ECONOMIC OUTLOOK · Acceleration in 2017 but with downside risks

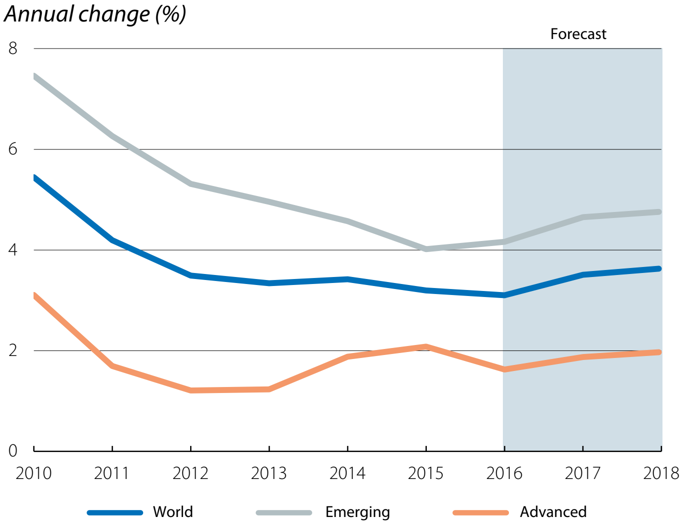
The global economy grew by 3.1% in 2016, a very similar rate to that of 2015 (3.2%). 2016 went from less to more, particularly supported by the acceleration of the emerging economies in the second half of the year while the growth achieved by advanced economies, although significant, was slightly below the figure posted in 2015. At a global level, economic growth was boosted by the main central banks continuing to implement highly accommodative monetary policies and by a slight recovery in oil prices, relieving several emerging countries (crude oil exporters) from their financial pressures, yet not hurting oil-importing countries since the recovery was sufficiently small. In this respect, the agreement to limit oil production reached by the OPEC countries, also joined by several non-OPEC countries (including Russia), will help this recovery in oil prices to continue (see the Focus «The oil producer agreement: the cartel is back» in this *Monthly Report*).

The growth rate will accelerate moderately in 2017 although uncertainty will still be high. Specifically, CaixaBank Research predicts that growth in economic activity at a global level will speed up to 3.5% thanks to the emerging economies and a slight improvement in the advanced countries. The main risks to this scenario are political in nature (the stance taken by the Trump administration, Brexit negotiations and elections in Europe, among others) but the impact of the monetary normalisation the Federal Reserve (Fed) is expected to carry out throughout the year will also have to be monitored closely, as well as China's financial stability.

UNITED STATES

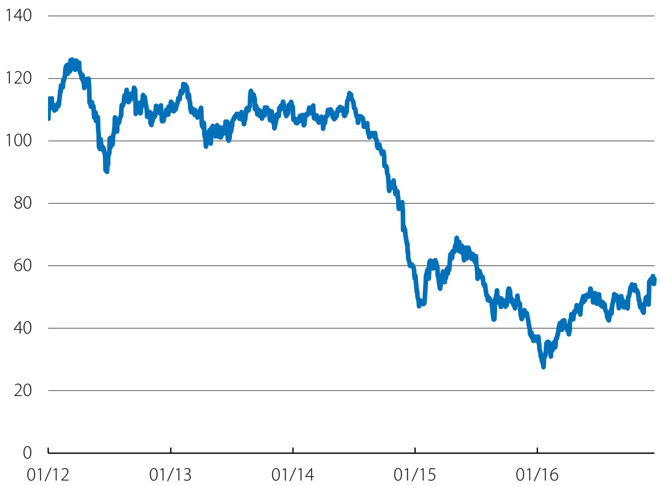
The US economy enters a more mature phase of the economic cycle with moderate growth rates and high production capacity utilisation, suggesting the upward trend in prices and wages will consolidate in the coming quarters. The US is in its fourth longest expansionary cycle since 1950, now in its seventh year of positive growth and only exceeded by the cycles occurring in 1992 (16 years), 1959 (15 years) and 1983 (8 years) (see the Focus «The US: in a mature phase of the business cycle and with an expansionary fiscal policy» in this *Monthly Report*). Moreover, the different activity indicators continue to point to its growth rate consolidating. This scenario of solid growth in economic activity was reinforced by the upward revision of GDP for Q3, growing by 0.9% quarter-on-quarter (1.7% year-on-year), clearly accelerating in comparison with the first half of the year. Specifically, in 2016 Q3 GDP was supported by solid growth in private consumption (2.8% year-on-year), accounting for 70% of GDP.

World GDP
Annual change (%)



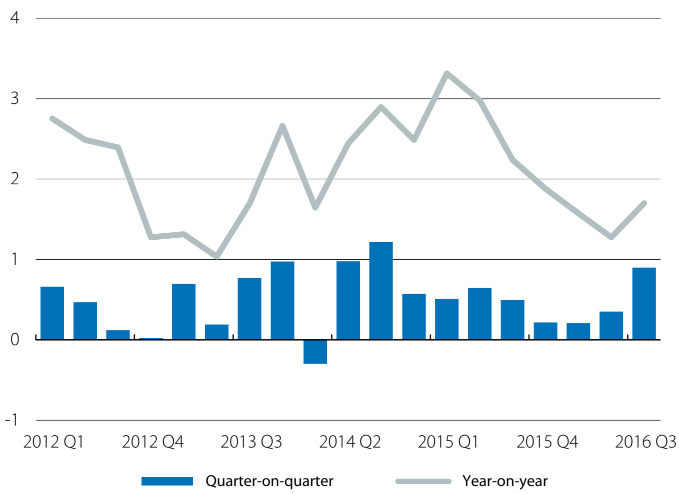
Source: *CaixaBank Research.*

Oil: price per barrel of Brent quality
(Dollars per barrel)



Source: *CaixaBank Research, based on data from Thomson Reuters Datastream.*

US: GDP
Quarter-on-quarter and year-on-year change (%)



Source: *CaixaBank Research, based on data from the BEA.*

Also of note was the strong rise in exports and the positive contribution made by the inventories component, after several quarters of deductions.

The Fed restarts interest rate hikes, encouraged by the upward trend in inflation. At its December meeting, the US Fed increased its fed funds rate target range by 25 bps, taking it to 0.50%-0.75%, as expected. The monetary institution also noted that, in 2017, it plans to carry out three more interest rate hikes, in contrast to the two hikes announced at the meeting in September 2016. This new plan coincides with the CaixaBank Research forecast scenario but is slightly more hawkish than expected by the market.

US headline CPI increased by 1.7% year-on-year in November, 0.1 pps more than the previous month's figure, boosted by solid growth in the energy component and by the increase in the shelter index, which accounts for a large share of the US CPI. This recovery in inflation will continue to be supported by the good performance by consumption, in turn helped by a strong labour market. In November, 178,000 jobs were created, unemployment fell to 4.6% and wages rose by a considerable 2.5% year-on-year. The broader measure of unemployment produced by the Bureau of Labor Statistics, the U6 (which counts as unemployed those people working part-time but who would like to work full-time), also fell to 9.3%, higher than the figure of 8% reached in 2006 and 2007 but clearly below the historical average. It therefore comes as no surprise that, in its December communication, the Fed should indicate that it had decided to raise interest rates due to «in view of realised and expected labour market conditions and inflation».

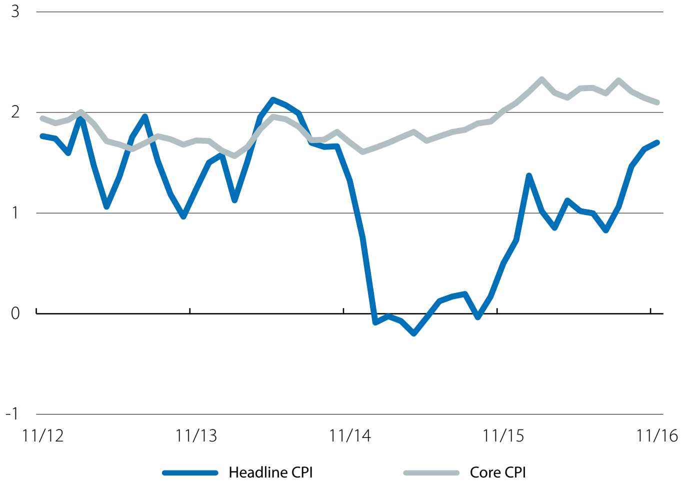
Q4 business indicators continue to point to substantial increases. The business confidence indicator (ISM) for manufacturing rose to 53.2 points in November, its highest level in the past five months, while the same indicator for services climbed to 57.2 points, its highest level for the last 13 months. Along the same lines, business indicators for manufacturing produced by the Philadelphia Fed and New York Fed also rose considerably, endorsing the good performance by the economy in the final tranche of 2016.

JAPAN

Japan is still fragile although the revised figure for the historical GDP series shows slightly better advances in the last few years. Specifically, and according to the new data, GDP grew by 1.2% in 2015 compared with 0.6% in the previous estimate. Similarly, in the first three quarters of 2016 the average year-on-year growth was 0.7%, almost 0.2 pps more than the previous figure. The latter has led to a technical revision of the CaixaBank Research growth forecast for 2016 as a whole, from 0.7% to 1.0%, and for 2017, from 1.1% to 1.0%. In spite of this revision of the GDP series, however, the Japanese economy still looks weak, mostly due to the lack of dynamism in private consumption.

US: CPI

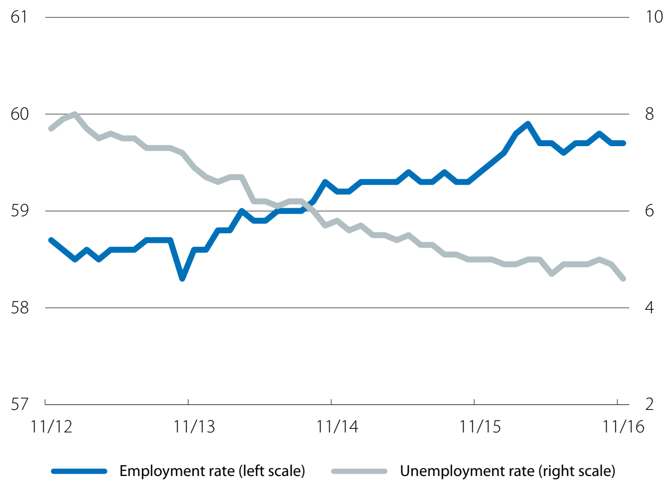
Year-on-year change (%)



Source: *CaixaBank Research, based on data from the Bureau of Labor Statistics.*

US: labour market

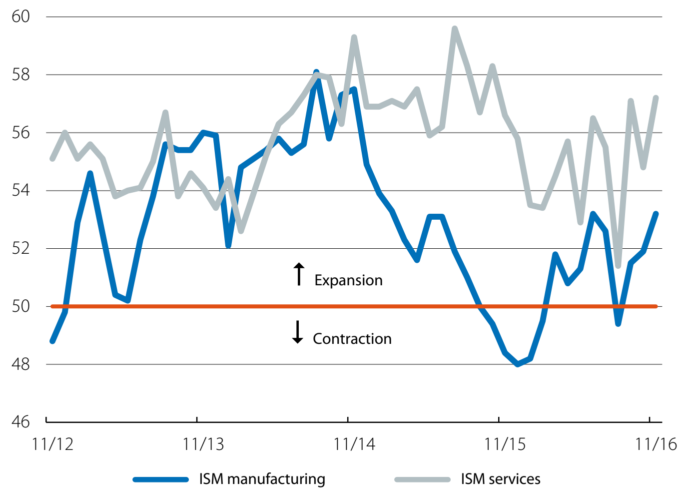
(%) *(%)*



Source: *CaixaBank Research, based on data from the Bureau of Labor Statistics.*

US: activity indicators

Level



Source: *CaixaBank Research, based on data from the ISM.*

Activity indicators improve slightly at the end of 2016 but doubts remain regarding 2017. In particular, the foreign sector improved in November with exports notably slowing down their rate of decline in nominal terms, from –10.2% year-on-year in October to –0.4% currently. This improvement was also substantial in volume terms, with exports growing by +7.4% year-on-year, boosted by sales to China and the US. The depreciation of the yen in the final tranche of the year, down to 117 yen per dollar, should continue to support this improvement in exports towards the US market, while the Tankan business sentiment index indicated some improvement for large manufacturers in Q4.

EMERGING ECONOMIES

China's good activity figures show that growth has stabilised although there are still risks. Retail sales grew by 10.8% year-on-year in November, the best figure for 2016; industrial production advanced by 6.2% year-on-year, 0.2 pps higher than the average between January and October, and trade flows grew after months of declines. Exports increased by 0.1% year-on-year, the first rise since March (although the 12-month cumulative figure still posts a decline, namely –6.2%), and imports rose by 6.7% year-on-year, the highest growth since September 2014 (–6.4% for the 12-month cumulative figure). In spite of these improved activity indicators, the country's financial stability is still a source of concern. In this respect, capital outflows seem to have intensified again in the last month, as reflected by November's reduction of 69 billion dollars in the foreign reserves, the largest monthly decline since January 2016. Fears of a sudden and disorderly depreciation of the RMB are partly responsible for this phenomenon (see the Focus «China's capital flight, a risk to be taken into account» in MR06/2016).

Unexpected drop in Turkey's GDP, down by 1.8% year-on-year in 2016 Q3 (+4.5% in Q2). A poor performance by consumption and exports is largely responsible for this adjustment. It should be noted that a methodological change has also been made which has notably altered the historical GDP series: the level is now 11% higher and growth in 2015 was 6.0%, compared with the previous figure of 3.9%. Beyond this methodological change, the latest figures point to a loss of *momentum*, which CaixaBank Research predicted would occur throughout 2017 and has therefore happened sooner than expected. After the series' revision, and given the already evident weakness in 2016 Q3, CaixaBank Research has substantially lowered its growth forecast for 2016 (from 3.2% to 1.8%) and for 2017 (from 2.9% to 2.4%).

Japan: revision of the GDP series

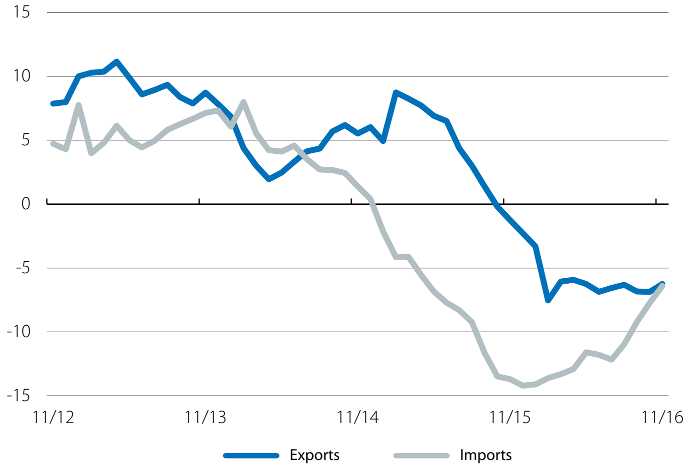
Year-on-year growth (%)

	2013	2014	2015	2016 Q1	2016 Q2	2016 Q3
Before	1.4	–0.1	0.6	0.1	0.8	0.8
After	2.0	0.2	1.2	0.3	0.9	1.0
Difference (pps)	*0.66*	*0.36*	*0.66*	*0.17*	*0.1*	*0.22*

Source: *CaixaBank Research, based on data from the Ministry of the Interior and Communication.*

*China: international trade of goods **

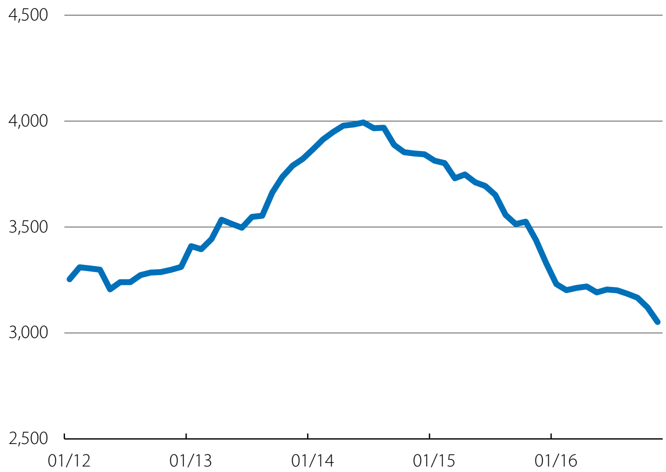
Year-on-year change, cumulative over 12 months (%)



Note: ** Nominal data in dollars.*
Source: *CaixaBank Research, based on data from the Chinese customs.*

China: foreign reserves

(Billion dollars)



Source: *CaixaBank Research, based on data from the Chinese National Statistics Office.*