Eurozone

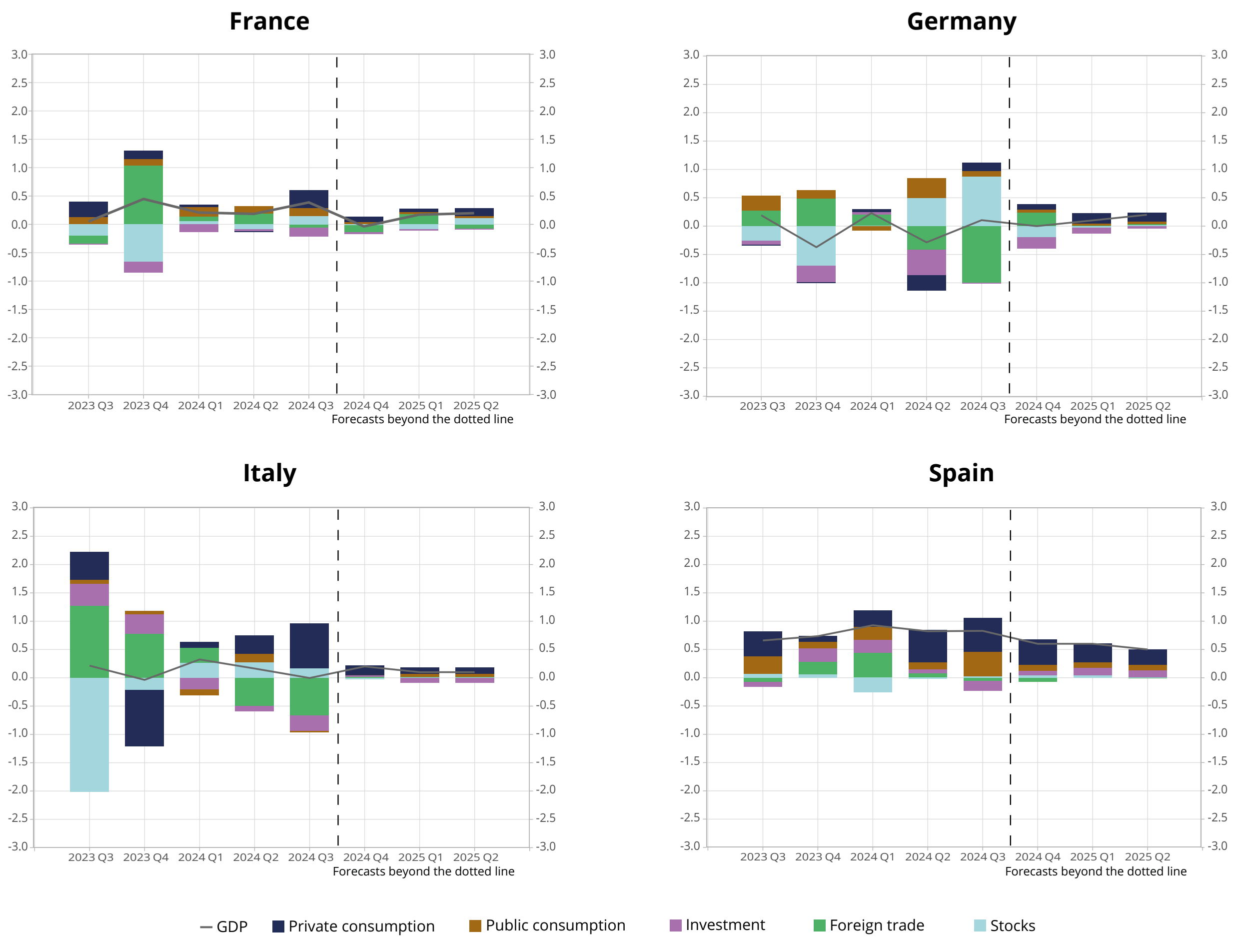
In Q3 2024, activity accelerated in the Eurozone

In Q3 2024, activity accelerated in the Eurozone (+0.4% after +0.2%) with, once again, some major disparities between countries. Growth continued to surprise positively in Spain (+0.8%, the same as in Q2 ►**Figure 1**) and in France it received a one-off boost with the hosting of the Olympic and Paralympic Games (+0.4% after +0.2%). Conversely, it remained at a standstill in Germany (+0.1% after -0.3%) and Italy (0.0% after +0.2%).

Domestic demand supported activity in the four main Eurozone economies. In particular, private consumption increased by 1.1% in Spain, 1.4% in Italy, 0.6% in France and 0.3% in Germany, while in all four countries the savings ratio was significantly higher than their historic averages (►**Focus** on the savings ratio of European households). However, because financing conditions are still restrictive, weak investment continues to hamper growth in France (-0.7%), Italy (-1.2%), Spain (-0.9%) and, to a lesser extent, Germany (-0.1%). Meanwhile, foreign trade contributed negatively to growth in the four major Eurozone economies: exports in particular declined in Germany (-1.9%), Italy (-0.9%) and France (-0.8%).

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

(quarterly variations in % and contributions in points)



Last point: Q2 2025.
How to read it: in France, in Q3 2024, GDP increased by 0.2% and public consumption contributed +0.2 points.
Source: INSEE, Destatis, Istat, INE, INSEE calculations.

An aborted recovery, economic divergences persist

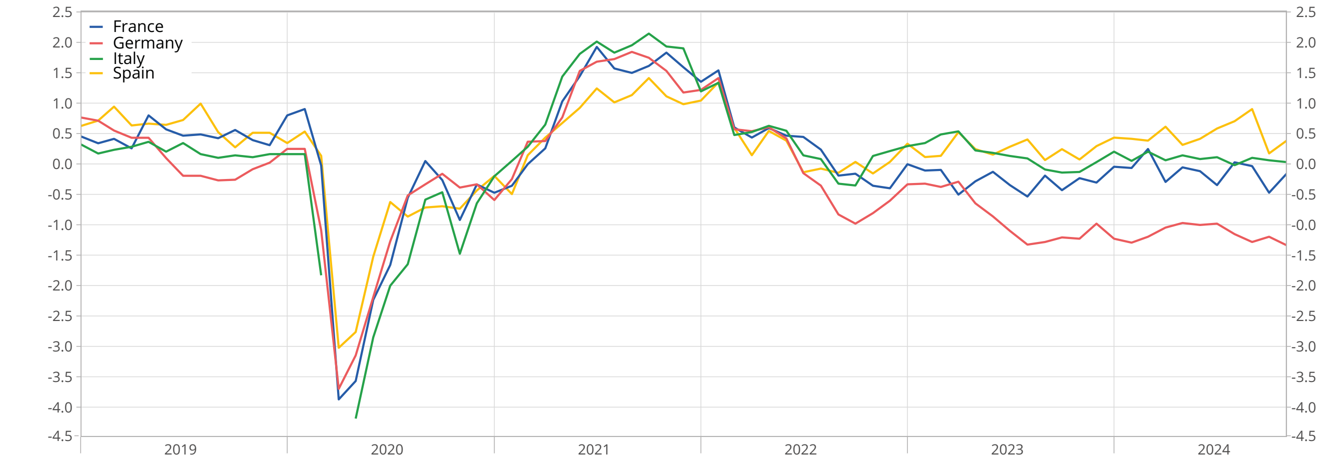
Business tendency surveys in the Eurozone suggest a turnaround: while a recovery was beginning to take shape with business climates improving slightly since the end of 2023, they have now been worsening again since summer 2024. In addition, the economic divergence between the four main economies persists: the confidence indicator is close to its long-term average in France and Italy, still very much in decline in Germany and much more favourable in Spain (► **Figure 2**).

In Q4, growth is expected to remain solid in Spain (+0.6%), despite the flooding that hit the Valencia region this autumn, impacting activity, and should keep up the same pace in Q1 2025, then slow slightly in the spring (+0.5%), as certain supporting factors decline (► **Focus** on the dynamism of the Spanish economy). In France, activity looks set to stabilise in the autumn, a reaction after the Olympic and Paralympic Games boosted growth in the previous quarter, and is likely to return to a modest pace in H1 2025 (+0.2% per quarter). In Italy, growth is expected to remain limited over the forecasting period (+0.2% at the end of the year, then +0.1% per quarter at the beginning of 2025) as the effects of the investment support schemes (especially the "Superbonus" scheme), which have driven activity since the health crisis, are beginning to weaken. In Germany, activity is likely to remain sluggish in Q4 (0.0%) before growing slowly in H1 2025 (+0.1% in Q1, then +0.2% in the spring): investment is expected to continue to hamper growth at the end of 2024, but then a little less in H1 2025 with the gradual improvement in financing conditions, while household consumption should start to recover.

Over the whole of 2024, activity is expected to improve in all four economies at a similar pace to that recorded in 2023, reflecting the persistent cyclical divergence between them: activity looks set to remain sluggish in Germany (growth of -0.2% in 2024, after -0.1% in 2023), it should improve at a moderate pace in Italy (+0.5% after +0.8%) and France (+1.1% after +1.1%), and accelerate in Spain (+3.1%, after +2.7%). In 2025, this divergence is likely to persist, while decreasing slightly: the mid-year growth overhang is expected to be +2.1% in Spain, +0.5% in France, +0.4% in Italy and +0.2% in Germany.

Overall, the Eurozone is expected to experience a moderate rebound in H1 2025 (+0.2% per quarter) after virtually zero growth at the end of the year (+0.1%). This growth will probably be driven by household consumption, the sole driver of private domestic demand, bringing the mid-year growth overhang to +0.7% (after +0.7% growth in 2024).

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



Last point: November 2024.
How to read it: in Spain, in November 2024, the general business climate was 0.4 standard deviations above its long-term average (average over the period January 2005 to November 2024).
Source: DG ECFIN survey, INSEE calculations.

After a marked slowdown in 2023 and 2024, productivity is expected to rebound in the Eurozone

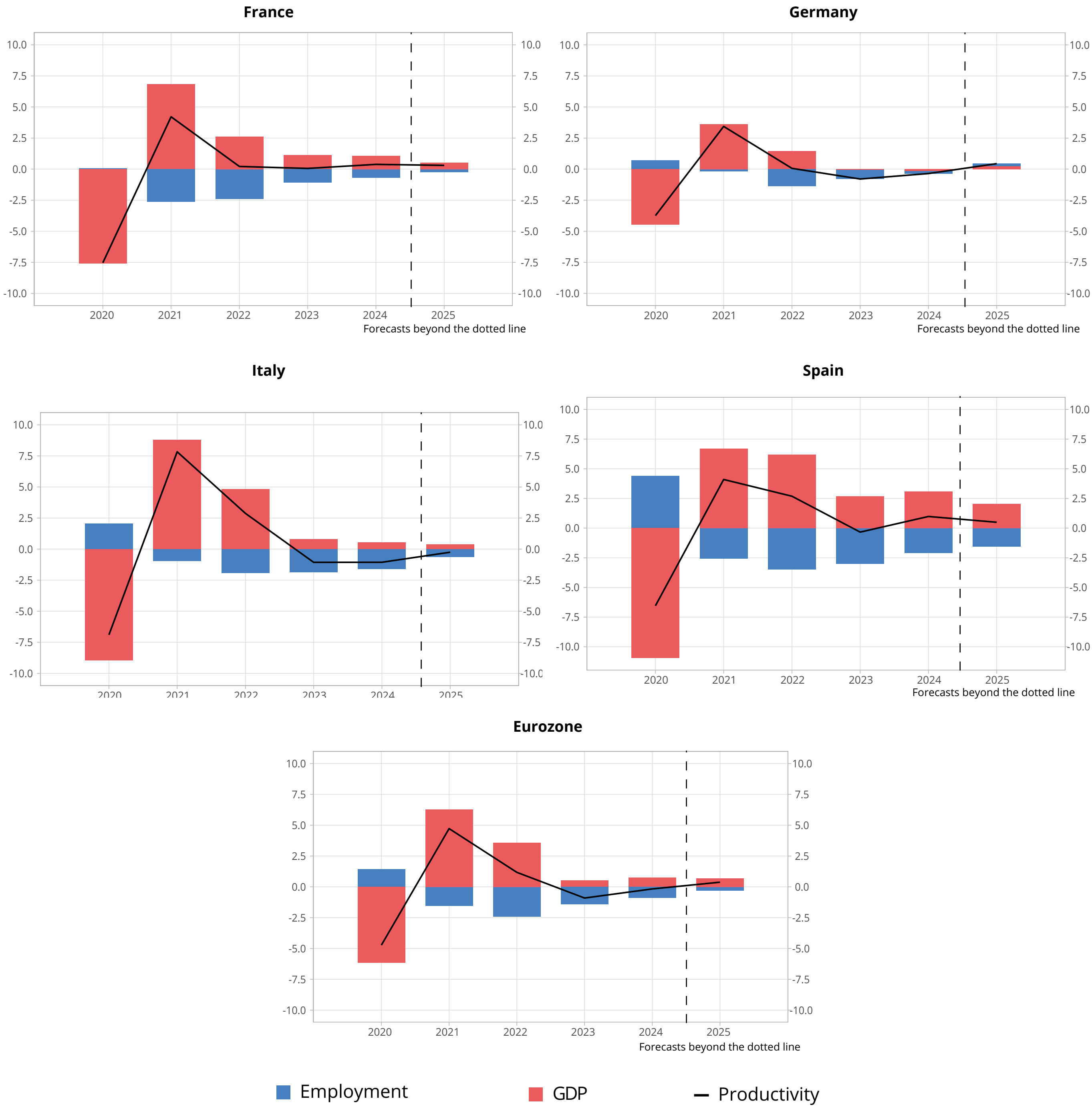
Since 2019, employment has been particularly resilient in the Eurozone, despite the succession of shocks that have affected Member States. On average in 2024, total employment is expected to be 4.9% above its 2019 average. This improvement in employment has mainly been due to support measures put in place during the health crisis.

From Q4 2022 to Q4 2023, the Eurozone experienced a continuous decline in productivity, due to sluggish growth and resilient employment. However, since the beginning of 2024, moderate growth in the Eurozone has been accompanied by gains in productivity (►Figure 3), mainly in Spain.

Thus, in the Eurozone, apparent labour productivity in 2024 is expected to be below its 2019 average (-0.3%). This decline is likely to be particularly pronounced in France (-3.1% on average in 2024 compared to its 2019 average) and Germany (-1.6%), while productivity is expected to remain stable in Spain and improve slightly in Italy.

►3. Change in productivity in the main Eurozone countries

(annual variations in productivity in % and contributions in points)



Last point: mid-2025 growth overhang.
How to read it: in France, in 2023, productivity increased by 0.1% and employment contributed -1.1 points.
Source: INSEE, Destatis, Istat, INE, INSEE calculations.

The gradual recovery from these past productivity losses is likely to concern mainly Germany up to mid-2025: hiring intentions are very low and German employers, especially industrialists, are expected to begin adjusting their workforce.

Inflation has come back down everywhere in Europe, wages are following suit

Inflation fell sharply in the Eurozone in 2024, from +2.8% year on year in January to +2.3% in November. This decline was seen in France (where inflation within the meaning of the HICP fell from +3.4% to +1.7%), Germany (from +3.1% to +2.4%) and Spain (from +3.5% to +2.4%), whereas inflation rose slightly in Italy, where it had previously fallen substantially (from +1.0% to +1.6%). Prices excluding food and energy products increased at the most moderate pace in France and Italy (+2.2% and +2.0% respectively in November). Conversely, inflation excluding food and energy products was higher in Germany (+3.1% year on year in November) and Spain (+2.8%), in line with wages, which are themselves more buoyant than in France and Italy (**► Figure 4**).

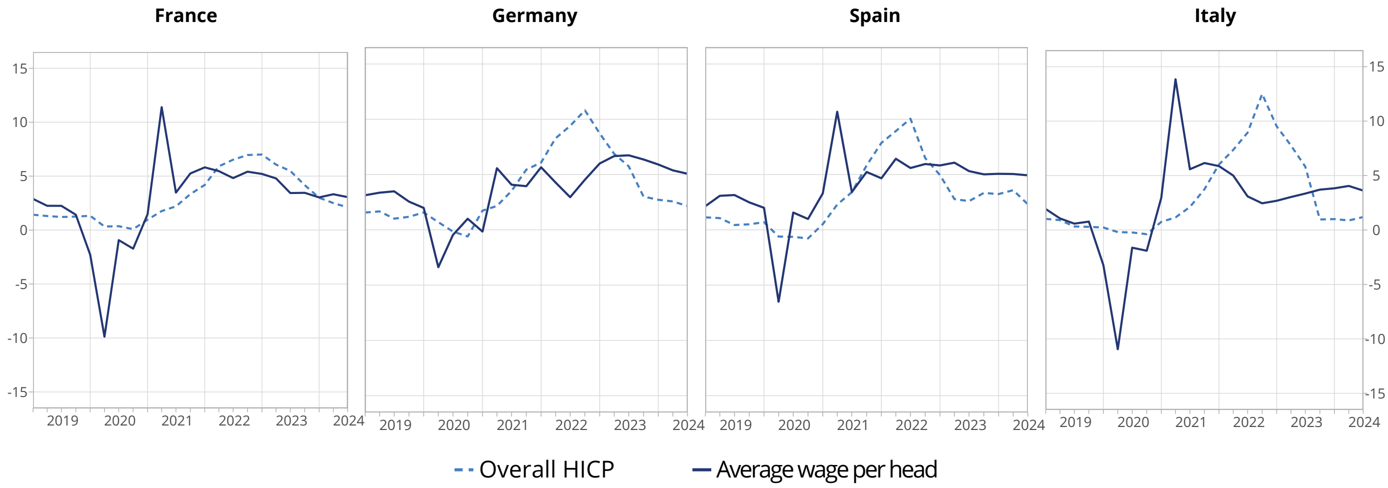
Prices look set to continue to slow a little until mid-2025, at a faster pace in Germany and Spain than in France and Italy. However, wages are expected to evolve more significantly, as they gradually incorporate the disinflation of 2024. All in all, after some major gains in 2024, purchasing power should slow considerably at the beginning of 2025, in all the Eurozone countries (**► Figure 5**).

Consumption, the main driver of European growth

In the four main Eurozone economies, private consumption increased less than purchasing power in 2024 while the household savings ratio rose sharply (**► Focus** on the savings ratio of European households). This ratio is expected to deflate slightly by mid-2025, while still remaining much higher than before the health crisis. Business tendency surveys show that European households have noted an improvement in their financial situation (**► Figure 6**) and more and more of them consider that the economic situation is conducive to making major purchases.

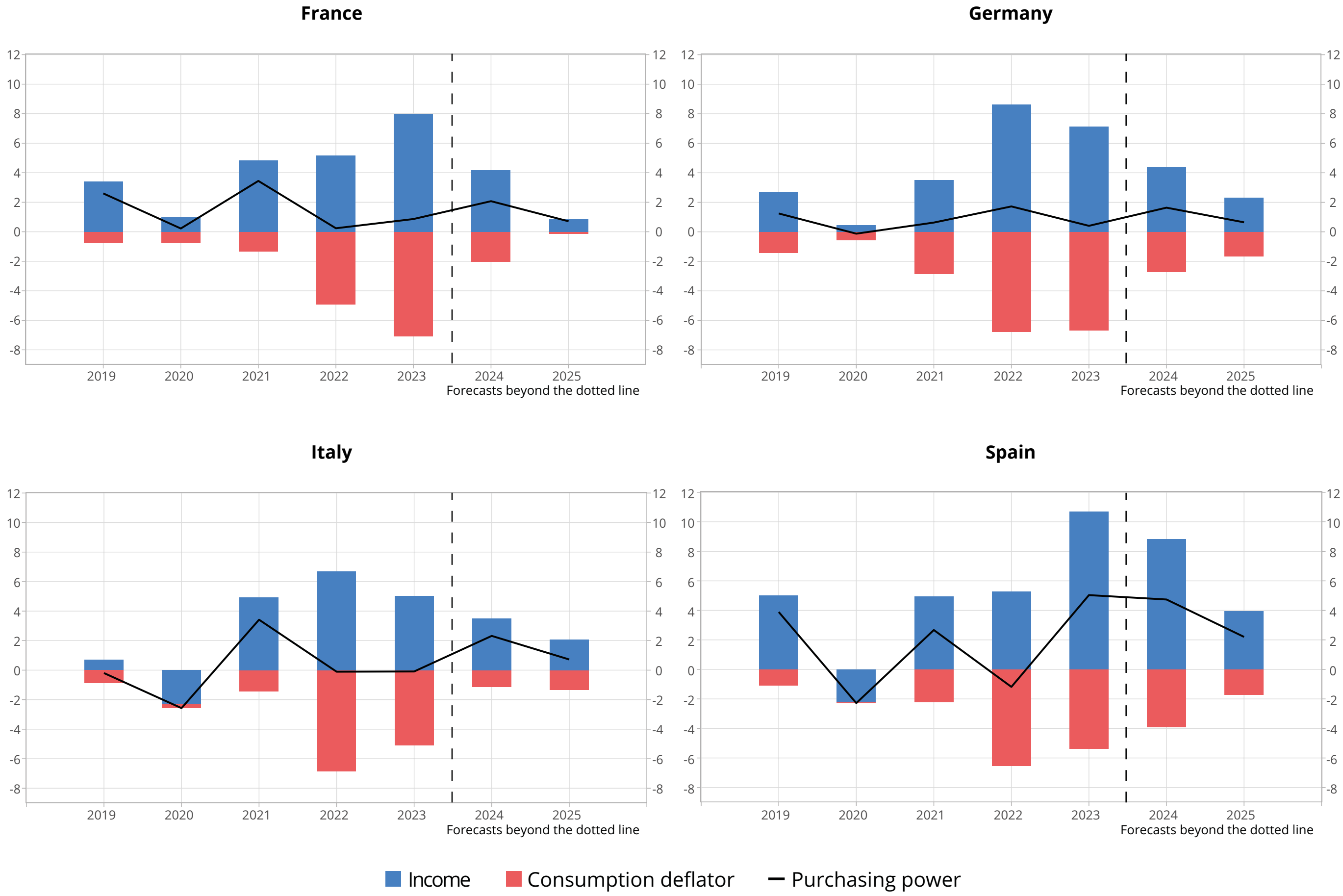
Thus, a number of phenomena that contributed to the increase in the savings ratio recently are likely to decline by mid-2025: inflation is returning to normal, households' perceptions are adjusting, and consumer credit rates are falling. In addition, income is now driven more by wage income, which is more likely to be used for consumption than wealth income. Thus the savings ratio is expected to fall back over the forecasting period in the different Eurozone countries.

► 4. Average wage per capita and headline inflation (within the meaning of the HICP) in the main Eurozone economies
(year-on-year change, in %)



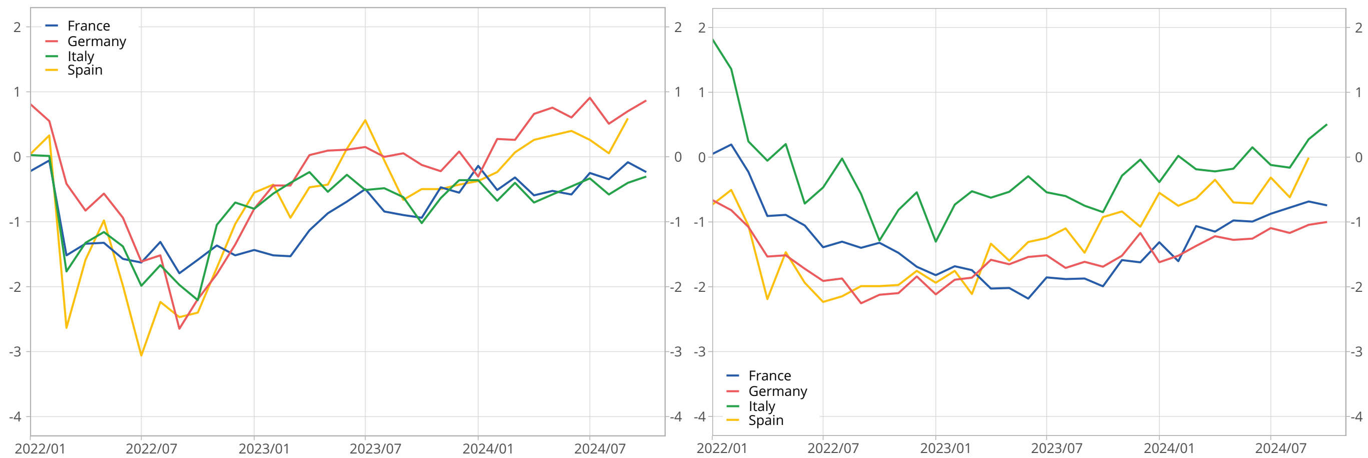
Last point: Q3 2024.
How to read it: in Q3 2024, in Spain, the average wage per capita increased by 4.9% year on year, i.e. faster than the Harmonised Index of Consumer Prices, which increased by 2.3% year on year.
Source: INSEE, Destatis, Istat, INE, INSEE calculations.

►5. In 2025, purchasing power is expected to slow substantially in Europe
(annual variations in % and contributions in points)



Last point: mid-2025 growth overhang.
How to read it: in Germany, in 2023, purchasing power increased by 0.4%.
Source: INSEE, Destatis, Istat, INE, INSEE calculations.

►6. Since the beginning of 2024, households in the main Eurozone economies are slightly more optimistic about their financial situation (left) and the opportunity to make major purchases (right)
(reduced centered balances)



Last point: November 2024.
How to read it: in Italy, in November 2024, the centred-reduced balance of households' financial situation in the next 12 months was 0.5 standard deviations below its long-term level (average over the period January 2005 to November 2024).
Source: DGECFIN survey, INSEE calculations.

Investment is still in decline

Despite successive cuts in the ECB's base interest rates in 2024, financing conditions remain restrictive and are expected to continue to slow investment. Thus the contribution of investment to growth is likely to be negative or zero over the next three quarters in France and Germany. Spain will again probably be the exception, particularly because public investment there has received funding from the European recovery plan. In Italy, however, support from the recovery plan will not be enough to compensate for the gradual withdrawal of the "Superbonus" scheme and investment looks set to decline. Finally, the Eurozone will probably struggle to reduce the gap between the components of domestic demand: activity is expected to benefit as private consumption becomes more robust, while investment is likely to slow it down (►**Figure 7**).

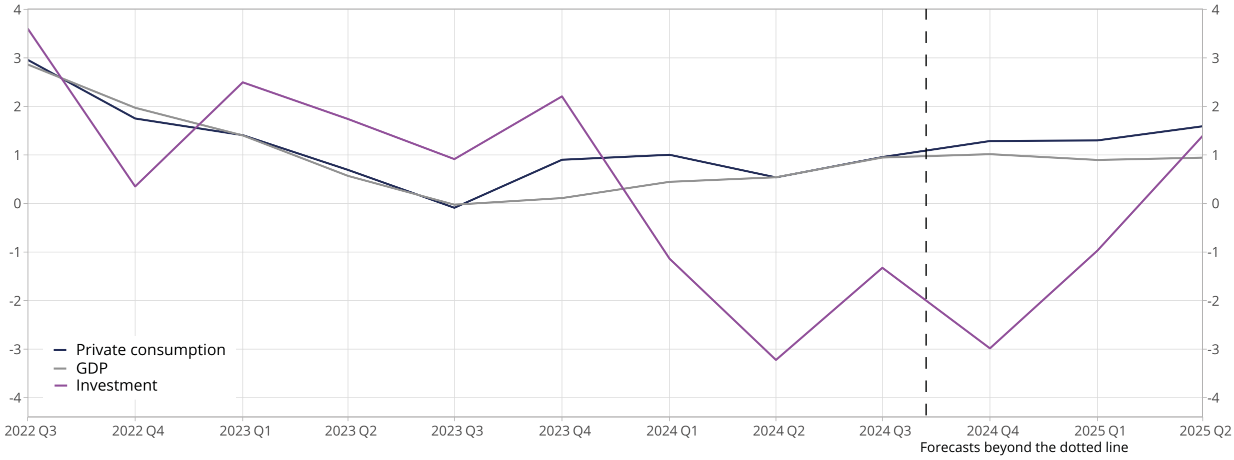
After further declines recorded in 2024, market shares of European exporters are forecast to stabilise

In Europe, exporters recorded further losses in market share in the summer of 2024 (►**Figure 8**). In the forecast, these market shares are expected to stabilise on average for French, Italian and Spanish exporters, although without wiping out these new losses. However, according to the forecast, German exporters are likely to continue to lose market share: German industrialists are complaining that their foreign order books are very depleted, much more so than in the other countries (►**Figure 9**).

At the same time, the upturn in consumption in the Eurozone should promote growth in imports, albeit timidly. The contribution of foreign trade is therefore expected to be limited up to mid-2025.

►7. In 2024, private consumption is expected to drive growth in the Eurozone, in the face of struggling investment

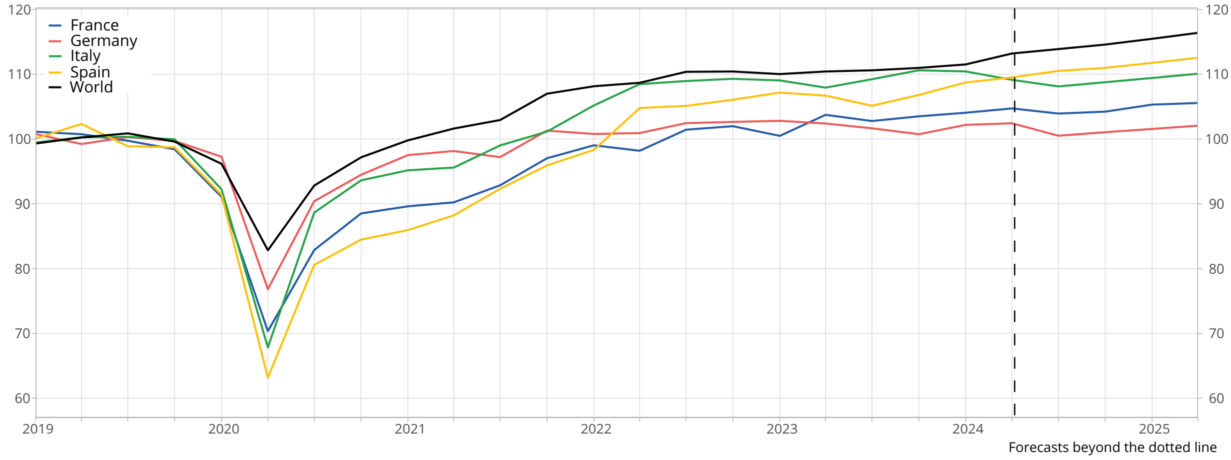
(year-on-year % change)



Last point: Q2 2025.
How to read it: in the Eurozone, GDP is expected to increase by +1% year on year in Q2 2025.
Source: INSEE, Destatis, Istat, INE, INSEE calculations.

►8. In 2025, the main Eurozone economies are not expected to make up the losses in export market share recorded since 2020

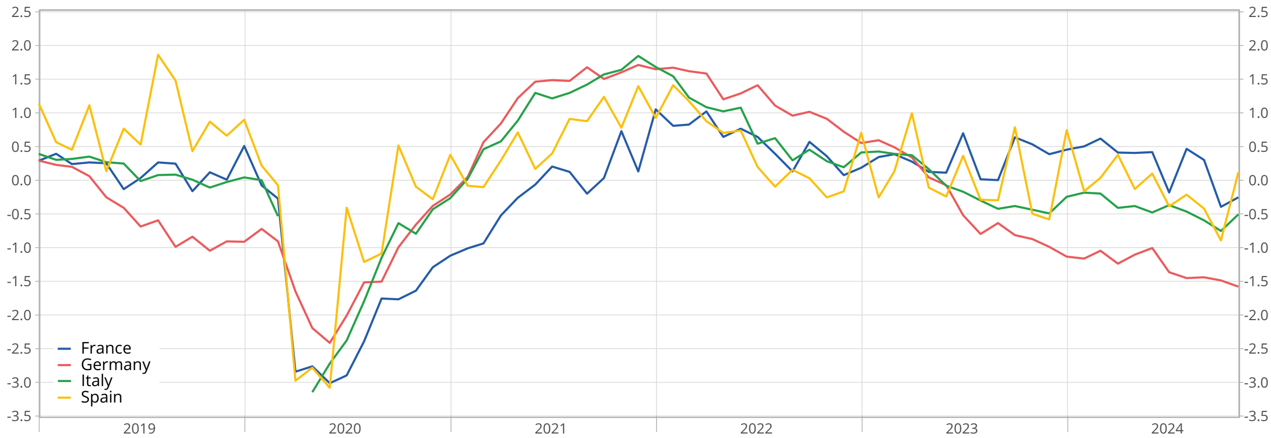
(exports of goods and services by volume, base 100 2019)



Last point: Q2 2025.
How to read it: in Spain, in Q2 2025, exports are expected to be 12.5% above their 2019 level, when world exports look set to be 16.4% above their 2019 level.
Source: INSEE, Destatis, Istat, INE, Balanced trade statistics (OECD), CHELEM - International trade (CEPII), INSEE calculations.

►9. German industrialists are lamenting their depleted export order books

(judgement on the level of foreign order books – centred-reduced balances)



Last point: November 2024.
How to read it: in Germany, in November 2024, the centred and reduced balance of the state of export orders in industry was 1.6 standard deviations below its long-term average (average over the period January 2005 to November 2024).
Source: DGECFIN survey, INSEE calculations.