

# Europe Flash

## Eurozone GDP declined again in Q3, but less than expected

- **The GDP declined by -0.1% q/q in the eurozone as a whole in Q3, after -0.2% q/q in the previous quarter**

This figure contrasts with our forecast of an intensification in the GDP fall in that period (BBVA Research: -0.3%; Consensus: -0.2%; EC: 0.0%). In particular, today's data are more in line with stronger hard data than expected in both July and August, but contrast with poor activity figures for September and with the strong fall in confidence data for Q3 and the beginning of Q4. Still, this does not change our assessment that the economy will continue to contract in Q4. Overall, we maintain our GDP forecast for 2012 (-0.5%) and 2013 (+0.3%), as the upwards surprise observed in Q3 is likely to be offset by one of opposite sign in Q4. For 2013, we continue to expect an incipient recovery during the first half of next year, on the back of ongoing measures taken by European authorities to tackle the crisis.

- **Across countries, the better than expected performance was widespread**

Activity in core countries proved to be resilient, with GDP slowing in Germany less than expected and France avoiding recession. In the periphery, the fall in GDP was slower than in Q2, especially in Italy, but also in Portugal and Spain.

- **German GDP grew by 0.2% q/q in Q3, slowing slightly from 0.3% in Q2**

Despite the slowing in activity, this was lower than anticipated (BBVA Research: 0.0%; Consensus: 0.1%; EC: 0.3%). Although the detailed breakdown is not yet available, the press release of the statistical office discloses that foreign demand made a positive contribution to GDP growth, as the increase in exports was slightly larger than that of imports. Regarding domestic components, both private and public consumption were stronger than in Q2, while construction was up, too. This contrasts with the continued decrease in equipment investment and with the decline in inventories.

- **French GDP increased by 0.2% q/q in Q3, driven by net foreign demand**

These GDP figures contrast with our expectation of a slight activity decline (BBVA Research: -0.1%; Consensus: 0.0%; EC: 0.2%). The detailed breakdown shows that domestic demand drained -0.1pp to quarterly GDP growth, driven by the negative contribution of inventories (-0.3pp). Nevertheless, these figures also reveal some positive news, as household consumption recovered marginally (+0.3% after -0.2% in Q2), while public consumption continued to support activity, growing at a steady pace (+0.4%). Investment slightly decreased (by -0.2% q/q), as expected after rebounding by 0.5% q/q in Q2. Exports slightly accelerated (+0.5% after +0.3% in Q2), whereas imports fell after a dynamic second quarter (-0.6% vs. +1.6% in Q2), and thus net exports contributed positively to GDP growth: 0.3pp after -0.4pp in Q2. Overall, this positive surprise does not shift the gloomy outlook suggested by recent indicators. On the one hand, the rebound of hard data in August seems to be temporary, while the support of fiscal policy is likely to fade in coming quarters. In addition, soft data slumped in September, and October figures did not show a clear improvement, pointing to a gloomy outlook for the last quarter of the year.

- **The Italian GDP fall softened in Q3 by more than expected**

GDP fell by -0.2% q/q in Q3, less than expected (BBVA Research, Consensus and EC: -0.5%), after declining by -0.7% q/q in Q2 (slightly revised upwards from -0.8% previously estimated). The detailed breakdown is not yet available, while the press release does not reveal any details about activity performance in Q3.

Table 1  
GDP growth (%q/q)

	Q2-2012	Q3-2012	BBVA Q3-2012	BBVA Q3-2012
<b>Eurozone</b>	<b>-0.2</b>	<b>-0.1</b>	<b>-0.3</b>	<b>-0.2</b>
Germany	0.3	0.2	0.0	0.1
France	-0.1	0.2	-0.1	0.0
Italy	-0.7	-0.2	-0.5	-0.5
Spain	-0.4	-0.3	-0.3	-0.4
Portugal	-1.1	-0.8	-0.6	-0.6

Source: Eurostat and BBVA Research

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