

Eurozone avoids contraction but domestic demand falters

A resilient eurozone economy managed to grow by 0.1% in the fourth quarter, but this likely masks a contraction in household spending. The worst scenarios for this winter have been avoided, but the economy remains sluggish



Despite the energy - and subsequent inflation - crisis, the eurozone economy once again defied recession in the fourth quarter, showing incredible resilience. But it was a narrow escape. Most economies are currently stagnating with near-zero growth. Germany and Italy, as big industrial economies, have seen slight contractions as they suffer more from the energy crisis while France and Spain have managed to eke out small growth rates.

Ireland grew by a whopping 3.5% - the recent swings in Irish GDP are to a large degree driven by multinational accounting activity - which has added substantially to the small growth in eurozone GDP. In fact, eurozone growth would have fallen back to 0% if Ireland wasn't included.

While underlying data has not yet been published for eurozone GDP, data from the individual countries paints a picture of contracting domestic demand. The German statistical office mentioned this specifically, and France and Spain saw sharp contractions in household

consumption. Imports have fallen significantly while exports held up pretty well, which means that net exports seem to have contributed positively to economic growth in the fourth quarter. When this is due to falling imports, it's hardly a sign of strength.

We've argued before that the discussion about a recession has become semantics at this point. Growth has slowed to the point of stagnation. The worst scenarios have been avoided due to longer than expected pandemic reopening effects, extraordinarily warm weather which has eased the energy crisis substantially and more government support.

Still, contracting domestic demand does show that after a period of strong post-pandemic spending, consumers are now adjusting their spending to the purchasing power loss they have incurred in 2022. Doubts about continued strong net export growth are also justified in a weak global environment, and investment is set to come under pressure from higher interest rates as borrowing data suggests. This means that an economy performing sluggishly, at best, is expected for early 2023 and a dip below zero cannot be ruled out for the first quarter.

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