

CURRENT SITUATION · Not as weak as it seems

World growth is in line with the historical average.

According to our main scenario, the world economy will post growth of 3.4% in 2014, a satisfactory figure insofar as it coincides with the average achieved over the last three decades from 1980 to 2013. However, the overriding perception is one of weak performance. Given this situation, the OECD has lowered its growth forecasts for most of the world's large economies and has stated that the global economy is expanding «unevenly and at only a moderate rate». Various circumstances may be contributing to this opinion. Firstly, the great diversity seen between countries and regions, highlighting some striking black sheep (currently the euro area). Secondly, the shift occurring in relative weights: the emerging countries now exceed 50% of world GDP and are decisive in raising the average figure but they are still perceived as far from drivers of growth. And thirdly, the exceptional figures posted in the period 2000-2007, the boom before the last great crisis, still seem to linger in the memory as a benchmark. Although such speeds will not be reached, the current situation has led us to predict around 4% growth in 2015 which should serve to improve sentiment regarding the global economy. The contribution made by two big engines will be crucial: the US, which is already speeding up in the second half of this year, and China, which is maintaining acceptable rates of activity while readjusting the machinery.

UNITED STATES

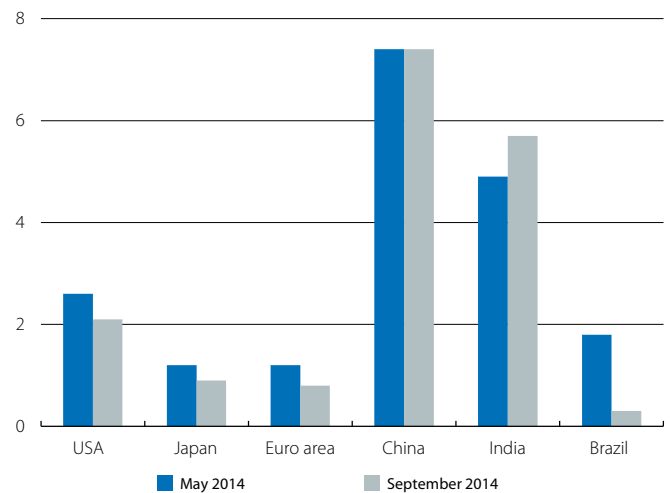
The US economy confirms its expansion during the summer.

First of all, GDP growth was once again revised upwards for 2014 Q2, from 2.5% year-on-year to 2.6% (from 4.2% annualised quarter-on-quarter to 4.6%), largely attributable to the components of non-residential investment and exports. This push in Q2 offsets the sharp drop suffered by GDP in Q1 as a consequence of the winter storms. Together with the good performance by most activity indicators in Q3, this confirms our forecast of 2.2% for the year as a whole. The business sentiment indices performed particularly well. In August, the ISM for manufacturing rose to 59.0 points, coming close to its post-recession peak of February 2011 (59.3 points), while its peer in the services sector rose to 59.6 points from 58.7 points in July. Retail sales also gained a healthy 5.0% year-on-year in August, indicating the dynamism in consumption. On the other hand the industrial production figures for the same month came as a disappointment, slowing down from 4.9% year-on-year in July to 4.1%. Nonetheless, a large part of this drop can be attributed vehicle production getting back to normal after a particularly sharp rise in July.

Inflation is under control. Prices are remaining stable within this environment of solid growth. In August inflation stood at

OECD: growth forecasts for 2014

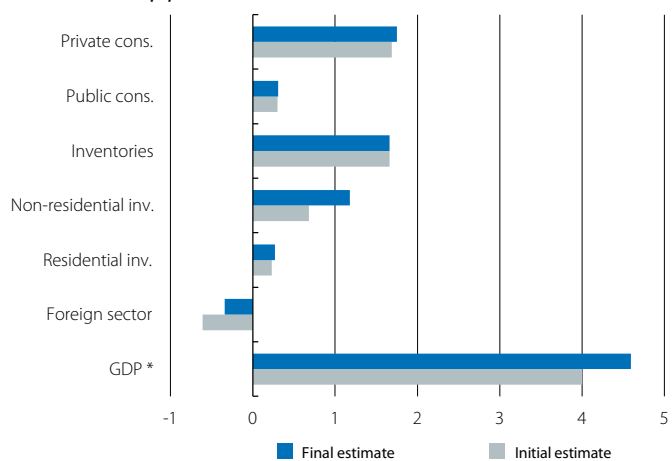
Annual change (%)



Source: "la Caixa" Research, based on OECD data.

USA: GDP by demand component

Contribution to annualised quarter-on-quarter growth in GDP for Q2 (p.p.)

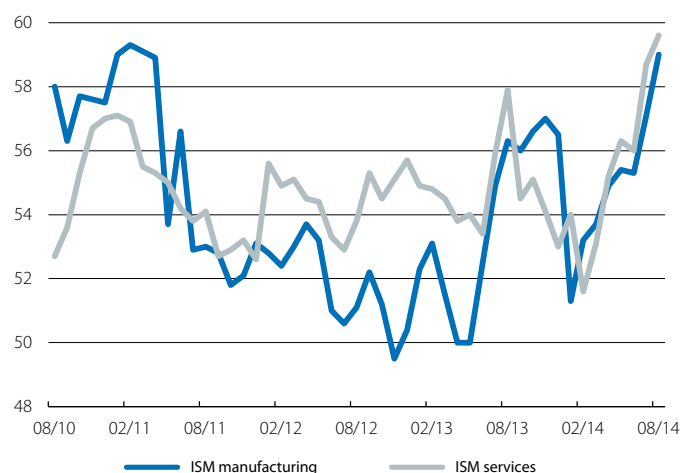


Note: * Annualised quarter-on-quarter change.

Source: "la Caixa" Research, based on data from the Bureau of Economic Analysis.

USA: business sentiment indicators

(Index)



Source: "la Caixa" Research, based on data from the Institute for Supply Management.

1.7% year-on-year, 0.3 percentage points lower than July's figure due to the drop in petrol prices. For its part, the core CPI (without energy or foods) also advanced by 1.7% year-on-year (1.9% in July). This stable pattern in prices, which we expect to continue for the rest of the year, supports the very gradual monetary normalisation defended by the Federal Reserve's Chairman, Janet Yellen. In particular, the September meeting of the Federal Open Market Committee or FOMC repeated its commitment to keep interest rates very low for a «considerable time» after tapering ends (planned for the end of October).

The labour market continues to improve in spite of August's slightly disappointing job creation figures. Specifically, 142,000 net jobs were created, the first time in six months that this figure has failed to exceed the 200,000 threshold. Nonetheless, since the end of the recession the US economy has generated more than nine million jobs, meaning that the jobs lost during the crisis have now been recovered. The unemployment rate has fallen from 10% at the end of 2009 to 6.1% in August whereas wage rises are still meagre (0.2% month-on-month and 2.1% year-on-year in August), helping the price containment in our main scenario.

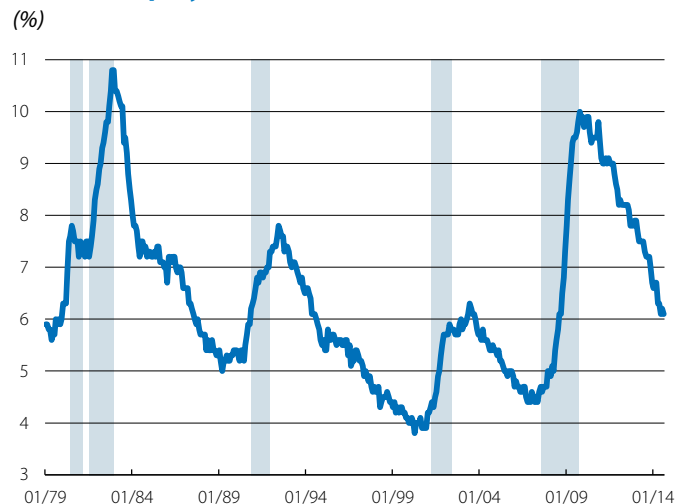
In this improving situation, the housing market is still failing to show the expected signs of strength. Although the real estate sector continues to recover in general terms, the prediction that it would become one of the pillars for economic growth in 2014 is far from coming true. This can be seen in the somewhat weak figures provided by several indicators over the last two months. Specifically, the Case-Shiller price index for 20 metropolitan areas increased by 6.7% in July, a further slowdown compared with June's growth (of 1.3 p.p.). Similarly, sales of second-hand homes fell for the first time since March (-1.8% month-on-month). However, there is no reason to expect a widespread slump in the sector. New house sales posted a surprising increase, up by 18% between July and August, the largest month-on-month rise since the early 1990s (accumulating 2.4% year-on-year from January to August).

JAPAN

The contraction in Japan's economy in Q2 was greater than first suggested by the GDP flash estimate. After Q1's upswing in GDP due to purchases being brought forward to avoid April's VAT hike, the sharp fall in Q2 (1.8% quarter-on-quarter, previously 1.7%) has led us to lower our growth forecast for 2014 as a whole (1.1%). This revision is due to the reduction in private consumption and investment. Early indicators for activity in Q3, such as the lethargy of imports, point to domestic demand remaining weak. Exports, traditionally one of Japan's driving forces for growth, have yet to pick up, still 17% below their level in 2007.

Within this situation, prices are still rising in Japan although less than expected. August's CPI rose by 3.3% year-on-year,

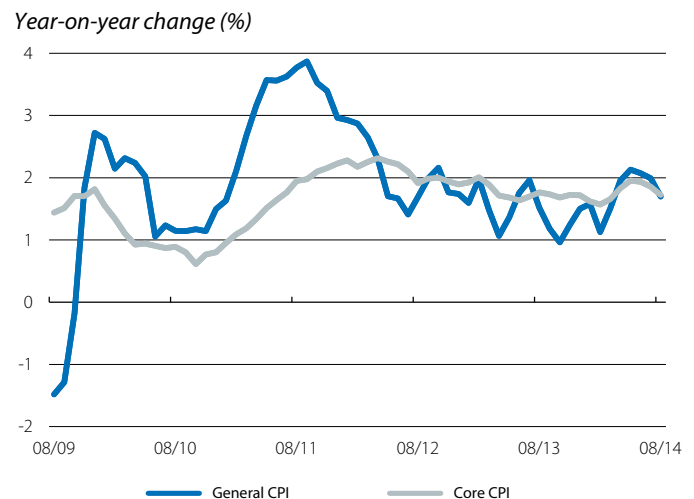
USA: unemployment rate



Note: The shaded zones correspond to recessions.

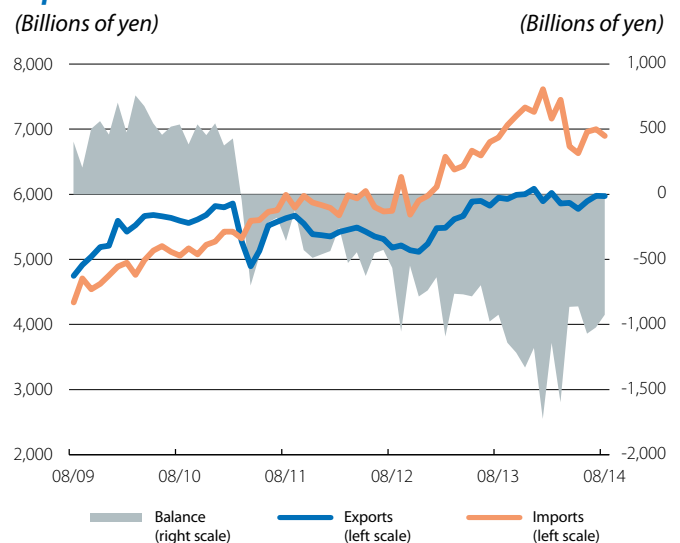
Source: "la Caixa" Research, based on data from the Bureau of Labor Statistics.

USA: CPI



Source: "la Caixa" Research, based on data from the Bureau of Labor Statistics.

Japan: trade balance



Source: "la Caixa" Research, based on data from the Department of Trade.

slightly below July's figure (3.4%) while the core CPI (without foods or energy) once again remained flat at 2.3%. Without the distorting effect of the VAT hike, the CPI would have reached 1.3%, still far from the Bank of Japan's target of 2% but without any sign of relapse into deflation. We can therefore finally talk of a significant rise in nominal wages (0.9% year-on-year in the base salary in July compared with -0.5% year-on-year in December 2013), which will be key to boosting domestic demand.

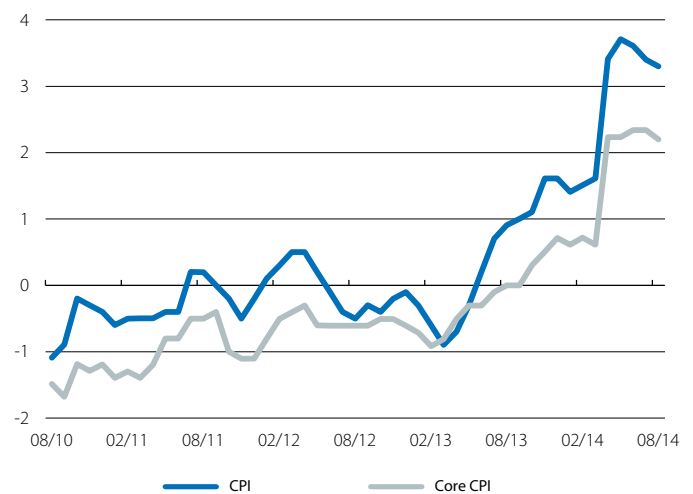
EMERGING ECONOMIES

China's growth prospects remain anchored around 7.5% in spite of the loss of steam in some of August's activity indicators. Of note is industrial production, up by 6.9% year-on-year and therefore decelerating significantly since July's figure of 9.0%. Retail sales and investment also grew by a slightly slower rate than the previous month (11.9% and 16.5% year-on-year, respectively) while September's PMI business sentiment index for manufacturing (produced by Markit) remained flat at 50.2 points. On the positive side the country's external surplus reached a new monthly record in August, coming close to 50 billion dollars thanks both to strong exports, up by 9.4% year-on-year, and also falling imports (-2.4%). This contraction in imports has actually taken the shine off the good balance of trade figure as it reflects a certain weakness in domestic consumption and therefore makes it more difficult for the Asian country to shift towards a model in which household spending plays a more significant role.

Great disparity between the rest of the emerging economies. The cases of India, Turkey and Brazil illustrate the contrasting situations. While India continues to correct some of its more important imbalances (inflation and current account), Brazil seems unable to control its prices, in addition to the electoral uncertainty hovering over the Latin American country. For its part, GDP fell by 0.5% quarter-on-quarter in Turkey (bringing the year-on-year rate to 2.1%). In spite of this decline, it should be noted that not only did we expect a worse figure but, moreover, the GDP's composition is moving along the right lines, combining the obligatory adjustment in domestic demand with a greater contribution from external demand (helping to reduce its excessive current account imbalance). Indicators for Q3 also point to activity improving, albeit slightly. We have therefore slightly revised our growth prospects for the Turkish economy for 2014 as a whole, up to 2.8%.

Japan: CPI

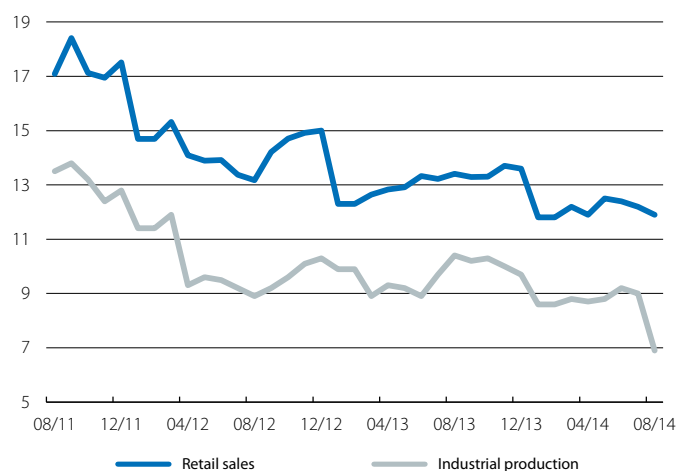
Year-on-year change (%)



Source: "la Caixa" Research, based on data from the Japanese Ministry of Communications.

China: retail sales and industrial production

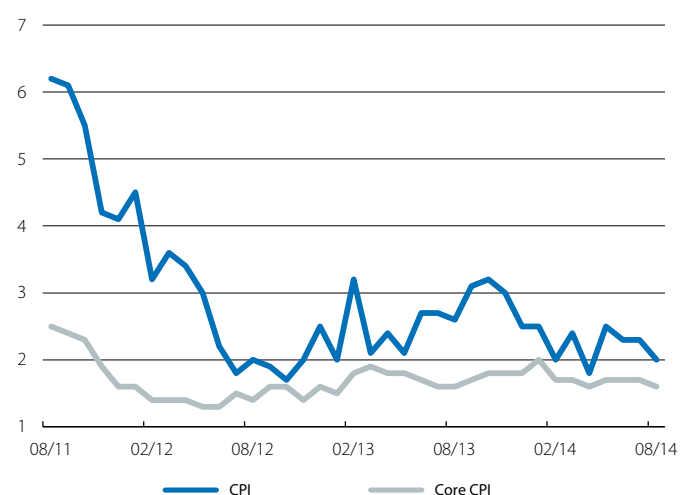
Year-on-year change (%)



Source: "la Caixa" Research, based on data from the National Bureau of Statistics of China.

China: CPI

Year-on-year change (%)



Source: "la Caixa" Research, based on data from the National Bureau of Statistics of China.