

Eurozone

Economic Watch

MARCH 2017



Eurozone: Robust growth in early 2017 and still low core inflation

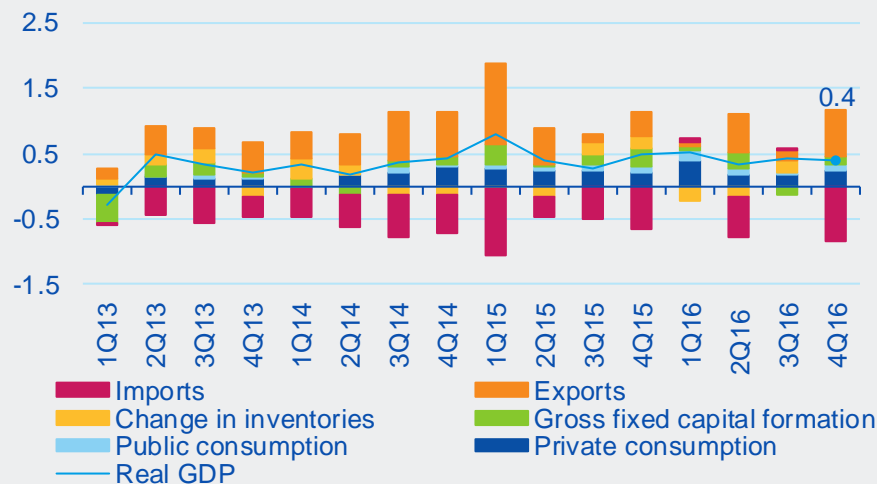
- After growing at 0.4% in 4Q16, our **MICA-BBVA model** continues to **estimate a quarterly GDP growth in the eurozone of 0.5% QoQ in 1Q17** and puts a slight upward bias to our projection of 1.6% for this year.
- Final GDP figures of 4Q16 point to **consumption as the main driver of growth**. Nonetheless, **retail sales have lost steam at the start of the year** as inflation erodes real wages.
- **Confidence data continues to improve across major countries in 1Q17** driven by increasing foreign demand, **also reflected in exports**. Services PMI's have improved markedly in February.
- **Industrial production** recovered in January after a blip in December, but it **still does not fully reflect the sharp gains of manufacturing confidence from previous months**.
- **Inflation continued to increase** and reached 2.0% YoY in February driven by energy and foods. Even though, core measures remain subdued and still stand at 0.9% YoY. Inflation fears are still far away.
- Despite the improvement in both global and eurozone outlook, **risks to growth remain tilted to the downside. They are mostly political** but also linked to financial fragilities.

ECONOMIC DEVELOPMENTS

Momentum gains are taking root in 1Q17 despite noise coming from heavy political agenda in the year

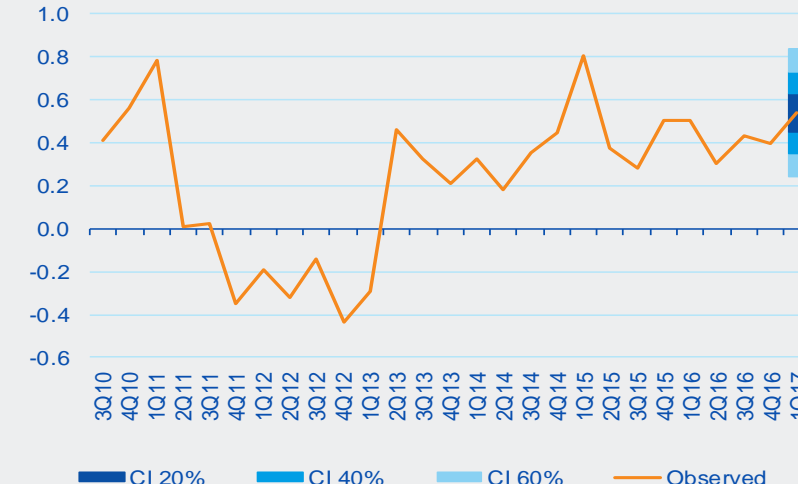
GDP, CONTRIBUTION BY COMPONENTS

(%QoQ, pp)



GDP AND MICA FORECASTS

(%QoQ)

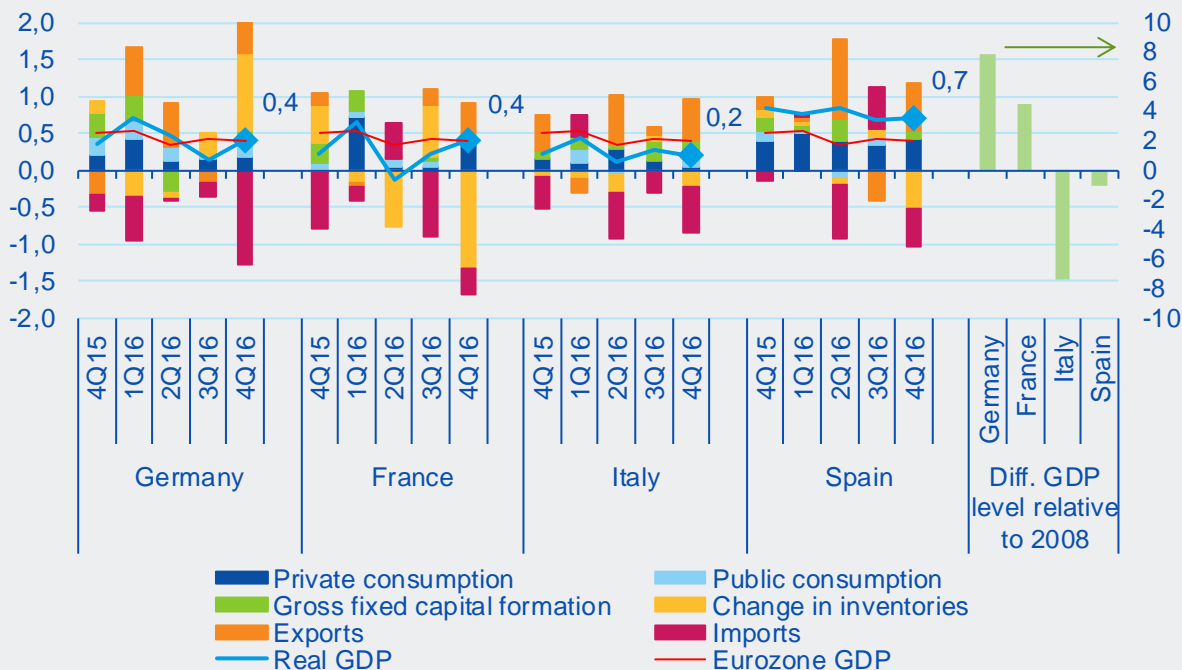


- No change of **final figures of GDP growth in 4Q16** (0.4% QoQ), mainly driven by **total consumption** (+0.3pp) with government contributing +0.1pp
- **Fixed investment** contribution was +0.1pp
- **Net exports** contributed negatively (-0.1pp) as stronger exports were more than offset by a boost in imports
- Some positive signs stemmed from **exports and fixed investment** supported from a less tight fiscal stance suggest that the **economy has gained momentum in 1Q17** (MICA-BBVA: +0.5% QoQ)

ECONOMIC DEVELOPMENTS

Germany and France GDP accelerated in 4Q16, while Italy slowed down

GDP, CONTRIBUTION BY COMPONENTS
(%QoQ, pp)



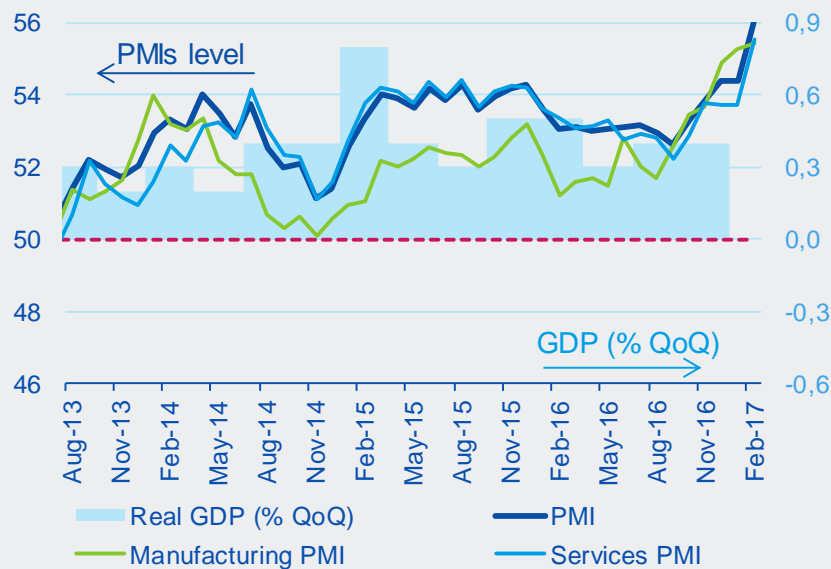
- In both **Germany and France GDP growth accelerated to 0.4% QoQ** in 4Q16 driven mainly by domestic demand (consumption and to a lesser degree investment)
- **Italy's GDP growth slowed down to 0.2% QoQ** in 4Q16
- **Spanish economy advanced 0.7% QoQ** in 4Q16 thanks to the positive contributions from both domestic demand and net external demand

ECONOMIC DEVELOPMENTS

Confidence figures improving at the start of 2017, especially in services...

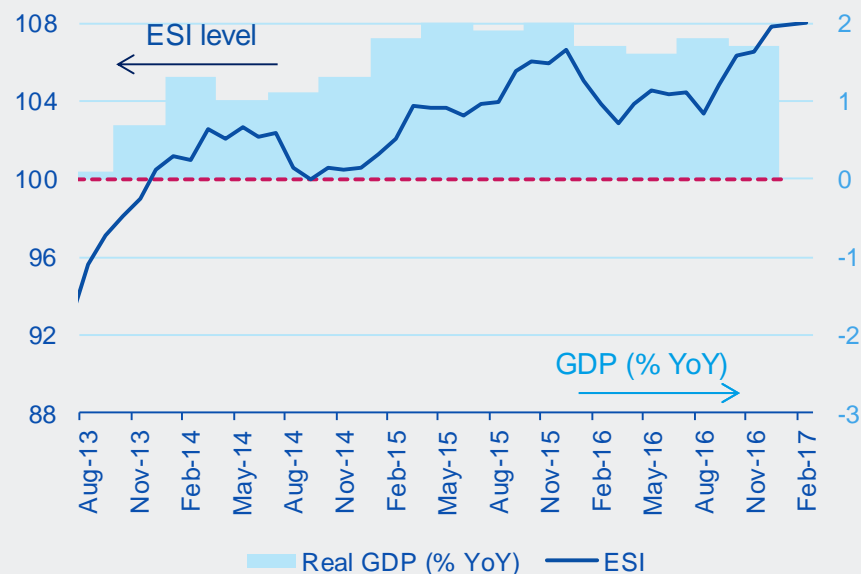
PMI AND GDP

(level, %QoQ)



ESI AND GDP

(level, %YoY)

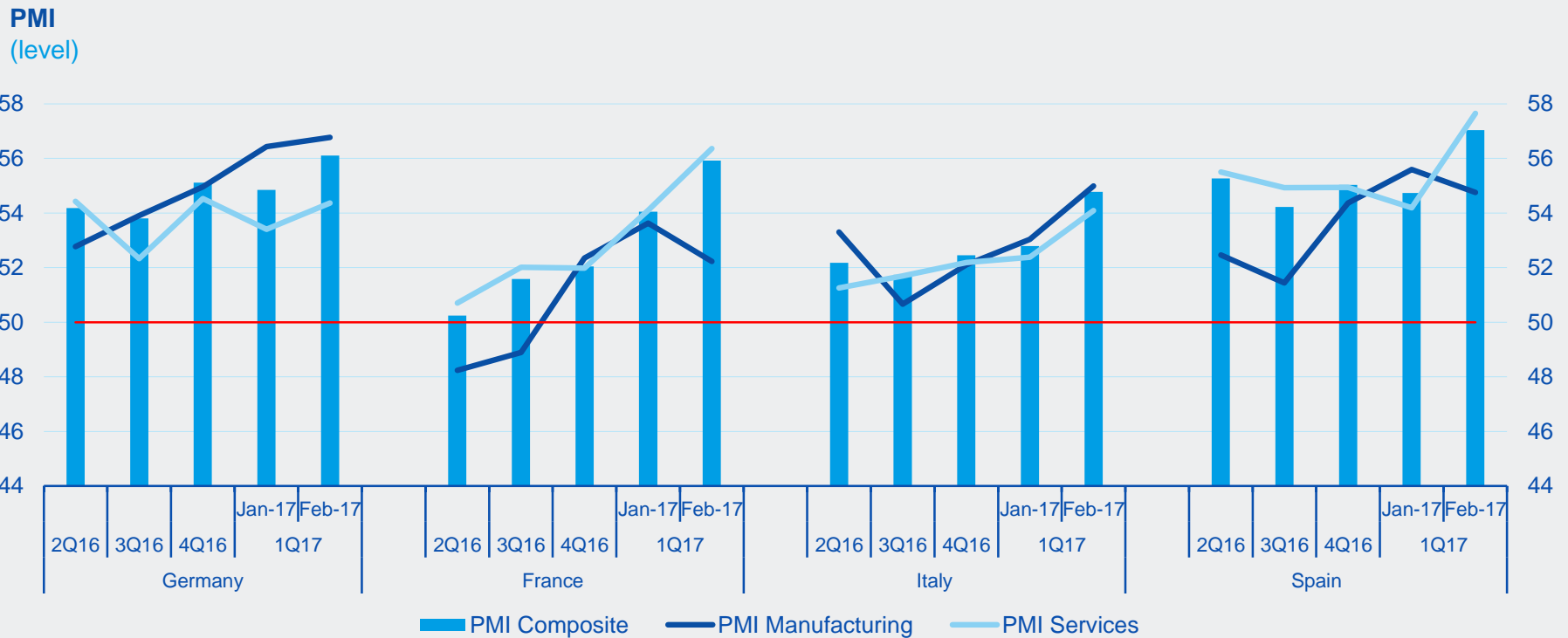


- So far, confidence data still suggest **an acceleration of growth in the eurozone in 1Q17**

- Different **political** events **have not affected mood**, and are not expected to do so unless political risks materialize

ECONOMIC DEVELOPMENTS

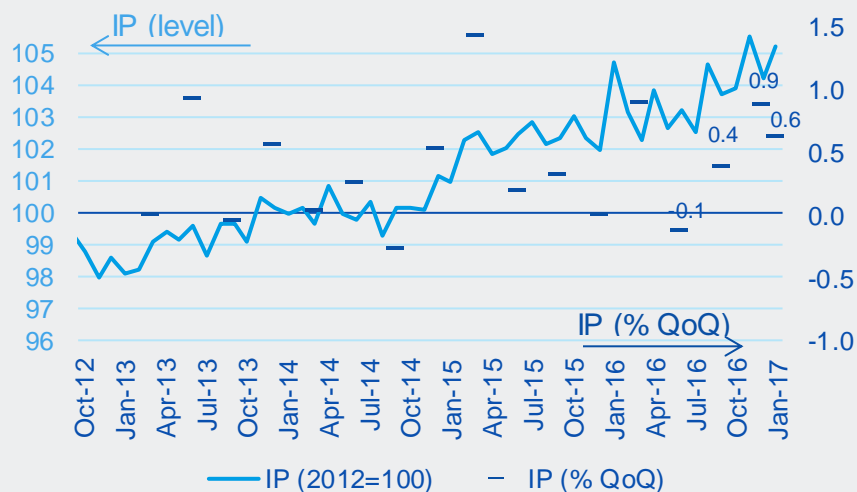
... a feature widespread across countries



ECONOMIC DEVELOPMENTS

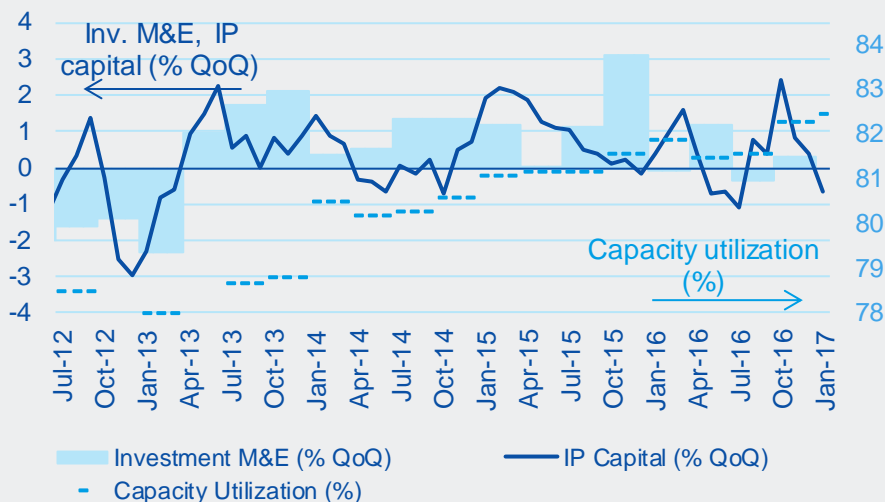
Industrial production kept its growth trend in January...

INDUSTRIAL PRODUCTION
(%QoQ, pp)



- Industrial production **increased 0.9% MoM in January** and continued its positive trend of last quarters.
- Also, **4Q16 figures were revised upwards** by +0.1pp to 0.9% QoQ

IP CAPITAL, INVESTMENT IN MACHINERY AND EQUIPMENT AND UTILIZATION CAPACITY
(%QoQ, %)

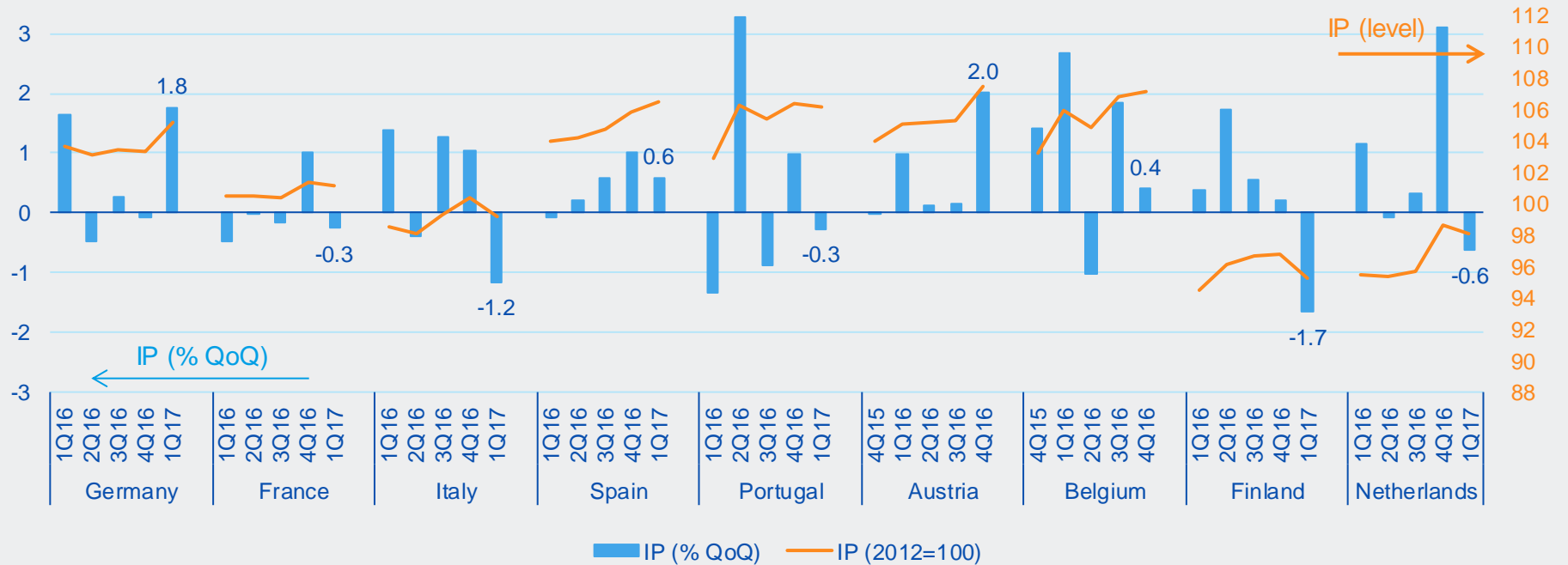


- Nonetheless production of **capital goods** and **durable consumer goods** continued to ease

ECONOMIC DEVELOPMENTS

... explained mostly by the improvement in Germany

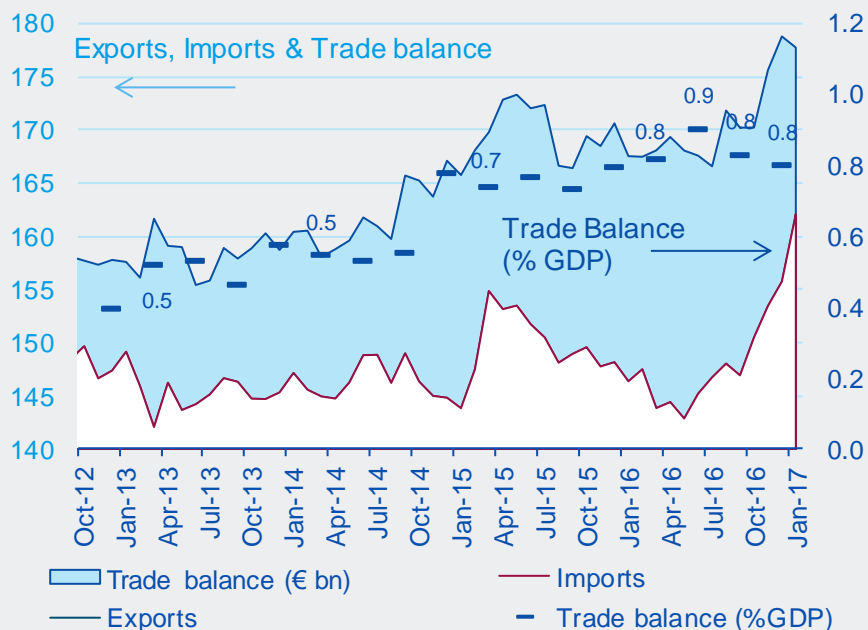
INDUSTRIAL PRODUCTION
(%QoQ, pp)



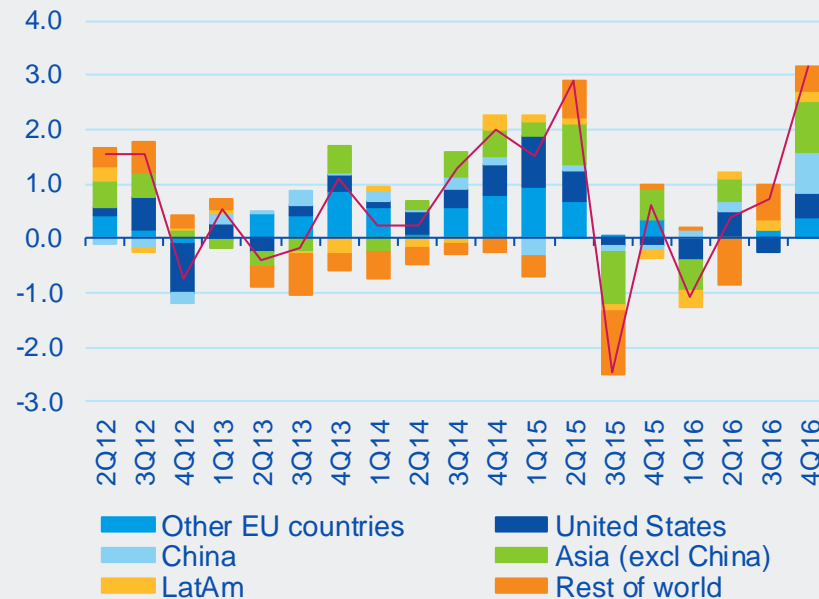
ECONOMIC DEVELOPMENTS

Exports' acceleration driven by higher global demand... while the boost of imports continued at the start of 1Q

TRADE BALANCE
(€ bn, %GDP)



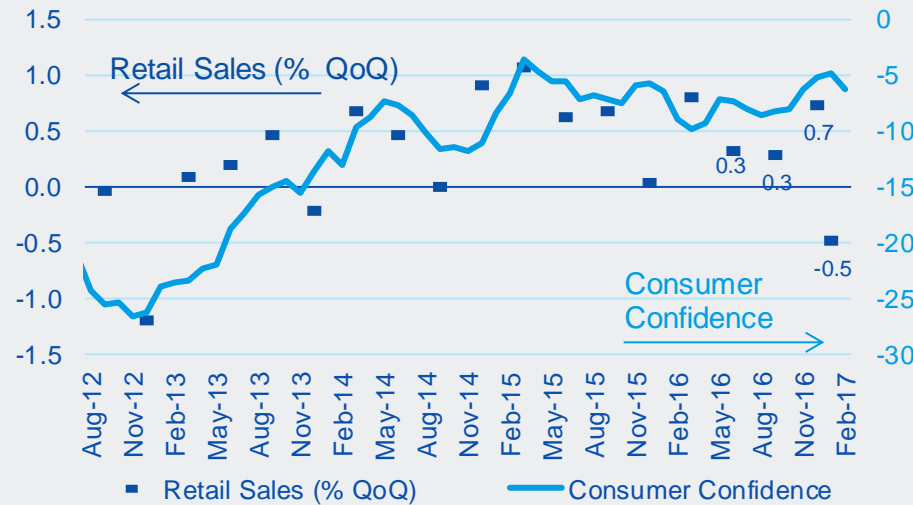
EXPORTS CONTRIBUTION BY DESTINATION
(%QoQ, pp)



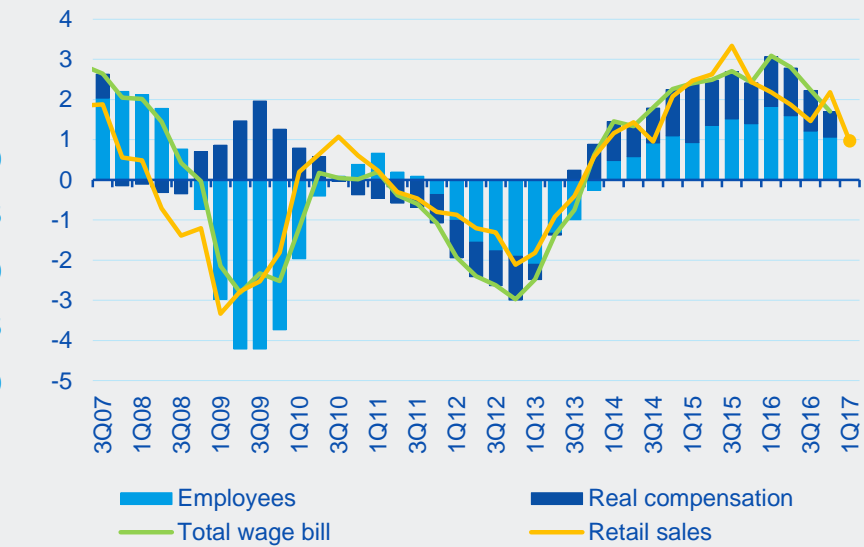
ECONOMIC DEVELOPMENTS

Retail sales continue to moderate while high inflation could be weighing on real wages

RETAIL SALES AND CONSUMER CONFIDENCE
(%QoQ, pts)



RETAIL SALES AND TOTAL WAGE BILL*
(%YoY)

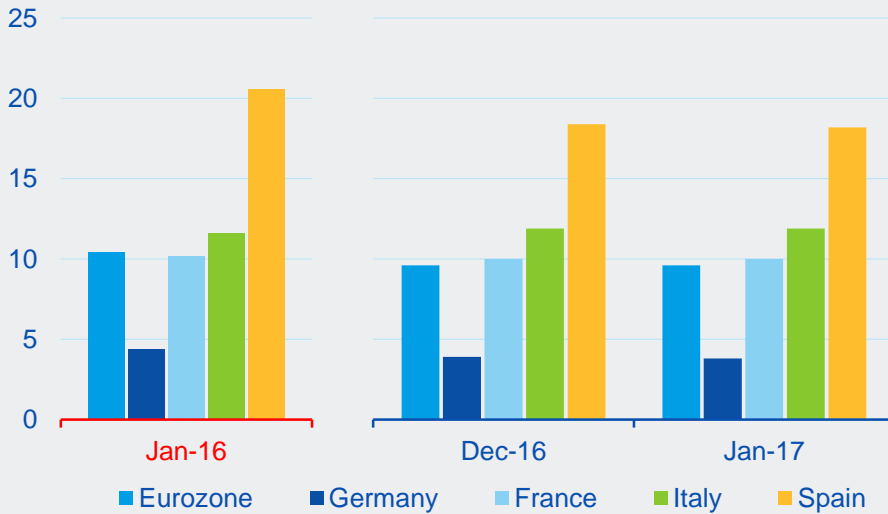


- Retail sales declined for third consecutive month but at slower pace (-0.1% MoM in January against -0.5% MoM in December). Nonetheless consumer confidence data have remained broadly stable
- Private consumption still supported by labor market gains, although some higher headline inflation could be eroding real wages

ECONOMIC DEVELOPMENTS

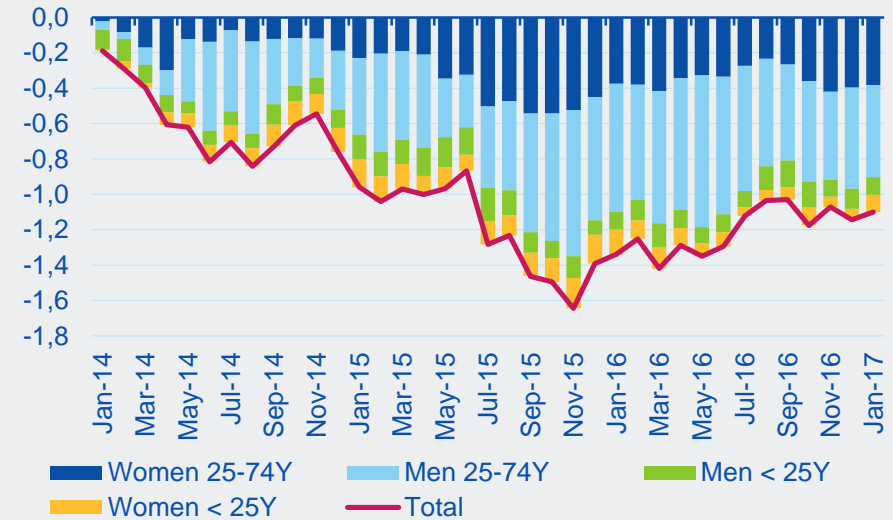
Unemployment rate remain steady at the beginning of the year

UNEMPLOYMENT RATE BY COUNTRY (%)



- **Jobless rate steady at 9.6% in January** while continue to decline in Spain

ANNUAL UNEMPLOYMENT CHANGE BY GENDER & AGE (millions)

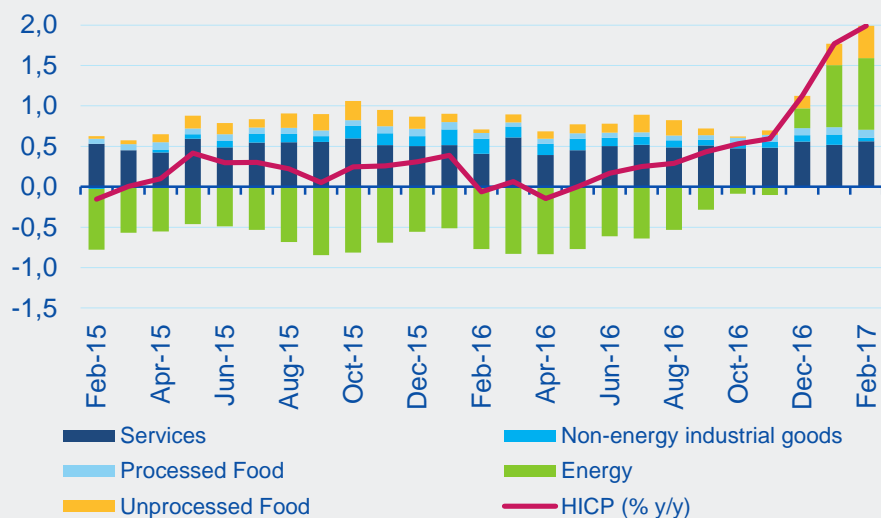


- **Unemployed decline** is observed mostly among the experienced population

ECONOMIC DEVELOPMENTS

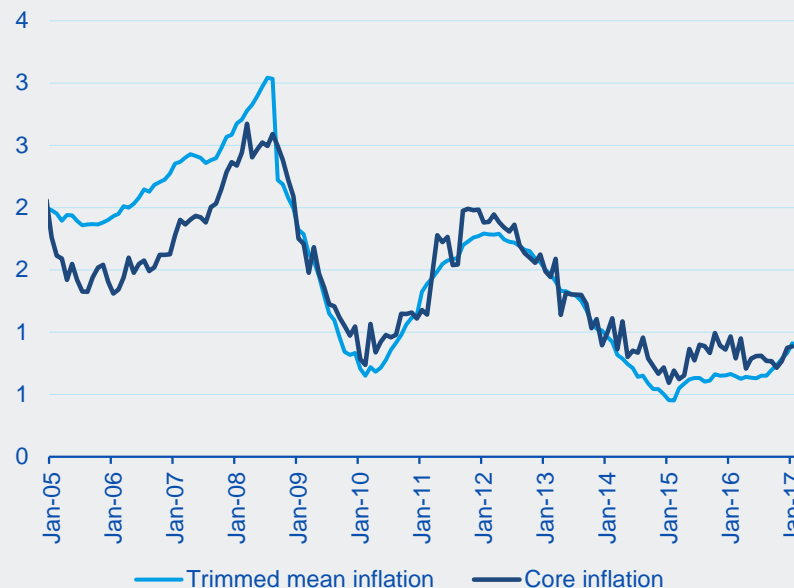
Headline inflation reached 2.0% YoY in February driven by energy and food but with no pressure from core rates yet

INFLATION AND CONTRIBUTION OF COMPONENTS (%YoY, pp)



- Eurozone **HCPI** came out above expectations in February (+2.0% YoY), increasing +0.2pp **on the back of energy and foods inflation**

INFLATION AND TRIMMED MEAN (%YoY)

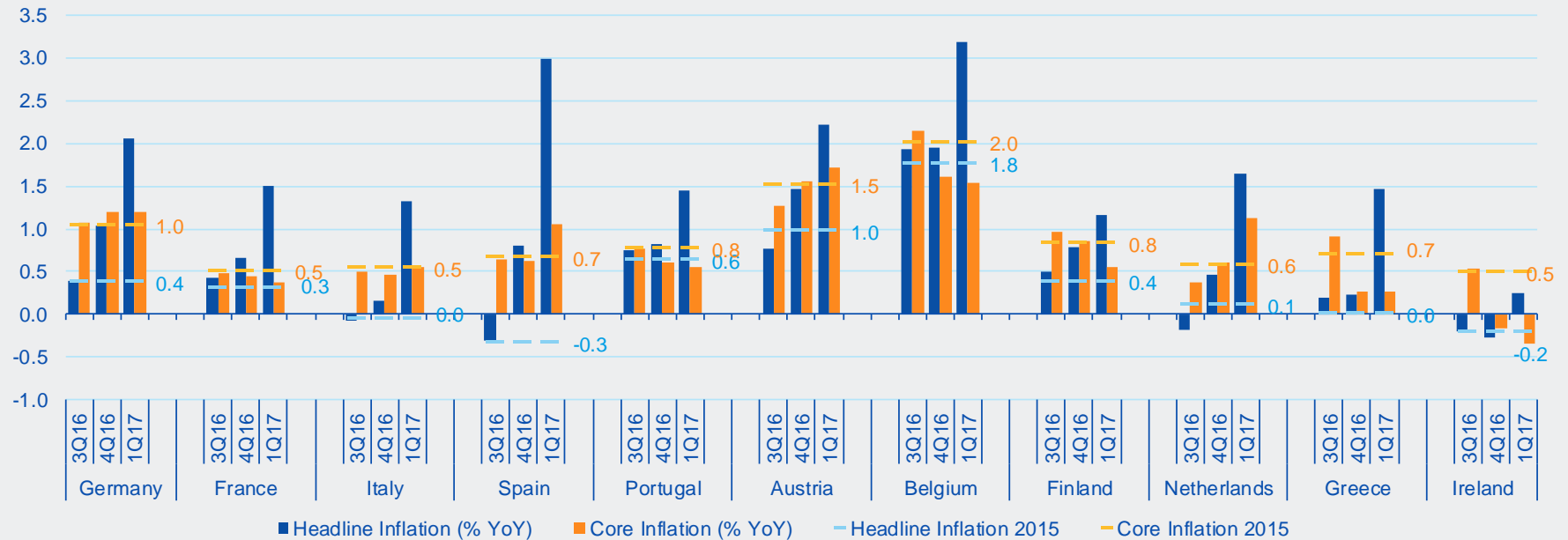


- Nonetheless **the core measure remained unchanged** at 0.9% YoY
- We expect **inflation to reach a peak of around 2% in the coming months and then moderate somewhat**

ECONOMIC DEVELOPMENTS

All countries have shown accelerating inflation but core measures remain contained

HEADLINE AND CORE INFLATION (%YoY)



- By country, **HCPI headline inflation** continue to **increase in most major countries** in February: **Germany** (2.2% after 1.9% YoY), **Italy** (1.6% after 1.0% YoY), **Spain** (3.0% after 2.9% YoY). While it eased in **France** (1.4% after 1.6% YoY).

Eurozone

Economic Watch

MARCH 2017



Disclaimer

This document has been prepared by BBVA Research Department, it is provided for information purposes only and expresses data, opinions or estimations regarding the date of issue of the report, prepared by BBVA or obtained from or based on sources we consider to be reliable, and have not been independently verified by BBVA. Therefore, BBVA offers no warranty, either express or implicit, regarding its accuracy, integrity or correctness.

Estimations this document may contain have been undertaken according to generally accepted methodologies and should be considered as forecasts or projections. Results obtained in the past, either positive or negative, are no guarantee of future performance.

This document and its contents are subject to changes without prior notice depending on variables such as the economic context or market fluctuations. BBVA is not responsible for updating these contents or for giving notice of such changes.

BBVA accepts no liability for any loss, direct or indirect, that may result from the use of this document or its contents.

This document and its contents do not constitute an offer, invitation or solicitation to purchase, divest or enter into any interest in financial assets or instruments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

In regard to investment in financial assets related to economic variables this document may cover, readers should be aware that under no circumstances should they base their investment decisions in the information contained in this document. Those persons or entities offering investment products to these potential investors are legally required to provide the information needed for them to take an appropriate investment decision.

The content of this document is protected by intellectual property laws. It is forbidden its reproduction, transformation, distribution, public communication, making available, extraction, reuse, forwarding or use of any nature by any means or process, except in cases where it is legally permitted or expressly authorized by BBVA.