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EcoBrief

Eurozone: the economic situation in the Eurozone is not shining, but it is getting brighter

The publication of the second flash estimate of GDP for the euro area on Wednesday 15 May did not bring any significant change compared to the initial estimate. However, it confirms an encouraging recovery in economic activity. Real GDP in the euro area rebounded by 0.3% q/q, as announced in the previous report, an increase that ends two quarters of slight contraction (-0.1% q/q for Q3 2023 and Q4). Growth was driven by the Baltic economies (Latvia and Lithuania at +0.8% q/q), as well as by the southern European economies, notably Spain and Portugal, which saw their activity expand by 0.7% in Q1, at the same pace as in the previous quarter. Growth strengthened slightly in France (+0.2% q/q) and rebounded in Germany (+0.2% q/q), while Italy was in line with the euro area average.

It should be noted that Ireland, whose activity is sometimes very volatile from one quarter to the next, was among countries that grew the most in Q1, with +1.1% q/q, after a year 2023 marked by an economic contraction. Ireland's result had little impact on the euro area average in Q1 in quarterly variation (+0.33% q/q with and 0.30% excluding Ireland), but its effects on the year-on-year rate were more notable (+0.36% compared with +0.57% when excluding Ireland) due to a significant contraction in activity during the second half of 2023.

The continued decline in inflation and the start of the ECB rate cut, expected in June, should allow real GDP to continue to strengthen in Q2 (+0.4% according to our forecasts). Economic growth should then stabilise at this pace, in line with what we expect for the United States.

Household confidence in the euro area has indeed risen strongly since last autumn. In April, it reached its highest level since February 2022, which was the date of the outbreak of the war in Ukraine. This should gradually feed through to stronger consumption in the Eurozone. In addition, employment in the monetary union continued to grow in the first quarter (+0.3% q/q).

The European Commission, which unveiled its latest economic forecasts this morning, anticipates that GDP growth in the euro area will reach 0.8% this year. This estimate is unchanged in regard to the forecasts from February, and it is in line with our scenario. For 2025, the Commission expects a growth rate of 1.4%, a slight downward revision from February, and below our forecast of 1.7%.

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