

GLOBAL OUTLOOK

ECONOMIC WATCH

March 2018



Strong global momentum continues in 1Q18 driven by trade, despite some weaker data in DM at the beginning of the year

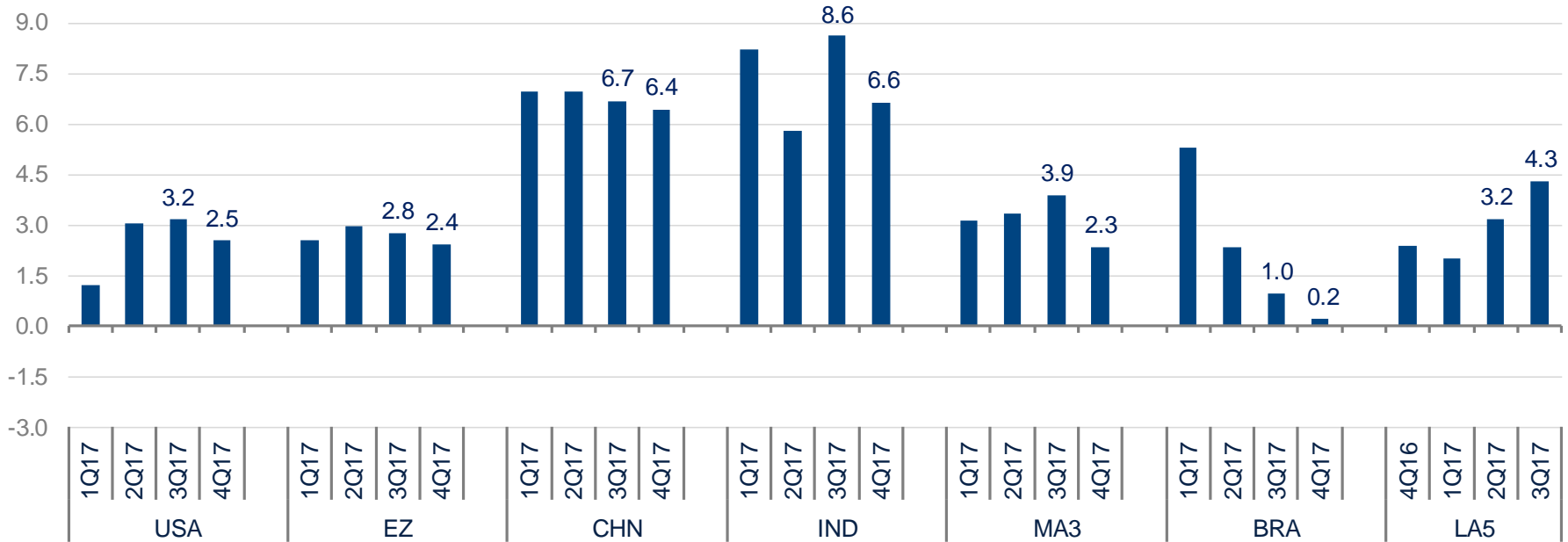
- ◆ World GDP growth in 1Q18 could pick up slightly to rates observed over the last year. Our BBVA-GAIN model estimates global GDP to grow at 1% QoQ, up from 0.9% in 4Q17.
- ◆ Global exports strengthened significantly again in February, after the moderation at the end of 2017. Widespread export growth across the board continues benefiting from the ongoing recovery in the industrial sector and investment.
- ◆ But both industrial output and retail sales in DM were modest in early 2018, suggesting some moderation in domestic demand. In contrast, resilient activity in China is pulling industrial production in EM, while a gradual recovery in retail trade proceeds in Latam.
- ◆ Confidence remains at high levels in 1Q18 so far, but showing some signs of moderation. Manufacturing PMIs declined in larger DM (US, EZ, Japan and UK) in February and services PMIs also, except in US where service sentiment rebounded. In EM, PMIs survey improved.
- ◆ Core inflation has increased only very gradually across the board in recent months, but surveys suggest that inflationary pressures are building up across areas and sectors.

SHORT-TERM INDICATORS



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

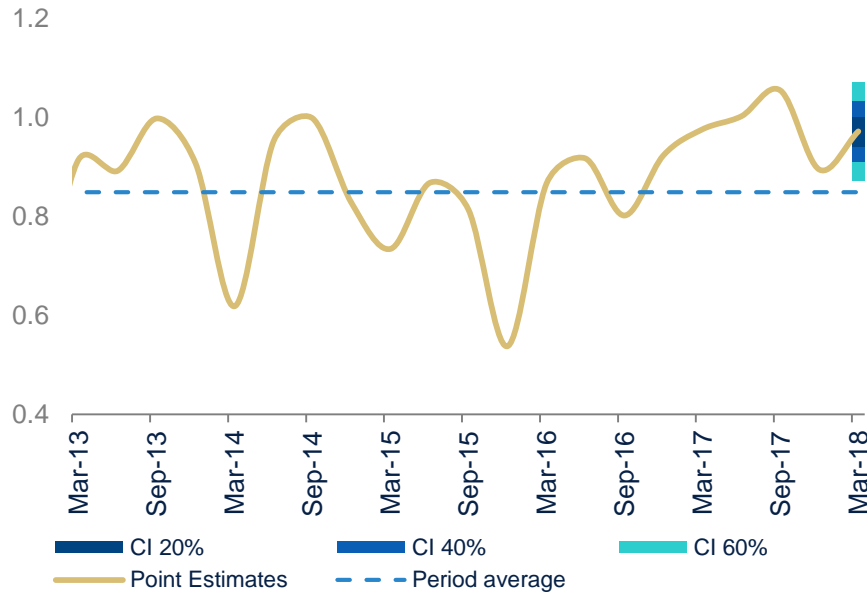
GDP: Selected Regions
(SAAR, %)



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

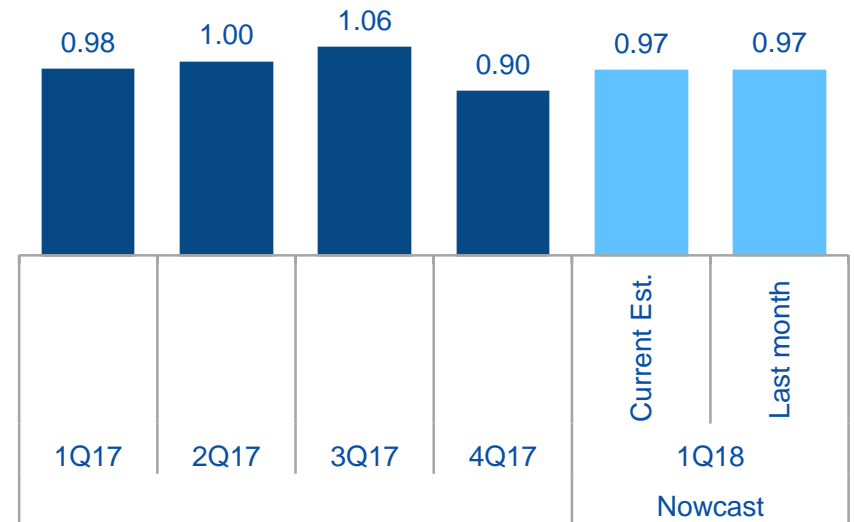
World GDP Growth

Forecast based on BBVA-GAIN (% QoQ)



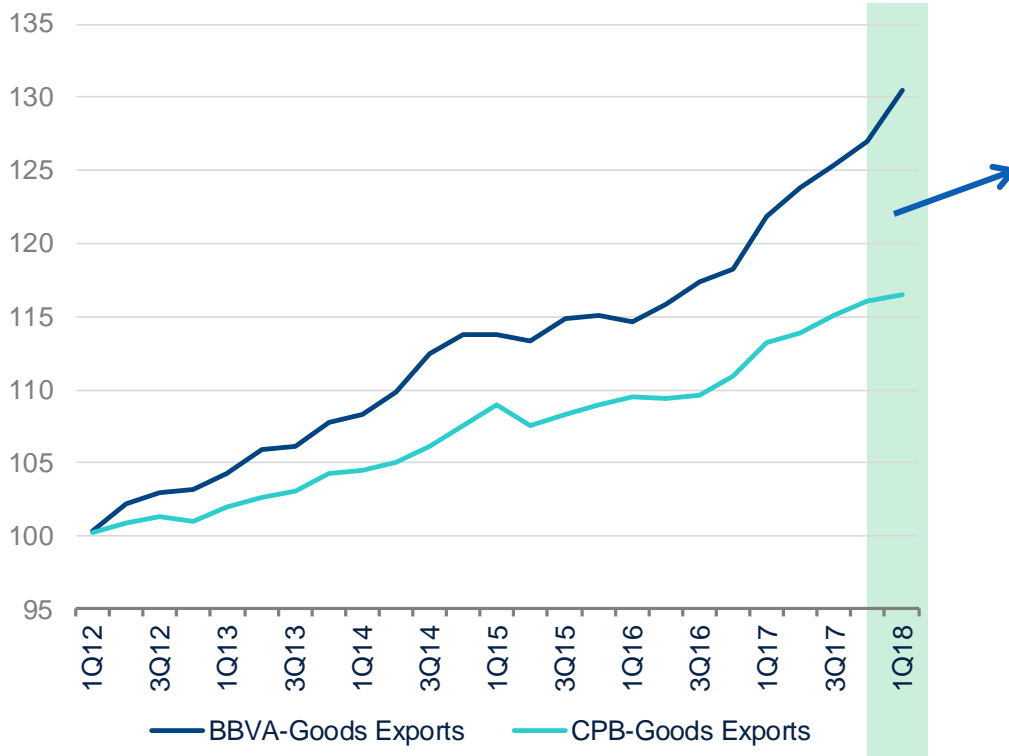
World GDP Growth: Change in forecast

QoQ, %

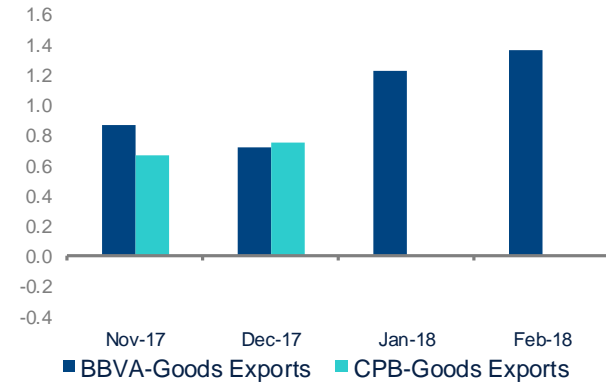


Exports improve markedly in 1Q18, after having moderated at the end of 2017

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



World Exports of Goods (growth, constant prices)
(3-month moving average MoM%)

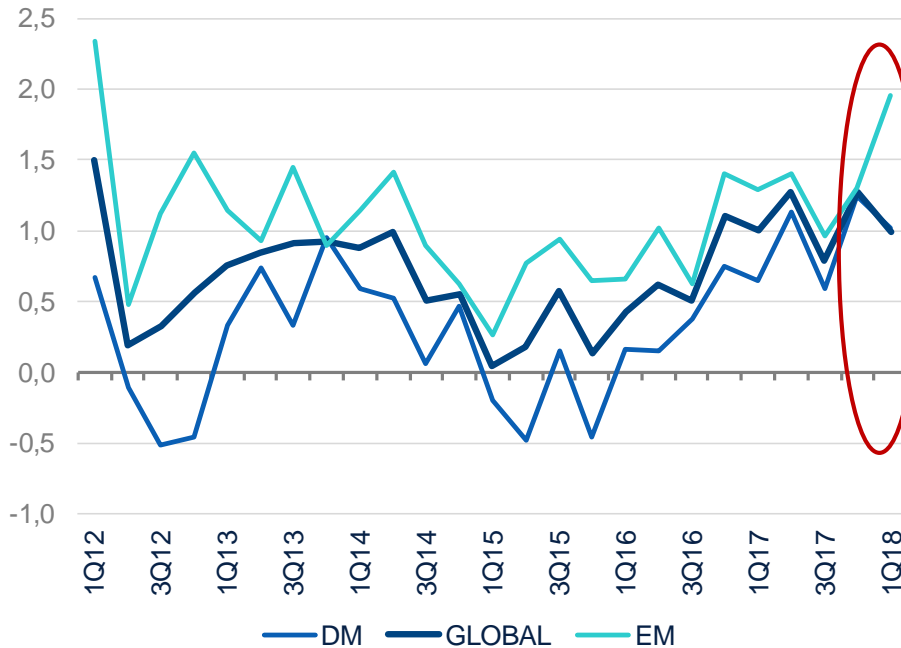


- ◆ Still limited data for February, mainly figures for Asia...
- ◆ ... suggesting that global trade could strengthen significantly for the second month in a row

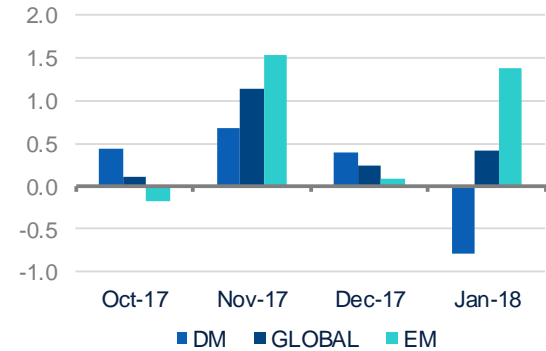
* Based on **BBVA-Trade Index**
Source: BBVA Research y CPB

Industrial recovery proceeds at a solid pace, beyond monthly volatility

World Industrial Production
(%, QoQ)



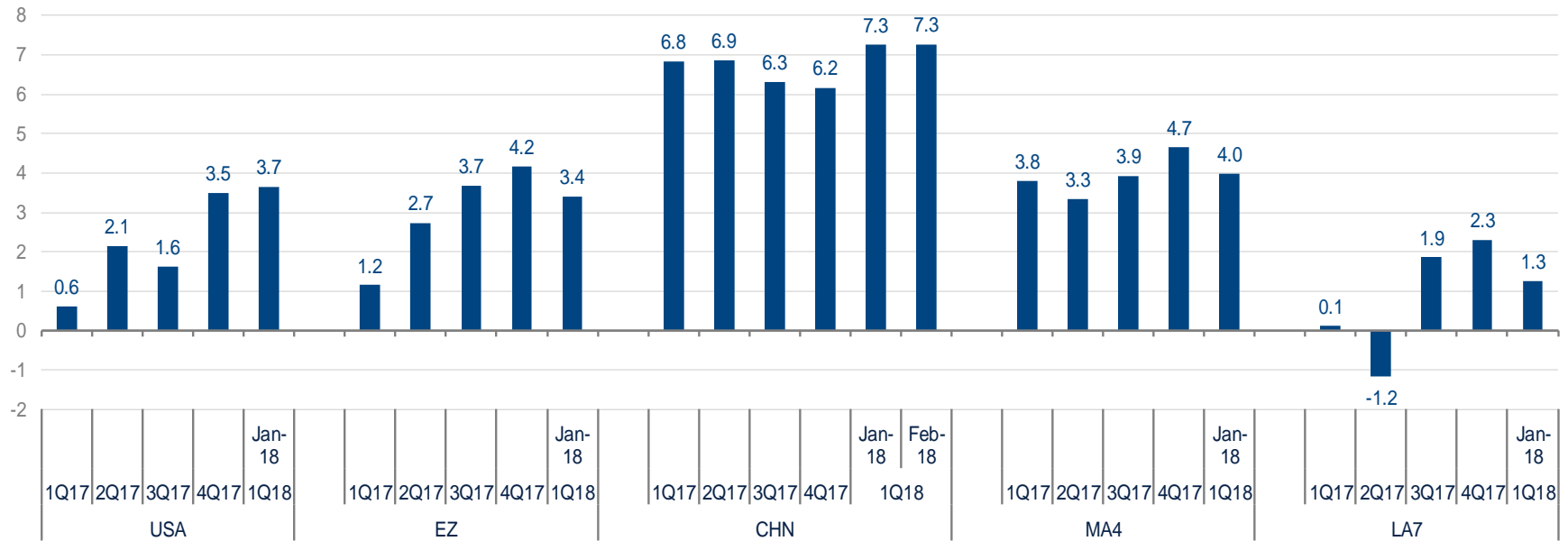
World Industrial Production
(MoM, %)



- ◆ Beyond monthly volatility, industrial recovery gains traction in the US, while it tempers in the Ez
- ◆ Few available data for February (mainly for China) point to a stronger output in coming months

Industrial recovery slowed somewhat in Europe, but remained solid. Resilient growth in China might lead the production in the rest of EM

Industrial Production: Selected Regions (YoY, %)

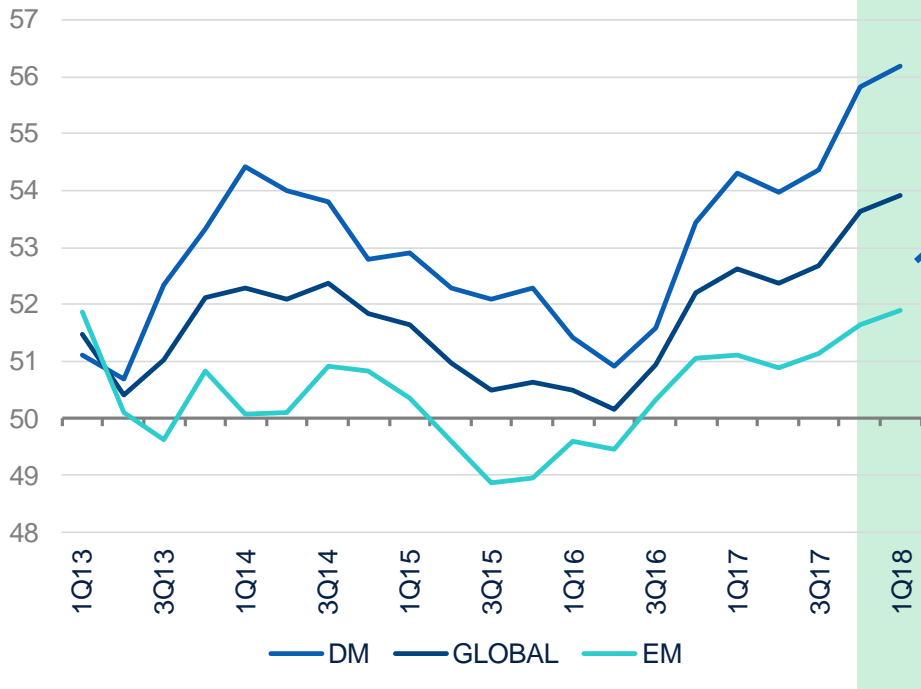


Source: BBVA Research and National sources

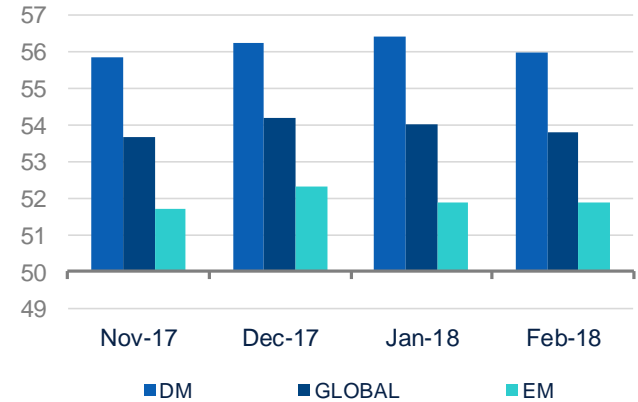
LA5: Argentina, Chile, Colombia, Peru, Venezuela.
MA4: India, Indonesia, Japan, Korea

Global manufacturing PMIs are at historical highs so far in 1Q18, but also show signs of moderation in January and February

World Manufacturing PMI
(Level ± 50)



World Manufacturing PMI
(Level ± 50)

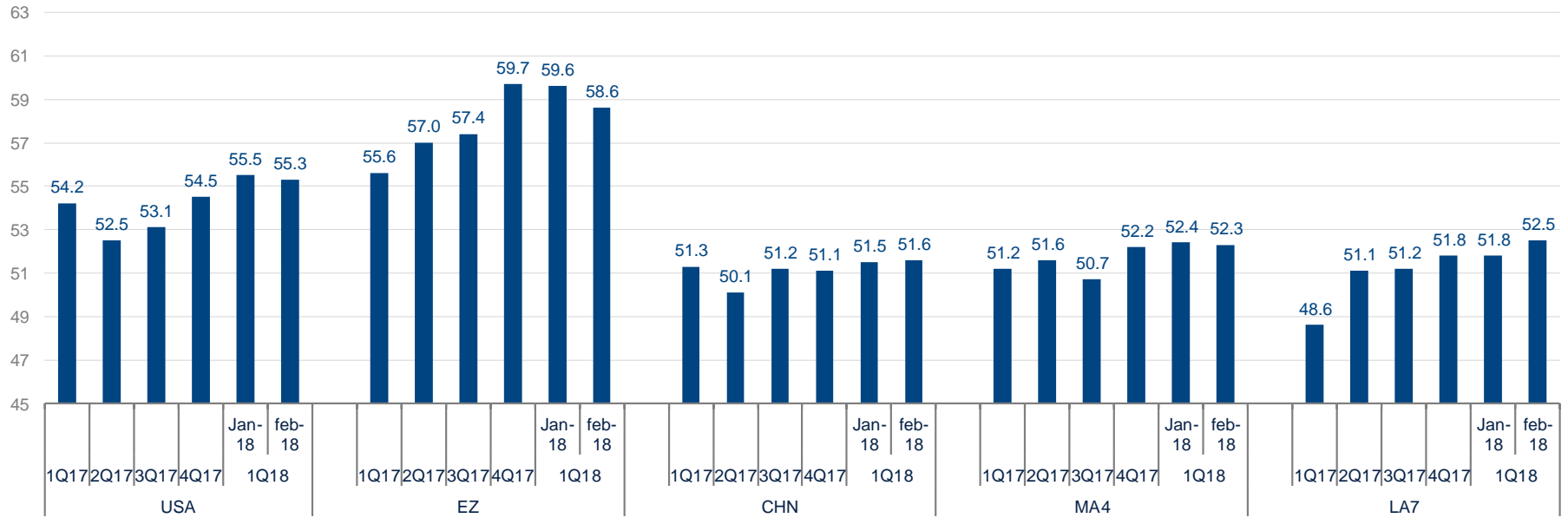


- ◆ Production and new orders rise at robust rates, but slowing
- ◆ Increased backlogs of work and high capacity utilization continue to encourage job creation

Manufacturing PMIs decelerate in larger DMs, and improve in EM

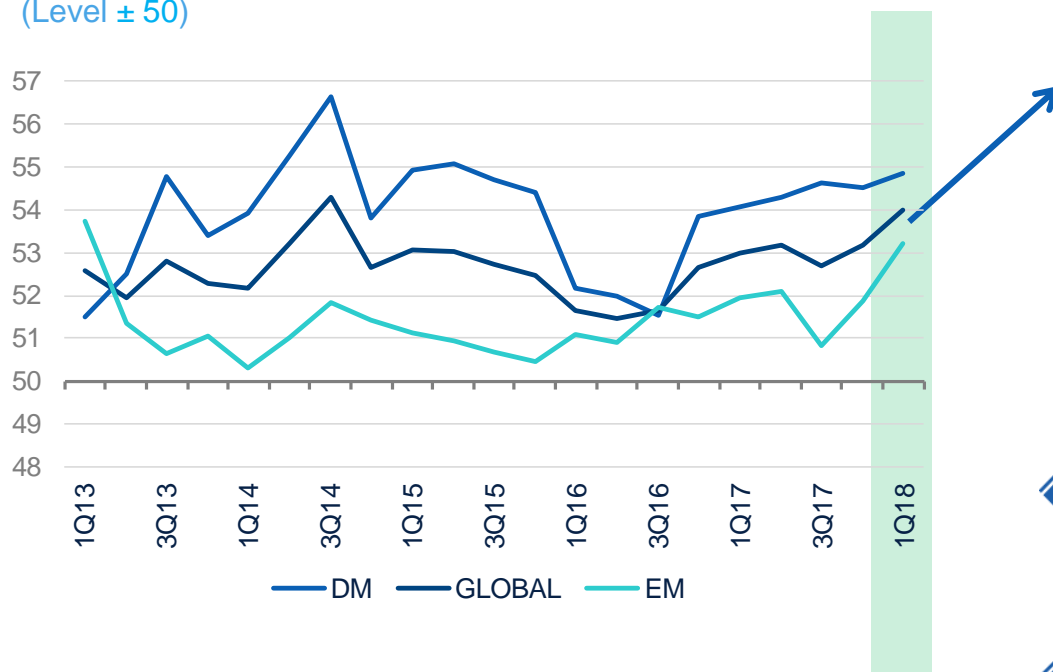
Manufacturing PMI: Selected Regions

(Level \pm 50) overall

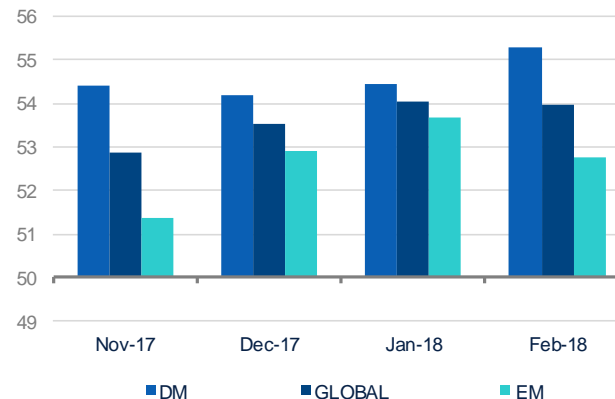


Services PMIs gathered further pace in February, mainly in DM

World Services PMI
(Level \pm 50)



World Services PMI
(Level \pm 50)

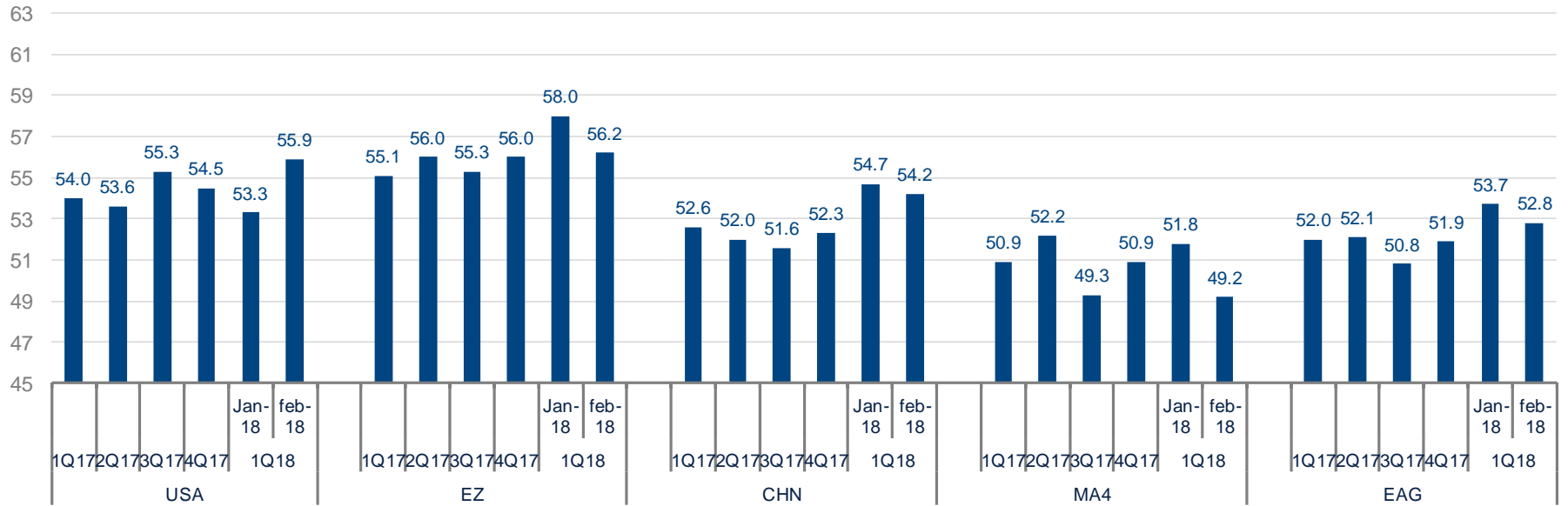


- ◆ Increasing business activity, new orders inflows and job creation are behind a strengthened index
- ◆ Price pressures continue to rise as a combination of cost increases and higher prices charged due to improving demand

Services PMI increase was led by the US, while slowing in the EZ and China after picking up in January

Services PMI: Selected Regions

(Level \pm 50)

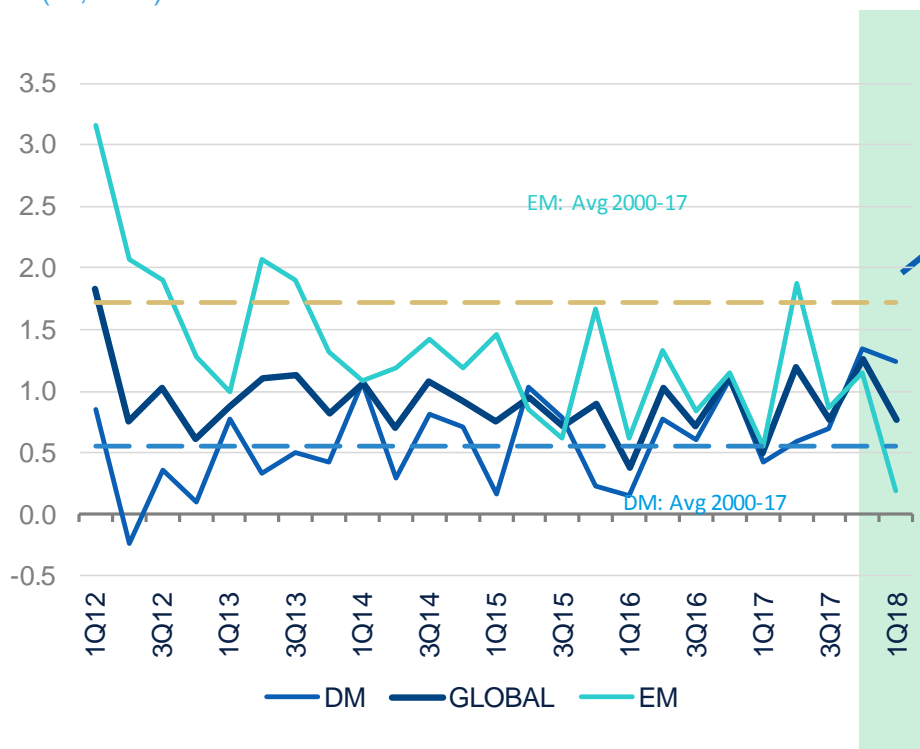


1Q18 calculated using data for Jan, Feb in the US, EZ
Source: BBVA Research and Markit

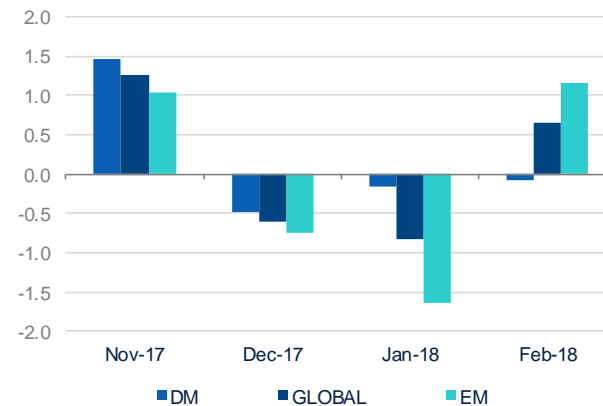
MA4: India, Indonesia, Japan, Korea
EAG (Eagles): Bangladesh, Brazil, China, Egypt, India, Indonesia, Iran, Malaysia, Mexico, Nigeria, Pakistan, Philippines, Russia, Turkey, Vietnam

Retail sales rebounded in February driven by EM, but weakness persists in these countries

World Retail Sales
(%, YoY)



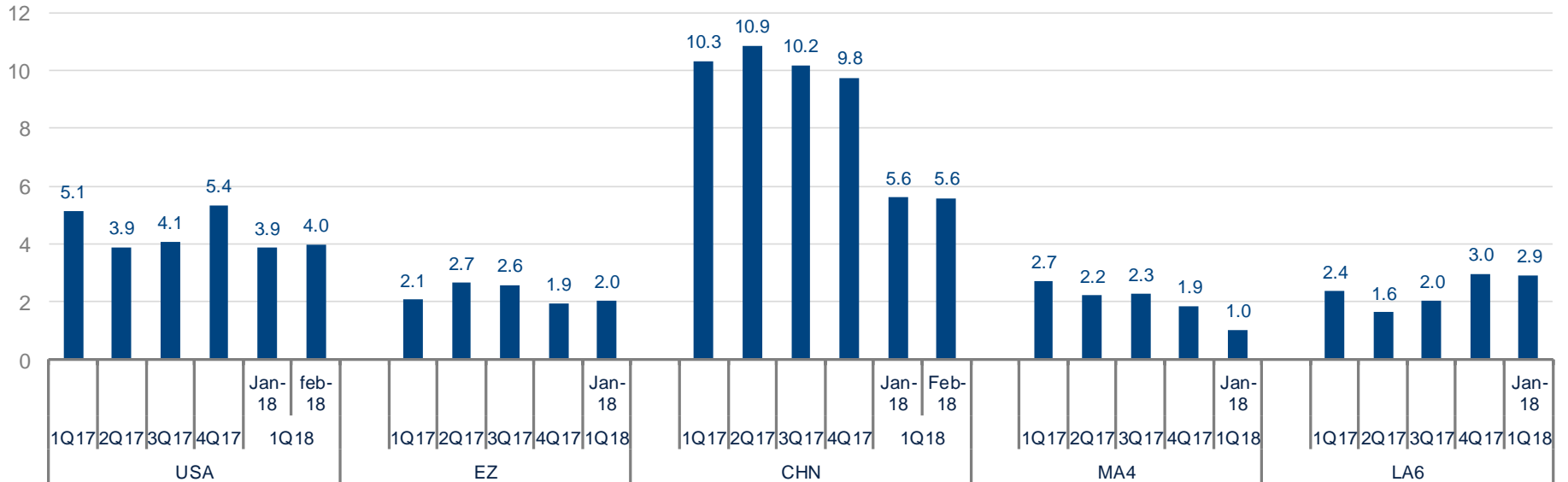
World Retail Sales
(MoM, %)



- ◆ Global retail sales bounce back in February, but not enough to offset previous falls
- ◆ Peaked consumer confidence along with retail data suggest somewhat more moderate private consumption hereafter, especially in DM

Stagnated retail sales in DM so far in 1Q18, along with a subdued recovery in Latam, point to a moderate outlook for private consumption

Retail sales: Selected Regions
(YoY, %)



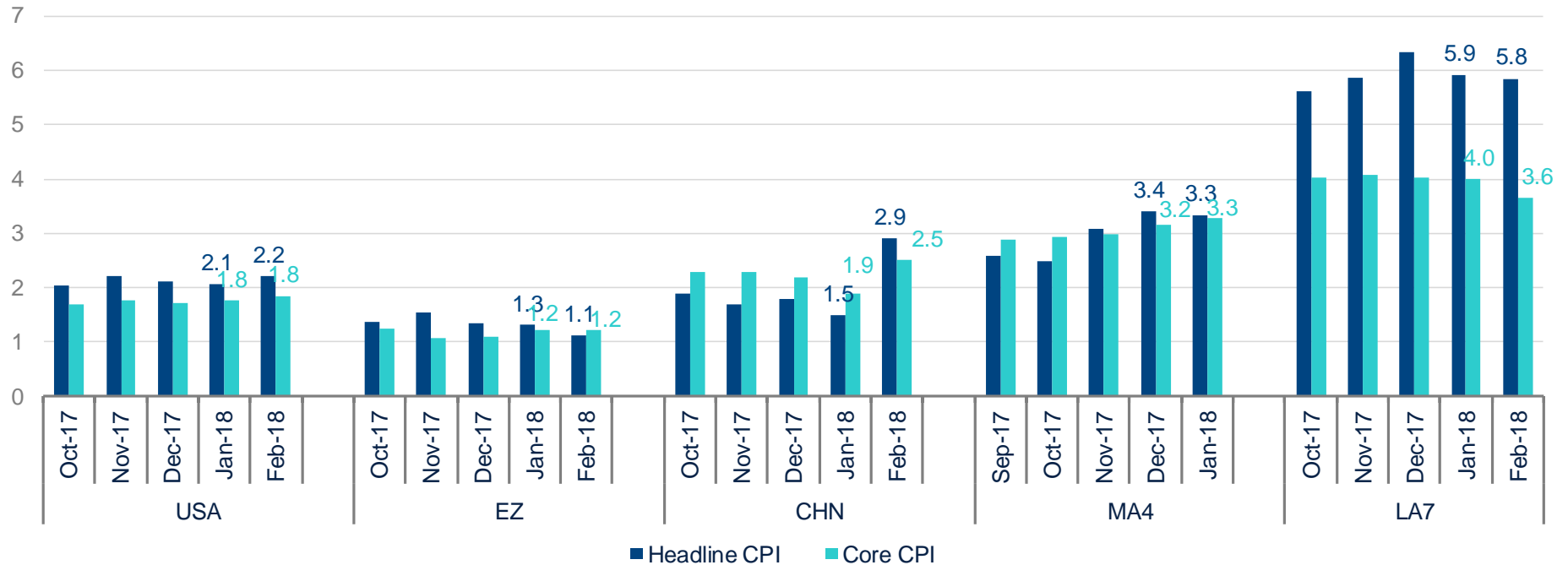
Source: BBVA Research and National sources

LA6: Argentina, Brazil, Chile, Colombia, Peru, Venezuela.
MA4: India, Indonesia, Japan, Korea

Contained inflation in most regions, except in China due to food prices. Despite some signs of price pressures, core inflation remains muted

Headline and Core Inflation: Selected Regions

(YoY, %)



Macroeconomic forecasts

Gross Domestic Product

YoY average, %

Mar-18				
	2016	2017	2018	2019
United States	1.5	2.3	2.8	2.8
Eurozone	1.8	2.5	2.2	1.8
Spain	3.3	3.1	2.5	2.3
Latam *	-1.1	1.2	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	2.7	2.3	2.0	2.2
Peru	4.0	2.3	3.5	3.8
Eagles **	5.2	5.4	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, %

Mar-18				
	2016	2017	2018	2019
United States	1.3	2.1	2.5	2.6
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	3.4

(*) 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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