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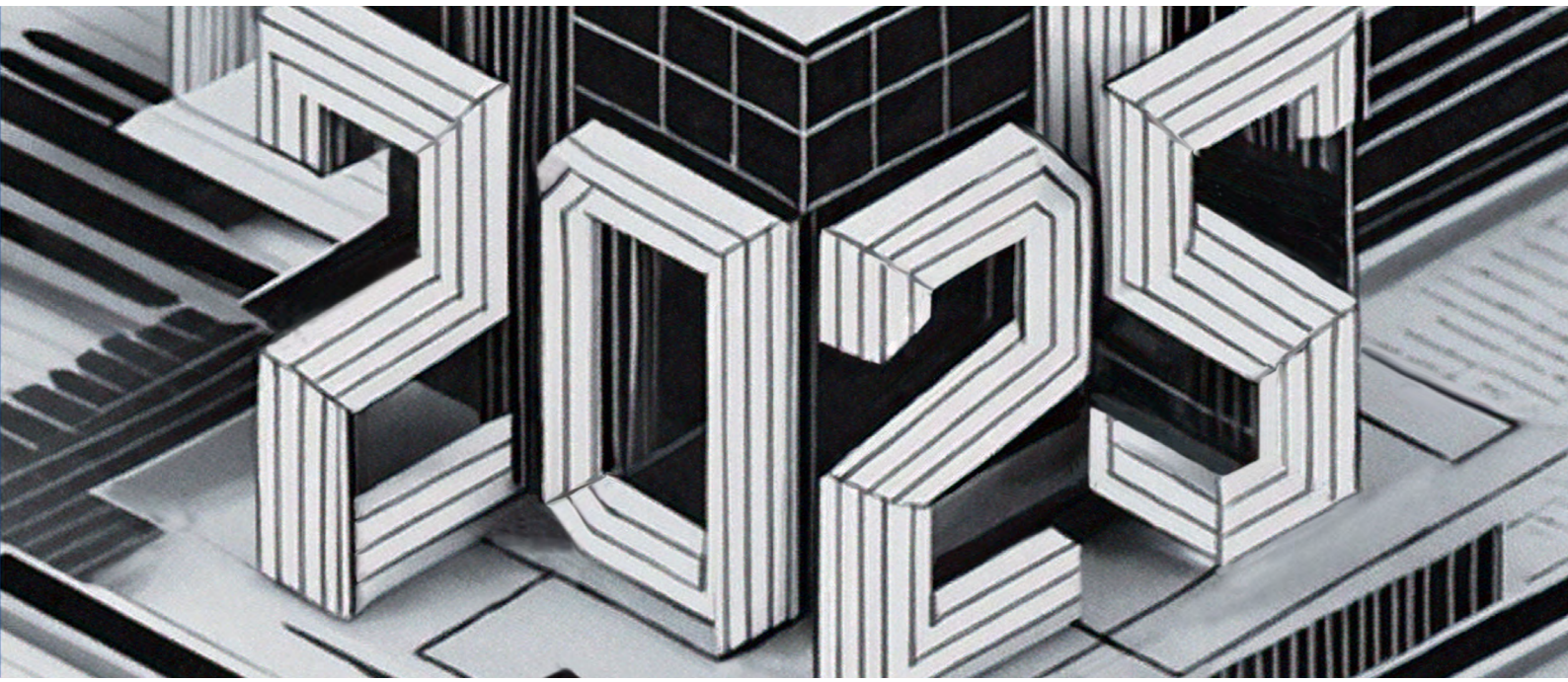

ECONOMIC & FINANCIAL ENVIRONMENT

FINANCIAL MARKETS
Balance sheets: the not-so-visible normalisation of monetary policy

INTERNATIONAL ECONOMY
Germany: reinventing itself amid a new reality

SPANISH ECONOMY
The Spanish real estate market in 2024-2025: in expansive mode

The Agrifood Sector Begins to Recover in 2024

DOSSIER: 2025 OUTLOOK

2025 global outlook: in search of a new normal

Monetary policy in 2025: dialling-back time

Spain 2025: dynamic growth, albeit slightly lower than in 2024

Sector growth in 2025: robust and across the board, but with some differences

CaixaBank Research

MONTHLY REPORT - ECONOMIC AND FINANCIAL MARKET OUTLOOK
November 2024

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The Spanish economy continues to beat expectations

Although it is nothing new, it is still important to emphasise it: the latest available indicators for the Spanish economy have once again beaten expectations. Despite the continued weakness of Europe and the high global uncertainty, Spain's economy continues to stand out on the international stage.

The country's GDP growth reached 0.8% quarter-on-quarter in Q3 2024, surpassing the 0.5% growth which we had anticipated here at CaixaBank Research. This growth rate was also significant from a historical perspective. For comparison, the average quarter-on-quarter growth rate recorded between 2000 and 2024 was 0.5%. Between 2014 and 2019, when the economy had recovered from the financial and sovereign debt crisis, the average growth rate stood at 0.7%.

The latest quarters have provided a steady stream of surprises and this has forced us to revise our growth forecasts upwards. If we take a step back, we see that the improvement has been substantial. A year ago, here at CaixaBank Research we were expecting growth of 1.4% for 2024, a forecast similar to that of the wider analyst community. In contrast, the current scenario contemplates an increase of 2.8%. This better-than-expected growth has been driven by several factors. Firstly, exports have grown more than expected, for both tourism and non-tourism services, and this accounts for around half of the gap in the growth versus expectations. The other half of the improvement in the forecasts is explained by stronger growth in consumption, both for households and in the case of public consumption. The only item that remains relatively weak is investment. We expect that in the coming quarters, as financial conditions normalise and European NGEU funds are deployed, this component will gain momentum.

In the list of positive items of news, this month we also find one of the main challenges of the Spanish economy: productivity growth. Specifically, in Q3 2024, GDP growth per hour actually worked – which is one of the key measures for this variable – accelerated to 2.5% year-on-year. This progress is the result of GDP growth outpacing the number of hours worked. In fact, the number of hours worked per worker has fallen in recent quarters. The dynamics at the sector level are also revealing. The improvement in productivity is partly the result of the good pace of growth in some of the most productive sectors, such as the information and telecommunications sector or the chemicals and pharmaceutical industry, whose role in the economy steadily has grown as a result. On the other hand, the increase in productivity is also the result of improvements in some less productive sectors, such as wholesale trade or some branches of industry, such as timber and agrifood.

Beyond the good figure for Q3, the early indicators for Q4 2024 are also encouraging. The pace of growth in the number of people registered with Social Security accelerated in October, and the economic activity indicators consolidated their position in expansive territory or even improved, as is the case of industry. In this context, once again, the risks surrounding our forecast scenario are skewed to the upside. In fact, if we keep the growth rate expected for the coming quarters unchanged, then the annual growth for 2024 as a whole would be 3.1%, compared to the 2.8% currently contemplated in the CaixaBank Research scenario. For 2025, the scenario contemplates an advance of 2.3%, although taking into account the latest indicators that have been published, this figure could end up closer to 2.5%.

The consequences of the floods, which have been particularly devastating in the province of Valencia, deserve a separate mention. The human and social drama of the disaster has been felt deeply by the CaixaBank Research team. We have all felt more Valencian than ever. In economic terms, the consequences will also be significant. The available information is still incomplete and the final impact will depend on the final assessment of the damage, on how long it takes to restore infrastructure and basic service networks, as well as on the support measures that are implemented. The growth of the Valencian economy will suffer in the short term, and this will also be noticeable in the Spanish economy as a whole. But we hope that, sooner rather than later, the investment efforts in reconstruction and replenishment of the destroyed capital will win out.

Oriol Aspachs
November 2024

Chronology

OCTOBER 2024

17 The ECB cut interest rates by 25 bps and lowered the depo rate to 3.25%.

AUGUST 2024

1-5 Strong turbulence in the financial markets triggered by the Bank of Japan's decision and worse-than-expected employment data for July in the US.
12 OPEC revises its forecasts for global oil demand in 2024 and 2025 slightly downwards, mainly due to slowing consumption in China.
23 The Fed will begin cutting interest rates in September, according to Powell's speech in Jackson Hole.

JUNE 2024

2 OPEC agrees to extend its cuts to crude oil production (3.66 million bpd through to December 2025 and 2.2 million bpd to September 2024, but with a gradual withdrawal through to September 2025).
6 The ECB cuts rates by 25 bps, placing the depo rate at 3.75% and the refi rate at 4.25%.

SEPTEMBER 2024

12 The ECB cut interest rates 25 bps, placing the depo rate at 3.50% and the refi rate at 3.65%.
18 The Fed cut interest rates 50 bps, placing them in the 4.75%-5.00% range, having raised them 500 bps since March 2022.

JULY 2024

26 The Olympic Games begin in Paris.
31 The Bank of Japan announces a surprise rate hike to 0.25% (up from the previous 0.0%-0.1% range), marking the highest level since late 2008.

MAY 2024

31 The rating agency Standard & Poor's downgrades France's credit rating from AA to AA–.

Agenda

NOVEMBER 2024

4 Portugal: public debt (Q3).
5 Spain: registration with Social Security and registered unemployment (October).
6 Portugal: employment (Q3).
6-7 Federal Open Market Committee meeting.
7 Spain: industrial production (September).
8 Spain: Fitch rating.
13 Portugal: labour cost (Q3).
14 Japan: GDP (Q3).
15 Portugal: Moody's rating.
19 Portugal: balance of payments (September).
22 Spain: loans, deposits and NPL ratio (September).
28 Spain: CPI flash estimate (November).
Euro area: economic sentiment index (November).
29 Spain: DBRS rating.
Portugal: GDP breakdown (Q3).
Euro area: CPI flash estimate (November).

DECEMBER 2024

2 Portugal: industrial production (October).
3 Spain: registration with Social Security and registered unemployment (November).
10 Portugal: international trade (October).
12 Governing Council of the European Central Bank meeting.
17 Spain: quarterly labour cost survey (Q3).
17-18 Federal Open Market Committee meeting.
19-20 European Council meeting.
23 Spain: quarterly national accounts (Q3).
Spain: loans, deposits and NPL ratio (October and Q3).
Spain: balance of payments and NIIP (Q3).
Portugal: GDP breakdown (Q3).
Portugal: home prices (Q3).
26 Portugal: NPL ratio (Q3).
28 Spain: CPI flash estimate (December).
Spain: household savings rate (Q3).
29 Portugal: CPI flash estimate (December).

Liquid times, solid economy?

At the speed of events in today's geopolitical world, it is difficult to take a step back from the heated reality and reflect on the medium-term economic outlook and trends. In the first week of November alone (when these lines are being written) we have witnessed a resounding victory for Donald Trump and the Republican Party in the US Senate and House of Representatives, at the same time as the collapse of the coalition government in Germany, which is one of the countries potentially affected by the protectionist shift that can be expected of the new US Administration. So, in just over 24 hours, the degree of uncertainty surrounding the tone of future economic policy in two of the great global powers has risen significantly. In these liquid times we are living in – in which a moderately stable, repetitive and even boring economic and political environment has given way in the last 15 years to a changing, unpredictable reality subject to continuous transformation – from time to time it is necessary to pause and reflect on the key trends for the near future.

That is what we seek to do every November in our Dossier on the annual outlook, aware that these ideas and projections will be subjected to the stress test of what the economic and geopolitical reality will bring us. Our outlook begins with the search for a new normal in the pattern of the global economic activity cycle which we anticipate for 2025, understood as the closing of the gap between supply and demand which has been present for much of the past five years. This will consolidate inflation's return to rates close to the target (2%) and, as a consequence, the approximation of interest rates to neutral levels (2% in the euro area and 3% in the US). Moreover, since the oil market seems to have an equilibrium price in the 70-80 dollar range, all the conditions would be in place to consolidate the soft landing of the world economy (with growth slightly above 3%).

In this context, the central banks will have to manage the easing of monetary policy, forging ahead with the withdrawal of unconventional measures, regulating the speed of the interest rate cuts towards neutral territory and monitoring the effects of the easing of financial conditions on financial stability. In any case, after 15 years marked by an excessive role of monetary policy, economic policy should pivot towards a triple target (as the IMF has just reminded us). This would include a fiscal policy that seeks to stabilise the debt dynamics (a particularly challenging task in the US and China), a monetary policy that transitions from restrictive to neutral territory (good news for emerging markets) and more decisive supply policies aimed at boosting potential growth. This is the best way to address old problems that had been blurred by the fog of inflation: low potential growth, high levels of global public debt (over 100 trillion dollars) and mediocre productivity, especially in Europe.

In this context, although we think that the growth of the Spanish economy will moderate slightly in 2025 (2.3%), the factors that support growth will allow economic activity to maintain cruising speed over the coming months. Topping this list of factors is the recovery of household purchasing power, which together with the lowering of interest rates (and accumulated savings) will enable a slight acceleration of private consumption. Other key factors include the favourable effects of demographics and the strength of the labour market. If, moreover, investment in equipment ends up reflecting the boost provided by the NGEU funds and the improvement in financing conditions, all this could more than offset the more modest contribution expected from public consumption in the context of the reintroduction of the European fiscal rules. In short, in liquid geopolitical times, let's hope that the economy will continue to show resilience and strength next year.

José Ramón Díez

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	4.50	3.25
3-month SOFR	3.62	0.99	0.21	4.74	5.37	4.16	3.07
12-month SOFR	3.86	1.42	0.52	5.48	4.95	3.62	3.10
2-year government bonds	3.70	0.99	0.67	4.30	4.46	3.60	3.35
10-year government bonds	4.69	2.44	1.46	3.62	4.01	3.80	3.80
Euro							
ECB depo	2.05	0.15	–0.50	1.77	4.00	3.00	2.00
ECB refi	3.05	0.69	0.00	2.27	4.50	3.15	2.15
€STR	–	–0.55	–0.58	1.57	3.90	2.93	2.01
1-month Euribor	3.18	0.42	–0.60	1.72	3.86	2.93	2.04
3-month Euribor	3.24	0.57	–0.58	2.06	3.94	2.94	2.06
6-month Euribor	3.29	0.70	–0.55	2.56	3.93	2.77	2.12
12-month Euribor	3.40	0.86	–0.50	3.02	3.68	2.60	2.18
Germany							
2-year government bonds	3.41	0.27	–0.69	2.37	2.55	2.15	2.05
10-year government bonds	4.30	1.38	–0.31	2.13	2.11	2.10	2.00
Spain							
3-year government bonds	3.62	1.53	–0.45	2.66	2.77	2.41	2.32
5-year government bonds	3.91	2.01	–0.25	2.73	2.75	2.50	2.41
10-year government bonds	4.42	2.96	0.42	3.18	3.09	2.90	2.80
Risk premium	11	158	73	105	98	80	80
Portugal							
3-year government bonds	3.68	3.05	–0.64	2.45	2.33	2.62	2.53
5-year government bonds	3.96	3.63	–0.35	2.53	2.42	2.63	2.56
10-year government bonds	4.49	4.35	0.34	3.10	2.74	2.80	2.75
Risk premium	19	297	65	97	63	70.00	75
EXCHANGE RATES							
EUR/USD (dollars per euro)	1.13	1.26	1.13	1.06	1.09	1.12	1.13
EUR/GBP (pounds per euro)	0.66	0.84	0.85	0.87	0.86	0.84	0.86
EUR/JPY (yen per euro)	129.56	126.06	128.82	142.85	156.99	160.00	156.00
OIL PRICE							
Brent ($/barrel)	42.3	77.3	74.8	81.3	77.3	76.0	73.5
Brent (euros/barrel)	36.4	60.6	66.2	76.8	70.9	68.1	65.0

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	4.4	2.9	6.5	3.5	3.3	3.1	3.3
Developed countries	*2.7*	*1.0*	*5.7*	*2.6*	*1.7*	*1.7*	*1.8*
United States	2.7	1.5	6.1	2.5	2.9	2.6	1.9
Euro area	2.3	0.3	6.2	3.4	0.5	0.7	1.3
Germany	1.6	0.8	3.6	1.4	–0.1	0.0	0.7
France	2.3	0.3	6.8	2.6	1.1	1.1	1.2
Italy	1.5	–1.0	8.8	4.8	0.8	0.5	1.0
Portugal	1.5	–0.2	5.6	7.0	2.5	1.7	2.3
Spain	3.6	–0.2	6.7	6.2	2.7	2.8	2.3
Japan	1.4	0.1	2.6	0.9	1.9	0.8	1.0
United Kingdom	2.7	0.3	8.7	4.3	0.1	1.1	1.0
Emerging and developing countries	*6.4*	*4.4*	*7.0*	*4.1*	*4.4*	*4.2*	*4.2*
China	10.6	7.5	8.5	3.0	5.3	4.6	4.0
India	7.2	5.7	10.3	6.7	7.7	6.6	6.8
Brazil	3.6	1.2	4.8	3.0	2.9	2.5	1.8
Mexico	2.3	0.7	6.1	3.7	3.2	2.1	2.1
Russia	–	1.0	5.9	–1.3	3.7	3.1	1.3
Türkiye	5.5	4.3	11.4	5.5	5.1	3.4	3.5
Poland	4.2	3.2	6.9	5.9	0.1	2.8	3.6
INFLATION							
Global	4.2	3.7	4.7	8.7	6.8	5.7	4.3
Developed countries	*2.1*	*1.5*	*3.1*	*7.3*	*4.6*	*2.7*	*2.1*
United States	2.8	1.7	4.7	8.0	4.1	2.9	2.0
Euro area	2.2	1.3	2.6	8.4	5.4	2.4	2.2
Germany	1.7	1.4	3.2	8.7	6.0	2.5	2.2
France	1.9	1.3	2.1	5.9	5.7	2.5	2.0
Italy	2.4	1.3	1.9	8.7	5.9	1.3	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	3.0	2.5
Japan	–0.3	0.4	–0.2	2.5	3.3	2.0	1.5
United Kingdom	1.6	2.2	2.6	9.1	7.3	2.6	2.3
Emerging and developing countries	*6.7*	*5.5*	*5.9*	*9.8*	*8.3*	*7.9*	*5.7*
China	1.7	2.6	0.9	2.0	0.2	0.4	1.4
India	4.6	7.2	5.1	6.7	5.7	4.8	4.6
Brazil	7.3	5.5	8.3	9.3	4.6	4.3	3.7
Mexico	5.2	4.1	5.7	7.9	5.5	4.5	3.9
Russia	14.2	7.5	6.7	13.8	5.9	6.6	4.5
Türkiye	22.6	9.8	19.6	72.3	53.9	52.6	29.0
Poland	3.5	2.1	5.2	13.2	10.8	4.1	4.6

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	3.7	–0.9	7.2	4.9	1.7	2.5	2.5
Government consumption	4.5	1.1	3.6	0.6	5.2	3.6	1.6
Gross fixed capital formation	5.7	–1.8	2.6	3.3	2.1	2.7	3.4
Capital goods	4.9	–0.9	3.3	2.9	1.1	1.8	4.3
Construction	5.7	–3.0	0.5	2.2	3.0	3.5	3.0
Domestic demand (vs. GDP Δ)	4.4	–0.9	6.9	3.9	1.7	2.4	2.4
Exports of goods and services	4.7	1.1	13.4	14.3	2.8	3.0	2.3
Imports of goods and services	7.0	–1.0	15.0	7.7	0.3	1.9	2.8
Gross domestic product	**3.6**	**–0.2**	**6.7**	**6.2**	**2.7**	**2.8**	**2.3**
Other variables							
Employment	3.2	–1.0	7.3	4.1	3.2	2.3	2.1
Unemployment rate (% of labour force)	10.5	19.2	14.9	13.0	12.2	11.6	11.2
Consumer price index	3.2	1.2	3.1	8.4	3.5	3.0	2.5
Unit labour costs	3.1	1.2	1.2	1.9	6.1	4.5	3.3
Current account balance (% GDP)	–5.8	–0.2	0.8	0.4	2.7	3.1	3.1
External funding capacity/needs (% GDP)	–5.1	0.3	1.6	1.1	3.6	4.1	4.1
Fiscal balance (% GDP)[1]	0.3	–6.8	–6.7	–4.6	–3.5	–3.0	–2.6

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	4.9	5.6	2.0	2.2	1.7
Government consumption	2.2	–0.2	3.8	1.7	0.6	1.0	0.8
Gross fixed capital formation	–0.4	–0.8	7.8	3.3	3.6	1.3	5.7
Capital goods	3.4	2.3	16.0	7.2	5.7	–	–
Construction	–1.3	–2.2	6.6	0.9	1.3	–	–
Domestic demand (vs. GDP Δ)	1.3	–0.4	6.0	5.0	1.7	1.8	2.3
Exports of goods and services	5.2	2.3	12.0	17.2	3.5	4.2	5.0
Imports of goods and services	3.6	1.6	12.3	11.3	1.7	4.6	5.0
Gross domestic product	**1.5**	**–0.2**	**5.6**	**7.0**	**2.5**	**1.7**	**2.3**
Other variables							
Employment	0.4	–0.6	2.2	3.3	2.3	0.9	1.3
Unemployment rate (% of labour force)	6.1	11.1	6.7	6.1	6.5	6.5	6.4
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	–1.2	1.4	1.2	1.4
External funding capacity/needs (% GDP)	–7.7	–1.5	1.0	–0.2	2.7	2.8	3.1
Fiscal balance (% GDP)	–4.5	–5.2	–2.8	–0.3	1.2	0.5	0.3

Forecasts

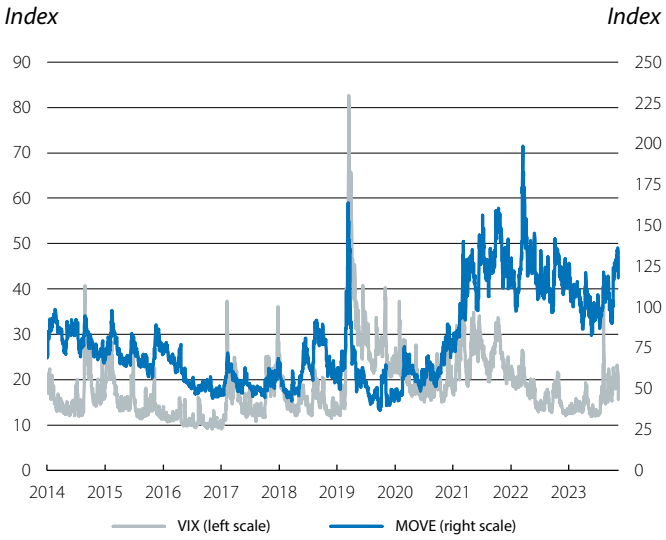
The markets: all eyes on the central banks and US elections

Sentiment improves in the US, but remains somewhat hesitant in the rest of the world. With all eyes on the US presidential election and the central banks' next steps, investors around the world spent October navigating choppy waters. In the US, the electoral uncertainty of October was combined with economic data that indicated a solid economy. This led investors to expect the Fed to take a slightly less dovish stance and to show a little more caution in the rate-cutting process. This adjustment in expectations, coupled with a slight increase in the inflation risk, resulted in a sharp upturn in sovereign yield curves and weighed down the major stock market indices. In the euro area, the macroeconomic data and the ECB's explicit acknowledgement of weak economic activity in the short term weighed on sentiment, which was also not immune to developments across the Atlantic. Meanwhile, in China, the lack of clarity regarding the stimulus plans left investors with a lower appetite for the country's risky assets. In this context of hesitant investor sentiment, Donald Trump's decisive victory in the US presidential election has appeared as a new catalyst, arousing the appetite for risky assets in the US and triggering rallies in the stock markets and an appreciation of the dollar. Although this had a certain knock-on effect on other risk-bearing assets around the world, their performance was more mixed amid investors' concerns about the prospect of trade conflicts and heightened uncertainty.

The central banks are making progress in the «gradual» monetary easing process. The ECB cut interest rates by 25 bps for the third time since June, bringing the depo rate down to 3.25%. This cut, which was agreed unanimously, was accompanied by a certain change of tone in the central bank's view of the economic outlook, with greater weakness anticipated in economic activity but, on the upside, more confidence in definitively overcoming inflation. The ECB was followed by the Bank of England, which cut 25 bps off the official rate, placing it at 4.75%, while its governor Andrew Bailey reiterated the intention to pursue a strategy of gradual reductions. To close the cycle of meetings, the Fed also lowered rates by 25 bps, bringing the fed funds rate down to the 4.50-4.75% range, after having kick-started the monetary easing cycle with an initial cut of 50 bps in September. The Fed's tone was cautious, pointing out that the economy's soundness allows it to steer interest rates towards neutral territory gradually and without haste.

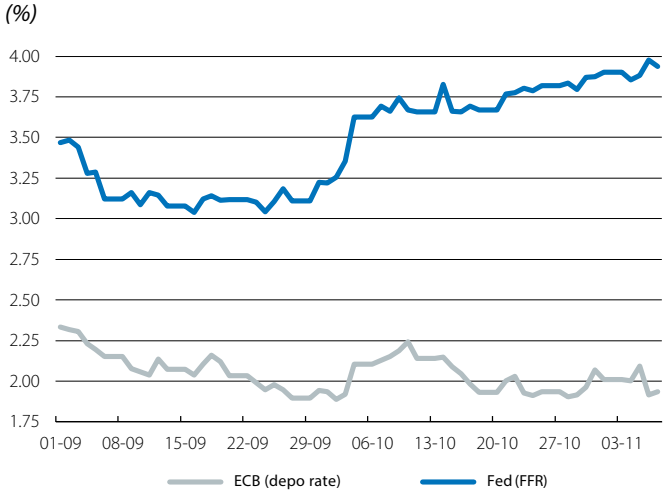
The markets see the Fed and the ECB cutting at different speeds. Given the economic context of the euro area (see the International Economy - Economic Outlook section), the futures markets shifted to anticipating a somewhat more dovish ECB than they had been expecting a few months ago, while in the US the more dynamic economic context caused a shift in expectations, with agents now anticipating a more cautious approach from the Fed in reducing rates. In particular, the markets shifted to anticipating a terminal depo rate in

Volatility in the financial markets



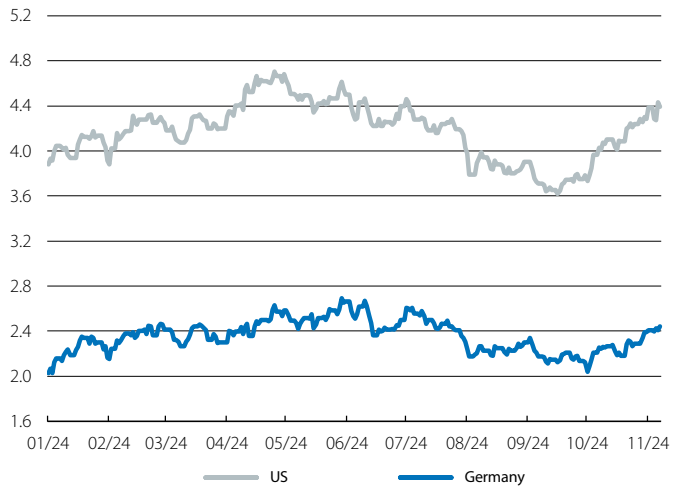
Source: *CaixaBank Research, based on data from Bloomberg.*

Official interest rates expected for June 2025 according to the financial markets



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

10-year sovereign interest rates



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

mid-2025 of 2% (vs. 2.25% at the end of the summer), with the fed funds rate expected to be in the 3.75%-4.00% range (3.00%-3.25% a month ago). This reduction of as much as 75 bps in the US was accompanied by a significant rebound in treasury yields throughout the length of the curve (+50 bps), with the 10-year benchmark reaching 4.40% (a level not seen since June 2024). Part of that rebound was due to the expectation of higher future inflation following Donald Trump's victory, given some of the key measures he announced while on the campaign trail. Sovereign rates in the euro area were not immune to their US counterparts, and despite expectations of a more dovish monetary policy, 10-year German sovereign rates rose by around 30 bps between the beginning of October and the time of writing, while rates in the periphery climbed around 20 bps.

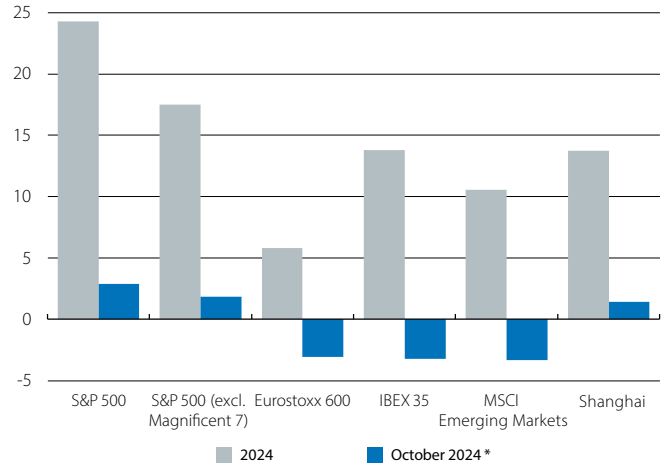
Greater volatility and regional divergence in the stock markets. The electoral uncertainty and high interest rates adversely affected the stock markets of the major developed economies during much of October. Emerging markets, meanwhile, faced an additional volatility factor due to uncertainty surrounding the economic stimulus policies in China. At the end of October, the main stock market indices recorded widespread losses. However, following Trump's victory, the so-called «Trump trade» drove a recovery in US indices, which reversed the trend. The S&P 500 and the Nasdaq rebounded by as much as 4% in the two days after the election, reaching new all-time highs. Although gains were recorded across the board, it was the sectors that are expected to benefit the most from the Trump Administration's policies, such as energy and industry, which led the charge. In contrast, the Trump trade had a more mixed effect on other global markets. Shares in the euro area initially reacted with a correction (although they regained the lost ground in subsequent sessions), reflecting the sensitivity of the European economy, which is highly export-oriented and still highly exposed to China, to a potential environment of restrictive trade relations. The biggest losses were concentrated in companies with a high exposure to tariffs, such as German automakers, and in Spanish banks, given this sector's significant exposure to Latin America, especially Mexico.

The dollar gains strength, supported by rate spreads. The dollar appreciated more than 3% (from the beginning of October up until the close of this publication) against its major developed-economy counterparts. Against emerging-market currencies (the JP Morgan EMCI), the dollar has gained more than 1% since the US elections, especially against the Mexican peso, although it failed to undo the appreciation of over 3% accumulated by this group of currencies in October. Against the euro, the dollar traded within a narrow band from 1.08 to 1.09 since early October and reached 1.07 following the US election result.

Mixed tone among commodities. The oil price remained relatively moderate and the Brent barrel fluctuated around the 75-dollar mark, in an environment of increased supply and downward revisions for demand, despite the pressure of the geopolitical conflicts. Among other commodities, the natural gas TTF benchmark rose moderately above 40 euros, while the indices for agricultural products and industrial metals recorded declines with respect to the end of September.

International stock markets

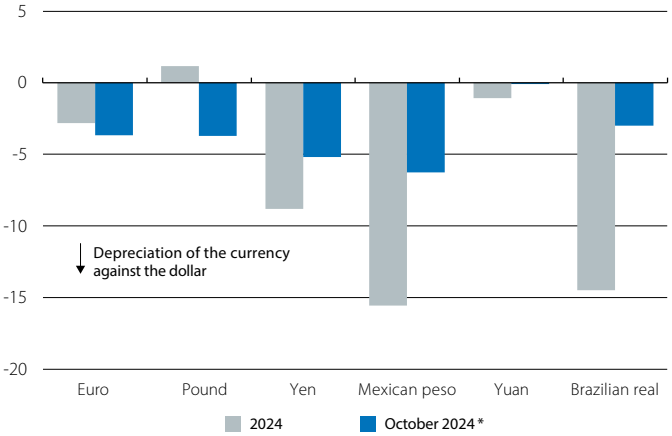
Cumulative change in the period (%)



Note: ** Change throughout all of October and up until 6 November.*
Source: *CaixaBank Research, based on data from Bloomberg.*

International currencies against the US dollar

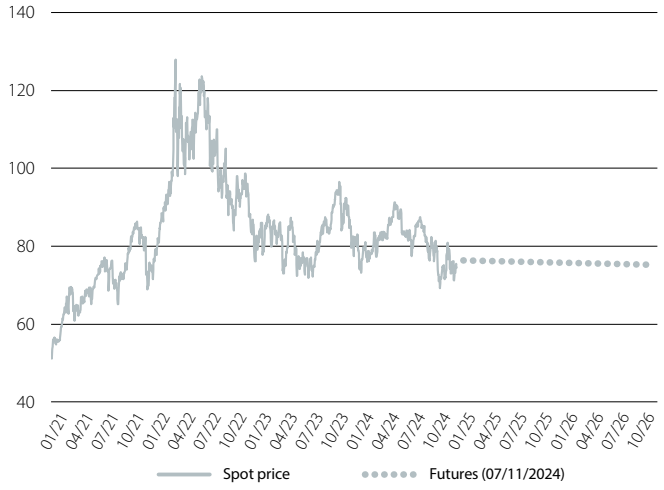
Cumulative change in the period (%)



Note: ** Change throughout all of October and up until 6 November.*
Source: *CaixaBank Research, based on data from Bloomberg.*

Brent barrel price

(Dollars/barrel)



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

Balance sheets: the not-so-visible normalisation of monetary policy

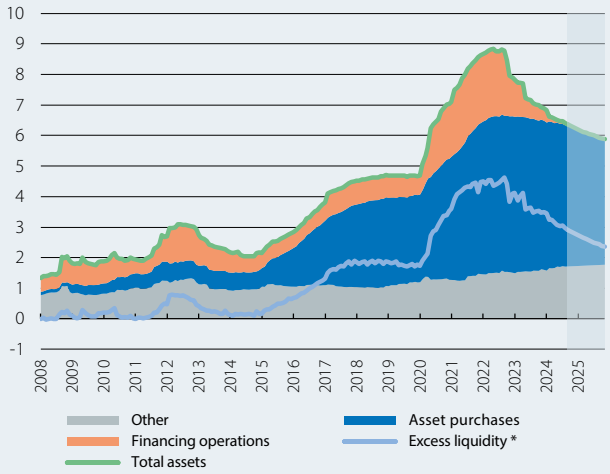
2025 should be the year of monetary policy untightening, with the ECB and the Fed lowering their interest rates to neutral levels (around 2% and 3%, respectively).[1] These rate cuts will be accompanied by another, less visible normalisation: the reduction of their balance sheets, which have grown exponentially in the last 15 years.

What is going on?

The balance sheets of the ECB and the Fed peaked in mid-2022, reaching almost 65% and 35% of the respective GDPs. As soon as they reached these highs, the inflationary crisis caused both central banks to end the asset purchases with which they had stimulated the economy and to begin to shrink the size of their balance sheets. This reduction process has accelerated and we estimate that, by the end of 2024, the ECB and Fed balance sheets will have decreased in size by 30% and 20%, respectively.

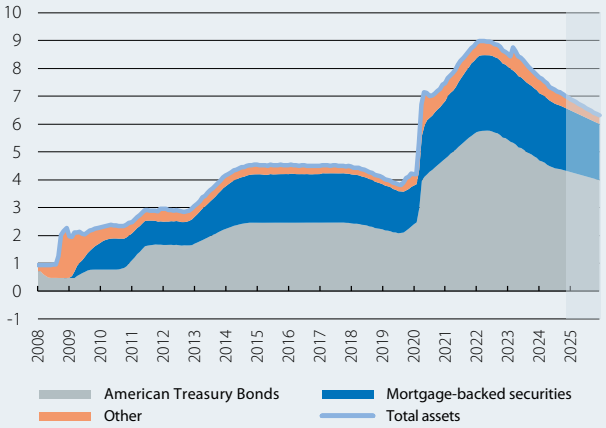
On both sides of the Atlantic, the contraction of the balance sheets has been carried out through a passive strategy that consists of not renewing the assets that reach maturity (but not selling assets before they reach maturity either).[2] So far, the markets have digested this approach well, without causing any dysfunction or turbulence and without compromising the monetary easing that has begun with the latest rate cuts. In the case of the ECB, the reduction began with the end of TLTRO-III, liquidity injections into the banking system

ECB: total assets on the balance sheet
(EUR trillions)



Note: ** Deposits in the deposit facility less use of the marginal lending facility.*
Source: *CaixaBank Research, based on data from the ECB and internal forecasts.*

Fed: total assets on the balance sheet
(EUR trillions)



Source: *CaixaBank Research, based on data from the Fed and internal forecasts.*

which were made available between 2019 and 2021 and matured between 2021 and 2024.[3] In 2023, the process was accelerated with the end of reinvestments under the APP, the first major asset purchase programme launched in 2015 and with a portfolio amounting to almost 3.5 trillion euros: its reduction began with partial reinvestments in March 2023 and has continued passively since July 2023 with zero reinvestments.[4] Finally, the balance sheet reduction process reached cruising speed in 2024 with the end of reinvestments under the PEPP, the purchasing programme associated with the pandemic that amounted to 1.7 trillion euros.[5] With TLTRO-III already completed, and the APP and PEPP passively reducing in size, the ECB's balance sheet will continue to shrink in 2025, when we estimate it could stand at around 40% of GDP.

1. See the article «Monetary policy in 2025: dialling-back time» in the Dossier of this same *Monthly Report*.
2. J. Ihrig, L. Mize and G.C. Weinbach (2017). «How does the Fed Adjust its Securities Holdings and Who is Affected?», Finance and Economics Discussion Series 2017-099, Washington: Board of Governors of the Federal Reserve System, explain how this process works in detail. In the case of the Fed, when a $100 Treasury bond matures, the assets on the Fed's balance sheet are reduced by $100 (specifically, the heading «asset holdings of the Federal Reserve» is reduced). The Fed does not receive a cash income of $100, but rather the balance of the US Treasury account, within the Fed's liabilities, is reduced by $100 (the Treasury has an account with the Fed, where it can deposit funds to manage transactions related to taxes, for the issuance and payments of sovereign bonds, etc.). If the Fed wanted this maturity of $100 to not affect the size of its balance sheet, it could reinvest that $100 in the purchase of a new bond, which would once again increase both the holdings of assets (within its assets) and the Treasury account balance (within its liabilities) by $100.
3. TLTRO-III reached more than 2 trillion euros. The last operation remaining, for a sum of just 29 billion, matures in December 2024.
4. Initially, when a portfolio bond expired, the ECB allocated 100% of the principal received to new purchases, thus keeping the size of the bond portfolio stable. Between March and June 2023, the ECB reinvested only 15 billion euros per month (vs. average maturities of 32.6 billion), and since July 2023 it has not reinvested any of the 376.8 billion that has matured.
5. The ECB reinvested 100% of maturities up until June 2024. In July, it began to allow around 7.5 billion euros per month to mature without reinvestment, and it will cease all reinvestments at the end of 2024.

In the case of the Fed, the reduction began in June 2022, when it stopped reinvesting the Treasury bonds and mortgage-backed securities (MBSs) that expire each month, with an initial maximum value of non-reinvestments of 47.5 billion dollars per month (30 billion in Treasury bonds and 17.5 billion in MBSs). This reduction accelerated in September 2022, reaching a peak of 95 billion per month (60 billion in bonds and 35 billion in MBSs),[6] before finally slowing to 60 billion in June 2024 (25 billion in bonds and 35 billion in MBSs). This process has enabled the Fed to reduce its holdings of Treasury bonds by 1.4 trillion and those of MBSs by 0.4 trillion, to 4.4 trillion and 2.3 trillion, respectively. In 2025, we expect the Fed to maintain a similar pace[7] and that, by the end of next year, its balance sheet will stand at around 25% of GDP.

What are the challenges?

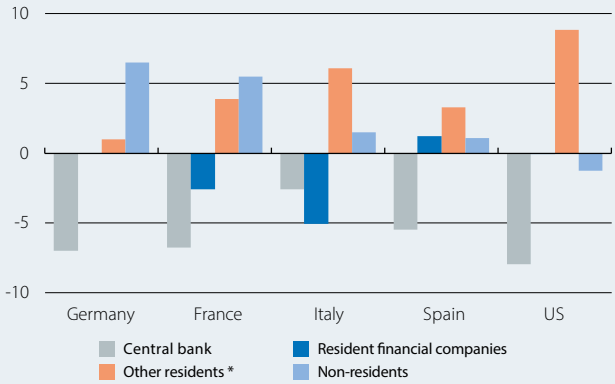
We expect that the balance sheet reduction processes will be gradual and that the total assets held by the Fed and the ECB will remain well above their pre-pandemic levels. Nevertheless, this does not mean that the process will be free of challenges.

One of the questions is the relationship between the size of the central banks' balance sheets and the abundance and distribution of liquidity in the financial system. In Europe, the reduction of the ECB's balance sheet will still leave us with significant excess liquidity.[8] Furthermore, anticipating the reduction in liquidity that will gradually become visible, not in 2025 but later, the ECB itself has revised its operating framework in order to avoid any future problems arising due to this lower liquidity.[9]

In the US, however, the situation is more uncertain. The Fed's goal is a system of «ample» reserves, whereby they would be less abundant than in the past but sufficient to allow the financial system to operate without liquidity restrictions while also ensuring that the fed funds rate is not materially sensitive to day-to-day changes in the total volume of reserves. Precisely where this equilibrium lies is difficult to estimate. On the one hand, the reserves have declined to 14% of GDP (versus a peak of 20% in 2021) and the Fed has suggested that a level of 10%-11% would be a good target,[10] meaning that there is still some way to go in the balance sheet reduction process. This is also suggested by an indicator produced by the New York Fed,[11] which estimates the sensitivity of the fed funds rate to changes in reserves and still places that sensitivity at practically zero. On the other hand, frictions have appeared in the money markets, such as the more-than-20-bp spike in the SOFR in a single day in September,[12] suggesting that liquidity may be less abundant than it might seem.

Holders of general government debt

Change in the share (of the total debt) between Q2 2022 and Q2 2024 (pps)



Note: ** Includes households, non-financial firms and public administrations.*
Source: *CaixaBank Research, based on data from the Treasury departments of Germany, France, Spain and the US, the Banca d'Italia and the ECB.*

Finally, the withdrawal of the central banks' asset purchases eliminates a major bond buyer from the secondary markets. Over the past two years, the decline in ECB and Fed debt holdings has been significant, but at the same time this gap has been largely filled by demand from private investors. This is an encouraging trend and one that is expected to continue in 2025, despite the scale of the purchases that the Fed and the ECB plan to cease, as the comparison with the expected volume of debt issues shows (see last chart).

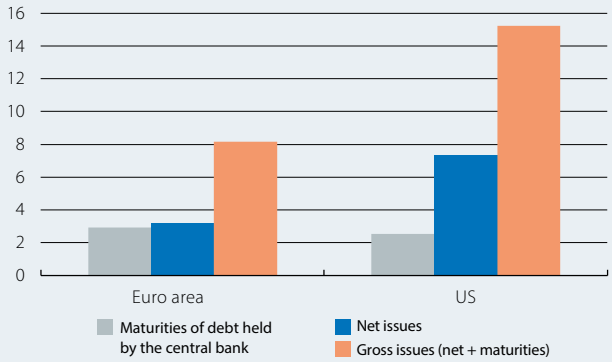
In short, in 2025 we should see the co-existence of a gradual reduction in Fed and ECB benchmark interest rates (causing monetary easing) with a smooth decline in the size of their balance sheets and in the amount of excess liquidity. The balance sheet reduction process helps to shrink the footprint of both central banks in the financial markets,[13] thereby mitigating the Fed and the ECB's exposure to credit and duration risks. Also,

6. In practice, the reduction in MBSs was lower, with maturities of 17 billion per month.
7. Average of 25 billion in treasuries and 17 billion in MBSs.
8. Based on the rate of reduction of the APP and the PEPP, excess liquidity is expected to reach 2.4 trillion euros by the end of 2025. Historically, only when this figure has fallen below 350 billion have signs of low liquidity appeared (e.g. the 1-day interbank rate becoming decoupled from the deposit facility rate).
9. See the Focus «The ECB, in the midst of a review» in the MR12/2023. In March 2024, the ECB officially introduced a system of liquidity on demand which enables abundant and well-distributed liquidity but with the central bank having a smaller footprint in the markets.
10. C. Waller. «A Conversation with Federal Reserve Governor Christopher Waller». The Brookings Institute, 2024.
11. See G. Afonso, D. Giannone, G. La Spada and J.C. Williams (2022, revised in 2024). «Scarce, abundant, or ample? A time-varying model of the reserve demand curve». Staff Report nº 1019, Federal Reserve Bank of New York.
12. This is the interest rate at which banks and other financial institutions take overnight financing and, therefore, it serves as a measure of how tight monetary conditions are.
13. This also helps alleviate shortages of collateral, thereby improving the functioning of markets such as that of repos, as well as reviving the financing markets.

although increasing the size of the balance sheets was a stimulus measure, their reduction in 2025 and in the years ahead is not expected to impose a monetary restriction that will interfere with the rate cuts or that will hold back the economy. Firstly, the balance sheet reduction process conducted during the course of 2022, 2023 and 2024 has been well received, and in these years the financial markets have taken the Fed and ECB benchmark rates (and not their balance sheets) as the guiding tool for monetary policy. Secondly, there are several reasons why the reduction and increase of their balance sheets do not have symmetric effects: (i) the balance sheet increases occur in turbulent times marked by disruptions in the functioning of the markets, while the reduction takes place in a stronger economic environment; (ii) the balance sheet increases serve to ensure that, in these turbulent times, the central bank makes clear its commitment to an accommodative monetary policy for a long time, whereas in the balance sheet reduction phase the Fed and the ECB have decoupled changes in their balance sheets from changes in rates, and (iii) the balance sheet increases are rapid and aggressive, while the reduction is slow and gradual, as the projections presented in this article show.

Sovereign bonds: maturities and issues in 2025

(% of GDP)



Notes: *Net issues are estimated using the IMF's public deficit forecast for 2025. The issues to renew maturities are estimated using the total stock of debt and its average term.*
Source: *CaixaBank Research, based on data from the IMF (WEO, October 2024), the ECB, the US Treasury Department and the Fed.*

Interest rates (%)

	31-October	30-September	Monthly change (bp)	Year-to-date (bp)	Year-on-year change (bp)
Euro area					
ECB Refi	3.40	3.65	–25	–110.0	–110.0
3-month Euribor	3.06	3.28	–22	–84.7	–91.1
1-year Euribor	2.55	2.75	–20	–96.6	–148.0
1-year government bonds (Germany)	2.47	2.47	0	–79.6	–117.3
2-year government bonds (Germany)	2.28	2.07	21	–12.3	–73.4
10-year government bonds (Germany)	2.39	2.12	27	36.6	–22.7
10-year government bonds (Spain)	3.10	2.93	17	10.2	–56.8
10-year government bonds (Portugal)	2.80	2.70	10	14.4	–56.2
US					
Fed funds (upper limit)	5.00	5.00	0	–50.0	–50.0
3-month SOFR	4.56	4.59	–3	–77.2	–81.0
1-year government bonds	4.27	4.00	27	–49.3	–106.4
2-year government bonds	4.17	3.64	53	–8.0	–76.2
10-year government bonds	4.28	3.78	50	40.5	–20.8

Spreads corporate bonds (bps)

	31-October	30-September	Monthly change (bp)	Year-to-date (bp)	Year-on-year change (bp)
Itraxx Corporate	59	59	0	0.1	–17.6
Itraxx Financials Senior	65	67	–2	–1.6	–22.4
Itraxx Subordinated Financials	116	121	–5	–6.6	–46.1

Exchange rates

	31-October	30-September	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
EUR/USD (dollars per euro)	1.088	1.114	–2.3	–1.4	1.6
EUR/JPY (yen per euro)	165.480	159.940	3.5	6.3	2.3
EUR/GBP (pounds per euro)	0.844	0.833	1.3	–2.7	–3.2
USD/JPY (yen per dollar)	152.030	143.630	5.8	7.8	0.7

Commodities

	31-October	30-September	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
CRB Commodity Index	534.4	540.3	–1.1	4.7	–0.1
Brent ($/barrel)	73.2	71.8	1.9	–5.0	–8.0
Gold ($/ounce)	2,744.0	2,634.6	4.2	33.0	40.7

Equity

	31-October	30-September	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
S&P 500 (USA)	5,705.5	5,762.5	–1.0	19.6	30.2
Eurostoxx 50 (euro area)	4,827.6	5,000.5	–3.5	6.8	15.5
Ibex 35 (Spain)	11,672.6	11,877.3	–1.7	15.5	25.7
PSI 20 (Portugal)	6,532.8	6,792.9	–3.8	2.1	4.8
Nikkei 225 (Japan)	39,081.3	37,919.6	3.1	16.8	21.5
MSCI Emerging	1,119.5	1,170.9	–4.4	9.4	16.9

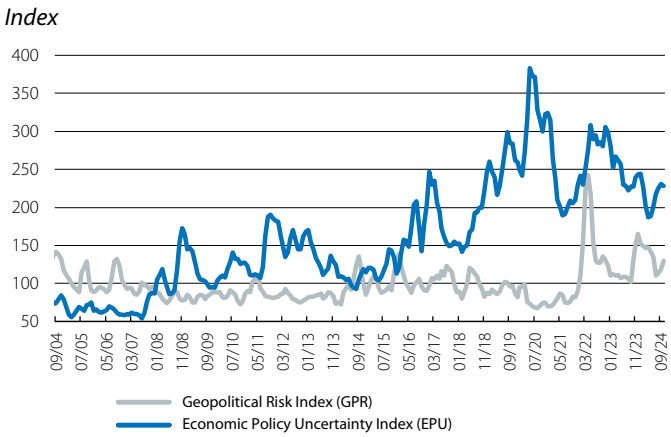
Uncertain times in the international economy

Stable economic outlook but with growing risks. In its autumn report, the IMF has highlighted an environment of continuing growth, in which the imbalances between supply and demand are fading, enabling a gradual decline in inflation without triggering a sharp correction in economic activity or employment. In this favourable economic context, there are significant differences in growth between regions and a considerable risk map, skewed to the downside. On the one hand, the persistent strength of the US economy and the good performance of the emerging Asian economies (excluding China) contrasts with the weakness shown by China, the large European economies and those most dependent on oil exports. On the other hand, as the main sources of danger the Fund identifies as key threats the possibility of new episodes of volatility in the financial markets, resistance in the disinflationary process, the increase in social tensions, and the rise of protectionism (a risk which is accentuated by the economic agenda proposed by the US president-elect Donald Trump). In particular, the IMF estimates that a scenario with widespread tariff increases, greater uncertainty and lower migration flows could subtract around 1% from world GDP between 2025 and 2026.

Geopolitical risk, uncertainty and lack of confidence. In an environment marked by high geopolitical risk, as well as uncertainty regarding the direction of global economic policy, confidence remains the Achilles' heel in the largest economies. In the European economy and in China, the deterioration of the confidence indicators is taking place amid a slowdown in economic activity. The case of the US, meanwhile, provides a clear example of how (a lack of) confidence at the global level can have a more fundamental root – and can eventually curb the economy – as long as perceived risk and uncertainty remain high. In addition, the IMF's Global Financial Stability Report identified the environment of high uncertainty as an additional risk to macrofinancial stability and a factor that could delay consumption and investment decisions. In this regard, in the US, the confidence indicator published by the University of Michigan has shown an improvement in recent months and stood at 70.5 points in October, although it still lies well below its historical average (around 85 points). In the case of China, consumer confidence remains close to record lows (85 points, compared to an all-time average of 108 points). In the euro area, the consumer confidence index stood at –11.2 points in October, confirming the improving trend of previous months, although it remains below its historical average (around –10 points). Meanwhile, the ESI sentiment indicator published by the European Commission fell again in October (to 95.6 points) and has also remained below its historical average since July 2022.

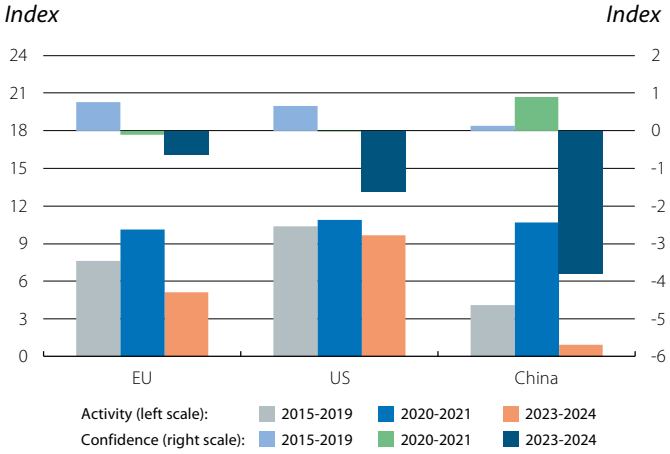
Q3 on the radar: no landing in the US while the euro area and China are still struggling to take off. In Q3, the publication of the GDP figures brought upside surprises in the largest economies. The euro area economy beat expectations by growing 0.4% quarter-on-quarter, after recording a modest growth of 0.2% in Q2. However, with the exception of Spain, which registered a significant growth of 0.8% quarter-on-quarter, the underlying picture is one of practical stagnation among the major European economies. Germany exceeded expectations by growing 0.2% quarter-on-quarter (but it

Global: geopolitical risk and uncertainty



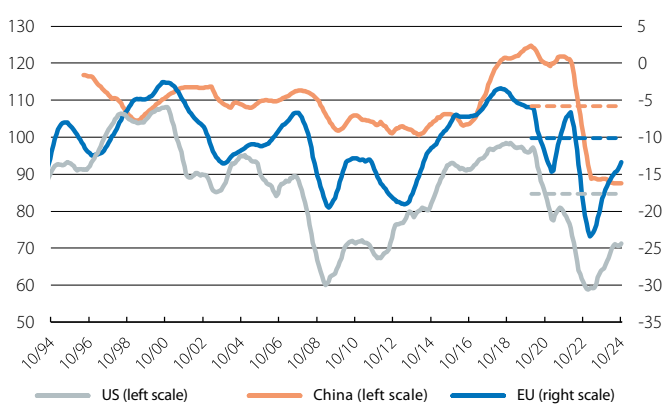
Note: *The indices are constructed from newspaper articles, by searching for words related to geopolitical risk and uncertainty regarding economic policies. Both indices have a base of 100, corresponding to the average of the periods 1985-2019 (GPR) and 1997-2015 (EPU). The 3-month averages are shown.*
Source: *CaixaBank Research, based on data from S.R. Baker, N. Bloom and S.J. Davis, (EPU) and Caldara, Dario and Matteo Iacoviello (GPR) (downloaded from https://www.policyuncertainty.com/index.html).*

Global: TIGER activity and confidence indicators



Note: *The TIGER indices use a statistical method (Principal Component Analysis, or PCA) to extract indicators that capture common trends across large data sets.*
Source: *CaixaBank Research, based on data from the Brookings Institution (downloaded from https://www.brookings.edu/articles/october-2024-update-to-tiger-calm-on-the-surface-turbulence-beneath/*

Global: consumer confidence



Note: *In the chart, the dashed straight lines show the historical average of each series. For the US, the University of Michigan's Consumer Sentiment Index has a base of 100 in 1966. For China, the confidence index published by the National Statistics Office of China is used, with a base of 100 in 1997. For the EU, the European Commission's consumer confidence index has an historical average (1985-2024) of around –10 points (corresponding to the balance, in pps, of the responses of a sample of European households to questions about their personal finances and the wider economic situation).*
Source: *CaixaBank Research, based on data from the University of Michigan, the National Statistics Office of China and the European Commission.*

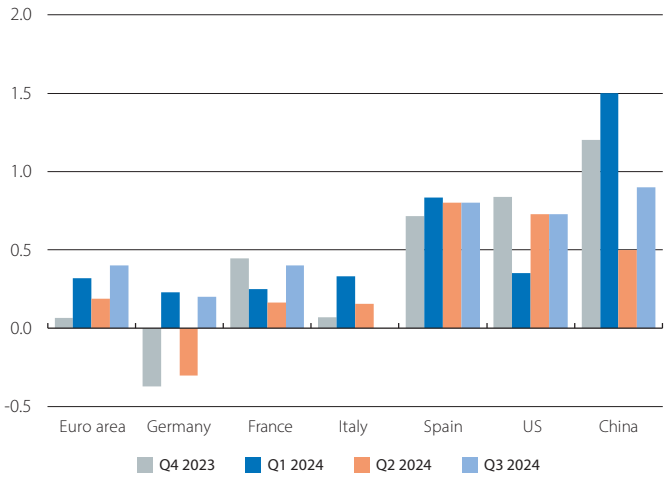
contracted 0.3% in Q2, revised 0.2 pps down from the initial estimate). France grew 0.4% quarter-on-quarter (versus 0.2% quarter-on-quarter in Q2), a result that can be explained by the effect of the Paris Olympic Games. For its part, Italy disappointed by stagnating in Q3. The figures for the euro area were also affected by the volatility of Ireland's data, which showed growth of 2.0% quarter-on-quarter (vs. –1.0% quarter-on-quarter in Q2). Across the Atlantic, the US economy maintained robust growth in Q3 (0.7% quarter-on-quarter, the same as in Q3), driven by strong private consumption, while investment slowed, weighed down by a decline in the residential sector. The Chinese economy, for its part, registered quarter-on-quarter growth of 0.9% in Q3 (vs. 0.5% in Q2). Despite this acceleration, the year-on-year rate observed in Q3 (4.6% vs. 4.7% previously) is the lowest since the beginning of 2023. In an environment in which the disinflationary pressures are accumulating and domestic demand is showing signs of weakness, the fiscal stimulus recently announced by the Chinese authorities may provide some cyclical support, but it does not substantially alter the underlying economic outlook.

The strength of services continues, but with no signs of recovery in manufacturing. At the start of Q4, the business sentiment indicators continue to reflect a clear disparity between the euro area and the US, as well as between the weakness of the global manufacturing sector and a more resilient services sector. October's composite PMI for the euro area stood at 50.0 points (49.6 in September), indicating a stagnation in activity. In the US, the composite index rose to 54.3 points (54.0 in September), placing it in expansive territory and offering a further sign of the buoyancy of the US economy. On both sides of the Atlantic, the manufacturing sector remains somewhat sluggish. In the euro area, the manufacturing PMI reached 46.0 points in October (45.0 previously), while US manufacturing, despite some improvement (47.8 vs. 47.3) remains far from the growth threshold. On the services side, the sector remains in expansive territory, although in the euro area it has lost some momentum (51.6 vs. 51.4) and in the US the index continues to show more vitality (55.3 vs. 55.2).

With inflation close to central bank targets, the global economy «pivots» towards old problems. In the euro area, headline inflation reached 2.0% year-on-year in October (vs. 1.7% in September), while the core index remained stable at 2.7%. This rebound is mainly explained by the rise in prices in more volatile components, such as energy and food, and does not contradict the underlying disinflationary dynamics. In the US, headline inflation fell 0.1 pp to 2.4% in September, while core inflation accelerated to 3.3% (vs. 3.2%), pressured by the persistence of prices in services. In particular, inflation in medical and transport services picked up again after several months of moderation, while the shelter component, which accounts for over 30% of the index, has moderated but remains high (4.9% in September vs. 5.2%). Faced with a return to normality in the main macroeconomic variables, the IMF suggests the need for a «triple pivot» in economic policy. Monetary policy must shift from being restrictive to neutral, fiscal consolidation must control debt dynamics and rebuild «buffers», while reforms are needed to improve growth and boost productivity.

Global: GDP

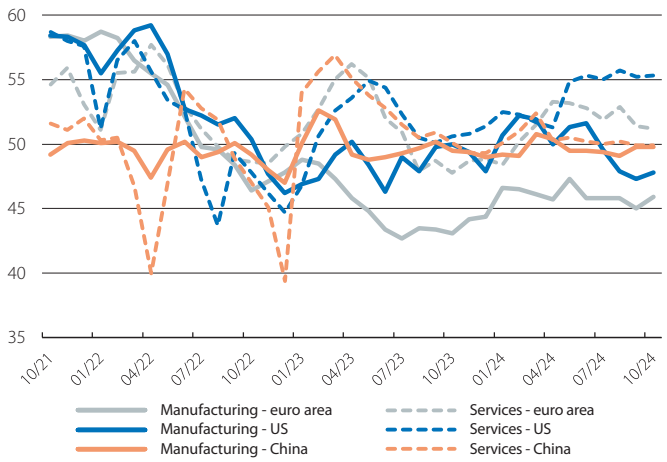
Quarter-on-quarter changes (%)



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

Global: PMI

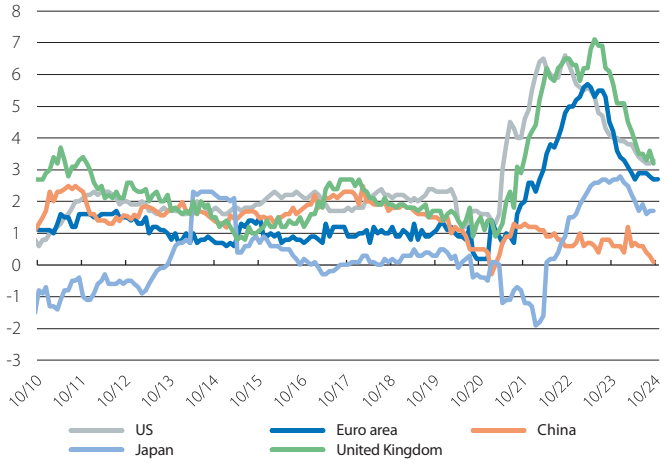
Index



Source: *CaixaBank Research, based on data from S&P Global and the National Statistics Office of China, via Bloomberg.*

Global: core inflation

Year-on-year change (%)

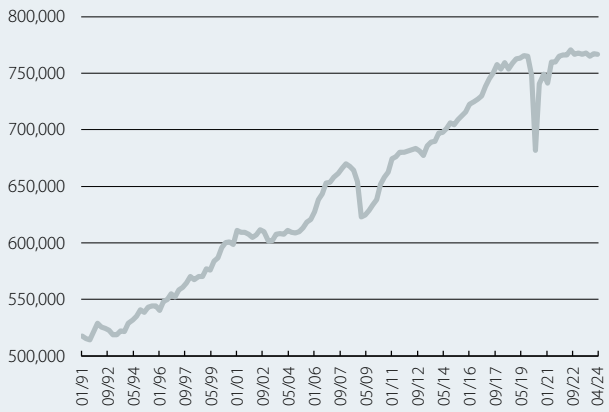


Note: *Core inflation excludes energy and food prices.*
Source: *CaixaBank Research, based on data from Bloomberg.*

Germany: reinventing itself amid a new reality

Germany, the euro area's largest economy, is facing difficult times and a weak growth outlook. For many years, the strength of its economy was due to the success of policies aimed at promoting SMEs, its ability to produce high-quality goods (especially cars), cheap energy supplies and a highly export-oriented economy. This model, however, is threatened by the slowdown in world trade, tariff wars, the change in the energy model and the emergence of new rivals. In fact, Germany was the only economy in the G7 to go into recession in 2023 and, given the weakness it has been showing so far this year, we cannot rule out the possibility of it doing so again in 2024. During the decade of 2010-2019, Germany was one of the most dynamic economies, with an average growth of 2.0%. Since 2020, however, it has been practically stagnant, with only Estonia and Finland performing worse in the euro area. In fact, in Q3 2024, the German economy exceeded its pre-COVID level by only 0.2%, while France is already 4.1% above the level of Q4 2019, Italy is up 5.5% and Spain 6.6%. There are several elements that explain what is happening in Germany.

Germany: real GDP
(EUR millions)



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

Dependencies and dependencies with rivalry: gas, China and cars

Germany has been one of the economies hardest hit by the war in Ukraine as it has lost its supply of cheap Russian gas (which accounted for over 50% of its pre-war gas imports). The increase in energy costs (40 euros/kWh currently vs. less than 20 euros/kWh in 2010-2020) has put its industry at a disadvantage compared to other countries with more diversified energy markets. Moreover, the phasing out of nuclear energy, within the framework of the decarbonisation of the economy and the transition to renewable energies amidst an energy crisis, further increased costs for businesses. Thus, the most energy-intensive industries[1] are operating with activity levels almost 15% lower than prior to the war and some have moved part of their production abroad.

In addition, over the last decade Germany has developed close trade ties with China: it is the fourth largest market for German exports and the main source of all its imports. However, the trade relationship with China has evolved over time. Whereas at first Germany imported intermediate, capital and consumer goods and exported final products with the «made in Germany» stamp of quality (cars, machinery, chemicals, etc.), not only is China now able to produce many of the goods it previously acquired from Germany, but also, in some cases such as cars, it has become a serious rival. In less than six years, China has gone from having little relevance in the global automotive market to accounting for almost 16% of all exports of electric or hybrid vehicles, and almost 7% of internal combustion vehicle exports. In particular, the number of vehicles exported by China is more than double that exported by Germany in 2024 to date. This surge has been largely due to a highly aggressive pricing strategy, supported by significant public aid and subsidies provided by the Chinese government to its industry which exceed those implemented in other industrialised economies.

The increase in protectionist policies and the changes to global supply chains forced by the COVID pandemic pose an additional challenge for an economy as export-oriented as Germany's. Europe in general, and Germany in particular, are focusing on de-risking strategies,[2] and this entails enduring short-term difficulties as supply chains are restructured in order to reduce their dependence on imports from China and seek other European and non-European suppliers.

Low public investment and population ageing

On the other hand, Germany has an almost structural deficiency in public investment. Despite rising in the last decade, gross fixed capital investment is expected to still lie below 3.0% of GDP in 2024, placing Germany among the bottom three in the EU ranking for this measure. Successive governments have been reluctant to increase public spending and have sought policies consistent with

1. Chemicals and chemical products, pulp, paper and printing, non-metallic minerals and base metals, which account for more than 15% of the manufacturing sector, and slightly less of total employment.

2. See the Focus «What will de-risking mean for the EU?» in the MR11/2023.

achieving a positive fiscal balance;[3] so much so that in 2009 the constitution was amended to include a fiscal rule, known as the «debt brake», which limits the annual structural deficit to 0.35% of GDP, unless there are exceptional circumstances. This debt brake was put on hold after the COVID outbreak in 2020, and this pause was extended with the outbreak of the war in Ukraine. However, in 2024 it was reactivated and this has significantly reduced the margin for investing in the energy transition, digitalisation and defence.

This commitment to fiscal orthodoxy has enabled Germany to enjoy sound public accounts: the country's fiscal deficits meet the 3.0% of GDP target and its debt is almost at the 60% threshold. Added to this strong fiscal position is the high level of savings accumulated by the private sector (more than 28% of GDP), which has allowed the current account balance to register a continuous surplus since 2002. The current account balance is also the highest in the euro area at present (and the second highest in terms of GDP), making it a significant potential source of friction with Germany's trading partners, especially the US. Moreover, as noted in the Letta report, these savings flow out of the country, which has led to Germany presenting a net creditor position (foreign financial assets in the hands of Germans less German liabilities in the hands of non-residents) of 60% of its GDP.

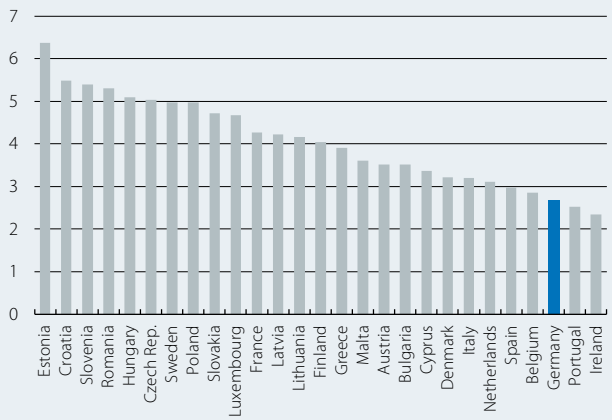
Finally, Germany faces a major demographic challenge, even in the short term: according to estimates by the European Commission, the working-age population (between 20 and 64 years) will fall by more than 6% by 2035; this is almost twice as much as the decline expected in Italy and contrasts with the anticipated increases of more than 3.0% and 1.8% in France and Spain, respectively.[4] This decline in the working-age population will intensify over the coming decades (likewise in the rest of the euro area), adding another obstacle to raising the economy's potential growth in the medium and long term.

Reforms in an environment of opportunities provided by Europe

Germany therefore needs to implement an ambitious agenda of economic reforms that will enable it to overcome the significant challenges it faces, and it has significant strengths to help it achieve this. Germany is among the leaders of the business climate rankings, with strong and reliable institutions and political stability that favour business investment. Its geographical position, in the centre of the EU, also favours it and it is the home of

3. At the close of this report, the German government was planning to moderate expenditure growth to 2.25% in 2025 (3.75% in 2024), placing the fiscal deficit at 1.75% of GDP (2.5% estimated for 2024).
4. European Commission. 2024 Ageing Report.

EU: public GFCF
(% of GDP in 2023)



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

key industrial conglomerates (machinery, manufacturing, electronics, chemicals, automotive, etc.).

In addition, now is a good time to initiate these reforms. On the one hand, the indebtedness of the country's private sector is quite low and it is in a very strong fiscal position. This would allow it to design a fiscal strategy that assures the sustainability of the public accounts in the medium term, while adjusting the debt brake clause to allow for more rapid increases in public spending.[5] On the other hand, Europe is immersed in the decarbonisation and digitalisation of its economy, a process epitomised by the NGEU funds. In addition, the Draghi report stresses the need for further progress to be made in this direction and lays the foundations for developing a new industrial policy at the European level.[6]

Despite the reluctance with which the Draghi report was received, the German government is aware of the delicate situation which the country finds itself in: the German car manufacturer Volkswagen, after publishing a 64% decline in net profits in Q3, announced for the first time in its history the closure of three plants on German soil. To make the outlook even more challenging, the coalition government has broken down as a result of stark differences over the key proposals to stimulate the German economy and the 2025 budget (still pending in parliament). After announcing the collapse of the coalition, Chancellor Scholz said he will call a vote of confidence on 15 January, paving the way for early elections in March (currently scheduled for 25 September 2025).

Rita Sánchez Soliva

5. See Galen Sher. «Options for Creating Fiscal Room for Investment and Other Spending Needs, Germany». IMF Selected Issues Paper (SIP/2024/034).
6. See the Focus «Draghi proposes a European industrial policy as a driving force to address the challenges of the coming decades» in the MR10/2024.

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

UNITED STATES

	2022	2023	Q4 2023	Q1 2024	Q2 2024	Q3 2024	08/24	09/24	10/24
Activity									
Real GDP	2.5	2.9	3.2	2.9	3.0	2.7	–	–	–
Retail sales (excluding cars and petrol)	8.6	5.3	5.0	2.9	3.4	3.5	3.5	3.7	...
Consumer confidence *(value)*	104.5	105.4	102.7	106.3	98.9	102.2	105.6	99.2	108.7
Industrial production	3.4	0.2	–0.1	–0.5	0.0	–0.4	–0.2	–0.6	...
Manufacturing activity index (ISM) *(value)*	53.5	47.1	46.9	49.1	48.8	47.1	47.2	47.2	46.5
Housing starts *(thousands)*	1,552	1,421	1,481	1,407	1,340	1,326	1,361	1,354	...
Case-Shiller home price index *(value)*	307	312	322	325	329	...	332	...	...
Unemployment rate *(% lab. force)*	3.6	3.6	3.7	3.8	4.0	4.2	4.2	4.1	4.1
Employment-population ratio *(% pop. > 16 years)*	60.0	60.3	60.3	60.2	60.1	60.1	60.0	60.2	60.0
Trade balance [1] *(% GDP)*	–3.8	–3.1	–2.8	–2.8	–2.8	–2.9	–2.9	–3.0	...
Prices									
Headline inflation	8.0	4.1	3.2	3.2	3.2	2.6	2.5	2.4	...
Core inflation	6.2	4.8	4.0	3.8	3.4	3.2	3.2	3.3	...

JAPAN

	2022	2023	Q4 2023	Q1 2024	Q2 2024	Q3 2024	08/24	09/24	10/24
Activity									
Real GDP	1.2	1.7	0.9	–0.9	–1.0	...	–	–	–
Consumer confidence *(value)*	32.2	35.2	36.5	38.9	37.0	36.8	36.7	36.9	36.2
Industrial production	0.0	–1.4	–0.9	–4.3	–2.9	–1.9	–3.3	–2.0	...
Business activity index (Tankan) *(value)*	9.5	7.0	13.0	11.0	13.0	13.0	–	–	–
Unemployment rate *(% lab. force)*	2.6	2.6	2.5	2.5	2.6	2.5	2.5	2.4	...
Trade balance [1] *(% GDP)*	–2.1	–3.0	–1.8	–1.2	–1.0	...	–1.0	...	...
Prices									
Headline inflation	2.5	3.3	2.9	2.5	2.7	2.8	3.0	2.5	...
Core inflation	1.1	3.9	3.9	3.2	2.2	2.0	2.1	2.0	...

CHINA

	2022	2023	Q4 2023	Q1 2024	Q2 2024	Q3 2024	08/24	09/24	10/24
Activity									
Real GDP	3.0	5.2	5.2	5.3	4.7	4.6	–	–	–
Retail sales	–0.8	7.8	8.3	4.7	2.6	2.7	2.1	3.2	...
Industrial production	3.4	4.6	6.0	5.8	5.9	5.0	4.5	5.4	...
PMI manufacturing *(value)*	49.1	49.9	49.3	49.7	49.8	49.4	49.1	49.8	50.1
Foreign sector									
Trade balance [1,2]	899	865	865	841	864	895	895	895	934
Exports	7.1	–5.1	–3.3	–1.7	4.4	5.4	8.3	0.3	12.5
Imports	0.7	–5.5	0.9	1.6	2.5	2.5	0.4	0.2	–2.3
Prices									
Headline inflation	2.0	0.2	–0.3	0.0	0.3	0.5	0.6	0.4	...
Official interest rate [3]	3.65	3.45	3.5	3.5	3.5	3.4	3.4	3.4	3.1
Renminbi per dollar	6.7	7.1	7.2	7.2	7.2	7.2	7.2	7.1	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

	2022	2023	Q4 2023	Q1 2024	Q2 2024	Q3 2024	08/24	09/24	10/24
Retail sales *(year-on-year change)*	1.4	–1.9	–0.7	–0.2	0.1	1.8	2.4	2.9	...
Industrial production *(year-on-year change)*	2.3	–2.1	–3.7	–4.8	–3.6	...	0.1	...	...
Consumer confidence	–21.9	–17.4	–16.7	–15.5	–14.3	–13.1	–13.4	–12.9	–12.5
Economic sentiment	102.1	96.3	94.8	96.0	96.0	96.2	96.4	96.3	95.6
Manufacturing PMI	52.1	45.0	43.9	46.4	46.3	45.5	45.8	45.0	46.0
Services PMI	52.1	51.2	48.4	50.0	53.1	52.1	52.9	51.4	51.6
Labour market									
Employment (people) *(year-on-year change)*	2.4	1.4	1.3	1.1	0.9	...	–	–	–
Unemployment rate *(% labour force)*	6.8	6.6	6.5	6.5	6.4	6.3	6.3	6.3	...
Germany *(% labour force)*	3.1	3.0	3.1	3.3	3.5	3.5	3.5	3.5	...
France *(% labour force)*	7.3	7.3	7.5	7.5	7.5	7.5	7.5	7.6	...
Italy *(% labour force)*	8.1	7.7	7.5	7.1	6.7	6.2	6.1	6.1	...
Real GDP *(year-on-year change)*	3.6	0.5	0.1	0.5	0.6	0.9	–	–	–
Germany *(year-on-year change)*	1.5	–0.1	–0.2	–0.1	–0.2	–0.2	–	–	–
France *(year-on-year change)*	2.7	1.1	1.3	1.5	1.0	1.3	–	–	–
Italy *(year-on-year change)*	4.9	0.8	0.3	0.3	0.6	0.4	–	–	–

Prices

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

	2022	2023	Q4 2023	Q1 2024	Q2 2024	Q3 2024	08/24	09/24	10/24
General	8.4	5.5	2.7	2.6	2.5	2.2	2.2	1.7	2.0
Core	3.9	5.0	3.7	3.1	2.8	2.8	2.8	2.7	2.7

Foreign sector

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

	2022	2023	Q4 2023	Q1 2024	Q2 2024	Q3 2024	08/24	09/24	10/24
Current balance	0.0	2.1	2.1	2.6	3.1	...	3.4	...	...
Germany	4.4	5.9	5.9	6.2	6.5	...	6.4	...	...
France	–1.2	–1.0	–1.0	–0.5	–0.6	...	–0.5	...	...
Italy	–1.7	0.0	0.0	0.5	0.9	...	1.0	...	...
Nominal effective exchange rate[1] *(value)*	90.9	94.7	95.1	95.2	95.2	95.6	95.7	95.5	94.8

Credit and deposits of non-financial sectors

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

	2022	2023	Q4 2023	Q1 2024	Q2 2024	Q3 2024	08/24	09/24	10/24
Private sector financing									
Credit to non-financial firms[2]	6.7	2.7	0.1	0.3	0.4	0.8	0.8	1.1	...
Credit to households[2,3]	4.4	1.7	0.5	0.3	0.3	0.6	0.6	0.7	...
Interest rate on loans to non-financial firms[4] *(%)*	1.8	4.6	5.2	5.1	5.1	4.9	5.0	4.7	...
Interest rate on loans to households for house purchases[5] *(%)*	2.0	4.4	4.9	4.9	4.8	4.7	4.7	4.6	...
Deposits									
On demand deposits	6.3	–8.5	–10.7	–8.8	–5.5	–2.5	–2.5	–1.5	...
Other short-term deposits	4.5	21.1	21.1	18.5	14.4	10.5	10.4	9.7	...
Marketable instruments	3.7	20.3	19.9	20.5	19.7	21.8	22.3	21.8	...
Interest rate on deposits up to 1 year from households *(%)*	0.5	2.7	3.3	3.2	3.1	3.0	3.0	3.0	...

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 confirms the good tone in Q3

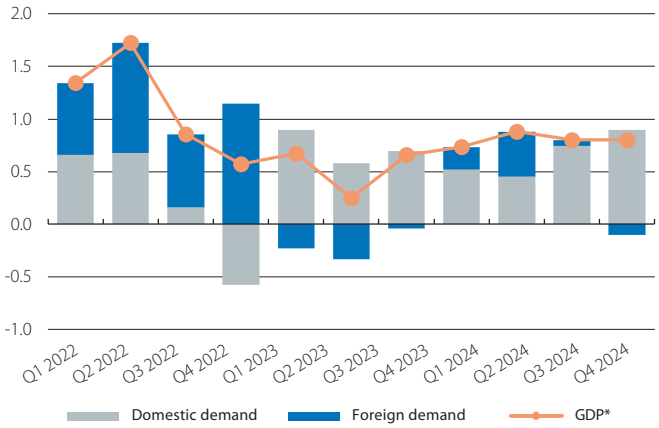
GDP growth once again beat expectations in Q3. Specifically, GDP grew by 0.8% quarter-on-quarter, the same rate as in Q2 2024, and substantially above both the euro area average (0.4% quarter-on-quarter) and our forecast. In year-on-year terms, the growth rate accelerated to 3.4% from 3.2% in the previous quarter. This better-than-expected GDP growth figure for Q3 2024 introduces upside risks to our GDP growth forecast for 2024 as a whole, which is currently 2.8%. Following this advance, the Spanish economy stands 6.6% above pre-pandemic levels, compared to a 4.6% increase in the euro area.

GDP growth was driven by private and public consumption, while foreign demand became less relevant and investment failed to take off. In particular, private consumption posted a quarter-on-quarter growth rate of 1.1%, outpacing GDP, in line with the previous quarter. On the other hand, investment disappointed with a quarter-on-quarter decline of 0.9%. This was a result of the stagnation in capital investment, weighed down by the 4.2% quarter-on-quarter contraction in investment in transport, as well as by the fall in construction investment of 1.7% quarter-on-quarter. Public consumption, meanwhile, served as an important supporting factor, recording quarter-on-quarter growth of 2.2%, 1.6 pps above the figure for Q2. This growth in public consumption was higher than expected and largely explains the gap versus our forecast. Finally, foreign demand subtracted 10 basis points from quarter-on-quarter GDP growth. This was due to the fact that the increase in exports, which was a significant 0.9% quarter-on-quarter, fell short of the 1.2% growth in imports, driven by domestic demand.

The labour market and the PMIs kick off Q4 on a good footing. In the labour market, job creation is gaining momentum and social security affiliation grew in October by 134,307 workers compared to the previous month – a rate of 0.63% – driven mostly by the services sector. This increase was much greater than usual for a month of October: both last year and in the average of that month during the period 2014-2019, the increase was 0.45%. The total number of registered workers has thus risen to 21.33 million workers, which is 514,856 more than a year ago. In seasonally adjusted terms, employment posted a monthly increase of 67,772 registered workers, which is the biggest increase since March and well above the monthly average for Q3 (+18,000). Meanwhile, the sentiment indicators continue to show dynamism after finishing Q3 on a strong note, especially in the case of manufacturing: in October, the PMI for this sector stood at 54.5 points, well within expansive territory (above the 50-point threshold) and surpassing the figure for September (53 points), as well as the average for Q3 (51.5). Finally, the services PMI lost some ground, although it remained well within expansive territory, standing at 54.9 points in October (55.2 on average in Q3 and 57 in September). Leaving these statistics to one side, at the end of October the storm that

Spain: contribution to GDP growth by component

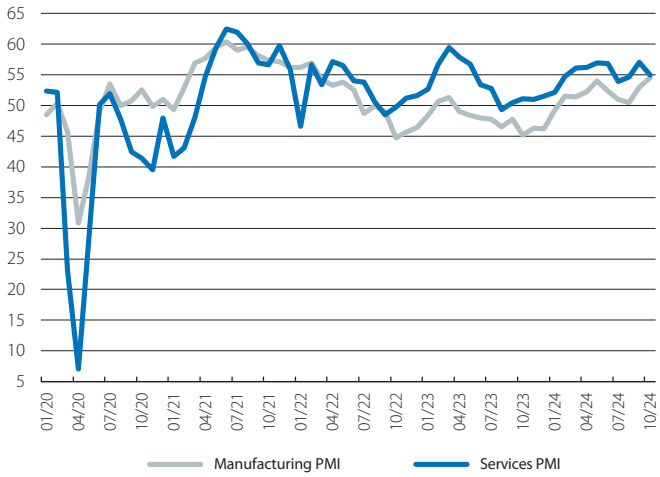
Contribution to the year-on-year change of GDP (pps)



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

Spain: PMI

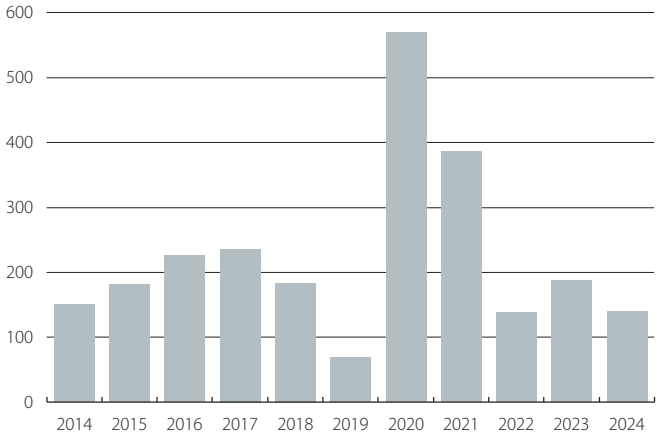
Level



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

Spain: quarterly change in the number of people in employment in Q3 2024

(Thousands)



Source: *CaixaBank Research, based on data from the Spanish National Statistics Institute (INE, Labour Force Survey).*

battered much of the province of Valencia caused great human and economic devastation in the area. The destruction caused by the cold drop will take a toll on GDP growth in Q4, and although limited at the aggregate level, the impact will be significant in the affected area.

Employment performed well in Q3. The Labour Force Survey confirmed that the Spanish economy continued to create jobs at a steady pace in Q3, with seasonally adjusted growth of 0.4% quarter-on-quarter, the same rate as in the previous quarter. In addition, unemployment fell by 1,200 people in Q3 2024, compared to an increase of 86,000 in the same quarter of 2023. Thus, the unemployment rate dropped to 11.2% from the 11.3% it stood at in Q2 2024, 0.7 pps lower than the rate of a year ago (11.9%).

Also of note is the moderation in the growth rate of the labour force, which has gone from a year-on-year rate of 1.6% in Q2 to 1.0%, the smallest increase since Q3 2022. This slowdown comes from both Spaniards and foreigners, although the latter continue to grow at a much faster rate than the former (4.7% year-on-year versus 0.3%, respectively).

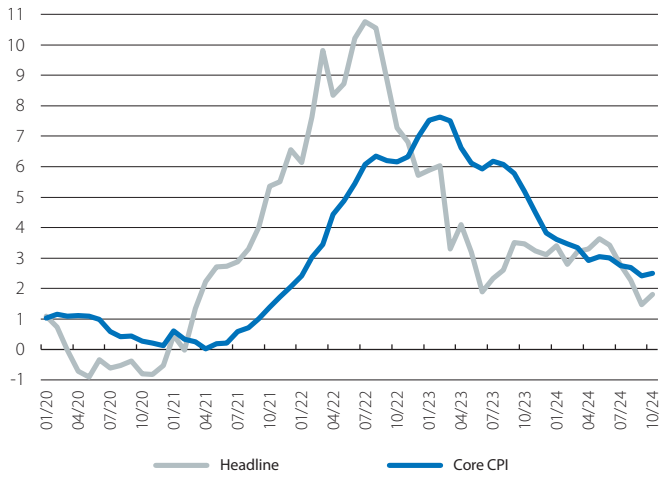
Inflation rebounded 0.3 pps to 1.8%, mainly due to higher fuel prices and also, albeit to a lesser extent, to higher electricity and gas prices, which fell in October in 2023. Over the coming months, the likely increase in electricity prices, according to the futures markets, coupled with the second VAT rise on food in December could give some continuity to the upturn in inflation observed this month, although we expect the increase to be moderate in any case.

The tourism sector closed the summer season with excellent records. Hotel overnight stays rose by 3.8% year-on-year in September, driven by international tourists, which grew by 4.7% year-on-year, while those of resident tourists fell by 2.2% year-on-year. This figure is somewhat below the average growth of overnight stays so far this year (5.2%), which is consistent with tourism growth that remains robust but which is stronger in the low season than in the high season, as the seasonality of the sector continues to moderate. It should be noted that the sector continues to break records for the year to date. Indeed, between January and September we received 73.9 million international tourists, some 7.4 million more than in the same period last year.

The demand for housing remains strong, while supply shows incipient signs of recovery. The number of sales in the first eight months of the year decreased by 1.0% year-on-year. Despite this slight decline, home sales remain high from a historical perspective (579,000 in the last 12 months, compared to 505,000 in 2019) and new homes are showing particularly strong growth (+7.7% year-on-year in the year to date). The housing supply remains limited and below net household creation, which is applying upward pressure on home prices. The number of new construction licences has increased by 16.4% year-on-year in the first eight months of the year, reaching 121,000 in the last 12 months, and we expect this figure to continue to steadily rise.

Spain: CPI

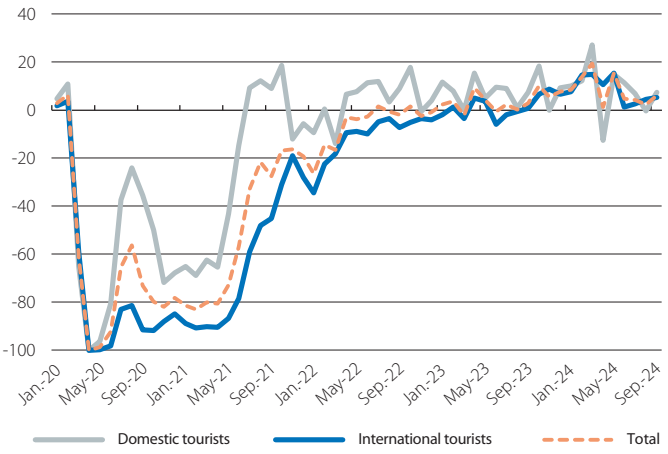
Year-on-year change (%)



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

Spain: tourist overnight stays in accommodation establishments

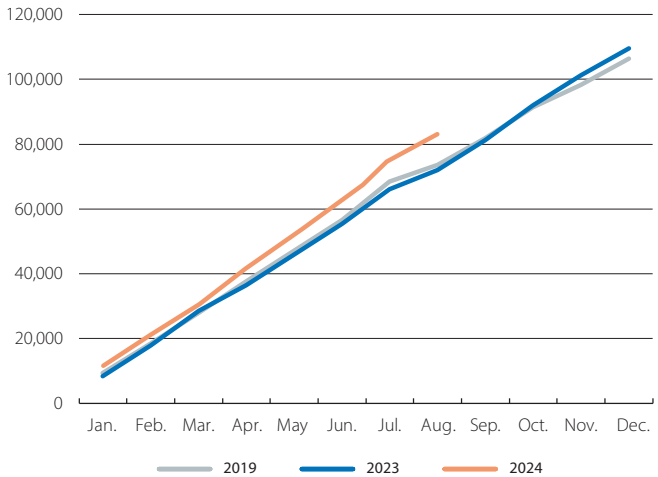
Change versus the same month of 2019 (%)



Note: *Overnight stays of tourists in hotels, rural tourism establishments, tourist apartments, campsites and hostels.*
Source: *CaixaBank Research, based on data from the Spanish National Statistics Institute (INE).*

Spain: new housing construction licences

Number (cumulative year to date)



Source: *CaixaBank Research, based on data from the Ministry of Housing and Urban Agenda.*

The Spanish real estate market in 2024-2025: in expansive mode

The current state of Spain's real estate market is characterised, broadly speaking, by the strength of demand and the scarcity of supply. As a result of this mismatch between supply and demand, home prices have accelerated, especially in the case of new-builds. Here at CaixaBank Research we already predicted that the upward trend in the real estate market would take hold in 2024, but the published data have proved to be more bullish than expected, and this, together with the improvement in the economic outlook, has led us to revise upwards our real estate sector forecasts for 2024-2025.

Strength of housing demand

After peaking in 2022 with 650,000 home sales according to the National Statistics Institute (INE), the number of transactions dropped sharply in 2023 (–10 2%) due to the rise in interest rates and the fading of the temporary factors that had driven up the demand for housing in the aftermath of the pandemic. Between January and August 2024, the number of sales has remained practically stable at around 578,000, which is a significant figure from a historical perspective (450,000 on average during the period 2015-2019). By type of housing, a change in pattern is beginning to emerge, with sales of new homes recording rapid growth (+7.7% year-on-year in the eight-month period from January to August) while those of existing homes have declined (–3.1%). That said, new home sales account for just 20.3% of the total (+1.5 pps compared to 2023).

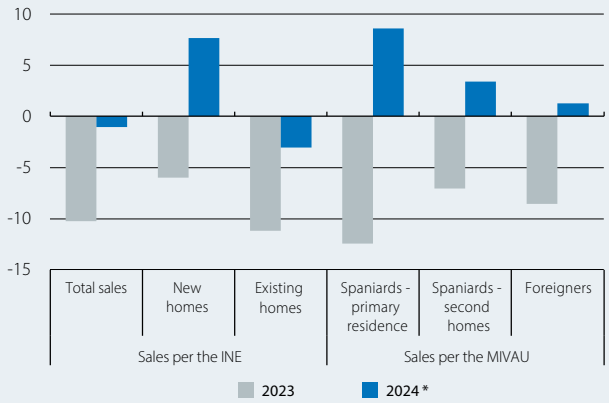
According to type of buyer, sales to Spaniards buying a primary residence grew the most (+8.6% year-on-year in the first half of 2024), after registering a sharp decline in 2023 (–12.4%), reflecting the fact that this category of buyer is the most sensitive to changes in interest rates.[1] On the other hand, the number of sales to foreign buyers, which withstood the increase in financing costs much better, showed the most moderate growth in the first half of 2024 (1.3%), although it remained high from a historical perspective (some 87,600 sales in the trailing four quarters to Q3 2024, representing 14.7% of the total according to the Association of Registrars). Finally, sales to Spanish buyers for second homes grew by 3.4% in the first half of 2024 and represent around 13% of total sales.

Looking ahead to 2025, we expect that the factors supporting housing demand will remain present: net job creation (around 400,000 more people in employment), wage growth above inflation, dynamic migration flows

1. For the breakdown by type of buyer, we use data from the Ministry of Housing and Urban Agenda (MIVAU). We consider a sale to be a second home when the province in which the buyer resides differs from the one where the home is located.

Spain: home sales by type of housing and buyer

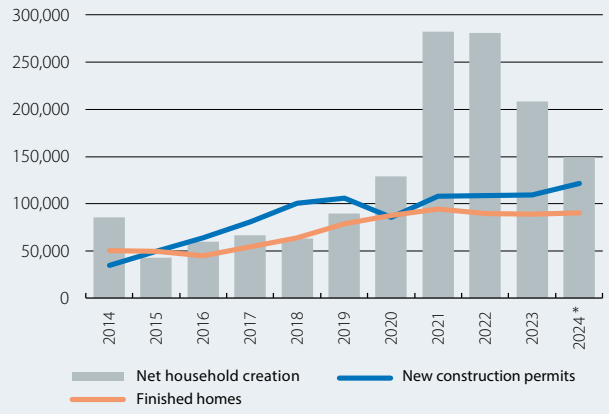
Change (%)



Note: ** Change between the same period in 2023 and 2024, up until the latest available data (INE: August, MIVAU: Q2).*
Source: *CaixaBank Research, based on data from the Spanish National Statistics Institute (INE) and the Ministry of Housing and Urban Agenda (MIVAU).*

Spain: supply of new housing and net household creation

Number



Notes: *The historical data for net household creation come from the Labour Force Survey (LFS) up until 2013, the Continuous Household Survey in 2014-2020, the Continuous Population Survey in 2021-2024.*
** 2024 data correspond to the trailing 12-month period up until the latest available data.*
Source: *CaixaBank Research, based on data from the Ministry of Urban Housing and the Spanish National Statistics Institute (INE).*

(albeit below those of 2022-2023), strong foreign demand, and healthy household finances (household debt represented 45.4% of GDP in Q2 2024, below the euro area average of 52.4%). This is coupled with the easing of financial conditions thanks to the ECB's lowering of interest rates. At its October meeting, the central bank cut interest rates by 25 bps for the third time since June and lowered the depo rate to 3.25%. Following this meeting, the markets assigned a 100% probability to another 25-bp cut in December, while for 2025 market prices pointed to approximately four additional interest rate cuts by the end of that year.

Shortage of supply, but with signs of improvement

The main imbalance in the real estate market today is the lack of housing supply, especially affordable housing. According to the Spanish National Statistics Institute's Continuous Population Statistics, between 2021 and 2023 some 777,000 net households were created (about 260,000 per year), while the number of homes completed in this same three-year period amounted to 273,000 (about 90,000 per year) and the number of new construction permits was about 110,000 per year. It is clear that the number of new homes being built falls far short of demand.

The latest data show that this gap has narrowed (with an increase in net households of around 150,000 up until Q3 2024 according to the Labour Force Survey, compared to some 121,000 new construction permits granted in the 12 month to August). In any case, the gap accumulated in previous years is wide and continues to determine developments in the market. On the other hand, we cannot rule out the possibility that the reduced dynamism in net household creation could be a consequence of the increasing difficulty in affording a home, whether as a buyer or as a renter.

While the major players in Spain's real estate market share this diagnosis, there are multiple factors that are limiting housing production, including the shortage of land earmarked for development, the labour shortage, high construction costs (although the current increases are moderate in year-on-year terms, they are still 30% above 2019 levels) and regulatory changes. It should also be noted that the construction sector has a productivity problem which goes back decades: whereas real GDP per hour worked grew by 19.4% between 1995 and 2023 for the economy as a whole, and by 56.5% for the manufacturing industry, in the case of construction it fell 27.7%.

Home prices in Spain accelerate supported by falling interest rates

The imbalance between housing supply and demand, the improvement in the economic outlook and the decline in interest rates have supported the growth of home prices, which in the first half of 2024 rose by 7.1% year-on-year, according to the Spanish National Statistics Institute. New homes recorded the sharpest price growth (+10.7% year-on-year in the first half of 2024), although existing home prices are also increasing rapidly (+6.5%).

We expect this rally in home prices to continue in 2025, with nominal growth expected to be around 4%, well above inflation. It should be noted that, given the current boom in the real estate market and the good performance of the Spanish economy as a whole, the risks of home prices rising more quickly than anticipated in our baseline scenario are far from negligible. On the contrary, the high prices that have already been reached in certain areas mean that the difficulties people have in affording a home could end up becoming a limiting factor for the growth of demand and prices.

Finally, it should be noted that the affordability problems associated with the rise in home prices, in both the sales and the rental markets, could end up generating adverse economic and social effects in the medium and long term. Notably, the struggle to afford a home can affect vital decisions and trends such as birth rates, workers' geographical mobility and the accumulation of human capital, among others. On the other hand, there are companies that point to the high cost of housing as a limiting factor for hiring labour in certain sectors and locations. There is no simple solution to this situation, but we hope that the supply of housing in general, and of affordable housing in particular, will gain traction and that this will help to redirect the situation.[2]

Judit Montoriol Garriga

CaixaBank Research forecasts for Spain's real estate sector

	2022	2023	2024	2025
Home prices (INE), change (%)	7.4	4.0	7.1	4.1
Home prices (MIVAU), change (%)	5.0	3.9	5.1	3.6
Sales (thousands)	650	584	572	577
New construction permits (thousands)	109	109	115	125

Source: *CaixaBank Research.*

2. See the article «The challenge of increasing the supply of affordable housing in Spain» in the *Real Estate Sector Report S2 2024*.

The Agrifood Sector Begins to Recover in 2024

The Agrifood Sector Report 2024, published in October, provides a comprehensive review of the key activity indicators of the Spanish agrifood sector and confirms the revival of the agriculture, forestry and fishing sector in 2024. This recovery has been driven by moderating production costs and a promising improvement in weather conditions, which also allow us to be cautiously optimistic about the 2024-2025 season. Pending an assessment of the impact that the storm which hit Eastern Spain at the end of October may have had on agricultural production in the region,[1] over the coming quarters we expect the positive trend in the sector to gather strength. That said, it will remain highly conditional on how costs evolve, as well as on the easing of the drought.[2]

The primary sector recovers following the challenges of recent years

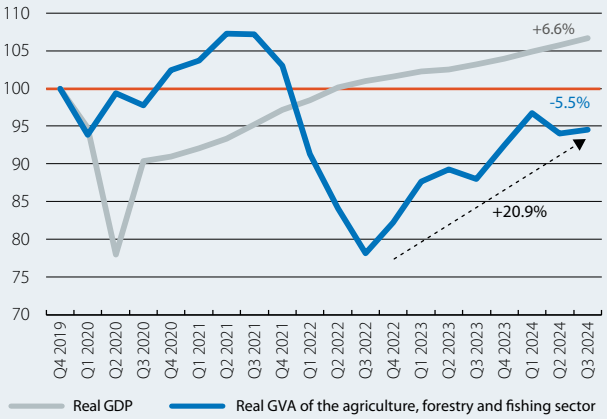
The sector has left behind the slump it experienced between late 2021 and the first half of 2023, when it endured adverse weather conditions and rising production costs, largely triggered by the war in Ukraine. Between Q1 and Q3 2024, the gross value added (GVA) of the agriculture, forestry and fishing sector recorded cumulative growth of 7.7%, far surpassing that of the economy as a whole (3.0%). Despite this improvement, the sector's GVA remains 5.5% below the level of Q4 2019 and is far from regaining its relative weight in the economy as a whole (2.6% versus 3.0% in 2015-2019).

One of the key factors in the sector's recovery has been the moderation of production costs: the prices paid by farmers have fallen by 18% from their peaks (in mid-2022), although they remain more than 20% above 2019 levels (see first chart). The biggest corrections from the peaks are found in energy costs, fertilisers and, to a lesser extent, animal feed, which is the biggest component of the sector's intermediate consumption (accounting for around 55% of the total). In addition, all the indicators suggest that this trend will continue over the coming months: the international markets for energy products and agricultural commodities indicate that prices should stabilise or even fall slightly. However, the risks remain skewed to the upside, bearing in mind sensitive factors such as climate and geopolitics.

1. Our preliminary estimates, using data from the 2020 farming census, indicate that half of the useful agricultural land area in the province of Valencia has been affected. Taking into account the productive specialisation of the affected regions, the supply of citrus fruits (28% of the national total) and tropical fruits (18%) could be seriously diminished.
2. The figures for activity indicators and prices that appear in this article reflect the latest available data as of the date of this *Monthly Report*. Therefore, these data differ slightly from those shown in the *Agrifood Sector Report 2024*, which was closed on 27 September 2024.

Spain: real GVA of the agriculture, forestry and fishing sector

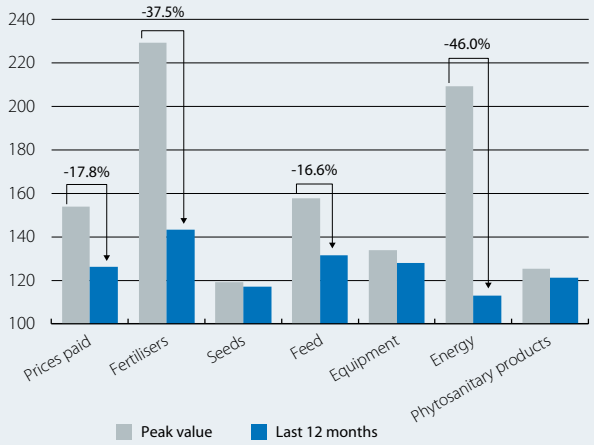
Index (100 = Q4 2019)



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

Spain: production costs of the agriculture, forestry and fishing sector

Index (100 = 2019)



Note: *Latest available data for July 2024.*
Source: *CaixaBank Research, based on data from the Ministry of Agriculture, Fisheries and Food (MAPA).*

The drought has been the other key factor determining agricultural production in recent years. In 2023, vegetable production fell once again (12.2%) and more sharply than in other major European producers. This decline in production particularly affected products from rain-fed crops such as olive oil (–58.6%), cereals (–34.8%) and wine and must (–21.1%). Since mid-2023, there has been an encouraging improvement in the drought, with a reduction in the affected territory, so plant production is expected to improve in 2024. In the current year up until September, an average of around 13% of the territory was affected by drought, compared to 35%-45% in the second half of 2022.

The gradual moderation of these limiting factors of recent years is key for the improvement which we are already seeing and which is fuelling a favourable outlook for the 2024-2025 season. Cereal production is expected to increase by 88% compared to the previous season, while grape production for must and wine is anticipated to climb 17%. The outlook for olive oil has also improved significantly, with production expected to rebound by around 50% compared to last season.

Spain's agrifood industry, for its part, has also begun to experience a revival after two years of deterioration due to increased production and input costs. In the year to date up until August, industrial production grew by 1.4% year-on-year (the first increase since 2021), thanks to a moderation in the growth of production costs, especially energy and fertilisers. However, beverage manufacturing fell 4.2% in the same period due to a correction following the sharp rebound in 2021 and 2022.

Food inflation eases, offering relief to households

The rise in production costs in the food industry has largely been passed on to final consumer prices in recent years. Thus, food inflation peaked in February 2022 (16.7%) before embarking on a clear downward trend, falling to 1.6% by September 2024. In any case, the cumulative increase in food prices since 2019 (32%) has had a significant impact on Spanish households' pockets: expenditure on food accounted for 26% of total household expenditure in 2023, compared to 23.4% in 2019, with other expenditure items falling accordingly.[3]

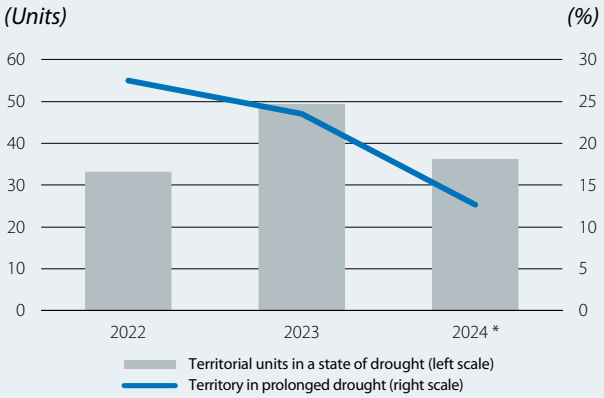
Agrifood exports enjoy good health

Agrifood exports have enjoyed a strong recovery in 2024, recording 4.6% growth in volumes (after two years of declines) and 6.7% in value terms in the cumulative period between January and August. The agrifood sector has maintained a significant trade surplus since 1996, being one of the highest among all sectors of the economy. In the first half of 2024, this surplus reached 1.1% of GDP, an impressive figure only surpassed by the exceptional results recorded in 2020 and 2021 during the pandemic.

The diversification of export destinations and the improvement in production have been key factors in this recovery. The main destinations for Spain's agrifood exports include EU countries, but the sector has steadily managed to diversify its range of destinations to encompass emerging markets in Asia and Latin America, and this has helped it to overcome the many challenges it has faced in recent years.[4]

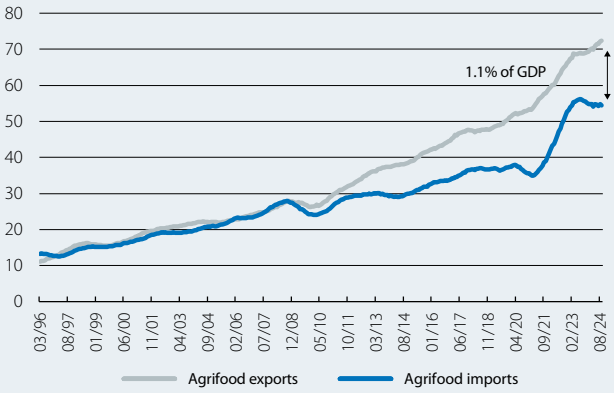
Pedro Álvarez Ondina

Spain: territorial units in a state of prolonged drought



Notes: *Data for 2024 up to September. Territorial units in drought are areas defined by the Ministry for the Ecological Transition and the Demographic Challenge (MITECO) to manage and monitor the drought in Spain.*
Source: *CaixaBank Research, based on data from the Ministry for the Ecological Transition and the Demographic Challenge (MITECO).*

Spain: exports and imports of the agrifood sector
(EUR billions)



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

3. For an in-depth analysis of the recent pattern of food inflation and the impact on households' food expenditure in Spain, see the article «Food prices offer a respite» in the *Agrifood Sector Report 2024*.

4. The article «The good health of Spanish agrifood exports» in the *Agrifood Sector Report 2024* includes a detailed analysis of the exports of Spain's agrifood sector.

Activity and employment indicators

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

	2022	2023	Q4 2023	Q1 2024	Q2 2024	Q3 2024	08/24	09/24	10/24
Industry									
Industrial production index	2.2	–1.1	–0.8	–0.4	0.1	–	–0.1	...	...
Indicator of confidence in industry *(value)*	–0.8	–6.5	–7.9	–5.1	–5.5	–3.0	–3.6	–0.9	–8.1
Manufacturing PMI *(value)*	51.0	48.0	45.9	50.7	52.8	51.5	50.5	53.0	54.5
Construction									
Building permits *(cumulative over 12 months)*	15.4	1.3	0.8	2.9	4.0	–	6.9	...	...
House sales *(cumulative over 12 months)*	29.0	0.1	–9.3	–10.5	–9.6	–	–6.3	...	...
House prices	7.4	4.0	4.2	6.3	7.8	...	...	...	...
Services									
Foreign tourists *(cumulative over 12 months)*	129.8	18.9	18.9	15.8	14.3	12.3	12.8	12.3	...
Services PMI *(value)*	52.5	53.6	51.2	54.3	56.6	55.2	54.6	57.0	54.9
Consumption									
Retail sales[1]	2.3	2.5	2.8	1.1	0.5	2.6	2.4	4.1	...
Car registrations	–3.0	18.5	11.9	4.2	9.6	1.1	–6.5	6.3	7.2
Consumer confidence index *(value)*	–26.5	–19.2	–19.1	–17.2	–14.4	–13.6	–15.0	–12.3	...
Labour market									
Employment[2]	3.6	3.1	3.6	3.0	2.0	1.8	–	–	–
Unemployment rate (% labour force)	13.0	12.2	11.8	12.3	11.3	11.2	–	–	–
Registered as employed with Social Security[3]	3.9	2.7	2.6	2.6	2.4	2.3	2.3	2.3	2.5
GDP	**6.2**	**2.7**	**2.3**	**2.6**	**3.2**	**3.4**	–	–	–

Prices

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

	2022	2023	Q4 2023	Q1 2024	Q2 2024	Q3 2024	08/24	09/24	10/24
General	8.4	3.6	3.3	3.1	3.5	2.2	2.3	1.5	1.8
Core	5.1	6.1	4.5	3.5	3.0	2.6	2.7	2.4	2.5

Foreign sector

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

	2022	2023	Q4 2023	Q1 2024	Q2 2024	Q3 2024	08/24	09/24	10/24
Trade of goods									
Exports *(year-on-year change, cumulative over 12 months)*	22.9	–1.4	–1.4	–6.9	–4.9	–	–2.9	...	...
Imports *(year-on-year change, cumulative over 12 months)*	33.4	–7.2	–7.2	–9.8	–7.1	–	–4.6	...	...
Current balance	**4.8**	**39.8**	**39.8**	**41.2**	**45.3**	**–**	**48.3**	**...**	**...**
Goods and services	12.1	58.8	58.8	60.5	65.4	–	68.6	...	...
Primary and secondary income	–7.3	–19.1	–19.1	–19.2	–20.2	–	–20.4	...	...
Net lending (+) / borrowing (–) capacity	**17.5**	**56.0**	**56.0**	**56.0**	**61.4**	**–**	**64.4**	**...**	**...**

Credit and deposits in non-financial sectors[4]

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

	2022	2023	Q4 2023	Q1 2024	Q2 2024	Q3 2024	08/24	09/24	10/24
Deposits									
Household and company deposits	3.1	0.3	0.3	3.3	5.2	4.2	4.8	4.2	...
Demand and notice deposits	3.6	–7.4	–7.4	–5.2	–1.9	–1.7	–1.5	–1.7	...
Time and repo deposits	–3.0	100.5	100.5	96.7	68.0	47.1	52.9	47.1	...
General government deposits[5]	–0.8	0.5	0.5	–4.6	–4.1	14.7	9.4	14.7	...
TOTAL	**2.8**	**0.3**	**0.3**	**2.7**	**4.5**	**5.0**	**5.1**	**5.0**	**...**
Outstanding balance of credit									
Private sector	–0.4	–3.4	–3.4	–2.6	–1.3	–0.3	–0.7	–0.3	...
Non-financial firms	–0.7	–4.7	–4.7	–3.6	–1.8	–0.5	–1.3	–0.5	...
Households - housing	–0.2	–3.2	–3.2	–2.5	–1.5	–0.7	–0.7	–0.7	...
Households - other purposes	0.0	–0.5	–0.5	–0.1	0.7	1.1	0.5	1.1	...
General government	0.6	–3.5	–3.5	–4.8	–2.7	–5.4	–7.5	–5.4	...
TOTAL	**–0.3**	**–3.4**	**–3.4**	**–2.7**	**–1.4**	**–0.7**	**–1.2**	**–0.7**	**...**
NPL ratio (%)[6]	**3.5**	**3.5**	**3.5**	**3.6**	**3.4**	**...**	**3.4**	**...**	**...**

Notes: *1. Deflated, excluding service stations. 2. LFS estimate. 3. Average monthly figures. 4. Aggregate figures for the Spanish banking sector and residents in Spain. 5. Public-sector deposits, excluding repos. 6. Data at the period end.*

Sources: *CaixaBank Research, based on data from the Ministry of Economy, the Ministry of Transport, Mobility and Urban Agenda (MITMA), the Ministry of Inclusion, Social Security and Migration (MISSM), the National Statistics Institute (INE), S&P Global PMI, the European Commission, the Department of Customs and Excise Duties and the Bank of Spain.*

Portugal kicks off the last quarter of the year with encouraging signals

GDP maintained a quarter-on-quarter growth rate of 0.2% in Q3, in line with CaixaBank Research's forecast. According to preliminary information from Portugal's National Statistics Institute, this growth corresponds to a positive contribution from domestic demand, with growth recorded in investment and private consumption, while foreign demand made a negative contribution. In annual terms, the Portuguese economy accelerated its growth rate to 1.9% year-on-year, 0.3 pps more than in the previous quarter.

Q3 was marked by a pattern of steady growth, and this trend is expected to continue through to the end of the year, in view of the signals coming from daily economic activity indicator. In October, the economic climate and sentiment indicators improved thanks to increased confidence in the services and construction sectors. However, households showed greater caution, due to less favourable expectations regarding the country's economic outlook for the next 12 months, although they remain optimistic about their own financial situation. This perspective is supported by the resilience of the labour market, which in September recorded jobs growth of 1.6% and a stabilisation of the unemployment rate at 6.4%.

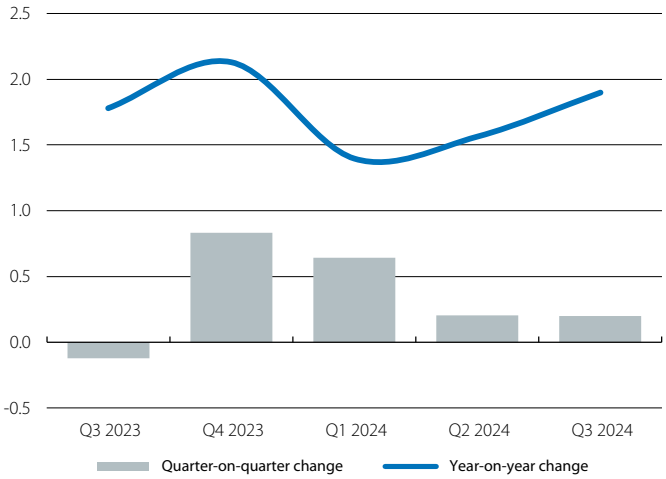
Headline inflation rebounds in October, but core inflation moderates. The preliminary data point to an increase in the headline CPI of 2.3% (2.1% in September), while the core index has resumed the downward path following the rebound recorded in September and stands at 2.6%, compared to 2.8% in the previous month. This pattern is essentially explained by the monthly increase in the prices of the most volatile components, including both energy (+1.3%) and unprocessed food (+0.9%). Despite the upturn in headline inflation, we do not consider this to be a bad omen, since the monthly change was just 0.06%, well below the average for the month of October recorded during the five years prior to the pandemic (0.14%).

Tourism continues to perform well. In September, tourist accommodation establishments received 3.3 million guests and recorded 8.4 million overnight stays, representing an annual growth of 2.9% and 2.6%, respectively. This performance is supported by the growth of non-resident tourism, while the number of resident tourists and their overnight stays decreased slightly (–0.5% and –0.2% in year-on-year terms, respectively).

The general government balance in the first nine months of the year registered a surplus of 2.8% of GDP, versus a surplus of 3.6% of GDP in the same period last year. This reduction is due to sharper growth in expenditure than in revenues: in the case of the former, the increase of 11.1% year-on-year reflects a significant rise in fixed expenditure, driven by updates to pensions and public-sector wages. Revenues, meanwhile, climbed 8.2%, with tax collections recording particularly strong growth.

Portugal: trend in GDP

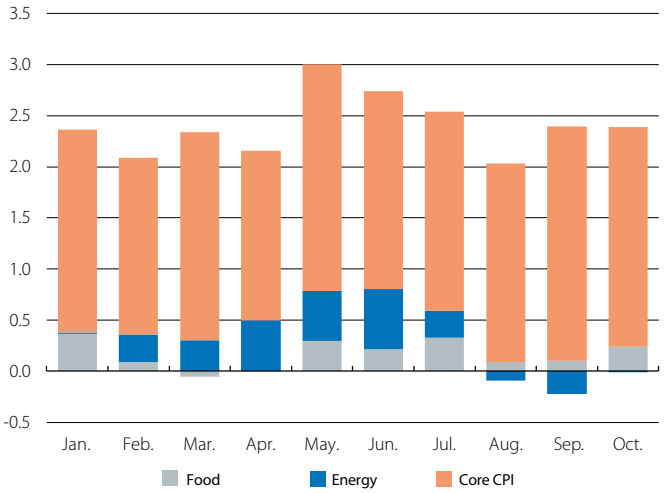
Change (%)



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

Portugal: CPI

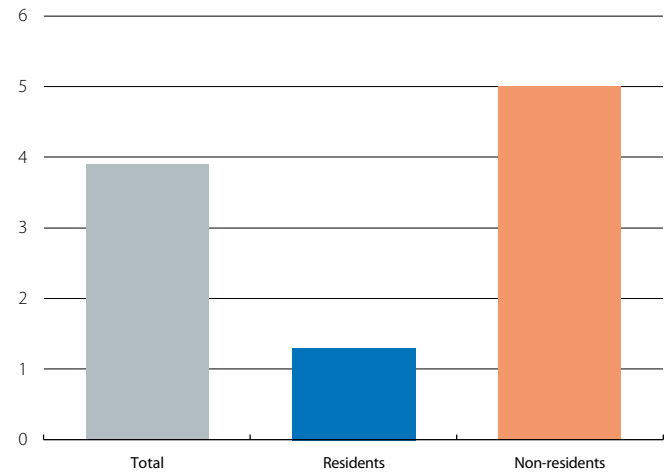
Contribution to year-on-year change (pps)



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

Portugal: tourist overnight stays

Year-on-year change in the cumulative total to September 2024 (%)



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

Activity and employment indicators

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

	2022	2023	Q4 2023	Q1 2024	Q2 2024	Q3 2024	08/24	09/24	10/24
Coincident economic activity index	5.7	3.3	2.6	2.0	1.4	...	0.9	...	...
Industry									
Industrial production index	0.8	–3.1	–3.5	1.4	1.4	...	–1.5	2.7	...
Confidence indicator in industry *(value)*	–3.4	–7.4	–9.3	–7.9	–6.7	–6.2	–6.5	–5.5	–4.1
Construction									
Building permits - new housing (number of homes)	6.2	7.5	4.9	–19.6	6.1	...	...	...	...
House sales	1.3	–18.7	–11.4	–4.1	10.4	...	–	–	–
House prices *(euro / m² - valuation)*	13.8	9.1	6.4	5.5	6.8	...	8.2	10.0	...
Services									
Foreign tourists *(cumulative over 12 months)*	158.9	19.1	19.1	13.1	9.5	...	8.8	7.7	...
Confidence indicator in services *(value)*	15.2	7.6	1.7	6.3	4.3	–0.4	–1.6	0.8	5.5
Consumption									
Retail sales	5.5	1.1	0.6	1.8	2.2	...	5.6	5.0	...
Coincident indicator for private consumption	3.9	2.4	2.2	1.7	1.5	...	1.7	...	...
Consumer confidence index *(value)*	–29.7	–28.6	–27.2	–24.6	–18.7	–14.3	–14.3	–13.1	–13.9
Labour market									
Employment	3.3	2.3	2.3	1.4	1.0	...	1.4	1.6	...
Unemployment rate (*% labour force*)	6.1	6.5	6.6	6.8	6.1	...	6.4	6.4	...
GDP	**7.0**	**2.5**	**2.1**	**1.4**	**1.6**	**1.9**	**–**	**–**	**–**

Prices

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

	2022	2023	Q4 2023	Q1 2024	Q2 2024	Q3 2024	08/24	09/24	10/24
General	7.8	4.4	1.7	2.2	2.7	2.2	1.9	2.1	2.3
Core	5.6	5.1	3.0	2.3	2.4	2.5	2.4	2.8	2.6

Foreign sector

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

	2022	2023	Q4 2023	Q1 2024	Q2 2024	Q3 2024	08/24	09/24	10/24
Trade of goods									
Exports *(year-on-year change, cumulative over 12 months)*	23.2	–1.4	–1.4	–5.5	–3.7	...	–0.3	...	...
Imports *(year-on-year change, cumulative over 12 months)*	31.7	–4.0	–4.0	–7.3	–5.6	...	–2.3	...	...
Current balance	**–2.8**	**3.6**	**3.6**	**5.1**	**5.8**	**...**	**4.4**	**...**	**...**
Goods and services	–4.7	3.3	3.3	4.6	5.3	...	5.1	...	...
Primary and secondary income	1.9	0.4	0.4	0.5	0.6	...	–0.7	...	...
Net lending (+) / borrowing (–) capacity	**–0.5**	**7.2**	**7.2**	**8.8**	**9.2**	**...**	**7.9**	**...**	**...**

Credit and deposits in non-financial sectors

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

	2022	2023	Q4 2023	Q1 2024	Q2 2024	Q3 2024	08/24	09/24	10/24
Deposits [1]									
Household and company deposits	6.4	–2.3	–2.3	2.7	5.6	...	5.8	6.0	...
Sight and savings	7.3	–14.8	–14.8	–11.2	–4.6	...	–7.5	–6.7	...
Term and notice	5.2	14.8	14.8	20.2	17.7	...	22.5	21.0	...
General government deposits	12.4	–12.4	–12.4	9.1	4.5	...	10.2	29.1	...
TOTAL	**6.5**	**–2.6**	**–2.6**	**2.9**	**5.6**	**...**	**6.0**	**6.7**	**...**
Outstanding balance of credit [1]									
Private sector	1.7	–1.5	–1.5	–0.8	–0.3	...	0.5	0.9	...
Non-financial firms	–0.6	–2.1	–2.1	–1.7	–1.7	...	–1.2	–1.2	...
Households - housing	3.2	–1.5	–1.5	–0.8	0.0	...	1.0	1.5	...
Households - other purposes	2.9	0.2	0.2	2.0	2.7	...	3.5	4.4	...
General government	–2.7	–5.5	–5.5	5.9	–5.8	...	–3.4	–4.1	...
TOTAL	**1.6**	**–1.6**	**–1.6**	**–0.5**	**–0.5**	**...**	**0.4**	**0.8**	**...**
NPL ratio *(%)* [2]	**3.0**	**2.7**	**2.7**	**2.7**	**2.6**	**...**	**–**	**–**	**–**

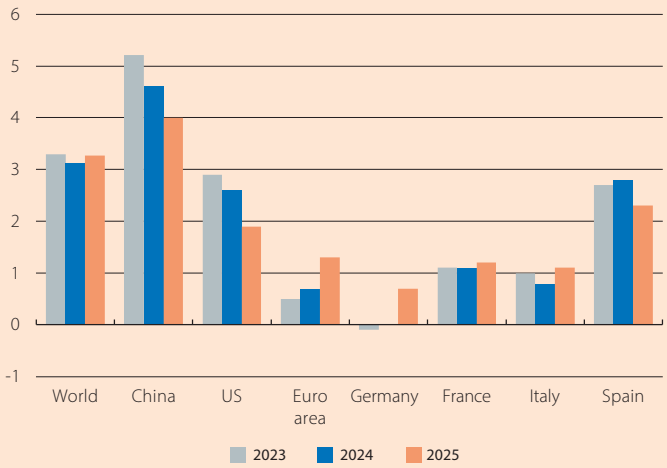
Notes: *1. Residents in Portugal. The credit variables exclude securitisations. 2. Period-end figure.*
Source: *CaixaBank Research, based on data from the National Statistics Institute of Portugal, Bank of Portugal and Refinitiv.*

2025 global outlook: in search of a new normal

Five years after the outbreak of the pandemic – the origin of the imbalances and challenges that the international economy has been facing ever since – the feeling (or at least the hope) is that in 2025 we could see a certain degree of normality return to the pattern of the global economic cycle. Such a return to normality – understood as the closing of the gap between supply and demand that has been present in much of the last five years – will allow inflation to converge on the central banks' target rates, and this would lead to an acceleration in the lowering of interest rates towards neutral territory (2% in the euro area and 3% in the US). If we add to the above an oil market which, besides the volatility that geopolitics will continue to transmit, appears to have an equilibrium price in the 70-80-dollar range, we would have a good support base for the consolidation of a soft landing of the world economy.

GDP growth

Annual change (%)



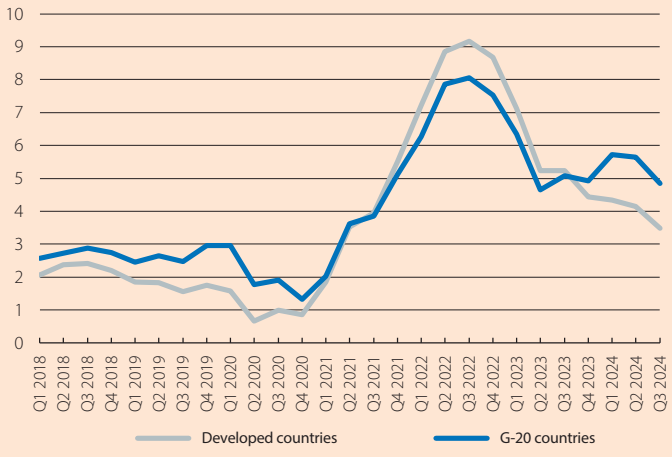
Source: *CaixaBank Research.*

Therefore, it seems that the monetary imbalances caused by the wide variety of shocks that have accumulated in recent years could be on a path to correction, once the surprising and intense inflationary process that was triggered following the pandemic is under control. In this regard, the IMF anticipates that world inflation may fall to 3.5% by the end of 2025 (9.4% in 2022), slightly below the 2000-2020 average (3.6%). Most importantly, the return to price stability is being achieved without having to pay an excessive cost in terms of jobs and economic activity, as the resilient global cycle will maintain a cruising speed slightly above the 3% mark, with most labour markets still generating jobs. The less positive aspect of the macroeconomic outlook is that the recent divergences could become entrenched, both between sectors (the services sector outperforming industry) and between economic areas (the US outperforming the euro area and China) or regions (Germany being the major source of Europe's problems).

Now that the fog of inflation that has been shrouding the business cycle has dissipated, the economic picture once again reveals old problems inherited from the great financial crisis, such as low potential growth, high levels of global public debt (over 100 trillion dollars) and mediocre productivity, especially in Europe. The magnitude of the structural challenges is even greater if we consider that they will need to be addressed in an environment subject to high uncertainty, both because of the underlying rise in geopolitical risk and due to the effects of the process of transforming global trade relations, with supply chains becoming more regional and the world fragmenting once again into different blocs.

World economy: headline inflation

Year-on-year change (%)

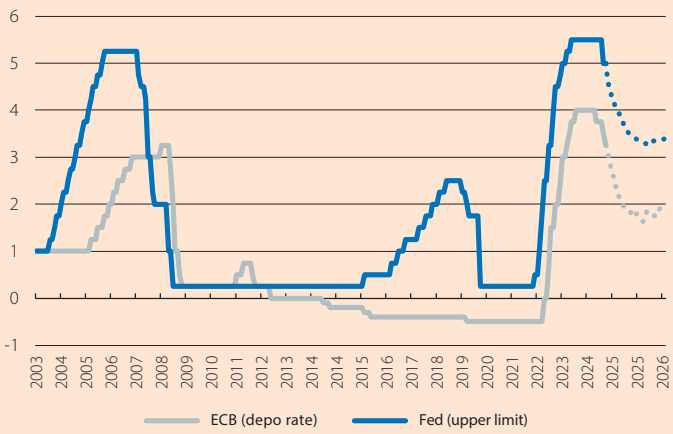


Source: *CaixaBank Research, based on data from Bloomberg.*

In this context, economic policy will have to address these medium- and long-term challenges with a limited degree of freedom on the fiscal side, while digesting the unconventional policies implemented by the central banks and a renewed role of industrial policy. Moreover, all this is taking place while we still have more questions than answers about what happened in the last four years in areas such as the behaviour of inflation expectations, the relationship between employment and prices (a steepening of the Phillips curve) or how supply shocks are distributed between wages and margins. This will make it difficult to anticipate the level at which real interest rates will stabilise or whether inflation will show an asymmetric pattern relative to the target. It will therefore take time for the changes of recent years to be fully digested, but as the IMF has just reflected at its autumn meeting, economic policy will need to pivot towards a triple target: a monetary policy that transitions from restrictive to neutral territory (good news for emerging markets), a fiscal

policy that seeks to stabilise the debt dynamics (a particularly challenging task in the US and China) and more decisive supply policies aimed at boosting potential growth. The aim of all this would be to avoid falling into the «middle technology trap» or returning to the risk of «secular stagnation», where low public and private investment coupled with adverse demographic trends could lead to a situation of weak industrial activity, limited innovation and low productivity growth.

Benchmark interest rates
(%)



Note: *The future projections correspond to forward market rates at the close of October 2024.*
Source: *CaixaBank Research, based on data from Bloomberg.*

In this challenging economic and political context, the risk menu is well known to all: intensification of tariff conflicts; escalation of geopolitical risk, with a focus on the Middle East and Ukraine, affecting commodity prices; problems in the last mile of inflation, and increased financial instability. There is also a feeling that Europe and China are at a crossroads for their growth models, as the Draghi plan and the recent economic policy measures announced by the Chinese government have just highlighted. In the case of the Asian country, the economy remains highly vulnerable due to a combination of factors. Besides the problems in the real estate sector and the inertia of the country's unfavourable demographic trends, there is excess production and a lack of confidence among the population when it comes to spending decisions, in a global context that seems unwilling to continue absorbing the country's manufacturing surplus. In the medium term, this is likely to place China's potential growth closer to 3%-3.5% than the official target of 5%. Meanwhile, in Europe, Germany's weakness is an accurate reflection of the challenges facing the region, as laid out perfectly in the Draghi report: a need to boost potential growth through innovation, productivity and public and private investment, as the only way to maintain (and to pay for) the European model. This plan, with an ambitious agenda of measures for change, sounds all well and good on paper, but to achieve these goals the bloc will need to overcome hurdles such as the reticence of the usual suspects, a governance structure with clear margin for improvement and the political balance of the new European Commission.

In short, 2025 will be a year in search of a new normal, threatened by the division between economic blocs. The hope is that, as is often the case in economics, that which we cannot see is just as important as that which we can, and sooner or later the potential benefits of artificial intelligence and of all kinds of innovations that are already in the pipeline should emerge. Meanwhile, the best outcome would be to regain multilateral cooperation in order to tackle the new challenges and spread the risks together. Right now, though, that seems more of a wish than a reality.

José Ramón Díez

Monetary policy in 2025: dialling-back time

With disinflation on track and some signs of a slowdown in economic activity and a cooling of the labour market, monetary policy is shifting gears and starting to dial back the monetary tightening of the past years: going from restrictive to neutral. The ECB and the Fed, along with other major central banks, have initiated this easing process with interest rate cuts, and they are expected to continue doing so in 2025. From there, we will seek to clarify the factors that will guide this new phase of monetary policy.

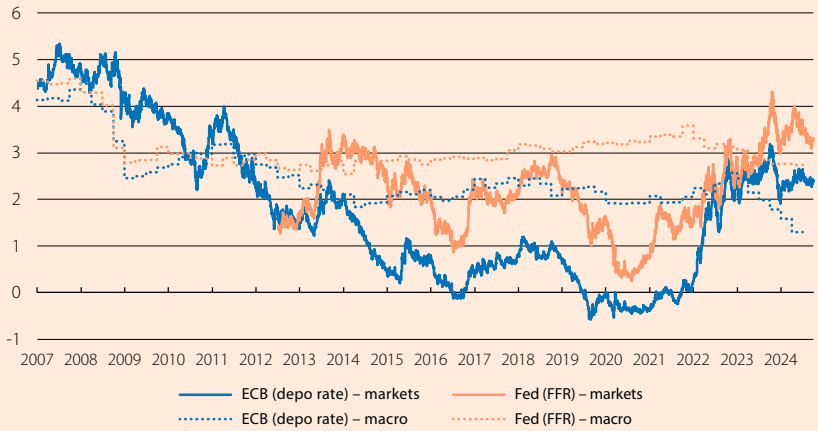
The path to neutral interest rates...

Both the Fed and the ECB have advocated a gradual approach. Although the ECB has lowered the depo rate from its peak of 4.00% down to 3.25% and the Fed has placed the fed funds rate in the 4.50%-4.75% range (vs. a peak of 5.25%-5.50%), these levels remain restrictive and the expectation is that, in a soft landing scenario, gradual rate cuts will continue in 2025.[1] However, several questions remain, such as how far rates will fall, how quickly they will do so, and how their reduction will be passed on to the wider economy.

The central banks' goal for 2025 is to bring interest rates to a level that neither stimulates nor cools the economy, but rather balances it with its potential growth. This equilibrium interest rate, also referred to as the natural or neutral rate of interest, is an unobservable and uncertain concept that guides the design of monetary policy. There are multiple ways to infer it, and we summarise two well-known approaches for the Fed and the ECB in the first chart: one based on macroeconomic models and the other on prices in the financial markets. These two options place the equilibrium interest rate in the US in the range of 2.75%-3.25%, while for the euro area it lies at 1.50%-2.50%.

Estimates of the equilibrium interest rate

(%)



Note: *The estimates of the «markets» correspond to forwards on the benchmark interest rates over a 5-year horizon. The «macro» estimates correspond to the natural rate of interest estimated by Holston* et al. *(2023), «Measuring the Natural Rate of Interest after COVID-19», plus an inflation rate of 2%.*
Source: *CaixaBank Research, based on data from Bloomberg and the Federal Reserve Bank of New York.*

The speed with which the Fed, the ECB and the other central banks undertaking a monetary easing process will lower their rates to neutral levels will depend on how quickly or slowly the soft landing scenario materialises in their economies. In the euro area, the ECB could reach neutral territory as early as 2025, given the combination of tepid growth in the region on aggregate and the expectation that inflation will settle around the 2% target in the coming quarters (a view that is reinforced by the slowdown in wages and business margins).[2] In the US, our scenario is that the Fed will also reach neutral levels during the course of 2025, in order to avoid a sudden cooling of the labour market in the context of a disinflationary process which, with nuances compared to Europe, seems reasonably on track.

In this soft landing scenario, monetary easing will remove the burden on the economy in 2025. In fact, and as shown in the second chart, financial conditions have already been relaxed by the rate cuts (both those already implemented and those anticipated). Normally, monetary policy impacts the economy with long and variable lags (Romer and Romer [2023][3] place the maximum impact on GDP after a nine-quarter delay), so we should expect rate cuts to offer a moderate tailwind to GDP growth in 2025. However, estimates also suggest that the first positive effects are felt quickly: with highly granular data for the Spanish economy, Buda *et al.* (2023)[4] detect that changes in interest rates have a significant impact on consumption in less than a week, on business sales in about a month and on employment in about two months.

... and risks

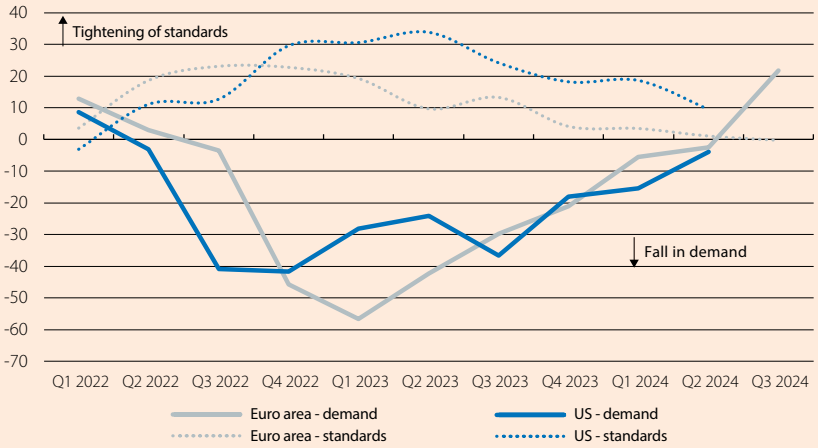
The last question is what risks central banks will face in the new monetary phase. The first thing they must calibrate is the speed of the cuts. On the one hand, cutting rates too cautiously could cool the economy more than desired, risking a return to the

1. These rate cuts will coexist with a reduction of the central banks' balance sheets. See the Focus «Balance sheets: the not-so-visible normalisation of monetary policy», in this same report.
2. A cyclical recovery in productivity (for example, through an undoing of so-called labour hoarding) would further reinforce the decline in inflation.
3. C.D. Romer and D.H. Romer (2023). «Does Monetary Policy Matter? The Narrative Approach after 35 Years» (nº w31170). National Bureau of Economic Research.
4. G. Buda, V. Carvalho, G. Corsetti *et al.* (2023), «Short and Variable Lags», CEPR Discussion Paper nº 18022.

weak inflation of the previous decade. On the other hand, cutting them too quickly could compromise the inflation mandate: the central banks are in the last mile of the disinflation marathon, but they have not yet reached the finish line. The latest available data suggest that the ECB faces the first risk to a greater extent, with a loss of buoyancy already visible in the economic activity indicators, while the Fed faces the second, with an economy still growing above potential and inflation still showing some signs of resistance. In either case, the calibration of the monetary easing process will face a third ingredient: interest rates influence financial asset prices and drastic changes can lead to sharp corrections and trigger financial turbulence, as was the case during the period of rate hikes.[5]

Evolution of financial conditions

Net balance of financial institutions (%)

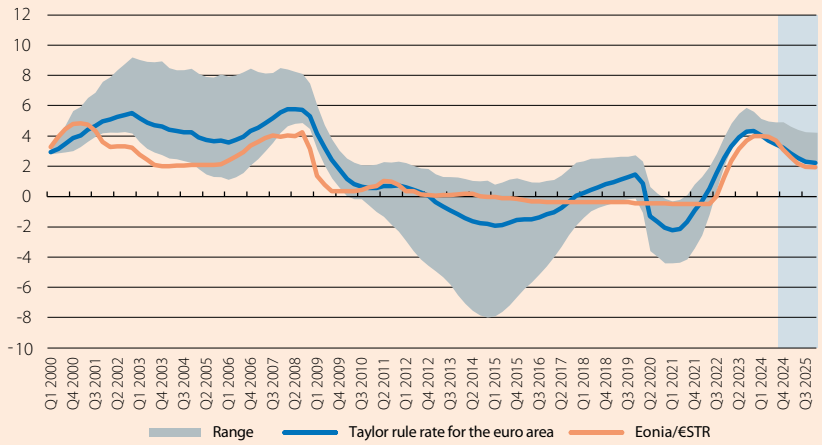


Notes: *Net balance of financial institution that tighten (+) or relax (–) their criteria for granting credit, or that of institutions that record an increase (+) or decrease (–) in the demand for loans. The indices reflect the weighted average for loans to non-financial firms, for home purchases and for household consumption.*
Source: *CaixaBank Research, based on data from the ECB (Bank Lending Survey) and the Federal Reserve (SLOOS).*

The threat of further disruptions affecting the scenario must also be taken into consideration. However, the change in the monetary policy outlook in the event of a new shock, especially if it is on the supply side, should be mitigated by the fact that today the economies are starting from a position with tight financial conditions and a cooling of demand, which is radically different from the situation of 2022.

Euro area: Taylor rule and ECB rate

(%)



Notes: *€STR in 2025 according to implied market rates. The range corresponds to the minimum and maximum rates prescribed by the Taylor rule for Germany, Spain, France and Italy. The Taylor rule used is:*

$$i_t = pi_{t-1} + (1-p)[r^* + 2 + 1{,}5(\pi_t - 2) + \tilde{y}]$$

*where $\tilde{y}$ is the output gap (observed GDP relative to its potential) and r^* is the natural rate of interest and **pi** is the observed inflation rate.*
Source: *CaixaBank Research, based on data from the ECB, the European Commission, Eurostat, the New York Fed and Bloomberg.*

Each central bank will have to gauge idiosyncratic risks in its respective region. The ECB faces the challenge of managing the euro area's disparities, where the strong growth of peripheral economies such as Spain (which is on track to be the fastest growing advanced economy in 2024) contrasts with the weakness shown by Germany (the only major advanced economy that is not growing in 2023-2024). This challenge makes the optimal monetary policy different for each country and means that different countries require different levels of interest rates. One way to illustrate this is with the Taylor rule.[6] This guide shows how historically some euro area countries would have needed higher interest rates than those set by the ECB, while other countries, with a weaker cyclical position, would have required lower rates. As can be seen in the last chart, the range of rates indicated by the Taylor rule suggests that the challenge remains present but, for the moment, the dispersion is smaller than it was in the past.[7]

In the US, the big question which the Fed will have to manage will be the economic policy of the future White House administration, which could involve greater fiscal stimulus and more restrictive trade policies. The other source of risk arises from changes in the Fed's governing board itself, given that during the next administration two of its seven members will reach the end of their terms (Kugler in 2026 and Powell in 2028) and the positions of chair (2026) and two vice chairs (Barr in 2026 and Jefferson in 2027) will be up for renewal, all of which are nominated by the US president and approved by the Senate.

In short, all the indicators suggest that 2025 will be another year in which monetary policy will play a leading role in developments in the economic and financial markets.

5. With the collapse of Silicon Valley Bank in 2022 and the serious difficulties of NYCB in 2023.
6. This rule gives a nominal interest rate that should be set given a particular rate of inflation, neutral rate of interest and output gap.
7. There is lower dispersion in inflation rates compared to in previous years and, moreover, all economies are coming from a position of widespread weakness since 2020.

Spain 2025: dynamic growth, albeit slightly lower than in 2024

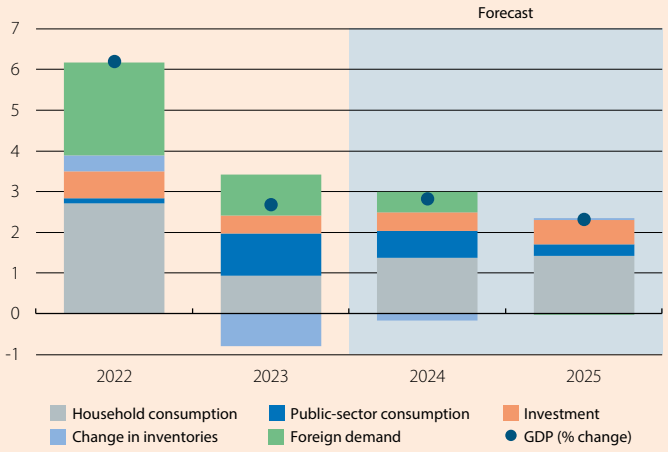
2024 recap: a good starting point

The year that we are about to leave behind is proving to be a good one from a macroeconomic perspective, in a context still marked by high interest rates and with inflation steadily declining throughout the year.

Overall, we expect GDP in 2024 to grow by around 2.8% relative to 2023, which is more than 1 percentage point higher than the rate expected at the beginning of the year.[1] Nearly half of the positive surprise comes from a better-than-anticipated performance by the foreign sector, driven by tourism and non-tourism services. The other half is explained, in equal parts, by higher-than-expected growth in household consumption, which has begun to enjoy a revival in 2024, and in public consumption.

In addition, the incorporation of the Q3 GDP figure, which was published after our forecasts were produced and turned out to be better than expected, poses upside risks to our 2.8% growth forecast for 2024.

Spain: contribution to GDP growth
(pps)



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

In short, we can conclude that 2024 has been better than anticipated, putting the economy in a strong position from a macroeconomic perspective to begin 2025.

2025 outlook: the growth drivers of the Spanish economy

For 2025, we expect the economy to moderate its growth rate slightly to 2.3%. This is nevertheless a high rate and well above the 1.3% expected for the euro area. The Q3 GDP figure introduces some upward risks for this forecast, as it does for that of 2024.

What are the drivers that will sustain this solid growth? In this article we highlight the five main elements.

Firstly, it should be noted that households are expected to continue recovering purchasing power; remuneration per wage earner will increase slightly above inflation (which itself will be slightly above 2%). Combined with the reduction of interest rates, the solid financial position of households and the end of the inflationary pressures, this will enable a slight acceleration in private consumption.

Secondly, tourism will continue to be a key growth driver: the sector's contribution to GDP growth in 2025 will be between 0.4 and 0.5 pps, below that of 2023 and 2024 but still a significant figure.

Thirdly, demographics will continue to act as a tailwind. Over the past two years, the population has grown by approximately 1% year-on-year, largely due to the arrival of one million immigrants. This flow has increased and rejuvenated the labour force. Projections indicate that the population will continue to grow in the coming years at a rate of around 1%. However, the housing market could prove to be a bottleneck for immigration flows, although it could also contribute to greater flows if increased activity in the real estate sector attracts more labour.

Fourthly, the labour market will continue to be a driver of growth: we expect an average net creation of just over 400,000 jobs in 2025 and a slight fall in the unemployment rate, elements that will allow more wealth to be created and will bolster household consumption.

Finally, investment has room for growth in a context in which lower rates could stimulate sectors related to investment in equipment, where the boost provided by NGEU funds will also play a role and where investment in housing has room to grow. On the other hand, a more modest contribution from public consumption is expected with the reintroduction of the European fiscal rules, as this will impose a degree of restraint in the growth of public spending.

What will change between 2024 and 2025?

To conclude the article, we analyse which elements of the macroeconomic scenario vary in 2025 compared to 2024, which helps us understand why we expect growth to slow by about half a point in 2025. This is thus a different exercise to what was discussed in the previous section, given that here we are talking about differential factors in 2025 relative to the previous year.

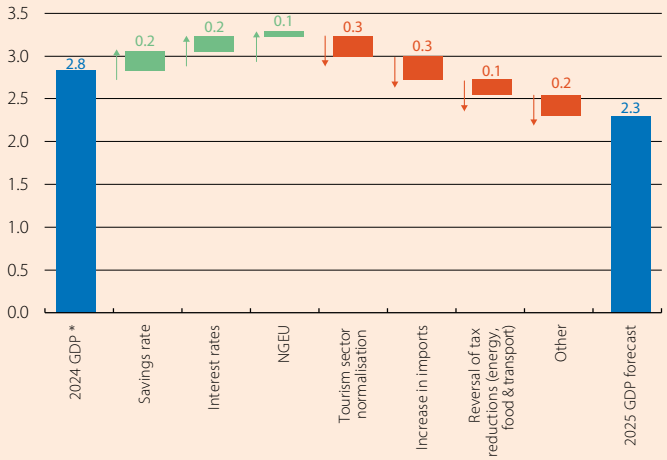
1. The upward revisions in the GDP series explain a much smaller portion of the surprise.

In the second chart we present the main supporting factors which, due to a better performance in 2025 than in 2024, will allow GDP growth to accelerate in 2025 compared to 2024. Firstly, we must mention the household savings rate: we estimate that in 2024 it will be around 13% of gross disposable income, driven by the buoyancy of income growth and the incentives for savings derived from high rates. In 2025, we expect to see a relatively gentle reduction in this savings rate as interest rates fall and confidence improves, and this will allow for increased consumption, boosting GDP growth by 20 basis points.[2]

A second differential factor for higher growth is the impact of the interest rate cuts. Our forecast is that the ECB will continue along its path of rate cuts in 2025, with four reductions of 25 bps each.[3] Although rates will be lower in 2025 than in 2024, it should be recalled that there is a time lag for a reduction in rates to be passed on to the economy. These delays explain why, although we expect lower rates on average in 2025 than in 2024, the positive impact of the reduction of interest rates on GDP growth will be relatively modest in 2025 and similar in magnitude to that of the savings rate.

Spain: breakdown of GDP growth in 2025

(pps)

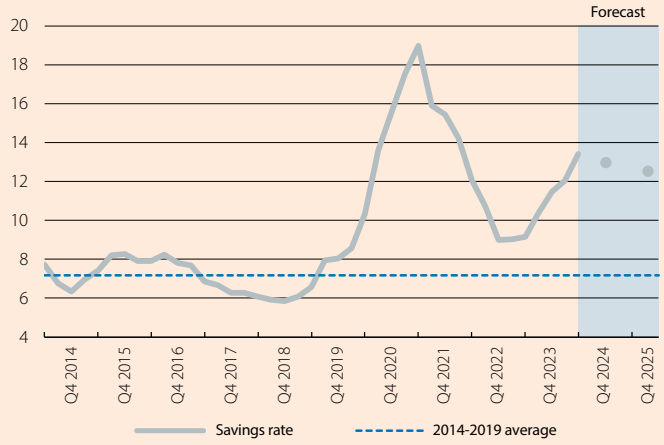


Note: ** Annual change (%).*
Source: *CaixaBank Research.*

Thirdly, we must highlight the impact of the NGEU funds. Some investments financed with these funds that were expected for 2024 will end up materialising in 2025, and this will contribute between 10 and 20 basis points of additional growth next year.

Spain: household savings rate

(% of gross disposable income)



Note: *Four-quarter cumulative data.*
Source: *CaixaBank Research, based on data from the Spanish National Statistics Institute (INE).*

However, there are other factors that will act in the opposite direction. Firstly, we expect tourism to make a significant contribution to growth in 2025, but we estimate that this contribution will be 30 basis points lower than in 2024. We can expect to see a normalisation of the sector's growth rate, given the high levels already reached, although it will continue to enjoy a boom and there are significant support factors that will enable it to grow.[4] Secondly, the contribution of the foreign sector will be more modest than in 2024, partly due to an increase in imports amid stronger domestic demand. Finally, the withdrawal of the tax reductions on energy and food and the discounts on transport will also have a small downward impact on growth, via the upward effect on the inflation of these items. However, the inflation dynamics will be positive on aggregate: we expect core inflation (which excludes energy and food) to go from 2.7% in 2024 to around 2% in 2025.

As for the risks surrounding this scenario, if the savings rate were to decline faster or to reach a lower level than anticipated, this would entail an upside risk for GDP growth through higher consumption growth. Counteracting this, the materialisation of adverse geopolitical risks, such as a tariff spiral or an escalation of the conflict in the Middle East that raises energy prices, would have a material negative impact on growth.[5]

In short, 2025 is expected to be another buoyant year for the Spanish economy thanks to a growing role of private domestic demand.

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2. To understand this calculation, it must be borne in mind that the savings rate captures the level of savings relative to gross disposable income, and gross disposable income itself is 60% of nominal GDP. Therefore, a 0.5-pp reduction in the savings rate, as we anticipate for 2025, would theoretically lead to an increase in GDP growth of around 0.3 points through increased consumption. Taking into account that 30% of consumption is carried out by means of imports, we arrive at an impact on GDP growth of 0.2 pps.
3. See the article «Monetary policy in 2025: time for easing» in this same Dossier.
4. See the article «Sector growth in 2025: robust and across the board, but with some differences» in this same Dossier.
5. See the article «2025 global outlook: in search of a new normal» in this same Dossier.

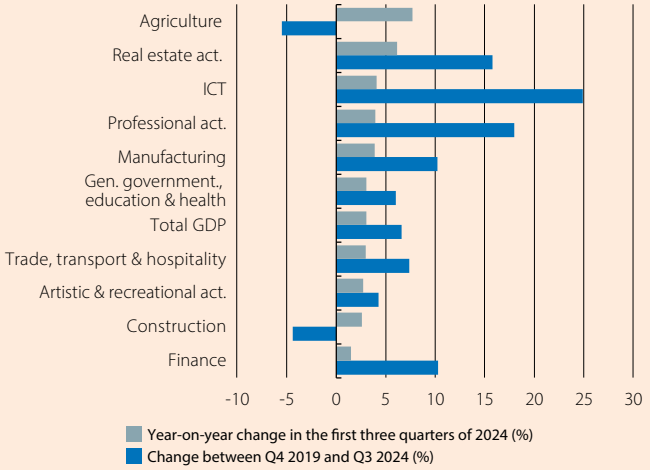
Sector growth in 2025: robust and across the board, but with some differences

In 2024, all sectors of the Spanish economy have recorded growth, with only a few exceptions. In addition, the number of sectors in a situation of weakness has declined, while that of sectors in expansion has increased, thanks to the gradual absorption of the significant shocks of recent years: the pandemic, supply problems, the energy crisis, rising production costs, drought and rising interest rates. The outlook for 2025 is equally promising, although a slight moderation is anticipated in some cases. In this article of the Dossier, we will explore how the various sectors of the Spanish economy have evolved throughout the year and what we expect in 2025.

2024 recap: widespread growth, but with nuances

The Spanish economy has shown strong GDP growth throughout 2024, exceeding 3% year-on-year in Q2 and Q3. In the manufacturing industry, this growth has been particularly robust in some branches, such as the chemicals, pharmaceuticals and paper industries, driven by a moderation of energy bills and an increase in exports. However, sectors such as the textile and extractive industries have continued to shrink. Special mention should be made of the automotive industry, which experienced a strong rebound in 2023, following the sharp fall in the post-pandemic years. However, the sector is currently beginning to show signs of weakness as it faces key challenges in the transition to electric vehicles due to fierce international competition, particularly from China. Overall, the manufacturing sector grew by 3.9% in the first three quarters of 2024 compared to the same period in 2023, and in Q3 2024 it exceeded the level of Q4 2019 by 10.2%, while the GDP of the economy as a whole exceeded that level by 6.6%.

Growth of activity sectors in 3Q 2024



Note: *Data for gross value added in real terms.*
Source: *CaixaBank Research, based on data from the Spanish National Statistics Institute (INE).*

Within services, those related to tourism have continued to record strong growth, albeit at a lower rate than in 2023, due to the normalisation of growth rates now that the effects of the pandemic have been left behind.[1] Besides tourism, other service sectors are also performing very well, such as real estate activities, which has been favoured by strong housing demand and lower interest rates. Also of note is the strong growth of higher value-added services, such as information and communications, and professional, scientific and technical activities, sectors that are increasingly open to the outside world: exports of non-tourism services grew 9.9% year-on-year in the period from January to August on a cumulative basis, representing 6.9% of GDP.

The agriculture, forestry and fishing sector has also made a remarkable recovery, with 7.7% year-on-year growth in the first three quarters of 2024. This has been thanks to the improvement in weather conditions and the gradual reduction in production costs, enabling the sector to overcome the sharp fall experienced in 2022. Despite this positive trend, the GVA of the sector is still 5.5% below the level of Q4 2019.[2]

Finally, the construction sector has registered strong growth (2.6% year-on-year in the first three quarters of 2024), but it still lies 4.4% below its pre-pandemic figures. The stabilisation of production costs and the strength of demand are supporting a certain revival of the housing supply, as shown by the number of new construction permits being granted (+16.4% year-on-year between January and August 2024). Non-residential construction remains very weak, but there are signs of stabilisation according to the amount of the official government tender (–1.4% year-on-year between January and June, compared to –10.6% in 2023).

Which sectors will lead the growth in 2025?

We expect the Spanish economy to grow by 2.3% in 2025 – a very significant rate, albeit slightly more moderate than in 2024 (2.8%).[3] This slowdown (of 0.5 pps) is largely explained by the lower contribution of the tourism sector, which we expect to contribute between 0.4 and 0.5 pps to GDP growth instead of the 0.8 pps of 2024. In any event, we expect to see growth in tourism GDP in real terms of 3.4%, which is higher than that of GDP for the economy as a whole, meaning that the role of the tourism sector in the economy will continue to grow (going from 13.0% of total GDP in 2024 to 13.2% in 2025). After breaking all records in 2024,[4] we predict that the tourism sector will continue to expand thanks to a continued reduction of its seasonality (stronger growth outside

1. Specifically, we estimate that tourism GDP has grown by 6% in 2024 (compared to 7.6% in 2023), although its contribution to GDP growth has remained very significant (0.8 pps in 2024 versus 0.9 in 2023).
2. See «Spain's agrifood sector enjoys a revival in 2024 thanks to the moderation of production costs» in the *Agrifood Sector Report 2024*.
3. Following the publication of the GDP figure for Q3 2024 (0.8% quarter-on-quarter growth, exceeding our forecast), there are upside risks to the growth forecast for both 2024 and 2025.
4. See «Spain's tourism sector breaks all records in summer 2024» in the MR10/2024.

2025 sector forecasts

ABOVE-AVERAGE GROWTH AND ACCELERATING:

- Construction & real estate activities.
- Information & communications technologies.
- Professional services.

→ Sectors that benefit from the reduction of interest rates or have very positive secular trends.

ABOVE-AVERAGE GROWTH, BUT DECELERATING:

- Tourism.
- Agrifood sector.
- Chemicals & pharmacy industry.

→ Strong but more moderate growth, due to the fading of exceptional factors that previously drove their expansion.

NEAR-AVERAGE GROWTH:

- Automotive industry.
- Machinery manufacturing.
- Trade.

→ Sectors more heavily affected by international competition and the challenges linked to the digital and sustainable transition.

MODERATE WEAKNESS:

- Textile industry.
- Paper industry.
- Wood & furniture industry.

→ Sectors that share weaker secular trends, due to cost pressures and greater exposure to international competition.

Source: *CaixaBank Research.*

the peak season), the recovery of real disposable income in the source countries (as the inflationary shock finishes dissipating) and the perception of geopolitical stability in Spain.

Besides tourism, we expect other service sectors, with very positive secular trends, to continue to perform very well in 2025. These include the information and communications technology (ICT) sector and professional, scientific and technical activities, both of which are drivers of the digital transition and are highly investment-intensive, and which will therefore benefit from the fall in interest rates. In fact, the rate cuts that began in 2024 will have their greatest impact on the real economy in 2025, and this will be a key factor for certain sectors that are highly sensitive to financing costs, such as construction and real estate activities.

The improvement in financing conditions will also boost investment in equipment across the board, and especially in the manufacturing sector, which is more investment-intensive than services. Within the manufacturing sector, we expect the pharmaceuticals industry to outperform the rest, as it is highly competitive at the international level, as well as being highly specialised, and it is a major driver of exports and R&D investment.

On the other hand, in the case of the most energy-intensive branches of manufacturing (paper and graphic arts, chemicals, and the construction auxiliary industry, among others), which have experienced strong growth in 2024 thanks to the fall in energy bills, the growth rate is expected to normalise. In any event, these industries will continue to benefit from the competitive advantage offered by the lower energy costs which Spain's industrial sector is currently enjoying relative to its European competitors. The path of the automotive industry will continue to be largely determined by the profound technological transformation and the significant international competition in the production of electric vehicles.

Finally, the agriculture, forestry and fishing sector will continue to recover, supported by improved weather conditions and cost reductions. However, the capacity to adapt to climate change will be crucial for the long-term sustainability of this sector and the agrifood industry.

In short, the Spanish economy is showing broad-based strength, with key sectors such as ICT, professional activities, the pharmaceuticals industry and tourism driving growth. Nevertheless, cost pressures and international competition pose major challenges, especially for the automotive industry. The outlook for 2025 is positive thanks to the easing of financing conditions, the investments of NGEU funds and the competitive advantage provided by lower energy costs. Taking advantage of this favourable economic situation will be key to continue diversifying and strengthening Spain's business sector.

Judit Montoriol Garriga

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Agrifood Sector Report 2024

Activity in Spain's agrifood sector grew quicker than for the economy as a whole and the outlook for the 2024-2025 campaign is encouraging. Exports are faring well in the challenging environment of recent years and the food price rally has begun to slow, although the cumulative increase since 2019 remains significant.

Real Estate Sector Report S2 2024

The rapid growth of Spain's real estate sector during the first half of the year has led us to revise upwards our forecasts for 2024 and 2025. Even so, the mismatch between supply and demand will determine the sector's behaviour, as it tackles major challenges such as climate change and the housing affordability problems for the young and the most vulnerable segments of society.

Tourism Sector Report S2 2024

The record figures reached by tourism in Spain in the opening months of 2024 and the effects of climate change on the sector highlight the need to continue improving the management of tourism flows and to promote innovation and investment, in order to minimise the negative impacts of tourism activity and move towards a less seasonal model that reinforces sustainability.

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