

## Global activity maintains its positive momentum

**World growth continues to be strong.** According to the latest business activity and sentiment figures, economic activity is growing apace both in the advanced and the emerging economies. All this supports the CaixaBank Research scenario of global growth accelerating from 3.1% in 2016 to 3.5% in 2017. More importantly, these good macroeconomic figures have been accompanied by continued calm in the financial markets. Stocks have performed well, particularly in a Europe that is relieved to see political risk on the wane in France. Financial assets are also enjoying a period of very low volatility. This situation has only been marred by the recent volatility shown by oil. Nonetheless, we expect this source of instability to diminish after the agreement reached by the OPEC countries and other large producers such as Russia to extend production cuts until March 2018. This should help to push up the price of crude oil again, albeit very gradually.

**Global risks remain, however.** As is becoming customary, the advanced countries will have to keep a close eye on the political uncertainty currently affecting the US. The controversies that, on a daily basis, surround the Trump administration are a constant source of instability that threatens to erode support for Trump from the Republican Party. Increasing doubts regarding the new administration's ability to carry out its promised reforms could also dampen investors' reflationary expectations. Some emerging countries such as Brazil, Turkey and South Africa are facing significant risks related to macroeconomic and political imbalances. Another downward risk, China's large corporate debt, is again in the limelight after the first downgrade of the country's sovereign credit rating since 1989, carried out by Moody's.

**The US economy picks up speed after a dip in Q1.** Q1 GDP growth (0.3% quarter-on-quarter) shows a slowdown in the US economy due to less growth in private consumption. But the latest economic activity indicators point to significant acceleration in Q2. Against the backdrop of an economy close to full employment, the Fed has adopted a «glass half-full» approach, stressing these positive factors over and above the first-quarter slowdown. This makes a June interest rate hike more likely and supports the continuation of monetary normalisation.

**Europe's economic expansion is consolidating.** The euro area's GDP grew by a significant 1.7% year-on-year in Q1 2017 and sentiment indicators are now firmly placed in the expansionary zone. Given this torrent of good figures, CaixaBank Research has upgraded its growth forecasts for the European economy in 2017. The recovery is relatively widespread although three countries have performed particularly well in the first part of the year: Portugal, Spain and Germany. This positive scenario will continue over the coming months thanks to solid domestic demand, a gradual recovery in the labour market and the continuation of accommodative financial conditions. However, such positive short-term prospects should not give rise to complacency. Rather governments should take advantage of this favourable environment to implement the reforms required to ensure the region's growth is long-lasting and balanced. Among such necessary reforms is greater European integration, a process which could be revitalised after the election of the pro-European Emmanuel Macron as the new French President. Brexit is still a source of risk for this integration but the EU authorities are expected to make use of all their diplomatic skills and negotiating position to reach an agreement with the UK that guarantees a smooth and orderly transition.

**Spain's economy is gaining traction.** The notable growth in Q1 has been confirmed (0.8% quarter-on-quarter and 3.0% year-on-year) and the latest business activity indicators show no sign of a slowdown; in fact quite the opposite. Spain's good economic performance over the past three years is starting to bear fruit: GDP returned to its pre-crisis level in Q2. Spain's strong growth is due to both external and internal factors. The economy is benefitting from the euro area's recovery, a still relatively low price for oil and favourable financial conditions. The structural reforms carried out over the past few years have also had a positive effect. Importantly, growth is much more balanced than in the previous expansionary period. Domestic demand has remained strong, contributing 2.2 pp to year-on-year growth in GDP in Q1 2017. There has been a particularly strong recovery in business investment, more than offsetting the lower growth in private consumption. External demand also contributed 0.8 pp to GDP growth thanks to exports' strong performance.