Economic Research

Economic Briefing

Euro area – The economy stagnated surprisingly in Q4

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Table of contents

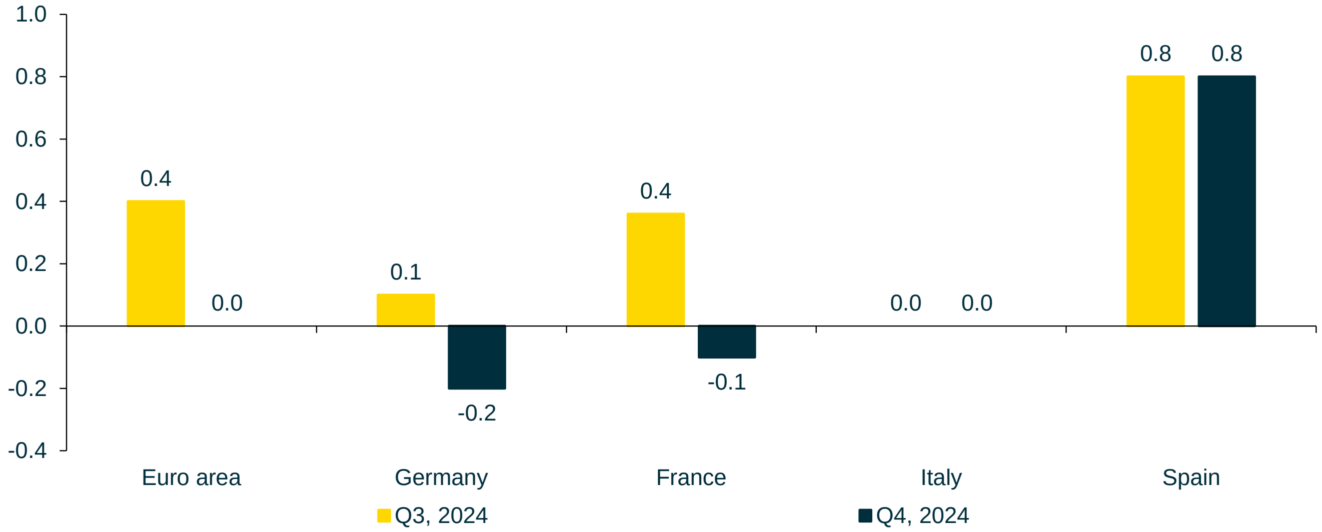
The GDP in the euro area surprisingly stagnated in the fourth quarter, while the economists surveyed in advance had expected growth of 0.2%. This means that growth has weakened significantly, even if the volatile Irish GDP is excluded. The low level of leading indicators suggests a subdued start to the new year.

According to the flash estimate by Eurostat, the economy in the euro area stagnated in the fourth quarter compared to the third quarter. Gross domestic product (GDP) growth was therefore noticeably lower than in the previous quarter. The economists surveyed in advance had expected an increase of 0.2%.

The slowdown in the euro area is largely due to the decline in Germany (-0.2%) and France (-0.1%) in the fourth quarter (Chart 1). Both countries were still growing in the third quarter. Italy's economy stagnated yet again and Spain was surprisingly able to maintain its strong growth of 0.8% in the previous quarter.

Chart 1 - The fourth quarter disappoints

Real gross domestic product, seasonally adjusted quarter-on-quarter change in %



Source: Eurostat, Commerzbank-Research

Euro area economy cools in winter

At 0.0% compared to the previous quarter, growth in the euro area weakened significantly in the fourth quarter. This was mainly due to weak external trade, which follows falling demand from China.

The fact that growth in the fourth quarter was much worse than in the third (0.4%) is also due to one-off effects. For example, Ireland's particularly volatile GDP fell by 1.3% in the fourth quarter. Without Ireland, growth in euro area GDP would only have weakened from 0.3% to 0.1% (Chart 1). In addition, the Summer Olympics in Paris boosted the French economy in the third quarter.

The outlook for 2025 also remains gloomy

We expect only minimal growth of 0.1% for the first quarter of the new year. Survey indicators such as the purchasing managers' indices for the euro area and the Ifo business climate for Germany have recently improved. However, the low level of the indicators only suggests stagnation. The falling key interest rates are clearly not yet providing any relief for the economy. We assume that the positive effect of falling interest rates will only become strongly noticeable in the second half of the year.

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