Global economic activity shows moderate growth

Global economic activity indicators suggest that the slowdown continues at the beginning of 2019. In particular, in January the global composite Purchasing Managers' Index (PMI) remained in expansive territory (above 50 points), but once again fell. It reached 52.1 points, placing it at its lowest level since September 2016 and indicating a more moderate global growth rate in Q1 2019. All in all, part of this moderation is in response to headwinds that are expected to be temporary (such as the impact of the new European emissions regulations in the automotive sector). On this basis, CaixaBank Research's scenario predicts a slowdown in global growth from 3.7% in 2018 to 3.4% in 2019, meaning that the global economy is expected to continue to grow at a significant rate in line with the historical average.

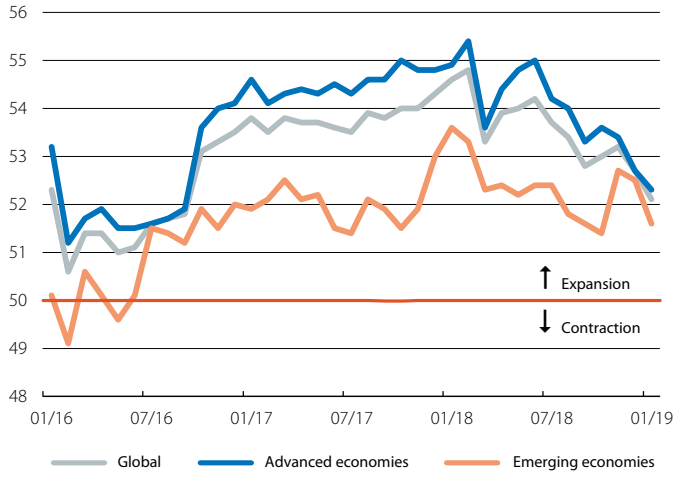
Trade and Brexit: two steps forward, one step back. In the United Kingdom, Theresa May decided to delay the new vote on the exit agreement in the House of Commons (12 March was set as the new deadline), while she continues to negotiate with the Union on possible concessions relating to the back-stop clause on Ireland. Furthermore, in case the agreement with Brussels is rejected again, May announced a vote (scheduled to take place on 13 March) on whether or not to approve a no-deal Brexit. If this is also rejected, the next day there will be a third vote on an extension (which would be limited and short) of article 50 until June. However, while the uncertainty surrounding Brexit persists, in February, the US and China took further steps to dissipate their trade tensions. Thanks to the progress achieved in the negotiations between the two countries, Donald Trump postponed the tariff increase from 10% to 25% on 200,000 million of Chinese imports (which was due to take effect on 1 March) until an unspecified date. As such, the positive tone of the negotiations allows us to glimpse a halt to the escalating trade tensions and, therefore, lower global uncertainty in the sphere of trade (at least in the short term).

US

The US grew by a healthy 2.9% in 2018 (2.2% in 2017), favoured by the fiscal stimulus approved at the end of 2017 and the strength of the labour market (which drove the buoyancy of private consumption). All in all, in the closing phases of 2018 a slowdown was noted in the GDP growth rates. Specifically, GDP grew by 0.6% quarter-on-quarter in Q4 2018 (3.1% year-on-year), 2 decimal points below the growth of the previous quarter. This slowdown was partly due to factors we believe to be temporary, such as the effect of the partial US federal government shutdown. This is a factor that could tarnish growth rates in Q1 2019 and will be added to the effects of the extreme cold experienced in the north of the country at the beginning of the year. Nevertheless, the moderation of growth is also a response to the maturity of the business cycle, which represents a more structural force. Therefore, CaixaBank Research projects growth of 2.3% for

World: composite PMI economic activity indicator

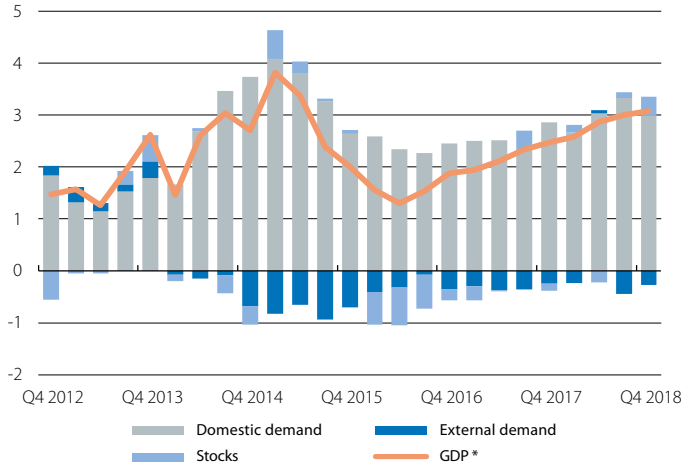
Index



Source: *CaixaBank Research, based on data from Markit.*

US: GDP

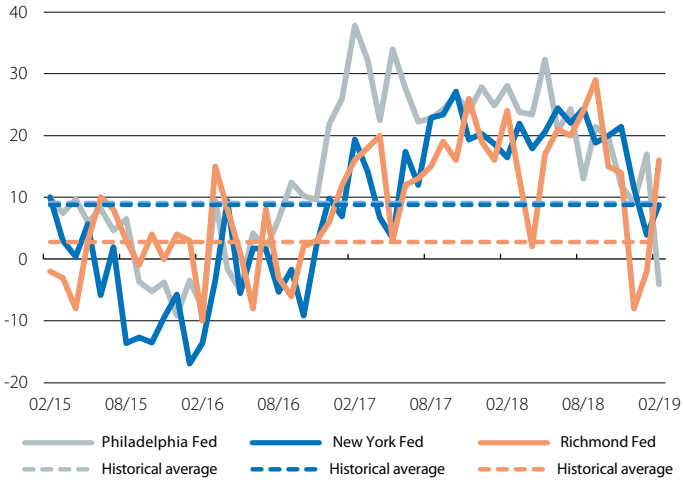
Contribution to year-on-year growth (pps)



Note: ** Year-on-year change (%).*
Source: *CaixaBank Research, based on data from the Bureau of Economic Analysis.*

US: manufacturing activity indices

Level



Source: *CaixaBank Research, based on data from Thomson Reuters Datastream.*

2019 as a whole (still a very strong figure, albeit closer to the country's potential growth rate, which we estimate at 1.9%).

Inflationary pressures in line with the target and the moderation of growth support the Fed's decision to remain patient. Headline inflation moderated in January down to 1.6%, 3 decimal points below the previous figure. This decrease was largely due to the fall in energy prices, still influenced by the downward trend in oil prices seen in late 2018. Core inflation, meanwhile, remained at 2.2% for the third consecutive month. As such, inflation rates are in line with the Fed's target, which in a context of global downside risks, offer the monetary institution some margin to remain patient in relation to future changes to its interest rates (see the Financial Markets section).

EUROPE

The economic indicators suggest moderate growth at the beginning of 2019. In particular, although in February the composite PMI index of the euro area rose slightly following months of decline (reaching 51.0 points), it still stood at moderate levels due to the contrast between the services and manufacturing sectors. On the one hand, the manufacturing PMI index fell to 49.2 points, its lowest level in almost six years and below the 50-point threshold that separates the expansive and recessive territories. On the other hand, the PMI index of the services sector rose to 52.3 points (its highest value in the last three months). Overall, the indicators suggest that the euro area will grow at a moderate rate in the first few months of the year.

Germany and the United Kingdom show lower-than-expected growth. Germany's GDP remained stable in Q4 2018 (0.0% quarter-on-quarter and 0.6% year-on-year, after a –0.2% quarter-on-quarter contraction in Q3), placing annual growth at 1.5%. All in all, the German statistics institute suggested that domestic demand maintained a positive tone, hence growth is expected to pick up over the coming quarters. GDP growth in the UK, meanwhile, was lower than expected in the last quarter of 2018 (0.2% quarter-on-quarter), placing it at 1.4% for the year as a whole (its lowest since 2012).

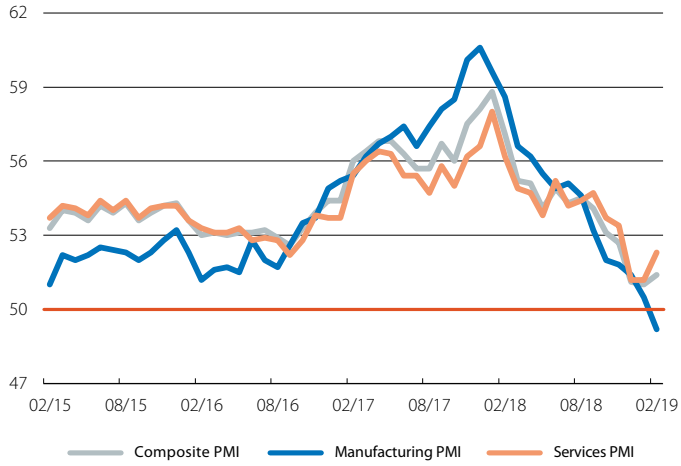
REST OF THE WORLD

Japan returned to growth in Q4 2018 and ended the year with annual growth of 0.7%. GDP grew by 0.3% quarter-on-quarter in Q4 (0.0% year-on-year), following the fall in the previous quarter caused by the natural disasters that hit the country last summer. The breakdown by component showed solid growth in private consumption and in business investment.

In the emerging markets, China continues to slow down, while Brazil and India also lost some momentum in the closing stages of 2018. In China, exports got back on track in January, with a solid growth of 9.1% year-on-year (in contrast to the 4.4% decline in December), although the full range of indicators continue to point towards a slowdown in economic activity. The publication of India's GDP, meanwhile, showed a GDP growth of 7.3% in 2018, a significant rate albeit with ups and downs throughout the year. Finally, in Latin America, Brazil grew by 1.1% in 2018, with no improvement compared to 2017 largely due to the loss of momentum in Q4.

Euro area: PMI economic activity indicators

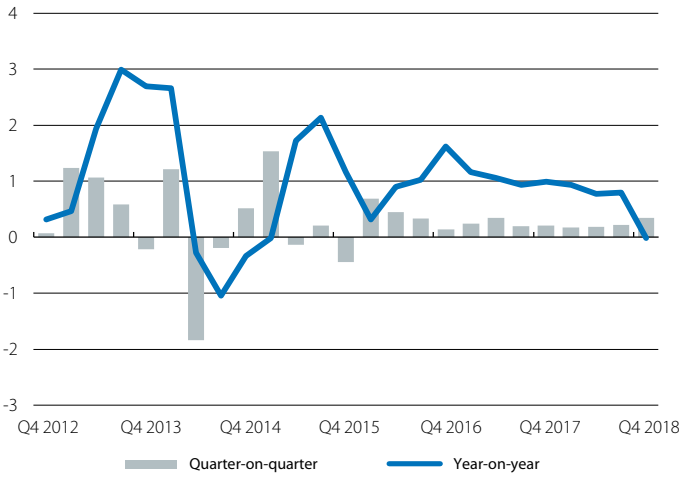
Level



Source: *CaixaBank Research, based on data from Markit.*

Japan: GDP

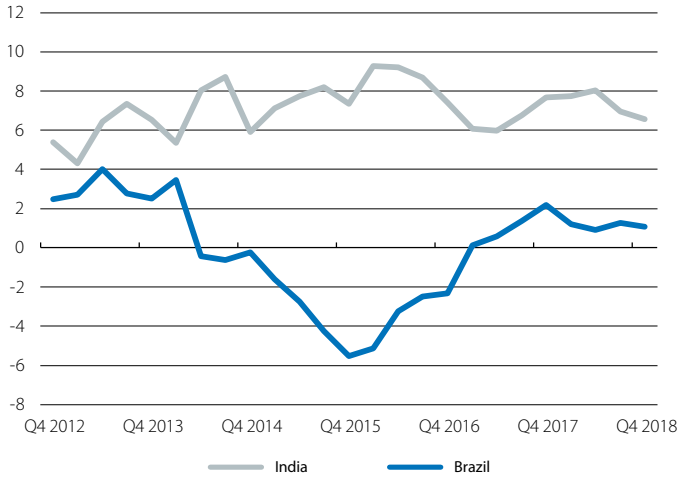
Change (%)



Source: *CaixaBank Research, based on data from the National Statistics Institute of Japan.*

India and Brazil: GDP

Year-on-year change (%)



Source: *CaixaBank Research, based on data from the national statistics institutes.*

Portugal: in a more mature phase of the cycle

The economy grew by 2.1% in 2018 and confirmed its entry into a more mature phase of the cycle. The data relating to the last quarter of 2018 indicate that GDP grew by 0.4% quarter-on-quarter and by 1.7% year-on-year in Q4. This growth was backed by the strength of domestic demand, which benefited from the good performance of both private consumption and investment. The contribution from external demand, meanwhile, was more negative due to the obstacles that exports endured at the end of the year (namely, strikes by dockworkers and the depletion of stocks in the automotive sector). With regard to Q1 2019, the indicators are generally positive, but give some mixed signals. On the one hand, the Bank of Portugal's coincident economic activity indices, which have a strong correlation with GDP growth and that of private consumption, suggest that economic activity continues to grow at a rate similar to that of the previous quarter. In particular, both the coincident economic activity indicator and that of private consumption stood at 1.8% in January (1.7% and 1.9% on average in Q4 2018, respectively). On the other hand, the consumer and industry confidence indices continued to decline in January and reflect greater caution among firms and households towards the future performance of economic activity. On the whole, the indicators remain at encouraging levels and suggest a steady growth rate in 2019 (1.8% according to CaixaBank Research's forecast).

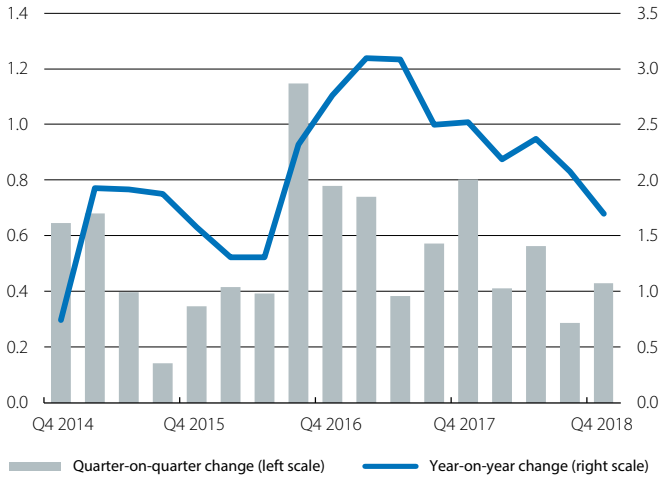
Tourism of non-residents stabilised in 2018. Tourist activity showed some signs of slowdown during the last year, with an increase of just 0.4% in the number of non-resident guests in the accommodation sector for 2018 as a whole. However, the average income per available room has continued to rise, suggesting that the quality of the country's tourist services is also improving.

The real estate sector shows signs of slowing down. The end of 2018 brought the first indications of a possible slowdown in the Portuguese real estate market, with the latest data suggesting a slowdown in the demand for housing. In particular, in December the sector's confidence indicator, which reflects the expectations of property developers and agents regarding trends in prices and transactions, registered a significant drop, potentially indicating a cooling of the market over the coming months. Nevertheless, the latest figures for home sales remain high.

The foreign sector went back into deficit in 2018. In particular, in December the current account balance stood at –0.6% of GDP (12-month cumulative balance), which marks a clear decline in the foreign sector in 2018 compared to the 0.5% surplus registered in 2017. Although the return to a deficit position is not good news, there are factors that

Portugal: GDP

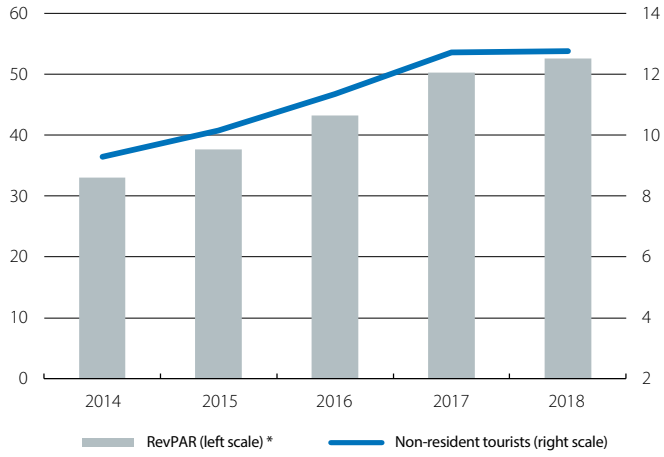
Quarter-on-quarter change (%) *Year-on-year change (%)*



Source: *CaixaBank Research, based on data from Datastream.*

Portugal: tourism activity

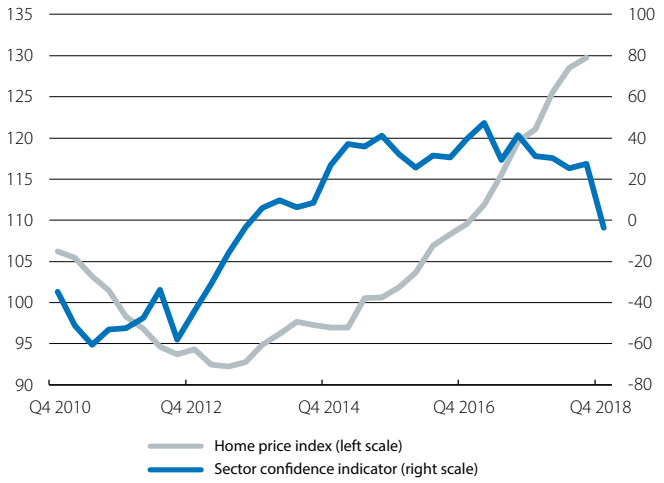
(Euros) *(Millions of people)*



Note: ** RevPAR: average revenue per available room.*
Source: *CaixaBank Research, based on data from the National Statistics Institute of Portugal.*

Portugal: real estate market

Index (100 = 2015) *Index*



Source: *CaixaBank Research, based on data from the National Statistics Institute of Portugal and Confidencial Imobiliário.*

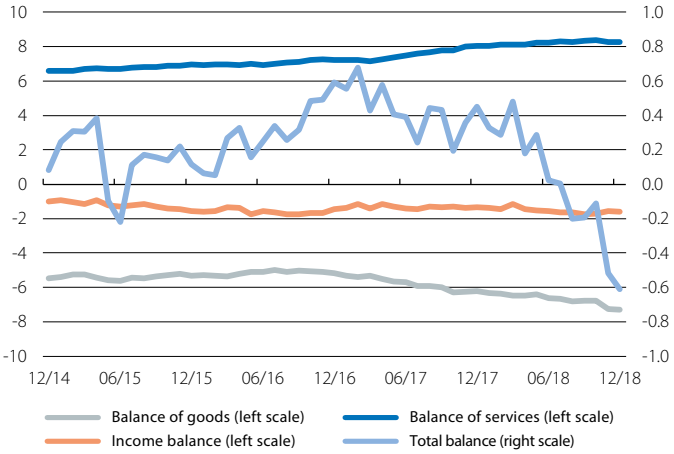
suggest that the extent of the deterioration can be contained. On the one hand, as has already been discussed, exports of goods endured the negative impact of temporary factors at the end of the year. Imports, on the other hand, grew by an extraordinary 8.0%, driven by a surge in imports of investment goods (providing a contribution of +5.2 pps to the total growth of imports). By contrast, imports of consumer goods and fuels performed more moderately (with a contribution of 1.6 pps and 1.3 pps, respectively). The balance of services, meanwhile, continues to maintain a notable surplus (8.3% of GDP in 2018) thanks to the strength of tourism, although this sector also shows signs of slowing down. As for 2019, the deterioration in the current account balance is expected to stabilise and the economy is expected to maintain its external lending capacity, since the capital account continues to exhibit a surplus which more than offsets the current account deficit.

The labour market maintained a good tone in the closing stages of 2018. In Q4 2018, the number of people employed increased by 78,100 compared to Q4 2017 and the total population in employment stood at 4,883,000. The pace of job creation slowed to 1.6% year-on-year (+3.5% in Q4 2017), with a prominent role played by the public administration and education sectors. On the other hand, the unemployed population decreased by a considerable 17.3% year-on-year in Q4 2018 and the unemployment rate stabilised at 6.7% for the third consecutive quarter. Together, these figures indicate that the labour market is entering a more mature phase of the cycle. As such, with the economy having reached its current levels, job creation and the reduction in unemployment are expected to lose some steam over the course of 2019.

The contraction of private sector lending moderated in 2018. Lending to individuals contracted by 0.6% in December 2018, as a result of the reduction in lending for housing. This trend occurred in a context in which new lending operations grew significantly in 2018 (19.6% year-on-year, despite the 41.4% year-on-year slowdown compared to the previous year). On the other hand, consumer lending continued to grow steadily, registering growth of 10.5% year-on-year in December. As for companies, sales of nonperforming loans continued to have a negative impact on the volume of credit: in fact, the stock of credit fell by 4.6% year-on-year in December 2018, but it would have grown by 1.7% if we had excluded this effect. However, this trend is expected to continue in 2019, as the banking sector continues to sell off portfolios of nonperforming loans to clean up its balance sheets.

Portugal: current account balance

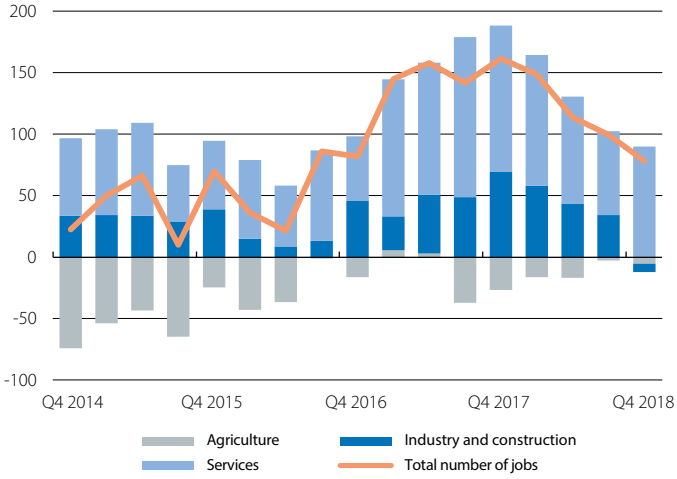
12-month cumulative balance (% of GDP) — *12-month cumulative balance (% of GDP)*



Source: *CaixaBank Research, based on data from Datastream.*

Portugal: jobs by sector

Year-on-year change (thousands)



Source: *CaixaBank Research, based on data from Datastream.*

Portugal: private sector lending

December 2018

	Balance (EUR millions)	Year-on-year change (%)
Lending to individuals	119,658	–0.6
Lending for housing	97,212	–1.7
Lending for consumption and other purposes	22,446	4.2
Consumption	15,310	10.5
Lending to companies	69,975	–4.6
Non-property developers*	65,140	–4.0
Property developers*	6,098	–7.5
Total lending to the private sector**	189,633	–2.1

Notes: **Values relating to November 2018. **New lending to the non-financial private sector.*
Source: *CaixaBank Research, based on data from the Bank of Portugal.*