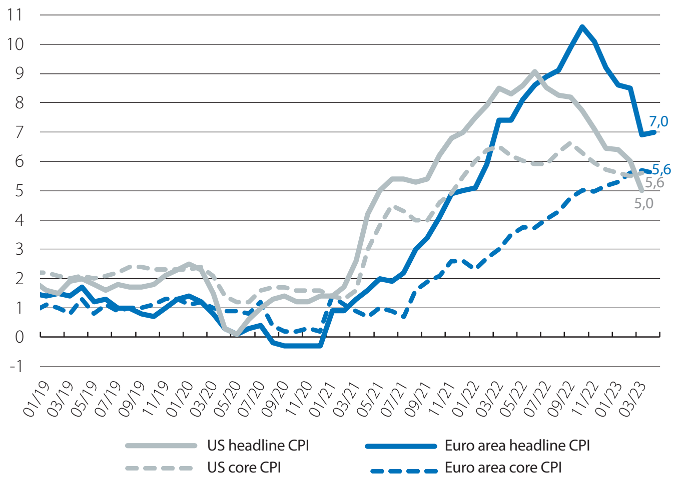
A better start to the year for the international economy, but questions remain

Growth in Q1 2023 has been positive. Specifically, the US grew by 0.3% quarter-on-quarter, the euro area by 0.1%, and China by a surprising 2.2%. This encouraging start to the year introduces some upward bias into the growth forecasts for 2023. Nevertheless, the risk that the second half of the year could be weaker, as the aggressive rate hikes are finally transmitted to the economy, may limit the growth expected for 2024. This reduced economic buoyancy, in a context in which no significant stress is anticipated in the energy markets *a priori*, will allow inflation to ease, especially in the core components, which for now are showing resistance to any reduction.

A positive assessment of the US GDP figure for Q1 2023. The preliminary data show an annualised growth of 1.1% (0.3% quarter-on-quarter) at the beginning of the year, following 2.6% in Q4 2022. Although there has been a loss of momentum, the analysis by component reveals a fairly robust composition. In fact, much of the slowdown is due to a reduction of accumulated inventories: they deduct 1.3 pps from growth, having contributed 1.5 pps in the previous quarter. In addition, the growth of private consumption accelerated to an annualised rate of 3.7% (1.0% previously), while construction fell by 4.2%, after falling at double-digit rates in the previous three quarters. However, it should be noted that the monthly data showed a declining trend during the period and the available data for April show a continuity of this trend. The most up-to-date indicators suggest that this slowdown will be accentuated during the remainder of the year, as the economy feels the effects of the tighter monetary conditions and the recent financial turbulence.

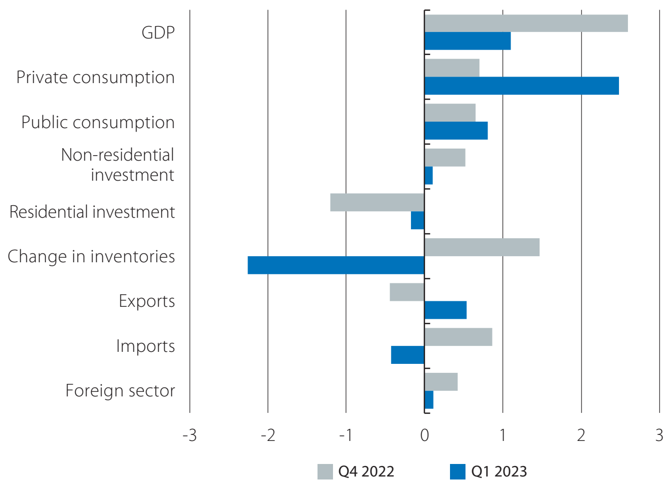
Negotiations between Republicans and Democrats to raise the debt ceiling continue. The current ceiling of 31.4 trillion was already reached back in January, but the Treasury approved a series of exceptional measures that expire on 5 June to allow the government to meet its already committed payment obligations. In anticipation of this deadline, the Republican-majority lower house passed a bill on 26 April to raise the debt ceiling by 1.5 trillion dollars, but in exchange for spending cuts of 4.5 trillion and limiting the increase in spending to 1.0% over the next 10 years. The bill must now be approved by the Senate, where, as of the close of this report, the Democratic majority had already warned that it would veto it. This situation is not new and, since the 1990s, the lack of an agreement in time to raise the debt ceiling has already caused government shutdowns lasting more than one day on four separate occasions. These episodes trigger a suspension of all public services, except those considered essential, as a temporary solution to ensure the payment of the government's debt commitments. If an agreement to raise the debt ceiling is not reached, the resulting shutdown can have a substantial macroeconomic impact: in addition to being a source of uncertainty and instability in the financial markets, the Congressional Budget Office estimates that the latest shutdown,

US and euro area: CPI
Year-on-year change (%)



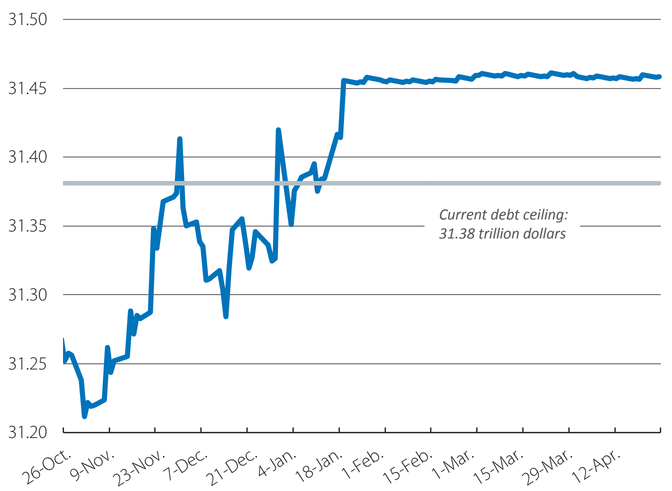
Source: *CaixaBank Research, based on data from Eurostat and the Bureau of Labor Statistics.*

US: GDP and components
Contribution to annualised quarter-on-quarter growth (pps)



Source: *CaixaBank Research, based on data from the Bureau of Economic Analysis.*

US: total government debt
(USD trillions)



Source: *CaixaBank Research, based on data from Fiscal Data.*

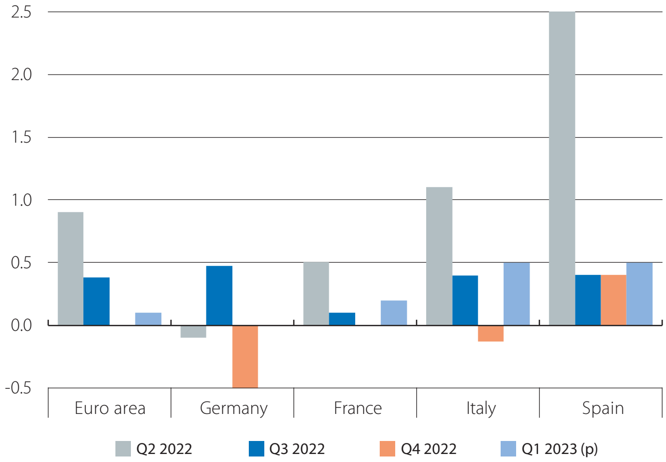
which lasted for five weeks between December 2018 and January 2019, deducted 0.1 and 0.2 pps from quarter-on-quarter growth in Q4 2018 and Q1 2019, respectively. Given this significant impact, we hope that, as in the past, an agreement will finally be reached.

The euro area manages to dodge a recession at the start of the year. The euro area grew by 0.1% quarter-on-quarter in Q1 2023, although this result was once again affected by the tremendous volatility in the data coming from Ireland (with a fall of 2.7%, it deducted more than 0.1 pps from the growth of the euro area as a whole). Regarding the main economies, Italy and Spain performed particularly well (+0.5% quarter-on-quarter). France, meanwhile, grew by a modest 0.2%, partly due to a significant negative contribution from inventories (–0.3 pps). Germany stagnated at the start of the year (0.0%), despite the government's latest statements that the economy could register positive growth in Q1 2023. In terms of the component breakdown, the foreign sector made a significant positive contribution in Q1, benefiting from the global economy's strong start to 2023, which was partly thanks to the full reopening of the Chinese economy. As for domestic demand, the signals are more disparate: consumption fell in Germany and Spain; in France, it stagnated; while in Italy, it showed significant buoyancy.

However, the uncertainty surrounding the coming months remains very high. Although the low gas prices and the high level of reserves offer a relief for businesses and households, as reflected in the good tone of indicators such as the PMIs (54.1 points in April for the euro area composite index, well within expansionary territory), the strength is especially concentrated in services (in the euro area, the sector's PMI exceeded 56 points in April). In contrast, the manufacturing PMI fell to 45.8 points (in contractionary territory for the tenth consecutive month) and some industrial surveys are beginning to detect incipient signs of lower orders, in a context in which inventories of finished products remain high. Moreover, as a result of the ECB's monetary tightening, the coming months will be marked by the transmission of higher interest rates to the economy as a whole (as already shown by the credit conditions surveys conducted by the ECB itself). Consequently, despite the good start to the year there are still significant challenges ahead and we should not be overly confident.

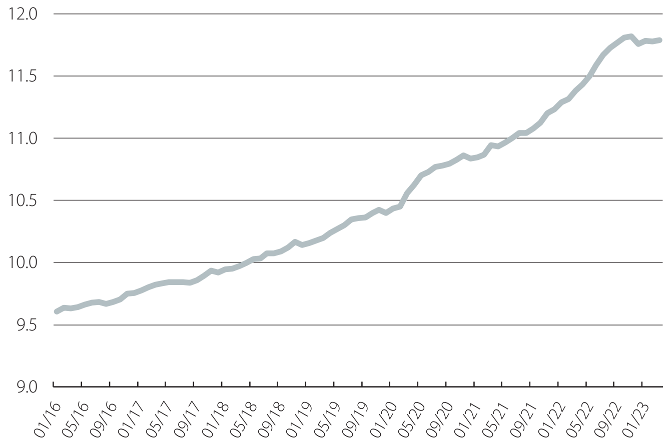
The resilience of the Chinese economy has exceeded expectations. Specifically, it grew by 2.2% in Q1 2023 (0.6% in Q4 2022) thanks to the boost from household consumption as the COVID restrictions were lifted, while the normalisation of supply chains has spurred on the country's export sector. This dynamic start to the year suggests that the 5.0% growth target set by the government can be easily exceeded, and this could lead to the withdrawal of the support policies currently in place, paving the way for a return to a policy more in line with the plans laid down at the National People's Congress. In addition, the encouraging pattern in domestic demand in recent months, together with the recovery shown by the demand for credit, could set the conditions for a less expansionary monetary policy. As a result, it is foreseeable that the rate of quarterly growth will lose some momentum during the course of the year, but without the achievement of the official target being jeopardised.

Euro area: GDP
Quarter-on-quarter change (%)



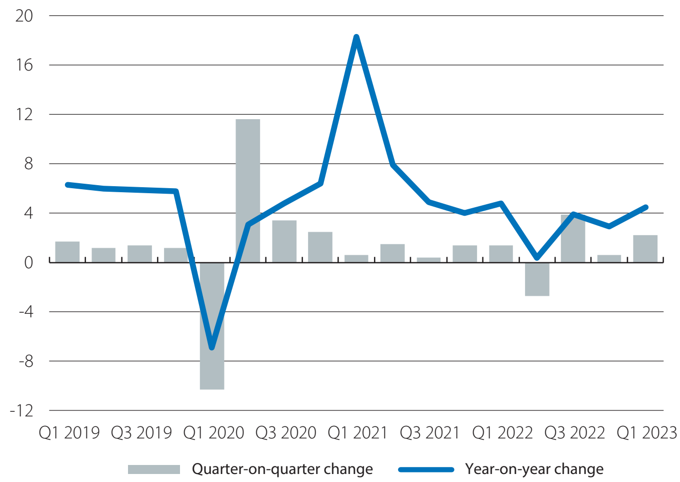
Note: *(p) Preliminary data.*
Source: *CaixaBank Research, based on data from Eurostat.*

Euro area: lending to households and non-financial firms
Outstanding balance (EUR trillions)



Source: *CaixaBank Research, based on data from the ECB.*

China: GDP
Change (%)



Source: *CaixaBank Research, based on data from the National Statistics Office of China.*