

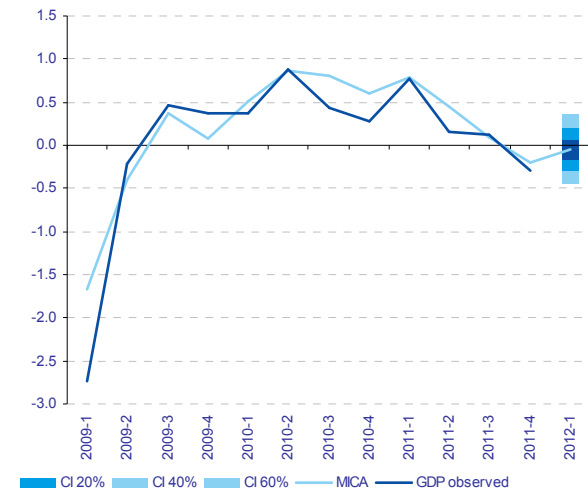
# Europe Flash

## Eurozone GDP -0.3%q/q, as expected, with small negative surprise in Italy compensating for a positive surprise in France

**Bottom line:** Eurozone activity contracted in Q4 by 0.3%q/q, as expected, being widespread across both core and peripheral countries, except France. This fall in activity was expected due to the substantially worsening financial market outlook that ended up adversely weighing on confidence over Q4 11, along with a weaker global recovery. With more positive signs coming from January's confidence surveys, our updated MICA model points to zero or slightly negative growth in Q1, although with very little information available.

- **Eurozone economy fell by -0.3% q/q in Q4,**  
as expected (BBVA Research: -0.3% q/q; Consensus: -0.4% q/q), after increasing by 0.1% q/q in Q3. Eurostat did not provide any information about components, but we expect weak consumption (in contrast with Q3) and a significant fall in investment. The strong fiscal adjustments, especially in the periphery, should have also driven down public consumption. As a result, domestic demand might have subtracted growth for the third quarter in a row, signalling the fragility of the recovery, which was still supported by the external sector. In particular, despite the slowdown in global demand and exports, further deceleration in imports implies that net exports have probably made a positive contribution to growth. Looking forward, limited available data for Q1 12 point to more optimistic outlook, as confidence surveys improved more than expected. Nevertheless, uncertainty remains very high as the European financial crisis is still unresolved, and these positive signs have still to be confirmed with further data. Our updated MICA-BBVA model for short-term projections points to GDP growth around flat Q1 12, somewhat better than before.
- **German GDP fell by -0.2% q/q in Q4,**  
also in line with expectations (BBVA Research: -0.25% q/q; Consensus: -0.3% q/q), while Q3 growth was revised slightly upwards by 0.1pp to 0.6% q/q. Although the detailed breakdown by component is not available, the German statistical office reports that the only positive contribution came from investment, especially construction. In contrast, foreign demand had a negative impact on growth in Q4 11, while consumption showed a slight decrease. Overall, the German economy grew by 3.0% over 2011.
- **French GDP increased by 0.2% q/q in Q4,**  
beating expectations (BBVA Research: 0.0% q/q; Consensus: -0.2% q/q), and moderating slightly from 0.3% q/q in Q3. Consumption slowed down slightly (0.2% q/q after 0.3% q/q in Q3), while public expenditure grew at steady rates (0.2% q/q) and investment accelerated significantly (0.9% q/q after 0.2% q/q). Nevertheless, changes in inventories drained -0.8pp to economic growth, and thus reflecting in a negative contribution of domestic demand (-0.5pp after 0.2pp). The foreign trade balance contributed positively to GDP growth in Q4 (+0.7pp after 0.1pp in Q3). Overall, the French economy grew at 1.7% in 2011 as a whole, driven by domestic demand (1.9pp).
- **Italian GDP declined by -0.7% q/q in Q4,**  
more than expected (BBVA Research: -0.5%q/q; Consensus: -0.6% q/q), after falling by -0.2% q/q in Q3, thus confirming the recession. The detailed breakdown is not available, while Istat does not reveal information about the evolution by components. These figures imply that Italian GDP should have grown at 0.3% in 2011 as a whole.
- **Portuguese GDP fell by -1.3% q/q in Q4,**  
less than anticipated (BBVA Research: -1.6% q/q; Consensus: -1.5% q/q). According to INE, this fall reflects a significant decline in the negative contribution of domestic demand, mainly driven by a stronger decrease in investment and consumption. The positive contribution of net exports increased, as a result of a strong decline in imports. In 2011, the Portuguese GDP fell by -1.5%.

Chart 1

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

Source: Eurostat and BBVA Research

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Chart 2

**GDP by countries****Quarterly GDP growth (%)**

	Q4 Forecast		Q4 observed
	BBVA Research	Consenso	
Eurozone	-0.3	-0.4	-0.3
Germany	-0.3	-0.3	-0.2
France	0.0	-0.2	0.2
Italy	-0.5	-0.7	-0.7
Spain	-0.1	-0.3	-0.3
Portugal	-1.6	-1.5	-1.3

Source: Eurostat and BBVA Research

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