

Global Economic Watch

January 2020

Updated Global Outlook | Towards the stabilization of global growth, though risks persist

- Recent data have been relatively positive and signal to some stabilization. The contraction in the manufacturing sector has moderated, but confidence remains at very low level or at contractionary territory in advanced economies. Exports seem to have stabilized at a moderate rate, while the contagion to the services sector and domestic demand remains contained.
- Our BBVA-GAIN model points to a slightly higher growth estimate for 4Q19 (0.8% QoQ) than previously expected, but growth is clearly below the one in previous years.
- Updated Global Scenario: The reduction of trade tensions, less uncertainty about a disruptive Brexit in the short-term, the effect of monetary accommodation and somewhat expansionary fiscal measures should support a slight improvement of growth over the forecast horizon. Global GDP will grow steadily at 3.2% in 2020 and 3.3% in 2021.
- US: The prospect of a mild growth moderation is maintained (2.3% in 2019, 1.8% in 2020 and 2% in 2021) supported by the strength of private consumption, although the weakness of investment is a concern.
- China: GDP growth will slow down (6.1% in 2019, 5.8% in 2020 and 5.5% in 2021), but somewhat less than previously expected, driven by recent data, an improvement in relations with the US and greater willingness to implement a fiscal stimulus.
- Eurozone: A slight upward revision for growth due to better-than-expected incoming data (1.2% in 2019, 0.9% in 2020 and 1.2% in 2021), but still at moderate rates as the effect of slowing global demand and industrial recession will continue to weigh in some countries, while domestic demand could moderate slightly.
- Risks remain tilted to the downside, although those related to cyclical downturns in the US and the Eurozone are reduced, while structural risks (deglobalization, secular stagnation, China's disorderly deleveraging, climate crisis...) and geopolitical tensions remain high.

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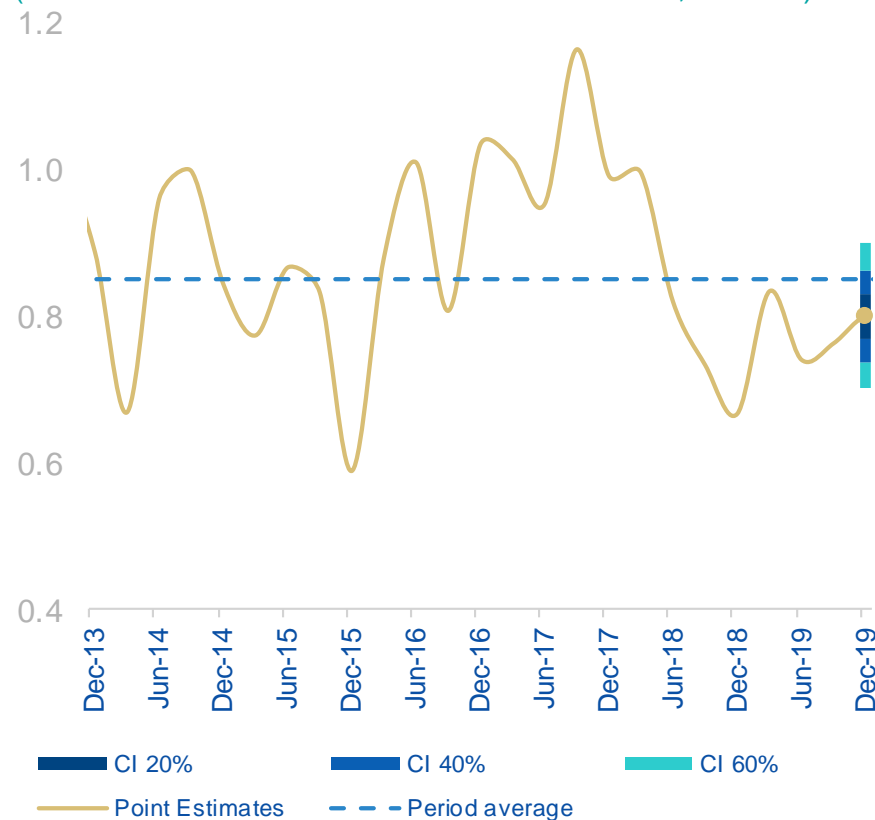
Short-term indicators

Recent data point to a slight uptick in global growth in 2H19, but still clearly below previous year readings

Our BBVA-GAIN model points to a higher estimate for 4Q19 than previously expected (0.8% QoQ vs 0.6%)

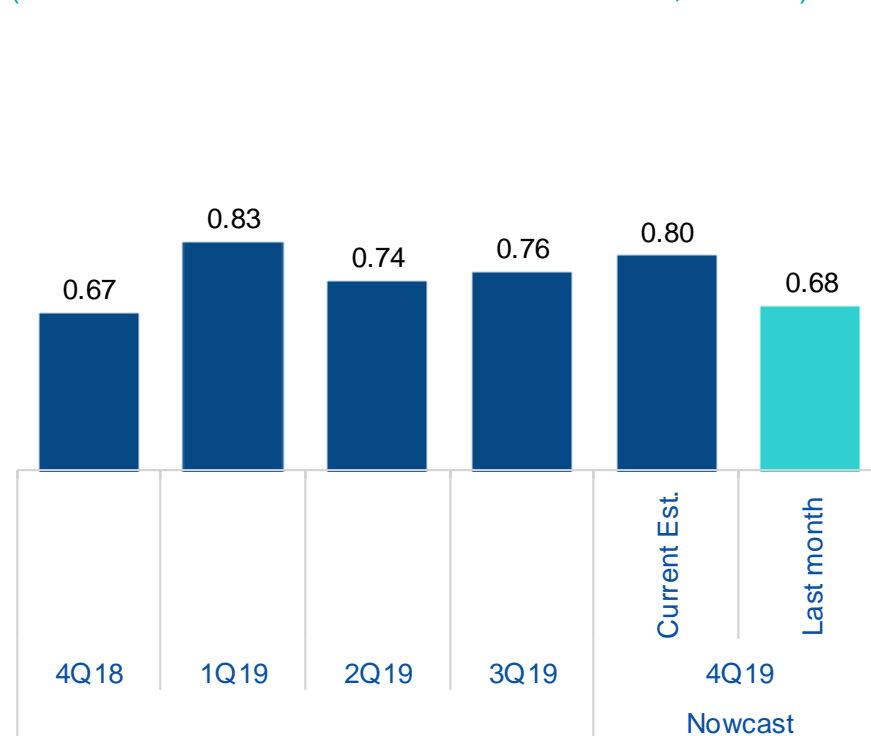
WORLD GDP GROWTH

(FORECAST BASED ON BBVA-GAIN MODEL, % QoQ)



WORLD GDP GROWTH

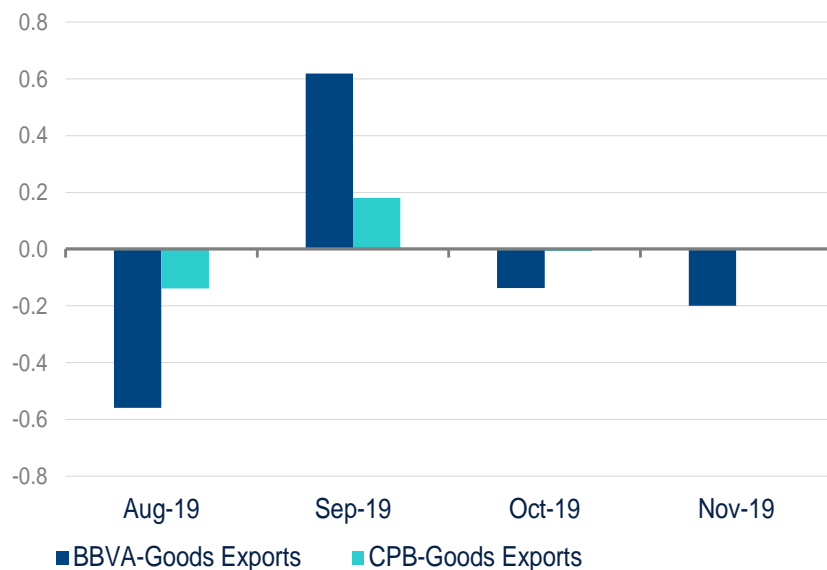
(FORECAST BASED ON BBVA-GAIN MODEL, % QoQ)



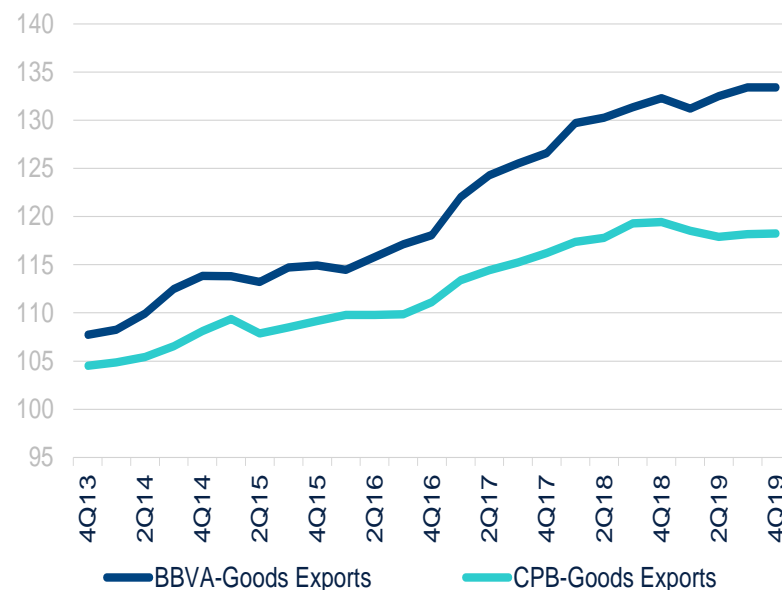
Global exports have stabilized in 4Q19, but remain weak

Despite easing trade tensions (US-China and Brexit), increasing protectionism over the last quarters continue to weight on exports

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



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

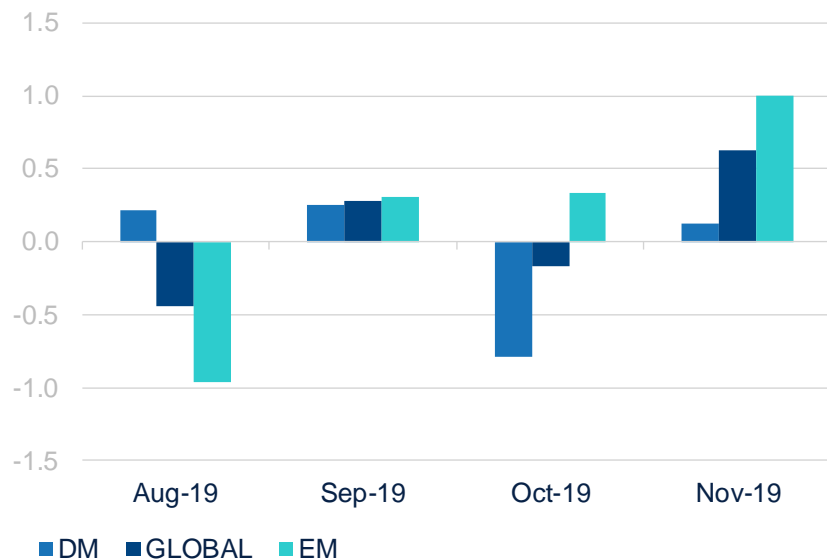


Netherlands Bureau for Economic Policy Analysis (CPB) makes a world set based on 28 developed markets and 60 emerging markets covering a 97% of world trade

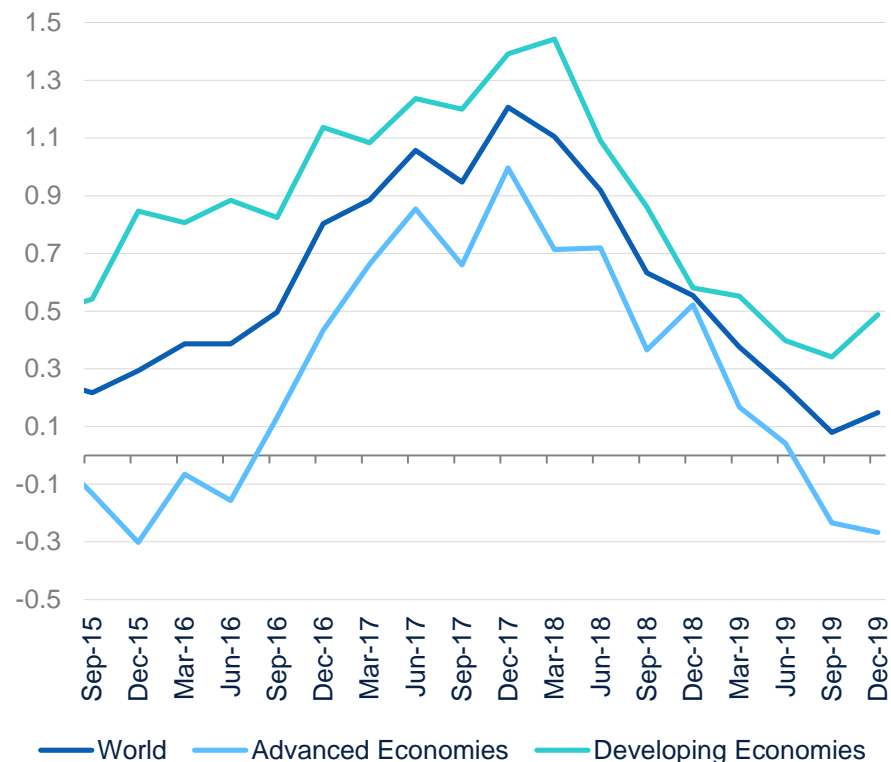
Global industrial output stagnates dragged by advanced economies, while it continues to improve in emerging markets

The slight improvement in industrial output in advanced economic surprised on the upside, but failed to offset the previous fall and points to some moderation in declining output

WORLD INDUSTRIAL PRODUCTION
(% MoM GROWTH)



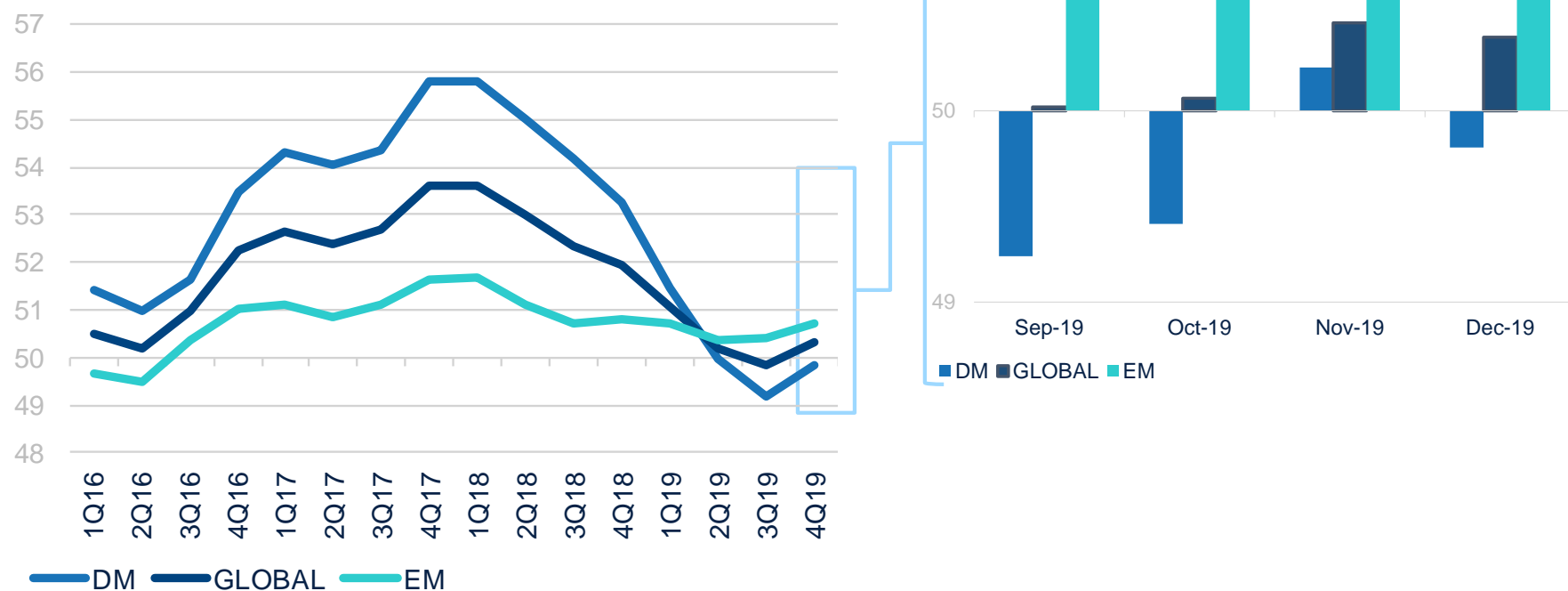
WORLD INDUSTRIAL PRODUCTION
(% SMOOTH QoQ)



Manufacturing confidence seems to be recovering across regions, but still suggesting a very gradual recovery ahead

A less pessimistic mood on global demand, the slight improvement in foreign orders and more supportive central banks underpin firms' confidence, which is low

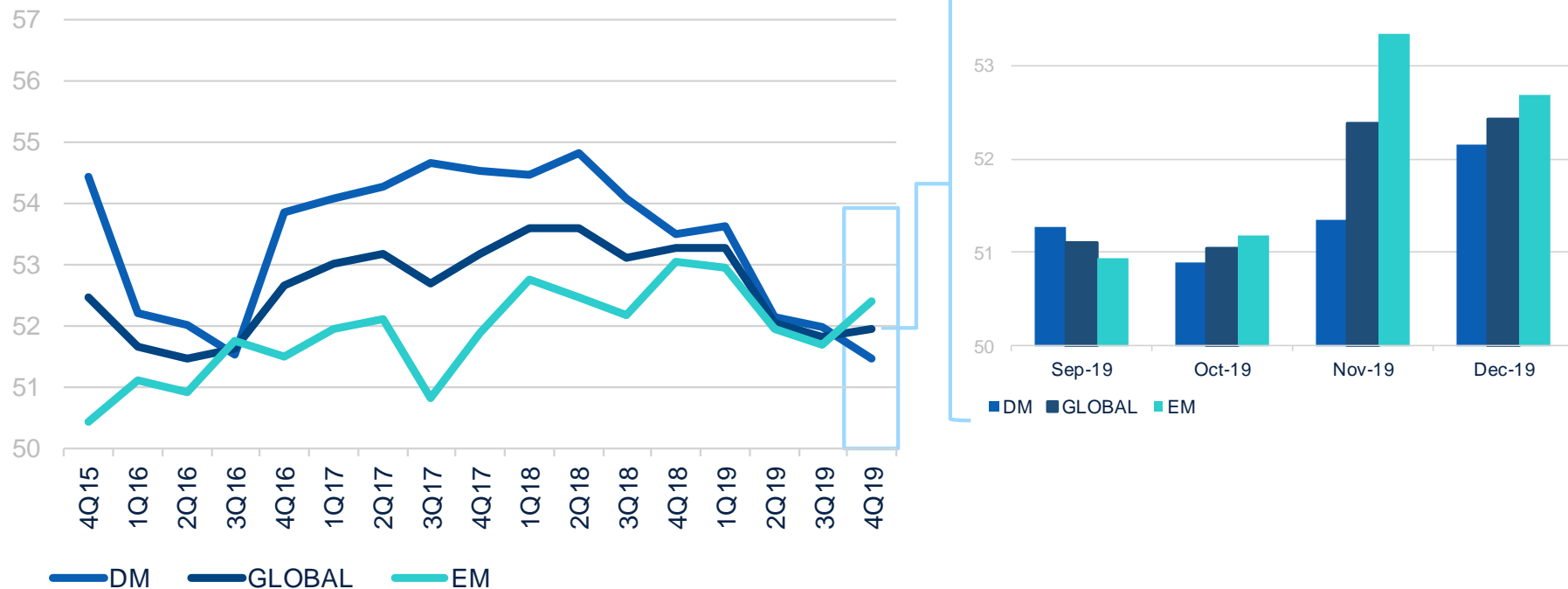
WORLD MANUFACTURING PMI
(LEVEL \pm 50)



Confidence in the service sector has stabilized in 4Q19 led by emerging markets, while it softens again in advanced economies

Increasing concerns about contagion from industry to domestic demand, but this is still supported by consumers' resilience in the US and the Eurozone

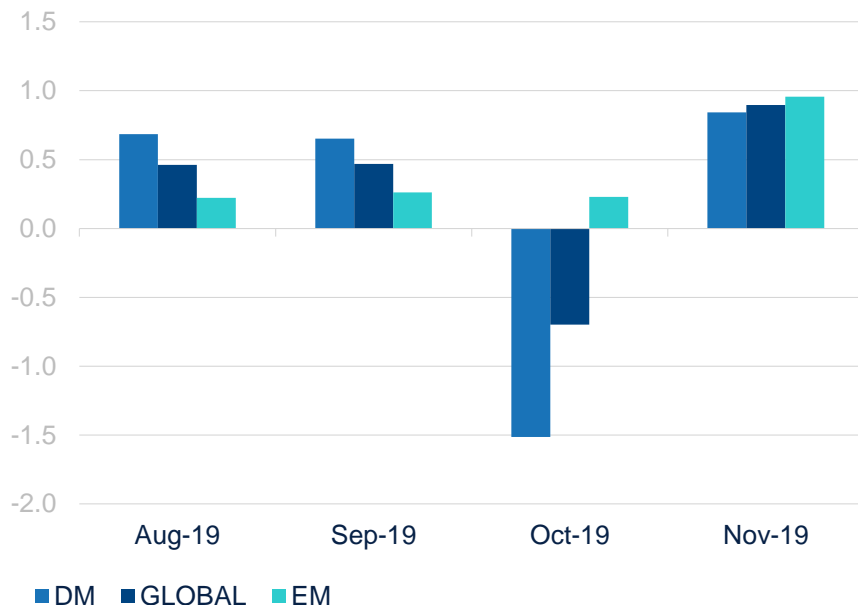
WORLD SERVICES PMI (LEVEL \pm 50)



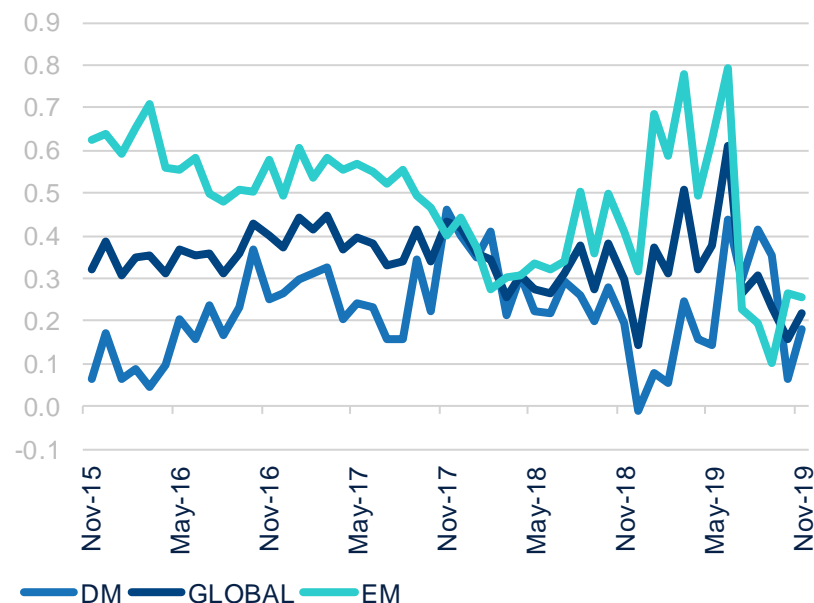
Retail sales data point to a solid growth in 4Q19, suggesting that domestic demand remains resilient across the board

Low inflation and supportive financial conditions will continue to underpin consumption, but still moderately due to protracted uncertainty and slowing job creation

WORLD RETAIL SALES
(% MoM GROWTH)



WORLD RETAIL SALES
(% 6 MONTHS MOVING AVERAGE)

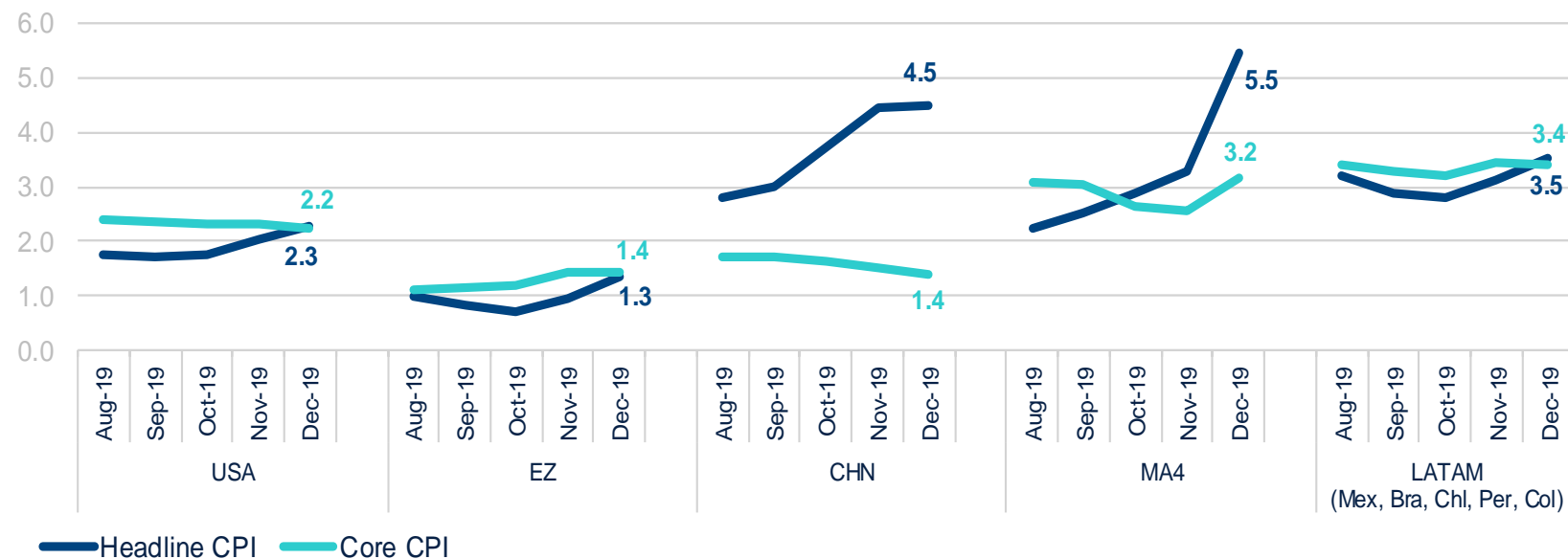


Higher inflation across the board, but still at low levels, especially in the Eurozone

Inflation has temporarily spiked in China following some supply shocks, while it stabilized in Latin America. Core inflation rose in the Eurozone.

HEADLINE AND CORE INFLATION: SELECTED REGIONS

(% YoY)



MA4: India, Indonesia, Japan and Korea

02

Updated Global Outlook

The way is paved for a stabilization of global growth



LOWER TRADE TENSIONS

- **US-China positive but partial deal.**
- **Protectionism** will continue to be a source of concern, also in other regions.
- **A less disruptive *brexit***, at least in the short-term.



COUNTER-CYCLICAL POLICIES

- The expansionary tone of **monetary policy** will be maintained, following recent rate cuts.
- A limited **fiscal stimulus** in Europe and somewhat greater in China.



LIMITED FINANCIAL VOLATILITY

- Volatility will be limited by the **actions of central banks.**
- Some **appetite for risk.**

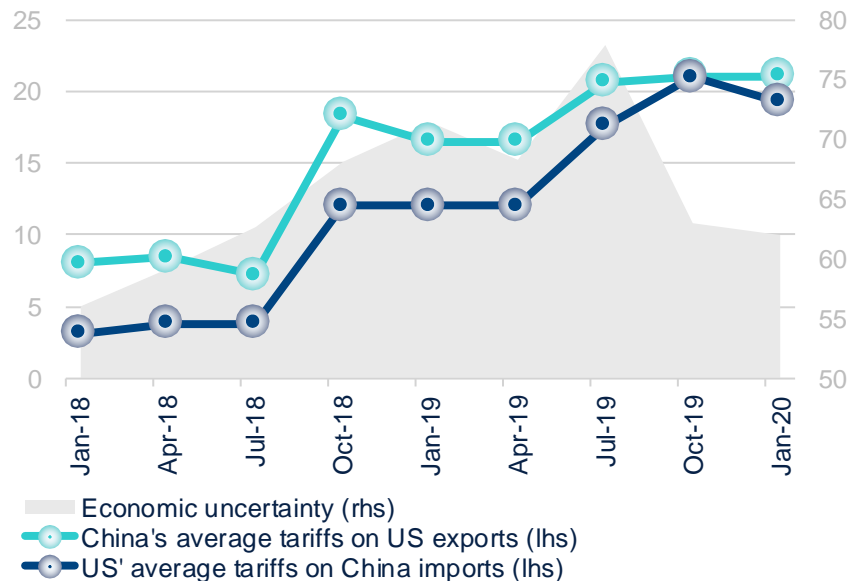


COMMODITY PRICES UNDER CONTROL

- **Oil prices** around 61 dollars in 2020-21
- Relative **weakness of demand** and **increase in the supply of non-OPEC countries.**

The trade agreement between the US and China has significantly reduced uncertainty, but not protectionism levels

TARIFFS AND ECONOMIC UNCERTAINTY* (%, INDEX: 0 TO 100)



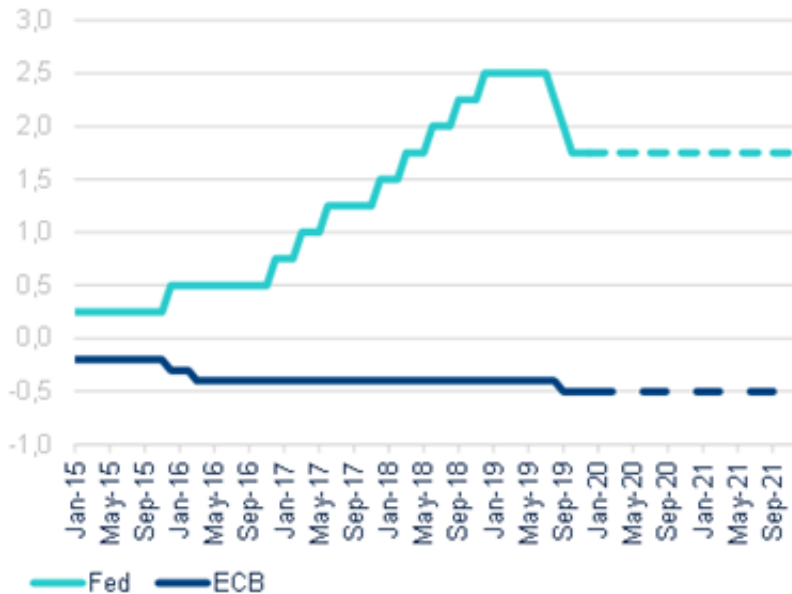
* Average tariffs at the beginning of each quarter. BBVA Research Index of Economic Uncertainty: tone of the news about economic uncertainty; quarterly average (except 1Q20: average until January 9, 2020).

Source: BBVA Research, PIIIE

- US-China “phase-one” trade deal is positive, but partial:
 - Important tariffs will continue to be high despite the announced reductions.
 - We are still far from a definitive solution to structural problems
- The risk of disorderly Brexit in the short-term has disappeared, contributing to reduce global uncertainty, but it can resurge in the second half of the year.

Pause at both the Fed and the ECB: no prospects for changes in interest rates on the horizon

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

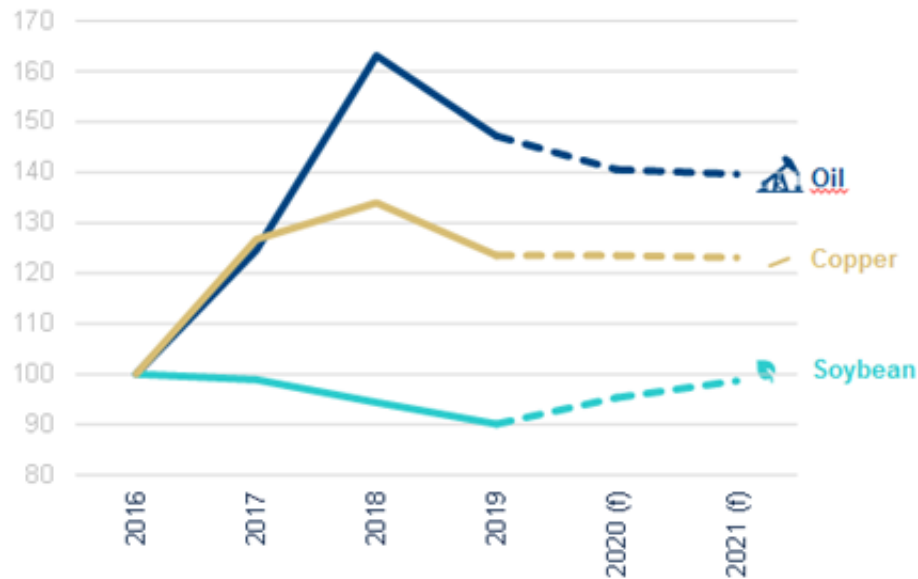


(*) In the case of the ECB, deposits interest rates. Forecasts from Jan/19 onwards.
Source: BBVA Research

- **Fed:** the relative resilience of the economy improves the balance of risks and generates the conditions for a long monetary pause.
- **ECB:** growth stabilization and the communication by the new presidency reinforce the expectations of interest rate stability.

Better prospects for commodity prices, which, however, will remain relatively low

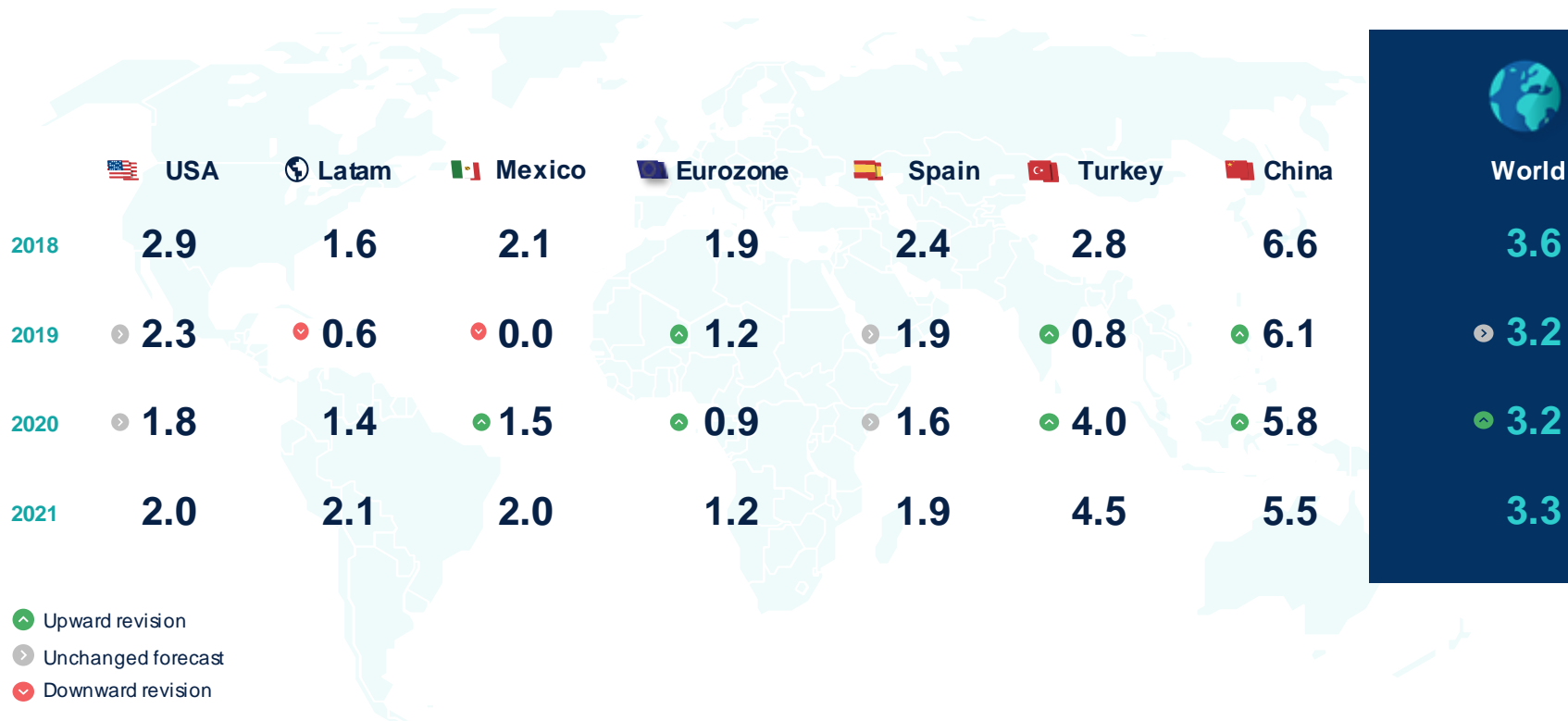
COMMODITIES: AVERAGE ANNUAL PRICES (INDEX, 2016 AVERAGE = 100)



(f) Forecast.
Source: BBVA Research

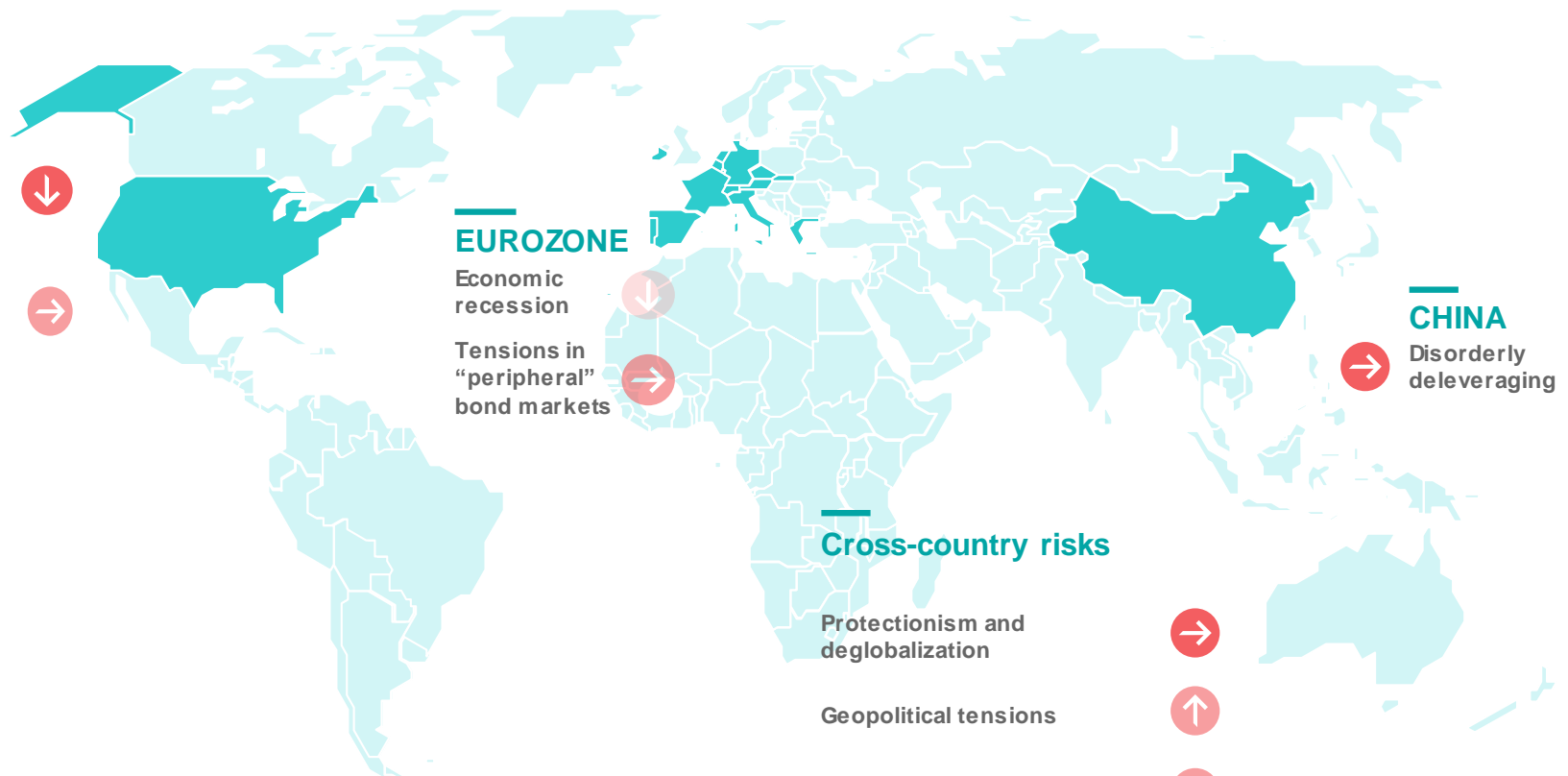
- Moderate upward revision in forecast for commodity prices, due to less pessimism about the global environment:
 - Oil prices: 2020 forecasts revised 8% up to 61 USD per barrel
 - Copper and soybean prices: 2020 forecasts revised 4% and 1% to the upside, respectively
- However, prices will remain under control given the relative robustness of supply in a context of lower demand
- The escalation of tensions in the Middle East represent a risk: an oil price of USD70 in 2020 would reduce world growth by 0.1pp or 0.2pp

Global growth will converge to 3.2% in 2020 and 3.3% in 2021



Source: BBVA Research

Global risks: cyclical risks are lower, but structural ones remain high



USA

Economic recession



Fall in bond prices due to higher inflation



EUROZONE

Economic recession



Tensions in "peripheral" bond markets



CHINA

Disorderly deleveraging



Cross-country risks

Protectionism and deglobalization



Geopolitical tensions



Secular stagnation in developed economies



Climate change



+ Global severity -



Changes in likelihood vs. last quarter

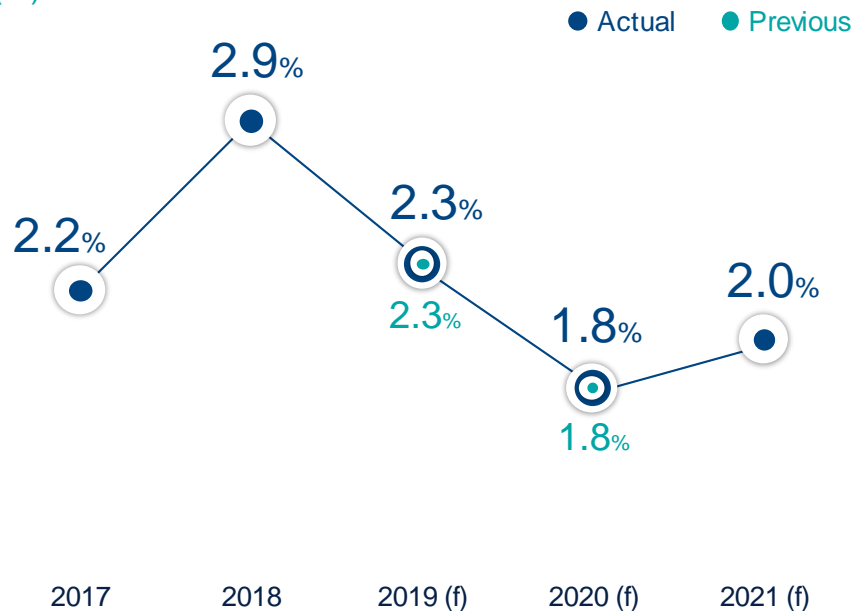


03

Outlook for G3 economies

USA: the prospects of a smooth deceleration ahead remain in place

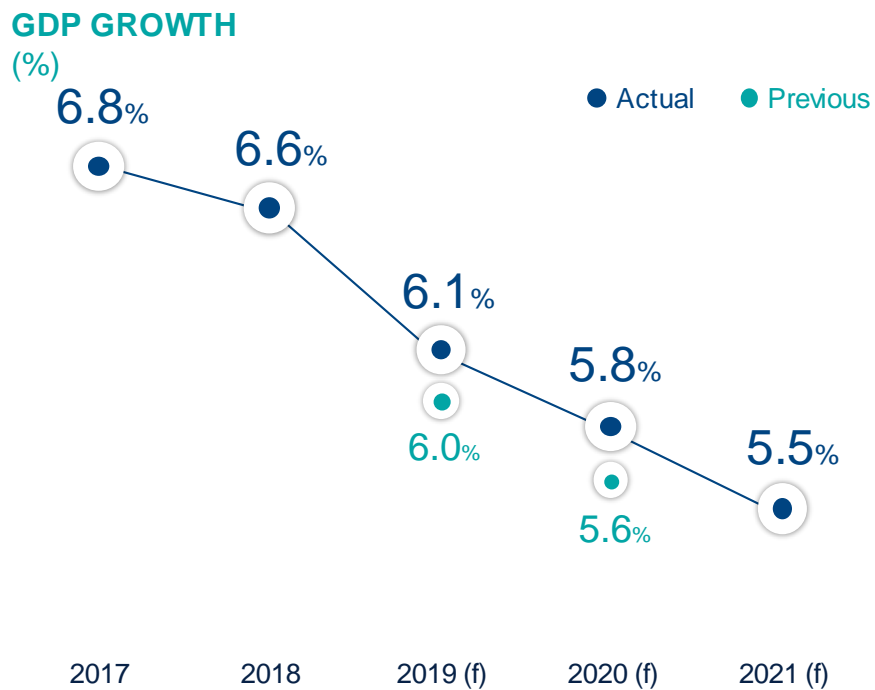
GDP GROWTH (%)



(f) Forecast.
Source: BBVA Research

- **Private consumption** shows strength, in contrast with the weakness of **investment**.
- **Inflation** will remain close to 2.0%, with more balanced risks.
- **Probability of recession** has declined.
- The **2020 presidential elections** may increase political and geopolitical tensions.

China: growth slowdown, somewhat slower than expected

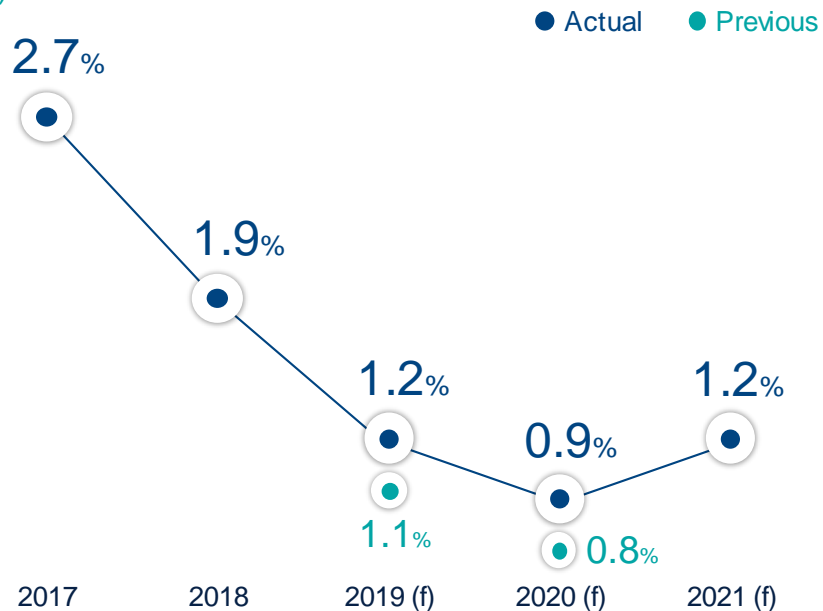


(f) Forecast.
Source: BBVA Research

- A **generalized economic slowdown** is still in place
- Upward revision of the forecast for 2019: the **recent growth deceleration has been smoother than expected**.
- Small **upward revision of 2020 GDP growth forecast**:
 - Improved **relation with the US**.
 - Greater willingness to increase the **fiscal stimulus**
- **Monetary stimulus**: gradualism moving forward, in a context of temporarily high inflationary pressures.

Eurozone: slightly upward revision of growth forecasts, due to better than expected incoming data

GDP GROWTH (%)



(f) Forecast
Source: BBVA Research

- Growth is stabilizing at low levels.
- The economic dynamism will increase from mid-2020, partly due to higher exports.
- The growth divergence among large countries will be reduced, mostly due to a better performance in Germany.
- Inflation will remain very low, despite the strong monetary stimulus and some fiscal support.

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