

An uneven recovery

World growth continues but unevenly and with downside risks. Although several institutions have lowered their global growth forecasts for this year, growth is still at a satisfactory level in line with its historical average (3.4%). The contribution to be made by two big engines will be crucial in order to achieve this figure: the US, which is showing signs of speeding up in the second half of the year, and China, which is managing to maintain acceptable activity rates while readjusting its machinery. The performance of the rest of the emerging countries is highly disparate but positive in general. In Japan, the VAT hike has not halted the country's modest economic expansion and the ultra-expansionary policies of the Bank of Japan (BOJ) have already started to bear fruit. Q3 indicators for the euro area also suggest that its decline will not go any further than the nasty shock experienced in Q2. With the help of the new ECB stimuli, the region should embark on a path of moderate growth, although this expansion is highly uneven between countries and there are downside risks to growth.

The US economy's recovery is consolidating. The strong upswing in GDP in Q2 (1.1% quarter-on-quarter) and the good tone of most activity indicators for Q3 confirm that US expansion is occurring on a solid base. For the moment this growth is not leading to inflationary pressures, allowing the Fed to continue its plan of very gradually withdrawing stimuli. At its September meeting, it repeated its commitment to keep interest rates very low for a «considerable time» after tapering ends, planned for the end of October. For the time being, the US government bond markets reflect this stability and this situation will continue provided inflation remains low and the pressure is contained resulting from the low interest rates on the price of some assets.

The VAT hike has not halted the modest expansion in Japan's economy. Japan's GDP shrank by 1.8% quarter-on-quarter in Q2, affected by the drop in private consumption and investment. However, after this temporary bad patch, leading indicators for Q3 point to the recovery starting up again. Moreover, the BOJ is prepared to prolong its expansionary monetary policy so that deflationary risks are increasingly unlikely. The increase in nominal wages is also a reason for optimism as this should boost domestic demand.

The emerging countries continue to perform reasonably well. In general, their trend is positive although two large groups can be distinguished. Some are still reporting satisfactory activity rates, such as China, whose modest slowdown in Q3 will be cut short by expansionary policies that are already being implemented and India, which is capable of growing and containing inflation at the same time. Others are immersed in healthy adjustment processes which are temporarily affecting their growth but form the basis of a subsequent sustainable expansion (as in the case of Turkey and Brazil). The alarm due to geopolitical risks has diminished but fronts in the Middle East, Russia-Ukraine, the Brazilian elections and disturbances in Hong Kong are still a source of concern.

There are still signs of weakness in the euro area. After a disappointing Q2, business and confidence indicators for Q3 suggest that the recovery will be very gradual and uneven. Although the prevailing tone is lethargic, some improvement can be seen in the foreign sector, supported by the euro's depreciation, and in the labour market which is gradually getting back to normal. Given this situation, inflation has remained constant although it looks likely to embark on a slight upward trend. Certainly the start-up of the ECB's programme of corporate bond purchases is more than welcome although, as Mario Draghi has pointed out, in order for the recovery to be solid and balanced, those countries with the greatest signs of weakness, such as France and Italy, must carry out far-reaching structural reforms to reduce the risk of relapse.

Spain's recovery is withstanding Europe's slowdown. After the strong initial push seen in Q2, the Spanish economy is still growing but at a slightly slower rate. Private consumption, which increased visibly in Q2, has slowed down slightly but its contribution to GDP growth will still be considerable thanks, in part, to improved employment expectations. The foreign sector, which did not contribute to growth in Q2, should become important once again as the gradual recovery in the euro area and the euro's depreciation help to boost exports. According to the macroeconomic table presented by the government as part of its 2015 budget, GDP will grow by 1.3% in 2014 and by 2.0% in 2015, a scenario that will make the fiscal adjustment required in 2015 much easier. For the time being, achieving the fiscal deficit target for 2014 (5.5% of GDP) seems feasible.