

ECONOMIC ANALYSIS

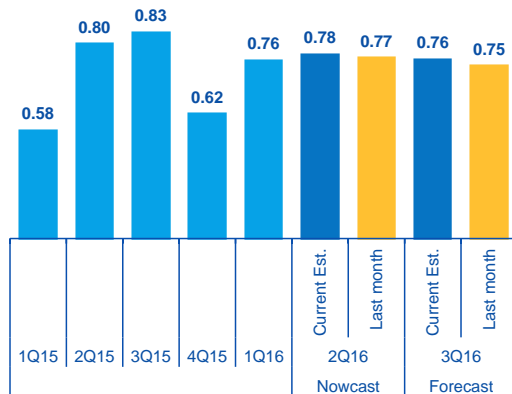
# Global | World GDP steady at 3.1% YoY amidst increasing uncertainty

Jorge Redondo

**Another month has gone by and yet the global economy is expected to remain trapped at trend-levels at both Q2 and Q3 (0.78% QoQ and 0.76% QoQ respectively).** Whereas these trend dynamics are far from being ominous, recent confidence data (still not exposed by Brexit outcome) continue to be unable to lift global growth forecasts beyond its trend levels.

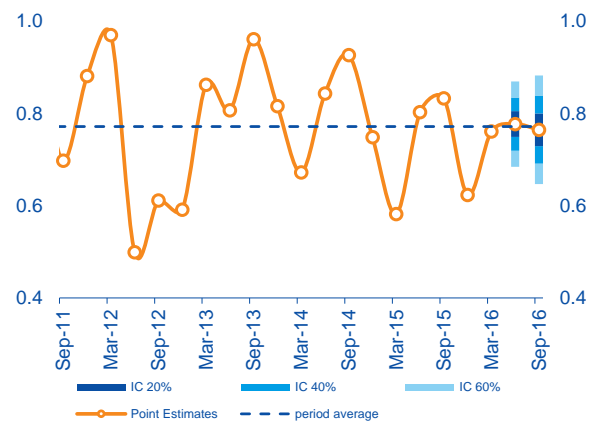
**Financial tensions have receded across the board since February, led mainly by diminishing worries of a hard-landing in China in the short term** (followed by a significant easing in macro-economic policy), **the ongoing recovery in oil prices and the expected gradualism in the Fed’s rate hike path.** This favourable financial environment has benefited EM financial assets the most, but its transmission to the real economy is yet to materialise. In the aftermath of Brexit, volatility is expected to increase across the board, although the magnitude, duration and location of such a rise will be conditioned to the fashion in which UK’s exit is handled. Should these negotiations unveiled lingering structural concerns regarding the European Union, the impact on global growth could be more than marginal.

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).

In our last report (see [here](#)) we expected the decoupling exhibited between hard economic indicators (industrial production, exports of goods, etc.) and global growth itself to be short-lived. Indeed, recent flow of data up to April reinforces this view with a slight improvement in global trade. Notwithstanding, **industrial production does not show any signs of strong recovery from its anaemic levels, with the US in negative territory since the beginning of 2016.** Only the Eurozone is managing to keep growth rates of industrial activity above trend levels (this differential factor could be jeopardized in the short-term by

contagion from US dynamics or UK's exit turbulences). **On the EM side, industrial production remains ailing whereas exports saw a remarkable increase coming mainly from EM Asia** (CNY sharp depreciation since August 2015 turmoil may have been a relevant factor behind this upturn).

**Confidence data, up to June, reflect a somewhat similar picture. Global manufacturing PMI remained lacklustre, with the only exception of the Eurozone and the US.** It is worth mentioning that the majority of surveys were fulfilled before the Brexit referendum result was announced. Despite a substantial easing in macro-economic policy in China and some monetary easing in Japan, both reported contractions in June. Therefore, confidence remains fragile across the board and it is likely to be ballasted in the short-term by Brexit spillovers.

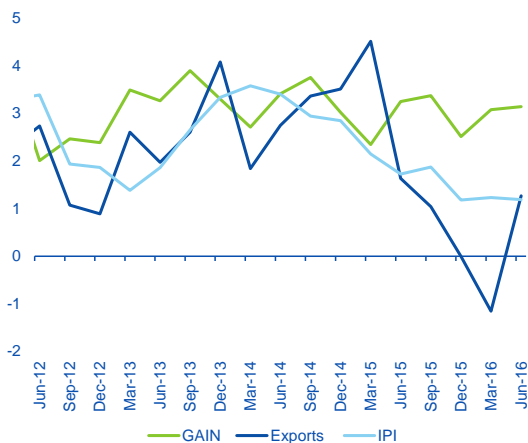
Overall, **global growth should be growing just at trend levels in Q2 and Q3, which can be interpreted as a steady but disappointing growth** for this nowcast assumes the lack of impact from Brexit. Despite the absence of a tangible huge contagion from Brexit across the board in the short-term, a round of global uncertainty cannot be ruled out, especially if UK negotiations unveil lingering structural concerns regarding the Eurozone. Likewise, China's transition towards a lower growth regime and the speed of adjustment of the Fed should be monitored closely.

Table 1  
Global data summary

	2105						2016						
	Jun	Jul	Aug	Sep	Oct	Nov	Dic	Jan	Feb	Mar	Apr	May	Jun
Global PMI	51.0	51.0	50.7	50.6	51.3	51.2	50.7	50.9	50.0	50.6	50.1	50.0	50.4
Employment	50.9	50.7	50.2	49.7	50.7	50.6	50.6	50.4	49.5	49.6	49.4	49.7	49.9
New Export Orders	50.8	49.9	49.9	49.1	51.2	51.0	50.4	50.4	49.4	51.4	50.4	50.3	50.8
Global Industrial Production (m/m)	0.7	0.1	0.0	0.3	0.3	-0.2	-0.1	0.6	-0.4	0.2	0.5		
BBVA Global Volatility Index	-0.50	0.09	0.47	1.46	1.40	0.60	-0.41	-0.29	1.01	1.28	0.80	-0.34	-0.40

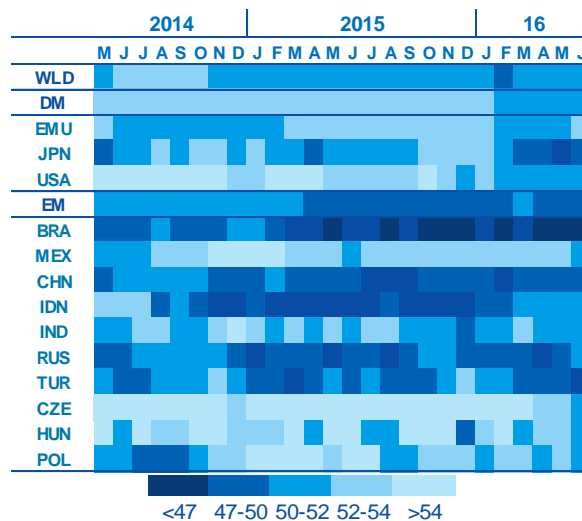
Index = 50 means no change in manufacturing activity.  
The Global Volatility Index leads one period in the model. Source: JP Morgan, Markit Economics, CPB Netherlands and BBVA Research

Figure 3  
World trade, Industrial Production and World GDP growth (% YoY)  
Last data: April 2016



Source: BBVA Research, CPB

Figure 4  
Manufacturing PMI (points)



Source: BBVA Research, Markit

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