Increasing economic growth in an uncertain environment

The US is still the centre of attention. Almost two months after the US presidential elections there is still great uncertainty regarding the announced changes in economic policy. This is inevitable because the new administration is still coming together and the messages issued are necessarily generic in nature. However, a new narrative has taken shape in the financial markets for the US economy; namely reflation, higher growth with higher inflation, which will revolve around fiscal stimuli (tax cuts and investment in infrastructures), less regulation (especially on banks) and a change in focus for international trade relations. As a result, those sectors most sensitive to the economic cycle (including banking) have driven the advanced stock markets, yields on US Treasury bond have rocketed and the dollar is now at its highest level against the euro since 2003. Investors have also taken aim at the weaker flank of this new macroeconomic scenario: there have been significant portfolio capital outflows from emerging countries accompanied by depreciatory pressure on some currencies (the Mexican peso and Turkish lira in particular).

Few changes in the macroeconomic conditions of emerging and advanced economies. In spite of this change in financial indicators, the macroeconomic trend has continued along more or less the same lines as in the last few months and analysts have decided to be cautious when translating the expectations discounted by the markets into appreciable revisions of their growth and inflation figures for the US and the rest of the major economies. In the group of emerging economies, the latest activity figures for China have been positive but this trend has not lessened the perception that the country is facing considerable risks (in financial, real estate and exchange rate terms). Neither have the so-called «fragile» emerging economies left the zone of risk. The latest national account data indicate that Brazil is exiting its recession very slowly while Turkey has surprised with a drop in GDP that few expected. In both cases economic difficulties have been aggravated by a political situation that is still complicated. Regarding the advanced economies, the US has confirmed that its economic growth accelerated in the last part of the year. In this context, and as was expected, the Federal Reserve increased the target range for its fed funds rate by 25 bps to 0.50%-0.75%, also noting that it would carry out three additional interest rate hikes in 2017, a plan that coincides with the CaixaBank Research scenario but which is slightly more hawkish than market expectations.

In Europe the source of uncertainty is still predominantly political. The national account data for 2016 Q3 and latest activity indicators suggest that Europe's economy will maintain a similar growth rate to previous months. The only slight exceptions to this pattern are Germany and Portugal, the former because its indicators point to activity speeding up and the latter because the composition of its growth has been more promising than expected. For its part the ECB announced, in addition to other technical decisions, that QE would be prolonged until December 2017 and the volume of purchases reduced to 60 billion euros as from April 2017, indicating to the market that tapering will be very gradual. In this situation of few changes, uncertainty of a political nature is perhaps the most apparent. In December it was Italy's turn. Although, after the «no» victory in the constitutional referendum, there was a rapid changeover at the head of the Italian government, snuffing out the more agitated fears of political instability and enabling quick decisions to be taken on how to resolve the problems of the banking sector, the threat of future elections is still hovering over the country. Should this come about, it would be in addition to crucial elections in France and Germany.

The Spanish economy is still progressing at a fast cruising speed. The macroeconomic data published in the last few weeks have hardly revealed anything new: the economy is growing in line with its recent trend observed at the end of 2016. From this point on, expansion is expected to continue in 2017 albeit at a somewhat slower rate than 2016 due to less impact from its temporary support factors (oil and fiscal policy in particular). However, structural factors (gains in competitiveness and a moderately more flexible labour market) together with accommodative monetary conditions and the new upward cycle in the real estate sector are factors that will continue to boost growth. In this context, which means the Spanish economy will continue to be one of the most dynamic in Europe, the main risk to the scenario forecast is an appreciable worsening in the external environment affecting the internal dynamics of growth in activity. Although this is not very likely to happen, at least in the short term, it would be advisable for our economy to continue improving its resilience in case of any external shocks.