

ECONOMIC ANALYSIS

Global | GDP growth to benefit from a less stressed financial outlook

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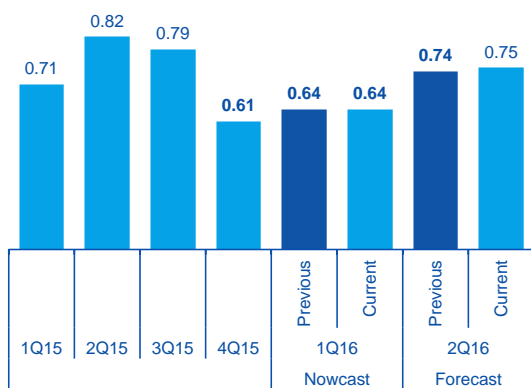
World GDP growth seems to be outpacing fears about a global recession, according to our nowcast estimations (Q1 at 2.6% SAAR, Q2 at 3.0% SAAR). In the latest edition, we pointed out that a sustainable improvement in financial tensions (mainly, in EM), alongside the rebound of commodity prices, was key for global economy to gain some ground.

Indeed, **financial volatility has been diminishing remarkably in the past two months and commodity prices (especially oil) have somewhat stabilized** at affordable levels, **which could be offsetting the arrival of slightly disappointing confidence indicators in April**. Accommodative monetary policies in DM and receding concerns of a hard-landing in China (due to the authorities' priority of short-term growth) have played a decisive role in escaping the stress financial environment in which EM were anchored during the first months of 2016.

As a result, **world GDP should have grown at 0.64% QoQ during Q1** (0.2pp below its mid-term average) **whereas a somewhat more favourable financial conditions in Q2 should lift it to 0.75%** (almost at trend), **both in line with our previous estimations**. However, global outlook is meant to remain conditioned to two main developments:

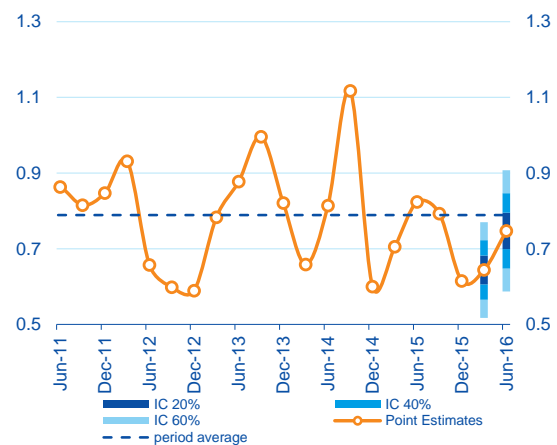
- (i) the ability of unconventional monetary policy measures in DM to stimulate activity (Japan comes back to the fore) and
- (ii) the success in China's slow transition towards a lower growth regime and enhanced financial openness without exacerbating the current disequilibria (excessive corporate leverage and banking vulnerabilities).

Figure 1
World GDP: change in GDP nowcast in the last month (% QoQ)



Source: BBVA Research

Figure 2
World GDP: observed GDP growth and forecasts based on BBVA-GAIN (% QoQ)



Source: BBVA Research

(*) Actual figure of the Global GDP is based on the aggregate of national quarterly growth rates (QNA) of 69 countries, and has a weighting of 92% with

respect to world GDP ppp (on average, 1980-2012).

Looking at industrial and trade activity data, still only available up to February, **does not provide that much of a reassuring outlook** (Figure 1). As a matter of fact, manufacturing activity stood at anemic growth rates across the board, especially in Japan, US and EM Asia (China), while contagion to EZ is yet to materialize. Exports data, on the other side, depict a less gloomy outlook, with the US (recent softer dollar) and China leading the slight recovery exhibited until February. However, preliminary information as of March points out a precautionary bias regarding the relapse of the volume of exports growth.

Little has changed in confidence indicators during April, with **Global manufacturing PMI still flirting around the stagnation territory** (Table 1). Last month's EM rebound (driven mainly by China and Brazil) has proved to be short-lived and further idiosyncratic improvements need to be addressed in order to attain a sustainable recovery.

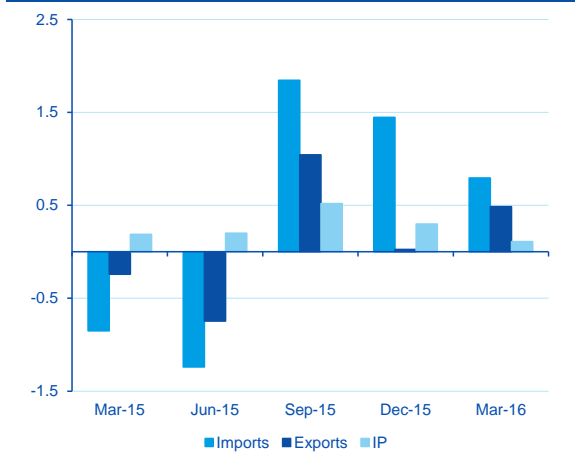
Hence, **the role of DM central banks and Chinese authorities to contain financial tensions** across the board **has been crucial** in forecasting a slight improvement in global growth for the first two quarters. However, **all eyes should be turned to the long term effects of such policies and its future impact on global growth itself.**

Table 1
Global data summary

	2015										2016			
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	
Global PMI	51.0	51.2	51.0	51.0	50.7	50.6	51.3	51.2	50.7	50.9	50.0	50.6	50.1	
Employment	50.7	51.0	50.9	50.7	50.2	49.7	50.7	50.6	50.6	50.4	49.5	49.6	49.4	
New Export Orders	50.1	49.8	50.8	49.9	49.9	49.1	51.2	51.0	50.4	50.4	49.4	51.4	50.4	
Global Industrial Production (m/m)	0.2	-0.4	0.7	0.1	0.0	0.3	0.3	-0.2	-0.1	0.6	-0.5			
BBVA Global Volatility Index	-0.55	-0.70	-0.50	0.09	0.47	1.46	1.40	0.60	-0.41	-0.29	1.01	1.28	0.80	

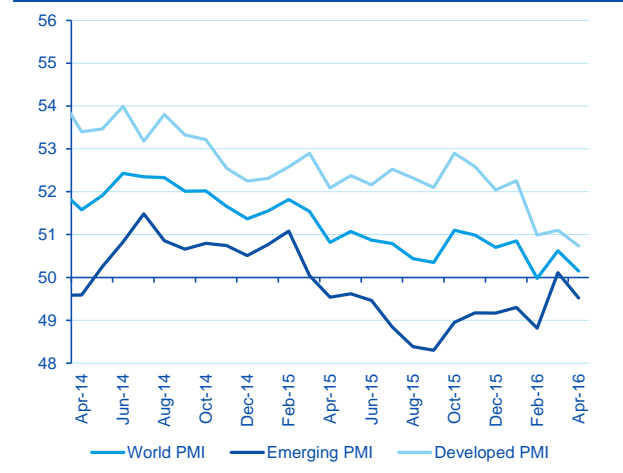
Index = 50 means no change in manufacturing activity.
The Global Volatility Index leads one period in the model. Source: JP Morgan, Markit Economics, CPB Netherlands and BBVA Research

Figure 3
World trade and Industrial Production (% QoQ).
Last month available: February



Source: BBVA Research, CPB

Figure 4
Manufacturing PMI (points)



Source: BBVA Research, Markit

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