Weekly Analysis

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THE SURPRISE FALL IN INFLATION IN THE EURO ZONE RESHUFFLES THE CARDS

Entry into recession in Q4. Inflation declines faster than expected. New paradigm for ECB policy and euro bond yields. Favourable environment for securitized real estate and equities.

Key points

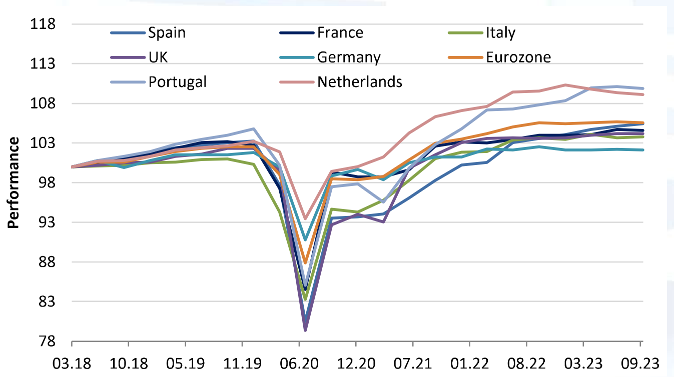
- Eurozone GDP finally slips into negative territory in Q3
- Technical recession expected in Q4 2023
- Leading indicators point to a fall in activity
- Confidence indices stabilize at low levels
- Surprisingly rapid decline in inflation
- Falling inflation is a boon for the ECB
- New paradigm for European bond markets
- Crushing yields affect the euro
- Rapid revaluation of securitized real estate
- Favorable backdrop for European equities

Eurozone GDP finally slips into negative territory

The evolution of GDP in the Eurozone in Q3 takes another step towards a probable recession in H2, with a decline of -0.1%, which should be followed in Q4 by a further contraction in GDP of -0.2%. The eurozone economy is thus closer than ever to recording two consecutive quarters of pessimistic forecasts already predicting a collapse in its momentum by early 2023. After holding up well against the headwinds at the start of the year, European economic now shows the weakness long expected. The slowdown in activity in the eurozone is thus taking shape very gradually, with a resilience that continues to surprise. Overall, there was little activity in all GDP components, but household consumption rather surprised by a new growth rate of +0.3% over the quarter, as did the +0.3% rise in public spending. In the end, it was the impact of foreign trade that seems to have pulled GDP growth slightly into negative territory, with a -1.1% fall in exports.

Year-on-year, GDP in the eurozone is now stable, after having risen by +0.5% year-on-year in the previous quarter. The difficulties faced by households are real, but they found the resources to increase their consumption levels during the quarter. Contrary to expectations, the situation in Germany, the eurozone's leading country, was not the sole cause of this negative quarterly result. Indeed, in regional comparison, the main European countries followed similar dynamics, with a limited contraction of just -0.1% in France and Germany, while the Netherlands and Portugal recorded a barely more marked decline of -0.2%. Spain (+0.3%) and Italy (+0.1%) seemed to be holding up a little better, supporting overall performance. Moreover, this contraction in Eurozone GDP is relatively similar to that of the European Union as a whole, where aggregate GDP was perfectly stable, despite the greater disparity between national performances. The spectrum of national results sees Ireland record a sharp contraction in GDP (-1.9%), while Malta (+2.4%) and Poland (+1.5%) continue the positive momentum already recorded in previous quarters. The resilience of the European economy remains surprising in the current context of serious declines in real purchasing power and rising financing costs. The European economy is staggering and is set to enter recession at the end of 2023.

Quarterly GDP growth-Europe



Sources: Bloomberg, BBGI Group SA