

**ECONOMIC RESEARCH – DECEMBER 2025**

**INVESTMENT INSIGHT** **EUROPE**



- ✓ **Resilience in Q3 heralds a positive Q4 as well**
- ✓ **Positive but fragile growth in 2026**

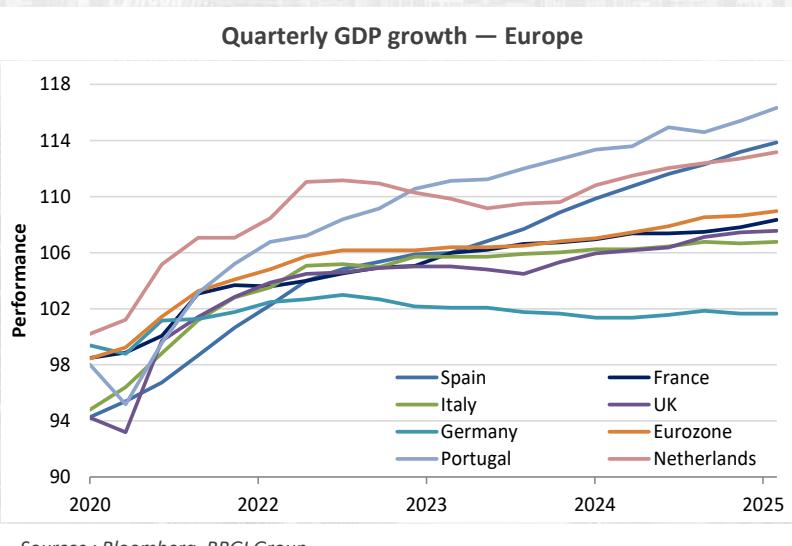
**MODERATE OUTLOOK FOR THE EUROZONE IN 2026**

**Eurozone growth resilience amidst global volatility**

The Eurozone's recovery momentum remains intact despite persistent political uncertainty and shifting industrial demand. Third-quarter GDP was confirmed at +0.3%, with an annual growth rate of +1.4%, slightly exceeding consensus expectations. This resilience is primarily anchored by a robust labor market that sustains household and business spending, alongside more competitive financing conditions as interest rates ease. While net trade acted as a minor drag, the overall economy has weathered initial tariff disruptions effectively, establishing a solid foundation for the fourth quarter.

**The emergence of a new southern growth pillar**

A significant shift in the Eurozone's internal dynamics is now evident, as the southern and western nations emerge as the region's primary economic drivers. Spain (+0.6%) and Portugal (+0.8%) continue to outperform, fueled by a sustained boom in the services sector and resilient domestic consumption. This geographic shift in momentum marks a departure from historical norms, where the periphery often lagged behind the core, suggesting a structural rebalancing within the monetary union that is currently offsetting weakness elsewhere.



## France's surprising acceleration and domestic stability

France has surprised observers with a notable acceleration to +0.5% growth, up from +0.3% in the previous quarter. This strength is rooted in a domestic demand profile that has proved more resilient than its northern neighbors. Benefiting from a faster stabilization of inflation, French household consumption has acted as a temporary but potent supportive effect. This dynamic has allowed France to serve as a vital stabilizer for the Eurozone, bridging the gap between the high-growth southern economies and the stagnating industrial core.

## The crisis of the German industrial model

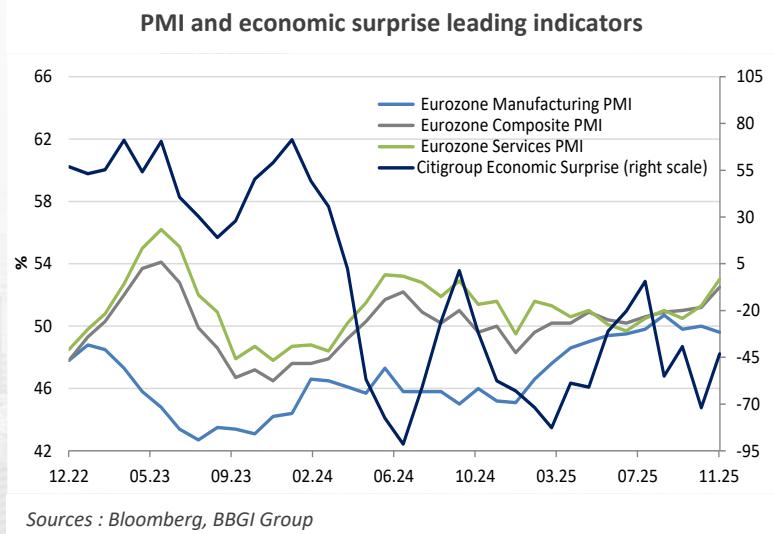
In stark contrast to the Mediterranean dynamism, Germany remains the Eurozone's primary concern, recording zero growth and narrowly avoiding a technical recession. The traditional "industrial heartland" is struggling with a broken export model, hampered by weak global demand—particularly from China—and prohibitive production costs that erode competitiveness. This sluggishness has direct spillover effects on Italy (+0.1%), whose northern industrial fabric is deeply integrated into German value chains. This decoupling of national dynamics highlights the vulnerability of the region's historical manufacturing engine.

## Macroeconomic outlook: Exceeding central projections

We anticipate the current momentum will persist through the final months of the year, with a projected Q4 growth rate of +0.3%. If realized, this would bring annual 2025 GDP growth to +1.2%, outperforming the latest projections from both the ECB and the European Commission. While this trajectory is positive, it remains fragile; the lack of a unified growth driver across all member states means that the region's performance is increasingly dependent on the resilience of services and domestic consumption rather than a broad-based recovery.

## Structural obstacles and the precautionary savings trap

As the Eurozone enters 2026, household behavior remains the critical adjustment variable. Although real purchasing power is recovering as inflation stabilizes near 2%, consumption is not yet fully driving growth. Precautionary savings persist at elevated levels, fueled by fiscal uncertainty in France and political instability in Germany. This preference for liquidity over durable goods investment suggests that while the risk of economic collapse has receded, the path to robust potential growth is obstructed by structural headwinds and a continued sensitivity to exogenous shocks.



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