

## Eurozone economy beat estimates in the third quarter

Eurozone GDP increased to within a percentage point of its pre-crisis level of activity in the third quarter, thanks to a 2.2% quarterly growth rate. From here on, expect headwinds to become more visible in the numbers...



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The upside surprise to growth was not seen everywhere. Germany and Spain disappointed, while France, Italy, Belgium and Austria outperformed. Germany and Italy are now 1.1 and 1.3% below pre-pandemic levels of activity, with Italy catching up very quickly since the end of last year. Semiconductor shortages are having a disproportionate effect on the German economy compared to other large eurozone members because of the country's much larger auto sector. France has now almost reached pre-crisis levels, with quite a few smaller economies already surpassing that.

A first look at the detailed components of growth shows a strong boost for French and Belgian services. In France, household consumption soared by 5% in 3Q with large growth in the hospitality sector. Spain saw declining consumption growth, but overall, we can expect services consumption to have been a strong contributor to growth in the eurozone. Coronavirus measures were still a lot more restrictive on average in 2Q than 3Q, which has been a dominant driver for growth over the

course of the pandemic.

From here on, do expect moderation though. The first rebound effects are waning, which will lead to naturally slower GDP growth. Besides that, input shortages and supply chain problems are adding to manufacturing woes, which have become broader based in recent months. From the consumption side, headwinds from soaring inflation – at 4.1% and matching the highest rate seen this century – are set to dampen prospects for the services recovery although a strong labour market and a high level of savings will support ongoing growth. This recovery phase has surprised quite a few times so far but will start to fade more substantially from here on.

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