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# Eurozone Economic Watch

December 2017

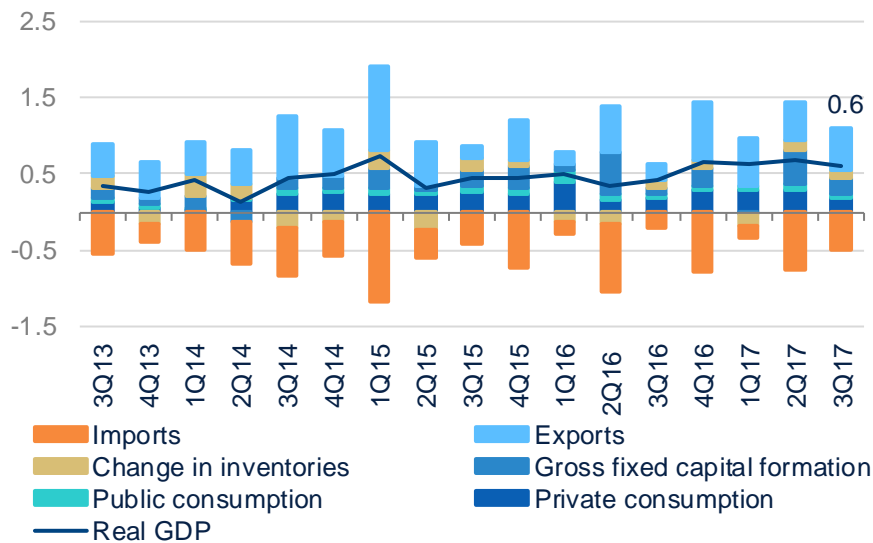


## Eurozone: GDP projected at 0.6%-0.7% in 4Q puts an upward bias to our forecasts

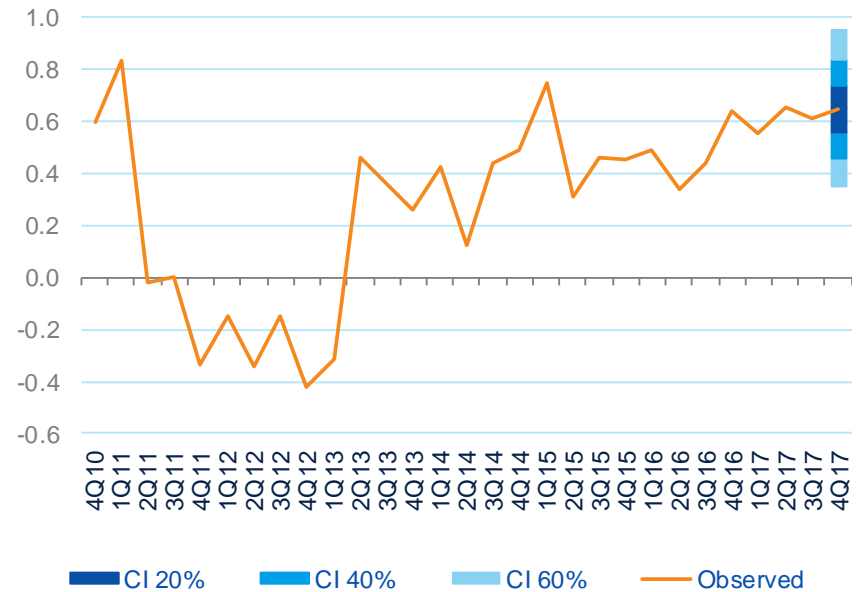
- ◆ **3Q17** National Accounts confirmed **a stronger and more balanced growth taking root**. Solid expansion of investment over the last two-and-a-half years adds to consumption resilience, while exports are benefiting from stronger global demand.
- ◆ Our **MICA-BBVA model** estimates a quarterly **GDP growth figure of around 0.6%-0.7% in 4Q17**, signaling a steady recovery or even gaining some momentum. This puts an upward bias to our growth forecast for 2017-18, clearly above 2% both years.
- ◆ **Confidence increased further again in December** to record levels, especially in the manufacturing sector, **boosted by exports orders and lower political uncertainty**. Strong domestic demand and increasing capacity utilization are encouraging **job creation**.
- ◆ **Somewhat disappointing hard data** in October, **but this does not seem to affect the solid trend**. Industrial output increased, but moderating from previous months, while retail sales posted a strong decline and offset the surge in September. Beyond volatility, industrial sector recovery remains on track, while solid employment and strong consumer confidence will continue to support consumption.
- ◆ **Headline inflation increased slightly but core inflation remained stable and subdued** in November. The **headline rate could moderate slightly in coming months** driven by the negative base effects of energy prices. In contrast, **core inflation is likely to move up only very gradually**.

# GDP growth in 4Q17 is expected to remain steady, or to increase mildly

**GDP, Contribution by Components**  
(%QoQ, pp)



**GDP and BBVA-MICA forecasts**  
(%QoQ)

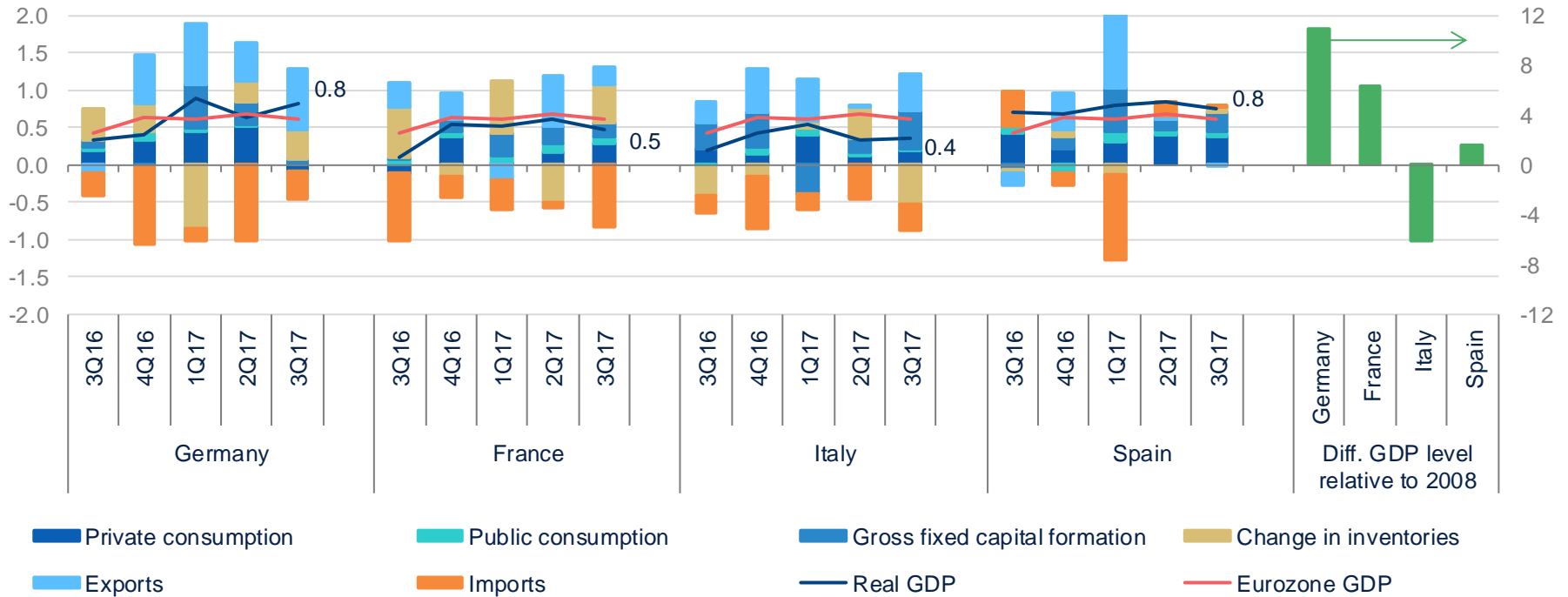


Source: Eurostat and BBVA Research

- ◆ The final **GDP growth** figure, confirmed at **0.6% QoQ** in 3Q17, reinforces the view of a solid and more balanced recovery
- ◆ The solid **expansion of investment adds to consumption** resilience. Exports are benefiting from stronger global demand
- ◆ **MICA-BBVA** suggests a **GDP growth** at around **0.6/0.7% in 4Q17**

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

**GDP, Contribution by components**  
(%QoQ, pp)



Source: Eurostat and BBVA Research

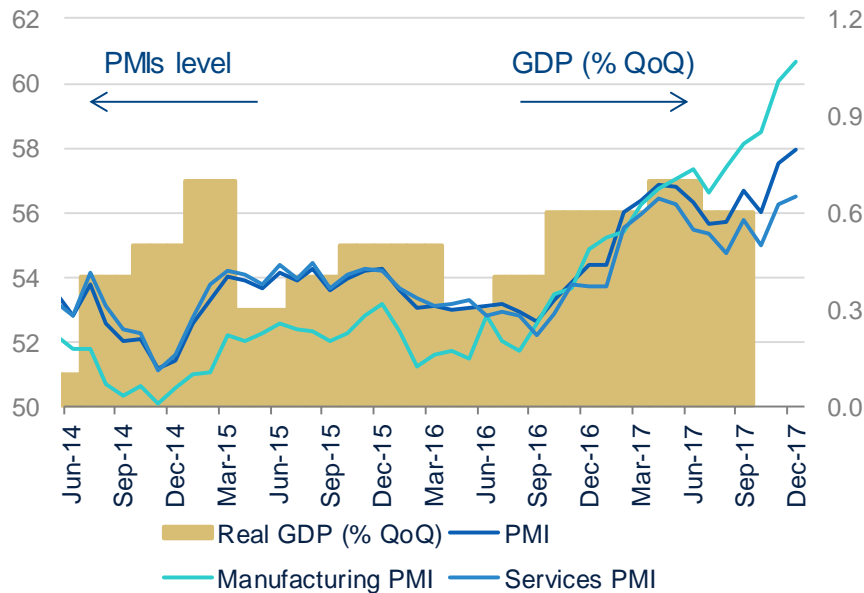
◆ **Investment** seems to be the **main contributor** of growth in **Germany** during 3Q17

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

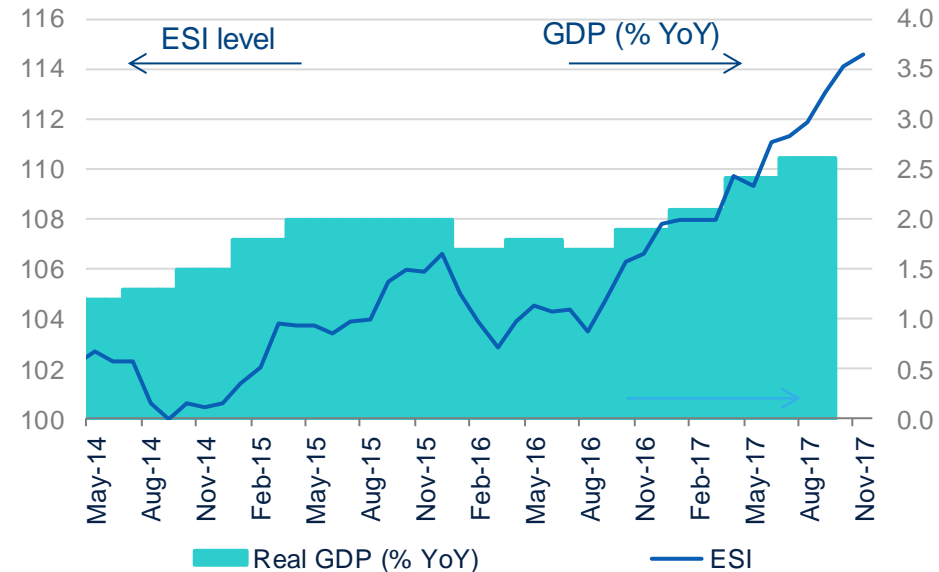
◆ **Spain's** growth, at **0.8% QoQ**, showed a slight **deceleration** in 3Q17

# Confidence figures surged again and continue to reflect a broad-based optimism

**PMI and GDP**  
(level, %QoQ)



**ESI and GDP**  
(level, %YoY)

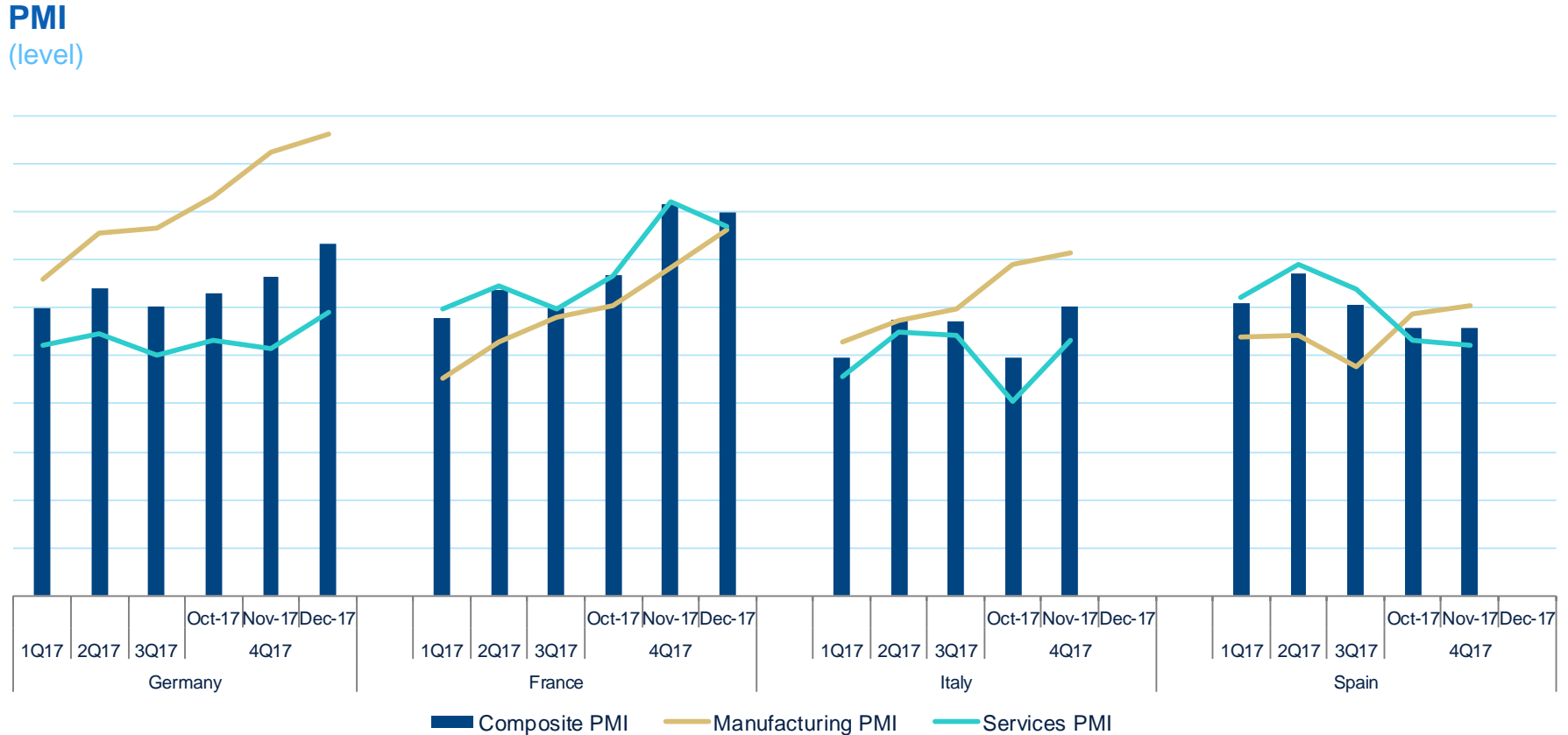


Source: Eurostat and BBVA Research

◆ In December, confidence levels once again increased across sectors, mostly in manufacturing but also in services

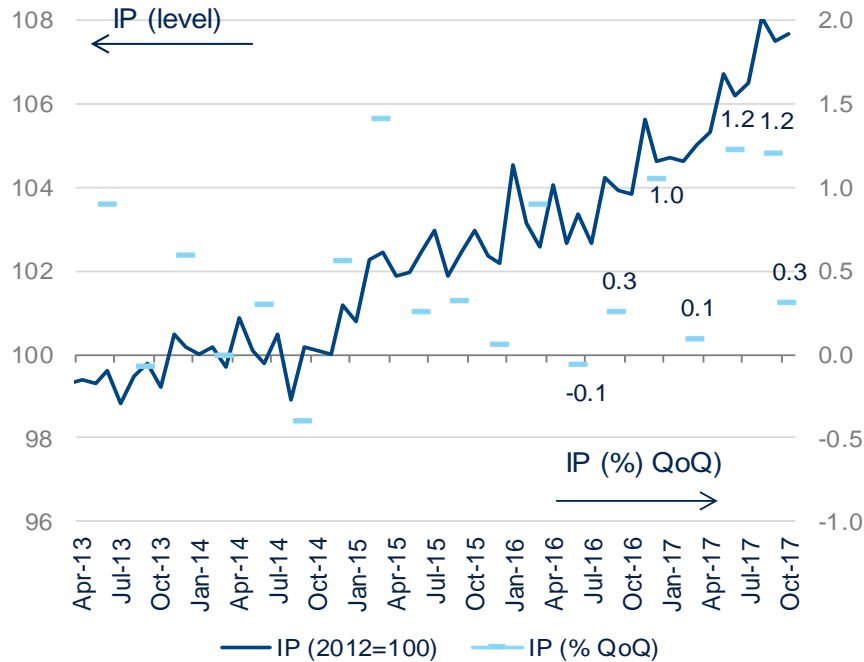
◆ Both businesses and consumers' positive mood (according to ESI) continued to rise

# PMIs: Increased optimism in Germany and some moderation in France due to services



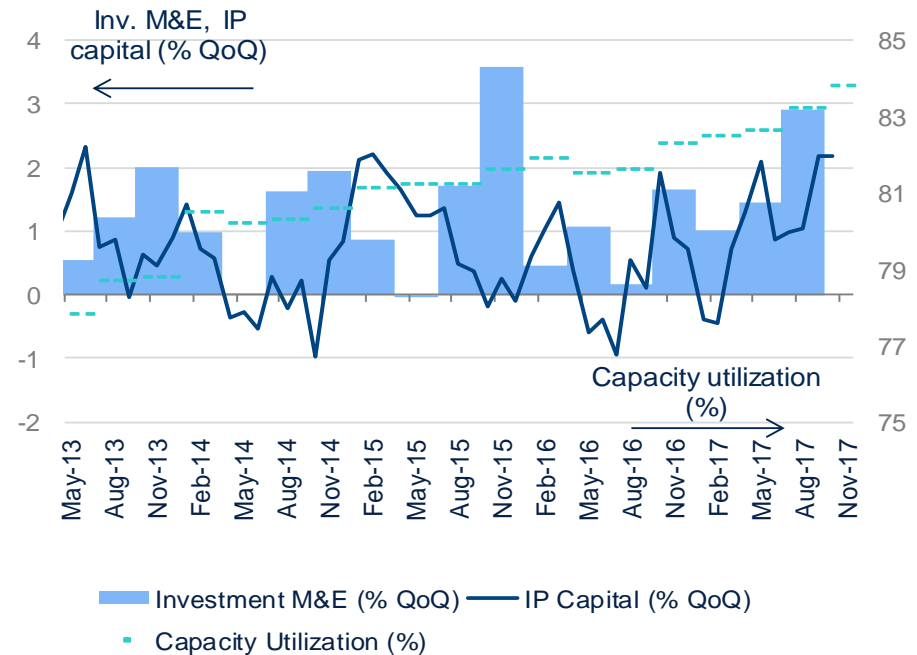
# Industrial output continues to expand, but figures suggest some moderation at the start of 4Q17

**Industrial production**  
(level, %QoQ)



Source: Eurostat and BBVA Research

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



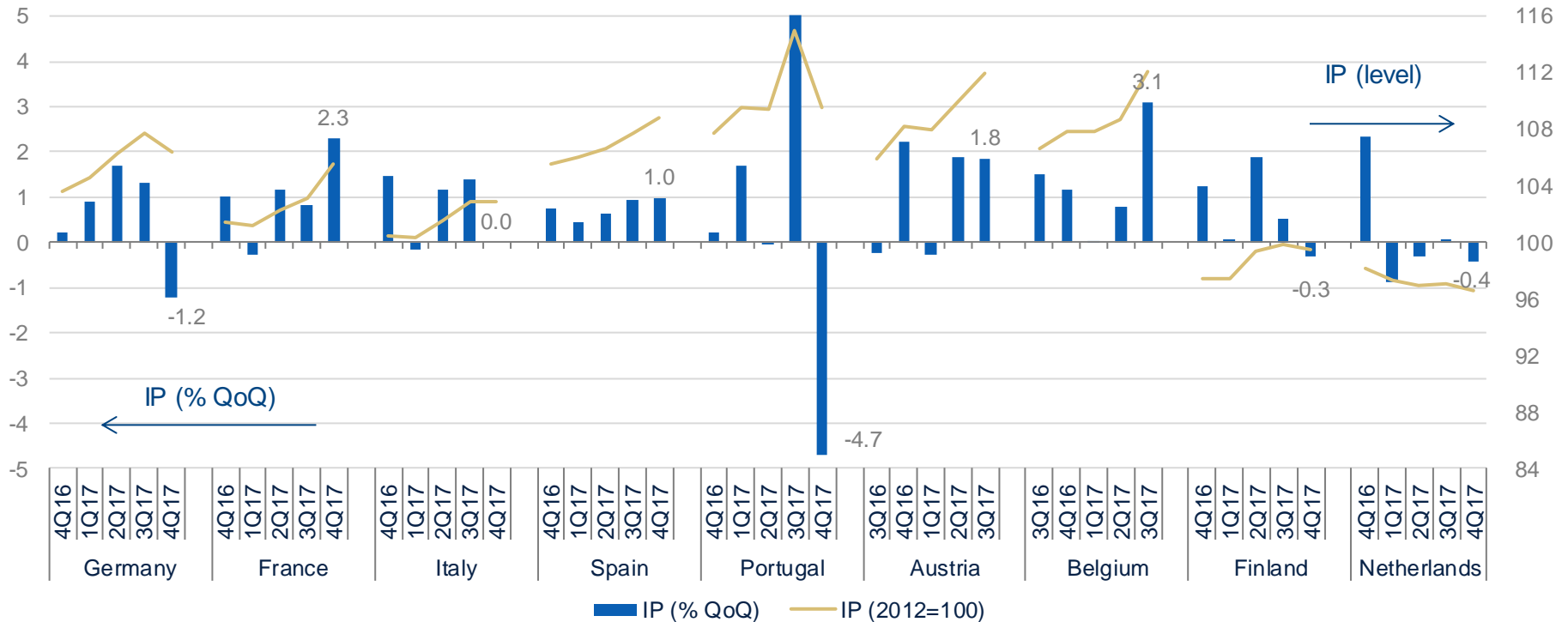
Source: Eurostat and BBVA Research

◆ **Industrial production increased by 0.2% MoM in October**, but suggest some moderation in output growth at the beginning of 4Q17

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

# The sign of moderation in industrial output is coming mostly from Germany and Italy

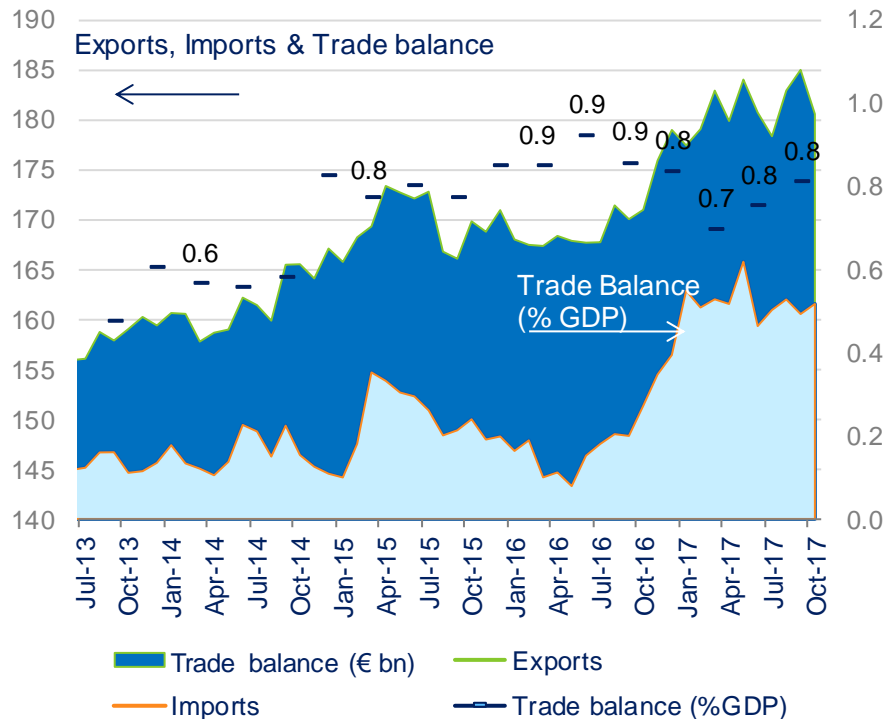
**Industrial production**  
(%QoQ, level)



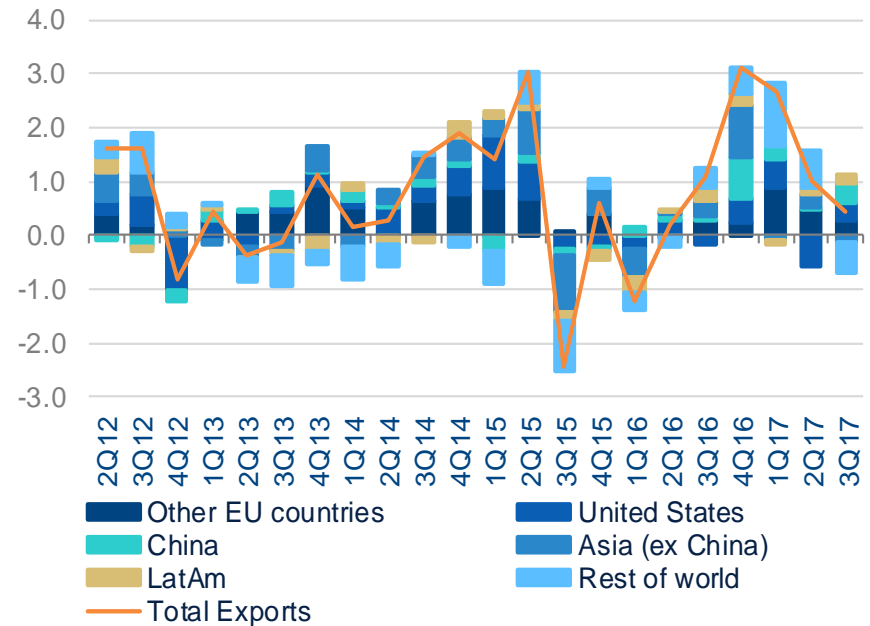


# Foreign trade decelerated somewhat in October, although soft data suggest further support from external demand in 4Q17

**Trade balance**  
(€ bn, %GDP)

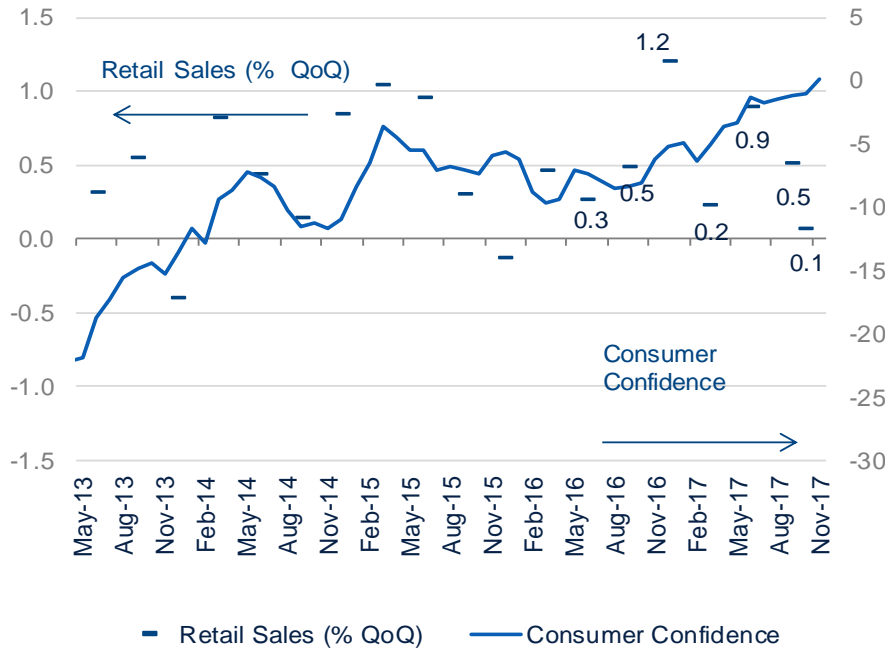


**Exports contribution by destination**  
(%QoQ, pp)

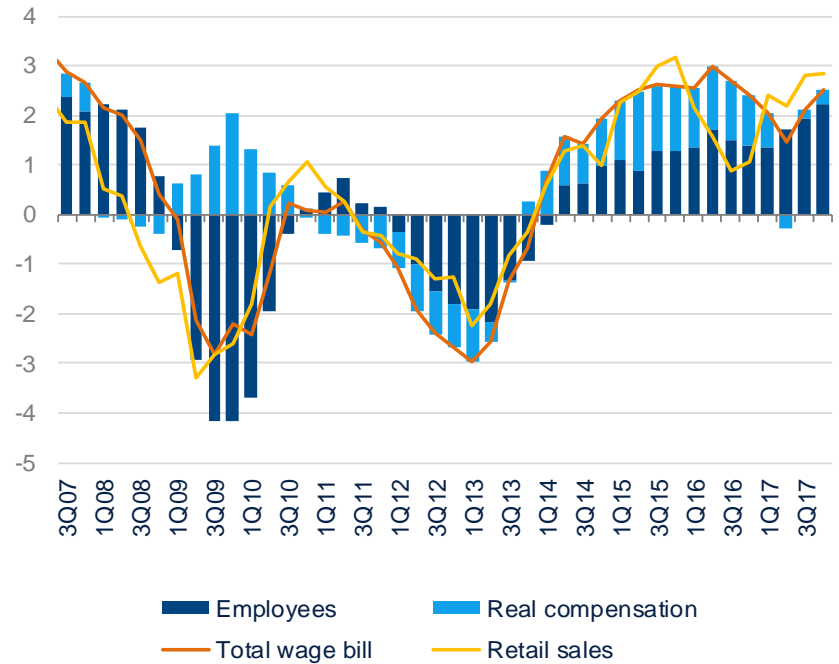


# High volatility in retail sales contrasts with the steady improvement of consumer confidence

**Retail sales and consumer confidence**  
(%QoQ, pts)



**Retail sales and total wage bill**  
(%YoY)



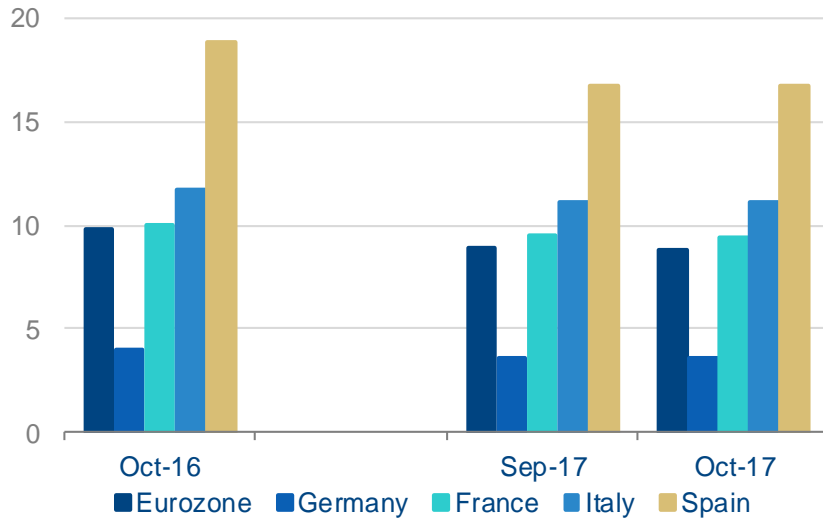
Source: Eurostat and BBVA Research

◆ **Retail sales decreased** in October (-1.1% MoM) offsetting the surge in September (0.8% MoM, revised up 0.2pp)

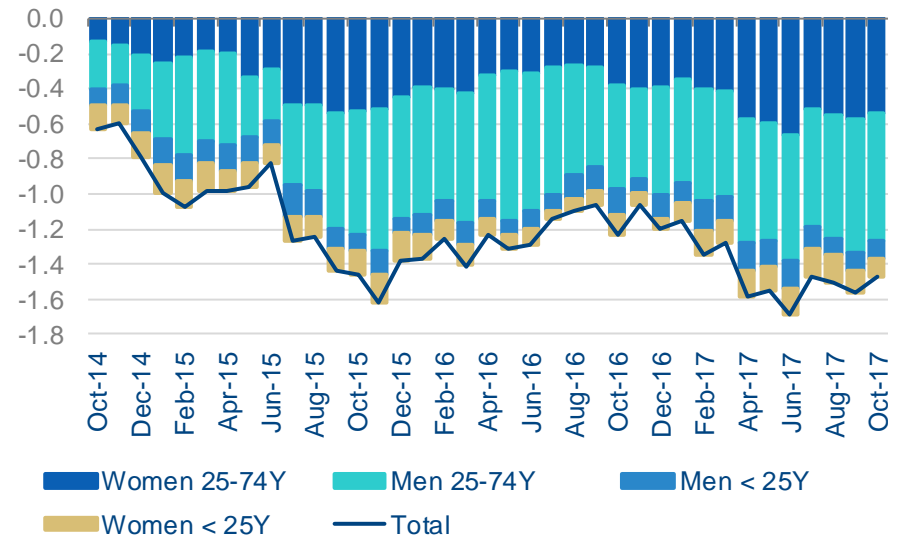
◆ **Continuous employment gains, low inflation and improving confidence** are the main drivers of consumption growth

# Labour markets continue to show underlying improvements ...

**Unemployment rate by country**  
(%)



**Annual unemployment change by gender & age**  
(millions)



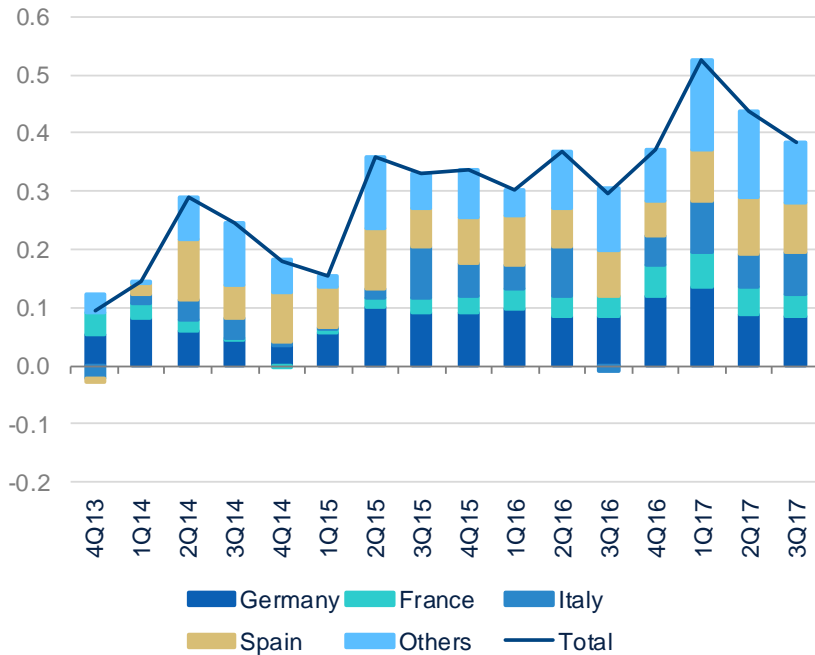
Source: Eurostat and BBVA Research

◆ **The jobless rate declined 0.1pp to 8.8% in October**, posting an annual decline of 1.0pp, mostly driven by Spain

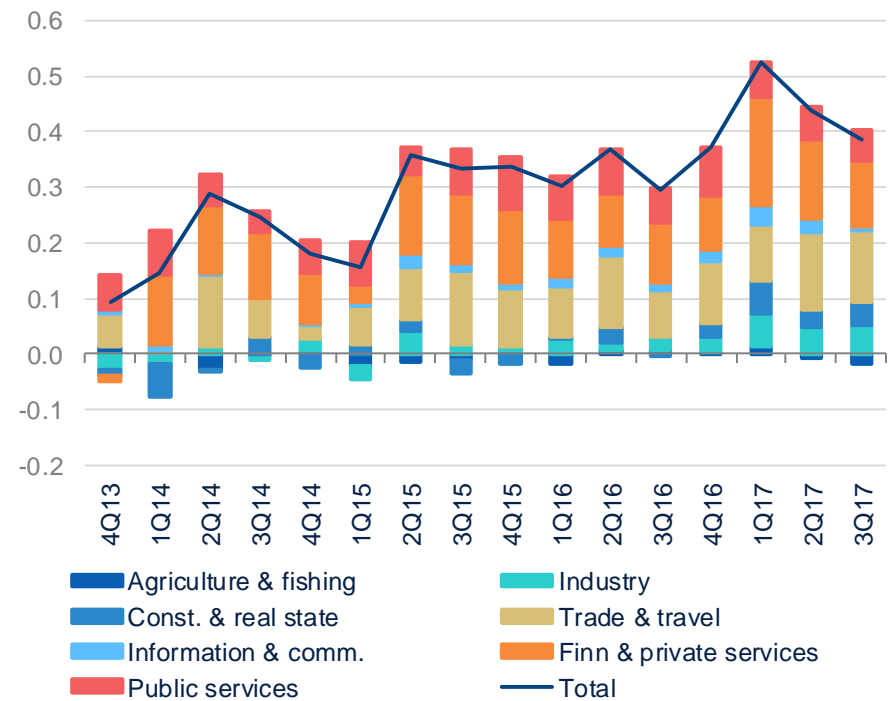
◆ **The unemployment fall continues and is observed mostly among the experienced population**

# ... with strong job creation in core countries, coming mostly from services

**Employment growth by country**  
(%QoQ, pp)

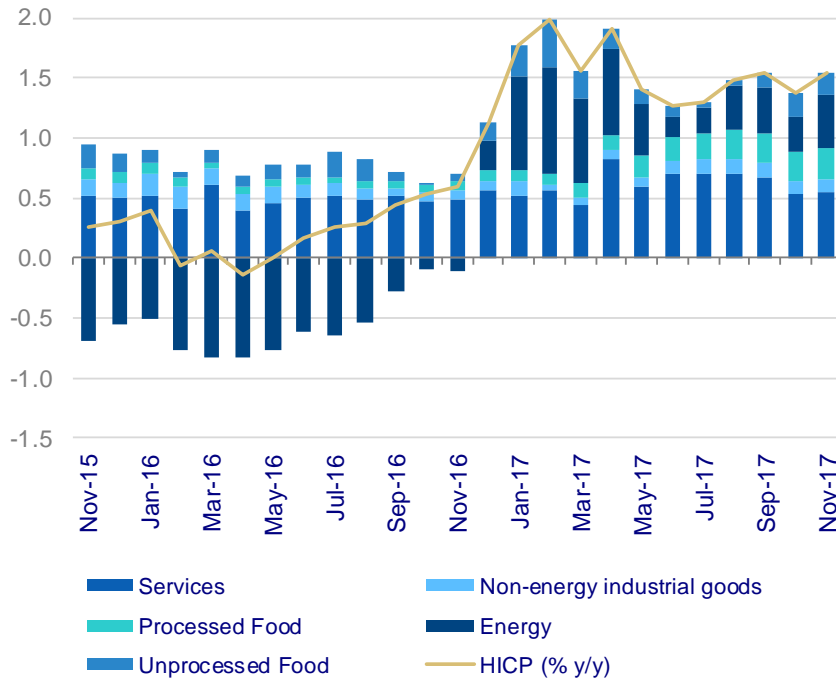


**Employment growth by sector**  
(%QoQ, pp)

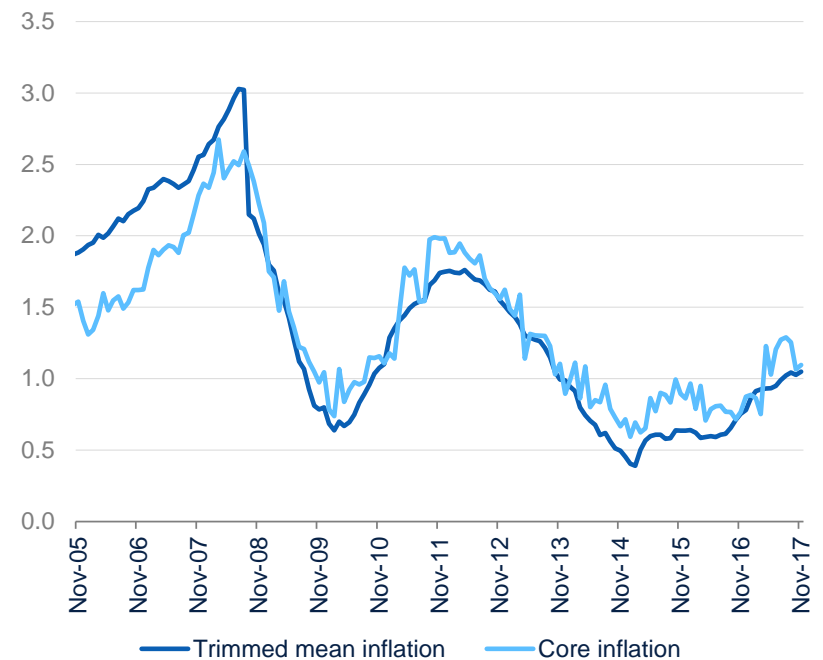


# Headline inflation increased slightly in November driven by higher contribution from energy prices

**Inflation and contribution of components**  
(%YoY, pp)



**Core and trimmed-mean inflation**  
(%YoY)



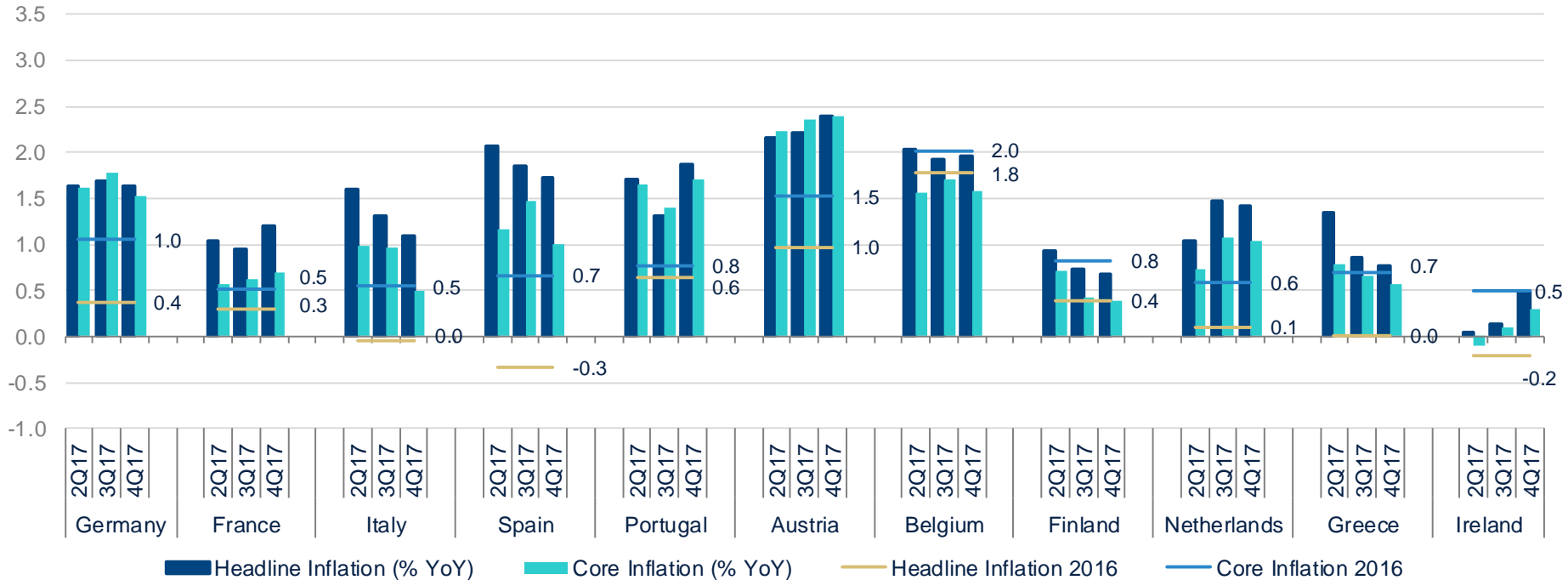
Source: Eurostat and BBVA Research

◆ Nonetheless, **core inflation remained stable and subdued** at 1.1% YoY

◆ Headline inflation is expected to moderate slightly at the start of next year, while **core inflation should increase very gradually**

# Inflation remains subdued across countries in 4Q17

## Headline and core inflation (%YoY)



Source: Eurostat and BBVA Research

◆ **November HICP pickup in most of core countries**, with increases in **Germany** (1.79% after 1.49% YoY), **France** (1.24% after 1.15% YoY) and **Spain** (1.76% after 1.68% YoY). While in **Italy** remained stable (at 1.09% YoY).

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