Global uncertainty begins to take its toll

The financial markets point towards a less placid scenario. For several months now, the financial markets have been leaving the phase of very low volatility of recent years behind. In the summer, this new predicament then became all-the-more present: after a start to the summer marked by the stock markets alternating between indecision and gains, in August the financial markets were stressed by doubts surrounding the strength of growth in China, the succession of trade threats with the US and a spike in financial turmoil in Turkey. These factors, framed within the context of a global tightening of monetary policy and greater risk aversion, affected the emerging economies in particular, with their stock markets and currencies suffering major losses during August. The advanced economies, meanwhile, dealt with the turmoil unevenly. In Europe, prices on the financial markets were erratic, not only because of the turmoil in the emerging markets but also due to a spike in uncertainty surrounding Italy's fiscal policy. In the US, in contrast, the stock markets continued to break records and reached new all-time highs. However, if we set aside the idiosyncrasy of the US, the performance of the markets suggests that the uncertainty is taking its toll on investor sentiment. In fact, this is a situation that is also reflected in the real economy.

The growth of the emerging markets, and consequently global growth, will be lower than expected. The economic indicators known in the summer months confirm that the growth rate of global economic activity is readjusting: while there is growing evidence that the persistent economic uncertainty is taking its toll on the growth of some emerging economies, it is also clear that the advanced economies are on a different wavelength. The US experienced significant acceleration in its growth rate in Q2 and continues to have cyclical momentum, although this should lose strength in 2019 (due to the dissipation of the fiscal impulse, among other factors). The euro area, meanwhile, saw only a slight moderation in the growth of its economic activity. Overall, the scenario forecast by CaixaBank Research has been adjusted to account for this progressive weakening. Specifically, the growth figures for the emerging markets expected for the current year and the next have been revised downwards, as have those for the global economy as a result. Despite the moderation of the outlook set out above, the balance of risks continues to point towards a possible weakening of the economy in the future. In particular, the protectionist shift of the US and its possible global implications continue to play a prominent role and, unfortunately, remained active throughout the summer. In this regard, the good news that the US and Mexico have reached a bilateral trade agreement in principle was overshadowed by the resurgence of the threats of tariffs between the US and China.

The Spanish economy tempers its growth rate, and the Portuguese could follow a similar path. In line with the scenario foreseen by CaixaBank Research, the Spanish economy is entering a more mature phase of the business cycle, and in Q2 2018, GDP growth slowed moderately down to 0.6% quarter-on-quarter (2.7% year-on-year), 1 decimal point below the figure for Q2. All in all, this new phase will not represent an abrupt change in the rate of economic activity, since after growing by 3.1% in 2017, we expect GDP to grow by a solid 2.7% this year and by 2.3% in 2019 (in both years, 1 decimal point less than previously expected). Furthermore, this shift does not change the fact that most of the macroeconomic trends seen in recent months remain in force. For instance, the labour market remains highly dynamic (in Q2, 469,000 jobs were created, the biggest quarter-on-quarter increase since the series began), inflation remains stable and bank lending is growing at a good rate (new bank lending for consumption and for housing grew by 22% and 16% in the year to date up to July, respectively, compared with the same period in the previous year). In Portugal, meanwhile, quarter-on-quarter growth in Q2 stood at 0.5%, 1 decimal point above the previous quarter. In year-on-year terms, the acceleration went from 2.1% to 2.3%. The cornerstone of the growth continues to be domestic demand, which is being supported by the buoyancy of the labour market (in Q2, employment grew by 2.4% year-on-year and the unemployment rate stood at 6.7%, the lowest ever recorded in the historical series). Despite this recent progress, various indicators suggest that domestic and external demand will be less buoyant in the future than in the past. This leads us to revise the growth forecasts for 2018 and 2019 down to 2.1% and 1.9%, respectively (2 tenths less than in CaixaBank's previous scenario).