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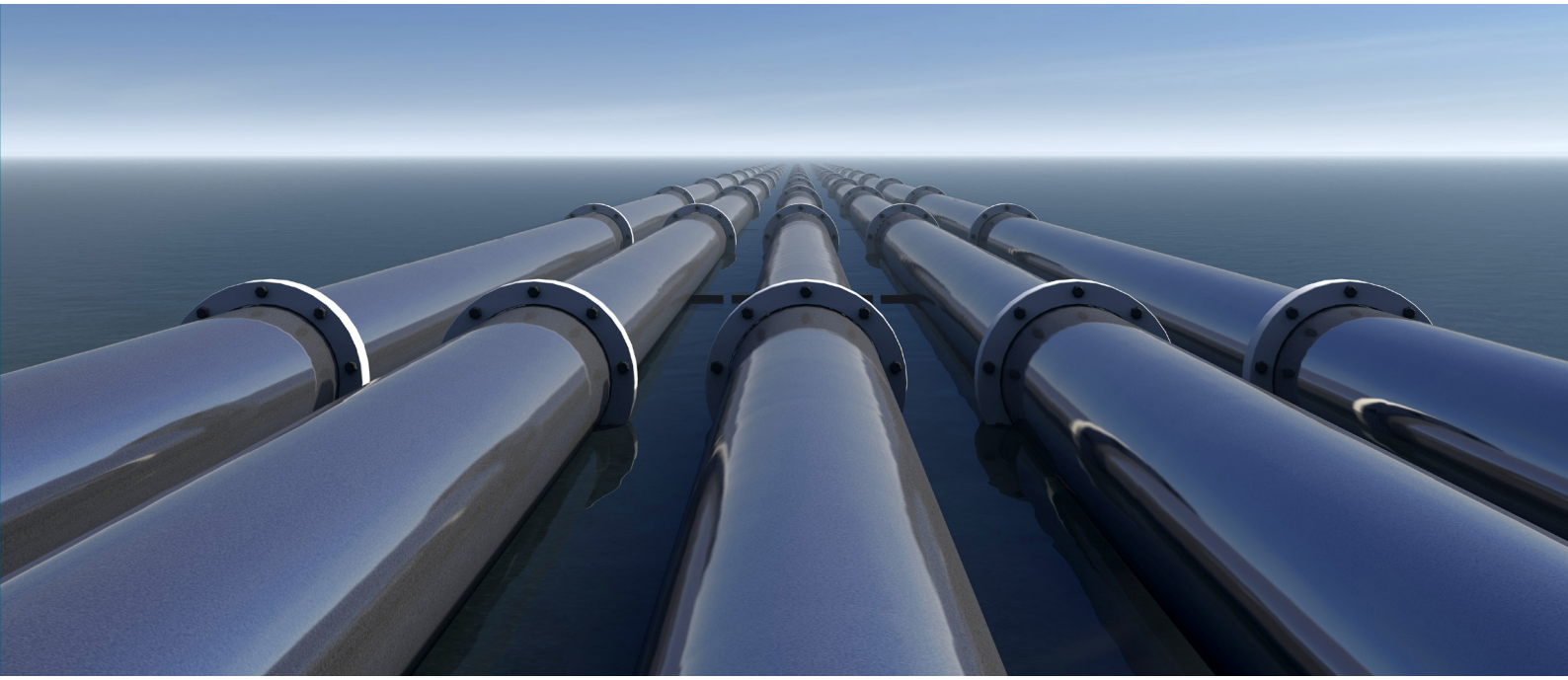

THE CURRENT INTERNATIONAL ECONOMIC ENVIRONMENT

The end of abundance?

The ECB and risk premia in the periphery

The dance continues in the commodity market

US: in recession?

THE CURRENT ECONOMIC ENVIRONMENT IN SPAIN

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Not all Spanish households spent more on fuel in summer

The CaixaBank Research real estate clock: slowdown in sight

CaixaBank Research

MONTHLY REPORT - ECONOMIC AND FINANCIAL MARKET OUTLOOK
September 2022

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

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The Spanish economy loses steam

What happens during the month of August often seems like a mirage. I am not referring to the feeling that our holiday has been too short (although that is also true). August is often a month in which there is little information on the progress of economic activity and we tend to overreact to the limited data that is available. In the summer months we often see increased volatility in the financial markets caused by factors that end up being inconsequential.

This summer's hot topic, at least economically speaking, has been the sharp rise in the price of gas. Unfortunately, this time it does not seem to be merely a mirage. All the indicators suggest that over the coming months we will have substantially higher prices than those predicted before we went on holiday, and this will undermine the Spanish economy's recovery process.

We already have indications that the economy is losing steam. On the one hand, the Purchasing Managers' Indices (PMIs) for both the services and manufacturing sectors show a clear downward trend. In fact, the one concerning industry is already at levels that indicate a decline in activity. This is accompanied by a marked decline in confidence, which is also particularly pronounced in industry.

Household consumption, the main pillar of the economy (it represents around 55% of GDP), is also weakening. Both retail sales in real terms and those of large firms declined in July. CaixaBank's real-time consumption tracker, which monitors the evolution of spending on CaixaBank cards and that registered on CaixaBank point of sale terminals in retail establishments, paints a similar picture and anticipates that this trend has continued during August.

The savings accumulated by households during the pandemic due to the restrictions on mobility and activity will have practically been exhausted this quarter. That said, they will have helped households to cushion the blow of inflation to their consumption for a few months. Beyond what is going on at the aggregate level, the ability to cope with the rise in prices varies widely among households. Those on lower incomes and young people are already being forced to cut their spending.

The outlook is not exactly encouraging. The magnitude and persistence of the energy shock has led to the price increases becoming widespread. 80% of goods are now showing a price increase of more than 2%, and for one third of all goods the increase exceeds 10%. The spread of the inflationary pressures to almost all categories of the consumer basket is a double cause for concern. On the one hand, it reduces households' purchasing power. That much is clear. Above all, however, historically it has been difficult to reverse these kinds of dynamics once they have been set in motion. If the price of only some types of goods increases, few companies consider raising their prices – only those directly affected. But when there are price increases across the board, more and more firms anticipate that their suppliers, as well as their competitors, will be forced to increase them. Thus, inflationary pressures become increasingly widespread and more pronounced.

The change in the outlook for gas prices and the rise in inflationary pressures will force us to adjust our forecast scenario for the Spanish economy – something we will do next month. The medium-term inflation expectations remain well anchored, but in 2023 we are likely to see price increases that are somewhat greater than we expected and growth, somewhat weaker. Let us hope that this year will end up being like the rest, and that what has happened in August will prove to be nothing but a mirage.

Oriol Aspachs
September 2022

Chronology

AUGUST 2022

Summer 2022 Heat waves and drought in Europe and other countries around the world.
Summer 2022 Disruptions in the supply of Russian energy to Europe.
31 Mikhail Gorbachev, the last president of the USSR, dies.

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.

JULY 2022

7 Boris Johnson resigns as prime minister of the United Kingdom.
8 Assassination of Shinzō Abe, former Japanese prime minister.
28 Mario Draghi resigns as prime minister of Italy.

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.

Agenda

SEPTEMBER 2022

2 Spain: registration with Social Security and registered unemployment (August).
Spain: DBRS rating.
8 Governing Council of the European Central Bank meeting.
9 Portugal: S&P rating.
16 Spain: quarterly labour cost survey (Q2).
Spain: S&P rating.
20-21 Federal Open Market Committee meeting.
22 Portugal: home prices (Q2).
23 Spain: GDP breakdown (Q2).
Spain: balance of payments and NIIP (Q2).
Spain: loans, deposits and NPL ratio (July and Q2).
Portugal: GDP breakdown (Q2).
29 Spain: CPI flash estimate (September).
Portugal: employment and unemployment (August).
Euro area: economic sentiment index (September).
30 Spain: household savings rate (Q2).
Portugal: NPL ratio (Q2).
Portugal: tourism activity (August).

OCTOBER 2022

3 Portugal: industrial production (August).
4 Spain: registration with Social Security and registered unemployment (September).
6-7 European Council meeting.
10 Spain: financial accounts (Q2).
11 Portugal: turnover in services (August).
20-21 European Council meeting.
24 Spain: loans, deposits and NPL ratio (August).
Portugal: non-financial sector debt (August).
27 Spain: labour force survey (Q3).
Governing Council of the European Central Bank meeting.
US: GDP (Q3).
28 Spain: GDP flash estimate (Q3).
Spain: CPI flash estimate (October).
Portugal: CPI flash estimate (October).
Portugal: Fitch rating.
Euro area: economic sentiment index (October).
31 Portugal: GDP flash estimate (Q3).
Euro area: GDP (Q3).

The end of abundance?

The summer has been characterised by a tense calm in the economy and the international financial markets, pending developments in the risk factors and the impact they might have on a business cycle that is beginning to show signs of exhaustion. The question is whether the weakening of growth that is now apparent in the closing stages of Q3 could end in recession. For the time being, the biggest source of concern is Europe, where growth has slowed over the summer and is approaching stagnation. That said, the performance of the American and Chinese economies is also subject to a fair degree of uncertainty, in the former case because of the «pain» being inflicted by the Fed, and in the latter due to the continuation of the zero-COVID policy and its problems in the real estate sector.

In the euro area, there is an impression that the positive effects on the services sector derived from the last COVID-related restrictions being lifted and the use of the pent-up savings are no longer likely to offset the weakening of industry and the erosive effect that the rising inflation and tightening of monetary policy are already having on households' purchasing power. In this regard, the recent rally in the price of gas futures in Europe (anticipating a prolonged closure of supply from Russia) and the sense that the ECB will accelerate its interest rate hikes in order to quickly reach neutral territory is changing the assumptions used as the basis for economic forecasts. All this will lead to a new round of downward revisions in economic growth forecasts over the coming weeks by most economic analysts. With the 12-month Euribor approaching 2% (+2.35 pps in the year to date), inflation surpassing 9% and gas prices likely to be in the 150-200-euro/MWh range in the coming months, it is difficult not to anticipate declines in economic activity in the bloc, at least in the six-month period from October to March.

Beyond that period, the visibility is very low, as everything will depend on how effective Europe's economic policy response to the energy problem proves to be. Other key factors in this regard will include whether rationing is required in the supply of gas, how flexible the ECB can be in adapting its road map to the requirements of the monetary normalisation process, how the supply-side restrictions caused by the bottlenecks develop (there are some positive signs in terms of delivery times and freight costs) and how the various sources of geopolitical risk evolve (Ukraine, elections in Italy, Taiwan, the Middle East, etc.). Indeed, there are many simultaneously open fronts, many of which are interrelated, and the key will lie in the extent to which they impact expectations and, above all, the labour market. With regards to expectations, the latest data show that confidence among economic agents (especially business leaders in industrial sectors) appears to be now anticipating a weakening – although not a sharp decline – in economic activity in the latter part of the year. The labour market, meanwhile, continues to show a reasonably clean bill of health in most OECD countries, albeit with many sectors experiencing difficulties in finding suitable candidates to fill vacancies.

As for the central banks, the challenge will lie in gauging the appropriate dose of monetary tightening needed to reduce inflation in economies that are already in the midst of a slowdown. It is relatively easy to cool an overheated economy suffering from demand-driven inflation, but not so easy to tame a price rally triggered largely by supply-side problems at a time when economic activity is losing momentum. For now, following the doubts that dominated 2021, the central banks are currently stepping up the pace in their campaigns to regain some degree of freedom and to reach at least neutral territory by the end of the year, even if this entails a significant sacrifice in terms of growth. The problem in circumstances such as the present is that there is a risk of both going too far and not going far enough, and this will require considerable flexibility in the coming months, as well as an appropriate communication policy.

The end of a long period of liquidity at no cost and of plentiful raw materials, water and technology are signs of what the president of France referred to this summer as «the end of abundance». Whether or not this is an overly pessimistic view of the reality, it reflects the times of change we are facing and the need to adapt to them. As the age-old saying, which is so topical in light of the war in Ukraine and the energy crisis, puts it: «hope for the best, prepare for the worst».

José Ramón Díez

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

The energy shock shakes the financial markets

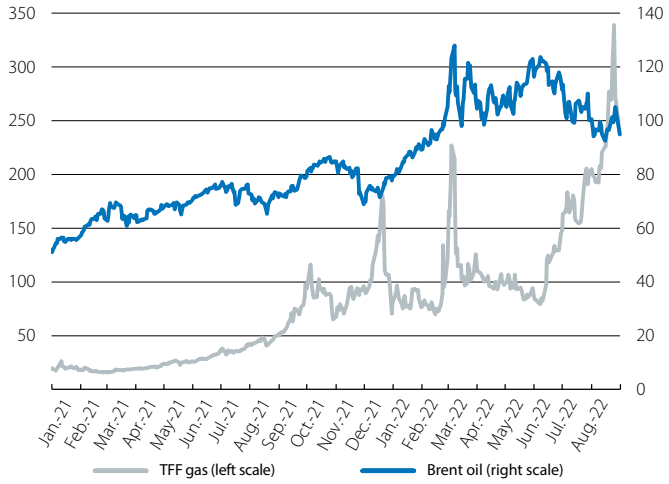
The energy crisis worsens... The intensification of the energy crisis was the dominant factor in the financial markets over the summer months. The interruptions in the supply of gas to Europe from Russia (a reduction in the flow via Nord Stream 1 from 40% to 20% of capacity in July and a temporary closure in late August), coupled with the high temperatures and summer droughts, led to a surge in natural gas prices in Europe. In particular, the TTF benchmark reached €340/MWh, an all-time high and more than double the price of late June. At the end of August, the futures markets were anticipating that the price would remain above €200/MWh at least until mid-2023. If confirmed, this would extend the inflationary pressures and could lead to a tightening of the monetary policy normalisation strategy. In this regard, the latest pronouncements from members of both the Fed and the ECB have shown a clear willingness to continue to raise official rates in order to curb the high inflation. In this context, in September we are now in the process of revising our main macro-financial forecasts. Among other elements, the new scenario will reflect a somewhat more rapid pattern of rate hikes by the major central banks.

... and upsets the tense calm in the financial markets. The upheaval in the gas market and the hawkish tone of the central banks triggered a negative confidence shock throughout the financial markets, interrupting the good performance of risky assets throughout July. Thus, the upward adjustment in inflation expectations and, consequently, in implicit rates in the money markets was reflected in a sharp rise in sovereign rates (of 72 bps up to 1.5% for the German *bund*; 54 bps up to 3.2% for the equivalent US 10-year bond at the end of August) and a flattening of sovereign yield curves. The international stock markets, meanwhile, ended August down for the month (5.1% for the Euro Stoxx and 4.2% for the S&P 500), partially reversing July's gains (7.3% and 9.1%, respectively). Oil prices, on the other hand, fluctuated throughout July and August around the 100-dollars-per-barrel mark in the case of Brent oil, with fears of a recession applying downward pressure on prices while the potential OPEC production cuts attenuated the declines.

The ECB abandons negative rates and supports peripheral debt. At its meeting on 21 July, the ECB surprised analysts by announcing a 50-bp official rate hike, double what it had communicated at its previous meeting, thereby abandoning negative interest rates. This higher than expected increase was justified by the persistence of inflationary pressures, a risk that has been exacerbated in recent weeks by the situation in the gas market. In this regard, the latest messages from Governing Council members suggest there is widespread support for further rate hikes, although there is some divergence with

Oil and gas prices

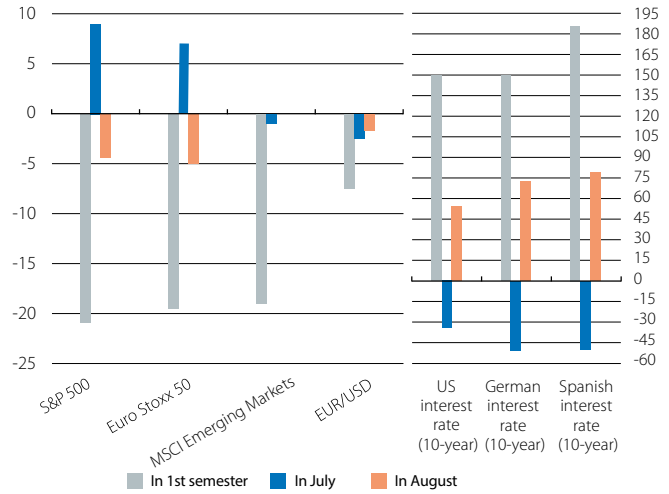
(Euros per MWh) *(Dollars per barrel)*



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

Select financial variables

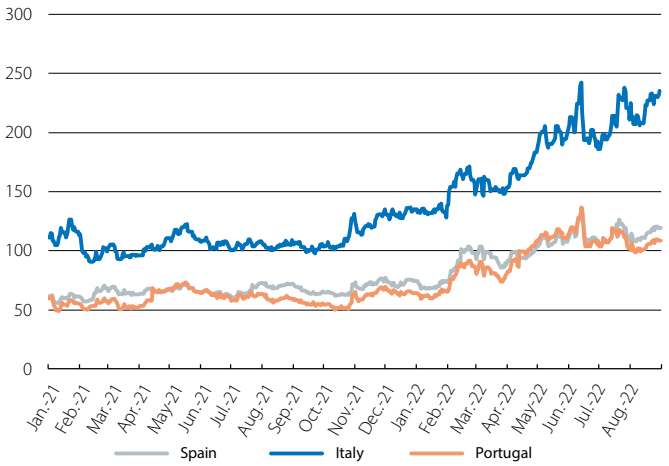
Change (%) *Change (p. b.)*



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

Risk premia for 10-year sovereign debt

(bps)



Note: *Differential versus the 10-year sovereign rate in Germany.*
Source: *CaixaBank Research, based on data from Bloomberg.*

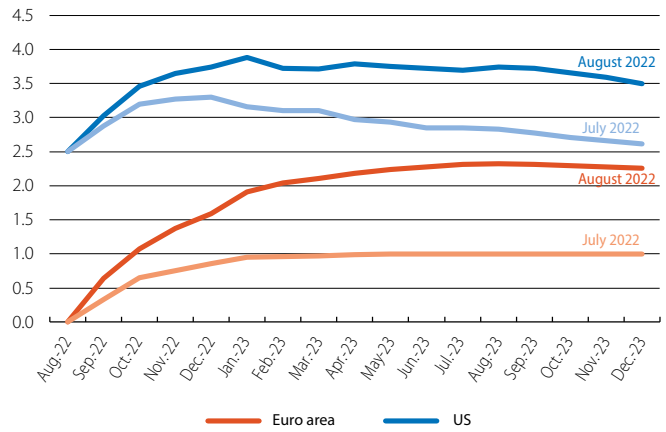
regard to the pace of the increases, with the most hawkish members being in favour of increasing the adjustment to 75 bps as early as the September meeting. At the end of August, prices in the money markets were reflecting expectations that the ECB would raise official rates by 150 bps between September and December and by 75 bps during the course of 2023. The ECB, meanwhile, also approved the Transmission Protection Instrument (TPI) in July. This new anti-fragmentation tool will allow it to acquire – subject to certain criteria – sovereign debt from countries whose risk premia increase in an «unwarranted or disorderly» manner. The announcement of the TPI and the support through reinvestments (17 billion in favour of peripheral debt in June-July) have helped to keep the risk premia of peripheral debt relatively contained, even in Italy in spite of the early elections at the end of September (see the Focus «The ECB and risk premia in the periphery» in this report).

The Fed, meanwhile, maintains its pattern of rate hikes. For the second consecutive meeting, in July the Federal Reserve agreed to raise official interest rates by 75 bps, bringing them up to the 2.25-2.50% range. This is around the neutral territory that neither stimulates nor contracts the economy, according to the central bank's own estimates. At the Jackson Hole conference, President Jerome Powell reiterated the central bank's intention to continue to raise rates above the neutral level and to keep them high until there is clear evidence that inflation is moderating in line with the target. In contrast, the money markets are betting that the Fed will likely change course in the second half of 2023, when the first drop in official rates is anticipated. However, these expectations have registered a downward correction in recent weeks, in a context of high volatility. The high uncertainty and the rapid normalisation of the Fed's monetary policy have provided greater support for the US dollar, which appreciated (in effective nominal terms) 2% between late June and late August and is trading at around parity with the euro.

Net capital outflows from emerging markets. The heightened uncertainty, the tightening of financial conditions in the West and the escalating inflationary pressures around the world continued to undermine investors' interest in emerging countries. Thus, according to the International Institute of Finance, net portfolio flows to these economies declined again in July (–9,799 million dollars), the fifth consecutive month of net capital outflows. In response, central banks in some countries approved further official rate hikes. The exceptions were the central bank of Turkey and the People's Bank of China. The former unexpectedly announced a 100-bp cut in the reference rate in August, bringing it to 13%, while the latter agreed a 15-bp cut in the rate applicable to five-year loans, which serves as the benchmark for mortgages. The Chinese government also announced an economic stimulus plan, with the bulk of the measures aimed at supporting the housing market.

Expectations for Fed and ECB benchmark interest rates

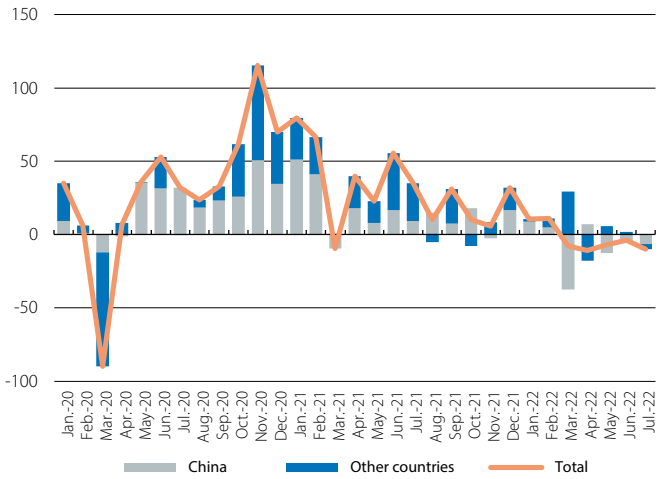
(%)



Note: *Forwards on the EFFR and the Euro area OIS rate derived from market interest rate curves.*
Source: *CaixaBank Research, based on data from Bloomberg.*

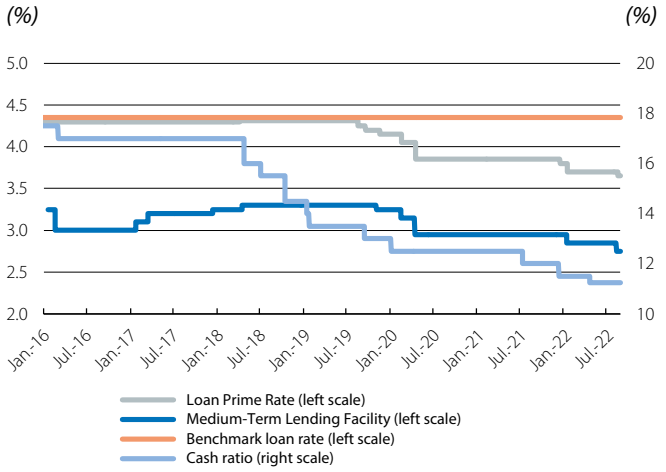
Net capital flows to emerging economies

(USD billions)



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

China: main interest rates and wholesale bank reserve ratio



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

The ECB and risk premia in the periphery

The ECB manages the monetary policy of a union made up of different European economies, each with its own economic, fiscal, social and political structure. This means that a change in its monetary policy can be transmitted differently between euro area countries. As an example, if there are doubts about a particular country's capacity to service its debt payments as a result of low long-term economic growth or a high debt-to-GDP ratio, then a rise in official interest rates (like the one the ECB is currently implementing to fight high inflation) is likely to raise sovereign interest rates in the euro area unevenly.

The first chart shows the increase in interest rates that occurred around the dates when the ECB made public its intention to abandon negative interest rates during Q3 2022. We can see how the yield on 10-year sovereign debt rose in Germany by around 80 bps, while in Italy it increased by almost 130 bps. The ECB's response to this asymmetric reaction in the financial markets was not far behind, as just six days after the 9 June meeting at which it had set out how the official interest rate hikes would occur during Q3 2022, it held an urgent meeting to announce two decisions aimed at containing the rise in risk premia,[1] as described below.

Tools to curb the rise in risk premia in the periphery: flexible reinvestments under the PEPP and TPI

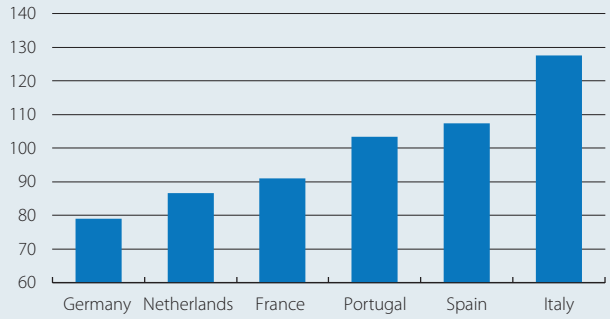
Although net purchases under the PEPP (pandemic emergency purchase programme) ended in March, the ECB remains active in the sovereign debt market with this programme as it is reinvesting the assets at maturity. The total public debt held by the ECB under the PEPP amounts to around 1,650 billion euros, of which around 20 billion reach maturity each month. With this limited capacity, in June the ECB began skewing the reinvestments of debt away from the core euro area countries in favour of those of the periphery in order to contain their risk premia (see second chart).

However, the focus has been on the ECB's new mechanism, the TPI (transmission protection instrument), the main details of which were published at the 21 July meeting. The TPI will allow the ECB to purchase debt from those countries where it believes the rise in their risk premia jeopardises the transmission of its monetary policy, without this being justified by macroeconomic fundamentals. For starters, the volume of assets that could be acquired under this programme is unlimited, and the possibility of acquiring corporate debt has not been ruled out. The ECB has explained that these purchases will not interfere with the orientation of its monetary policy, so they ought not to have a persistent impact on the central bank's balance sheet or the liquidity of the economy, although it has not yet specified details about how it would sterilise such purchases.

On the other hand, the ECB Governing Council will judge which countries are eligible to benefit from this instrument on the basis of certain macroeconomic criteria (see table). On the whole, these criteria do not appear to be overly demanding, so all euro area countries could most likely be eligible as of today. With regards to the first condition specified, the rules of the excessive deficit procedure (EDP)[2] are currently suspended and are not expected to be reintroduced until 2024, meaning that during 2022 and 2023 all countries could be eligible under this criterion. Furthermore, if any country were to enter an EDP or an excessive imbalance procedure (EIP)

10-year sovereign interest rates: change between 27 May and 14 June 2022

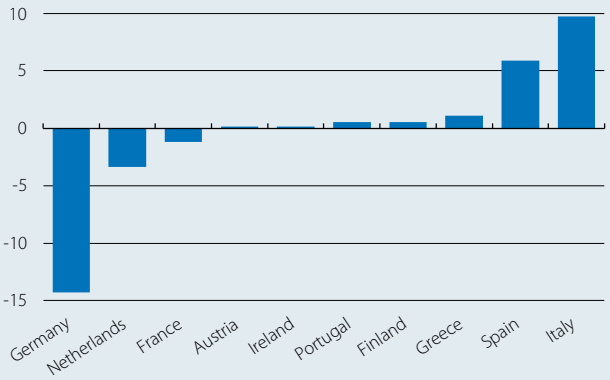
(bps)



Note: *Christine Lagarde published an entry in the ECB's blog on 23 May 2022 explaining when she expected to end net purchases under the APP and how the first rate hikes would be implemented. This expectation was confirmed at the Governing Council meeting of 9 June, and it met again urgently on 15 June to respond to this asymmetric rise in sovereign interest rates.*
Source: *CaixaBank Research, based on data from Bloomberg.*

PEPP: net purchases of sovereign debt in June and July 2022

(EUR billions)



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

1. The risk premium is the cost which a debt-issuing country pays in excess of the German 10-year bond to reward investors for investing in a riskier asset.

2. Specifically, (i) not having a fiscal deficit above 3% and (ii) not having a debt-to-GDP ratio of more than 60% or, if it is above this threshold, having a declining trend (reduction of 1/20th per year on average over the last three years).

under the second condition, it could still be eligible for the TPI if it is judged that the EU Council's recommendations to correct these imbalances are being followed. Similarly, the third condition is also subject to a great deal of subjectivity, as there is no single definition of debt sustainability and the Governing Council has given itself sufficient discretion to make its own judgements on this matter. Finally, in terms of meeting the commitments of the Resilience and Recovery Plan and the European Commission's six-monthly recommendations, it seems logical to assume that no EU country is flagrantly in breach of its commitments.

Risk premia in the periphery in Q3 2022: higher than their fundamentals would suggest

As mentioned, the ECB will choose to use the TPI tool if it considers that a particular Member State's risk premium is significantly above that which would be consistent with the macroeconomic fundamentals (the so-called macro risk premium). The question that occurs to us is: what are the current macro risk premia and how do they compare with those observed in the sovereign debt market?

Although a country's macro risk premium is not an observable variable, it can be estimated based on a set of variables. On the one hand, economic growth and the debt-to-GDP ratio are variables which determine a country's debt-repayment capacity. From a monetary point of view, the inflation rate and the reference interest rates set by the ECB also influence the macro rate. On the other hand, we must consider the debt yield of non-euro area countries, since they represent alternative investment opportunities, as well as the degree of uncertainty prevailing in the financial markets. Combining all these elements, we estimated the macro interest rate of the euro area's core and periphery countries using a simple model.[3]

The results for Q3 2022 to date show that, unlike in the core euro area countries, the risk premia observed in the periphery are higher than what the macroeconomic fundamentals would suggest. However, the difference between the observed premium and the macro premium is much smaller than that noted during the 2010-2013 sovereign debt crisis (see third chart). With the Italian risk premium at around 220 bps and those of Spain and Portugal at slightly over 100 bps, the ECB does not currently consider it necessary to activate the TPI. Nevertheless, the Italian risk premium's rally to around 250 bps in June served as a wake up call for the Governing Council to begin designing the TPI. Thus, should the risk premium of the transalpine country return to or exceed those levels, the ECB may consider the possibility of purchasing Italian government debt through the TPI. Interestingly, this does not mean it would actually have to do so, as the mere warning that it is willing to buy government debt at around these levels might be enough to keep the risk premium in check.

Eduard Llorens i Jimeno and Ricard Murillo Gili

3. We used a regression (ordinary least squares) with panel data between Q1 1999 and Q4 2009 for Germany, Austria, Belgium, Spain, France, Italy, Ireland, the Netherlands and Portugal. The period from Q1 2010 onwards is not considered, as the sovereign debt crisis, the unconventional implementation of the ECB's monetary policy and the COVID-19 crisis would significantly alter the model's estimates. As explanatory variables for the macro rate, the model includes real GDP growth, the debt-to-GDP ratio, the inflation rate, the three-month Euribor, an indicator of stock market volatility (VSTOXX), the US 10-year sovereign rate and country fixed effects. The R^2 of the regression is 77% and the estimated coefficients are in line with related articles. For instance, see Pamies *et al.* (2021). «Do Fundamentals Explain Differences between Euro Area Sovereign Interest Rates?». European Commission, European Economy Discussion Papers.

Eligibility criteria specified by the ECB

1. Not being subject to an excessive deficit procedure or, if subject to one, complying with the EU Council's recommendations.

2. Not being subject to an excessive imbalance procedure or, if subject to one, complying with the EU Council's recommendations.

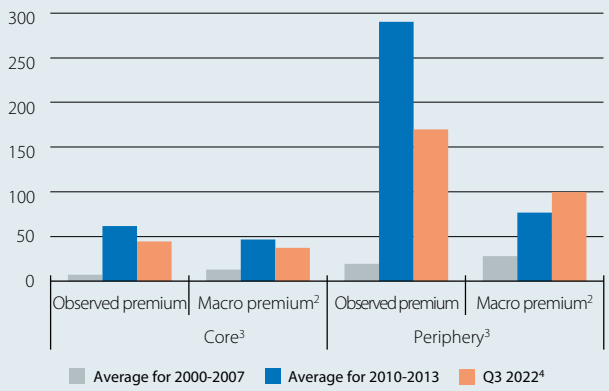
3. Ascertaining that the trajectory of public debt is sustainable, taking into account any analyses performed by the European Commission, the IMF or the ECB itself, among other factors.

4. Complying with the commitments set out in the Resilience and Recovery Plan and the European Commission's six-monthly recommendations.

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

Sovereign risk premia for 10-year debt[1]

(bps)



Notes: *1 Difference between the 10-year interest rate paid by a debt-issuing country relative to the German bond. 2 Risk premium predicted by macroeconomic fundamentals (economic growth, government debt, inflation, ECB monetary policy, stock market volatility and global financial conditions). 3 Core: weighted average for Austria, Belgium, France and the Netherlands. Periphery: weighted average for Spain, Italy and Portugal.*
4 Using data up to 18 August
Source: *CaixaBank Research, based on data from Oxford Economics, Datastream, Bloomberg, the European Banking Federation and STOXX.*

The dance continues in the commodity market

The volatility in commodity prices since the outbreak of the pandemic continues to be a key factor for the economic outlook, given the implications for production costs and the prices consumers pay.

The strong recovery in global demand following the first wave of COVID-19, together with the supply problems in many commodity-exporting economies, resulted in a significant appreciation of commodities linked to the business cycle (industrial metal and energy prices) throughout the second half of 2020 and most of 2021.[1] Just when this rally appeared to be running out of steam between Q4 2021 and Q1 2022, the outbreak of the war in Ukraine led to a further rise in most commodity prices in the first few weeks of the conflict, particularly in the case of those for which Russia and Ukraine are key global suppliers (see first and second charts). Following this initial widespread surge in prices in reaction to the war, commodity prices have followed a different course depending on the type of product. In the following sections we analyse the various factors that have affected each group of commodities in recent weeks.

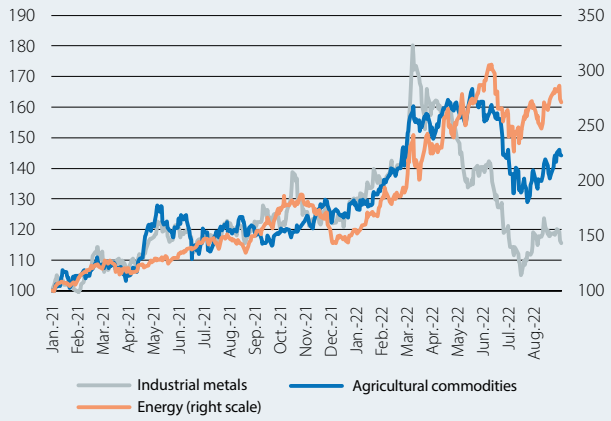
Energy commodity prices have increased the most

Russia is the third largest oil producer in the world and the second largest in terms of exports, with just over 10% of the global total in both cases. It is also one of the main exporters of natural gas, with a clear bias towards European sales (it exports 40% of the natural gas consumed in the region). As a key global supplier, the outbreak of the war and the sanctions imposed on Russia by the West led to a supply shock which triggered a sharp rise in Brent oil and natural gas prices (particularly the Dutch TTF, which acts as the benchmark for Europe).

On the natural gas side, the continued uncertainty regarding the reliability of Russian gas flows to Europe (with constant interruptions and reductions in the supply via North Stream I) caused TTF prices to rally by around 250% between June and late August, reaching all-time highs (€338/MWh on 26 August). In the closing days of August, the price moderated thanks to a sharp rise in Germany's gas inventories (to around 85% of capacity), although this trend was reversed when Russia halted the flow of gas through the aforementioned pipeline indefinitely at the beginning of September.

On the oil side, its price has fallen sharply from the March highs of 128 dollars a barrel, although during August it remained around the 100-dollar mark (close to the seven-year high). Investors' fears of a weakening in the global economy and its concerns for oil demand has more than offset the supply deficit that has been plaguing the sector since the pandemic. Also, unlike the price of natural gas, the price paid for oil in Europe is much less dependent on Russian supply, as it is a much more tradable product worldwide.[2] Thus, it is easier to switch between different oil suppliers, unlike in the case of natural gas, where there is greater dependence on Russia and switching to other suppliers is more costly and time-consuming.

Commodity prices



Note: *Data as of 31 August 2022.*
Source: *CaixaBank Research, based on data from Bloomberg.*

The price of metals overreacted to the initial impact of the war

In the case of industrial metals, prices initially rallied, driven by fears regarding the implications of a lack of Russian supplies of those metals for which it is a key producer (palladium, nickel and aluminium). As the war progressed, that risk of a lack of supply failed to materialise, easing nerves in the markets. At the same time, the first signs of a cooling of economic activity began to appear in China (especially in the construction and real estate sectors), where the arrival of the Omicron variant led to strict lockdowns in some industrial regions of the country. On balance, both factors favoured a drop in prices of between 20% and 50% from the March highs, depending on the metal. The prime example was nickel, the price of which doubled in the early weeks of the conflict before quickly dropping back down to pre-war levels.

1. See the Focus «Commodities: the resurgence of a market in the midst of the global recession» in the MR02/2021.

2. Natural gas prices vary more widely from region to region, partly because of the costs associated with its transportation, whereas oil prices are more global.

Agricultural commodity prices have begun to moderate in Q3 2022

Prices of agricultural goods, mainly cereals such as wheat and corn, where Russia and Ukraine are global suppliers, also increased significantly. Unlike metals, where the stress on prices began to dissipate in late April, prices of agricultural goods continued to climb for much of Q2 2022. This was due to several specific factors, such as the closure of Ukraine's Black Sea ports, rising global fertiliser prices (where Russia and Ukraine are also global suppliers), droughts in some major global producers (especially the US and Europe) and the food export bans introduced by several Asian producing countries such as India (due to fears of food insecurity).

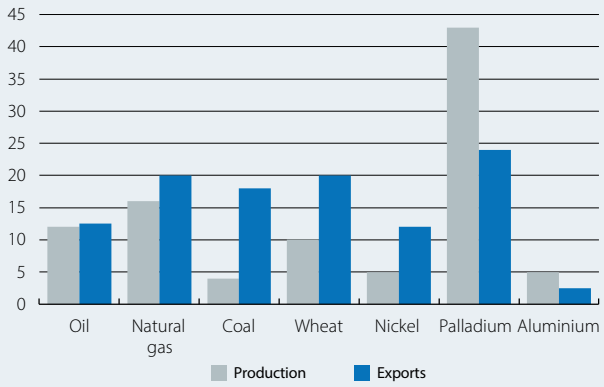
In mid-June, however, some of these factors were reversed (most notably, the port of Odessa was reopened for exports). This allowed the price of agricultural goods to fall to around pre-war levels, such as in the case of wheat, which dropped in price by more than 20% from the year's peak. Another aspect which contributed significantly to this movement was the fall in risk premia in futures prices, given that the supply risks in the sector did not materialise.

The war will continue to determine the evolution of the commodity markets

Looking ahead to the coming months, there is a great deal of uncertainty (closely linked to developments in the war) and for now it seems likely that the current trends will persist in the short and medium term. On the one hand, the cooling of economic activity could further reduce the demand for commodities, especially industrial metals. On the other hand, structural factors in the commodity markets suggest that prices may have limited margin for reductions, taking into account the following factors: the uncertainty linked to the war, which will keep energy prices high; the leakage of higher energy prices to other commodity prices, and the current low level of commodity inventories (in June, inventories were 19% below the historical average). Similarly, in the case of agricultural commodities, their prices are likely to remain more volatile than usual due to supply problems linked to the acceleration of the effects of climate change.

Beatriz Villafranca and Pedro Álvarez

Russia: commodity production and exports
(% of world total)



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

Commodities: prices and variations

	Measure	Price	Change (%)			
			August	Year to date	2020	2021
Commodities	Index	122.5	0.5	23.5	–4.7	27.8
Energy	Index	55.5	1.5	79.6	–44.4	54.5
Brent	$/barrel	97.8	–11.1	25.8	–25.0	51.5
WTI	$/barrel	90.8	–6.2	27.9	–11.0	57.6
Natural gas (Europe)	€/MWh	281.0	47.2	299.5	54.6	270.2
Precious metals	Index	194.5	–4.8	–11.2	25.4	–6.2
Gold	$/ounce	1,716.0	–3.2	–6.2	25.0	–3.4
Palladium	$/ounce	2,105.6	–4.1	10.5	23.9	–19.5
Industrial metals	Index	155.6	–1.5	–10.0	15.4	29.0
Aluminium	$/mt	2,391.0	–3.9	–14.8	9.4	40.4
Copper	$/mt	7,864.0	–0.7	–19.1	26.2	23.9
Nickel	$/mt	21,369.0	–9.5	2.9	17.2	23.7
Agricultural	Index	69.4	3.7	14.2	14.4	28.0
Corn	$/bushel	678.0	10.0	14.3	22.2	25.0
Wheat	$/bushel	800.0	–1.0	3.8	15.2	20.3

Notes: *Data as of the period end. The Bloomberg commodity indices are used as the reference.*
Source: *CaixaBank Research, based on data from Bloomberg.*

Interest rates (%)

	31-August	31-July	Monthly change (bp)	Year-to-date (bp)	Year-on-year change (bp)
Euro area					
ECB Refi	0.50	0.50	0	50.0	50.0
3-month Euribor	0.65	0.23	42	122.6	120.4
1-year Euribor	1.78	0.92	86	227.9	227.4
1-year government bonds (Germany)	0.67	0.38	29	130.8	133.8
2-year government bonds (Germany)	1.20	0.28	92	182.2	191.3
10-year government bonds (Germany)	1.54	0.82	72	171.8	191.4
10-year government bonds (Spain)	2.74	1.92	82	217.2	240.0
10-year government bonds (Portugal)	2.63	1.84	79	216.3	241.7
US					
Fed funds (upper limit)	2.50	2.50	0	225.0	225.0
3-month Libor	3.08	2.79	29	287.3	296.3
12-month Libor	4.16	3.71	45	357.7	393.2
1-year government bonds	3.48	2.89	60	310.7	341.9
2-year government bonds	3.49	2.88	61	276.1	328.4
10-year government bonds	3.19	2.65	54	168.3	189.9

Spreads corporate bonds (bps)

	31-August	31-July	Monthly change (bp)	Year-to-date (bp)	Year-on-year change (bp)
Itraxx Corporate	120	101	19	71.8	75.0
Itraxx Financials Senior	129	110	20	74.5	77.9
Itraxx Subordinated Financials	241	204	36	132.6	141.1

Exchange rates

	31-August	31-July	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
EUR/USD (dollars per euro)	1.005	1.022	–1.6	–11.6	–15.1
EUR/JPY (yen per euro)	139.700	136.160	2.6	6.7	7.3
EUR/GBP (pounds per euro)	0.865	0.839	3.1	2.8	0.6
USD/JPY (yen per dollar)	138.960	133.270	4.3	20.8	26.3

Commodities

	31-August	31-July	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
CRB Commodity Index	585.0	582.5	0.4	1.2	5.0
Brent ($/barrel)	96.5	110.0	–12.3	24.1	34.8
Gold ($/ounce)	1,711.0	1,765.9	–3.1	–6.5	–5.7

Equity

	31-August	31-July	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
S&P 500 (USA)	3,955.0	4,130.3	–4.2	–17.0	–12.6
Eurostoxx 50 (euro area)	3,517.3	3,708.1	–5.1	–18.2	–16.8
Ibex 35 (Spain)	7,886.1	8,156.2	–3.3	–9.5	–12.3
PSI 20 (Portugal)	5,995.2	6,123.2	–2.1	7.6	9.6
Nikkei 225 (Japan)	28,091.5	27,801.6	1.0	–2.4	–1.3
MSCI Emerging	994.1	993.8	0.0	–19.3	–24.3

Drought in the global growth outlook

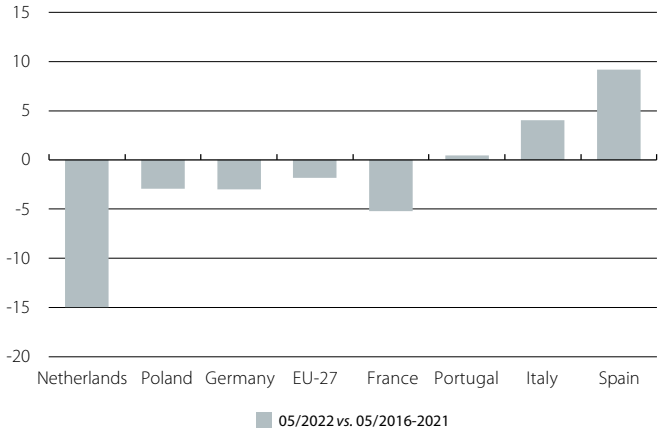
The energy crisis threatens the European economy. Besides high temperatures and bathing suits, the summer months brought the worst drought in 500 years in Europe and an unprecedented escalation in the energy crisis. Natural gas prices in the financial markets registered new peaks in excess of €300/MWh, 15 times higher than the historical average. The prices quoted in the futures markets for 2023 soared by 50% in August compared to July, reaching over €200/MWh. Clearly, the persistence of the energy crisis will impact the outlook for global growth, with Europe in the eye of the storm. In order to mitigate its impact on the economy, the efforts already announced by EU Member States aimed at reducing demand will soon be accompanied by measures intended to reform the European electricity markets, with the goal of decoupling electricity prices from gas prices. In this context, the composite PMI at the global level stood at 50.8 in July, its lowest level in two years, thus approaching contractionary territory. As a result, in September we are now in the process of revising our main macro-financial forecasts. The new scenario will reflect lower economic growth rates, higher inflation and a more rapid pattern of rate hikes.

Good growth data in the euro area for the first half of the year, but signs of recession in the US. Before the energy storm in August, the economic activity indicators for Q2 painted a picture of a resilient European economy. Specifically, euro area GDP grew by 0.6% in Q2 2022 compared to the previous quarter (+3.9% year-on-year). Among the region's biggest economies, GDP was particularly strong in Italy (+1.0% quarter-on-quarter) and Spain (1.1%), while it was more moderate in France (0.5%) and weak in Germany (0.1%). On the other hand, both in the UK and the US GDP fell by 0.1% in Q2, even placing the US economy in a «technical recession» (two quarters of negative growth). However, both the strength of the labour market (the unemployment rate remains below 4%) and the breakdown of growth (the declines have been concentrated in the change in stocks and residential investment) continue to suggest a recession-free macroeconomic picture (see the Focus «US: in recession?» in this same report). Looking to the second half of the year, however, the combination of the energy crisis and the new cycle of rate hikes will bring more headwinds for the global economy.

The second half of the year is shaping up to be a difficult one. The weakness of the European economy in the face of the energy crisis is already visible in the available economic activity indicators for Q3 2022. The euro area's composite PMI fell in August to 49.2 points, after standing at 49.9 points in July, both values being consistent with a slight drop in

EU-27: gas consumption

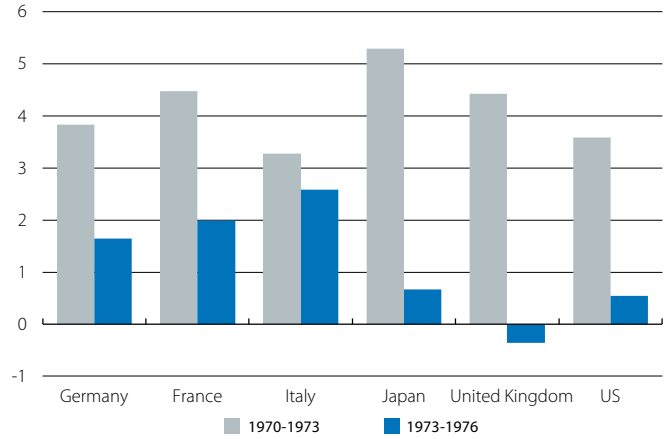
Change in the 12-month cumulative consumption (%)



Note: *Given the high volatility of gas consumption, we take the change in the 12-month cumulative consumption in May 2022 (latest available figure) and compare it with the average for the same month observed between 2016 and 20211.*
Source: *CaixaBank Research, based on data from Eurostat.*

Global: real GDP growth before and after the first oil shock

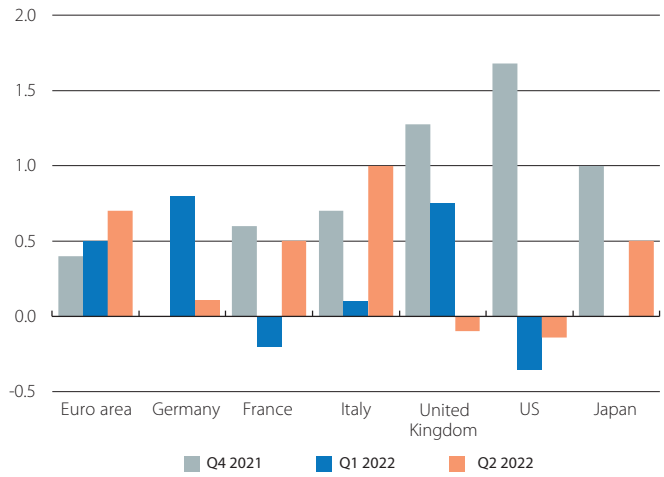
(%)



Note: *We use the annual averages of real GDP growth between 1970-1973 and 1973-1976.*
Source: *CaixaBank Research, based on data from the OECD Economic Outlook of June 2022.*

Global: GDP

Quarter-on-quarter change (%)



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

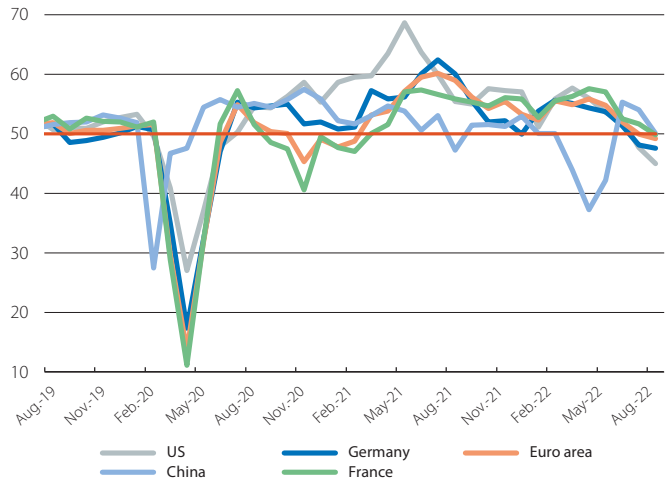
economic activity in Q3. In Germany in particular, the composite PMI lies clearly below the 50-point threshold for the second consecutive month (47.6 in August, its lowest since June 2020), and the Ifo indicator for August also remained very low (88.5 points). The deterioration in euro area economic activity is particularly visible in the industrial sector, although the recent boost in the services sector is also showing signs of running out of steam. On the other hand, the European Commission's economic sentiment index suggests a sharp deterioration in activity throughout Eastern Europe. In the US, meanwhile, the latest indicators are somewhat more mixed: the composite PMI stood at 45.0 points in August (vs. 47.7 in July), but the ISM indices were positive over the summer, as were the labour market indicators.

Respite in some inflation data, but the inflationary pressures persist. In the US, headline inflation fell to 8.5% in July. This represents a moderation of –0.6 pps since the previous month, although it is still very high. Core inflation, meanwhile, remained at 5.9%. In the euro area, inflation reached a new high in August, at 9.1% (8.9% in July), but the trend was different from country to country. While it rose by 0.3 pps in Germany (to 8.8%, a 40-year high) and by 0.6 pps in Italy (to 9.0%), it fell by 0.3 pps in France (to 6.5%) and by 0.4 pps in Spain. The core inflation measure for the euro area rose by 0.3 pps to 4.3%, reflecting the growing inflationary pressures across the consumer basket. The latest data suggest that the ECB could be forced to accelerate its rate hikes – an expectation already reflected in financial market prices as of late August.

China, the world's second largest economy, is dry and stagnant. Between the deepening crisis in the real estate sector, the continued impact of the country's zero-COVID policy and one of the country's worst droughts since records began, China is showing no signs of recovery. Following a 2.6% contraction in GDP in Q2, which brought year-on-year growth to 0.4%, the available economic activity data for Q3 suggest that the Chinese economy is a far cry from the buoyancy we have become accustomed to in recent decades. In particular, indicators such as retail sales and industrial production suggest a slowdown in the economy in July, after a brief recovery in June which followed the impact of the Omicron variant in the spring. Similarly, the fall in the official composite PMI (from 52.5 to 51.7) suggests a further slowdown in August. In this context, the Central Bank of China surprised analysts when it cut reference interest rates and presented various measures aimed at supporting infrastructure projects, which is indicative of the country's authorities' concern about the slowdown in its economy.

Global: PMI

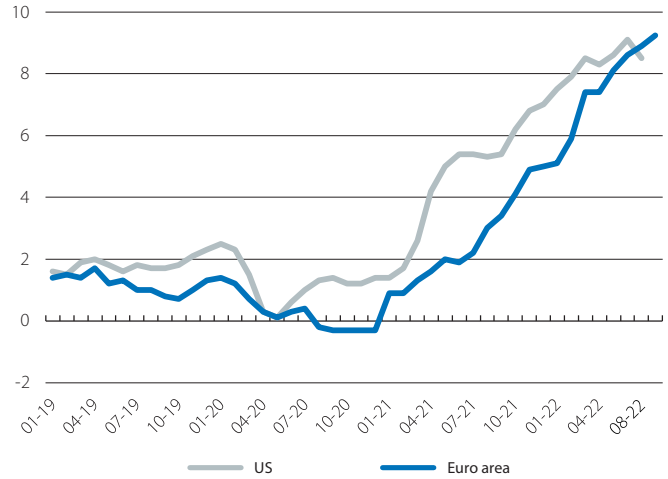
Level



Source: *CaixaBank Research, based on data from PMI Markit and S&P Global.*

US and euro area: CPI

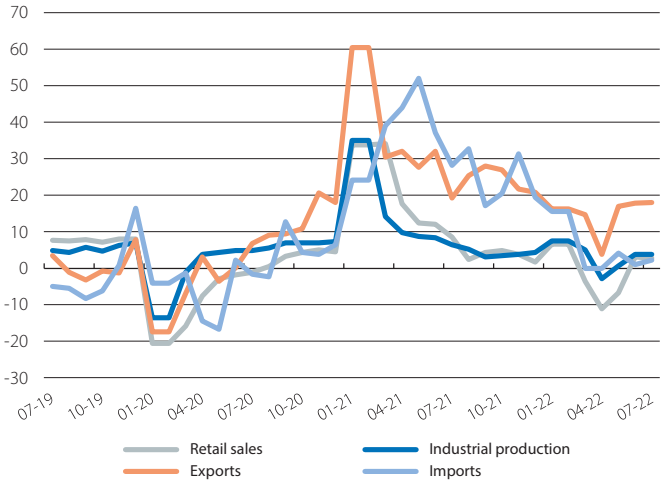
Year-on-year change (%)



Note: *August flash estimate for the euro area. For the US, data up to July.*
Source: *CaixaBank Research, based on data from the BLS and Eurostat.*

China: economic activity and foreign trade indicators

Year-on-year change (%)



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

US: in recession?

Fears about a possible recession in the US economy have intensified in recent months, a risk which has crystallised with the second consecutive fall in GDP in Q2 2022 and with the inversion of some sections of the sovereign yield curve. The deterioration in some economic data, the significant tightening in financial conditions and the high degree of uncertainty surrounding the global macroeconomic outlook have triggered alarm bells. On the other hand, employment continues to grow steadily, while the signs from business earnings suggest that private consumption remains resilient. In this context, we take a look at various elements that might offer us some clues about how the US economy could perform over the coming quarters.

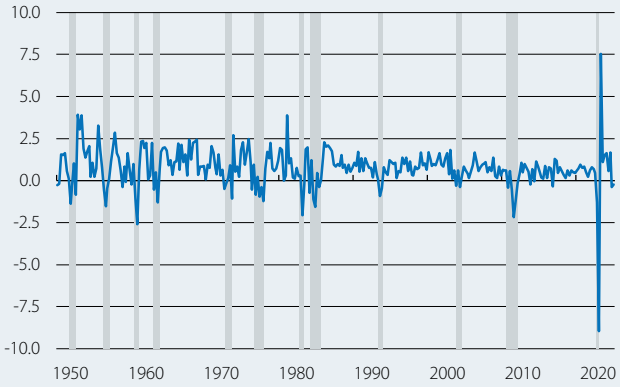
What is understood by the term recession?

First of all, it is worth clarifying what is meant by recession. Recession is often referred to when GDP declines for two quarters in a row. However, this definition is not universally used by all countries, nor does it match the empirical evidence from periods considered recessive (see chart).

In the case of the US, the National Bureau of Economic Research (NBER) is the entity responsible for assessing whether a decline in economic activity should be qualified as a recession. According to this institution, the economy enters a recession when there is a significant and widespread decline in economic activity across various economic spheres and for a relatively prolonged period. Depth, breadth and duration are the three features that usually define these periods, although the NBER does not provide rigid guidelines for these criteria.[1]

US: real GDP

Quarter-on-quarter change (%)



Note: *The areas shaded grey correspond to recessive periods according to the NBER.*
Source: *CaixaBank Research, based on data from the BEA.*

Besides GDP, the NBER tracks a series of monthly variables in order to broaden its reading of the economy's performance. Among others, these include real disposable household income, employment, consumer spending, retail sales and industrial production. Let us take a look at what has happened to these variables in recent months and how they compare to previous recessive episodes.

Recent economic indicators

If we look at what has happened to GDP over the last two quarters, the US economy could be considered to be in recession, with a cumulative decline of 0.5%. This is greater, at least in depth, than the decline registered

US: business cycle dashboard

*Trend (%) **

	Crisis of 1973-1975	Crisis of 1980	Crisis of 1981	Crisis of 1990	Crisis of 2001	Crisis of 2007-2009	COVID crisis	Average 2002-2006	Average 2015-2019	Last 3 months	Latest figure
Real personal income excluding current transfer receipts	–3.3	–2.8	0.7	–2.6	–2.0	–3.8	–22.1	3.1	2.5	0.8	5.1
Employment (Establishment Survey)	–0.8	–1.5	–2.1	–0.3	–1.6	–3.3	–30.3	0.9	1.6	3.0	2.5
Employment (Household Survey)	–0.6	–1.9	–0.8	–1.5	–1.3	–2.8	–34.9	1.4	1.5	0.1	3.4
Real Personal Consumption Expenditures	–0.6	–1.6	1.2	–1.0	2.6	–1.4	–44.9	3.5	2.5	1.0	2.5
Real Retail sales	–	–	–	–	8.3	–3.6	–49.7	8.4	5.6	14.6	23.4
Industrial production	–8.1	–9.7	–5.2	–5.0	–4.5	–10.4	–37.9	2.8	–0.2	3.1	6.9

Notes: ** The trend during crisis and expansionary periods corresponds to the average annualised monthly or quarterly growth rates. In the case of the latest figure, this corresponds to the annualised month-on-month or quarter-on-quarter growth. In the case of the last three months, this is the average annualised growth for the last three months compared to the previous three months. All variables are in real terms. Retail sales have been deflated using the PCE price index. The real personal consumption expenditure uses vintage data drawn up by the Philadelphia Fed.*
Source: *CaixaBank Research, based on data from the BEA, the BLS and the Board of Governors.*

1. There are some exceptions where not all of the criteria have been met but the period in question has nevertheless been considered a recession, such as in the case of the COVID crisis.

during the recession associated with the dot-com crisis at the turn of the century.

Secondly, if we look at the average growth over the last three months of the other monthly variables that are tracked by the NBER, we see how most of them still grew at rates compatible with expansionary periods (see table). Most notably, there was strong growth in employment (according to the establishment survey), industrial production and retail sales. In contrast, real personal income (excluding benefits) and real personal consumption expenditure have shown a much more modest trend since the end of last year, although they are still in positive territory for the three-month average.

Other economic activity indicators have also deteriorated sharply, such as Markit's composite PMI, which fell substantially into restrictive territory in July and August (47.5 and 45.0 points, respectively), and consumer confidence indices. In contrast, the ISM business surveys continued to show positive economic activity growth over the summer, which in the case of the services sector was even more buoyant in July than in previous months.

Taken as a whole, the latest data are indicative of an economy that is slowing considerably but which is probably not in recession according to the NBER definition.

Recession: high but controlled risks

The rapid cycle of interest rate hikes initiated by the Fed, the loss of household purchasing power as a result of high inflation and the end of the state aid programmes, as well as the heightened uncertainty in general, are all factors that are weakening economic activity. That said, the impact is not even across the economy.

There is a more pronounced cooling in sectors that are more sensitive to the rise in rates, such as housing, where we have seen a sharp deterioration in the monthly indicators (sales, construction projects started and planning permissions granted) since the beginning of the year. The retail sector, meanwhile, and in general the production of durable goods (such as furniture and cars) and some non-durable goods (such as clothing and footwear), has seen a reduction in demand following two years of boom in the context of the COVID-19 pandemic.

In contrast, most areas of the services sector, which accounts for around three quarters of GDP, continue to show considerable growth in their activity. Private consumption, for instance, has proved particularly resilient, favoured by a number of factors. Firstly, we have the savings accumulated during 2020-2021, which exceed 10% of GDP and which we expect will continue to provide a significant contribution over the coming quarters – around 400 billion dollars in real terms (1.5% of GDP) of extra consumption in 2022-2023.[2] In addition, the labour market has enjoyed a highly dynamic recovery, with unemployment near all-time lows and wage growth at around 5% year-on-year – factors that have supported household disposable income. Finally, households' financial position is solid, both on the asset side – household net worth is around the all-time highs – and on the liability side, with a household debt ratio of around 80% of GDP at the beginning of 2022, in line with 2001 levels and well below the peaks reached in 2007-2008.[3]

In short, the evidence does not suggest that the US economy has entered a recession, and if it did, it would most likely not be a terribly deep or long one. That said, the risks affecting the outlook remain concentrated on the downside, not only linked to the US domestic outlook but also the challenges facing the global economy, which include a possible recession in Europe due to the gas crisis, the economic slowdown in China with its zero-COVID policy and problems in the real estate sector, the growing geopolitical tensions and the fragile macro-financial situation in many emerging economies.

Clàudia Canals and Antonio Montilla

2. See the Focus «US: how can the accumulated savings support the economy?» in the MR07/2022.
3. Figures for the total liabilities of households and non-profit organisations.

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

UNITED STATES

	2020	2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022	06/22	07/22	08/22
Activity									
Real GDP	–3.4	5.7	4.9	5.5	3.5	1.7	–	–	–
Retail sales (excluding cars and petrol)	2.1	17.5	14.2	16.2	11.2	7.8	7.2	9.0	...
Consumer confidence *(value)*	101.0	112.7	116.7	112.9	108.1	103.4	98.4	95.3	103.2
Industrial production	–7.2	4.9	4.9	4.5	4.9	4.6	4.0	3.9	...
Manufacturing activity index (ISM) *(value)*	52.5	60.6	60.0	60.1	57.8	54.8	53.0	52.8	52.8
Housing starts *(thousands)*	1,396	1,605	1,569	1,679	1,720	1,655	1,599	1,446	...
Case-Shiller home price index *(value)*	228	267	274	283	299	315	317	...	...
Unemployment rate *(% lab. force)*	8.1	5.4	5.1	4.2	3.8	3.6	3.6	3.5	3.7
Employment-population ratio *(% pop. > 16 years)*	56.8	58.4	58.6	59.2	59.9	60.0	59.9	60.0	60.1
Trade balance [1] *(% GDP)*	–3.2	–3.7	–3.6	–3.7	–4.0	–4.1	–4.1	...	...
Prices									
Headline inflation	1.2	4.7	5.3	6.7	8.0	8.6	9.1	8.5	...
Core inflation	1.7	3.6	4.1	5.0	6.3	6.0	5.9	5.9	...

JAPAN

	2020	2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022	06/22	07/22	08/22
Activity									
Real GDP	–4.6	1.7	1.2	0.5	0.7	1.1	–	–	–
Consumer confidence *(value)*	31.0	36.3	37.5	38.3	34.8	33.1	32.1	30.2	32.5
Industrial production	–10.6	5.6	6.6	1.1	–0.6	–3.6	–2.8	–1.0	...
Business activity index (Tankan) *(value)*	–19.8	13.8	18.0	18.0	14.0	9.0	–	–	–
Unemployment rate *(% lab. force)*	2.8	2.8	2.8	2.7	2.7	2.6	2.6	2.6	...
Trade balance [1] *(% GDP)*	0.1	–0.3	0.3	–0.3	–1.0	–2.0	–1.9	–3.1	...
Prices									
Headline inflation	0.0	–0.2	–0.2	0.5	0.9	2.4	2.3	2.6	...
Core inflation	0.2	–0.5	–0.5	–0.7	–0.9	0.8	0.9	1.2	...

CHINA

	2020	2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022	06/22	07/22	08/22
Activity									
Real GDP	2.2	8.1	4.9	4.0	4.8	0.4	–	–	–
Retail sales	–2.9	12.4	5.1	3.5	1.6	...	3.1	2.7	...
Industrial production	3.4	9.3	4.9	3.9	6.3	0.6	3.9	3.8	...
PMI manufacturing *(value)*	49.9	50.5	50.0	49.9	49.9	49.1	50.2	49.0	49.4
Foreign sector									
Trade balance [1,2]	524	680	636	680	729	821	821	867	...
Exports	3.6	30.0	24.4	23.1	15.7	12.9	17.7	17.8	...
Imports	–0.6	30.1	25.4	23.7	10.5	1.7	1.0	2.3	...
Prices									
Headline inflation	2.5	0.9	0.8	1.8	1.1	2.2	2.5	2.7	...
Official interest rate [3]	3.9	3.8	3.9	3.8	3.7	3.7	3.7	3.7	3.7
Renminbi per dollar	6.9	6.5	6.5	6.4	6.3	6.6	6.7	6.7	6.8

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	Q3 2021	Q4 2021	Q1 2022	Q2 2022	06/22	07/22	08/22
Retail sales *(year-on-year change)*	–0.8	5.5	2.5	4.2	5.1	0.6	–3.2	–0.9	...
Industrial production *(year-on-year change)*	–7.7	9.0	5.9	0.3	–0.2	0.5	2.4	...	...
Consumer confidence	–14.2	–7.4	–4.2	–7.6	–13.7	–22.3	–23.7	–27.0	–24.9
Economic sentiment	88.3	110.8	117.5	115.8	111.1	104.2	103.5	98.9	97.6
Manufacturing PMI	48.6	60.2	60.9	58.2	57.8	54.1	52.1	49.8	49.6
Services PMI	42.5	53.6	58.4	54.5	54.1	55.6	53.0	51.2	49.8
Labour market									
Employment (people) *(year-on-year change)*	–1.5	1.2	2.1	2.1	...	...	–	–	–
Unemployment rate *(% labour force)*	8.0	7.7	7.5	7.1	6.8	6.7	6.7	6.6	...
Germany *(% labour force)*	3.7	3.6	3.5	3.3	3.0	2.9	2.9	2.9	...
France *(% labour force)*	8.0	7.9	7.8	7.4	7.3	7.6	7.6	7.5	...
Italy *(% labour force)*	9.3	9.5	9.1	9.0	8.5	8.1	8.0	7.9	...
Real GDP *(year-on-year change)*	–6.5	5.6	3.9	4.8	5.4	3.9	–	–	–
Germany *(year-on-year change)*	–4.1	2.8	1.8	1.2	3.5	1.7	–	–	–
France *(year-on-year change)*	–7.9	7.2	3.6	5.0	4.7	4.2	–	–	–
Italy *(year-on-year change)*	–9.1	7.0	4.0	6.4	6.3	4.7	–	–	–

Prices

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

	2020	2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022	06/22	07/22	08/22
General	0.3	2.6	2.8	4.6	6.1	8.0	8.6	8.9	9.1
Core	0.7	1.5	1.4	2.4	2.7	3.7	3.7	4.0	4.3

Foreign sector

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

	2020	2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022	06/22	07/22	08/22
Current balance	2.0	2.7	3.3	2.7	1.9	1.0	1.0	...	...
Germany	7.0	7.4	7.8	7.4	6.6	5.4	5.4	...	...
France	–1.8	0.4	–0.1	0.4	0.2	–0.4	–0.4	...	...
Italy	3.8	2.4	3.6	2.4	1.6	0.5	0.5	...	...
Nominal effective exchange rate[1] *(value)*	93.9	94.2	93.9	92.7	92.6	90.3	90.3	89.0	88.7

Credit and deposits of non-financial sectors

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

	2020	2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022	06/22	07/22	08/22
Private sector financing									
Credit to non-financial firms[2]	6.3	3.5	1.8	3.3	4.4	6.1	6.9	7.7	...
Credit to households[2,3]	3.2	3.8	4.1	4.1	4.4	4.6	4.6	4.5	...
Interest rate on loans to non-financial firms[4] *(%)*	1.2	1.2	1.3	1.1	1.2	1.4	1.8	1.5	...
Interest rate on loans to households for house purchases[5] *(%)*	1.4	1.3	1.3	1.3	1.4	1.5	1.7	1.8	...
Deposits									
On demand deposits	12.9	12.6	11.4	10.5	9.1	7.7	7.1	6.6	...
Other short-term deposits	0.6	–0.8	–2.0	–1.5	–0.3	0.9	2.0	3.3	...
Marketable instruments	8.1	11.4	10.2	9.2	–0.2	1.3	2.0	–1.4	...
Interest rate on deposits up to 1 year from households *(%)*	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3	...

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.*

Spanish economy, downside risks

Following a Q2 marked by a strong rebound in GDP, the escalation in the energy crisis intensifies the downside risks for the outlook and introduces significant uncertainty. However, the buoyancy registered in Q2, with quarter-on-quarter GDP growth of 1.1%, driven by the lifting of restrictions related to the pandemic and job creation, could help GDP growth for 2022 as a whole to exceed 4% despite the deteriorating outlook for the second half of the year.

The balance of risks is clearly skewed to the downside, with growing doubts about how much gas Russia will supply, which will likely keep the price even higher than we expected. In this regard, Member States agreed to take measures to reduce the demand for natural gas by 15% between 1 August 2022 and 31 March 2023; for Spain, the target for reducing the demand for gas is 7%.

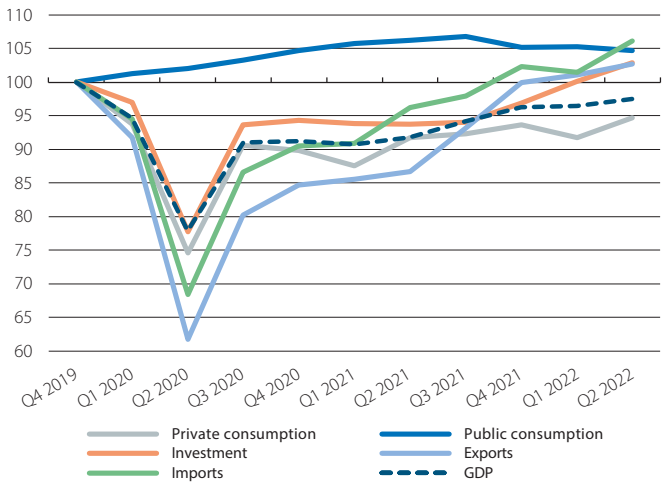
The available indicators suggest a weakening of the economy in Q3. The Purchasing Managers' Indices (PMIs) have deteriorated, and in the case of the manufacturing sector it has been below the 50-point threshold which separates contraction from expansion since July; on the other hand, the index for the services sector (50.6) is still in expansive territory, thanks to the revival of international tourism. Also, in light of the ECB's Consumer Expectations Survey, households are anticipating a less favourable trend in their incomes, their wealth and their economic situation in general, and this is causing a deterioration in their outlook and greater caution in their spending habits. Similarly, the consumer confidence indicator has deteriorated significantly in July-August, reaching its lowest level since 2012 (–33.4 points), while retail purchases – in real terms – recorded their first decline in four months in July (–0.5% year-on-year).

Slight moderation in job creation. After a month of weak job creation in July, with only 9,100 new registered workers in seasonally adjusted terms, August saw an improvement, with a monthly increase of 62,135 people. For the average of Q3 to date, job creation is slightly down, at a quarterly rate of 0.5% compared to 0.6% in the previous quarter. With regard to permanent hiring, the positive pattern continues, with permanent contracts accounting for 39.5% of all new contracts signed and the temporary employment rate dropping to 18.6% from the 27.2% at the end of last year.

The inflation rally continues to be more intense and persistent than anticipated. According to the flash indicator, although headline inflation moderated slightly in August (10.4% vs. 10.8% in July), core inflation (excluding energy and unprocessed food) continues to climb and now stands at 6.4% (6.1% in July). The moderation of the headline rate was mainly

Spain: GDP and its components

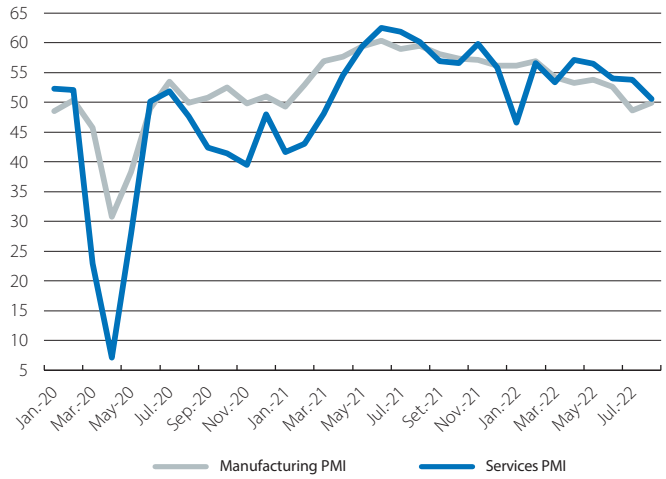
Index (100 = Q4 2019)



Note: *In real terms.*
Source: *CaixaBank Research, based on data from the National Statistics Institute (CNTR).*

Spain: PMI

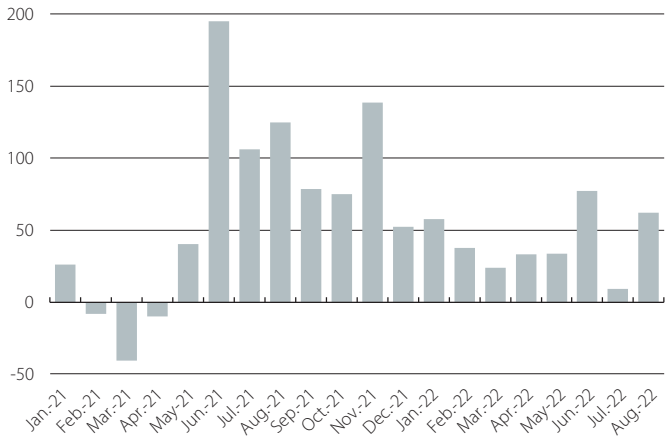
Level



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

*Spain: registered workers affiliated with Social Security **

Monthly change (thousands)



Note: ** Seasonally adjusted series.*
Source: *CaixaBank Research, based on data from the Ministry of work, migration and social security (MITRAMISS).*

due to the reduction in fuel prices, in line with the price of a barrel of Brent which registered a monthly decline of 5.6% in August, bringing it to 97 euros. On the contrary, electricity continues to apply upward pressure on inflation as a result of the sharp rise in gas prices, which reached record highs, and the higher compensation being paid to combined-cycle plants. In this regard, the rise in gas price futures over the past month poses a significant risk for our 2022 and 2023 inflation forecasts, which in turn casts a shadow over the outlook for household spending capacity.

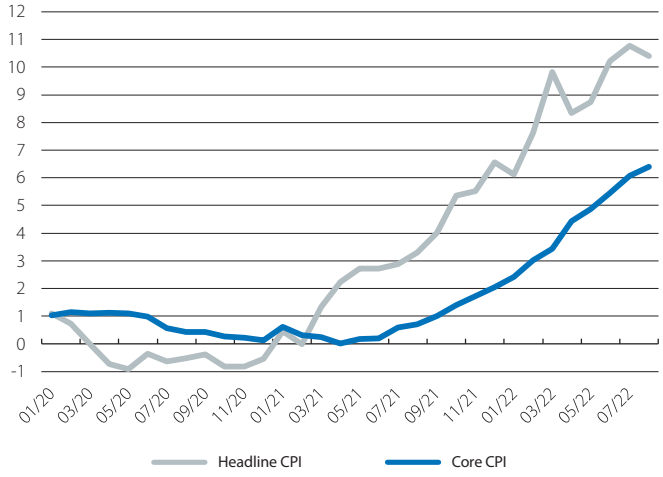
The widening of the trade deficit in goods stands in contrast with the improvement in the surplus in the tourism balance. In the first semester of the year, the current account balance showed a deficit of 1,229 million euros, a figure which stands in contrast with the 2,087-million-euro surplus for the same period of 2021. This deterioration is mainly explained by the widening of the trade deficit in goods, which rose to 31,963 million euros, six times greater than in the same period of 2021 (–5,397 million). By component, the deterioration is widespread: on the one hand, the energy deficit stands at 27,675 million (–11,032 million in 2021), driven by higher import prices; on the other hand, the balance of non-energy goods shows a deficit of 4,288 million (compared to the 5,635-million surplus in 2021), driven by the greater strength of imports (27.8% vs. 20% in the case of exports).

In contrast, the tourism sector is registering excellent figures, with a surplus of 22,165 million euros between January and June, a record high in that period. The July data suggest a very positive summer campaign: more than 9 million foreign tourists arrived, spending nearly 12,000 million euros, reducing the gap versus the same period of 2019 to 8.1% and 0.6%, respectively (–15.5% and –7.2% in June). Hotel overnight stays by foreign tourists also show a marked improvement, standing 5.7% below the level of July 2019, a gap that is 4.2 pps smaller than that observed in the previous month.

Real estate activity continues to go from strength to strength, but the rise in interest rates will cool the demand for housing. Housing demand continues to register significant growth (18.8% year-on-year in June), although there is a slight moderation compared to the rates of previous months (it was growing at 30% at the beginning of the year). In cumulative terms, 628,805 sales have been recorded in the last 12 months, a level not seen since July 2008 and well above the pre-pandemic figures (around 505,000 in 2019). In any case, the rise in interest rates on the part of the ECB and a slower rise in real household incomes in the face of rising inflation are factors that point towards a gradual cooling of demand.

Spain: CPI

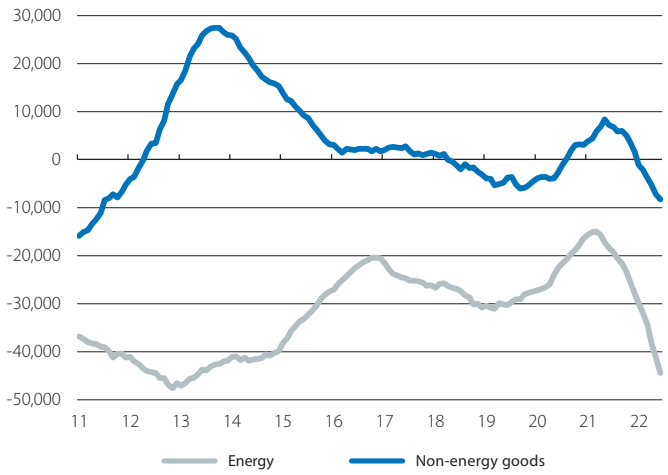
Year-on-year change (%)



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

Spain: trade balance

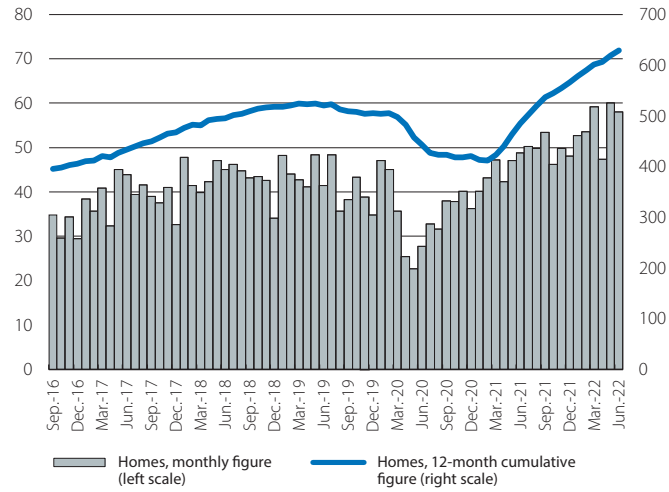
12-month cumulative balance (EUR millions)



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

Spain: home sales

(Thousands of homes) *(Thousands of homes)*



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

The gas cap in Spain under examination

Since its implementation on 15 June, the so-called Iberian «gas cap» mechanism has brought about a major shift in the way the Spanish electricity system operates. In this article we analyse the effect it has had on electricity prices and some externalities it has introduced.

The gas cap mechanism has imposed a ceiling of €40/MWh on the gas supply costs which gas-fired power plants (mainly combined-cycle plants) can recover in the price at which they sell their energy in the wholesale market.[1] The ceiling is accompanied by compensation for such plants, which covers the difference between the actual supply cost (the MIBGAS gas price is used as a benchmark) and the cap imposed by the mechanism. This compensation is charged directly in the electricity bills of the consumers who benefit from the system – primarily, although not exclusively, retail consumers on a regulated electricity tariff (known as the PVPC tariff).

The impact of the gas cap on electricity prices

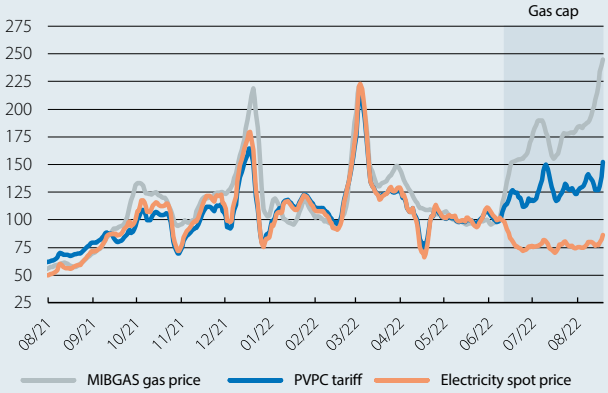
The mechanism has proved very effective in containing the wholesale electricity price (spot price), by imposing a more stable and moderate price for the electricity sold by combined-cycle plants, which is the technology that usually sets the market's marginal price.[2] In July and August, the spot price remained steady at around €140/MWh, 22% below the average price in May. However, the mechanism has not avoided further escalation in the PVPC tariff, because consumers have also faced the cost of the compensation provided to combined-cycle plants. Thus, in July and August the PVPC tariff was 26% higher than the average rate in May.

The charge applied to the PVPC tariff as a result of the combined-cycle compensation depends on two factors: (i) the amount of energy generated by combined-cycle plants and (ii) the gas price. Coinciding with the introduction of the gas cap, wind and hydraulic power generation fell significantly due to weather conditions, resulting in an increase in generation at combined-cycle plants. In addition, mid-way through the month there was a rally in the MIBGAS gas price (the benchmark used for setting the compensation). These two dynamics have persisted throughout the summer months: in July and August on average, combined-cycle plants accounted for 29% of electricity generation (11% on average in May) while the average gas price was 74% higher than in May. This has driven up the compensation payable to combined-cycle plants, causing the PVPC tariff to rise at a time when the spot price was falling.

Although the PVPC tariff has increased compared to the period immediately preceding the gas cap, the cap has had a clear impact in weakening the correlation between the PVPC tariff itself and the benchmark gas price. As the first chart shows, historically, the evolution of the PVPC tariff has been closely linked to that of the price of gas. Since the introduction of the gas cap, its price swings have continued to be transmitted to the PVPC tariff, but to a much lesser extent. According to a simple regression analysis, between 1 January and 14 June 2022, a 10% monthly increase in gas prices was linked to a 6.3%

Spain: benchmark electricity and gas prices

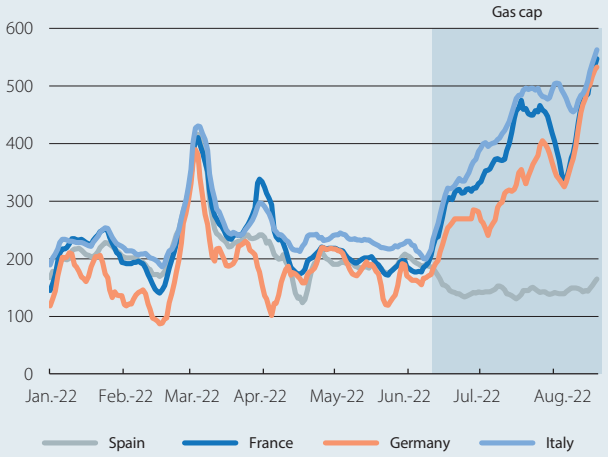
Index (100 = May 2022), 7-day moving average



Notes: *The PVPC tariff is the regulated electricity rate applicable to small consumers. The electricity spot price is the wholesale price of electricity.*
Source: *CaixaBank Research, based on data from OMIE, REE and Bloomberg.*

Electricity market spot prices by country

(€/MWh) 7-day moving average



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

1. The cap has been set at €40/MWh until November 2022. Between December 2022 and May 2023, it will be increased by €5/MWh each month, bringing it to €70/MWh in the last month of the mechanism's application.
2. Wholesale electricity market prices in all EU Member States are governed by a marginal pricing system. This means that the market price is set by the most expensive energy that is sold.

monthly increase in the PVPC tariff, whereas from 15 June onwards this ratio moderated to less than half (2.9%).[3] On this basis, we can infer that the mechanism is proving effective in containing prices. A slightly more sophisticated exercise suggests a similar result. Specifically, if we simulate the spot and PVPC prices which we would have seen in the Spanish market in the absence of the gas cap, based on the evolution of prices in other European countries where no such measure was implemented, we estimate that the gas cap has reduced the spot price by 61% and the PVPC price by 35%.

If we compare the evolution of the Spanish spot price with that of other EU countries, the gap resulting from the gas cap mechanism becomes evident. The average prices for August compared to May increased by 2.2 times in Germany and France, and by 2.1 in Italy, while the spot price in Spain fell 23% in the same period.

Negative externalities of the system

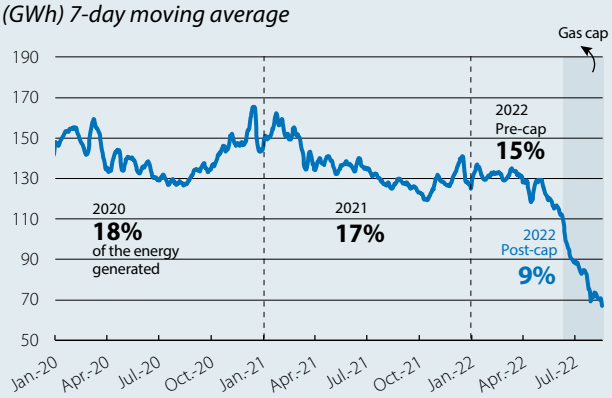
Although the mechanism is managing to contain the rise in electricity prices, it is generating negative externalities that are driving the Iberian market to generate more energy from gas and more inefficiently.

Firstly, the mechanism has driven a large portion of cogeneration power plants out of the market. These plants, which are more efficient than combined-cycle plants, also generate energy using natural gas, so their production costs have increased substantially. However, up until the end of August they had been left out of the compensation system, so the spot price that was being paid by the market, moderated by the gas cap, was too low for their operations to be profitable. As a result, electricity production at cogeneration plants in 2022 has gone from representing 15% of the total before the gas cap to just 9% after its introduction.

On the other hand, exports of electricity to France have surged. The price gap between the two markets has resulted in these exports persistently reaching the maximum levels allowed by the interconnection between the two countries, day after day. Since the gas cap was introduced, net exports to France have accounted for 4% of the total energy produced in Spain, whereas between 1 January and 14 June (before the gas cap) they accounted for just 0.3% of the total. This is also resulting in incomes being transferred to the French electricity system, since the price at which that system is purchasing the energy is subsidised by consumers on the Iberian peninsula.

Spain: energy production from cogeneration plants

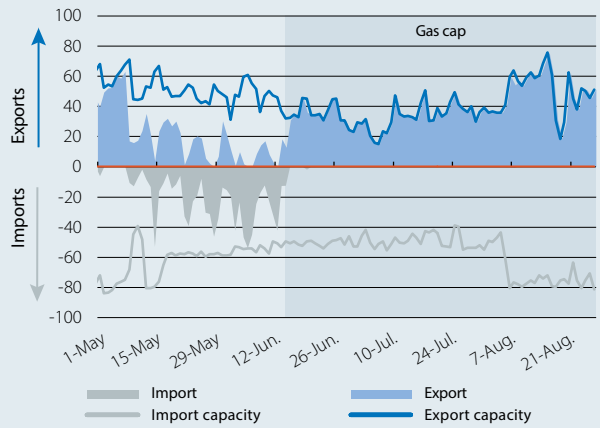
(GWh) 7-day moving average



Note: *The labels show what portion of the total electricity generation has come from cogeneration plants.*
Source: *CaixaBank Research, based on data from OMIE.*

Spain: energy trade balance with France

(GWh)



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

In conclusion, the measure is achieving its objective: to cushion the rise in electricity prices. However, among other effects, the externalities of the system are causing more energy to be produced by combined-cycle plants (which use gas), as it is a more flexible form of generation than nuclear and renewables. Thus, it is likely that the need to compensate the reduced levels of power generation by cogeneration plants and the higher demand from France has been met by combined-cycle plants. With this, the gas cap mechanism has led the Spanish energy mix to become more dependent on combined-cycle plants in a context in which the market forces are pushing in the opposite direction.

Javier Ibánez de Aldecoa Fuster

3. The following regression is estimated using OLS: $PVPC_t = \alpha + \beta MIBGAS_t + \mu_t$, where $PVPC_t$ and $MIBGAS_t$ are the month-on-month rates of change of the PVPC tariff and of the MIBGAS gas price on day t.

The exposure of consumer goods in Spain to international agricultural commodity prices

Since the beginning of 2021, we have witnessed a global escalation in agricultural commodity prices, triggered by three factors: (i) the revival of the world economy following the pandemic, (ii) temporary declines in global production (droughts, insect plagues and livestock diseases) and (iii) the outbreak of the war in Ukraine.

As the first chart shows, agricultural prices in the EU grew at a rate of 39.7% year-on-year in July 2022. This is explained by a rise in all five of the groups of food products we have analysed, with the biggest price rallies occurring in cereals (68.3%) and dairy products (68.0%), while oils grew at a more moderate rate of 4.1%. This increase in prices, together with the rising energy prices, has gradually filtered throughout the food chain, resulting in an increase in the final consumer prices of foods. Thus, in July, the food component of the Spanish CPI rose by 12.4% year-on-year (11.9% in the case of processed foods and 13.4% for fresh foods), contributing 3.3 pps to headline inflation (10.8% in July).

It should be noted that the latest fluctuations in the price of agricultural commodity futures on the international markets point to a reduction in inflationary tensions. For instance, wheat and corn futures, as measured by their price on the Chicago Board of Trade, have moderated to levels similar to those seen at the beginning of the year (see second chart). The transmission of these declines in international prices to internal EU prices is not occurring instantly, due to the effects of the Common Agricultural Policy (CAP).[1] Nevertheless, a slight moderation in prices is becoming apparent in July, with the average price of the groups of food products included in the first chart falling by 1.7% month-on-month, the first drop in 12 months.[2]

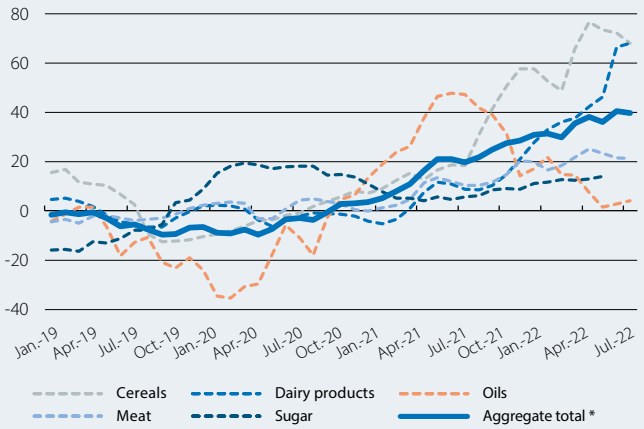
How will the CPI of food products evolve in the coming months?

To shed some light on this question, we used an econometric model to measure the intensity and duration of the translation of agricultural commodity prices through the links that make up the food chain: from international agricultural prices, to the prices received by farmers in Spain and ending in consumer prices.[3] For EU countries, the analysis must be carried out using the internal prices of the single market for the commodities in question, which already incorporate the effect of the CAP.

The third chart shows the impact on the food CPI of a 10-pp shock in the month-on-month rate of change in

EU: agricultural commodity prices

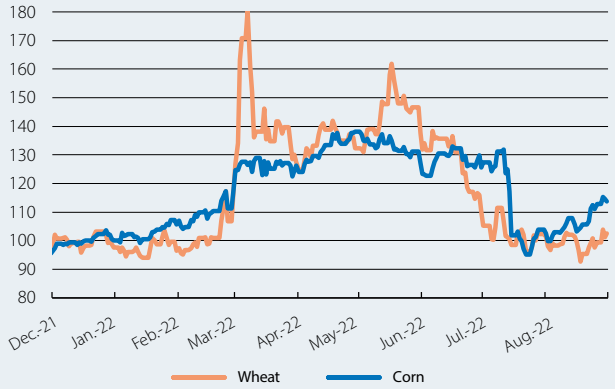
Year-on-year change (%)



Notes: *Data for sugar prices are only available up to May 2022.*
** The aggregate total price is calculated based on the average price of the five food groups.*
Source: *CaixaBank Research, based on data from the European Commission.*

Market price of one-month futures contracts for agricultural commodities

Index (100 = December 2021)



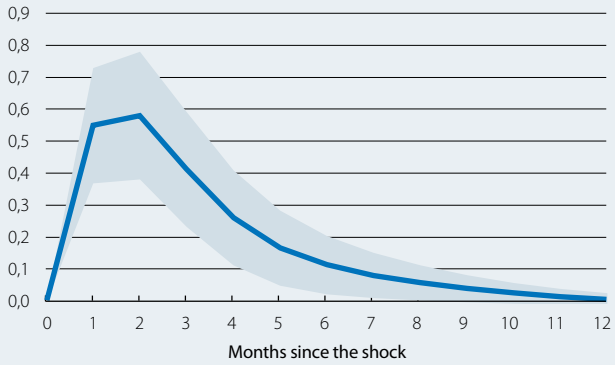
Source: *CaixaBank Research, based on data from Bloomberg.*

1. The CAP includes a set of interventions (direct subsidies, price support mechanisms and guaranteed minimum prices) that affect the prices of agricultural commodities in the EU. See the article mentioned in footnote 3 of this same Focus.
2. For a description of the evolution of the price of agricultural commodities in the international markets, see the Focus «The dance continues in the commodity market» in this same report, as well as the forthcoming *Agrifood Sector Report*.

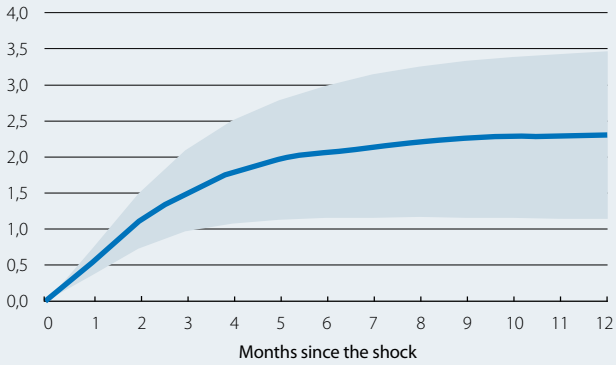
3. This analysis is based on the article «El aumento de los precios de las materias primas alimenticias y su traslación a los precios de consumo en el área del euro», by F. Borrallo, L. Cuadro-Sáez and J.J. Pérez, Bank of Spain, Economic Bulletin 3/2022 (content available in Spanish). We estimate a first-order vector autoregressive model (VAR) for each food product (cereal, dairy, meat, oil and sugar), incorporating in each case the month-on-month rate of change in the price of the commodity in question in the EU, the price received by farmers in Spain and the CPI component. The data used are taken from the period between April 2005 (September 2006 in the case of sugar) and February 2022.

Spain: transitory impact on the food CPI of a 10-pp rise in the month-on-month rate of change in agricultural commodity prices in the EU

Impact on the month-on-month rate of change (pps)



Cumulative impact (pps)



Notes: *The charts show the response over time of the month-on-month change (left-hand chart) and the cumulative impact (right-hand chart) of the food component of the CPI in Spain, in response to a 10-pp rise in the agricultural commodity prices for a set of food products (cereals, meat, dairy products, oils and sugar). These prices are those internal to the EU, except for sugar, and come from the European Commission (DG AGRI). The bands depicted in the charts reflect the 90% confidence interval. Analysis based on the article «El aumento de los precios de las materias primas alimenticias y su traslación a los precios de consumo área del euro», by F. Borrallo, L. Cuadro-Sáez and J.J. Pérez. Bank of Spain Economic Bulletin 3/2022 (content available in Spanish).*
Source: *CaixaBank Research, based on data from MAPA, the National Statistics Institute and the European Commission.*

agricultural commodity prices in the EU.[4] The results suggest that the shock produces an 0.6-pp increase in the month-on-month change in the food CPI after two months, an apparently small impact. However, this shock has a highly persistent effect on food consumer prices, as they would continue to reflect a significant impact for eight months. Thus, the cumulative effect of the shock after 12 months would amount to 2.3 pps (0.5 pps for the headline CPI), illustrating just how exposed the food CPI is to international commodity prices.[5]

Using these sensitivities, we simulated how the food CPI would have evolved in the absence of commodity shocks since January 2021. According to our estimates, food prices would have risen by 2.7% between January 2021 and July 2022, a figure significantly lower than the 13.0% rally actually observed during that period. It can thus be concluded that most of the increase in food prices in Spain is attributable to the external shock of rising agricultural commodity prices. On the other hand, if we assume that from August onwards there will be no further disturbances affecting agricultural commodity prices or the cost of their production and consumption, the inflation of the food component of the CPI would gradually fall to 10.4% in December 2022 (2.0 pps below the July rate), once again revealing the shock's highly persistent nature. During 2023, the moderation in food inflation would intensify, reaching slightly below 2% in the second half of 2023 (see fourth chart).

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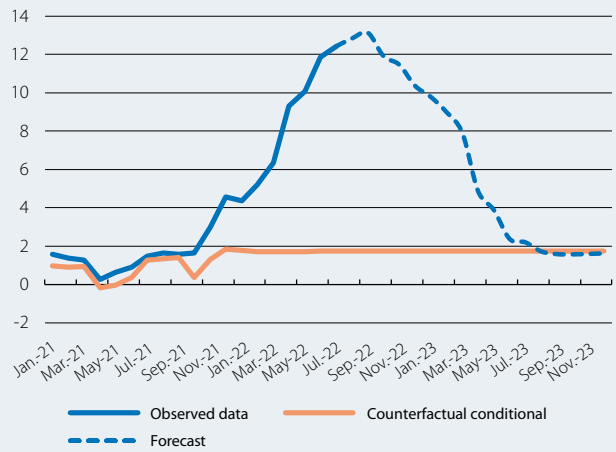
4. The results of the five food groups analysed are aggregated using their relative weights in the CPI.
5. Between August 2021 and April 2022, the average month-on-month rate of change in the prices of these five agricultural commodities in the EU was 2.9%, compared with 0.1% on average for the period 2010-2019.

Spain: simulation of the impact on the food CPI of the observed increase in agricultural commodity prices in the EU

Year-on-year change (%)



Notes: *The chart shows the forecast for the food CPI according to the model, given the shocks observed in agricultural commodity prices in the EU. The counterfactual conditional is the forecast produced by the model from January 2021 onwards (i.e. an scenario that does not capture the shocks that have occurred since January 2021).*
Source: *CaixaBank Research, based on data from MAPA, the National Statistics Institute and the European Commission.*

Not all Spanish households spent more on fuel in summer

Since last year, consumers have been facing a rise in fuel prices, accentuated by the war in Ukraine. In a previous Focus,[1] we analysed how fuel consumption had evolved up to March 2022 and we concluded that not all consumers were adjusting their spending in the same manner in response to the price increases. Have they continued to behave the same way since then?

Between April and July 2022, the average price of unleaded 95 petrol was 1.95 euros per litre, and it reached as high as 2.10 euros in June. In April, the government introduced a temporary 20-cent per litre cut in fuel prices for the entire population, which helped to ease the burden of the price increase. In any case, the amount that consumers paid to fill the tank between April and July was 32.2% higher on average than in the same period of 2019 (+40.3%, excluding the reduction), as shown in the first chart.

After using our consumption indicator to analyse the data on expenditure at petrol stations paid for with CaixaBank customer bank cards, we once again found that not all consumers reacted equally to the rise in prices.[2] The median average consumer[3] spent more on fuel in July 2022: specifically, 13.2% more than in the same month of 2019, an increase similar to that recorded in Q1 2022 (+12.8%). Those who already consumed more fuel (than the median consumer) spent more than before, with their monthly expenditure on fuel being between 17.1% higher (60th percentile) and 25.7% higher (90th percentile) in July 2022 than in July 2019. There are greater increases in the upper fuel consumption percentiles, which shows that these consumers have a greater capacity to increase their spending, although this increase was less than that of fuel prices themselves,[4] suggesting a reduction in the amount of litres consumed.

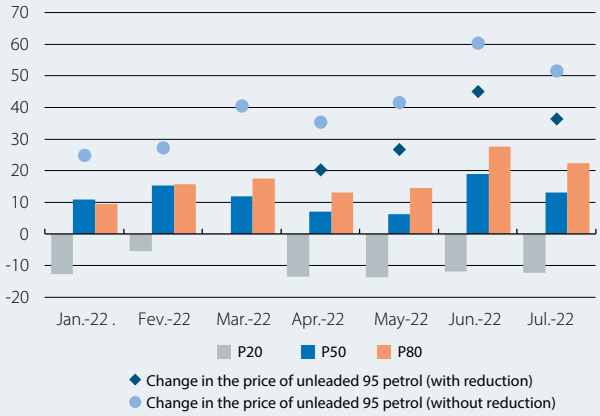
Similarly, but conversely, consumers who spent less on fuel in 2019 reduced their spending in 2022 compared to the same month of 2019 (see second chart). In July, the monthly expenditure on fuel for the 10th percentile was 20.7% lower than in July 2019. A lower nominal expenditure with higher prices indicates that consumers in this percentile made deeper cuts to the amount of litres they consumed.

The conclusion of this exercise is that the disparity in behaviour between fuel consumption percentiles was accentuated by the increase in prices, with a marked reduction in expenditure among the lowest percentiles and a substantial rise in the case of the highest percentiles. In other words, all consumers reacted to the price increase by cutting down on their consumption, but not everyone had the same capacity to offset the price increase. Thus, those who spent more on fuel in 2019 have probably had less capacity to adjust their level of demand in 2022, either because it is a more essential expense (for instance, because their work requires more travel) or because they have a greater financial capacity to absorb the price increase. However, those who spent less on fuel reduced their consumption by more, either by undertaking fewer journeys or by replacing the use of their own car with public transport. All in all, these are very different reactions to the same increase in fuel prices.

Josep Mestres Domènech

Spain: consumption at petrol stations by monthly expenditure decile and price of unleaded 95 petrol

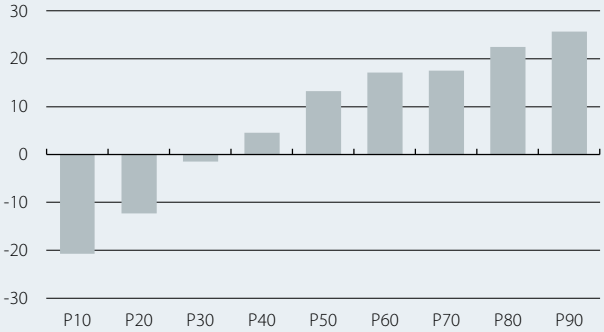
Change versus the same month of 2019 (%)



Notes: *Change in the monthly expenditure at petrol stations in each decile carried out by individual customers in the 20th, 50th and 80th expenditure percentiles. The expenditure decile corresponds to the expenditure in the same month of 2019. The change in the price of unleaded 95 petrol corresponds to the average monthly price relative to the same month in 2019.*
Source: *CaixaBank Research, based on internal CaixaBank data.*

Spain: consumption at petrol stations by expenditure decile in July 2022

Change versus July 2019 (%)



Note: *Change in the monthly expenditure at petrol stations in each decile carried out by individual customers. The expenditure decile corresponds to the expenditure in the same month of 2019.*
Source: *CaixaBank Research, based on internal CaixaBank data.*

1. For further details, see the Focus «Fill the tank? What Spanish households' spending at petrol stations tells us» in the MR05/2022.
2. To calculate the monthly consumption at petrol stations, we add up all the purchases carried out by each customer at these establishments throughout the month, regardless of the number of times they have refuelled. We also restrict the analysis to the same individuals who made purchases at petrol stations in both 2019 and 2022 and we organise them into percentiles in terms of their fuel expenditure in 2019. In any case, the results of performing the analysis without limiting it to the same individuals are very similar in both direction and magnitude.
3. i.e. half of consumers spent more on fuel per month and the other half less.
4. The price of unleaded 95 petrol including the reduction was 36% higher in July 2022 than in the same month of 2019.

The CaixaBank Research real estate clock: slowdown in sight

Rising interest rates have put the real estate market in the spotlight. The ECB has embarked on a new cycle of interest rate hikes aimed at curbing inflation, and this is raising questions about how the real estate sector will behave in the face of the rising price of money. Indeed, rising interest rates tend to lead to a cooling in demand due to the greater mortgage burden for households wishing to buy a home.[1, 2]

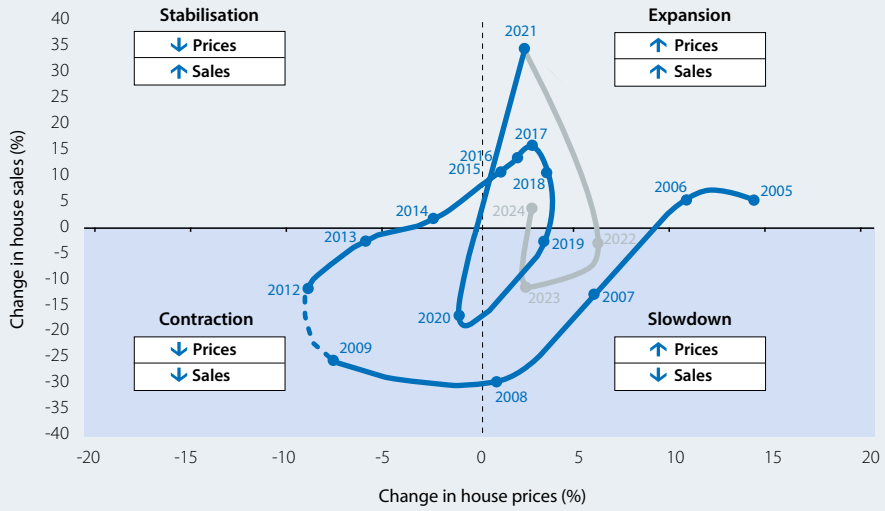
A visual way of showing where the housing market currently lies in the cycle is to use the CaixaBank Research real estate clock, which shows how house prices and sales in Spain evolve over the course of the cycle. Generally speaking, a weakness in the housing market begins to manifest itself with an increase in the time it takes to sell a home and a decrease in the number of sales (deceleration zone), which then translates into a moderation or even a drop in prices after a few quarters (contraction zone). The more imbalances that have accumulated during the preceding expansionary phase, the deeper and longer-lasting this phase of adjustment in the market tends to be. For this reason, the recessive phase from 2009 to 2013 was particularly long and intense: the clock was in contraction for five years and shifted a long way from the coordinate origin. In contrast, in 2020 the real estate sector suffered a temporary adjustment due to the mobility restrictions associated with the pandemic.[3]

What will the current real estate cycle look like?

The current economic context and market dynamics are very different from those which prevailed during the real estate crash of 2008. The strength of demand is largely being driven by changes in post-pandemic preferences and the fact that some of the savings accumulated during the pandemic are being channelled into the real estate sector. Moreover, the balance sheets of both households and the financial sector are now much healthier, and there is no excess supply.[4] The slowdown we expect in the real estate market comes in an environment marked by high inflation, which is eroding households' purchasing power and forcing central banks to tighten financial conditions. For 2023, however, we expect inflation will begin to moderate, and this should allow interest rates to remain contained in historical terms. All this should help to ensure that the adjustment in the Spanish real estate market will be limited. Thus, we expect the clock to return to close to the starting point, without passing through the contractionary zone. In particular, we anticipate that the number of sale transactions will fall by just over 10% in 2023, while home prices will register a significant slowdown but maintain a positive growth rate.

Judit Montoriol Garriga

CaixaBank Research real estate clock for Spain



Note: *The period 2010-2011 is excluded due to the effect of tax incentives.*
Source: *CaixaBank Research, based on data from the National Statistics Institute, the Ministry of Transport, Mobility and Urban Agenda and CaixaBank Research forecasts.*

1. According to our scenario (with the 12-month Euribor climbing to 1.8% in Q4 2023), the mortgage burden ratio in Spain will increase from 34.3% in Q1 2022 (latest available figure) to 38.6% in Q4 2023. See the article «How long can the real estate sector's upward trend last?» in the 2nd Semester 2022 *Real Estate Sector Report*.
2. On the other hand, the increase in financing costs for the property development and construction sector could also reduce the supply of housing.
3. Sales in Spain in 2020 plummeted (–16.9%), while in 2021 they bounced back (34.7%). Such sudden movements in sales are unusual and are explained by the very nature of the pandemic.
4. For an analysis of the risk of a bubble in the Spanish real estate market, see the article «Assessing the risk of a real estate bubble in developed markets» in the 2nd Semester 2022 *Real Estate Sector Report*.

Activity and employment indicators

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

	2020	2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022	06/22	07/22	08/22
Industry									
Industrial production index	–9.5	8.8	1.8	1.6	1.6	4.7	7.0	...	...
Indicator of confidence in industry *(value)*	–13.6	0.6	2.6	5.0	6.8	0.5	1.7	–4.8	–5.4
Manufacturing PMI *(value)*	47.5	57.0	58.9	56.9	55.8	53.2	52.6	48.7	49.9
Construction									
Building permits *(cumulative over 12 months)*	–12.8	4.7	15.0	24.6	31.6	...	...	...	...
House sales *(cumulative over 12 months)*	–12.5	9.7	22.5	32.6	41.8	33.6	29.6	...	...
House prices	2.1	3.7	4.2	6.4	8.5	...	–	–	–
Services									
Foreign tourists *(cumulative over 12 months)*	–77.3	64.7	–34.5	64.7	313.4	311.7	311.7	290.5	...
Services PMI *(value)*	40.3	55.0	59.6	57.4	52.2	55.9	54.0	53.8	50.6
Consumption									
Retail sales	–7.1	5.1	–0.3	0.7	0.4	1.1	0.7	–0.5	...
Car registrations	–29.3	158.0	–24.5	–17.1	–7.5	–10.3	–7.8	–12.5	9.1
Consumer confidence index *(value)*	–22.7	–12.8	–8.8	–13.0	–17.6	–26.4	–28.8	–35.0	–31.7
Labour market									
Employment [1]	–2.9	3.0	4.5	4.3	4.6	4.0	–	–	–
Unemployment rate (% labour force)	15.5	14.8	14.6	13.3	13.6	12.5	–	–	–
Registered as employed with Social Security [2]	–2.0	2.5	3.8	3.9	4.5	4.8	4.3	3.8	3.5
GDP	**–10.8**	**5.1**	**3.5**	**5.5**	**6.3**	**6.3**	–	–	–

Prices

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

	2020	2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022	06/22	07/22	08/22
General	–0.3	3.1	3.4	5.8	7.9	9.1	10.2	10.8	10.4
Core	0.7	0.8	0.8	1.7	3.0	4.9	5.5	6.1	6.4

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	06/22	07/22	08/22
Trade of goods									
Exports *(year-on-year change, cumulative over 12 months)*	–10.0	21.2	15.2	21.2	26.2	22.2	22.2	...	...
Imports *(year-on-year change, cumulative over 12 months)*	–14.7	24.8	13.5	24.8	36.1	35.2	35.2	...	...
Current balance	**9.3**	**11.1**	**11.6**	**11.1**	**7.9**	**7.8**	**7.8**	...	...
Goods and services	16.5	17.9	19.2	17.9	14.4	15.9	15.9	...	...
Primary and secondary income	–7.3	–6.8	–7.7	–6.8	–6.5	–8.1	–8.1	...	...
Net lending (+) / borrowing (–) capacity	**13.7**	**22.3**	**19.7**	**22.3**	**19.4**	**20.5**	**20.5**	**...**	**...**

Credit and deposits in non-financial sectors [3]

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

	2020	2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022	06/22	07/22	08/22
Deposits									
Household and company deposits	7.5	6.1	4.8	5.8	5.2	5.3	5.2	5.3	...
Sight and savings	12.3	10.3	8.9	9.2	9.3	9.1	8.7	8.6	...
Term and notice	–16.5	–24.4	–26.0	–27.6	–26.8	–25.3	–24.8	–21.9	...
General government deposits	1.0	15.5	15.1	19.4	19.3	15.6	16.0	8.3	...
TOTAL	**7.1**	**6.7**	**5.5**	**6.6**	**6.0**	**6.0**	**5.9**	**5.5**	**...**
Outstanding balance of credit									
Private sector	1.2	0.3	–0.7	–0.1	0.2	0.8	0.8	1.2	...
Non-financial firms	4.9	1.1	–1.9	–1.0	–0.5	0.7	0.7	2.0	...
Households - housing	–1.8	0.2	0.6	1.0	1.3	1.4	1.2	1.1	...
Households - other purposes	0.8	–1.2	–1.2	–1.2	–1.1	–0.4	–0.2	–0.9	...
General government	3.0	15.3	22.7	11.6	3.4	1.9	0.4	–3.1	...
TOTAL	**1.3**	**1.1**	**0.7**	**0.6**	**0.4**	**0.9**	**0.8**	**0.9**	**...**
NPL ratio (%)[4]	**4.5**	**4.3**	**4.4**	**4.3**	**4.3**	**4.1**	**3.9**	**...**	**...**

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

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

Portugal: the economy stagnated in the second quarter

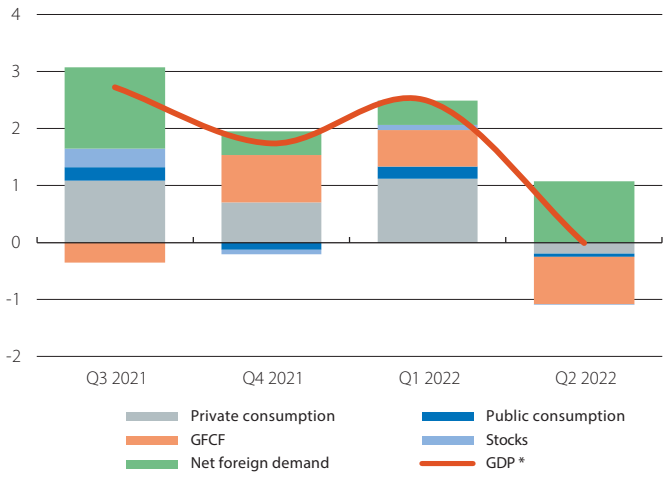
Despite the stagnation of GDP in Q2, the Portuguese economy will grow by over 6% in 2022 as a whole. According to the second estimate made by the National Statistics Institute, in Q2 GDP remained unchanged. This places the year-on-year rate of change at 7.1%, 1.1% above the level of Q4 2019: the strength of exports offset the poor performance of domestic demand. Foreign demand contributed +1.1 pps to growth in the quarter, thanks to the 4.7% increase in exports, and this offset the negative contribution from domestic demand resulting from the contraction of 0.3% in consumption and of 4.4% in investment. However, the data available for Q3 suggest a much slower growth rate, so the average GDP growth in 2022 will be lower than we expected (6.6%), albeit still above 6%. In particular, the coincident indicator slowed to 6.4% in July, 3 decimal points below June; the daily economic activity indicator slowed to 3.5% year-on-year, 2 pps less than in July; and the sentiment indicators fell in August in virtually all sectors. In addition, the outlook for 2023 has deteriorated and the economy is facing risks arising from the tensions in the European energy markets, which will put upward pressure on prices and negatively impact consumption and production costs. At the same time, demand will also be held back by the interest rate hikes being introduced to combat inflation, although the savings accumulated by households during the lockdowns represent a significant source of support.

Inflation slowed marginally in August to 9% (9.1% in July). This was driven by the fall in inflation in the energy component (24% year-on-year, 7.2 pps less than in July), due to the correction of the price of Brent oil in the month. However, several factors suggest that the high inflation could last longer than previously anticipated, and this could lead to an upward revision of our current forecast (average inflation of 7.1% in 2022). Thus, the more rapid rise in food prices, the price increases announced by energy providers and the continued rise in persistent inflation all point to a scenario with higher than expected inflation.

The outlook for the labour market deteriorates. In Q2, the population in employment remained practically unchanged compared to Q1, but the year-on-year rate of change slowed sharply (1.9% versus 4.7% in Q1). This was due to the base effect when compared with the strong rebound in Q2 2021, when the restrictions related to the pandemic were lifted. On the other hand, the unemployment rate fell to 5.7% (5.9% in Q1 and 6.7% in Q2 2021), indicating a shortage of labour in various sectors. However, there is a high degree of uncertainty

Portugal: GDP

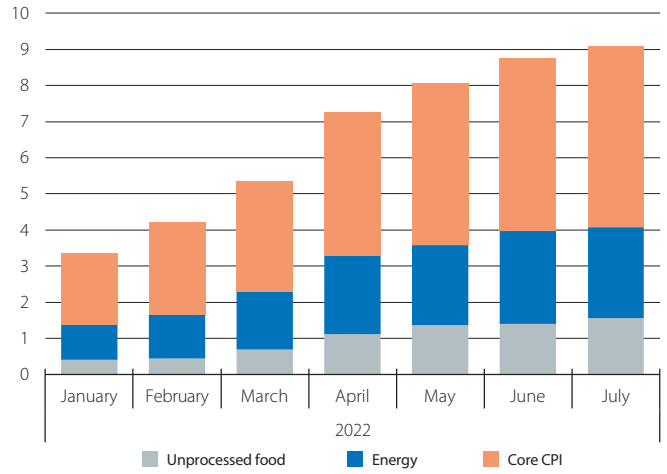
Contribution to the quarter-on-quarter change (pps)



Note: ** Quarter-on-quarter change (%).*
Source: *CaixaBank Research, based on data from the National Statistics Institute of Portugal.*

Portugal: contribution to the year-on-year rate of the CPI

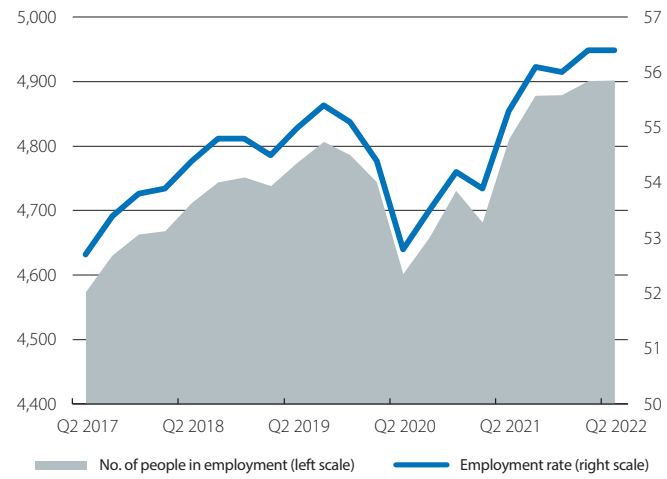
(pps)



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

Portugal: employment

(Thousands of people) *(%)*



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

and the risks may worsen in the coming months, given the energy crisis, rising interest rates, the ongoing conflict in Ukraine and the slowdown we are beginning to see in economic activity across the euro area.

In July, tourism exceeded pre-pandemic levels. The number of guests at hotel establishments was 6.3% higher than in the same month of 2019, with the number of overnight stays at hotels reaching 4.8% higher and the number of non-resident tourists 2% higher. The major European source markets registered positive growth, although the most noteworthy figures came from the excellent recovery in the number of tourists from the US. The appreciation of the dollar against the euro, coupled with the fact that Portugal is the European destination with the cheapest air connections with the US, ought to continue to sustain this trend.

The budget balance remains in surplus. In the first seven months of the year, the government balance stood at 0.3% of GDP, a substantial improvement compared to the negative balances of a year ago (–5.8% of GDP) and even compared to 2019 (–0.4% of GDP). Not only have revenues shown significant growth (16% year-on-year), but spending is growing very slowly (0.3%) thanks to the pattern of interest payments. It is worth noting that, despite the rise in official interest rates, the Portuguese government's financing costs are not expected to rise significantly, as the Treasury continues to replace debt with much higher interest rates than it is currently managing to secure in the markets (the annual rollover of the stock of debt is around 8%). Thus, we estimate that the increase in yields will have only a moderate impact on the debt burden, of between 10 and 35 million euros this year.

Credit to the non-financial private sector is beginning to show signs of slowdown. Growth in the stock of loans decelerated in July to 2.1% year-on-year, compared to 2.7% in June. In cumulative terms in the first seven months of the year, the growth in new lending moderated (13.7% versus the same period in 2021, compared to growth of 16.8% to June). In the case of housing credit, the number of new loans increased by 12.7% year-on-year (16.3% to June), possibly affected by the rising interest rates and heightened uncertainty. In this regard, the interest rate on new housing loans increased by 1.1 pp to 1.9% in July, the highest value since August 2016. Although the interest rate on new loans is far from the highs of 2008 (in excess of 5%), the context of uncertainty, inflationary pressures and rising house prices will dent the demand for housing credit.

Portugal: change in the number of tourists versus the same period in 2019

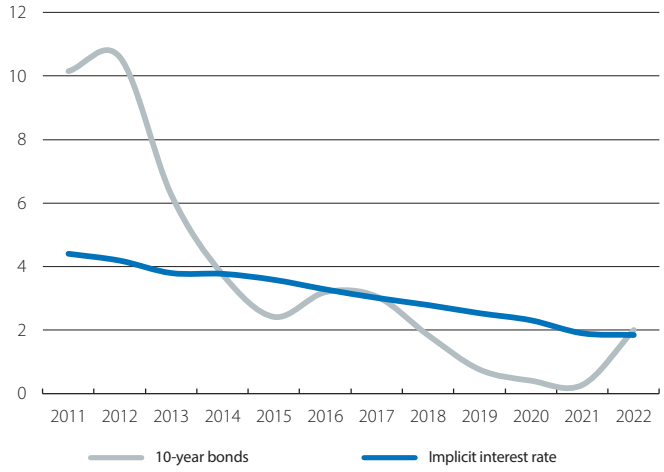
(%)

	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Jul. 2022
Total	–83	–64	–31	–19	–19	–2	6
United Kingdom	–97	–80	–61	–35	–21	2	6
Germany	–93	–84	–57	–17	–26	–4	3
Spain	–93	–71	–37	–17	–30	–3	5
France	–91	–83	–31	–28	–15	–11	6
Brazil	–96	–93	–86	–52	–44	–27	–28
US	–98	–94	–63	–40	–15	25	32
Other non-European	–95	–90	–74	–59	–53	–31	–14

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

Portugal: cost of public debt

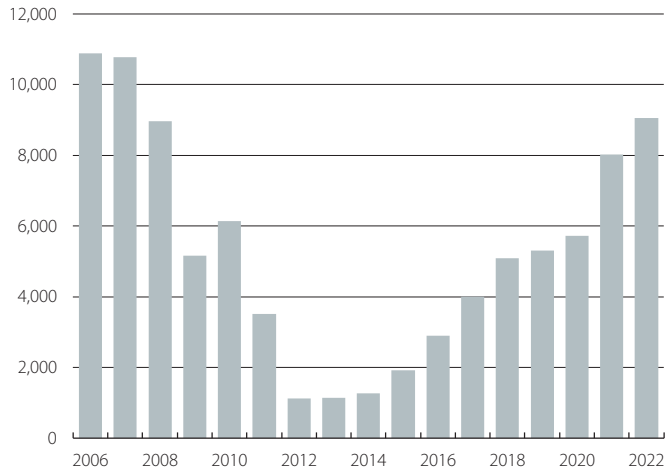
(%)



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

Portugal: new mortgage loans

Year-to-date to July (EUR millions)



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

Activity and employment indicators

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

	2020	2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022	06/22	07/22	08/22
Coincident economic activity index	–5.5	3.1	5.3	6.0	6.9	6.9	6.7	6.4	...
Industry									
Industrial production index	–6.9	4.5	–4.7	–1.5	–2.1	1.9	3.9	–0.1	...
Confidence indicator in industry *(value)*	–15.3	–5.3	–1.5	–1.4	–0.1	–2.3	–2.9	–4.0	–4.7
Construction									
Building permits - new housing (number of homes)	0.7	13.5	–0.9	–6.9	44.1	–25.5	–1.0	...	...
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	14.2	15.8	16.1	...
Services									
Foreign tourists *(cumulative over 12 months)*	–76.2	51.5	–38.9	51.5	259.9	298.1	298.1	296.6	...
Confidence indicator in services *(value)*	–19.0	0.1	8.8	12.0	13.0	21.1	22.7	20.5	18.9
Consumption									
Retail sales	–3.0	4.9	3.1	7.3	12.7	3.1	1.1	2.8	...
Coincident indicator for private consumption	–6.2	4.7	7.3	7.3	6.7	5.1	4.3	3.4	...
Consumer confidence index *(value)*	–22.4	–17.2	–13.6	–13.5	–19.3	–30.5	–31.8	–31.2	–31.6
Labour market									
Employment	–1.9	2.8	4.7	3.1	4.7	1.9	1.3	0.9	...
Unemployment rate (*% labour force*)	7.0	6.6	6.1	6.3	5.9	5.7	6.0	5.9	...
GDP	**–8.4**	**4.9**	**4.4**	**5.9**	**11.8**	**7.1**	**–**	**–**	**–**

Prices

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

	2020	2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022	06/22	07/22	08/22
General	0.0	1.3	1.5	2.4	4.3	8.0	8.7	9.1	9.0
Core	0.0	0.8	0.9	1.5	3.1	5.5	6.0	6.2	6.5

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	06/22	07/22	08/22
Trade of goods									
Exports *(year-on-year change, cumulative over 12 months)*	–10.3	18.3	13.5	18.3	21.2	18.9	18.9	...	...
Imports *(year-on-year change, cumulative over 12 months)*	–14.8	22.0	10.9	22.0	33.3	31.3	31.3	...	...
Current balance	**–2.1**	**–2.5**	**–2.2**	**–2.5**	**–4.3**	**–4.7**	**–4.7**	**...**	**...**
Goods and services	–3.9	–5.7	–4.6	–5.7	–6.9	–6.4	–6.4	...	...
Primary and secondary income	1.8	3.2	2.5	3.2	2.7	1.7	1.7	...	...
Net lending (+) / borrowing (–) capacity	**–0.1**	**1.2**	**1.1**	**1.2**	**–0.8**	**–1.3**	**–1.3**	**...**	**...**

Credit and deposits in non-financial sectors

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

	2020	2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022	06/22	07/22	08/22
Deposits [1]									
Household and company deposits	10.0	9.3	8.7	9.3	8.9	8.2	8.2	8.4	...
Sight and savings	18.8	16.3	15.5	16.3	15.3	12.9	12.9	12.9	...
Term and notice	1.2	1.2	1.0	1.2	1.1	2.3	2.3	2.8	...
General government deposits	–21.0	–4.1	–5.2	–4.1	9.8	8.5	8.5	5.3	...
TOTAL	**8.9**	**9.0**	**8.2**	**9.0**	**8.9**	**8.2**	**8.2**	**8.3**	**...**
Outstanding balance of credit [1]									
Private sector	4.6	2.9	4.2	2.9	2.8	2.7	2.7	2.1	...
Non-financial firms	10.5	2.2	5.8	2.2	1.2	1.0	1.0	–0.3	...
Households - housing	2.1	3.3	3.3	3.3	3.0	3.8	3.8	3.7	...
Households - other purposes	–1.1	3.1	3.2	3.1	6.4	3.3	3.3	3.0	...
General government	–4.2	3.8	4.1	3.8	5.3	–1.3	–1.3	0.0	...
TOTAL	**4.2**	**2.9**	**4.2**	**2.9**	**2.8**	**2.5**	**2.5**	**2.0**	**...**
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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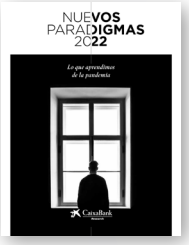

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