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MONTHLY REPORT • ECONOMIC AND FINANCIAL MARKET OUTLOOK
SEPTEMBER 2024

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BPI

MONTHLY REPORT - ECONOMIC AND FINANCIAL MARKET OUTLOOK

September 2024

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

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Healthy cooling on the eve of the budget

Economic activity in Portugal was disappointing in the second quarter and the labour market is showing signs of moderation. On the other hand, inflation is progressing at a good pace towards the target level, allowing households' purchasing power to recover, but it also confirms that lower nominal economic growth seems guaranteed, for example by conditioning the condition of fiscal policy. On the external front, the signs point to a slowdown in growth, while the trajectory of inflation and wage restraint in Europe make room for a reduction in interest rates. It's in this context that the new state budget for 2025 is being prepared, a framework in which some risks seem to be emerging that need to be taken into consideration, a topic we've covered in an article in this publication.

As we said before the summer break, we continue to consider Portugal's economic situation to be structurally healthier than in previous periods, and this opinion remains. However, in terms of growth, 2024 should see some cooling, which we have seen confirmed with the second quarter's data. The economy almost stagnated in quarterly terms and growth in the first half of the year stabilised at 1.5% year-on-year. Do we consider this development to be worrying? No. In fact, with reference to the pre-covid period, the situation remains favourable, especially when compared to the largest economies in the eurozone. Portugal's activity is more than 6% above levels and the end of 2019, which compares with around 3.9% in the Eurozone as a whole and 4.7% in Spain, for example. What's more, a slowdown was to be expected after such a large increase in interest rates and the rise in inflation, the full effects of which have yet to be seen.

It is therefore important to look at the details and realise that the cooling of the second quarter in particular was dictated above all by the increase in imports of goods and services, whose contribution to growth weighed more heavily in this period. It seems to us that this increase was mainly associated with the acceleration in investment, reflecting the acceleration in the implementation of EU funds, but also an increase in private investment. The increase in residents travelling abroad (tourism imports) also contributed, which ultimately mirrors the financial health of families. On the positive side, there was a greater contribution not only from investment, but also from private consumption, to which the robustness of the labour market certainly contributed: despite the slower pace of growth, employment continues to grow and the employed population is at an all-time high, above 5 million individuals. Another contribution was wage gains: it should be noted that in real terms, the average wage for employees has been rising by over 3.5% for about a year now, restoring the purchasing power previously lost.

In the coming months it seems reasonable to assume that the pace of growth will accelerate, taking the growth rate for the year above the 1.5% seen in the first half of the year. Even so, our current projection for GDP growth of 1.8% in 2024 may prove slightly optimistic. In fact, the context described of a reduction in the inflation rate - down to 1.9% in August - a robust labour market and expectations of a reduction in interest rates point to continued good behaviour in private consumption. In addition to the factors mentioned above, there will be supportive budgetary measures (specifically, extra payments to pensioners, reinstatement of past salary cuts for teachers and a reduction in personal income tax withholding rates) which will take effect in the coming months and will tend to reinforce the factors mentioned above. We therefore expect household consumption to continue to evolve positively throughout the second half of the year. Likewise, it is expected that investment will continue to reflect the acceleration in the implementation of EU funds: at the end of August 38% of the total allocation (around 8.5 billion euros) had been received, of which around 5.2 billion had been paid out to final beneficiaries and 23% of the milestones and targets had been met.

The good behaviour of domestic demand, supported by private and public investment and private consumption, should continue and even accelerate in 2025 and 2026. The advance of the disinflationary trend and the approach of the ECB's 2% target will in itself lead to an improvement in purchasing power. In addition, this development, which is also expected throughout Europe, will enable the ECB to continue reducing interest rates, with the market currently expecting reference rates to fall by 1.5% by December 2025 and the 12-month Euribor, currently at 3.1%, to fall below 2.5%. Finally, the balance sheets of households and companies are currently quite healthy, with debt levels reduced to levels below or very close to the Eurozone average.

In this context, the main risks facing the Portuguese economy are external, related to the conflicts raging on Europe's doorstep; with the political situation in the US, where a Republican victory in the presidential election could bring some less favourable developments in terms of customs tariffs and protectionism; or with a greater than expected or disorganised cooling in China, which would have global consequences. Internally, attention is focussed on the political situation and the process of approving the next Budget, which is essential for promoting and guaranteeing a climate of confidence that will allow the country's positive structural momentum to be leveraged.

Paula Carvalho
Lisbon, 5 September 2024

Chronology

AUGUST 2024

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

JULY 2024

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

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%.

Agenda

SEPTEMBER 2024

3 Spain: registration with Social Security and registered unemployment (August).
12 Portugal: coincident economic activity indicators (August).
Governing Council of the European Central Bank meeting.
13 Spain: Moody's and S&P ratings.
17 Spain: quarterly labour cost survey (Q2).
17-18 Federal Open Market Committee meeting.
20 Portugal: Fitch rating.
Portugal: home prices (Q2).
22 Spain: balance of payments and NIIP (Q2).
23 Spain: loans, deposits and NPL ratio (July and Q2).
Portugal: GDP breakdown (Q2).
26 Portugal: NPL ratio (Q2).
27 Spain: GDP breakdown (Q2).
Spain: CPI flash estimate (September).
Euro area: economic sentiment index (September).
30 Spain: household savings rate (Q2).
Portugal: CPI flash estimate (September).

OCTOBER 2024

1 Portugal: employment and unemployment (August).
Euro area: CPI flash estimate (September).
2 Spain: registration with Social Security and registered unemployment (September).
6 European Council meeting.
9 Spain: financial accounts (Q2).
10 Portugal: financial accounts (Q2).
15 Portugal: bank loan survey (October).
17 Governing Council of the European Central Bank meeting.
18 China: GDP (Q3).
21 Spain: loans, deposits and NPL ratio (August).
25 Spain: labour force survey (Q3).
30 Spain: GDP flash estimate (Q3).
Spain: CPI flash estimate (October).
Portugal: GDP flash estimate (Q3).
Euro area: GDP (Q3).
Euro area: economic sentiment index (October).
US: GDP (Q3).
31 Portugal: budget execution (September).
Portugal: tourism activity (September).
Euro area: CPI flash estimate (October).

Summer storms and underlying trends

One more year, following the prevailing trend in most months of August, we witnessed a new episode of volatility in the markets at the beginning of the month. The pattern is well known: just as the summer is prone to extreme weather phenomena when pockets of cold air coincide with very warm temperatures on the sea surface, August is also often a tumultuous month for the financial markets, as the effect which unexpected announcements in the macroeconomic data, in corporate earnings or in the geopolitical sphere have on asset prices can be amplified by low levels of liquidity in the markets.

This time the spark was an unexpected rate hike in Japan, which caused a sharp appreciation of the yen, triggering the closure of carry-trade positions (low-cost financing denominated in the Japanese currency used to invest in higher-yielding assets in other locations). This thus entailed the sale of assets in the US, the euro area, etc. In addition to this sudden shift in financial flows, the US employment data for July fell short of expectations, increasing fears of a recession in the country, as did the earnings reported by some tech firms, which are beginning to reflect the time lag between the enormous investments required to avoid falling behind in the AI race and its monetisation.

All of the above provided a perfect breeding ground for corrections in the stock markets, which were at high temperatures following the gains recorded in the first seven months of the year (+11% between January and July), with the additional potential instability posed by the significant accumulation of leveraged positions during the spring in a low-volatility environment. The cumulative fall from peak to trough recorded in the stock markets was 8.2% in developed economies and 9.3% in emerging markets. Most notably, some of the big tech firms, such as NVDIA and TESLA, experienced corrections in excess of 25%, while Japan's Nikkei 225 index suffered the biggest setback (12.5%) in a single session recorded in recent decades. The good news is that, after the storm, calm has returned, now that the economic activity data published throughout August has once again revealed that the soft-landing scenario is currently the most likely, while inflation on both sides of the Atlantic is making progress on its path towards 2%.

This normalisation of the financial situation following the summer storms has also been facilitated by the clarification of the prospect of monetary easing in the US, after Jerome Powell confirmed in Jackson Hole that the Fed will begin to cut rates from September. In his speech, the chair of the American central bank pointed out that, now that progress has been made in the battle against inflation, it is time to focus on economic activity and employment, and that means that the current tone of monetary policy is excessively restrictive, so it is time to begin returning to neutral territory. In our opinion, this will mean placing interest rates in the 3%-3.25% range by mid-2026, and along the way the Federal Reserve will take the opportunity to review its monetary policy strategy, which has been somewhat stagnant since its last update in 2020. A similar exercise will be carried out by the ECB, although Lagarde has already stated that there will be no adjustment of the target this time. In the case of the euro area, we believe that, following the structural changes of recent years, the neutral interest rate will lie in the 2%-2.25% range. This is thus the theoretical medium-term terminal rate, subject to any new surprises that may arise on the horizon.

Therefore, with the yo-yo movement in the markets in August, it has once again become evident that in the absence of any changes in the underlying trends, it is best not to overreact to spikes in financial instability but rather to rely on the soundness provided by portfolios that are well-diversified in terms of both assets and regions. In fact, an investor returning from an idyllic holiday destination without any access to the internet or social media (if that still exists) would have seen good returns on a 60/40 portfolio, avoiding the scare of the first week of the month.

In short, having overcome the traditional financial cold drop of the summer, the underlying trends in the business cycle will continue to play a key role, and these will be determined by the central banks' ability to finish the work of the last two years without causing a sharp adjustment in economic activity. For now, the data continue to support the soft-landing hypothesis. However, this does not mean that we will be immune from potential turbulence in the markets over the coming months, given the high levels of geopolitical risk and the fact that monetary policy will remain in restrictive territory for some time to come. In the meantime, we will be preparing the popcorn or coffee for the long night of 5 November.

José Ramón Díez

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

Financial markets

	Average 2000-2007	Average 2008-2020	2021	2022	2023	2024	2025
INTEREST RATES							
Dollar							
Fed funds (upper limit)	3.43	0.77	0.25	4.50	5.50	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	0.67	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	3.25	2.50
ECB refi	3.05	0.69	0.00	2.27	4.50	3.40	2.65
€STR	–	–0.55	–0.58	1.57	3.90	3.18	2.45
1-month Euribor	3.18	0.42	–0.60	1.72	3.86	3.18	2.47
3-month Euribor	3.24	0.57	–0.58	2.06	3.94	3.19	2.49
6-month Euribor	3.29	0.70	–0.55	2.56	3.93	3.20	2.52
12-month Euribor	3.40	0.86	–0.50	3.02	3.68	3.20	2.55
Germany							
2-year government bonds	3.41	0.27	–0.69	2.37	2.55	2.60	2.05
10-year government bonds	4.30	1.38	–0.31	2.13	2.11	2.40	2.10
Spain							
3-year government bonds	3.62	1.53	–0.45	2.66	2.77	2.71	2.38
5-year government bonds	3.91	2.01	–0.25	2.73	2.75	2.79	2.49
10-year government bonds	4.42	2.96	0.42	3.18	3.09	3.20	2.90
Risk premium	11	158	73	105	98	80	80
Portugal							
3-year government bonds	3.68	3.05	–0.64	2.45	2.33	2.94	2.60
5-year government bonds	3.96	3.63	–0.35	2.53	2.42	2.93	2.65
10-year government bonds	4.49	4.35	0.34	3.10	2.74	3.10	2.85
Risk premium	19	297	65	97	63	70	75
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	1.8	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	1.6	1.7	2.0
Government consumption	2.3	–0.2	4.5	1.4	1.0	1.0	0.8
Gross fixed capital formation	–0.4	–0.8	8.1	3.0	2.6	2.9	5.7
Capital goods	3.2	2.0	15.3	5.5	4.6	–	–
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	1.5	2.5
Exports of goods and services	5.3	2.2	12.3	17.4	4.1	3.9	5.0
Imports of goods and services	3.6	1.5	12.3	11.1	2.2	3.3	5.4
Gross domestic product	**1.5**	**–0.2**	**5.7**	**6.8**	**2.3**	**1.8**	**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	6.6	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	2.8	3.1
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	1.7	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	3.6	2.4
Imports of goods and services	7.0	–1.0	14.9	7.0	0.3	2.9	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

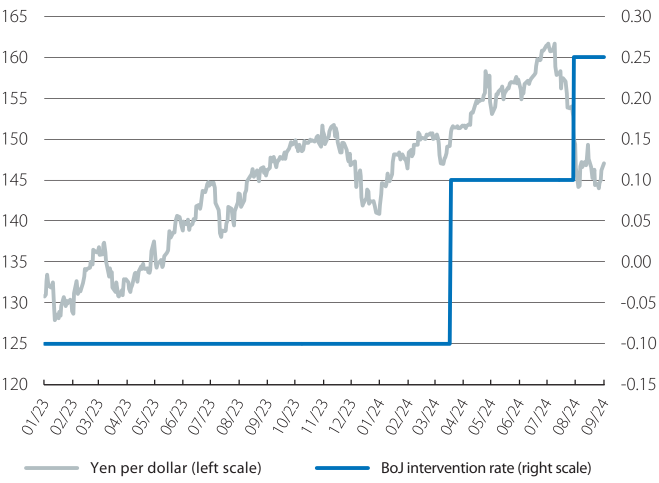
Volatile summer for the financial markets

Between the 2nd and 5th of August, the financial markets experienced their most turbulent sessions in years, triggered by hasty fears of a US recession and an unexpected decision by the Bank of Japan that caused a spike in volatility. Since then the markets have turned a page, rendering those declines of early August no more than a scare and restating the soft-landing scenario as being the most likely.

Anatomy of a fall. It all started on 31 July, when the Bank of Japan (BoJ) unexpectedly announced an increase in its benchmark interest rate from 0.10% to 0.25%. The surprise caused a rally in the value of the yen within the space of just a few days, and this triggered a sharp fall in the Japanese stock market and prompted the closure of carry-trade positions (whereby low-cost financing denominated in yen is used to invest in higher-yield assets). This, in turn, exacerbated the movements in the foreign exchange and stock markets. Two days after the BoJ's decision, the employment data for July in the US were published, with the figures falling somewhat short of expectations (see the International Economy - Economic Outlook section). This triggered fears of a possible recession, intensifying the state of nervousness around the globe. What began as a downturn in the Japanese stock market ended in a global sell-off of shares. Japan's Nikkei 225 index experienced its worst day in almost 40 years, falling 12.5%; the S&P 500 recorded its biggest fall since November 2022, while developed-economy stock markets fell to 8.2% below their July peaks. The dollar lost up to 3% of its value, while the yen appreciated by as much as 6%. The VIX volatility index reached heights not seen since the pandemic, further exacerbated by the low liquidity that is typical of the summer. The money markets, meanwhile, increased their expectation regarding the Fed's rate cuts for 2024 from 50 bps to 100 bps, placing rates within the 4.25%-4.50% range by the end of the year.

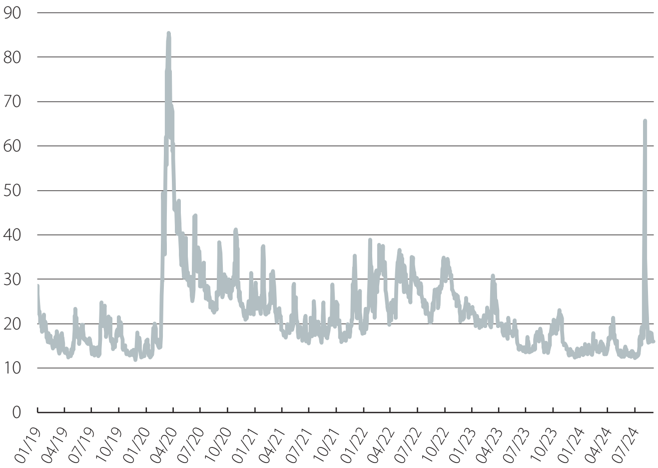
Anatomy of a recovery. Since then, calm seems to have gradually returned to the markets, supported by the latest activity and inflation data which paint a picture of a gentle slowdown scenario with inflation almost under control. Thus, most of the major stock market indices ended the month of August with gains of more than 1%, except the Nikkei 225, which, despite managing to recover much of the setback endured at the beginning of the month, closed slightly in red. In the euro area, the IBEX 35 performed particularly well, driven by the consumer sector. In the US the sector breakdown reveals that the recovery of equities presented a more defensive bias, led by sectors such as consumer staples and utilities. The big tech firms, meanwhile, lagged behind, with the Nasdaq closing the month below the S&P 500 and the Magnificent Seven climbing just 0.20% in August. After all, with the latest earnings season now concluded, the results of the big tech firms have highlighted once again the challenges of monetising AI in the short term.

Japan: official interest rate and foreign exchange rate
(Yen per dollar) *(%)*



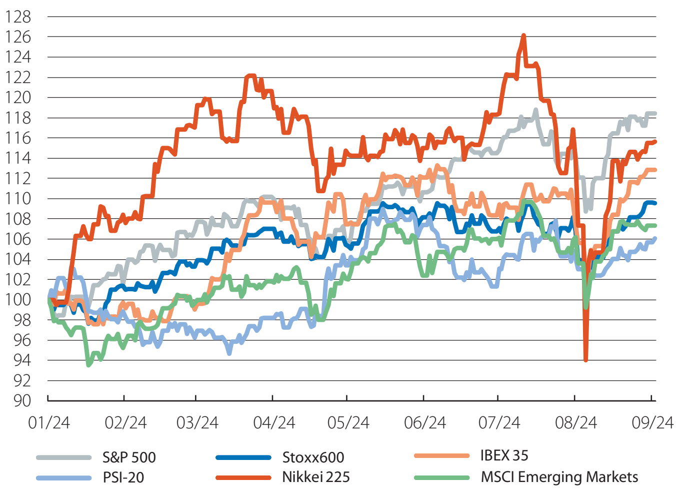
Source: *BPI Research, based on data from Bloomberg and the Bank of Japan.*

VIX volatility index
Index (daily maximum)



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

Developed-economy stock markets
Level (100 = 1 January 2024)



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

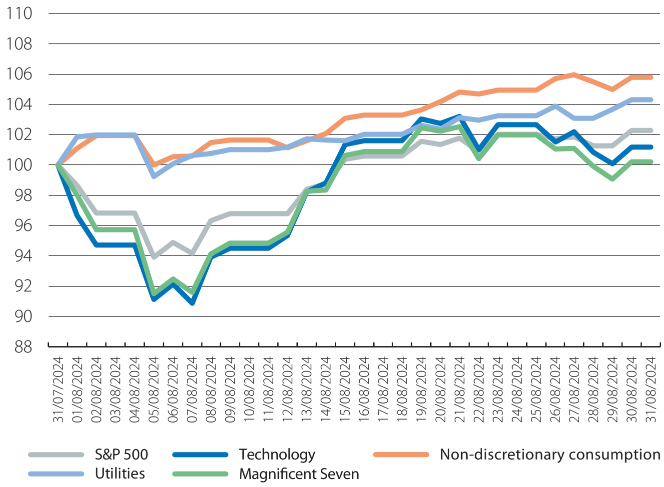
The change of expectations regarding the Fed is here to stay, for now. The futures markets have also calmed down, albeit to a lesser extent. At the peak of the volatility, the markets severely penalised the Fed's decision to maintain interest rates in the 5.25%-5.50% range at its July meeting. They began speculating about a rate cut in the lead-up to the September meeting and assigned an almost 100% probability that the Fed would lower rates by 50 bps, instead of 25 bps. That probability is now at just 35%. What did not change was the expectation that the Fed will make 100 bps of cuts by the end of the year, compared to the 50 bps anticipated prior to the release of the employment data. Behind this expectation lies the shift in the Fed's focus from inflation to labour market risks, noting that any further cooling would not be welcome. In addition, Powell stressed that the Fed has ample room to act on any risk that might emerge, suggesting they could be more aggressive in their monetary easing. So, while the Fed is almost certain to lower rates in September, as Powell assured by stating that «the time has come for policy to adjust», the speed and intensity of subsequent movements will be determined by how things pan out in the labour market over the coming months. The adjustment of expectations in the US caused treasury yields to fall by as much as 35 bps in August in the case of the 2-year yield, which is especially sensitive to short-term monetary policy.

With no changes ECB's, caution is advised. The adjustment of expectations for the ECB was less pronounced and, after some initial volatility due to the contagion effect of events in the US, expectations once again settled on two rate cuts of 25 bps each for the rest of the year. The ECB's position, generally speaking, has been that the recent data open the door to rates being reduced even further, provided that the disinflationary process continues, and that the slowdown in wage growth is a particularly promising sign. That said, the ECB has also generally adopted a cautious tone and has advocated a gradual approach to monetary policy formulation. Consequently, sovereign yields in the euro area ended the month almost flat.

The dollar loses steam. The foreign exchange markets have felt much of the impact of the shift in interest rate expectations in the US. The dollar weakened 2.30% against its main peers, and against the euro it reached 1.12 dollars/euro, before finally closing at 1.10 dollars/euro. The yen, meanwhile, oscillated in the 154-144 yen/dollar range, finally settling at around 146 yen/dollar, representing an appreciation of 5% since the BoJ's announcement.

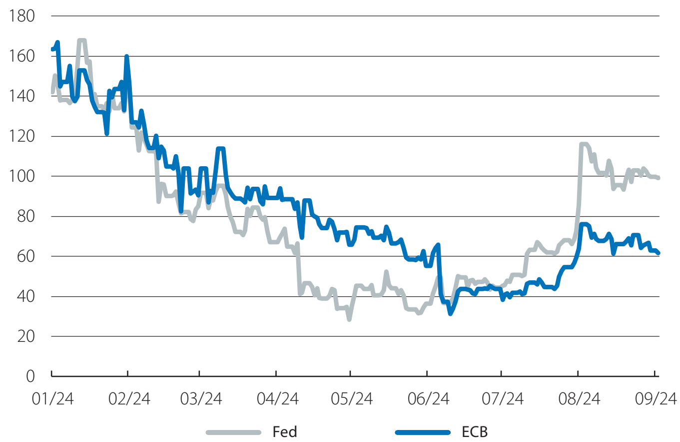
Commodities remain on the sidelines. Their market prices thus continued to respond mainly to the fundamentals of each market, and even the increase in geopolitical tensions in the Middle East was insufficient to cause a significant rise in oil and gas prices. Towards the end of the month, downward pressures on oil prices increased due to growing doubts about demand in the US and China amid continued weakness in manufacturing activity coupled with an increase in global crude oil supply. The Brent barrel price reached around 73 dollars, its lowest level this year, undoing the gains accumulated in 2024.

Sectors of the S&P 500
Level (100 = 31 July 2024)



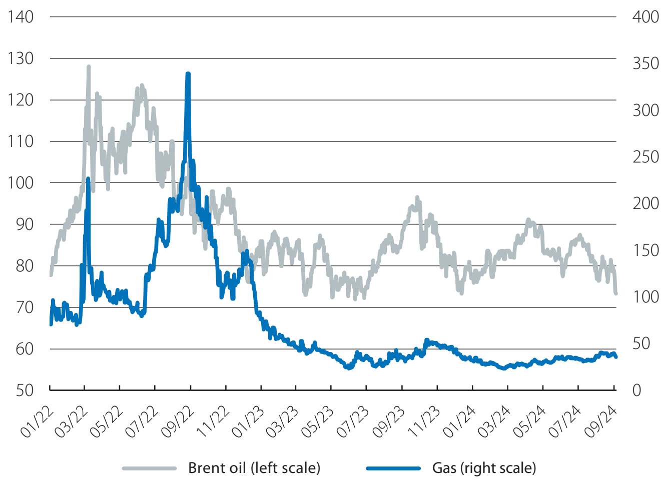
Source: *BPI Research, based on data from Bloomberg.*

Expected interest rate cuts by the end of December 2024
(bps)



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

Oil and gas prices
(Dollar/barrel) *(Euro/MWh)*



Note: *TTF natural gas and Brent crude oil.*
Source: *BPI Research, based on data from Bloomberg.*

Interest rates (%)

	31-August	31-July	Monthly change (bp)	Year-to-date (bp)	Year-on-year change (bp)
Euro area					
ECB Refi	4.25	4.25	0	–25.0	25.0
3-month Euribor	3.49	3.65	–16	–41.9	–10.7
1-year Euribor	3.09	3.39	–30	–42.5	–105.7
1-year government bonds (Germany)	2.83	3.00	–18	–43.7	–79.1
2-year government bonds (Germany)	2.39	2.53	–14	–1.3	–86.9
10-year government bonds (Germany)	2.30	2.30	0	27.5	–13.8
10-year government bonds (Spain)	3.13	3.12	2	14.0	–30.7
10-year government bonds (Portugal)	2.91	2.93	–1	25.5	–27.7
US					
Fed funds (upper limit)	5.50	5.50	0	0.0	25.0
3-month SOFR	5.02	5.24	–22	–31.5	–25.2
1-year government bonds	4.40	4.74	–34	–36.0	–99.4
2-year government bonds	3.92	4.26	–34	–33.3	–101.9
10-year government bonds	3.90	4.03	–13	2.4	4.9

Spreads corporate bonds (bps)

	31-August	31-July	Monthly change (bp)	Year-to-date (bp)	Year-on-year change (bp)
Itraxx Corporate	52	55	–2	–6.2	–21.1
Itraxx Financials Senior	60	62	–1	–6.7	–24.1
Itraxx Subordinated Financials	107	111	–4	–15.4	–50.7

Exchange rates

	31-August	31-July	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
EUR/USD (dollars per euro)	1.105	1.083	2.1	0.1	1.2
EUR/JPY (yen per euro)	161.490	162.360	–0.5	3.7	2.3
EUR/GBP (pounds per euro)	0.841	0.842	–0.1	–2.9	–2.1
USD/JPY (yen per dollar)	146.170	149.980	–2.5	3.6	1.0

Commodities

	31-August	31-July	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
CRB Commodity Index	536.4	535.2	0.2	5.1	–3.0
Brent ($/barrel)	78.8	80.7	–2.4	2.3	5.6
Gold ($/ounce)	2,503.4	2,447.6	2.3	21.3	30.3

Equity

	31-August	31-July	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
S&P 500 (USA)	5,648.4	5,522.3	2.3	18.4	26.8
Eurostoxx 50 (euro area)	4,958.0	4,872.9	1.7	9.7	12.7
Ibex 35 (Spain)	11,401.9	11,065.0	3.0	12.9	18.2
PSI 20 (Portugal)	6,760.2	6,708.4	0.8	5.7	12.9
Nikkei 225 (Japan)	38,647.8	39,101.8	–1.2	15.5	14.5
MSCI Emerging	1,099.9	1,084.8	1.4	7.4	9.4

With inflation relatively under control on the international stage, the focus is now on growth

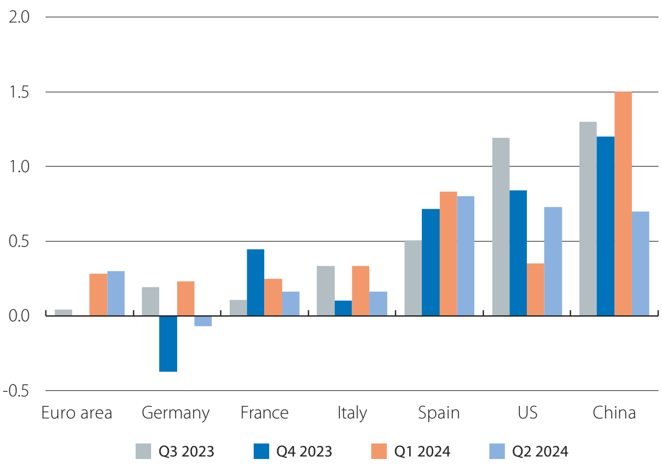
The global economy continues to grow at different speeds in Q2. The US continues to show remarkable resilience and surprised analysts by growing 0.7% quarter-on-quarter (vs 0.4% in Q1), which will automatically lead to an upward revision of our growth forecast for 2024 (currently 2.4%). Meanwhile, the UK and Japan are growing at rather high rates (0.6% and 0.8%, respectively). The euro area, for its part, places its quarterly growth at 0.2%, after 0.3% in Q1, but there is substantial disparity between countries. Germany has disappointed by contracting 0.1%, while France and Italy grew slightly above expectations (both 0.2%), and Spain stood out by repeating the strong 0.8% growth of Q1. Finally, China disappointed by growing at a rate of just 0.7%, the lowest in two years. In Q3, it seems unlikely that growth in the major economies will accelerate relative to Q2.

The US labour market is beginning to show signs of moderation. The employment data have been one of the major protagonists of the last month. In July, non-agricultural job creation disappointed by standing at only 89,000 jobs (after a downward revision), while the unemployment rate rebounded 0.2 pps to 4.3%. The market reaction was significant (see the Financial Markets Economic Outlook section) due to the apparent sign of recession indicated by the rise in unemployment: the Sahm Rule states that, when the average unemployment rate for the past 3 months exceeds the lowest level of the last 12 months by 0.5 pps, we are on the verge of a recession. We believe that this hypothesis is excessive and that it also does not match the message sent by job creation in August: 142,000 new jobs and an unemployment rate that fell 0.1 pp to 4.2%. What is evident is that in recent months job creation is slowing down (the average monthly creation in the first half of the year exceeded 200,000). However, this pattern reflects an orderly normalisation of the labour market, consistent with a steady slowdown of the economy in the second half of the year due to the impact of the monetary tightening process. Therefore, we believe that the likelihood of a recession in the short term is very small.

The main business climate and consumer confidence indicators, meanwhile, suggest that we could see a greater cooling of the industrial sector in Q3. The PMIs for July (54.3) and August (54.1) are above the average for Q2 (53.5) and clearly exceed the 50-point threshold which denotes positive growth. This good performance is likely explained by the renewed dynamism observed in services (55.2 in August), which more than offset the sharp deterioration recorded in industry (48.0). The hard data for July point in this direction: the monthly rates for retail sales grew by 1.0% and household consumption by 0.4%, while industrial production fell by 0.6% and orders of capital goods, excluding transport and defence (a proxy for investment in fixed capital), fell by 0.1%.

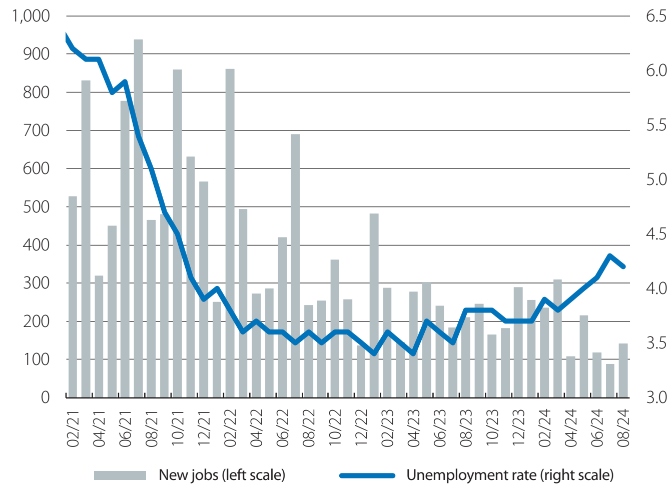
US inflation continues its slow downward trickle. In July, both headline and core inflation fell 0.1 pp, to 2.9% and 3.2%, respectively. The private consumption deflator, meanwhile, kept its year-on-year growth rate unchanged at 2.5% for the total

Global: GDP
Quarter-on-quarter change (%)



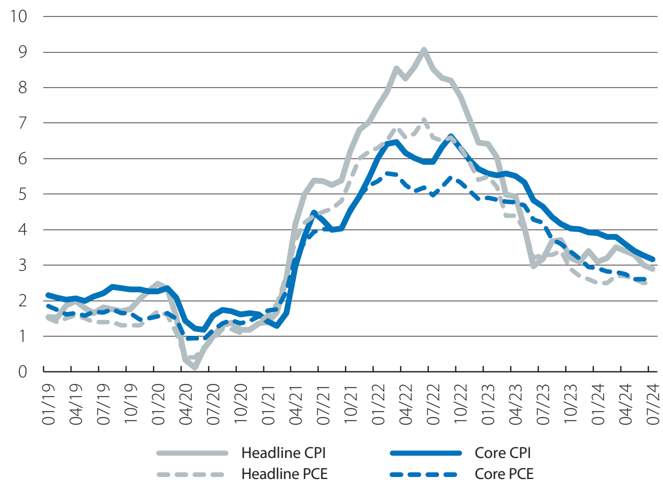
Source: *BPI Research, based on data from Eurostat, the Bureau of Economic Analysis and the Statistics Office of China.*

US: labour market
(Thousands of people) *(%)*



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.*

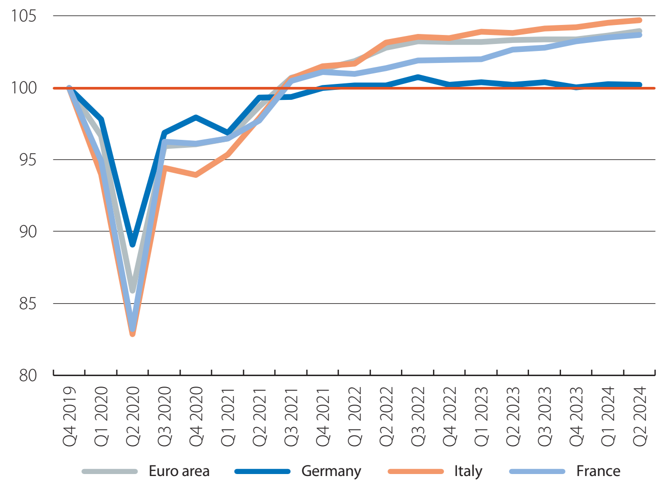
rate and at 2.6% for the core index. Although inflation has slowed its convergence towards the 2.0% target rate in recent months, expectations are well anchored, which explains the change in the Fed's discourse (see the Financial Markets Economic Outlook section).

Germany's weakness holds back the euro area as a whole. Germany's GDP contracted in Q2 (–0.1% quarter-on-quarter) and the pattern in the main industrial climate and confidence indicators over the summer render the chances of a significant rebound in economic activity in Q3 somewhat unlikely. According to the ZEW, in August the percentage of respondents who see no change in the situation rose to almost 50%; the Ifo fell in July and August, standing at 86.6 (100 indicates growth at around its average rate), and the PMIs fell over the summer months below the 50-point threshold which indicates positive growth. All the indicators suggest that the economy will not be able to recover the lost ground in the short term, thus a downward revision of the already modest 0.2% growth estimated for 2024 is required. With regard to the other large economies in the region, the «pull effect» for the French economy of the Olympic Games in Paris stands out: the business climate and confidence indicators in August reached levels compatible with growth in Q3 exceeding that of Q2 thanks to the services sector. Consequently, the GDP of the euro area as a whole could maintain the growth rate recorded in Q2 in Q3, although the risks are concentrated to the downside.

The higher inflation in services counteracts the lower energy prices in the euro area. Headline inflation fell 0.4 pps in August to 2.2%, while core inflation fell 0.1 pp to 2.8%. In addition to the significant fall in energy prices (–3.0% vs. 1.2%), there was also a slowdown in the price of goods (0.4% vs. 0.7%), indicating that the disinflationary process is beginning to spread to more components of the price index. In addition, the moderation in negotiated wages (3.6% year-on-year in Q2 vs. 4.7%) reduces the risk of second-round inflationary tensions. Nevertheless, inflation in services remains rather high and in August it even rebounded 0.2 pps to 4.2%, marking its highest level since October 2023, although the impact of the Paris Olympics must be taken into account.

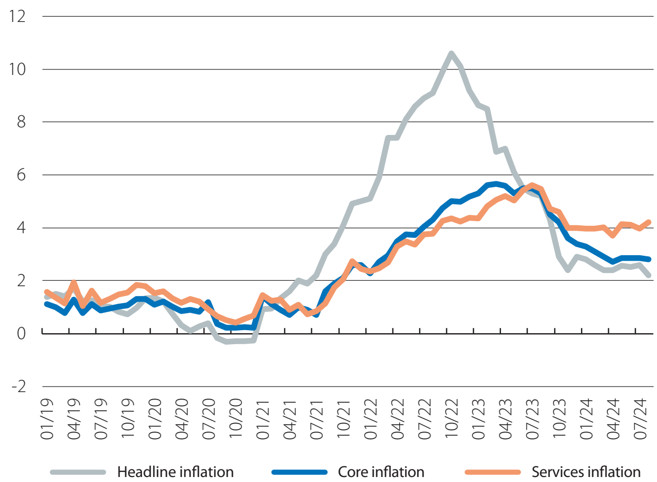
Modest outlook for the Chinese economy in Q3. The residential sector remains the biggest drag on the Chinese economy: home prices continue to fall and in July they fell relative to their cyclical peak by 7.6% for new housing and by around 14% in in the case of existing housing. In addition, the number of homes for which construction was started fell by more than 23% in the current year to July and the number of homes completed, by almost 22%. Investment in fixed assets is also struggling to bounce back, and in the year to date up until July the growth of this variable slowed to 3.6% (3.9% up until June). Consumption is also struggling to gain momentum and the apparent recovery in retail sales in July (2.7% year-on-year vs. 2.0%) responds to a base effect, with a breakdown by component that shows that households are cutting back on anything they can other than essential goods. Industrial production also lost some momentum in July (5.1% year-on-year vs. 5.3% previously), most notably in the case of car production: 4.4% year-on-year, compared to 9.0% on average in the first half of the year, and a far cry from the double-digit growth of the previous years. In short, this evidence of a slowdown would justify greater fiscal stimulus to ensure that the growth target of 5.0% in 2024 is achieved.

Euro area: real GDP
Index (100 = Q4 2019)



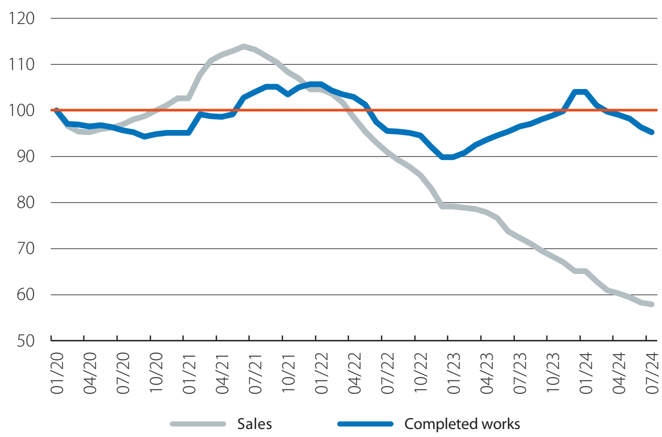
Source: *BPI Research, based on data from Eurostat.*

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



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

China: residential sector indicators *
Index (100 = January 2020)



Note: ** The data refer to the total surface area (in million m2) built and sold, and are 12-month averages (excluding the months of January and February each year).*
Source: *BPI Research, based on data from the National Statistics Office of China.*

Deficit and debt on the rise: the future of the US' public finances

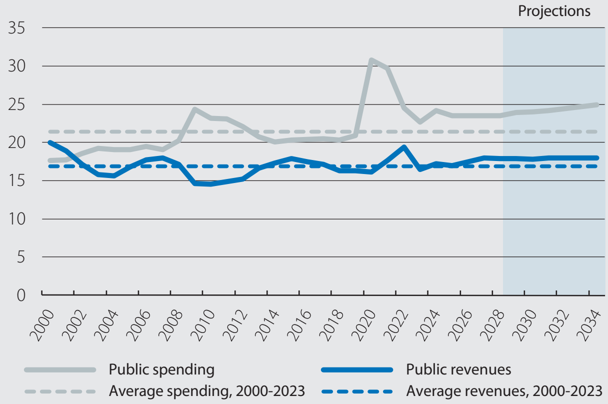
Ever year, the US Congressional Budget Office (CBO) publishes a report with 10-year projections for public revenues and expenditure, the resulting surpluses or deficits, and the public debt required to finance the federal government. These projections are prepared on the assumption that, over the next decade, both revenues and expenditure will follow current policy trends and that inflation and GDP will grow at an average rate of 2.0% and 1.8%, respectively. As with all exercises of this nature, the projections published by the CBO are not intended to offer a precise measure of where the public accounts will stand in the future (no one can predict a change of legislation or an economic shock). They do, however, provide a clear picture of the current fiscal situation and how it might evolve under different assumptions.

With these considerations in mind, the report published in June by the CBO reveals that, in the absence of any substantial changes in the current fiscal policies, the public accounts would deteriorate significantly over the coming decade: by 2034 the deficit would represent 7% of GDP, well above the historical level of 3.7%, while public debt would continue to climb to new highs, reaching 122% of GDP.

Spending on debt interest and social programmes will increase total public spending

In 2024, public spending is estimated to reach 6.8 trillion dollars, while by 2034 it will reach 10.3 trillion. These sums represent 24% and 25% of GDP, respectively, compared to a historical average of 21%. This increase will be driven primarily by mandatory items, as well as by an increase in interest expenditures. Mandatory expenditures, which include commitments such as social security and healthcare, will be pushed up mainly by an ageing population and rising health costs.[1] In fact, by 2034, health expenditure as a proportion of GDP is expected to reach double the average of the last 50 years. Interest payments will also increase, going from 2.4% of GDP in 2024 to 4.1% in 10 years time. This will be this component's highest level since 1940 and places it at the same level as spending on Medicare,[2] primarily due to the rise in debt (the projected average 10-year treasury rate is 3.80%, which is similar to the average for the past 20 years). On the other hand, discretionary spending,

US: CBO projections for public spending and revenues
(% of GDP)



Source: *BPI Research, based on data from the US CBO and Department of the Treasury.*

which is approved annually by Congress and includes items such as defence, transportation and education, is set to fall over the coming decade, reaching an all-time low of 5.5% of GDP by 2034 (6.3% in 2024).

Revenues will increase if the tax cuts are not extended

In 2024, it is estimated that the government will record revenues totalling some 4.9 trillion dollars, or 17% of GDP, and that this figure will steadily increase to reach 7.5 trillion by 2034, which is 18% of GDP. This is slightly above the average of 17% of GDP of the last 20 years, given the expiry in late 2025 of the tax cuts introduced in 2017 under Trump's presidency.[3] Thus, revenues from corporate taxes, personal income taxes and social security contributions, which account for over three quarters of all federal government resources, will increase from 15.5% to 16.7% of GDP. The other revenue components will remain fairly stable in GDP terms in the coming years.

The deficit and public debt will reach historic highs

According to the CBO's projections, the fiscal deficit in 2024 will stand at 1.9 trillion dollars, or 7% of GDP, and by 2034 it will rise to 2.8 trillion, or 6.9% of GDP. This means that by the end of the projected period, the deficit in GDP terms will still be twice the average level recorded during the five years immediately prior to the pandemic. In addition, it will be the first time since 1930 that the deficit will exceed 5.5% of GDP for more than five

1. The CBO estimates that the number of Social Security beneficiaries is growing faster than the total population, and that the cost of healthcare per beneficiary is growing faster than GDP per capita.
2. *Medicare* is the healthcare programme for people over the age of 65 and people with certain disabilities.

3. The Tax Cuts and Jobs Act cut corporation tax from 35% to 21% and reduced the maximum rates of each bracket of personal income tax.

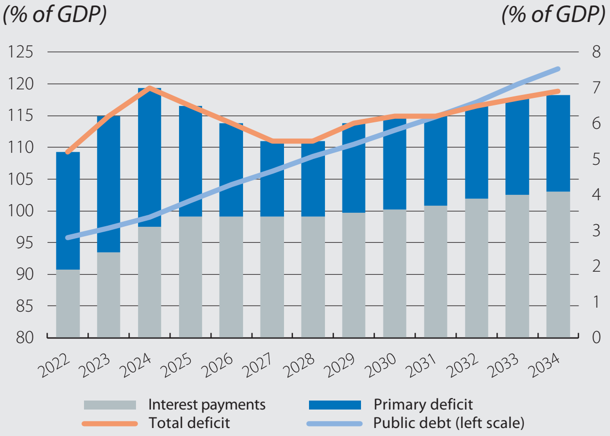
consecutive years. The primary deficit, which excludes interest payments on debt, will fall from 3.9% of GDP to 2.8%, placing it even below the 4.1% average of the last decade. However, this will be insufficient to offset the aforementioned increase in interest spending. Consequently, these larger deficits will be financed by the issuance of greater sums of public debt, which is forecast to rise from 28.2 trillion dollars (99% of GDP) to 50.6 trillion (122% of GDP) in 2024.

What could change?

Beyond any unexpected economic shocks that could significantly alter the growth, inflation and interest rate forecasts of the CBO's baseline scenario, the main factor that will determine the future evolution of the public finances will be what form of fiscal policy is implemented by the upcoming administration. However, the economic proposals from both candidates thus far appear likely to aggravate the already deteriorated fiscal landscape: from the expansion of spending on social programmes, to further tax cuts for both corporations and individuals. *A priori*, it does not appear that either of the two major political parties intend to adopt policies aimed at reducing the public deficit, although this may be an electoral strategy.

But promises made during an election campaign are one thing, and the reality that follows is another. In fact, the Federal Reserve and various institutions have issued warnings about the path that debt is on, as they consider it to be unsustainable. Even the rating agency Moody's downgraded its outlook for the US' credit rating from stable to negative last November. For now, the financial markets have not been too concerned about the US' fiscal sustainability. However, history (events such as the «Truss effect» in the UK) warns us that the sensitivity of «bond vigilantes» can spike in the event of a deterioration in the fiscal outlook, and the lack of clarity in the fiscal plans remains a risk for the financial markets.

US: CBO projections for the deficit and debt



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

The decoupling of the US and China accentuates the fragmentation

The data from recent quarters seem to support the hypothesis that globalisation is transforming relative to the form is has taken in the previous three decades. These data show growing evidence of two major phenomena: the slowdown in trade in goods, but not in services, and the growing fragmentation of global trade and production. At the epicentre of it all is China, with its increasingly key role in global manufacturing as it produces ever more sophisticated goods (which favours its decoupling from other economies in a challenging geopolitical time), and which is decoupling from the US through an ever-increasing number of channels.

From a globalisation of goods... to one based on services?

In 2023, the global trade in goods continued the gradual slowdown that had begun in the last decade with China's transition towards a greater role of domestic consumption. The figure for 2023 is mainly explained by the contraction of trade in Europe, which is still weighed down by high energy prices. This slowdown, however, was not observed in the case of trade in services, which continued to grow at high rates (global services exports in current terms grew by 8.4% in 2023, compared with an average annual growth of 4.6% between 2012 and 2019). Although trade in services still represents a much smaller share of global trade than trade in manufactured goods, at around 7.5% and over 15% of global GDP, respectively, the gap has narrowed (in 2008 they accounted for 6.3% and 16.4% of world GDP, respectively).

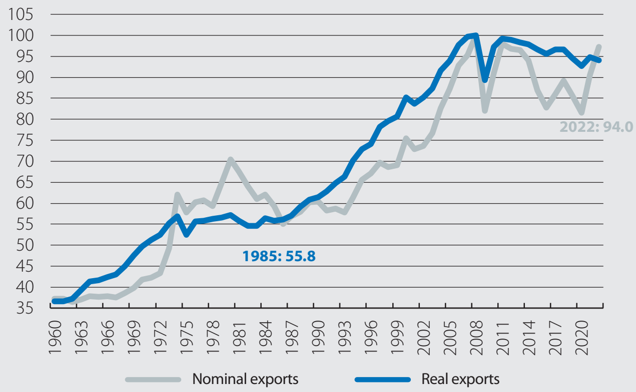
On the other hand, the strength of the dollar and, in general, the tightening of financial conditions throughout 2023 was an additional constraint for the growth of trade in goods. This is because it tends to hinder the financing of complex production and export processes, as we already explained in our first review of the state of globalisation.[1]

In this regard, if the rate cuts by the Fed and other central banks materialise in the coming quarters as expected, then we will see a steady easing of global financial conditions and the depreciation of the dollar seen in recent weeks is likely to continue. This, in turn, would favour an improvement in global trade in goods in both 2024 and 2025 (the WTO expects trade in goods to grow by 2.6% and 3.3% annually in these two years, respectively). Global export volume data for Q1, as well as trade data for Asian countries up until the summer, are already showing signs of improvement in the current year to date.

1. See the Focus «¿Quo vadis, globalisation? (part I): the long slowdown», in the MR10/2023.

Evolution of the ratio of exports of goods to world GDP

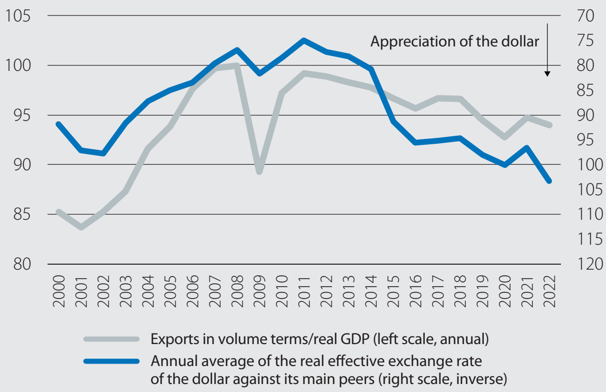
Index (100 = 2008)



Source: *BPI Research, based on data from the WTO and the World Bank.*

Global exports of goods/GDP and evolution of the dollar

Index (100 = 2008) *Index, inverse*



Source: *BPI Research, based on data from the WTO, the World Bank and Bloomberg.*

The global economy shows signs of fragmentation across all sectors and metrics

In addition to the slowdown in trade in goods, there is also evidence of further fragmentation of trade and global value chains (GVCs). Several studies have identified the lower levels of trade between geopolitical blocs since the outbreak of the war in Ukraine, with intra-bloc trade growing at a faster rate than inter-bloc trade.[2] Similarly, the decoupling between China and the US is continuing its course, and trade in goods and services between the two countries between 2018 and 2024 so far grew 25 pps less than US trade with the rest of the world (Mexico being the main beneficiary).

2. See M. Blanga-Gubbay and S. Rubínová (2023). «Is the global economy fragmenting?». WTO Staff Working Papers ERSD-2023-10, World Trade Organization (WTO), Economic Research and Statistics Division.

These signs of fragmentation are not only evident in the case of trade in goods. The US is importing higher-value-added services predominantly from countries that are located nearby and are politically aligned. Its imports of ICT services (ranging from IT activities to financial services) from other developed countries, such as the euro area and Canada, have steadily increased since 2018, to the detriment of Asian countries, mainly India.

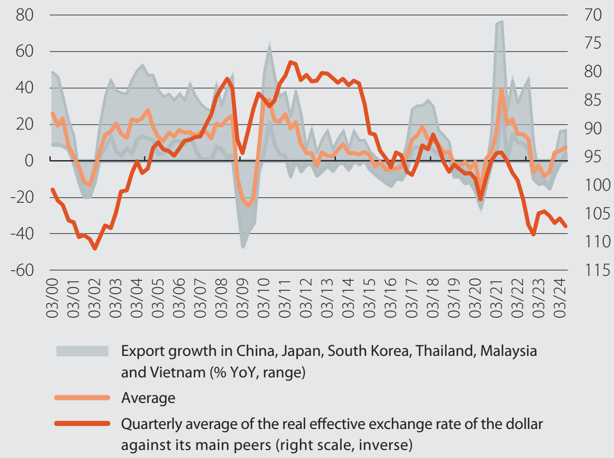
Foreign direct investment (FDI) flows are also being affected by this fragmentation and are being reorienting towards neighbouring countries. Indeed, this trend has been increasing in recent years and is particularly pronounced in sectors that are sensitive to the digital and green transitions.[3] This trend is evident in flows from the US to China (and vice versa), although euro area firms have even increased their investment in China in recent years. Also with regard to FDI, the main beneficiary of the China-US decoupling is Mexico, which is set to benefit greatly from the subsidies included in the US' Inflation Reduction Act (IRA).

China's size distorts the global picture

One caveat that should be taken into account when analysing global trends is that the sheer size of the Chinese and US economies can distort the global picture, so we must exercise caution when drawing conclusions about globalisation. This factor is particularly relevant in the case of China and GVCs, given the country's dominant role in global manufacturing production: China produced 35.4% of the world's manufactured goods in 2020 (the latest year with available data), a figure equivalent to the production of the next nine countries combined (namely the US, Japan, Germany, India, South Korea, Italy, France, Taiwan and Brazil).

Growth of exports of the main Asian economies and evolution of the dollar

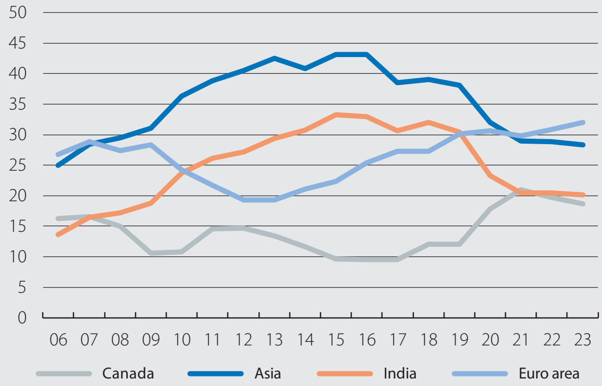
Year-on-year growth (%) *Index, inverse*



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

US ICT imports by source country

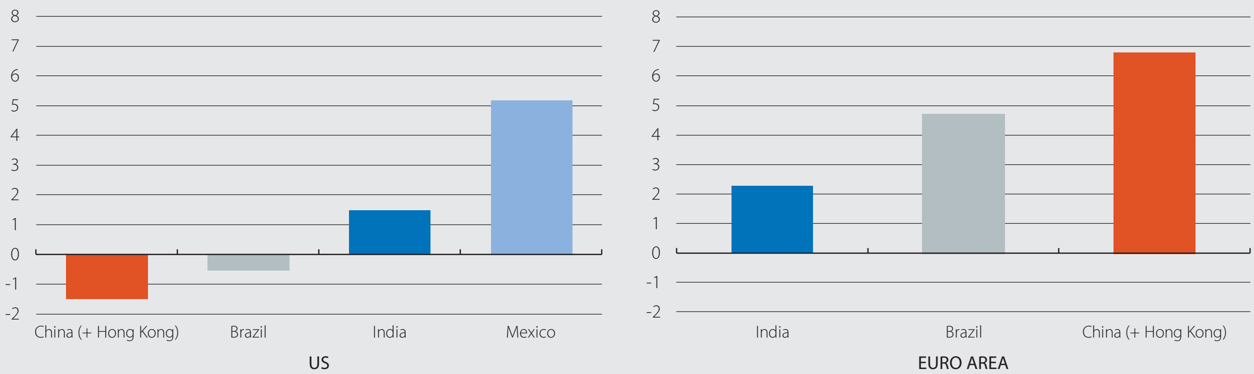
(% with respect to total ICT imports)



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

Increase in FDI from the US and euro area post-COVID

(USD billions) *(EUR billions)*



Note: *Difference between the post-COVID average (Q2 2021 - Q1 2024) and the pre-COVID average (2009-2019) of the 4-quarter moving sum of FDI flows.*
Source: *BPI Research, based on data from the Bureau of Economic Analysis and the ECB.*

3. See IMF. Research Dept. (2023). «Chapter 4: Geoeconomic Fragmentation and Foreign Direct Investment». World Economic Outlook, April 2023: A Rocky Recovery.

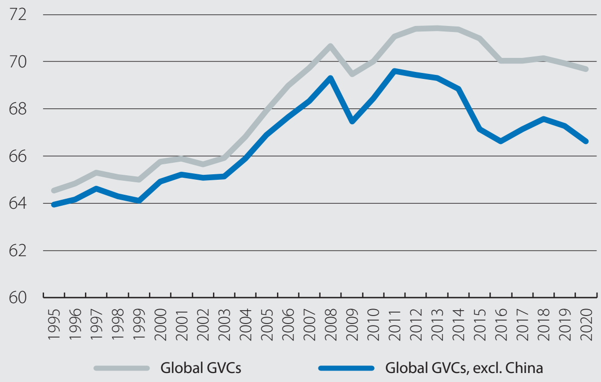
If we look at the overall picture of GVCs, they appear to have already reached the peak of their development, but the picture they paint in terms of the fragmentation of the world economy is not so negative. However, China's value chains remain highly complex and are increasingly domestic, meaning that the country has become more sophisticated and has turned towards its domestic market. On the other hand, the value chains of the rest of the world are becoming shorter, although rather than becoming more domestic-orientated they are undoubtedly becoming more regional in nature, based on all of the above.

The sophistication of China's economy can be seen, for instance, in its leadership in the manufacture of electric vehicles. In 2023, China was the world's largest exporter of electric vehicles. Coupled with its significant growth in the manufacture and export of internal-combustion-engine vehicles, this made the country the world's leading vehicle exporter in 2023.[4] The current context of Western geopolitical realignment makes these goods vulnerable to trade barriers, which could deepen the fragmentation of the world economy in the coming quarters.

In short, the fragmentation of the world economy is increasingly evident, although China and its relationship with the US is clearly the epicentre. Laxer financial conditions and a slightly weaker dollar in the coming quarters ought to favour global trade in goods. However, if the EU disconnects from China in a similar way to the US, this could deal an additional blow to globalisation in the form we have known it up until the last decade.

Depth of Global Value Chains (GVCs)

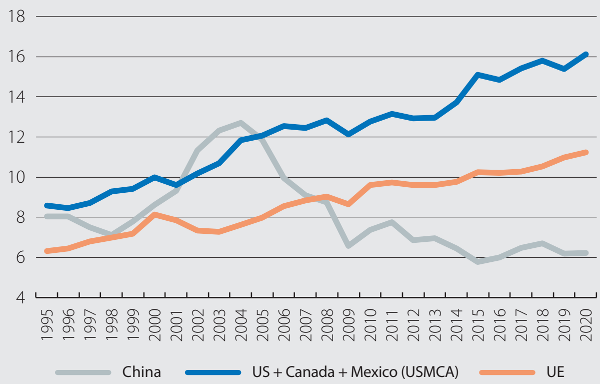
(% of the production of intermediate manufactured goods relative to the total production of manufactured goods)



Source: *BPI Research, based on data from the OECD (TiVA).*

Localisation of Global Value Chains (GVCs)

(% of the import of intermediate goods with respect to their production)



Source: *BPI Research, based on data from the OECD (TiVA).*

4. See E. Ng Shing and R. Santana (2024). Data Blog - trade data reveal changing patterns in electric vehicles market, WTO Blog.

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

UNITED STATES

	2022	2023	Q3 2023	Q4 2023	Q1 2024	Q2 2024	06/24	07/24	08/24
Activity									
Real GDP	1.9	2.5	2.9	3.1	2.9	3.1	–	–	–
Retail sales (excluding cars and petrol)	8.6	5.3	4.6	5.0	2.9	3.4	3.6	3.4	...
Consumer confidence *(value)*	104.5	105.4	109.0	102.7	106.3	98.9	97.8	101.9	103.3
Industrial production	3.4	0.2	–0.1	–0.1	–0.5	0.2	1.1	–0.2	...
Manufacturing activity index (ISM) *(value)*	53.5	47.1	47.6	46.9	49.1	48.8	48.5	46.8	47.2
Housing starts *(thousands)*	1,552	1,421	1,380	1,481	1,407	1,340	1,329	1,238	...
Case-Shiller home price index *(value)*	307	312	316	321	325	329	330	...	...
Unemployment rate *(% lab. force)*	3.6	3.6	3.7	3.7	3.8	4.0	4.1	4.3	4.2
Employment-population ratio *(% pop. > 16 years)*	60.0	60.3	60.4	60.3	60.2	60.1	60.1	60.0	60.0
Trade balance [1] *(% GDP)*	–3.8	–3.1	–3.0	–2.9	–2.8	–2.8	–2.9	...	...
Prices									
Headline inflation	8.0	4.1	3.5	3.2	3.2	3.2	3.0	2.9	...
Core inflation	6.2	4.8	4.4	4.0	3.8	3.4	3.3	3.2	...

JAPAN

	2022	2023	Q3 2023	Q4 2023	Q1 2024	Q2 2024	06/24	07/24	08/24
Activity									
Real GDP	1.2	1.7	1.3	0.9	–0.9	–0.8	–	–	–
Consumer confidence *(value)*	32.2	35.2	36.2	36.5	38.9	37.0	36.4	36.7	36.7
Industrial production	0.0	–1.4	–3.6	–0.9	–4.3	–2.9	–4.8	–0.7	...
Business activity index (Tankan) *(value)*	9.5	7.0	9.0	13.0	11.0	13.0	–	–	–
Unemployment rate *(% lab. force)*	2.6	2.6	2.6	2.5	2.5	2.6	2.5	2.7	...
Trade balance [1] *(% GDP)*	–2.1	–3.0	–2.7	–1.8	–1.2	–1.0	–1.0	–1.0	...
Prices									
Headline inflation	2.5	3.3	3.1	2.9	2.5	2.7	2.9	2.7	...
Core inflation	1.1	3.9	4.3	3.9	3.2	2.2	2.1	1.9	...

CHINA

	2022	2023	Q3 2023	Q4 2023	Q1 2024	Q2 2024	06/24	07/24	08/24
Activity									
Real GDP	3.0	5.2	4.9	5.2	5.3	4.7	–	–	–
Retail sales	–0.8	7.8	4.2	8.3	4.7	2.6	2.0	2.7	...
Industrial production	3.4	4.6	4.2	6.0	5.8	5.9	5.3	5.1	...
PMI manufacturing *(value)*	49.1	49.9	49.7	49.3	49.7	49.8	49.5	49.4	49.1
Foreign sector									
Trade balance [1,2]	899	865	901	865	841	...	868	872	...
Exports	7.1	–5.1	–10.8	–3.3	–1.7	...	7.9	6.7	...
Imports	0.7	–5.5	–8.5	0.9	1.6	...	–2.4	7.2	...
Prices									
Headline inflation	2.0	0.2	–0.1	–0.3	0.0	0.3	0.2	0.5	...
Official interest rate [3]	3.65	3.45	3.5	3.5	3.5	...	3.5	3.4	3.4
Renminbi per dollar	6.7	7.1	7.2	7.2	7.2	...	7.3	7.3	7.2

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	Q3 2023	Q4 2023	Q1 2024	Q2 2024	06/24	07/24	08/24
Retail sales *(year-on-year change)*	1.2	–2.0	–2.3	–0.7	–0.2	0.3	–0.3	...	...
Industrial production *(year-on-year change)*	2.3	–2.2	–4.8	–3.8	–4.7	–3.4	–3.9	...	...
Consumer confidence	–21.9	–17.4	–16.3	–16.7	–15.5	–14.3	–14.0	–13.0	–13.5
Economic sentiment	102.1	96.4	94.3	94.8	96.0	95.9	96.0	96.0	96.6
Manufacturing PMI	52.1	45.0	43.2	43.9	46.4	46.3	45.8	45.8	45.8
Services PMI	52.1	51.2	49.2	48.4	50.0	53.1	52.8	51.9	53.3
Labour market									
Employment (people) *(year-on-year change)*	2.2	1.4	1.4	1.2	1.0	...	–	–	–
Unemployment rate *(% labour force)*	6.7	6.6	6.6	6.5	6.5	6.5	6.5	6.4	...
Germany *(% labour force)*	3.1	3.0	3.0	3.1	3.3	3.4	3.4	3.4	...
France *(% labour force)*	7.3	7.4	7.4	7.5	7.5	7.5	7.5	7.5	...
Italy *(% labour force)*	8.1	7.7	7.7	7.4	7.2	6.8	6.9	6.5	...
Real GDP *(year-on-year change)*	3.5	0.5	0.1	0.2	0.5	0.6	–	–	–
Germany *(year-on-year change)*	1.7	–0.1	–0.3	–0.2	–0.1	–0.1	–	–	–
France *(year-on-year change)*	2.6	1.1	0.9	1.3	1.5	1.0	–	–	–
Italy *(year-on-year change)*	4.2	1.0	0.6	0.7	0.6	0.9	–	–	–

Prices

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

	2022	2023	Q3 2023	Q4 2023	Q1 2024	Q2 2024	06/24	07/24	08/24
General	8.4	5.5	5.0	2.7	2.6	2.5	2.5	2.6	2.2
Core	3.9	5.0	5.1	3.7	3.1	2.8	2.9	2.9	2.8

Foreign sector

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

	2022	2023	Q3 2023	Q4 2023	Q1 2024	Q2 2024	06/24	07/24	08/24
Current balance	–0.4	1.9	1.5	1.9	2.6	3.1	3.1	...	...
Germany	4.2	6.2	5.9	6.2	6.5	6.8	6.8	...	...
France	–1.2	–1.0	–0.9	–1.0	–0.6	–1.1	–1.1	...	...
Italy	–1.6	0.5	0.0	0.5	1.1	1.6	1.6	...	...
Nominal effective exchange rate [1] *(value)*	**90.9**	**94.7**	**95.9**	**95.1**	**95.2**	**95.2**	**95.0**	**95.5**	**95.7**

Credit and deposits of non-financial sectors

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

	2022	2023	Q3 2023	Q4 2023	Q1 2024	Q2 2024	06/24	07/24	08/24
Private sector financing									
Credit to non-financial firms [2]	6.7	2.7	1.1	0.1	0.3	0.4	0.7	0.6	...
Credit to households [2,3]	4.4	1.7	1.1	0.5	0.3	0.3	0.3	0.5	...
Interest rate on loans to non-financial firms [4] *(%)*	1.8	4.6	5.0	5.2	5.1	5.1	5.0	5.1	...
Interest rate on loans to households for house purchases [5] *(%)*	2.0	4.4	4.7	4.9	4.8	4.8	4.8	4.8	...
Deposits									
On demand deposits	6.3	–8.5	–11.3	–10.7	–8.8	–5.5	–4.0	–3.6	...
Other short-term deposits	4.5	21.1	23.2	21.0	18.4	14.4	12.8	11.4	...
Marketable instruments	3.7	20.4	20.4	19.8	20.1	19.7	18.7	21.0	...
Interest rate on deposits up to 1 year from households *(%)*	0.5	2.7	3.0	3.3	3.2	3.1	3.0	3.0	...

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

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

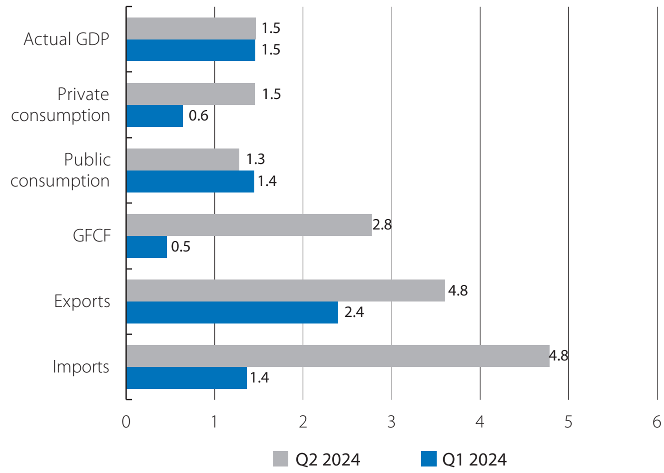
Activity: a healthy slowdown

Q2 GDP almost stagnates, hiding positive aspects. In Q2, real GDP only grew by 0.1% quarter-on-quarter, a significant slowdown compared to the 0.8% recorded in Q1. This deceleration was due to the slowdown in exports and the acceleration in imports, which was reflected in a negative contribution from external demand of -0.4 p.p. in quarterly growth, almost cancelling out the positive contribution from domestic demand of +0.5 p.p., supported by the acceleration in GFCF, especially investment in machinery and transport equipment. In turn, private consumption also slowed, reflecting the contraction in consumption of services and non-food non-durable goods, which peaked in Q1 and was 3.6% above the pre-pandemic level at the end of Q2. In year-on-year terms, the pace of growth remained the same as in Q1 (+1.5%). Although the figure was below BPI Research's estimate, we remain reasonably optimistic about the progress of activity, which in the second half of the year will be supported by tourism, a slowdown in inflation, a fall in financing costs, and by changes in tax policy that will result in an increase in income net of taxes, with a positive impact on consumption. The gradual increase in PRR funds, whose payment rate to final beneficiaries is rising, will also support GFCF in 2H 2024. In this sense, we continue to project that the economy will grow by more than 1.5% in 2024, and the risks seem slightly favourable to us, with the possibility of internal factors having a positive impact on activity. Negative risks, meanwhile, are mainly external.

Meanwhile, the activity indicators for Q3 have shown mixed behaviour. While the Bank of Portugal's coincident indicator slowed down in July, pointing to year-on-year growth of 1.2%, the same indicator for private consumption also accelerated again in July, to 1.8% year-on-year, and the daily activity indicator, also from the Bank of Portugal, suggests that activity accelerated in August. In turn, sentiment indicators for August show consumers are more cautious, but the construction and industry sectors are more optimistic. Finally, tourism data continues to evolve favourably, with the number of tourists and overnight stays increasing by 6% and 5% respectively, while daily flights grew by 1.5% year-on-year in July and August.

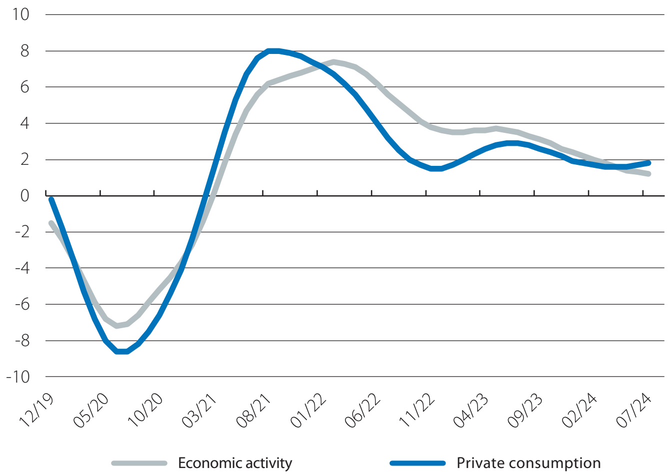
Inflation slows to 1.9% in August. This is 0.6% less than in July, the result of a 1.4% drop in energy prices and a slowdown to 0.8% (2.8% in July) in food. Excluding these two components, the underlying inflation rate stabilised at 2.4%, confirming the slowness of the disinflationary process. Less benign behaviour may be seen in the coming months, especially in the evolution of energy prices, with the government recently announcing the partial withdrawal of support for fuels (namely the partial unfreezing of the carbon tax), in line with the European Commission's recommendation. Likewise, Galp announced that it will update electricity and natural gas prices from October, by 9% and 16%, respectively. ERSE had also announced increases

Portugal: demand elements
Year-on-year change (%)



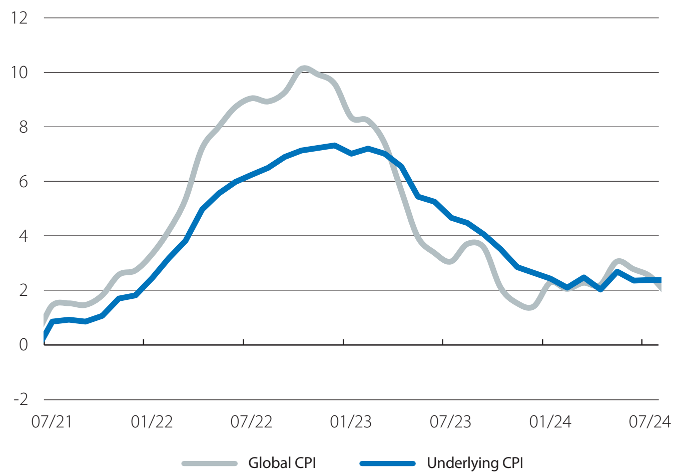
Source: *BPI Research, based on data from the INE.*

Coincident indicators
Year-on-year change (%)



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

Inflation rate in Portugal
Annual rate of change (%)



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

of 6.9% in natural gas tariffs and prices from next October on the regulated market. These factors support our expectation of more significant price growth in the final months of the year. On the other hand, it is worth noting the resistance of the underlying component, highlighting the gradual nature of the disinflationary process: we believe that for the remainder of the year the underlying CPI will continue to fluctuate around 2.4%.

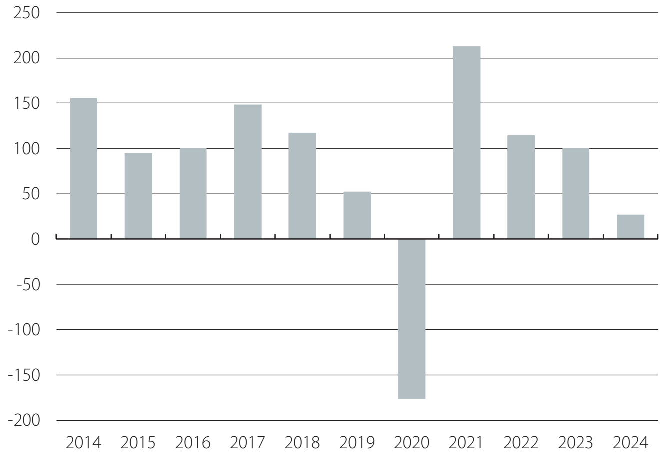
The signs confirm the expected slowdown in employment. Q2 data showed a year-on-year increase of 1.0% in the employed population (48,500 individuals), to a peak not seen since Q3 2008 (of 5,099,900 people). This behaviour is explained by the trade & repair of motor vehicles and motorbikes (44,700 people) and education (38,100) sectors, countered by the fall in accommodation & catering (-31,100). However, despite the positive signs, employment is on a downward trend (in Q1, it had risen by 2.8% year-on-year), corroborated by the monthly data: in July, employment rose by 0.5% year-on-year, after growth of around 2% at the start of the year. Another positive indicator relates to the evolution of wages, with real gross monthly earnings per employee rising by 3.6% in Q2, to 1,337 euros, reaching 1,056 euros (+3.8%) in the case of the regular component. These results point to a recovery in the purchasing power of the employed population, after the fall triggered by the recent inflationary cycle, and is a positive sign for the dynamism of private consumption.

Current account surplus represents 2% of GDP. Up to June, the current account balance stood at 2.768 billion euros, reflecting significant improvements in the energy balance (associated with the normalisation of energy prices) and the improvement in the tourism surplus. By the end of the year we anticipate a reduction in the external surplus as a percentage of GDP, as the energy deficit will tend to stabilise at current levels and because a more investment-friendly environment is likely to favour an increase in imports. However, the balance should remain in positive territory, guaranteeing a reduction in external debt.

The portfolio of loans to the non-financial private sector returned to positive territory. In fact, *stock* increased by 0.5% year-on-year in July, a behaviour supported by the slight recovery in the housing loan portfolio and solid expansion in consumer credit. More specifically, mortgage lending increased slightly for the second month running (0.4% year-on-year), with the recovery in new lending operations at around 29% year-on-year fuelling this performance. The reduction in interest rates helps explain this behaviour: interest rates implicit in mortgage contracts continue to fall gradually and in July they fell by 0.03 p.p. to around 4.49%. In turn, consumer credit grew by 4.5%, with a significant increase in new loans (almost 11%). On the non-financial companies' side, the fall in the portfolio slowed down again (-0.6% year-on-year, compared to -1.4% in the previous month), with new loans recovering significantly (up more than 12% to July).

Employed population

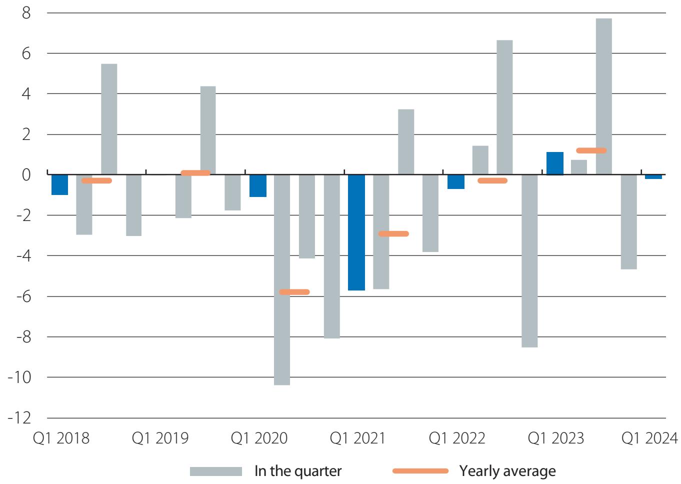
Year-on-year change in July (Thousands)



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

Budget balance (national accounts)

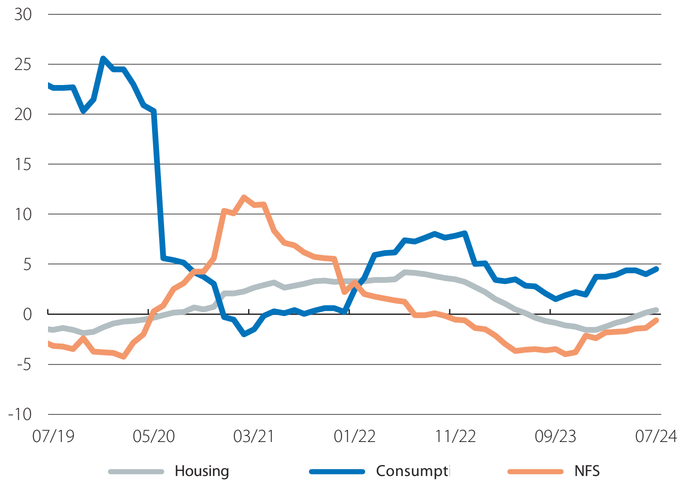
(% of GDP)



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

Loan portfolio to the non-financial private sector

Annual rate of change (%)



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

Portugal's position in the Travel & Tourism Development Index

According to the UN Tourism Barometer,[1] despite significant growth in the sector in recent quarters, the overall level of tourism (measured by the number of guests) still remains -3% below pre-pandemic levels in Q1 2024. This is not the case in Portugal, where that level was already far exceeded in 2023: in a first phase still in 2022 supported by the recovery of resident tourism; then in 2023, with the strongest *rebound* provided by non-residents. But tourism shouldn't only be judged on quantity metrics. Beyond numbers of guests and overnight stays, it is important to assess whether the conditions are in place for this 'star sector' of the national economy to continue to grow in a sustained, balanced and lasting way. This requires us to change focus and look at the sector through a panoramic lens, visualising its strengths in order to reinforce them and to help diagnose its weaknesses.

The Travel and Tourism Development Index (TTDI),[2] a reference index that measures the set of factors and policies that enable the sustainable and resilient development of the tourism sector on a comparative basis between 119 countries, is a good starting point for this diagnosis. By enabling comparability, the index acts as a *benchmarking* tool for companies, governments and institutions. In the TTDI 2024, the Portuguese tourism sector occupies a comfortable position in the world *ranking*, 12th place, just behind Italy, Switzerland and Canada, but ahead of other European countries such as the Netherlands, Denmark, Sweden and Greece, for example. This represents an improvement compared to the 2021 edition of the TTDI, when Portugal was in 15th place.

The TTDI is structured into five sub-indices, which in turn cover different pillars (17 in total). Portugal stands out positively in the 'Favourable environment' sub-index, where it is (along with France) the highest rated country in the sample shown in the first table (neighbouring countries and also competitors - countries in the Mediterranean basin), especially in terms of safety and security, health and hygiene, and ICT connectivity. In this sub-index the country scores top marks in aspects such as the Global Terrorism Index, the number of doctors per 1,000 inhabitants, the percentage of the population covered by 3G mobile networks, and the percentage of the population using digital payment methods.

On the other hand, in the 'Favourable conditions for tourism and travel' sub-index there is clear room for improvement in the price competitiveness pillar (93rd place): the country looks particularly 'bad in the photo' in the items of the Hotel Price Index (92nd place) and the level of fuel prices (100th). Spain is also weak in the price competitiveness pillar (94th place), although its relative position in the Hotel Price Index is more favourable (75th). In fact, Portugal only slightly outperforms Spain in this pillar due to the fact that the price of short-term rentals is even more favourable in Portugal. Also we should not forget that in the TTDI index as a whole, Spain occupies 2nd place, behind only the USA. As the only country with a land border with Portugal, Spain is an obvious tourist competitor in some segments and regions. The exposure of the Portuguese market to such strong competition (and on a significantly larger scale) is, if we think in SWOT terms,[3] a threat. But it is also an opportunity because of the synergies that can be generated and the exposure to competition itself, which has the associated virtuous effect of pushing people to equalise and improve.

Travel and Tourism Development Index

Score (min. 1 - max. 7)

	Portugal	Spain	France	Italy	Turkey	Greece	Croatia	Tunisia	Morocco
Travel & Tourism Development Index	4.8	5.2	5.1	4.9	4.4	4.5	4.1	3.6	3.6
Favourable environment	5.7	5.6	5.7	5.4	4.4	5.3	5.3	4.1	4.2
Favourable Conditions for Travel & Tourism	4.6	4.8	4.3	4.4	5.2	4.5	4.2	5.0	4.5
Infrastructure	4.8	5.5	5.3	4.9	4.2	5.1	4.2	2.8	3.1
Natural, cultural and non-recreational resources	3.9	5.5	5.6	5.3	4.2	3.1	2.5	2.2	2.6
Sustainability	4.4	4.3	4.1	4.1	3.9	4.2	3.8	3.6	3.4

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

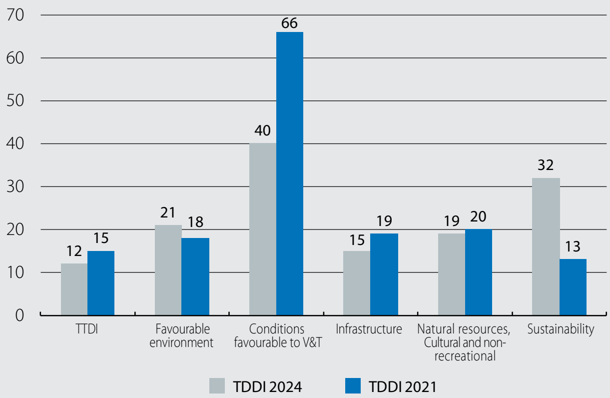
1. See UN Tourism World Tourism Barometer | Global Tourism Statistics (unwto.org).
2. The TTDI is an index developed by the World Economic Forum. The second edition of this index, which is an evolution of the Travel and Tourism Competitiveness Index (TTCI), published since 2007, was launched in 2024. Each index factor and the final index *score* itself is based on a normalised scale between 1 (worst) and 7 (best).
3. SWOT stands for Strengths, Weaknesses, Opportunities and Threats.

Despite the fact that the 'Natural, cultural and non-recreational resources' sub-index has our weakest score (3.9),[4] in relative terms the country ranks 19th in this field, with the natural resources pillar being the weakest (35th position). Finally, let's talk about the Sustainability sub-index, where there is also a lot of room for improvement. This aspect is especially important as it ties in with a recent trend associated with travellers' own choices: 69% of tourists actively seek out sustainable travel options.[5] The country's score, although higher than its competitors in the table, is poor. Portugal is only 90th in the sustainability of demand, a worrying position when it comes to the seasonality of demand and the concentration of interest in certain cultural and natural attractions. In the recent 'Programme to Accelerate the Economy', the government lists some particular measures to address these problems. In particular, the 'Tourism Strategy 2035'[6] gives more importance to the issue of sustainability and its impact on tourism. The launch of the 'Tourism + Sustainability Plan 2024/2030' also aims to strengthen Portugal's position and competitiveness as a sustainable and safe tourist destination, with a focus on the circular economy and environmental sustainability.

'The principle of healthy tourism is simple: is to see - and live - how the people of a country live,' Miguel Esteves Cardoso recently wrote in one of his daily articles, alluding to an alleged lack of Lisboners in Lisbon. If we carry on with balance and sincerity, there will be no shortage of people who want to 'see and live' with us.

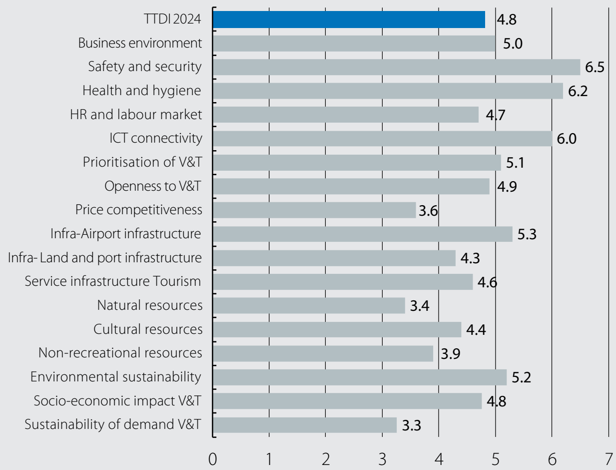
Tiago Belejo Correia

Portugal in the 5 sub-indices of the TTDI
Countries' position in the study (Best - 1 ; Worst - 119)



Note: *In the caption of the graph 'V&T' refers to Travel & Tourism.*
Source: *BPI Research, based on data from the Travel & Tourism Report 2024 and 2021.*

Portugal in the 17 pillars of the TTDI 2024
Score (min. 1 - max. 7)



Note: *In the graphic caption, 'V&T' refers to Travel & Tourism.*
Source: *BPI Research, based on data from the Travel & Tourism Report 2024.*

4. Negatively affected by the Natural Resources pillar, namely by the poor relative positions of the items 'Number of terrestrial and freshwater ecoregions' (63rd) and 'Number of natural World Heritage sites' (53rd).
5. See "A World in motion – shifting consumer trends in 2022 and beyond". (World Travel & Tourism Council).
6. It succeeds the Tourism Strategy 2027.

Public accounts: the *el dorado* we need to maintain

There seems to be little doubt that public accounts are no longer a concern in Portugal, given the budget surplus of 1.2% of GDP in 2023 and the fall in the public debt ratio to levels not seen for 14 years. Further comparison with other European Union countries reinforces this belief,

with expectations for the coming times also remaining favourable: the European Commission, in its most recent forecasts, points to small budget surpluses in 2024 and 2025, and expects the public debt ratio to continue to fall and approach 90% of GDP in 2025.

However, recent announcements of new fiscal policy measures have raised some red flags again. Indeed, what impact could these measures have on public accounts in the near future and how does this fit in with the new European budgetary rules?

What can we expect from the public accounts in 2024?

The dynamism of economic activity and the strength of the labour market should continue to support the growth of tax and contribution revenue in 2024, but at a slower pace, given the slowdown in the economy and inflation, along with the implementation of tax relief measures. Funds from the EU, particularly those from the PRR, are also expected to make a positive contribution to the growth of total revenue.[1]

Expenditure, meanwhile, is expected to grow at a faster rate than revenue due to the behaviour of personnel costs (with the salary updates included in the 2024 State Budget and other recently announced measures), social benefits (particularly pensions), interest charges and public investment, mainly financed by the PRR.

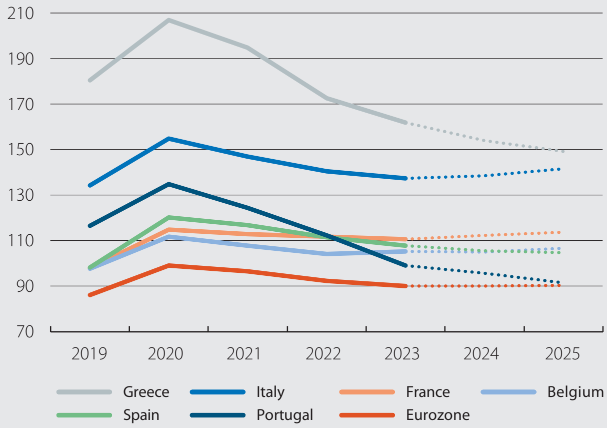
What's happening from both perspectives of analysis in 2024?

The official view of public accounts is that of national accounting, but in this case we only have data for Q1.[2] Thus, the budget balance stood at –0.2% of GDP in Q1, which compares with a surplus of 1.1% in Q1 2023. However, this deficit does not in itself jeopardise the expectation of a slight surplus for the whole of 2024, since it is normal for there to be volatility throughout the year (both in terms of revenue and expenditure). In fact, seasonally adjusted, the budget balance remained in positive territory (0.6% of GDP, compared to 2.1% in the same quarter of the previous year), standing out as the 3rd largest budget surplus among the other EU countries for which this information is available.[3]

The reason for the deficit in Q1 was the increase in expenditure (11% year-on-year), which was higher than that of revenue (7.3%), due to the increase in expenditure on staff, social benefits and subsidies. For each of these items, the impact of updating civil servants' salaries, the increase in pensions (between 5% and 6%), and the injection of funds into the National Electricity System (366 million euros) stand out. In addition, it is important to bear in mind other effects that negatively influenced the year-on-year comparison of compensation of employees and social benefits, such as the bringing forward of half of the pension update from 2023 to 2022, and the interim

Evolution of public debt, by country

(% GDP)



Source: *BPI Research, based on the European Commission's spring forecasts.*

Forecasts for public accounts

(% GDP)

	Budget balance					Public debt				
	2023	2024	2025	2026	2027	2023	2024	2025	2026	2027
BPI	**1.2**	**0.3**	**0.4**	**0.3**	**0.3**	**99.1**	**94.7**	**90.7**	**87.2**	**83.6**
Bank of Portugal	–	1.0	0.8	0.6	–	–	92.5	87.2	82.7	–
European Commission	–	0.4	0.5	–	–	–	95.6	91.5	–	–
OECD	–	0.3	0.3	–	–	–	95.7	92.5	–	–
IMF	–	0.2	0.2	0.2	0.2	–	94.7	90.8	87.0	83.5
Government[1]	–	0.2	0.3	0.1	0.6	–	98.9	91.4	87.2	83.4

Note: *1. The government's forecasts are those contained in the State Budget 2024 for the year 2024 and in the Stability Programme 2024-2028 for the period 2025-2027.*
Source: *BPI Research, based on publications from the various institutions.*

1. For more information, see the focus 'We've turned the page on the budgetary panorama... and now what?', in IM06/2024.
2. Data for Q2 will be released on 23 September.
3. The budget balance for the EU as a whole was –3.0% of GDP in Q1 2024.

increase in May and July 2023, in the case of civil servants' salaries and pensions, respectively. In this context, expenditure growth exceeded the growth estimated in the 2024 State Budget for the year as a whole (9%).

On the revenue side, the year-on-year growth is largely explained by tax and contributory revenue, while the increase of more than 30% in capital revenue, thanks to the PRR funds, is also noteworthy. The increase in total revenue was slightly higher than forecast for the year as a whole (7.0%).

The first seven months of the year show a positive public accounts balance, with expenditure growing at a faster rate than revenue (11.3% and 9.5% year-on-year, respectively). However, comparability with the same period in the previous year is affected, as in the case of national accounts, by various factors that have affected both revenue and expenditure (for example, the extension of the CIT payment deadline affected tax revenue until June, before recovering in July).

Thus, in the year to July, the surplus stood at 0.7% of GDP, compared to a surplus of around 1.3% of GDP in the same period in 2023. It should also be borne in mind that the 2024 State Budget forecasts a public accounting deficit (–0.5% of GDP).

What is the impact of the new measures on public accounts and what are the implications for the new European budgetary rules?

Several measures have been put forward that will have an impact on public accounts in the future. The most significant in terms of cost include the IRS Jovem, the exemption from IMT, Stamp Duty and emoluments when young people buy their first home, the gradual reduction of IRC, the general reduction of IRS up to the 6th bracket, the reduction of VAT on electricity, the elimination of tolls on some ex-SCUT roads and the revision of salaries in various professional classes in the Public Administration. From the survey, we estimate that the cost of the new measures should exceed 2.3 billion euros in 2024 (0.9% of GDP) and exceed 2.6 billion euros in 2025 (0.9% of GDP). This would imply, maintaining all the other assumptions underlying our current forecasts, that the slight surplus expected for 2025 would translate into a slight deficit of 0.5% of GDP.

What would this mean for Portugal in the context of the new European tax rules? With their recent entry into force, member states will have to deliver the four-year budgetary framework in September, in line with the path for net primary expenditure[4] indicated by the European Commission.

At the time of writing, there is no information on the requirements for the technical trajectory sent by the EC to Portugal, so we have drawn up some estimates assuming that the EC requires that net primary expenditure not exceed the rate of growth forecast for nominal potential GDP. In this context, we conclude that the budgetary margin (i.e. how much expenditure could increase without jeopardising this rule) would be around 5.4 billion euros. Analysing the known impact so far of tax policy measures and keeping everything else constant (i.e. assuming no new measures with an impact on expenditure and no possible measures that could increase revenue), this implies that the expected evolution of expenditure exceeds the projected budget margin by more than 2 billion euros (0.7% of GDP).[5] This falls to around 1 billion euros if the Executive decides to withdraw all the support measures previously implemented to mitigate the increase in energy costs (which the EC estimates will have an impact of –0.5% of GDP in 2025 if they remain as they are today).

Considerations for 2025

Although Portugal's position is much more advantageous than in the past or even in comparison with other European partners, the estimate we arrived at in the previous point, although limited, gives no reason to breathe a sigh of relief. Indeed, if the measures known so far go ahead, and if we add to this the variation in expenditure resulting from the normal dynamics of the respective factors,[6] the EC is likely to take a tougher stance and force additional measures to be taken so that the technical trajectory is met.

Even so, in a scenario in which all these measures go ahead, putting the budget balance at a slight deficit, the safeguard clauses for the deficit and public debt enshrined in the new European budget rules would not be jeopardised. But risks are still lurking, including those arising from the macroeconomic and financial environment and from the budgetary aspect. In this context, the consolidation of public accounts continues to be a very important factor in the international assessment of Portugal, both by investors and *rating* agencies. In fact, recent efforts to consolidate public accounts explain part of Portugal's position in the investment category among the main *rating* agencies. To question this *el dorado* is to risk a scenario of mistrust and potentially higher financing costs for the state, households and companies.

Vânia Duarte

4. This concept includes: expenditure net of discretionary revenue measures and excluding interest expenditure, expenditure on cyclical unemployment, expenditure on EU programmes financed entirely with European funds, and *one-off* and other temporary expenditure. For more information on the new European rules, see the focus 'New year, new European budget rules: Portugal in focus", in IM03/2024.

5. Similar to the conclusion reached by the Bank of Portugal in its Economic Bulletin - June 2024.

6. The BdP estimates that staff costs and pensions and other social benefits in cash will together increase by almost 3 billion euros by 2025.

Inflation in Portugal: a regional approach

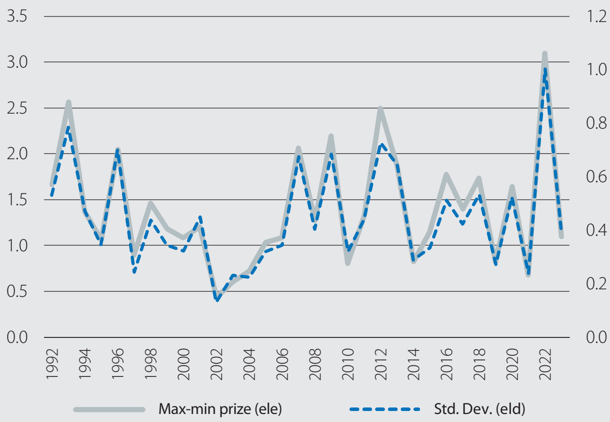
Inflation occurs when there is a general increase in the prices of goods and services. Economists and official entities have become accustomed to monitoring the phenomenon of rising prices through indices (of their variation over time) that are based on baskets of goods, with certain weights allocated to the different categories of goods and services. Thus, although the figures that result from the construction of the index are objective data, it's good to understand that the concept of inflation is subjective. For example, in previous articles we have shown that consumers are affected differently by price rises depending on their level of income[1;]

indeed, not only between consumers of different incomes, in the same country there are differences in the inflation people experience. These differences also exist between countries, even with the same currency, as is the case with the Eurozone countries in the context of the most recent inflationary surge.Taking a closer look, in October 2022, inflation in the Eurozone as a whole exceeded 10%, but there were big differences between countries - 'only' 7% in France and more than 20% in the Baltic countries. There are various reasons for this (the position in the economic cycle, the weight of certain activities in the economic fabric, the way in which wholesale energy prices are passed on to the consumer, the existence of subsidies, tax policy, base effects, etc.), but the most important thing to remember is the tremendous challenge this poses for monetary policy and the actions of national governments.

In this article we want to give a different perspective by raising new questions: Is inflation a uniform reality across different regions of Portugal? Are there differences over time? How do they evolve? Do certain categories of goods and services reflect greater inflation differentials? What are these differences by category and region of the country?

To address the first question, we collected the average annual inflation for Portugal and the regions between 1992 and 2023 and then carried out a *one sample t-test*. This test allows us to infer whether the average inflation in each region during this period is equal to a specific value, in this case, the average inflation for the period for the country as a whole. The null hypothesis is that the difference between the two is zero. Statistically, as we can see from the results in the first table, we can't reject the null hypothesis and so we can't say that the overall inflation of each region over these 32 years is different from the value recorded for the national CPI as a whole.[2] In the long term there are no significant differences between the inflation of each region and the inflation of the country, but is there between regions? A simple measure to try to answer this question is to calculate the *spread* each year between the highest and lowest regional inflation. The greater the differential (measured in percentage points), the greater the divergence in

Divergence of regional inflation
(Percentage points)



Source: *BPI Research, com base nos dados do INE.*

One Sample t-test *for IPC Global*

Region	Average (IPC 1992-2023)	Standard deviation (IPC 1992-2023)	Average CPI Portugal (1992-2023)	*t-statistic*	Reject H0?
North	2.75	2.31	2.73	0.0514983	No
Centre	2.63	2.23		–0.2613285	No
Lisbon MA	2.75	2.42		0.0495713	No
Alentejo	2.74	2.22		0.0293956	No
Algarve	2.72	2.26		–0.0102409	No
Azores AR	2.86	2.17		0.3506750	No
Madeira AR	2.61	2.40		–0.2840939	No

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

1. See article in IM06 of 2022 'High inflation: an uneven burden?'
2. We tested significance levels of 5% and 10%.

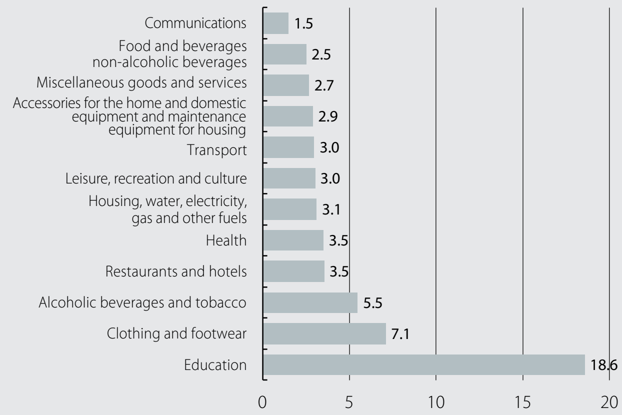
regional inflation over the year. Another measure to assess the divergence of regional inflation is to calculate the standard deviation of regional inflation rates in each year. The graphical representation of these two measures is in the second image. Both curves go hand in hand, but in this time horizon there were three years that stood out for their greater divergence between the region with the highest inflation and the region with the lowest inflation: 1992, 2012 and 2022. In 2022 the divergence reached its highest point, a difference of 3.1 p. p. between the CPI of the Lisbon Metropolitan Area (8.1%) and the Autonomous Region of the Azores (5%).

And how will inflation differ between regions, but by categories of goods and services? We calculated the same divergence measure (between maximum and minimum inflation) and then the long-term average. The result is summarised in the third image. Communications is the category with the least regional divergence in terms of inflation. This may be due to the fact that the market, especially in telecommunications, is dominated by a small number of large operators who have standardised service packages and whose prices do not discriminate between locations. In turn, Education, Clothing & Footwear and Alcoholic Beverages & Tobacco are the categories with the greatest divergence. However, it should be noted that the huge divergence in the Education category is also heavily influenced by *outliers* in the series.[3]

Finally, we tried to understand how the inflation divergence in each region behaves in relation to the country, by category. To do this, we calculated the difference between the CPI for each category in the region and in the country, and then averaged them for each period considered. We present the results in the last table and highlight some conclusions.

Regional inflation gap by category

(Average 1992-2023, in percentage points)



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

IPC by category: regional divergence from the country's CPI

	Historical average (1992-2023)							Last inflationary outbreak (2022-2023)						
Food products and non-alcoholic drinks	RAA	ALG	RAM	C	ALE	AML	N	N	C	RAM	AML	ALG	RAA	ALE
Alcoholic beverages and tobacco	RAA	ALE	ALG	AML	RAA	C	N	C	N	AML	ALG	ALE	RAA	RAM
Clothing and footwear	C	ALE	RAA	N	AML	ALG	RAM	RAM	C	ALG	N	AML	ALE	RAA
Housing, water, electricity, gas and other fuels	AML	z C	N	ALG	ALE	RAA	RAM	AML	C	N	ALG	ALE	RAM	RAA
Accessories for the home and domestic equipment and maintenance housing	RAA	N	ALE	AML	RAM	C	ALG	N	AML	C	ALG	RAM	ALE	RAA
Health	ALG	AML	RAA	N	C	ALE	RAM	RAM	AML	ALG	RAA	C	ALE	N
Transport	RAM	RAA	N	ALG	AML	ALE	C	ALG	RAA	N	AML	RAM	ALE	C
Communications	RAM	RAA	N	AML	C	ALE	ALG	RAA	AML	RAA	ALG	ALE	C	N
Leisure, recreation and culture	ALE	ALG	N	C	AML	RAA	RAM	ALG	ALE	C	AML	N	RAM	RAA
Education	RAA	ALE	N	AML	ALG	C	RAM	AML	N	ALE	ALG	C	RAM	RAA
Restaurants and hotels	ALE	ALG	AML	N	RAA	C	RAM	RAM	AML	RAA	N	ALG	C	ALE
Miscellaneous goods and services	AML	N	ALG	ALE	C	RAA	RAM	N	ALG	RAM	C	AML	RAA	ALE
	Greatest divergence				Least divergence			Greatest divergence				Least divergence		
	1	2	3	4	5	6	7	1	2	3	4	5	6	7

Note: *The acronyms correspond to the regions: N - North; C - Centre; AML - Lisbon Metropolitan Area; ALE - Alentejo; ALG - Algarve; RAA - Autonomous Region of the Azores; RAM - Autonomous Region of Madeira. 2) The scale from 1 to 7 indicates the region with the greatest divergence from Portugal's CPI (1) and the region with the least divergence from Portugal's CPI (7) in each category of good or service. Normally, regions with less divergence mean that on average in the periods indicated inflation was lower than Portugal's CPI and in regions with greater divergence inflation was higher than Portugal's CPI.*
Source: *BPI Research, based on data from Institute of National Statistics.*

3. For example, in 1992 education inflation was 325.6% in the Azores and 51.8% in Madeira. Then in 1996 it was –81% in the Azores and –16% in Madeira. If the divergence is calculated only between 1997 and 2023, the average value rises to 4.8 p. p.

Firstly, historically, the Autonomous Region of Madeira has been the region where inflation has grown the least compared to the country's inflation (7 out of 12 categories). In contrast, the Autonomous Region of Azores was the region where inflation grew the most (4 out of 12 categories). The exact opposite happened in the last bout of inflation, with the Autonomous Region of Madeira having higher price rises than the country in 3 of the 12 categories and the Autonomous Region of Azores having lower price rises (in 5 of the 12 categories). It's also interesting to note that in only one category in the same region was the price increase higher than the country's average, both in historical terms and during the last inflationary surge: 'Housing, water, electricity, gas and other fuels' in the Lisbon Metropolitan Area. On average, inflation for 'Housing, water, electricity, gas and other fuels' in the Lisbon Metropolitan Area was +0.11 p.p. (historical) and +0.62 p.p. (most recent inflationary outbreak). This category contains housing rents, and this result may be reflecting the greater pressure on the housing/rental market in the country's largest urban centre, particularly in recent years. In addition, this category also includes the cost of water supply, rubbish collection and basic sanitation, and may also reflect the differences in these aspects between different municipalities. The 'Transport' category in the Centre region is also the only one in which the divergence between regional and national inflation has been smaller, both historically and in the last inflationary surge. On average, 'Transport' inflation in the Centre zone was –0.15 p.p. lower (historical) and –0.14 p.p. lower (most recent inflationary outbreak). Finally, it should be noted that the Lisbon Metropolitan Area is also the only one that never ranks seventh in the table for a category, neither in historical terms nor in terms of the last inflationary outbreak, i.e. it is never the region where price growth is the lowest in relation to the country's price growth. It is possible that this translates into greater generic demand pressure on prices in this region, a result not only of the higher population density, but also of higher household incomes.

As you can see, the reality of inflation is very nuanced, both regionally and when analysed more finely by category. We hope that this article has made a further contribution to understanding price behaviour.

Tiago Belejo Correia

How can the wealth of Portuguese households be characterised?

In 2023, household net wealth reached 855.2 billion euros, an increase of 6% compared to 2022 and around 28% compared to 2019. A similar but less pronounced movement occurred in real net wealth, which at 2019 prices rose by 1.6% compared to 2022 and 12% compared to 2019. In turn, real net income per household has also evolved favourably since 2019, standing at 9.6% above the 2019 figure at the end of 2023, regressing compared to previous years, which are skewed by the impact of the pandemic.

The appreciation of the property market was mainly responsible for the increase in nominal wealth, since house prices have risen by 45% since the end of 2019. However, the increase in financial assets, via deposits and the capital market, also favoured the growth of wealth. Another factor with an impact on net wealth was the fall in the nominal value of financial liabilities.

Housing is the main source of household wealth, accounting for 51% of total assets, and has seen its weight in assets increase by around 3% since 2019. Financial wealth accounts for the remaining 49%, with deposits making up 48% of financial wealth and 23% of total wealth.

At the beginning of 2024, the ECB began releasing statistics on household wealth[1], which allows for a more refined analysis of household wealth data, namely by household positioning by wealth percentile and by the household's situation in the labour market.

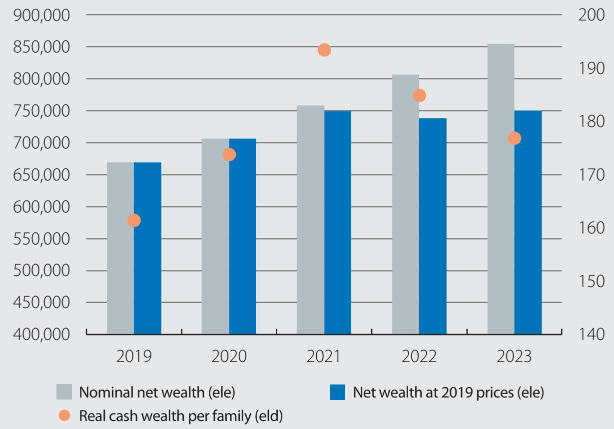
Assets by family wealth level

Looking ahead to 2023, the level of wealth concentration in the top 10% of the population is similar in Portugal and the Eurozone: more than half of the wealth is concentrated in the top 10% of the population. As for the half of the least wealthy (i.e. the 50% of the population with the lowest net worth), the percentage of assets held is higher in Portugal than in the Eurozone - not having changed significantly since 2019. With regard to the total assets of the least wealthy half of households, it should be noted that in 2023 total assets decreased by 1.5% compared to 2022, but are still 15.4% above the 2019 level. This is mainly as a result of the almost 13% increase in value of their real estate assets.

However, it is also in the less wealthy half of the Portuguese population that financial liabilities are concentrated - 40% of loans for house purchase are the responsibility of this section of the population, which also holds 42% of other types of credit, possibly consumer

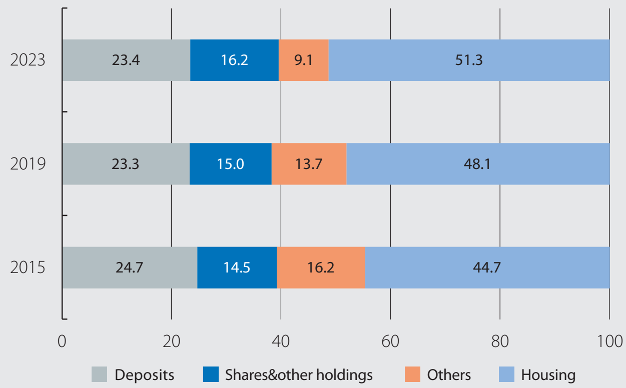
1. DWA (distribution of household wealth) aggregates information collected through the Household Finance and Consumption Survey and information available in the Quarterly Sector Accounts.

Net wealth of Portuguese households
(Million euros, thousand euros)



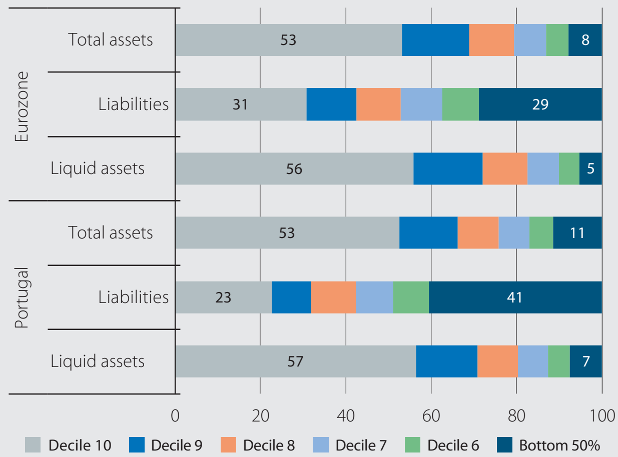
Source: *BPI Research, com base on data from Banco de Portugal and INE (Portuguese National Institute of Statistics).*

Composition of Portuguese household wealth
(% of total wealth)



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

Distribution of wealth by income decile *
(% of the total)



Note: ** Decile based on the concept of net wealth.*
Source: *BPI Research, based on data from the European Central Bank.*

credit. This lower asset bracket also saw an increase in liabilities of 945 million euros compared to 2023, of which 649 million euros represent the purchase of housing (with the exception of the 50% least wealthy families, only families in the 8th decile recorded an increase in liabilities compared to 2022, of 72 million euros, reducing the amount of mortgages and increasing consumer credit by 101 million). Although it is normal for families with less wealth to have greater recourse to credit, these families also tend to be more vulnerable in their credit obligations. It is important to remember that these movements took place at a time when interest rates were at their peak, so the associated financial *stress* has probably already begun to moderate.

In Portugal, the weight of housing in the assets of less wealthy families is substantially higher than in the Eurozone as a whole, 75% vs 63% respectively (which also explains why liabilities are higher among this age group, reflecting the non-functioning of the rental market). On the other hand, financial assets, especially deposits, account for only 21% of the assets of the less wealthy half of Portuguese households, which contrasts with 33% in the Eurozone average. The rest, similar in Portugal and the Eurozone, concern financial and non-financial assets associated with business activities or liberal professions.

Household assets by labour market status

Household wealth data, taking into account the labour market situation, shows that the distribution of assets and liabilities is similar in Portugal and the Eurozone in the case of employed individuals, but that the degree of wealth of the retired population is more comfortable in the Eurozone than in Portugal. Specifically in Portugal, pensioners' total assets represent 23% of total household wealth, around 6% less than in the Eurozone; the opposite is true of the self-employed, who in Portugal hold 12% of household assets, around 2% more than in the Eurozone.

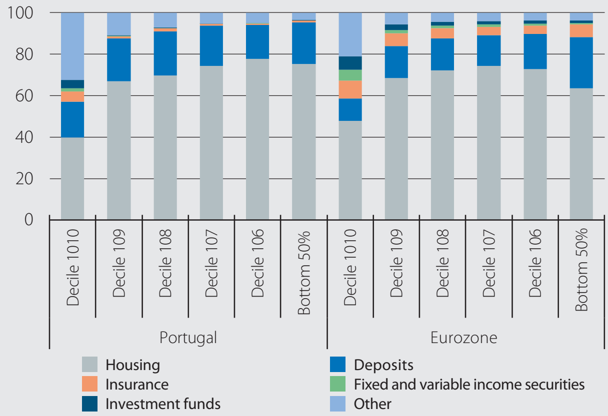
Liabilities, meanwhile, are mostly concentrated among employed individuals, with around 70% of liabilities in Portugal held by these individuals, which is a comfort factor in terms of their ability to fulfil their responsibilities. In addition, the liabilities of unemployed people are quite low: only 2.8% of liabilities are held by people for whom the risk of non-compliance with the responsibilities assumed is higher.

In conclusion, Portuguese households have increased their wealth in recent years and wealth distribution by wealth class or labour situation doesn't differ significantly compared to the Eurozone, with the exception of the liabilities held by the less wealthy half of the population. In fact, in this segment of the population, the weight of loans is much higher in Portugal compared to the Eurozone as a whole. In itself, this could be a worrying aspect when it comes to the ability to fulfil the responsibilities assumed towards credit institutions. However, several factors allay these concerns: firstly, the fact that the available data suggests that most of these households are in regular employment; secondly, the fact that we are in a period of gradual reduction in interest rates and gradual disinflation, helping to ease the financing costs borne by these households. It also should not be overlooked that half of the less wealthy households have also seen their assets increase in value since 2019, which is also a factor of greater solidity in the face of commitments made.

Teresa Gil Pinheiro

Composition of household wealth

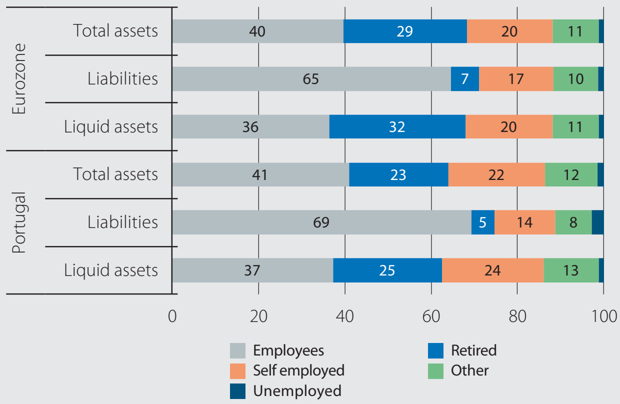
(% of assets)



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

Distribution of wealth by employment status

(% of the total)



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

Activity and employment indicators

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

	2022	2023	Q3 2023	Q4 2023	Q1 2024	Q2 2024	06/24	07/24	08/24
Coincident economic activity index	5.7	3.3	3.3	2.6	2.0	1.4	1.3	1.2	...
Industry									
Industrial production index	0.8	–3.1	–4.5	–3.5	1.4	1.4	–2.7	–4.0	...
Confidence indicator in industry *(value)*	–3.4	–7.4	–9.0	–9.3	–7.9	–6.7	–6.5	–6.7	–6.5
Construction									
Building permits - new housing (number of homes)	6.2	7.5	12.1	4.9	–19.9	3.6	–5.6	...	...
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	6.8	6.6	7.4	...
Services									
Foreign tourists *(cumulative over 12 months)*	158.9	19.1	24.9	19.1	13.1	9.5	9.5	9.3	...
Confidence indicator in services *(value)*	15.2	7.6	5.8	1.7	6.3	4.3	1.4	–0.4	–1.6
Consumption									
Retail sales	5.5	1.1	0.6	0.6	1.8	2.2	3.2	2.1	...
Coincident indicator for private consumption	3.9	2.4	2.8	2.2	1.7	1.6	1.7	1.8	...
Consumer confidence index *(value)*	–29.7	–28.6	–22.8	–27.2	–24.6	–18.7	–17.2	–15.4	–14.3
Labour market									
Employment	2.3	2.3	2.2	1.6	2.6	1.0	0.8	0.5	...
Unemployment rate (*% labour force*)	6.2	6.5	6.1	6.6	6.8	6.1	6.4	6.2	...
GDP	**6.8**	**2.3**	**1.9**	**2.1**	**1.5**	**1.5**	–	–	–

Prices

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

	2022	2023	Q3 2023	Q4 2023	Q1 2024	Q2 2024	06/24	07/24	08/24
General	7.8	4.4	3.5	1.7	2.2	2.7	2.8	2.5	1.9
Core	5.6	5.1	4.4	3.0	2.3	2.4	2.4	2.4	2.4

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	06/24	07/24	08/24
Trade of goods									
Exports *(year-on-year change, cumulative over 12 months)*	23.2	–1.4	2.9	–1.4	–5.5	–3.6	–3.6	...	...
Imports *(year-on-year change, cumulative over 12 months)*	31.7	–4.0	1.4	–4.0	–7.3	–5.7	–5.7	...	...
Current balance	**–2.8**	**3.6**	**4.1**	**3.6**	**5.1**	**5.8**	**5.8**	**...**	**...**
Goods and services	–4.7	3.3	2.1	3.3	4.6	5.3	5.3	...	...
Primary and secondary income	1.9	0.4	2.0	0.4	0.5	0.6	0.6	...	...
Net lending (+) / borrowing (–) capacity	**–0.5**	**7.2**	**7.3**	**7.2**	**8.8**	**9.2**	**9.2**	**...**	**...**

Credit and deposits in non-financial sectors

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

	2022	2023	Q3 2023	Q4 2023	Q1 2024	Q2 2024	06/24	07/24	08/24
Deposits [1]									
Household and company deposits	6.4	–2.3	–2.6	–2.3	2.7	5.6	5.6	5.1	...
Sight and savings	7.3	–14.8	–9.4	–14.8	–11.2	–4.6	–4.6	–5.2	...
Term and notice	5.2	14.8	6.9	14.8	20.2	17.7	17.7	17.3	...
General government deposits	12.4	–12.4	5.5	–12.4	9.1	4.5	4.5	15.0	...
TOTAL	**6.5**	**–2.6**	**–2.4**	**–2.6**	**2.9**	**5.6**	**5.6**	**5.4**	**...**
Outstanding balance of credit [1]									
Private sector	1.7	–1.5	–1.8	–1.5	–0.8	0.0	0.0	0.5	...
Non-financial firms	–0.6	–2.1	–3.5	–2.1	–1.7	–1.4	–1.4	–0.6	...
Households - housing	3.2	–1.5	–0.9	–1.5	–0.9	0.2	0.2	0.4	...
Households - other purposes	2.9	0.2	–0.8	0.2	2.0	2.7	2.7	3.3	...
General government	–2.7	–5.5	–1.4	–5.5	5.9	–5.8	–5.8	–2.3	...
TOTAL	**1.6**	**–1.7**	**–1.8**	**–1.7**	**–0.5**	**–0.2**	**–0.2**	**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.*

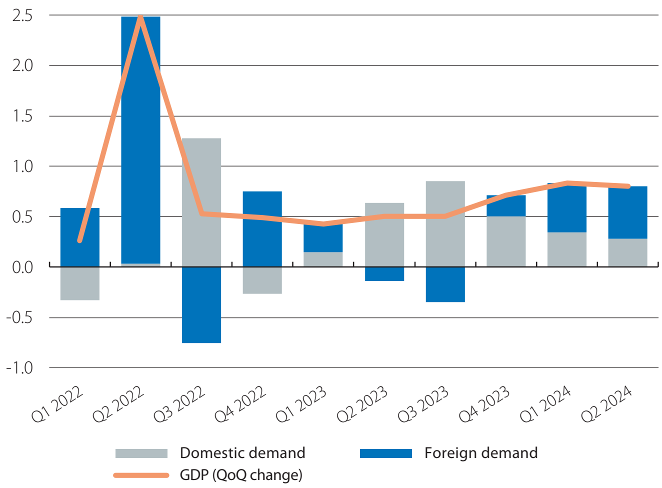
Spain: strong growth outlook, albeit more moderate than in the first half

The Spanish economy performed better than expected in the first half of the year, but a slight moderation is anticipated in the second half. GDP grew at a quarter-on-quarter rate of 0.8% in both Q1 and Q2 of this year. This strength is mainly due to the good performance of the foreign sector, driven by a booming tourism sector in Q1, as well as the strength of foreign sales of goods in a context of moderating imports in Q2. Looking ahead to the coming quarters, the foreign sector could gradually give way to domestic demand as the main driving force, in view of the normalisation of the pace of growth in the tourism sector and the weakness shown by our main trading partners in the euro area. Domestic demand, for it part, should gain strength as purchasing power continues to recover and uncertainty surrounding the monetary policy outlook diminishes. However, the stronger domestic demand is not expected to fully compensate for the slowdown in the foreign sector.

Spain's GDP growth for Q2 2024 beats expectations. GDP expanded 0.8% quarter-on-quarter in Q2, surpassing both the euro area average (0.3% quarter-on-quarter) and our own expectations, with a growth forecast of 0.5%. In year-on-year terms, the rate accelerated to 2.9% from the 2.6% recorded in the previous quarter. The foreign sector remains the main growth driver, with a 0.5-pp contribution to quarter-on-quarter GDP growth. Domestic demand is also on the rise, albeit at a more modest rate, contributing 0.3 pps to GDP growth. Private consumption rose by 0.3% quarter-on-quarter and public consumption by 0.2%. Investment continued to record strong growth, at 0.9% quarter-on-quarter, driven mainly by investment in construction. Exports, meanwhile, expanded 1.2% quarter-on-quarter thanks to exports of goods, while imports fell by 0.2%.

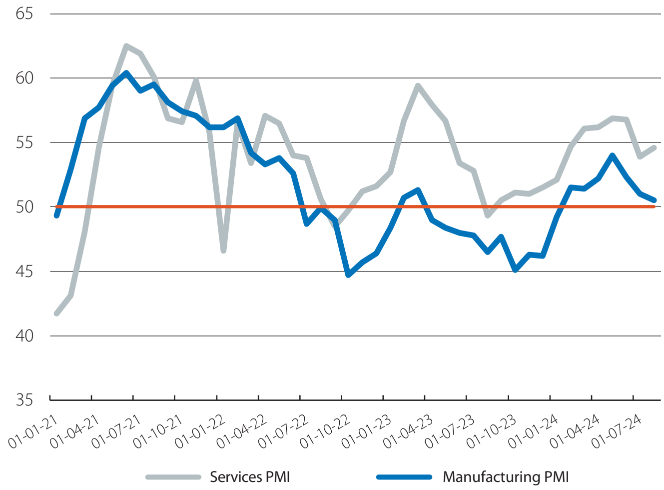
The first economic activity indicators available for Q3 reflect a more contained tone. The Purchasing Managers' Index (PMI) for the manufacturing sector has steadily slowed during July and August, and in its last reading it stood at 50.5 points, down from 52.3 points in June. The PMI for the services sector, for its part, has rebounded in August after suffering a slump in July and stands at 54.6 points (56.8 points in June). Given that they remain above the threshold denoting growth (50 points), both of these readings point to activity growth in the respective sectors, albeit at more moderate rates than in the previous quarter. On the consumption side, consumer confidence fell in August and scored –15.2 points, compared to –13.7 points in July. In contrast, the retail trade index rose by 0.5% month-on-month in July and brought the year-on-year rate to 1.0%, compared to 0.4% in the previous month.

Spain: contribution to GDP growth
Pps and quarter-on-quarter change (%)



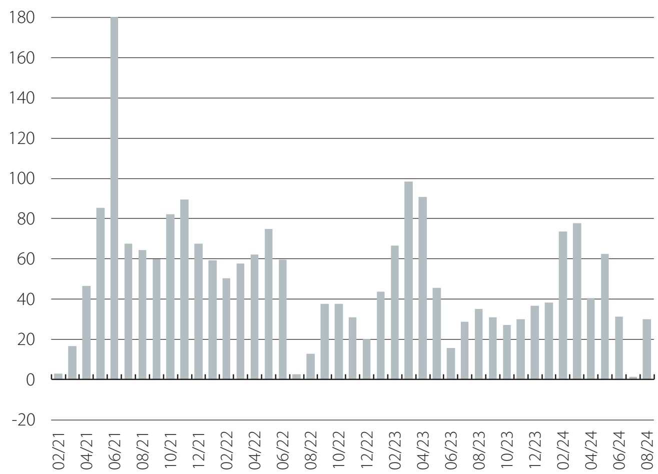
Source: *BPI Research, based on data from the Spanish National Statistics Institute (INE).*

Spain: PMI
Level



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

Spain: registered workers affiliated with Social Security
*Month-on-month change (thousands) **



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

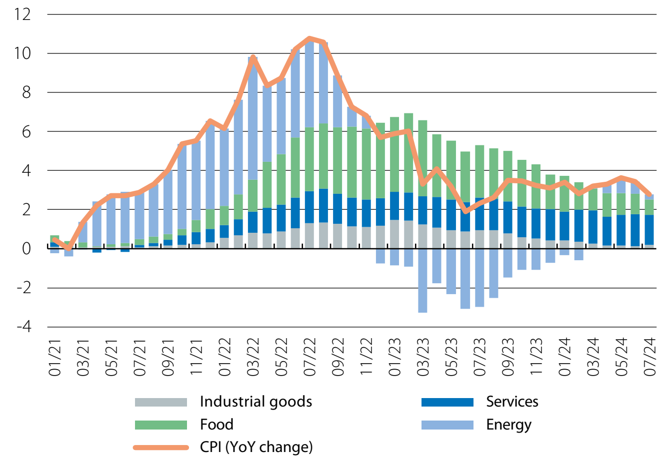
The labour market is also advancing more timidly. As is commonplace in the month of August, the number of registered workers affiliated with Social Security fell. This month it did so by 193,704 workers compared to the previous month, or –0.91%. This decrease is consistent with past experience in the month of August: last year the number of registered workers fell by a monthly rate of 0.89%, while the average decline recorded in the month of August during the period 2014-2019 was 0.88%. The total number of registered workers stands at 21,189,402, which is 482,902 more people than a year ago and represents a year-on-year growth rate of 2.3% (2.4% in July). Correcting for seasonality, employment in August registered a rise of 30,189 registered workers, after having remained practically flat in July (+1,335). So far in Q3, quarter-on-quarter growth in the number of affiliates slowed to 0.3%, down from 0.8% in Q2.

Headline inflation approaches 2% in August. According to the CPI flash indicator published by the National Statistics Institute (INE), headline inflation fell 0.6 pps in August to 2.2%, as a result of the decrease in fuel prices and, to a lesser extent, unprocessed food. In the absence of the breakdown by category, the fall in food prices indicated by the INE could offer a respite for the component that has been experiencing the highest rate of inflation this year (4.7% on average). On the other hand, core inflation (excluding energy and unprocessed food) stood at 2.7% (0.1 pps lower than in July). The figure for this month represents a further step towards a normalisation of inflation; however, the increase in electricity prices anticipated by the futures markets could hold back this corrective trend in the closing stages of the year.

Despite the fall in exports, the trade deficit narrows rapidly in June. For the first time in three months, exports of goods fell in June, at a rate of 3% year-on-year. However, the fall in imports was even more pronounced (–7.3%), causing the deficit to decline to 713 million euros (–2.355 billion in June 2023). By component, the deficit in the energy balance stood at 2.158 billion, down from the 2.454 billion recorded in June 2023. The non-energy balance, meanwhile, showed a surplus position of 1.445 billion euros, compared to 99 million a year ago. With this data, the first half of 2024 closed with a deficit of 15.822 billion, marking a slight improvement over the first half of 2023 (–16.420 billion), but exceeding the average for the period 2014-2019 (–11.938 billion).

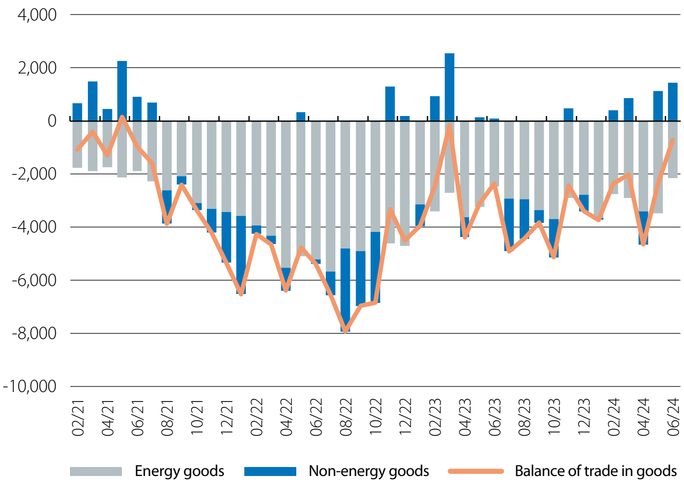
Home sales continue to moderate. In June, homes sales decreased by 6.1% year-on-year. By type of housing, the timid increase of 0.9% year-on-year in new home sales was not enough to offset the 7.8% year-on-year decline among existing homes. Despite the setback, home sales remain at a high level: in the past 12 months there have been some 570,000 transactions, 12.8% more than in 2019.

Spain: contribution to inflation by component
Pps and year-on-year change (%)



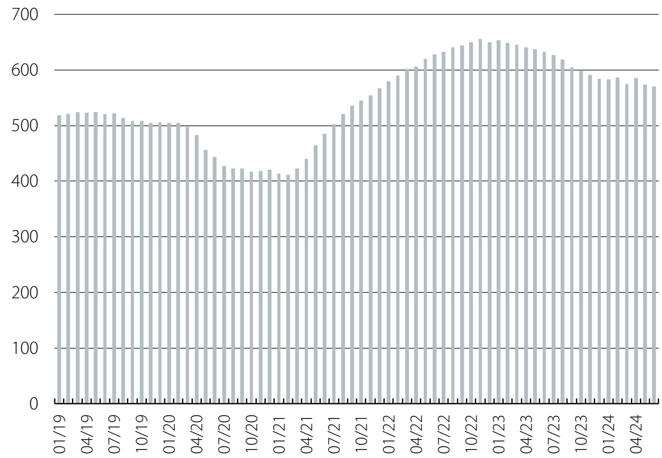
Source: *BPI Research, based on data from the Spanish National Statistics Institute (INE).*

Spain: balance of trade in goods
Monthly data (EUR millions)



Source: *BPI Research, based on data from the Bank of Spain.*

Spain: home sales
*(Thousands) **



Note: ** 12-month cumulative total.*
Source: *BPI Research, based on data from the Spanish National Statistics Institute (INE).*

The factors driving Spanish household savings

In 2023, the growth of households' gross disposable income (GDI) in nominal terms was an impressive 11% year-on-year. On the other hand, household spending in nominal terms grew more timidly, rising by 6.1%. As a result, the savings rate reached 11.7% of disposable income at the end of 2023, far exceeding the historical average of 6.7% recorded in the period 2014-2019. Several explanations have been proposed as to why consumption has experienced more modest growth than income. In this article we start by describing the pattern observed in Q1 2024, before offering some clues that may help us to understand what is going on.

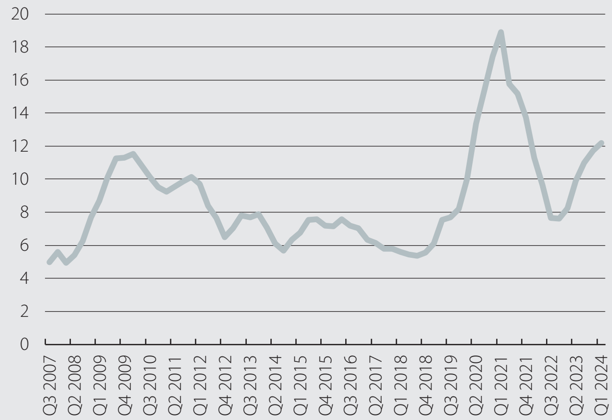
The data for Q1 2024 confirm that the gap between disposable income and consumption has continued and this has provided a new boost to the savings rate. In particular, nominal disposable income grew by a significant 8.0% year-on-year,[1] despite its moderation with respect to 2023, while final household consumption expenditure rose by 5.3% year-on-year. As a result, the household savings rate climbed to 12.2% of income in the total for the last four quarters, 50 basis points higher than where it stood at the end of 2023. This increase in savings can also be seen if we focus on the stagnant figure for Q1: gross savings stood at 14 billion euros, twice as high as in Q1 2023. This figure is significant, since Q1 tends to be a period of low savings. After all, together with Q4, it is traditionally the time of the year with the highest level of consumption; in fact, gross savings were negative in all of the first quarters between 2005 and 2019.

What is driving disposable income?

The growth in nominal disposable income of 8.0% is largely explained by the recent strength of the labour market. In particular, in Q1, wage earners' remuneration rose by 8.3% year-on-year, and this increase was broken down into a 3.8% year-on-year increase in the number of people in full-time employment and a 4.5% increase in wages per person. Also of note is the good performance of net property income. This was thanks to an increase in incomes distributed by companies which more than offset the rise in rates, with a year-on-year increase of 54.7%, as well as a gross operating surplus, which includes self-employed workers' income and attributed rents (+5.8%). Despite these excellent figures, the growth of disposable income has nevertheless gradually moderated in the last year: in the first half of 2023 it grew by 11.7% year-on-year; in Q2 it grew by 10.3% year-on-year; and in Q1 2024, by the aforementioned 8.0%. The

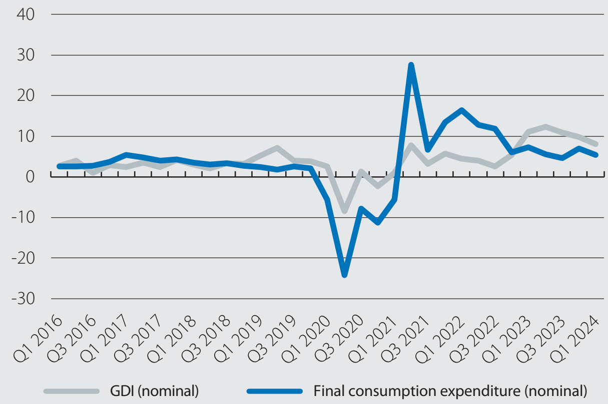
1. The data throughout the article is presented before any seasonal adjustments, except for the fourth chart, which shows seasonally adjusted data.

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



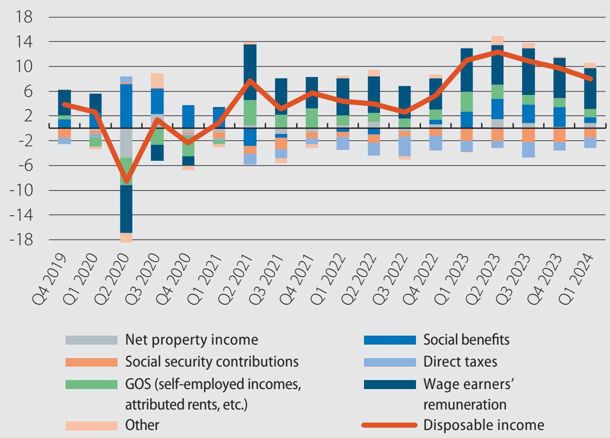
Note: *4-quarter cumulative data.*
Source: *BPI Research, based on data from the Spanish National Statistics Institute (INE).*

Spain: household gross disposable income and nominal consumption
Year-on-year change (%)



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

Spain: household nominal disposable income, breakdown by component
Annual change (%) and contributions



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

main reason for this moderation is the increase in payments to the public sector: a year ago, direct taxes and social security contributions net of benefit payments accounted for 1.2 pps of disposable income, compared to 2.2 pps today.

It should be borne in mind that one of the reasons behind the increase in nominal disposable income – a variable measured at the aggregate level – is the increase in the population spurred by migratory flows. Specifically, in the twelve months to Q1 2024, the population grew by 492,560 people, driven by a rise in the population born abroad of 558,652 people.[2] This population increase has led to the creation of households, which grew by around 1% year-on-year in Q1 2024.[3] In this regard, it is interesting to analyse whether the buoyancy of nominal disposable income is also observed in disposable income per household, given the increase in household creation. We observe that, in fact, this variable increased by 6.6% year-on-year in Q1 2024, only slightly below the growth of aggregate income. Finally, when we look at real disposable income per household, in order to take into account changes in the purchasing power of that income in the face of price increases, we see that it has indeed increased by a significant 3.4% year-on-year. In other words, Spanish households are recovering their purchasing power, and sooner or later this ought to be reflected in consumption. Compared to the pre-pandemic period, both nominal disposable income per household and real disposable income per household are already much higher (see fourth chart).

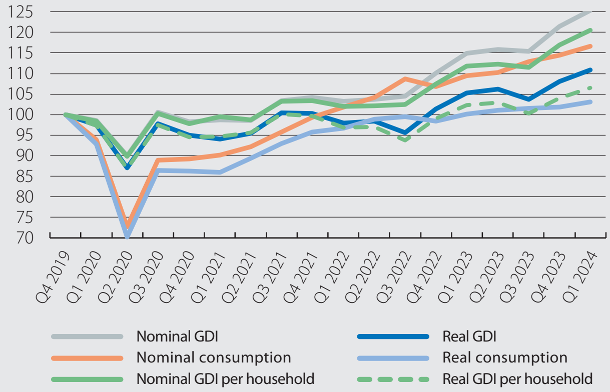
Where are savings being allocated?

At the aggregate level, over the past few quarters, households have significantly increased their savings, especially in response to an environment of relatively high interest rates. Thus, there has been an increase in the acquisition of financial assets and a reduction in debt in order to weather the rate hikes.

The net acquisition of financial assets on the part of households amounted to +55 billion euros in four-quarter cumulative terms through to Q1 2024, compared to a Q1 average of just under 13.5 billion during the period 2015-2019.[4] Specifically, in net terms they acquired deposits and cash amounting to 12.385 billion (5.144 billion Q1 average in 2015-2019), investment funds for 23 billion (20.340 billion Q1 average in 2015-2019), debt securities for 14.923 billion (–10.369 billion euros average in Q1 2015-2019), and insurance and pension plans for 4.770 billion euros (5.466 billion euros in Q1 2015-2019). In the coming quarters, we can expect household incomes to continue enjoying dynamic grow and

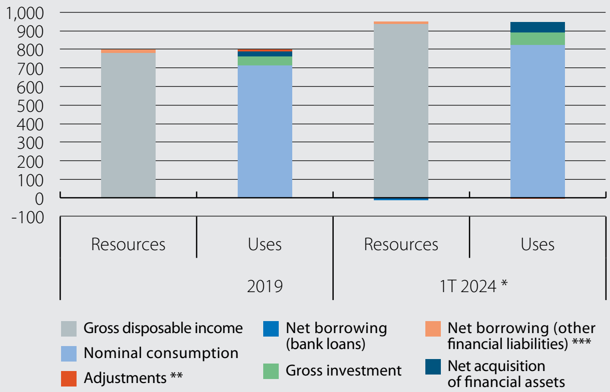
2. Data from the National Statistics Institute's Continuous Population Statistics (CPS).
3. Data from the Labour Force Survey (LFS).

Spain: household gross disposable income and consumption
(100 = Q4 2019)



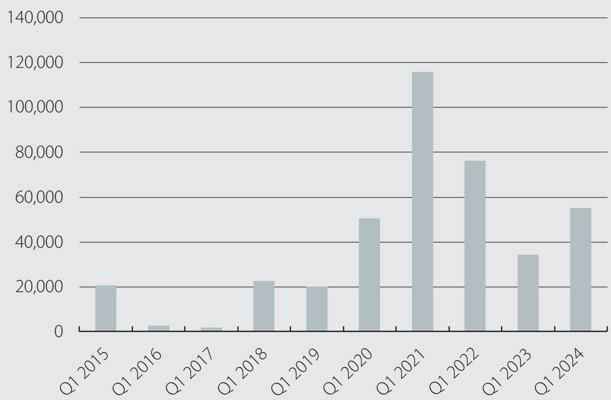
Note: *Seasonally-adjusted data.*
Source: *BPI Research, based on data from the Spanish National Statistics Institute (INE).*

Spain: households, resources and uses
(Millions)



Notes: ** 4-quarter cumulative data. ** Adjustment between financial and non-financial accounts, among others. Data in nominal terms. *** Includes commercial loans and other amounts payable (interest accrued on loans, and outstanding taxes and social security contributions).*
Source: *BPI Research, based on data from the Spanish National Statistics Institute (INE).*

Spain: net acquisition of financial assets by households
*(EUR millions) **



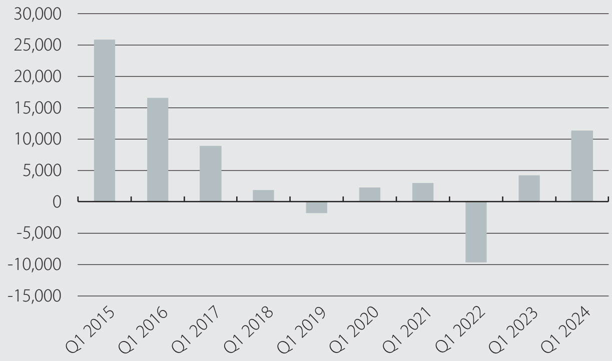
Note: ** 4-quarter cumulative data.*
Source: *BPI Research, based on data from the Bank of Spain.*

purchasing power to steadily recover. This, combined with the reduction in interest rates, ought to facilitate more dynamic consumption.

On the other hand, households continued to deleverage in Q1 2024, reducing their debt in the last year by 4.4 points of GDP to 46%, the lowest level since the first half of 2001. This debt level is 7.3 points lower than that of the euro area. After all, as a result of the rate hikes, households prolonged the trend that began in the second half of 2022 and used their greater savings to make net repayments of bank loans to the tune of 11.357 billion euros,[5] compared to an average of 10.3 billion in the first quarters of the period 2015-2019.

As a result of the increase in the net acquisition of financial assets and the fall in debt, coupled with a significant revaluation effect on financial assets amounting to 125 billion euros in the past year, net household financial wealth has risen by 190 billion euros compared to Q1 2023, placing it at a new all-time peak of just over 2.14 trillion euros.

Spain: net repayment of bank loans by households
*(EUR millions) **



Note: ** 4-quarter cumulative data.*
Source: *BPI Research, based on data from the Bank of Spain.*

4. Four-quarter cumulative data.
5. Four-quarter cumulative data.

Capital investment in Spain: comparison versus the euro area

Investment in Spain is struggling to take off. After the COVID-19 pandemic, the 2022 energy crisis and in a context of strong economic growth, investment is still below pre-COVID levels. To the extent that an economy's medium-term growth capacity is determined by the increase in the stock of capital, the recent weakness shown by investment deserves to be analysed.

In this first article in a series of two, we review the recent trends in capital investment in Spain and make a comparison with the rest of the euro area. In a second article in this same *Monthly Report*, we investigate the incentives for investing, based on an analysis of the evolution of profitability and the cost of financing, sector by sector.

Recent trends in investment in Spain

The first chart shows the change in GDP and its components between the pre-pandemic period (Q4 2019) and Q2 2024. As can be seen, investment[1] is the component that shows the worst performance: in Q2 2024, all components of GDP are above their values of Q4 2019, except for investment, which lies 1.3% below.

If we focus on the breakdown of investment, we see significant variation between its components. For instance, whereas investment in non-residential construction or in intangible assets are well above their pre-pandemic values, investment in transport equipment or in residential construction remain well below those levels (15.1% and 7.3% below, respectively).

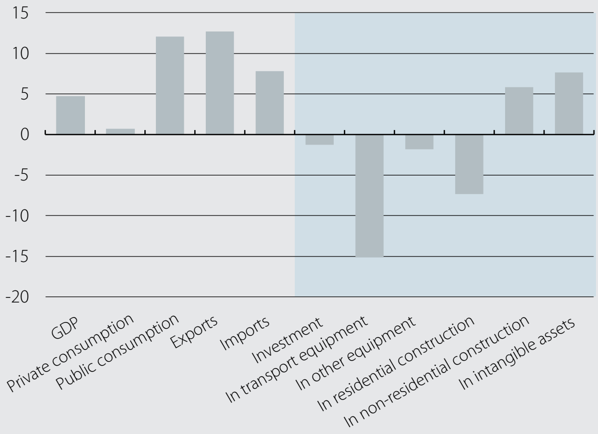
In this article, we will focus on the analysis of investment in capital goods, which is broken down into investment in transportation equipment and investment in other capital goods. We exclude from the analysis investment in construction, because investment in residential construction presents its own dynamics linked to the real estate market which are not the subject of analysis in this study, and also investment in intangible assets, the analysis of which also deserves a separate chapter.

Comparison versus the euro area

To assess the weakness of capital investment, it is useful to compare the pattern of behaviour vis-à-vis our main trading partners in the euro area. To this end, we compared average investment in 2023 against the pre-pandemic level of 2019.[2] The second chart shows the data for total investment in capital goods.

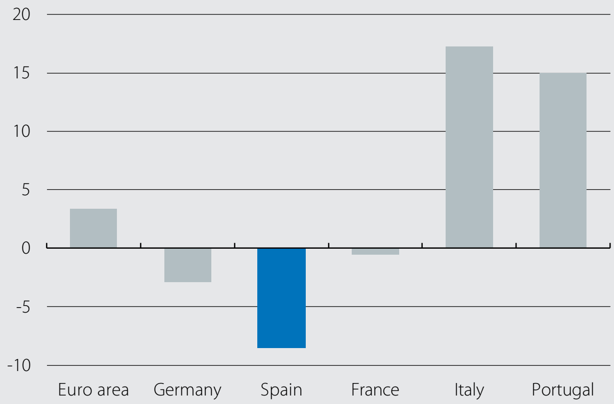
1. Understood as gross fixed capital formation, which therefore excludes the accumulation of inventories.
2. We focus on the average figure for 2023, given that no data for the euro area as a whole are available yet for Q2 2024 and focusing on data for one quarter only (Q1 2024) would be inappropriate due to the inherently volatile nature of quarterly data.

Spain: GDP and components (Q2 2024)
Change versus Q4 2019 (in % terms)



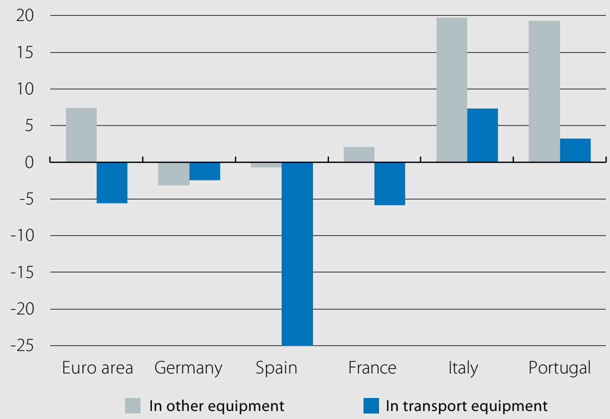
Source: *BPI Research, based on data from the Spanish National Statistics Institute (INE).*

Investment in capital goods
Change between 2019 and 2023 (%)



Note: *Investment in real terms.*
Source: *BPI Research, based on data from Eurostat.*

Spain: capital investment, breakdown
Change between 2019 and 2023



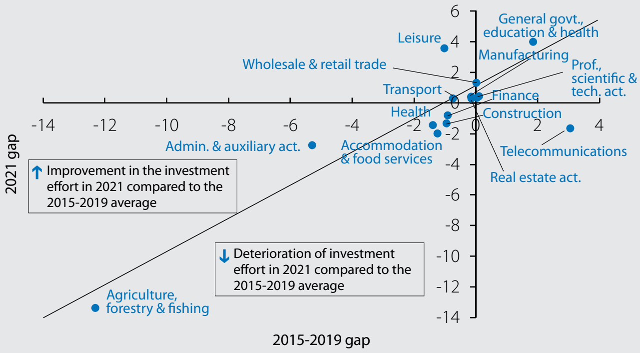
Note: *Investment in real terms.*
Source: *BPI Research, based on data from Eurostat.*

As we pointed out earlier, capital investment in Spain has shown weak performance, even compared to the euro area. However, if we break down investment in capital goods into two components – investment in transport goods and investment in other capital goods – we see very different dynamics.

In the third chart we can see that, while investment in other capital goods is far from the euro area average, it does show a similar pattern of behaviour to that of other major European economies such as Germany or France. In contrast, we also see that the area in which investment in Spain falls short of other European economies is that of transport equipment. While investment in this category in 2023 on average stood 5.6% below the 2019 level in the euro area, in Spain it was 25.1% below.

Investment effort in other capital goods: gap versus the euro area by sector

(pps)



Notes: *Data at the first-digit level of detail in the National Classification of Economic Activities (CNAE). Investment effort is the investment in each sector over its GVA.*
Source: *BPI Research, based on data from Eurostat.*

A sector-level perspective

In order to improve our understanding of the dynamics shown by investment, we delved into the detail by sector in Spain. Unfortunately, the available data on investment by type of asset and sector only reaches up until 2021, for now. However, the 2021 data already offer some interesting results.[3]

The fourth chart shows the gap in the investment effort in other capital goods for each sector of the Spanish economy relative to the investment effort of each sector in the euro area average. We define investment effort as the ratio of investment to gross value added (GVA). The chart presents this gap in 2021 on the vertical axis and the gap in the average for the 2015-2019 period on the horizontal axis. If a sector is located directly along the black diagonal line, it means that the gap has remained unchanged between the two periods analysed. Points located above the line indicate that the sector has improved its investment effort with respect to the euro area average in 2021 versus the period 2015-2019, and vice versa in the case of points located below the line.

As can be seen, the gap in investment effort in other capital goods has improved for most sectors in 2021 compared to the 2015-2019 average. The main exception is the information and telecommunications sector, which presented a positive gap of around 3 pps in 2015-2019 but a negative gap of around 2 pps in 2021.

In contrast, when we look at the investment effort in transport equipment (see fifth chart), we see that the gap in 2021 had slightly deteriorated for most sectors, resulting in many sectors showing negative gaps. In addition, there are three cases that stand out: the transport and storage sector itself, which shows a very marked deterioration in its positive gap (of –5.5 pps); the retail and wholesale trade sector, which also shows a substantial deterioration of the gap, albeit not quite as pronounced (–0.7 pps); and the administrative and auxiliary activities sector, which shows a significant improvement in its gap (+4.2 pps) and has thus gone from a negative gap in 2015-2019 to a positive one in 2021.

It should be borne in mind that these three sectors are the most important in investment in transport equipment in Spain: combined they account for around 77% of all investment in transport equipment, with a very even weighting among them. Thus, we see that the investment effort in transport equipment has deteriorated slightly in the economy as a whole, and that the deterioration has been particularly pronounced in two of the three main sectors that invest the most in transport equipment, while there has been a substantial improvement in the other major sector.

Unfortunately, the national accounting data only provide information on investment in transport equipment at the first-digit level in the National Classification of Economic Activities (CNAE) codes, but not at the two-digit level of detail. Therefore, it is not possible for us to investigate the investment effort dynamics within the sectors mentioned above: transport and storage, retail and wholesale trade, and administrative and auxiliary activities.

Conclusions

Capital investment in Spain has shown a rather weak performance in recent years. However, if we differentiate between investment in transport equipment and in other capital goods, we see that, with respect to the euro area, it is investment in transport goods that falls short. In contrast, the dynamics of investment in other capital

3. In qualitative terms, the results of the previous section remain unchanged if we focus on comparing the average for 2021 with that of 2019.

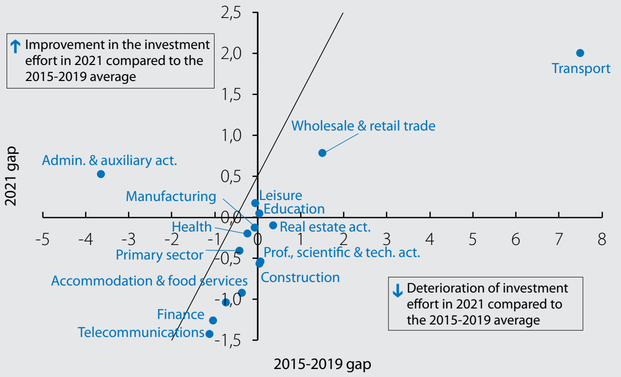
goods show a more similar pattern to the other major European economies.

When we look at the detail by individual sector, we observe a weak performance of investment in transport equipment across the various sectors of our economy. Nevertheless, the deterioration in the investment effort is especially pronounced in two sectors in particular – transport and storage, and retail and wholesale trade.

Beyond the special case of investment in transport equipment, the weak tone shown by capital investment as a whole may be in response to a decrease in companies' profitability in recent years, due to the shocks which our economy has endured, and/or the increase in the cost of financing associated with the tightening of monetary policy since mid-June 2022. Our second article devoted to investment in this report inquires into this issue.

Investment effort in transport equipment: gap versus the euro area by sector

(pps)



Notes: *Data at the first-digit level of detail in the National Classification of Economic Activities (CNAE). Investment effort is the investment in each sector over its GVA.*
Source: *BPI Research, based on data from Eurostat.*

Spanish firms' profitability and financing costs

In the previous Focus of this *Monthly Report* dedicated to analysing the evolution of investment in Spain, we focused on describing the pattern of investment by type of asset and by sector, and on comparing it with the euro area. In this article, we want to focus on incentives for investment.

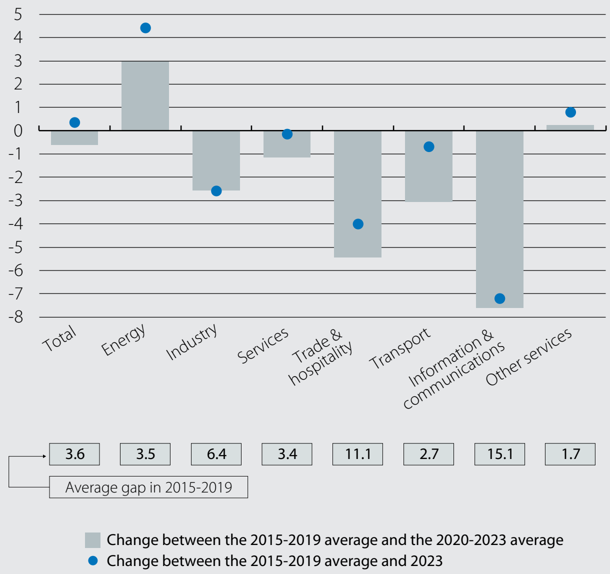
To this end, we will analyse, sector by sector, the evolution of the gap between return on assets and financing costs.[1] Intuitively, if this gap widens, we ought to see greater investment, and vice versa. For this purpose, we use information from the quarterly reports produced by the Bank of Spain's Central Balance Sheet Data Office, which provide data on profitability and financing cost up until Q1 2024.[2]

The first chart shows the change in the gap between profitability and financing costs for the economy as a whole, for the energy, industrial and services sectors, as well as for a set of service subsectors. The grey bars show the change between the average gap during the period 2015-2019 and the average gap in 2020-2023.[3] The blue dots show the change between the 2015-2019 average and 2023, which offers us a picture of where the gap lay in the most recent year for which data is available, as well as the year most affected by the ECB's interest rate hikes.[4]

For the total of all sectors, we can see that the average gap in the period 2020-2023 remains slightly below the pre-pandemic level of 2015-2019, although the difference is very small. However, at the individual sector level we see a much more varied picture. Whereas the energy sector shows an average gap in 2020-2023 that far exceeds its pre-pandemic level, thanks to the rise in energy prices during this period, we see that the average gap in services, and above all in industry, still lies well below the pre-pandemic level. In the case of industry, even in 2023 there are still no signs of a recovery of the gap. The picture within the services sector is also highly varied: whereas in the trade and hospitality, the transport and the information and telecommunications sectors we see that the gap between profits and financing costs still lies well below pre-pandemic levels, in the other categories of services the gap has already recovered to the average pre-pandemic level.

However, not all sectors have the same share of capital investment. In this regard, the evolution of the gap between profitability and financing costs is most relevant for the sectors with the greatest relative weight in total investment. In descending order, of particular note is the manufacturing industry, which in 2019 accounted for 19.4% of total capital investment; this is followed by the trade and hospitality sector, which accounted for 14.4%, and the transport and storage sector, with 13.9%. These three sectors combined represent almost 50% of all capital investment,

Spain: change in the gap between profitability and financing costs
(pps)



Source: *BPI Research, based on data from the quarterly report produced by the Central Balance Sheet Data Office (Bank of Spain).*

1. Return on assets is defined as:

$$\frac{\text{(Ordinary net profit + finance costs)}}{\text{(Net assets + market-price adjustment)}}$$

Ordinary net profit is gross value added, less staff costs, net finance costs, depreciation and amortisation and operating provisions. Net assets includes own funds plus external resources at cost.
Finance costs are defined as the financial costs of external resources at cost.

2. We take data from the quarterly reports produced by the Central Balance Sheet Data Office (CBT), rather than the Integrated version (CBI), which has more representative data, because the CBI data is only available up until 2022 and thus they do not reflect the impact of the rate hikes of 2023. The CBT data reach up until Q1 2024. We have used the available historical data to compare the evolution of the variables considered by the CBT and the CBI. Although there are differences in level and in volatility, the trends are similar in both sources.

3. We take the 2020-2023 average in order to capture both the declines in profitability witnessed during the COVID-19 pandemic and the subsequent recoveries.

4. As an example, the average gap between profitability and financing costs during the period 2015-2019 was 6.4 pps for industry. In the period 2020-2023, the average gap deteriorated by 2.6 pps (grey bar), so it went on to present an average gap of 3.8 pps.

sand in all of them the return on assets has deteriorated relative to the pre-pandemic period.[5]

It is also interesting to investigate whether the variations in the gap between profitability and finance costs are due to changes in the former or in the latter. To this end, the last chart breaks down the difference between the gap in 2023 and the 2015-2019 average according to changes in profitability (grey bars) and changes in financing costs (blue bars).

The chart shows that the increase in the cost of financing accounts for over half of the reduction in the gap in 2023 compared to 2015-2019 for the manufacturing industry and the transport sector, and half of the reduction in the case of the trade and hospitality sector. These gaps are expected to improve in 2024 and 2025 as the ECB continues to lower interest rates.

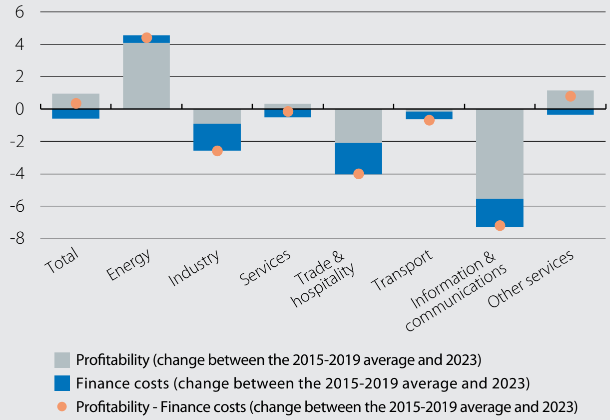
Conclusions

In the average of 2020 and 2023, the gap between the return on assets and the cost of financing for the economy as a whole has suffered only a slight decrease compared to the average in the period 2015-2019. However, the sectors that are more intensive in capital investment have experienced a more pronounced narrowing of the gap between profitability and finance costs, while in some cases, such as industry, there is still no sign of recovery. This deterioration in the gap is due both to a fall in profitability and to rising financing costs, the latter being linked to the cycle of monetary policy tightening which the ECB embarked on in mid-2022.

The deterioration in the gap between profitability and financing costs may be adversely affecting firms' investment decisions, although we expect that this narrowing will reverse slightly over the coming quarters as interest rates continue to fall.

Spain: change in the gap between ordinary return on assets and finance costs (breakdown)

(pps)



Source: *BPI Research, based on data from the quarterly report produced by the Central Balance Sheet Data Office (Bank of Spain).*

5. The information in the CBT does not allow the trade sector to be disaggregated from the hospitality sector. Furthermore, the figures may be dominated by the trade segment, which accounted for 70% of this category according to National Accounting data for 2022, compared to 30% in the case of hospitality. Also, according to the CBI, in 2022 the gap between profitability and financing costs in the trade and hospitality sector had already reached the pre-pandemic level of 2019.

Activity and employment indicators

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

	2022	2023	Q3 2023	Q4 2023	Q1 2024	Q2 2024	06/24	07/24	08/24
Industry									
Industrial production index	2.2	–1.2	–2.3	–0.9	–0.3	0.4	0.6	...	...
Indicator of confidence in industry *(value)*	–0.8	–6.5	–8.2	–8.1	–5.2	–5.5	–5.9	–4.4	–3.5
Manufacturing PMI *(value)*	51.0	48.0	47.3	45.9	50.7	52.8	52.3	51.0	50.5
Construction									
Building permits *(cumulative over 12 months)*	15.4	1.3	4.3	0.8	2.9	–	...	...	...
House sales *(cumulative over 12 months)*	29.0	0.1	–3.4	–9.2	–10.4	–9.5	–9.9	...	...
House prices	7.4	4.0	4.5	4.2	6.3	7.8	...	...	...
Services									
Foreign tourists *(cumulative over 12 months)*	129.8	18.9	21.9	18.9	15.8	14.3	14.3	13.7	...
Services PMI *(value)*	52.5	53.6	50.9	51.2	54.3	56.6	56.8	53.9	54.6
Consumption									
Retail sales[1]	2.3	2.5	2.0	2.8	1.1	0.4	0.4	1.0	...
Car registrations	–3.0	18.5	6.9	11.9	4.2	9.6	2.2	3.4	–6.5
Consumer confidence index *(value)*	–26.5	–19.2	–16.1	–19.0	–17.2	–14.4	–14.2	–13.7	–15.2
Labour market									
Employment[2]	3.6	3.1	3.4	3.6	3.0	2.0	–	–	–
Unemployment rate (% labour force)	13.0	12.2	11.9	11.8	12.3	11.3	–	–	–
Registered as employed with Social Security[3]	3.9	2.7	2.7	2.6	2.6	2.4	2.5	2.4	2.3
GDP	**5.8**	**2.5**	**1.9**	**2.2**	**2.6**	**2.9**	–	–	–

Prices

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

	2022	2023	Q3 2023	Q4 2023	Q1 2024	Q2 2024	06/24	07/24	08/24
General	8.4	3.6	2.8	3.3	3.1	3.5	3.4	2.8	2.2
Core	5.1	6.1	6.0	4.5	3.5	3.0	3.0	2.8	2.7

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	06/24	07/24	08/24
Trade of goods									
Exports *(year-on-year change, cumulative over 12 months)*	22.9	–1.4	4.5	–1.4	–6.9	–4.9	–4.9	...	...
Imports *(year-on-year change, cumulative over 12 months)*	33.4	–7.2	–1.2	–7.2	–9.8	–7.1	–7.1	...	...
Current balance	**8.2**	**37.7**	**35.8**	**37.7**	**39.2**	**44.0**	**44.0**	**...**	**...**
Goods and services	16.3	60.1	54.6	60.1	62.0	67.1	67.1	...	...
Primary and secondary income	–8.1	–22.4	–18.8	–22.4	–22.8	–23.1	–23.1	...	...
Net lending (+) / borrowing (–) capacity	**20.7**	**53.7**	**50.0**	**53.7**	**53.5**	**58.8**	**58.8**	**...**	**...**

Credit and deposits in non-financial sectors[4]

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

	2022	2023	Q3 2023	Q4 2023	Q1 2024	Q2 2024	06/24	07/24	08/24
Deposits									
Household and company deposits	4.9	0.6	–0.3	0.4	2.5	3.4	4.5	3.5	...
Sight and savings	7.9	–4.5	–6.9	–7.6	–6.6	–4.0	–1.9	–2.6	...
Term and notice	–19.6	52.2	69.8	90.2	104.4	77.4	68.0	58.6	...
General government deposits	9.5	8.8	11.3	9.4	–1.5	–2.2	–4.1	6.3	...
TOTAL	**5.2**	**1.1**	**0.5**	**1.1**	**2.2**	**3.1**	**3.9**	**3.7**	**...**
Outstanding balance of credit									
Private sector	0.7	–2.5	–3.4	–3.7	–2.9	–1.9	–1.3	–1.1	...
Non-financial firms	0.9	–3.4	–4.6	–5.2	–4.0	–2.7	–1.8	–1.7	...
Households - housing	1.0	–2.6	–3.4	–3.3	–2.8	–2.0	–1.5	–1.0	...
Households - other purposes	–0.6	–0.2	0.0	–0.5	–0.3	0.5	0.7	0.3	...
General government	0.2	–3.4	–4.6	–5.5	–2.9	–3.2	–2.7	–6.3	...
TOTAL	**0.7**	**–2.6**	**–3.4**	**–3.8**	**–2.9**	**–2.0**	**–1.4**	**–1.4**	**...**
NPL ratio (%)[5]	**3.5**	**3.5**	**3.5**	**3.6**	**3.6**	**3.5**	**3.4**	**...**	**...**

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: *BPI 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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