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Eurozone GDP beats expectations but remains weak behind the scenes

The eurozone's recovery from a long period of stagnation continued in the second quarter, but signs of slowing are already prevailing. For the ECB, this means that the growth acceleration compared to 2023 should not be a hindrance to further rate cuts

GDP data may have come in above expectations, but the eurozone's growth outlook still remains a bit gloomier than we might hope for overall

Eurozone GDP growth in the second quarter beat expectations and maintains the growth pace of 0.3% quarter-on-quarter seen in the first quarter. After stagnation for all of 2023, this is a relief and shows that the economy has started to cautiously recover. With unemployment low and inflation more benign, the economy is undoubtedly in a better situation than it was, for example, a year ago. Still, the question remains where the economy will head from here and recent data do not provide much confidence that the eurozone economy is further accelerating.

The differences within the eurozone remain striking. Spain continues to be the eurozone’s growth engine with 0.8% growth quarter-on-quarter, while France also looked healthier than expected in the second quarter with 0.3% growth, although this was mainly due to one-off export effects. Italian growth weakened a bit to 0.2%, but Germany continued to stand out negatively with another decline in GDP of -0.1%. Germany remains weak link in this post-pandemic economy but the rest is not fantastic either. Leave out Spain and you just have an economy that moves along at a lacklustre growth pace.

Looking ahead, there isn't too much to cheer about either. The trend in sentiment is weakening at the moment. The eurozone PMI fell in June and July, indicating that the trend at the start of the summer was weakening. The ESI for July - released today - was broadly stable but did see a notable decline in services sentiment (down from 6.2 to 4.8). Businesses have become more downbeat about the business situation in recent months and more downbeat about the months ahead. Together with ongoing manufacturing weakness as orders continue to come in weak, this does not make for a strong start to third quarter.

The eurozone economy is quite like the water quality of the Seine: some days it may look okay but overall it's poor enough to continuously worry about it. For the European Central Bank, this means that rate cuts very much continue to be on the table as domestic demand is unlikely to cause much of an inflation push.

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