

Forecasts in the post-truth era

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It has never been clearer why we economists are asked to guess the future, while other practitioners of the so-called social sciences are only asked to interpret the present or the past. Only political scientists, much in demand recently, try to predict the result of elections and referendums and with very little success in these times of campaigns based on “tweets” and “post-truth”.

In view of this situation, global economic predictions for 2017 are particularly difficult to calibrate, given the high level of uncertainty about the course that the new US administration’s economic policy will steer.

The economic confidence indicators have clearly improved in the major regions in the last quarter of 2016, especially in the manufacturing sector, world trade seems to be recovering after its lacklustre start to the year, and consumption continues to be relatively strong. Overall, the global activity indicator developed by BBVA Research points to growth at an annualised rate of 3.5% in the fourth quarter, compared to less than 3% not long ago.

The financial markets have held up relatively well in the face of the recent surprise referendum results in the UK and Italy and the US elections, partly thanks to central banks’ intervention. The reading given by many to the result of the US elections is that the effects of the fiscal stimulus that has been announced will prevail over the risks of excessive protectionism or restrictions on immigration, such that the US economy could accelerate in 2017 and 2018. However there is a high risk of its turning out otherwise, since a poorly designed fiscal package together with increased import duties, applied to an economy close to full employment, could lead to increases in inflation more than in activity, which could induce the Fed to raise rates faster than originally envisaged, with the consequent global impact. It is therefore important to see how president Trump’s plans materialise, and how they may affect US growth for 2017, which we are forecasting at 2.2%.

In Europe, economic uncertainty is less, since the euro zone has been growing relatively steadily for several quarters and even seems to have accelerated in late 2016, so it should continue growing at around 1.5% or more, somewhat above its potential. Doubts in Europe are centred on the political calendar, which will probably prevent far-reaching economic measures being taken for most of the year; on the known risks in certain peripheral economies such as those of Italy and Greece, and on the possibility that Brexit negotiations will end up damaging the US economy, which for the time being is growing faster than expected.

The field is wide open for 2017, but let us hope the next few weeks bring some clarity in the panorama.

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