

GLOBAL OUTLOOK

ECONOMIC WATCH

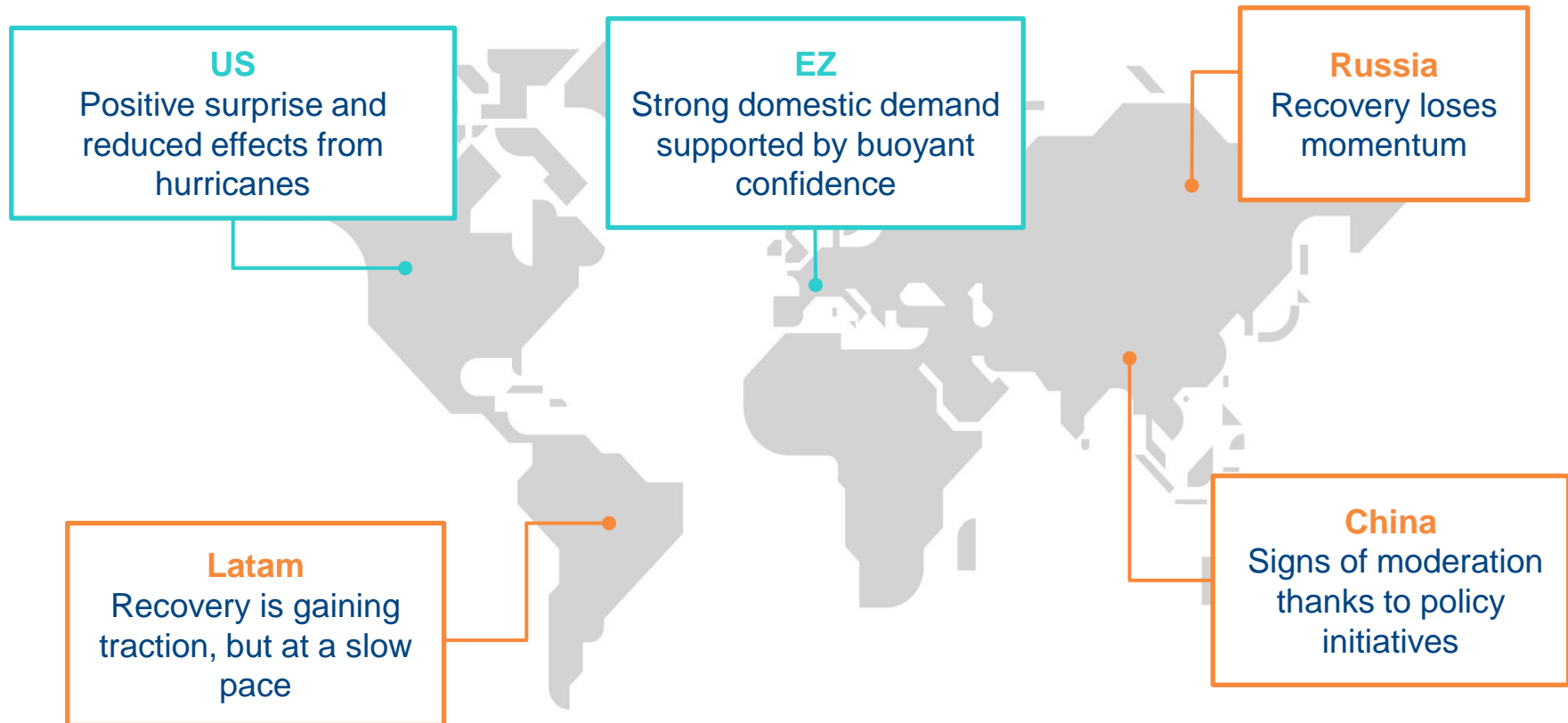
November 2017



Global growth continues on a strong footing

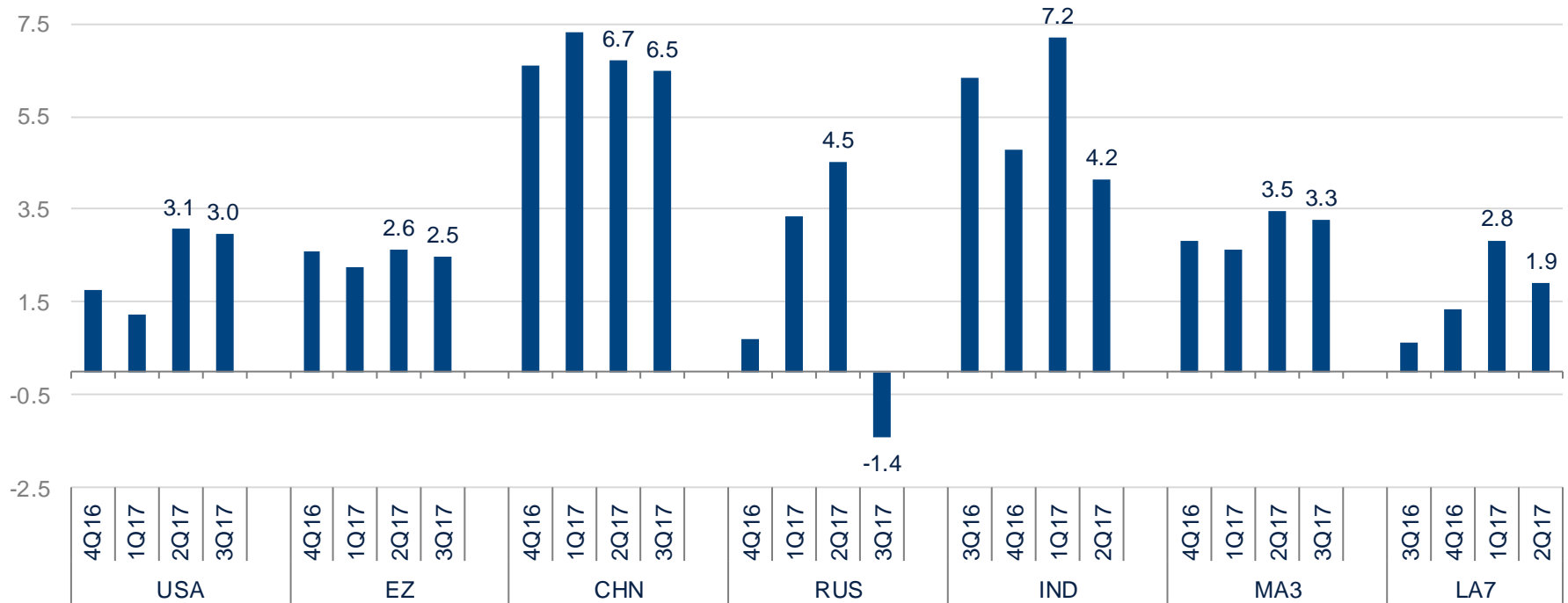
- ◆ Global GDP growth slowed slightly in 3Q17 (to 0.93% from 1.03% QoQ), but our BBVA-GAIN model suggests that the solid global recovery continues in 4Q17 (close to 1% QoQ).
- ◆ The improvement in global trade and the industrial sector reinforces the strength of domestic demand in advanced economies, which contrasts with weak consumption in emerging economies.
 - ◆ Positive surprises in the US (much quicker restoration of normal activity than expected) and solid growth in the EZ.
 - ◆ China's economy showed more signs of moderation due to policy initiatives, which could weigh on the recovery in EM Asia.
 - ◆ The recovery in Latam is gaining traction, but at a slow pace.
- ◆ Confidence indicators continued improving at the beginning of 4Q17, especially in developed economies. In contrast, hard data provide a less upbeat outlook as industrial output stagnated in September and retail sales failed to gain ground. Moreover, global trade provides further signals of stabilization.
- ◆ Global headline inflation remained broadly stable in October as higher prices in EM were offset by slowing inflation in DM. Core inflation seems to be gaining momentum gradually in the US but remains subdued in EZ and is broadly unchanged in EM

Advanced economies have improved recently



Global growth moderated slightly in 3Q17 due to EMs (especially Russia) despite the positive surprise in the US and the strong growth in EZ

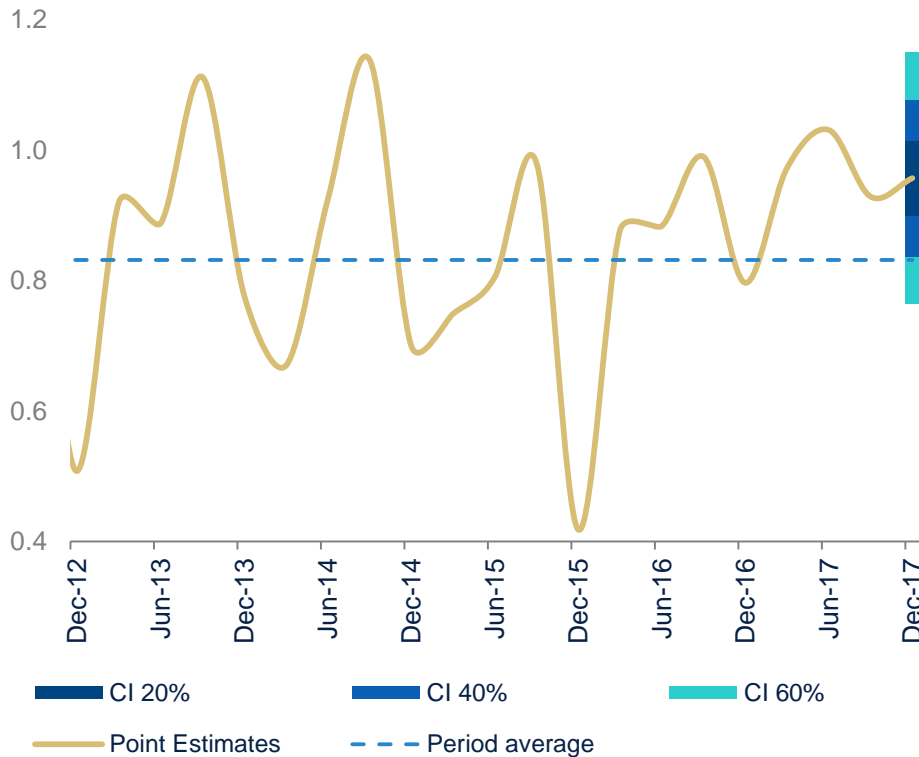
GDP: Selected Regions
(SAAR, %)



Signs of stabilization in global GDP growth in Q417 at close to 1.0% QoQ, with a slight downward revision in 2H17

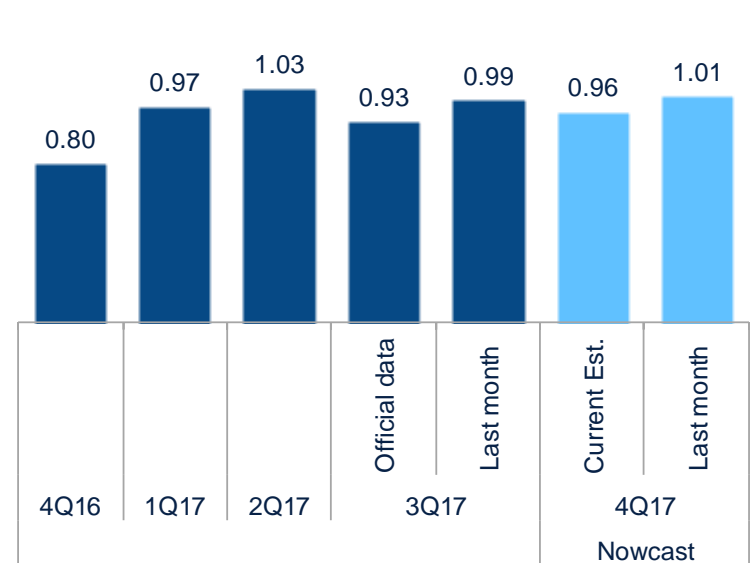
World GDP Growth

Forecast based on BBVA-GAIN (% , QoQ)



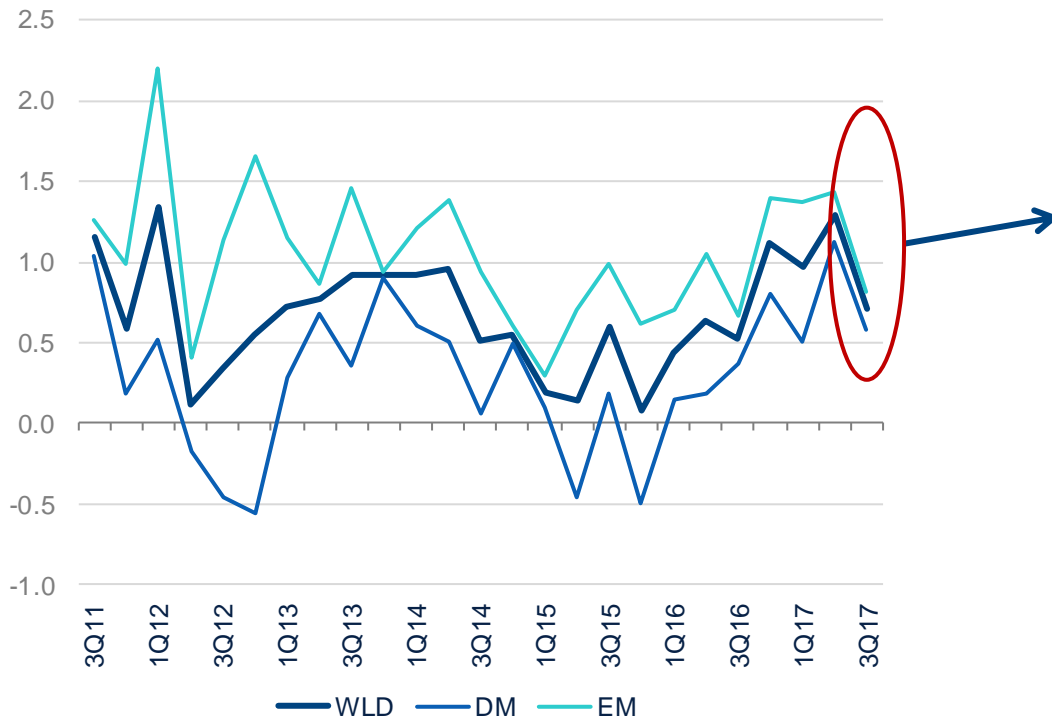
World GDP Growth: Change in forecast

QoQ, %

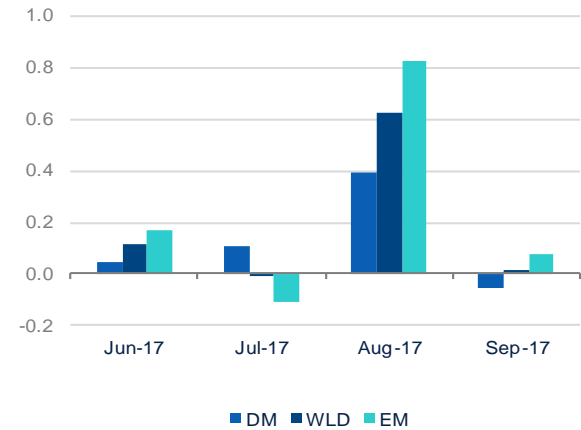


Industrial output unchanged in September after the sharp increase in August, resulting in a more moderate but still solid growth in 3Q17

World Industrial Production
(%, QoQ)

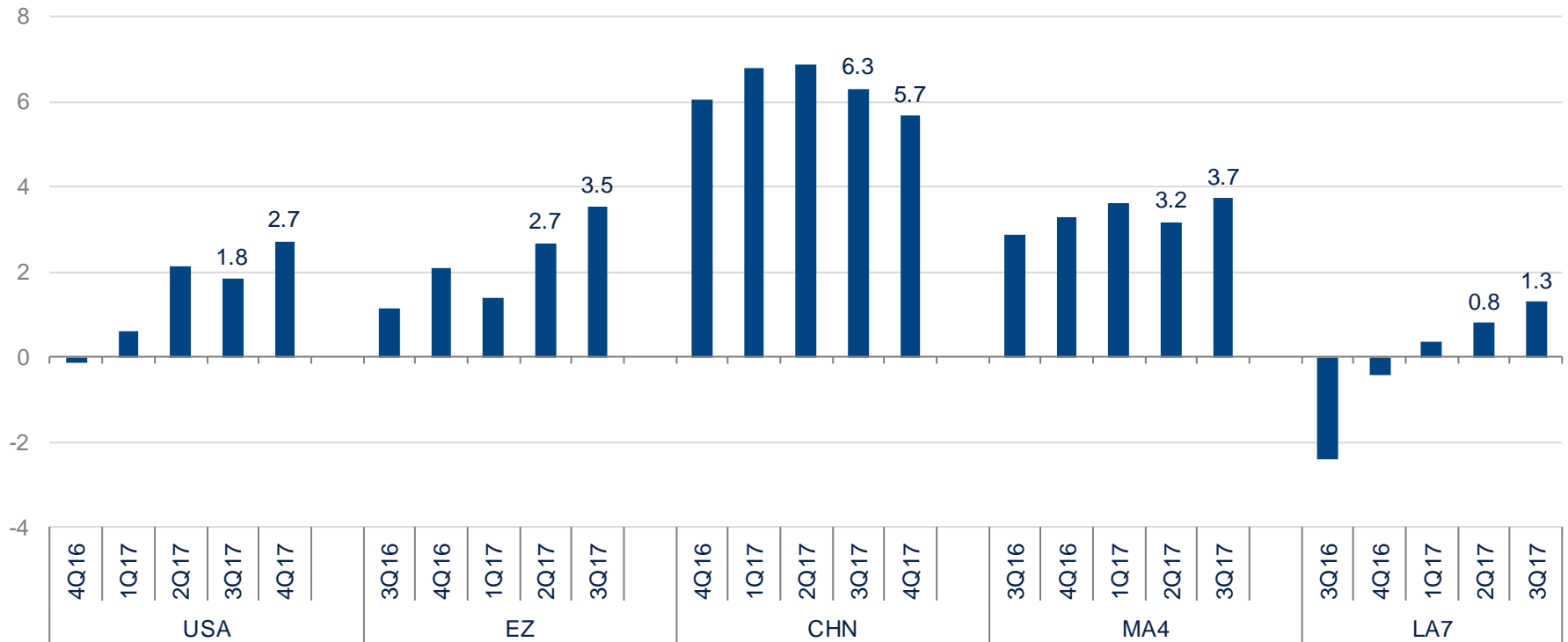


World Industrial Production
(MoM, %)



Industrial production continues to strengthen in developed areas and in Latam, which contrasts with signs of moderation in China

Industrial Production: Selected Regions
(YoY, %)

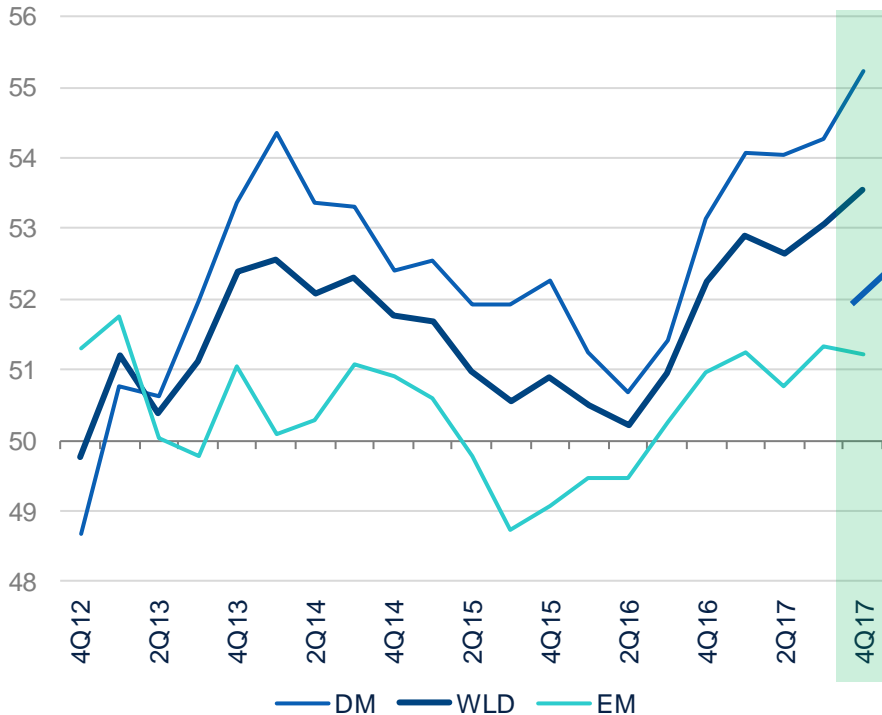


4Q17 calculated using data for October for USA and CHN.
Source: BBVA Research and National sources

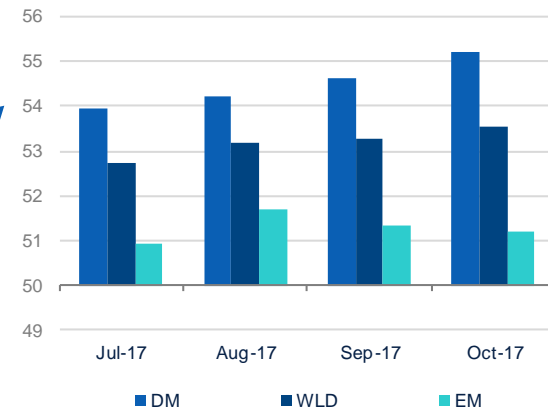
LA7: Argentina, Brazil, Chile, Colombia, Mexico, Peru, Venezuela.
MA4: India, Indonesia, Japan, Korea

Global manufacturing PMI's show strong momentum in advanced economies

World Manufacturing PMI
(Level ± 50)



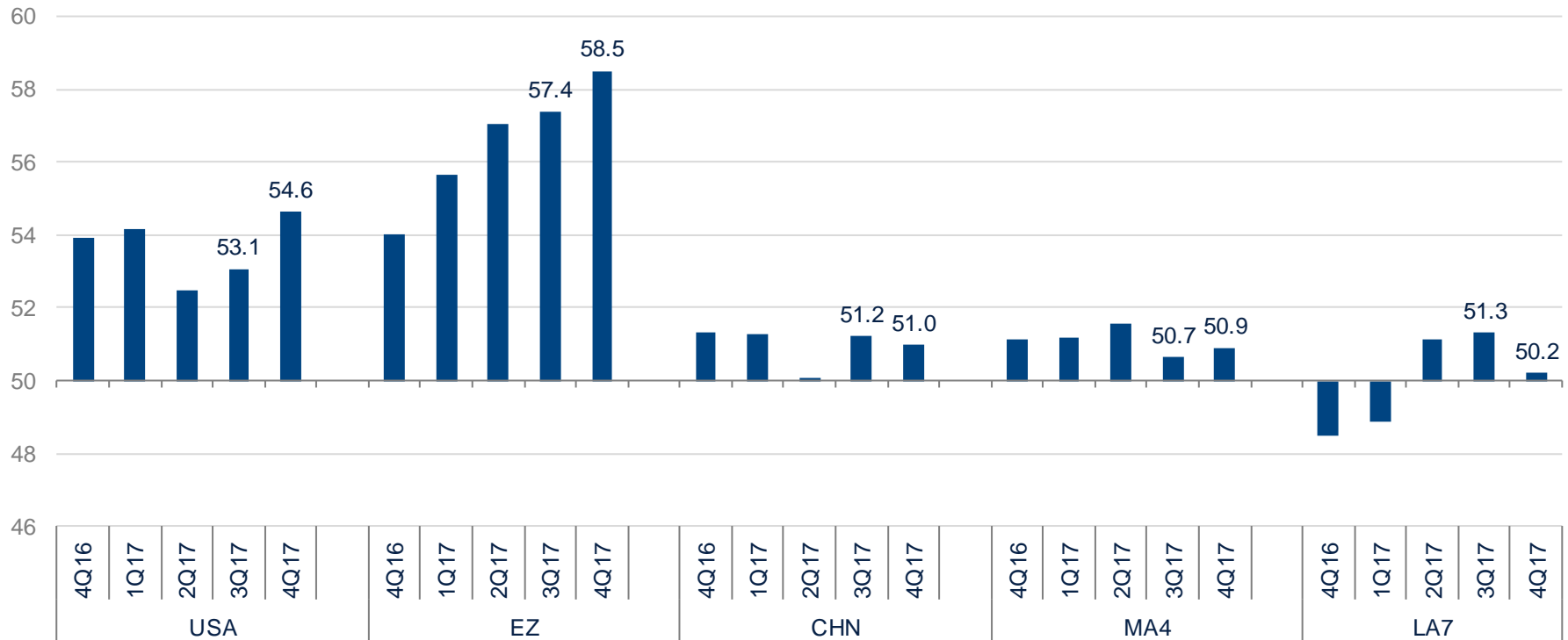
World Manufacturing PMI
(Level ± 50)



- ◆ According to PMIs, the rate of expansion was close to September's high, underpinned by a **stronger growth of total new orders and job creation**
- ◆ **Input cost inflation rose** to a peak of nine-month (supply-chain pressures), while pressures on output prices also intensified

Manufacturing confidence stepped up in the US and the EZ, remained broadly stable in Asia and lost some ground in Latam

Manufacturing PMI: Selected Regions
(Level \pm 50)

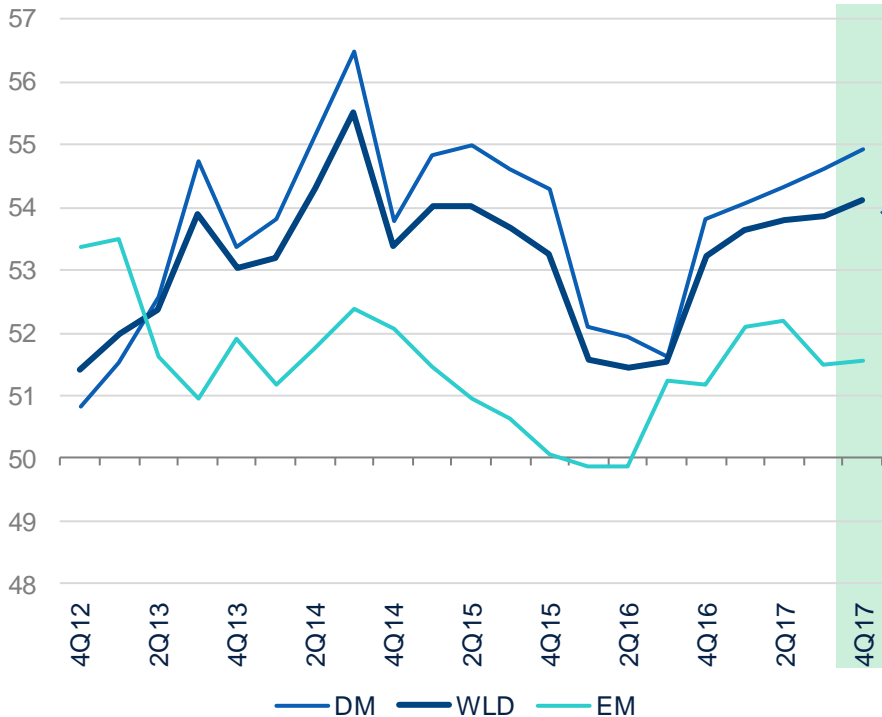


4Q17 calculated using data for October.
Source: BBVA Research and Markit

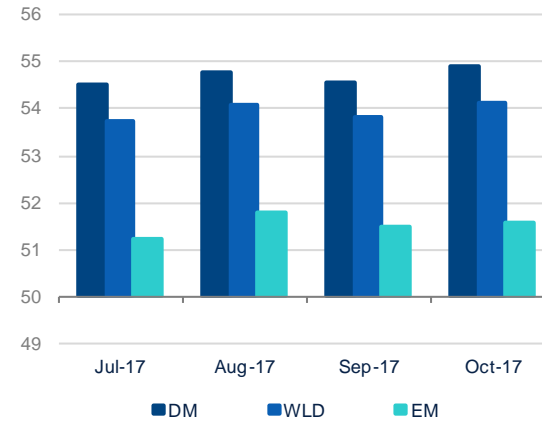
LA7: Argentina, Brazil, Chile, Colombia, Mexico, Peru, Venezuela.
MA4: India, Indonesia, Japan, Korea

Global services confidence (PMIs) starts Q417 on a strong note after some signs of stabilization since the end of 2016...

World Services PMI
(Level ± 50)



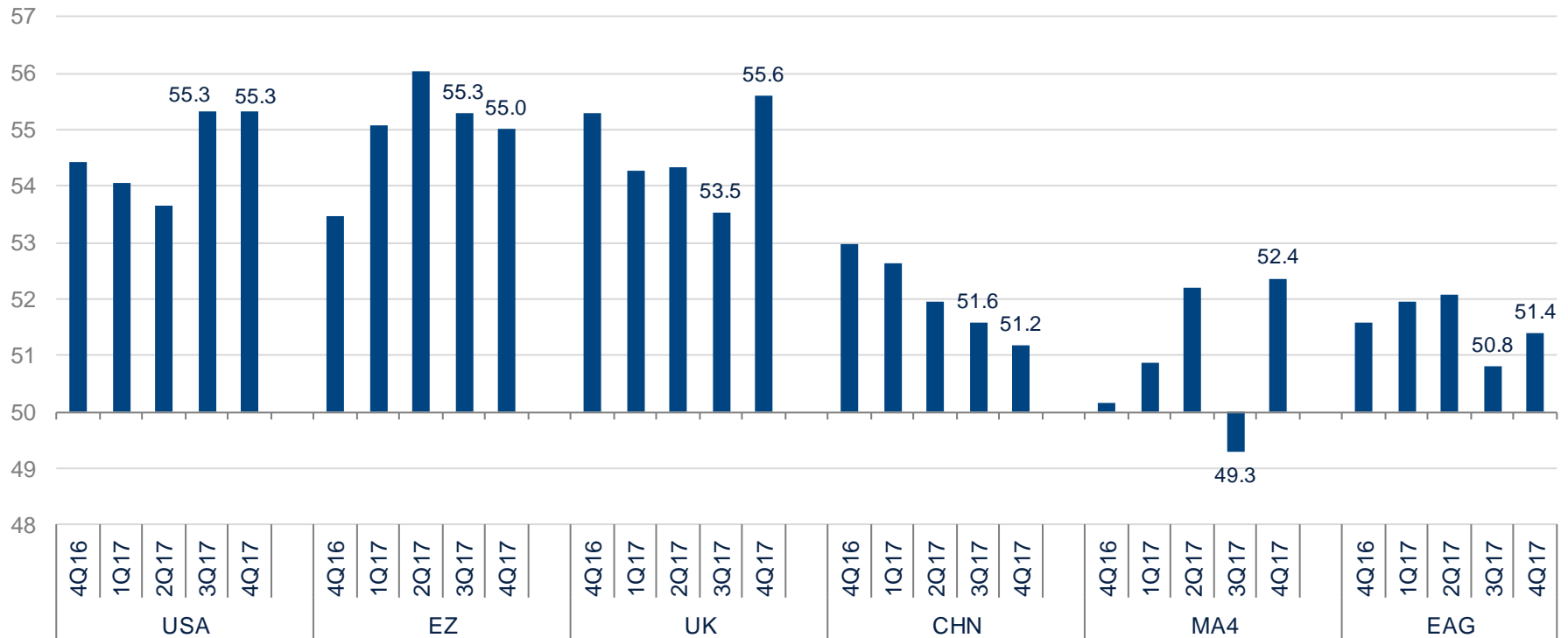
World Services PMI
(Level ± 50)



- ◆ Global services sector gathered further steam at the beginning of 4Q17 despite slightly slower increases in new business and backlogs of work
- ◆ Input prices eased during October resulting in weakening of output charge inflation

...especially in the UK and emerging Asia (except China)

Services PMI: Selected Regions (Level \pm 50)

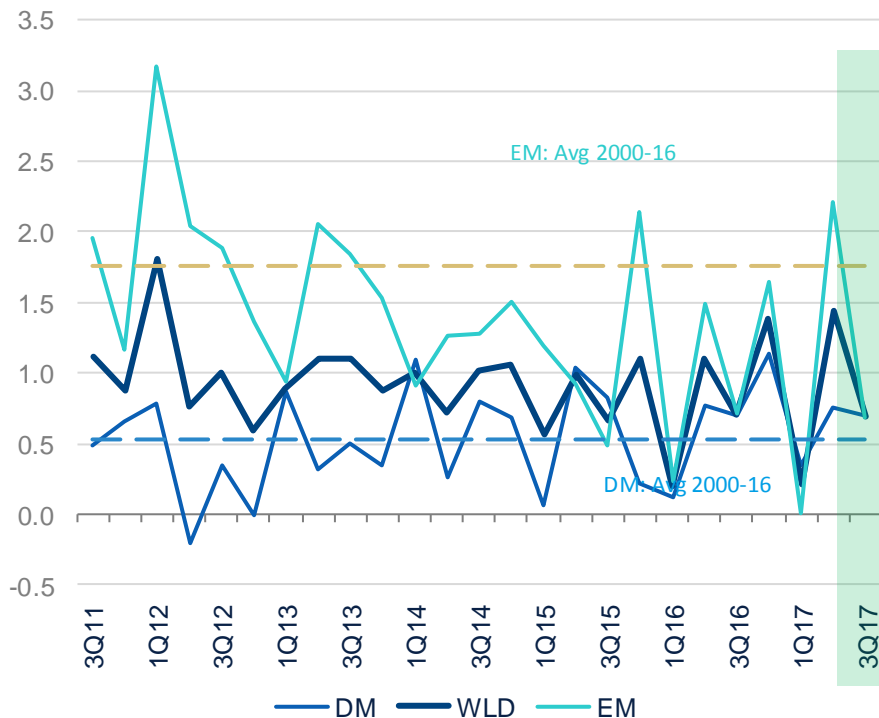


4Q17 calculated using data for October.
Source: BBVA Research and Market

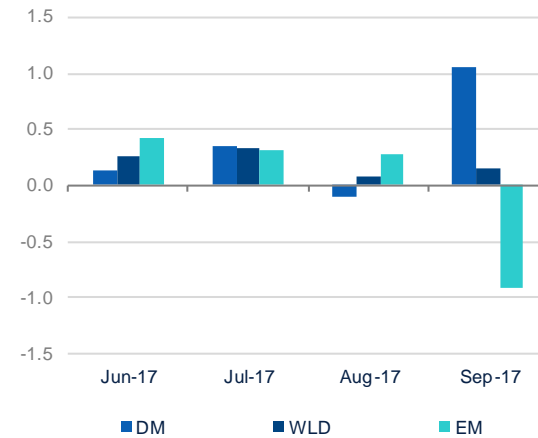
MA4: India, Indonesia, Japan, Korea
EAG (Eagles): Bangladesh, Brazil, China, Egypt, India, Indonesia, Iran, Malaysia, Mexico, Nigeria, Pakistan, Philippines, Russia, Turkey, Vietnam

Retail sales remained moderate in September on the back of weak China data

World Retail Sales
(%, QoQ)



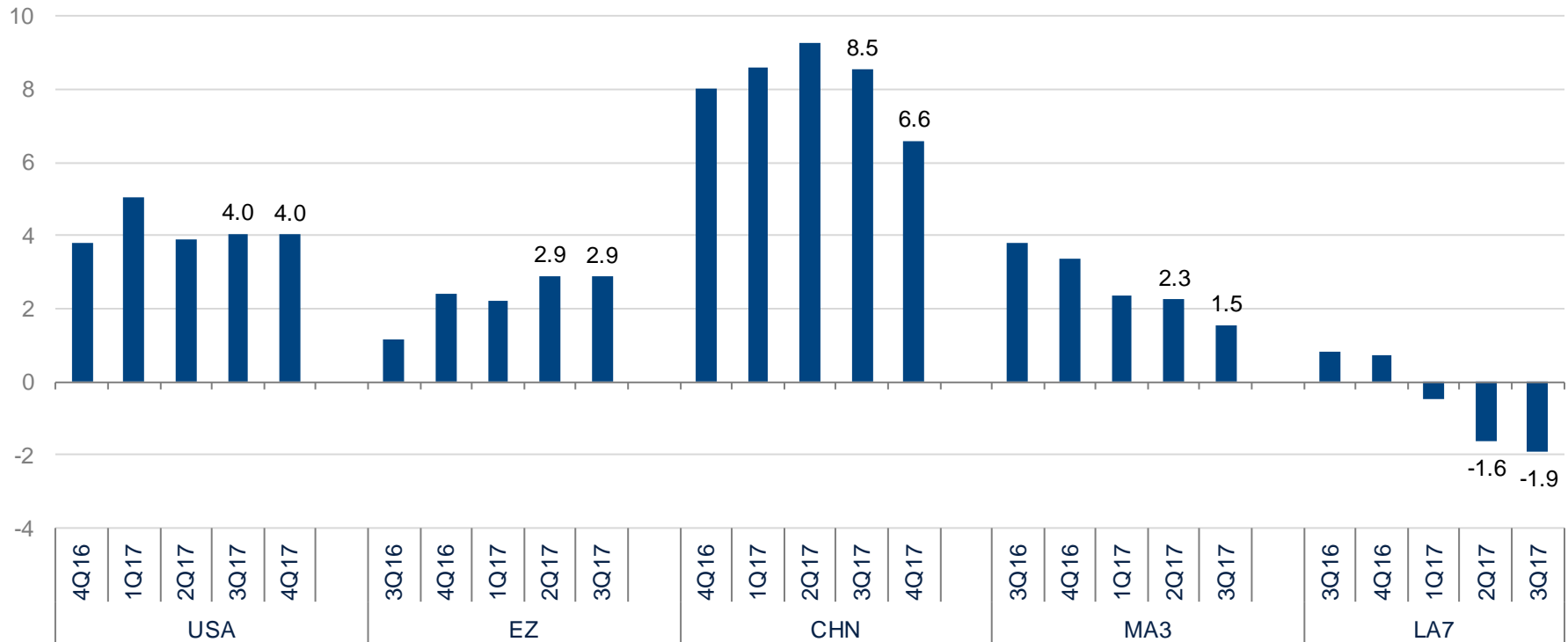
World Retail Sales
(MoM, %)



- ◆ **In EM:** The fall in retail sales was mostly driven by **China** (-2,2% MoM).
- ◆ **Across DM,** the biggest positive surprise came from the **US** (greater than expected bounce back), while both **EZ** and **Japan** returned to growth in September

On a broader view, the strengthening of consumption in the US and EZ contrasts with the slowdown in EM (and with the decline in Latam)

Retail sales: Selected Regions
(YoY, %)

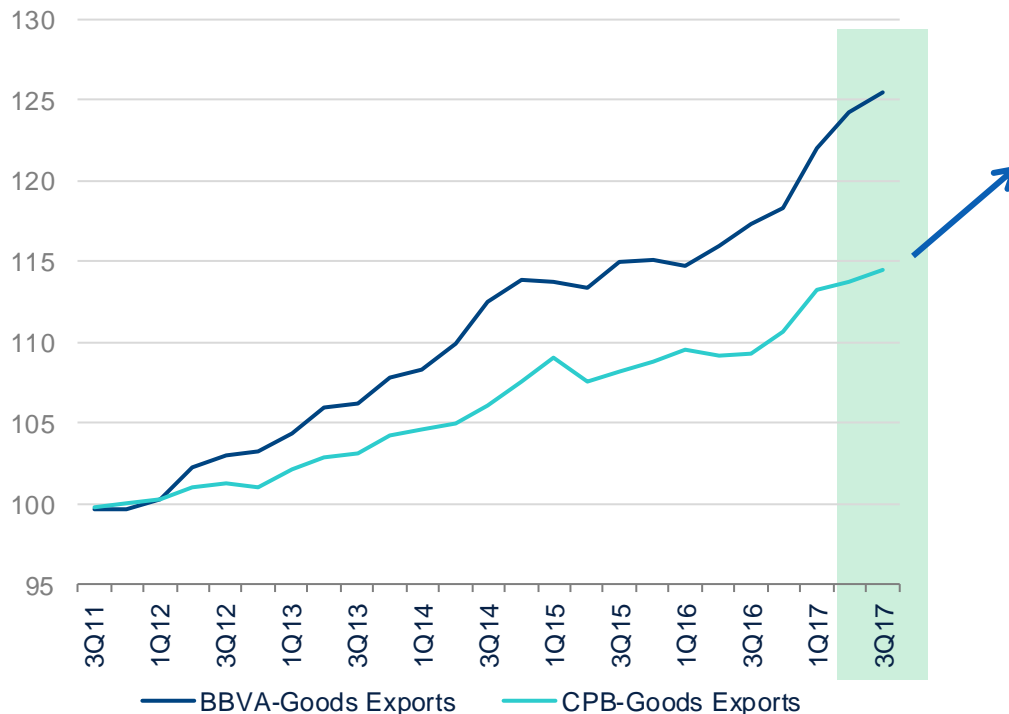


4Q17 calculated using data for October for USA and CHN.
Source: BBVA Research and National sources

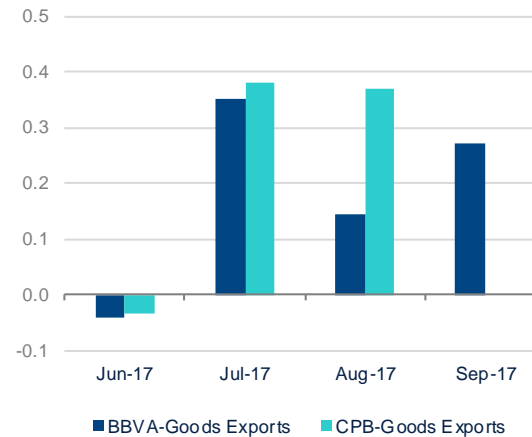
LA7: Argentina, Brazil, Chile, Colombia, Mexico, Peru, Venezuela.
MA4: India, Indonesia, Japan, Korea

Goods' exports picked up in September according to our advanced indicator, though preliminary data for October are weaker

World Exports of Goods (index, constant prices)
(Index Jan-12=100)



World Exports of Goods (growth, constant prices)
(3-month moving average MoM%)

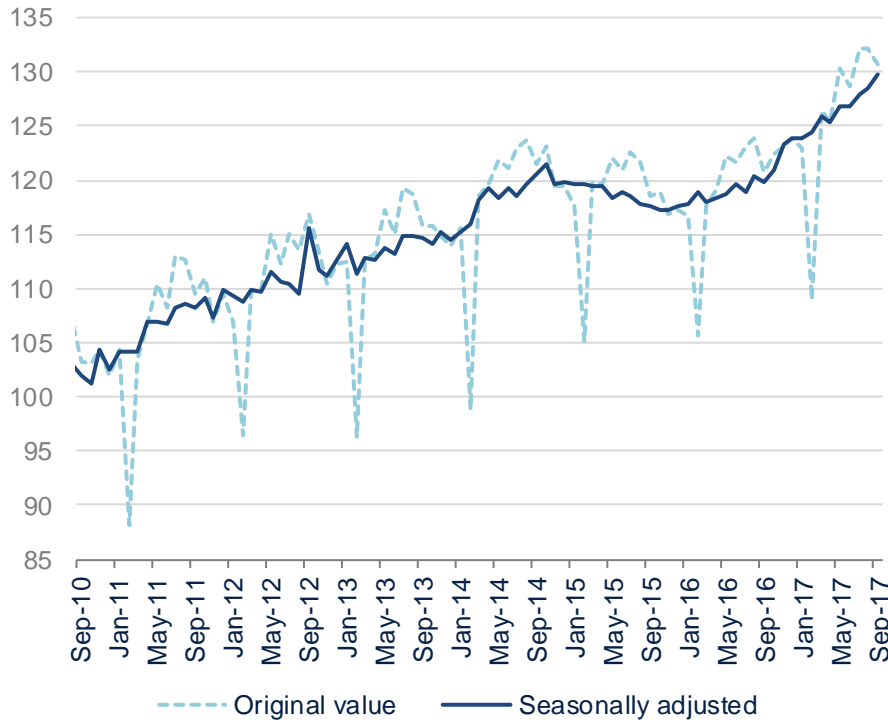


- ◆ The acceleration in September was mainly driven by the significant improvement in **Indian** exports
- ◆ However, the upward trend in global trade could be **losing some momentum** and returning to more normal rates due to less support from **Asian countries, especially China**

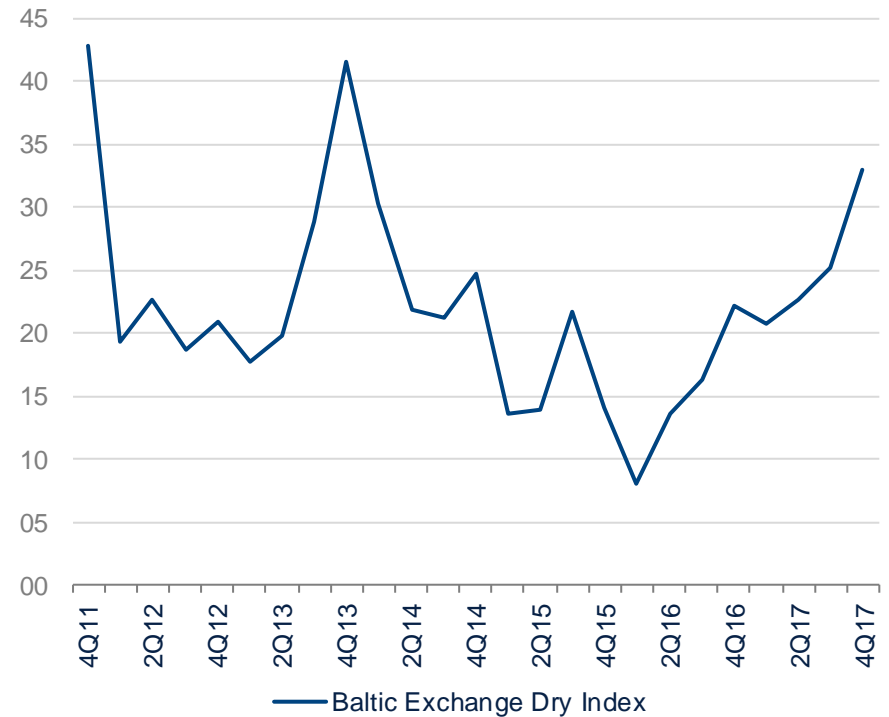
* Based on BBVA-Trade Index

However, freight data in October (Baltic index) has increased sharply, providing mixed signals on trade

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

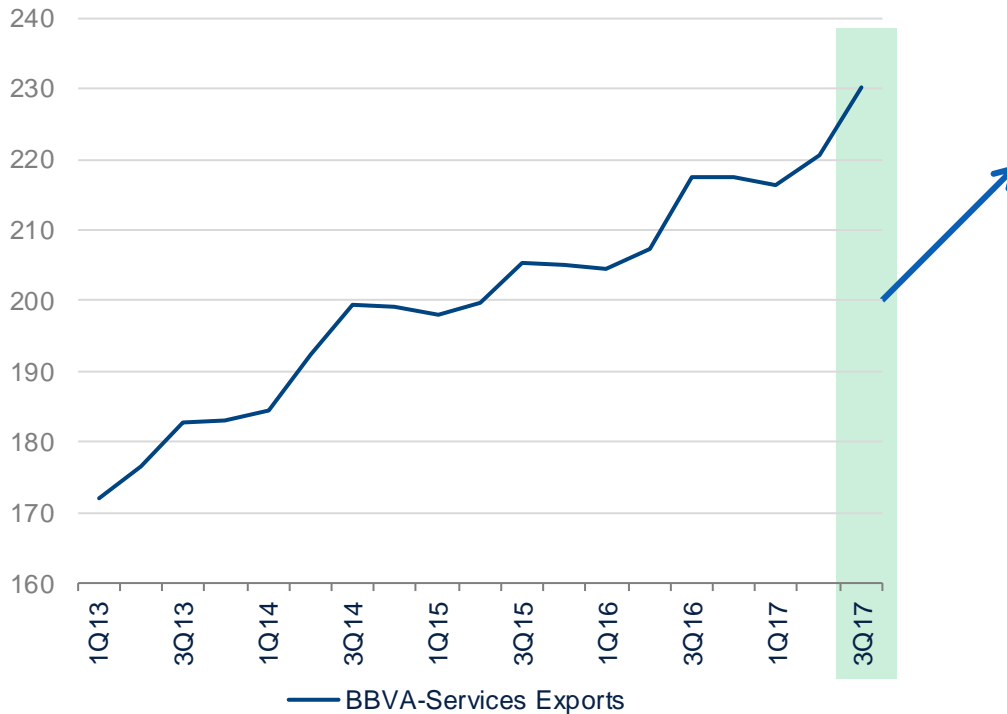


Baltic Exchange Dry Index
(Index, Jan-05=100)

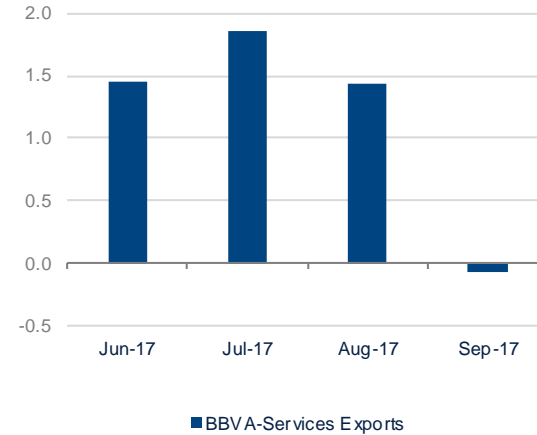


Exports of services slowed in September after improved markedly in the previous months

World Exports of Services (index, constant prices)
(Index Jan-12=100)



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



◆ The decline was present in **several regions** but especially in **Germany and Italy**

* Based on **BBVA-Trade Index**

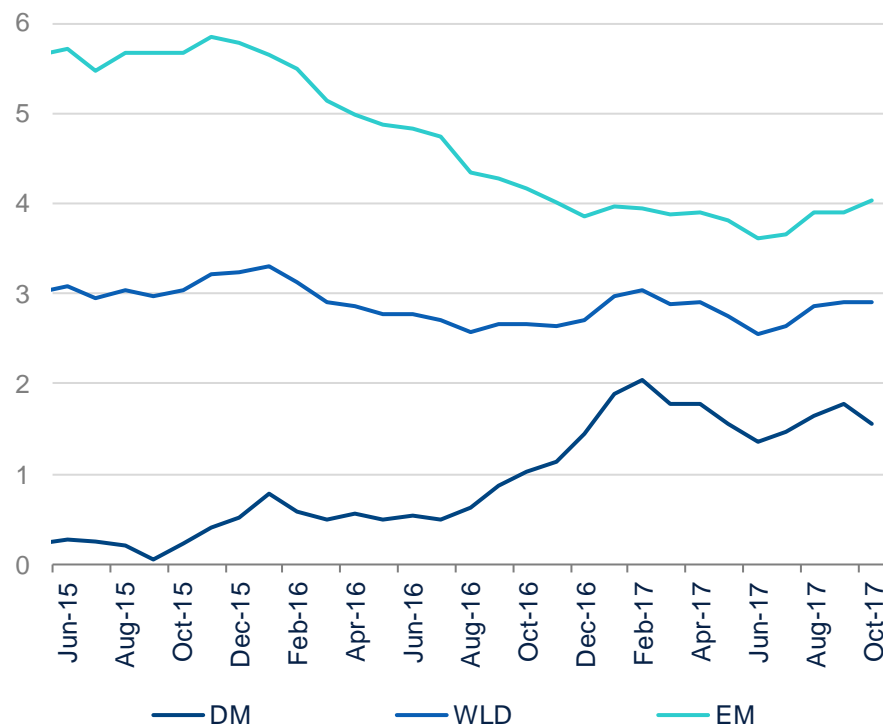
Source: BBVA Research and CPB

Global headline inflation stabilized in October, as faster prices in EM were offset by slowing inflation in DM

- ◆ In DM's, inflation rose moderately in the US buoyed by energy, and declined in EZ due to lower services' prices, reflecting volatile seasonal patterns
- ◆ In EM's inflation registered a mild acceleration because of China and, to a lesser extent, of some Latam countries

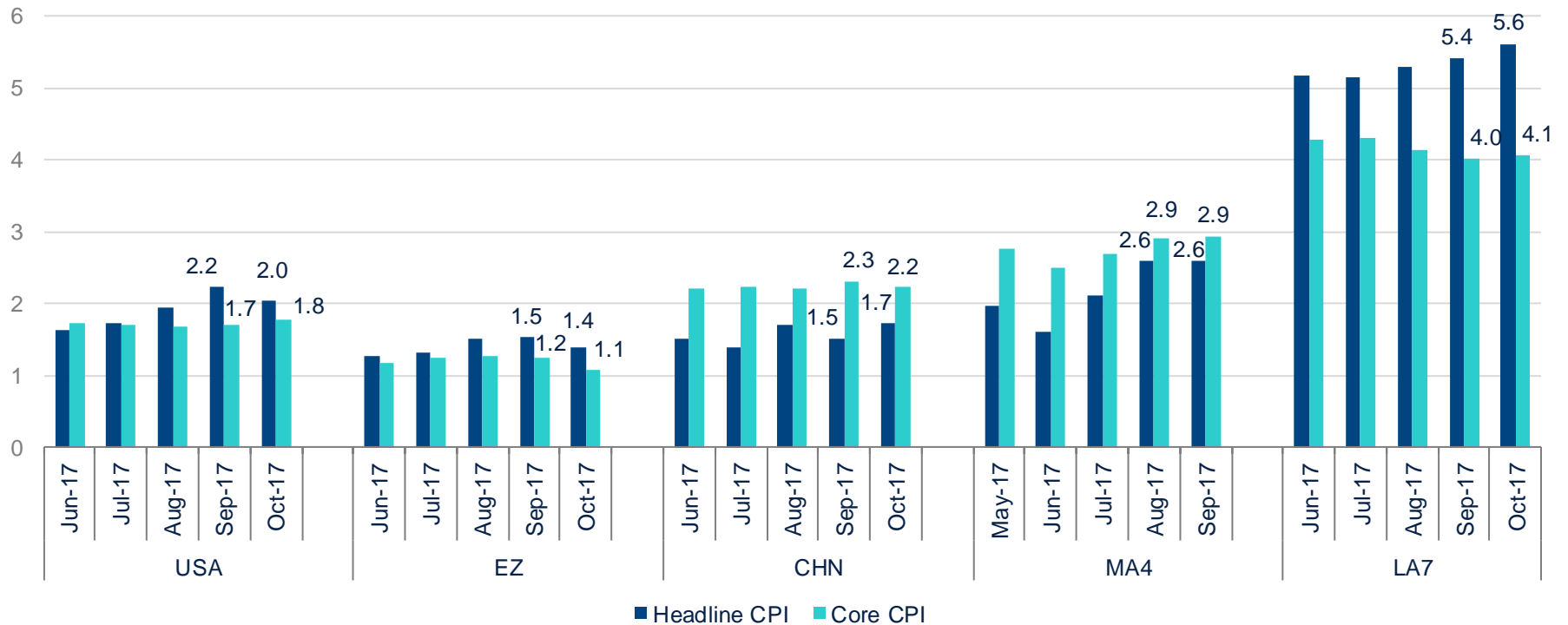
World Headline Inflation

(YoY, %)



Core inflation accelerates mildly in the US but remains subdued in the EZ and broadly unchanged in EM

Headline and Core Inflation: Selected Regions
(YoY, %)



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November 2017

