

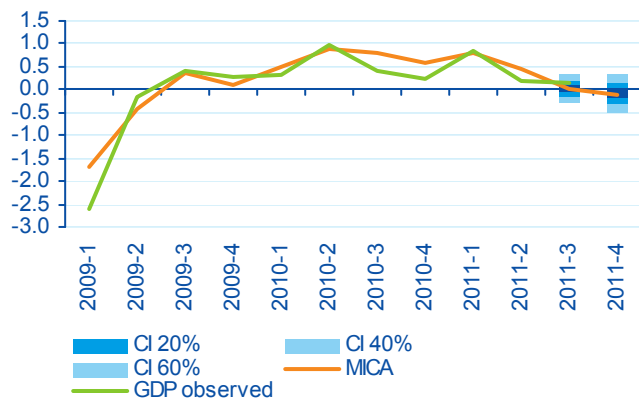
Europe Flash

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



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

DISCLAIMER

This document and the information, opinions, estimates and recommendations expressed herein, have been prepared by Banco Bilbao Vizcaya Argentaria, S.A. (hereinafter called "BBVA") to provide its customers with general information regarding the date of issue of the report and are subject to changes without prior notice. BBVA is not liable for giving notice of such changes or for updating the contents hereof.

This document and its contents do not constitute an offer, invitation or solicitation to purchase or subscribe to any securities or other instruments, or to undertake or divest investments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

Investors who have access to this document should be aware that the securities, instruments or investments to which it refers may not be appropriate for them due to their specific investment goals, financial positions or risk profiles, as these have not been taken into account to prepare this report. Therefore, investors should make their own investment decisions considering the said circumstances and obtaining such specialized advice as may be necessary. The contents of this document is based upon information available to the public that has been obtained from sources considered to be reliable. However, such information has not been independently verified by BBVA and therefore no warranty, either express or implicit, is given regarding its accuracy, integrity or correctness. BBVA accepts no liability of any type for any direct or indirect losses arising from the use of the document or its contents. Investors should note that the past performance of securities or instruments or the historical results of investments do not guarantee future performance.

The market prices of securities or instruments or the results of investments could fluctuate against the interests of investors. Investors should be aware that they could even face a loss of their investment. Transactions in futures, options and securities or high-yield securities can involve high risks and are not appropriate for every investor. Indeed, in the case of some investments, the potential losses may exceed the amount of initial investment and, in such circumstances, investors may be required to pay more money to support those losses. Thus, before undertaking any transaction with these instruments, investors should be aware of their operation, as well as the rights, liabilities and risks implied by the same and the underlying stocks. Investors should also be aware that secondary markets for the said instruments may be limited or even not exist.

BBVA or any of its affiliates, as well as their respective executives and employees, may have a position in any of the securities or instruments referred to, directly or indirectly, in this document, or in any other related thereto; they may trade for their own account or for third-party account in those securities, provide consulting or other services to the issuer of the aforementioned securities or instruments or to companies related thereto or to their shareholders, executives or employees, or may have interests or perform transactions in those securities or instruments or related investments before or after the publication of this report, to the extent permitted by the applicable law.

BBVA or any of its affiliates' salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to its clients that reflect opinions that are contrary to the opinions expressed herein. Furthermore, BBVA or any of its affiliates' proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. No part of this document may be (i) copied, photocopied or duplicated by any other form or means (ii) redistributed or (iii) quoted, without the prior written consent of BBVA. No part of this report may be copied, conveyed, distributed or furnished to any person or entity in any country (or persons or entities in the same) in which its distribution is prohibited by law. Failure to comply with these restrictions may breach the laws of the relevant jurisdiction.

In the United Kingdom, this document is directed only at persons who (i) have professional experience in matters relating to investments falling within article 19(5) of the financial services and markets act 2000 (financial promotion) order 2005 (as amended, the "financial promotion order"), (ii) are persons falling within article 49(2) (a) to (d) ("high net worth companies, unincorporated associations, etc.") Of the financial promotion order, or (iii) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the financial services and markets act 2000) may otherwise lawfully be communicated (all such persons together being referred to as "relevant persons"). This document is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is available only to relevant persons and will be engaged in only with relevant persons. The remuneration system concerning the analyst/s author/s of this report is based on multiple criteria, including the revenues obtained by BBVA and, indirectly, the results of BBVA Group in the fiscal year, which, in turn, include the results generated by the investment banking business; nevertheless, they do not receive any remuneration based on revenues from any specific transaction in investment banking.

BBVA is not a member of the FINRA and is not subject to the rules of disclosure affecting such members.

"BBVA is subject to the BBVA Group Code of Conduct for Security Market Operations which, among other regulations, includes rules to prevent and avoid conflicts of interests with the ratings given, including information barriers. The BBVA Group Code of Conduct for Security Market Operations is available for reference at the following web site: www.bbva.com / Corporate Governance".

BBVA is a bank supervised by the Bank of Spain and by Spain's Stock Exchange Commission (CNMV), registered with the Bank of Spain with number 0182.