2018: Recovery underway

The world economy is growing apace. Approaching year-end, indicators continue to point to global economic activity accelerating, on track to ending 2017 with 3.6% growth (3.2% in 2016). Apart from this greater dynamism in both advanced and emerging economies, the pattern of growth in 2017 was also more homogeneous across countries. Supported by accommodative financial conditions and a gentle rise in commodity prices, in 2017 the world economy has moved up a gear and is facing 2018 with the prospect of stronger growth (3.8% according to the CaixaBank Research scenario).

Global factors dominate the risk map. Macrofinancial and geopolitical risks remain in spite of the improved macroeconomic situation. The ECB set out much of its monetary policy for 2018 last month so attention has now turned to the US Federal Reserve (Fed). Assuming no last-minute surprises, this December the Fed will raise the fed funds rate to 1.25%-1.50%, a move already assumed by analysts and investors. With a view to 2018, however, there is still a marked discrepancy between the Fed's own signals, with a scenario of three hikes that coincides with the CaixaBank Research scenario, and the situation suggested by financial assets (between one and two hikes). This could produce some frictions. There is also doubt regarding the sustainability of high US equity prices and China's financial imbalances. Finally, the significant geopolitical and commercial risks must not be underestimated either (intensification of the Cold War in the Middle East, tensions with North Korea and NAFTA renegotiations).

US advances in the mature phase of the cycle. The second GDP estimate shows that economic activity grew by 2.3% year-on-year in Q3, outperforming the most optimistic forecasts, while the most recent indicators also point to solid progress in Q4. The consensus of analysts has therefore revised upwards the growth forecasts for 2017 and 2018 as a whole (2.2% and 2.4%, respectively, for CaixaBank Research), although this still contrasts with a moderate outlook for inflation. Meanwhile, on the political front, the Trump administration's tax reform continues to progress, with its proposal being passed by the House of Representatives. Nevertheless the Senate, which is still preparing its own proposal, must pass the same version of the bill for the reforms to actually become legislation.

Europe gains in confidence. The data available for the second half of the year continue to endorse an improved outlook for the euro area economy. In addition to the supporting factors of recent years (such as accommodative financial conditions and relatively low oil prices), confidence has also increased in the economic recovery and sources of domestic risk have eased in recent months. CaixaBank Research has once again raised its growth forecasts and now expects GDP to rise by 2.3% in 2017 and 2.2% in 2018. Europe still faces some significant political challenges, however, especially in relation to furthering European integration and Brexit negotiations with the UK. In fact, at the end of November the UK government increased its financial offer to leave the EU, with the aim of starting negotiations on a transitional agreement.

The economies of Spain and Portugal are progressing at full speed. In Spain, the second GDP estimate confirmed quarter-on-quarter growth of 0.8% (3.1% year-on-year) in Q3, a good figure supported by domestic demand (contributing 2.7 pp) which reinforces the CaixaBank Research scenario of 3.1% growth in 2017 as a whole. Looking ahead to 2018, the expansion will continue with more balanced growth. This will result from an expected slowdown in domestic demand (due to a decline in temporary supports such as low oil prices, tax reductions and purchases and investiment that had been posponed during the crisis being made). There will also be a greater contribution from the foreign sector, driven by a dynamic global economy and the gains made in competitiveness by Spain's export sector. Portugal's GDP grew by 0.5% quarter-on-quarter (2.5% year-on-year) in Q3 while Q4 indicators support CaixaBank Research's forecast of 2.7% growth in 2017 as a whole and 2.2% in 2018. As a result, investors continue to take on board Portugal's improving macroeconomic scenario and its sovereign rating could be upgraded again in the coming weeks and/or months.