

# Europe Flash

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Economic Analysis

Europe

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## Eurozone GDP fell more than expected in 1Q13

The drop in activity was widespread across countries

- **Eurozone GDP fell by -0.2% q/q in 1Q13, more than expected (BBVA Research: 0.1%; Consensus: -0.1%)**

The flash estimate does not provide any details about the decomposition of growth, but national figures (both in Germany and France) suggest that net exports support could be weaker than anticipated, while domestic demand continued to weigh on growth.

This negative surprise poses a downward bias to our forecast of GDP growth for 2013 as a whole (-0.1%), as the negative carry-over effect means that activity could end falling at a similar pace than in 2012 (-0.5%). Nonetheless, we continue to see a gradual and mild recovery in the second half of the year.

- **German GDP grew at a meager 0.1% q/q (BBVA Research: 0.4%; Consensus: 0.3%)**

The detailed breakdown is not yet available, but the press release partly blames this poor result to bad weather. In any case, the composition of growth is in line with our assessment: resilient private consumption (strong domestic fundamentals) and falling investment (high uncertainty about European crisis and future demand), while net exports contribution should be flat (after -0.8pp in 4Q12, although exports declined again in early 2013).

In addition, the GDP growth for 4Q12 was also revised downwards, by -0.1pp to -0.7% q/q. This means a carry-over effect of around -0.1pp for 2013 as a whole, what combined with weaker quarterly growth than expected at the beginning of the year put a downward bias of around -0.5pp to our forecast of an annual GDP growth of 0.8% in 2013.

- **French GDP decreased again in 1Q13 (-0.2% q/q), more than expected (BBVA Research: 0%; Consensus: -0.1%)**

The detailed breakdown revealed that the continuous deterioration of domestic factors is taking its toll on private sector spending. Household consumption declined slightly (-0.1% q/q, after remaining flat in 4Q12), while investment declined further (-0.9% q/q, after -0.8%). This was partly offset by public consumption, continuing to grow at steady rate (0.3% q/q), and resulting in a flat contribution of domestic demand to quarterly GDP growth, thanks also to the positive contribution of inventories (+0.1pp).

Regarding foreign sector, exports declined again (-0.5% q/q, after -0.7%), while imports remained stable (+0.1% q/q after -1.3%). As a result, net exports weighed down GDP (-0.2pp, after +0.2pp).

- **Italian GDP dropped by -0.5% q/q in 1Q13 (BBVA Research: -0.3%, Consensus: -0.4%)**

In 1Q13, the evolution of the Italian GDP was again disappointing, although the pace of the downturn softened. Underlying this fall in activity was the declining production in both industrial and services sectors.

- **The Portuguese GDP declined by -0.3% q/q (BBVA Research: -0.5%; Consensus: -0.3%)**

This softening in the downturn (-1.8% q/q in 4Q12) should be due to the positive contribution of net exports, while domestic demand should have continued to weigh markedly on quarterly GDP growth.

Table 1  
Q113 GDP flash estimate (% q/q)

Country	Observed	BBVA Research	Consensus
Eurozone	-0.2%	0.1%	-0.1%
Germany	0.1%	0.4%	0.3%
France	-0.2%	0.0%	-0.1%
Italy	-0.5%	-0.3%	-0.4%
Portugal	-0.3%	-0.5%	-0.3%

Source: Eurostat, Bloomberg and BBVA Research

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