

## Eurozone

### In Q1 2024, activity picked up again in the Eurozone

In Q1 2024, the Eurozone returned to growth (+0.3%), after five quarters of virtual stability. While growth remained dynamic in Spain (+0.8% after +0.7% in Q4 2023, ► [Figure 1](#)), growth rates in the other major Eurozone economies converged, with a striking rebound in Germany (+0.2% after -0.5%), acceleration in Italy (+0.3% after +0.1%) and a slight slowdown in France (+0.2% after +0.3%).

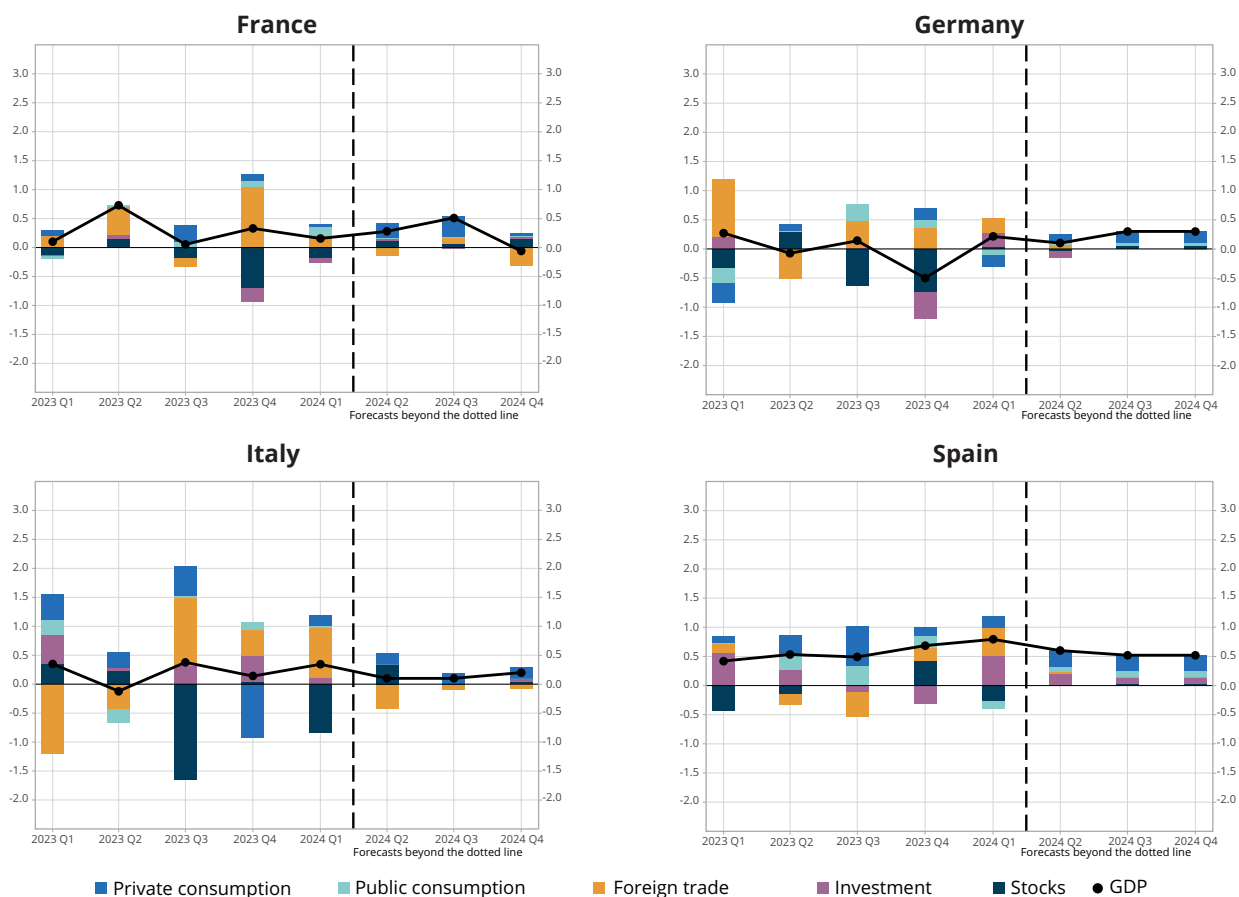
The drivers of this growth differed from one country to another, especially with regard to domestic demand. Private consumption bolstered growth in Spain (+0.4%), Italy (+0.3%) and to a lesser extent in France (+0.1%), while it fell back in Germany (-0.4%), despite a sizeable increase in purchasing power (+1.4%). Investment in construction rebounded strongly in Germany, as a result of a mild winter (+2.7%), Italy (+1.7%) and Spain (+2.8%), but edged down significantly in France (-1.3%). Excluding construction, investment increased significantly in Spain, but contracted in the rest of the zone, with enterprises still penalised by financing conditions. Meanwhile, foreign trade contributed positively to growth in the four major Eurozone economies, thanks to dynamic exports.

### Persistent economic differences

Business tendency surveys in the Eurozone point towards persistent economic divergence between the four main economies: while the confidence indicator is close to its long-term average for France and Italy, the economic situation still appears severely degraded in Germany whereas Spain is benefiting from a more favourable situation (► [Figure 2](#)), with growth expected to remain vigorous in the spring (+0.6%) before slowing slightly (+0.5% per quarter in H2). In France, a moderate improvement in activity is expected in the spring (+0.3%), followed by a sharp rise in H2 (+0.5% then -0.1%) due

#### ► 1. Quarterly variations in GDP and contributions of demand items

(quarterly variations in % and contributions in points)



**How to read it:** in France, in Q1 2024, GDP increased by 0.2% and private consumption contributed +0.1 points.

**Source:** INSEE, Destatis, Istat, INE, INSEE calculations.

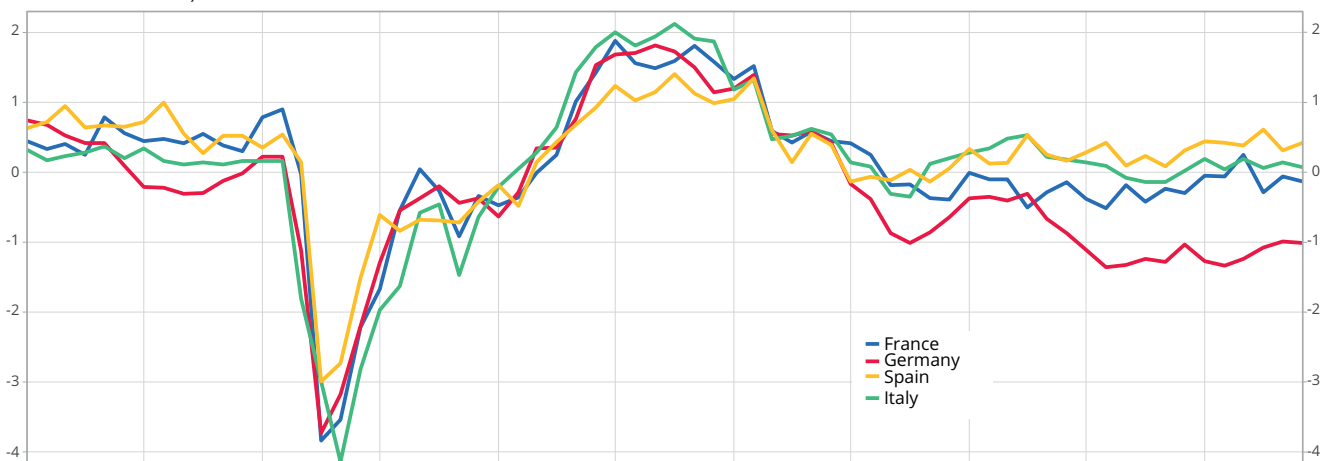
to the hosting of the Olympic and Paralympic Games. In Italy, growth is expected to be weak in Q2 and Q3 (+0.1%), with support for the construction sector running out of steam; it should then increase slightly at the end of the year as a result of an upturn in investment in equipment (+0.2%). Finally, activity in Germany is expected to be sluggish in Q2 (+0.1%) before accelerating in H2 (+0.3% per quarter), thanks to the recovery of domestic demand, and especially of investment.

Throughout 2024, activity is expected to improve in the four economies, at a similar pace to that recorded in 2023, reflecting the persistent cyclical divergence between them: activity should continue to stall in Germany (growth of +0.2%, after 0.0% in 2023), and is likely to increase moderately in Italy (+0.8% after +1.0%) and France (+1.1% after +1.1%), whereas growth looks set to remain high in Spain (+2.5%, after +2.5%).

## Inflation sets in throughout Europe

Inflation dropped slightly in the Eurozone at the beginning of the year, from 2.8% year-on-year in January to 2.5% in June (► **Figure 3**). This decline was witnessed in France (where inflation within the meaning of the HICP fell from 3.4% to 2.5%) and Germany (where it dropped from 3.1% to 2.5%), whereas inflation stabilised at around 1% in Italy and 3.5% in Spain. Prices excluding food and energy products increased at the most moderate pace in France and Italy (2.5% and 2.1% respectively in June), due to restrained wage rises in these two economies. Conversely, inflation excluding food and energy products was higher in Germany (+3.3% year-on-year) and Spain (+3.0% in May, the last known month) where wages are more buoyant. The differences in the dynamism of wages and prices excluding food and energy are expected

### ► 2. Business climate indicators remain disparate in the Eurozone (reduced central climate)

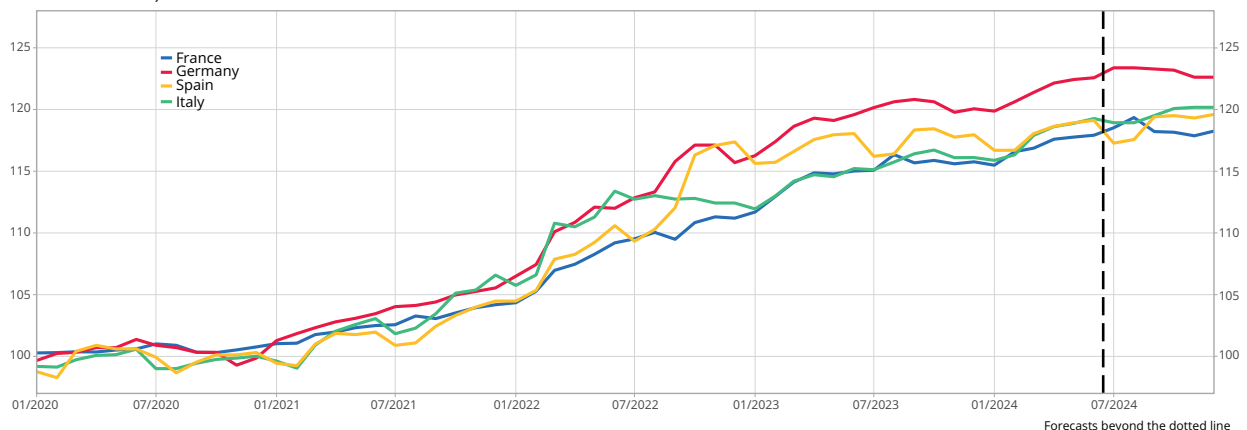


**Last point:** June 2024.

**How to read it:** in Spain, in June 2024, the general business climate was 0.4 standard deviations above its long-term average (average for the period January 2005 to June 2024).

**Source:** DG ECFIN survey.

### ► 3. Prices are evening out in the main Eurozone economies (HICP - Base 100 in 2019)



**Last point:** December 2024.

**How to read it:** in Germany, in December 2024, the HICP is expected to be 22.6% above its 2019 level.

**Source:** INSEE, Destatis, Istat, INE, INSEE calculations.

# International economic outlook

to continue until the end of the year. In addition, headline inflation is likely to rise in Italy, stabilise in Spain and fall in France, due to the effect of departing from the year-on-year figures as a result of variations in energy prices observed in H2 2023.

Overall, inflation in the Eurozone should remain above the 2% target until the end of the year, whether based on the headline index or on prices excluding food and energy.

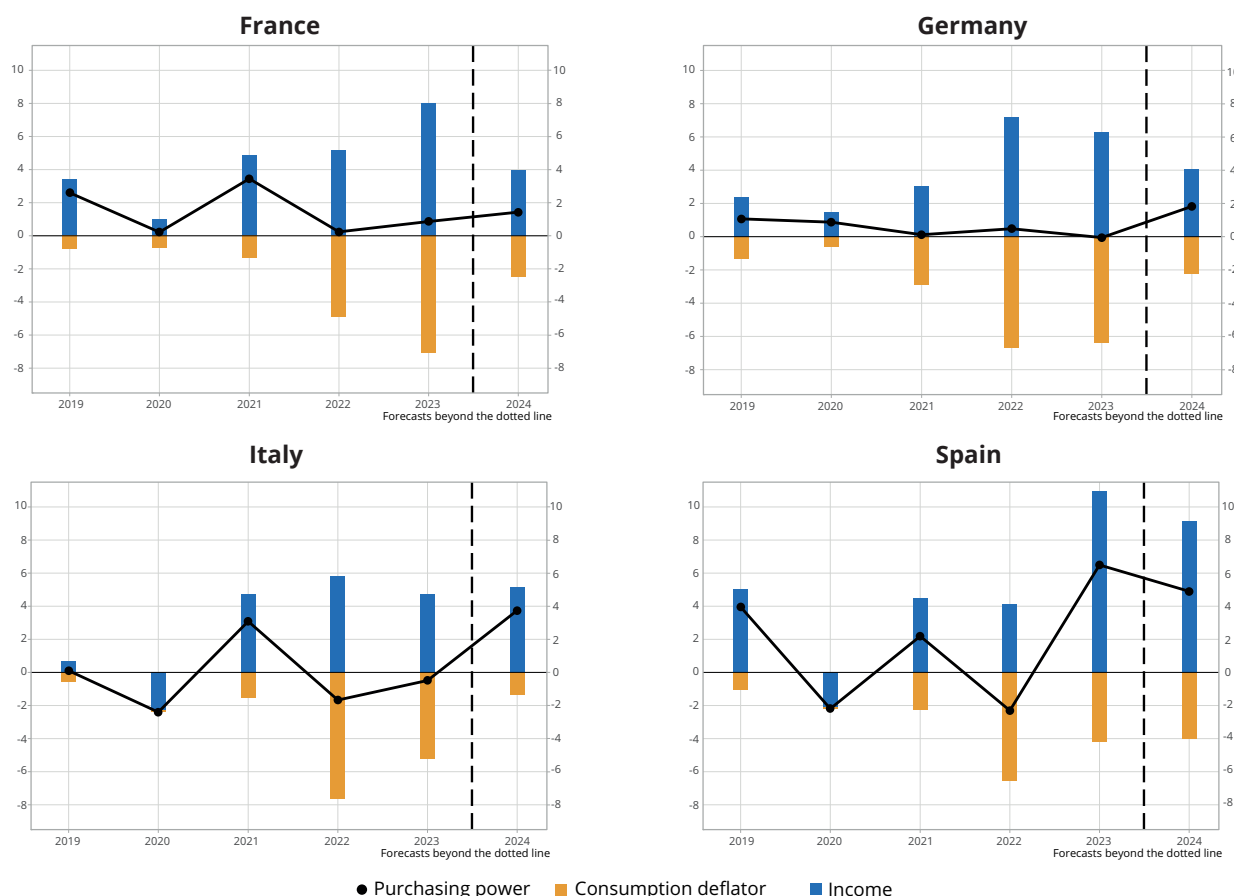
## Activity looks set to accelerate, driven by private consumption and the recovery of investment

Private consumption is expected to drive growth in the four main Eurozone economies. The business tendency surveys show that households are slightly more confident about their financial situation (► [Figure 5](#)). In addition, more and more households consider that the economic situation is conducive to making major purchases. Purchasing power in all four countries is expected to be driven by a declining inflation and relatively buoyant wage incomes (► [Figure 4](#)). It should increase in Spain in particular (+4.9% in 2024 after +6.5% in 2023), due to major job creations. It is likely to rebound in Germany (+1.8% after -0.1% in 2023) and Italy (+3.7% after -0.5%) and accelerate in France (+1.4% after +0.9%), with real wages gaining strength after two years in decline. Finally, private consumption is expected to be more dynamic in 2024 than 2023, except in Italy where it had remained much stronger in 2023.

Despite an initial decline in base interest rates in early June, monetary policy remains on a restrictive course and financing conditions continue to hold back investment. Consequently, the contribution of investment in construction to growth is likely to be negative or zero in Germany, Italy and France over the last three quarters of the year. In Italy, investment in construction until the end of 2023 was driven by the “Superbonus” scheme, which offered households aid to fund their home renovations (Economic Outlook, March 2024); however, this scheme has become less generous and is likely to stop

## ► 4. In 2024, purchasing power is expected to remain very dynamic in Spain and should pick up elsewhere in the Eurozone

(annual variations in % and contributions in points)



Last point: 2024.

How to read it: in France, in 2024, purchasing power is expected to increase by 1.4%.

Source: INSEE, Destatis, Istat, INE, INSEE calculations.

boosting activity. Excluding construction, investment is expected to be tentative in these three countries, torn between the recovery of European demand and persistently difficult financing conditions: nevertheless, it is expected to accelerate throughout the year in Germany and Italy. A quite different situation applies in Spain, where investment is expected to be more dynamic, whether in construction with support from the recovery plan, or in other products: it should therefore accelerate strongly in 2024 (+2.5%) compared to 2023 (+0.8%).

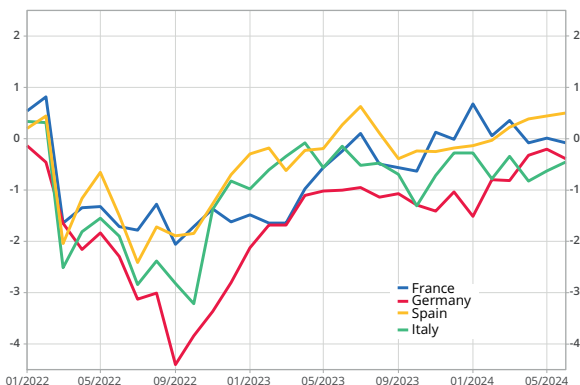
Exports are expected to be boosted by an acceleration in world demand. However, in 2024, other than in the aeronautics sector, the Eurozone is unlikely to recoup the market shares lost over the last four years (► **Focus**). The relative revival of domestic demand, especially consumption, is likely to favour the growth of imports, and ultimately the contribution of foreign trade to growth should become negative or zero by the end of the year after bolstering activity for two quarters.

Overall, only a very slight increase in growth is expected in the Eurozone in 2024 (+0.7% after +0.6% in 2023), due to the stagnation recorded at the end of 2023. Year-on-year, the acceleration is likely to be more substantial: GDP in the Eurozone is expected to increase by 1.1% year-on-year by the end of 2024 compared to +0.1% a year earlier, boosted by the recovery of consumption (► **Figure 2**). ●

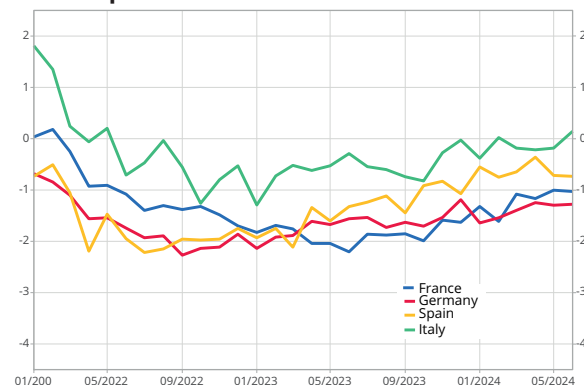
## ► 5. Since the start of 2024, households in the main Eurozone economies have been more optimistic about their financial situation and the opportunity to make major purchases

(reduced centered balances)

**Balance concerning the financial situation in the next 12 months**



**Balance concerning the opportunity to make major purchases in the next 12 months**



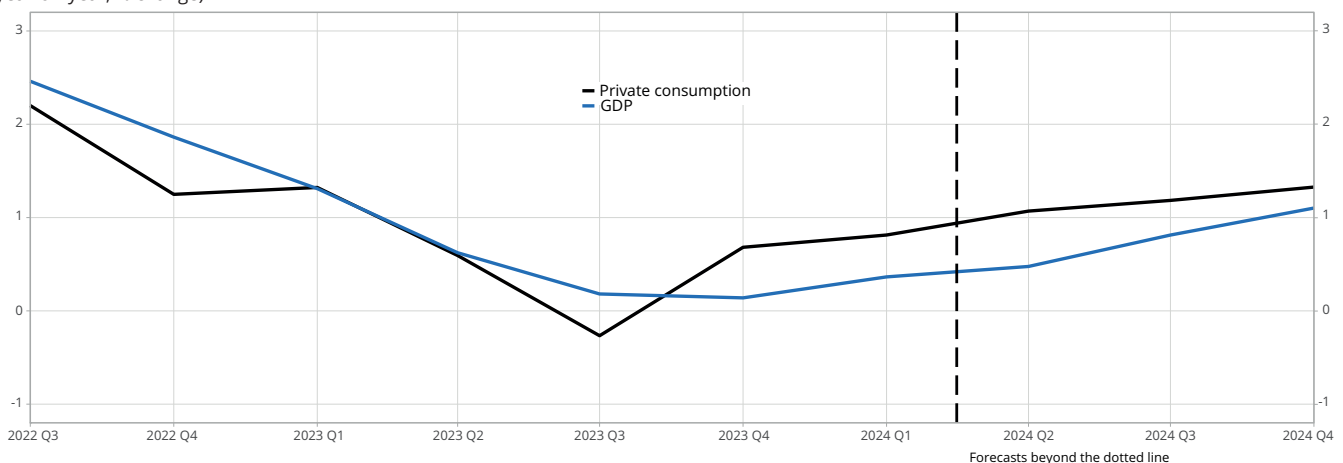
**Last point:** June 2024.

**How to read it:** in Spain, in June 2024, the centred reduced balance of households' financial situation for the next 12 months was 0.5 standard deviations above its long-term average (average for the period between January 2005 and June 2024).

**Source:** DG ECFIN surveys.

## ► 6. In 2024, private consumption is expected to drive growth in the Eurozone

(year-on-year, % change)



**Last point:** Q4 2024.

**How to read it:** Eurozone GDP is expected to rise by +1.1% year-on-year at the end of 2024.

**Source:** Eurostat, INSEE calculations.