

# Global Economic Watch

October 2019

# Global | Downward revision of world growth forecasts amidst increasing uncertainty

- Trade protectionism and uncertainty are having an additional negative impact on global activity. The ongoing growth slowdown has been sharper than expected, especially in China and Europe. Exports and the manufacturing sector remain particularly weak and there are signs that this weakness is beginning to affect the service sector.
- 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).
- The new protectionist measures announced in August have fueled trade tensions, while uncertainty increased sharply in August and remains high despite some moderation. Countercyclical policies, led by central banks, should help to mitigate the impact uncertainty and to calm financial markets.
- Updated scenario: The downward revision in global growth forecasts to around 3.1% in 2019-20, broadly in line with the estimated impact of protectionism measures already adopted (around 0.5pp by 2020).
- The US forecasts were revised down to 2.3% in 2019 and 1.8% in 2020, converging to potential growth faster than expected. China projections are now at 6.0% in 2019 and 5.6% in 2020 due to increasing signs of widespread moderation of the economy, but fiscal and monetary measures should prevent a sharper slowdown.
- In the EZ, Brexit and some structural factors in the auto sector add to global headwinds, and we now expect a further growth slowdown in 2020 to 0.8% from 1.1% in 2019, with increasing divergence performance across countries.
- Global risks continue to increase, mainly due to tensions between China and the US but also increasing geopolitical turbulence in the Middle East.

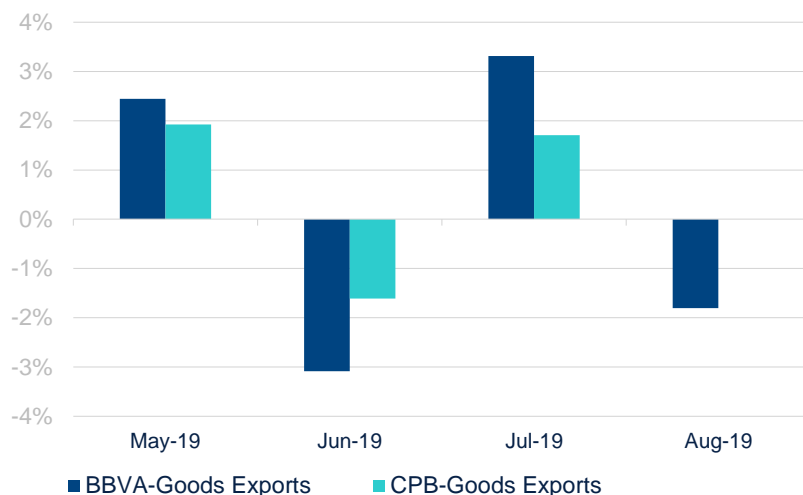
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## Updated Global Scenario

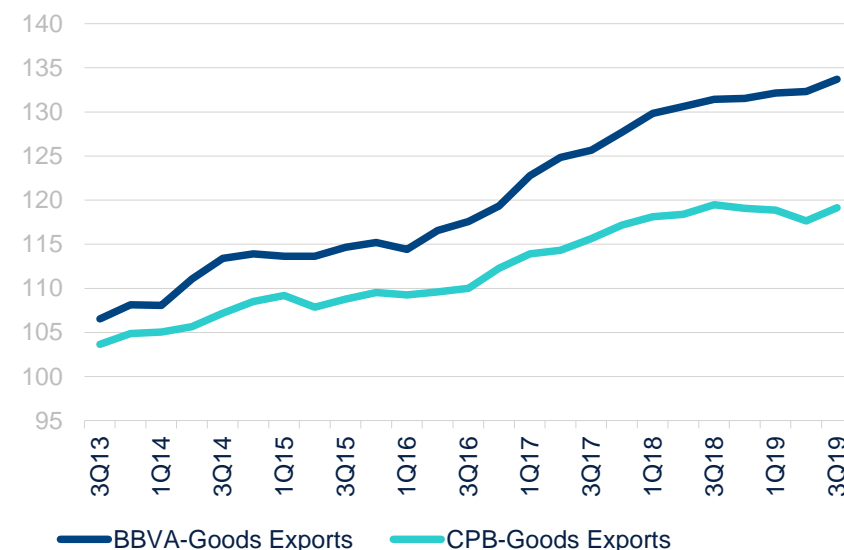
## The escalation of the trade war and higher uncertainty are weighing on global exports...

Exports data up to August point to some stabilization after the sharp slowdown since early 2018, but they are still weak (growing at below 2% YoY)

**WORLD EXPORTS OF GOODS**  
(% MoM GROWTH, CONSTANT PRICES)



**WORLD EXPORTS OF GOODS**  
(INDEX AT CONSTANT PRICES, JAN-12=100)



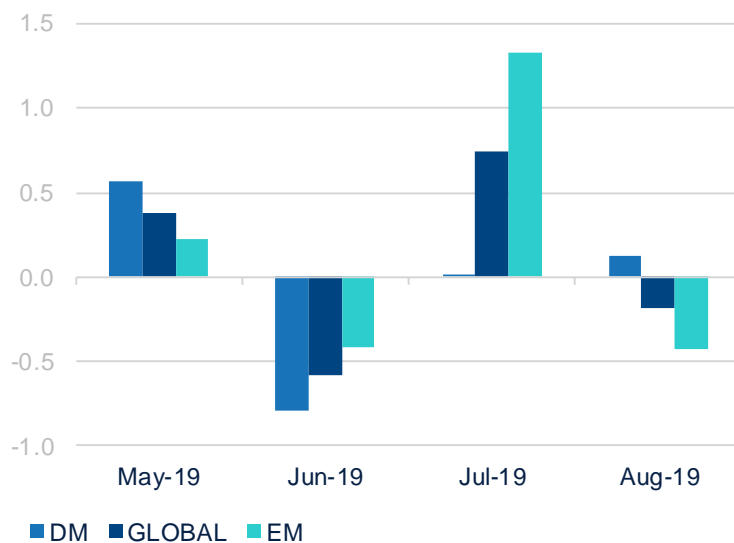
Netherlands Bureau for Economic Policy Analysis (CPB) makes a world set based on 28 developed markets and 60 emerging markets covering a 97% of world trade

## ... and on the weakness of the industrial sector, spreading to slowing investment

Global industrial production remains virtually stagnated so far this year (0,2% QoQ on average), dragged by falling activity in developed marked but also by a significant slowdown in emerging economies

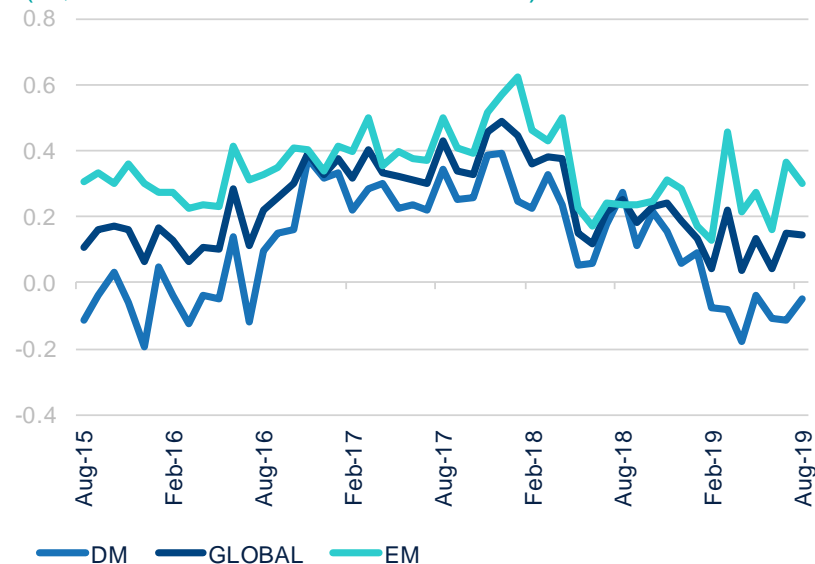
### WORLD INDUSTRIAL PRODUCTION

(%, MoM)



### WORLD INDUSTRIAL PRODUCTION

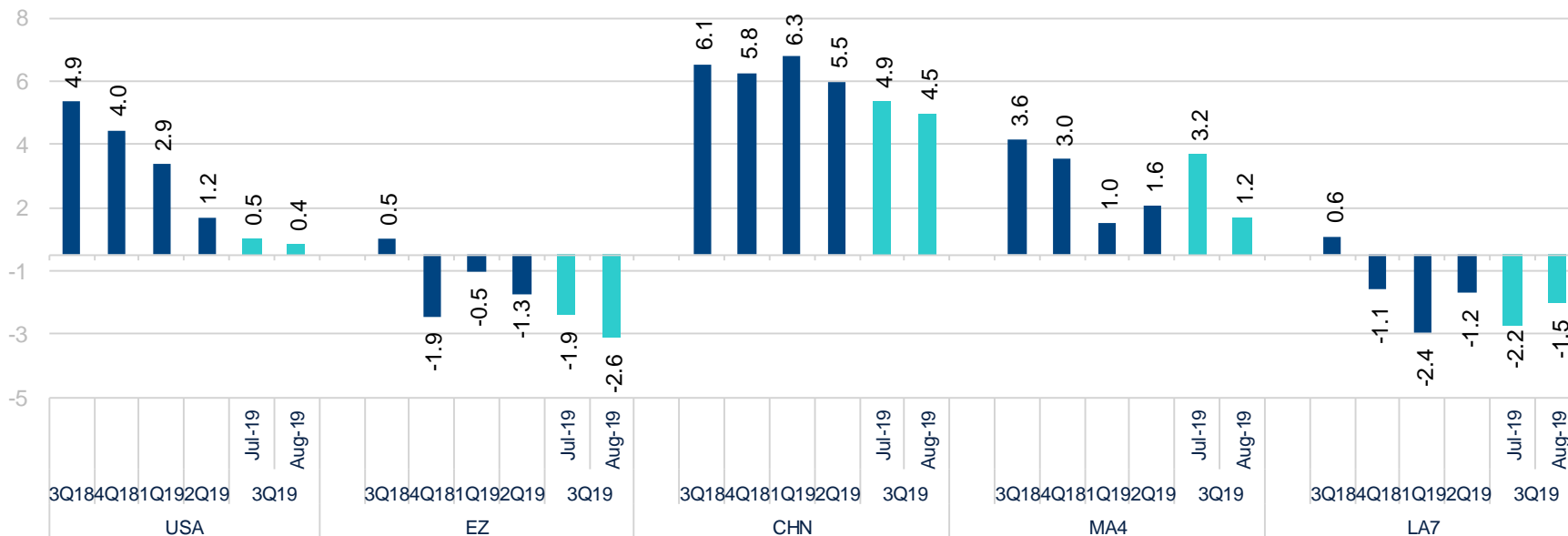
(%, 6-MONTH MOVING AVERAGE)



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

Across countries, the sharp contraction in the Eurozone and Latam over the last year contrasts with the moderation in the US and, to a lesser extent, in China

## WORLD INDUSTRIAL PRODUCTION: SELECTED REGIONS (%, YoY)

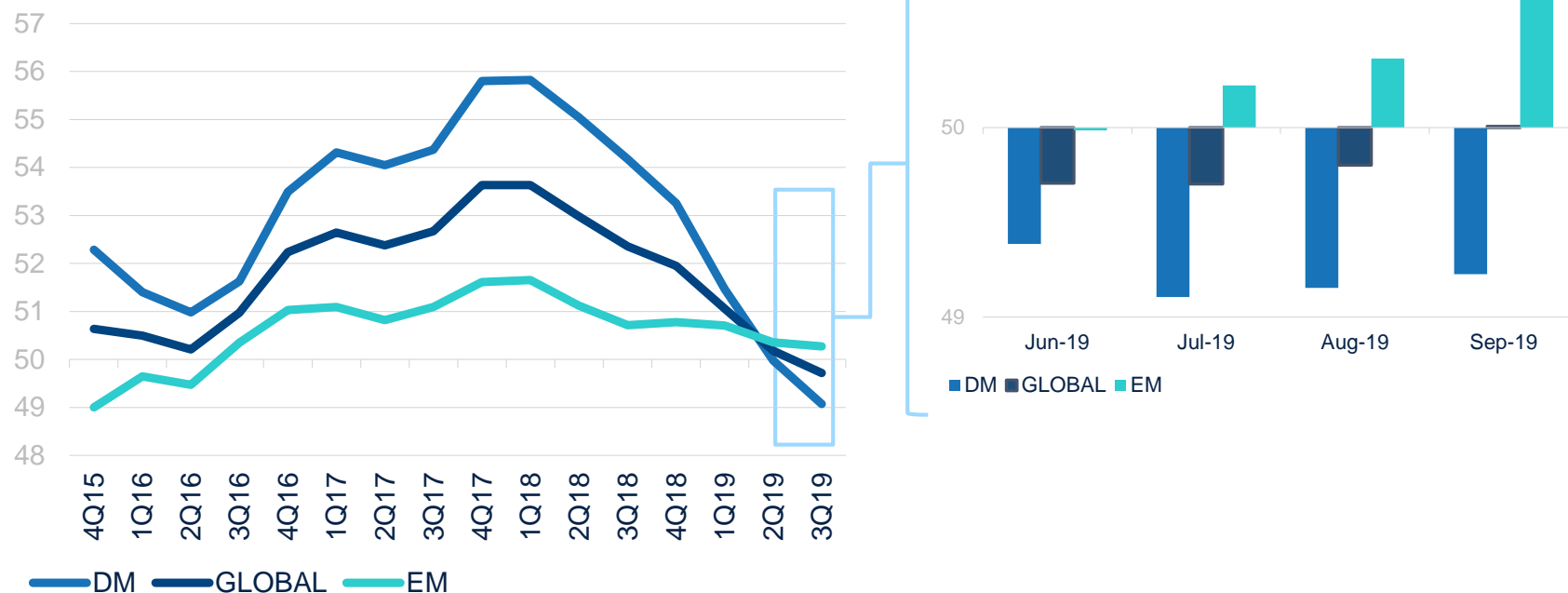


MA4: India, Indonesia, Japan and Korea

## ... and the worsening in manufacturing surveys points to a gloomier outlook in coming months, as new orders fall

Looking forward, the gloomier economic outlook is likely to linger in coming quarters, especially in develop market and in the EZ, in particular as Brexit uncertainty and structural factors in the automotive sectors add to global headwinds

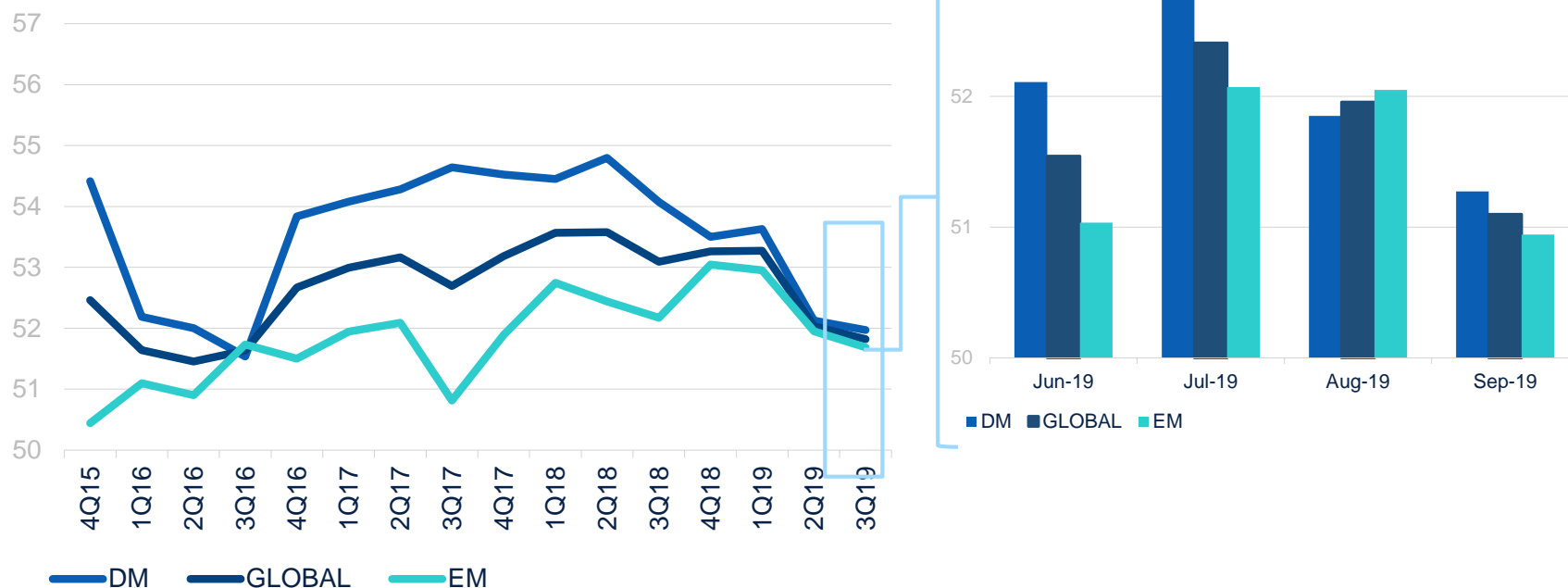
**WORLD MANUFACTURING PMI**  
(LEVEL  $\pm$  50)



# The service sector also shows signs of weakness due to a spillover effect from manufacturing

Services confidence declined across regions, but still remain clearly in expansionary territory

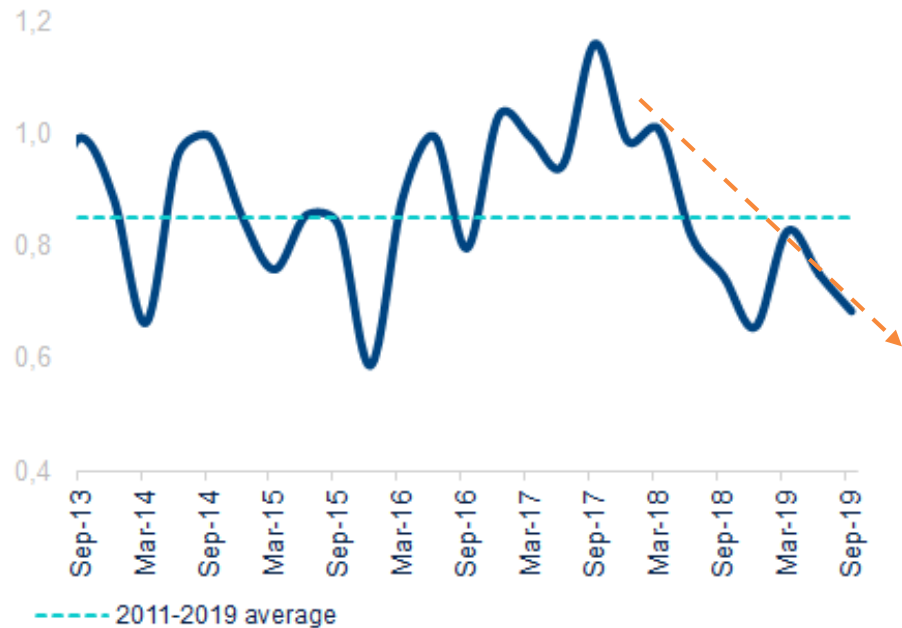
**WORLD SERVICES PMI**  
(LEVEL  $\pm$  50)





# Overall, global growth continued to weaken in 3Q19 to around an annualized rate of 2.8%

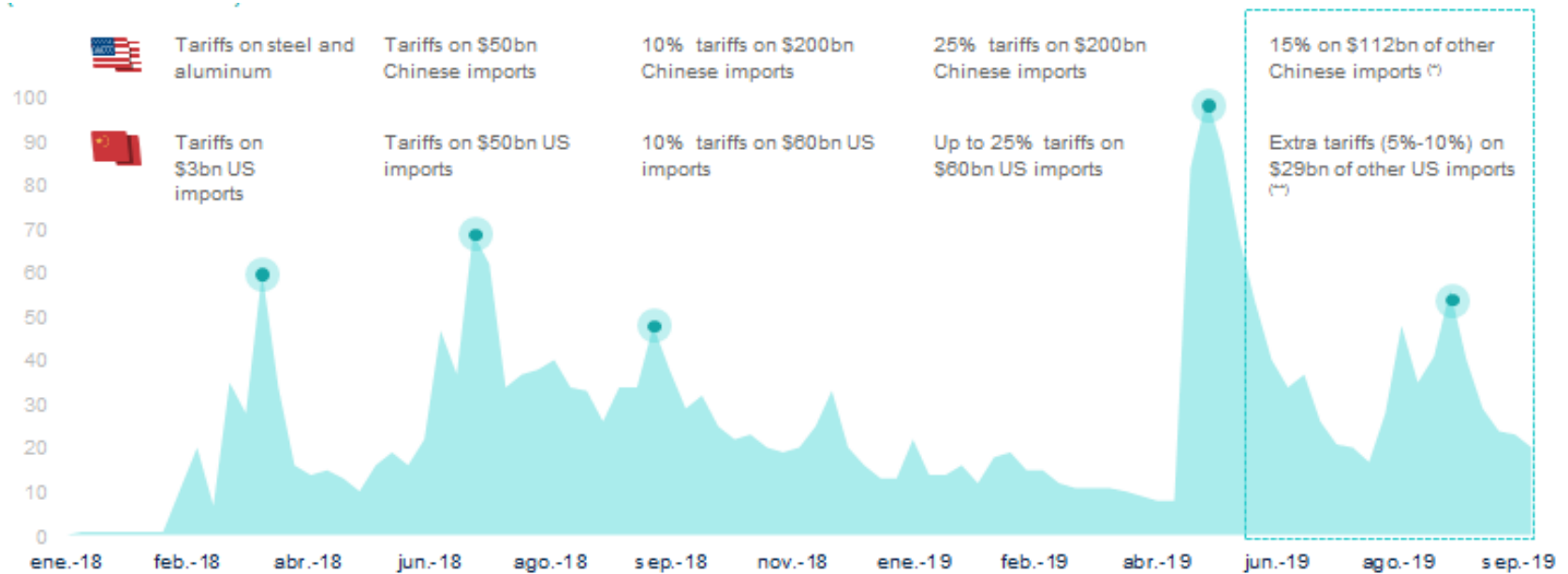
## WORLD GDP GROWTH (FORECASTS BASED ON BBVA-GAIN % QOQ)



- Recent evidence confirms that **uncertainty and protectionism are negatively affecting growth**.
- The ongoing **growth slowdown has been sharper than expected**, especially in China and Europe.
- Exports and the manufacturing sector remain particularly weak...
- ... and there are signs that this weakness is beginning to affect the service sector

# The new protectionist measures have fueled trade tensions

## TRADE WAR INDEX: WORLDWIDE GOOGLE SEARCHES ABOUT THE TOPIC "TRADE WAR" (INDEX: 0 TO 100)

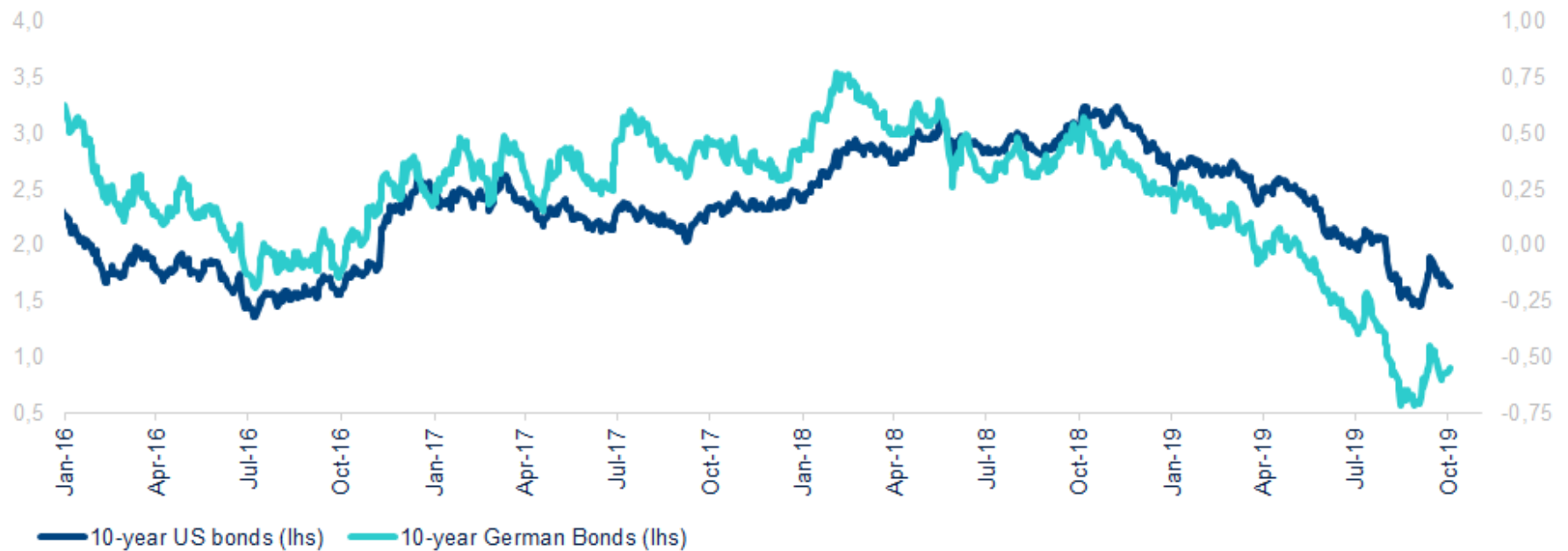


(\*) And till Dec-19: a further 5% tariff (To 30% from 25%) on USD250bn and 15% on the rest of Chinese imports. (\*\*) And till Dec-19: extra tariffs (5%-10%) on \$46bn of other US imports.

Source: BBVA Research and GDELT

# In financial markets, the flight-to-safety mood continues to prevail

## SOVEREIGN DEBT YIELDS (%)



Source: BBVA Research, Bloomberg

# Counter-cyclical policies will help to keep financial tensions under control, but will not prevent a global slowdown



## COUNTERCYCLICAL POLICIES

### Monetary policy:

- Will continue to lead **countercyclical actions**...
- ... despite its **lower effectiveness** in the actual context
- **More measures** will be announced moving forward

### Fiscal policy:

- Should play a **bigger role**...
- ... but **political issues and high debt** will limit its use
- **More measures** in Europe and mainly **in China**

A global coordination of policies is now less likely

## GLOBAL UNCERTAINTY

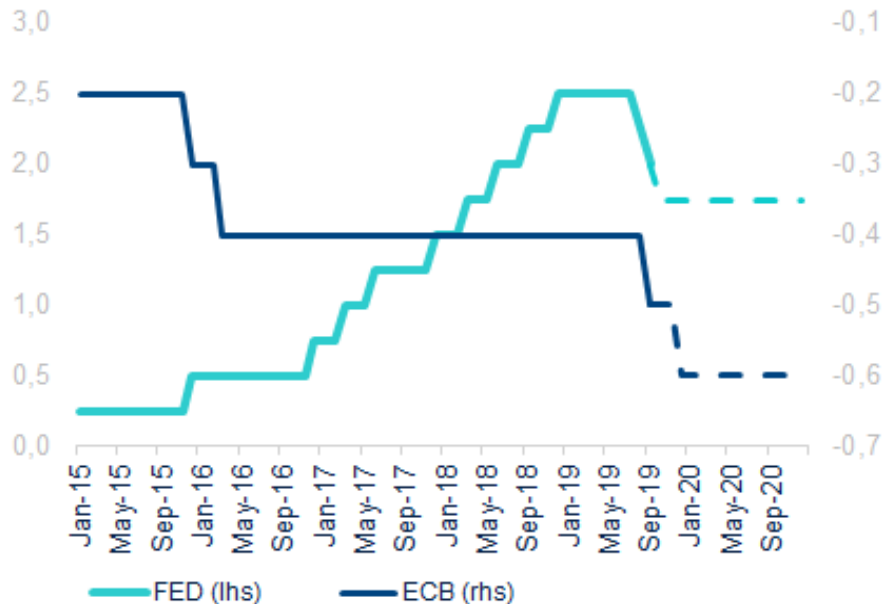
### US – China tensions will remain in place:

- A partial trade agreement between both countries is likely
- Tariffs will hardly return to the levels exhibited a few months ago
- Structural and technological issues will continue to generate turbulence

The **Brexit** issue, as well as **political and geopolitical tensions** in certain regions, will continue to fuel uncertainty

# Further monetary stimulus across the board

## FED AND ECB: INTEREST RATES (\*) (%, END OF PERIOD)

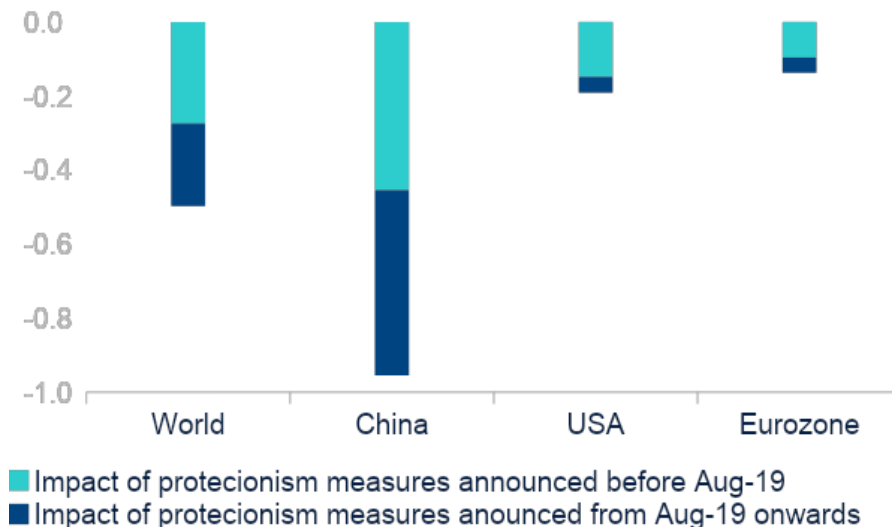


(\*) In the case of the ECB, deposits interest rates.  
Source: BBVA Research

- **Fed:** a 50bps reduction in rates in recent months and at least an additional 25bps cut in October is expected
- **ECB:** an aggressive monetary package
  - a 10bps cut in deposit rates
  - a two-tiered system for bank deposits
  - a new quantitative easing program
  - a more favorable TLTRO-III
- In Europe, another 10bps cut in deposit rates is likely
- **China and other emerging countries:** more aggressive reduction in interest rates

# The sharper slowdown of the world economy is to some extent related to persistent protectionist tensions

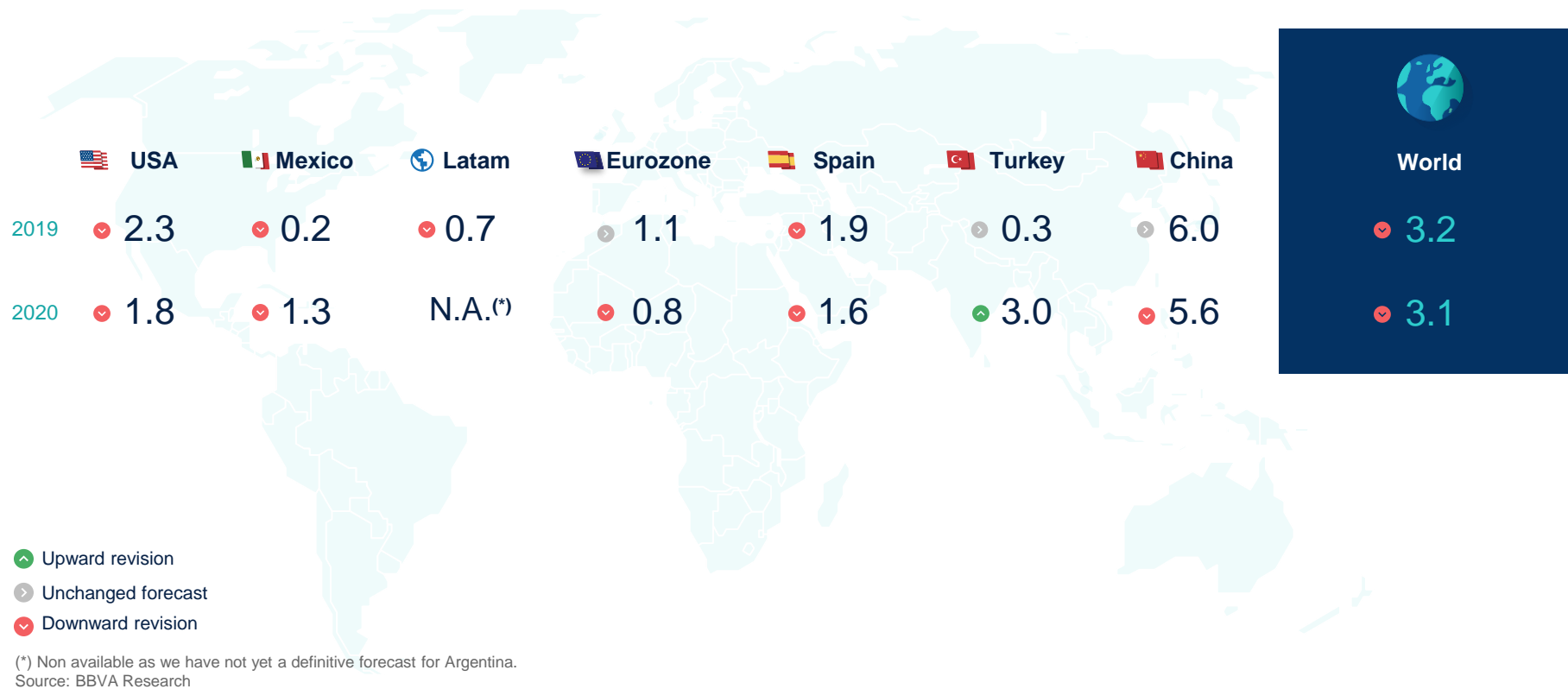
## IMPACT ON GDP OF THE PROTECTIONISM (IMPACT ACCUMULATED IN TWO YEARS, PP)



(\*) Direct and indirect impact. **Protectionism measures announced before Aug-19:** US: 25% tariff increase on steel, 10% on aluminum, 25% on \$250bn China imports. China: 25% on USD110bn US imports **Protectionism measures announced from Aug-19 on** (to be implemented, in case of no trade agreement, till Dec-19): US: a 5% extra tariff on \$250bn and 15% on \$300bn China imports. China: extra tariffs (5%-10%) on \$75bn US imports.  
Source: BBVA Research

- The revisions in GDP forecasts are broadly in line with the **estimated impact of adopted protectionism measures**.
- Specially in China, the impact has been smoothed by countercyclical policies.
- In the **Eurozone** the deterioration has been even larger thanks to lower export to the United Kingdom (Brexit) and problems in the automobile sector.
- **Risks:** if the US and China don't reach a trade agreement and the protectionist escalation continues, there would be an additional negative effect on the global economy.

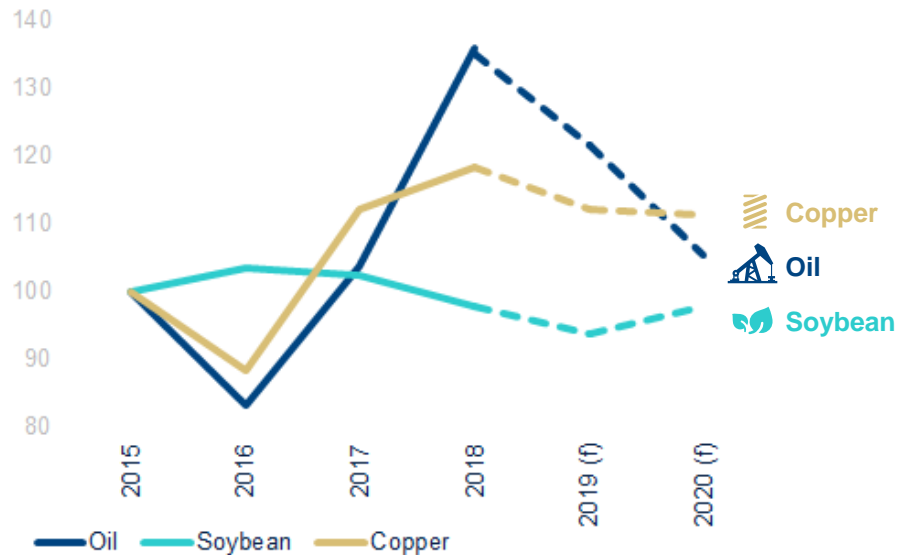
# GDP growth of the World and the main Economies is revised downwards for 2019



# Prospects for weaker growth puts downward pressure on commodity prices

## RAW MATERIALS: ANNUAL AVERAGE PRICES

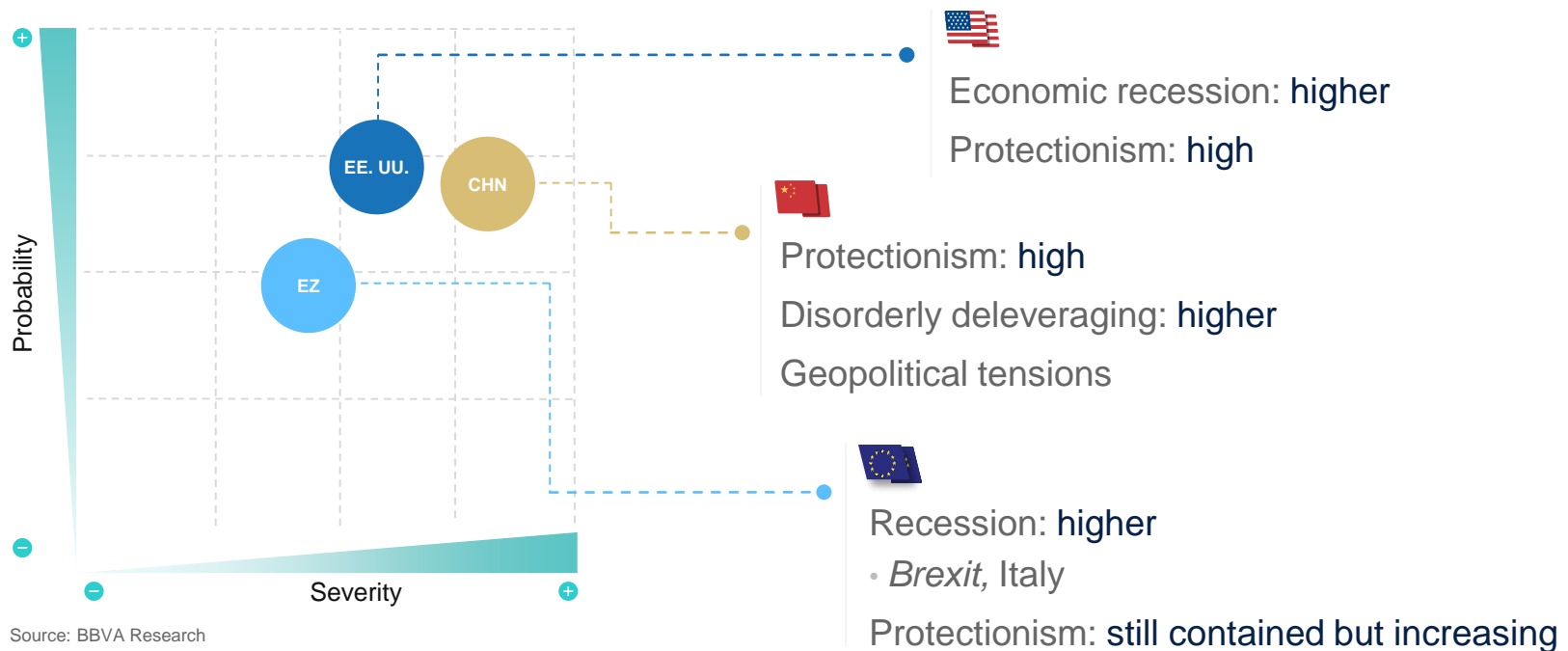
(INDEX: 2015 AVERAGE = 100)



- **Oil:** Slight upward revision of short-term forecasts and risk that an escalation of tensions in the Middle East will end up driving oil prices up.
- In any case, prospects for price moderation going forward are maintained, given the relative strength of supply in an environment of lower demand
- **Soybean and copper:** price forecasts revised downwards.



# Global risks continue to increase, mainly due to tensions between China and the US



The risk of geopolitical turbulence in the Middle East has also increased.  
Financial vulnerabilities can amplify the severity of risks.

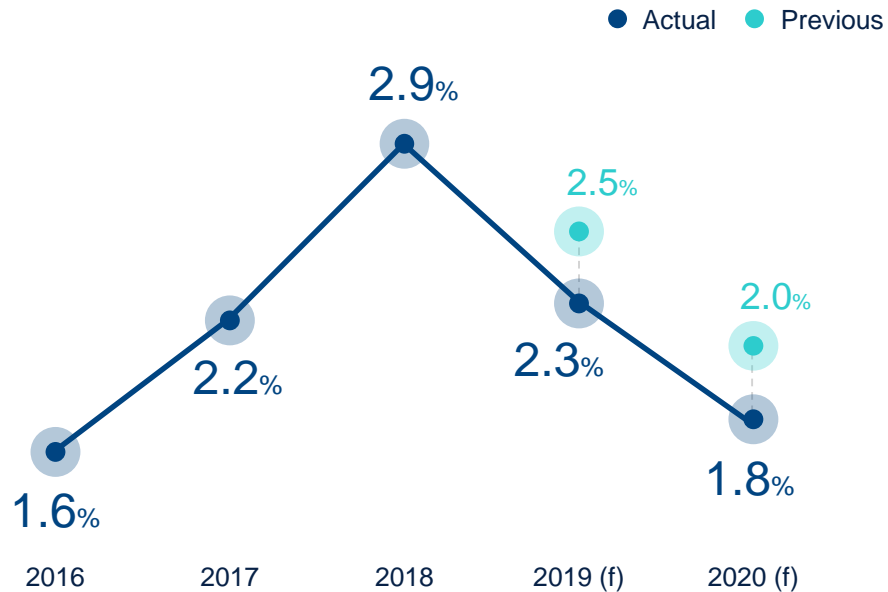
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## Outlook for G3 economies

# USA: lower growth due to the global slowdown and uncertainty about domestic policies

## GDP GROWTH

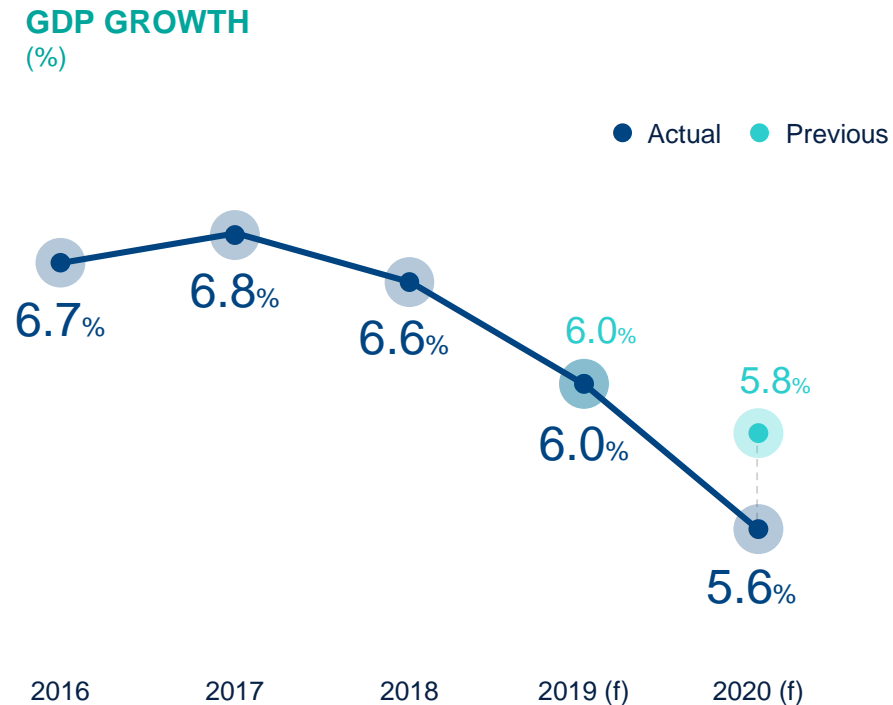
(%)



(f) Forecast.  
Source: BBVA Research

- Growth will converge to the potential rate faster than expected
- Inflation will remain close to the 2% target
- The probability of a recession has increased
- Trump's impeachment process increases uncertainty and reduces the likelihood of additional fiscal stimuli

# China: trade tensions add to the downward structural trend



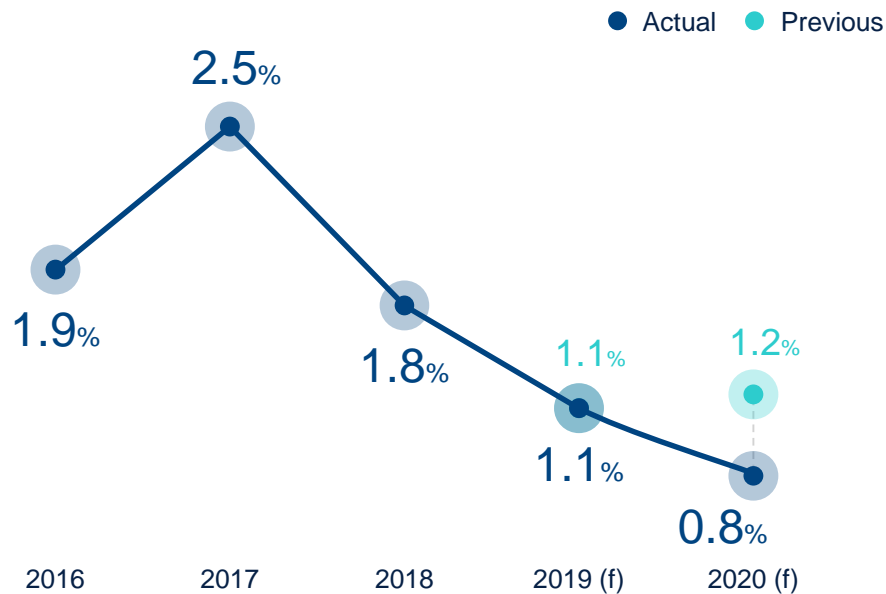
- There are increasing signs of **widespread moderation** of the economy
- **Fiscal and monetary stimulus measures will prevent a sharp slowdown**, but may increase financial vulnerabilities
- The **exchange rate will remain at a more depreciated level**, to partially to offset the effects of higher protectionism

(f) Forecast.  
Source: BBVA Research

# Eurozone: worse growth prospects due to the more negative global environment and high uncertainty

## GDP GROWTH

(%)



(f) Forecast.  
Source: BBVA Research

- Brexit and the problems in the auto sector, on top of trade tensions, have affected economic activity...
- ... and have contributed to a particularly large fall of exports to the rest of Europe and UK
- Increasing divergence in growth performance across countries depending on their exposure to the external sector
- Inflation will remain low (1.2% in 2019; 1.1% in 2020)
- The risk of recession has increased

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