

MACROECONOMIC ANALYSIS

Eurozone: stable pace of recovery around 0.2% QoQ

Europe Unit

Data released in the past few weeks seem to show some stabilisation in the recovery of the eurozone economy, around an annualised rate of 1%. Confidence and the first real indicators in 4Q14 are consistent with moderate growth in activity, in line with our scenario, with an increase in exports that may be reflecting the depreciation of the euro. Among the largest countries, Germany, France and especially Spain have maintained growth in late 2014, in contrast to Italy, which remains stagnant. By early 2015, the design of the more than likely quantitative expansion programme of the ECB and the negotiations of the new Greek government with the troika after elections will be important. We also expect to see how the lower oil prices become a boost to domestic demand through higher real incomes. The negative inflation rate induced by energy prices has not so far resulted in a slowdown in core inflation and we still foresee a real deflation in the area, but it will be key to see what inflation expectations are behind the new measures of ECB.

Eurozone: moderate growth in 4Q14

- Confidence indicators have worsened slightly over 4Q14: while both the PMI and European Commission's ESI indicators reflect the fragility of the manufacturing sector (Figure 5), the outlook on services are different. Markit's indicator has marked a sharp decline during the quarter and ESI registered a feeble positive trend change of confidence in the sector. On the other hand, household confidence has deteriorated for the second consecutive quarter, returning to levels of early 2014.
- Despite this, consumption could grow again since, up to November, retail sales continued to grow and improved the average of 3Q14 (Figure 6), as car registrations did also. Industrial production chains has shown three consecutive months of slight improvement and continues to take advantage of increasing manufacturing orders, both internal and external, which is also reflected in strong growth in goods exports compared to 3Q14, due to a huge increase in September that was sustained into the following two months (Figure 8), probably reflecting the effect of the depreciation of the euro.
- Incorporating the data available to date, our MICA-BBVA short-term model estimates a moderate growth of around 0.2% QoQ in 4Q14 (Figure 2), similar to the previous quarter and in line with our base scenario. For 2014 as a whole, this figure confirms the estimate of growth of 0.8%.
- In the labour market, the overall unemployment rate has stabilised in the eurozone around 11.5% (Figure 9), but shows different dynamics between countries: while in Germany the record low (5%) was recorded, in Italy and France the unemployment rates are at their highest rates since the crisis began and youth unemployment continues to rise.
- Inflation in December was down by -0.2% YoY, due to the intensification of the decline in prices of energy products and fresh foods, while core stabilised at 0.7% YoY (Figures 11 and 12). Over the coming months, inflation will continue in negative territory and may intensify the fall by a couple of tenths, or even more if the recent fall in the oil price persists, and will begin to accelerate very slowly and gradually from the second quarter of 2015.

Germany: moderate growth in 4Q14

- The slight increase observed in national business confidence indicators (Ifo and ZEW) during the fourth quarter is being reflected in improved activity data, with industrial production and retail sales growing above the average of 3Q14 (Figures 17 and 18).
- Exports of goods also recorded a slight increase from the previous quarter, but the increase in imports should limit the contribution of the external sector to growth.
- As a result, the expected growth in 4Q14 is 0.2% QoQ (Figure 14). In fact, the first estimate of annual GDP for 2014 shows an increase of 1.5%, consistent with 0.25% in the last quarter, if there is no revision to the historical data.

France: the external sector underpins the recovery in 4Q14

- In the fourth quarter, both national indicators and PMIs are below 3Q14 while the ESI indicator increases, but remains below its historical average, showing, in particular, the fragility of the services sector (Figures 27 and 28).
- While industrial production fell up to November compared to 3Q14 and retail sales increased only marginally, strong growth in exports (Figure 32) was observed in parallel with the fall in imports.
- Overall, we expect growth in 4Q14 of 0.2% QoQ.

Italy: the economy does not take off

- In 4Q14, weakness in the industrial sector continued, as suggested by the business confidence indicators, with the PMI in contraction territory. On the other hand, retail sales have remained virtually flat for almost two years, reflecting the low consumption by households.
- Unemployment in November reached a record high (13.4%) (Figure 45).
- Exports, as well, seem to have lost momentum in 4Q14, so we expect a slightly negative growth in the fourth quarter (Figure 38).

Spain: acceleration in the final stretch of 2014

- Looking at the year end, no signs of exhaustion were seen after the widespread growth in 3Q14: indicators of consumer spending and household expectations indicate that spending could have increased strongly again in 4Q14 and the evolution of industrial confidence and production suggest growth of investment in machinery and equipment (Figure 52).
- Despite the weak European demand, expectations and spending indicators point to an increase in exports of goods and non-tourism services, although lower than the sharp rise observed in the previous quarter.
- The data available so far indicate that the rate of expansion of the Spanish economy has intensified and the MICA-BBVA model estimates growth of 0.7% QoQ in the last quarter (Figure 50).

Eurozone

National accounts: slight growth in 4Q14, similar to 3Q14

The economy grew by 0.2% QoQ in 3Q14. Both private (+0.5% QoQ) and public consumption (+0.3% QoQ) grow and the drop in investment moderates (-0.3% QoQ, after -1.2% QoQ). Net external demand contributes negatively to growth (-0.2pp).

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

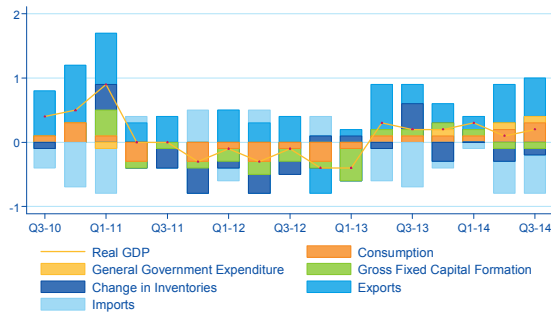
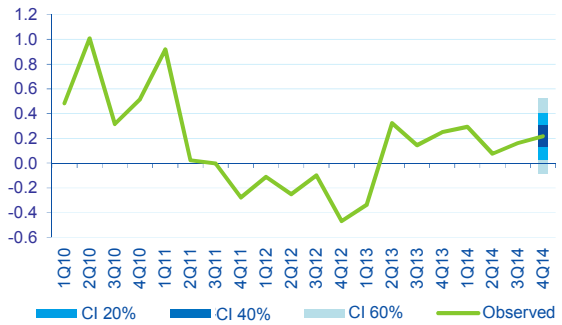


Figure 2
GDP growth (% QoQ) and MICA-BBVA forecast*



Confidence: mixed signals from PMIs and ESI

The PMIs are drawing a negative trend in recent months but recorded a slight improvement in December, while the ESI index seems to indicate some progress in business confidence.

Figure 3
PMIs and GDP growth (% QoQ)*

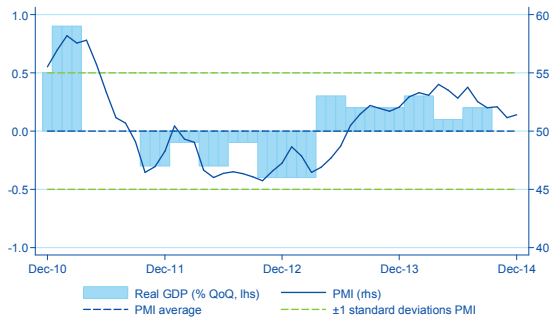
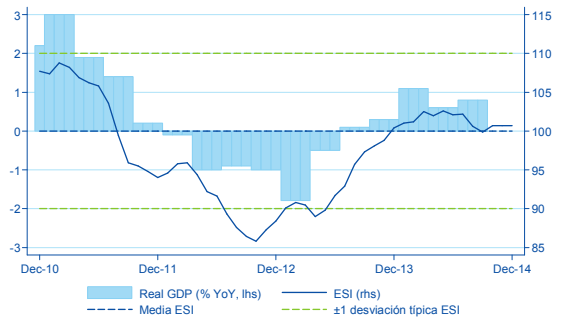


Figure 4
Confidence (ESI) and GDP growth (% YoY) *



Activity: industrial production increases slightly

With the November figures (+0.2% MoM) in so far for 4Q14, the index of industrial production registered a slight improvement (+0.3% compared to the average of 3Q14, while retail sales increased 0.5% (+0.5% in November MoM)

Figure 5
Industrial. Prod. (% YoY), manufacturing PMI*

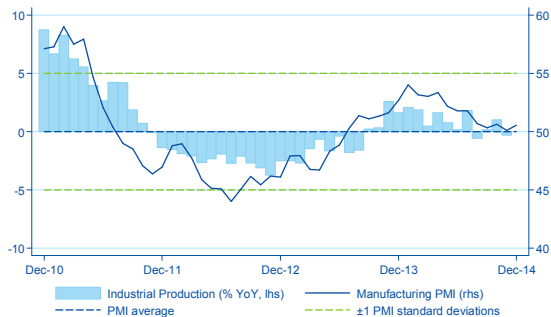
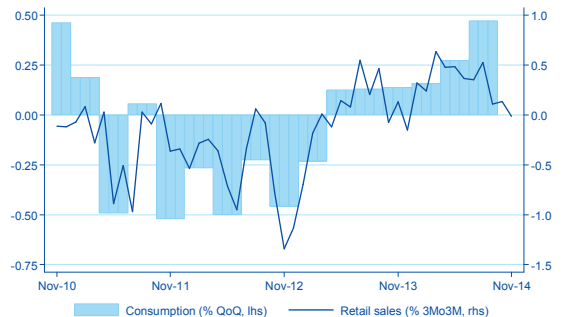


Figure 6
Retail sales (% 3Mo3M) and consumption growth (% QoQ)*



*Source: Haver Analytics and BBVA Research

Foreign sector: exports, well above 3Q14

In November, exports increased slightly (+0.2% MoM), and remain comfortably above the average of 3Q14 (+2.9%). Imports remained unchanged in November and fell by -0.4% over 3Q14

Figure 7
Current account (% of GDP)*

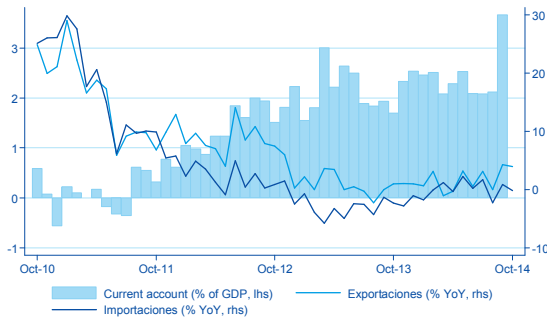
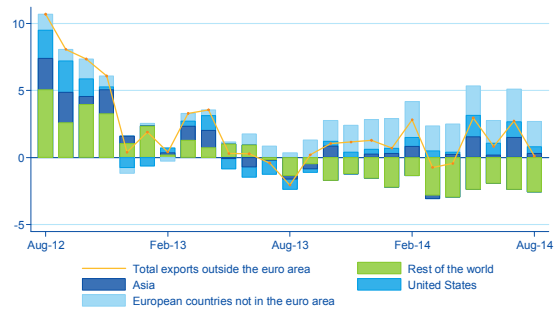


Figure 8
Exports by destination (contribution to % YoY)*



Labour market: unemployment stable during most of 2014

The unemployment rate has remained stable in recent months (11.5%), although with large differences between countries. Labour costs in the business sector increased by 1.3% YoY in 3Q14.

Figure 9
Unemployment rate (%) and employment expectations*

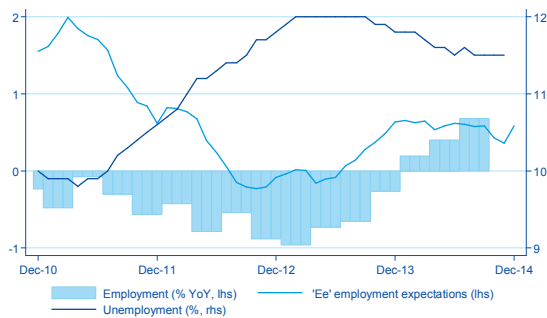
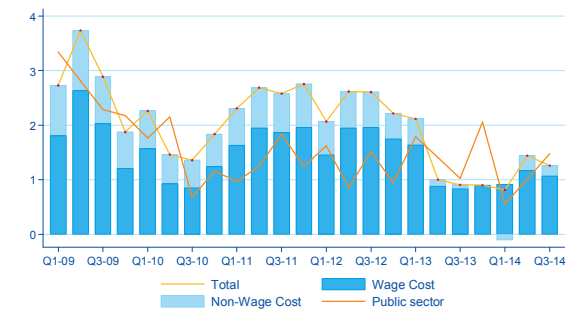


Figure 10
Labour costs in the corporate sector (% YoY)*



Prices: inflation falls to -0.2% YoY in December, and core remains stable

Inflation in December was down -0.2% YoY, due to the intensification of the decline in prices of energy products and fresh foods, while core has stabilised at 0.7% YoY

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

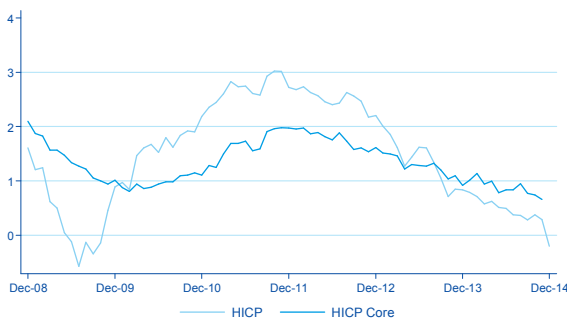
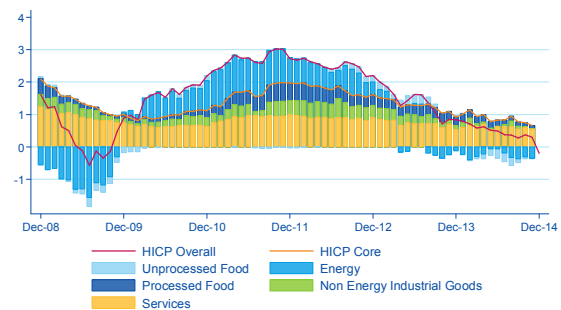


Figure 12
Inflation by component (contribution by %)*



* Sources: Haver Analytics and BBVA Research

Germany

National accounts: GDP growth could accelerate slightly in 4Q14

Domestic demand in 3Q14 continued draining growth due to a further decline in investment. However, this was offset by the strength of both private (+ 0.7% QoQ) and public consumption (0.6% QoQ). The negative contribution of domestic demand was offset by the positive contribution of external demand (+0.24pp)

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

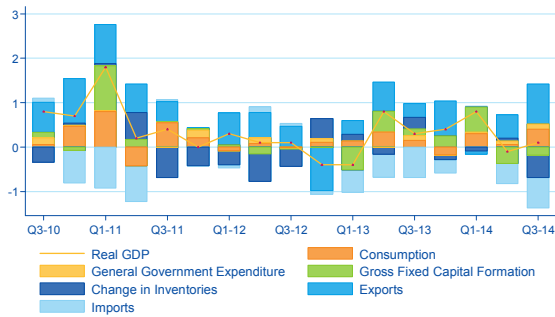
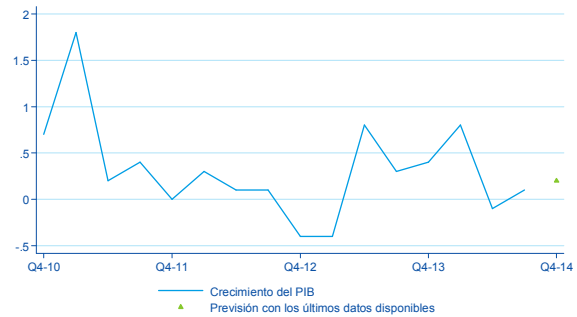


Figure 14
GDP (% QoQ) and forecasts*



Confidence: indicators have interrupted their downturn

In December, the composite PMI remained in expansionary territory due to the recovery in manufacturing; national indicators (Ifo and ZEW) seem to be recovering and the ESI indicator of the European Commission has shown a kind of stabilisation.

Figure 15
PMIs and GDP growth (% QoQ)*

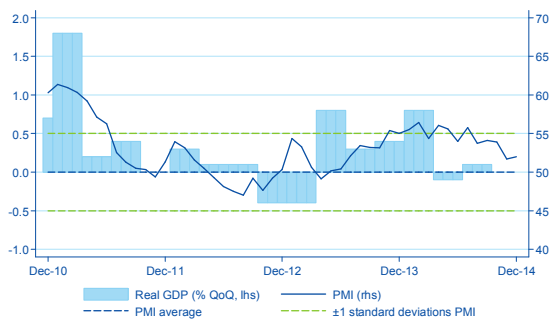
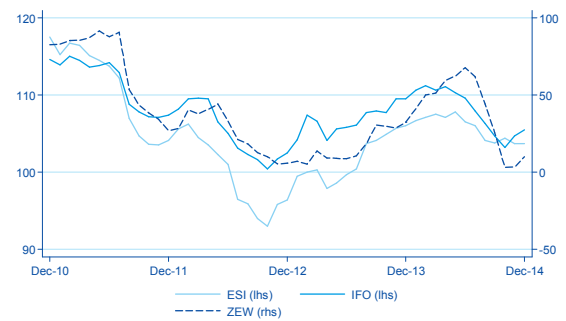


Figure 16
Confidence indicator (ESI, Ifo and ZEW)*



Activity: improving industrial production and retail sales

Industrial production grew by 0.4% above the average of 3Q14 (-0.1% MoM in November) and retail sales grew by 1.3% compared to 3Q14 average (+1 % MoM in November).

Figure 17
Industrial. Prod. (% YoY), manufacturing PMI*

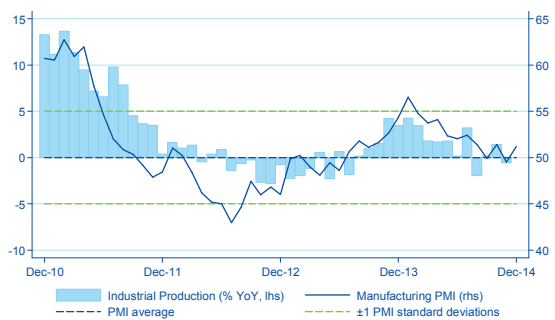
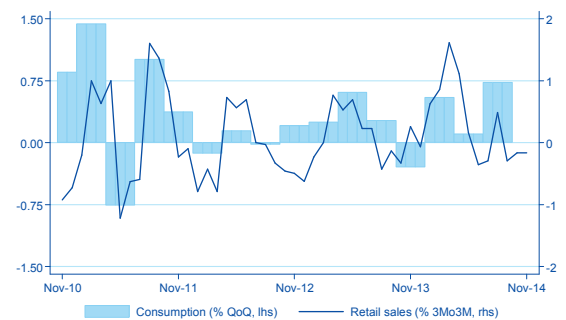


Figure 18
Retail sales (% 3Mo3M) and consumption growth (% QoQ)*



*Sources: Haver Analytics and BBVA Research

Foreign sector: exports of goods, stable over the previous quarter

Exports fell by -2.1% MoM in November. With this data, they are stable so far this quarter (+2.9% QoQ in 3Q14). Imports surprised with a +1.5% MoM. Compared to the previous quarter, they increased slightly (+ 0.3%)

Figure 19
Current account (% of GDP)*

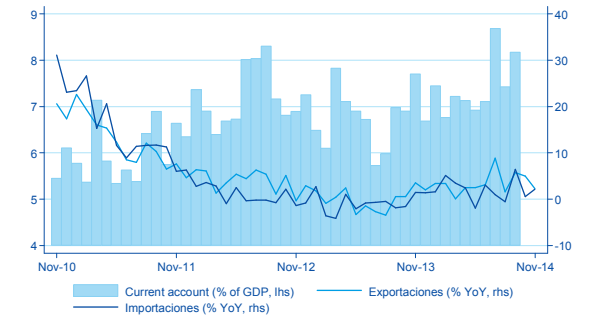
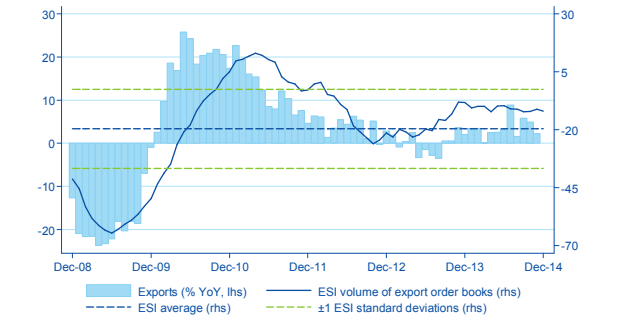


Figure 20
Export growth (% YoY) and volume of export orders*



Labour market: the unemployment rate remains at record lows

The unemployment rate remains at its record low (5%) in November, while labour cost growth accelerated to 2.3% YoY in 3Q14 after a 1.9% YoY in 2Q14.

Figure 21
Unemployment rate (%) and employment expectations*

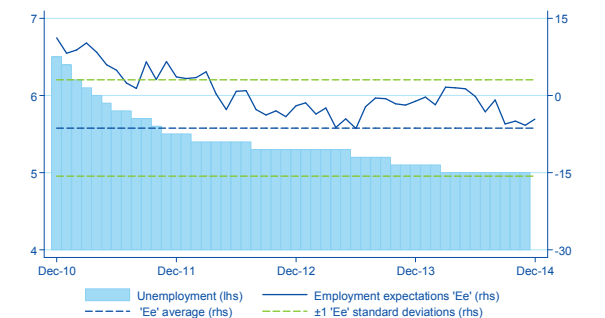
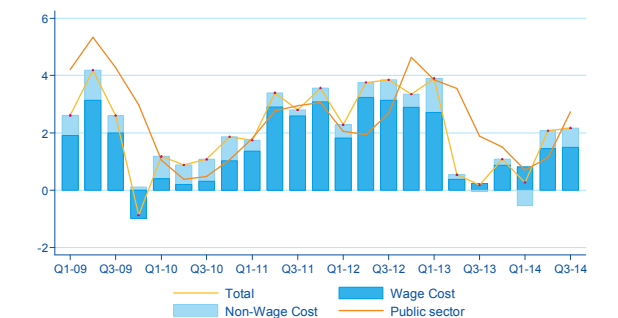


Figure 22
Labour costs in the corporate sector (% YoY)*



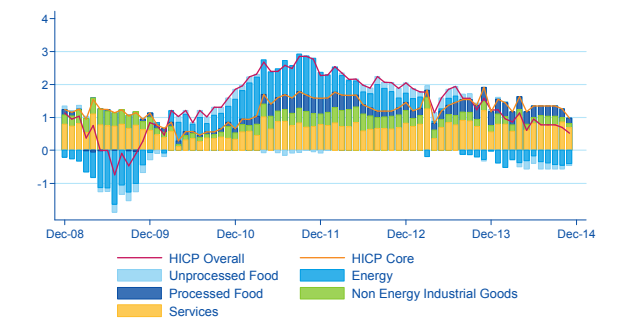
Prices: inflation moderates again in December

December harmonised inflation continued its trend of moderation, by reducing four tenths to + 0.1% YoY. Behind this behaviour was the sharp drop in energy prices (-6.6% YoY after -2.5% YoY in November)

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 grows more than expected in 3Q14

French GDP grew 0.3% QoQ in 3Q14, more than expected. Consumption (private and, mainly, pubic) maintained its growth, while investment moderated its fall. Inventories contributed positively (+ 0.3pp.), and net exports contributed negatively due to the higher import growth.

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

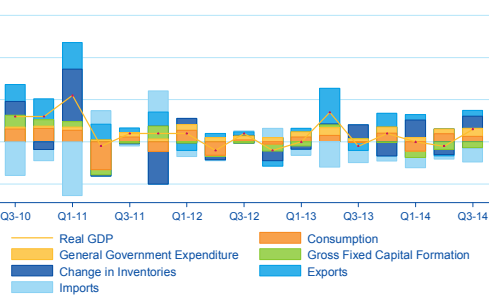
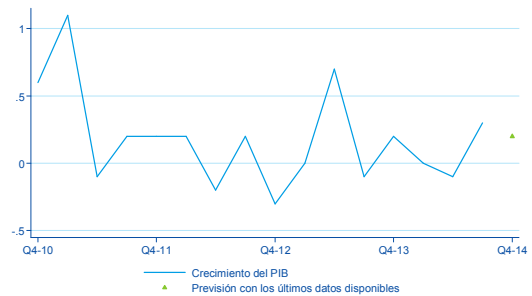


Figure 26
GDP (% QoQ) and forecasts*



Confidence: differences between indicators

The composite PMI worsened and remained in negative territory in December, while the fall in confidence measured by the EC offset the improvement in the previous three months and the INSEE noted some stabilisation. The breakdown of PMI shows the especially weak service sector.

Figure 27
PMIs and GDP growth (% QoQ)*

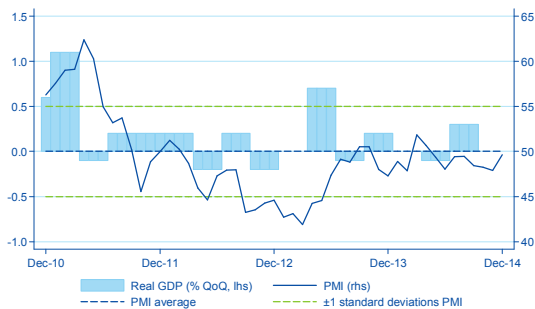
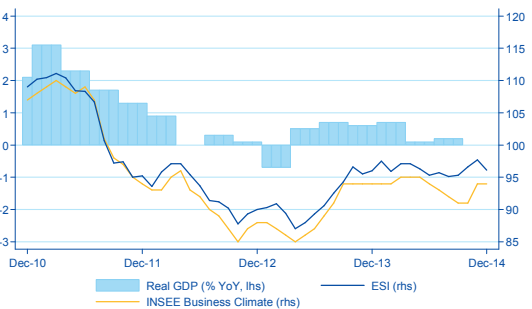


Figure 28
Confidence indicator (ESI and INSEE)*



Activity: falling industrial production while retail sales improve in November

Industrial production (-0.3% MoM in November) fell by -0.9% over the average of the previous quarter. Retail sales (+ 0.8% MoM in November), however, increased by about 0.1% over 3Q14

Figure 29
Industrial. Prod. (% YoY), manufacturing PMI*

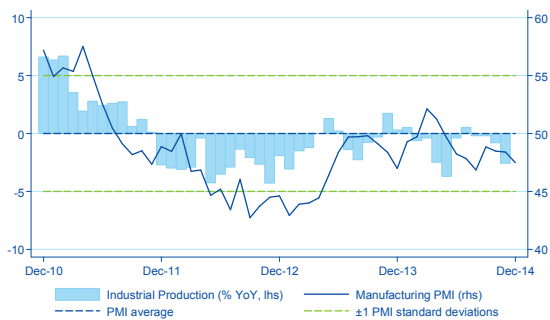
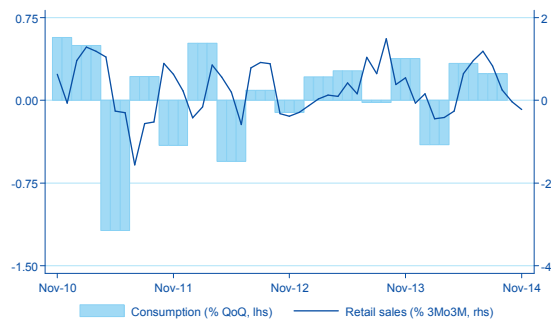


Figure 30
Retail sales (% 3Mo3M) and consumption growth (% QoQ)*



*Sources: Haver Analytics and BBVA Research

Foreign sector: strong export growth to November

Exports grew by + 0.6% MoM in November and 1.9% on the average of 3Q14 (+ 0.2% QoQ). Imports, meanwhile, fell by -1.9% MoM in November and -1.1% over 3Q14, when they grew by + 0.7% QoQ

Figure 31
Current account (% of GDP)*

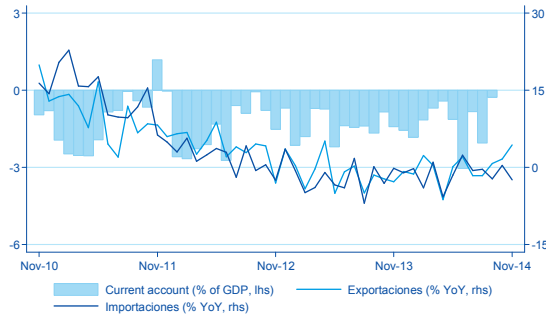
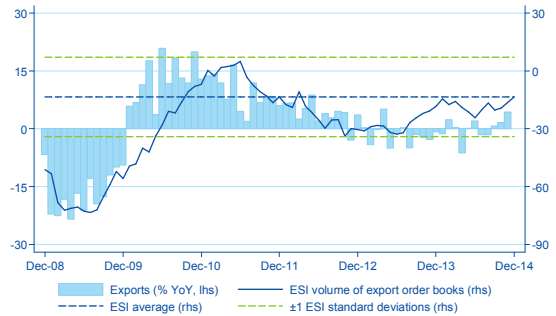


Figure 32
Export growth (% YoY) and volume of export orders*



Labour market: some stabilisation in recent months

The unemployment rate stabilised at around 10.3% since the summer, having increased approximately 0.2pp per quarter over the previous year. Meanwhile labour costs grew by 0.5% YoY in 3Q14.

Figure 33
Unemployment rate (%) and employment expectations*

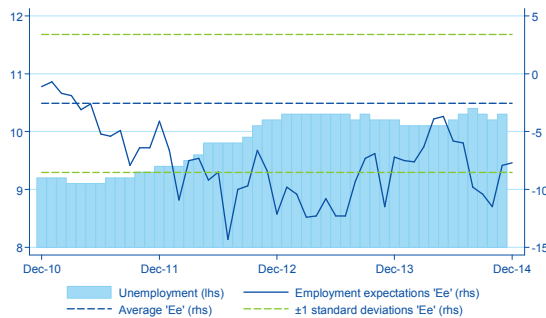
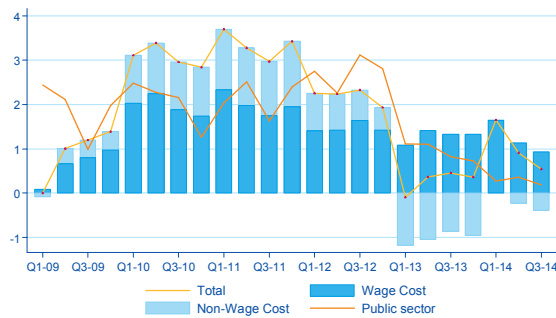


Figure 34
Labour costs in the corporate sector (% YoY)*



Prices: inflation slows again in December

The inflation rate slowed in December by 0.2 pp to +0.1% YoY. The fall of energy prices intensified, while prices of services increased. As a result, core inflation accelerated to 0.7% YoY

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

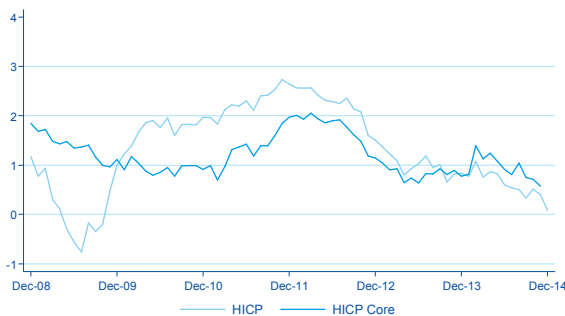
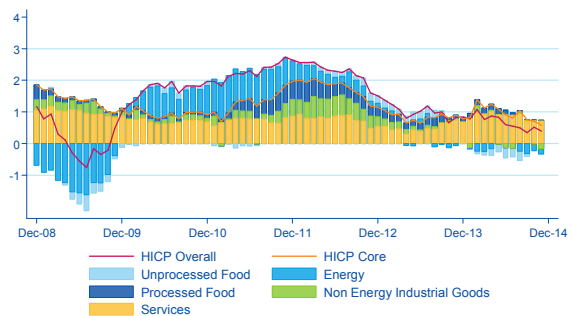


Figure 36
Inflation by component (contribution by %)*



* Sources: Haver Analytics and BBVA Research

Italy

National accounts: GDP continued to contract in 3Q14 (-0.1% QoQ)

Private consumption grew by + 0.1% QoQ, public consumption reduced by -0.3% QoQ and investment recorded another sharp fall of - 1.0% QoQ, after -0.9% QoQ in the previous quarter. External demand, however, contributed positively (+ 0.1pp): exports grew by + 0.2% QoQ, while imports fell by -0.3% QoQ

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

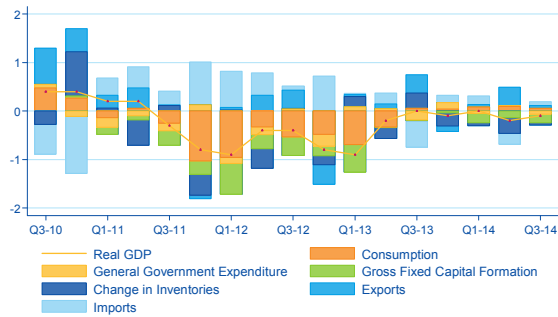
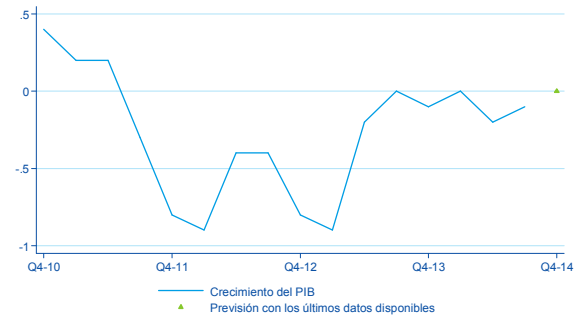


Figure 38
GDP (% QoQ) and forecasts*



Confidence: weak confidence indicators in December

The composite PMI for December returned to negative territory, the EC confidence indicator improved slightly and the ISTAT remained stable at low levels reflecting the weakness of the Italian economy.

Figure 39
PMIs and GDP growth (% QoQ)*

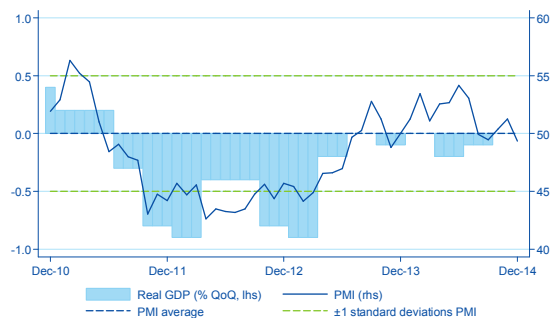
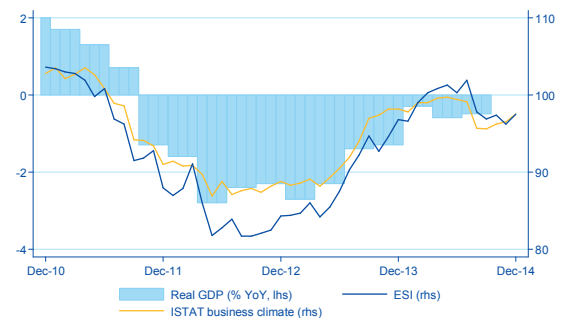


Figure 40
Confidence indicator (ESI and ISTAT)*



Activity: the industrial sector and retail sales, consistent with the weak situation

Industrial production increased by + 0.3% MoM in November, remaining however -0.4% below the average of 3Q14, when it declined 1% QoQ. Retail sales have not taken off yet (0% MoM in October, -0.2% over 3Q14).

Figure 41
Industrial. Prod. (% YoY), manufacturing PMI*

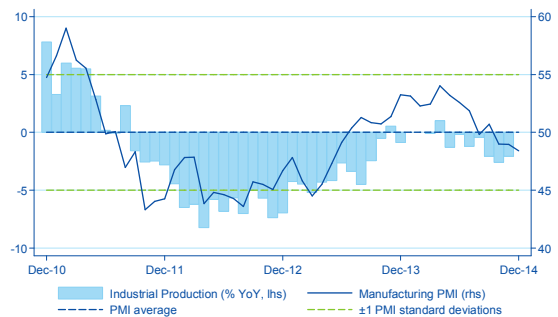
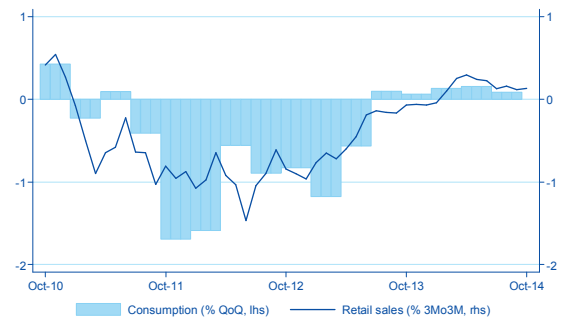


Figure 42
Retail sales (% 3Mo3M) and consumption growth (% QoQ)*



*Sources: Haver Analytics and BBVA Research

Foreign sector: the trade balance improved in October

Exports grew in October by 0.4% MoM (+ 1.9% on the average of 3Q14) and imports fell by -0.9% MoM (+ 0.2% over 3Q14). External orders fell by 2.5% on the average of the third quarter.

Figure 43
Current account (% of GDP)*

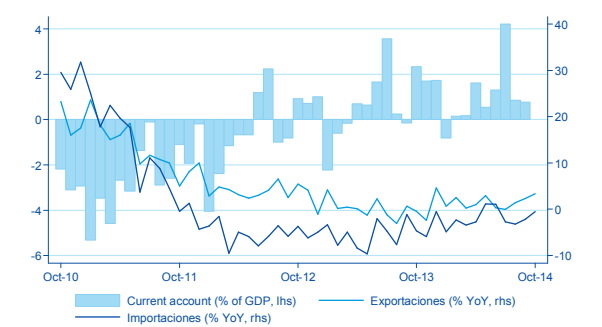
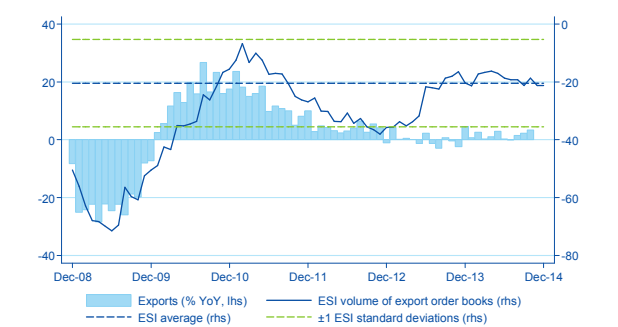


Figure 44
Export growth (% YoY) and volume of export orders*



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

The unemployment rate recorded the worst historical data (13.4%), 0.9pp higher than a year ago, and job prospects worsened. Labour costs increased by 0.4% YoY in 3Q14, well below the European average (1.3% YoY).

Figure 45
Unemployment rate (%) and employment expectations*

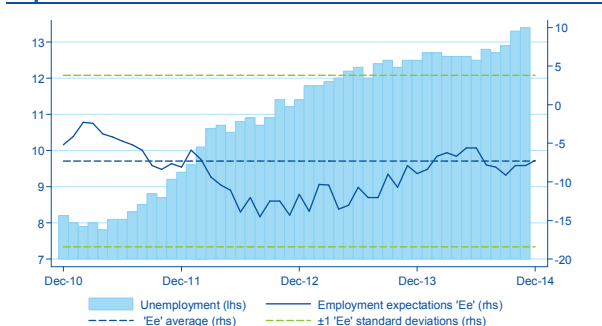
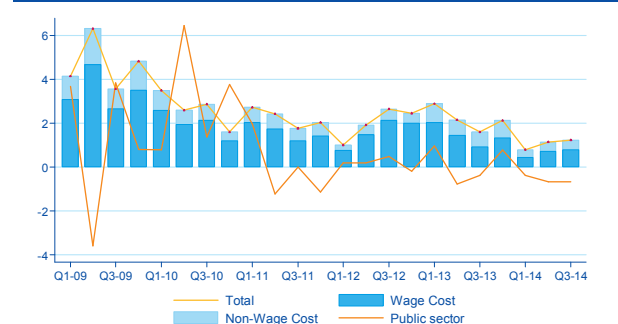


Figure 46
Labour costs in the corporate sector (% YoY)*



Prices: inflation falls to -0.1% YoY in December

Inflation eased four tenths and stood at -0.1% YoY, mainly due to a more marked fall in the price of energy goods. Core inflation increased by one tenth to 0.6% YoY in December

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

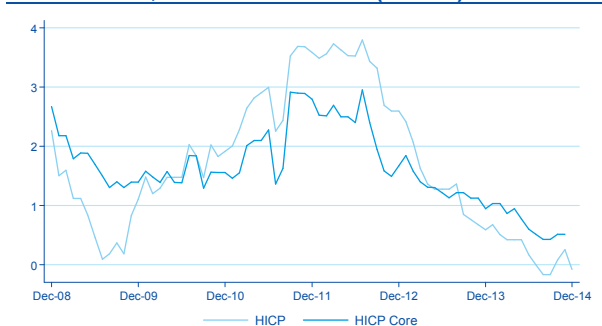
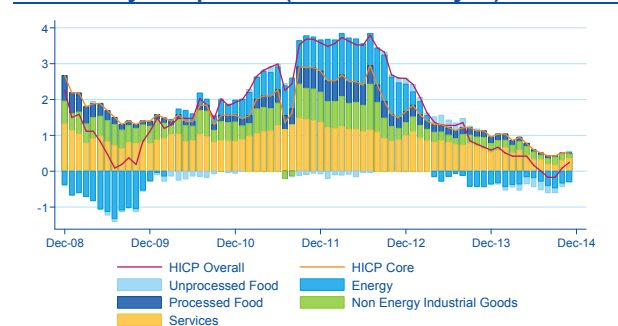


Figure 48
Inflation by component (contribution by %)*



* Sources: Haver Analytics and BBVA Research

Spain

National accounts: GDP growth holds firm

The third quarter was marked by widespread growth of aggregate demand; the strong progress of both household consumption (0.8% QoQ) and investment in machinery and equipment (1.7% QoQ) were the highlighted features

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

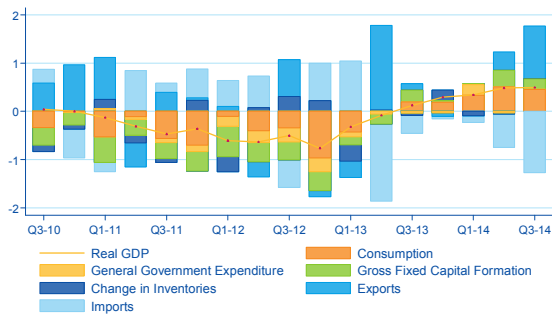
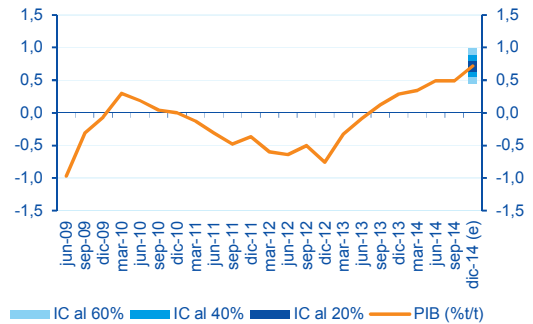


Figure 50
GDP (% QoQ) and contribution by component (pp)*



Confidence: favourable outlook for the fourth quarter

Although the expectations of the agents again showed mixed signals in December, both industrial and consumers' confidence were at pre-crisis levels

Figure 51
PMIs and GDP growth (% QoQ)*

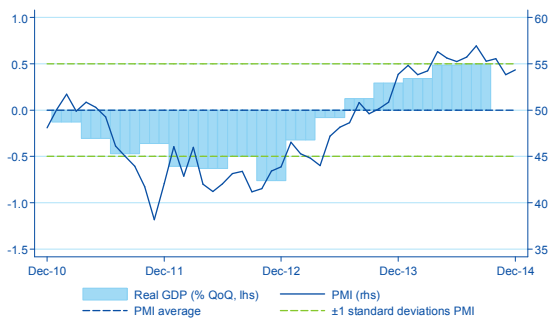
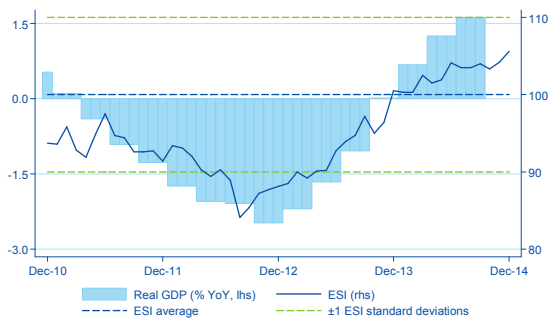


Figure 52
Confidence (ESI) and GDP growth (% YoY) *



Activity: the trend remains positive

In November, the index of industrial production reduced by -0.1% MoM but slightly improved the average of 3Q14 (+ 0.1%), and retail sales grew 0.9% MoM, 0.6% above the average of 3Q14.

Figure 53
Industrial. Prod. (% YoY), manufacturing PMI*

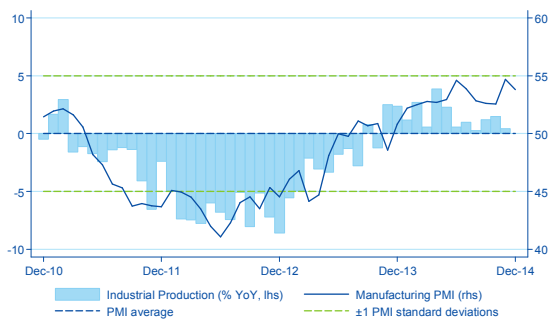
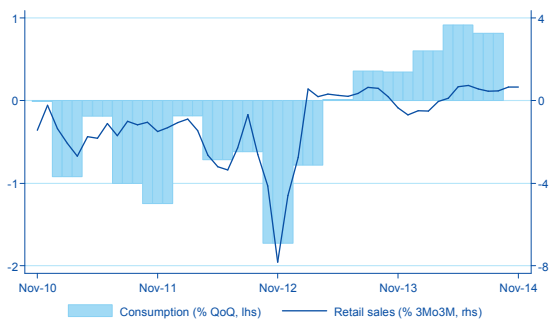


Figure 54
Retail sales (% 3Mo3M) and consumption growth (% QoQ)*



*Sources: Haver Analytics and BBVA Research

Foreign sector: imports dynamic in early 4Q14

Exports of goods fell strongly in October, but remained 0.7% above the average of 3Q14, while imports recorded a minimal MoM decline and a growth of 2.4% over the previous quarter

Figure 55
Current account (% of GDP)*

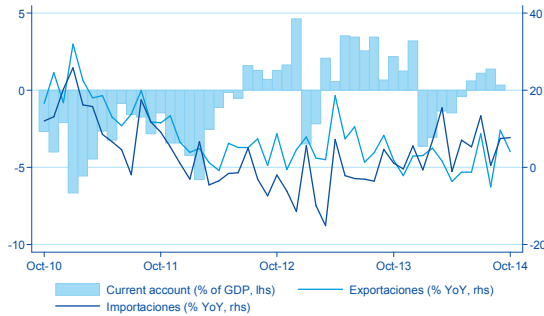
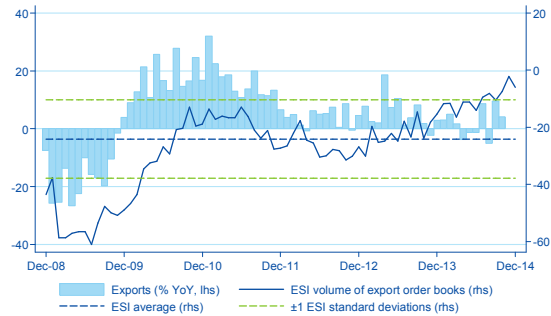


Figure 56
Export growth (% YoY) and volume of export orders*



Labour market: improvement in the labour market intensifies during 4Q14

Improvement of employment in December strengthened the positive evolution of the labour market in 4Q14: both the growth of membership in the Social Security and recruitment, as the reduction of registered unemployment accelerated

Figure 57
Unemployment rate (%) and employment expectations*

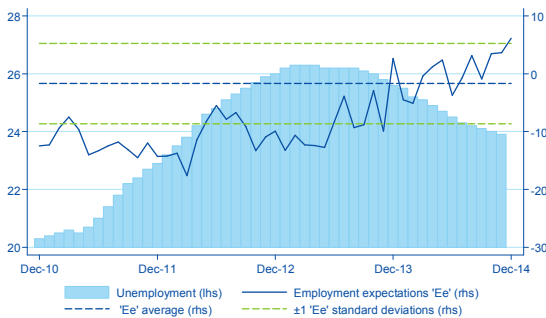
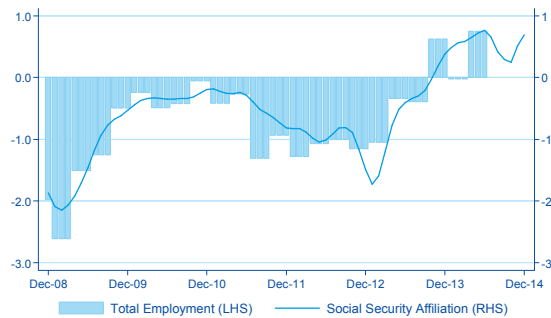


Figure 58
Employment growth: new workers and social security contributors (% QoQ)*



Prices: falling energy puts pressure on inflation in December

In December, the decline in consumer prices was mainly due to falling energy prices. On the other hand, the marginal drop in core prices may have stabilised

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

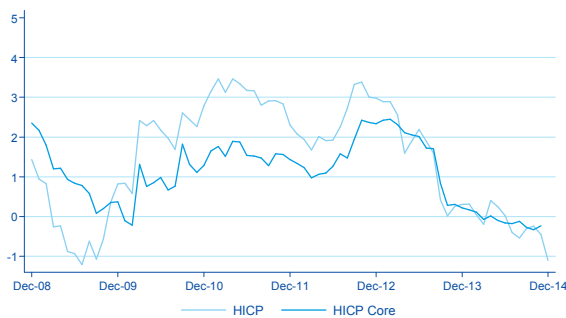
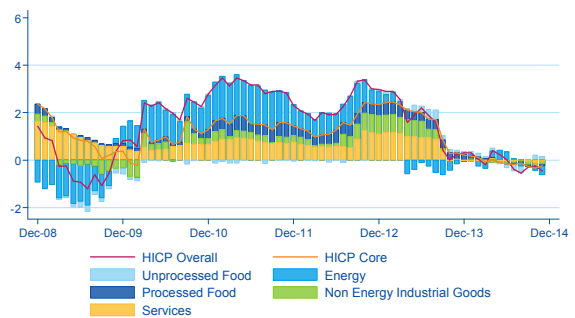


Figure 60
Inflation by component (contribution by %)*



* Sources: Haver Analytics and BBVA Research

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