

GLOBAL OUTLOOK

ECONOMIC WATCH

May 2017



Summary: Global growth is still gaining momentum in 2Q17, but there are some signs of stabilisation

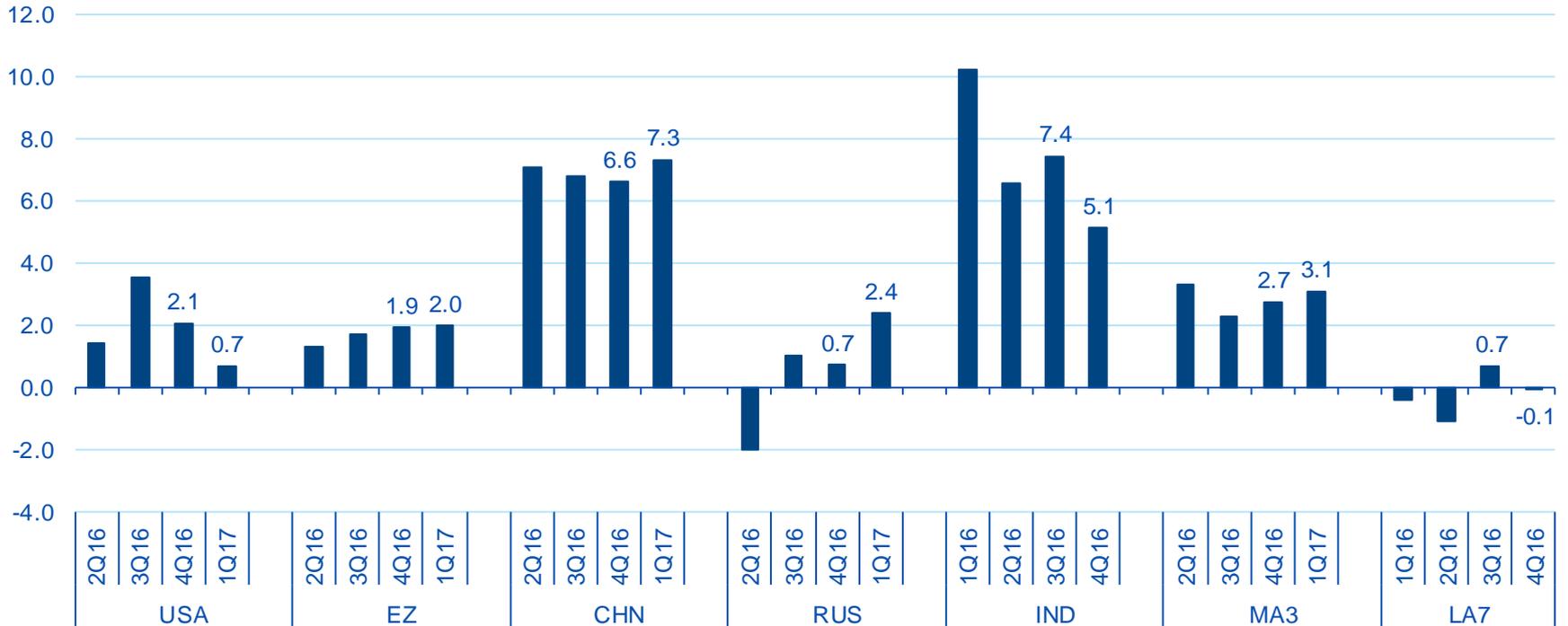
- ◆ Global growth accelerated in 1Q to 0.9% QoQ, driven by emerging Asia. Our BBVA-GAIN model estimates quarterly global GDP growth at close to 1% QoQ in 2Q.
- ◆ April confidence data point to a better outlook for developed markets (DM) than for emerging economies (EM). The solid figures at the beginning of 2Q are underpinned mainly by improving expectations of exports orders.
- ◆ The exports recovery remains on track, beyond the volatility of Asia figures in recent months, partly explained by upward trend in investment in recent quarters.
- ◆ Growth could be gaining momentum in DM. The moderation of the US in 1Q seems to be temporary, with hard data pointing to an investment upswing. In the Eurozone, improving external demand adds to pro-growth economic policies, reinforcing the cyclical recovery.
- ◆ Divergent trends remain in EM. In China, the very recent slowdown in activity geared by the ongoing prudential measures is in line with expectations. In Latam, the slow exit from recession proceeds, but political uncertainty could prevent the incipient recovery, especially in Brazil.
- ◆ Despite that global inflation held broadly stable in April, the moderation of commodity prices continues to point to a gradual slowing in inflation over coming months, especially in DM.

SHORT-TERM INDICATORS



Global GDP growth accelerated in 1Q17 driven by Asia and Europe, despite the US slowdown and the stagnation in Latam

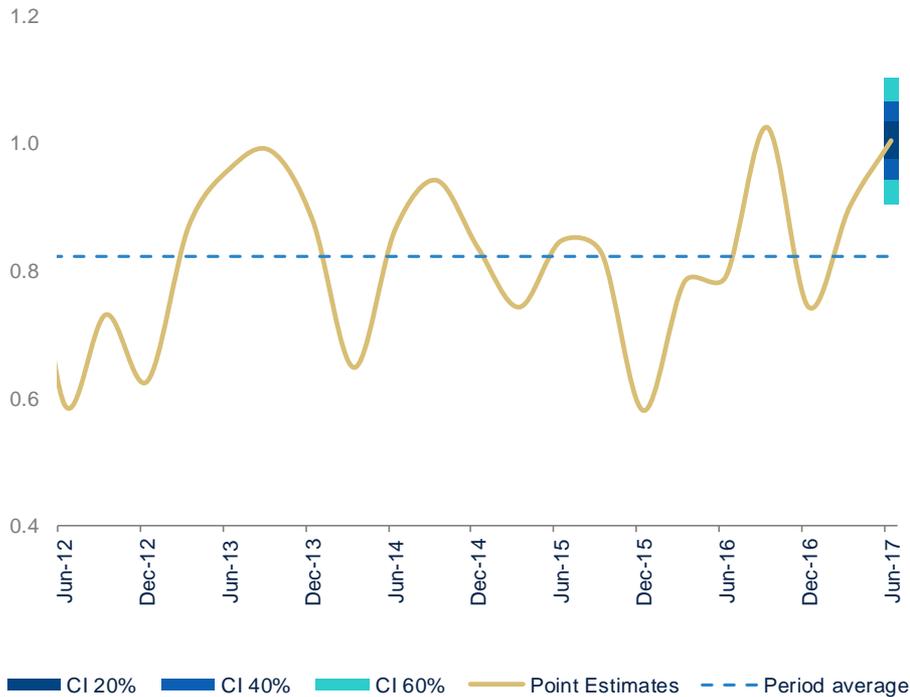
GDP: Selected Regions
(SAAR, %)



2Q17 data so far suggest further global momentum supported by developed economies, but with gloomy signs in emerging markets

World GDP Growth

Forecast based on BBVA-GAIN (% , QoQ)



World GDP Growth: Change in forecast

QoQ, %

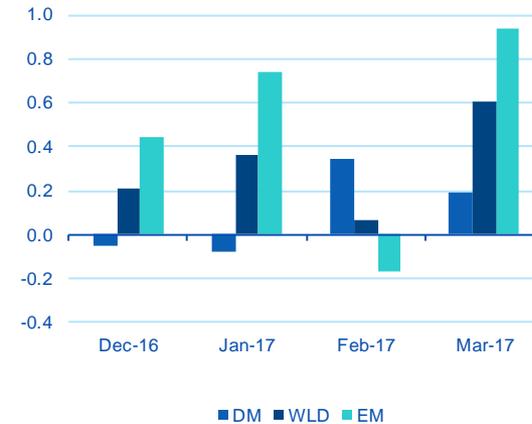


Industrial production: stabilization in 1Q17, supported by increasing output in emerging Asia and the US

World Industrial Production
(%, QoQ)



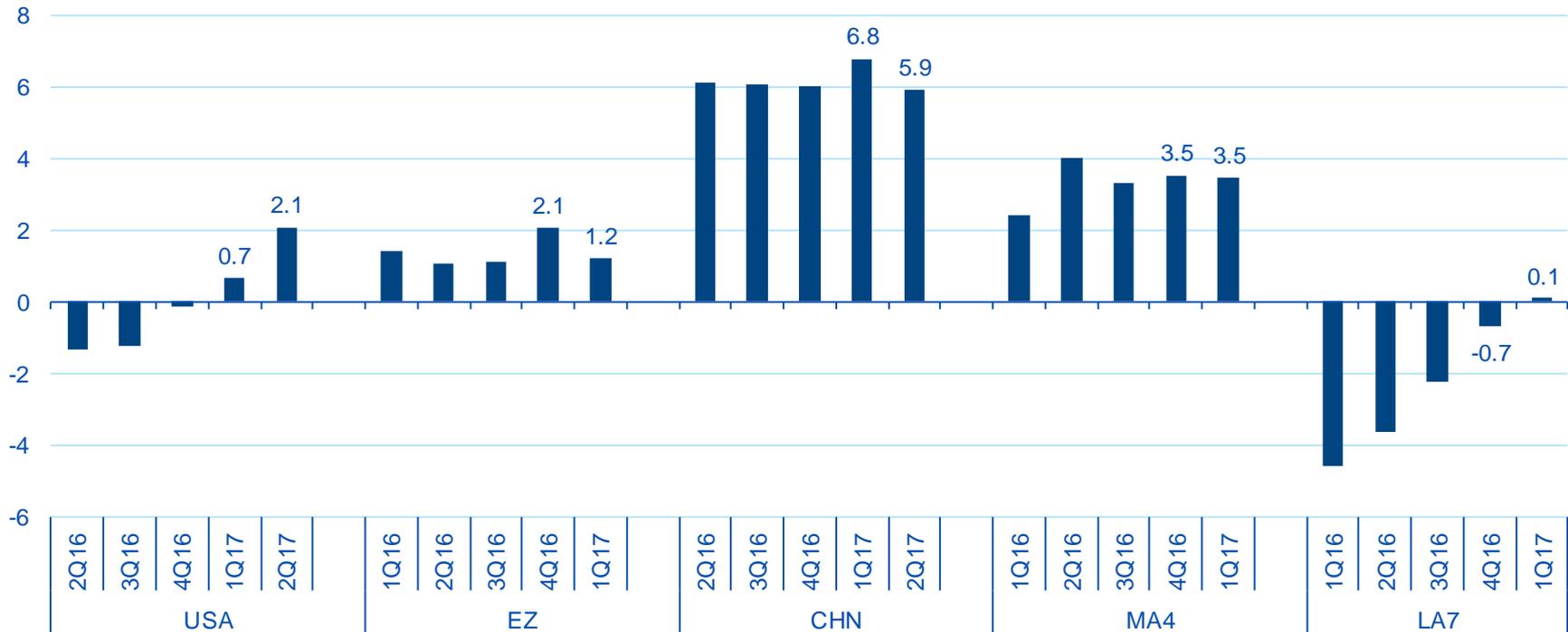
World Industrial Production
(MoM, %)



- ◆ **Across EM**, the bad performance in Latam was offset by increasing output in Asia in 1Q17
- ◆ **In DM's**, the ongoing industrial recovery in the EZ fails to gain ground, contrasting with the gradual upward trend in the US

Industrial production: in April, the upswing is gaining ground in the US, in contrast with renewed slowdown signs in China

Industrial Production: Selected Regions
(YoY, %)



2Q17 calculated using data for April for USA and CHN.
Source: BBVA Research and national sources

LA7: Argentina, Brazil, Chile, Colombia, Mexico, Peru, Venezuela.
MA4: India, Indonesia, Japan, Korea

Manufacturing confidence (PMI) fell slightly in April, but consolidating the gains over the last year

World Manufacturing PMI
(Level ± 50)



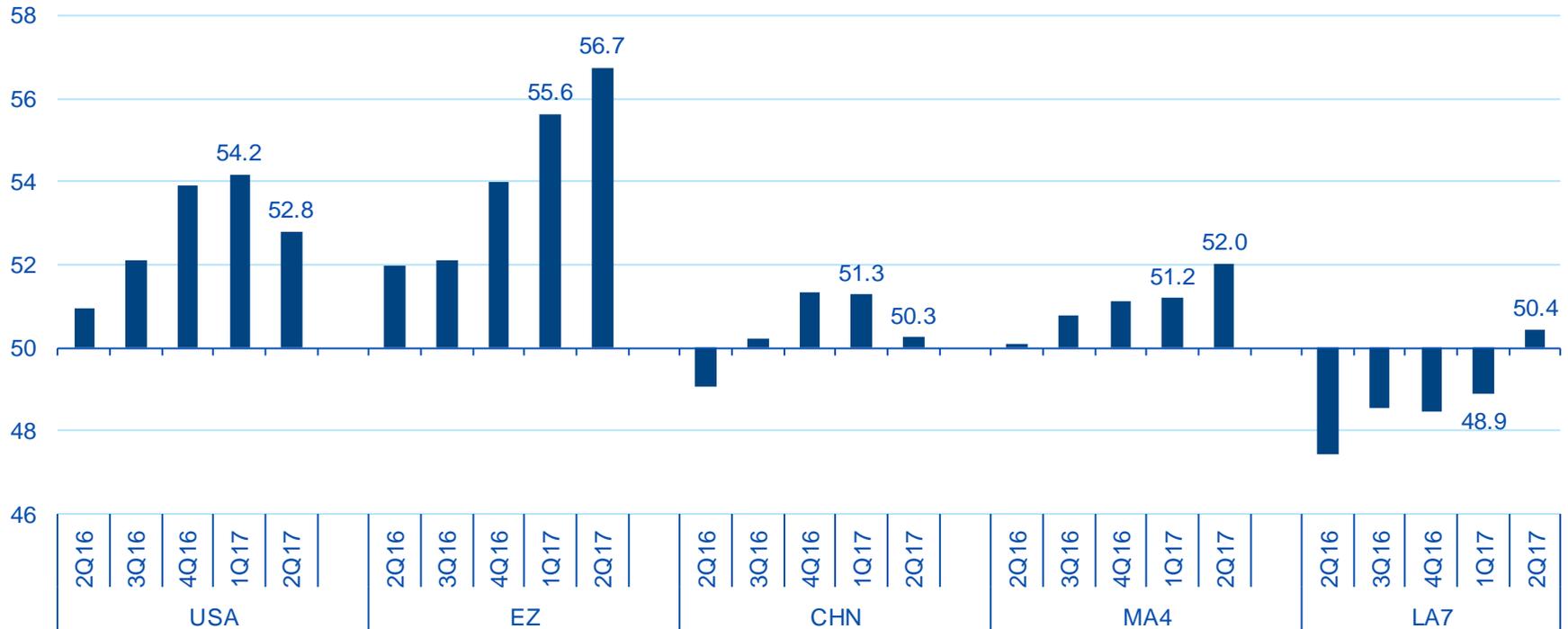
World Manufacturing PMI
(Level ± 50)



- ◆ According to PMI's, the manufacturing sector continued to **expand at a solid pace during April, underpinned by new export orders** that offset the slower growth of output and domestic orders
- ◆ Despite easing from recent highs, **input cost inflation stayed elevated**, especially in developed nations

Manufacturing PMIs very strong in the Eurozone, but declining in the US and China. Further signs of an incipient recovery in Latam

Manufacturing PMI: Selected Regions
(Level \pm 50)

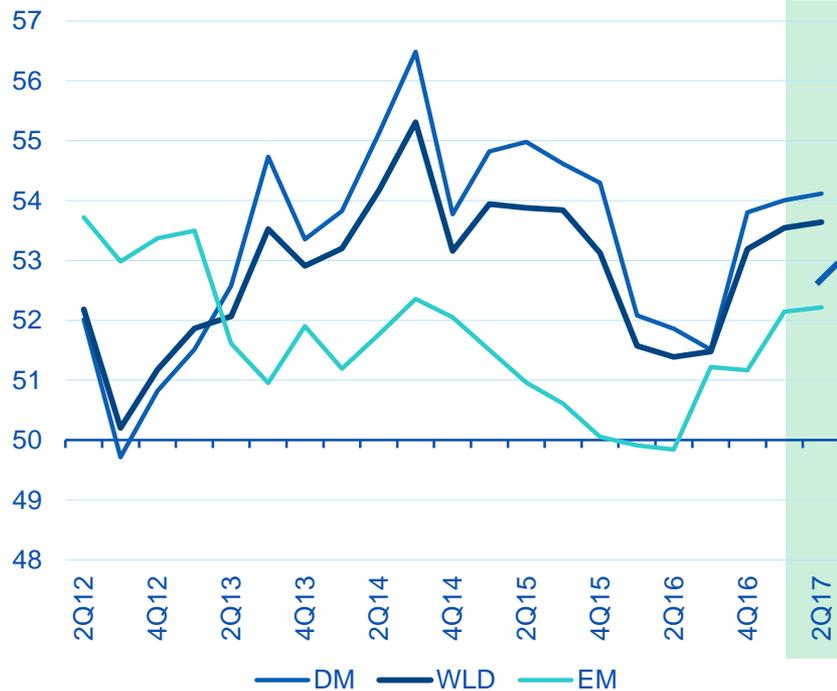


2Q17 calculated using data for April.
Source: BBVA Research and national sources

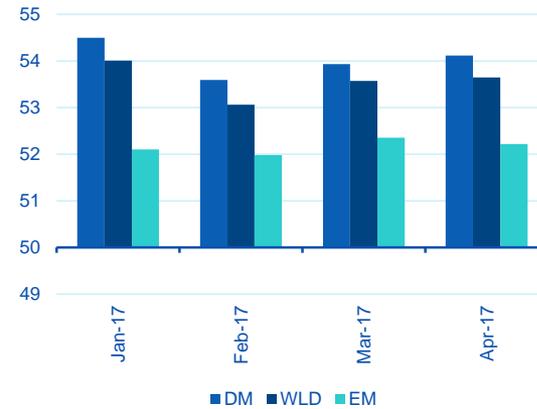
LA7: Argentina, Brazil, Chile, Colombia, Mexico, Peru, Venezuela.
MA4: India, Indonesia, Japan, Korea

April global services PMI confirmed the ongoing sector upswing...

World Services PMI
(Level ± 50)



World Services PMI
(Level ± 50)



- ◆ The improvement was driven by **higher new orders** that could sustain sentiment in coming months. **However, job creation in the sector has been slowing down** since November last year.
- ◆ Higher input prices led to **another increase in service sector charges**, but remaining below the long-run average

... especially in Europe and the US in April, though slowing in China, Japan, India and Russia

Services PMI: Selected Regions
(Level \pm 50)

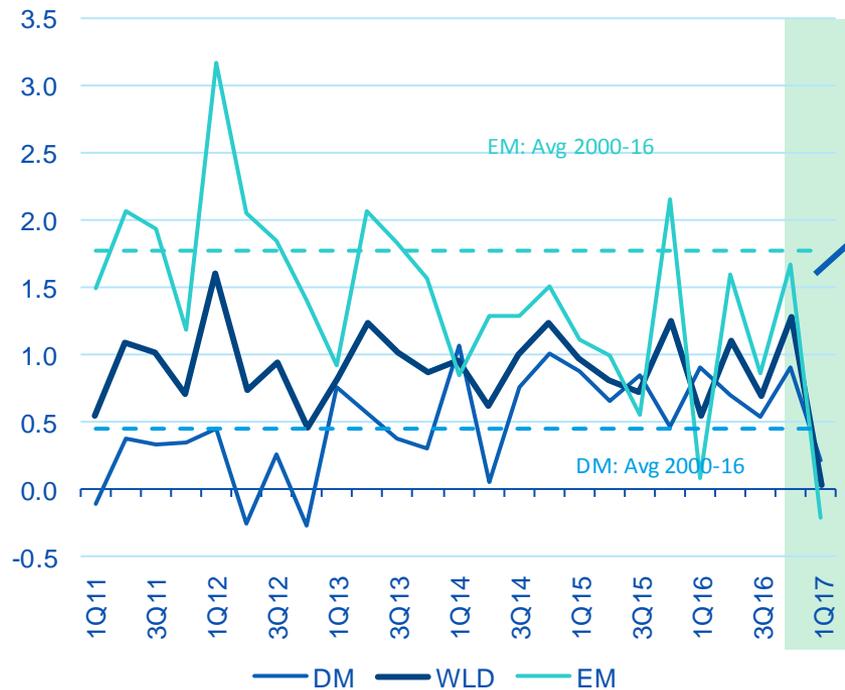


2Q17 calculated using data for April.
Source: BBVA Research and national sources

MA4: India, Indonesia, Japan, Korea
EAG (Eagles): Bangladesh, Brazil, China, Egypt, India, Indonesia, Iran, Malaysia, Mexico, Nigeria, Pakistan, Philippines, Russia, Turkey, Vietnam

Gradual recovery in retail sales during the course of 1Q17, after the sharp decline by end 2016

World Retail Sales
(%, QoQ)



World Retail Sales
(MoM, %)

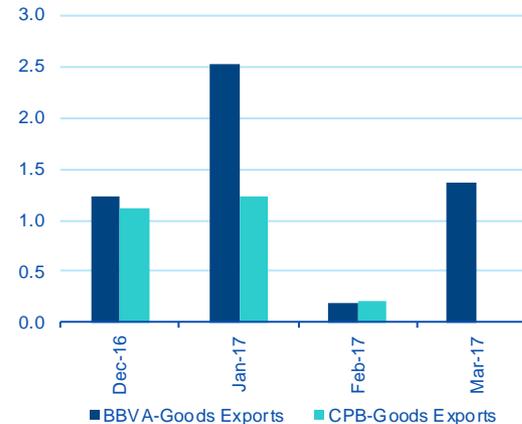
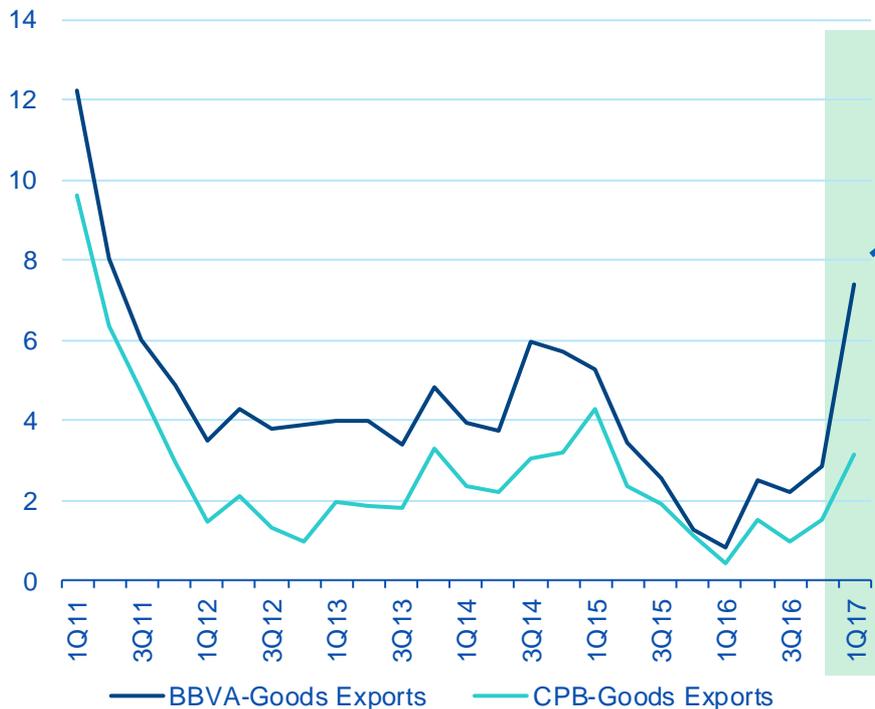


- ◆ Across DM, the deterioration of real wages could be behind the moderation of households' expenditure
- ◆ In EM, recent data suggest that solid growth is resuming, beyond the volatility of recent months

The sharp increase in exports in March could partially revert in coming months, but still points to a solid recovery of global trade

World Exports of Goods (Constant prices)
(YoY %, Index Jan-12=100)

World Exports of Goods (Constant prices)
(MoM, %)



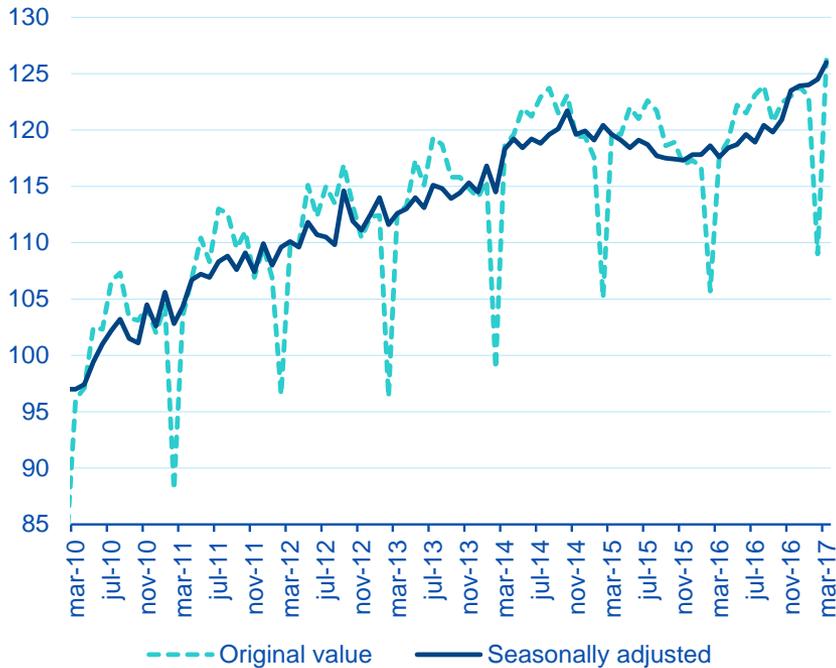
- ◆ **March boost** in exports was particularly **driven by China**, though the expansion was broad-based
- ◆ **China's exports declined again in April**. Beyond volatility, we expect exports recovery to consolidate in coming quarters

* Based on **BBVA-Trade Index**

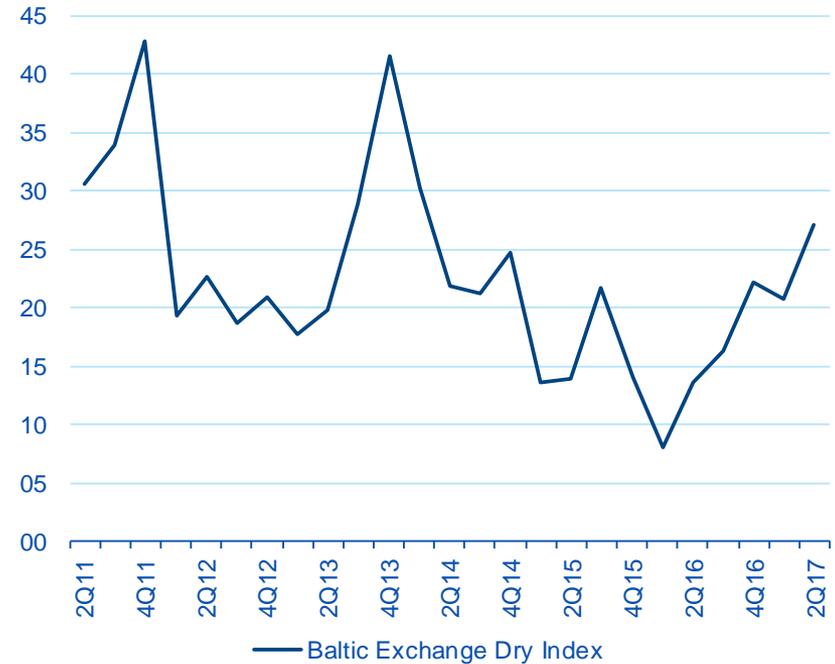
Source: BBVA Research and CPB

Freights also point to an ongoing recovery in global trade, after disappointing figures at the beginning of the year

RWI/ISL Container Throughput Index
(Index, 2010=100)



Baltic Exchange Dry Index
(Index, Jan-05=100)00

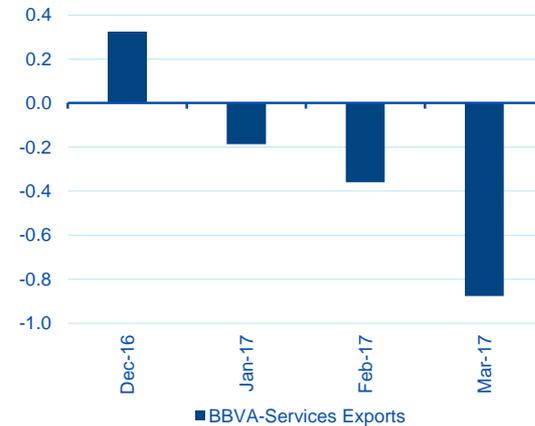


The performance of service exports worsened again in March, confirming the downward trend observed over the last half year

World Exports of Services (Constant prices)
(YoY %, Index Jan-12=100)



World Exports of Services (Constant prices)
(MoM, %)



◆ The worsening was present in several regions, especially in Korea, Japan and the UK

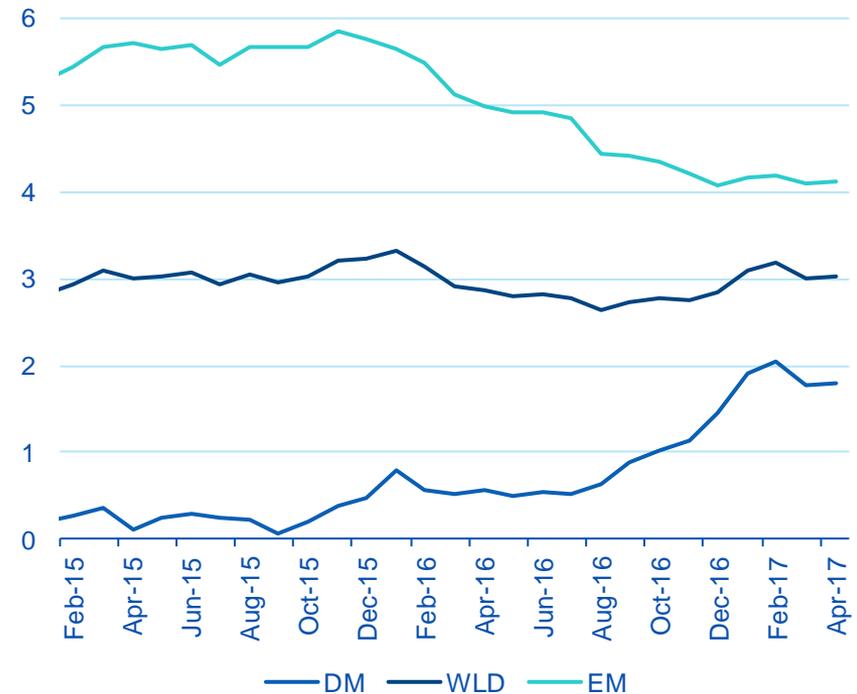
* Based on **BBVA-Trade Index**

Source: BBVA Research and CPB

Global inflation held broadly stable in April but there are signs of a gradual moderation in coming months, especially in DM

- ◆ **In DM's**, April figures point to a gradual moderation in inflation in coming months driven by the lower growth of energy prices. The increase in the Eurozone inflation was due to changes in the Easter calendar
- ◆ **In EM's** inflation stabilized driven by a mild deceleration in emerging Asia while it increased slightly or remained broadly stable in Latam countries

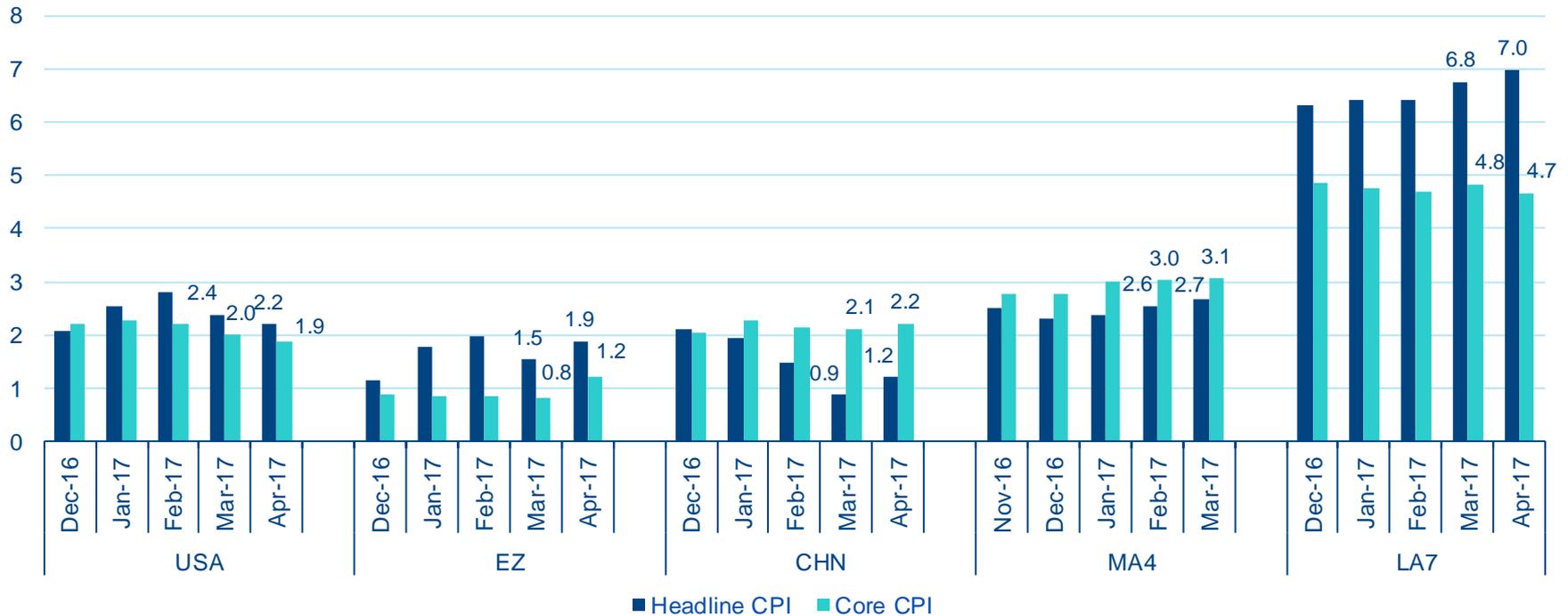
World Headline Inflation
(YoY, %)



In China, inflation has been tamed due to sluggish food prices despite high industrial prices. Divergent trends remain in Latam

Headline and Core Inflation: Selected Regions

(YoY, %)



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