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INTERNATIONAL ECONOMIES AND MARKETS

FINANCIAL MARKETS

US monetary policy and stock market performance

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Is there «early» evidence of de-risking? (part I): the US and China

Is there «early» evidence of de-risking? (part II): the EU

SPANISH ECONOMY

How could structural unemployment be further reduced in Spain?

Changes in the educational level of Spanish workers

The importance of intermediate costs in inflation dynamics in Spain

CaixaBank Research

MONTHLY REPORT - ECONOMIC AND FINANCIAL MARKET OUTLOOK

January 2024

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INDEX

1 EDITORIAL

3 KEY POINTS OF THE MONTH

4 FORECASTS

7 FINANCIAL MARKET

9 *US monetary policy and stock market performance*
Isabela Lara White

12 INTERNATIONAL ECONOMY

14 *Is there «early» evidence of de-risking? (part I): the US and China*
Luís Pinheiro de Matos

16 *Is there «early» evidence of de-risking? (part II): the EU*
Luís Pinheiro de Matos

20 SPANISH ECONOMY

22 *How could structural unemployment be further reduced in Spain?*
Josep Mestres Domènech

24 *Changes in the educational level of Spanish workers*
Sergio Díaz Valverde

26 *The importance of intermediate costs in inflation dynamics in Spain*
Oriol Carreras Baquer and Zoel Martín Vilató

29 PORTUGUESE ECONOMY

30 *Tourism in Portugal in the 2023 high season*
Tiago Belejo Correia

Soft landing in times of political uncertainty

Following the sudden shift in monetary policy expectations since the second week of November last year, which led to one of the sharpest rallies in the value of financial assets in recent decades (+9% in fixed-income securities in the last two months of 2023, a bi-monthly peak since 1990), it is necessary to adjust the economic outlook scenario and assess whether investors have gone too far by anticipating an overly idyllic scenario, in which the resilience of the business cycle to the recent monetary tightening will be accompanied by a rapid return of inflation to 2%. Right now, the consensus of forecasts has clearly shifted towards a soft landing of the world economy in 2024, anticipating average growth similar to that of 2023 and a continuation of the divergences between sectors and economic regions. However, 2024 is expected to have a completely different profile to last year, with a first half characterised by significant economic weakness that will give way to an improvement in the second half of the year, as the effects of both the drop in inflation and the easing of financial conditions materialise. The intensity of these two processes under way will determine when potential growth rates can be recovered, currently weighed down by a succession of negative supply shocks in recent years, pending the positive effects of investments in the energy transition as well as the boost to productivity promised by the latest generation of innovations (AI, etc.).

The December employment data in the US (+216,000 jobs created, giving a total of 2.7 million in 2023), as well as the oil price remaining below 80 dollars a barrel in the first sessions of the year, reflect the fact that two of the main factors behind the resilience of the business cycle in the last year remain in force. Specifically, labour markets continue to show strength and the tensions in energy prices remain contained, in what is a rather unfavourable context marked by the monetary tightening accumulated in the last two years and the heightened geopolitical tensions in the Middle East. In this regard, the onset of winter in Europe is subject to much less uncertainty this year, taking into account gas prices and the levels of reserves compared to those of a year ago. That said, the recent weakness in economic activity will continue over the coming months, considering the ongoing sluggishness in economic agents' expectations, the negative inertia in the industrial and retail data, and the effects of the expected turnaround in fiscal policy.

However, it is on the inflation front that the outlook remains more open, despite the positive surprises of the last half-year. December's inflation figure in Europe was in line with forecasts and anticipates some of the trends we can expect to see in the short term: moderation in the base effects of energy, mixed dynamics in food inflation (better performance in processed foods than in unprocessed foods) and differing behaviour in the main categories of the core index, with relatively rapid normalisation in industrial goods (excluding energy) and greater downward resistance in the case of services. For this reason, although the measures of short-term patterns in underlying component prices (momentum) are offering positive signals, there are still some doubts (and risks) regarding the price dynamics that will unfold in the coming months. These doubts extend, therefore, to when inflation can be expected to stabilise again at around 2%. In that regard, the messages of the central banks at their December meetings appear to be quite coherent, trying not to deflate expectations of declines in interest rates, on the one hand, while highlighting the dependence of their decisions on the data that will emerge over the coming months, on the other. It is in this context that inconsistencies emerge between the new interest rate expectations anticipated by the markets and the soft landing scenarios. After all, without further and significant weakening of economic activity, with the direct implications this would have for inflation, it is hard to believe that the central banks will feel any urgent need to cut interest rates as early as Q1. This is especially the case considering the effects that the challenging electoral calendar that awaits us in 2024 will have on geopolitical risk and the tone of global fiscal policy, beginning with the elections in Taiwan on 13 January and ending with the US presidential elections on 5 November. After the experience of recent years, we know all too well how political risk can alter the behaviour of key hypotheses in economic forecasting scenarios.

José Ramón Díez
January 2024

Chronology

DECEMBER 2023

13 COP28 (United Nations Climate Change Conference) ends with a commitment to transition away from fossil fuels.
20 The European Council approves the reform of EU fiscal rules.

NOVEMBER 2023

10 The EU's Copernicus programme reports that 2023 saw the hottest January-October period on record globally, 1.43°C above the 1850-1900 average, and records in the months of June, July, August, September and October.

OCTOBER 2023

7 A new war breaks out between Hamas and Israel.
20 Greece regains an investment grade sovereign rating after S&P raises it to BBB–.

SEPTEMBER 2023

14 The ECB raises rates by 25 bps, placing the depo rate at 4.00% and the refi rate at 4.50%.

AUGUST 2023

14 The United Nations declares July 2023 the hottest month since records began (174 years ago).

JULY 2023

26 The Fed raises rates by 25 bps, placing the target rate in the 5.25%-5.50% range.
27 The ECB raises rates by 25 bps, placing the depo rate at 3.75% and the refi rate at 4.25%.

Agenda

JANUARY 2024

3 Spain: registration with Social Security and registered unemployment (December).
5 Euro area: CPI flash estimate (December).
8 Portugal: employment and unemployment (November).
9 Portugal: international trade (November).
10 Spain: financial accounts (Q3).
17 China: GDP (Q4).
22 Spain: loans, deposits and NPL ratio (November).
25 Governing Council of the European Central Bank meeting.
US: GDP (Q4 and 2023).
26 Spain: labour force survey (Q4).
30 Spain: GDP flash estimate (Q4).
Spain: CPI flash estimate (January).
Portugal: GDP flash estimate (Q4).
Euro area: GDP (Q4).
Euro area: economic sentiment indicator (January).
30-31 Federal Open Market Committee meeting.
31 Portugal: CPI flash estimate (January).
Portugal: budget execution (December).

FEBRUARY 2024

1 Portugal: industrial production (December).
Euro area: CPI flash estimate (January).
2 Spain: registration with Social Security and registered unemployment (January).
7 Portugal: employment and unemployment (Q4).
9 Portugal: turnover in the services sector (December).
12 Portugal: labour costs (Q4).
15 Japan: GDP (Q4).
19 Spain: foreign trade (December).
23 Spain: loans, deposits and NPL ratio (December).
28 Euro area: economic sentiment index (January).
29 Spain: CPI flash estimate (February).
Spain: balance of payments (December).
Portugal: GDP breakdown (Q4).

2024: a year of improvement

2024 has kicked off with a relatively favourable outlook. It is true that several indicators suggest that the pace of growth is slowing in the major developed countries and the tone is likely to remain weak for a few more months to come. However, it looks as though the factors that are slowing down the pace of progress will dissipate over the coming quarters, and this should give way to growing economic buoyancy, both globally and within the Spanish economy. Behind this scenario, there are five key hypotheses that must be met.

Firstly, in 2024 it is expected that the inflationary cycle can be declared practically over. We have already seen an easing of inflationary pressures in recent months, and the containment of energy and commodity prices, together with limited second-round effects, allows for some optimism. In the US, inflation is expected to stand at around 2.0% by mid-year and to continue to fall during the second half, ending 2024 below the Fed's target. In the euro area, the pattern could be similar, although the moderation will likely be somewhat slower and the year is expected to end with a rate slightly above 2.0%.

The second key hypothesis of this scenario, which is closely related to the first, is that financial conditions will ease during the course of the year. The actions of the Fed and the ECB to date have been very cautious, emphasising at all times the need to curb inflation. But the improved outlook in this regard already led to a marked correction in interest rate expectations according to the financial markets at the end of 2023. In the coming months, as inflation rates converge towards the 2.0% target, the major central banks are expected to begin reducing benchmark interest rates. All this will take pressure off many businesses and households, and will make it easier for the economy to start to gain traction in the second half of the year.

Another factor that will help the economy to withstand the current bump is the strength of the labour market. This is an aspect which tends to react to changes in the economy with a certain delay. Only when the weakening of the economy persists do companies reduce their workforce. This could raise fears that the current situation, if it were to continue, would lead to some job destruction in the coming quarters. However, insofar as expectations continue to anticipate only a moderate and transient economic slowdown, and that demand will soon begin to gain traction, the labour market could remain a supporting factor. Companies are unlikely to cut their workforce for a short period of time, given the difficulties in finding workers reported in many sectors.

One of the main risks to the global economic outlook comes from China. The majority of research houses, including CaixaBank Research, assume that the deep crisis that its real estate sector is experiencing, with sales volumes falling by over 40%, will not have an excessive impact on other sectors. To date, the measures taken by the Chinese government have been effective and the economy as a whole has continued to grow at a steady pace. This scenario is expected to continue throughout the year, but the challenge ahead is significant and any shock could have global repercussions.

Finally, the big question that will determine whether or not this global economic scenario materialises lies in geopolitics. Broadly speaking, it is assumed that there will be no further escalation in the currently active conflicts, such as the wars in Ukraine and between Israel and Hamas. This is of the utmost importance, not only because of the human drama they are causing, but also because of the repercussions it could have for the global economy, driving up commodity prices or hindering the main trade routes.

As usual in recent years, there is a great deal of uncertainty surrounding the forecast scenario, but the working hypotheses which seem the most reasonable right now allow us to be cautiously optimistic. Although the year has begun with several indicators suggesting a moderation in the pace of growth, 2024 should be a year of improvement.

Oriol Aspachs

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

Financial markets

	Average 2000-2007	Average 2008-2020	2021	2022	2023	2024	2025
INTEREST RATES							
Dollar							
Fed funds (upper limit)	3.43	0.77	0.25	4.50	5.50	4.25	2.50
3-month SOFR	3.62	0.99	0.21	4.74	5.37	3.85	2.40
12-month SOFR	3.86	1.42	0.52	5.48	4.95	3.15	2.80
2-year government bonds	3.70	0.99	0.66	4.30	4.46	2.80	2.50
10-year government bonds	4.69	2.44	1.46	3.62	4.01	3.10	3.00
Euro							
ECB depo	2.05	0.15	–0.50	1.77	4.00	3.50	2.50
ECB refi	3.05	0.69	0.00	2.27	4.50	4.00	3.00
€STR	–	–0.55	–0.58	1.57	3.90	3.45	2.55
1-month Euribor	3.18	0.42	–0.60	1.72	3.86	3.19	2.48
3-month Euribor	3.24	0.57	–0.58	2.06	3.94	2.94	2.40
6-month Euribor	3.29	0.70	–0.55	2.56	3.93	3.00	2.43
12-month Euribor	3.40	0.86	–0.50	3.02	3.68	3.06	2.45
Germany							
2-year government bonds	3.41	0.27	–0.69	2.37	2.55	2.50	2.25
10-year government bonds	4.30	1.38	–0.31	2.13	2.11	2.60	2.50
Spain							
3-year government bonds	3.62	1.53	–0.45	2.66	2.77	2.82	2.67
5-year government bonds	3.91	2.01	–0.25	2.73	2.75	2.99	2.83
10-year government bonds	4.42	2.96	0.42	3.18	3.09	3.60	3.30
Risk premium	11	158	73	105	98	100	80
Portugal							
3-year government bonds	3.68	3.05	–0.64	2.45	2.33	3.04	2.93
5-year government bonds	3.96	3.63	–0.35	2.53	2.42	3.14	3.03
10-year government bonds	4.49	4.35	0.34	3.10	2.74	3.45	3.30
Risk premium	19	297	65	97	63	85	80
EXCHANGE RATES							
EUR/USD (dollars per euro)	1.13	1.26	1.13	1.06	1.09	1.12	1.15
EUR/GBP (pounds per euro)	0.66	0.84	0.85	0.87	0.86	0.89	0.90
OIL PRICE							
Brent ($/barrel)	42.3	77.3	74.8	81.3	77.4	79.0	73.0
Brent (euros/barrel)	36.4	60.6	66.2	76.8	71.0	70.5	63.5

Forecasts

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

International economy

	Average 2000-2007	Average 2008-2020	2021	2022	2023	2024	2025
GDP GROWTH							
Global	4.5	2.9	6.3	3.5	2.8	2.9	3.1
Developed countries	*2.7*	*1.0*	*5.6*	*2.6*	*1.4*	*1.1*	*1.7*
United States	2.7	1.5	5.8	1.9	2.0	0.8	1.7
Euro area	2.2	0.3	5.6	3.4	0.5	0.7	1.6
Germany	1.6	0.8	3.1	1.9	–0.4	0.3	1.4
France	2.2	0.3	6.4	2.5	0.8	0.7	1.4
Italy	1.5	–1.0	7.0	3.8	0.7	0.6	1.7
Portugal	1.5	–0.2	5.7	6.8	2.4	1.8	2.4
Spain	3.7	–0.3	6.4	5.8	2.4	1.4	2.0
Japan	1.4	0.1	2.3	1.1	1.3	1.1	1.1
United Kingdom	2.7	0.3	8.7	2.5	0.6	0.5	0.0
Emerging and developing countries	*6.5*	*4.4*	*6.9*	*4.1*	*3.9*	*4.2*	*4.1*
China	10.6	7.5	8.5	3.0	5.2	4.6	4.4
India	7.2	5.7	9.0	7.3	6.0	6.7	5.5
Brazil	3.6	1.2	5.0	2.9	3.0	1.8	1.8
Mexico	2.3	0.7	5.7	4.0	3.2	2.1	2.1
Russia	–	1.0	5.6	–2.1	2.7	1.5	1.3
Türkiye	5.5	4.3	11.4	5.5	4.3	2.6	3.5
Poland	4.2	3.2	6.9	5.5	0.3	2.6	3.2
INFLATION							
Global	4.2	3.7	4.7	8.7	6.9	5.2	4.0
Developed countries	*2.1*	*1.5*	*3.1*	*7.3*	*4.6*	*2.6*	*1.9*
United States	2.8	1.7	4.7	8.0	4.2	2.4	1.7
Euro area	2.2	1.3	2.6	8.4	5.4	3.1	2.1
Germany	1.7	1.4	3.2	8.7	6.0	3.3	2.2
France	1.9	1.3	2.1	5.9	5.7	2.9	2.0
Italy	2.4	1.3	1.9	8.7	5.9	2.9	2.0
Portugal	3.1	1.0	1.3	7.8	4.3	2.4	2.1
Spain	3.2	1.2	3.1	8.4	3.5	3.6	2.2
Japan	–0.3	0.4	–0.2	2.5	2.5	1.5	1.5
United Kingdom	1.6	2.2	2.6	9.1	7.5	3.6	2.3
Emerging and developing countries	*6.7*	*5.5*	*5.9*	*9.8*	*8.5*	*7.1*	*5.4*
China	1.7	2.6	0.9	2.0	0.7	2.0	1.6
India	4.5	7.3	5.1	6.7	5.3	5.0	4.5
Brazil	7.3	5.5	8.3	9.3	4.8	4.3	3.7
Mexico	5.2	4.1	5.7	7.9	5.6	4.5	3.9
Russia	14.2	7.5	6.7	13.8	5.8	5.4	4.5
Türkiye	22.6	9.8	19.6	72.3	53.9	52.6	29.0
Poland	3.2	2.0	7.3	15.9	7.3	4.2	3.1

Forecasts

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

Spanish economy

	Average 2000-2007	Average 2008-2020	2021	2022	2023	2024	2025
Macroeconomic aggregates							
Household consumption	3.6	–0.9	7.2	4.8	2.2	1.9	2.2
Government consumption	5.0	1.3	3.4	–0.2	2.6	1.4	1.2
Gross fixed capital formation	5.6	–2.0	2.8	2.4	1.9	2.5	3.0
Capital goods	4.9	–0.8	4.4	1.9	–0.1	3.7	3.1
Construction	5.7	–3.4	0.4	2.6	3.1	1.5	3.0
Domestic demand (vs. GDP Δ)	0.2	0.1	0.3	0.1	0.0	0.1	0.1
Exports of goods and services	4.7	1.1	13.5	15.2	0.6	–1.6	1.8
Imports of goods and services	7.0	–1.0	14.9	7.0	–0.7	–0.7	2.4
Gross domestic product	**3.7**	**–0.3**	**6.4**	**5.8**	**2.4**	**1.4**	**2.0**
Other variables							
Employment	3.2	–0.9	6.6	3.8	2.2	1.4	1.6
Unemployment rate (% of labour force)	10.5	19.2	14.8	12.9	12.1	11.8	11.4
Consumer price index	3.2	1.2	3.1	8.4	3.5	3.6	2.2
Unit labour costs	3.0	1.1	0.3	0.4	3.9	3.1	2.6
Current account balance (% GDP)	–5.9	–0.2	0.8	0.6	1.8	1.7	1.9
External funding capacity/needs (% GDP)	–5.2	0.2	1.9	1.5	1.5	2.0	2.4
Fiscal balance (% GDP)[1]	0.3	–6.8	–6.8	–4.7	–4.2	–3.6	–3.0

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

Forecasts

Portuguese economy

	Average 2000-2007	Average 2008-2020	2021	2022	2023	2024	2025
Macroeconomic aggregates							
Household consumption	1.7	–0.1	4.7	5.6	0.9	0.7	1.8
Government consumption	2.3	–0.2	4.5	1.4	1.2	1.3	1.0
Gross fixed capital formation	–0.4	–0.8	8.1	3.0	1.3	5.0	6.4
Capital goods	3.2	2.0	15.3	5.5	–	–	–
Construction	–1.5	–2.3	7.4	1.3	–	–	–
Domestic demand (vs. GDP Δ)	1.3	–0.4	6.0	4.7	0.7	1.6	2.5
Exports of goods and services	5.3	2.2	12.3	17.4	5.5	2.7	4.5
Imports of goods and services	3.6	1.5	12.3	11.1	1.6	2.5	4.8
Gross domestic product	**1.5**	**–0.2**	**5.7**	**6.8**	**2.4**	**1.8**	**2.4**
Other variables							
Employment	0.4	–0.6	2.7	2.0	1.1	0.4	0.3
Unemployment rate (% of labour force)	6.1	11.0	6.6	6.0	6.6	6.5	6.3
Consumer price index	3.1	1.0	1.3	7.8	4.3	2.4	2.1
Current account balance (% GDP)	–9.2	–2.7	–0.8	–1.4	1.2	1.2	1.6
External funding capacity/needs (% GDP)	–7.7	–1.5	1.0	–0.4	2.3	2.6	3.0
Fiscal balance (% GDP)	–4.6	–5.1	–2.9	–0.3	0.7	0.4	0.6

Forecasts

2023: a year of widespread gains in fixed-income and equity markets

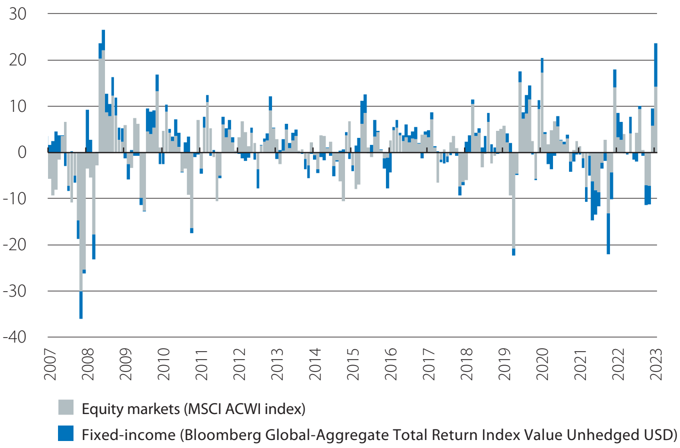
Investors maintain a strong risk appetite in December. The intense market movement unleashed at the end of October, after investors shifted from expecting high interest rates for longer to anticipating rate cuts as early as 2024, continued in December. That said, the momentum seemed to fade towards the end of the month, with investors closing their positions in order to avoid tarnishing their good annual results and to leave for the Christmas break with peace of mind, resulting in a market with low trading volumes and which remained quite flat in the last two weeks of the year. 2023 thus ended with gains in most of the global stock markets, with the global MSCI ACWI up 20%, and with the Chinese indices as the main – and almost exclusive – markets to record losses. In terms of fixed-income securities, the global aggregate bond indices (which encompass both sovereign and corporate bonds) closed the year with gains, with the Bloomberg Global-Aggregate bond index up around 6% thanks to the rally at the end of the year. This index recorded its biggest bi-monthly increase since 1990 in December (above 9%) and the performance in these last two months has made the year a very positive one for these two main asset classes.

The central banks seek to contain expectations of lower market rates. The Fed and the ECB showed a clear divergence at their December meetings: while the Fed announced the end of the rate hike cycle and the dot-plot revealed expectations of three rate cuts (i.e. 75 bps) in 2024 for the median FOMC voter, at the ECB Lagarde was less explicit and stated that, for now, the ECB has not discussed rate cuts. Despite this divergence, after their respective meetings the statements issued by various monetary policymakers from both central banks focused on controlling investors' expectations of rate reductions, which were reflecting significant cuts (of as much as 120 bps between 31 October and 31 December in the case of forwards on the effective fed funds rate for the next 12 months). However, at the year end, money market futures were pricing in a first rate cut in the US in March, and in the euro area in April, with between five and six rate reductions (i.e. of between 125 and 150 bps) anticipated in 2024 in both regions.

Sharp fall in sovereign debt yields, attenuated towards the end of the month. As with all other corners of the market, towards the end of December sovereign rates also experienced a relaxation of the sharp bearish trend unleashed in November, as investors reassessed their expectations of lower interest rates in 2024, in view of both the sharp correction in prices and the resilience of the US economy. Nevertheless, December's movements in public debt were still significant, with 10-year benchmark rates on both sides of the Atlantic yielding between 40 and 50 bps in the month. This led to US treasuries closing the year flat, while in the case of the European benchmarks the falls in yields for the year as a whole were

Bi-monthly returns in global fixed-income securities and equities

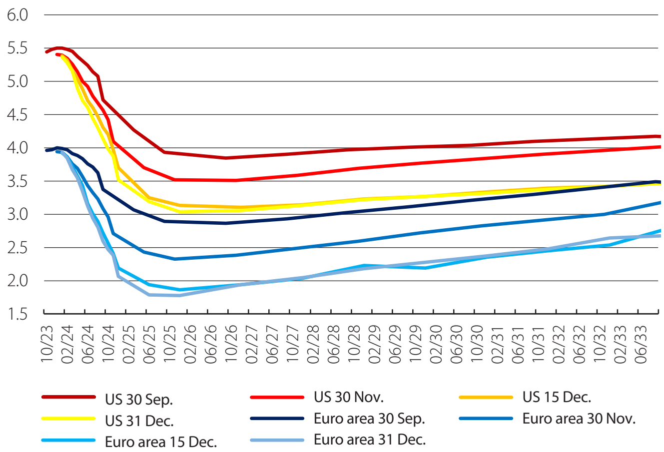
(%)



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

Expectations for Fed and ECB reference interest rates

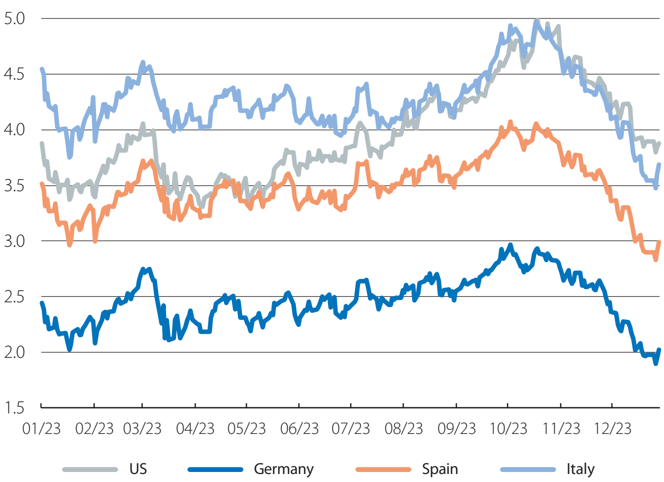
(%)



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

Yield on 10-year sovereign debt

(%)



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

significant. This, coupled with the intense narrowing of spreads, allowed the 10-year benchmark rates of the euro area periphery to end the year between 70 and 100 bps below the level at which they closed 2022.

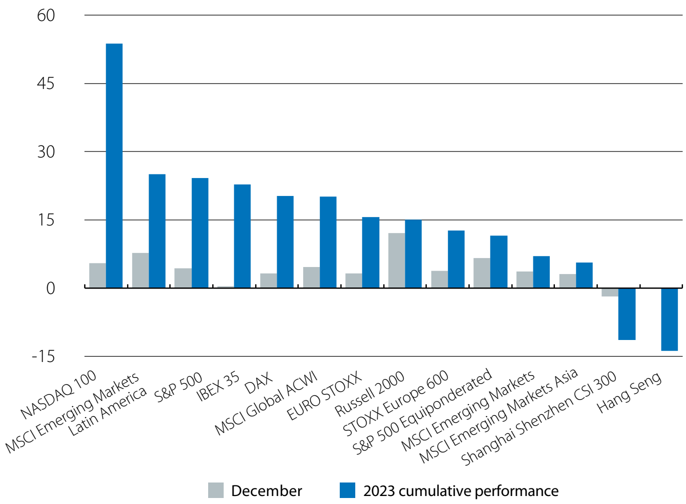
The November stock market rally is still felt in December. Also in the stock market, November's strong investment rally began to lose steam towards the middle of the month, especially on European trading floors. Despite this, December closed with widespread gains in the major indices, with the main exception once again being China. On the upside, the US indices, particularly Nasdaq and the Rusell 2000 index, stood out. The buoyancy of the US economy and expectations of lower interest rates favoured tech firms in the month, as well as smaller companies, which had performed relatively poorly during the year compared to the tech giants. The exceptional performance of these companies meant that in 2023, the year of the emergence of artificial intelligence, the biggest advances among the major international indices were recorded by the Nasdaq index, following the sharp declines registered in 2022. The year has thus ended with widespread gains in the main stock market indices, in both developed and emerging markets, while Chinese stocks have performed the worst, with the Shanghai CSI 300 index and Hong Kong's Hang Seng index sliding more than 10% each.

Expectations of lower rates for the Fed weigh down the dollar at the end of the year. If rate expectations and the correlative spreads between economies have been the main factors driving the foreign exchange market throughout the year, December was no exception. Thus, the dollar ended the year with a slight depreciation in its nominal effective exchange rate (just over 2%), although since mid-November it has undone much of the marked appreciation it had amassed in the summer (of over 7%). As a result, the euro closed the year up more than 3%, both against the dollar and in its nominal effective exchange rate. On the other hand, December saw the yen enjoy a significant appreciation. This movement was concentrated in the first few weeks of the month in the lead up to the Bank of Japan's meeting, which turned out to be more dovish than expected among investors, who continue to anticipate early rate hikes. The Japanese currency ended December up almost 5% against the dollar, thus partially correcting the significant depreciation (of almost 8%) it had accumulated in the year.

Energy prices close the year with losses. The Brent barrel benchmark price in Europe continued to decline in December, which meant that it closed 2023 10% below the level at which it started the year (almost 10 dollars less per barrel). Despite the outbreak of the conflict in the Middle East, which in December intensified with attacks on vessels in the Red Sea, as well as the production cuts by OPEC members, oil prices were weighed down by a slowdown in global demand and increased production outside OPEC, especially in the US (which reached a record production in December of 13.3 million barrels per day). On the other hand, although the European benchmark gas price is still higher than prior to the pandemic, it currently stands well below the highs observed in 2022 and has plunged more than 50% in the year, thanks to a high level of reserves and lower demand in a milder than usual autumn.

Performance of the main stock market indices

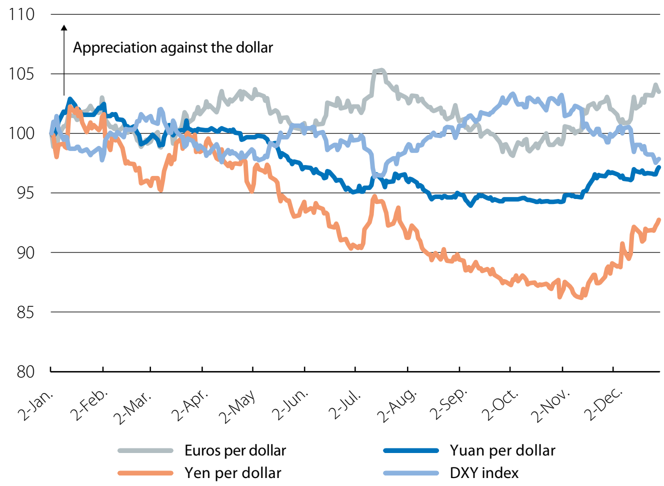
(%)



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

Fluctuation of select currencies against the dollar

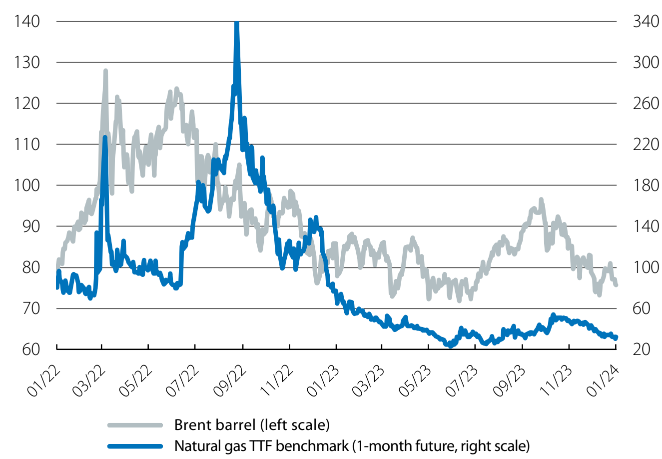
Index (100 = 1 January 2023)



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

Oil and gas: fluctuation of energy prices

($/barrel) *(€/MWh)*



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

US monetary policy and stock market performance

With the major developed economies at the peak of a restrictive monetary policy cycle, we wonder how the US stock market has digested it.

How are interest rates and stock markets related?

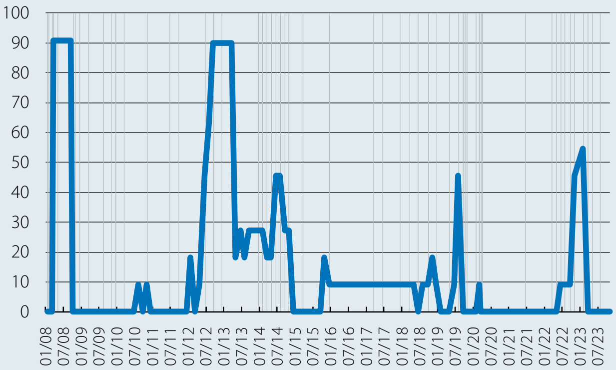
In recent years, the major advanced economies have shifted from a long period of accommodative monetary policy to a sharp monetary tightening, prompted by the need to curb inflation. Beyond the desired effect on the real economy, these changes in monetary policy have an impact on other financial assets which, in fact, occurs much faster than the effects on the real economy. In the case of fixed-income markets there is a direct link with monetary policy: interest rates and bond prices have an inverse relationship, such that when rates rise (fall), prices fall (rise).

In equity markets, the link is neither as direct nor as obvious. On the one hand, rates are a reflection of the macroeconomic context: high rates are associated with an inflationary economy and/or strong economic growth, while low rates tend to reflect weak economic activity and/or low inflation. Rates are also key in company valuation since the present value of a share is calculated as the flow of expected future earnings, discounted by the interest rate, such that if rates change so does the present value reflected in the share price. Additionally, interest rates determine the cost of financing, so they directly impact companies' profitability. To this we can add that, eventually, rates affect demand (whether that of companies, intermediaries or households) and, therefore, sales. Thus, the effect of rates differs depending on which sector a company operates in, as well as on the wider macroeconomic context.

Who is sensitive to monetary policy and who is not?

Traditionally, in financial markets, we talk about cyclical and defensive sectors to refer to those that are more or less sensitive to the business cycle. However, business cycles come in different shapes and sizes, so the role of monetary policy in each cycle and its relationship to the stock market can vary. To answer our question more precisely, we focused our analysis on the sensitivity of the various sectors that make up the S&P 500 to monetary policy surprises.[1] In the periods studied, 6 out of the 11 sectors that make up the S&P 500 are shown to be sensitive to changes in monetary policy, together accounting for 65% of the index: technology, consumer discretionary, consumer staples, financials, utilities and real estate. This sensitivity is not constant over time, that is, these sectors are not always sensitive to surprises in monetary policy, and not always to the same degree (see first chart).

S&P 500: sectoral proportion of the index sensitive to monetary policy surprises
(%)



Note: *The grey bars indicate Fed meetings where a rate change was announced.*
Source: *CaixaBank Research, based on data from Bloomberg and the Federal Reserve.*

Of the six, the financial sector shows a positive sensitivity, i.e. its response tends to go in the same direction as monetary policy surprises.[2] The other five sectors, however, show a negative sensitivity, i.e. their response tends to move in the opposite direction to rates. Technology is a growth sector whose valuation largely depends on estimated flows of future profits, duly discounted at current interest rates: the higher (lower) the discount rate, the lower (higher) the valuation. The sensitivity of the consumption sectors, on the other hand, can be understood because of their dependence on consumers' purchasing power and, consequently, business sales. Similarly, the activity of the real estate sector is sensitive to mortgage prices and, therefore, interest rates. Finally, utilities are known to be mature companies that offer stable dividend payments, so in the world of equities, they resemble bonds (from where they inherit their «negative» sensitivity to interest rates).

What happened during the two years of monetary tightening?

During 2022, when the Federal Reserve began raising interest rates, the S&P 500 experienced its worst year since 2008, and all sectors, regardless of their sensitivity (positive or negative sensitivity, or no sensitivity), registered

1. We estimate the relationship of the price fluctuation $(P_t^i - P_{t-1}^i)$ for each sub-index of the S&P 500 (11 sectors) with the change in the yield of the 2-year treasury $(Y_t - Y_{t-1})$, which we use as a proxy for monetary policy surprises, in a sample which only includes days on which the outcome of a Fed meeting is announced. The analysis is conducted in rolling 24-month windows, each including 16 Fed meetings, from 2000 to 2023. Thus, the sensitivity is given by the estimate of β in the regression $(P_t^i - P_{t-1}^i) = \alpha + \beta\,(Y_t - Y_{t-1}) + \varepsilon_t$. We identify a sector as being «sensitive» to monetary policy if the β is significant at the 95% level.

2. A positive surprise would imply an increase in the 2-year sovereign interest rate, and one would expect it to reflect a more hawkish decision from the Fed than expected.

significant losses that reached up to –30% for technology companies and –38% for consumer discretionary firms. However, the group of sectors with negative sensitivity performed relatively poorer, while those with positive sensitivity showed much smaller declines (see second chart). As for the better performance of the non-sensitive sectors, this was entirely due to the energy sector, driven by the high prices of energy commodities (oil and gas).

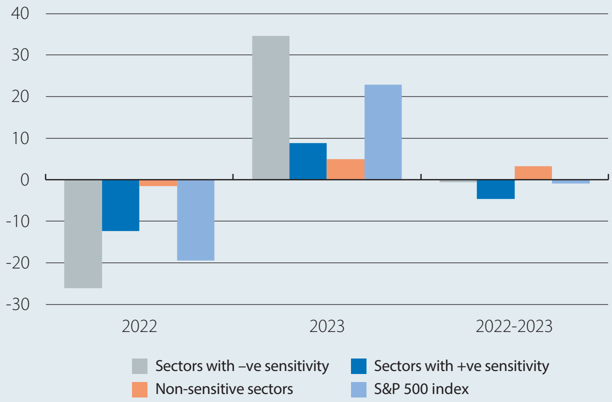
In 2023, however, the same pattern was not repeated. While the utilities and real estate sectors continued to see their performance weighed down by the high-rate environment, technology and consumer discretionary firms enjoyed significant gains.[3] This suggests that, in 2023, there were other dynamics that offset the interest rate burden. On the one hand, sales in these sectors performed well despite facing high rates. In fact, they were among the sectors with the highest earnings growth in 2023 up to Q3, and moreover they exceeded expectations.[4] The second reason is that these two sectors, together with the communications sector, contain the seven largest US companies by capitalisation, colloquially referred to as the «Magnificent Seven», which had a successful year in terms of earnings growth. Together, these companies (Amazon, Apple, Alphabet, Meta, Microsoft, Nvidia and Tesla) account for 30% of the S&P 500, and with the good performance they have enjoyed in the year due to the strength of their earnings, they have exerted a significant pull effect on the rest of the market (see third chart).

With respect to the other sectors, the financial sector (with positive sensitivity) suffered from the Silicon Valley Bank crisis earlier this year.[5] The non-sensitive sectors showed mixed results and mainly reflected their business earnings for the year to date. On balance, the impact of the recent monetary policy changes on the stock market has been mixed. At first, tight monetary policy was the dominant narrative, but later a confluence of factors, including the high concentration of the index in a handful of stocks and the positive results in a better-than-expected macroeconomic environment, outweighed the more direct impact of the high interest rates.

Isabela Lara White

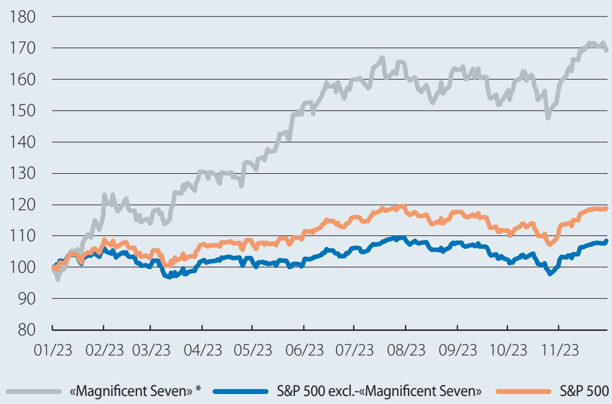
3. When in November the markets assumed the end of the rate hike cycle had been reached and changed their expectations to anticipate rate cuts in 2024, the utilities and real estate sectors once again reacted with negative sensitivity to the expected lower rates, thus recording gains in the closing stages of the year, while the technology and consumption sectors extended their gains.
4. The S&P 500 accumulated a 24% rise in the year, while its EPS rose by 15%, indicating that 65% of its increase in value was due to higher multiples and 35% due to earnings growth.
5. The financial sector fell as much as 16% from its peak in February to the year's low in March. From that low point, it has already erased the losses and closed the year up 10%.

S&P 500: sensitivity groups
Cumulative change in the year (%)



Note: *Sensitivity is identified as described in footnote 1 of the body of the article.*
Source: *CaixaBank Research, based on data from Bloomberg (data as of 15 December 2023).*

S&P 500: performance of select indices
Index (100 = 1 January 2023)



Note: ** The «Magnificent Seven» are: Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla.*
Source: *CaixaBank Research, based on data from Bloomberg.*

Interest rates (%)

	31-December	30-November	Monthly change (bp)	Year-to-date (bp)	Year-on-year change (bp)
Euro area					
ECB Refi	4.50	4.50	0	200.0	200.0
3-month Euribor	3.91	3.96	–6	177.7	177.7
1-year Euribor	3.51	3.93	–41	22.2	22.2
1-year government bonds (Germany)	3.26	3.43	–17	66.2	66.2
2-year government bonds (Germany)	2.40	2.82	–41	–36.0	–36.0
10-year government bonds (Germany)	2.02	2.45	–42	–54.7	–54.7
10-year government bonds (Spain)	2.99	3.47	–48	–67.0	–67.0
10-year government bonds (Portugal)	2.66	3.14	–48	–93.0	–93.0
US					
Fed funds (upper limit)	5.50	5.50	0	100.0	100.0
3-month SOFR	5.33	5.37	–4	74.4	74.4
1-year government bonds	4.76	5.12	–36	7.5	7.5
2-year government bonds	4.25	4.68	–43	–17.6	–17.6
10-year government bonds	3.88	4.33	–45	0.4	0.4

Spreads corporate bonds (bps)

	31-December	30-November	Monthly change (bp)	Year-to-date (bp)	Year-on-year change (bp)
Itraxx Corporate	59	68	–9	–32.0	–32.0
Itraxx Financials Senior	67	78	–11	–32.3	–32.3
Itraxx Subordinated Financials	123	142	–20	–49.4	–49.4

Exchange rates

	31-December	30-November	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
EUR/USD (dollars per euro)	1.104	1.089	1.4	3.1	3.1
EUR/JPY (yen per euro)	155.720	161.370	–3.5	10.9	10.9
EUR/GBP (pounds per euro)	0.867	0.863	0.5	–2.1	–2.1
USD/JPY (yen per dollar)	141.040	148.200	–4.8	7.6	7.6

Commodities

	31-December	30-November	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
CRB Commodity Index	510.3	529.9	–3.7	–8.0	–8.0
Brent ($/barrel)	77.0	82.8	–7.0	–10.3	–10.3
Gold ($/ounce)	2,063.0	2,036.4	1.3	13.1	13.1

Equity

	31-December	30-November	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
S&P 500 (USA)	4,769.8	4,567.8	4.4	24.2	24.2
Eurostoxx 50 (euro area)	4,521.4	4,382.5	3.2	19.2	19.2
Ibex 35 (Spain)	10,102.1	10,058.2	0.4	22.8	22.8
PSI 20 (Portugal)	6,396.5	6,474.6	–1.2	11.7	11.7
Nikkei 225 (Japan)	33,464.2	33,486.9	–0.1	28.2	28.2
MSCI Emerging	1,023.7	987.1	3.7	7.0	7.0

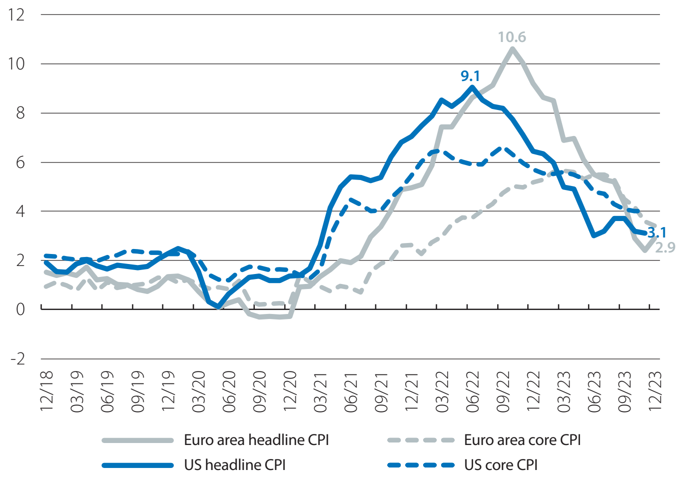
A better 2023 and a worse 2024 for the international economy?

A year ago, we were talking about stagflation... and now, normalisation? After a 2023 with disparate growth between the major economies, the data for Q4 reflect a widespread cooling among the biggest economies and suggest we will see a landing of the global economy in the coming months. On the other hand, in recent months disinflation has come as a positive surprise. Whereas headline inflation at the end of 2022 stood at 9.2% in the euro area and at 6.4% in the US, the situation at the end of 2023 is very different. In the euro area, headline inflation stood at 2.9% in December, helped by base effects in energy, but with the core components also experiencing a slowdown. In the US in November, headline inflation stood at 3.2%. The coming months will be key to unveiling how easy the final path to the 2% inflation target, and how difficult the famous landing of advanced economies, will be. In anticipation of these questions, in recent months the markets read the economic activity and inflation data for Q4 2023 as a sign of a soft landing, leading investors to bring forward their expected timing for the first rate cuts by the Fed and the ECB to the spring.

The EU kicks off 2024 with full gas reserves, moderate energy prices... and agreement on a new fiscal framework. A year ago, the energy crisis was considered one of the main determining factors for the economic scenario and, at that time, futures contracts were indicating that gas prices would persistently be at or above €100/MWh. However, prices moderated to €40-50/MWh relatively quickly, so despite initially anticipating that euro area GDP growth in 2023 would be around 0.2%, this figure is likely to be comfortably exceeded. However, risks such as the persistent weakness of European industry and the materialisation of the impact of interest rate hikes have extended into 2024, a year in which we expect the euro area to grow by 0.7% (versus the 1.6% forecast of a year ago). On another battle front, the EU has managed to reach an agreement on the new fiscal rules. The 27 Member States concluded a political agreement at the European Council for the reform of fiscal rules just before the Christmas break, and it now needs to be negotiated with the European Parliament. The new rules maintain the formal limits of 3% and 60% of GDP for deficits and public debt, but allow fiscal adjustment paths to be «tailored» for each country, with four-year plans that can be expanded to a maximum of seven years. The new fiscal framework, which will not be binding until the 2025 budgets, foresees a transition period lasting until 2027 (intended for countries that have fiscal deficits above 3.0% and which would automatically enter the excessive deficit procedure) with interest on debt being temporarily excluded from the calculation.

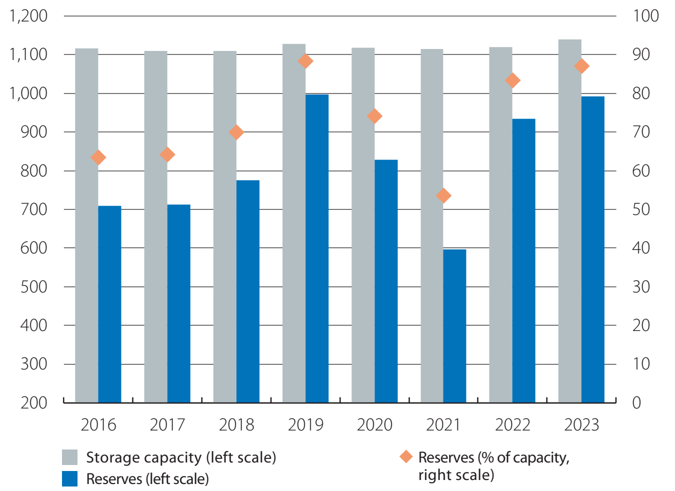
The slowdown of the economy in Q4 suggests a sluggish start to the year in advanced economies. In Europe, December's PMIs remained in contractionary territory (below the 50-point threshold) for the seventh consecutive month, reflecting the persistent weakness in European industry and

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



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

EU-27: natural gas reserves
Total (GWh) *(%)*



Source: *CaixaBank Research, based on data from Gas Infrastructure Europe.*

Euro area: economic sentiment and employment expectations
Index

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

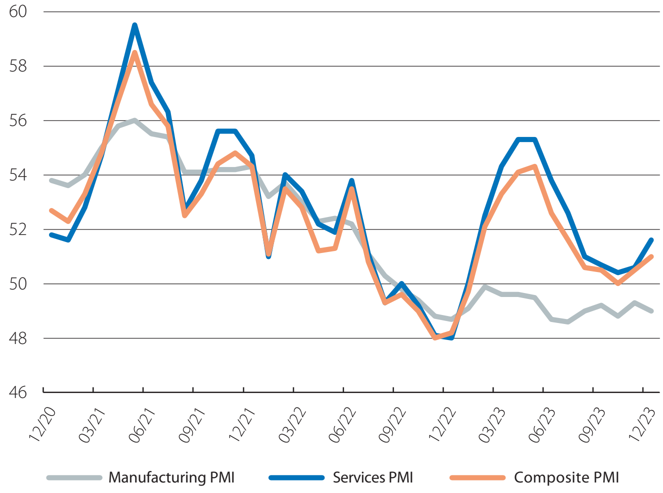
the gradual depletion of the cyclical boost in the services sector. On the other hand, the labour market remains solid with unemployment rates at rock bottom, although some leading indicators, such as the employment expectations indicator, hint at a gradual cooling of the labour market over the coming months. In the US, there is a slowdown in economic activity compared to Q3, although GDP growth remains buoyant at around 0.6% quarter-on-quarter, according to the Atlanta and New York Feds' nowcasting models. The labour market, meanwhile, showed mixed dynamics in December (with 216,000 jobs created, a strong figure that is higher than expected, although most of the jobs were created in less cyclical sectors, such as education and health and general government).

The global economy, between the slowdown of advanced economies and the weakening pull from China. At the same time as we expect a slowdown among advanced economies in 2024, there is another driver of the global economy which appears to be losing steam. In the post-financial crisis period and up until the pandemic, China had partially offset the rather subdued performance of advanced economies (which grew by an average of 1.0% in the period 2008-2020, compared to 7.5% in China). However, a mix of internal and external factors make a scenario in which the Asian giant's growth remains above 5% unlikely. Some of these factors were highlighted during 2023, with the reduction in exports and a domestic confidence crisis, aggravated by a prolonged decline in the real estate sector. In addition, in recent months, the problems of overcapacity in China's manufacturing sector are becoming apparent. The latest business confidence data are a good witness to these trends. On the one hand, the official composite PMI fell to 50.3 points in December, marking its lowest level in the year and substantially below its all-time average. By components, the services PMI remained at 49.3 points (its lowest level since the reopening), while the construction PMI rose to 56.9 points, well below the pre-pandemic average, signalling a lukewarm recovery in the sector. The manufacturing PMI fell from 49.4 to 49.0 points, amid signs of a cooling in foreign demand and falling production prices.

The new year is once again overshadowed by geopolitical tensions. A series of simultaneous crises remain active at the turn of the year, and in addition to the war in Ukraine there has recently been a revival of the Israeli-Palestinian conflict and the war in Sudan, making 2023 one of the years with the most active conflicts since World War II. In the midst of this increased conflict and defence spending, and with the role of multilateral institutions degrading, in 2024 over half of the world's population will be called to the polls for national elections. Moreover, many of these elections have the potential to affect, in turn, the current global geopolitical balance. In addition to elections in countries such as Taiwan, India and the United Kingdom, all eyes are on the US presidential elections. In Spain, «polarisation» was named word of the year in 2023. The Collins English Dictionary and *The Economist* have preferred expressions related to artificial intelligence. Both themes will continue to mark world affairs this year.

Global: PMI

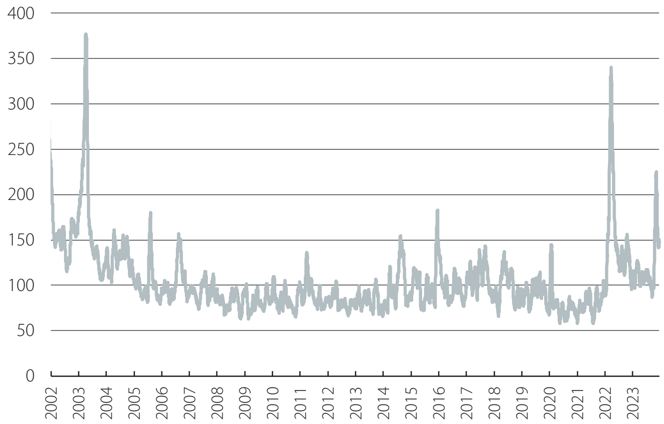
Index



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

Global: geopolitical risk

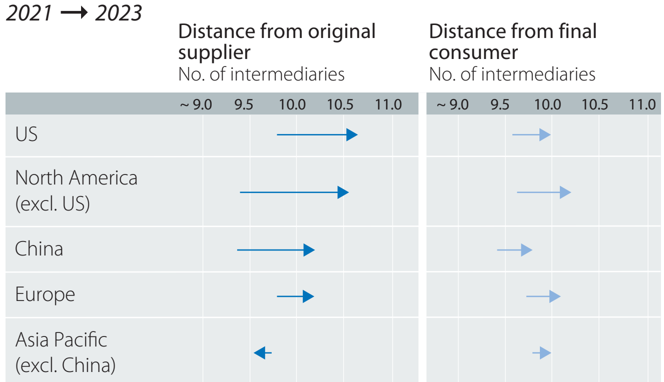
Index



Source: *CaixaBank Research, based on data from D. Caldara and M. Iacoviello (2022). «Measuring Geopolitical Risk», American Economic Review, April, 112(4), pages 1,194-1,225 (data downloaded from https://www.matteoiacoviello.com/gpr.htm).*

Global: average length of global supply chains

2021 ⟶ 2023



Note: *Evolution of the average distance between the original supplier/final consumer (measured based on the number of intermediate suppliers) between 2021 and 2023, for each region.*
Source: The Economist *(based on Qiu, H.* et al. *(2023) «Mapping the realignment of global value chains»).*

Is there «early» evidence of de-risking? (part I): the US and China

Since 2008, global trade flows have virtually stagnated. At the same time, the significant rise in trade tensions between countries, mainly since 2018 and with the US-China axis at the epicentre, is leading to a redesign of trade flows. The key question is whether, in the face of rhetoric and policies more focused on bolstering «economic security», there is any evidence that trade ties (or «dependencies») between the major economic blocs have systematically diminished.

The importance of the triangle: from Ancient Greece to international trade in the 21st century

Since the end of 2018, China's exports to the US have suffered a zigzag pattern, with contractions in 2019 and 2022-2023, but reaching all-time highs in between (see first chart). However, since 2018 China has lost almost 5 pps in its share of total US imports, while countries such as Mexico and Vietnam, and even the euro area, have seen their share increase.

For instance, between 2018 and 2021, Vietnam's annual exports to the US have more than doubled (increasing by over 50 billion dollars per year). Looking at the breakdown by sector, while the proportion of exports of electronic products from China to the US fell by 2 points in the period, exports of these products from Vietnam to the US rose by 13 points (see first table).[1] China's exports to Vietnam have grown by almost 70% (also around 50 billion dollars per year) and flows within the electronics sector have intensified in both directions.

The «trade triangle» between these countries reveals that, despite direct trade ties between China and the US having steadily weakened over the period, indirect ties may have increased significantly.[2] If we understand the objective of de-risking (i.e. minimising risks in value chains through the diversification of trade flows) to be a reduction in the effective trade dependence between countries, and this depends on both direct and indirect trade ties, it is not clear to what extent there has really been a decoupling between the US and China since 2018, despite the significant increase in tariffs imposed by the two countries.[3] This is also shown by is demonstrated by one of the most famous theorems of Euclidean geometry, attributed to the Greek philosopher and mathematician Pythagoras, in the 6th century BC: the square of the length of the hypotenuse is equal to the sum of the squares of the length of the other two sides.

China: exports

USD billions (12-month cumulative volume) *USD billions (12-month cumulative volume)*

Note: *The chart shows monthly data.*
Source: *CaixaBank Research, based on data from China Customs, via Bloomberg.*

Trade flows between China, the US and Vietnam

Annual imports and exports (USD millions)

	2018	Δ%	2021
China → US	504,000	+5%	530,000
	Electronics (26%)		Electronics (24%)
	Machinery (22%)		Machinery (22%)
US → China	119,000	+27%	151,000
	Aeronautical transp. (14%)		Electronics (13%)
	Electronics (11%)		Optical & photogr. equipment., etc. (11%)
Vietnam → US	48,000	+106%	99,000
	Electronics (21%)		Electronics (34%)
	Clothing accessories (17%)		Furniture (11%)
US → Vietnam	10,000	+10%	11,000
	Electronics (18%)		Electronics (21%)
	Cotton (14%)		Cotton (9%)
Vietnam → China	41,000	+41%	58,000
	Electronics (48%)		Electronics (54%)
	Fruit (7%)		Cotton (5%)
China → Vietnam	77,000	+68%	129,000
	Electronics (30%)		Electronics (36%)
	Machinery (11%)		Machinery (11%)

Note: *The table shows the two most important sectors (as a % of the total) in the bilateral flows between countries, for each year, at the HS2 product level.*
Source: *CaixaBank Research, based on data from the Observatory of Economic Complexity (OEC) and Comtrade.*

1. In contrast, between 2018 and 2021, US exports to China have increased by almost 30%, and to Vietnam, by 10%.
2. Although China has seen its share of total US imports decline, it remains the US' biggest trading partner in terms of imports, accounting for one fifth of the total. On the other hand, China is also the main source of Vietnam's imports. While in 2018, 31% of Vietnam's total imports of goods came from China, in 2021 this figure stood at 39%. The main product imported by Vietnam is integrated circuits (12% of total imports). In 2018, 23% of the integrated circuits imported by Vietnam came from China (compared to 46% from South Korea and 6% from the US and from Japan). In 2021, China's share rose to 33% (33% from South Korea, 7% from Japan and 4% from the US).

Changes in global trade flows: a variable geometry

While on the one hand the intensification of Vietnam's trade flows with China and the US will have countered, at least in part, the relative weakness of the direct flows between China and the US, it remains to be seen whether these trade flow deviations spread to other countries. Focusing on the Asian region and other large emerging economies, in the same period we see more rapid growth in US trade flows with other ASEAN countries (such as Indonesia, Malaysia and Thailand), as well as with South Korea and Taiwan, all registering growth in excess of 30%. Trade flows with India have also grown by more than 30%, while flows with Mexico and Brazil stagnated between 2018 and 2021.

Various nuances in these cases help us to understand the challenges and complexity of the de-risking process between major economic powers. On the one hand, although we see a reduction in US imports coming from China and an increase in those coming from other countries, these countries have increased their own imports originating in China. Therefore, we cannot decisively conclude that the US' indirect trade links with China have not increased. In virtually all of the cases mentioned above, the growth of these countries' imports coming from China has practically matched, or even surpassed, the growth of their exports to the US (see second table). On the other hand, in the case of India, which has registered a 34% increase in its exports to the US in the period, although the country's imports from China have grown by 24%, it is not clear that this channel has led to a de-risking for the US relative to China. Firstly, the annual flows of exports from India to the US are only one seventh of those from China to the US (and they are even inferior to those from Vietnam to the US). Secondly, India and China have very different sectoral specialisations. Whereas almost 50% of China's exports to the US (and to India) are electronics and machinery, India's main exports to the US include precious stones and metals (20%) and pharmaceuticals (10%), while electronics and machinery together account for just over 10% of the total.

3. In order to clearly identify «dependencies» between economies through global value chains, international value-added data must be used, which are available, for example, in the OECD TiVA database. Such data make it possible to identify the true origin of the goods and services that arrive, are consumed and are exported in a given country, taking into account that the gross flows of imports and exports between countries incorporate content originating in multiple locations. However, due to the complexity of this data, they are published with a lag of several years.
4. See, for example, H. Utar *et al.* (2023), «The US-China Trade War and the Relocation of Global Value Chains to Mexico», CESifo Working Paper nº 10638. China-US tariff barriers are currently at levels three to six times higher than those observed up until 2018, according to the Peterson Institute for International Economics (PIIE).

Trade flows between China, the US and major emerging economies

Annual imports and exports (USD millions)

	2018	Δ%	2021
Mexico → US	348,000	+4%	361,000
	Land transp. (27%)		Land transp. (24%)
	Electronics (21%)		Electronics (21%)
India → US	53,000	+34%	71,000
	Precious stones, etc. (21%)		Precious stones, etc. (21%)
	Pharmaceuticals (11%)		Pharmaceuticals (11%)
Indonesia → US	20,000	+30%	26,000
	Non-textile clothing access. (12%)		Textile clothing access. (10%)
	Textile clothing access. (11%)		Fats, oils... (9%)
China → Mexico	64,000	+31%	84,000
	Electronics (37%)		Electronics (32%)
	Machinery (23%)		Machinery (21%)
China → India	76,000	+24%	94,000
	Electronics (30%)		Electronics (28%)
	Machinery (18%)		Machinery (21%)
China → Indonesia	45,000	+33%	60,000
	Electronics (21%)		Machinery (19%)
	Machinery (19%)		Electronics (19%)

Note: *The table shows the two most important sectors (as a % of the total) in the bilateral flows between countries, for each year, at the HS2 product level.*
Source: *CaixaBank Research, based on data from the Observatory of Economic Complexity (OEC) and Comtrade.*

What will the future bring: more multi-polar geopolitics and less multilateral geo-economics?

The use of «defensive» trade policies such as tariffs, unilaterally and as a weapon for negotiating with trading partners, has marked the «first wave» of trade tensions, beginning in 2018.[4] These have led to a first redesign of global value chains. Although we have seen cases of «friendshoring», or the relocation of parts of the value chains to so-called friendly countries (either to avoid tariff costs or to protect against a potential further deterioration of the geopolitical situation), the resulting deviations of trade flows, as well as China's growing importance and degree of specialisation in global value chains, make it difficult to conclude that the trade links between the US and China have indeed lost importance.

On the other hand, the protectionist shift in the US has not only led to a deterioration of multilateralism (as is evident, for example, with the US blocking appointments to the WTO's Appellate Body, the main mechanism for resolving trade disputes between countries, since 2017), but it has also driven other countries to change their trade policies. What new geo-economics will the «second wave» of trade tensions bring us?

Luís Pinheiro de Matos

Is there «early» evidence of de-risking? (part II): the EU

Between 2018 and 2021, we experienced a first wave of trade tensions in a conflict that was concentrated in the US-China axis. In that period, EU imports from China increased by almost 40% (see first table),[1] but since 2021 the tensions have spread and the EU has been adopting a more assertive stance towards China, particularly following Russia's invasion of Ukraine.

How is the EU positioning itself on de-risking?

In 2021, 22% of imports of goods from outside the EU came from China (around 550 billion dollars), up from 18% between 2015 and 2018 and marking a record level. In the electronics sector, China's share of EU imports in 2021 stood at 47%, compared to 38% up until 2018.

In these same years, not only did the growth of imports from China exceed the growth of imports from the other large emerging and Asian countries (see second table), but the growth of exports from China to these countries increased significantly.[2] In other words, the importance of the EU's direct trade links with China has increased (contrary to what happened between the US and China during the same period), as have the indirect links through other countries due to those countries also having increased their exposure to China.

On the other hand, following a period of rapid expansion of European imports during 2022, with more than 40% growth in imports coming from outside the EU (over 30% from China), there are some signs of contraction of direct trade ties between the European bloc and the Asian giant. In 2023, EU imports from China have been falling by more than 10% year-on-year (see chart).[3] At the same time, European imports coming from the US have grown by 7%, while those coming from other Asian countries have increased by 3%.[4] As a result, since 2021 China has lost 2 pps in its share of the EU's total external imports, placing its share at 20%, while the share of other Asian countries and the US has increased and intra-EU trade has been strengthened.

De-risking or a new globalisation «with Chinese characteristics»?

Two additional trends have also marked recent years. On the one hand, as China has assumed a more prominent role in global value chains, it has also reduced its economic dependence on foreign countries, mainly in terms of goods and services produced in more advanced economies.[5] On the other hand, since the end of 2019 China's main export destination is no longer advanced economies. In fact, in recent years, the Chinese export destinations that have grown the most have been the BRICS countries, the rest of Asia, the Middle East and Africa. For instance, China's exports to ASEAN countries have grown by 70%, while exports to advanced economies have grown by 20%.

But will the ongoing redesign of trade flows lead to a minimisation of trade risks, whether through direct political intervention or due to fears among businesses of a deterioration in the geopolitical situation that would

Trade flows between China and the EU

Annual imports and exports (USD millions)

	2009	2012	2015	2018	2021
China → EU	225,000	335,000	337,000	395,000	550,000
	Electronics (23%)	Electronics (23%)	Electronics (24%)	Electronics (24%)	Electronics (27%)
	Machinery (22%)	Machinery (23%)	Machinery (21%)	Machinery (22%)	Machinery (21%)
	Non-textile clothing access. (6%)	Non-textile clothing access. (5%)	Non-textile clothing access. (5%)	Non-textile clothing access. (4%)	Furniture (5%)
EU → China	109,000	166,000	158,000	218,000	261,000
	Machinery (29%)	Machinery (23%)	Machinery (21%)	Machinery (19%)	Machinery (17%)
	Electronics (15%)	Land transp. (18%)	Land transp. (16%)	Land transp. (17%)	Land transp. (15%)
	Land transp. (10%)	Electronics (10%)	Electronics (11%)	Electronics (12%)	Electronics (14%)

Note: *The table shows the three most important sectors (as a % of the total) in the bilateral flows between countries or blocs, for each year, at the HS2 product level.*
Source: *CaixaBank Research, based on data from the Observatory of Economic Complexity (OEC) and Comtrade.*

1. In this period, US imports from the EU have grown by 12% (to around 450 billion dollars per year). Also see the Focus «Is there «early» evidence of de-risking? (part I): the US and China», in this same report.
2. Between 2018 and 2021, the increase in exports from China to these countries exceeded 50% in several cases (Turkey, +52%; Vietnam, +68%; Brazil, +50%, and Malaysia, +54%).
3. US imports from China have been falling by almost 20% in the same period.
4. Of particular note is the growth of European imports from South Korea (+13%), Taiwan (+7%), Japan (+6%) and India (+4%), while imports from ASEAN countries fell slightly (–1%), albeit with differences between countries (from Malaysia, –7%, from Vietnam and Singapore, +3%). As for other regions, of particular note is the growth of imports from the United Arab Emirates (+38%) and Mexico (+12%), and the fall in imports from Russia (–66%) and Norway (–15%).
5. See the Focus «EU and China: mapping out a strategic interdependence II» in the MR01/2023.

lead to the use of «economic dependencies» as a diplomatic weapon? Some nuances observed in recent years invite some caution. On the one hand, we have underlined the importance of analysing indirect trade (and investment) ties between blocs, or the so-called «back doors».[6] Moreover, given the magnitude of the trade flow deviations observed in recent years and the upturn in uncertainty surrounding trade, we may see an increase in the complexity of global value chains in the coming years, driven by geopolitical considerations. This would likely result in greater opacity – and reduced efficiency – in production processes, as well as in real economic dependencies between blocs.

Whether de-risking turns out to be the end result of this reallocation of resources or not, we may be entering a new era of (de-)globalisation «with Chinese characteristics».[7] At the moment, there is a redefinition of the balance towards a global economy that is more dominated by geopolitical concerns, with states playing a more active role through industrial policies and an imminent redefinition of trade policies and of the free trade consensus built in the post-war period. In the first phase of this process, we have witnessed a dominance of «defensive» trade policies, resulting in increased tariffs as well as non-tariff barriers, such as export restrictions or investment control mechanisms. In order to ensure that this process does not lead to a costly and disorderly fragmentation between blocs, it is essential to consider so-called «offensive» trade policies[8] and that a detailed understanding of global value chains is achieved. The EU appears to be taking some encouraging steps in this regard, as evidenced by the recent discussion (based on a more pragmatic view of value chains) around critical technologies and progress in trade agreements with countries such as New Zealand, Chile, Kenya, Mexico and India. No less important in this process will be the construction of effective channels for dialogue between the various blocs: the US, China and, in an increasingly multi-polar world, all the rest.

Luís Pinheiro de Matos

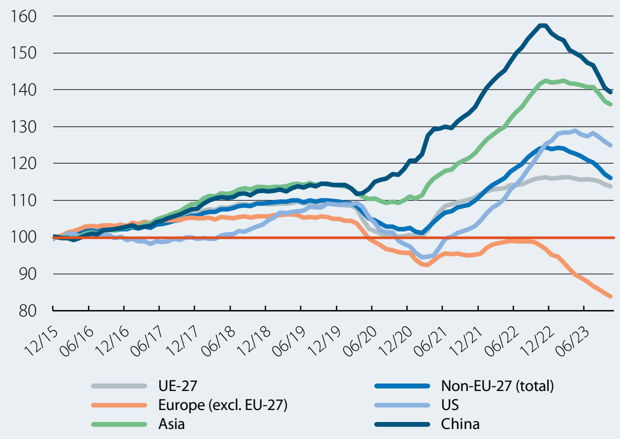
6. For a recent and detailed analysis, see, for example, L. Alfaro and D. Chor (2023). «Global Supply Chains: The Looming 'Great Reallocation'», Working Paper 31,661, NBER Working Paper Series, NBER.
7. After years of leadership under Mao Zedong, Deng Xiaoping was one of the great reformist leaders who has modernised China's economy, beginning in the 1980s, and has brought the country into a new era of globalisation. One of the fundamental ideas introduced by Xiaoping was the concept of «socialism with Chinese characteristics», which aimed to redefine the balance between a state-dominated economy and the capitalist world to which it was opening up. In the following decades, China became the world's second largest economy and the biggest exporter of goods globally, and was the single biggest driver of the latest wave of globalisation.
8. «Defensive» trade policies, such as tariffs, quotas or restrictions on imports or exports, contrast with so-called «offensive» trade policies, such as the establishment of trade and cooperation agreements between countries.

Trade flows between the EU and major Asian and emerging economies
Annual imports and exports (USD millions)

	2018	Δ%	2021
Turkey → EU	81,000	+21%	98,000
	Land transp. (24%)		Land transp. (17%)
	Machinery (11%)		Machinery (10%)
Japan → EU	74,000	–4%	71,000
	Machinery (25%)		Machinery (24%)
	Land transp. (25%)		Land transp. (22%)
South Korea → EU	56,000	+18%	66,000
	Land transp. (19%)		Electronics (18%)
	Electronics (18%)		Land transp. (17%)
India → EU	52,000	+17%	61,000
	Fuels, etc. (13%)		Fuels, etc. (10%)
	Machinery (8%)		Organic chemicals (9%)
Vietnam → EU	39,000	+15%	45,000
	Electronics (40%)		Electronics (39%)
	Footwear (12%)		Footwear (10%)
Brazil → EU	36,000	+6%	38,000
	Minerals, etc. (15%)		Minerals, etc. (15%)
	Food products (10%)		Fuels, etc. (14%)
Malaysia → EU	27,000	+11%	30,000
	Electronics (42%)		Electronics (40%)
	Machinery (15%)		Fats, oils, etc. (12%)

Note: *The table shows the two most important sectors (as a % of the total) in the bilateral flows between countries, for each year, at the HS2 product level.*
Source: *CaixaBank Research, based on data from the Observatory of Economic Complexity (OEC) and Comtrade.*

EU-27: imports
Index (100 = 2015)



Note: *The chart shows monthly data.*
Source: *CaixaBank Research, based on data from Eurostat.*

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

UNITED STATES

	2021	2022	Q4 2022	Q1 2023	Q2 2023	Q3 2023	10/23	11/23	12/23
Activity									
Real GDP	5.8	1.9	0.7	1.7	2.4	2.9	–	–	–
Retail sales (excluding cars and petrol)	15.8	9.3	7.5	5.8	3.3	2.2	3.3	5.2	...
Consumer confidence *(value)*	112.7	104.5	104.2	105.5	106.1	104.5	99.1	101.0	110.7
Industrial production	4.4	3.4	1.8	1.3	1.0	0.9	–1.0	–0.4	...
Manufacturing activity index (ISM) *(value)*	60.7	53.5	49.1	48.3	47.8	47.1	46.7	46.7	47.4
Housing starts *(thousands)*	1,606	1,551	1,405	1,375	1,378	1,385	1,359	1,560	...
Case-Shiller home price index *(value)*	267	307	304	303	302	302	320.3	...	...
Unemployment rate *(% lab. force)*	5.4	3.6	3.6	3.5	3.5	3.5	3.8	3.7	3.7
Employment-population ratio *(% pop. > 16 years)*	58.4	60.0	60.0	60.1	60.2	60.3	60.3	60.4	60.1
Trade balance [1] *(% GDP)*	–3.6	–3.7	–3.7	–3.6	–3.5	–3.3	–2.9	...	...
Prices									
Headline inflation	4.7	8.0	7.1	6.7	6.3	5.8	3.2	3.1	...
Core inflation	3.6	6.2	6.0	5.7	5.6	5.6	4.0	4.0	...

JAPAN

	2021	2022	Q4 2022	Q1 2023	Q2 2023	Q3 2023	10/23	11/23	12/23
Activity									
Real GDP	2.6	1.0	0.5	2.5	2.2	1.5	–	–	–
Consumer confidence *(value)*	36.3	32.2	30.4	30.7	31.2	32.2	35.7	36.1	37.2
Industrial production	5.8	0.0	0.7	–1.8	–1.8	–2.0	–0.6	–1.4	...
Business activity index (Tankan) *(value)*	13.8	9.5	7.0	1.0	5.0	9.0	–	–	–
Unemployment rate *(% lab. force)*	2.8	2.6	2.5	2.5	2.5	2.6	2.5	2.5	...
Trade balance [1] *(% GDP)*	–0.3	–3.7	–3.8	–4.0	–4.0	–4.0	–2.1	–1.9	...
Prices									
Headline inflation	–0.2	2.5	3.9	4.1	3.9	3.6	3.3	2.9	...
Core inflation	–0.5	1.1	2.8	3.0	3.2	3.5	4.0	3.8	...

CHINA

	2021	2022	Q4 2022	Q1 2023	Q2 2023	Q3 2023	10/23	11/23	12/23
Activity									
Real GDP	8.4	3.0	2.9	4.5	6.3	4.9	–	–	–
Retail sales	12.4	–0.8	–2.7	5.8	10.7	4.2	7.6	10.1	...
Industrial production	9.3	3.4	2.8	3.2	4.5	4.2	4.6	6.6	...
PMI manufacturing *(value)*	50.5	49.1	48.1	51.5	49.0	49.7	49.5	49.4	49.0
Foreign sector									
Trade balance [1,2]	681	899	899	948	946	900	873.8	871.0	...
Exports	30.0	7.1	–6.8	0.1	–5.4	–10.8	–7.9	–1.4	...
Imports	30.0	0.7	–6.9	–7.2	–6.9	–8.5	3.0	–0.6	...
Prices									
Headline inflation	0.9	2.0	1.8	1.3	0.1	–0.1	–0.2	–0.5	...
Official interest rate [3]	3.8	3.7	3.7	3.7	3.6	3.5	3.5	3.5	3.5
Renminbi per dollar	6.5	6.7	7.1	6.8	7.0	7.2	7.3	7.2	7.1

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

	2021	2022	Q4 2022	Q1 2023	Q2 2023	Q3 2023	10/23	11/23	12/23
Retail sales *(year-on-year change)*	5.4	1.0	–2.8	–2.7	–1.9	–1.8	–0.9	–1.1	...
Industrial production *(year-on-year change)*	9.9	2.2	2.0	0.4	–1.2	–4.7	–6.7	...	...
Consumer confidence	–7.5	–21.9	–26.9	–26.9	–26.9	–26.9	–17.8	–16.9	–15.0
Economic sentiment	110.7	101.9	96.5	96.5	96.5	96.5	93.7	94.0	96.4
Manufacturing PMI	60.2	52.1	47.1	48.2	44.7	43.2	43.1	44.2	44.4
Services PMI	53.6	52.1	49.0	52.8	54.4	49.2	47.8	48.7	48.8
Labour market									
Employment (people) *(year-on-year change)*	1.5	...	1.6	1.6	1.3	...	–	–	–
Unemployment rate *(% labour force)*	7.7	6.7	6.7	6.6	6.5	6.5	6.5	...	...
Germany *(% labour force)*	3.6	3.1	3.0	2.9	2.9	3.0	3.1	...	...
France *(% labour force)*	7.9	7.3	7.2	7.1	7.3	7.4	7.3	...	...
Italy *(% labour force)*	9.5	8.1	7.8	7.9	7.7	7.6	7.8	...	...
Real GDP *(year-on-year change)*	6.1	3.5	1.8	1.3	0.6	0.0	–	–	–
Germany *(year-on-year change)*	3.3	1.9	0.8	–0.2	0.1	–0.4	–	–	–
France *(year-on-year change)*	6.8	2.6	0.8	0.9	1.2	0.6	–	–	–
Italy *(year-on-year change)*	8.6	3.9	1.6	2.1	0.3	0.1	–	–	–

Prices

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

	2021	2022	Q4 2022	Q1 2023	Q2 2023	Q3 2023	10/23	11/23	12/23
General	2.6	8.4	10.0	8.0	6.2	5.0	2.9	2.4	2.9
Core	1.5	3.9	5.1	5.5	5.5	5.1	4.2	3.6	3.4

Foreign sector

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

	2021	2022	Q4 2022	Q1 2023	Q2 2023	Q3 2023	10/23	11/23	12/23
Current balance	3.1	–0.7	–0.7	–0.5	0.3	2.0	3.8	...	...
Germany	7.7	4.4	4.4	4.6	5.3	8.6	13.3	...	...
France	0.4	–2.0	–2.0	–1.9	–1.8	–2.0	–3.2	...	...
Italy	2.4	–1.5	–1.5	–1.4	–1.1	–0.1	0.2	...	...
Nominal effective exchange rate [1] *(value)*	**94.3**	**90.9**	**91.9**	**93.4**	**94.6**	**95.9**	**95.0**	**95.3**	**94.9**

Credit and deposits of non-financial sectors

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

	2021	2022	Q4 2022	Q1 2023	Q2 2023	Q3 2023	10/23	11/23	12/23
Private sector financing									
Credit to non-financial firms [2]	3.5	6.7	7.8	5.7	3.9	1.0	–0.3	0.0	...
Credit to households [2,3]	3.8	4.4	4.0	3.2	2.1	1.0	0.6	0.5	...
Interest rate on loans to non-financial firms [4] *(%)*	1.2	1.8	2.9	3.8	4.5	5.0	5.2	5.1	...
Interest rate on loans to households for house purchases [5] *(%)*	1.3	2.0	2.9	3.7	4.3	4.7	4.8	4.9	...
Deposits									
On demand deposits	12.8	6.3	1.4	–3.9	–8.1	–11.3	–11.5	–10.9	...
Other short-term deposits	–0.8	4.5	12.0	17.6	22.5	23.2	21.4	20.8	...
Marketable instruments	11.6	3.7	7.5	19.4	22.0	20.5	22.9	17.9	...
Interest rate on deposits up to 1 year from households *(%)*	0.2	0.5	1.1	1.9	2.5	3.0	3.3	3.3	...

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.*

The Spanish economy closes 2023 with a better rating than expected

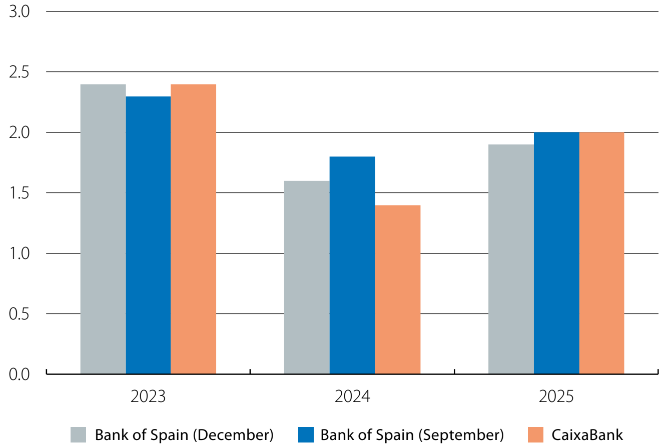
The Spanish economy ended 2023 with a better tone than had been anticipated at the beginning of the year. While it is true that there was a slowdown in growth during the second half of the year, this began later than expected and is proving more moderate than had been feared a year ago. Whereas at the beginning of 2023 the analyst consensus placed GDP growth for the year as a whole at 1.3% (FUNCAS Panel), today it places it at around 2.4%, a figure consistent with CaixaBank Research's own estimate. Moreover, all indicators suggest that in 2024, especially during the second half of the year, the economy could regain some momentum, and this should allow the pace of GDP growth in Q4 2024 to approach 2.0% year-on-year.

The growth rate slowed in Q3 2023, but moderately. In its second estimate of GDP for Q3, the National Statistics Institute confirmed that growth stood at 0.3% quarter-on-quarter, 0.1 pps below the rate recorded in Q2 and 0.2 pps below the average quarterly growth for the last year. Thus, GDP stood 2.1% above the level of Q4 2019. By components, the rate of progress in household consumption and public consumption stand out, both in excess of 1% quarter-on-quarter. In the opposite direction, of particular concern is the poor evolution of investment, which registered a fall of 1.0%, and above all exports of goods and services, which are down 4.1% due to the weakness of our main trading partners.

Following the moderation of growth in Q3 2023, the latest indicators suggest that the growth rate has stabilised in the closing stages of the year. In December, the Purchasing Managers' Index (PMI) for the services sector remained in expansionary territory and stood at 51.5 points (0.5 points above the November figure). Meanwhile, the PMI for the manufacturing sector remains in contractionary territory and was down 0.1 points, at 46.2. Thus, the Composite PMI increased slightly and stood at 50.4 points (49.8 in November), placing the average for the quarter at 50.1, the same level as in the previous quarter. On the other hand, the main driver of growth of the Spanish economy, consumption, is also offering encouraging signals. Specifically, the CaixaBank Research consumption tracker shows that spending conducted with Spanish cards on CaixaBank POS terminals plus cash withdrawals grew by 5.9% year-on-year in Q4 (with data up to the third week of December), representing a 0.4-pp acceleration compared to the figure for Q3.

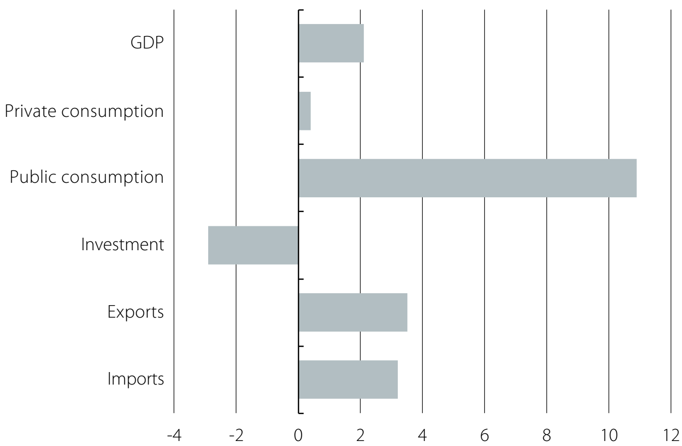
The labour market holds up well and continues to create jobs, albeit at a more moderate rate. In December, the number of people affiliated with Social Security increased by 29,937, beating last year's figure of 12,640, although this remains below the average for the period 2014-2019.

Spain: GDP forecasts (Bank of Spain vs. CaixaBank)
Year-on-year change (%)



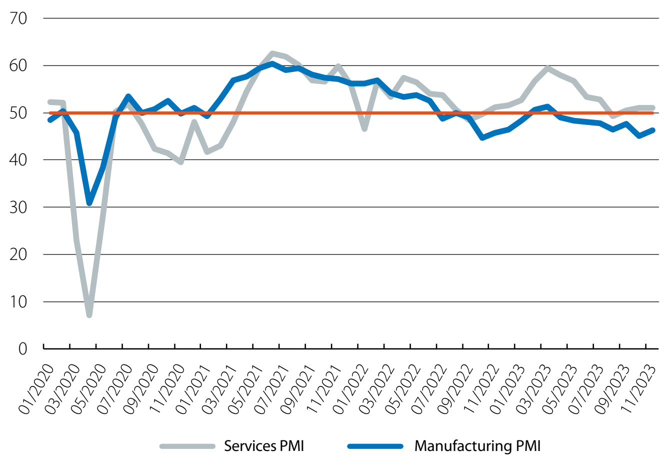
Source: *CaixaBank Research, based on internal data and data from the Bank of Spain.*

Spain: GDP and its components
Change between Q4 2019 and Q3 2023 (%)



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

Spain: PMI
Level



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

The increase in affiliated workers, corrected for seasonal effects, amounted to 23,287 people, marking the biggest monthly increase since May. In Q4 as a whole, the increase in registered workers stood at 0.2% quarter-on-quarter, a similar rate of growth to Q3, suggesting that the pace of economic growth has stabilised.

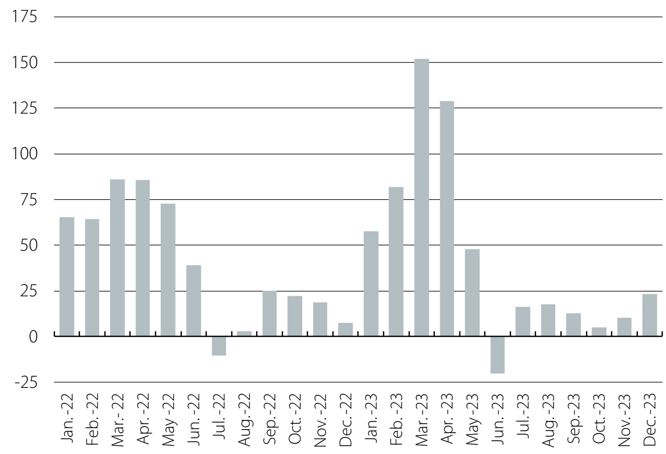
Inflationary pressures continue to moderate. Specifically, the headline inflation rate fell 0.1 pps in December and stood at 3.1%, according to the CPI flash estimate published by the National Statistics Institute. In line with the pattern of moderation of inflation in recent months, the core inflation rate fell by 0.7 pps for the second consecutive month and stood at 3.8% year-on-year. Since July, core inflation has come down significantly, specifically by 2.4 pps.

The government confirms the extension of the anti-inflation measures for 2024. At the end of December, the government set out the measures it would keep in place this year in order to continue tackling inflation. Of particular note in this regard is the rise in VAT on electricity throughout 2024, and until 31 March in the case of gas, to 10%. It should be recalled that this stood at 5% in 2023, while prior to the energy crisis it was 21%. On the other hand, excise duty on electricity and the tax on the value of electricity production will gradually increase throughout the year. With regard to VAT on food, the reduction from 4% to 0% on fresh basic food, and from 10% to 5% on pasta and oil, will remain in force until 30 June. Finally, in terms of transport, the general support measures in place during 2023 will be extended throughout 2024. The extension of many of the measures introduced in 2023 will reduce the impact on inflation that their anticipated withdrawal was expected to have in CaixaBank Research's forecast scenario, so inflation in 2024 could be slightly lower than forecast.

The buoyancy of household income favours a new rebound in the savings rate. Specifically, gross disposable household income grew by a remarkable 10.6% year-on-year in Q3, while final consumption expenditure increased by 4.5%. As a result, the savings rate climbed to 11.0% (cumulative four-quarter figure), representing a 1.1-pp increase compared to Q2 2023. Moreover, this figure is well above the average recorded between 2015 and 2019 (6.8%). All this suggests that, despite the headwinds that are affecting many families, household consumption, in aggregate, may continue to grow in the coming quarters and will remain an important support factor for the Spanish economy as a whole.

Spain: registered workers affiliated with Social Security

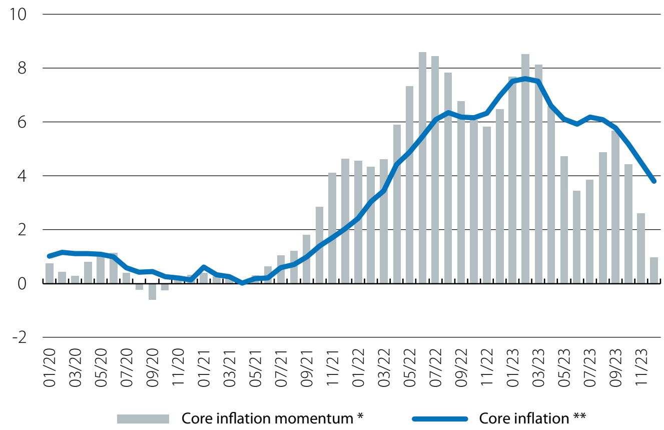
*Month-on-month change (thousands) **



Note: ** Seasonally-adjusted data.*
Source: *CaixaBank Research, based on data from the Ministry of Inclusion, Social Security and Migration (MISSM).*

Spain: core inflation and its momentum

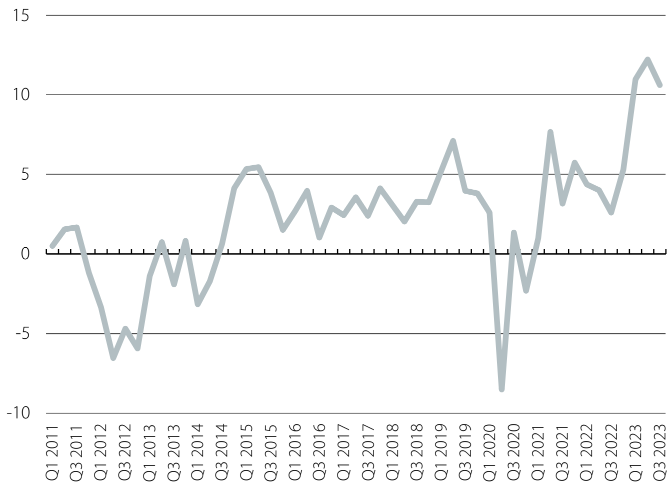
Change (%)



Notes: ** Core inflation momentum is the moving change in the last three months versus the previous three months. ** Core inflation excludes unprocessed food and energy.*
Source: *CaixaBank Research, based on data from the National Statistics Institute.*

Spain: gross disposable household income

Year-on-year change (%)



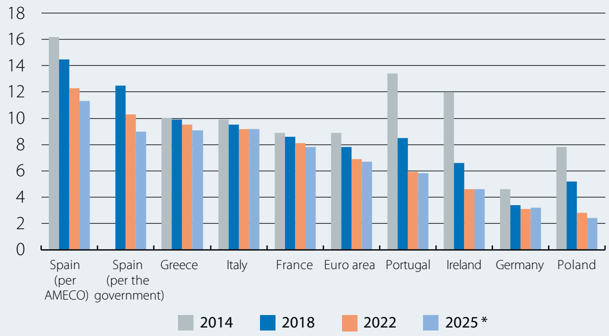
Source: *CaixaBank Research, based on data from the National Statistics Institute.*

How could structural unemployment be further reduced in Spain?

The ability that the Spanish economy has shown to substantially reduce structural unemployment in recent years has been quite remarkable. Until recently, it seemed impossible to bring it down so sharply without generating wage tensions. However, the structural unemployment rate (SUR), also known as the non-accelerating wage rate of unemployment (NAWRU),[1] fell in Spain by 1.7 pps between 2018 and 2022 to reach 11.0%, according to AMECO estimates.[2] Moreover, although all EU countries reduced their SUR following the post-pandemic employment boom, Spain, along with Portugal, Ireland and Poland, were the most outstanding pupils in the region, doing so at a faster rate, at around 0.5 pps per year on average (see first chart).

Several factors have enabled the reduction in structural unemployment between 2018 and 2022. Firstly, job retention schemes (such as ERTE furlough schemes) prevented unemployment from sky-rocketing during the pandemic by allowing millions of workers to retain their jobs when activity ground to a halt. These programmes had been introduced in Spain with the 2012 labour reform to encourage internal flexibility for companies, making it feasible to temporarily reduce employment in the event of a drop in demand, and they were adapted to the exceptional circumstances triggered by COVID-19. After the pandemic, the strong boost to the economy after the resumption of activity favoured significant job creation in all developed economies, including Spain, which today has 1.4 million more registered workers than in 2019. Secondly, in the case of Spain the labour reform approved in 2022 has reduced the high temporary rate of the labour market by restricting temporary contracts, while at the same time increasing the flexibility available in permanent contracts, resulting in fewer people entering and leaving unemployment.[3] This increased flexibility is mainly due to the wider use of permanent discontinuous contracts, which allow for hiring in a way that is adapted to the temporary nature of many occupations in Spain, such as tourism or agriculture, while providing workers with greater job stability.

EU: structural unemployment rate by country
(%)



***Notes:** Structural unemployment rate (NAWRU) estimates by the European Commission (AMECO) and by the Spanish government in its 2023-2026 Stability Plan. * 2026 in the case of the estimate for Spain by the government.*
***Source:** CaixaBank Research, based on data from the European Commission (AMECO) and the Spanish government (2023-2026 Stability Plan).*

Although Spain seems to be doing its homework, it is still the worst pupil in the EU: it has the highest structural unemployment rate in the region (11.0% in 2022, according to AMECO), ahead of the likes of Italy (9.2%) and Greece (9.4%). It should be recalled that a high structural unemployment rate implies an underutilisation of an economy's productive capacity, as well as the exclusion of a large part of society from the labour market, so combating it is essential. To reduce it, improvements are needed on three fronts: increased demand for employment, increased job supply and better matching between the two.

The demand for employment from companies would increase with greater economic growth. The set of policies for increasing growth is wide-ranging and includes policies aimed at the green and digital transformations, as well as boosting competition in the markets for goods and services.[4] The public sector could play a key role in all of them, as an impetus for structural reforms would allow for more rapid economic growth and greater buoyancy in the business sector. Although the last two labour reforms mentioned at the beginning are good examples, there is a need for greater momentum when it comes to reforms, as various institutions such as the European Commission, the OECD and the IMF have already recommended to Spain. In order to successfully implement structural reforms, a country must also have high-quality institutions,[5] and this is an area where Spain has room for improvement in several regards (see second chart).

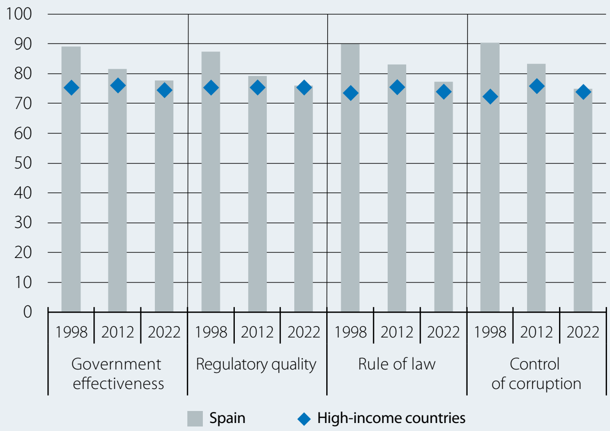
The supply of available employment can increase if the incentives for the unemployed to work are strengthened

1. The SUR is the unemployment rate that is compatible with inflation close to the central bank's target, which is why it is also known as the non-accelerating inflation rate of unemployment (NAIRU). The SUR is not directly observable and there are different methodologies for calculating it. For further details, see M. Romero and D. Fuentes (2017). «Tasa de paro estructural en la economía española: estimaciones, consecuencias y recomendaciones». Cuadernos de Información Económica, ISSN, 1132-9386.
2. According to the estimate from the Spanish government's 2023-2026 Stability Plan, the SUR has been reduced by 2.2 pps between 2018 and 2022, reaching 10.3%.
3. Although the «theoretical» (contractual) temporary employment rate has been reduced, in practice there is still a high rate of temporary employment, with short periods of employment and frequent changes in employment. See J.I. Conde-Ruiz *et al.* (2023). «Reforming Dual Labor Markets: "Empirical" or "Contractual" Temporary Rates?». Estudios sobre la Economía Española 2023/36, FEDEA.
4. For a comprehensive review of policies aimed at improving economic growth, see OECD (2023), «Going for Growth: Economic Policy Reforms 2023».
5. See K. Masuch, W. Modery, R. Setzer and N. Zorrell (2023). The euro area needs better structural policies to support income, employment and fairness. ECB Blog.

and if the training and employability of the population, including those not working at any given time, is improved. Various studies show that providing incentives for people to return to employment increases the likelihood of them doing so.[6] The recent unemployment benefit reform is a partial step in this direction, as despite raising the amount of the benefit, it will gradually decrease as the months go by, and the subsidy can be received while undertaking paid employment for a period of 180 days. The key to the reform's success will be the paths provided to help recipients of the subsidy seek and accept jobs. We must not lose sight of the fact that improving the training and employability of workers is another way to reduce unemployment. A clear example of this is vocational training, which is more closely linked to the demands of the labour market (thus providing greater protection against unemployment, as well as greater participation in the labour market throughout a person's working life)[7] but is less developed in Spain than in other countries, such as Germany.

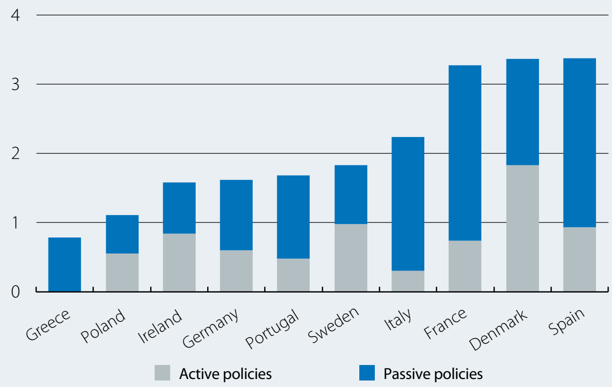
Finally, a better match between supply and demand would make it possible to reduce structural unemployment. This dysfunction of the Spanish labour market is reflected in the growing number of unfilled vacancies, a phenomenon which coincides with a high unemployment rate, weighing down productivity and the full use of the economy's productive capacity. This problem has been spreading and not only affects the most specialised profiles. Its causes are varied, ranging from economic and cultural barriers to geographical mobility and deficiencies in information on the availability of job positions. In this regard, active employment policies play an important role, since they support the unemployed in their search for employment and in their training in skills that are in demand. In Spain, however, spending on active employment policies is low, both in absolute terms and relative to passive policies (see third chart). Furthermore, only a small proportion of the unemployed find work through public employment services, so it would be useful to improve the efficiency of active policies,[8] with a greater emphasis on offering job seekers personalised support (e.g. statistical profiling and predictive models for identifying job offers that fit the worker's profile, etc.). This problem is not isolated to Spain: France, our neighbour, is putting great effort into bolstering services for supporting the unemployed. In its recent labour reform approved with the aim of achieving full employment,[9] one of the key changes is that the unemployed are required to carry out

Spain: institutional quality
Percentile range



Notes: *The percentile range indicates the percentage of countries around the world that are in a lower category of the chosen territorial entity, with 0 being the lowest value and 100 being the highest. High-income countries correspond to the average of OECD countries with gross income per capita above 13,206 dollars.*
Source: *CaixaBank Research, based on data from the World Bank (Worldwide Governance Indicators).*

Expenditure on active and passive employment policies
(% of GDP)



Note: *Average expenditure in 2019-2020 as a percentage of GDP.*
Source: *CaixaBank Research, based on data from the OECD (OECD Economic Surveys: Spain 2023-Database on labour market programmes).*

at least 15 hours a week of activities dedicated to rejoining the labour market. On the other hand, the need for a better match between the demand and the supply of employment in Spain is also apparent in the high rate of over-qualification, which far exceeds that of our neighbouring countries.[10]

As we have seen, reducing structural unemployment is not an easy task and it needs to be tackled from several different angles. Moving the economy towards full employment is a goal that should generate consensus and which would entail significant social improvements, as it would reduce the exclusion from the labour market of a large part of society.

Josep Mestres Domènech

6. Á. Martínez Jorge (2023), «¿Qué sabemos sobre los efectos de modificar las prestaciones y los subsidios por desempleo en España?». EsadeEcPol Policy Reaction.
7. In this regard, see the analysis by CaixaBank Dualiza in its latest report on the state of professional training in Spain entitled «Informe 2023 - Observatorio de la Formación Profesional en España» (content available in Spanish).
8. See OECD (2023). «OECD Economic Surveys: Spain 2023». OECD Publishing, Paris.
9. See Loi du 18 décembre 2023 pour le plein emploi.
10. For more information on over-qualification in Spain, see the Focus «Changes in the educational level of Spanish workers» in this same *Monthly Report.*

Changes in the educational level of Spanish workers

One of the most positive aspects of the Spanish economy's recent performance is the strength of the labour market: the volume of employment (as of Q3 2023) exceeds the pre-pandemic level (Q4 2019) by 1.3 million (6.5%). In this Focus, we analyse how job creation has behaved in this period, disaggregated by economic sector, workers' educational level and professional categories, which has reflected the gradual change in the profiles of the occupations demanded by companies, driven primarily by the spread of new technologies and the digitalisation of the economy.

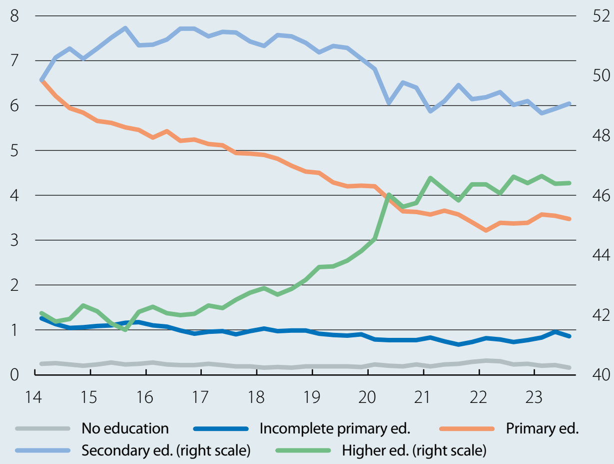
Following the pandemic, some of the best performing sectors in terms of job growth have included professional, scientific and technical activities and information and communication activities. These sectors generally have a higher technological content and a more qualified workforce, and they have contributed around 26% of the total employment created (about 334,000 workers), while accounting for just 9.3% of total employment (8.2% before the pandemic). Also of note are the health and social services sectors which, as a result of the pandemic (and also population ageing), have seen the number of people they employ increase by almost 295,000 people compared to the end of 2019, coming to represent 9.6% of all workers (8.7% in 2019). At the other end of the spectrum, some sectors have experienced job destruction, notably water distribution and purification (–13,000 employees), graphic arts (–32,000) and, in particular, the agricultural sector (–92,000).

Also, the number of workers with higher educational (higher vocational training and university degrees) has grown well in excess of the other categories, almost doubling the average, at 12.0%. In particular, 46.4% of Spanish workers have higher education, 2.3 points more than before the pandemic and significantly above the Euro area average (39.0%). Of the increase in employment in the period (1.3 million), 81.4% (almost 1.1 million) are workers with higher education, while those with secondary education grew by 340,000 and those with primary or lower education decreased by 98,000.

Looking at the nationality of those in work, the weight of foreign or dual-nationality workers with higher education relative to the total number of employed workers with higher education has grown slightly since 2019 (11.9% vs. 10.8%). Of the total increase in foreign workers since the end of 2019 (816,000), 27.8% had higher education and 61.6% had secondary education (the remaining 10.5%, primary or lower).

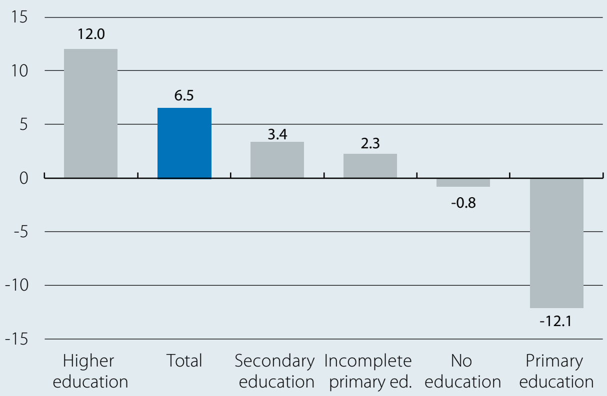
However, despite the increase in the percentage of workers with higher qualifications, Spain has the highest rate of over-qualification in Europe, reflecting the

Spain: employed workers by education level
(% of the total)



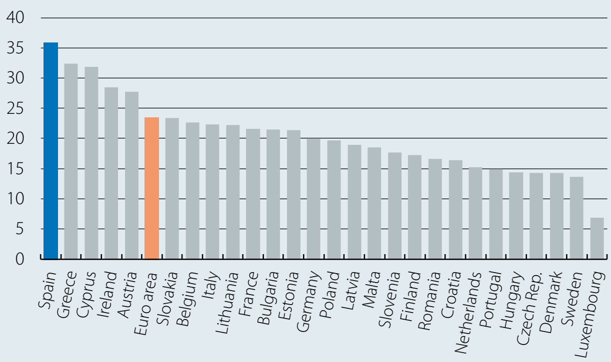
Source: *CaixaBank Research, based on data from the National Statistics Institute (LFS).*

Spain: employed workers by education level
Change versus Q4 2019 (%)



Note: *Data for Q3 2023.*
Source: *CaixaBank Research, based on data from the National Statistics Institute (LFS).*

EU: over-qualification rate
(%)



Notes: *Data for 2022. Employed workers aged 20 to 64 years with higher (tertiary) education who do not work in occupations associated a priori with this qualification level (executives, scientists, intellectuals and technicians).*
Source: *CaixaBank Research, based on data from Eurostat.*

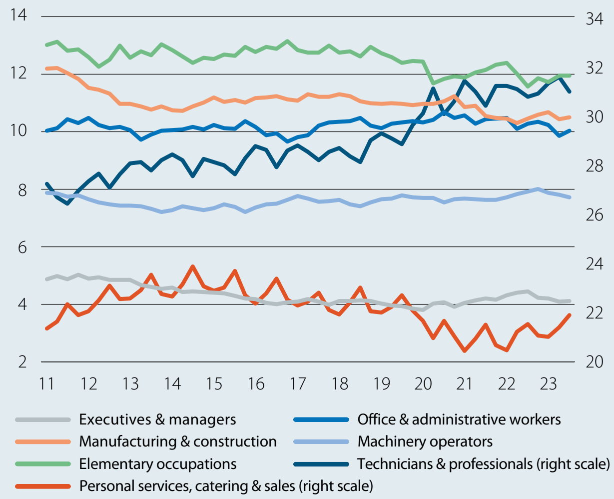
significant mismatch between the profiles demanded by companies and those offered by workers: 35.9% of those employed with this education level do not work in occupations associated *a priori* with their university degrees (data from 2022), compared to 23.5% in the euro area as a whole.[1] But over-qualification does not only affect the most qualified workers: a quarter of those with upper secondary education (second-stage vocational training and baccalaureate) work in occupations that require lower qualifications, which may be related to a «crowding out» effect:[2] those with higher qualifications displace workers with secondary education to more basic occupations.

The problem of over-qualification affects the immigrant population to an even greater degree – a phenomenon which is widespread across the EU but particularly pronounced in the case of Spain: 52.2% of foreign workers in our country are overqualified, according to the Eurostat definition, compared to 34.5% for Spanish workers (the percentages for the euro area are 36.6% for foreigners and 22.4% for nationals).

According to workers' occupational category, jobs which, in principle, require higher qualifications (executives, managers, technicians and professionals) have recorded double-digit growth rates and have increased their weight relative to the total by almost 2 points, to 35.2%; plant and machinery operators have also grown above average (6.6%) and have maintained their relative weight at 7.8% of the total. On the contrary, the occupations that have experienced the lowest employment growth are mostly medium-low-skilled jobs: tertiary workers (personal services, catering or sales) grew by 5.6% to represent 21.9% of the total, 0.3 points less than prior to the pandemic; administrative workers grew by 3.1% and account for 10.1% of the total (vs. 10.4%); manufacturing and construction workers grew by 2.4% to 10.6% (vs. 11.0%), and elementary occupations grew by just 2.1% to stand at 12.0% (vs. 12.5%).

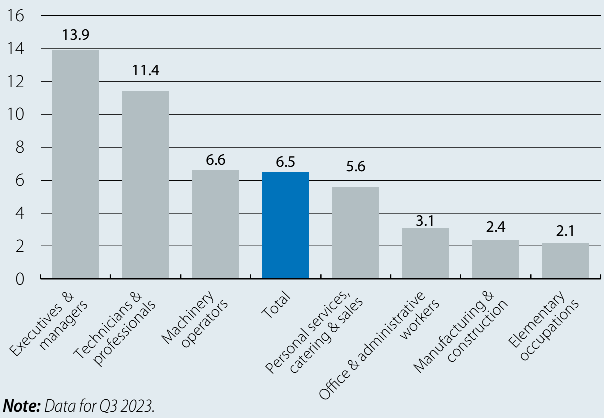
Based on the above, it appears that, in both absolute and relative terms, the gap between the number of more qualified workers (which has increased by almost 1.1 million, or 2.3 points relative to the total) and workers in occupations that theoretically require higher qualifications, regardless of their level of education (783,000 people and 1.7 more points), has widened. This either reflects an oversupply of skilled workers in certain job profiles or it indicates that the labour supply is poorly matched to the qualifications that are demanded by companies in these occupations.

Spain: employed workers by occupational category
(% of the total)



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

Spain: employed workers by occupational category
Change versus Q4 2019 (%)



Note: *Data for Q3 2023.*
Source: *CaixaBank Research, based on data from the National Statistics Institute (LFS).*

Ultimately, the educational level of the population is a determining factor for productivity and employment. In a country with significant educational imbalances, reflected in the difficulties companies experience in finding the right profiles to fill their vacancies, and with the added handicap of demographic ageing, which limits the growth of the labour force by making the search for talent more difficult,[3] there is an ongoing need to encourage investment in human capital and to adapt the education system to the new skills demanded by the market, so as to make the most of the training in human capital.

Sergio Díaz Valverde

1. This percentage has decreased slightly compared to the 2014-2019 average (36.8%).
2. See FEDEA (2023). «Observatorio Trimestral del Mercado de Trabajo». Bulletin number 6, September.
3. See SEPE (2023). «Desajuste educativo en el mercado de trabajo en España», Revista Cuadernos del Mercado de Trabajo, October; and Randstad Research (2023): «El mundo del empleo tras dos años de pandemia».

The importance of intermediate costs in inflation dynamics in Spain

The phases of the recent inflationary cycle

The inflationary cycle that the Spanish economy has been going through since the beginning of 2022 can be characterised in three phases: the direct impact, the contagion effect and the second-round effects. The direct impact was triggered by a supply shock that originated from supply problems following the pandemic in early 2021 and was exacerbated in 2022 with the energy crisis stemming from the war in Ukraine.

The indirect or contagion effect occurred with the transfer of the initial shock to other components of the consumer price index. Energy is a key input for other products, so an increase in energy prices can end up having an impact on other components if it is transferred to the product's final price. As we can see from the first chart, although energy has made a negative contribution to headline inflation in the last year, the impact of its increase still persists through the indirect effect on the rest of the components.

Finally, second-round effects are usually triggered in an attempt to compensate for the loss of purchasing power. If agents anticipate a sustained increase in inflation over time, pressures to raise wages increase in order to protect workers' purchasing power and companies raise their margins in order to protect their profits. These dynamics can, in turn, generate a new source of upward pressure on prices, fuelling an inflationary spiral. At the current juncture, we do not see any signs of significant second-round effects for the time being: according to internal CaixaBank data, wage growth peaked in Q2 and Q3 2023 with growth rates above 4% year-on-year, and since November the first signs of moderation have been observed (3.5% year-on-year). On the other hand, after falling sharply during the pandemic, business margins have barely recovered their pre-pandemic level.[1]

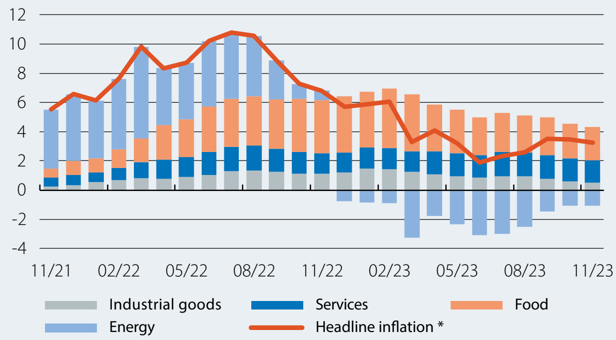
The role of intermediate costs

Containing the triggering of second-round effects is key to ensuring price stability. In this regard, the evolution of intermediate costs is decisive. Specifically, the final price of the goods and services we consume is the result of the sum of the following components: the price of the intermediate consumptions necessary for their production, the remuneration of labour, taxes and business profits (also known as gross operating surplus, GOS). The relative weight of intermediate consumption in final prices was 49% on average in the period 2014-2019.

1. See the quarterly report of the Observatory of Business Margins (Observatorio de Márgenes Empresariales, OME).

Spain: contribution to inflation by component

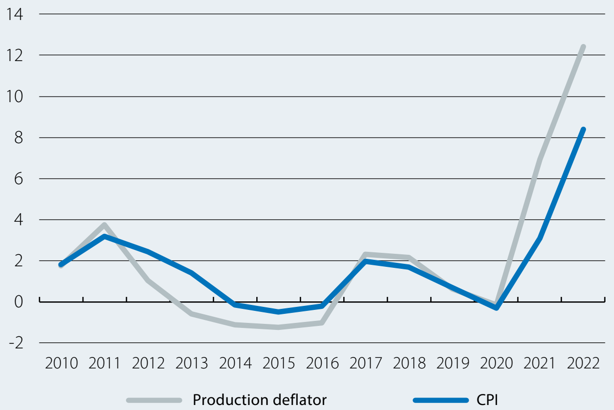
(pps)



Note: ** Year-on-year change.*
Source: *CaixaBank Research, based on data from the National Statistics Institute.*

Spain: national production deflator vs. CPI

Year-on-year change (%)



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

The sum of intermediate costs, labour remuneration, taxes and GOS is what we call domestic production.[2] By deflating this series, we obtain a measure of the general evolution of prices, which as we see in the second chart follows a similar pattern to that of the CPI. This allows us to obtain an approximation of the role of each of the components in the evolution of the CPI.[3]

As we can see in the third chart, much of the price increase in 2021 and 2022 came from a substantial increase in the contribution of intermediate costs, closely linked to the sharp rise in energy prices. However, the

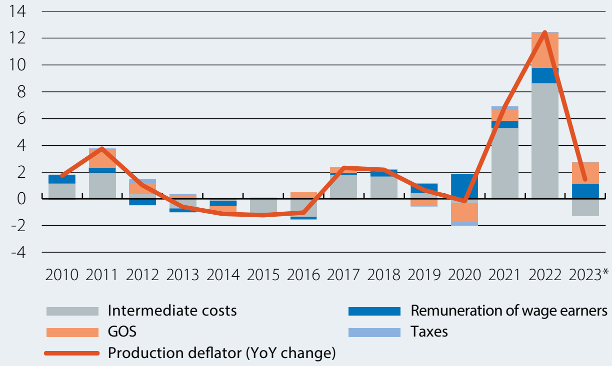
2. Domestic production can also be defined as GDP plus intermediate costs minus net taxes on products.
3. The evolution is not the same because, among other reasons, the basket of products and services which comprise the CPI does not match that of domestic production.

significant moderation in the price of intermediate consumption in 2023 has made it possible to reconcile lower price growth with higher growth in wages and business profits.

For 2024, we foresee modest growth in intermediate costs. In the first three quarters of 2023, the prices of intermediate costs grew by 1.1% compared to the first three quarters of 2022, well below the 20.3% annual growth rate of 2022, and the recent moderation in energy prices suggests that this trend is unlikely to change anytime soon. Thus, in 2024 intermediate costs are likely to continue to grow below 2%, and this should make a gradual recovery in the purchasing power of wages compatible with the convergence of inflation towards the 2% target.

Oriol Carreras Baquer and Zoel Martín Vilató

Spain: contribution to the national production deflator
(pps)



Note: ** 2023 corresponds to the first three quarters of the year, for which data is already available.*
Source: *CaixaBank Research, based on data from the National Statistics Institute and the Spanish Tax Agency.*

Activity and employment indicators

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

	2021	2022	Q4 2022	Q1 2023	Q2 2023	Q3 2023	10/23	11/23	12/23
Industry									
Industrial production index	8.8	2.8	0.8	1.3	–1.8	–2.1	–1.5	...	...
Indicator of confidence in industry *(value)*	0.6	–0.8	–5.3	–4.4	–5.3	–8.3	–8.6	–9.7	...
Manufacturing PMI *(value)*	57.0	51.0	45.6	50.1	48.5	47.3	45.1	46.3	46.2
Construction									
Building permits *(cumulative over 12 months)*	4.7	15.4	2.6	–1.8	1.7	4.2	2.2	...	...
House sales *(cumulative over 12 months)*	9.6	29.0	17.4	10.2	3.5	–3.0	–7.3	...	...
House prices	3.7	7.4	5.5	3.5	3.6	4.5	–	–	–
Services									
Foreign tourists *(cumulative over 12 months)*	64.7	129.8	129.8	90.7	40.6	21.8	19.7	19.2	...
Services PMI *(value)*	55.0	52.5	50.8	56.3	56.0	50.9	51.1	51.0	51.5
Consumption									
Retail sales	5.1	0.9	1.9	6.6	6.1	6.9	5.3	5.2	...
Car registrations	158.0	–3.0	2.6	45.5	9.9	6.9	18.1	7.0	10.6
Consumer confidence index *(value)*	–12.9	–26.5	–27.9	–22.7	–19.2	–15.8	–19.8	–19.6	...
Labour market									
Employment [1]	3.0	3.1	1.4	1.8	2.9	3.5	–	–	–
Unemployment rate (% labour force)	14.8	12.9	12.9	13.3	11.6	11.8	–	–	–
Registered as employed with Social Security [2]	2.5	3.9	2.7	2.5	2.8	2.7	2.6	2.6	2.7
GDP	**6.4**	**5.8**	**3.8**	**4.1**	**2.0**	**1.8**	–	–	–

Prices

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

	2021	2022	Q4 2022	Q1 2023	Q2 2023	Q3 2023	10/23	11/23	12/23
General	3.1	8.4	6.6	5.1	3.1	2.8	3.5	3.2	3.1
Core	0.8	5.1	6.5	7.6	6.2	6.0	5.2	4.5	3.8

Foreign sector

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

	2021	2022	Q4 2022	Q1 2023	Q2 2023	Q3 2023	10/23	11/23	12/23
Trade of goods									
Exports *(year-on-year change, cumulative over 12 months)*	21.2	22.9	22.9	20.5	12.3	4.5	3.1	...	...
Imports *(year-on-year change, cumulative over 12 months)*	24.8	33.4	33.4	24.0	10.7	–1.2	–3.5	...	...
Current balance	**9.3**	**8.2**	**8.2**	**22.1**	**28.2**	**35.2**	**37.8**	**...**	**...**
Goods and services	11.8	16.3	16.3	31.6	42.8	54.6	57.1	...	...
Primary and secondary income	–2.5	–8.1	–8.1	–9.5	–14.6	–19.4	–19.3	...	...
Net lending (+) / borrowing (–) capacity	**20.1**	**20.7**	**20.7**	**36.3**	**42.1**	**49.4**	**52.5**	**...**	**...**

Credit and deposits in non-financial sectors [3]

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

	2021	2022	Q4 2022	Q1 2023	Q2 2023	Q3 2023	10/23	11/23	12/23
Deposits									
Household and company deposits	6.1	4.9	3.8	1.7	0.4	–0.3	0.0	...	...
Sight and savings	10.3	7.9	5.0	0.3	–4.0	–6.9	–7.7	–7.8	–15.0
Term and notice	–24.4	–19.7	–7.3	7.7	40.1	69.5	79.5	89.4	155.0
General government deposits	15.5	9.6	–3.2	7.4	6.8	11.3	14.2	13.6	11.0
TOTAL	**6.7**	**5.2**	**3.2**	**2.1**	**0.8**	**0.5**	**0.9**	**...**	**...**
Outstanding balance of credit									
Private sector	0.3	0.7	0.5	–0.9	–2.2	–3.4	–3.9	–3.8	–3.3
Non-financial firms	1.1	0.9	0.9	–1.0	–2.7	–4.6	–5.6	–5.6	–4.7
Households - housing	0.2	1.0	0.2	–1.2	–2.4	–3.4	–3.3	–3.4	–3.5
Households - other purposes	–1.2	–0.6	–0.1	–0.1	–0.4	0.0	–1.1	0.0	0.7
General government	15.3	0.2	–1.1	–0.2	–3.3	–4.6	–5.9	–7.1	–1.0
TOTAL	**1.1**	**0.7**	**0.4**	**–0.9**	**–2.3**	**–3.4**	**–4.0**	**–4.0**	**–3.2**
NPL ratio (%) [4]	**4.3**	**3.5**	**3.7**	**3.5**	**3.5**	**3.5**	**3.6**	**...**	**...**

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

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

Encouraging signs from the Portuguese economy in the final stretch of 2023

In the final stages of 2023, the economic activity indicators showed a trend of recovery following the loss of buoyancy suffered during Q3. The daily economic activity indicator recorded increasing buoyancy throughout December, such that for Q4 as a whole year-on-year growth exceeded 6%, compared to 2% in Q3. The consumption indicators also gained momentum at the end of the year: retail sales, excluding fuel, rose 2.3% in November and car sales accelerated in December, contributing to a 7.9% year-on-year increase for Q4 as a whole This performance was accompanied by an improvement in household sentiment thanks to the impact on purchasing power of the sharp correction of inflation, which in December fell to 1.4%.

The tourism sector also performed well in the last quarter of the year, according to the number of flights and purchases made with non-resident cards. The number of flights grew by 7.2% year-on-year in Q4, while card spending accelerated in October and November compared to Q3, suggesting that the sector will continue to help strengthen the economy's external funding capacity, which in Q3 reached 2.7% of GDP, the highest level since 2013.

These statistics suggest that in Q4 GDP may have grown by around 0.3% quarter-on-quarter.

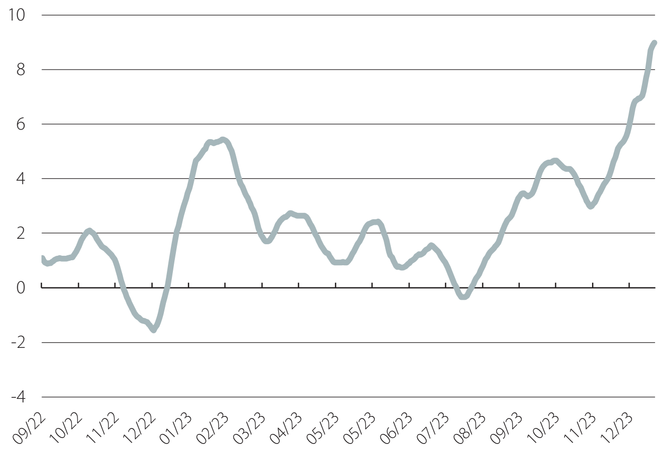
The national accounts are showing good health and budget execution to November recorded a surplus of 2.7% of GDP (excluding the transfer of the Pension Fund from the CGD to the CGA), thanks to the significant increase in revenues (+10.4% year-on-year), which far exceeded that of expenditure (+5.8%). Public debt, meanwhile, fell in November for the fourth consecutive month and reached its lowest level since November 2020, at 102% of GDP, below the government's expectations for year end (103%).

The housing market remains strong and the data for Q3 2023 show a continuation of the appreciation of the home price index, with an increase of 1.8% quarter-on-quarter and 7.8% year-on-year, albeit at a more moderate pace than in the previous quarter. The number of sales also rose (+2%), driven by growth in sales of new properties (+12%), while sales of existing homes recorded a slight decrease (–1%).

Despite the buoyancy of economic activity, the labour market is steadily weakening. Unemployment registered in job centres increased in November for the fifth consecutive month (+5.3% year-on-year) and reached its highest level since February 2023. This monthly increase in unemployment was mainly due to two sectors, accommodation and catering, on the one hand, and real estate, administrative and support services, on the other hand. Similarly, the figures for layoffs continue to be worse than expected: +51% in November, and although the level is not significant (it represents around 0.3% of the employed population), it is still cause for concern. In the same vein, the number of people on unemployment benefits increased by 3.9% in November (+8.1% year-on-year).

Portugal: daily economic activity indicator *

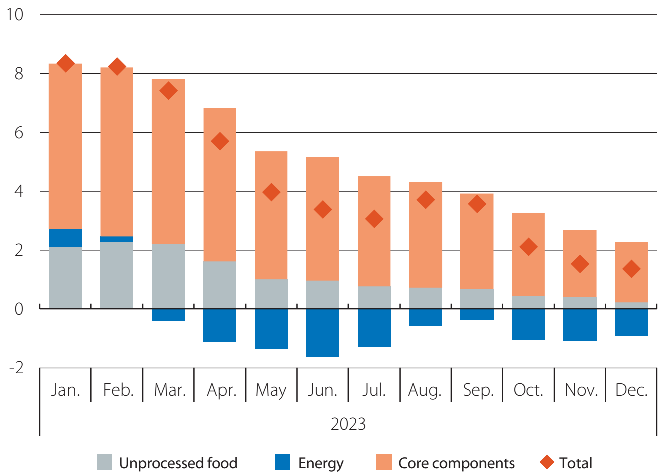
Year-on-year change (%)



Note: ** Monthly moving average.*
Source: *CaixaBank Research, based on data from the Bank of Portugal.*

Portugal: CPI

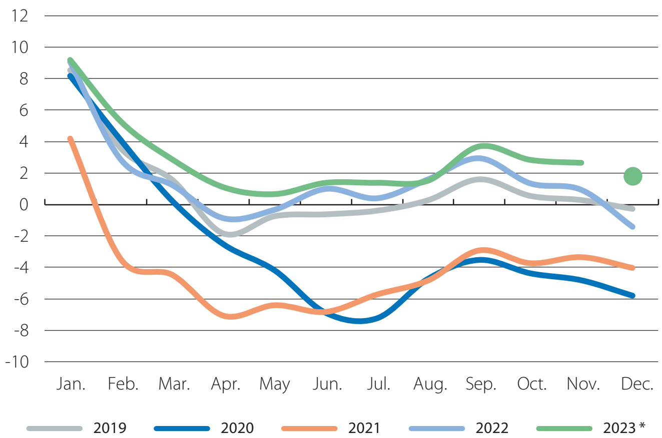
Contribution to year-on-year change (%)



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

Portugal: budget balance *

(% of GDP)



Notes: ** Corrected for the transfer of the Pension Fund from Caixa Geral de Depósitos (CGD) to Caixa Geral de Aposentares (CGA). The point represents the government's estimate for the year end.*
Source: *CaixaBank Research, based on data from the National Statistics Institute of Portugal.*

Tourism in Portugal in the 2023 high season

In the three years prior to the pandemic, overnight stays in Q3 represented an average of around 40% of annual overnight stays. Therefore, whether tourism exceeds the pre-pandemic levels or not in 2023 depends largely on the sector's performance in this period.

Based on the number of guests staying in tourist establishments, the pre-pandemic level had already been well exceeded by September 2023, for both resident and non-resident tourists (see first chart). Specifically, there were more than 23 million tourists, which makes CaixaBank Research's forecast for the whole of 2023 (29.8 million guests, 12% above the figure for 2019) perfectly achievable, provided the performance in the last quarter is in line with what happened in 2022.

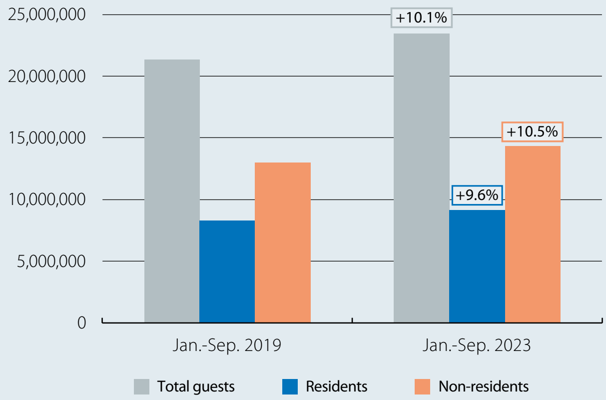
Focusing on Q3 2023, in August there was a record number of overnight stays in hotels, with over 10 million in the month. This was due to the high growth rates of foreign tourists, with those from the US standing out (+62% compared to Q3 2019), as well as those from Canada (+49%) and Switzerland (+27%). However, if we compare the figures with those of the same period in 2022, we cannot be optimistic in all areas; in particular, with regard to resident tourism, taking into account that the number stagnated compared to the previous year and overnight stays actually fell by 4%.

Nevertheless, it must be borne in mind that there has been a certain base effect on the resident tourism figures for Q3 2023, which, unlike foreign tourism, had already exceeded pre-pandemic levels a year earlier, so it is not surprising that it is experiencing lower growth rates. In addition, overnight stays by residents remain higher than prior to the pandemic (by 6%), meaning they are high regardless.

Analysing the breakdown by region of this fall in overnight stays by residents compared to Q3 2022, wee see that it was not uniform across all regions (see third chart); the decrease in overnight stays in the Algarve explains almost 90% of the total decline. There are several factors behind this behaviour. On the one hand, the boom in rural tourism is ongoing, as this segment continues to grow and consolidate its position following the boost provided by the pandemic when people were seeking greater social isolation. This appears to be corroborated by the fact that income from this type of accommodation increased in Q3 2023 compared to Q3 2022, and the regions where overnight stays increased are also those where this type of tourism is more widespread.

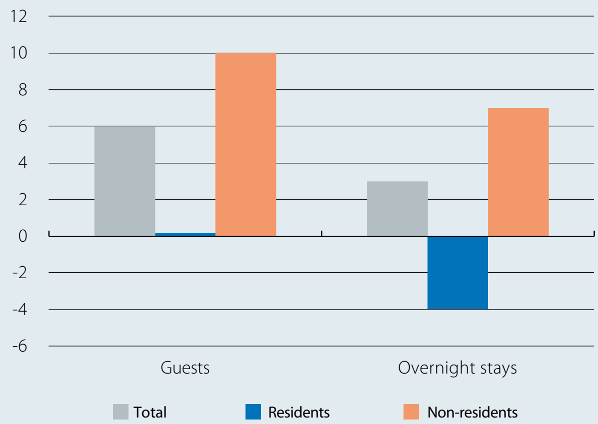
Moreover, this pattern reflects a shift among tourists in favour of cheaper options or, in some cases, shorter stays. Thus, the RevPar[1] (64.8 euros in Q3 2023) of the regions

Portugal: number of guests
Comparison of 2023 vs. 2019



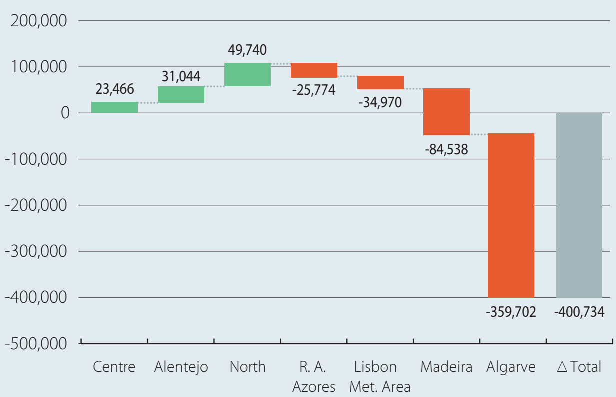
Note: *Cumulative data for the first nine months of each year.*
Source: *CaixaBank Research, based on data from the National Statistics Institute of Portugal.*

Portugal: guests and overnight stays
Change between Q3 2022 and Q3 2023 (%)



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

Portugal: annual change in Q3 2023 of overnight stays by residents, by destination region
Number



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

where overnight stays grew is significantly lower than that of the regions where overnight stays declined (109.6 euros). In the case of the Algarve, which in August 2023 recorded the highest RevPar of all regions (157.9 euros),[2] this is where overnight stays by residents fell the most, as hotel operators chose to position themselves in foreign tourism and higher segments.

Behind the weak performance of resident tourism, there is also a diversion to destinations abroad, which can be seen in the data for the balance of payments of travel and tourism. The overall growth of payments abroad of this item rose in Q3 2022 to 12.1%, with those made to Spain particularly standing out.

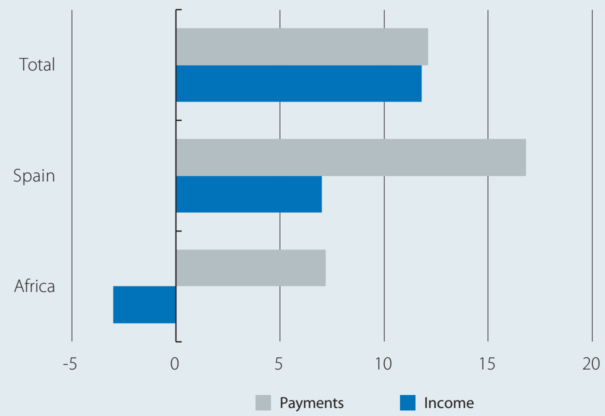
Despite the weak momentum in national tourism, on balance the tourist season was a very good one for the sector. Total revenues of tourist accommodation establishments in Q3 2023 were 30% higher in real terms than in the same quarter of 2019 (see last chart) and 13% higher than in the same quarter of 2022.

For 2024 we expect the sector to continue to grow, albeit at a slower pace, limited, among other factors, by the slowdown in economic activity in the main source countries.

Tiago Belejo Correia

Portugal: balance of payments of travel and tourism

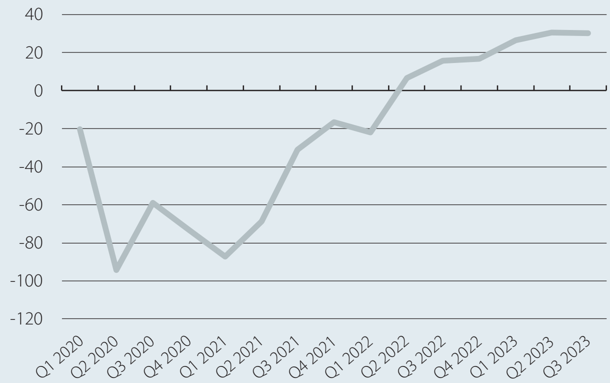
Change between Q3 2022 and Q3 2023 (%)



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

Portugal: revenues in tourist accommodation establishments

Change vs. the same quarter of 2019 (%)



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

1. RevPAR (revenue per available room) is calculated as the percentage of occupied rooms multiplied by the average daily rate (ADR).
2. The average RevPar between June and August in the Algarve was 124.7 euros (92.8 euros for the country as a whole), with an increase of 5% year-on-year. In Europe, the average RevPar for the same period of the year was 117 euros (data from the specialised website airdna.co). The occupancy rate in Portugal was the highest in Europe in summer, also according to AirDNA.

Activity and employment indicators

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

	2021	2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023	10/23	11/23	12/23
Coincident economic activity index	3.6	5.8	3.7	3.7	3.4	...	2.9	2.6	...
Industry									
Industrial production index	4.5	0.4	1.0	–5.0	–4.6	...	–1.1	–1.1	...
Confidence indicator in industry *(value)*	–5.3	–3.4	–5.0	–5.6	–9.4	–9.5	–10.2	–9.1	–9.2
Construction									
Building permits - new housing (number of homes)	13.5	6.2	9.3	0.5	7.5	...	4.6	...	...
House sales	20.5	1.3	–20.8	–22.9	–18.9	...	–	–	–
House prices *(euro / m² - valuation)*	8.6	13.8	12.9	9.1	8.1	...	8.2	5.6	...
Services									
Foreign tourists *(cumulative over 12 months)*	51.5	158.9	117.2	52.6	24.9	...	22.1	21.1	...
Confidence indicator in services *(value)*	0.1	15.1	11.1	13.4	5.8	–0.2	–0.8	–1.0	1.1
Consumption									
Retail sales	4.9	4.8	1.7	3.0	1.5	...	0.7	2.3	...
Coincident indicator for private consumption	4.9	3.9	2.1	2.8	2.7	...	2.1	1.6	...
Consumer confidence index *(value)*	–17.2	–29.7	–35.1	–29.4	–22.8	–27.2	–25.1	–28.2	–28.2
Labour market									
Employment	2.2	2.3	1.4	2.8	2.2	...	1.1	...	...
Unemployment rate (*% labour force*)	6.7	6.2	7.2	6.1	6.1	...	6.7	...	...
GDP	**5.7**	**6.8**	**2.5**	**2.6**	**1.9**	**...**	**–**	**–**	**–**

Prices

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

	2021	2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023	10/23	11/23	12/23
General	1.3	7.8	8.0	4.4	3.5	1.8	2.1	1.5	1.4
Core	0.8	5.6	7.1	5.7	4.4	3.2	3.5	2.9	2.6

Foreign sector

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

	2021	2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023	10/23	11/23	12/23
Trade of goods									
Exports *(year-on-year change, cumulative over 12 months)*	18.3	23.2	21.6	11.8	3.0	...	1.2	...	...
Imports *(year-on-year change, cumulative over 12 months)*	22.0	31.7	24.5	12.5	1.0	...	–1.0	...	...
Current balance	**–1.6**	**–2.8**	**–1.2**	**1.5**	**4.1**	**...**	**3.2**	**...**	**...**
Goods and services	–5.5	–4.7	–2.8	–0.3	2.1	...	2.0	...	...
Primary and secondary income	3.9	1.9	1.6	1.9	2.0	...	1.2	...	...
Net lending (+) / borrowing (–) capacity	**2.1**	**–0.5**	**1.5**	**4.5**	**7.3**	**...**	**6.6**	**...**	**...**

Credit and deposits in non-financial sectors

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

	2021	2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023	10/23	11/23	12/23
Deposits [1]									
Household and company deposits	9.3	6.4	0.5	–2.1	–2.6	...	–2.7	–1.9	...
Sight and savings	16.3	7.3	–3.1	–9.0	–9.4	...	–11.4	–12.0	...
Term and notice	1.2	5.2	5.4	7.5	6.9	...	9.3	11.9	...
General government deposits	–4.1	12.4	11.1	1.4	5.5	...	8.3	0.4	...
TOTAL	**9.0**	**6.5**	**0.8**	**–2.0**	**–2.4**	**...**	**–2.4**	**–1.8**	**...**
Outstanding balance of credit [1]									
Private sector	2.9	1.8	0.0	–1.2	–1.8	...	–2.1	–2.0	...
Non-financial firms	2.2	–0.4	–2.1	–3.5	–3.5	...	–3.9	–3.8	...
Households - housing	3.3	3.2	1.5	0.1	–0.9	...	–1.1	–1.2	...
Households - other purposes	3.0	2.9	0.0	0.4	–0.8	...	–0.6	–0.2	...
General government	3.8	–2.7	–2.0	0.6	–1.4	...	–3.1	–0.5	...
TOTAL	**2.9**	**1.7**	**–0.1**	**–1.1**	**–1.8**	**...**	**–2.1**	**–2.0**	**...**
NPL ratio *(%)* [2]	**3.7**	**3.0**	**3.1**	**3.1**	**2.9**	**...**	**–**	**–**	**–**

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

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Agrifood Sector Report 2023

The Spanish agrifood sector is suffering the effects of the prolonged drought and the sharp rise in production costs. Even so, the sector has shown a moderate growth trend which we expect to continue in the coming quarters.

Tourism Sector Report 1S 2023

The tourism sector has been a source of good news for the Spanish economy so far in 2023, showing great resilience to the macroeconomic uncertainty of the main source markets amid the current inflationary environment.

Real Estate Sector Report 1S 2023

The Spanish real estate market is slowing, albeit at a gentler rate than expected, and it continues to enjoy significant sources of support despite the fact that we continue to expect a decline in sales and a slowdown in housing price growth.

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