Eurozone: Behind the stagnation in Q4, strong disparities between Member States

Economic surveys - for households and companies - started the year on a slightly more positive note. Consumer confidence (+0.3 points) benefited from a slight fall in indicators for unemployment and inflation prospects. The composite PMI index returned to expansion territory (+0.6 points to 50.2), with the contraction in the manufacturing industry easing slightly (+1.5 points to 46.6), while the services index fell dipped (-0.2 points to 51.4). The European Commission's economic sentiment indicator is also up (+1.5 points to 95.3) but is still well below its long-term average (100, *see chart*). The Commission's latest survey included the quarterly report on the limits to production, which shows a slight decline in balances of opinion linked to low demand and labour and equipment shortfalls. Conversely, financial constraints are becoming more problematic.

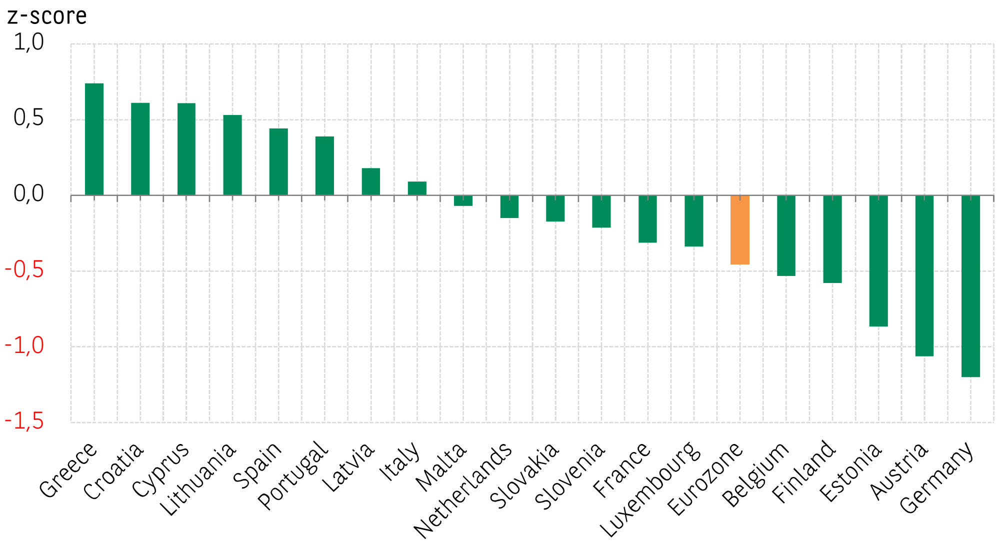
The preliminary GDP figures for Q4 2024 reinforce the observation of a two-speed eurozone, between a drop in activity in Germany (-0.2% q/q) and France (-0.1%) and stagnation in Italy and Austria on the one hand, and surprises on the upside, once again, in Spain (+0.8%) and Portugal (1.5%) on the other. Overall, activity in the eurozone stagnated in Q4 and average annual growth over 2024 (+0.7%) is below the levels seen in 2023 (+0.9%). With an unchanged quarterly growth profile (0.2% q/q expected for each quarter in 2025), the annual average has been automatically lowered to 0.9% (compared to 1.0% previously) due to a smaller carryover.

Against this difficult backdrop, **the labour market overall continues to hold up better than expected**. The unemployment rate rose only slightly in December, from 6.2% to 6.3%, due to a significant increase in Italy and Austria (+0.3 percentage points over the month) and, to a lesser extent, in Germany (+0.1pp). The jobless rate however, continues to fall in Spain (-0.1 pp), Portugal (-0.2 pp) and Greece (-0.1 pp).

Inflation rose slightly in January, from 2.4% to 2.5%, as a result of the rise in energy prices. Nevertheless, taking into account weak demand, a further fall in inflation towards the 2% target remains in sight. The consequences of the trade war with the United States, which could lead the EU to introduce retaliatory measures, constitute an upward risk on the inflation scenario (in addition to the effect of the depreciation of the EUR/USD pair), which is difficult to quantify. Our Q1 Nowcast, which at this point in time incorporates few data for this quarter, is currently at 0.3%, above our forecast (0.2%).

Guillaume Derrien, article completed on 3 February 2025

Economic sentiment index (ESI), January 2025



Source: European Commission, BNP Paribas calculations

GDP growth

Actual				Carry-over	Nowcast	Forecast			Annual forecasts (y/y)		
Q1 2024	Q2 2024	Q3 2024	Q4 2024	Q4 2024	Q1 2025	Q1 2025	Q2 2025	Q3 2025	2024 (observed)	2025	2026
0.3	0.2	0.4	0.0	0.3	0.3	0.2	0.2	0.2	0.7	0.9	1.0

See the Nowcast methodology. Contact: Tarik Rharrab
Source: Refinitiv, BNP Paribas