

Eurozone GDP grew by 0.7% in the second quarter on Covid tourism rebound

The acceleration in economic growth is mainly due to reopening effects and masks underlying weakness due to high inflation and manufacturing problems. Expect the economy to contract once the Covid-19 rebound effects are played out



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The eurozone economy has narrowly escaped the second quarter downturn seen in other major markets like the US and China. Quarter-on-quarter growth improved from 0.5% to 0.7%, and judging from survey data over recent months, this is mainly because of a strong rebound in service sector activity. In the first quarter, the eurozone economy still struggled from weak activity thanks to the Covid-19 Omicron variant, and today's GDP figures benefit from that. Sectors related to hospitality (restaurants, bars and hotels) have particularly been outperforming in the second quarter, adding to the small positive growth figure. The tourism rebound contributed to strong growth seen in Italy and Spain, with quarter-on-quarter growth of 1% and 1.1% respectively.

So even though some rebound effects from the winter wave of the virus occurred, economic growth remained very slow. Manufacturing has been suffering from supply chain problems and has experienced fading demand in the meantime. The German economy, heavily reliant on manufacturing, trailed the eurozone average with stagnation in GDP in the second quarter.

Another weakness was seen in goods consumption. Consumers may have been spending on services such as trips and eating out, but they are also suffering from purchasing power squeezes due to high inflation. Retail sales, for example, have been on a downward trend for some time already and probably contributed negatively to GDP in the second quarter already (bar a large rebound in June which we don't expect).

From here on, we expect GDP to continue a downward trend as the services reopening rebound moderates, global demand softens and purchasing power squeezes persist. We expect that to result in a mild recession starting in the second half of the year.

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