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Weekly Analysis

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CONFIDENCE GROWS STRONGER IN EUROPE

Germany is back. Economic recovery in H2. PMI index rather positive. Inflation below 2%. ECB still flexible. Moderate outlook for bonds. Positive context for the euro and real estate. Return of equity risks.

Key points

- Economic conditions continue to improve in Europe
- Positive momentum continues in 2nd half
- Leading indicators remain moderately optimistic
- Household confidence set to improve
- Inflation falls back below ECB target (+2%)
- ECB to cut rates below 2%
- Positive but moderate outlook for eurozone bond markets
- Euro benefits from renewed confidence
- Securitized real estate benefits from lower rates
- Return of uncertainty for equities over the summer months

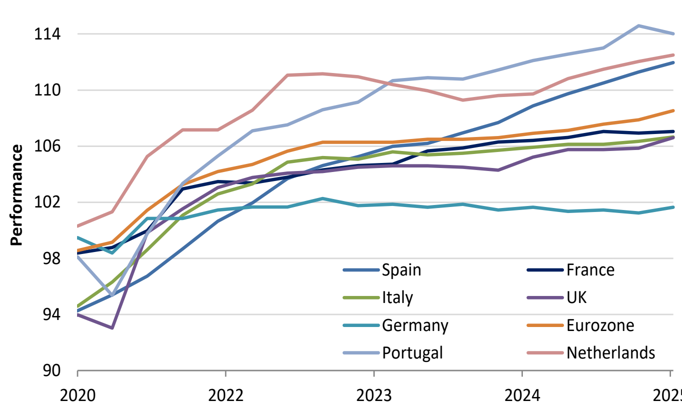
Economic recovery continues in Europe

Eurozone GDP growth was +0.3% quarter-on-quarter (compared with Q4 2024), according to Eurostat's final estimates. This figure, though modest, marks a slight acceleration on the previous quarter's +0.2%. Household consumption, the main driver of the economy, showed signs of stagnation. Available data point to weak growth in household consumption expenditure. Consumer spending in the Eurozone nevertheless rose slightly, reaching €1,608 billion in Q1 2025, compared with €1,605 billion in Q4 2024. However, some countries, such as France, saw a decline in consumption of goods in January 2025, particularly for durable goods. This reflects households' persistent concerns about inflation and purchasing power, even though inflation is slowing.

Investment fell by -0.2% in Q1 2025, following a decline of -0.1% in the previous quarter. This suggests that the ECB's policy has yet to have a noticeable effect on investment decisions by companies, which remain cautious in the face of the many uncertainties that exist. Tighter credit conditions and economic uncertainty are having a negative impact on investment. The contribution of changes in inventories was certainly a key driver of the positive GDP performance. As in France, where the contribution was +0.5 points (after -0.2 points in Q4 2024), this factor often reflects a build-up of inventories in anticipation of a future upturn in demand or difficulties in selling off production.

Although exports rose in some countries, such as Spain, overall foreign trade made a negative contribution to eurozone GDP growth. This was due to a slowdown in global exports and an increase in imports. International trade tensions, particularly US tariffs, weighed on the outlook and activity. Among the zone's main countries, Spain (+0.6%) maintained its solid momentum, again driven by robust domestic demand underpinned by consumption and investment, but the surprise came from Germany, which also did well with +0.4% growth, emerging from a technical recession thanks to a recovery in production and exports. This result was better than that of Italy (+0.3%), which remained relatively stable, and France (+0.1%), which dragged down overall GDP under the impetus of a negative contribution from its foreign trade. The Eurozone thus started the year on a better trend than the US economy, which on the contrary recorded a contraction in GDP. The positive momentum in the eurozone certainly continued in Q2, as inflation fell further and the ECB lowered rates.

Quarterly GDP growth - Europe



Sources: Bloomberg, BBGI Group SA