Well begun is half done... or maybe not?

2017 has got off to a good start. Macroeconomic data were slightly better than expected and the acceleration in activity in many Advanced and Emerging economies towards the end of 2016 is set to continue. This positive beginning, in line with the CaixaBank Research main scenario (GDP growth is expected to be 3.4% growth in 2017 compared with an estimated 3.1% in 2016), has been boosted by the good health of financial markets. In February , with few exceptions, risky assets (stocks and corporate bonds) continued to pose gains while risk-free interest rates were stable and the dollar and commodities firm. The good performance of the US stock market was particularly salient since it surged to record highs virtually without taking a break. How different from the start to 2016 when this same stock market collapsed!

Risks, what risks? Investors expect that the successful implementation of Trump's programme will provide a huge boost to US GDP growth at the same time that global growth factors driving growth will continue to support the Emerging and Advanced economies. However, investors also seem to be underestimating the risks related to the implementation of a fiscal expansion in a economy that is operating close to full employment, in addition to the uncertainty stemming from Trump's proposed changes to US trade policy. This will be a key issue in 2017: things are looking positive in many parts of the world and, if the potential risks (especially the political ones) do not materialise, things could even get better. But while there is still uncertainty, it would be advisable to be less complacent and more cautious.

The US economy is accelerating, but not because of the new Administration. The North American giant went up a gear in the second half of 2016 and the economy seems to have accelerated further at the start of 2017. In fact, unlike in previous years it may perform better than expected in Q1. Positive momentum is due to factors such as an expansionary monetary policy, a strong labour market and a recovery in the real estate. All of these factors have little to do with the possible outcome of Trump's fiscal expansion. Although it is reasonable to assume that a combination of tax cuts and more infrastructure spending could lead to higher growth, the impact will be noticed with a lag. It is obvious that there is no relation between a future economic stimulus and the current upswing in prices, which has been higher than expected. In March, with the release of the budget proposal, Trump's new economic policy will start to take shape. Then, and only then, the big questions hovering over the US will be answered.

Europe is still afflicted by uncertainty but that is not affecting GDP growth. Europe epitomises the paradox with which this Executive Summary began: expansion is underway and, if the political risks end up disappearing, growth might even be higher than expected in 2017. However, we must not forget that the realisation of this optimistic scenario depends critically on the word «if». At least that is the opinion of bond investors who are still demanding an appreciable return on sovereign bonds perceived as having high idiosyncratic risks, such as France and also the peripheral economies. Nevertheless, as decisive elections approach, it is true that the latest indicators point to moderate acceleration in growth while inflation seems to be finally getting back to normal.

The Spanish economy remains robust. Real Q4 GDP growth in 2016 (0.7% quarter-on-quarter) confirmed that the economy is on the right track. As has been the case in the past few quarters, domestic demand is the main driver of growth. A key factor supporting Spain's domestic demand is the good performance of its labour market, a trend which, judging by the positive Social Security registration figures, continued in January. Price data are providing a few more surprises. January's CPI stood at 3.0% year-on-year owing to to the sharp rise in electricity prices and the oil base effect, same figure as in February. Core inflation also increased, reaching 1.1% after three consecutive months on the rise. Strong GDP growth is a positive factor for an economy such as Spain's, which still has high levels of debt. In particular, the slow reduction in public debt (99.3% of GDP in 2016 compared to 99.8% in 2015) is a reminder of that fiscal consolidation should continue. In fact, in February both the IMF and the European Commission insisted again on the importance of making a greater effort to reduce its fiscal deficit.