

MACROECONOMIC ANALYSIS

Eurozone: The recovery gathers momentum in the first quarter

Europe Unit

The figures published in the last few weeks appear to show an acceleration in the recovery of the eurozone's economy. Confidence indicators and, to a lesser extent, the first real indicators of 1Q15, are consistent with growth in activity, underpinned by the domestic fundamentals, particularly consumption, spurred on by low oil prices

Eurozone: activity picks up in 1Q15

- The confidence indicators showed a clear improvement throughout 1Q15. The PMI indicator and the European Commission's ESI offer an optimistic outlook for both the manufacturing and services sectors (Figure 5), and are an improvement on the 4Q14 average (Figures 3 and 4). Household confidence, meanwhile, has jumped, closing the first quarter at higher levels than those of May last year, when the moderation in confidence set in and then lasted for the whole of 2H14.
- Consistent with the above, consumption has grown again, with retail sales to February continuing to beat their 4Q14 average (Figure 6), as did new car registrations. Industrial production also edged up in the first two months, and continues to be supported by the rise in manufacturing orders, both domestic and foreign. However, this increase in external demand is not reflected in the data for goods exports, which have fallen slightly from their 4Q14 results, when they posted strong growth (Figure 8).
- If we introduce all the data available to date, the short-term MICA-BBVA forecast model estimates growth of around 0.5% QoQ in 1Q15 (Figure 2), higher than the previous quarter and slightly above our baseline scenario.
- In the labour market, the unemployment rate continues to fall gradually, coming in at 11.3% in February (Figure 9), but with differing momentum by country: Germany is back to a record low (4.8%), in France the unemployment rate has been edging up slowly since the middle of last year and in Italy it looks as though the change to the downside is settling in, despite the slight rise in February.
- Inflation was -0.1% YoY in March after posting at -0.3% in February, because of the moderation in the fall in prices in energy products for the second month in a row, while core inflation slowed by 0.1pp to 0.6% YoY (Figures 11 and 12). Looking ahead, inflation is likely to register slightly negative figures in 2Q15 and very low ones in 3Q15; only in the final quarter will we see a bigger upturn, to around 0.8-0.9% in December, affected by the variations in energy prices. Core inflation, meanwhile, will probably remain relatively stable in the next few months.

Germany: the solid growth at the beginning of the year holds steady

- The visible improvement in the nation's business confidence indicators (Ifo and ZEW) throughout the first quarter is reflected in improved activity data, with industrial production and retail sales growing above their 4Q14 averages (Figures 17 and 18).
- Goods exports, however, are not growing when compared with last quarter, and the increase in imports may limit the external sector's contribution to expansion.
- In consequence we expect 1Q15 growth of 0.6-0.7% QoQ (Figure 14), coming after 0.7% QoQ in 4Q14.

France: domestic factors sustain the recovery in 1Q15

- In the first quarter, both the national indicators (Insee and the central bank), as well as the PMIs, are posting at higher than their 4Q14 levels, and the ESI indicator is rising, although it is still below its historical average. The services sector is leading this improvement, but the manufacturing indicator remains fragile (Figures 27 and 28).
- While industrial production and retail sales to February have increased over 4Q14, there is a fall in exports, after the good performance from the previous quarter (Figure 32), and a lower reduction in imports.
- As a whole, we expect growth in 1Q15 to be 0.3% QoQ.

Italy: activity returns to growth in 1Q15

- In 1Q15 timid signs of recovery were visible, in both the industrial sector, as heralded by the business confidence indicators, with the PMIs in growth territory, and retail sales, reflecting the improvement in household confidence (Figures 39 and 40).
- The external sector may have stopped contributing to growth at the beginning of the year, after the sharp fall in exports in January, although everything points to it being fairly temporary, given the strong rise in external manufacturing orders (Figure 44).
- For this reason, in the first quarter, we expect positive growth of 0.2-0.3% QoQ.

Spain: robust economic growth and with a short-term bias to the upside

- At the beginning of the year, private domestic demand held to the expansionary stance seen at the close of 2014: household spending and expectations indicators indicate that consumption may have enjoyed another upturn in 1Q15, while the indicators' performance in terms of confidence, industrial production and the manufacturing PMIs suggest a vigorous growth in investment in machinery and equipment.
- Turning to external demand, total exports may have enjoyed modest growth in 1Q15 or even stagnation, despite the euro's depreciation, the reduction in transport costs and the improvement in European demand ([See Spain Economic Watch](#)).
- The figures available to date indicate that the rate of expansion will increase to 0.9% QoQ (Figure 50).

Eurozone

National accounts: growth to accelerate in 1Q15 (0.3% QoQ in 4Q14)

The economy grew by 0.3% QoQ in 4Q14 after 0.2% QoQ in 3Q14. The external sector made a positive contribution (+0.2pp), stocks shrank by -0.2pp, with investment increasing again, while public- and private-sector consumption held to their growth rates. For 1Q15, the MICA-BBVA model estimates growth of around 0.5% QoQ.

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

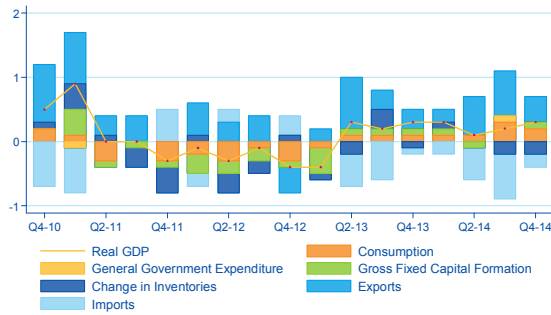
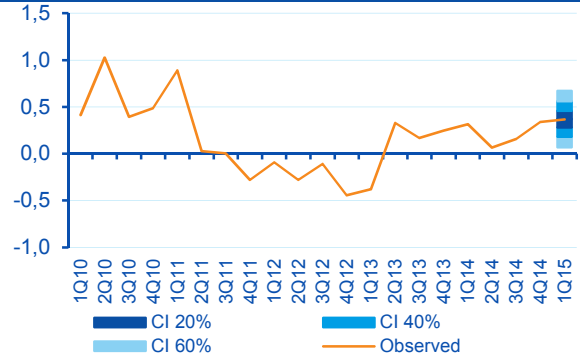


Figure 2
GDP growth (% QoQ) and MICA-BBVA* forecast



Confidence: PMIs up in March, consolidating the improvement made in the first quarter

The PMIs rose in 1Q15 after a weak fourth quarter, particularly in services, while the ESI indicator improved, thanks to consumer confidence and, to a lesser extent, to industry and services.

Figure 3
PMIs and GDP growth (% QoQ)*

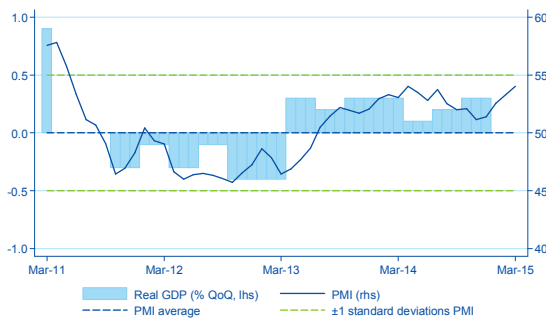
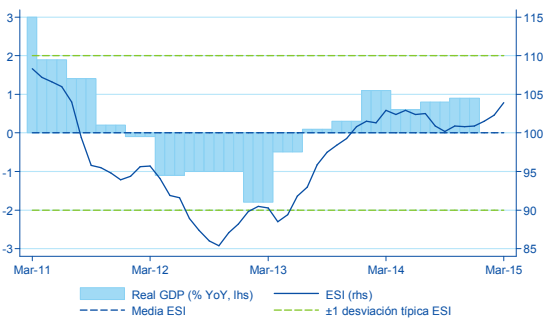


Figure 4
Confidence (ESI) and GDP growth (% YoY) **



Activity: retail sales and industrial production expand during 1Q15 so far

With the February figures available (1.1% MoM), 1Q15 the industrial production indicator has so far improved (+0.7%) compared with the 4Q14 average, whereas retail sales have fallen 0.2% MoM in February, but are still up by +1.3% over 4Q14.

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

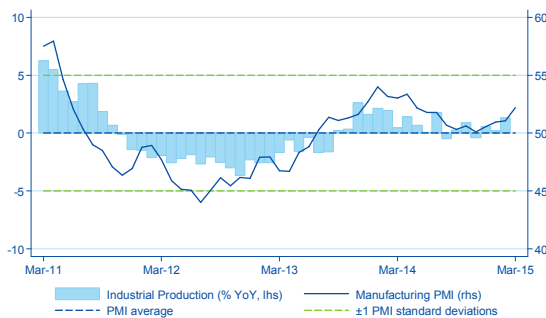
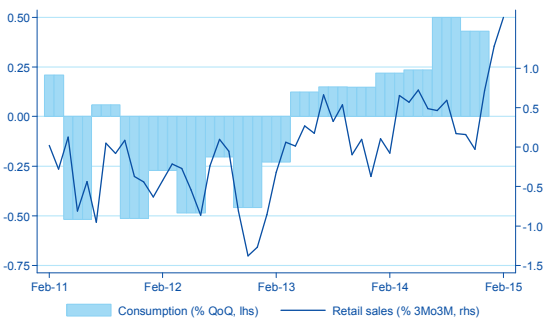


Figure 6
Retail sales (% 3Mo3M) and consumption growth (% QoQ)*



Sources: Haver Analytics and BBVA Research

Foreign sector: exports fall slightly in 1Q15

In February, exports rose (2.8% MoM), bringing the result so far this quarter to just a little below the 4Q14 average (+2.2% QoQ). Imports also rose in February but were -0.5% down on 4Q14.

Figure 7
Current account (% of GDP)*

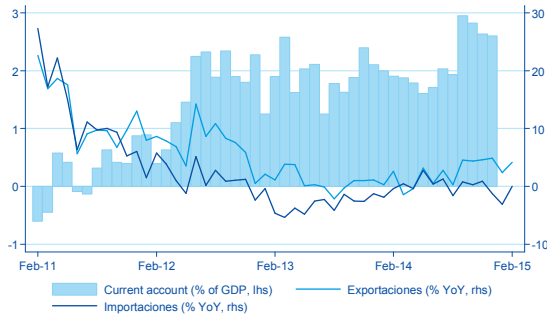
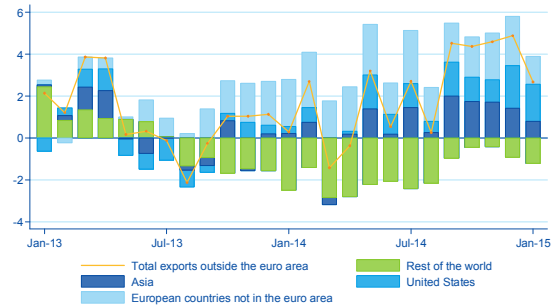


Figure 8
Exports by destination (contribution to % YoY)*



Labour market: unemployment shrinks

The unemployment rate has moderated by 0.1pp to 11.3% in February, although with major differences between countries. Labour costs in the business sector have increased by 1% YoY in 4Q14.

Figure 9
Unemployment rate (%) and employment expectations*

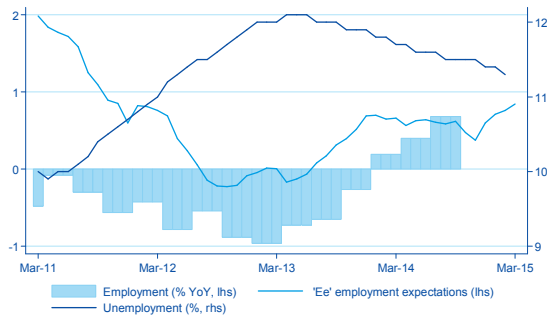
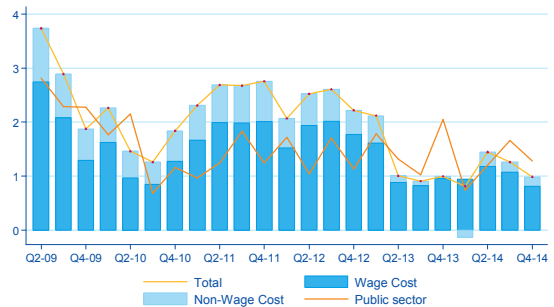


Figure 10
Labour costs in the corporate sector (% YoY)*



Prices: the fall in inflation moderates once more in March

Inflation decreased by -0.1% YoY in March after posting at -0.3% in February, due to the moderation in the fall of energy product prices for the second month in succession, while the core rate of inflation decelerated by 0.1pp to 0.6% YoY.

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

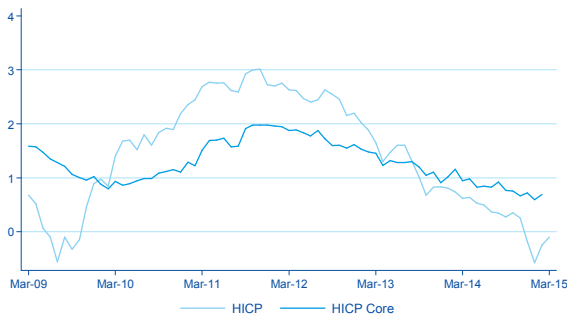
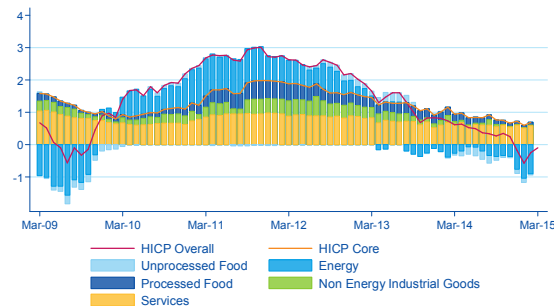


Figure 12
Inflation by component (contribution by %)*



* Sources: Haver Analytics and BBVA Research

Germany

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

Domestic demand contributed positively to growth in 4Q14 (+0.5pp) due to the recovery of investment (+1.2% QoQ) and solid private consumption. External demand again made a positive contribution, although less so than in 3Q14 (+0.2pp). This robust growth rate continued at the outset of 2015.

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

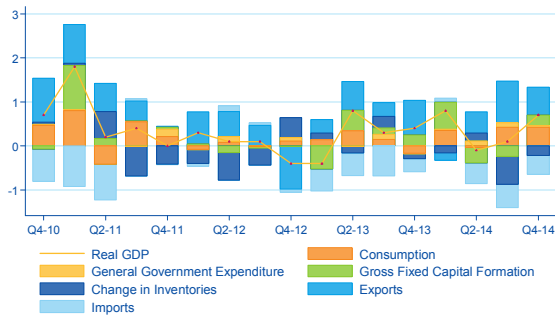
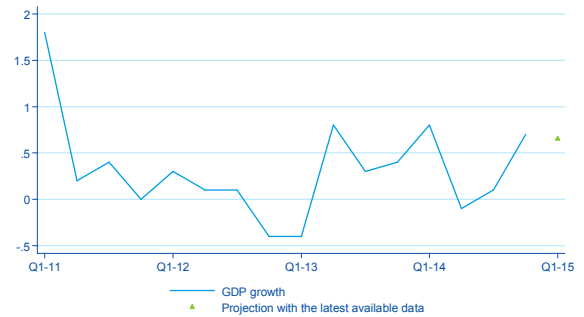


Figure 14
GDP (% QoQ) and forecasts*



Confidence: PMIs and the ESI grow in 1Q15

In 1Q15, the composite PMI increased, reversing the negative momentum of 4Q14; national indicators (Ifo and ZEW) continue their recovery, as did the European Commission's ESI index.

Figure 15
PMIs and GDP growth (% QoQ)*

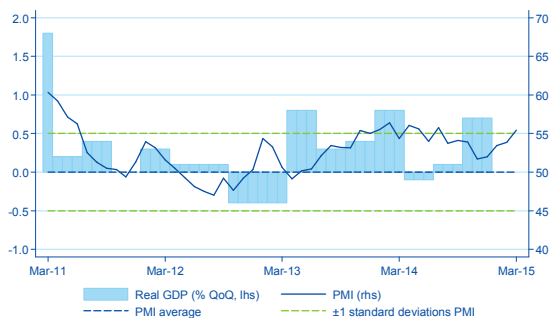
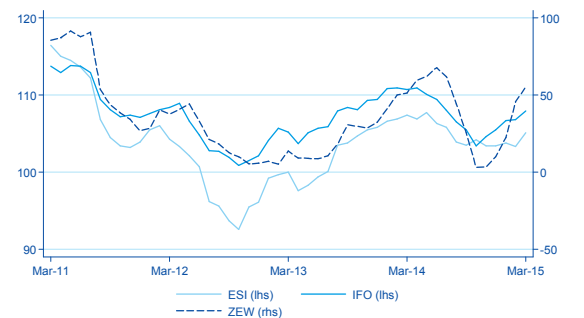


Figure 16
Confidence indicator (ESI, Ifo and ZEW)*



Activity: industrial production and retail sales improve

Industrial production improved in February by 0.2% MoM (+0.4% over 4Q14), thanks to the contribution made by the construction sector, while retail sales, although falling 0.5% MoM, are still higher than in 4Q14 (+2.9%).

Figure 17
Industrial prod'n (% YoY), manufacturing PMI*

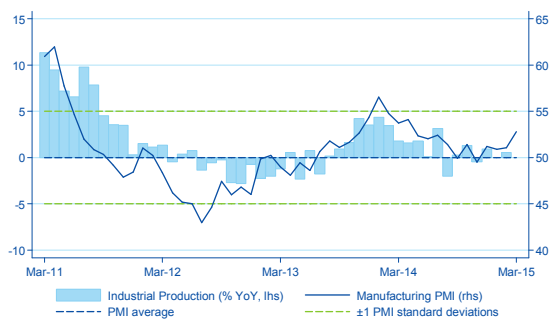
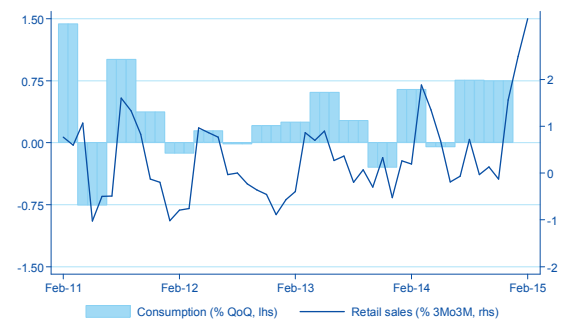


Figure 18
Retail sales (% 3Mo3M) and consumption growth (% QoQ)*



*Sources: Haver Analytics and BBVA Research

Foreign sector: goods exports unchanged from the previous quarter

Exports increased by 1.5% MoM in February. This is unchanged from 4Q14. Imports, compared to the previous quarter, are growing by 0.6%

Figure 19
Current account (% of GDP)*

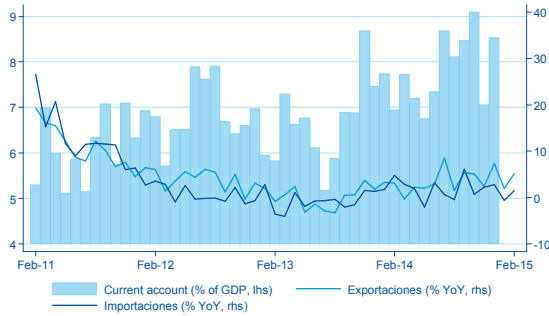
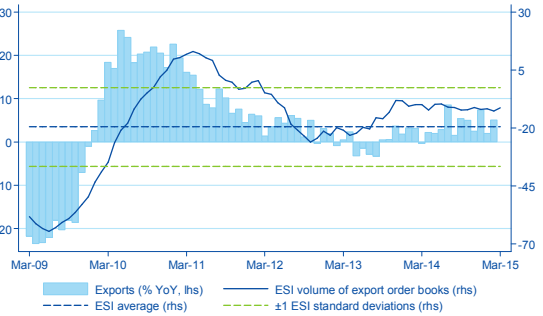


Figure 20
Export growth (% YoY) and volume of export orders*



Labour market: the unemployment rate remains at record lows

The unemployment rate remained at its record low (4.8%) in February, while the growth of labour costs decelerated to 2% YoY in 4Q14, sliding from 2.3% YoY in 3Q14.

Figure 21
Unemployment rate (%) and employment expectations*

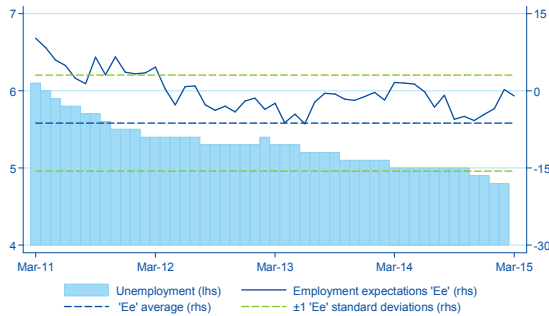
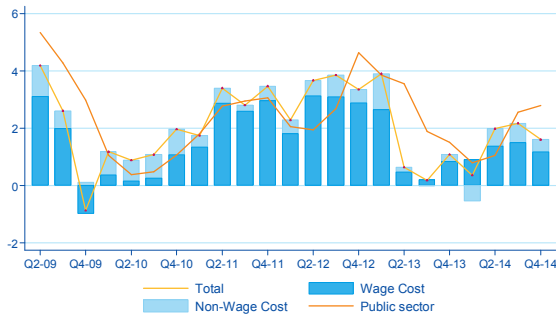


Figure 22
Labour costs in the corporate sector (% YoY)*



Prices: harmonised inflation rate in March, at 0.1% YoY

Energy prices fell again in March, but less than the month before (-5.7% YoY after -7.3% YoY in February), as did the price of food, while the prices of services moderated their rate of growth somewhat.

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

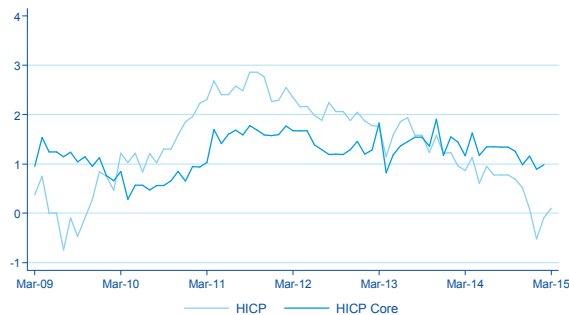
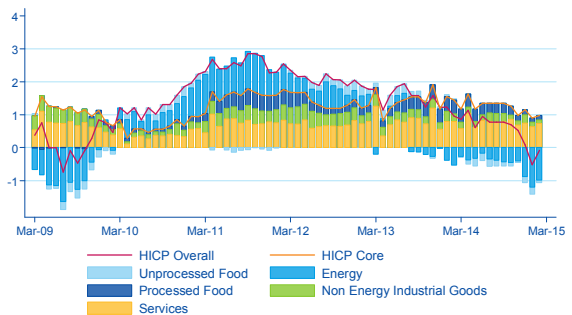


Figure 24
Inflation by component (contribution by %)*



* Sources: Haver Analytics and BBVA Research

France

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

GDP grew by 0.1% QoQ in 4Q14, underperforming expectations. Consumption (private and public) moderated its pace of growth, while investment stopped falling. Inventories made a negative contribution (-0.2pp.), and net exports a positive one, because of the slower growth in imports. Growth is gaining traction at the beginning of the year.

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

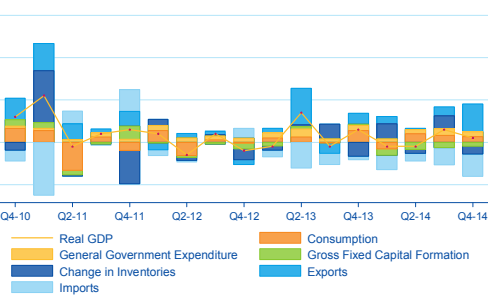
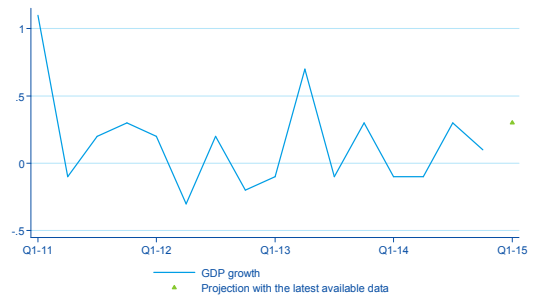


Figure 26
GDP (% QoQ) and forecasts*



Confidence: first positive signals from the confidence indicators

The composite PMI remained in positive territory in March, improving the confidence levels measured by the EC; national indicators, however, tended more towards stasis. The breakdown of the PMI demonstrates the weakness of the industrial sector in particular.

Figure 27
PMIs and GDP growth (% QoQ)*

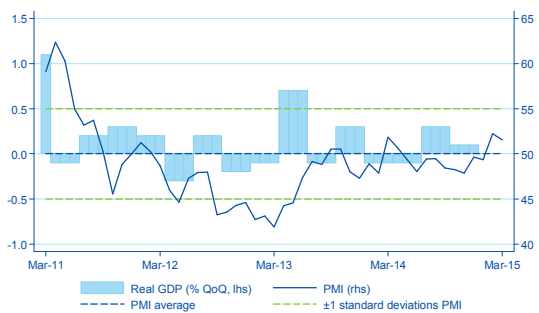
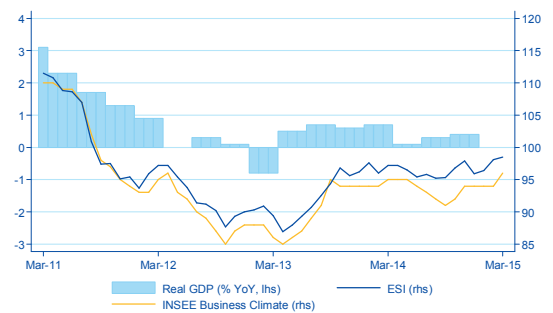


Figure 28
Confidence indicator (ESI and INSEE)*



Activity: positive signs in industrial production and retail sales

Industrial production (0% MoM in February) increased by 1.2% over the average for the previous quarter. Likewise, retail sales (0% MoM in February) also grew by 0.8% over 4Q14.

Figure 29
Industrial prod'n (% YoY), manufacturing PMI*

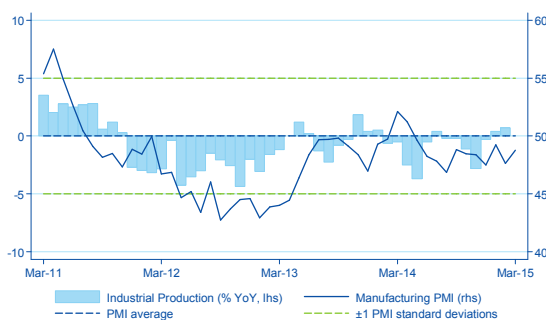
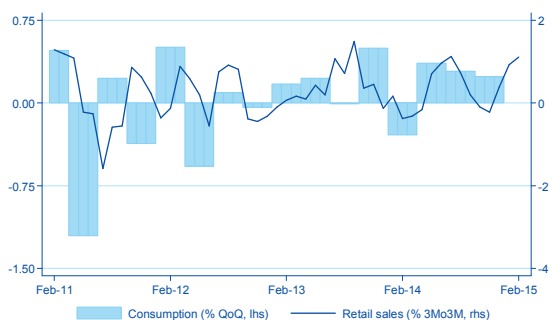


Figure 30
Retail sales (% 3Mo3M) and consumption growth (% QoQ)*



*Sources: Haver Analytics and BBVA Research

Foreign sector: exports grow in February

Exports grew by 1.4% MoM in February (-0.5% compared to 4Q14), thanks to good performance in the aeronautical industry. Imports, meanwhile, increased by 0.6% MoM in February (-0.3% over 4Q14).

Figure 31
Current account (% of GDP)*

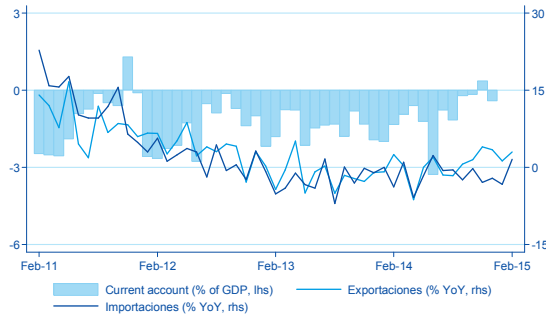
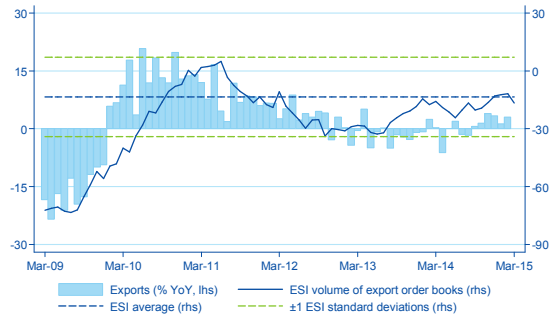


Figure 32
Export growth (% YoY) and volume of export orders*



Labour market: deterioration in recent months

The unemployment rate has been inching up since last summer and by March stood at 10.6%. Over 4Q14, labour costs have grown by 0.3% YoY, following an increase of 0.5% in 3Q14.

Figure 33
Unemployment rate (%) and employment expectations*

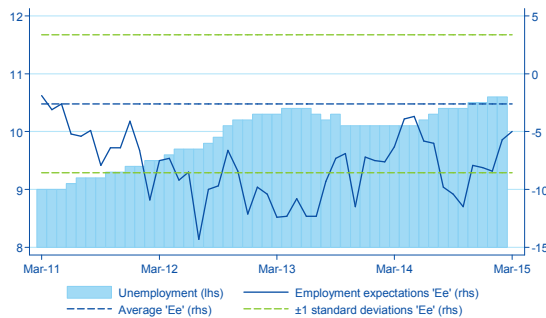
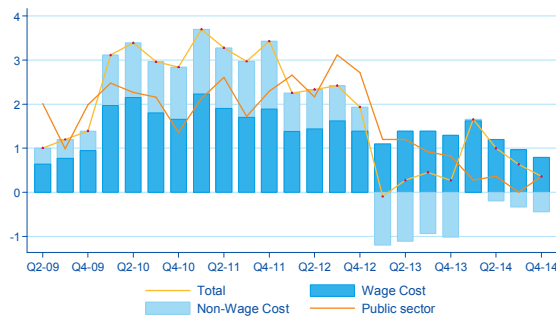


Figure 34
Labour costs in the corporate sector (% YoY)*



Prices: inflation moderates its fall in March

The YoY inflation rate moderated its fall in March (-0.1% YoY compared to -0.3% YoY in February) as a result of a smaller fall in energy and manufactured product prices.

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

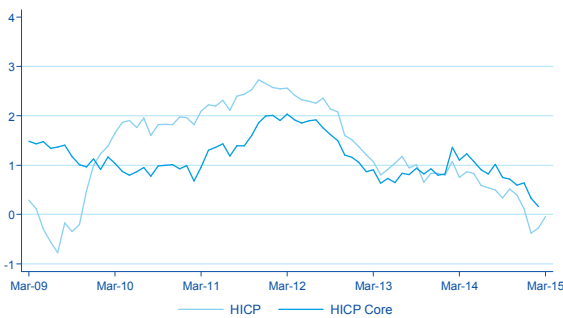
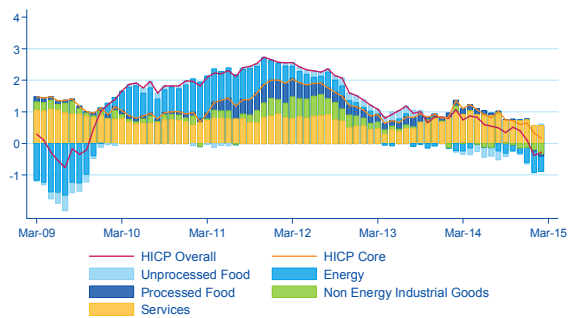


Figure 36
Inflation by component (contribution by %)*



* Sources: Haver Analytics and BBVA Research

Italy

National accounts: zero growth in 4Q14

Private consumption scraped in a rise of 0.1% QoQ, public consumption accelerated by 0.4% QoQ and investment edged up by 0.2% QoQ. External demand made a positive contribution (+0.4pp), offsetting the negative one from inventories (-0.6pp). The latest indicators point to a discreet expansion of GDP in 1Q15.

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

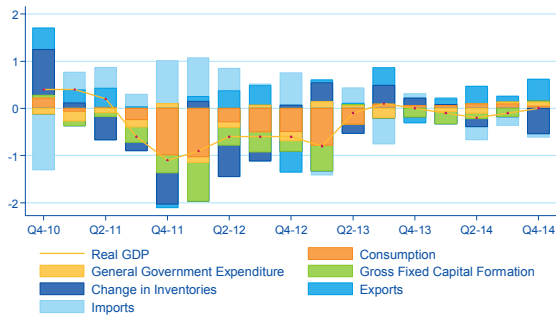
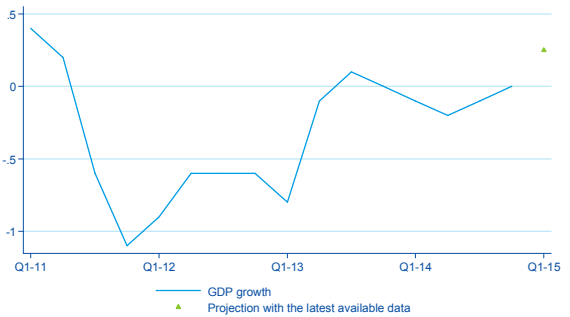


Figure 38
GDP (% QoQ) and forecasts*



Confidence: March indicators on the move

After a poor end to 2014, the composite PMI and the EC's confidence indicator both pushed ahead strongly in 1Q15, while those of ISTAT held firm to their optimistic outlook.

Figure 39
PMIs and GDP growth (% QoQ)*

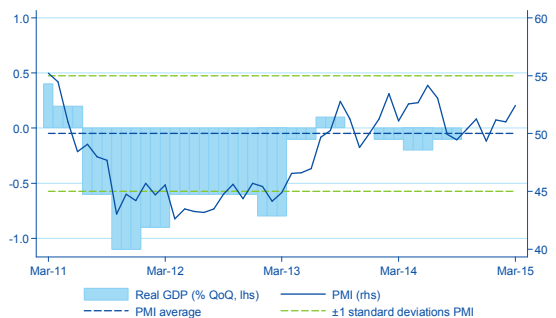
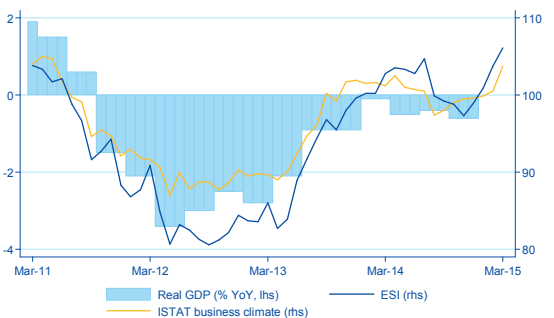


Figure 40
Confidence indicator (ESI and ISTAT)*



Activity: the industrial and retail sales sectors wake from their lethargy

Industrial production grew by 0.6% MoM in February, remaining stable with respect to its 4Q14 average after a run of four quarters of falls. January retail sales improved slightly.

Figure 41
Industrial prod'n (% YoY), manufacturing PMI*

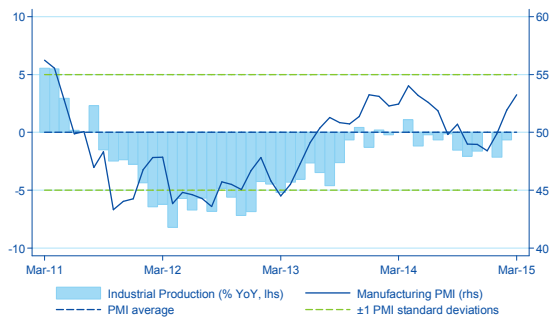
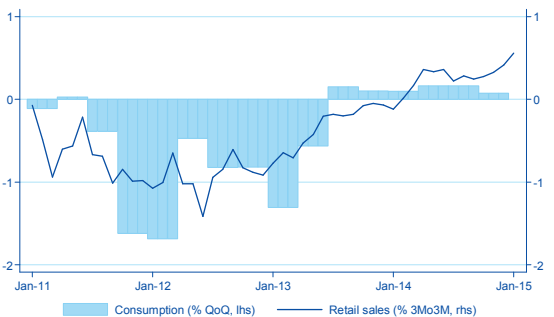


Figure 42
Retail sales (% 3Mo3M) and consumption growth (% QoQ)*



*Sources: Haver Analytics and BBVA Research

Foreign sector: exports fall at the beginning of the year

Exports fell by 2.5% MoM in January and by 1.2% over their average for 4Q14 (+2.1% QoQ). Imports grew by 1.0% MoM (-0.2% down from their 4Q14 average).

Figure 43
Current account (% of GDP)*

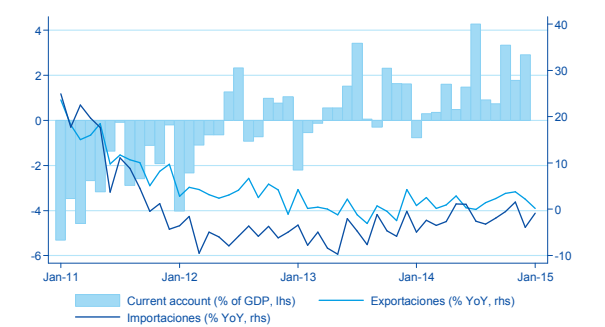
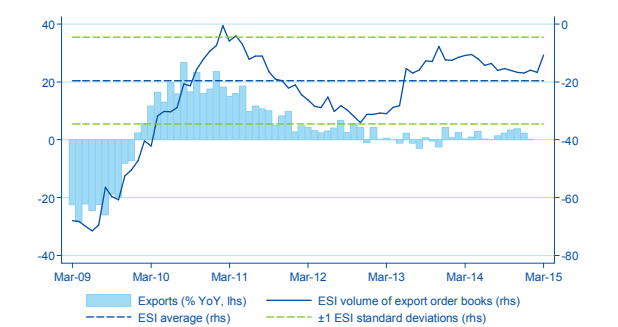


Figure 44
Export growth (% YoY) and volume of export orders*



Labour market: unemployment edges up and labour costs fall

The unemployment rate increased by 0.1pp in February, but is well below 1Q14. Labour costs fell -0.2 YoY in 4Q14 (after 0.8% YoY), well below the European average (1% YoY).

Figure 45
Unemployment rate (%) and employment expectations*

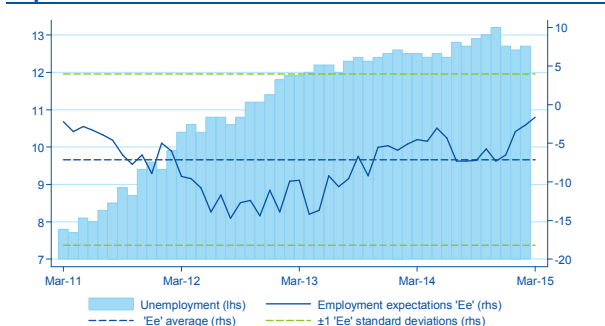
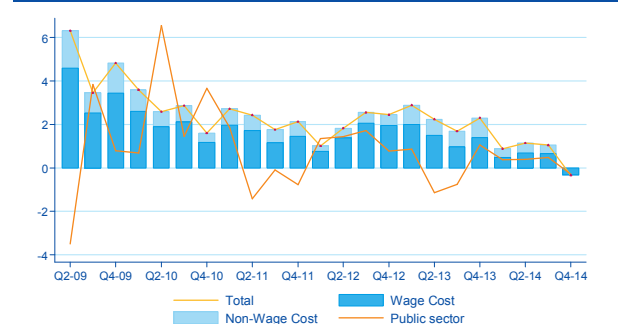


Figure 46
Labour costs in the corporate sector (% YoY)*



Prices: harmonised inflation fell in March because of the severe moderation in services inflation

Inflation fell 0.1pp in March to 0% YoY, with the moderation in the fall in energy prices being offset and more by the moderation in core inflation (-0.3pp to 0.6% YoY), caused by slower growth in the price of services.

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

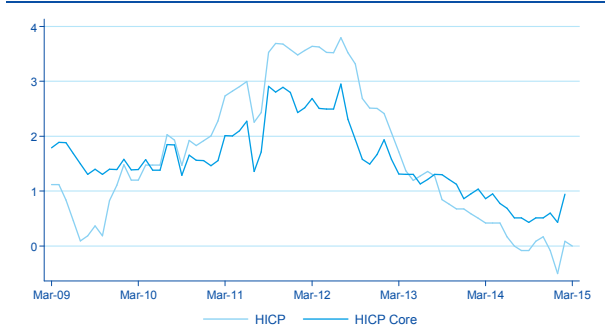
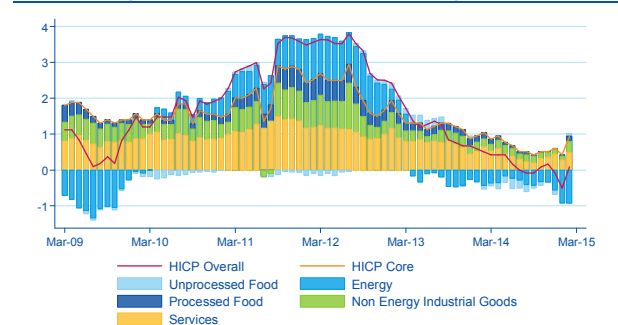


Figure 48
Inflation by component (contribution by %)*



* Sources: Haver Analytics and BBVA Research

Spain

National accounts: GDP growth accelerates in 1Q15 (+0.9% after +0.7% QoQ)

Solid progress in both household consumption (0.9% QoQ) and investment in machinery and equipment (1.8% QoQ) was the watchword in 4Q14. We saw stagnation in exports (0.0% QoQ) and a moderate contraction in imports (-0.6% QoQ).

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

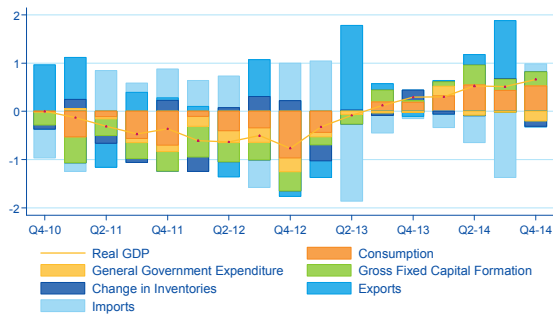
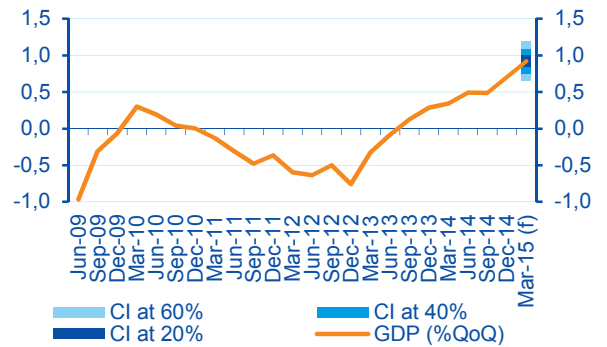


Figure 50
GDP (% QoQ) and contribution by component (pp)*



Confidence: favourable outlook in the first quarter

Economic agents remained optimistic at the start of the year: both consumer and industrial confidence are still at higher levels than their pre-crisis averages.

Figure 51
PMIs and GDP growth (% QoQ)*

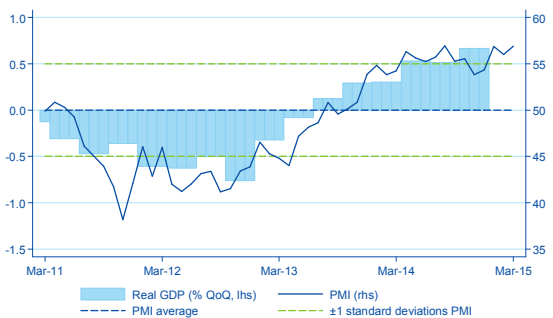
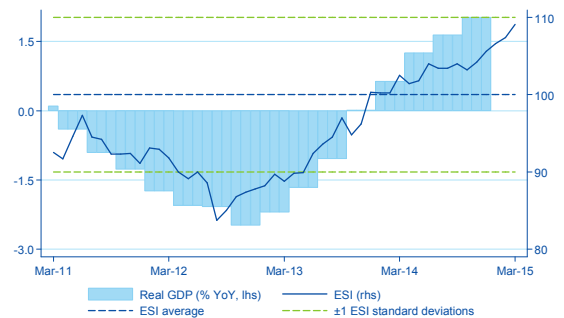


Figure 52
Confidence (ESI) and GDP growth (% YoY) *



Activity: activity improves at the beginning of 2015

Industrial activity performed well in February (0.7% MoM) and is posting 0.6% over its average for 4Q14, while retail sales fell by 0.6% MoM, but are growing by 0.6% over their rate in 4Q14.

Figure 53
Industrial prod'n (% YoY), manufacturing PMI*

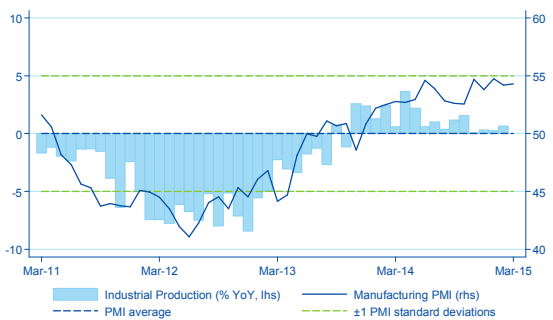
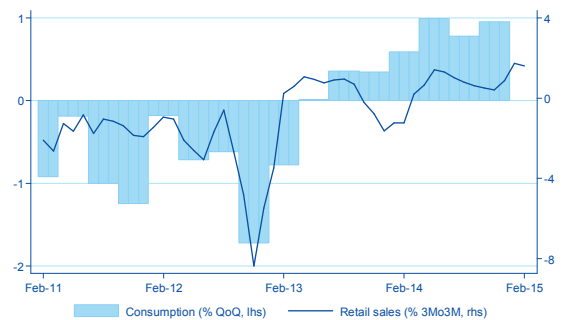


Figure 54
Retail sales (% 3Mo3M) and consumption growth (% QoQ)*



*Sources: Haver Analytics and BBVA Research

Foreign sector: goods exports fell in January

Goods exports fell sharply in January, coming at 3.6% QoQ below the average for 4Q14, while imports slumped, both over the month and compared to the previous quarter (-3.1%).

Figure 55
Current account (% of GDP)*

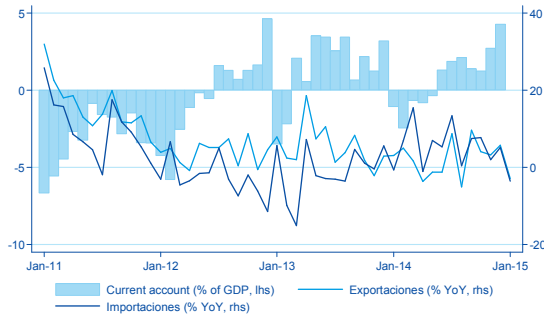
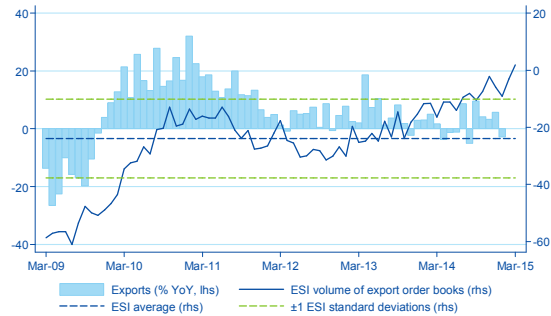


Figure 56
Export growth (% YoY) and volume of export orders*



Labour market: March closes a positive quarter with gains

Growth in the number of people contributing to Social Security and also in hiring, together with the reduction in unemployment, accelerated over the quarter as a whole

Figure 57
Unemployment rate (%) and employment expectations*

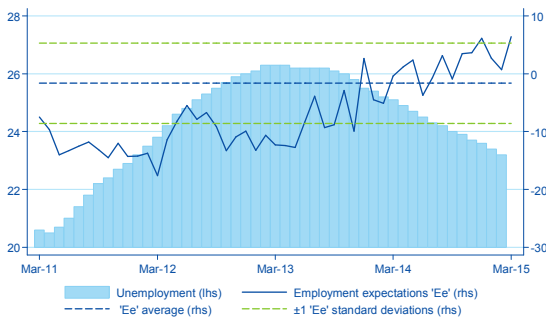
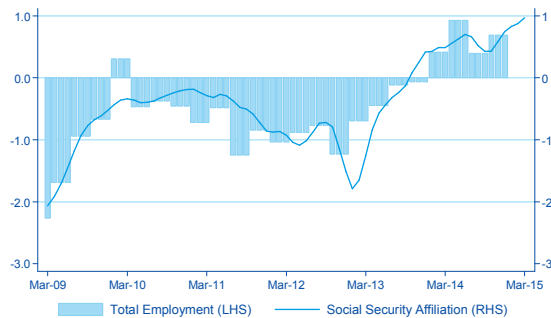


Figure 58
Employment growth: new workers and social security contributors (% QoQ)*



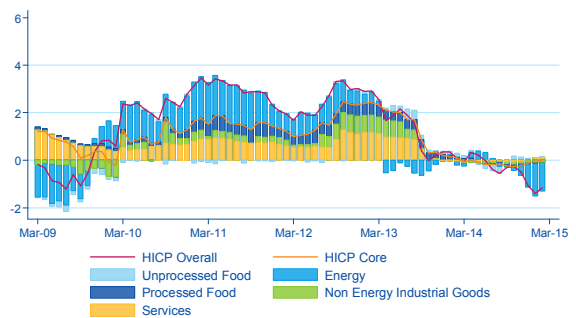
Prices: the fall in prices continued to taper in March

Headline inflation moderated its rate of fall by 0.4pp, posting at -0.7% YoY en March. Meanwhile, core inflation remained stable at 0.2% YoY.

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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