

ECONOMIC ANALYSIS

The downwards revision of the global GDP estimate for 1Q14 reduces our 2Q14 nowcast to 0.6% QoQ

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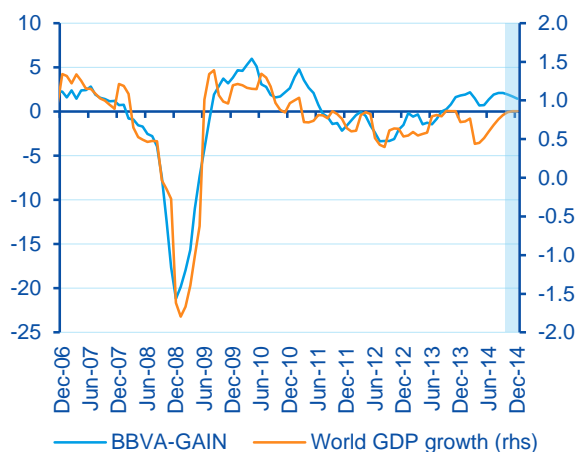
BBVA-GAIN reveals another improvement to 1.4% in June from 0.8% in May (Figure 1). Yet the actual GDP figure in 1Q14 has been revised downwards to 0.4% QoQ, against a previous estimate of 0.8%, due to downside surprises in GDP such as those in the US. As a result, and due to base effects, our **nowcast for 2Q14 shrank to 0.6% and forecasts for 3Q14 remain firm at 0.8%.**

All in all, the across-the-board positive view about 2Q14 and 3Q14 relies on the improvement of our Global Activity Index (BBVA-GAIN) in June, due to: i) the uptick of global industrial production (as of April); ii) the slight acceleration in the rates of expansion of soft indicators; and iii) the remarkable easing of our Global Financial Volatility index (GVI), the third component of our composite indicator (Table 1).

As anticipated in preliminary readings, the current acceleration has been driven by improvements in manufacturing activity in the US, Japan and China, where the trend in the forward-looking new orders component suggests that it should last well into the second half of the year. At the same time, activity in the eurozone seems to show signs of momentum loss.

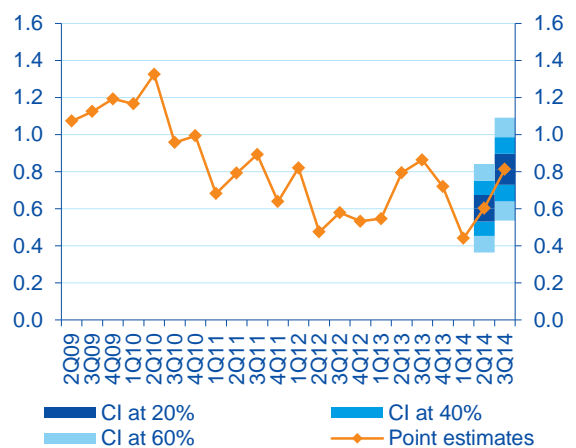
In a nutshell, the global cycle evolution suggests that the stage is set for robust output gains in the coming months. However, the balance of risks is biased downwards due to the potential persistence of events (geopolitical tensions in the Middle East, the negative contribution of stocks to growth in the US) which complicated the outlook during the previous quarter and were considered to be temporary.

Figure 1
BBVA-GAIN and world GDP (% QoQ) on a monthly basis



Source: BBVA Research

Figure 2
Global: Observed GDP growth and forecasts based on BBVA-GAIN (% QoQ)



Source: BBVA Research

Table 1

Global Data Summary

	2014											
	Jul	Ago	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
BBVA-GAIN	-0.7	0.0	0.4	1.0	1.9	2.3	1.9	2.2	1.5	0.9	0.8	1.4
Global PMI	50.6	51.5	51.6	51.9	52.9	52.9	53.0	53.2	52.4	51.9	52.1	52.7
Employment	49.9	50.3	50.2	50.7	50.6	51.2	51.0	51.3	51.6	51.5	50.8	51.0
New Export Orders	50.4	50.5	51.1	52.0	52.5	52.0	51.4	51.7	51.9	51.2	51.9	51.1
Global Industrial Production (MoM)	0.54	0.29	0.48	0.26	0.75	0.10	0.07	0.31	0.05	0.47	-	-
BBVA Global Volatility Index	-0.50	0.54	0.74	0.03	-0.97	-1.43	-2.42	-2.50	-2.24	-1.86	-1.99	-2.83
Global GDP, 1Q14 growth, current monthly estimate	-	-	-	0.84	0.91	0.93	0.89	0.91	0.78	0.80	0.82	0.44 (*)
Global GDP, 2Q14 growth, current monthly estimate	-	-	-	-	-	-	0.83	0.88	0.81	0.80	0.80	0.60
Global GDP, 3Q14 growth, current monthly estimate	-	-	-	-	-	-	-	-	-	0.74	0.79	0.81

(*) For methodological issues, please refer to our Economic Watch, published on 6 March 2013: <http://bit.ly/1ee04TM>

(*) Actual figure based on the aggregation of national quarterly growth rates (QNA) of 69 countries and with a weighting of 92% with respect to world GDP ppp (average 1980-2012).

Index=50 means no change on previous month

Source: JP Morgan, Markit Economics, CPB Netherlands and BBVA Research

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