

Global Flash

Global cycle: further advance in August, but risks tilted to the downside

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Economic Analysis

Economic Scenarios Unit

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Global GDP forecasts improved to 0.6% q/q in 2Q13 and remained in 0.7% in 3Q13

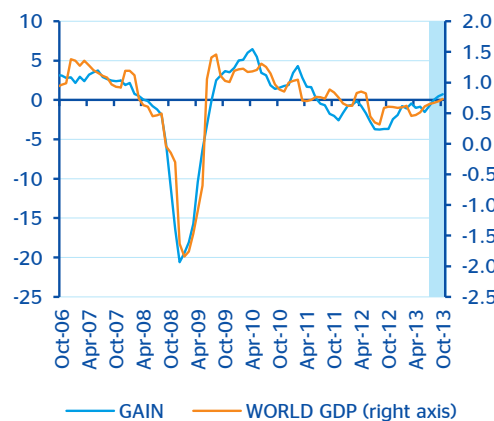
Global Activity Index (BBVA-GAIN) continued to edge higher in August. Today's update broadly confirmed ongoing improvement in the global activity outlook. By components, financial conditions eased and although the Global PMI expansion remained only moderate at best, nonetheless is the highest since June 2011. To sum up, Industrial Production (June) positively contributed as well. As a result, BBVA-GAIN significantly expands at 0.0 in August from -0.7 in June (Chart 1).

- Global growth *nowcast* in 2013Q3 remains around 0.7% (q/q), while forecast for 2013Q4 rose at 0.8%

Global GDP growth *backcast* estimate for the second quarter has been slightly revised upwards (from 0.5% to 0.6%, q/q) while our *nowcast* for the third and forecast for the fourth quarters remain at around 0.7% and 0.8% (q/q), respectively (Table 1 and Chart 2). The estimation of the probability of recession is accordingly low. Thus, global activity showed signs of strengthening in the past two months after a weaker-than-expected first half. That said, despite activity show traces of improvement in developed economies in line with further confidence improvements (US leading the way), the Asia region continue to be the main drag on global economy during the summer.

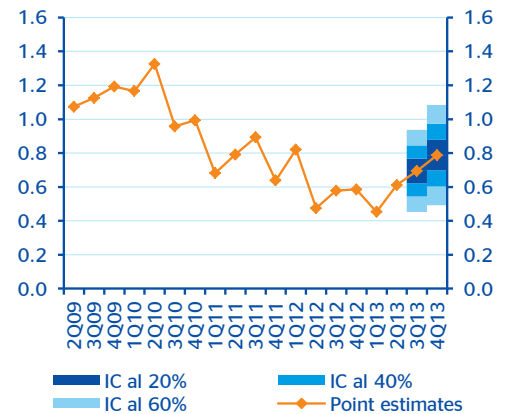
BBVA-GAIN signals a significant improvement of global expansion, which is confirmed with recent data for August, especially regarding Global PMI recovery and financial stress easing. Both positive events are focused in developed economies, whereas emerging markets business sentiment is deteriorating and their financial conditions are tightening after the FED's announcements on tapering their balance sheet expansion. Such incoming events tilt the balance of risk of our forecast of GDP growth to the downside.

Chart 1
BBVA-GAIN and world GDP (% Q/Q) on a monthly basis



Source: BBVA Research

Chart 2
Global: Observed GDP growth and forecasts based on BBVA-GAIN (% Q/Q)



Source: BBVA Research

Table 1
Global Data Summary

	2013							
	Jan	Feb	Mar	Apr	May	Jun	Jul	Ago
BBVA-GAIN (*)	-0.2	-0.6	-0.1	-0.9	-0.9	-1.2	-0.7	0.0
Global PMI	51.5	50.9	51.2	50.4	50.6	50.6	50.8	51.7
Employment	50.7	50.4	50.5	50.2	50.4	49.6	50.0	50.5
New Export Orders	49.4	49.5	51.0	50.3	50.2	48.3	50.5	50.5
Global Industrial Production (m/m)	-0.12	0.17	0.53	0.10	0.05	0.17	-	-
BBVA Financial Stress Index	-0.06	0.00	0.01	0.06	-0.10	0.01	-0.08	-0.19
Global GDP, 2013q2 growth, current monthly estimate	0.7	0.8	0.7	0.7	0.7	0.6	0.5	0.6
Global GDP, 2013q3 growth, current monthly estimate	-	-	-	0.8	0.6	0.7	0.7	0.7

Index=50 means no change on previous month.

Source: JP Morgan, Markit Economics, CPB Netherlands and BBVA Research

 (*) For methodological issues, please refer to our Economic Watch, published on March 6th, 2013: <http://bit.ly/1ee04TM>

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