Sobriety following the end of summer

The global economy is operating in an environment of downside risks. The economic indicators of recent months reflect a slight slowdown in global growth, particularly across emerging countries, which are feeling the effects of the gradual tightening of global financial conditions and the climate of greater political and economic uncertainty (accentuated in the last month by the imposition of new tariffs between the US and China). Economies that have long been considered fragile, such as Turkey and Argentina, are starting to tackle an adjustment process to correct the high imbalances that have accumulated over the past few years. There is also a second and larger tier of countries (including Malaysia, Brazil, Russia and India) with generally solid macroeconomic fundamentals which should, in principle, enable them to weather the change of environment. However, they have idiosyncratic sources of weakness that place them under investor scrutiny (in some cases it is the sustainability of the public finances, while in others it is their dependence on external financing or their sensitivity to the global financial conditions, etc.). On top of all this is the central role of the Chinese economy, which continues to decelerate, as the latest indicators confirm. In this context, in September, emerging financial markets began the month by continuing the erratic tone seen in August, when they had suffered significant turmoil, although they regained some ground as the weeks went by.

The Fed and the ECB reinforce their respective roadmaps. One of the main driving forces behind the tightening of the global financial conditions is that of the monetary policy of the US Federal Reserve (Fed). Indeed, in the US, the indicators paint the picture of an economy with full employment (an unemployment rate as low as 3.9%), dynamic growth and steady inflationary trends consistent with the Fed's objective. Thus, in September, the Fed carried out the third rate hike of the year (25 bps, bringing it up to the 2.00%-2.25% range) and reaffirmed its intention to continue with gradual increases to the reference rates over the coming quarters. In the euro area, the European Central Bank (ECB) made a positive reading of the macroeconomic scenario at its September meeting and reiterated its intention to continue with the gradual withdrawal of monetary stimulus (an end to net asset purchases in December 2018 and the reference rates unchanged at their current levels at least through the summer of 2019). In fact, the slowdown in the growth of the euro area so far this year is largely due to a tempering of external demand, whereas consumption and investment continue to display a positive tone. Therefore, over the next few quarters, the economic expansion of the euro area is likely to continue at a slightly slower rate than last year, due to a less favourable external environment. That said, it will continue to be well supported by domestic demand and will have growth rates more in line with the historical average.

Slight slowdown of growth in Spain. The Spanish economy is gradually moderating its growth rate. This trend is expected and reflects the fading of the factors that temporarily stimulated the economy over the last few years (such as low oil prices, interest rates at historical lows and the depreciation of the euro). This is well reflected in the revision of the historical GDP series conducted by the National Statistics Institute every year, which shows that growth in 2015 stood at 3.6% (slightly higher than originally estimated) and slowed to 3.2% in 2016 and 3.0% in 2017 (both 1 decimal point lower than previously published). In any case, this trend does not tarnish the economy's continued good performance, which is well reflected in the latest data on the labour market, where job creation continues at a vigorous pace (2.9% in August and September). Thus, over the coming quarters, we expect the gentle deceleration of growth to continue, mostly driven by the slowdown of the foreign sector (held back by the reduced momentum of the euro area and the strength of imports). With regards to domestic demand, although we expect it to lose some steam, everything indicates that it will continue to show healthy growth.

Signs of moderation in Portugal. The economy continues to grow at a healthy rate (0.6% quarter-on-quarter and 2.4% year-on-year in Q2, both 1 decimal point higher than initially estimated), with a strong contribution from private consumption and net exports. However, the indicators in the Portuguese economy are also sending signals of a more tempered growth over the coming quarters. Like in Spain, this trend will reflect the loss of momentum among the factors that temporarily benefited the economy in recent years (as in the case of Spain, low oil prices, interest rates at historical lows and the depreciation of the euro).