

## MACROECONOMIC ANALYSIS

# Eurozone: the situation stabilised in the fourth quarter

Europe Unit

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The deterioration since the summer in the eurozone seems to have stopped, with a certain trend towards stability in the expected quarterly growth of 0.2pp in the eurozone as a whole, in line with our previous scenario. The confidence indicators have stopped falling and are showing signs of a turning point (although they are at levels consistent with very low growth), while the activity indicators continue to be weak, but in general are not posting negatives, while exports have given significant signs of recovery in the last two months. By countries, Germany and France are doing rather better than Italy (which does not appear to be coming out of recession), whereas the periphery countries are accelerating according to the Markit indicators (in the case of the Spanish economy this is reflected in several indexes). The fundamentals are making mixed progress, since the fall in oil prices could reinforce the recovery next year, but certain risks are intensifying (Russia, from the external point of view, and Greece from inside the eurozone). Fiscal policy will be practically neutral in 2015 for the zone as a whole, although the Juncker Plan could represent a not inconsiderable additional stimulus in the next three years if properly managed. As far as monetary policy goes, the likelihood of a quantitative expansion seems to be growing (see [ECB Watch](#)).

## Eurozone: Growth in 4Q14 will continue to be very moderate

- **Confidence indicators indicate the weakness of activity in the eurozone ...**

So far this fourth quarter, the confidence indicators have confirmed the weak phase that the eurozone economy is going through: the European Commission's economic sentiment indicator (ESI) has shown a slight improvement and Markit's PMI index remains in slightly expansive terrain, consistent with a moderate increase in activity in 4Q14 (Figures 3 and 4). Both surveys indicate the fragility, above all, of the industry, burdened to a large extent by uncertainty in the export sector. The forward components for these indicators suggest that fragility will continue in the next few months, given that new manufacturing orders (domestic and, above all, external), business expectations and order backlogs have slowed. In short, the confidence data will herald a minimal quarterly GDP growth, at rates similar to those of 3Q14 (Figure 2).

- **... and activity signals point to moderate growth in 4Q14**

The activity indicators available confirm the signals being given by the confidence data for 4Q14: exports fell in October by 0.3% MoM, without reversing the hearty uptick in September (+4.2%, MoM), and are 2% higher than the average for 3Q14 (when they grew 0.6% QoQ), while orders from abroad are improving, which is a forward indicator that weakness in exports may have come to an end in 4Q14 (Figure 8). On the other hand, at the beginning of the final quarter of the year, industrial production registered only a small increase, and stands 0.1% higher than its average for 3Q14, whereas retail sales fell slightly from the previous quarter, in line with the moderation in consumer confidence (Figure 6) and despite the stabilisation in the labour market and a still-low rate of inflation.

- **The MICA-BBVA model, with the still-limited information available, forecasts growth of 0.2% in 4Q14**

With the information available to date (real figures only up to October), our short-term model estimates a quarterly GDP growth of 0.2% QoQ in 4Q14 (Figure 2), in line with our baseline scenario and with a growth forecast of 0.8% for 2014 as a whole.

- **Inflation moderates at 0.3% YoY, with core inflation stabilising at 0.7% YoY**

Inflation slowed in November to 0.3% YoY due to the intensification of the fall in energy product prices, while core inflation steadied at 0.7% YoY (Figures 11 and 12). We expect inflation to fall again in December, with a clear bias to the downside, since the OPEC agreements point to an oil price well below our scenario (USD86/bbl on average in 4Q). On the horizon, we forecast a very slow and gradual increase starting in the second quarter of 2015, since, even though recovery is expected to gain some traction in the next few quarters, the price dynamics will continue to be limited by a negative output gap, a high rate of unemployment and the absence of wage pressures.

## Germany

- **GDP grew by 0.1% QoQ in 3Q14, driven by private consumption**

In 3Q14, growth in private consumption was robust (0.7% QoQ) (Figure 13) and confirms the high levels of consumer confidence; together with the improvement in exports (1.9% QoQ), this has offset another contraction in investment (-0.9% QoQ). So far this quarter, the confidence indicators are giving mixed signals, although in general the downwards trend that began over the summer seems to have stopped. This can be seen in a timid improvement in the activity data, with industrial production and retail sales growing respectively by 0.2% and 0.4% faster than the average for 3Q14 (Figures 17 and 18). Exports have also shown a hefty increase in October, even though industrial orders received from abroad heralded a cooling in the German export sector. As a result, the growth expected for this quarter is 0.2% QoQ.

## France

- **Higher growth than expected in 3Q14 (+0.3% QoQ), but with nuances**

The surprising GDP growth in the third quarter of the year was principally due to the contribution of inventories and the increase in public consumption (0.8% QoQ), while net exports made a negative contribution (-0.2pp) and investment contracted for the fourth quarter in a row (Figure 25). However, this rate of growth does not appear sustainable, given that severe cuts in public spending are on the cards and private consumption is not taking off. In general, the PMI indicators are sticking to their fairly gloomy outlooks (although not the national ones and the European Commission's ESI), in particular in the manufacturing sector, which is reflected in the poor industrial production data, which, as with retail sales for October, is registering a 0.8% deterioration from the average for 3Q14. Meanwhile, the external sector has grown more slowly since the beginning of the year, but, compared with the previous quarter, 4Q14 has started with an uptick in goods exports and a merely moderate increase in imports (Figure 32). As a whole, we expect growth to be moderate in 4Q14 (0.2%), similar to Germany and to the eurozone as a whole.

## Italy

- **The negative contribution of investment is hindering the recovery**

The slip in GDP in 3Q14 (-0.1% QoQ) was already forecast in the intense deterioration in all confidence indicators throughout the third quarter this year. The fall in investment (-1% QoQ) and the reduction in public spending (-0.3% QoQ) have been the main dead-weights in the economy, and have not been offset by the slight improvements in exports and private consumption (Figure 37). In the fourth quarter to date, the European Commission's ESI has registered a significant downturn and the deterioration in the labour market is weakening household confidence. The first real data available (October industrial production) continue to paint a negative picture (Figure 41) and do not appear to signal an immediate reversal in this trend, whereas export orders, lower than in 3Q14, will herald that the external sector will not support the recovery of activity in forthcoming months. In this way, we are expecting practically nil growth in the fourth quarter.

## Spain: the recovery in activity and employment gains ground in 4Q14

- **Economic growth accelerates in the home stretch of the year**

The third quarter featured solid progress, both in household consumption (0.8% QoQ), and in machinery and equipment investment (1.7% QoQ). In terms of external demand, there was an energetic expansion in exports, but the bounce in imports had the knock-on effect of a reversal in net external demand (Figure 49). When it comes to the year-end, the information available suggests that the composition of growth may be comparable to that in 3Q14. In terms of external demand, the expectations and spending indicators indicate that non-tourist goods and services exports continue to grow. On the side of private domestic demand, the spending indicators in household consumption and expectations point to real spending continuing its rise in 4Q14. Similarly, the changes in industrial confidence, in manufacturing PMI and trade flows herald renewed growth in machinery and equipment investment, similar to that registered in the preceding quarter. In terms of the job market, the number of Social Security affiliations surpassed growth expectations in November (+69,600, seasonally adjusted). The MICA-BBVA model points to growth of 0.6% or 0.7% QoQ in this final quarter, above our forecast and gathering speed over the two preceding quarters (see [Spain Economic Watch](#)).

Eurozone

National accounts: discreet growth in 3Q14

The eurozone economy grew by 0.2% QoQ in 3Q14, a discreet level of growth but more than expected. In the continued absence of the breakdown by components, national data and our own forecasts indicate that this surprise may be due to a better-than-expected performance on the part of domestic demand, although investment had a negative impact.

Figure 1  
GDP (% QoQ) and contribution by component (pp)\*

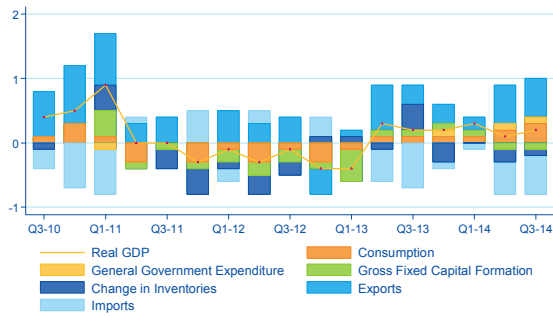
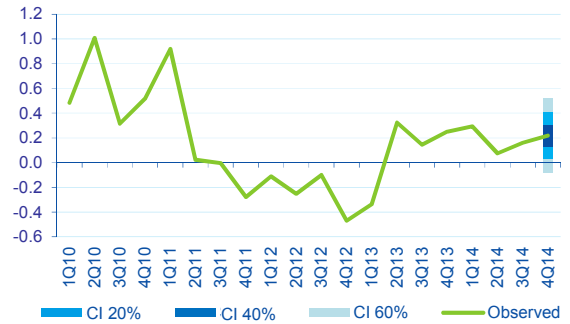


Figure 2  
GDP growth (% QoQ) and MICA-BBVA forecast\*



Confidence: mixed signals from the PMIs and the ESI

The PMIs have been painting a negative picture for the last few months, although they showed a slight improvement in December, whereas the ESI index appears to indicate a little progress in business confidence.

Figure 3  
PMIs and GDP growth (% QoQ)\*

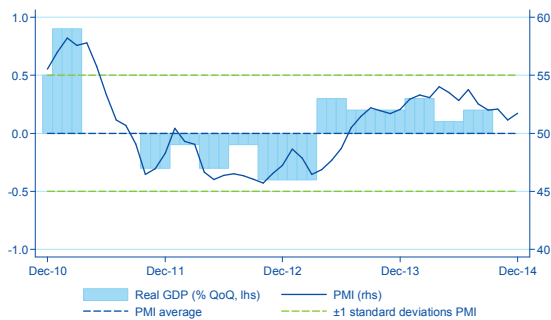
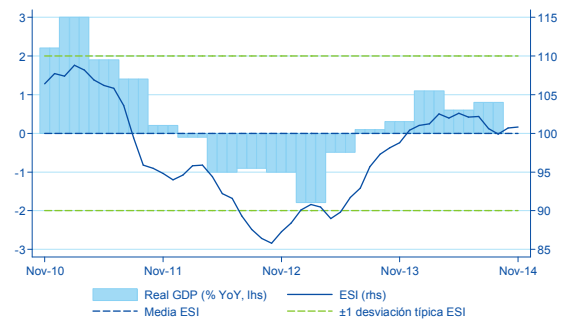


Figure 4  
Confidence (ESI) and GDP growth (% YoY) \*\*



Activity: industrial production increases slightly

Compared with the 3Q14 average, the industrial production index is showing a slight improvement (+0.1%), while retail sales are reversing slightly (-0.1%).

Figure 5  
Ind. Prod. (% YoY), PMI new orders and manufacturing prod.\*

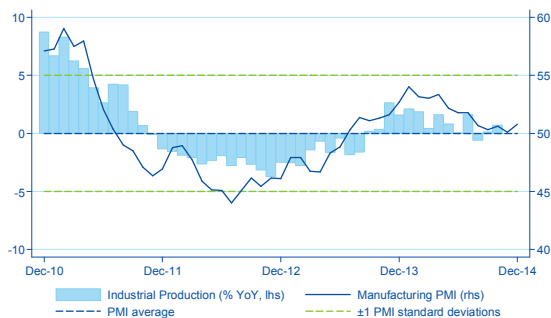
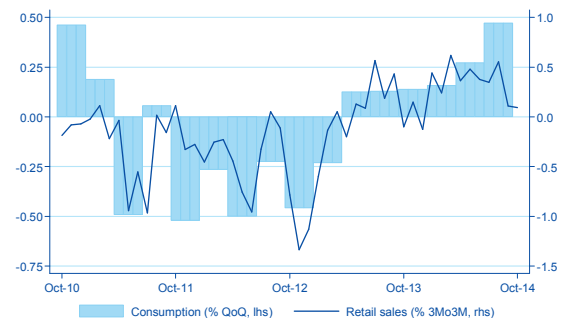


Figure 6  
Retail sales (% 3Mo3M) and consumption growth (% QoQ)\*

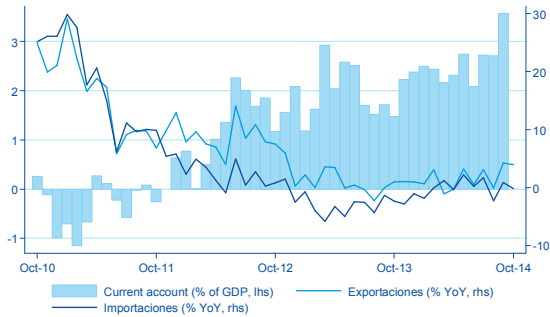


\*Source: Haver Analytics and BBVA Research

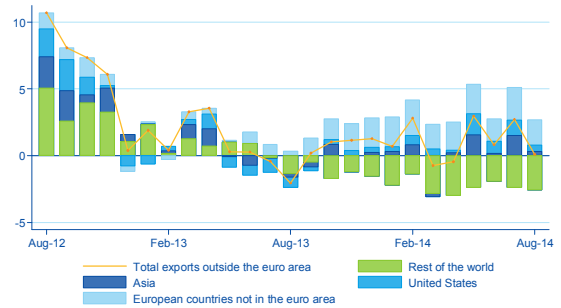
**Foreign sector: exports up on 3Q14**

After the sharp jump in September, exports diminished slightly, but still remain far above the average for 3Q14 (+2%)

**Figure 7**  
**Current account (% of GDP)\***



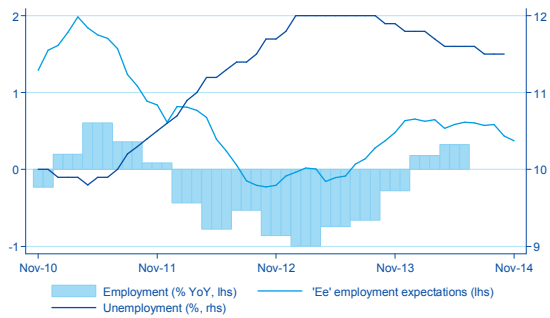
**Figure 8**  
**Exports by destination (contribution to % YoY)**



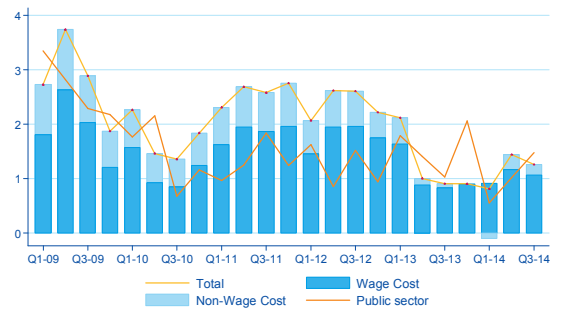
**Labour market: stable over the last year**

The unemployment rate has remained stable in the last few years, although with major differences between countries. Labour costs in the business sector have increased by 1.3% YoY in 3Q14.

**Figure 9**  
**Unemployment rate (%) and employment expectations\***



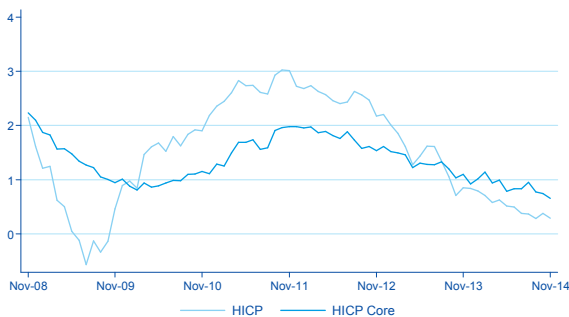
**Figure 10**  
**Labour costs in the corporate sector (% YoY)\***



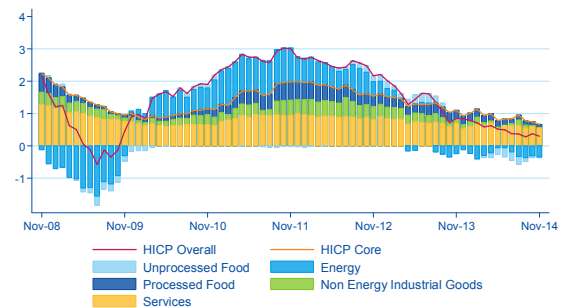
**Prices: inflation slows at 0.3% YoY, while core inflation is stable**

November's inflation rate decelerated by 0.1pp to 0.3% YoY, due to the intensification in the fall of energy product prices, while core inflation has stabilised at 0.7% YoY

**Figure 11**  
**Inflation rate, headline and core (% YoY)\***



**Figure 12**  
**Inflation by component (contribution by %)\***



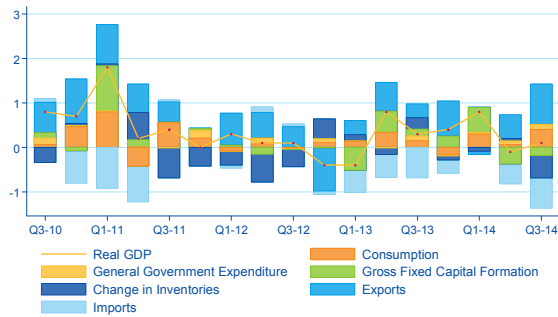
\* Sources: Haver Analytics and BBVA Research

**Germany**

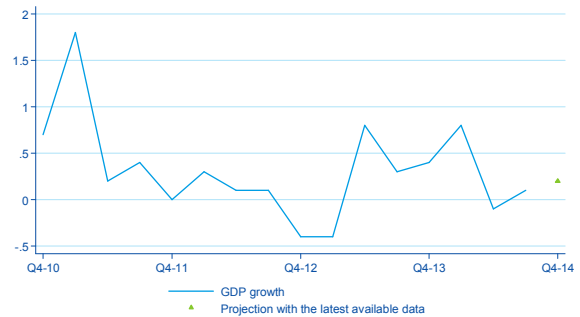
**National accounts: GDP grows slightly in 3Q14**

GDP grew at 0.1% QoQ in 3Q14, due mainly to the behaviour of the external sector and private consumption. The positive effect of net exports will be seen in greater growth in exports than imports. Investment, particularly in machinery and equipment, contracted again and inventories were a drain on growth.

**Figure 13**  
**GDP (% QoQ) and contribution by component (pp)\***



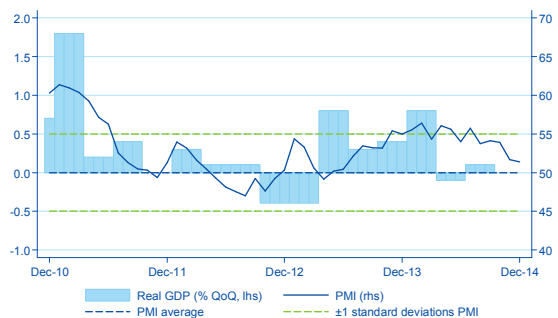
**Figure 14**  
**GDP (% QoQ) and forecasts\***



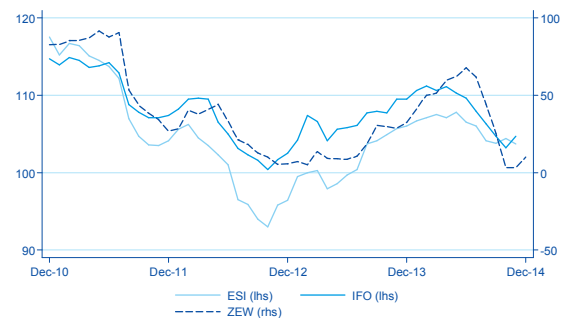
**Confidence: confidence indicators are sluggish**

November's composite PMI decreased again, but remains in expansive territory. The ZEW national confidence indicator stabilised at a low value in November. The European Commission's ESI indicator has shown a degree of stabilisation in October.

**Figure 15**  
**PMI and GDP growth (% QoQ)\***



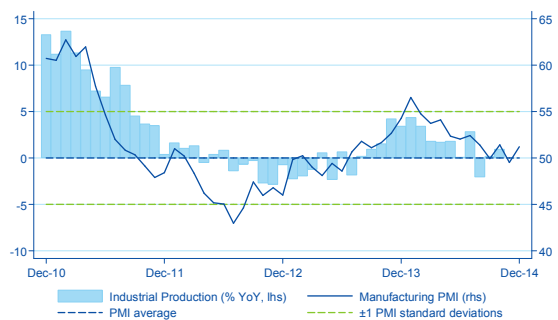
**Figure 16**  
**Confidence indicator (ESI, Ifo and ZEW)\***



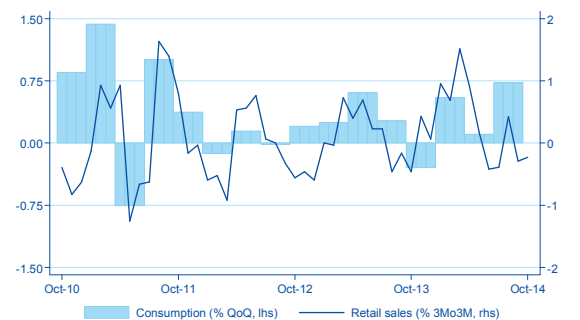
**Activity: industrial production improves, as do retail sales**

Industrial production grew by 0.2% above the 3Q14 average, when it fell by 0.4% QoQ, and retail sales rose by 0.4% over their third quarter result of -0.3% QoQ

**Figure 17**  
**Industrial production (% YoY) and manufacturing PMI\***



**Figure 18**  
**Retail sales (% 3Mo3M) and consumption growth (% QoQ)\***

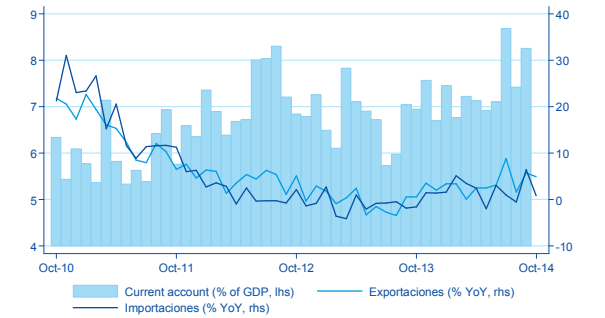


\*Sources: Haver Analytics and BBVA Research

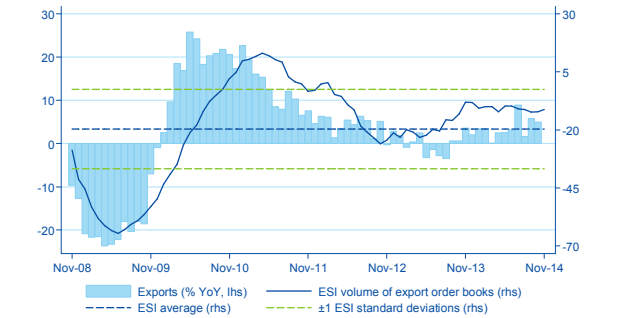
**Foreign sector: goods exports improve over the previous quarter**

Despite showing increasing volatility, goods exports to October rose by 1.1% over the previous quarter. For their part, goods imports fell by -0.2% compared to 3Q14.

**Figure 19**  
**Current account (% of GDP)\***



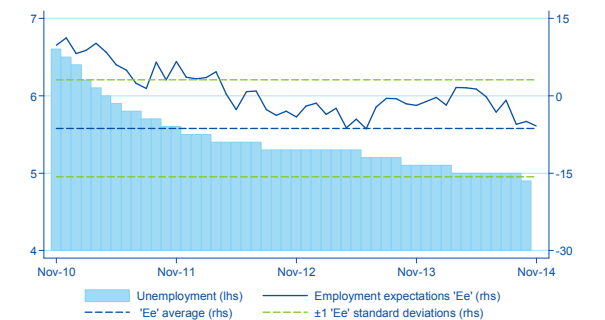
**Figure 20**  
**Export growth (% YoY) and volume of export orders\***



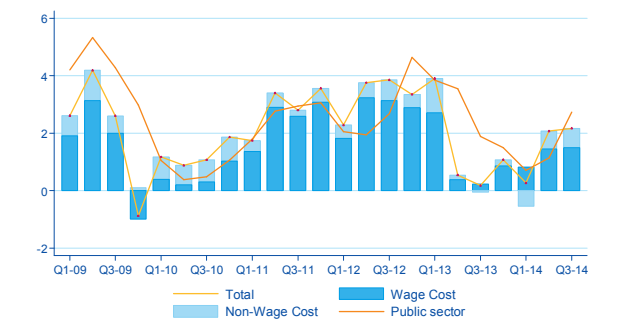
**Labour market: the unemployment rate stays at record lows**

The unemployment rate remained at its historical low (4.9%) in October, while growth in labour costs speeded up to 2.3% YoY in 3Q14 from 1.9% YoY in 2Q14.

**Figure 21**  
**Unemployment rate (%) and employment expectations\***



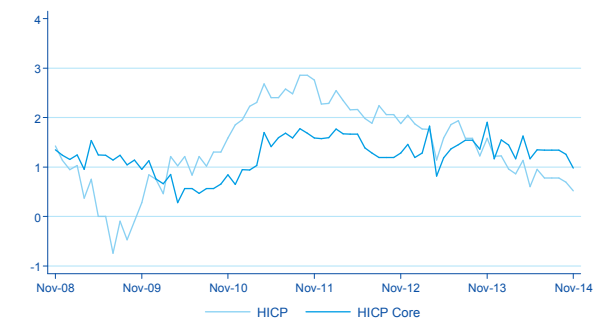
**Figure 22**  
**Labour costs in the corporate sector (% YoY)\***



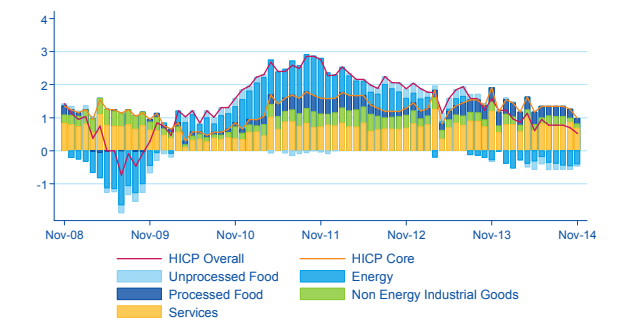
**Prices: inflation moderates again in November**

Harmonised inflation fell 0.2pp in November too, to +0.5% YoY, particularly because of the fall in energy prices. Core inflation remained stable at +1.2% YoY.

**Figure 23**  
**Inflation rate, headline and core (% YoY)\***



**Figure 24**  
**Inflation by component (contribution by %)\***



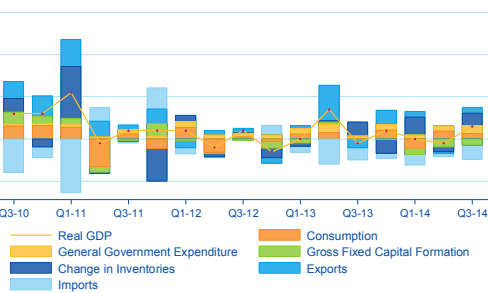
\* Sources: Haver Analytics and BBVA Research

**France**

**National accounts: GDP surprises, growing more than expected in 3Q14**

French GDP grew by 0.3% QoQ in 3Q14, more than anticipated. Consumption stuck to its rate of growth, while investment halted its fall. Inventories are contributing positively (+0.3pp), and net exports are making a negative contribution, because of higher growth in imports.

**Figure 25**  
**GDP (% QoQ) and contribution by (pp)\***



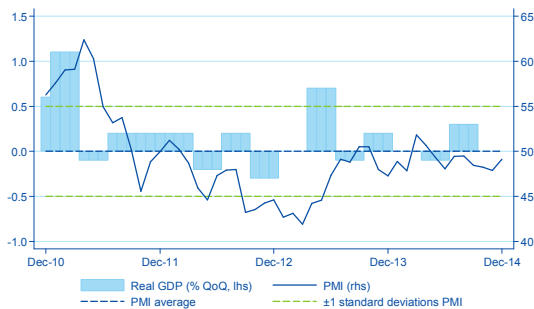
**Figure 26**  
**GDP (% QoQ) and forecasts\***



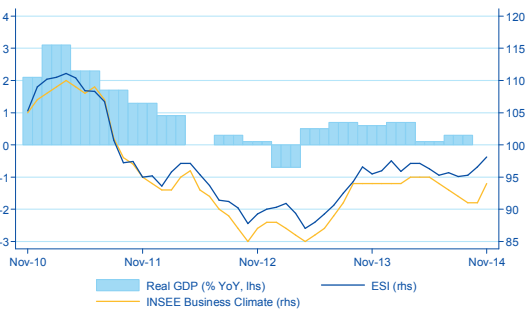
**Confidence: the indicators do not agree**

The composite PMI deteriorated and remained in negative territory in November, while confidence as measured by the EC has clocked up three months of improvements, and the INSEE is signalling a degree of stability. The PMI breakdown reveals the weakness of the services sector, above all.

**Figure 27**  
**PMIs and GDP growth (% QoQ)\***



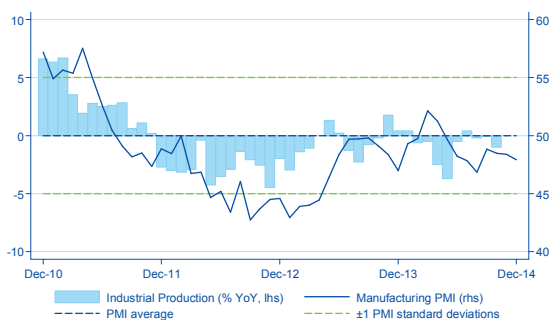
**Figure 28**  
**Confidence indicator (ESI and INSEE)\***



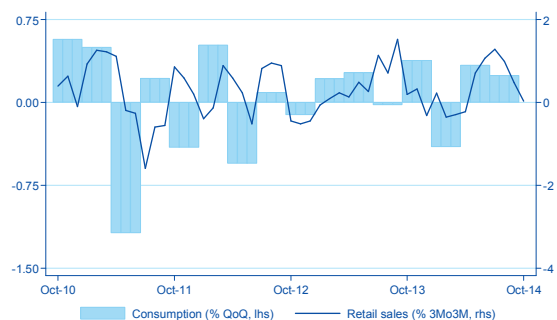
**Activity: both industrial production and retail sales slump**

After improvements in both sets of figures in 3Q14, industrial production and retail sales contracted by 0.8% compared to their average in the previous quarter.

**Figure 29**  
**Industrial production (% YoY) and manufacturing PMI\***



**Figure 30**  
**Retail sales (% 3Mo3M) and consumption growth (% QoQ)\***



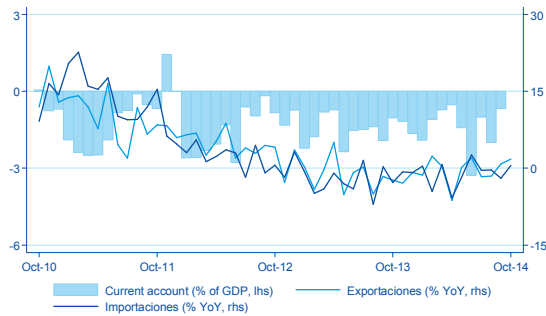
\*Sources: Haver Analytics and BBVA Research



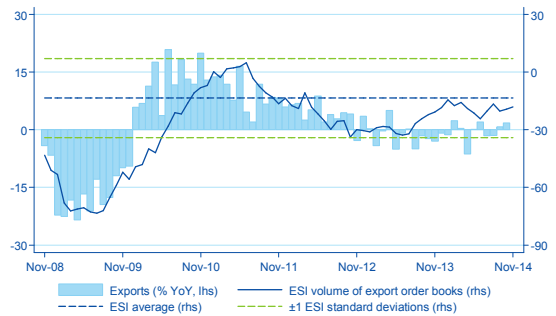
**Foreign sector: exports grow in October**

Compared with the average for 3Q14, goods exports in October rose by 1.6%, while imports only edged up 0.2%

**Figure 31**  
**Current account (% of GDP)\***



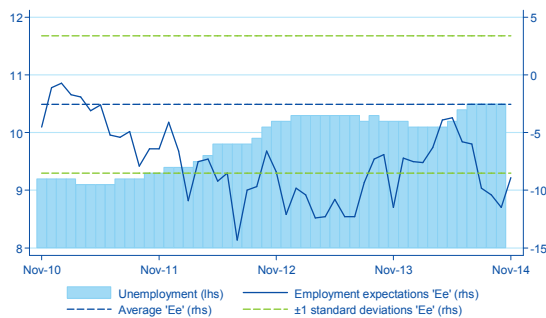
**Figure 32**  
**Export growth (% YoY) and volume of export orders\***



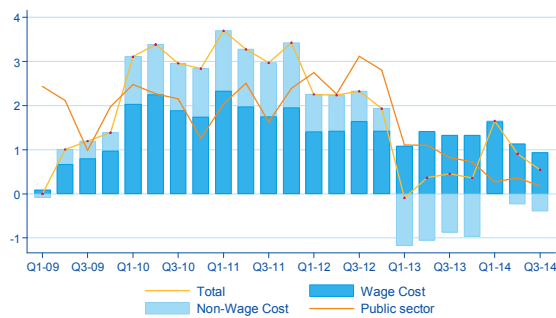
**Labour market: a degree of stability in recent months**

The unemployment rate has steadied at around 10.5% since the summer, after having increased by approximately 0.2pp every quarter last year. Meanwhile, overall labour costs accelerated by 0.5% YoY in 3Q14.

**Figure 33**  
**Unemployment rate (%) and employment expectations\***



**Figure 34**  
**Labour costs in the corporate sector (% YoY)\***



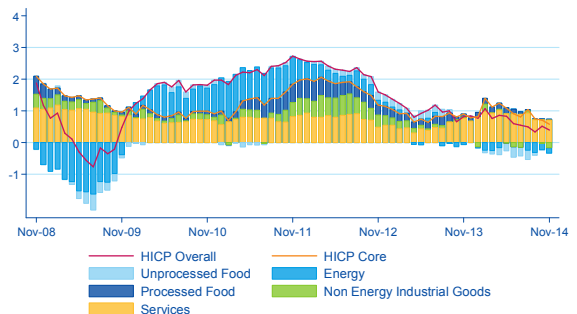
**Prices: inflation slows again slightly in November**

The YoY rate of inflation in France decelerated 0.1pp in November to 0.4% YoY and core inflation came in at 0.6% YoY, after posting 0.7% YoY in October

**Figure 35**  
**Inflation rate, headline and core (% YoY)\***



**Figure 36**  
**Inflation by component (contribution by %)\***



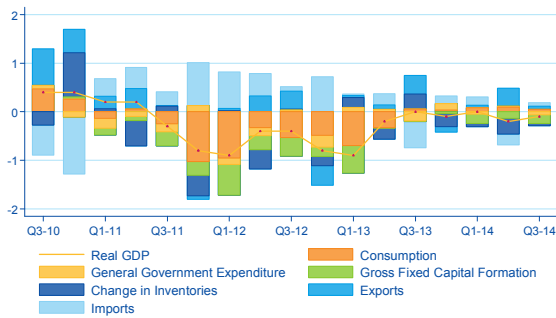
\* Sources: Haver Analytics and BBVA Research

**Italy**

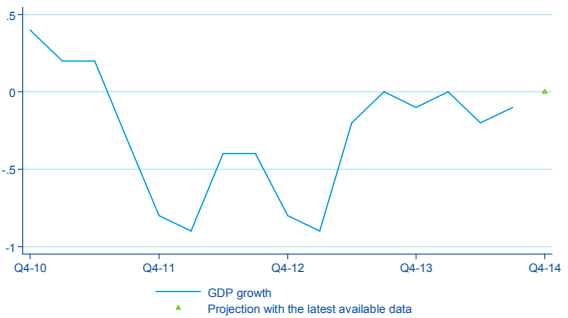
**National accounts: GDP continues to contract in 3Q14**

GDP shrank by -0.1% QoQ in 3Q14. This was essentially due to the fragility of domestic demand, held back by weak performance in manufacturing. Exports may have contributed positively to growth.

**Figure 37**  
**GDP (% QoQ) and contribution by component (pp)\***



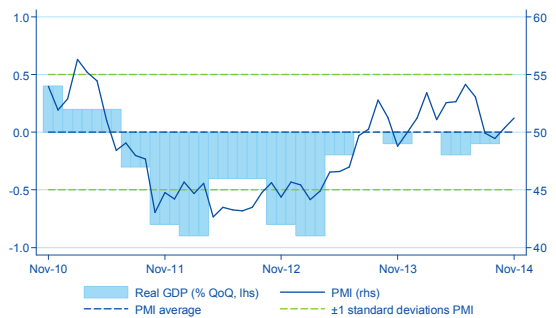
**Figure 38**  
**GDP (% QoQ) and forecasts\***



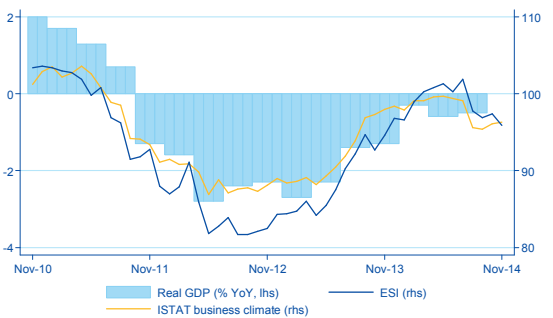
**Confidence: weak indicators in November**

The November composite PMI is still in positive territory, but the EC and ISTAT indicators are deteriorating, continuing to reflect weakness in the Italian economy.

**Figure 39**  
**PMIs and GDP growth (% QoQ)\***



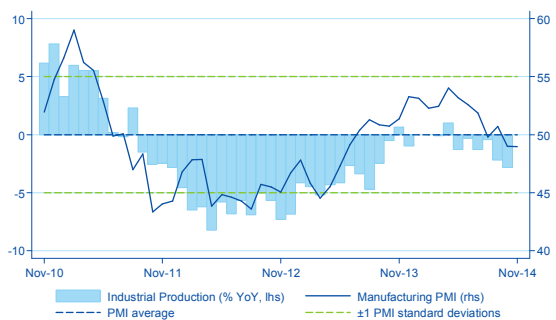
**Figure 40**  
**Confidence indicator (ESI and ISTAT)\***



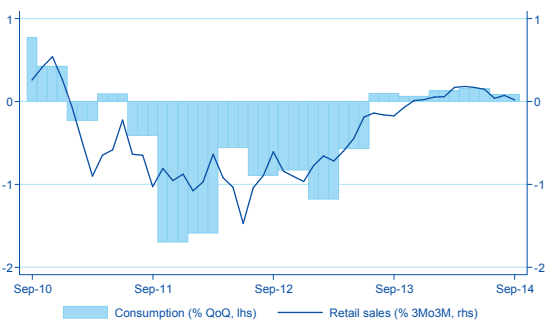
**Activity: the industrial sector and retail sales, in line with the weak short-term outlook**

Industrial production in Italy fell by -0.1% MoM in October, coming in at -0.6% below the 3Q14 average, when it fell by -1.1% QoQ. Retail sales (September figure) are not taking off.

**Figure 41**  
**Industrial production (% YoY) and manufacturing PMI\***



**Figure 42**  
**Retail sales (% 3Mo3M) and consumption growth (% QoQ)\***



\*Sources: Haver Analytics and BBVA Research

**Foreign sector: balance of trade deteriorates in September**

Imports grew more than exports in September, making the balance of trade deteriorate, although it remains in positive figures. On the other hand, the volume of foreign order fell in November.

Figure 43  
**Current account (% of GDP)\***

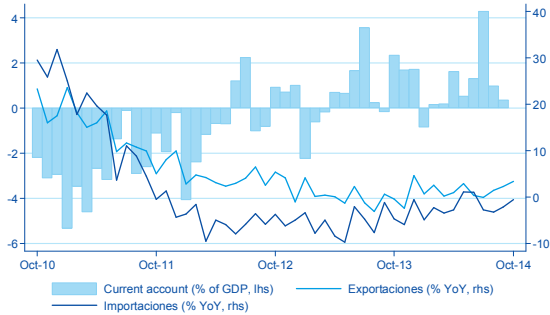
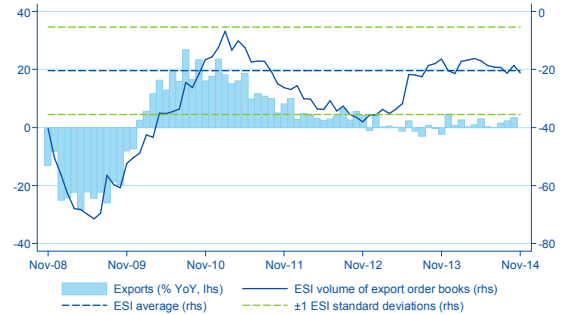


Figure 44  
**Export growth (% YoY) and volume of export orders\***



**Labour market: unemployment continues to rise, and labour costs increase**

The unemployment rate posted its worst result ever (13.1%), 0.9pp more than a year ago, and employment perspectives are deteriorating. Labour costs rose by 0.4% YoY in 3Q14, well below the European average (1.3% YoY).

Figure 45  
**Unemployment rate (%) and employment expectations\***

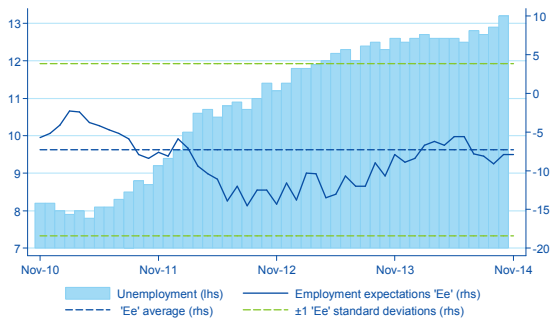
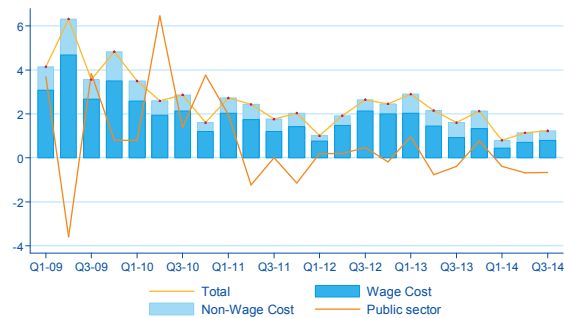


Figure 46  
**Labour costs in the corporate sector (% YoY)\***



**Prices: inflation accelerated 0.1pp in November**

The inflation rate stood at 0.3% YoY, due mainly to the increase in fresh food prices (0.8%, after -0.2% YoY). Core inflation remained stable at 0.5% YoY in November

Figure 47  
**Inflation rate, headline and core (% YoY)\***

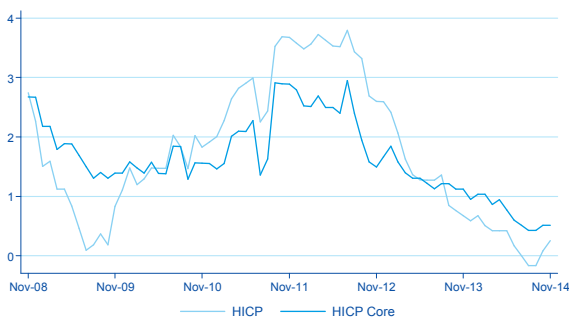
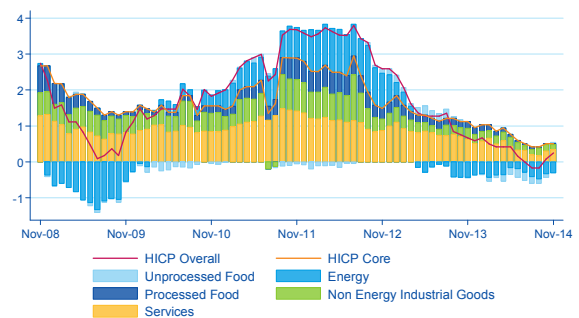


Figure 48  
**Inflation by component (% contribution)\***



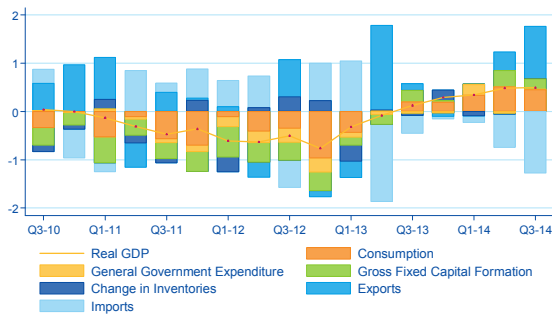
\* Sources: Haver Analytics and BBVA Research

**Spain**

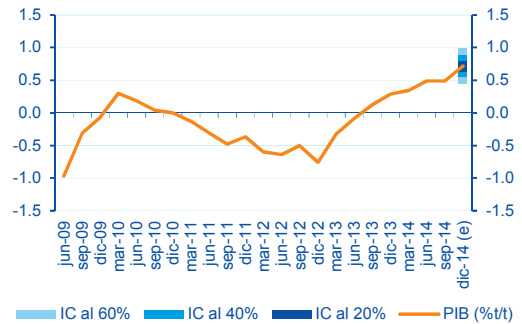
**National accounts: GDP growth takes root**

The third quarter featured generalised growth of aggregate demand: solid progress was made again, both in household consumption (0.8% QoQ) and in machinery and equipment investment (1.7% QoQ)

**Figure 49**  
**GDP (% QoQ) and contribution by component (pp)\***



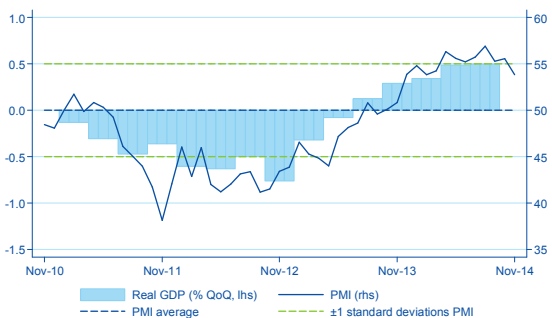
**Figure 50**  
**GDP Growth (% QoQ) and MICA-BBVA forecast\***



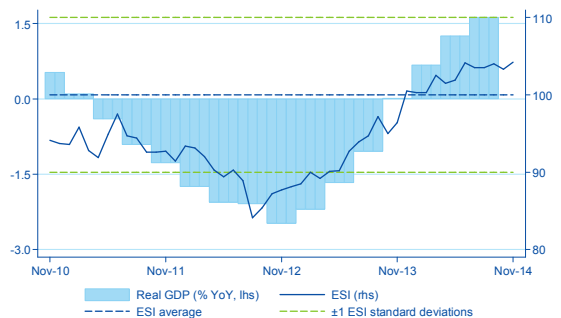
**Confidence: favourable prospects in the fourth quarter**

The positive trend in the PMI index cooled in 4Q14, but is still at high levels, well below the growth threshold, as is the ESI index, especially in services and with consumer confidence in positive territory.

**Figure 51**  
**PMIs and GDP growth (% QoQ)\***



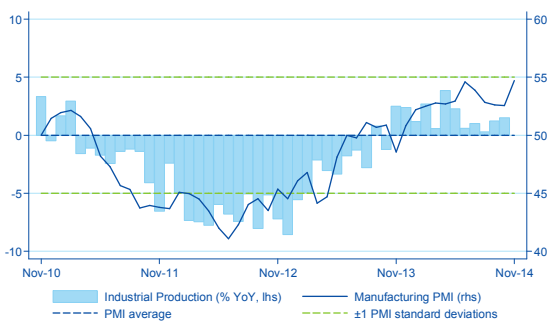
**Figure 52**  
**Confidence (ESI) and GDP growth (% YoY) \***



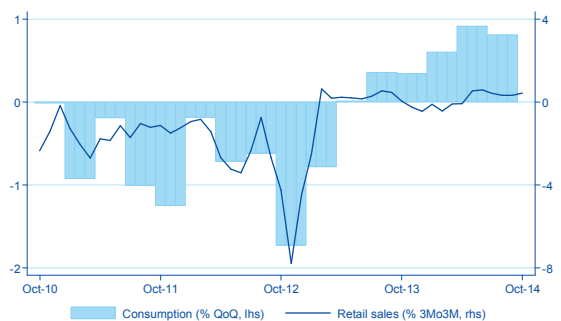
**Activity: the trend in activity remains positive**

In October, the industrial production index kept to its positive trend and retail sales slowed, compared to the average for 3Q14.

**Figure 53**  
**Industrial production (% YoY) and manufacturing PMI\***



**Figure 54**  
**Retail sales (% 3Mo3M) and consumption growth (% QoQ)\***

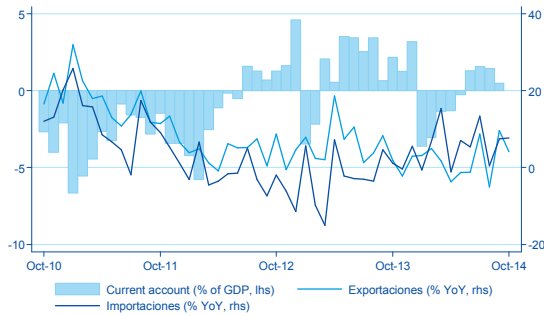


\*Sources: Haver Analytics and BBVA Research

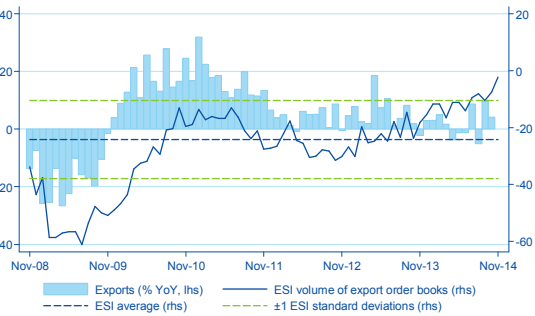
**Foreign sector: exports recover in 3Q14**

With the MoM increase recorded for September, goods exports closed the third quarter in expansive territory, but there was higher growth in imports too.

**Figure 55**  
**Current account (% of GDP)\***



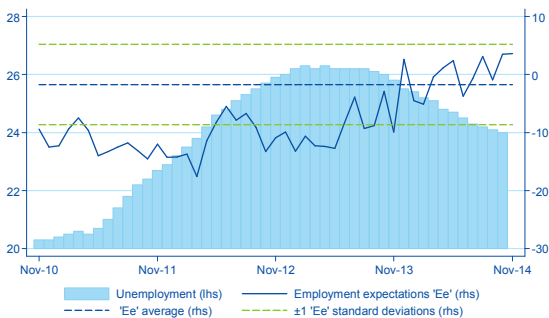
**Figure 56**  
**Export growth (% YoY) and volume of export orders\***



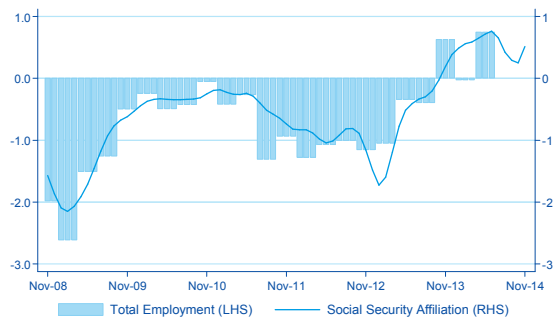
**Labour market: job creation accelerated in November**

Labour records in November performed positively, even though this month is usually negative. After seasonal adjustments, the increase in the number of workers registered with Social Security and the decrease in unemployment both accelerated.

**Figure 57**  
**Unemployment rate (%) and employment expectations\***



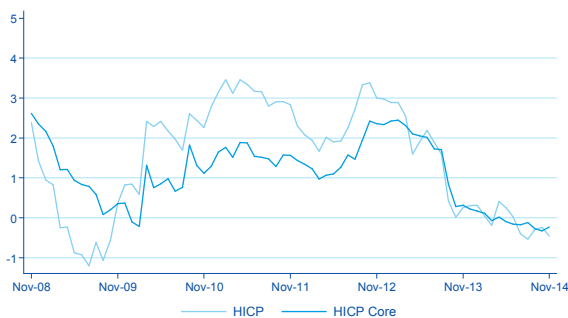
**Figure 58**  
**Employment growth: new workers and social security contributors (% QoQ)\***



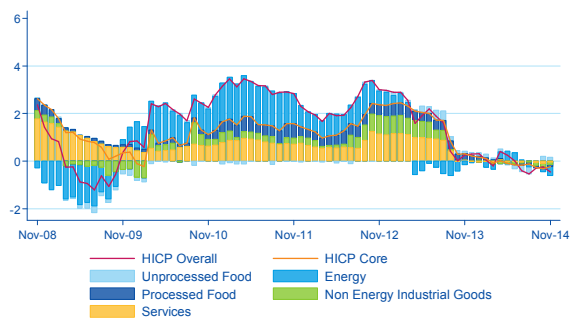
**Prices: the fall in inflation intensified in September**

The intensification in the fall of headline inflation was due to the behaviour of energy and fresh food prices. By contrast, the components of core inflation remained relatively stable.

**Figure 59**  
**Inflation rate, headline and core (% YoY)\***



**Figure 60**  
**Inflation by component (contribution by %)\***



\* Sources: Haver Analytics and BBVA Research

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