Global Economy

Slowdown, uncertainty, measures: Is it all starting again?

Expansión (Spain)

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Global economics froze over winter, with lower growth figures and tremors in financial markets. Markets struck by the uncertainties regarding the strength of the cycle, the next steps in global trade conflicts, or about what exonerations will be put in place, and how, by some central banks eager for less prominence in support of growth in order to be able to limit financial vulnerabilities and gain room for manoeuvre for the next adjustment. In this situation, where debt is also high and can only rise, it seems natural for financial conditions to become stressed, and for volatility to rise in a process that, if not stopped, will be fed back to the point of reducing growth and starting over.

The central banks were the first to try to break this succession: first the Fed and then the ECB, but also the People's Bank of China. In its communications, the Fed now emphasises the need for patience before possible rate increases given the downwards review of its activity forecasts in the US and the emphasis on global uncertainties. This patience translates as a delay in and moderation of expectations for rate increases, without excluding the possibility of more in this cycle, and as earlier reversal of quantitative easing.

In Europe, the deterioration of growth expectations has been more pronounced, incorporating the effect of negative surprises that appear less transitory in an area especially sensitive to the development of trade with the US and China. The ECB has reported that interest rates will remain low (zero for refinancing, negative for deposits) for longer than previously expected, and we at BBVA Research believe that this will continue well beyond the end of 2019. This is coupled with the emphasis on the ability to act, if necessary, to ensure price stability, both with the new lending facility to encourage corporate loans and with the references to mitigating the effect of negative rates on bank profitability.

Finally, but not with less intensity (quite the opposite), the Chinese authorities are again embarking on a combined fiscal and monetary drive to compensate both the restraining effect that previous measures to reduce financial risks had on growth, and the negative effect of the trade war with the US. These have so far been of tolerable intensity and resolution prospects are favourable.

Given the registered slowdown and support measures in place, BBVA Research lowers its 2019 global growth forecast by 0.1 to 3.4%, highlighting the slowdown since 2018 (3.8%). The 2020 forecast is maintained at 3.4%, which is slightly below the average global growth over the last three decades (3.6%). This is a limited slowdown scenario, with Europe emerging from the slowdown in 2020. We cannot even exclude the possibility of a surprise global upswing, if the massive support of easing policies in China is more effective than expected. However, the scenario clearly shows a downwards trend, its observance requires that probability risks by definition not exceeding 50% are still registered, but reduced so much as to be negligible. Among all this, we highlight the possibility of: Chinese growth disappointing either due to the ineffectiveness of policies or due to the impact of financial vulnerabilities arising from high corporate debt; a new wave of protective measures being created due to the failure of the ongoing negotiations between China and the US or due to the emergence of new areas of disagreement (not unlikely); and finally, a no-deal Brexit being the source of short-term financial turbulence and of medium- and long-term disruptions. And this, in a growth cycle that is already considered mature by historical standards, with high debt levels and in the midst of a digital transformation that, although clearly a positive element, also increases uncertainty about the effects, especially in the short term, of the necessary adjustment processes.

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