The global economy in full swing

World growth remains dynamic. The publication of the economic activity data for Q3 2017 has largely confirmed that global growth is strong, as indeed it was in Q2. This economic momentum is supported by an improvement in both the advanced and emerging economies. In short, the year looks like ending with 3.6% annual growth. With the winds of macroeconomics blowing in their favour, the sails of the financial markets have shifted accordingly. October saw considerable gains in the advanced equity markets and also on many of the emerging stock exchanges. US Treasury bond yields are also tending to consolidate the slow rise that began last summer, albeit with a few ups and downs. Volatility in both equity and bond prices remained low.

The US remains on course. In this globally positive scenario, the world's leading economy is still progressing at a fast cruising speed. When hurricanes Harvey and Irma were expected to dampen growth in Q3, GDP surprised by increasing 0.7% quarter-on-quarter (2.3% year-on-year), just 0.1 pp less than the previous quarter. In this mature phase of the cycle, core inflation, which excludes the volatile components of energy and food, has remained anchored at 1.7% since last May. However, with wage growth at around 2.5% year-on-year, this inflationary slowdown should be temporary. The Fed is of a similar opinion, repeating that another hike in the fed funds rate was likely in December. The Fed's message that it would continue with its plan did not cause any appreciable movements in the markets. These were more interested in the election of Janet Yellen's successor as Chair of the Federal Reserve. Pending Senate confirmation, the candidate supported by the administration, Jerome Powell, is seen as experienced (already a member of the Fed's Board of Governors) and supports continuing the strategy of very gradual monetary normalisation. The US may be firmly on course but the world's other major economy, China, is even more so. On the political front, Xi Jinping's leadership was strengthened at the Communist Party Congress, while in economic terms the 6.8% growth achieved in Q3, a similar figure to the first half of the year, indicates that the country is still growing strongly.

Europe, full speed ahead. Q3 GDP data confirm high growth similar to the rate achieved in the first half of the year. Moreover, early Q4 indicators suggest this dynamism will continue. According to CaixaBank Research forecasts, growth will be 2.2% in 2017, the highest since 2007. Given this situation, attention is still very much focused on inflation as the normalisation process is very slow. This can be seen by core inflation remaining at a moderate 1.1% in October. The ECB is therefore continuing to strike a balance between the demands of an expanding economy and a very gradual recovery in inflation, a trend that is not expected to alter over the coming months. This balance was reflected in the important meeting held in October which clarified the future path of monetary policy. The ECB announced a slower rate of asset purchases, maintaining the current rate of EUR 60 billion per month until December 2017 then reducing it to EUR 30 billion per month from January until at least September 2018. The ECB also repeated its commitment not to raise interest rates for a long period of time.

The Spanish and Portuguese economies continue to benefit from a favourable external environment. Spanish GDP grew by 0.8% quarter-on-quarter (3.1% year-on-year) in Q3, a slightly slower rate than Q2 (0.9% quarter-on-quarter). In the absence of a breakdown by component, indicators suggest that this high growth was driven by domestic demand. Export and import flows picked up in Q3 supported by an increasingly favourable external environment. Looking ahead to the next few quarters, we expect the rate of economic growth to slow down as the economy loses the positive influence provided by some factors boosting growth in recent years (such as the expansionary fiscal stance and moderate oil price increases). The external context is also partly responsible for Portugal's good economic performance. GDP growth was a notable 3.0% year-on-year in Q2 2017 thanks to largely the powerful combination of strong exports and dynamic investment. All the evidence suggests that both these forces have continued to drive Portuguese growth in Q3.