MR07

MONTHLY REPORT • ECONOMIC AND FINANCIAL MARKET OUTLOOK
NUMBER 469 | JULY-AUGUST 2022

THE CURRENT ECONOMIC ENVIRONMENT

Summer assignment

Will the Spanish economy hold out?

Questions and answers about the Euribor

European NGEU funds in 2022 (and beyond): a clear commitment to green sustainability

The Chip PERTE project: will Spain manage to gain a foothold in the microchip industry?

HOUSEHOLDS IN THE CURRENT CLIMATE

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Wage dynamics in Spain: are low and high wages growing at the same pace?

Did consumption grow in Spain in Q2 2022? What the real-time data tell us

CaixaBank Research

MONTHLY REPORT - ECONOMIC AND FINANCIAL MARKET OUTLOOK
July-August 2022

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

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Summer assignment

Having passed the year's half-way point, the effects of the mismatches between supply and demand on inflation continue to dominate the behaviour of the world economy, forcing both central banks and governments to adapt their roadmaps to the new reality. Thermometers such as Germany registering its first trade deficit in 30 years, the euro hitting parity with the US dollar and the re-emergence of the risk of financial fragmentation in Europe reflect the disruptions that the world economy is currently facing. In addition to the difficulties involved in tackling a challenge for which there are no precedents in the past four decades, we also face the complexity of incorporating the rising geopolitical tensions into the economic scenarios. All this comes at a time that is far from conducive to the coordination of economic policies that have been exhausted after the efforts made to deal with the pandemic.

The picture is particularly difficult for the central banks, as the price dynamics are gradually mutating, making it difficult to determine the appropriate dose when tightening the financial conditions in order to address the inflation problem while also minimising the collateral damage to growth and financial stability. Above all, it is becoming increasingly difficult to discern what portion of the price rally originates on the supply side and what portion on the demand side. Following the latest negative surprises, the feeling is that the price rallies are leaking into more components of the consumer price index basket, forcing an intensification of the monetary normalisation process, especially given that energy prices look set to remain high for longer than expected and that other supply problems (bottlenecks, labour market mismatches) will not disappear overnight. In the case of the ECB the task at hand is even more complex, as while the barrage of unconventional tools that were put in place to tackle the last two crises (PEPP, TLTRO, etc.) is dismantled, a new tool must be designed in record time to deal with the risk of fragmentation. What is more, not only will this new tool have to be flexible, but it will also have to be tied to certain conditions being met, incorporating measures that ensure the fiscal sustainability of the countries receiving support.

The erosion of economic agents' purchasing capacity as a result of rising prices, the central banks' tightening of the nut which has translated to the entire length of the interest rate curve and the impression that Russia could cut off gas supplies to Europe at any time have led to a deterioration in investor confidence, increased uncertainty and a downward revision of growth expectations. The question is whether this concern about what the autumn might bring could lead households to bring their purchasing decisions forward, taking advantage of their pent-up savings and thus giving the economy a boost over the summer months, or whether, on the contrary, its impact could be felt earlier through a deterioration in confidence.

In this delicate balance of certainties and expectations, the debate is whether the reduction in aggregate spending needed to contain the price tensions will end in a soft landing or, given the turbulent conditions that the business cycle is facing, we should expect a recession in the euro area and the US. Indeed, with double-digit inflation and such an accommodative starting point for monetary policy, there are few precedents to indicate how such strong inertia in prices can be contained without having a significant impact on economic activity. This is particularly the case in the US, where the members of the Fed are warning that monetary policy will need to be in restrictive territory in 2023, with interest rates above 3.5%. Following this move, the yield curve has inverted (2 years/10 years), reflecting expectations of a contraction in economic activity over the winter which would allow inflation to be tamed and would lay the ground for a new process of rate cuts, potentially even before the end of 2023.

In short, the debate in recent weeks has focused on assessing the likelihood of a global recession. However, we must bear in mind that a recession is more than just a phase of below-potential growth or a fall in GDP over a couple of quarters, because the drop in economic activity must be deep, lasting, widespread across the economy, and it must affect income, production and employment. It is true that the signs of slowdown are clear, and a new supply shock triggered by a cut in gas supplies to Europe would be the final blow to the business cycle. However, right now a global recession is by no means a certainty, at least as long as the labour markets remain strong and the financial markets continue to assimilate the shift in monetary policy in an orderly manner, that is, without an increase in instability. In this regard, one particularly important issue in the short term will be the design of the ECB's new tool, just as the most expansive monetary programme in Europe's history is being brought to a close. This is not a simple assignment during the height of the summer season for the European monetary authority.

José Ramón Díez
July-August 2022

Chronology

JUNE 2022

26 G7 summit in Germany where the war in Ukraine and energy were top of the agenda.
28 NATO summit in Madrid where Russia is identified as the greatest direct threat.
30 Russia makes gains in establishing control of the Donbas.

APRIL 2022

1-31 The Russia-Ukraine war continues as Russia suspends gas supplies to Bulgaria and Poland.
China places numerous cities in lockdown to curb the new COVID outbreak.
24 Emmanuel Macron is re-elected president of France.

FEBRUARY 2022

1-23 Escalation of tensions between Russia and the West over military manoeuvres on the Russian-Ukrainian border.
24 Russian invasion of Ukraine.
Start of international sanctions on Russia.

MAY 2022

7 The Taliban make the Islamic face veil compulsory for women.
22-26 World Economic Forum in Davos.
25 Mass shootings at a US elementary school.

MARCH 2022

1-31 The war in Ukraine, the peace negotiations and the sanctions continue.
Refugee crisis (more than 4 million Ukrainians have taken refuge outside Ukraine).
23 The Taliban maintain the ban on women's secondary education.

JANUARY 2022

1 Sixth wave of COVID in Spain.
23 A Taliban delegation begins talks with European powers and the US in Oslo.
24 The James Webb telescope reaches its final destination from which it will study the origins of the universe.

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1 Portugal: industrial production (May).
4 Spain: registration with Social Security and registered unemployment (June).
5 Portugal: new lending (May).
11 Spain: financial accounts (Q1).
Portugal: international trade (May).
15 China: GDP (Q2).
21 Governing Council of the European Central Bank meeting.
Portugal: non-financial private sector lending (May).
26 Spain: loans, deposits and NPL ratio (May).
26-27 Federal Open Market Committee meeting.
28 Spain: labour force survey (Q2).
Euro area: economic sentiment index (July).
US: GDP (Q2).
29 Spain: GDP flash estimate (Q2).
Spain: CPI flash estimate (July).
Spain: state budget execution (June).
Portugal: GDP flash estimate (Q2).
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1 Portugal: industrial production (June).
2 Spain: registration with Social Security and registered unemployment (July).
5 Spain: industrial production (June).
10 Portugal: employment (Q2).
Portugal: turnover in services (June).
15 Japan: GDP (Q2).
18 Spain: foreign trade (June).
26 Spain: loans, deposits and NPL ratio (June).
Portugal: DBRS rating.
30 Spain: CPI flash estimate (August).
Euro area: economic sentiment index (August).
31 Portugal: GDP breakdown (Q2).
Portugal: CPI flash estimate (August).

Will the Spanish economy hold out?

Will the Spanish economy hold out or end up slipping into recession? That is the question on everyone's lips right now. Since we began using Google, never before have we written the word «recession» so often in the search bar. The level of concern has surged throughout the world, including in Spain. In our case, the latest published data show an economy that is maintaining a buoyant growth rate, especially given the difficult current context. However, the fronts that loom on the horizon have fuelled fears that the recovery could end up being derailed, and we are forced to revise our forecast scenario for the Spanish economy.

For the time being, there are particularly encouraging signs from both the rate of job creation and the quality of the employment being generated. In June, the number of jobs created was higher than expected, with an increase of over 75,000 people in seasonally adjusted terms (almost double the average of the previous five months), and the number of people employed hit a new record high. What we see on the horizon offers little cause for optimism, but these good figures should not go unnoticed. It is true that the bulk of the employment was generated in the services sector, especially thanks to the strength of the tourist season, but the other sectors are also showing higher levels of employment than before the pandemic. In addition, there is a sustained reduction in the temporary employment rate, which has been one of the major challenges of the Spanish economy for decades. Thanks to the improvement in the quality of employment being generated, it has fallen by 7 pps compared to June last year and now stands at 20% – an unthinkable milestone until only recently.

The strength of the labour market is one of the key aspects underpinning household consumption, which despite the increase in inflationary pressures has remained buoyant throughout Q2. According to CaixaBank Research's consumption tracker, spending with CaixaBank cards in Q2 was 13% higher than in the same quarter of 2019, compared to 10% higher in Q1. Expenditure was particularly strong in the retail sector, as well as in leisure, catering and hospitality.

Tourism, which was one of the sectors hardest hit during the crisis and which also experienced difficulties getting back off the ground due to the continued restrictions on international mobility, has finally joined the broad economic recovery. Over the past few months its buoyancy has become evident and it is exceeding our good expectations. This is evidenced by the rapid recovery of spending with foreigners' bank cards registered on CaixaBank POS terminals, as well as by the international flight data, despite the restrictions imposed in some countries. In addition, the high number of Google searches for terms related to travel to Spain suggests that the sector will continue to enjoy a dynamic recovery in the coming months.

All this suggests that the GDP growth rate in Q2 could be higher than our forecast of 0.4% quarter-on-quarter. In Q3, the good tourist season will most likely ensure that the pace of growth remains relatively strong. Despite the growing pessimism, the short-term outlook is relatively positive.

However, as we extend the forecast horizon, the questions mount, as do the fears. On the one hand, it seems that the factors pushing up energy and food prices will persist for longer than expected. Thus, the headline inflation rate could remain at around 8% for the next several months, and we will probably have to wait until the end of the year to see a downward trend. Moreover, the inflationary pressures observed both in Spain and across the euro area as a whole will force the ECB to gradually but steadily raise interest rates over the coming months. All this will erode growth in consumption and investment. Exports will also feel the impact of the slower growth of our trading partners.

The picture certainly does not look encouraging. However, it should be stressed that while all this will likely curb the pace of progress relative to our expectations, the new scenario still reflects positive and fairly solid growth rates in the short and medium term. We continue to anticipate growth for 2022 in excess of 4%. For 2023, the downward revision is substantial, specifically from 3.8% to 2.4%, due to the greater persistence of the inflationary pressures and because that is when the tightening of financial conditions will have an impact. Nevertheless, we continue to anticipate solid growth for the year as a whole, largely thanks to the resilience of the labour market, the pent-up savings, the deployment of the NGEU programme and the consolidation of the tourism sector's expansion.

In order for this scenario to be realised, it is key that the pressures on energy and food prices do not escalate and that the second-round effects are contained. The first factor is not up to us, but the second one is. It is also very important that the process of normalising financial conditions can be carried out gradually and smoothly. To a large extent, the scenario depends on factors that are difficult to foresee, such as which policy China will pursue in combating COVID or what course the war in Ukraine will take. In this regard, it is important that the doubts surrounding the supply of gas from Russia are dissipated in the coming months, or the outlook could deteriorate significantly. The holiday season is finally just around the corner, but it seems that this summer we will not be able to fully disconnect: besides sunbathing, sightseeing or enjoying cultural tours, we will have to keep one eye on political and economic events.

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	3.50	3.75
3-month Libor	3.62	0.90	1.91	0.23	0.21	3.75	3.70
12-month Libor	3.86	1.40	1.97	0.34	0.52	4.00	3.65
2-year government bonds	3.70	0.95	1.63	0.13	0.62	3.25	3.00
10-year government bonds	4.70	2.61	1.86	0.93	1.45	3.50	3.25
Euro							
ECB depo	2.05	0.26	–0.50	–0.50	–0.50	0.75	1.25
ECB refi	3.05	0.82	0.00	0.00	0.00	1.25	1.75
Eonia	3.12	0.47	–0.46	–0.47	–0.49	0.90	1.60
1-month Euribor	3.18	0.58	–0.45	–0.56	–0.60	0.94	1.59
3-month Euribor	3.24	0.74	–0.40	–0.54	–0.58	1.07	1.67
6-month Euribor	3.29	0.88	–0.34	–0.52	–0.55	1.27	1.72
12-month Euribor	3.40	1.07	–0.26	–0.50	–0.50	1.48	1.78
Germany							
2-year government bonds	3.41	0.45	–0.63	–0.73	–0.69	1.40	1.80
10-year government bonds	4.31	1.70	–0.27	–0.57	–0.31	1.75	2.20
Spain							
3-year government bonds	3.62	1.87	–0.36	–0.57	–0.45	1.99	2.35
5-year government bonds	3.91	2.39	–0.09	–0.41	–0.25	2.24	2.59
10-year government bonds	4.42	3.40	0.44	0.05	0.42	3.05	3.30
Risk premium	11	171	71	62	73	130	110
Portugal							
3-year government bonds	3.68	3.66	–0.34	–0.61	–0.64	2.16	2.57
5-year government bonds	3.96	4.30	–0.12	–0.45	–0.35	2.45	2.81
10-year government bonds	4.49	5.03	0.40	0.02	0.34	3.10	3.35
Risk premium	19	334	67	60	65	135	115
EXCHANGE RATES							
EUR/USD (dollars per euro)	1.13	1.28	1.11	1.22	1.13	1.09	1.13
EUR/GBP (pounds per euro)	0.66	0.84	0.85	0.90	0.85	0.85	0.85
OIL PRICE							
Brent ($/barrel)	42.3	81.6	65.2	50.2	74.8	110.0	94.0
Brent (euros/barrel)	36.4	62.9	58.6	41.3	66.2	100.7	82.0

Forecasts

Change in the average for the year versus the prior year average (%), unless otherwise indicated

International economy

	Average 2000-2007	Average 2008-2018	2019	2020	2021	2022	2023
GDP GROWTH							
Global	4.5	3.4	2.9	–3.1	6.1	3.2	3.4
Developed countries	*2.6*	*1.4*	*1.8*	*–4.5*	*5.2*	*2.7*	*1.6*
United States	2.7	1.6	2.3	–3.4	5.7	2.2	1.1
Euro area	2.2	0.8	1.6	–6.5	5.4	2.9	1.7
Germany	1.6	1.3	1.1	–4.9	2.9	1.5	1.6
France	2.2	0.9	1.9	–7.9	6.8	2.2	1.4
Italy	1.5	–0.4	0.5	–9.1	6.6	2.7	1.2
Portugal	1.5	0.3	2.7	–8.4	4.9	6.6	2.0
Spain	3.7	0.5	2.1	–10.8	5.1	4.2	2.4
Japan	1.4	0.5	–0.2	–4.5	1.7	1.8	1.6
United Kingdom	2.6	1.3	1.7	–9.3	7.4	3.6	0.1
Emerging and developing countries	*6.5*	*5.0*	*3.7*	*–2.0*	*6.8*	*3.5*	*4.7*
China	10.6	8.2	6.0	2.2	8.1	3.7	5.2
India	7.2	7.0	4.5	–6.7	9.0	6.7	7.5
Brazil	3.6	1.7	1.2	–3.9	4.6	0.8	2.1
Mexico	2.4	2.1	–0.2	–8.1	4.8	1.9	1.8
Russia	7.2	1.2	2.2	–2.7	4.8	–8.1	–0.3
Turkey	5.5	4.9	0.9	1.8	11.0	3.1	3.4
Poland	4.2	3.5	4.8	–2.1	6.0	5.6	2.6
INFLATION							
Global	4.1	3.7	3.5	3.2	4.7	7.6	4.6
Developed countries	*2.1*	*1.6*	*1.4*	*0.7*	*3.1*	*6.4*	*2.9*
United States	2.8	1.8	1.8	1.3	4.7	7.8	3.2
Euro area	2.2	1.4	1.2	0.3	2.6	7.5	3.4
Germany	1.7	1.4	1.4	0.4	3.2	7.6	3.5
France	1.9	1.3	1.3	0.5	2.1	5.8	2.9
Italy	2.4	1.5	0.6	–0.1	1.9	6.9	3.1
Portugal	3.1	1.2	0.3	0.0	1.3	6.5	2.2
Spain	3.2	0.8	0.7	–0.3	3.1	8.0	2.6
Japan	–0.3	0.4	0.5	0.0	–0.2	1.7	0.9
United Kingdom	1.6	2.4	1.8	0.9	2.6	7.6	3.6
Emerging countries	*6.7*	*5.6*	*5.1*	*5.2*	*5.9*	*8.4*	*5.8*
China	1.7	2.6	2.9	2.5	0.9	1.9	1.8
India	4.5	7.7	3.7	6.6	5.1	5.4	4.5
Brazil	7.3	5.9	3.7	3.2	8.3	10.5	5.1
Mexico	5.2	4.2	3.6	3.4	5.7	7.2	4.5
Russia	14.2	8.2	4.5	3.4	6.7	14.0	7.5
Turkey	22.6	9.1	15.2	12.3	19.6	62.3	26.4
Poland	3.5	1.9	2.1	3.7	5.2	11.2	7.0

Forecasts

Change in the average for the year versus the prior year average (%), 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	4.7	1.5	3.1
Government consumption	5.0	1.0	2.0	3.3	3.1	0.0	0.8
Gross fixed capital formation	5.6	–1.9	4.5	–9.6	4.3	6.7	3.6
Capital goods	4.9	0.0	3.2	–12.9	16.0	12.4	2.5
Construction	5.7	–3.8	7.1	–9.6	–2.8	2.4	4.3
Domestic demand (vs. GDP Δ)	4.4	–0.4	1.5	–9.0	5.0	2.3	2.6
Exports of goods and services	4.7	2.9	2.5	–20.2	14.7	10.9	1.6
Imports of goods and services	7.0	0.1	1.2	–15.2	13.9	5.4	2.2
Gross domestic product	**3.7**	**0.5**	**2.1**	**–10.8**	**5.1**	**4.2**	**2.4**
Other variables							
Employment	3.2	–0.7	2.6	–7.6	6.6	3.8	1.7
Unemployment rate (% of labour force)	10.5	20.0	14.1	15.5	14.8	13.0	12.6
Consumer price index	3.2	0.8	0.7	–0.3	3.1	8.0	2.6
Unit labour costs	3.0	0.3	3.1	5.0	0.8	2.8	2.7
Current account balance (% GDP)	–5.9	–0.5	2.1	0.8	0.9	0.1	1.3
External funding capacity/needs (% GDP)	–5.2	–0.1	2.4	1.2	1.9	1.1	2.2
Fiscal balance (% GDP)[1]	0.3	–6.9	–3.1	–10.3	–6.9	–5.5	–4.8

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	4.5	5.9	2.1
Government consumption	2.3	–0.5	2.1	0.4	4.1	1.7	0.0
Gross fixed capital formation	–0.4	–1.3	5.4	–2.7	6.4	5.1	7.3
Capital goods	3.2	2.7	1.6	–6.2	13.2	–	–
Construction	–1.5	–3.6	7.7	1.6	4.0	–	–
Domestic demand (vs. GDP Δ)	1.3	–0.2	3.0	–5.6	5.2	5.2	2.8
Exports of goods and services	5.2	3.9	4.1	–18.6	13.1	12.8	5.1
Imports of goods and services	3.6	2.4	4.9	–12.1	12.9	8.6	6.7
Gross domestic product	**1.5**	**0.3**	**2.7**	**–8.4**	**4.9**	**6.6**	**2.0**
Other variables							
Employment	0.4	–0.6	1.2	–1.9	2.8	1.7	0.5
Unemployment rate (% of labour force)	6.1	11.8	6.6	7.0	6.6	5.9	5.7
Consumer price index	3.1	1.2	0.3	0.0	1.3	6.5	2.2
Current account balance (% GDP)	–9.2	–3.2	0.4	–1.2	–1.1	–2.2	–1.1
External funding capacity/needs (% GDP)	–7.7	–1.9	1.2	0.1	0.7	2.1	2.1
Fiscal balance (% GDP)	–4.6	–5.6	0.1	–5.8	–2.8	–1.7	–0.7

Forecasts

Fear of recession impacts the financial markets

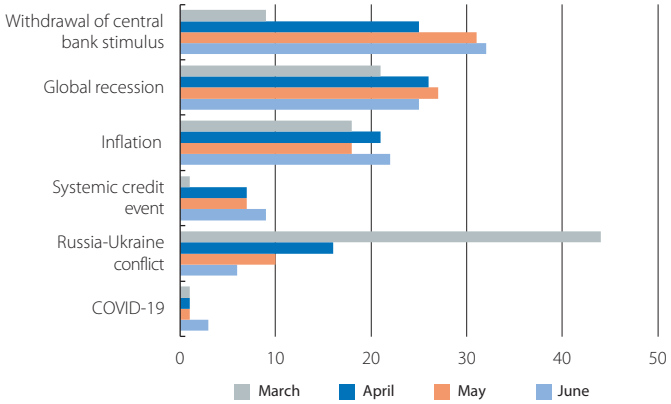
Uncertainty and volatility, a damaging combination for the markets. The deterioration in investor sentiment continued throughout June and early July. The fear of a possible economic recession, aroused by the direction of monetary policy and the persistence of the inflationary pressures, remained one of the main concerns among investors. Pessimism gained ground as the disappointing tone of some macroeconomic data in the major advanced economies contrasted with the determination of monetary policymakers to persist with the withdrawal of the monetary stimulus, and relatively rapidly in the case of the Fed. Positive aspects such as the recovery of economic activity in China, following the strict lockdown imposed in several regions during April and May, did little to stop the narrative of an impending economic recession from spreading to the financial markets and materialising in the form of a new episode of risk aversion. As a result, the global financial markets ended Q2 with their worst performance since March 2020.

The Fed remains steadfast in its battle against inflation. At its June meeting, the monetary authority decided to raise interest rates by 75 bps up to the 1.50%-1.75% range, marking the biggest adjustment since 1994. Although several Fed members had revealed the central bank's plans to raise rates by 50 bps, the CPI rise in May (8.6% year-on-year) and the increase in inflation expectations justified the bigger hike in the fed funds rate. Looking at the dot plot, it appears that the members would consider similar increases appropriate for upcoming meetings, with the aim of placing the official rate above 3% by the end of 2022 and above 4% by 2023. However, in the weeks that followed, Jerome Powell's defence before US Congress of the need to further tighten financial conditions in order to defuse inflation, despite the perceived weakness in some economic indicators, fuelled investors' fears of an economic recession in the coming months. This shift in expectations led to the yield on the 10-year bond falling below 3% and a reduction in the slope of the treasury yield curve.

The ECB is joining the monetary normalisation process, but at a different pace. At its June meeting, although it left interest rates unchanged, the ECB adopted several changes to its monetary policy tools. On the one hand, it clarified its forward guidance for the coming months. It committed to raising rates by 25 bps at its July meeting, and possibly by a further 25 bps in September if the medium-term inflation outlook remains high, while it also stated it would pursue a gradual but sustained pattern of rate hikes over the coming quarters. On the other hand, the entity confirmed it would bring net purchases under the APP to an end from 1 July, the

Survey: what do you consider the biggest downside risk to the financial markets?

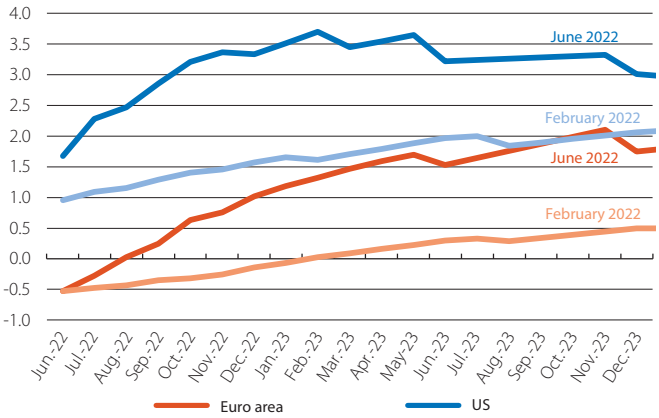
(% of total respondents)



Note: *Survey of 288 asset managers in different countries in the first weeks of the month in question.*
Source: *CaixaBank Research, based on data from the Bank of America Global Fund Manager Survey.*

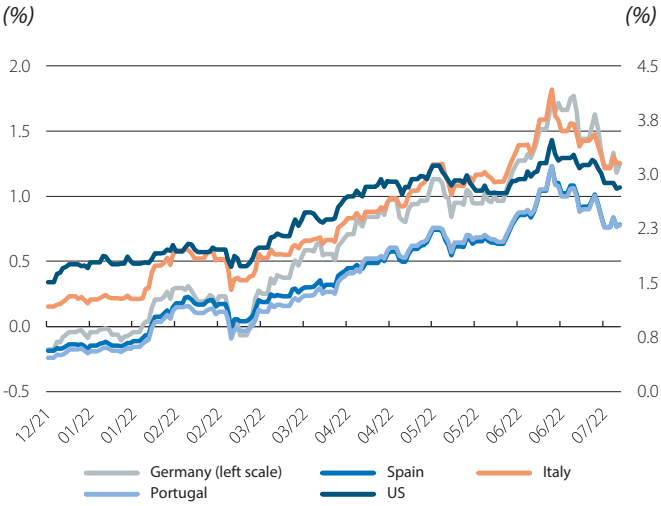
Expectations for ECB and Fed reference interest rates

(%)



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

Yields on 10-year sovereign debt



Notes: *US, Spain, Italy and Portugal, right-hand scale. Data as of 6 July 2022.*
Source: *CaixaBank Research, based on data from Bloomberg.*

earliest date allowed by the statements made at previous meetings. Christine Lagarde's hawkish tone, combined with the lack of details regarding possible tools for preventing the euro area's financial fragmentation, prompted a rise in yields on the region's sovereign bonds, particularly in the case of the periphery countries. In the face of the surge in risk premiums in these countries, the monetary authority called an urgent meeting to discuss the possibility of introducing an «anti-fragmentation» tool to safeguard financial stability. Investors welcomed the ECB's response and debt spreads narrowed, despite the lack of details from the institution and the incipient deterioration in euro area growth expectations.

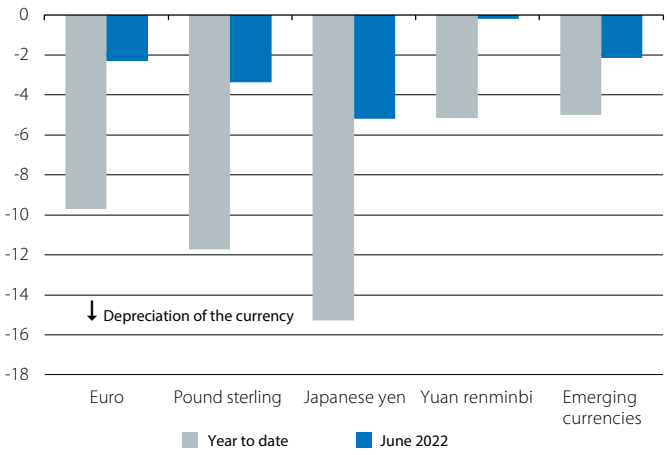
Fear of recession plunges the euro to a 20-year low. The increased restrictions in the flows of Russian natural gas to Europe in the closing weeks of June exacerbated investor fears regarding the risk of economic recession in the euro area. This, the weakness observed in the region's economic activity surveys, as well as the difference in the pace of monetary normalisation between the euro area and the US favoured the depreciation of the euro against the dollar, bringing it to 1.02 on 6 July, the lowest level since 2002. Furthermore, the dollar's position as a safe-haven asset accentuated its strength against the rest of the G10 and emerging currencies.

Energy prices remain in the spotlight. The risk of recession and the uncertainty associated with developments in the war in Ukraine continued to drive the evolution of European oil and gas prices. Investors' concerns regarding the impact of an economic recession on global demand for oil overpowered the current supply-side tensions (most notably OPEC's production limits and the Western sanctions on Russian crude oil), driving down the price of a barrel of Brent to 100 dollars on 6 July. However, in the case of natural gas, the 40% reduction in the flow of Russian gas to Germany during the stockpiling season, coupled with the doubts surrounding the flows over the winter, drove up the price of TTF natural gas by more than 100% between 14 June and 6 July.

Risk aversion weighs heavily on the stock markets. The context of uncertainty and volatility had a negative impact on the major stock market indices, with the S&P 500 registering its worst half since 1970, having accumulated a 20% decline between the beginning of the year and 6 July. The rotation of portfolios towards more defensive stocks was not enough to prevent the EuroStoxx 50 from ending June down nearly 9%. The weakening of the economic indicators, the hawkish rhetoric of the central banks and the persistent high commodity prices prompted many listed companies to issue warnings of a possible deterioration in their margins over the coming quarters. In fact, the analyst consensus has begun to revise down its earnings forecasts for the coming quarters, which will also weigh on investor sentiment.

Currencies against the US dollar

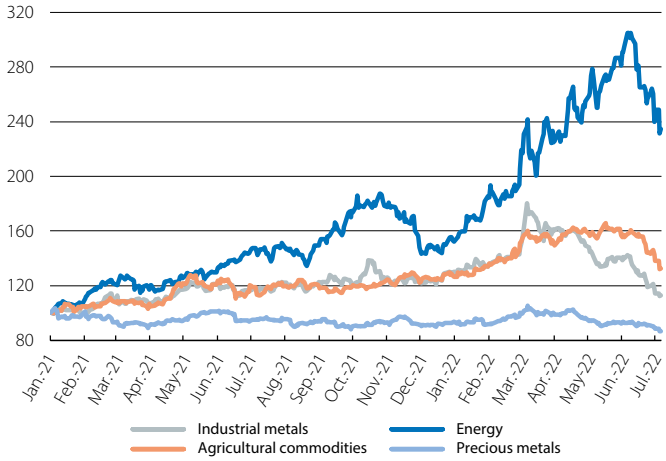
(%)



Note: *The «year to date» figures cover the period up to 5 July 2022.*
Source: *CaixaBank Research, based on data from Bloomberg.*

Commodity prices

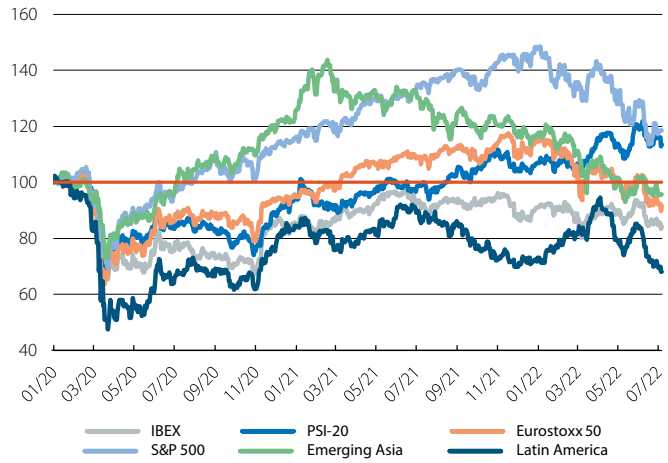
Index (100 = January 2021)



Note: *Data as of 6 July 2022.*
Source: *CaixaBank Research, based on data from Bloomberg.*

Major international stock markets

Index (100 = January 2020)



Note: *Data as of 6 July 2022.*
Fuente: *CaixaBank Research, based on data from Bloomberg.*

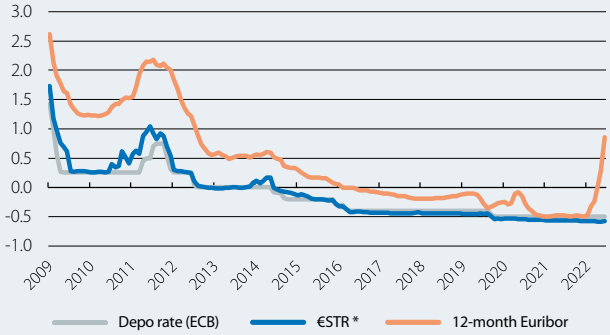
Questions and answers about the Euribor

The ECB has responded to the intensification of inflationary pressures in the euro area with a plan to phase out the monetary stimulus: first, by bringing net asset purchases to an end at the beginning of July, and second, by gradually raising official interest rates, with a view to ending the period of negative rates in Q3 2022.

The financial markets have reacted to the ECB's actions by tightening financial conditions in the region. In this article we will focus on the interbank markets and their benchmark indicator, the Euribor, which in its 12-month term has risen from –0.50% at the end of 2021 to over 1.0% in the second half of June, its highest level since early 2014. We will look at why the Euribor has increased, what we can expect over the coming months, and what impact this rebound has on the economy, among other questions.

Euro area: deposit facility rate and interbank rates over different terms

(%)



Notes: ** The €STR has existed since October 2019. For periods prior to this date, we use the current definition of the EONIA (EONIA = €STR + 0.085 pps). Data corresponding to the monthly average of daily observations.*
Source: *CaixaBank Research, based on data from Bloomberg.*

What is the Euribor?

The Euribor is the Euro Interbank Offered Rate, that is, the interest rate at which banks lend money to one another at different maturities (one week, one month, three months, six months and one year).[1] To calculate the Euribor, the panel of banks (currently 18 of them) report each day to the European Money Markets Institute (EMMI) the rate at which these loans have been made, and for each of the maturities the average is calculated, excluding the most extreme observations. For overnight loans, the reference rate is known as the €STR and is calculated by the ECB using a methodology similar to that used by the EMMI for the various Euribor rates.

What is the relationship between the 12-month Euribor and the ECB?

The ECB does not set the Euribor, but its decisions determine it. We could say that today's 12-month Euribor in some way reflects the average at which shorter-term rates, such as the overnight €STR rate, are expected to be over the next 12 months, plus a premium.[2] The €STR, in turn, is closely linked to the interest rate on the deposit facility (known as the deposit facility rate, or depo rate), which is set by the ECB. Therefore, when the depo rate increases (or decreases), so does the €STR, by around the same magnitude. The 12-month Euribor depends on what the financial markets expect to happen with the ECB's official interest rates.

1. These are unsecured loans, meaning there is no collateral to guarantee the repayment of the principal and interest at maturity.
2. This premium reflects various elements, such as the anticipated counterparty risk, the level of liquidity in the financial system and uncertainty surrounding monetary policy, among others.

In addition to affecting the Euribor through depo-rate expectations, the ECB also influences it in the evolution of the time premium. For instance, the ECB's term-based financing operations, such as its TLTROs, have increased liquidity in the interbank markets, which in turn has tended to reduce the time premium and, consequently, the Euribor.

Why has the Euribor rebounded in 2022?

The increase in the 12-month Euribor since the beginning of the year has been driven by a significant shift in market expectations regarding how the ECB will act in response to the high and very persistent inflation rates in the euro area (8.6% in June). Thus, the implict rates in the money markets on the €STR, which reflect what the financial markets expect to happen with the depo rate, have increased substantially in 2022 (see second chart). In other words, whereas in mid-January these implicit rates placed the first ECB rate hike in February 2023, by the end of June they were anticipating that it would occur this very July while also anticipating hikes of 1.25 pps before the end of 2022. In fact, these implicit rates have been unusually volatile in recent weeks.

Will the Euribor's upward trajectory continue over the coming months?

To the extent that investors' expectations regarding the ECB's course of action are met, the 12-month Euribor will continue to climb. In fact, in our baseline scenario, we expect the 12-month Euribor to rise to 1.8% by the end of 2023, slightly below what the financial markets expect (2.0% by mid-2023, according to implicit rates by end-June). This difference is mainly due to the number of

rate hikes we anticipate compared to the markets' expectations. Whereas at CaixaBank Research we expect the ECB to raise the deposit facility rate to 1.25% by the end of 2023, the markets expected by end-June it to reach at least 1.5%.

However, if these expectations are not met but instead, for example, the ECB raises interest rates more aggressively, then the 12-month Euribor could rise beyond those projections. Similarly, if the normalisation of official interest rates were interrupted by a sharp slowdown in economic activity with disinflationary effects, then the 12-month Euribor's upward trajectory would be more moderate.

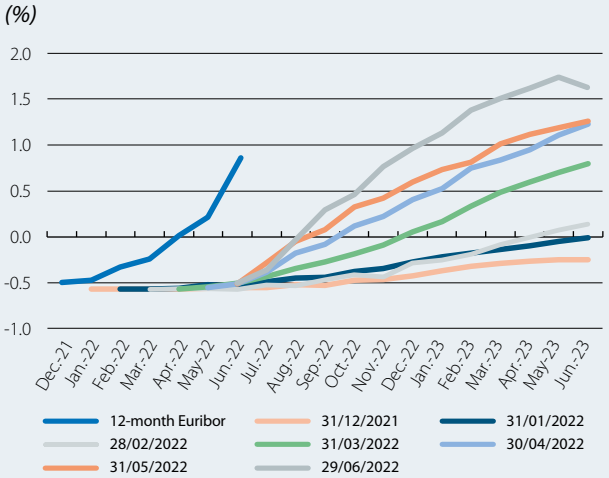
How important is the Euribor to the day-to-day life of households and businesses?

The Euribor's importance is due to its role as a benchmark index for a large portion of private debt, both for households and businesses. In fact, the Euribor is used as a benchmark in mortgages, syndicated loans and variable-rate debt issues, among other financial instruments.

In the case of mortgages, the Spanish Mortgage Association estimates that approximately 3.7 million mortgages in Spain (out of a total of 5.5 million, or about three quarters) use the 12-month Euribor as a benchmark rate. Normally, the interest rate on these loans is revised at least once a year, meaning that households' mortgage payments will be affected. In a recent article, we provided an illustrative example of the impact of the rise in the Euribor on mortgage payments. Thus, if the Euribor were to climb to 1.8%, the theoretical mortgage burden would increase from 33.4% in Q4 2021 to around 38% in Q4 2023.[3]

Ricard Murillo Gili and Antonio Montilla

Observed 12-month Euribor and implicit rates on the €STR



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

3. The mortgage burden is the percentage of income that the median household has to allocate to servicing mortgage payments in the first year after the acquisition of a typical home financed by a standard loan for 80% of the property value. See «How long can the real estate sector's upward trend last?» in the *Real Estate Sector Report*: 1st Semester 2022.

Interest rates (%)

	30-June	31-May	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	–0.20	–0.34	14	37.7	35.1
1-year Euribor	1.04	0.39	65	153.8	152.2
1-year government bonds (Germany)	0.41	0.05	36	105.3	103.7
2-year government bonds (Germany)	0.65	0.50	15	126.9	132.0
10-year government bonds (Germany)	1.34	1.12	21	151.3	157.1
10-year government bonds (Spain)	2.42	2.23	20	185.8	205.3
10-year government bonds (Portugal)	2.42	2.26	16	195.0	206.8
US					
Fed funds (upper limit)	1.75	1.00	75	150.0	150.0
3-month Libor	2.29	1.61	67	207.6	214.7
12-month Libor	3.62	2.74	88	303.6	337.5
1-year government bonds	2.74	2.05	69	236.6	268.4
2-year government bonds	2.95	2.56	40	222.1	272.0
10-year government bonds	3.01	2.84	17	150.3	158.9

Spreads corporate bonds (bps)

	30-June	31-May	Monthly change (bp)	Year-to-date (bp)	Year-on-year change (bp)
Itraxx Corporate	119	88	31	71.2	73.1
Itraxx Financials Senior	128	97	31	73.6	75.1
Itraxx Subordinated Financials	245	184	61	137.4	145.8

Exchange rates

	30-June	31-May	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
EUR/USD (dollars per euro)	1.048	1.073	–2.3	–7.8	–11.6
EUR/JPY (yen per euro)	142.260	138.110	3.0	8.7	8.0
EUR/GBP (pounds per euro)	0.861	0.852	1.1	2.3	0.3
USD/JPY (yen per dollar)	135.720	128.670	5.5	17.9	22.2

Commodities

	30-June	31-May	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
CRB Commodity Index	596.7	629.5	–5.2	3.2	7.6
Brent ($/barrel)	114.8	122.8	–6.5	47.6	52.8
Gold ($/ounce)	1,807.3	1,837.4	–1.6	–1.2	1.1

Equity

	30-June	31-May	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
S&P 500 (USA)	3,785.4	4,132.2	–8.4	–20.6	–13.0
Eurostoxx 50 (euro area)	3,454.9	3,789.2	–8.8	–19.6	–15.4
Ibex 35 (Spain)	8,098.7	8,851.5	–8.5	–7.1	–9.1
PSI 20 (Portugal)	6,044.6	6,257.5	–3.4	8.5	17.4
Nikkei 225 (Japan)	26,393.0	27,279.8	–3.3	–8.3	–8.3
MSCI Emerging	1,000.7	1,077.7	–7.1	–18.8	–26.2

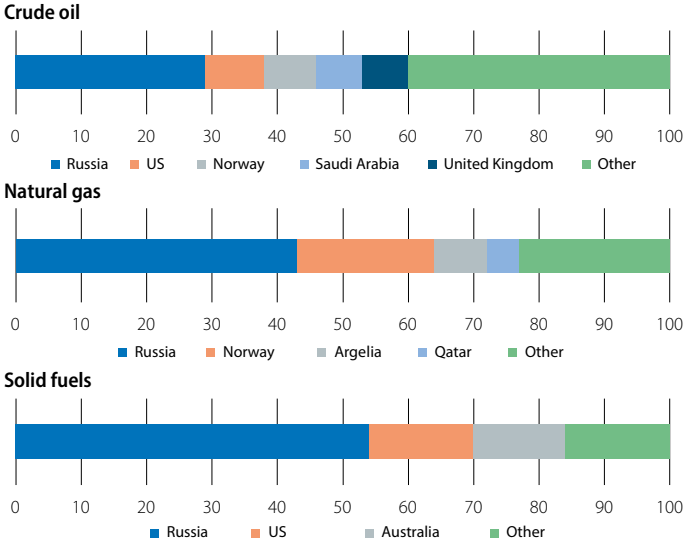
A stormy autumn lies ahead

The war in Ukraine continues to constrain the international context, not only because of the heightened uncertainty but also due to the consequences of oil and gas becoming «weaponised». Indeed, Western powers are seeking to limit Russian energy exports in an effort to reduce the country's financial resources, while the EU is seeking alternatives in order to reduce its dependence on Russian energy. Russia, meanwhile, is responding by seeking alternative markets for its crude oil (mainly India and China), while cutting its gas exports to Europe. These dynamics are introducing significant volatility into the energy markets and uncertainty into the economic outlook, with oil and gas prices sky-rocketing, having accumulated increases of over 130% and 45%, respectively, so far this year up to the beginning of July.

The global economy is in one of the most difficult moments of the last 40 years. Central banks face the difficult challenge of getting the current high inflation under control, in an attempt to get the economy to make a «soft landing». However, the aggressiveness of the rate hikes that are anticipated (especially in the large developed economies) in order to contain inflation expectations raises the risk that the much-feared stagflation could materialise in 2023. This is not our baseline scenario yet, although the expectations of higher inflation and interest rates explain the revision of our forecast scenarios across the board. In our case, we have raised our inflation expectations in all countries and regions, both for 2022 and for 2023. We have also substantially cut our growth forecasts for the US and the euro area for next year, which would reduce the growth expected in 2023 for developed countries as a whole by 0.7 pps, to 1.6%. The forecast for emerging markets in 2023, meanwhile, remains unchanged at the 4.7% published in June. In fact, the higher growth expected in the case of energy and agricultural exporters, thanks to the sharp rise in the price of these products, will offset the deterioration of net importers, while we keep China's growth forecast for next year unchanged at 5.2%. As a result, we continue to expect global growth of 3.2% in 2022, while we have revised the estimate for 2023 down by 0.3 pps to 3.4%.

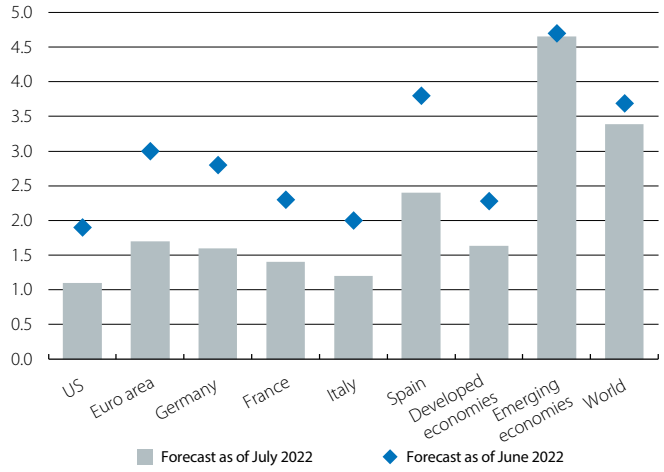
In the US, the indicators point to a certain improvement in economic activity in Q2, although the risks remain high. Following a disappointing start to the year (–0.4% quarter-on-quarter in Q1), the economy could feasibly grow at around 0.5% in Q2. Consumption will remain very strong, supported by a robust labour market (the unemployment rate stands at just 3.6%) and the use of the savings accumulated by households in previous months (the savings rate dropped to 5.4% in May, compared to 8.0% in Q4 2021) (see the Focus «US: how can the pent-up savings support the economy?» in this same report). However, the disappointing performance of the main sentiment indicators in June cools expectations for

EU: main energy suppliers
(% of the total for each product type)



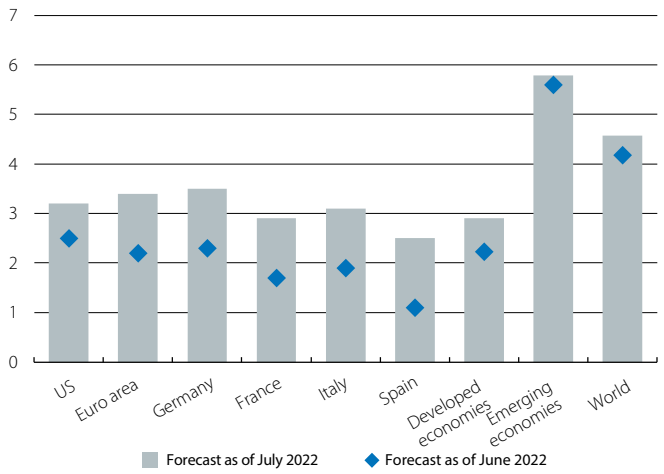
Source: *CaixaBank Research, based on data from the European Commission.*

Global: 2023 GDP
Annual change (%)



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

Global: 2023 inflation
(%)



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

the end of this year. Much of this less optimism is driven by fears fuelled by the continued rise in costs and the high inflation (in May, headline inflation stood at 8.6%, with core inflation at 6.0%), as well as the sharp tightening of financial conditions by the Fed.

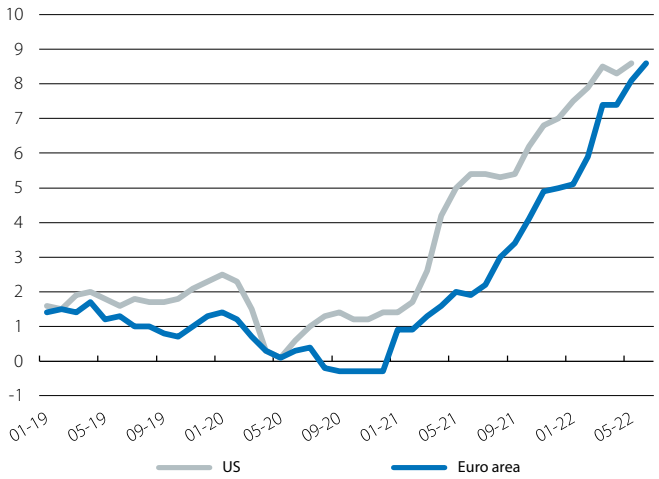
In fact, we revised up our forecasts for average headline inflation both in 2022 (+0.8 pps to 7.8%) and in 2023 (+0.7 pps to 3.2%), accompanied by a further upward revision in the case of interest rates. Moreover, the Fed has reiterated its commitment to controlling inflation, even if that raises the risk of recession – something which the financial markets are beginning to treat as highly likely. In this context, we are once again revising our growth forecasts downwards: –0.2 pps, to 2.2% in 2022, and –0.8 pps, to 1.1% in 2023. In the quarterly profile we anticipate a sharp cooling of economic activity this winter.

The euro area faces major challenges in the coming months. The main confidence indicators in June remain around the low levels which they fell to in March following the invasion of Ukraine. In addition, in June some opinion polls have started to indicate a slowdown in the services sector, which up until now had enjoyed a good outlook thanks to the lifting of COVID-related restrictions and the possibility of the first «normal» summer since the outbreak of the pandemic. In this regard, the increase in the price of services is also a worrying development, as it indicates that inflation is filtering from goods through to the rest of the consumer price index basket: in June, headline inflation reached 8.6% and core inflation, 3.7%. As a result, we are once again revising our forecast for headline inflation upwards: by 0.7 pps, to 7.5% for the 2022 average, and by 1.2 pps, to 3.4% for 2023.

This cocktail of high inflation and higher interest rates explains the 1.3-pp downward revision of our growth projection for the euro area in 2023, bringing the figure to 1.7%, following the 2.9% forecast for this year. For the time being, we expect that the euro area will be able to avoid a recession thanks to the buoyancy of the labour market, the savings accumulated during the pandemic and the national fiscal measures implemented to offset the rise in inflation, although we expect it to virtually stagnate in Q4 2022 and Q1 2023. However, the risks are clearly concentrated on the downside, especially when we consider the far from negligible possibility of Russia cutting off gas supplies to the region.

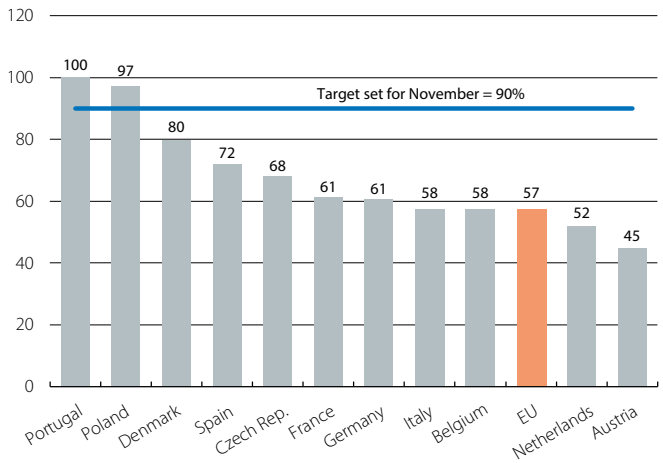
EU countries are accelerating the process of accumulating their gas inventories in an effort to meet the target of reaching 90% of the maximum storage capacity by November (below 60% at the beginning of July). Germany is among the countries most at risk, as Russian gas accounts for over 60% of its total consumption. This is why the German government has already activated the second of three levels under its national energy emergency plan and is urging the population to reduce its energy consumption.

US and euro area: CPI
Year-on-year change (%)



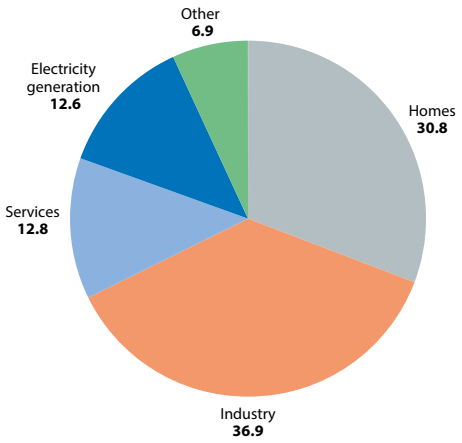
Source: *CaixaBank Research, based on data from the BLS and Eurostat.*

*EU: gas storage **
(% of total capacity)



Note: ** Data as of 27 June 2022.*
Source: *CaixaBank Research, based on Aggregated Gas Storage Inventory data.*

Germany: gas consumption by sector
(% of total gas imports)



Source: *CaixaBank Research, based on data from ECONtribute. Policy Brief n° 028.*

US: how can the acccumulated savings support the economy?

The sharp drop in US consumption, especially in the months of strict mobility restrictions, coupled with the strength of personal incomes, thanks to the massive rounds of fiscal stimulus implemented in 2020 and early 2021, led to an unprecedented increase in the household savings rate: from around 8% before the pandemic to a peak above 30% in the spring of 2020 (see first chart).

Although the savings rate today is well below pre-pandemic levels (5.4% in May), the fact is that the savings accumulated during 2020 and 2021 could continue to support consumption in the remainder of 2022 and in 2023. But how much are we talking about?

Excess savings: accumulated or spent?

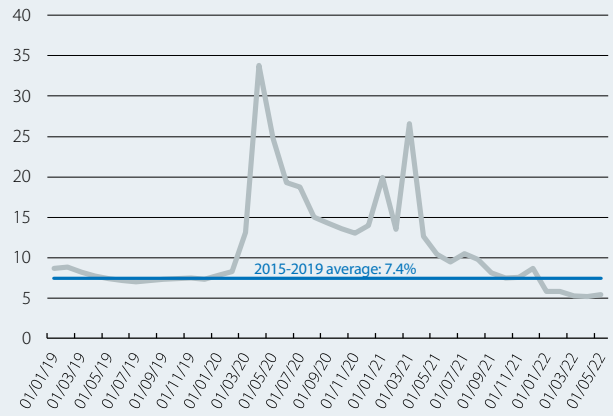
The first step is to estimate what has been referred to as «excess savings». Just to recap, savings is a flow variable and is defined as the difference between households' gross disposable income and their total expenditure (private consumption, debt service payments and other outlays). In order to estimate the volume of the accumulated savings, we calculated the difference between the levels of disposable income and expenditure observed with those that would have occurred in the absence of the pandemic, that is, the counterfactual levels if the average growth rate observed in the five years prior to the pandemic had been maintained (see second chart).

This quantification shows that households amassed approximately 2.5 trillion dollars in excess savings between Q1 2020 and Q3 2021 (12% of GDP). This is a very large amount and clearly more than in other advanced economies, where substantial public-sector subsidies were also deployed to mitigate the impact of the pandemic on households (though less generous than in the US). As an example, in the euro area as a whole, these excess savings are estimated to amount to just over 0.8 trillion euros (7% of GDP), while in the case of Spain it could be about 85 billion euros (also around 7% of GDP).[1]

US households, however, have already used some of these excess savings to finance higher levels of consumption since the beginning of 2022, in response to the rise in inflation. Specifically, according to our estimates, the portion already used would amount to some 100 billion dollars, or just under 5% of what had previously been accumulated. If this trend continues, it would take four to five years for households to spend all of their excess accumulated savings, meaning a total of 500 billion per year (around 2.4% of GDP) during 2022 and 2023.

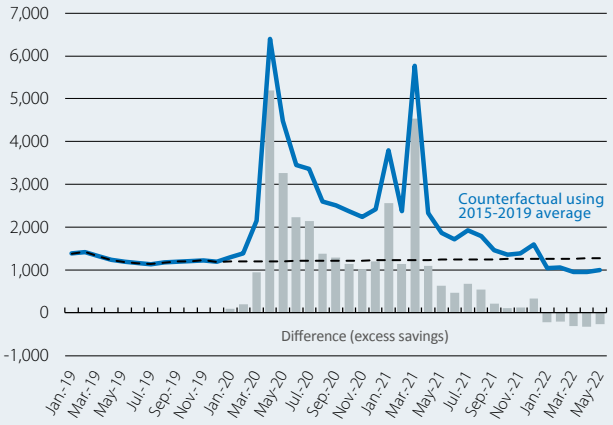
1. These figures can vary slightly depending on the methodology used. For example, in the case of Spain, the figure ranges between 70 billion euros and the 85 billion mentioned.

US: household savings rate
(% of gross disposable income)



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

US: volume of household savings
*(USD billions) **



Note: ** Monthly figures expressed in annualised terms.*
Source: *CaixaBank Research, based on data from the Bureau of Economic Analysis.*

How much could households continue to spend in the coming quarters?

However, the relationship between consumption and the accumulated savings is neither constant nor directly proportional. A number of factors influence this relationship, so we must analyse them in order to answer the question of how much support the pent-up savings could really provide to consumption over the coming quarters.

The first factor to consider is how households have distributed these savings among the various available assets, since their differing degrees of liquidity point towards a different short-term consumption capacity.

In this regard, although flows to equities and mutual funds, as well as new mortgages, were above their respective most recent historical averages, the bulk of the excess savings was allocated to deposits and cash – highly liquid assets (see third chart). This distribution ought to favour a willingness to spend those savings. However, this does not seem to be happening.

A second aspect to consider is the distribution of the excess savings among households according to their level of wealth, since lower-income households have a high marginal propensity to consume, while the opposite is true for higher-income households.[2] Thus, at this point, we would need to estimate the current distribution of the excess savings and the marginal propensities to consume according to household income, in both cases.

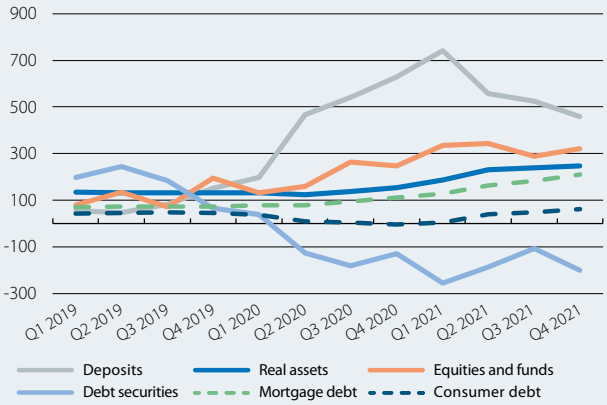
With regards to the distribution, various studies show that the highest-income US households (the top 20%)[3] may have accounted for between 40% and 65% of the excess savings. Given their lower marginal propensity to consume, this would provide a smaller boost to consumption than if the distribution had been more proportional across all households. As for the propensities to consume, various studies provide very different figures. While a 2019 analysis by the Boston Federal Reserve estimated them to be [0.218; 0.166; 0.002; 0.002; 0.015], from the lowest income percentiles to the highest; another conducted by Penn Wharton in 2021 placed them in a much higher range, considering the particularities surrounding the current situation marked by the pandemic: [0.55; 0.40; 0.22; 0.13; 0.12].

If we consider these latter propensities, as they are more aligned with the current situation, and a distribution of the savings in line with the one mentioned above, we estimate that households could spend around 525 billion dollars (in nominal terms), i.e. 20% of the total accumulated extra savings. In this regard, and given that 100 billion dollars have already been spent, there would be a further boost of 425 billion still to materialise in the coming quarters (around 1.8% in GDP terms).

However, this figure is also dependent on a third element, namely confidence. The willingness of households to draw on their pent-up savings will also depend on their expectations regarding their future economic and financial situation. In this regard, and according to the survey by the University of Michigan, the economic outlook for consumers deteriorated in June to its lowest level since 1980, and this could lead to greater caution when it comes to using this financial buffer, at least in the short term.

US: net inflows in household assets and liabilities

*(USD billions) **



Notes: ** Four-quarter moving average. «Deposits» includes cash, demand deposit accounts and savings accounts.*
Source: *CaixaBank Research, based on data from the Board of Governors of the Federal Reserve System (Flow of Funds).*

Soft(ish)-landing scenario

On balance, and according to our analysis, the pent-up savings could represent additional consumption of around 400 million dollars (in real terms) over the coming year and a half, starting from a level of total accumulated savings equivalent to 12% of GDP following the pandemic. Combined with the strength of the labour market, this support factor (which represents around 1.5% of GDP) will, in our view, allow US households to largely circumvent the negative effects of the current high inflation and the financial stress triggered by the Federal Reserve's rapid withdrawal of the monetary stimulus.

That said, the existence of this savings buffer does not mean that the US economy cannot experience a sharp slowdown. Indeed, we can expect the tension in financial conditions and the fall in stock market indices (20% so far this year) to have a negative impact on consumption in the coming quarters.[4] However, the accumulated buffer, together with the recovery of the labour market and robust household finances, should serve to avoid a deep and lasting cooling of economic activity.

Clàudia Canals and Antonio Montilla

2. This means that an increase in disposable income leads to a greater increase in consumption among lower-income households.
3. Between the 80th and the 100th percentiles.

4. The Federal Reserve estimates that the wealth effect of each dollar of net worth that is lost results in a decrease in private spending of between 3.5 and 5 cents. See https://www.federalreserve.gov/pubs/feds/2001/200121/200121pap.pdf.

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

UNITED STATES

	2020	2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022	04/22	05/22	06/22
Activity									
Real GDP	–3.4	5.7	12.2	4.9	5.5	3.5	–	–	–
Retail sales (excluding cars and petrol)	2.1	17.5	27.5	14.3	16.2	11.2	7.6	7.9	...
Consumer confidence *(value)*	101.0	112.7	122.1	116.7	112.9	108.1	108.6	103.2	98.7
Industrial production	–7.2	4.9	13.7	4.9	4.5	5.0	6.1	5.4	...
Manufacturing activity index (ISM) *(value)*	52.5	60.6	61.0	60.0	60.1	57.8	55.4	56.1	53.0
Housing starts *(thousands)*	1,396	1,605	1,591	1,569	1,679	1,720	1,810	1,549	...
Case-Shiller home price index *(value)*	228	267	262	274	283	299	312	...	...
Unemployment rate *(% lab. force)*	8.1	5.4	5.9	5.1	4.2	3.8	3.6	3.6	3.6
Employment-population ratio *(% pop. > 16 years)*	56.8	58.4	58.0	58.6	59.2	59.9	60.0	60.1	59.9
Trade balance [1] *(% GDP)*	–3.2	–3.7	–3.5	–3.6	–3.7	–4.0	–4.0	...	...
Prices									
Headline inflation	1.2	4.7	4.8	5.3	6.7	8.0	8.3	8.6	...
Core inflation	1.7	3.6	3.7	4.1	5.0	6.3	6.2	6.0	...

JAPAN

	2020	2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022	04/22	05/22	06/22
Activity									
Real GDP	–4.5	1.7	7.3	1.2	0.4	0.4	–	–	–
Consumer confidence *(value)*	31.0	36.3	36.1	37.5	38.3	34.8	33.0	34.1	32.1
Industrial production	–10.6	5.6	18.4	6.6	1.1	–0.6	–3.4	–4.3	...
Business activity index (Tankan) *(value)*	–19.8	13.8	14.0	18.0	18.0	14.0	–	–	–
Unemployment rate *(% lab. force)*	2.8	2.8	2.9	2.8	2.7	2.7	2.5	2.6	...
Trade balance [1] *(% GDP)*	0.1	–0.3	0.6	0.3	–0.3	–1.0	–1.7	–2.2	...
Prices									
Headline inflation	0.0	–0.2	–0.7	–0.2	0.5	0.9	2.4	2.4	...
Core inflation	0.2	–0.5	–0.9	–0.5	–0.7	–0.9	0.8	0.8	...

CHINA

	2020	2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022	04/22	05/22	06/22
Activity									
Real GDP	2.2	8.1	7.9	4.9	4.0	4.8	–	–	–
Retail sales	–2.9	12.4	14.1	5.1	3.5	1.6	–11.1	–6.7	...
Industrial production	3.4	9.3	9.0	4.9	3.9	6.3	–2.9	0.7	...
PMI manufacturing *(value)*	49.9	50.5	51.0	50.0	49.9	49.9	47.4	49.6	50.2
Foreign sector									
Trade balance [1,2]	524	680	604	636	680	732	742	777	...
Exports	3.6	30.0	30.7	24.4	23.1	15.7	3.8	16.8	...
Imports	–0.6	30.1	44.2	25.4	23.7	10.0	–0.1	4.1	...
Prices									
Headline inflation	2.5	0.9	1.1	0.8	1.8	1.1	2.1	2.1	...
Official interest rate [3]	3.9	3.8	3.9	3.9	3.8	3.7	3.7	3.7	3.7
Renminbi per dollar	6.9	6.5	6.5	6.5	6.4	6.3	6.4	6.7	6.7

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

	2020	2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022	04/22	05/22	06/22
Retail sales *(year-on-year change)*	–0.8	5.5	12.7	2.5	4.2	5.2	4.0	0.2	...
Industrial production *(year-on-year change)*	–7.9	8.8	24.4	6.0	0.2	–0.1	–2.0	...	...
Consumer confidence	–14.2	–7.4	–5.6	–4.2	–7.6	–13.6	–22.1	–21.2	–23.6
Economic sentiment	88.3	110.8	111.0	117.3	115.6	111.2	104.9	105.0	104.0
Manufacturing PMI	48.6	60.2	63.1	60.9	58.2	57.8	55.5	54.6	52.1
Services PMI	42.5	53.6	54.7	58.4	54.5	54.1	57.7	56.1	53.0
Labour market									
Employment (people) *(year-on-year change)*	–1.5	1.2	2.1	2.1	2.1	...	–	...	–
Unemployment rate *(% labour force)*	8.0	7.7	8.1	7.5	7.1	6.8	6.7	6.6	...
Germany *(% labour force)*	3.7	3.6	3.7	3.5	3.3	3.0	2.9	2.8	...
France *(% labour force)*	8.0	7.9	8.2	7.7	7.4	7.3	7.2	7.2	...
Italy *(% labour force)*	9.3	9.5	9.8	9.1	9.0	8.5	8.3	8.1	...
Real GDP *(year-on-year change)*	–6.5	5.6	14.7	4.0	4.7	5.4	–	...	–
Germany *(year-on-year change)*	–4.9	3.1	10.4	2.9	1.8	3.8	–	...	–
France *(year-on-year change)*	–7.9	7.2	19.2	3.0	4.9	4.5	–	...	–
Italy *(year-on-year change)*	–9.1	7.0	17.5	4.0	6.4	6.2	–	...	–

Prices

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

	2020	2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022	04/22	05/22	06/22
General	0.3	2.6	1.8	2.8	4.6	6.1	7.4	8.1	8.6
Core	0.7	1.5	0.9	1.4	2.4	2.7	3.5	3.8	3.7

Foreign sector

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

	2020	2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022	04/22	05/22	06/22
Current balance	2.0	2.7	3.3	3.3	2.7	1.9	1.5	...	...
Germany	7.1	7.4	8.1	7.9	7.4	6.7	6.2	...	...
France	–1.8	0.4	–0.6	–0.1	0.4	0.2	0.1	–0.1	...
Italy	3.8	2.4	4.1	3.6	2.4	1.5	1.0	...	...
Nominal effective exchange rate[1] *(value)*	93.9	94.2	94.9	94.0	92.7	92.6	90.4	90.2	90.3

Credit and deposits of non-financial sectors

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

	2020	2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022	04/22	05/22	06/22
Private sector financing									
Credit to non-financial firms[2]	6.3	3.5	2.3	1.8	3.3	4.4	5.2	5.8	...
Credit to households[2,3]	3.2	3.8	3.9	4.1	4.1	4.4	4.6	4.6	...
Interest rate on loans to non-financial firms[4] *(%)*	1.2	1.2	1.2	1.3	1.1	1.2	1.2	1.2	...
Interest rate on loans to households for house purchases[5] *(%)*	1.4	1.3	1.3	1.3	1.3	1.4	1.4	1.5	...
Deposits									
On demand deposits	12.9	12.6	12.4	11.4	10.5	9.1	8.1	7.7	...
Other short-term deposits	0.6	–0.8	–0.6	–2.0	–1.5	–0.3	0.4	0.3	...
Marketable instruments	8.1	11.4	12.2	10.2	9.2	–0.1	1.3	–2.3	...
Interest rate on deposits up to 1 year from households *(%)*	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	...

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

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

The Spanish economy remains buoyant, but the outlook for 2023 darkens

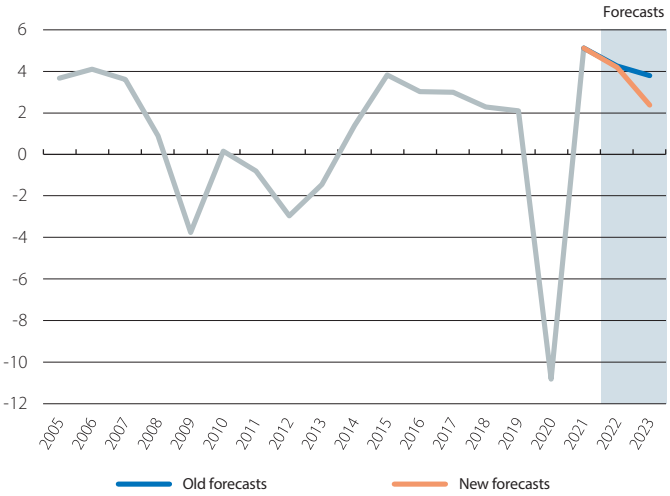
Downward revision of the growth outlook for 2023. The Spanish economy remains buoyant despite the difficult context, spurred on by household consumption and tourism, which is translating into a strong labour market. Nonetheless, the inflation shock is becoming more intense and persistent, both because of the higher energy and commodity prices and due to the indirect effects on the rest of the basket of goods. This persistence of high inflation is driving central banks to tighten financial conditions by more than we expected. In this context, which is also still marked by many sources of uncertainty in the geopolitical sphere, the medium-term outlook has become gloomier. Thus, we have revised our GDP growth forecast for 2023 downwards, and our inflation forecast for both 2022 and 2023 upwards. As for GDP, the two underlying factors – more persistent inflation and the tightening of financial conditions – have led to a 1.4-pp downward revision of growth for 2023, bringing the figure to 2.4%. As such, we now expect GDP to recover to pre-pandemic levels in the second half of 2023.

Upward revision of inflation. For 2022, we expect higher price increases in food, industrial goods, and services, driven by the indirect effects of energy inflation, the surge in tourism demand and a more persistent impact of the bottlenecks. Thus, we anticipate inflation of 8.0% for the year as a whole (+1.2 pps compared to the previous scenario). This forecast has been produced incorporating June's inflation flash indicator, of 10.2%, which is much higher than our previous forecasts had anticipated as a result of the surge in food and fuel prices. Looking ahead to 2023, the revision is substantial and we expect average inflation in the year of 2.6% (previously 1.1%) due to more persistent inflationary dynamics in food and core components (services and industrial goods).

The economy maintains a good tone thanks to tourism and the resilience of the labour market, but the PMIs point to a slowdown in industry and services. The end of the restrictions is enabling a rapid rebound in the tourism sector. In particular, international tourism expenditure in May stood at 8 billion euros, just 1.4% below the figure for May 2019. This marks an improvement over the April figure (–2.2%) when the Easter season was already very positive. This figure points to a booming tourist season this summer, given that 2019 was an exceptionally good year for the sector. With regards to the labour market, the figures for June were once again very encouraging: Social Security affiliation grew by 76,948 workers in seasonally adjusted terms (33,336 in May). For Q2 as a whole, the quarter-on-quarter growth in the number of non-

Spain: real GDP

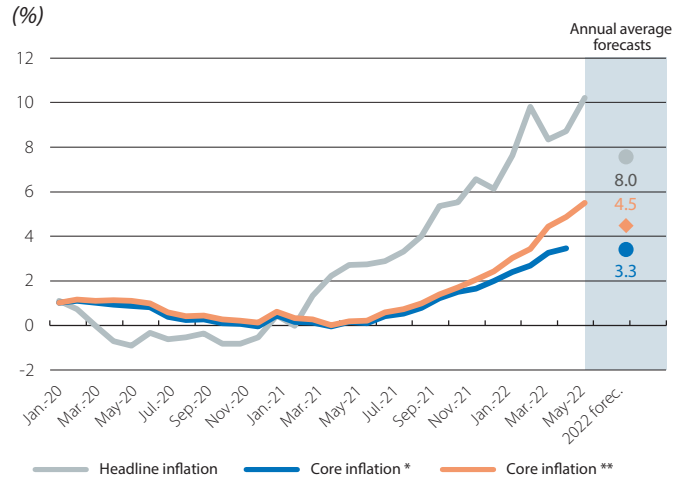
Year-on-year change (%)



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

Spain: inflation forecasts

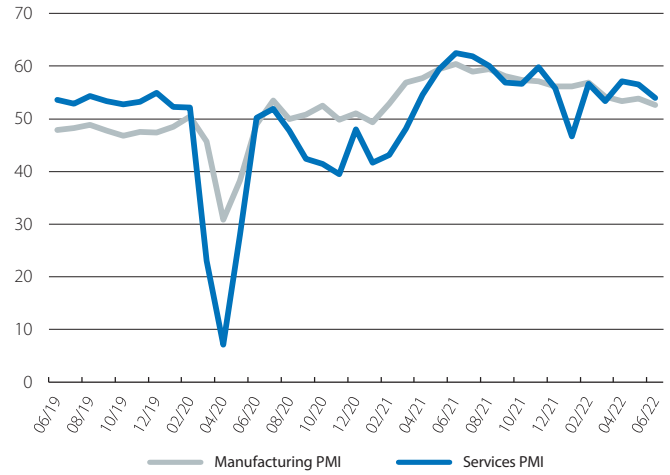
(%)



Notes: ** Excl. energy and all food. ** Excl. energy and unprocessed foods. The 2022 forecast is the annual average.*
Source: *CaixaBank Research, based on CaixaBank data.*

Spain: PMI

Level



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

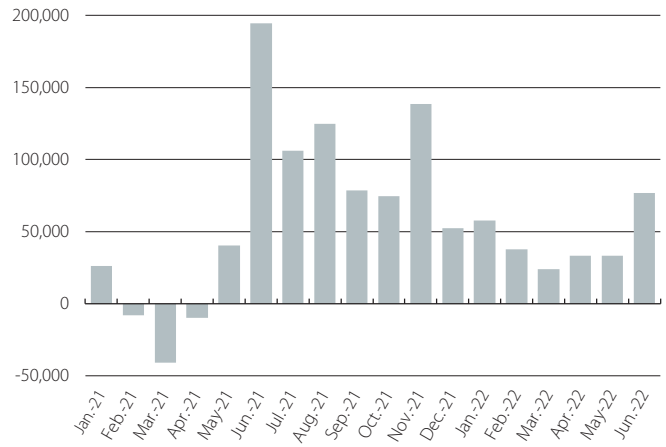
seasonally adjusted registered workers not on furlough was 1%. Our card-spending indicator also suggests there is a recovery in consumption, following the 2.0% quarter-on-quarter decline in Q1. The discordant tone came from the PMIs for June. The services PMI fell 2.5 points, to 54.0 points. The manufacturing sector, meanwhile, was once again affected by rising input prices and the bottlenecks in global supply chains, and the manufacturing PMI fell to 52.6 points, down 1.2 points compared to May. While this figure is above the growth threshold (50 points), it denotes a moderation in the pace of expansion in the sector due to a slowdown in production growth and a decline in new orders.

Real estate market: high price growth in 2022, but with a cooling in sight. The strong demand combined with the increase in the cost of materials and the shortage of supply has led to a significant rise in home prices in Q1 (8.5% year-on-year according to the National Statistics Institute and 6.7% according to the Ministry of Transport, Mobility and Urban Agenda (MITMA)). These higher-than-expected results lead us to increase our growth forecast for home prices based on valuations to 6.0% in 2022 (previously 3.5%). However, over the coming quarters some of the factors that have stimulated demand will lose momentum (slower growth in real household disposable income and rising interest rates), so we expect to see a moderation in both demand and prices. Thus, for 2023 we have revised down our growth forecast from 3.2% year-on-year to 2.2%.

The government announces a new Action Plan which will have an impact on the deficit. The government has announced a new plan aimed at mitigating the impact of high inflation on households. This plan has been allocated a budget of 9.1 billion euros and combines the extension through to December of the measures implemented in April which were due to expire in June – mainly a 20-cent-per-litre fuel rebate for all users (with a fiscal cost of 4 billion) and cuts in electricity taxes (resulting in a 3.6-billion reduction in revenues) – and a set of new measures aimed at the most vulnerable households (a 200-euro cheque for those with low incomes, discounts on public transport from September and a temporary 15% increase in non-contributory pensions). The impact of these measures on the deficit will be 0.5% of GDP. However, the dramatic pull of tax revenues (year-on-year growth between January and May of 16.2%, in like-for-like terms) and the resilience of the labour market act as a counterbalance, such that we maintain our forecast for the budget deficit at 5.5% for 2022.

*Spain: workers registered with S.S. **

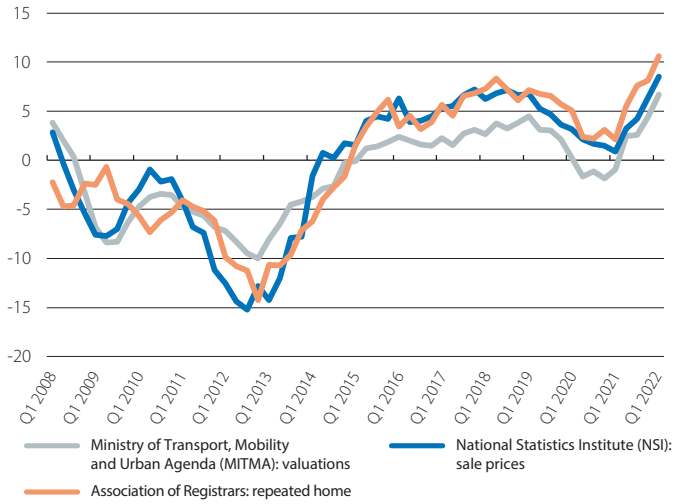
Monthly change in thousands



Note: ** Seasonally adjusted data.*
Source: *CaixaBank Research, based on data from the Ministry of Inclusion, S.S. and Migration.*

Spain: home prices

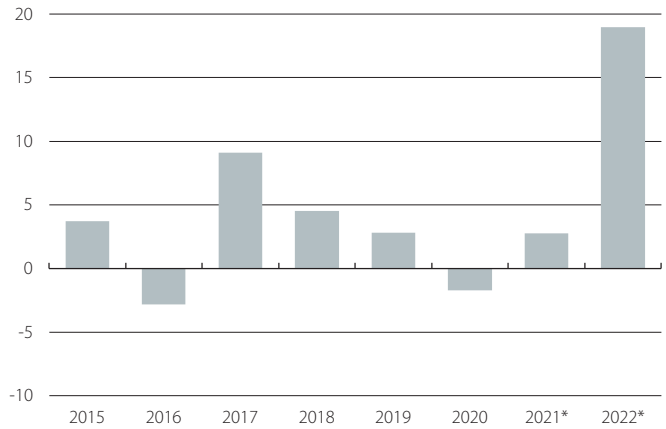
Year-on-year change (%)



Source: *CaixaBank Research, based on data from MITMA, the NSI and the Association of Registrars.*

Spain: total tax revenues

Annual change (%)



Notes: *Cash accounting, without discounting the share of territorial administrations and in like-for-like terms. The data for 2021 and 2022 are compared with 2019. * Up to May.*
Source: *CaixaBank Research, based on data from the Ministry of Finance.*

Key points of the second Spanish action plan

The government has presented a second action plan to cushion the economic impact of the current high inflation. According to government estimates, this second package will have a budget impact of more than 9 billion euros (0.7% of GDP), which includes 5.5 billion in new expenditure and 3.6 billion in reduced revenues due to cuts in electricity taxes. The impact on the deficit will be slightly lower, at 0.5% of GDP according to AIReF's estimate.[1]

The new measures (the first action plan was conceived for the period between April and June and had a budget of 6 billion) come at a time when inflation is proving more persistent and intense than expected. The plan has two key lines of action: the first is the extension until 31 December of the main measures already implemented in April, which are due to expire at the end of June. The second is a battery of new measures focusing on the most vulnerable households. Of the total of 9 billion euros, around 8 billion corresponds to the extension of the existing measures and just 1 billion to the new measures announced.

First line of action: extension of the existing measures

Firstly, the 20-cent-per-litre fuel discount has been extended until 31 December for all users. Of the 5.5 million of public expenditure included in the action plan, the government estimates that the bulk of it (4,038 million)[2] will derive from this very discount. The extension of this measure has generated an intense economic debate due to its universal nature (it benefits all users equally, regardless of their income level), its high cost and because its effectiveness depends on operators not absorbing this discount when setting prices. Similar measures have been implemented in other European economies, although they have not been extended until the end of the year. For instance, the 15-cent-per-litre discount applied in France will run until the end of August, and from September President Macron is advocating a more targeted mechanism for large carriers (the details are unknown as of the close of this report), while in Italy the 25-cent-per-litre discount on diesel has been extended until 2 August.

On the other hand, the electricity tax cuts, which benefit virtually all households, have been extended until December with a further reduction in VAT from 10% to 5% (it was 21% before April).[3] In total, the government estimates that the reduction in tax revenues as a result of these cuts (VAT reduced from 21% to 5%, electricity excise duty reduced from 4.11% to 0.5% and suspension of the duty on the value of electricity production) will amount to around 3.6 billion euros between June and December (compared with a scenario with high energy prices, but allowing these measures to expire in June). Of this total reduction, the additional VAT cut from 10% to 5% would result in around 440 million euros less revenue, so the overall cut in VAT from 21% to 5% would mean a total reduction in public revenues of almost 1.2 billion over the next six months.

Finally, other measures extended until December include the 2% ceiling on the increase in rent where there is no agreement between the parties, the increased discounts applicable in the social discount on electricity which were exceptionally extended to 600,000 more people (60% instead of 25% for vulnerable groups and 70% instead of 40% for severe cases) and the 15% rise in the minimum vital income (MVI).

Second line of action: new targeted measures focusing on the most vulnerable households

The impact on the deficit of this new action plan stems mainly from the extension of the measures already in place. However, new measures have been taken which are very focused on vulnerable groups. These represent a relatively small cost for the public finances and are intended to mitigate the impact of the current high inflation on these groups. These new measures are primarily focused on households, with only minimal extensions of the direct aids to the productive sector which were allocated in the first action plan (extensions of just 125 million for gas-intensive industries and 72 million for the primary sector).

The new measures include a one-off payment of 200 euros earmarked for workers or unemployed people residing in households which had a total income of less than 14,000 euros in 2021, whose assets (excluding their primary home) do not exceed 43,200 euros and who are

1. The main reason, according to AIReF, is that the 1.8 billion reduction in revenues between July and December as a result of the suspension of the excise duty on the value of electricity production will have a neutral impact on the deficit, as this income is allocated to the transfer granted to the electricity system.
2. This amounts to a greater cost per quarter than the 1.4 billion which the government calculated for this measure between April and June, possibly due to higher demand over the summer.
3. The VAT cut affects consumers with a contracted capacity of less than or equal to 10 kW. Almost all households benefit from the reduction of this levy. The 5% VAT rate will also apply to 72.5% of business electricity supply contracts (non-households).

not receiving the minimum vital income. It is estimated that this measure will benefit 2.7 million people and will cost 540 million. The main challenge for its implementation will be to accurately identify the target group and ensure that they are aware of this aid.

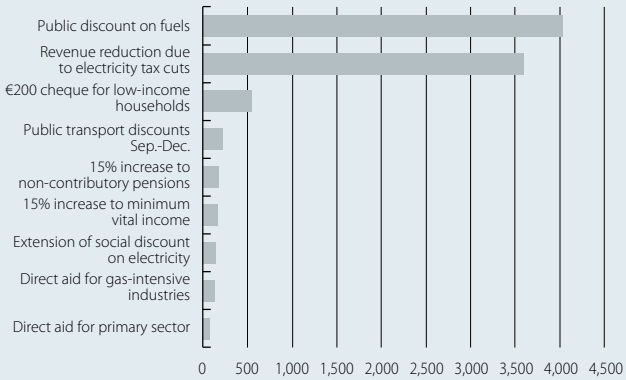
Another measure is the discount on public transport, which is similar to measures implemented in Germany and Italy. In particular, the discount will be in force between September and December and will amount to 50% on multi-trip tickets for the Renfe national rail network, and 30% for monthly passes and multi-trip tickets of regional and local networks, with the option available for the latter to apply an additional 20% discount to also bring the total reduction to 50%. Some 220 million will be allocated to financing this measure.

Finally, non-contributory widowhood and retirement pensions will be increased by 15% over the next six months (at a cost of around 180 million), with this increase expected, *a priori*, to be reversed at the end of the year. The final details of a windfall tax on the exceptional profits of energy companies, expected to take effect from January 2023, are yet to be announced, although a portion of the income due to be accrued through this measure will already be accounted for in the current financial year.

Javier Garcia-Arenas

Spain: main components of the second action plan

(EUR millions)



Source: *CaixaBank Research, based on data from the Official State Gazette (BOE) and the Ministry of Finance.*

European NGEU funds in 2022 (and beyond): a clear commitment to green sustainability

Sustainability is a multifaceted term, as it encompasses elements related to the environment, social aspects and governance. In this article we focus on the most classic concept of sustainability, the environmental one, with an analysis aimed at gauging its importance in the European NGEU funds as part of the Recovery and Resilience Mechanism. This mechanism will represent a total of 70 billion euros in grants for the Spanish economy, due to be received between 2021 and 2023 if the various milestones are met and the associated reforms carried out, and 40% of this amount will be allocated to green investments (the minimum required by the European Commission is 37%).[1] Beyond the headline figures, what is expected in 2022 in the sphere of sustainable investments? This is a burning question in a geopolitical context in which we are seeking to boost renewable energies across Europe in order to reduce our dependence on fossil fuels, a process which has taken on a particular relevance with the plans to reduce the bloc's dependence on Russian energy. Thus, right now, with energy prices at such high levels and problems guaranteeing supply, the economic and the environmental issues go hand in hand. Not in vain, energy security, affordability and sustainability – three goals which for years were contradictory – are now aligned.

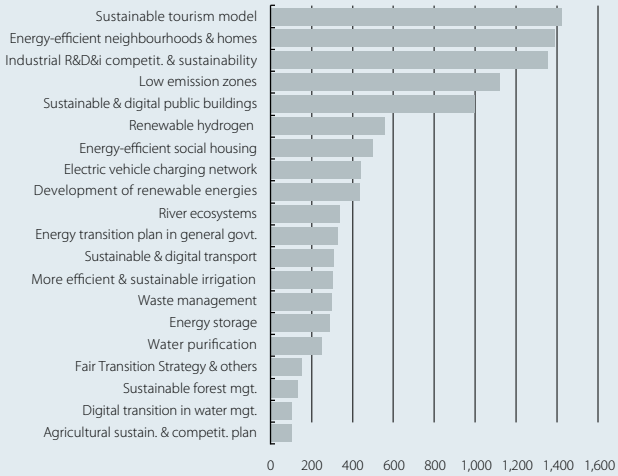
NGEU 2022 projects: a commitment to sustainability of (at least) 11 billion euros

The fact is that environmental sustainability is one of the top priorities of the NGEU investments planned for 2022. Included in the 2022 General Government Budget is a total of 28 billion euros from the Recovery and Resilience Mechanism, including 11.4 billion which we identify as investments primarily aimed at environmental sustainability. This is a conservative estimate, however. For instance, the 1.7 billion that will be allocated to improving local rail networks and rail interconnections with the rest of Europe could also be considered sustainable, as this will help to cut carbon emissions associated with the use of private transportation.

What are the main sustainable investments due to be carried out with these funds in 2022? Of particular note are the five investments with a budget in excess of 1 billion euros (see first chart). The first barrage of these includes a plan to create a more sustainable tourism sector (with a budget of 1.4 billion euros), projects to refurbish homes and neighbourhoods with a view to boosting their energy efficiency (1.39 billion) and investments to transform the industrial and R&D&i sectors to make them more sustainable (1.36 billion euros). Close behind them, with a budget of over 1 billion euros respectively, are investments to implement low-emission zones in urban areas and to boost the energy efficiency of public buildings through refurbishments. Finally, in the medium term there will be key investments aimed at boosting renewable energies in Spain and thus reducing the country's dependence on fossil fuels. Projects for the development of renewable hydrogen, the installation of electric vehicle charging points and the development of renewables will thus exceed 400 million euros in 2022 in each of these three lines.

Spain: environmentally sustainable investments planned under NGEU 2022

(EUR millions)



Source: *CaixaBank Research, based on data from the General Comptroller of the State Administration (IGAE).*

The key now is to ensure that this money flows to the productive sector and that these investments are executed through well-designed and sufficiently extensive tender processes. The current symbiosis between sustainability and economy, due to the geopolitical context and the need to accelerate the energy transition, represents a window of opportunity that should favour the execution of these projects, although rising commodity prices and tightening financial conditions may delay some investments. In the first four months of the year, according to data from the General Comptroller of the State Administration (IGAE), only 14% of this 11.4 billion related to sustainability was

1. The government is preparing an addendum to the Recovery Plan to also request 70 billion in loans.

already committed (i.e. there was legal authorisation for the funds to be distributed, although a portion of this merely relates to cash being moved around between government departments). Specifically, as of 30 April, 600 million had been committed to sustainability in tourism, 500 million to the construction of energy-efficient social rental housing, around 400 million to the sustainable refurbishment of public buildings and 120 million to waste management.

Beyond 2022: an ambitious project focusing on renewable energies and hydrogen

Beyond 2022, we cannot finish this article without mentioning the ambitious PERTE (an acronym in Spanish for Strategic Project for Economic Recovery and Transformation) focused on renewable energies, renewable hydrogen and energy storage. The PERTE projects are public-private collaborative efforts aimed at transforming the value chain of strategic economic sectors, and this particular one is expected to provide a major boost to the sustainability of the economy. The sub-projects associated with it will be carried out between 2022 and 2026 and will have a public investment of 6.9 billion euros (this is the second largest PERTE project, behind only the one related to microchips) as well as private-sector co-financing expected to reach 9.5 billion. This PERTE project will be key for reducing the Spanish economy's reliance on fossil fuels, and as early as 2022 the public sector is expected to invest 2.35 billion euros.[2] This includes 450 million earmarked for self-consumption projects, 400 million for the transformation of transportation service fleets, 400 million to boost the renewable hydrogen value chain and 150 million for the development of biogas.

This PERTE project will comprise two main lines of action. The first consists of 17 measures aimed at facilitating the transformation of the energy model, including: boosting renewable self-consumption facilities (public investment of 900 million euros), investment in the digitalisation of the distribution networks in order to improve the integration of decentralised renewable energy generation (525 million) and developing renewable thermal energy (500 million).

The second line of action consists of 25 measures aimed at transforming the energy model, including 1,555 million of public investment for the renewable hydrogen value chain and 765 million for innovative renewable energies (this is intended to accelerate the use of offshore renewable energy, taking advantage of the country's 8,000-km coastline).

In short, the Recovery Plan will provide a significant boost to the sustainability of our economy. This should be combined with a broad strategic vision that allows us to seize opportunities to boost Spain's role at the European level in the energy sphere (for example, by creating a connection with France to redirect some of the gas we receive from North Africa).

Javier Garcia-Arenas

PERTE project focusing on renewable energies, renewable hydrogen and storage

PERTE project: measures to facilitate the energy transition	Budget allocation (EUR millions)
Renewable energy self-consumption facilities	900
Digitalisation of distribution networks	525
Renewable thermal energy	500
Sustainable industrial companies (grants + interest-free loans)	278
Green training in vocational training and industry entrepreneurship centres	256
«Behind the counter» storage	220
Skills (tourism workers, the unemployed...)	107
Renewable heat and cold networks	100
Investments in renewable gases (hydrogen, biogas...)	67.5
Gender equality in green jobs	26
Green skills and jobs for the young	25
Reskilling in fair transition zones	20
Reskilling in energy transition skills	20
Support for hydrogen vehicles	12
Green algorithms	3
PERTE project: measures to transform the energy model	**Budget allocation (EUR millions)**
Renewable hydrogen: training, facilities, electrolysis demonstrators, heavy mobility, hydrogen clusters...	1,555
Renewables: new boost for wind farms, offshore, biogas...	765
Storage: R&D&i, business models based on flexibility of the electrical system...	620
National science, technology and innovation system: Science and Innovation missions, Iberian Energy Storage R&D Centre, Government Research Agency support for energy projects...	588
Fair transition: CIUDEN Foundation: execution of R&D&i programmes related to energy and the environment	30

Source: *Executive Summary and Descriptive Report of the PERTE project related to Renewable Energies, Renewable Hydrogen and Storage.*

2. This sum is part of the 11 billion which we have identified as sustainable.

Wage inequality in Spain returns to the pre-pandemic levels

The economic crisis triggered by the COVID-19 pandemic dealt a heavy blow to Spaniards' incomes. In the space of just a few weeks, 600,000 workers lost their jobs and over 3.5 million were placed on furlough schemes. The subsequent waves of the coronavirus continued to severely limit the labour market. However, two years on, the situation has changed substantially: in Q1 2022, the level of employment (20.08 million people in work) is already higher than prior to the pandemic, while the unemployment rate, at 13.6%, is 1 point lower than the pre-pandemic rate.

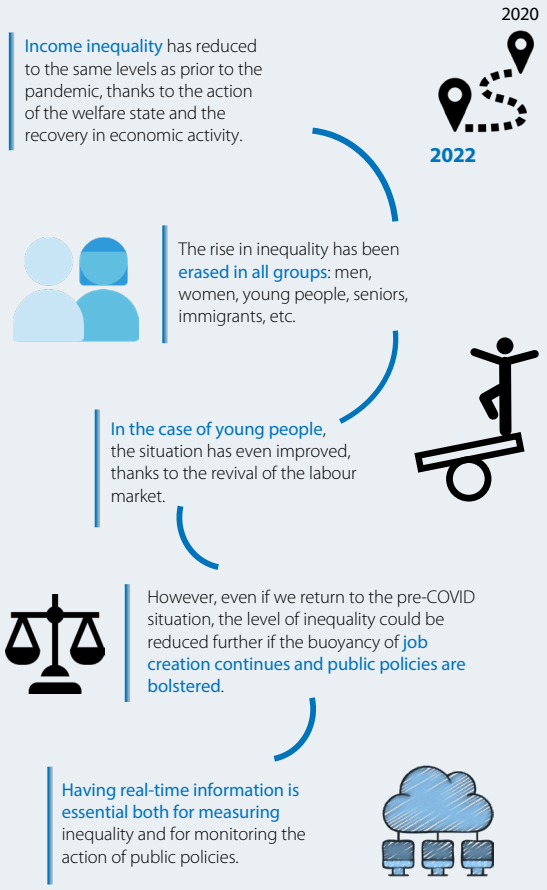
In this article, we analyse the impact of the COVID-19 pandemic on income inequality in Spain using fully anonymised mass data from payrolls paid into CaixaBank accounts, as well as the public sector benefits received by workers (unemployment and «ERTE» furlough subsidies). These data are processed at high speed using big data techniques and allow us to perform a highly representative and detailed analysis.[1] With the information obtained from this analysis, we can conclude that the recovery of the labour market has managed to erase the impact of the pandemic on wage income inequality in Spain as of April 2022.

This study is part of a collaboration project with researchers from Pompeu Fabra University, the Institute of Political Economy and Governance (IPEG) and CaixaBank Research, which has made it possible to track changes in inequality month by month since the beginning of the pandemic. The full results of this work, including a variety of inequality indicators covering both the population as a whole and specific subgroups, as well as various publications, can be found in this section of our website: https://inequality-tracker.caixabankresearch.com/.

Return to the pre-pandemic situation in income inequality

A real-time analysis of wage incomes shows that, in 2022, the impact which the pandemic had on inequality has been undone and it now stands at a level very closeto that which existed prior to the pandemic. Specifically,

Inequality returns to the starting blocks in Spain



Source: *CaixaBank Research.*

the Gini index[2] for Spain as of April 2022 was 0.4 points below the level of February 2020, just before the first restrictions were imposed.

Wage inequality returning to a situation similar to that of February 2020 is a significant milestone, given the impact the pandemic had on workers' earnings. Inequality in Spain, as measured by the Gini index, increased by 10.8 points in just two months, from February to April 2020, before public sector benefits (see first chart). Over the following months, as the mobility restrictions were eased, the increase in inequality moderated, but it remained high, at above 4 points in the second half of 2020. It was not until the spring of 2021, with a more pronounced economic revival, that we saw an acceleration in the rate of inequality reduction.

Public sector subsidies played a key role in containing this rise in inequality, given that the benefits were able

1. For more details on the representativeness of the data, see O. Aspachs, R. Durante, A. Graziano, J. Mestres, M. Reynal-Querol and J.G. Montalvo (2021). «Tracking the impact of COVID-19 on economic inequality at high frequency». PLOS one, 16(3), at https://journals.plos.org/plosone/article?id=10.1371/journal.pone.0249121.
2. The Gini index is the benchmark index for analysing the level of wage inequality. It can have values between 0 and 100. Higher figures reflect higher levels of inequality, and vice versa. The change in the Gini index with respect to February 2020 is corrected for the mean seasonal change experienced during the same period of 2018 and 2019.

to reduce inequality by around 80% at the height of the crisis. Specifically, the increase in wage income inequality taking into consideration the public sector benefits paid out between February and April 2020 was 2.4 points in Spain, compared to an increase of almost 11 points when considering wages alone. Two years on, in April 2022, the rise in inequality has been completely cancelled out. A curious observation is that inequality before public sector benefits as of April 2022 has actually fallen even more than after including those subsidies, contrary to what happened throughout the pandemic. While the difference between the two is small, it nevertheless shows how the significant rebound of the labour market has been the primary factor driving this improvement.

Has the impact of the pandemic on income inequality been erased for everyone?

Another good piece of news is that all groups of society have recovered to pre-pandemic levels of wage inequality. As of April 2022, almost all of the increase in income inequality for workers of different age groups, for women and men, and for those born in Spain or abroad have disappeared. For most groups, inequality is even lower than it was before the pandemic (see second chart).

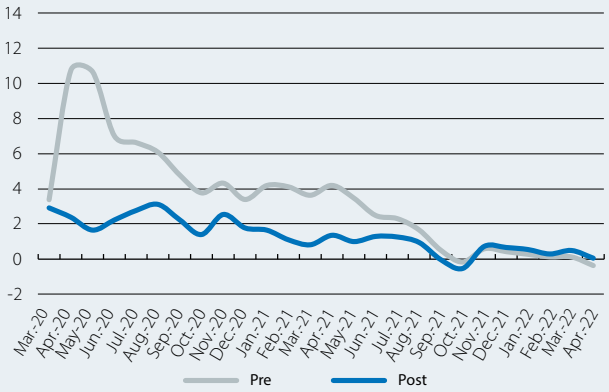
This is despite the fact that the impact of the economic crisis triggered by COVID-19 was very different for each group, affecting those with greater job insecurity the most. In April 2020, when the impact of the COVID-19 pandemic on economic activity was at its peak, the Gini index before public sector benefits increased by 16.3 points for young people (16 to 29 years of age), by 11 points for adults (30 to 49) and by 7 points for seniors (50 to 64). Also, inequality among foreign-born workers increased by 15.4 points compared to the pre-pandemic level, while for those born in Spain it rose by 9.8 points. The increase in wage income inequality between February and April 2020 was more similar between the sexes, with an increase of 11.4 points for women and of 10.4 points for men.

Has the impact of the pandemic on income inequality been erased throughout Spain?

All the autonomous community regions have returned to a situation in terms of wage inequality very similar to that of prior to the pandemic. This is despite the fact that the economic crisis triggered by the pandemic had a greater impact on regions such as the Balearic Islands and the Canary Islands, which registered increases in the Gini index of 18.8 and 16.2 points, respectively, between February and April 2020, or in Catalonia, where the index

Spain: evolution of the Gini index

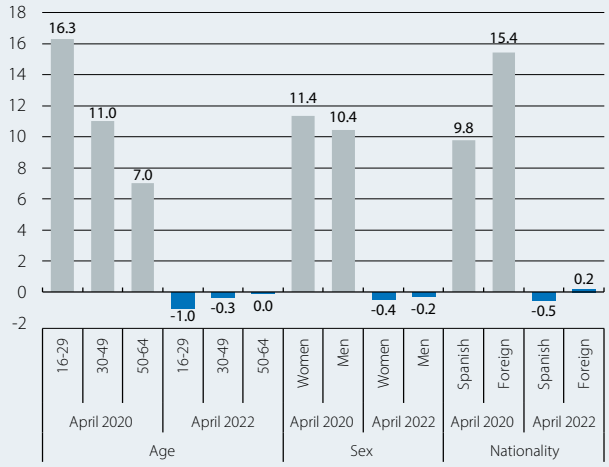
*Change versus February 2020 * (points)*



Notes: ** Seasonally adjusted data. «Pre» corresponds to the Gini index before public sector benefits and «Post» to the index after these benefits.*
Source: *CaixaBank Research, based on internal CaixaBank data.*

Spain: evolution of the Gini index for different groups

*Change versus February 2020 * (points)*



Notes: ** Seasonally adjusted data. Gini index for each group corresponding to wage incomes before public sector benefits.*
Source: *CaixaBank Research, based on internal CaixaBank data.*

rose by around 11 points. These differences between regions are due to the fact that the pandemic had a greater impact on economic activity in tourism sectors such as hospitality and catering, as well as in more urban areas.[3]

Two years on, in 2022, all regions are approaching the starting point just before the pandemic in terms of wage inequality, and some are even in a better situation than they were then (including the most touristy regions).

3. For further details, see the article «Factors behind the differences on inequality at the regional level» in the Dossier of the MR10/2021.

How have we returned to pre-pandemic levels: with an unprecedented public policy response and thanks to the ERTE furlough schemes

The rapid and broad response of public policies deployed to mitigate the impact of the pandemic is the first key to this rapid recovery. Workers were left unable to work for reasons beyond their control, but they kept their jobs thanks to the mechanisms of the ERTE furlough schemes. These schemes also allowed workers to maintain part of their wage incomes and are an essential element of the package of measures introduced to support businesses and households as part of the public policy response to counteract the crisis triggered by COVID-19.[4]

On the other hand, the strong economic recovery as we emerged from the crisis in Spain has made it possible for 20.08 million Spaniards to be in work in Q1 2022, 614,000 more than in Q1 2019. As a result of the great momentum with which economic activity has resumed, the increase in employment has favoured groups which traditionally found it harder to find work, such as young people, women or immigrants.

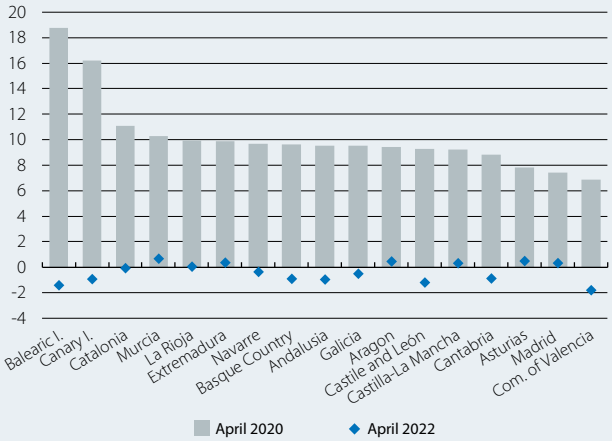
Reducing inequality in Spain remains a key objective

Despite the improvement in the sphere of workers' income inequality during the past crisis, we should not be complacent. When the pandemic broke out, the level of inequality prior to the financial crisis had not yet been recovered, and it is therefore necessary to reduce it further still. Buoyancy in job creation, as we have seen in this phase of emergence from the pandemic, is a key element for achieving this: more and better jobs for all groups of society enable a real and effective reduction in income inequality. On the other hand, policies aimed at reducing inequality need to be bolstered. In this regard, the minimum income (Ingreso Mínimo Vital) is an essential public policy for households with few resources and tenuous links to the labour market. However, introducing a policy of this magnitude requires careful assessment, as has already been planned, and above all requires it to be adjusted once the results of this process are known in order to improve its effectiveness.

Furthermore, in 2022 the war in Ukraine and the bottlenecks are pushing up commodity prices and, as a result, the prices of an ever-increasing number of consumer products. The economic outlook is complex, with widely differing impacts from sector to sector and across different population groups, so we cannot lower our guard.[5] Tracking the impact of a crisis in real time, by monitoring changes in inequality or other economic indicators, is as useful now as ever. This is particularly the case because it allows us to react quicker in adjusting the economic policy response, as well as to take steps to protect the most vulnerable groups, as has been successfully done during the COVID-19 crisis.

Spain: evolution of the Gini index since the beginning of the pandemic by autonomous community

*Change versus February 2020 * (points)*



Notes: ** Seasonally adjusted data. Gini index for each autonomous community corresponding to wage incomes before public sector benefits.*
Source: *CaixaBank Research, based on internal CaixaBank data.*

Oriol Aspachs (CaixaBank Research),
Ruben Durante (ICREA-UPF, IPEG and Barcelona GSE),
Alberto Graziano (CaixaBank Research),
Josep Mestres (CaixaBank Research),
Jose G. Montalvo (UPF, IPEG and Barcelona GSE) and
Marta Reynal-Querol (ICREA-UPF, IPEG and Barcelona GSE)

4. For further details, see the article «Economic measures to counteract the impact of COVID-19 in Spain» in the MR04/2020.

5. For further details, see the article «The Spanish economy in the face of the war in Ukraine» in the Key Points of the Month of the MR03/2022.

The Chip PERTE project: will Spain manage to gain a foothold in the microchip industry?

The problems arising in global value chains since the outbreak of the pandemic have highlighted the importance of semiconductors in today's production framework. These components are not only key in the so-called digital economy (artificial intelligence, quantum computing, and the Internet of Things), but are also essential in a multitude of global supply chains. In the case of the Spanish economy, the automotive industry stands out as one of the most severely affected by the current shortage of microchips, which are increasingly necessary for the production of electric vehicles.[1] This semiconductor shortage of recent months has set alarm bells ringing in Europe and has triggered a debate about the continent's enormous external dependence in these key components.

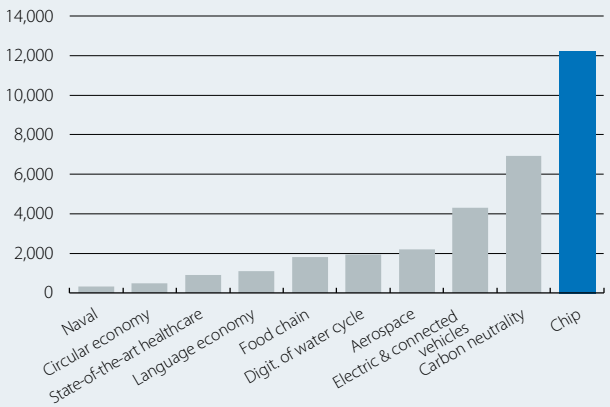
In this regard, in May the Spanish government approved the Strategic Project for Economic Recovery and Transformation relating to Microelectronics and Semiconductors (the Chip PERTE project), which is without doubt one of the country's key supply policy initiatives for the next five years. The project is expected to mobilise public investment amounting to 12,250 million euros between now and 2027, representing around 2% of the manufacturing sector's annual GVA, and it is the largest of the 11 PERTE projects approved over the past 12 months in terms of public investment (see first chart). This is a clear reflection of the strategic importance of this new project, which is also in line with the European Chips Act.[2]

The new PERTE project aims to cover the entire product value chain and consists of four strategic lines of action: bolstering scientific capacities (R&D&i), design strategy, the construction of production plants in Spain and, finally, invigorating the Spanish IT industry (i.e. with a view to generating demand for these microchips). The third line of action, that of microchip production, is undoubtedly the most innovative (currently, there are no production plants in Spain), the most ambitious (it aspires to manufacture cutting-edge microchips, under 5 nanometres [nm]) and has the biggest financial budget of the entire Plan (see second chart).

Is it feasible to produce microchips in Spain? The answer depends on the type of semiconductor that is planned to be produced and the timeframe in question. Currently, the most technologically advanced microchips (below 5 nm), which are used in cutting-edge processors and mobile phones, are produced in factories in Taiwan (63% of the total), South Korea (18%), China (6%) and the US. In other words, production is concentrated in a few manufacturers (TSCM, Samsung, UMC, GlobalFoundries and SMIC account for 90% of the global supply), especially in Asia. Furthermore, they have a head start of several decades and are nurtured by an ecosystem of large consumer electronics manufacturing industries which demand these microchips.[3] Moreover, the tremendous revival of demand for microchips following the initial phases of the pandemic and the excellent forecasts for the coming years are encouraging new

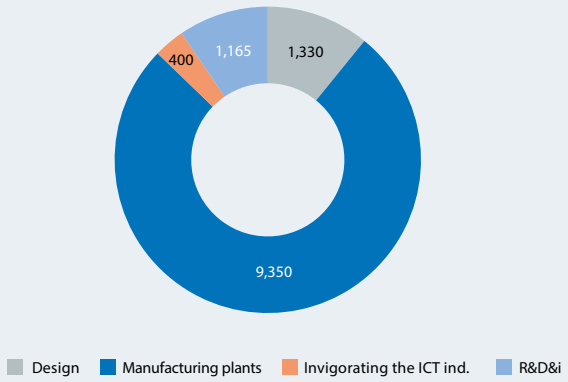
Spain: PERTE projects approved by the government within the framework of the European NGEU funds

Public investment in EUR millions



Strategic lines of action of the Chip PERTE project

(EUR millions)



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

1. The car industry is by far the hardest hit: in year-on-year terms, production so far this year has fallen by 11%, revenues by 9.5% and the number of registered workers by 5.4%.
2. Last February, the European Commission announced the European Chips Act, with the aim of doubling the bloc's share of global microchip production to 20% by 2030. The initiative involves an investment of 43 billion euros over the next decade.
3. For a more complete picture of the global supply of semiconductors, see the article «The global chip supply: disruptions and new trends» in the Dossier of the MR02/2022.

investments by these manufacturers: Taiwan's TSMC has announced an investment of 100 billion dollars over the next three years and that it will begin production of microchips of less than 2 nm (key for autonomous vehicles).

In this highly competitive context, it will be very difficult to gain market share in the production of these state-of-the-art semiconductors. However, it may be feasible to have a factory that supplies microchips to the automotive industry, which is of enormous importance to the region and to the Spanish economy, as the semiconductors it needs are slightly less advanced than those required for a PC processor or smartphone, measuring around 180 nm compared to 5 nm in the case of the most advanced chips. In any case, gaining a foothold in this part of the supply chain must be seen as a medium- and long-term objective, given that it is very difficult to alter the links of the supply chain in products that are so integrated into global chains.[4]

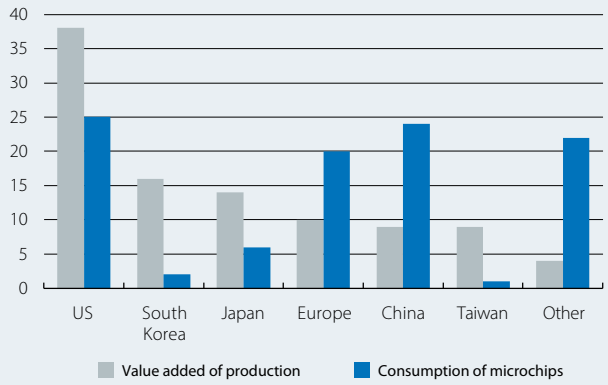
On the other hand, Europe could play a role in the phases of research, development, innovation and specialist manufacturing: while its role in these fields in global terms is currently modest, there are important research centres already established, such as Belgium's leading Interuniversity Microelectronics Centre. In this regard, another parallel European initiative aimed at boosting computing technologies (the EuroHPC JU), launched in July last year, seems to be on the right track: it seeks to bolster digital infrastructures, products and services, uniting the efforts of corporations, academia, users, the political class, as well as research organisations and technology centres.[5]

The semiconductor sector in Spain currently consists of just 120 SMEs which focus on the innovation, design and simulation phases – precisely where the greatest added value lies and where more qualified personnel are needed. In addition, we have a certain international position in several IT projects: (i) the development of alternative architectures (the Barcelona Supercomputing Center is a leading international establishment); (ii) in integrated photonics (the Polytechnic Universities of Valencia, Vigo and Madrid), and (iii) in the field of quantum chip development (the Institute of Photonic Sciences and the Spanish National Research Council, or CSIC), as well as the Quantum Spain project, which involves 25 centres located in 14 different autonomous communities.

Ultimately, the valuable contribution of supply-side initiatives of this kind must be emphasised in order to boost the region's role in a sector which will remain key in today's economy, particularly given the difficulties involved in gaining a foothold in an industry with significant barriers to entry, especially in the production phase. In any case, this is first and foremost a step in the right direction, provided that the PERTE project's objective is geared towards the manufacture of the types of microchips needed by the automotive industry, which is so important in Spain and Europe, and where the technological needs are lower. It will also be key to take steps to empower the parts of the chain that have the most added value and in which the region already plays an important role, such as microchip research and design.

Pedro Álvarez Ondina

Semiconductor industry by region
(% of the total)



Notes: *Data for 2019. The value added of production encompasses all phases in the semiconductor production process, from the design through to the production and assembly.*
Source: *CaixaBank Research, based on data from SIA.*

4. For a review of the tensions that global value chains are experiencing, see the article «Global value chains: yesterday, today and tomorrow» in the *Manufacturing Industry Sector Report*.
5. The European High Performance Computing Joint Undertaking (EuroHPC JU) is an initiative which complements the Chips Act and has a budget of some 7 billion euros for the period 2021-2027.

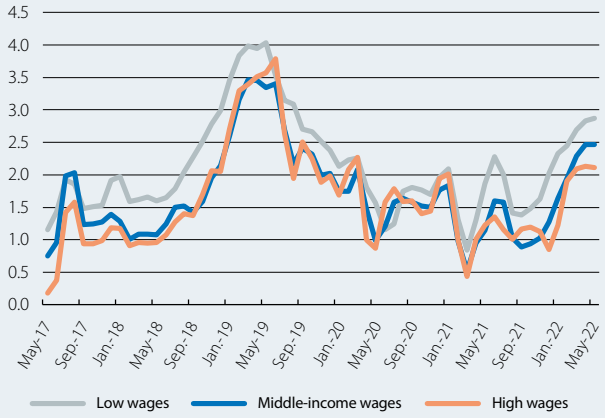
Wage dynamics in Spain: are low and high wages growing at the same pace?

The recovery of the labour market in the wake of the pandemic is proving surprisingly strong. As of June 2022, there were 20.2 million registered workers, far exceeding the pre-pandemic level of three years ago (19.5 million in June 2019). Wage incomes per employee, meanwhile, increased on average by 2.4% year-on-year in May 2022 according to CaixaBank Research's wages indicator, the same rise as that registered in April, although 0.2 pps higher than in March.[1] But are low-income workers' wages growing at the same rate as those of high-income workers?

To try and answer this question, we sorted the payrolls of each month by amount from low to high and we calculated – separately for low-, middle- and high-income workers – the median year-over-year change in their payrolls one year later.[2] The monthly payroll amount refers the total net wage income received during the month, so increases in this amount are due to both salary improvements and increases in the number of hours worked.[3]

Spain: wage incomes

Year-on-year change (%)



Notes: *The indicator corresponds to the median year-on-year change in the monthly payroll of employees who received a payroll in the previous year that lay between the 20th and 40th percentiles (low wages), between the 40th and 60th percentiles (middle-income wages), and between the 60th and 80th percentiles (high wages). The change is calculated person by person. All customers with a payroll present in the previous month are considered as a stabilisation criterion. Data in nominal terms (not deflated). The indicator corresponds to the two-month moving average.*
Source: *CaixaBank Research, a partir de datos internos de CaixaBank.*

Before analysing what has happened to wages by income level today, we explored what pattern they followed prior to the pandemic. What we observed is that in 2018 and 2019, on average, the median increase in payrolls was 2.8% year-on-year for low wages, 2.2% for middle-income wages and 2.3% for high wages (see chart). These low-wage workers are often young people who, as they embark on their career, change jobs frequently and thus experience greater increases in their income from one year to the next. This result also occurs in other countries, as can be seen in the US with the Atlanta Fed's Wage Growth Tracker.[4]

Let us now look at what is happening today. In May 2022, the average increase in the payrolls of low-wage workers was 2.9% year-on-year. Workers with middle and high wages, meanwhile, experienced increases of 2.5% and 2.1% year-on-year, respectively. These results show that, as was the case before the pandemic, the payrolls of lower-income workers are growing at a faster rate than those of higher-income workers, although across the spectrum the growth rate is similar to the average rate for 2018 and 2019. They also indicate that, for the time being, there are no significant wage pressures for any particular level of wages. That said, the inflationary pressures and the uneven impact of the war in Ukraine between sectors could alter this situation, so it is worth monitoring these developments in real time.

Josep Mestres Domènech

1. This indicator corresponds to the median year-on-year change in monthly wage incomes for all those people who have a payroll paid into a CaixaBank account, and it is calculated customer-by-customer in a completely anonymised manner. For further details on how it is built, see the article «Wage dynamics in Spain: what does the CaixaBank Research wage growth tracker tell us?» in the Dossier of the MR05/2022.
2. In this case, we calculated the median year-on-year change in the monthly payroll of employees who received a payroll in the previous year that lay between the 20th and 40th percentiles (low wages), between the 40th and 60th percentiles (middle-income wages), and between the 60th and 80th percentiles (high wages).
3. Analysing the median change allows us to avoid extreme cases caused by significant changes in the number of hours worked or in a person's job position, which due to their nature lie in the margins of the distribution.
4. This indicator measures workers' nominal wage growth observed 12 months apart using data from the Current Population Survey (CPS).

Did consumption grow in Spain in Q2 2022? What the real-time data tell us

Inflationary pressures and the outbreak of the war in Ukraine have dented the confidence of Spanish consumers in recent months. Data published by the European Commission show that March saw the biggest drop since the outbreak of the pandemic. Since then, consumer confidence has remained significantly lower than the levels observed up until February 2022 (see first chart).

The deterioration in consumer confidence stands in contrast with the good dynamics in the labour market, with nearly a million workers more than in pre-pandemic times.[1] During Q1 2022 the former factor dominated over the latter, and as a result real household consumption grew –2.0% quarter-on-quarter (1.5% in Q4 2021). The sharp rise in uncertainty severely reduced real consumption of durable goods, which registered quarter-on-quarter growth of –11.2% (6.4% in Q4 2021).

After June, the big question is whether, in the troubled times in which we are living, consumption will have recovered from the sharp fall of Q1 2022 or whether, on the contrary, it will have once again registered negative quarter-on-quarter growth. Some indicators suggest that consumption managed to get a second wind in Q2 2022; for instance, retail sales in real terms grew 2.6% quarter-on-quarter on average in April/May (–3.1% in Q1 2022), while domestic sales by large corporations (also in real terms) also performed well, up 4.6% quarter-on-quarter (–0.7% in Q1 2022). Vehicle registrations, meanwhile, grew by 26.5% quarter-on-quarter (–29.8% in Q1 2022).

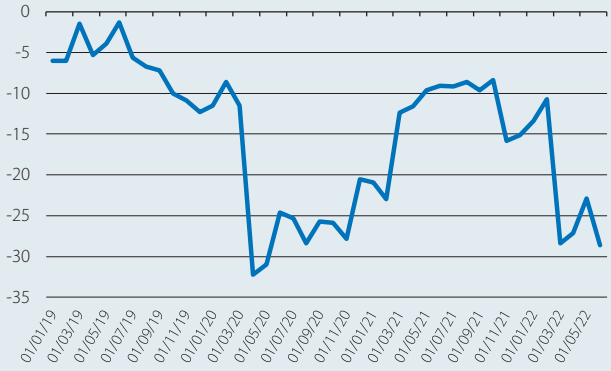
These encouraging signs are also apparent in CaixaBank's consumption indicator,[2] which is particularly useful as it includes data for the month of June, thus offering a complete picture of Q2 2022. In particular, the internal data for Q2 2022 indicate a quarter-on-quarter growth in nominal consumption of 3.0% (see second chart), and we estimate that this will translate into a 2.2% advance in real consumption,[3] placing it in line with the other indicators available up to May.[4]

For the coming quarters, what happens with consumption will be determined by multiple factors.

1. This decoupling between consumer confidence and the labour market is not unique to Spain. For example, in the US the unemployment rate stood at 3.6% in May, while the University of Michigan's Consumer Sentiment Index in June registered its lowest level since the series began (in 1952).
2. This indicator collects real-time information from payments and cash withdrawals carried out with CaixaBank cards (duly anonymised), so it is a good tool for approximating the final consumption expenditure of households according to the national accounting data.
3. A consumption deflator of 7.3% year-on-year is estimated using an ordinary least squares regression. The explanatory variables included are the first lag of the consumption deflator, the CPI and a binary variable that captures the decoupling between the consumption deflator and the CPI from Q2 2021 onwards. The R^2 of the regression is 90.1% and the average residual in the last four quarters is 0.1 pps.

Spain: consumer confidence

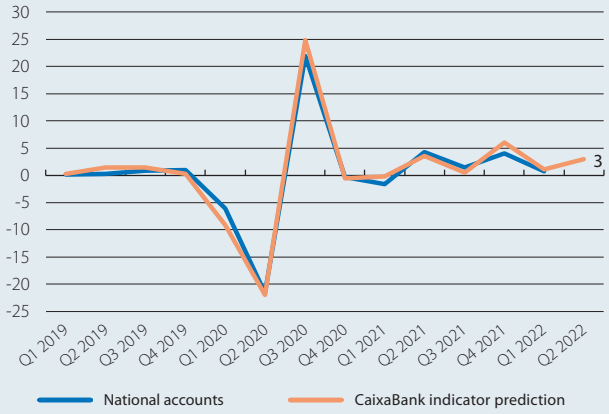
Index



Note: *The indicator is calculated as the simple arithmetic mean of the balance of responses (seasonally adjusted) to specific questions about consumer confidence.*
Source: *CaixaBank Research, based on data from the European Commission.*

Spain: nominal household consumption

Quarter-on-quarter change (%)



Note: *In order to calculate the «CaixaBank indicator prediction» series, the series for final consumption expenditure of households is first predicted using the original series of internal CaixaBank data, both in nominal terms and in year-on-year changes (ordinary least squares regression). Once the series has been predicted, the (seasonally adjusted) quarter-on-quarter changes consistent with those year-on-year changes are calculated.*
Source: *CaixaBank Research, based on internal CaixaBank data and data from the National Statistics Institute.*

On the one hand, the inflationary pressures, the rise in interest rates and the uncertainty associated with the economic outlook are likely to continue to dent consumer confidence. On the other hand, however, after two years of pandemic the summer tourism campaign looks set to be strong, with consumers willing to part with some of their pent-up savings accumulated during the restrictions. Overall, for 2022 we anticipate real consumption growth of 1.5%.

Eduard Llorens i Jimeno

4. It is important to mention that the internal data showed a higher growth in real consumption (3.4%) on average for April and May. In this regard, consumption slowed during June.

Activity and employment indicators

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

	2020	2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022	04/22	05/22	06/22
Industry									
Industrial production index	–9.5	8.8	28.5	1.9	1.6	1.6	2.3	3.9	...
Indicator of confidence in industry *(value)*	–13.6	0.6	–0.1	2.3	4.9	6.9	–1.1	1.4	2.2
Manufacturing PMI *(value)*	47.5	57.0	59.2	58.9	56.9	55.8	53.3	53.8	52.6
Construction									
Building permits *(cumulative over 12 months)*	–12.8	4.7	–1.8	15.0	24.6	31.6	22.2	...	...
House sales *(cumulative over 12 months)*	–12.5	9.6	0.7	22.3	32.4	41.7	37.7	...	...
House prices	2.1	3.7	3.3	4.2	6.4	8.5	–	–	–
Services									
Foreign tourists *(cumulative over 12 months)*	–77.3	64.7	–75.8	–34.5	64.7	313.4	341.5	337.9	...
Services PMI *(value)*	40.3	55.0	58.8	59.6	57.4	52.2	57.1	56.5	54.0
Consumption									
Retail sales	–7.1	5.1	20.3	–0.4	0.7	0.4	1.6	1.4	...
Car registrations	–29.3	158.0	660.9	–24.5	–17.1	–7.5	–12.1	–10.9	–7.8
Consumer confidence index *(value)*	–22.7	–12.8	–10.1	–9.0	–13.0	–17.5	–27.1	–22.9	–28.6
Labour market									
Employment [1]	–2.9	3.0	5.7	4.5	4.3	4.6	–	–	–
Unemployment rate (% labour force)	15.5	14.8	15.3	14.6	13.3	13.6	–	–	–
Registered as employed with Social Security [2]	–2.0	2.5	3.9	3.8	3.9	4.5	5.1	5.0	4.3
GDP	**–10.8**	**5.1**	**17.8**	**3.5**	**5.5**	**6.3**	–	–	–

Prices

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

	2020	2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022	04/22	05/22	06/22
General	–0.3	3.1	2.6	3.4	5.8	7.9	8.3	8.7	10.2
Core	0.7	0.8	0.1	0.8	1.7	3.0	4.4	4.9	5.5

Foreign sector

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

	2020	2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022	04/22	05/22	06/22
Trade of goods									
Exports *(year-on-year change, cumulative over 12 months)*	–10.0	21.2	8.7	15.2	21.2	26.2	23.2	...	...
Imports *(year-on-year change, cumulative over 12 months)*	–14.7	24.8	3.3	13.5	24.8	36.1	34.7	...	...
Current balance	**9.3**	**11.1**	**9.2**	**11.6**	**11.1**	**7.9**	**6.5**	**...**	**...**
Goods and services	16.5	17.9	17.1	19.2	17.9	14.4	14.3	...	...
Primary and secondary income	–7.3	–6.8	–7.9	–7.7	–6.8	–6.5	–7.8	...	...
Net lending (+) / borrowing (–) capacity	**13.7**	**22.3**	**15.2**	**19.7**	**22.3**	**19.4**	**18.2**	**...**	**...**

Credit and deposits in non-financial sectors [3]

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

	2020	2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022	04/22	05/22	06/22
Deposits									
Household and company deposits	7.5	6.1	4.9	4.8	5.8	5.2	5.7	5.3	...
Sight and savings	12.3	10.3	9.2	8.9	9.2	9.3	9.8	8.9	...
Term and notice	–16.5	–24.4	–23.5	–26.0	–27.6	–26.8	–26.1	–24.6	...
General government deposits	1.0	15.5	16.3	15.1	19.4	19.3	15.7	15.0	...
TOTAL	**7.1**	**6.7**	**5.5**	**5.5**	**6.6**	**6.0**	**6.3**	**5.8**	**...**
Outstanding balance of credit									
Private sector	1.2	0.3	–0.4	–0.7	–0.1	0.2	0.7	0.9	...
Non-financial firms	4.9	1.1	–0.7	–1.9	–1.0	–0.5	0.3	0.9	...
Households - housing	–1.8	0.2	0.0	0.6	1.0	1.3	1.5	1.3	...
Households - other purposes	0.8	–1.2	–0.7	–1.2	–1.2	–1.1	–0.7	–0.4	...
General government	3.0	15.3	17.4	22.7	11.6	3.4	2.6	2.6	...
TOTAL	**1.3**	**1.1**	**0.6**	**0.7**	**0.6**	**0.4**	**0.8**	**1.0**	**...**
NPL ratio (%)[4]	**4.5**	**4.3**	**4.5**	**4.4**	**4.3**	**4.3**	**4.2**	**...**	**...**

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: strong growth, uncertain future

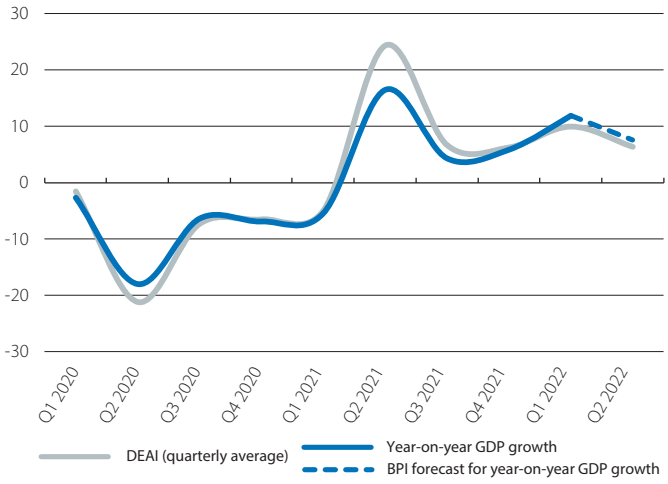
Economic activity has been buoyant during Q2 2022, but the signs for the rest of the year point to a slowdown. The daily economic activity indicator climbed by 2.6% quarter-on-quarter in Q2 2022, suggesting that our forecast for GDP growth in the quarter (0.3% quarter-on-quarter) could be exceeded. Consumption has continued to be the star component, as shown by the strength of the partial indicators (retail sales, card transactions and car sales). The resilience of the labour market, with the number of unemployed people falling by 10.7% in April and May compared to Q1, has continued to support household spending. However, the signs point to a loss of buoyancy in the coming months, given the deterioration in household confidence and in the business outlook across all sectors in June, with the exception of industry. During Q3 2022, the impact of the slowdown of the country's major trading partners could begin to be felt in the performance of goods exports, as well as being reflected in more cautious behaviour on the part of domestic economic agents, although these dynamics may be partially offset by the anticipated pull from tourism. The risks are accumulating at the end of the year due to the high uncertainty surrounding energy supplies for the winter, particularly in the economies of northern and central Europe. For now, we remain cautious and expect the economy to stabilise, although the risks are concentrated on the downside and are growing.

No let up in inflation in June. The National Statistics Institute's preliminary estimate for June places inflation at its highest level since December 1992 (8.7%). Energy products, with inflation of 31.7%, continue to push up overall inflation, and at a time when food prices have somewhat stabilised, the behaviour of the energy component will be key in determining what happens to inflation over the coming months.

Sharp rise in home prices. The National Statistics Institute's Home Price Index rallied 12.9% year-on-year in Q1 2022, the highest growth in the historical series. This surge in prices raised the average value of homes sold to 185,600 euros. The available data suggest that this trend has continued in Q2: according to valuations for mortgage applications, the average value of homes per square metre rose in May to 1,380 euros (+3.7% versus the end of Q1), while the home price index produced by Confidencial Imobiliário suggests a similar pattern (+3.9%). We believe that the recent change in the macro-prudential measure (concerning the maximum repayment period and its dependence on the age of the borrower in the case of new home loans), coupled with the cycle of reference rate hikes, will slow this trend.

Portugal: daily economic activity indicator (DEAI)

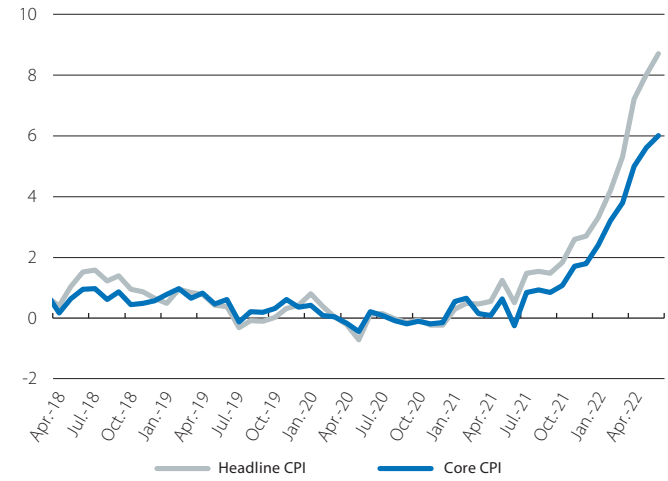
Year-on-year change (%)



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

Portugal: CPI

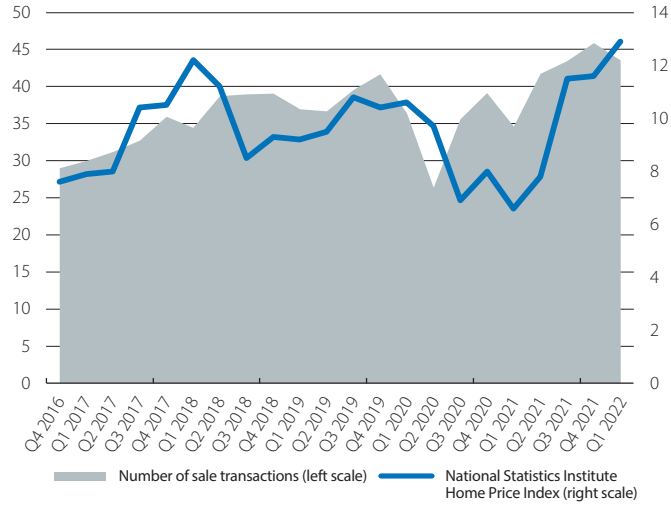
Year-on-year change (%)



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

Portugal: home sales and prices

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



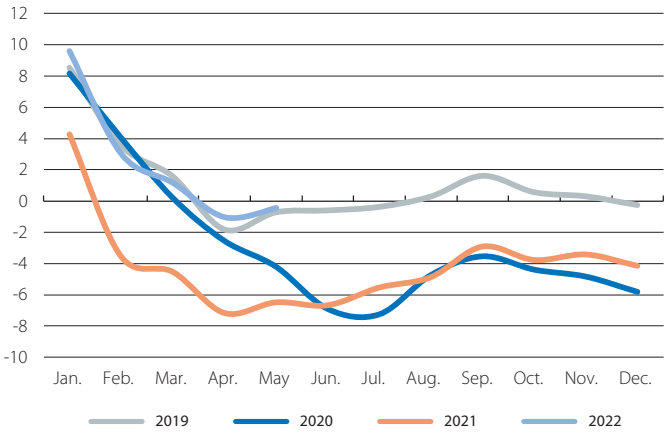
Source: *CaixaBank Research, based on data from the National Statistics Institute of Portugal.*

The consolidation of the public accounts continues. In the first five months of the year, the consolidated general government balance, in cash terms, stood at –0.4% of GDP. This contrasts with a deficit of 6.5% of GDP in the same period of 2021 and of 0.7% in the first five months of 2019. The improvement over 2021 is the result of significant revenue growth (+16% year-on-year), while spending fell moderately (–0.7%). This pattern, together with the publication of the deficit in national accounting terms for Q1 2022 (0.4% of GDP), supports CaixaBank Research's estimate that in 2022 the deficit could be reduced to around 1.7% of GDP, compared to 2.8% in 2021. However, the prolongation of the Russia-Ukraine conflict, the signs of a slowdown in economic activity and the rise in interest rates (yields on the 10-year OT have risen by 44 pps since the beginning of the year) pose a challenge to the objective of reducing the public deficit.

The quality of credit improved in Q1 2022. The NPL ratio fell to 3.6%, 1 decimal point lower than at the end of 2021 and 1 pp below the rate of a year earlier. This improvement occurred both in the private individuals segment and in that of non-financial firms. In the case of the former segment, the NPL ratio fell to 2.7%, while in the latter it fell to 8.0%. The stock of credit granted to the private sector, meanwhile, grew 2.6% year-on-year in May. Credit to private individuals maintained the growth rate seen in April (3.7% year-on-year), but credit to non-financial firms fell 0.8%. Private-sector deposits, on the other hand, continue to grow at a steady pace: 8.2% year-on-year in May, with the deposits of private individuals up 7.0% and those of companies up 11.8%.

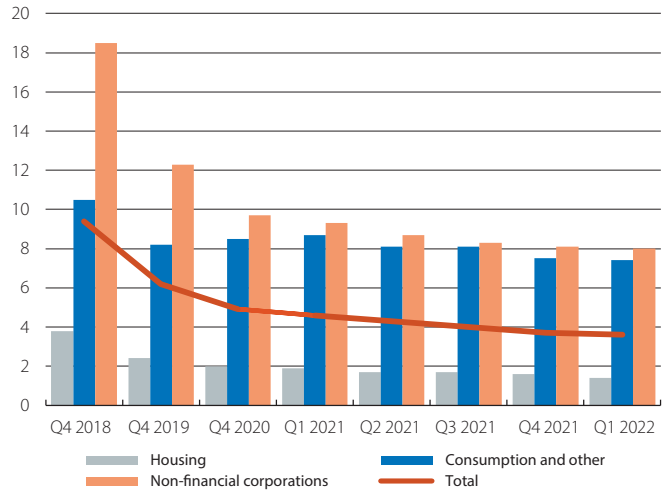
The normalisation of tourism underpins the external accounts. The numbers of guests and overnight stays are approaching pre-pandemic figures. In particular, in May the number of guests was just 3% below the level of May 2019, while the number of overnight stays was 1% below. Although the pace of recovery among non-resident tourists is slower than that of domestic tourists, these data show a certain normalisation of the sector, which looks set to continue and intensify during Q3 of this year. At the same time, the sector's performance underpins the country's external accounts: in the year to date up to April, the cumulative balance of services stands at 3 billion euros, more than five times the value for the equivalent period of 2021. However, the fact that Portugal is a net energy importer means that the external accounts continue to be penalised by the high prices in the international commodity markets associated with this component. The current account deficit for the 12 months to April of this year has deteriorated, reaching –3.7 billion euros (–1.8 billion for the 12 months to April 2021).

Portugal: general government budget balance
(% of GDP)



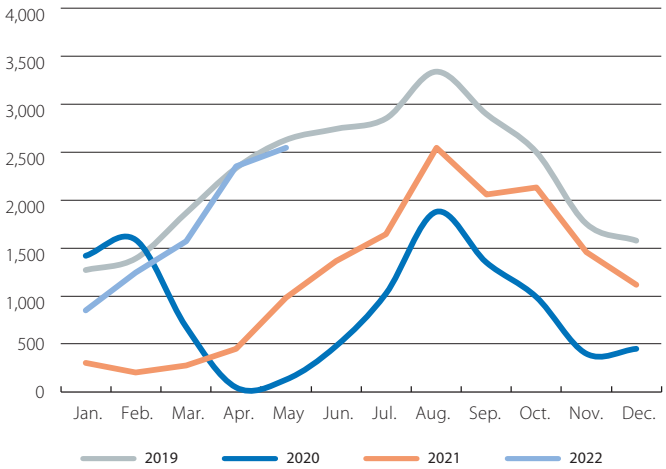
Note: *Cumulative figures for the year to date.*
Source: *CaixaBank Research, based on data from the DGO.*

Portugal: doubtful loans
(% of GDP)



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

Portugal: number of guests in hotels
Thousands



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

Portugal: the horizon clears for the tourism sector

Most of the restrictions imposed to control the spread of the pandemic have been lifted and travellers are now less wary, which is translating into a recovery in leisure-related mobility. Indeed, the figures confirm this: in Q1 2022, exports of tourism services in the current account balance reached a value equivalent to 95% of the figure registered in the same quarter of 2019. In this article, we delve into the figures of the tourism sector in order to paint a more detailed picture of its recovery trajectory, which identifies the major trends and provides clues as to what we can expect for the remainder of the year.

Identifying the paths of the recovery

One of the most recent signs of the recovery in tourism can be found in the hotel industry data for April, when for the first time since the outbreak of the pandemic the number of guests and overnight stays exceeded the values for the same month of the year prior to the pandemic, surpassing them by 1.6% and 1.1%, respectively. One nuance, however, is that the pace of the recovery in tourism is stronger among domestic tourists than foreign tourists. Specifically, whereas the number of domestic tourists exceeded the April 2019 figure by 14%, non-resident tourists were still 6% below.

There are also differing patterns within the foreign tourist category, as can be seen in the first table. Up until Q4 2021, we can see that the recovery is stronger (i.e. the gap versus the 2019 figures is smaller) in the case of tourists coming from European countries as opposed to those visiting from other continents. Surprisingly, as early as April 2022 some source countries (the US and Brazil) had managed to narrow that gap to a greater extent than some of Portugal's close neighbours. On the other hand, the four biggest source markets prior to the pandemic (the United Kingdom, Germany, Spain and France), which together accounted for almost half of the foreign tourists who visited Portugal in 2019, also show differing recovery rates. In April, the United Kingdom (+6%) and Germany (+48%) already exceeded the 2019 figure, while France (–11%) and most notably Spain (–34%) still remained some way off.

If we look at the number of tourist arrivals from a regional perspective, we see that Alentejo and the Azores were the locations that registered the smallest drop in tourists during the most aggressive wave of the pandemic in Q1 2021, in contrast with the Algarve (–89%) and Lisbon (–86%). This could be explained not only by the fact that tourists at the time were seeking less crowded destinations, but also, in the case of Lisbon, by the significant drop in the number of business travellers

Portugal: change in the number of non-resident tourists by country of origin compared to the same period in 2019

(%)

	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Apr.-22
TOTAL	–94	–83	–53	–31	–29	–6
United Kingdom	–97	–80	–61	–35	–21	6
Germany	–93	–84	–57	–1	–6	48
Spain	–92	–70	–37	–27	–44	–34
France	–91	–83	–32	–9	–15	–11
Europe (others)	–93	–81	–44	–16	–22	–9
Brazil	–95	–93	–85	–55	–47	15
US	–97	–94	–63	–37	–9	–18
China	–99	–98	–94	–91	–85	–74
Other non-European	–93	–87	–66	–49	–38	–12

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

Portugal: overall change in the number of tourists by destination region versus the same period in 2019

(%)

	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Apr.-22
Total		–64	–31	–19	–19	2
North	–78	–59	–28	–17	–14	8
Centre	–81	–54	–25	–18	–15	–1
Lisbon Metr. Area	–86	–75	–49	–28	–27	–3
Alentejo	–72	–42	–14	–9	–9	5
Algarve	–89	–67	–29	–18	–21	–4
The Azores	–68	–58	–22	–8	–8	–5
Madeira	–84	–65	–5	0	–9	29

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

Portugal: change in the number of overnight stays compared to the same period in 2019 by type of establishment

(%)

	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Apr.-22
TOTAL	–84	–68	–31	–17	–19	1
5 * hotels	–92	–65	–27	–12	–21	17
4 * hotels	–89	–70	–31	–18	–21	1
3 * hotels	–80	–67	–31	–16	–18	0
2 & 1 * hotels	-76	–65	–37	–23	–20	–6
Tourist apartments	–80	–73	–37	–21	–19	–9
Local accommodation	–75	–66	–37	–20	–15	–4
Rural tourism	–63	–28	8	33	31	33

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

coming for meetings, conferences and other professional events. The areas of the country which made a decisive contribution to the number of guests in April exceeding the same period of 2019 were the North, Alentejo and Madeira; the latter exceeding the 2019 figure by as much as 29%.

As for the various types of accommodation, the latest data also show that higher-category hotels (4 and 5 stars) are the only ones that exceeded the number of overnight stays registered in April 2019. Higher-income households were the ones which accumulated the most savings during the pandemic and now, with the restrictions lifted, they are channelling those savings into leisure and travel. Also of note is the strong recovery registered by rural accommodation establishments, where as early as Q3 2021 the number of overnight stays exceeded the figure for the same period of 2019, while the figures registered since Q4 2021 have consistently been 30% above pre-pandemic levels. In the first phase of the pandemic, the demand for these establishments can be put down to people wanting to take holidays with greater social distancing. Now, however, it appears to represent a more persistent trend driven by people wishing to discover alternatives to the more traditional/mass tourist destinations, as well as by a type of tourism with a greater element of sustainability (an increasingly valued aspect).

2022 outlook

Some data, such as the recovery in passenger air traffic, provide reasons for optimism for the remainder of the year. On the one hand, there has been a recovery in the number of direct routes (connections between airports), which in 2019 stood at 196 but fell by 45 routes in 2020 and by a further 20 in 2021, whereas for this summer IATA[1] expects there to be 191. In other words, the installed capacity is expected to be compatible with an almost complete recovery in the sector.

The trend in the number of flights corroborates the prospects for recovery, as the gap compared to the number of flights in 2019 has been narrowing since March. As the last chart shows, in May this gap was just –2% and in the first half of June the number of flights is only –1% compared to the same period in 2019.

If we focus on the peak period for national tourism, the data regarding flight bookings for the summer season recently released by the WTTC[2] are very encouraging: Portugal is Europe's fourth most popular destination for this summer, with a gap of just –9% in the number of anticipated arrivals compared to the pre-pandemic level. This level is exceeded in the case of some source markets such as the US, the Netherlands, Denmark and Germany by 41%, 36%, 29% and 11% respectively. However, this optimistic tone should not lead us to forget one of the behavioural shifts that has emerged in recent times: tourists expect to be able to cancel their bookings ever closer to the date of travel.

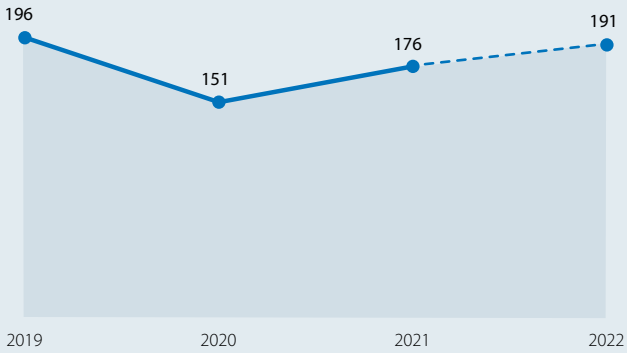
In short, despite the potential obstacles to this trend as a result of inflation, the possibility of new variants of COVID or the risk of the war in Ukraine spreading further afield, the current data provide cause for optimism.

Tiago Belejo Correia

1. IATA stands for the International Air Transport Association.
2. World Travel & Tourism Council, based on data from Forwardkeys, a company dedicated to providing business intelligence to the travel and tourism industry.

Portugal: routes at national airports

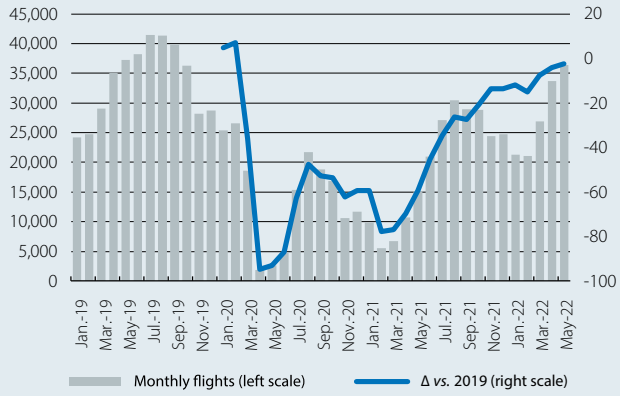
Number



Source: *CaixaBank Research, based on data from ANA - Aeroportos de Portugal.*

Portugal: monthly flights and gap versus 2019

N.º of monthly flights *Change versus 2019 (%)*



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

Activity and employment indicators

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

	2020	2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022	04/22	05/22	06/22
Coincident economic activity index	–5.5	3.1	5.3	6.1	7.0	...	7.2	7.1	...
Industry									
Industrial production index	–6.9	4.5	–4.7	–1.5	–2.1	...	–1.3	3.0	...
Confidence indicator in industry *(value)*	–15.3	–5.3	–1.5	–1.4	–0.1	–2.3	–0.9	–3.0	–2.9
Construction									
Building permits - new housing (number of homes)	0.7	13.5	–0.9	–6.9	43.6	...	–15.0	...	...
House sales	–11.2	20.5	22.1	17.2	25.8	...	–	–	–
House prices *(euro / m² - valuation)*	8.3	8.6	8.7	11.0	11.5	...	13.0	13.9	...
Services									
Foreign tourists *(cumulative over 12 months)*	–76.2	52.0	–38.7	52.0	259.3	...	304.5	313.6	...
Confidence indicator in services *(value)*	–19.0	0.1	8.8	12.0	13.0	21.1	19.1	21.7	22.7
Consumption									
Retail sales	–3.0	4.9	3.1	7.3	12.7	...	6.2	1.2	...
Coincident indicator for private consumption	–6.3	4.7	7.3	7.2	6.5	...	5.5	4.6	...
Consumer confidence index *(value)*	–22.4	–17.2	–13.6	–13.5	–19.3	–30.5	–27.2	–32.4	–31.8
Labour market									
Employment	–1.9	2.8	4.7	3.1	4.7	...	3.5	1.3	...
Unemployment rate (*% labour force*)	7.0	6.6	6.1	6.3	5.9	...	5.9	6.1	...
GDP	**–8.4**	**4.9**	**4.4**	**5.9**	**11.9**	**...**	**–**	**–**	**–**

Prices

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

	2020	2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022	04/22	05/22	06/22
General	0.0	1.3	1.5	2.4	4.3	7.6	7.2	8.0	8.7
Core	0.0	0.8	0.9	1.5	3.1	5.3	5.0	5.6	6.0

Foreign sector

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

	2020	2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022	04/22	05/22	06/22
Trade of goods									
Exports *(year-on-year change, cumulative over 12 months)*	–10.3	18.3	13.4	18.3	21.4	...	17.9	...	...
Imports *(year-on-year change, cumulative over 12 months)*	–14.8	21.4	10.3	21.4	33.4	...	31.1	...	...
Current balance	**–2.1**	**–2.4**	**–1.9**	**–2.4**	**–3.7**	**...**	**–3.7**	**...**	**...**
Goods and services	–3.9	–5.6	–4.4	–5.6	–6.9	...	–7.0	...	...
Primary and secondary income	1.7	3.2	2.5	3.2	3.2	...	3.3	...	...
Net lending (+) / borrowing (–) capacity	**0.0**	**1.4**	**1.5**	**1.4**	**–0.4**	**...**	**–0.3**	**...**	**...**

Credit and deposits in non-financial sectors

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

	2020	2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022	04/22	05/22	06/22
Deposits [1]									
Household and company deposits	10.0	9.3	8.7	9.3	8.9	...	8.9	8.2	...
Sight and savings	18.8	16.3	15.5	16.3	15.3	...	14.9	13.1	...
Term and notice	1.2	1.2	1.0	1.2	1.1	...	1.6	2.1	...
General government deposits	–21.0	–4.1	–5.2	–4.1	9.8	...	–1.9	–2.3	...
TOTAL	**8.9**	**9.0**	**8.2**	**9.0**	**8.9**	**...**	**8.6**	**7.9**	**...**
Outstanding balance of credit [1]									
Private sector	4.6	2.9	4.2	2.9	2.8	...	2.7	2.6	...
Non-financial firms	10.5	2.2	5.8	2.2	1.2	...	1.0	0.8	...
Households - housing	2.1	3.3	3.3	3.3	3.0	...	3.0	3.0	...
Households - other purposes	–1.1	3.1	3.2	3.1	6.4	...	6.4	6.2	...
General government	–4.2	3.8	4.1	3.8	5.3	...	4.1	5.1	...
TOTAL	**4.2**	**2.9**	**4.2**	**2.9**	**2.8**	**...**	**2.7**	**2.7**	**...**
NPL ratio *(%)* [2]	**4.9**	**3.7**	**4.0**	**3.7**	**3.6**	**...**	**–**	**–**	**–**

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 Refinitiv.*

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