Solid growth in an environment of volatility

The global economy is sailing through choppy waters. Global economic activity has ended the first half of the year with strong growth, close to the 3.8% recorded in 2017. These positive indicators are the result of positive figures in both the advanced economies and the major emerging markets. However, they contrast with a backdrop of greater downside risks, particularly those related to the geopolitical environment and trade, and with a change of tone in the financial environment. First of all, throughout the semester the US administration has taken a more belligerent stance on foreign policy, reintroducing economic sanctions on Russia and Iran and threatening a trade war with China and other partners such as the EU. In fact, in June the US announced a rise in tariffs on Chinese imports and introduced tariffs on imports of steel and aluminium from the EU, Mexico and Canada (which led to a reprisal from Europe, with tariff increases on US imports). Although the direct impact of all these measures is small (they affect barely 1.5% of the global trade flows of goods), they could have much graver consequences if they end up affecting investor sentiment and consumer confidence. Additionally, in financial markets, fears of a protectionist shift at a global level and heightened geopolitical tensions have led to greater risk aversion, as well as unleashing a surge in volatility. This has resulted in stock market corrections, rising risk premiums and depreciations among emerging currencies. All in all, at the end of the semester, the low-volatility financial environment of recent years seems to be fading away.

Monetary policy becomes less accommodative. The change in the financial landscape towards a more volatile environment has been brought about not only by geopolitical tensions but also by the gradual tightening of monetary policy at a global level. Specifically, the improvement in the macroeconomic environment is enabling the US Federal Reserve (Fed) to steadily reduce its monetary stimulus, which is leading to a tightening of the domestic and international financial conditions (the emerging economies have been particularly penalised by the renewed strength of the dollar). In June, the Fed continued this trend with another increase in its reference rate (the second such increase so far this year), bringing it up to the range of 1.75%-2.00%. It also presented a very positive view of the macroeconomic environment in the US, reiterating its intention to maintain the pace of rate rises over the coming quarters. Indeed, the indicators available suggest that the US enjoyed strong growth in the first half of the year. Nevertheless, the economy faces the challenge of maintaining a solid rate of growth without the support provided by the expansionary fiscal policy, which will probably disappear by mid-next year.

Europe consolidates its position in the expansionary phase of the cycle. The euro area is in a less mature phase of the business cycle than the US, and continues to have a positive outlook despite a somewhat less dynamic start to the year. Temporary factors (adverse weather conditions, strikes and abnormally severe flu epidemics in Northern Europe), as well as the volatility of the foreign sector, played a key role in the slowdown of the indicators during the first few months of the year. However, domestic demand exhibited stronger growth, which supports the view that the euro area has consolidated its position in the expansionary phase of the cycle. It is on this basis that the European Central Bank (ECB) announced in June that it will bring its net purchases of assets to an end in December 2018. However, over the next few quarters the ECB will keep financial conditions accommodative by not altering its reference rates and by remaining present in the markets, reinvesting the principal of the assets held on its balance sheet as they reach maturity.

Portugal consolidates its positive position, while the Spanish economy ends the semester with strong figures. Like in the euro area, the temporary factors present in the first half of 2018 led to the deceleration of growth also being felt in the Portuguese economy. Nevertheless, private consumption and investment continued to make headway, reflecting the underlying strength of the macroeconomic environment and the fact that Portugal has established its position in the expansionary phase of the business cycle. In Spain, meanwhile, the indicators show strong growth in economic activity. According to CaixaBank Research's GDP forecasting model, in Q2 2018 growth will have stood at 0.66% quarter-on-quarter, practically the same figure as in Q1 (0.7%). Looking forward to the second half of the year, we anticipate that growth will gradually temper, as some of the factors that have driven it in recent years fade. However, the accommodative financial conditions and the internal strengths of the Spanish economy (strong job creation, greater international competitiveness and progress made in the correction of macroeconomic imbalances) will continue to underpin robust growth.