

July
2016

A 3D rendering of a globe with a magnifying glass. The magnifying glass is positioned over the Eurozone region of the globe, which is highlighted in a lighter blue color. The magnifying glass has a black handle and a silver frame. The globe is set against a background of blue geometric shapes.

Eurozone

Short-term Indicators

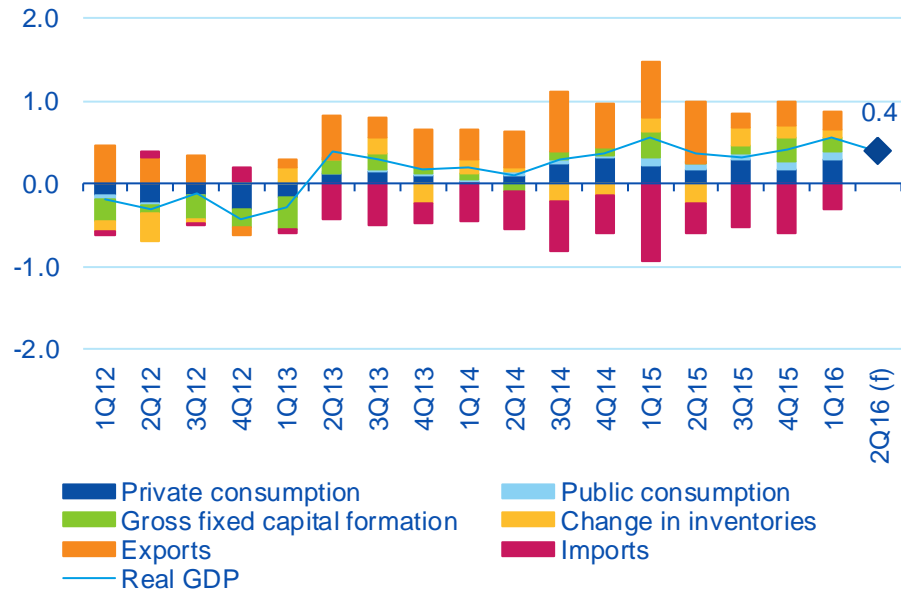
Evolution of recent indicators

- **GDP growth in the Eurozone** has returned in 2Q16, according to our estimates, to the moderate pace of the recovery of the last two years, following its strong upturn in the first quarter to 0.6% QoQ
- The **MICA-BBVA model estimates growth of around 0.4% QoQ in 2Q16**. This rate should continue going forward, but **downward biases have increased until the uncertainty over the process of the United Kingdom's withdrawal from the EU is cleared up**
- Industrial production and retail sales anticipate **moderate growth in domestic demand, mainly in private consumption (especially in France and Germany)**
- **Exports are showing more optimistic signals after the very weak rates of previous months**, in line with improving global trade. Together with the smaller increase in imports, net exports could contribute to growth in 2Q16
- **Confidence remained stable in 2Q16, but we do not yet have data to assess the impact of Brexit**. By country, the same trend towards stability is generally being observed, although doubts remain about the recovery in France and Italy
- Core inflation remains stable at around 0.8% YoY in June, and headline inflation is still very low (0.1% YoY). **Rising oil prices should lead to a gradual increase in headline inflation during the rest of the year**

GDP growth in the Eurozone slows down in 2Q16 to the moderate pace of the recovery of the last two years

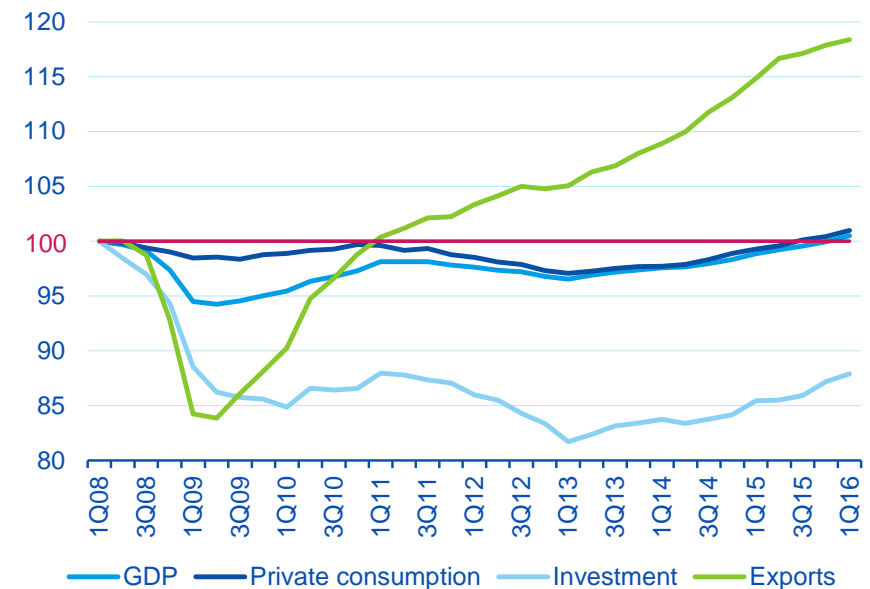
- **Increased growth in 1Q16 (0.6% QoQ)** was due to a strong increase in domestic demand, especially because of the upturn in private consumption, which responded to temporary factors. Aggregate investment still did not clearly take off, but machinery and equipment continued growing at annualized rates of around 4%. Exports increased slightly despite the doubts about global demand
- **For the second quarter, the short-term MICA-BBVA model estimates growth of around 0.4% QoQ**

GDP (% QoQ), contribution by components (pp) and MICA BBVA forecast



Source: Eurostat and BBVA Research

GDP and its components (1Q08=100)

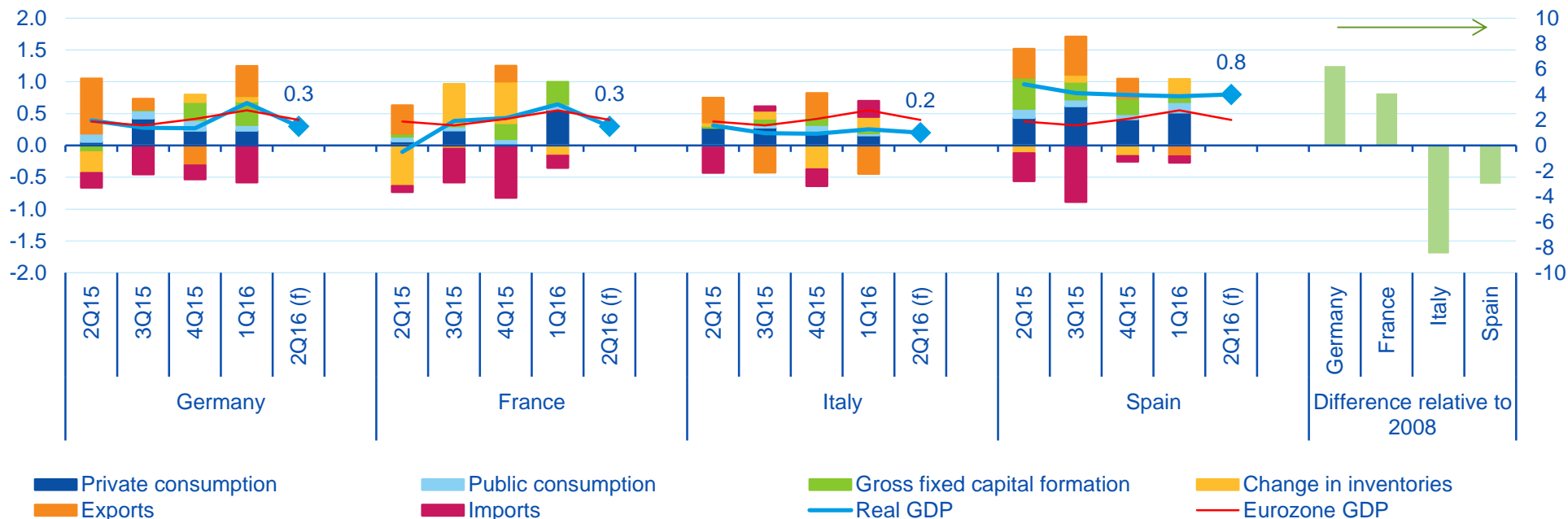


Source: Eurostat and BBVA Research

This slowdown is widespread among large countries except Spain

- The more moderate growth of domestic demand in **Germany and France** should be reflected in the slowdown of GDP growth in 2Q16, which would be partly offset by increased support from the improvement in external demand
- In **Italy and Spain** growth remains relatively stable, with the former still growing somewhat below the growth rate in the whole of the euro area, while Spain maintains a strong positive differential

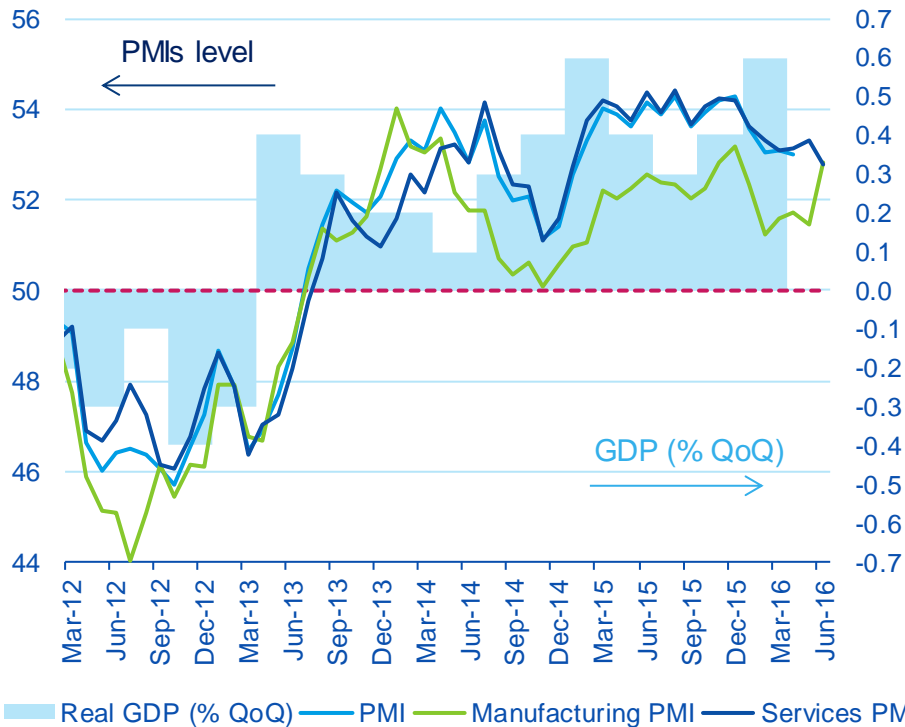
GDP (% QoQ), input by component (pp) and forecasts



Confidence stable in 2Q16, but more data needed to assess Brexit

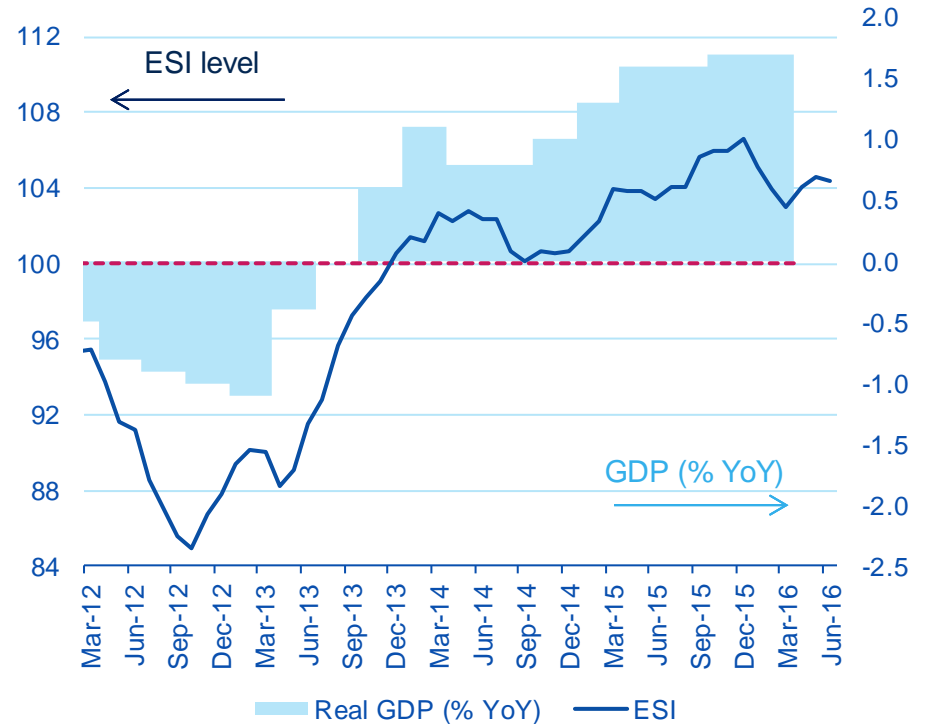
The stability of the PMI and ESI indicators in 2Q16 hides an **improvement in manufacturing confidence**, reflecting the somewhat more optimistic signs of world trade, and a **slight deterioration in confidence in the services sector**, especially in June

PMI and GDP (% QoQ)



Source: Eurostat and BBVA Research

ESI and GDP (% YoY)

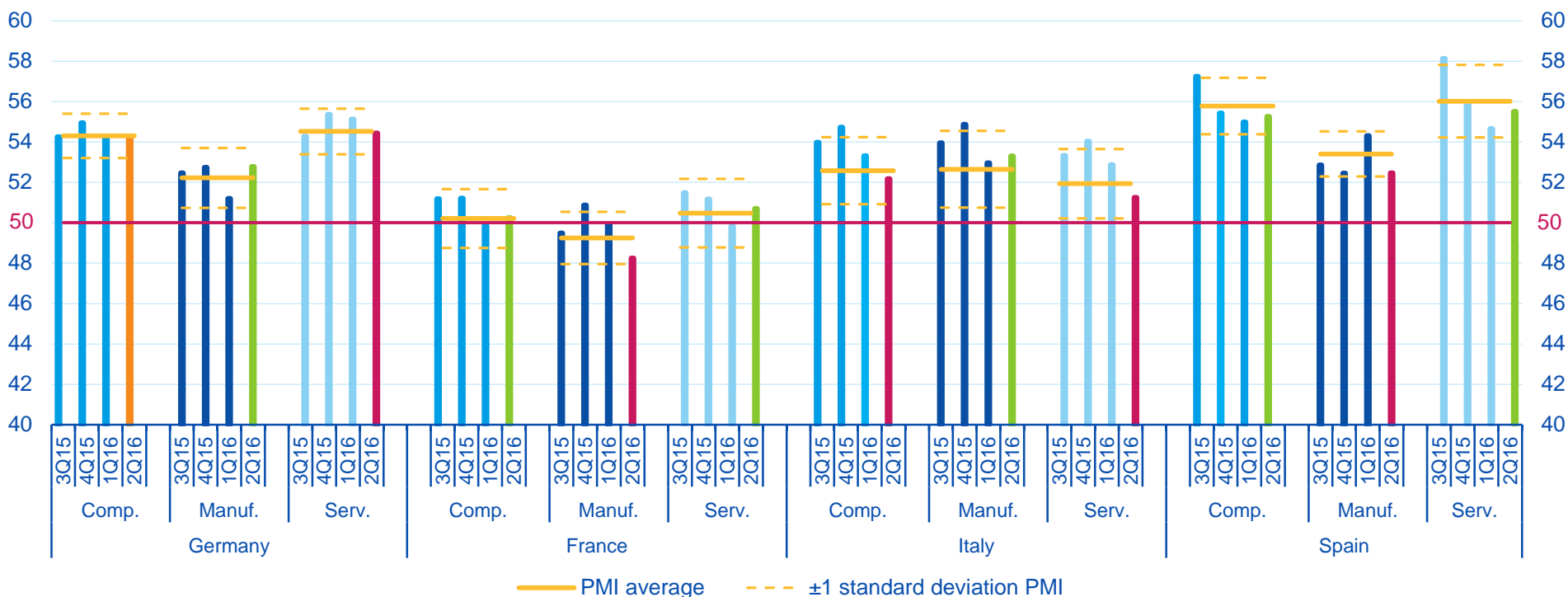


Source: Eurostat and BBVA Research

By country, confidence points toward growth rates similar to those of last year, according to PMIs

The better exports prospects were reflected in manufacturing confidence in Germany and Italy, while in France and Spain improvements in the services sector were noted, due to domestic factors

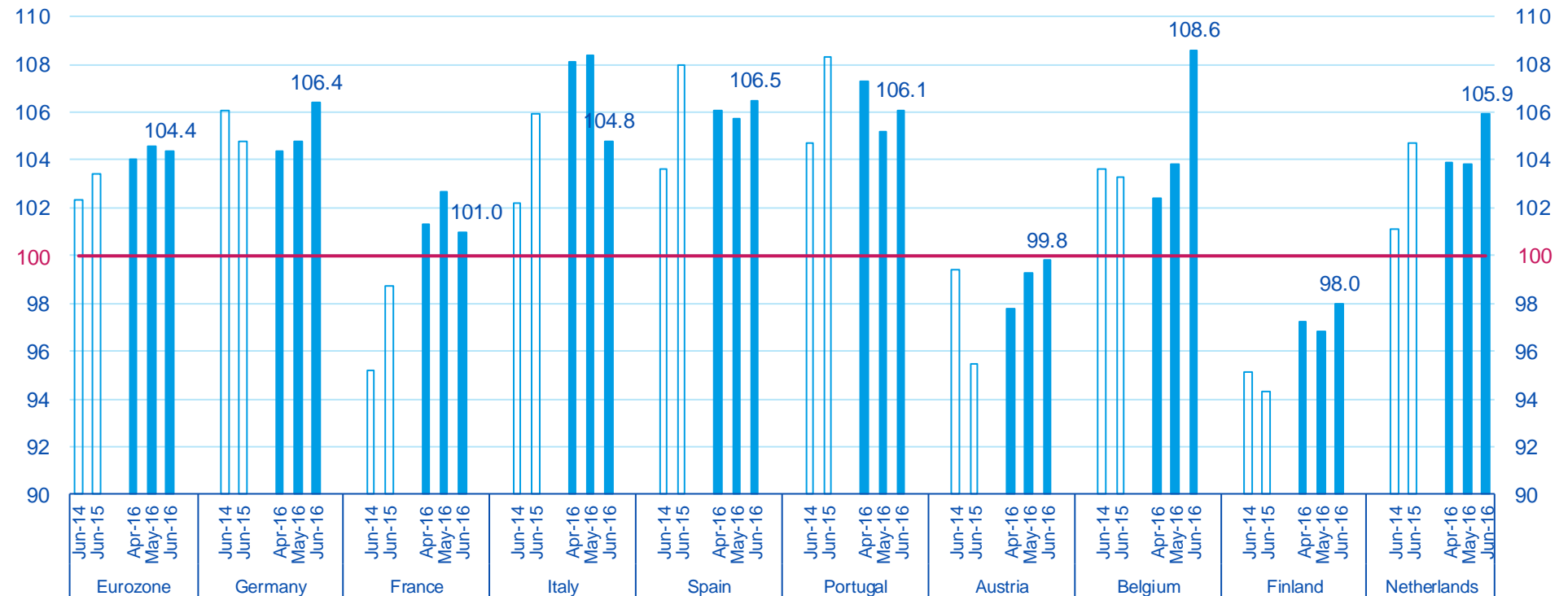
PMI (level)



The ESI by country continued showing doubts about the recovery in France and Italy

By country, economic confidence rose significantly in June in Germany, Finland and the Netherlands, while in Portugal, Spain and Austria confidence moderated. On the other hand, Italy and France suffered substantial drops in confidence levels between May and June

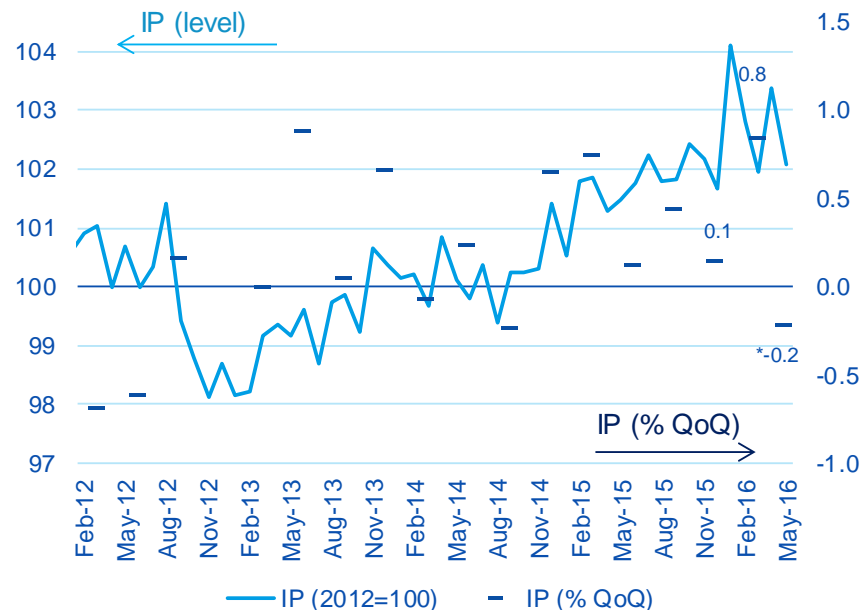
ESI (level)



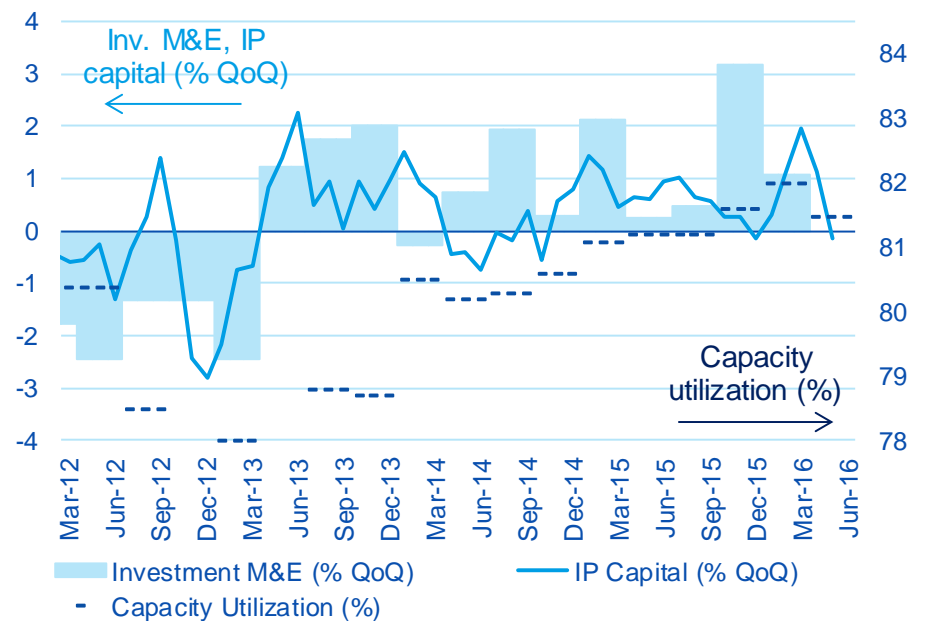
Industrial production decreases in May, in a period of wild volatility

- Industrial production decreased in May by 1.1% MoM after increasing by 1.4% in April. The fall was widespread by sector, especially in the production of consumer durables and capital goods
- The progressive increase in capacity utilization during the last year and a half, together with better prospects for external demand, point to the consolidation of the recovery in equipment and machinery investment

Industrial production (% QoQ)



IP Capital (% QoQ), Investment in machinery and equipment (% QoQ) and utilization capacity (%)



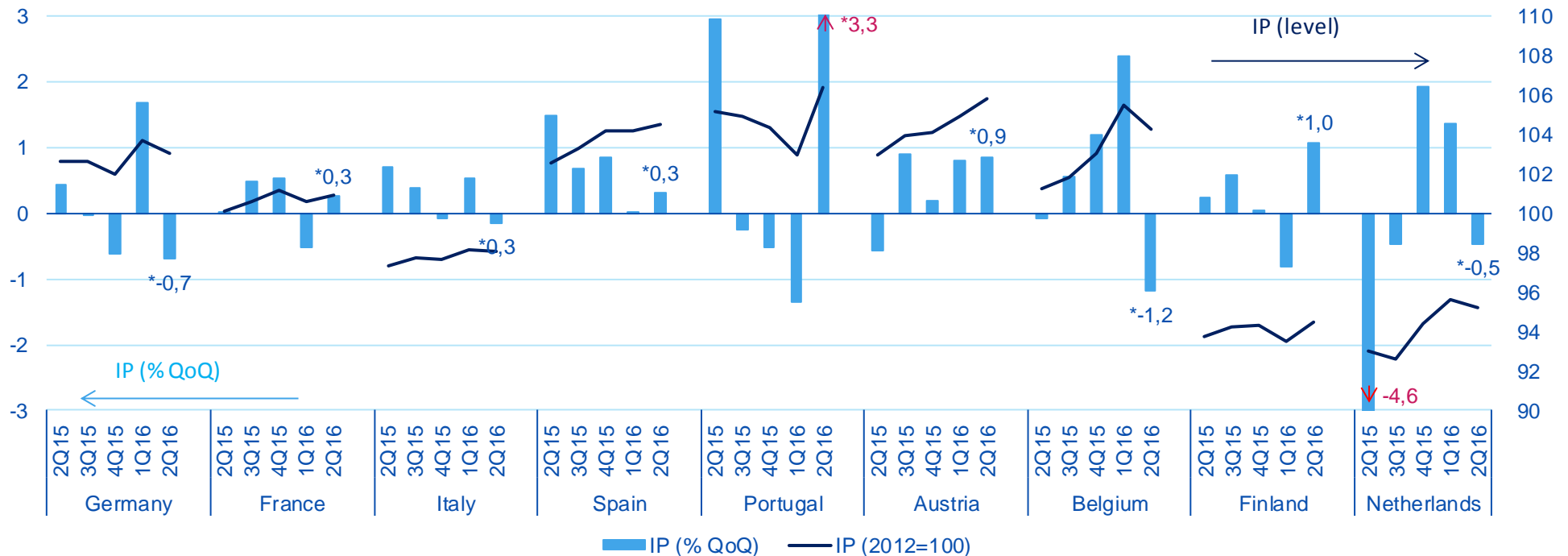
* April compared to previous 3 months
Source: Eurostat and BBVA Research

Source: Eurostat and BBVA Research

Different pace of recovery of the industrial sector by country, but widespread moderation in 2Q16

May data for several countries again point to a certain weakness, with falls in industrial production in 2Q16 in Germany, Belgium and the Netherlands

Industrial production (% QoQ)

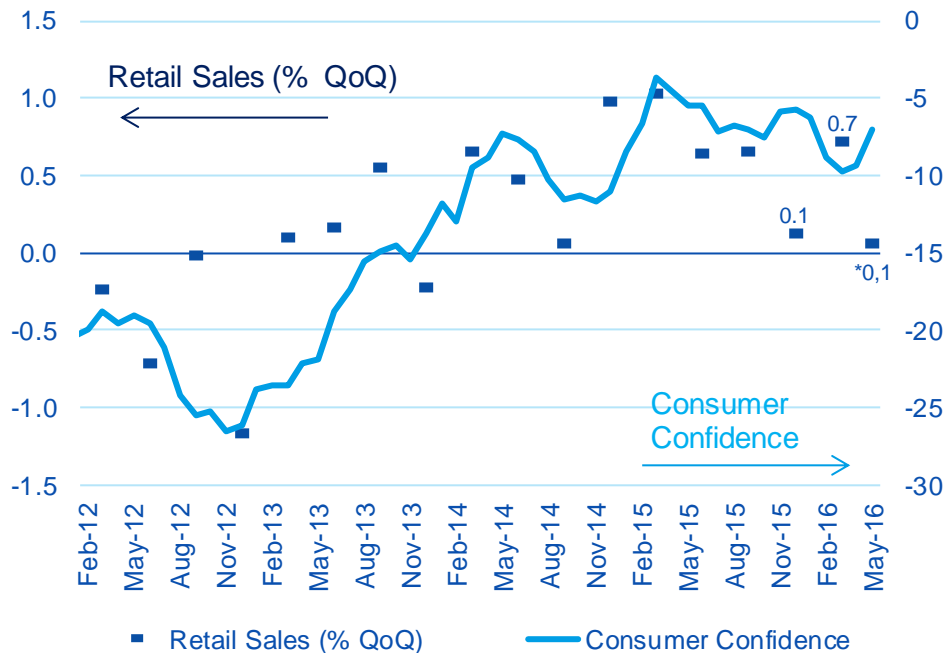


* 2Q16 calculated using data for April and May for Germany, France, Italy, Spain, Portugal, Finland and the Netherlands. For Austria and Belgium only data for April
 Source: Eurostat and BBVA Research

Retail sales growth moderated until May, after the temporary upturn of 1Q16

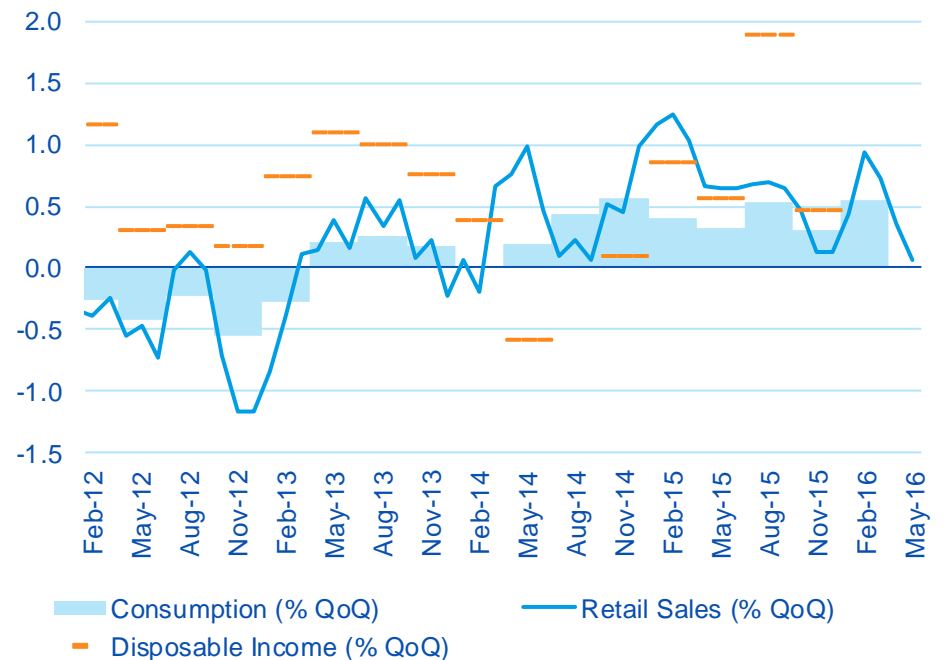
Until May retail sales growth moderated significantly (0.1% QoQ after 0.7% QoQ in 1Q16) after a temporary upturn in the first quarter, so a slowdown in private consumption is expected in the second quarter

Retail sales (% QoQ) and consumer confidence



* April and May compared to previous 3 months
Source: Eurostat and BBVA Research

Retail sales, consumption and disposable income (% QoQ)

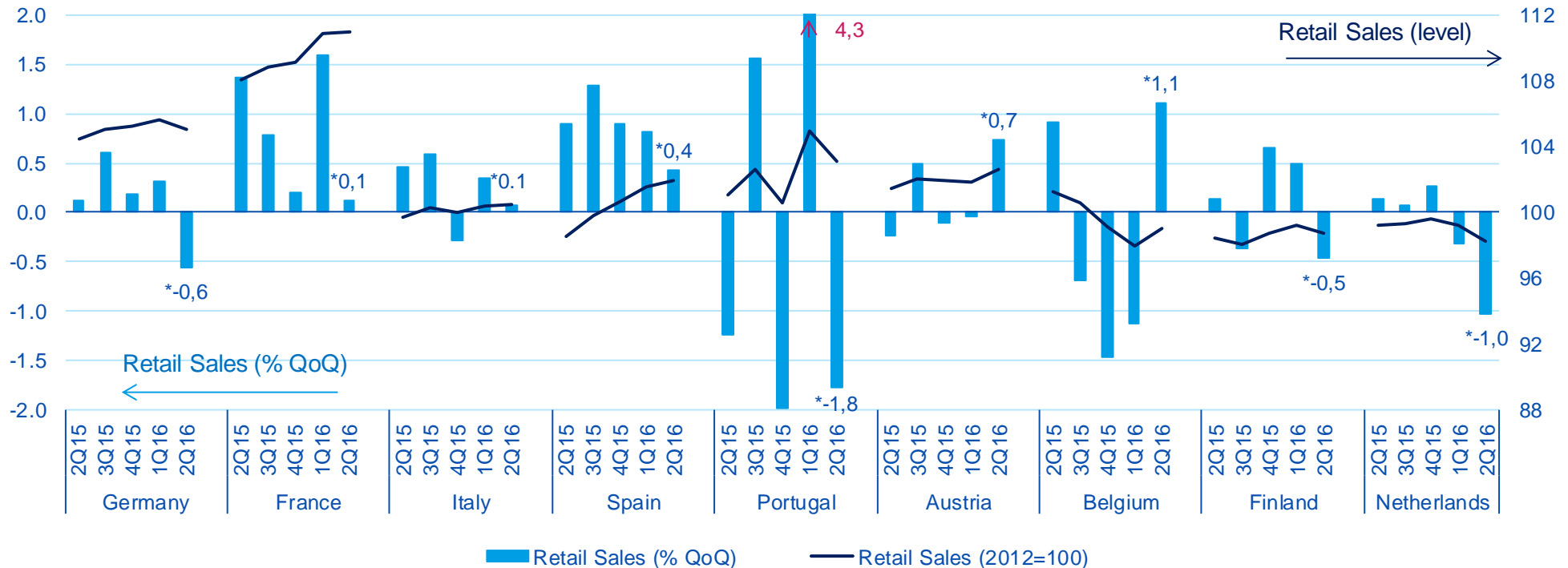


Source: Eurostat and BBVA Research

Slowdown or reduction in retail sales in 2Q16 in almost all countries

Retail sales have increased so far this quarter in France, Italy, Spain, Austria and Belgium; but decreased in Germany, Portugal, Finland and the Netherlands

Retail sales (% QoQ)

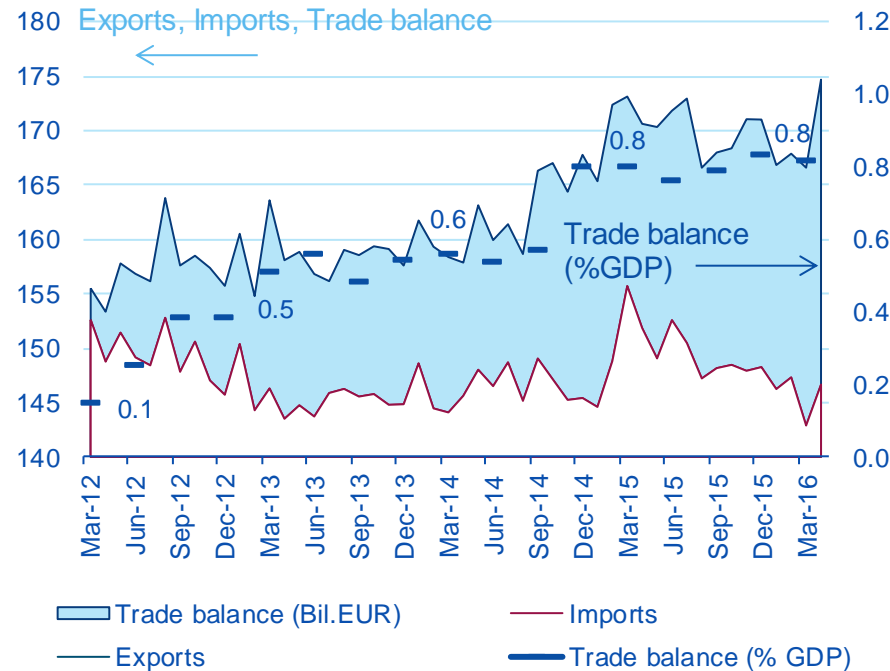


*2Q16 calculated using data from April and May. For the Netherlands only data from April
 Source: Eurostat and BBVA Research

Increase in exports in April and better expectations for global trade

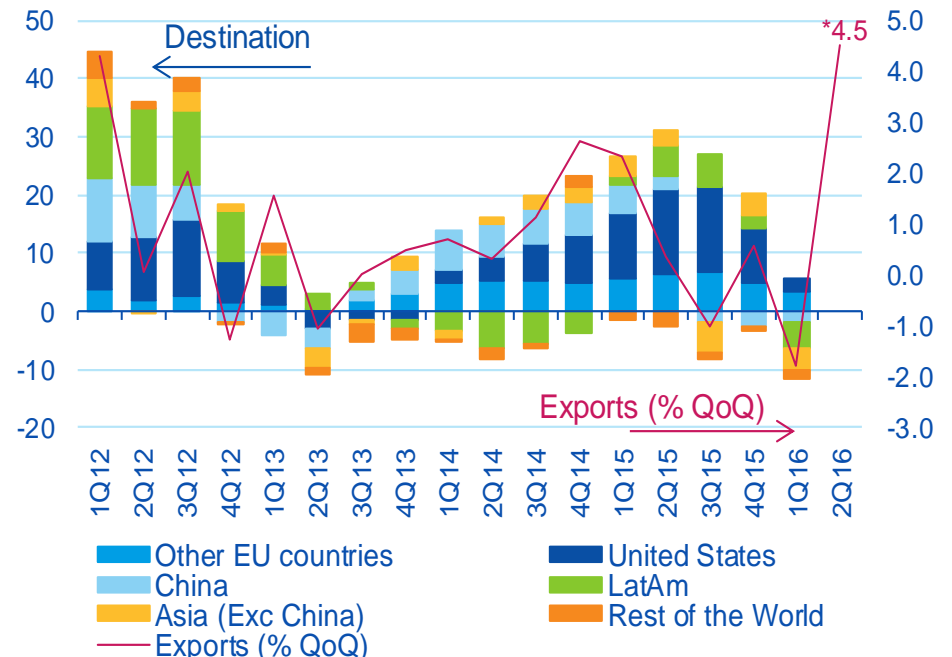
- Although very preliminary and only with information for April, national data suggest that the significant increase in exports was due to the sales of goods, and the improvement in those sales destined for European and Asian countries
- Moreover, the increase in imports was much more moderate, while the fall in export prices suggests a greater increase in real terms

Trade balance (% GDP)



Source: Eurostat and BBVA Research

Exports by destination (% QoQ)

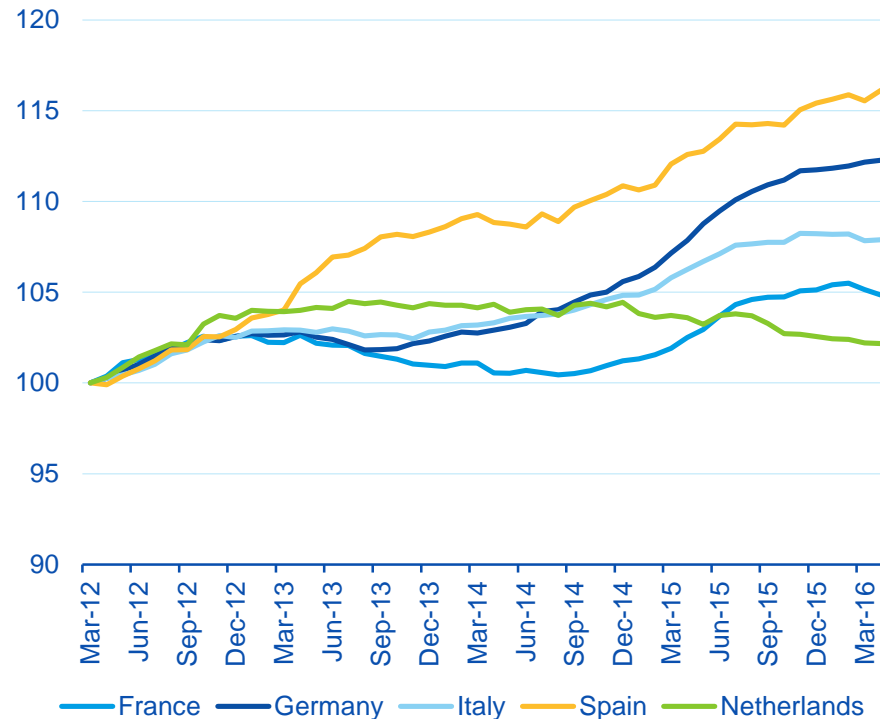


* April compared to previous 3 months
Source: Eurostat and BBVA Research

The role of exports in the recovery has decreased, but remains key

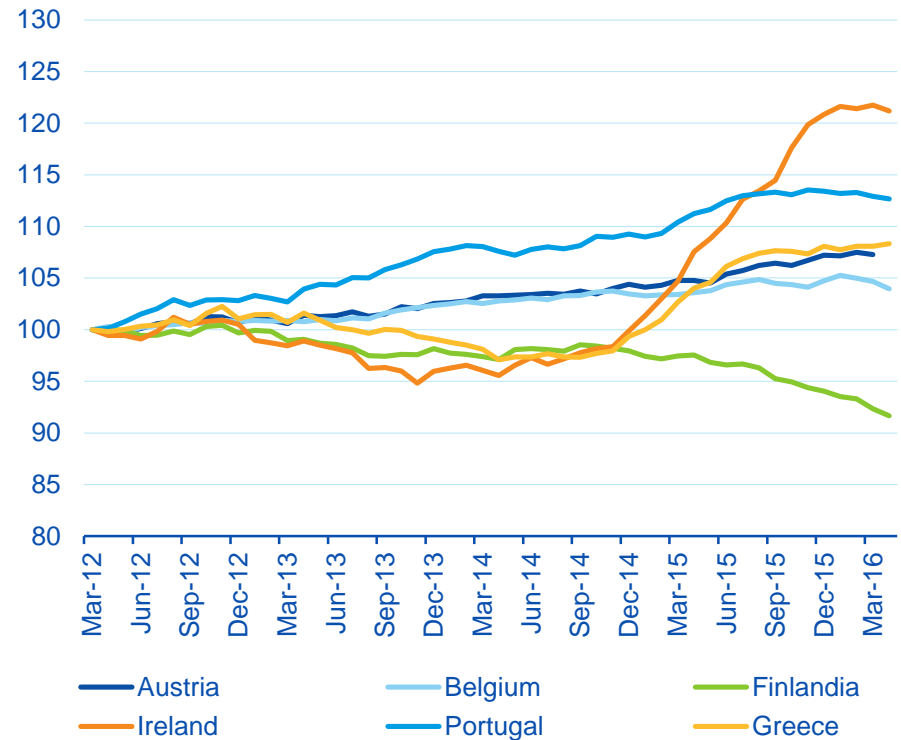
The slowdown in exports growth in 2H15 and 1Q16 was partly offset by increased domestic demand in most countries

Exports by countries (level)



Source: Eurostat and BBVA Research

Exports by countries (level)

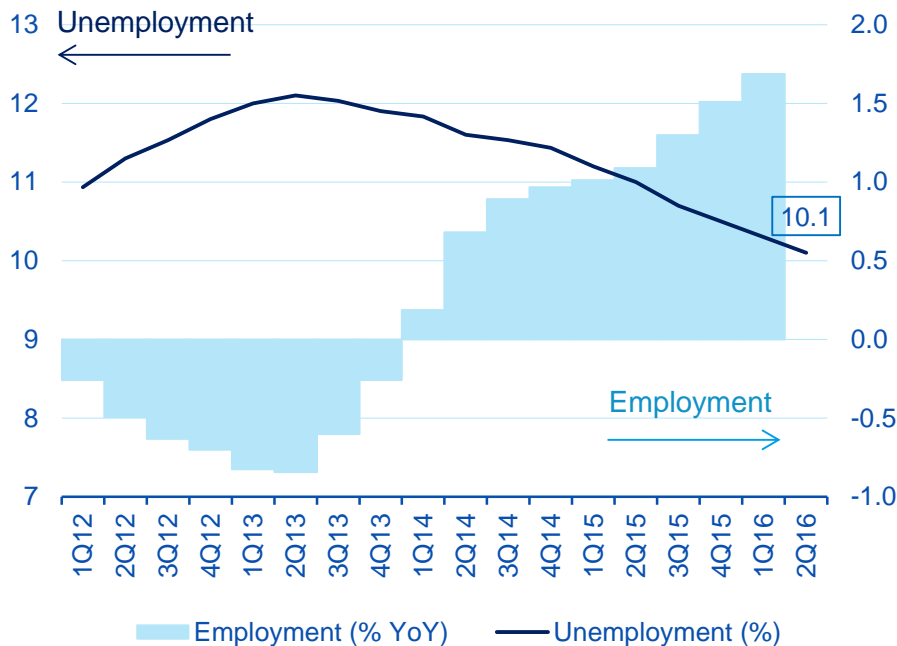


Source: Eurostat and BBVA Research

The gradual reduction in the unemployment rate continues, up to 10.1% in May in the Eurozone

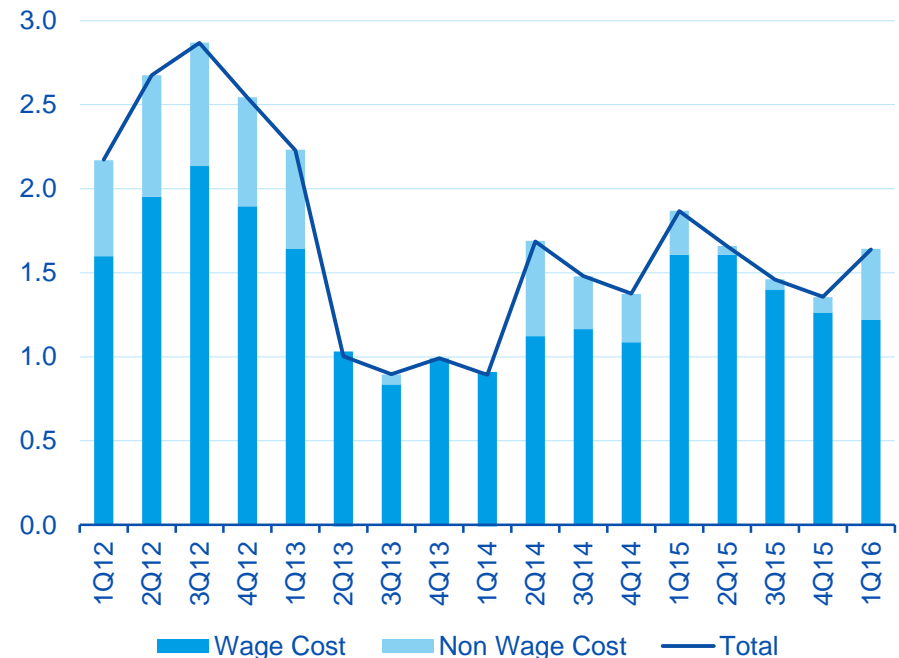
- Despite the moderate growth of the economic recovery, job creation is still somewhat stronger than after previous crises, contributing to a reduction in the unemployment rate
- The increase in labour costs remains moderate, although it accelerated slightly in the first quarter

Employment (% YoY) and unemployment rate (%)



* 2Q16 calculated using data from April and May
Source: Eurostat and BBVA Research

Labour costs in the business sector (% YoY)

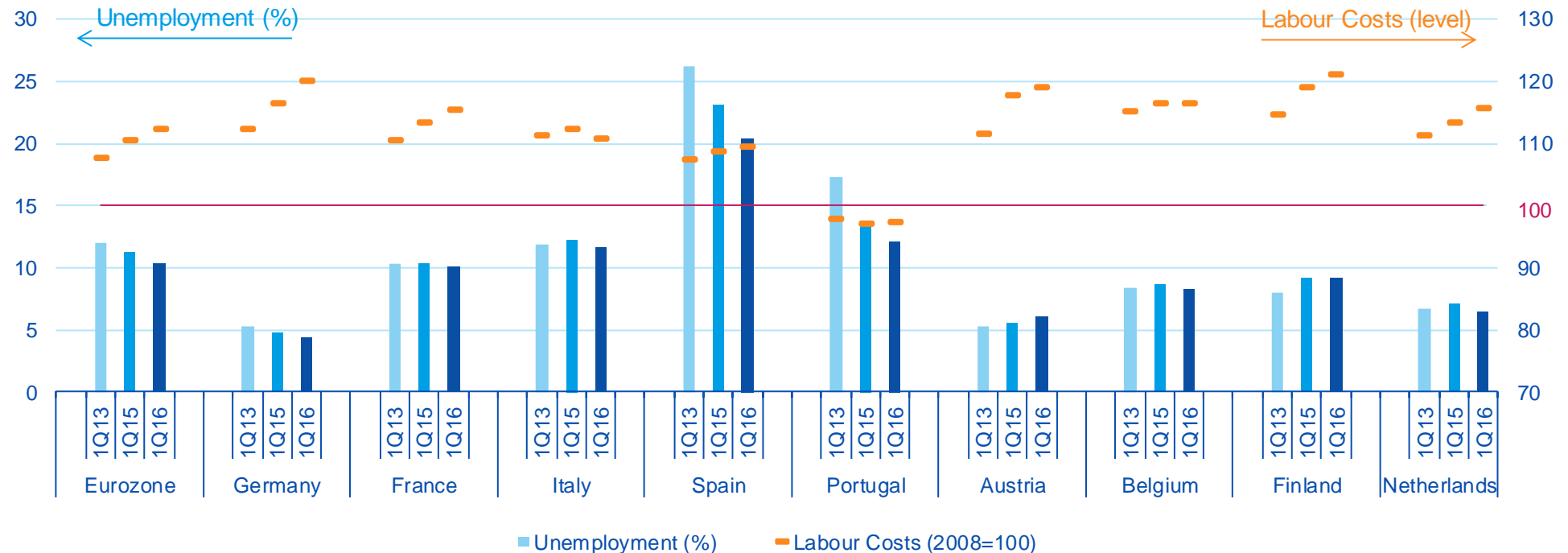


Source: Eurostat and BBVA Research

Further reduction in the unemployment rate in the periphery over the last three years

In Germany and the northern countries, the unemployment rate is very low and labour costs continue to rise. Structural reforms in the periphery should favour the continued containment of labour costs and improve competitiveness

Unemployment rate (%) and labour costs (level; 1Q13, 1Q15, 1Q16)



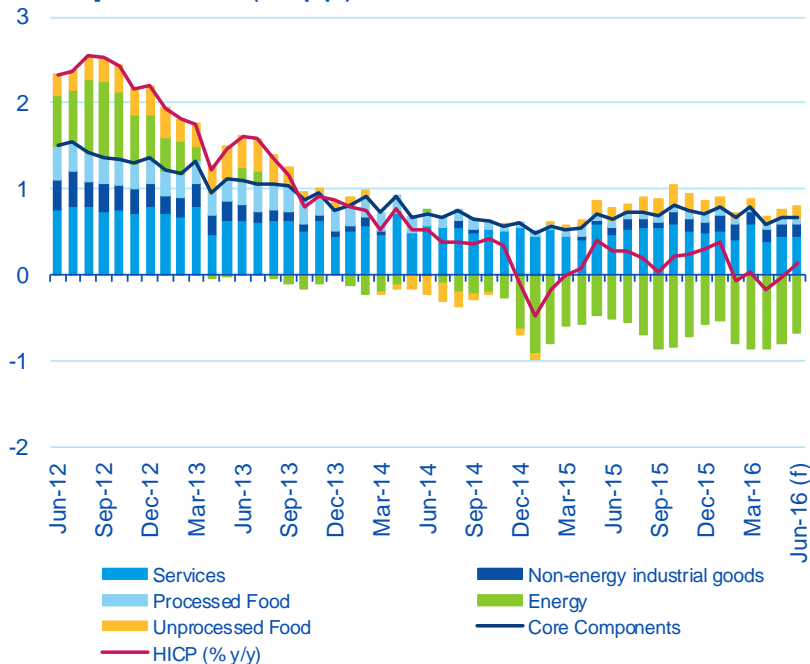
* 1Q13 highest unemployment in Euro zone // **Labour costs Austria: 2009=100

Source: Eurostat and BBVA Research

Low but stable core inflation over the past year. Energy prices explains why the headline inflation rate is still at 0% YoY

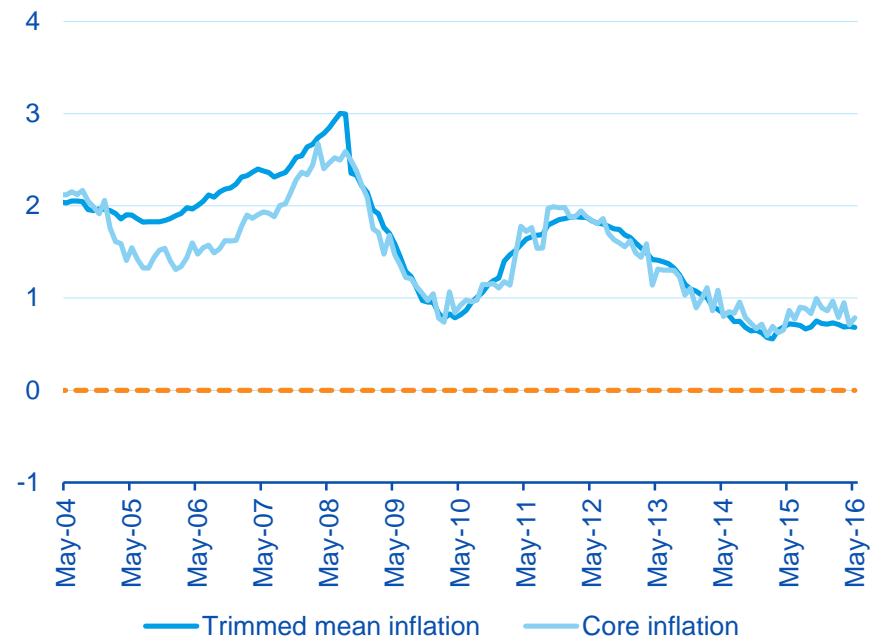
- According to the provisional figure for June, inflation rose by 0.2 pp to +0.1% (YoY) mainly due to the slowdown in the fall of energy prices (-6.5% YoY; in May: -8.1% YoY)
- Core inflation rate remained stable (+0.8% YoY) because the slight increase in services inflation (+0.1pp to 1.1% YoY) was offset by lower inflation of non-energy industrial goods (-0.1 pp up to +0.4% YoY)

EMU: Inflation (% YoY) and contribution of components (% pp)



Source: Eurostat and BBVA Research

EMU: inflation (% YoY)

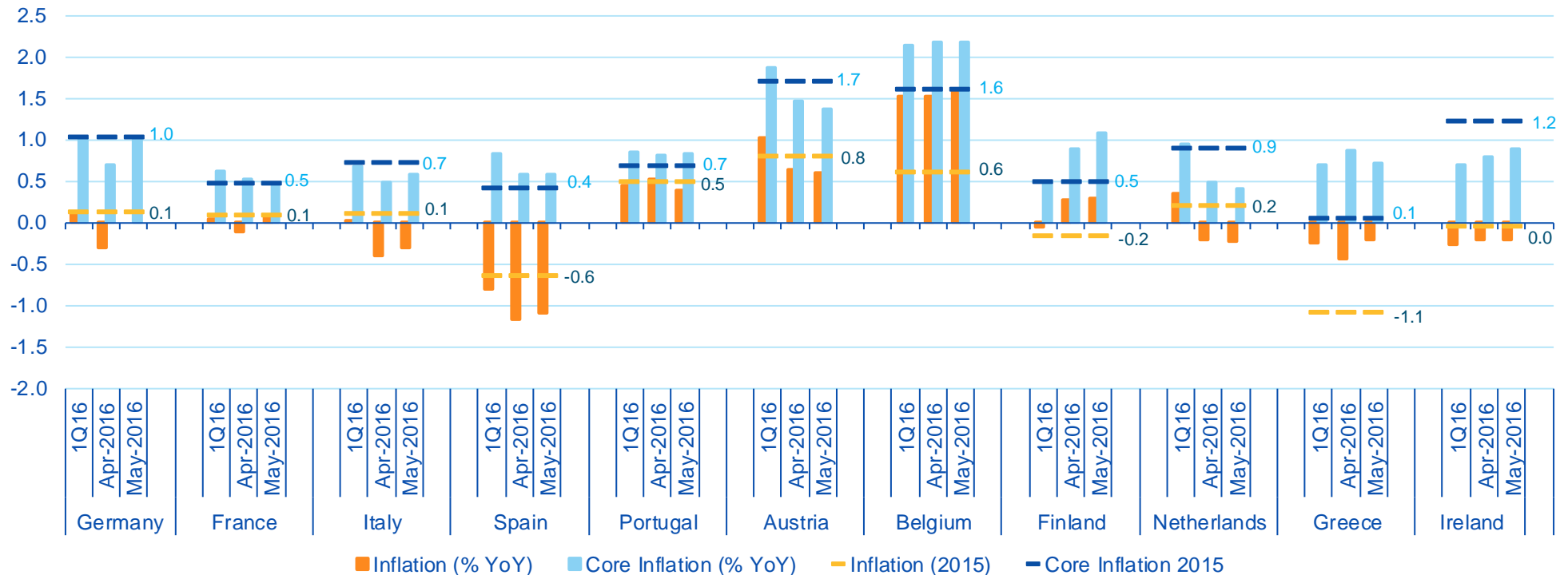


Source: Eurostat and BBVA Research

The main differences in inflation by country lie in their energy dependence and the weakness of the economic cycle

In May, inflation increased in Germany, France, Italy, Spain, Belgium, Finland and Greece; stabilized in Ireland; and decreased in Portugal, Austria and the Netherlands

Headline and core inflation (% YoY)



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