Is a global recession in sight?

There is cause for alert... and concern. The trickle of negative news has been constant in recent months. If you have read the newspaper over the holidays, you will hardly have found a section that left you indifferent. Migration and humanitarian crises, political and social conflicts, and turbulence in the financial markets have occupied all the headlines. In this context, it seems that the economy should be weakening significantly.

However, to date, the deterioration of the global macroeconomic scenario has been limited. The pace of economic activity growth has slowed, but there is no sign of a widespread halt (it is hard to find an adjective that is neither too rosy nor too bleak). In Q2, the GDP of the US grew by 2.3% year-on-year, and the pace of job creation remains high. China also performed well, with growth of 6.2%, in line with expectations. The euro area, on the other hand, displays a poorer rate of growth and, moreover, has been left without the German «locomotive». GDP growth stood at 0.2% quarter-on-quarter, propped up by growth rates that remain strong in countries such as Spain and Portugal (0.5% quarter-on-quarter in both cases). Germany, meanwhile, registered a contraction of 0.1% and all the indicators suggest that it has entered into a moderate recession. The growth data in the United Kingdom and Italy are not terribly encouraging either. The political crisis facing the two countries has led their economies to the brink of recession.

Beyond each country's idiosyncrasies, all the indicators suggest that the **coming quarters will be marked by trends of a global scope which will accentuate the downturn, albeit in a contained manner**. This is suggested by the slowdown in trade, the recession affecting the manufacturing sector worldwide, and the deterioration in the economic sentiment indicators that most economies are experiencing. These trends, which look set to continue, are likely to worsen due to the impact of the new tariff measures recently announced by the US and China. In addition, in Europe, and especially in the United Kingdom, political uncertainty seems unlikely to dissipate and looks set to continue to dent consumer and business confidence.

All this has forced us to rethink the medium-term macroeconomic outlook, and **we have revised our growth forecasts downwards**. In the US and China, the adjustment we have applied is relatively small, between 1 and 2 decimal points in 2019 and 2020, given the resilience that their economies are showing. This is largely thanks to the activism of their respective governments in taking short-term stimulus measures. In Europe, by contrast, the downward revision is more substantial, amounting to 3-4 decimal points per year. This is due to the greater vulnerability of its economies to the global cycle, political uncertainty in several countries and the probable inaction in the field of economic policy. In Spain and Portugal, the downward revisions are more marginal, between 1-2 decimal points per year. **After applying these revisions, we expect global growth to remain** at around 3% over the coming quarters. This is clearly lower than in 2018, with growth of almost 4%, but still **a far cry from a global recession**.

Faced with the change of scenario, central banks have abruptly adjusted their monetary policy. The deterioration in growth expectations, the absence of inflationary pressures, the expectation (fed by the central banks themselves) of forceful responses to changes in the macro scenario and, in the case of the US, political pressures, have led them to further relax monetary conditions. **While the measures announced may seem welcome, they are not free of controversy**. In the end, the margin for manoeuvre that will be left for them to react to any major shock will be reduced. Furthermore, as the Editorial of this *Monthly Report* explains, the effectiveness of monetary policy is at stake and reducing interest rates that are already very low or negative could even prove counterproductive.

The financial markets have proven to be highly sensitive to recent developments, with a surge in volatility and widespread corrections in the main stock market indices. *A priori*, these movements seem somewhat exaggerated given the macro scenario described above. However, the latent risks are by no means insignificant, and **if the reaction of economic policy focuses on short-term economic stimulus measures**, on fiscal expansions that do not improve economies' growth potential or on monetary stimuli with dubious effects, **the macroeconomic imbalances that could end up being generated could well lead us into a situation of greater risk. Expansionary phases do not usually die of old age**.

Oriol Aspachs
Head of Research