MACROECONOMIC ANALYSIS

# Eurozone: slight downward GDP revision, but recovery on track

Europe Unit

**Beyond the transitory factors, growth in the eurozone remains moderate in early 2016 and, despite the resilience to strains at the beginning of the year, somewhat weaker than we were anticipating three months ago. This is due to the fact that global demand, which is still weak, together with a somewhat stronger euro and ever decreasing support from commodity prices are weighing on the expected acceleration in growth. And these effects are not being offset by the new easing of monetary policy (with clearly diminishing effect) or the only marginally expansive fiscal policy. For all these reasons we have revised our GDP growth forecasts for 2016 and 2017 slightly downwards to 1.6% and 1.9%. Growth will continue to be based mainly on the strength of private consumption and, gradually, on investment. The risks continue to be biased downwards, those of a political and geopolitical nature being the biggest ones.**

## The recovery is proceeding at a moderate and stable pace, despite the increased financial strains at the beginning of the year

**Growth in the eurozone as a whole accelerated in the first quarter of the year to 0.6% QoQ**, around 0.1 pp more than expected, thus proving resistant to the sharp increase in uncertainty at the beginning of the year. Nonetheless, this acceleration was **partly due to transitory factors** such as Easter falling early this year and the upturn in French consumer spending following November's terrorist attacks, **which boosted domestic demand**, especially private consumption (1.2% QoQ in France), **and which made up for the negative contribution of net exports**. Despite the fall in exports, investment showed signs of gradual recovery, while public consumption continued to support growth.

Nonetheless, the indicators of activity we have seen so far for March (falling retail sales and weak export sales) are less encouraging, and **confidence surveys for April point to the pace of activity** seen at the beginning of the year **being difficult to maintain in the next few months, with a moderation in growth being much more likely**. Specifically, our **MICA-BBVA** short-term model **estimates growth of around 0.3%-0.4% QoQ for the second quarter**.

## The still weak global environment and less favourable tailwinds will be partly offset by economic policies

Although uncertainty, which increased sharply at the beginning of the year, has gradually moderated, **the deterioration of certain global factors has led us to revise our growth forecasts for 2016 and 2017 slightly downwards (by 0.2pp to 1.6% and by 0.1pp to 1.9% respectively)**, despite the fact that they will be partly offset by further easing of economic policy, especially monetary, seeking to boost inflation and combat slowdown, while fiscal policy will continue to be slightly expansive - whether due to increased expenditure linked to immigration (Germany and Italy), increased public spending (France) or tax cuts (Italy).

**On top of the moderation in the emerging economies** joints that **in the developed countries** (the rest of the EU and the US.) This will lead to a decline in foreign demand which, combined with the recent appreciation of the euro, will mean that net exports will constitute a heavier-than-expected drag on recovery. Additionally, **the positive effect that low oil prices have had on the economy of the eurozone in the**

**past few quarters has reverted slightly and in any case will gradually fade** over the course of the year. **Nonetheless, the new measures announced by the ECB[1], while probably having only a very limited marginal effect on activity, should contribute to keeping the euro weak, as well as reducing uncertainty and supporting confidence** and also containing spreads on sovereign bonds. **Also, the expected upturn in inflation as from the end of the year and the anchoring of expectations should translate into a reduction in real interest rates in a context of easier credit**, which would encourage investment in 2017 and help make the recovery more sustainable and somewhat less reliant on consumption.

## We continue to foresee growth consolidating over the course of 2016 and 2017, underpinned by domestic demand

As in 2015, GDP growth over the forecast horizon should be underpinned by a greater contribution from domestic demand, sustained by the **strength of private consumption and a very gradual recovery in investment.** In particular, the **drivers for household spending will continue to strengthen this year** (increased disposable income supported by the gradual improvement in the labour market, very low inflation and tax cuts) **and will allow the pace of the advance in private consumption to consolidate at rates of around 1.7% over the forecast horizon, although we do not expect an additional acceleration next year,** since some of these support factors will gradually fade (price increases in an environment of wage moderation) for households that are still leveraged in spite of the record low interest rates.

As we have been seeing over the past two years, **recovery in investment is modest and very gradual**, and we expect the **increased uncertainties,** both internal (political) and external (world growth and geopolitical), **together with reduced profits, to continue weighing on firms' investment decisions this year** (3.1% in 2016, after 2.6% in 2015). And all this is in spite of the favourable financing conditions and with companies' utilised capacity above the historical average. Although the fall in global demand this year will cause some investment decisions to be postponed, **we still expect growth in investment to accelerate in 2017 (to nearly 4%), supported by better expectations of demand in a context in which the measures approved by the ECB are likely to continue to facilitate credit, with real interest rates falling** (as a result of higher inflation).

**Fiscal policy will continue to be slightly expansive over the forecast horizon**, allowing an increase in public spending this year and **contributing to the recovery in domestic demand**.

The slowdown in global demand was reflected in a sharp decline in exports in the second half of last year, and could continue in the first half of this year following the slight appreciation of the euro, for which reason we are now expecting **more moderate growth in exports within the forecast horizon** (2.7% in 2016 and 3.6% in 2017), while imports will continue to be somewhat more dynamic, to meet domestic spending, so we now expect a **greater negative contribution from net exports of -0.4pp and -0.1pp in 2016 and 2017 respectively** (Table 1).

In this context, we foresee a continued **gradual improvement in the labour market this year and next**, with employment growing at similar rates to those seen last year (1.1% in 2016 and 0.9% in 2017), which, together with a very moderate increase in the active population, would result in a **gradual reduction in the unemployment rate to 10.1% on average for this year (**compared with 10.9% in 2015) **and to 9.6% on average in 2017**.

1: For further details, please refer to ECB Watch

## Core inflation will continue to be well below 2%

The scenario of moderate growth and gradual recovery **implies that the output gap, while narrowing, will continue to be negative in 2016-17** (around 1%), so that the absence of inflationary pressures will mean that **core inflation will remain relatively stable this year, at 1%, and only gradually increase to 1.5% in 2017**. In the short term, **how headline inflation evolves will be determined by the price of oil**, which means headline inflation is likely to continue to be **negative in the second quarter of this year before slowly increasing towards year-end** (to around 0.5% in December and 0.2% annual average for 2016) **and averaging 1.3% in 2017**.

## The main risks, apart from the global ones, are of a political and geopolitical nature

**This scenario continues to be subject to significant downside risks**, many of them identified three months ago, although the **European** risks (mainly the UK referendum on whether or not to remain in the EU, but also the outcome of the first review of the Greek bailout and political uncertainty in several EU countries) **and the geopolitical** risks (unresolved refugee crisis despite the improvement) **are now more significant in the short term**, while for the moment global risks (hard landing in China and/or emerging markets, complications linked to US Federal Reserve rate hikes) seem to be more under control. In the more medium term, the lack of structural reforms in Europe and the slow progress in completing the process of integrating the eurozone could lead to lasting stagnation.

## Germany: increase in public consumption and investment

- The slowdown in global demand and the slightly stronger euro were reflected in the rate of growth towards the end of 2015, although the increase in public spending and investment, especially in construction, linked to the inflow of refugees, partly offset this and allowed the economy to grow at a stable rate in 4Q15 (0.3% QoQ). The most recent data, particularly those on activity (manufacturing output and retail sales) point to growth possibly having accelerated in 1Q16 (0.6% QoQ), albeit partly due to transitory factors, with confidence indicators pointing to somewhat more moderate growth going forward.
- This behaviour was, generally speaking, in line with our forecast of three months ago, although the fall in exports was somewhat greater, and we now think that exports may suffer slightly more, since on top of the moderation in emerging markets we now have moderating growth in the US and the UK, plus the depreciation of the pound. This has led us to revise our growth forecast for 2016 slightly downwards, by 0.2pp to 1.7%, with net exports draining about -0.5pp from growth. Added to the increase in public spending (2.9%) and investment (2.9%) linked to the management of the increase in refugees and the infrastructure plan, is private consumption, which should continue to grow at a robust pace (1.9%) supported by the strength of the labour market, low inflation, record low interest rates and measures such as the increases in pensions and in the minimum wage. In 2017, although these effects will partly fade away, we foresee an increase of 1.8% in GDP, with investment gradually gaining in relative weight against consumption and net exports acting as less of a brake on growth (-0.2pp) (Table 2).
- Following the budget surplus of 2015, equal to 0.7% of GDP, the government will be able to implement an expansive fiscal policy and maintain equilibrium in 2016, which would involve a deterioration of about 0.5pp in the structural balance, to 0.4% of GDP, increasing only slightly next year to post a budget surplus of 0.3% of GDP.

## France: moderate growth, which could persist if reforms are not implemented

- In 1Q16 GDP growth accelerated by 0.2pp to 0.5% QoQ, supported above all by the strong increase in private consumption (1.2% QoQ), which was expected but unlikely to prove sustainable, after contracting slightly in 4Q15 (by -0.1% QoQ) following the November terrorist attacks. Nonetheless, public consumption also increased (0.5% QoQ) and the most positive news was the gradual increase in investment (0.9% QoQ), although net exports drained 0.2pp from growth. April confidence surveys point to transitory factors having indeed been behind the economy's good performance at the beginning of the year, and to more moderate growth from as early as 2Q16.
- Beyond these transitory factors, we continue to expect modest growth in the next few quarters, still constrained by a number of factors, both global (lower demand, now from developed economies too) and domestic (difficult political panorama, delays and difficulties in implementing reforms), which leads us to revise our growth forecasts slightly downwards, by about 0.1pp in 2016 and 2017 to 1.3% and 1.6% respectively. The recovery will continue to be supported by the gradual growth in investment (tax credits and favourable financing conditions, while the construction sector could cease to be a drag), although still limited by the high level of indebtedness and companies' idle capacity. Private consumption should grow at a somewhat more moderate pace, given the wage moderation in reaction to the persistently high unemployment rate and the reform of wage negotiation. The external sector has gained weight since the crisis and will continue to suffer from the fall in global demand, so that we now see net exports draining rather more from growth both this year and next (-0.3pp and -0.2pp respectively) (Table 3).

- In 2015, the public sector deficit ended 0.3pp below the revised target, at 3.5% of GDP, down from the 4% of 2014 as a result of a fiscal adjustment of around 0.2pp, plus a slight cyclical improvement (0.1pp) and lower interest payments (0.2pp). For both this year and next we expect a slightly expansive fiscal policy, with the pace of adjustment therefore slowing and bringing the deficit to 3.4% of GDP in 2016 and 3% in 2017.

## Italy: recovery consolidates but is still weak

- After coming out of recession last year with a good performance in the first half of the year, growth gradually slowed during the second half. Nonetheless, the signs of improvement continue to be relatively positive, with private consumption increasing at an average of 0.4% QoQ and an incipient recovery in investment, while exports seem rather more resistant than in other European countries. Despite this, the dynamism of imports meant that net exports ended up draining growth. And to this was added the heavily negative contribution of inventories.
- The lower-than-expected growth in the latter part of 2015, together with the deterioration in global demand, lead us to revise our forecast downwards by about 0.5pp to 1% for 2016 and by nearly 0.2pp to 1.4% for 2017. Although we continue to expect moderate growth in exports, they will suffer to some extent, so we now expect a contribution of practically zero from net exports over the forecast horizon. This will ultimately lead to growth in investment being rather more limited than we envisaged three months ago (1.7% in 2016 and 2.7% in 2017) as well as weighing on consumer expectations, with more moderate growth now in private consumption (1.2% and 1.3% in 2016 and 2017 respectively) (Table 4).
- Despite the reduction in the deficit by 0.4pp of GDP to -2.6% in 2015, fiscal policy was practically neutral (with a reduction of 0.1pp in the structural primary deficit, discounting non-recurring expenses), the adjustment being the result of cyclical improvement in the economy (0.5pp) and reduced interest payments (0.3pp). For 2016, we see greater fiscal stimulus, leading to a further reduction of 0.5pp in the structural primary balance, to 2.9% of GDP, meaning that the reduction in the fiscal deficit to 2.3% of GDP will again depend on cyclical factors (0.6pp) and lower interest payments (0.2pp). In 2017 we expect an almost neutral tone in fiscal policy, so we estimate a bigger reduction in the deficit, to 1.5% of GDP (compared with the target of 1.1% of GDP, which would require an additional fiscal adjustment, yet to be defined).

## Spain: the recovery is not yielding ground in spite of the risks that exist

- The advance GDP estimate indicated that, in line with expectations, the economy grew by 0.8% QoQ in 1Q16, thus maintaining the pace of progress seen since the middle of last year in spite of both internal and external uncertainties. Available indicators point to domestic demand (especially in the private sector) having been the main underpinning of activity (0.7pp contribution to quarterly GDP growth). Despite the positive export performance, the increase in imports will have meant that the contribution of external demand to growth was only marginal (0.1pp). With still only very limited information, the MICA-BBVA model is projecting growth of 0.8% QoQ for 2Q16.
- The fundamentals of the economy support continued recovery in 2016 and 2017, so we are maintaining our GDP growth forecast at 2.7% for both years, which is compatible with a moderation in growth over the next few quarters due to the uncertainty and the diminished tailwind from certain factors. At the domestic level, the gradual improvements in the labour market and in financing terms for firms and households, as well as the correction of internal imbalances, continue to favour consumption and investment decisions. Fiscal policy continues to be slightly expansive and will turn neutral as the two-year 2016-17 period

progresses. Similarly, the expansionary tone of monetary policy will encourage domestic expenditure. Externally, the global economy will continue to grow gradually, and this, together with the low oil prices and favourable exchange rate, will keep the volume of exports high. However, the increase in final demand will cause a significant increase in imports, which will probably result in a marginal contribution of net external demand to growth[2] (Table 5).

- The public sector deficit fell by 0.8pp to 5% of GDP in 2015, which was 0.8pp above the target, advantage having been taken of both the narrowing risk premium and the recovery in order to pursue an expansive fiscal policy (1.1 pp). For 2016, we expect the economic cycle (1.3 pp) to correct the fiscal deterioration once again, with a neutral fiscal policy that, to a deficit around 3.9% of GDP (target 2.8% and 3.6% in Stability Programme). In 2017, under no policy change scenario, the economic cycle should help again to reduce budget deficit by around 1pp to 2.9% of GDP.

2: For further details, please refer to Spain Economic Outlook, Second Quarter 2016

# Euro zone

## National accounts: growth accelerated in 1Q16 (0.6% QoQ)

Growth accelerated in 1Q16 to 0.6% QoQ and was, therefore, more resistant than expected. However, this acceleration was partly due to temporary factors and MICA-BBVA estimates GDP growth of 0.3%-0.4% QoQ for 2Q16.

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

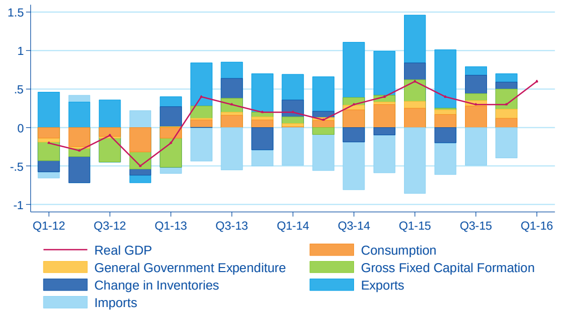
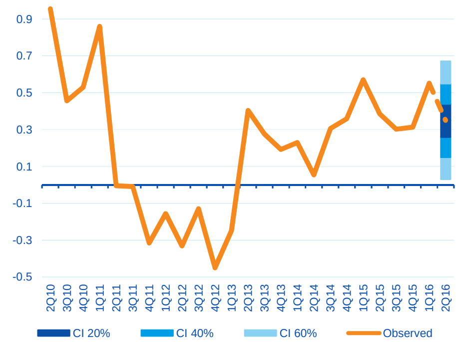



Figure 2
**GDP growth (% QoQ) and MICA-BBVA* forecast**




## Confidence: PMIs have stabilized and the ESI has increased in April

Both the manufacturing and services PMI stabilized in April. The ESI index has increased 0.9pp to 103,9pp, with a widespread improvement by sectors (consumer: +0.4pp, industry; +0.5pp, construction; +1.1pp, services; +1.9pp).

Figure 3
**PMIs and GDP growth (% QoQ) ***

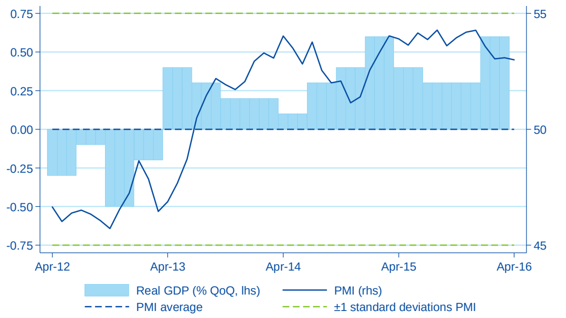
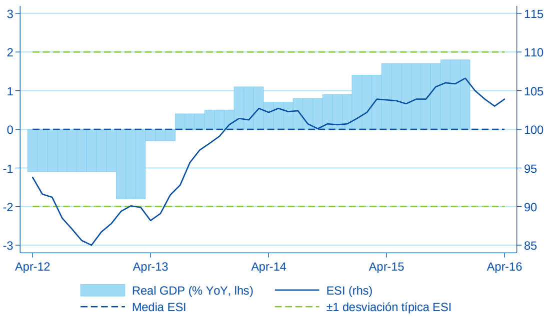



Figure 4
**Confidence (ESI) and GDP growth (% YoY) ****




## Activity: industrial production and retail sales improved over 1Q16

In February industrial production fell after rising sharply in January and is 1.1% above the 4Q15 average (0.4% QoQ). In March, retail sales decreased (-0.5% MoM), but stood at 0.7% above 4Q15 (0.2% QoQ).

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

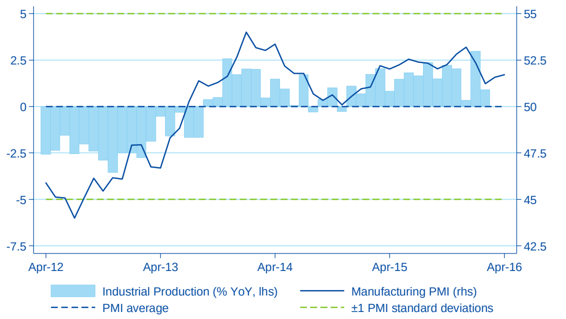
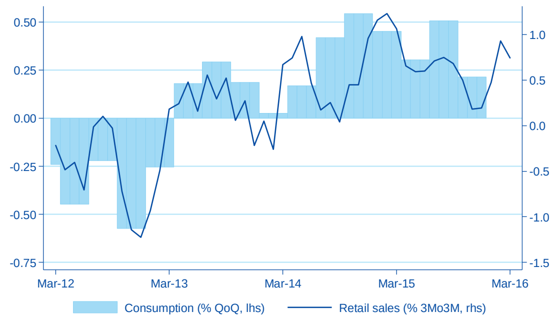



Figure 6
**Retail (% 3m/3m) and consumption growth (% QoQ)***




*Source: HAVER and BBVA Research

## External Sector: exports increased in February, but doubts remain

Exports increased in February (+0.7% MoM), but were not sufficient to offset the fall in December and January, standing at 1.4% below the 4Q15 average.

Figure 7
**Current account (% of GDP)**

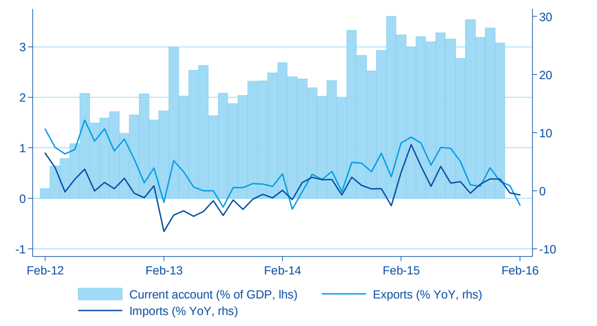
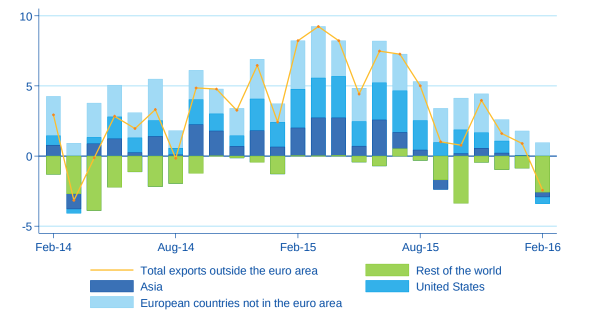



Figure 8
**Exports by destination (contribution to % YoY)**




## Labour market: unemployment fell by 0.2 points to 10.2% in March

In March, the unemployment rate fell to 10.2%, although with differences between countries. Labour costs in the business sector increased by 1.3% YoY in 4Q15 (3Q15: 1.4%).

Figure 9
**Unemployment rate (%) and employment expectations***

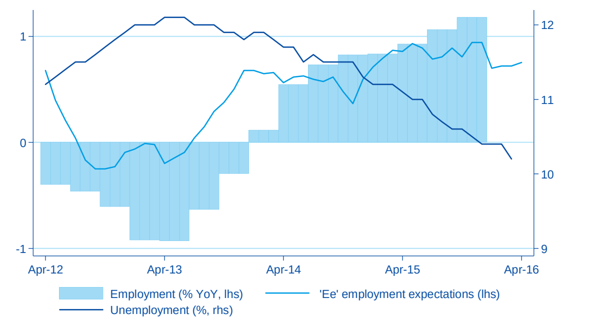
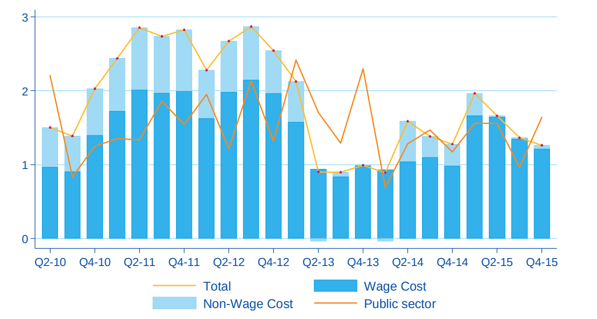



Figure 10
**Labour costs in the business sector (% YoY)***




## Prices: headline and core inflation decreased in April

In April, headline and core inflation decreased 0.2pp to -0.2% YoY and 0.8% YoY respectively, mainly due to the slowdown in the price of services (1% YoY after 1.4% in March).

Figure 11
**Headline and core inflation rate (% YoY)**

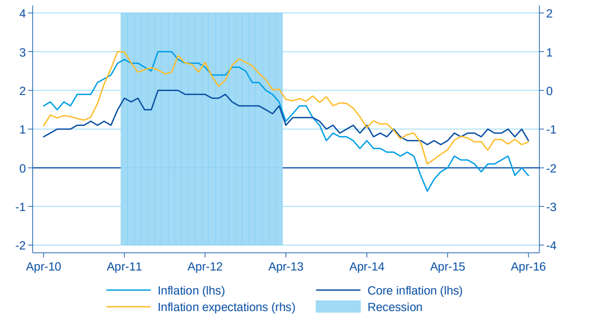
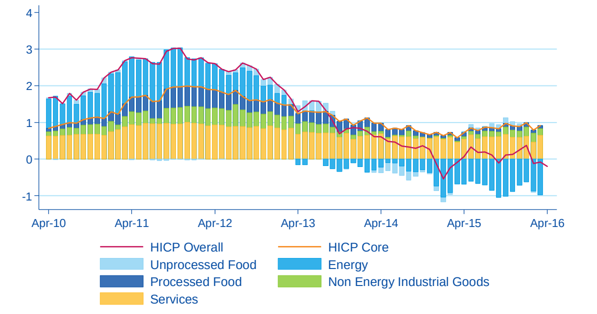



Figure 12
**Inflation by components (contributions in pp)***




* Source: HAVER and BBVA Research

# Germany

## National accounts: modest growth in 4Q15 (0.3% QoQ)

The main component of GDP growth in 4Q15 was again domestic demand (+0.8pp, after +0.6pp in 3Q15): an increase in public consumption (1% QoQ after 0.5%) and investment (1.5% QoQ after 0.1%). External demand subtracted (-0.5pp). For 1Q16, growth could have accelerated to rates of about 0.6% QoQ.

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

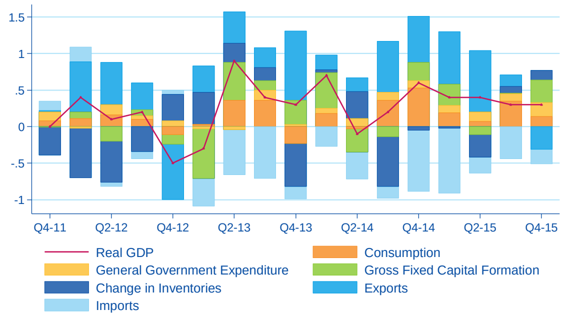
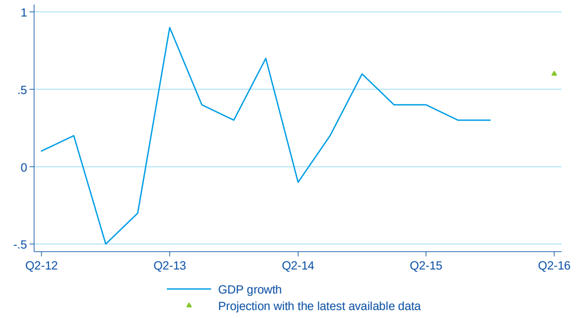



Figure 14
**GDP (% QoQ) and forecasts ***




## Confidence: increased confidence in manufacturing but decreased in services in April

In April, the composite PMI worsens, while the ZEW and the index of the Commission improve, driven by an increase in confidence in the manufacturing sector and a reduction in the services sector. In contrast, the IFO remains stable.

Figure 15
**PMIs and GDP growth (% QoQ) ***

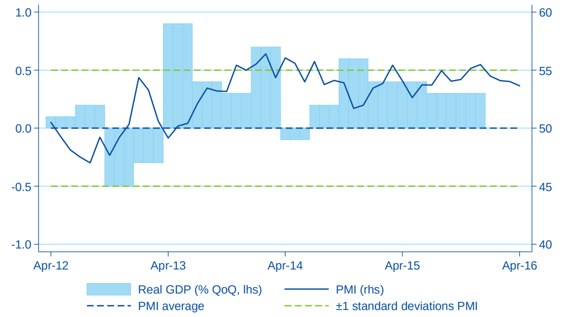
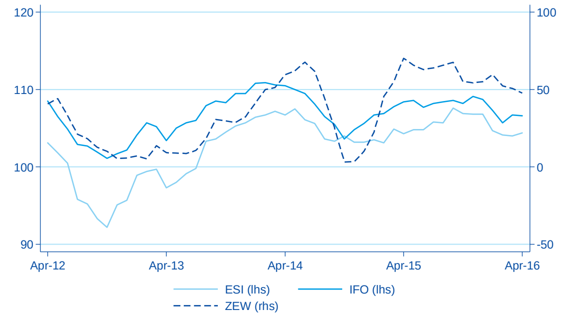



Figure 16
**Confidence indicator (ESI, Ifo and ZEW) ***




## Activity: industrial production and retail sales rose in 1Q16

Industrial production decreases in February (-0.5% m/m after +2.3% in January), and stands thus far in 1Q16 at 2.0% above the average of 4Q15, retail sales also fall by 1.1% m/m and in 1Q16 stand 0.2% above the average for 4Q15.

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

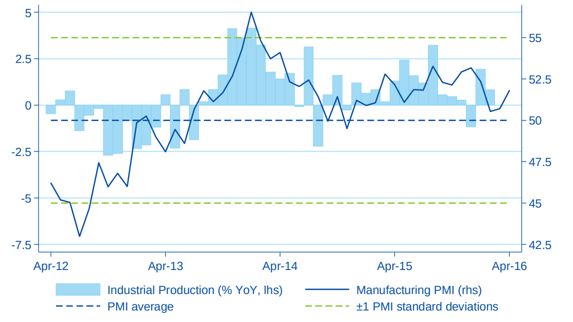
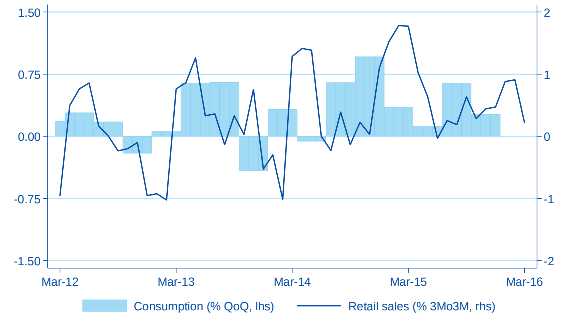



Figure 18
**Retail (% 3m/3m) and consumption growth (% QoQ)***




* Source: HAVER and BBVA Research

## External sector: increase in exports in February

Exports rose by 1.3% MoM in February, reaching -0.5% below the average for 4Q15. Meanwhile, imports increase by 0.4% MoM in February and stand at 0.7% above 4Q15.

Figure 19
**Current account (% of GDP)**

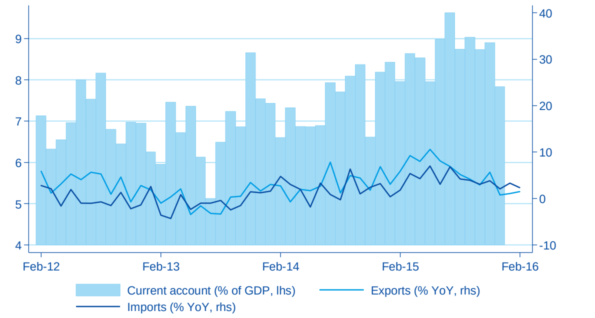
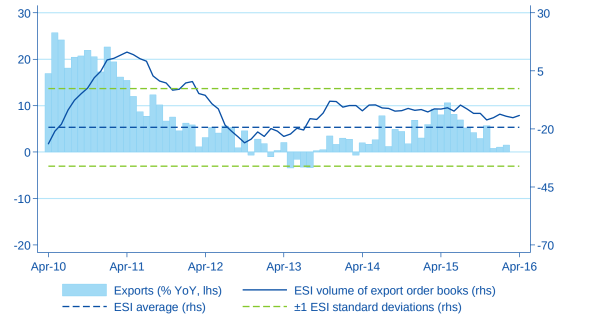



Figure 20
**Growth of exports (% YoY) and Export Order vols.***




## Labour market: unemployment rate at record low (4.2%)

The unemployment rate is again at a record low (4.2%) in March, while growth in labour costs in the business sector moderated to 2.1% YoY in 4Q15 (3Q15: 2.7%).

Figure 21
**Unemployment rate (%) and employment expectations***

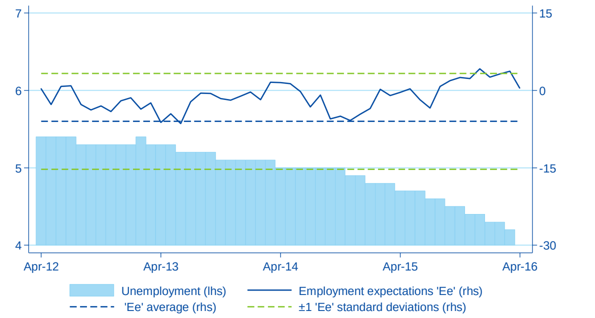
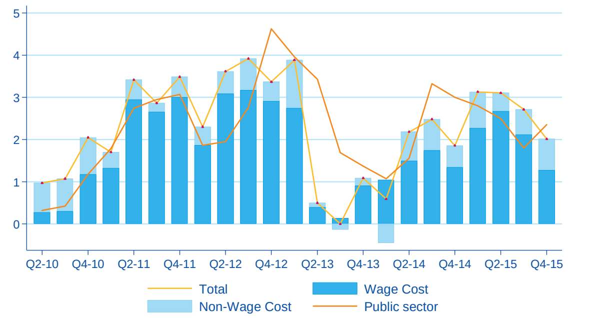



Figure 22
**Labour costs in the business sector (% YoY)***




## Prices: inflation at -0.3% YoY in April

In April, the harmonized inflation rate decreases 0.4pp to -0.3% YoY, mainly due to the slowdown in the price of food by -0.8pp to 0.5% YoY and the price of services to 0.8% YoY.

Figure 23
**General and hidden inflation rate (% YoY)**

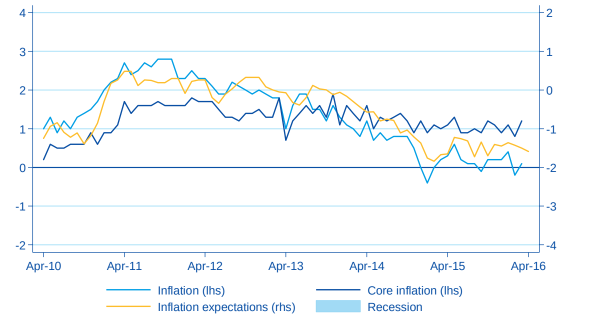
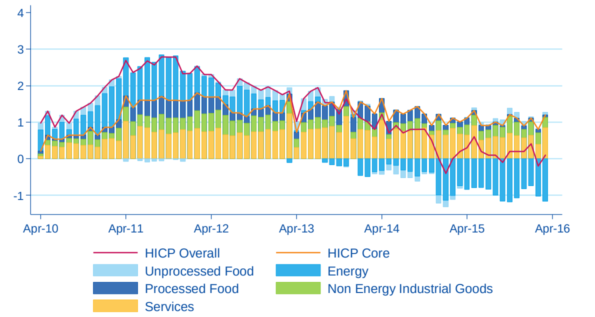



Figure 24
**Inflation by components (contributions in pp)***




* Source: HAVER and BBVA Research

# France

## National accounts: GDP increased 0.5% QoQ in 1Q16

The sharp increase in private consumption (1.2% QoQ from -0.1% QoQ) and the increase in investment (0.9% after 0.7%) were offset in part by the negative contribution of net exports (-0,2pp). Public consumption moderated slightly (0.4% QoQ after 0.5 QoQ).

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

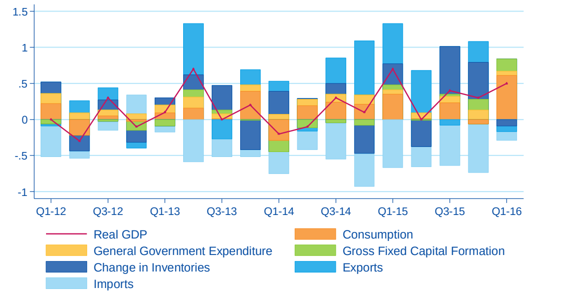
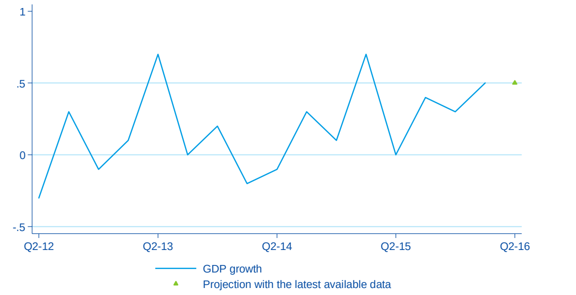



Figure 26
**GDP (% QoQ) and forecasts ***




## Confidence: worsening figures in April suggest more moderate growth

The composite PMI remained the same in April, while the ESI and national indicators reflect a decline in confidence.

Figure 27
**PMIs and GDP growth (% QoQ) ***

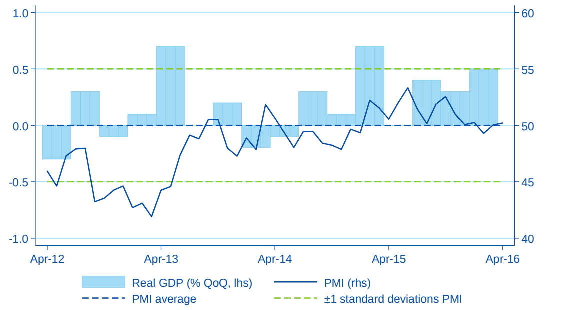
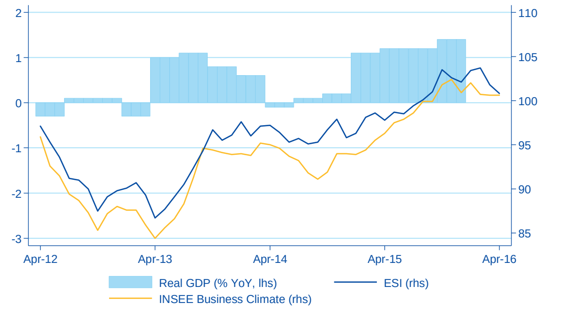



Figure 28
**Confidence indicator (ESI, and INSEE) ***




## Activity: stagnant industrial production and retail sales increased in 1Q16

February's data (-1.0% MoM) means the industrial production has declined by 0.2% compared to the average of 4Q15, while retail sales have increased by 1.6% QoQ in March.

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

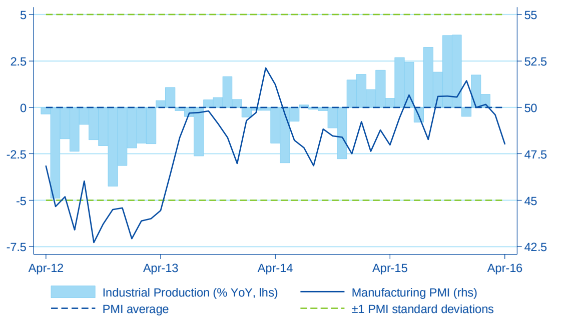
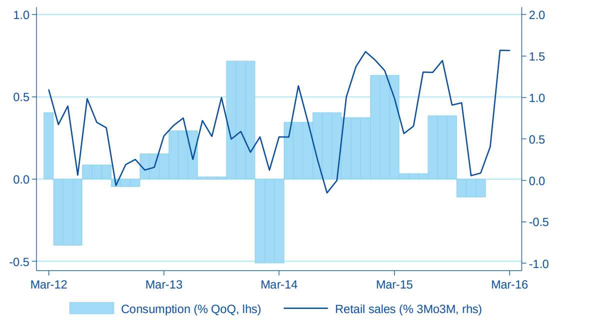



Figure 30
**Retail (% 3m/3m) and consumption growth (% QoQ)***




* Source: HAVER and BBVA Research

## External sector: significant drop in exports in March

Exports fell again in March by -3.9% MoM, which represents a reduction of 1.1% so far in 1Q16 compared to 4Q15. Imports fell by -5.2% MoM, and in 1Q16 stand at 1% QoQ below those for 4Q15.

Figure 31
### Current account (% of GDP)

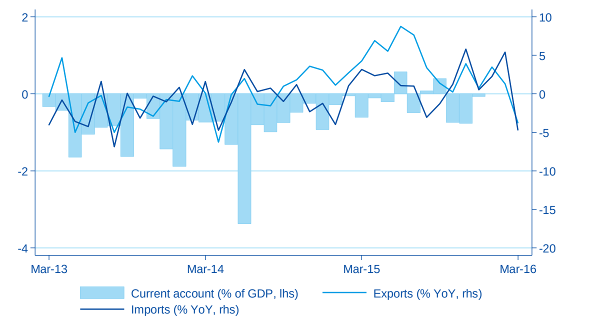
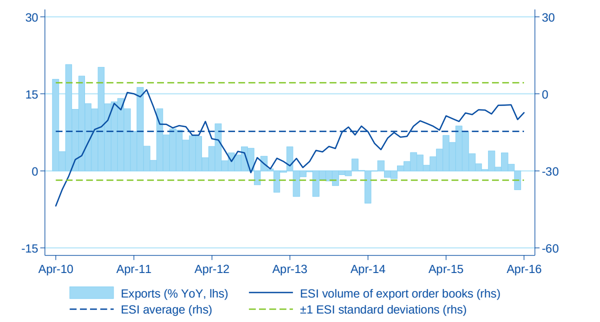



Figure 32
### Growth of exports (% YoY) and Export Order vols.*




## Labour market: unemployment rate fell to 10% in March

The unemployment rate fell to 10% (February: 10.2%), while labour costs in 4Q15 rose by 1.2% YoY (3T15: 1% YoY).

Figure 33
### Unemployment rate (%) and employment expectations*

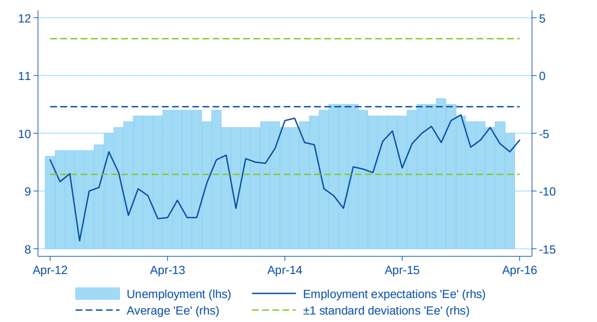
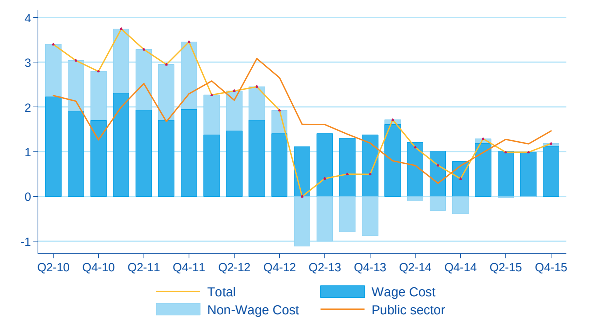



Figure 34
### Labour costs in the business sector (% YoY)*




## Prices: inflation decreases again in April (-0.1% YoY)

In April, the harmonized inflation rate decreases to -0.1% YoY due to the fall in the prices of energy (-6.8% YoY, March: -6.9% YoY) and industrial products (-0.6% YoY, March: -0.2% YoY), while the prices of food and services remain at the same level (0.4% YoY and 0.9% YoY respectively).

Figure 35
### Headline and core inflation rate (% YoY)

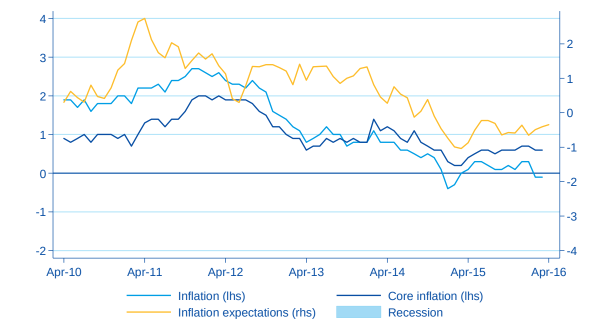
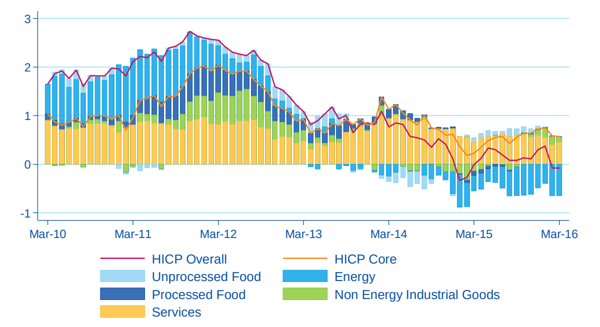



Figure 36
### Inflation by components (contributions in pp)*




* Source: HAVER and BBVA Research

# Italy

## National Accounts: the recovery lost momentum at the end of 2015 (0.1% QoQ)

Private consumption showed a growth rate of 0.3% QoQ, public consumption accelerated by 0.6% QoQ and investment grew by 0.8% QoQ. External demand contributed positively to growth (+0.1pp). For 1Q16, we expect a GDP growth rate of 0.2% QoQ.

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

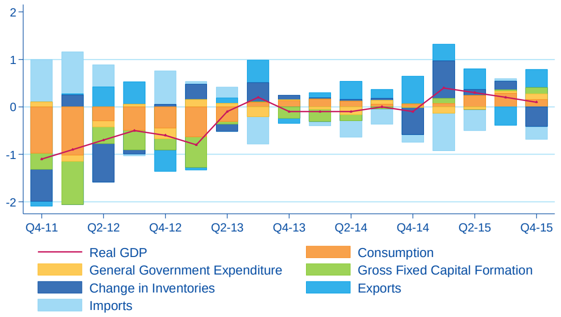
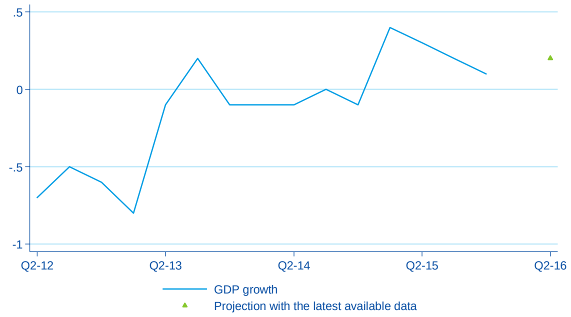



Figure 38
**GDP (% QoQ) and forecasts ***




## Confidence: the PMI and ESI significantly improve at the beginning of 2Q16

The composite PMI increases in April, due to the increases in the services and the manufacturing sector, as with the ESI indicator, due to the strong growth in confidence in the services sector.

Figure 39
**PMIs and GDP growth (% QoQ) ***

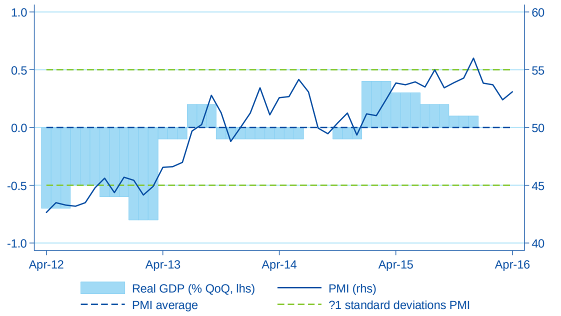
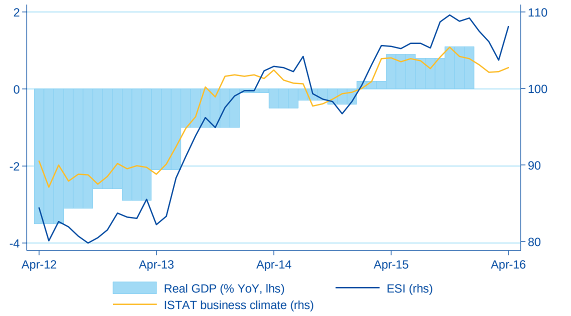



Figure 40
**Confidence indicator (ESI, and ISTAT) ***




## Activity: industrial production decreases and retail sales rise in February

Industrial production decreases in February by 0.6% MoM, reaching +0.9% above the average for 4Q15. Retail sales rose in February, reaching 0.2% above the average for 4Q15.

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

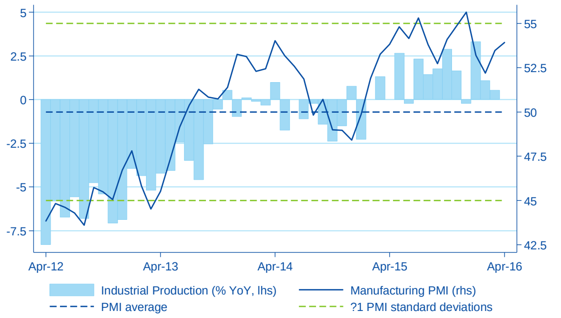
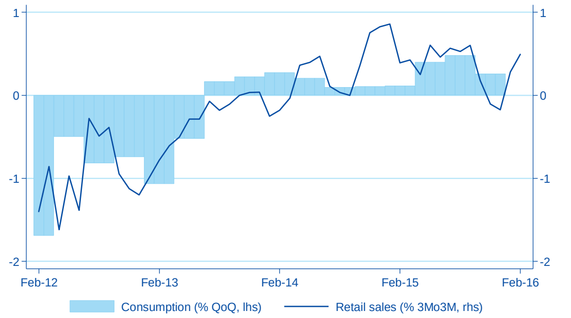



Figure 42
**Retail (% 3m/3m) and consumption growth (% QoQ)***




* Source: HAVER and BBVA Research

## External sector: the increase in exports in February does not compensate for prior drops

Exports grew by 2.5% MoM in February (January: -2.2% MoM), but so far this quarter they are 1.3% below 4Q15. Imports also increased in February (0.6% MoM) but have decreased so far in 1Q16 (-1.9%).

Figure 43
**Current account (% of GDP)**

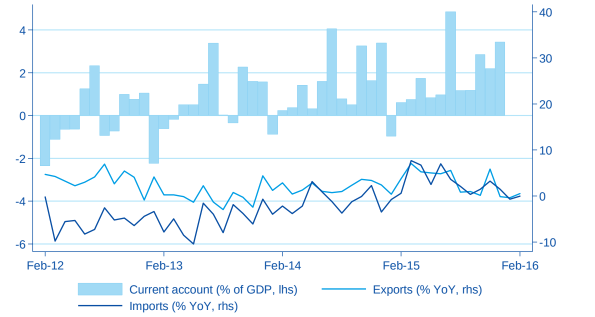
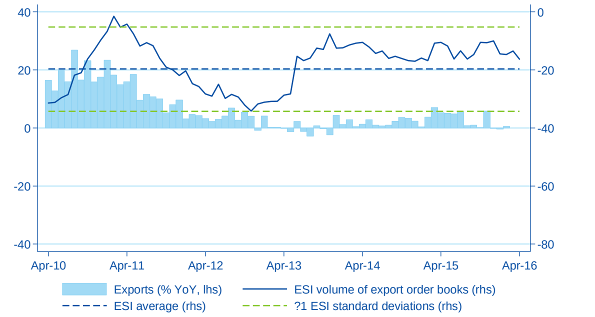



Figure 44
**Growth of exports (% YoY) and Export Order vols.***




## Labour market: unemployment fell slightly in March

The unemployment rate decreased by 0.3pp in March (11.4%) while labour costs reduced by -0.8% YoY in 4Q15.

Figure 45
**Unemployment rate (%) and employment expectations***

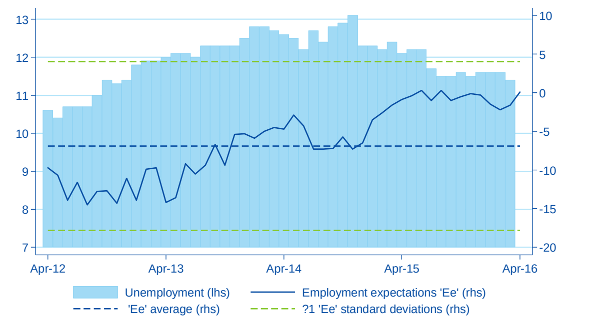
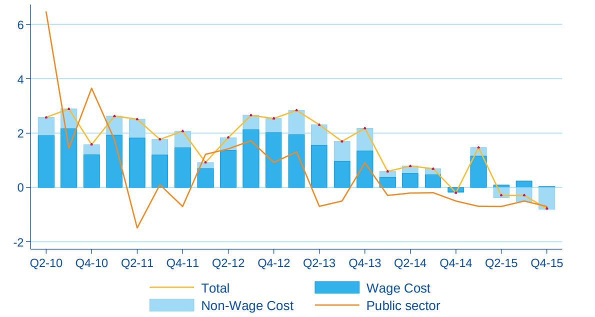



Figure 46
**Labour costs in the business sector (% YoY)***




## Prices: inflation remains in negative territory

The harmonized inflation rate drops to -0.3% YoY in April, staying in negative territory for the third consecutive month, due mainly to the fall in the price of energy goods. For its part, core inflation stood at 0.5% YoY.

Figure 47
**Headline and core inflation rate (% YoY)**

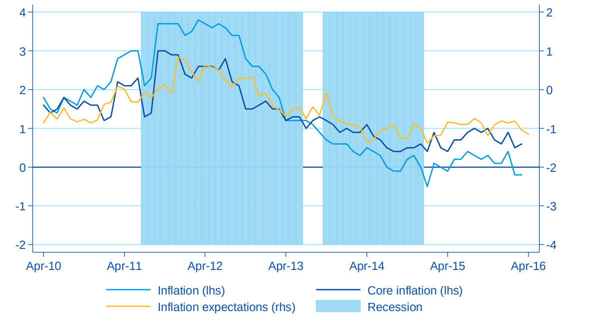
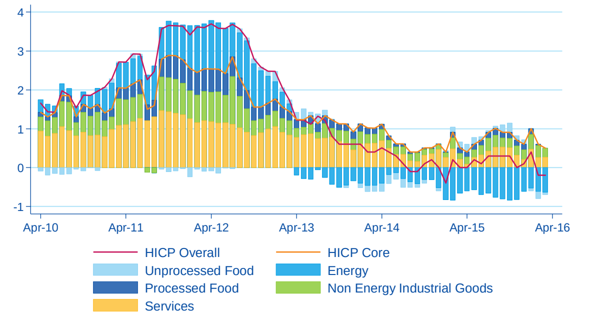



Figure 48
**Inflation by components (contributions in pp)***




* Source: HAVER and BBVA Research

# Spain

## National accounts: stabilization of quarterly GDP growth in 1Q16 (0.8% QoQ)

Available indicators point to domestic demand having been the main underpinning of activity (0.7pp). Despite the positive export performance, increased imports would have resulted in a marginal contribution from net exports (0.1pp). With still only very limited information, MICA-BBVA is projecting growth of 0.8% QoQ for 2Q16.

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

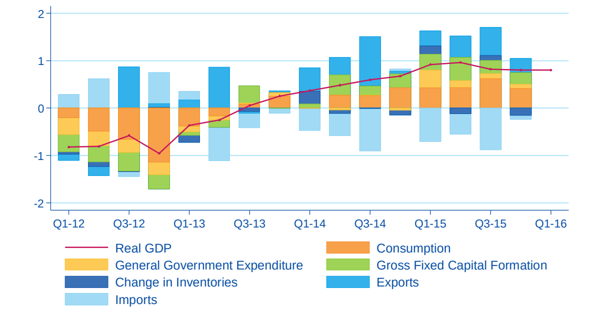
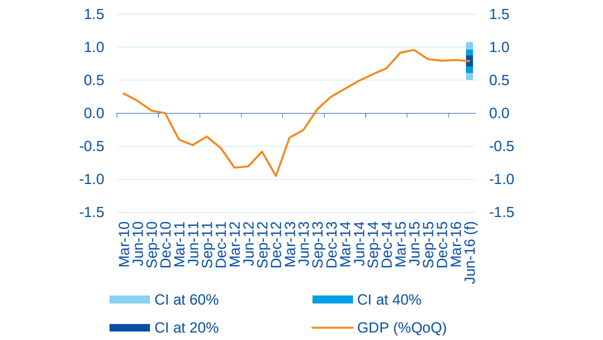



Figure 50
**GDP growth (% QoQ) and MICA-BBVA* forecast**




## Confidence: no significant changes in April

The industry confidence indicators and PMIs fell in April, while confidence in construction increased. The positive prospects for the labour market explain the increase in consumer confidence.

Figure 51
**PMIs and GDP growth (% QoQ) ***

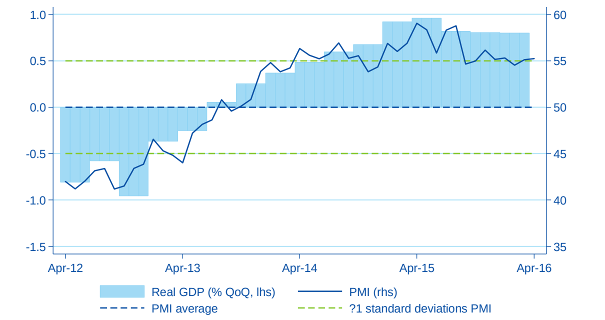
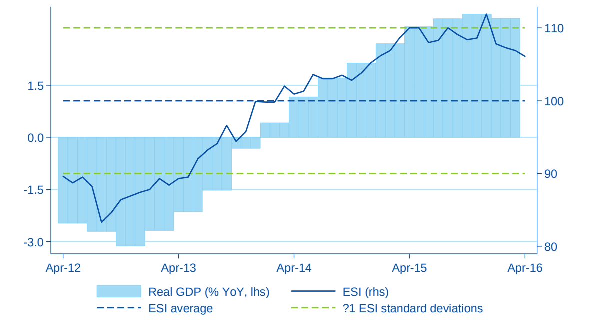



Figure 52
**Confidence (ESI) and GDP growth (% YoY) ****




## Activity: stagnation in industrial production and moderation in retail sales in 1Q16

Industrial activity grew significantly in March (1.2% MoM), the durable consumer goods sector being the only one that registered a negative monthly variation (-0.1%), while retail sales grew in March by 0.5% MoM.

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

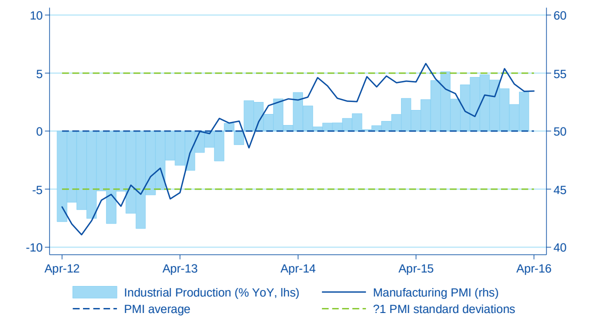
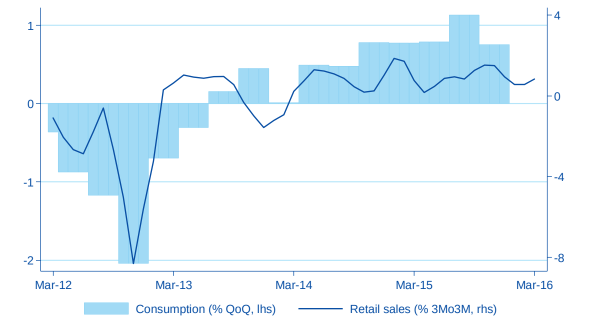



Figure 54
**Retail (% 3m/3m) and consumption growth (% QoQ)***




* Source: HAVER and BBVA Research

## External sector: sluggishness in goods exports and a slowdown in services

Modest recovery in goods exports in 1Q16 (0.6% QoQ) after the fall observed in 4Q15 (-0.2% QoQ), while the growth in service exports would have been lower than that of the previous quarter (0.4% QoQ).

Figure 55
**Current account (% of GDP)**

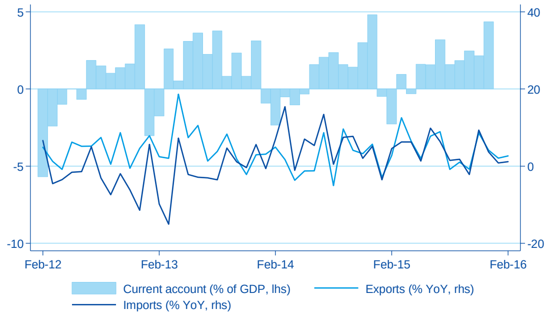
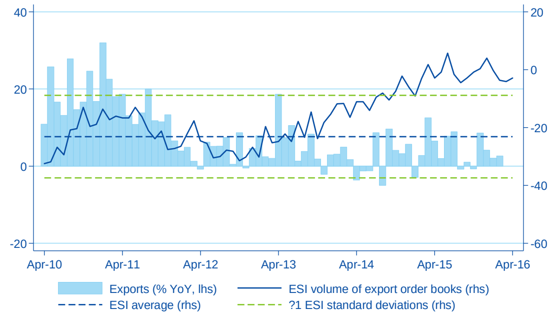



Figure 56
**Growth of exports (% YoY) and Export Order vols.***




## Labour market: the improving trend continues in April

Social security affiliation continues to grow in April, with the creation of employment in all sectors (with services leading the way). Unemployment fell again and is at about the four million mark.

Figure 57
**Unemployment rate (%) and employment expectations***

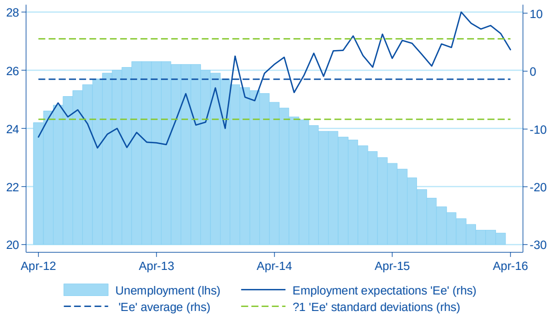
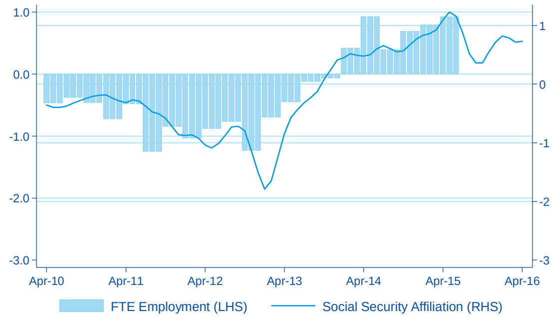



Figure 58
**Employment growth: QNA and Social Security (% QoQ) ***




## Prices: the fall in inflation becomes more pronounced in April

The CPI fell in April to -1.1% YoY from -0.8% YoY in March. Our estimates suggest that core inflation could have moderated by 0.2pp to around 0.9% YoY.

Figure 59
**Headline and core inflation rate (% YoY)**

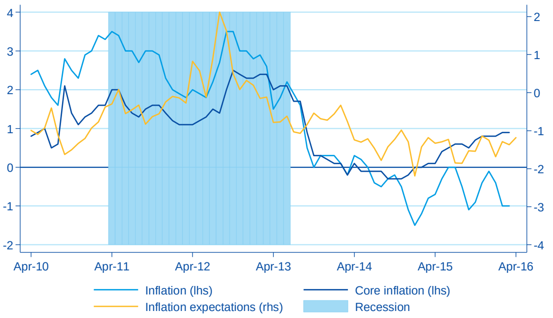
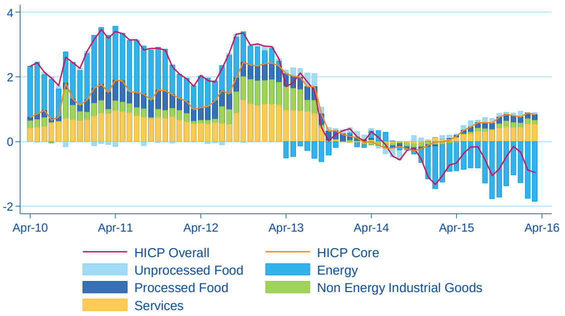



Figure 60
**Inflation by components (contributions in pp)***




* Source: HAVER and BBVA Research

Table 1
**Euro zone forecasts (% YoY)**

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|---|---|---|
| **GDP at constant prices** | **2.0** | **1.6** | **-0.8** | **-0.2** | **0.9** | **1.5** | **1.6** | **1.9** |
| Private consumption | 0.7 | -0.1 | -1.3 | -0.6 | 0.8 | 1.7 | 1.7 | 1.8 |
| Public consumption | 0.8 | -0.1 | -0.2 | 0.2 | 0.8 | 1.3 | 1.5 | 1.1 |
| Gross Fixed Capital Formation | -0.5 | 1.7 | -3.2 | -2.5 | 1.4 | 2.6 | 3.1 | 3.8 |
| Inventories (*) | 1.0 | 0.4 | -0.9 | 0.1 | 0.0 | -0.1 | 0.0 | 0.0 |
| **Domestic Demand (*)** | **1.5** | **0.7** | **-2.3** | **-0.6** | **0.9** | **1.6** | **1.9** | **2.0** |
| Exports (goods and services) | 11.1 | 6.7 | 2.8 | 2.2 | 4.1 | 4.9 | 2.7 | 3.6 |
| Imports (goods and services) | 9.8 | 4.4 | -0.9 | 1.4 | 4.5 | 5.6 | 3.9 | 4.0 |
| **External Demand (*)** | **0.5** | **0.9** | **1.5** | **0.4** | **0.0** | **-0.1** | **-0.4** | **-0.1** |
| **Prices and Costs** | | | | | | | | |
| CPI | 1.6 | 2.7 | 2.5 | 1.4 | 0.4 | 0.0 | 0.2 | 1.3 |
| CPI Core | 1.0 | 1.7 | 1.8 | 1.3 | 0.9 | 0.8 | 1.0 | 1.5 |
| **Labour Market** | | | | | | | | |
| Employment | -0.6 | 0.1 | -0.4 | -0.7 | 0.6 | 1.0 | 1.1 | 0.9 |
| Unemployment rate (% of labour force) | 10.2 | 10.2 | 11.4 | 12.0 | 11.6 | 10.9 | 10.1 | 9.6 |
| **Public Sector** | | | | | | | | |
| Surplus (+) / Deficit (-) (% GDP) | -6.2 | -4.2 | -3.7 | -3.0 | -2.6 | -2.1 | -1.9 | -1.6 |
| Public debt (% GDP) | 83.8 | 86.0 | 89.3 | 91.1 | 92.0 | 90.7 | 90.4 | 88.8 |
| **External Sector** | | | | | | | | |
| Current Account Balance (% GDP) | 0.3 | 0.4 | 1.3 | 2.1 | 2.5 | 3.2 | 3.2 | 3.0 |

(*) Contribution to GDP growth.
Source: BBVA Research

Table 2
**Germany: GDP growth and inflation forecasts (% YoY)**

| YoY rate | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|---|---|---|
| **Private consumption** | 0.3 | 1.3 | 0.9 | 0.8 | 1.0 | 1.9 | 1.9 | 1.8 |
| **Public consumption** | 1.3 | 0.9 | 1.3 | 0.8 | 1.7 | 2.4 | 2.9 | 1.9 |
| **Gross Fixed Capital Formation** | 5.1 | 7.4 | 0.2 | -1.3 | 3.5 | 1.7 | 2.9 | 3.1 |
| **Inventories (*)** | 1.4 | 0.5 | -1.6 | 0.5 | -0.3 | -0.5 | 0.0 | 0.0 |
| **Domestic Demand (*)** | **2.8** | **2.8** | **-0.8** | **0.8** | **1.2** | **1.3** | **2.2** | **2.0** |
| **Export** | 14.2 | 8.4 | 3.4 | 1.8 | 3.9 | 4.8 | 2.1 | 3.3 |
| **Import** | 12.6 | 7.1 | 0.1 | 3.2 | 3.7 | 5.4 | 3.6 | 4.3 |
| **Net export (*)** | **1.1** | **0.9** | **1.5** | **-0.4** | **0.4** | **0.1** | **-0.5** | **-0.2** |
| **GDP** | **3.9** | **3.7** | **0.6** | **0.4** | **1.6** | **1.4** | **1.7** | **1.8** |
| **Inflation** | 1.1 | 2.5 | 2.1 | 1.6 | 0.8 | 0.1 | 0.0 | 1.2 |

(*) Contribution to GDP growth.
Source: BBVA Research

Table 3

## France: GDP growth and inflation forecasts (% YoY)

| YoY rate | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|---|---|---|
| **Private consumption** | 1.8 | 0.4 | -0.2 | 0.5 | 0.7 | 1.4 | 1.3 | 1.7 |
| **Public consumption** | 1.2 | 1.1 | 1.6 | 1.7 | 1.5 | 1.5 | 1.6 | 1.2 |
| **Gross Fixed Capital Formation** | 1.9 | 2.1 | 0.3 | -0.4 | -1.2 | 0.0 | 1.9 | 2.6 |
| **Inventories (*)** | 0.3 | 1.1 | -0.6 | 0.2 | 0.2 | 0.3 | 0.0 | 0.0 |
| **Domestic Demand (*)** | **2.0** | **2.1** | **-0.3** | **0.8** | **0.7** | **1.5** | **1.5** | **1.7** |
| **Export** | 8.6 | 7.1 | 2.6 | 1.8 | 2.4 | 6.1 | 3.0 | 3.9 |
| **Import** | 8.5 | 6.5 | 0.8 | 1.8 | 3.9 | 6.7 | 3.6 | 4.1 |
| **Net export (*)** | **-0.1** | **0.0** | **0.5** | **0.0** | **-0.5** | **-0.3** | **-0.3** | **-0.2** |
| **GDP** | **1.9** | **2.1** | **0.2** | **0.7** | **0.2** | **1.2** | **1.3** | **1.6** |
| **Inflation** | 1.7 | 2.3 | 2.2 | 1.0 | 0.6 | 0.1 | 0.1 | 1.3 |

(*) Contribution to GDP growth.
Source: BBVA Research

Table 4

## Italy: GDP growth and inflation forecasts (% YoY)

| YoY rate | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|---|---|---|
| **Private consumption** | 1.2 | 0.0 | -4.0 | -2.4 | 0.6 | 0.9 | 1.2 | 1.3 |
| **Public consumption** | 0.6 | -1.8 | -1.4 | -0.3 | -1.0 | -0.7 | 0.4 | 0.4 |
| **Gross Fixed Capital Formation** | -0.6 | -1.7 | -9.4 | -6.6 | -3.3 | 0.6 | 1.7 | 2.7 |
| **Inventories (*)** | 1.3 | 0.2 | -1.1 | 0.1 | 0.1 | 0.5 | 0.0 | 0.0 |
| **Domestic Demand (*)** | **2.0** | **-0.5** | **-5.6** | **-2.6** | **-0.3** | **1.0** | **1.0** | **1.3** |
| **Export** | 11.3 | 6.1 | 2.0 | 0.9 | 2.9 | 4.1 | 2.6 | 3.4 |
| **Import** | 12.1 | 1.2 | -8.3 | -2.2 | 3.0 | 5.8 | 2.9 | 3.2 |
| **Net export (*)** | **-0.4** | **1.2** | **2.8** | **0.8** | **0.0** | **-0.3** | **0.0** | **0.1** |
| **GDP** | **1.7** | **0.7** | **-2.9** | **-1.8** | **-0.3** | **0.6** | **1.0** | **1.4** |
| **Inflation** | 1.6 | 2.9 | 3.3 | 1.2 | 0.2 | 0.1 | 0.1 | 1.3 |

(*) Contribution to GDP growth.
Source: BBVA Research

Table 5

## Spain: GDP growth and inflation forecasts (% YoY)

| YoY rate | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|---|---|---|
| **Private consumption** | 0.3 | -2.4 | -3.5 | -3.1 | 1.2 | 3.1 | 2.6 | 2.4 |
| **Public consumption** | 1.5 | -0.3 | -4.5 | -2.8 | 0.0 | 2.7 | 1.6 | 1.8 |
| **Gross Fixed Capital Formation** | -4.9 | -6.9 | -7.1 | -2.5 | 3.5 | 6.4 | 4.1 | 4.5 |
| **Equipment and other products** | 5.1 | 0.8 | -8.4 | 3.9 | 10.5 | 10.2 | 5.5 | 4.7 |
| **Construction** | -10.1 | -11.7 | -8.3 | -7.1 | -0.2 | 5.3 | 3.1 | 4.1 |
| **Housing** | -11.6 | -13.3 | -5.4 | -7.2 | -1.4 | 2.4 | 2.8 | 4.4 |
| **Other construction** | -8.5 | -10.2 | -10.7 | -7.1 | 0.8 | 7.5 | 3.3 | 3.9 |
| **Inventories (*)** | -0.1 | -0.1 | -0.3 | -0.2 | 0.3 | 0.1 | -0.1 | 0.0 |
| **Domestic Demand (*)** | **-0.5** | **-3.1** | **-4.7** | **-3.1** | **1.6** | **3.7** | **2.6** | **2.6** |
| **Export** | 9.4 | 7.4 | 1.1 | 4.3 | 5.1 | 5.4 | 4.4 | 5.6 |
| **Import** | 6.9 | -0.8 | -6.2 | -0.3 | 6.4 | 7.5 | 4.4 | 6.0 |
| **Net export (*)** | **0.5** | **2.1** | **2.1** | **1.4** | **-0.2** | **-0.5** | **0.1** | **0.0** |
| **GDP** | **0.0** | **-1.0** | **-2.6** | **-1.7** | **1.4** | **3.2** | **2.7** | **2.7** |
| **Inflation** | **1.8** | **3.2** | **2.4** | **1.4** | **-0.2** | **-0.5** | **-0.3** | **1.7** |

(*) Contribution to GDP growth.
Source: BBVA Research

**DISCLAIMER**