Global Economy

More uncertainty and less growth

El Mundo (Spain)

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In the last three quarters we have witnessed a significant slowdown of the world economy. On a global level, growth has fallen from rates of around 4% to 3%, with a particularly feeble performance of world trade and the manufacturing sector, as a result of the uncertainties arising from the threats of protectionism and the loss of momentum of certain drivers. In the eurozone, after having grown by 2.4% in 2017, the rate in 2019 is expected to be of 1% around its potential; moreover, with considerable differences between the main eurozone economies. Against a background of recession in Italy and the meagre growth in Germany, Spain is expected to have less of a slowdown and GDP to grow by 2.2% in 2019. In the United States growth will still remain at around 2.5%, albeit lower than the 2.9% of 2018. The deceleration continues in China, where growth is expected to be only slightly above 6%. In general, the world economy has begun to show certain signs of the close of a cycle, after having reached historical lows in unemployment rates. In the case of the US, the unemployment rate (3.8% in March) has been the lowest since December 1969. However, in the face of the more negative predictions of the financial markets at start of the year, suggesting a growing likelihood of the risk of recession in the US or the Eurozone, the economic authorities have begun to adopt more expansive measures to stave off these scenarios and improve expectations. The ECB and the Fed have put a brake on the process of normalization of their monetary policies, amid a context of higher liquidity. The US is looking to close trade agreements to dispel some of the protectionist uncertainties. China has adopted more expansive fiscal and monetary policies. In the UK, Brexit is being extended to reduce the risk of a no-deal exit. In general, everything points towards a moderation of world growth, with more lows than in 2018, but also with highs indicating that world growth may continue until 2020, if the economic policy leaders get it right and are able to avoid accidents.

The Spanish economy will continue to grow and to create jobs, thanks to the slight and gradual improvement of the world economy outlook and more expansive monetary and fiscal policies. But risks have also been on the increase. The composition and quality of growth is not as healthy as it was a few quarters ago, showing signs that the cycle is maturing despite the unemployment rate still close to 14%. The behaviour of exports and investment in machinery and capital goods towards the end of 2018 has been disappointing. Real salaries are beginning to rise despite productivity per hour worked having shown negative growth rates in recent quarters. The current account surplus has been reduced by 50%. Tourism, one of the drivers of recovery, is losing dynamism as other international competitors begin to recover and the European economy slows down. A good share of the growth in 2018 and at the start of 2019 is due to the tax stimulus and a pro-cyclical budgetary policy, which will require adjustments over the coming quarters in order to reduce an excessively high public deficit. In this context, the increase in the uncertainty regarding economic policy in Spain renders recovery more vulnerable, precisely at a time when consensus has become even more necessary to implement the reforms to give new momentum to potential growth and unemployment reduction.

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