

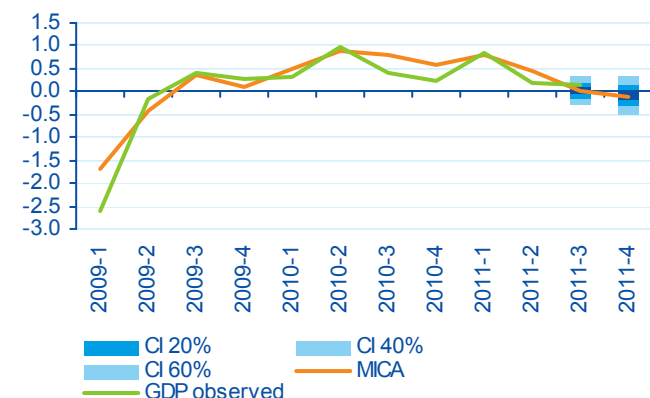
Europe Flash

Eurozone GDP mildly positive in Q3, heading for negative figures at the end of the year

Bottom line: Eurozone activity slightly improved in Q3, with a small positive surprise in Germany and a rebound in activity in France, and below average growth in the periphery. We expect these positive signs to be ephemeral, and our updated MICA model corroborates this as it now estimates a mild contraction in Q4, while downside risks continue to build up as the sovereign debt crisis deepens.

- **Eurozone economy gained 0.2% q/q in Q3,**
growing at the same rate as in Q2 (BBVA Research: 0.1% q/q; Consensus: 0.2% q/q). In a year, GDP was up 1.4%, after increasing 1.6% in Q2. The statistical office of the EU did not provide any information about the growth components, but we expect that the expansion was supported by net exports, while domestic demand should have remained very subdued with a flat contribution. National figures, both German and French, suggest that the slight positive surprise could be explained by a stronger domestic demand than anticipated. Hard data available for that quarter provided positive surprises, painting a less pessimistic outlook than soft indicators already released, that have slumped over Q3. Limited available data for Q4 point to a more pessimistic outlook for Q4, with our MICA model signalling a mild contraction.
- **Economic activity in Germany was stronger by 0.5% q/q in Q3,**
BBVA Research: 0.4% q/q; Consensus: 0.5% q/q) while Q2 growth was revised upwards by 0.2pp to 0.3% q/q. Although a detailed breakdown by component is not available, the German statistical office reports that growth this quarter was driven by domestic factors, especially household consumption, which bounced back after a sharp fall in Q2. Capital formation in machinery and equipment also supported the expansion, whereas investment in construction was slightly down. The external sector was also stronger, but net exports could not make a significant contribution, as import growth followed closely the expansion in exports. On an annual basis, economic activity was stronger by 2.5% and it is expected to approach, but not reach, 3% for 2011 on average, in line with the expected decline in activity during the last quarter.
- **French GDP rebounded in Q3, increasing by 0.4% q/q**
(BBVA Research: 0.2% q/q; Consensus: 0.3% q/q), after declining by -0.1% q/q in Q2 (revised downwards by 0.1pp). Households' consumption increased again (+0.3%) after a step back in Q2 (-0.8%), mainly as a result of the rebound in energy, water and waste and after declining for two consecutive quarters. GFCF slightly decelerated (+0.4% after +0.6%). Overall, total domestic demand (excluding change in inventories) drove GDP up: +0.3pp after -0.3pp (the same growth path than before). Imports returned to growth (+0.3% after -1.2%), and exports slightly accelerated (+0.7% after +0.5%). Consequently, the foreign trade balance contributed positively to GDP growth, but decelerated: +0.1pp after +0.5pp. In Q3, changes in inventories were neutral on GDP growth, after accounting for -0.2pp in Q2.

Chart 1

Eurozone: MICA forecasts and GDP observed (% q/q)

Source: Eurostat and BBVA Research

Chart 2

GDP by countries

	Quarterly GDP growth (%)		Q3 observed
	Q3 Forecast		
	BBVA Research	Consenso	
Eurozone	0.1	0.2	0.2
Germany	0.4	0.5	0.5
France	0.2	0.3	0.4
Spain	0.1	0.0	0.0

Source: Eurostat and BBVA Research

Miguel Jiménez
mjimenezg@bbva.com
+34 91 537 37 76

Agustín García Serrador
agustin.garcia@bbva.com
+34 91 374 79 38

Elvira Prades
elvira.prades@bbva.com
+34 91 537 79 36

Katerina Deligiannidou
aikaterini.deligiannidou@bbva.com
+34 91 537 79 36

BBVA | RESEARCH



| Castellana 81, Floor 7, 28046 Madrid | Tel.: +34 91 374 60 00 | www.bbva.com/research

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