

Eurozone narrowly avoids technical recession

GDP growth was stable in the fourth quarter after a small decline in the third. Overall, the economy faces broad-based weakness at a time of weak global demand and structural changes. Southern European countries led the way in terms of growth



Source: iStock

A technical recession has just been avoided in the eurozone. Still, the eurozone economy has now been broadly stagnating since late 2022 and has lost substantial ground to the US in terms of GDP in recent years. After the buoyant post-pandemic reopening phase, the economy has now entered a phase of prolonged weakness.

Germany continues to drive economic weakness in Europe with a -0.3% contraction in 4Q. Germany is struggling with weak global demand for goods and heavy industry is suffering from higher energy prices. GDP remained stable in France, while the southern European economies led the way in terms of growth and were the main drivers in avoiding a technical recession. Spain, Portugal and Italy experienced growth of 0.6, 0.8 and 0.2%, respectively.

The divergence with the US is becoming bigger. In the eurozone, consumption is suffering much

more from the high inflation spike because wage growth has been slow to adjust due to more negotiated wage-setting. That has resulted in a larger decline in real wages. And energy competitiveness has suffered from the energy crisis in the eurozone, resulting in a big difference in industrial performance. Furthermore, while eurozone budget deficits are still sizable, fiscal support is much smaller than in the US.

For the months ahead, there are some green shoots for the eurozone economy. Survey indicators show signs of bottoming out and real wage growth is slowly starting to recover; the latter should put more money in consumers' pockets. Over the course of the year, that effect should become bigger. And financial conditions are easing, which is resulting in some bottoming out of lending indicators. That helps investment later in the year. We don't expect a material pickup in GDP growth in the first quarter though. In fact, we only expect a material improvement in the eurozone economy much later in the year.

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