

ECONOMIC ANALYSIS

Global GDP: 0.8% QoQ in 3Q14, stable estimation but slight downward revision in 4Q

Julián Cubero / Alejandro Buesa

Our latest monthly update of the BBVA GAIN¹ makes some minor corrections to our estimates of World GDP growth. The October's update of quarterly national accounts around the world consolidated the figure for the 2nd quarter around 0.6%. Moreover, the estimate for the third quarter (*nowcast*) remains unchanged while the forecast for the last quarter of the present year decreases modestly, almost 0.1 pp, as shown in Table 2. **The most recent information is consistent with our belief that the path of economic recovery initiated in the 2nd quarter will hold throughout the second half of 2014.**

The BBVA GAIN² indicator of economic activity (See Table 1) shrinks considerably, from a value of 1.9 in September to 1.0 in October, thus interrupting its increasing trend after 3 consecutive months of growth. The unchanged value of some of its components, namely manufacturing confidence and employment, could not offset the intense monthly decline in industrial production, from 0.6% m/m in July to -0.7% in August. A large fraction of this deceleration comes from the developed countries, as seen in Figure 4. Nevertheless, **such figure must be taken carefully:** Because of publication delays, industrial production enters our dynamic factor model with a two-month lag³. That is, the latest update incorporated this month refers to August, which is a particularly volatile period for most of the industrial sector⁴. As for the financial juncture, the persistent geopolitical frictions in Europe, Middle East and even in Asia might be responsible for the slight increase in the volatility factor.

In sum, the prospects of improvement of global activity in the 2nd half of 2014 remain, but slightly weaker taking into consideration the evolution of industrial production in the developed economies. The recovery assumes an environment of supportive funding conditions and confidence, both coherent with an easing mood from demand policies, fiscal and monetary, especially regarding the eurozone, where the downward risks seem higher. Additionally, as we know regarding the May-13 taper tantrum event, volatility is ahead, even in this positive scenario without major geopolitical disruptions.

Table 1
Global data summary

	2014											
	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Ago	Sep	Oct
BBVA-GAIN	1.9	2.3	1.9	2.2	1.5	0.7	0.7	1.3	1.4	1.6	1.9	1.0
Global PMI	52.9	52.9	53.0	53.2	52.4	51.9	52.1	52.7	52.5	52.6	52.2	52.2
Employment	50.6	51.2	51.0	51.3	51.6	51.5	50.8	51.0	50.4	50.7	51.1	51.2
New Export Orders	52.5	52.0	51.4	51.7	51.9	51.2	51.9	51.1	51.5	52.3	52.3	50.9
Global Industrial Production (m/m)	0.75	0.10	0.07	0.31	0.05	0.47	-0.34	0.11	0.59	-0.73	-	-
BBVA Global Volatility Index	-0.97	-1.43	-2.42	-2.50	-2.24	-1.86	-1.99	-2.83	-3.55	-4.08	-3.91	-3.81

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

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 Please refer to our Economic Watch for an explanation of the treatment of ragged-ends series in the model.

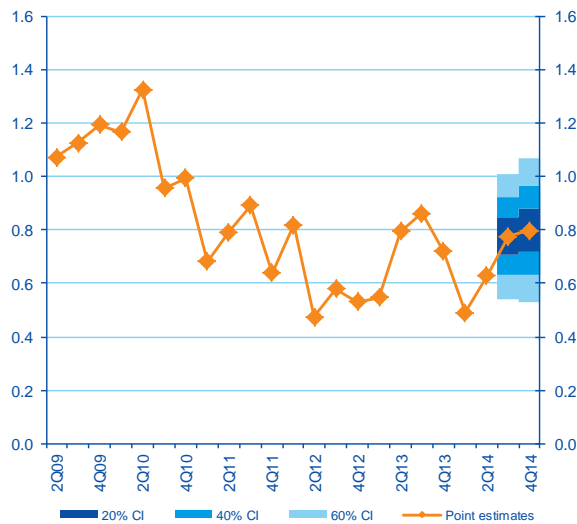
⁴ Industrial production figures are seasonally adjusted, but August prints are more volatile than the average month.

Table 1
World GDP estimates

	2014											
	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Ago	Sep	Oct
Global GDP, 2014Q2 growth, monthly estimate	-	-	0.83	0.88	0.81	0.80	0.80	0.60	0.60	0.56	0.60	0.63
Global GDP, 2014Q3 growth, monthly estimate	-	-	-	-	-	0.74	0.79	0.81	0.79	0.76	0.78	0.78
Global GDP, 2014Q4 growth, monthly estimate	-	-	-	-	-	-	-	-	0.84	0.83	0.85	0.80

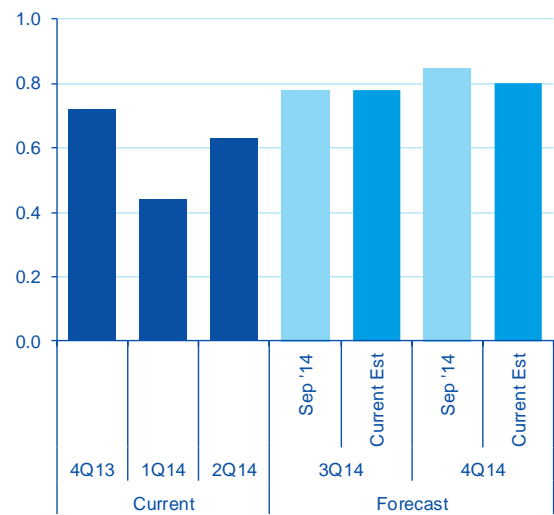
(*) Actual figure of the Global GDP is based on the aggregation of national quarterly growth rates (QNA) of 69 countries and has a weighting of 92% with respect to world GDP ppp (on average, 1980-2012).
Source: BBVA Research

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



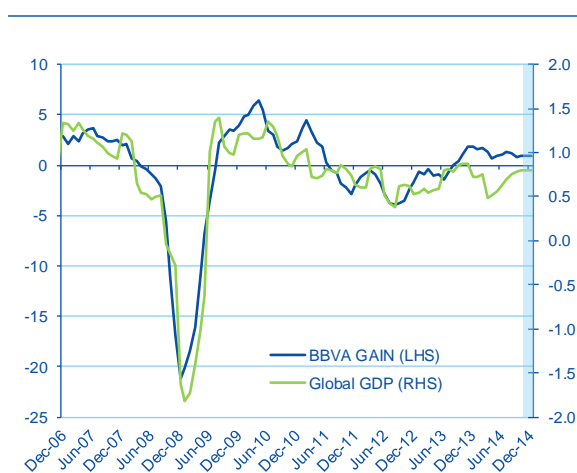
Source: BBVA Research

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



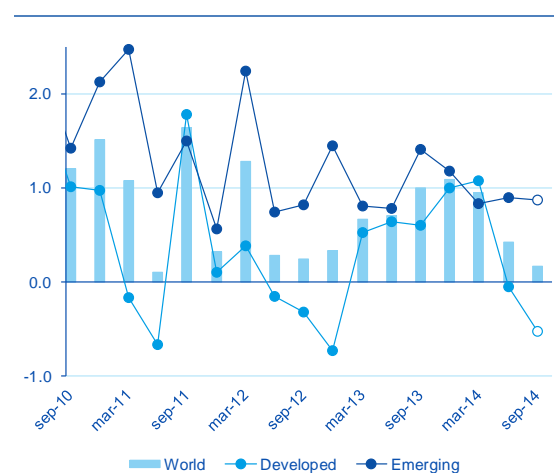
Source: BBVA Research

Figure 3
BBVA-GAIN and world GDP, monthly (% QoQ)



Source: BBVA Research

Figure 4
Industrial Production (% QoQ)



Source: CPB and BBVA Research

DISCLAIMER

This document has been prepared by BBVA Research Department, it is provided for information purposes only and expresses data, opinions or estimations regarding the date of issue of the report, prepared by BBVA or obtained from or based on sources we consider to be reliable, and have not been independently verified by BBVA. Therefore, BBVA offers no warranty, either express or implicit, regarding its accuracy, integrity or correctness.

Estimations this document may contain have been undertaken according to generally accepted methodologies and should be considered as forecasts or projections. Results obtained in the past, either positive or negative, are no guarantee of future performance.

This document and its contents are subject to changes without prior notice depending on variables such as the economic context or market fluctuations. BBVA is not responsible for updating these contents or for giving notice of such changes. BBVA accepts no liability for any loss, direct or indirect, that may result from the use of this document or its contents. This document and its contents do not constitute an offer, invitation or solicitation to purchase, divest or enter into any interest in financial assets or instruments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

In regard to investment in financial assets related to economic variables this document may cover, readers should be aware that under no circumstances should they base their investment decisions in the information contained in this document. Those persons or entities offering investment products to these potential investors are legally required to provide the information needed for them to take an appropriate investment decision.

The content of this document is protected by intellectual property laws. It is forbidden its reproduction, transformation, distribution, public communication, making available, extraction, reuse, forwarding or use of any nature by any means or process, except in cases where it is legally permitted or expressly authorized by BBVA.