

# Europe Flash

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Economic Analysis

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## Stable growth in the eurozone in 1Q14, lower than expected (0.2% QoQ)

### Strong growth in Germany, but the rest disappoints

- **Eurozone: GDP grew by 0.2% QoQ (BBVA Research and Consensus: 0.4% QoQ)**

The 0.2pp negative surprise is explained by a slower-than-expected growth in France and Italy (see below), and very negative figures in the Netherlands (-1.4% QoQ), which account for approximately 0.1pp of the eurozone's lower growth. By components, although the detailed results have not yet been published, our forecasts suggest that growth has been sustained by domestic demand (investment and, to a lesser extent, private consumption), while the contribution of net exports would have disappeared or might even be slightly negative, in line with national data (Germany and France).

The available data for the second quarter are very limited; it all comes down to confidence for April and they give mixed signals (PMIs suggest acceleration while the Commission's ESI worsens). Our MICA-BBVA model, still very preliminary, estimates a growth of around 0.3% QoQ, more than included into our forecast (0.2%). However, we continue to expect relatively stable growth in the remainder of the year, so we are still forecasting average annual growth of around 1% for the whole of 2014.

- **France: zero GDP growth in 1Q14 (BBVA Research and consensus: 0.1% QoQ)**

Activity stagnated in the first quarter, against expectations of minimal growth. The breakdown of components indicates that domestic demand in 1Q14 drained growth (-0.4pp), especially the fall in private consumption (-0.5% QoQ after +0.2% QoQ) and investment (-0.6% QoQ after -0.1% QoQ). Net exports contributed negatively to growth by improving imports (1.0% QoQ after 0.5% QoQ) and a slowdown in exports (0.3% QoQ after 1.6% QoQ). Inventories were the only component with positive contribution (0.6pp after -0.3pp).

- **Germany: GDP grew by 0.8% QoQ in 1Q14 (BBVA Research: 0.6% QoQ; consensus: 0.7% QoQ)**

Despite not having the breakdown, we believe that the quarterly growth of the German economy was a reflection of the good performance of the domestic fundamentals but also of temporary factors: the construction sector, in particular, benefited from favourable weather conditions during 1Q14. Consumption, both private and public, continued to recover and investment increased strongly in both construction and machinery and equipment. However, the external sector made a negative contribution, especially through the sharp increase in imports.

- **Italy: GDP contracted by 0.1% QoQ in 1Q14 (BBVA Research: 0.3% QoQ; consensus: 0.2% QoQ)**

The drop in Italian GDP in 1Q14 was a surprise. Without yet knowing the data broken down by components, the main weakness factor was the fragility of the manufacturing sector, while the contributions of private consumption and net exports could have been below expectations.

- **Portugal: GDP surprises, falling by 0.7% QoQ in 1Q14 (BBVA Research: 0.0% QoQ, consensus: 0.1% QoQ)**

The strong quarterly contraction in activity was mainly due to a fall in exports of goods and services, according to the press release from INE. Moreover, a positive contribution of domestic demand would have been recorded, specifically because of a good investment performance. The Portuguese statistical institute has also revised the previous quarter's growth slightly downward (0.5% QoQ in 4Q13 from 0.6% QoQ). However, activity during the first quarter seems to have been influenced by temporary factors that should disappear in the coming quarters.

Table 1  
**GDP in the eurozone**

|          | Observed |      |       | BBVA |
|----------|----------|------|-------|------|
|          | 3Q13     | 4Q13 | 1Q14  |      |
| Eurozone | 0.1%     | 0.2% | 0.2%  | 0.4% |
| Germany  | 0.3%     | 0.4% | 0.8%  | 0.6% |
| France   | -0.1%    | 0.2% | 0.0%  | 0.1% |
| Italy    | -0.1%    | 0.1% | -0.1% | 0.3% |
| Spain    | 0.1%     | 0.2% | 0.4%  | 0.3% |
| Portugal | 0.3%     | 0.5% | -0.7% | 0.0% |

Source: Eurostat and BBVA Research

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