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MONTHLY REPORT • ECONOMIC AND FINANCIAL MARKET OUTLOOK
JULY_AUGUST 2024

INTERNATIONAL ECONOMIES AND MARKETS

FINANCIAL MARKETS
Can metals gain more «shine»?

INTERNATIONAL ECONOMY
What is going on with Chinese consumers?

SPANISH ECONOMY
What big data reveals about consumption in Spain

The competitiveness of Spain's tourism sector: strengths and weaknesses

The disparity between employment and hours worked in Spain

PORTUGUESE ECONOMY

Portuguese companies: evidence of deleveraging

So, how much are mortgages growing?

Innovation, how does Portugal rank?

BPI

MONTHLY REPORT - ECONOMIC AND FINANCIAL MARKET OUTLOOK

July-August 2024

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

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INDEX

1 EDITORIAL

3 KEY POINTS OF THE MONTH

4 FORECASTS

7 FINANCIAL MARKET
9 *Can metals gain more «shine»?*

12 INTERNATIONAL ECONOMY
14 *What is going on with Chinese consumers?*

18 ECONOMIA PORTUGUESA
20 *Portuguese companies: evidence of deleveraging*
22 *So, how much are mortgages growing?*
24 *Innovation, how does Portugal rank?*

27 SPANISH ECONOMY
29 *What big data reveals about consumption in Spain*
31 *The competitiveness of Spain's tourism sector: strengths and weaknesses*
32 *The disparity between employment and hours worked in Spain*

Something is moving in the international economy

With the first half of the year now over, the narrative of a resilient global economy continues to be consolidated. It is showing resilience both to the obstacles it has had to face in recent years and to the structural changes that are occurring as globalisation adjusts to a new geopolitical paradigm, the main exponent of which is the revival of industrial policy as a means to achieve that ever so diffuse concept of strategic autonomy. In the meantime, economic policy has been successfully addressing the effects that the mismatches between global supply and demand have had on inflation and on household and business finances, albeit at a significant cost in terms of a loss of degrees of freedom in fiscal policy.

In this context, in which uncertainty continues to dominate economic agents' decision-making, the world economy could grow by 3.1% this year (3.3% in 2025), which is practically the cruising speed that was reached during the period between the global financial crisis and the outbreak of the pandemic. However, it is far from the 4.4% average recorded in the first seven years of this century. The positive part of this return to the pre-pandemic starting block is that the most disruptive scenarios which threatened to derail the business cycle at certain times in recent years have been avoided. However, the mediocrity of the growth reflects the fact that the scars of the recent crises have not yet fully healed and that the contribution of investment and productivity to potential growth remains low.

So what next? With the international order in the midst of an adjustment, we are entering the summer period with a feeling of tense calm, faced with a challenging geopolitical scenario to which a new layer of complexity is added every week. The seemingly reassuring outcome of the European elections has given way to a new source of risk with the convening of parliamentary elections in France, which may lead to a complex cohabitation in the final phase of Macron's presidency. All this complicates the country's already fragile fiscal situation, with the recent opening of an excessive deficit procedure and a downgrading of its rating. As a result of all this, France's risk premium has rebounded to a high of 85 bps (the biggest spike since 2011 in the midst of the euro crisis), surpassing the risk premium of Portugal and coming very close to that of Spain. Although the results of the second round have calmed investors' nerves, we are facing the biggest internal adjustment in the assessment of sovereign risk in the euro area in recent years. While the ECB has firewalls in place to control the risk of fragmentation (the TPI programme), the increased sensitivity of «bond vigilantes» to any unexpected deterioration in the fiscal outlook serves as a new warning to sailors following the «Truss effect» and reflects the fact that the post-COVID fiscal free bar has definitively closed.

Therefore, as we enter a time of year in which the liquidity of the markets is usually reduced, financial asset prices are beginning to show a little more nervousness among investors, reflecting the current demanding valuations and the shift in monetary policy expectations that has occurred since January. The instability has also spread to emerging countries, such as Mexico, where political risk and the worsening fiscal outlook are causing major currency adjustments, decreasing the margin for manoeuvre of central banks that have already been lowering interest rates. In the case of developed countries, more and more central banks are beginning to relax their monetary policy (Switzerland, Canada, Sweden, the euro area, etc.), without the divergence with the Fed's strategy leading to any financial tensions besides an anticipated appreciation of the dollar (+1.1% in the effective exchange rate in the last month). In this regard, the key factor in the second half of the year will be how the Fed manages its first interest rate cut. It will be essential to consolidate the monetary policy expectations of investors, who are concerned about the evolution of the public accounts (if there are no adjustments, the public deficit would remain at around 6% for the next decade), as well as about political risk, especially following the first US presidential debate. In short, political risk and market sensitivity will be the centre of attention over the summer, which is nothing new under the sun.

José Ramón Díez
July-August 2024

Chronology

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%.

MAY 2024

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

APRIL 2024

- **9** The EU's Copernicus programme reports that March 2024 is the 10th consecutive month to set record temperatures in the month since records began (1850).

MARCH 2024

- **13** The ECB adjusts the operational framework through which it implements its monetary policy.
- **19** The Bank of Japan raises its reference rate from –0.1% to 0.1%.

FEBRUARY 2024

- **22** The US returns to the Moon after more than 50 years with the landing of Odysseus, the first commercial module to touch down on the lunar surface.

JANUARY 2024

- **11** NASA confirms that 2023 was the warmest year since records began (1880).
- **19** Japan becomes the fifth country to land on the Moon.

Agenda

JULY 2024

- **1** Portugal: employment and unemployment (May).
- **2** Spain: registration with Social Security and registered unemployment (June).
  Euro area: CPI flash estimate (June).
- **10** Spain: financial accounts (Q1).
- **15** China: GDP (Q2).
- **18** Governing Council of the European Central Bank meeting.
- **19** Portugal: DBRS rating.
- **22** Spain: loans, deposits and NPL ratio (May).
- **25** Portugal: credit and deposit portfolio (June).
  US: GDP (Q2).
- **26** Spain: labour force survey (Q2).
- **30** Spain: GDP flash estimate (Q2).
  Spain: CPI flash estimate (July).
  Portugal: GDP flash estimate (Q2).
  Euro area: GDP (Q2).
  Euro area: economic sentiment index (July).
- **30-31** Federal Open Market Committee meeting.
- **31** Spain: state budget execution (June).
  Portugal: CPI flash estimate (July).
  Portugal: budget execution (June).
  Euro area: CPI flash estimate (July).

AUGUST 2024

- **1** Portugal: public debt (June).
- **2** Spain: registration with Social Security and registered unemployment (July).
- **5** Spain: industrial production (June).
- **7** Portugal: employment (Q2).
- **13** Portugal: average gross monthly wage per worker (Q2).
- **15** Japan: GDP (Q2).
- **19** Spain: foreign trade (June).
- **20** Portugal: balance of payments (June).
- **23** Spain: loans, deposits and NPL ratio (June).
- **29** Spain: CPI flash estimate (August).
  Euro area: economic sentiment index (August).
- **30** Portugal: GDP breakdown (Q2).
  Portugal: S&P rating.
  Euro area: CPI flash estimate (August).

Macro is doing well, thank you very much

As our title indicates and as we have shown in recent analyses, the main macroeconomic news concerning Portugal has been favourable. We would even go so far as to say that the future trend, if everything else remains unchanged (a brave assumption, given the very complex global political context we are living in), will be for improvement, as can be gauged by the direction of the scenario revisions of various institutions, the assessment of *rating* agencies, Portugal's withdrawal from the so-called MIP (*Macroeconomic Imbalance Procedure*), and by analysing various indicators, of which in this publication we highlight the indebtedness of the business sector and households, and innovation indicators.

Among the aspects mentioned, it is worth detailing Portugal's withdrawal from the group of countries subject to the MIP. This is a supervisory mechanism within the European Union, launched in 2011 as part of the European Semester, which aims to identify potential risks at an early stage, prevent the emergence of harmful macroeconomic imbalances and correct existing imbalances. Indeed, the international financial crisis and sovereign debt crises have highlighted how certain imbalances - for example, an excessive current account deficit or an explosive appreciation in the property market - if left uncorrected, can negatively affect other economies and cause strong adjustments in real variables, particularly in activity and employment, with significant social costs.

Portugal has been included in the list of countries with excessive macro imbalances practically since the mechanism was created in the midst of the sovereign debt crisis. It has now been excluded from this list because the European Commission has concluded that the country has made significant progress in reducing vulnerabilities related to high private, government and external debt, which the Commission anticipates should continue to decrease. As we have also regularly highlighted, after an interruption caused by the pandemic crisis, household and company debt ratios have resumed their downward trend, as has the public debt ratio, which ended 2023 below 100% of GDP. In terms of external positioning, both the net international investment position (which incorporates capital instruments, such as foreign companies holding shares or vice versa) and external debt have improved substantially. In terms of flows, the current account has recorded surpluses that have become more robust, based not only on the surplus balance of the Tourism accounts, but also on the improvement (or shrinking) of the remaining imbalances/deficits. All of this justifies the country's removal from the MIP spotlight.

It is also in this context that we highlight the analysis included in this publication regarding the indebtedness of the business sector. In fact, the improvements at macroeconomic level end up reflecting the sum of all the trends taking place at the micro level, specifically in the business sector. As we point out in the attached article, although it differs between the various sectors, companies can consider themselves healthier overall in economic terms, with high levels of liquidity, more profitable, better capitalised, and better able to cope with their liabilities and debt costs. Another among several that factors discussed in detail in the article is how during the period of the sovereign debt crisis (and the implementation of the Economic and Financial Assistance Programme in Portugal), the business sector generated a level of profits (before depreciation, interest and taxes, known as EBITDA) that was barely enough to cover its debt liabilities. Today, despite the recent increase in interest rates, profit levels are more than 8 times higher in both the large company and SME segments.

In short, we know that there are still many, many areas to work on and improve. But for now, the results should at least allow the summer off to go smoothly.

Paula Carvalho
Lisbon, 11 July 2024

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	5.00	4.00
3-month SOFR	3.62	0.99	0.21	4.74	5.37	4.35	3.35
12-month SOFR	3.86	1.42	0.52	5.48	4.95	3.90	3.50
2-year government bonds	3.70	0.99	0.66	4.30	4.46	3.90	3.30
10-year government bonds	4.69	2.44	1.46	3.62	4.01	4.00	3.60
Euro							
ECB depo	2.05	0.15	–0.50	1.77	4.00	3.00	2.25
ECB refi	3.05	0.69	0.00	2.27	4.50	3.15	2.40
€STR	–	–0.55	–0.58	1.57	3.90	2.93	2.25
1-month Euribor	3.18	0.42	–0.60	1.72	3.86	2.93	2.28
3-month Euribor	3.24	0.57	–0.58	2.06	3.94	2.94	2.30
6-month Euribor	3.29	0.70	–0.55	2.56	3.93	2.98	2.38
12-month Euribor	3.40	0.86	–0.50	3.02	3.68	3.03	2.46
Germany							
2-year government bonds	3.41	0.27	–0.69	2.37	2.55	1.90	2.00
10-year government bonds	4.30	1.38	–0.31	2.13	2.11	2.00	2.20
Spain							
3-year government bonds	3.62	1.53	–0.45	2.66	2.77	2.30	2.42
5-year government bonds	3.91	2.01	–0.25	2.73	2.75	2.43	2.57
10-year government bonds	4.42	2.96	0.42	3.18	3.09	2.85	3.00
Risk premium	11	158	73	105	98	85	80
Portugal							
3-year government bonds	3.68	3.05	–0.64	2.45	2.33	2.51	2.66
5-year government bonds	3.96	3.63	–0.35	2.53	2.42	2.57	2.75
10-year government bonds	4.49	4.35	0.34	3.10	2.74	2.75	3.00
Risk premium	19	297	65	97	63	75	80
EXCHANGE RATES							
EUR/USD (dollars per euro)	1.13	1.26	1.13	1.06	1.09	1.06	1.10
EUR/GBP (pounds per euro)	0.66	0.84	0.85	0.87	0.86	0.84	0.86
EUR/GBP (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	86.0	78.0
Brent (euros/barrel)	36.4	60.6	66.2	76.8	70.9	81.1	70.9

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	3.2	3.1	3.3
Developed countries	*2.7*	*1.0*	*5.7*	*2.6*	*1.6*	*1.6*	*1.7*
United States	2.7	1.5	5.8	1.9	2.5	2.4	1.8
Euro area	2.2	0.3	5.9	3.5	0.5	0.8	1.7
Germany	1.6	0.8	3.1	1.9	0.0	0.2	1.2
France	2.2	0.3	6.4	2.5	0.9	0.9	1.3
Italy	1.5	–1.0	8.3	4.1	1.0	0.8	1.5
Portugal	1.5	–0.2	5.7	6.8	2.3	1.7	2.3
Spain	3.7	–0.3	6.4	5.8	2.5	2.4	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	0.5	0.6
Emerging and developing countries	*6.4*	*4.4*	*7.0*	*4.1*	*4.3*	*4.1*	*4.3*
China	10.6	7.5	8.5	3.0	5.2	4.8	4.2
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	1.8	1.8
Mexico	2.3	0.7	5.7	4.0	3.2	2.1	2.1
Russia	–	1.0	5.9	–1.3	3.7	1.5	1.3
Türkiye	5.5	4.3	11.4	5.5	4.5	2.6	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	5.8	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	3.2	2.2
Euro area	2.2	1.3	2.6	8.4	5.4	2.4	2.1
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	1.5	2.0
Portugal	3.1	1.0	1.3	7.8	4.3	2.5	2.1
Spain	3.2	1.2	3.1	8.4	3.5	3.2	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	2.8	2.3
Emerging and developing countries	*6.7*	*5.5*	*5.9*	*9.8*	*8.3*	*7.9*	*5.9*
China	1.7	2.6	0.9	2.0	0.2	0.5	1.7
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	5.4	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

Portuguese economy

	Average 2000-2007	Average 2008-2020	2021	2022	2023	2024	2025
Macroeconomic aggregates							
Household consumption	1.7	–0.1	4.7	5.6	1.7	1.7	2.2
Government consumption	2.3	–0.2	4.5	1.4	1.0	1.2	0.8
Gross fixed capital formation	–0.4	–0.8	8.1	3.0	2.5	3.6	5.1
Capital goods	3.2	2.0	15.3	5.5	4.3	–	–
Construction	–1.5	–2.3	7.4	1.3	–0.3	–	–
Domestic demand (vs. GDP Δ)	1.3	–0.4	6.0	4.7	1.4	2.2	2.5
Exports of goods and services	5.3	2.2	12.3	17.4	4.1	3.4	5.3
Imports of goods and services	3.6	1.5	12.3	11.1	2.2	4.4	5.7
Gross domestic product	**1.5**	**–0.2**	**5.7**	**6.8**	**2.3**	**1.7**	**2.3**
Other variables							
Employment	0.4	–0.6	2.2	2.2	2.0	1.4	1.4
Unemployment rate (% of labour force)	6.1	11.0	6.7	6.2	6.5	6.8	6.5
Consumer price index	3.1	1.0	1.3	7.8	4.3	2.5	2.1
Current account balance (% GDP)	–9.2	–2.7	–0.8	–1.1	1.4	1.2	1.4
External funding capacity/needs (% GDP)	–7.7	–1.5	1.0	–0.2	2.7	2.3	2.6
Fiscal balance (% GDP)	–4.6	–5.1	–2.9	–0.3	1.2	0.3	0.4

Forecasts

Spanish economy

	Average 2000-2007	Average 2008-2020	2021	2022	2023	2024	2025
Macroeconomic aggregates							
Household consumption	3.6	–0.9	7.2	4.8	1.8	2.2	2.4
Government consumption	5.0	1.3	3.4	–0.2	3.8	1.4	1.0
Gross fixed capital formation	5.6	–2.0	2.8	2.4	0.8	2.5	3.6
Capital goods	4.9	–0.8	4.4	1.9	–1.6	2.2	4.6
Construction	5.7	–3.4	0.4	2.6	2.3	2.9	3.1
Domestic demand (vs. GDP Δ)	4.5	–0.9	6.6	2.9	1.7	2.0	2.3
Exports of goods and services	4.7	1.1	13.5	15.2	2.3	2.7	2.4
Imports of goods and services	7.0	–1.0	14.9	7.0	0.3	1.8	2.5
Gross domestic product	**3.7**	**–0.3**	**6.4**	**5.8**	**2.5**	**2.4**	**2.3**
Other variables							
Employment	3.2	–0.9	7.1	3.7	3.2	2.7	2.2
Unemployment rate (% of labour force)	10.5	19.2	14.9	13.0	12.2	11.6	11.1
Consumer price index	3.2	1.2	3.1	8.4	3.5	3.2	2.5
Unit labour costs	3.0	1.2	1.0	0.9	6.0	4.6	3.0
Current account balance (% GDP)	–5.9	–0.2	0.8	0.6	2.6	2.7	2.7
External funding capacity/needs (% GDP)	–5.8	0.2	1.6	1.4	3.6	3.6	3.7
Fiscal balance (% GDP)[1]	0.3	–6.8	–6.7	–4.7	–3.6	–3.0	–2.6

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

Forecasts

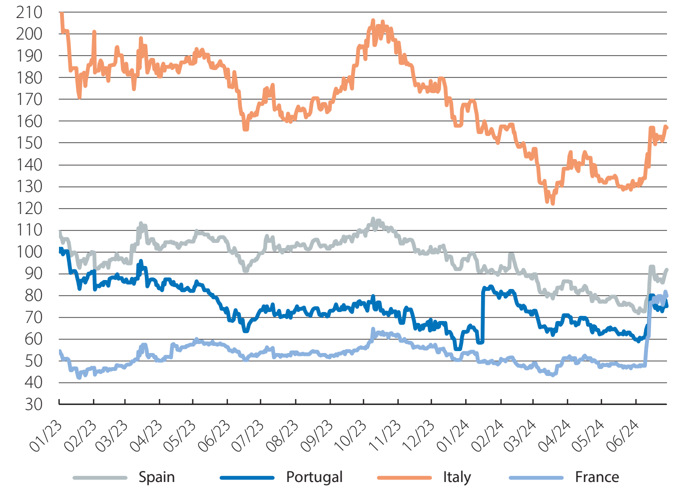
The markets, at the mercy of the elections and political uncertainty in June

Political uncertainty, the main source of volatility in the market. This source of instability reduced investors' appetite for risk in June and, although still high, it moderated markedly compared to May. In developed markets, while the European elections did not bring any big surprises in aggregate terms, they did cause President Macron to call a snap general election. This, in turn, triggered some turbulence in European financial markets, with an increase in sovereign risk premiums and losses in the stock markets (particularly in France, where the movements were most intense, while the level of contagion to other economies was moderate). In contrast, across the Atlantic the US stock market continued to record gains and treasury yields fell amid a combination of lower pressure in the inflation data and strong economic activity. In emerging markets, Mexico's elections were met with losses in local financial assets, while Indian and South African assets, which also saw post-election setbacks, bounced back in June.

Divergence between central banks in the developed economies. After being in synchrony for many months, the central banks in developed economies are beginning to show different sensitivities when it comes to interest rates. In June the ECB implemented an anticipated cut of 25 bps in its benchmark rates (bringing the depo rate to 3.75%), although since the meeting its leaders have already made a point of cooling expectations of another rate cut in July. Investor expectations, meanwhile, indicate that the next cut is likely to come at the September meeting if the economy performs as expected. The Fed, for its part, kept rates unchanged in June, although its members reflected a lower propensity to cut rates this year (specifically, compared to the three rate cuts suggested in March, June's dot plot pointed to a single rate cut in 2024, albeit with a significant number of members defending two). Thus, at the end of June, the rates implicit in the money market were anticipating another rate cut by the ECB in September and, with a 60% probability, an additional one in December, while for the Fed the markets were pricing in an initial rate cut in September (70% probability) and another in December. On the other hand, the central banks of both Canada and Switzerland cut rates in June (in the case of Switzerland, for the second time this year), while the rest of the major developed central banks did not make any changes. Among these, the Bank of Japan stood out as the only one expected to raise rates in the remainder of 2024 and in 2025.

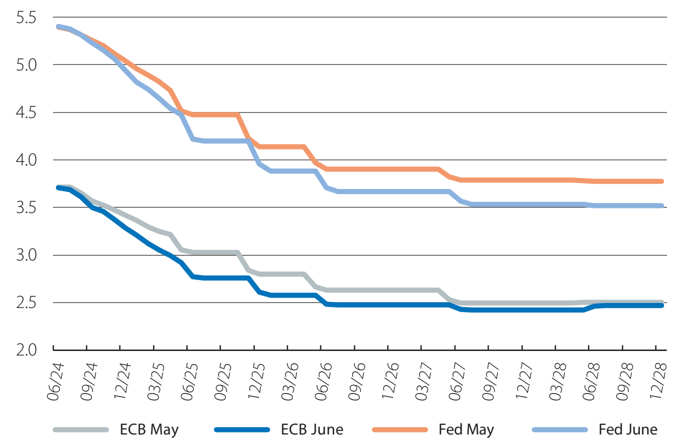
Rebound in peripheral risk premiums in a context of falling sovereign yields. In the euro area, the rebound in political uncertainty and some below-expected economic activity data in June resulted in a sharp downward shift in the German sovereign yield curve, which was more intense in the short sections than in the long sections. Simultaneously, the peripheral 10-year risk premiums increased significantly in

Euro area: sovereign risk premiums
Spread vs. the German sovereign interest rate (bps)



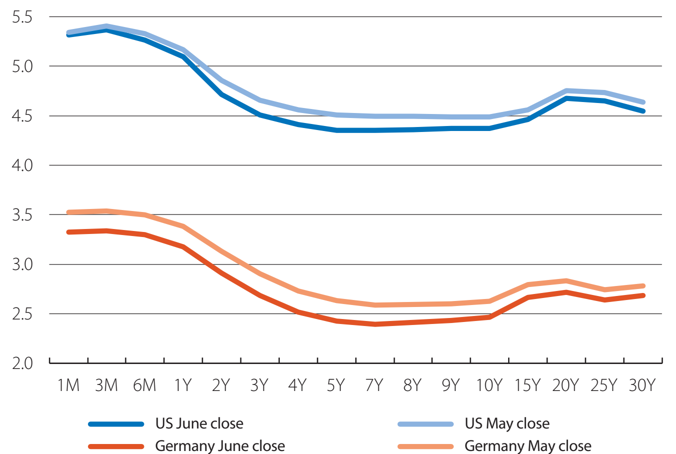
Source: *BPI Research, based on data from Bloomberg.*

Implicit rates for the ECB and the Fed
(%)



Note: *Expectations for benchmark interest rates of the ECB (depo rate) and of the Fed (fed funds rate) implicit in money market prices.*
Source: *BPI Research, based on data from Bloomberg.*

German and US sovereign yield curves
(%)



Note: *Sovereign interest rates at different maturities, ranging from 1 month (1M) to 30 years (30Y).*
Source: *BPI Research, based on data from Bloomberg.*

the month, with the French premium leading the movement (more than 30 bps) and inducing a degree of contagion to the rest of the peripheral economies (Italy, more than 25 bps, Spain around 20 bps, and Portugal around 15 bps). The increase of the French premium brought it to levels not seen since 2012 and slightly higher than Portugal's. On the other hand, the US curve also shifted downwards.

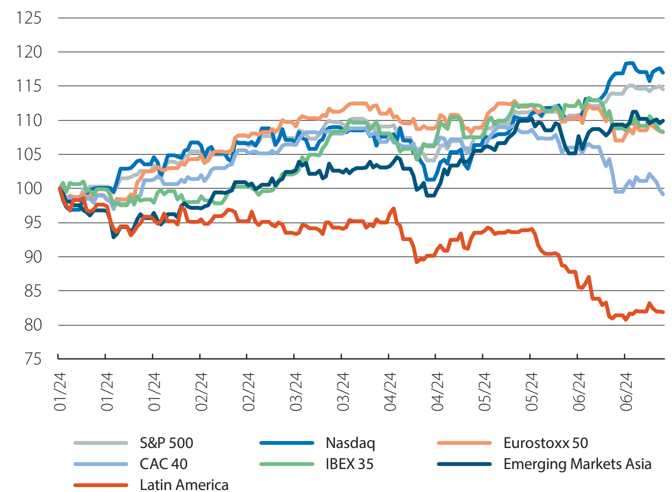
The performance of big tech stocks stands out yet another month. June brought mixed results in the European and US stock markets. In the case of the former, political uncertainty and the widening of peripheral spreads led to contagious among higher-risk assets, triggering losses in France's CAC 40 index, as well as in the other national indices. In the US, meanwhile, the big tech firms once again capitalised on the declines in sovereign rates and the prospect of lower interest rates. This, coupled with sustained interest in AI-related companies among investors, led to gains in the Nasdaq index and spurred the S&P 500 to new all-time highs. This good performance, however, was not widespread, and both the weighted S&P 500 and the Russell 2000 index suffered setbacks in the month. On the other hand, the emerging-economy indices performed particularly well, thanks to the Asian stock markets (excluding the Chinese indices) and in spite of the poor performance of the Latin American stock markets, especially in Mexico, which recorded sharp losses in June.

Several tail winds strengthen the dollar. The US currency was favoured by the country's macroeconomic strength, as well as by the various pockets of global geopolitical risk, which caused it to appreciate by more than 1% against the basket of other major currencies. Among the emerging currencies, the depreciation was most pronounced in the case of the Mexican peso (which lost almost 8% in the month) and the other Latin American currencies (COP, BRL and CLP), which were weighed down by political factors and different expectations of fiscal deterioration in the medium term. Among the developed-economy currencies, both the euro and the sterling weakened against the dollar in June as political uncertainty rose. On the other hand, the yen showed significant weakness for yet another month, reaching a 38-year low despite the fact that the Bank of Japan's officials toughened the tone of their statements in recent weeks.

Geopolitical risk also drives up the price of crude oil. The month saw a rise in crude oil prices, in a context marked by OPEC's announcement that it will extend its current production cuts through to October, at which point it will begin to gradually reverse them, as well as by global geopolitical instability and weak Chinese demand, which prevented further increases. On the other hand, June provided a respite in the rise in metal prices, which had been sustained and significant in the year to date (and, in many cases, looks set to continue, as we analyse in the Focus «Can metals gain more «shine»?» in this same report). This pause was partly due to increased investor confidence in the future path of the Fed's monetary policy, which in June diminished the appeal of metals as a hedging asset.

Performance of the main stock market indices

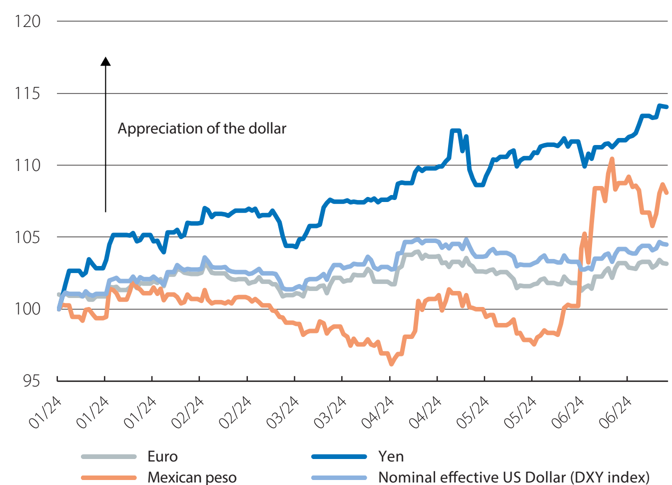
Index (100 = 31/12/2023)



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

Select currencies against the dollar

Index (100 = 01/01/2024)



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

Commodity prices

	Measure	Price	Change (%)			
			Last month	Year to date	2022	2023
Commodities	Index	101.0	–1.9	2.4	13.8	–12.6
Energy	Index	32.3	3.6	5.1	33.5	–25.6
Brent oil	$/barrel	86.4	5.9	12.2	10.5	–10.3
Natural gas (Europe)	€/MWh	34.5	0.8	6.6	8.5	–57.6
Precious metals	Index	250.6	–1.2	12.0	–1.9	4.1
Gold	$/ounce	2,326.8	0.0	12.8	–0.3	13.1
Industrial metals	Index	151.4	–5.7	6.1	–4.4	–13.7
Aluminium	$/MT	2,524.5	–4.8	5.9	–15.3	0.3
Copper	$/MT	9,599.0	–4.4	12.2	–13.9	2.2
Agriculture	Index	57.0	–6.3	–8.8	13.2	–9.3
Wheat	$/bushel	553.5	–18.4	–11.9	2.8	–20.7

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

Can metals gain more «shine»?

In 2023, the price of industrial metals[1] fell by 11% as a result of weak economic growth. However, since the beginning of this year and particularly since the end of March, we are witnessing a rise in demand for most of these metals, focused in the automotive and renewable energy sectors, as industrial activity has picked up around the world, especially in emerging countries. This aspect, coupled with the persistence of constraints in the supply of some key metals, has been reflected in the rise in prices of most of these commodities. For instance, within the non-ferrous group of metals, so far this year the price of copper has risen by 15%, aluminium by 6% and nickel by 5%. The sector has also improved its profitability thanks to cheaper energy and transportation, which has led to an improvement in investor sentiment in relation to these assets.

A future on the up

If we try to elucidate where industrial metal prices will go from here, *a priori* it appears likely that price volatility will remain the dominant dynamic over the coming months, given the bullish forces which we will discuss below. However, there are also risks in the short term, such as the persistence of tight monetary policy at the global level and uncertainty regarding China. On the supply side, the pressure of trade restrictions linked to the recent Western ban on Russian metals will continue,[2] and this could reduce the supply of aluminium and copper globally. In the case of tin, the pressure will come from the limits imposed on exports from Myanmar and Indonesia, which are responsible for 40% of the world's production. Similarly, the World Bank points out that the global supply of copper will be diminished due to production cuts and interruptions in South America, as well as that of zinc due to producers' response to weak prices during 2022 and 2023. Meanwhile, it is estimated that China's significant investment in the industrial and infrastructure sector should help offset its lower demand for some metals, such as iron ore, linked to the weakness of its real estate sector. In the rest of the world, the start of interest rate cuts on the monetary policy side could act as an incentive not only for economic activity, but also for the demand for base metals.

1. The World Bank base metals price index includes aluminium, copper, lead, nickel, tin and zinc.
2. In April, the US and the UK banned the import of aluminium, copper and nickel from Russia, produced from 13 April 2024 onwards. This is one of the most direct sanctions on Russian metals since the start of the war in Ukraine, since the delivery of these metals is effectively prohibited in the warehouses of the Chicago Mercantile Exchange (CME) and the London Metal Exchange (LME), which are the main trading exchanges and serve as the benchmarks in the setting of global metal prices.

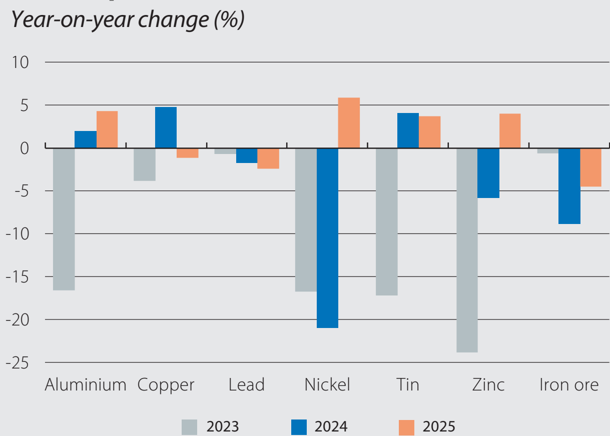
Global activity and industrial metal prices

Index

Note: *Based on the Bloomberg Industrial Metals Index.*
Source: *BPI Research, based on data from Bloomberg.*

Metals: price estimates

Year-on-year change (%)



Note: *For 2024 and 2025 we use World Bank estimates.*
Source: *BPI Research, based on data from the World Bank.*

If we extend the horizon of the outlook for industrial metals to the longer term, more and more analysts are envisaging a future in which these commodities will play a leading role and in which tensions between supply and demand will become increasingly frequent and a determining factor for prices. On of the key arguments shaping this scenario is the low level of investment in the mining and extractive sector in the past two decades. The unattractive return that many investments in long-term projects have offered to date, coupled with the instability of the governments of many of the producing nations, has led to a decline in productive capacity and in inventory levels.

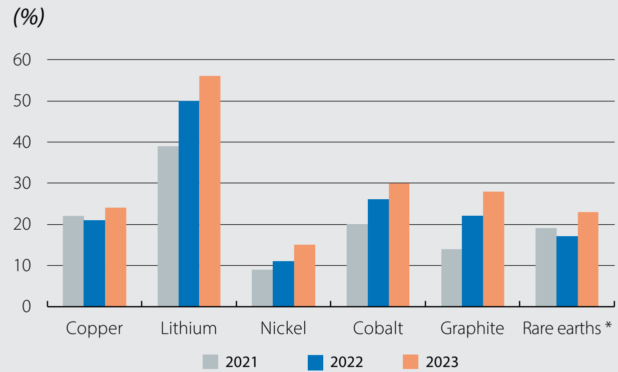
A second argument behind this outlook scenario is the progress being made in decarbonisation and environmental sustainability policies. The energy transition is a process that is intensive in the use of metals, both in implementing new renewable energy sources and in adapting industry to them. It is estimated

that demand for metals for «green» purposes will grow by 7% per year through to 2050 (the year when the COP28 countries have committed to achieving net zero carbon dioxide emissions). This is twice as much as the combined demand for aluminium and copper has grown in the last 13 years.[3] In this context, copper will play an even greater role, because in addition to being the best conductor of electrical energy (only behind the silver), the development of solar and wind farms and the manufacture of electric vehicles require almost twice as much copper as fossil-fuel-based power plants and internal combustion vehicles,[4] and it is increasingly difficult and expensive to extract the same quantity and quality of metal from new mines. A third argument is the development of artificial intelligence (AI) and data centres. Training AI models and their subsequent use leads to a significant increase in electricity demand.[5] This requires a sufficiently extensive and up-to-date electricity grid in order to guarantee the supply, so as the use of AI and data centres grows, this will also lead to an increase in the demand for metals.

However, this future scenario is not without risks that could alter the path of the rise in the demand for metals – and their prices. On the one hand, the pace of execution of the energy transition will be a determining factor, and this depends on multiple constraints and will vary from country to country. The final product could be altered by aspects such as the degree of commitment from governments in emerging and/or low-income countries, the lack of investment (both public and private) in long-term projects, and the emergence of geopolitical risks. These aspects would also adversely affect the expansion of the electricity grid worldwide. Another risk lies in the pace of technological development. Usually, technological advances have led to a lower use of metals or have led to a change in the use (demand) of one metal for another, favouring an easing of prices.

Demand for metals for the energy transition

(%)



Note: ** These include neodymium, praseodymium, dysprosium and terbium. The demand for these metals includes activities for low-emission power generation, electric vehicle and battery manufacturing, the electricity grid and hydrogen technology.*
Source: *BPI Research, based on data from the International Energy Agency.*

3. The International Energy Agency (IEA) estimates that manufacturing an electric vehicle requires up to six times more weight in metal than manufacturing an internal combustion vehicle.
4. See Thermal Management for EV Power Electronics 2024-2034: Forecasts, Technologies, Markets, and Trends, ID TechEx, March 2024.
5. The IEA points out that a Google search based on ChatGPT consumes almost 10 times more electricity than a traditional search.

Interest rates (%)

	30-June	31-May	Monthly change (bp)	Year-to-date (bp)	Year-on-year change (bp)
Euro area					
ECB Refi	4.25	4.50	–25	–25.0	25.0
3-month Euribor	3.71	3.79	–7	–19.8	11.4
1-year Euribor	3.58	3.71	–13	6.5	–56.7
1-year government bonds (Germany)	3.21	3.43	–23	–5.3	–40.7
2-year government bonds (Germany)	2.83	3.10	–26	42.9	–42.7
10-year government bonds (Germany)	2.50	2.66	–16	47.6	6.3
10-year government bonds (Spain)	3.42	3.39	3	42.6	–2.1
10-year government bonds (Portugal)	3.25	3.26	–1	59.3	6.1
US					
Fed funds (upper limit)	5.50	5.50	0	0.0	25.0
3-month SOFR	5.32	5.34	–2	–0.7	5.6
1-year government bonds	5.11	5.18	–7	34.8	–28.6
2-year government bonds	4.75	4.87	–12	50.4	–18.2
10-year government bonds	4.40	4.50	–10	51.7	54.2

Spreads corporate bonds (bps)

	30-June	31-May	Monthly change (bp)	Year-to-date (bp)	Year-on-year change (bp)
Itraxx Corporate	61	53	9	2.9	–12.0
Itraxx Financials Senior	72	59	13	4.8	–12.6
Itraxx Subordinated Financials	128	106	22	5.7	–29.6

Exchange rates

	30-June	31-May	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
EUR/USD (dollars per euro)	1.071	1.085	–1.2	–3.0	–1.8
EUR/JPY (yen per euro)	172.390	170.620	1.0	10.7	9.2
EUR/GBP (pounds per euro)	0.847	0.851	–0.5	–2.3	–1.5
USD/JPY (yen per dollar)	160.880	157.310	2.3	14.1	11.2

Commodities

	30-June	31-May	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
CRB Commodity Index	539.3	546.2	–1.3	5.7	–2.4
Brent ($/barrel)	86.4	81.6	5.9	12.2	15.8
Gold ($/ounce)	2,326.8	2,327.3	0.0	12.8	21.1

Equity

	30-June	31-May	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
S&P 500 (USA)	5,460.5	5,277.5	3.5	14.5	22.6
Eurostoxx 50 (euro area)	4,894.0	4,983.7	–1.8	8.2	11.3
Ibex 35 (Spain)	10,943.7	11,322.0	–3.3	8.3	13.5
PSI 20 (Portugal)	6,480.1	6,870.8	–5.7	1.3	8.2
Nikkei 225 (Japan)	39,583.1	38,487.9	2.8	18.3	17.3
MSCI Emerging	1,086.3	1,049.0	3.6	6.1	8.1

Will political uncertainty hold back the international economy?

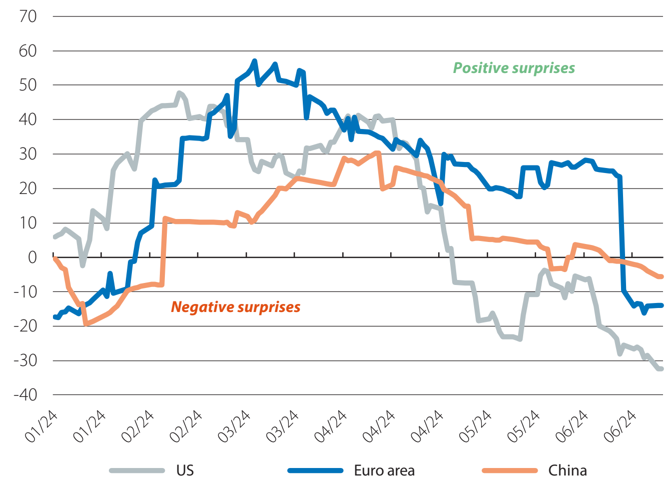
A somewhat moderate recovery in the euro area. The economic recovery in the euro area continued during Q2, but it began to lose momentum in June. Among other indicators, the Purchasing Managers' Index (PMI) for the euro area remained at levels compatible with positive growth in June, but disappointed by falling with respect to the previous month (50.8 vs. 52.2), weighed down by an industrial sector that is slipping deeper into recession (45.6 vs. 47.3). The German Ifo, meanwhile, fell in June (89.3 vs. 88.6) after four consecutive months of growth, thus falling further from the 100-point threshold that indicates growth rates consistent with its long-term average. These results are thus in line with the expected scenario of modest growth (both the consensus of analysts and CaixaBank Research predict an increase of around 0.3% quarter-on-quarter in Q2) and they would place euro area growth for 2024 as a whole at a sober 0.8%.

Increased political uncertainty in the euro area. Part of the deterioration shown by the business confidence indicators could reflect an increase in political uncertainty associated with the outcome of June's European elections, insofar as these indicators are based on surveys conducted just after the elections were held. Although the traditional parties maintained the parliamentary majority, the rise of forces at the extremes of the political spectrum led to a snap general election being called in France. Following the second round, the unexpected victory of the left-wing coalition (NFP), which won 182 of the 577 seats in the Assembly, and the resistance of President Macron's party (168 seats) put Le Pen's party in third place (143 seats). The result is a highly fragmented parliament in which no political force has the necessary majority to impose its agenda, meaning that pacts will have to be reached between them. As detailed in the Financial Markets Economic Outlook section, all this raised doubts among investors about the correction of the fiscal imbalances. This, in turn, caused financial turbulence in a context in which France is starting from a situation with a high deficit and significant public debt (5.5% and 110.6% in 2023, respectively) and in a month in which the European Commission initiated excessive deficit procedures with France itself, in addition to Italy, Hungary, Poland, Malta, Slovakia and Belgium.

Euro area inflation slows down. Inflation fell 0.1 pps in June to 2.5%, while core inflation (which excludes food and energy) remained at 2.9%. Thus, following the sharp decline of the last year and a half (inflation had reached 10.6% in October in 2022), the pace of the decline in the last mile to reach the 2% target has slowed, as the source of the disinflation in energy is gradually exhausted (energy prices have stabilised in year-on-year terms, after falling by more than 10% at the end of 2023) and the effort falls on inertial components (such as services, which remained at 4.1% in June).

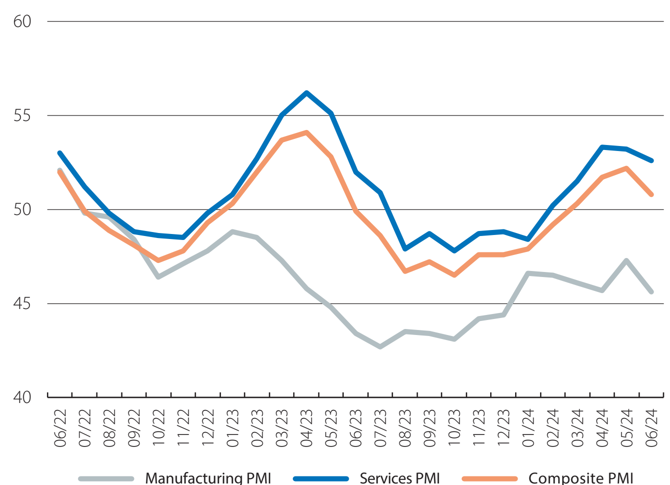
The indicators in the US continue to paint an outlook of solid growth, albeit with a slowdown. In June, the composite PMI consolidated at one of its highest levels in the last two years

Economic surprises index
(Deviation from expectations)



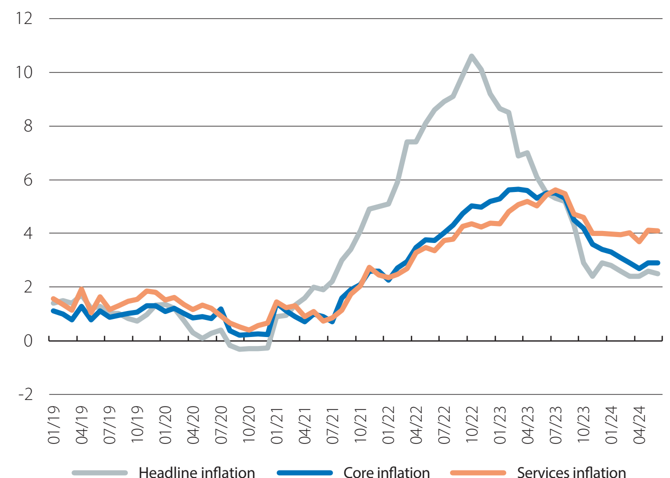
Source: *BPI Research, based on data from Citigroup.*

Euro area: PMI
Index (>50, expansion and <50, contraction)



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

Euro area: inflation
Year-on-year change (%)



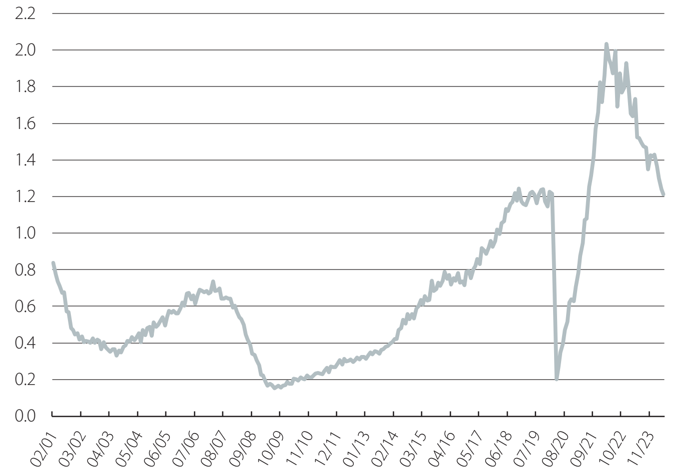
Source: *BPI Research, based on data from Eurostat.*

(54.6 vs. 54.5) and the New York and Atlanta Feds' nowcasting models point to growth rates in excess of 0.5% quarter-on-quarter in Q2 2024 (0.3% in Q1). However, there are also ever-increasing signs of an orderly loss of momentum. In May, job creation continued to exceed the average of the previous 12 months and the unemployment rate stood at 4.0%, but other labour market indicators signal a degree of normalisation. For instance, the vacancy rate continues to decline (1.2 in May, down from the high of 2.0) and the employment component of the ISM index, in both manufacturing and services, indicates a modest slowdown in the pace of job creation.

Private consumption moderates, while inflation provides better news. US private consumption grew less than initially estimated in Q1 (0.4% quarter-on-quarter vs. the initial estimate of 0.6%) and the weakness of retail sales in April and May suggests that this pattern will continue in Q2. In this regard, it is estimated that practically all the excess savings accumulated during the pandemic have been exhausted. With regard to US inflation, in May, and for the second consecutive month, it was once again below the level expected by the consensus of analysts, both in the case of headline inflation (3.3% vs. 3.4% in April) and for the core index (3.4% vs. 3.6%). However, the shelter component (housing-related services) continues to show considerable downward resistance (5.4% vs. 5.5% in April) and this is holding back the decline in inflation, since this component accounts for over 35% of the CPI basket. Shelter is also a component of the PCE price index, which is the benchmark used by the Fed, although it accounts for a smaller portion than it does in the CPI. This explains why inflation measured with the PCE is lower, but it does not prevent it from showing greater inertia than expected in recent months (2.6% vs. 2.8% in April). With this, the Fed reiterated its prudence regarding the start of rate cuts.

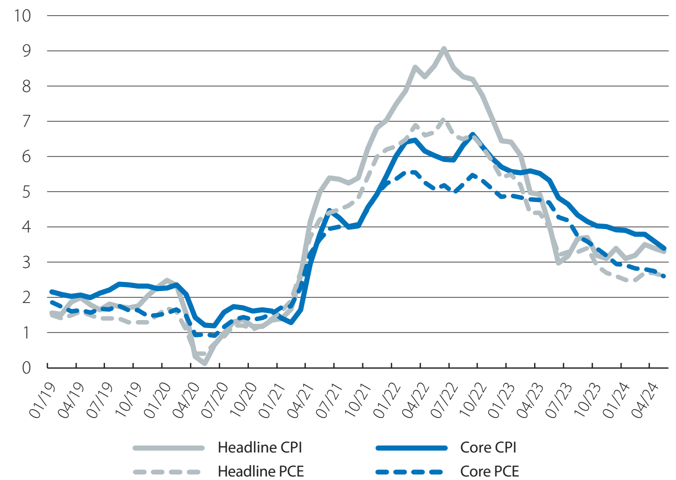
Good short-term outlook for China, but medium-term risks persist. The Chinese economy offers some mixed signals, but on balance it continues to grow at a steady pace, supported by the economic measures implemented and the growth of exports (14.5% year-on-year in May), thanks to the boost provided by the sale of products related to the green economy. Thus, investment in fixed capital grew in the year to date up to May by 4.0% year-on-year, compared to the 4.2% registered in the first four months of the year. Meanwhile, industrial production lost some of its momentum in May (5.6% vs. 6.7% year-on-year), while retail sales managed to recover (3.7% vs. 2.3% year-on-year). As for the situation in the housing market, the difficulties persist and, despite the measures taken by the government, the downward trend in prices has not yet been reversed. On the other hand, in June the EU announced an additional tariff of up to 38% on Chinese electric vehicles on a provisional basis (no later 5 July, and definitively in November). This decision follows the one taken by the US (where they want to apply a tariff of almost 100% on electric cars imported from China from 1 August), as well as the measure proposed by Turkey to apply a tariff of 40% on any vehicle manufactured in China (including both hybrid and internal combustion vehicles) from 7 July.

US: job vacancies
(Ratio of job vacancies per unemployed person)



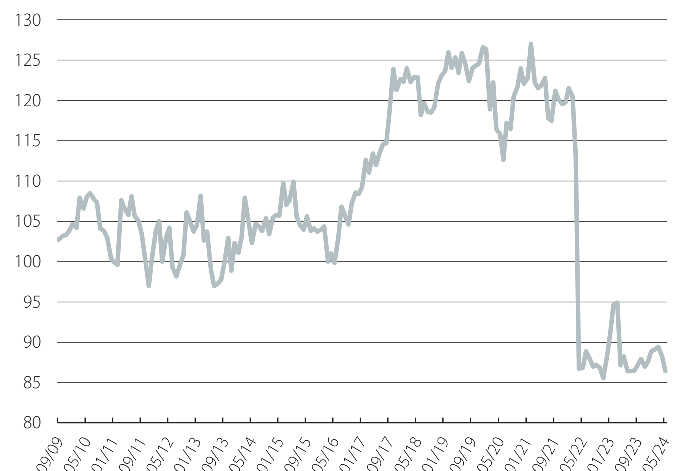
Source: *BPI Research, based on data from the Bureau of Labor Statistics.*

US: measures of inflation
Year-on-year change (%)



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

China: consumer confidence
Index



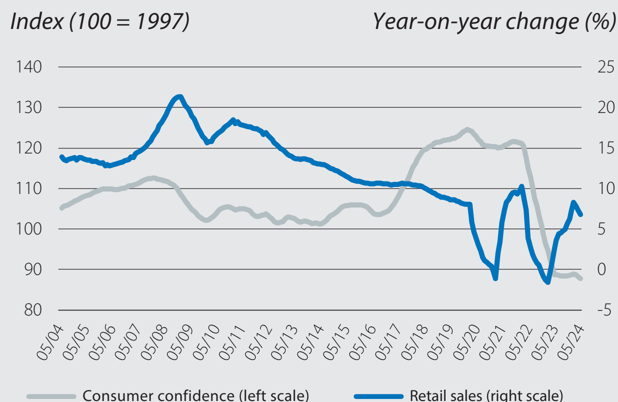
Source: *BPI Research, based on data from the National Statistics Office of China.*

What is going on with Chinese consumers?

At first glance, the Chinese economy withstood the shock of the pandemic rather well. Between 2015 and 2019, it grew at an average annual rate of 6.7%, while since Q1 2023 it has sustained a growth rate of over 5%. Externally, its exports have grown at a record pace since 2020 and have gained market share, while some of its leading industries have reached a position of virtually undisputed global dominance. Domestically, however, the situation is different. Consumption has not quite taken off and investment is still weighed down by a crisis in the real estate sector that seems to have no end. In this environment, retail sales have grown by 5% in the last year (compared to a rate of around 10% in 2015-2019), while investment is growing at a rate of 4% (3% in 2023, compared to above 7% in 2015-2019). One of the most visible symptoms of this weakness in domestic demand is consumer confidence, which plummeted in early 2022 and has not recovered since. In an earlier article of this report, we saw how some economic indicators have evolved very differently from the consumer confidence indices in the US and the euro area. The differences between the evolution of such indicators can be explained by several factors, including changes in households' sensitivity to certain economic variables, cognitive biases or idiosyncratic issues specific to each country or region.[1] But what about China?

China: consumer confidence and retail sales

Index (100 = 1997) — Year-on-year change (%)



Note: *12-month averages are used for both variables.*
Source: *BPI Research, based on data from the National Statistics Office of China.*

Lack of confidence and weak consumption: cyclical or structural?

Besides the demanding domestic economic environment, in the last two years there have also been deflationary pressures as a result of structural factors – such as population decline – and cyclical factors – namely, a real estate sector undergoing correction and the rapid expansion of productive capacity in the manufacturing sector during the pandemic, which has led to overcapacity problems. Also, the slowdown in nominal GDP perceived by consumers has been sharper than the real growth figures show, with growth slowing from around 9.0% in 2015-2019 to less than 5.0% in the last year.[2]

The breakdown by component of expenditure per capita also reveals some changes in Chinese households' consumption preferences. Among the most important items, there is a sharp slowdown in spending on housing compared to in the pre-pandemic period, while spending on food has even accelerated. Also, consumption has slowed more in urban areas than it has in rural areas.[3]

These factors, coupled with the momentum and speed of the initial decline, point to a common denominator of the lack of confidence and the recent weakness in Chinese household consumption: the real estate sector. Indeed, the collapse of consumer confidence has occurred practically in sync with the rapid deterioration of the real estate climate index (see second chart). Of course, this all occurred at a time when the country was ravaged by a new wave of infections which led to widespread lockdowns in the country's largest cities and amplified the difficulties in the sector. Since then, the consumer confidence index has not recovered.

All this points to cyclical factors behind Chinese consumers' lack of confidence – and, in a way, country – specific factors. But there are also structural factors behind the lack of consumption in China. In previous Focuses, we have explored some factors explaining the high household savings rate (and the corresponding low consumption rate) in the country.[4] At close to 35%, it is much higher than in advanced economies or other economies with a similar level of development, and this

1. See the Focus «The perception of the economy and its paradoxes», in the MR04/2024.
2. Some recent scientific evidence also suggests that the official GDP growth estimates of some countries with autocratic regimes may be overstated. See «Shining light on lies», The Economist (1 October 2022) and L. Martínez (2022) «How much should we trust the dictator's GDP growth estimates?», Journal of Political Economy, 130 (10), 2731-2769.
3. On the other hand, the slowdown in the growth of disposable income was somewhat sharper in the extreme quintiles of the distribution, i.e. among the 20% with the lowest and highest incomes. In addition to the stronger negative income effect in these groups, it is reasonable to assume that the wealth effect resulting from the housing crisis is proving to be more pronounced in the upper quintiles of the income distribution. On the one hand, the sharpest price declines are occurring in Tier 1 cities (where the highest incomes are concentrated) and, on the other hand, this group tends to have a high exposure to the sector.
4. See, for example, the Focus «China's symptoms: more than COVID», in the MR12/2022.

trend has deepened in recent years. Since 2020, the People's Bank of China's quarterly depositor survey shows an upward trend in the proportion of respondents who want to save more in the future, and a downward trend in those who want to invest more. With the double shock of the pandemic and the housing crisis, Chinese households are becoming even more cautious in the face of the uncertainty about the future and the difficulty in finding attractive investment options.[5]

Confidence and consumption: causes and consequences

The crisis in China's real estate sector has added a new dimension to the chronic low consumption observed in the country and now finds itself in a kind of feedback loop, being both a cause and a consequence of the lack of consumer confidence.

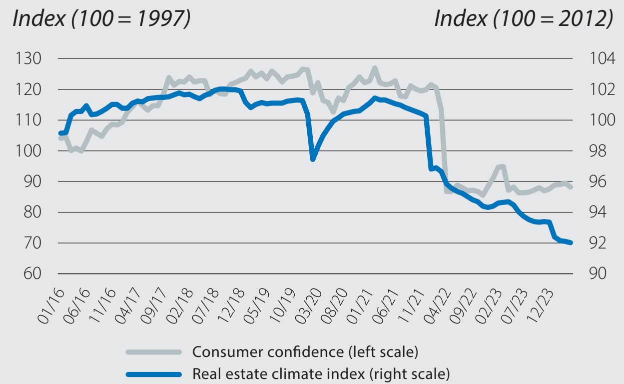
Besides real estate, other factors have also contributed to the deterioration in economic sentiment, such as the high rate of youth unemployment, the worsening economic environment in some sectors (such as consumer durable goods) and the perceived increase in external risks. In the short term, a sustained recovery in confidence is unlikely without underlying changes in these variables.

The Chinese authorities' classic recipes – more investment and more exports – appear to be running out of steam in an environment marked by high debt, declining returns on infrastructure investment, overcapacity in the manufacturing sector and with the country's global market share at its peak, all against a backdrop of growing trade tensions. Perhaps the lack of confidence can be linked to one more factor: the doubts among households that the Chinese authorities are capable of finding effective solutions to a confluence of crises in a feedback loop.

In this regard, it will be particularly interesting to follow the third plenary session this month of July at which, every five years, the Chinese Communist Party tends to discuss and announce major reforms and priorities in a variety of areas. Although the details are often slow to be revealed, it is possible that there may be a greater commitment to demand-side policies, with measures offering direct support for households, the expansion of social spending programmes or a reinforcement of measures to support the real estate sector. On the other hand, they could also point to a reinforcement of the «reforms» we have seen in recent years, with measures aimed at stimulating supply and promoting the country's

5. For instance, the main stock market indices, such as the Shanghai Composite index and the Shenzhen Composite index, have been accumulating losses since the outbreak of the housing crisis in the summer of 2021.

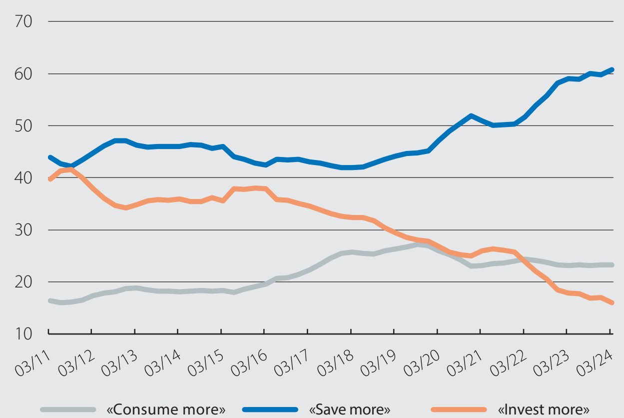
China: consumer confidence and climate in the real estate sector



Note: *The Real Estate Climate Index is a composite index that measures aggregate activity in the sector using indicators for sales, real estate investment and land sales.*
Source: *BPI Research, based on data from the National Statistics Office of China.*

China: consumer confidence – future consumption, savings and investment decisions

Affirmative answers to each question (% of total)



Note: *The survey of urban depositors is conducted quarterly on a sample of depositors in 50 large, medium and small-sized cities. 50 depositors from 400 banks are chosen at random, with 20,000 participants in total each quarter. Among other questions about expectations and sentiment regarding income, employment and prices, respondents also answer a question about their desire to «consume more», «save more» or «invest more» in the coming quarters. The three options are mutually exclusive.*
Source: *BPI Research, based on data from the People's Bank of China (PBoC).*

«economic security». Recently, the Chinese authorities have underlined their focus on the quality of economic growth. Will they finally be willing to bet on the strength of consumption in the world's second largest economy?

Luís Pinheiro de Matos

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

UNITED STATES

	2022	2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	04/24	05/24	06/24
Activity									
Real GDP	1.9	2.5	2.4	2.9	3.1	2.9	–	–	–
Retail sales (excluding cars and petrol)	8.6	5.3	4.4	4.6	5.0	2.9	3.2	2.6	...
Consumer confidence *(value)*	104.5	105.4	105.4	109.0	102.7	106.3	97.5	101.3	100.4
Industrial production	3.4	0.2	0.0	–0.1	–0.1	–0.5	–0.8	0.1	...
Manufacturing activity index (ISM) *(value)*	53.5	47.1	46.7	47.6	46.9	49.1	49.2	48.7	48.5
Housing starts *(thousands)*	1,552	1,421	1,455	1,380	1,481	1,407	1,352	1,277	...
Case-Shiller home price index *(value)*	307	312	308	316	321	324	327	...	...
Unemployment rate *(% lab. force)*	3.6	3.6	3.6	3.7	3.7	3.8	3.9	4.0	4.1
Employment-population ratio *(% pop. > 16 years)*	60.0	60.3	60.3	60.4	60.3	60.2	60.2	60.1	60.1
Trade balance [1] *(% GDP)*	–3.8	–3.1	–3.2	–3.0	–2.9	–2.8	–2.9	–2.9	...
Prices									
Headline inflation	8.0	4.1	4.0	3.5	3.2	3.2	3.4	3.3	...
Core inflation	6.2	4.8	5.2	4.4	4.0	3.8	3.6	3.4	...

JAPAN

	2022	2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	04/24	05/24	06/24
Activity									
Real GDP	1.2	1.8	2.2	1.5	1.0	–0.7	–	–	–
Consumer confidence *(value)*	32.2	35.2	35.7	36.2	36.5	38.9	38.3	36.2	36.4
Industrial production	0.0	–1.4	0.9	–3.6	–0.9	–4.3	–4.2	–0.5	...
Business activity index (Tankan) *(value)*	9.5	7.0	5.0	9.0	13.0	11.0	–	–	–
Unemployment rate *(% lab. force)*	2.6	2.6	2.6	2.6	2.5	2.5	2.6	2.6	...
Trade balance [1] *(% GDP)*	–2.1	–3.0	–3.5	–2.7	–1.8	–1.2	–1.0	–1.0	...
Prices									
Headline inflation	2.5	3.3	3.4	3.1	2.9	2.5	2.5	2.9	...
Core inflation	1.1	3.9	4.2	4.3	3.9	3.2	2.4	2.2	...

CHINA

	2022	2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	04/24	05/24	06/24
Activity									
Real GDP	3.0	5.2	6.3	4.9	5.2	5.3	–	–	–
Retail sales	–0.8	7.8	10.7	4.2	8.3	4.7	2.3	3.7	...
Industrial production	3.4	4.6	4.5	4.2	6.0	5.8	6.7	5.6	...
PMI manufacturing *(value)*	49.1	49.9	49.0	49.7	49.3	49.7	50.4	49.5	49.5
Foreign sector									
Trade balance [1,2]	899	865	947	901	865	842	825	840	...
Exports	7.1	–5.1	–5.4	–10.8	–3.3	–1.7	–1.0	6.6	...
Imports	0.7	–5.5	–7.0	–8.5	0.9	1.5	8.3	1.8	...
Prices									
Headline inflation	2.0	0.2	0.1	–0.1	–0.3	0.0	0.3	0.3	...
Official interest rate [3]	3.65	3.45	3.6	3.5	3.5	3.5	3.5	3.5	3.5
Renminbi per dollar	6.7	7.1	7.0	7.2	7.2	7.2	7.2	7.2	7.3

Notes: *1. Cumulative figure over last 12 months. 2. Billion dollars. 3. End of period.*
Source: *BPI 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	Q2 2023	Q3 2023	Q4 2023	Q1 2024	04/24	05/24	06/24
Retail sales *(year-on-year change)*	1.2	–2.0	–2.2	–2.3	–0.8	–0.1	0.0	...	...
Industrial production *(year-on-year change)*	2.2	–2.1	–0.9	–4.7	–3.8	–4.7	–3.0	...	...
Consumer confidence	–21.9	–17.4	–26.9	–26.9	–26.9	–26.9	–14.7	–14.3	–14.0
Economic sentiment	102.1	96.3	96.5	96.5	96.5	96.5	95.6	96.1	95.9
Manufacturing PMI	52.1	51.2	44.7	43.2	43.6	43.9	45.7	47.3	45.8
Services PMI	52.1	52.1	54.4	49.2	48.4	48.4	53.3	53.2	52.8
Labour market									
Employment (people) *(year-on-year change)*	2.3	1.4	1.5	1.4	1.2	1.0	–	–	–
Unemployment rate *(% labour force)*	6.8	6.6	6.5	6.6	6.5	6.5	6.4	6.4	...
Germany *(% labour force)*	3.1	3.0	2.9	3.0	3.1	3.2	3.3	3.3	...
France *(% labour force)*	7.3	7.4	7.4	7.4	7.5	7.4	7.3	7.4	...
Italy *(% labour force)*	8.1	7.7	7.8	7.6	7.4	7.2	6.8	6.8	...
Real GDP *(year-on-year change)*	3.5	0.6	0.6	0.2	0.2	0.4	–	–	–
Germany *(year-on-year change)*	1.9	0.0	0.2	–0.1	–0.2	–0.2	–	–	–
France *(year-on-year change)*	2.6	1.1	1.4	0.9	1.2	1.3	–	–	–
Italy *(year-on-year change)*	4.2	1.0	0.6	0.6	0.7	0.7	–	–	–

Prices

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

	2022	2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	04/24	05/24	06/24
General	8.4	5.5	6.2	5.0	2.7	2.6	2.4	2.6	2.5
Core	3.9	5.0	5.5	5.1	3.7	3.1	2.7	2.9	2.9

Foreign sector

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

	2022	2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	04/24	05/24	06/24
Current balance	–0.4	1.9	0.4	1.5	1.9	2.6	2.8	...	...
Germany	4.3	6.2	4.9	6.0	6.2	6.5	6.7	...	...
France	–2.0	–0.7	–1.8	–1.3	–0.7	–0.6	–0.9	...	...
Italy	–1.6	0.5	–1.1	0.0	0.5	1.1	1.4	...	...
Nominal effective exchange rate [1] *(value)*	**90.9**	**94.7**	**94.6**	**95.9**	**95.1**	**95.2**	**95.1**	**95.3**	**94.9**

Credit and deposits of non-financial sectors

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

	2022	2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	04/24	05/24	06/24
Private sector financing									
Credit to non-financial firms [2]	6.7	2.7	4.0	1.1	0.1	0.3	0.2	0.3	...
Credit to households [2,3]	4.4	1.7	2.1	1.1	0.5	0.3	0.2	0.3	...
Interest rate on loans to non-financial firms [4] *(%)*	1.8	4.6	4.5	5.0	5.2	5.1	5.2	5.0	...
Interest rate on loans to households for house purchases [5] *(%)*	2.0	4.4	4.3	4.7	4.9	4.8	4.8	4.8	...
Deposits									
On demand deposits	6.3	–8.5	–8.1	–11.3	–10.7	–8.8	–6.8	–5.6	...
Other short-term deposits	4.5	21.1	22.5	23.2	21.0	18.4	15.6	14.7	...
Marketable instruments	3.7	20.4	22.0	20.4	19.8	20.1	22.6	17.5	...
Interest rate on deposits up to 1 year from households *(%)*	0.5	2.7	2.5	3.0	3.3	3.2	3.1	3.1	...

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

Portuguese economy going up and up

The latest activity indicators suggest that Q2 may surprise on the upside. The economic climate indicator remained unchanged in Q2 compared to Q1, but sentiment in the industrial sector is improving and its production outlook is strengthening. Likewise, family sentiment shows a positive trend and indicators suggest that consumption remained dynamic in Q2. Indicators related to investment also predict a positive picture, with the GFCF indicator improving significantly in April and imports of capital goods accelerating. The external sector is also showing positive developments, but here a more marked acceleration in imports could limit output growth.

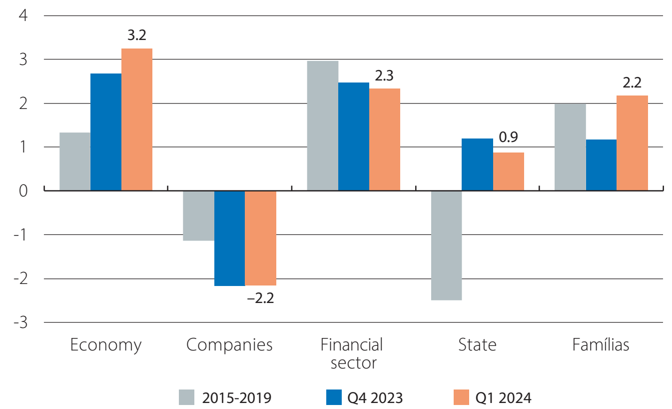
Portugal's external borrowing capacity increased in the year ending in March, standing at 8.76 billion euros, equivalent to 3.2% of GDP, 5 tenths more than at the end of 2023. This development was the result of a 3.2% increase in the economy's total savings, a 4% increase in the balance of transfers received from the rest of the world (including European funds) and almost stable investment, which in the period only increased by 0.2% compared to the end of 2023. Among the various sectors, the business sector has the most savings and receives the most capital transfers, but it is also the one that invests the most, which translates into financing needs of 5.808 billion euros, or 2.2% of GDP. In the remaining sectors, the situation is reversed: savings exceed realised investment and capital transfers are less significant, thus contributing to the economy's ability to finance the rest of the world. The financial sector and households are the institutional sectors that contribute most to the economy's surplus - the first with a surplus of 6.323 billion euros (2.3% of GDP) and the second with 5.862 billion (2.2% of GDP). Among households, it was also important that the savings rate rose to 8% of disposable income, the highest level since 2014, reflecting greater growth in income (8.4%) than in consumption (5.3%). The increase in disposable income was particularly impacted by the growth in the wage bill (i.e. employment and wages): +10.6%. For its part, public administration posted an accumulated surplus of 2.383 billion in Q1, equivalent to 0.9% of GDP.

Inflation resumed its downward trend in June. In fact, after the shock of the previous month (an increase of 0.9% in the year-on-year rate), CPI once again fell below 3%. Overall CPI fell by 0.3% to 2.8% and underlying CPI fell by 0.4% to 2.3%. Although we still expect fluctuations in the trajectory in 2024, we anticipate a more benign path throughout the rest of the year and do not anticipate a CPI figure above 3% again. The surprise in June came from the energy component, with this index increasing by 1.95% on a monthly basis, despite average retail fuel prices being lower than in May according to some official sources. All things considered, we can say that the data was not surprising and the path of disinflation seems more consolidated.

Year-on-year changes, level

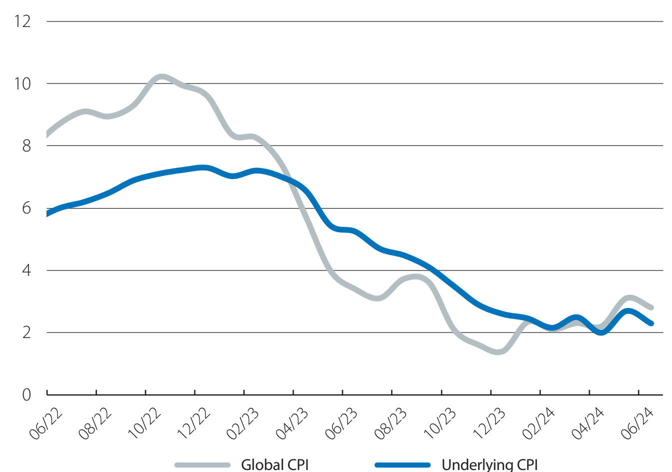
		1T 2024	2T 2024	Último mês disponível
Synthetic indicators	Economic climate indicator (yoy)	1.9	1.9	20-jun
	Economic sentiment indicator (level)	99.4	101.1	May
	Daily economic activity indicator (yoy)	5.6	3.6	20-jun
Consumption	Confidence indicators	–22.6	–17.5	June
	Wholesale and retail trade (yoy)	1.4	3.5	May
	Retail sales excl. Fuel	2.0	3.5	May
	Deflated card withdrawals and purchases (yoy)	7.5	7.0	May
	Car sales (yoy)	13.7	4.0	May
Investment	GFCF indicator	0.9	3.0	April
	Imports of capital goods (accum. year)	–1.3	14.0	April
Supply	Cement sales (yoy)	4.1	8.5	May
	Industrial production (yoy)	1.4	5.2	April
Unmet	Electricity consumption corrected for temperature&working days (yoy)	3.1	2.1	May
	No. of non-resident tourists (yoy)	9.9	15.2	April
	Number of flights (yoy)	2.2	2.6	May
Retail external	G&S exports (accum. year, yoy)	2.7	3.8	April
	G&S imports (accum. year, yoy)	–1.7	0.5	April
Labour market	Change in registered unemployment (thousand people)	15,6	22,9	April
	Variation in employment (thousands of people)	104,1	73,6	April

The economy's financing capacity/needs
(% of GDP)



Source: *BPI Research, based on data from Banco de Portugal.*

CPI
Year-on-year change (%)



Source: *BPI Research based on data from the National Institute of Statistics.*

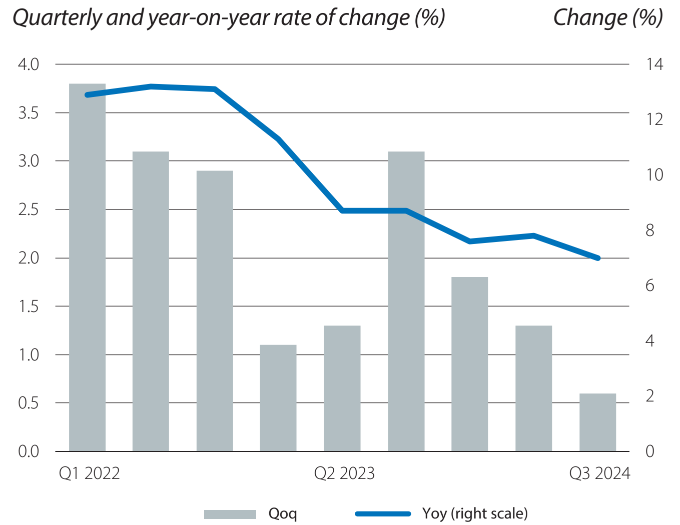
Houses continue to appreciate in value in 2024. Q1 2024 was the third in a row in which the quarterly appreciation of the House Price Index slowed (0.6% compared to 1.3% in Q4 2023), but house prices are still 7% higher than a year ago. The number of homes sold also fell compared to the last quarter of 2023 (–3.1%) and the same quarter of the previous year (–4.1%), although the trend points to stabilisation at around 30,000 properties/quarter (above the pre-pandemic average of 25,300/quarter). Therefore, this Q1 figure does not jeopardise our global vision for 2024 of a slowdown in the market with an appreciation in the value of homes more in line with the series' history. Meanwhile, data for May on bank valuations in housing loan cases show an increase in the median value of 14 euros compared to April and 6.6% year-on-year.

The budget balance was negative in the 1Q, but this is not a concern. The budget balance stood at –0.2% of GDP in Q1 of the year (in national accounts), and compares with the surplus of 1.1% recorded in Q1 2023. The reason for this behaviour was the increase in expenditure (11% year-on-year), which was higher than that of revenue (7.3%), due to the increase in personnel costs, social benefits and subsidies (which account for more than 80% of the year-on-year increase in expenditure). Of particular note for each of these items, and in this order, is the impact of updating civil servants' salaries, the increase in pensions in line with the update formula (which takes into account the increase in inflation in 2023) and the injection of funds into the National Electricity System. On the revenue side, the year-on-year growth is largely explained by tax and contributory revenue, while the more than 30% increase in capital revenue is also noteworthy, mainly due to PRR funds. The re-entry of public accounts into (slightly) negative territory in Q1 does not in itself imply that the budget balance will return to a deficit in 2024 (for example, Q1 2019 was also negative and the balance for the year as a whole stood at +0.1%), so we continue to consider our forecast of +0.3% of GDP to be plausible.

Default levels in the banking system remain low.Indeed, the NPL ratio remained unchanged at 2.7% in Q1, albeit with different dynamics between the various segments. Thus, in the case of housing, the ratio increased slightly for the second consecutive quarter to 1.4%, the highest since Q2 2022, but still well below the maximum seen in Q1 2016 (7.4%). A similar trajectory occurred in the NPL ratio for consumption & other purposes, with an increase of 0.1% to 6.3%, also significantly lower than the maximum of 20% recorded at the beginning of 2016. In turn, in the case of non-financial companies, the ratio remained unchanged at 5%, after 30 consecutive quarters of falls. Meanwhile, the portfolio of loans to the non-financial private sector continues to fall less sharply than in previous months: in May, it fell by 0.3% year-on-year (compared to –0.6% in April), with less significant falls in the mortgage loan portfolio (–0.2%, compared to –0.6% in the previous month) and NFCs (–1.4%, compared to –1.7% in April), while consumer credit grew again by 4.4%.

Housing Price Index

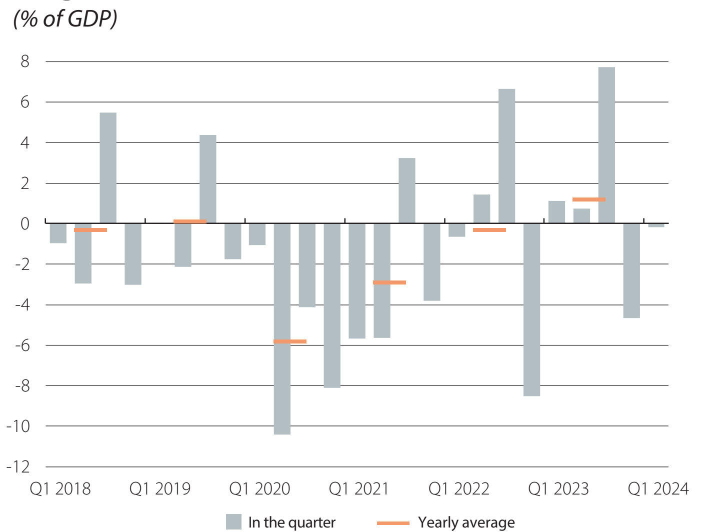
Quarterly and year-on-year rate of change (%)



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

Budget balance (national accounts)

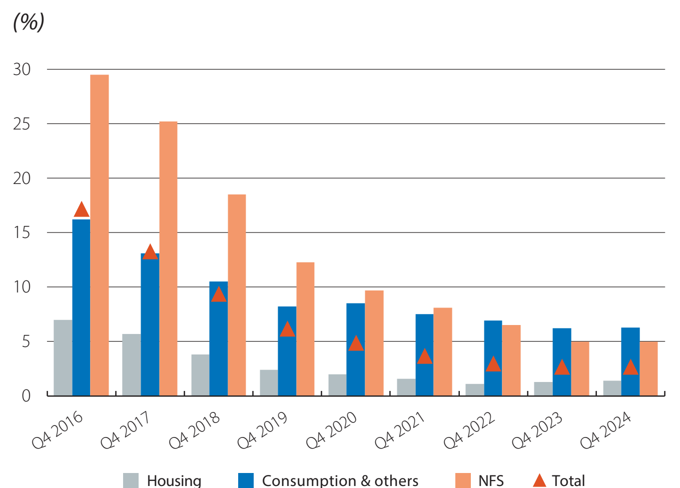
(% of GDP)



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

NPLs ratio

(%)



Source: *BPI Research, based on data from BdP.*

Portuguese companies: evidence of deleveraging

In recent months, we have frequently addressed the issue of the indebtedness of non-financial corporations (NFCs).[1] Specifically, we have explained aspects such as the reduction in the weight of NFC debt in relation to GDP and its convergence with the level of the eurozone. We realised that there was less borrowing from national credit institutions and detailed the type of debt incurred. In this article the path is different. Specifically, we want to see how these clues are reflected in the economic and financial statements of NFCs, which suggest lower indebtedness and a strengthening of the financial health of Portuguese companies, while also providing some sectoral detail.

Firstly we will look at the Financing Obtained as a percentage of Assets. This ratio indicates the proportion of assets financed by interest-bearing debt. Thus, if the ratio is smaller, it means that the assets, rights and *cash* that a company owns are backed by a smaller portion of debt. This will typically translate into greater creditworthiness. As can be seen in the first graph, over the time horizon analysed, this ratio peaked in 2013 for Large Companies (LC) and 2012 for SMEs, at 39.2% and 42.3% respectively, initiating a downward trend that culminates in a ratio of 27.3% for all NFCs at the end of 2023.

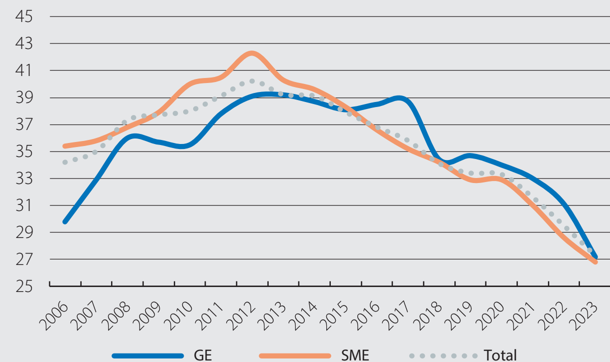
When we look at a company's financial health, another ratio that stands out and is often widely scrutinised is Equity / the Assets Ratio. This financing structure metric expresses the weight of equity in total assets. The higher the ratio, the more robust it is, i.e. a smaller share of assets is financed by borrowed capital. Here, in general, the trend is also towards an improvement in this ratio, which for all companies averaged 34.6% in 2006, fell until 2012 and then embarked on a continuous upward trajectory to 44.3% in 2023, almost 10% higher. For Large Companies, despite having closed 2023 with a Financial Autonomy of 40%, the trend is more oscillating. One of the reasons for this volatility in LC may be related to a greater ability to optimise their financial structure in line with the economic and monetary cycle. For example, in times of lower interest rates, it may make sense to resort more to debt capital than equity capital, as shareholders demand a higher return on their capital than the company can finance itself with debt.

In terms of profitability, the evolution of the metrics is neither so evident nor so favourable. This can be seen in the third graph, which shows Return on Assets, i.e. the gross return on invested resources (Assets). Companies as a whole have been improving this metric since 2012 (third graph), though with a drop in the year the Covid 19 pandemic broke

1. See article «The identity card of Portuguese companies: from birth to investment» in the March 2024 *Monthly Report* and the article «Debt of Portuguese companies: opening to the "Rest of the World"» in the May 2024 *Monthly Report*.

Financing obtained

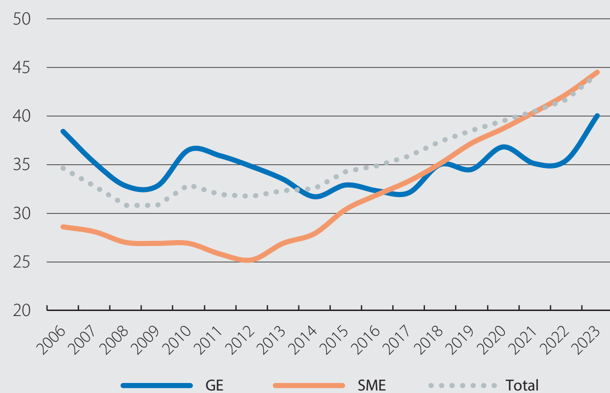
(As % of assets)



Notas: *Annual data is calculated based on the IES. For 2023, data from Q4 2023 is used, based on the quarterly survey of NFCs (excluding agriculture and fisheries).*
Source: *BPI Research, based on data from Banco de Portugal.*

Financial autonomy

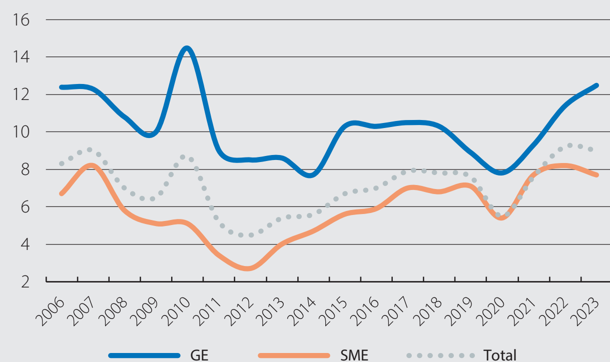
(%)



Notes: *Annual data is calculated based on the IES. For 2023, data from Q4 2023 is used, based on the quarterly survey of NFCs (excluding agriculture and fisheries).*
Source: *BPI Research, based on data from Banco de Portugal.*

Return on assets

(%)



Notes: *Annual data is calculated based on the IES. For 2023, data from Q4 2023 is used, based on the quarterly survey of NFCs (excluding agriculture and fisheries).*
Source: *BPI Research, based on data from Banco de Portugal.*

out. Return on Assets is also significantly higher in large companies, which is to be expected as they trade in higher value-added products and services and also have more dominant positions and negotiating power in the market.

Another critical aspect when analysing credit risk and the financial health of an NFC is related to its ability to meet the commitments arising from financing. The fourth graph shows the coverage of financing costs, which identifies the number of times the EBITDA generated by companies is higher than the financing costs. In other words, a higher ratio means that the operating resources generated by the company can more comfortably pay off its financial costs, which means less financial pressure. Typically, a ratio of less than "1" means that what the operation generates is not even enough to meet its liabilities for interest and other financial charges and therefore contributes to a high risk of *default*. Fortunately, this is not the case with national NFCs, where the total number of companies covers the financial costs eight times over with the EBITDA they generate, which is a very satisfactory set of circumstances. Indeed, this coverage ratio has seen an extraordinary evolution since 2012, when it was very poor for all NFCs (2.2). Despite this, in 2023 this ratio worsened, which was mainly explained by the increase in the cost of borrowing (curve also shown in the graph) associated with the increase in reference rates, indexing and NFCs' exposure to variable rate financing.

In the last table, we have collated the ratios we presented earlier for the major sector groups and for all size classes of NFCs.

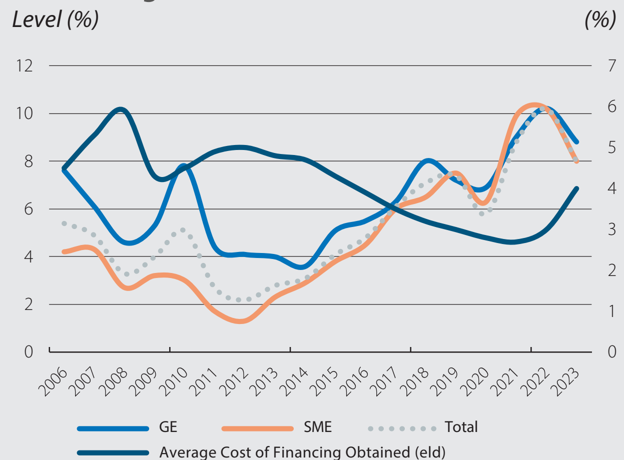
As far as Financial Autonomy is concerned, Industry has the most favourable ratio (48.3%), but it is worth noting that the Electricity, Gas and Water sector, Services and Commerce also have favourable ratios above 40%. In this parameter, the Transport and storage sector has the weakest data, although the recovery of 12.8% since the low of 17.6% recorded at the end of 2012 should be emphasised. In line with this, the transport sector is also the sector in which interest-bearing debt finances a greater proportion of assets.

On the other hand, we can also say that the Construction sector is that sector with the greatest financial pressure due to the fact that it has the weakest ratio of coverage of financing costs by EBITDA (5.3x). Despite this, the sector's positive evolution in this area is noteworthy. In 2011 and 2012, the EBITDA of companies in the sector was not even enough to cover financing costs (0.6x and 0.7x respectively), a massive *red flag*. The crisis in the sector was so significant that the net creation of companies in the construction sector between 2011 and 2014 was negative, at almost –6 thousand. Those were the years of the financial intervention in Portugal, when the annual drop in residential property transactions was close to –30% and house prices were adjusted downwards (–4.9% in 2011 and –7.1% in 2012). On the other hand, in recent years the sector has gained new dynamism and the net creation of companies has been largely positive. For example, in 2022 (the latest data available) more than 4,200 construction companies were created and the difference between companies created and extinguished was quite positive (+1,100). The cycle of uninterrupted appreciation of residential property since 2014 and some major public works on the horizon explain the trajectory of improvement in the ratios and suggest positive years of economic and financial recovery for companies in the sector.

Finally, the average cost of financing obtained, which is the parameter with the smallest amplitude between the data for the worst and best performing sectors (Transport & Storage and Services, with 5% and 3.5% respectively). This is due to the fact that variable-rate financing, indexed to the Euribor, predominates in all sectors. On top of this is the higher risk premium paid by Transport and storage, derived from what we have already explained in the previous paragraphs - it is the most leveraged sector in terms of credit.

Tiago Belejo Correia

Coverage of financial charges and Average cost of loans obtained



Notes: *Annual data is calculated based on the IES. For 2023, data from Q4 2023 is used, based on the quarterly survey of NFCs (excluding agriculture and fisheries).*
Source: *BPI Research, based on data from Banco de Portugal.*

Ratios by sectoral group (2023)

	Construction	Retail	Services	Industry	Electricity, gas and water	Transport and storage
Financial autonomy (%)	35	40.8	44.2	48.3	44.9	30.4
Coverage of financing expenses (no.)	5.3	10.4	7.8	9.9	8.9	6.4
Loans obtained (% of assets)	27.5	17.6	29.8	21.3	35.2	37.9
Profitability of assets (%)	6.9	8.1	8.4	10.9	12.5	12.3
Average cost of loans obtained (%)	4.6	4.2	3.5	4.8	3.9	5

Note: *Based on the 4Q 2023 quarterly survey of NFCs (excludes agriculture and fisheries).*
Source: *BPI Research, based on data from Banco de Portugal.*

So, how much are mortgages growing?

As part of the measures adopted to mitigate the impact of the increase in interest rates on mortgage instalments, since 26 November 2022 banks have no longer been able to charge fees for transfers of variable-rate mortgages. This measure resulted in an increase in the transfer of this type of credit between banks, with customers looking for more favourable financing conditions and banks increasing competition between themselves by offering better conditions to attract new customers. While for families this measure has brought relief, for those who analyse the credit market, particularly with respect to the creation of new credit, it has brought headaches, as the credit transfers carried out result in the amortisation of the credit at the originating bank and a new credit operation at the destination bank, without there actually being any creation of new credit. Analysing the new financing in isolation thus creates a misconception of dynamism in the mortgage market and an apparent steep increase in household indebtedness, which is not happening.

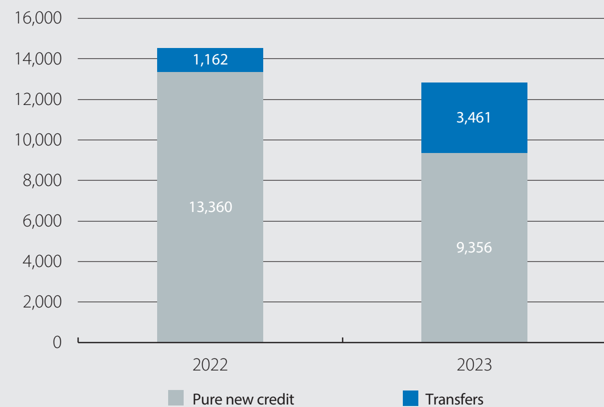
Some of the questions that arose from this situation were: How much new "pure" credit is really being contracted? What is the impact on the weight of transactions in the residential market financed by credit? What is the real value of the amortisations that have taken place in the recent past? In the May Financial Stability Report, the Bank of Portugal provided information that satisfactorily answers these questions.

Starting with the first question - how much new mortgage credit was contracted, especially in 2023, the first full year in which the measure was active - the document states that in 2022 and 2023, 8% and 27%, respectively, of the amount of new mortgage credit operations concerned transfers of existing loans to another bank, concluding that by removing the transferred loans from the amount of new operations, what actually happened in 2023 was a drop of approximately 30% in the contracting of new pure mortgage credit, much greater than the new operations statistics indicate: –11.8%. In the same period, the amounts transferred from one bank to another almost tripled. In other words, of the 12.817 million registrations of new mortgage loan operations in 2023, 9.356 million represent the creation of new loans and around 3.5 million are transfers of previously contracted loans.

To the second question - what percentage of property transactions are financed by bank credit - the Bank of Portugal gives a clear answer: taking transfers out of the total of transactions financed by credit, in 2023 new transactions financed by credit represent around 33% of total transactions, 13% less than the ratio obtained taking into account the total of new operations reported by banks to the central bank. If the overall ratio already indicated a low degree of leverage in the credit market, the corrected ratio shows that leverage is even much lower.

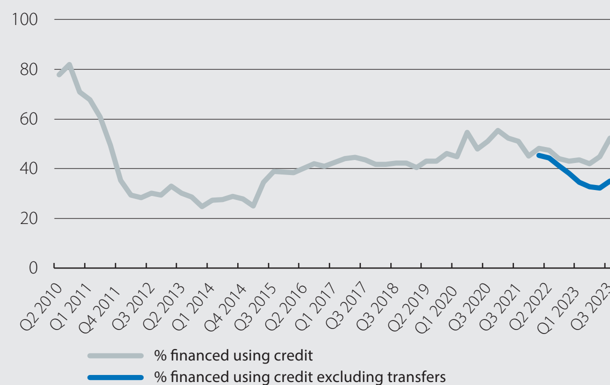
Finally, the transfer of mortgage loans exacerbated the amount of early amortisation of mortgage loans. Since December 2021, the Bank of Portugal has been publishing statistics that show a significant increase in amortisations. In fact, while in 2022 around 6.5 billion euros of mortgage loans were written off (in advance), in 2023 this amounted to 11.739 billion euros. But if we exclude the value of transfers from total and partial amortisations, the amount actually amortised will have been around 8.3 billion euros, which is still a significant figure, continuing to suggest that families will benefit

Breakdown of new housing loans
(Millions of euros)



Source: *BPI Research, based on data from Banco de Portugal.*

Credit-financed home transactions
(%)



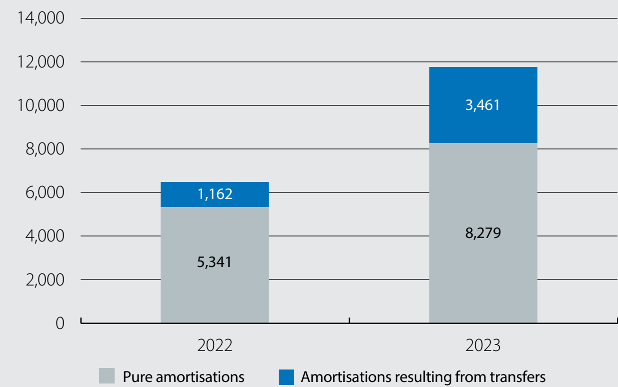
Source: *BPI Research, based on data from Banco de Portugal.*

from some relief in financing costs, with a potentially positive impact on consumption and/or savings.

In short, the information now published makes it possible to get a better idea of what is happening in the credit market and the trends in the recomposition of household assets, even though the situation for 2024 remains unclear. What is certain is that in recent months the dynamism of the market seems to have returned, with new financing growing by more than double digits (even assuming that the percentage of transfers remains high) and with the outstanding balance of mortgage loans beginning an apparent trend of stabilisation (in April it fell 0.5% year-on-year, but has been growing 0.3% since the end of 2023).

Teresa Gil Pinheiro

Mortgage loans: pure amortisations and transfers
(Millions of euros)



Source: *BPI Research, based on data from Banco de Portugal.*

Innovation, how does Portugal rank?

According to the innovation index[1] drawn up by the European Commission, Portugal remains in the group of countries classified as moderate innovators. In 2023, it recorded a performance equivalent to 85.6% of the European Union average, ranking 22nd out of 38 countries, with Switzerland in first place and Ukraine in last.

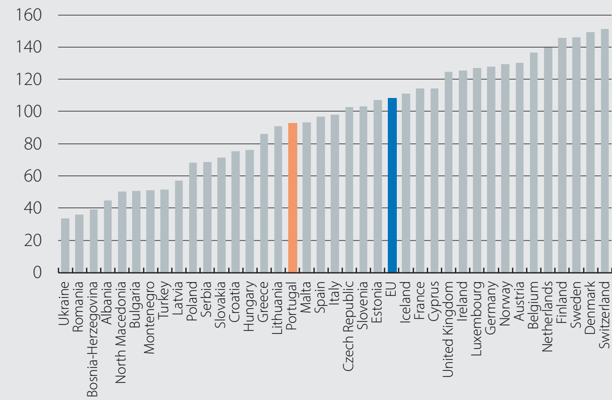
Monitoring innovation is important because without innovation it is difficult to increase productivity and improve the population's standard of living, and it is a key component for increasing potential growth. So, in this article, we'll see how Portugal ranks and how it has evolved since the European Commission began publishing this index in 2016. The pillars in which Portugal excels and those in which progress has been unfavourable.

In 2023, Portugal's innovation index stood at 93 points, 14% below the EU average, signalling weak convergence since in 2016 the gap stood at 15%. Comparison with countries belonging to the same group, i.e. the moderate innovators, is also unflattering, since with the exception of Slovenia, which in 2016 was in line with the European average and in 2023 will be 5% below, all the other countries have seen sharper convergence movements than Portugal. For example, Greece recovered 16%, but remains worse placed than Portugal, with 86 points and 21% below the European average, while Italy 8 p.p., with 98 points (10% below the EU), and Spain recovered 2 p.p., obtaining 97 points, (11% below the EU average).

Although Portugal has not converged with Europe in terms of innovation, there are some aspects in which the country is clearly above the European average, such as the percentage of the population to have completed higher education and the number of people involved in training throughout their working lives.[2] These are promising aspects that suggest the possibility that in the coming years we will see an acceleration in Portugal's convergence with the European average, with benefits in terms of productivity. Portugal has also seen improvements in this field, particularly in terms of graduate employability, since in 2023 around 87% of graduates aged between 20 and 34 were employed (88% in the EU), compared to 78% and 82% in 2016 respectively. In the same vein, the indicator that assesses the percentage of companies' turnover from sales of new products developed by the company or new products for the market suggests a gain in the share of these sales in total turnover, which will certainly represent an increase in the added value of the national production sector. However, these promising signs will need to be given support and to do so it will be important to step up investment in research and development and to increase the training of workers in areas related to innovation, two pillars in which, as can be seen in the third figure, Portugal ranks poorly. These two factors could explain the slow recovery of Portugal's position in the global

Innovation Index 2023

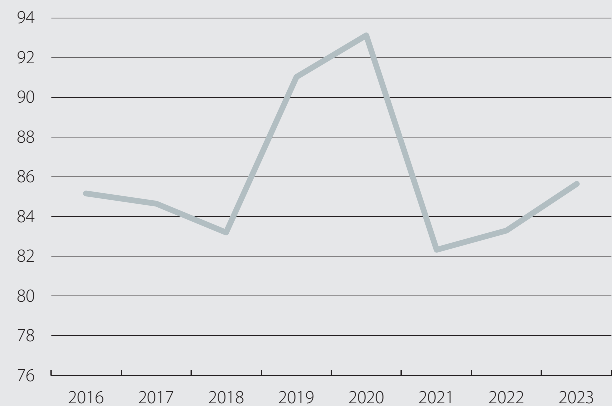
(Index)



Source: *BPI Research, based on data from the European*

Evolution of the index in Portugal compared to the EU

(Ratio between Portugal and EU, %)



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

1. The European Commission's innovation indicator is a dashboard that produces an annual comparative assessment of the performance of EU27 countries in the areas of research and innovation, classifying them as Leading, Strong, Moderate or Modest Innovators. The 27 EU member states are classified and grouped into four different groups according to their performance. This ranking depends on a calculation based on four main types of indicators - Framework conditions, Investments, Innovation activities and Impacts - and 12 dimensions of innovation, totalling 32 indicators, giving rise to a composite indicator that measures the average performance of each country (GEE: European Innovation Scoreboard – European Commission).
2. Eurostat figures for 2021 indicate that the population aged between 20 and 29 with a degree in science, technology, engineering and maths (STEM) in Portugal was 22.7 graduates per 1,000 inhabitants, above the European Union average (21.9).

innovation index, as well as the widening gap between Portugal's GDP per capita and the European average (see fourth figure). Another area where Portugal has evolved less positively is in environmental sustainability, a component that in the innovation index in 2023 registered 29 points, representing a performance of only 28% compared to the European Union and even showing a negative evolution since 2016, when the indicator stood at 45 points, which corresponded to a performance of 45% compared to the EU, almost double what it is today. The main contributor to this behaviour was the fall in the use of environment-related technologies[3], which went from a performance equivalent to 91% of that observed in the EU in 2016 to just 47% in 2023.

To summarise, the overall ranking of the Portuguese economy in terms of innovation, and its performance over the last decade in particular as assessed from the perspective described above, justifies some apprehension regarding the country's ability to rapidly converge towards higher levels of wealth and quality of life, which could be overcome by increasing public and private investment.

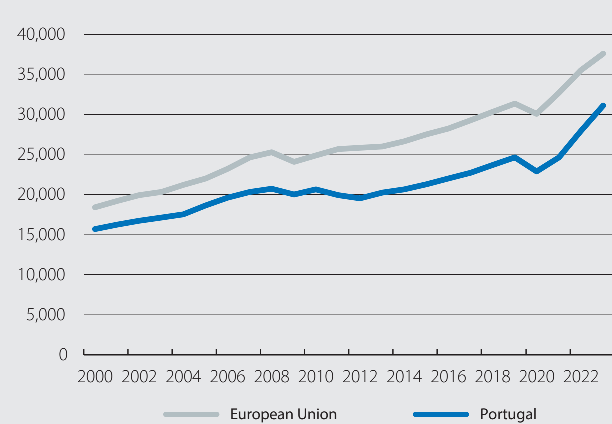
Teresa Gil Pinheiro

Pillars in which Portugal compares better and worse with the EU in 2023

	Portugal	EU
Population with higher education	118.0	103.6
Population involved in lifelong learning	133.0	112.1
Public-private co-publications	192.2	129.6
Professional mobility of human resources in the areas of science and technology	147.1	141.2
Sale of new products developed by the company and new products for the market	120.9	108.9
Business investment in R&D	71.5	110.8
Expenditure on innovation per number of people employed	36.1	113.3
Collaboration between innovative companies	63.8	126.8
Development of technologies aimed at environmental sustainability	28.6	102.7

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

GDP per capita adjusted for purchasing power
(Euros)



Source: *BPI Research based on data from Eurostat.*

3. These include, for example, the development of technologies related to air pollution control, water, renewable energies and mitigating the impact of climate change.

Activity and employment indicators

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

	2022	2023	Q3 2023	Q4 2023	Q1 2024	Q2 2024	04/24	05/24	06/24
Coincident economic activity index	5.7	3.3	3.3	2.6	2.1	...	1.8	1.6	...
Industry									
Industrial production index	0.8	–3.1	–4.5	–3.5	1.4	...	5.6	0.9	...
Confidence indicator in industry *(value)*	–3.4	–7.4	–9.0	–9.3	–7.9	–6.7	–6.8	–6.8	–6.5
Construction									
Building permits - new housing (number of homes)	6.2	6.5	10.0	2.7	–20.3	...	3.5	...	...
House sales	1.3	–18.7	–18.9	–11.4	–4.1	...	–	–	–
House prices *(euro / m² - valuation)*	13.8	9.1	8.1	6.4	5.5	...	7.0	6.6	...
Services									
Foreign tourists *(cumulative over 12 months)*	158.9	19.1	24.9	19.1	13.1	...	11.0	10.2	...
Confidence indicator in services *(value)*	15.2	7.6	5.8	1.7	6.3	4.3	6.4	5.0	1.4
Consumption									
Retail sales	5.5	1.1	0.6	0.6	1.8	...	0.6	2.5	...
Coincident indicator for private consumption	3.9	2.4	2.7	2.1	2.1	...	2.4	2.7	...
Consumer confidence index *(value)*	–29.7	–28.6	–22.8	–27.2	–24.6	–18.7	–20.4	–18.5	–17.2
Labour market									
Employment	2.3	2.0	2.2	1.6	1.8	...	1.8	1.3	...
Unemployment rate (*% labour force*)	6.2	6.5	6.1	6.6	6.8	...	6.4	6.5	...
GDP	**6.8**	**2.3**	**1.9**	**2.1**	**1.5**	**...**	**–**	**–**	**–**

Prices

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

	2022	2023	Q3 2023	Q4 2023	Q1 2024	Q2 2024	04/24	05/24	06/24
General	7.8	4.4	3.5	1.7	2.2	2.7	2.2	3.1	2.8
Core	5.6	5.1	4.4	3.0	2.3	2.3	2.0	2.7	2.3

Foreign sector

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

	2022	2023	Q3 2023	Q4 2023	Q1 2024	Q2 2024	04/24	05/24	06/24
Trade of goods									
Exports *(year-on-year change, cumulative over 12 months)*	23.2	–1.1	3.0	–1.1	–5.1	...	–3.6	...	...
Imports *(year-on-year change, cumulative over 12 months)*	31.7	–4.2	1.1	–4.2	–7.6	...	–6.1	...	...
Current balance	**–2.8**	**3.6**	**4.1**	**3.6**	**5.1**	**...**	**6.3**	**...**	**...**
Goods and services	–4.7	3.3	2.1	3.3	4.6	...	4.6	...	...
Primary and secondary income	1.9	0.4	2.0	0.4	0.5	...	1.7	...	...
Net lending (+) / borrowing (–) capacity	**–0.5**	**7.2**	**7.3**	**7.2**	**8.8**	**...**	**10.0**	**...**	**...**

Credit and deposits in non-financial sectors

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

	2022	2023	Q3 2023	Q4 2023	Q1 2024	Q2 2024	04/24	05/24	06/24
Deposits [1]									
Household and company deposits	6.4	–2.3	–2.6	–2.3	2.7	...	3.5	5.1	...
Sight and savings	7.3	–14.8	–9.4	–14.8	–11.2	...	–10.3	–7.4	...
Term and notice	5.2	14.8	6.9	14.8	20.2	...	20.9	20.3	...
General government deposits	12.4	–12.4	5.5	–12.4	9.1	...	3.6	–0.2	...
TOTAL	**6.5**	**–2.6**	**–2.4**	**–2.6**	**2.9**	**...**	**3.5**	**4.9**	**...**
Outstanding balance of credit [1]									
Private sector	1.7	–1.5	–1.8	–1.5	–0.8	...	–0.6	–0.3	...
Non-financial firms	–0.6	–2.1	–3.5	–2.1	–1.7	...	–1.7	–1.4	...
Households - housing	3.2	–1.5	–0.9	–1.5	–0.9	...	–0.6	–0.2	...
Households - other purposes	2.9	0.2	–0.8	0.2	2.0	...	2.5	2.6	...
General government	–2.7	–5.5	–1.4	–5.5	5.9	...	–1.4	–4.6	...
TOTAL	**1.6**	**–1.7**	**–1.8**	**–1.7**	**–0.5**	**...**	**–0.6**	**–0.4**	**...**
NPL ratio *(%)* [2]	**3.0**	**2.7**	**2.9**	**2.7**	**2.7**	**...**	**–**	**–**	**–**

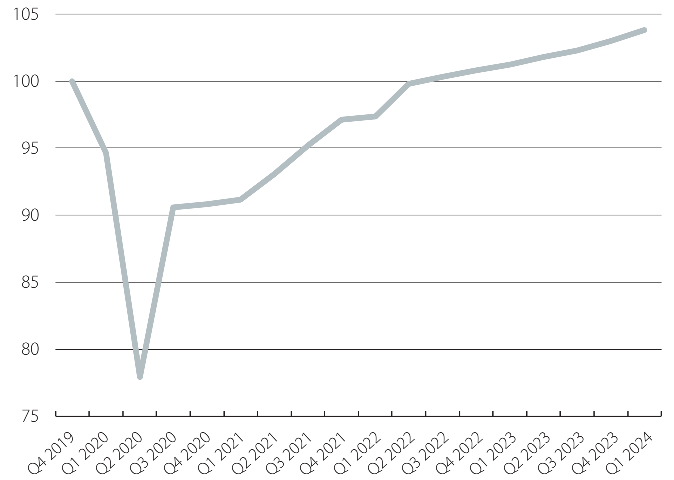
Notes: *1. Residents in Portugal. The credit variables exclude securitisations. 2. Period-end figure.*
Source: *BPI Research, based on data from the National Statistics Institute of Portugal, Bank of Portugal and Refinitiv.*

The Spanish economy is enjoying a rosy period

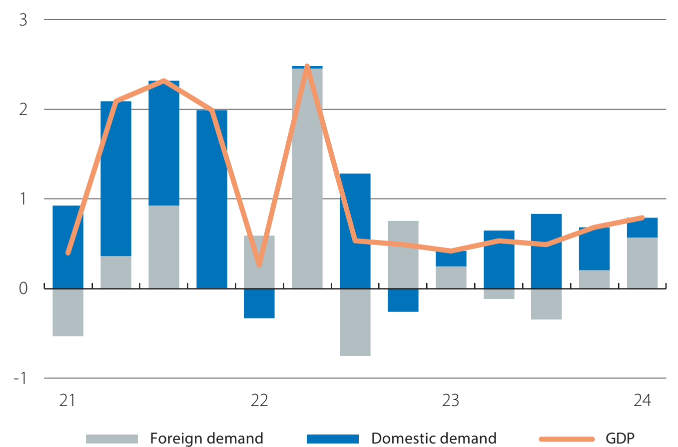
Dynamic GDP data for Q1, with an upward revision. According to the new estimate produced by the National Statistics Institute, GDP grew by 0.8% quarter-on-quarter in Q1 2024, 0.1 pps more than originally estimated. Behind this good performance lie several key elements: the strength of the labour market, the boost provided by dynamic immigration flows and the good data for international tourism, which have once again exceeded expectations. On the domestic demand side, the quarter-on-quarter growth of private consumption was a moderate 0.4%, while public consumption fell 0.6% quarter-on-quarter and investment posted a rapid increase of 2.6% quarter-on-quarter. Thus, the contribution of domestic demand to quarter-on-quarter GDP growth was 0.3 pps (0.2 pps in the first estimate). Foreign demand remained the main driver of growth, contributing 0.5 pps to quarter-on-quarter GDP growth thanks to an increase in exports of 3.3% quarter-on-quarter, which exceeded the 2.2% increase recorded in imports. The growth in exports was driven by tourism and the sector's excellent start to the year: tourism services grew by a spectacular 17.4% quarter-on-quarter.

Looking ahead to the coming quarters, we expect domestic demand to take on a more prominent role, driven by the decline in interest rates, the traction of the European Next Generation funds and the strength of the labour market; indeed, investment still lies 2.2% below Q4 2019 levels, despite recording a notable increase in Q1 2024, and private consumption is only 0.5% higher, despite the fact that the population has increased by 3% since 2019. The upward revision of GDP growth in Q1 2024 introduces a slight upward bias in our GDP growth forecast for 2024 as a whole, which currently lies at 2.4%.

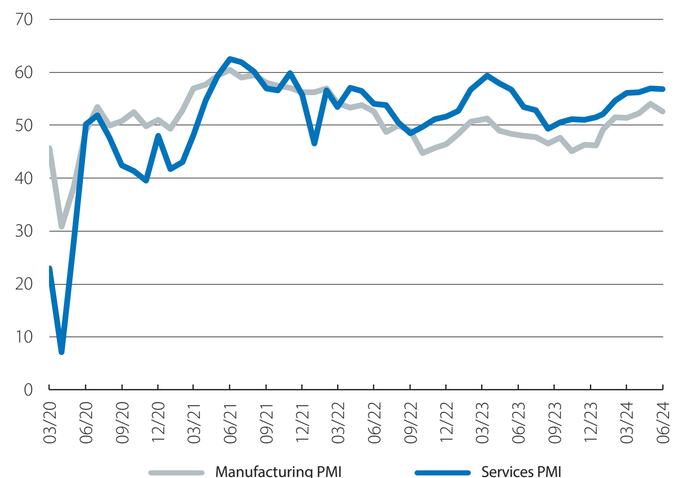
The good economic activity data for Q2 and a thriving labour market point to another very dynamic quarter. Especially noteworthy is the acceleration in job creation in the quarter: in Q2 as a whole, the number of registered workers, corrected for seasonality, grew by 0.8% quarter-on-quarter, up from 0.7% in Q1. This suggests that the Q2 GDP figure due to be published at the end of July will also be a good one. However, job creation was somewhat weaker in June than in previous months: in seasonally adjusted terms, the number of registered workers grew by 31,300 people, compared to over 60,000 in May. As for the business sentiment indices, for the fifth consecutive month the manufacturing PMI in June once again stood within expansive territory (above 50 points), specifically at 52.6 points, contrasting with the contraction at the European level (in June, 45.8 points).



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



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



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

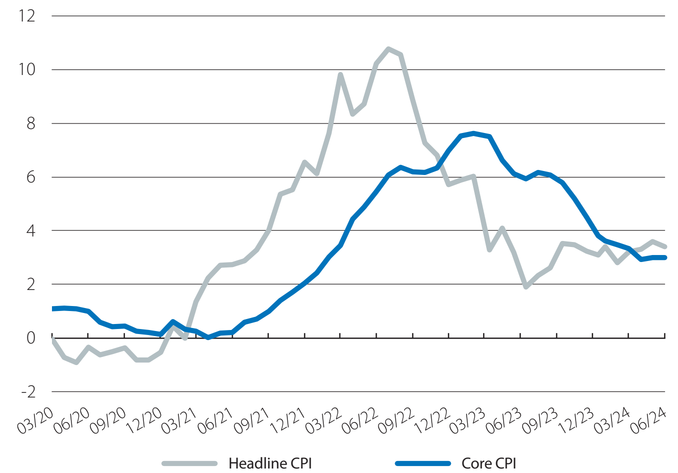
However, the pace of expansion was somewhat slower and more modest compared to May (54.0 points). The services PMI, meanwhile, remains well within expansive territory: in June it stood at 56.8 points, practically the same as in the month of May (56.9), which had marked a 13-month peak for the index.

Slight moderation of headline inflation in June due to fuels. Headline inflation fell 20 bps in June to 3.4%, according to the flash CPI indicator published by the National Statistics Institute. This was lower than expected, thus returning inflation to its downward path which had been truncated since March. The slowdown in headline inflation was mainly due to lower fuel prices, in contrast to the rise recorded in June 2023. Core inflation, meanwhile, which excludes energy and unprocessed food, stabilised at 3% in line with expectations, in a context in which it is expected to fall, albeit very gradually due to the persistence of inflation in services. It should be noted that the non-core components will continue to be affected by the gradual withdrawal of tax cuts: the government has announced that VAT on essential foods will remain at 0% until September and will rise to 2% between October and December (usually 4%), while VAT on pasta and seed oils will remain at 5% between July and September, before rising to 7.5% between October and December (usually 10%).

The buoyancy of household gross disposable income continues in the opening months of 2024 and gives wings to the savings rate. Nominal household gross disposable income, without seasonal adjustments, grew by a significant 8.0% year-on-year in Q1, largely thanks to the strength of the labour market. This increase was higher than that of household expenditure on final consumption (5.3% year-on-year), a combination which led to a further increase in the savings rate, placing it at 14.2% of gross disposable income (static figure, corrected for seasonality). This is a higher figure than that of the previous quarter (13.0%). In the last four quarters as a whole, the savings rate rose to 12.2% from the 11.7% recorded in Q4 2023.

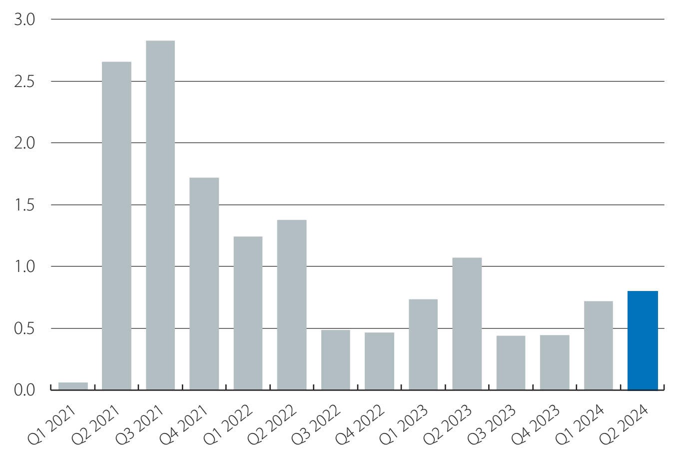
Spain avoids the excessive deficit procedure due to the better outlook for 2024. Despite the budget deficit in 2023 reaching 3.6% of GDP, the fact that a deficit of 3% is expected in 2024, and below that threshold in 2025, has led the European Commission not to initiate this sanctioning procedure for Spain. The latest budget execution data support the reduction of the deficit this year: up until April, the consolidated general government deficit, excluding local government corporations, was 0.39% of GDP, slightly lower than the 0.42% recorded in April 2023. In the cumulative balance to April, tax revenues grew by a notable 6.5% year-on-year and social security contributions by 7.1%, while public expenditure rose by 4.9% year-on-year.

Spain: CPI
Year-on-year change (%)



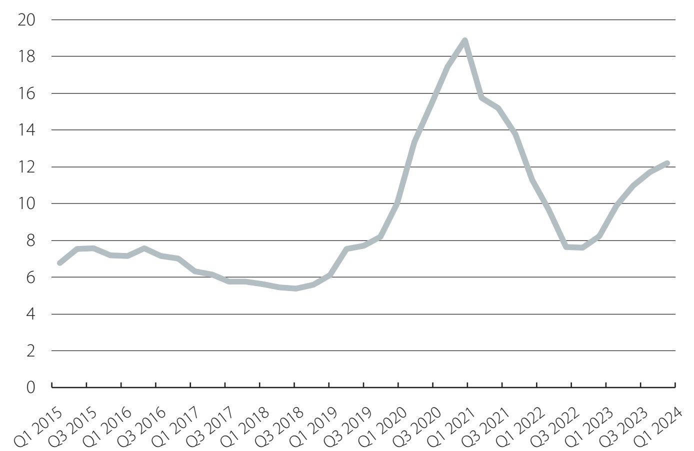
Source: *BPI Research, based on data from the Spanish National Statistics Institute (INE).*

Spain: registered workers affiliated with Social Security
Quarter-on-quarter change (%)



Note: *Seasonally adjusted series of registered workers not on furlough.*
Source: *BPI Research, based on data from the Ministry of work, migration and social security (MITRAMISS).*

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



Note: *4-quarter cumulative balance.*
Source: *BPI Research, based on data from the Spanish National Statistics Institute (INE).*

What big data reveals about consumption in Spain

In November 2022, CaixaBank Research launched the Real-Time Economics portal,[1] a pioneering tool for monitoring the Spanish economy based on the bank's internal data, aggregated and duly anonymised. The portal contains information in real time on household consumption, inequality, wage trends and the real estate and tourism sectors. In June this year, the portal has been expanded with new lines of analysis and more granular detail in the areas of consumption and tourism,[2] increasing the number of series available from 800 to 2,200.

In the field of consumption, the new portal incorporates information on direct debit payments, such as water, electricity, gas and telephone bills.[3] Furthermore, the detail of the breakdown of consumption by sector has been expanded to include information on fashion, furniture and catering, to cite just a few examples (see the table for further details). Information on the evolution of e-commerce has also been incorporated. This article analyses the recent trends in consumption using data from the portal.

One of the indispensable requirements of the new economic indicators incorporated into the portal is that they must be of a high-quality. To this end, we have compared them with other variables from external references. In the first chart we can see how, despite differences in the definitions between the various data sources, the series follow similar trends.[4] The indicators drawn up using internal data also allow developments to be monitored with a greater degree of immediacy, since they are published monthly and just a few days after the end of the month.

Breakdown of consumption by sub-sector, available on the CaixaBank Research Real-Time Economics portal

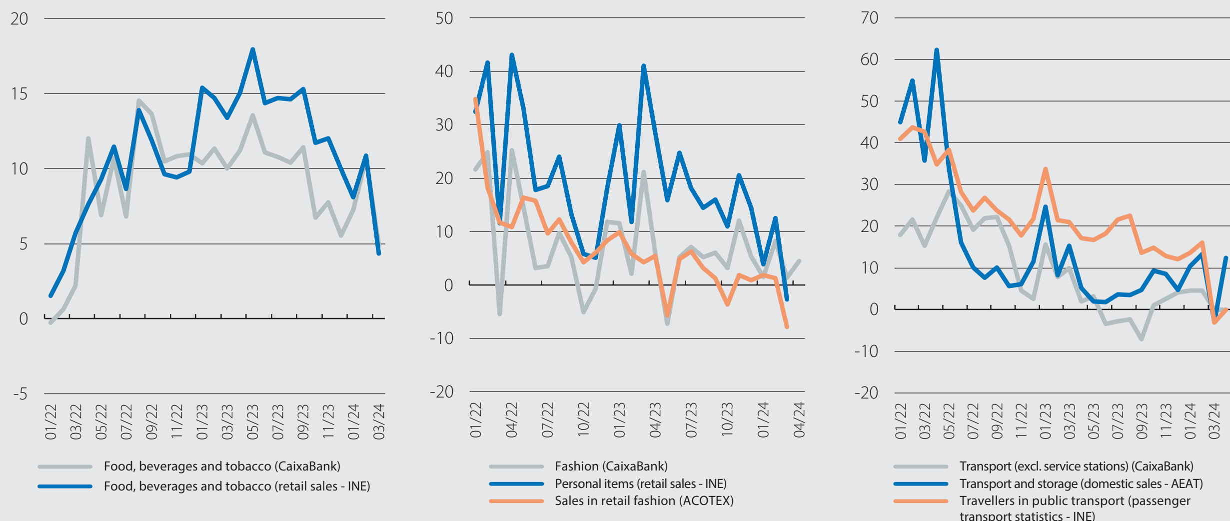
Sectors

- **Essential goods**
  - Food, beverages & tobacco
  - Pharmacies
- **Leisure and hotels & food services**
  - Culture & entertainment
  - Travel agencies
  - Catering
  - Hotels
- **Transport**
  - Transport (excl. service stations)
  - Service stations
- **Retail**
  - Fashion
  - Furniture & decoration
  - Household appliances & technology

Source: *BPI Research (the Real-Time Economics portal, https://realtimeeconomics.caixabankresearch.com/#/monitor.*

Comparison of the consumption indicator for different economic sectors with external benchmark indicators

Year-on-year change (%)



Note: *The retail sales series for food includes sectors 4711 and 472, while the one for personal items includes sectors 4751, 4771 and 4772.*
Source: *BPI Research, based on anonymised internal CaixaBank data and external data from the Spanish National Statistics Institute (INE, data on retail sales and passenger transport statistics), ACOTEX and the Spanish Tax Agency (AEAT, data on domestic sales).*

1. See the Focus «Real-Time Economics: the new portal by CaixaBank Research», for further details.
2. For tourism, a more detailed breakdown of tourists' countries of origin has been added and new series have been published for analysing the evolution of tourism using 100 as a baseline for the same month of 2019 (pre-COVID benchmark), in addition to the existing series showing year-on-year changes.
3. See the Focus «Spanish household spending on bills in 2023, a respite after a gruelling 2022» in the MR02/2024, for further details.
4. See the methodological document from the Real-Time Economics portal for further details on how the indicators are built and validated: https://www.caixabankresearch.com/es/nota-metodologica_rte.

Evolution of consumption in Spain according to internal CaixaBank data

The growth of the Spanish economy is proving more robust than expected in a context in which interest rates remain high and growth in the rest of the euro area is showing signs of weakness. In recent months, economic activity has been driven by the good performance of the labour market, immigration flows that remain strong and the buoyant international tourism data. Moreover, private consumption is expected to remain dynamic, as household incomes will steadily regain purchasing power and the ECB is expected to continue lowering interest rates. Is this proving to be the case?

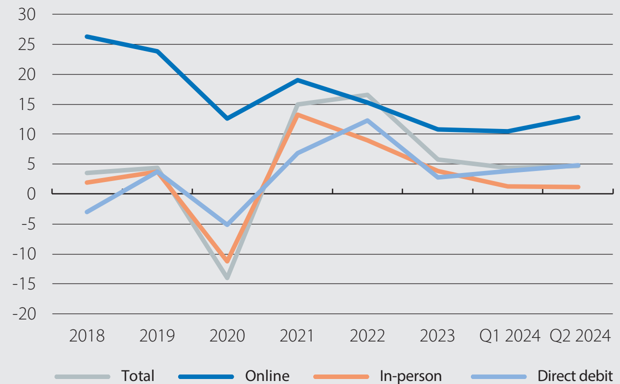
Spaniards' consumption closed Q2 growing by 4.7%, which represents a slight acceleration compared to Q1 and a very similar growth rate to 2023, although inflation has moderated slightly. Among the various items of expenditure, e-commerce particularly stands out, recording a growth rate of 12.9% in Q2 2024, 2 pps higher than the figure for 2023. Also, spending on direct debit charges continues to show rapid growth, recording a rate of 4.9% in Q2 2024, due in part to increased spending on water bills.

In-person consumption expenditure has maintained a more moderate growth rate in Q2, climbing 1.2% (1.3% in Q1 2024), but with significant differences between the various headings that comprise it. The biggest increases are found in spending on culture and entertainment, with growth of 2.3% in the quarter, as well as on catering, with an increase of 4.6%. Spending on food also continues to record a significant increase, at 3.7%, although the rate of this increase is clearly declining, partly due to lower inflationary pressures.

The items of in-person expenditure that show a weaker trend are those related to furniture and decoration, and appliances and technology. In both cases, spending increased significantly during the pandemic. Since then, it has followed a more sluggish pattern than the rest of the items of in-person expenditure. However, it should be noted that in the case of expenditure on household appliances we are seeing a change in consumption patterns in favour of a greater role of purchases made via e-commerce. Thus, while this component of in-person expenditure grew by only 1.1% year-on-year in Q2 2024, the increase in the case of online purchases stood at 8.9%. In furniture and decoration and in fashion we see a similar trend, with a growing role of online spending to the detriment of in-person spending. On the portal, we can see how young people are, by far, the group that makes a greater proportion of their purchases online.However, we can also see how older people are gradually adapting their spending pattern to this channel.

Spain: evolution of consumption by payment method

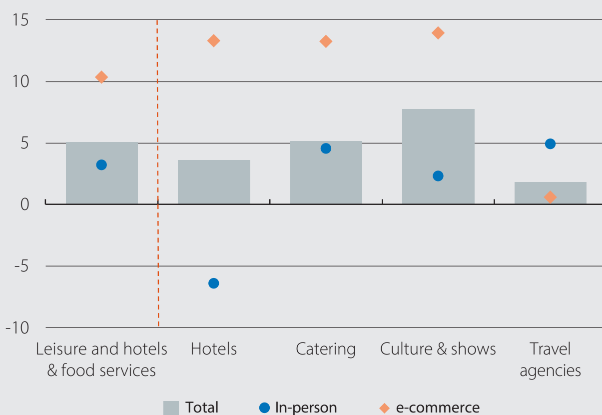
Year-on-year change (%)

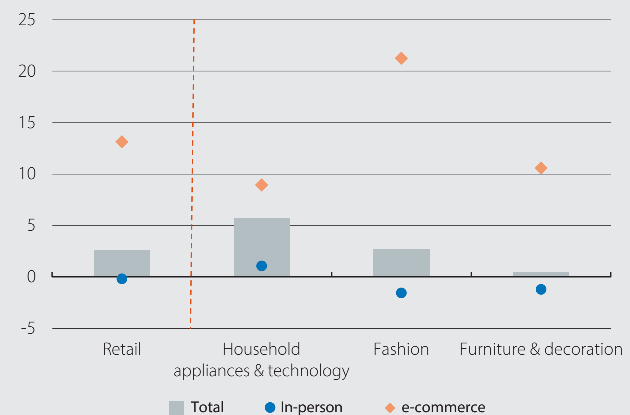


Source: *BPI Research, based on internal data.*

Spain: consumption by sub-sector

Year-on-year change (%), Q2 2024 average





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

The competitiveness of Spain's tourism sector: strengths and weaknesses

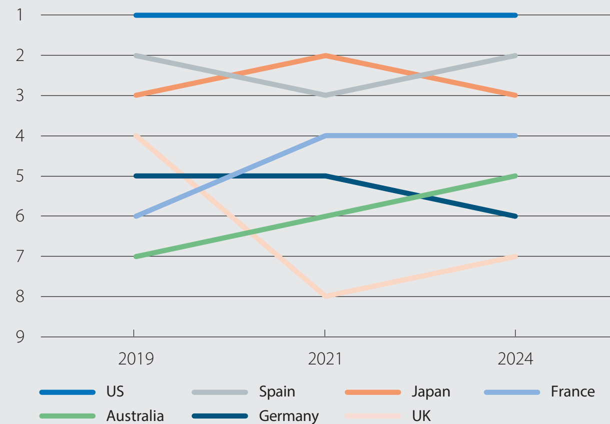
International tourism has enjoyed significant growth in recent quarters at the global level and is very close to recovering pre-pandemic levels: in Q1 2024 it was just 3% below 2019 levels, according to the UN tourism barometer.[1] Spain's tourism sector was one of the first to recover: among the top 10 destinations in the world, Spain was the second country, after Turkey, to surpass the pre-pandemic number of international tourists. Thus, with 85 million tourists, Spain broke its own historical record and ranked second country in the world for tourist arrivals in 2023, behind France (100 million) and ahead of the US (66.5 million).[2, 3]

Beyond the number of visitors, the main challenge for the tourism sector is to continue growing in a sustainable and balanced manner. To this end, it is important to pay attention to other areas of a structural nature, which allow us to make a good diagnosis of the sector's strengths, in order to continue developing them, as well as the weaknesses that must be addressed in order to make this growth sustainable in the long term. A good starting point for such a diagnosis is provided by the Travel and Tourism Development Index (TTDI).[4] This is a benchmark index that measures the set of factors and policies that enable the sustainable and resilient development of the tourism sector, providing a comparison between 119 countries. According to the TTDI for 2024, Spain's tourism sector lies in second place in the world ranking, behind the US and ahead of Japan and France, and it has climbed one place since the previous edition of 2022.

The TTDI is structured into five sub-indices which, in turn, cover various different aspects (17 in total). Among them, Spain stands out positively in cultural and natural resources, in the facilitating environment (especially in health and hygiene, safety and security, ICT connectivity and the workforce), as well as in most types of infrastructures related to the tourism sector (the country's airport infrastructure and the quality of its hotels stand out in particular). On the other hand, the sub-index of enabling conditions for tourism and travel is penalised by the country's price competitiveness. In this factor, Spain is ranked 94th, close to neighbouring countries such as France (102nd), Italy (105th) and Portugal (93rd), due to the presence of countries that are highly competitive in terms of prices (e.g. Turkey ranks 40th in this dimension).

According to the TTDI, the main aspect where Spain's tourism sector has the most margin for improvement is in the field of sustainability (Spain is ranked 42nd in this sub-index). Among the different aspects of sustainability considered (environmental, socio-economic and demand-related sustainability), demand is the sphere with the lowest score. In particular, the aspects to be improved upon include the sector's seasonality, which remains high (despite improving since 2019, it is still high relative to international comparatives), and the high geographical concentration of tourism in cultural and natural attractions.

Evolution of the ranking of the Travel and Tourism Development Index



Note: *The 2024 Travel and Tourism Development Index (TTDI) is the second edition of an index that evolved from the Travel and Tourism Competitiveness Index (TTCI), published since 2007.*
Source: *BPI Research, based on data from the World Economic Forum.*

Travel and Tourism Development Index

Index (min. 1 - max. 7)

	Spain	France	Italy	Portugal	Turkey
Travel & Tourism Development Index	**5.2**	**5.1**	**4.9**	**4.8**	**4.4**
Enabling environment	5.6	5.7	5.4	5.7	4.4
Policy and enabling conditions	4.8	4.3	4.4	4.6	5.2
Infrastructure and services	5.5	5.3	4.9	4.8	4.2
Natural, cultural and non-leisure resources	5.5	5.6	5.3	3.9	4.2
Sustainability	4.3	4.1	4.1	4.4	3.9

Source: *BPI Research, based on data from the Travel & Tourism Report 2024.*

1. See UN Tourism World Tourism Barometer | Global Tourism Statistics (unwto.org).
2. See the article «Spain's tourism sector will continue to grow rapidly in 2024-2025», in the *Tourism Sector Report* S2 2024.
3. In terms of international tourism spending, Spain is also second in the world ranking, behind the US and ahead of the UK.
4. The TTDI is an index developed by the World Economic Forum and its second edition was published in 2024. It has evolved from the Travel and Tourism Competitiveness Index (TTCI), published since 2007.

The disparity between employment and hours worked in Spain

After leaving the COVID-19 crisis behind us, Spain's labour market is in good shape. Employment far exceeds pre-pandemic levels. Specifically, in Q1 2024 it was already more than 8% above the levels of Q1 2019 (in National Accounting terms)[1] and its cumulative growth is double that of GDP, at 3.7%. In contrast, the number of actual hours worked has grown at a slower rate since then, by just 1.3%. This has resulted in a 6.3% decline in the number of hours worked per worker (referring to full-time equivalent job positions, known as PTETC). Thus, while productivity per worker has accumulated a fall of 4.0%, productivity per hour worked has grown by 2.5%.

What is the decrease in the number of hours worked per employee attributable to? It does not appear to be due to a change in the composition of employment between full-time and part-time workers. After all, according to the LFS, while the number of people in full-time employment has increased by 10.5% since Q1 2019, the number in part-time employment has only grown by 1.4%. One factor that does appear to have caused this trend, however, is the greater number of hours of absenteeism from work, due to a variety of reasons.

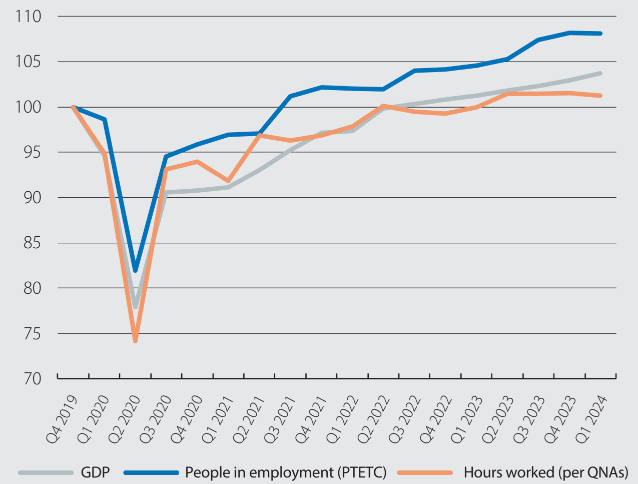
According to data from the LFS, in Q1 2024, 9.8% of those in employment (almost 2.1 million people) did not work in the week of reference: 885,000 due to holidays, 113,000 due to parental leave and, above all, 971,000 due to sickness, accidents or temporary disability (TD).[2]

According to data from Social Security (S.S.),[3] the percentage of hours not worked for various reasons other than holiday leave amounted to 6.3% of all paid hours in Q4 2023, compared to 4.8% in Q4 2019. 86.2% of the hours not worked were due to TD leave, 12.8% due to other benefits (parental leave following a birth and care of minors or due to risk during pregnancy or lactation) and 1.0% due to being on furlough (ERTE). The average number of hours not worked per contributor to the General Scheme stood at 27.5 in the quarter, seven hours more than in the same period in 2019.

In 2023 as a whole, the total paid hours grew by 10.8% compared to 2019, while the actual hours worked increased by 9.1%. The average number of hours not worked per contributor in the year rose to 107.5 (6.1%

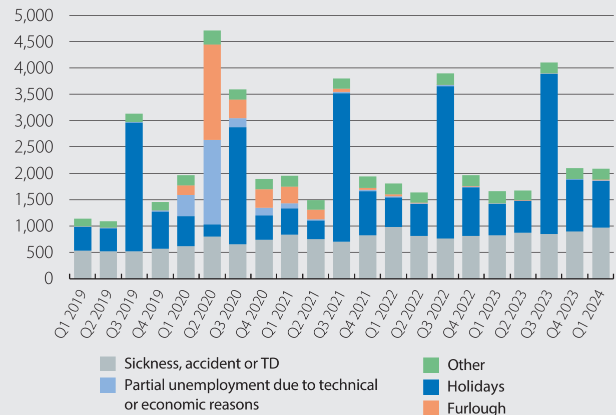
1. In terms of full-time equivalent job positions (known as PTETC).
2. As defined by the Ministry of Inclusion, Social Security and Migration (MISSM), this is the inability to work due to common or occupational illness, a workplace or other accident, disabling menstruation or termination of pregnancy.
3. Quarterly report on paid hours and actual hours: Social security: Statistics (seg-social.es). This is a set of statistics based on administrative data, prepared using data on the social security contributions paid by companies; the series starts in Q1 2019.

Spain: GDP, employment and hours worked
Index (100 = Q4 2019)



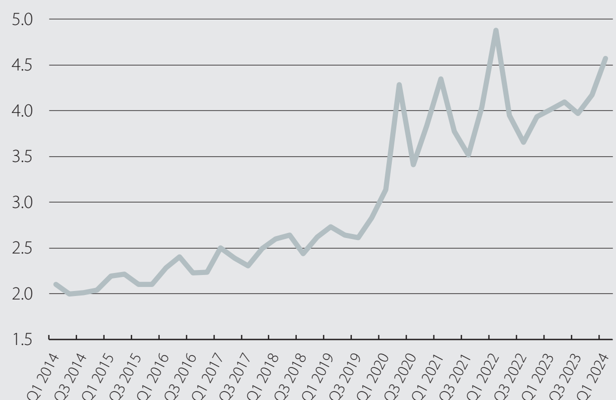
Source: *BPI Research, based on data from the Spanish National Statistics Institute (Quarterly National Accounts).*

Spain: people in employment who have not worked in the week of reference
(Thousands)



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

Spain: absenteeism rate due to TD
(% of the total employed population)



Note: *Employed persons who were absent from work due to illness, accident or TD.*
Source: *BPI Research, based on data from the Spanish National Statistics Institute (Labour Force Survey).*

of the paid hours), compared to 80.3 in 2019 (4.7% of the paid hours). The number of hours not worked in the year is equivalent to the employment of almost one million people.

The hours not worked due to TD accounted for 5.4% of the paid hours in Q4 2023 (4.0% prior to the pandemic). Since Q4 2019, the hours not worked for this reason have grown by no less than 48.3%, almost five times more than the total paid hours.

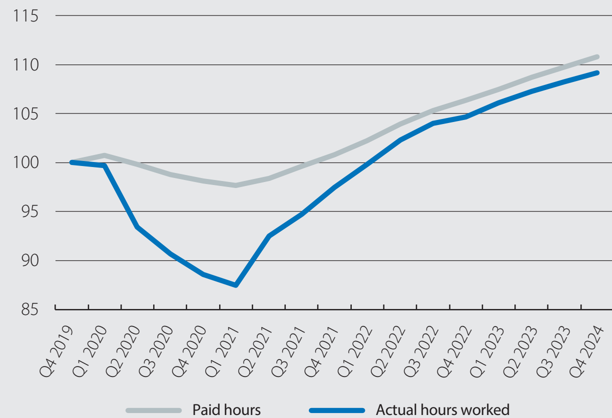
If we refer to the National Statistics Institute's quarterly labour cost survey,[4] the results we obtain are very similar to those mentioned above, albeit somewhat more up-to-date and disaggregated by economic sector and segment. In this case, total absenteeism stood at 6.8% of the agreed hours[5] in Q1 2024, which is 0.2 pps more than in the previous quarter and the highest ratio since Q1 2022. Considering only absenteeism due to TD, the rate in Q1 was 5.2% (5.0% in Q4 2023). Both figures clearly exceed those prior to the outbreak of the pandemic (Q1 2019): 5.2% for total absenteeism and 3.8% for absenteeism due to TD.

By economic segment, the highest absenteeism in Q1 2024, with rates in excess of 8.0%, corresponded to administrative activities, general government, water supply and, above all, health, where it reached 10.5% of the agreed hours. In contrast, in professional and real estate activities the rate was less than 4.0%. In comparison with the same quarter of 2019, there has been an increase in absenteeism across the board, with the exception of real estate activities, where it reduced very slightly (by just 0.2 pps). The biggest increases (greater than 2 points) are found in water supply, administrative activities and other services. On the other hand, this analysis shows a high dispersion of absenteeism by economic segment, which has even widened in recent years: whereas in 2019 the difference between the highest and lowest rate was 5.2 points, in 2024 it is 7.3 points.

The increase in absenteeism is observed in virtually all euro area countries, suggesting that what has happened in recent years has had a persistent and widespread impact. If we compare the ratio of Spanish absenteeism from work with those of other euro area countries, Spain is near the top of the ranking, albeit below economies such as Germany and France. However, Spain stands out

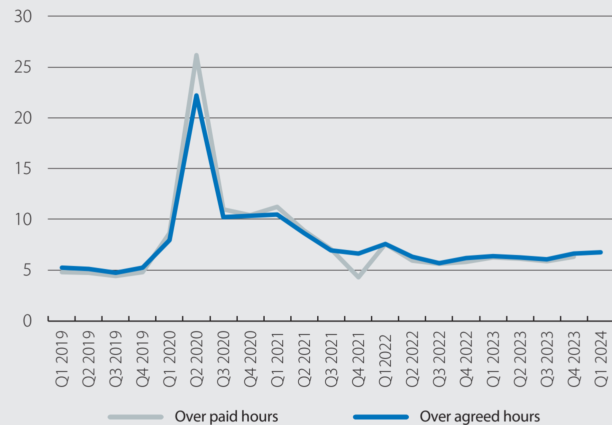
4. This is a survey with extensive coverage, encompassing a sample of some 28,000 companies across the country, including all those with more than 500 workers.
5. Hours not worked, excluding absences due to holiday leave and bank holidays; it therefore includes days of leave due to TD; days of leave due to maternity, adoption and personal reasons; time off as compensation for overtime, etc. As for the agreed hours, these are the hours that are legally established by verbal agreement, individual contract or collective agreement between the worker and the company.

Spain: hours worked and paid
Number (100 = Q4 2019)



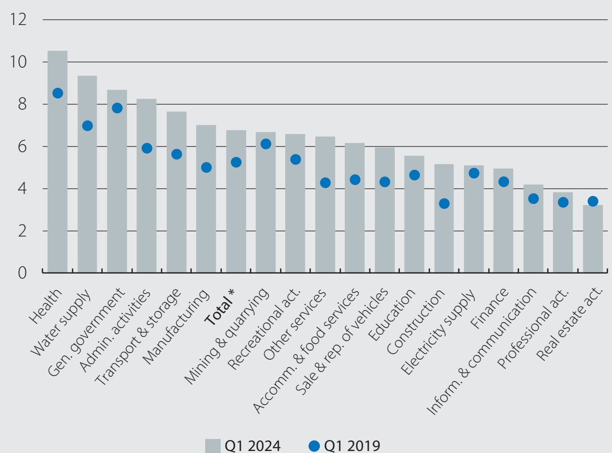
Notes: *Workers registered under the General Scheme of the Social Security system. Moving 4-quarter average.*
Source: *BPI Research, based on data from the Ministry of Inclusion, Social Security and Migration (MISSM).*

Spain: absenteeism rate
Hours not worked (%)



Source: *BPI Research, based on data from the Spanish National Statistics Institute (Quarterly Labour Cost Survey) and the Ministry of Inclusion, Social Security and Migration (MISSM).*

Spain: absenteeism rate by economic segment
Hours not worked (as a % of agreed hours)



Note: ** Industry, construction and services (except domestic workers).*
Source: *BPI Research, based on data from the Spanish National Statistics Institute (Quarterly Labour Cost Survey).*

for the sharp growth in absenteeism which it has experienced since the pandemic. In fact, our country has seen the second biggest growth in absenteeism relative to the same quarter in 2019, specifically of 4 points, behind only Malta. If we exclusively consider absenteeism due to TD, the increase versus Q1 2019 has also been significant, going from 2.7% to 4.6%.

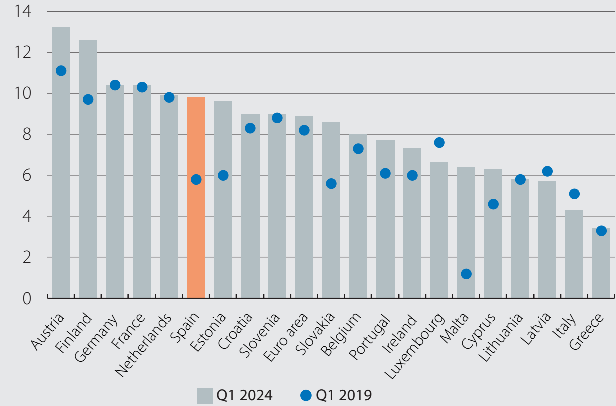
If we focus on absenteeism from work caused by TD, the figures speak for themselves: in 2023 over 8.1 million cases of leave due to common contingency were recorded, costing the S.S. system over 13 billion euros in economic benefits. These figures exceed those of 2019 by 36% and 55%, respectively.[6]

The increase in absenteeism has resulted from the increase in the number of cases rather than the average duration of leave, which is even below pre-pandemic levels; specifically, the average duration of the temporary common contingency disability processes (known as ITCC) completed last year was slightly over 36 days for workers with an employment contract, compared to 38.6 days on average in 2015-2019. Despite this decrease in the average duration, there has been a sharp increase in the number of long-term ITCC cases lasting more than 365 days, with the count as of December 2023 rising to 100,734, compared to 32,664 cases at the end of 2019. This increase could be due to delays in the processing of permanent disability cases.

The increase in absenteeism due to TD, without going into the multitude of causes that lead to it, has a negative impact on companies' productivity and labour costs, especially in the case of SMEs. Moreover, it increases the costs for the S.S. system, as well as the bureaucratic burden on the healthcare system. In order to continue to effectively support workers who are unable to work, it is essential to streamline this bureaucratic and care burden. Moreover, it is essential that cases are properly managed and inspected in order to tackle abusive practices and inefficiencies, and that there is greater collaboration between the S.S. system and health insurance companies in order to reduce the pressure on the health services.

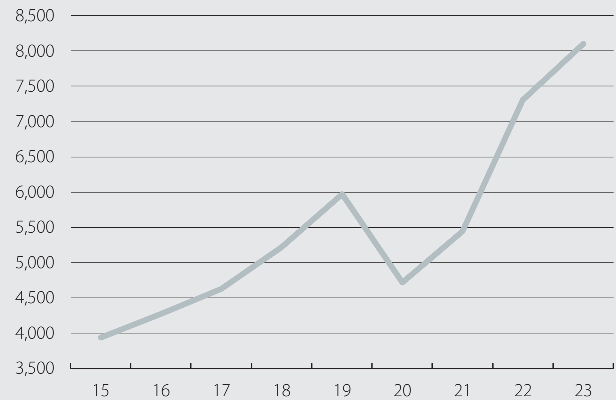
6. In addition to this, we should consider the cost assumed by companies themselves: on the one hand, the direct costs, derived from (i) the economic benefit between days 4 and 15, (ii) the supplements and improvements which, where applicable, may be included in collective labour agreements, and (iii) the S.S. contributions which they must continue to pay while the employee is on leave; on the other hand, the indirect costs, associated with the value of the goods and services that are not being produced. For further information, see the report published by AMAT (2024), «El absentismo laboral derivado de la incapacidad temporal por contingencias comunes (ITCC)» corresponding to 2023.

Euro area: absenteeism rate by country
(% of the total employed population)



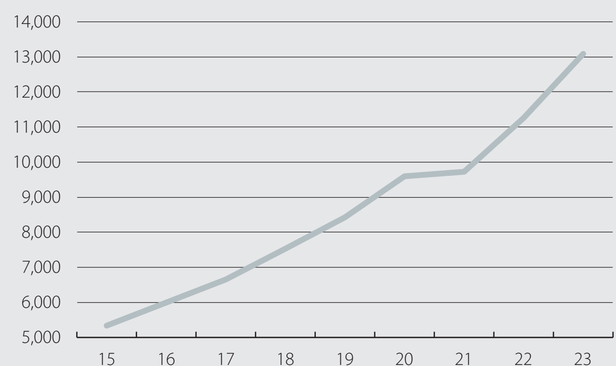
Note: *Employed persons aged 20 to 64 who were absent from work.*
Source: *BPI Research, based on data from Eurostat.*

Spain: leave taken due to TD
(Thousands)



Note: *Temporary disability leave due to common contingencies.*
Source: *BPI Research, based on data from the Ministry of Inclusion, Social Security and Migration (MISSM).*

Spain: Social Security expenditure on TD benefits
(EUR millions)



Note: *Temporary disability leave due to common contingencies.*
Source: *BPI Research, based on data from the Ministry of Inclusion, Social Security and Migration (MISSM) and the accounts of collaborating mutual insurance companies.*

Activity and employment indicators

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

	2022	2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	04/24	05/24	06/24
Industry									
Industrial production index	2.2	–1.2	–2.2	–2.2	–0.7	0.0	0.8	0.4	...
Indicator of confidence in industry *(value)*	–0.8	–6.5	–5.2	–8.2	–8.1	–5.2	–4.3	–6.3	–5.8
Manufacturing PMI *(value)*	51.0	48.0	48.5	47.3	45.9	50.7	52.2	54.0	52.3
Construction									
Building permits *(cumulative over 12 months)*	15.4	1.3	1.7	4.3	0.8	2.9	3.9	...	...
House sales *(cumulative over 12 months)*	29.0	0.2	3.2	–3.3	–9.1	–10.3	–8.5	...	...
House prices	7.4	4.0	3.6	4.5	4.2	6.3	...	...	...
Services									
Foreign tourists *(cumulative over 12 months)*	129.8	18.9	40.7	21.9	18.9	15.8	14.9	14.2	...
Services PMI *(value)*	52.5	53.6	56.0	50.9	51.2	54.3	56.2	56.9	56.8
Consumption									
Retail sales[1]	2.3	2.5	2.4	2.1	2.8	1.0	0.3	0.2	...
Car registrations	–3.0	18.5	9.9	6.9	11.9	4.2	23.1	3.4	2.2
Consumer confidence index *(value)*	–26.5	–19.2	–19.1	–16.1	–19.0	–17.2	–14.6	–14.4	–14.1
Labour market									
Employment[2]	3.6	3.1	3.2	3.4	3.6	3.0	–	–	–
Unemployment rate (% labour force)	13.0	12.2	11.7	11.9	11.8	12.3	–	–	–
Registered as employed with Social Security[3]	3.9	2.7	2.8	2.7	2.6	2.6	2.4	2.4	2.5
GDP	**5.8**	**2.5**	**2.0**	**1.9**	**2.1**	**2.5**	–	–	–

Prices

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

	2022	2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	04/24	05/24	06/24
General	8.4	3.6	3.1	2.8	3.3	3.1	3.3	3.6	3.4
Core	5.1	6.1	6.2	6.0	4.5	3.5	2.9	3.0	3.0

Foreign sector

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

	2022	2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	04/24	05/24	06/24
Trade of goods									
Exports *(year-on-year change, cumulative over 12 months)*	22.9	–1.4	12.3	4.5	–1.4	–6.9	–5.3	...	...
Imports *(year-on-year change, cumulative over 12 months)*	33.4	–7.2	10.7	–1.2	–7.2	–9.8	–7.9	...	...
Current balance	**8.2**	**37.7**	**28.7**	**35.8**	**37.7**	**39.2**	**40.3**	**...**	**...**
Goods and services	16.3	60.1	42.6	54.6	60.1	62.0	63.2	...	...
Primary and secondary income	–8.1	–22.4	–14.0	–18.8	–22.4	–22.8	–22.9	...	...
Net lending (+) / borrowing (–) capacity	**20.7**	**53.7**	**42.6**	**50.0**	**53.7**	**53.5**	**54.9**	**...**	**...**

Credit and deposits in non-financial sectors[4]

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

	2022	2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	04/24	05/24	06/24
Deposits									
Household and company deposits	4.9	0.6	0.4	–0.3	0.4	2.5	2.5	3.3	...
Sight and savings	7.9	–4.5	–4.0	–6.9	–7.6	–6.6	–5.7	–4.4	...
Term and notice	–19.6	52.2	40.5	69.8	90.2	104.4	86.9	76.1	...
General government deposits	9.5	8.8	6.8	11.3	9.4	–1.5	–2.6	–1.1	...
TOTAL	**5.2**	**1.1**	**0.9**	**0.5**	**1.1**	**2.2**	**2.2**	**3.0**	**...**
Outstanding balance of credit									
Private sector	0.7	–2.5	–2.2	–3.4	–3.7	–2.9	–2.3	–2.0	...
Non-financial firms	0.9	–3.4	–2.7	–4.6	–5.2	–4.0	–3.2	–2.9	...
Households - housing	1.0	–2.6	–2.4	–3.4	–3.3	–2.8	–2.4	–2.0	...
Households - other purposes	–0.6	–0.2	–0.4	0.0	–0.5	–0.3	0.0	0.5	...
General government	0.2	–3.4	–3.3	–4.6	–5.5	–2.9	–3.6	–3.5	...
TOTAL	**0.7**	**–2.6**	**–2.3**	**–3.4**	**–3.8**	**–2.9**	**–2.4**	**–2.1**	**...**
NPL ratio (%)[5]	**3.5**	**3.5**	**3.5**	**3.5**	**3.6**	**3.6**	**3.6**	**...**	**...**

Notes: *1. Deflated, excluding service stations. 2. Active Population Survey. 3. Average monthly figures. 4. Aggregate figures for the Spanish banking sector and residents in Spain. 5. Period-end figure.*
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.*

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