

Global Economic Scenario

# Little reasons to expect higher growth rates (or a recession)

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2016 BBVA Seminar for Public Sector Investors and Issuers

Lisbon, 15 March 2016

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# Outline

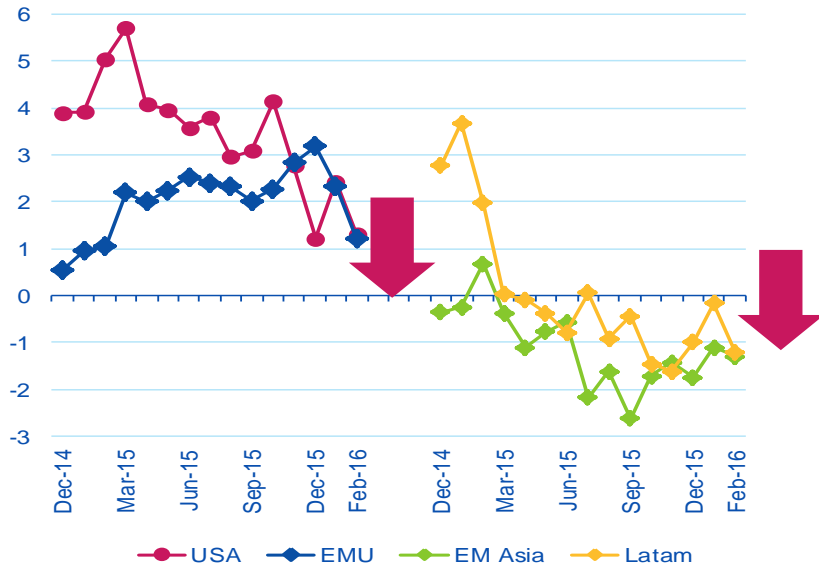
**An anemic and fragile growth outlook**

**Risks:** a focus on global geopolitics

**Challenges ahead:** little reasons to expect higher growth rates

# Confidence is declining across the board and is unlikely to improve in the short term

**Manufacturing PMI by regions**  
(pp above/below 50)



Source: Markit and BBVA Research

**BBVA Research Financial Stress Index**  
(normalized Index)

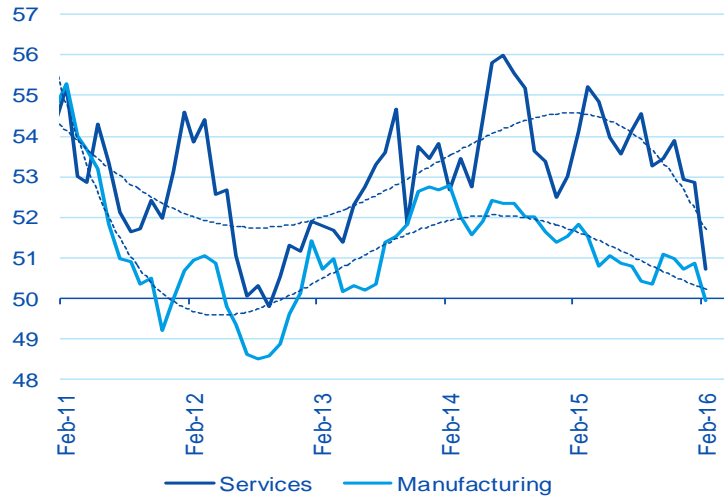


Source: BBVA Research based on Bloomberg data

# How much is services confidence decoupling from manufacturing... and trade?

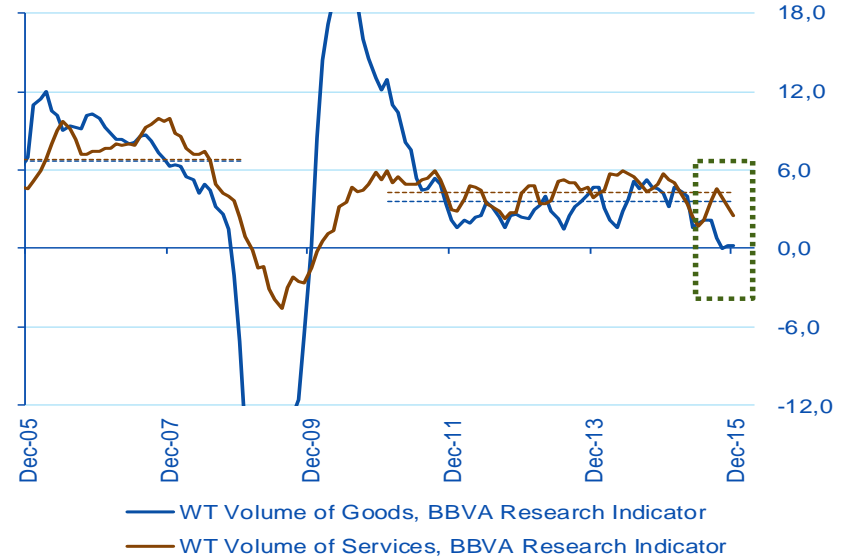
Services vs Manufacturing Confidence PMI

Source: Markit and BBVA Research



Volume of Global Trade, Goods and Services, BBVA Research Indicator, YoY (%)

Source: CPB and BBVA Research



# What can we read from recent developments in financial markets?

Is it a belated re-pricing of the Fed's liftoff?

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**Unlikely**, but the impact of the rebalancing is behind everything!

Is it a downward revision of the baseline global outlook?

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**Not likely**, the downside revisions have been mild and indicators are not pointing to a recession

Is it the threat of risk scenarios going forward in this new world?

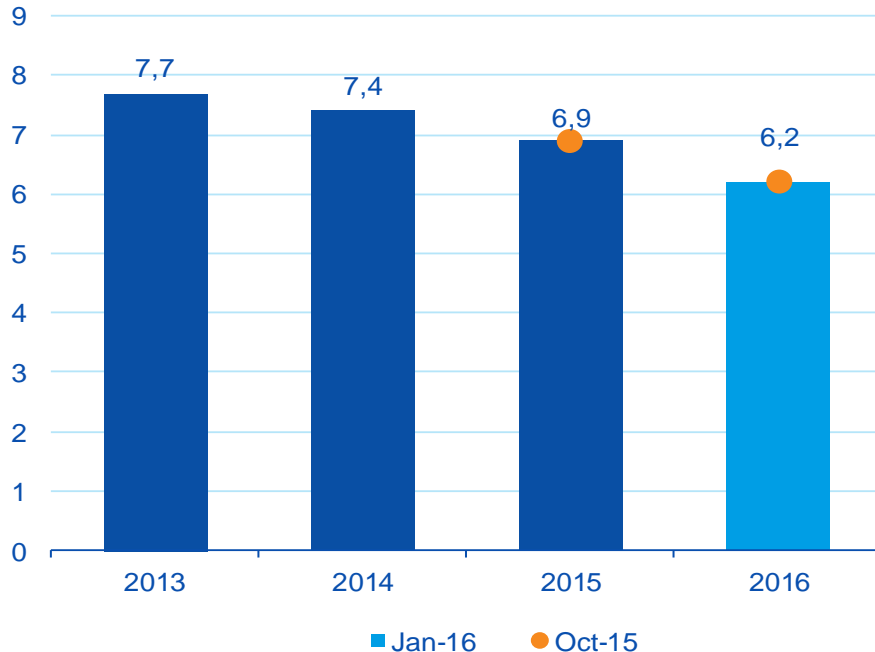
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**Very likely!** Uncertainty about **China** and **persistent low oil prices** raised the risk of second round effects that could become self-fulfilling...How worried should we be?

# China: Muddling through amidst increasing divergence of policy options (contradictions)

## China: GDP growth (YoY, %)

Source: BBVA Research, BEA

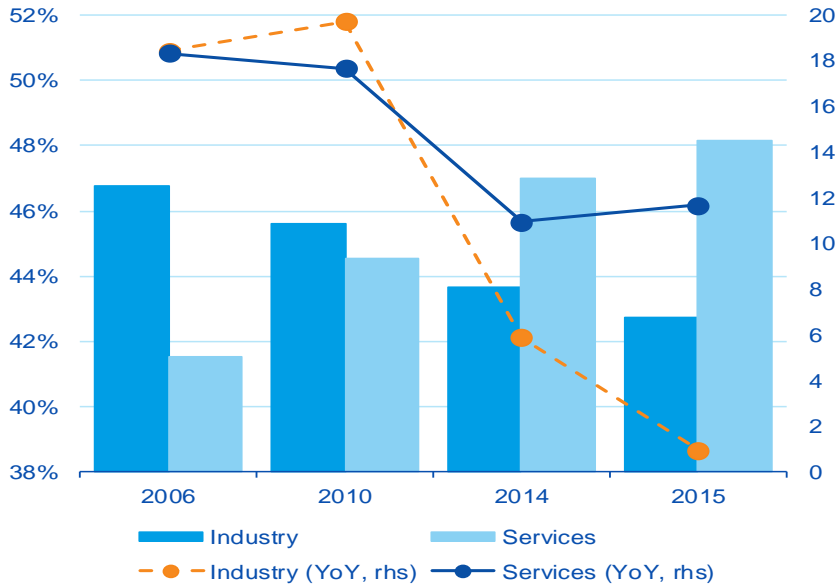


**The most likely scenario is a successful “soft landing”** (towards 6% growth of average in 2016-17 fueled by highly accommodative demand policies, (monetary and fiscal policy) that could take this growth rate higher

**However, the likelihood of this scenario is decreasing**, risks to growth remain skewed to the downside also due to policy blunders with the stock market and lack of clarity about the FX policy and the implementation of structural reforms

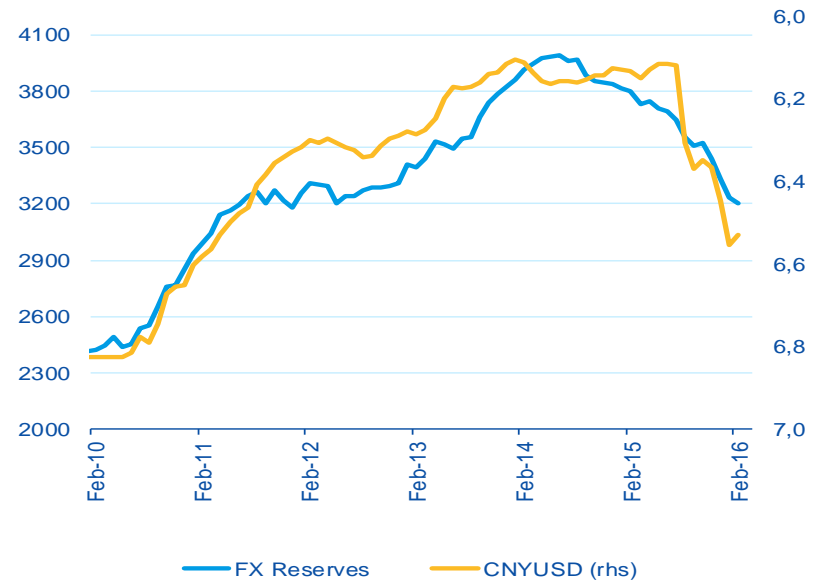
# China, the same doubts: Rebalancing and exchange rate policy

**China: sectorial breakdown**  
(nominal GDP, %)



Source: BBVA Research, Haver

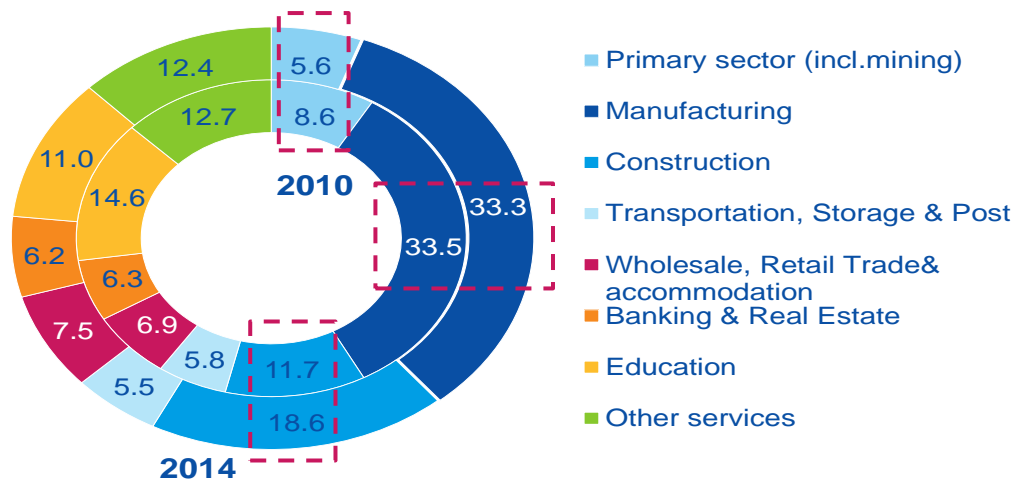
**China, FX reserves (Billion USD) CNY/USD**



Source: BBVA Research, PBoC and Haver

# China, the same doubts: Rebalancing

China: employment breakdown, % total



Growth will converge towards 6%, expect more monetary and fiscal stimulus, but doubts will nevertheless linger at least until late in the year

Urban Employment	% total	Increase, million
2006	40%	12.4
2010	46%	13.7
2014	51%	10.7
2015	52%	11.0

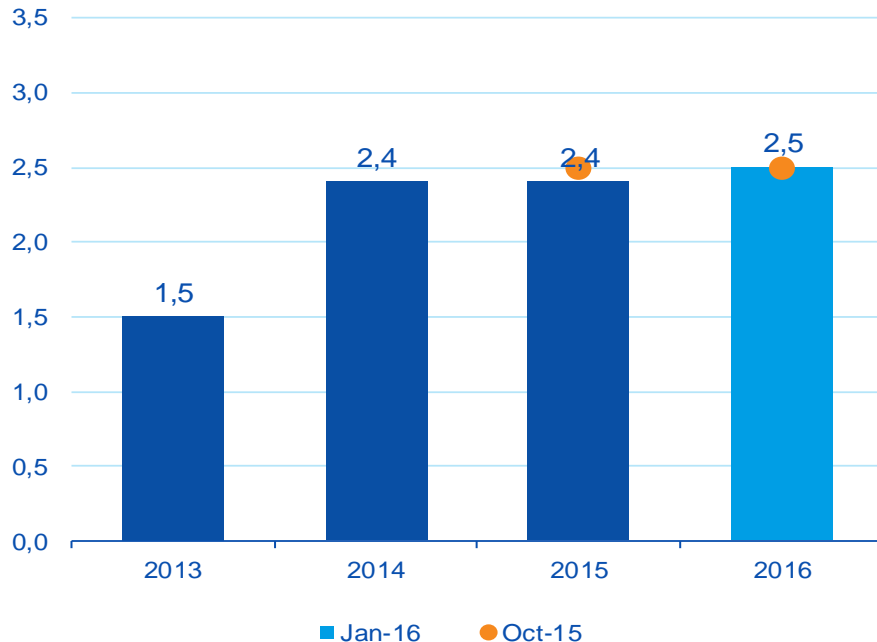
Source: China NBS



# US: growth around 2.5% based on consumption, but concerns increase towards lower growth

## US: GDP growth (YoY, %)

Source: BBVA Research, BEA



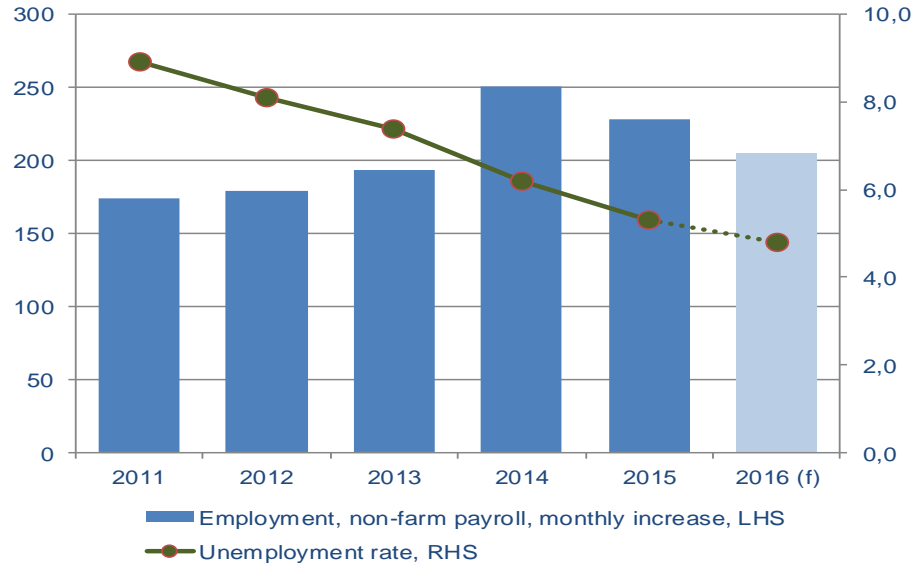
**Favorable impact of low oil prices** on disposable income against the negative effect of USD appreciation –and global uncertainty– on exports and on investment

**A slowdown in job growth to start the year has ignited worries** of a deterioration in the labor market which introduces downside risks to GDP

# US: Consumption relies on employment and income while deleveraging has been taking place nicely

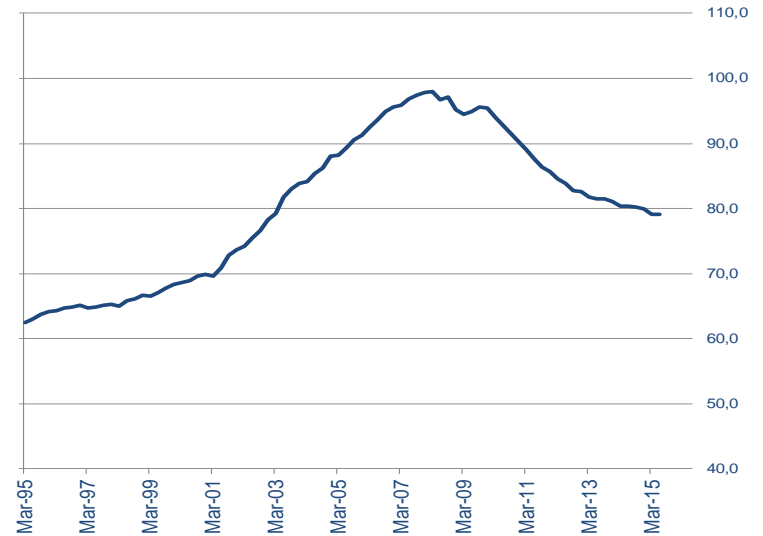
## US, Labour Market: employment growth and unemployment rate

(YoY, %)  
Source: BBVA Research, BEA



## US, Household's debt

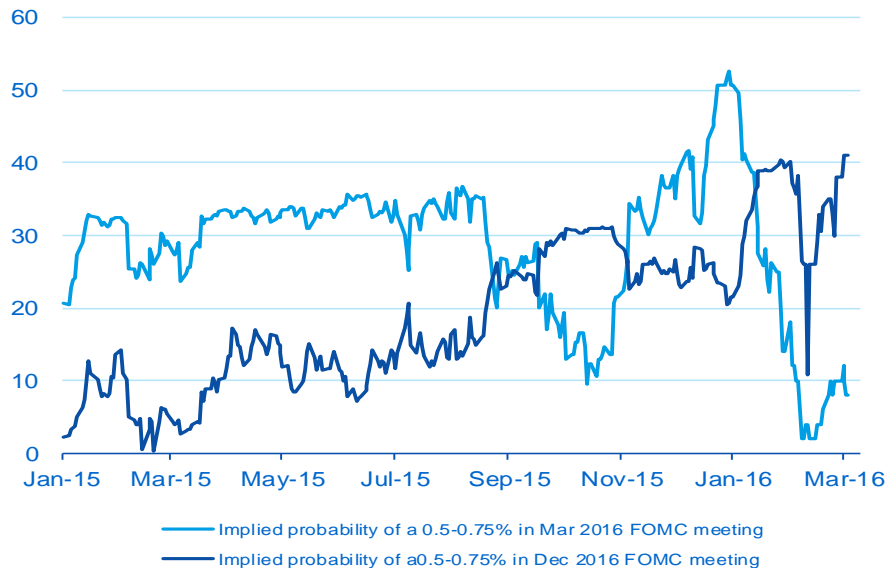
(GDP, %)  
Source: BBVA Research, BIS



# US, Fed rates: increasing doubts over 2016 Fed rates path but do not bet too much on rates staying so low

## US: implied probability of a rate hike

Source: Bloomberg



**Markets wary of Fed policy towards normalization** while other major central banks have turned to increased easing and even negative interest rates.

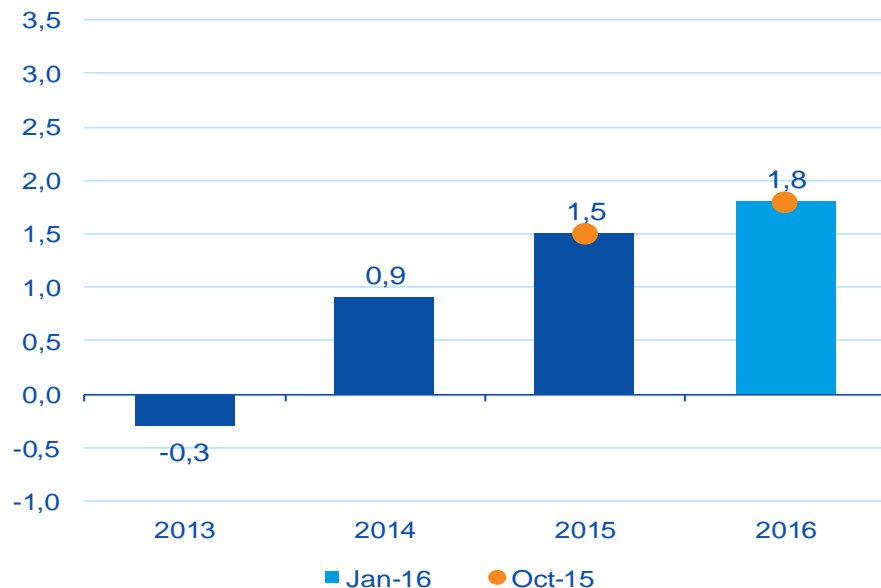
**FOMC will take time to assess impact of higher rates before 2nd increase.**

Monetary policy actions remain data-dependent but chances are high that they will increase rates again this year...twice

# Eurozone: modest growth with increasing uncertainties

## Eurozone: Economic Growth (GDP, YoY, %)

Source: BBVA Research



**The main tailwinds continue:** (i) low oil prices; (ii) a depreciated euro; (iii) ultra-loose monetary policy; and (iv) neutral or moderately expansive fiscal policy

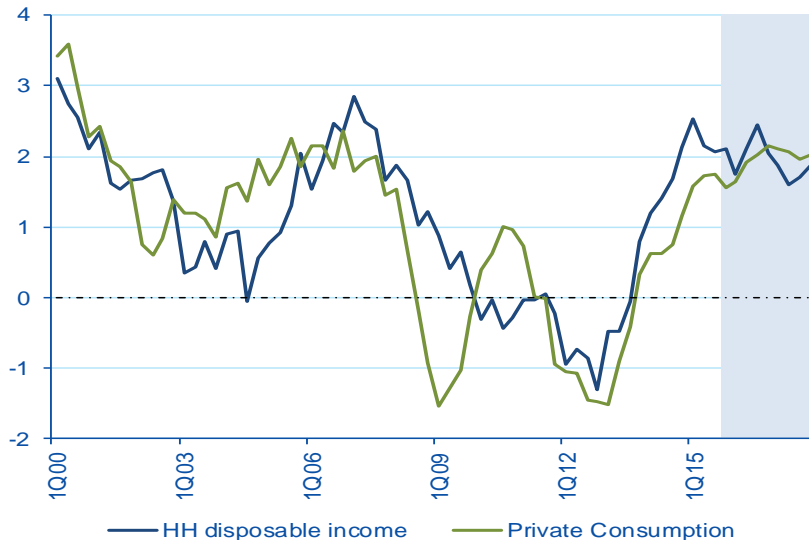
**However, biases to growth are to the downside:** low investment, foreign uncertainties and markets sell-off weigh on growth expectations

# Eurozone: ... and stronger private consumption

## Eurozone: private consumption and real labour income

(YoY, %)

Source: BBVA Research

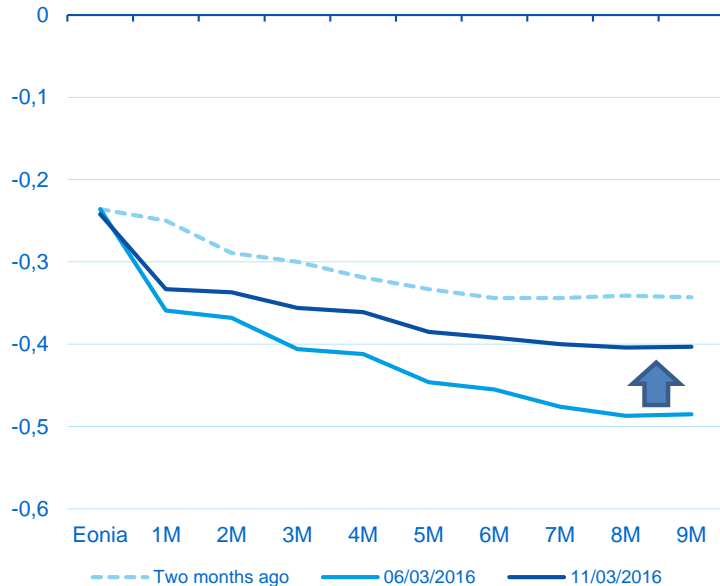


**Fundamentals are supportive of an increase in disposable income :** (i) higher employment and wage growth; (ii) inflation at very low levels; (iii) low oil prices

# ECB: the emphasis of monetary easing shifting from negative rates to other instruments

## Eonia forward (%)

Source: BBVA Research, Bloomberg



**The ECB further ease financial conditions** favoring unconventional measures (balance sheet expansion) over rate cuts (the ECB seems to be aware of the potential adverse consequences of negative rates). A welcome shift.

**Liquidity provision through TLTROs contributes to eliminate any concern about funding for European banks** and helps to mitigate the negative impact of negative rates on banks

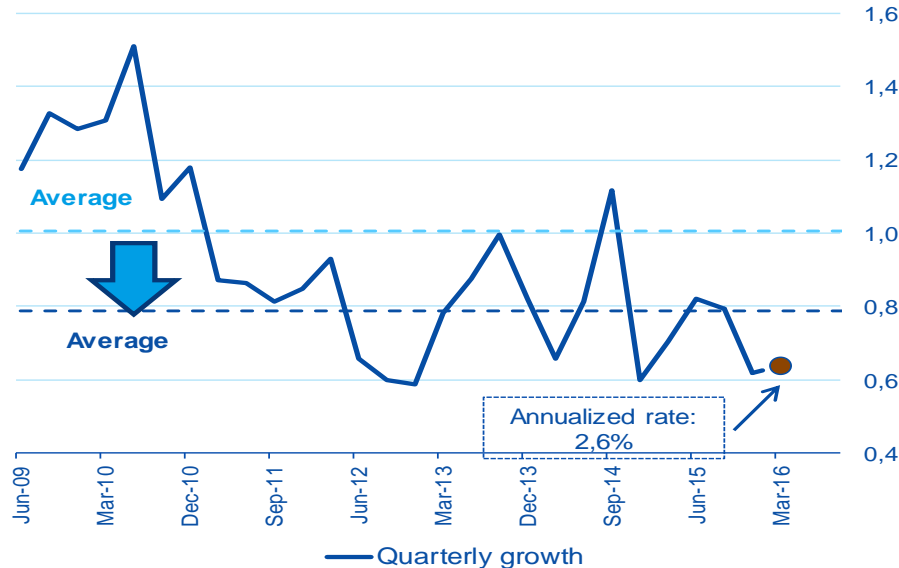
**The big question mark: would monetary policy alone be enough?**

# Overall, global short term indicators seem to be losing steam at the beginning of 2016

## World GDP(\*) quarterly growth, short-term forecasts based on BBVA-GAIN (% , QoQ)

(\*) based on almost 90% of World GDP

Source: BBVA Research



Slowdown of manufacturing “hard data”, higher stress in financial markets and confidence indicators slowdown

## Outline

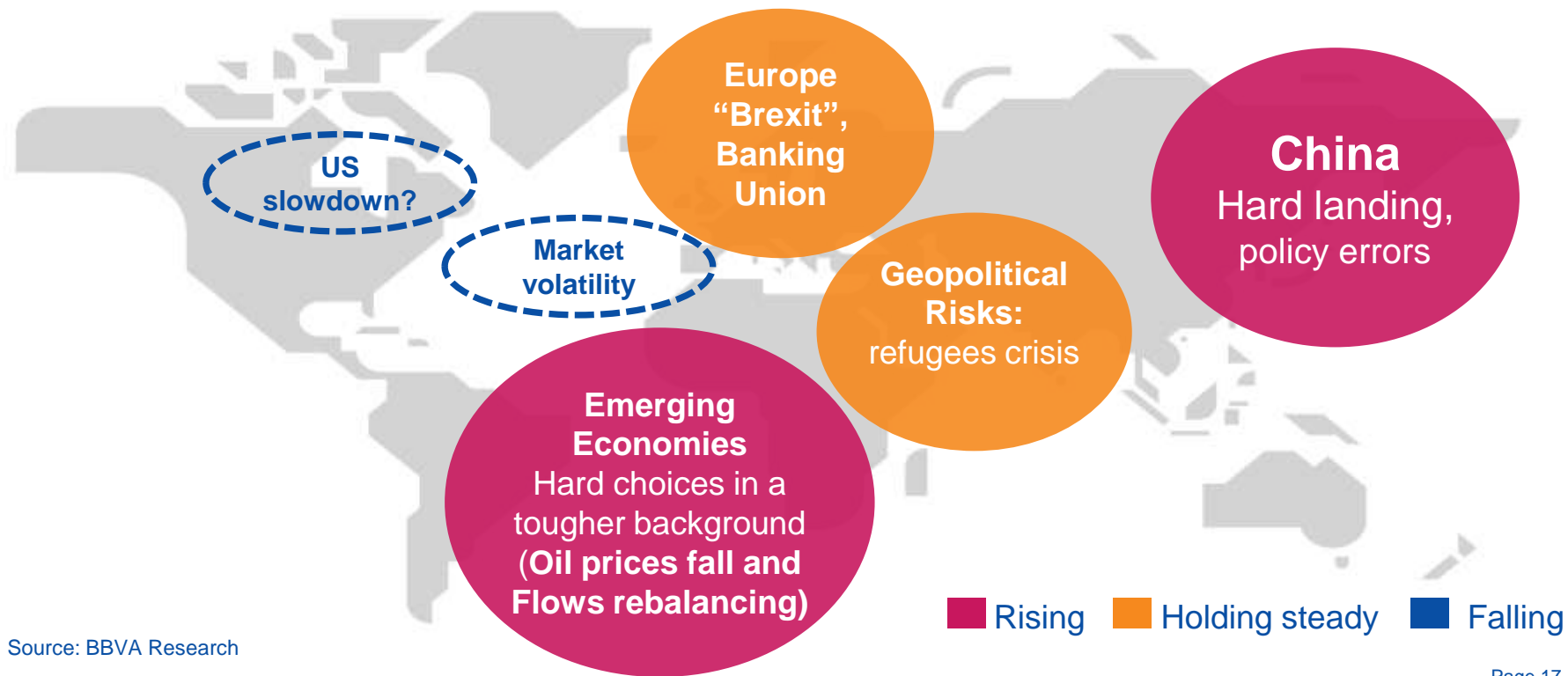
**Short term:** An anemic and fragile growth outlook

**Risks:** a focus on global geopolitics

**Challenges ahead:** little reasons to expect higher growth rates



# Risks: Higher, to the downside and spreading but still more biased towards emerging economies

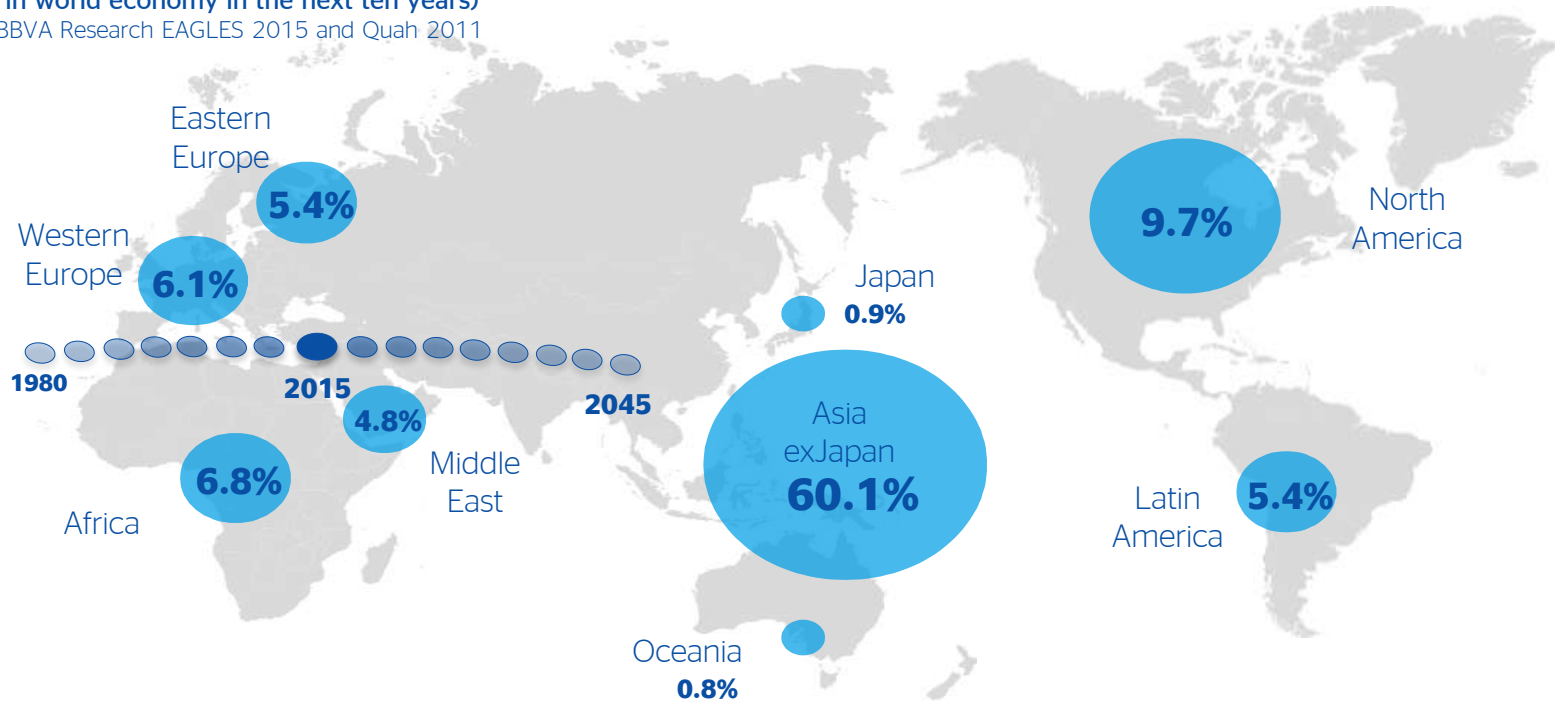


# Geopolitics: Against the backdrop of the secular process of moving to the East ...

The global economy's center of gravity is moving to the East

(%GDP in world economy in the next ten years)

Source: BBVA Research EAGLES 2015 and Quah 2011



# ...the geopolitical situation is becoming more challenging...

## World Conflict Intensity Index 2015-16

(Number of events related to the conflict/ Total events in each country)



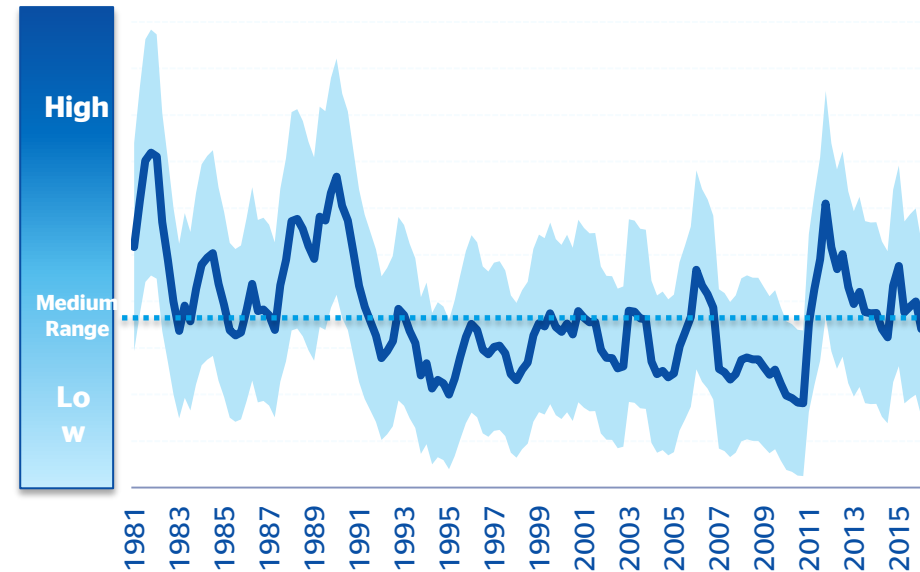
- 🎯 The Ukrainian-Russian Crisis remains in stand-by but still alive and potentially kicking
- 🎯 The Afghanistan permanent conflict will challenge US involvement in the region
- 🎯 The Middle East conflict is really “complex” and will take time to contain
- 🎯 The spillovers from the Middle East crisis are spiraling to Europe (Refugees and Terrorism)
- 🎯 The Southeastern Asian crisis is the true Black Swan of Geopolitics

# ... with both rising indexes of protest and conflict after a long period of relative quietness

BBVA Research World Protest Intensity Index 1980-2016

(Number of protests in the world / Total events in the world)

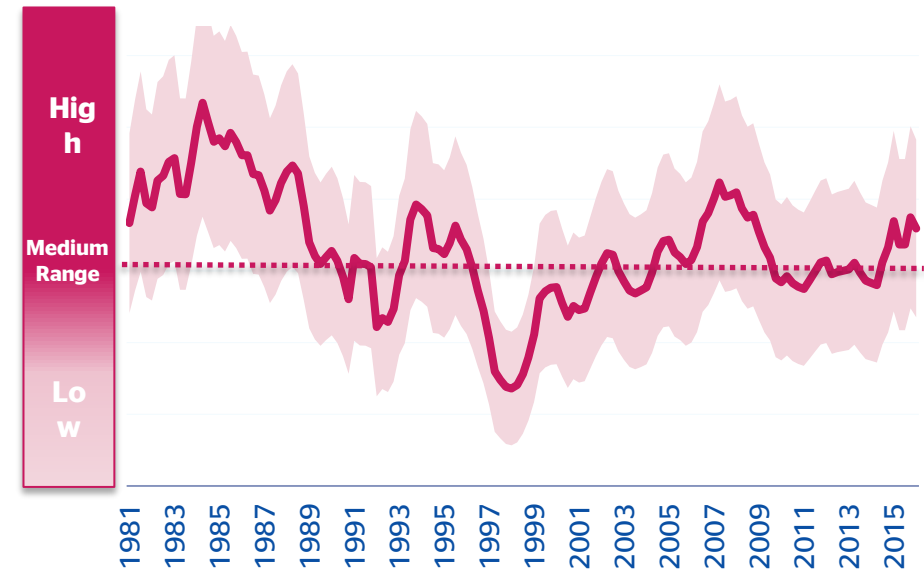
Source: [www.gdelt.org](http://www.gdelt.org) & BBVA Research



BBVA Research World Conflict Intensity Index 1980-2016

(Number of conflicts in the world / Total events in the world)

Source: [www.gdelt.org](http://www.gdelt.org) & BBVA Research

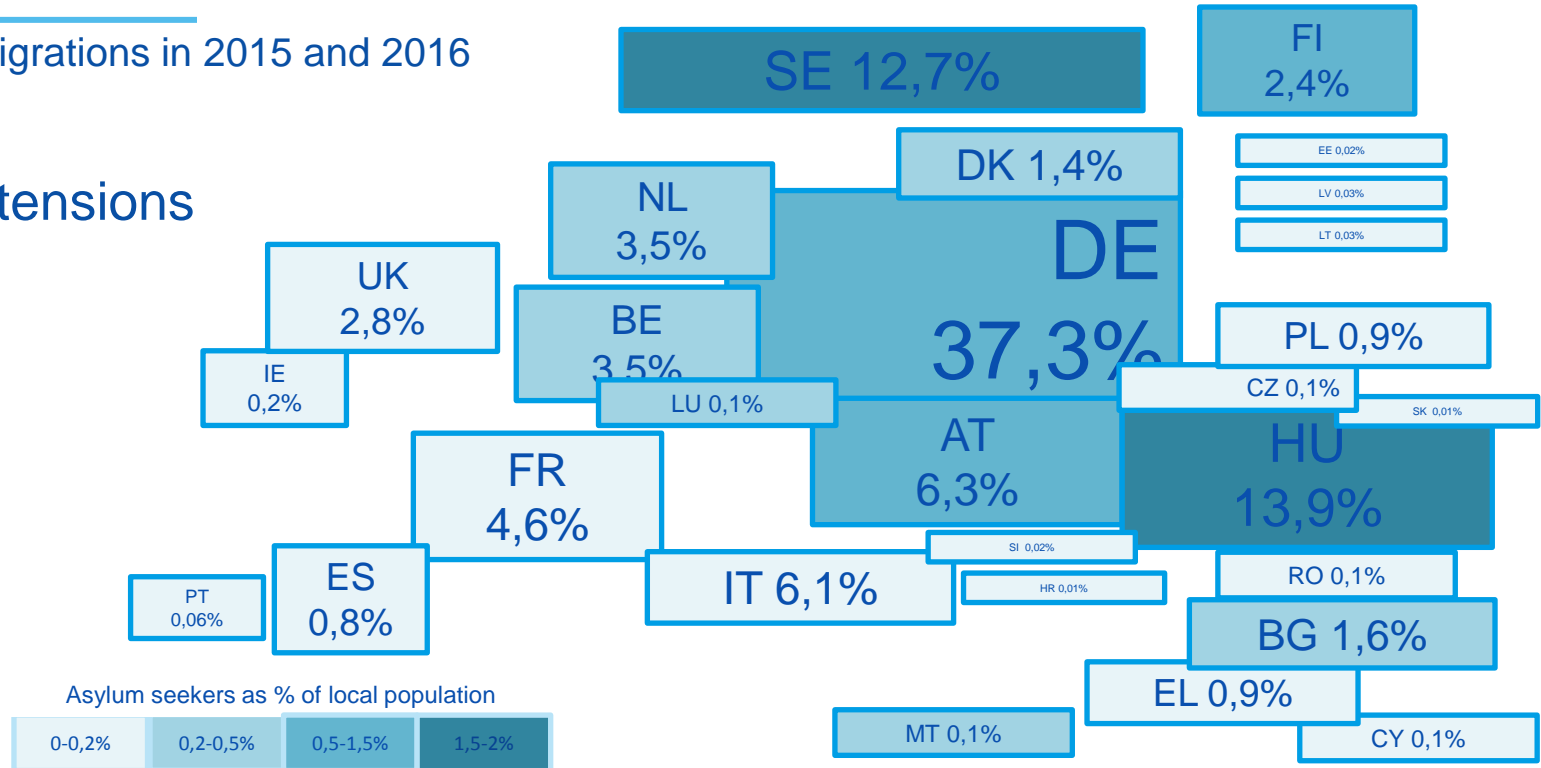


# In Europe, the refugees crisis could be an opportunity but its management is challenging

Asylum seekers by country (% of total 2015)

Massive migrations in 2015 and 2016

Political tensions



## Outline

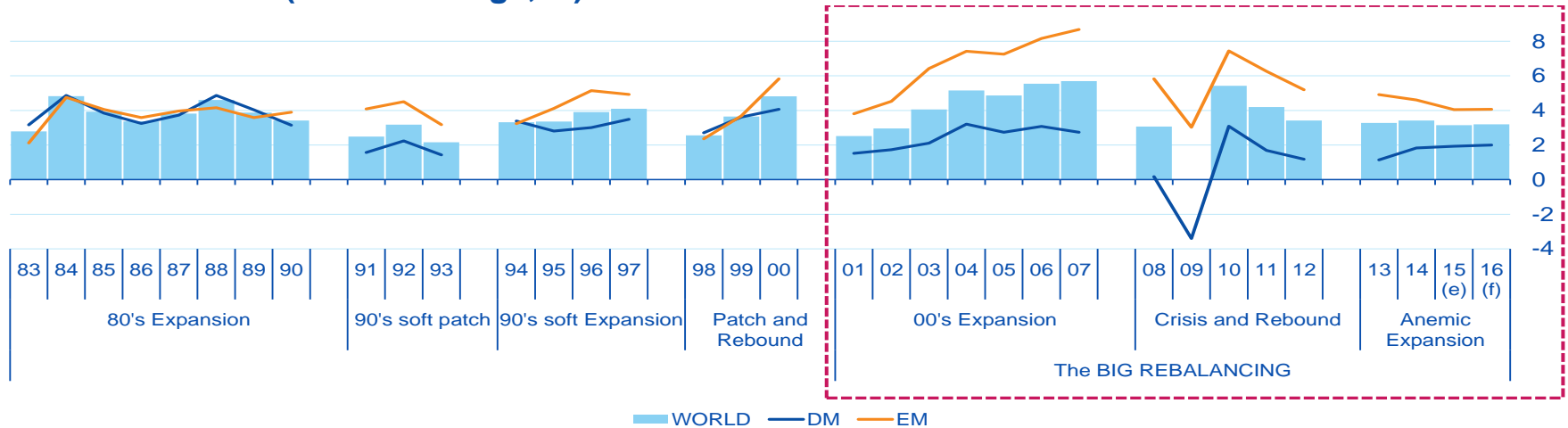
**Short term:** An anemic and fragile growth outlook

**Risks:** global geopolitics

**Challenges ahead: little reasons to expect higher growth rates**

# Over long horizons, there are little reasons to expect growth rates higher than the “old normal” 3.5%...

## Economic Growth (annual change, %)



Source: BBVA Research forecasts

GDP, YoY, %	80's expansion	90's soft patch	90's soft expansion	Patch and rebound	00's expansion	Crisis and rebound	Anemic expansion
World	3.8	2.6	3.7	3.7	4.4	3.2	3.3
DM	3.9	1.7	3.2	3.5	2.4	0.5	1.7
EM	3.8	3.9	4.4	4.0	6.6	5.5	4.4

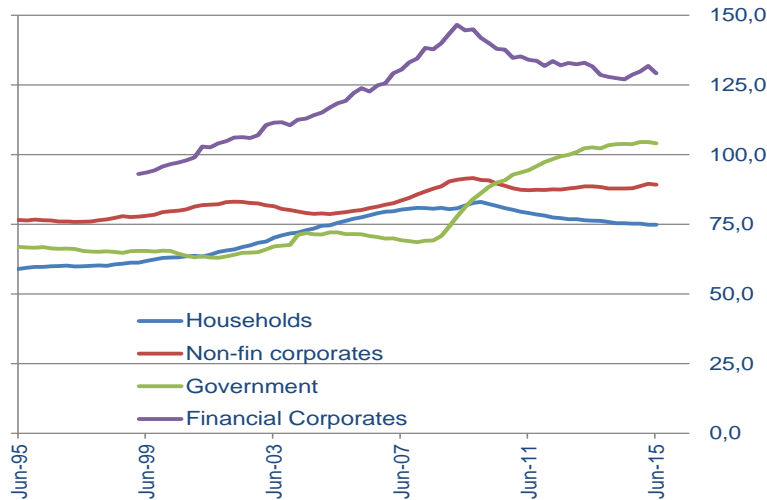
Source: BBVA Research, IMF

# ...and probably less this time around considering the high debt levels in a low inflation environment

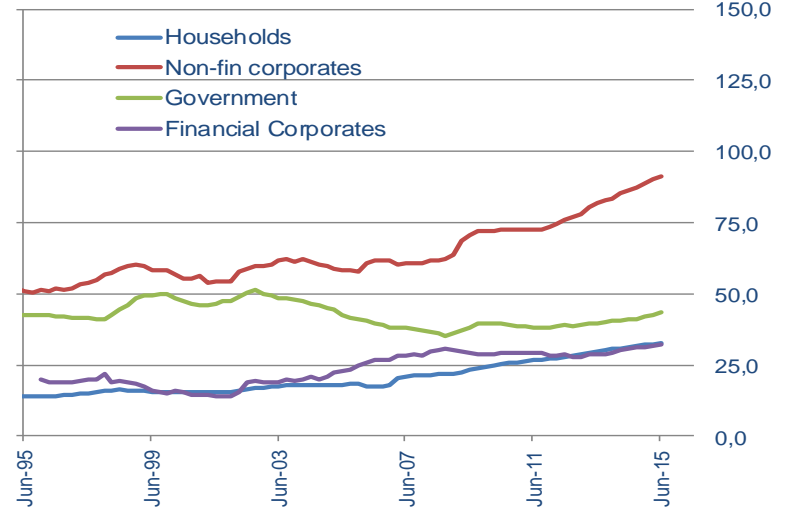
## Outstanding Debt (\*)

(% GDP)

### Mature markets



### Emerging Markets



(\*) Source: BIS, IIF

- **Mature market** figures cover 10 key mature market economies/regions (MM-10), i.e. Australia, Canada, Switzerland, Denmark, Euro Area, United Kingdom, Japan, Norway, Sweden, and United States.
- The **EM dataset** comprises 18 emerging market countries (EM-18), including Argentina, Brazil, China, Czech Republic, Hong Kong, Hungary, India, Indonesia, Malaysia, Mexico, Poland, Russia, Saudi Arabia, Singapore, South Africa, South Korea, Thailand, and Turkey.
- **Headline debt figures** for public, non-financial corporate and household sectors are based on BIS statistics on total credit to the nonfinancial sector.
- **Financial sector debt statistics** are derived from countries' financial accounts via Haver. For countries that do not compile financial accounts, financial sector indebtedness is estimated as a summation of cross-border bank loans and bond financing. As credit by non-banks is excluded, our estimates could lead to an underestimation of financial sector debt in countries with large shadow banking entities, such as China.



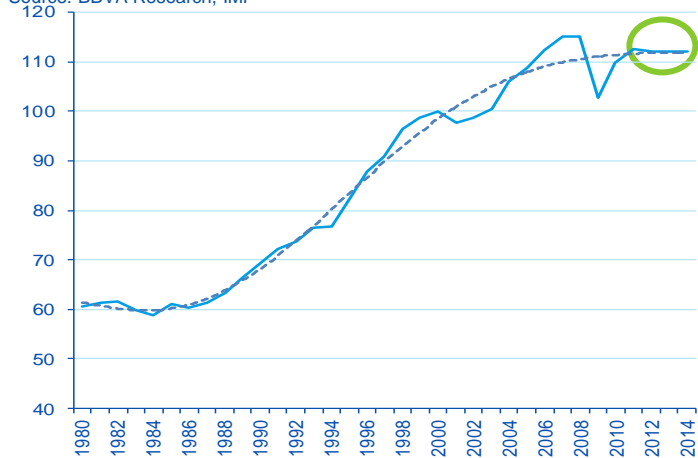
# ...and lower global trade

## World Trade of Goods and Services

1992=100

Exports and Imports of Goods and Services as GDP %

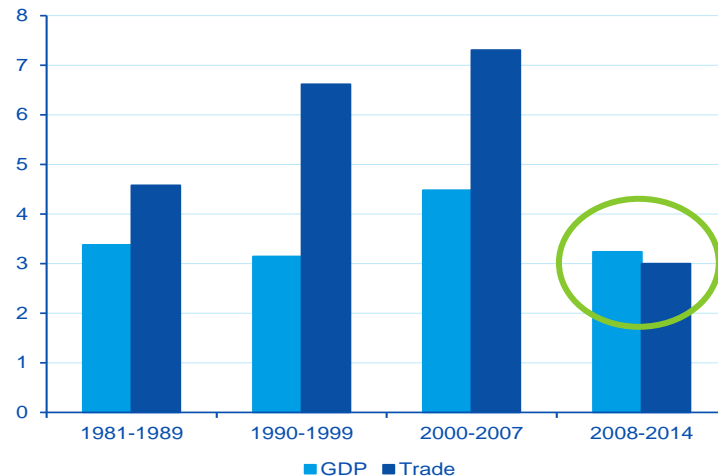
Source: BBVA Research, IMF



## World, GDP an Trade of Goods and Services

%, YoY

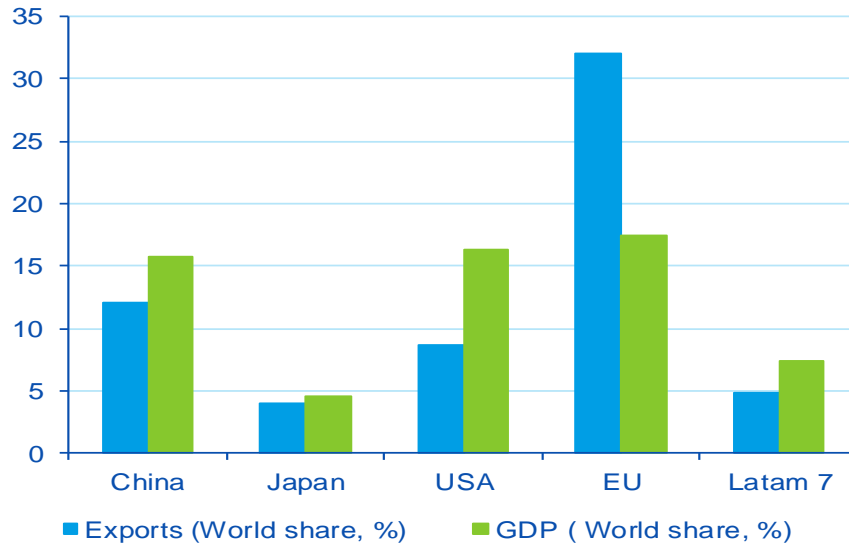
Source: BBVA Research, IMF



# Factors behind the current slowdown are both cyclical and structural

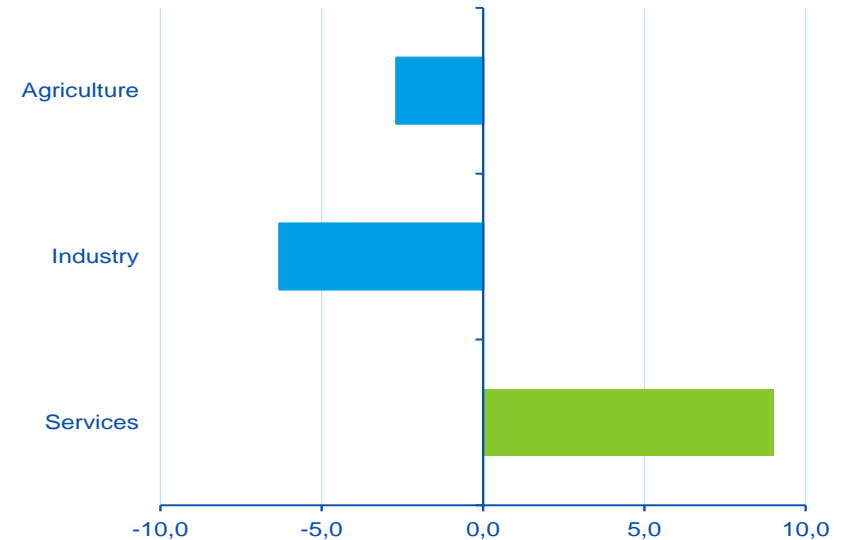
## Weight on Global Economy

Source: BBVA Research, IMF



## China, change in sectorial breakdown 2005-2015 (pp)

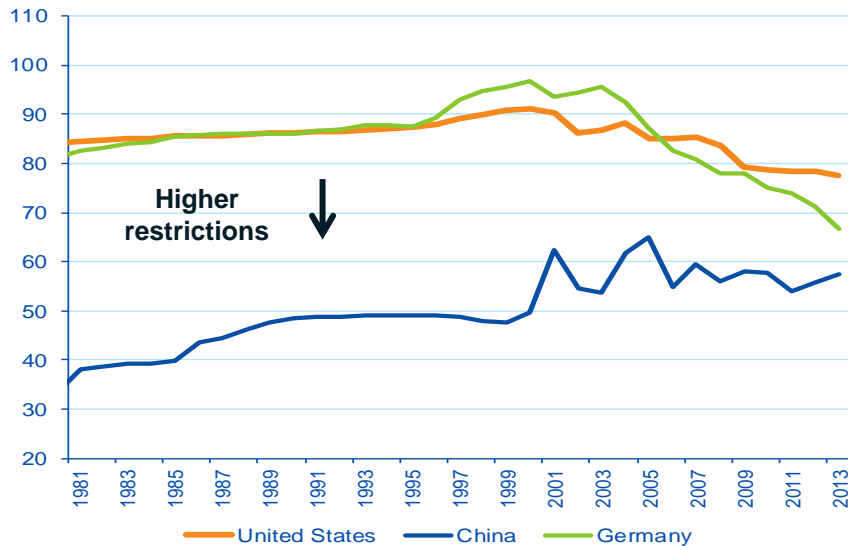
Source: BBVA Research, IMF



# The impact of trade policies is not conclusive but, they seem less supportive than before

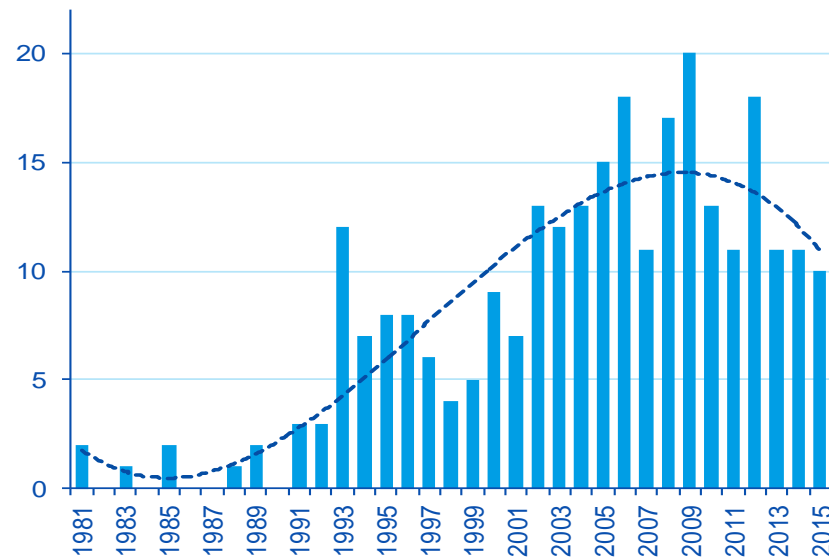
## Economic Restriction Index

tariffs on imports, non-tariff barriers imposed on international flows and capital controls  
 Source: BBVA Research, KOF Swiss Economic Institute



## Number of new regional trade agreements

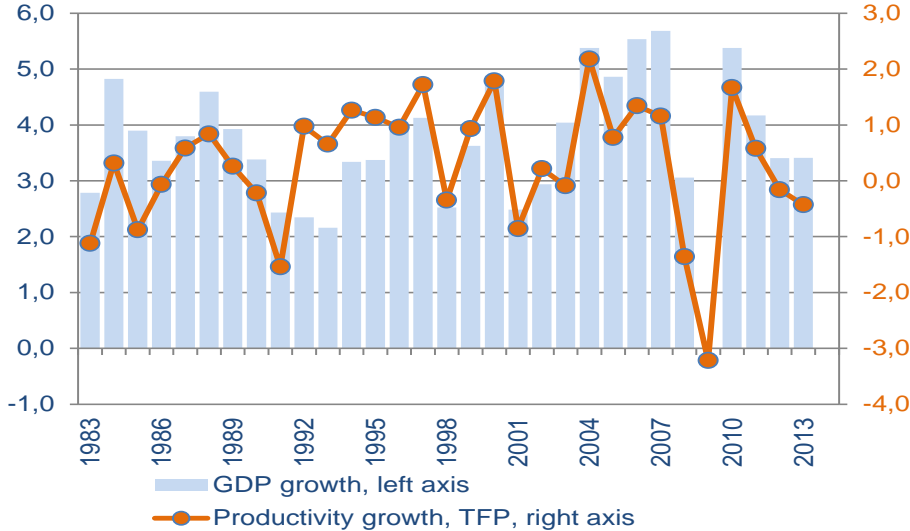
Source: BBVA Research, WTO



# How can stagnation be avoided: Cyclical nature of productivity could eventually kick in and lower leverage

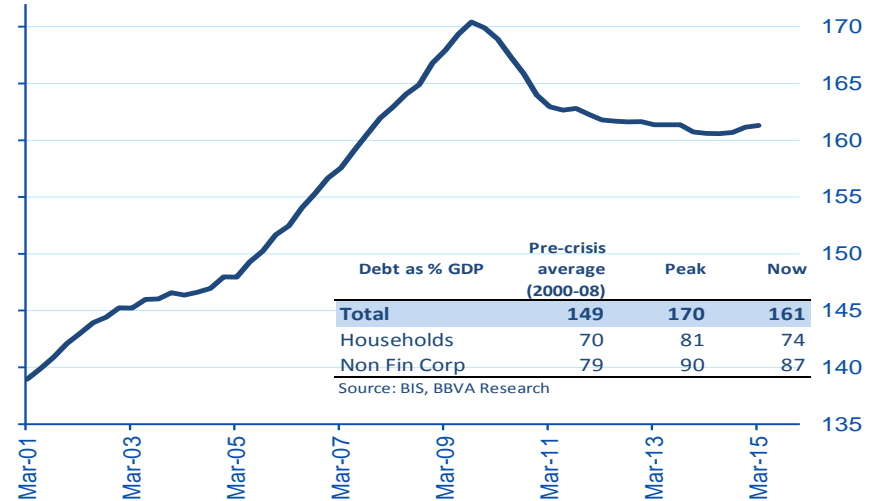
## World economic and productivity growth

Source: BBVA Research with World Bank data



## Non-financial private sector debt in developed economies (% GDP)

Source: BBVA Research with BIS data



# Takeaways

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**The most likely global scenario is an anemic growth**, with DM keeping up and EM slowing down –no meltdown-. Biases in DM are to the downside, but the recession is not likely either.

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**Risks to the downside have increased, especially for Emerging Economies:** China's rebalancing and policies; 2<sup>nd</sup> round effects of market volatility

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**Over longer horizons, there are little reasons to expect growth rates higher than “old normal” 3.5%**, the pending deleveraging, lower productivity growth and the losing steam in global trade weigh on the outlook

Global Economic Scenario

# Little reasons to expect higher growth rates (or a recession)

Jorge Sicilia, BBVA Research

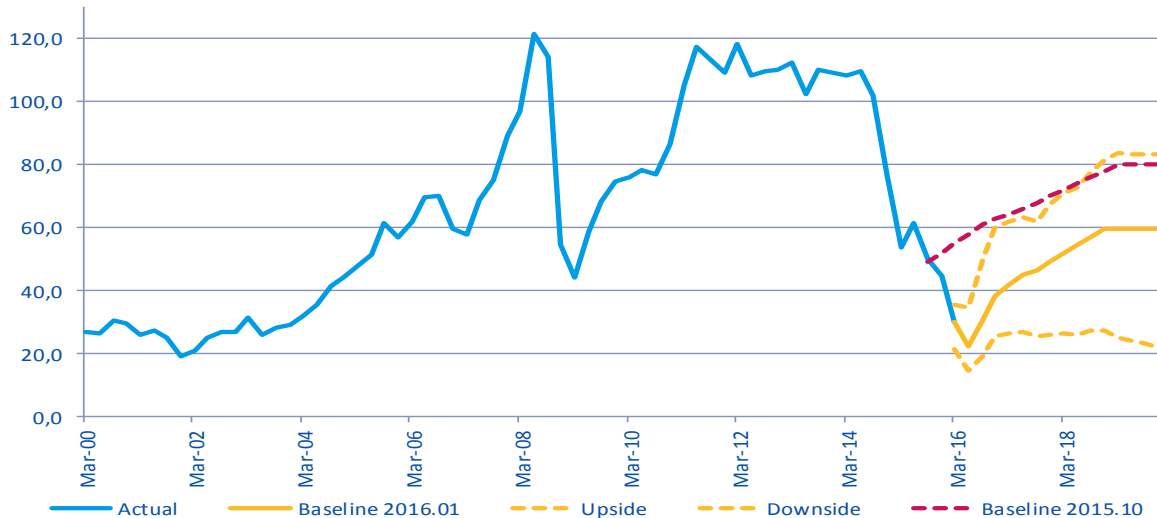
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# Oil: The fundamentals, -supply, demand and views about- are behind oil prices drop and latest rebound

**Change in the Oil price forecasts**  
(Brent, USD/bbl)



**Oil supply stickiness** to price declines  
**Oil demand downward** correction  
**Huge uncertainty** about future demand (China's slowdown intensity) and reaction function of traditional players

**Modest rebound in 2H16** as non-OPEC production declines (lower CAPEX, tighter credit, bankruptcies)