

ECONOMIC ANALYSIS

World GDP: Global recovery in 2014 keeps pace

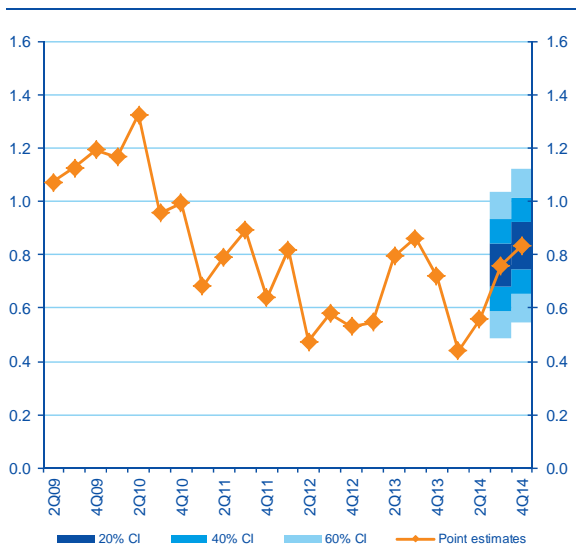
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The general picture remains the same as in the last monthly update. After its first quarter deceleration, World GDP growth maintains the ascending path initiated in the second quarter of 2014. However, the August's update for the BBVA GAIN Model¹ led us to a revise slightly downward of our July estimates of World GDP growth for the second (backcast), third (nowcast) and last quarter (forecast) of 2014 (see Table 1).

The monthly indicator of economic activity which underlies the latter revision (see Table 2), BBVA GAIN², increases its value in August to 1.6 from a value of 1.4 in July, extending the recovery path initiated in May³. In contrast to the results from the previous month, the main components of the index have all evolved favourably: external trade improvements in the US and Japan drove up new export orders. Besides, unemployment shrank modestly in a number of large economies. Additionally, the dominance of monetary quantitative easing policies is anchoring the financial volatility at lower levels in August, in spite of surrounding risks such as geopolitical events.

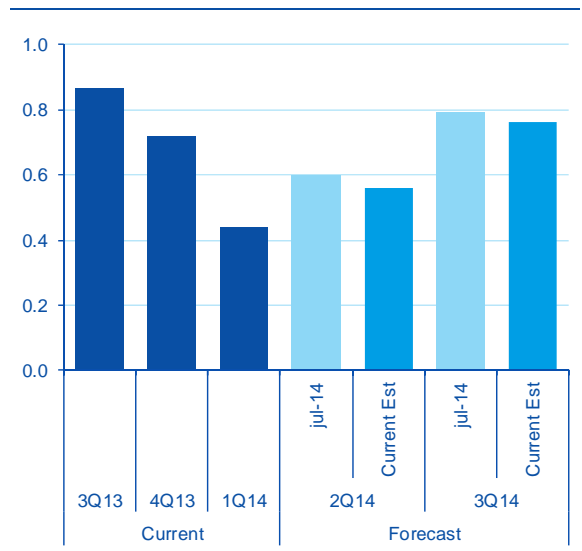
All in all, this favourable global outlook has downwards-biased uncertainty associated to the global impact of changes in the relative stance of monetary policy in the United States and the Euro Area, along with the negative effect of the geopolitical tensions in Europe.

Figure 1
World GDP: Observed GDP growth and forecasts based on BBVA-GAIN (% , QoQ)



Source: BBVA Research

Figure 2
World GDP: change in GDP forecast in the last month (% , QoQ)



Source: BBVA Research

¹ The BBVA GAIN Model is our dynamic common factor model for real time estimation of World GDP growth. The model takes advantage of the incoming information from daily and monthly global indicators of industrial production, confidence surveys and financial volatility. For methodological issues, please refer to our Economic Watch, published on 6 March, 2013: <http://bit.ly/1nl5Rln>.

² BBVA GAIN is the latent common factor estimated by the BBVA GAIN Model in order to estimate the (unreleased) past, current and near future values of World GDP growth.

³ The opposite evolution of BBVA GAIN (upwards) and the revision of Global GDP estimation (slightly downwards) is mainly due to the effect of the change in incoming information, specially in the case of GDP, which is updated on a monthly basis with the release of official figures.

Table 1
World GDP estimates

	2013				2014							
	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Ago
Global GDP, 2014Q2 growth, monthly estimate	-	-	-	-	0.83	0.88	0.81	0.80	0.80	0.60	0.60	0.56
Global GDP, 2014Q3 growth, monthly estimate	-	-	-	-	-	-	-	0.74	0.79	0.81	0.79	0.76
Global GDP, 2014Q4 growth, monthly estimate	-	-	-	-	-	-	-	-	-	-	0.84	0.83

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

 Table 2
Global data summary

	2013				2014							
	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Ago
BBVA-GAIN	0.4	1.0	1.9	2.3	1.9	2.2	1.5	0.7	0.7	1.3	1.4	1.6
Global PMI	51.6	51.9	52.9	52.9	53.0	53.2	52.4	51.9	52.1	52.7	52.5	52.6
Employment	50.2	50.7	50.6	51.2	51.0	51.3	51.6	51.5	50.8	51.0	50.4	50.7
New Export Orders	51.1	52.0	52.5	52.0	51.4	51.7	51.9	51.2	51.9	51.1	51.5	52.4
Global Industrial Production (m/m)	0.48	0.26	0.75	0.10	0.07	0.31	0.05	0.47	-0.28	0.25	-	-
BBVA Global Volatility Index	0.74	0.03	-0.97	-1.43	-2.42	-2.50	-2.24	-1.86	-1.99	-2.83	-3.55	-4.08

Index = 50 means no change in manufacturing activity.
 The Global Volatility Index leads one period in the model.
 Source: JP Morgan, Markit Economics, CPB Netherlands and BBVA Research

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