

Economic Watch

# Global Outlook

January 2017



## Summary: better activity data and relatively calm markets, but higher uncertainty

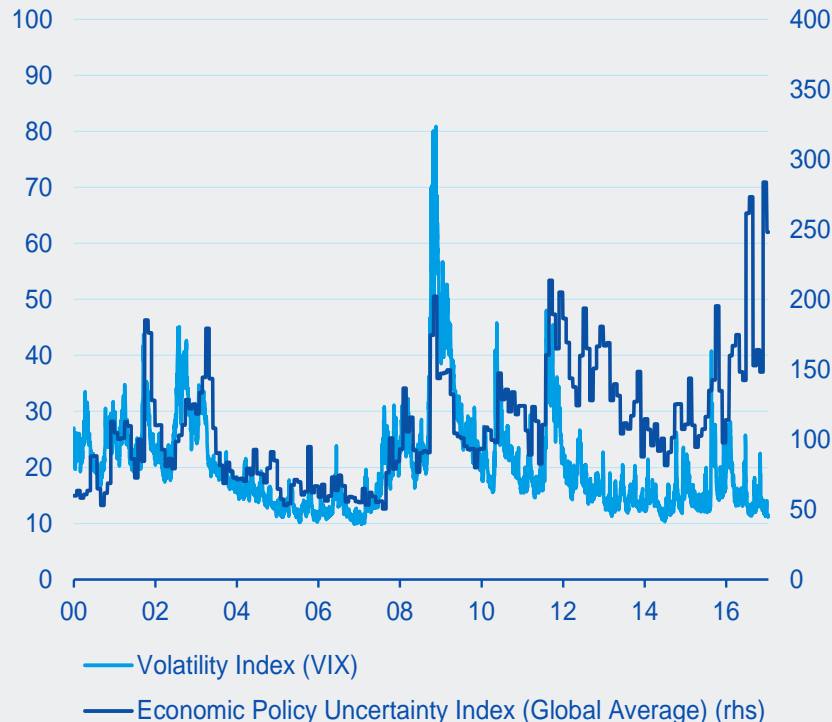
- Our GAIN-model estimates quarterly global GDP growth at close to 0.9% QoQ in 4Q16 (after 0.8% in previous quarters):
  - Better than expected 3Q16 data (US and China, no negative surprises in Europe)
  - The momentum is driven mostly by industrial activity and stronger confidence along with improving global trade and higher new orders
  - Retail sales point to ongoing robust private consumption
- Developed countries (DMs) have performed better than emerging economies (EMs) in recent months.
  - Positive data in both the US (mostly confidence led by the expected fiscal impulse) and Europe (driven by increasing new orders in addition to domestic drivers)
  - China's stabilization and improving trade continue to underpin the recovery in EM Asia
  - Slow exit from recession in Latam, with weak confidence and disappointing data
- Inflation is picking up in DM's driven by energy prices. Still no evidence on indirect or second round effects, but surveys suggest increasing pressures due to higher costs together with robust domestic demand
- Risks are tilted to the downside and are linked to politics and protectionism, but also derive from China's imbalances

FINANCIAL MARKETS

# Global volatility remains low despite high uncertainty. Following a spike after Trump’s victory, tensions in EM moderated, except in China

## US equity volatility and Economic Uncertainty Index

Normalized index



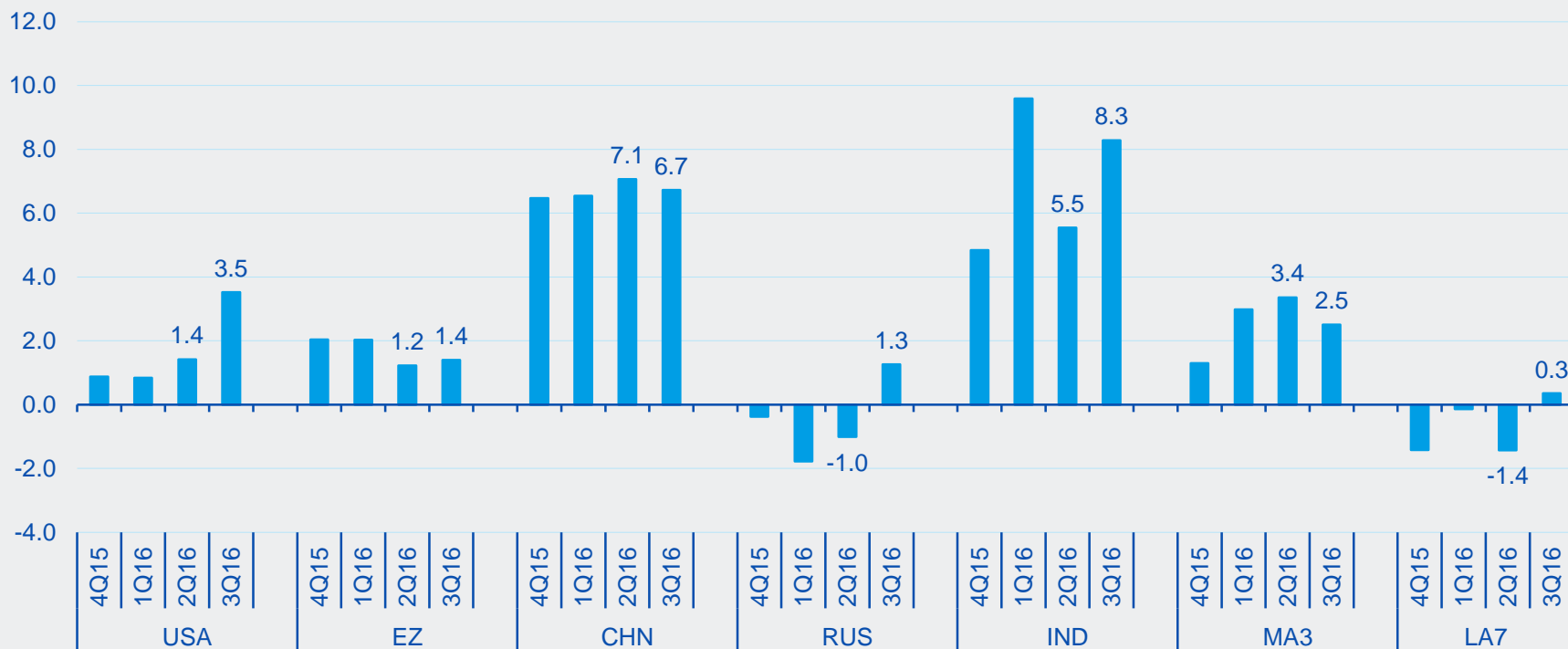
- Long term interest rates have rebounded globally led by US rates, partially due to higher inflation expectations
- Asset allocation has shifted from bonds to equity
- US dollar has appreciated across the board. Some currencies have been particularly hit: Mexican peso (related to trade policy concerns) and the Turkish lira (mainly idiosyncratic factors)

**GLOBAL GDP**

Rebound in the US and stability in the EZ in 3Q16, while Asia could have stabilized and Latam is emerging from recession

**GDP: selected regions**

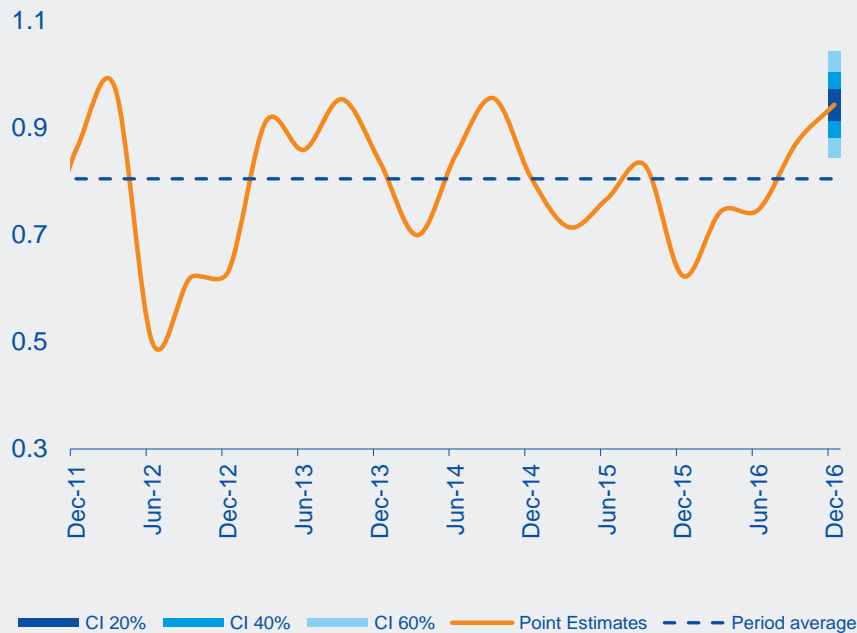
SAAR, %



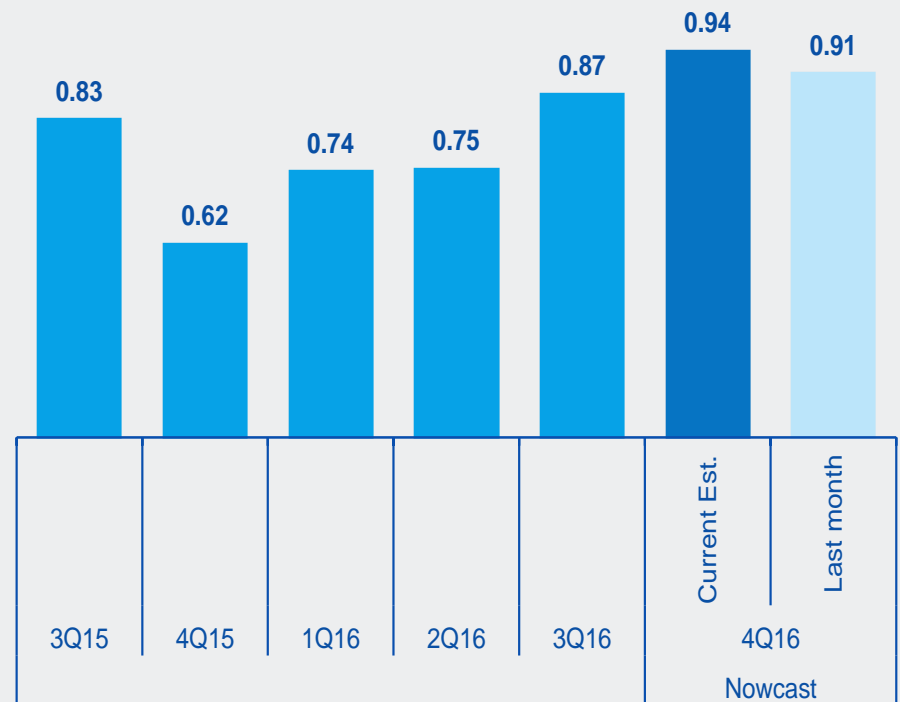
**GLOBAL GDP**

# Global growth has stepped up further in 4Q16

**World GDP growth**  
forecasts based on BBVA-GAIN (% , QoQ)



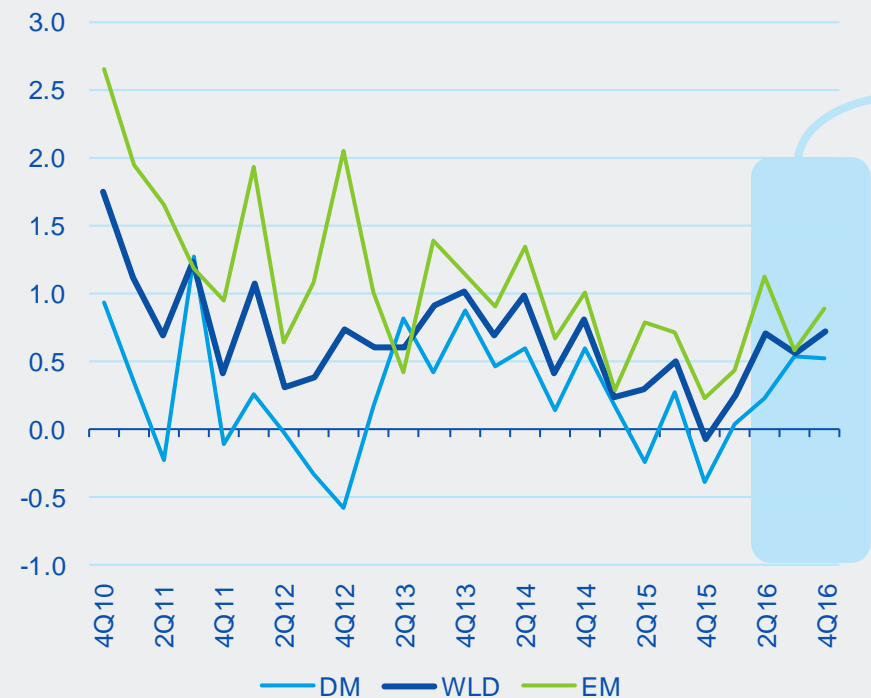
**World GDP growth: change in forecasts**  
QoQ %



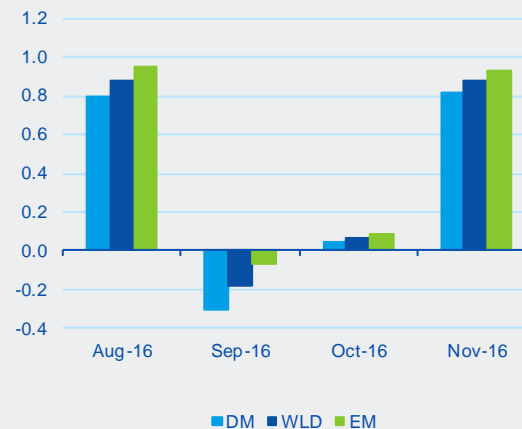
INDUSTRIAL PRODUCTION

Industrial production picked up again up to November, after moderating in the previous quarter...

World Industrial Production  
QoQ, %



World Industrial Production  
MoM, %



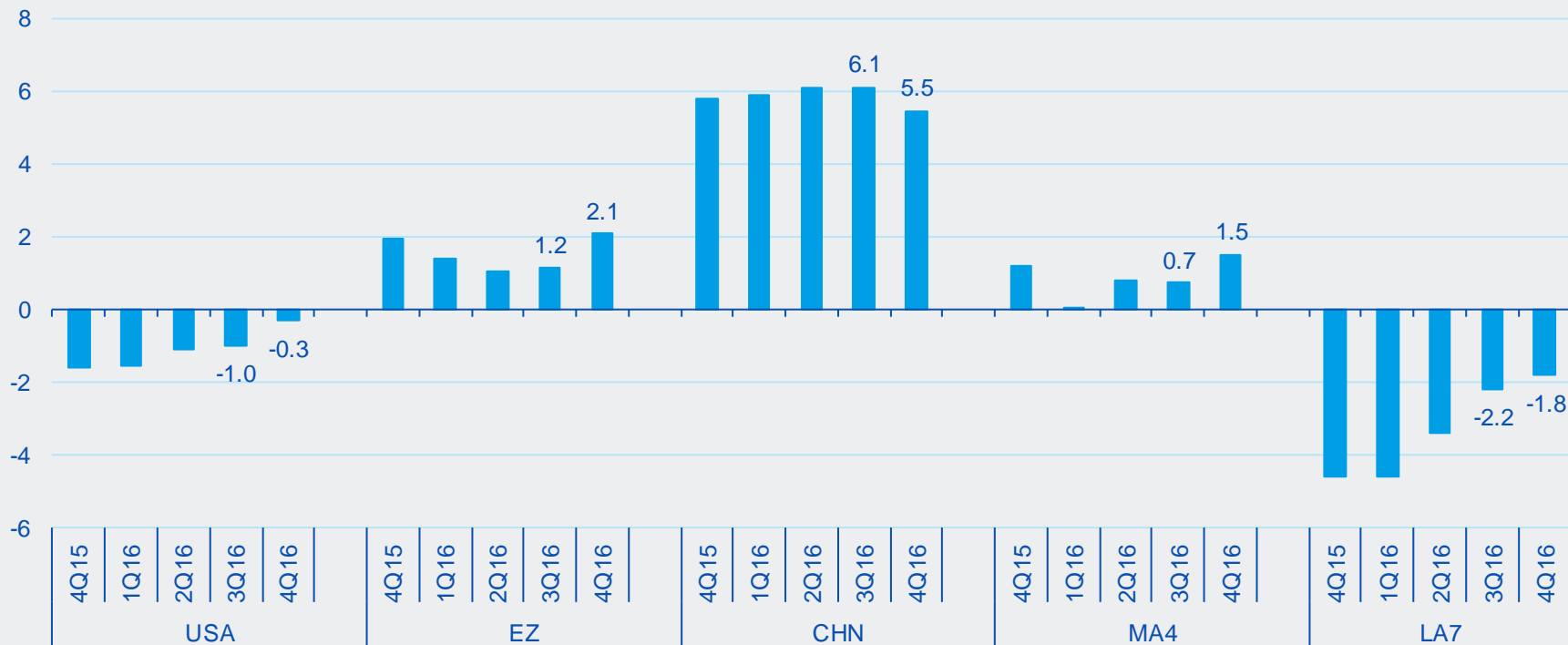
- Across DM's, the sharp IP increase in the eurozone contrasts with the slight decline in the US
- In EM, despite high volatility, the downward trend seems to have finished driven by China's performance

**INDUSTRIAL PRODUCTION**

... especially in the Eurozone and in emerging Asia

**Industrial Production: selected regions**

YoY, %



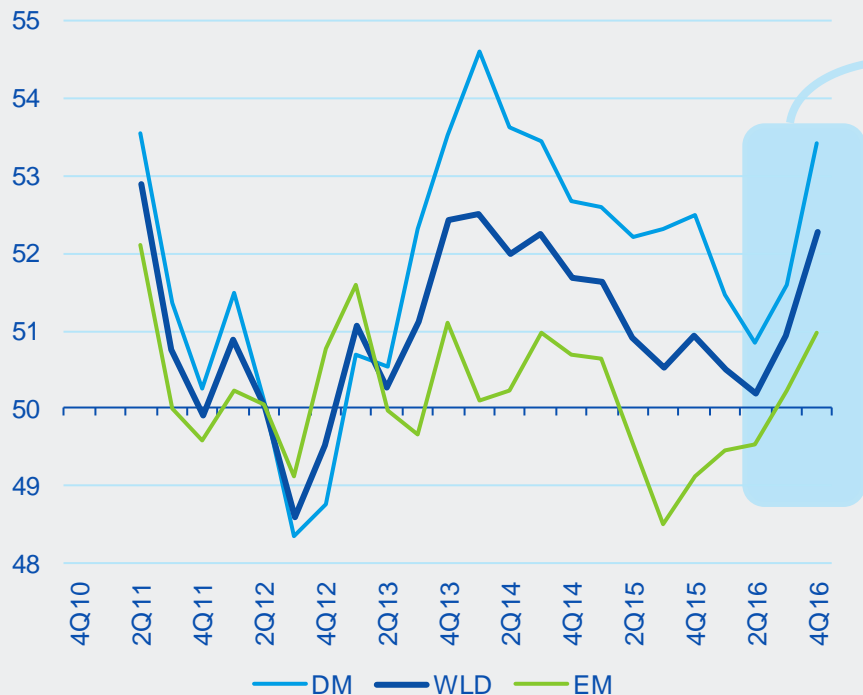
\* 4Q16 calculated using data for October and November for EZ, CHN, MA4 and LA7  
 Source: Haver and BBVA Research

PMI: MANUFACTURING

# Manufacturing confidence rebounded in 2H16, pointing to a more upbeat outlook ...

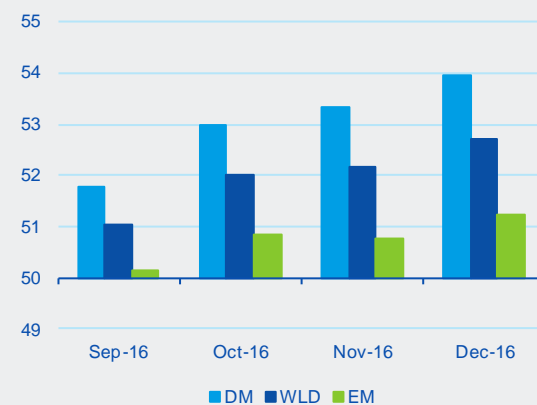
World Manufacturing PMI

Level  $\pm$  50



World Manufacturing PMI

Level  $\pm$  50



- Improving rates of expansion in **new business and employment** suggest that the economy is gathering momentum into the new year
- Stronger demand is leading to pressures on **manufacturing capacity**, with price pressures intensifying in December

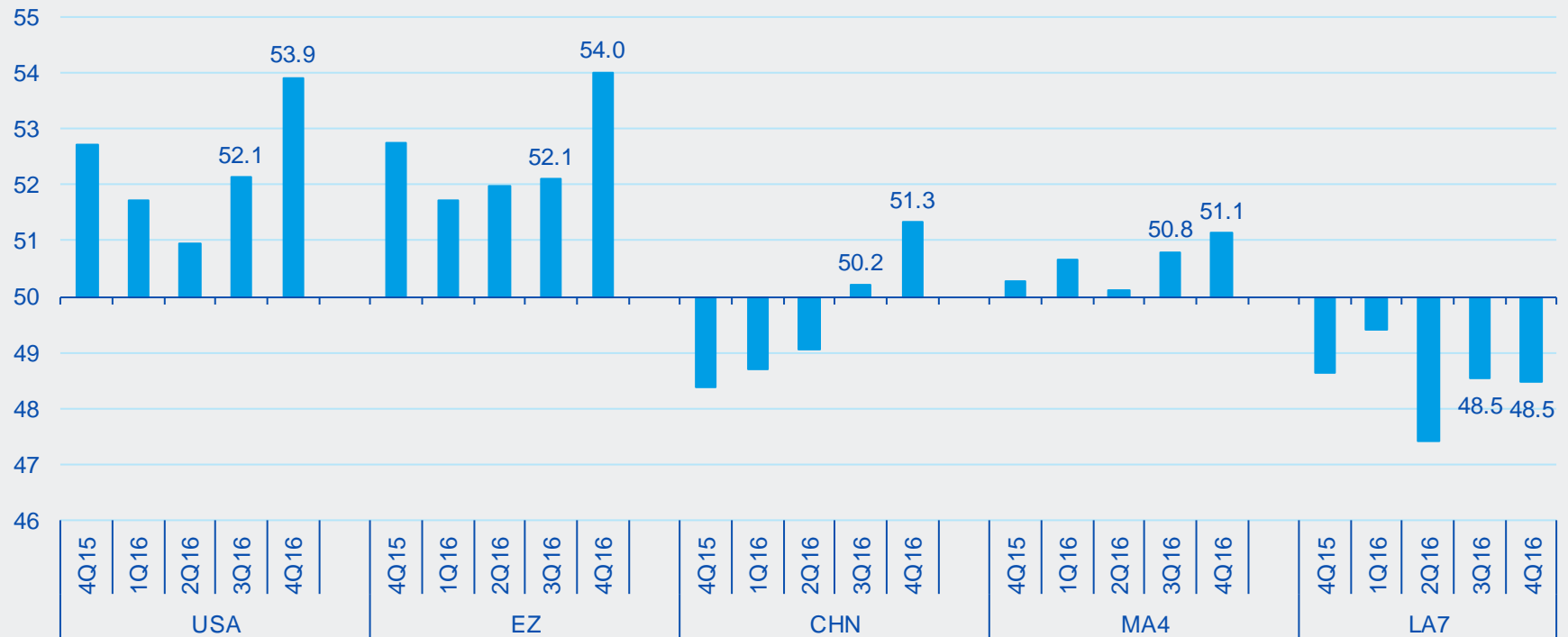


**PMI: MANUFACTURING**

... in most regions, especially Europe and the US

**Manufacturing PMI: selected regions**

Level  $\pm$  50

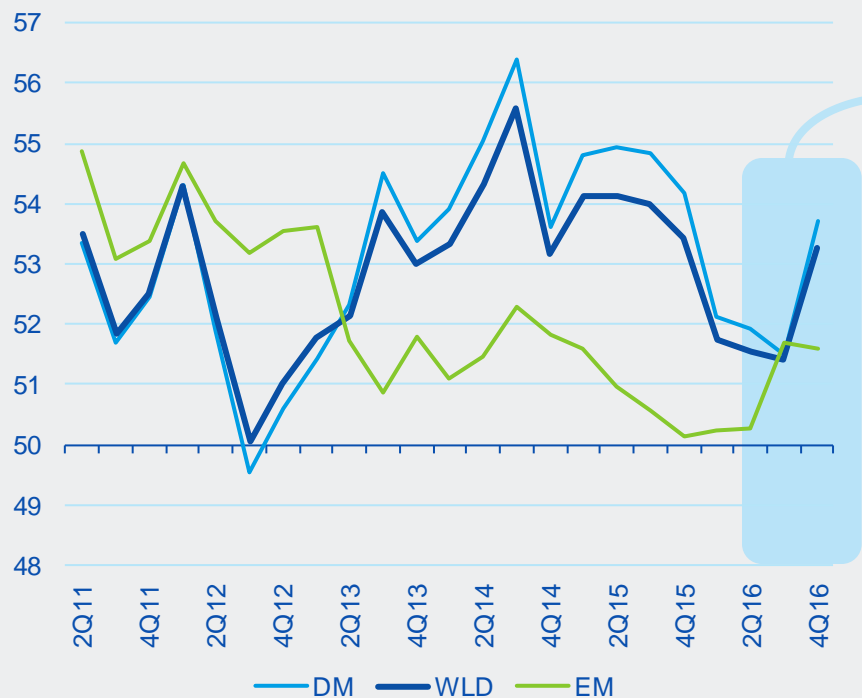


PMI: SERVICES

The December PMI services confirmed a positive end of 2016 for the sector...

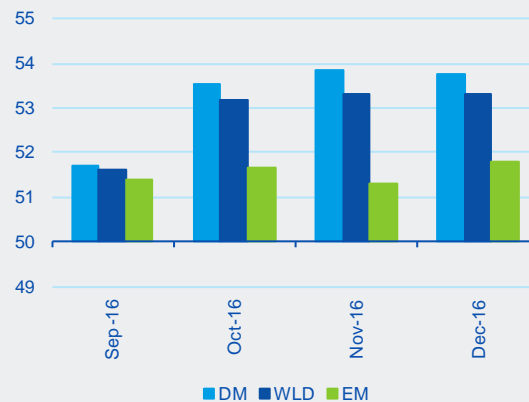
World Services PMI

Level  $\pm$  50



World Services PMI

Level  $\pm$  50



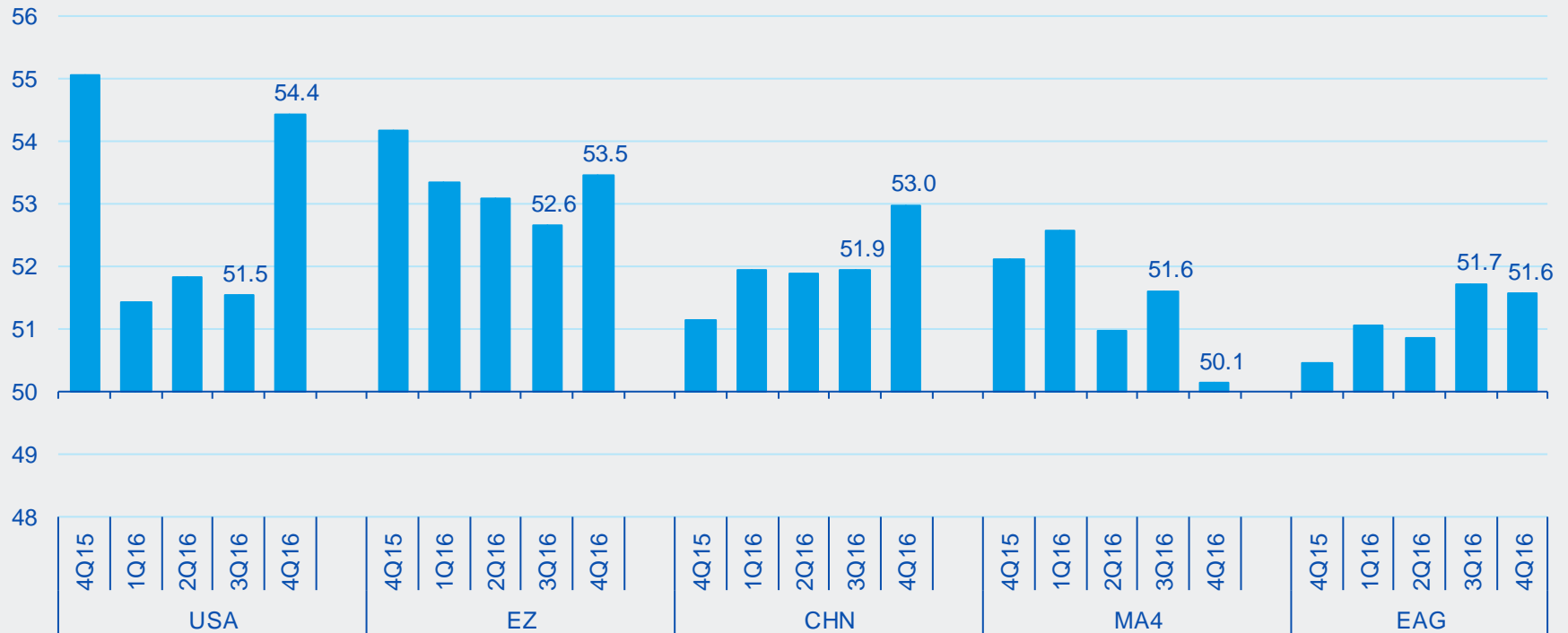
- Global service sector expands at a solid pace in December.
- Output growth was maintained at November's high, while improved inflows of new business and job creation.
- Average output prices continued to rise, while stronger demand left room for manoeuvre

**PMI: SERVICES**

... especially in DM's, where confidence strengthened in 4Q16, while it declined slightly in EM's (except China)

**Services PMI: selected regions**

Level ± 50

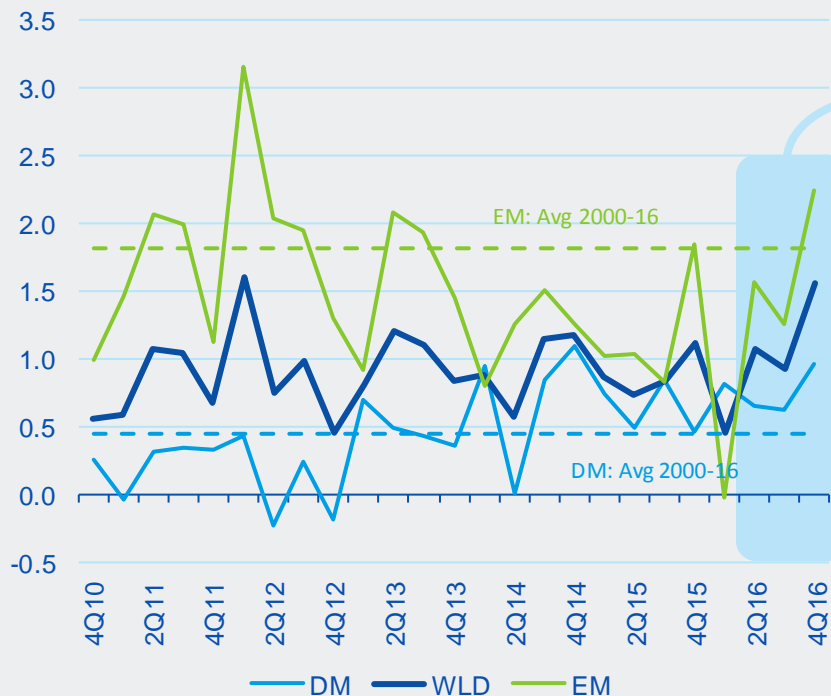


EAG (Eagles): Bangladesh, Brazil, China, Egypt, India, Indonesia, Iran, Malaysia, Mexico, Nigeria, Pakistan, Philippines, Russia, Turkey, Vietnam  
 Source: Markit and BBVA Research

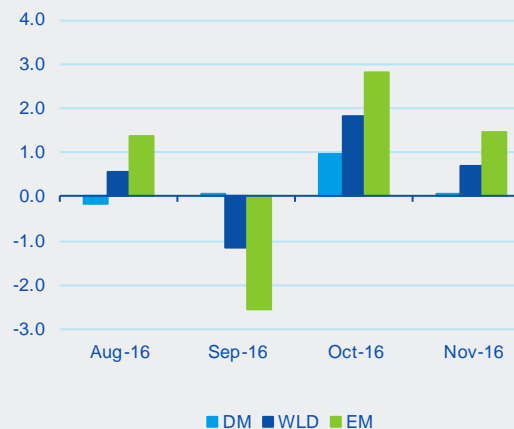
RETAIL SALES

Widespread retail sales moderation in November, but still pointing to robust consumption over the quarter...

World Retail Sales  
QoQ, %



World Retail Sales  
MoM, %



- Private consumption in DM's remains strong but it is unlikely to strengthen further in coming quarters
- Across EM's, good performance in China and the rest of Asia, but still poor figures in Latam

**RETAIL SALES**

...with slow acceleration in China, Latam, and a bit faster in Europe

**Retail Sales: selected regions**

YoY, %



\* 4Q16 calculated using data for October for LA7; October and November for USA, EZ, CHN and MA3

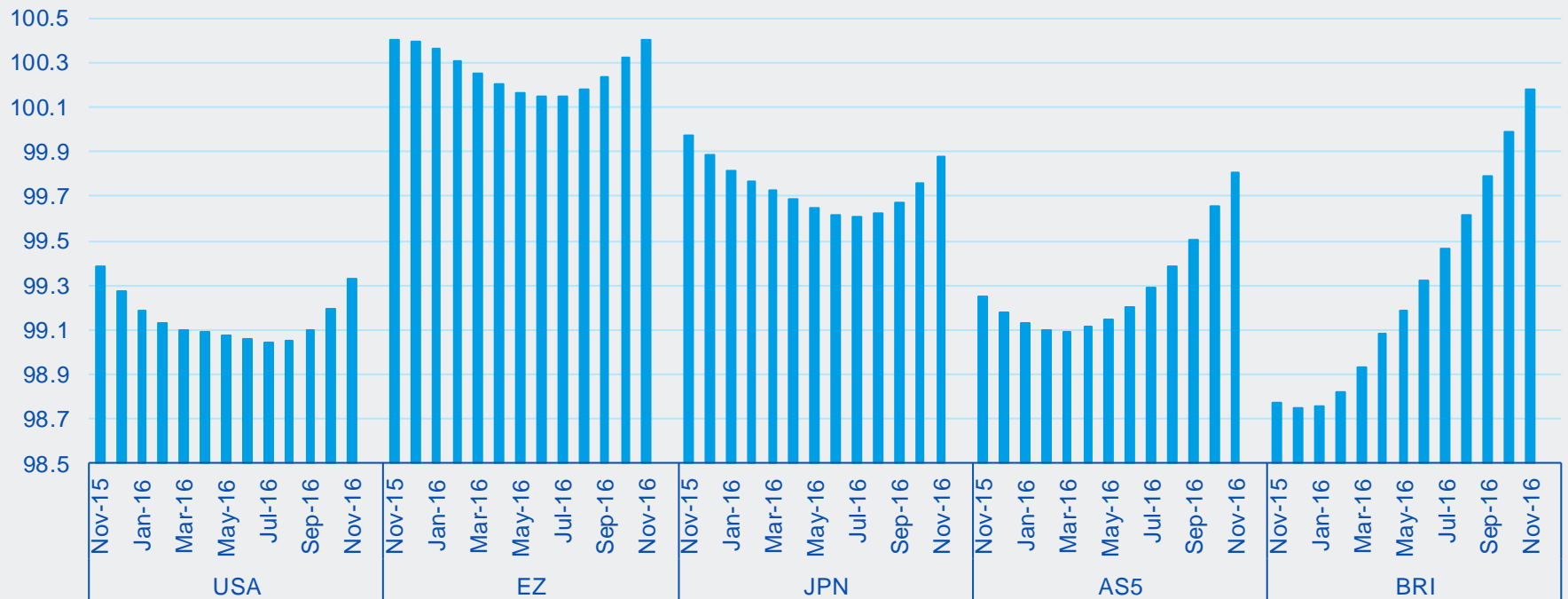
MA3 (Major Asian 5 ex China and India): Indonesia, Japan, South Korea.

Source: Haver and BBVA Research

LEADING INDICATOR

# OECD leading indicators confirm that momentum is gathering across the board

OECD Leading Indicator Index



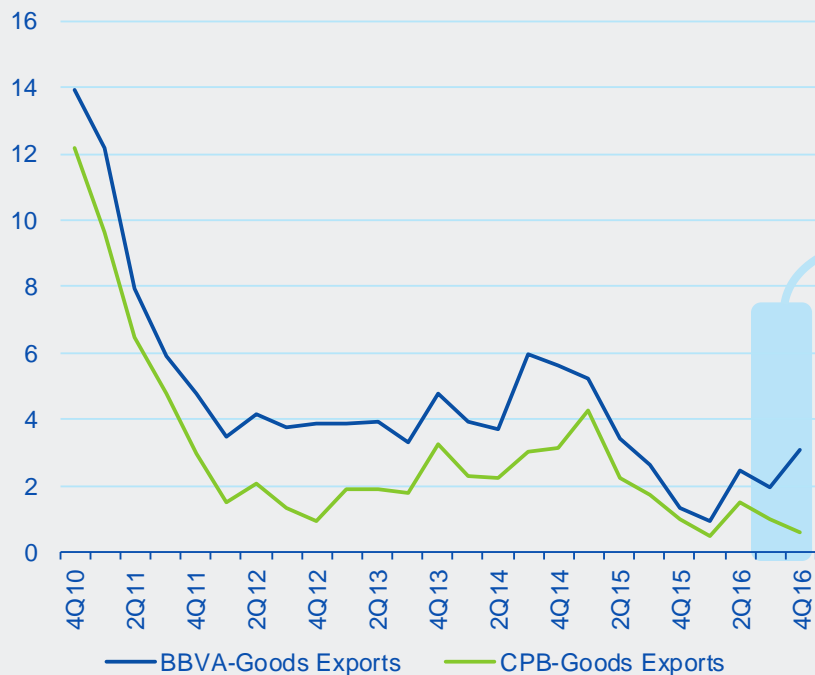
**Briics:** Brazil, Rusia, India, Indonesia, China, South Africa.  
**AS5:** (Major Asian 5 ): China, India, Indonesia, Japan, South Korea.  
 Source: OECD and BBVA Research

GLOBAL TRADE

Global goods' export growth also seems to have gathered pace in recent months, albeit slowly

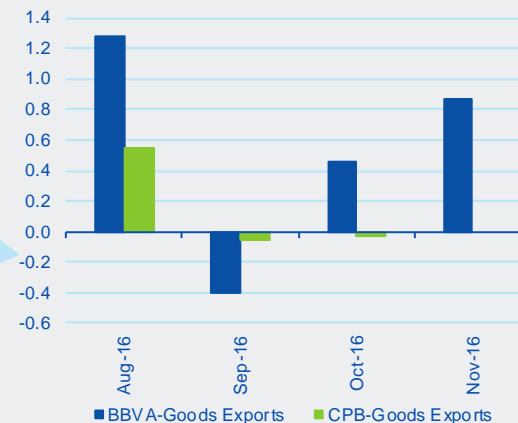
World Exports of Goods (constant prices)

YoY %, Index Jan-12=100



World Exports of Goods (constant prices)

MoM, %



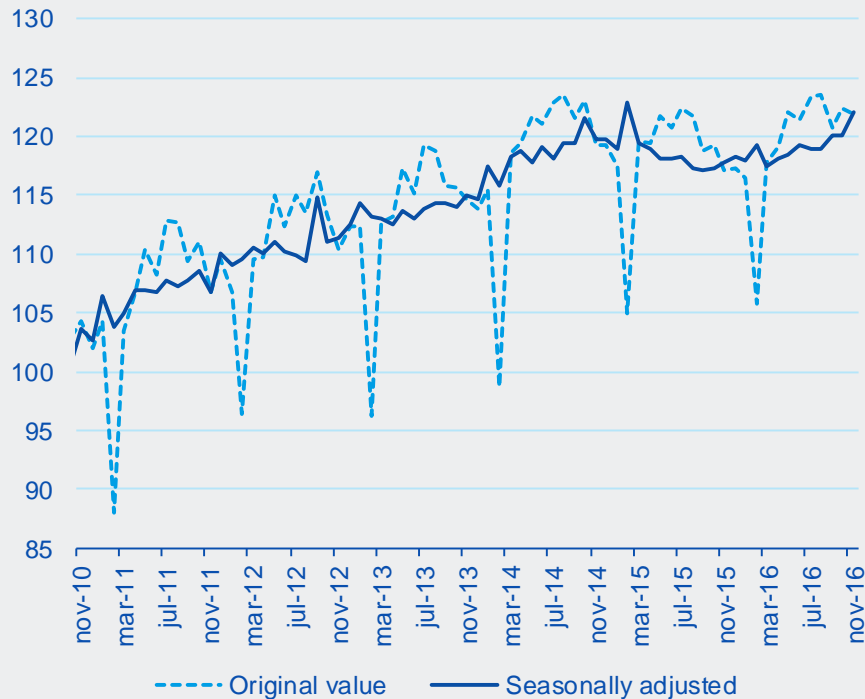
- Significant improvement of exports in November boosted by Asia (except India) and EZ
- Exports orders point to a bit favorable outlook in recent months for Europe, while they could be curbed in the US by appreciating dollar
- More optimistic signs in Latam after poor figures in October

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

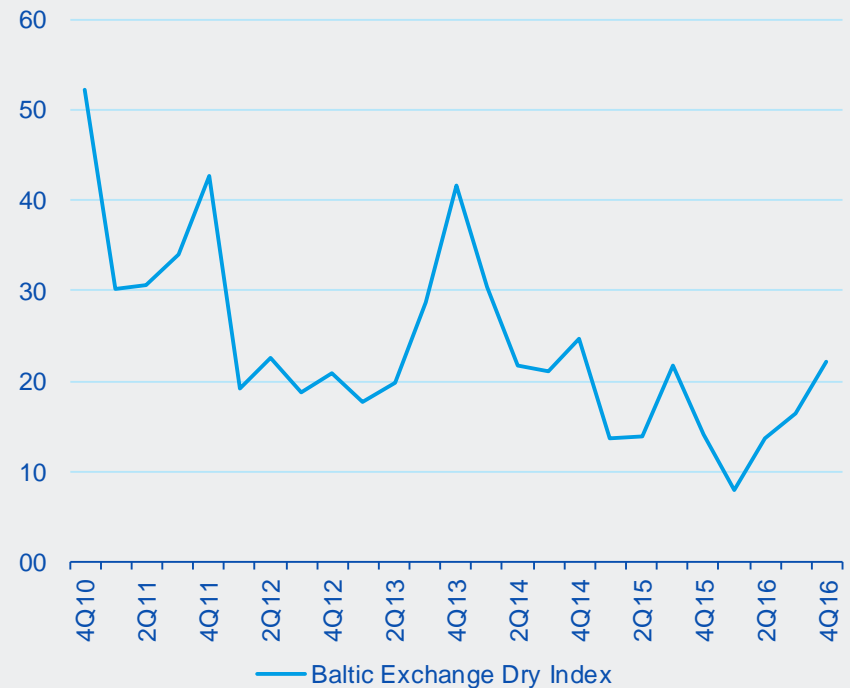
**GLOBAL TRADE**

# Freights also point to a moderate upward trend in global trade

**RWI/ISL Container throughput index**  
Index, 2010=100



**Baltic Exchange Dry Index**  
Index, Jan-05=100





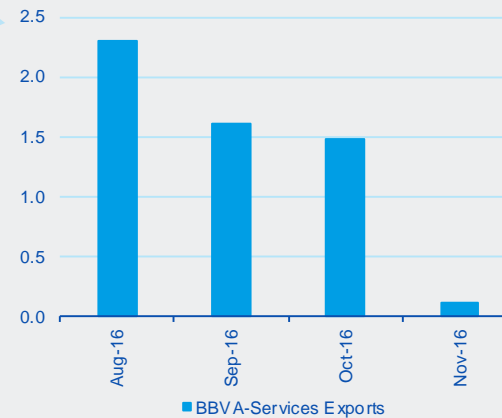
**GLOBAL TRADE**

Exports of services slowed in November after improving markedly by mid-year, but still present a solid quarterly growth rate

**World Exports of Services (constant prices)**  
YoY, %



**World Exports of Services (constant prices)**  
MoM, %

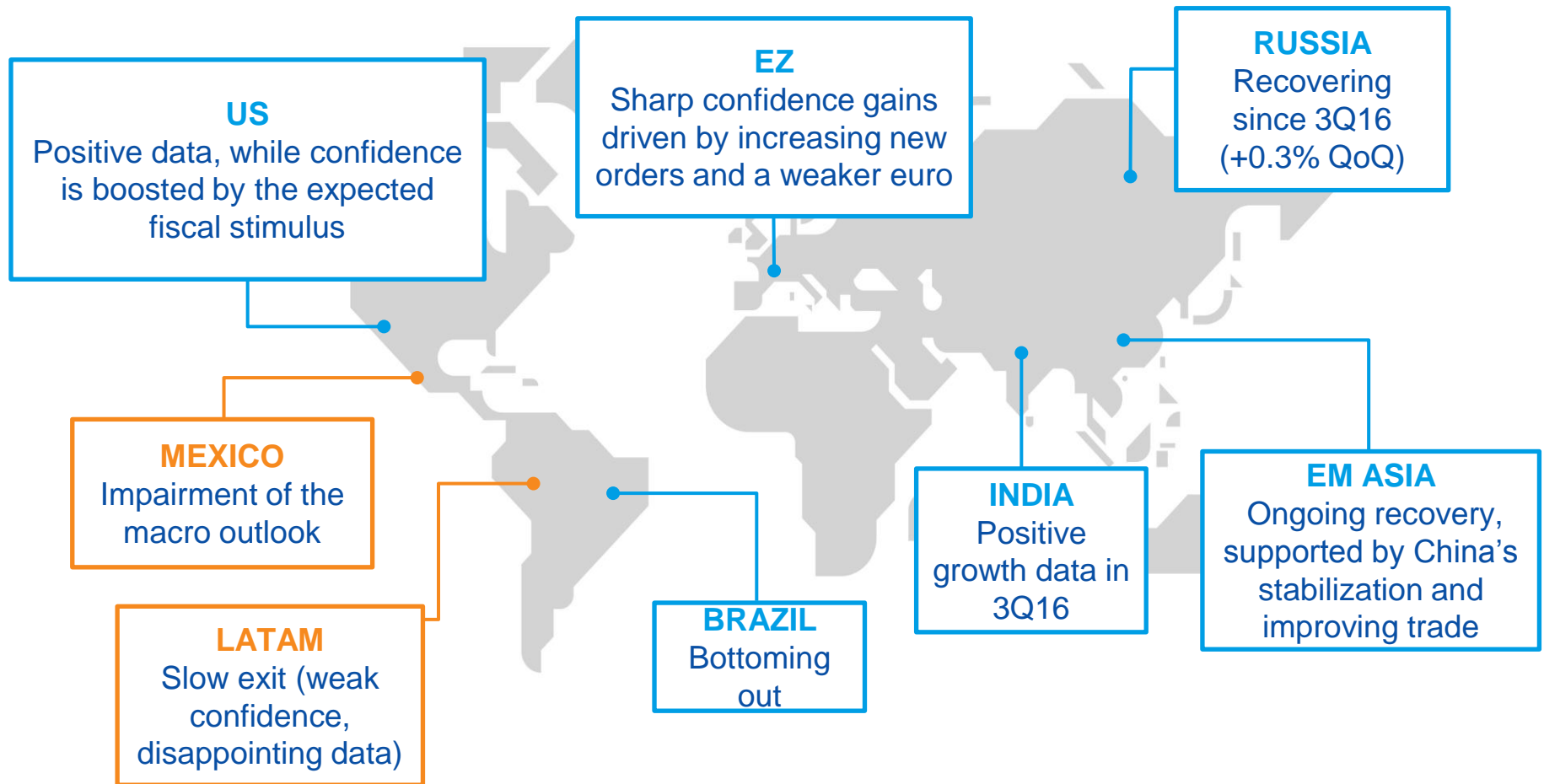


- Steady quarterly rates along with drops a year ago point to an ongoing acceleration of services export annual rates in coming quarters

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

PERFORMANCE BY AREA

Overall, developed countries have performed better than emerging areas recently

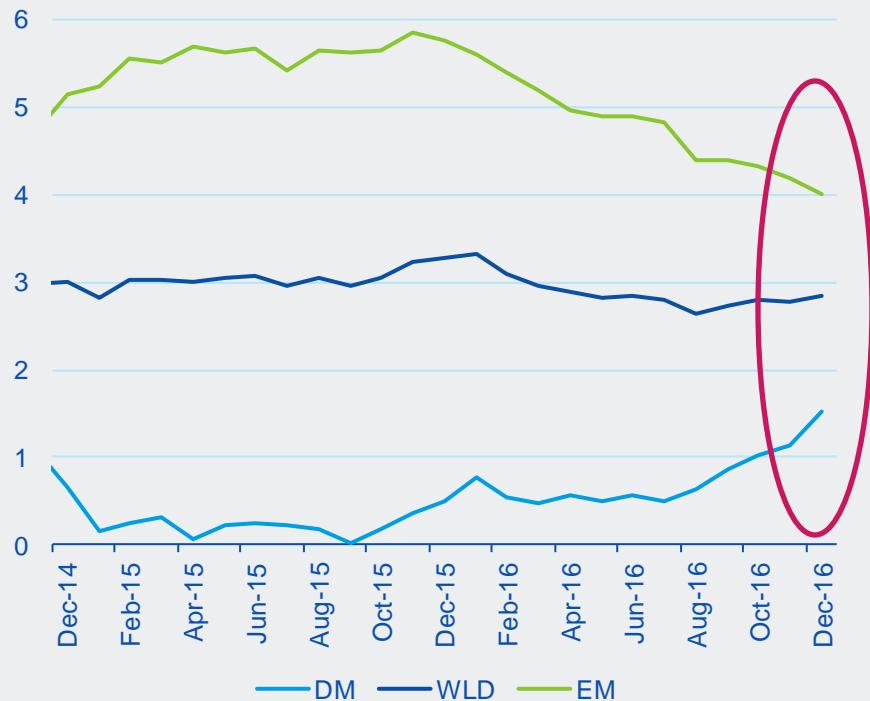


INFLATION

# Global inflation increased in December driven by higher prices in DM's...

## World Headline Inflation

YoY, %



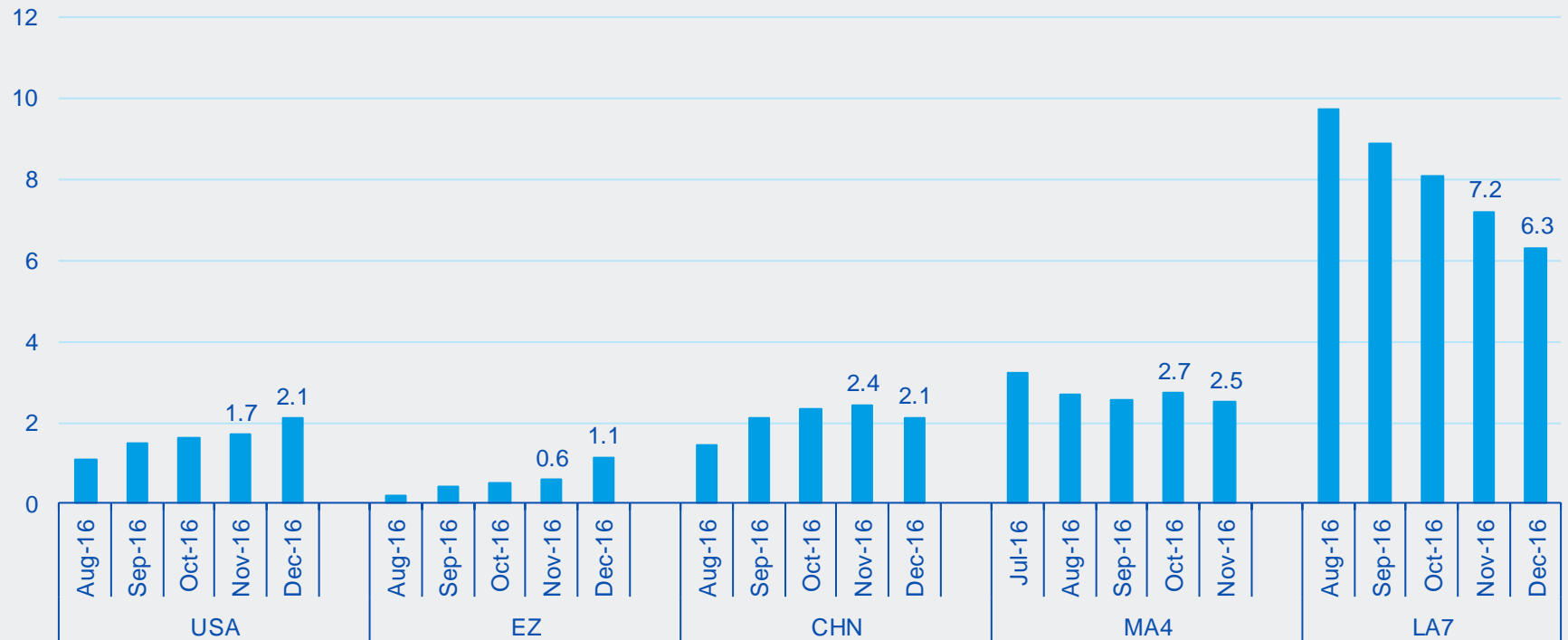
- In DM's, recovering inflation reflects the base effects from energy prices that should step up in coming months
- In EM's, especially in Latam (except Mexico) inflation eased somewhat in the last three months. The mild depreciation and the weight of domestic slack are the main driving force of inflation moderation.
- Surveys to December so far point to incipient cost pressures, mostly in DMs fostered by the strength of domestic demand along with firms' squeezed margins

**INFLATION**

... along with slowing inflation in Latam and some stabilization in emerging Asia

**Headline Inflation: selected regions**

YoY, %



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