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Eurozone Economic Watch

November 2017

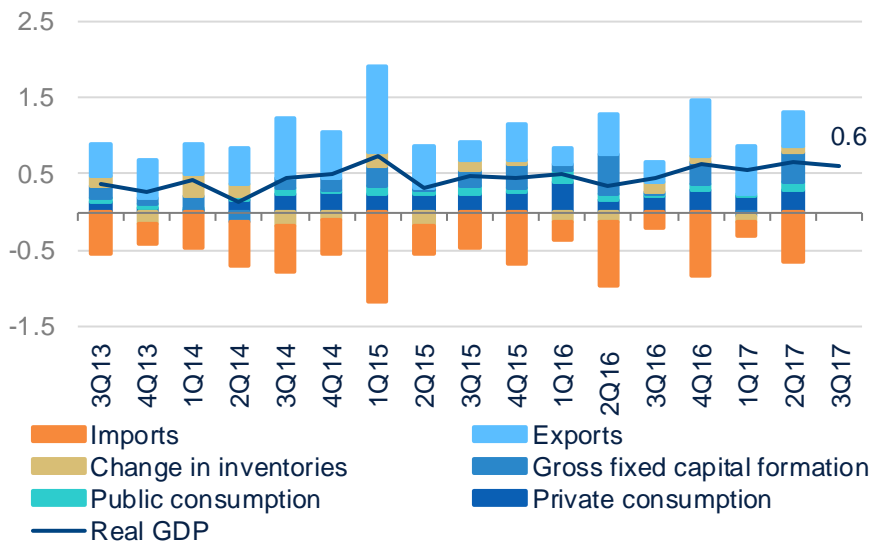


Eurozone: improved outlook, still subdued inflation

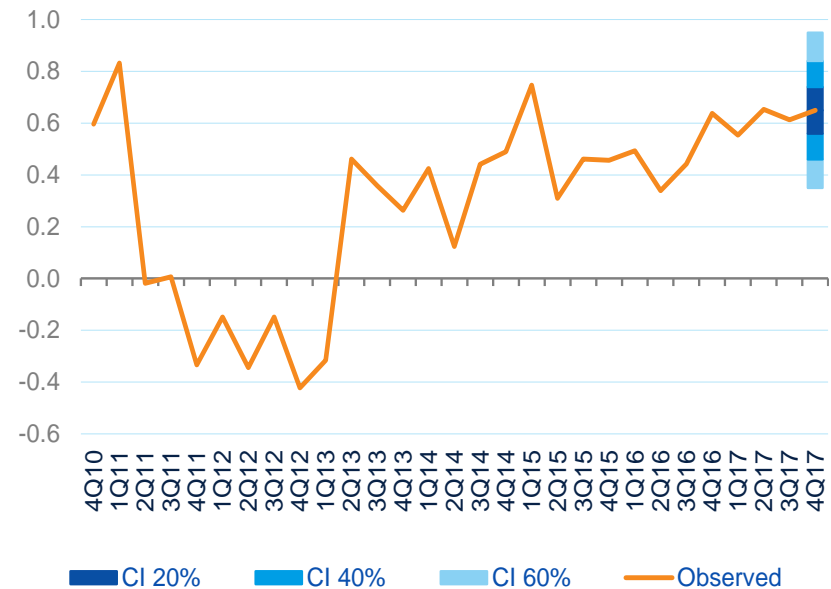
- ◆ Our **MICA-BBVA model** for growth estimates for the moment a quarterly **GDP figure of around 0.6-0.7% in 4Q17**, after 0.6% QoQ in 3Q17.
- ◆ **Confidence started to pick up again in November**, mostly in manufacturing but also in services.
- ◆ **Activity data showed mixed signs in September**: Industrial output cooled down a bit though it still shows a positive momentum overall in 3Q. In contrast, retail sales recovered the lost ground from previous months, while employment and consumer confidence remain resilient.
- ◆ **Both headline and core inflation eased and remain subdued** in October. The **headline rate is expected to decline by year end** driven by the negative base effects of energy prices along with the appreciation of the euro (forecasts are kept at 1.5% in 2017 and 1.2% in 2018). **Core inflation is likely to remain fairly stable and then gradually move up** (unchanged forecasts at 1.1% for 2017 and 1.4% for 2018).
- ◆ **Incoming data put a slight upward bias to our GDP growth forecasts for 2017 and 2018** (2.2% and 1.8%, respectively). The underlying growth bias comes from better than expected incoming data in Germany, while France and Italy are in line with our scenario.

Steady GDP growth at high levels in 3Q17 in the Eurozone, to be repeated by year-end

GDP, Contribution by Components
(%QoQ, pp)



GDP and BBVA-MICA forecasts
(%QoQ)

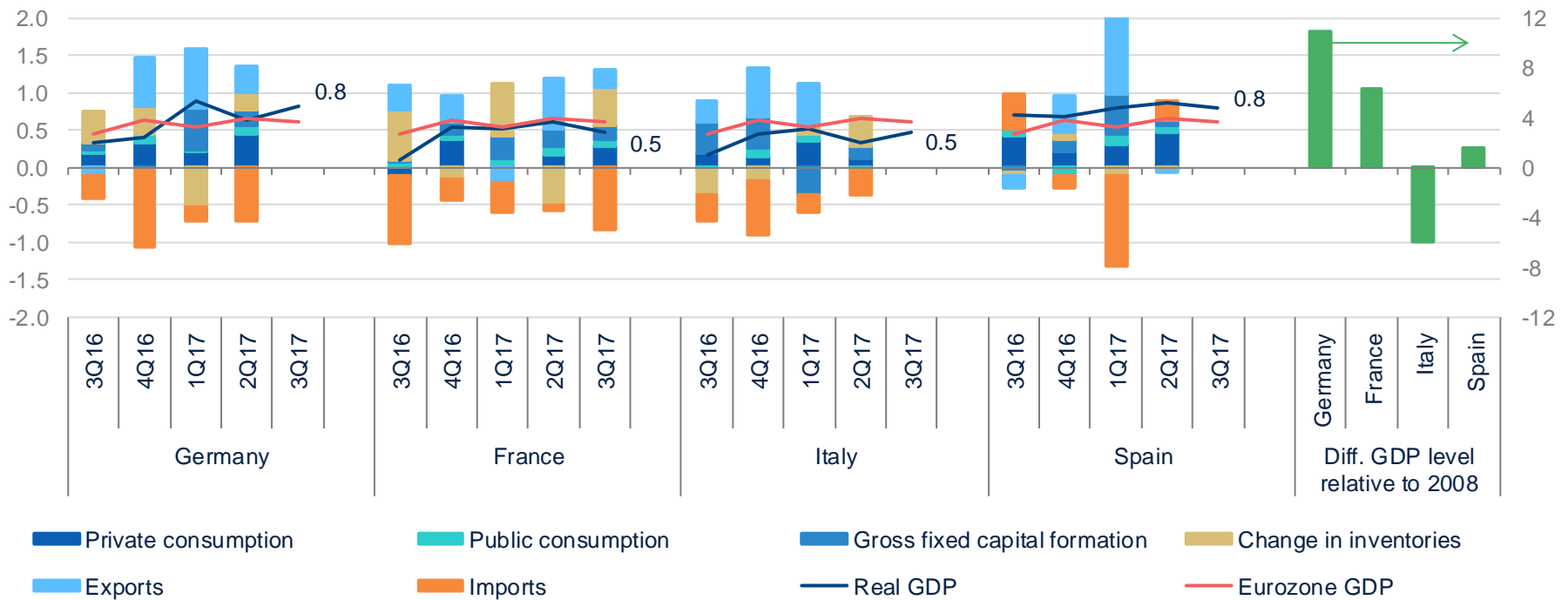


Source: Eurostat and BBVA Research

- ◆ Advanced **GDP growth** figure came out at **0.6% QoQ** in 3Q17, and **continues to point to a robust recovery**
- ◆ 3Q17 growth has been driven mainly by **domestic demand**
- ◆ **MICA-BBVA** suggests a **GDP growth** at around **0.6/0.7%** in 4Q17

Germany and Italy's GDP growth accelerated in 3Q17, while it slowed down somewhat in France and Spain

GDP, Contribution by components
(%QoQ, pp)



Source: Eurostat and BBVA Research

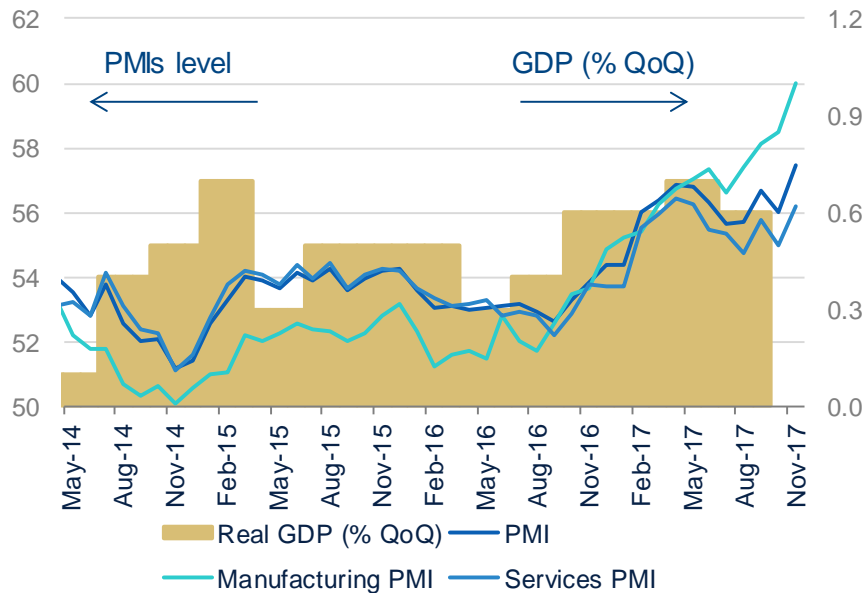
◆ Investment seems to be the main contributor of growth in Germany during 3Q17

◆ In France and Italy, GDP grew 0.5% QoQ in 3Q17, and supported mostly by domestic demand

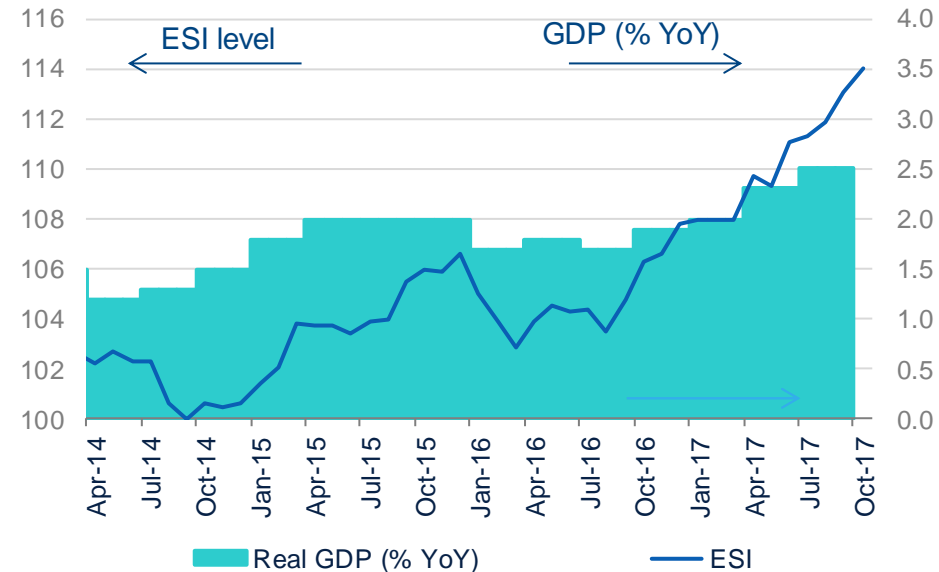
◆ Spain's growth, at 0.8% QoQ, showed a slight deceleration in 3Q17

Confidence figures surged in November and suggest a broad-based optimism

PMI and GDP
(level, %QoQ)



ESI and GDP
(level, %YoY)



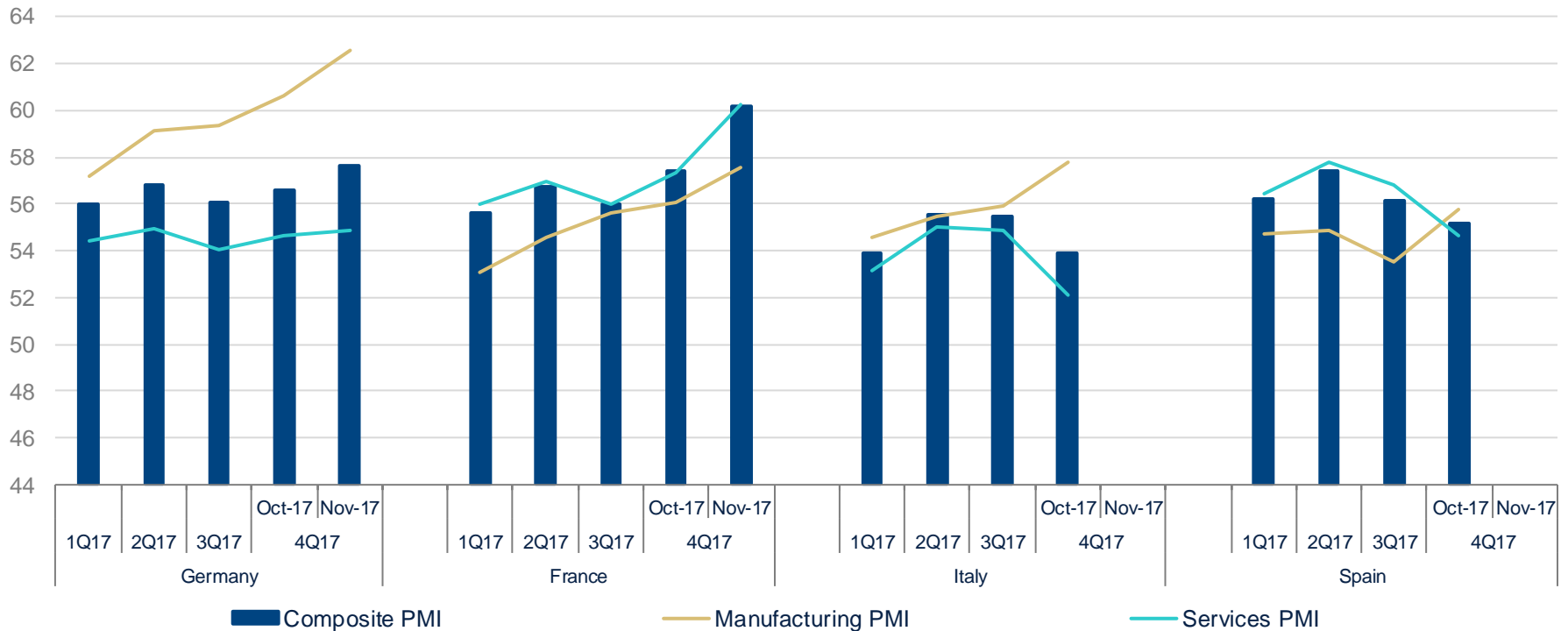
Source: Eurostat and BBVA Research

◆ In November, confidence levels increased across sectors, and highlighted a recovery in services and a surge in manufacturing

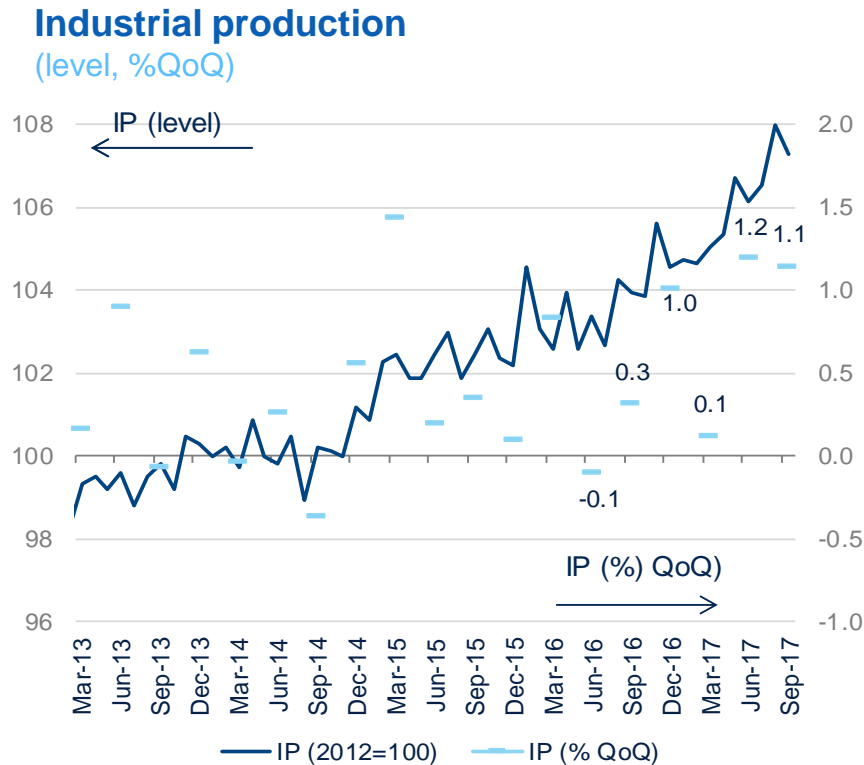
◆ Confidence among both businesses and consumers (according to ESI) continued to rise, while it reached the highest level since the Great Recession

PMI figures show increased optimism in France and Germany over 4Q17 so far

PMI
(level)

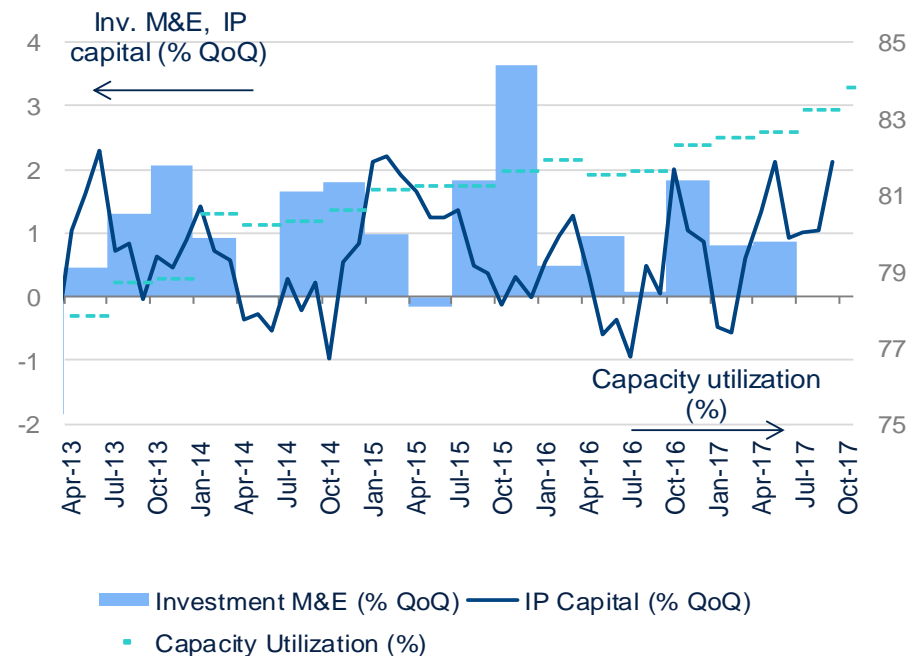


Industrial output growth remained solid in 3Q17, despite some moderation in September



Source: Eurostat and BBVA Research

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



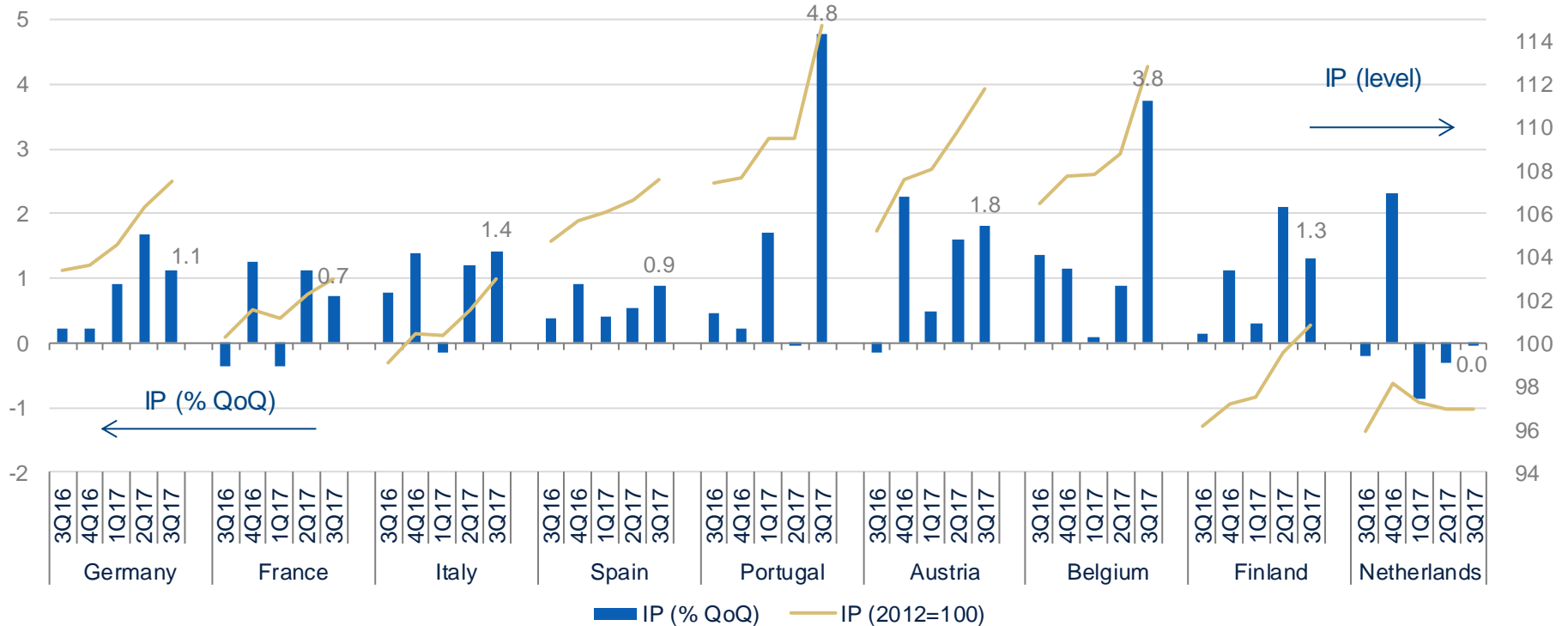
Source: Eurostat and BBVA Research

◆ **Industrial production moderated in September (-0.6% MoM) after the strong surge in August's figures**

◆ **The production of durables and capital goods, together with high capacity utilization, point to a still favourable investment outlook**

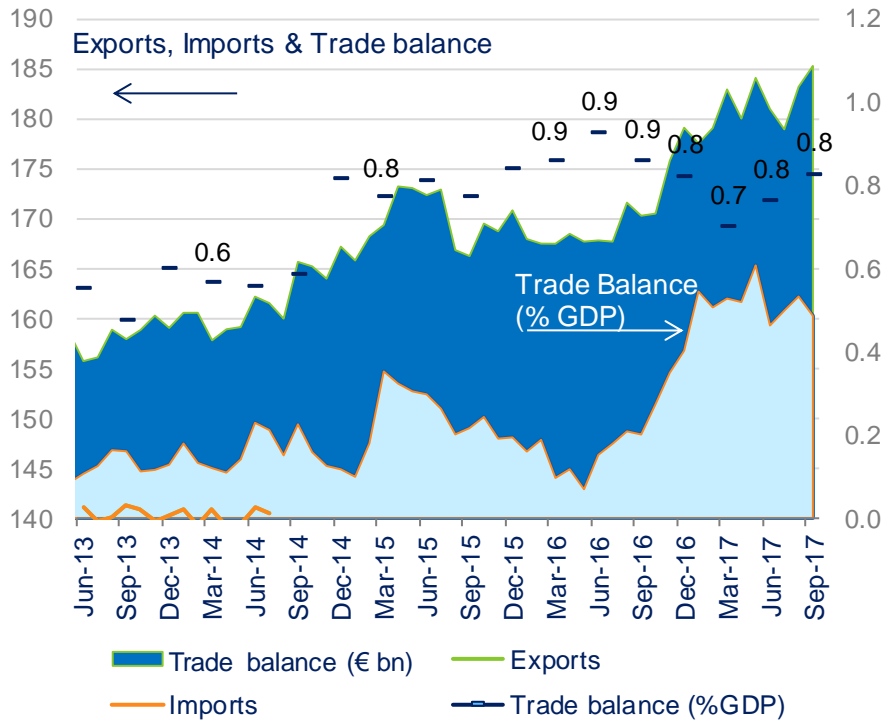
The increase of industrial production was widespread across countries during 3Q17

Industrial production
(%QoQ, level)

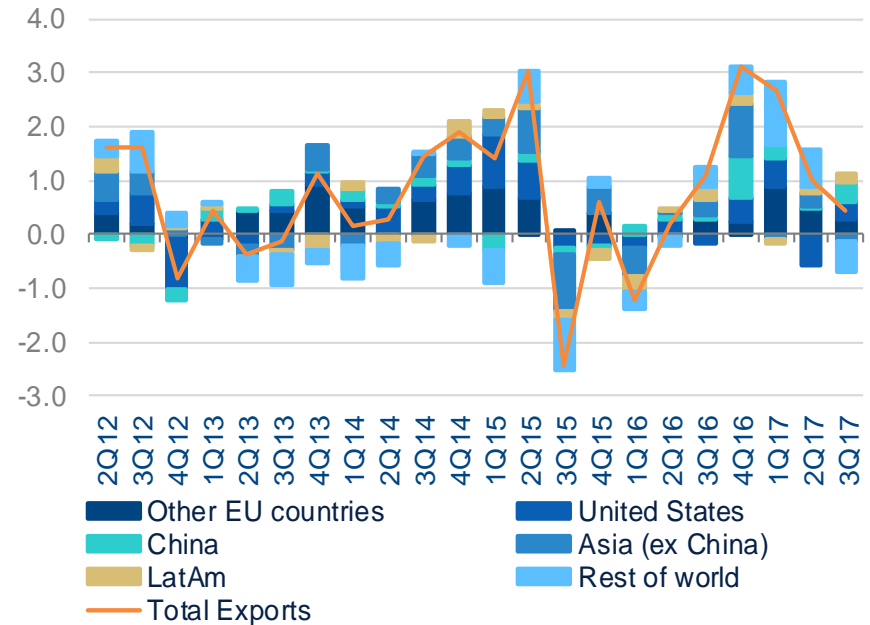


Foreign trade moderated in 3Q17, but soft data point to further support from external demand

Trade balance
(€ bn, %GDP)

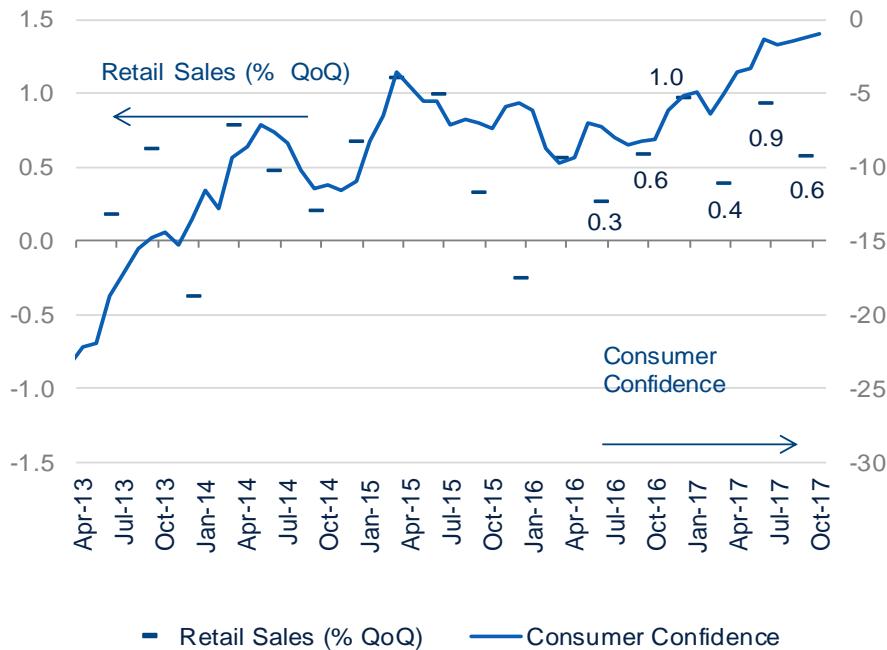


Exports contribution by destination
(%QoQ, pp)

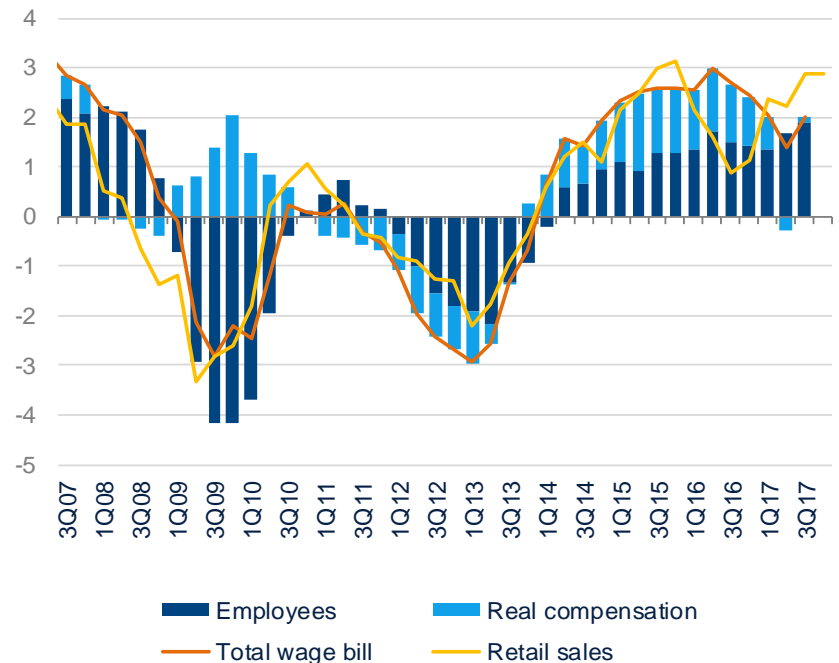


Retail sales recovered somewhat in September, on the back of high and stable confidence...

Retail sales and consumer confidence
(%QoQ, pts)



Retail sales and total wage bill
(%YoY)



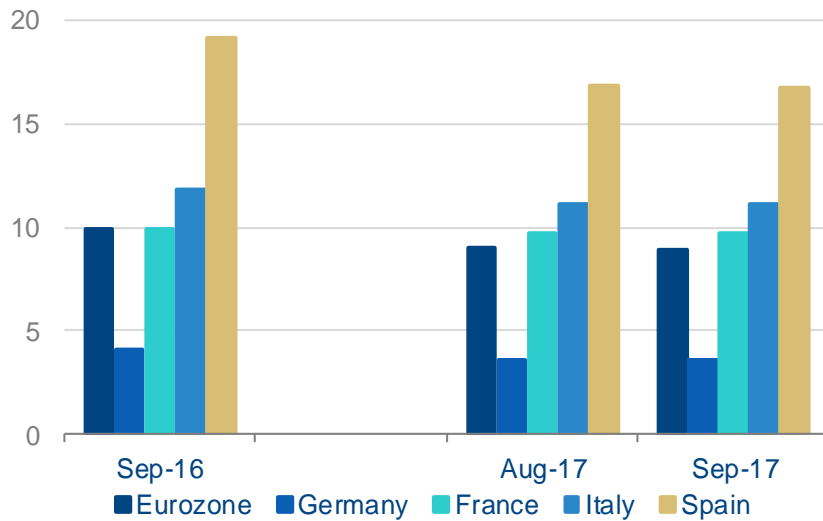
Source: Eurostat and BBVA Research

◆ **Retail sales increased** in September (0.6% MoM) and recovered from previous declines (-0.1% MoM in August)

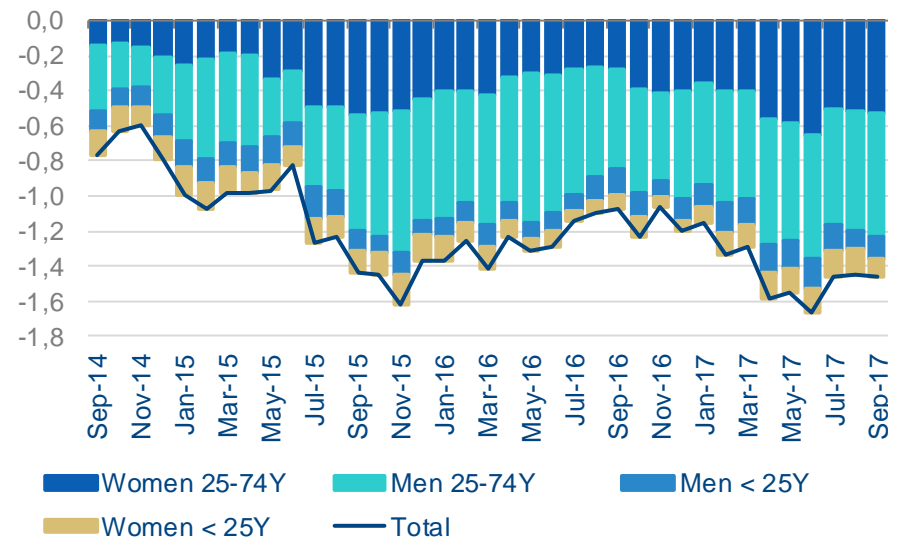
◆ **Continuous employment gains, low inflation and improving confidence** are the main drivers of consumption growth

... along with underlying improvements in the job market

Unemployment rate by country
(%)



Annual unemployment change by gender & age
(millions)

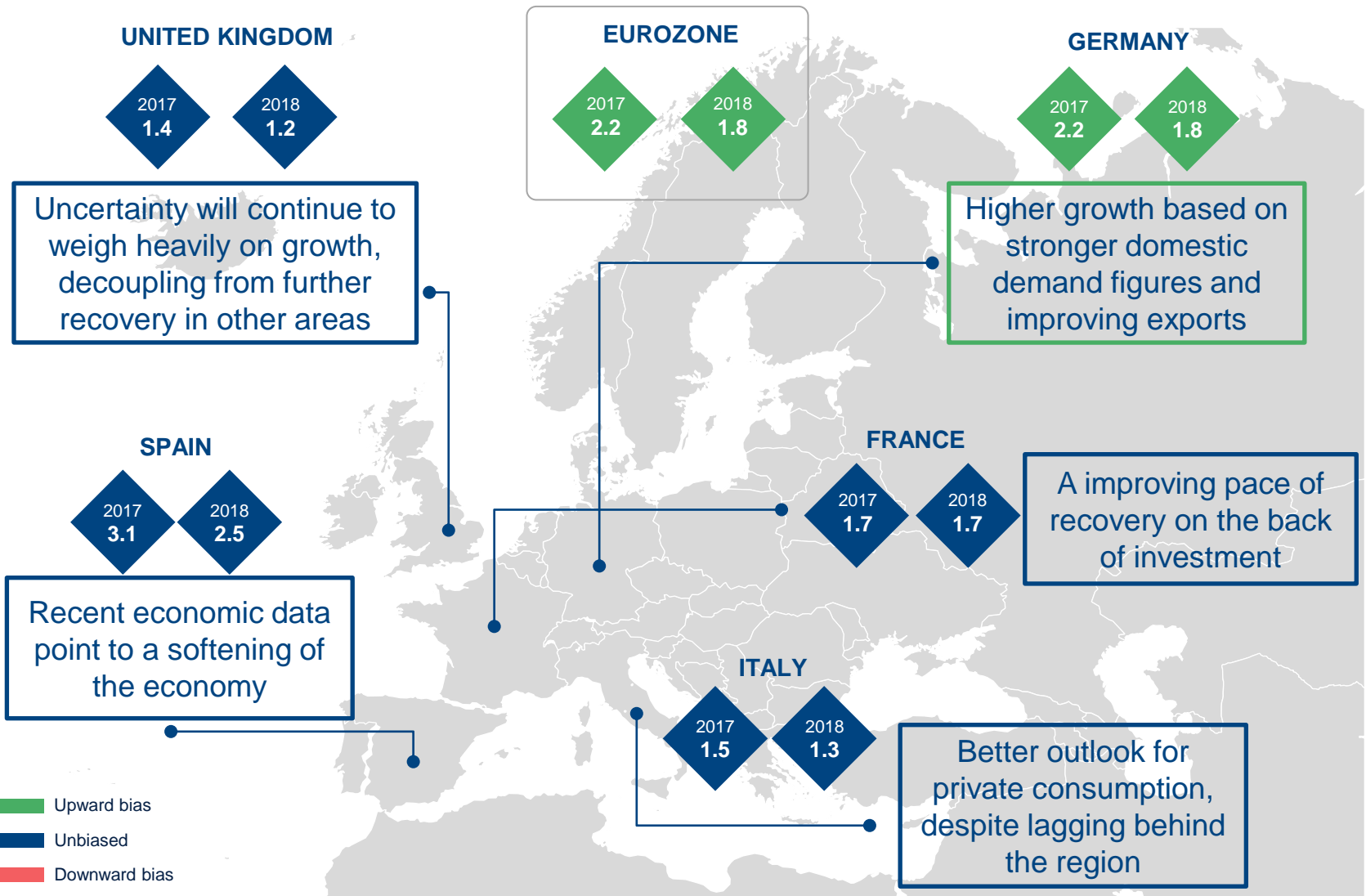


Source: Eurostat and BBVA Research

◆ **The jobless rate declined to 8.9% in September**, while the 1.0pp decline over the past year is mostly driven by Spain

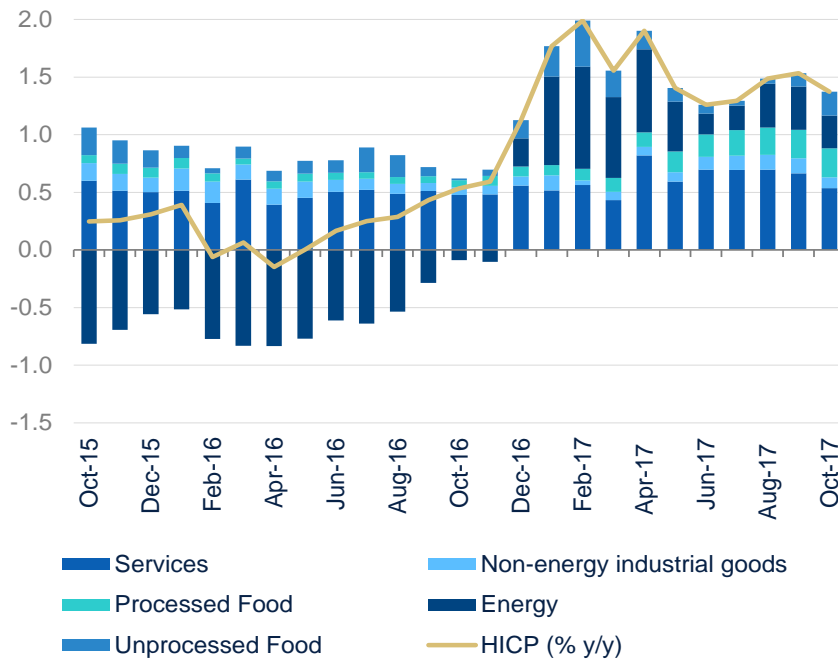
◆ **The unemployment fall continues and is observed mostly among the experienced population**

Incoming data put a slight upward bias to our forecasts, mainly driven by the strengthening of Germany

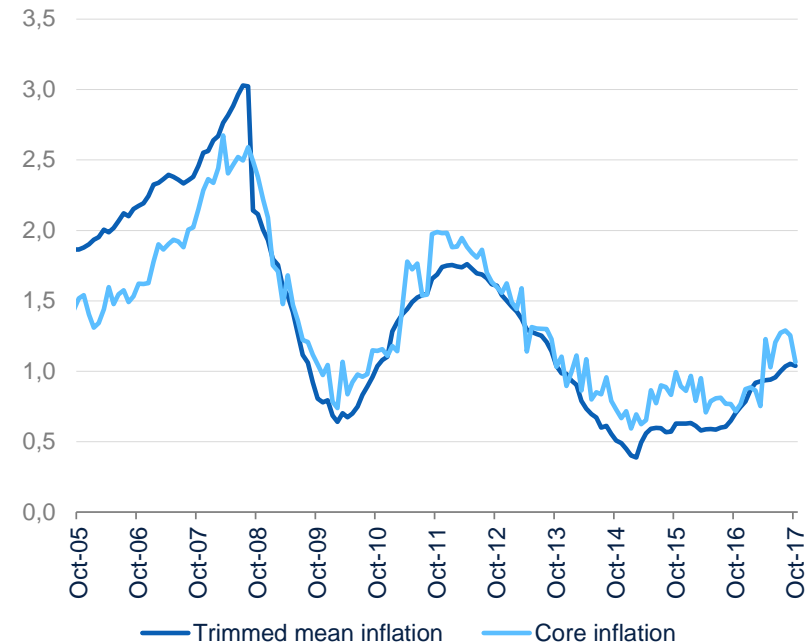


Both headline and core inflation declined in October, driven by lower prices of services

Inflation and contribution of components
(%YoY, pp)



Core and trimmed-mean inflation
(%YoY)



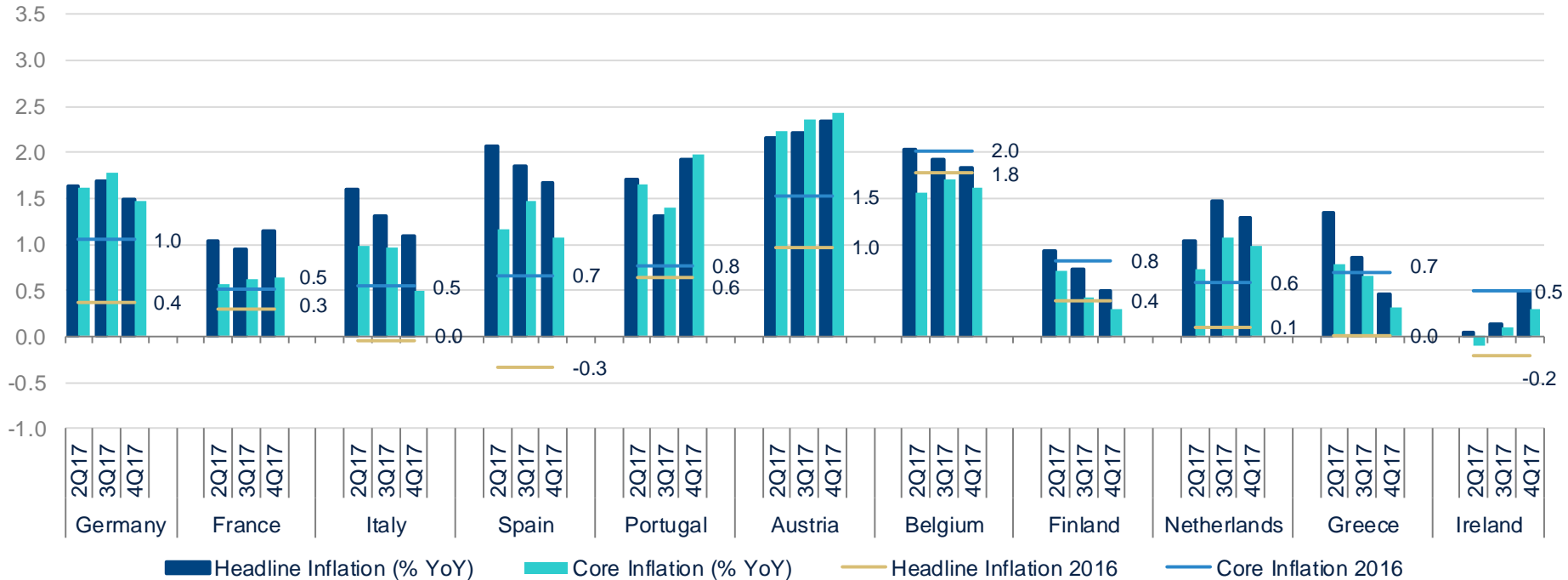
Source: Eurostat and BBVA Research

◆ Beyond volatility, core inflation remains subdued after increasing by around 0.3pp throughout this year

◆ Headline inflation is expected to moderate further by year end due to energy prices, while core inflation should increase only very gradually

Inflation remains subdued across countries at the start of 4Q17

Headline and core inflation (%YoY)



Source: Eurostat and BBVA Research

◆ **October HICP showed moderation in the majority of core countries, with declines in Germany (1.5% after 1.8% YoY), Italy (1.1% after 1.3% YoY) and Spain (1.7% after 1.8% YoY). While in France increased (1.2% after 1.1% YoY).**

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