

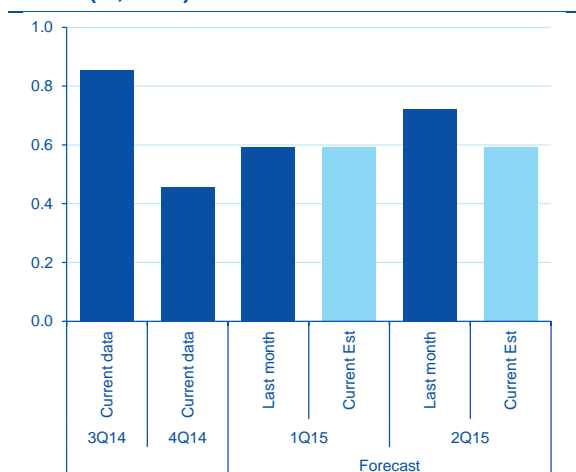
ECONOMIC ANALYSIS

Downward revision of world GDP growth forecast in 2Q and ongoing downside risks ahead

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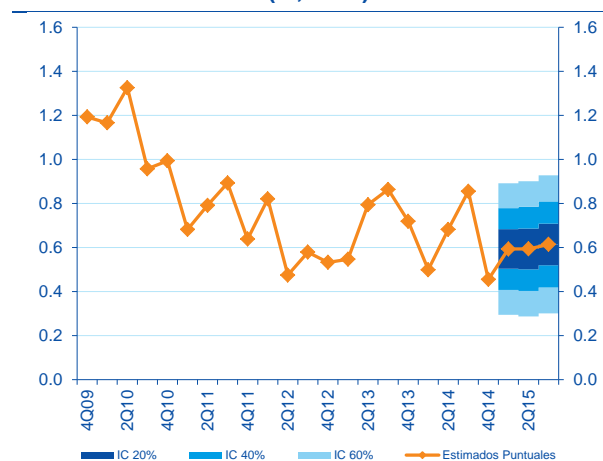
The August update of our BBVA-GAIN results in a downward revision of our 2Q15 estimates of world GDP quarterly growth, coherent with the stagnation of manufacturing confidence and the spike of financial volatility related with the uncertainty about China's growth and its management of economic policies. Then, our world growth estimation in the 2Q15 is 0.6% QoQ, same figure as in 1Q15

Figure 1
World GDP: change in GDP nowcast 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						2015							
	Jul	Ago	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
Q414	0.84	0.83	0.85	0.80	0.74	0.80	0.79	0.81	0.63	0.62	0.60	0.53	0.45	0.45
Q115	-	-	-	-	-	-	-	0.76	0.68	0.64	0.63	0.51	0.59	0.59
Q215	-	-	-	-	-	-	-	-	0.74	0.70	0.71	0.65	0.72	0.59

(*) Actual figure of the Global GDP is based on the aggregate 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

Juncture indicators report stagnant evolution (Table 2) with increasing differentiation between EM and DM: manufacturing and industrial indicators in EM, and especially in Asia, keep dragging the global cycle (Figure 3) whereas DM are performing relatively well (i.e. the US 2Q15 GDP growth was revised up to 3.7% from 2.3%). The quarterly activity balance continues to be concerned by the industrial sector and world trade, highlighting that the main sources of the cyclical recovery are likely to be households' consumption and services activities.

Turning to financial uncertainty, the **CBOE VIX index picked up worldwide in August reaching 2011 levels (Figure 4) mainly driven by growing concerns on China, falling commodity prices and the uncertainty about the effect of the incoming rate hike by the Fed, especially in EM.** The doubts about the recent management of China's economic policies (renminbi devaluation), amidst the continuous sell-offs on the domestic stock market, has come to the fore as a source of uncertainty for all emerging markets.

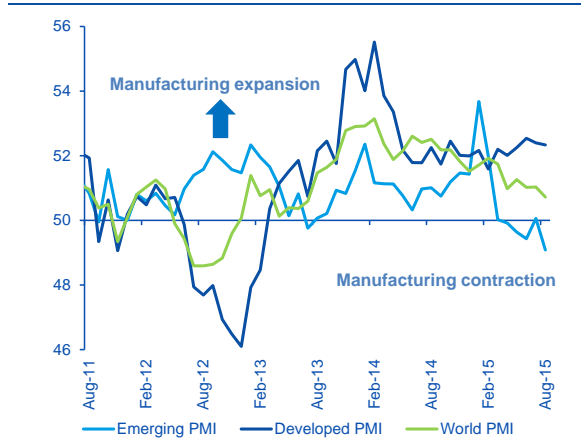
If the current market turmoil continues and the Chinese economy slows more dramatically than expected, the risk scenario would kick in with more serious consequences worldwide.

Table 2
Global data summary

	2014					2015							
	Ago	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
Global PMI	52.5	52.2	52.2	51.8	51.5	51.7	52.0	51.8	51.0	51.2	51.0	51.0	50.7
Employment	50.7	51.2	51.2	51.2	51.1	51.1	51.1	50.7	50.7	51.0	50.9	50.7	50.2
New Export Orders	52.3	52.2	51.0	50.3	50.9	51.2	50.9	50.8	50.1	49.8	50.8	49.9	49.9
Global Industrial Production (m/m)	-0.6	0.8	0.0	0.5	0.3	-0.5	0.6	-0.1	-0.2	-0.2	0.4		
BBVA Global Volatility Index	-3.87	-3.81	-2.55	-1.63	-0.76	-0.38	0.21	-0.03	-0.55	-0.70	-0.50	0.09	0.47

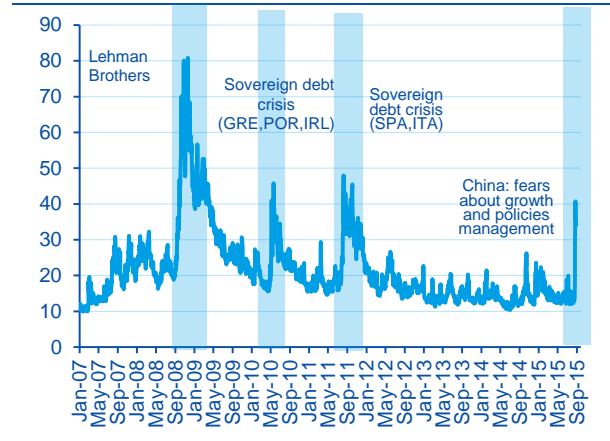
Index = 50 means no change in manufacturing activity.
The Global Volatility Index leads one period in the model.
Source: JP Morgan, Markit Economics, CPB Netherlands and BBVA Research

Figure 3
Manufacturing PMI (last available data: Aug-15)



Source: BBVA Research, Markit

Figure 4
CBOE Volatility index (VIX)



Source: BBVA Research, CBOE

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