

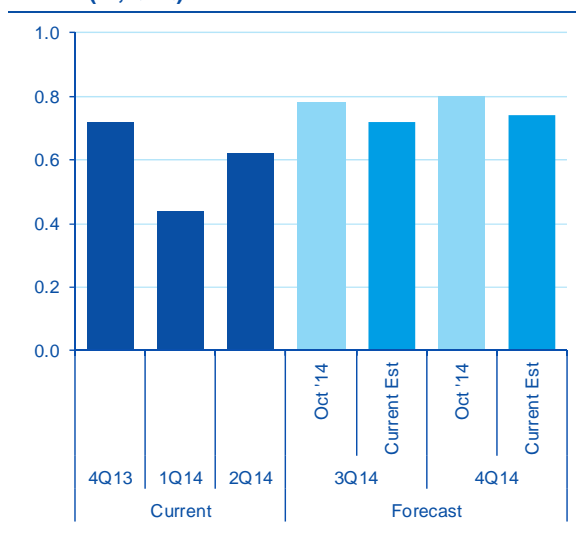
ECONOMIC ANALYSIS

Global GDP growth: Tempered recovery in the second half of 2014

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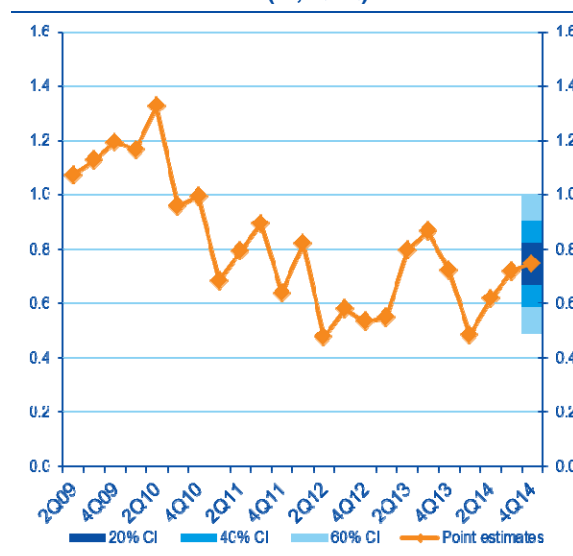
The latest update of the BBVA GAIN¹ in November tempered our estimations for World GDP growth in the 2nd half of 2014. The data from national accounts for the second quarter is now complete and yields a growth figure of 0.6% in Q2, consistently with our previous update; however, both the estimate for the third quarter (*nowcast*) and the forecast for the last quarter of 2014 were revised downwards from 0.8% to 0.7%, as shown in Table 1. All in all, it is a *fine tuning* revision due to incoming information, which does not hamper the recovery path in the 2nd half of 2014.

Figure 1
World GDP: change in GDP forecast in the last month (% QoQ)



Source: BBVA Research

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



Source: BBVA Research

Table 1
World GDP, monthly estimates, % QoQ

	2014										
	Jan	Feb	Mar	Apr	May	Jun	Jul	Ago	Sep	Oct	Nov
Q214	0,83	0,88	0,81	0,80	0,80	0,60	0,60	0,56	0,60	0,63	0,62
Q314	-	-	-	0,74	0,79	0,81	0,79	0,76	0,78	0,78	0,72
Q414	-	-	-	-	-	-	0,84	0,83	0,85	0,80	0,74

(*) 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

The downward revision of GDP growth estimations are a consequence of higher global financial volatility and softened confidence in November. Hard data such as the monthly growth of industrial output experienced an increase of 0.9pp in September over the previous month (recall that there is a 2-

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>.

month publication delay), thus offsetting the somehow “noisy”² value of -0.7% in August and suggesting a return to the growth path initiated in June. In fact, as shown in Graph 3, quarter-over-quarter growth accelerated modestly in Q314 driven by emerging markets. However, **the recent deterioration of PMI puts a downwards risk on global activity hard data indicators such as industrial output or global trade, both improving until 3Q14.**

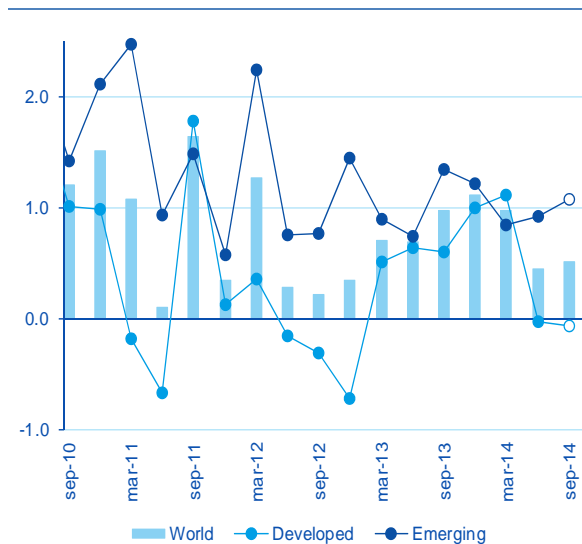
Conversely it is worth noting the recent evolution of oil prices (Graph 4). **Lower oil prices are positive for the global economic outlook as long as they are a consequence of increases in oil supply, as we reckon this is currently the case³. However, impacts across geographies are uneven depending on their different exposure to oil in terms of consumption, trade and public sector revenues.**

Table 2
Global data summary

	2014											
	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Ago	Sep	Oct	Nov
BBVA-GAIN	2.3	1.9	2.2	1.5	0.7	0.7	1.3	1.4	1.6	1.9	1.0	0.5
Global PMI	52.9	52.9	53.0	53.2	52.4	51.9	52.1	52.6	52.5	52.2	52.2	51.8
Employment	50.6	51.2	51.0	51.3	51.6	51.5	50.8	51.0	50.7	51.2	51.2	51.2
New Export Orders	52.5	52.0	51.4	51.7	51.9	51.2	51.9	51.1	52.3	52.2	51.0	50.3
Global Industrial Production (m/m)	0.10	0.07	0.31	0.05	0.47	-0.34	0.11	0.59	-0.73	0.90	-	-
BBVA Global Volatility Index	-2.42	-2.50	-2.12	-1.73	-1.86	-2.70	-3.47	-4.03	-3.87	-3.81	-2.55	-1.63

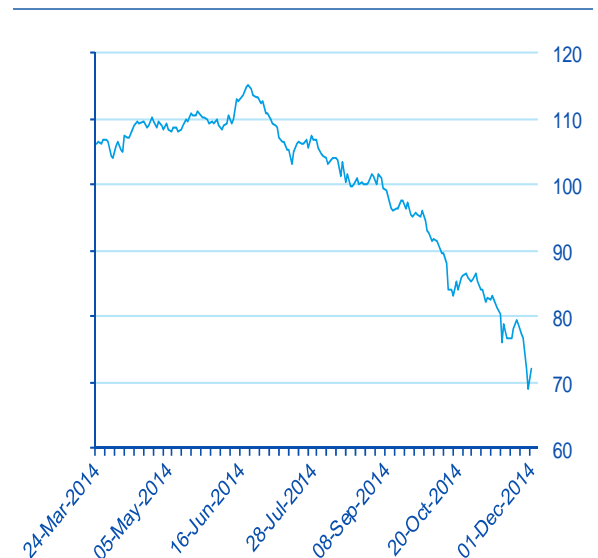
Index = 50 means no change in manufacturing activity.
The Global Volatility Index leads one period in the model.
Source: JP Morgan, Markit Economics, CPB Netherlands and BBVA Research

Figure 3
Industrial Production (% , QoQ)



Source: BBVA Research

Figure 4
Oil Prices, recent evolution, Brent, USD/barrel



Source: CPB and BBVA Research

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

3 The steady increase in the US shale oil production and surprisingly strong supply from conflict areas. Oil demand issues were very much at play some quarters ago, although prices did not fall then as they were compensated by geopolitical concerns and probably too optimistic assumptions on global demand by the International Energy Agency, that have been revised down dramatically very recently.

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