

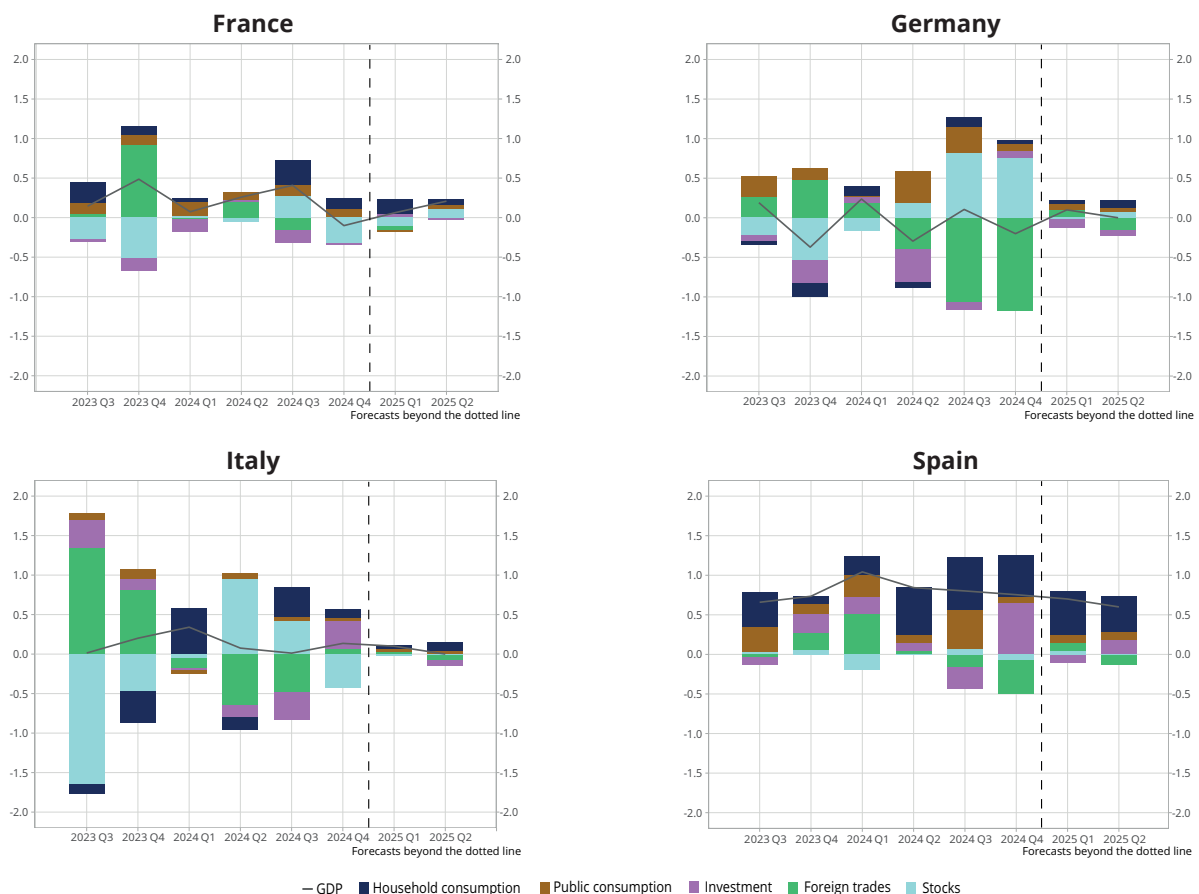
Eurozone

In Q4 2024, activity slowed in the Eurozone

In Q4 2024, growth weakened in the Eurozone (+0.2% after +0.4%). It remained very dynamic in Spain (+0.8%, as in Q2 and Q3, ► **Figure 1**) but stagnated in the other main economies: in France, activity was hindered in the aftermath of the Olympic and Paralympic Games (-0.1% after +0.4%), it edged down in Germany (-0.2% after +0.1%) and improved slightly in Italy (+0.1% after 0.0%). On average in 2024, growth in the Eurozone remained fairly mediocre (+0.8% after +0.5% in 2023). While the Spanish economy continued to perform well over the year as a whole (+3.2% after +2.7%), activity remained at a standstill in Germany (-0.2% after -0.1%) and slowed in Italy (+0.5% after +0.8% in 2023). The French economy, for its part, managed to maintain a relative dynamism (+1.1% after +1.1%).

This divergence in growth in 2024 is primarily a reflection of differences in the dynamics of domestic demand. In Spain, the continuing rise in employment and gains in purchasing power are driving an acceleration in consumption (+2.9% after +1.8% in 2023), and investment is buoyant (+2.3% after +2.1%), sustained mainly by the favourable effects of the European recovery plan. In Italy, the contribution of domestic demand to growth is decreasing sharply (+0.4 points in 2024 after +2.4 points) mainly due to the slowdown in investment (+0.0% after +9.2%), reflecting the end of the surge in investment in construction (+1.0% after +16.0%).

► 1. Quarterly variations in GDP and contributions of demand items in the four main Eurozone economies (quarterly variations in % and contributions in points)



Last point: Q2 2025.

How to read it: in France, Q1 2024, GDP grew by 0.1%, with public consumption contributing +0.2 points.

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

International economic outlook

In France, the acceleration in public consumption (+2.0% after +0.8%) was able to offset the downturn in investment (-1.5% after +0.7%) and consumption improved moderately (+0.9% after +0.9%). In Germany, the surge in public consumption (+3.5% after -0.1%) was offset by the decline in investment (-2.6% after -0.7%), in a context of sluggish private consumption (+0.3% after -0.2%). However, while the contribution of foreign trade to growth was positive in 2024 in France, Spain and Italy, it was negative in Germany, reflecting the drop in exports and continuing losses of market share.

At the start of 2025, Spain should continue to prosper, while the German slump looks set to continue

Business tendency surveys in the Eurozone are struggling to recover. With the exception of Spain, which started the year on a positive note, the business climate is still firmly fixed close to its long-term average in Italy and France. It remains very poor in Germany (► **Figure 2**): the stalling of the German economy was confirmed once again in Q4 2024 and there are no signs of a clear recovery in the short term (► **Focus** on industrial production in the Eurozone).

Growth therefore looks set to remain robust in Spain in Q1 2025 (+0.7%), driven by private consumption, before slowing a little in the spring (+0.6%), as some supporting factors gradually diminish (► **Focus** on spanish economic dynamism, *Economic outlook*, December 2024). In France, activity is scarcely likely to increase much at all in Q1 (+0.1%) before growing moderately in Q2 (+0.2%). In Germany, it is expected to increase slightly in Q1 (+0.1%) before coming to a halt in Q2: investment is likely to gradually stop hampering growth, while household and general government consumption look set to support activity a little. The change in direction of fiscal policy announced recently is unlikely to have much effect before mid-2025 as spending on infrastructure and defence generally requires advance planning. Conversely, exports are expected to struggle to recover and are also likely to be penalised in the spring by the introduction of new US customs tariffs. In Italy, growth is expected to remain limited in Q1 (+0.1%) then zero in Q2, again hampered by the increase in the US tariffs and domestically by the reduction in construction investment support schemes.

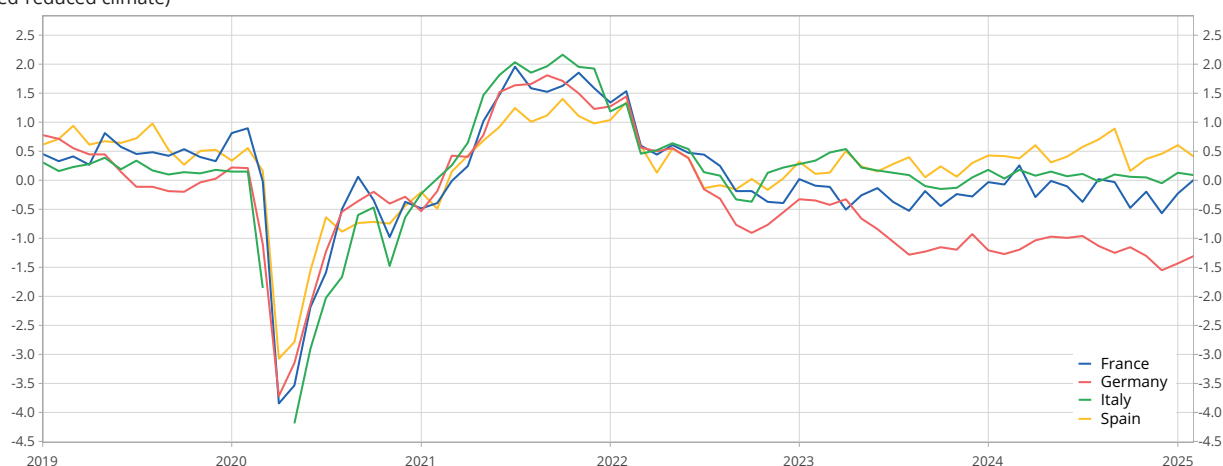
Overall, growth in the Eurozone is expected to remain constrained in H1 2025 (+0.2% in Q1 then +0.1% in Q2). Nevertheless, the mid-year growth overhang should reach +0.7% (after +0.8% growth in 2024). The cyclical divergence between the main Eurozone economies looks set to persist, with the mid-year growth overhang at +2.3% in Spain, compared to -0.1% in Germany. The Italian economy is expected to continue to slow, with a mid-year growth overhang of +0.2%, with France doing only slightly better, reaching a mid-year growth overhang of +0.4%.

After the rise in wages, inflation in the Eurozone is now driven by services

Inflation fell sharply in the Eurozone in 2024, standing at +2.4% as an annual average compared to +5.4% in 2023. This decline was confirmed in France, where inflation within the meaning of the HICP fell to +2.3% as an annual average in 2024 after +5.7% in 2023, also in Germany (+2.5% after +6.0%) and Italy (+1.1% after +5.9%). In Spain, where the easing of energy prices began in 2023, inflation fell less substantially, from +3.4% in 2023 to +2.9% in 2024.

► 2. The business climate indicator remains in decline in Germany

(centered-reduced climate)



Last point: February 2025.

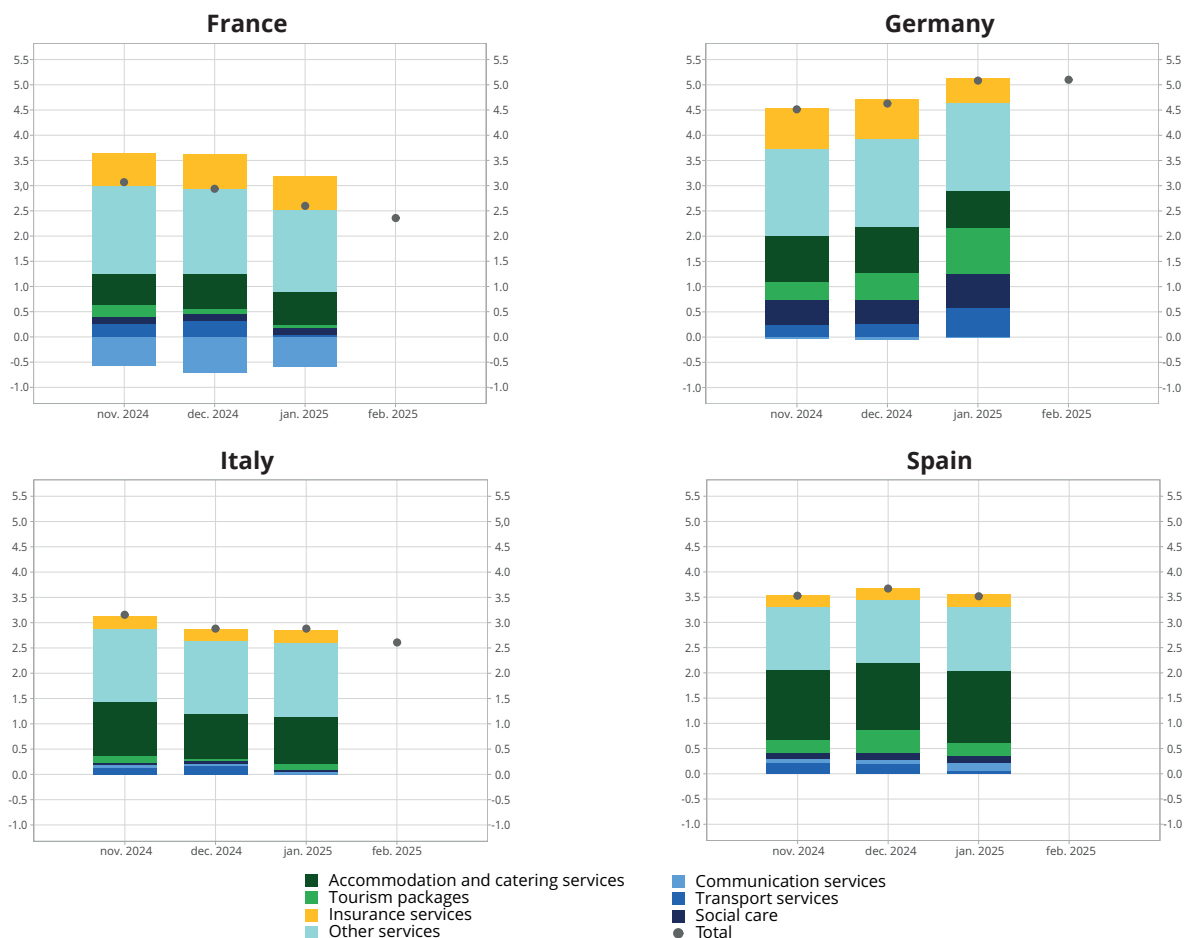
How to read it: in Spain, in February 2025, the general business climate was 0.4 standard deviations above its long-term mean level (average over the period January 2005 to February 2025).

Source: DG ECFIN survey, INSEE calculations.

In February 2025, inflation remained stable in Germany (+2.8%), Spain (+2.9%) and Italy (+1.7%), but fell sharply in France (+0.9% after +1.8% within the meaning of the HICP), due to the fall in electricity prices (► [Sheet Consumer prices](#)). In Germany and Spain, inflation was driven specifically by services, with prices rising year on year by +5.1% and +3.5% respectively in January, whereas their dynamism was more contained in France (+2.6% in January within the meaning of the HICP) and Italy (+2.9% in January). These variations mainly reveal differences in wage dynamics (wages are rising faster in Germany and Spain) but also disparities by product. Rising insurance prices contribute little in Italy and Spain, but they made a considerable contribution in Germany (+0.5 points), where car insurance prices are increasing significantly (► [Figure 3](#)), and in France (+0.7 points), due to the importance of health insurance (► [Sheet Consumer prices](#)). In Germany, transport services made a substantial contribution to inflation in services, due to the increase in the price of the *Deutschland-Ticket* (a monthly pass allowing unlimited travel on public transport), which rose from €49 to €58 in January. In addition, services related to social protection contribute relatively more significantly in Germany (contribution of +0.7 points year on year in January). The fall in prices of communication services is specific to France and contributed 0.6 points to the year-on-year decline in inflation in services in January. Finally, differences in wage dynamics can be seen mainly in accommodation and catering services, which account for a significant part of the dynamism of prices of services in the four countries, although more markedly in Germany and especially Spain, than in France and Italy.

Prices are expected to slow slightly by mid-2025: the pace will probably be faster in Germany and Spain than in France and Italy. However, after the 2024 catch-up, wages are set to decline more sharply, as they gradually incorporate disinflation. All in all, after some major gains in 2024, purchasing power is likely to slow considerably at the beginning of 2025 in the main Eurozone economies (► [Figure 4](#)). It should remain vigorous in Spain, however, boosted mainly by the 4.4% increase in the minimum wage in Q1 and by the rise in employment.

►3. Breakdown of inflation (within the meaning of the HICP) in services in the main Eurozone economies (year-on-year change, in % and contributions in points)



Last point: February 2025 for France, Germany and Italy ; January 2025 for Spain.

How to read it: in Spain, in January 2025, inflation within the meaning of the HICP in services stood at +3.5% year on year, with accommodation and catering services contributing +1.4 points.

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

International economic outlook

Consumption should enable European growth to resist

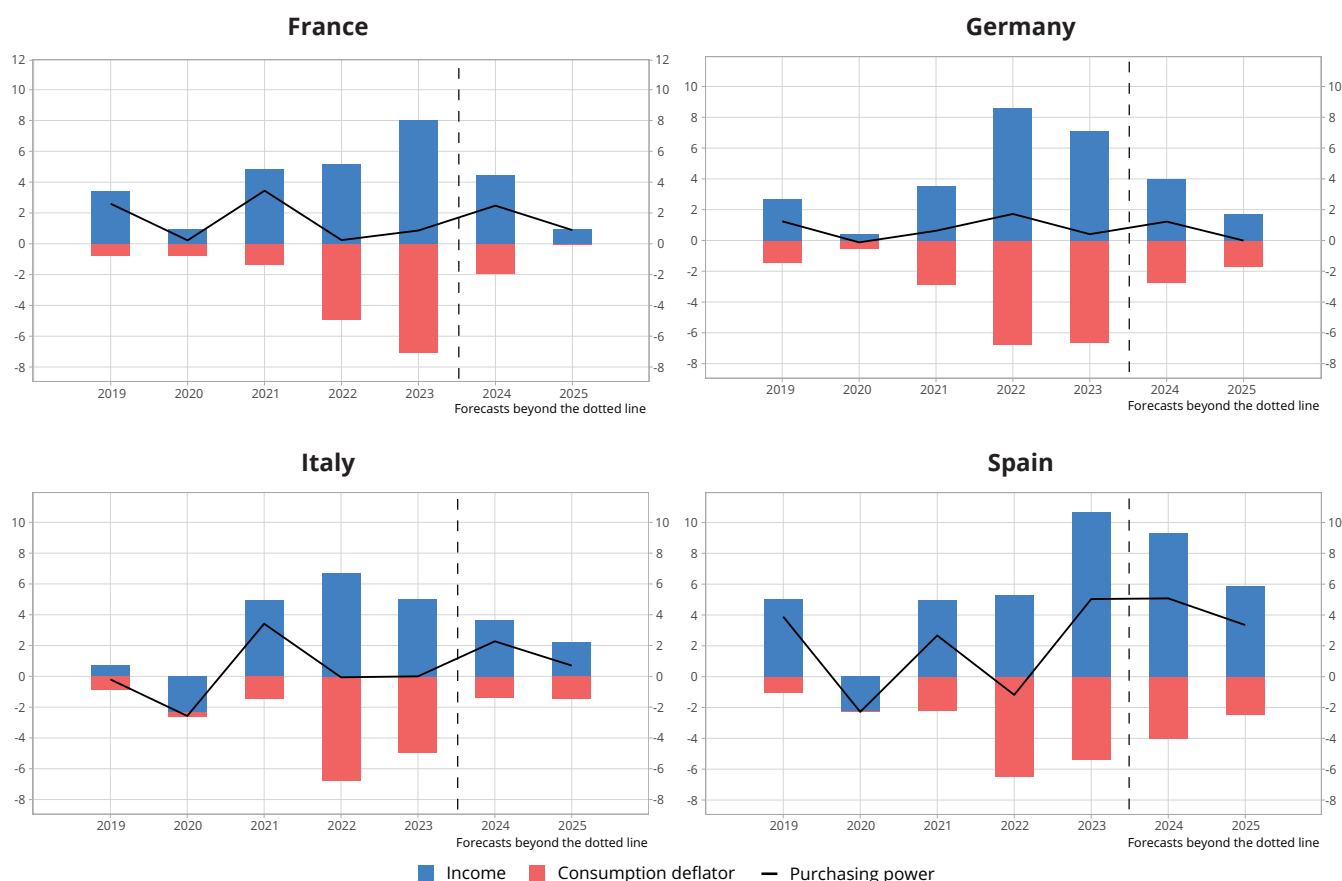
In the four main Eurozone economies, private consumption increased less than purchasing power in 2024 and the household savings ratio rose sharply everywhere (► **Focus** on European household savings, *Economic outlook*, December 2024). There are several factors that could favour a fall in the savings ratio in 2025. First, inflation is returning to normal and business tendency surveys show that European households have been late to perceive the decline in inflation (► **Figure 5**), which could account for the disappointing improvement in consumption in 2024. In addition, income is now driven more by wage income, which is more likely to be used for consumption than wealth income. However, many of the households surveyed still report that the time is right for saving, and thus the savings ratio is likely to remain significantly higher than in 2019.

Investment is still in decline

Despite successive cuts in the ECB's base interest rates since June 2024, financing conditions remain restrictive in the Eurozone and are expected to continue to slow investment. Thus the contribution of investment to growth is likely to be negative or zero over the forecasting period in France, Germany and Italy; although Italy is expected to continue to receive funding from the European recovery plan, this is unlikely to be enough to compensate for the withdrawal of support measures for investment in construction. Among the main Eurozone economies, Spain is again set to be the exception, mainly because public investment receives funding from the European recovery plan. Finally, the Eurozone will probably struggle to bridge the gap between the components of domestic demand: activity will probably be bolstered tentatively by private consumption, while investment is likely to slow it down (► **Figure 6**).

► 4. In 2025, purchasing power will slow in Europe

(year-on-year change, in % and contributions in points)



Last point: acquired mid-2025.

How to read it: in Germany, in 2023, the purchasing power increased by 0.4%. The increase in income contributed +7.1 points and the rise in prices -6.7 points.

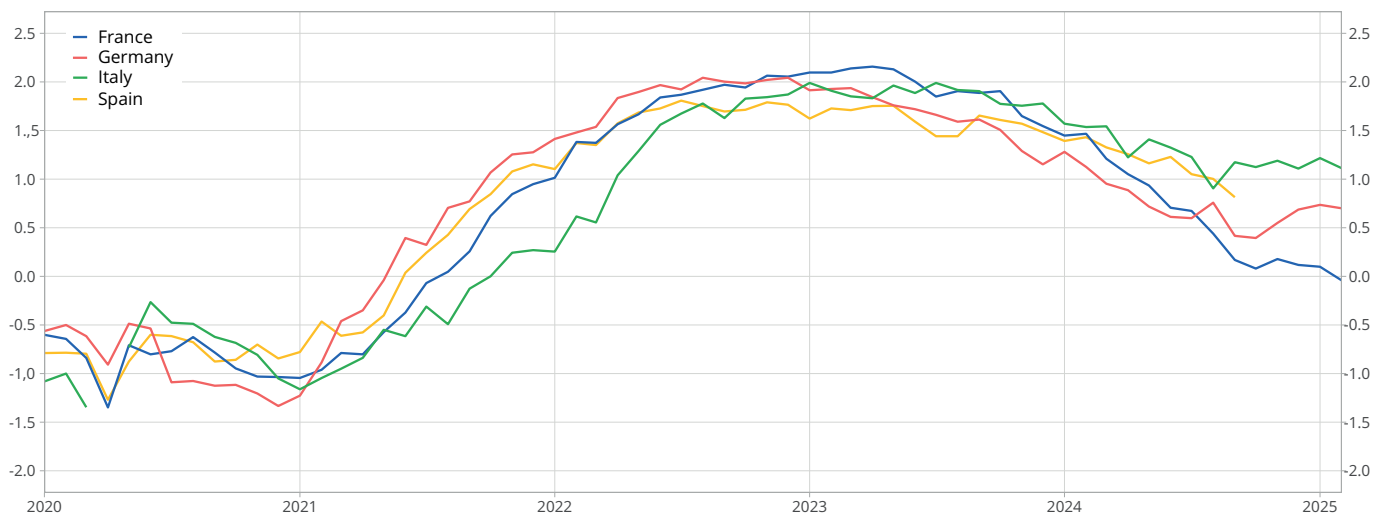
Source: INSEE, Destatis, Istat, INE, INSEE calculations.

In the spring, the implementation of new customs tariffs by the United States is likely to penalise Germany and Italy more than France and Spain

Looking ahead, exports from the European economies could be penalised from Q2 2025 onwards by the implementation of new US customs tariffs (► [Box, International synthesis](#)), although they may be affected in different ways. France and Spain had a slightly negative trade balance with the United States in 2024 (► [Figure 7](#)), due mainly to imports of hydrocarbons, and exports to the United States represent less than 2% of GDP. Italy and Germany, however, are much more exposed: exports to the United States represent 3.3% and 4.2% of GDP respectively and bilateral trade with the United States is largely in surplus (+2.0% in Italy and +1.8% in Germany). Thus, Germany and Italy are likely to suffer more with the introduction of these tariffs than France and Spain. In addition, European countries all continue to suffer from the cost of energy and their market shares are being eroded. Only Spain is expected to maintain its positions due to tourism. All in all, despite sluggish domestic demand, foreign trade is unlikely to be able to boost activity in the Eurozone in H1 2025. ●

► 5. European households were late in perceiving disinflation

(centred-reduced balances of perceived inflation in the last 12 months)



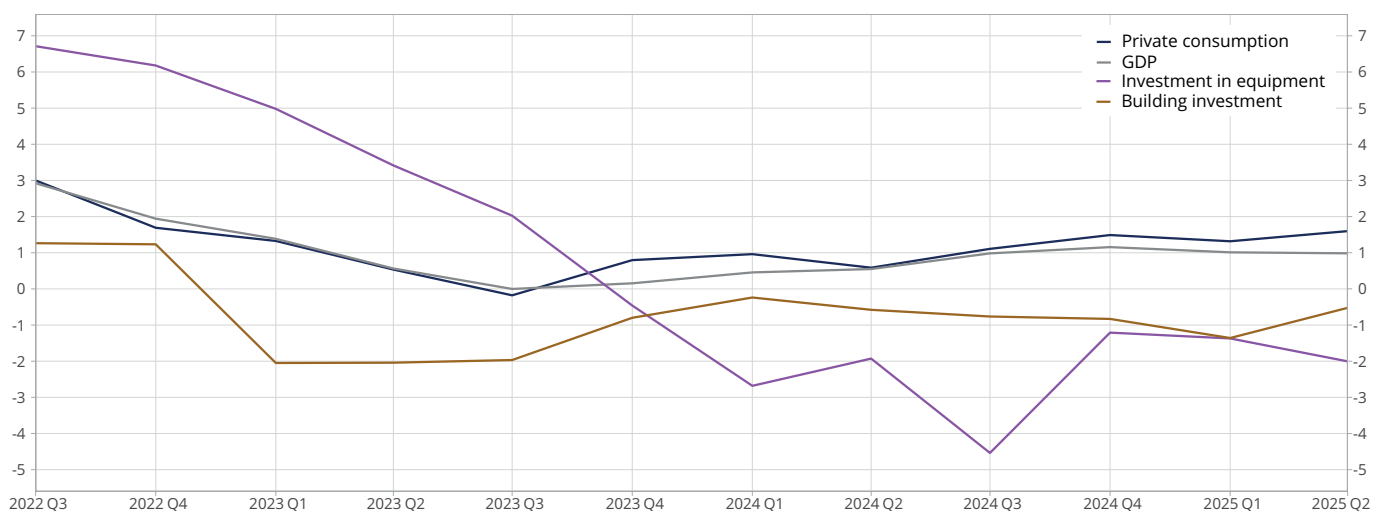
Last point: February 2025 (September 2024 for Spain).

How to read it: in Italy, February 2025, the centred-reduced balance of price change perceived by households in the last 12 months was 1.1 standard deviations above its long-term average (average over the period January 2005 to February 2025).

Source: DG ECFIN surveys, INSEE calculations.

► 6. In H1 2025, private consumption is expected to drive growth in the Eurozone, in the face of struggling investment

(year-on-year change, in %)



Last point: Q2 2025.

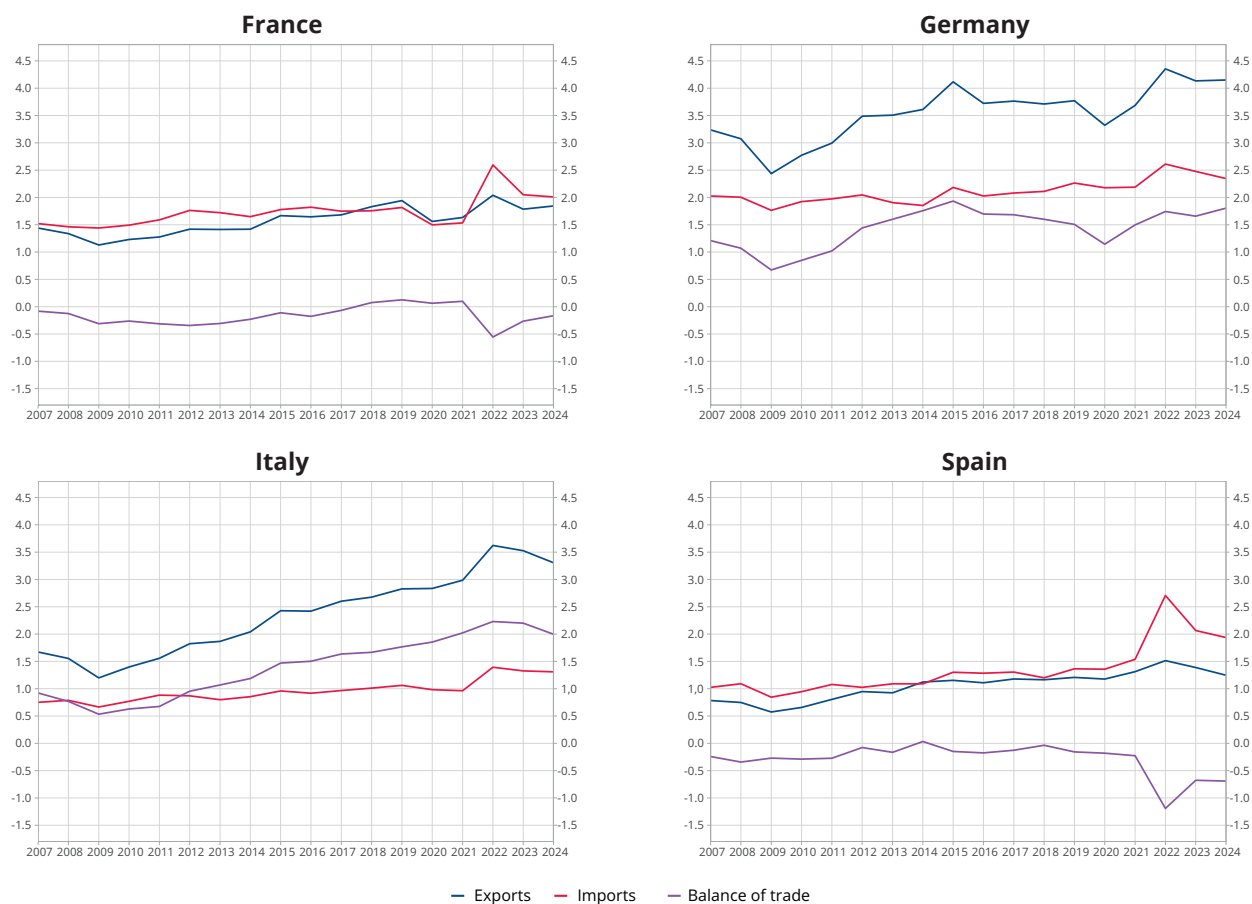
How to read it: in Q2 2025, in Eurozone, GDP is expected to increase by 1.0% year on year, while investment in equipment is expected to fall back by 2.0%.

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

International economic outlook

► 7. Trade with the United States by the main Eurozone economies

(shares of exports and imports of goods (according to the concept used by customs) and trade balance in total value added, in %)



Last point: 2024.

How to read it: in France, in 2023, exports of goods to the United States represented 1.8% of the country's value added, and the trade balance with the US economy was -0.2% of French value added.

Source: Direction Générale des Douanes, INSEE, Bundesbank, Destatis, Istat, Bank of Spain, INE, INSEE calculations.