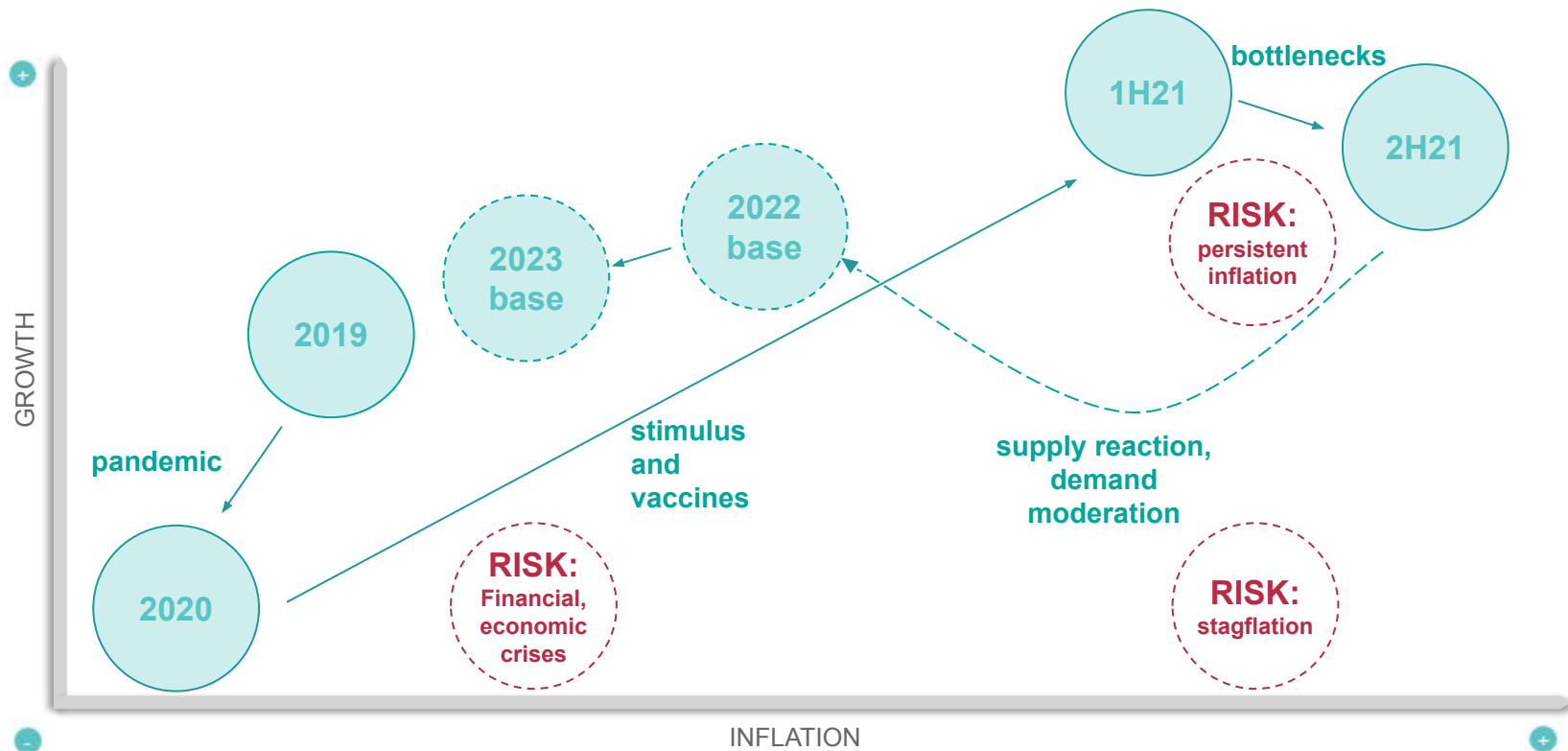


Global economic outlook

Jorge Sicilia

IPE Conference and Awards:
December, 2021

A solid demand recovery on stimuli, savings and vaccines, coupled with supply shocks, is fueling prices; growth and inflation are likely to ease but risks exist



A host of supply shocks driven by all sort of bottlenecks and energy prices contributed to both lower growth and higher inflation, a textbook supply shock

MANUFACTURING SUPPLIER DELIVERY

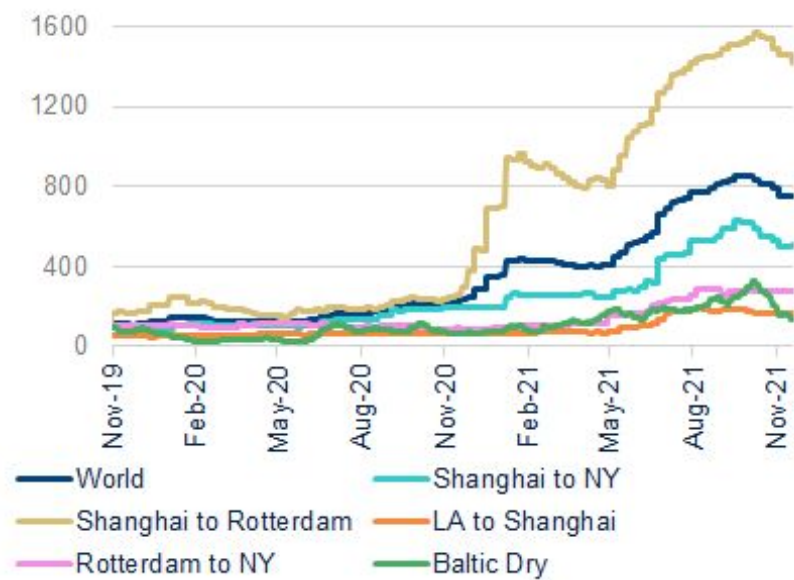
(NORMALIZED, STANDARD DEVIATION FROM THE MEAN)



Source: Haver Analytic, ISM

CONTAINER FREIGHT PRICE

(INDEX BASE 100 2012)

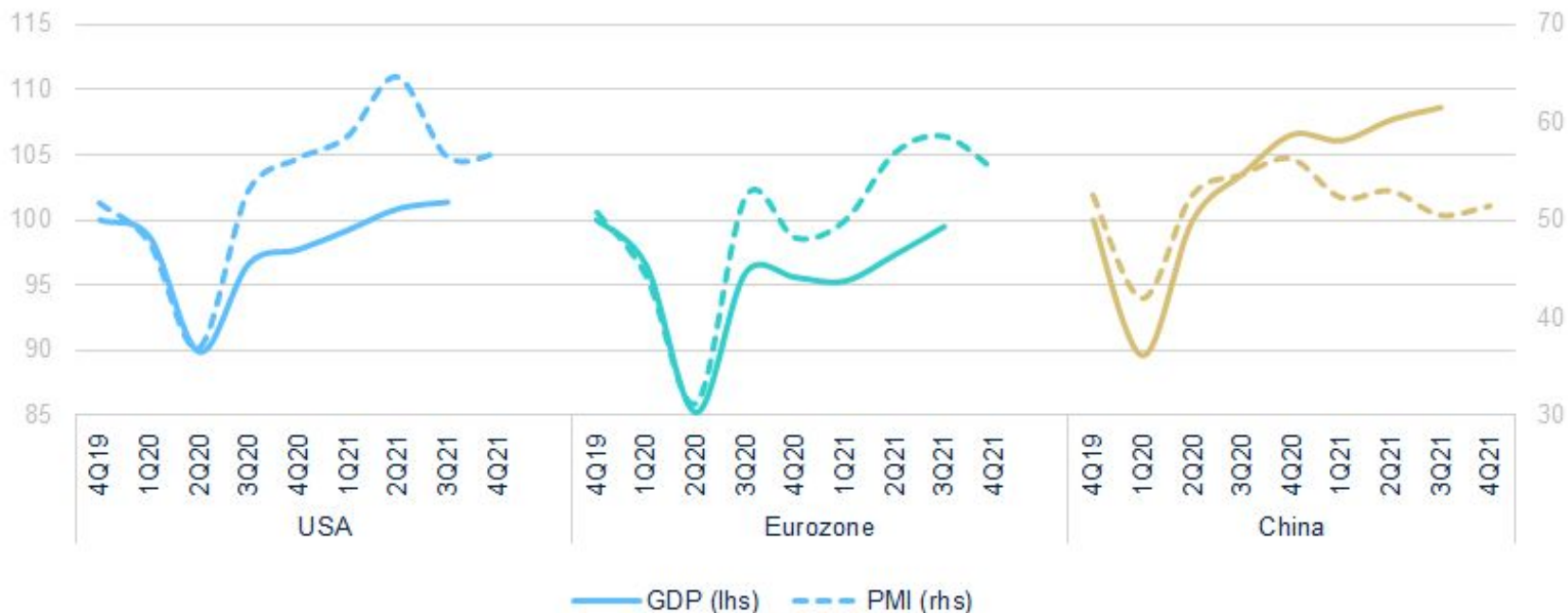


Source: Bloomberg

The recovery has lost momentum in the previous quarters in the US and in China, and most recently in the Eurozone on supply shocks and covid fears

REAL GDP LEVEL AND PMIs (*)

(GDP: 4Q19=100; PMI= EXPANSION (CONTRACTION) IF HIGHER (LOWER) THAN 50)



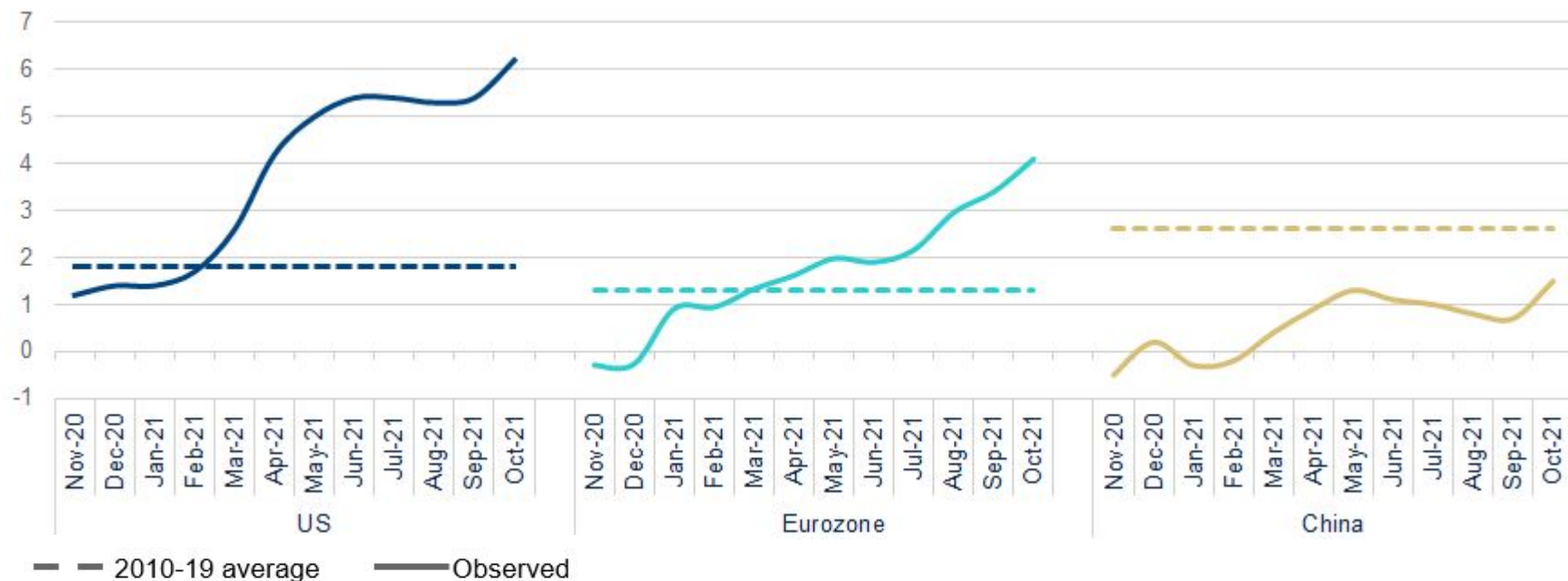
(*) 4Q21 PMI: Oct and Nov average

Source: Haver and local statistics

Price pressures continue to build up; inflation is at high levels mainly in the US, but also in the Eurozone, while in China it remains relatively low

INFLATION: CPI

(Y/Y %, END OF PERIOD)



The Fed tapering, prospects for rates lift-off and inflation fears pressure bond yields (mainly in the US) and back the dollar, while volatility remains contained

10-YEAR BOND YIELDS

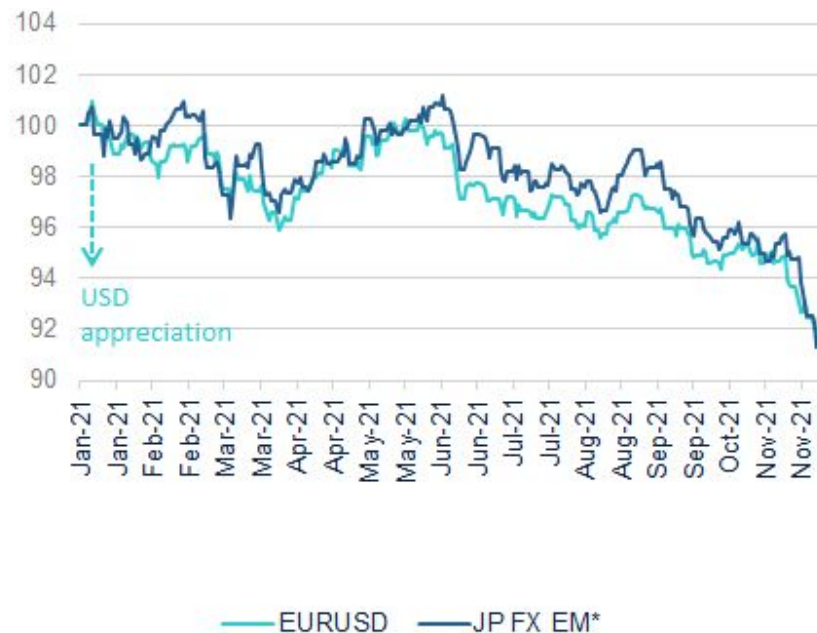
(%)



Source: BBVA Research based on data by Bloomberg.

CURRENCY PERFORMANCE VS. USD

(% YTD, BASE 100 JANUARY 2021)



Note: EM FX market index

Source: BBVA Research based on data by Bloomberg.

Looking ahead, the recovery will continue, but will lose momentum on the ongoing supply shocks and impact on inflation, which will lead CBs to act

MAIN FEATURES OF BBVA RESEARCH'S GLOBAL ECONOMIC SCENARIO

Bottlenecks



Larger impact on activity (to the downside) and inflation (to the upside); Working assumption is that it will fade as from mid 22 onwards

Economic policy



Still expansionary policies in G3 despite gradual withdrawal of monetary policy

Pandemic



Convergence towards "normality"; eventual new waves will have a lower impact on activity (again a working assumption).

Growth and inflation



Robust growth, although slowing; relatively high inflation, though reverting in 2022

Financial markets



Risk assets pressured by the withdrawal of Fed's stimulus and a strong US dollar.

Emerging economies



Complex environment: lagged exit from the pandemic, inflation pressures on CBs, declining global liquidity (capital flows); positive commodity prices for exporters

Risks

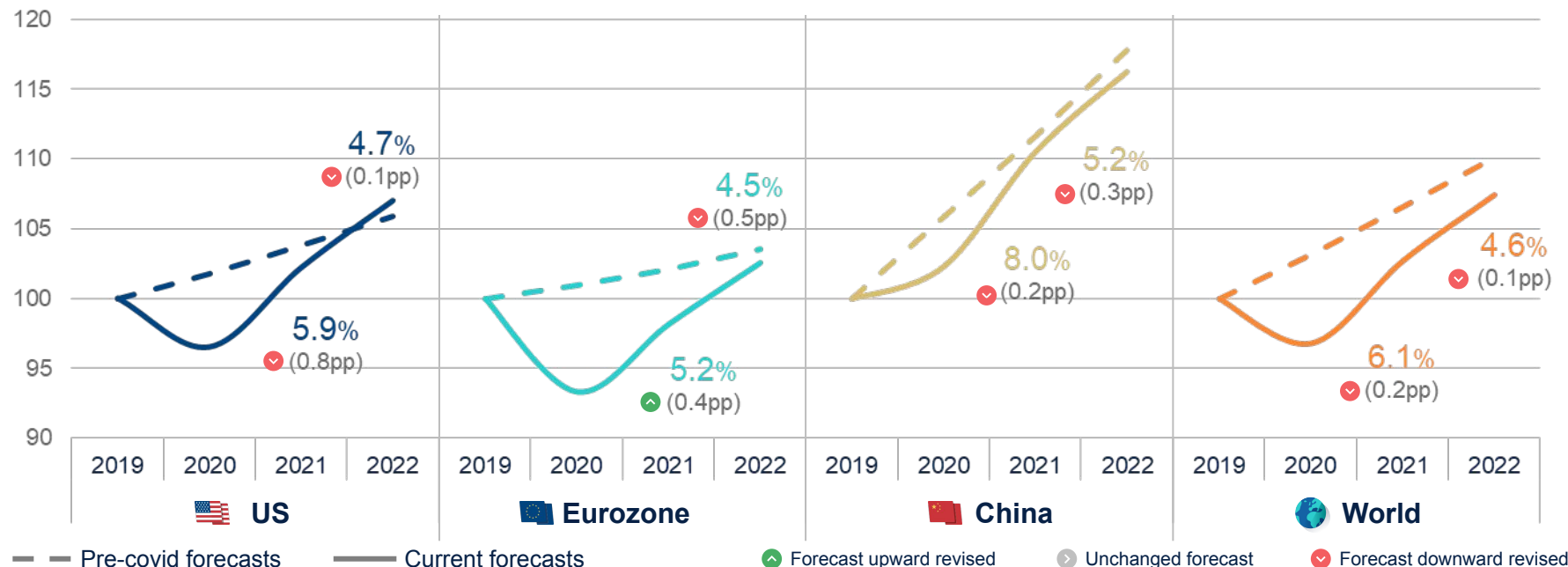


Mostly negative: persistence of supply shocks, stimulus withdrawal, slowdown in China, pandemic (new strains, incomplete vaccination), etc.

The recovery is far from over: growth will be less robust from now on, but the recovery will continue at relatively high levels

REAL GDP

(LINES: GDP LEVEL 2019=100, FIGURES: FORECASTS AND CHANGES WITH RESPECT TO THE PREVIOUS ONES)



Are we shifting to a new inflation regime with generalized wage pressures and higher expectations? Policy reaction will be key

SHORT-TERM INFLATION DRIVERS

Supply factors:
bottlenecks, energy
prices, lockdowns...

Demand factors:
stimulus, bias to goods,
savings, reopening...

Will current pressures impact
expectations and add to
structural factors?

LONG-TERM INFLATION DRIVERS

Energy transition, protectionism, more
tolerant CBs, China (higher labor costs)...

How persistent are current
shocks? It will depend on the
covid evolution

Supply vs. demand: Crucial for
policy reaction

Price/wage indexation is a risk
(less so in the EZ)

It will depend on CB reaction
but fiscal dominance is a risk
(not only in EM)

Better global governance on climate
and trade policies would take
pressure off inflation

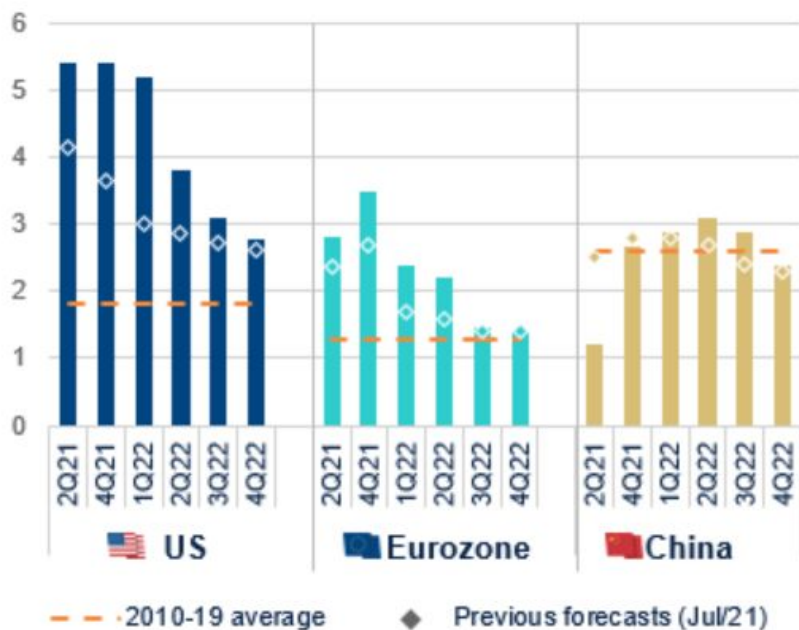
China unlikely to remain source of
low inflation

Uncertainty on how CBs will deliver
on their new strategies

Inflation is likely to ease on supply reaction and demand easing; but it will remain relatively high, at least in the US

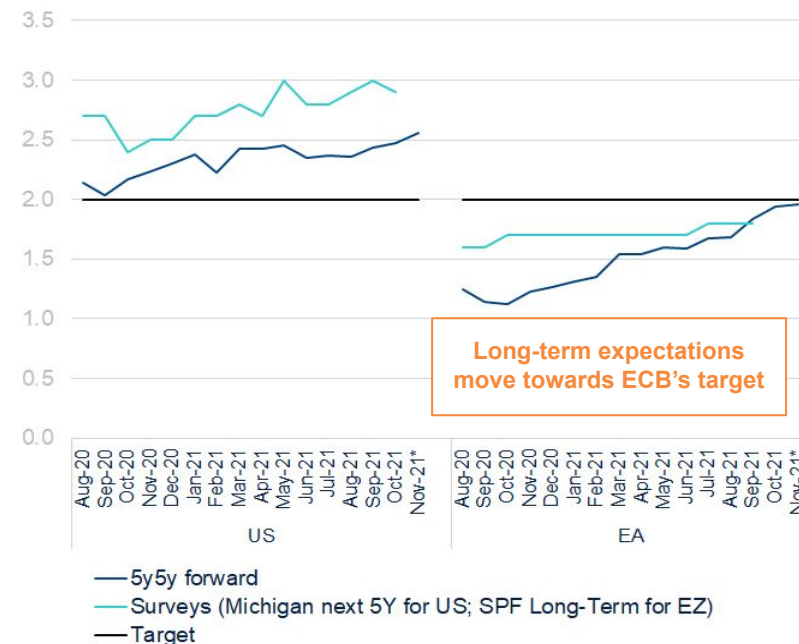
INFLATION: BBVA RESEARCH FORECASTS

(Y/Y %, PERIOD AVERAGE)



Source: BBVA Research.

INFLATION EXPECTATIONS: MARKETS AND CONSENSUS (% YOY)

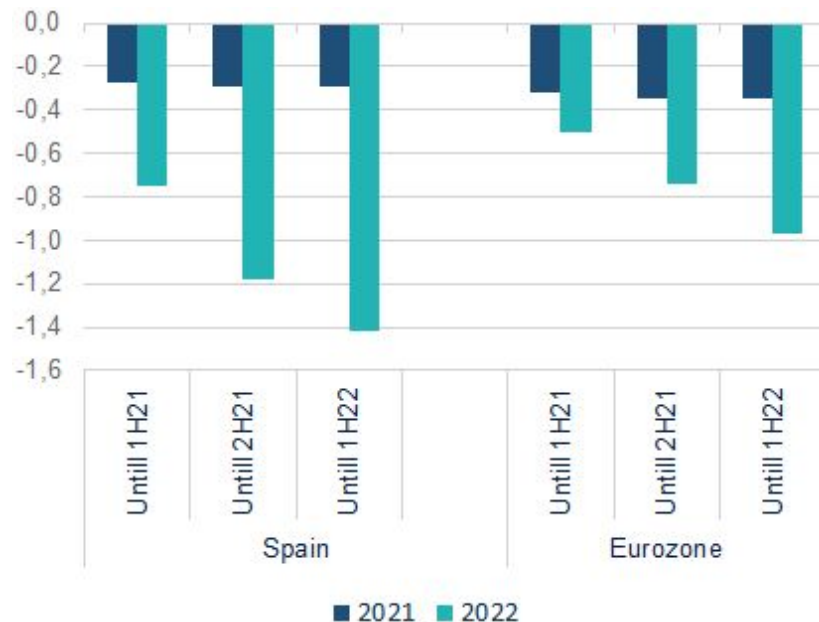


Source: Haver and BBVA Research.

Our simulations for Europe suggest bottlenecks are weighing on inflation and mainly on growth; more persistent supply disruptions are a risk

SIMULATION: IMPACT ON GDP OF BOTTLENECK SHOCKS WITH DIFFERENT PERSISTENCE

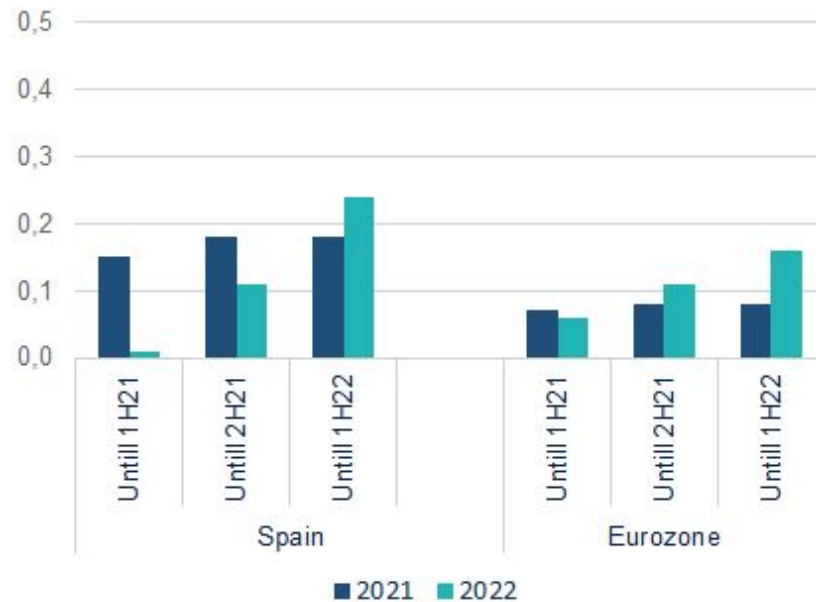
(PP)



Source: BBVA Research.

SIMULATION: IMPACT ON CORE INFLATION OF BOTTLENECK SHOCKS WITH DIFFERENT PERSISTENCE

(PP)

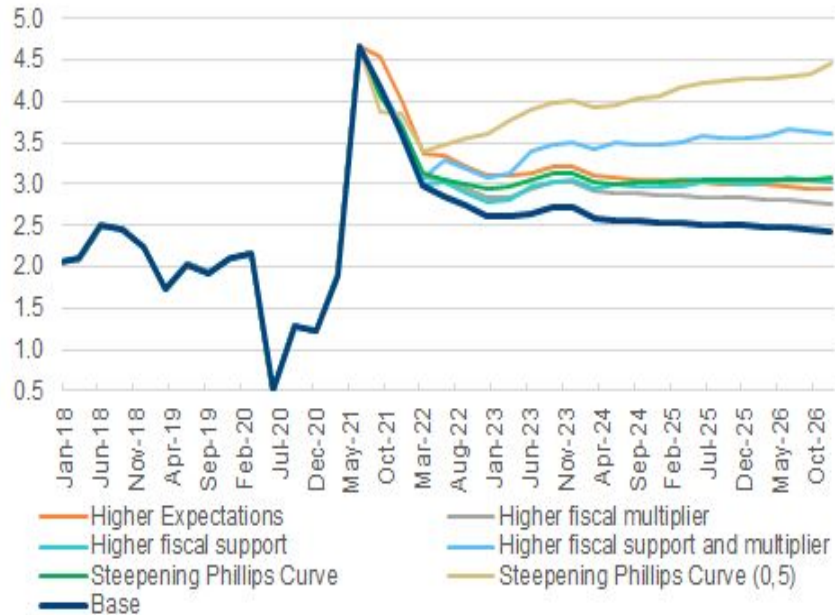


Source: BBVA Research.

Some factors (steeper Phillips Curve, fiscal stimulus, de-anchoring of expectations, etc) could result in persistently higher inflation, mainly in the US

SIMULATIONS: US INFLATION

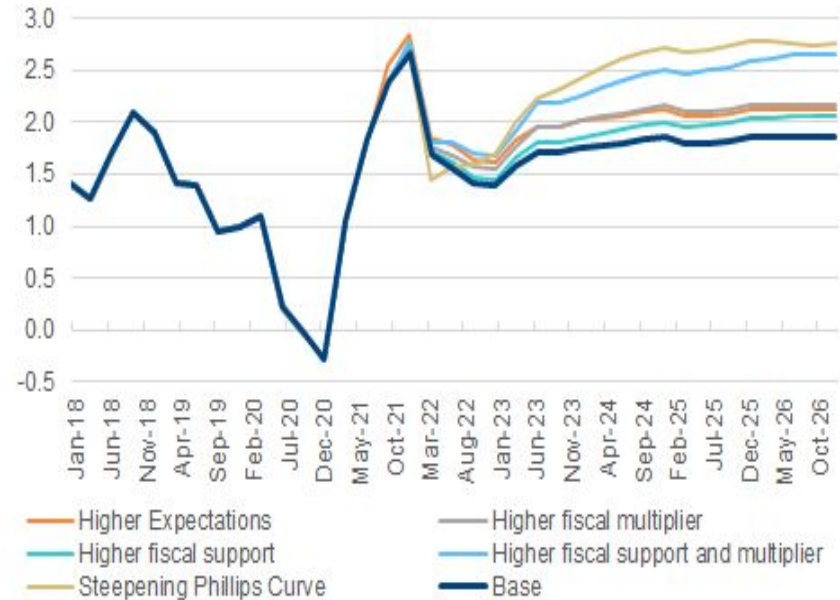
(% YOY)



Source: Haver and BBVA Research.

SIMULATIONS: EUROZONE INFLATION

(% YOY)

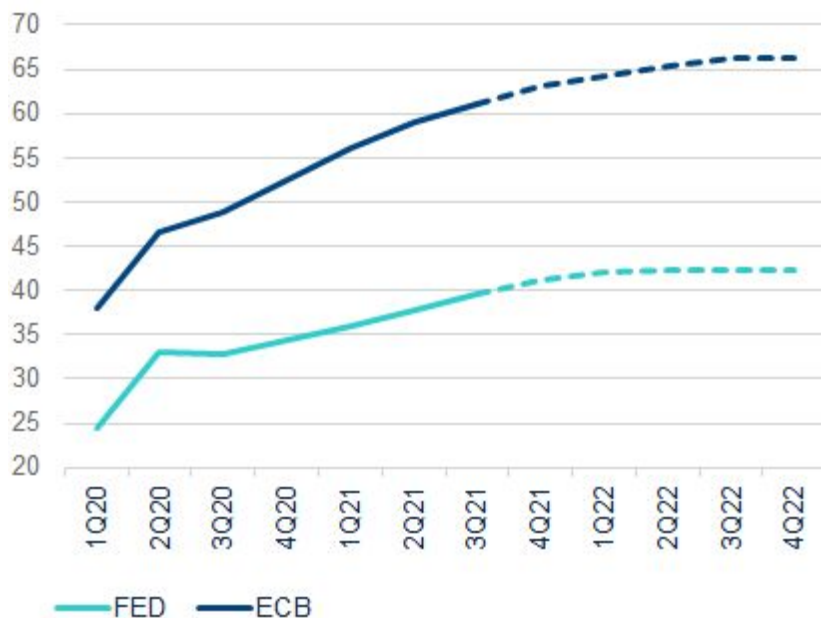


Source: Haver and BBVA Research.

CBs face a challenge, but have credibility and tools to avoid a high inflation regime coming from generalized wage growth and unanchored expectations

FED AND ECB BALANCE SHEETS

(SHARE OF GDP)



Source: BBVA Research.

US:

- **Tapering** to last till June 22
- Fed's dovish view on inflation and labor market slack support forecast of **rates lift-off** at 2H22
- **Infrastructure plan**: smaller than expected and non-inflationary; stimulus could be complemented by a social spending bill

Europe:

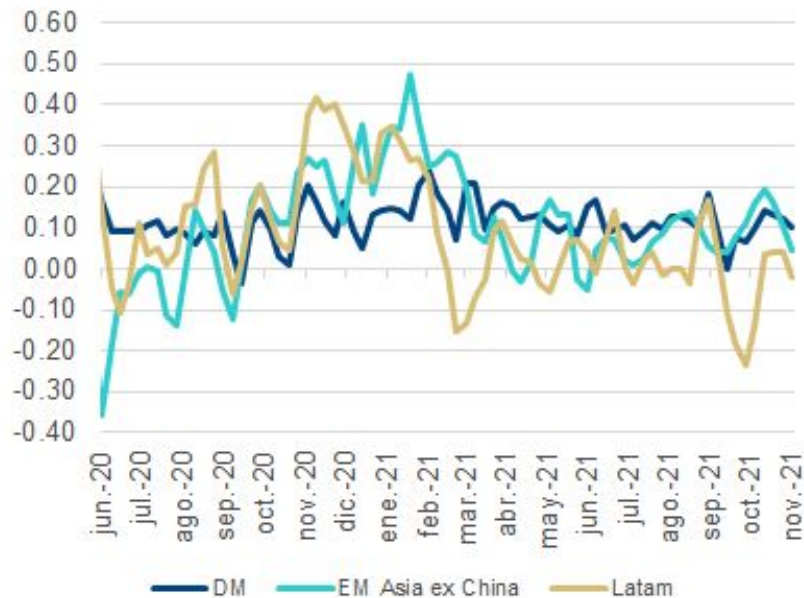
- The **ECB** is closer to ending the PEPP, but will remain patient with inflation and rates
- ECB policy makers have pushed back rate hike bets; they see inflation falling while remain aware of risks
- Implementation of **NGEU funds** and support measures to offset energy rises

China: new incoming stimulus to reduce the effect of regulatory measures and supply shocks

The forthcoming reduction in global liquidity will favor the rotation of capital flows away from EM

PORTFOLIO FLOWS

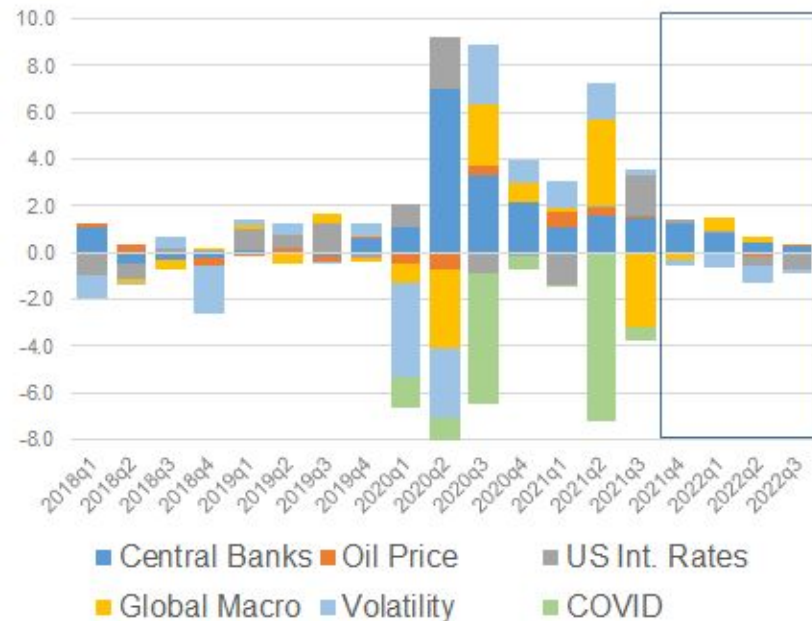
(% OF AUM, 2 WEEK MOVING AVERAGE)



Source: BBVA Research.

CAPITAL FLOWS INTO EM: FORECASTS

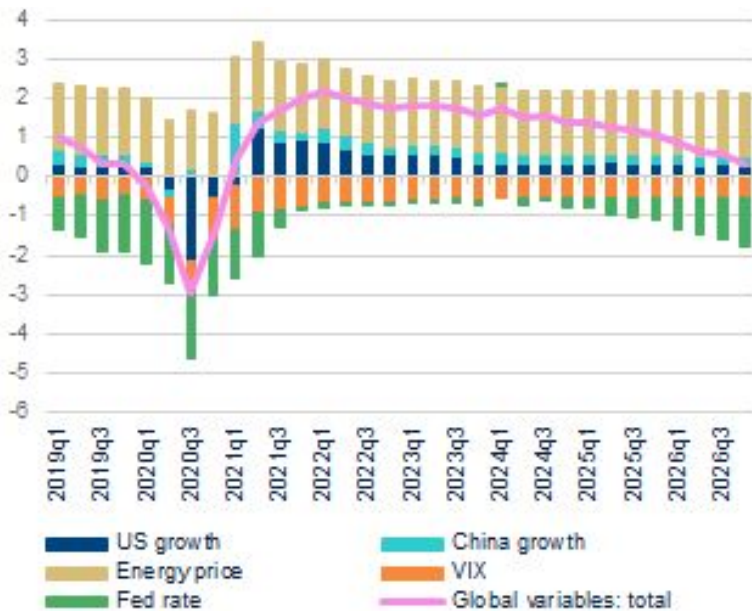
(% of AUM; QUARTERLY CUMULATIVE BASIS)



Source: BBVA Research.

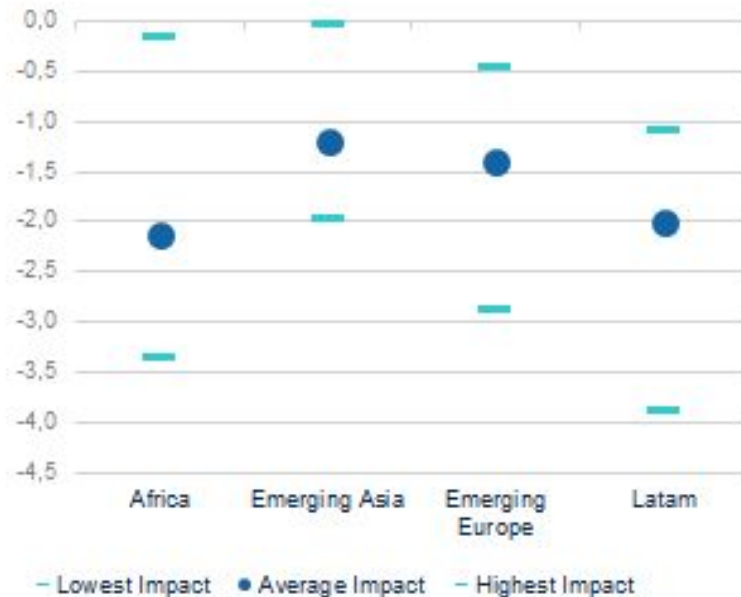
Many potentially-harming global factors on the horizon for EM: Fed's stimulus withdrawal and slowing US and CHN growth to weigh on EM growth

CONTRIBUTION OF GLOBAL VARIABLES TO EM GROWTH (PP)



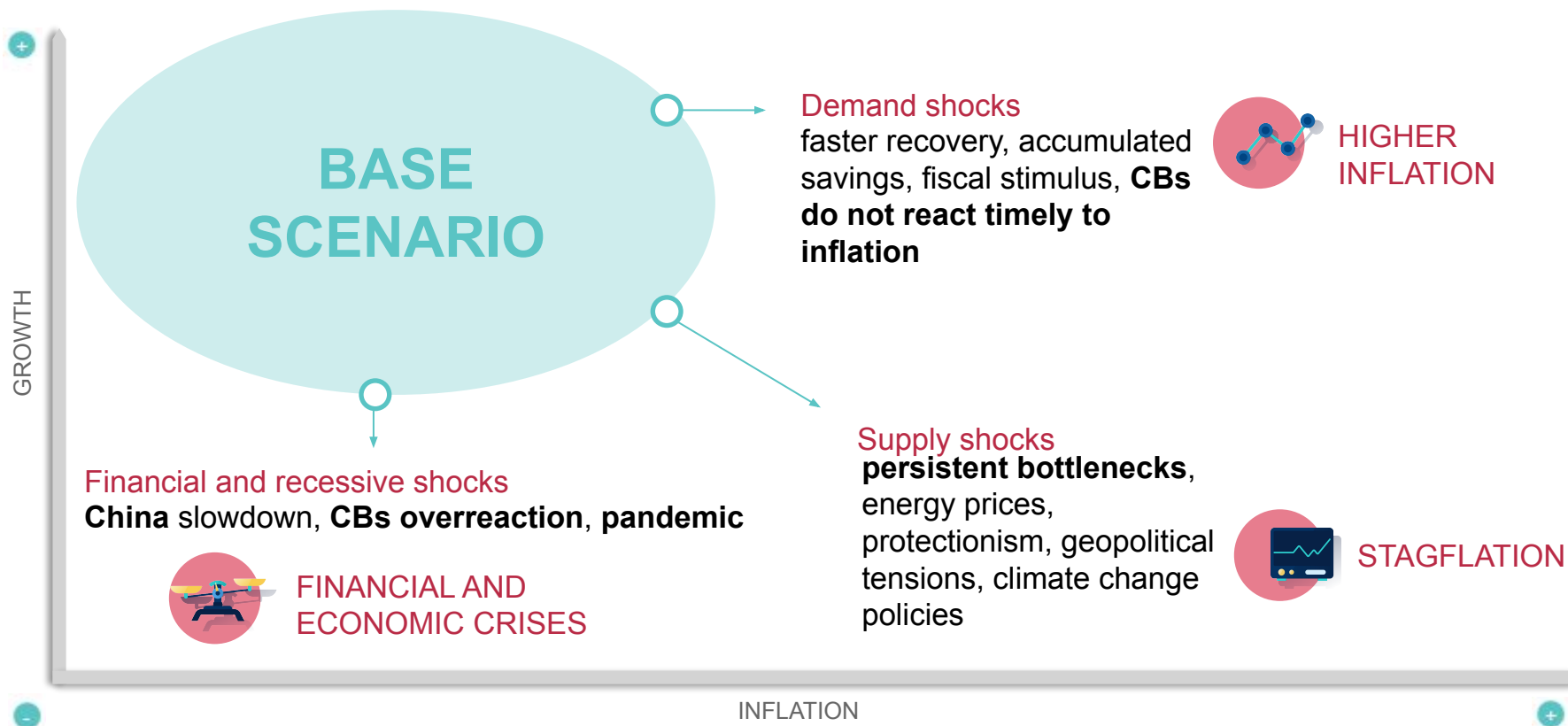
Source: BBVA Research.

ESTIMATED EFFECT OF THE FED'S EXIT (BBVA RESEARCH BASE SCENARIO) ON GDP (PP)



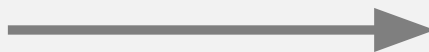
Source: BBVA Research.

Risks: supply shocks, the withdrawal of stimuli, the slowdown in China, among other factors, could generate more negative global scenarios



The pandemic has reinforced some pre-crisis structural trends and the post covid world poses new long-term challenges (beyond inflation)

PREVIOUS TRENDS AND CHALLENGES



NEW TRENDS AND CHALLENGES

Climate
change

Populism and
institutions

Debt sustainability
(public & private)

Management
of global catastrophes

Digitization and
teleworking

Deglobalization and
global governance

Role of the public
sector in the economy

Behavior, social rules
and preferences

Productivity and
investment

Inflation, monetary
and fiscal policy

Competition and
industrial policy

Privacy and business
models

Where is the global economy heading? The big questions



Will the **economic recovery** in place continue? How **solid** will it be?



Will current **inflationary pressures** translate into something more permanent?



Will **central banks** be able to manage price pressures? At which cost to economic growth?



How will **financial markets, especially in emerging markets**, be impacted by the withdrawal of monetary stimulus by the Fed? Do other central banks matter?



What are the main **risks** we should be watching out (beyond bottlenecks)?



What are the main **structural challenges** the global economy faces? What about sectors?



Can climate change be the driver of a deep change leading to a new wave of growth?

Global economic outlook

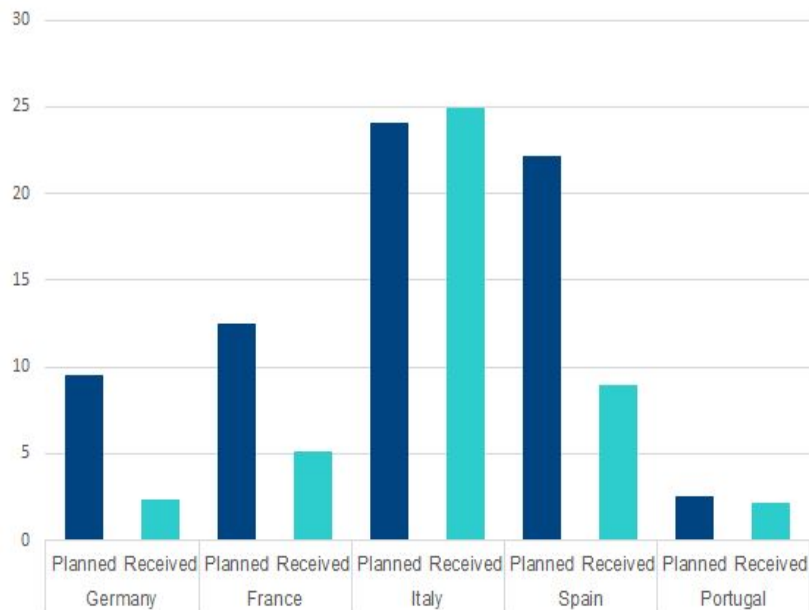
Jorge Sicilia

IPE Conference and Awards:
December, 2021

Eurozone: NGEU with some delay this year, but it entails a large investment spending in the long term and an opportunity for productivity gains

COUNTRIES' INITIALLY PLANNED SPENDING AND FUNDS RECEIVED IN 2021

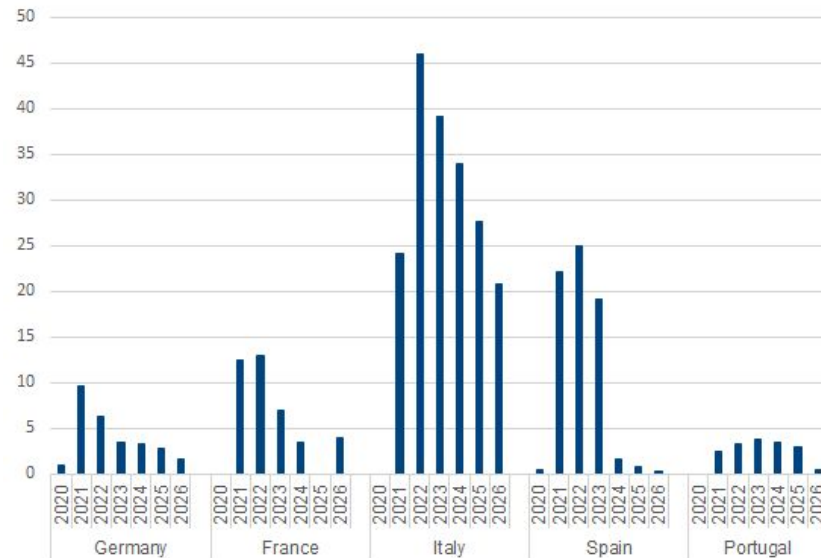
(EUR BN)



Source: Bruegel, EC and BBVA Research.

NGEU INITIALLY PLANNED SPENDING BY COUNTRY FOR 2020-2026

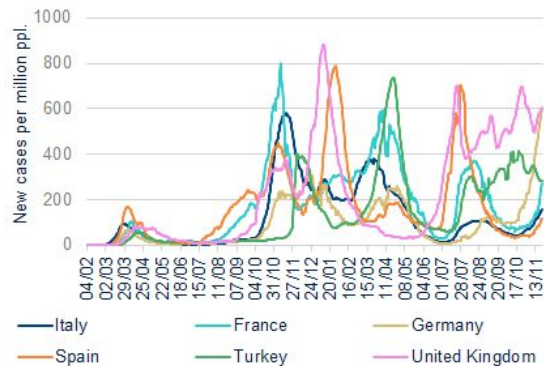
(EUR BN)



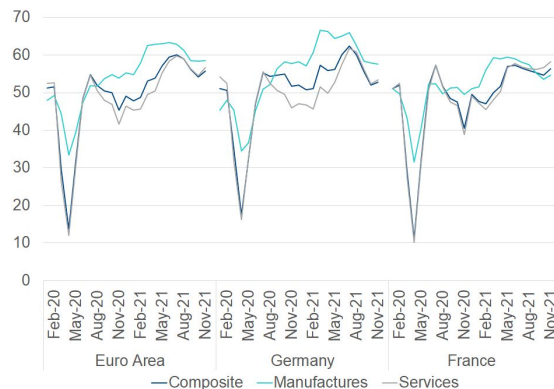
*Spain has not yet requested loans, while Portugal has only requested them partially. Germany and France are not expected to request them.

In the Eurozone, the services sector has led activity growth recently, but new Covid-19 waves pose a downside risk for Q4

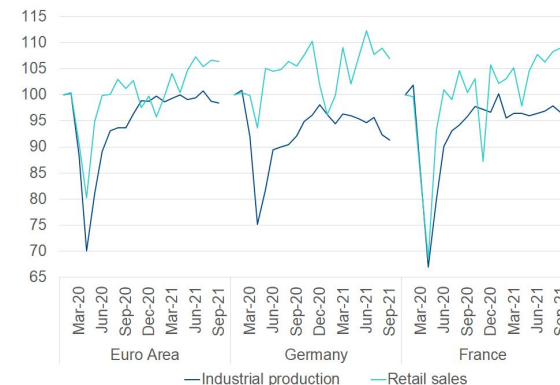
NEW INFECTED PEOPLE: EUROPE (7-DAY MOVING AVERAGE PER MILLION PEOPLE)



EZ, GERMANY AND FRANCE PMIs

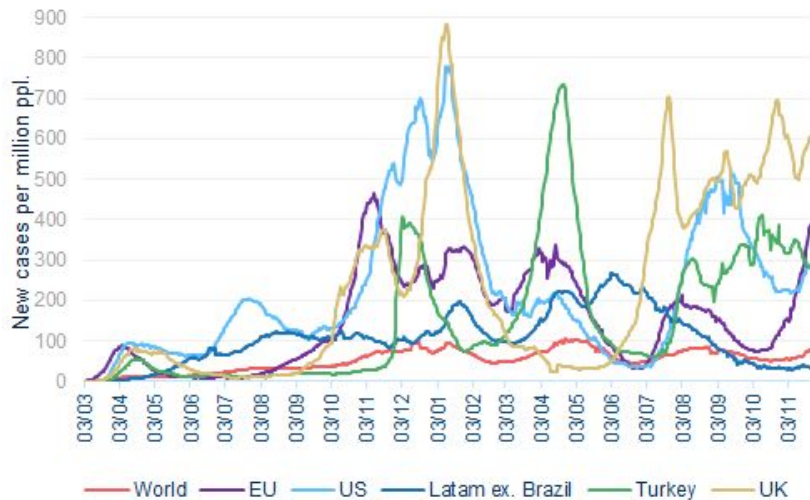


INDUSTRIAL PRODUCTION AND RETAIL SALES (JAN 2020 = 100)

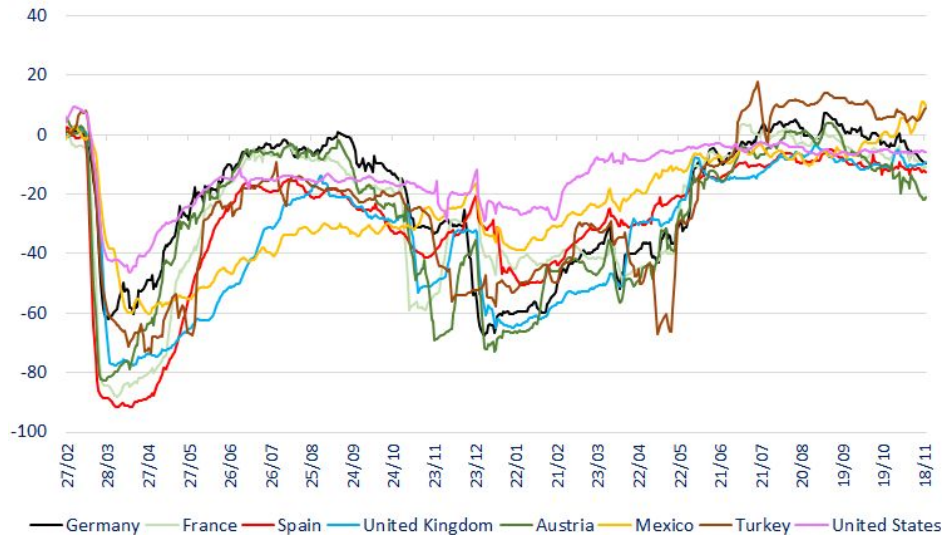


Covid-19: the infections are increasing strongly in Europe and at a soft pace in the US; omicron stain is a source of uncertainty

REGISTERED NEW INFECTED PEOPLE: WORLD
(7-DAY MOVING AVERAGE PER MILLION PEOPLE)



MOBILITY RESTRICTIONS INDEX, RETAIL AND RECREATION*
(% CHANGE FROM BASELINE - 7-DAY MOVING AVERAGE)



- Still pending approval, **Pfizer** announced that its Covid-19 pill reduces the risk of hospitalization and death among patients by 89%
- Austria has imposed a full lockdown again and is the first country in Europe to impose mandatory vaccinations. Germany is introducing tighter restrictions on unvaccinated citizens