

The world economy withstands the emerging onslaught

Uncertainty in emerging economies but expansion in the advanced. «A forecast of 3.3% growth this year is no longer realistic. A forecast of 3.8% for next year neither. We will, however, remain above the 3% threshold». These are the words recently pronounced by Christine Lagarde, Managing Director of the IMF. The key reason for this less promising outlook is, in her opinion, slower growth in the emerging economies. Given the latest macroeconomic data published, this assessment is shared by most analysts and, one way or another, has led to appreciable stock market losses in emerging markets. However, we believe this might be an excessively partial view of the current situation. Firstly, it should be noted that, should the forecasts be accurate, the world economy will have seen four consecutive years of growth above 3%, from 2013 to 2016, which is a remarkable rate. Secondly, it seems to underestimate the evidence that the world economy is capable of absorbing the emerging shock as the advanced economies are still performing well; not too long ago the greatest cause for concern was precisely the lack of dynamism in the wealthiest countries. Lastly, we also need to fine-tune our analysis of the emerging economies. To begin with, one important region, namely Central Europe, is managing to avoid the wave of uncertainty, as are individually relevant countries such as Mexico and India. The pattern observed in these cases generally combines a healthy macroeconomic situation, good performance by domestic demand and, in the case of Mexico and emerging Europe, close ties with advanced economies. Does this eliminate the doubts concerning emerging countries? No, because there is still concern regarding the current situation of the most systemic of these economies, China, as well as the situation of others such as Russia and Brazil which are deteriorating relatively quickly. Latin America is also cause for concern, as well as those Asian economies most closely connected to China. How China manages to weather the storm will largely determine the future prospects of both cases. Our opinion is that the Asian giant has enough leeway to alleviate this weak phase via economic policy but it must also adjust its measures more precisely than in the recent past.

The United States and Europe are holding their own, albeit each at their own pace. The US continues to benefit from positive growth and the rate recorded in Q2, namely 2.7% year-on-year, will continue over the coming quarters thanks to the combined boost from

private consumption and investment. This expansion will not be accompanied by too many problems with inflation as energy prices will play a decisive role in containing the tensions typical of mature phases of the cycle. Given this situation, and although, in September, the Fed decided not to raise the official interest rate given the prevailing uncertainty, we expect the first interest rate hike since the dim and distant 2004 to take place in December. Meanwhile the euro area is gradually consolidating its recovery. After a first half of the year with positive but moderate growth we expect the second half to be somewhat more expansionary and that this dynamic will continue in 2016, predicting that the possible negative effect of greater global uncertainty will be offset by the positive impact of recent reductions in the price of crude oil. We also believe that the Greek elections will have a positive effect, strengthening the new government's mandate to implement the financial assistance programme.

Growth in the Spanish economy is tailing off slightly but will remain strong. Growth was particularly strong in the first half of the year thanks to temporary factors such as the euro's depreciation, the relaxation of fiscal policy and cheaper oil. As was to be expected, the rate of growth has moderated slightly as the impact of these supports has diminished. This can be seen, for example, in the CaixaBank Research activity indicator. In any case the good trend seen in fundamental factors such as the recovery in credit and in the real estate sector (here we should mention the sharp increase in prices in Q2, more than expected), suggests that growth will remain above 2% in the medium term. Moreover we expect the slowdown to be more moderate than predicted before the summer (revising upwards our growth forecast for 2016, from 2.6% to 2.7%), thanks to the positive effect of the recent decline in oil prices, a factor that also explains our forecast of a scenario with lower inflation. Nonetheless the risks surrounding these projections are slightly downward-biased given recent events. Domestically, Spain's risk premium has risen since mid-July and is now higher than Italy's. Given the absence of fundamental economic factors, this increase can be attributed to the uncertainty caused by the country's elections at the end of 2015. The external environment might also be somewhat less solid due to the aforementioned slowdown in the emerging economies.