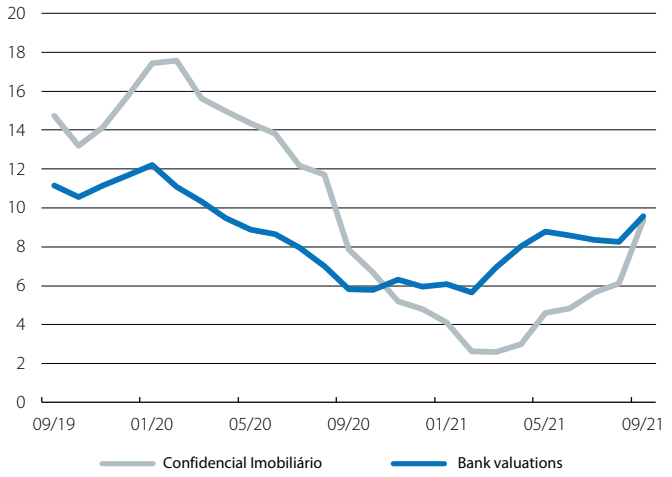
Source: *CaixaBank Research, based on data from the National Statistics Institute of Portugal.*

Portugal: job offers *
(Thousands of people)



Note: ** Job offers registered in employment offices (IEFP).*
Source: *CaixaBank Research, based on data from the IEFP.*

Portugal: home prices
Year-on-year change (%)



Source: *CaixaBank Research, based on data from Confidencial Imobiliário.*

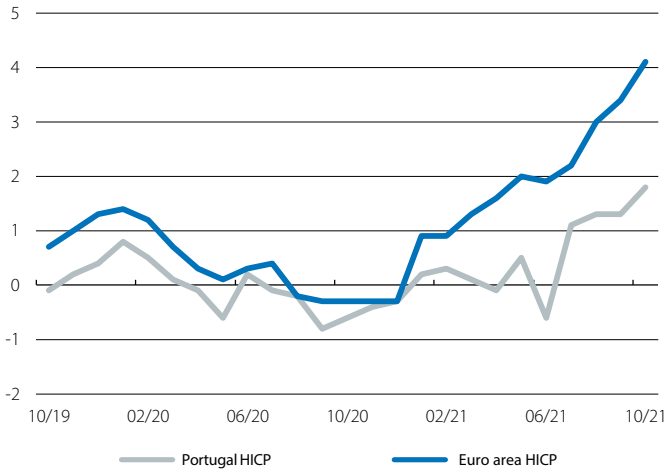
The energy component continues to put pressure on inflation. Inflation rose to 1.8% year-on-year in October, higher than in the previous three months (1.5%). This is due to the sharp rally in electricity prices (13.3% in October compared to 10.5% in September). The tariff update in the regulated electricity market carried out by ERSE and effective from 1 October, together with the oil price exceeding 80 dollars, explain the evolution of this component. Inflation will continue to rise up until the end of the year, but it is still surrounded by some uncertainty, which is also explained by the impact on prices of the delays in supply chains. In fact, these delays have two effects: one more direct, namely the increase in the price of industrial inputs, and the other more indirect, given the proximity of the Christmas period and the possibility of households bringing their consumption forward. However, the rise in inflation in Portugal has been moderate compared to other euro area countries.

The political impasse leads the country into a budget in twelve parts. The Draft State Budget for 2022 was rejected in the vote. In this scenario, the country will head to the poles in early 2022, and until a new government is formed the country will be governed with a budget in twelve parts (just one twelfth of the previous year's budget can be spent each month). Despite the heightened uncertainty, some signs remain positive. Firstly, the budgetary execution up to September indicates an improvement in the public accounts: the deficit reached 2.9% of GDP (3.5% in the same period of 2020), and if this rate of execution is maintained we could reach a deficit slightly below the 4.3% estimated by the government. Secondly, there are encouraging signs with regard to the sustainability of public debt, which has been managed so as to allow maturities to be extended (from 6 years in early 2011 to 7.6 years earlier this year) and the cost of debt to be reduced (in 2020 it was 2.2% compared to 4.1% in 2011). At the same time, the ECB's asset-purchasing programmes are allowing the country to benefit from lower financing costs.

The stock of non-financial private sector credit continues its upward trajectory, still influenced by the moratoria. In particular, it grew by 4.2% year-on-year in September, with increases among both individuals and companies (3.2% and 5.8%, respectively). Although the trend in new lending is not yet known, it may be that it continues to be influenced by the moratoria. Even so, the significant decline in the amount of loans under moratorium is already apparent in September (–17 billion compared to August), with the public moratoria initiated up to the end of September 2020 coming to an end. We estimate that the proportion of loans under moratorium in the non-financial private sector fell from 17.9% in August to 9.4% in September. Despite the end of this measure, and considering the current environment marked by the economic recovery and the control of the pandemic, no significant impacts are expected for the financial system.

Portugal: HICP

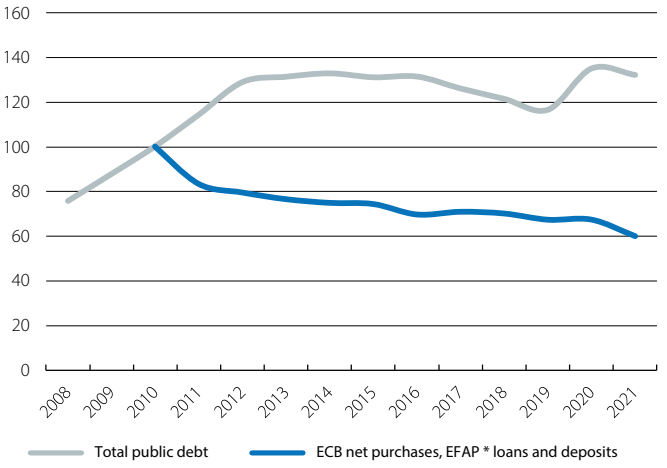
Year-on-year change (%)



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

Portugal: public debt

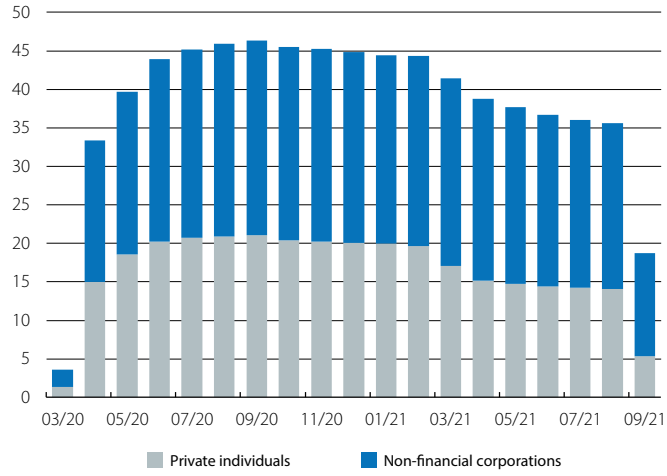
(% of GDP)



Note: ** Economic and Financial Assistance Programme.*
Source: *CaixaBank Research, based on data from the Bank of Portugal, the ECB and IGCP.*

Portugal: loans under moratorium

(EUR billions)



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

Activity and employment indicators

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

	2019	2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021	08/21	09/21	10/21
Coincident economic activity index	1.0	–5.5	–5.4	–3.2	0.5	2.1	2.2	2.1	...
Industry									
Industrial production index	–2.2	–6.9	–2.1	–0.8	25.0	...	–9.0	...	...
Confidence indicator in industry *(value)*	–3.2	–15.8	–14.7	–13.6	–5.0	–1.5	–1.5	–3.3	–3.4
Construction									
Building permits - new housing (number of homes)	15.4	0.7	12.8	45.0	–28.4	...	1.2	...	...
House sales	1.7	–5.7	1.0	0.5	58.3	...	...	...	...
House prices *(euro / m² - valuation)*	10.4	8.3	6.0	6.2	8.5	8.7	8.2	9.6	...
Services									
Foreign tourists *(cumulative over 12 months)*	7.8	–76.2	–76.2	–86.7	–74.2	–38.8	–55.2	–38.8	...
Confidence indicator in services *(value)*	12.9	–21.6	–19.5	–19.1	–9.9	5.5	6.9	7.2	9.8
Consumption									
Retail sales	4.4	–3.0	–1.9	–7.5	16.0	...	3.0	...	...
Coincident indicator for private consumption	2.2	–6.1	–5.6	–1.2	3.8	6.1	6.2	6.2	...
Consumer confidence index *(value)*	–8.0	–22.4	–26.2	–24.4	–17.3	–13.6	–13.8	–12.9	–10.9
Labour market									
Employment	1.2	–1.9	–1.2	–1.3	4.5	...	3.8	...	...
Unemployment rate (*% labour force*)	6.6	7.0	7.3	7.1	6.7	...	6.4	...	...
GDP	**2.7**	**–8.4**	**–6.8**	**–5.7**	**16.2**	**4.2**	**–**	**–**	**–**

Prices

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

	2019	2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021	08/21	09/21	10/21
General	0.3	0.0	–0.2	0.4	0.8	1.5	1.5	1.5	1.8
Core	0.5	0.0	–0.1	0.5	0.2	0.9	0.9	0.9	1.1

Foreign sector

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

	2019	2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021	08/21	09/21	10/21
Trade of goods									
Exports *(year-on-year change, cumulative over 12 months)*	3.6	–10.3	–10.3	–8.0	9.5	...	12.6	...	...
Imports *(year-on-year change, cumulative over 12 months)*	6.0	–14.8	–14.8	–15.7	1.7	...	7.7	...	...
Current balance	**0.9**	**–2.2**	**–2.2**	**–2.1**	**–1.5**	**...**	**–2.1**	**...**	**...**
Goods and services	1.7	–3.6	–3.6	–3.5	–3.8	...	–4.2	...	...
Primary and secondary income	–0.7	1.3	1.3	1.4	2.3	...	2.2	...	...
Net lending (+) / borrowing (–) capacity	**2.8**	**0.0**	**0.0**	**0.1**	**0.5**	**...**	**1.1**	**...**	**...**

Credit and deposits in non-financial sectors

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

	2019	2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021	08/21	09/21	10/21
Deposits [1]									
Household and company deposits	5.2	10.1	10.1	10.6	8.7	8.7	9.2	8.7	...
Sight and savings	14.8	18.8	18.8	18.5	15.3	15.5	16.5	15.5	...
Term and notice	–2.9	1.4	1.4	2.4	1.3	1.0	1.1	1.0	...
General government deposits	5.6	–21.0	–21.0	–23.6	–15.0	–5.2	–12.2	–5.2	...
TOTAL	**5.2**	**9.0**	**9.0**	**9.4**	**7.8**	**8.2**	**8.4**	**8.2**	**...**
Outstanding balance of credit [1]									
Private sector	–0.1	4.6	4.6	5.1	4.4	4.2	4.2	4.2	...
Non-financial firms	–3.7	10.5	10.5	11.0	7.2	5.8	6.2	5.8	...
Households - housing	–1.3	2.1	2.1	2.6	1.0	1.6	1.4	1.6	...
Households - other purposes	16.5	–1.2	–1.2	–1.0	9.4	9.4	9.3	9.4	...
General government	–4.7	–4.2	–4.2	–5.1	4.5	4.1	3.3	4.1	...
TOTAL	**–0.3**	**4.2**	**4.2**	**4.7**	**4.4**	**4.2**	**4.2**	**4.2**	**...**
NPL ratio *(%)* [2]	**6.2**	**4.9**	**4.9**	**4.6**	**4.3**	**...**	**...**	**...**	**...**

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.*

Savings and consumption in times of pandemic: a historical and international review

Thanks to the effectiveness of the vaccines, the economy has experienced a strong revival and life is gradually returning to a certain degree of normality. But an event on the scale of the COVID-19 pandemic can have a lasting impact on the nature of economic activity. The extent of this impact will largely depend on our confidence, ability and willingness to return to pre-crisis investment and consumption patterns.

Pandemic economics in a historical perspective

The economic crisis triggered by COVID-19 is a black swan, a very rare event. We could refer to historical experience to understand it better, but we would be compelled to compare markedly different times, societies and economies. If we cast our net over the period spanning from the 14th century, with the black death, up until the 20th century, with the Spanish flu of 1918-1920, we will have had 19 pandemics in Europe and a fairly unequivocal view of their economic impact: they have a persistent effect, significantly depressing interest rates and economic activity growth for more than 10 years, and even more than 20 in some cases.[1]

However, the COVID-19 crisis is unique even in a comparison between pandemics. Historically, pandemics concluded with a high mortality and thus created a shortage of labour. This was a relative shortage, with the counterpart of an abundance of capital which weighed down interest rates, fuelled wage growth, and reduced investment and growth. COVID-19 is clearly a different pandemic: medicine and social protection measures have contained the mortality rate (which is also considered to be lower due to the nature of the virus), while economic policies protected the productive fabric of the economy. As a result, it may be more relevant to assess, for instance, the impact on interest rates with factors such as pressure on public debt or fears of fiscal dominance (rather than the mechanism of a relative abundance of capital that prevailed in previous pandemics).[2]

Scars on behaviour

Another way to analyse the consequences of a rare event such as COVID-19 is in terms of our personal beliefs. Over the past 15 years, we have experienced a major global financial crisis and a pandemic, two seemingly atypical events, which may no longer seem so unusual to us. However, the materialisation of an event that we assumed to be unlikely or impossible leads to major adjustments in what we believe is possible and probable, especially if it leaves a mark on our lives.

If it changes the way we look at the world and we become more sensitive to the risk of very severe events, then the COVID-19 pandemic could leave scars in the form of greater risk aversion, higher savings, lower demand, and ultimately lower interest and growth rates. In fact, there is ample evidence that economic crises have lasting consequences for consumption, saving and investment preferences. Enduring difficulties, such as financial losses, low investment returns or periods of unemployment, persistently translates into greater risk aversion,[3] lower consumption,[4] and lower participation in equity markets.[5] Furthermore, these and other such effects arise when comparing people who, beyond differences in their past, are of a similar age today and have similar levels of income, wealth and working status. These after-effects even influence sophisticated economists such as the highest-ranking policymakers at the Fed: it has been documented that they are more hawkish when they have witnessed higher inflation rates during their lifetimes.[6]

The unique economic nature of the COVID-19 pandemic

The legacy of COVID-19 in our beliefs has important implications. As an example, some economists suggest that the shortage of workers in some US companies may reflect a change in preferences among households, who now want more free time to spend with family.[7] This also has important implications for the future of the savings generated during the crisis. As the first two charts show, the increase in savings has been relatively long-lasting and the volumes amassed are significant. As it is a severe crisis, the scars of the pandemic could keep savings captive and weigh down on the performance of the economy. However, once again, we must remember that the COVID-19 pandemic is an atypical and severe event: we have experienced a historic collapse in the

1. See Ò. Jordà, S.R. Singh and A.M. Taylor (2020). «Longer-run economic consequences of pandemics?». The Review of Economics and Statistics, 1-29.
2. See the article «The shadow of fiscal dominance» in the Dossier of the MR04/2021.
3. See S. Andersen, T. Hanspal and K.M. Nielsen (2019). «Once bitten, twice shy: The power of personal experiences in risk taking». Journal of Financial Economics, 132(3), 97-117. They study the rearrangement of investment portfolios received through inheritance due to a sudden death. On average, individuals who had suffered first-person losses as a result of the 2007-2008 financial crisis reduced the proportion of their total portfolio allocated to risk-bearing assets by 9 pps (compared to the control group, which also received an inheritance but had not suffered losses in the financial crisis).
4. See U. Malmendier and L.S. Shen (2018). «Scarred consumption». National Bureau of Economic Research, nº w24696.
5. See U. Malmendier and S. Nagel (2011). «Depression babies: do macroeconomic experiences affect risk taking?». The quarterly journal of economics, 126(1), 373-416.
6. In other words, they are consistently more favourable towards tightening monetary policy. See U. Malmendier, S. Nagel and Z. Yan (2017). «The making of hawks and doves: Inflation experiences on the FOMC». National Bureau of Economic Research, nº w23228.
7. See D. Autor (2021). *Good news: there's a labor shortage.* Opinion article in *The New York Times*.

economy, but we have also witnessed a rapid economic revival, and in some financial markets the rebound has even flirted with exuberance. Similarly, many workers were forced to suspend their activity, but they were not left unemployed: many company-worker employment relations have been maintained through programmes such as furlough schemes, which have facilitated the return to work and have eased uncertainty over job prospects. Moreover, unlike in other crises, the current accumulation of savings is not so much driven by precaution, but rather by an inability to consume because of the restrictions on activity themselves;[8] in fact, the bulk of the savings has been stored in bank deposits, making it easier to quickly convert them into consumption.[9]

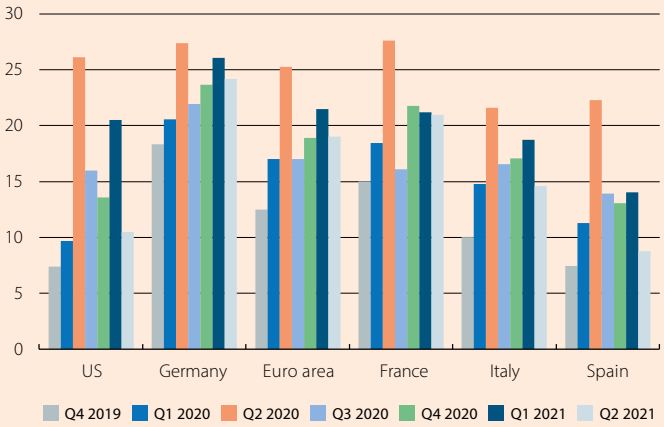
The atypical nature of the crisis is clear if we look at the evolution of three different types of spending: durable goods, non-durable goods, and services. As the third chart shows, the pandemic is still weighing down the consumption of services, which is the category most heavily penalised by the restrictions. However, the consumption of goods, both durable and non-durable, has registered a significant rebound and is already well above pre-crisis levels,[10] seemingly unaffected by the uncertainty and providing another sign of the unique economic nature of the COVID-19 pandemic. This uniqueness is also currently emerging on the supply side: the disruptions to global supply chains, resulting from bottlenecks in global transportation and shortages of some components (semiconductors, microchips, etc.) in a context of strong demand could, to some extent, temper the surge in consumption over the coming months if they become more pronounced.

Thus, while it is tempting to extrapolate the experience of past economic crises and expect persistent scars on savings, consumption and investment, the atypical nature of the COVID-19 pandemic raises many questions, including in relation to the validity of past experiences. Speculating about the future economic consequences of the current crisis is inevitable, but what is really necessary is to have good information about the actual response from consumers, savers and investors. This is precisely what we offer the reader in the following pages of this Dossier: precise and detailed information, based on internal CaixaBank microdata, on the real-time behaviour of Spanish consumers and savers in times of pandemic.

Adrià Morron Salmeron

Household savings rate

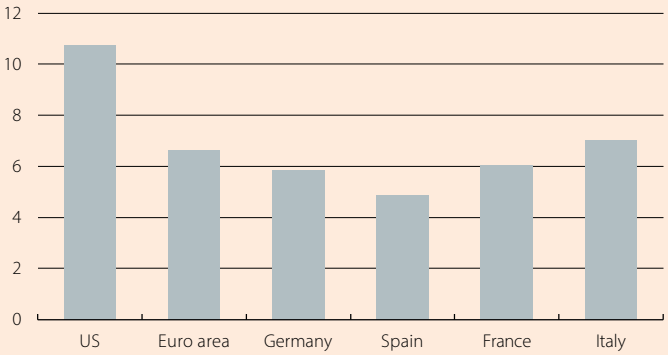
(% of gross disposable income)



Note: *Stationary quarterly data, adjusted for calendar effects and seasonality.*
Source: *CaixaBank Research, based on data from the U.S. BEA and Eurostat.*

Excess savings accumulated between Q1 2020 and Q2 2021

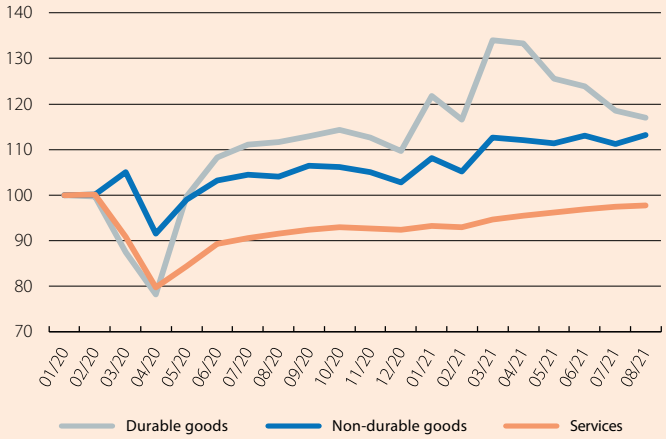
(% of 2019 GDP)



Note: *Excess savings are estimated as the difference between the observed savings and the level of savings which, given the evolution of disposable income in 2020 and 2021, would have occurred if households had maintained their pre-pandemic savings rates.*
Source: *CaixaBank Research, based on data from the U.S. BEA and Eurostat.*

US: real expenditure

Index (100 = January 2020)



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

8. See the Focus «The role of pent-up demand in the euro area recovery in 2021» in the MR05/2021.
9. We estimate that the increase in deposits equates to around 40% of the total accumulated savings in Germany, around 60% in the case of France and Spain, and 50% in Italy. In the US it is around 90%.
10. This composition of consumption is observed both in the US (third chart) and in other countries. See the case of France in D. Bounie *et al.* (2020). «Consumption dynamics in the covid crisis: real time insights from French transaction bank data». Covid Economics, 59, 1-39.

Consumption and pent-up demand: what is the profile of the star consumer in the recovery?

With the worst of the pandemic behind us, how is consumption recovering? Are there significant differences between the various groups of the population?

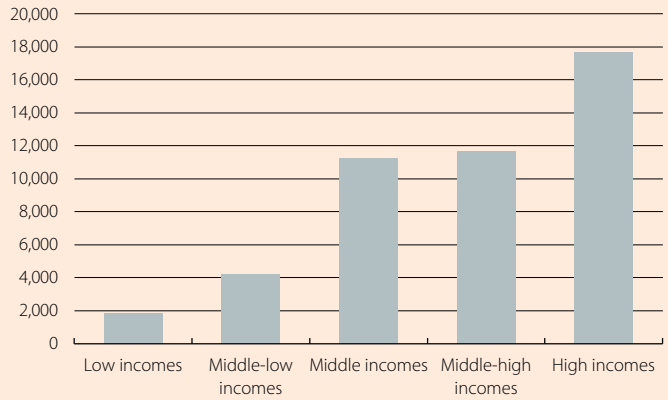
Savings in 2020: the driving force behind pent-up demand

The restrictions imposed to curb the spread of the coronavirus and the caution resulting from the high levels of uncertainty led to a significant increase in Spanish household savings in 2020. Specifically, we estimate that the savings accumulated due to the pandemic amounted to 46.6 billion euros, or 3.7% of 2019 GDP.[1] This sharp increase in savings has been undone as we have been able to regain our habits, which is spurring a rapid recovery in consumption. This is a trend that will most likely continue over the coming quarters.[2]

How was the increase in savings distributed among different population groups? To answer this question, we analysed CaixaBank's internal data, which was duly anonymised. Specifically, using information from more than 10 million customers, we reconstructed how households' gross disposable income and consumption changed, in real time, split by income level and age group.[3]

Distribution of pent-up savings accumulated during the pandemic by income tranche

(EUR millions)

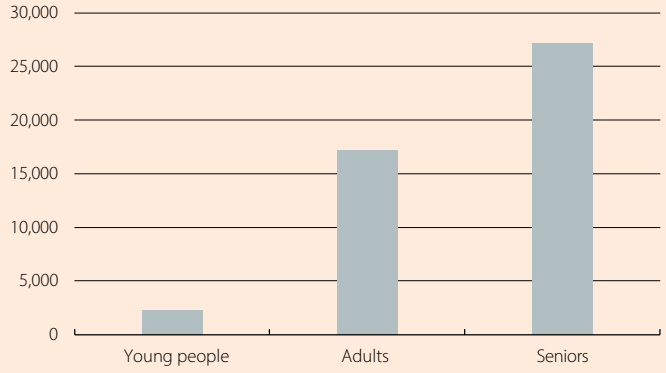


Notes: *Estimates based on internal CaixaBank data, redistributing the aggregate excess savings in the Spanish economy by relative weight. The low incomes tranche refers to the 20% of the population with the lowest incomes, middle-low incomes to the next 20% of people, middle incomes to the next 20% with even more income... and so on.*
Source: *CaixaBank Research.*

As expected, the increase in savings was particularly pronounced among those with higher incomes: high and middle-high incomes accounted for practically two-thirds of the additional stock of savings generated in 2020 as a result of the pandemic, as the first chart shows. The results are intuitive: the restrictions were uniform for all categories of the population and resulted in an involuntary reduction in consumption, especially in the case of services and durable goods,[4] such that people with higher incomes saved a larger fraction of their income.

Distribution of pent-up savings accumulated during the pandemic by age group

(EUR millions)



Notes: *Estimates based on internal CaixaBank data, redistributing the aggregate excess savings in the Spanish economy by relative weight. The young people category refers to people between 16 and 29 years of age, adults to people aged between 30 and 59, and seniors to those over 60 years of age.*
Source: *CaixaBank Research.*

When we assess how the excess savings were distributed by age, we see that seniors (people over 60 years old) accounted for just over half of the stock of savings that was generated at the aggregate level; adults (30-59 years), one third, and young people (16-29 years), a small portion (see second chart).[5] Again, the result seems plausible: older people were subject to the same restrictions as other demographic groups, but the impact on their purchasing power was lower. Adults, meanwhile, saw the fall in their gross disposable income cushioned by the support from economic policy. On the other hand, at the aggregate level young people do not seem to

1. We define «excess savings» or «pent-up savings» as the differential between the actual savings that occurred in 2020 and those which would have occurred if, with the levels of gross disposable income observed in 2020, households had maintained their savings rate of 2019. We then subtract from this amount the portion allocated to debt repayments.
2. In particular, according to data from the Bank of Spain, in 2020 the bulk of the savings were allocated to purchasing financial assets (65%, predominantly deposits), while the proportions allocated to investment (30%), mostly housing, and debt reduction (5%) were relatively smaller.
3. For GDI, we have taken into account the main sources of income: payroll, unemployment benefits, public pensions, public aid and private pension payments. We have then subtracted debt payments from this amount. As for consumption, we have examined card purchases and cash withdrawals carried out at ATMs, was well as including direct debit payments and transfers related to consumption.
4. See Bank of Spain. «Quarterly Report on the Spanish Economy». Economic Bulletin 3/2021.
5. The distribution is similar if we look at savings per person for each age group.

have benefited from the moratoria to the same degree, as they tend not to have as much debt, or from the furlough schemes either, as they have a higher incidence of temporary employment.

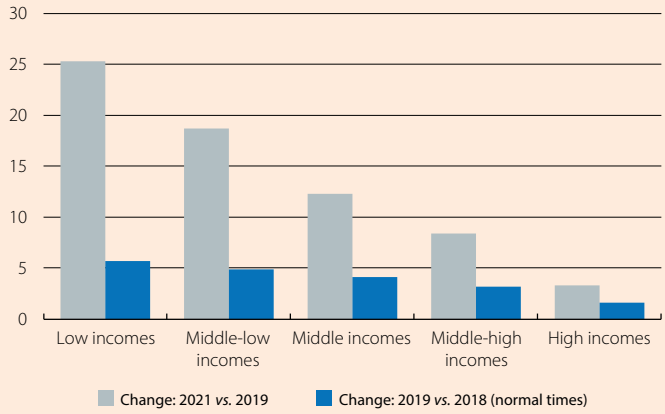
How are the savings accumulated during the pandemic being undone? Who is driving the recovery in consumption?

The pent-up demand accumulated at the height of the pandemic is leading all population groups, from those with lower incomes to those with higher incomes, to register strong growth in their consumption levels. In fact, this will end up allowing consumption to exceed pre-pandemic levels as early as this year, both at the aggregate level and across all income levels.[6] This pull from demand, which is widespread among the major developed countries, helps us to understand the logistical difficulties at the global level in meeting the rapid recovery in demand.

However, there are some notable differences between the various groups. Among people with lower incomes, the rebound in consumption is stronger compared to the pre-pandemic period. In the case of those with higher incomes, in contrast, the rate of consumption growth is lower.[7] That said, it should be noted that since those with the highest incomes are the ones with the highest consumption volumes, even if the growth rate is lower their contribution to aggregate consumption growth is nevertheless very important. Specifically, for 2021 we anticipate that the 20% of households with the lowest incomes will account for around 10% of the aggregate consumption in Spain, while the 20% of the population with the highest incomes will make up more than 30% of the total.

Expected consumption growth for 2021 by income tranche

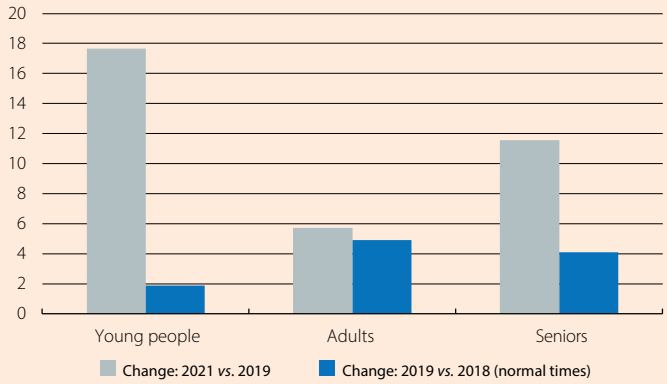
(%)



Notes: *Projections based on internal CaixaBank data. The low incomes tranche refers to the 20% of the population with the lowest incomes, middle-low incomes to the next 20% of people, middle incomes to the next 20% with even more income... and so on.*
Source: *CaixaBank Research.*

Expected consumption growth for 2021 by age group

(%)



Notes: *Projections based on internal CaixaBank data. The young people category refers to people between 16 and 29 years of age, adults to people aged between 30 and 59, and seniors to those over 60 years of age.*
Source: *CaixaBank Research.*

As for the demographic profile, we are seeing particularly strong growth in consumption among young people. For seniors we project a vigorous rise in spending in 2021 compared to 2019, driven largely by the aggregate increase in savings in this group. In contrast, for adults, consumption is picking up more moderately compared to the other groups. The fact that the economic uncertainty associated with the COVID-19 crisis has not completely dissipated, and that other sources of risk such as the supply shortages or rising energy prices have emerged, could explain the lower rebound in consumption in this demographic group. After all, people in this group generally have higher debts and may be moderating their consumption as a precaution.

In short, the recovery in consumption in 2021 is a palpable reality that is reaching a large and varied range of households. In particular, the growth in consumption is proving especially pronounced among young people and lower-income groups. Looking ahead to 2022, the large volume of savings accumulated at the aggregate level during the pandemic invites us to think that the recovery in consumption still has a long way to go, especially among higher-income groups, provided that the logistical problems in global value chains are solved and inflation levels return to normal.

Javier Garcia-Arenas, Alberto Graziano, Eduard Llorens i Jimeno and Màxim Ventura Bolet

6. It is worth noting the significant difference between the consumption carried out through card payments, cash withdrawals, e-commerce payments and direct debit charges, which is observed using CaixaBank's internal data, and the national accounting data published by the National Statistics Institute, which reflect estimates of a more modest recovery in household consumption.
7. People with higher incomes often have a lower marginal propensity for consumption. See, for example, J.L. Laborda, C. Marín-González and J. Onrubia-Fernández (2018). «¿Qué ha sucedido con el consumo y el ahorro en España durante la Gran Recesión?: Un análisis por tipos de hogar». Estadística Española, 60(197), 273-311 (content available in Spanish).

To borrow or not to borrow: a dilemma that depends on what was saved during the pandemic

In this article we analyse whether the savings accumulated during the pandemic are currently acting as a pushback for new consumer lending. If so, will this remain the case into next year?

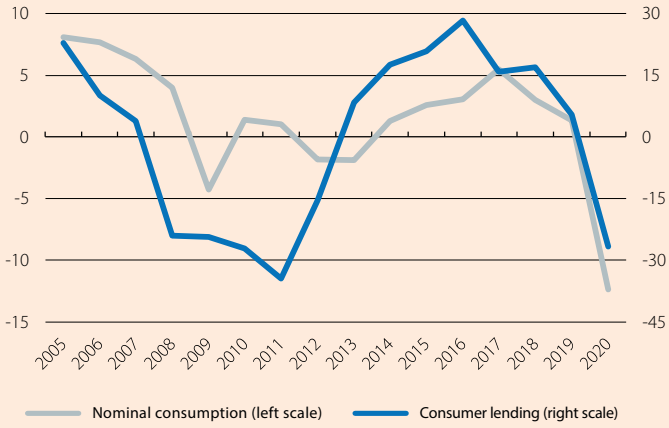
Context: this time is different

Historically, and in general, increases (or falls) in consumption go hand in hand with bigger increases (or falls) in consumer loans. This relationship is particularly close in the case of durable goods, which is the category that receives the most financing since it often involves larger expenditures.

Unlike in past crises such as the Great Recession, this time the rebound in consumption will be higher: we expect nominal consumption growth in 2021 and 2022 to be higher than the gradual recovery seen in the previous crisis. This higher recovery rate is explained by the fact that much of the savings generated in 2020 were forced and are expected to be undone relatively quickly, and also because the economic support measures have mitigated the impact of the crisis on households. This more rapid recovery in consumption will also drive greater growth in consumer lending, although the extent of the rebound will depend on how the excess savings have been distributed.

Spain: consumption and new consumer lending

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



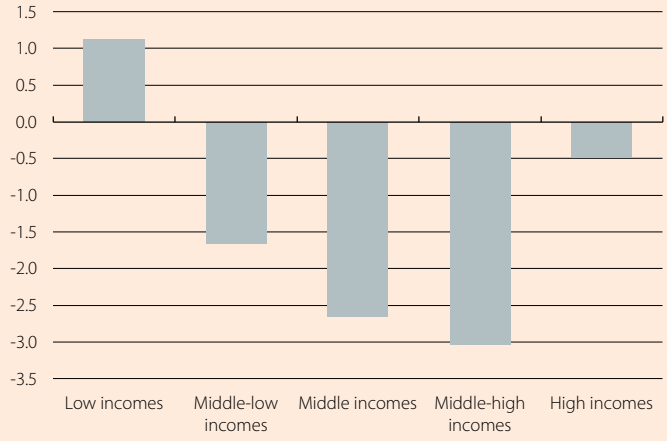
Note: *Consumer lending includes refinancing arrangements.*
Source: *CaixaBank Research, based on data from the Bank of Spain and the National Statistics Institute.*

Evolution of consumer borrowing: a disaggregated analysis

During 2020, household debt for consumption purposes fell by an annual rate of 2.6% due to the collapse in consumption (which fell by 12% in 2020) as a result of the restrictions on mobility. These exceptional circumstances also affected new consumer lending, which fell by an annual rate of 26.6%. This contraction of debt was partially eased by the legislative and sectoral moratoria provided to the most vulnerable households.

Growth rate of consumer debt by income tranche

Change: September 2021 vs. December 2020 (%)



Note: *The low incomes tranche refers to the 20% of the population with the lowest incomes, middle-low incomes to the next 20% of people, middle incomes to the next 20% with even more income... and so on.*
Source: *CaixaBank Research, based on internal CaixaBank data.*

During 2021, and following the lifting of the restrictions on mobility, consumption has recovered and, with it, new lending. In particular, between January and September, cumulative new lending has grown by 7.6 % year-on-year. This has brought the contraction in household consumer debt down to a more moderate –0.4% in the current year to date. When we use internal and anonymous CaixaBank data to study how this debt has evolved during 2021 by income level,[1] we see that it has increased for the lowest-income group, has fallen significantly for middle-incomes and has fallen more gently among high incomes.

With regard to middle incomes,[2] the result is consistent with a deleveraging process, since this was the group that had amassed the highest volume of debt prior to the pandemic (58% of consumer debt was concentrated in this group). In addition, this collective saved a lot during 2020, accounting for around 60% of the aggregate excess savings in 2020 according to estimates based on internal data. Our results suggest that these middle-income households have taken advantage of their excess savings not only to consume in

1. Up to September, the last month for which we have data as of the close of this *Monthly Report*.
2. When we talk about middle incomes, we refer to the sum of medium-low, medium and medium-high incomes.

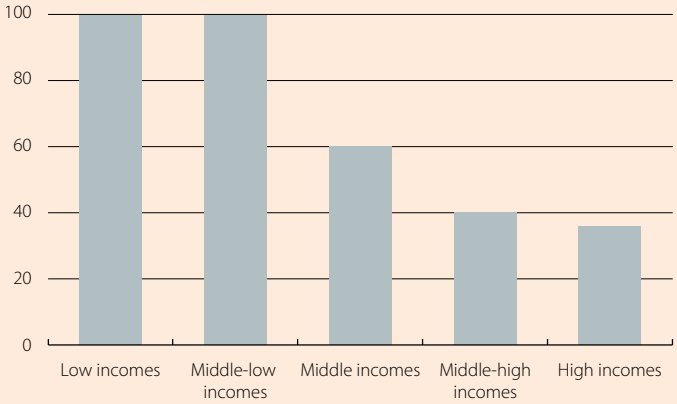
large quantities,[3] but also to deleverage. In other words, there has been some pushback for this group. In contrast, lower-income households had modest excess savings in 2020 and they are also the ones who are consuming the most vigorously in 2021 compared to the pre-pandemic period. It is therefore logical that they are financing this high level of consumption, which would explain why their debt has risen since the height of the pandemic. Finally, those with high incomes, who accumulated 38% of the excess savings in 2020, have a low burden of consumer debt relative to their income, and this would explain why they have not used these savings to reduce their debt to the same degree as middle-income households.

Outlook: the importance of accurately gauging pent-up demand

In order to understand future needs for consumer financing, we must first understand what portion of pent-up consumption will materialise in the remainder of 2021 and how much can be satisfied by the savings accumulated during the pandemic.

Excess savings from 2020 that will be undone in 2021 by income tranche

Percentage (%)



Notes: *Projections based on internal CaixaBank data. The low incomes tranche refers to the 20% of the population with the lowest incomes, middle-low incomes to the next 20% of people, middle incomes to the next 20% with even more income... and so on.*
Source: *CaixaBank Research.*

Based on internal data, we estimated the additional consumption that will occur in 2021 compared to the consumption we would have seen before the pandemic, split by income tranche.[4] When compared to the excess savings generated in 2020 by income tranche the results suggest that, on aggregate, half of the excess savings will be undone in 2021 if consumption continues to recover in the final stages of the year as it has done to date. In particular, our results (see third chart) show that the low and medium-low income groups will already have consumed all of the excess savings from the pandemic by the end of 2021, while the medium-income group will have consumed 60% and the medium-high and high-income groups, well below half. It should be noted that these figures represent a higher threshold, since the exercise does not incorporate the materialisation of some latent risks, such as the supply restrictions arising from logistical problems in global value chains. Thus, if the supply problems we are seeing peak in the closing months of the year, then the upturn in consumption would be somewhat dampened, such that the pent-up demand released in 2021 would be below half of the excess savings accumulated in 2020. In addition to this risk, we must consider how high inflation could alter household consumption decisions.

The results are in line with the recovery in new lending which we are seeing in 2021. Low and medium-low income groups do not have sufficient savings accumulated in 2020 to satisfy their pent-up demand, so they are resorting to bank financing, in addition to using the savings accumulated before the pandemic. In contrast, other income groups still have a savings buffer with which to fund 2022 consumption or to increase their long-term savings for future investments or retirement.

For 2022, consumption growth is expected to be vigorous and above the historical average. This growth will be supported by favourable financial conditions, the portion of pent-up demand that is yet to materialise and the funds from the NGEU European recovery plan. These European transfers are intended to promote sustainable mobility and the refurbishment of housing in order to boost energy saving, among other aspects, and this will fuel the consumption of durable goods such as electric cars, charging points, household appliances, more energy-efficient heating and air conditioning appliances, etc. In addition, the aid directed at the private sector does not cover the full amount of the investment, so co-financing will be required.

Much of next year's consumption for low and medium-low income groups, especially for durable goods, will be supported by bank financing, given that they will no longer have the buffer of their 2020 savings. In addition, for medium and medium-high income groups, we estimate that the additional consumption expected in 2022 relative to average pre-pandemic consumption levels will be greater than what remains of the savings accumulated during the pandemic (provided that the current supply problems do not persist). Therefore, these income groups will also require other sources of funding, such as bank finance.[5] As a result, new consumer lending is expected to grow significantly in 2022.

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Màxim Ventura Bolet and Ariadna Vidal

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

3. Indeed, we see a significant rebound in consumption compared to pre-pandemic levels among middle-income households. This rebound is greater in the case of the second income tranche (medium-low incomes) and progressively declines for the following tranches, although it is also above the growth levels typical of a normal year. See the article «Consumption and pent-up demand: what is the profile of the star consumer in the recovery?» in the Dossier of this same *Monthly Report*.
4. In other words, we compared the estimated consumption for 2021 with the consumption resulting from maintaining the marginal propensity to consume of 2019 with the actual gross disposable income of 2021, and we attributed this difference to the pent-up demand from the pandemic.
5. In addition to relying on savings accumulated prior to the pandemic and reducing their savings rate in 2022.

Which sectors have benefited the most from the pent-up demand?

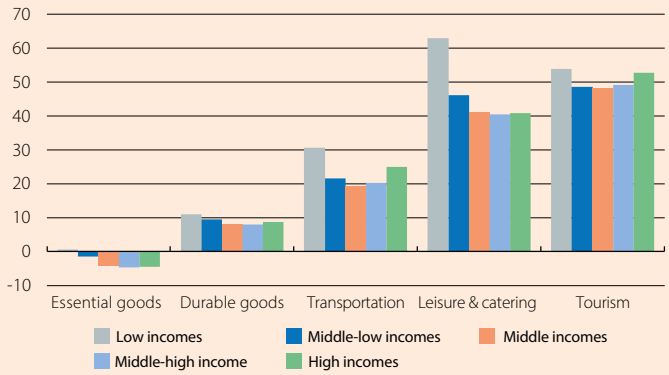
Consumption has surged since the end of the last state of emergency in May. To a large extent, this consumption is driven by pent-up demand as a result of unprecedented forced savings in the face of the restrictions on activity and mobility that were imposed since the beginning of the pandemic to curb the spread of the virus. Thanks to completely anonymised internal CaixaBank data,[1] we will see that the recovery in spending has been very uneven between the various sectors, and we will also analyse whether there are significant differences between consumers of different income levels and ages.

Which sectors have seen the biggest rebound in spending? An analysis by income level and age

Specifically, we analysed the growth in consumption since May, when the last state of emergency came to an end. As can be seen in the first chart, the recovery in spending has been particularly pronounced in the case of transportation, and above all in leisure and catering and in tourism. Thus, the sectors most affected by the restrictions (which were mostly still in force in Q1 2021) are the ones that are recovering the most.[2] On the other hand, durable goods (furniture, textiles, etc.) have benefited much more modestly from the rebound in consumption observed since May, as we shall see below. In contrast, spending on essential goods has declined (except for among lower-income households), partly because these goods can be substituted by the services offered by the catering sector.

Recovery in consumption by income tranche since the end of the state of emergency

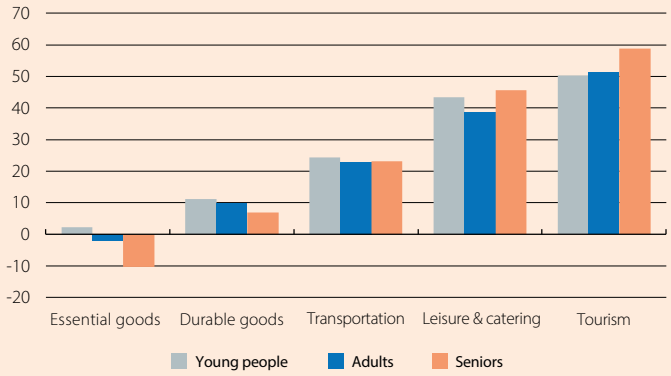
(pps)



Notes: *The low incomes tranche refers to the 20% of the population with the lowest incomes, middle-low incomes to the next 20% of people, middle incomes to the next 20% with even more income... and so on. Each bar shows the difference between the evolution of cumulative spending between May and September 2021 compared to its cumulative evolution in the period January to April 2021. In both cases, we calculate its change relative to the same period in 2019. Analysing the recovery in consumption by sector using this cumulative change allows us to eliminate a significant portion of the bias arising from the acceleration in the substitution of cash for card payments which the pandemic has brought with it and which ought to be similar in the two periods considered.*
Source: *CaixaBank Research, based on internal CaixaBank data.*

Recovery in consumption by age group since the end of the state of emergency

(pps)



Notes: *The young people category refers to people between 16 and 29 years of age, adults to people aged between 30 and 59, and seniors to those over 60 years of age. Each bar shows the difference between the evolution of cumulative spending between May and September 2021 compared to its cumulative evolution in the period January to April 2021. In both cases, we calculate its change relative to the same period in 2019. Analysing the recovery in consumption by sector using this cumulative change allows us to eliminate a significant portion of the bias arising from the acceleration in the substitution of cash for card payments which the pandemic has brought with it and which ought to be similar in the two periods considered.*
Source: *CaixaBank Research, based on internal CaixaBank data.*

Another aspect that draws attention is that, in most sectors, the rebound in consumption has been more intense among people with lower incomes. This can be explained by the fact that these groups will have released all of their pent-up demand during 2021.

As for the age of the consumer, the consumption patterns are very similar across the board. However, as shown in the second chart, the replacement of essential goods with leisure and catering has been greater among seniors. It is this group that has recorded the highest growth rates in the essential goods sector since the outbreak of the pandemic.[3] It is therefore plausible that, now that they have begun to feel safer thanks to the progress in the vaccination campaign, they have replaced part of this expenditure with spending on catering.

Why have durable goods not picked up as much?

In the first part of the article we have seen how spending on transportation, leisure and catering and tourism have picked up significantly in recent months. However, the recovery in

1. Specifically, data on payments made using cards issued by CaixaBank on CaixaBank point of sale (POS) terminals.
2. Part of this rebound is explained by a base effect, because consumption in these sectors was depressed during the first part of the year. However, their high growth rates compared to the pre-pandemic period between May and September reinforce the hypothesis that these sectors have been where most of the pent-up demand has materialised. For more information, see the CaixaBank Research consumption tracker at https://www.caixabankresearch.com/en/publications/monitor-consumo.
3. See the article «The consumption of each generation in normal times... and in times of pandemic» in the Dossier of the MR05/2021.

durable goods has been more contained,[4] a pattern that we observe in the different subsectors that we can capture using CaixaBank's internal data (see third chart). What is the reason for this?

This is partly due to the sector's significant capacity to adapt to online sales channels, which are experiencing significant and persistent growth, thus cushioning the fall in face-to-face sales (see fourth chart). In this regard, the recovery in spending on durable goods, although evident, has not been as pronounced as in other sectors given that its contraction during the pandemic was milder.

A second factor concerns supply chains and production capacity. The fact that most of the drop in consumption during the pandemic was explained by the enforcement of restrictions[5] has caused demand to recover much faster compared to previous crises (in fact, consumption levels in all categories of goods already exceed 2019 levels). However, in many sectors supply has not been able to recover so quickly.

This mismatch between supply and demand has placed tremendous strain on supply chains, especially in maritime transportation. In the durable goods sector, where the final product is often the result of a long production chain, this situation is particularly relevant. The price of shipping a container with goods by boat has skyrocketed in recent months, reaching heights not seen in recent years, and this has caused many firms to run out of supplies with which to maintain their production levels (see fifth chart).

Finally, another aspect to consider, and which is also related to the mismatch between supply and demand, leads us to China, the world's factory. The new guidelines set out by Beijing on containing energy consumption in order to keep prices at bay and comply with environmental targets have led to a significant number of companies having to scale back their production, or even to halt it altogether for a few days. Together with the aforementioned stress affecting supply chains, these two problems may pose a downside risk in the durable goods market for the remainder of Q4 2021.

Eduard Llorens i Jimeno,
Javier Garcia-Arenas and Màxim Ventura Bolet

4. In fact, the recovery is somewhat less than that shown in this article, as it includes spending in the automotive sector, one of the most heavily affected by the bottlenecks currently affecting supply.
5. See the Focus «The role of pent-up demand in the euro area recovery in 2021» in the MR05/2021, or «Household saving during the pandemic and its possible effects on the future recovery in consumption» in the Bank of Spain's Economic Bulletin 1/2021.

Recovery in the consumption of durable goods since the end of the state of emergency

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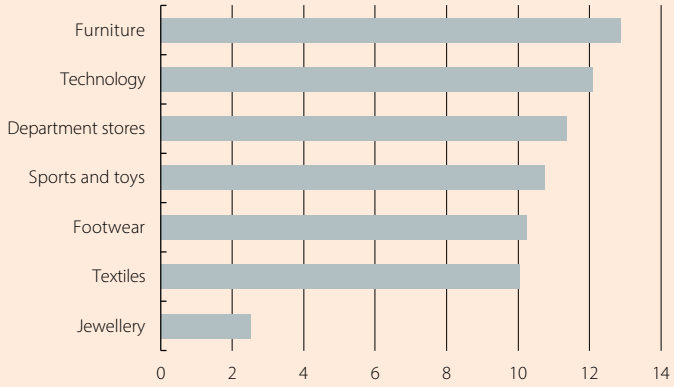
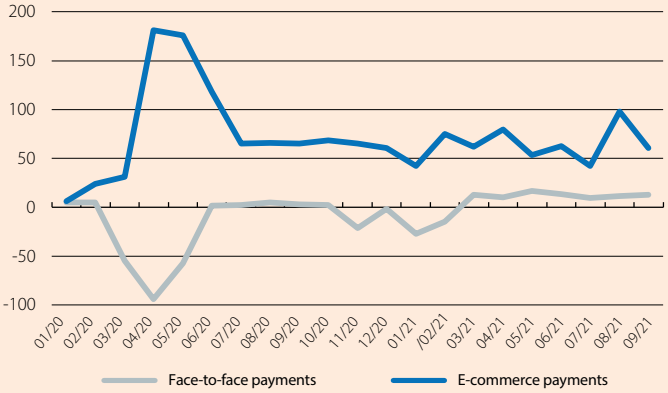


Notes: *Each bar shows the difference between the evolution of cumulative spending between May and September 2021 compared to its cumulative evolution in the period January to April 2021. In both cases, we calculate its change relative to the same period in 2019. Analysing the recovery in consumption by sector using this cumulative change allows us to eliminate a significant portion of the bias arising from the acceleration in the substitution of cash for card payments which the pandemic has brought with it and which ought to be similar in the two periods considered.*
Source: *CaixaBank Research, based on internal CaixaBank data.*

Spending on durable goods by sales channel

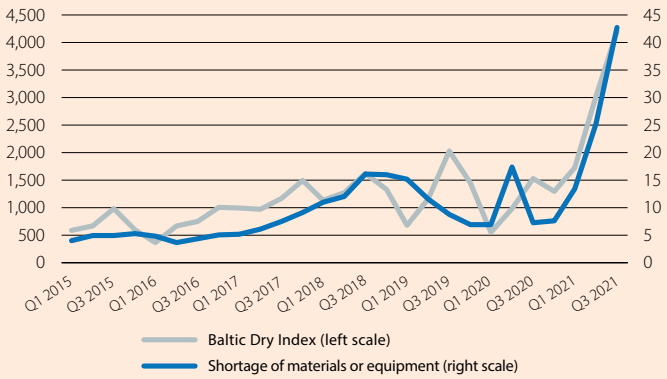
Change versus *the same period in 2019 (%)*



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

*Euro area: Baltic Dry Index (BDI) * and manufacturing bottlenecks*

Level *(% of companies)*



Notes: ** The Baltic Dry Index (BDI) is an index of maritime fleets for the transportation of dry bulk material across as many as 20 key maritime routes around the world. The blue line shows the percentage of companies that cite the «shortage of materials or equipment» as a major limiting factor in their production.*
Source: *CaixaBank Research, based on data from Refinitiv and the European Commission.*

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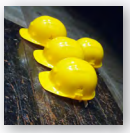

In addition to the disruptions in global supply chains, another factor which could also limit the speed at which economic activity will recover is the mismatch that is beginning to emerge in the labour market.

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