

Global Economic Watch

September 2019

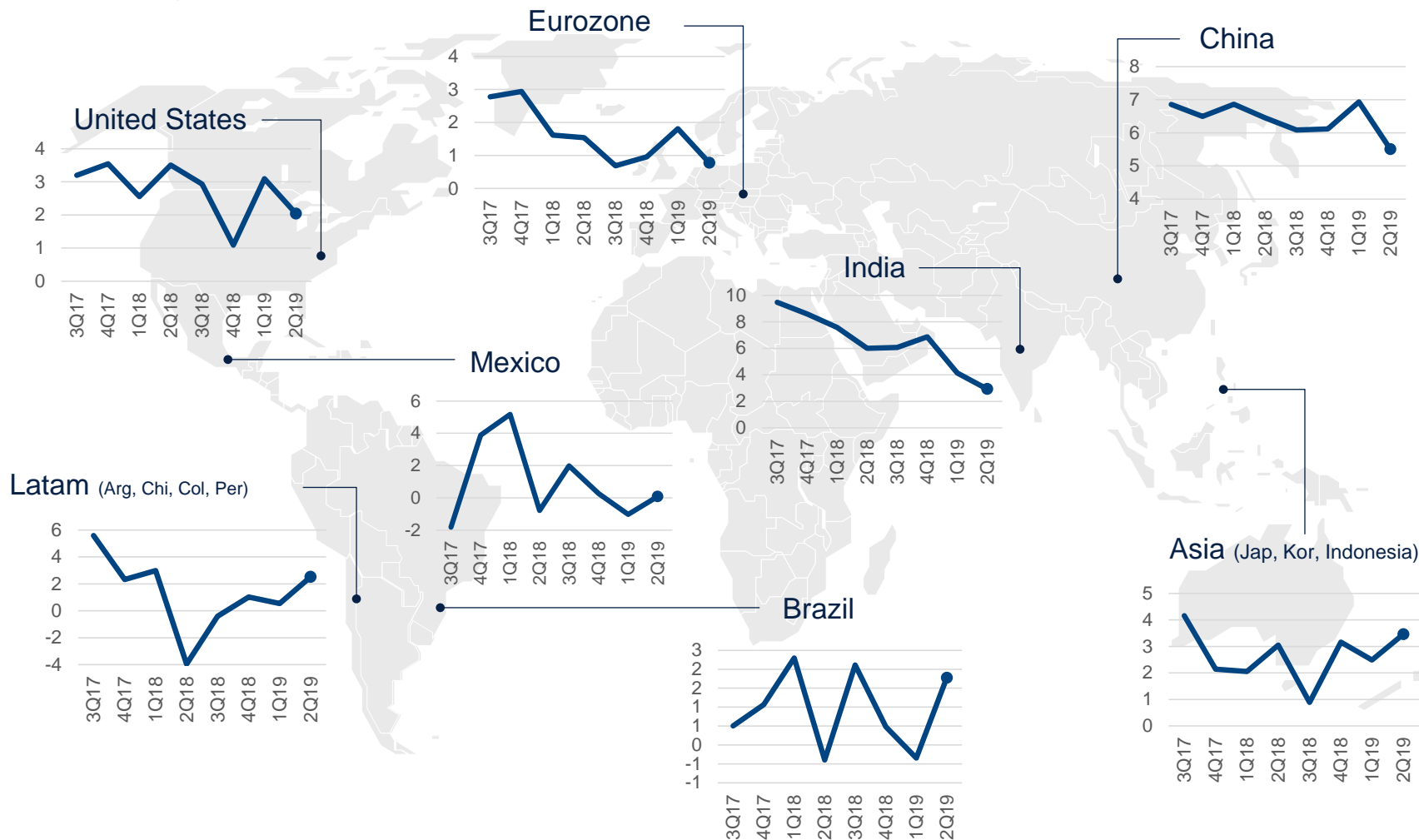
Global | Weaker global momentum extends into 2H19 driven by China and the EZ

- Global growth slowed markedly in 2Q19, in line with expectations, with weakening signs stemming from China and the Eurozone, especially after the slight contraction in German GDP. Increasing trade tensions and higher uncertainty are weighing on global trade and the industrial sector, but are also reflected in investment and slowing domestic demand.
- Our BBVA-GAIN model suggests that weaker momentum extends into 3Q19 with global GDP growth at around an annualized rate of 2.8% (from around 3.5% on average in 2016-18).
- Disappointing hard data up to July: The trade war escalation and higher uncertainty are weighing on the worsening of global exports and on the protracted weakness of the industrial sector across the board. The deterioration of the industrial sector is more marked in the Eurozone, but it is also affecting the US and China. Beyond volatility, the strong fall of retail sales in July suggests that domestic demand could be losing momentum across regions.
- Leading confidence indicators in 3Q19 point to a gloomier outlook in coming quarters, especially in manufacturing, but declining services PMIs increase concerns about spillover effects from exports to domestic factors, especially in the Eurozone and China.
- Both headline and core inflation remain broadly steady across countries, with some signs of moderation in emerging economies and low levels in developed countries, especially in Europe. The recent spike in oil prices seems to be transitory with limited effect on consumer prices.
- Against this backdrop, central banks eased monetary measures in both developed and emerging countries, while the debate on stronger fiscal stimulus is gaining traction in some regions.

Global growth slowed markedly in 2Q19 in the US, China and the Eurozone (driven by the slight contraction in Germany)...

GDP Growth

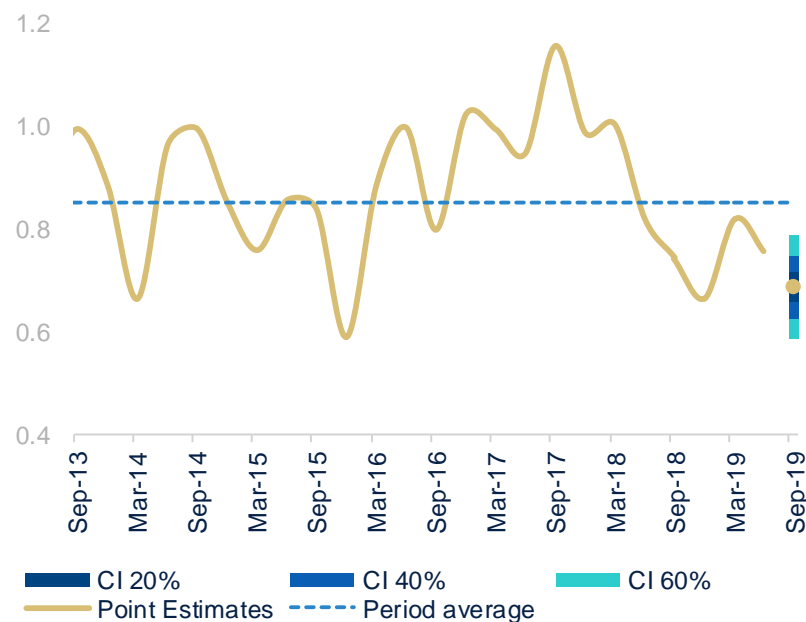
(%, SAAR)



... and weaker global momentum extends into 3Q19 to around an annualized rate of 2.8%

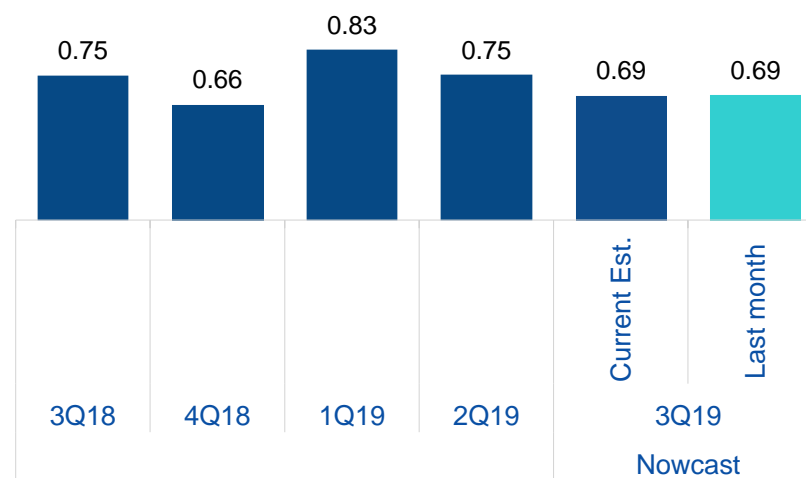
World GDP Growth

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



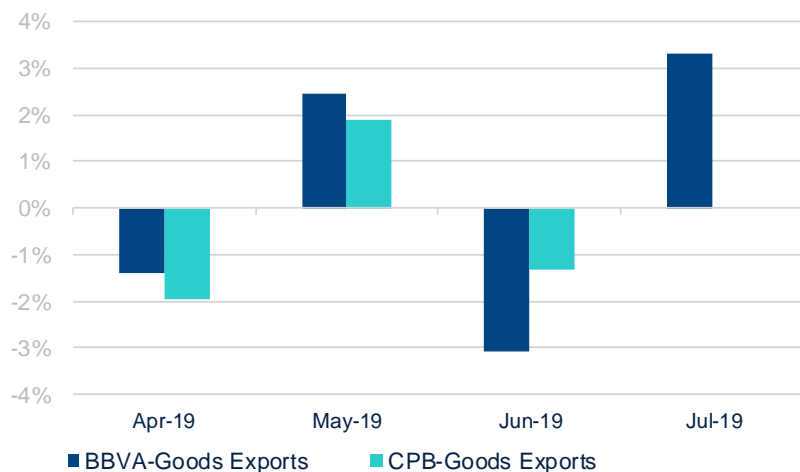
World GDP Growth

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

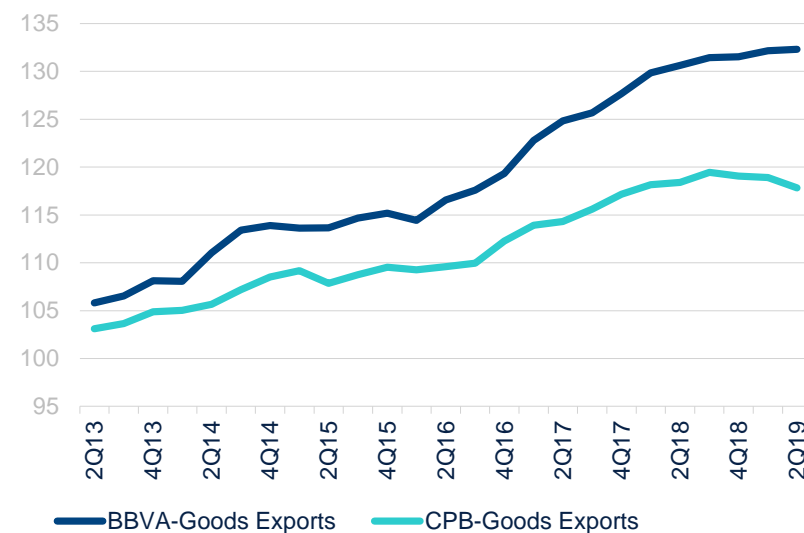


The trade war escalation and higher uncertainty are weighing on global exports...

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



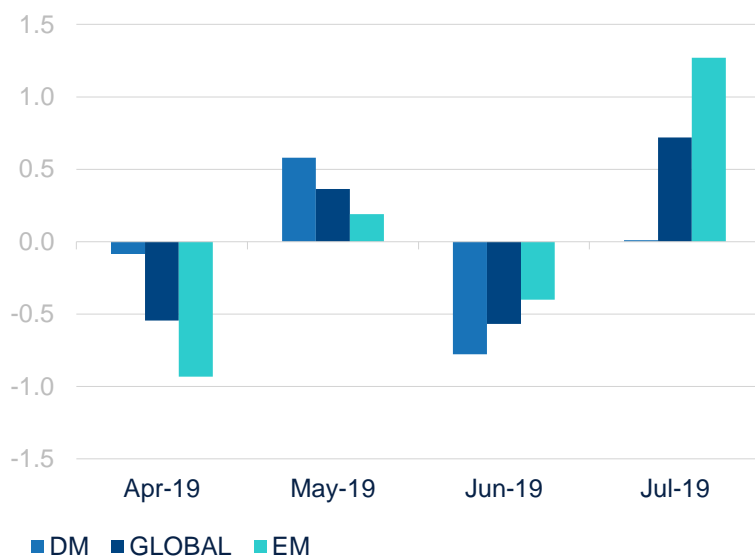
World exports of goods (Index at constant prices, Jan-12=100)



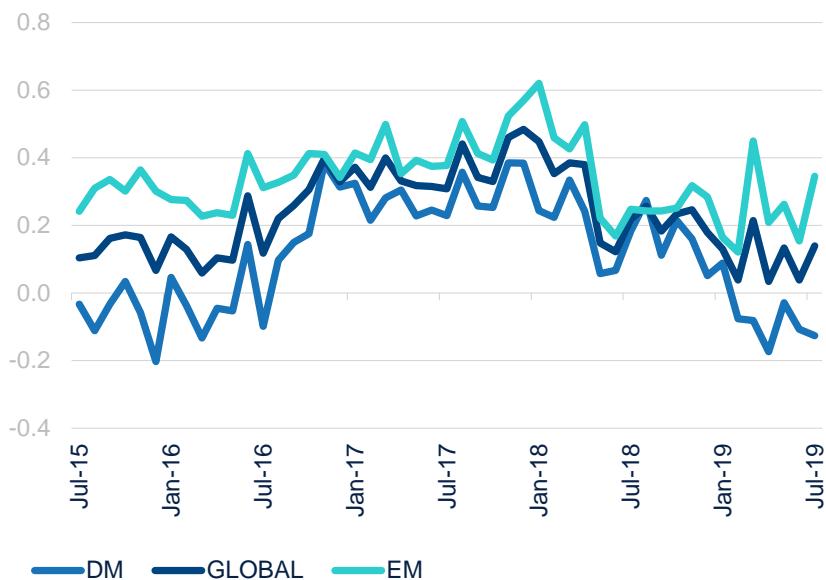
Netherlands Bureau for Economic Policy Analysis (CPB) makes a world set based on 28 developed markets and 60 emerging markets covering a 97% of world trade

... and on the protracted weakness of the industrial sector across the board, despite the improvement in July, driven also by slowing investment

World industrial production
(%, MoM)

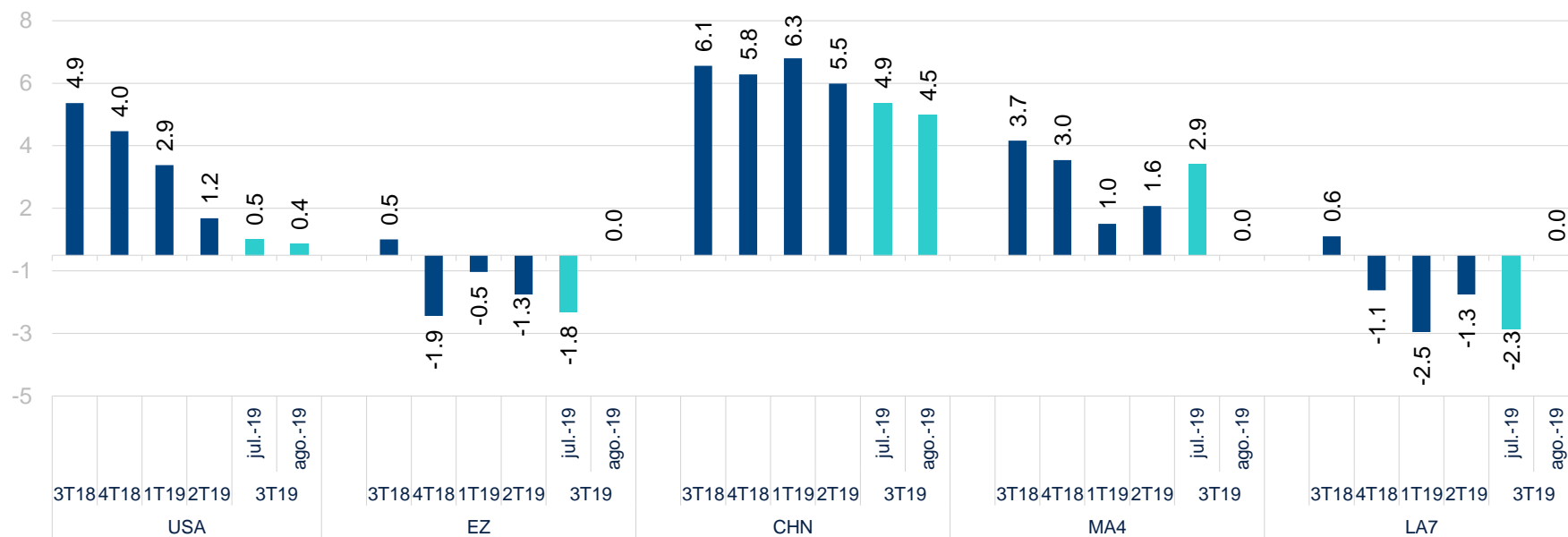


World industrial production
(%, 6-month moving average)



The deterioration of the industrial sector is more apparent in the Eurozone, but activity is also slowing rapidly in the US and China...

World industrial production: selected regions (%, YoY)

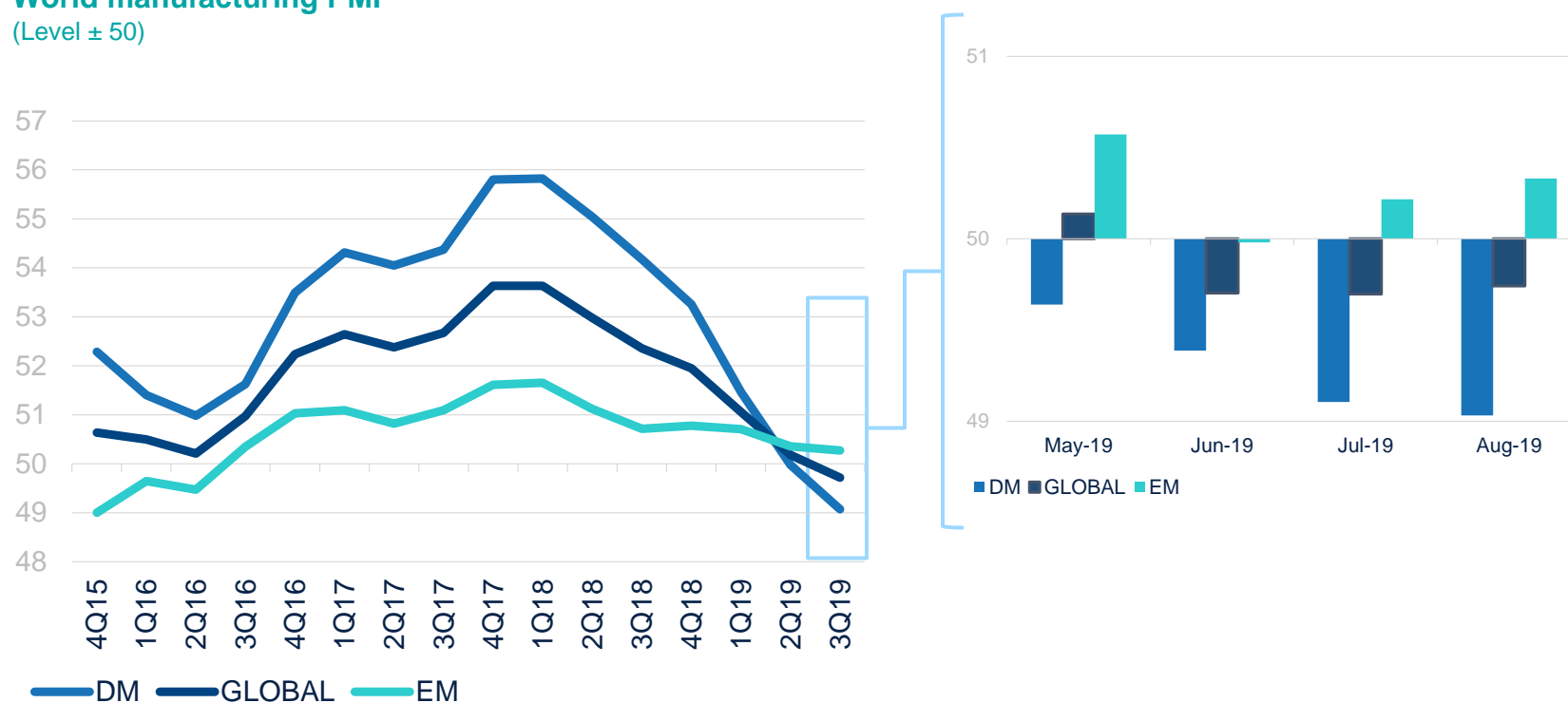


MA4: India, Indonesia, Japan and Korea

... and the worsening in manufacturing surveys points to further declines in coming months, as new orders fall

World manufacturing PMI

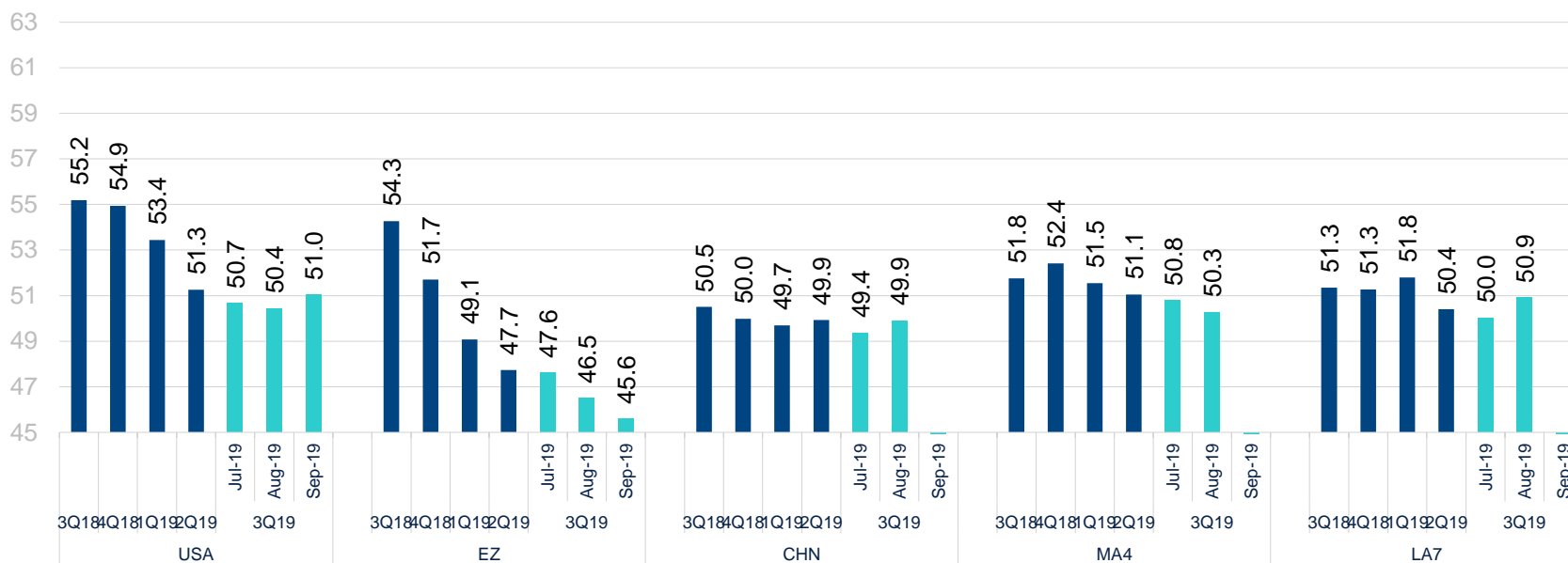
(Level \pm 50)



The outlook is especially gloomy in the Eurozone (also affected by Brexit uncertainty)

There are incipient signs of stabilization in China and the US

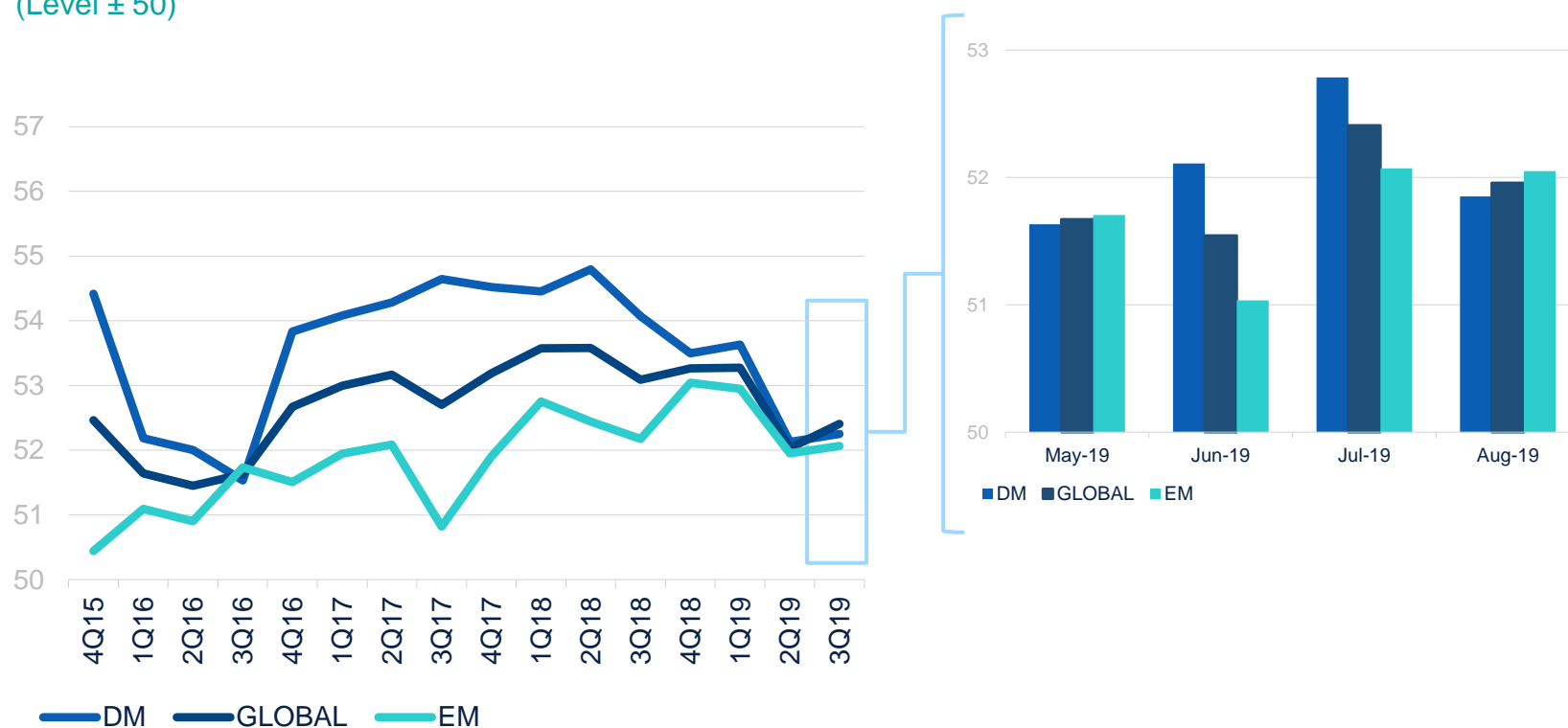
Manufacturing PMI: selected regions (Level \pm 50)



MA4: India, Indonesia, Japan and Korea

Declining services PMIs signal a more moderate expansion, increasing concerns of spillover effects to domestic factors...

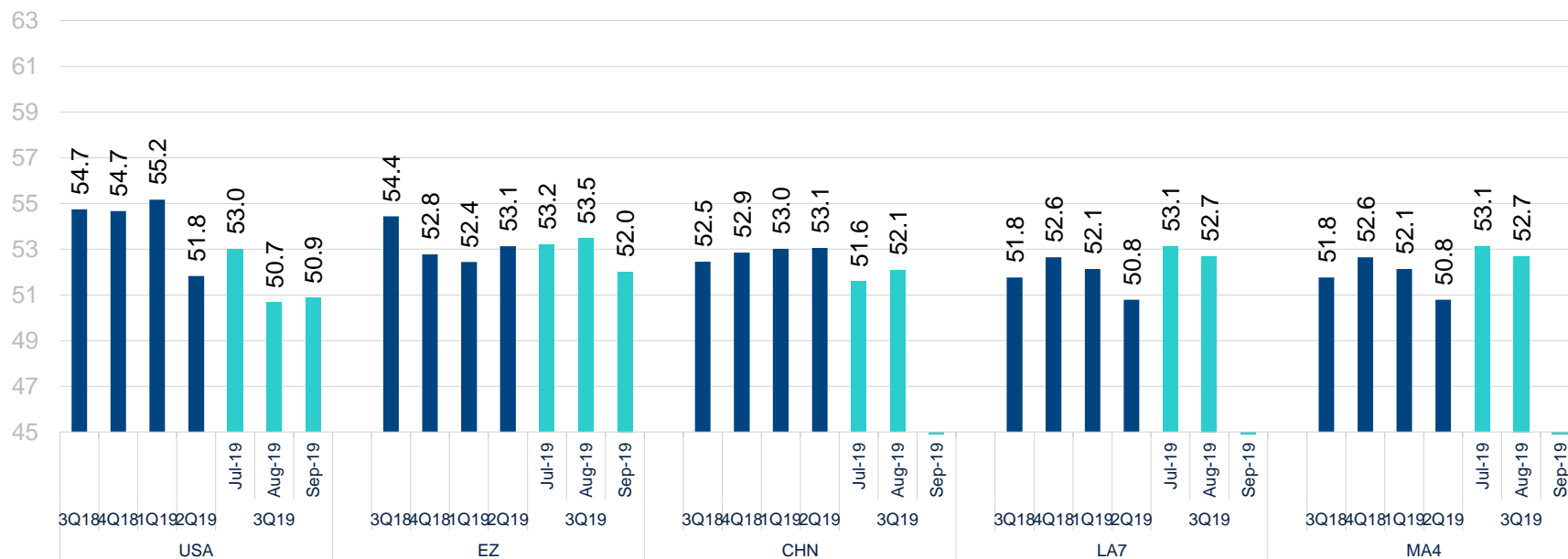
World services PMI.
(Level \pm 50)



... especially driven by the correction in the Eurozone and China, that contrasts with stabilization in the US and improvement in Asia

Services PMI: selected regions

(Level \pm 50)

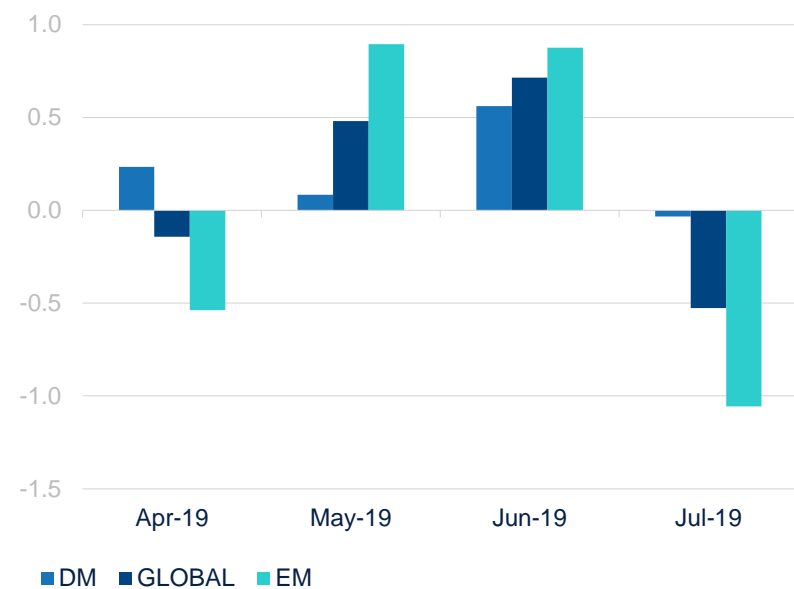


MA4: India, Indonesia, Japan and Korea

Beyond volatility, the strong fall of retail sales in July suggests that domestic demand could be losing momentum across the board

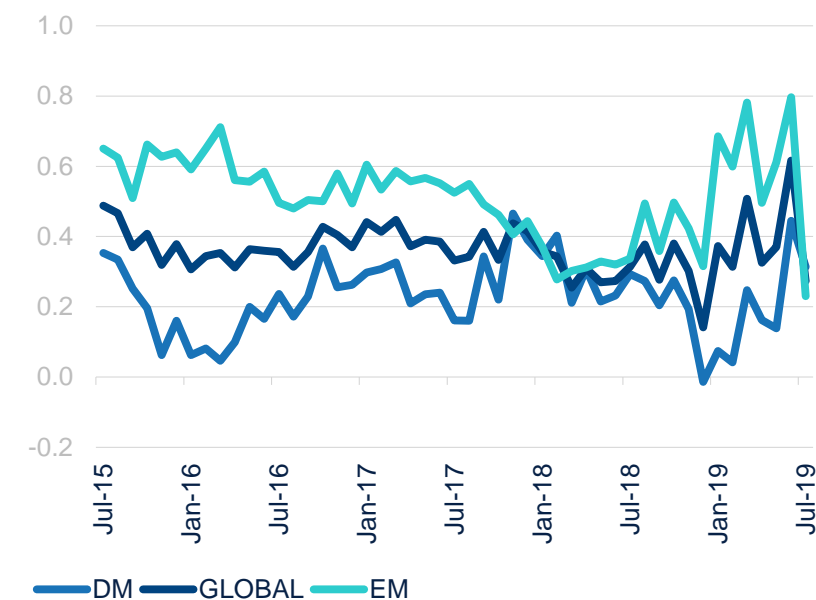
World retail sales

(%, MoM)



World retail sales

(%, 6-month moving average)

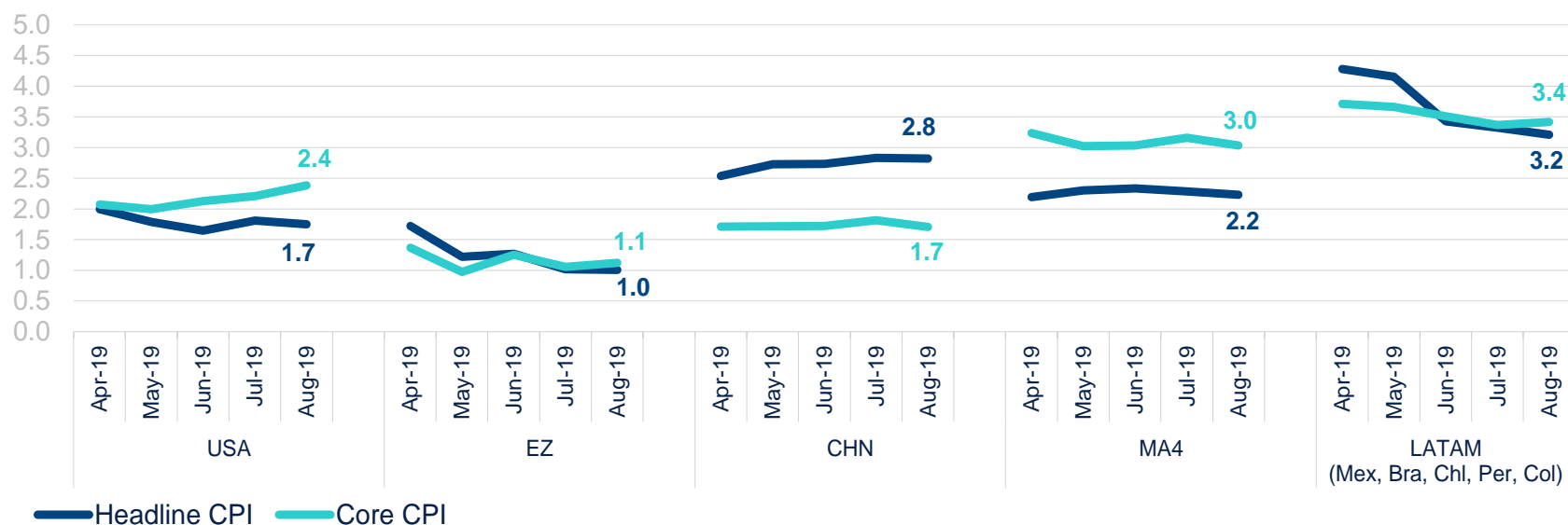


Both headline and core inflation remained relatively stable across regions, remaining at low levels in developed countries

Europe continues with very low inflation. The recent increase in oil prices (which does not appear to be permanent) could modify the outlook of headline inflation in coming months

Headline and core inflation: selected regions

(%, YoY)



MA4: India, Indonesia, Japan and Korea

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