

MACROECONOMIC ANALYSIS

Euro area: growth stabilizes despite global uncertainties

Europe Unit

After the upward revision of growth in 1H15, the latest data suggest that the recovery continues at a relatively strong and steady pace, with good confidence and domestic demand indicators, although there are certain doubts over exports in the third quarter that are associated with the risks arising from the emerging economies

Euro area: upward revision of growth in the first half of the year and positive confidence indicators in 3Q15

- The figures from the National Accounts showed that GDP grew by 0.4% QoQ in 2Q15 after 0.5% QoQ in 1Q15, which is 0.1pp more for both quarters than was initially published, shored up by the soundness of private consumption and something of a recovery for exports, while the growth rate for imports eased up. The latter could be associated with the poorer performance by investment, which contracted slightly and fuels doubts over whether the recovery can gain traction over the rest of the year.
- So far in the third quarter, the confidence indicators have confirmed that the euro area's economy is in a recovery phase, since both the European Commission's Economic Sentiment Indicator (ESI) and Markit's PMI index rose slightly, which is consistent with stabilisation of the activity growth rate in 3Q15 (Figures 3 and 4). Both surveys reflect the bigger boost from the services sector, while consumer confidence is losing steam after surging ahead since early on in the year, which shows the strength of domestic fundamentals. Moreover, this has made up for a marginal deterioration of industrial sector confidence, although for the time being it does not appear that doubts over China's economy and those of the emerging economies are putting much pressure on expectations for production in the next few quarters.

Somewhat weaker real indicators in July than in the second quarter

- These signs are partly echoed in the performance of real activity indicators. Retail sales rose in July, although they did so at a slower pace than in 2Q15 (Figure 6). Industrial production is also improving with respect to the average for the second quarter, when it held stable, despite the stagnation displayed by manufacturing orders, especially from outside. This was reflected in a dip in goods exports in July, which was a reversal of the improvement in June and they held at virtually the levels of 2Q15, when they rose significantly (2.7% QoQ, see Figure 8). By country, the progress made by exports was considerably uneven, with a notable increase in Germany and a more modest rise in Italy, Spain and the Netherlands, which contrasts with the heavy fall recorded in France and certain countries in northern Europe.
- Labour market indicators continue to make steady improvement. Employment rose 0.3% QoQ in 2Q15, which is a bit above the average for last year (+0.2% QoQ), while the unemployment rate stuck to its course of coming down gradually and was 10.9% in July (Figure 9). Even so, the theme of disparity among countries continues, and whereas unemployment in Germany is still dropping to historical lows, in Italy what could be a timid positive change of trend is emerging, while in France there are still no signs of any improvement on the horizon.

The MICA model indicates growth of 0.4% QoQ in the third quarter

- Based on the information available up to now (real figures only for July), the short-term MICA-BBVA model estimates quarterly GDP growth of around 0.4% QoQ in 3Q15 (Figure 2). Given that the National Accounts revision shows growth that is somewhat higher than was initially published in 1H15 (0.1pp in both quarters), we continue to forecast growth of 1.5% for 2015 as a whole, although now the recovery could stabilise at current levels (0.4% QoQ in 2Q15), in contrast to our previous prediction of an acceleration in the second half, and this also increases the downside risks with regard to our growth forecast of 1.9% for 2016.

Headline inflation has also come down again, due to the dive taken by the oil price, while core has held stable

- Inflation dropped in August by 0.1pp to 0.1% YoY, essentially because of another fall in energy prices, which failed to be offset by the rebound in non-processed food inflation. Core inflation held steady at 0.9% YoY after rising gently over the past few months with the revival of domestic demand and the euro's depreciation over the past year (Figures 11 and 12). Although inflation generally, and more especially its core component, has performed in line with forecasts, we now expect the oil price to stand at about USD50/bbl at the end of 2015, USD60/bbl in 2016 and USD67/bbl in 2017 (slightly over 12% lower than three months ago), for which reason we cannot rule out inflation being mildly negative in the next two months. Whatever the case, we now expect a smaller rise in inflation owing to a base effect regarding end of year energy prices (after the dive registered in 4Q14) to around 0.8% YoY. We are therefore revising our inflation forecasts downwards by about 0.2pp, for both 2015 and 2016, to 0.1% and 1.1% respectively. Despite this downward revision, which is basically on the adjustment to the new oil price, we expect inflation to come back to a level approaching the ECB's target in the next two years.

Germany: more balanced growth in 3Q15

- Private consumption growth lost steam in 2Q15 (0.2% QoQ, Figure 13), in spite of the high level of consumer confidence, and investment decreased (-0.4% QoQ), while there was a hefty net contribution from external demand (+0.7pp). This was from an upturn in exports, which did not feel the slip in demand from the emerging economies, while quarterly import growth eased up.
- So far this quarter, national confidence indicators have dipped, which contrasts with the rise for the PMIs and the ESI. In July, activity figures mirrored a recovery in retail trade (0.8% above the average for 2Q15, when sales dropped by 0.4% QoQ) and industrial production has thus far risen 0.1% with respect to the previous quarter (Figures 17 and 18), when it climbed 0.5% QoQ.
- On the other hand, exports surged ahead in July, following the sound progress recorded in 2Q15, just as had been anticipated by the upturn in industrial orders received from abroad. As a result of this, growth expected for this quarter is 0.5% QoQ, gathering a little speed after 0.4% QoQ in 2Q15.

France: activity is not managing to get off the ground

- After growing by 0.7% QoQ in the first quarter, the standstill in activity in 2Q15 arose from a slowdown in both public and (especially) private consumption and the fall in investment (Figure 25), while net exports contributed positively (+0.3pp).
- Confidence indicators have deteriorated so far in 3Q15, with the PMIs showing the weakness of the manufacturing sector, which was echoed by the fall in industrial production in July, whereas, according to the Commission's ESI, the outlook is less optimistic in services and for households, which is reflected in the fact that retail sales have come off the pace.
- On the other hand, the external sector has begun the third quarter with a fall in goods exports after the strong growth recorded in 2Q15 (Figure 32), as with other countries in the euro area. Overall we expect growth to be modest in 3Q15 (0.3% QoQ), after the surprise on the high side early on in the year and the correction in the second quarter.

Italy: recovery continues

- GDP growth in 2Q15 (+0.3% QoQ), after +0.4% QoQ for the first quarter, was brought about by the increase in both private consumption and the positive contribution from inventories (+0.4pp), while the considerable rise in imports, which outstripped that of exports, caused net external demand to sap 0.2pp from growth (Figure 37).
- So far in the third quarter, confidence indexes are still showing improvements following the substantial rise observed in the first half of the year, especially in the services sector, while household confidence is falling back in spite of the initial signs of an improvement in the labour market.
- The first actual figures available are limited (July industrial production) and still paint a picture of cautious optimism (Figure 41), whereas export orders could be anticipating that the external sector will be helping recovery again in the coming months. All told, our models suggest growth of 0.3% QoQ as well in the third quarter of the year.

Spain: economic growth continues, although it is losing momentum in the third quarter

- The second quarter was marked by robust domestic demand growth. There was a notable advance in household consumption (1.0% QoQ) and above all in machinery and equipment investment, which surprised in a positive sense (3.5% QoQ).
- Looking at the third quarter, the available information indicates somewhat less vigorous growth for most of the demand components. On the side of private domestic demand, the partial short-run indicators confirm that household consumption and machinery and equipment investment could continue to lead the way for recovery in the short term, although at growth rates beneath those observed over the past six months (Figures 53 and 54). With respect to external demand, the expenditure and expectations variables show that exports are continuing to grow in general terms, although at a slower pace than in 2Q15.
- The trend for the variables observed up to now indicates that the Spanish economy is still growing in 3Q15, but more slowly than in the previous quarters, while the MICA-BBVA model estimates growth of 0.6% QoQ (Figure 50).

Euro area

National Accounts: GDP growth in 2Q15 of 0.4% QoQ

Domestic demand made a contribution of 0.1pp, from both private (0.4% QoQ) and public consumption (0.3% QoQ), and despite the drop in investment (0.5% QoQ). In the external sector, imports grew at a rate of 1.0% QoQ, but the larger rise in exports (1.6% QoQ) led to net exports contributing 0.3pp to growth.

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

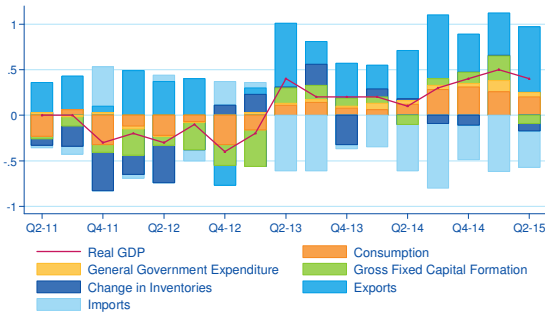
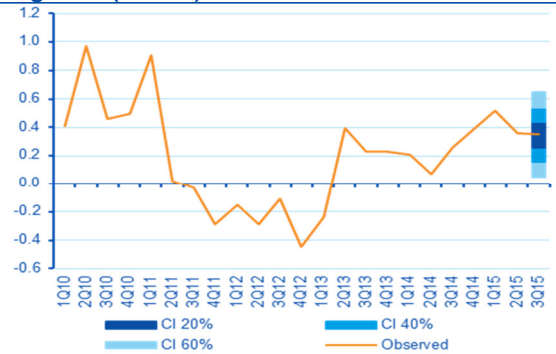


Figure 2
GDP growth (% QoQ) and MICA-BBVA estimate*



Confidence: the PMIs and the ESI continue their rising trend

The PMIs are still rising in 3Q15. This is especially true of services, as well as the ESI, which gave a reading of 104.2 points in August, thus outstripping the average for 2Q15 (103.7pt).

Figure 3
PMIs and GDP growth (% QoQ)*

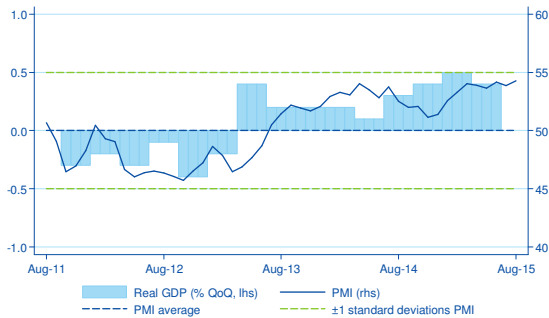
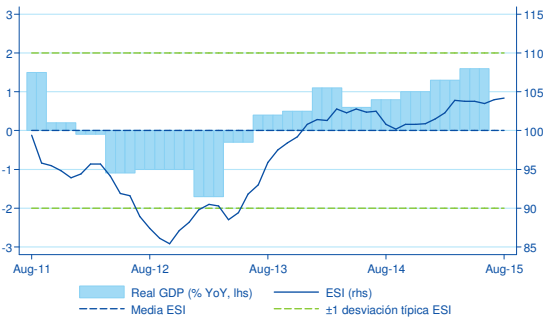


Figure 4
Confidence (ESI) and GDP growth (% YoY)**



Activity: retail sales and industrial production show marginal growth

With the figure for July (0.6% MoM), the industrial production index shows an improvement (+0.3%) compared to the average for 2Q15, while retail sales grew 0.3% MoM in July and 0.3% on 2Q15.

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

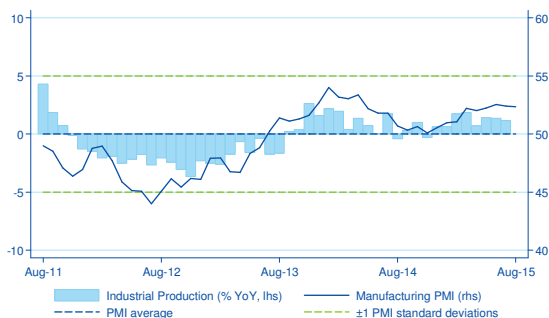
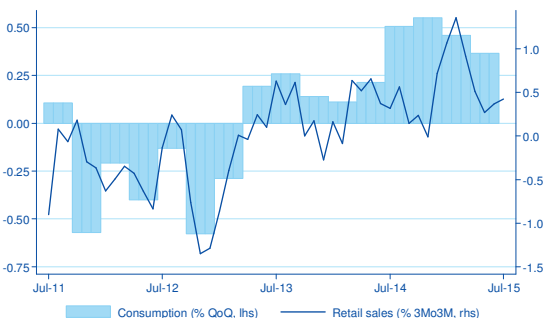


Figure 6
Retail trade (% 3M/3M) and consumption growth (% QoQ)*



*Source: HAVER and BBVA Research

External sector: a fall for exports in July after strong growth in 2Q15

After the rise in June, exports fell by 0.7% MoM in July and were 0.3% below the 2Q15 average. On the other hand, imports fell by 1.1% MoM in July and were 0.8% below the 2Q15 average.

Figure 7
Current account (% of GDP)*

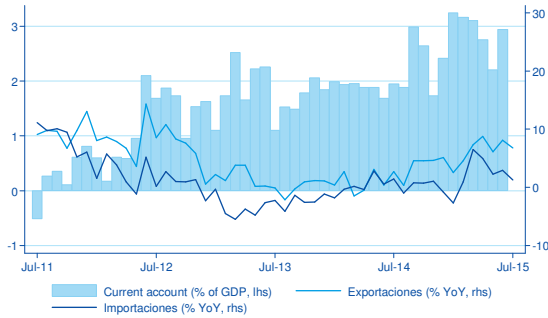
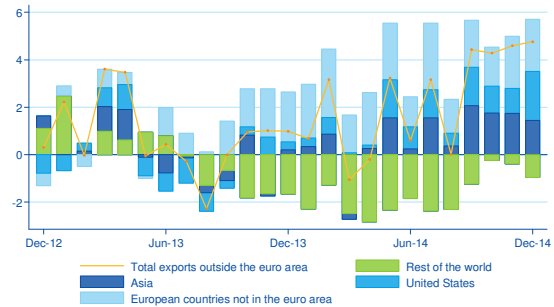


Figure 8
Exports by destination (contribution to % YoY)



Labour market: June unemployment came down by 0.2pp to 10.9%

The euro area unemployment rate fell to 10.9% in July (June: 11.1%), although there was some disparity among countries. Business sector labour costs moderated in 2Q15 (1.6% YoY after 1.9% YoY).

Figure 9
Unemployment rate (%) and employment expectations*

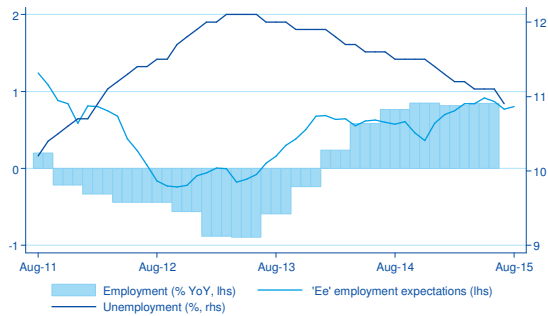
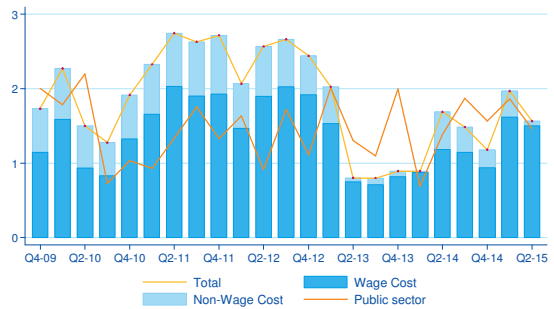


Figure 10
Labour costs in the business sector (% YoY)*



Prices: August headline inflation drops to 0.1% YoY again

August inflation slipped by 0.1pp to 0.1% YoY, basically on account of a new fall in energy prices which was not offset by the rally in non-processed food inflation. Core inflation remained stable at 0.9% YoY.

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

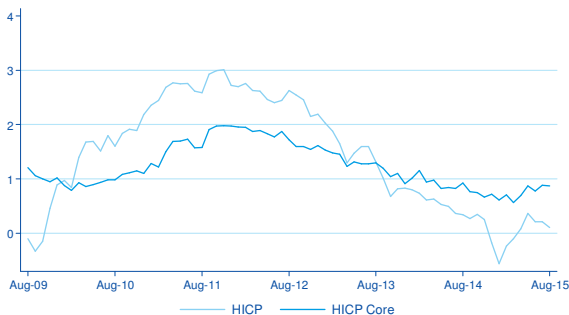
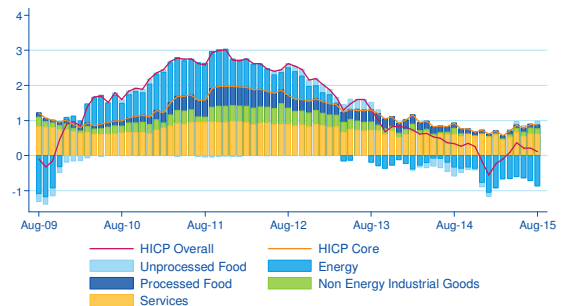


Figure 12
Inflation by component (contribution in %)*



* Sources: HAVER and BBVA Research

Germany

National Accounts: growth of 0.4% QoQ in 2Q15

Domestic demand made a negative contribution to growth in 1Q15 of 0.3pp, due to the decrease in both investment (-0.4% QoQ, after 1.7% QoQ) and the inventory trend. Private and public sector consumption, on the other hand, kept up a solid growth rate. External demand reversed its negative trend and made a contribution to growth in 2Q15 of 0.7pp.

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

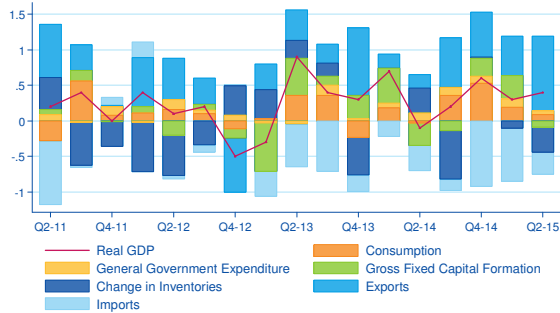
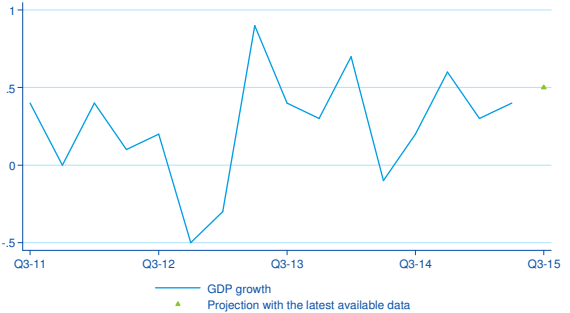


Figure 14
GDP (% QoQ) and forecasts*



Confidence: the PMIs improved in August and the ESI remains stable

In August the composite PMI rose in services and manufacturing; the domestic indicators (Ifo and ZEW) showed better current and future outlooks, while the ESI stabilised at the same levels as in the previous quarter.

Figure 15
PMI and GDP growth (% QoQ)*

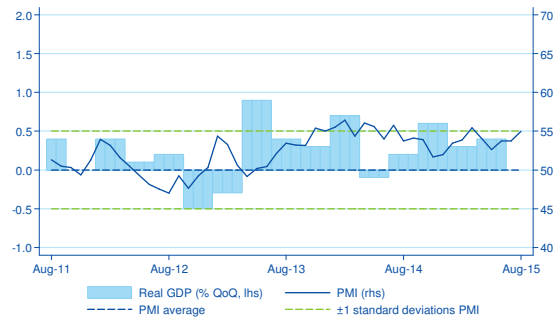
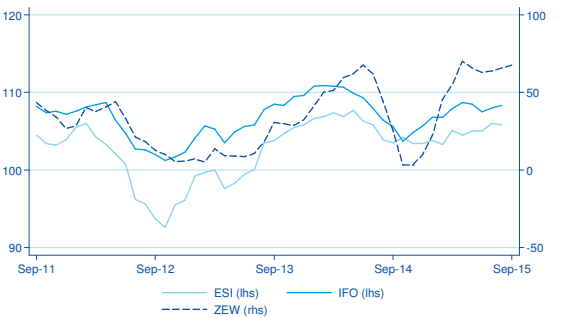


Figure 16
Confidence indicator (ESI, Ifo and ZEW)*



Activity: industrial production is on the upturn and retail sales rallied in July

Industrial production rose 0.7% MoM in July, and was 0.2% above the average for 2Q15. Retail sales recovered in July by 1.4% MoM and began 3Q15 at above (+0.8%) the average in 2Q15 (-0.4% QoQ).

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

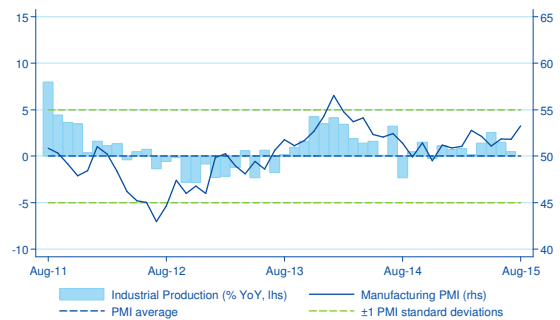
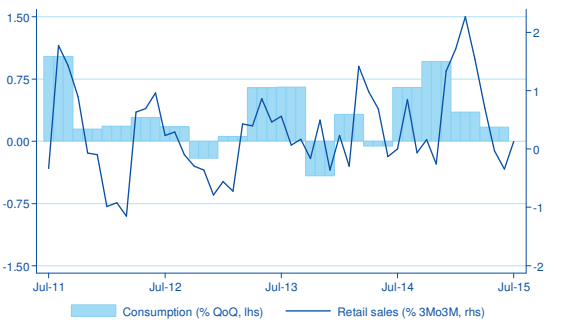


Figure 18
Retail trade (% 3M/3M) and consumption growth (% QoQ)*



*Sources: HAVER and BBVA Research

External sector: exports rose by 2.4% MoM in July

Exports grew by 2.4% MoM in July and were 2.2% above the average for 2Q15. On the other hand, imports rose 2.2% MoM in July and were 1.9% above the average for 2Q15.

Figure 19
Current account (% of GDP)*

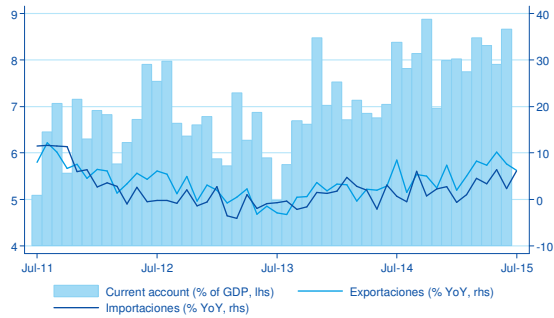
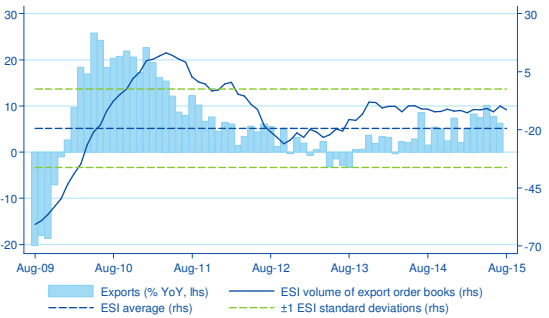


Figure 20
Export growth (% YoY) and export order vol.*



Labour market: the unemployment rate is still at a historical low

The unemployment rate stayed at its historical low (4.7%) for the fourth month in a row in July, while the labour cost growth accelerated to 3.1% YoY in 2Q15 after 2.8% YoY in 1Q15.

Figure 21
Unemployment rate (%) and employment expectations*

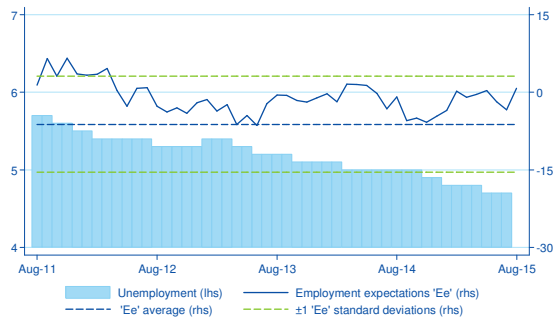
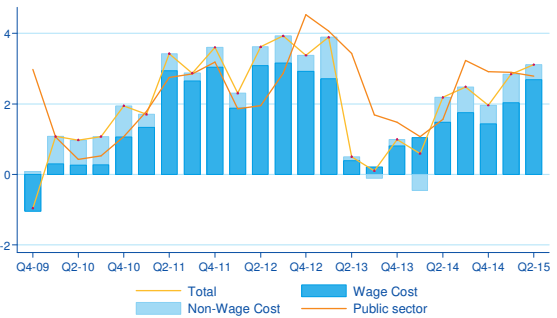


Figure 22
Business sector labour costs (% YoY)*



Prices: the harmonised inflation rate stood at 0.1% YoY in August

Inflation was stable at 0.1% YoY for the third month in succession in August. The national figure gave an inflation rate of 0.2% YoY (July: +0.2% YoY). Excluding energy, the inflation rate was higher in August: 1.1% YoY (July: 1.0% YoY).

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

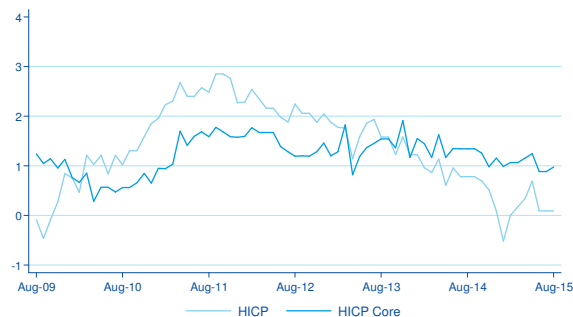
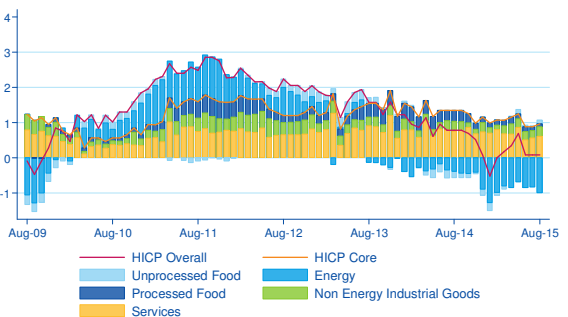


Figure 24
Inflation by component (contribution in %)*



* Sources: HAVER and BBVA Research

France

National Accounts: GDP stagnation in 2Q15 provided a negative surprise

A clear drop in domestic demand was observed, with a notable decrease in private consumption (0.1% QoQ), and a smaller one for public sector consumption (0.3% QoQ), while investment contracted again (-0.3% QoQ). Exports grew by more than in 1Q15, compared to a slowdown for imports, which led to a net contribution by external demand (0.3pp).

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

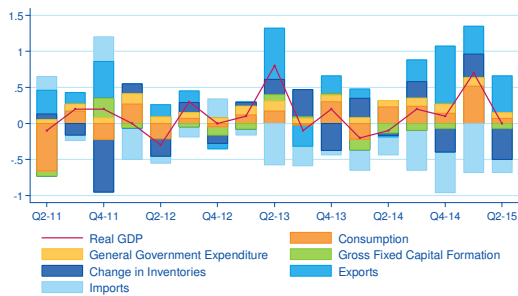
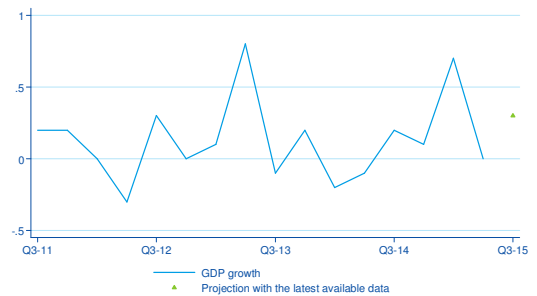


Figure 26
GDP (% QoQ) and forecasts*



Confidence: still deteriorating according to the August figures

The composite PMI showed a low reading (50.2) and the domestic indicators suggested a stabilisation of confidence, while the ESI improved. The breakdown for the PMI reveals the weakness of manufacturing and stagnation in services.

Figure 27
PMIs and GDP growth (% QoQ)*

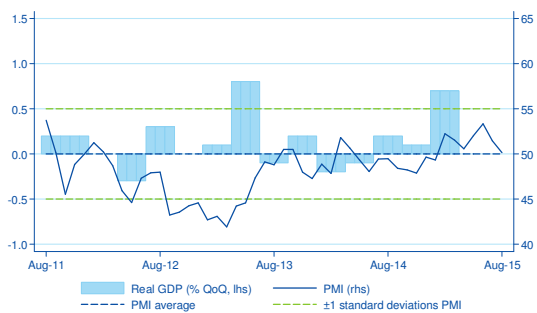
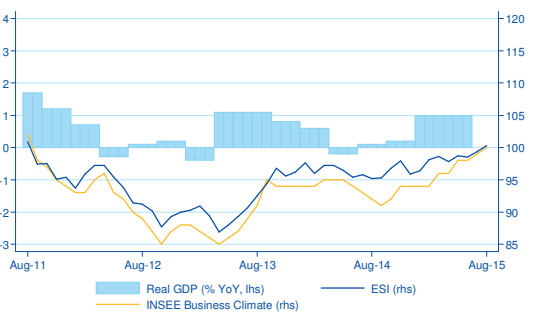


Figure 28
Confidence indicator (ESI and INSEE)*



Activity: industrial production and retail sales were still coming down in July

Industrial production continued to fall in July (-0.8% MoM) and were 0.7% below the average for 2Q15. Likewise, retail sales fell by 0.2% MoM in July (+0.2% on 2Q15).

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

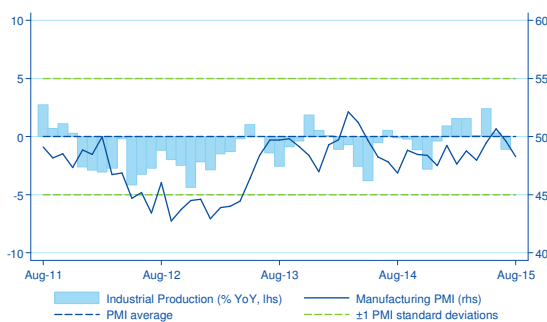
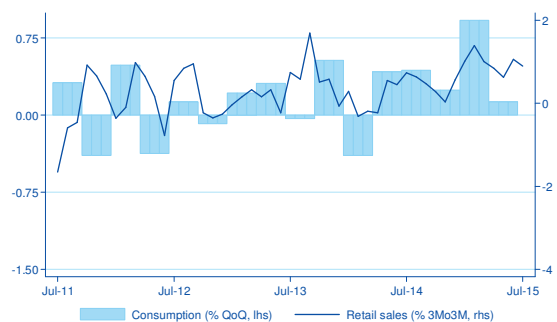


Figure 30
Retail trade (% 3M/3M) and consumption growth (% QoQ)*



*Sources: HAVER and BBVA Research

External sector: the trade deficit widened in July after exports fell back

Exports came down by 1.7% MoM in July and were 0.5% above the average for 2Q15. On the other hand, imports dropped back by 0.3% MoM in July and were 0.5% above the average for 2Q15.

Figure 31
Current account (% of GDP)*

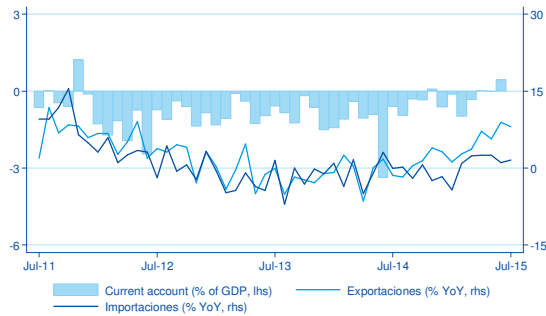
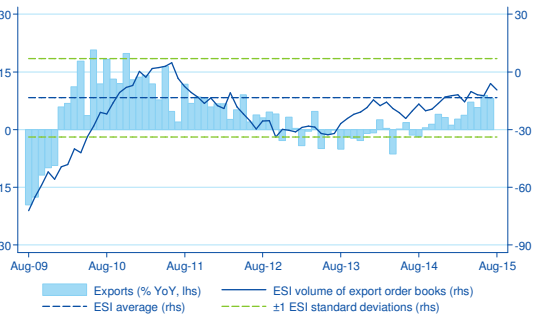


Figure 32
Export growth (% YoY) and export order vol.*



Labour market: decline in recent months

The unemployment rate rose by 10.4% in July, while labour costs climbed by 1.5% YoY in 2Q15, as they had done in the previous quarter.

Figure 33
Unemployment rate (%) and employment expectations*

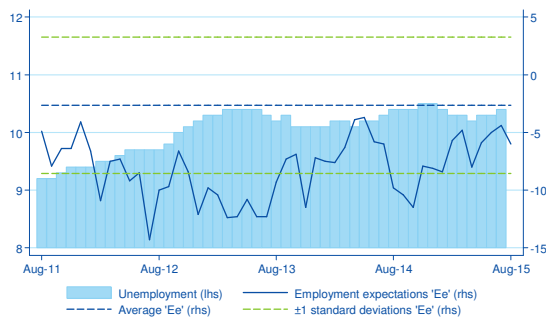
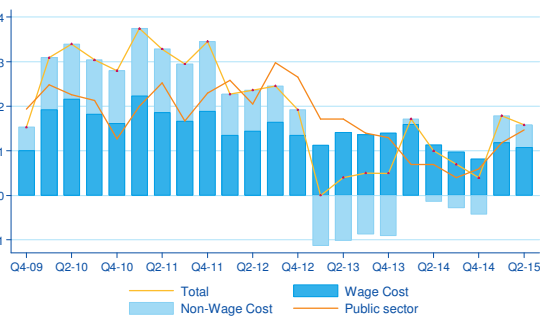


Figure 34
Business sector labour costs (% YoY)*



Prices: inflation fell back 0.1pp in August to 0.1% YoY

The harmonised inflation rate eased back by 0.1pp in August and was 0.1% YoY. On the other hand core inflation came down in August to 0.6% YoY (July: +0.7% YoY), basically due to the rise in the price of manufactures.

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

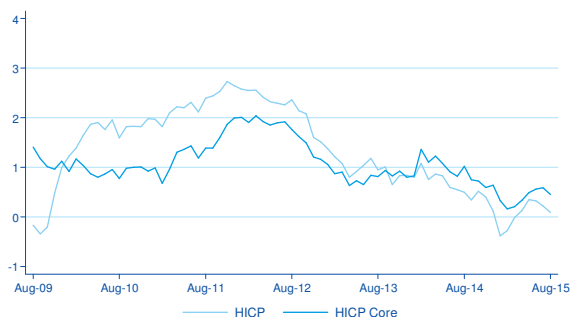
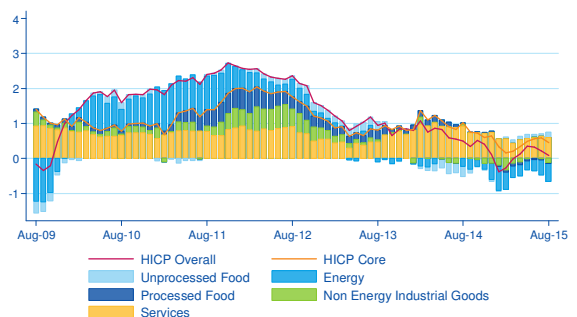


Figure 36
Inflation by component (contribution in %)*



* Sources: HAVER and BBVA Research

Italy

National Accounts: GDP grew again in 2Q15 (0.3% QoQ, after 0.4% QoQ in 1Q15)

Domestic demand contributed 0.6pp to growth, mainly due to the positive performance from private consumption, at 0.4% QoQ, while both investment (-0.3% QoQ) and public sector consumption (-0.2% QoQ) fell. Inventories, on the other hand, contributed +0.4pp. Exports rose by 0.4% QoQ, whereas imports did so by 1.0% QoQ.

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

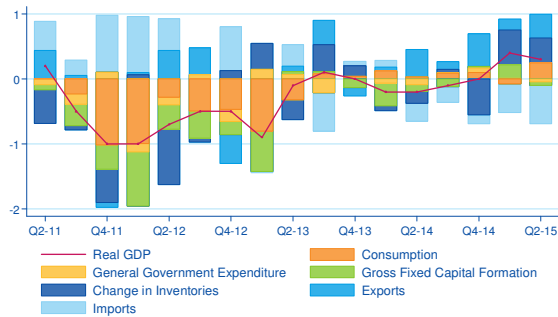
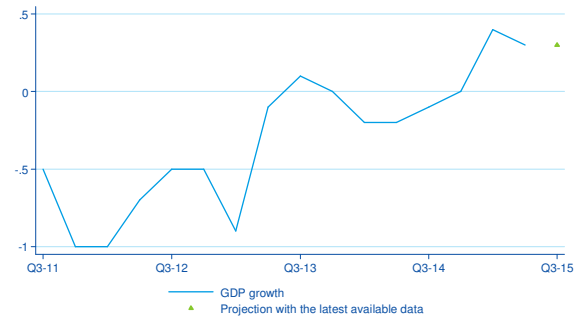


Figure 38
GDP (% QoQ) and forecasts*



Confidence: confidence indicators were still at high levels in August

The composite PMI was still on the rise, while the ISTAT indicators and the EC's confidence indicator came back slightly, although they remained at high levels.

Figure 39
PMIs and GDP growth (% QoQ)*

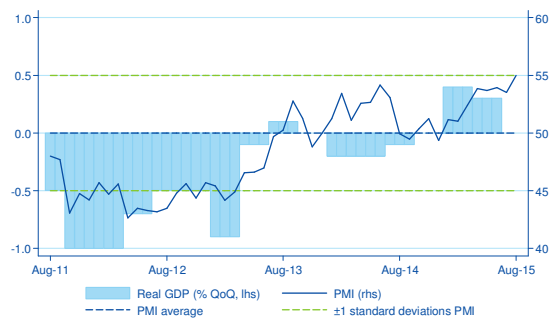
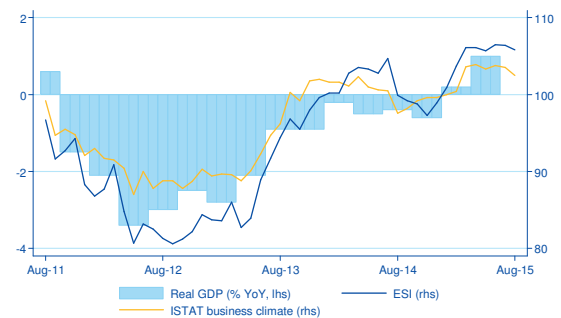


Figure 40
Confidence indicator (ESI and ISTAT)*



Activity: industrial production (July) and retail sales picked up (2Q15)

Industrial production rose in July, marking 0.7% above 2Q15, when it increased by 0.6% QoQ. Retail sales dropped back by 0.3% MoM in June, closing off 2Q15 0.4% above 1Q15.

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

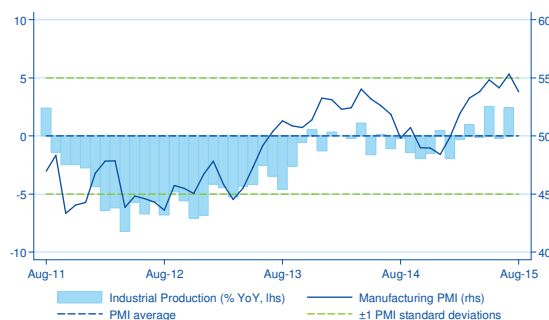
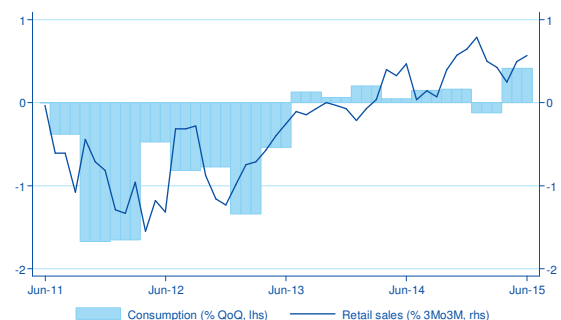


Figure 42
Retail trade (% 3M/3M) and consumption growth (% QoQ)*



*Sources: HAVER and BBVA Research

Foreign sector: exports grew by 2.1% QoQ in 2Q15

Exports fell 0.6% in June and closed 2Q15 2.1% QoQ above 1Q15 and orders from abroad herald an improvement in external sales. Imports rose notably in June (4.3% MoM) and grew by 3.1% QoQ in 2Q15.

Figure 43
Current account (% of GDP)*

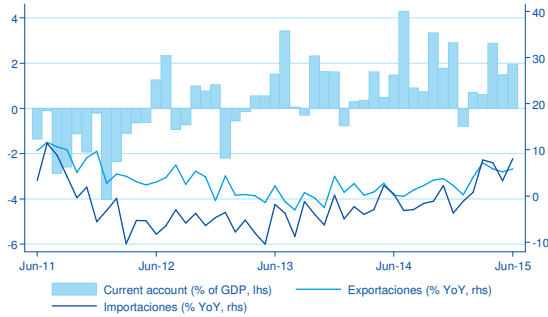
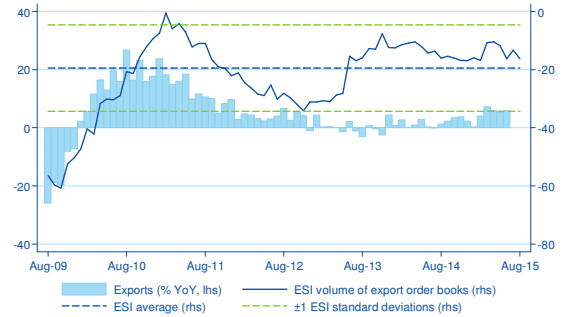


Figure 44
Export growth (% YoY) and export order volume*



Labour market: unemployment is falling

The unemployment rate came down in July (12.0%) and was 0.9pp below the reading of one year ago. Labour costs decreased by 0.4% YoY in 2Q15 (after +1.1% YoY in 1Q15).

Figure 45
Unemployment rate (%) and employment expectations*

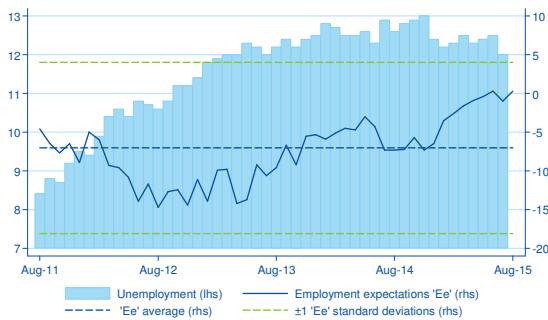
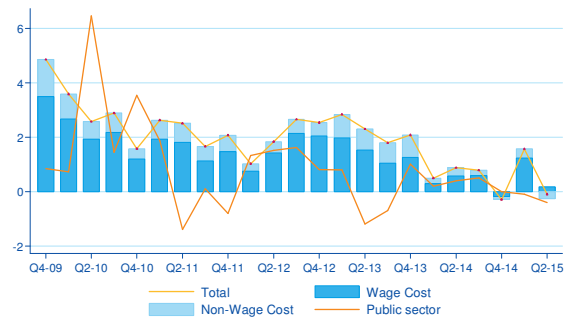


Figure 46
Business sector labour costs (% YoY)*



Prices: both headline and core inflation rose in August

The harmonised inflation rate grew at a rate of 0.4% YoY in August (0.3% YoY in July) due to a pick-up in the reading for foodstuffs. Core inflation rose to 1% YoY after 0.9% YoY in July.

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

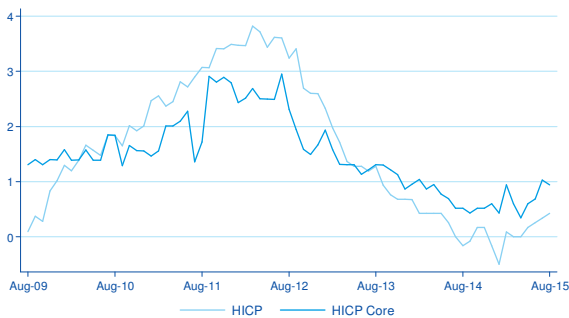
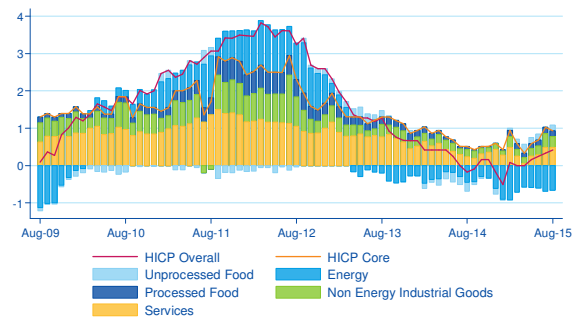


Figure 48
Inflation by component (contribution in %)*



* Sources: HAVER and BBVA Research

Spain

National Accounts: GDP growth peaked in 2Q15

Notable once again in 2Q15 was the solid progress made by both household consumption (1% QoQ) and machinery and equipment investment (3.5% QoQ). On the other hand, external demand drained 0.2pp from growth, since export growth (1.6% QoQ) was outweighed by that of imports (2.3% QoQ). Growth in 3Q15 is likely to moderate.

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

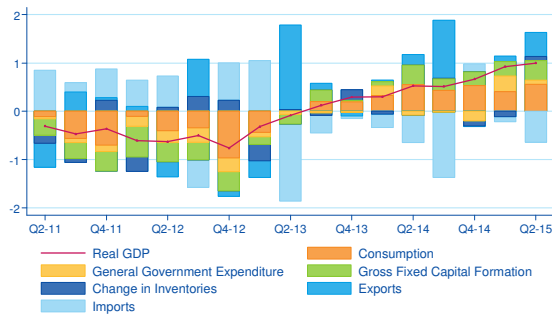
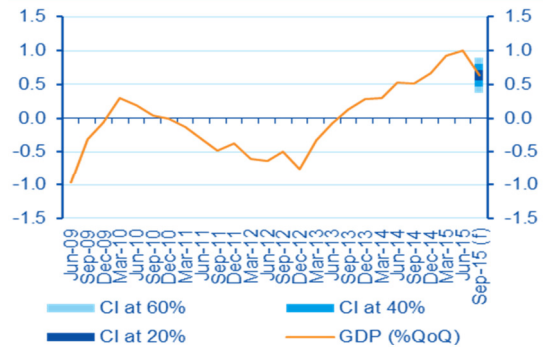


Figure 50
GDP growth (% QoQ) and MICA-BBVA estimate*



Confidence: in August it was consistent with smaller growth in 3Q15

Economic agents remained optimistic going into the third quarter, yet gave mixed signals with respect to the upward course of expectations.

Figure 51
PMIs and GDP growth (% QoQ)*

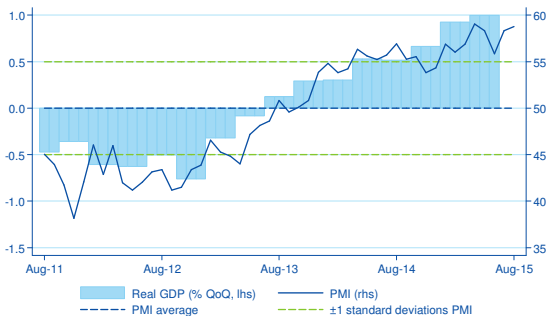
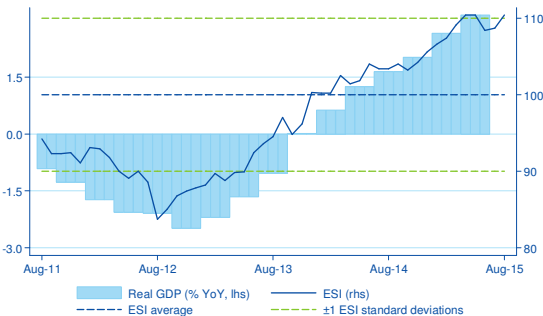


Figure 52
Confidence (ESI) and GDP growth (% YoY) *



Activity: improvement in activity early on in 3Q15

Industrial activity increased in July (0.6% MoM) and produced a 1.2% improvement on the 2Q15 average, while retail sales rose by 0.5% MoM and 0.5% with respect to 2Q15.

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

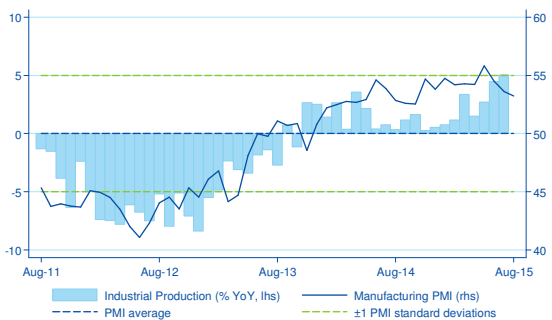
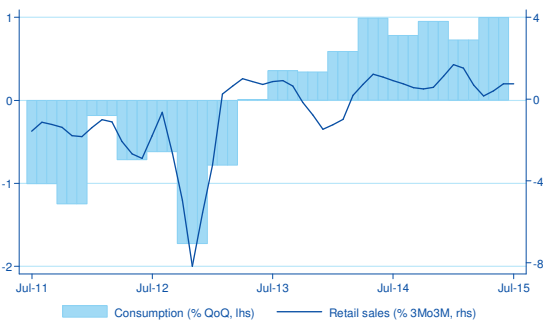


Figure 54
Retail trade (% 3M/3M) and consumption growth (% QoQ)*



*Sources: HAVER and BBVA Research

External sector: smaller contribution by the external sector than in 2Q15

We still do not have the actual figures for 3Q15, although the slowdown in manufacturing orders from abroad could suggest that exports are still rising, but at a slower rate than in 2Q15.

Figure 55
Current account (% of GDP)*

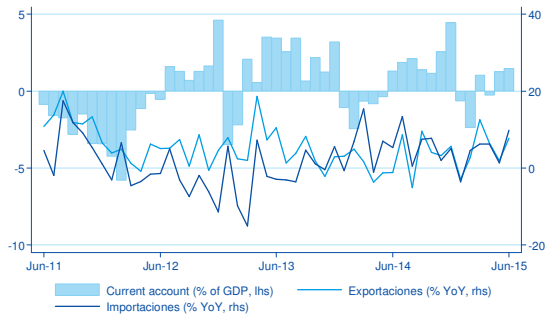
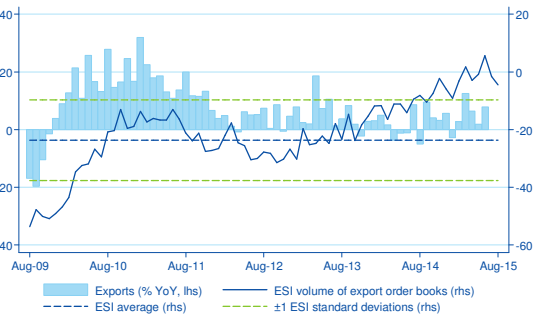


Figure 56
Export growth (% YoY) and export order vol.*



Labour market: the improvement in labour market figures is slowing down in 3Q15

The number of persons registered with the Social Security system ground to a virtual standstill last month (-2,000 MoM swda) after two successive years of job creation. In line with this, the rate at which unemployment is falling slowed down in August.

Figure 57
Unemployment rate (%) and employment expectations*

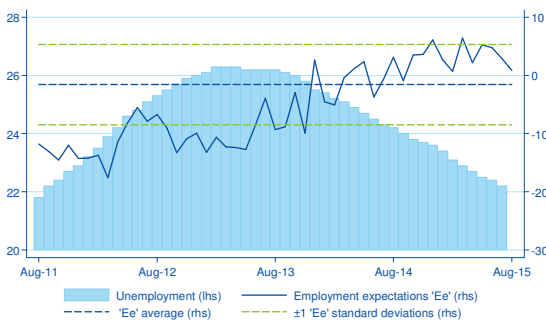
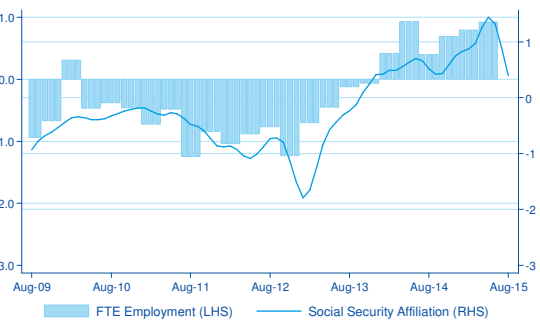


Figure 58
Employment growth: N.A. and Social Security (% QoQ)*



Prices: energy leaves inflation at negative rates in August

Headline inflation returned to negative territory (-0.4% YoY) due to plunging energy prices. On the other hand, core inflation held relatively stable (0.6% YoY).

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

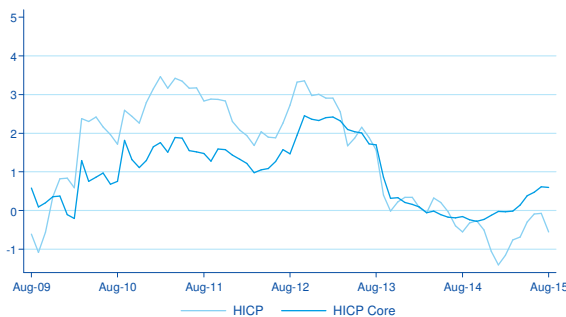
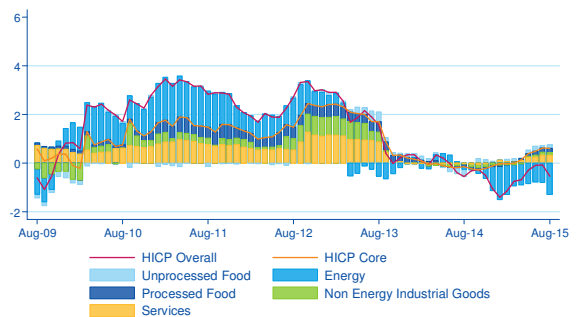


Figure 60
Inflation by component (contribution in %)*



* Sources: HAVER and BBVA Research

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