

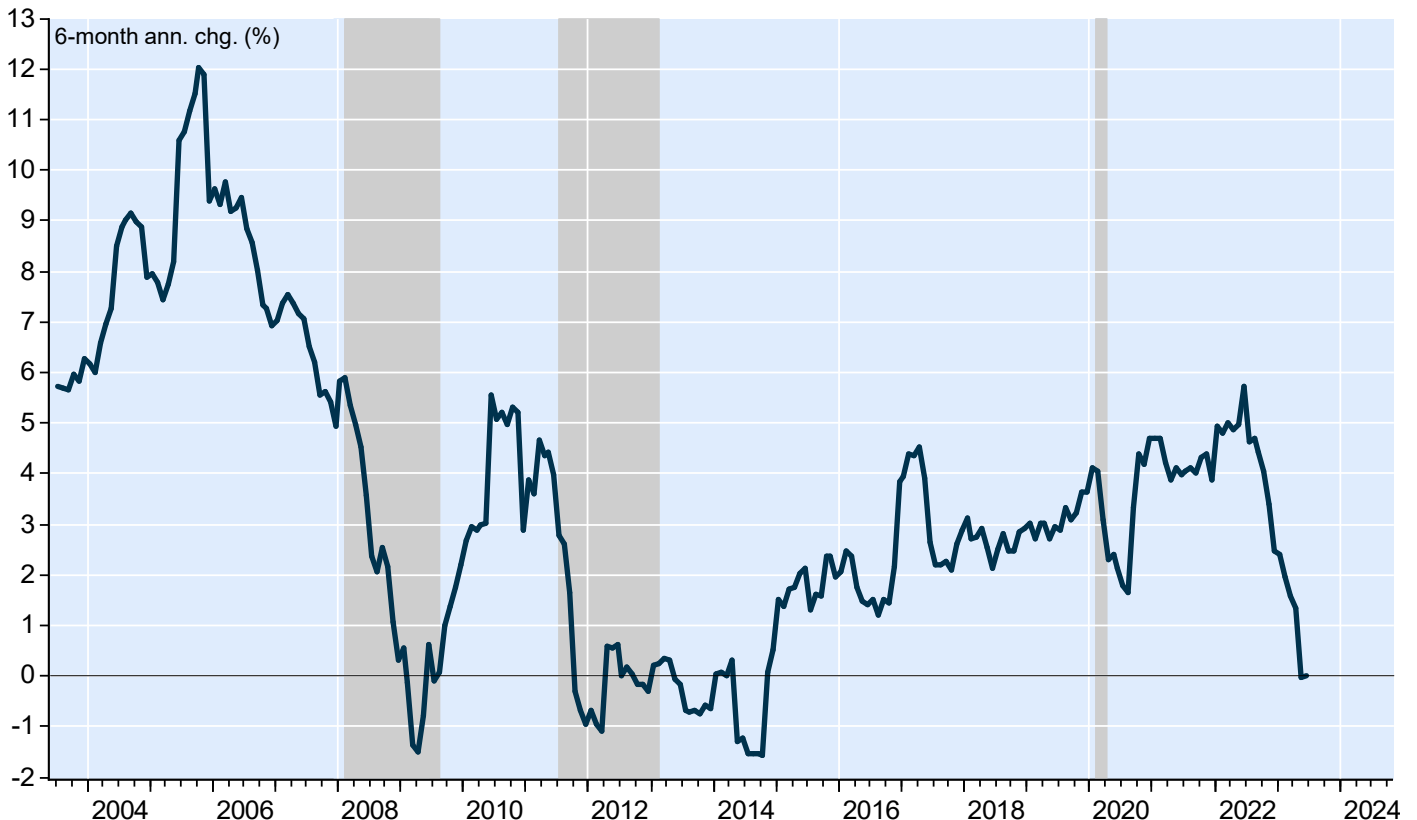
Eurozone Watch

By Jocelyn Paquet

The publication of new economic projections by the International Monetary Fund is always a closely watched event for economists, who take the opportunity to compare their own projections with those of the international body. We, too, underwent this exercise and were surprised to see how our vision of things differed from that of the IMF. Not so much in 2023 – our global growth forecast for that year is only incrementally weaker than that of the Fund (+2.9% vs. +3.0%) –, but certainly in 2024, a year in which we anticipate much weaker growth (+2.1% vs. +2.9%). Part of this divergence reflects diametrically opposed views on the outlook for the eurozone. While the IMF expects growth to rebound quickly in the single currency area, we anticipate a prolonged bout of weakness caused by the abrupt tightening of monetary policy, which is already partly responsible for the successive contractions in real GDP in Q4 and Q1. The problem is that, contrary to what the IMF suggests, the outlook does not seem to be improving at all. On the contrary, Citi’s Surprise Index suggests recent economic data published in the eurozone have been the most disappointing since the Great Recession. S&P Global’s Flash Composite PMI, for its part, showed an acceleration in the pace of contraction of private sector activity in July. It goes without saying that, against this backdrop, we awaited the release of the credit data with some trepidation. And our apprehensions proved well-founded. As today’s Hot Chart shows, lending to households has stagnated in the single currency area over the past six months, a development rarely seen outside recessionary periods. And while these numbers did not come as a complete surprise – the ECB’s Bank Lending Survey had shown demand for consumer credit declining for 4 consecutive quarters – they certainly did not point in the direction of a soft landing, especially considering that the central bank isn’t done hiking rates yet. And while this should serve to slow inflation, it will also contribute to a further tightening of financial conditions. In this context, we feel the term “technical” may not be needed much longer to describe the type of recession taking place in the eurozone.

Eurozone: Stagnation in lending hints at weakening economic momentum

Outstanding loans to households



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