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BBVA Research

Global Economic Watch

February 2019

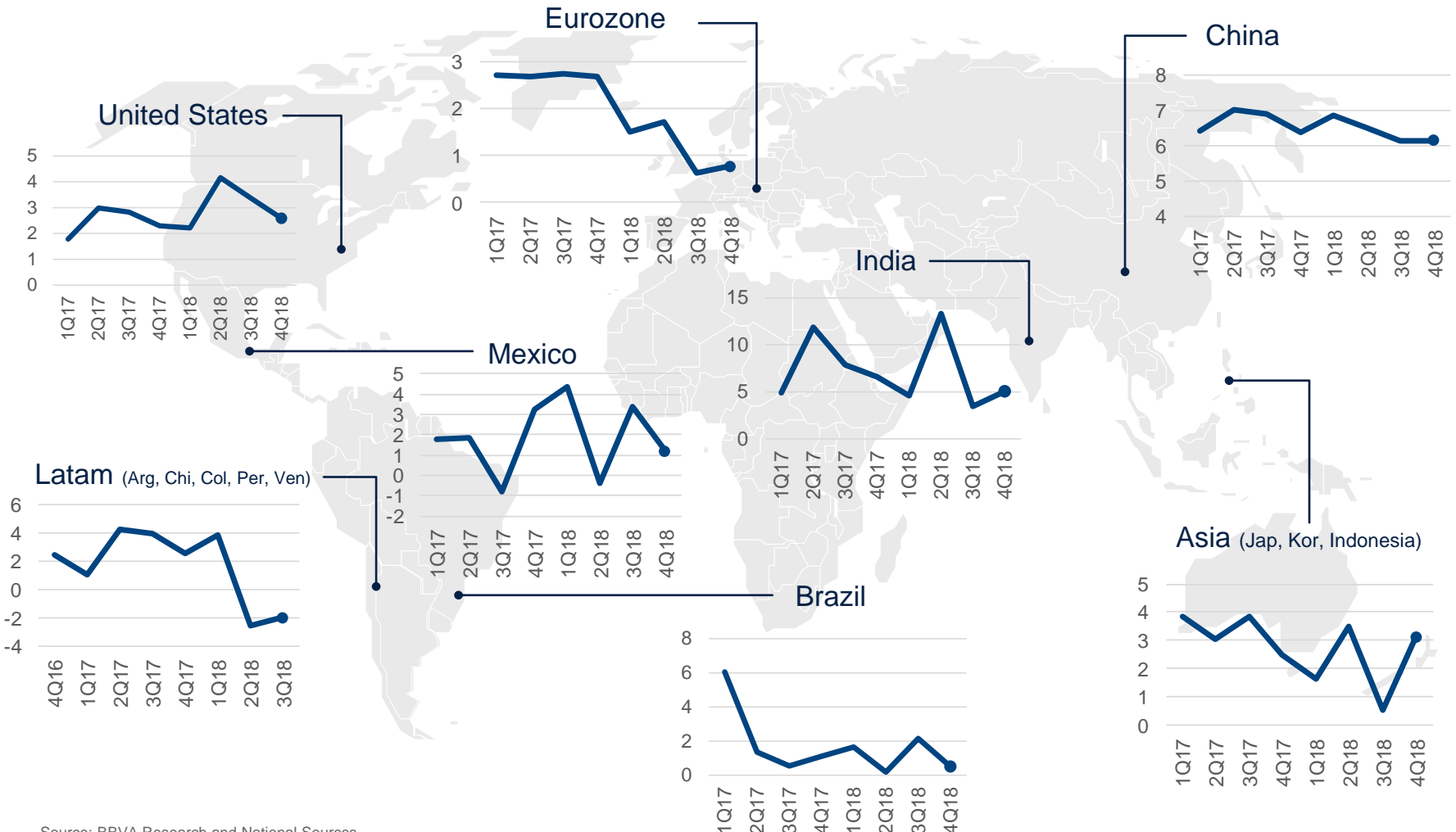
Creando Oportunidades

The slowdown in activity continued in December but February's confidence seems to show that a recovery during 1Q19 is possible

- Our BBVA-GAIN model shows a slight sequential pick up in global growth in 4Q18 to 0.8%, signaling stabilization, **although still at weak levels and trending lower**. Eurozone and China continue to lose steam, US has so far held up well but showing early signs of stress, while Latam is recovering, albeit more slowly.
- **Factory activity indicators** such as IP and PMIs in major economies **point towards a deepening manufacturing downturn** dragged mainly by slowing global demand but also lingering effects of one-off country and sector specific factors, such as auto-emission issues, protests, politics and Brexit in the EZ.
- **Services sector indicators have held up well amid resilient domestic demand**, led by still supportive fiscal and monetary policy as well as lower energy prices. **However, the recent weakness in retail sales highlights increasing risks of spillover effects from manufacturing** slowdown on to broader economic sentiment.
- **We maintain our global growth forecasts at 3.5% in 2019**. Global growth momentum to stay subdued in early 2019 amid persistence of uncertainties and financial market volatility.
- **Protectionist threat, the increased likelihood of recession in the US and greater adjustment to growth in China** remain the most significant risks in the forecast horizon.

Global growth saw a slight sequential pick up in 4Q18. It suggests that the slowdown stabilized although still at weak levels and trending lower.

GDP growth (%, SAAR)



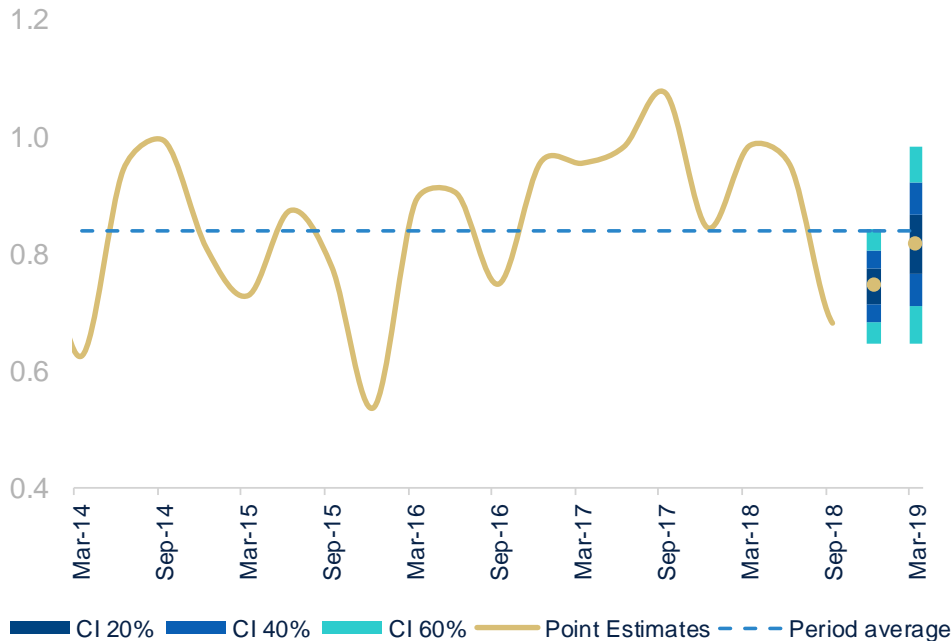
Source: BBVA Research and National Sources

Global growth momentum to stay subdued in early 2019, with factory activity losing steam amid waning external support and elevated uncertainty

Our **BBVA-GAIN model** suggests a slight rebound in **4Q18 to around 0.8% qoq**, amid fading one-off sector and country specific effects, but growth is unlikely to return to the strong rates of the last two years.

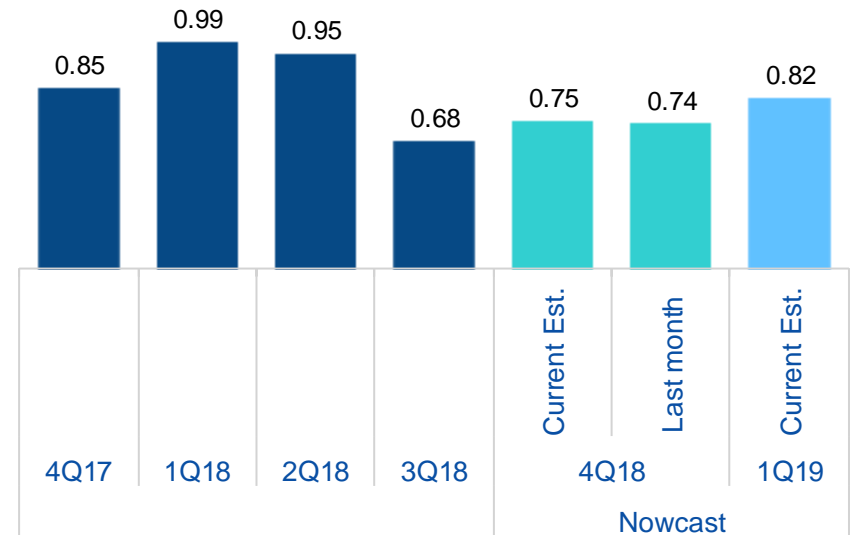
World GDP growth

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



World GDP Growth

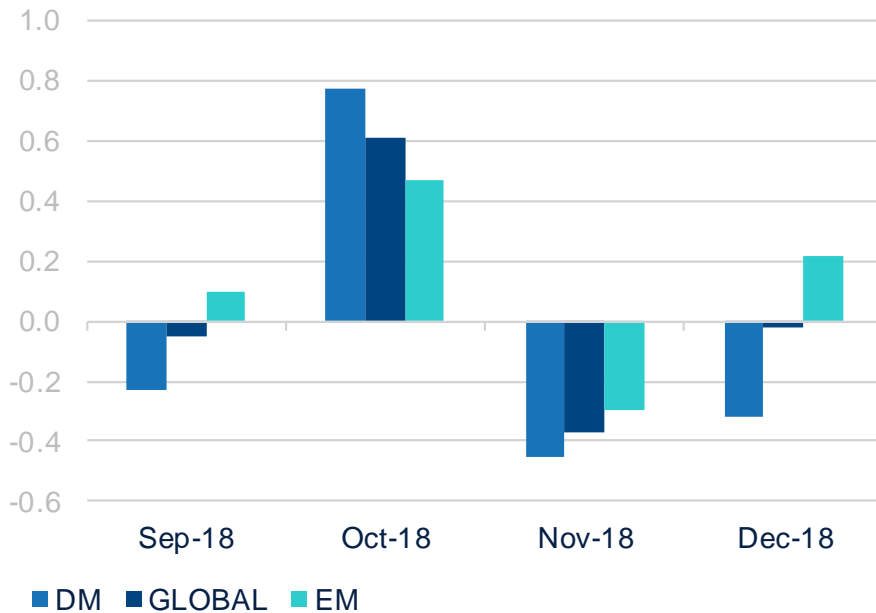
(Forecast based on BBVA-GAIN (%), QoQ)



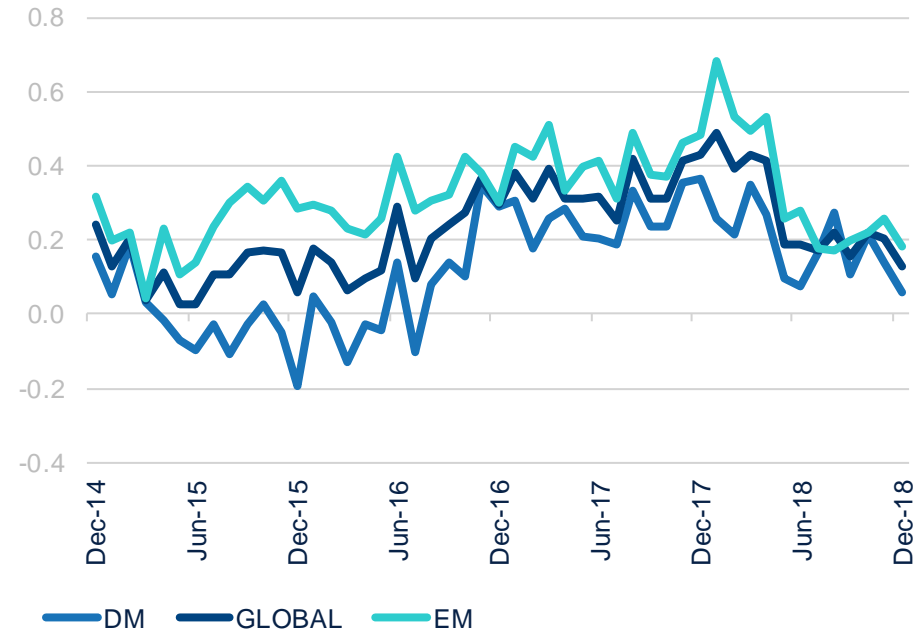
Industrial activity recovered in EMs but continued to contract in DMs, particularly in the Eurozone, towards the end of last year

Industrial production growth remained **negative** in developed economies, particularly in Eurozone, led by weak external demand as well as country and sector specific effects

World industrial production (%, MoM)



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

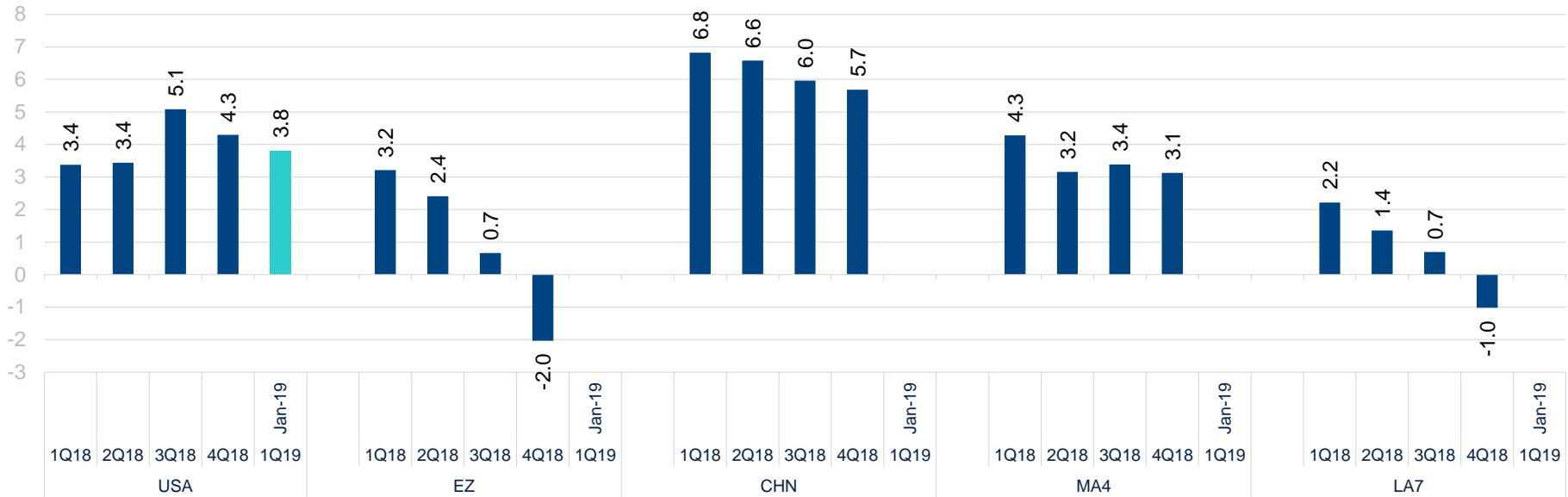


Industrial production decelerated in all major regions during 4Q18

EZ and LATAM saw contraction in the pace industrial activity during 4Q18. In US, industrial activity lost pace early this year alongside weak retail sales and durable goods orders.

World industrial production: selected regions

(%, YoY)

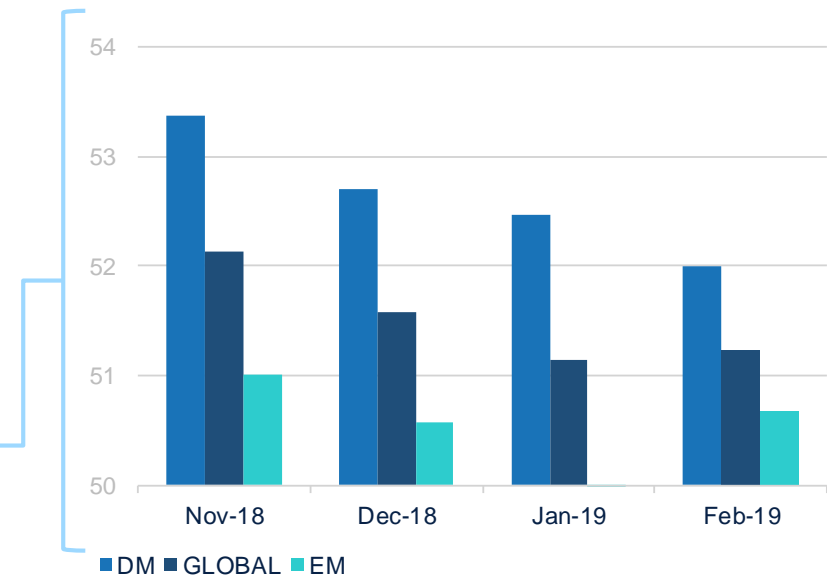
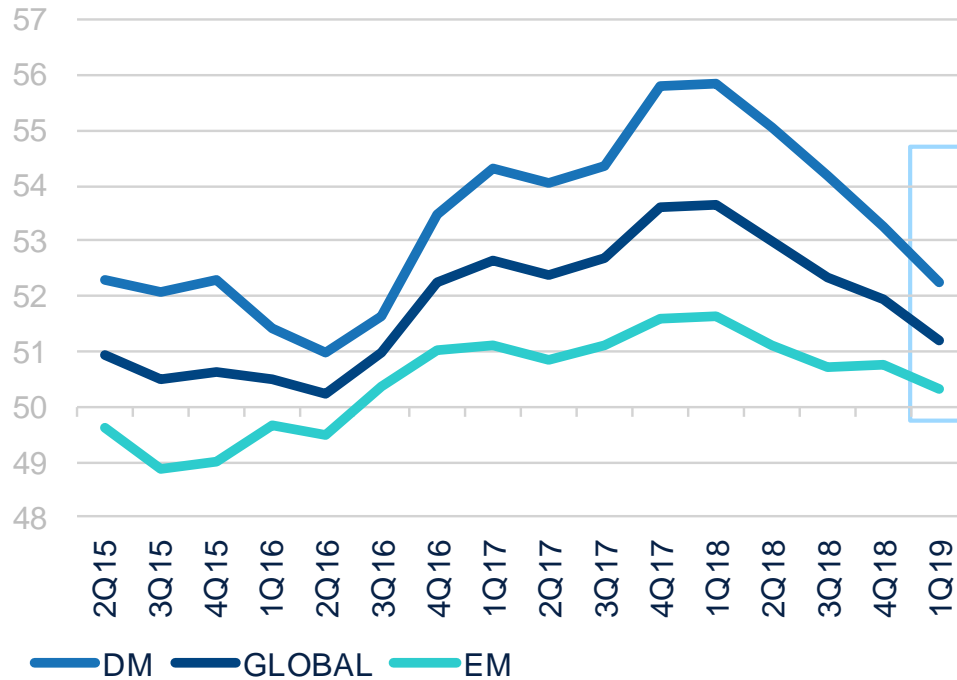


Recent PMI surveys suggest a deepening manufacturing downturn in advanced economies and stabilization in developing countries

Dragged mainly by slowing global demand, developed economy manufacturing PMIs continued to trend lower in February but stabilized in most developing countries.

World manufacturing PMI. Data available so far for around 60% of develop economies, results might change as all data are released

(Level ± 50)

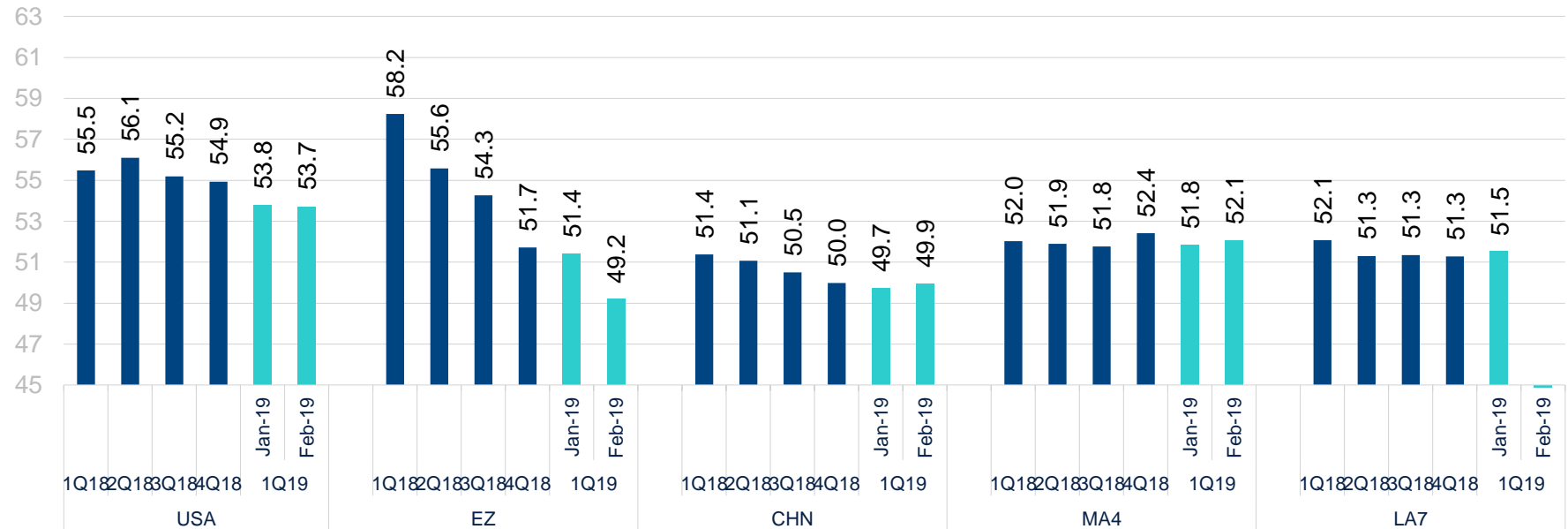


PMI indicators suggest manufacturing slowdown most pronounced in the EZ but is stabilizing in the rest of areas

Manufacturing PMIs for EZ and China have slipped into contraction territory. In the rest of Asia Pacific and the U.S., PMIs continue to suggest expansion in manufacturing activity.

Manufacturing PMI: selected regions

(Level \pm 50)

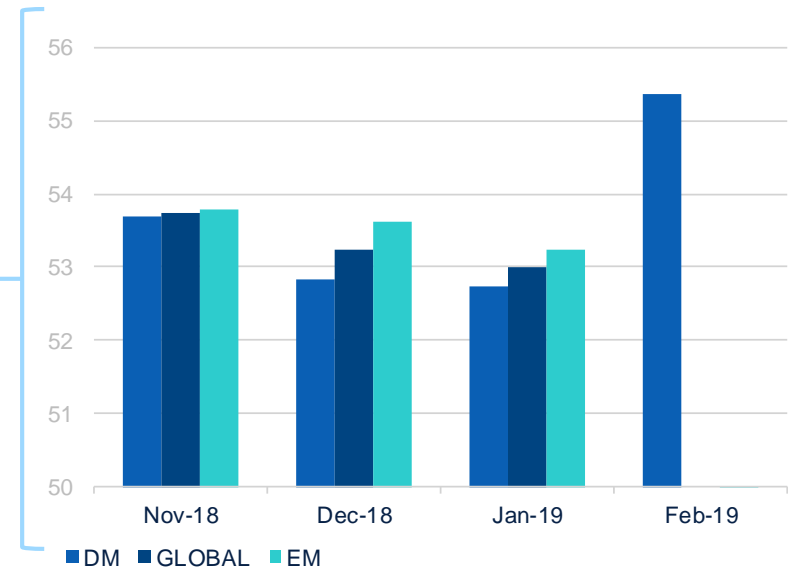
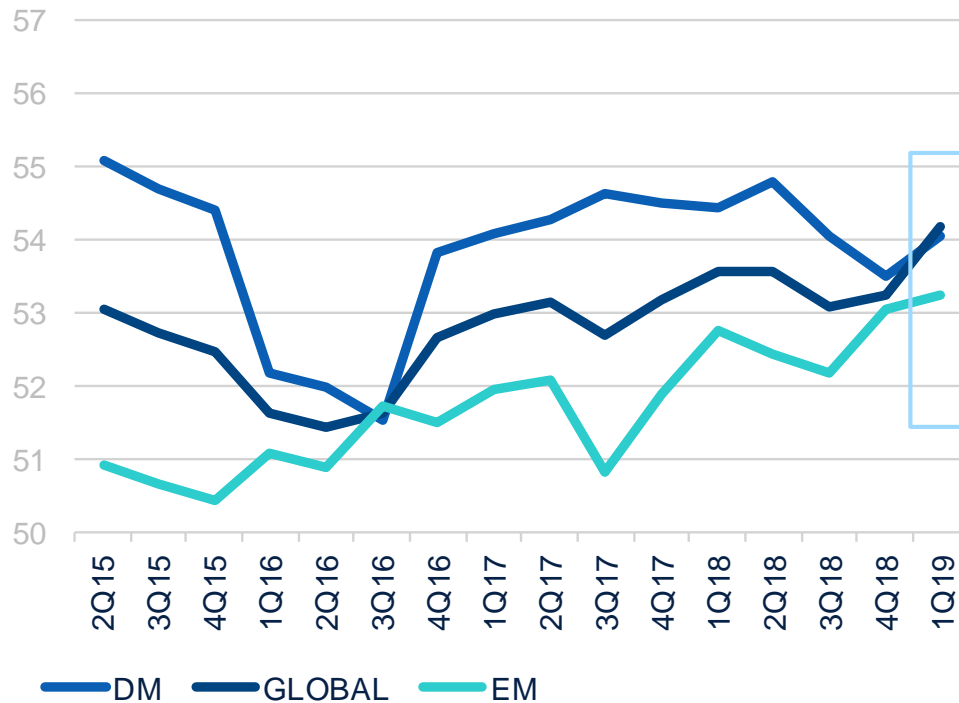


Latest PMI surveys have reported a pickup in services sector activity during February

Services sector expansion provides some cushion to waning global growth momentum, although the risk of spillovers from manufacturing sector woes to services have increased

World services PMI. Data available so far for around 60% of develop economies, results might change as all data are released

(Level ± 50)

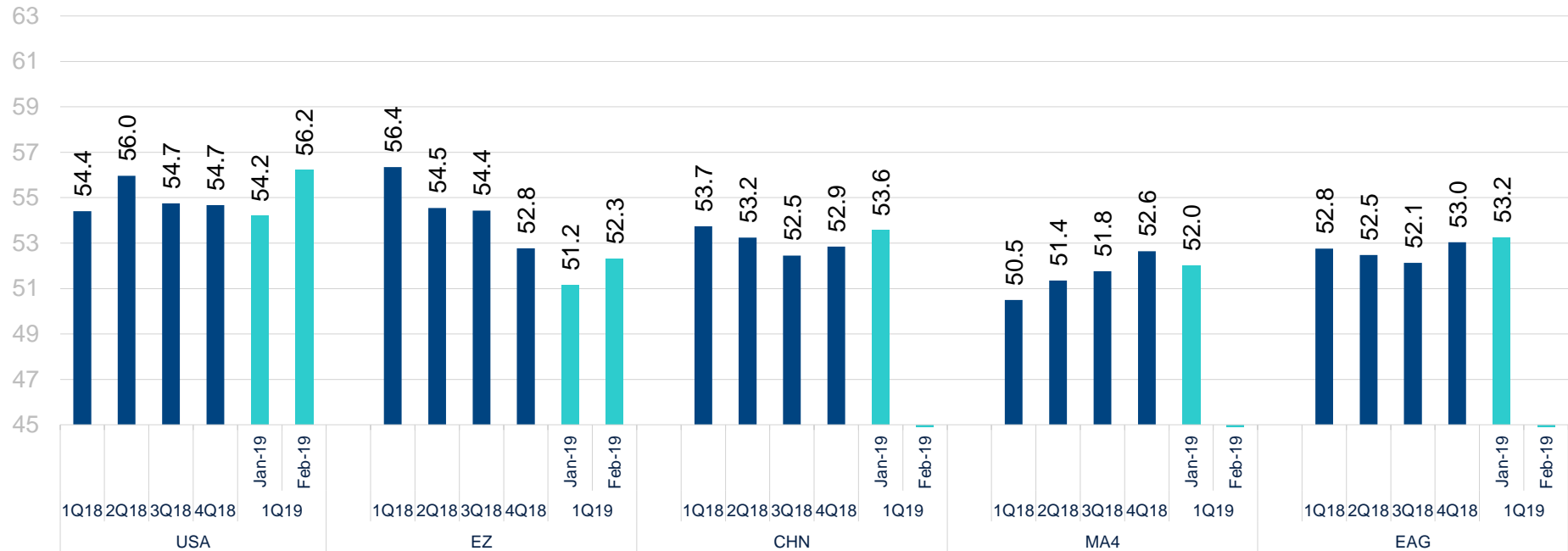


Broad-based rebound in services PMIs bodes well for global growth

Services sector activity has held up well across most economies in wake of resilient domestic demand, with **notable rebounds in the US and the Eurozone in February**, but also in China

Services PMI: selected regions

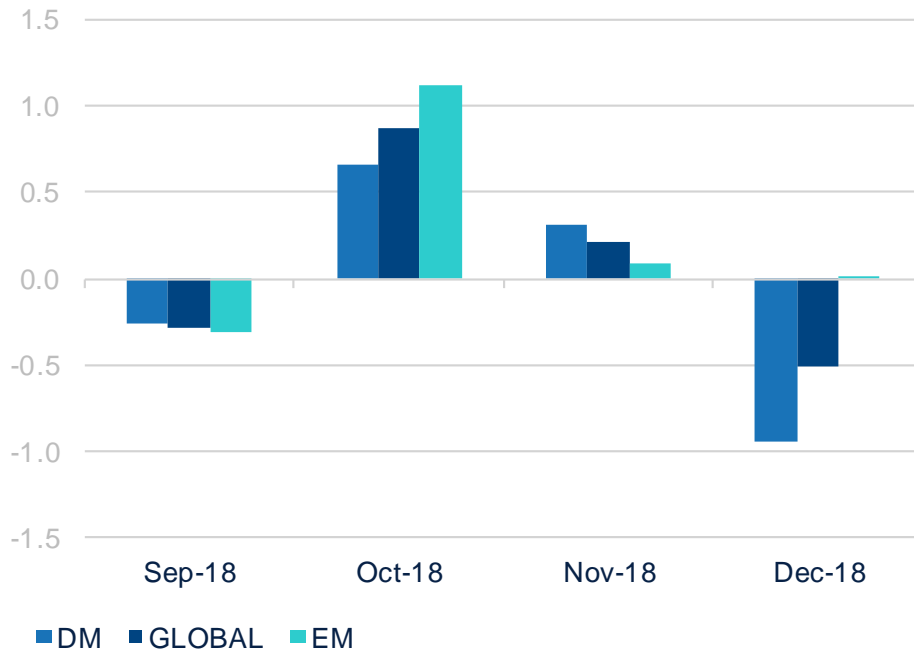
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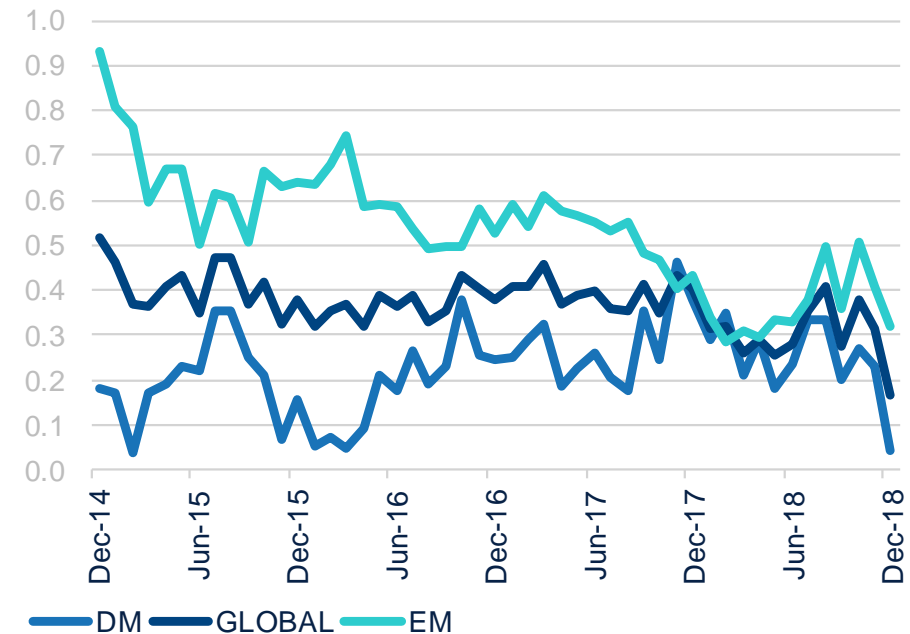
Recent pullback in retail sales, although seasonal, highlights risks of spillover effects from manufacturing slowdown

Lingering concerns regarding the global slowdown, tariff disputes and political uncertainty could increasingly weigh on economic sentiment and prove a drag on still resilient domestic demand.

World retail sales
(%, MoM)



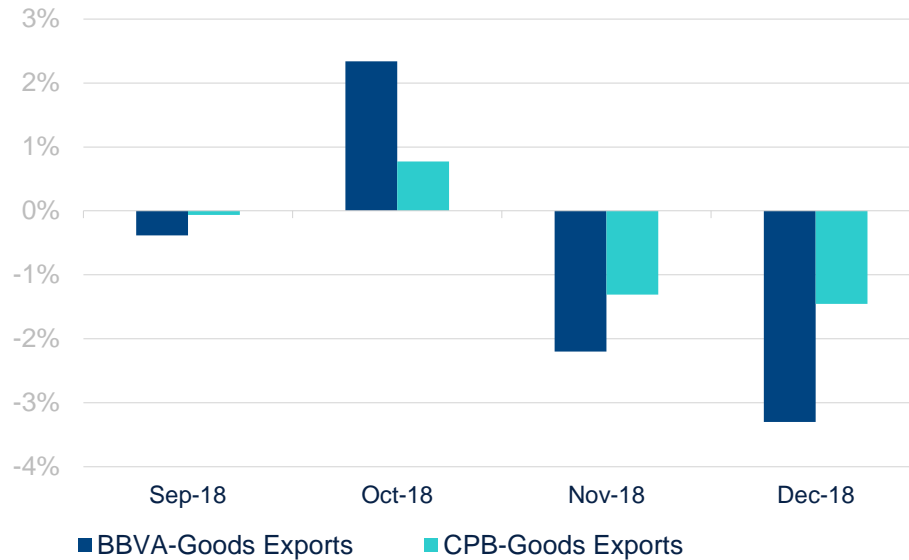
World retail sales
(%, 6-month moving average)



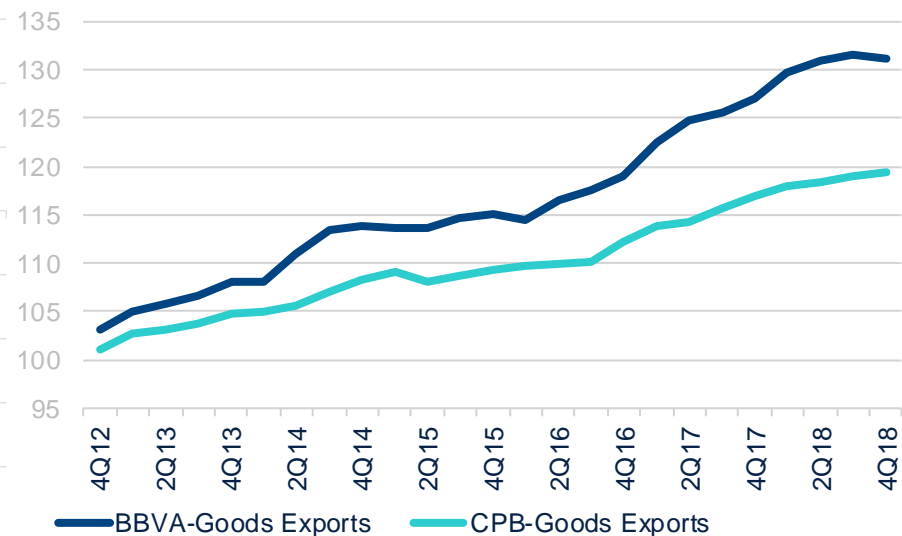
Protectionist threat and ensuing trade tariffs have hit global exports for the second consecutive month

Despite progress in US-China trade talks, a near term recovery in global trade cycle is unlikely given a continued slowdown in China

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



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

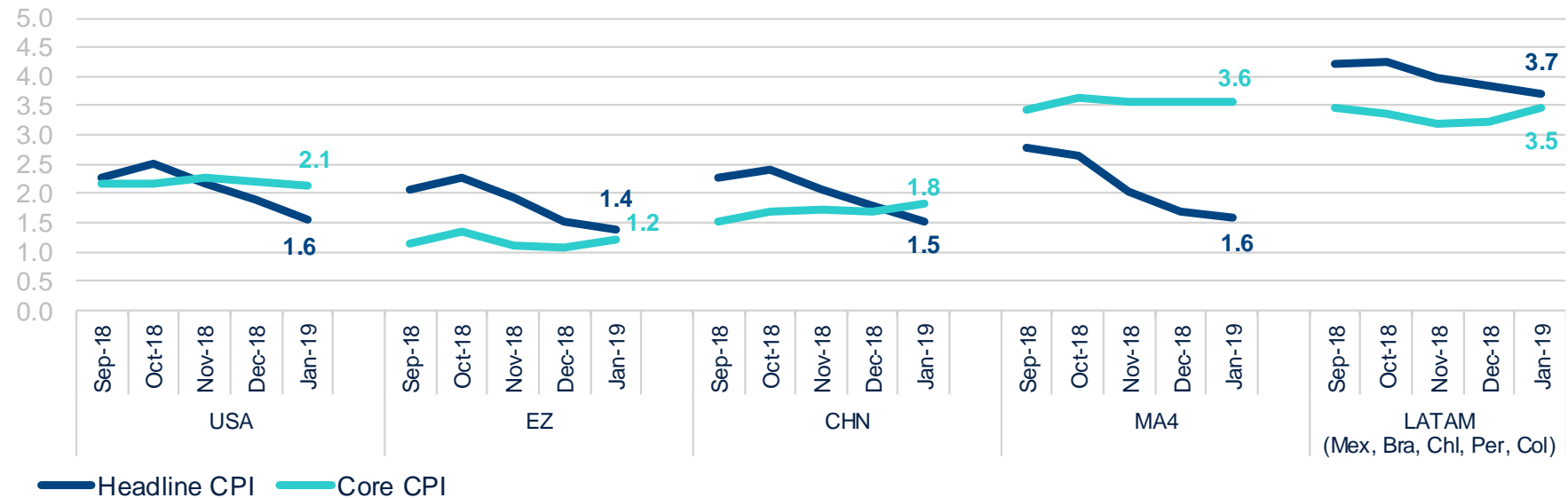


Netherlands Bureau for Economic Policy Analysis (CPB) makes a world set based on 28 developed markets and 60 emerging markets covering a 97% of world trade

Lower energy prices have weighed on headline inflation while domestic cost pressures have supported core inflation

Headline and core inflation: selected regions

(%, YoY)



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