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**BBVA** Research

# Global Economic Watch

September 2018

Creando Oportunidades

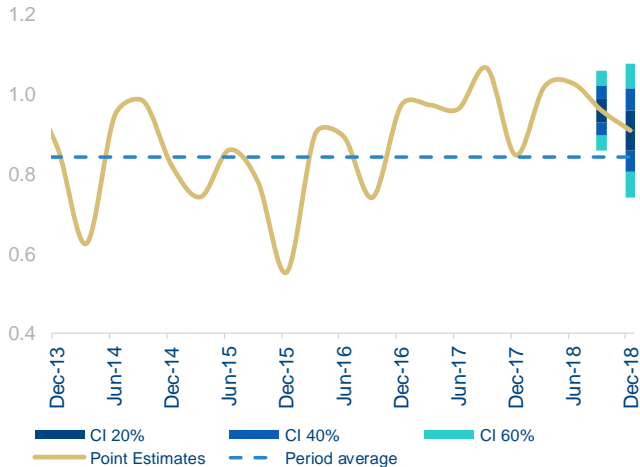
## Solid global growth, but moderating amid heightened risks

- Our BBVA-GAIN model points to a slight growth moderation, towards quarterly rates slightly below 1% in 2H18, in line with our projections of 3.8% for 2018.
- Manufacturing activity has lost momentum, partly expected after an unsustainable strong performance at the end of last year, but the impact of increasing protectionism could be weighing on confidence, global trade and investment. In addition, a more moderate growth in households expenditure seems to be taking root.
- Increasing differences in economic performance by region. The US domestic demand keeps fuelled by stimulus and strong job creation, while the ongoing Fed normalization, together with idiosyncratic shocks in some countries, have triggered a reassessment of risks and increasing financial tensions in emerging economies. In China and the EZ, growth seems to remain steady and still resilient to mounting uncertainty.
- Rising inflation has moderated in recent months across the board, reflecting the performance of commodity prices. Core inflation remains contained in most areas, but it is expected to increase gradually due to diminishing spare capacity in advanced economies and to the pass-through effect from currency depreciation in emerging economies.
- Risks are tilted to the downside and are mainly related to political uncertainty, vulnerabilities in emerging economies and, above all, increasing protectionism (despite some recent relief on NAFTA and US-EU trade relations).

# Global GDP growth moderates amid greater uncertainty, but remains in line with our projections of 3.8% for 2018

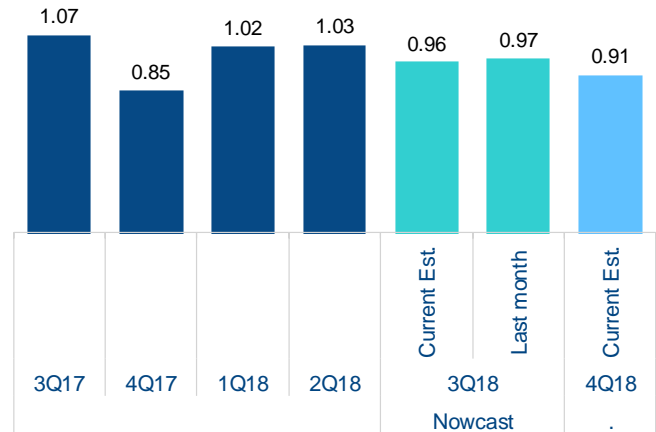
## World GDP growth

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



## World GDP Growth

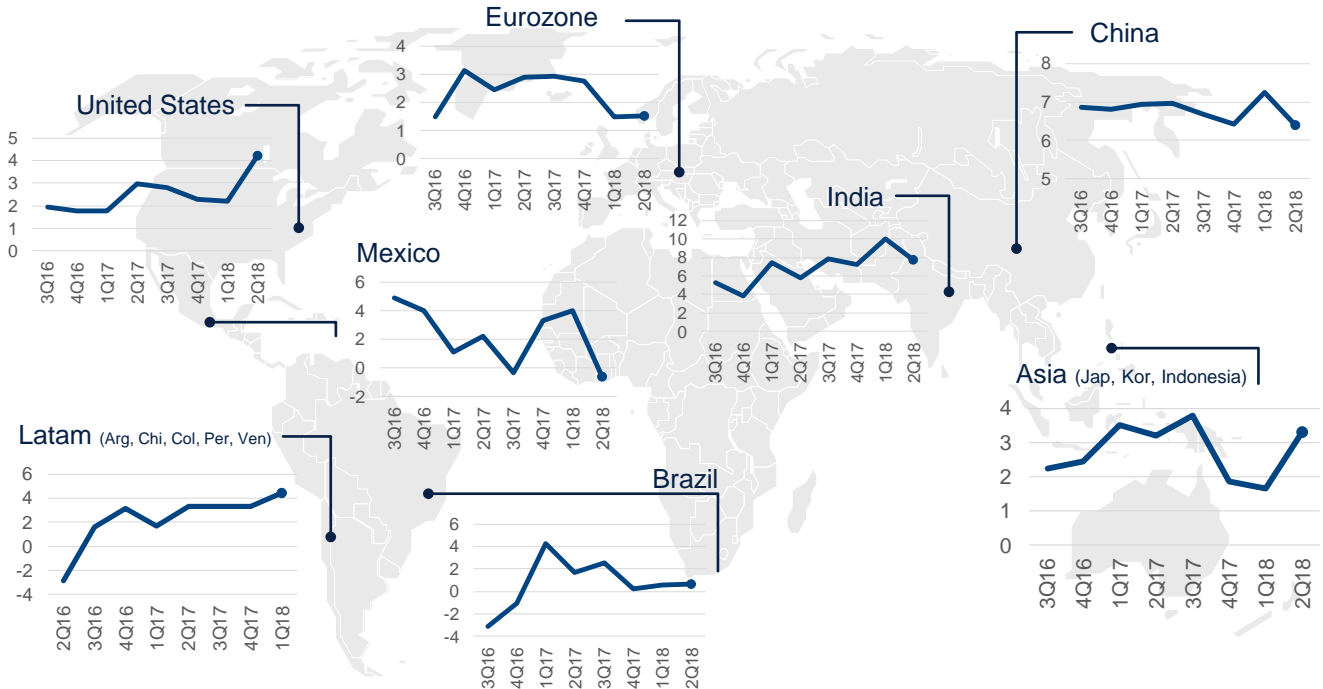
(Forecast based on BBVA-GAIN (% , QoQ))



Growth still remains anchored to global trade and supportive private consumption and investment, despite mounting uncertainty. Our BBVA-GAIN indicator estimates a slight moderation in the second half of the year that will bring growth rates to slightly below 1% q/q.

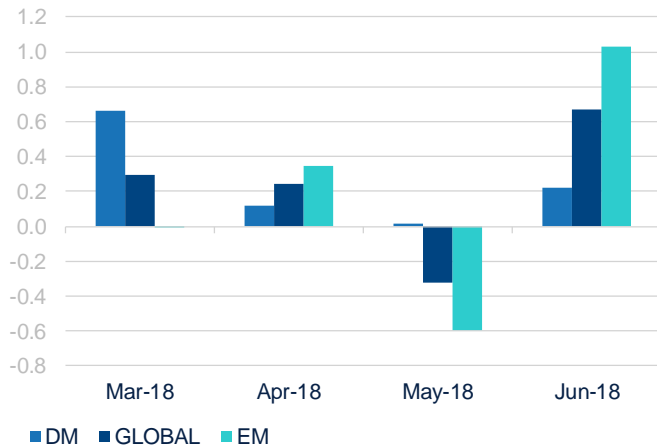
# The acceleration in the US contrasts with stabilization in the Eurozone (at a lower level) and China

## GDP Growth (%, SAAR)

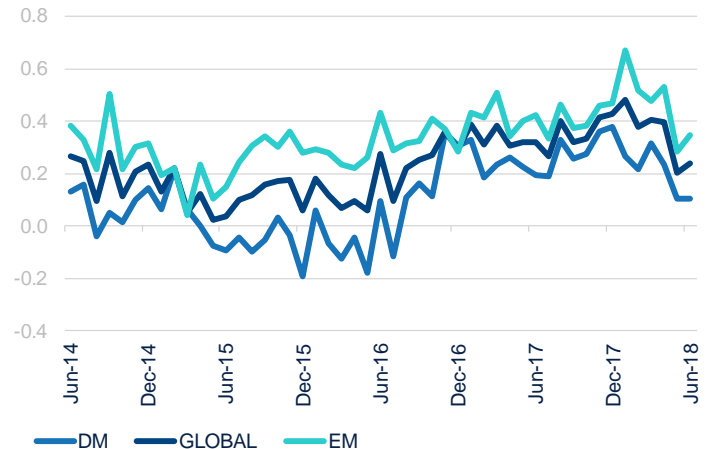


# Industrial production has moderated in recent months and uncertainty could put a brake on the pace of the recovery

## World industrial production (%, MoM)



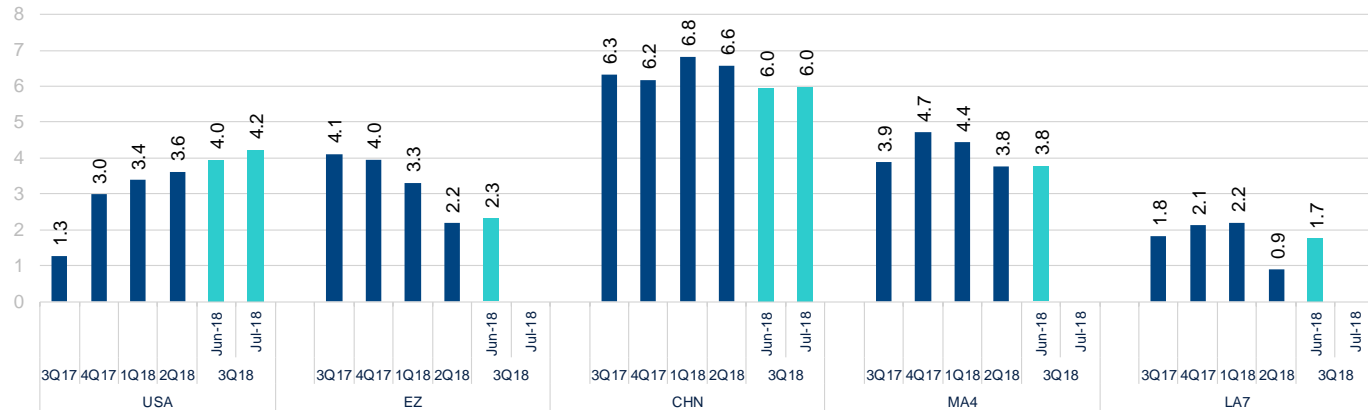
## World industrial production (%, 6-month moving average)



Industrial production growth is likely to moderate in further 2H18 due to base effects after the good performance at the end of last year, but also to the higher uncertainty in emerging markets.

# IP run at record levels in the US powered by strong domestic demand, but slowed down in other regions

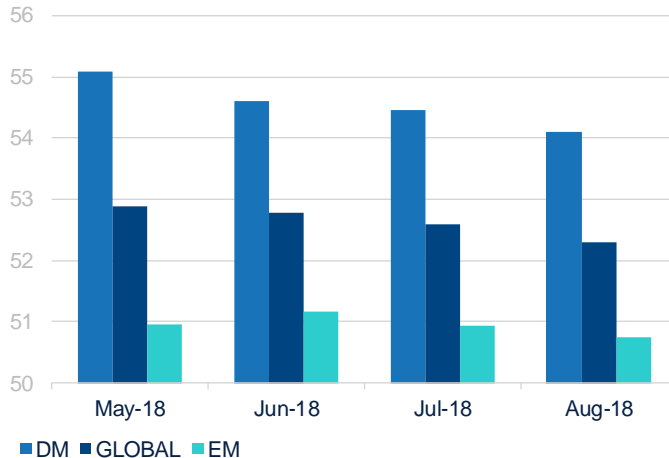
## World industrial production: Selected regions (%, YoY)



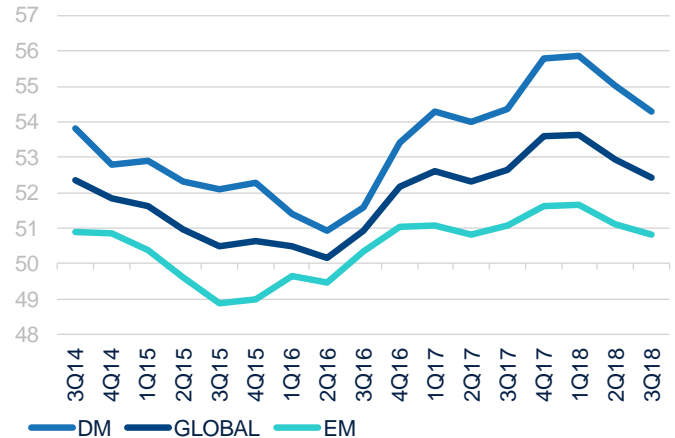
With the exception of the US and some commodity exporters, the industrial production has started to show clear signs of deceleration across the board in recent months, mostly due to worsening of foreign demand expectations.

# Manufacturing surveys have declined across the board, reverting the strong improvement observed by end-2017 but remaining at high levels

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



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

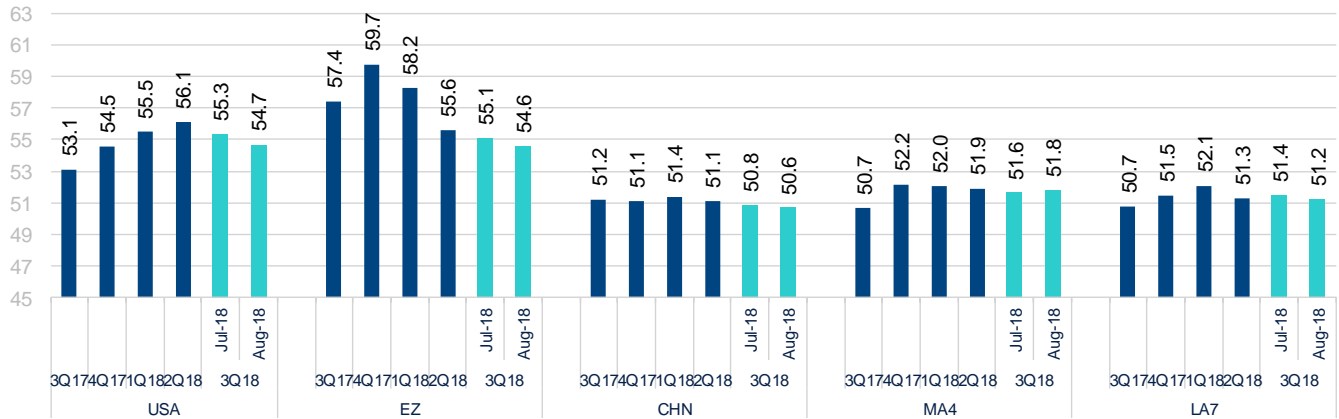


August manufacturing surveys have dropped again, reflecting a weaker growth in export orders and employment. Production remains however elevated, and details from the survey point to lower supply-side constraints.

# China's PMI shows the lowest manufacturing expansion in over a year, while advanced economies decelerate on lower export orders

## Manufacturing PMI: Selected regions

(Level  $\pm$  50)

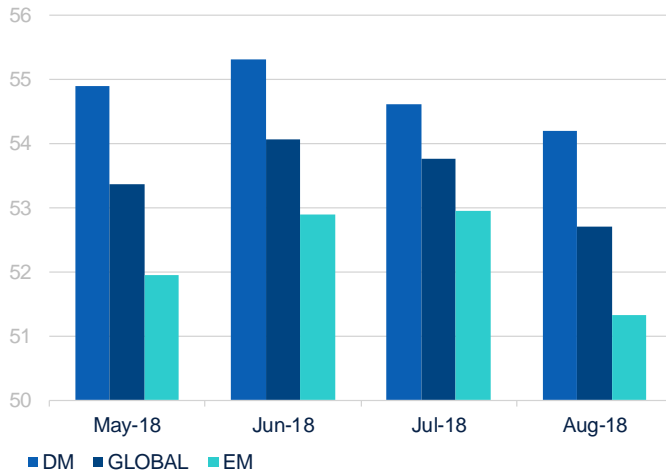


Confidence in the manufacturing sector has lost momentum across the board mainly due to increasing uncertainty on protectionism. According to surveys, the need for reduction of large external deficits in some emerging countries is also translating into weaker foreign demand for advanced economies' exports, notably Germany and Japan.

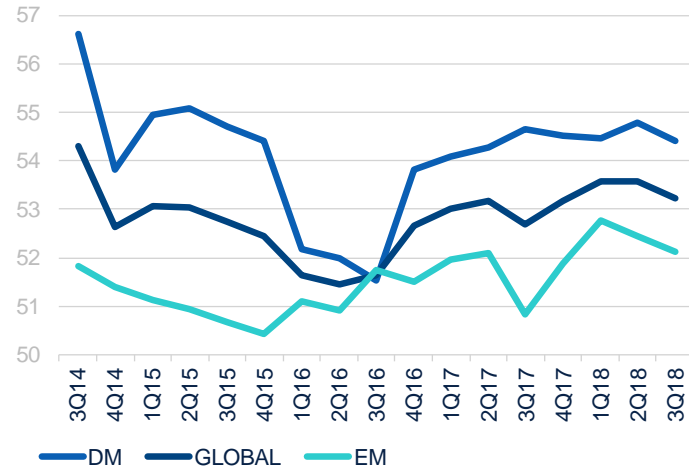


# Services PMIs reached lowest their level in five months in August but remain well ahead of long-term averages

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



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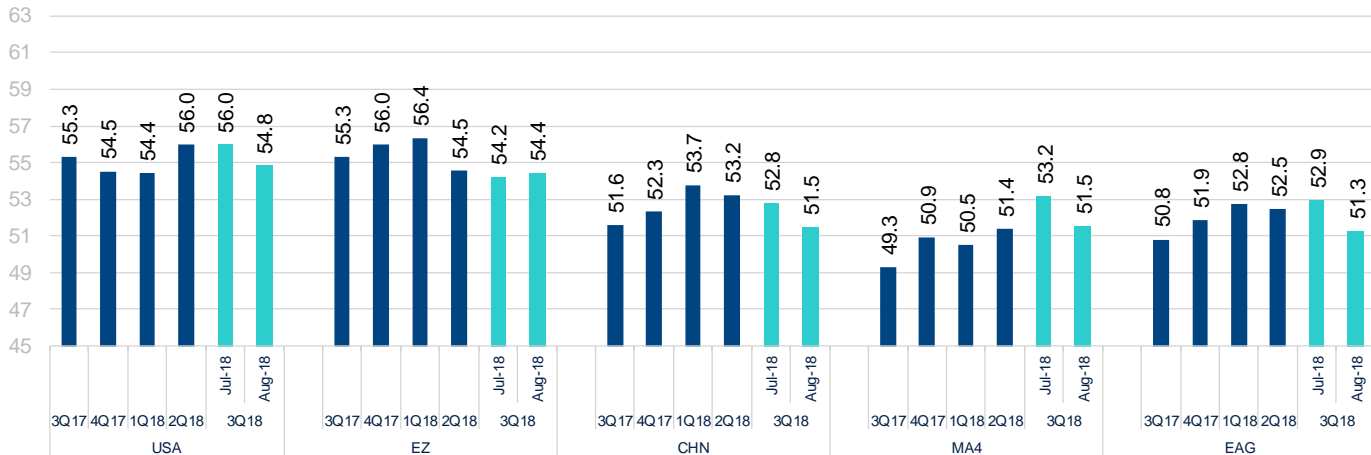


Service sector sentiment has declined significantly in emerging markets due to tighter financial conditions and the difficulty to pass higher input costs to consumers. Still, they remain elevated.

# Services sector sentiment remains under expansion with the exception of Brazil, but reflects lower readings across the board

## Services PMI: Selected Regions

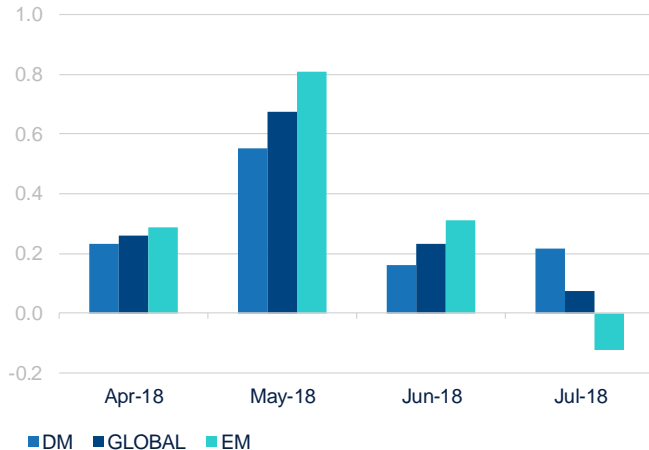
(Level  $\pm$  50)



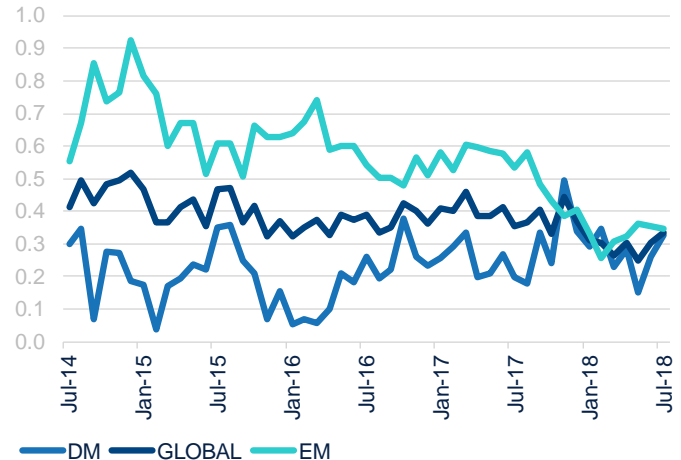
Survey data for the services sector remains under expansion territory in most countries, reflecting a solid activity in the service sector. Some countries have however reported lower readings, reflecting tighter financial conditions (India, China) or political uncertainty in others (Brazil, Italy).

# The more moderate growth in household expenditure seems to be taking root, but the downward trend in past months has halted

## World retail sales (% MoM)



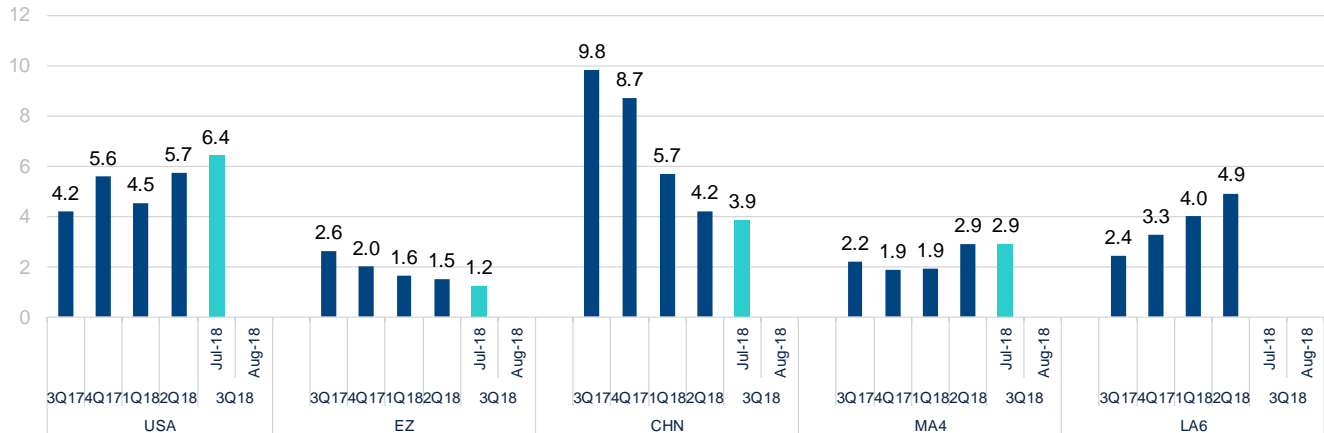
## World retail sales (%, MoM 6 period mov avg)



Retail sales registered a further uptick in July in advanced economies due to labor market gains and still favorable financing conditions. Incipient inflationary pressures could prevent further gains, but consumption will likely keep providing some support to global growth.

# Retail sales accelerate in advanced economies thanks to buoyant demand in the US (and in some core European countries)

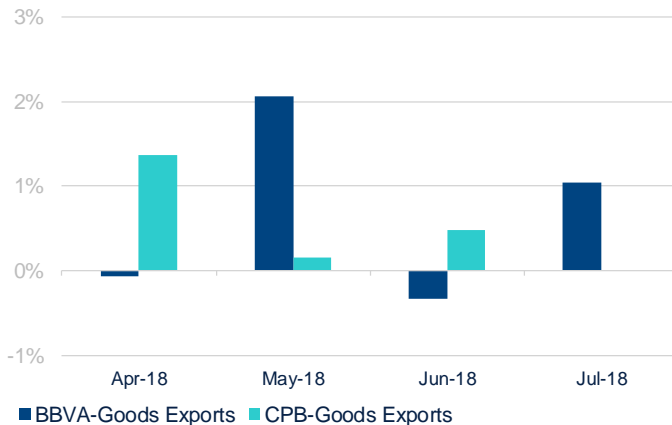
## Retail sales: Selected regions (%, YoY)



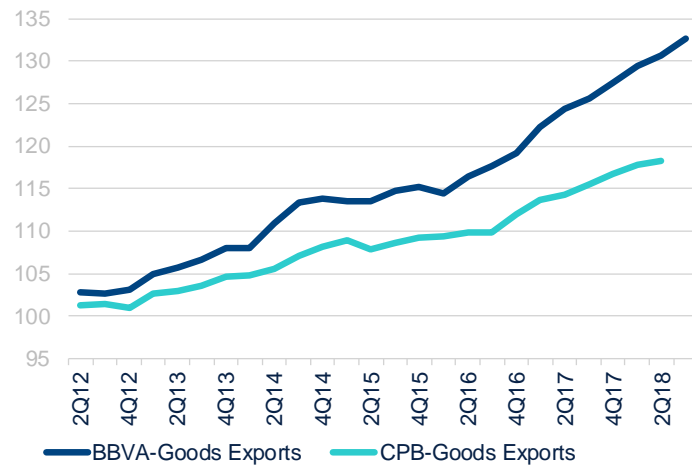
A slower improvement in the labour market, together with rising prices and the deterioration in consumer confidence linked to increased uncertainty, point to more moderate private consumption going forward.

# Global exports have been volatile recently within a positive trend, due to growing uncertainty in some countries

**World exports of goods  
(growth, constant prices)**  
(MoM%)

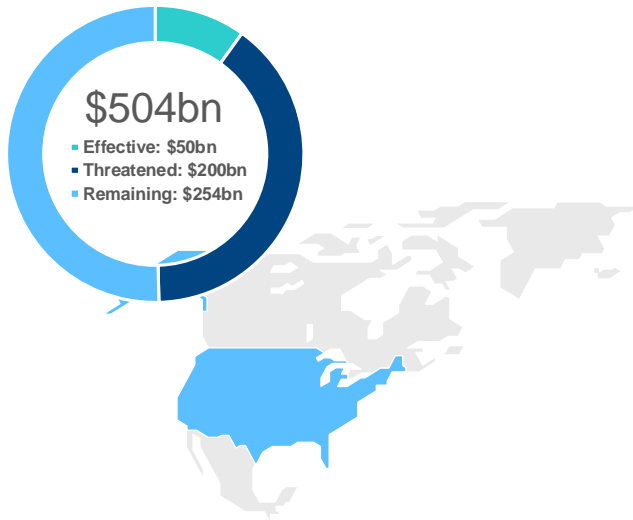


**World exports of goods  
(index, constant prices)**  
(Index, Jan-12=100)



Global trade has lost some steam in June due to the combined effect of rising trade tensions, political uncertainty in some countries and a sharp currency adjustment in emerging markets.

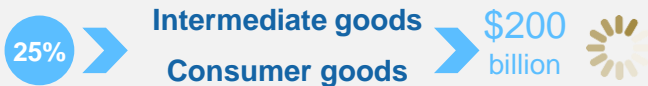
# US-China import tariffs still limited to a small amount of products



## US: IMPORTS FROM CHINA

## CHINA: IMPORTS FROM US

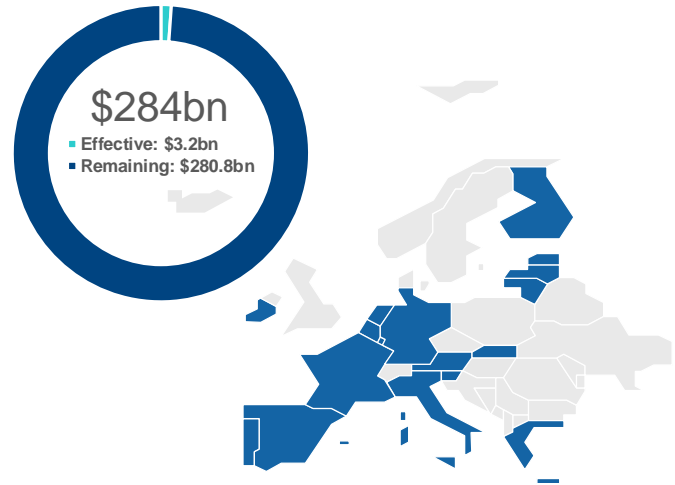
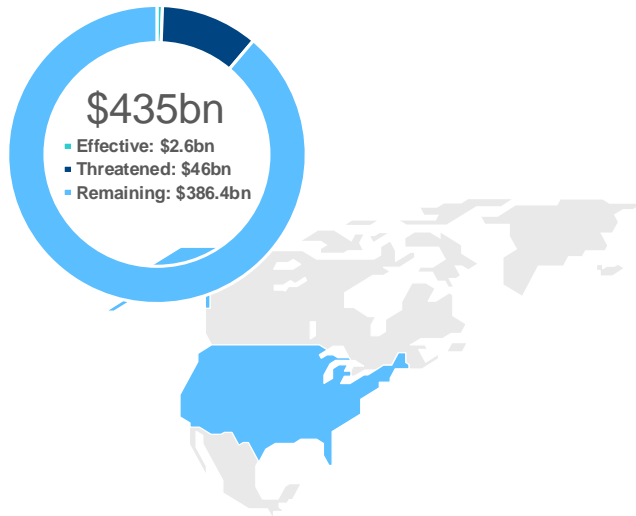
New tariff:



New tariff:



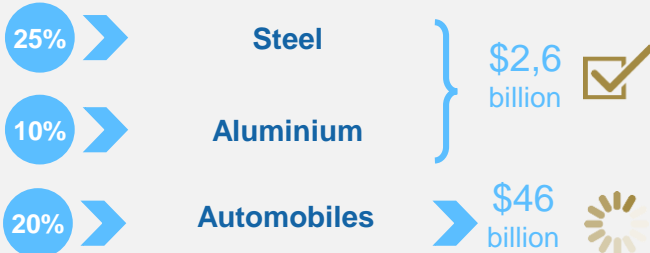
# US-EU tariffs on hold... pending on negotiations



## US: IMPORTS FROM THE EU

## EU: IMPORTS FROM US

New tariff:

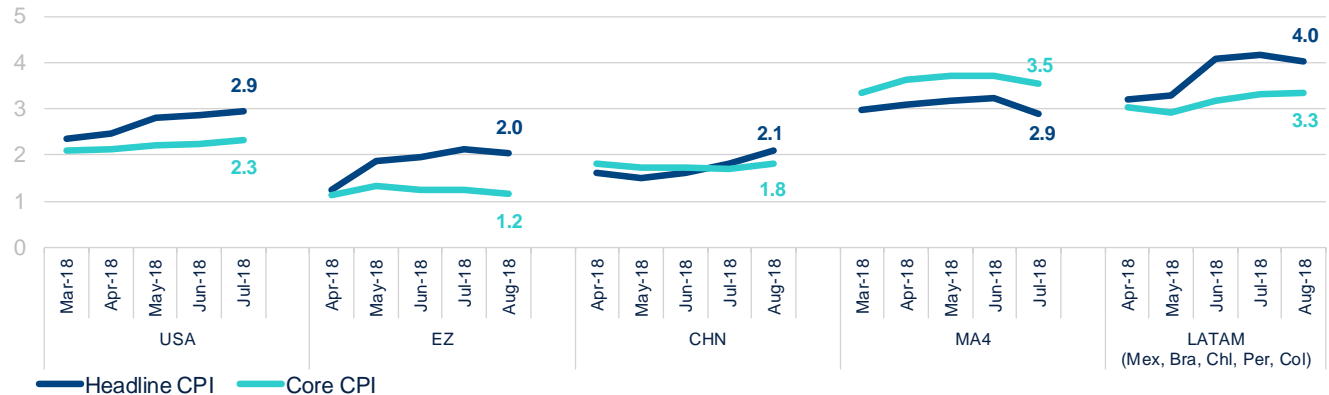


New tariff:



# Rising inflation has moderated recently reflecting the performance of commodity prices, while core inflation remains contained

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



Core inflation reflects differences across areas but is expected to increase gradually, reflecting solid domestic demand in advanced economies and pass-through effects from currency depreciation in emerging markets. In addition, upwards pressures could stem from the impact of higher tariffs in some countries.



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