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**BBVA** Research

# Global Economic Watch

December 2018

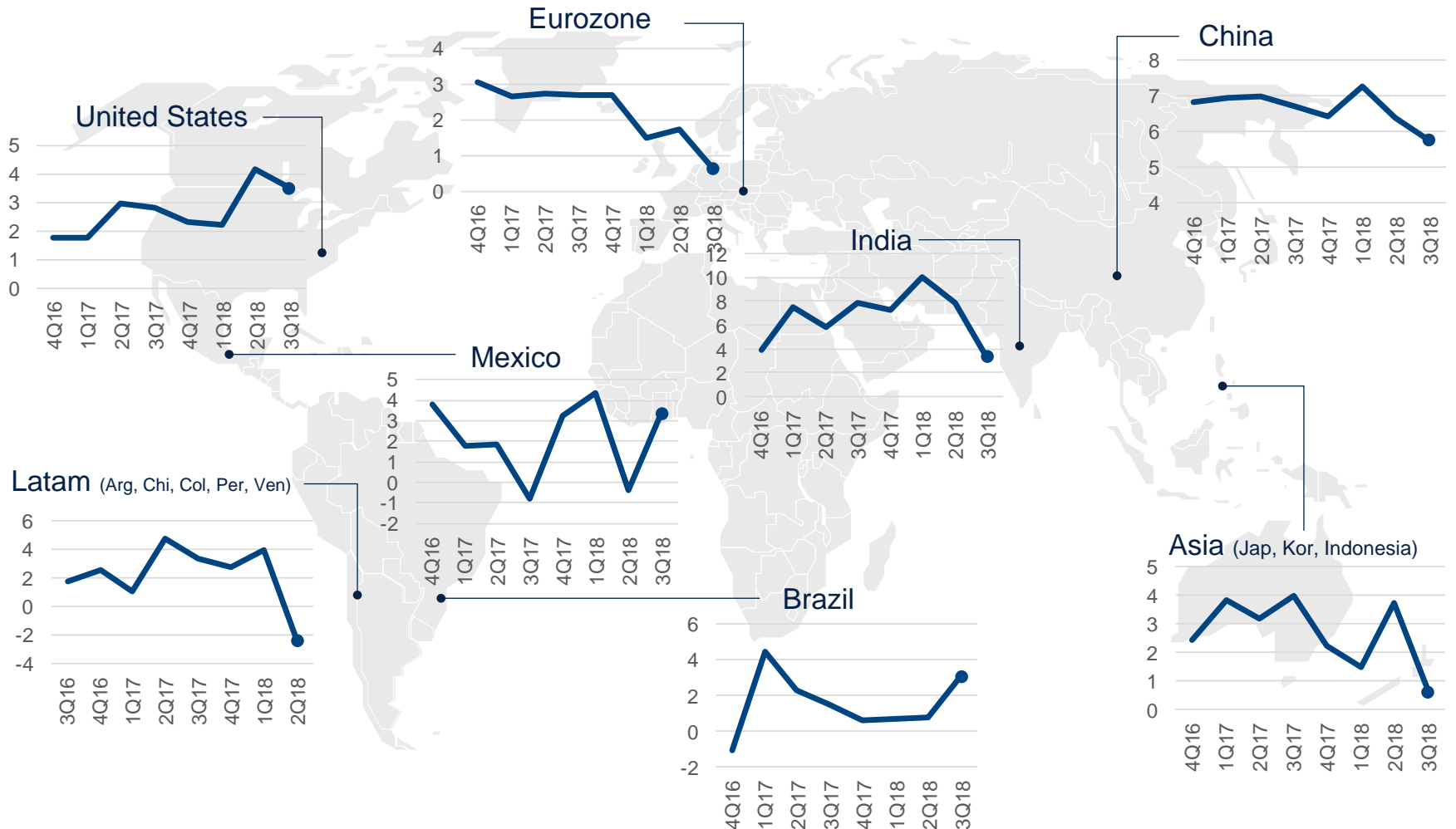
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# Global GDP growth shows increasing signs of moderation ahead

- After a blip in Q3 which is mostly due to one-off factors, our BBVA-GAIN model suggests a slight quarterly rebound to around 0.8% QoQ in 4Q18, but it is unlikely to return to the strong rates of previous two years. Global growth in 2018 is more likely to be at 3.6% than the 3.7% projected so far.
- There was a positive rebound in hard data during October in both developed and emerging countries, but with signs of moderation looking ahead. Retail sales and industrial production continue to grow at a steady but lower pace than earlier this year.
- Global trade kept strengthening in October, although (still limited) data for November suggest a gloomier outlook ahead, due to increasing protectionism along with slowing global demand.
- Confidence data declined further by year end, especially in developed countries, and concerns about further slowing ahead are increasing. The deterioration of new orders weighed significantly on firms' expectations across the board, while surveys also reveal greater caution in relation to spending amid uncertainty surrounding geopolitical risks and trade tensions.
- Headline inflation edged down across the board in November and could dip further following the drop in oil prices. Meanwhile, core inflation seems to have stalled, although it might rise supported by upward wage pressures and supply constraints in some regions.
- Recent growth and inflation data along with increasing downward risks are driving major central banks towards a more dovish tone, while it could give some room for those in emerging countries.
- Some events early next year (trade dispute, China's policy package, Brexit) could be key to turn back protracted high uncertainty that could derail the expected soft landing in global growth.

# GDP growth slowed in 3Q18 across the board, with one-off factors weighing on some regions (EZ, India, Japan)

## GDP growth (%, SAAR)



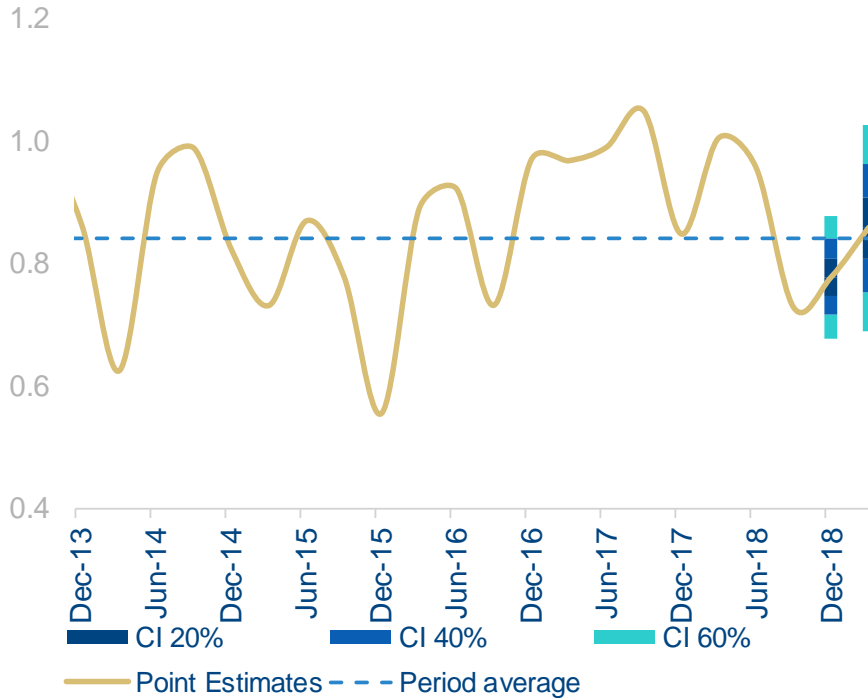
Source: BBVA Research and National Sources

# Global GDP will likely recover slightly in 4Q18, but at a more moderate pace than in 1H18

Our BBVA-GAIN model suggests a slight rebound in 4Q18 to around 0.8% and 0.9% QoQ in 1Q19, as some one-off effects will fade, but growth is unlikely to return to the strong rates of the last two years.

## World GDP growth

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



## World GDP Growth

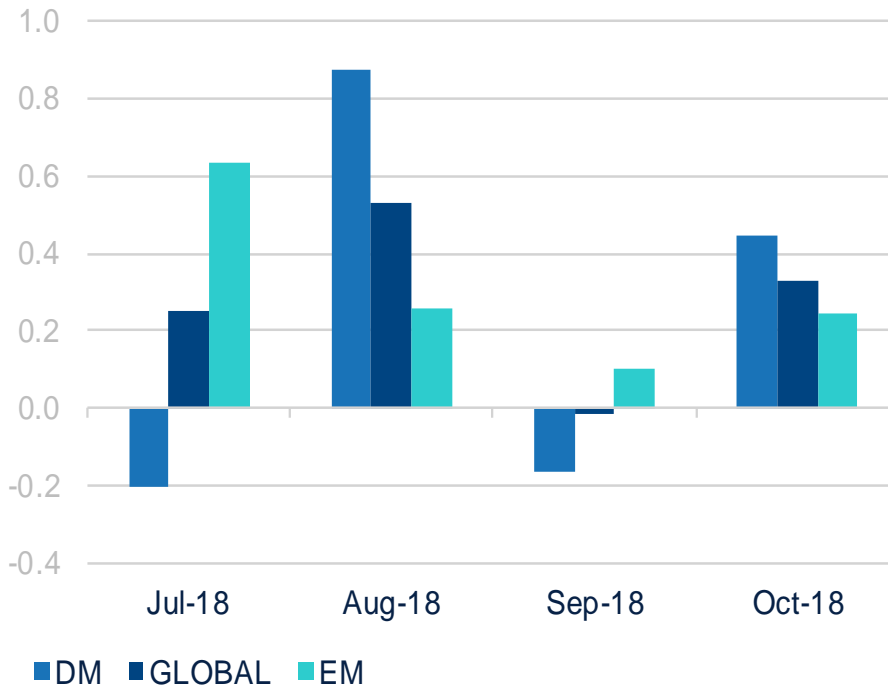
(Forecast based on BBVA-GAIN (% , QoQ))



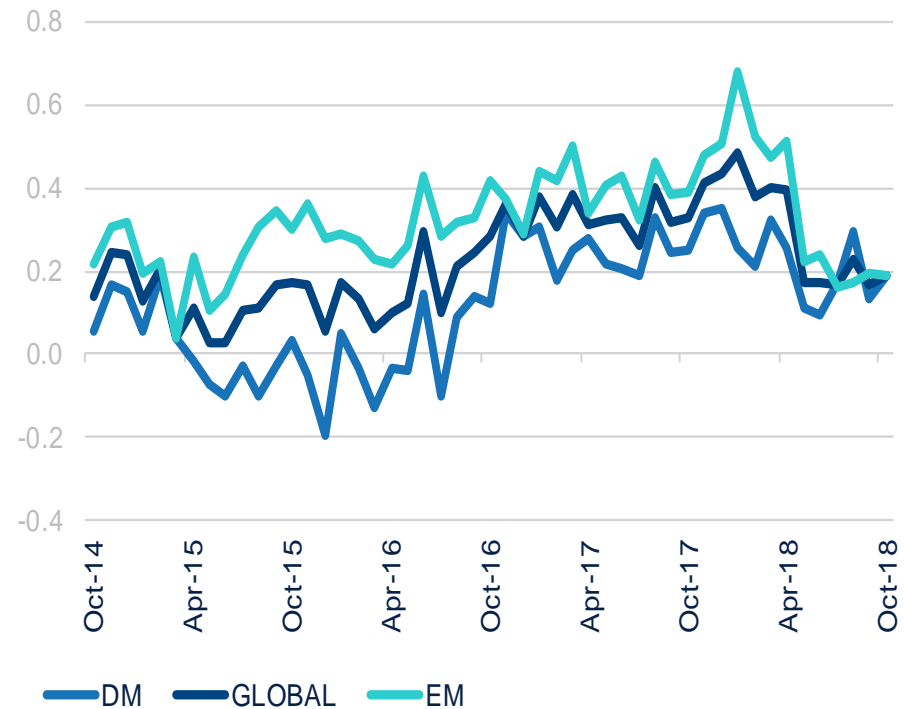
# Industrial production rebounded in October, pointing to more moderate but steady growth

IPI recovered in October in both developed and emerging countries. The sector recovery shifted down a gear by 2Q18 but remained relatively stable since then after a strong performance a year ago.

## World industrial production (%, MoM)



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

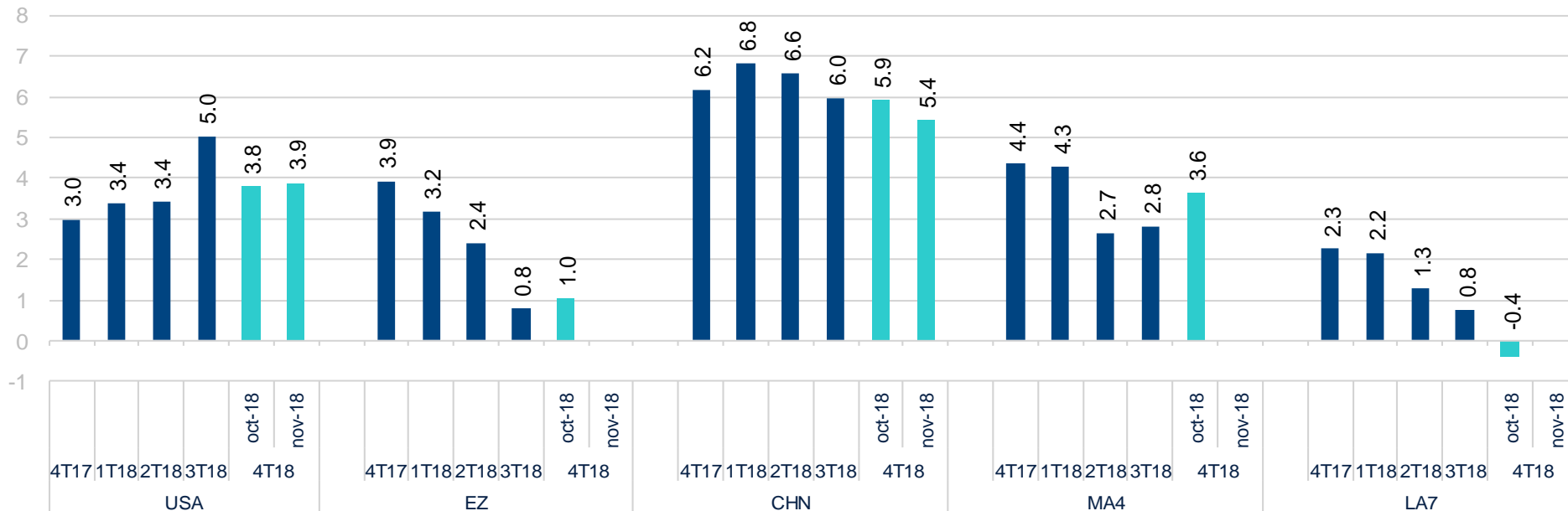


# Industrial production slowed significantly in the US and Latam, but accelerated in EZ and Asia (ex-China)

The industrial sector in the US returned to more moderate but solid growth after the strong rebound in 3Q18. More worrying signs stem from the widespread fall in industrial production across Latam.

## World industrial production: selected regions

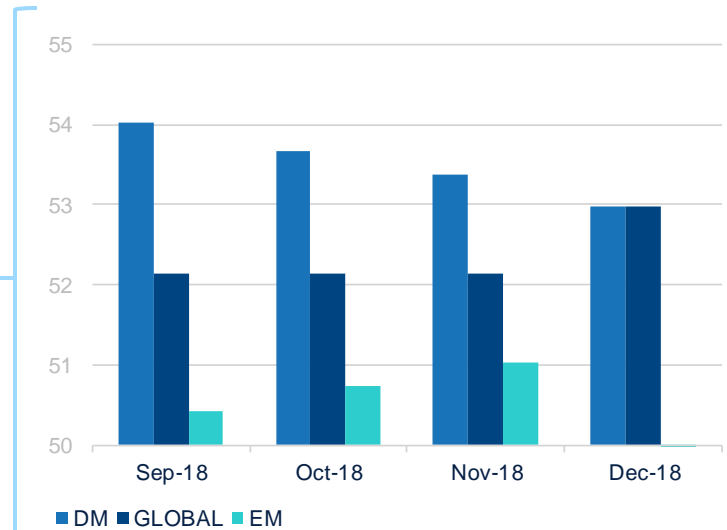
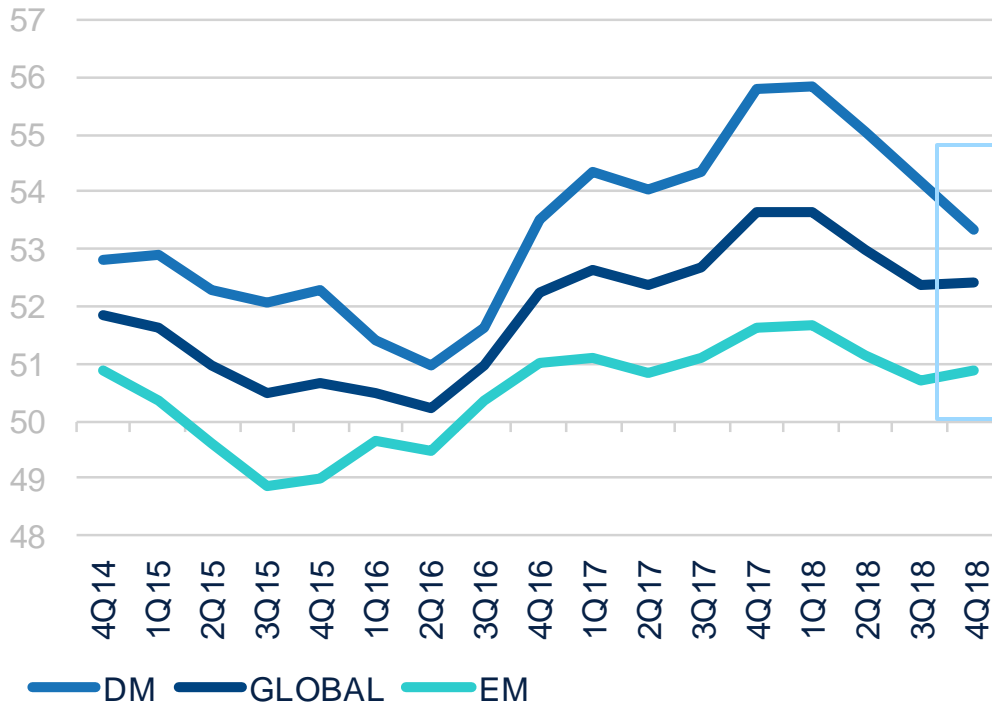
(%, YoY)



# Manufacturing PMIs in developed markets keep trending down, in contrast with the stabilization in EMs

The deterioration of industrial orders, especially from abroad, weighs significantly on firms' expectations, despite declining idle capacity. Hiring intentions have also declined in recent months.

**World manufacturing PMI (\*)**  
(Level ± 50)



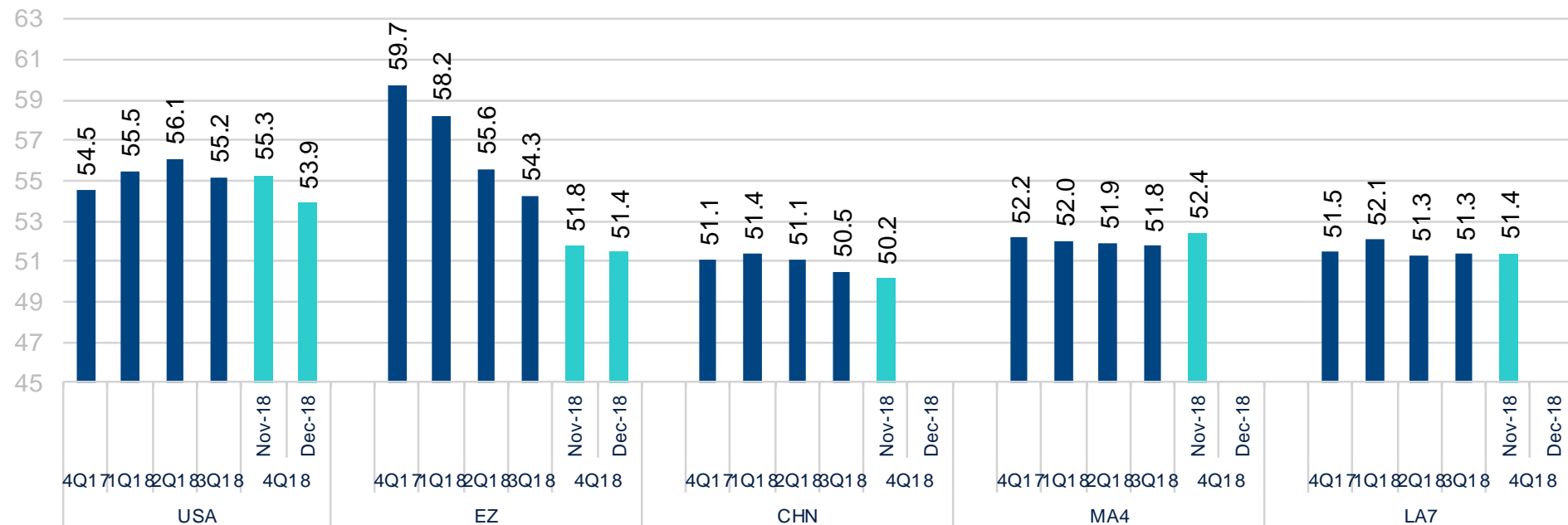
(\*) Note: 4Q18 includes data available so far, results might change as all data are released

# Strong declines in manufacturing PMIs in the US and the EZ increase concerns about the global slowdown

December's dip in the US might be reflecting economic uncertainty and signaling a softer tone for the year end, although output remained unchanged, while the deterioration in the EZ seems to hold back.

## Manufacturing PMI: selected regions

(Level  $\pm$  50)

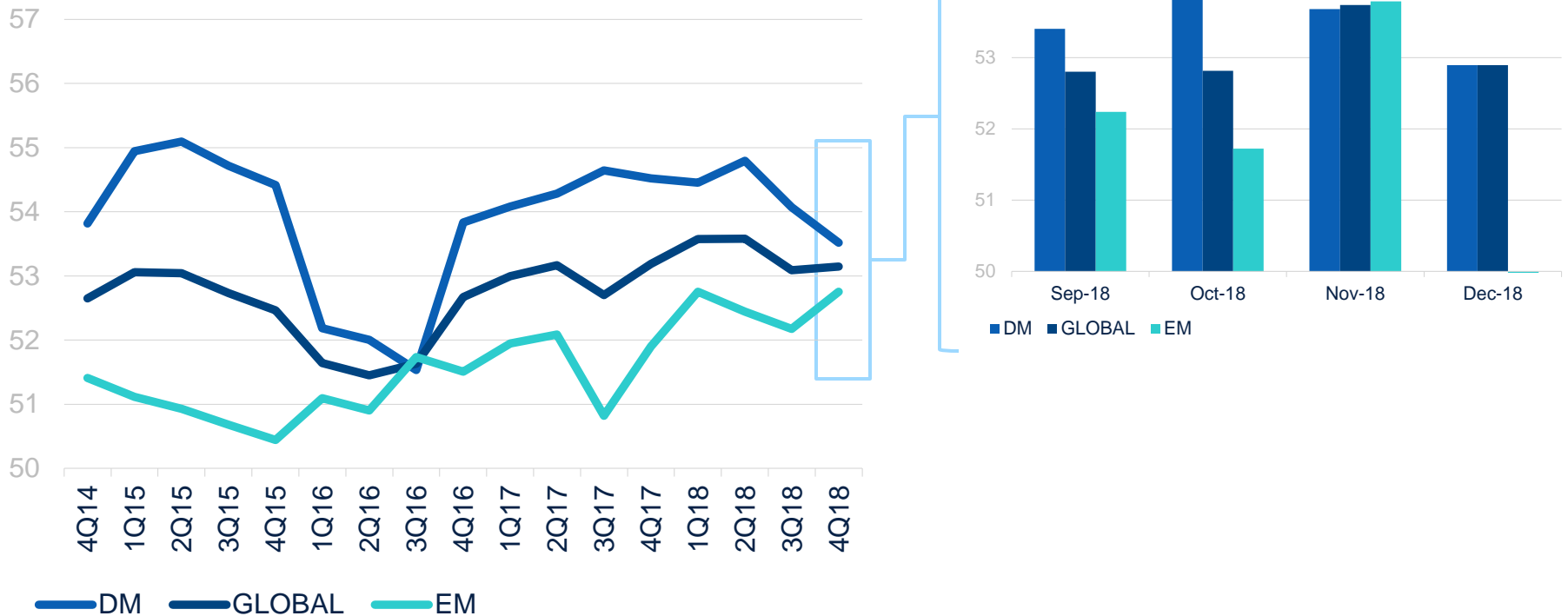




# Global services PMI rebounded slightly in November but might be down in December

The good performance of emerging markets and the slight drop in advanced economies drove both economies towards convergence in November, but December was significantly worse for the latter.

**World services PMI (\*)**  
(Level ± 50)



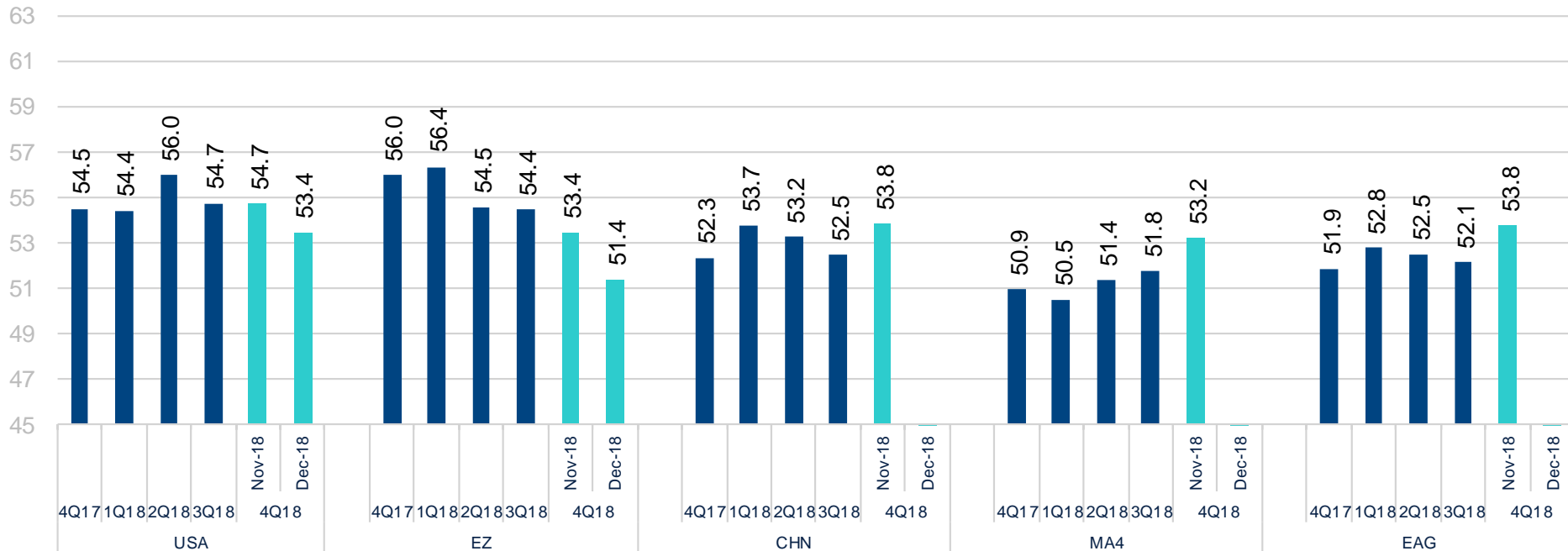
(\*) Note: 4Q18 includes data available so far, results might change as all data are released

# The moderation in the service sector gains ground in the US and EZ, as uncertainty weighs on spending

Services PMI in the EZ was particularly affected by the riots in France, but sentiment in Germany also declined slightly. This, along with US surveys, reveals greater caution in relation to spending.

## Services PMI: selected regions

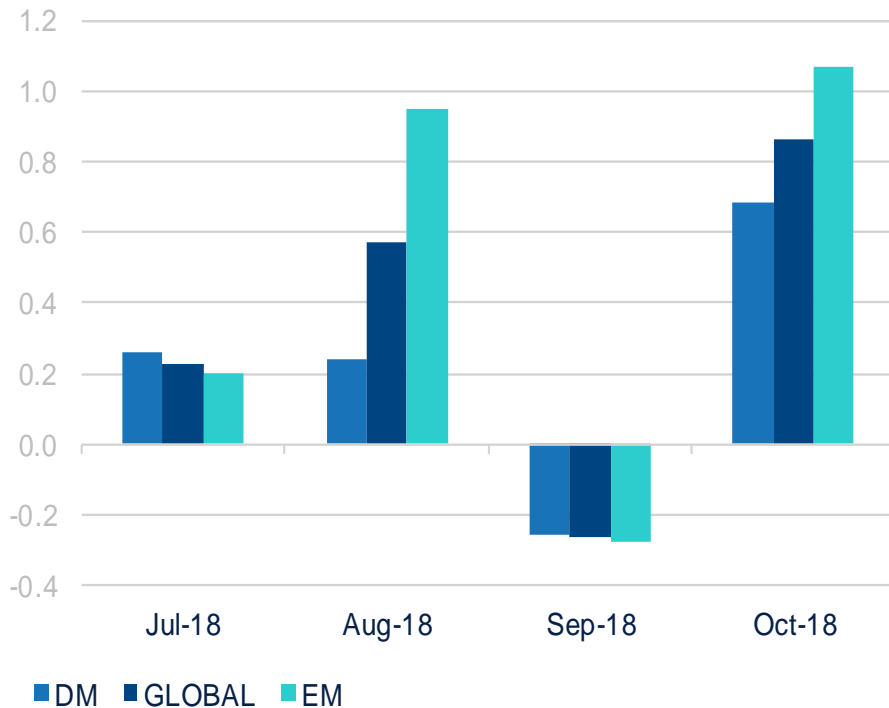
(Level  $\pm$  50)



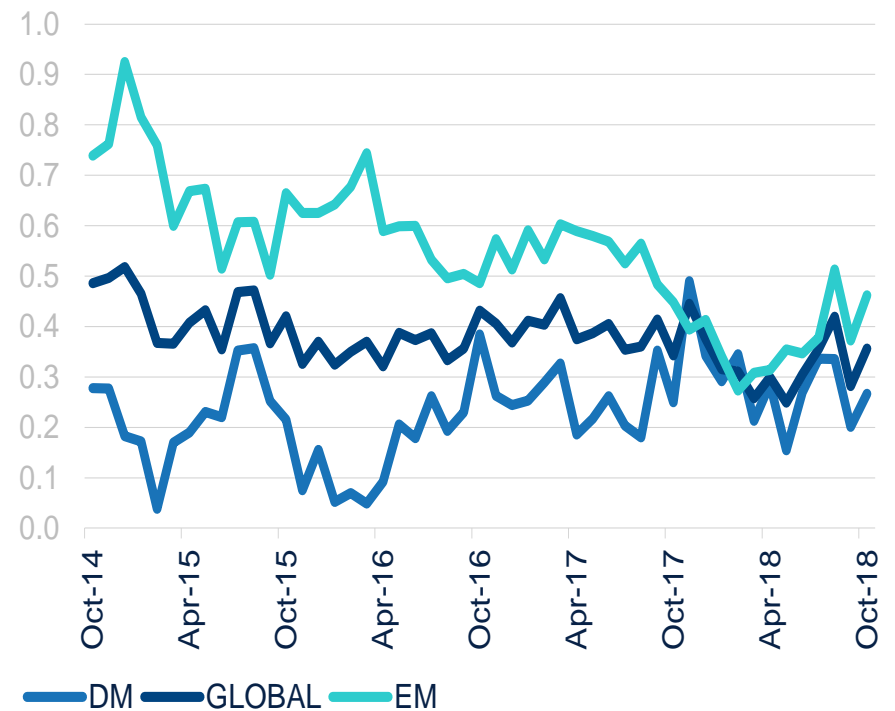
# Retail sales bounced back in October, reverting September's slight drop and remaining solid

These figures along with the resilience of consumers' confidence and lower inflation suggest that private consumption should remain as the main driver of growth across the board.

**World retail sales**  
(%, MoM)



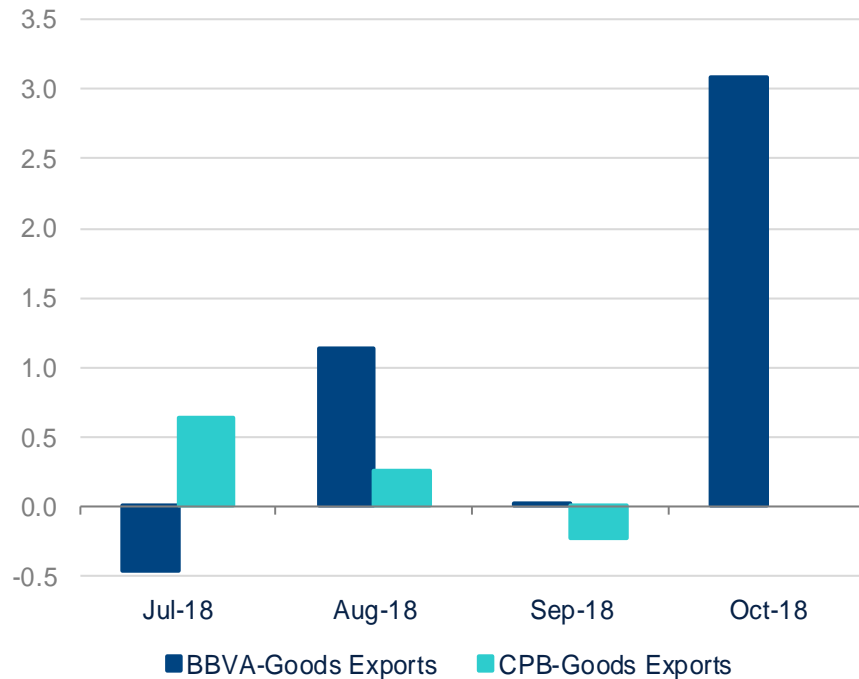
**World retail sales**  
(%, 6-month moving average)



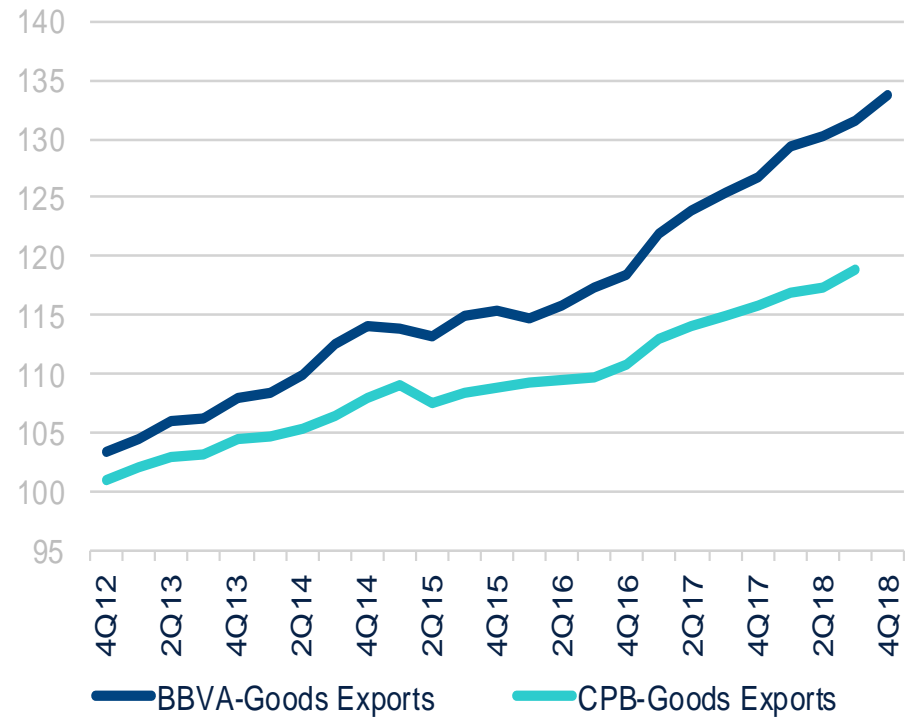
# Global exports kept rising in October driven by Asia and Latam, but there is a gloomier outlook looking ahead

Goods' exports might have been driven by the front-loading of exports from China, but (very limited) data for November suggest a gloomier outlook ahead due to protectionism and slowing global demand.

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



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

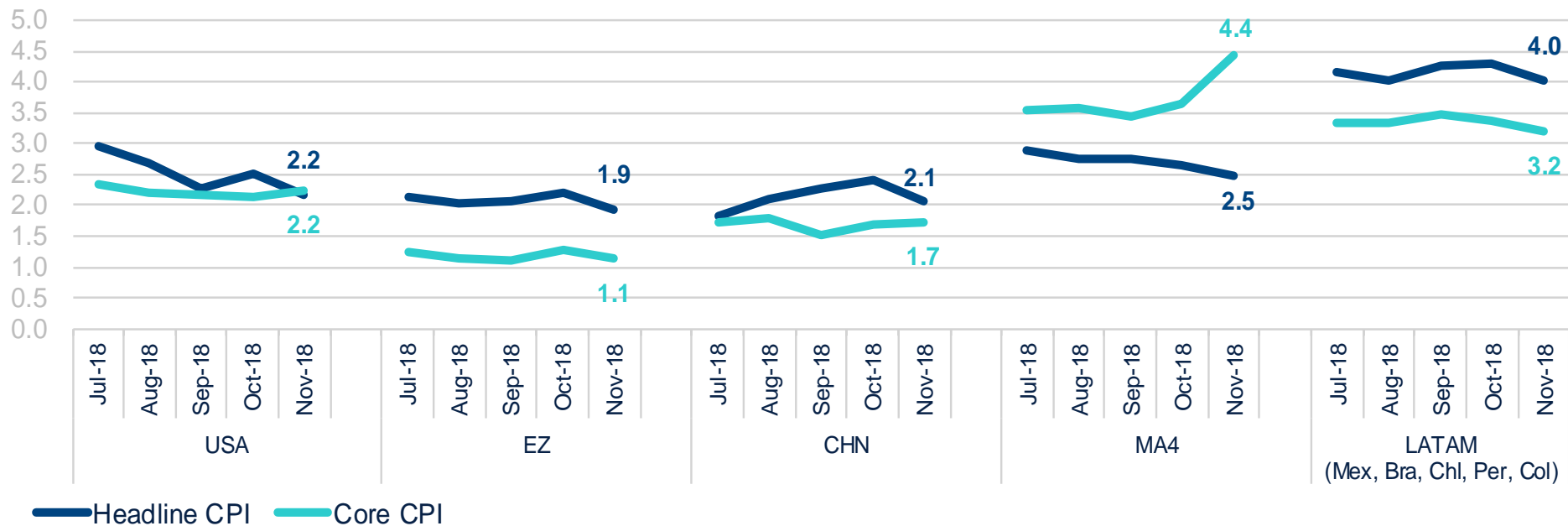


# Headline inflation edged down across the board in November while core inflation only picked up in Asia

Headline could dip further following the drop in oil prices. Meanwhile, core inflation seems to have stalled or even decreased everywhere but in major Asian countries (ex China).

## Headline and core inflation: selected regions

(%, YoY)





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