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**BBVA** Research

# Eurozone Economic Watch

May 2018



# Eurozone: more moderate growth with higher uncertainty

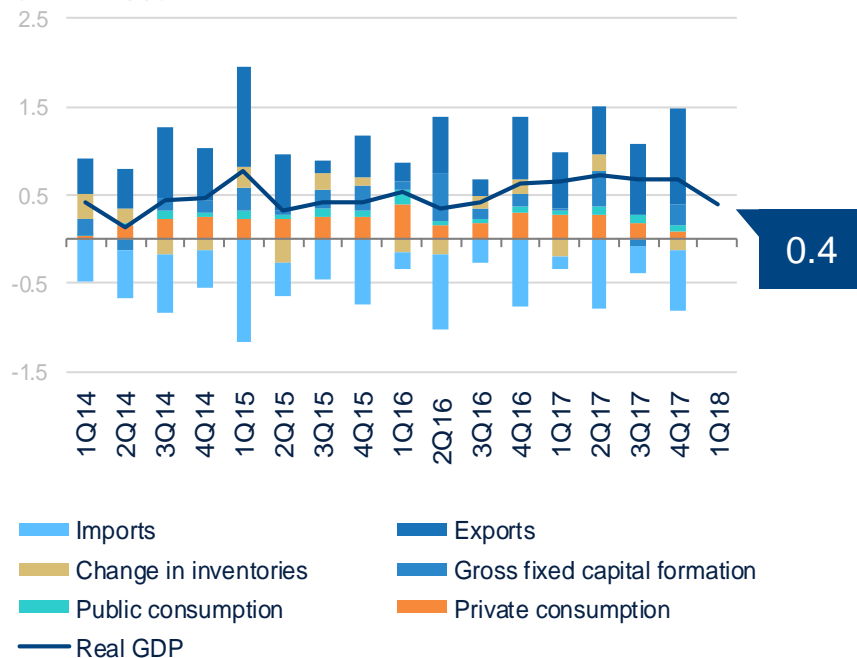
- The eurozone GDP growth slowed in 1Q18 more than expected. Beyond temporary factors in early year and some recovery in hard data in March, further decline in confidence data up to May point to a more moderate growth forward and increase concerns about the negative effect of uncertainty on the real economy in coming months if it persists.
- Exports recovered in March from early declines in the year, but the increase in industrial output and retail sales was not enough to avoid a quarterly decline. Despite this, the labour market's spare capacity continued to narrow.
- The MICA-BBVA model projects GDP growth to remain at around 0.4% QoQ in 2Q18. Data so far for 2018 put a downward bias on our annual growth forecast of 2.3%.
- Inflation slowed to +1.2% YoY driven by a lower contribution from services, because of calendar effects from Easter holidays. Accordingly, core inflation declined by 0.2pp to +1.1%, but we continue to foresee a gradual increase in core figures during the year. Recent oil price developments and euro depreciation will add upward pressures for headline inflation in coming months.
- Downward risks continue to increase, characterized mainly by political and geopolitical uncertainty and protectionism that could lead to tighter financial conditions and protracted higher commodity prices.

# More moderate growth after slowing in 1Q18

■ GDP growth slowed to 0.4% QoQ in 1Q18 after 0.7% in the previous quarter, more than expected. Our MICA-BBVA projects a similar quarterly pace for 2Q18 (0.4% QoQ) and cools down expectations of a possible rebound in growth in 2Q18

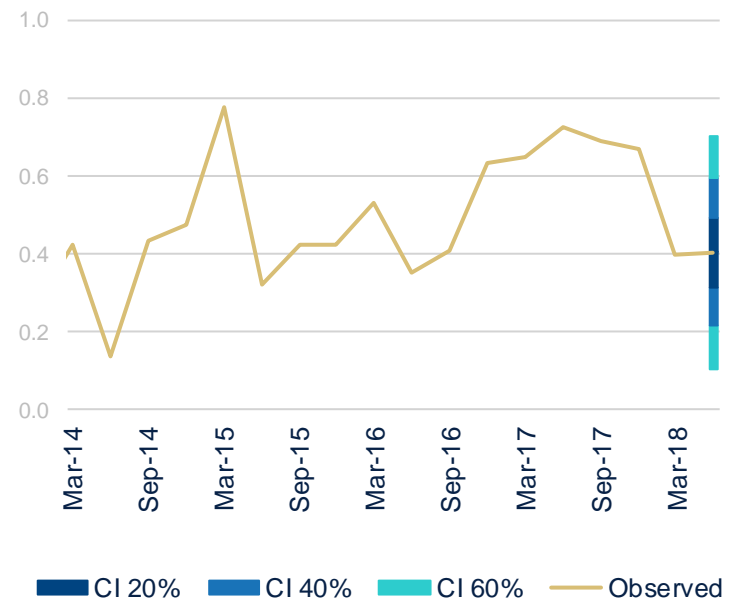
## GDP, contribution by components

(%QoQ, pp)



## GDP and MICA forecasts

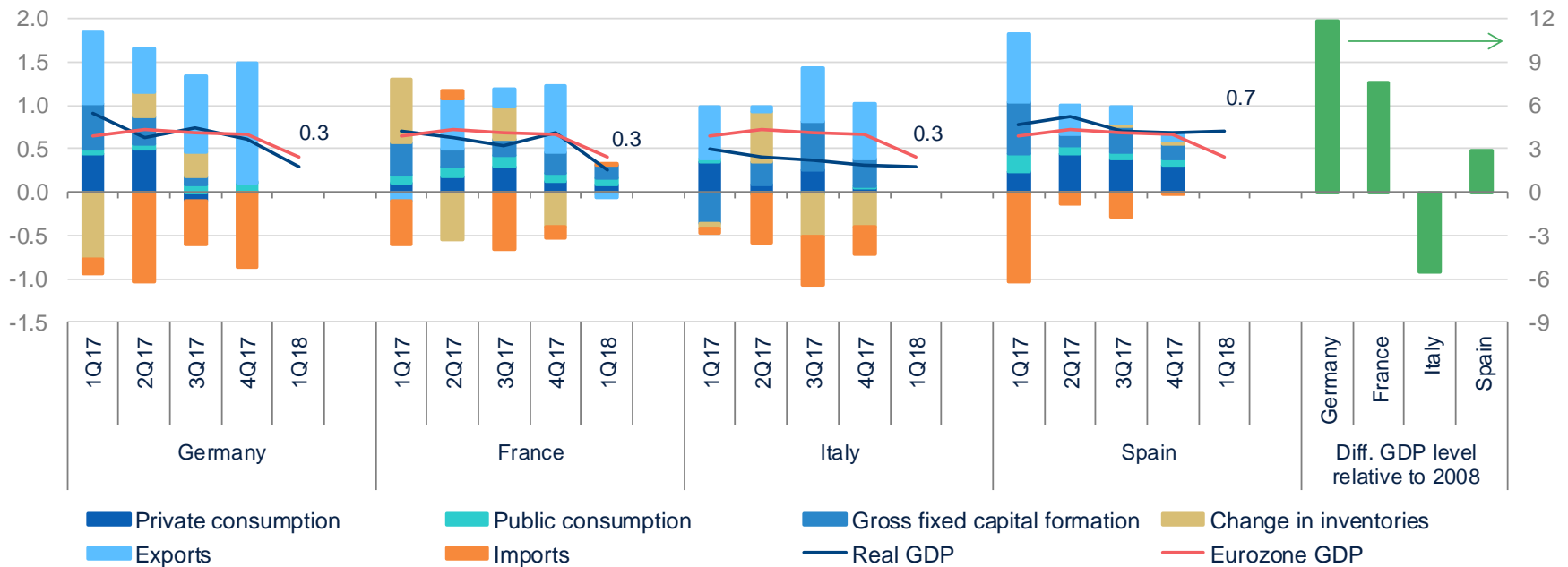
(%QoQ)



# Broad-based moderation across countries in early 2018, except in Spain which showed a stable growth pace

## GDP and expenditure contribution by country

(%QoQ, pp)

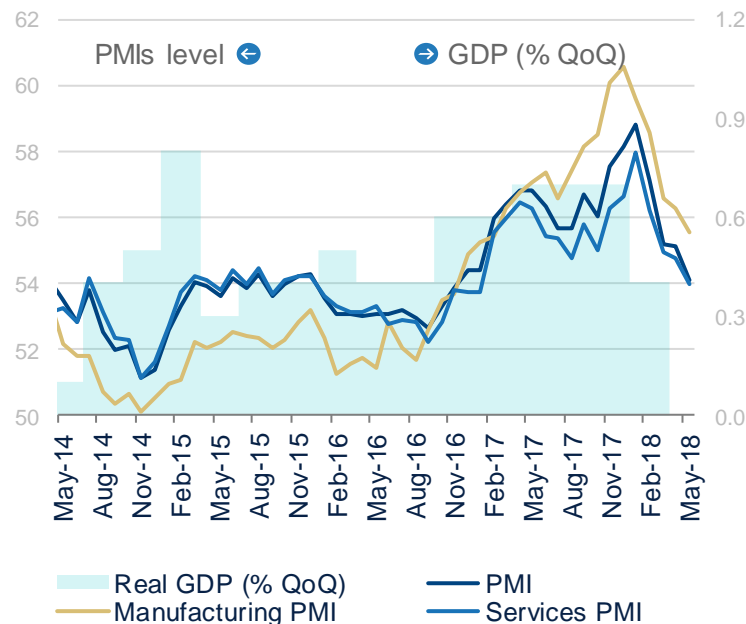


# Confidence figures decline further in May, reflecting higher uncertainty

■ This worsening is observed in both manufacturing and services for the fifth month in a row. **Although confidence remains still at high levels, it points to a more moderate growth onwards than that observed in 2H17 and increases concerns about the negative effect of higher and persistent uncertainty on private consumption and investment**

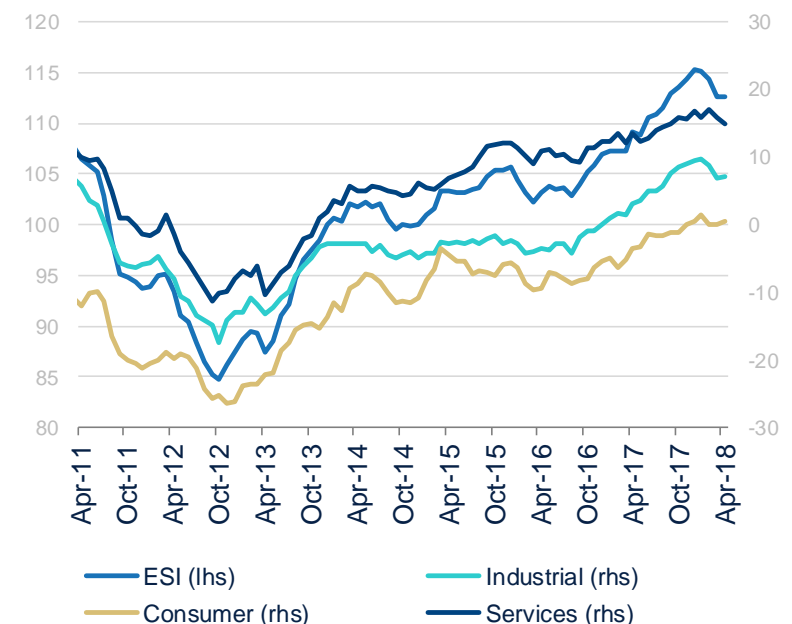
### PMI and GDP

(level, %QoQ)



### EC confidence survey

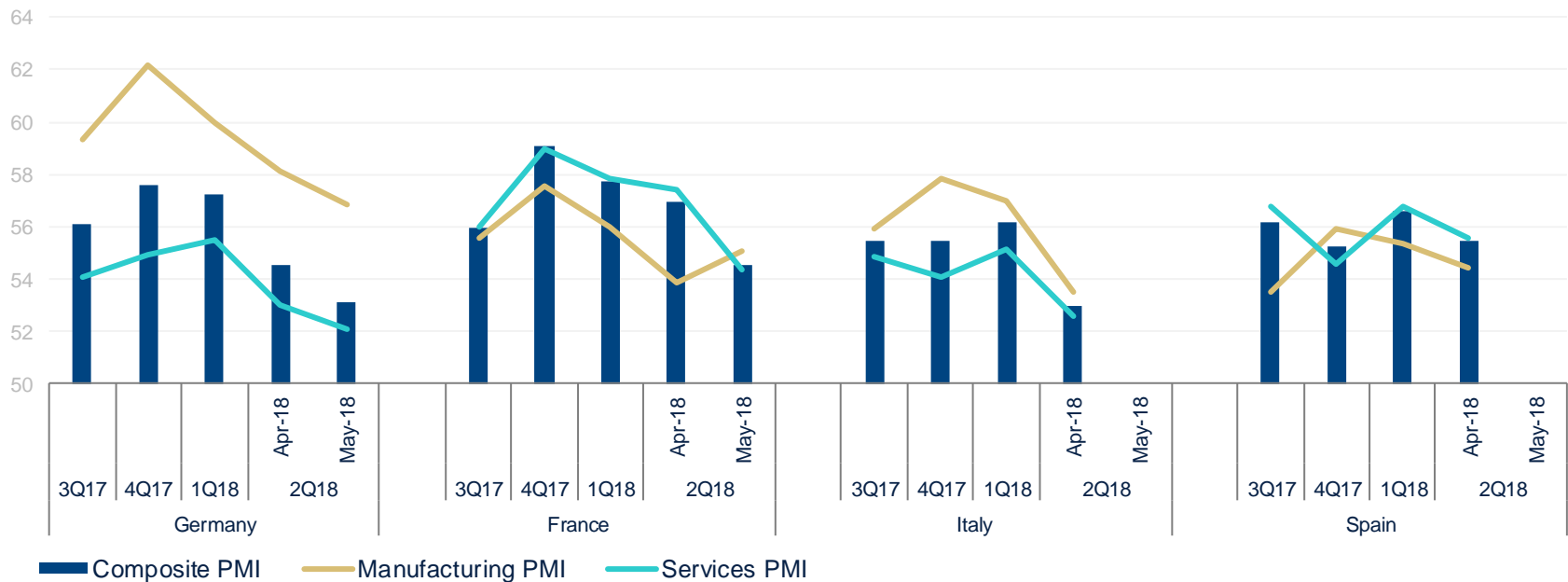
(level)



# Across countries, sentiment declines markedly in Germany and France, but is still consistent with a solid expansion

- According to flash figures, growth slowed markedly both in Germany and France, but accelerated across the rest of the region
- Although some moderation in optimism was expected due to some evidence on supply constraints and the appreciation of the euro over last year, the less positive outlook could be reflecting softer global tailwinds

## PMI survey (level)

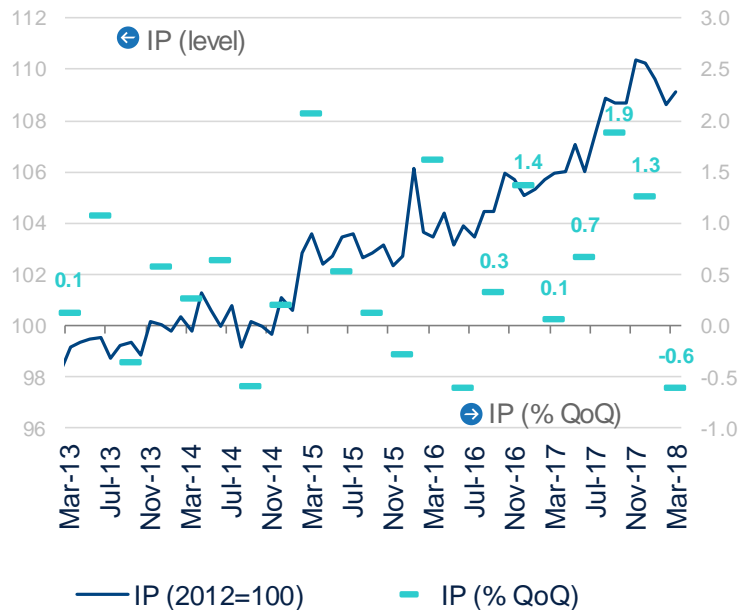




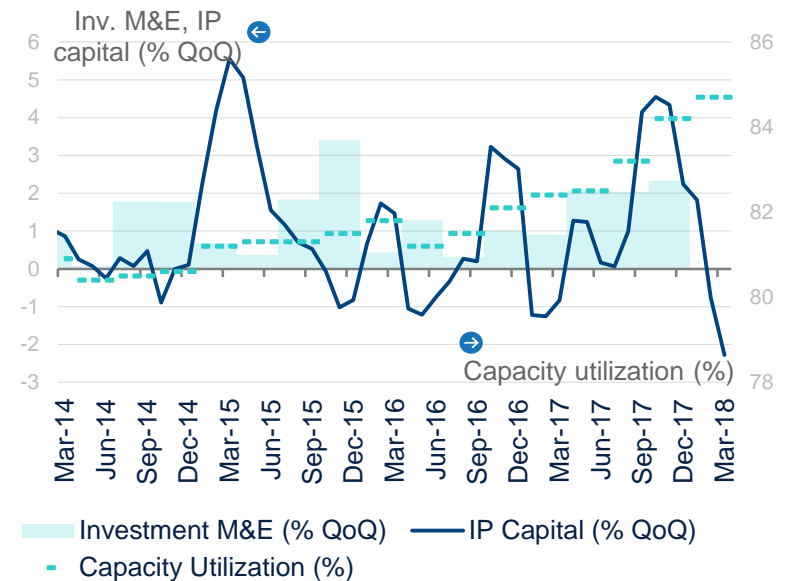
# Industrial output picked up in March, but was not enough to avoid a quarterly loss in 1Q18

- Industrial production recovered in March (+0.5% m/m) due to stronger output of consumer goods. Despite disappointing figures in the production of both investment and durable goods, increasing capital utilization by firms would suggest further private investment in coming months

## Industrial production (level, %QoQ)



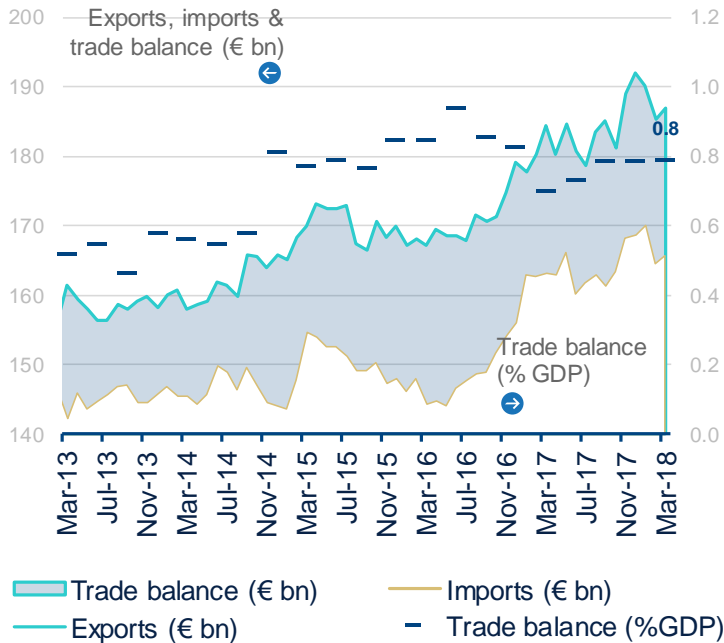
## IP capital equipment, investment in M&E and capacity utilization (%QoQ, %)



# The trade balance stabilized in 1Q18, with exports mostly flat and imports growing moderately

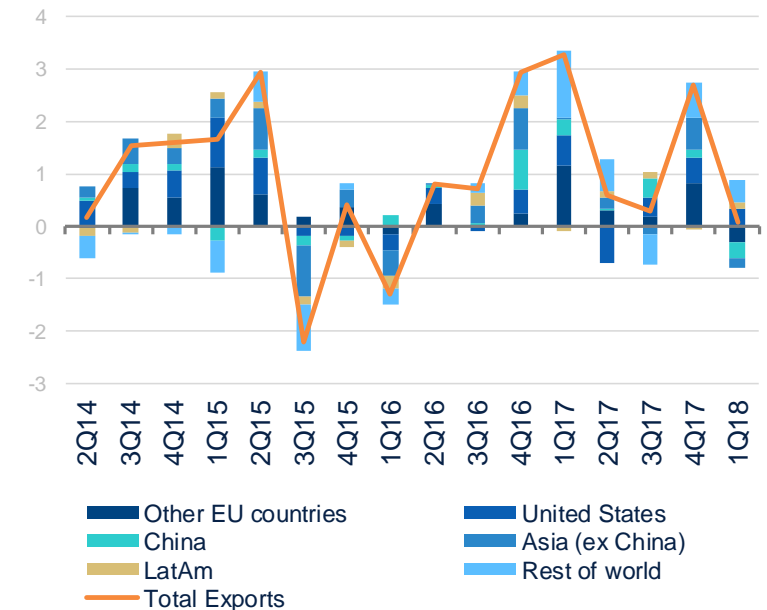
## Trade balance

(€ bn, %GDP)



## Exports by destination

(%QoQ, pp)



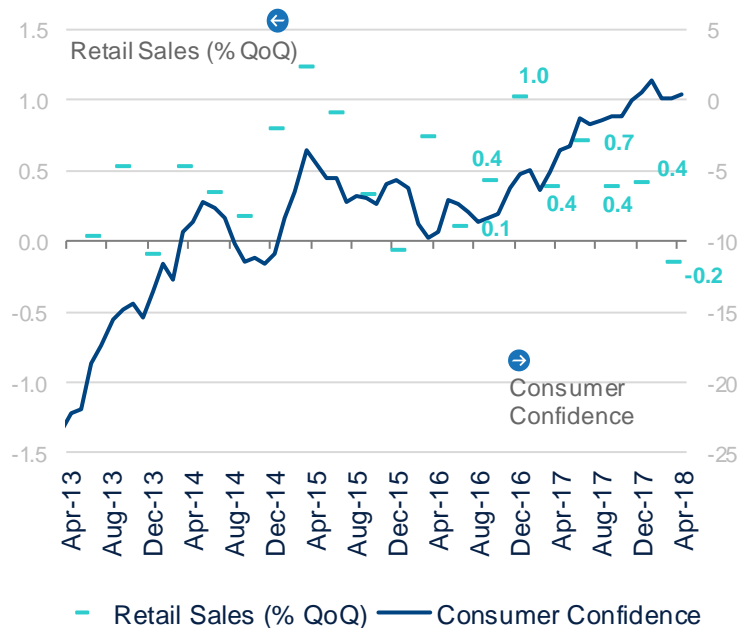


# Retail sales recovered somewhat in March from early year losses, but slowed down overall in 1Q18

■ Retail sales have fallen in 1Q18, but have recovered in March and the fundamentals of consumption remain strong. Consumer confidence is still high and employment gains are solid.

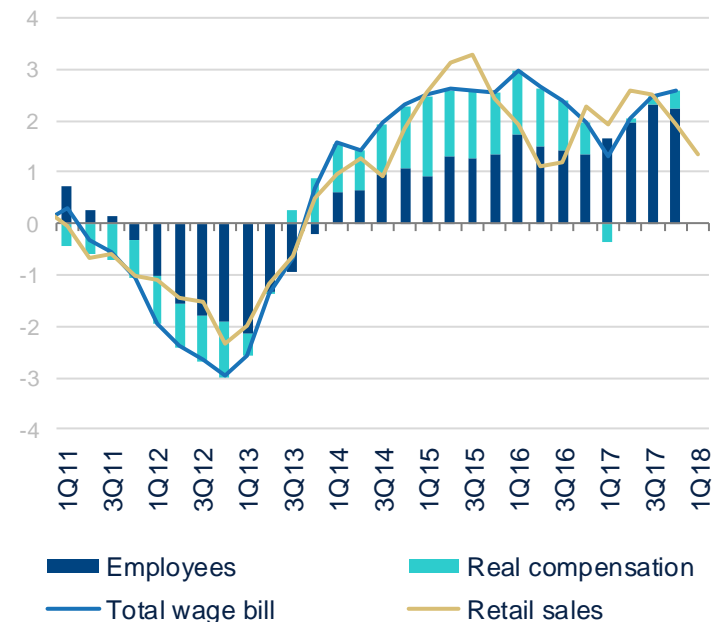
## Retail sales and consumer confidence

(%QoQ, pts)



## Retail sales and total wage bill

(%YoY, pp)

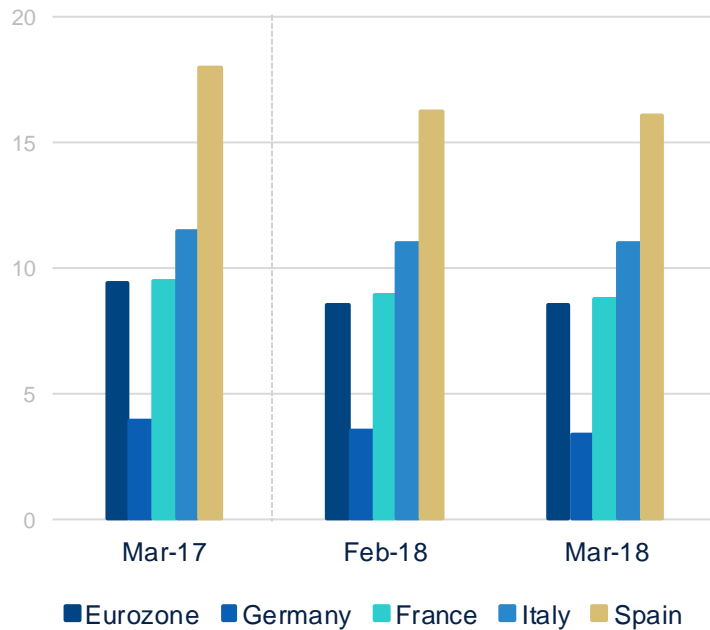


# The unemployment rate stayed flat at 8.5%, although the idle capacity in the labor market continued to narrow

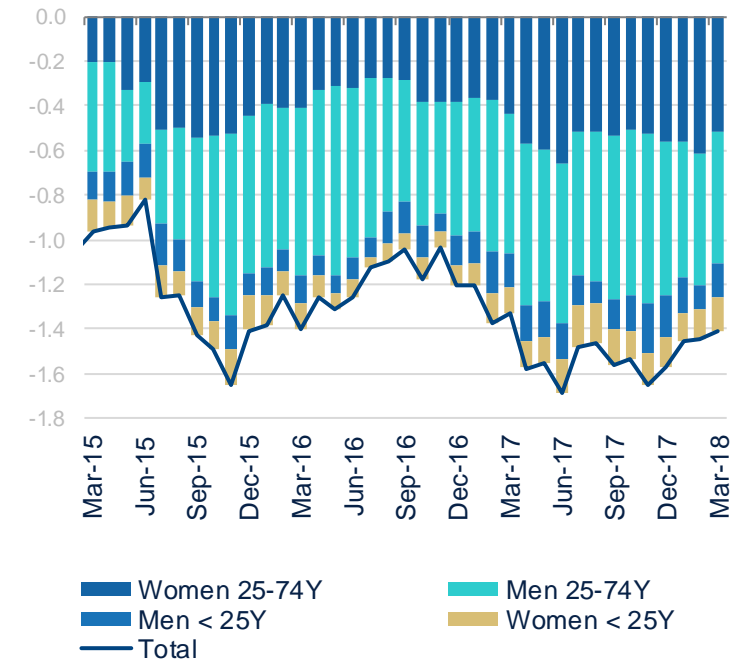
■ The unemployment kept steady at 8.5% in March, with still slack to absorb in the labour market

■ The decline of unemployment continued for the prime-age population

**Unemployment rate by country (%)**



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



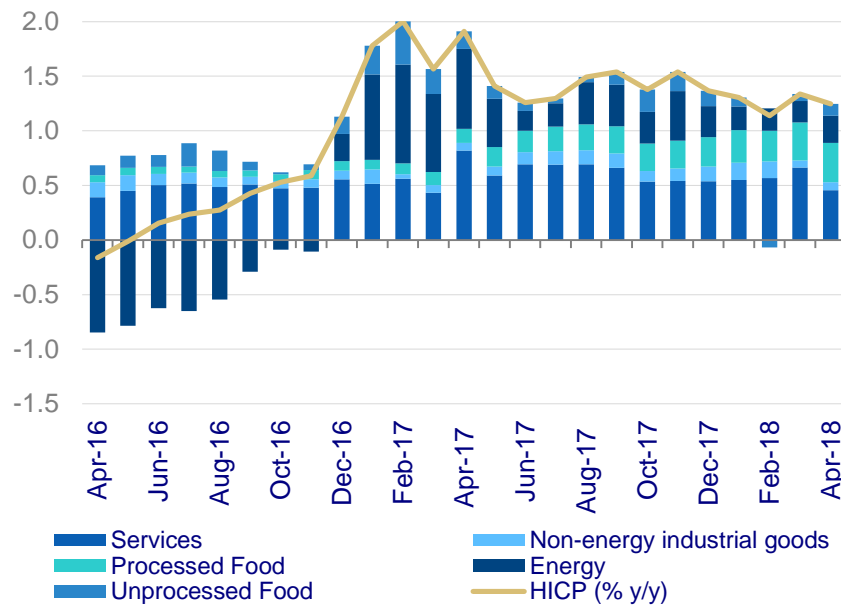
# Headline and core inflation declined in April due to calendar effects

■ HICP decreased to 1.2% YoY in April, with a lower contribution of the services component due to calendar effects from Easter holidays

■ Core inflation also went down by 0.2pp to 1.1% YoY but will revert slowly during the year to figures of around 1.5%

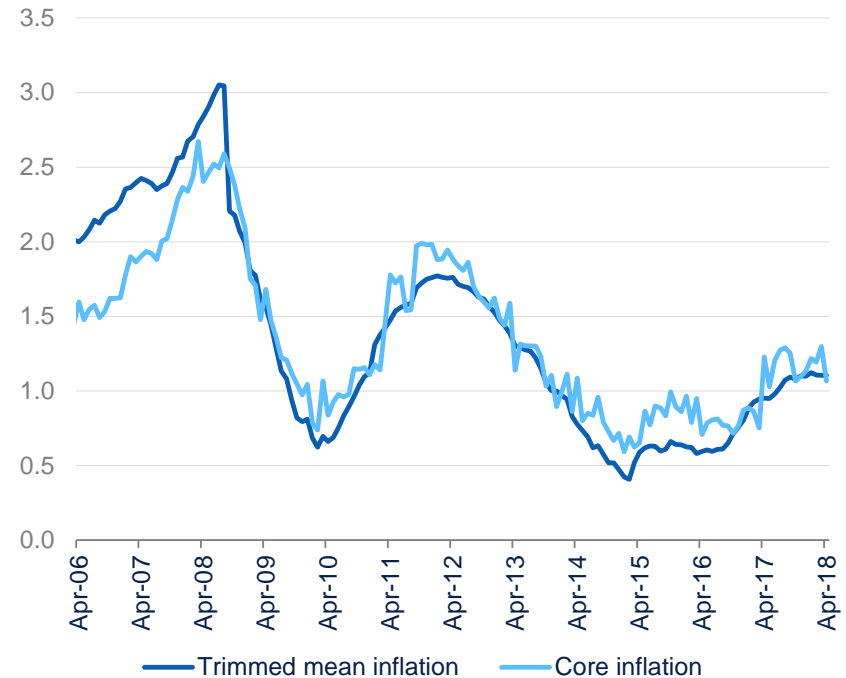
## Inflation and contribution of components

(%YoY, pp)



## Core and trimmed-mean inflation

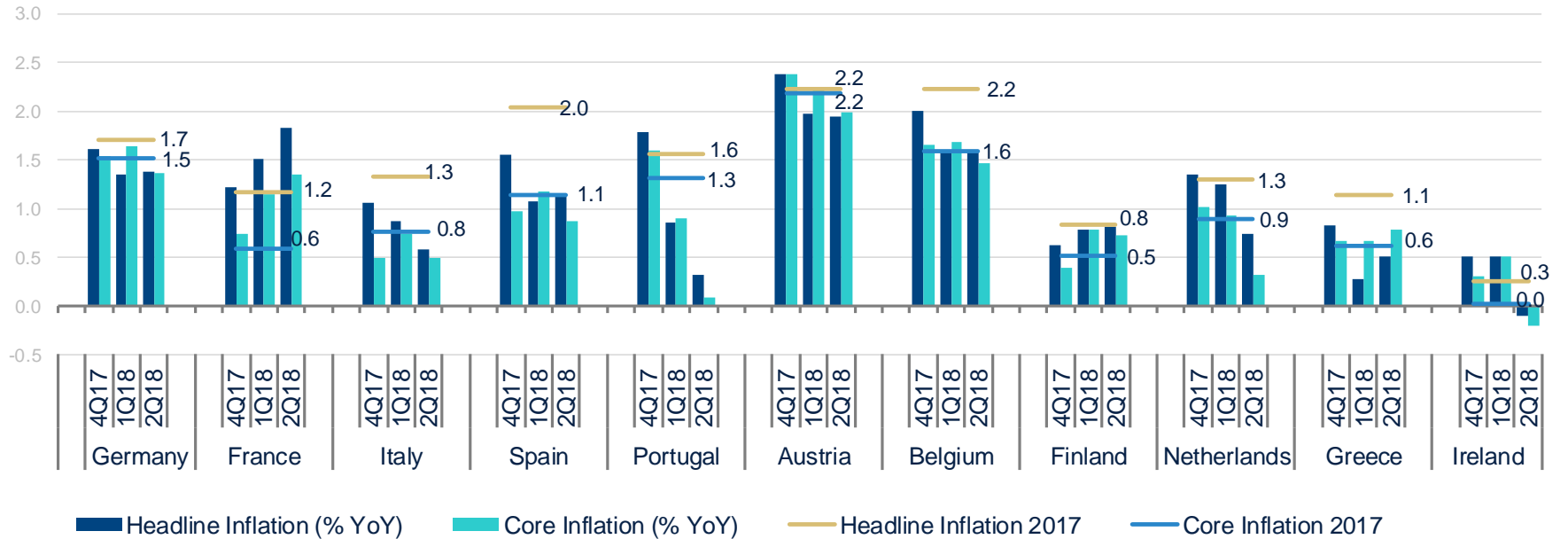
(%YoY)



# Inflation declined in most countries in April, except in France

## Headline and core inflation

(%YoY)



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