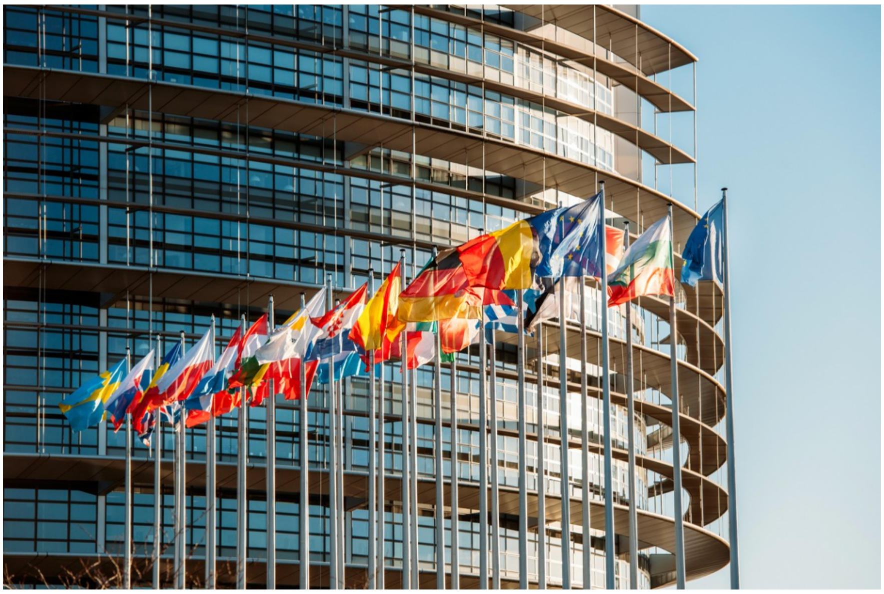
Eurozone economy grew marginally in the first quarter of 2023, but divergence is high

The eurozone economy carries on along the rim of stagnation. A meagre 0.1% quarter-on-quarter GDP growth in the first quarter with high divergence across member states is better than feared – but clearly no reason to cheer



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The eurozone economy grew by a meagre 0.1 % quarter-on-quarter in the first quarter of the year, from zero in the fourth quarter of 2022. On the year, GDP growth came in at 1.3%. Growth across the eurozone ranged from -2.7% QoQ in Ireland to +1.6% QoQ in Portugal. A homogenous monetary union looks differently.

Resilience and divergence

More resilient than expected is clearly one label to put on the eurozone's economic performance. In fact, the eurozone economy has now been able to avoid what a few months ago was probably the best predicted recession ever. The warmer winter weather, lower wholesale energy prices, the reopening of China and fiscal stimulus are the key drivers behind this better-than-expected performance.

However, there is no reason for complacency. First of all, the growth performance is anything but homogenous. While the largest eurozone economy, Germany, remains in recessionary territory, France and Spain today slightly surprised to the upside. Growth in the eurozone ranged from -2.7% QoQ in Ireland to +1.6% QoQ in Portugal. A divergence, which doesn't make the ECB's task any easier. To some extent, this divergence could simply be the result of different time lags for fiscal stimulus and energy price caps. More structurally, however, this divergence could also be the start of a more structural rebalancing of the eurozone economy as Germany's economic business model is clearly the most affected by higher energy prices, energy transition and global trade tensions.

Looking ahead, a short-lived industrial renaissance and the gradual impact of recent wage increases could actually lead to a further acceleration of eurozone growth – at least in the short run. In fact, it will again be a race between two opposing drivers: the positive momentum in industry and wage increases against the impact of monetary policy tightening and a looming US recession. In true European tradition, neither of the two will win. The compromise for the eurozone economy will be subdued growth going into 2024.

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