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**BBVA** Research

# Global Economic Watch

June 2018

Creando Oportunidades

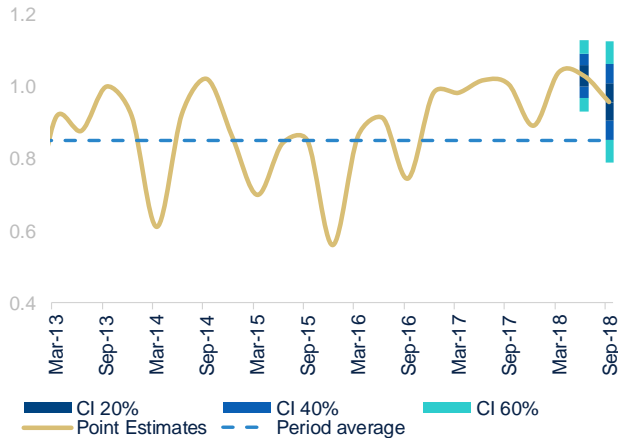
## Global growth is still holding up so far despite increasing uncertainty

- Our BBVA-GAIN model projects growth rates of around 1% q/q in 2Q18 (1Q18: 1.04%) before lowering to rates of around 0.95% in 3Q18. Private consumption and investment remain strong, but trade will likely decelerate after months of strong footing.
- Hard data remains robust but with growing differences among countries, and increasingly dependent on trade uncertainty. Confidence surveys are also mixed but remain fairly optimistic, signaling a better outlook in the services sector.
- Trade skirmishes have become the main source of concern and uncertainty, after the US introduced tariffs on USD34bn Chinese imports and on steel and aluminum to Mexico, Canada and the EU, while opening a new investigation targeting auto imports.
- Across regions, the US and some EMs are performing well. China maintains its gradual stabilization, and the EZ will likely stabilise at rates of around 0.4% q/q in 2Q18.
- Inflation has surged in advanced economies reflecting energy price developments, while core measures are expected to increase more gradually and underpin monetary policy normalization.
- On the monetary policy front, FED tightened interest rates by another 25bps –four rate hikes expected for 2018- and the ECB has delivered on QE exit and given strong guidance on rates – on hold until next summer-.

# Global GDP growth remains strong in 2Q18, but with increasing differences across largest regions and higher uncertainty

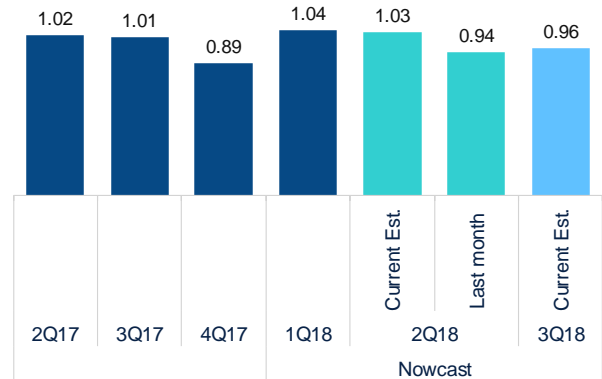
## World GDP growth

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



## World GDP Growth

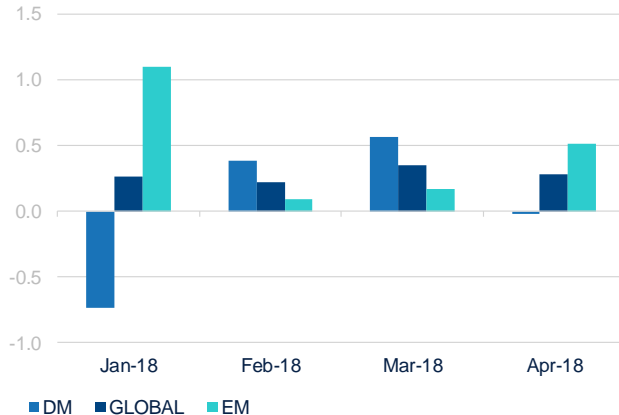
(Forecast based on BBVA-GAIN (% , QoQ))



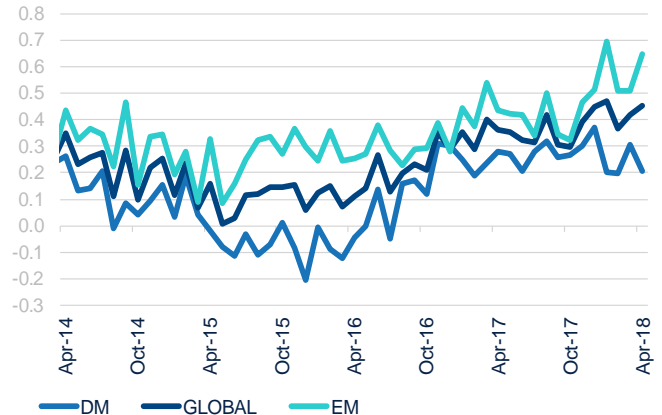
Our June update of the BBVA-GAIN index indicates that global growth could remain close to 1% in 2Q18 (1Q18: 1.04%) before lowering slightly to rates of around 0.95% in 3Q18. Growth is supported by private consumption and investment, but trade could lose momentum after a very strong turn of the year

# Industrial production keeps growing but gives signs of moderation

## World industrial production (%, MoM)



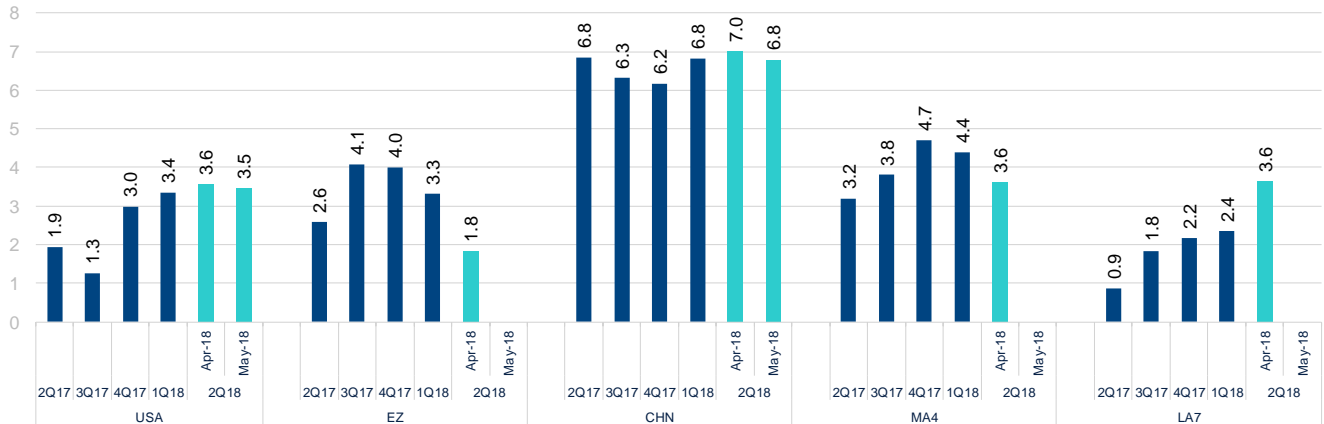
## World industrial production (%, 6-month moving average)



Beneath some minor deceleration in advanced countries, industrial production remains solid reflecting investment figures. New industrial orders point to some moderation in activity, possibly due to a large accumulation of inventories and to risks of protectionism

# The moderation in industrial production in Europe was more than offset by strong figures in China and US

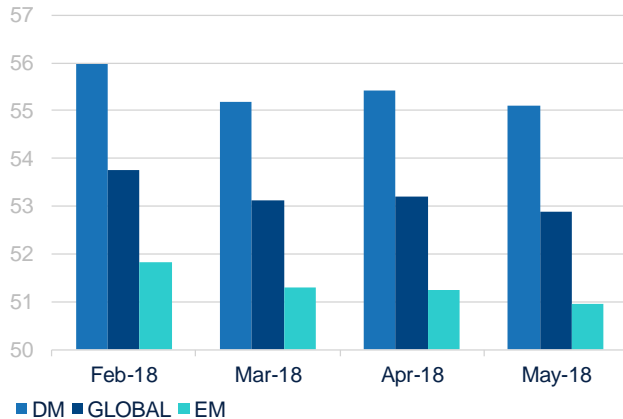
## World industrial production: Selected regions (%, YoY)



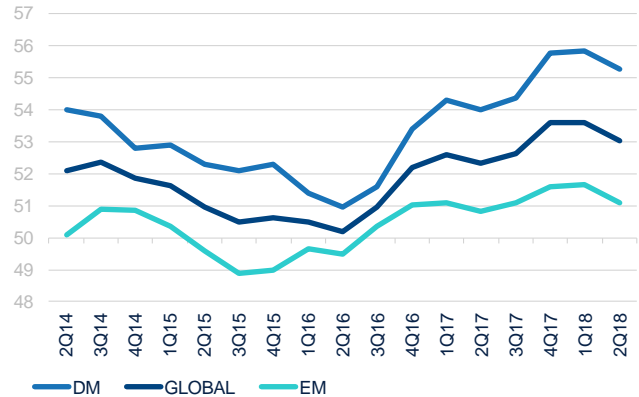
Industrial activity enjoys a strong footing and keeps surprising on the upside reflecting the recovery of the industrial sector and a greater oil and gas extraction in different regions after the US restored sanctions to Iran. However, April data has shown some moderation in core Eurozone economies and Japan

# Manufacturing sentiment hits a nine-month low in May, but suggests that output is still expanding solidly

## World manufacturing PMI (Level $\pm$ 50)



## World manufacturing PMI (Level $\pm$ 50)

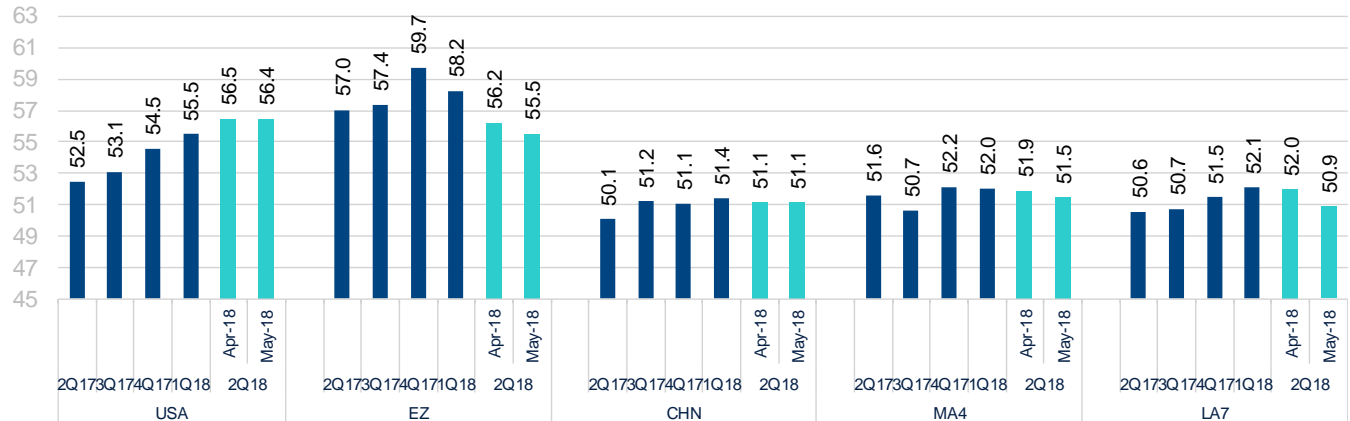


May manufacturing PMIs have dropped from recent heights as increasing uncertainty is taking its toll on confidence. Job creation and inflationary pressures have also eased

# The softening of PMIs is shared across regions with the exception of the US

## Manufacturing PMI: Selected regions

(Level  $\pm$  50)

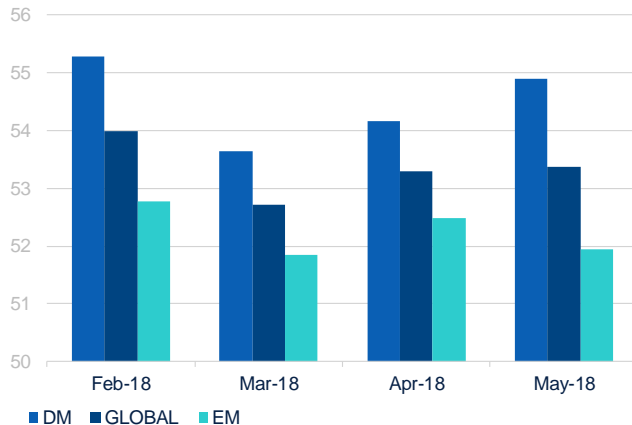


The strong optimism in the US contrasts with disappointing figures in other regions following US increased tariffs on imports. Still, manufacturing PMIs keep pointing to a resilient economy where supply constraints are binding and will likely remain above historical averages

# Services PMIs accelerate in May for the third month in a row, but confirm diverging trends between the US and other areas

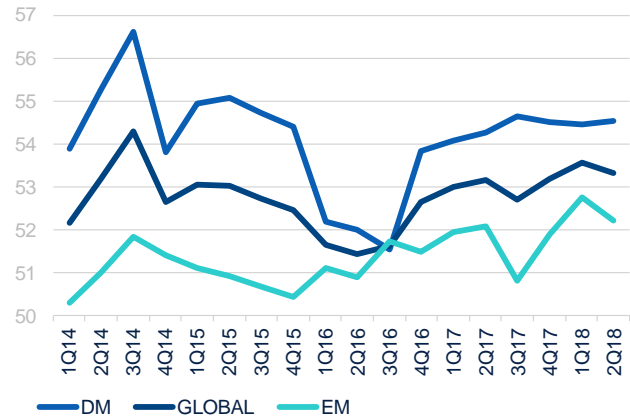
## World services PMI

(Level  $\pm$  50)



## World services PMI

(Level  $\pm$  50)



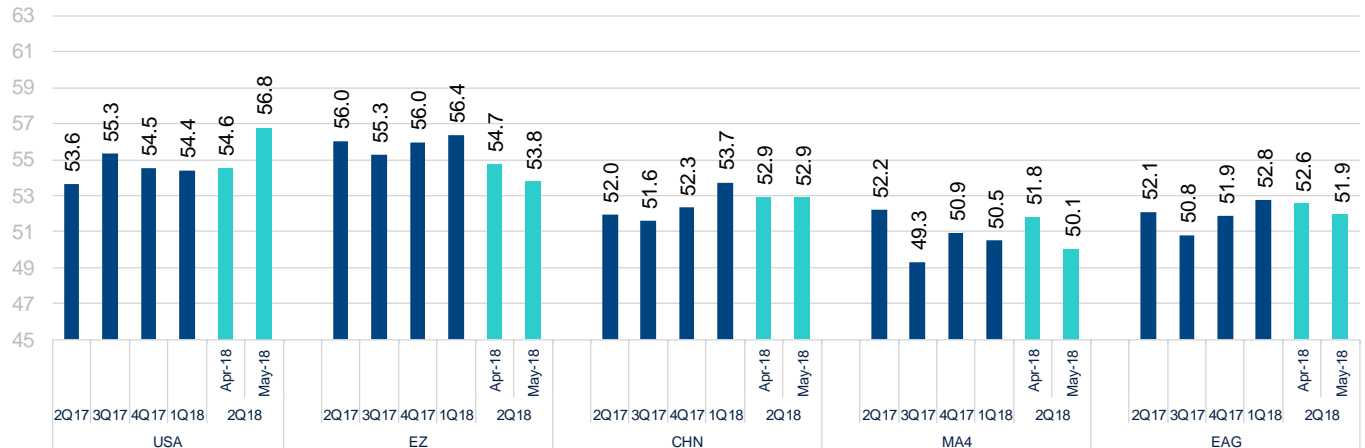
Global service sector activity improves for the third month in a row following a strong expansion in the US. Trends in main components have not varied much from last month, and keep signaling strong activity and supply side constraints



# US service sentiment hikes to strongest expansion in 3 years; EZ has lost four points since its peak in January

## Services PMI: Selected Regions

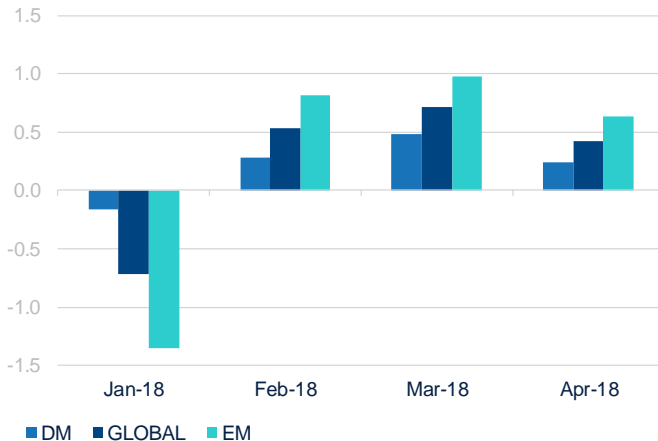
(Level  $\pm$  50)



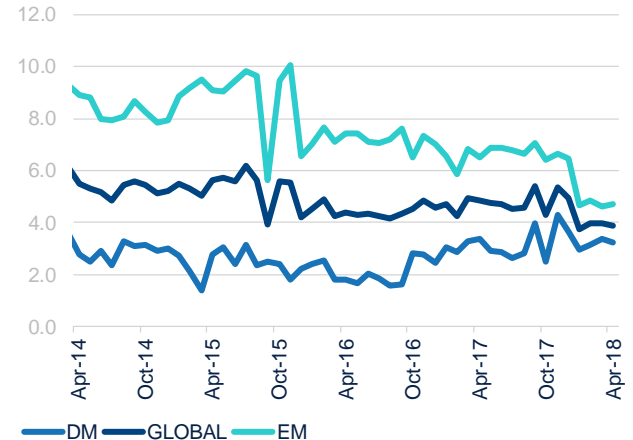
Latest survey data points to a significant increase in service sector activity in the US, which is being favored by strong corporate profits and a supportive environment for business and consumer spending. The downward correction in other countries might be capturing higher input costs (energy, transport) and tighter credit conditions in coming months

# Retail sales weakened for the third month in a row, but they are still supported by the improvement of the labour market

## World retail sales (% MoM)



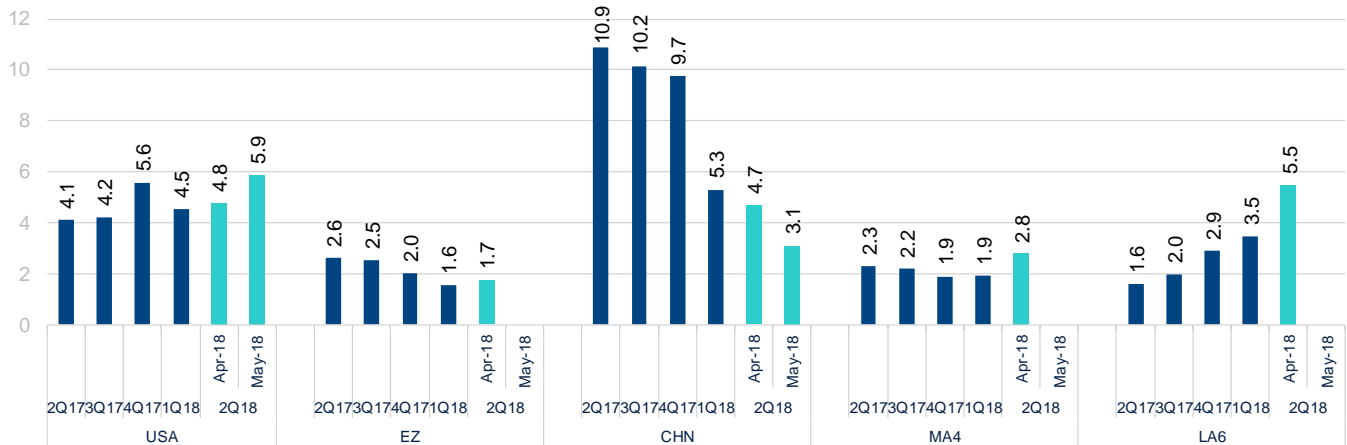
## World retail sales (%, MoM 6 period mov avg)



Retail sales have eased for the third month in a row as opposite forces weigh on household consumption. Inflation dynamics and the loss of momentum in some regions weigh on private spending. On the other hand, the labour market remains very dynamic and supports further household consumption

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

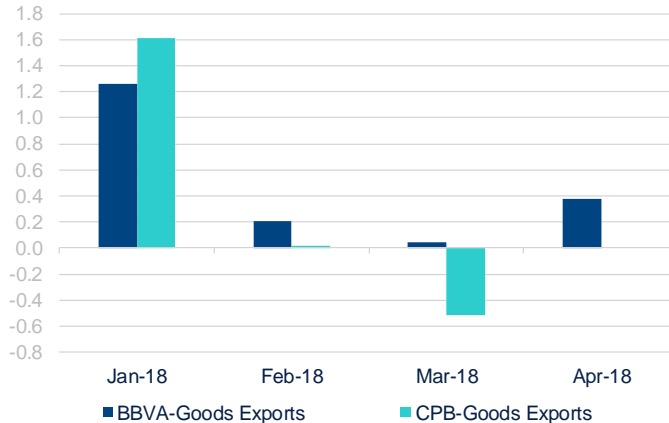
## Retail sales: Selected regions (%, YoY)



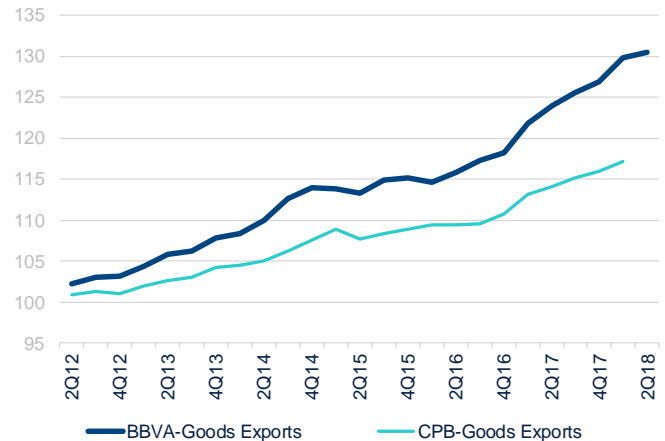
In the US, tax cuts and the strength in the job market keep improving spending dynamics (May figures are in fact the strongest since September last year). China has posted a lower reading, suggesting that the tightening of domestic policy could be weighing on consumption decisions.

# Global trade has lost some traction following a very strong turn of the year, but remains solid

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



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



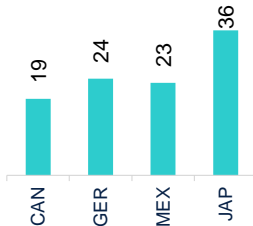
Global trade of goods has picked up a bit in April following two months of stagnation. Uncertainty has increased however with the introduction of new tariffs and investigations, increasing the probability of an open trade dispute

# Trade hostilities continue, boosting the likelihood of a trade war

## USA, May 23

Opens national security investigation on auto imports

Auto exports (%) in selected countries, from total



## EU, MEX, CAN

Announce reciprocal tariffs, open dispute at WTO

## USA, May 31

Effective introduction of tariffs on steel (25%) and aluminum (10%)

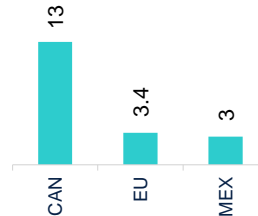
## G7 meeting, June 9

US withdraws joint communiqué, increases uncertainty

## NAFTA

Trade talks stalled after harsh declarations by Trump

Announced reciprocal tariffs, in USDbn



## US, CHN June 19

Trump announces investigation on USD 200bn worth of Chinese imports subject to tariffs

## US, CHN, June 15

US announces USD 34-50bn tariffs on imports from China, who intends to retaliate

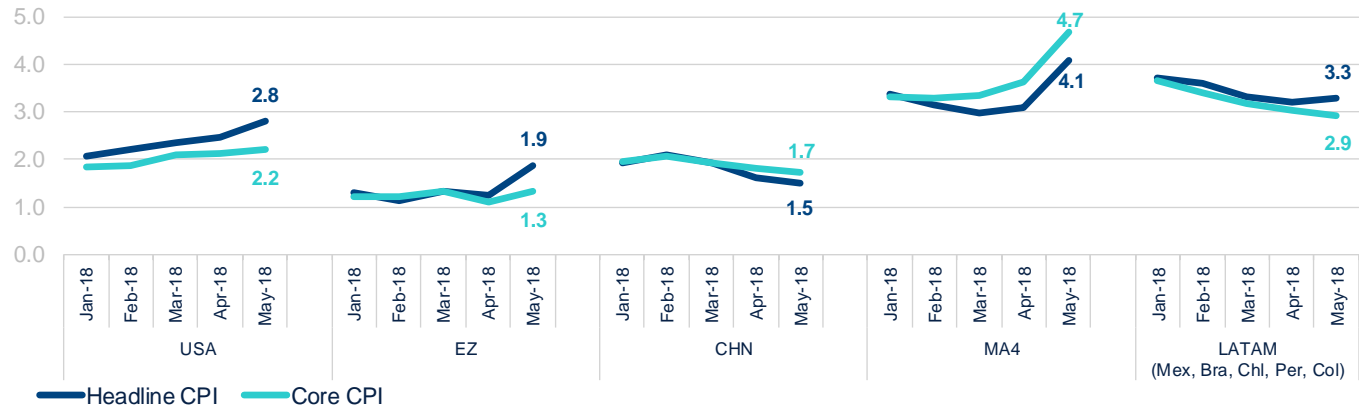
... MAY'18

... JUN'18

The US has recently introduced new tariffs on imports from steel and aluminum and opened an investigation on auto imports and a package worth USD 200bn of imports from China, triggering new retaliatory actions and increasing trade hostilities with other countries.

# Inflation increased in May due to higher energy prices, with a more moderate rise in core measures

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



Inflation increased significantly in the Eurozone in response to higher energy and fresh food prices and core components accelerated at a lower pace, as expected. In the US, inflation will remain slightly above target in the short term reflecting energy price developments

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