

Europe Flash

Mixed signals from soft data point to a slowdown in the German economy in Q4

Well into the closing quarter, confidence in the German economy looks hazy, as recently published indicators do not point to the same direction. While Ifo Business Climate improved in November, Zew Economic Sentiment (published on 13th Nov) and Gfk (published today) showed further pessimism on the consumer side. Halfway, last week PMIs show signs of stabilization. Growth for Q4 is expected to be slightly negative, compensating for the positive surprise in Q3, which was confirmed last week.

- **German Q3 GDP growth confirmed at +0.2% q/q, driven again by net exports, but also by more resilient domestic demand**

The detailed breakdown by demand components showed that both private (0.3% q/q after 0.1%) and public consumption (0.4% after -0.2%) increased again, while investment remained virtually flat (0.2% after -2.1% in Q2), supported by the significant increase in construction. Nonetheless, investment in equipment declined sharply for the fourth quarter in a row, suggesting that high uncertainty about the European crisis, along with recent worsening in exports orders and slack capacity utilization is weighing on firms' decisions. In addition, the negative contribution of change inventories (-0.3pp) resulted in a flat contribution of domestic demand (after -0.4pp in Q2). Regarding foreign demand, exports slowed down (1.4% after 3.3%), but less than imports (1.0% after 2.2%), resulting in a positive contribution of net exports (0.3pp after 0.7pp).

- **Mixed signals from soft data for Q4**

Recently published indicators, mainly soft data up to November, show a mixed picture. Today's GfK expectations for December resulted worse than expected (5.9 against our estimation of 6.3 and Consensus 6.2). November mark has also been revised to 6.1 down from 6.3. PMIs remained broadly stable at low levels, indicating that German economy could have contracted by end-year, although Ifo survey shows a somewhat more optimistic outlook in the short run, with exports expectations increasing again. The Ifo Business Climate for industry and trade rose up to 101.4, in contrast with expectations of a further decline (both our estimation and Consensus expected it to be below 100), interrupting the six-month continued fall. Companies felt slightly more satisfied with their current business situation and more optimistic about the future. Also wholesalers and retailers expect their business to bounce back in the future. However, as in the case of the PMIs, the picture drawn by ZEW Indicator of Economic Sentiment is not that rosy, as it shows an ongoing economic downturn.

- **Downwards revision of our estimation for Q4 offsets surprising GDP rise in Q3, thus growth expectations for 2012 remain close to 1%**

In short, amid the mixed signals from soft data, we expect a fall in activity for the last quarter of the year, but with a mild recovery at the beginning of next year, as domestic demand drivers continue to build up, while foreign demand should improve. According to the recently published data, we estimate that the GDP downfall could be between -0.1% and -0.3% q/q in Q4 (revised from 0.1%). It would however be offset by the upwards surprise in Q3 (0.2% q/q instead of 0% expected) so the estimation for 2012 would remain at 0.9%.

Miguel Jiménez
mjimenezg@bbva.com
+34 91 537 37 76

Agustín García Serrador
agustin.garcia@bbva.com
+34 91 374 79 38

Elvira Prades
elvira.prades@bbva.com
+34 91 537 79 36

Sonia López Senra
sonia.lopez.senra@bbva.com
+34 91 537 79 36

DISCLAIMER

This document and the information, opinions, estimates and recommendations expressed herein, have been prepared by Banco Bilbao Vizcaya Argentaria, S.A. (hereinafter called "BBVA") to provide its customers with general information regarding the date of issue of the report and are subject to changes without prior notice. BBVA is not liable for giving notice of such changes or for updating the contents hereof.

This document and its contents do not constitute an offer, invitation or solicitation to purchase or subscribe to any securities or other instruments, or to undertake or divest investments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

Investors who have access to this document should be aware that the securities, instruments or investments to which it refers may not be appropriate for them due to their specific investment goals, financial positions or risk profiles, as these have not been taken into account to prepare this report. Therefore, investors should make their own investment decisions considering the said circumstances and obtaining such specialized advice as may be necessary. The contents of this document are based upon information available to the public that has been obtained from sources considered to be reliable. However, such information has not been independently verified by BBVA and therefore no warranty, either express or implicit, is given regarding its accuracy, integrity or correctness. BBVA accepts no liability of any type for any direct or indirect losses arising from the use of the document or its contents. Investors should note that the past performance of securities or instruments or the historical results of investments do not guarantee future performance.

The market prices of securities or instruments or the results of investments could fluctuate against the interests of investors. Investors should be aware that they could even face a loss of their investment. Transactions in futures, options and securities or high-yield securities can involve high risks and are not appropriate for every investor. Indeed, in the case of some investments, the potential losses may exceed the amount of initial investment and, in such circumstances; investors may be required to pay more money to support those losses. Thus, before undertaking any transaction with these instruments, investors should be aware of their operation, as well as the rights, liabilities and risks implied by the same and the underlying stocks. Investors should also be aware that secondary markets for the said instruments may be limited or even not exist.

BBVA or any of its affiliates, as well as their respective executives and employees, may have a position in any of the securities or instruments referred to, directly or indirectly, in this document, or in any other related thereto; they may trade for their own account or for third-party account in those securities, provide consulting or other services to the issuer of the aforementioned securities or instruments or to companies related thereto or to their shareholders, executives or employees, or may have interests or perform transactions in those securities or instruments or related investments before or after the publication of this report, to the extent permitted by the applicable law.

BBVA or any of its affiliates' salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to its clients that reflect opinions that are contrary to the opinions expressed herein. Furthermore, BBVA or any of its affiliates' proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. No part of this document may be (i) copied, photocopied or duplicated by any other form or means (ii) redistributed or (iii) quoted, without the prior written consent of BBVA. No part of this report may be copied, conveyed, distributed or furnished to any person or entity in any country (or persons or entities in the same) in which its distribution is prohibited by law. Failure to comply with these restrictions may breach the laws of the relevant jurisdiction.

In the United Kingdom, this document is directed only at persons who (i) have professional experience in matters relating to investments falling within article 19(5) of the financial services and markets act 2000 (financial promotion) order 2005 (as amended, the "financial promotion order"), (ii) are persons falling within article 49(2) (a) to (d) ("high net worth companies, unincorporated associations, etc.") Of the financial promotion order, or (iii) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the financial services and markets act 2000) may otherwise lawfully be communicated (all such persons together being referred to as "relevant persons"). This document is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is available only to relevant persons and will be engaged in only with relevant persons. The remuneration system concerning the analyst/s author/s of this report is based on multiple criteria, including the revenues obtained by BBVA and, indirectly, the results of BBVA Group in the fiscal year, which, in turn, include the results generated by the investment banking business; nevertheless, they do not receive any remuneration based on revenues from any specific transaction in investment banking.

BBVA is not a member of the FINRA and is not subject to the rules of disclosure affecting such members.

"BBVA is subject to the BBVA Group Code of Conduct for Security Market Operations which, among other regulations, includes rules to prevent and avoid conflicts of interests with the ratings given, including information barriers. The BBVA Group Code of Conduct for Security Market Operations is available for reference at the following web site: www.bbva.com / Corporate Governance".

BBVA is a bank supervised by the Bank of Spain and by Spain's Stock Exchange Commission (CNMV), registered with the Bank of Spain with number 0182.