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Eurozone Economic Watch

June 2017



Eurozone: Growth momentum stabilizes in 2Q at high levels

- ◆ **The outlook seems to stabilize in 2Q17**, while upward revisions to GDP growth figures suggest a solid recovery.
- ◆ **Overall, May confidence data kept being robust across major countries.** Meanwhile consumer sentiment remained supportive to domestic demand given the ongoing improvement in the labor market.
- ◆ **Foreign trade somewhat slowed in May, but Q2 figures are still strong**, adding to April's surge in industrial production. **Retail sales continued to moderate** at the start of 2Q.
- ◆ Our **MICA-BBVA model** for short-term growth continues to estimate a quarterly **GDP figure in the Eurozone of 0.6% QoQ in 2Q17**, suggesting an upward bias for this year growth forecasts.
- ◆ **Inflation eased in May** to 1.4% YoY **driven by the moderation in energy and services.** Core measures also slowed down (to 0.9% YoY) and remain subdued. After recent volatility associated to calendar effects, **inflation remains contained while recovering at a low pace.**

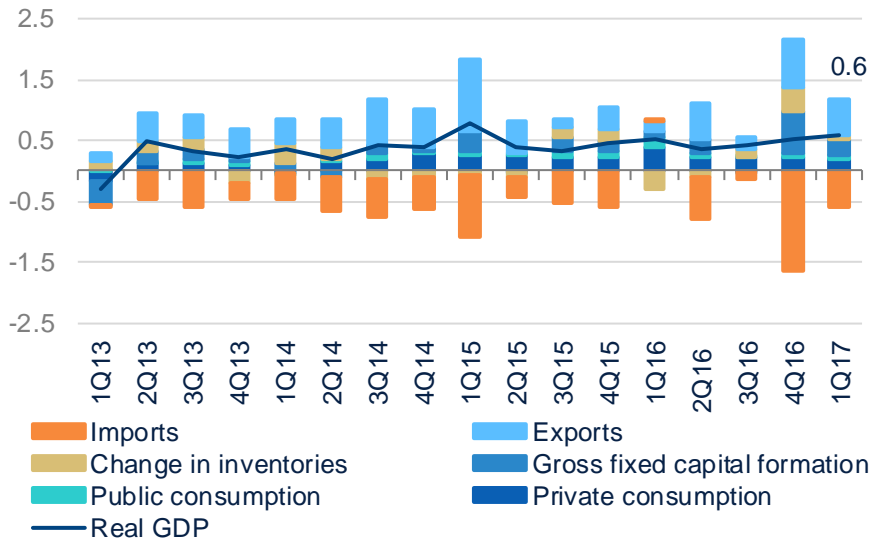
Economic developments

June 2017

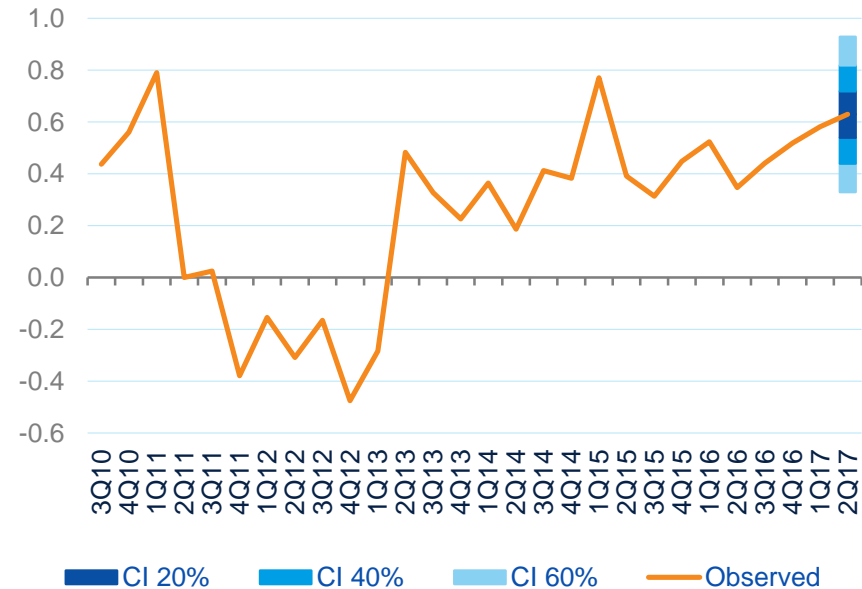


Recent data and statistical revisions suggest that growth momentum will remain broadly stable in 2Q17

GDP, Contribution by Components
(%QoQ, pp)



GDP and MICA forecasts
(%QoQ)



Source: Eurostat and BBVA Research

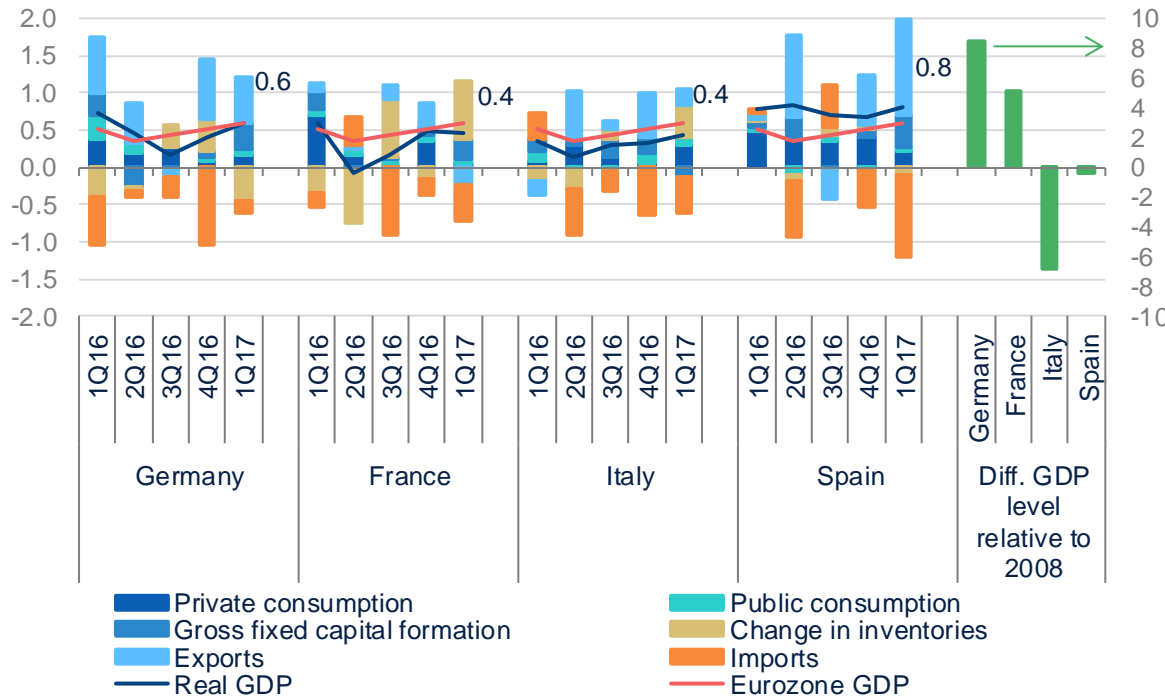
◆ Eurozone 1Q17 GDP growth was revised up to 0.6% QoQ (+0.1pp)

◆ Investment was the main contributor to growth (+0.3pp), followed by **consumption**, which slowed due to the rise in inflation

◆ Our MICA-BBVA model estimates so far a quarterly GDP growth of around **0.6% QoQ in 2Q17**

GDP growth surge was widespread across major countries in 1Q17, with upward revisions in Italy and France

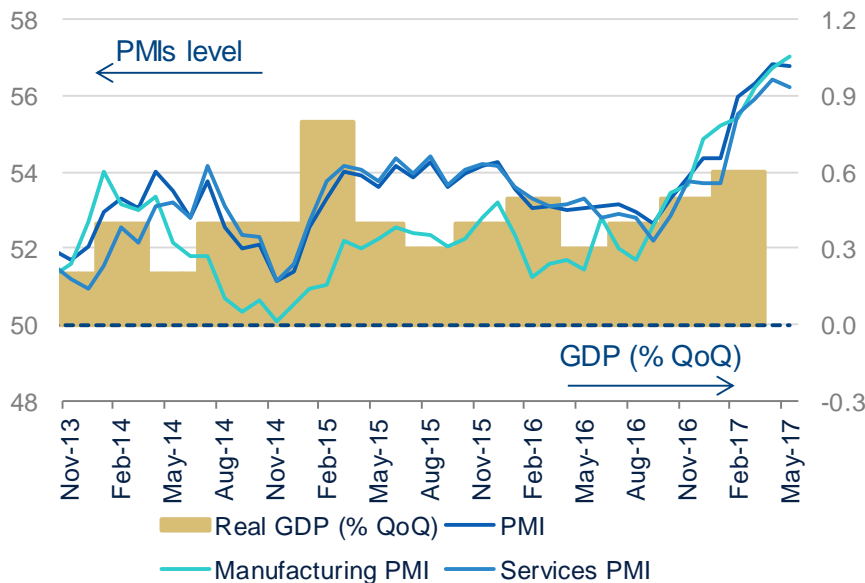
GDP: Contribution by components
(%QoQ, pp)



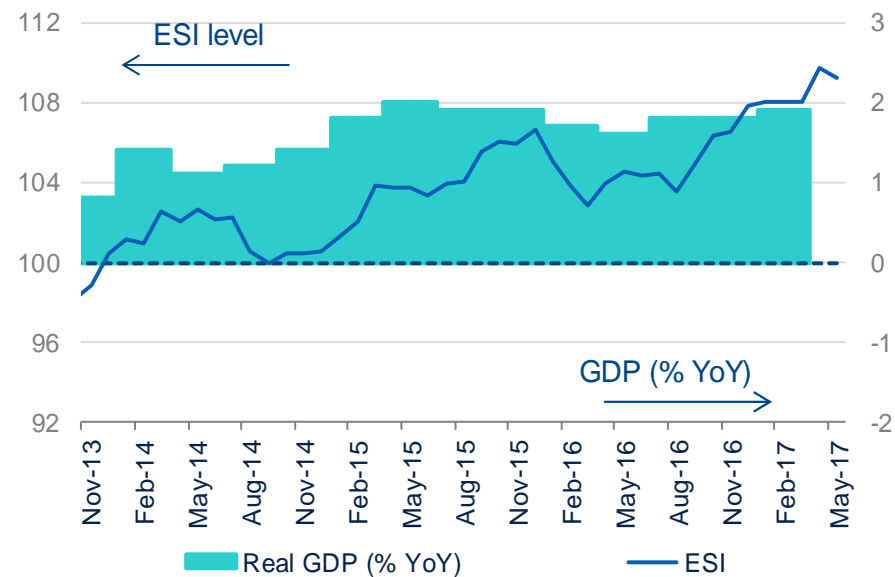
- ◆ In Germany GDP grew 0.6% QoQ in 1Q17 driven by a strong net exports contribution.
- ◆ In contrast, investment was the main contributor in France (revised upwards by 0.1pp to 0.4%) and Spain (0.8%)
- ◆ Italy continues its gradual upward trend at the start of 2017 (0.4% QoQ, revised from 0.2% QoQ)

Confidence indicators remain optimistic and signaling further steam in 2Q17...

PMI and GDP
(level, %QoQ)



ESI and GDP
(level, %YoY)



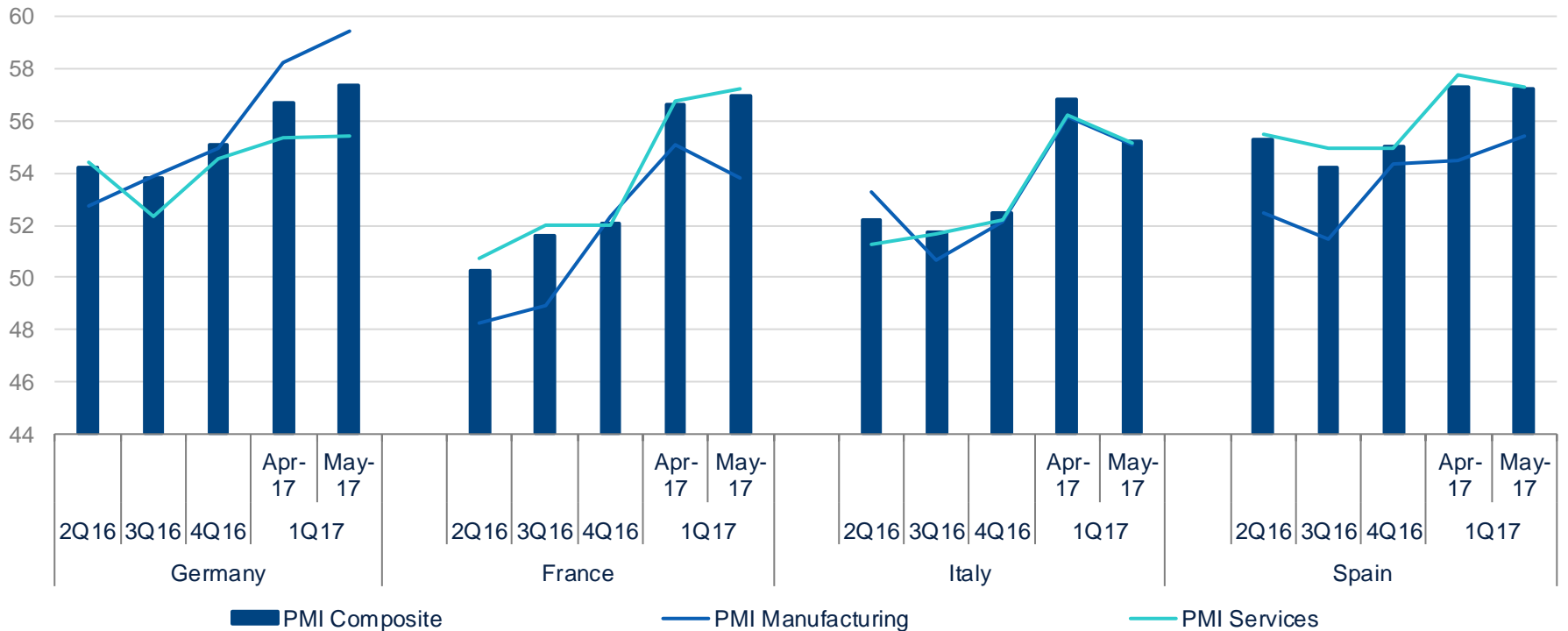
Source: Eurostat and BBVA Research

◆ Confidence data so far continue to signal further acceleration in 2Q17, with manufacturing increasing once again supported by strong growth of incoming new orders

◆ European Economic Sentiment softened in May due to the fall in services and retail trade confidence, but it is still near post-crisis high

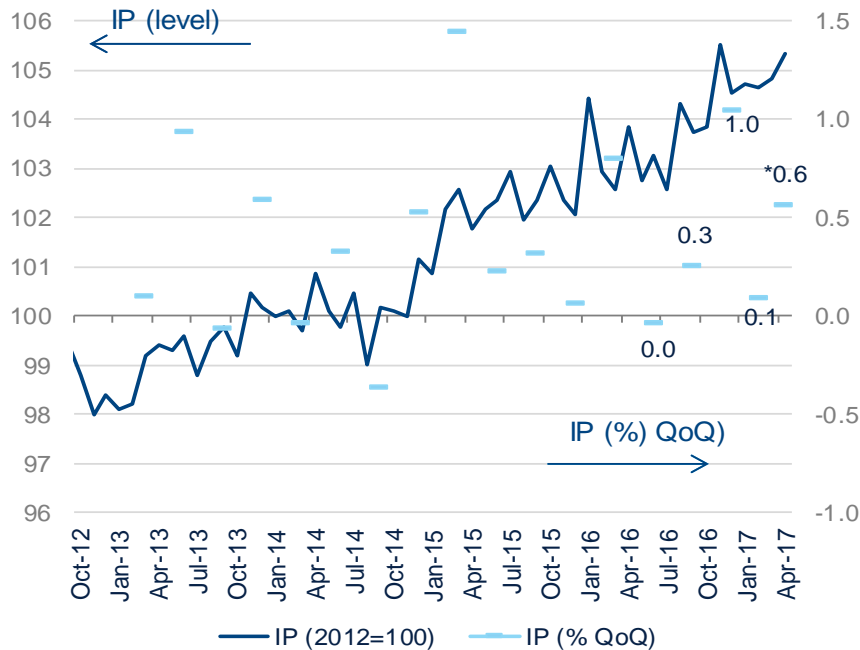
... with Germany, Spain and France leading the positive mood

PMI
(level)



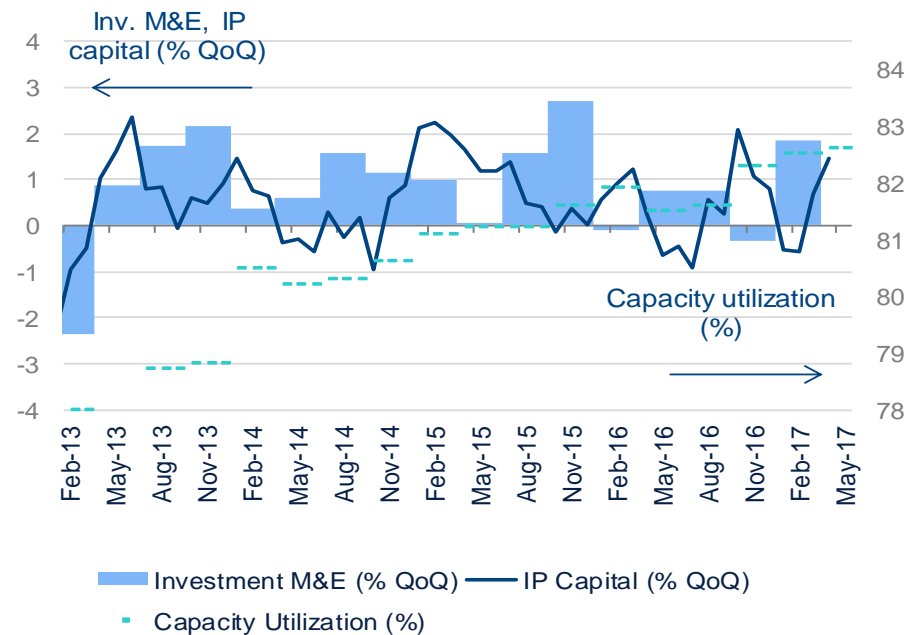
Recently, industrial output seems to be catching up to confidence surveys

Industrial production
(level, %QoQ)



Source: Eurostat and BBVA Research

IP capital, investment in machinery and equipment and utilization capacity
(%QoQ, %)



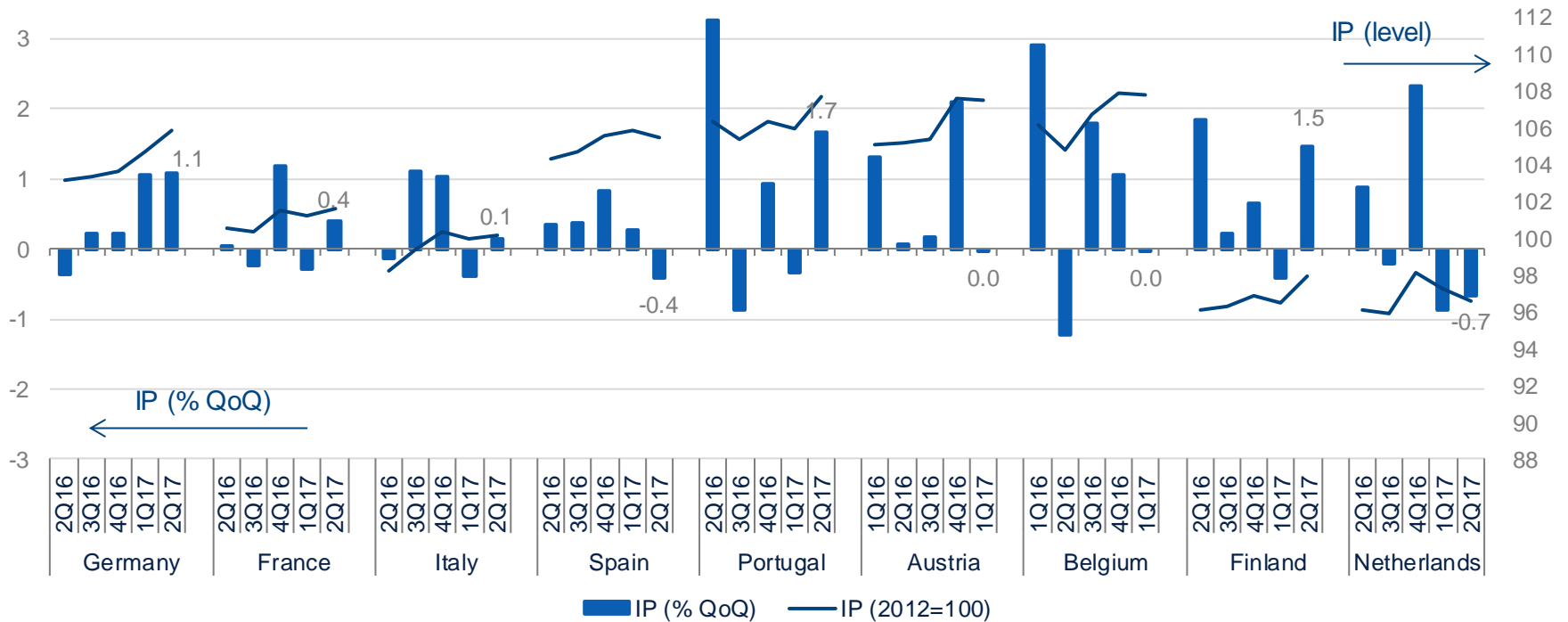
Source: Eurostat and BBVA Research

◆ Industrial production increased 0.5% MoM in April after 0.2% MoM in March (revised upward +0.3 pp)

◆ Production of capital and durable consumer goods added to high capacity utilization confirmed that the recovery in investment is on track

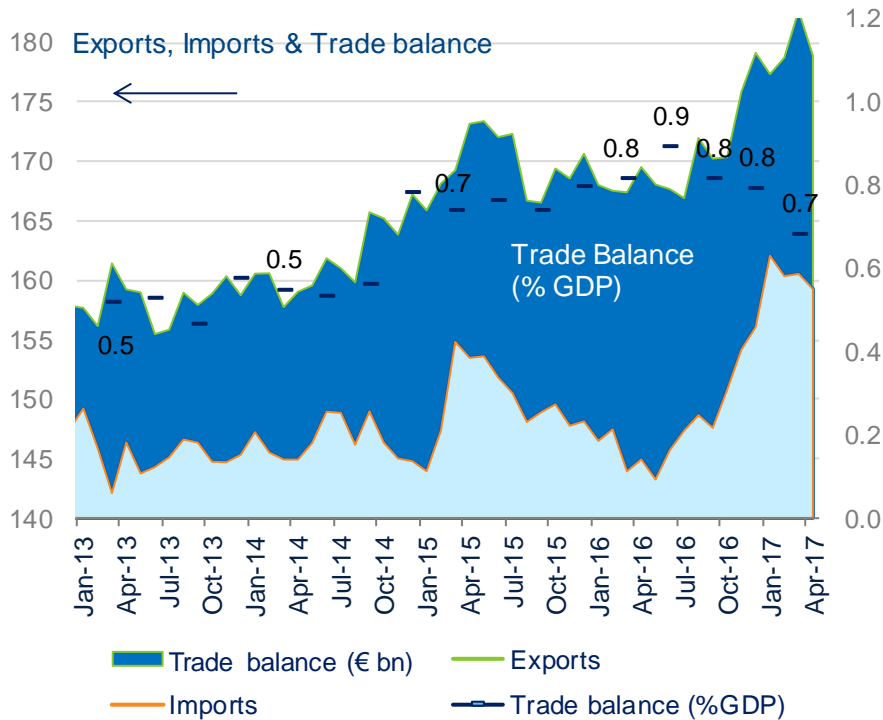
Mixed performance of industrial output across geographies with solid performance in most core countries, mainly Germany

Industrial production
(%QoQ, level)

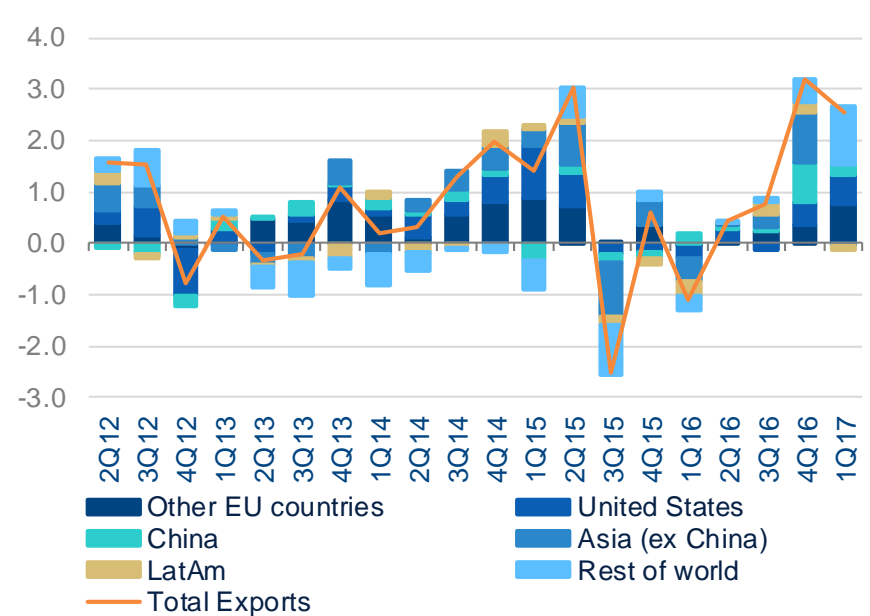


Trade slowed down in May suggesting that global recovery could be softening. But overall 2Q figures remain positive

Trade balance
(€ bn, %GDP)

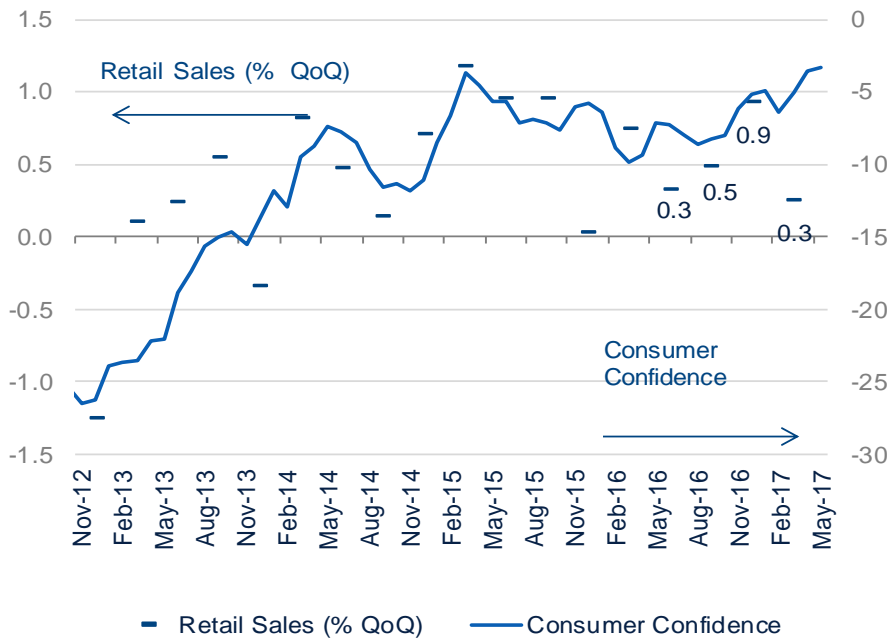


Exports contribution by destination
(%QoQ, pp)

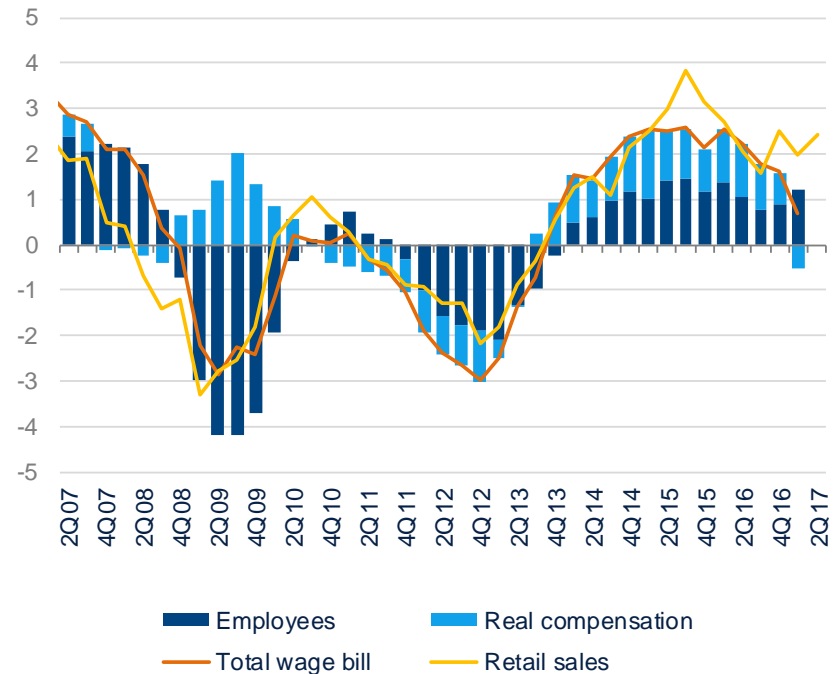


Retail sales moderated again in April in line with decelerating household income

Retail sales and consumer confidence
(%QoQ, pts)



Retail sales and total wage bill
(%YoY)



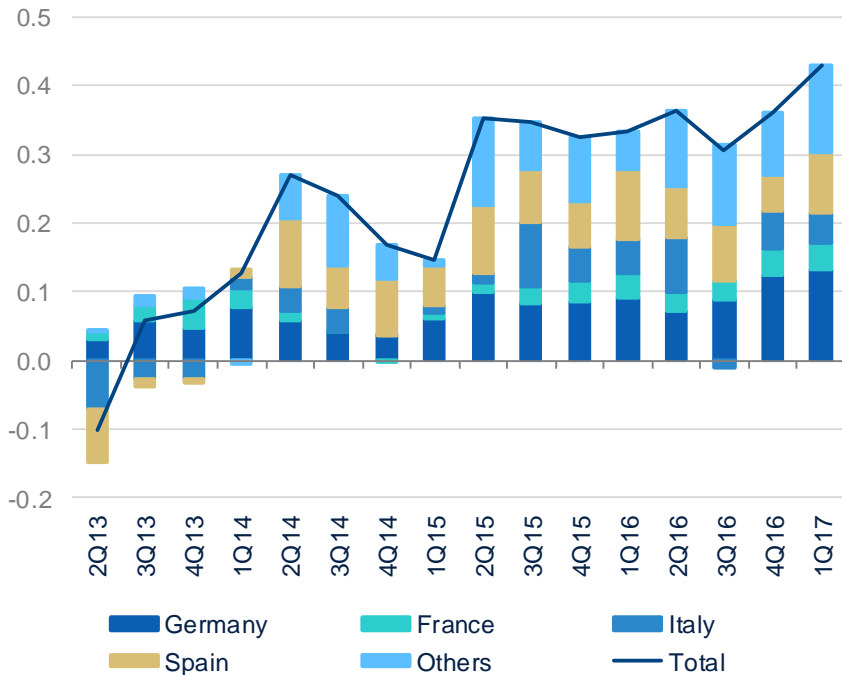
Source: Eurostat and BBVA Research

◆ Retail sales flattened in April (0.1% MoM; -0.1pp), as wage purchasing power erodes

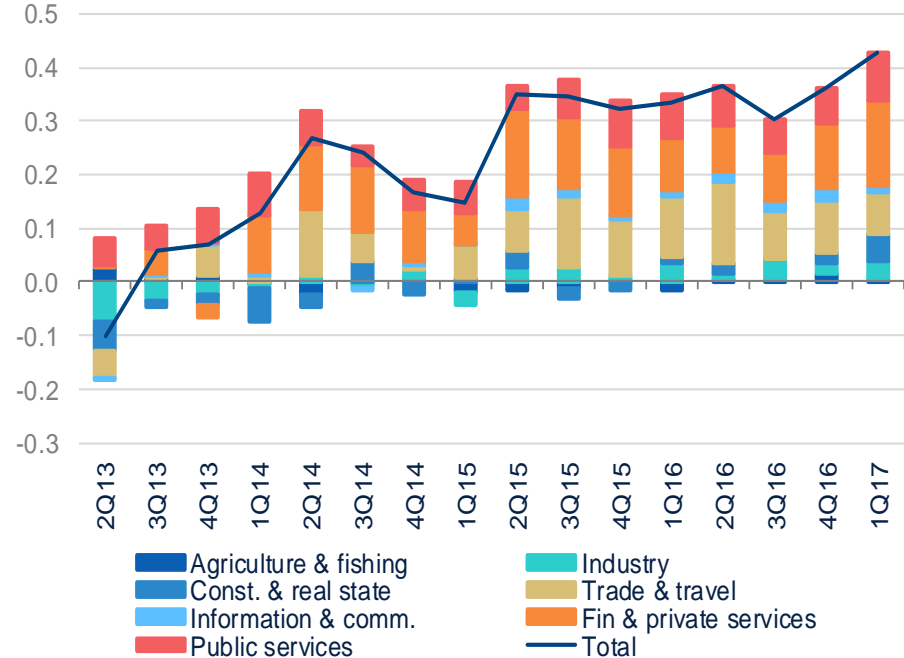
◆ Nonetheless, yearly figures continues to signal consumption as a main driver of economic recovery

The recovery of employment continued in 1Q driven by Germany, Italy and Spain

Eurozone: Job growth contribution by country
(%QoQ, pts)



Eurozone: Job growth contribution by sector
(millions)



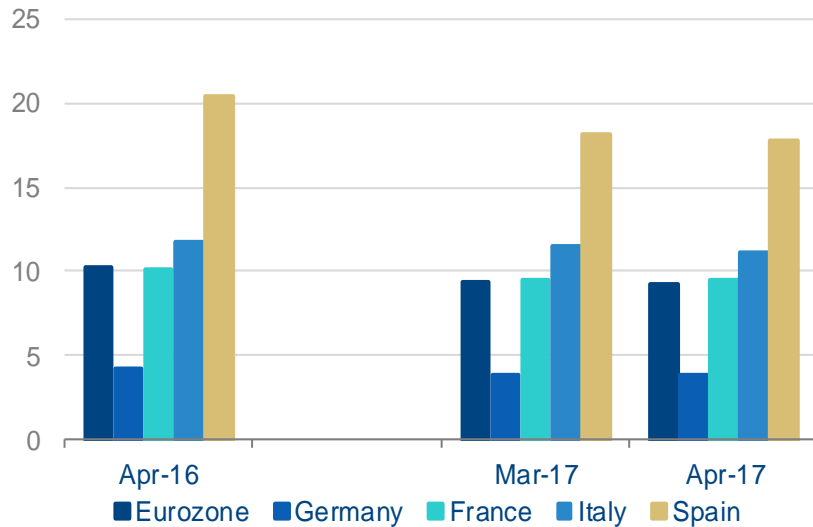
Source: Eurostat and BBVA Research

◆ **Job-growth reached 0.4% QoQ in 1Q, while contributions came mostly from Germany and Spain in 1Q**

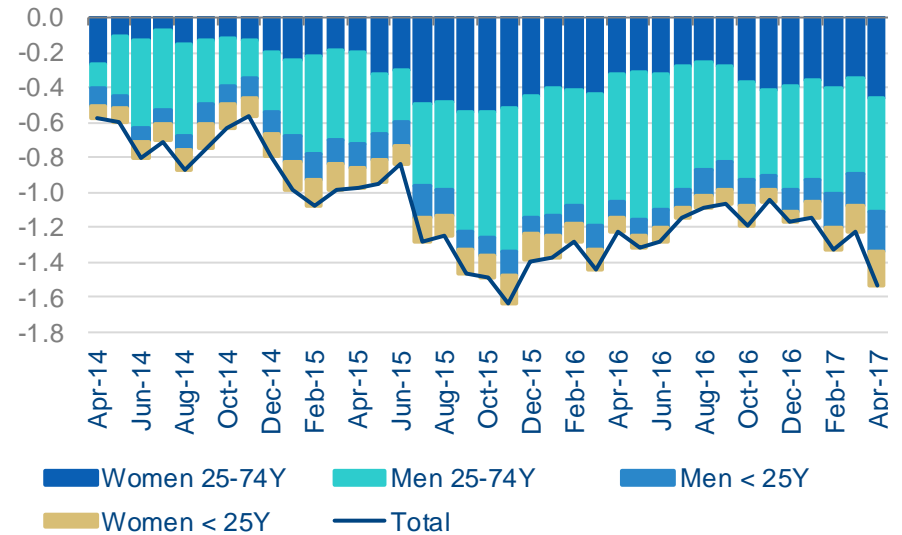
◆ **By sector, job-creation is coming from public and private services, which add to trade and travel activities**

The unemployment rate fell to post-crisis lows in April

Unemployment rate by country
(%)



Annual unemployment change by gender & age
(millions)



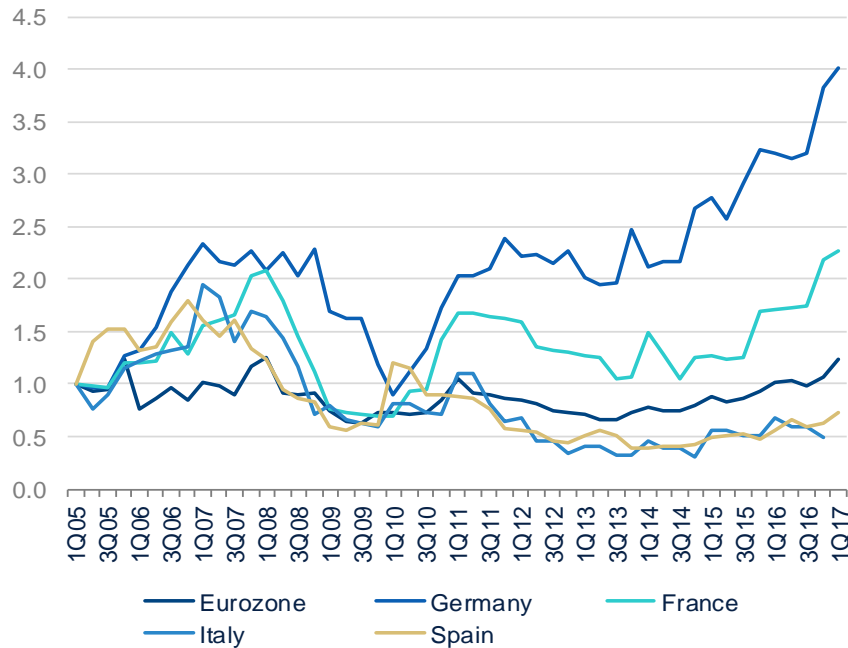
Source: Eurostat and BBVA Research

◆ **Jobless rate reached 9.3% in April** (from 9.4% in March) with a annual decline of 0.9pp

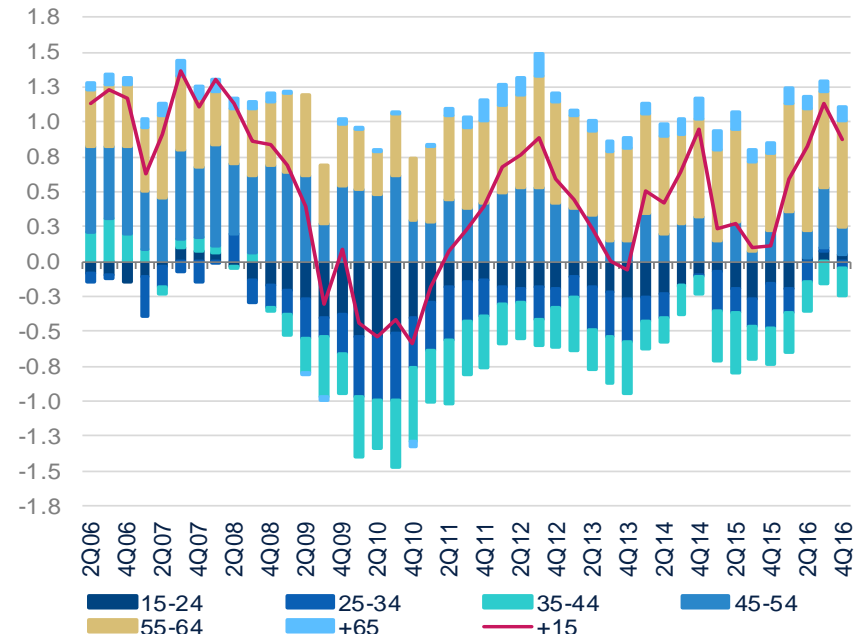
◆ **Unemployment fall is observed mostly among the experienced population**

Vacancy-unemployment ratio signals an improving job market, adding to strong labor force growth among experienced cohorts

Job vacancy to unemployment ratio
(Index, 1Q05=1)



Labor force contribution by cohort
(% YoY)



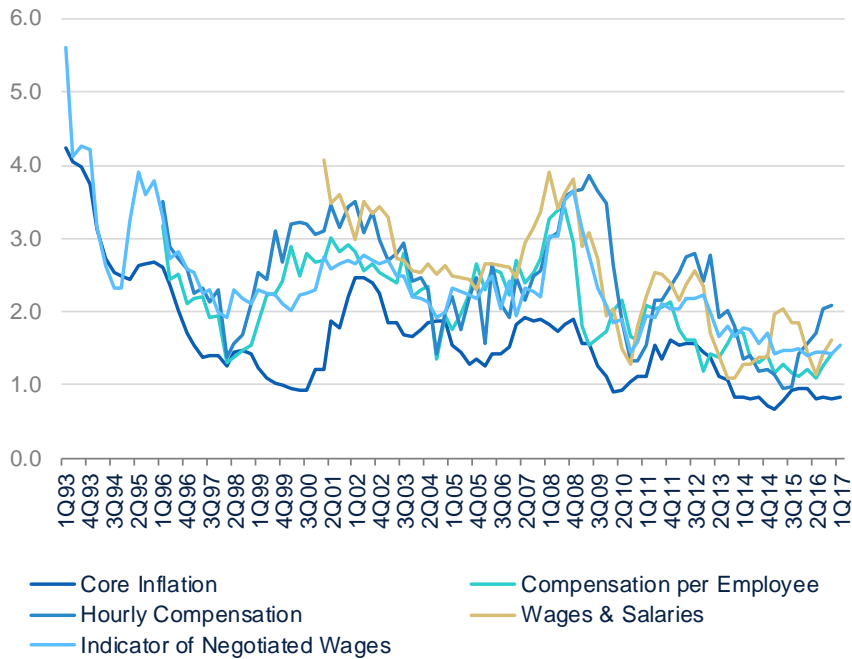
Source: Eurostat and BBVA Research

◆ At aggregate level the **vacancy-to-unemployment ratio** is recovering at **different speeds by country**

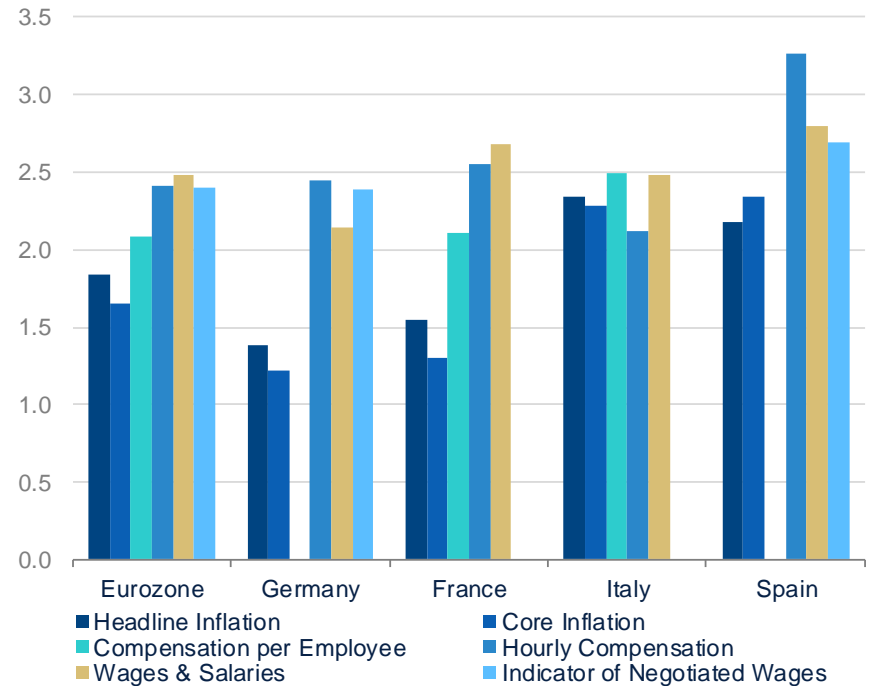
◆ **Increasing labor force** signals higher willingness to job-search and availability while the **decline in younger cohorts supply** stabilized

Annual wage growth remains subdued despite improving labor market conditions

Eurozone: CPI inflation and wage measures
(% YoY)



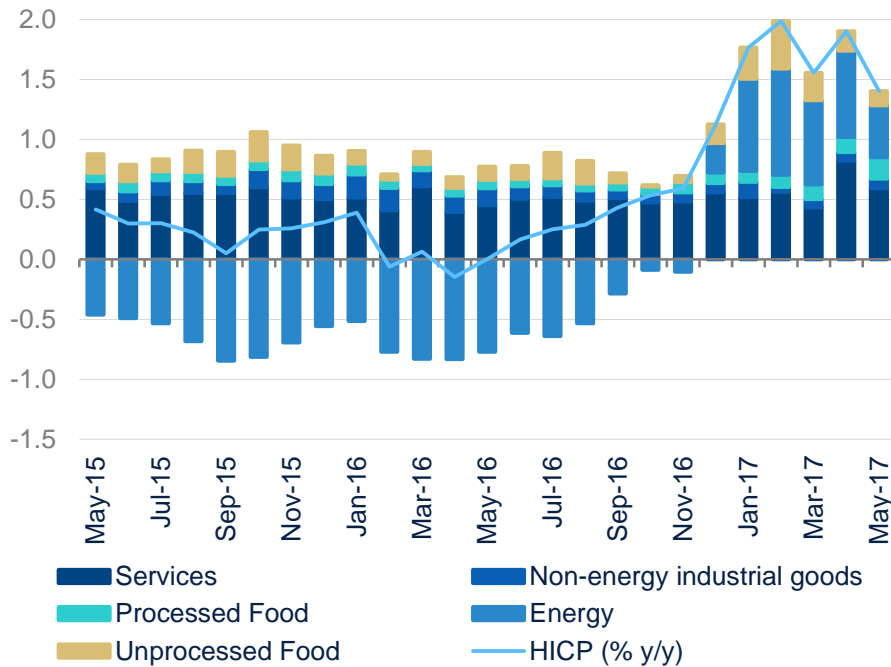
Average growth of CPI and wage measures*
(% YoY)



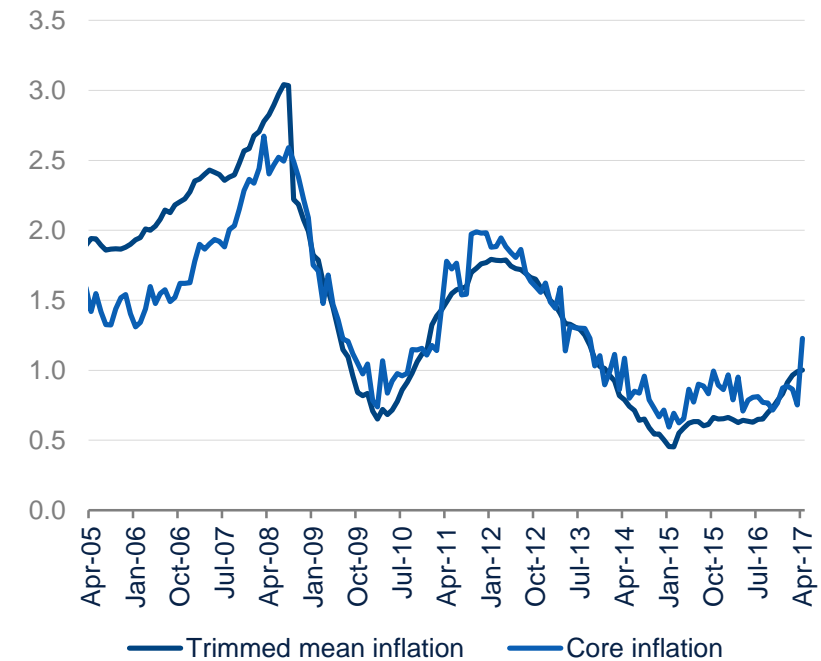
Source: Eurostat and BBVA Research
*Based on different individual samples of quarterly data

Headline and core inflation moderated in May driven by energy and services, displaying some volatility in recent months

Inflation and contribution of components
(%YoY, pp)



Inflation and trimmed mean
(%YoY)



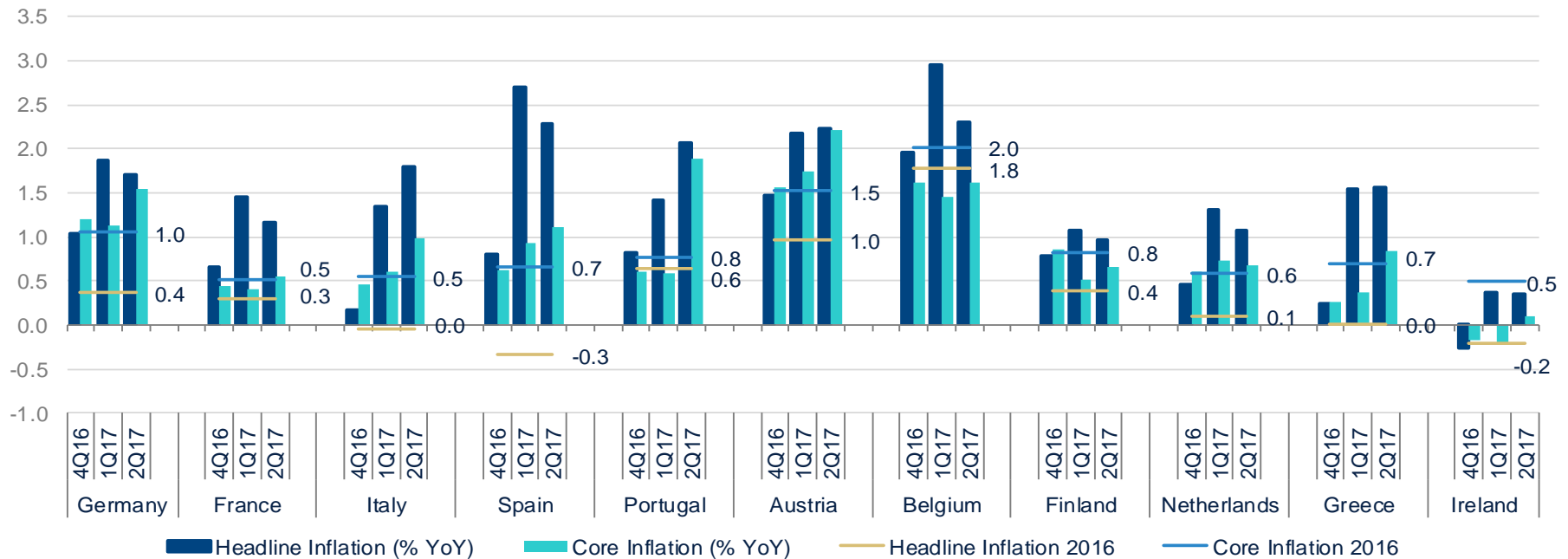
Source: Eurostat and BBVA Research

◆ **Harmonized inflation moderated in May by 0.5pp to 1.4% YoY, driven by deceleration prices in energy and services**

◆ **In this context, core inflation also slowdown to 0.9% (after 1.2% YoY)**

Core inflation remains subdued across countries

Headline and core inflation
(%YoY)



Source: Eurostat and BBVA Research

◆ By country, May **HCPI inflation moderated in Germany** (1.4% after 2.0% YoY), **Spain** (2.0% after 2.6% YoY), **France** (0.9% after 1.4% YoY) and **Italy** (1.6% after 2.0% YoY)

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