Moderate slowdown but with significant risks

Reassessment of the macroeconomic scenario. The persistence of negative temporary factors in the advanced economies has led international bodies of the likes of the ECB and the OECD to revise their economic forecasts significantly downwards (they are now rather more in line with those of CaixaBank Research). For example, between December and March the ECB lowered its 2019 growth forecast for the euro area from 1.7% down to 1.1%. The OECD, meanwhile, has lowered its 2019 global growth forecast from 3.5% to 3.3%. Furthermore, in the narrative there is a greater emphasis on the downside risks surrounding the global economy, such as geopolitical uncertainty and vulnerabilities in emerging economies. In addition to these factors is the inversion of the yield curve in the US, which has raised concern among many economic analysts because, traditionally, it has anticipated the end of the economic expansion and has reintroduced the dreaded word «recession» into the collective imagination. Nevertheless, we should avoid broad-brush analyses: the macroeconomic indicators in the US continue to point towards a notable rate of growth in 2019. In addition, at the global level, although the slowdown is a tangible reality, it is proving to be relatively moderate and somerisks, such as the trade tensions or fears of an abrupt slowdown in China, have lost some strength.

The central banks remain firmly in a wait-and-see mode. The message from the Fed and the ECB is similar: they are not modifying their main monetary policy parameters, they are emphasising the downside risks to the global economy and they are reiterating that they will remain patient. This message represents a major shift compared to the one given a few months ago. The Fed, for example, rose interest rates in December 2018 and announced its intention to do so three more times between 2019 and 2020. The ECB has not lagged behind and at its meeting in March announced that it will keep rates unchanged until the end of 2019, thereby definitively ruling out the previously suggested possibility of a first rate rise after the summer. It also revealed that it will launch a new round of injections of liquidity starting in September.

The euro area faces a complex scenario. The macroeconomic indicators are proving modest in the first part of the year, suggesting that the pattern of much more moderate growth observed in the second half of 2018 is having some continuity. The euro area economy is being hampered by the slowdown in global trade and the problems of the automotive sector, and this situation could be compounded by a sudden departure of the United Kingdom from the EU in the coming months if we have a no-deal brexit. This last factor will continue to draw much of the attention, since the fragility of the British Government and the lack of a clear consensus mean that the uncertainty surrounding the outcome of Brexit will remain very high right up until the end. Beyond these factors, the underlying question regarding the European economy is whether it is being held back by a spate of temporary factors that are proving more persistent than expected, or the declining trend is here to stay. For now, all the indicators suggest that it is the first option, since the economy still potential to keep growing in the next years. However, the high degree of sensitivity to the various shocks of the last months obliges us to be very cautious.

Spain and Portugal continue to perform well. Our economies are settling in to significantly higher levels of growth than the euro area. In fact, there are very clear parallels in the evolution of the two Iberian economies: the economic activity indicators for Q1 suggest that the growth rate remains buoyant despite a slight slowdown, the labour market is showing signs of resilience (in the case of Spain, employment growth has barely lost momentum compared to 2015-2017 and is proving better than expected) and the public finances are showing clear signs of improvement: Spain has reduced its public deficit by 0.4 pps in 2018 and, with it now standing at 2.6% of GDP, it has left the excessive deficit procedure, while Portugal has reduced its deficit by 2.5 pps down to 0.5% of GDP. Despite these encouraging figures, it would be counterproductive to give free rein to excessive euphoria: the improvement in the public finances has been primarily based on the business cycle, but reforms are needed for this process to continue. On the other hand, the erosion of the current account in both countries is cause for concern, in a context characterised by a less favourable global macroeconomic environment.