Europe, one step forward

A peaceful summer in macroeconomic and financial terms. The indicators published throughout July and August continued to indicate that global economic activity is expanding at a good pace and reinforced the scenario of world growth speeding up: the global economy is set to grow by 3.5% in 2017, considerably faster than in 2016 (3.1%). However, significant global sources of risk still hover over this strong macroeconomic and low volatility environment. Specifically, geopolitical tensions are one source of concern, especially after the heightening of diplomatic tensions between the US and North Korea during the summer. Moreover, as the US economy entered a more mature phase of the business cycle, investors are becoming more sensitive to the release of economic activity indicators coming in lower than expected. One example of this is the recent weakness in both the US dollar and US Treasury yields, which have failed to recover despite the Fed's clear intention to continue its monetary policy normalisation and the good US GDP growth figure for Q2 (2.2%). Lastly, despite the fact that China's economy continues to expand at a good rate, doubts regarding its financial system persist. Consequently, although the prospects for the world economy for the last part of the year are good, there is no room for complacency.

The euro area steps up a gear. In this generally positive international environment with nevertheless important sources of risk, growth in the euro area is finally getting firmer after years of tepid performance. In particular, euro area GDP grew by 2.2% year-on-year in Q2 2017, exceeding the 2% growth threshold for the first time since the 2011-2013 recession, and continuing with the more positive growth dynamic of the past few quarters. Moreover, this stronger growth is broad-based, both across countries and sectors, as the solid GDP growth rates in the main euro area economies for Q2 show (Germany, 2.1%, France, 1.7%, and Italy, 1.5%). Different factors have contributed to the euro area's improved performance. Besides the factors that were supporting growth in the past few quarters (accommodative financial conditions and relatively low oil prices), domestic risks have also diminished and there is greater confidence in the economic recovery. This has led CaixaBank Research to raise its growth forecasts for the euro area to 2.2% for 2017 and 2.0% for 2018. The European Central Bank (ECB) sees it the same way, and has repeatedly improved its risk assessment throughout the first six months of the year. In addition, in July, this good performance of the euro area economy led the ECB to announce that it was planning to redesign its monetary policy in autumn. All this suggests that, throughout 2018, the ECB will gradually withdraw its asset purchase programme. However, beyond these improved short-term prospects, the euro area is facing the challenge of promoting greater long-term growth and motivating its citizens with a more dynamic economy and deeper political integration. In this respect, the Brexit negotiations, which initially seemed like a blow to European integration, open up the possibility to intensify proposals aimed at strengthening the European project. In fact, this month's Dossier, «Europe's moment», examines the situation of the European political and economic construction process.

The Spanish economy grows at a robust pace. Spanish economic activity continues to post exceptional growth rates, as shown by the 3.1% rise in GDP in Q2, the 9th consecutive quarter in which growth remains above 3%. In the past few years, this good performance has been supported by domestic factors (structural reforms and competitiveness gains) and external factors (accommodative financial conditions and relatively low oil prices). Recently, Spain's growth has also been supported by the positive growth momentum of other euro area economies. Thus, the CaixaBank Research scenario expects growth to remain high over the coming quarters, although it will gradually slow down as the effect of some temporary factors that are supportive of growth (oil prices and the appreciation of the euro) wanes. Spain's strong GDP growth is also having an effect on the labour market, where the unemployment rate has fallen by a cumulative 2.8 pp over the past year. In addition, economic growth is also helping the government to meet its deficit target (3.1% in 2017). Nevertheless, far from becoming complacent, Spain should continue to implement an agenda of reforms to help it deal with less favourable conditions in the future.