

Europe Flash

Eurozone GDP flat in Q1-12, as expected, with a positive surprise in Germany

Bottom line: Eurozone activity remained flat in the first quarter of the year, as expected, driven by a larger than projected rebound in Germany that compensated a negative surprise in Italy. However, the very few figures published so far for the second quarter suggest that renewed financial strains will result in a contraction of economic activity in Q2-12.

- **Eurozone economy was flat in Q1-12, as expected**

GDP growth in Q1-12 was 0% (BBVA Research: 0.0% q/q; Consensus: -0.2% q/q), after declining by -0.3% in the last quarter of 2011. Eurostat did not provide any information about components, but our forecasts suggest that Q1 performance was supported by a slightly positive contribution of net exports, and weakness of domestic demand. The latter is expected to have drained about 0.2pp to quarterly GDP growth, mainly due to a significant fall in investment and public consumption. Retail sales data suggest that private consumption should have been more resilient than in Q4-11, although falling slightly. However, the most recent surge of financial strains has been reflected in a sharp deterioration of confidence in April, pointing to a fall in economic activity in Q2-12, although it is still too early to draw conclusions with such limited set of information. Our MICA model suggests that GDP could contract by around -0.1% q/q in Q2-12. For 2012, we forecast a slight contraction of -0.2%.

- **Germany continued to lead the improvement of activity, while French GDP remained flat**

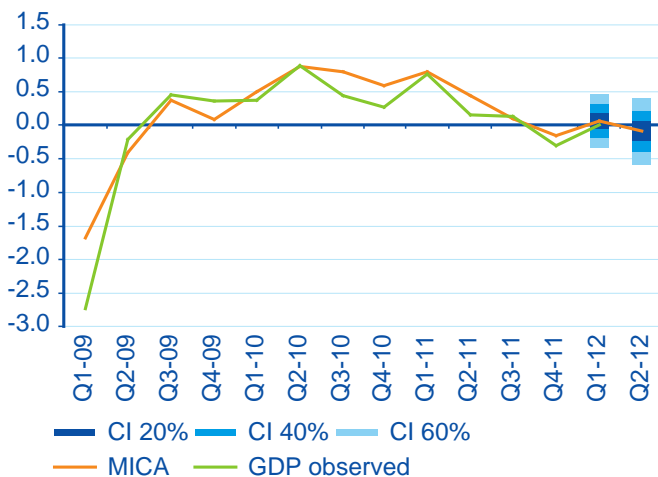
German GDP rebounded by 0.5% q/q in Q1-12, clearly above expectations (BBVA Research and Consensus: 0.1% q/q), after declining by -0.2% q/q in Q4-11. The German statistics institute highlighted that the underlying drivers were net exports and private consumption, which were partly offset by a fall in investment. Overall, this outturn for Q1 reveals that our forecast of a 0.7% GDP growth for 2012 as a whole should be biased on the upside.

French GDP was flat, as expected (BBVA Research and Consensus: 0.0% q/q), slowing slightly after increasing by 0.1% q/q in Q4-11. The detailed GDP breakdown showed that private consumption remained resilient, increasing at broadly steady rates (0.2% q/q) and public consumption continued to support domestic demand (0.5% q/q). Nevertheless, investment fell sharply by -0.8% q/q, after the rebound observed in the previous quarter. As a result, domestic demand contributed with 0.2pp to quarterly GDP growth. The positive growth of domestic demand also resulted in a considerable increase in imports, larger than that observed in exports that triggered a negative net exports contribution. Overall, these figures are in line with our projections that estimate a 0.5% GDP growth for 2012.

Italian GDP declined by -0.8% q/q in Q1-12, more than expected (BBVA Research: -0.6% q/q; Consensus: -0.7% q/q), being the third quarter in a row of GDP falls. ISTAT did not provide any details about the composition of GDP, although our forecasts point to a sharp contraction of domestic demand burdened by the ongoing fiscal consolidation process. Overall, Q1-12 figures suggest that the contraction of GDP will be even larger than our estimation of -1.5% in 2012 as a whole.

Portuguese GDP declined slightly by -0.1% q/q in Q1-12, clearly above expectations (BBVA Research: -0.5% q/q; Consensus: -1.0% q/q), after collapsing in the previous quarter. Although the detailed GDP breakdown is not yet available, the INE press release highlights that this evolution was driven by a less negative contribution of domestic demand, in line with our forecasts. Nevertheless, the positive contribution of net exports declined, as imports registered a less intense fall than in the previous quarter. Overall, these figures suggest that the Portuguese GDP fall could be lower than our estimation of around -2.9%, and well below official estimates by the troika and the Bank of Portugal.

Chart 1

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

Source: Eurostat and BBVA Research

Chart 2

GDP by countries

	Quarterly GDP growth (%)		
	Q1-12 Forecast		Q1-12 observed
	BBVA Research	Consensus	
Eurozone	0.0	-0.2	0.0
Germany	0.1	0.1	0.5
France	0.0	0.0	0.0
Italy	-0.6	-0.7	-0.8
Spain	-0.4	-0.4	-0.3
Portugal	-0.5	-1.0	-0.1

Source: Eurostat and BBVA Research

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