# Economic activity is speeding up but uncertainty remains high

**The global economy is accelerating**. According to the indicators, Q1 2017 has been positive in terms of economic activity. This is accelerating, improving the outlook for global growth for 2017 as a whole, in line with CaixaBank Research's scenario (3.4% in 2017, slightly higher than 2016's 3.1% growth rate). Various factors are supporting this trend. Monetary policy is still accommodative in the advanced countries although the US Fed has started normalization and carried out another interest rate hike at its last meeting in March. The emerging economies are also looking solid during this initial stage of the Fed's normalization and are benefitting from the moderate recovery in oil prices: In spite of the ups and downs of the past few weeks due to US shale production, oil prices in March were 37% higher than a year ago.

**Uncertainty continues, much of it political**. There are still sources of risk in spite of the good outlook for global economic activity. China is a case in point. Although the National People's Congress announced a 6.5% growth target for 2017, in line with its gentle shift towards more balanced production, there are significant risks due to imbalances within the economy (high debt, overcapacity in some sectors and extensive government intervention). The advanced economies are also facing various risks. In the US, the new Administration's first legislative steps have not helped to ease the uncertainty: its inability to repeal Obama's healthcare reform has led to doubts regarding its support in Congress. Also, the first draft of the budget proposal disappointed investor sentiment due to its lack of specifics and ambition.

**Political uncertainty is also dominating the European scene**. March saw the start of Europe's electoral calendar with parliamentary elections in the Netherlands. The victory of the incumbent Prime Minister, Mark Rutte, and a worse result than expected for the populist right-wing candidate helped to ease political risk. But all eyes are on France's presidential election at the end of April and its legislative elections early in June. March 2017 will also go down in the history books as the date when the UK formally triggered the process to exit the European Union. A two-year period of negotiations has now begun which show all the signs of being complex.

**In spite of political risks, the US is still performing well and Europe's recovery is gaining traction**. Sentiment and economic activity indicators for the US continued to advance apace regardless of the uncertainty surrounding the Trump Administration. Buoyed by the economy's good performance and almost full employment, in March the Federal Reserve increased the fed funds rate by 25 bp to the interval of 0.75%-1.00%. And it still plans a further two hikes in 2017 and three in 2018 (in line with CaixaBank Research's forecasts). The performance of the euro area is also positive, with sentiment indicators at their highest since 2011, suggesting a healthier economy at the end of Q1.

**Positive trends for the Spanish economy**. The good economic activity indicators point to the economy continuing to outgrow expectations. This favourable trend is reflected in the GDP forecast model by CaixaBank Research, predicting 0.8% quarter-on-quarter growth in Q1 2017 (slightly higher than the 0.7% recorded in Q4 2016), with domestic demand as its driving force. This trend, together with a forecast of more moderate increases in oil prices, justifies raising the GDP growth forecasts for 2017 and 2018 by 0.2 pp, up to 2.8% and 2.4%, respectively. CaixaBank Research has therefore also improved its outlook for the labour market (over 400,000 new jobs will be created in 2017 as a whole), and also for the current account balance. 2017 has started out in a similar way to 2016, when growth was actually higher than predicted by both private analysts and the government. It should also be noted that Spain ended 2016 with a public deficit of 4.3% of GDP (4.5% including bank bail-outs), below the 4.6% agreed with Brussels. However, if fiscal policy had remained neutral, the country's economic growth would have pushed the deficit below 4%.