

## MACROECONOMIC ANALYSIS

## Eurozone: the pace of growth consolidates in the second quarter

Europe Unit

**In recent months, the confidence indicators have continued to improve, supported by good activity data. The pace of growth in private consumption is moderating slightly after performing well since mid-2014, while exports appear to be recovering after a weak start to the year, possibly as a reflection of euro depreciation**

### Eurozone: in 2Q15 growth is supported by both internal and external factors

- So far in the second quarter, the confidence indicators confirm the economic recovery in the eurozone: both the European Commission's economic sentiment indicator (ESI) and the Markit PMI improved again, consistent with a moderate acceleration in activity in 2Q15 (Figures 3 and 4). Both surveys signal a stronger performance in the services sector, and above all, in consumer confidence, which is now at pre-crisis levels.
- These signals are reflected in the increase in retail sales, although they are growing more slowly than in 1Q15 (Figure 6), and in new car registrations. Industrial production is also improving vs. the 1Q15 average, although more moderately, supported by the increase in manufacturing orders, especially external ones, which in March and April was reflected in strong goods exports (Figure 8), after a weak start to 2015.
- Based on the information available to date (actual data only for April), the short-term MICA-BBVA model estimates quarterly GDP growth of 0.4/0.5% QoQ in 2Q15 (Figure 2), in line with our baseline scenario of 1.6% for 2015 as a whole.
- The labour market indicators continue their slow improvement. The unemployment rate continues its gradual downward path and in April stood at 11.1% (Figure 9), while employment improved slightly in 1Q15 (+0.1% QoQ, the same as in 4Q14). Nevertheless, the divergence between countries continues: while in Germany unemployment is still falling to all-time lows, in Italy there is a hint of a timid positive change of trend, and in France there is no sign of improvement.
- The uptick in inflation in May to 0.3% YoY (0.0% YoY in April) is due to not only a slower decline in energy prices and to the acceleration in prices of fresh foods, as in previous months, but also to rising prices of non-energy industrial goods and services, which raised core inflation by 0.2pp to 0.9% YoY (Figures 11 and 12).

## Germany: rising exports indicate that the deceleration in 1Q15 could have been transitory

- In 1Q15, the growth in private consumption remained healthy (0.6% QoQ) (Figure 13), thanks to the high levels of consumer confidence, and together with the improvement in investment (1.5% QoQ), compensated for the negative contribution from net external demand (-0.2pp). This was due to stronger growth in imports, to satisfy the increase in private spending, than in exports, where there was a moderation in the pace of quarterly improvement
- In the quarter to date, the national confidence indicators and PMIs fell slightly, reflecting a moderation in the activity data, with retail sales increasing by 0.7% above the 1Q15 average in April (vs. 1.6% QoQ) and industrial production, which for the moment is improving 0.6% vs. the previous quarter (Figures 17 and 18), when it increased at a similar rate.
- However, there was a notable improvement in exports in April, after an already solid increase in March, as suggested by the intensification of industrial orders received from abroad. As a result of all this, we are now expecting growth of 0.5% QoQ this quarter, accelerating from the 0.3% QoQ of 1Q15.

## France: more moderate growth in 2Q15, after the 0.6% of 1Q15

- The acceleration in GDP growth in 1Q15 was principally due to the accumulation of inventories (this is likely to be switched to other demand components in future revisions), to a stronger increase in private consumption (0.8% QoQ) and a smaller contraction in investment (Figure 25), while net exports made a negative contribution of 0.5pp.
- The confidence indicators are giving mixed signals in 2Q15: the PMIs and the EC's ESI point to a more optimistic outlook, in particular in the services sector and in household confidence, which is reflected in the good retail sales data, which grew 0.3% vs. the 1Q15 average. In contrast, the manufacturing confidence indicator continued to show signs of weakness, and industrial production fell with respect to the previous quarter.
- On the other hand, the external sector has started the second quarter with a strong improvement in exports of goods, after stagnating in 1Q15 (Figure 32), as in other countries in the region. Altogether, we expect growth to be slightly more moderate in 2Q15 (0.3% QoQ), after the upside surprise at the beginning of the year (+0.6% QoQ in 1Q15, after having remained practically flat in the previous quarters).

## Italy: the recovery continues, but slowly

- GDP growth in 1Q15 (+0.3% QoQ), after the stagnation at the end of 2014, was the result of the solid increase in investment and the positive contribution from inventories (+0.5pp). Meanwhile, the considerable increase in imports, together with sluggish exports, resulted in net external demand draining 0.4pp from growth (Figure 37).
- In the second quarter to date, the confidence indicators continue to improve, after the significant increase observed in 1Q15 and the first signs of an improvement in the labour market continue to drive household confidence.
- The first actual available data are limited (industrial production and exports for April), and continue to paint a moderately optimistic scenario (Figure 41), while export orders could be indicating that the external sector will support the recovery again in the coming months. Altogether, our models point to growth of 0.3% QoQ in the second quarter as well.

## Spain: growth gains traction again in 2Q15

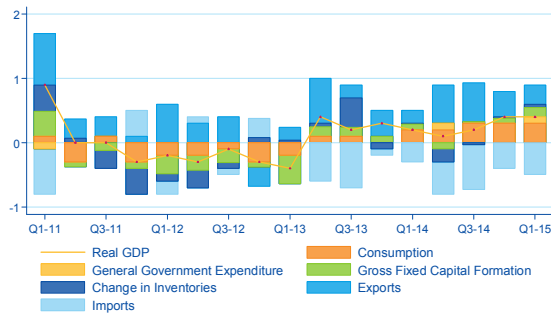
- The first quarter was characterised by the generalised growth in internal demand. Note the increase in private consumption (0.7% QoQ) and the investment in machinery and equipment (1.3% QoQ), and that public demand surprised to the upside, jumping 1.6% QoQ. There were mixed signals from external demand: the unprecedented recovery in non-tourism services exports was offset by declines in both exports of goods and in non-resident consumption.
- As regards the second quarter, the information available suggests that the components of growth could be slightly better balanced. On the private domestic demand side, we anticipate continuing robust growth: the consumer spending and household expectations indicators are signalling that private consumption could start to increase substantially in 2Q15, and the performance of confidence and industrial production point to an expansion of the investment in machinery and equipment, although slightly less than in 1Q15 (Figures 53 and 54). As regards external demand, exports could post a timid expansion, on the back of euro depreciation and the fall in the oil price.
- The variables observed to date indicate that the recovery in the economy continues, and that the pace of expansion is accelerating. The MICA-BBVA model estimates growth of 1.1% QoQ in the second quarter (Figure 50).

**Eurozone**

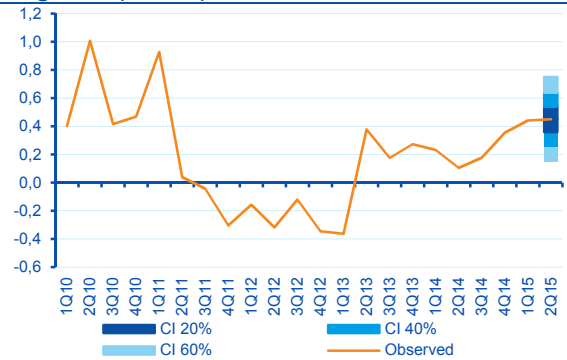
**National accounts: the growth rate is consolidating (0.4% QoQ in 1Q15)**

The economy grew by 0.4% QoQ in 1Q15, after 0.4% QoQ in 4Q14. Domestic demand accounted for 0.6pp, driven by growth in both private (0.5% QoQ) and public (0.6% QoQ) consumption, and investment (0.8% QoQ). Imports rose by 1.2% QoQ, and exports were up by 0.6% QoQ, which amounted to a negative contribution from net exports of 0.2pp.

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



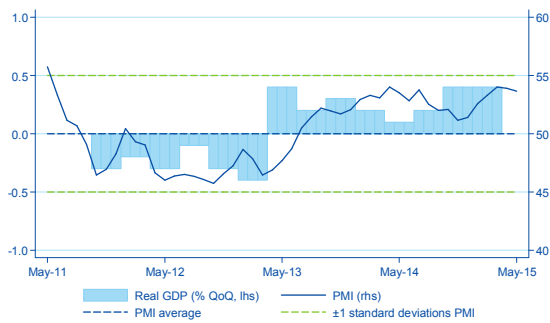
**Figure 2**  
**GDP growth (% QoQ) and MICA-BBVA model estimate\***



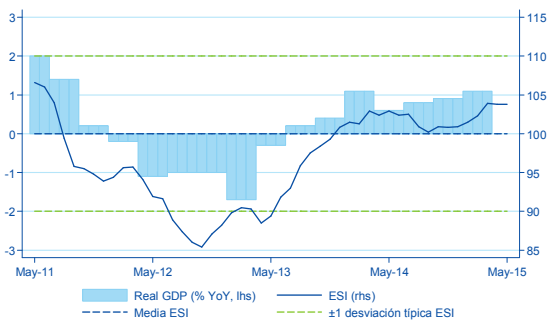
**Confidence: the PMIs and the ESI remain in keeping with stable growth**

After a weak 4Q14, the PMIs rose in 1Q15, especially with respect to the services sector, and they stayed virtually stable until May, as did the ESI index, breaking off from their ascending pattern, although they are still at high levels.

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



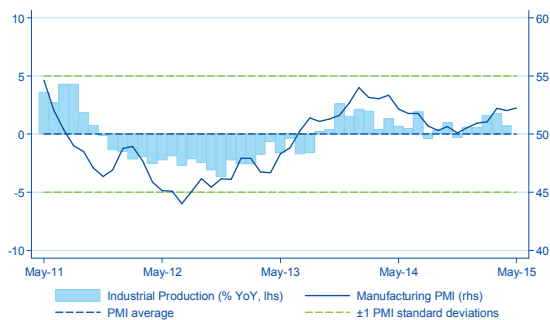
**Figure 4**  
**Confidence (ESI) and GDP growth (% YoY) \*\***



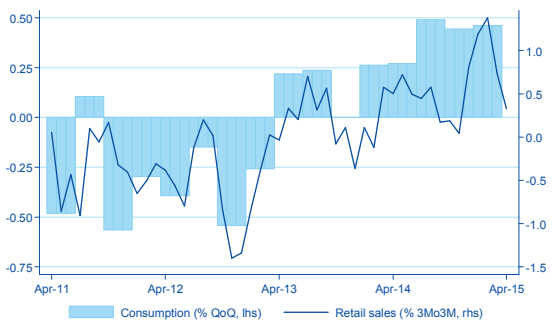
**Activity: growth in retail sales and industrial production has slowed down**

With the April figure (0.1% MoM), the industrial production index is showing an improvement (+0.2%) compared with the average for 1Q15, while retail sales rose by 0.7% MoM in April and 0.2% relative to 1Q15.

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



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

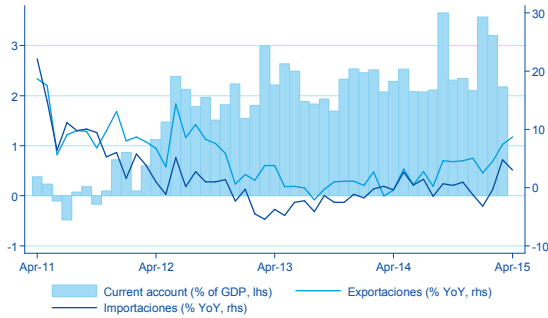


\*Source: HAVER and BBVA Research

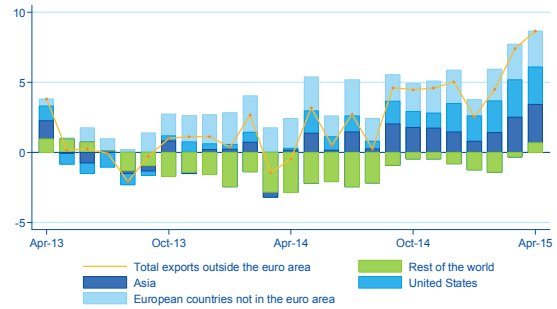
**External sector: exports moved ahead again in April**

Exports rose in April (1.1% MoM), and were above the 1Q15 average (+3.3% after +1.2% QoQ). Imports fell in April, but were 1.7% over the 1Q15 level.

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



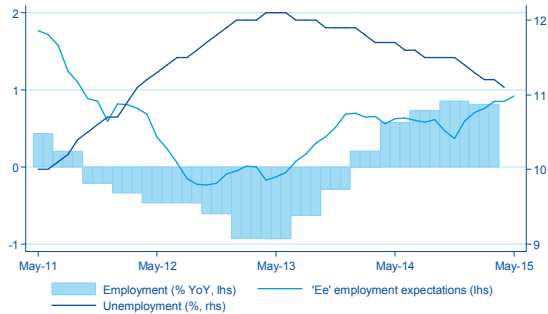
**Figure 8**  
**Exports by destination (contribution to % YoY)**



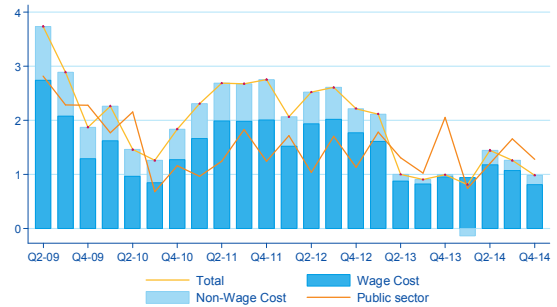
**Labour market: April unemployment was down by 0.1pp to 11.1%**

The unemployment rate eased by 0.1pp to 11.1% in April, although there were major differences among countries. Business sector labour costs rose 2.2% YoY in 1Q15.

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



**Figure 10**  
**Business sector labour costs (% a/a)\***



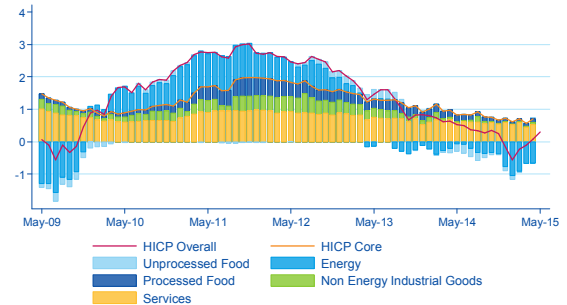
**Prices: core inflation picked up in May**

The YoY inflation rate was 0.3% in May, above all due to the acceleration of core inflation from 0.7% to 0.9%.

**Figure 11**  
**The inflation rate: headline and core (% YoY)\***



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



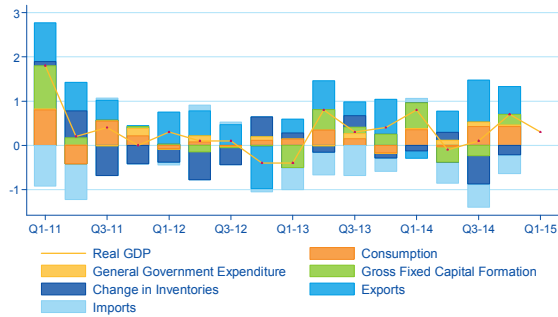
\* Sources: HAVER and BBVA Research

**Germany**

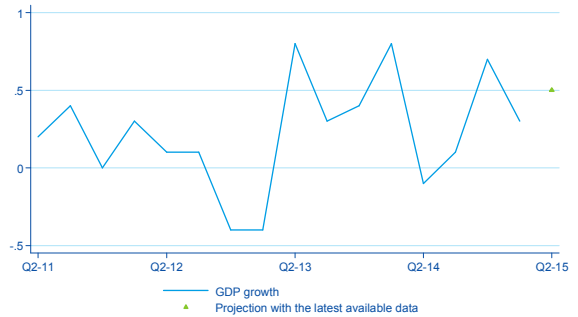
**National accounts: GDP growth decelerated in 1Q15 (0.3% QoQ)**

Domestic demand contributed +0.5pp to this growth vs. +1.0pp in 4Q14, reflecting the increase in investment (+1.5% QoQ vs. +0.8% QoQ) and the evolution of public consumption. Meanwhile, private consumption continued to post a solid growth rate. External demand once again made a negative contribution to growth in 1Q15, but less than in 4Q14.

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



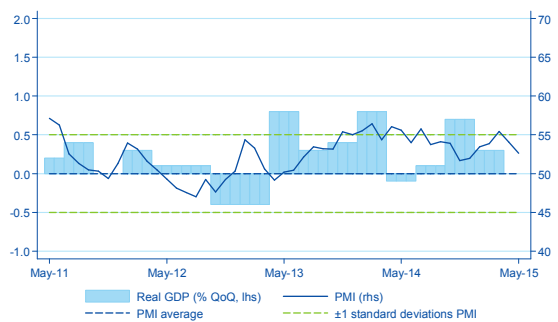
**Figure 14**  
**GDP (% QoQ) and forecasts\***



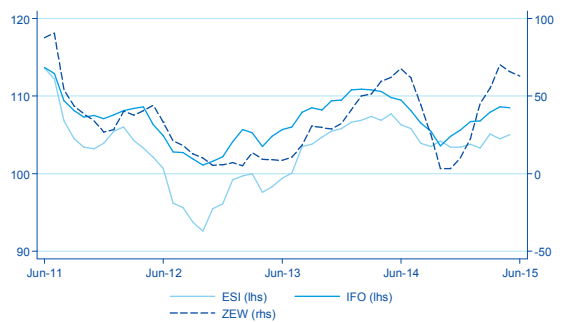
**Confidence: PMIs and domestic indicators deteriorated in May**

In 2Q15, the composite PMI fell, reversing the positive trend seen in 1Q15; the domestic indicators (Ifo and ZEW) signalled worse outlooks, both present and future, while the EC's ESI has stabilised at high levels.

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



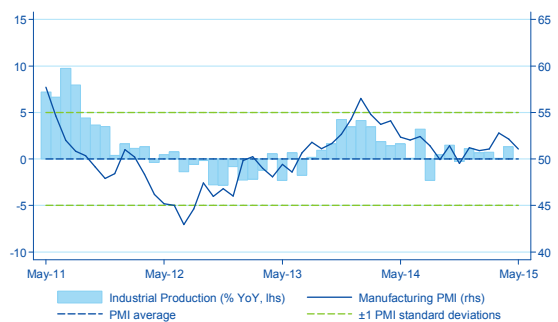
**Figure 16**  
**Confidence indicators (ESI, Ifo and ZEW)\***



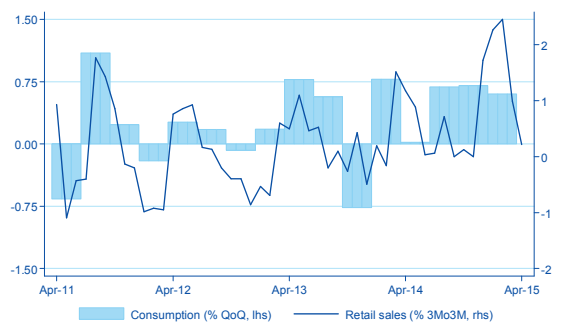
**Activity: improvement in industrial production and retail sales**

Industrial production improved by 0.9% MoM in April (+0.6% vs. 1Q15), especially thanks to the construction sector and the production of capital goods, and retail sales recovered by 1.7% MoM and increased vs. 1Q15 (0.7%).

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



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



\*Sources: HAVER and BBVA Research

**External sector: sharp improvement in exports in April**

Exports grew 1.9% MoM in April, an improvement of +3.3% in the quarter to date vs. 1Q15). Imports surprised, falling by 1.3% MoM. Even so, they increased by 0.8% compared to the previous quarter.

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

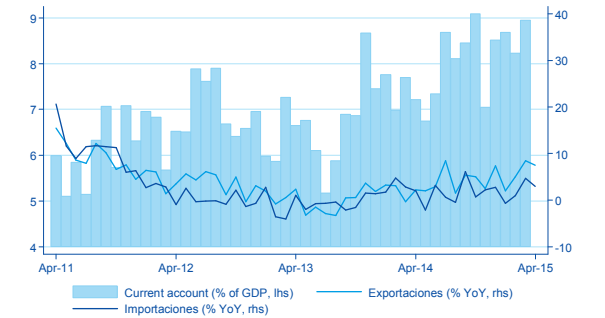
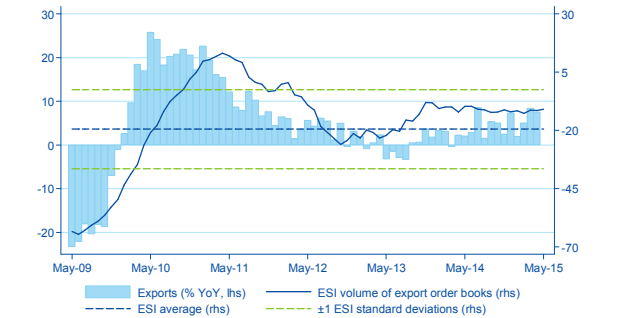


Figure 20  
**Export growth (% YoY) and volume of export orders\***



**Labour market: unemployment rate remains at all-time lows**

The unemployment rate remained at an all-time low (4.7%) in April, while the rise in labour costs accelerated to 3.2% YoY in 1Q15 vs. 2.1% YoY in 4Q14.

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

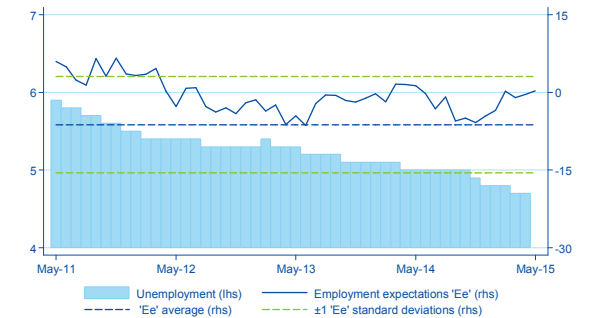
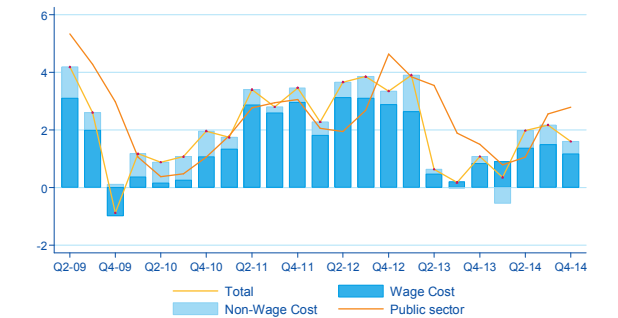


Figure 22  
**Labour costs in the corporate sector (% YoY)\***



**Prices: the harmonised inflation rate reached 0.7% YoY in May**

Harmonised inflation rose by 0.4pp in May to 0.7% YoY. This is principally explained by the moderation in the decline in energy prices and by higher food and services prices.

Figure 23  
**Headline, core inflation, and expectations (% YoY)\***

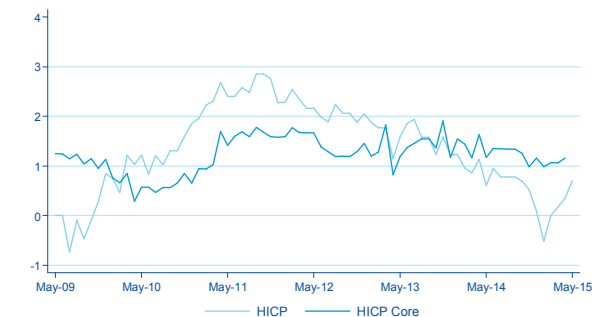
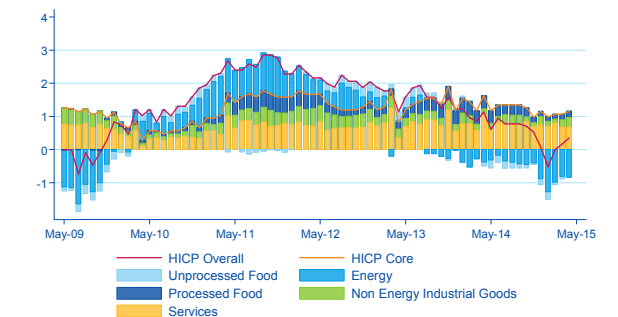


Figure 24  
**Inflation by components (% contribution)\***



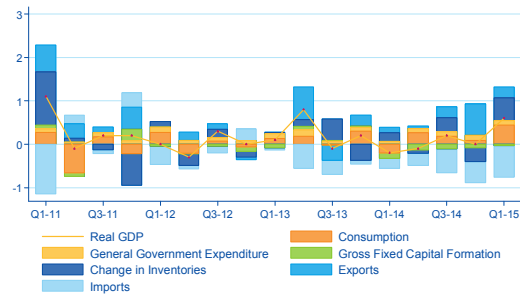
\* Sources: HAVER and BBVA Research

**France**

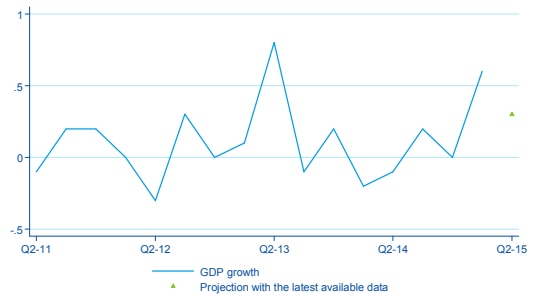
**National accounts: GDP growth above expectations in 1Q15 (0.6% QoQ)**

There was a notable increase in private consumption (0.8% QoQ), while investment continued to contract (-0.2% QoQ). Exports improved less than in 4Q14 (0.9% QoQ), vs. an acceleration in imports (2.3% QoQ), resulting in a negative contribution from net external demand (-0.5pp). Inventories contributed 0.5pp.

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



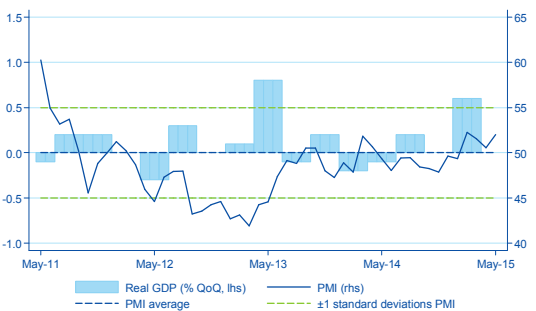
**Figure 26**  
**GDP (% QoQ) and forecasts\***



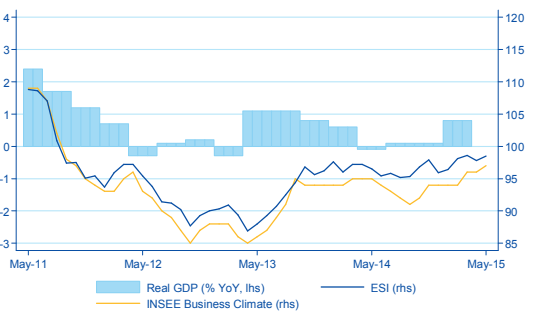
**Confidence: the May data show renewed, albeit moderate, optimism**

The composite PMI and the domestic indicators reflect an improvement in confidence in May after months of stagnation. The CE's confidence indicator also improved in May. The breakdown of the PMI reveals above all the weakness of the industrial sector.

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



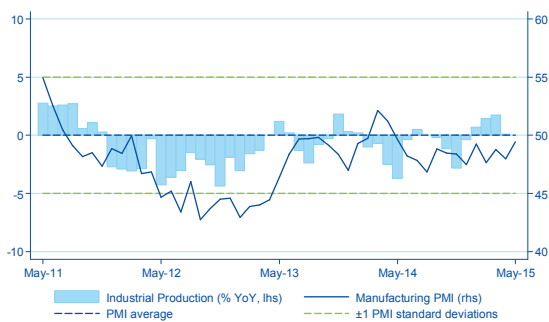
**Figure 28**  
**Confidence indicators (ESI and INSEE)\***



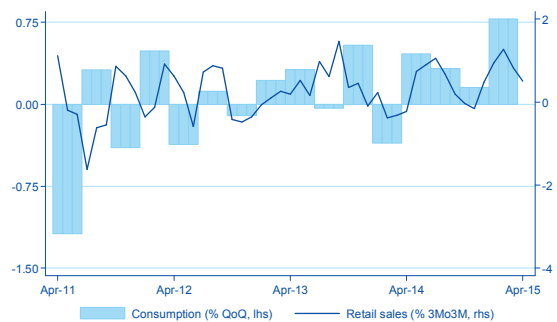
**Activity: improvement in retail sales and a contraction in industrial production in April**

Industrial production (-0.9% MoM in April) moderated 0.7% vs. the 1Q15 average. In contrast, retail sales (0.5% MoM in April), grew 0.3% vs. 1Q15.

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



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



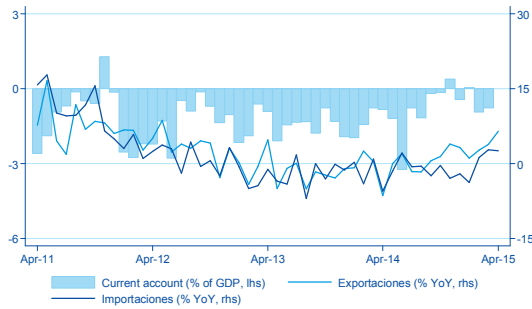
\*Sources: HAVER and BBVA Research



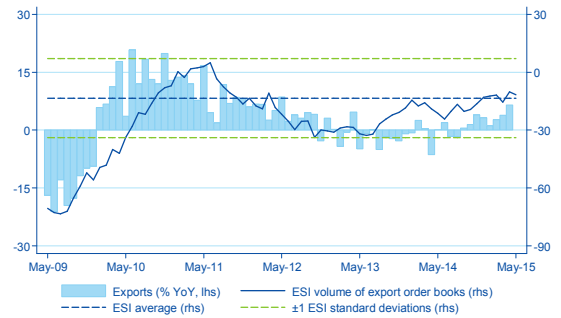
**External sector: export growth continued in April**

Export growth continued in April, more strongly than in March (1.4% MoM; +2.5% above the 1Q15 average). Meanwhile, imports fell 2.1% MoM to 0.3% above the 1Q15 level

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



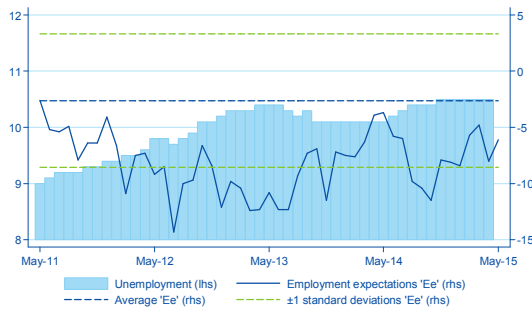
**Figure 32**  
**Export growth (% YoY) and volume of export orders\***



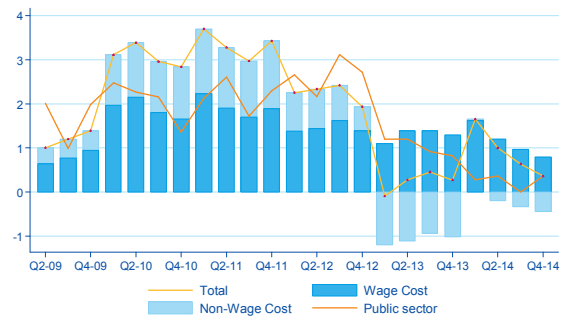
**Labour market: deterioration in recent months**

The unemployment has been rising slowly since last summer, and reached 10.5% in April. Meanwhile, labour costs have increased 1.6% YoY in 1Q15 vs. 0.4% in 4T14.

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



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



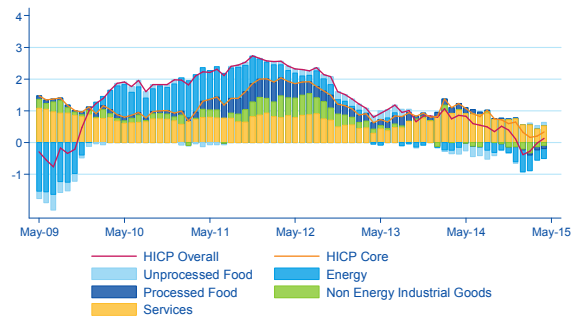
**Prices: inflation accelerated two percentage points to +0.3% YoY in May**

The harmonised inflation rate rose two percentage points in May to 0.3% YoY. Core inflation reached +0.6% YoY in May (April: +0.4% YoY), fundamentally due to the increase in services prices

**Figure 35**  
**Headline, core inflation and expectations (% YoY)\***



**Figure 36**  
**Inflation by components (contribution in %)\***



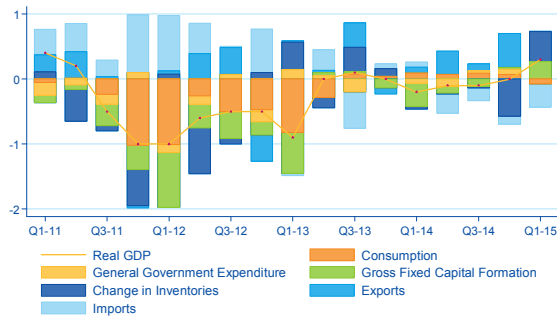
\* Sources: HAVER and BBVA Research

**Italy**

**National accounts: GDP returned to growth in 1Q15 (0.3% QoQ, 0.0% QoQ in 4Q14)**

Domestic demand contributed 0.7pp to growth (0.5pp from inventories), principally thanks to the positive evolution of investment (1.5% vs. 0.2% QoQ). Meanwhile, private consumption contracted -0.1% QoQ. Internal demand made a negative contribution to growth of 0.4pp, as exports remained unchanged vs. 4Q14, while imports increased by 1.4% QoQ.

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



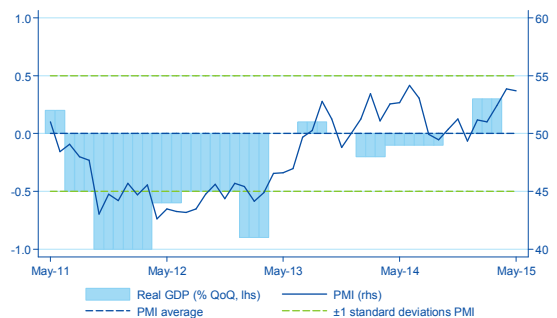
**Figure 38**  
**GDP (% QoQ) and forecasts\***



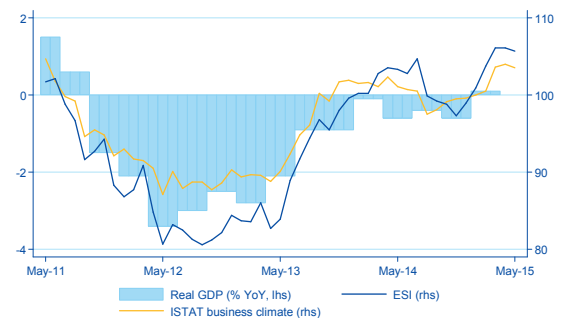
**Confidence: a slight improvement in the confidence indicators in May**

Composite PMI, ISTAT indicators and the ESI all remained at high levels in May, in spite of the slight moderation in all their components.

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



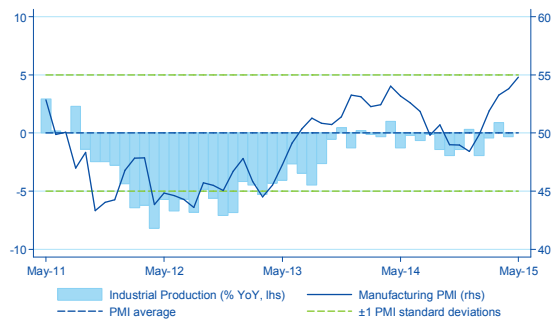
**Figure 40**  
**Confidence indicator (ESI, and ISTAT)\***



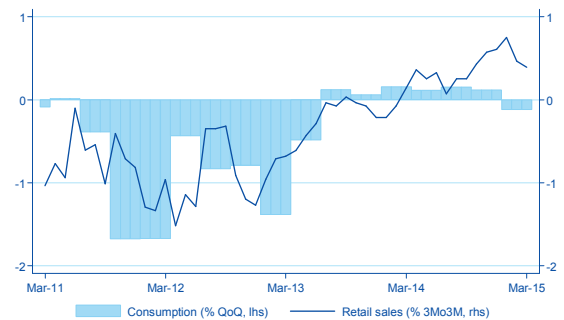
**Activity: a timid improvement in the industrial sector**

Industrial production fell 0.3% MoM in April, but nonetheless remained 0.2% above the 1Q15 average, when it increased 0.4% QoQ. Retail sales data are not yet available, but they could have taken off as a consequence of an improvement in household confidence.

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



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



\*Sources: HAVER and BBVA Research

**External sector: exports rose vs. 1Q15, despite the fall in April**

Exports fell 0.8% MoM in April, but increased by 1.2% vs. the 1Q15 average. Imports remained unchanged in April (3% vs. the 1Q15 average).

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

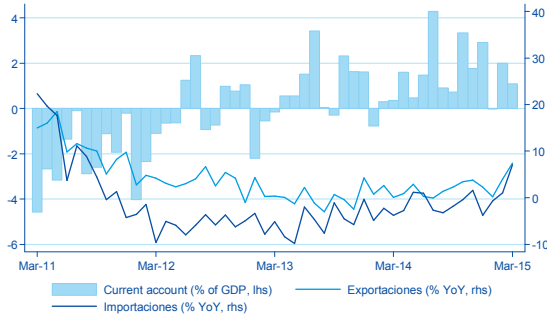
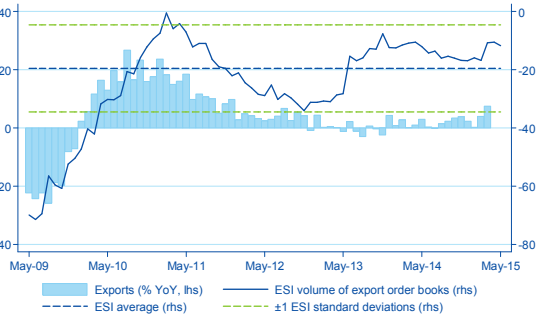


Figure 44  
**Export growth (% YoY) and volume of export orders\***



**Labour market: unemployment moderated and labour costs increased**

The unemployment rate fell two percentage points in April (to 12.4%), and is slightly below the rate printed a year ago. Labour costs increased by 1.1 YoY in 1Q15 (vs. -0.2% YoY in 4Q14).

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

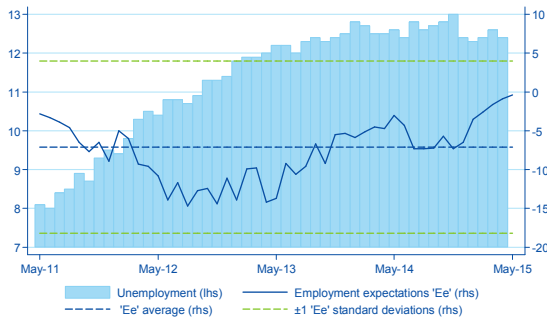
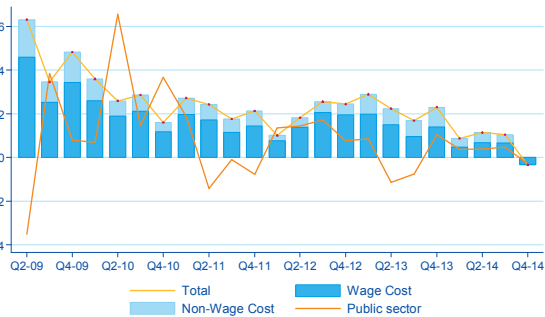


Figure 46  
**Labour costs in the corporate sector (% YoY)\***



**Prices: both headline and core inflation increased in May**

The harmonised inflation rate increased by 0.2% YoY in May (-0.1% YoY in April), thanks to a slowdown in the rate of decline in energy prices and an acceleration in services. Core inflation increased to +0.7% YoY vs. +0.4% YoY in April.

Figure 47  
**Headline, core inflation, and expectations (% YoY)\***

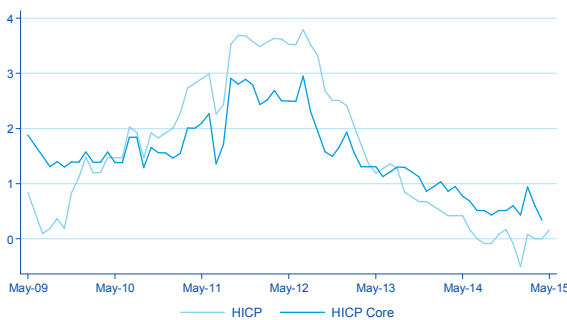
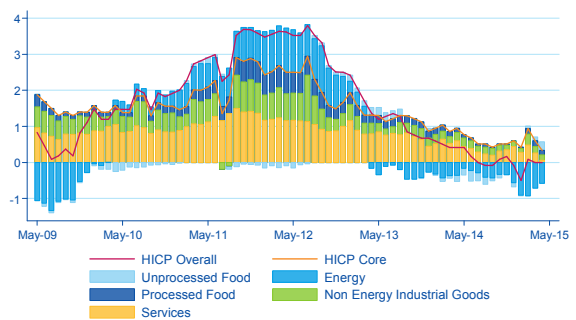


Figure 48  
**Inflation by components (contribution in %)\***



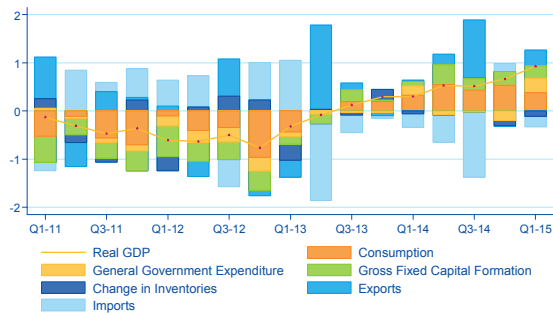
\* Sources: HAVER and BBVA Research

**Spain**

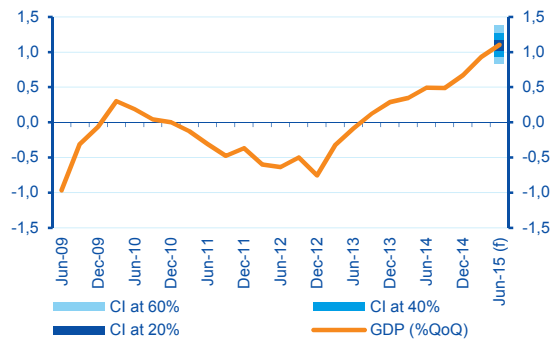
**National accounts: GDP growth accelerates**

In 1Q15 there were solid advances in both household consumption (0.7% QoQ) and machinery and equipment (1.3% QoQ). Exports grew (1.0% QoQ) and there was a more moderate improvement in imports (0.8% QoQ). For 2Q15, the MICA-BBVA model indicates a further quarterly acceleration.

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



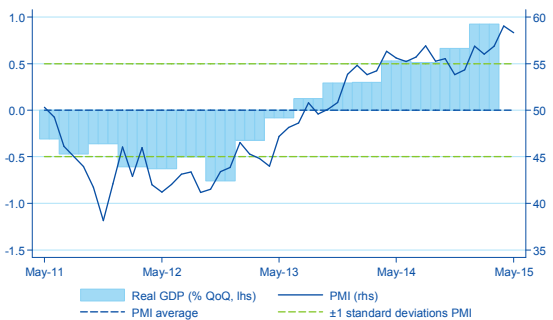
**Figure 50**  
**GDP growth (% QoQ) and MICA-BBVA forecast\***



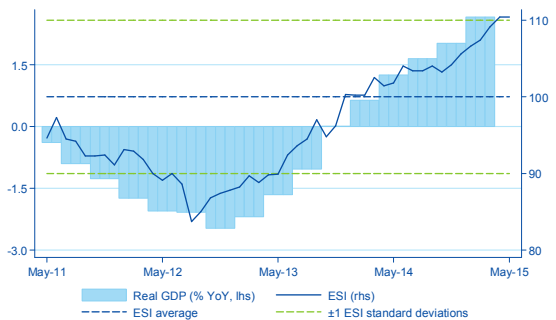
**Confidence: the indicators have stabilised at high levels**

The economic agents remained optimistic in 2Q15: both consumer confidence and industrial confidence remain above their pre-crisis levels.

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



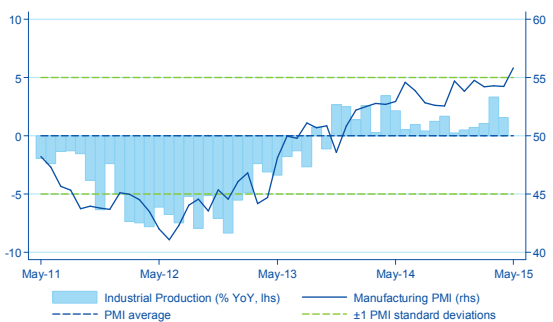
**Figure 52**  
**Confidence (ESI) and GDP growth (% YoY) \***



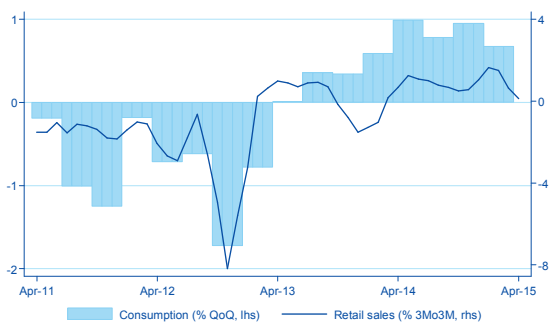
**Activity: an improvement at the beginning of 2Q15**

Industrial activity fell marginally in April (-0.1% MoM) and improved by 0.9% over the 1Q15 average, while retail sales grew by 0.7% MoM and by 0.8% vs. 1Q15

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



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

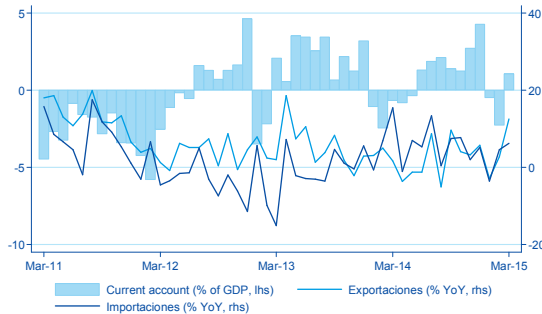


\*Sources: HAVER and BBVA Research

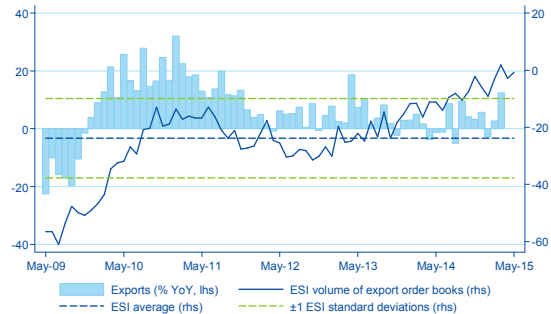
**External sector: exports decelerated in April**

Exports of goods registered a marginal decline of 0.1% MoM after two months of increases. Meanwhile, import volumes increased by 0.7% MoM in April (vs. -0.4% MoM in March).

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



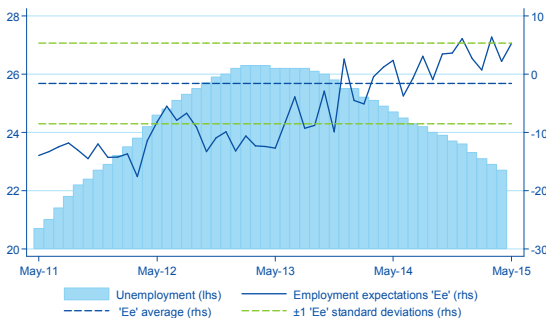
**Figure 56**  
**Export growth (% YoY) and volume of export orders\***



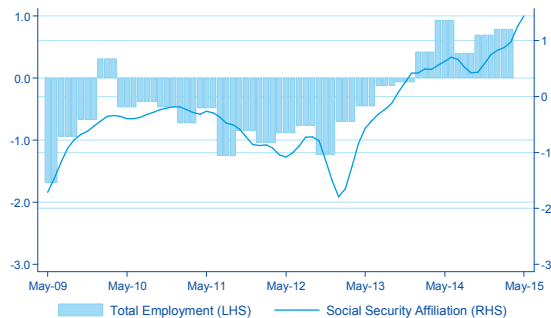
**Labour market: labour figures continue to indicate a notable improvement**

Social Security affiliation increased substantially in May, reflected in the twenty-second consecutive month of job-creation. In line with this, unemployment dropped sharply again.

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



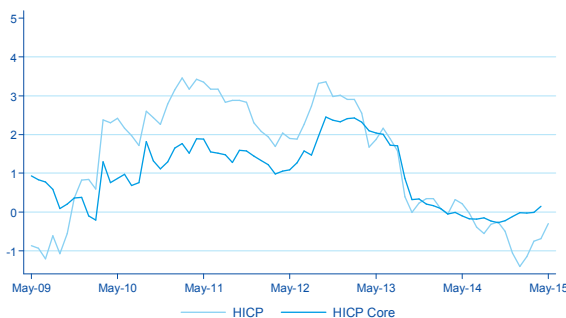
**Figure 58**  
**Employment growth: N.A. and Social Security affiliation (% QoQ)\***



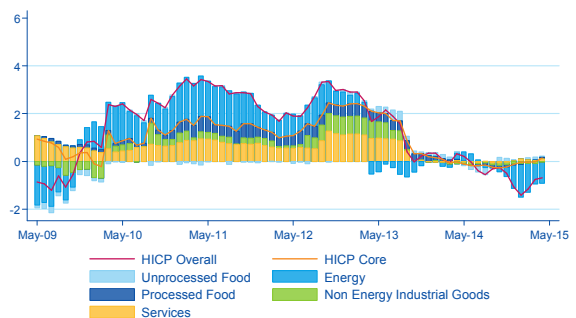
**Prices: core inflation explains half the improvement in the headline rate in May**

The fall in general prices moderated by 0.4pp in May to -0.2% YoY. Core inflation, meanwhile, rose slightly again by 0.2pp to 0.5% YoY.

**Figure 59**  
**Headline, core inflation, and expectations (% YoY)\***



**Figure 60**  
**Inflation by components (contribution in %)\***



\* Sources: HAVER and BBVA Research

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