

# We've downgraded the eurozone's growth outlook again

The European economy is rapidly losing steam, and growth will likely come to a standstill over the winter. The good news is that inflation is now more benign and that should allow the ECB to step up its pace of interest rate cuts



This tram, driven by the Belgian King, appears to be accelerating faster than the eurozone's economy

## A hesitant consumer

It looks as if the eurozone is again headed for a winter slowdown. Both the PMI and the European Commission's sentiment indicator lost ground in September, meaning that the fourth quarter is starting on a weak footing. The hope for a revival of household consumption on the back of higher real wages should be tempered, as the savings ratio increased for the eighth consecutive quarter from April to June. It now stands at 15.66% of disposable income against a 25-year average of 13.45%.

This is not surprising given that unemployment expectations in the consumer survey climbed to their highest level since November 2022 last month. Add to that the current geopolitical tensions which could well be weighing on consumer confidence. It seems likely that household consumption is likely to contribute less to growth than international institutions expect.

## Weak 2025 growth

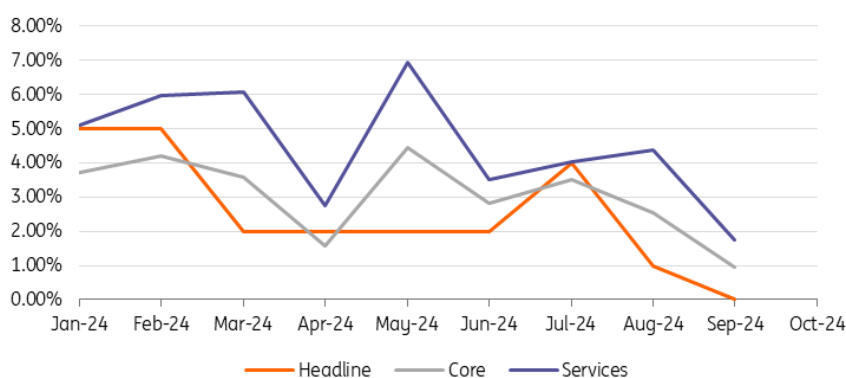
At the same time, industry's inventory correction has not yet run its course. Those inventories are still considered to be on the high side, while new orders continue to disappoint. With capacity utilisation in industry having fallen to 77.7% in the third quarter, the outlook for business investment looks dire, even though interest rates are now coming down.

It's a similar story with construction. The PMI for the sector indicated a contraction in September for the 29th month in a row, with new orders continuing to fall steeply. The fact that eurozone house prices are now past their trough does offer a glimmer of hope, but usually, it takes a few quarters before improving real estate activity translates into higher construction activity.

We now believe that growth will come to a standstill in the fourth quarter and that a timid recovery is only expected from the second quarter of next year. By then, the inventory correction will be completed and lower interest rates should be starting to work their magic. That actually means that we've had to downgrade 2025 GDP growth again, this time to 0.6%, the same as our growth estimate for 2024.

## Inflation is coming down

Month-on-month consumer price % change annualised



Source: LSEG Datastream

## Inflation now headed towards 2% in 2025

As for inflation, the September HICP was encouraging. The year-on-year figures are, of course, strongly affected by base effects, but when you annualise month-on-month changes, even services price inflation comes out below 2%. Admittedly, this is only one data point, but the price expectations component in the services sector also fell in September to the lowest level since June 2021, which seems to indicate that the underlying inflation trend is definitely down.

Higher energy prices on the back of the conflict in the Middle East could, of course, still push headline inflation higher, but we don't expect this to have a lasting effect. We have actually lowered our headline inflation forecast for 2025 to 2%.

## ECB set to cut interest rates at every meeting

The European Central Bank has indicated that its monetary policy decisions will be data-

dependent. And remember, the last meeting of each quarter is the most data-driven, not least because it provides an update on the staff forecast. Until now, we believed the ECB would only cut rates once every quarter in the second half of 2025. But now, with inflation seemingly under control and the economy increasingly showing signs of weakening, we think the Bank may well cut rates again at the October meeting. And then it should carry on cutting rates at every meeting until the deposit rate reaches 2%.

This terminal rate is also a downgrade from our previous 2.25% forecast, as we now think that the weaker economy and a somewhat tighter budgetary policy might justify a slightly easier monetary policy in 2025. The only caveat is that a further escalation of the conflict in the Middle East might keep energy prices and inflation higher for longer than we now expect, injecting more uncertainty regarding the pace of monetary easing.

## Author

### **Peter Vanden Houte**

Chief Economist, Belgium, Luxembourg, Eurozone

[peter.vandenhoute@ing.com](mailto:peter.vandenhoute@ing.com)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit [www.ing.com](http://www.ing.com).