

ECONOMIC OUTLOOK

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**Economic Research Unit
Economic & European Affairs Department**



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The world economy and global trade continue their upward trend. In addition, this recovery extends to a large group of countries, which means that there has been greater cyclical synchronization between the different economic blocks in 2017 and it will continue to be so in 2018. In this context, the main international organizations continue to improve GDP growth forecasts. Thus, global GDP in 2017 will grow between 3.5% and 3.6%, and estimations for 2018 indicate that it will continue to gain dynamism and finish the year at 3.7%. The good performance of advanced economies (supported by consumption, investment and the improvement in the labour market), together with the less pronounced slowdown of the Chinese economy (favoured by public investments in infrastructures), has boosted the recovery of countries that produce raw materials and enabled a higher growth in world trade, which stands at rates above 4% once again, a figure not seen since 2011.

In financial markets, there have been no major changes. Volatility is still trading at lows and, although there are latent geopolitical risks (government formation in Germany, Brexit, North Korea, the Middle East), there have been no significant movements in either interest rates or stock markets over the past few weeks. It is worth noting that the IBEX has followed a slower upward trend than other European stock exchanges (or than the US indices, which have reached consecutive historical highs) due to the greater uncertainty caused by the situation in Catalonia.

The good performance of the global economy, the excess of global liquidity and the need for central banks to have some leeway available has forced them to program a normalization of their monetary policies. The Federal Reserve has already begun, with a gradual reduction in the purchases of bonds and an increase in interest rates. Expectations point to a new hike at the Fed's meeting on December 13 and 14, to set rates within the 1.25% / 1.5% range. Factors that favoured action towards this monetary policy normalization include the US economy's more mature economic cycle, together with the good performance in the final stretch of 2017, both in activity (GDP increased by 3.3% year-on-year in the third quarter) and employment (the unemployment rate stood at 4.1% in October), despite the fact that inflation is subdued.

In Europe, the Bank of England raised interest rates by a quarter of a point in November, to 0.5%, for the first time since December 2007. Meanwhile, the European Central Bank has announced that, starting in January, it will cut its purchase of public debt by half, although interest rates will remain low at least until 2019. The economic outlook for the Eurozone for 2017 has been revised upwards to around 2.2%, while inflation (1.5% for 2017) remains below the ECB's objective. In 2018, a slight deceleration of growth is expected, but with rates close to 2%, and inflation that may even be lower than in 2017 (1.3%).

Within this international scenario, the growth of the Spanish economy in the third quarter of 2017 continues to stand out among the surrounding countries, at a quarterly increase of 0.8% (3.1% year-on-year), exceeding the quarterly rates posted by France (0.5%), Italy (0.4%) or the United Kingdom (0.4%). In the Eurozone as a whole, quarterly growth was set at 0.6%. This positive economic performance is due to several factors that are progressing better than expected (external environment, creation of employment and activity in construction and in some services). In addition, other driving factors are still present, such as low interest rates and the extension of the ECB's expansive monetary policy measures, which enable favourable financial conditions. All this is offsetting those elements that could be slowing down the economy (oil prices, fiscal policy and political uncertainty).

In addition to the strength shown by activity, one of the most relevant aspects is that the growth pattern remains balanced, with domestic demand slightly increasing its contribution to GDP growth to 2.7 points and the external sector also contributing positively, with 0.4 percentage points, although less than in previous quarters. Within domestic demand, the strength of investment in the third quarter is worth noting. Specifically, investment in equipment goods was set at 6.1% year-on-year, after accelerating more than two points with respect to the previous quarter. On the other hand, investment in construction, which had already improved in the previous quarters, continued its upward trend in the third quarter, registering an increase of 4.9% year-on-year. This acceleration is due to the greater growth in both of its segments: residential and other buildings and constructions, although in the case of the latter, growth is still moderate.

Following the good performance of the economy throughout the year and with the preliminary data available for the fourth quarter, with no sharp deceleration of activity expected, the Spanish economy in 2017 will grow for the third consecutive year over 3.0% (probably 3.1%). In fact, the number of workers registered with the Social Security in October and November has behaved better than expected, setting a stable trend around 3.5%. In fact, CEOE's forecast for job creation in 2017 is positive, with an increase of 500 thousand jobs in terms of LFS.

The outlook for 2018 remains favourable, although uncertainty about activity and employment is greater due to the situation in Catalonia. Our central scenario foresees a moderate impact of the crisis in this Autonomous Region and with limited duration, potentially subtracting some 2 or 3 tenths of a percentage point from the Spanish GDP growth in 2018, which is set at an estimated 2.5%, in line with forecasts from the European Commission and other Spanish analysts. This slight slowdown in activity would result in a somewhat lower increase of the number of people employed in 2018, around 430 thousand.





Calle Diego de León, 50

28006 Madrid

(+34) 91 566 34 00

www.ceoe.es

