ECONOMIC OUTLOOK

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CONFEDERACIÓN ESPAÑOLA DE ORGANIZACIONES EMPRESARIALES

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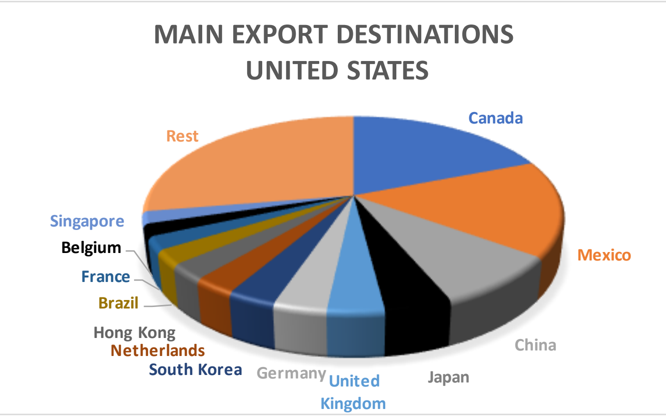
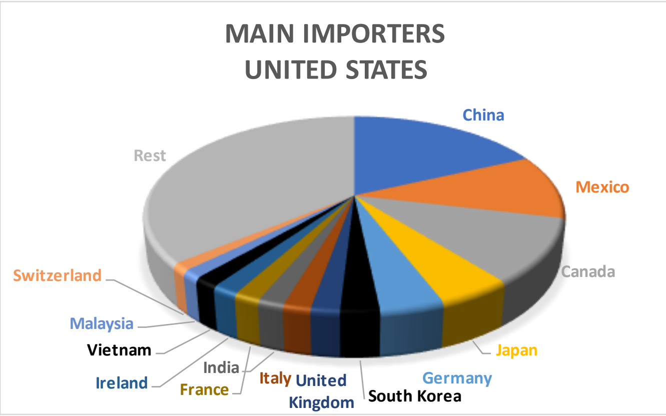
The political events that have taken place in the last few weeks have increased the level of uncertainty, both at an international level as well as within our country. On the international front, President Trump decided to implement a trade policy involving a raise in tariffs to his main trading partners, including the European Union (EU). Thus, in addition to increased trade tensions with China, the US Department of Commerce announced the suspension of the exemption from tariffs on steel (25%) and aluminium (10%) for the EU, Canada and Mexico. The EU's response came swiftly, and it filed a complaint with the WTO and announced that it would respond with tariffs on US products. Meanwhile, the Canadian Government will impose tariffs on goods imported from its neighbouring country that are estimated to amount to around $5 billion. Moreover, the US Government will once again increase the tariff of Spanish black olives, which will lead to a further reduction in already decreasing exports.

On the other hand, following the G-7 summit, one of the most tense of recent years due to the severe divergences in trade policies, Trump had a historic meeting with the president of North Korea in what could be interpreted as a first step towards the opening of the Asian country and towards trying to paralyze the development of chemical and nuclear weapons.





Source: Trading Economics

Outside the political front, another spotlight hovers over the geopolitical tensions in the Middle East and their impact on oil price increases. Even though they have slowed their upward trend to around $75 per barrel at the beginning of June, this is one of the factors that lead to higher inflation. Specifically, inflation in the US rose to 2.7% in May (core CPI stands at 2.2%) while, in the Eurozone, it was set at 1.9% for said month. As a result of the increase in prices and the upward revision of the US GDP to 2.8% in 2018, the Fed raised its benchmark interest rates to 1.75% - 2% in June. In addition, it anticipated two new hikes before the end of 2018.

In turn, the ECB, at its meeting on June 14, announced that at the end of 2018 it will end its monetary stimulus program (the so-called "QE") and will reduce its asset purchases by half (to €15 billion per month) between October and December. In addition, it said that the first interest rate hike could take place in the summer of 2019, within a context in which the growth forecast for 2018 was revised down to 2.1% (2.4% previously), although estimations for 2019 and 2020 remain unchanged (1.9% and 1.7%, respectively) and, at the same time, inflation forecasts increase for 2018 and 2019 to 1.7% (1.4% previously), but remain unchanged for 2020 (1.7%). The reaction to these measures has been a notable depreciation of the euro against the dollar from around 1.18 to 1.16 euro / dollar and a decline in European debt yields.

Regarding activity at the beginning of the year, the world economy is still showing a positive momentum, although some countries have shown a very slight slowdown in the first quarter. Thus, the Eurozone slowed its quarterly growth to 0.4% from 0.7% at the end of 2017 and Japan recorded a quarterly GDP drop of -0.2%. In the US, the slowdown was milder, just one tenth lower to stand at a quarterly rate of 0.6%.

In Spain, the change of government opens a "wait and see" period that will depend on the economic policy measures that the PSOE may manage to implement, given the minority it currently holds in Parliament. However, activity and employment are still on a positive trend, with GDP growth at 0.7% in the first quarter, higher than its European partners, and a notable dynamism in the number of workers registered with the Social Security, a figure that has once again posted a high in May with an increase of 237.2 thousand people. Among the factors that continue to support the good performance of our economy, it is worth highlighting the on-going favourable financial conditions, the positive evolution of exports, and a high degree of optimism in expectations from households and companies.

A more detailed analysis of the GDP for the first quarter shows a favourable performance of the construction sector, which consolidated its recovery, particularly in relation to housing, and the dynamism of household consumption, both for goods and services. Nonetheless, there are signs of a slowdown in the investment component in capital goods, in manufacturing activity and in foreign trade flows. It is clear that the national and international institutional environments don't favour the dynamism of these economic variables, although it is still too early to assess whether this trend towards a slowdown will continue in the coming quarters.

All in all, the outlook for the Spanish economy is still positive, and most international organizations have revised their GDP forecast up to around 2.8% (including the IMF and the Funcas Panel) and 2.9% (European Commission). CEOE forecasts growth for the Spanish economy at 2.8% this year, compatible with a very gradual slowdown that will extend until 2019, which sets expectations at 2.6% for next year. With this forecast scenario, Spain will continue to grow at a higher rate than the average for the Eurozone, and, in fact, it will be the economy with the highest growth among the main countries that share the euro.

One of the areas that will have to be closely monitored is the evolution of inflation. The rebound of the CPI to 2.1% in May was mainly due to the increase in the price of energy products, fresh food and the price of tourist packages and accommodation services. On the other hand, core inflation increased three tenths to 1.1% in May, although its rate is still subdued. The impact of energy prices on the evolution of the general CPI will be decisive in the coming months and should keep inflation a few tenths above 2% over the summer, although the annual rate could be set at around 1.6%.

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