BBVA Research

Global Economic Watch

November 2018

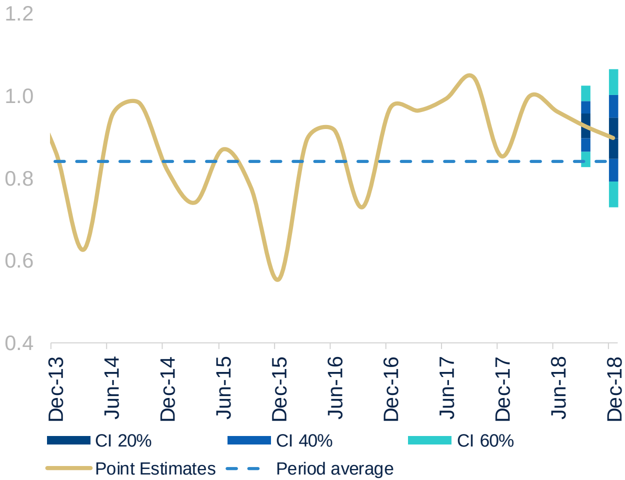
Creando Oportunidades

Global: Continued soft landing with differentiations across the three large economies

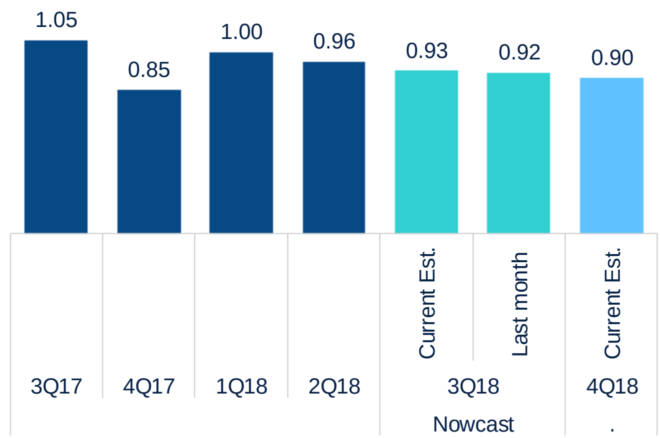
- Our BBVA-GAIN model keeps trending down gradually and points to a quarterly growth rate of around 0.9% in Q4, following disappointing figures in 3Q18.
- Mixed hard data in September, with increasing differences across regions: US keeps outperforming, but growth in China and the Eurozone remains sluggish. Weak industrial production and retail sales point to a more moderate expansion of manufacturing sector while private consumption could lose some steam in 2H18.
- Global trade has strengthened after mid-year driven by strong exports in China and emerging Asia, but this partly reflects the frontloading of exports pre-emptively reacting to potentially higher tariffs early next year. Trade figures were gloomier in the rest of areas.
- Confidence data in October declined further, mainly in the manufacturing sector and in the Eurozone and China, but still remain in expansionary territory. Despite supportive policies across the board and robust domestic demand, there are increasing concerns about the negative effects of heighted uncertainty on activity.
- Core inflation has increased slightly overall, while headline measure seems to have peaked. More recently, lower oil demand prospects and excess of supply linked to geopolitical reasons have resulted in a sharp decline in oil prices.

Global GDP growth keeps trending down steadily in 2H18, but is still resilient to higher uncertainty

World GDP growth
(Forecast based on BBVA-GAIN (%, QoQ))



World GDP Growth
(Forecast based on BBVA-GAIN (%, QoQ))

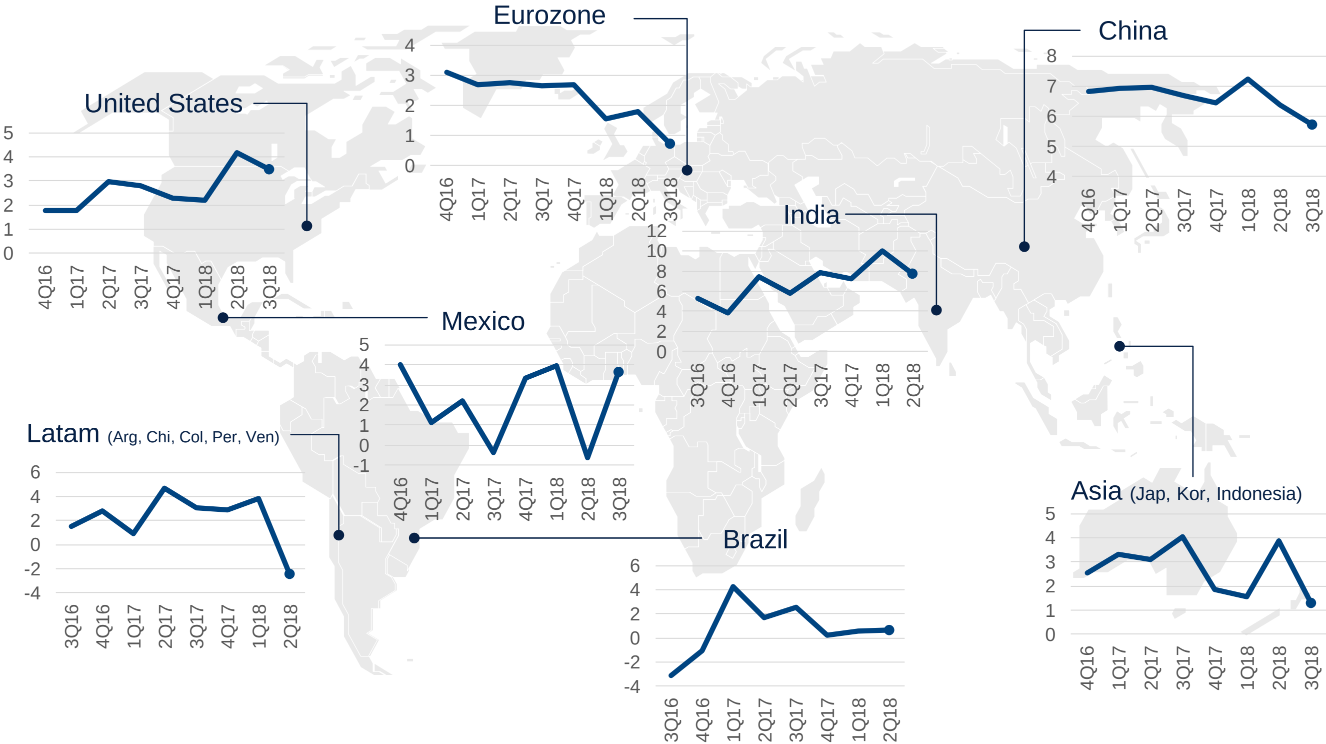


GDP growth in 3Q18 disappointed in some regions (such as the EZ) but came ahead of expectations in others (US). Global trade and resilient private consumption keep fostering the economy, though at a slower pace. Our BBVA-GAIN model suggests that quarterly growth in 4Q18 could hover around 0.9%.

Source: BBVA Research and National Sources

GDP growth remains steady in the US, but keeps moderating in other regions in 2H18

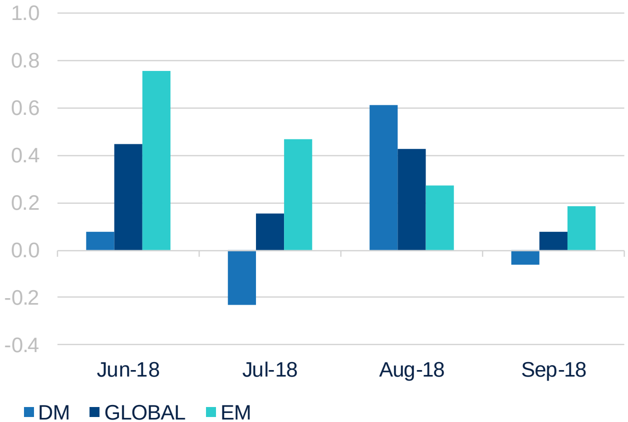
GDP Growth
(%, SAAR)



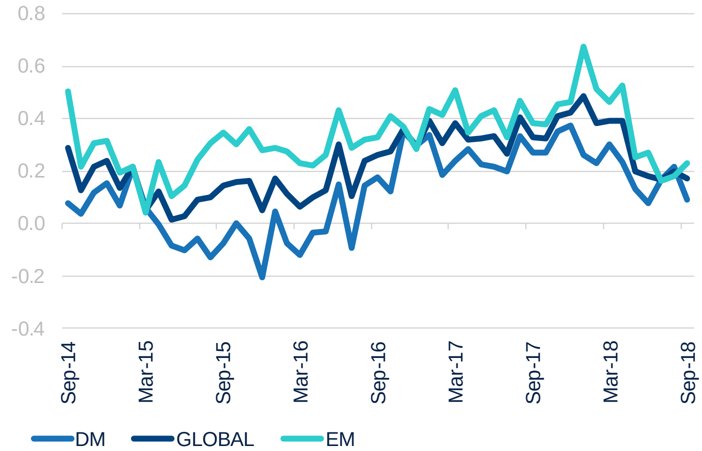
Source: BBVA Research and National Sources

Weak industrial production figures in September confirm that more moderate growth is taking root, affected by increasing uncertainty

World industrial production
(%, MoM)



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



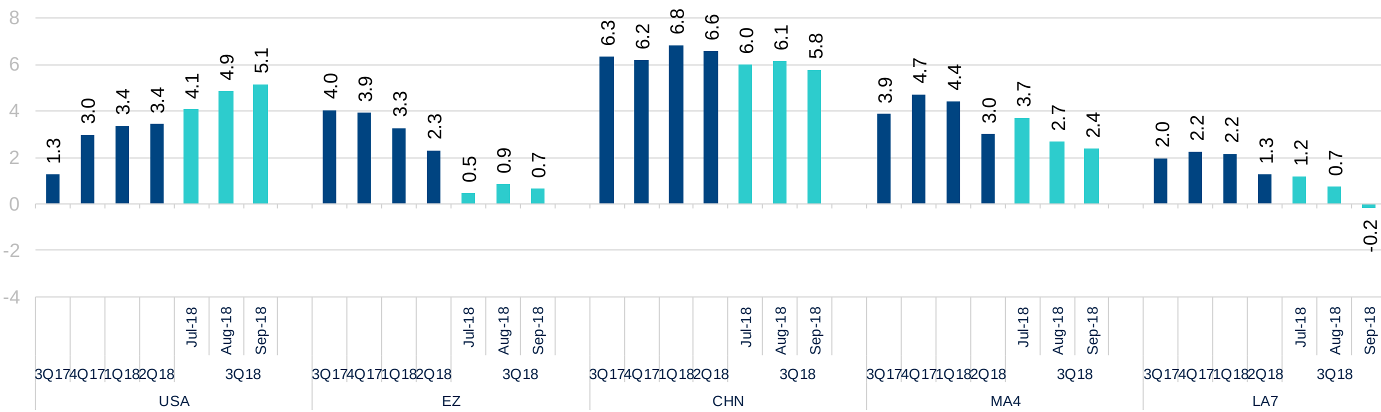
Industrial production remains hindered by escalating tensions in US-China relations, tougher barriers to global trade and sluggish demand in some of the main regions. Global industrial output remained broadly steady at 0.5% QoQ in 3Q18, after an average quarterly growth rate of 1% in 2017.

Source: BBVA Research and National Sources

Industrial production remained buoyant in the US and recovered slightly in emerging Asia in 3Q18, but worsened in other areas

World industrial production: Selected regions

(%, YoY)

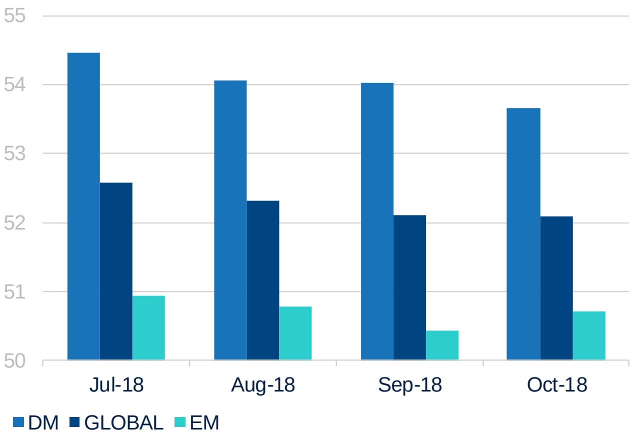


Industrial production keeps soaring in the US due to thriving demand and favoring investment conditions. However, it has plunged in the EZ due to disruptions from new auto emissions regulations and keeps deteriorating in China, as financial deleveraging takes its toll in key sectors of the economy such as infrastructure and housing investment.

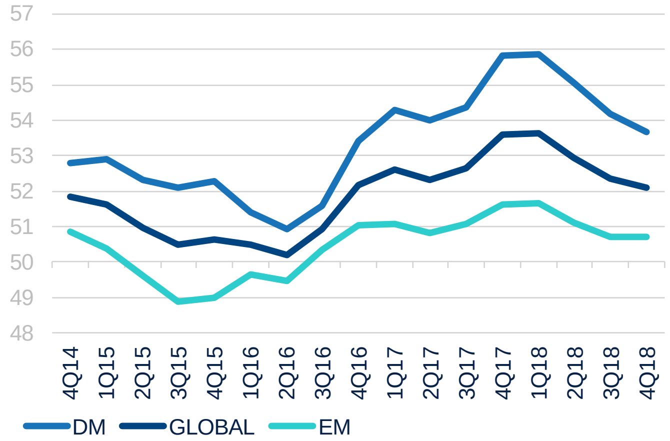
Source: BBVA Research and National Sources

Manufacturing PMIs fell again in October, but experienced a faster expansion in most of the largest Asian economies

World manufacturing PMI
(Level ± 50)



World manufacturing PMI
(Level ± 50)



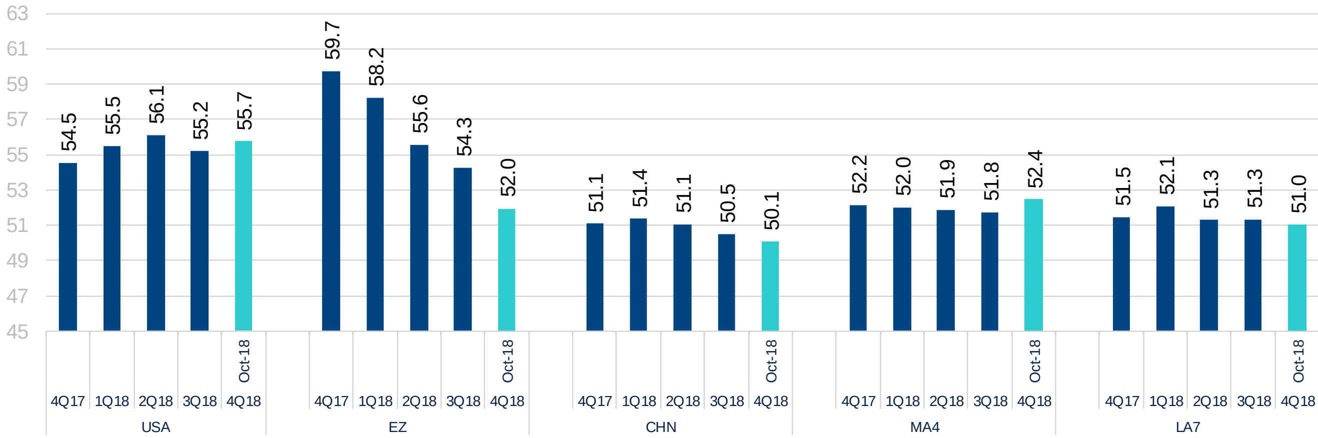
Manufacturing PMIs have weakened further in October reflecting increasing concerns about higher tariffs, political uncertainty and rising prices. These figures point to a weaker outlook at the beginning of 4Q18, but still remain in expansionary territory in all regions.

Source: BBVA Research and Markit Economics

Strong manufacturing confidence in the US contrasts with the deterioration in other areas despite some gains in China and India

Manufacturing PMI: Selected regions

(Level ± 50)

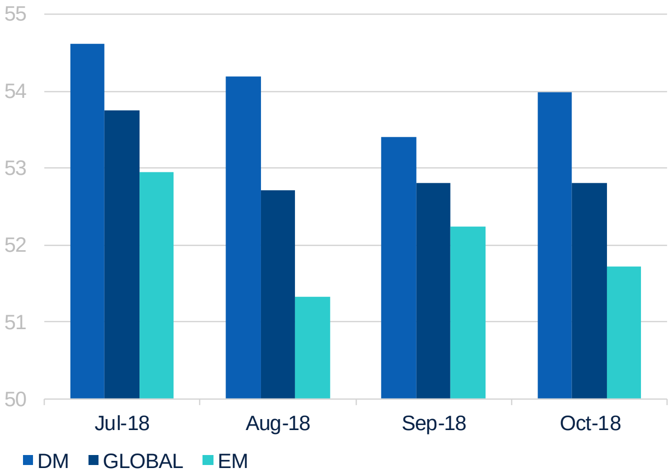


October manufacturing readings provide a similar picture to last month's, only slightly better in Asia due to better production outturns in CHN, IND and JAP, and weaker in the EZ (due to further falls in all major countries but Spain)

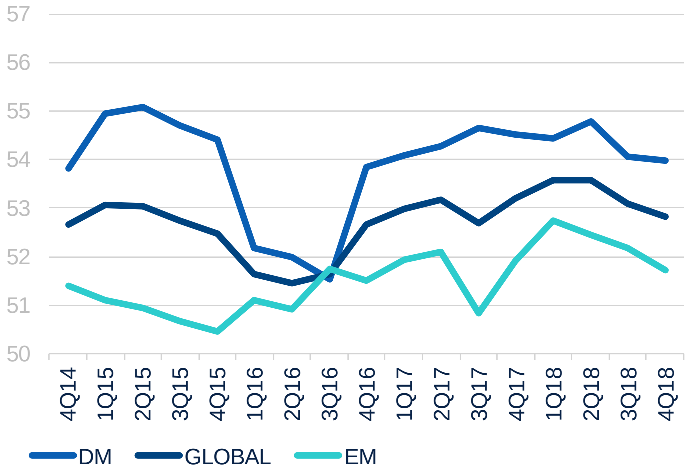
Source: BBVA Research and Markit Economics

Services PMIs keep holding up well in October, but differences across regions increase

World services PMI
(Level ± 50)



World services PMI
(Level ± 50)



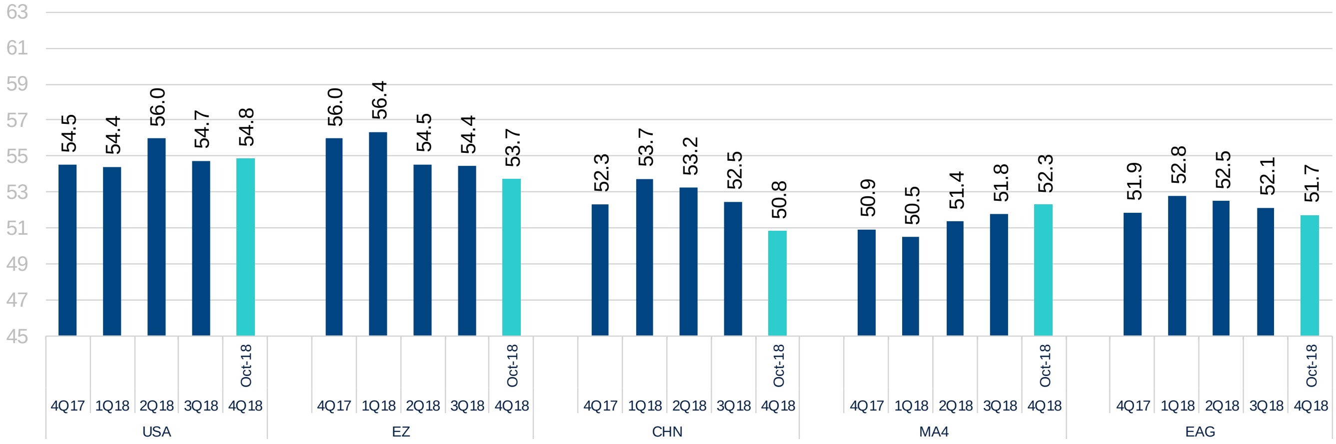
Services sector sentiment remains fostered by supportive policy decisions and improving labor markets. However, new order growth remains modest compared to the first half of the year and survey responses are increasingly capturing concerns about trade tensions and political uncertainty.

Source: BBVA Research and Markit Economics

Service sector sentiment gathers speed in the US and Major Asia, but disappoints in Europe and, more worryingly, in China

Services PMI: Selected Regions

(Level ± 50)

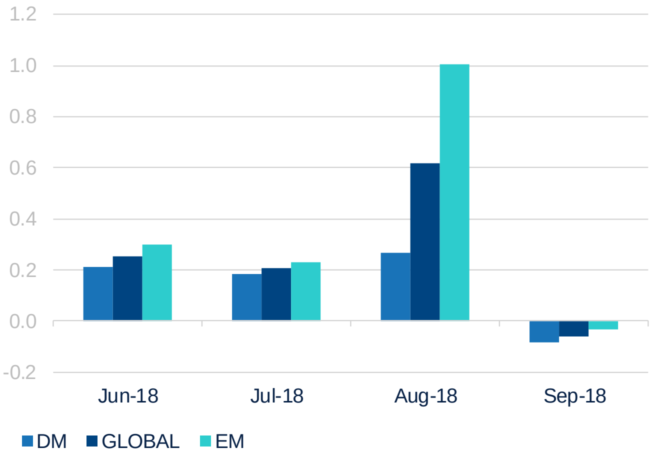


The strong pace of expansion in the US contrasts with the rebound in some of the main EZ economies and China, where new business growth stagnated for the first time since the financial crisis and tariffs are starting to hit transportation services.

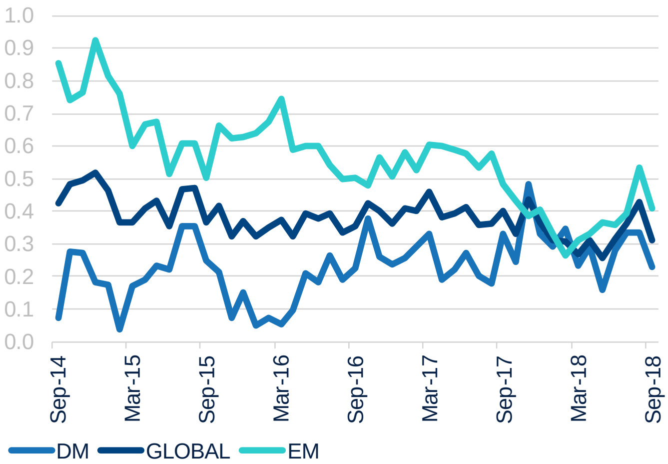
Source: BBVA Research and Markit Economics

Retail sales pull back in September, offsetting previous gains and suggesting that private consumption could lose some steam in 2H18

World retail sales
(% MoM)



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



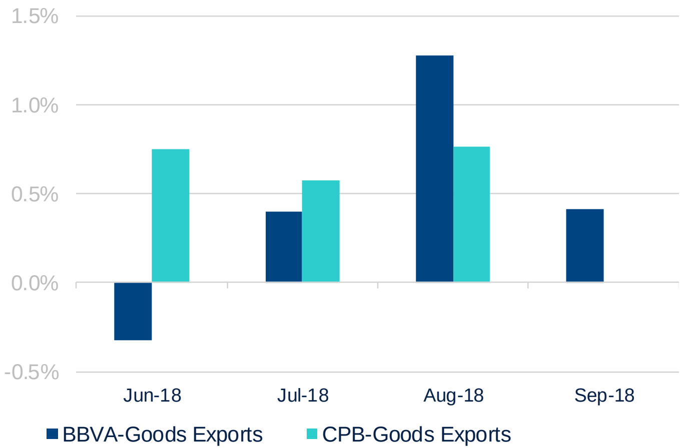
Retail sales stalled in September for the first time since the turn of the year after a very good August, but remained at solid levels supported by the resilience of consumer confidence. Despite the fact that private consumption seems to lose some steam in recent quarters, it should continue to support the strength of domestic demand.

Source: BBVA Research and National Sources

Global exports kept rising in 3Q18 supported by strong sales from China (due to frontloading of tariffs), but gloomier figures elsewhere

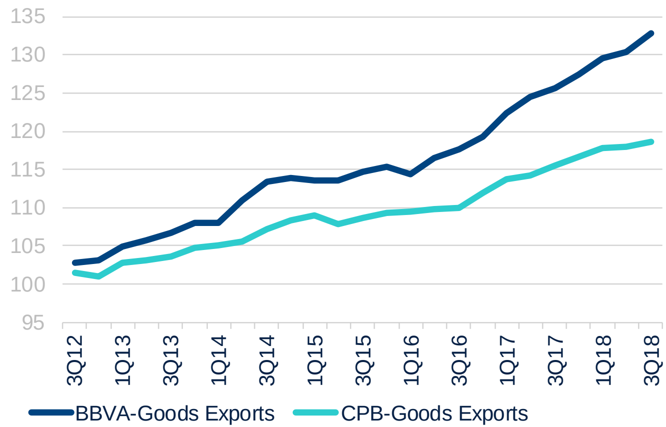
World exports of goods (growth, constant prices)

(MoM%)



World exports of goods (index, constant prices)

(Index, Jan-12=100)



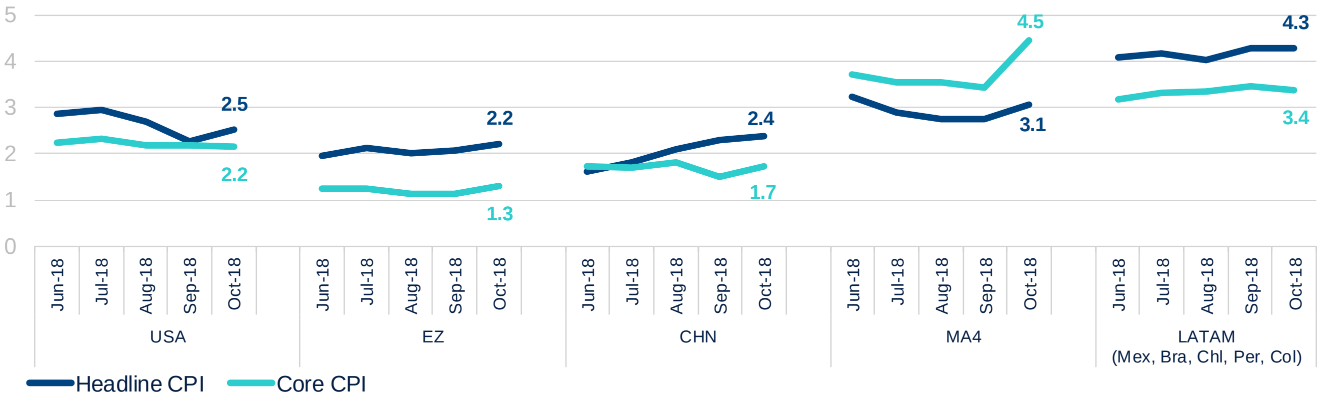
Global trade has strengthened since mid-year supported by strong exports in China and emerging Asia. This performance should be transitory due to the frontloading of exports and the possibility of higher tariffs in early-2019. All in all, global trade could soften in coming months as trade tensions are likely to persist in addition to the effect of higher tariffs approved.

Source: BBVA Research and National Sources

Core inflation increased slightly across the board except in Latam, while headline inflation seems to have peaked

Headline and core inflation: Selected regions

(%, YoY)



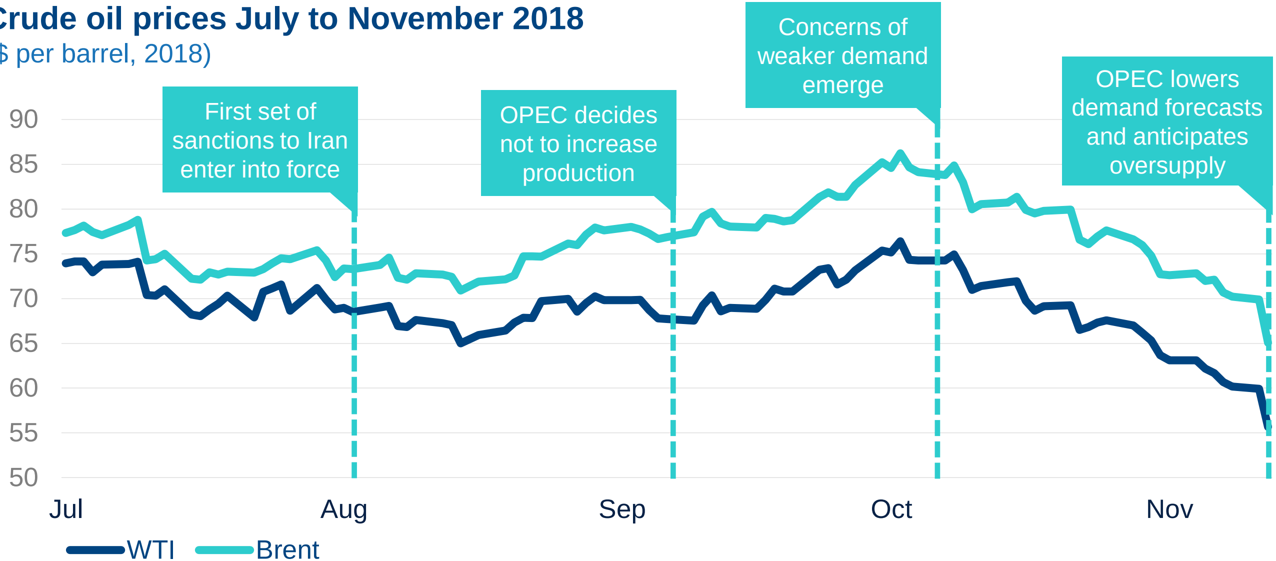
Core inflation is finally picking up across the board supported by upward wage pressures, supply constraints in factories and higher input costs. Headline inflation might have peaked and will likely start reflecting the recent dip in oil prices (-20% over the month) caused by renewed downward revisions of oil demand and increased supply.

Source: BBVA Research and National Sources

Recent volatility in oil prices due to both supply and demand factors, with short-term risks now tilted to the downside

Crude oil prices July to November 2018

($ per barrel, 2018)



Growing global supply and US waivers to buyers of Iranian oil along with lower demand expectations have caused oil prices to go down. We continue to expect oil prices to converge to its long-term equilibrium of around USD60/barrel.

Source: BBVA Research and Haver Analytics

BBVA Research

Global Economic Watch

November 2018

Creando Oportunidades