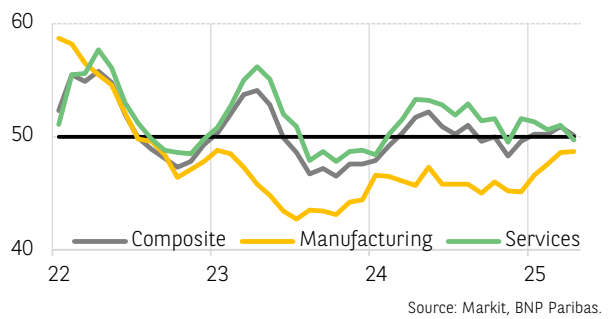# Eurozone: Little Impact of Liberation Day at this Stage

Business climate: PMI

The business climate is holding up. The composite PMI decreased (50.1) but remains in expansion area. The manufacturing index persists in negative territory but is getting better for the fourth month in a row. Expectations of activity in services fell sharply (53.1, the lowest level in five years).

Household confidence
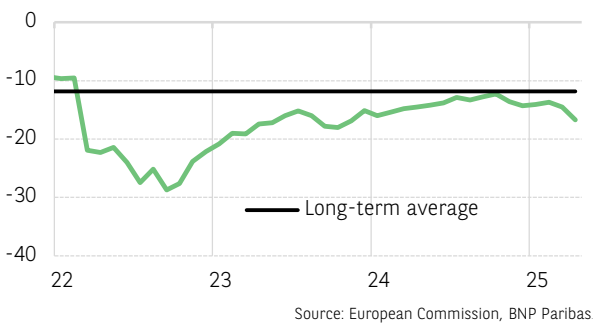
Household confidence decreased. It reached its lowest level since November 2023 in April. All sub-components have deteriorated. One-year inflation expectations rose in a contained manner (2.9%, source ECB). Consumption remains fragile: retail sales rose by 0.3% m/m in February, after three months of stagnation. New vehicle registrations are down (-0.9% y/y in March).

Labour market: unemployment rate
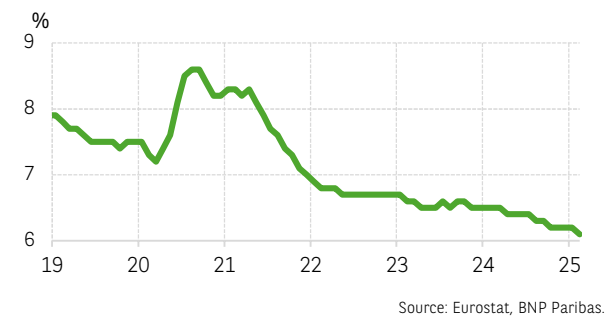
Good performance of the labour market. The unemployment rate reached a historic low of 6.1% in February, a result driven by the decline in Italy and Spain. Although in negative area, the employment PMI index did not drop (49.9). Indeed, indices show a slowdown in wages in Q1 (+2.7% y/y), confirmed by the ECB's wage tracker, whose leading index fell to 1.6% at the end of 2025.

Inflation (y/y) and policy rate
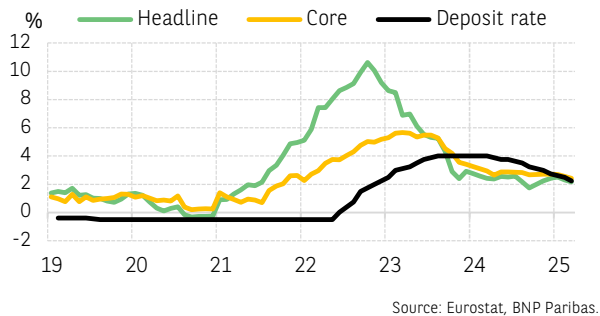
Inflationary dynamics remain favourable. Inflation, however, held steady at 2.2% in April, and services inflation rebounded to 3.9% y/y. The trend is expected to remain towards disinflation thereafter, in particular due to the appreciation of euro and the slowdown in wages. This should allow the ECB to continue its rate cuts (June and July according to our estimates).

GDP growth q/q: actual, carry-over and forecasts											
Actual				Carry-over	Actual*	Nowcast	Forecast		Annual forecasts (y/y)		
Q1 2024	Q2 2024	Q3 2024	Q4 2024	Q4 2024	Q1 2025	Q2 2025	Q2 2025	Q3 2025	2024 (observed)	2025	2026
0.3	0.2	0.4	0.2	0.4	0.4	0.2	0.2	0.2	0.8	1.0	1.3

See the Nowcast metodology. Contact:Tarik Rharrab   * Q1 2025 preliminary estimation

An increase in growth for Q1, but not in Q2? Growth in Q1 2025 was higher than expected (+0.4% q/q vs. 0.3% q/q), driven by Spain and Ireland. The latter's GDP being highly volatile from one quarter to the next. The nowcast for Q2 currently stands at 0.2% q/q, at the same level as our forecast. While growth is expected to be lower in the coming quarters – held back by trade tensions – it is nevertheless expected to improve slightly throughout the year 2025 compared to 2024.

Guillaume Derrien (completed on May 2, 2025)

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