

BBVA

RESEARCH

OCTOBER
2016



Global

Economic Watch

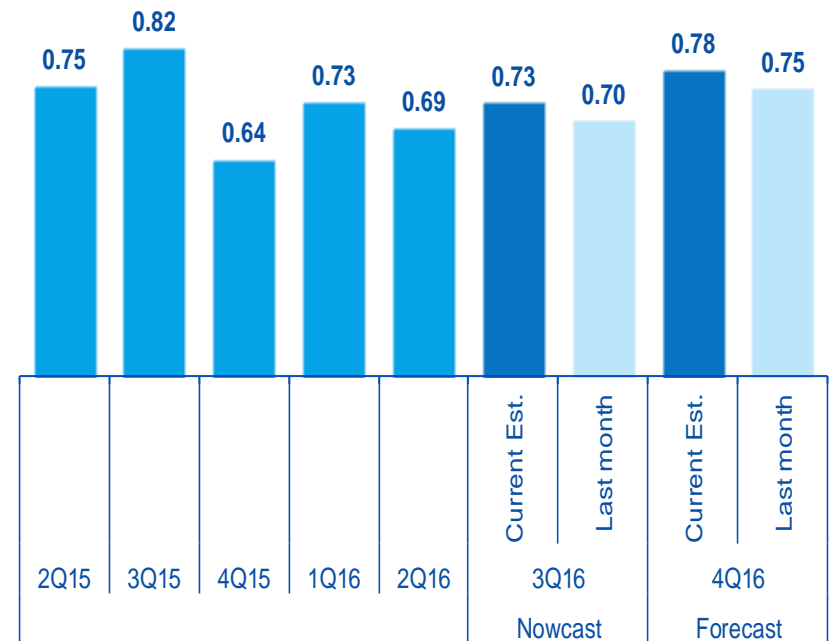
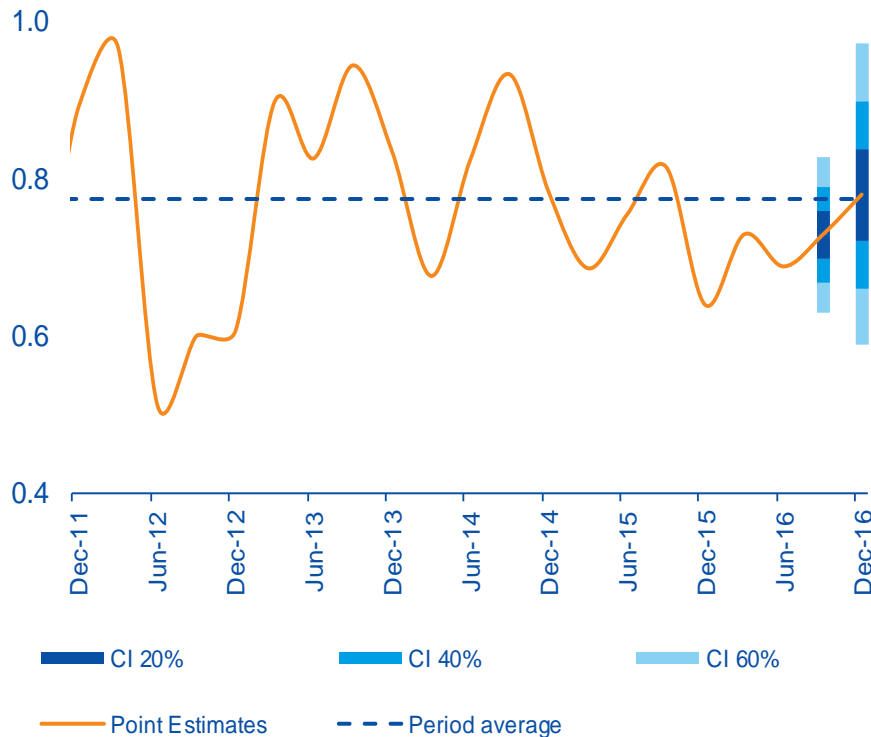
Summary: very gradual improvement in activity

- Our GAIN-model estimates quarterly GDP growth at around 0.7% QoQ in 3Q16, broadly stable since late 2014
- Downward pressures on global growth seem to have diminished in Q3, but incoming data so far continue to be volatile
- Strengthening recovery in emerging markets (EM), mainly supported by domestic spending
- Steady and moderate growth in developed markets (DM): the industrial recovery seems to gain momentum in 2016 so far, but incipient signs of improvement in trade are not enough to boost investment
- The confidence in the manufacturing sector (PMI) has increased over the third quarter, particularly in DM, while services confidence has improved in EM
- Global inflation increased in September driven by higher prices in DM, despite moderating in Latam (especially) and in Asia (excluding China)

Global growth is expected to improve gradually in 2H16, but is still subdued

World GDP: nowcast and forecast

QoQ, %



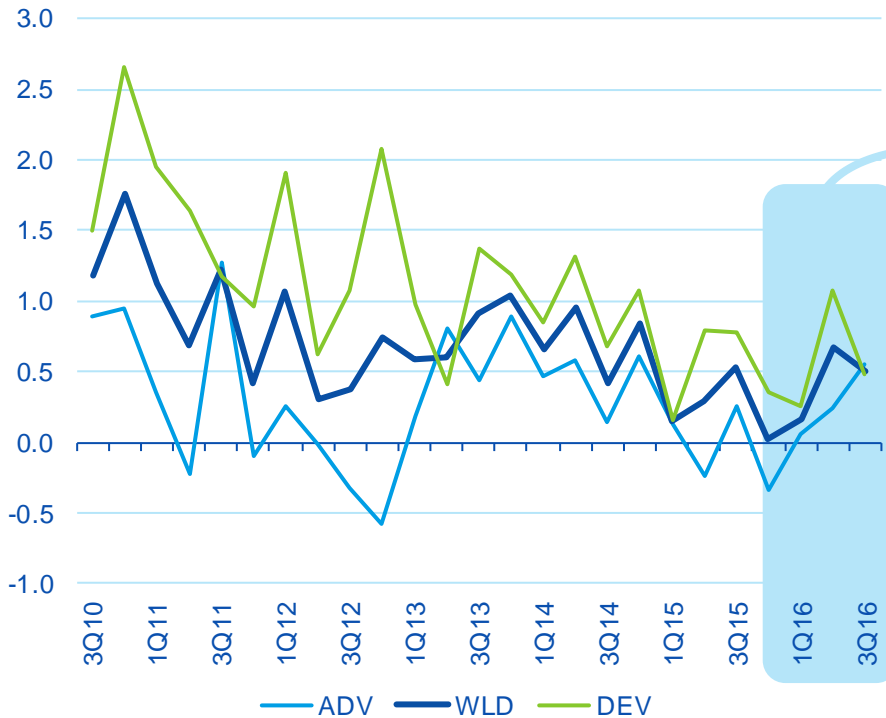
(*) Nowcast and forecast based on BBVA-GAIN

Source: BBVA Research

Industrial production rebounded in August, offsetting disappointing figures in July

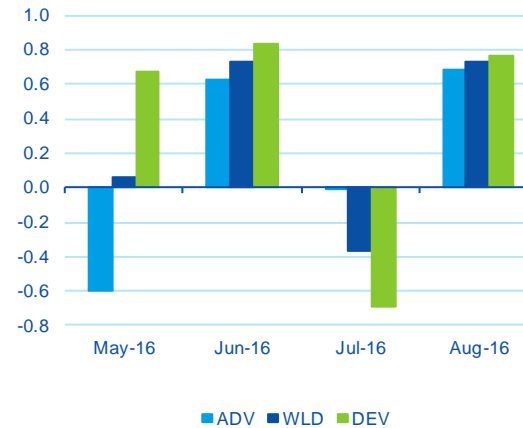
World Industrial Production

QoQ, %



World Industrial Production

MoM, %



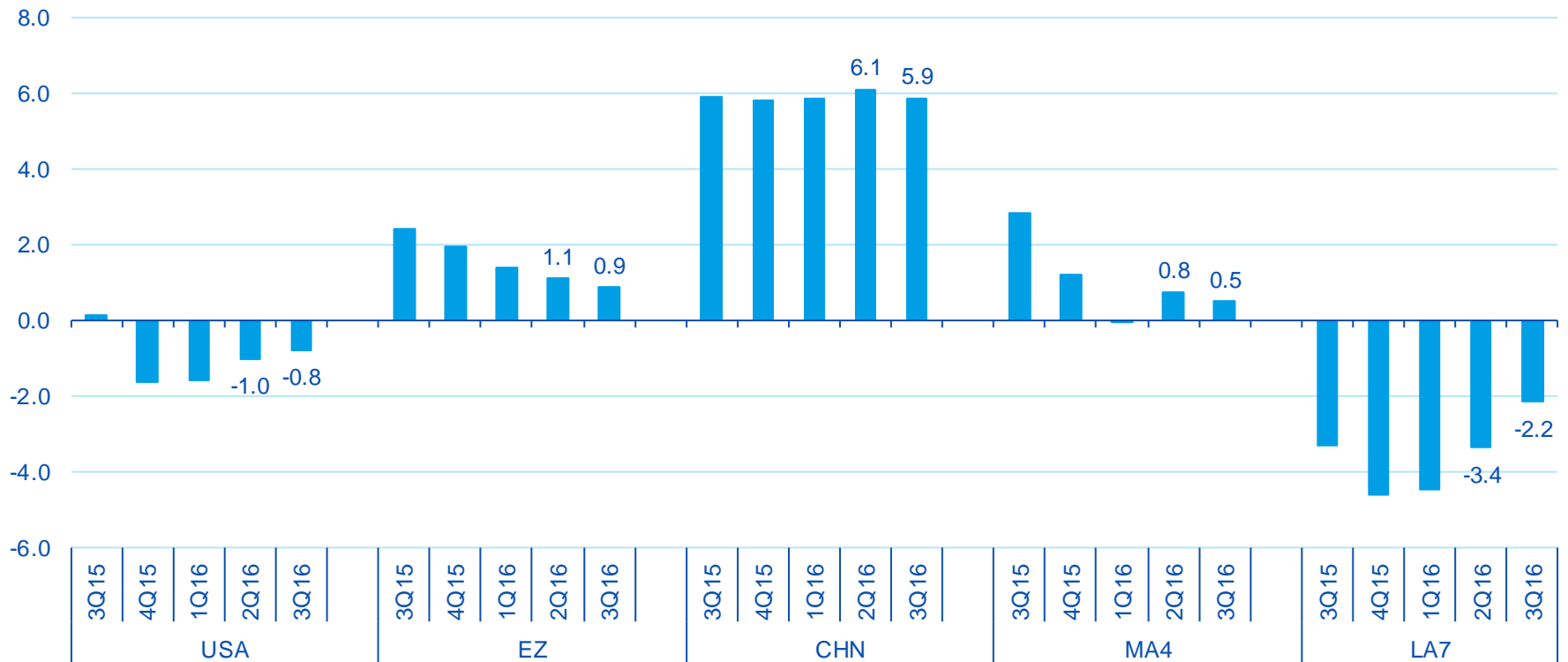
The industrial recovery in DM seems to gain momentum in 2016 so far...

... while in EM, beyond high volatility, the downward trend could have halted

Industrial heterogeneity in EM: the improvement in Asia contrasts with poor figures in Latam (Brazil)

Industrial Production: selected regions

YoY, %



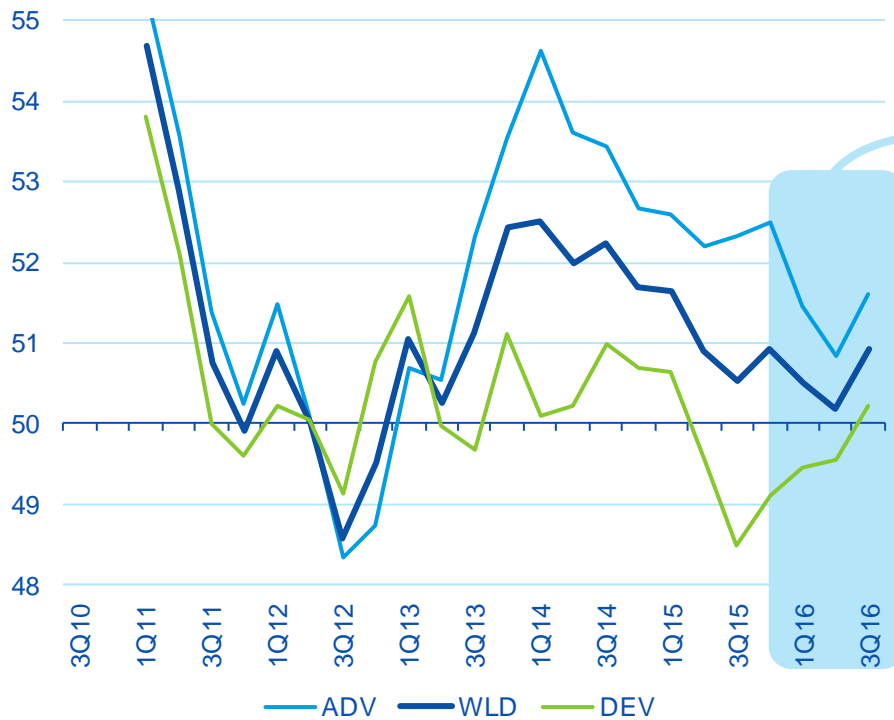
*3Q16 calculated using data for July for LA7; July and August for USA, EZ, CHN and MA4

Source: Haver and BBVA Research

Manufacturing confidence improved in Q3, especially in DM

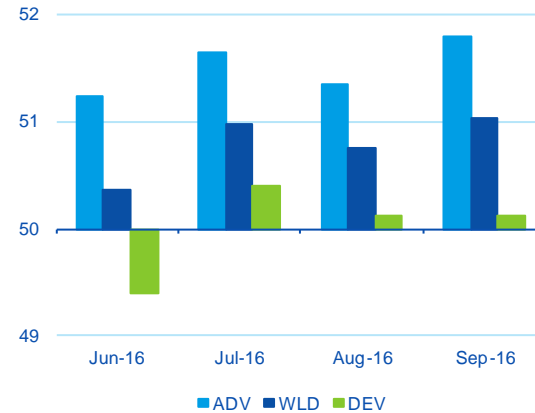
World Manufacturing PMI

Level ± 50



World Manufacturing PMI

Level ± 50



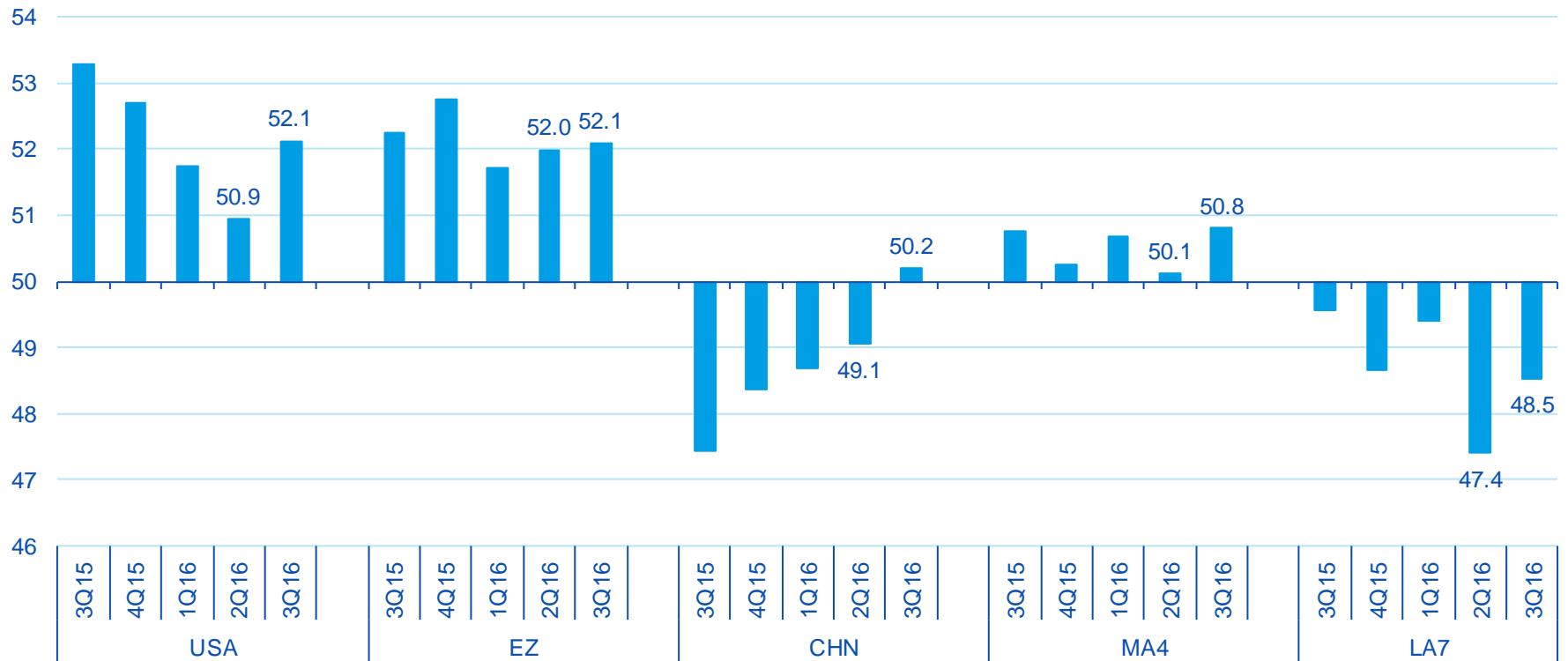
Manufacturing PMIs improved in recent months and suggest a mild industrial sector recovery...

... but capex growth remains slow, weighing on investment goods

China reverted quickly to expansion territory, but PMIs are below the 50 points threshold in Latam

Manufacturing PMI: selected regions

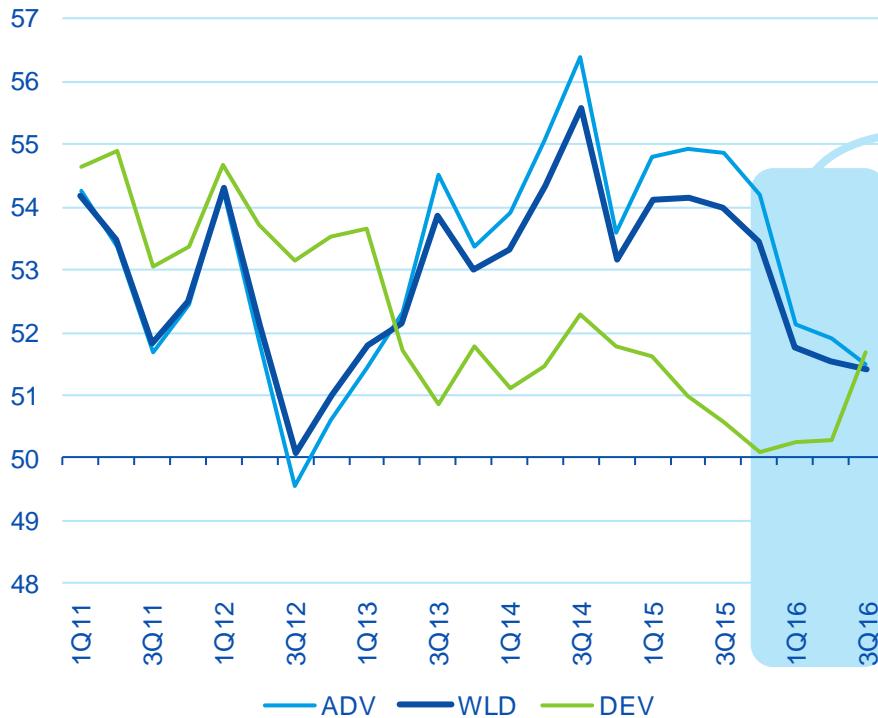
Level ± 50



Significant improvement in services confidence over 3Q in EM's, despite some correction in September

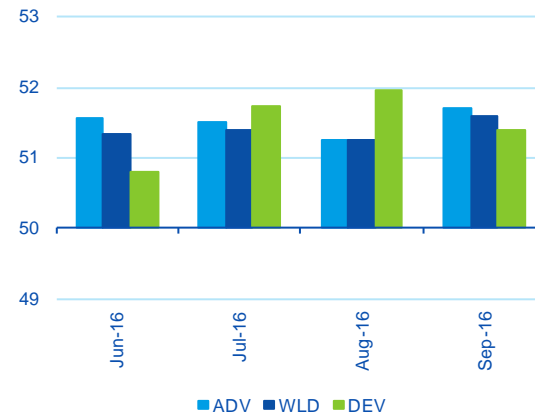
World Services PMI

Level ±50



World Services PMI

Level ±50

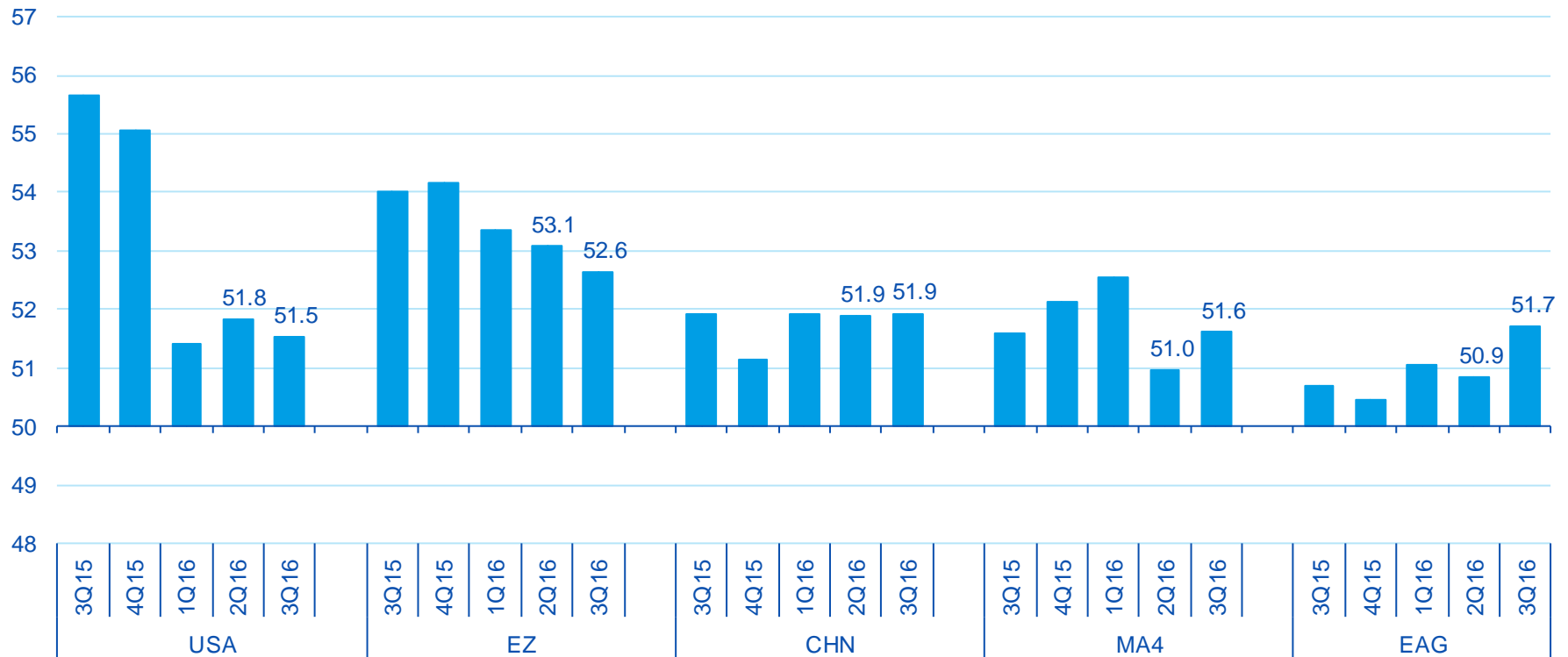


In DM, decelerations in growth of new business and employment point to mute outlook by year-end

Confidence in services remained stable in China, while moderated slightly in US and Europe in 3Q16

Services PMI: selected regions

Level ± 50



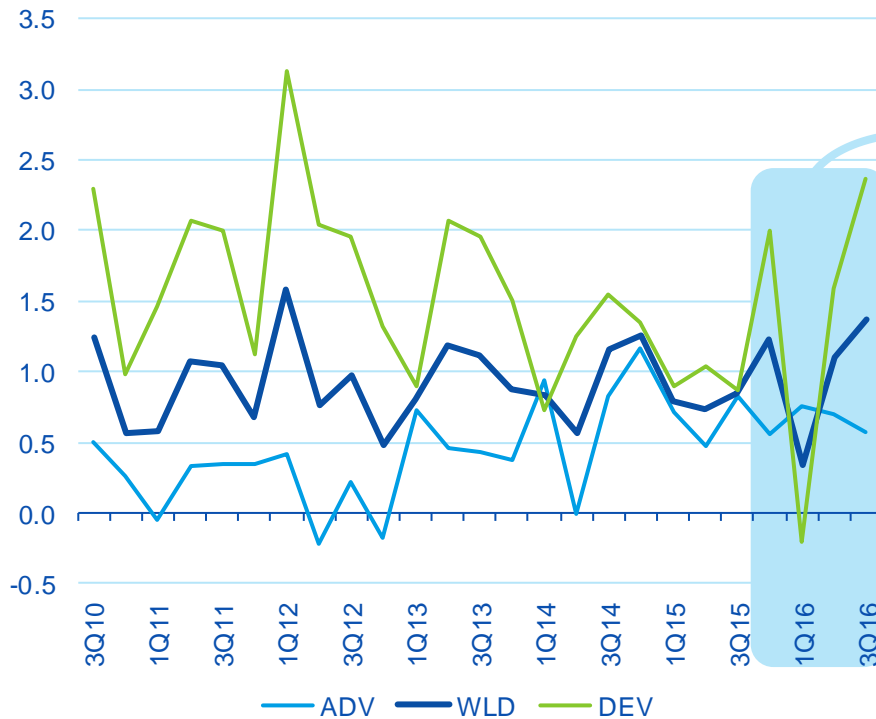
(*) **EAG** (Eagles): Bangladesh, Brazil, China, Egypt, India, Indonesia, Iran, Malaysia, Mexico, Nigeria, Pakistan, Philippines, Russia, Turkey, Vietnam

Source: Markit and BBVA Research

Retail sales were relatively steady in DM, while they suggest stronger consumption in EM...

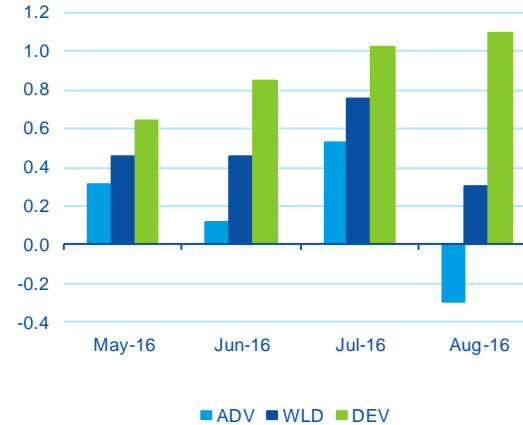
World Retail Sales

QoQ, %



World Retail Sales

MoM, %

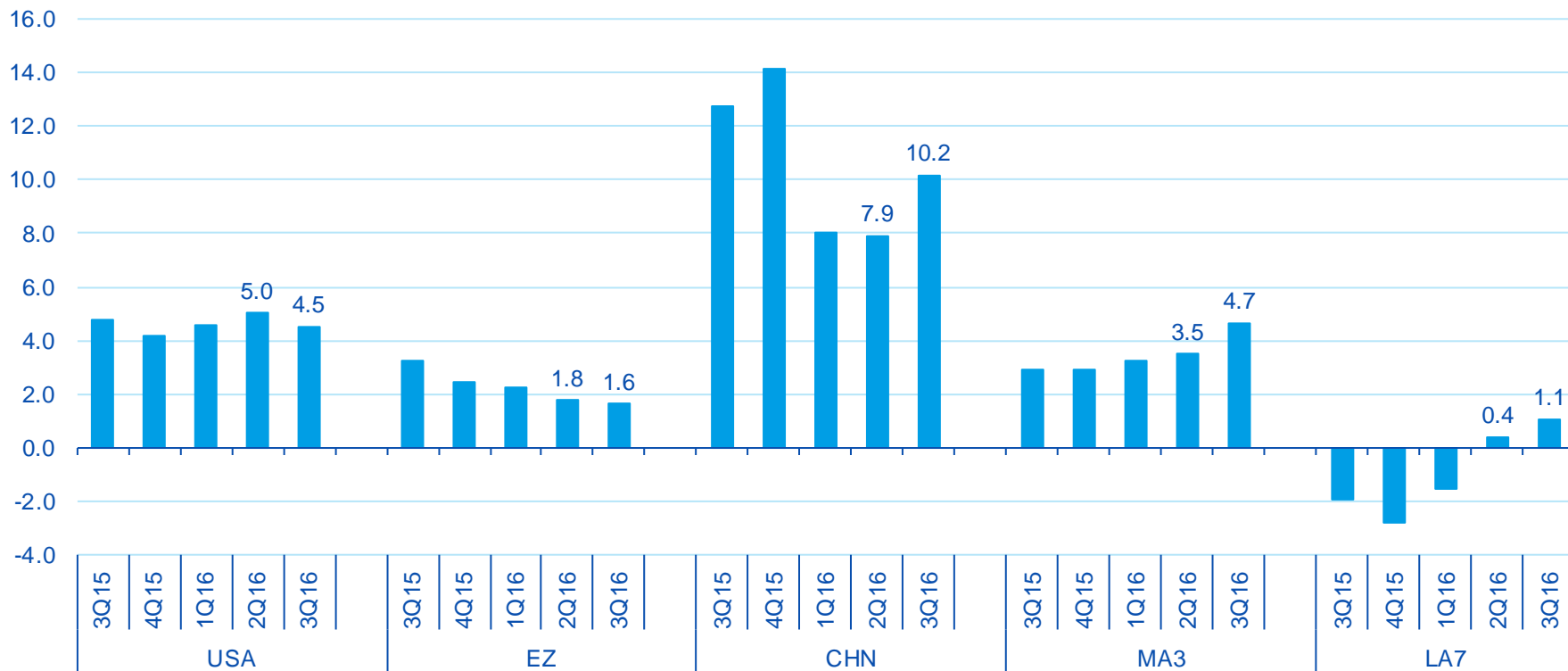


Recent sharp improvement in EM's, while the robust private consumption in DM's is unlikely to strengthen further

... after accelerating in Asia and Latam in Q3

Retail Sales: selected regions

YoY, %



*3Q16 calculated using data for July for LA7; July and August for USA, EZ, MA3 and CHN

(*) **LA7**: Argentina, Brazil, Chile, Colombia, Mexico, Peru, Venezuela.

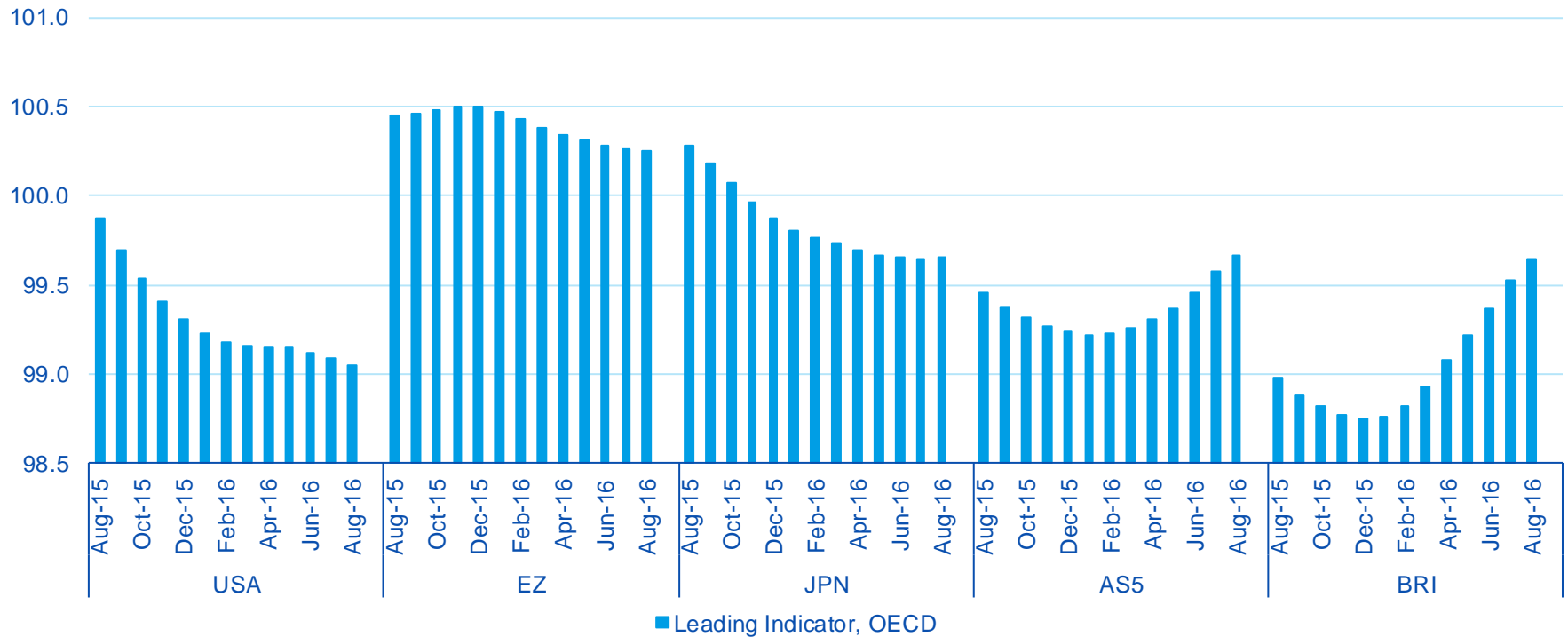
MA3 (Major Asian 5 ex China and India): Indonesia, Japan, South Korea.

Source: Haver and BBVA Research

OECD leading indicators point to a strengthening recovery in EM, and to a steady and moderate growth in DM

OECD Leading indicator

Index



(*) **Brics**: Brasil, Rusia, India, China, Sudafrica

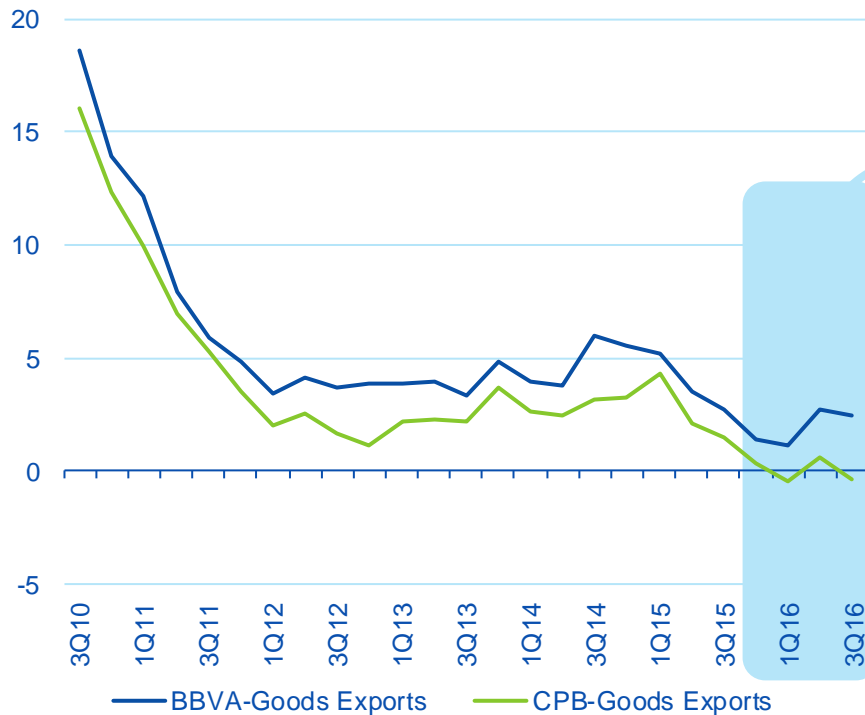
AS5 (Major Asia 5): China, India, Indonesia, Japan and Korea

Source: OECD and BBVA Research

Global goods exports seem to have bottomed, but September figures for Asia increased concerns

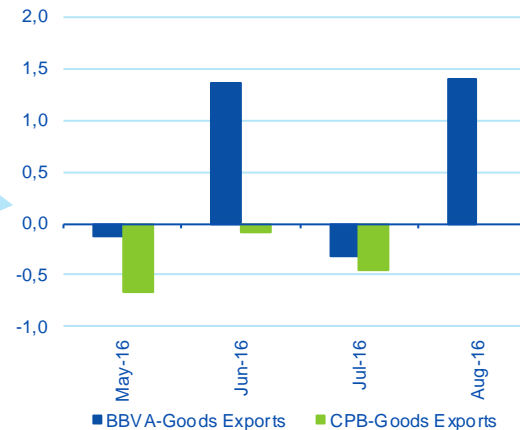
World Exports of goods (constant prices)

YoY, %



World Exports of goods (constant prices)

MoM, %



Significant improvement of exports in August across the board

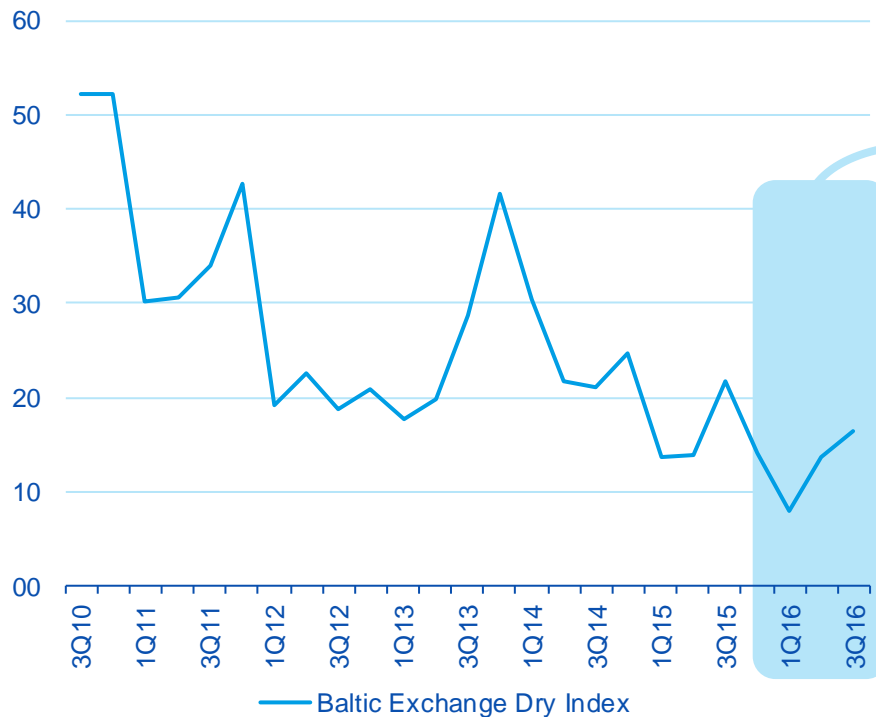
Limited data for September (mainly Asia) increased concerns on trade recovery

(*) Based on **BBVA-Trade Index**
Source: BBVA Research and CPB

More optimistic signs on global trade stem from freights prices

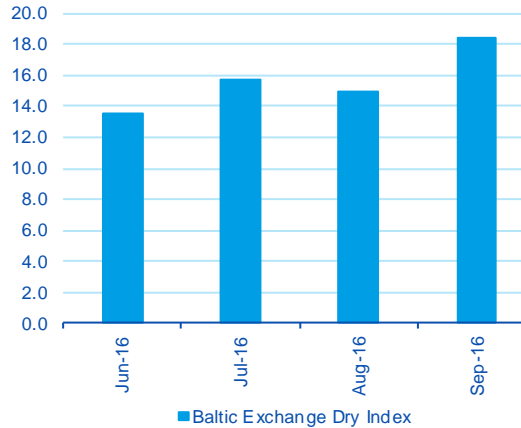
Baltic Exchange Dry Index

Index, Jan-05=100



Baltic Exchange Dry Index

Index, Jan-05=100



The further improvement of Baltic index in September contrasts with incoming trade figures...

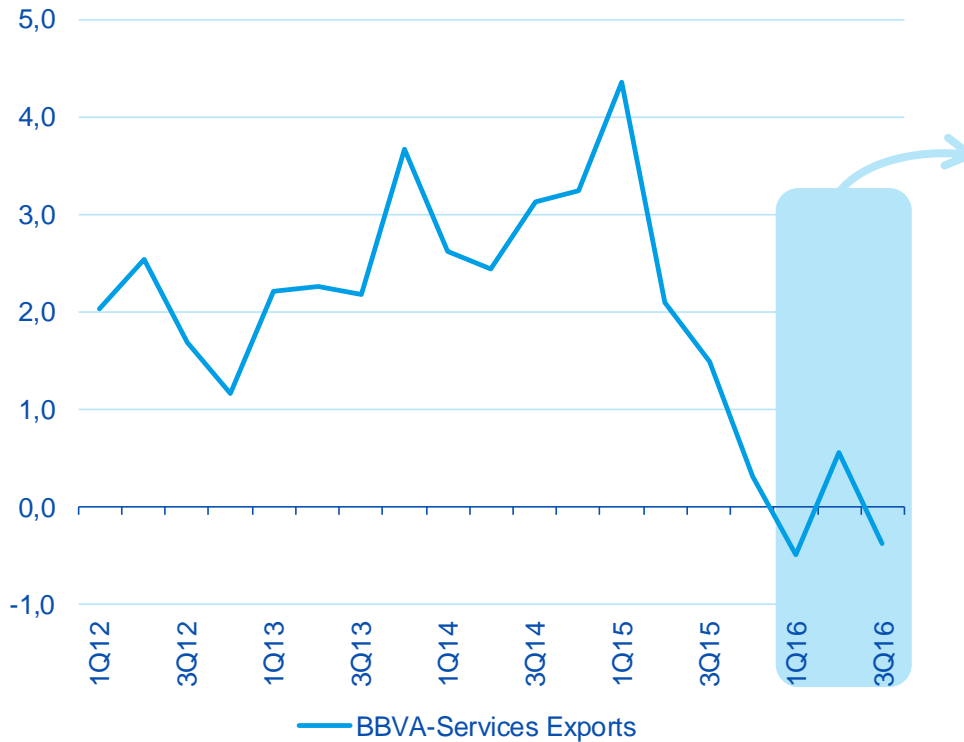
... but remains clearly below 2014 levels

(* The Baltic Dry Index (BDI) is an economic indicator issued daily by the London-based Baltic Exchange

Exports of services grow at a moderate pace since 2Q16

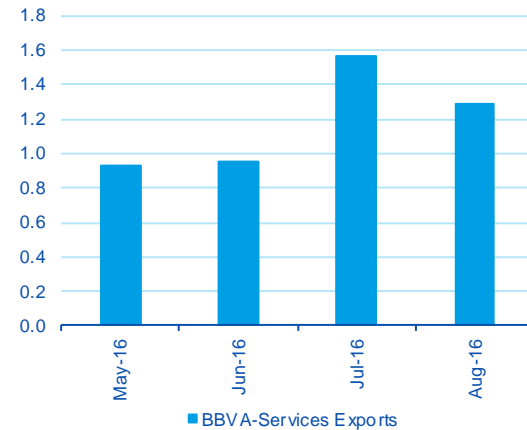
World Exports of services (constant price)

YoY, %



World Exports of services (constant price)

MoM, %



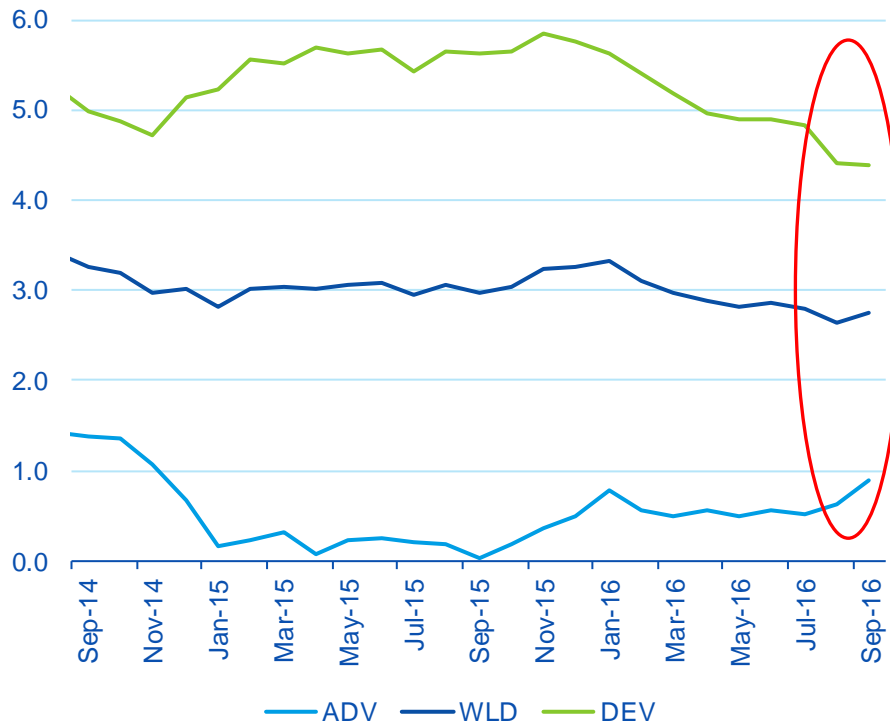
Low annual rates after the rebound a year earlier, but quarterly figures show a more optimistic outlook

(*) Based on **BBVA-Trade Index**

Global inflation increased in September driven by higher prices in DM...

World headline Inflation

YoY, %



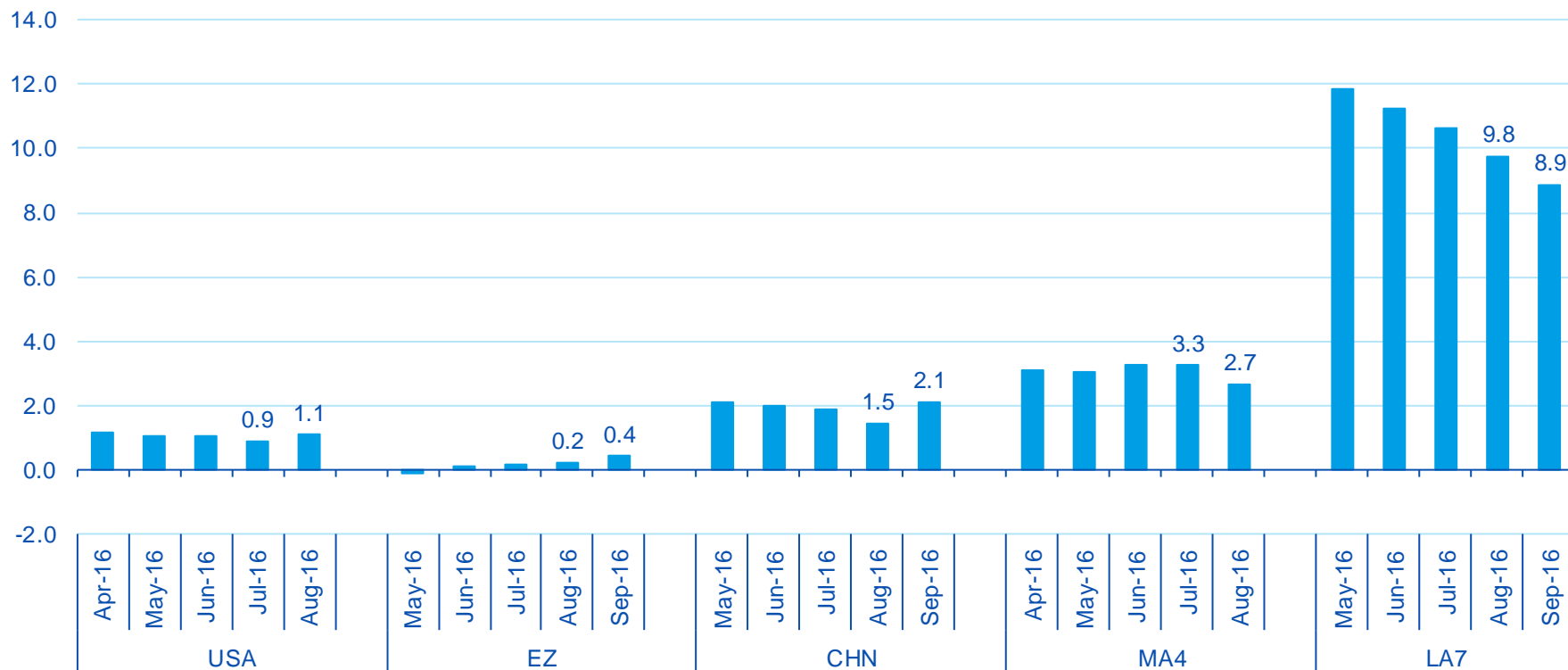
In DM's, recovering inflation reflects the base effects from energy prices that should step up during the rest of the year

In EM's, inflation remained broadly unchanged, interrupting the declining trend since end of 2015. Currency movements are the main driving force

... while inflation moderated in Latam, especially, and Asia excluding China

Headline Inflation: selected regions

YoY, %



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