A positive outlook post-summer

The world economy is advancing as expected. Economic activity figures for Q3 2017 point to global growth remaining high, probably around 3.5%. As in the past few quarters, this acceleration in growth is widespread, occurring both in the advanced and the emerging economies. No worrying inflationary tensions are in evidence either. There are certainly some international geopolitical risks. However, this is a strong starting point for even higher growth next year of around 3.7%, the best figure in seven years. As the economic situation is progressing as expected, this month attention has focused on political issues (including economic policy) as well as on the area central banks.

A case in point is the US where most eyes have been on hurricanes, the debt ceiling and the Fed. It soon became clear that the impact of the hurricanes, in strictly economic terms, is likely to be contained and temporary. The shutdown of the administration due to a lack of funds could have been more disruptive had the legally established public debt ceiling been reached. Finally, the US President reached an agreement with Congress to extend these funds until December and thereby postpone discussion about raising the debt ceiling until the end of the year, gaining time in budget terms. As a result, attention has mostly turned to the Fed. The central bank is still battling with markets expecting interest rate hikes to be less aggressive than the plan outlined in the Fed's road map over the past few months. In September, the US central bank announced it would begin to reduce its balance sheet in October. It also repeated its interest rate hike scenario (one in 2017 and three more in 2018), a scenario forecast by CaixaBank Research for several months now. Investors are now starting to get the message, especially regarding the next hike, but the market still predicts just one more hike for 2018.

It was a similar situation in Europe: all eyes on politics and the ECB. With confirmation that the euro area's economy is still growing strongly, thanks to dynamic domestic demand (0.6% quarter-on-quarter in Q2 2017, 2.3% year-on-year), interest switched to Frankfurt and Berlin; i.e. to the ECB's meetings and the outcome of Germany's general election. The former was expected to clarify, to some extent, the future direction of monetary policy. Some clarification was also expected from the latter, in this case the political strength of Angela Merkel and her party to tackle the challenges of a new legislature, fundamental for Germany but also for a Europe requiring renewed drive. The first went according to expectations: the ECB confirmed that, in October, it would begin to specify when and how monetary policy normalisation would start. Note that CaixaBank Research expects tapering in 2018, the first hike in the depo rate at the end of 2018 and the first hike in the refi in 2019. Angela Merkel's victory was less decisive than expected, however. After the refusal by the Socialists to continue the «grand coalition», the country now faces a tripartite coalition that is more difficult to manage and has more modest pro-European ambitions.

The Spanish and Portuguese economies are performing well. The latest indicators in Spain, especially for the labour market and also economic activity, such as industrial production, suggest the CaixaBank Research scenario (namely a slight slowdown in growth from 3.1% in 2017 to 2.7% in 2018) will start to emerge given the sustained positive economic situation. Specifically, CaixaBank Research's GDP forecast model predicts 0.8% quarter-on-quarter growth in Q3, significant growth but slightly lower than the previous quarter (0.9%). Turning to Portugal, the S&P ratings agency decided to upgrade the country to «investment grade» (from BB+ to BBB–). This is largely due to its improved economic growth prospects over the past few quarters, the progress made in the fiscal area and fewer risks related to external financing. Another important international institution, the IMF, supported this view in its annual report on Portugal, positively valuing the efforts made by the economy to reduce its near-term risks (fiscal, banks and external financing).