

The logo for BBVA Research, featuring the word "BBVA" in a bold, white, sans-serif font, followed by the word "Research" in a smaller, lighter weight sans-serif font. A small teal square is positioned to the right of the word "Research".

BBVA Research

Global Economic Watch

May 2018

Creando Oportunidades

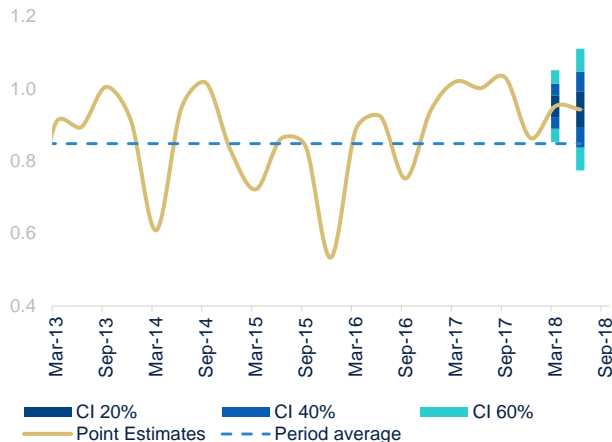
Global growth continues to be strong in 2Q18, with higher uncertainty

- The positive global momentum of the last quarters is maintained at the beginning of 2Q18. Our BBVA-GAIN model projects that world growth could hover around 0.95%
- Despite mixing hard indicators in recent months in some areas, industrial output remains solid and broad-based as well as private consumption despite some moderation. Confidence surveys point to some stabilization after the softer 1Q18 figures
- Global trade remains strong but has lost some ground after a very positive 1Q18, with increasing concerns about protectionism and uncertainty around economic policies
- Across regions, growth seems to gain momentum in the US and some EMs, holds up well in China and stabilizes in the EZ after slowing in early 2018. We maintain our projections of a significant acceleration in the US and a mild slowing in China and the EZ in 2018. But downward risks are increasing across the board
- Inflation has so far increased in advanced economies, more gradually in the EZ, as expected. Higher oil prices will put upward pressures on inflation in coming months

Global GDP growth maintains its momentum in early 2Q18, but there are signs of de-synchronization across areas

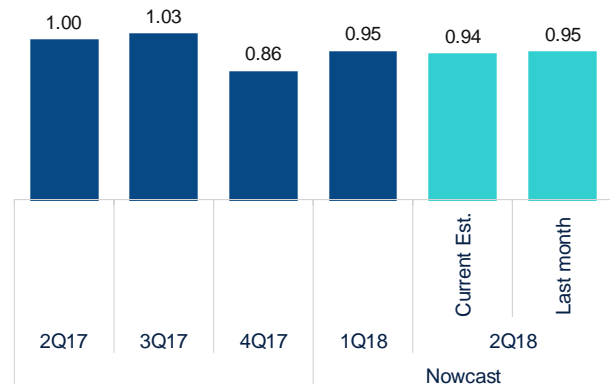
World GDP growth

(Forecast based on BBVA-GAIN (% , QoQ))



World GDP Growth

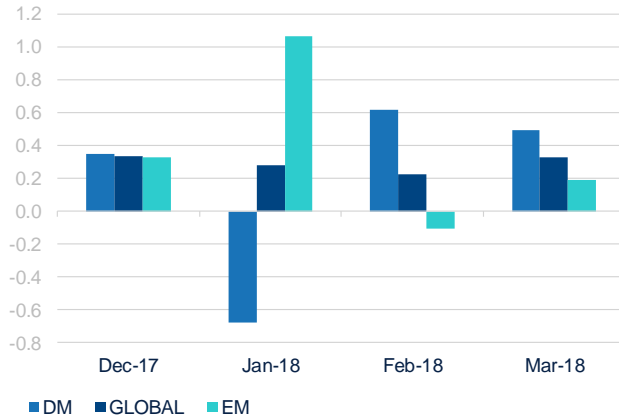
(Forecast based on BBVA-GAIN (% , QoQ))



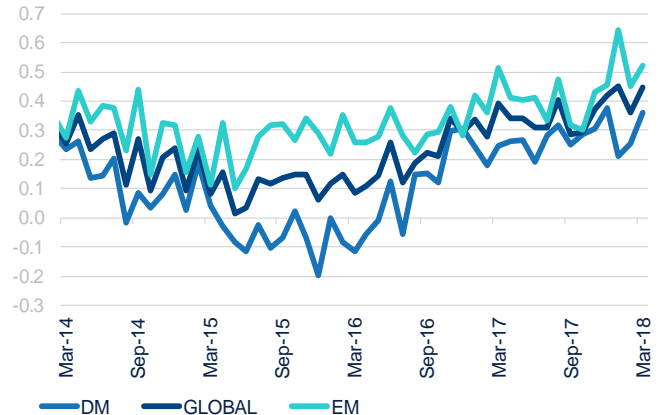
Our May update of the BBVA-GAIN index indicates that global growth will hover around 0.95% over the quarter (1Q18: 0.95%), although recent growth developments point to different directions across areas, with a softer pace in Europe than the US or China

Industrial production continues to be solid

World industrial production (%, MoM)



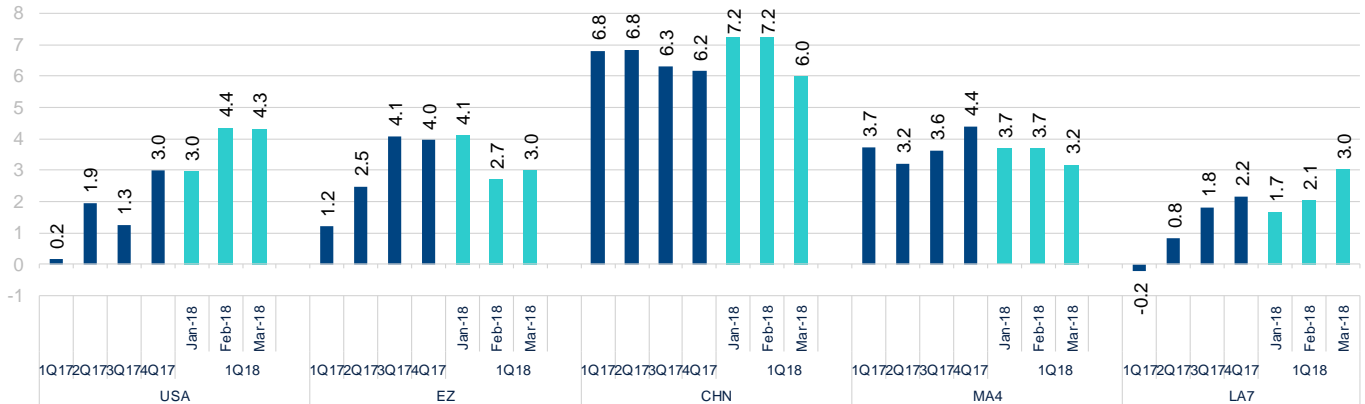
World industrial production (%, 6-month moving average)



Industrial production keeps a strong and broad-based growth momentum as easy financing conditions keep favoring stronger business investment. Current dynamics increasingly threatened by escalating trade tensions, while capacity pressures might prevent a further expansion

Industrial production has softened somewhat in the EZ and Asia but improved in the US

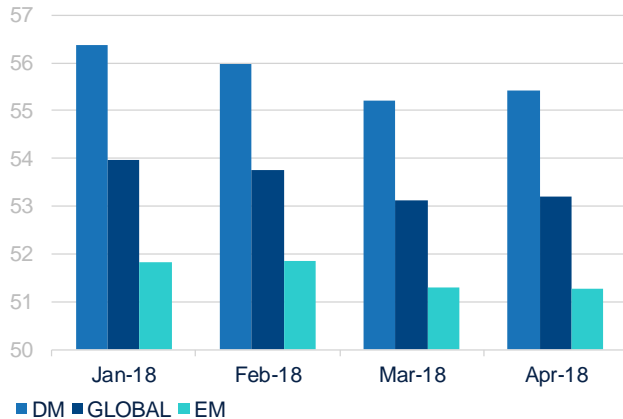
World industrial production: Selected regions (%, YoY)



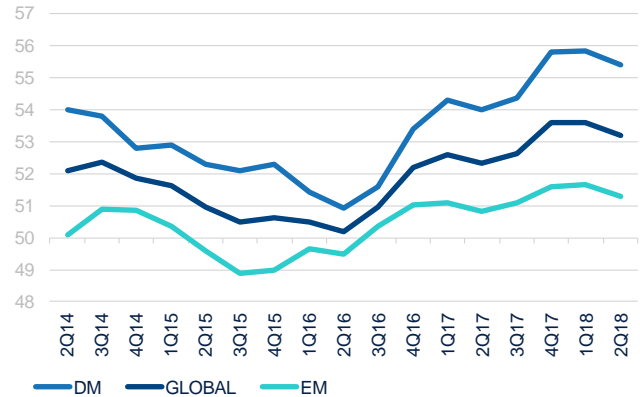
Industrial activity has increased significantly in the US over the past two months, partly reflecting a stronger oil and gas extraction. The better outlook for business investment also favors a stronger production in Latam, while eurozone and China output stabilizes

Manufacturing confidence increased marginally in April but failed to recover 1Q18 losses

World manufacturing PMI (Level \pm 50)



World manufacturing PMI (Level \pm 50)

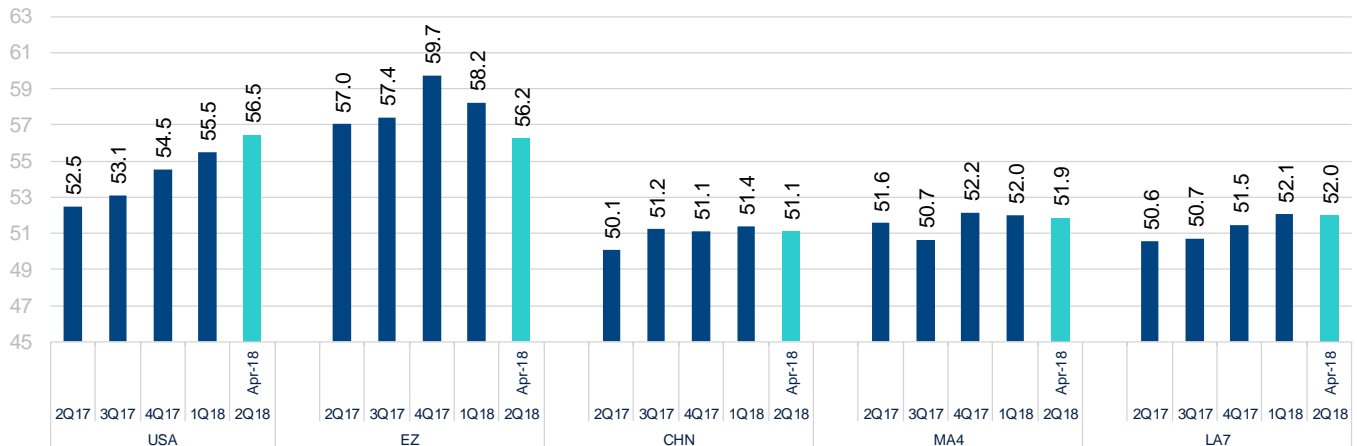


April manufacturing confidence has shown signs of acceleration, supporting further job creation. There are some signs of overcapacity in certain countries/sectors, as backlogs of work increased and delivery times are getting longer. Skill shortages are also increasingly playing a role in manufacturing sentiment

Sharp acceleration in US Manufacturing PMI in April, contrasting with stabilization signs in the EZ and China

Manufacturing PMI: Selected regions

(Level \pm 50)

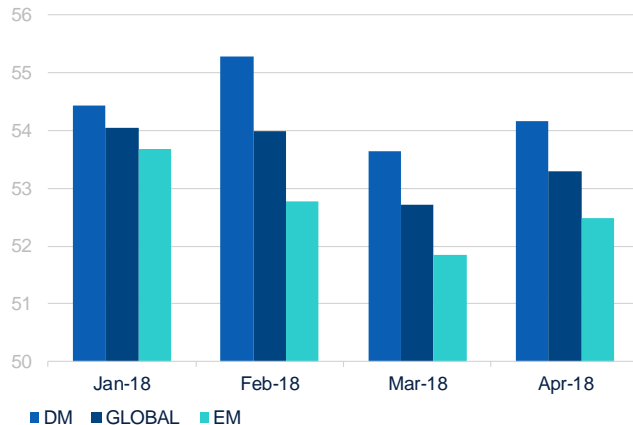


Eurozone manufacturing confidence stabilized in April after significant declines in early 2018, while supply constraints suggest that it is unlikely to grow at the pace over 2H17. US and CHN figures suggest that the manufacturing sector keeps growing at a solid pace and do not reflect any concern protectionism measures yet

Confidence in the services sector remains strong and steady in April, while leading components point to an improving outlook over next year

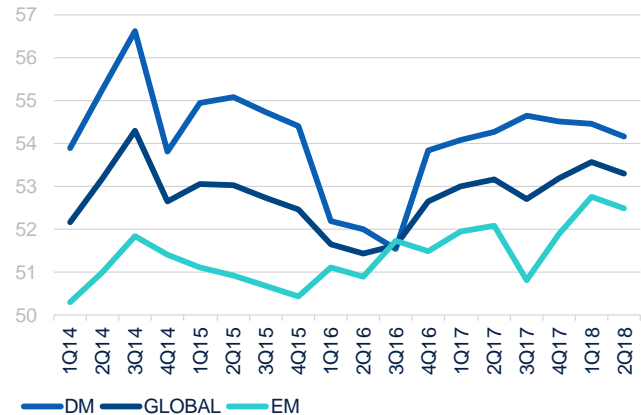
World services PMI

(Level \pm 50)



World services PMI

(Level \pm 50)

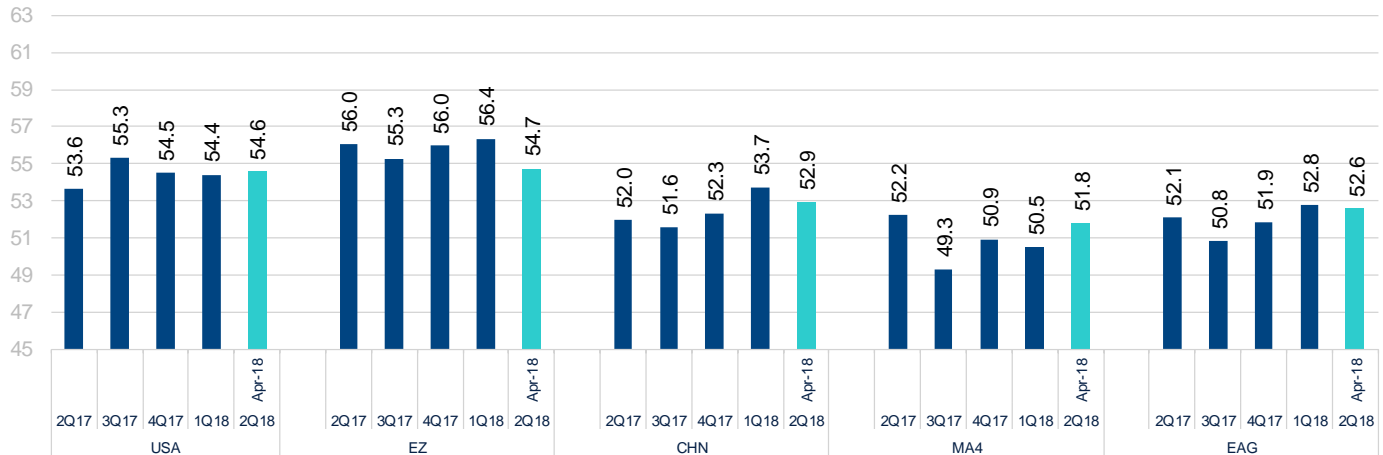


Service sector activity keeps growing strong and steady, as the lack of inflationary pressures and the cyclical recovery keeps fostering global demand. Business conditions have improved in most countries, and the 12 month outlook reached its highest level since June'14

April services PMIs were positive, but confirm a sharp correction in the EZ and China over 1Q18

Services PMI: Selected Regions

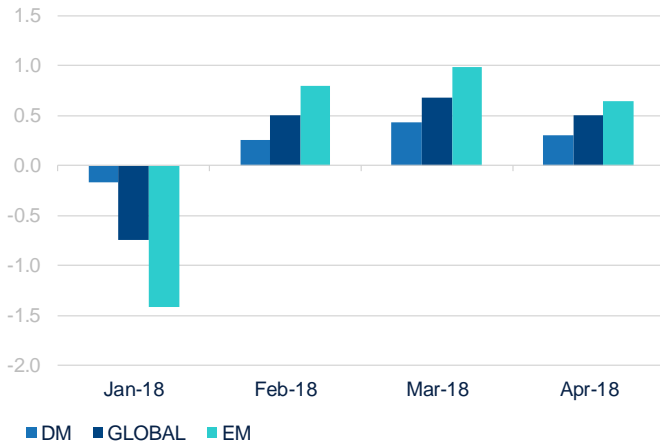
(Level \pm 50)



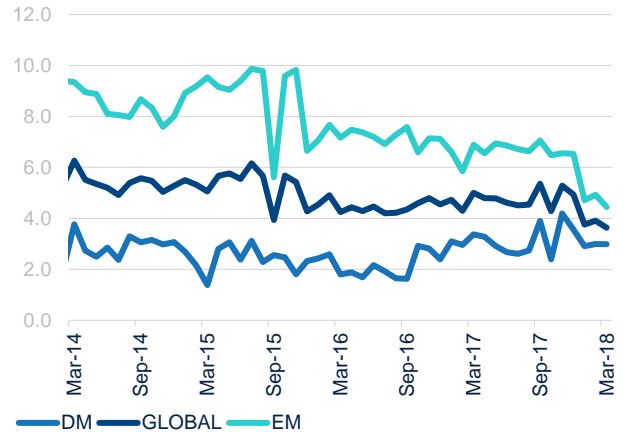
Sharp deceleration in the EZ rate of activity since the start of the year, partly reflecting slowing demand and a cyclical exhaustion, but still very high compared to historical standards. China's correction over 1Q18 may be reflecting tighter credit conditions, while the US remains broadly flat

Retail sales growth slowed in April despite employment gains

World retail sales (% MoM)



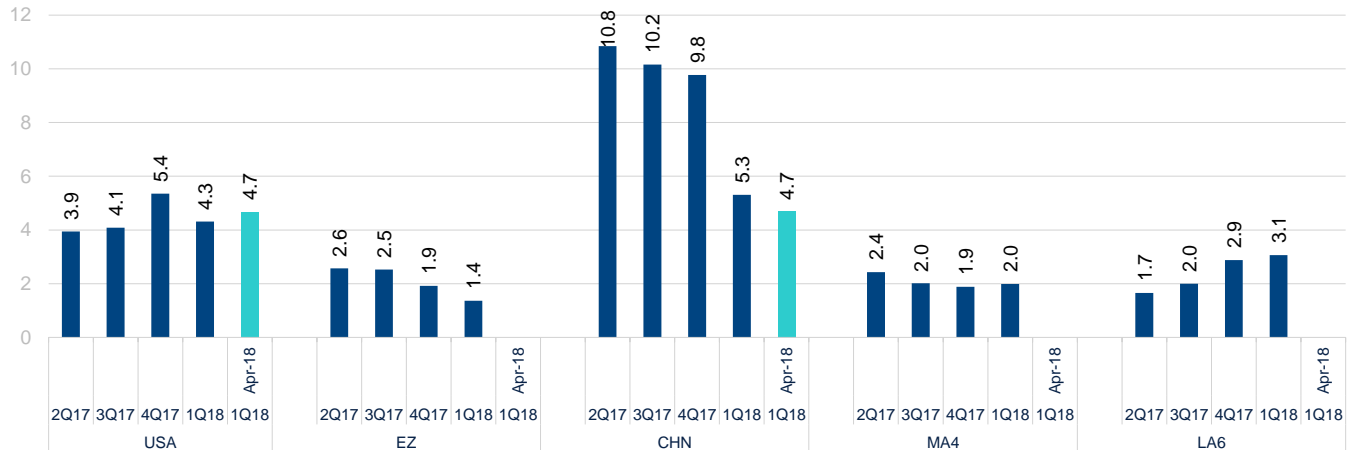
World retail sales (%, MoM 6 period mov avg)



Still limited available data for April points to a slower pace in retail consumption compared to the previous month. Higher gasoline prices and credit tightening in some regions might be dampening consumer spending despite employment gains

Retail sales decreased significantly in China and to a lesser extent in the EZ, in contrast with an improvement in the US

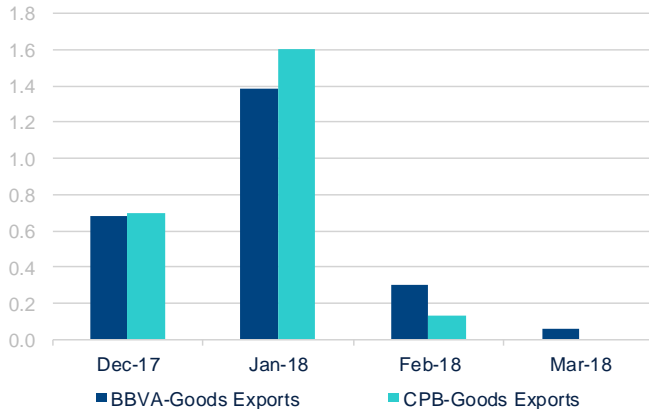
Retail sales: Selected regions (%, YoY)



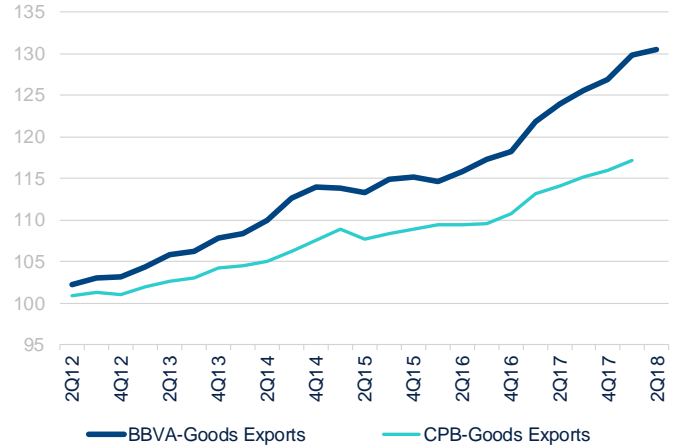
Retail consumption has lost some traction due to credit tightening policies in China and to some loss of momentum in the eurozone. In the US, higher inflation could have also been deteriorating retail consumption despite a buoyant labor market and a greater fiscal stimulus, but recent developments point to a better outlook

Global trade remains solid but has lost some momentum after a very strong 1Q18 as risks of protectionism intensify

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



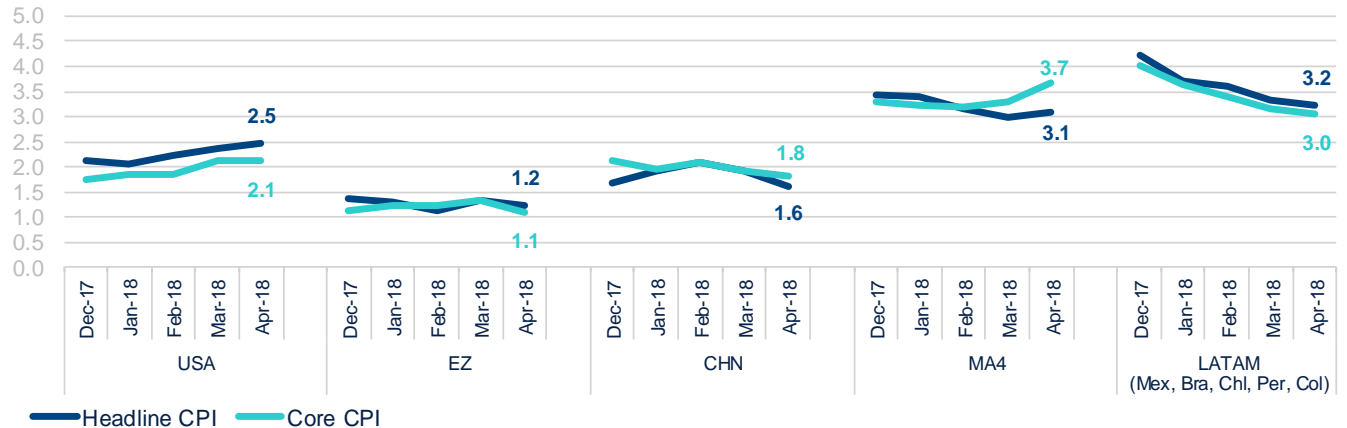
**World exports of goods
(index, constant prices)**
(Index, Jan-12=100)



Global trade has lost momentum over the past two months, but remains robust amidst the growing uncertainty surrounding US-China trade negotiations and, perhaps most importantly, the risk of a further escalation of US tariffs to other countries. In addition, economic policy uncertainty is also being reflected in currency markets that could also put a brake on trade

Inflation converges to the objective in the US, remains subdued in the EZ and keeps falling in Latam

Headline and core inflation: Selected regions (%, YoY)



Inflation remains subdued in the eurozone, but higher oil prices and the euro depreciation could add upward pressures in coming months. US inflation has converged to the target and inflation in Latam keeps lowering on a sustained basis

The logo for BBVA Research, featuring the word "BBVA" in a bold, white, sans-serif font, followed by the word "Research" in a smaller, lighter weight of the same font. A small teal square is positioned to the right of the word "Research".

BBVA Research

Global Economic Watch

May 2018

Creando Oportunidades