

# GLOBAL OUTLOOK

## ECONOMIC WATCH

April 2017



## Global scenario: positive dynamics lead to an upward revision in projections

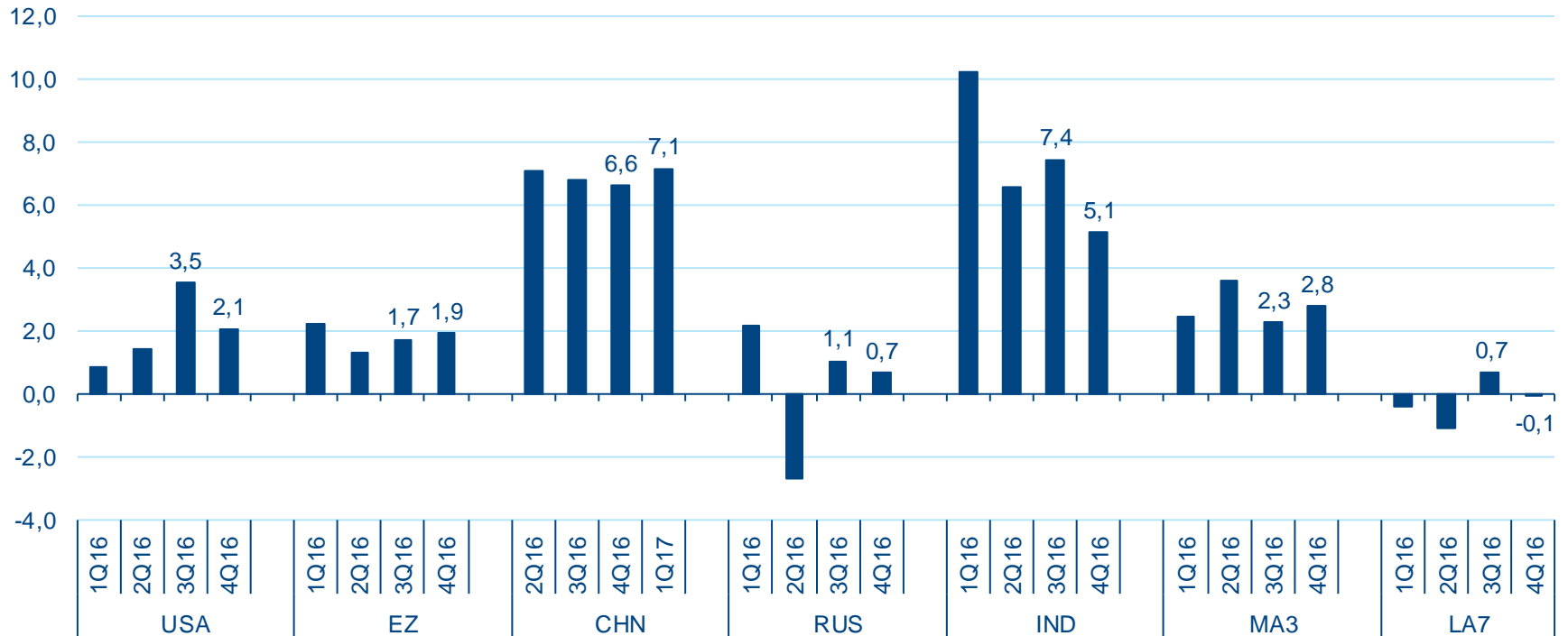
- ◆ **Global GDP growth maintains its positive trend in 1H17.** Our BBVA-GAIN indicator of global growth points to 0.94% QoQ in Q1 and 0.97% QoQ in Q2.
  - ◆ **Confidence indicators** and **global trade** continue suggesting a further expansion, but signals given by **industrial production** and especially **retail sales** are not yet clear. Nevertheless, recent data for March indicate a more upbeat outlook in the coming months.
  - ◆ **Moderate but stable growth in developed markets (DM):** Industrial output returns to growth after two months of falls while confidence data continue to be very positive.
  - ◆ **Mixed signals from emerging markets (EM):** Latam does not show robust signs of recovery in industrial production while weak Chinese exports in February seem temporary.
- ◆ **New projections:** Foreign trade figures and pro-growth policies have led us to **revise up our forecasts for China and more moderately for the Eurozone.**
- ◆ **Risks remain tilted to the downside,** linked to protectionism, political factors across the board and China's pending adjustment in the longer term.

# SHORT-TERM INDICATORS



# Upward revisions to 4Q16 data across the board, while GDP growth improved in China in 1Q17

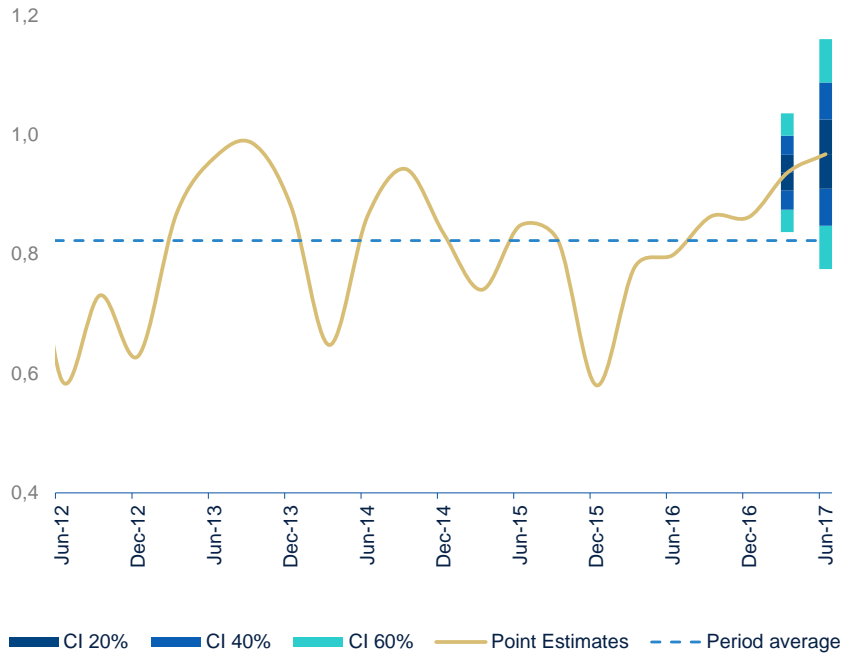
## GDP: Selected Regions (SAAR, %)



# Unchanged global short-term projection: continued acceleration in 1H17 (to close to 1% QoQ)

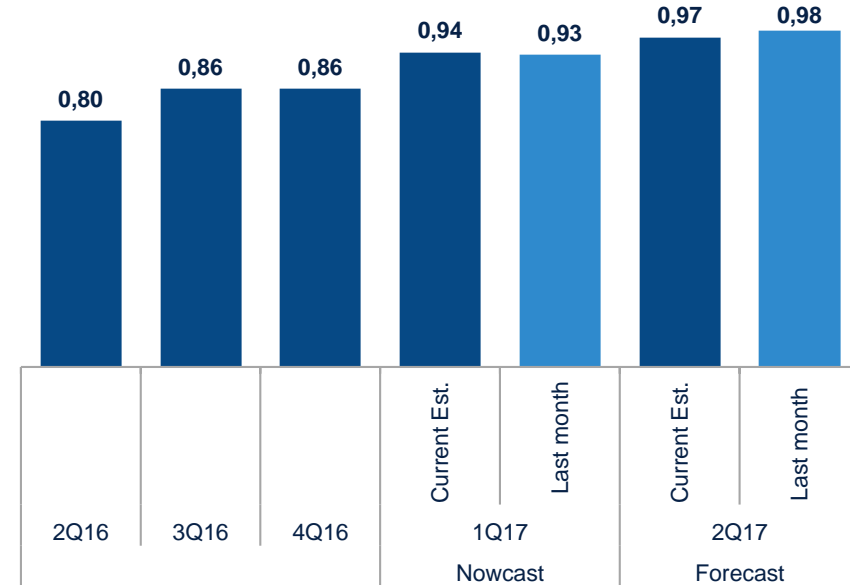
## World GDP Growth

Forecast based on BBVA-GAIN (% , QoQ)



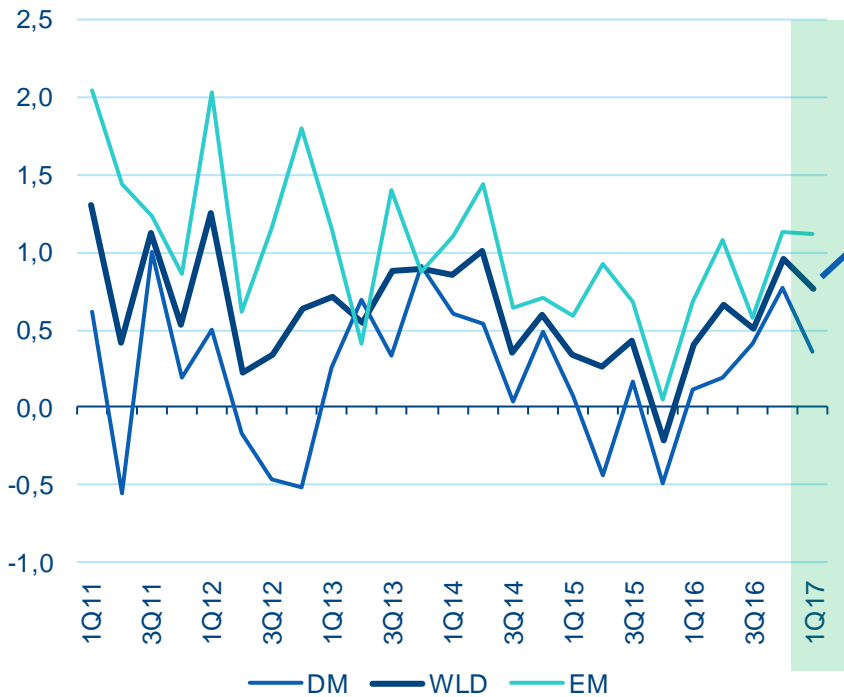
## World GDP Growth: Change in forecast

QoQ, %

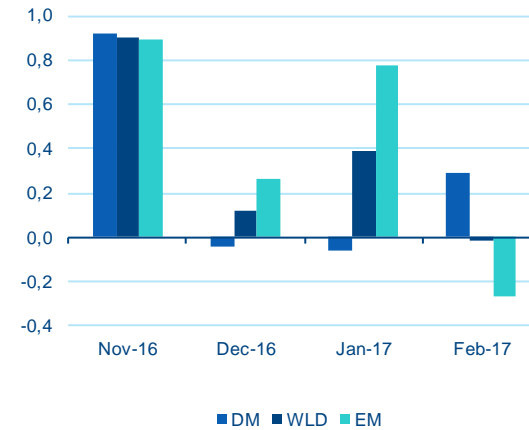


# Industrial output stagnated in February because of EM, but preliminary data for March are positive

**World Industrial Production**  
(%, QoQ)



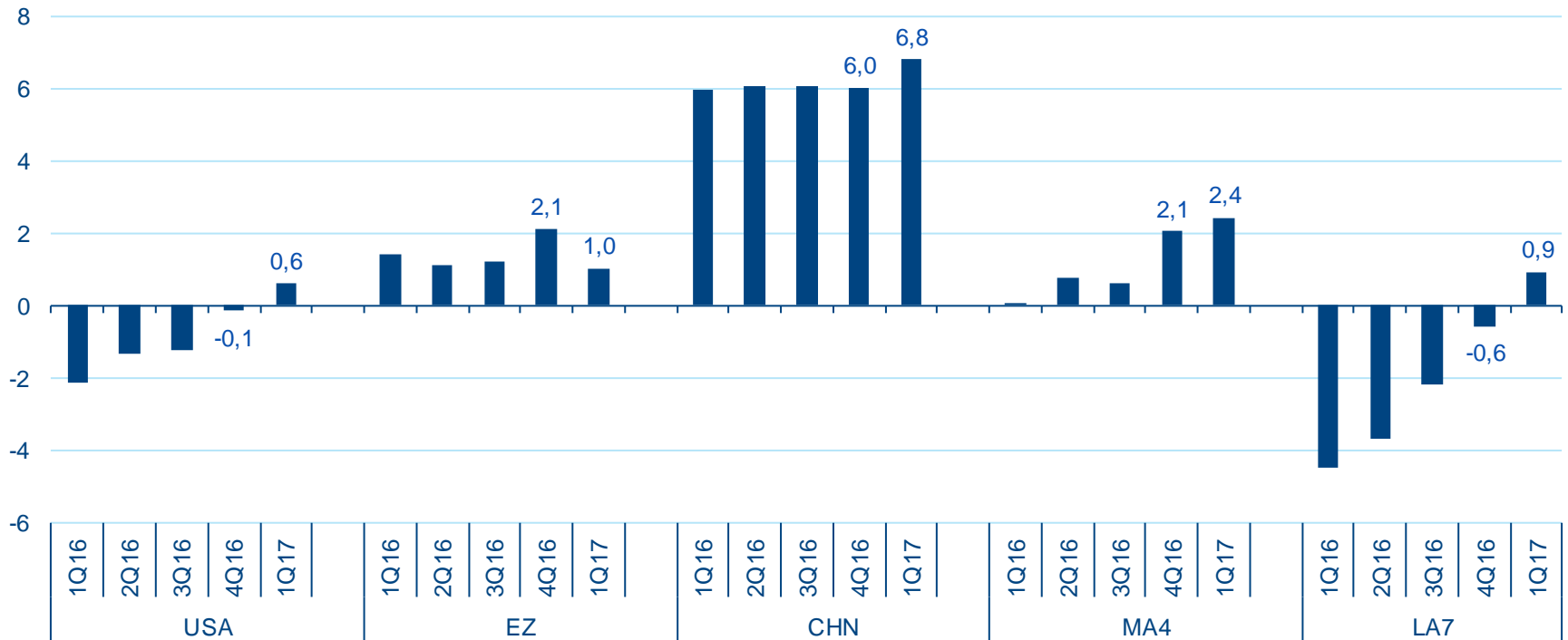
**World Industrial Production**  
(MoM, %)



- ◆ **Across EM**, bad performance in Latam while China moderated in February.
- ◆ **In DM's**, the ongoing industrial recovery fails to gain ground in EZ

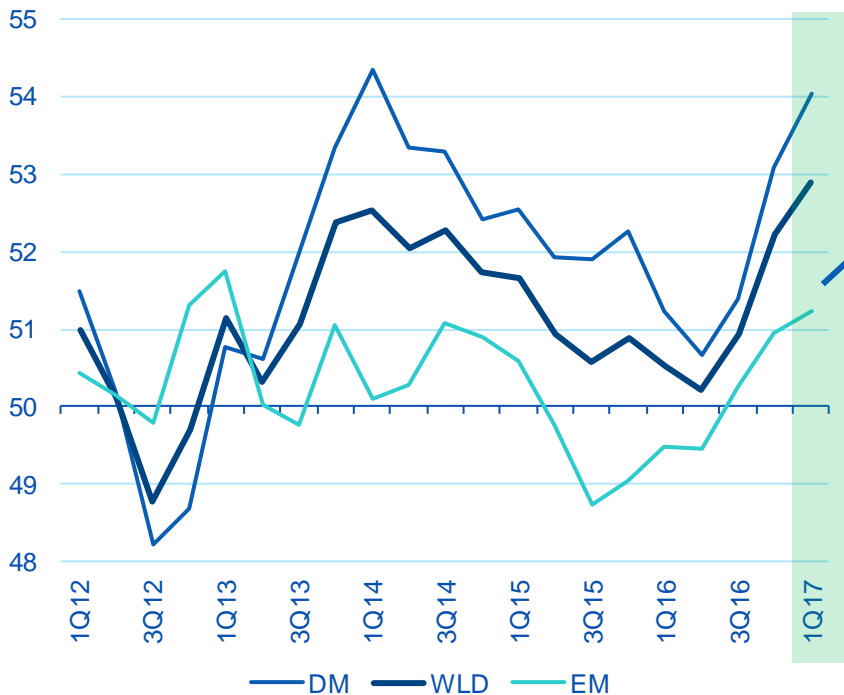
# The industrial recovery is mainly driven by emerging Asia, while Latam exits from contraction

**Industrial Production: Selected Regions**  
(YoY, %)

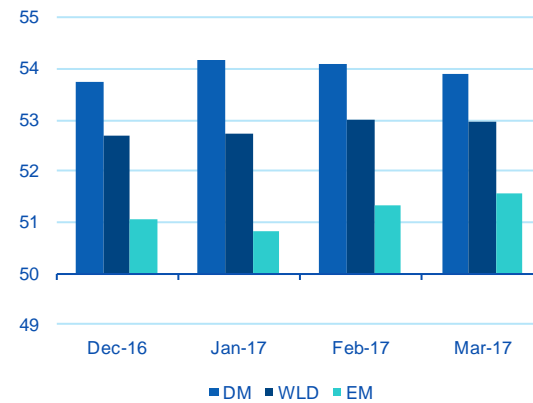


# Manufacturing confidence (PMI) holds steady in March at February's high

**World Manufacturing PMI**  
(Level  $\pm$  50)



**World Manufacturing PMI**  
(Level  $\pm$  50)

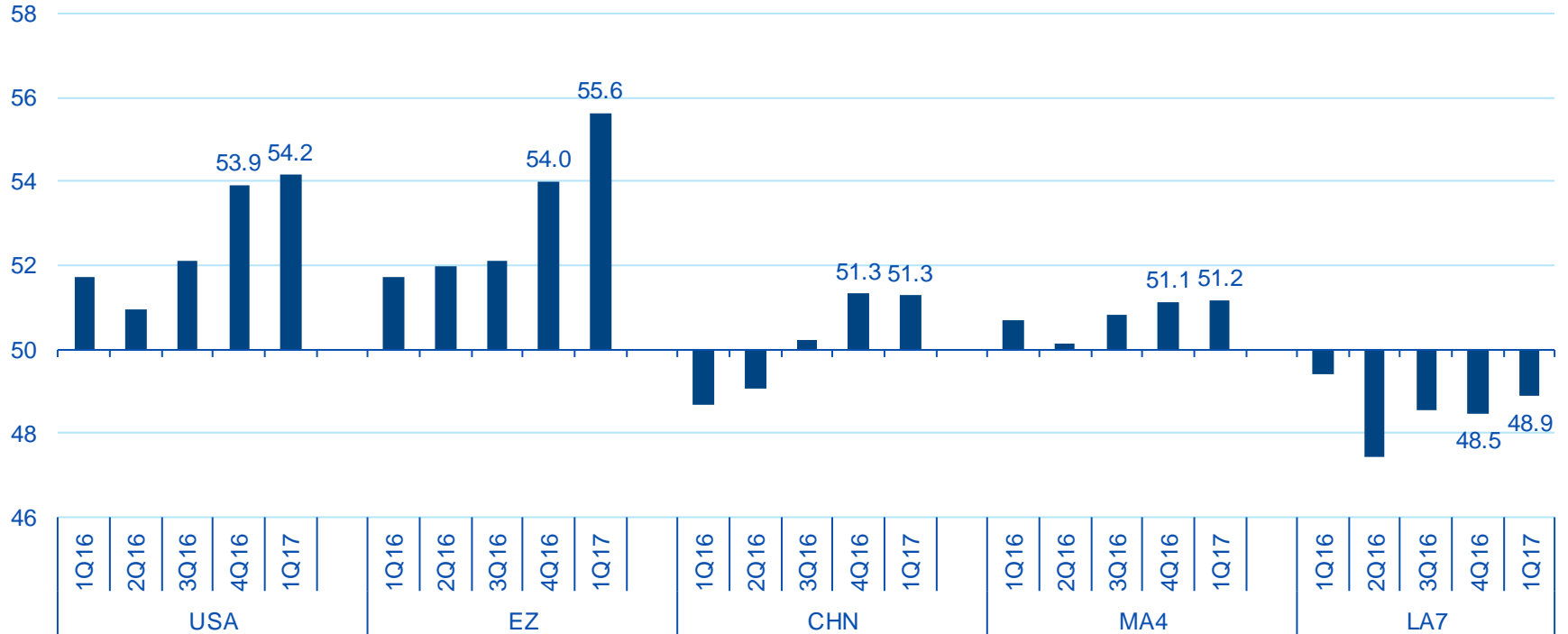


- ◆ According to PMI's, the manufacturing sector continued to **expand at a solid pace during March**, underpinned by **strong growth in output and new orders**, leading to further **job growth**.
- ◆ Despite easing for the second month in a row, **input cost inflation remained above the long-term series average**



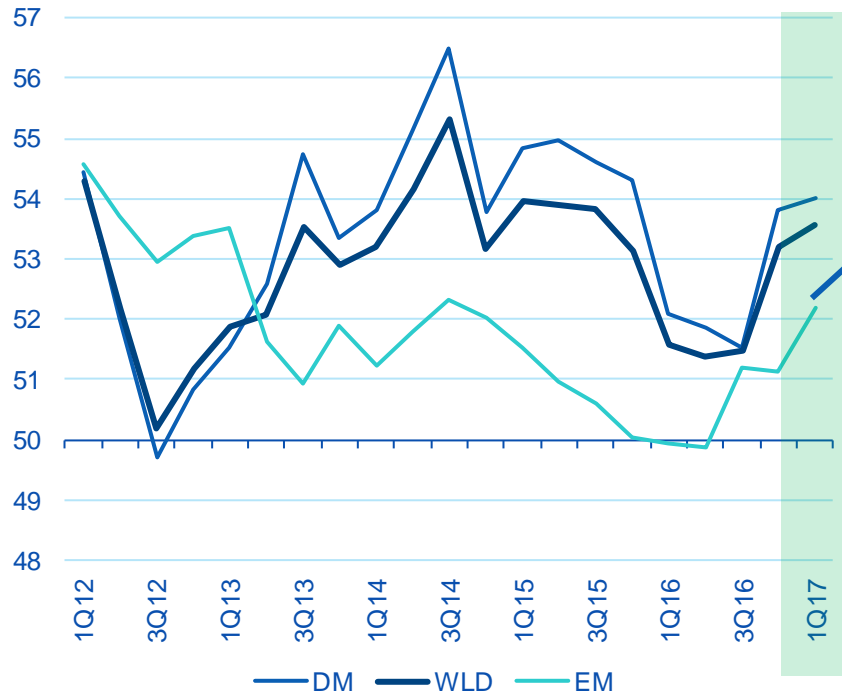
# The EZ continues to lead the upturn in Q1, while Latam still remains below the 50 points threshold

**Manufacturing PMI: Selected Regions**  
(Level  $\pm$  50)

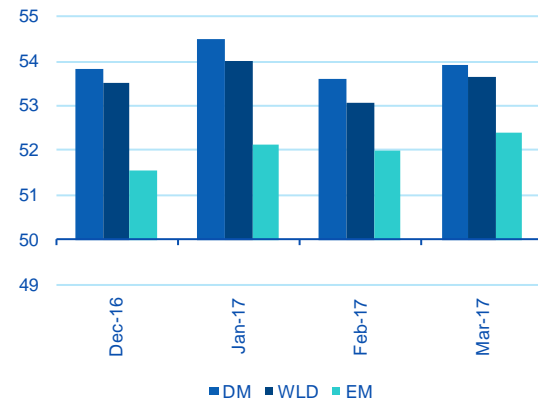


# March global services PMI regain some of the ground lost in February...

**World Services PMI**  
(Level ± 50)



**World Services PMI**  
(Level ± 50)

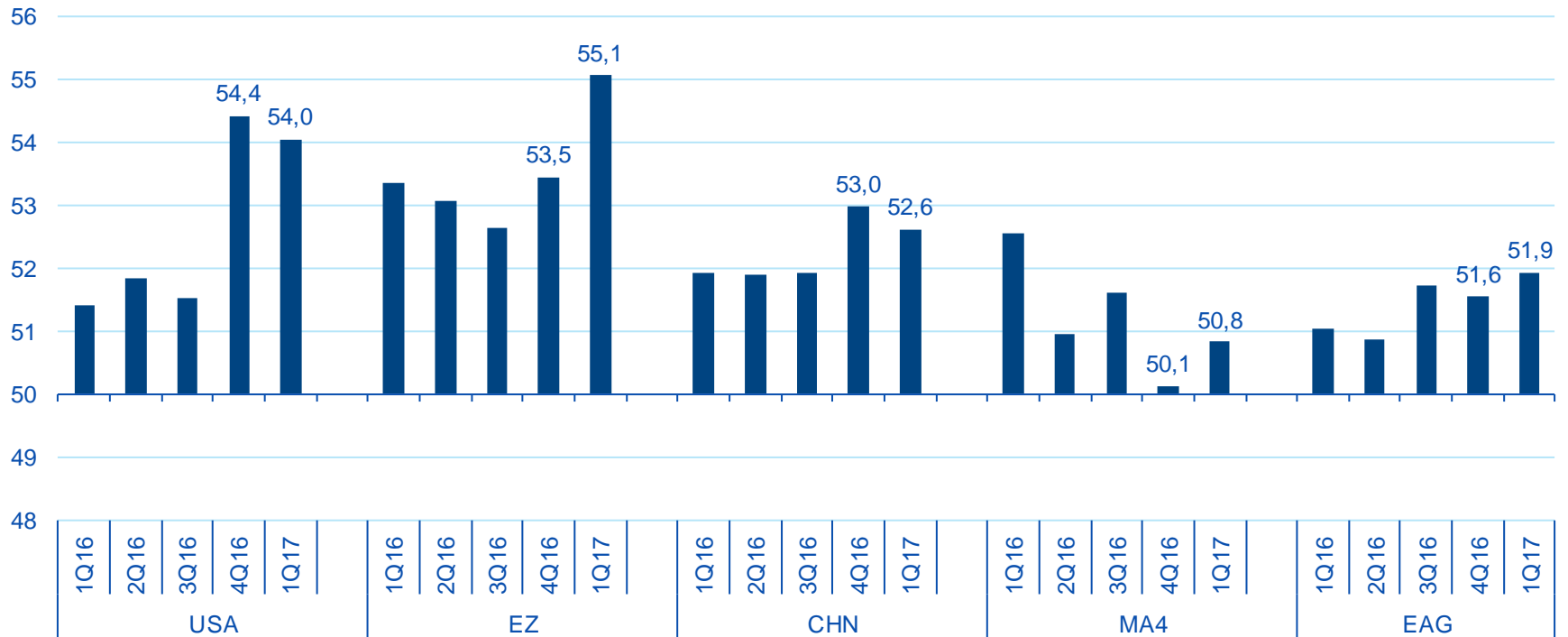


- ◆ Rate of expansion in output improved despite weaker increase in new orders. Backlogs of work remained marginal and job creation dropped to its weakest since November 2016
- ◆ The pass-through of higher input prices to clients led to another increase in service sector charges.

## ...driven by the improving confidence in EZ and emerging Asia

### Services PMI: Selected Regions

(Level  $\pm$  50)

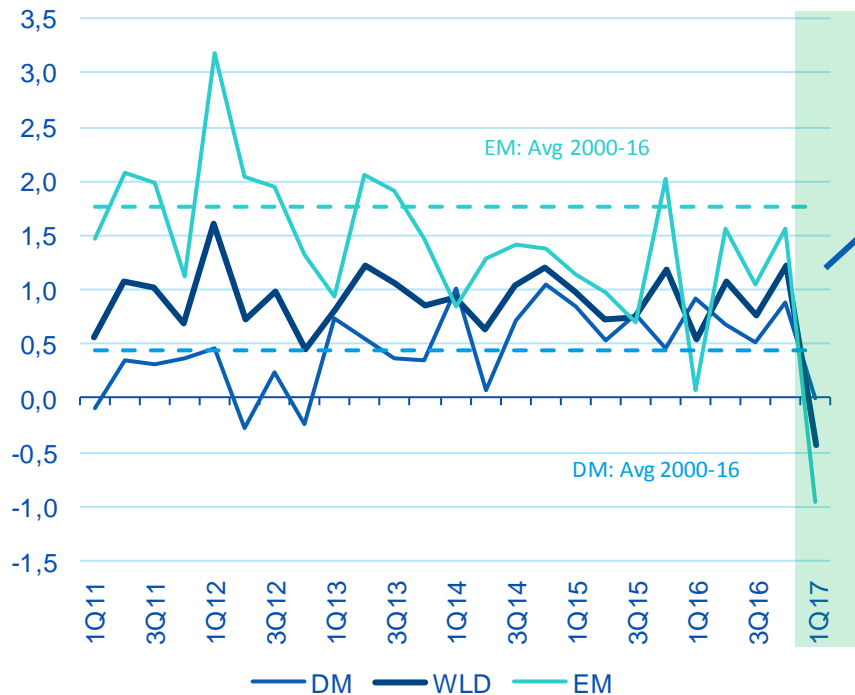


**MA4:** India, Indonesia, Japan, Korea

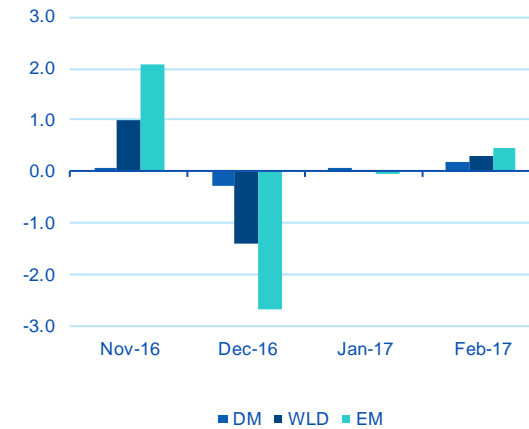
**EAG (Eagles):** Bangladesh, Brazil, China, Egypt, India, Indonesia, Iran, Malaysia, Mexico, Nigeria, Pakistan, Philippines, Russia, Turkey, Vietnam

# Retail sales fail to gain ground in 1Q17 after the sharp fall in December

**World Retail Sales**  
(%, QoQ)



**World Retail Sales**  
(MoM, %)

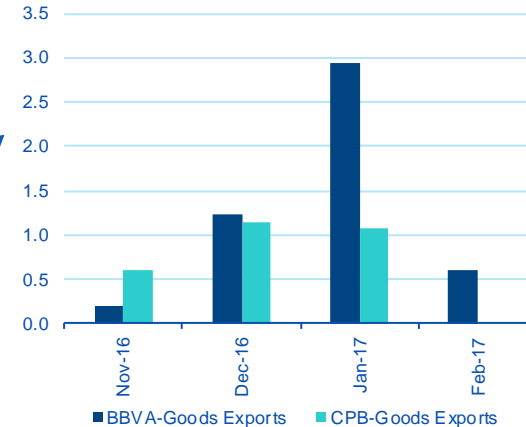
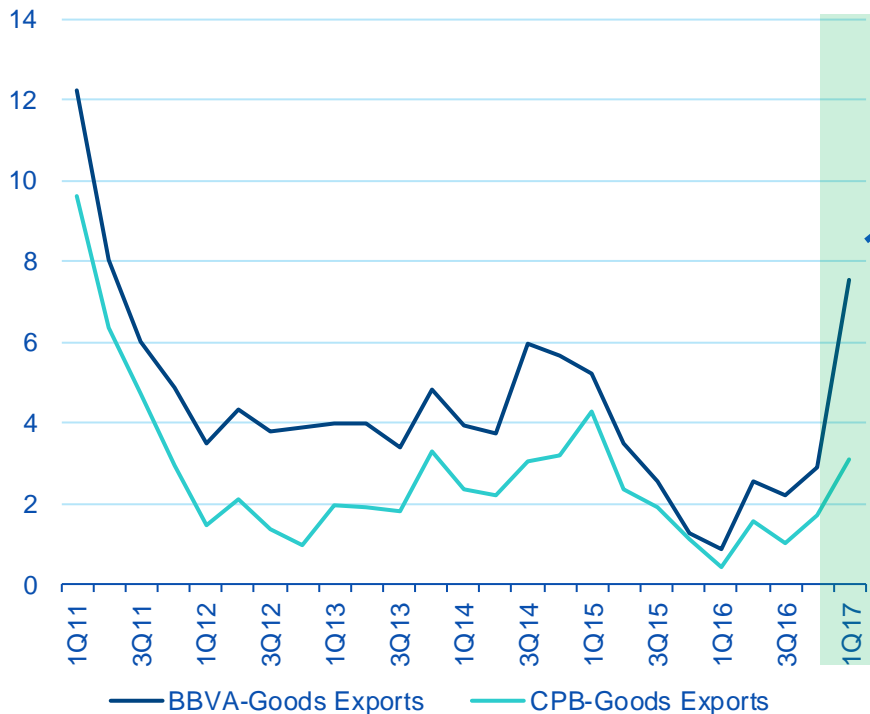


- ◆ Across DM, the incipient signs of erosion in real wages seem to be already affecting households' consumption
- ◆ In EM, recent data suggest a more upbeat outlook for the coming months

# Goods' exports continue their growing trend and could end up with very strong quarterly growth

**World Exports of Goods (Constant prices)**  
(YoY %, Index Jan-12=100)

**World Exports of Goods (Constant prices)**  
(MoM, %)

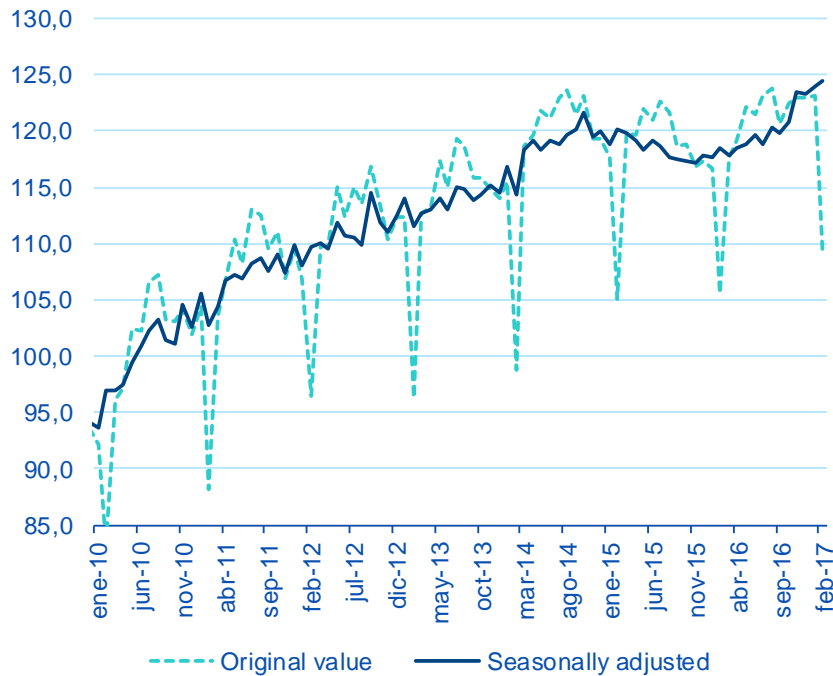


- ◆ February moderation mainly driven by the fall of **China**, but also by the slowdown in **Brazil**
- ◆ Nevertheless, **China's export figures in March more than offset the fall in February** and may boost world trade to its earlier rates

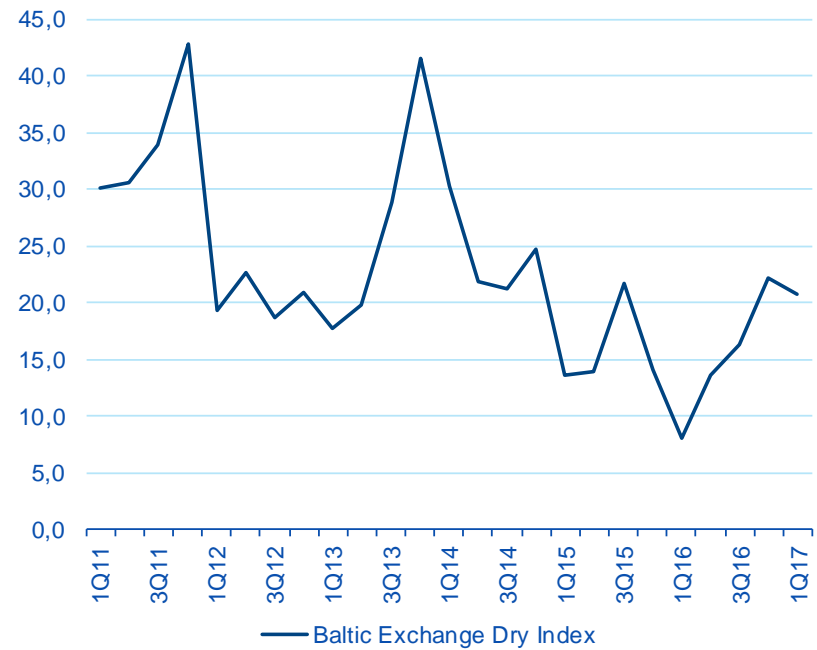
\* Based on **BBVA-Trade Index**  
Source: BBVA Research and CPB

# Freights reinforced the idea that the recovery of global trade continued in March

**RWI/ISL Container Throughput Index**  
(Index, 2010=100)



**Baltic Exchange Dry Index**  
(Index, Jan-05=100)00

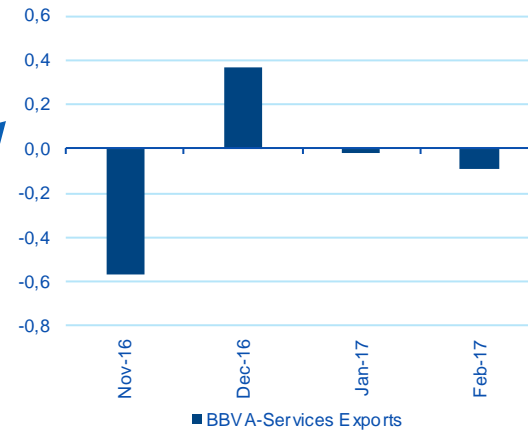


# Exports of services have moderated at the beginning of the year, but still point to a robust quarterly growth

**World Exports of Services (Constant prices)**  
(YoY %, Index Jan-12=100)



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



◆ After the fall in 4Q16, recent figures suggest **a less negative outlook for the coming months**

\* Based on **BBVA-Trade Index**

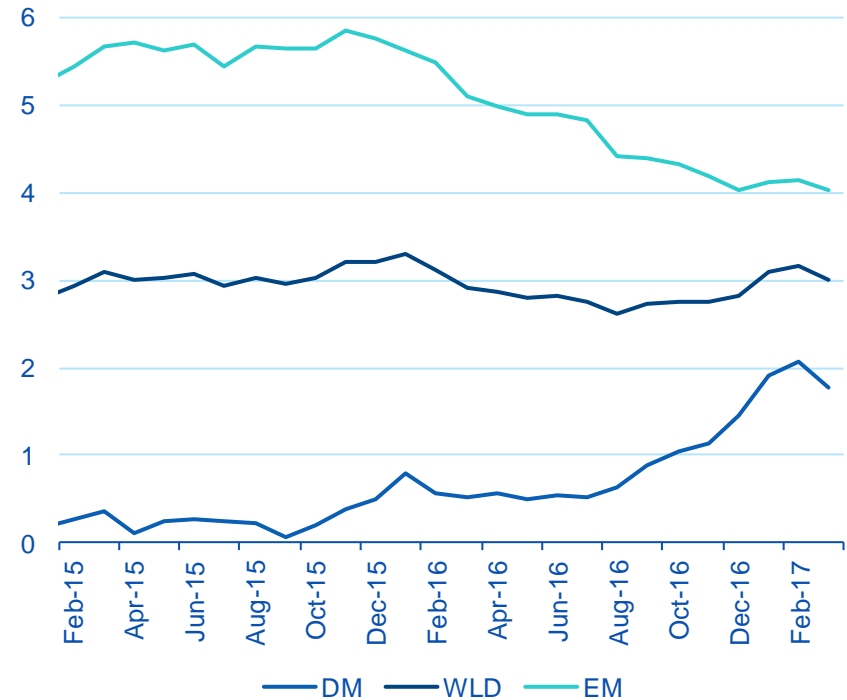
Source: BBVA Research and CPB

# Global inflation eased in March, mainly due to a moderation of volatile components...

- ◆ **In DM's**, inflation slowed in March, driven mostly by the slowdown of commodity prices (energy and food)
- ◆ **In EM's** inflation registered a mild deceleration because of China while it increased in Latam.

**World Headline Inflation**

(YoY, %)

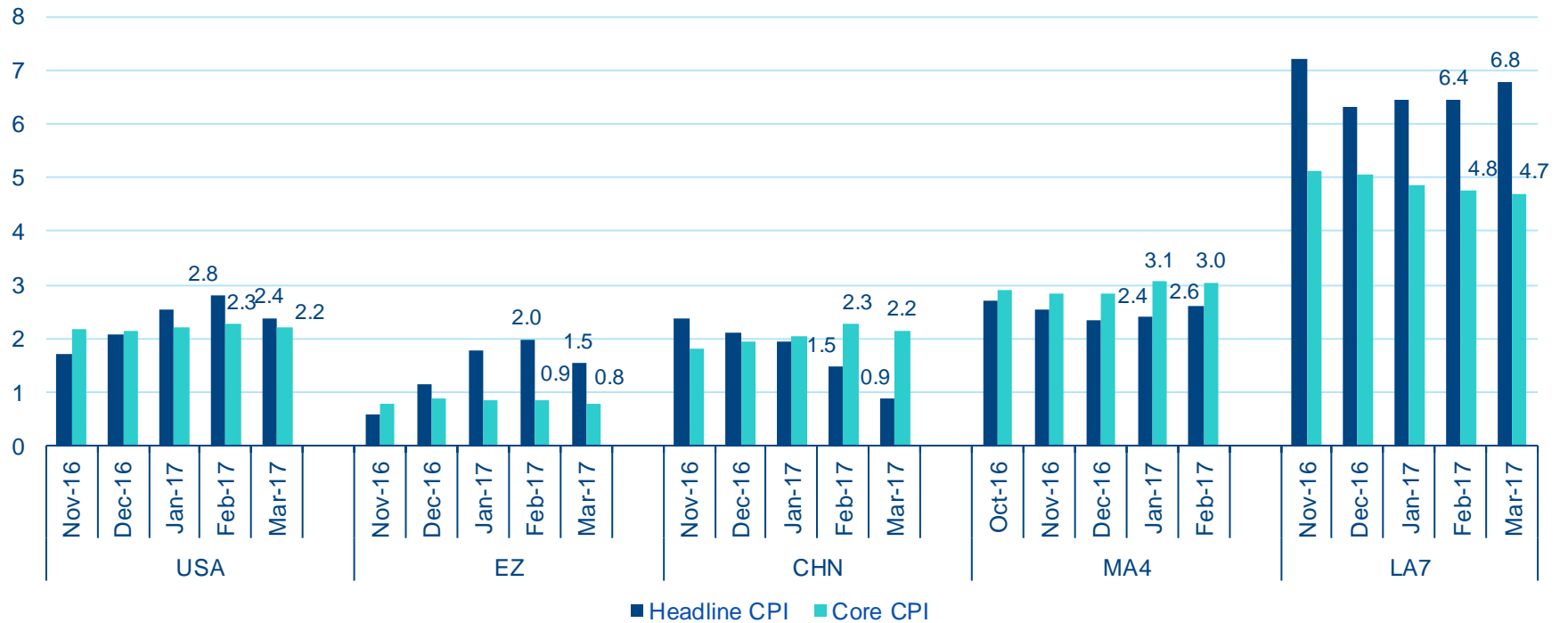




# ...especially in Europe, China and the US

## Headline and Core Inflation: Selected Regions

(YoY, %)



# NEW PROJECTIONS & GLOBAL RISKS



## **GLOBAL DRIVERS :Recent dynamics consolidate while extreme outcomes look less likely**

The main trends continue...

... but the range of outcomes narrows

**The industrial and trade recovery takes hold, but it is particularly visible in confidence data**

**The recovery comes pulled by China, more than Trump's boost, which now seems less likely, smaller and delayed...**

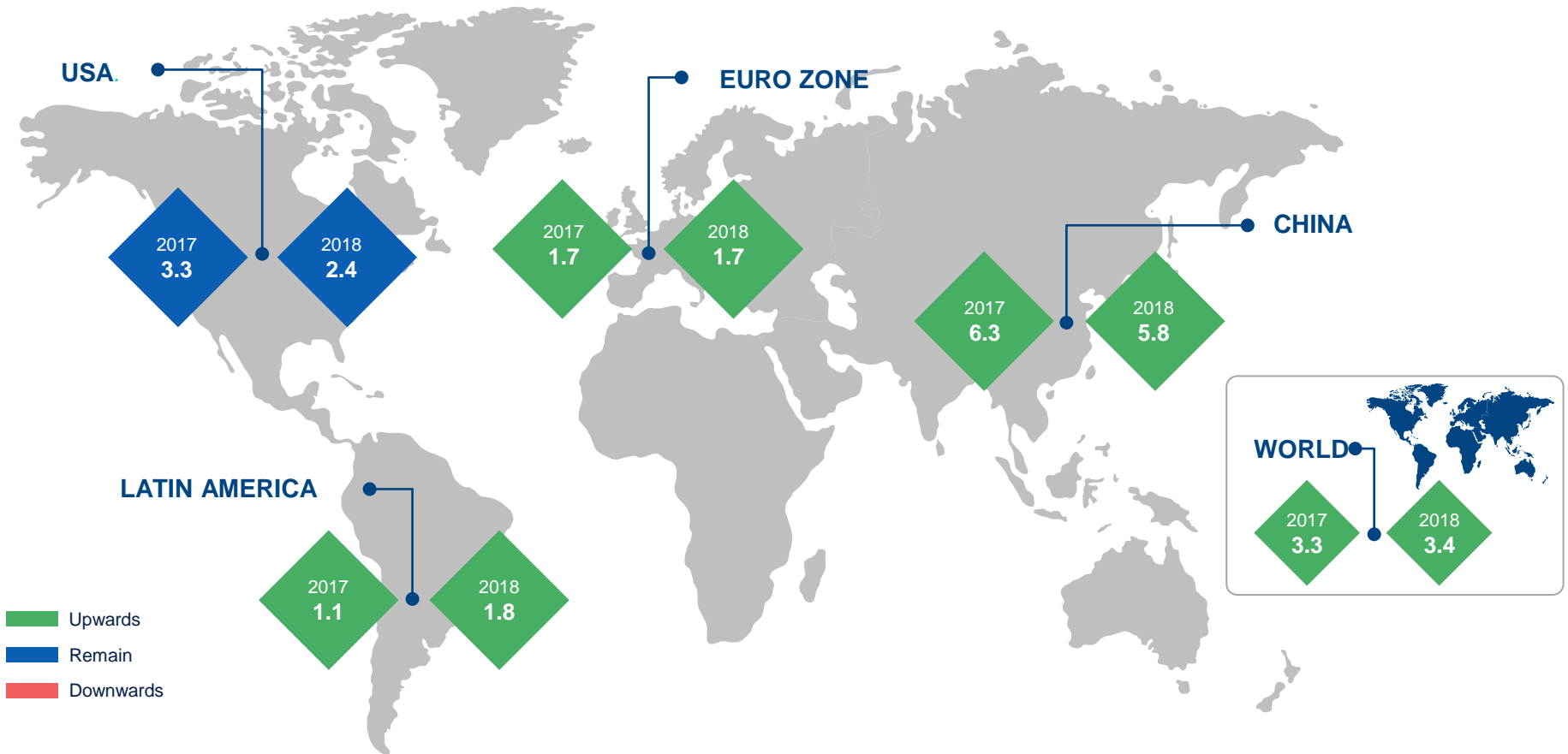
**Quiet financial markets despite high economic policy uncertainty**

**... but the most negative economic risks are also less probable**

**Inflation keeps rising, but not so core inflation; and inflation expectations have moderated**

**Moves by central banks towards normalization; just that**

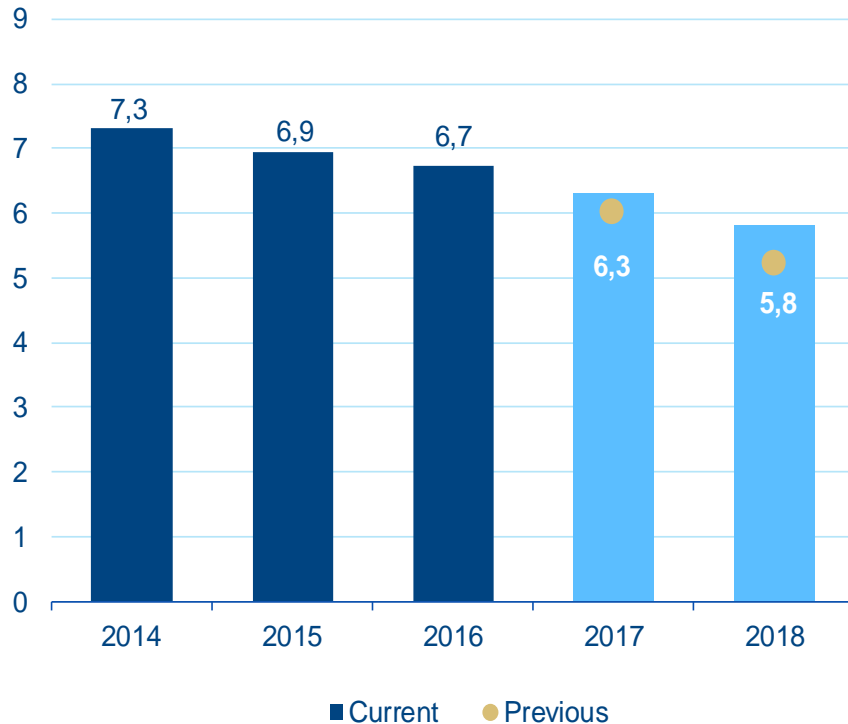
# Upward revision in China, more moderately in the Eurozone and Latin America, and unchanged in the US



Source: BBVA Research. Latin America comprises: Argentina, Brazil, Chile, Colombia, Mexico, Paraguay, Peru, Uruguay and Venezuela

## CHINA: New recovery with old engines

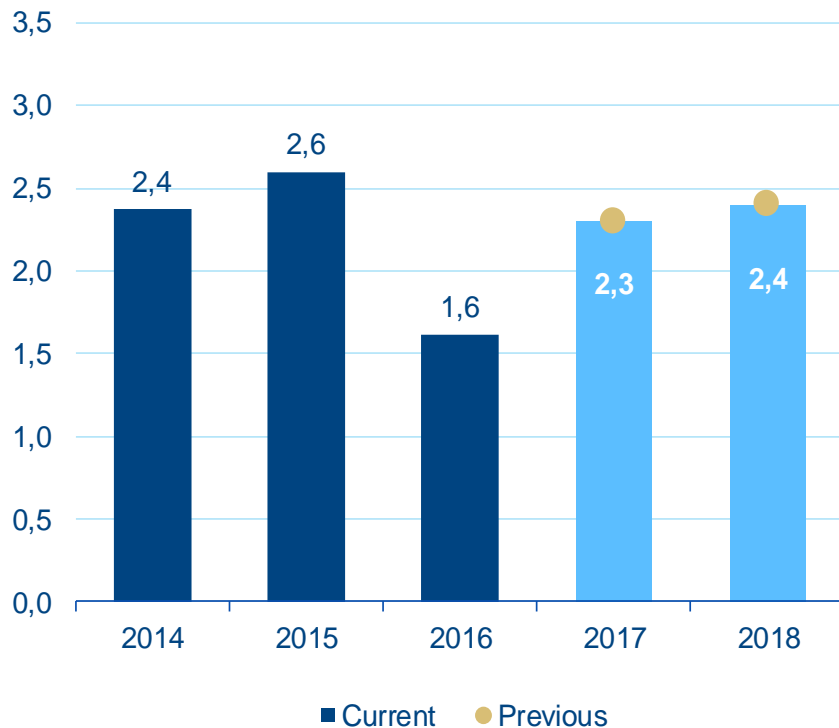
**China: GDP growth**  
(YoY, %)



- ◆ **GDP:** Strong data outturns and the authorities' pro-growth stance make us raise our projection to 6.3% (2017) from 6.0% and to 5.8% (2018) from 5.2%
- ◆ **Prudent and neutral monetary policy** with slight tightening bias in H1, while **expansionary fiscal policy** will place more emphasis on corporate tax cuts
- ◆ **However, tail risks are still high:** i) The rebalancing is stalled and domestic financial vulnerabilities worsen. ii) Policy missteps could lead to a disorderly deleveraging

# US: Prospects of a pro-growth Trump administration continue to decline as policy implementation finds setbacks and delays

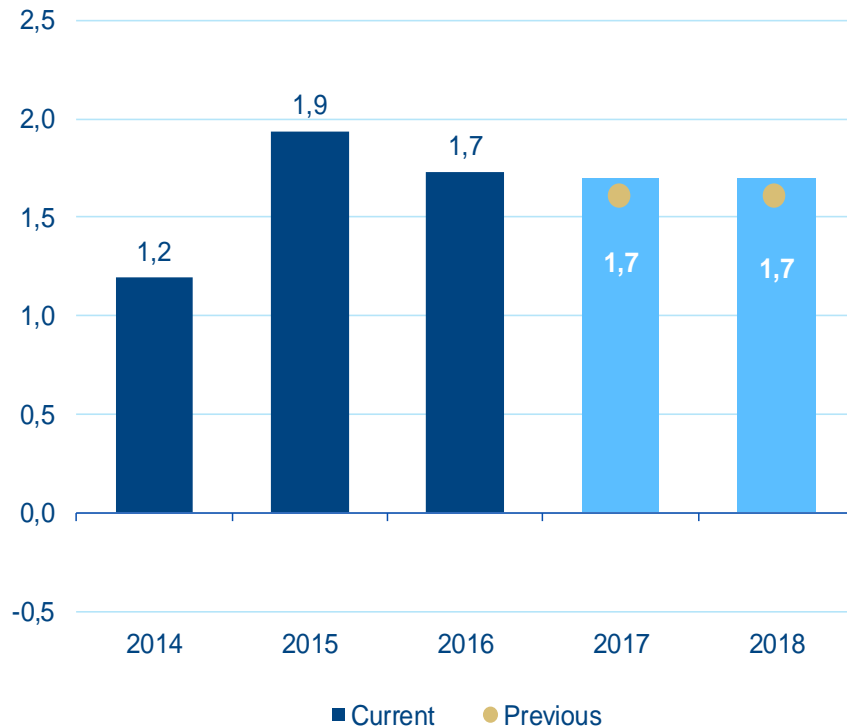
**US: GDP growth**  
(YoY, %)



- ◆ **GDP growth in 2017:**
  - ◆ Private consumption expected to slow down
  - ◆ Investment picking up on improved expectations, stable oil prices and steady increase in housing supply
- ◆ **Fed policy: probability of expedited tightening cycle has grown.** The Fed scenario is:
  - ◆ Two additional hikes in 2017 (3 total)
  - ◆ Upward bias for 2018
- ◆ **Risks:** policy uncertainty and market expectations, FOMC, inflation, USD, global and geopolitical instability, democratic institutions and rule of law

## EUROZONE: More upbeat outlook, but still surrounded by risks

**Eurozone: GDP growth**  
(YoY, %)



- ◆ Slight upward revision in 2017 and 2018 (+0.1pp) due to external demand that helps to underpin investment and offsets moderation in private consumption
- ◆ Higher headline inflation forecast for 2017 due to non-core components, but will come down in 2H17. Subdued core inflation
- ◆ A more optimistic ECB opens the door to normalization, but still being very accommodative
- ◆ Political Risks: Populist concerns, hard Brexit, Italy, Greece, eventual return of immigration crisis and geopolitical risks

# Macroeconomic forecasts

## Gross Domestic Product

YoY average, %

	2014	2015	2016	2017	2018
United States	2.4	2.6	1.6	2.3	2.4
Eurozone	1.2	1.9	1.7	1.7	1.7
Spain	1.4	3.2	3.2	3.0	2.7
LatAm *	0.8	-0.3	-1.5	1.1	1.8
Argentina	-2.5	2.6	-2.3	2.8	3.0
Brazil	0.5	-3.8	-3.6	0.9	1.8
Chile	1.9	2.3	1.6	1.6	2.4
Colombia	4.4	3.1	2.0	2.1	2.7
Mexico	2.3	2.6	2.1	1.6	2.0
Peru	2.4	3.3	3.9	2.5	3.9
Eagles **	5.4	4.7	4.8	4.9	5.0
Turkey	5.2	6.1	2.9	3.0	4.5
Emerging Asia	6.7	6.7	6.6	6.1	5.9
China	7.3	6.9	6.7	6.3	5.8
World	3.5	3.3	3.1	3.3	3.4

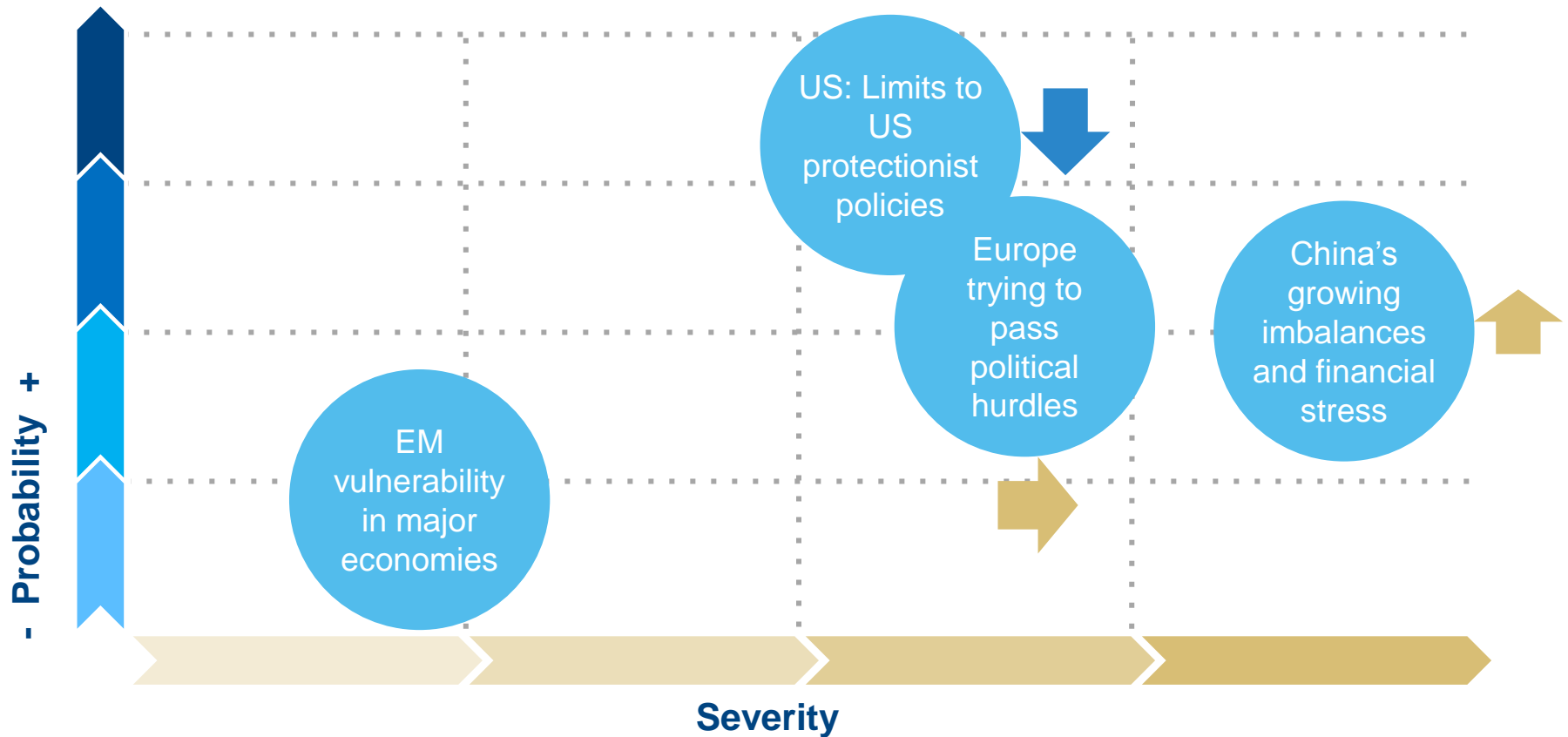
## Inflation

YoY average, %

	2014	2015	2016	2017	2018
United States	1.6	0.1	1.3	2.6	1.9
Eurozone	0.4	0.0	0.2	1.8	1.6
Spain	-0.2	-0.5	-0.2	2.1	1.9
LatAm *	12.1	17.4	32.1	51.8	66.9
Argentina	38.0	26.7	41.2	26.0	15.7
Brazil	6.3	9.0	8.8	4.1	4.7
Chile	4.4	4.4	3.8	2.9	3.2
Colombia	2.9	5.0	7.5	4.2	3.3
Mexico	4.0	2.7	2.8	5.6	3.9
Peru	3.2	3.5	3.6	3.6	2.2
Eagles **	5.1	4.9	4.3	4.5	4.5
Turkey	8.9	7.7	7.8	10.3	7.6
Emerging Asia	3.6	2.6	2.8	3.1	3.6
China	2.0	1.4	2.0	2.3	3.0
World	3.9	3.7	4.8	6.7	7.6



# GLOBAL RISKS :The nature of risks remains, but the most extreme versions seem further away



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