

Global Flash

Madrid, 7th January 2014
Economic Analysis

Economic Scenarios Unit

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Global cycle: faster expansion in December

Global growth *backcast* in 2013Q3 improved up to 1% (q/q), while 2013Q4 and 2014Q1 remain firm

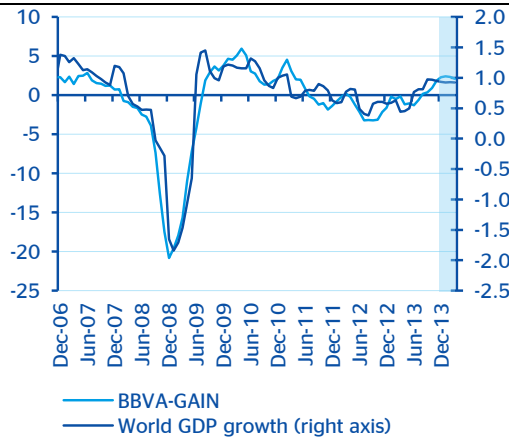
According to our calculations, **Global Activity Index (BBVA-GAIN) as of December establishes an improved note for the global cycle.** Both the better near-term dynamics of financial markets in terms of volatility showed by the BBVA-Global Volatility Index (GVI), along with the fastest Global PMI pace since February 2011, significantly contributed to BBVA-GAIN further expansion. As a result, **BBVA-GAIN expands at 2.3 in December from 1.9 in November** (Chart 1).

- **The average reading of BBVA-GAIN through 2013 as a whole (0.1) was better than the disappointing pace signaled over 2012 (-1.7)**

Global GDP growth *backcast* for the third quarter surprisingly improved at 1% (q/q) while our *nowcast* for the fourth quarter and the first quarter of next year improved at around 0.9% (Table 1 and Chart 2). The estimation of the probability of recession is accordingly low. At a regional level, manufacturing business expectations reveal that growth was again led by G7 countries, as robust expansions in the US, Japan, Germany, the UK, and Italy eventually offset the ongoing contraction in France and a sharp slowdown in Canada. On the emerging markets, although China registered a slightly weaker trend, manufacturing confidence seems to be stabilizing in most other key EM countries including India, Indonesia, Brazil and EMEA. All in all, **the global activity cycle remains firm since EM seem to be joining the AE's upward trend, in an uneven way though.**

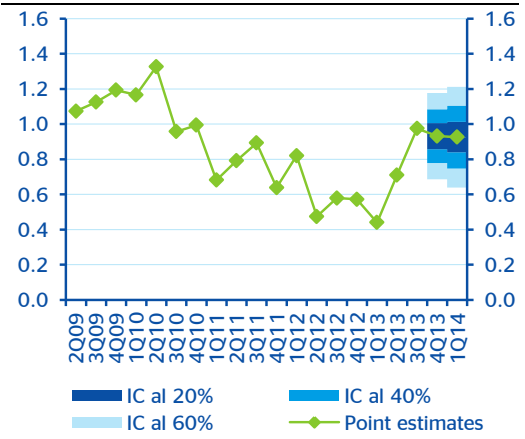
BBVA-GAIN signals global activity strengthening while near-term dynamics appear to remain favorable. However, even more balanced nowadays - mainly due to positive surprises on the cycle and policy agreements in the US economy - some risks potentially dragging global economic outlook down are still out there: i) idiosyncratic vulnerabilities in the eurozone: AQR and stress test of the banking sector could tighten the access to funding; ii) emerging markets have to deal with less favorable liquidity environment; iii) in China, domestic financial vulnerabilities in front of tightening of funding conditions could impact on growth.

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	Sep	Oct	Nov	Dec
BBVA-GAIN	-0.2	-0.6	-0.1	-0.9	-0.9	-1.2	-0.7	0.0	0.4	1.0	1.9	2.3
Global PMI	51.5	50.9	51.2	50.4	50.6	50.6	50.8	51.6	51.8	52.1	53.1	53.3
Employment	50.7	50.4	50.5	50.2	50.3	49.6	50.1	50.4	50.2	50.8	50.8	51.6
New Export Orders	49.4	49.5	51.0	50.3	50.2	48.3	50.5	50.3	50.9	51.9	52.6	52.2
Global Industrial Production (m/m)	-0.11	0.29	0.42	0.09	-0.04	0.30	0.27	0.25	0.41	0.03	-	-
BBVA Global Volatility Index	-3.32	-2.91	-2.31	-1.93	-1.89	-0.62	0.41	0.60	-0.09	-1.09	-1.55	-2.52
Global GDP, 2013q2 growth, current monthly estimate	0.7	0.8	0.7	0.7	0.7	0.6	0.5	0.6	0.7	0.7	0.7	0.8
Global GDP, 2013q3 growth, current monthly estimate	-	-	-	0.8	0.6	0.7	0.7	0.7	0.8	0.7	0.8	1.0
Global GDP, 2013q4 growth, current monthly estimate	-	-	-	-	-	-	0.6	0.7	0.8	0.8	0.8	0.9
Global GDP, 2014q1 growth, current monthly estimate	-	-	-	-	-	-	-	-	-	0.8	0.9	0.9

(*) For methodological issues, please refer to our Economic Watch, published on March 6th, 2013: <http://bit.ly/1ee04TM>.
Index=50 means no change on previous month.

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

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