Encouraging signs for the world economy

A promising start to the year. Activity and sentiment indicators for the first four months of the year suggest that world growth will consolidate its acceleration in 2017. The CaixaBank Research forecast for 2017 is 3.5%, 0.1 pp higher than the previous month and 0.4 pp above 2016's figure. Moreover, this positive trend seems to be relatively widespread, occurring in both the advanced and the emerging economies. However, most of the data supporting the scenario of acceleration are soft (based on consumer and company surveys) whereas the hard data (the effective growth indicators of Q1) have yet to be released. It therefore remains to be seen whether the latter will confirm the promising view described. The positive scenario has recently gone hand in hand with the financial markets' performance: after a brief risk-off period, stock markets rallied again in the second half of April, confirming that the constructive dynamics, based on confident growth expectations, have remained intact. In the emerging economies, the remarkable growth of the Chinese economy in Q1 (6.9% year-on-year) supports this optimistic outlook in spite of it owing to a fiscal stimulus that is unlikely to continue over the coming quarters.

The future is not without risk, however. Political risks have grabbed most of the headlines over the past few months. Although these are still present (protectionism, populism, uncertainty regarding the Trump administration's policies and geopolitical tensions), we should not ignore threats of a strictly economic nature. These include the rising level of global debt (China being a case in point due to its high corporate debt) and the impact of the Fed's expected interest rate hikes on those emerging economies that are more vulnerable to external factors.

The US takes its foot off the gas, but only temporarily. The US economy grew less than expected in Q1 (0.2% quarter-on-quarter), hindered by weaker private consumption. Nevertheless, we believe this is just a bad patch as the strong growth in investment and good activity and sentiment indicators in Q1 suggest that GDP growth will pick up again over the coming quarters. The fiscal situation has also changed somewhat. At the end of April, the Trump administration presented an outline of its ambitious tax reform which aims to simplify and lower tax rates (for instance, corporate tax would fall from 35% to 15%). But there are doubts regarding the ultimate extent of this fiscal stimulus since, if implemented, the reform would considerably increase the Federal budget deficit in spite of the elimination of most fiscal deductions currently in place. Consequently, negotiations are bound to be intense and the Trump administration will probably have to make concessions.

Europe's economy is looking increasingly strong against the backdrop of changing political risks. Most sentiment indicators point to the economic recovery consolidating as inflation gradually gets back to normal. But there are still political risks with two chief sources of uncertainty. The first one is Brexit, given that negotiations with the EU may lead to episodic bouts of financial volatility. The second are the elections in the euro area's core countries, although here the risks are shifting: Macron's likely victory in France and the fact that Germany's extreme right-wing is running out of steam will boost the European project. Nevertheless, uncertainty will quickly drift to Italy where parliamentary elections will be held in Q1 2018.

Q1 data confirm that the Spanish economy is thriving. GDP growth accelerated to 0.8% quarter-on-quarter in the first three months of the year, 0.1 pp more than in the previous two quarters. According to available indicators, domestic demand is once again driving this expansion since it continues to be remarkably strong, although exports have also performed very well in the first few months of 2017. Temporary tailwinds (low interest rates and oil prices), in conjunction with structural reforms, are the drivers of the expansion of an economy that has already enjoyed three years in a row of sustained growth. Such a positive situation will result in notable economic growth, which CaixaBank Research places at 2.8% for 2017, and will also have positive effects on the labour market, with the creation of 430,000 new jobs this year. In spite of this improvement, however, the Spanish economy still needs to lower its unemployment rate. This rose by 0.2 pp in Q1 due to seasonal factors and now stands at a still-high 18.8%. The good shape of the Spanish economy is also having a strong influence on public finances. The favourable economic situation will help to reduce the budget deficit and, as a result, the target set for 2017, namely 3.1%, looks achievable.