Lights and shadows in an economy in transition

In the first two months of the year, the main trends that marked the behaviour of the international economy in the latter part of 2023 have continued to be present: (i) growth of around 3% with divergences between the strength of the US and many emerging countries, on the one hand, and the weakness of China and especially the euro area, on the other, (ii) stability in energy prices despite the challenging geopolitical scenario that is altering the flows of maritime traffic between Asia and Europe, (iii) continuity of the disinflationary process on both sides of the Atlantic with some downward resistance in the services components, (iv) strong public and private consumption, in contrast with an investment that is struggling to gain traction despite the support of the expansionary fiscal programmes (IRA, NGEU, etc.) and the upturn in defence spending, (v) the weakness of industry, with the exception of the technology sector (especially activities related to AI), which contrasts with the positive performance of the services sector, (vi) the strength of the labour market, barely affected by the monetary tightening process, and (vii) the good performance of equity markets (+6% in the case of the Global MSCI at the end of February), reflecting investor confidence in the positive impact that a soft landing will have on business earnings.

In this phase of continuity while we await the start of the monetary easing process, the only small adjustment that has occurred in the opening weeks of the year has been precisely the closing of the gap between the monetary policy outlook anticipated by the financial markets and the opinion that the central banks have been signalling in their latest projections and statements. Investors are now anticipating only 100 bps of cumulative rate cuts in 2024 (in December it was 150 bps) and have pushed back the anticipated date of the first rate cut to June (previously March/April), and this has triggered a correction in the long section of the public debt yield curve of between 20 and 60 bps. This shift is linked to the feeling that inflation is now entering new territory in which further progress is going to prove more difficult, as the positive effects of the easing of energy prices and the disappearance of the global bottlenecks fade, which will give greater prominence to prices of services. And this is where monetary authorities need greater security (and confidence) regarding the dynamics that these components will follow in the coming months, taking into account that their evolution will be marked by factors still subject to uncertainty, such as the evolution of wages or housing-related costs. In any case, the monetary scenario anticipated by investors remains clearly positive for the economic outlook in the second part of the year, as we will probably see year-on-year declines in the 12-month Euribor from April onwards.

Therefore, maintaining the tone of recent quarters, we continue to see more lights than shadows in the complex transition that the business cycle is currently immersed in, affected by the disruptions that the supply side is suffering, both due to the string of shocks it has had to deal with (COVID, bottlenecks, etc.) and because of the first signs of changes caused by demographics, the energy transition, innovation (AI) and the search for strategic autonomy by the major powers. Moreover, all this is occurring while the demand side is reflecting alterations in consumer preferences after the pandemic and the extraordinary activism assumed by monetary and fiscal policy in recent years. This process of continuous change will continue to preside over the economy in the medium term, so the normalisation of the economy's behaviour following the storms of recent years seems more like a desire than a reality. This implies considerable uncertainty about the future behaviour of variables such as potential growth and the neutral interest rate.

In this context, in an attempt to single out signs from among all the noise still present in the economic scenario, we have updated our economic and financial forecasts, slightly revising up our global growth forecast for 2024 (from 2.9% to 3%) thanks to the improved outlook for advanced economies (from 1.1% to 1.4%). This is mostly explained by the improved projections for the US (2.2% vs. 0.8% previously), as we keep the forecast for Europe unchanged (0.7% in 2024 and 1.7% in 2025), while we have revised up our GDP forecast for Spain's economy this year to 1.9% (2.2% in 2025). In the sphere of inflation, we have made virtually no adjustments to the forecasts for 2024 (5.2% global, 2.5% OECD and 7.2% emerging economies) and 2025 (3.2% global, 2% OECD and 4.2% emerging economies), when we will see inflation close to the central banks' targets. This will allow the Fed and the ECB to begin the monetary easing process this June, and we expect to see four rate cuts of a total of 100 bps on both sides of the Atlantic in 2024. With these measures by the central banks, the German 10-year bond would end this year at 2% (2.9% in the case of the Spanish bond). For 2025, we anticipate continuity in the process of lowering interest rates, with another 100 bps in the US (75 bps in the case of Europe).

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March 2024