Global Economy

European resilience

El País (Spain)

Miguel Jiménez

For many months now, there have been doubts surrounding both the global and, in particular, the European economy, given the emergence of a potential trend towards lower growth. As with all cycle changes, uncertainty is high and medium-term forecasting is difficult. We know what the factors behind the recent weakness are, but what we don't know is what the relative impact of each of them has been and how they will evolve in the future.

A key force behind the global slowdown observed during much of last year was the deceleration in world trade brought about, to a large extent, by the protectionist pressures introduced by the US administration. In recent quarters, all global indicators have pointed towards clear weakness–linked to trade–in the industrial sector, but much greater resilience in the services sector and in terms of consumption and employment.

Another important factor contributing to global fragility is the slowdown of the Chinese economy following very high growth rates. It is difficult to know to what extent this is due to protectionist pressures, to high debt levels among Chinese companies, or to structural exhaustion factors. There is, however, no doubt that the issues relating to both global trade and weakness in Asia have been reflected in lower European exports, particularly from countries with large industrial bases and a vocation for exporting, such as Germany and Italy.

Idiosyncratic factors have also played a major role in the European slowdown, including environmental regulation in the automotive sector, doubts around Brexit, commotion surrounding fiscal policy in Italy, and protests in France. Almost all of these factors have had a longer-lasting impact than expected. In fact, one of the greatest mysteries surrounding the current situation is why the German economy, which is built on very solid foundations, is stalling.

Despite all of these uncertainties, our outlook for the eurozone economy is relatively optimistic. There are some green shoots in the global economy, as seen in recent data from China, with whom Trump is rushing to finalise a trade agreement. Moreover, Brexit has again been delayed, with significant steps being taken towards a "softer" solution, and central banks have reaffirmed that they will support the recovery. All things considered, GDP growth is expected to be low this year (1%), but a certain level of recovery (1.3%–around the potential rate) is foreseen by 2020.

Perhaps against a backdrop of Europessimism that surrounds us and never goes out of fashion, Europe is showing its resilience in the face of adverse events, as we have seen once again this week following the dramatic scenes in Paris.

BBVA Research

DISCLAIMER

This document has been prepared by BBVA Research Department. It is provided for information purposes only and expresses data, opinions or estimations regarding the date of issue of the report, prepared by BBVA or obtained from or based on sources we consider to be reliable, and have not been independently verified by BBVA. Therefore, BBVA offers no warranty, either express or implicit, regarding its accuracy, integrity or correctness.

Any estimations this document may contain have been undertaken according to generally accepted methodologies and should be considered as forecasts or projections. Results obtained in the past, either positive or negative, are no guarantee of future performance.

This document and its contents are subject to changes without prior notice depending on variables such as the economic context or market fluctuations. BBVA is not responsible for updating these contents or for giving notice of such changes.

BBVA accepts no liability for any loss, direct or indirect, that may result from the use of this document or its contents.

This document and its contents do not constitute an offer, invitation or solicitation to purchase, divest or enter into any interest in financial assets or instruments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

With regard to investment in financial assets related to economic variables this document may cover, readers should be aware that under no circumstances should they base their investment decisions on the information contained in this document. Those persons or entities offering investment products to these potential investors are legally required to provide the information needed for them to take an appropriate investment decision.

ENQUIRIES TO:
BBVA Research: Calle Azul, 4 Edificio La Vela, Floors 4 & 5 28050 Madrid, Spain
Tel. +34 91 374 60 00 and +34 91 537 70 00 / Fax (+34) 91 374 25
bbvaresearch@bbva.com www.bbvaresearch.com