

Snap | 30 July 2024

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.

Author

Bert Colijn

Senior Economist, Eurozone

bert.colijn@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 <http://www.ing.com>.