

Europe Flash

Eurozone: GDP slightly down in Q2, -0.2% q/q, with Germany surprising on the upside once again

Bottom line: Eurozone activity fell back in contraction during the second quarter of 2012, as it was broadly expected. Germany registered a larger than projected rebound and France escaped contraction with flat growth once more. These positive surprises could almost offset the fall observed in Italy and Spain. Looking ahead, confidence data for the third quarter suggests that a (significant) rebound in activity should not be expected in Q3-12.

- **Eurozone economy back in contraction, as broadly expected**

GDP growth in Q2-12 came in at -0.2% q/q (BBVA Research: -0.3%, Consensus: -0.2%), after remaining flat in Q1-12. The flash estimate of Eurostat did not provide any details on the evolution of GDP components, but according to our forecasts, the Q2 result was determined by a fall in all components of domestic demand, especially in investment (-0.9%). At the same time, the few data available so far for Q3-12 points to less negative developments in confidence, while our MICA model suggests that GDP could flatten out. For 2012, we forecast contraction of -0.3%.

- **Germany continues in expansion, while France is leveling off once again**

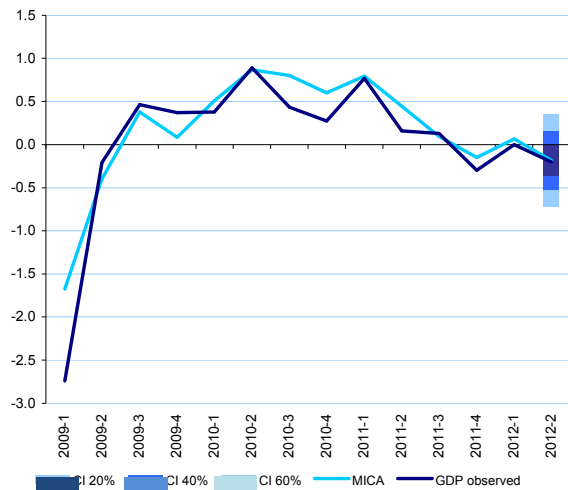
Germany: GDP maintained positive growth, +0.3% q/q in Q2-12, beating expectations (BBVA Research: 0.0%, Consensus: 0.1% q/q). Both domestic and external demand are accountable for this result, with the underlying drivers being net exports and domestic consumption (private and public), partially offset by a fall in investment. On the whole, results for the first half of the year suggest that growth for 2012 could come in stronger than our forecast of a 0.9% GDP growth.

France: Economic activity levelled off once again, at 0.0%, slightly better than expected (BBVA Research and Consensus: -0.1% q/q). By component, domestic demand contributed 0.1pp to growth, as private consumption fell slightly (-0.2% after +0.2% in Q1), while investment rebounded significantly (+0.6% after -0.8% in Q1) and inventories made an increased contribution to growth of 0.3pp (0.1pp in Q1). On the external front, imports increased strongly, while exports remained weak (+1.8% versus +0.2%), a result that continued triggering a negative net exports contribution (-0.5pp after -0.1pp in Q1). Overall, these figures are in line with our projections for 0.2% GDP growth in 2012.

Italy: Data released last week showed that **GDP continued falling strongly, -0.7% q/q in Q2-12**, more than we had expected (BBVA Research: -0.4%, Consensus: -0.8% q/q). Although no details by component of GDP were provided, our forecasts point to a sharp contraction of domestic demand, both public and private, driven mainly by the ongoing fiscal consolidation. For the whole year, H1-12 figures suggest that activity will contract stronger than our estimation of -1.8%.

Portugal: GDP declined by -1.2% q/q in Q2-12, in line with our expectations (BBVA Research: -1.1% q/q, Consensus: -0.7% q/q), after almost remaining flat in the previous quarter (-0.1%). According to INE, the evolution of GDP in Q2 was determined by a more negative domestic demand, especially investment, while net exports' contribution increased, as a result of a more intense fall of imports and some deceleration in exports.

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 (%)**

	Q2-12 Forecast		Q2-12 observed
	BBVA Research	Consensus	
Eurozone	-0.3	-0.2	-0.2
Germany	0.0	0.1	0.3
France	-0.1	-0.1	0.0
Italy	-0.4	-0.8	-0.7
Spain	-0.4	-0.4	-0.4
Portugal	-1.1	-0.7	-1.2

Source: Eurostat and BBVA Research

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