

# Eurozone Economic Watch

December 2019

## Eurozone | Some improvement in growth and inflation figures, though risks persist

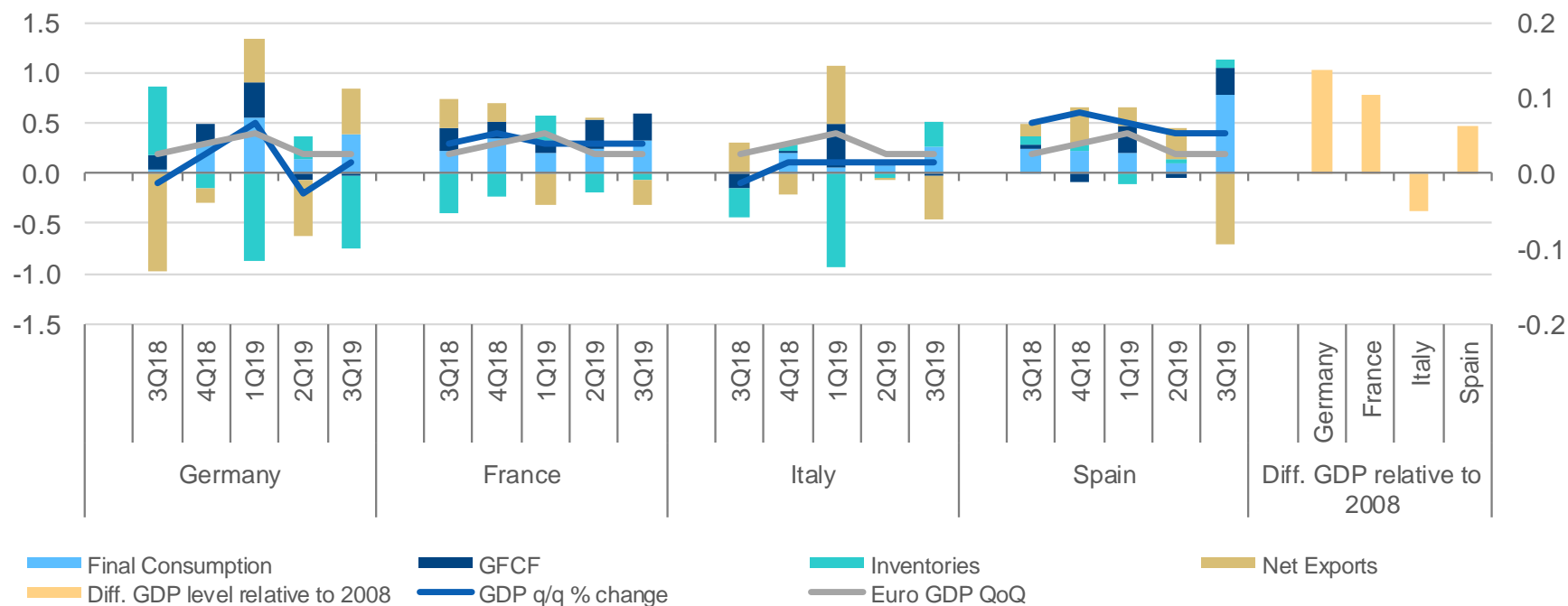
- Eurozone growth stabilized at 0.2% QoQ in 3Q19, slightly better than expected, underpinned by the resilience of domestic demand. Private consumption and investment gained some ground across countries. Germany grew slightly driven by the significant contribution of net exports.
- Hard data up to September point to a halt in the deterioration of manufacturing and exports, while retail sales grew at a steady pace driven by still improving labour market conditions. The increase in exports was pushed by those to the UK, but weak foreign orders point to a still gloomy external outlook ahead. Industrial production seems to have stabilized, though leading indicators do not signal a clear improvement yet.
- The worsening of confidence indicators has halted in 4Q19 driven by a less negative manufacturing, despite some contagion to services and consumers' mood. Across countries, German figures point to a weaker industry sector and further reduction in services expectations, but are more than offset by higher consumers' sentiment. The latter contrast with some moderation in the rest of member states.
- Weak momentum expected to extend into 4Q19. Our MICA-BBVA model projects Eurozone quarterly growth to remain broadly steady at low levels (0.1%-0.2% QoQ). Combined with slightly higher growth in 3Q19, this puts a slight upward bias to our projection of annual GDP growth of 1.1% in 2019.
- Core inflation surprised on the upside, reaching 1.5% in November, driven by the strong increase in services prices. However, sustainability of this higher rates has yet to be proved. We continue to expect a gradual upward trend in core inflation in coming months to levels still below the ECB target.
- Risks remain tilted to the downside. The probability of a hard Brexit or higher car tariffs in the short term seems to have declined, but could arise again next year. Political noise in several countries (more recently in Germany and Italy) could delay progress towards much needed reforms in the Eurozone.

## EZ growth stabilized at 0.2% QoQ in 3Q19 , slightly better than expected, underpinned by the resilience of domestic demand

Private consumption and investment gained some ground across member states, while Germany grew slightly (better than the feared technical recession) driven by the significant contribution of net exports.

### GDP AND EXPENDITURE CONTRIBUTION BY COUNTRY

(% QOQ, PP)

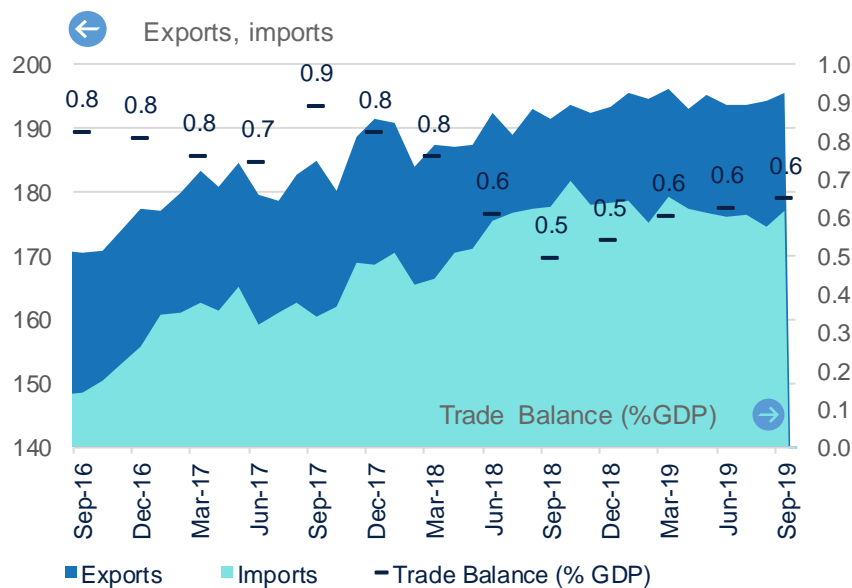


# Exports grew again in September, offsetting previous falls, but are still affected by lower global demand and uncertainty on the trade war and Brexit

The increase in exports in 3Q19 was supported by the positive contribution of sales to the UK, while those to Asia declined. As a result, net exports did not weigh on growth in the Eurozone as a whole. Looking forward, weak foreign orders point to a still gloomy external outlook in the short-term.

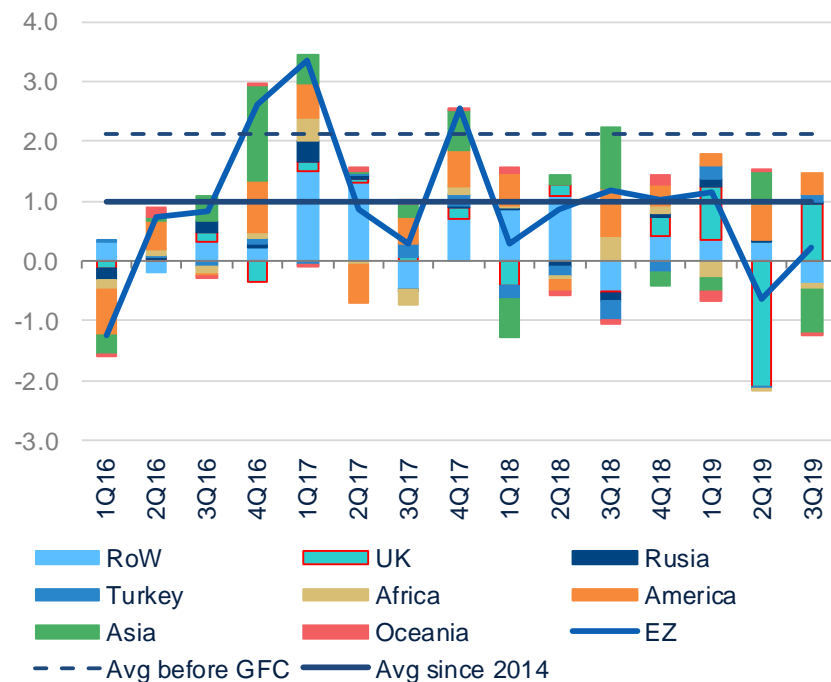
## TRADE BALANCE

(EUR BN; % GDP)



## EXPORTS BY DESTINATION

(% QOQ; PP)

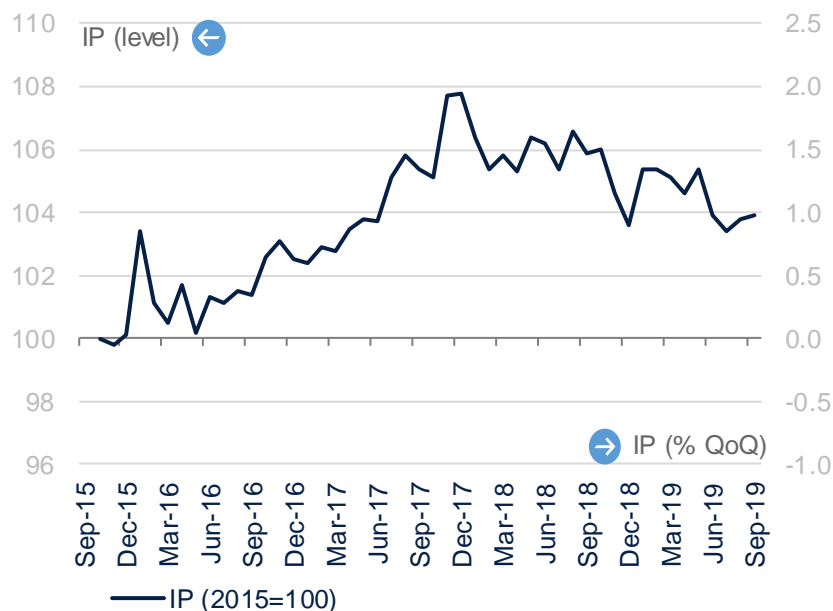


## Industrial production seems to have recovered some ground in 3Q19 supported by capital and durable consumer goods

However, confidence and leading indicators do not signal a clear improvement in the short-term, increasing concerns on the effect of more structural factors, mainly related to the car sector and disruptions in global value chains. This, along with lower capacity utilization, suggests that investment is likely to remain weak.

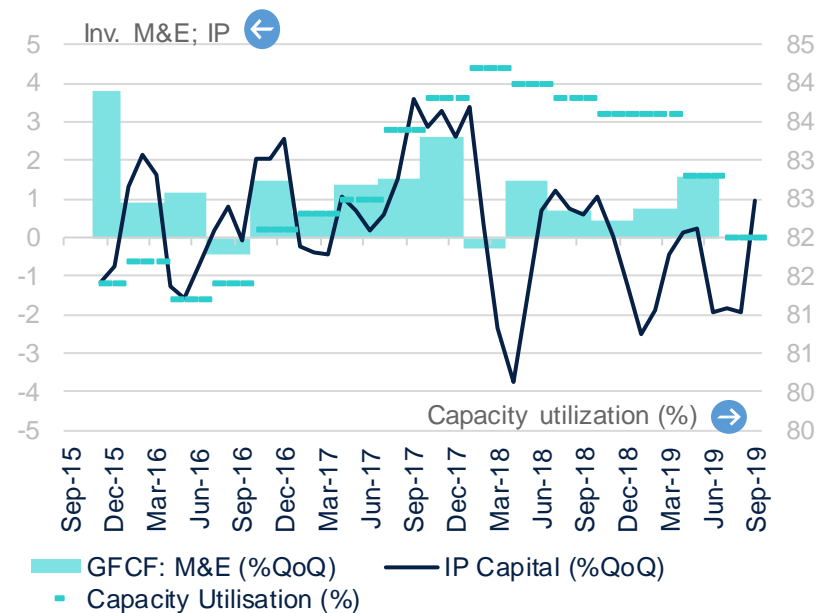
### INDUSTRIAL PRODUCTION

(LEVEL; % QOQ)



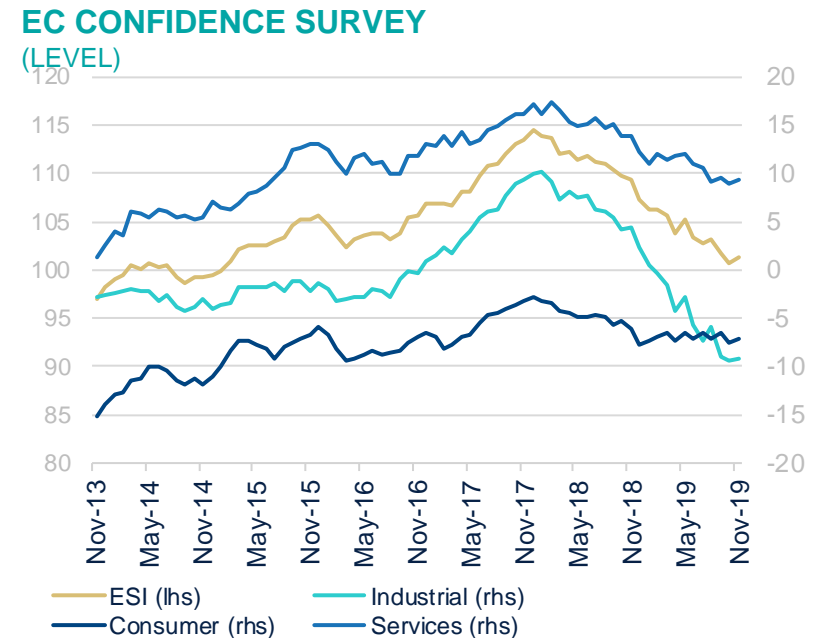
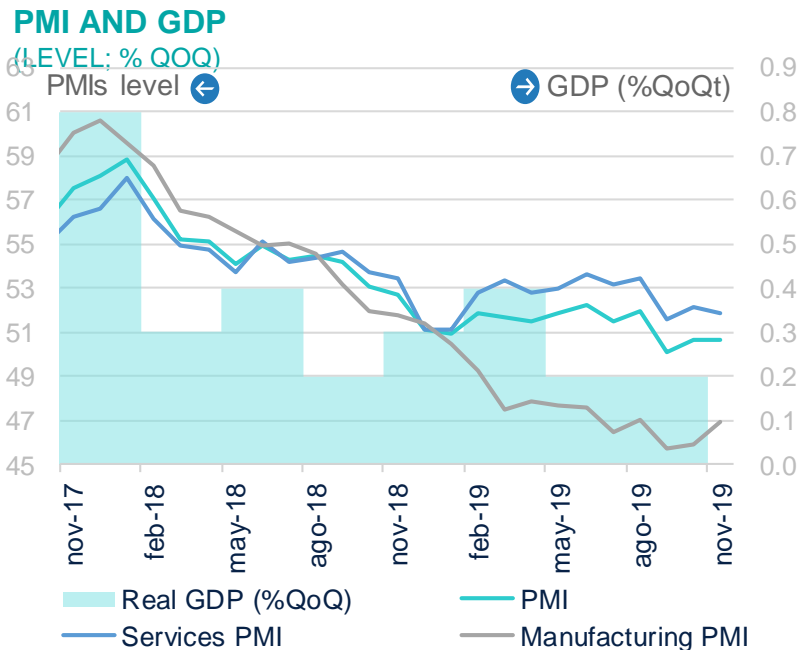
### IP CAPITAL EQUIPMENT, INVESTMENT AND CAPACITY UTILIZATION

(% QOQ; %)



# Worsening confidence halted in 4Q19, driven by a less negative manufacturing sector and despite some contagion to services and consumers

These figures suggest that the stabilization of GDP growth extends into 4Q19 driven by the resilience of domestic demand (though likely at a somewhat lower pace) and by the better manufacturing outlook.

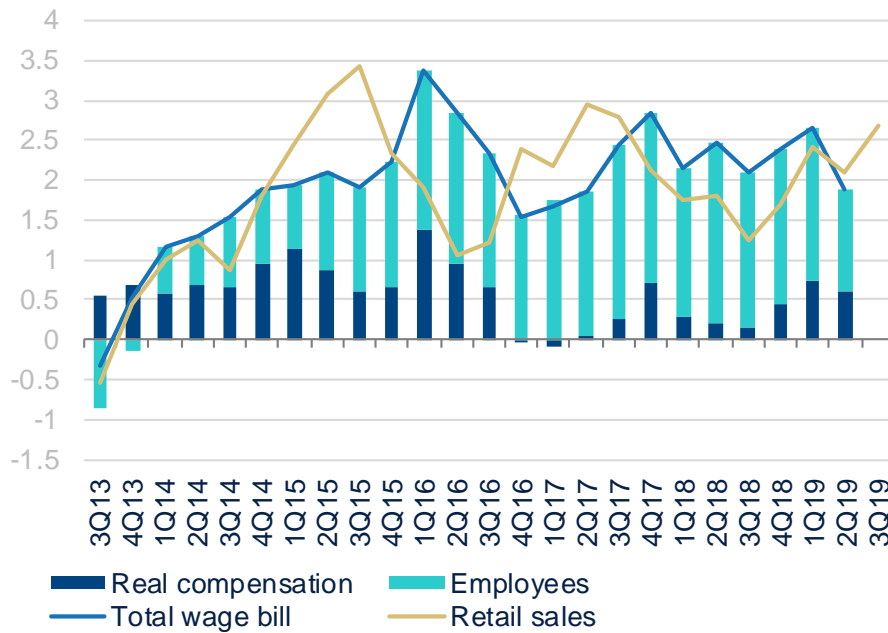


## Retail sales recovered up to September, supported by the ongoing improvement in the labour market

Wages were increasing at healthy pace during the first half of the year, while the progress of unemployment has continued, although more slowly. Low inflation has also contributed to sustain retail sales, though consumer confidence is subdued, probably affected by higher economic uncertainty.

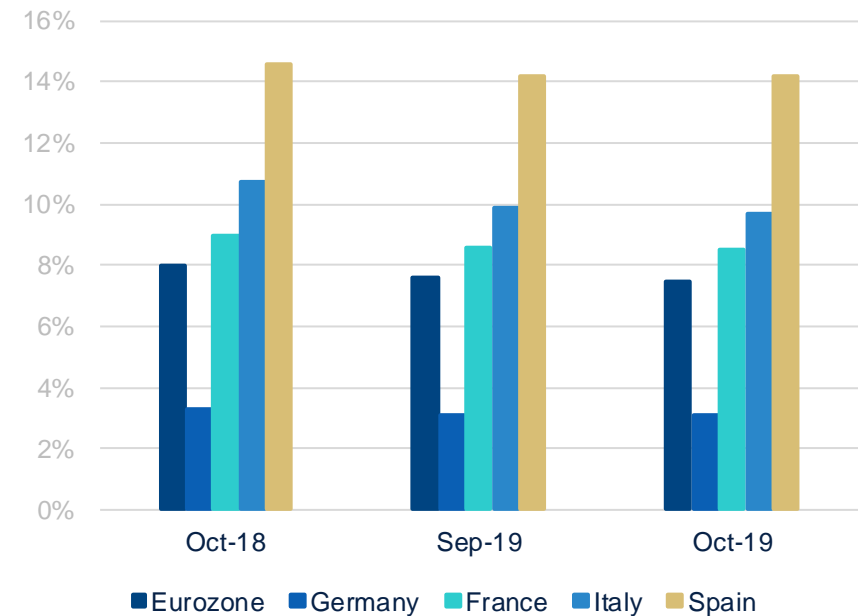
### RETAIL SALES AND WAGES

(% YOY, PP)



### UNEMPLOYMENT BY COUNTRY

(%)

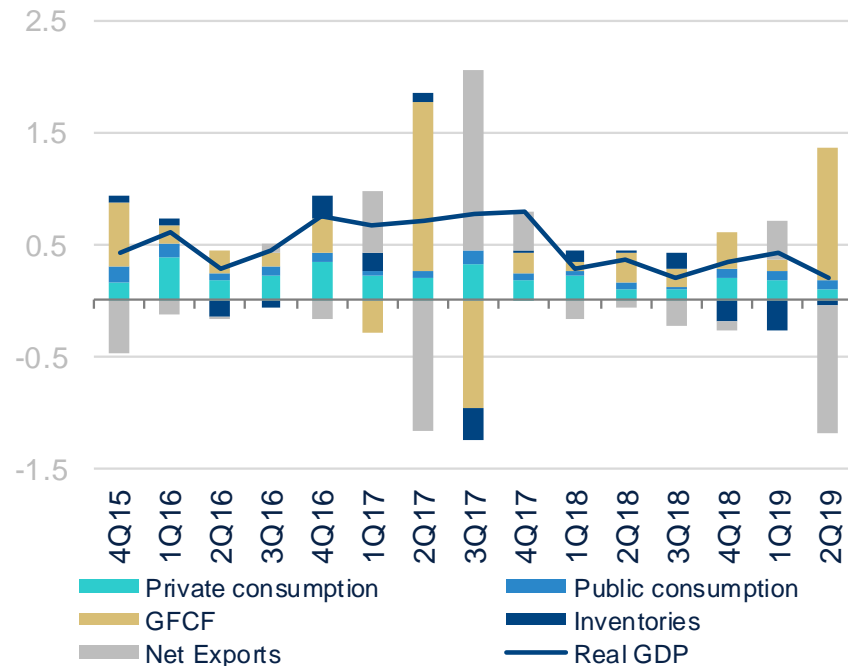


## The weak momentum is expected to extend into 4Q19 driven by the external sector, but also the moderation in domestic demand

Our MICA-BBVA model projects Eurozone quarterly growth to remain broadly steady (0.1%-0.2% QoQ). This, combined with slightly higher-than-expected growth in 3Q19, puts a small upward bias to our annual growth projections of 1.1% for 2019. We maintain our assessment of protracted weak growth into 2020, to around 0.8%.

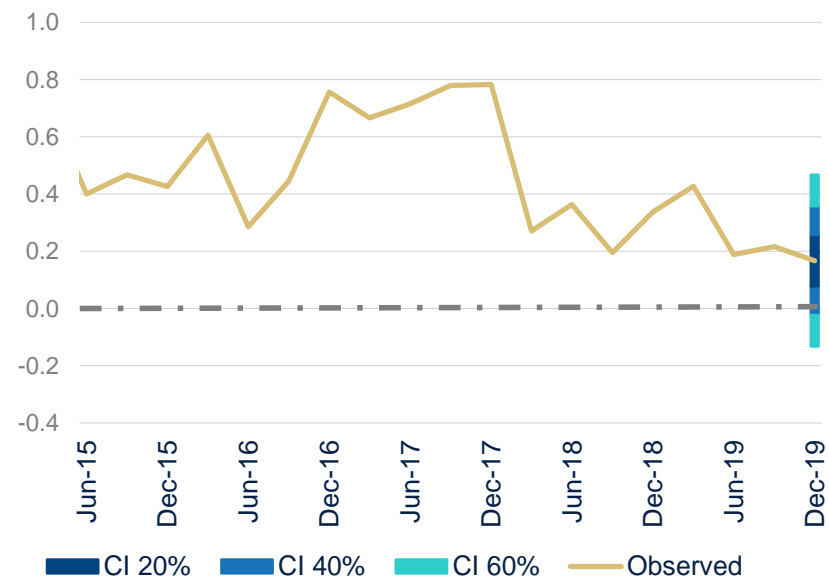
### GDP, CONTRIBUTION BY COMPONENTS

(% QOQ, PP)



### GDP AND MICA FORECASTS

(% QOQ)



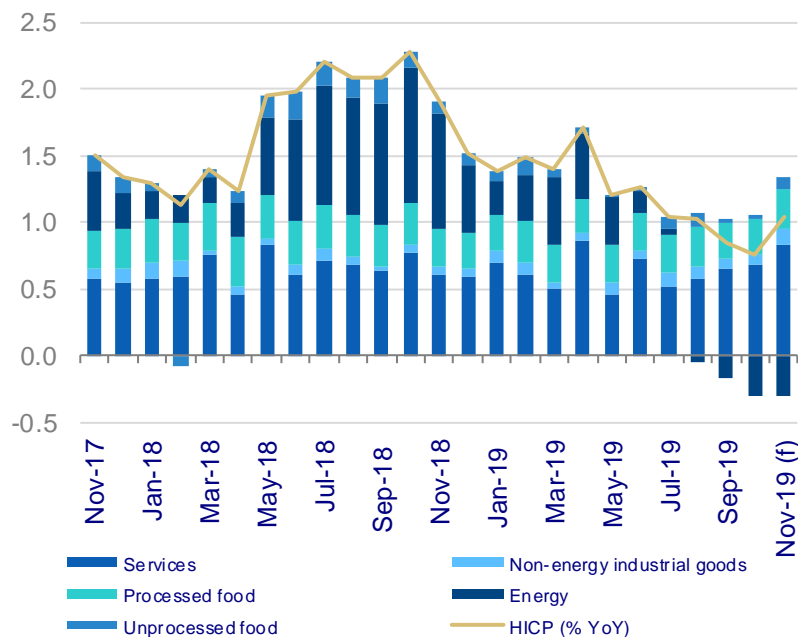


## Core inflation surprised on the upside (1.5%) in November driven by the strong increase in services prices, but its sustainability has yet to be proved

Beyond the volatility of services prices related to changes in the treatment of package holidays, recent data support our view of a gradual upward trend in core inflation, though it is still clearly below the ECB target. Meanwhile, inflation expectations remain very subdued despite the ECB expansive monetary policy.

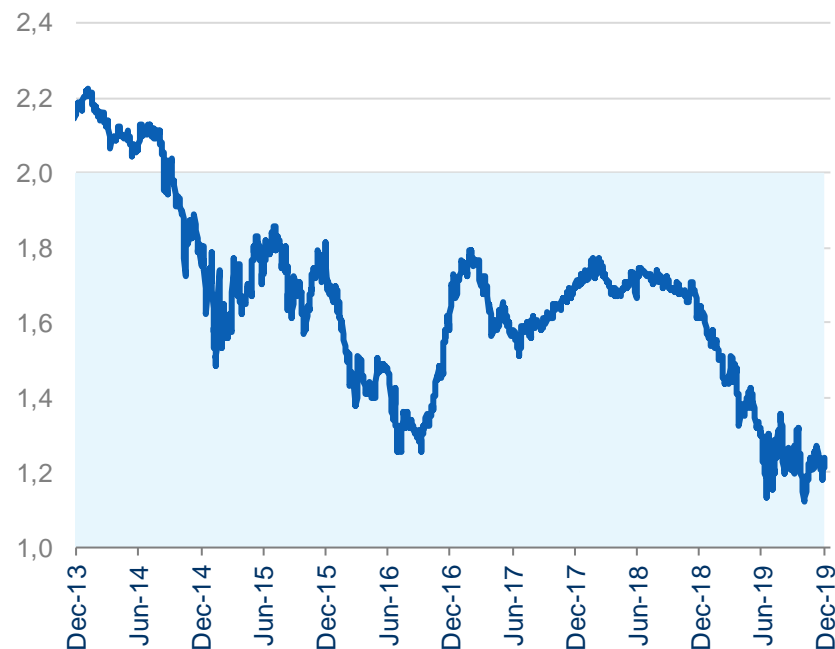
### INFLATION AND CONTRIBUTION BY COMPONENTS

(% YOY, PP)



### INFLATION SWAPS 5Y5Y

(% YOY)



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