

ECONOMIC ANALYSIS

Global GDP growth: No news is good news

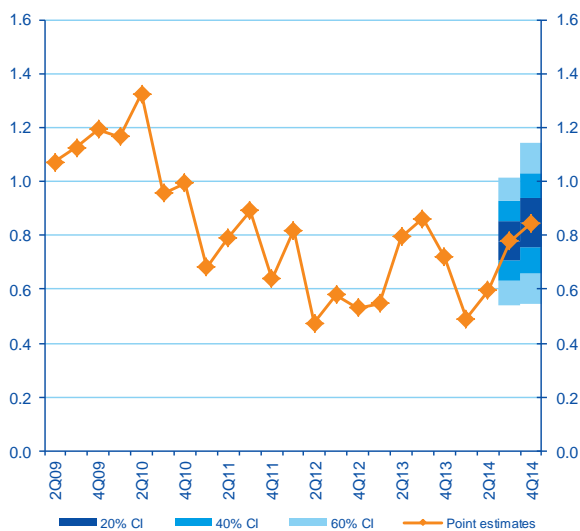
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Our new monthly update does not bring any novelties: The latest incoming information confirms the recovery path of World GDP growth started in the second quarter and reinforces our expectations that this recovery will continue for the rest of the year. This assessment results from the September's update of our BBVA GAIN¹ model, which shed a slight upward revision of Global GDP Growth estimates for both the third (*nowcast*) and last (*forecast*) quarter of the present year, as shown in Table 1.

The BBVA GAIN² indicator of economic activity (See Table 2) increases for the third consecutive month, from a value of 1.6 in August to 1.9 in September. Among its components, as usual, no dramatic changes have taken place: New export orders have remained constant while employment grew modestly and manufacturing confidence experienced a minor slowdown but remaining about the threshold signalling expansion. On the financial side, volatility remains anchored at low levels consistent with the still dominating paradigm of monetary easing; however, the ongoing geopolitical frictions in Europe, Middle East and even in Asia might be responsible for the petty increase in the volatility factor.

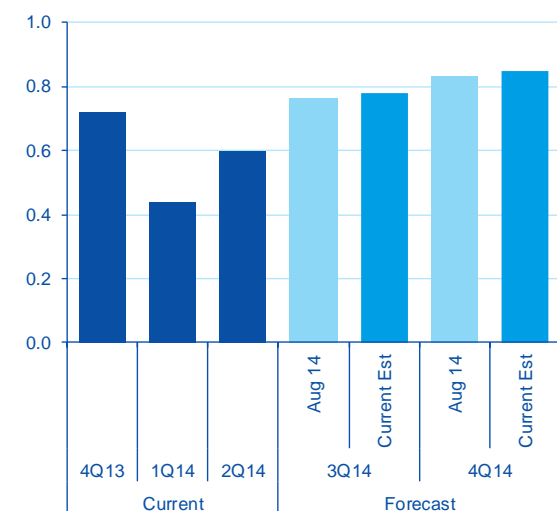
In sum, the prospects of improvement of global activity in the 2nd half of 2014 remain in an environment of supportive funding conditions and confidence, both coherent with an easing mood from demand policies, fiscal and monetary. However, as we know regarding the May-13 taper tantrum event, volatility is ahead, even in this positive scenario without major geopolitical disruptions.

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/1nI5RIn>.

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.

Table 1
World GDP estimates

	2014											
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Ago	Sep
Global GDP, 2014Q2 growth, monthly estimate	-	-	-	0.83	0.88	0.81	0.80	0.80	0.60	0.60	0.56	0.60
Global GDP, 2014Q3 growth, monthly estimate	-	-	-	-	-	-	0.74	0.79	0.81	0.79	0.76	0.78
Global GDP, 2014Q4 growth, monthly estimate	-	-	-	-	-	-	-	-	-	0.84	0.83	0.85

(*) 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

	2014											
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Ago	Sep
BBVA-GAIN	1.0	1.9	2.3	1.9	2.2	1.5	0.7	0.7	1.3	1.4	1.6	1.9
Global PMI	51.9	52.9	52.9	53.0	53.2	52.4	51.9	52.1	52.7	52.5	52.6	52.2
Employment	50.7	50.6	51.2	51.0	51.3	51.6	51.5	50.8	51.0	50.4	50.7	51.1
New Export Orders	52.0	52.5	52.0	51.4	51.7	51.9	51.2	51.9	51.1	51.5	52.3	52.3
Global Industrial Production (m/m)	0.26	0.75	0.10	0.07	0.31	0.05	0.47	-0.34	0.11	0.59	-	-
BBVA Global Volatility Index	0.03	-0.97	-1.43	-2.42	-2.50	-2.24	-1.86	-1.99	-2.83	-3.55	-4.08	-3.91

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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