Europe Flash

Eurozone GDP confirmed at -0.2% q/q in Q2, driven by domestic demand

- **Although exports were more resilient than anticipated, the contribution of net exports stepped down**
  The detailed breakdown by demand components reveals that net exports made the only positive contribution to growth (+0.2pp), as exports increased by 1.3% q/q (after a revised down 0.7% q/q in Q1) while imports grew but a more moderate pace (0.9% q/q after a revised down -0.2% q/q in Q1). These figures show some positive signs as exports remained more resilient than anticipated, but the rebound in imports growth resulted in a lower contribution of net exports than in Q1 (+0.4pp).

- **Domestic demand continued to be the main drag on the economy**
  Both private consumption (-0.2% q/q) and investment (-0.8% q/q) contracted further in Q2, in line with our projections, while public consumption remained virtually flat. The sharp drop in business confidence and worsening expectations about future demand also weighed on change inventories, draining -0.2pp to quarterly GDP growth. As a result, the contribution of domestic demand to growth was -0.5pp in Q2, as in the previous quarter.

- **Core countries escaped from recession, while the harsh adjustment in the periphery took its toll on domestic demand**
  The jitters related to the euro debt crisis over Q2 were felt significantly by all member states, but divergences remained. GDP growth in core countries slowed as in Germany (+0.3% after +0.5% q/q in Q1), or remained stagnant as in France. By contrast, economic activity in the periphery continued to be affected by the ongoing strong fiscal adjustments and financing problems, with GDP plunging in Portugal by -1.2% q/q, while the GDP in both Italy (-0.7%) and Spain (-0.4%) contracted at a similar rate to that observed in the previous quarter.

- **Our MICA-BBVA indicator for the eurozone suggests that GDP could fall by -0.35% q/q in Q3**
  The limited data published for the current quarter, mainly from confidence survey, are discouraging, as they point to a larger GDP fall than that of Q2. However, the new signals provided by the ECB that action is going to be taken soon (as soon as today) to avoid a deterioration of the crisis in the periphery make us confident to maintain our projection that the recession will halt in the last quarter of this year.

Table 1
Eurozone: GDP growth (%q/q) and contributions by component

	Q1-2012	Q2-2012	BBVA Q2-2012
GDP	**0.0**	**-0.2**	**-0.3**
Private consumption	-0.2	-0.2	-0.3
Public consumption	0.2	0.1	-0.2
Investment	-1.3	-0.8	-0.9
Change inventories (*)	-0.1	-0.2	0.0
Domestic demand (*)	**-0.5**	**-0.5**	**-0.3**
Exports	0.7	1.3	0.4
Imports	-0.2	0.9	0.2
Net exports (*)	**0.4**	**0.2**	**0.1**

Note: (*) contribution to growth
Source: Eurostat and BBVA Research

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