

Europe Flash

Eurozone

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Economic Analysis

Europe

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Eurozone growth was supported by exports and investment

Our MICA-BBVA model projects growth at 0.4% for 1Q14, biasing our scenario to the upside

- **GDP growth confirmed at 0.3% QoQ in 4Q13, supported by exports, offsetting the surprising reduction in inventories**

Eurostat's second estimate confirmed that eurozone GDP grew at 0.3% QoQ in 4Q13, after the 0.1% QoQ in 3Q13. Underlying this performance, net exports weighed more than expected on quarterly growth (+0.4pp after -0.4pp in 3Q13; BBVA Research: 0.2pp), due to weak imports and the strong export recovery. This surprise to the upside was offset by the negative contribution of domestic demand (-0.1pp after 0.5pp in 3Q13; BBVA Research: 0.1pp), dragged down mainly by inventories (-0.3pp after 0.3pp) despite robust rise in investment (1.1% QoQ after 0.6% QoQ), while private consumption was still fragile (0.1% QoQ) and public-sector consumption fell (-0.2% QoQ).

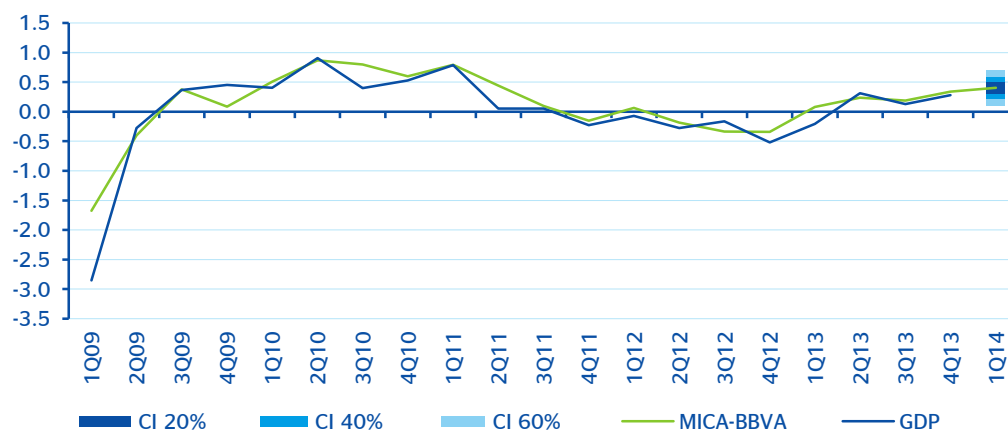
Although the contribution of domestic demand is negative, we see optimistic signs, since the recovery of exports was reflected in the rise of investment for the third quarter in a row, pointing to a consolidation of the classic pattern of recovery.

- **February PMIs were revised upwards and our MICA-BBVA model suggests that recovery is on track, or even gaining some traction**

Confidence indicators up to February, especially the PMIs that were revised upwards (by 0.6pp in the February Composite PMI to 53.3, after 52.9 in January), were consistent with recovery in the eurozone by early 2014 (the average of January and February PMIs is 53.1, which is 1.2 points higher than the 4Q13 average), still led by Germany. Hard data released to date are limited to January retail sales (also released today) that surprised to the upside, while leading export indicators still have an optimistic outlook of foreign sector performance in coming months.

Our MICA-BBVA model, with information limited to confidence data, projects quarterly GDP growth of around 0.4% QoQ in 1Q14 (Chart 1). Still, we are comfortable with our growth forecast for the first quarter of 0.2/0.3% QoQ, since the relative optimism of soft data have yet be confirmed by activity indicators, which haven't gained momentum yet.

Chart 1
 EMU: MICA-BBVA and GDP (QoQ %)



Source: Eurostat and BBVA Research

Table 1
 EMU: QoQ GDP growth (%) and components

	1Q13	2Q13	3Q13	4Q13	
				Real	BBVA Research
GDP	-0.2	0.3	0.1	0.3	0.3
Private consumption	-0.1	0.2	0.1	0.1	0.2
Public-sector consumption	0.3	0.0	0.4	-0.2	0.1
Investment	-1.7	0.2	0.6	1.1	0.3
Change in inventories (1)	0.0	-0.2	0.3	-0.3	0.0
Domestic demand (1)	-0.2	-0.1	0.5	-0.1	0.1
Exports	-0.9	2.3	0.0	1.2	1.1
Imports	-1.1	1.7	1.0	0.4	0.8
Net exports (1)	0.0	0.4	-0.4	0.4	0.2

(1) Contributions to quarterly GDP growth.
 Source: Eurostat and BBVA Research

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