

MACROECONOMIC ANALYSIS

Eurozone: the growth rate has become more firmly established in the opening stages of 2015

Europe Unit

In the last few months, confidence indicators have ticked upwards and brighter activity figures are beginning to emerge, taking heart from the low oil price and the weaker euro in the wake of the ECB measures. The consumption indicators are particularly encouraging.

Eurozone: the depreciation of the euro and oil have roused activity in 1Q15

- In the first quarter to date, confidence indicators have confirmed that the eurozone's economy is undergoing recovery: the European Commission's Economic Sentiment Indicator (the ESI) and Markit's PMI (Purchasing Managers' Index) are both showing rises consistent with a mild pick-up in activity in 1Q15 (Figures 3 and 4). Both surveys point to improvement in the services sector and, above all, consumer confidence, which stands at pre-crisis levels.
- This evidence is backed up by the greater momentum which retail sales have been experiencing since last September (Figure 6), this having been noted for passenger car registrations too. Industrial production is also ahead of the average for 4Q14, although less so, underpinned by the increase in manufacturing orders, especially from outside, which has been characterised by a surge in goods exports in recent months (Figure 8), although sales abroad have slowed down as we begin 2015.
- Based on the information available to date (actual figures only for January), the MICA-BBVA short-term model estimates quarterly GDP growth of 0.4% QoQ in 1Q15 (Figure 2), which is a little more than in our baseline scenario and, together with the mild surprise reported in 4Q14, could lend an upward bias to our growth forecast of 1.3% for 2015 as a whole.
- The unemployment rate came down to 11.2% in December and January (Figure 9), having stabilised at around 11.5% in 4Q14, although the dynamics vary from country to country: whereas in Germany unemployment continues to test new all-time lows, in France it shows no signs of improving, while in Italy things could be taking a turn for the better after a 0.6pp fall in the last two months.
- Inflation's downward course slowed in February, taking it to a rate of -0.3% YoY due to a smaller fall in energy prices, although this was also partly from a rise in prices for foods and, to a lesser extent, services (Figures 11 and 12). All in all, core inflation is holding steady at 0.6% YoY. We forecast that inflation will continue to mark negatively until halfway through the year, when it will become relatively stable at very low rates (0.1-0.2% YoY) towards the end of the year, and then flip upwards to around 0.8% YoY in December as the base effect of the oil price slide starts to wear off.

Germany: sound growth based on stronger domestic drivers

- In 4Q14 private consumption growth remained robust (0.8% QoQ, see Figure 13), thanks to buoyant consumer confidence, and together with improved investment (1.2% QoQ), it managed to offset the smaller contribution from net external demand (+0.2pp after +0.4pp in 3Q14). The latter was produced by a narrowing of the growth rate gap between higher imports (to meet increased private spending) and exports, even though it continued to grow at a steady pace.
- So far this quarter, confidence indicators have settled at high levels on improved activity figures, with industrial production and retail sales growing at 0.8% and 3.4% respectively, ahead of the average for 4Q14 (Figures 17 and 18).
- Exports, though, have come down in January after spiking in December, as might have been predicted following the cooling of industrial orders from abroad. All of this means that growth this quarter is expected to be 0.5% QoQ.

France: the economy is failing to get off the ground

- The dampening of GDP growth in 4Q14 was mainly caused by a negative contribution from inventories, a smaller rise in private consumption (0.2% QoQ) and the fourth consecutive quarter of shrinking investment (Figure 25), while there was positive input from net exports (0.1pp).
- Confidence indicators in 1Q15 revealed mixed signs: PMI readings suggested brighter prospects, particularly in the services sector, which offers good retail sales figures that are up 0.7% with respect to the average for 4Q14. On the other hand, the manufacturing confidence index is still slipping back, even though the industrial production figures indicate a clear improvement in January. The nationwide confidence indicators and the ESI are generally less bullish than the PMI indexes.
- The external sector has opened the first quarter with a fall in goods exports, after rebounding sharply in 4Q14 (Figure 32). Overall, we expect modest growth in 1Q15 (0.2% QoQ), less than the rate for the eurozone as a whole.

Italy: External demand is arresting the fall in GDP

- The standstill in GDP in 4Q14 was produced by firmer exports and a slight recovery in investment (0.2% QoQ after falling back in the five previous quarters), although this was offset by poorer inventories (-0.6pp, see Figure 37).
- Thus far in Q1, the European Commission's ESI index has risen considerably (as has the PMI indicator) and early glimpses of improvement in the labour market are building up household confidence.
- The first actual figures available are thin on the ground (industrial production and exports for January) and continue to paint a gloomy overall picture (Figure 41), though export orders could be heralding further underpinning of the recovery in activity by the external sector in the coming months. All in all, our models suggest growth of 0.2% QoQ in 1Q15.

Spain: economic growth is picking up, pulled by domestic demand

- 4Q14 was marked by widespread growth of private sector domestic demand, with notably solid progress made again by both household consumption (0.9% QoQ) and machinery and equipment investment (1.8% QoQ). As regards external demand, exports failed to move (0.0% QoQ), while imports were trimmed slightly (-0.6% QoQ).
- Looking at how 2015 has opened, the available information suggests that the composition of growth could be similar to that seen in 4Q14. Private domestic demand shows no signs of any slackening with, on the one hand, consumer spending and household expectations and, on the other, industrial confidence and production fuelling the prospect of both private consumption and investment in machinery and equipment growing strongly again in 1Q15 (Figures 53 and 54). As for external demand, exports could present modest growth on the euro's weakness and the flatter oil price.
- The variables observed so far imply that the economy is continuing its recovery and growth is shifting up a gear. The MICA-BBVA model offers estimated Q1 growth of 0.9% QoQ (Figure 50).

Eurozone

Area accounts: growth is picking up (0.3% QoQ in 4Q14)

The economy grew 0.3% QoQ in 4Q14, after 0.2% QoQ in 3Q14. It was pulled up by the external sector (+0.2pp), whereas inventories led it by 0.2pp, while investment was up and both public and private consumption growth held steady.

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

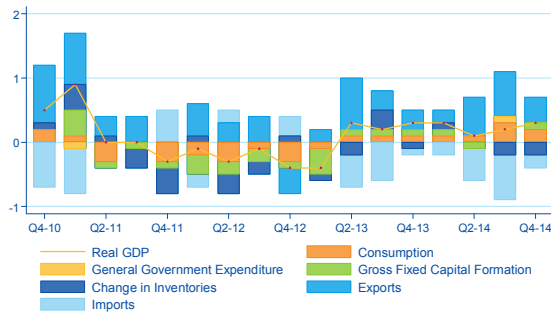
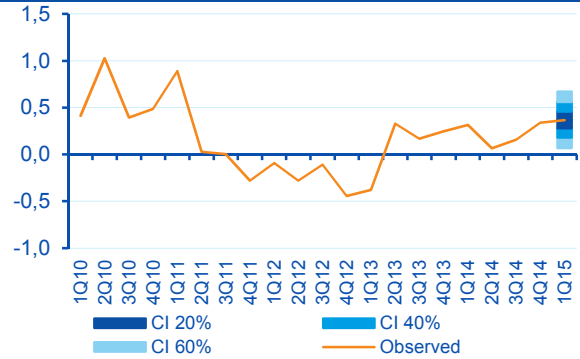


Figure 2
GDP growth (% QoQ) and MICA-BBVA estimate*



Confidence: better February readings for the PMIs and the ESI, with varied make-ups

The PMIs were up in February after a weak Q4, notably in services, while the ESI improved, though this was particularly due to consumer confidence as services retreated.

Figure 3
PMIs and GDP growth (% QoQ)*

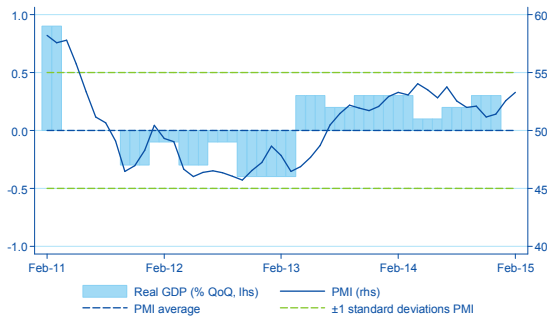
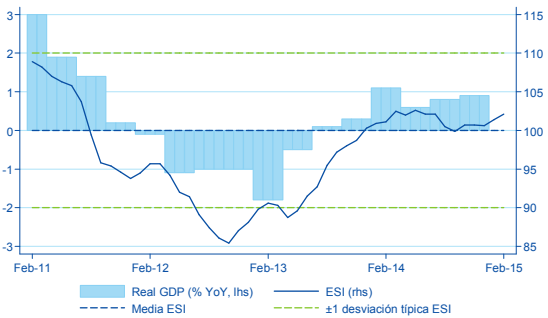


Figure 4
Confidence (ESI) and GDP growth (% YoY) **



Activity: Retail sales, better than industrial production

Taking in the January figure (-0.1% MoM), in 1Q15 so far the industrial production index shows a slight improvement (+0.2%) on the average for 4Q14, while retail sales are up 1.1% MoM in January (1.5% on 4Q14).

Figure 5
Industrial production (% YoY) and manufacturing PMI*

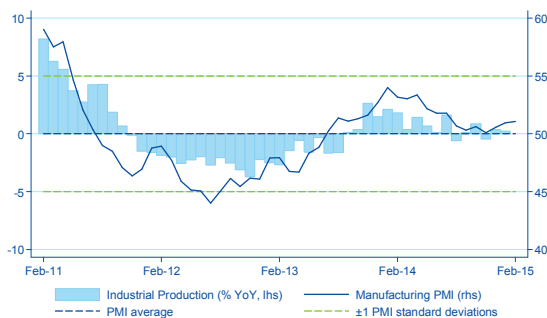
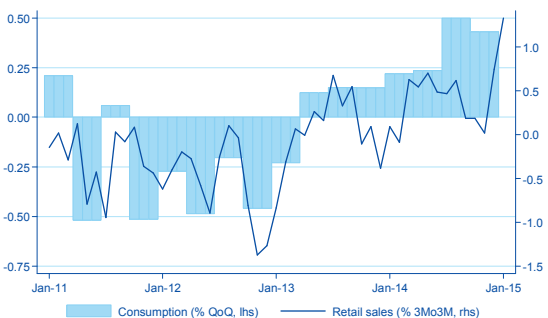


Figure 6
Retail sales (% 3M/3M) and consumption growth (% QoQ)*



*Source: HAVER and BBVA Research

External sector: exports were down in January

Exports fell in January (1.8% MoM) and now stand below the average for 4Q14 (-2.4% after +2.2% QoQ). Imports dropped in January and were down 2.5% on 4Q14.

Figure 7
Current account (% of GDP)*

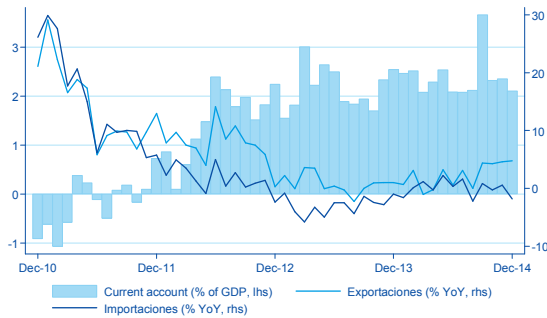
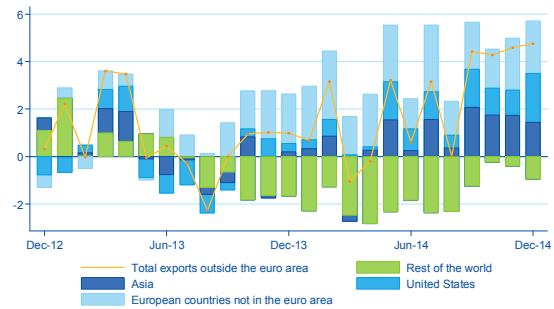


Figure 8
Exports by destination (% breakdown YoY)



Labour market: the unemployment rate is down

The unemployment rate dipped by 0.2pp to 11.2% in January, although this was highly uneven among countries. Labour costs in the business sector rose 1.3% YoY in 3Q14.

Figure 9
Unemployment rate (%) and employment expectations*

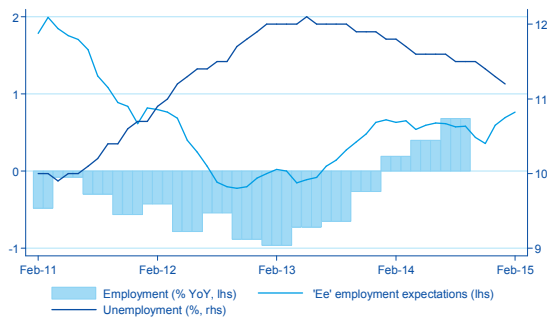
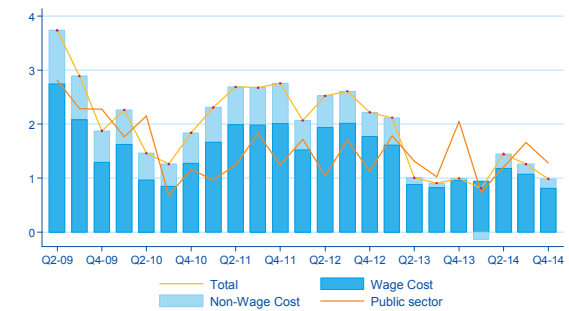


Figure 10
Business sector labour costs (% YoY)*



Prices: The fall in inflation was less pronounced, taking the rate to -0.3% YoY, and core inflation is holding stable

The fall in inflation was lighter in February, taking it to -0.3% YoY, due to the smaller fall for energy prices, although services prices rose at the same time. Core inflation is steady at 0.6% YoY.

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

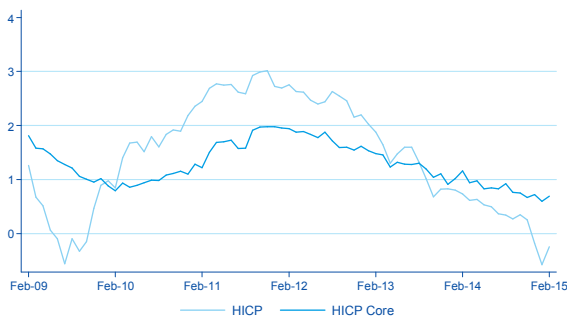
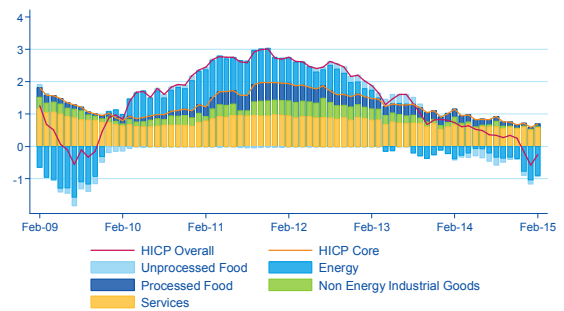


Figure 12
Breakdown of inflation (% contribution)*



* Sources: HAVER and BBVA Research

Germany

National accounts: GDP growth picked up in 4Q14 (0.7% QoQ)

Domestic demand contributed to growth in 4Q14 (+0.5pp), thanks to a recovery of investment (+1.2% QoQ) and the resilience of private consumption. External demand contributed again, but less than it did in 3Q14 (+0.2pp).

Figure 13
GDP (% QoQ) and breakdown by components (pp)*

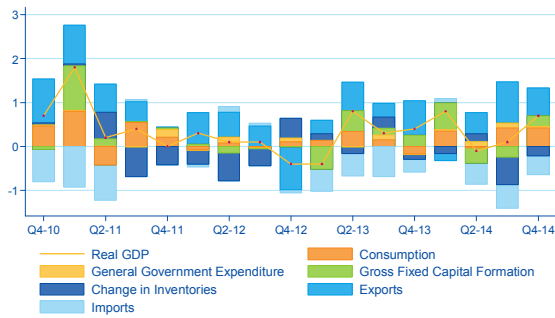


Figure 14
GDP (% QoQ) and forecasts*



Confidence: the PMIs were up in February, while the ESI fell back

In February the composite PMI rose, reversing the negative showing in 4Q14; the national indicators (the Ifo and the ZEW) are rallying, but the European Commission's ESI dropped back slightly.

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

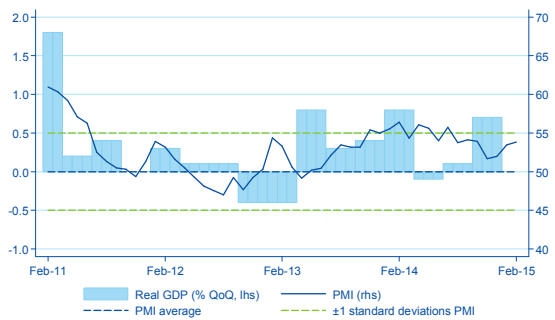
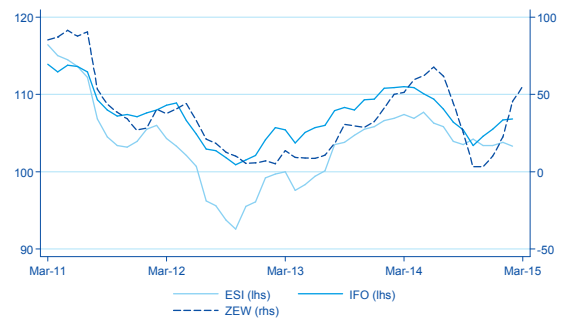


Figure 16
Confidence indicators (ESI, Ifo and ZEW)*



Activity: industrial production and retail sales showed an improvement

Industrial production was up in January by 0.6% MoM, in particular thanks to the construction sector, and retail sales regained 2.9% MoM.

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

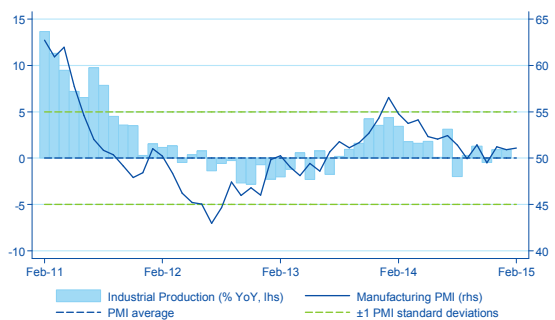
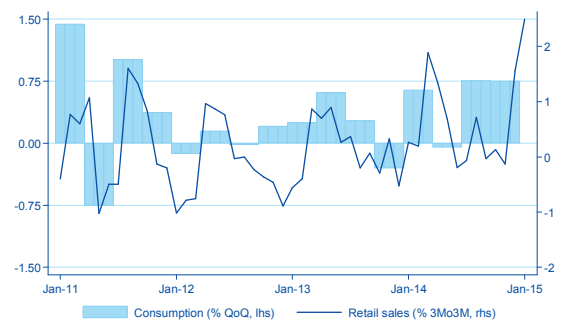


Figure 18
Retail sales (% 3M/3M) and consumption growth (% QoQ)*



*Sources: HAVER and BBVA Research

Foreign sector: the fall in exports in January cancelled out the rebound in December

Exports slipped back 2.1% MoM in January. This figure means that they have fallen in the quarter so far (down 0.8% on 4Q14). Imports have surprised by showing -0.3% MoM and have fallen slightly compared to the previous quarter (by 0.4%).

Figure 19
Current account (% of GDP)*

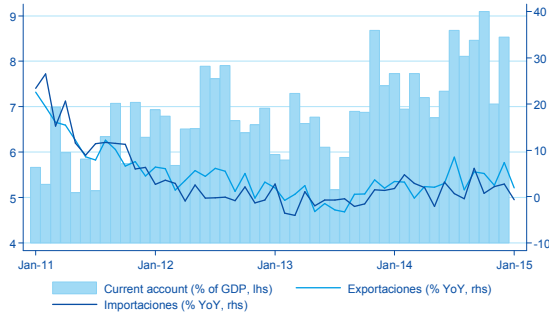
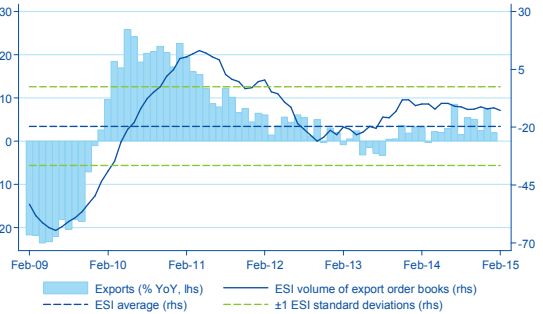


Figure 20
Export growth (% YoY) and export order volume*



Labour market: the unemployment rate remains at a historical low

The unemployment rate held at its historical low (4.7%) in January, whereas labour cost growth upped its pace, reaching 2.3% YoY in 3Q14 after 1.9% YoY in 2Q14.

Figure 21
Unemployment rate (%) and employment expectations*

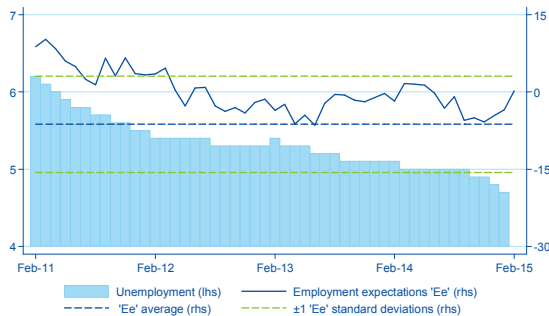
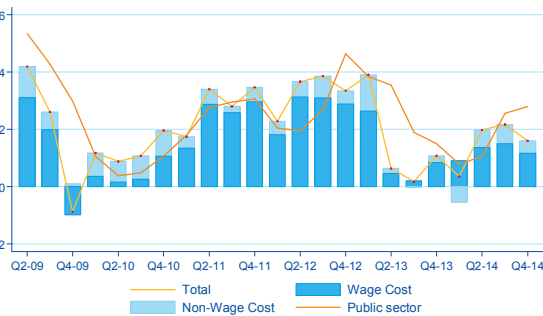


Figure 22
Labour costs in the business sector (% YoY)*



Prices: The fall in the EU-harmonised inflation rate slowed to -0.1% YoY

Energy prices fell again, but less than in January, as did food prices. Services price growth picked up slightly and EU-harmonised inflation also hardened by 0.4pp to -0.1% YoY.

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

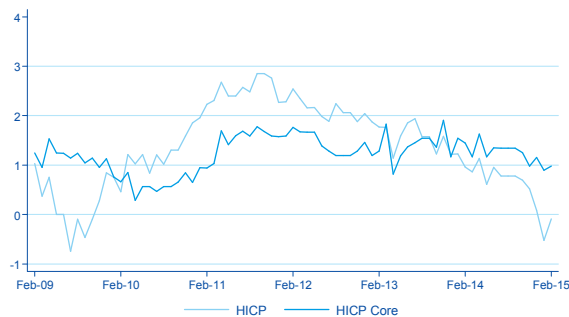
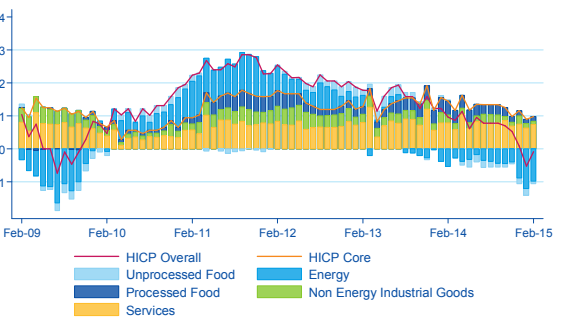


Figure 24
Inflation breakdown (% contribution)*



* Sources: HAVER and BBVA Research

France

National accounts: GDP growth was less than expected in 4Q14 (0.1% QoQ)

GDP grew by a less-than-expected 0.1% QoQ in 4Q14. Consumption growth (private and public) slowed, while investment stalled its falling trend. Inventories made a negative contribution of 0.2pp but net exports were positive due to lower import growth.

Figure 25
GDP (% QoQ) and breakdown by components (pp)*

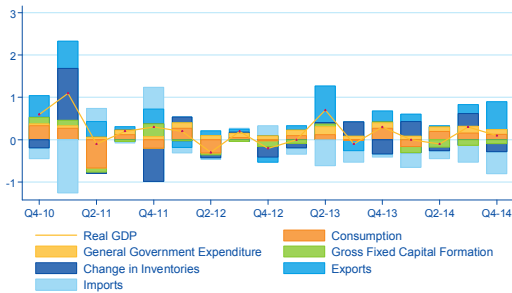
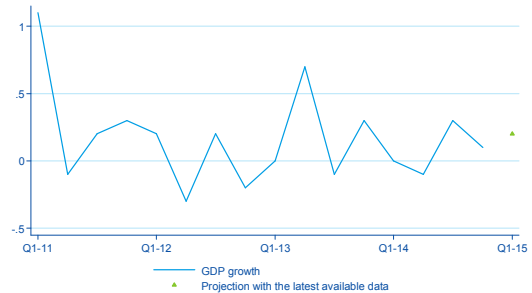


Figure 26
GDP (% QoQ) and forecasts*



Confidence: first positive signs for the PMIs

The composite PMI improved and was back in positive territory in February, but this was not so for confidence as measured by the EC; the national indicators confirm stagnation. The breakdown of the PMI more than anything reveals industrial sector weakness.

Figure 27
PMIs and GDP growth (% QoQ)*

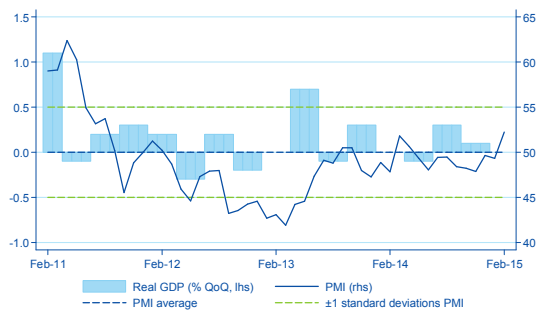
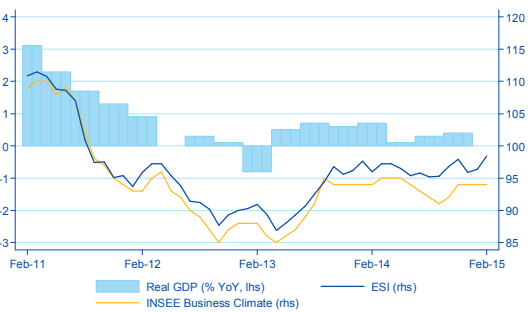


Figure 28
Confidence indicators (ESI and INSEE)*



Activity: retail sales and the industrial sector both show an improvement

Industrial production (0.4% MoM in January) rose 1.3% with respect to the previous quarter. Retail sales (+0.1% MoM in January) were up 0.7% against 4Q14.

Figure 29
industrial production (% YoY) and manufacturing PMI*

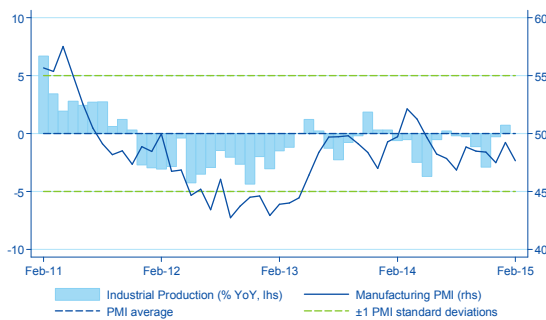
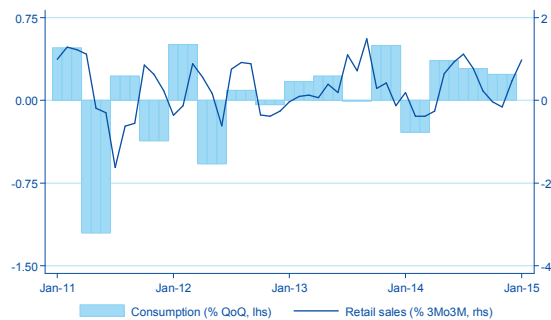


Figure 30
Retail sales (% 3M/3M) and consumption growth (% QoQ)*



*Sources: HAVER and BBVA Research

Foreign sector: exports fell in January

Exports were down 2.5% MoM in January on the poor readings for the figures from the aviation industry, while imports fell back by 1.3% MoM in January.

Figure 31
Current account (% of GDP)*

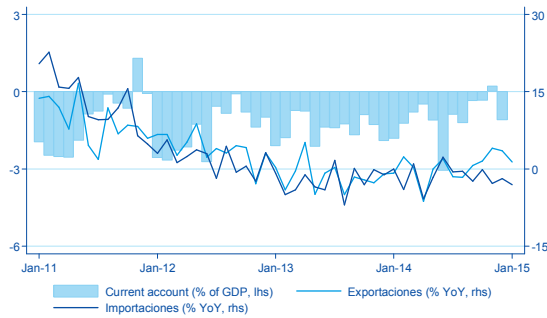
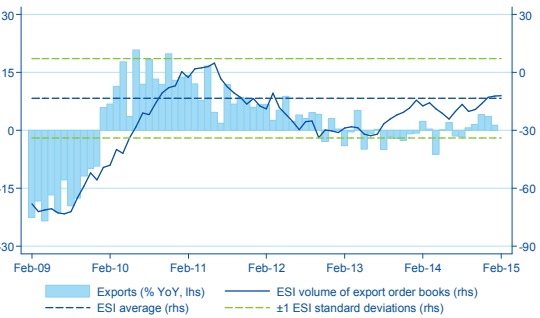


Figure 32
Export growth (% YoY) and export order volume*



Labour market: a degree of stability in recent months

The unemployment rate has settled at around 10.3% since summer, having risen by roughly 0.2pp per quarter the previous year, while labour costs were up by 0.5% YoY in 3Q14.

Figure 33
Unemployment rate (%) and employment expectations*

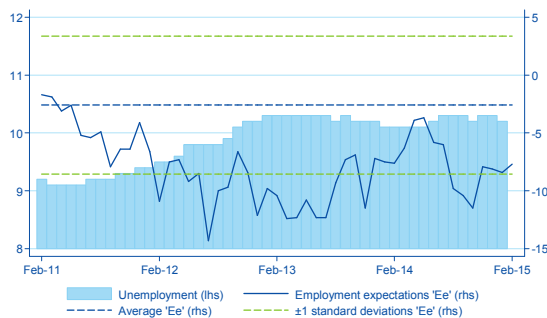
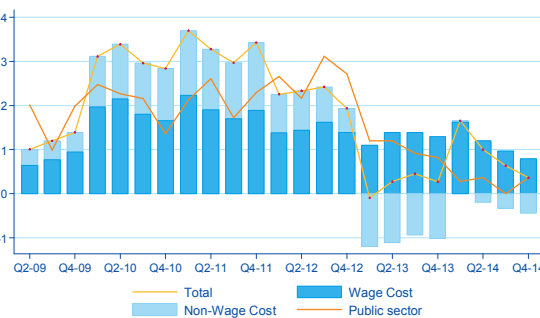


Figure 34
Business sector labour costs (% YoY)*



Prices: the fall in inflation lost momentum in February

The fall in annualised inflation was less heavy in February (0.3% YoY against 0.5% YoY in January) on reduced falls for energy and a pick-up in services prices.

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

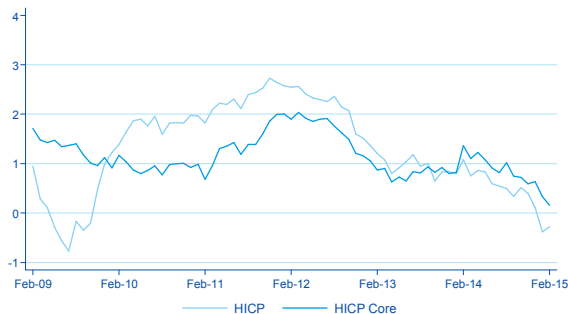
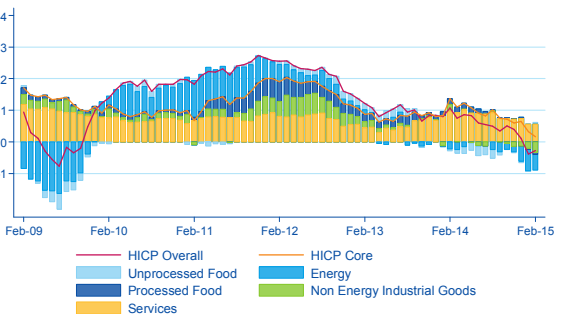


Figure 36
Inflation breakdown (% contribution)*



* Sources: HAVER and BBVA Research

Italy

National accounts: zero growth in 4Q14

Private consumption grew 0.1% QoQ, while its public counterpart accelerated 0.4% QoQ and investment recorded growth of 0.2% QoQ. External demand contributed with +0.4pp, which counteracted the negative impact from inventories of 0.6pp.

Figure 37
GDP (% QoQ) and breakdown by components (pp)*

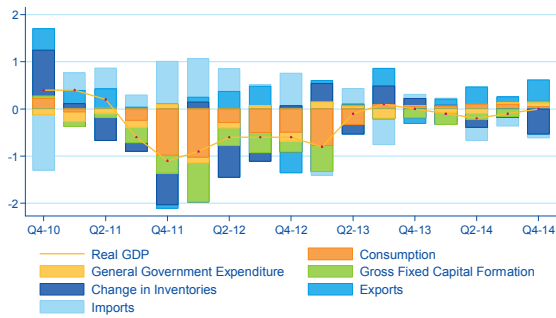
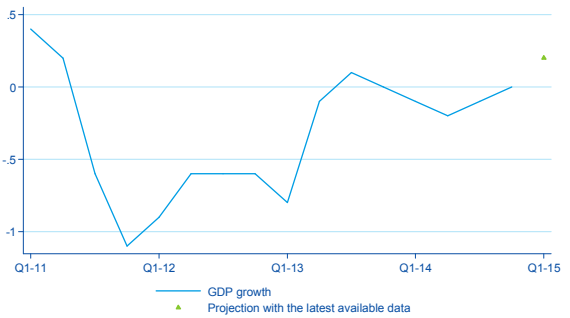


Figure 38
GDP (% QoQ) and forecasts*



Confidence: the indicators for February are more subdued

After the strong advances in January, the composite PMI and the EC's confidence indicator eased back a shade, while the ISTAT readings still suggest brighter prospects.

Figure 39
PMIs and GDP growth (% QoQ)*

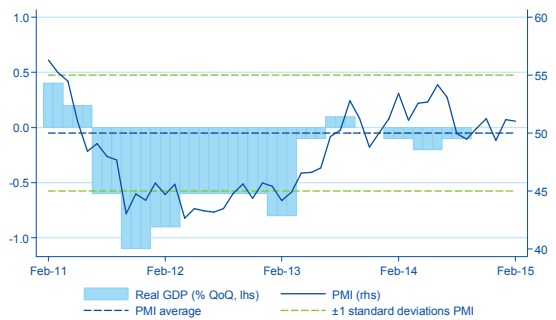
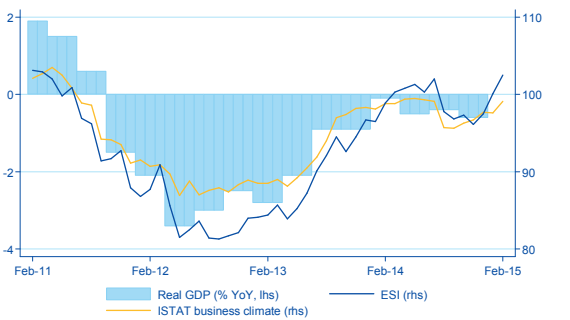


Figure 40
Confidence indicators (ESI and ISTAT)*



Activity: the industrial sector and retail sales in keeping with the delicate situation

Industrial production came down 0.8% MoM in January, remaining 0.3% below the 4Q14 average, when it dropped back 0.1% QoQ. Retail sales still have not got off the ground.

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

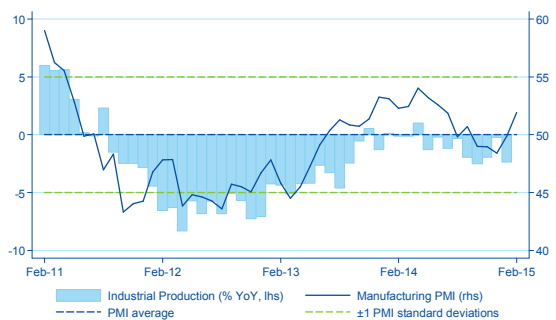
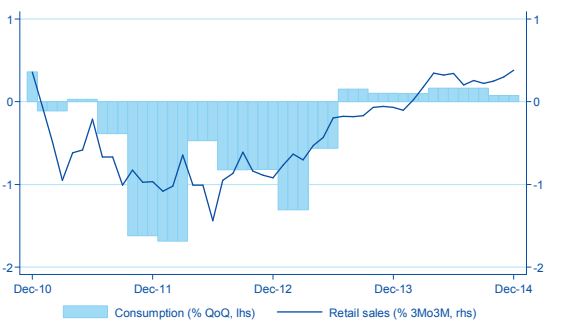


Figure 42
Retail sales (% 3M/3M) and consumption growth (% QoQ)*



*Sources: HAVER and BBVA Research

Foreign sector: exports fell at the beginning of the year

Exports were down 2.5% in January and 1.2% relative to the 4Q14 average (+2.1% QoQ). Imports grew 1.0% MoM (-0.2% compared to the 4Q14 average)

Figure 43
Current account (% of GDP)*

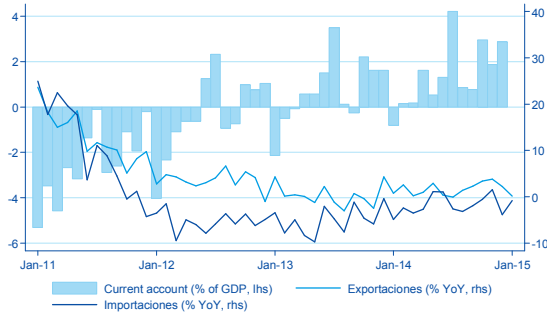
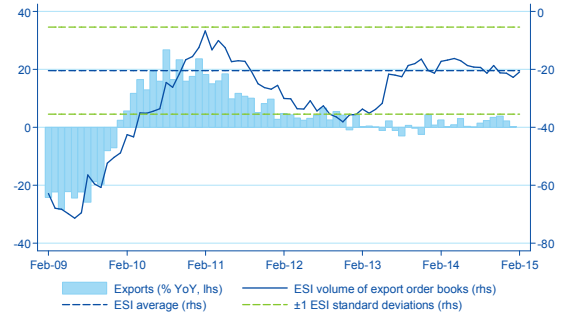


Figure 44
Export growth (% YoY) and export order volume*



Labour market: unemployment fell and labour costs were up

The unemployment rate came down 0.6pp in two months after touching a historical low (13.2%) in November. Labour costs rose 0.4% YoY in 3Q14, a long way below the European average (1.3% YoY).

Figure 45
Unemployment rate (%) and employment expectations*

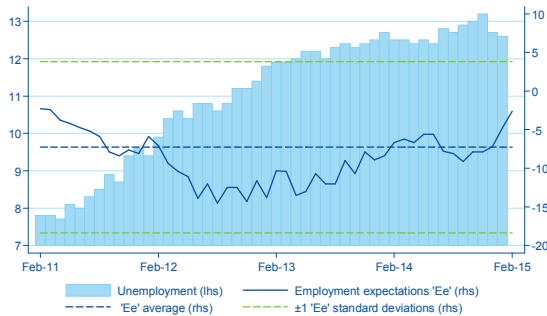
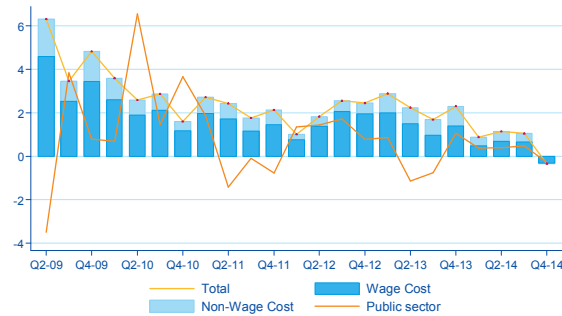


Figure 46
Business sector labour costs (% YoY)*



Prices: Prices rose again in February and core inflation gathered steam

February inflation was 0.6pp firmer and stands at 0.1% YoY. Core inflation picked up by 0.4pp, taking it to 0.9% YoY in February.

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

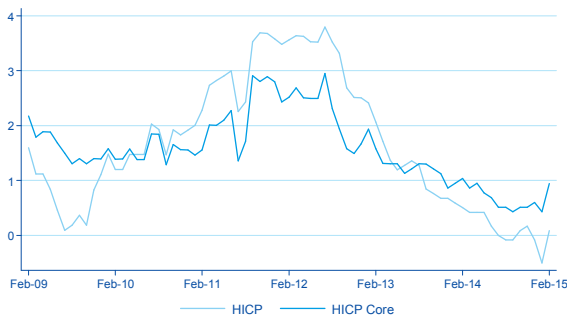
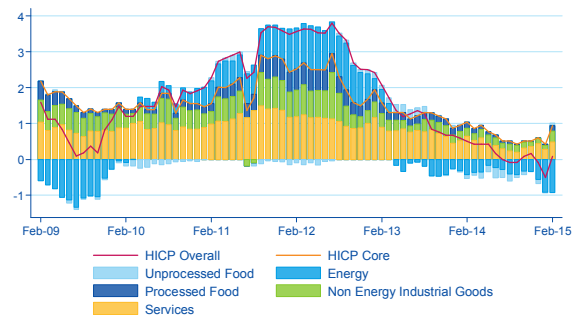


Figure 48
Inflation breakdown (% contribution)*



* Sources: HAVER and BBVA Research

Spain

National accounts: GDP growth is picking up

The highlight in 4Q14 was again the sound progress made by both household consumption (0.9% QoQ) and machinery and equipment investment (1.8% QoQ). There was stagnation in exports (0.0% QoQ) and imports slipped back a fraction (down 0.6% QoQ)

Figure 49
GDP (% QoQ) and breakdown by components (pp)*

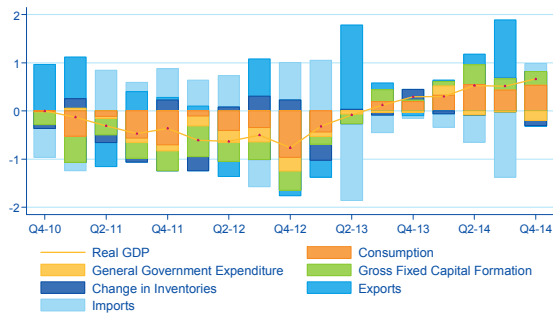
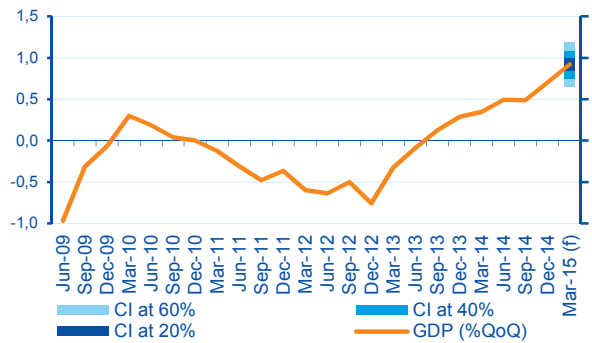


Figure 50
GDP growth (% QoQ) and MICA-BBVA forecast*



Confidence: promising outlook in Q1

Economic agents remain sanguine as 2015 gets underway: both consumer and industrial confidence are above their average levels prior to the crisis

Figure 51
PMIs and GDP growth (% QoQ)*

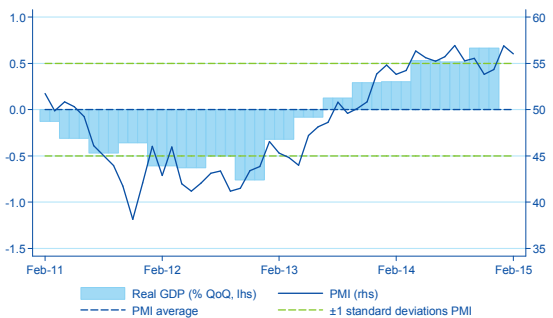
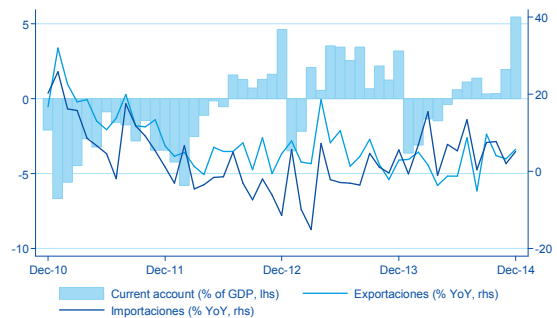


Figure 52
Confidence (ESI) and GDP growth (% YoY) *



Activity: stable at the start of 2015

Industrial activity made some headway in January (0.2% MoM), bettering the 4Q14 average by 0.1%, whereas retail sales were down 0.9% MoM and 0.1% with respect to 4Q14

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

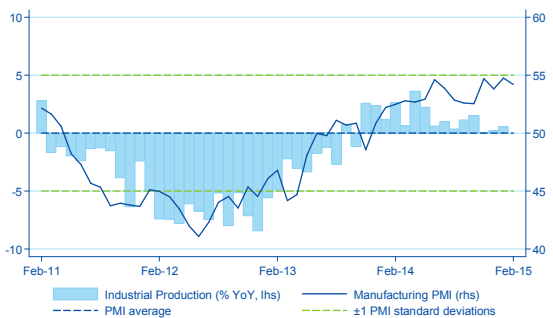
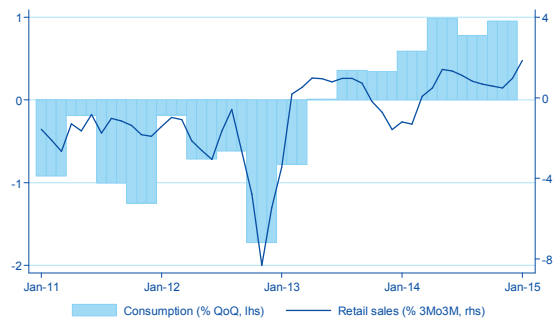


Figure 54
Retail sales (% 3M/3M) and consumption growth (% QoQ)*



*Sources: HAVER and BBVA Research

Foreign sector: goods imports were dynamic in 4Q14

Goods exports surged ahead in December, improving on the 3Q14 average by 0.8% QoQ, whereas imports came down by 1.4% MoM and grew 5.8% with respect to the previous quarter

Figure 55
Current account (% of GDP)*

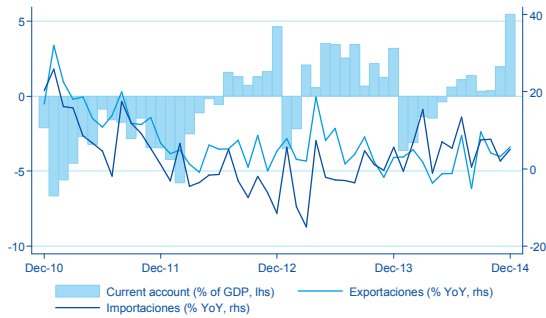
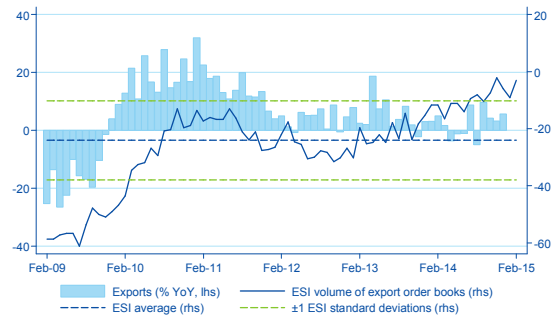


Figure 56
Export growth (% YoY) and export order volume*



Labour market: labour market readings continue to provide welcome surprises

Social security registrations exceeded growth expectations in February, which implies that the pace of job creation is quickening. Consistent with this, unemployment came down sharply last month

Figure 57
Unemployment rate (%) and employment expectations*

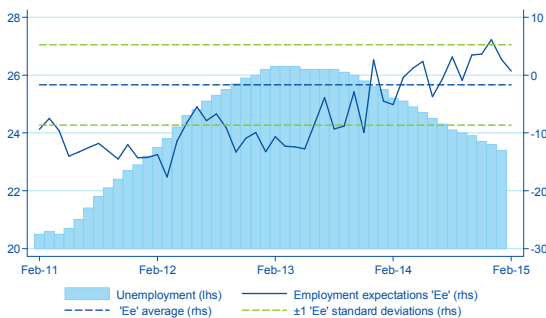
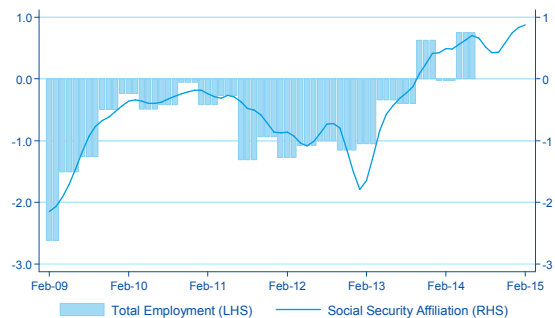


Figure 58
Employment growth: non-affiliated and Social Security (% QoQ)*



Prices: the fall in inflation eased up in February

The rate of the fall in headline inflation slackened by 0.3pp, leaving the figure at -1.1% YoY in February. Meanwhile core inflation held stable at 0.2% YoY

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

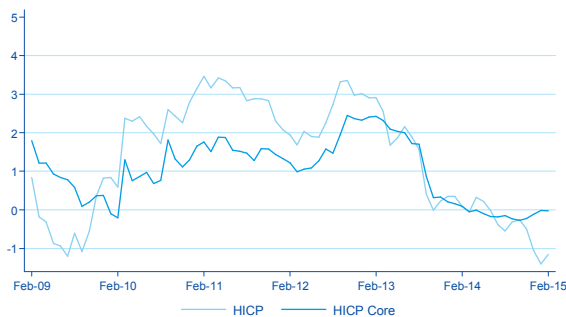
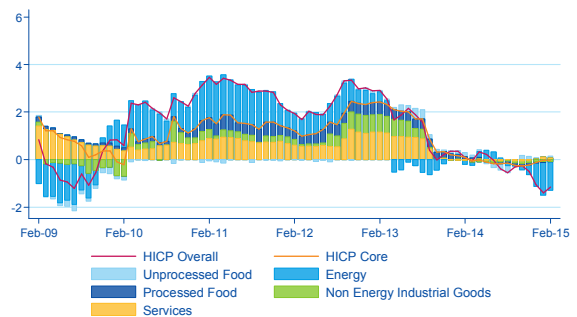


Figure 60
Inflation breakdown (% contribution)*



* Sources: HAVER and BBVA Research

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