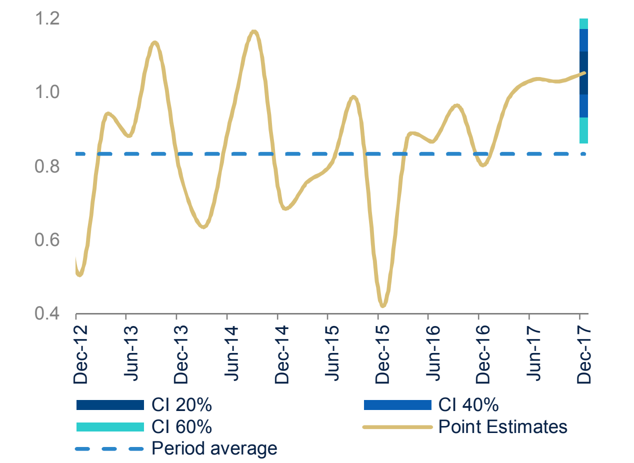
2. Global growth confirmed

Solid, sustained global growth in 2017

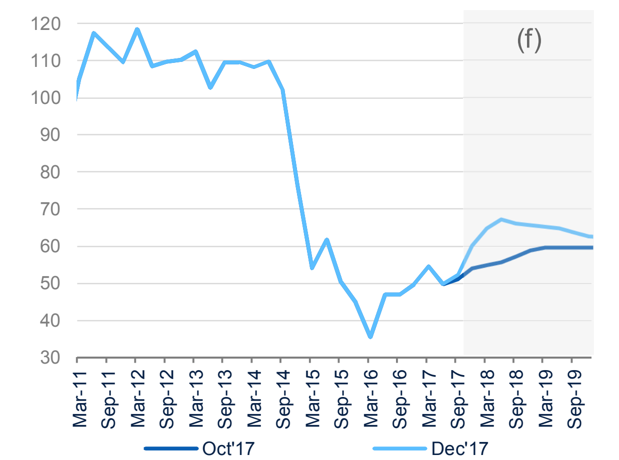
World economic growth consolidated in late 2017 at reasonably solid rates of around 1% QoQ (see Figure 1), reflecting improved results in all major areas and showing signs of continuing in good health over the coming quarters. Support from economic policy, above all in developed economies, eventually had a clear impact on the real economy, with a recovery of investment that gained traction with support in the form of increased demand and an upturn in international trade, factors which have also driven the recovery of the industrial sector. Meanwhile, private consumption continues to perform well in advanced economies, while gaining momentum in emerging economies. Forecasts and market confidence in many such economies have also been favoured by the higher commodity prices (see Figure 2), as well as by financial markets, which continue to encourage the influx of capital. Confidence indicators continue to improve, the result of strong economic performance and reduced short-term risk, with forecasts pointing to an ongoing positive panorama. World growth may increase by 0.4% to 3.7% in 2017, 0.2% more than was forecast three months ago.

Figure 2.1 World GDP growth (QoQ, %)
Forecasts based on BBVA-GAIN



Source: BBVA Research

Figure 2.2 Price of a barrel of Brent crude
Dollars



Source: BBVA Research

Over the past three months, there have been further reasons to remain optimistic in the key areas. Throughout 2017, recovery in the U.S. was accompanied by growth rates that were higher than expected, while the labour market has also continued to strengthen. Tax reforms were finally passed, which may slow cyclical recovery. Nevertheless, they will not have a significant impact in the long-term. Meanwhile, recent Federal Reserve appointments point to an unchanged monetary policy, which should be reflected by a very gradual approach to normalisation. In China, the measures passed by the authorities stabilised the economy while also implementing structural reforms and approving an economic strategy that focuses more on getting fiscal imbalances under control and less on meeting growth targets. Finally, the Eurozone recorded higher than forecast growth in 2017, backed by an improved economic climate and stronger internal demand which is benefitting from less political uncertainty.

This scenario of increased growth and higher demand was accompanied by subdued inflation, despite the expansionary measures adopted by major central banks and the gradual reduction in idle capacity in developed economies. Doubts nevertheless remain as to whether factors underpinning the weakness of inflation are transitory or permanent, whether globalisation, the flexibility of labour markets, low inflation forecasts or increased productivity lie behind the slower reaction of prices to increased economic activity. Doubts also exist as to whether or not there will continue to be a lack of clear signs of increased inflationary pressure, at least for now. Increased growth and higher oil prices should push inflation up in the short term, facilitating advances in the normalisation of central bank policy in developed economies, while many emerging economies still have room for manoeuvre when it comes to using monetary policy to bolster growth.

World growth will tend to stabilise in 2018-19

Our forecasts point to global growth slightly accelerating in 2018-19 by around one basis point to 3.8%, meaning an upward revision of 0.3% on our expectations three months ago. This change has come in response to higher growth forecasts for the U.S, China and the Eurozone in 2018, mainly due to greater economic activity in past quarters, although the economic measures adopted in the two key areas have also had an impact. In particular, we expect the U.S. to grow 2.6% in 2018 (0.4% more than in the previous report) and 2.5% in 2019, supported in the tax reform and better external and domestic fundamentals. For China, we expect a more moderate deceleration (thanks to a better international outlook and to the policy strategies after the XIX Congress of the Communist Party), with a 6.3% growth in 2018 and 6.0% in 2019, from 6.7% in 2017. For the Eurozone we reviewed growth 0.4% upward in 2018, to 2.2%, which would be followed by a 1.8% in 2019, supported in the strength of internal demand and net exports. Finally, in Latin American economies, we expect to see a somewhat stronger recovery this year, due to the upward revision of global demand and higher commodity prices. Despite the foreseeable stability of world growth, we still expect a certain tempering of growth in developed economies in 2019, while in the majority of emerging economies; the recovery will continue to consolidate. There are still a number of political risks that could influence economic confidence and the performance of the markets, albeit to a lesser extent than three months ago.

Risks to this relative benign global scenario still exist, though are smaller than expected three months ago. Political and geopolitical risks standout, this may influence economic confidence and the behaviour of financial markets.

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