

GLOBAL OUTLOOK

ECONOMIC WATCH

June 2017

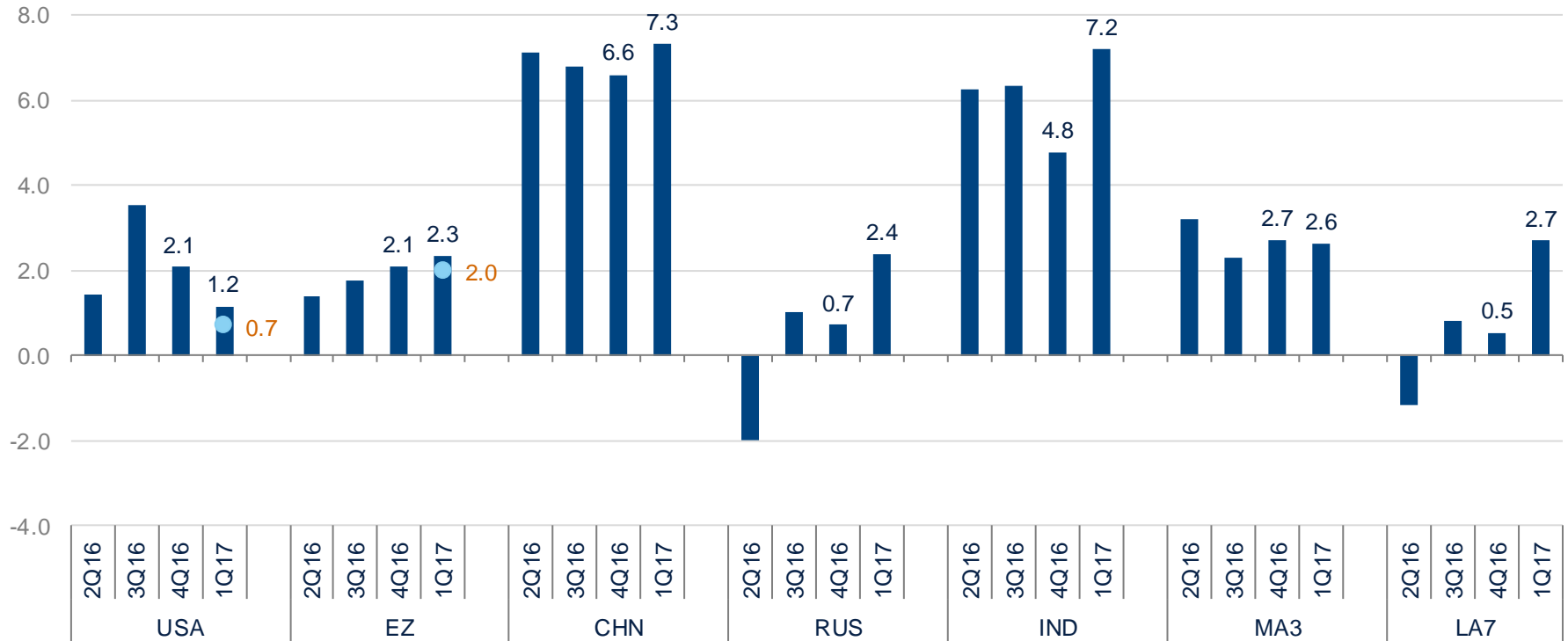


Summary: The global recovery shows signs of stabilization

- ◆ Our BBVA-GAIN model estimates quarterly global GDP growth at 1% QoQ in 2Q17, which implies a small improvement over the previous quarter (slightly upward revision).
- ◆ Confidence data is strong so far, but is levelling off. Positive signs are shifting from the US and China to Europe and other emerging economies, especially Latin America.
- ◆ The upward trend in exports and industrial output has halted at the beginning of 2Q17, failing to catch up with confidence surveys. In contrast, the strong rebound in retail sales suggests that growth of consumption is resuming.
- ◆ In China, activity indicators up to May suggest that the moderation of growth continues. This contrasts with the steady growth in the rest of emerging Asia, while the recovery in Latam is gradually gaining traction.
- ◆ Inflation moderated in May across the board, somewhat more-than-expected in DM due to lower energy prices and one-off or temporary factors. Subdued core inflation remains.

Growth in 1Q17: Upward revisions to data in US and EZ, while growth gained momentum in Latam

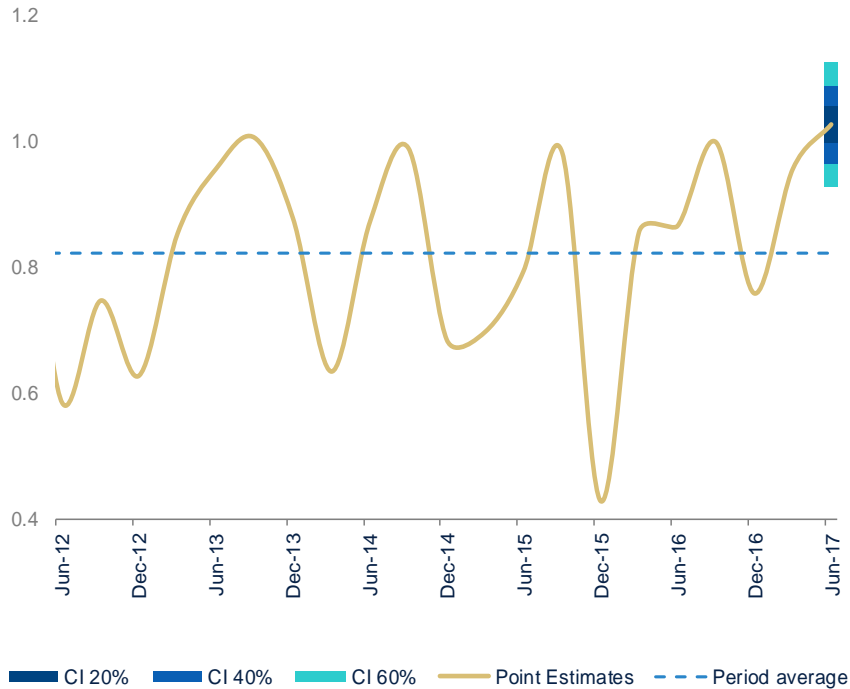
GDP: Selected Regions
(SAAR, %)



No major changes in our global GDP short-projection: the improvement continues in Q2, but more moderately

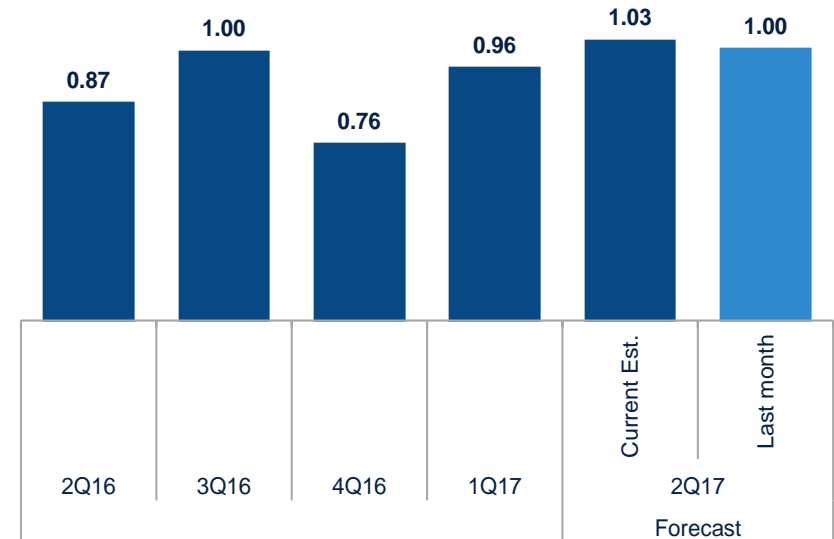
World GDP Growth

Forecast based on BBVA-GAIN (% , QoQ)



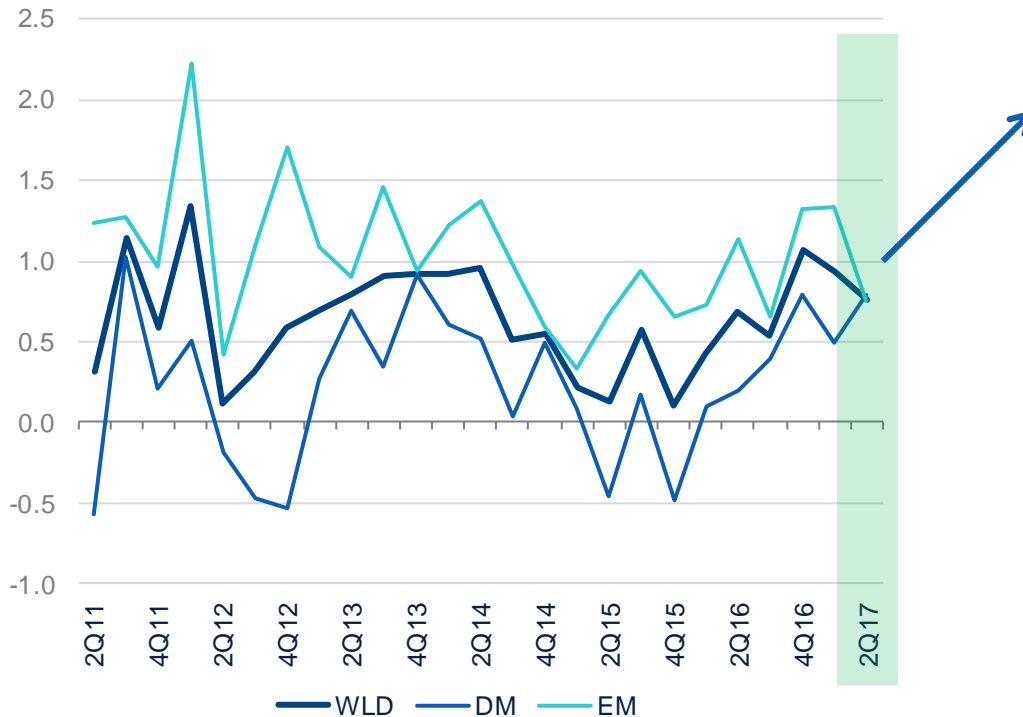
World GDP Growth: Change in forecast

QoQ, %

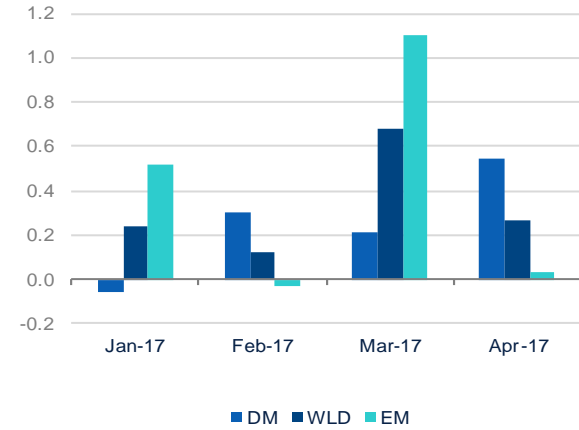


Industrial production moderated in April due to the slowdown in EM's...

World Industrial Production
(%, QoQ)



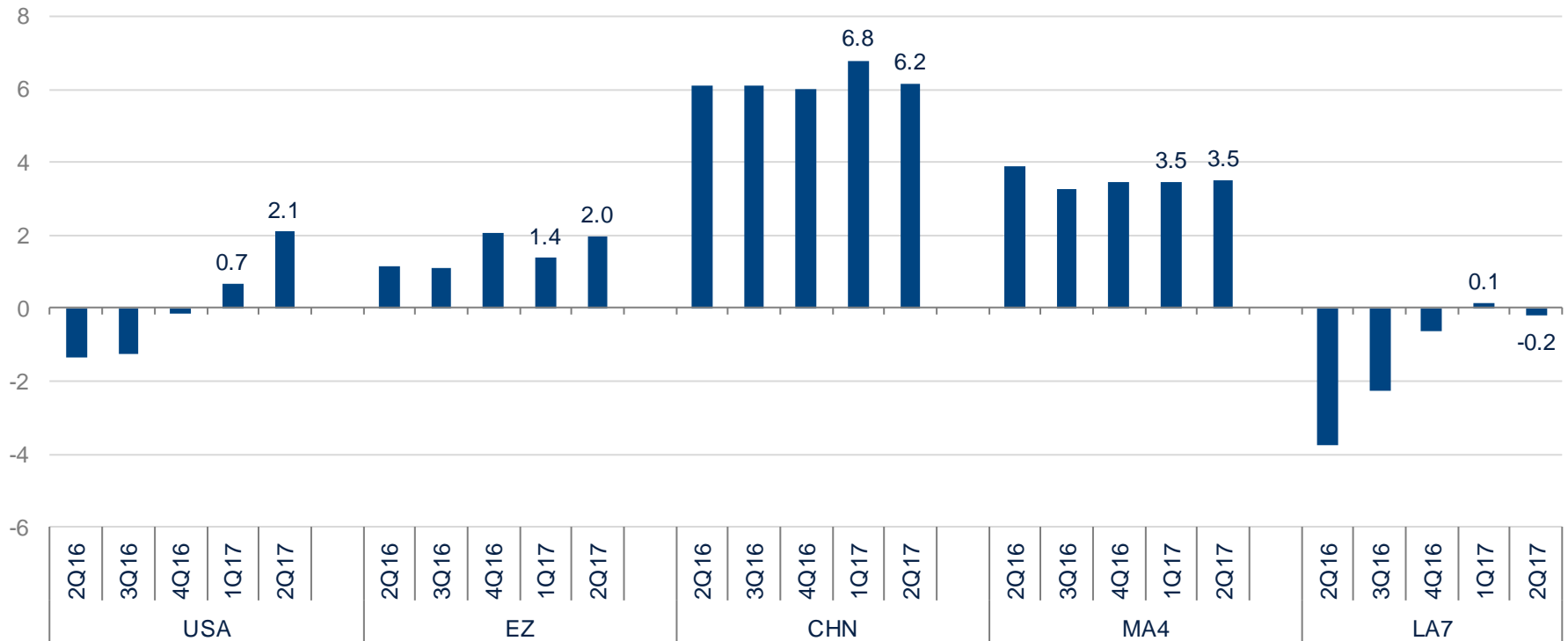
World Industrial Production
(MoM, %)



- ◆ The industrial recovery in **DM** seems to gain ground in 2Q17, boosted by **Japan, US and EZ**
- ◆ **Across EM**, the slowdown was concentrated in **China and Latam**, while **Asia** exhibited a solid quarterly growth in 2Q17

... partly offset by the sharp increase in the US and Europe

Industrial Production: Selected Regions
(YoY, %)

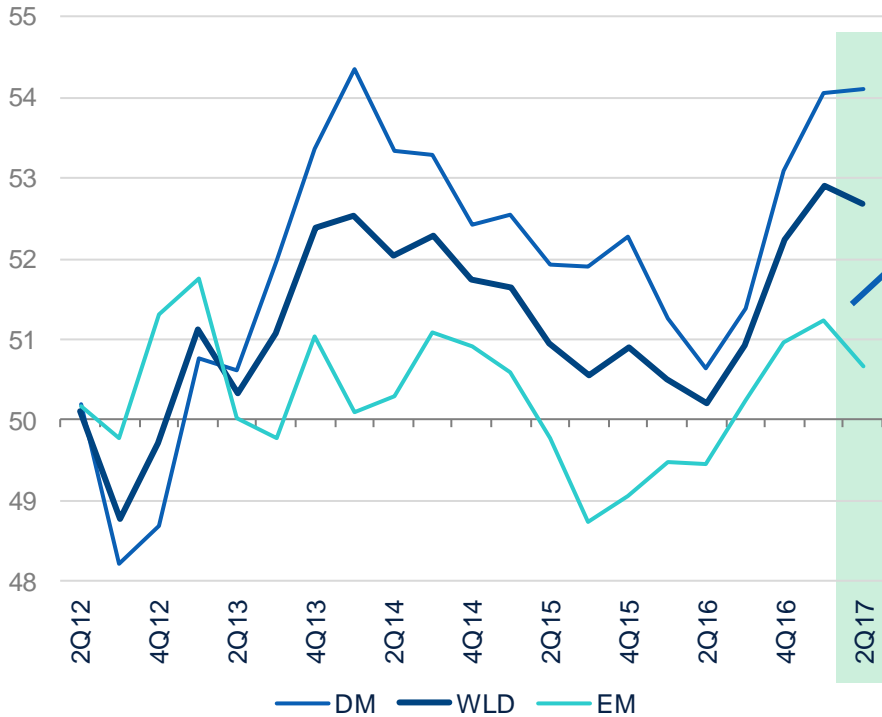


2Q17 calculated using data for April for USA and CHN.
Source: BBVA Research and national sources

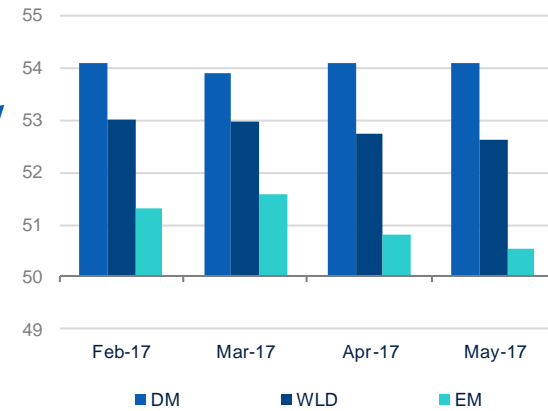
LA7: Argentina, Brazil, Chile, Colombia, Mexico, Peru, Venezuela.
MA4: India, Indonesia, Japan, Korea

Global manufacturing PMIs continue to be strong, even after easing slightly from recent highs

World Manufacturing PMI
(Level \pm 50)



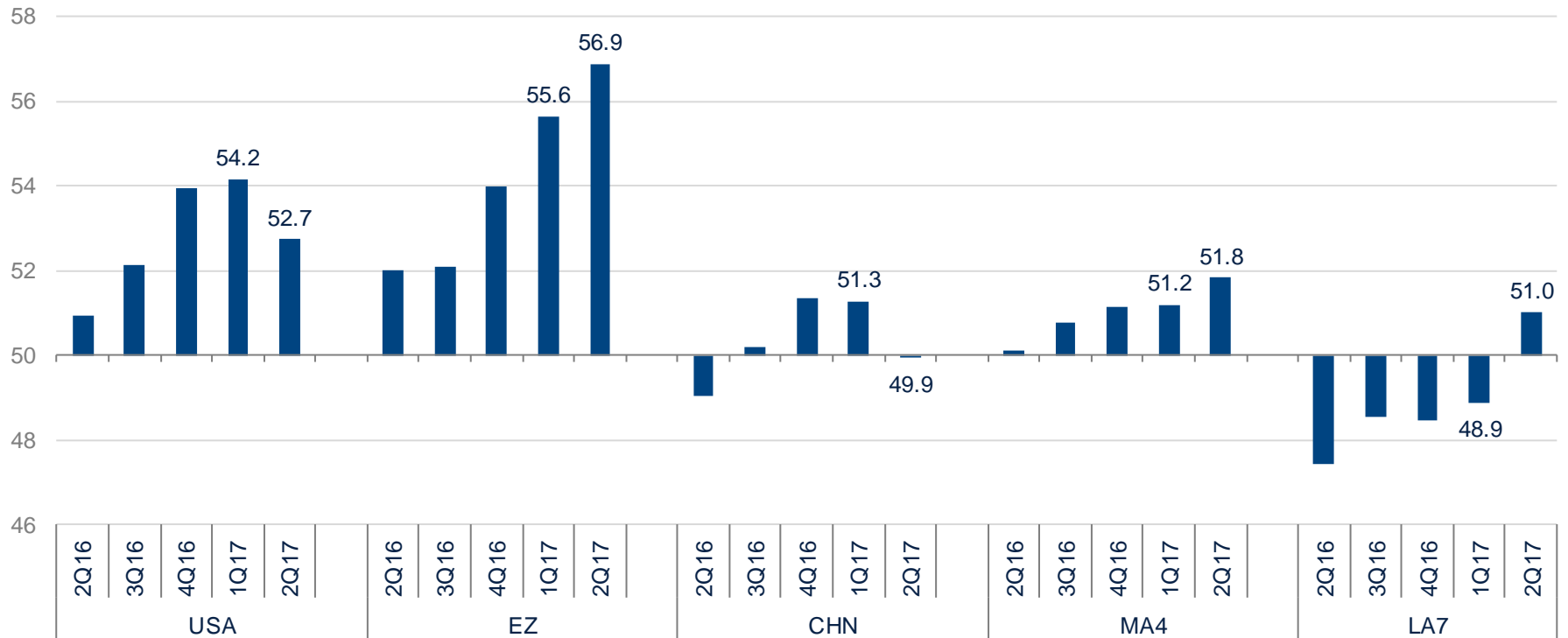
World Manufacturing PMI
(Level \pm 50)



- ◆ According to PMI's, **employment rose** again on the back of **higher new orders** and **rising backlogs of work**.
- ◆ Rates of increase in **both input costs** and **output charges** continued to **ease** in May

Manufacturing PMIs: The Eurozone strength continues, but the US and China moderate. Latam turns positive.

Manufacturing PMI: Selected Regions
(Level \pm 50)

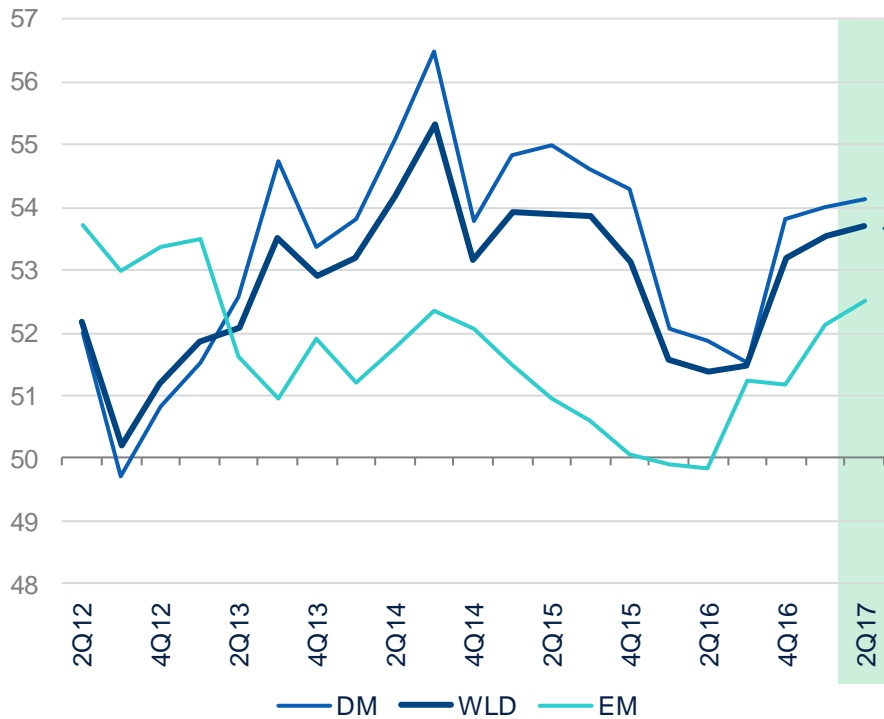


2Q17 calculated using data for April and May.
Source: BBVA Research and national sources

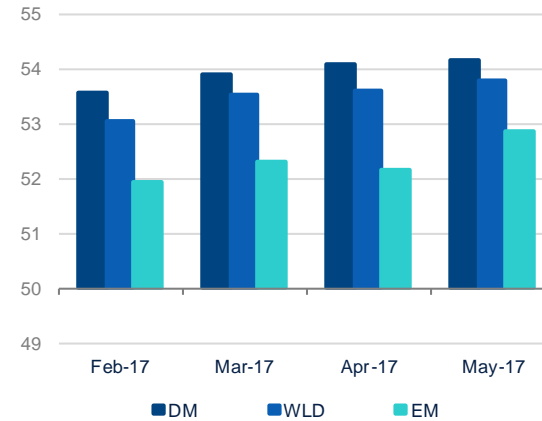
LA7: Argentina, Brazil, Chile, Colombia, Mexico, Peru, Venezuela.
MA4: India, Indonesia, Japan, Korea

Services PMIs increased further in May...

World Services PMI
(Level ± 50)



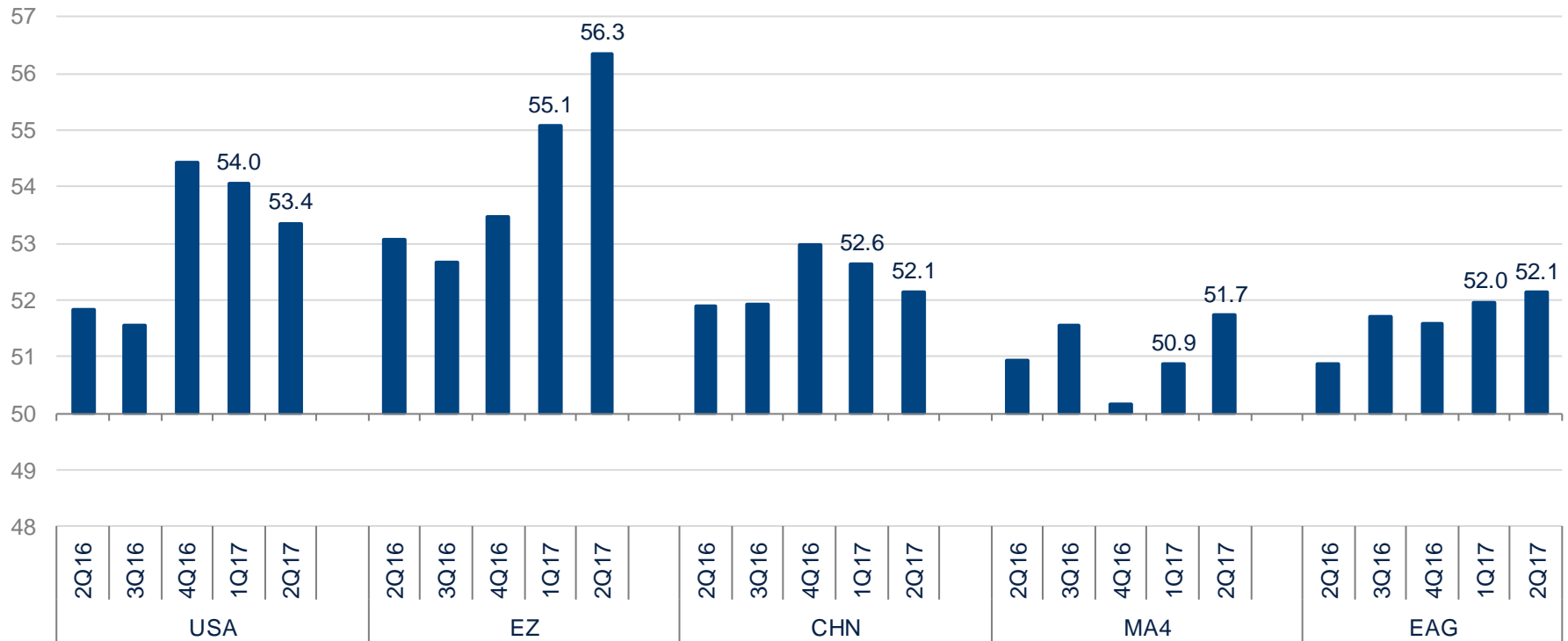
World Services PMI
(Level ± 50)



- ◆ Increasing **new orders** along with the accumulation of **backlogs of work** encouraged further **job creation**.
- ◆ **Input cost inflation eased slightly in May** but service firms still have the enough power to increase output charges

...mostly driven again by Europe

Services PMI: Selected Regions (Level \pm 50)

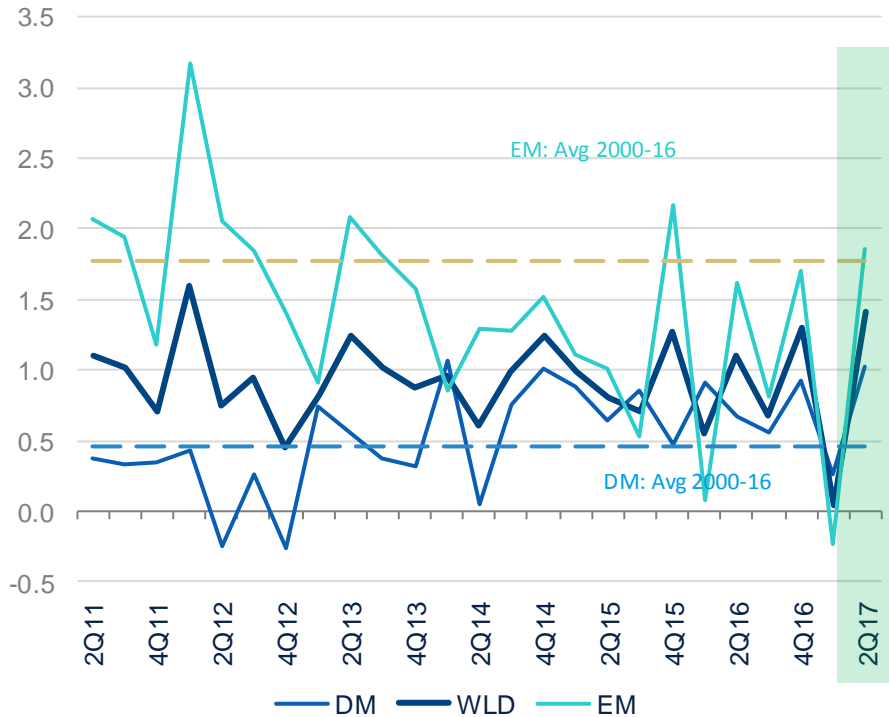


2Q17 calculated using data for April and May.
Source: BBVA Research and national sources

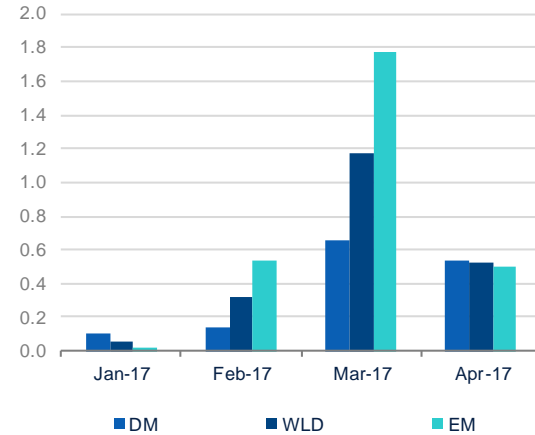
MA4: India, Indonesia, Japan, Korea
EAG (Eagles): Bangladesh, Brazil, China, Egypt, India, Indonesia, Iran, Malaysia, Mexico, Nigeria, Pakistan, Philippines, Russia, Turkey, Vietnam

Strong rebound in retail sales at the beginning of 2Q17 suggests that growth of consumption is resuming

World Retail Sales
(%, QoQ)



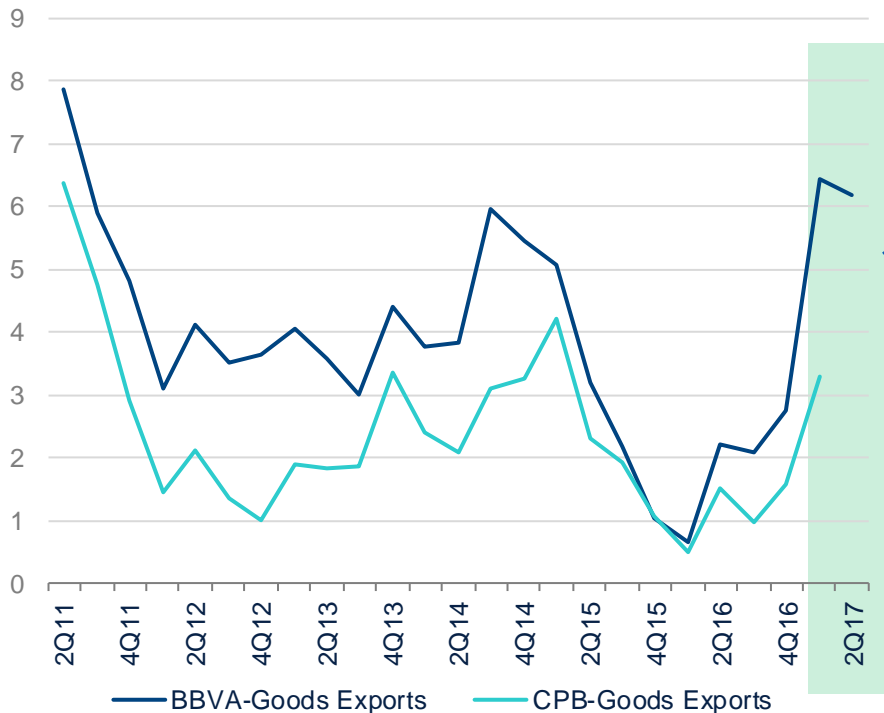
World Retail Sales
(MoM, %)



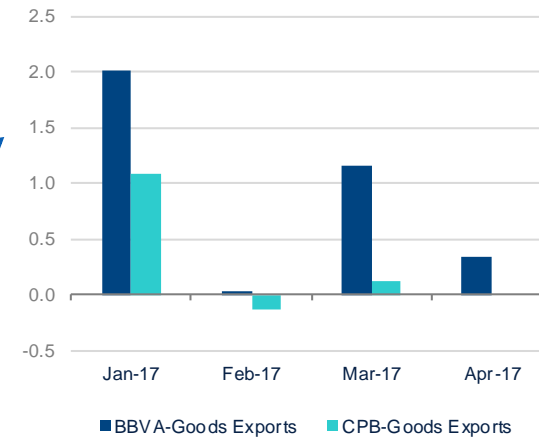
- ◆ Across DM, higher quarterly rates were driven by UK and US, and to a lesser extent by EZ.
- ◆ In EM, good performance in China and the rest of Asia

Goods' exports halted their upward trend in April according to our measure of global trade

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



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

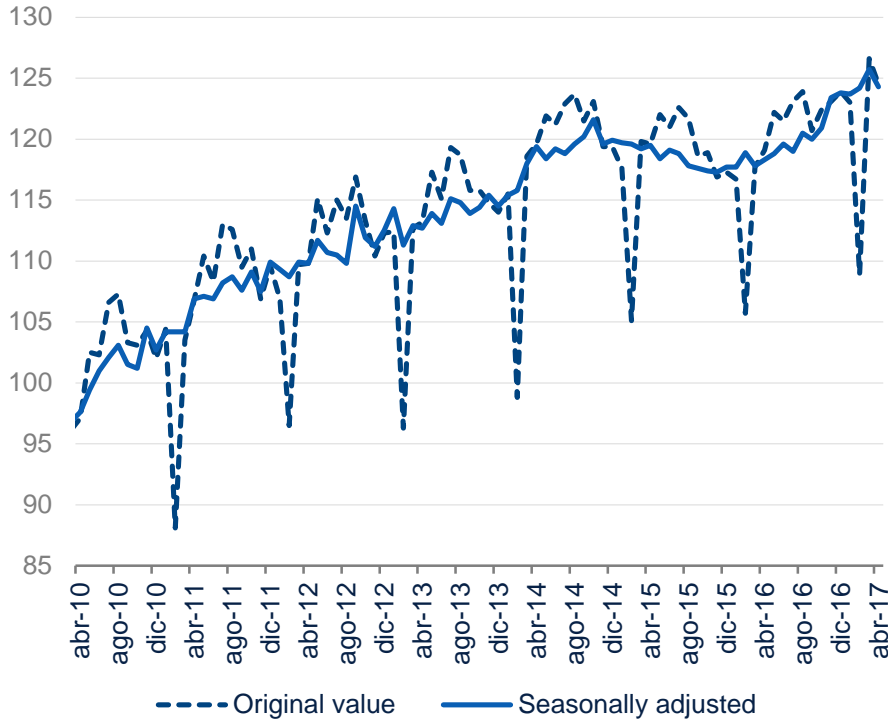


- ◆ China's exports dampened global exports in April after the strong rebound of March
- ◆ Moreover, data available for May do not provide a very optimistic outlook

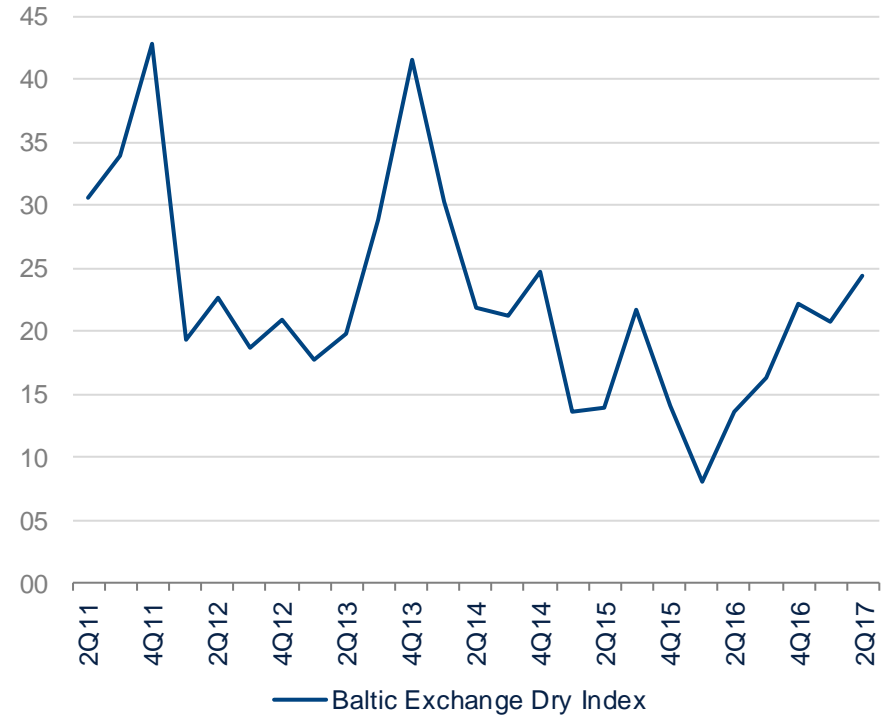
* Based on BBVA-Trade Index
Source: BBVA Research and CPB

Freights reinforce the idea that global trade could be moderating

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

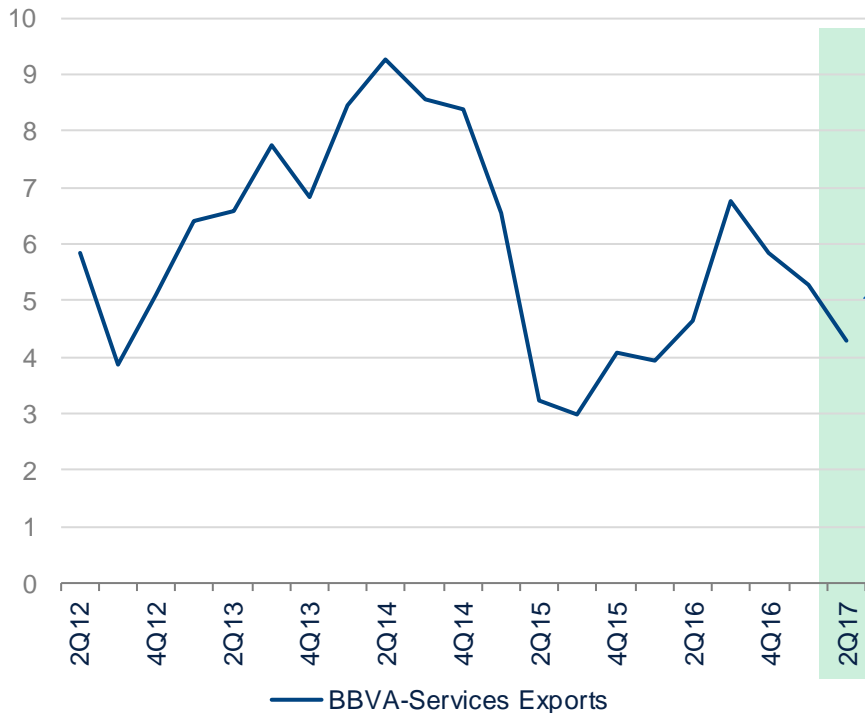


Baltic Exchange Dry Index
(Index, Jan-05=100)

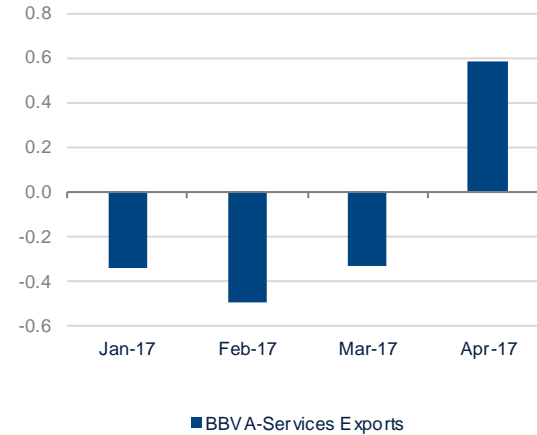


Exports of services picked up in April after falls in Q1, but the recovery has yet to be confirmed

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



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



◆ The improving was present in several regions, especially in Japan Australia and Turkey

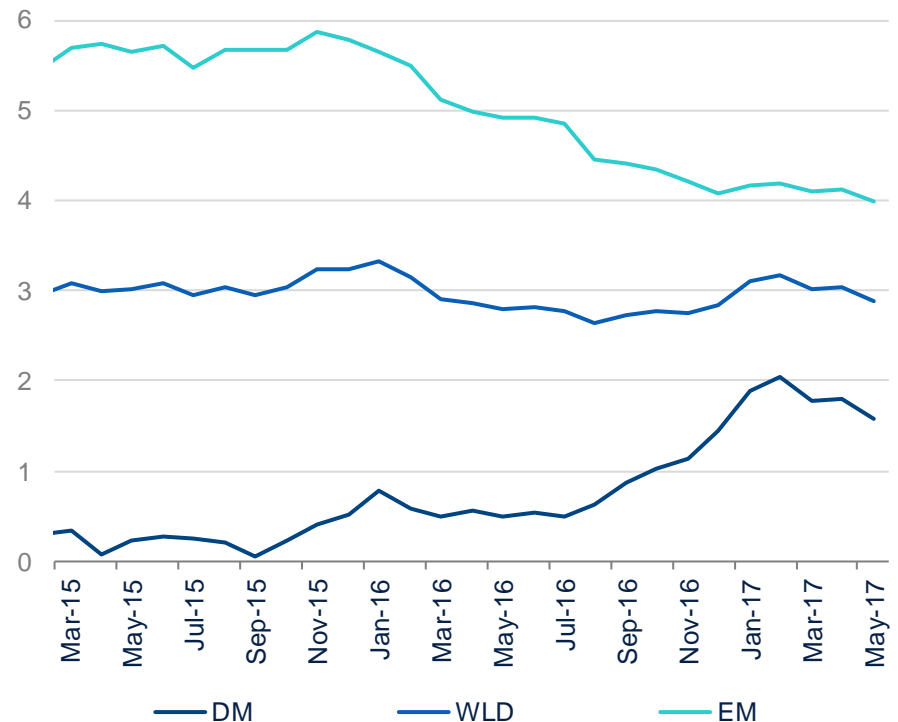
* Based on **BBVA-Trade Index**
Source: BBVA Research and CPB

Global inflation eased in May, mainly due to the reversion of volatile components...

- ◆ **In DM's**, May headline inflation declined somewhat more than expected due to lower energy prices and one-off or temporary factors.
- ◆ **In EM's** inflation fell slightly due to a slowdown in emerging Asia and Latam that could not be offset by the increase in China

World Headline Inflation

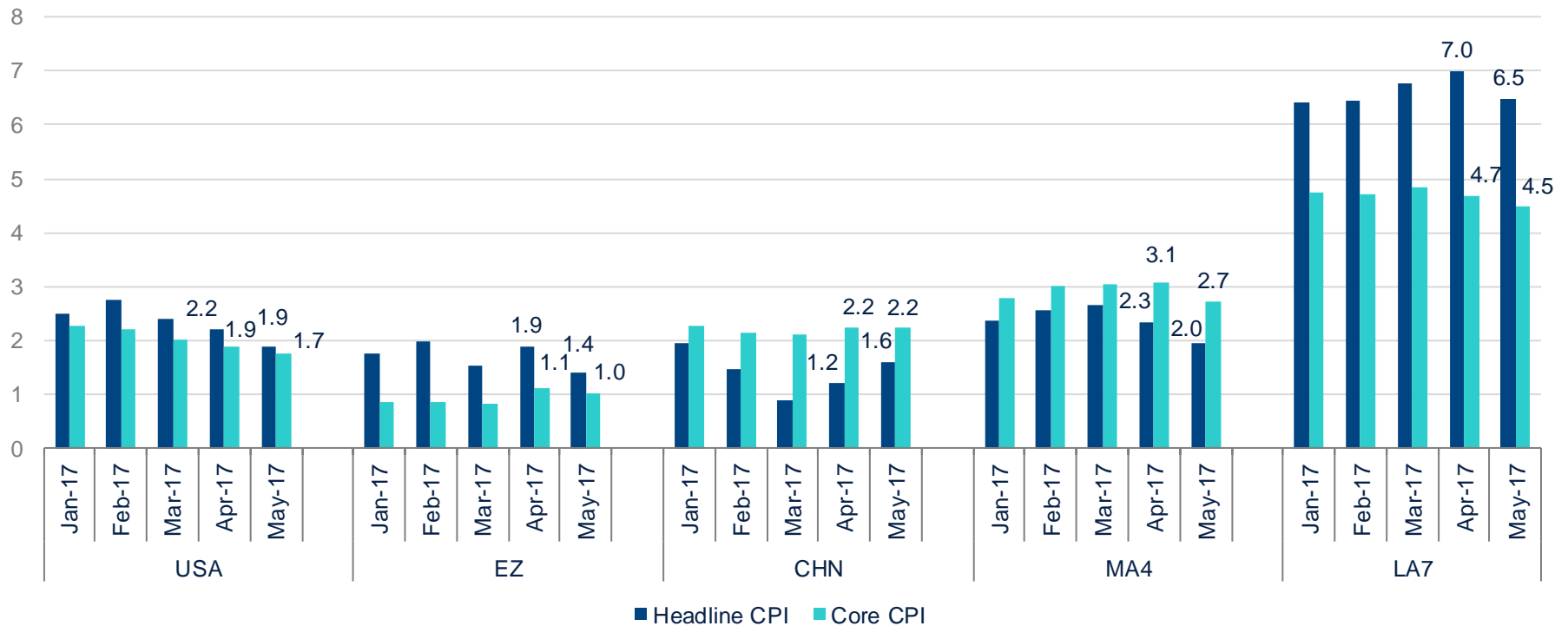
(YoY, %)



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

Headline and Core Inflation: Selected Regions

(YoY, %)



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