

# Europe Flash

## Eurozone: Growth in Q3 confirmed at 0.2%, but a contraction is expected for Q4

Euro area economy gained 0.2%q/q in Q3, as confirmed by the second estimates of Eurostat, but soft data and expectations suggest a mild contraction for Q4. The increase in GDP is attributed to external demand, as the rebound in private consumption was totally offset by the negative contribution of inventories. In 2011 as a whole, activity is expected to have grown by 1.6%.

- Eurozone GDP confirmed at 0.2% q/q in Q3, supported by the still robust global demand**

The positive news came from a stronger than expected support from the external sector, with exports accelerating again, while imports' growth remained less pronounced (Table 1). As a result, external sector contributed 0.2pp to quarterly growth (BBVA Research: 0.1pp).

On the domestic side, private consumption also showed some positive signs, increasing by 0.3% q/q (BBVA Research: 0.1% q/q), somewhat more than projected, but expected after the strong fall observed in the previous quarter (-0.5% q/q). Retail sales at the beginning of Q4 continue to suggest households' spending to be resilient in the last quarter of the year. Public consumption remained flat (BBVA Research: -0.1% q/q) as in previous quarters (after the revision of past figures), while investment increased marginally by 0.1% q/q, in line with expectations (BBVA Research: 0.1% q/q). Nevertheless, the positive contribution of private demand was completely offset by the negative contribution of change in inventories (-0.2pp; BBVA Research: 0.0pp). By countries, growth was higher in Germany and France than in the periphery, but the disparities are below those observed at the beginning of the year (Table 2)

Looking forward, we continue to expect a mild recession in the last quarter of the year, as the external support is diminishing, while increasing concerns on the sovereign debt crisis in the last quarter of the year might weigh on activity. Overall, activity in 2011 as a whole will average 1.6%, while the decisions to be adopted next Friday are crucial to avoid a stronger fall in activity early next year. A positive agreement, followed by more forceful action by the ECB, should trigger a restoration of confidence, partly offsetting the negative impact on activity of the strong fiscal adjustment expected in the periphery.

Table 1

**Eurozone: GDP Growth % q/q and contributions**

	BBVA				
	Q410	Q111	Q211	Q311	Q311
<b>GDP</b>	<b>0.3</b>	<b>0.8</b>	<b>0.2</b>	<b>0.2</b>	<b>0.1</b>
Private Consumption	0.4	0.1	-0.5	0.3	0.1
Public Consumption	0.0	0.0	-0.1	0.0	-0.1
Gross Fixed Capital Formatio	-0.4	1.9	0.0	0.1	0.1
Change in inventories (*)	0.1	0.1	0.1	-0.2	0.0
<b>Domestic Demand (*)</b>	<b>0.2</b>	<b>0.6</b>	<b>-0.2</b>	<b>0.0</b>	<b>0.0</b>
Exports	1.2	1.6	1.1	1.5	0.3
Imports	1.0	1.1	0.3	1.1	0.1
<b>Net Exports (*)</b>	<b>0.1</b>	<b>0.2</b>	<b>0.4</b>	<b>0.2</b>	<b>0.1</b>

(\*) Contributions to GDP growth  
Source: Eurostat and BBVA Research

Table 2

**GDP Growth % q/q Preliminary Estimates**

	Dec-10	Mar-11	Jun-11	Sep-11
Eurozone	0.3	0.8	0.2	0.2
Germany	0.5	1.3	0.1	0.5
France	0.3	0.9	0.0	0.4
Italy	0.1	0.1	0.3	n.a
Spain	0.2	0.3	0.2	0.0
Portugal	-0.6	-0.6	0.0	-0.4
Ireland	-1.4	1.3	n.a	n.a
Greece	-2.8	0.2	n.a	n.a

(\*) Contributions to GDP growth  
Source: Eurostat and BBVA Research

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