

**ECONOMIC RESEARCH – APRIL 2025**

# INVESTMENT INSIGHT EUROPE

- ✓ Eurozone momentum weakens again
- ✓ Q1 2025 will remain weak before the next upturn

## A POSITIVE NEW PARADIGM

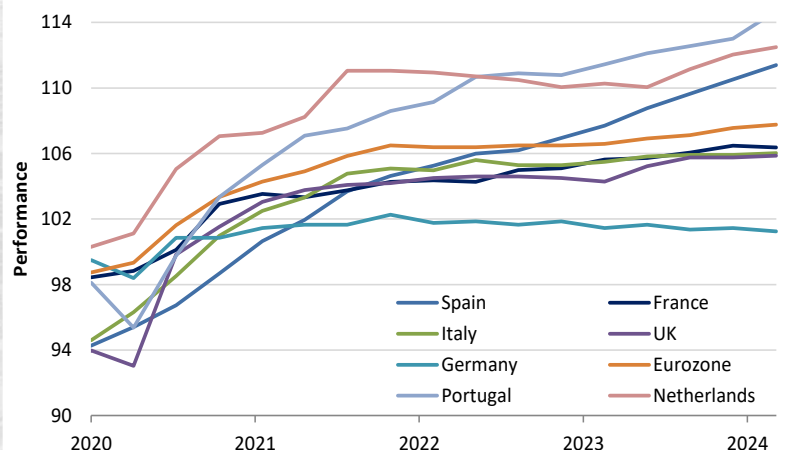
### Q4 GDP indicates a loss of momentum

The Eurozone concluded the year with a modest +0.2% GDP growth in the fourth quarter of 2024, representing a marked deceleration from the previous quarter. This weakened momentum was primarily driven by a significant slowdown in domestic demand. Overall, the zone ended the year with a modest +1.2% year-on-year increase in seasonally-adjusted GDP.

### Domestic demand weakened by growing uncertainties

A substantial loss of momentum was observed across key components of domestic demand. Private consumption saw a notable slowdown, with growth falling from +0.7% to just +0.4%. Similarly, fixed capital expenditure growth sharply declined, rising by only +0.6% compared to a robust +2% previously. This weakening was exacerbated by rising uncertainties, stemming from both within and outside the Eurozone, which have weighed heavily on household and business confidence.

**Quarterly GDP growth - Europe**



Sources : Bloomberg, BBGI Group

## External pressures and political uncertainty

The economic trajectory at the end of 2024 was significantly impacted by growing external and political pressures. Threats of higher tariffs, already present in late 2024, loomed over the region, while political developments in major member states like France and Germany introduced additional uncertainty. The cumulative effect of these factors dampened investor and consumer sentiment, contributing to the overall loss of economic momentum and leading the ECB to lower its 2025 GDP growth forecast to just +0.9%.

## Mixed signals and regional disparities

Despite the overall weakening, economic signals remain mixed, and significant regional disparities were noted. While key countries like Germany (-0.2%) and France (-0.1%) saw slight contractions in their economies, other member states such as Spain (+0.7%) and Ireland (+3.6%) continued to make positive contributions. Interestingly, the Eurozone's Economic Surprise Indicator moved into positive territory, suggesting that overall performance in the first quarter of 2025 may be stronger than initially anticipated by cautious market forecasts.

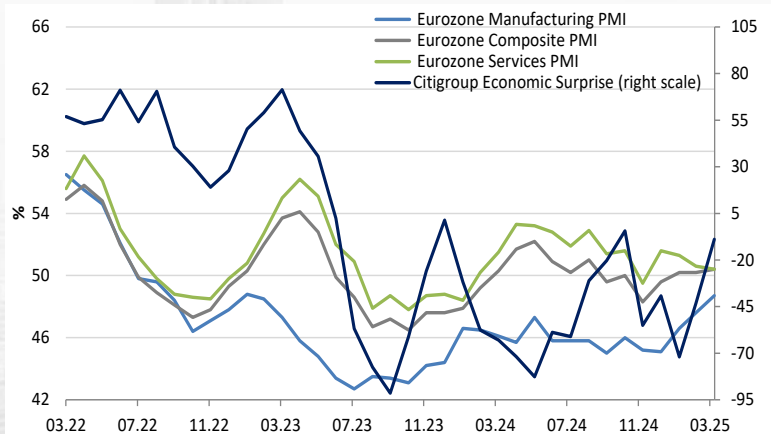
## Cautious Q1 outlook amid tariff anticipation

Most economists and central banks remain particularly cautious about the outlook for Q1 2025, with a consensus forecast of less than +0.2% growth. However, the period is also characterized by a preemptive "anticipation" effect ahead of the potential imposition of new US tariffs. This is illustrated by a significant increase in the Eurozone's trade surplus with the United States, as businesses placed precautionary orders to get ahead of rising import costs. In addition, the ECB's well-adapted monetary policy, with its continued support for growth through rate cuts, provides a crucial counter-balance to external risks.

## Potential for recovery driven by Germany

The overall trajectory for 2025 remains moderate, but there is a clear potential for a stronger recovery in the second half of the year. This potential is largely contingent on a fundamental shift in Germany's fiscal policy away from its long-standing austerity. A move toward increased budget allocation and investment by Europe's largest economy could serve as a powerful catalyst for the entire Eurozone. Such a paradigm shift could not only boost Germany's domestic economy but also significantly improve household and business sentiment across the region, potentially leading to a more dynamic and sustainable economic recovery.

PMI leading indicators and economic surprises



Sources : Bloomberg, BBGI Group

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