

MACROECONOMIC ANALYSIS

Euro area: continued growth, but with external risks

Europe Unit

Based on the recently published data, we expect the euro area's recovery to have continued in the third quarter of the year at 0.4% QoQ, sustained by domestic fundamentals. Nonetheless, the deterioration in conditions for certain emerging economies has caused exports to fall, which poses risks to maintaining the pace of recovery going forward

Euro area: activity stabilises in 3Q15

- Confidence indicators have held relatively stable during 3Q15, following two quarters of sharp rises. The PMI indicator remains at a four-year high, with the services sector notably more dynamic than manufacturing, while the European Commission's ESI is improving slightly, also thanks to the service sector's recovery (Figures 3 and 4), which compensates for the fall in household confidence. Meanwhile, the manufacturing sector is still comparatively stable. By country, the highest confidence levels are being seen in Germany, Italy, Spain and the Netherlands, while in Finland, and most particularly in Greece, the outlook seems more optimistic.
- Despite the above, consumption has grown again, since retail sales up to August continued to improve on the 2Q15 average (Figure 6), as did motor car registrations, which are up 2.3% on the previous quarter. Industrial production stayed virtually flat in the first two months of 3Q15 and is still being affected by the decrease in manufacturing orders, above all from abroad, as a result of the slowdown among the emerging economies. Confirming this trend, the slowdown in demand from abroad can be seen in the goods exports figures, which have come down with respect to 2Q15, when they spiked sharply (Figure 8). All in all, exports are still hovering around 7% above the level of a year ago, thanks to the euro's cumulative depreciation, which more than makes up for the recent flimsiness of global demand.
- Using the figures published so far, the short-term MICA-BBVA forecast model estimates growth of around 0.4% QoQ in 3Q15 (Figure 2), which is on a par with the previous quarter and a little below the level in our baseline scenario, in which we pencilled in growth for this quarter of 0.5%.
- As regards the labour market, in 2Q15 there was a gradual recovery in employment and the downward trend in the unemployment rate continued, marking 11% in August (Figure 9), although this does show varying patterns from country to country, and while historic lows were recorded in Germany and Austria, in France, Finland and Belgium the unemployment rate continued to rise steadily. On the other hand, in Italy there was confirmation of a downward shift in trend in the past few months, and in the Netherlands and Spain the reduction of the unemployment rate is taking hold.
- Inflation was -0.1% YoY in September, after +0.1% in August, due to heavier falls in energy prices for the fourth month in succession, whereas core inflation held stable at 0.9% YoY, as it has since midway through the year (Figures 11 and 12). In the past three months, core inflation has moved much as expected, whereas headline inflation eased rather more than had been predicted over the past quarter owing to the heavier falls in energy prices. Our scenario assumes an oil price of around USD50/bbl at the end of 2015, rising to USD60/bbl in 2016 and USD67/bbl in 2017, a little more than 12% lower than three months ago. Going forward, we continue to expect inflation to rally to about 0.8% YoY in December, as the base effects from energy prices disappear, while core inflation, which currently stands

at 0.9% YoY, is likely to stay relatively steady in the coming months. Compared to three months ago, we thus now expect inflation to be somewhat lower, by around 0.2pp, for both 2015 and for 2016, coming down to about 0.1% and 1.1% respectively, and predict 0.1pp or so less inflation in 2017, at 1.7%. In spite of this downward revision, which is basically on the back of the oil price, we continue to expect inflation to come back towards the target level in the next two years, as does the ECB.

Germany: solid domestic fundamentals but weakness from outside

- Over the third quarter, the observed improvement in national business confidence indicators (Ifo and ZEW), the PMIs and the Commission's index are being partly reflected in the activity figures, with retail sales rising above the 2Q15 average (Figures 17 and 18), although industrial production was practically at a standstill, as was flagged by the drop in manufacturing orders from abroad.
- The above was largely on account of the deceleration in certain emerging economies, and is also evident from the drop in sales of goods abroad so far for the third quarter, which could limit the foreign sector's contribution to growth.
- As a result, expected growth for 3Q15 is 0.4-0.5% QoQ (Figure 14), after 0.4% QoQ for 2Q15.

France: a return to modest growth

- For Q3, the confidence indicators from Insee and Markit as well as the European Commission have been above the levels in 2Q15, while the national central bank's indicator is retreating slightly. The recovery of manufacturing confidence, which had been depressed for several quarters, is leading the way in this improvement (Figures 27 and 28).
- Industrial production has ceased to fall, and retail sales to August rose with respect to 2Q15, but there is an observable fall in exports, especially those to destinations outside the EU, after the fine performance in the previous quarter (Figure 32).
- Overall, we expect growth in 3Q15 to be 0.2-0.3% QoQ.

Italy: another step forward in 3Q15

- Signs of recovery are being confirmed in the figures for 3Q15, in both the industrial sector (as business confidence indicators had been suggesting, with the PMI at a high since early 2011) and retail sales, which both echo improved household confidence (Figures 39 and 40).
- Despite the fall in exports in Q3, having risen notably over the preceding quarter, the foreign sector could make a contribution to growth in 3Q15, due to a more substantial fall in imports (Figure 44).
- These factors together lead us to estimate growth of 0.2-0.3% QoQ in the third quarter of the year.

Spain: the recovery loses momentum in the third quarter

- With respect to private domestic demand in 3Q15, partial short-run indicators (Figures 51 and 52) suggest that private consumption, and machinery and equipment investment, could have continued to spearhead growth, although at rates behind those observed in the first half of the year.
- On the external demand front, the spending variables and expectations indicate that non-tourism exports continued to grow, even though the deterioration in the global situation points to a gradual loss of buoyancy over the quarter ([See Spain Economic Watch](#)).
- The figures out up to now indicate that the pace of growth should drop back to 0.7% QoQ. (Figure 50).

Euro area

National accounts: stable growth in 3Q15 (0.4% QoQ)

In 2Q15 domestic demand contributed 0.1pp, due to consumption growth in both the private (0.4% QoQ) and public (0.3% QoQ) sectors, and despite the fall in investment (0.5% QoQ), while net exports contributed 0.3pp to growth. For 3Q15, the MICA-BBVA model estimates growth of around 0.4% QoQ

Figure 1
GDP (% QoQ) and contribution by component (pp)*

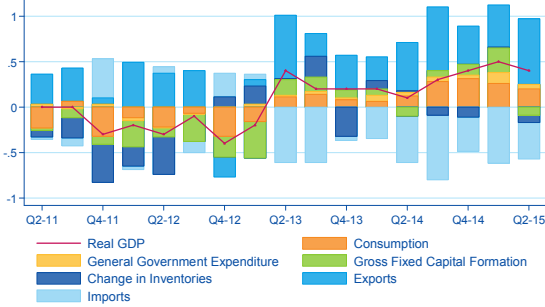
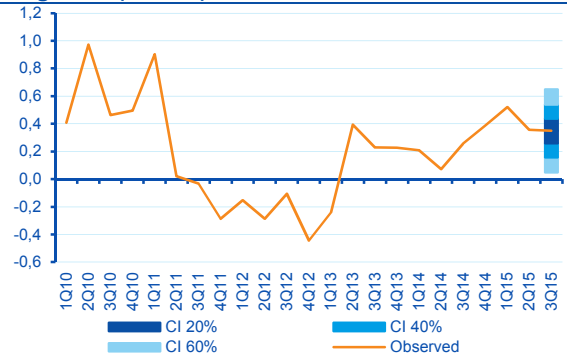


Figure 2
GDP growth (% QoQ) and MICA-BBVA model estimate*



Confidence: the PMIs are easing up, while the ESI continues to rise

The PMIs show some moderation in September, though with growth relatively stable and generally spread across sectors in 3Q15 as a whole, while the ESI index rose to 105.6 points, climbing above the average for 2Q15 (103.7pt).

Figure 3
PMIs and GDP growth (% QoQ)*

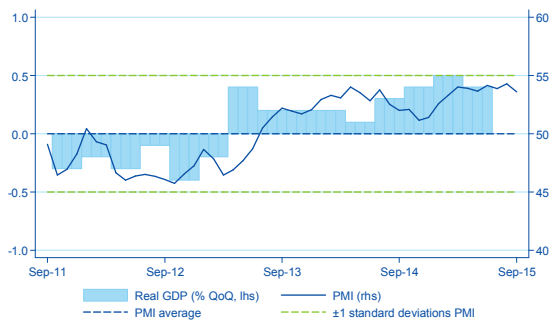
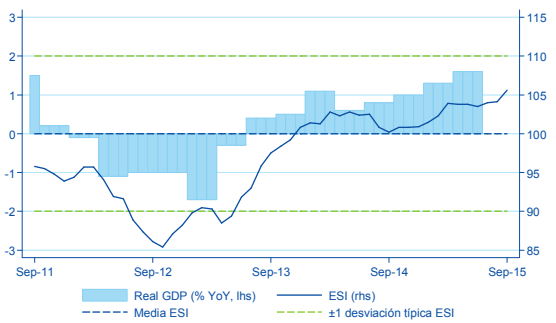


Figure 4
Confidence (ESI) and GDP growth (% YoY) **



Activity: retail sales are growing and industrial production is stagnating

Based on the figure for August (-0.6% MoM), the industrial production index is unchanged compared to the average for 2Q15, while retail sales were 0.6% up on 2Q15.

Figure 5
Industrial production (% YoY) and manufacturing PMI*

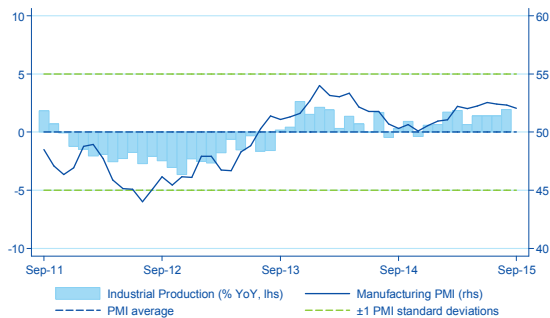
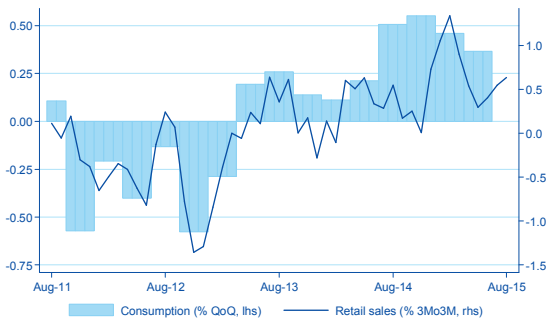


Figure 6
Retail trade (% 3M/3M) and consumption growth (% QoQ)*



*Source: HAVER and BBVA Research

Foreign sector: drop in exports to August after the strong growth in 2Q15

Exports fell by -1.3% MoM in August and are 1.1% below the 2Q15 average. On the other hand, imports grew by 0.3% MoM in July but are still 0.8% below the 2Q15 average.

Figure 7
Current account (% of GDP)*

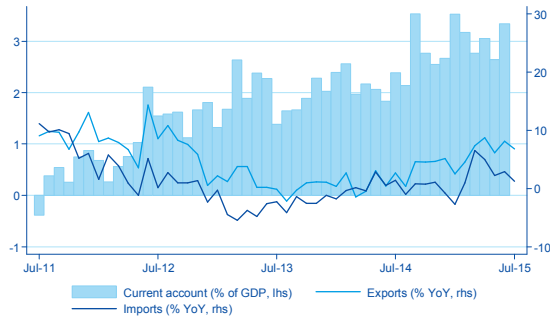
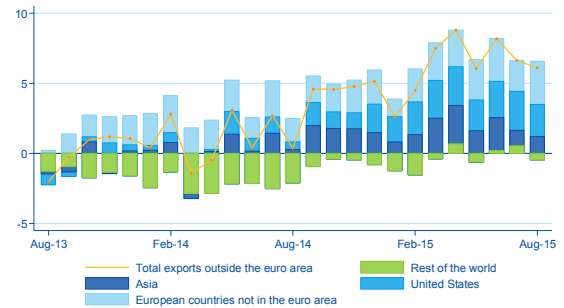


Figure 8
Exports by destination (contribution to % YoY)



Labour market: unemployment remained stable in August at 11%

In August, the euro area unemployment rate held at 11%, although this was uneven among countries. Business sector labour costs moderated in 2Q15 (1.6% YoY after 1.9% YoY).

Figure 9
Unemployment rate (%) and employment expectations*

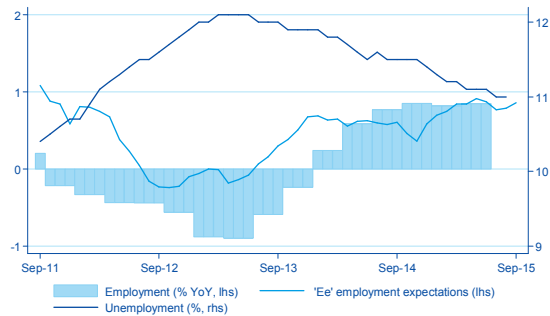
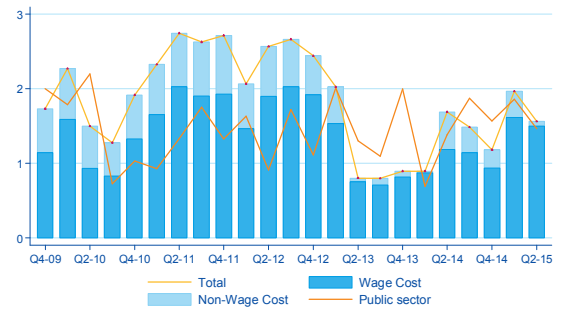


Figure 10
Business sector labour costs (% YoY)*



Prices: headline inflation fell in September due to energy, while core was stable

Inflation dropped back by 0.2pp to -0.1% YoY in September, due to heavier falls for energy prices. Core inflation has remained stable at 0.9% YoY since the middle of the year.

Figure 11
Inflation rate: headline and core (% YoY)*

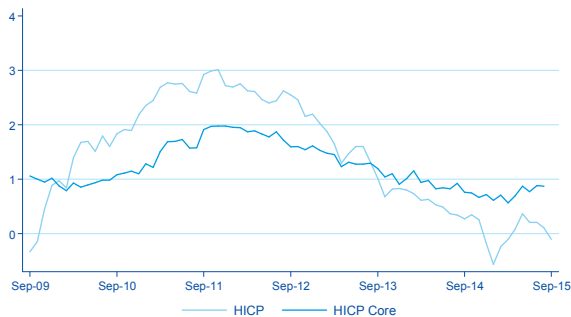
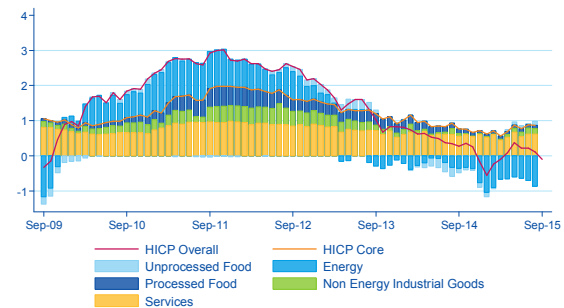


Figure 12
Inflation by component (contribution in %)*



* Sources: HAVER and BBVA Research

Germany

National accounts: growth of 0.4-0.5% QoQ in 3Q15, after 0.4% QoQ in 2Q15

In 2Q15 domestic demand made a negative contribution to growth of 0.3pp, due to the drop in investment (-0.4% QoQ after 1.7% QoQ) and inventory trends. Private and public consumption meanwhile kept up a healthy pace of growth. Demand from abroad reversed its negative trend and put in a contribution to growth of 0.7pp in 2Q15.

Figure 13
GDP (% QoQ) and contribution by component (pp)*

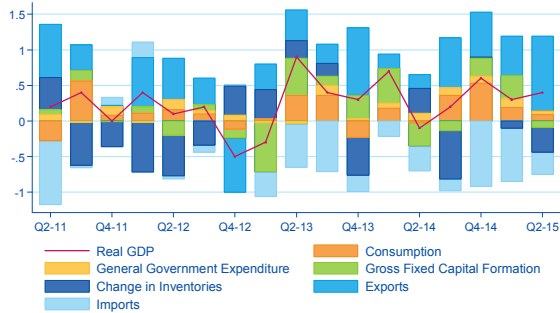
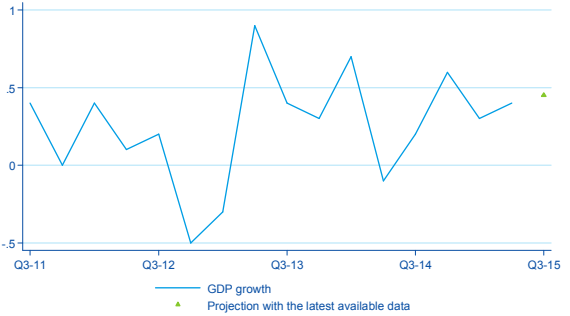


Figure 14
GDP (% QoQ) and estimates*



Confidence: the PMIs fell back in September and the ESI rose

The composite PMI slipped back in September, as it did in services, although manufacturing rose; the national indicators (Ifo and ZEW) are stabilising at the same levels as in the previous quarter and the ESI is still on the rise.

Figure 15
PMI and GDP growth (% QoQ)*

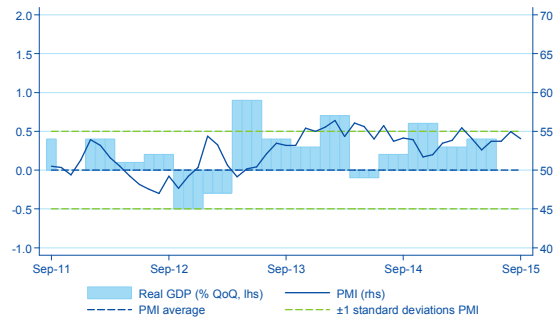
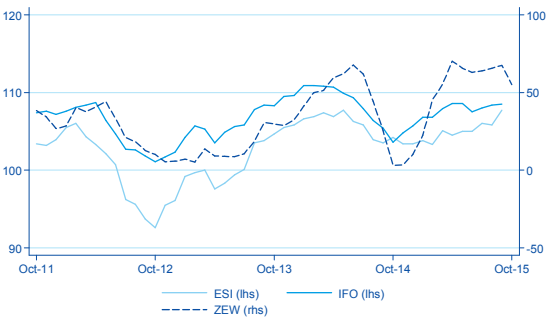


Figure 16
Confidence indicator (ESI, Ifo and ZEW)*



Activity: industrial production and retail sales fell in August

Industrial production shrank back 1.2% MoM in August, although it remains flat with respect to the average for 2Q15. Retail sales moderated by 0.4% MoM and are 0.4% above the 2Q15 average.

Figure 17
Industrial production (% YoY) and manufacturing PMI*

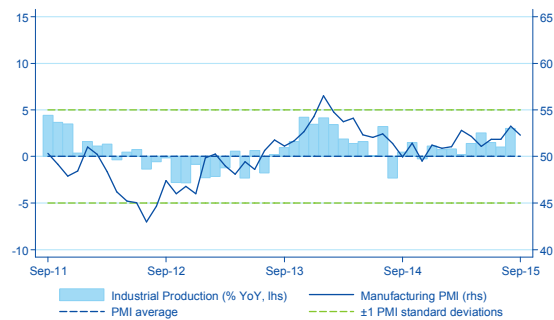
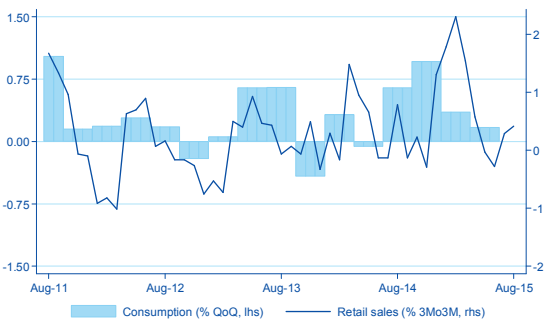


Figure 18
Retail trade (% 3M/3M) and consumption growth (% QoQ)*



*Sources: HAVER and BBVA Research

Foreign sector: exports fell heavily in August

Exports sank by 5.2% MoM in August, marking 0.6% below the 2Q15 average. On the other hand, imports fell 3.1% MoM in August, but are 0.5% above the 2Q15 average.

Figure 19
Current account (% of GDP)*

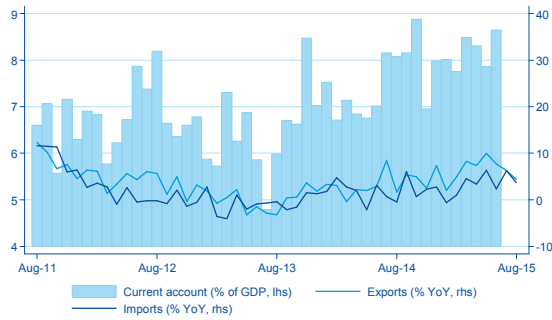
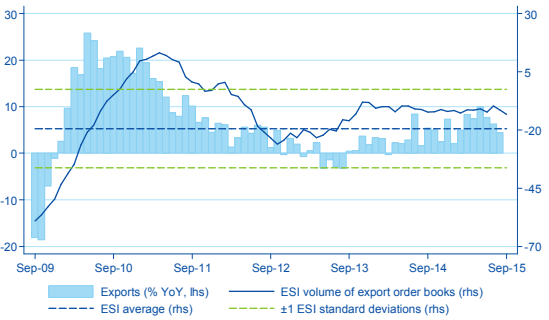


Figure 20
Export growth (% YoY) and exp. order volume*



Labour market: the unemployment rate is still at historical lows

The unemployment rate registered a new historical low (4.5%) in August, while labour cost growth picked up to 3.1% YoY in 2Q15 after 2.8% YoY in 1Q15.

Figure 21
Unemployment rate (%) and employment expectations*

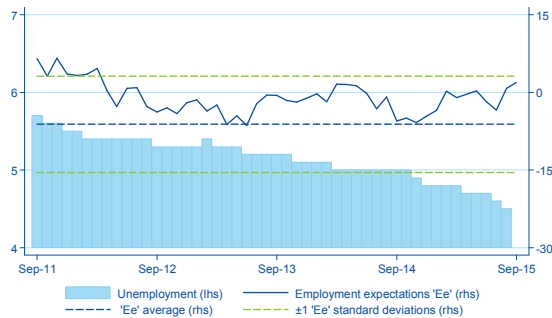
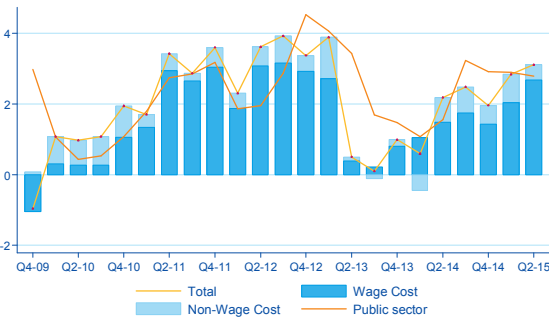


Figure 22
Business sector labour costs (% YoY)*



Prices: inflation enters negative territory (-0.2% YoY) in September

Inflation came down by 0.3pp in September, reaching -0.2% YoY. This is mainly due to a notable fall in energy prices.

Figure 23
Inflation rate: headline and core (% YoY)*

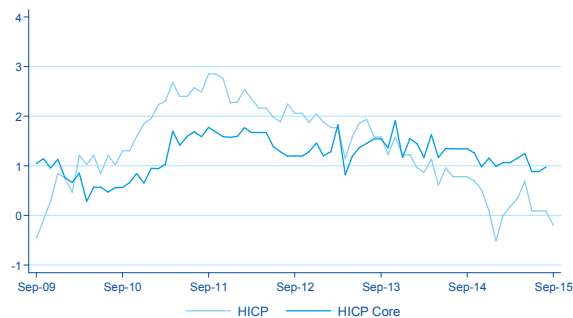
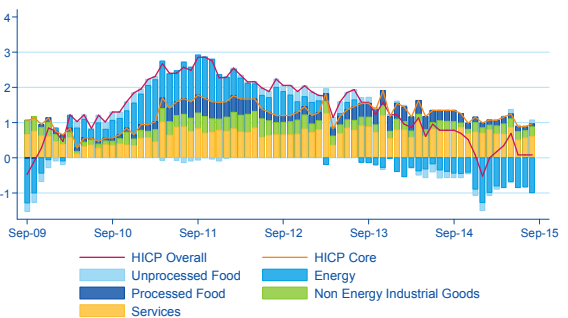


Figure 24
Inflation by component (contribution in %)*



* Sources: HAVER and BBVA Research

France

National accounts: recovery (0.2-0.3% QoQ) after GDP stagnates in 2Q15

Domestic demand clearly slackened off, with a notable decrease in private consumption (0.1% QoQ) and a smaller fall in public sector consumption (0.3% QoQ), while investment contracted again (-0.3% QoQ). Exports grew more than in 1Q15 in contrast with softer imports, which resulted in a contribution from net external demand (0.4pp).

Figure 25
GDP (% QoQ) and contribution by component (pp)*

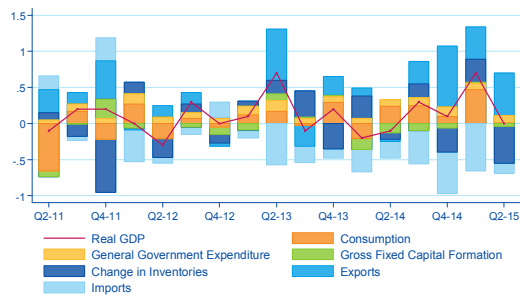


Figure 26
GDP (% QoQ) and estimates*



Confidence: mild improvement according to the September figures

The composite PMI rose gently, by 1.2 points (51.4), and the national indicators also reflected this slight improvement in confidence, as did the ESI. The decomposition of the PMI reveals mild improvements in manufactures and services.

Figure 27
PMIs and GDP growth (% QoQ)*

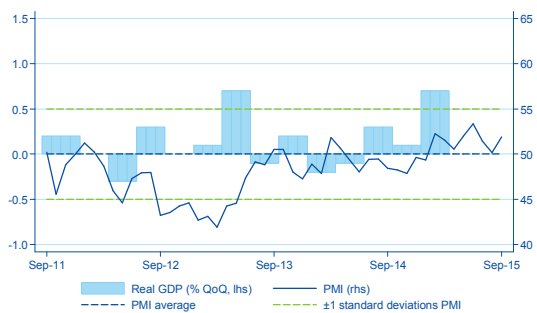
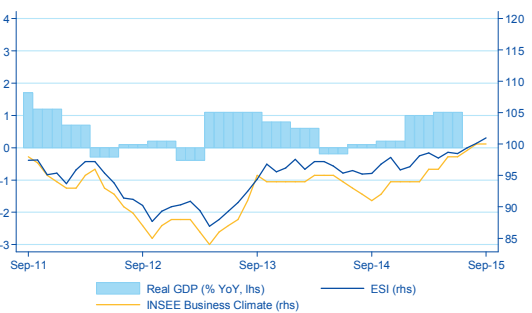


Figure 28
Confidence indicator (ESI and INSEE)*



Activity: industrial production and retail sales rallied in August

Industrial production surged in August (1.6% MoM), thereby correcting for the previous month, and stood at the same level as in 2Q15. Likewise, retail sales rose by 0.3% MoM in August and were up 0.8% on 2Q15.

Figure 29
Industrial production (% YoY) and manufacturing PMI*

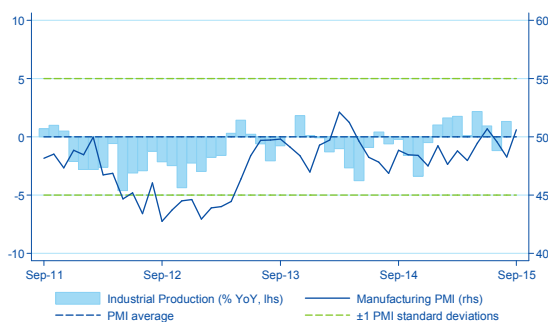
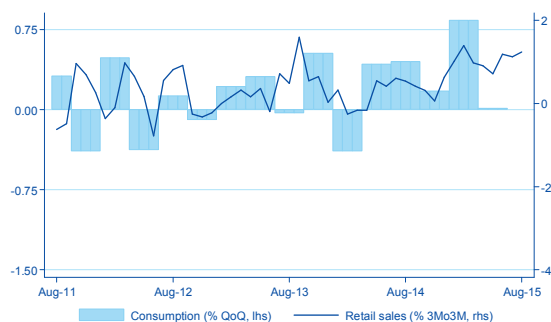


Figure 30
Retail trade (% 3M/3M) and consumption growth (% QoQ)*



*Source: HAVER and BBVA Research

Foreign sector: the trade deficit came down in July after imports fell

Exports fell 3% MoM in August, standing at 1.1% below the 2Q15 average. Meanwhile, imports dropped by 3.2% MoM in August and were 1.3% below the 2Q15 average.

Figure 31
Current account (% of GDP)*

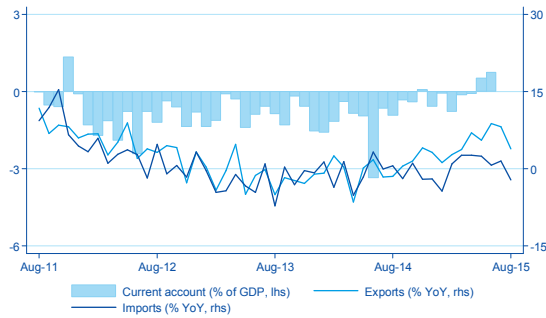
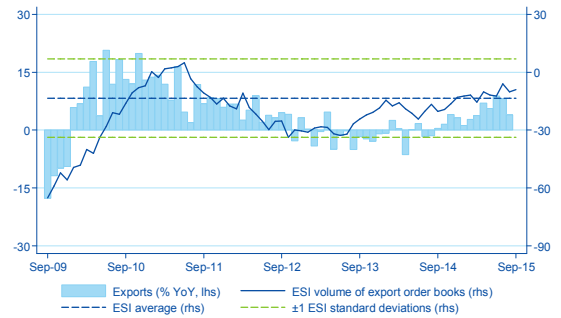


Figure 32
Export growth (% YoY) and exp. order volume*



Labour market: the situation has worsened in the past few months

The unemployment rate is rising and stood at 10.8% in August, while labour costs increased by 1.5% YoY in 2Q15 after 0.4% in 4Q14.

Figure 33
Unemployment rate (%) and employment expectations*

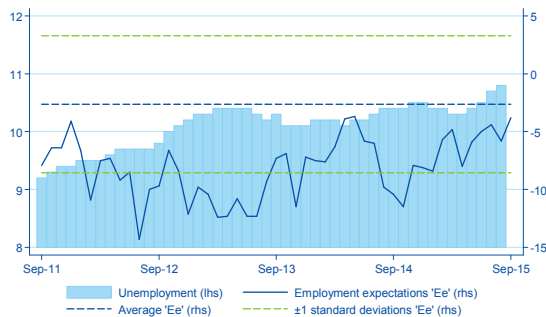
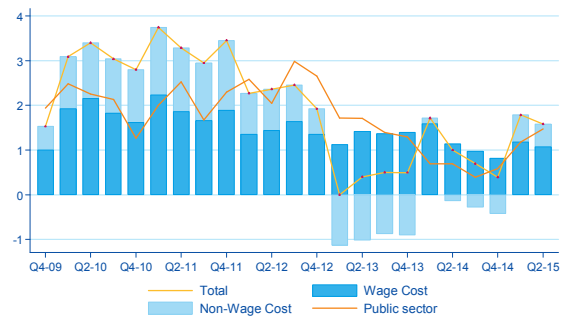


Figure 34
Business sector labour costs (% YoY)*



Prices: inflation stabilised at 0.1% YoY in September

The harmonised inflation remained in September at 0.1% YoY due to the intensification of the drop in energy prices. Consequently, core inflation remained at 0.6% YoY.

Figure 35
Inflation rate: headline and core (% YoY)*

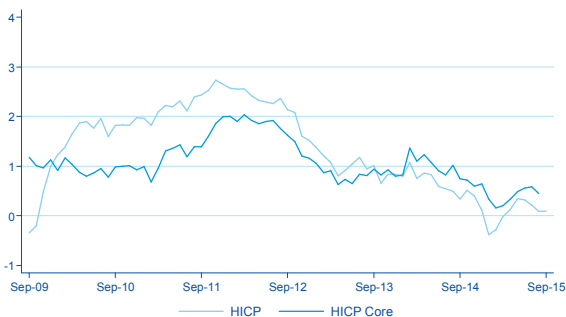
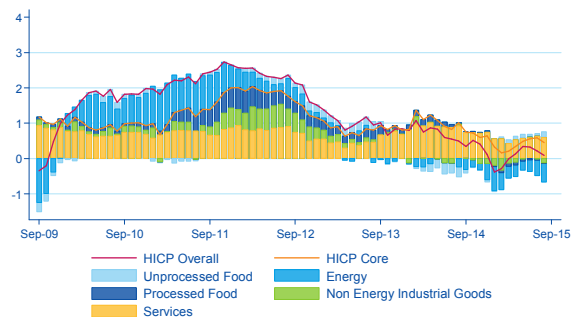


Figure 36
Inflation by component (contribution in %)*



* Sources: HAVER and BBVA Research

Italy

National accounts: steady GDP growth in 3Q15 (0.2-0.3% QoQ)

In 2Q15 domestic demand contributed 0.6pp to growth, mainly due to the positive trend in private consumption (0.4% QoQ), while investment fell (-0.3% QoQ), as did public sector consumption (-0.2% QoQ). On the other hand, inventories made a contribution of +0.4pp. Exports rose by 0.4% QoQ, while imports did so by 1.0% QoQ.

Figure 37
GDP (% QoQ) and contribution by component (pp)*

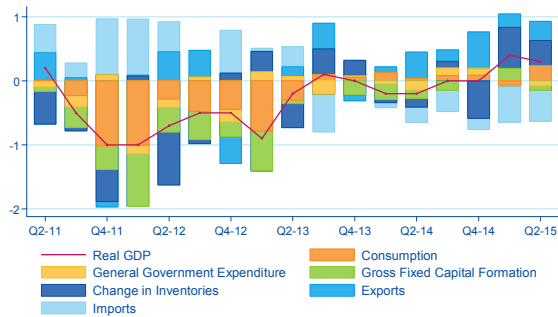
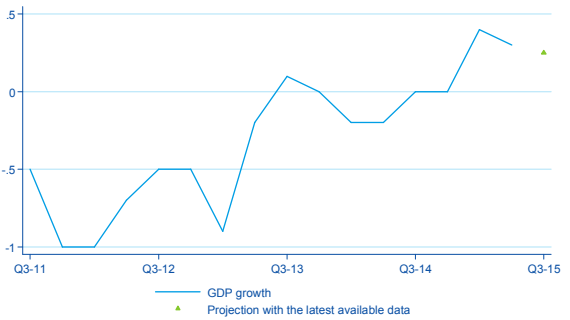


Figure 38
GDP (% QoQ) and estimates*



Confidence: confidence indicators were still on the rise in September

The composite PMI eased in September, while the ISTAT indicators and the EC's confidence indicator again surged ahead.

Figure 39
PMIs and GDP growth (% QoQ)*

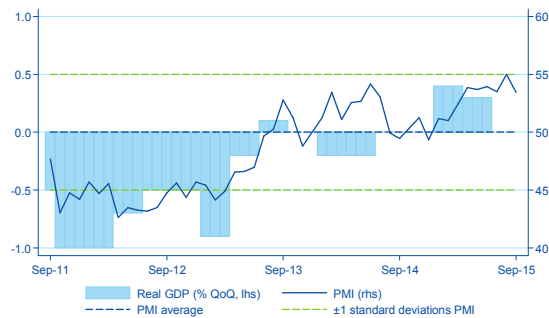
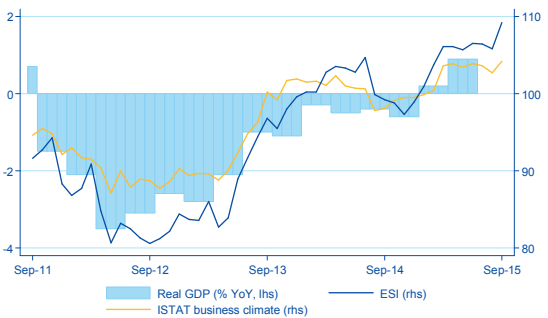


Figure 40
Confidence indicators (ESI and ISTAT)*



Activity: industrial production and retail sales are picking up

Despite the contraction in August, industrial production grew by 0.5% above 2Q15, when it rose at the same pace. Retail sales increased by 0.4% MoM in July, reaching 0.1% above 2Q15.

Figure 41
Industrial production (% YoY) and manufacturing PMI*

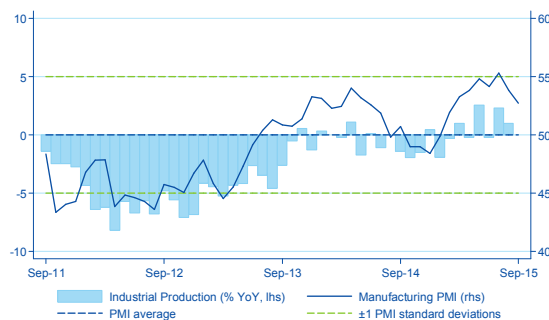
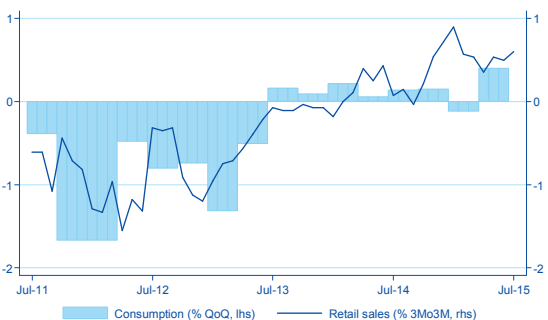


Figure 42
Retail trade (% 3M/3M) and consumption growth (% QoQ)*



*Sources: HAVER and BBVA Research

Foreign sector: drop in exports in 3Q15

Exports drifted by -3.6% in August and stayed in 3Q15 at 2.4% QoQ below 2Q15. Imports fell again in August (-2.6% MoM) and were 2.7% QoQ down on 2Q15.

Figure 43
Current account (% of GDP)*

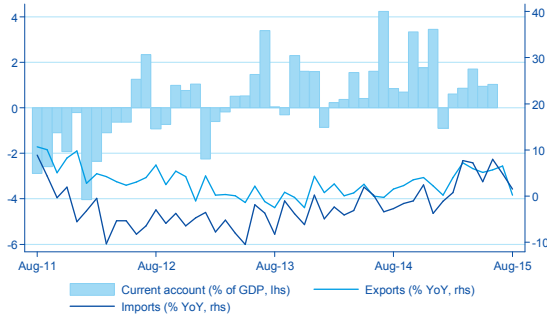
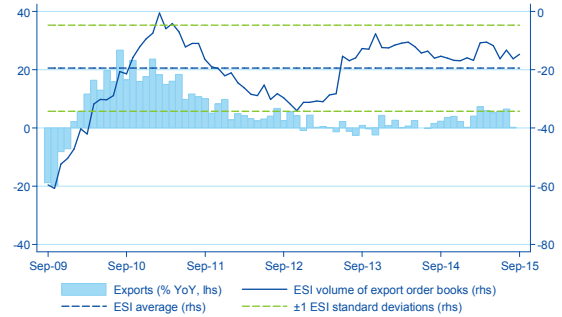


Figure 44
Export growth (% YoY) and exp. order volume*



Labour market: unemployment is still coming down

The unemployment rate came down in August (11.9%) and was 0.8pp below the reading a year previously. Labour costs decreased by 0.4% YoY in 2Q15 (after +1.1% YoY in 1Q15).

Figure 45
Unemployment rate (%) and employment expectations*

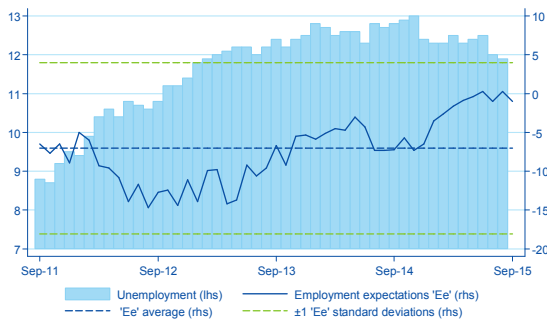
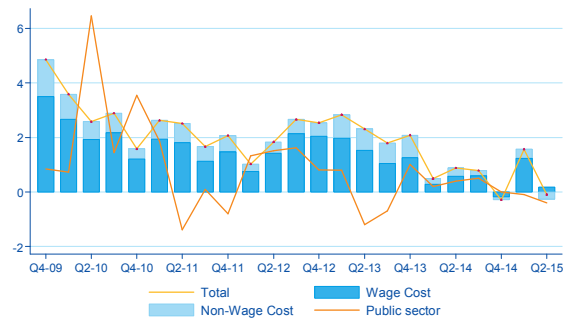


Figure 46
Business sector labour costs (% YoY)*



Prices: inflation slowed down to 0.2% YoY in September

The harmonised inflation rate moderated in September, showing a rate of 0.2% YoY (0.4% YoY in August), thanks to a larger fall by energy goods. Core inflation also eased back to 1% YoY after 1.1% YoY in August.

Figure 47
Inflation rate: headline and core (% YoY)*

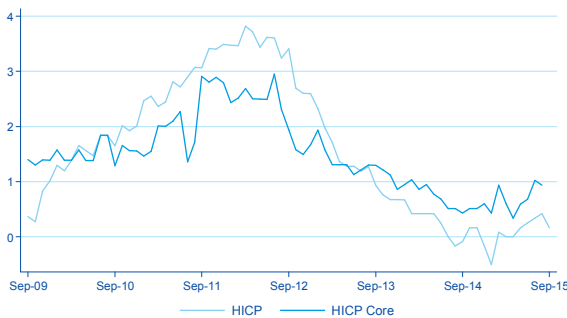
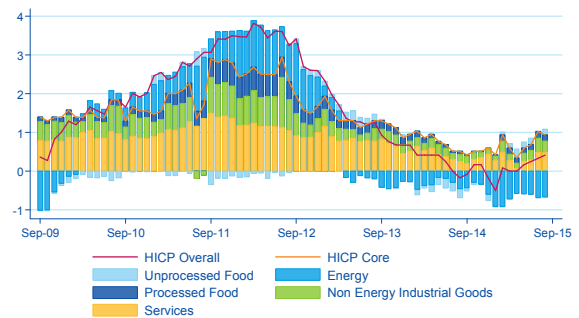


Figure 48
Inflation by component (contribution in %)*



* Source: HAVER and BBVA Research

Spain

National accounts: GDP growth lost momentum in 3Q15 (0.7% after 1% QoQ)

The second quarter of the year was marked by robust domestic demand growth, from both the private and public sectors, and a marginal setback for net external demand in spite of the upturn in exports.

Figure 49
GDP (% QoQ) and contribution by component (pp)*

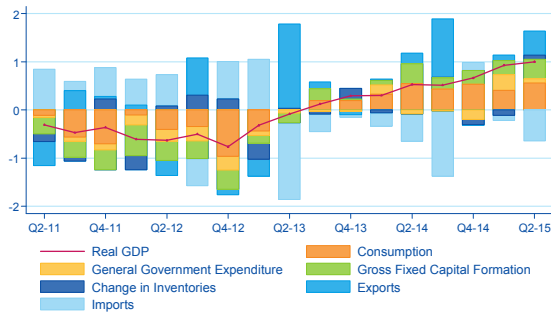
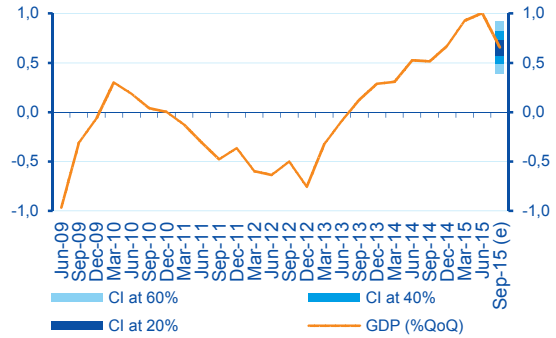


Figure 50
GDP growth (% QoQ) and MICA-BBVA model estimate*



Confidence: confidence broke from its rising pattern in 3Q15

Despite the fact that economic agents still show positive expectations, both consumer and industrial confidence broke from their upward trend in 3Q15

Figure 51
PMIs and GDP growth (% QoQ)*

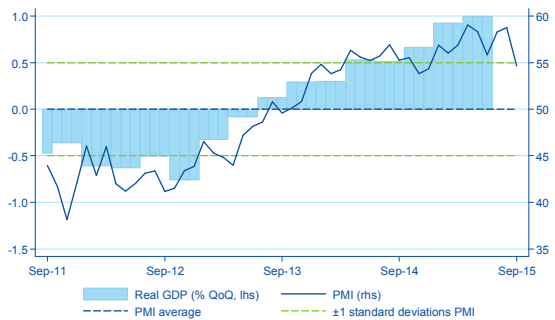
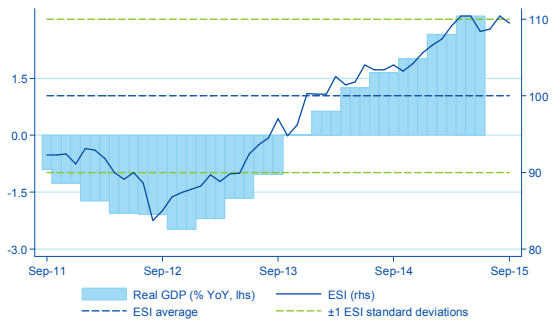


Figure 52
Confidence (ESI) and GDP growth (% YoY) *



Activity: IPI and retail sales slowed down in 3Q15

Industrial activity contracted in August (-0.8% MoM) but was 0.5% up on the average for 2Q15 (1.2% QoQ), while retail sales grew 0.2% MoM and were 0.7% up on 2Q15, when they rose by 0.8% QoQ.

Figure 53
Industrial production (% YoY) and manufacturing PMI*

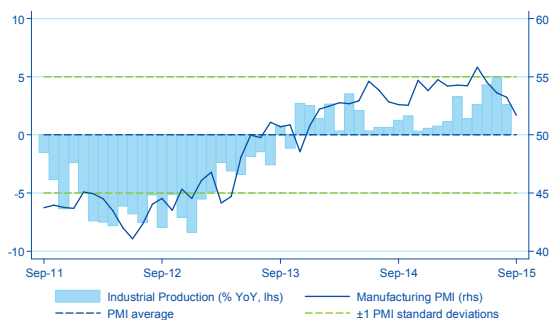
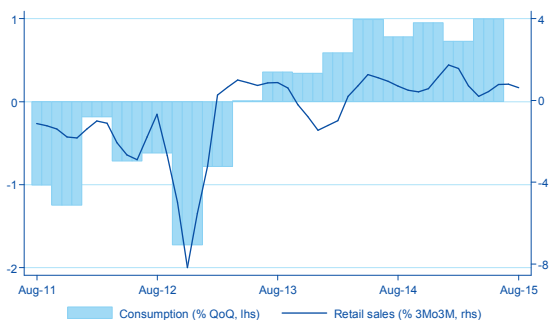


Figure 54
Retail trade (% 3M/3M) and consumption growth (% QoQ)*



*Source: HAVER and BBVA Research

Foreign sector: the trade balance in July was better going into 3Q15

Goods exports grew strongly in July and were 5.2% QoQ above the average for 2Q15, while imports spiked and were 4% ahead of the previous quarter.

Figure 55
Current account (% of GDP)*

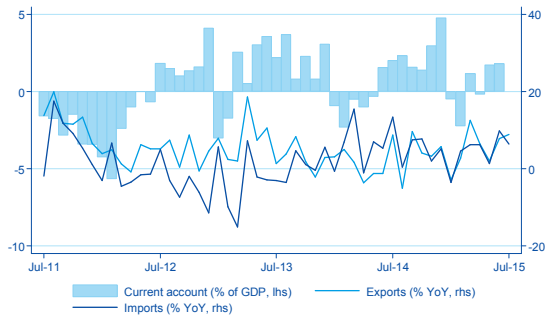
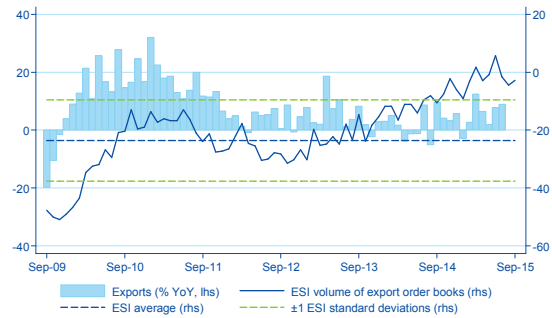


Figure 56
Export growth (% YoY) and exp. order volume*



Labour market: the labour market recovery came off the pace in 3Q15

Both the rise in Social Security registration and recruitment, as well as the reduction in unemployment slowed down for the quarter as a whole

Figure 57
Unemployment rate (%) and employment expectations*

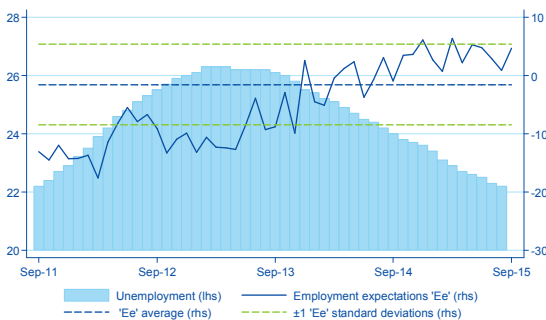
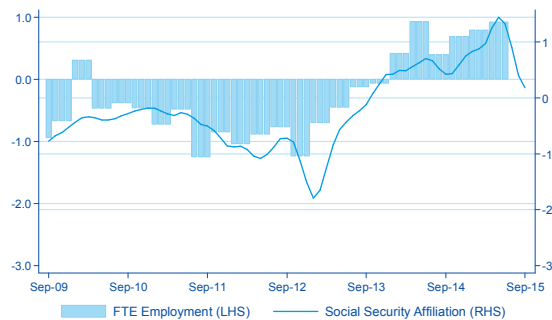


Figure 58
Employment growth: N.A. and social security (% QoQ)*



Prices: they continued to fall in September

Headline prices came down in September due to downward energy price pressure, which left inflation at -0.9% YoY. Core inflation remained stable at around 0.7% YoY.

Figure 59
Inflation rate: headline and core (% YoY)*

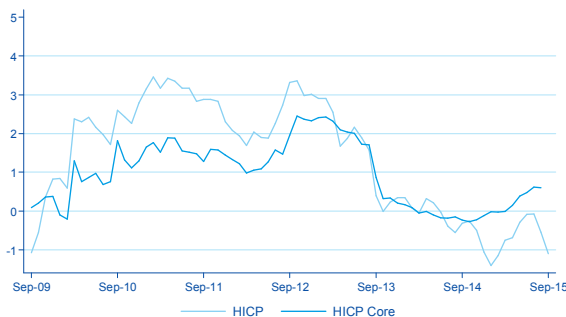
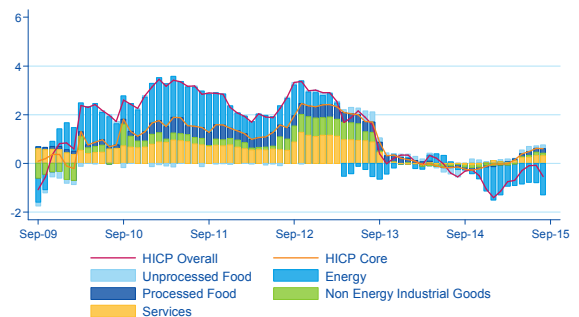


Figure 60
Inflation by component (contribution in %)*



* Sources: HAVER and BBVA Research

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