

# GLOBAL OUTLOOK

## ECONOMIC WATCH

January 2018



## Widespread upward revision of growth forecasts in 2018

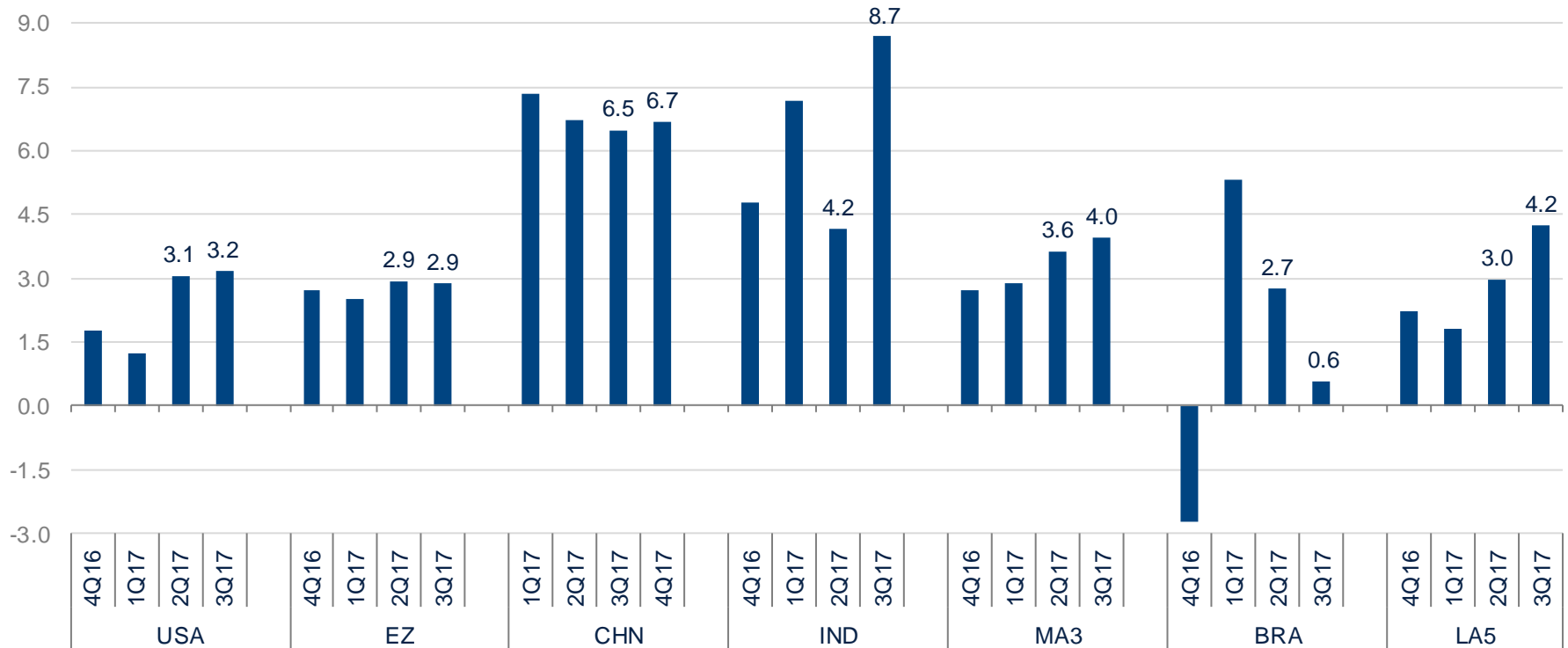
- ◆ **Growth stabilization at high levels.** Our BBVA-GAIN model estimates global GDP to grow at 1,05% QoQ in 4Q17, suggesting an uptick in activity. There is **more confidence** on a sustainable global growth, while **uncertainty seems to be fading**.
- ◆ **Investment spending has gained traction** with support from increased global demand and the upturn in international trade, **allowing a recovery of the industrial sector**. Private consumption remains resilient.
- ◆ We have **revised upwards** our world growth expectations **by 0.3pp to 3.8%** for 2018:
  - ◆ In the US the **improved outlook** stemming from global and domestic drivers **adds to a short-term boost** from the tax reform. Growth is revised upwards by 0.4pp to 2.6% in 2018.
  - ◆ We expect **a more gradual slowdown** in China. Accordingly, we have revised up growth forecasts by 0.3% to 6.3% in 2018, added to higher potential output due to **less uncertainty on structural reforms**.
  - ◆ In the EZ the **strengthening of domestic demand adds to better global outlook**. We revised up growth projections by 0.4pp to 2.2% in 2018.
- ◆ The current economic scenario **points to a normalization** of major central banks' monetary policy. We expect **three interest rate hikes in 2018** from the Fed and a **the end of QE by year end** in the Eurozone.
- ◆ **Risks remain contained in the short term**, although uncertainties stemming from world politics and the threat of a more pronounced shift towards protectionism remain in place.

# SHORT-TERM INDICATORS



# Healthy and stable growth in advanced economies and China, while recovery proceeds in Latam

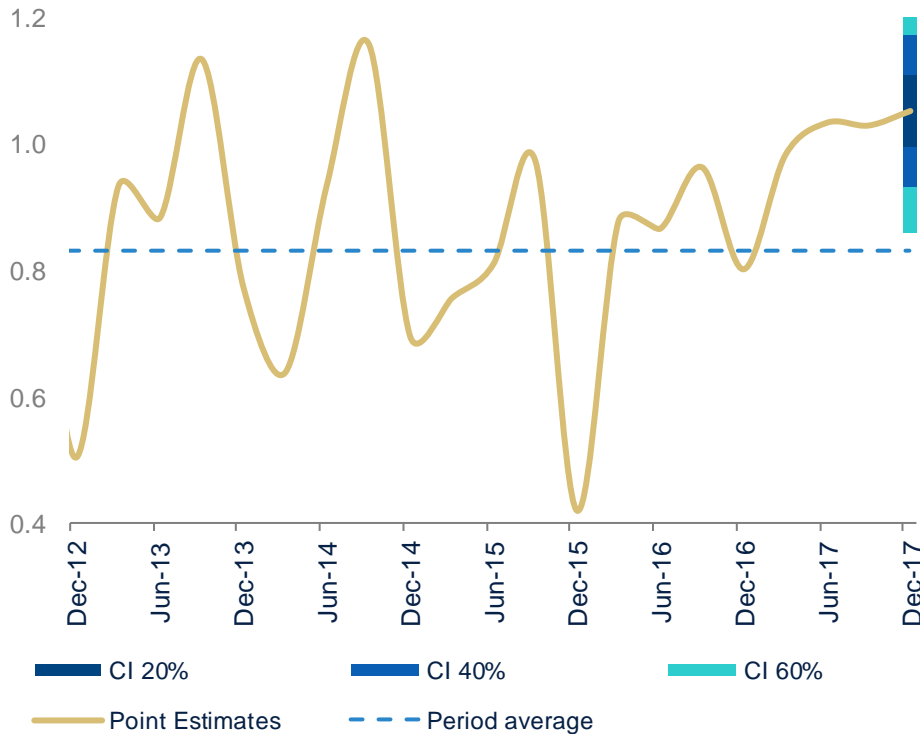
**GDP: Selected Regions**  
(SAAR, %)



# Robust and steady global growth is set to continue in coming quarters

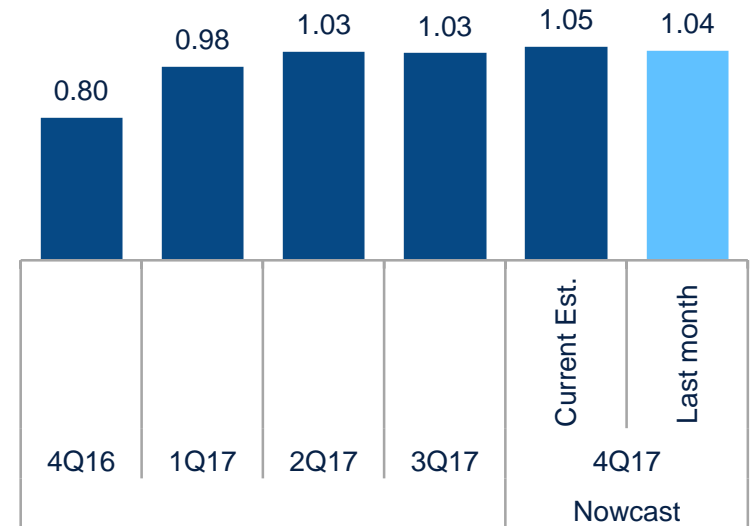
## World GDP Growth

Forecast based on BBVA-GAIN (% , QoQ)



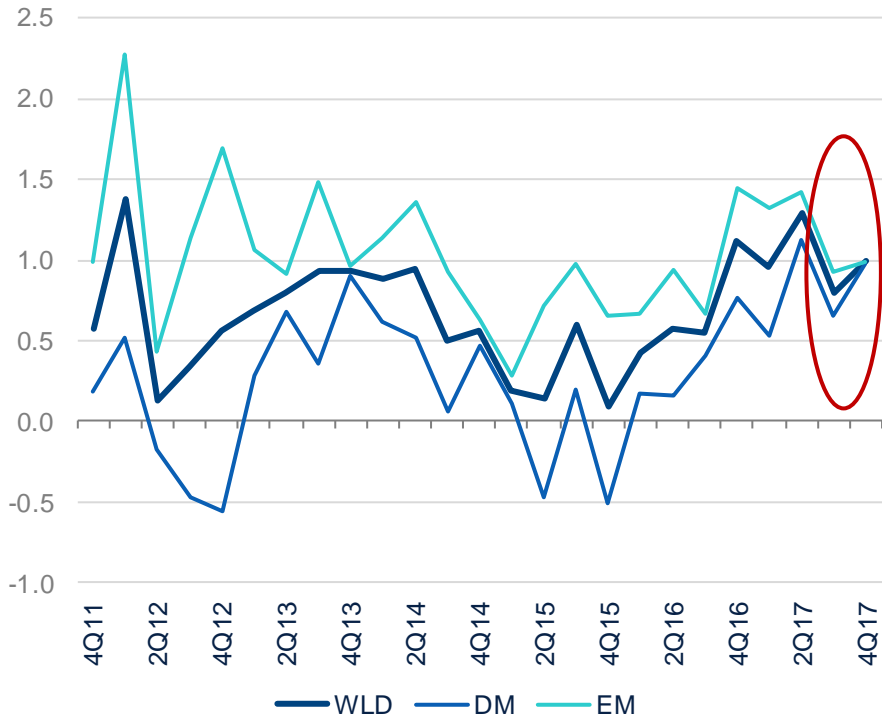
## World GDP Growth: Change in forecast

QoQ, %

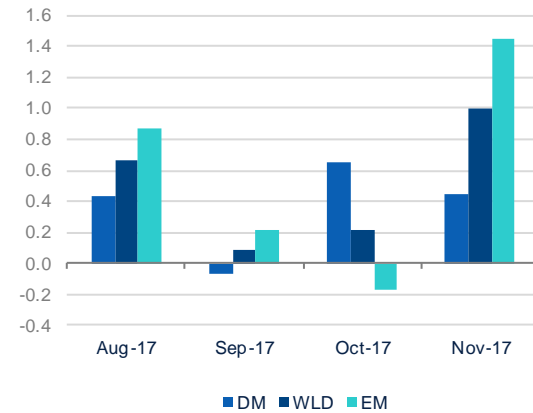


# Industrial production picked up in November, mostly in EMs

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



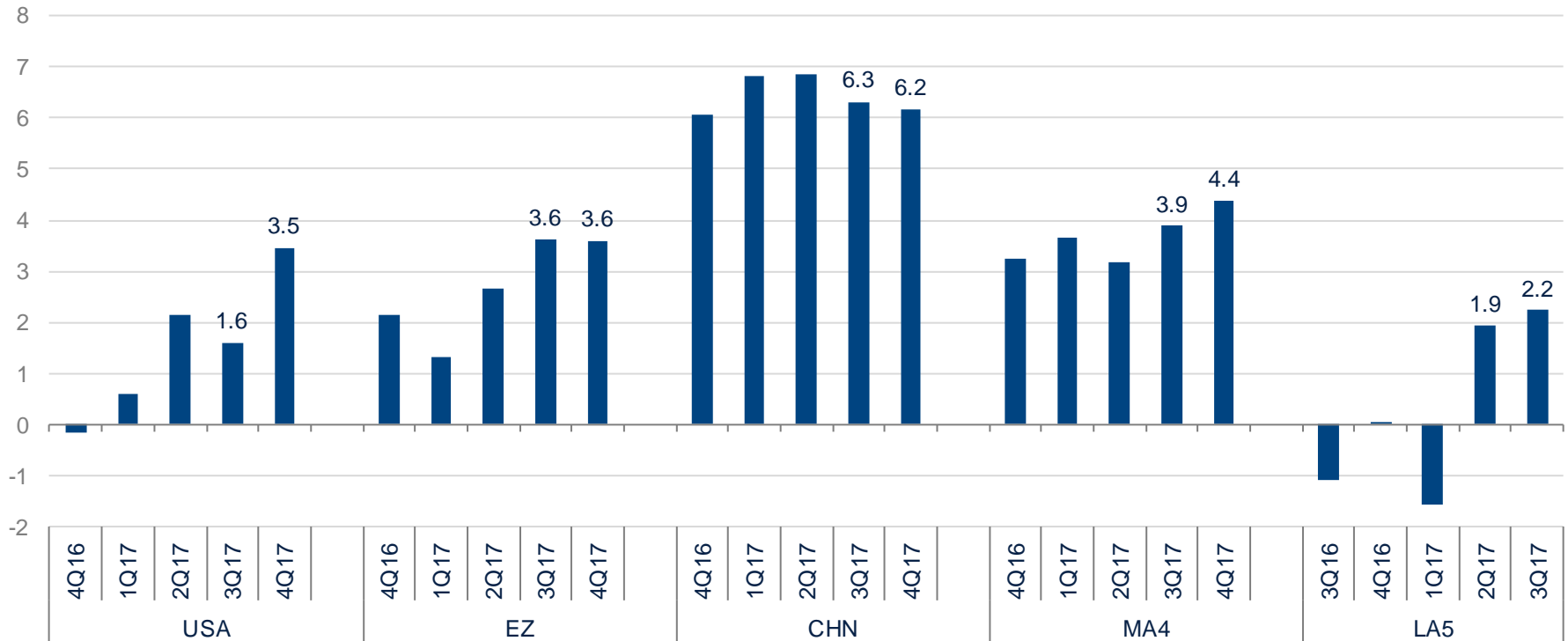
**World Industrial Production**  
(MoM, %)



- ◆ Investment spending has gained traction with the support of increased demand
- ◆ EMs benefit from improving trade and the upswing in commodity prices

# Industrial output growth continued. A pick up in US and MA4 added to a policy-induced moderation in China

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

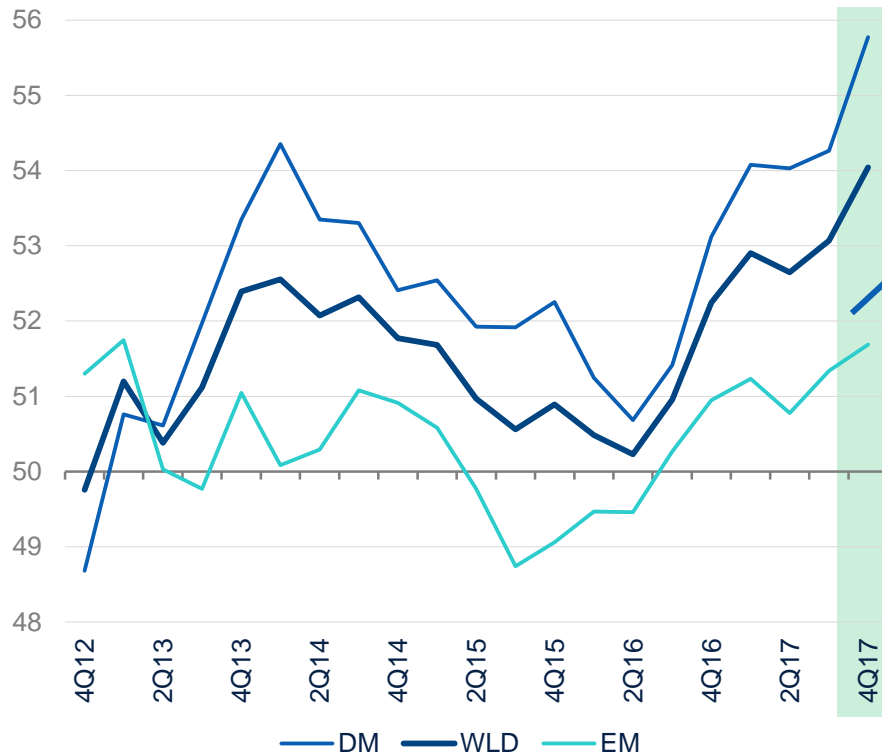


4Q17 calculated using data for November for EZ, MA4. LA5 data availability until September.  
Source: BBVA Research and National sources

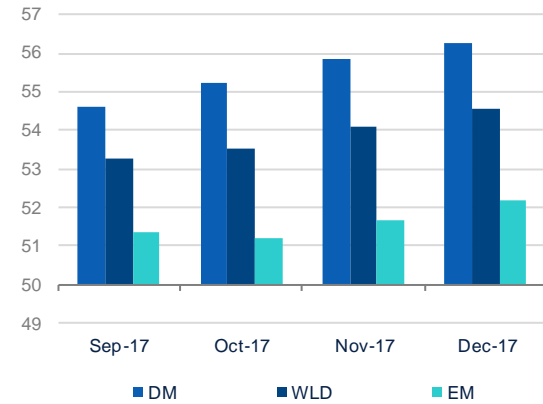
**LA5:** Argentina, Chile, Colombia, Peru, Venezuela.  
**MA4:** India, Indonesia, Japan, Korea

# Highly optimistic global manufacturing confidence point to increasing growth pace in coming months

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



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

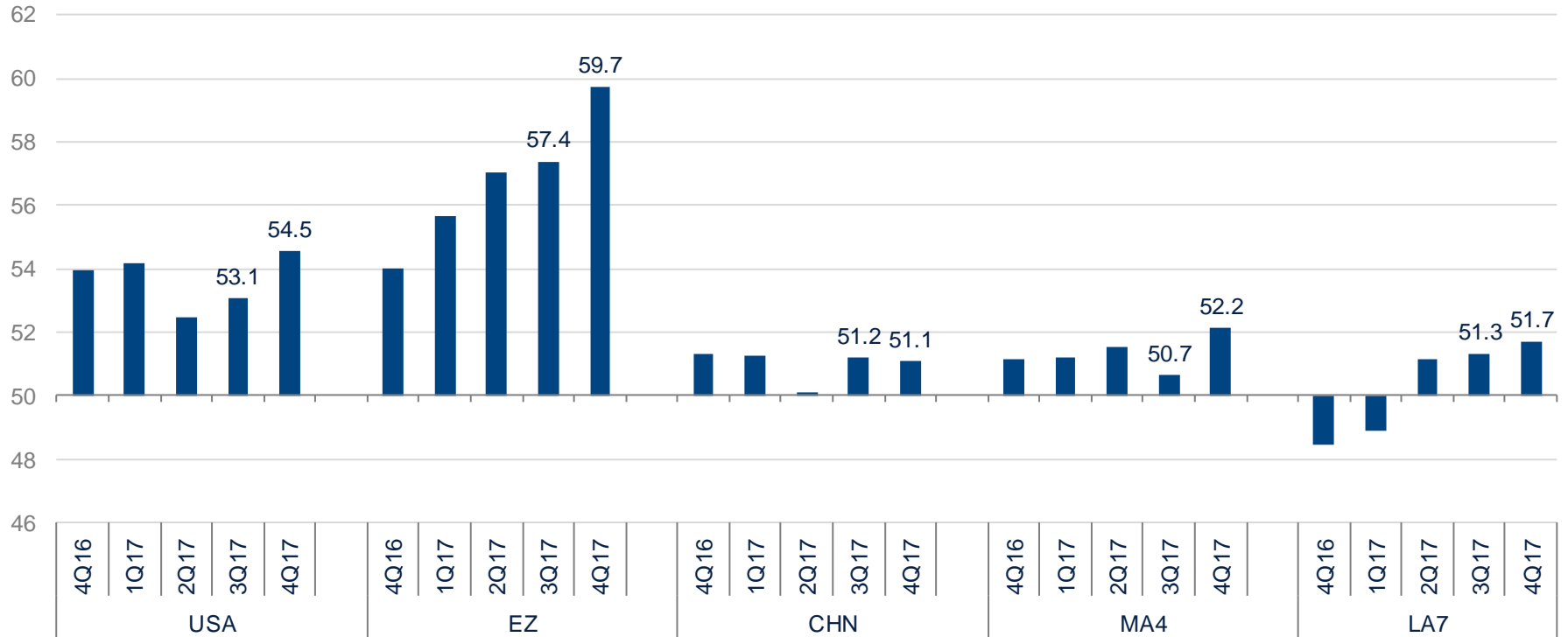


- ◆ **PMI's exceed forecasts** suggesting that global economic expansion is set to continue
- ◆ **Signs of stronger demand** and lower political and economic uncertainty boost hiring rates to record levels



# Manufacturing PMIs soar in EZ to record levels and increased in US

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

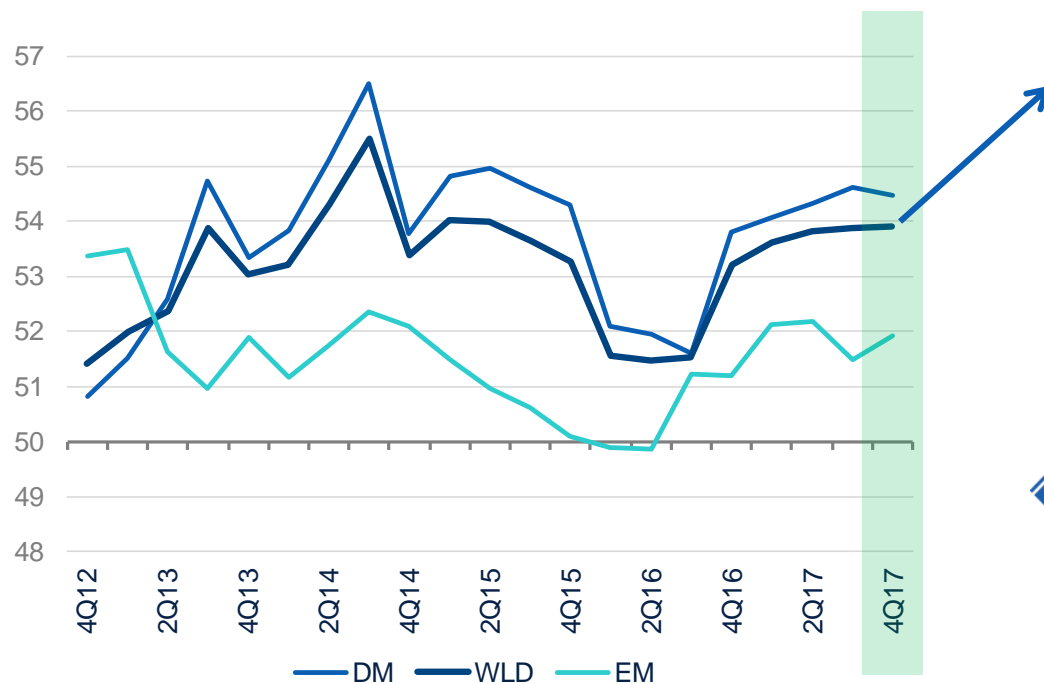


Source: BBVA Research and Markit

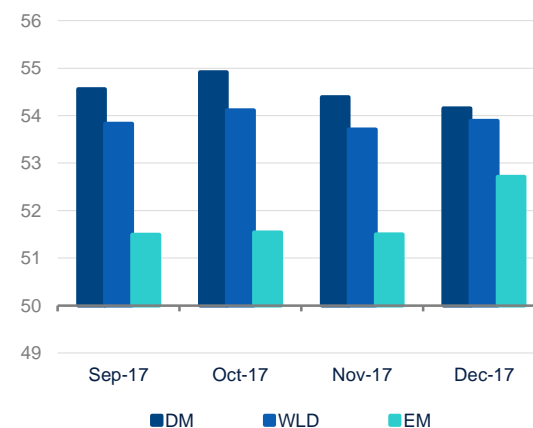
LA7: Argentina, Brazil, Chile, Colombia, Mexico, Peru, Venezuela.  
MA4: India, Indonesia, Japan, Korea

# Global services PMIs maintained solid levels in December. EMs benefit from an improved external demand

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



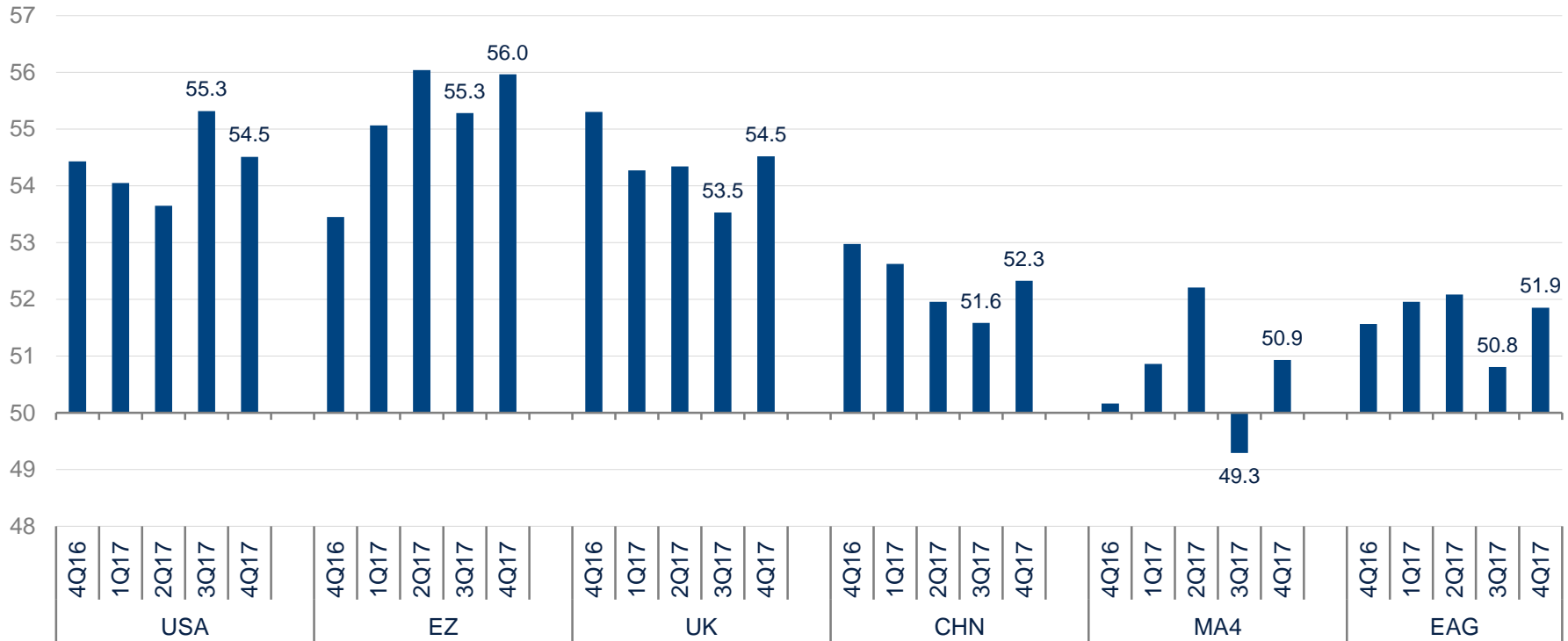
**World Services PMI**  
(Level  $\pm$  50)



- ◆ Service PMIs point to improving economic sentiment, and signal a solid and stable expansion of business activity
- ◆ China's services sector mood reached its fastest pace of the last three years on the back of a strong increase in new orders

# Services in EZ and China posted positive surprises during last quarter. Optimism is set to continue in early 2018

## Services PMI: Selected Regions (Level $\pm$ 50)

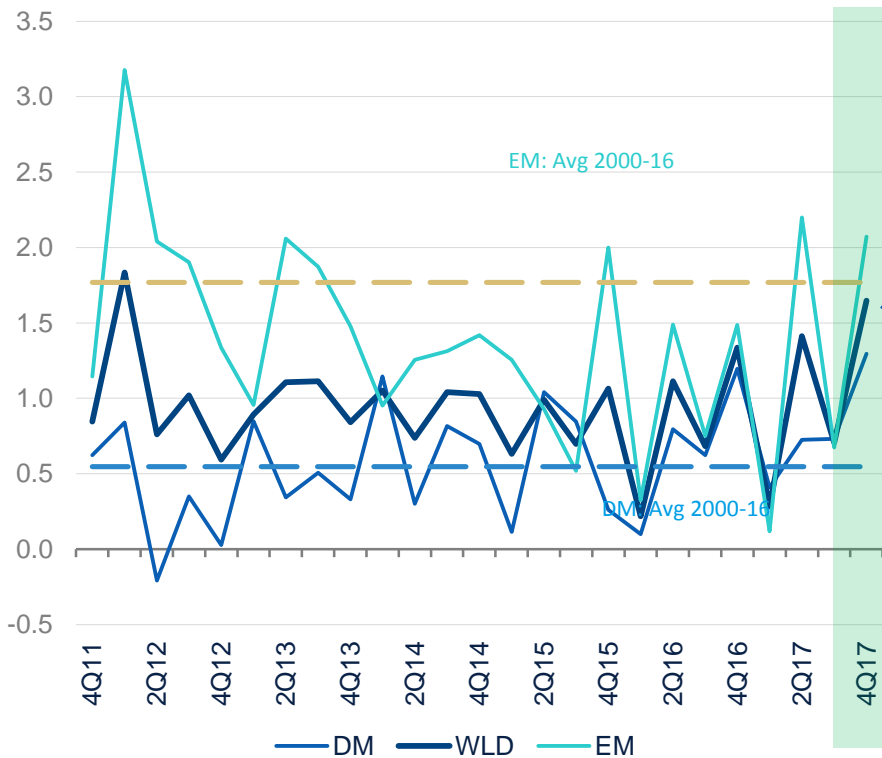


Source: BBVA Research and Markit

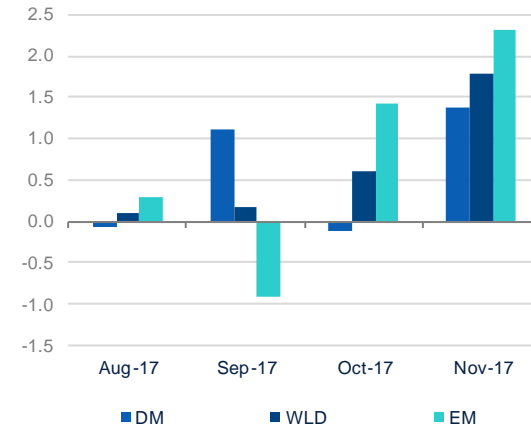
**MA4:** India, Indonesia, Japan, Korea  
**EAG (Eagles):** Bangladesh, Brazil, China, Egypt, India, Indonesia, Iran, Malaysia, Mexico, Nigeria, Pakistan, Philippines, Russia, Turkey, Vietnam

# Retail sales pick up in 4Q17 thanks to a strong rise in November

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



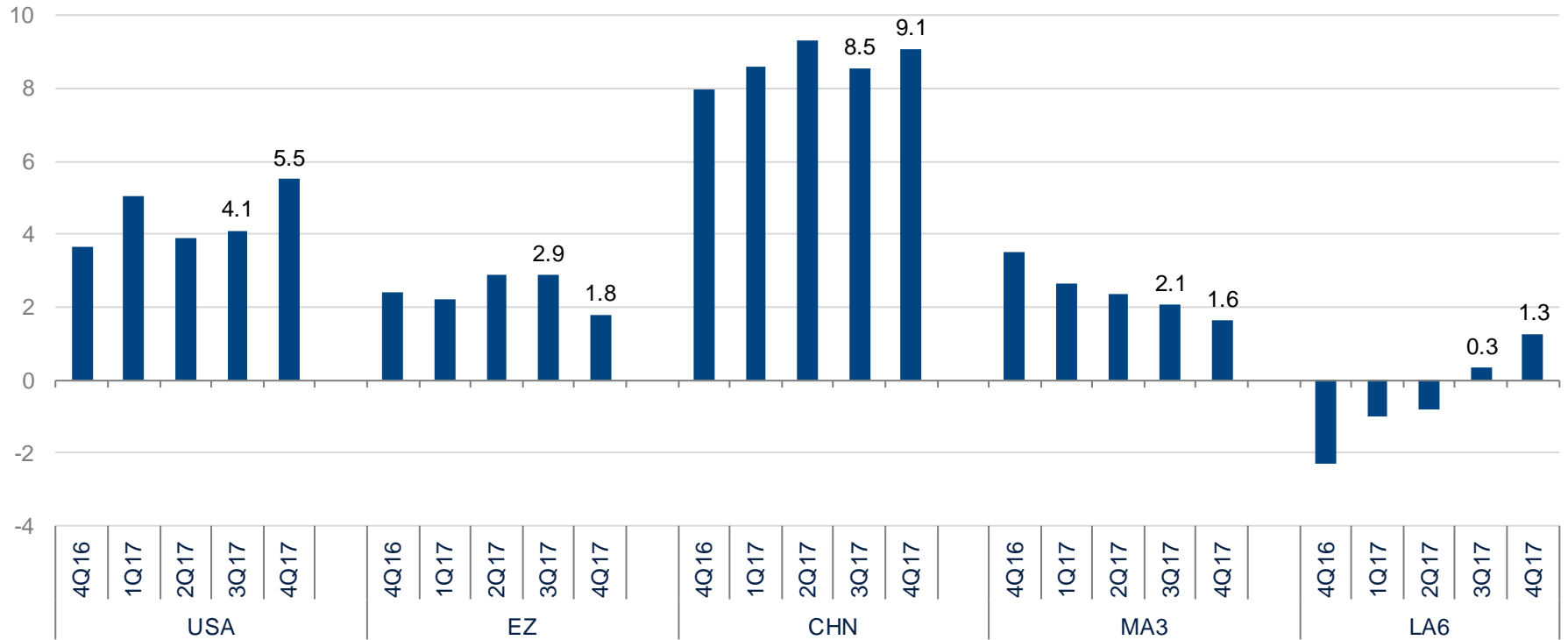
**World Retail Sales**  
(MoM, %)



- ◆ Retail sales bounced markedly in all major areas underpinned by pre-Christmas shopping season and online sales
- ◆ Rising incomes, employment gains and improved confidence, support expectations for a broader increase in consumer spending

# Consumption improved in most regions and remained resilient in EZ during 4Q17

**Retail sales: Selected Regions**  
(YoY, %)

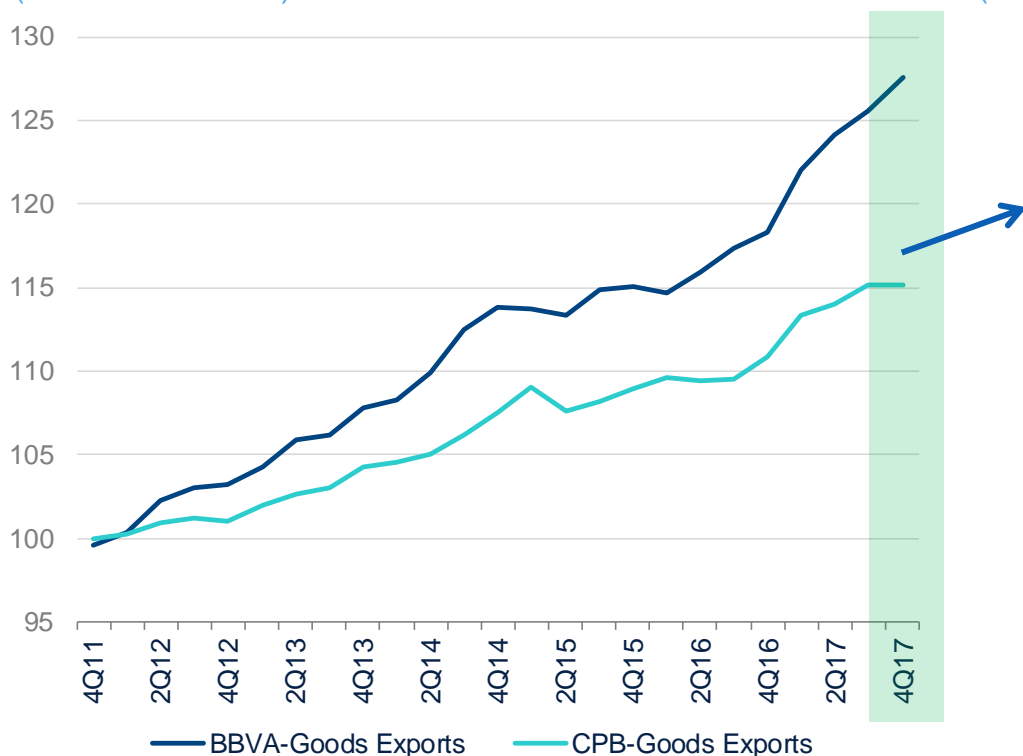


Source: BBVA Research and National sources

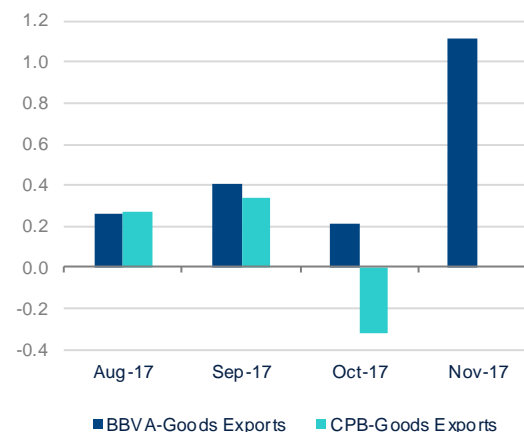
LA6: Argentina, Brazil, Chile, Colombia, Peru, Venezuela.  
MA4: India, Indonesia, Japan, Korea

# The global trade expansion remains on track after a pause in previous months

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



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



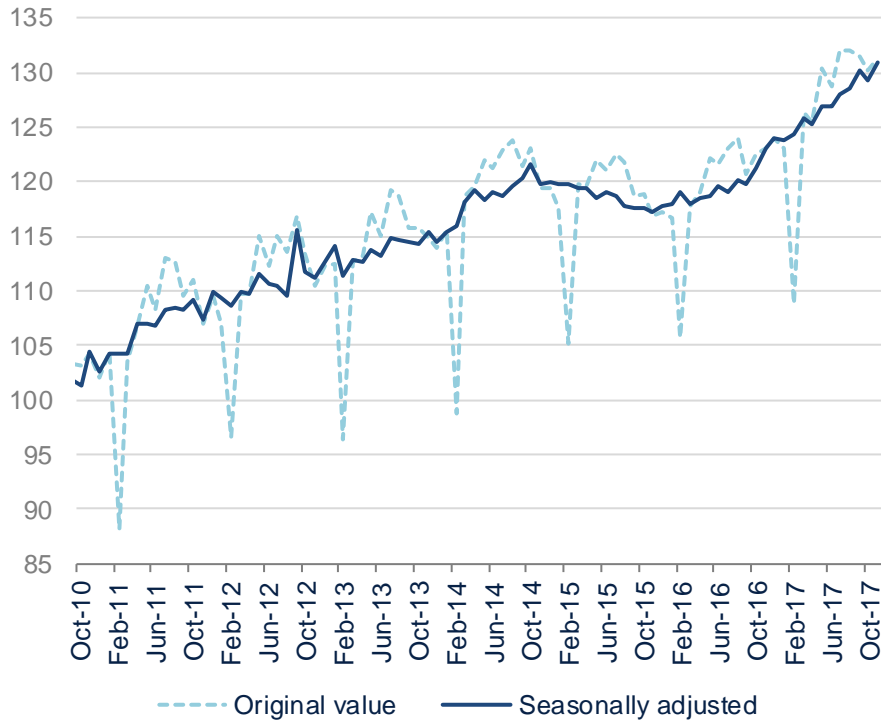
- ◆ Data shows benefits from a more buoyant economic activity across regions and higher commodity prices.
- ◆ Strong world demand and continued recovery in Latam suggest that trade improvements should continue in coming months.

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

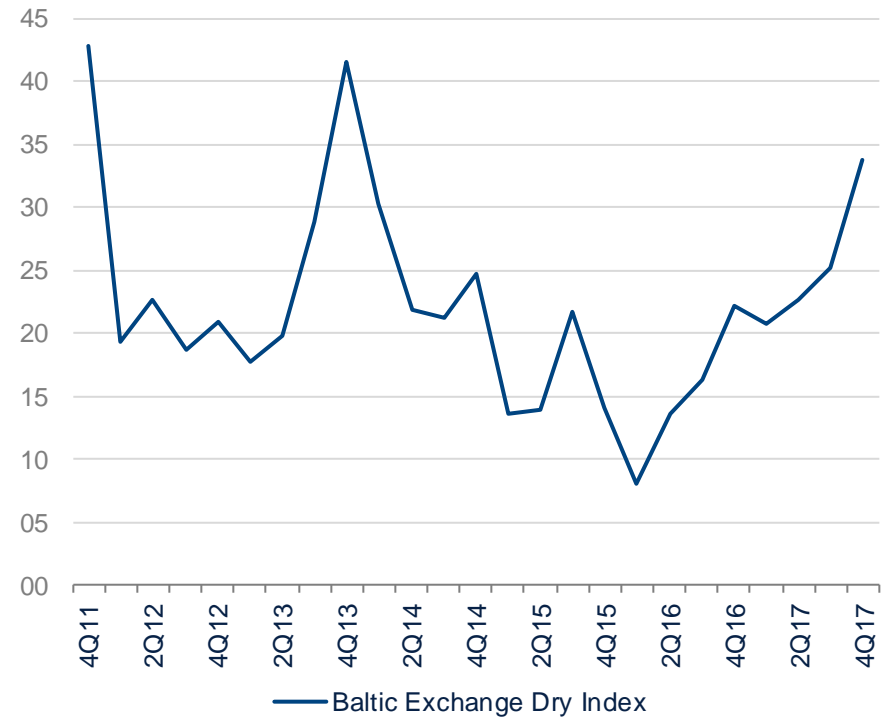
Source: BBVA Research y CPB

# Freight data lifts in November at a strong pace

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

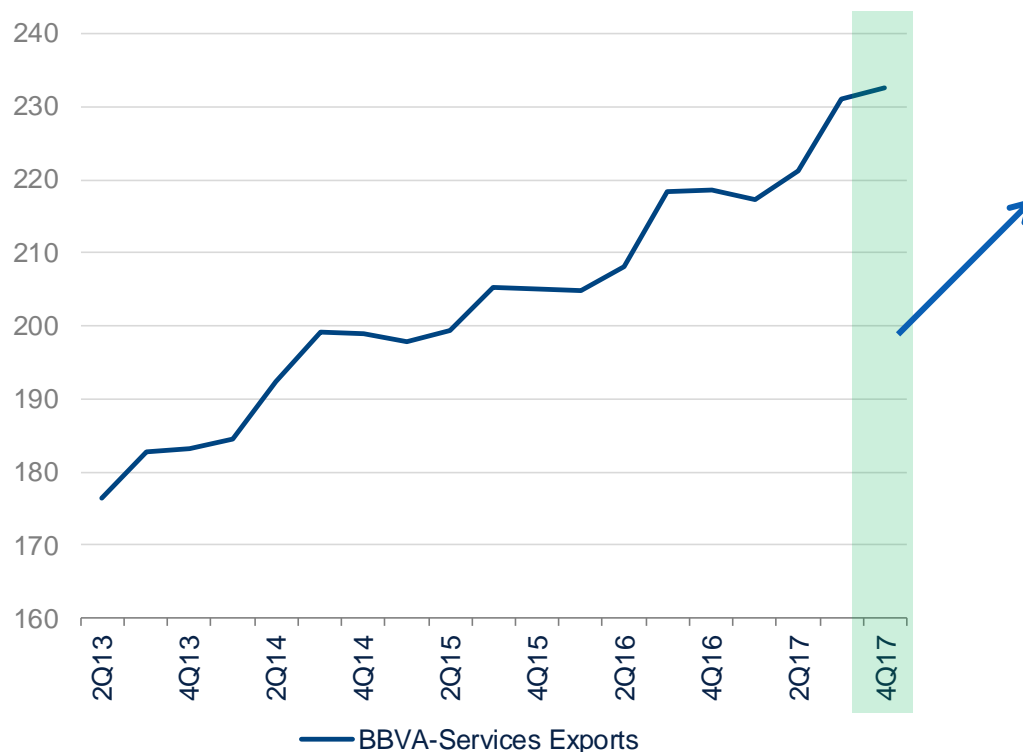


**Baltic Exchange Dry Index**  
(Index, Jan-05=100)

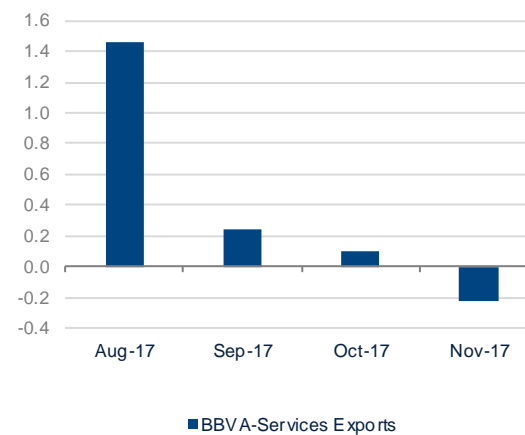


## Exports of services decreased in November last year, while they showed some moderation over 4Q17

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



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



- ◆ Exports of services scale back in November, mostly from Brazil (-3.4% m/m), Germany (-4.6% m/m) and Japan (-4.8% m/m)

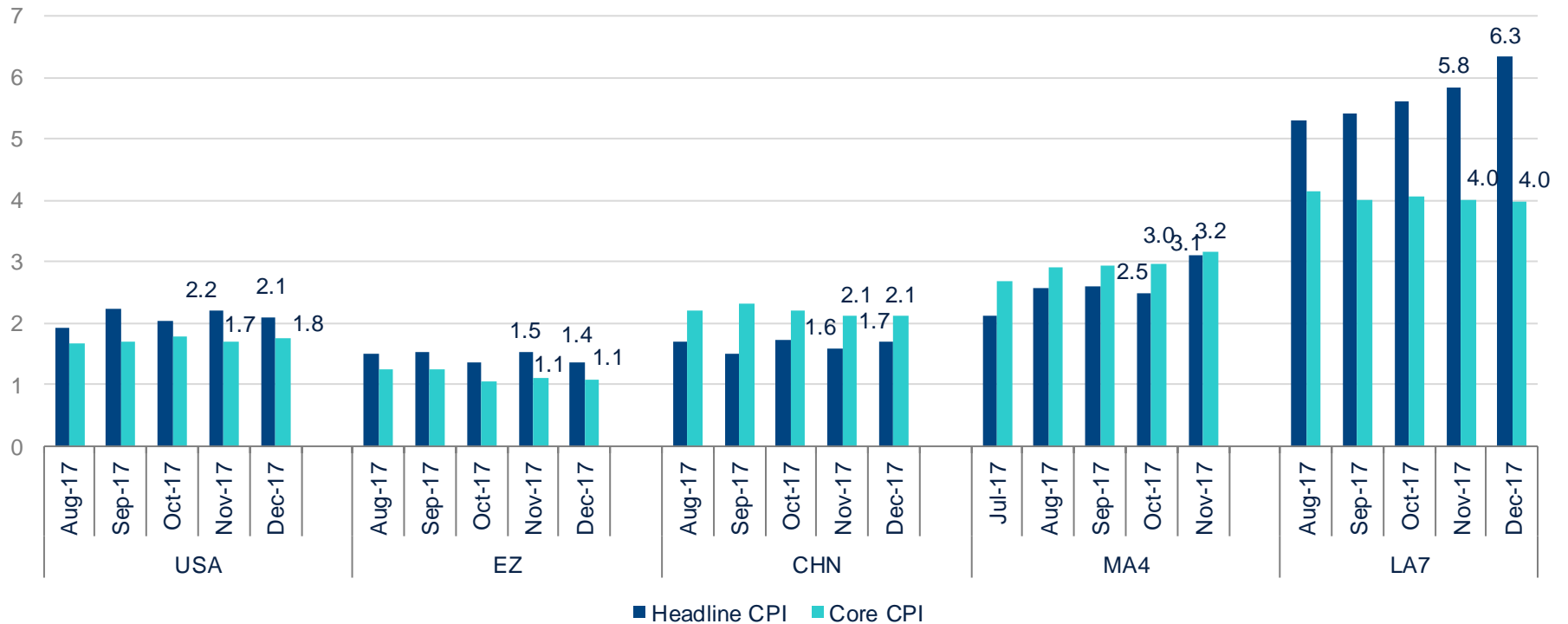
\* Based on **BBVA-Trade Index**

Source: BBVA Research and CPB



# Headline inflation has stabilized as the acceleration of EM prices is offset by subdued inflation in DM

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



# NEW PROJECTIONS & GLOBAL RISKS





## Global growth confirmed


 **01** **Improved forecasts for the US, China and the eurozone**  
There is less short-term uncertainty

 **02** **More positive prospects for emerging countries**  
Greater global demand and an increase in commodity prices

 **03** **More caution on financial markets**  
Expectations of less liquidity may reduce flows to emerging markets

 **04** **Core inflation contained**  
Although the downward pressure factors are disappearing

 **05** **Central banks continue moving towards normalisation**  
The reasons for withdrawing stimulus measures are materialising

 **06** **Global risks**  
Lesser in the short term; no changes in the medium and long term

## Reasons for optimism in the major regions, although with caution

### USA



Growth revised upwards

Improvements in the labour market

Approval of the tax reform

Continuity in changes at the Fed

### CHINA



Moderate slowdown

Some reforms already under way

Positive conclusions at the XIX Congress  
of the CPC

Greater growth potential

### EUROZONE



Greater growth than expected

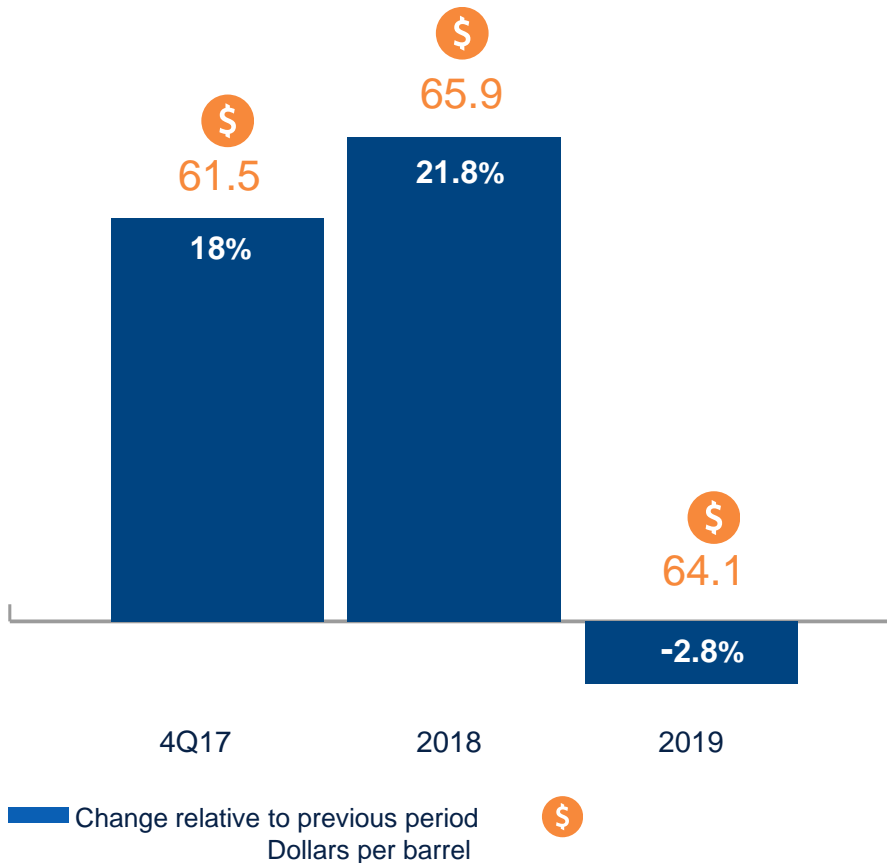
More robust domestic demand

Less political uncertainty

Plans for greater integration

## The outlook for emerging economies improves

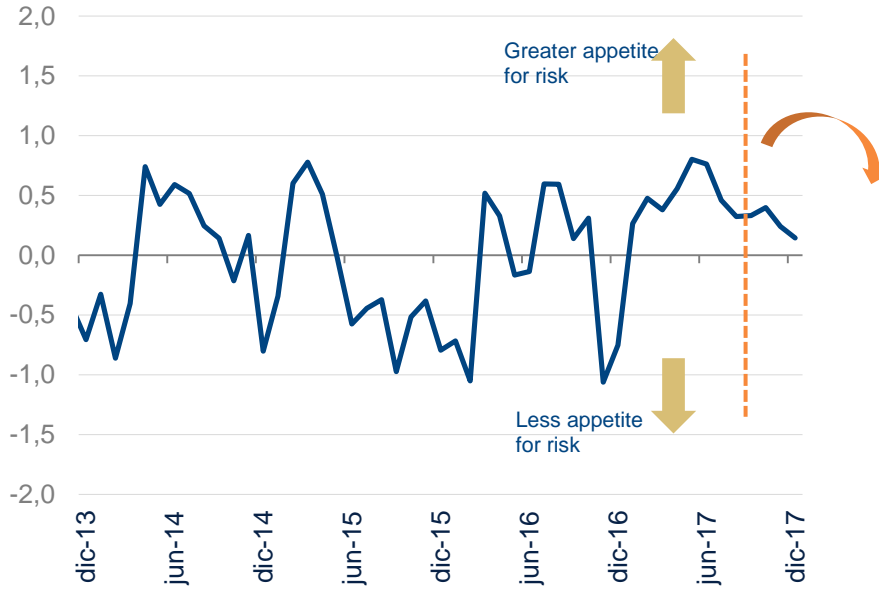
**Price of oil**  
(Dollars per barrel, %)



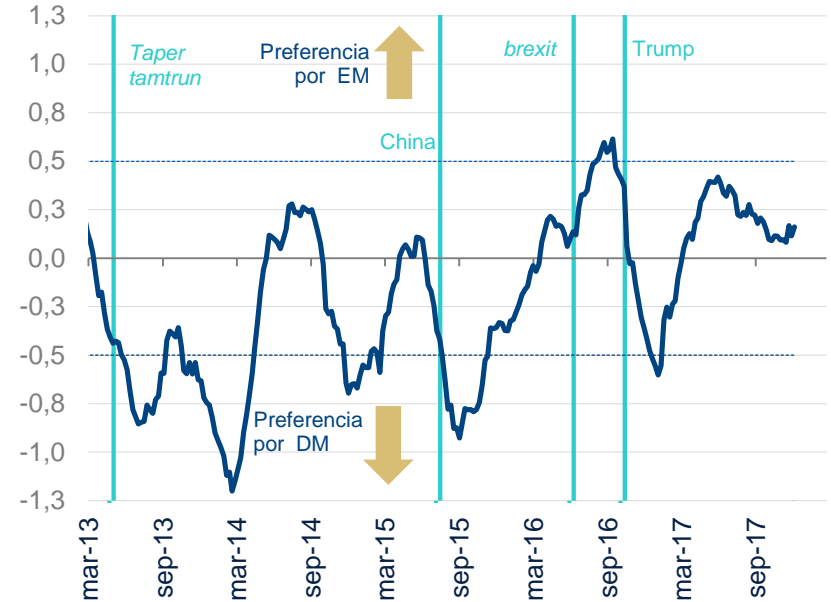
- ◆ Higher oil prices reflect greater global demand, which would account for 60% of the increase
- ◆ However, it is also due to supply factors, linked to geopolitical risks and the correction of inventories
- ◆ Positive and significant impact on commodity producing emerging economies
- ◆ However, we still expect prices to move to \$60 per barrel in the medium term, due to increased competition and structural changes in the energy sector

# Caution in financial markets, with moderation of flows to emerging markets

**Risk appetite indicator**  
(Factor 1 (global), EPFR flow analysis )



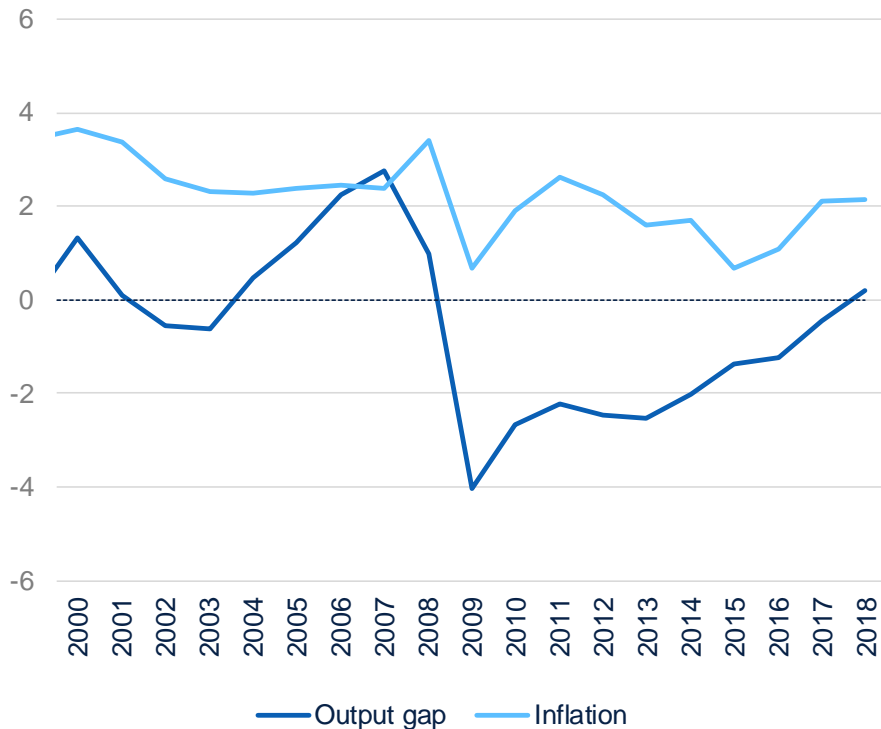
**Investor appetite for emerging (EM) vs developed (DM)** (Inflows in EM vs. DM in % of assets under management)



Source: BBVA Research, EPFR

## Core inflation contained

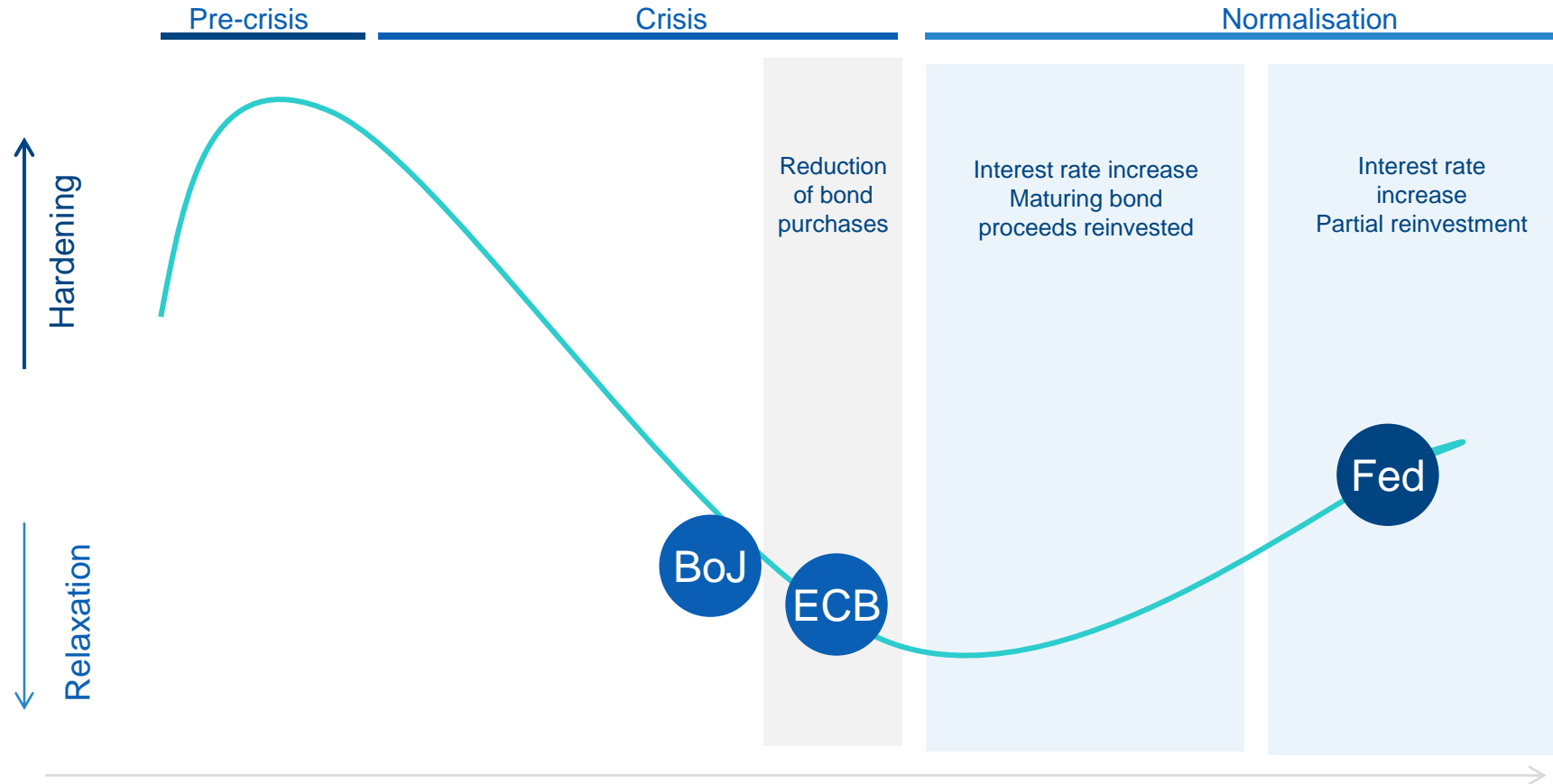
### OECD: Production gap and inflation (% of potential GDP, % YoY)



Source: BBVA Research and OECD

- ◆ Reduction of idle capacity in economies, but with **room to grow without strong inflationary pressures**
- ◆ **Less price reaction to the increase in activity**, for several reasons:
  - Globalisation
  - Increased flexibility of the labour market:
  - Low inflationary expectations
  - Reduced productivity growth
- ◆ **The increase in the price of oil will push up inflation in the short term**, facilitating central bank moves towards normalisation in developed economies

# Withdrawal of non-conventional monetary policy measures





## The Fed accelerates normalisation while the ECB keeps it gradual



**FED**

### Hawkish rate cycle and balance sheet reduction under way

Estimated rise of 0.75% in 2018 to 2.25% and reduction of the balance sheet by US\$420 billion

*Focus: gain room for manoeuvre*



**ECB**

**QE reduction, but extended to September 2018**  
**No interest rate increases before 2019**

*Focus: avoid sudden jump in long-term rates*

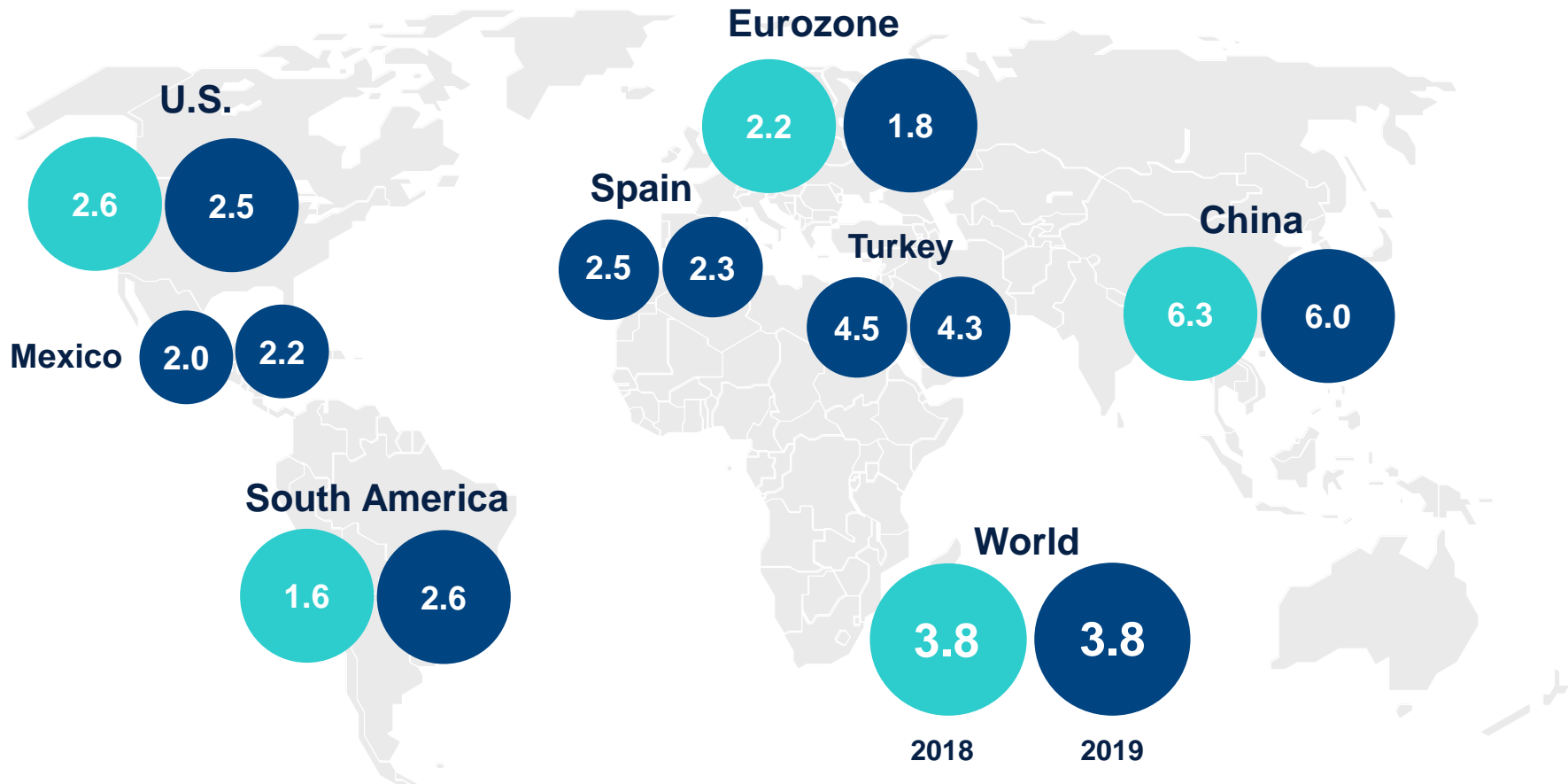
### Elements of uncertainty:

**Politics:** changes in governing councils (Fed, ECB)

**Macro:** possible surprises in inflation and in economies' reaction to higher interest rates

**Markets:** long-term rates and steepness of the curve

# Widespread upward GDP growth forecast (2018-19)

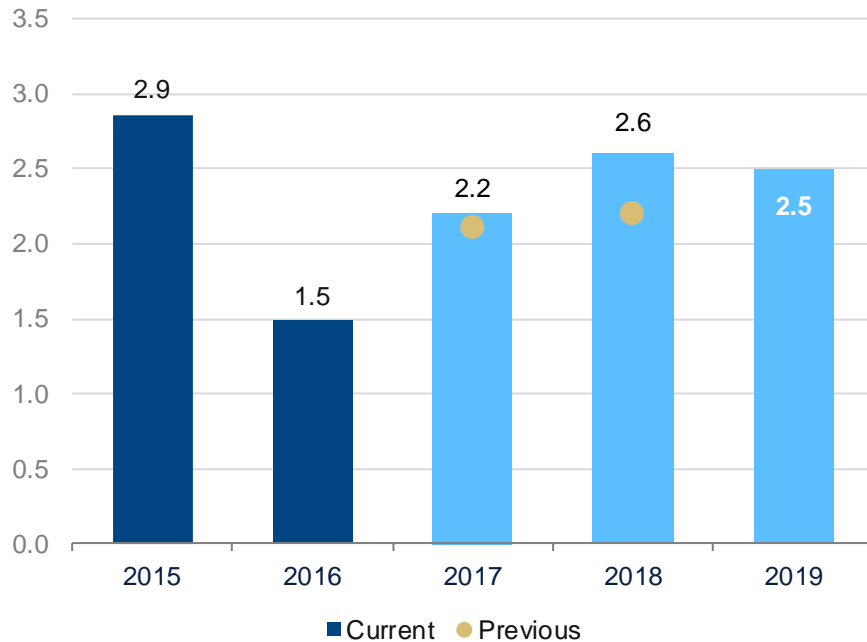


● Upward revision ● No changes

(\*) South America includes Argentina, Brazil, Chile, Colombia, Peru, Uruguay, Paraguay and Venezuela

## USA: Greater economic growth in the short term

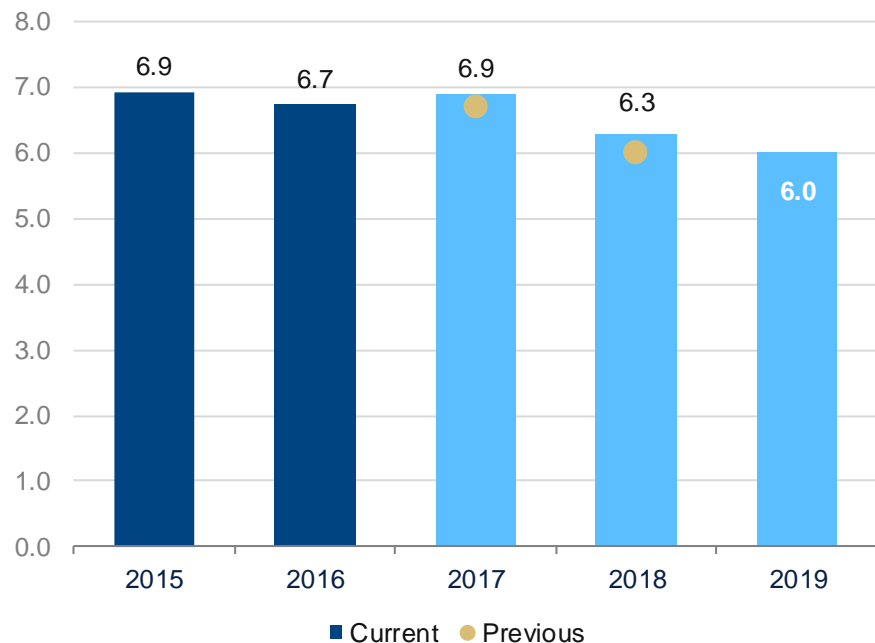
### US: GDP growth (YoY, %)



- ◆ Positive impact of the increase in the price of oil, global demand and the weakness of the dollar on investment and exports
- ◆ Positive but limited effect of the tax reform (around 0.2% in 2018), mainly due to changes in corporate taxation. Doubts about the long-term effect
- ◆ Monetary policy will remain accommodative, despite normalisation

# China: More moderate slowdown in growth

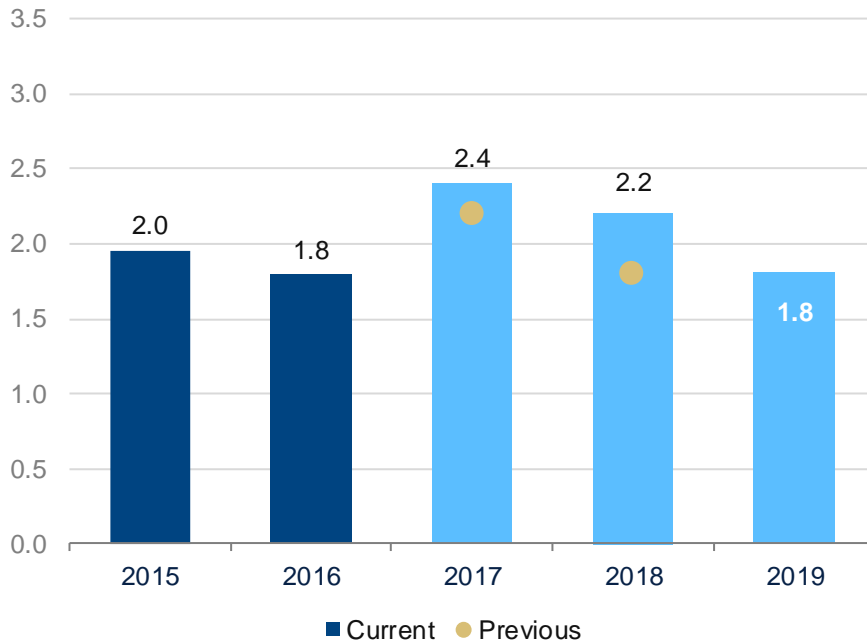
**China: GDP growth**  
(YoY, %)



- ◆ Due to ongoing structural reforms and less support from economic policy
- ◆ Despite this, the good economic performance reduces the risk of a sudden adjustment in the short term
- ◆ Eliminating the growth objective limits imbalances
- ◆ The measures aimed at opening up the economy, together with more qualitative objectives, will drive structural reforms and potential GDP

## Eurozone: stronger and more balanced growth

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



- ◆ Upward revision in growth outlook across countries
  - Stronger incoming data adds to global momentum, boosting exports and investment
  - Consumption showing resilience
- ◆ Inflation forecasts revised up (although still subdued) on the back of higher oil prices. But core measures to increase more gradually
- ◆ Unchanged and gradual ECB's exit strategy will continue to support growth, though more pressure recently from the "hawks"
- ◆ Risks:
  - Lower external risks (China, US)
  - Restrained political uncertainty (Germany), but latent political risks (Italy, Catalonia, Brexit)
  - ECB's exit

# Macroeconomic forecasts

## Gross Domestic Product

YoY average, %

Jan-18				
	2016	2017	2018	2019
United States	1.5	2.2	2.6	2.5
Eurozone	1.8	2.4	2.2	1.8
Spain	3.3	3.1	2.5	2.3
Latam *	-1.0	1.1	1.7	2.5
Argentina	-2.2	2.8	3.3	3.3
Brazil	-3.4	1.0	2.1	3.0
Chile	1.6	1.5	2.7	2.9
Colombia	2.0	1.5	2.0	3.0
Mexico	2.9	1.9	2.0	2.2
Peru	4.0	2.3	3.5	3.8
Eagles **	5.2	5.5	5.4	5.5
Turkey	3.2	7.0	4.5	4.3
Emerging Asia	6.7	6.6	6.3	6.3
China	6.7	6.9	6.3	6.0
World	3.3	3.7	3.8	3.8

## Inflation

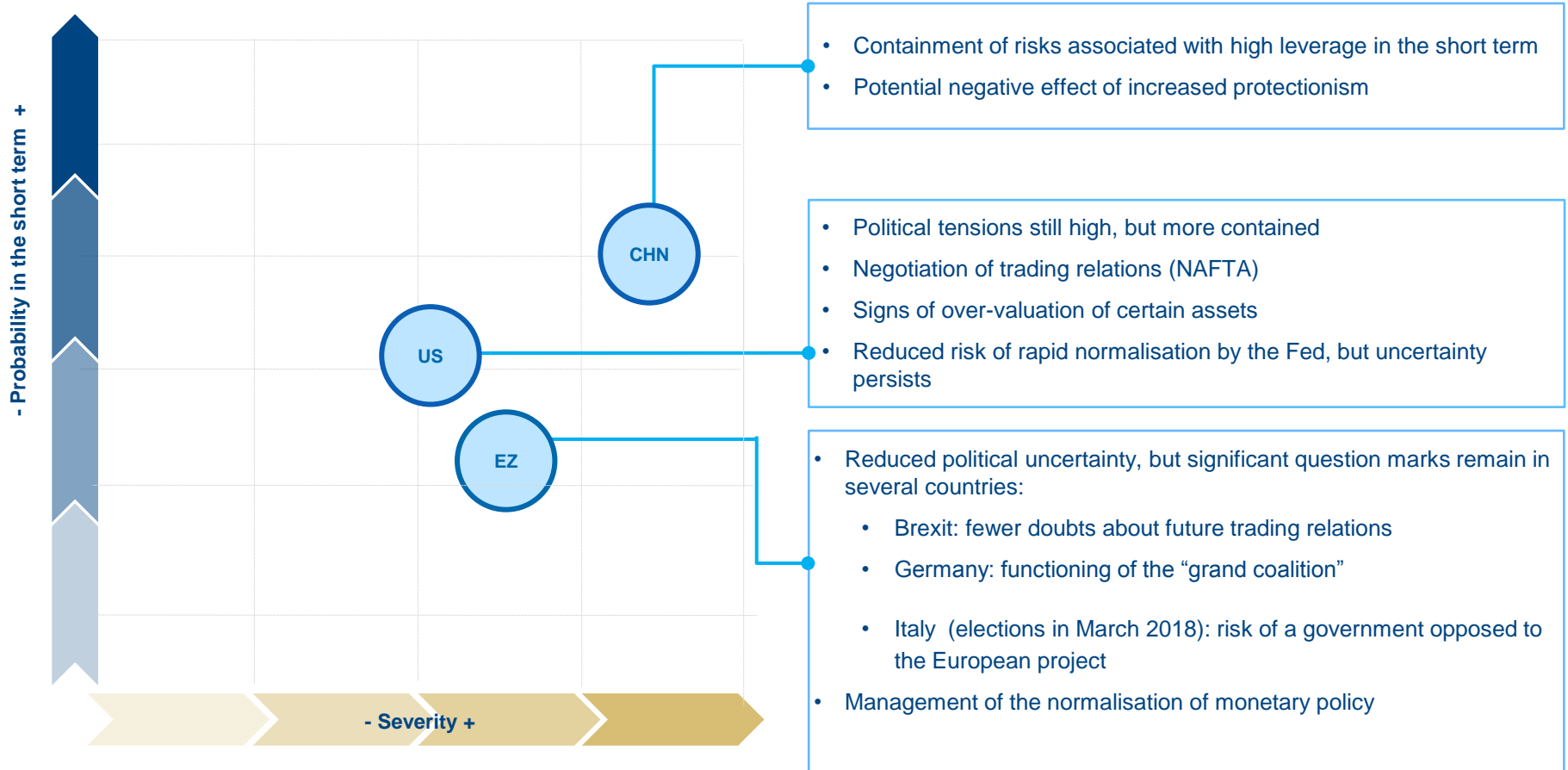
YoY average, %

Jan-18				
	2016	2017	2018	2019
United States	1.3	2.1	2.4	2.1
Eurozone	0.2	1.5	1.5	1.6
Spain	-0.2	2.0	1.6	1.7
Latam *	9.9	6.7	5.9	5.0
Argentina	40.4	26.1	22.7	14.1
Brazil	8.8	3.5	3.7	4.6
Chile	3.8	2.2	2.1	2.9
Colombia	7.5	4.3	3.0	2.7
Mexico	2.8	6.0	4.6	3.6
Peru	3.6	2.8	1.4	2.2
Eagles **	4.4	4.1	4.3	4.3
Turkey	7.8	11.1	9.9	9.1
Emerging Asia	2.8	2.3	2.9	3.2
China	2.0	1.5	2.3	2.5
World	3.2	3.3	3.5	3.3

(\*) Includes Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela in the GDP composite. Excludes Venezuela from inflation composite.

(\*\*) Includes Bangladesh, Brazil, China, Egypt, India, Indonesia, Iran, Malaysia, Mexico, Nigeria, Pakistan, Philippines, Russia, Turkey and Vietnam

# Global risks: Reduced in the short term but still latent



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January 2018

