

## EDITORIAL

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## EUROPE'S ECONOMY IS IN MUCH BETTER SHAPE THAN OUR SELF-BASHING CULTURE WOULD HAVE YOU BELIEVE

There has been remarkably limited interest in Europe at recent international economic and financial gatherings, as if “Europe’s moment”, as ECB President Lagarde dubbed it back in the Spring, has already passed in the eyes of many. Meanwhile, European media outlets have been indulging in negative narratives about political risks, persistent industrial doldrums, and inability to implement reforms that might preserve Europe’s place in a world increasingly dominated by the US and China. And yet, under the radar, a lot of good things have been happening.

## ACTIVITY HAS BEEN STRENGTHENING ACROSS THE BOARD

For the past three weeks, economic data surprises in the Eurozone have been predominantly on the upside, and by a growing margin<sup>1</sup>. Q3 GDP prints generally exceeded consensus forecasts, with Eurozone growth as a whole picking up to 0.2% q/q and 1.4% y/y, bolstered by an unexpectedly strong 0.5% print in France, and ongoing strength in Spain (+0.6% q/q). Admittedly, Germany and Italy stagnated. However, there are signs that the worst of the summer pullback is over. In fact, September data for industrial production and car registrations showed dynamism at regional level and among the three largest economies. Moreover, according to the European Commission’s quarterly survey, capacity utilisation rate across the Eurozone stood at 78.2% (an 18-month high), while order books hit a three-and-a-half year high.

Exports, including to the US, have been remarkably resilient. Despite a challenging environment characterized by sharply higher US tariffs and intensified competitive pressure from China – both in Europe and in third markets – the Eurozone’s exports bounced back sharply in September (+4.7% m/m, biggest monthly increase since the Covid period), more than reversing the pullback observed between April and August. Overall, exports continue to trend upwards, with the 12-month moving total reaching a new high.

Q4 has started on a strong footing as well judging from survey data: in PMIs, Eurozone businesses reported faster output growth in October for the fifth month in a row, taking the overall rate of expansion to a pace not exceeded since May 2023. Improved services sector growth, driven by domestic demand, was accompanied by a further rise in manufacturing output, with production up for eight successive months – the sector’s best spell since the pandemic. According to the PMI compiler, these results are “broadly indicative of Eurozone GDP growing at a quarterly rate of 0.3%”, i.e. an acceleration from Q3. Sectors seeing the strongest activity gains, such as machinery and equipment, are consistent with the ramp up in public investment spending in Germany (+30% v. 2024 as of end-September)..

<sup>1</sup> See Citi Eurozone Economic Surprise Index.

<sup>2</sup> See [Has households’ purchasing power returned to its pre-inflation level?](#) Since then, the degree of recovery has increased by a few decimal percentage points, with the exception of Germany and Japan.

Indeed, Germany’s PMIs showed output rose at the fastest rate since May 2023, with companies reporting improving domestic demand conditions. In contrast, France’s PMIs suggested a deeper contraction in October. However, this is not supported by national data, particularly the Banque de France activity surveys for October and November. These surveys instead indicate that activity is accelerating beyond expectations in both services and manufacturing, with only construction remaining in contraction (indeed, unlike in Germany, French PMIs have not been good predictors of GDP in recent years).

Separately, the Economic Sentiment Index (ESI), compiled monthly by the European Commission, has been improving significantly for the 5<sup>th</sup> month in a row to reach an 18-month high. All sectors are showing improvements. True, all remain somewhat below their long-term average. But with measured policy uncertainty sitting near multi-decade highs and the global economic and geopolitical order undergoing massive shifts, the contrary would be surprising. Encouragingly, the quarterly ESI survey shows a substantial improvement in order books.

While consumption remains a weak spot overall, and retail sales lack dynamism, consumer goods PMIs have been on a clear improvement trend, consumer services PMIs are showing expanding activity, and Consumers’ unemployment expectations (EC survey) improved significantly in October. Likewise, the EC’s flash estimate of the consumer confidence indicator increased for the second month in a row to -14.2 points (+0.7 pp) in the euro area. This moved it closer to its long-term average and broke a broadly flat trend since April 2025. Importantly, households balance sheets are very healthy (high savings ratio, lower indebtedness), and should provide support to consumption once sentiment turns more positive. Moreover, inflation is expected to keep moderating and indeed fall below 2% next year, while the ECB’s forward-looking wage tracker suggests above 2% wage growth. This will help further restore lost purchasing power. This is crucial as for the majority whose main income is wages, purchasing power still hasn’t fully caught up with its pre-inflation surge level according to our analysis<sup>2</sup>.

## EUROZONE: RECENT ACTIVITY INDICATORS

|                                |     |  | Eurozone |          | Germany |          | France |          | Italy |          |
|--------------------------------|-----|--|----------|----------|---------|----------|--------|----------|-------|----------|
|                                |     |  | Last     | Previous | Last    | Previous | Last   | Previous | Last  | Previous |
| Real GDP (% q/q)               | Q3  |  | 0.2      | 0.1      | 0       | -0.2     | 0.5    | 0.3      | 0     | -0.1     |
| Industrial production (% m/m)  | Sep |  | 0.2      | -1.1     | 1.9     | -4.4     | 0.8    | -1.0     | 2.8   | -2.7     |
| Retail sales (% y/y)           | Sep |  | 0.9      | 1.5      | 0.1     | 1.4      | 1.8    | 1.3      | -2.1  | -0.6     |
| Car registrations (% y/y)      | Sep |  | 8.9      | 3.8      | 12.8    | 5.0      | 1.0    | 2.2      | 4.2   | -2.7     |
| Exports (% y/y)                | Sep |  | 4.0      | -0.7     | 5.3     | -4.1     | 12.6   | 1.5      | 9.9   | -4.1     |
| Composite PMI                  | Oct |  | 52.5     | 51.2     | 53.9    | 52       | 47.7   | 48.1     | 53.1  | 51.7     |
| Manufacturing PMI              | Oct |  | 50       | 49.8     | 49.6    | 49.5     | 48.8   | 48.2     | 49.9  | 49       |
| Services PMI                   | Oct |  | 53       | 51.3     | 54.6    | 51.5     | 48     | 48.5     | 54    | 52.5     |
| Economic Sentiment Index (ESI) | Oct |  | 96.8     | 95.6     | 91.5    | 90.5     | 95.4   | 92.9     | 100.5 | 99.1     |

TABLE

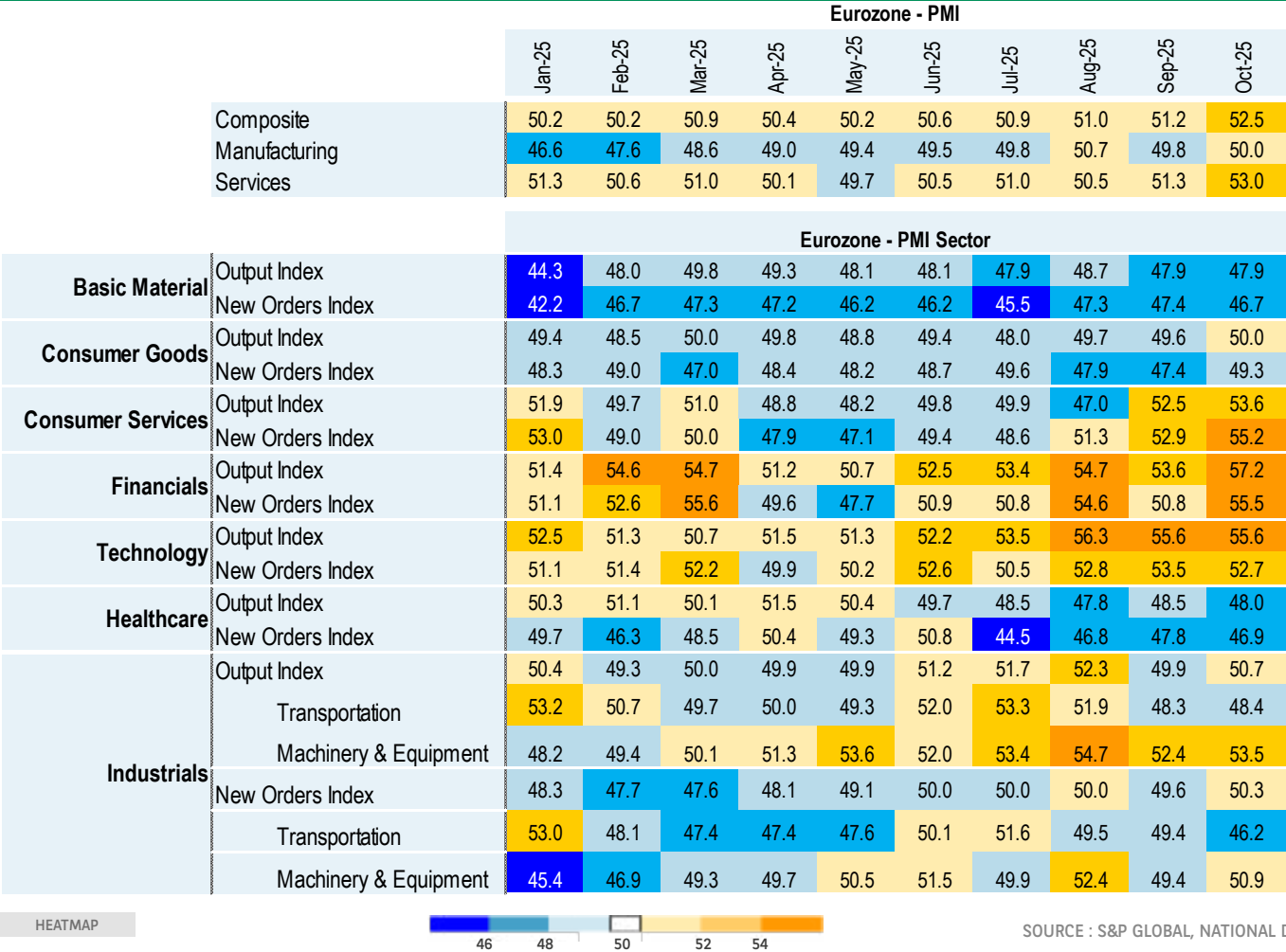
SOURCE: S&amp;P GLOBAL, EUROSTAT, NATIONAL DATA



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EUROZONE : EVOLUTION OF PMI<sub>s</sub> YEAR TO DATE



PRAGMATISM HAS BROKEN OUT IN THE EU REGULATORY MACHINERY

While there is widespread sentiment among EU businesses, and indeed some of its trading partners, notably the US, that Europe's growth is stifled by excessive regulations and bureaucracy, a wind of change has been blowing in Brussels and EU capitals since the September 2024 Draghi Report on Europe's competitiveness. Initially, it was a hardly noticeable breeze, but in recent months it has been gathering strength too and is starting to have impactful results across a range of sectors. Most notably, carbon emission commitments for COP30 have been pragmatically adjusted, and the rollout of the broadened emissions-trading scheme postponed by 2 years. Last week, the European Parliament approved very significant simplifications of climate disclosure and ESG due diligence requirements. These changes will provide welcome relief to large swathes of European industry.

In the financial sector, meanwhile, the entry into force of regulations that would have put European banks at a disadvantage compared to their UK or US counterparts, such as the Fundamental Review of the Trading Books, is being postponed; and the Commissioner for Financial Services, Maria Luis Albuquerque, acknowledged last week<sup>3</sup> that "It's time to turn resilience into competitiveness, prudence into progress, and regulation into an incentive for growth", and called for increased "intelligent risk-taking" in Europe. Equally encouraging is the Commission's announcement that it would table by year-end plans for centralizing key elements of financial markets supervision, a potentially big step toward a more integrated Savings and Investment Union. In other areas too, such as AI regulations and the review of merger rules, considerations of competitiveness and sovereignty are being brought to bear. Last but not least, defense is proving a promising sandbox for new modes of intergovernmental cooperation—not requiring unanimous participation. All this should be music to all those who were despairing to see the spirit of the 2024 Draghi Report being embraced more decisively by European policymakers.

<sup>3</sup> From Stability to Ambition: The Next Chapter for Europe's Banks



## EUROPE TOO IS ACTIVELY EMBRACING AI AND OTHER ADVANCED TECHNOLOGIES

Lastly, while Europe is sometimes portrayed as hopelessly behind the US and China when it comes to AI and other advanced technologies, the reality is more nuanced. According to the European Investment Bank, most EU firms use digital technologies and are as likely as US firms to do so. In the manufacturing sector, EU firms are actually better positioned when it comes to the use of big data/AI (28% of US firms vs. 48% of EU firms) and automation via robotics (36% of US firms vs. 55% of EU firms). In the services and infrastructure sectors, it is the other way around, however. Overall, around 37% of EU firms use generative artificial intelligence, in line with US firms<sup>4</sup>. And on a per capita basis, Europe has 30% more AI experts in its workforce than the US. It is difficult to compete with the level of US investment in intellectual property products (6.8% of GDP in 2024). However, Sweden (7.3%) and Denmark (7%) have a higher ratio, and France has a ratio (5.2%) that is far from negligible. This dynamic translates into the labour market: since end-2019, nearly a third of net job creations in the Eurozone (1.9 million out of 7 million) are in the high-tech sector<sup>5</sup>.

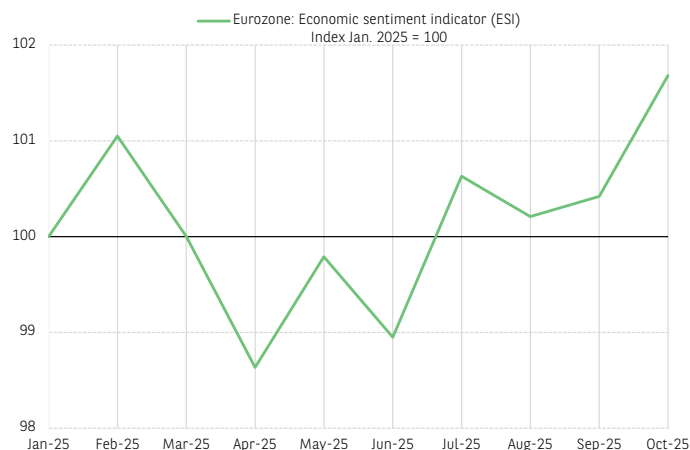
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In sum, deep structural change is underway, and growth is strengthening across a broadening range of sectors and countries. Sure, Europe –like all other major economies– faces structural challenges, notably demographic and fiscal, along with adapting to AI and climate change. And it has some catch up to do in critical areas such as defense, economic sovereignty, and production of advanced technologies. On all these fronts, more needs to be done, and faster. But Europe has the roadmaps, the talents and the financing needed for success; and it suffers far less than other regions from evident imbalances or deep societal divisions that could jeopardise the sustainability of these positive trends. What's missing now is to learn to emulate our American cousins' talent and taste for celebrating our successes.

Isabelle Mateos y Lago

Figures: Tarik Rharrab

## ECONOMIC SENTIMENT IN THE EUROZONE



CHART

SOURCE: EUROPEAN COMMISSION, BNP PARIBAS

<sup>4</sup> See [EIB Investment Survey 2025: European Union overview, October 2025](#).

<sup>5</sup> See our upcoming Chart of the Week. "Job creation in high technology, driving force of the labour market in the eurozone"



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