

ECONOMIC WATCH

# GLOBAL OUTLOOK

MARCH 2017



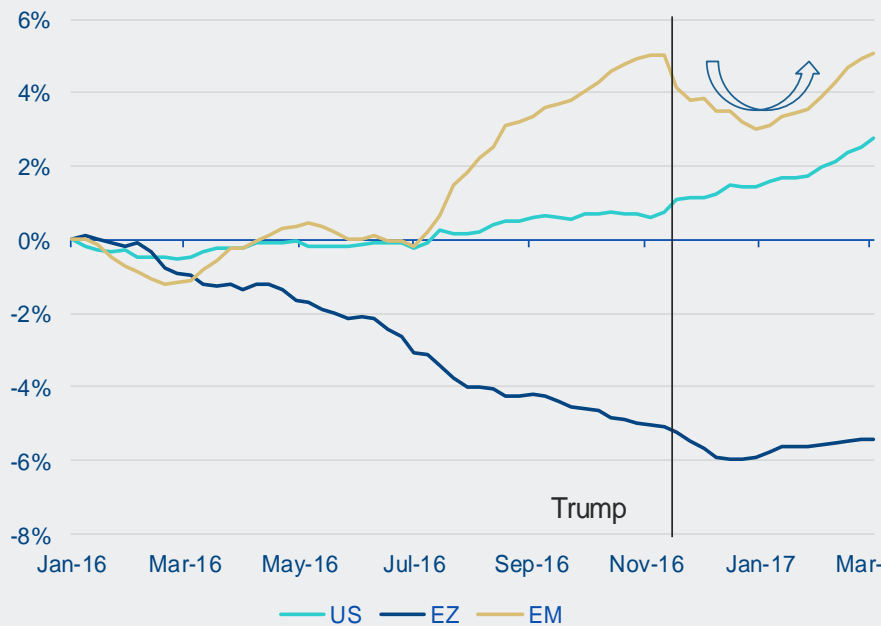
## Summary: Global growth points to 0.9%-1% QoQ in early 2017

- Global GDP growth continues accelerating in Q1, though our BBVA-GAIN indicator of global growth for Q4 and Q1 (0.85% and 0.93% QoQ, respectively) is slightly lower than a month ago. This implies global growth of around 0.9%-1% QoQ (3.8% SAAR).
- Confidence indicators continue to be very strong and global trade gives signals of further expansion, but industrial production and especially retail sales are more moderate in early year.
- Steady and solid growth in developed markets (DM): the industrial recovery seems to lose some traction in January, although tailwinds such as improving global demand and confidence continue strengthening
- Mixed signals from emerging markets (EM): better performance in Asia contrasts to weaker indicators in Latam
- Global inflation continued to increase in February driven by developed economies, which mostly reflect the base effects from energy. But measures of underlying inflation remain mostly flat

FINANCIAL MARKETS

# Appetite for EM and the US returned, while in the EZ, funds continued to register net outflows

**PORTFOLIO FLOWS INFLOWS**  
(%AUM, 0%: January 2016)



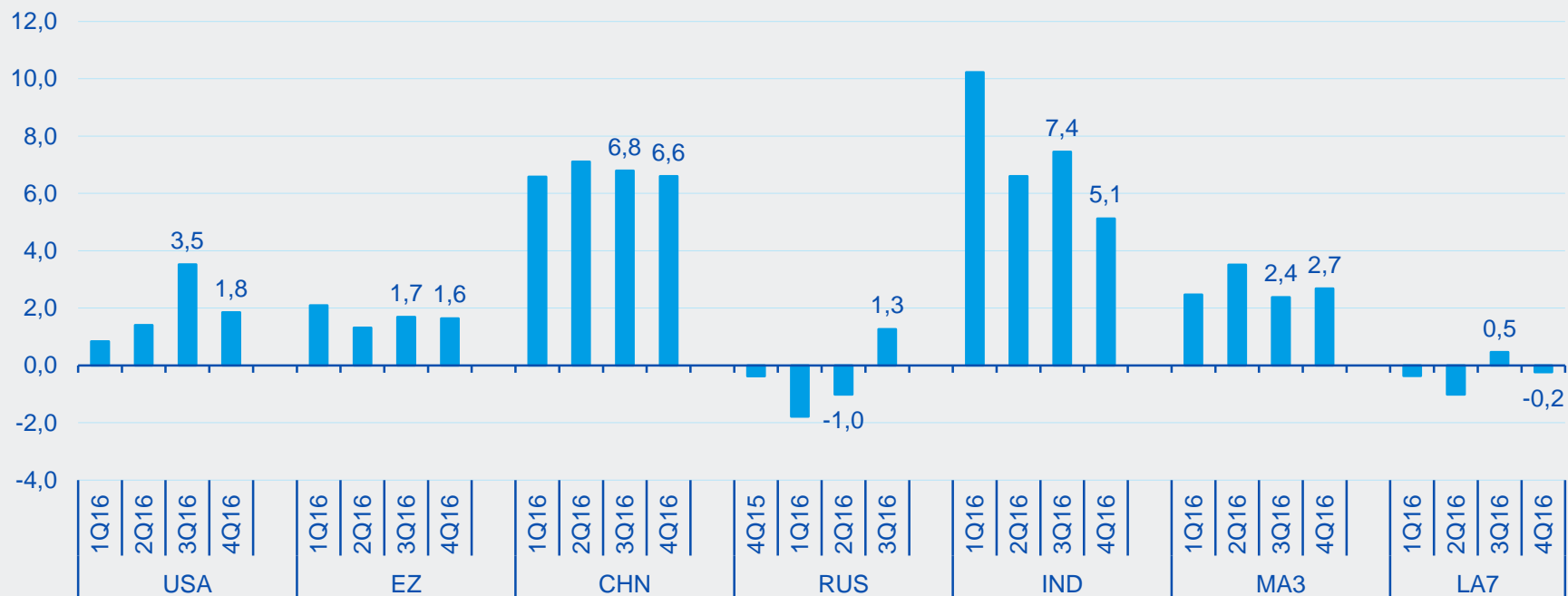
- EM has been registering significant inflows – recovering pre-Trump election levels- backed on the upward trend in commodity prices and the cautious tone of Fed’s officials in tightening process. Nonetheless, during last week oil prices dropped and Fed’s rate hike diminished the appetite for EM.
- European funds continued to register net outflows. Political uncertainty weighted during last month (Netherlands, France and Italy) but the outcome of Dutch election and the widening gap between Macron and Le-Pen could curb the EZ’s outflows onwards.
- US inflows remained in both equity and bonds funds. Investors appetite is favored by the expectation of gradual pace in Fed’s interest rate normalization and the potential Trump’s fiscal impulse, that contribute to maintain equity indices hovering around their historical highest levels.

GLOBAL GDP

# GDP data for Q4: weaker US, broadly stable growth in Asia, while Latam fails to exit from recession

**GDP: SELECTED REGIONS**

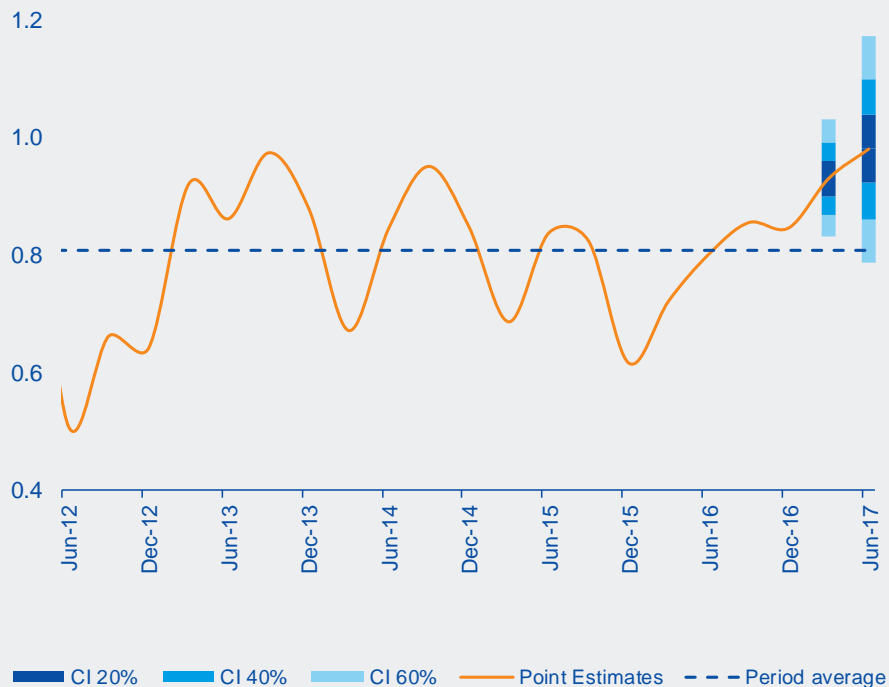
SAAR, %



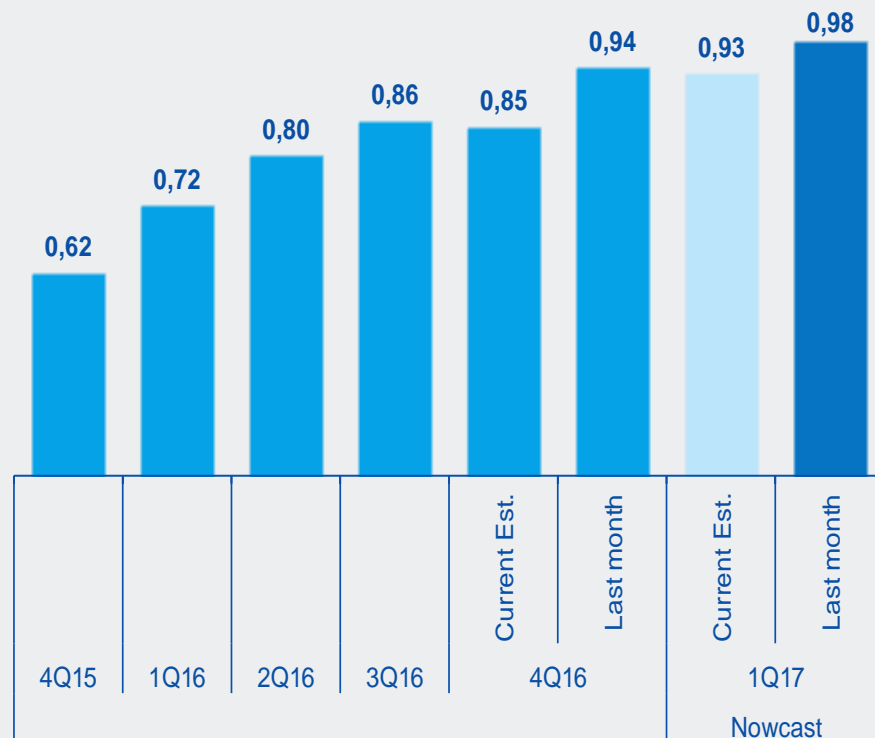
**GLOBAL GDP**

The acceleration continues in Q1 (to about 1% QoQ), with slight downward revisions in both Q4 and Q1

**WORLD GDP GROWTH**  
forecasts based on BBVA-GAIN (% , QoQ)



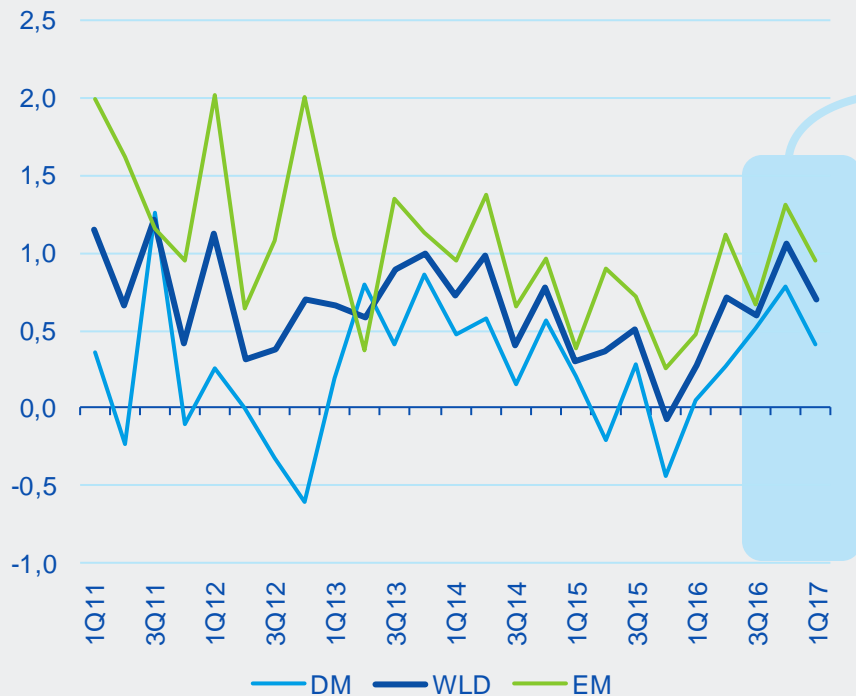
**WORLD GDP GROWTH: CHANGE IN FORECASTS**  
QoQ %



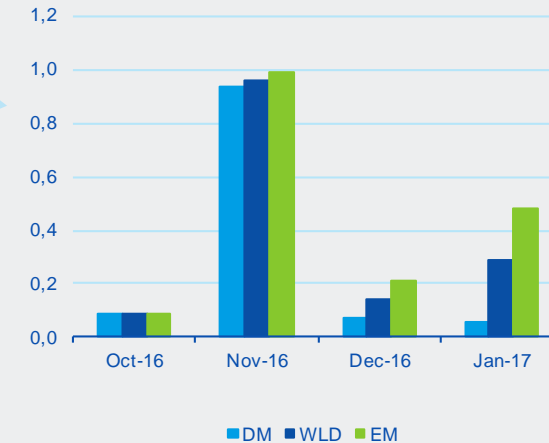
INDUSTRIAL PRODUCTION

# Industrial production continues to grow solidly, but is a bit softer in Q1

WORLD INDUSTRIAL PRODUCTION  
QoQ, %



WORLD INDUSTRIAL PRODUCTION  
MoM, %



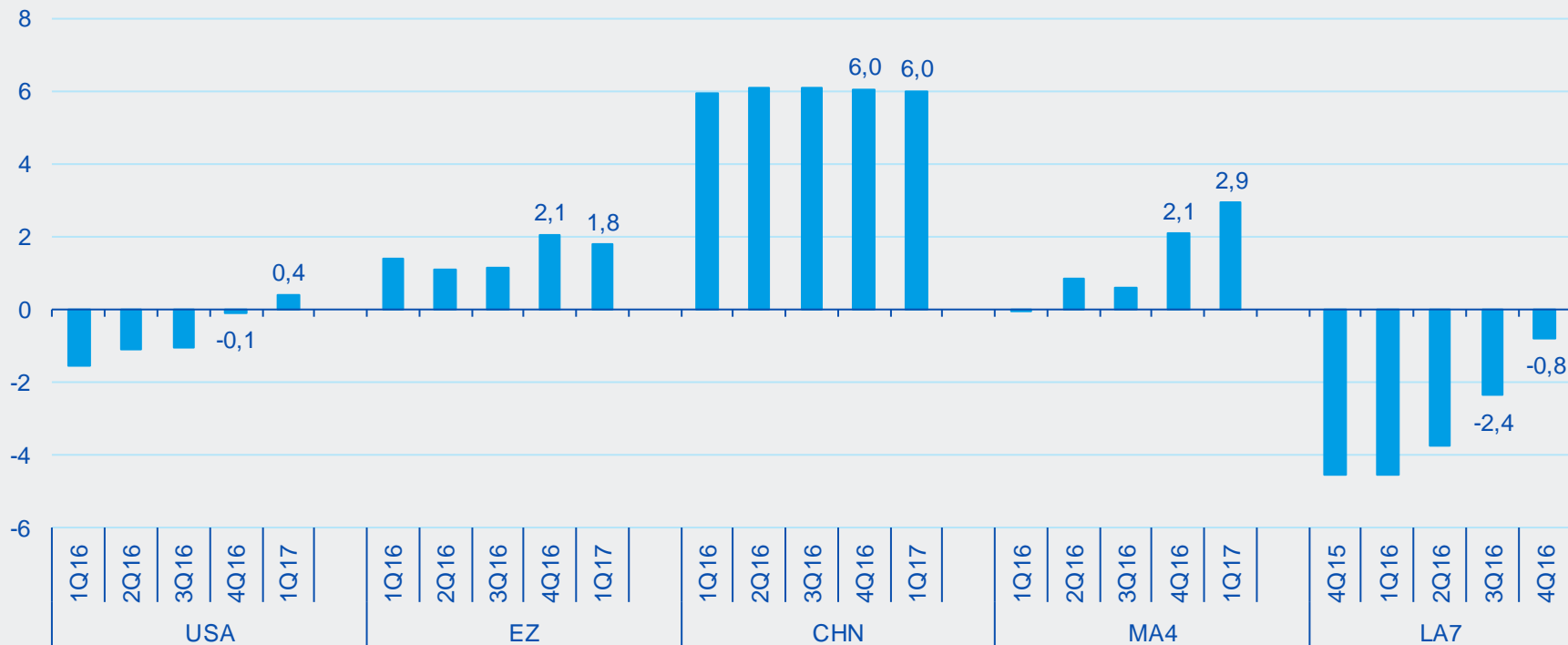
- After a strong November, growth has returned to more normal rates in December and has accelerated in EM's in January

**INDUSTRIAL PRODUCTION**

The improvement of industrial production is more apparent in emerging Asia, while it is less negative in Latam

**INDUSTRIAL PRODUCTION: SELECTED REGIONS**

YoY, %



\* 1Q17 calculated using data for January for USA, EZ, CHN and MA4  
 Source: Haver and BBVA Research

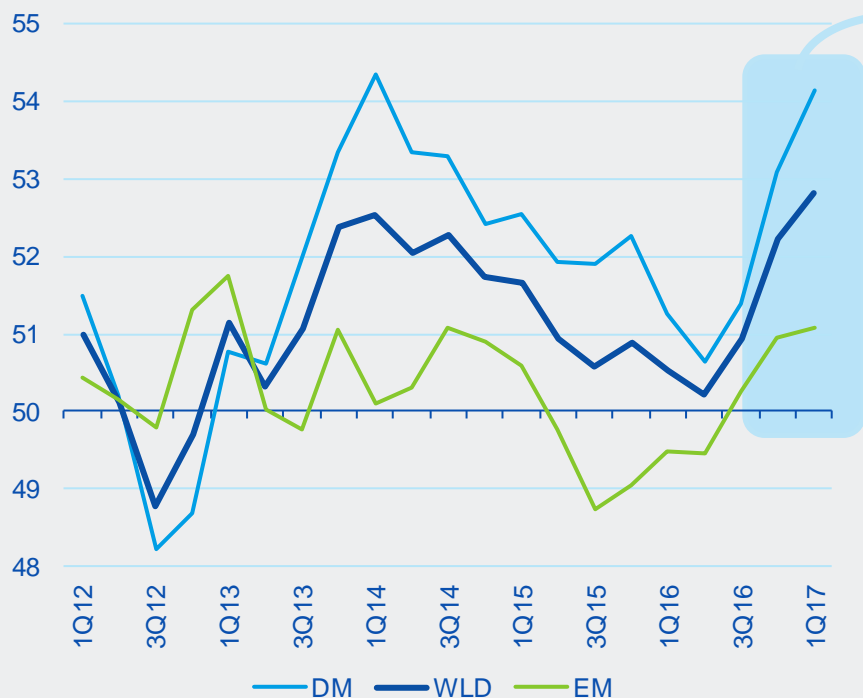
**LA7:** Argentina, Brazil, Chile, Colombia, Mexico, Peru, Venezuela.  
**MA4:** India, Indonesia, Japan, Korea

PMI: MANUFACTURING

But manufacturing confidence (PMI) looks much more positive at the beginning of 2017...

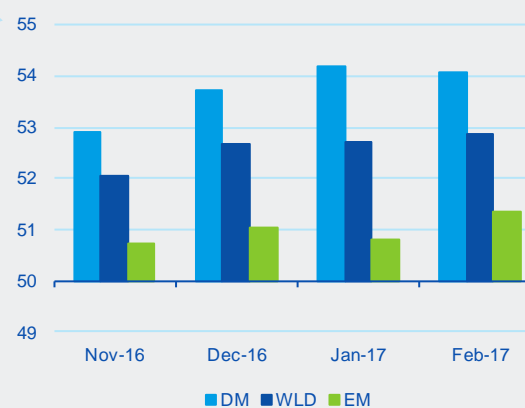
WORLD MANUFACTURING PMI

Level ± 50



WORLD MANUFACTURING PMI

Level ± 50



- According to PMI's, the rate of expansion accelerated to a three-year high in February, underpinned by strong growth of total new orders, rising levels of international trade and job creation
- Input prices continued to rise at a marked pace while companies passed on part of the increase in costs to clients

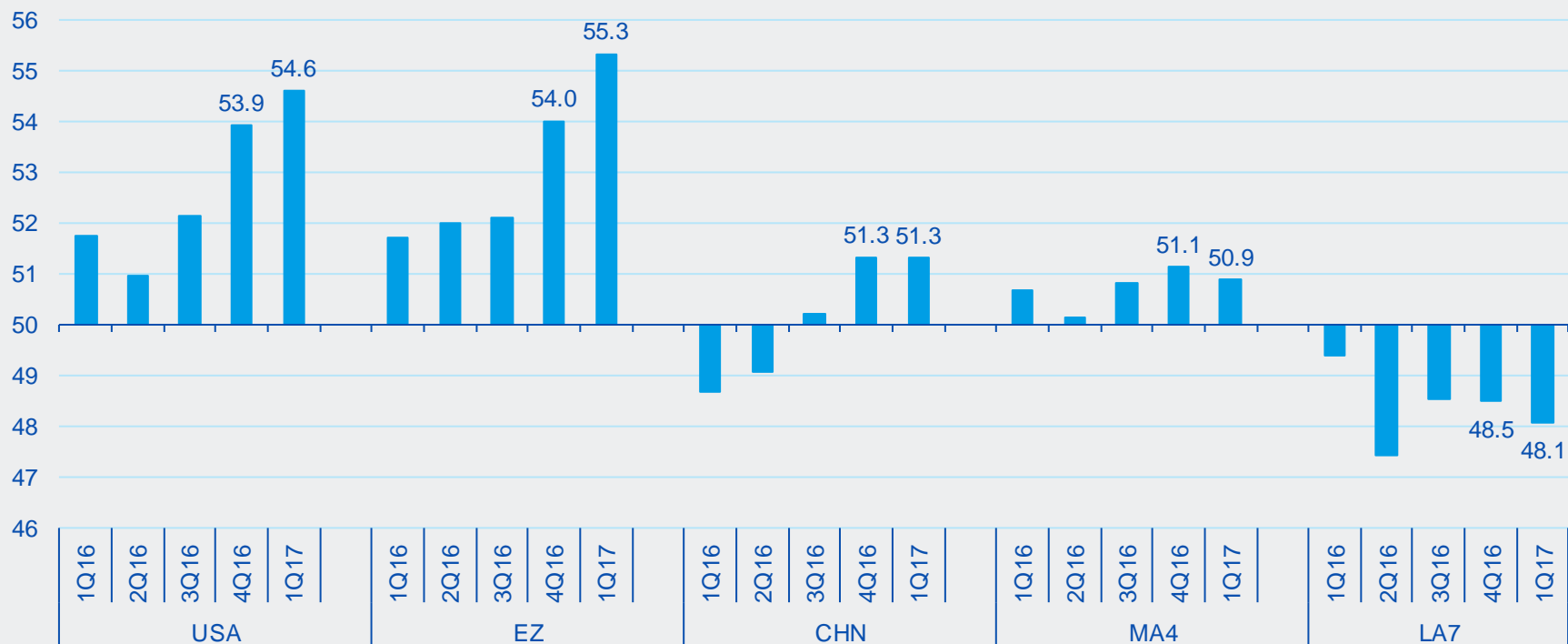


**PMI: MANUFACTURING**

... especially in advanced economies, while PMI's in Latam are still lagging behind

**MANUFACTURING PMI: SELECTED REGIONS**

Level  $\pm$  50



\* 1Q17 calculated using data for January and February  
Source: Haver and BBVA Research

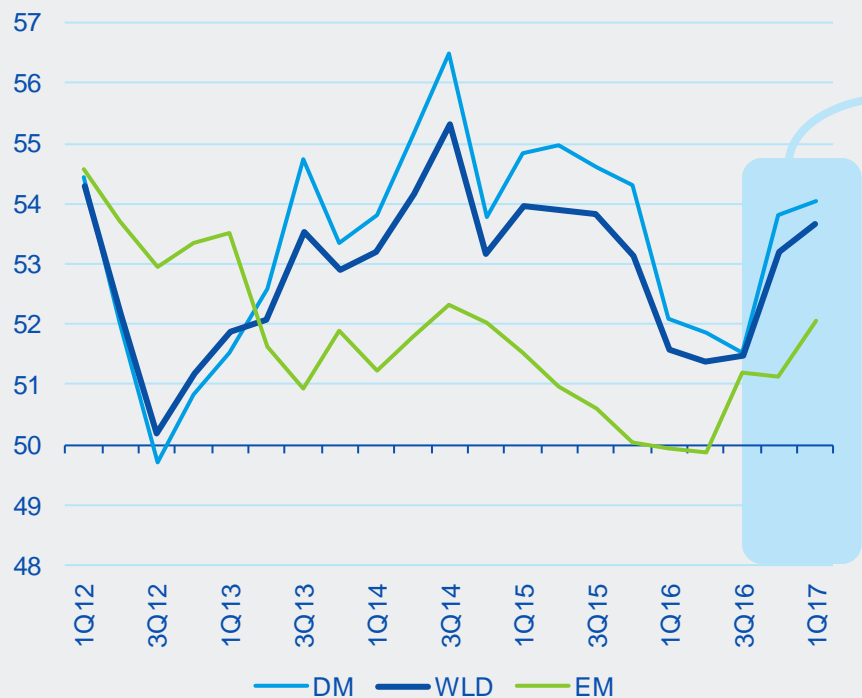
**LA7:** Argentina, Brazil, Chile, Colombia, Mexico, Peru, Venezuela.  
**MA4:** India, Indonesia, Japan, Korea

PMI: SERVICES

# Global services PMI's continued to show an expansion at a solid, albeit slightly slower, rate in February

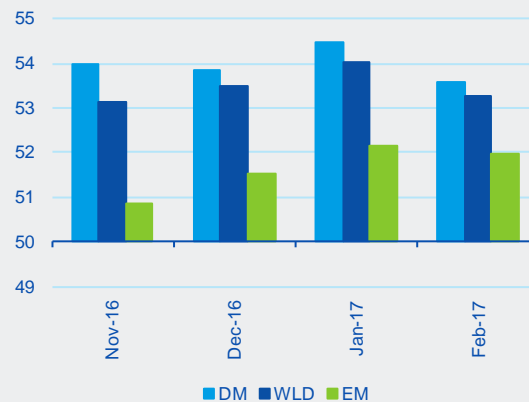
## WORLD SERVICES PMI

Level  $\pm$  50



## WORLD SERVICES PMI

Level  $\pm$  50



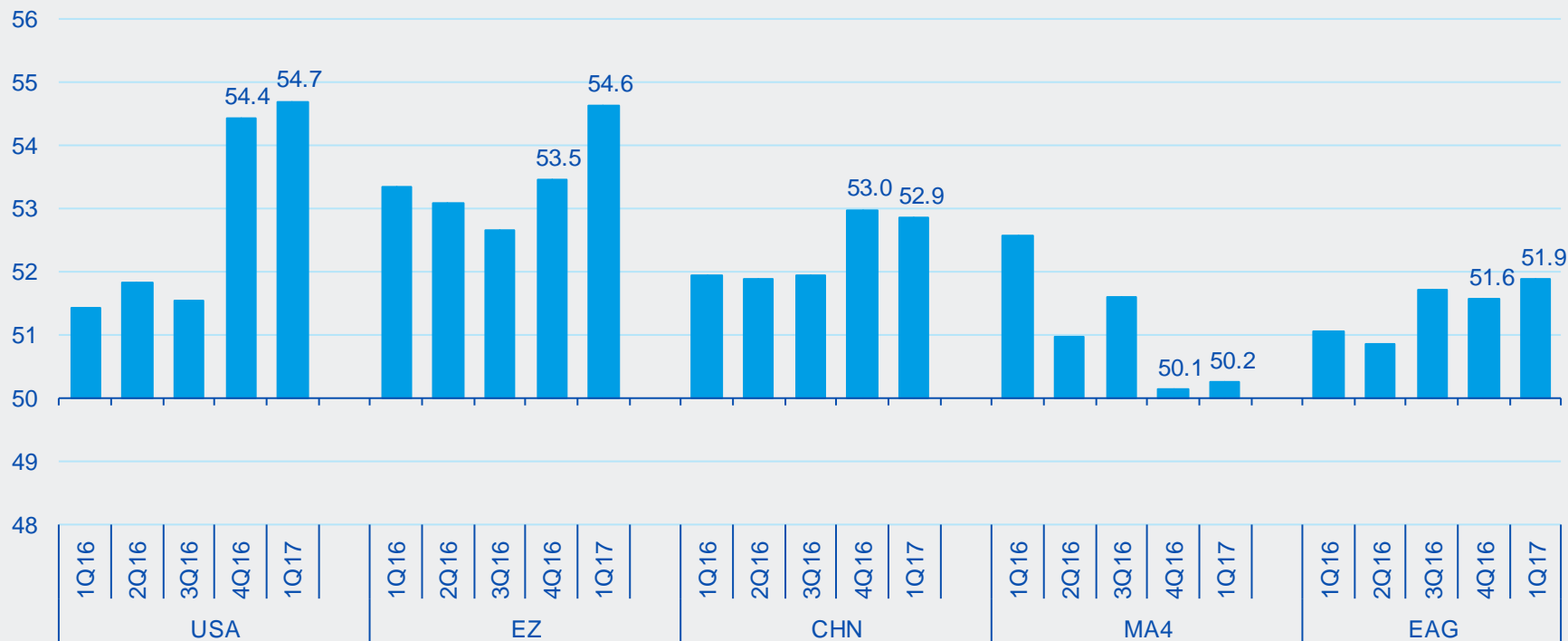
- February PMI data signaled a slight loss of traction in the rate of growth of global service sector business activity
- However, the upturn in new business led to a slight increase in backlogs and further job creation
- Input price inflation eased to a three-month low in February, and remained below the long-run average

**PMI: SERVICES**

The improvement in services confidence has been most noticeable in Europe in Q1

**SERVICES PMI: SELECTED REGIONS**

Level  $\pm$  50



\* 1Q17 calculated using data for January and February  
 Source: Markit and BBVA Research

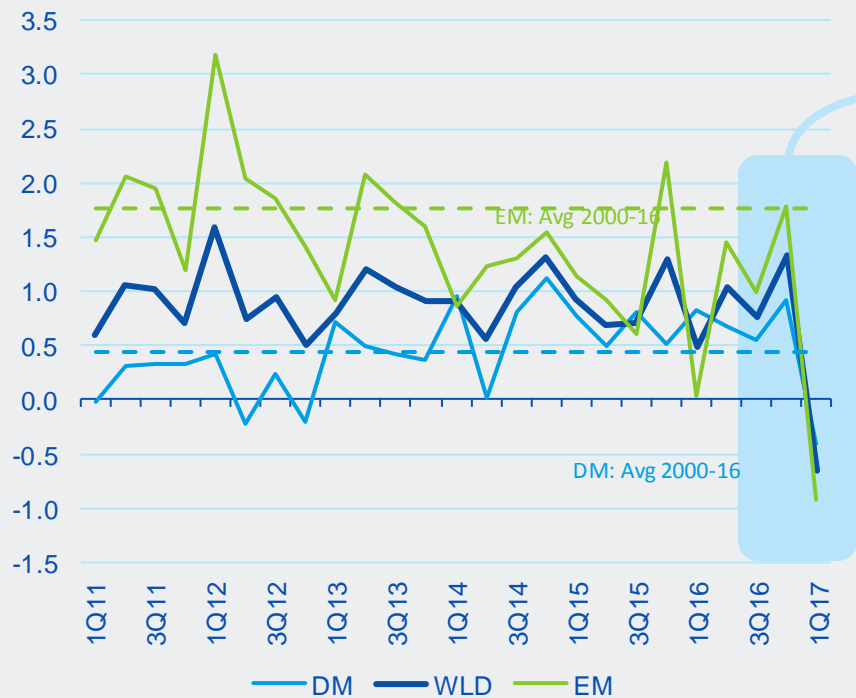
**MA4:** India, Indonesia, Japan, Korea  
**EAG (Eagles):** Bangladesh, Brazil, China, Egypt, India, Indonesia, Iran, Malaysia, Mexico, Nigeria, Pakistan, Philippines, Russia, Turkey, Vietnam

RETAIL SALES

Retail sales tumbled in December and have not yet recovered in Q1, after several quarters of healthy growth

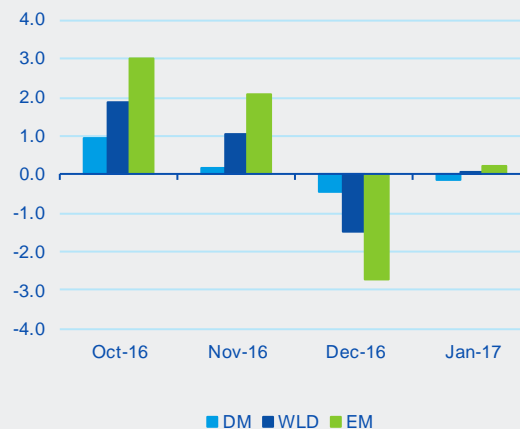
WORLD RETAIL SALES

QoQ, %



WORLD RETAIL SALES

MoM, %



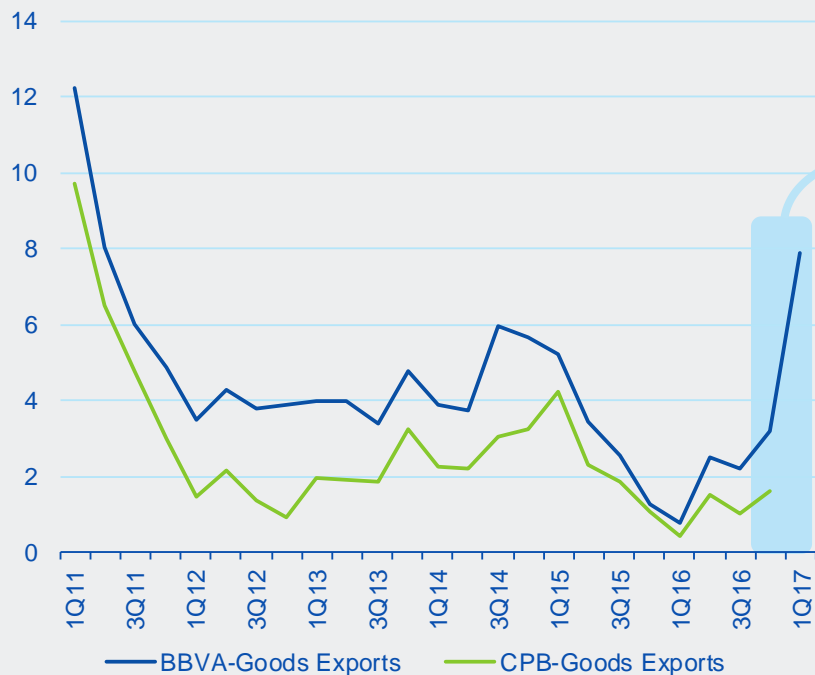
- Lower tailwinds seem to be already affecting households' consumption, especially in DM

GLOBAL TRADE

Goods exports rose sharply in January according to our measure of global trade, still to be confirmed...

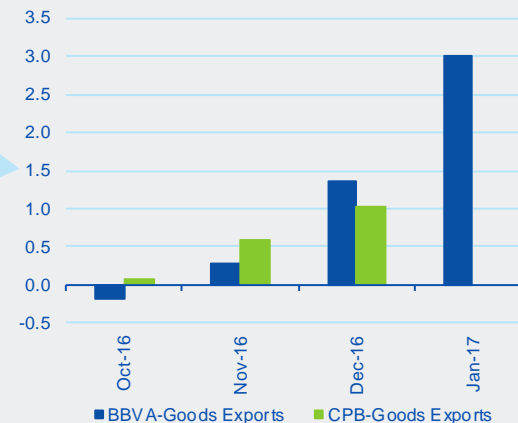
**WORLD EXPORTS OF GOODS (CONSTANT PRICES)**

YoY %, Index Jan-12=100



**WORLD EXPORTS OF GOODS (CONSTANT PRICES)**

MoM, %



- Significant improvement of exports in January boosted by Asia (except India), and Brazil
- International trade flows strengthen, as new exports orders rose to the highest rate in almost six years, according to PMI's

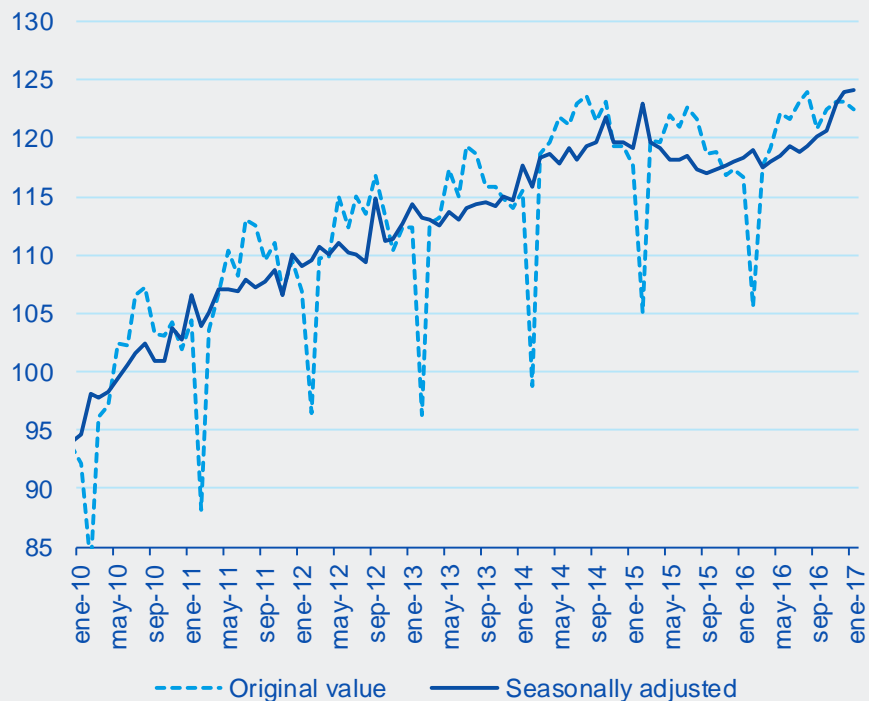
\* Based on **BBVA-Trade Index**  
Source: CPB and BBVA Research

GLOBAL TRADE

... but freight data in Jan-Feb (Baltic index) has moderated over Q1 so far, providing mixed signals on trade

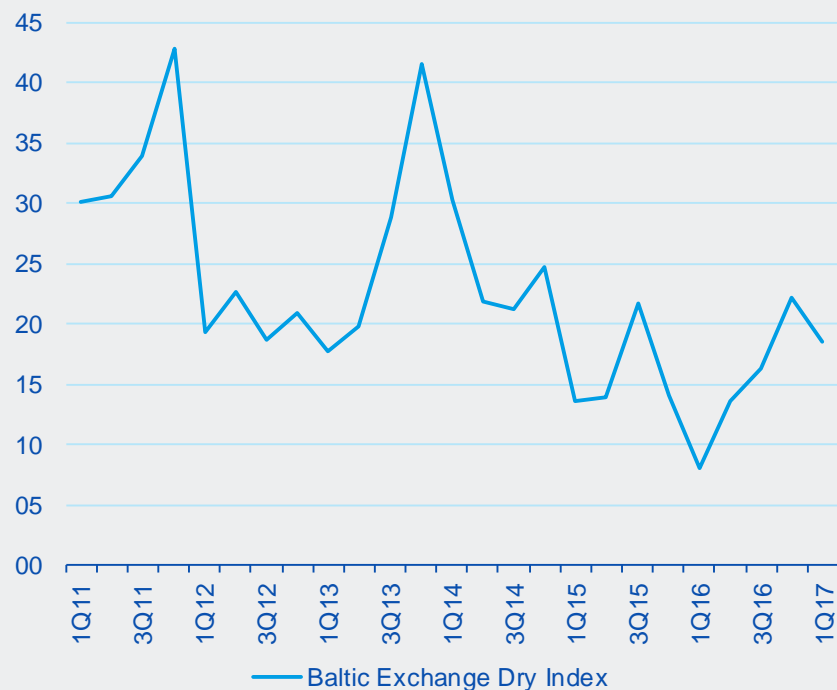
RW/ISL CONTAINER THROUGHPUT INDEX

Index, 2010=100



BALTIC EXCHANGE DRY INDEX

Index, Jan-05=100



GLOBAL TRADE

# Exports of services have moderated over the past 3 months after a year of strong growth

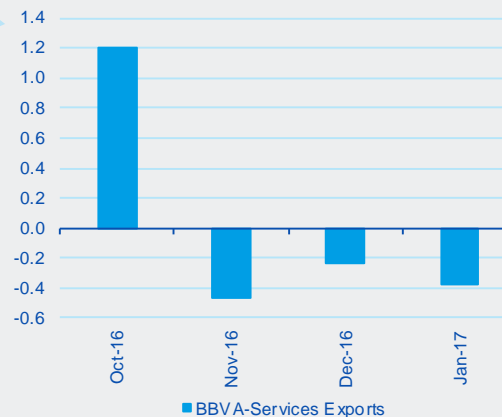
WORLD EXPORTS OF SERVICES (CONSTANT PRICES)

YoY, %



WORLD EXPORTS OF SERVICES (CONSTANT PRICES)

MoM, %



- After the strong quarterly rate in 4Q16, recent disappointing figures suggest a more moderate pace in early 2017

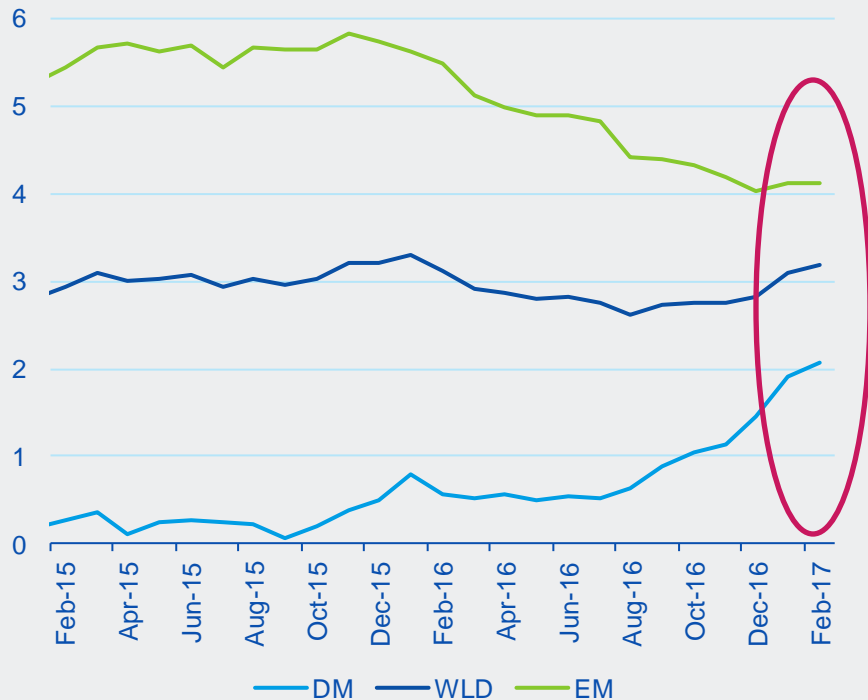
\* Based on BBVA-Trade Index  
Source: CPB and BBVA Research

INFLATION

# Global inflation continued to increase in February driven by developed economies...

## WORLD HEADLINE INFLATION

YoY, %



- In DM's, recovering inflation reflects the base effects from energy prices that should step up in coming months, while in EM's inflation flattened in February mainly due to the slowdown of headline inflation in China.
- According to PMI's, average input costs registered a further solid increase in February, reflecting a steep rise in manufacturing purchase prices.

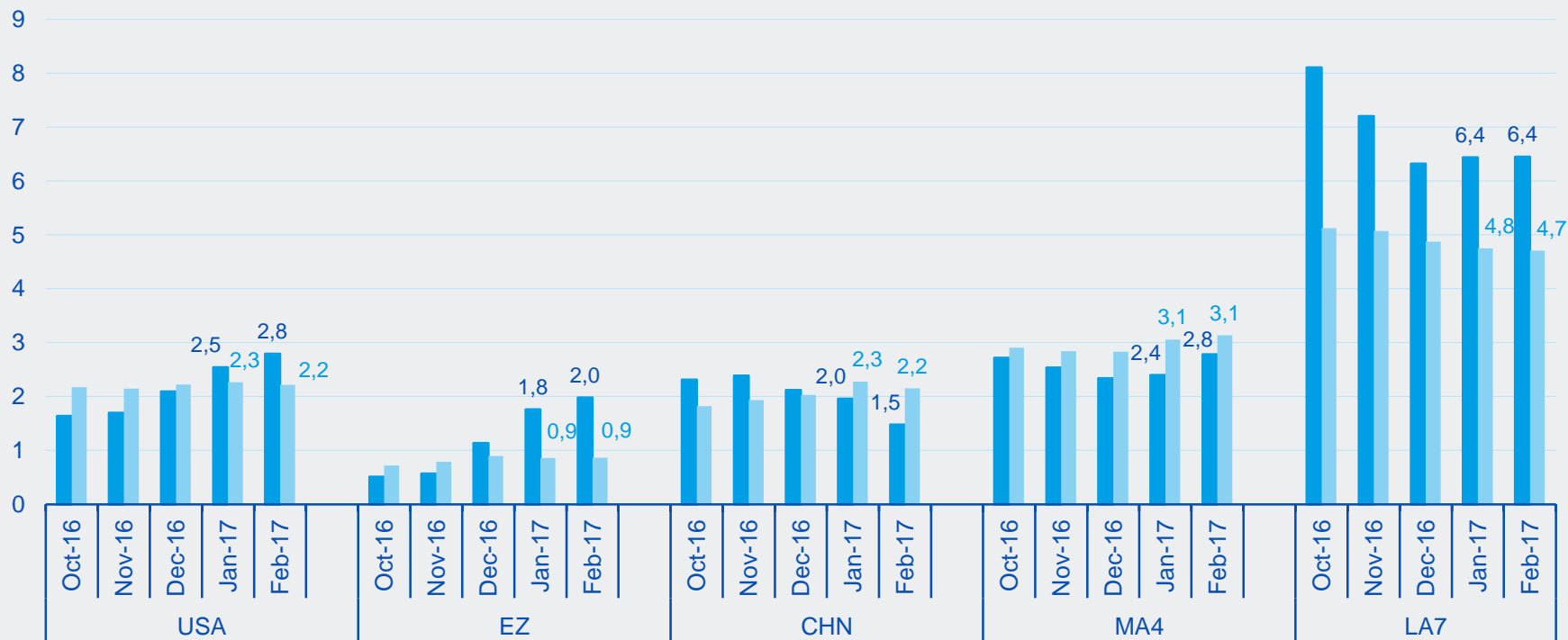


**INFLATION**

... although core inflation measures remain subdued in most areas

**HEADLINE AND CORE INFLATION: SELECTED REGIONS**

YoY, %



ECONOMIC WATCH

# GLOBAL OUTLOOK

MARCH 2017



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