Growth moderates

The pace of growth in global economic activity moderates. An example of this is provided by the global composite Purchasing Managers' Index (PMI), which in January continued its downward trend to reach 52.1 points, a level not seen since September 2016. This trend of lower growth is widespread and can be seen not only in the US but also in the euro area and in China. Nevertheless, the outlook for each region is somewhat different. In the US and China, the slowdown is expected to continue for some time to come: in the US, the fiscal stimulus of the Trump Administration will fade, while in China, the economy still faces the challenge of managing macrofinancial imbalances (particularly high corporate debt) and the change of its productive model. The speed and severity with which these adjustments will occur in the two countries is highly uncertain, representing a source of risk. The euro area, meanwhile, continues to feel the impact of a less favourable external environment and a significant, but temporary, correction in the automotive industry, which must adapt to the new European vehicle emissions regulation. In any case, over the coming quarters the economy is expected to stabilise and maintain a nonetheless notable growth rate of around 1.4%.

The central banks adjust their position. The central banks of the US and the euro area have not been impervious to the turmoil experienced by the markets at the end of 2018 and the slowdown shown by the latest economic activity indicators. Given the limited signs of inflationary pressures in the US and the context of a slowdown in global growth, the US Federal Reserve (Fed) signalled a pause in the tightening cycle in the minutes of its last meeting. Furthermore, in light of the moderation of the growth outlook for the euro area, the European Central Bank (ECB) also tempered its message and left open the possibility of delaying its first rate rise, which it had previously suggested could come towards the end of 2019.

The markets recover. During the month of February, investor sentiment continued the improvement shown in January and the markets exhibited a positive tone. This trend was once again supported both by the flow of positive news regarding the trade negotiations between the US and China and by the more cautious tone of communications from the major central banks, particularly the pause in interest rate hikes announced by the Fed. Thus, market prices continued to recover from the peak of uncertainty experienced at the end of 2018, which saw a spike in financial volatility. In February, volatility in the financial markets remained moderate and the main stock market indices ended a new month with gains.

Brexit, an inexhaustible source of uncertainty. At the time of publication, the outcome of Brexit still seems highly uncertain. While the chances of a disorderly departure seem low, the difficulty of reaching a consensus in the House of Commons and the fragility of the United Kingdom Government do not allow us to rule out last-minute surprises. In view of the difficulties in reaching an agreement, the United Kingdom is expected to request an extension of Article 50 (the United Kingdom's departure from the EU is currently scheduled to take place on 29 March 2019). This would open up a wide range of possibilities: from the approval of the preliminary agreement reached between Theresa May and the EU, to a softer version of Brexit (with the United Kingdom permanently remaining in the customs union), or even a second referendum (which has the support of the Labour Party).

In Spain, the economic activity indicators offer mixed signals. Thus, while the economic activity indicators for the services sector continue to show a positive tone, the equivalent indicators for the industrial sector suggest that the sector is struggling, something that can be attributed, at least in part, to the difficulties being endured by the automotive sector and the decline in global demand. All in all, the economy is expected to continue to grow at a solid rate, above that of the major euro area economies, supported by the encouraging performance of the labour market.

The Portuguese economy enters a more mature phase of the cycle. The latest data from the national accounts show that, in the final stages of 2018, the economy grew by 0.4% quarter-on-quarter (1.7% year-on-year). As such, the economy ended 2018 with a growth of 2.1% in a year marked by a certain slowdown. Over the coming quarters, growth is expected to moderate slightly due to the difficulties being experienced by the foreign sector, given the context of slower global demand, and the lower momentum of domestic demand (the labour market is already close to full employment and the recovery of the real estate market is showing signs of running out of steam). This assessment is backed by the latest economic activity indicators, which suggest that the economy will grow at a solid rate in the early stages of 2019, albeit slightly below the average rate for 2018.