

GLOBAL OUTLOOK

ECONOMIC WATCH

February 2018



Growth momentum continues, with some signs of exhaustion in confidence levels

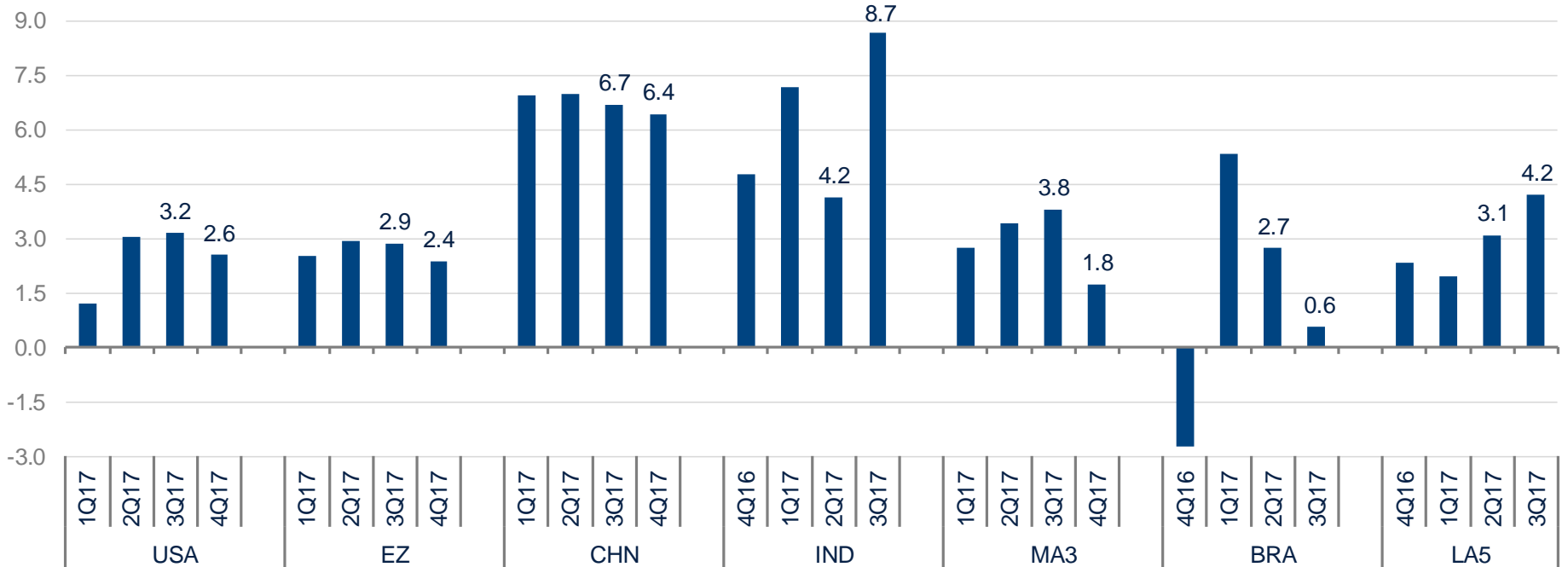
- ◆ Growth slowed down slightly in 4Q17, but remained robust. Data so far point to a short-lived moderation. Our BBVA-GAIN model estimates global GDP to grow at 1% QoQ in 1Q18, after 0.9% by end-2017.
- ◆ The good momentum is shared by the three main areas, with growth above potential in both the US and the EZ (both at around 2.4% annualized in 4Q17) and stabilizing in China (6.8% YoY). In EM's, gradual recovery proceeds in Latam.
- ◆ Global trade gained further momentum by the end of 2017, benefiting from the recovery of investment and the industrial sector, including in EM's.
- ◆ Resilient retail sales suggest that private consumption continued to support growth, but it has stabilized, except in Latam.
- ◆ Confidence is at very strong levels so far in 1Q17, though it gives some signs of expected exhaustion (in the Eurozone), suggesting that the peak of growth could be behind us.
- ◆ Core inflation, though still at low levels, showed slight upward pressures in advanced economies. It is still slowing in Latam.

SHORT-TERM INDICATORS



Growth slowed slightly in 4Q17 in the three main areas, but is still strong

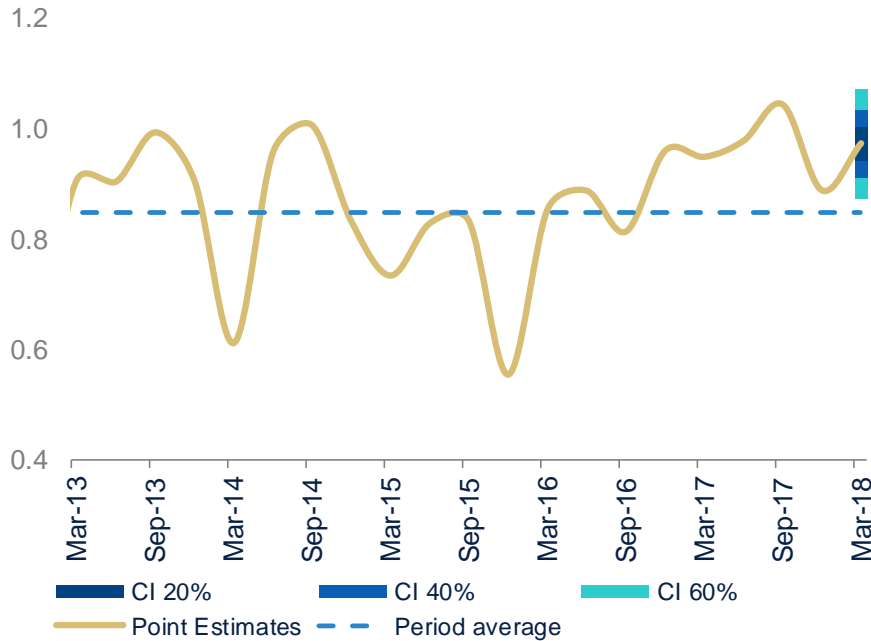
GDP: Selected Regions
(SAAR, %)



1Q18 data so far suggest a slight uptick in global growth at rates observed over the last year (1% QoQ)

World GDP Growth

Forecast based on BBVA-GAIN (% , QoQ)



World GDP Growth: Change in forecast

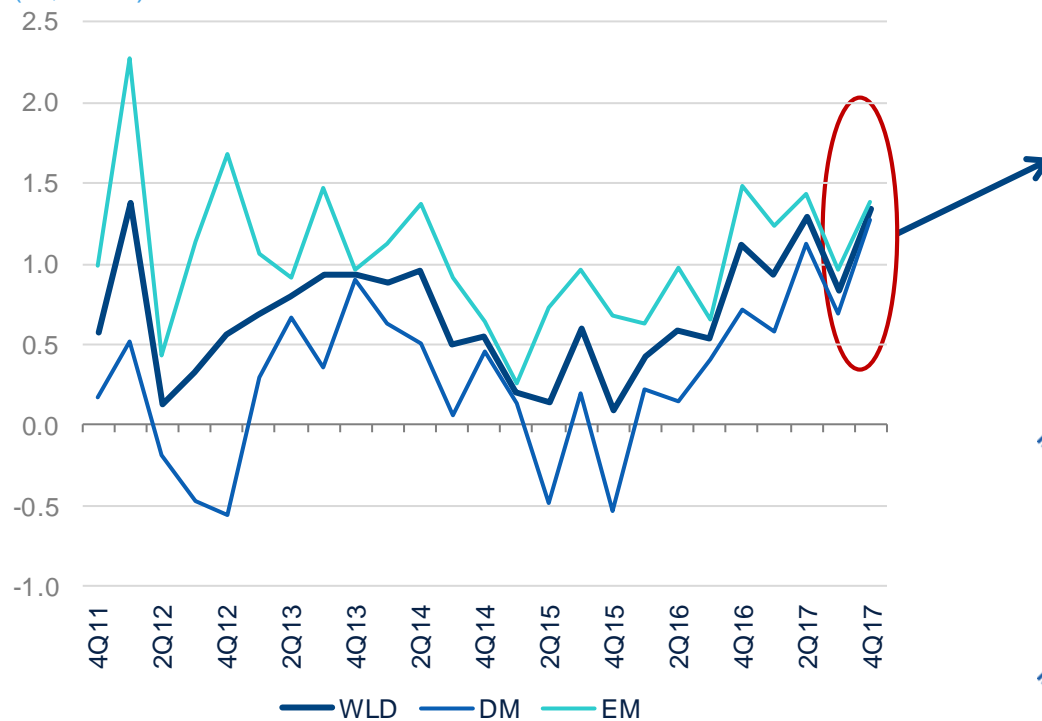
QoQ, %



Industrial production remained solid in 4Q17 across the board

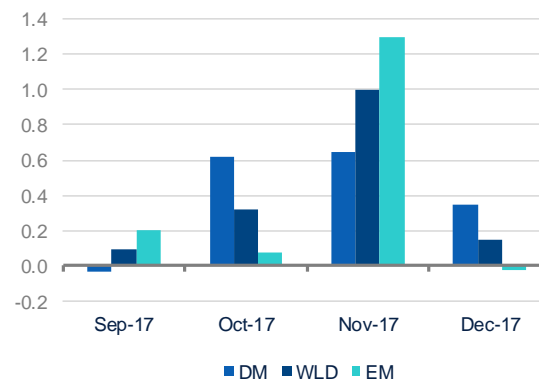
World Industrial Production

(%, QoQ)



World Industrial Production

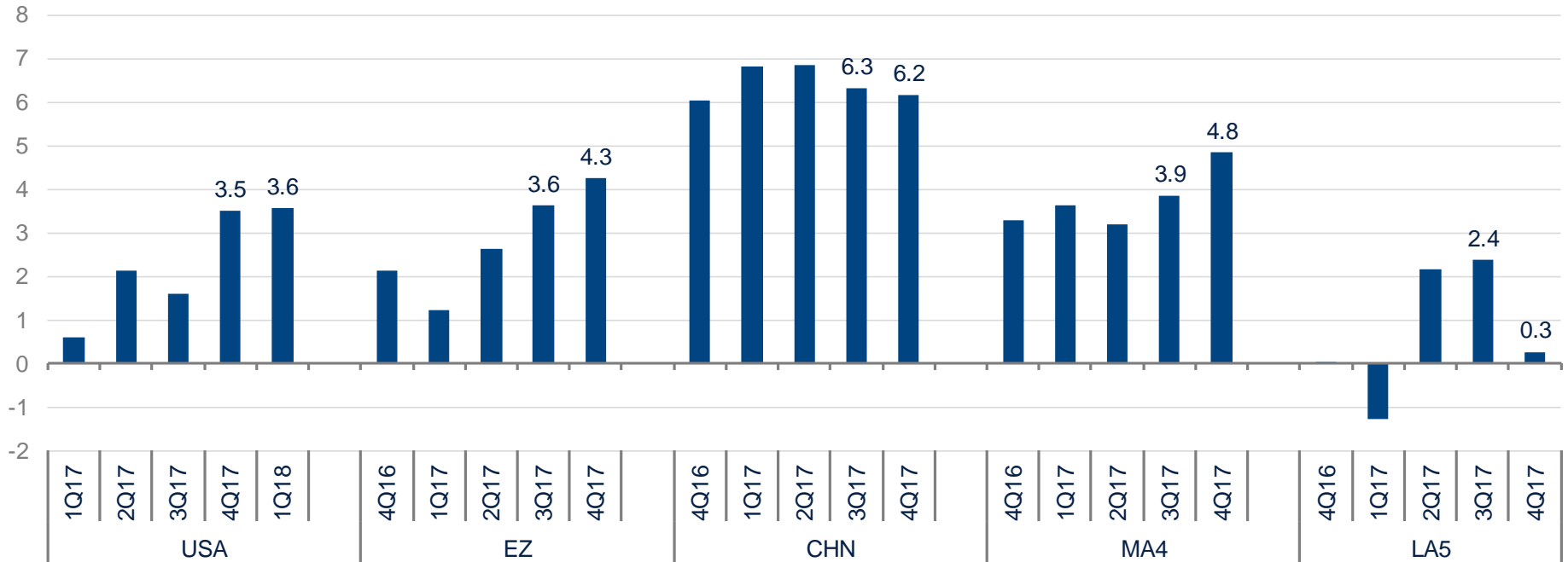
(MoM, %)



- ◆ Despite the stability of industrial production in December, 4Q data improved after the moderation observed in 3Q17.
- ◆ In addition to the consolidation of the recovery in DM's, there is also an upward trend in EM's output

IP: Positive surprise in EZ, while Asia and US firm up

Industrial Production: Selected Regions
(YoY, %)

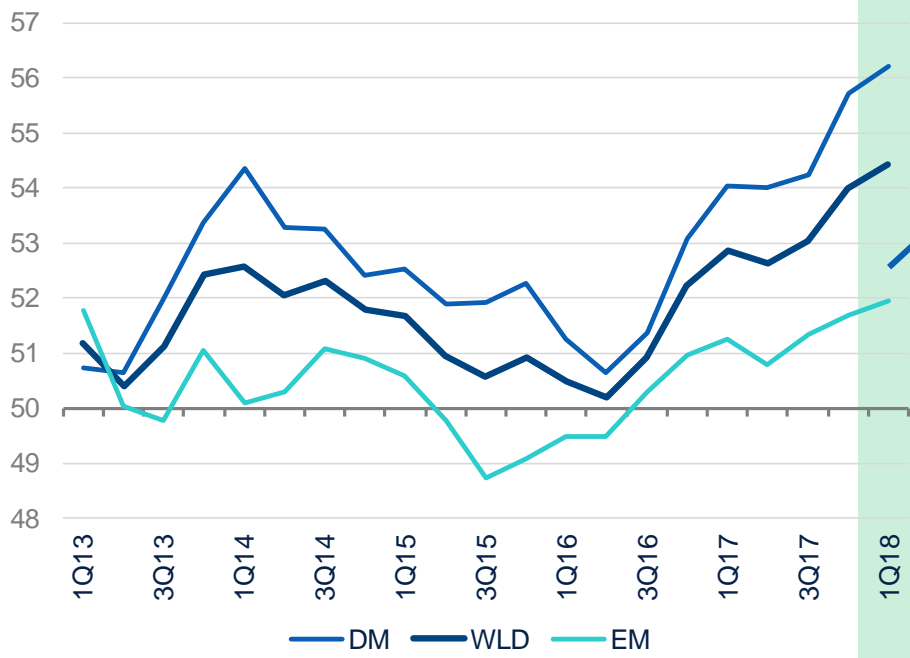


Source: BBVA Research and National sources

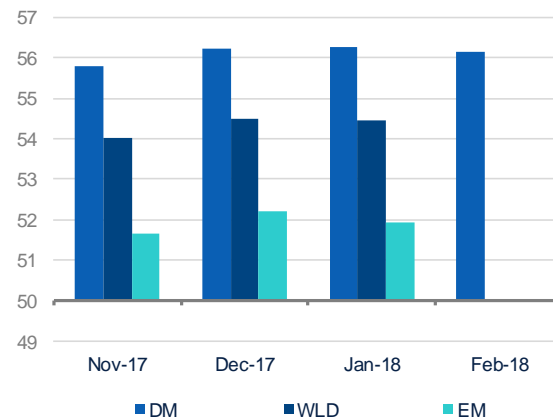
LA5: Argentina, Chile, Colombia, Peru, Venezuela.
MA4: India, Indonesia, Japan, Korea

Global manufacturing output at historical highs so far in 1Q18, but showing some signs of moderation in February

World Manufacturing PMI
(Level ± 50)



World Manufacturing PMI
(Level ± 50)



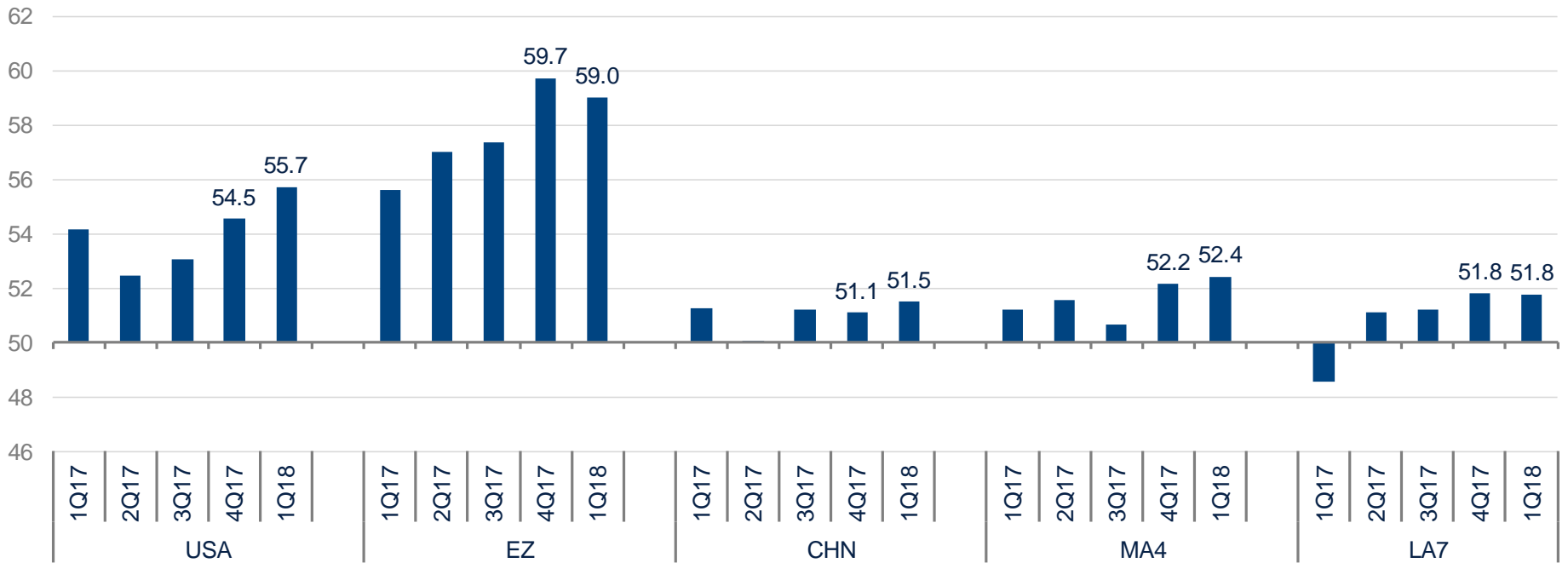
- ◆ Manufacturing output reached a peak according to February estimates
- ◆ Expectations might have been damped in February due to the recent market turmoil, easing the increase in new orders

1Q18 calculated using data for Jan, Feb in the US, EZ and Japan
Source: BBVA Research and Markit

Manufacturing PMI's stabilized across countries; but with strong differences between DM's and EM's

Manufacturing PMI: Selected Regions

(Level \pm 50) overall

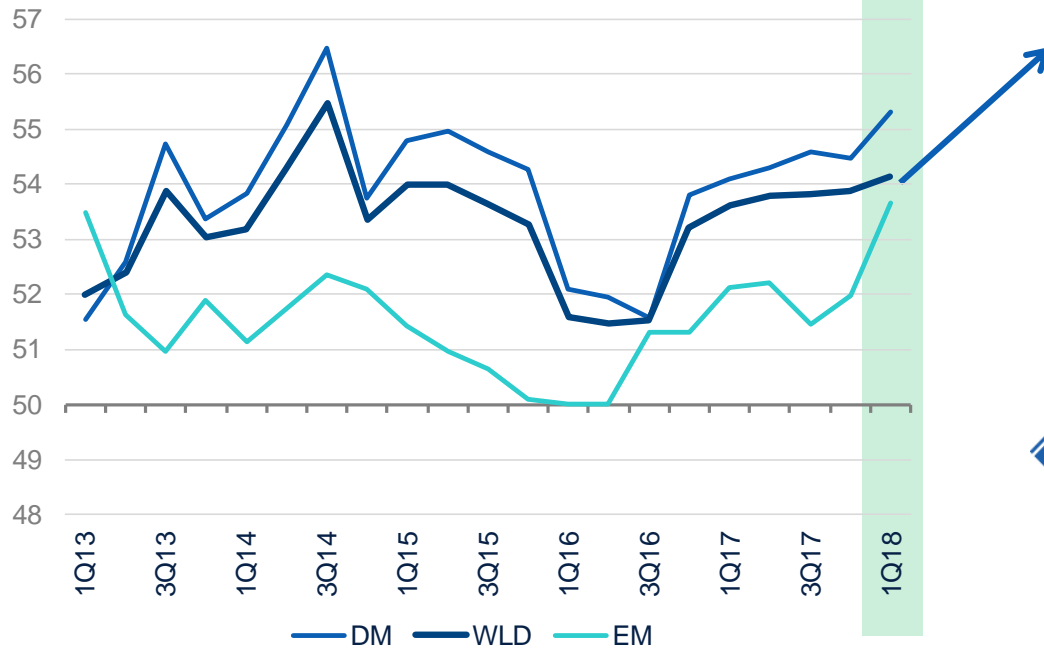


1Q18 calculated using data for Jan, Feb in the US, EZ and Japan
Source: BBVA Research and Markit

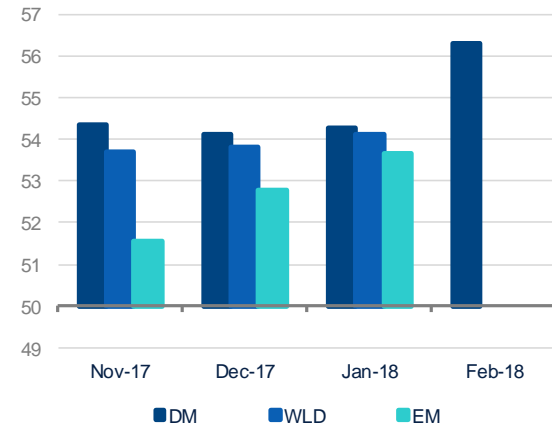
LA7: Argentina, Brazil, Chile, Colombia, Mexico, Peru, Venezuela.
MA4: India, Indonesia, Japan, Korea

Confidence in the service sector improves slightly again in 1Q18, especially in EM's

World Services PMI
(Level \pm 50)



World Services PMI
(Level \pm 50)



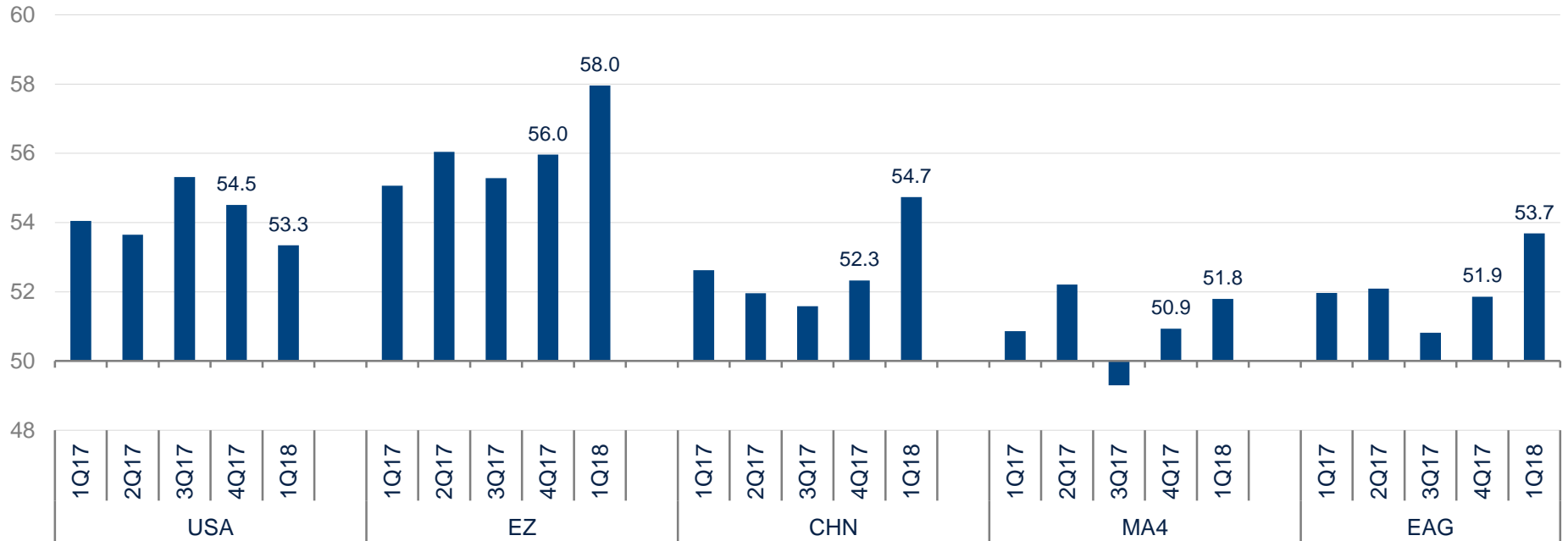
- ◆ Improved economic sentiment in EM's was underpinned by a better than expected performance in China
- ◆ Increasing optimism suggests that companies are expecting the slowdown in 4Q17 to be short-lived

1Q18 calculated using data for Jan, Feb in the US, EZ
Source: BBVA Research and Markit

Strong upswing in service confidence across countries

Services PMI: Selected Regions

(Level \pm 50)

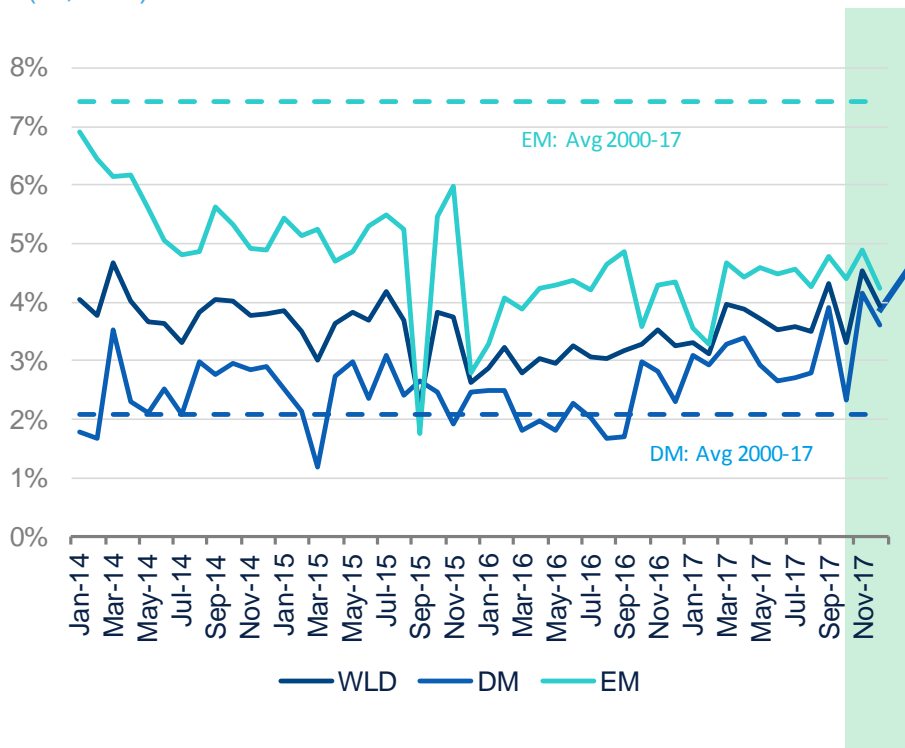


1Q18 calculated using data for Jan, Feb in the US, EZ
 Source: BBVA Research and Markit

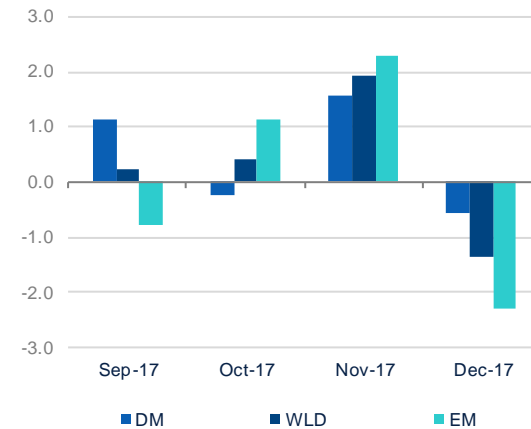
MA4: India, Indonesia, Japan, Korea
EAG (Eagles): Bangladesh, Brazil, China, Egypt, India, Indonesia, Iran, Malaysia, Mexico, Nigeria, Pakistan, Philippines, Russia, Turkey, Vietnam

Retail sales remain resilient, but they confirm signs of stabilization

World Retail Sales
(%, YoY)



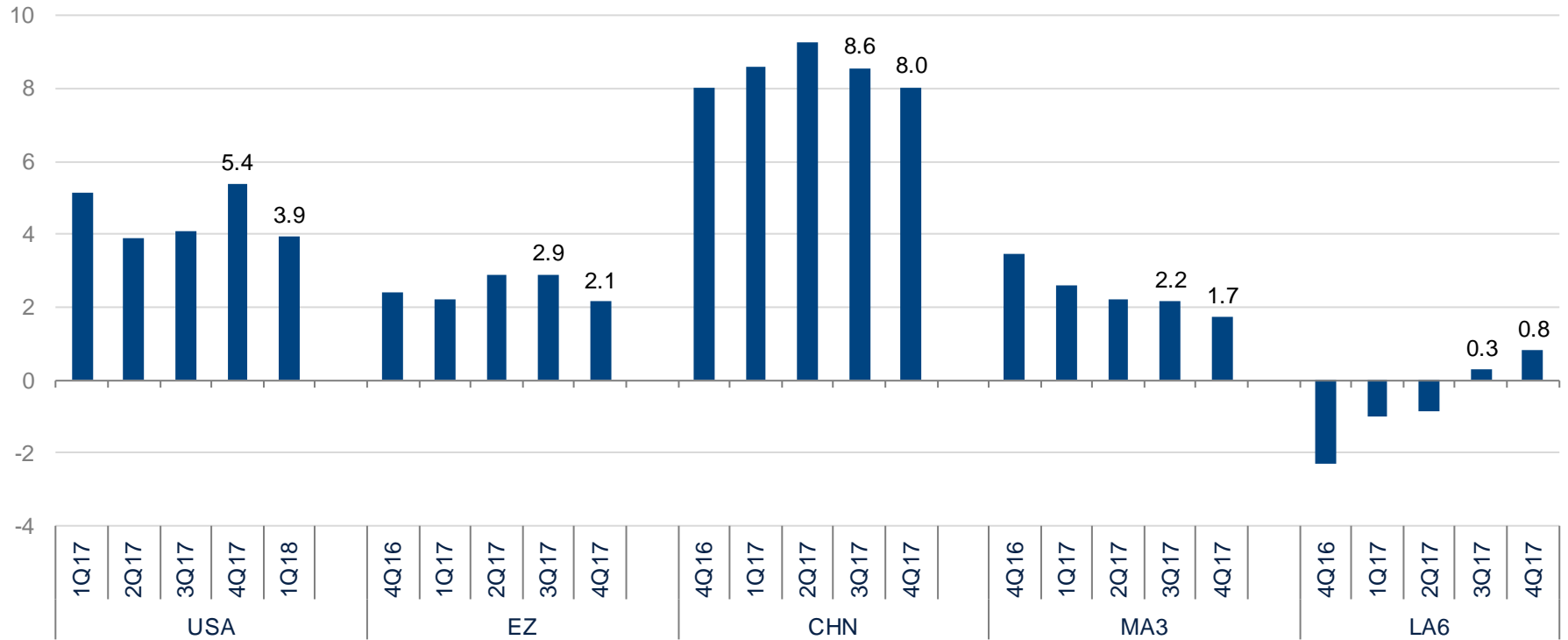
World Retail Sales
(MoM, %)



- ◆ Retail spending maintained a vigorous growth in 4Q17 thanks to better employment prospects and rising incomes
- ◆ Latest sentiment surveys point to lower (but still strong) activity in coming months

Retail activity moderates in most areas, except Latam

Retail sales: Selected Regions
(YoY, %)



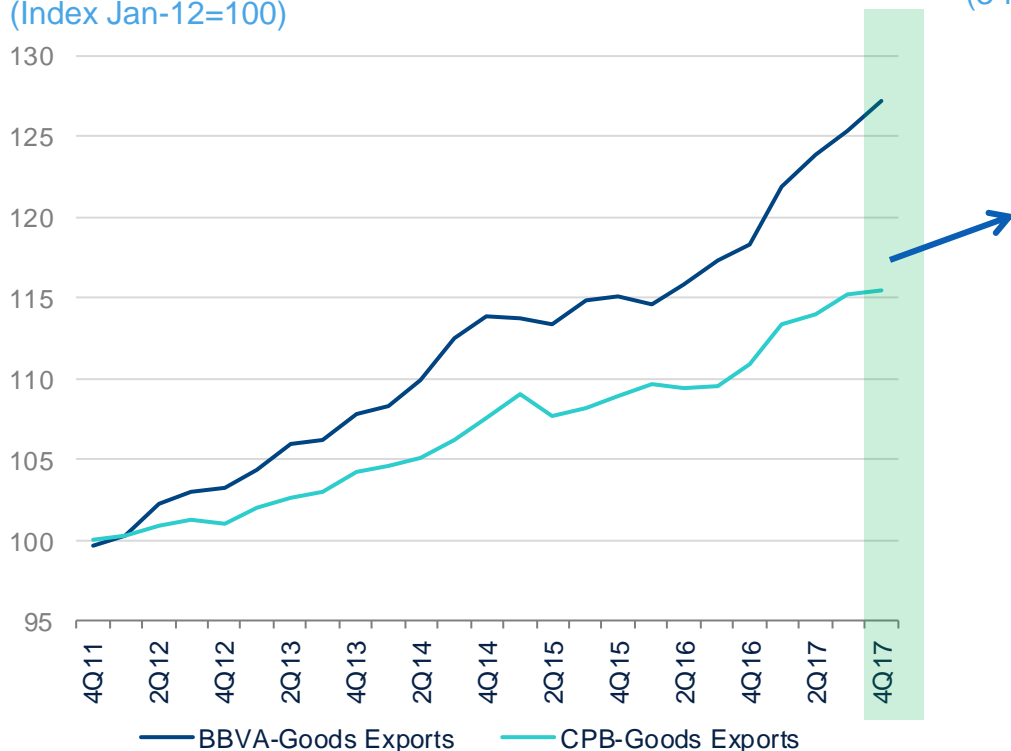
Source: BBVA Research and National sources

LA6: Argentina, Brazil, Chile, Colombia, Peru, Venezuela.
MA3: Indonesia, Japan, Korea

Expansion of global goods' trade remains on track, with strong figures by end 2017

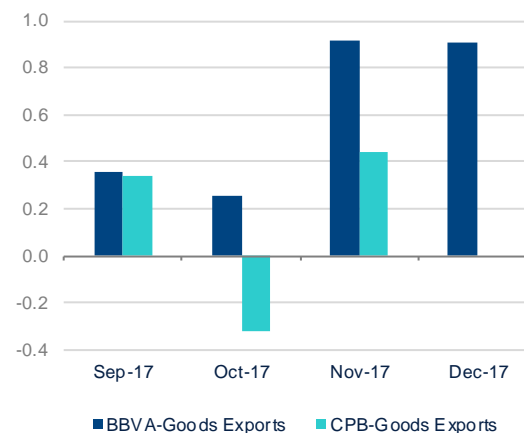
World Exports of Goods (index, constant prices)

(Index Jan-12=100)



World Exports of Goods (growth, constant prices)

(3-month moving average MoM%)



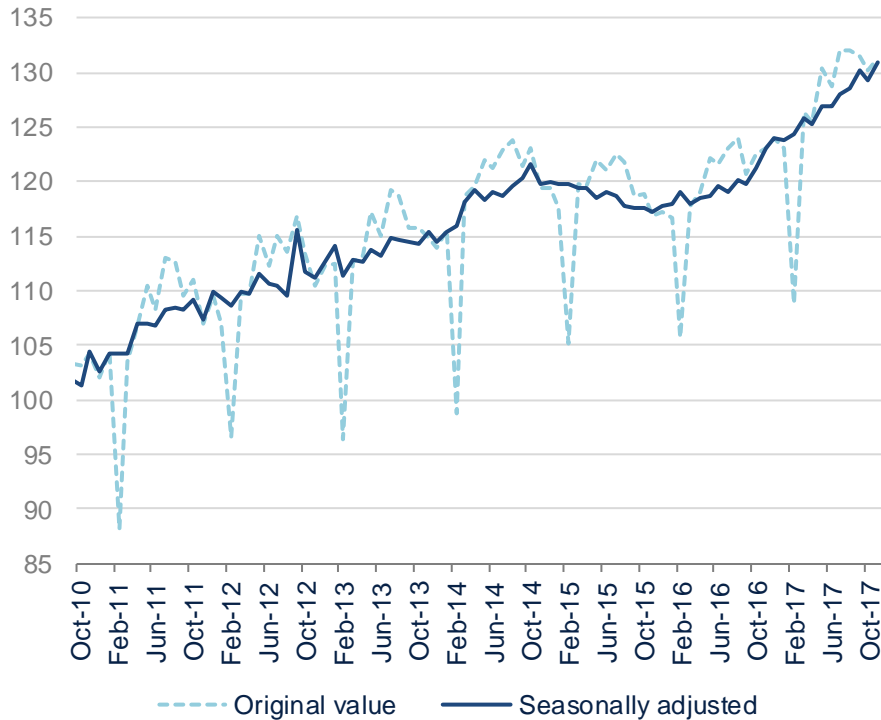
- ◆ Global trade gains further momentum in November and December
- ◆ Exports grow in all major regions during 2017 benefiting from buoyant industrial sector and investment

* Based on **BBVA-Trade Index**

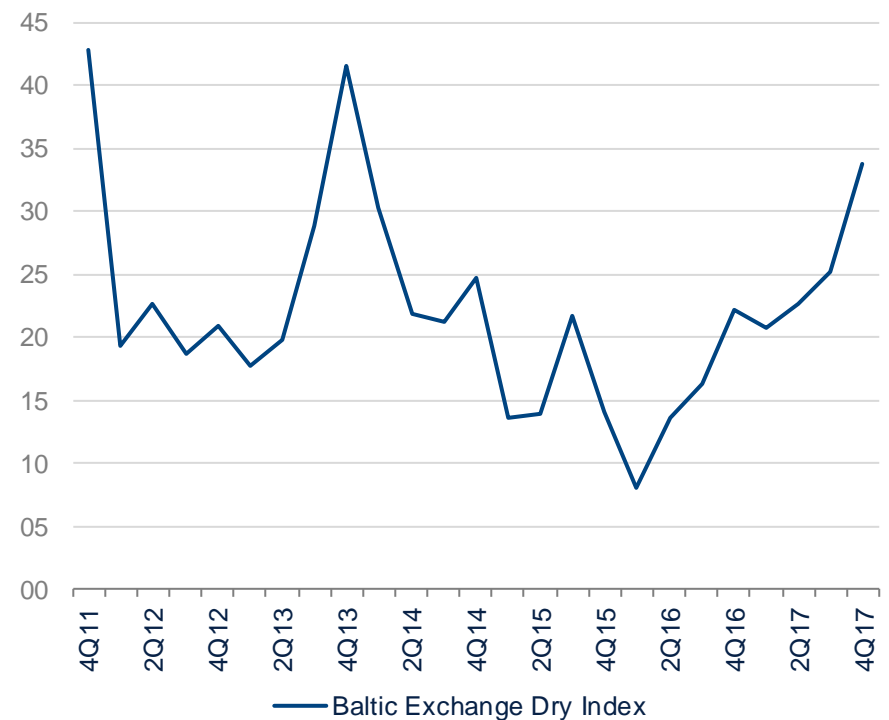
Source: BBVA Research y CPB

Leading trade indicators provide further positive signs for global trade in coming months

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



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

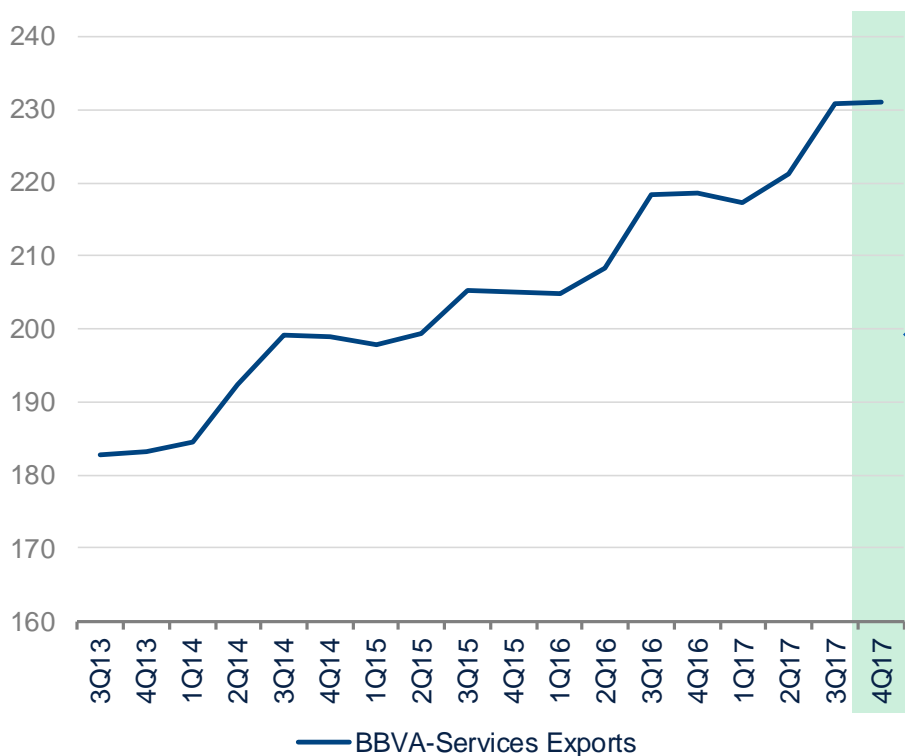


Source: Institute of shipping economics and logistics

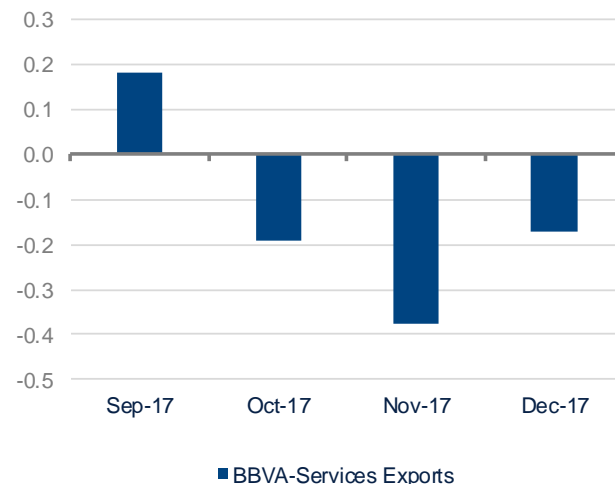
* **The Baltic Dry Index (BDI)** is an economic indicator issued daily by the London-based Baltic Exchange
Source: London Baltic Exchange and BBVA Research

Exports of services have flattened due to lower contribution from EMs

World Exports of Services (index, constant prices)
(Index Jan-12=100)



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



◆ Exports of services retreat mainly in Korea (-6,4% q/q), Brazil (-11,6% q/q) and Turkey (-12,2%) in December

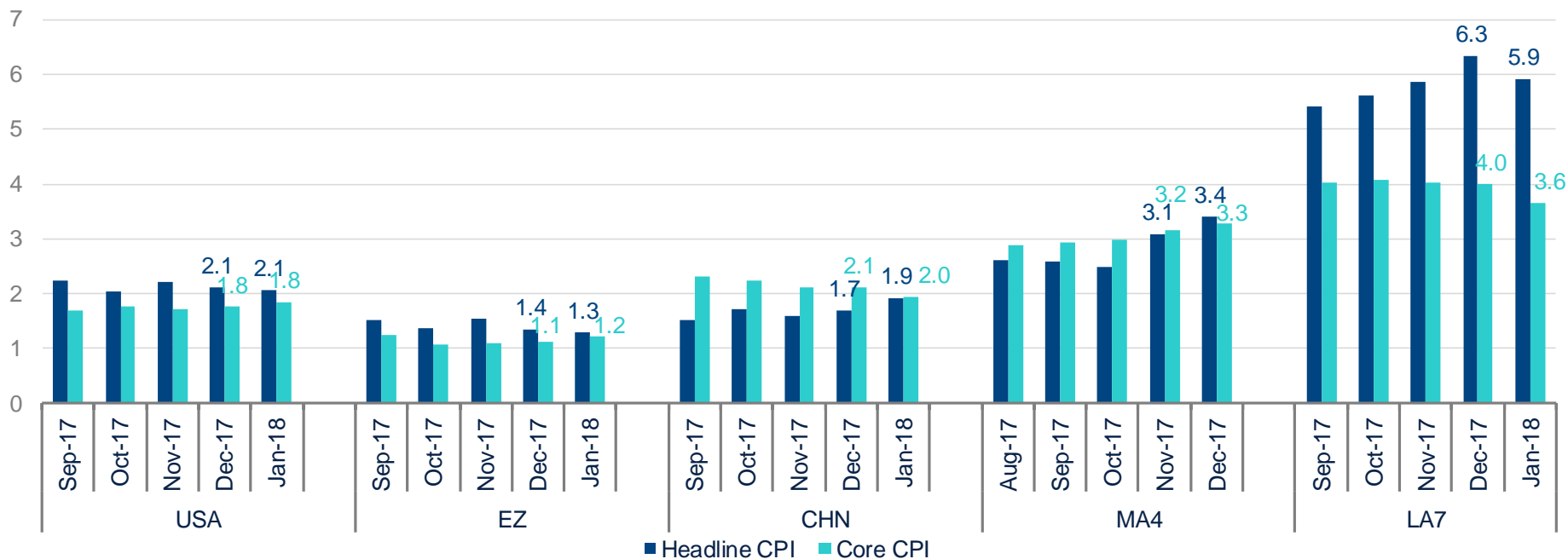
* Based on **BBVA-Trade Index**

Source: BBVA Research and CPB

Core inflation broadly was stable at low levels in DM's, but it shows some upward pressures. It is still slowing in Latam

Headline and Core Inflation: Selected Regions

(YoY, %)



2017 ends with higher growth than expected a year ago and inflation gained traction

Gross Domestic Product

YoY average, %

Feb-18				
	2016	2017	2018	2019
United States	1.5	2.3	2.6	2.5
Eurozone	1.8	2.5	2.2	1.8
Spain	3.3	3.1	2.5	2.3
Latam *	-1.0	1.1	1.7	2.5
Argentina	-2.2	2.8	3.3	3.3
Brazil	-3.4	1.0	2.1	3.0
Chile	1.6	1.5	2.7	2.9
Colombia	2.0	1.5	2.0	3.0
Mexico	2.9	1.9	2.0	2.2
Peru	4.0	2.3	3.5	3.8
Eagles **	5.2	5.5	5.4	5.5
Turkey	3.2	7.0	4.5	4.3
Emerging Asia	6.7	6.5	6.3	6.3
China	6.7	6.9	6.3	6.0
World	3.3	3.7	3.8	3.8

Inflation

YoY average, %

Feb-18				
	2016	2017	2018	2019
United States	1.3	2.1	2.4	2.1
Eurozone	0.2	1.5	1.5	1.6
Spain	-0.2	2.0	1.6	1.7
Latam *	9.9	6.7	5.8	5.0
Argentina	40.4	26.1	22.7	14.1
Brazil	8.8	3.5	3.7	4.6
Chile	3.8	2.2	2.3	3.0
Colombia	7.5	4.3	3.0	2.7
Mexico	2.8	6.0	4.6	3.6
Peru	3.6	2.8	1.4	2.1
Eagles **	4.4	4.1	4.3	4.3
Turkey	7.8	11.1	9.9	9.1
Emerging Asia	2.8	2.3	2.9	3.2
China	2.0	1.5	2.3	2.5
World	3.2	3.3	3.5	3.3

(*) Includes Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela in the GDP composite. Excludes Venezuela from inflation composite.

(**) Includes Bangladesh, Brazil, China, Egypt, India, Indonesia, Iran, Malaysia, Mexico, Nigeria, Pakistan, Philippines, Russia, Turkey and Vietnam

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