A situation of calm and good figures for the final part of the year

The global economy has embarked on the last quarter of the year with fewer sources of uncertainty. In the US, the good performance of the economy and the Fed's own communications have further boosted expectations of an interest rate hike in December, leading to an upswing in yields on public debt and stock market gains for the banking sector. Moreover, China's good growth figures have reduced the risks of a hard landing for the economy in the short-term although doubts are still present in the medium term. The world economy is therefore en route to ending 2016 with 3.1% growth and with the prospect of this rate speeding up in 2017 to 3.5%. Nevertheless, for these predictions to actually come about the global economy still needs to successfully handle some geopolitical risks (Brexit negotiations, the electoral calendar in Europe and political idiosyncrasies in Turkey, Brazil and Russia, among others), the growing level of global debt and the Fed's medium-term normalisation strategy.

The emerging economies are speeding up in the second half of the year, supported by China maintaining its growth rates, India's acceleration and improvements in Brazil and Russia (moving away from the most severe phase of their respective recessions). Specifically, the Chinese economy grew by 6.7% year-on-year in Q3 for the third consecutive quarter but there are still some underlying risks in spite of this good performance, particularly the sustainability of corporate debt and the country's real estate boom. In the opposite phase of the cycle, indicators for Brazil and Russia are pointing to some improvement in their respective economies although they will not be able to avoid posting negative growth rates for the year as a whole (CaixaBank Research forecasts –0.8% for Russia and –3.3% for Brazil for the whole of 2016).

The US and the euro area are following separate paths. In the US, GDP grew by 0.7% quarter-on-quarter in Q3, indicating an acceleration in the growth rate compared with the first half of the year. Meanwhile the euro area's GDP continued to advance slowly but surely, with 0.3% growth quarter-on-quarter, the same figure as in Q2. Although we predict that the US and the euro area will have grown at the same rate for the whole of 2016 (1.5% year-on-year), in the coming quarters the expansion of the US economy is expected to liven up (CaixaBank Research forecasts growth of 2.1% year-on-year in 2017). A slight slowdown is expected, however, for the euro area (1.3% year-on-year for 2017), in line with its lower growth potential and due to its economic tailwinds running out of steam (rising oil prices and less stimulus from monetary policy), as well as political uncertainty. Moreover, while the good tone of the labour market and the upswing in inflation in the US suggest, with increasing certainty, that the Fed will raise its fed funds rate in December, in the euro area the ECB has yet to provide any information on the future of its asset purchase programme, provisionally planned to end in March 2017. Although the euro area's inflation is recovering in line with expectations, the bulk of the evidence available suggests that, in the coming quarters, it will remain below the 2% target so the ECB is likely to announce an extension to its quantitative easing programme in December. However, it must accompany this announcement with technical adjustments to ensure the programme is implemented properly.

Spain continues to advance strongly. GDP growth for the Spanish economy slowed up slightly to 0.7% quarter-on-quarter in Q3, in line with the forecasts. With this good performance, and after growing by 0.8% quarter-on-quarter in Q1 and Q2, the Spanish economy is expected to advance by 3.2% year-on-year in 2016 as a whole, driven by domestic demand and growth in exports. Domestic demand is benefitting from the good tone of the labour market, which ended Q3 with a 2.7% rise in employment year-on-year and an unemployment rate of 18.9%, 1.1 pps below the figure for Q2. In the coming quarters the fact that the temporary factors boosting the economy will diminish (less fiscal stimuli and rising oil prices), this growth in economic activity will lessen slightly (2.4% for 2017). This will also help the transition towards a more balanced pattern of growth, favouring a gradual reduction in net external debt. In spite of this positive environment, however, the public deficit is being corrected very slowly. The budget executed so far reflects an insufficient adjustment in the public accounts although the recently approved corporation tax reform should correct this trend and help to achieve the deficit target of 4.6% of GDP in 2016. With a view to 2017 the new budget, which is an extension of the 2016 budget, suggests that the reduction in the deficit will be supported by the economy's good performance but also highlights the need for the new government to present a revised budget including further adjustment measures to achieve the target agreed with the European Commission (3.1%).