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# Eurozone Economic Watch

March 2018



## Eurozone: The moderation of confidence continues

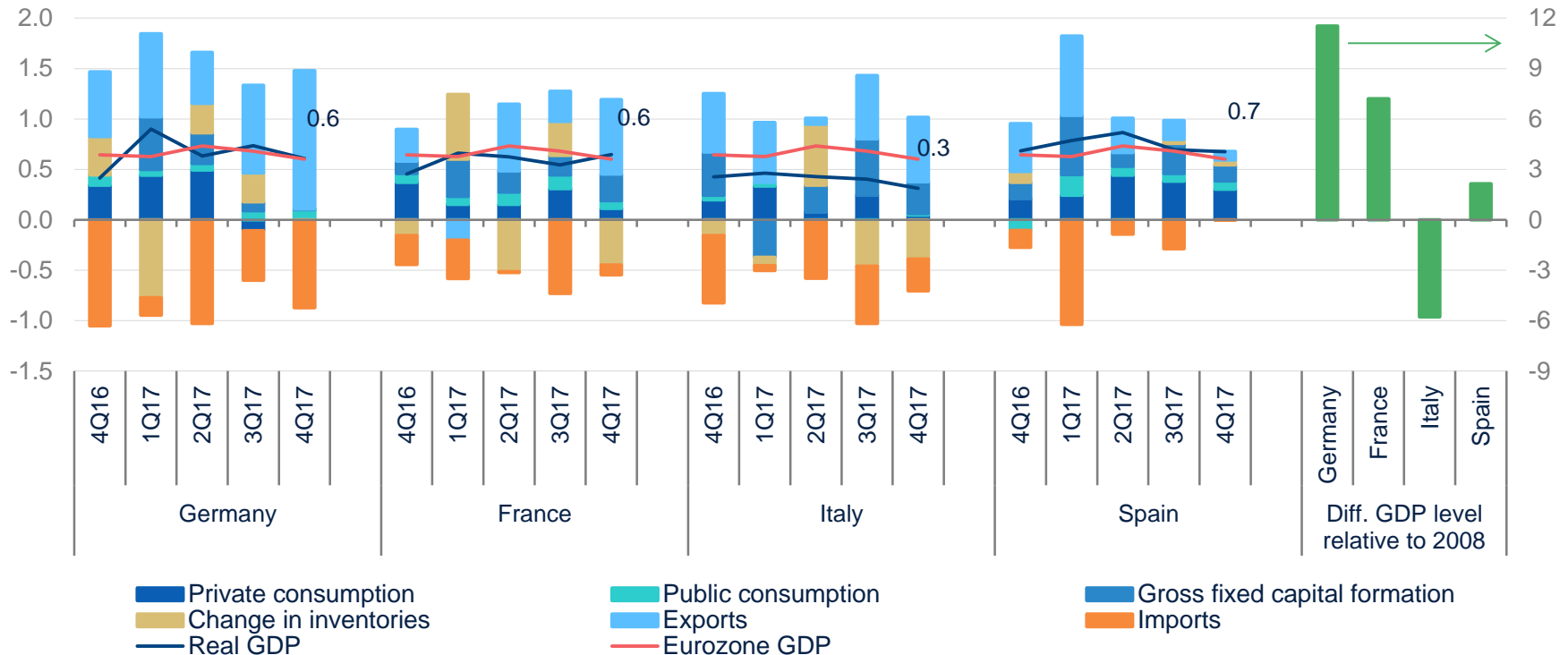
- ◆ **We expect GDP growth to remain steady early this year** supported mostly by strong global trade and fixed investment.
- ◆ Our **MICA-BBVA model** estimates a cruise speed in GDP growth at around **0.6/0.7% QoQ in 1Q18**, but we continue to see signs of moderation over the year ahead.
- ◆ **Hard data softened in January although** both domestic and global **fundamentals remain strong**. Global growth continued to support trade figures, reflected in **high dynamism in exports and imports**.
- ◆ There is **some moderation in private consumption**, as shown by January retail sales figures, but **narrowing labour market slack** and still **low inflation** should continue to support consumer's mood.
- ◆ Although in high levels, sectoral **sentiment indicators showed early signs of moderation at the start of the year**, with cooling optimism in the region, **mostly in manufacturing**, possibly affected by noise of **protectionist measures**.
- ◆ **Headline inflation eased again in February to 1.1%**, driven mostly by lower food inflation. In this context, **core inflation remained steady** in the month at 1.2% YoY. We still forecast a **gradual increase** of core measures over the year.

# The growth pace in major countries remained at high levels in 4Q17 supported mostly by global trade

- Nonetheless, during late 2017 domestic demand cooled down in Germany, France and Italy. Spain continued to outperform the region

## GDP, Contribution by Components

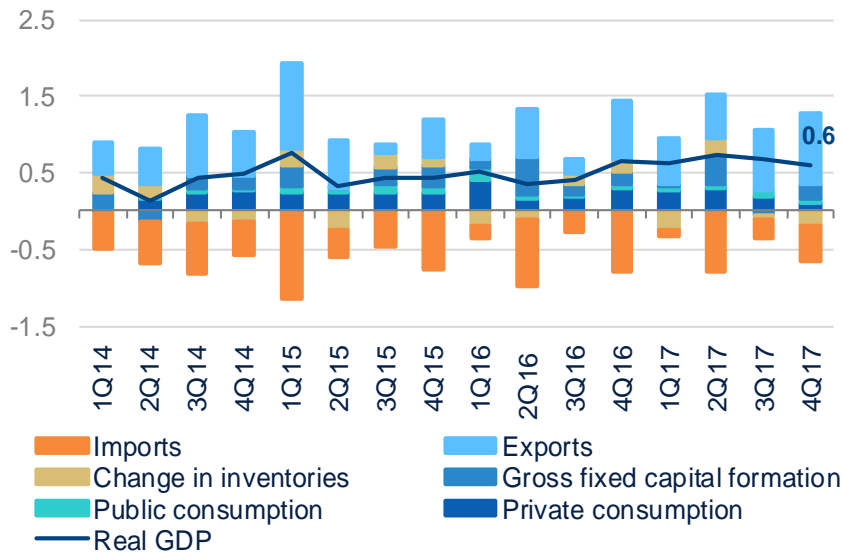
(%QoQ, pp)



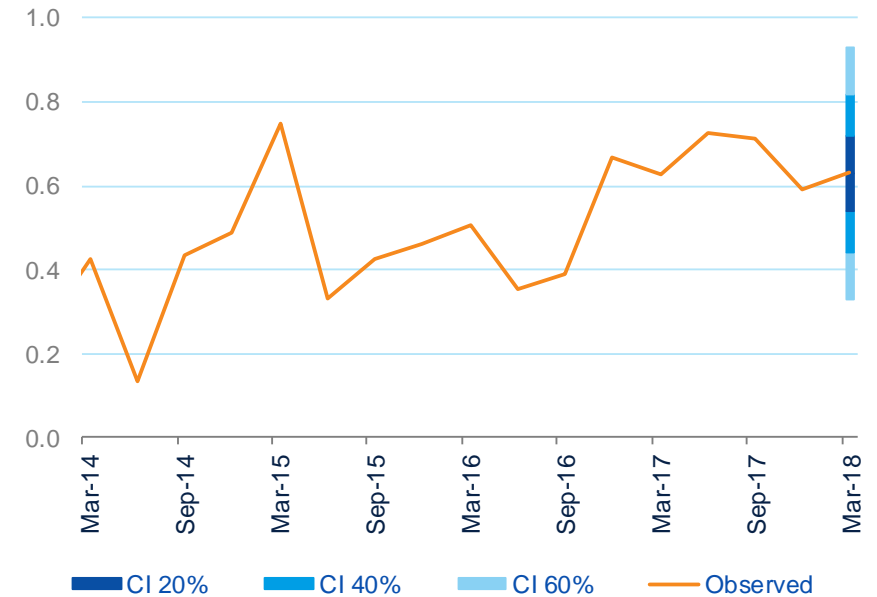
# A broadly stable growth outlook in 1Q18

- Global **trade and fixed investment** spurred growth in Q4
- Our **MICA-BBVA model** suggests a stable quarterly GDP growth of **0.6/0.7% QoQ in 1Q18**

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



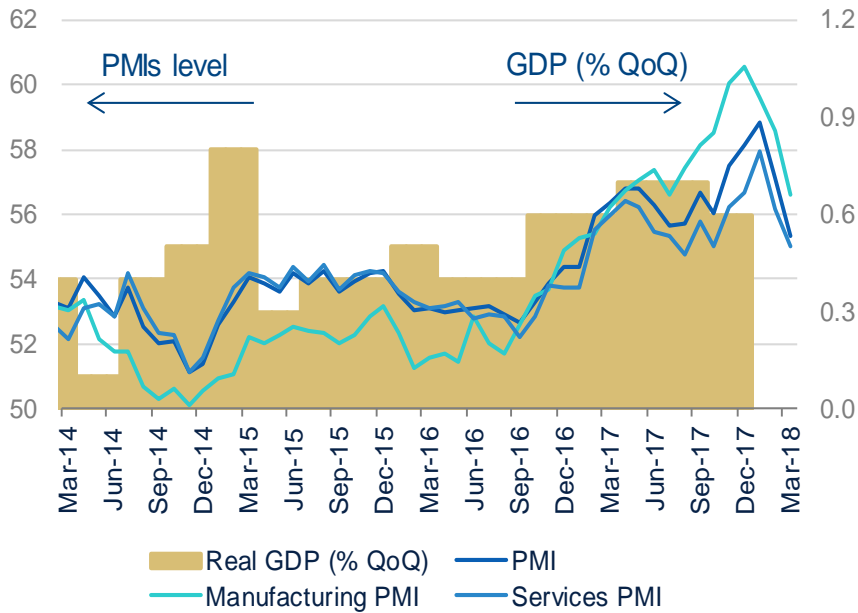
**GDP and MICA forecasts**  
(%QoQ)



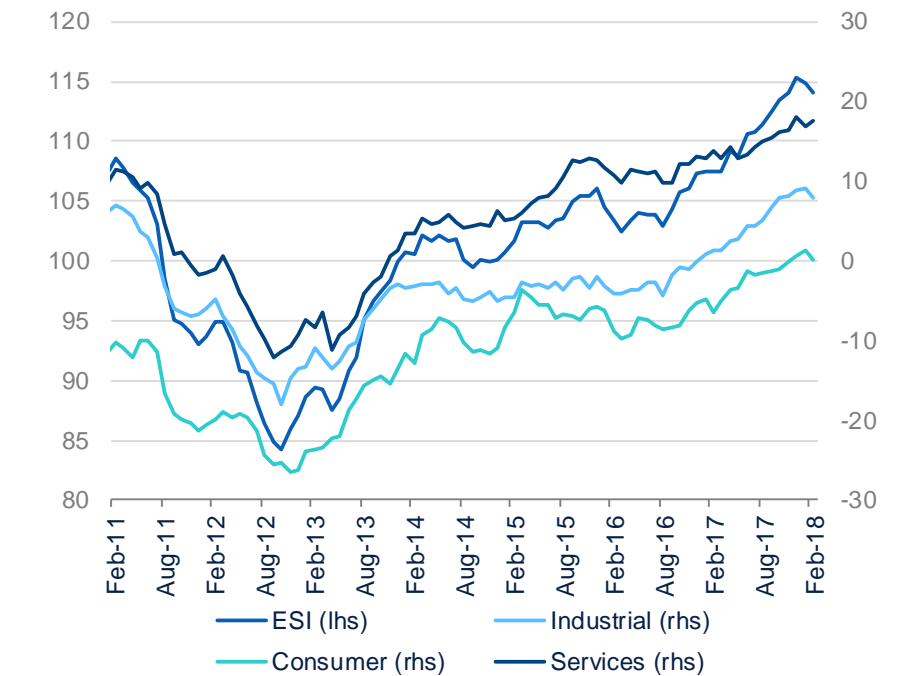
# Optimism continues to moderate in 1Q18

- Both ESI and especially PMI figures cooled down in early 2018, suggesting a peak in growth figures
- Early signs of moderation in optimism was broad based across sectors

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



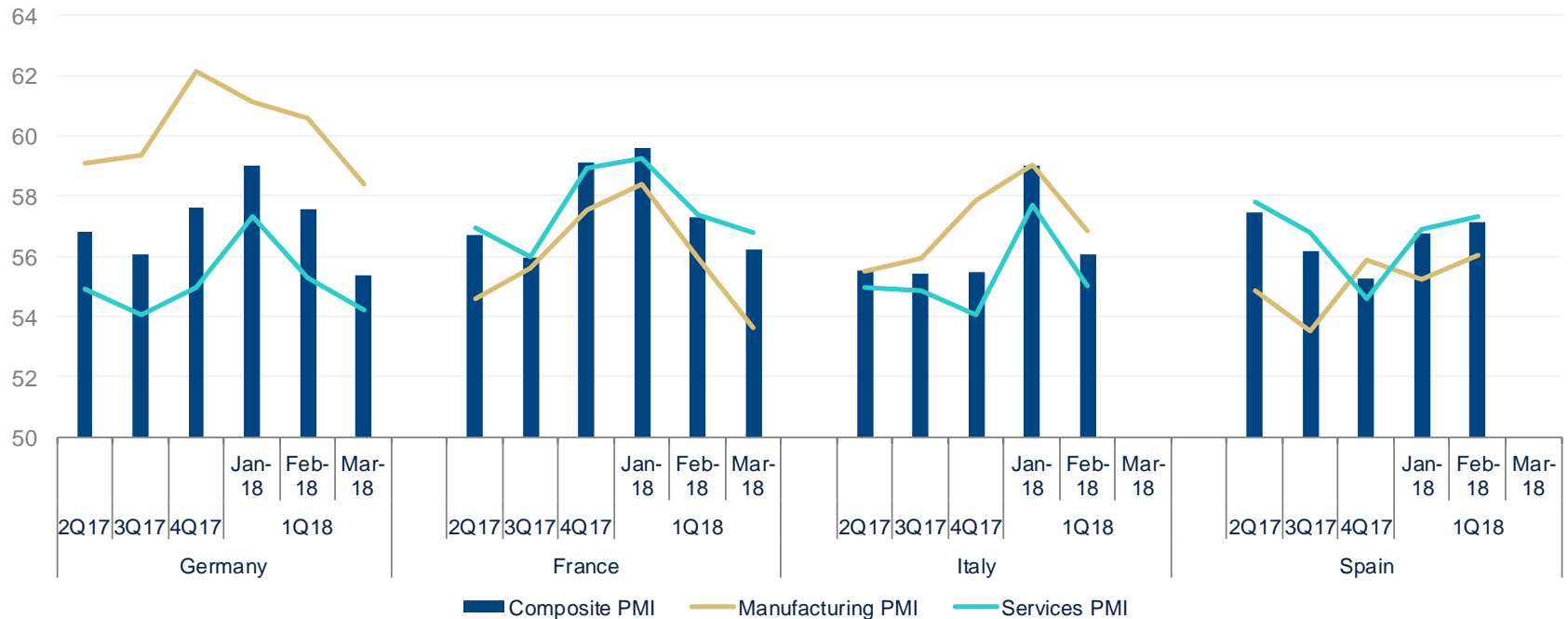
**EC confidence survey**  
(level)



# The retreat in confidence took place especially in France and Germany

- The mood moderation is coming from manufacturing and to a lesser extent in services
- The fall of confidence in recent months is from very high levels, but more recently has been probably affected by protectionist narratives

## PMI survey (level)

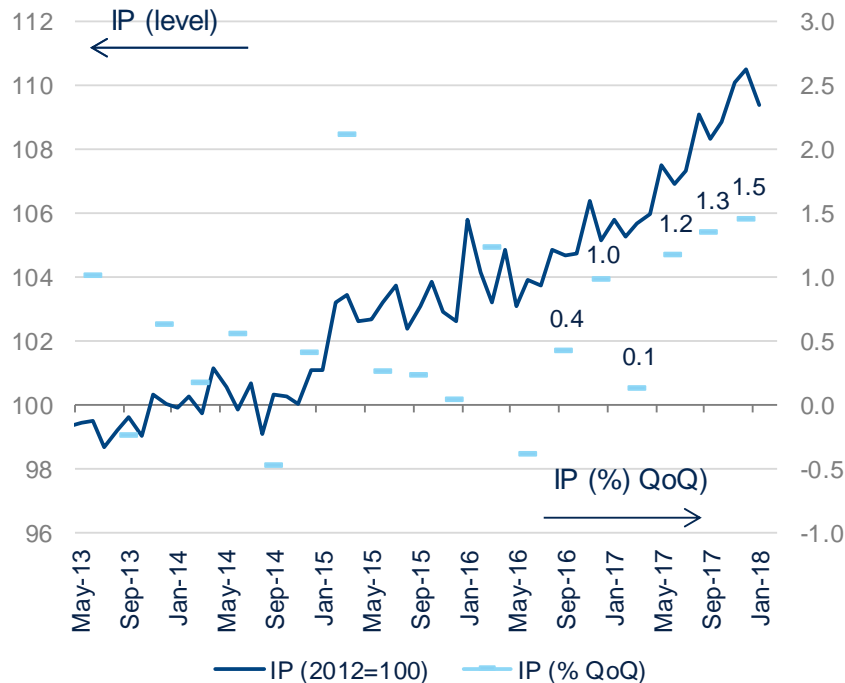


# Industrial output dropped in January after sharp increase in previous months

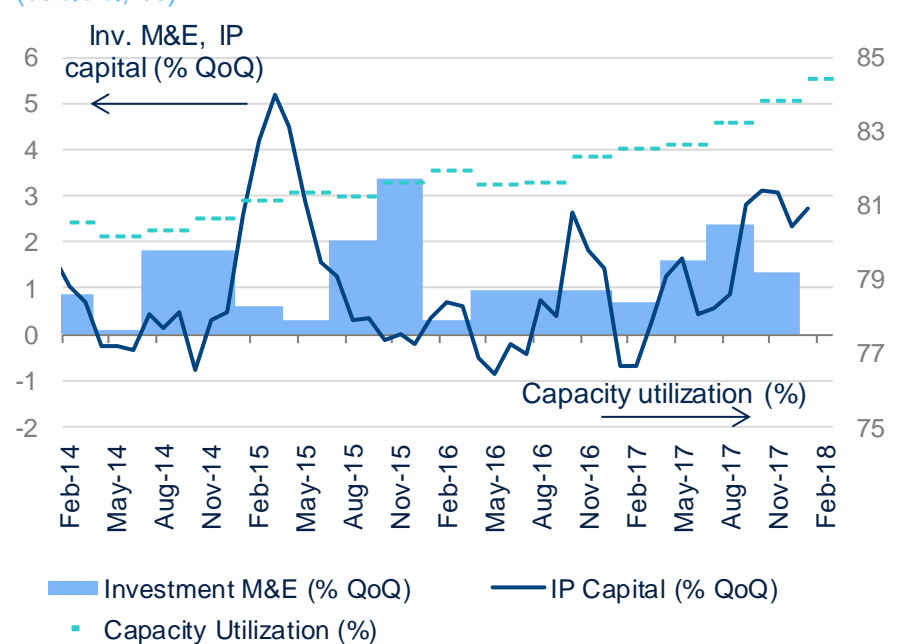
- IP declined 1.0% MoM in January, mostly driven by Germany, but still showing a solid yearly growth of 3.4%

- Strong production of capital goods still points to favourable investment figures

## Industrial production (level, %QoQ)



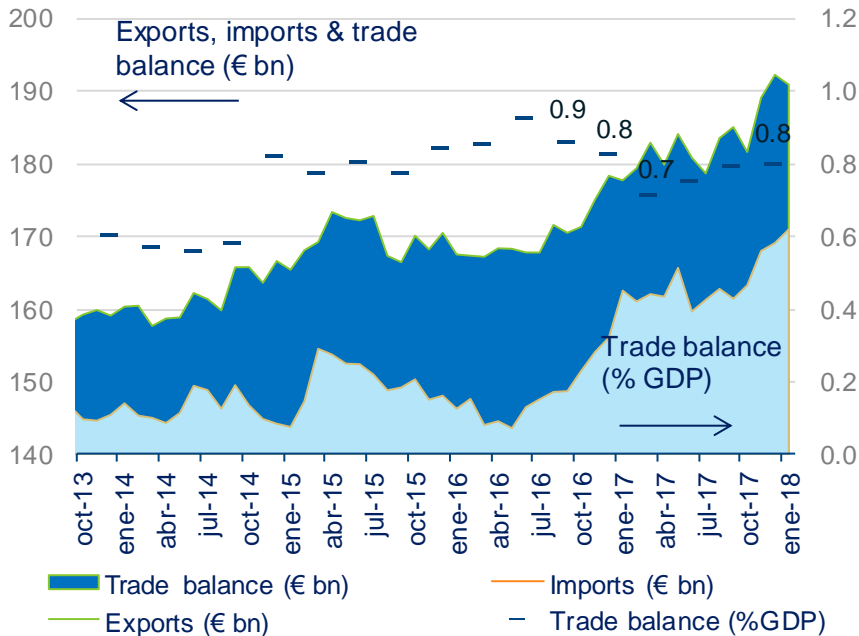
## IP capital equipment, investment in M&E and capacity utilization (%QoQ, %)



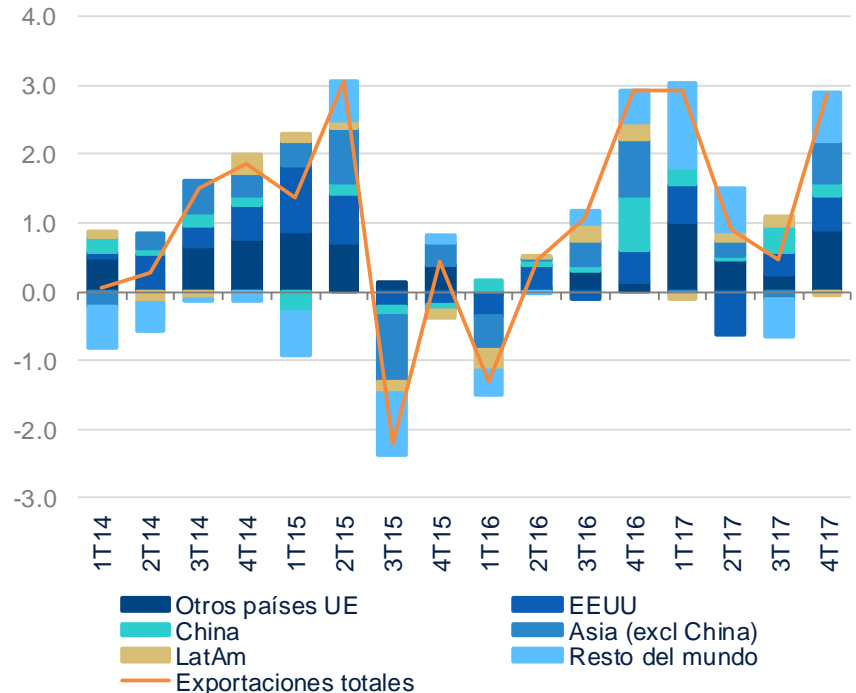
# External trade continued to spur growth in early 2018

- The **trade balance** remained high in January, showing **strong dynamism in both exports** (1.7% QoQ) and **imports** (2.5% QoQ)
- The broad based **global growth** should continue to **support trade** during the year, despite a stronger euro

**Trade balance**  
(€ bn, %GDP)



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

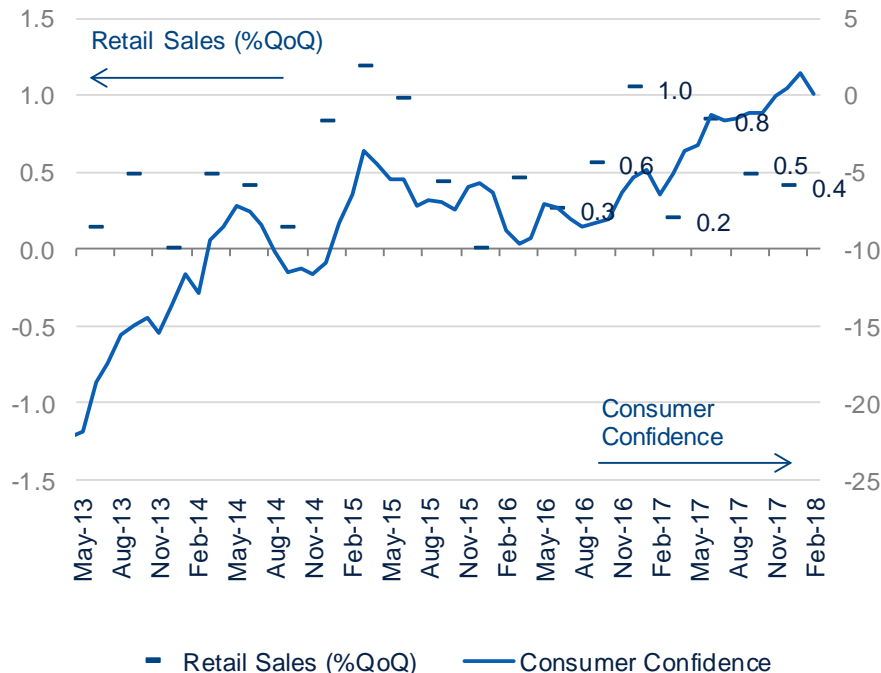




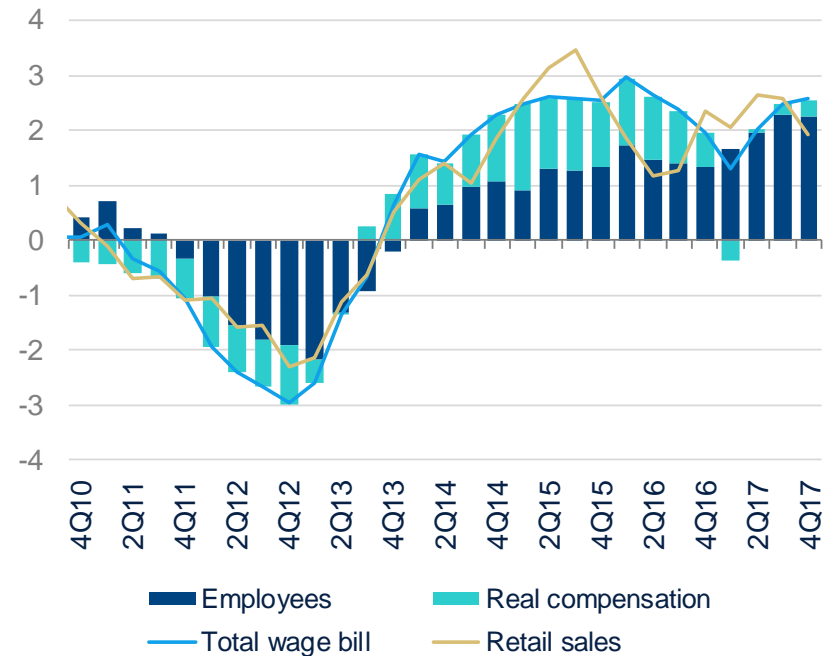
# Retail sales cooled down slightly at the start of the year, although drivers for consumption remain strong

- Improved consumer mood added to sustained job creation should support private consumption. Some moderation should be expected as inflation recovers during the year

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



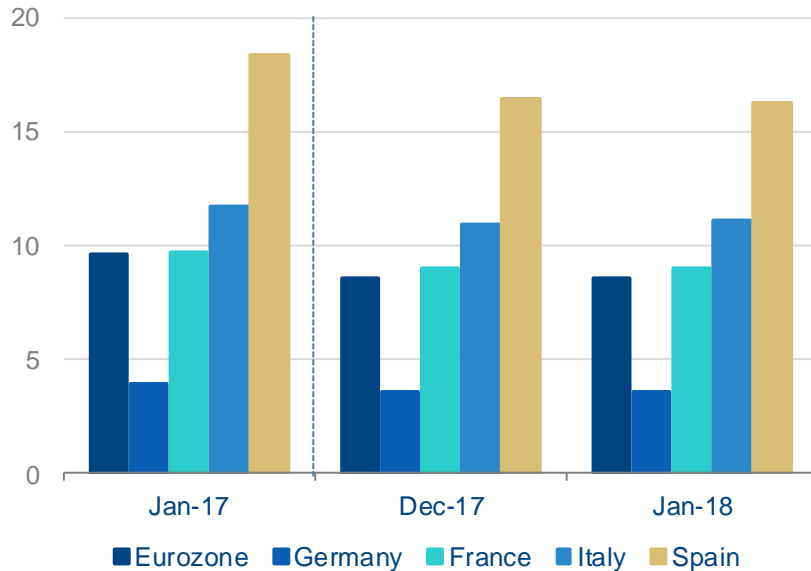
**Retail sales and total wage bill**  
(%YoY, pp)



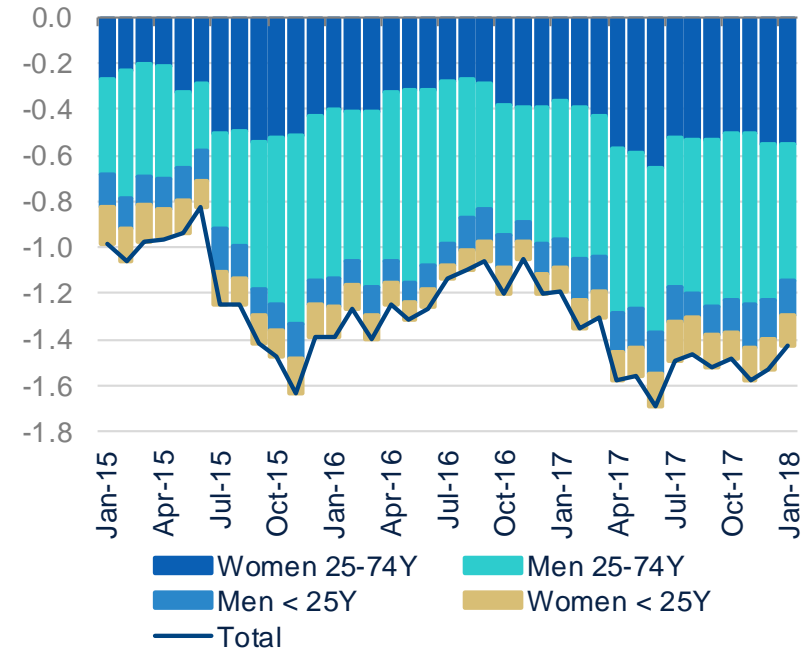
# The labour market slack continued to narrow in January

- The jobless rate kept steady at 8.6% in January, which is 1% lower than a year ago
- The decline in unemployment is concentrated in the group of prime-aged men

**Unemployment rate by country**  
(%)



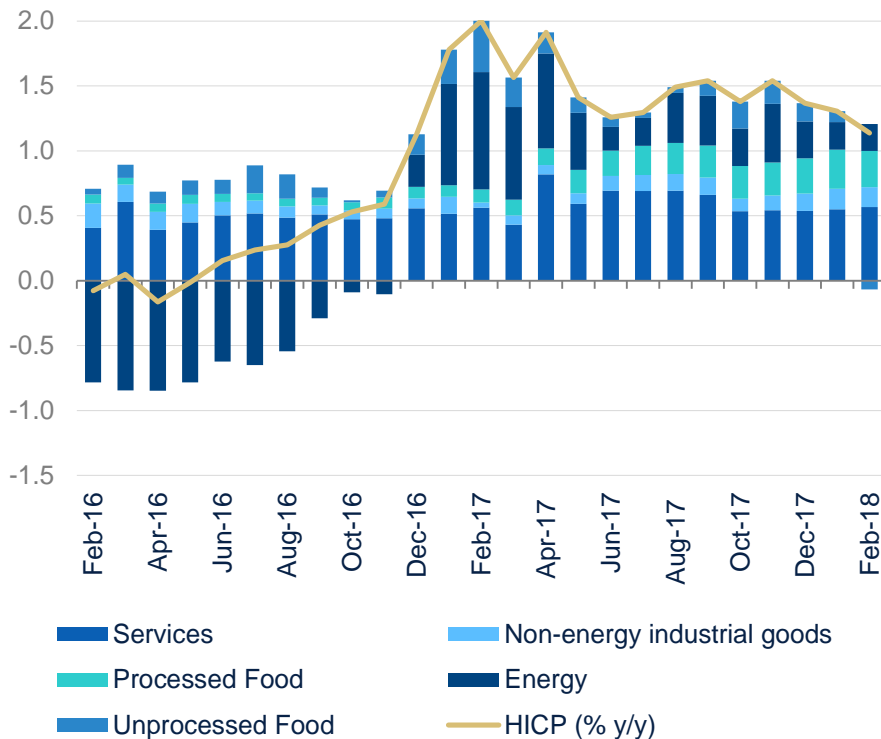
**Annual unemployment change by gender & age**  
(millions)



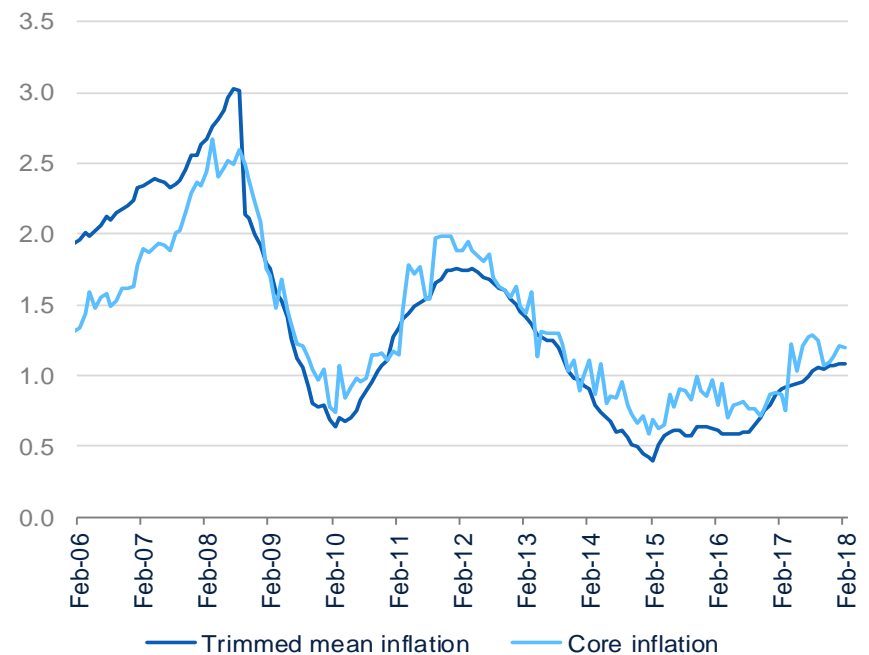
# Headline inflation declined again in February while the core measure remained steady

- HICP Inflation declined to 1.1% YoY (-0.2pp) driven mostly by food
- Core inflation remained stable at 1.2% YoY, and is expected to recover gradually during the year

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

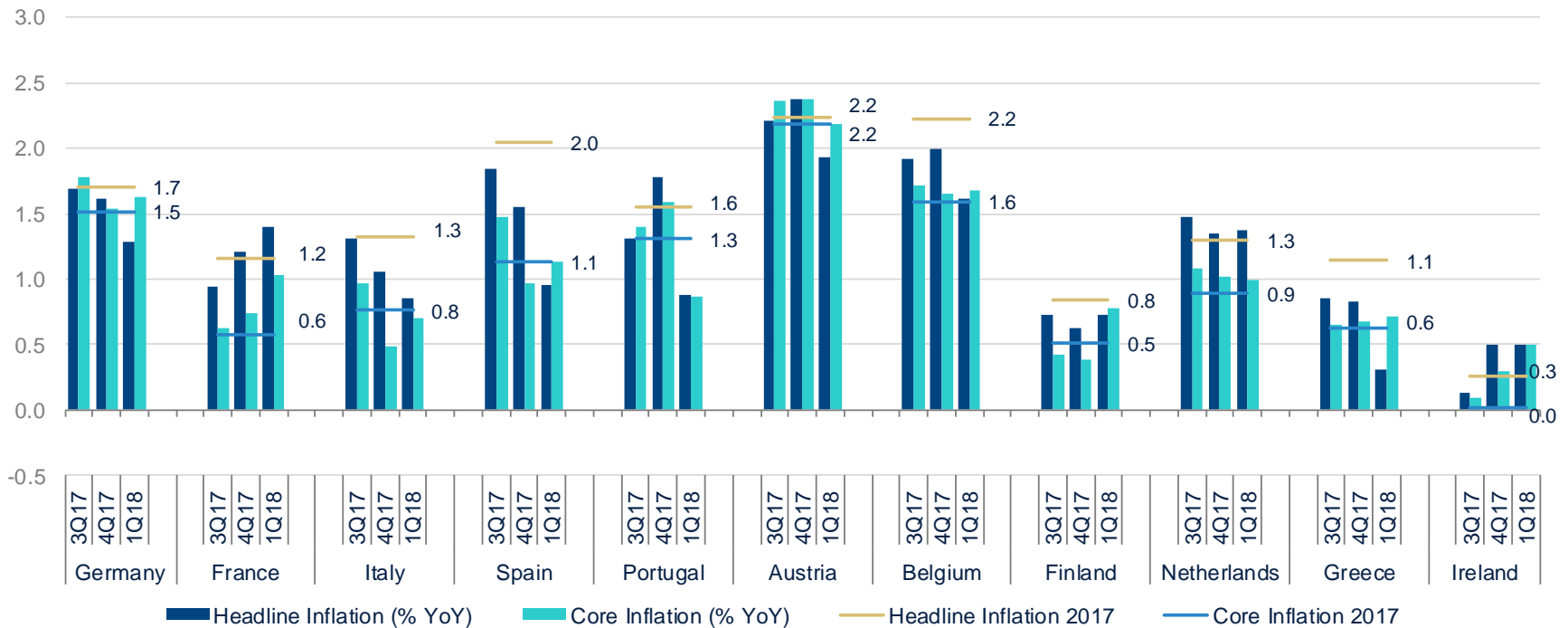


**Core and trimmed-mean inflation**  
(%YoY)



# Core inflation has increased in most countries in early 2018

**Headline and core inflation**  
(%YoY)



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