Europe Flash
Eurozone

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Economic Analysis

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Eurozone GDP fell somewhat more than expected in 4Q12

The drop in activity was widespread across countries. We continue to expect eurozone activity to grow again in early 2013, led by Germany

- ### Eurozone GDP declined by -0.6% q/q in 4Q12

  The flash estimate for the eurozone National Accounts indicates that the economic downturn deepened in late 2012, as expected, but the GDP fall (-0.6% q/q) was larger than anticipated (BBVA Research and Consensus: -0.4% q/q). As a result, GDP declined by -0.5% in 2012, in line with our scenario. Despite this negative surprise, our MICA-BBVA model updated with this this figure along with available data for 1Q13 (still limited to soft data) continues to point that economic activity could have grown again in early 2013, around 0.2% q/q.

- ### German GDP declined by -0.6% q/q, more than expected, likely due to the drop in exports

  German GDP declined by -0.6% q/q in 4Q2012, more than expected (BBVA Research: -0.4%; Consensus: -0.5%). As a result, GDP grew by 0.9% y/y in 2012 (calendar adjusted terms).

  The detailed breakdown is not yet available, but the Federal Statistical Office gives some clues about it. According to provisional calculations, in a quarter-on-quarter comparison, household and government final consumption expenditure increased slightly, while gross fixed capital formation in construction decreased a bit and gross fixed capital formation in machinery and equipment fell considerably on 4Q12. Among these mixed signals, foreign trade is found to be the main drag on growth at the end of 2012, as exports of goods dropped notably further than imports of goods.

  Nonetheless, Q412 GDP figures continue to support our view about German outlook, driven by robust domestic factors that should support households' spending, while healthy public accounts should result in a supportive fiscal policy. In addition, still robust global demand, especially in emerging markets, will continue to sustain exports, and help the recovery of investment.

- ### French GDP fell by -0.3% q/q in 4Q12

  French GDP fell by -0.3% q/q in 4Q12 (BBVA research and Consensus: -0.2% q/q), after the minor rebound registered in 3Q12 (+0.1% q/q). As a result, GDP remained stagnant in 2012 as a whole. Analysis of components shows that households' consumption slightly increased at the end of the year (+0.2% q/q), as did public consumption, which grew at a steady rate (0.4% q/q). However, overall consumption growth, both public and private, was overcompensated by the new drop of investment (-1.0% after -0.5%). Therefore, total domestic demand (excluding inventory changes had a neutral effect on GDP (after +0.1pp).

The external sector contributed again positively to GDP growth in Q4: +0.1pp after +0.3pp, as imports decline sharpened (-0.8% after -0.5%), and exports downturned (-0.6% after +0.7%).
Unlike foreign trade, changes in inventories continued to drag GDP growth in Q4: -0.4pp, after -0.3pp in Q3.
Overall, positive news come from still resilient consumption, both private and public, while the decline in exports continues to weigh down on investment.

- **Italian GDP dropped more than expected, by -0.9% q/q in 4Q12**
  In 4Q12, the evolution of the Italian GDP was disappointing; registering a downfall of -0.9% q/q (BBVA and Consensus: -0.6%), after -0.2% in Q3. The economic downturn comes from a general drop in activity in all sectors (industry, services and agriculture). In 2012 as a whole, GDP fell by -2.2% a/a.

- **The Portuguese GDP slump of -1.8% q/q in 4Q12, much more than expected**
  Comparing with 3Q12, the Portuguese GDP diminished -1.8% q/q (BBVA Research: -0.9%; Consensus: -1.0%).
  The positive contribution of the external sector lessened notably, due to the contraction in exports and the less intense decrease of imports. However, the domestic demand registered a less negative contribution for the evolution of GDP, thanks to the smaller reduction of investment. In 2012 as a whole, the Portuguese GDP diminished by 3.2% in real terms (after -1.6% in 2011).
  Overall, these figures mean a surprising better performance of domestic demand than anticipated for the second quarter in a row, suggesting the effect of strong adjustments of imbalances could be lower than anticipated, but concerns arise from the waning of exports support.

Table 1
Q412 GDP flash estimate (% q/q)

Country	Observed	BBVA Research	Consensus
Eurozone	-0.6%	-0.4%	-0.4%
Germany	-0.6%	-0.4%	-0.5%
France	-0.3%	-0.2%	-0.2%
Italy	-0.9%	-0.6%	-0.6%
Portugal	-1.8%	-0.9%	-1.0%

Source: Eurostat, Bloomberg and BBVA Research

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