

ECONOMIC ANALYSIS

# Global | Lack of solid ground for global growth to escape below-trend levels

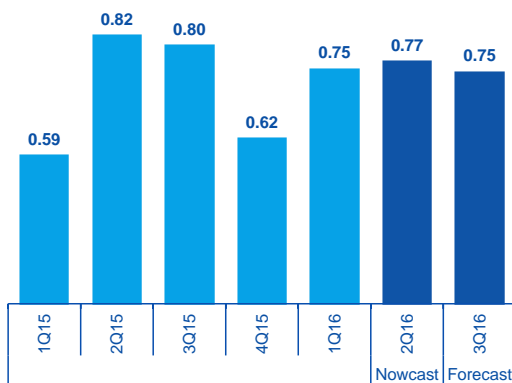
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**Global growth returned to its 2011-2015 trend levels (0.75% QoQ) in Q1**, one quarter before than we anticipated in our previous note. Such a rebound has been **mainly led by China, India and EMU**, where incoming GDP prints from Q1 were strong enough to reverse the negative performance of some systemic EM (Brazil, Russia).

**Financial tensions in EM receded remarkably during May**, helped by the recent commodity prices rebound, easing DM central banks (with the exception of the Fed) and diminishing worries about a hard-landing in China in the short-term.

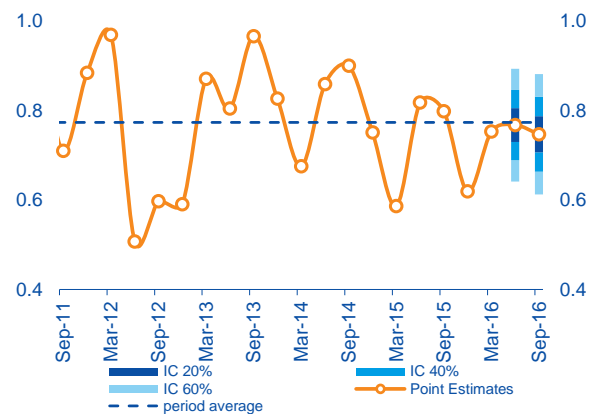
In spite of this improvement, **we still perceive global growth to be stuck in a “sawtooth” pattern** (especially from 2013 onwards), which is consistent with our nowcast and forecast estimates for Q2 and Q3 respectively. **Recent economic indicators from May do not set the ground for global growth to bounce back to previous trend levels (0.85% QoQ)**. Yet, World GDP should be growing just at trend (0.77% QoQ) in Q2, whereas growth in Q3 is expected to edge downwards.

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).

**Industrial and trade data for Q1 (Figure 3) continue to increase the divergence between hard-economic indicators and World GDP growth**, raising questions about its sustainability in the medium-term. EM Asia stands out as the worst-performer region in terms of exports, followed by the US (softer USD in Q1 helped reversing the negative trend). Industrial production remains subdued and only the eurozone is managing to keep growth rates above trend.

These dynamics still reverberate across confidence data in April and May, keeping global manufacturing PMI at stagnant levels (Table 1). The relative better performance of DM (Figure 4) could be jeopardized by current developments in Japan, where policy makers – both the BOJ and the government – have seen negative market reactions regardless of their decisions. The Brazil PMI sank to its weakest level in over seven years and China also contracted in May.

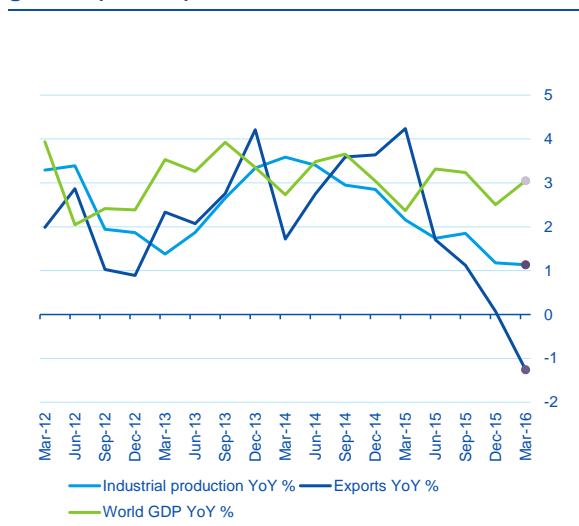
Global outlook, thus, remains subdued and risks remain scanning the horizon. China’s transition towards a lower growth regime and the speed of adjustment of the Fed should be seen as the main sources of potential risk. All in all, the overall picture reflects a steady but disappointing growth where neither DM nor EM appear to be in a position to lift global growth up to previous trend levels.

Table 1  
Global data summary

	2015								2016				
	May	Jun	Jul	Aug	Sep	Oct	Nov	Dic	Jan	Feb	Mar	Apr	May
Global PMI	51.2	51.0	51.0	50.7	50.6	51.3	51.2	50.7	50.9	50.0	50.6	50.1	50.0
Employment	51.0	50.9	50.7	50.2	49.7	50.7	50.6	50.6	50.4	49.5	49.6	49.4	49.7
New Export Orders	49.8	50.8	49.9	49.9	49.1	51.2	51.0	50.4	50.4	49.4	51.4	50.4	50.2
Global Industrial Production (m/m)	-0.4	0.7	0.1	0.0	0.3	0.3	-0.2	-0.1	0.6	-0.5	0.0		
BBVA Global Volatility Index	-0.70	-0.50	0.09	0.47	1.46	1.40	0.60	-0.41	-0.29	1.01	1.28	0.80	-0.34

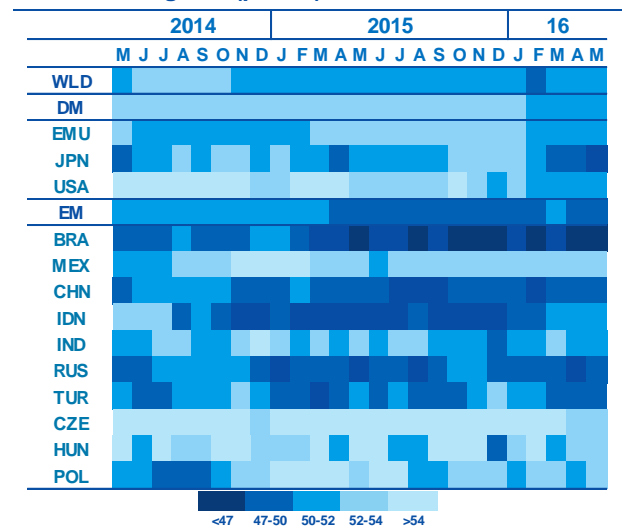
Index = 50 means no change in manufacturing activity. The Global Volatility Index leads one period in the model. Source: JP Morgan, Markit Economics, CPB Netherlands and BBVA Research

Figure 3  
World trade, Industrial Production and World GDP growth (% YoY)



Source: BBVA Research, CPB

Figure 4  
Manufacturing PMI (points)



Source: BBVA Research, Markit

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