The economy keeps the rudder firm despite the dark clouds of protectionism

The global economy is sailing on relatively calm seas despite the change in expectations. In recent quarters, there has been a widespread downward revision of forecasts, of some 0.4 pps in the main economies, due to the surge in global risks such as greater geopolitical uncertainty and trade tensions. This somewhat less optimistic narrative has gradually aligned with the scenario predicted by CaixaBank Research, which anticipates a gentle slowdown of the global economy in 2019 and 2020. For the time being, however, we must not be overly pessimistic, since in the vast majority of cases the expected pace of growth is similar to the average for the past 40 years. We must also not forget that it is natural that, in a more mature phase of the cycle like the current one, growth could lose some momentum. The US and China are two economies in which a slowdown is taken for granted (although both countries have taken a break with the good data of Q1) and the key will be ensuring that they make as smooth a transition as possible.

In spite of everything, there is a risk of heavy seas due to trade tensions. There had been a notable easing off of trade tensions in recent months, with expectations of an imminent agreement between the US and China, but in the last month hostilities have come back with acrimony. In fact, following recent events, it seems unlikely that the two super-powers will reach an agreement in the short term. Both countries have introduced tariff hikes and Chinese technology giant Huawei has been added to the list of companies that require a US government license to acquire components and technology in the country. Underlying all this is a global game of thrones for geopolitical and technological domination, in a context in which China is failing to meet some of the US' demands on intellectual property. The stock markets have been affected by the spike in uncertainty and the rise in risk aversion, especially in China. In the advanced economies uncertainty is also present, but neither the Fed nor the ECB intend to tighten monetary policy in the coming months, providing a major point of support for the financial markets.

The European ship is slowly leaving tempestuous waters, but there are still waves. Despite growing above expectations in Q1, economic activity in the euro area is expected to remain at moderate levels in Q2 (slightly above 1.0% year-on-year), since the headwinds on trade and manufacturing sectors have not yet dissipated. However, growth could regain momentum in the second half of the year. This scenario, with moderate but reasonably healthy growth, should not lead us to lower our guard, since the risks surrounding Brexit and Italy have not subsided. In the United Kingdom, Theresa May's resignation makes it very difficult to predict whether the country will be able to approve the EU withdrawal agreement before the new deadline set by Brussels (31 October). In Italy, tensions with the European Commission remain high and the possibility of new elections being called in the coming months cannot be ruled out.

Spain and Portugal continue on their course at a comfortable cruising speed. Spain is keeping up the pace and the economic indicators for the first part of Q2 suggest that growth remains dynamic, following the excellent figure for Q1 (0.7% quarter-on-quarter). Domestic demand remains the major force propelling the Spanish ship, with the only blot being the modest performance of the foreign sector, beset by trade tensions and the more moderate growth of the euro area. Of particular note is the strength of the labour market (exceeding even the most optimistic forecasts), the resilience of the tourist sector in a less favourable environment and the sustained expansion of the real estate sector. The reading is quite similar for Portugal, where the figure for Q1 confirmed everyone's high expectations, with quarter-on-quarter growth of 0.5% (1.8% year-on-year) driven by buoyant investment. Furthermore, in the Iberian economies the improvement of the labour market, in terms of both the number of people in work and wages, is also having a very favourable effect on the public accounts by providing a boost to fiscal revenues.