World growth is speeding up

The economic toll of the financial turbulence seen at the beginning of the year has been limited and, since March, the investment climate has gradually changed for the better. Without a doubt, essential to this change have been the more accommodative messages of the Federal Reserve (Fed), the considerable expansionary measures of the European Central Bank (ECB) and the negative interest rates set by the Bank of Japan (although, subsequently, the latter surprised investors by keeping its bond purchase programme unchanged). But what has really been crucial, in our opinion, is the confirmation that the world economy, although still facing growing risks, is continuing to speed up its growth. Against the gloomiest predictions, the US has not entered a recession (although it has certainly slowed down), China is on the way to confirming its soft landing, Europe is growing more than expected (yes, your eyes do not deceive you: there has been the pleasant surprise of growth in the euro area) and capital has once again started to flow towards the emerging economies. Nevertheless, none of these justifies a complacent interpretation of the situation in which the global economy currently finds itself. The emerging economies are far from consolidated and a close eye will have to be kept on the specific situation of countries that are still too exposed to risk (Brazil and Russia in particular) and on confirmation that capital is truly flowing back to the emerging zone. The moment of truth will obviously come when the Fed once again starts to toughen up its monetary policy after what we believe has been a temporary pause. Then, with the dollar and interest rates on the up, we will see just how resilient the emerging economies are. Developments in China will also have to be monitored closely as the country is facing the challenge of managing to alter its production model without knocking the bottom out of growth. And, at a more global level, another vital factor is how debt is managed, as it just keeps on growing. In some countries the problem is the absence of private deleveraging while in others it is public deleveraging but eight years after the Great Recession, excess debt is still with us.

The US temporarily slows down while the euro area speeds up. The US economy grew less than expected in Q1. We believe, however, that this will be a temporary slowdown since part of the downward shift has been the result of the negative contribution made by inventories, which should reverse over the coming months. Moreover the support factors (accommodative monetary conditions and a dynamic labour market) have continued. Given this situation, inflation is still contained but the forecasts suggest that it should pick up appreciably once the base effect caused by 2015's slump in oil prices disappears. Growth in the euro area was also surprising in Q1 although, in this case, because it was larger than expected. While this figure is preliminary and should be taken with caution, it does confirm that the scenario of recovery is becoming more solid. If growth represents the light, then the dark is still inflation which is looking unexpectedly reluctant to recover. Nevertheless we still believe this dissonance between an economy that is growing and the absence of inflation is temporary in nature and that, already in 2016, there will be more evident growth in prices.

Spain confirms a positive Q1. In spite of the uncertainty experienced in Q1, the Spanish economy has been able to maintain a high rate of growth (0.8% quarter-on-quarter in the first three months of the year, identical to the preceding quarter). According to available indicators the driving force behind this expansion was, as in the previous quarter, domestic demand which has remained notably strong although the foreign sector might be gradually catching up. This is the tone we predict for the remainder of the year: domestic demand, expansionary although somewhat less than in 2015, will join forces with a growing contribution from the foreign sector. This dynamic will result in notable growth of 2.8%, which will continue to be greater than that of its euro area partners and will help to create more than 400,000 jobs. As is widely known, this is the result of temporary support factors such as a lower average oil price than in 2015, the existence of favourable financial conditions (reflected in the positive number of new loans being granted), the euro's depreciation and a relatively expansionary fiscal policy. It is also the result of the structural reforms implemented which translate into a current surplus, an adjustment in the real estate sector and a very advanced process of private deleveraging. However, it should be noted that the Spanish economy is still facing significant challenges such as reducing unemployment and continuing its fiscal consolidation efforts that will help to lower the country's public debt.