EUROZONE
2025-2026 SCENARIO

A SLUGGISH RECOVERY AT A SLOWER PACE THAN POTENTIAL

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WORKING EVERY DAY IN YOUR INTEREST AND FOR SOCIETY

GROUP ECONOMIC RESEARCH

SUMMARY

A SLUGGISH RECOVERY AT A SLOWER PACE THAN POTENTIAL

Forecasts elaborated on 17/12/2024
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Scenario highlights

- **The economic and financial situation of private agents remains solid**
- **The potential for consumption to catch up has not yet been exhausted**
- **Several factors point to a moderate fall in the savings rate**
- **A less restrictive monetary policy**

- **Moderately negative impact of US economic policies on growth and inflation**
- **Manufacturing activity still weak**
- **A recalibration of risks, with the downside risk to growth outweighing the upside risk to inflation**
- **A more restrictive fiscal policy**

	2023	2024	2025	2026
GDP (y/y, %)	0,5	0,7	1,0	1,2
Domestic demand (contribution to GDP, pps)	1,1	0,5	1,2	1,3
Change in inventories (contribution to GDP, pps)	-0,8	-0,3	0,2	0,0
Net exports (contribution to GDP, pps)	0,3	0,5	-0,4	0,0
Private consumption (y/y, %)	0,7	0,9	1,1	1,2
Investment (y/y, %)	1,8	-2,1	1,5	2,0
Inflation (y/y, %)	5,4	2,4	2,0	1,7
Unemployment rate (%)	6,6	6,4	6,4	6,3
Fiscal balance (% of GDP)	-3,7	-3,2	-3,1	-2,9

Sources: Eurostat, Crédit Agricole S.A./ECO

Facing the relative slowdown in the US economy, growth in the Eurozone accelerated slightly over the summer, although still at a much lower rate than in the United States (0.9% year-on-year).

The upturn in household consumption seen over the summer bodes well for slightly stronger growth next year. The latest information on investment does not plead in favour of a marked acceleration. We have revised our investment forecast downwards and postponed its recovery until 2026.

Our GDP growth forecasts for 2024 and 2025 have therefore been reduced (from 0.8% to 0.7% and from 1.3% to 1% respectively). In 2026, GDP growth should return to its potential rate of 1.2%, but the slightly negative output gap will not yet have been closed.

This pace would not be enough to halt a further widening of the growth gap with the US economy, fuelled by a growing divergence in economic policies. The Trump administration's policies should have a moderately negative impact on growth in the Eurozone.

THE SCENARIO IN BRIEF

RECOVERY IN CONSUMPTION CONFIRMED, INVESTMENT DELAYED

The latest estimate of GDP in the Eurozone for the third quarter of 2024 confirmed our forecasts of last September, with growth at 0.4%, providing a carry-over effect of 0.7% for 2024. Following growth at 0.3% in the first quarter and at 0.2% in the second, GDP growth in the third quarter of 2024 is therefore accelerating.

Domestic demand made a positive contribution to growth (+0.9 points). On the other hand, net foreign demand made a negative contribution (-0.9 points). Inventory accumulation outpaced GDP growth, making a positive contribution (+0.4 points). After several quarters of strong destocking, this rebuilding is common to all the major economies in the region.

The upturn in household consumption seen over the summer bodes well for slightly stronger growth next year. We expect a slight acceleration in household spending in 2025, underpinned by increased purchasing power and a reduced need to save, while falling inflation rebuilds real wealth levels and lower interest rates allow a certain revival in property purchasing power.

Even though real wages have only just made up for the accumulated loss of purchasing power since Covid and the energy price crisis, and have not yet returned to trend levels, the ability to consume is increasing. The fall in the savings rate in Q3 is the first confirmation of this. However, the desire to consume may not be there. Structural changes in consumption patterns are underway towards greater sobriety and sustainability.

In addition, several years of fiscal consolidation are likely to lead to greater caution in private spending. Finally, global uncertainty remains high, encouraging households to maintain a high savings rate.

We therefore expect household consumption to accelerate only moderately, to 1.1% in 2025 and 1.2% in 2026, after 0.9% in 2024.

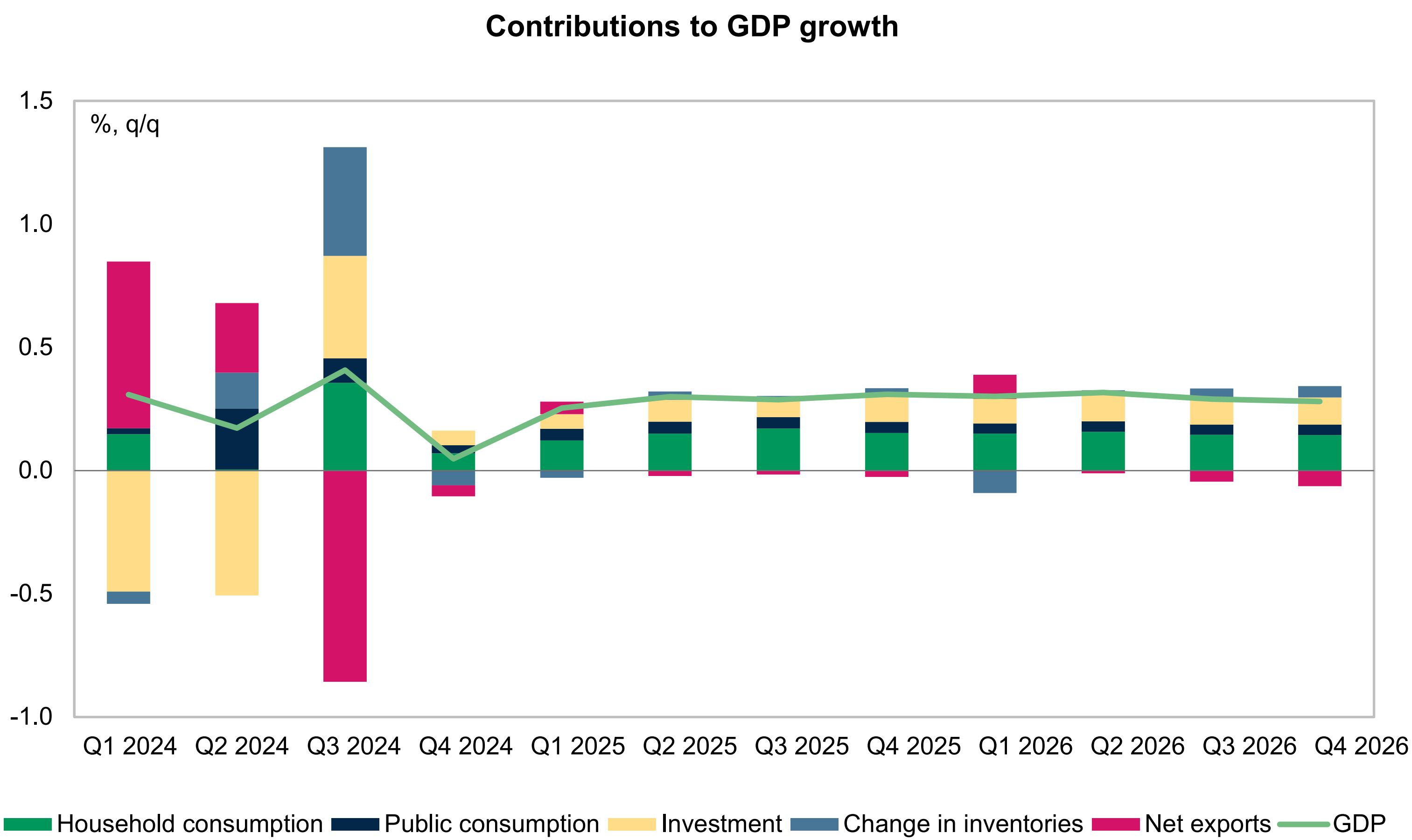
The rise in investment by non-financial companies in the third quarter conceals a much less favourable reality. This rise is in fact linked to a strong recovery in investment in IT goods and communications technologies in Ireland. It masks the decline in investment in the Eurozone. While the flow of loans to non-financial companies has picked up, surveys continue to show weak demand for loans due to the fall in investment and still high levels of internal resources. The average cost of new business loans has fallen, but credit conditions are expected to tighten. While the cyclical recovery in productivity is improving margins, the lag in the transmission of the past hike in interest rates is still penalising for investment, and is expected to extend until the end of 2025. The decision to invest will continue to be "clouded" by growing uncertainty about foreign demand and moderated by weak domestic demand.

We forecast a marked fall (-2.1%) in investment in 2024, followed by a recovery to 1.5% and 2% in 2025 and 2026, with the quarterly rate of expansion remaining modest until the summer of 2025.

Our GDP growth forecasts for 2024 and 2025 have therefore been reduced (from 0.8% to 0.7% and from 1.3% to 1% respectively). In 2026, GDP growth would return to its potential rate of 1.2%, but the output gap, which is slightly negative, would still not be closed. This pace would not be enough to halt a further widening of **the growth gap with the US economy, fuelled by a growing divergence in economic policies.** The Trump administration's policies should have a moderately negative impact on growth in the Eurozone.

A SLUGGISH RECOVERY AT A SLOWER PACE THAN POTENTIAL

DRIVEN BY THE RECOVERY IN PRIVATE CONSUMPTION

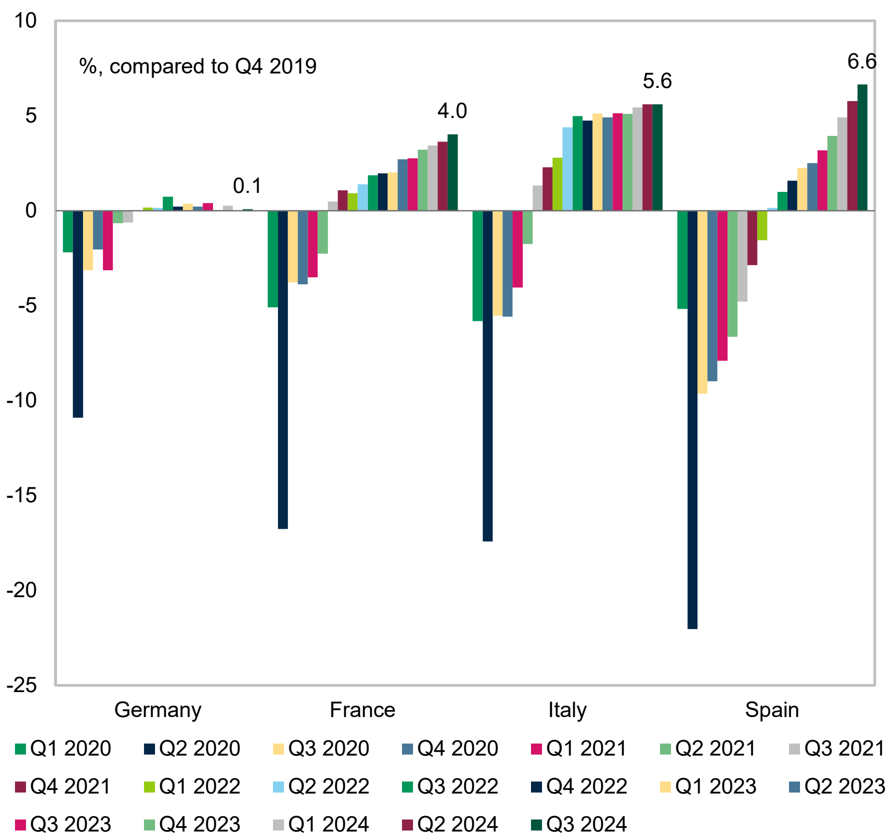


Sources: Eurostat, Crédit Agricole S.A./ECO

A SHARED RATIONALE BETWEEN EUROZONE ECONOMIES

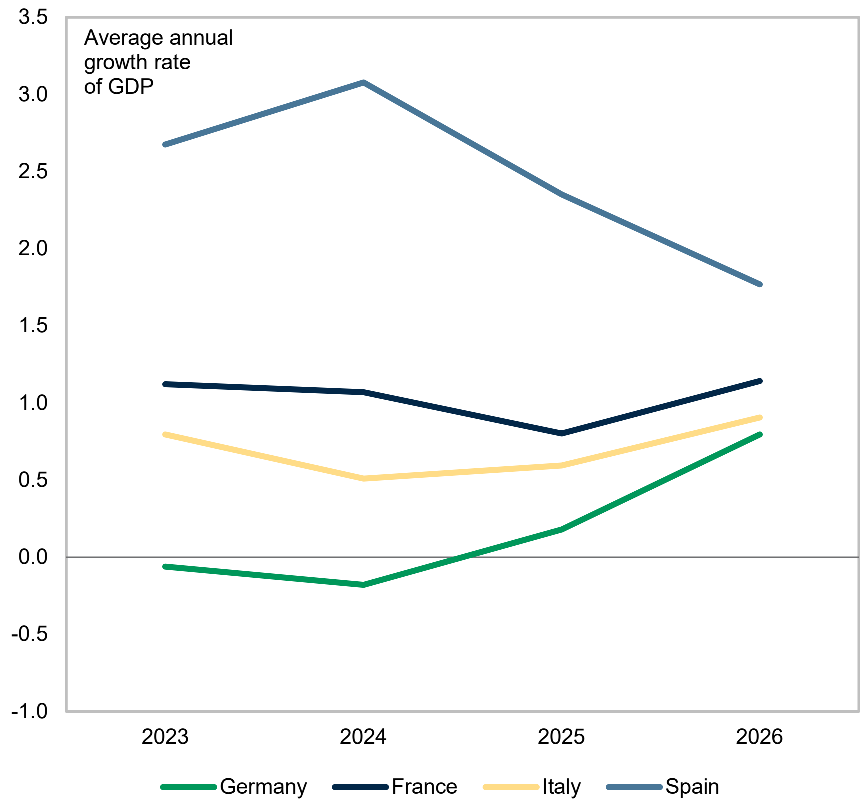
BUT MAJOR DIFFERENCES IN GROWTH

GDP: gap with pre-crisis level



Sources: Eurostat, Crédit Agricole S.A./ECO

Differences in growth still significant

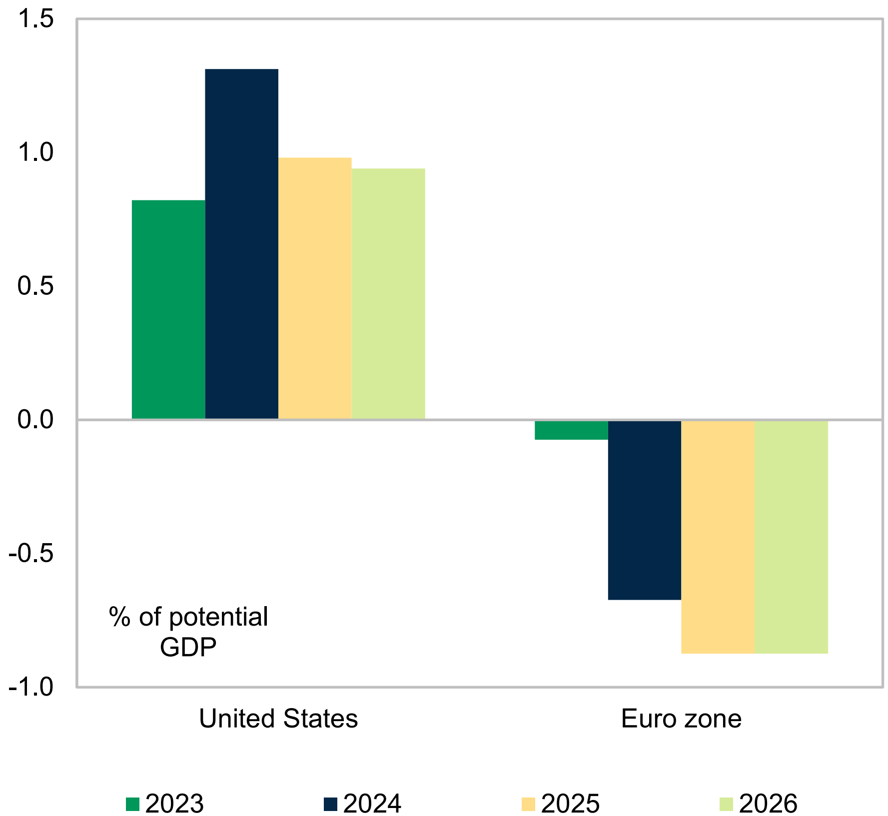


Sources: Eurostat, Crédit Agricole S.A./ECO

EURO ZONE - UNITED STATES

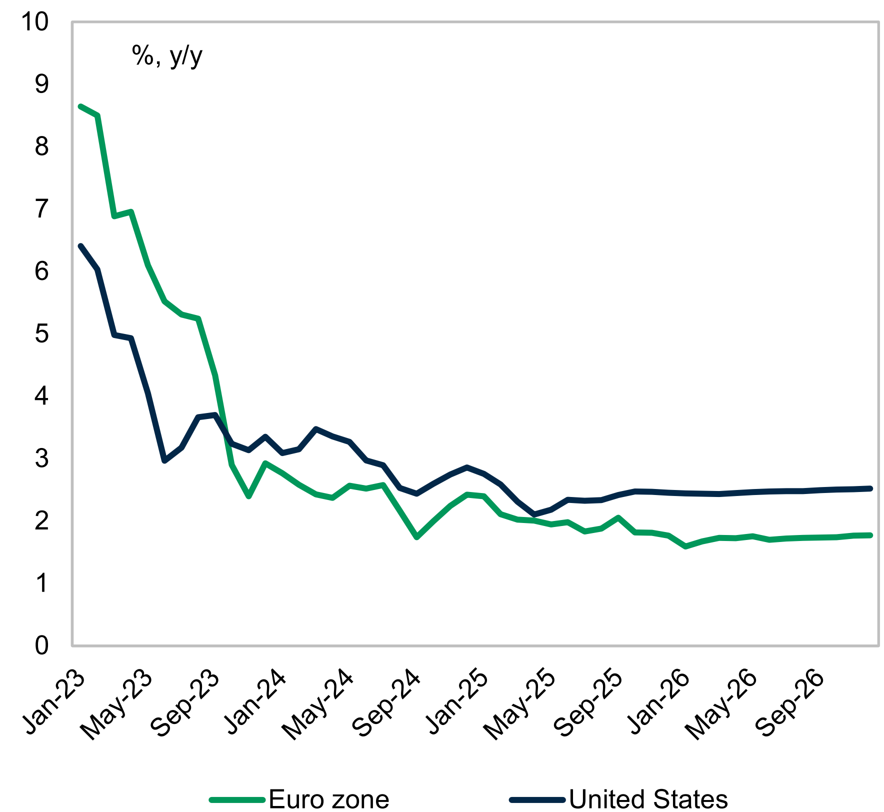
GROWING DIVERGENCES IN GROWTH AND INFLATION

Output gap



Sources: CBO, AMECO, Crédit Agricole S.A./ECO

Inflation forecasts



Sources: CBO, Eurostat, Crédit Agricole CIB

INTRODUCTION

THE INTERNATIONAL CONTEXT

Global economic growth is forecast to slow in 2025 and to accelerate modestly in 2026. In the emerging countries, the context was improving in 2024: a fall in US key rates was conducive to global monetary easing, easing of downward pressure on emerging currencies and, more generally, external financing for emerging countries; domestic growth was buoyed by falling inflation and interest rate cuts; and exports to developed countries (primarily the United States) were still supportive. However, the measures taken by the new US administration represent a downside risk and point to a marginal slowdown in economic growth, from an estimated 4.1% in 2024 to 3.8% in 2025. In China, we still expect growth to be slightly below target, at around 4.8%, due to weak domestic demand, which is translating into strong deflationary pressures. Inflation should be around 0.3% in 2024, well below the central bank's 3% target.

In 2024, the US economy once again demonstrated its resilience, with growth continuing to exceed expectations and expected to reach an annual average of 2.7%. Our scenario calls for a slowdown in 2025, with growth remaining robust at 1.9%, followed by a recovery to 2.2% in 2026. The end of the disinflationary path could push inflation back towards 2% next spring, before lifting it to around 2.5% by the end of 2025 and keeping it there in 2026: the potential for monetary policy easing will be very limited: after a 100 basis point cut in 2024, the Fed would ease by a further 50 bps in total, taking the Fed funds rate (upper limit of the target range) to 4.00% in the first half of 2025, before pausing for a prolonged period. The new rate forecasts are higher than the previous ones, and envisage a ten-year Treasuries rate approaching 4.50% at the end of 2025, then around 5.00% at the end of 2026. As for the ECB, it is expected to cut rates by 25 bps at its January, March and April meetings, before maintaining its deposit rate at 2.25%.

International background assumptions

	2023	2024	2025	2026	2023				2024				2025				2026			
					T1	T2	T3	T4	T1	T2	T3	T4	T1	T2	T3	T4	T1	T2	T3	T4
'orld GDP (y/y, q/q, %)	3,3	3,0	2,8	2,9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
nited States GDP (y/y, q/q, annualised, %)	2,9	2,7	1,9	2,2	2,8	2,5	4,4	3,2	1,6	3,0	3,1	2,2	1,9	1,4	1,2	1,8	2,5	2,5	2,4	2,4
urozone GDP (y/y, q/q, %)	0,4	0,7	1,0	1,2	0,5	0,1	0,0	0,0	0,3	0,2	0,4	0,0	0,3	0,3	0,3	0,3	0,3	0,3	0,3	0,3
hina GDP (y/y, q/q, %)	5,2	4,8	4,2	3,9	1,8	0,7	1,5	1,3	1,5	0,5	0,9	1,1	1,1	1,0	1,0	1,0	0,9	0,8	0,9	0,9
CB deposit rate (end of period, %)	4,00	3,00	2,25	2,25	3,00	3,50	4,00	4,00	4,00	3,75	3,50	3,00	2,50	2,25	2,25	2,25	2,25	2,25	2,25	2,25
ederal Reserve funds rate (end of period, %)	5,50	4,50	4,00	4,00	5,00	5,50	5,50	5,50	5,50	5,50	5,00	4,50	4,00	4,00	4,00	4,00	4,00	4,00	4,00	4,00
xchange rate (average, EUR/USD)	1,08	1,08	1,05	1,09	1,07	1,09	1,09	1,08	1,09	1,08	1,10	1,07	1,05	1,04	1,05	1,07	1,07	1,08	1,09	1,10
rent (average, USD/barrel)	82,2	79,9	78,3	79,3	82,2	77,9	85,9	83,0	81,9	85,0	78,9	74,0	75,0	80,0	80,0	78,0	75,0	80,0	80,0	82,0

Sources: BAE, ECB, Eurostat, IMF, Refinitiv, Federal Reserve, Crédit Agricole SA / ECO

FOCUS: THE IMPACT OF TRUMP 2.0

SEVERAL POLICIES WITH DIFFERENT IMPACTS: NOT JUST TARIFFS

The direct macroeconomic impact of Trump’s policy announcements would be moderately negative for the Eurozone. The uncertainty channel will play an important role in the short term.

While **higher tariffs may reduce global and Eurozone trade, expansionary fiscal policy in the US may boost demand for European products.** The final outcome will depend on the balance between the extent of fiscal easing and the increase in customs duties, but also on the sequence in which these policies are implemented.

Assuming an increase to 6% in customs duties on certain products (steel, aluminium and automobiles) exported to the United States by the EU and a slightly later expansionary fiscal policy, the loss of GDP for the Eurozone between now and 2030 could amount to 0.1-0.2% on average. The impact could be greater in some countries, notably Germany, once we take into account the spread of the shock through the automotive industry's value chain.

The United States: at the heart of European trade

The United States is by far the EU's most important economic partner. The EU imports more goods from China, but not services. The EU has a much more balanced relationship with the United States in trade in services.

In 2023, EU exports to the US market represented 2.8% of EU GDP, and imports from the US 1.8% of GDP. Within the Eurozone, exporters' exposure to the US market is above average for Germany (4.2% of GDP) and Italy (3.6%), and below average for France (1.7%) and Spain (1.5%). In terms of sectors, the Eurozone's exposure is highest for vehicles, machinery, aerospace, pharmaceuticals, chemicals and food products.

For the United States, exports of goods to the EU represented 1.2% of GDP in 2023, and imports from the EU 1.9% of GDP. The sectoral composition of US exports, oriented towards services, intellectual products and energy, makes them less exposed to the consequences of trade tensions targeting manufactured goods.

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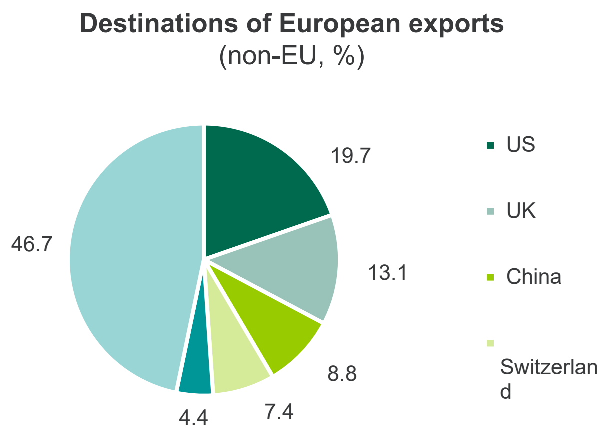
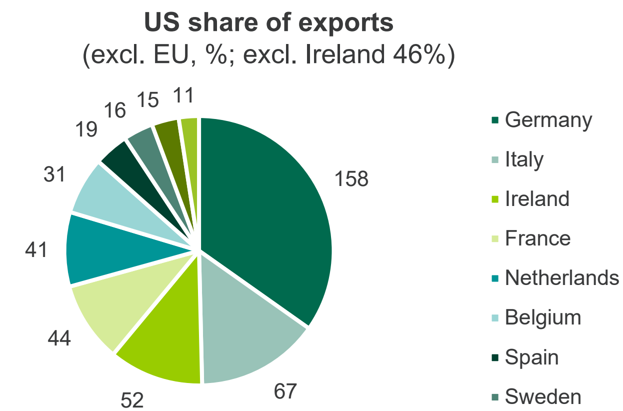
UNITED STATES: AT THE CORE OF EUROPEAN TRADE

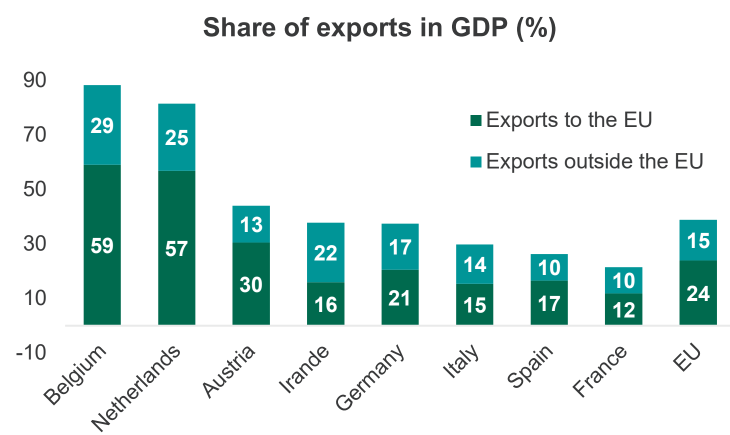




US share of exports

(outside the EU, %; outside Ireland 46%)

Share of exports in GDP (%)



Sources: Eurostat, 2023 data, Crédit Agricole S.A./ECO

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WHAT THE MODELS TELL US ABOUT THE IMPACT OF COMMERCIAL POLICY

Most of the studies that provide an ***ex-ante* assessment of** Trump's proposals come up with **similar results**. The main scenario analysed is as follows:

- **10 pp** increase in customs protection on all products from **all countries except** those covered by a free trade agreement (USMCA, i.e. **Mexico and Canada**).
- **60 pp** on **Chinese products.**
- **Symmetrical retaliation** from partners: same increase in customs duties on products from the United States.

Alternative scenarios that include Mexico and Canada among the targeted countries and exclude retaliation are analysed in several studies.

We have looked in detail at the CEPII studies using the *MIRAGE-Power* model of the world economy, the *Kiel Institute for the World Economy* and the *Austrian Institute for Economic Research* WIFO, using the KITE model, as well as the *ECB Global* model, the *Oxford Economics* GEM model and the IMF simulations in the latest WEO.[1]

Researchers agree that **the world's gross domestic product will fall by 2030. The trade war is very costly for the United States.** US exports are falling significantly, as are imports, albeit to a lesser extent. The reduction in US imports translates into a fall in world trade. However, imports from the United States' trading partners are also falling (with the exception of Canada and Mexico), and general equilibrium effects amplify this fall.

This trade war is also having **serious consequences for China**, whose GDP and exports are falling. The impact of the trade confrontation **is less expensive for the European Union as a whole, and for France and Germany** in particular, but highly beneficial for Canada and especially Mexico.

The "great reallocation" would occur with exports from China to the United States and exports from the United States to China falling sharply. US exports would also fall to all destinations except the USMCA countries and the rest of America. A scenario that included Canada and Mexico in the confrontation would be very negative for these two countries, but would also have more negative consequences for the United States.

The impact on China's exports to the United States is very significant, and the fall in Chinese GDP would have a negative impact on Chinese imports from all sources. With China's exports rising elsewhere and its imports falling, **bilateral trade deficits with China** would **widen significantly, potentially leading to new protectionist pressures in the EU.**

The **losses are greater in the event of trade retaliation for the United States and most other countries, with the exception of the European Union, which benefits from global retaliation.** On the other hand, this is not the case for China, a major importer of intermediate goods and exporter of consumer goods, for which the widespread increase in customs duties on finished products would carry a negative impact on competitiveness and economic activity.

[1] Sources: A.Bouët, L.MatySall, Y.Zheng, "*Trump 2.0 Tariffs: What Cost for the World Economy?*", CEPII, Policy Brief n°49, Oct.2024

G.Felbermayr, J.Hinz, R.J.Langhammer, "*US Trade Policy After 2024: What Is at Stake for Europe?*" IFW, WIFO, Kiel Policy Brief, n°178, Octo. 2024

M.Amiti, S.J.Redding, D.Weinstein "*Who's Paying for U.S. Tariffs? A Longer-Term Perspective*", CEP Discussion Paper n°1675, Feb.2020

Banque de France "Macroeconomic projections for France", 16 Dec. 2024

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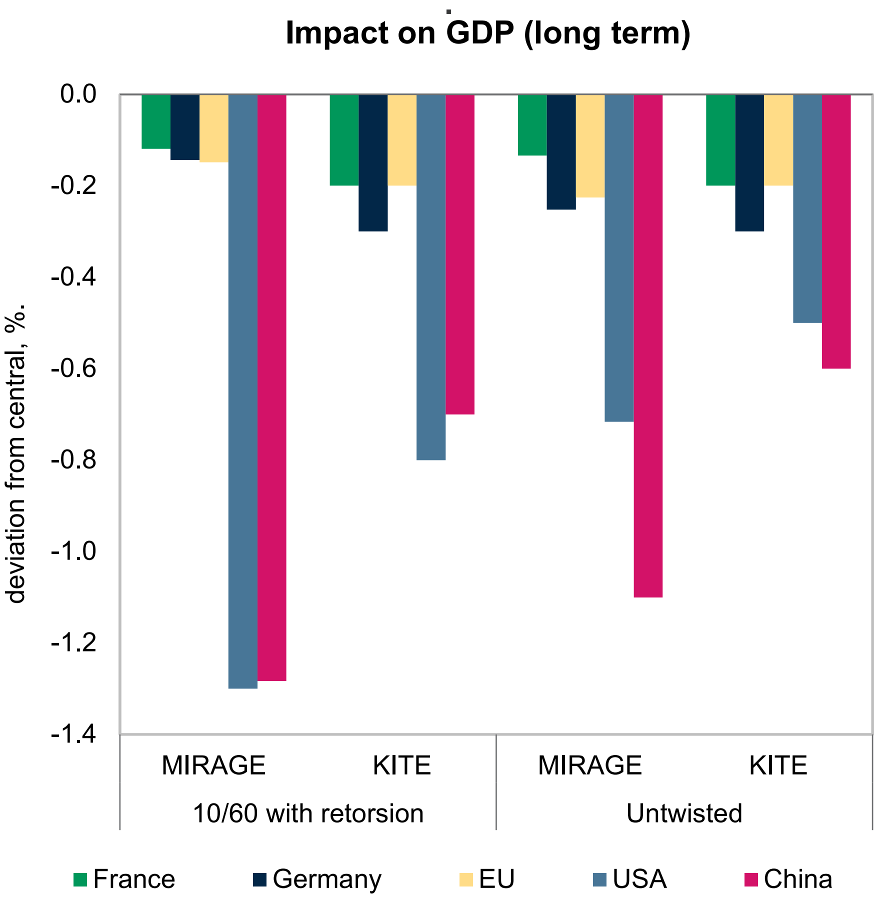
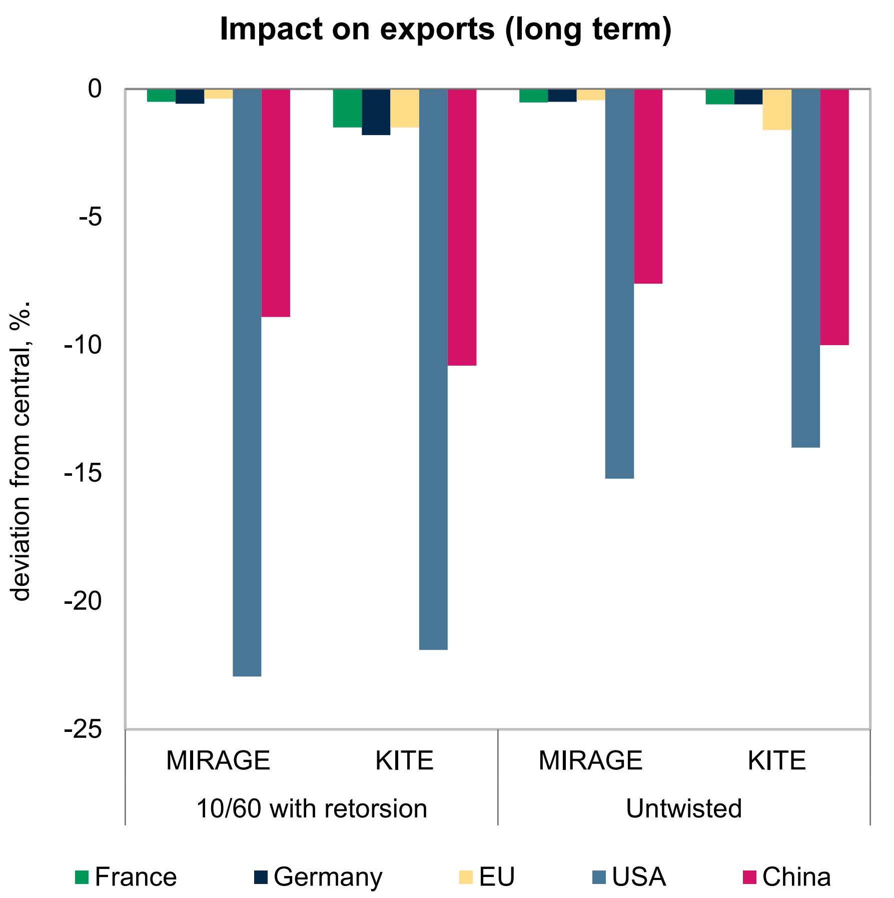
WHAT THE MODELS TELL US ABOUT THE IMPACT OF COMMERCIAL POLICY

Assumption: +60 points on imports from China, +10 points on imports from RoW (excluding USMCA), symmetrical retaliation



Sources: CEPII, IFW Kiel, Crédit Agricole S.A./ECO



Sources: CEPII, IFW Kiel, Crédit Agricole S.A./ECO

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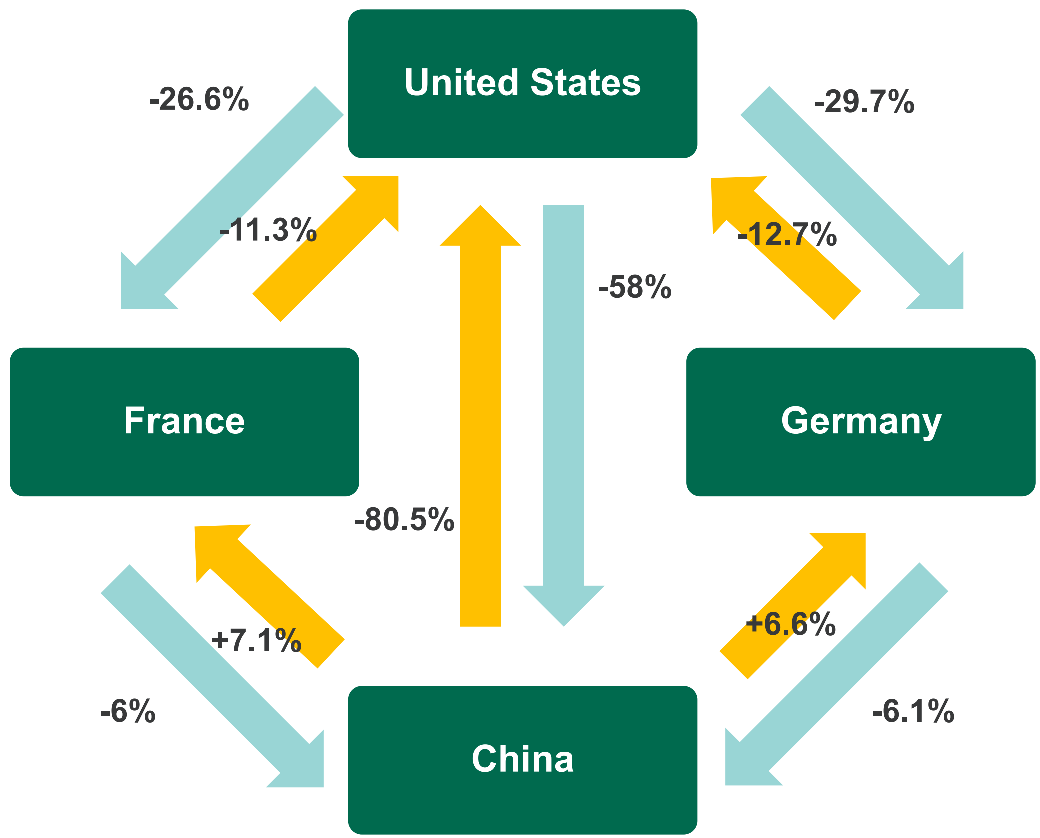
IMPACT ON BILATERAL TRADE



Sources: A.Bouët, L.MatySall, Y.Zheng, "Trump 2.0 Tariffs: What Cost for the World Economy?", CEPII, Policy Brief n°49, Oct.2024, Crédit Agricole S.A./ECO

FOCUS: THE IMPACT OF TRUMP 2.0

OUR KEY ASSUMPTIONS - SCALE & TIMING

Commercial policy

China: increase in average customs duties from the 2e quarter 2025 to **40%** (from 20% at present); the increase is likely to affect capital goods/intermediate goods more than consumer goods.

Rest of the World: increase average customs duties to **6%** (from the current 3%) from 2e half-year 2025; "targets": Mexico, countries through which Chinese shipments have been redirected, countries with which the United States has a substantial bilateral deficit, **specific industries (automobiles, other sectors that may be considered strategic)**.

Tax policy

Slightly positive impact. Extension of the *Tax Cuts & Jobs* Act, modest reduction in the corporate tax rate and possibly "small" favourable tax elements.

Customs calendar

President Trump can impose tariffs on his own, without the need for Congress ➔ probably **as soon as he takes office.**

Budget calendar

Changes in fiscal policy require specific legislation (which can take a long time to negotiate). Consequently, the new legislation may not be adopted before the **end of 2025** ➔ favourable impact in 2026.

FOCUS: THE IMPACT OF TRUMP 2.0

IMPACT OF THE TRADE WAR ON THE EUROZONE

Increasing **US tariffs on imports from the Eurozone would directly reduce demand for European producers**. The previous 2017-2019 experiment between the United States and China revealed a **unitary elasticity**, with an increase in customs duties reducing the amount of US imports by an equivalent percentage. So the scale of this mechanism and its impact on businesses depend on the share of the US market in European exports.

Raising customs duties on China to a greater extent than on Europe would **mitigate the negative impact on European producers** thanks to the loss of competitiveness of Chinese products on the US market. The impact would be all the greater if China were to take retaliatory measures against the United States.

However, there is a significant **risk that Chinese exports will be redirected** towards the Eurozone market, in competition with European producers, which would weigh on activity (and inflation) in the Eurozone.

A depreciation of the euro against the dollar would strengthen the price competitiveness of European exporters and activity in the Eurozone, but would increase the price of imports (high level of invoicing of imports in dollars).

An **increase in the uncertainty** surrounding these various tariff measures (targeting, scale, timetable for implementation, retaliation) would have a **negative impact on activity in the Eurozone, particularly on investment** as European exporters adopt a wait-and-see attitude.

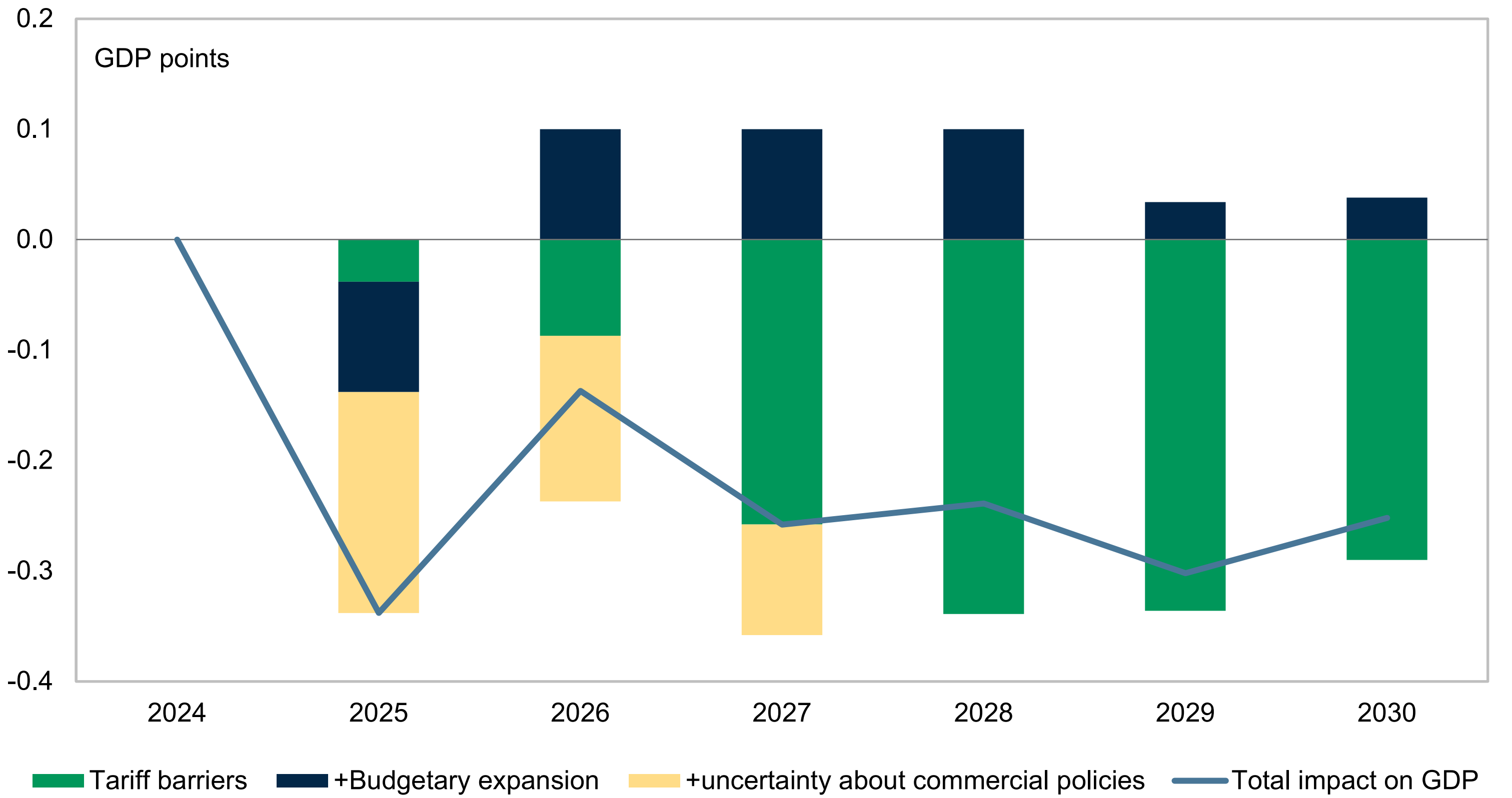
Transmission channels

Shock	GDP	Inflation	Channel
US duties on EZ exports	↓	↓	European competitiveness in foreign markets
Loss of competitiveness in the US and China	↑	↑	European competitiveness in foreign markets
EU duties on US exports	?	↑	Impact of European customs duties on prices
Chinese exports diverted to EZ	↓	↓	European competitiveness in the single market
Depreciation € million	↑	↑	Exchange rate channel, more restrictive Fed policy
Uncertainty	↓	↓	Investment, risk premium

FOCUS: THE IMPACT OF TRUMP 2.0

ALL POLICIES COMBINED: A NEGATIVE SHOCK TO GROWTH AND INFLATION

Trump 2.0: a negative but limited impact on GDP



Sources: Oxford Economics, IMF WEO, Crédit Agricole S.A./ECO

LATEST ECONOMIC TRENDS

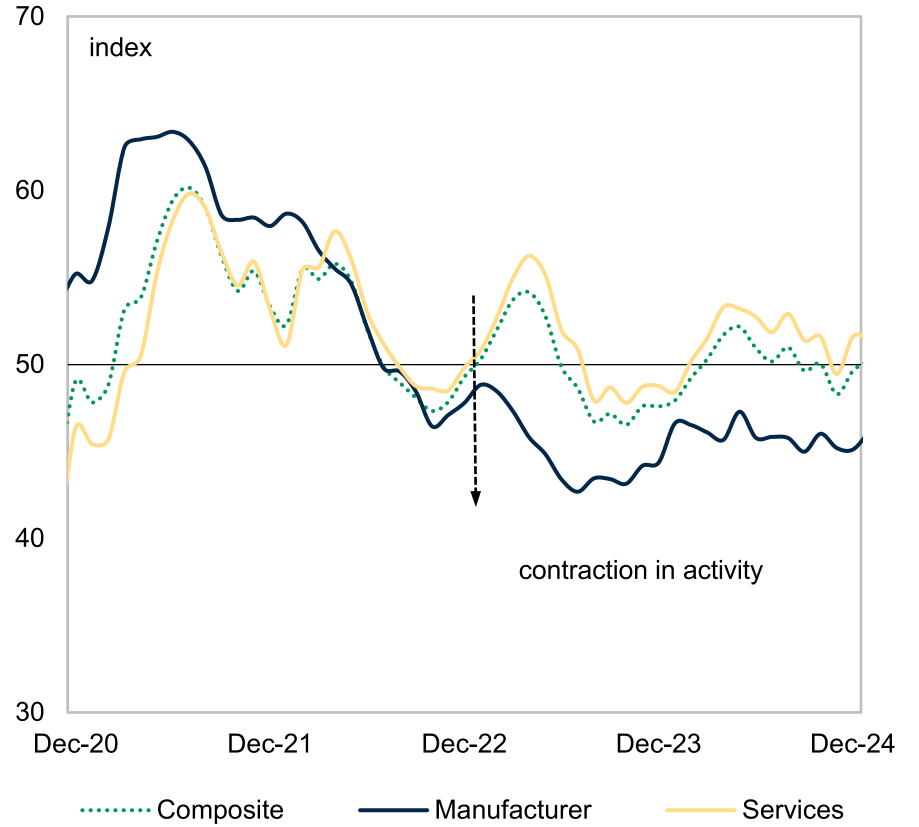
INDUSTRIAL WOES WEAKEN ACTIVITY IN THE REGION

GDP growth in the third quarter of 2024 confirmed our forecasts of last September, with growth accelerating to 0.4%.

This growth was fuelled by the recovery in value added in industry (+0.4% over the quarter), market services (+0.4%) and non-market services (+0.6%), while value added fell in agriculture (-0.8%) and construction (-0.5%). The distribution of value added is still favourable to wages, thanks to a slight acceleration in employment (0.2%) and wages per head (0.9%). However, productivity is recovering slightly, resulting in a slower rise in labour costs per unit of output and a slower deterioration in margins. Hourly productivity is recovering more rapidly, thanks to the stagnation in the number of hours worked.

In our forecast, the acceleration in GDP growth over the summer is therefore not extended into the fourth quarter (0% over the quarter), due in particular to a slump in France (0%, with a post-Olympic *Games* adjustment and political and fiscal uncertainty) and a fall in GDP in Germany (-0.1%).

PMI indices: recovery in activity in Q4 2024



Sources: S&P Global, Crédit Agricole S.A./ECO

HOUSEHOLDS

THE POSITIVE SURPRISE ON PRIVATE CONSUMPTION CONFIRMS OUR NARRATIVE

The recovery in household consumption in the third quarter (+0.7%) is effective, with spending accelerating sharply in all the major economies of the Eurozone. This is not just the result of the positive and transitory effect of the Olympic Games on French household consumption (+0.6% over the quarter): the rebound is shared. Private consumption rose by 0.3% in Germany, 1.4% in Italy and 1.1% in Spain.

The acceleration in household consumption in the third quarter **benefited from the slight improvement in growth in gross disposable income** (0.7%, after 0.6% over the quarter), although this was well below the rate seen since 2021. It also benefited **from the fall in the savings rate (from 15.6% in Q2 to 15.3%), the first since Q4 2022.**

The increase in disposable income was underpinned by slightly more dynamic growth in wages per head (0.8%, after 0.7% over the quarter) and continued job creation (0.2%). Over the year as a whole, **however, wage growth slowed from 4.7% to 4.4%, as did growth in gross mixed household income (3.4%, after 4.1% over the year) and net property income (2.3%, after 3.7%). The strong growth in these latter components over the past year is therefore normalising, and household income is returning to a more traditional, balanced contribution from income from work and income from capital. This rebalancing will have consequences for the trend in the savings rate, since the propensity to save is higher for income from capital.**

The decline in household investment, which has been underway for four quarters, continues (-0.2% over the quarter), but at a slower pace. This has led to a further fall in the investment rate (9.1%), uninterrupted since Q1 2023 (10%). This fall in investment is enabling a recovery in financing capacity (from 6% to 6.2% of gross disposable income).

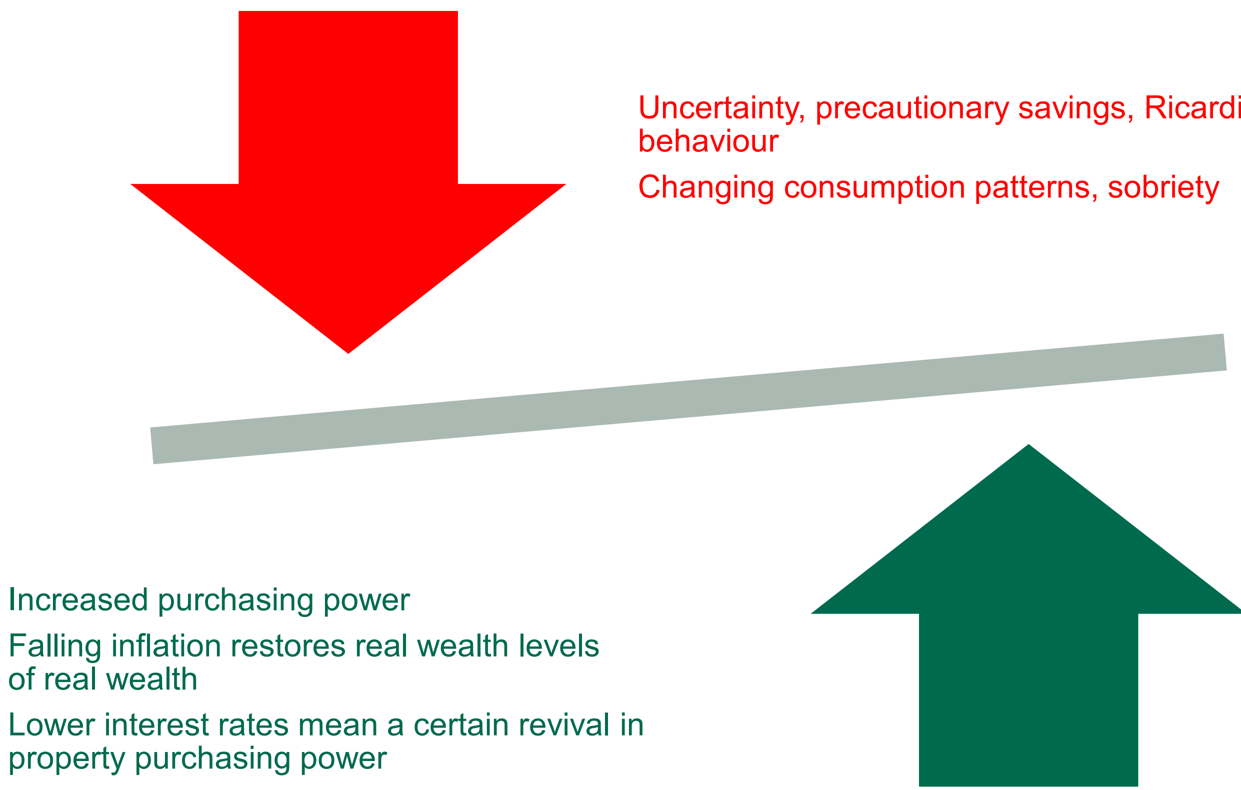
Households are increasing the pace of their accumulation of financial assets, as can be seen in the rise in outstanding deposits. Non-financial wealth, particularly property, also continued to grow at a faster rate (2% year-on-year, after 1.7%). Outstanding loans to households increased at a slightly faster pace (0.7% year-on-year, after 0.4%) in line with the stabilisation of household investment, but their debt ratio continued to fall year-on-year (51.9% of gross disposable income, after 53.7% in Q3 2023). Household net wealth is increasing, limiting the losses in real terms that have accumulated since the inflationary shock.

We forecast a slight acceleration in household spending in 2025, underpinned by increased purchasing power and a reduced need to save, as **falling inflation rebuilds real wealth levels and lower interest rates allow some recovery in property purchasing power. Even though real wages have only just made up for the losses in purchasing power accumulated since Covid and the energy price crisis, without having returned to trend levels, the capacity to consume is increasing.** However, the desire to consume may not be there. Structural changes in consumption patterns are underway towards greater sobriety and sustainability. In addition, several years of fiscal consolidation are likely to lead to greater prudence in private spending. Finally, global uncertainty remains high, encouraging households to maintain a high savings rate. **We therefore expect household consumption to accelerate only moderately, to 1.1% in 2025 and 1.2% in 2026, after 0.9% in 2024.**

HOUSEHOLD CONSUMPTION

THE SHOCK OF INFLATION ALMOST ABSORBED, THE SHOCK OF PAST HIGHER INTEREST RATES FADING AWAY

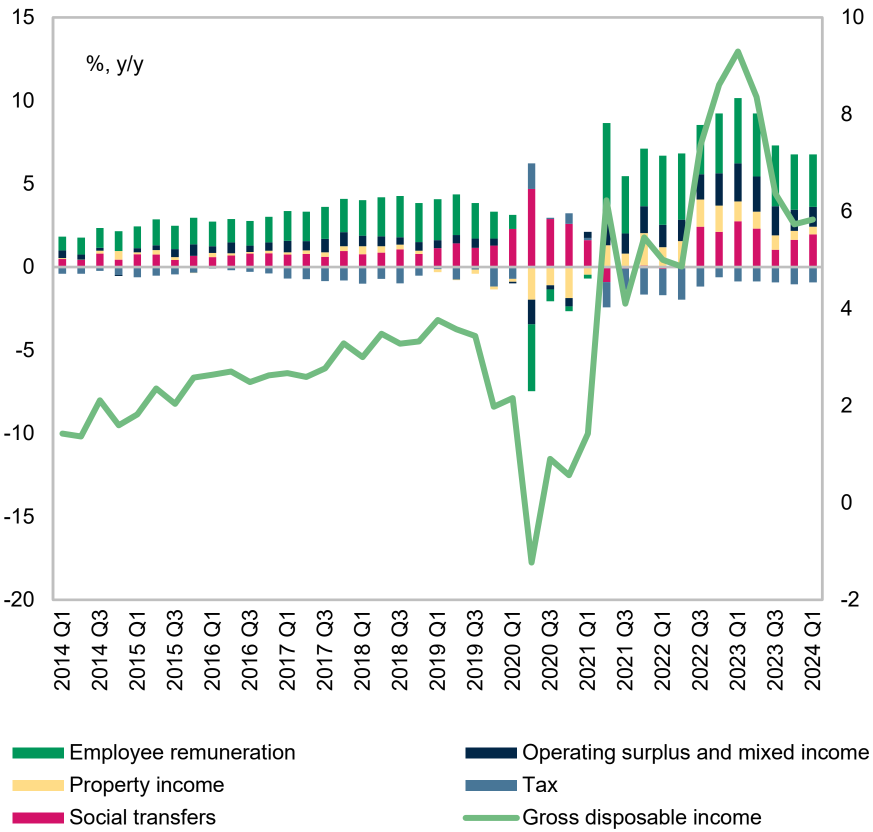
Support and disincentives to household spending



HOUSEHOLD CONSUMPTION

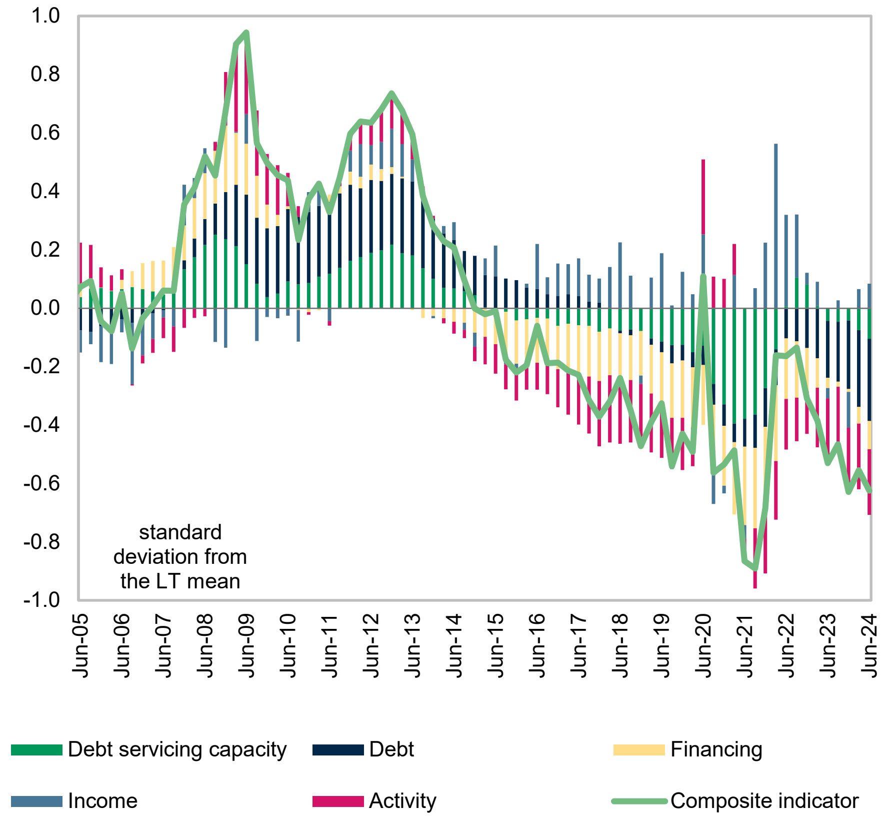
LOWER INFLATION AND INTEREST RATES AND REDUCED VULNERABILITY

Contributions to growth of disposable income



Sources: Eurostat, Crédit Agricole S.A./ECO

Composite indicator household vulnerability

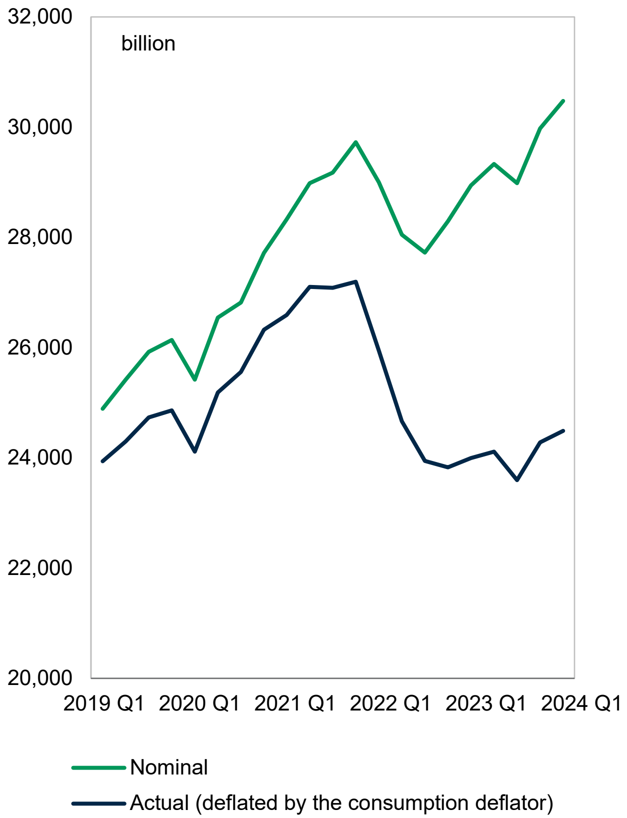


Sources: ECB, Crédit Agricole S.A./ECO

HOUSEHOLD CONSUMPTION

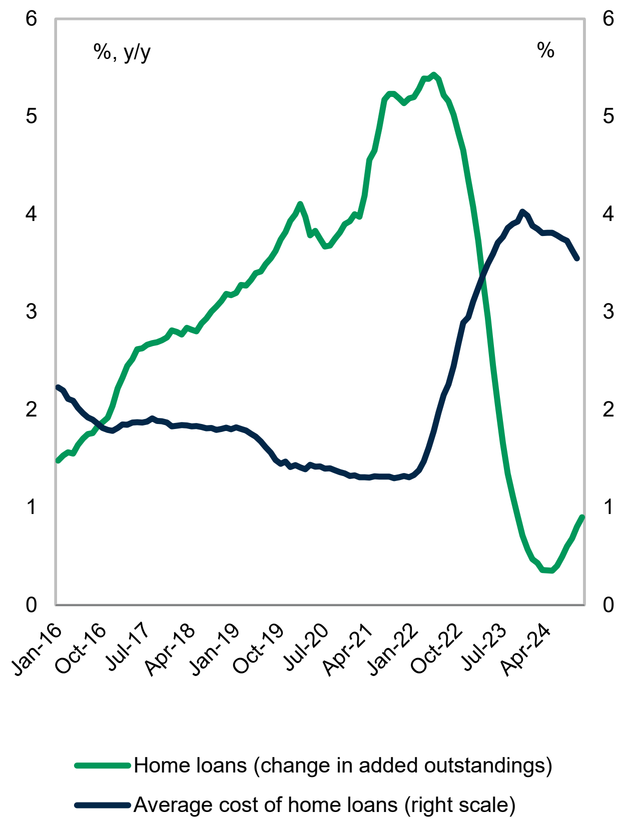
FALLING INFLATION AND INTEREST RATES REDUCE THE INCENTIVE TO SAVE

Household financial wealth: real wealth on the rise again



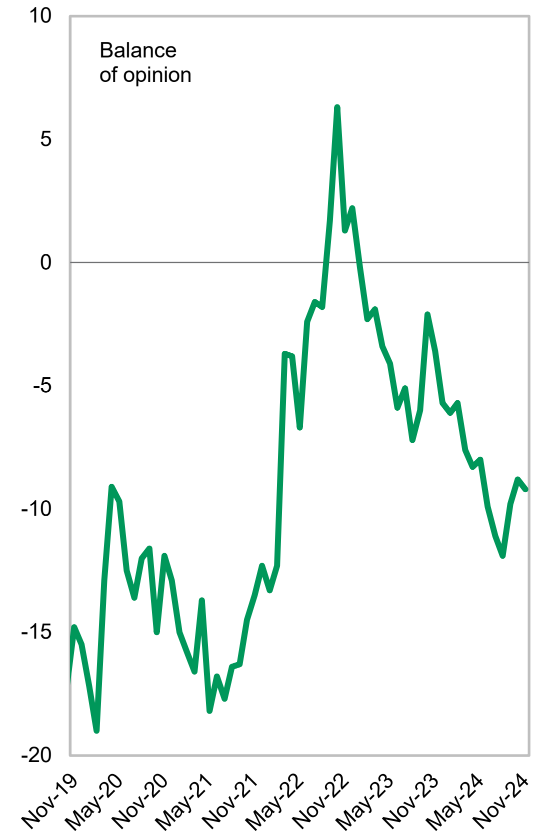
Sources: Eurostat, Crédit Agricole S.A./ECO

Lower interest rates boost the recovery in home loans



Sources: ECB, Crédit Agricole S.A./ECO

Household uncertainty



Sources: European Commission, CA S.A./ECO

NON-FINANCIAL CORPORATIONS

WEAK INVESTMENT MOMENTUM STILL ASSOCIATED WITH DOWNSIDE RISK

In the third quarter of 2024, the share of value added received by profits increased. After declining since Q2 2023, the profit margin of non-financial companies recovered moderately (38.8%, after 38.7%). The slightly more dynamic growth in employee's compensations remains weaker than that in productivity, allowing unit labour costs to fall. The investment rate of NFCs is back on the rise slightly (21.9%, after 21.4%), after having been on a downward trend since the end of 2020, although it has not yet returned to its pre-pandemic level (23%). As a result of this rebound in investment, financing capacity fell (from 2.9% to 2.4%). Financial investment by NFCs remained on an unchanged pace over the year. Financing also continued at an unchanged rate for loans and shares, while debt financing slowed. The debt-to-equity ratio of non-financial companies fell year-on-year from 70.7% to 68.8%.

The rise in investment volume in the third quarter (+2%) conceals a much less favourable reality. This rise is in fact linked to a strong recovery in investment in IT and communications technology goods in Ireland (+211%), which masks the decline in investment in the Eurozone (-0.4%) and in its main economies.

Investment in housing continued to fall, albeit at a slower pace, in all the major countries with the exception of Spain. This stagnation is the result of strong growth in Italy and, to a lesser extent, in France, but a very marked decline in Spain. On an annual basis, investment in housing has been falling for the past two years, while it has been recovering in construction and public works following the sharp decline in 2022. The *Bank Lending Survey* points to a strong recovery in demand for housing loans, thanks to the fall in interest rates and the improvement in the property market, with a recovery in building permits in the northern economies of the zone.

The interest rate on new home loans has already fallen to 3.6%, and the banks expect conditions to ease significantly over the next quarter. However, despite their acceleration, the flow of housing loans continues to grow very moderately.

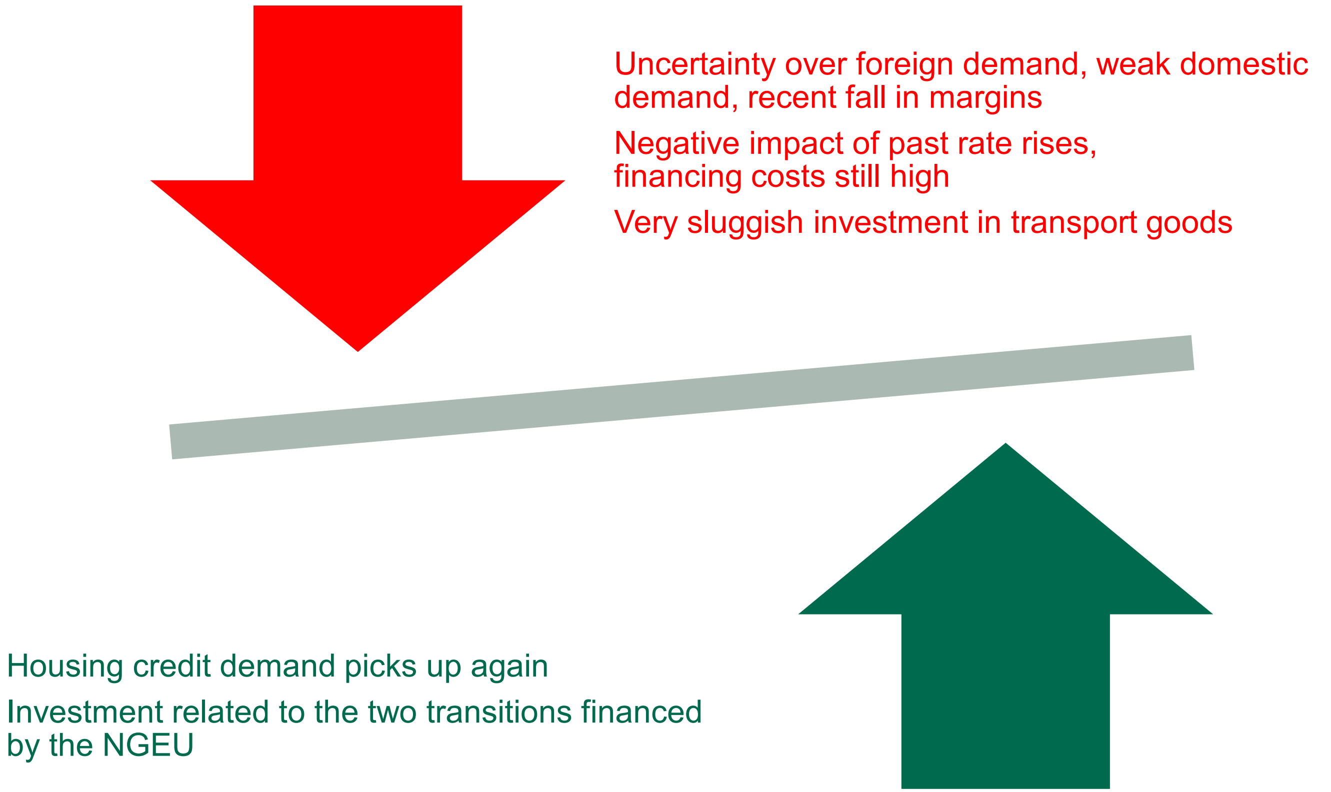
Productive investment fell in the Eurozone in the fourth quarter (-1.8%) as a result of a very sharp fall in investment in transport goods (-3.8%). The latter was very significant in France (-8%), Italy (-6%) and Spain (-4.2%), while the accumulation of transport goods rose in Germany (+3.8%). Over the past year and a half, productive investment has been falling at an increasingly rapid pace, with transport equipment making a growing contribution. While the flow of loans to non-financial companies has picked up, **surveys continue to show weak demand for loans due to the fall in investment and still high internal resources**. The average cost of new business loans has fallen, but credit conditions are expected to tighten. **Weak demand and high financing costs explain the downward revision of investment plans in 2024**. The European Commission's investment survey points to some improvement in 2025.

Our scenario forecasts a stabilisation in investment in housing (despite the delayed downturn in Italy, due to the end of the *Superbonus* incentives). **On the other hand, we have deferred the effect of the transmission of interest rate cuts on productive investment.** While the cyclical upturn in productivity is improving margins, the lag in the transmission of the interest rate cut is still penalising for investment, and should extend until the end of 2025. The decision to invest will continue to be "clouded" by growing uncertainty about foreign demand and moderated by weak domestic demand. Hiring decisions will follow a similar pattern. **We forecast a marked decline (-2.1%) in investment in 2024, followed by a recovery to 1.5% and 2% in 2025 and 202.6, with the quarterly pace of expansion remaining modest until the summer of 2025.**

INVESTMENT

THE IMPACT OF THE PASS-THROUGH OF THE RECENT FALL IN INTEREST RATES ON PRODUCTIVE INVESTMENT DEFERRED TO 2026

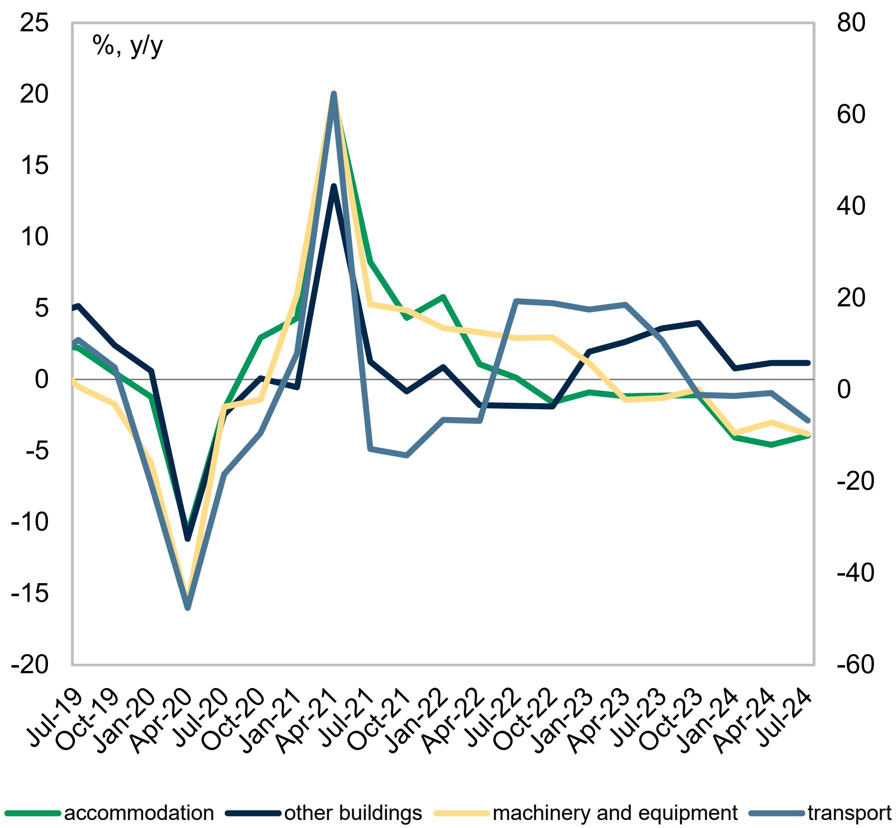
Support and disincentives to investment



INVESTMENT

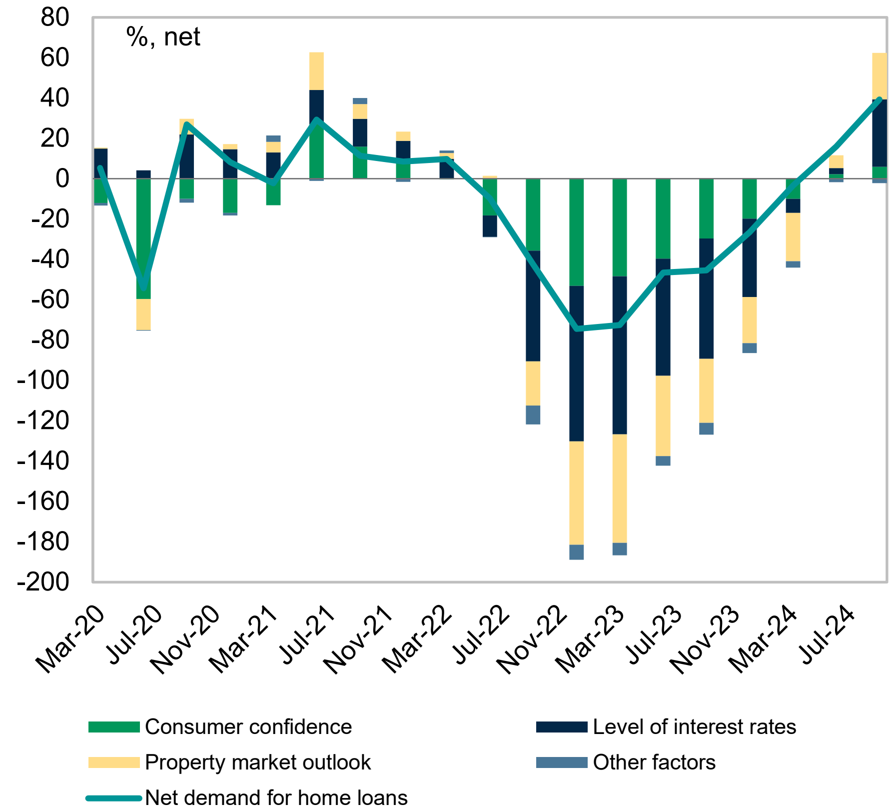
THE PRODUCTIVE COMPONENT CONTINUES TO DETERIORATE

Investment by component



Sources: Eurostat, Crédit Agricole S.A./ECO

Demand for housing loans on the rise: determinants

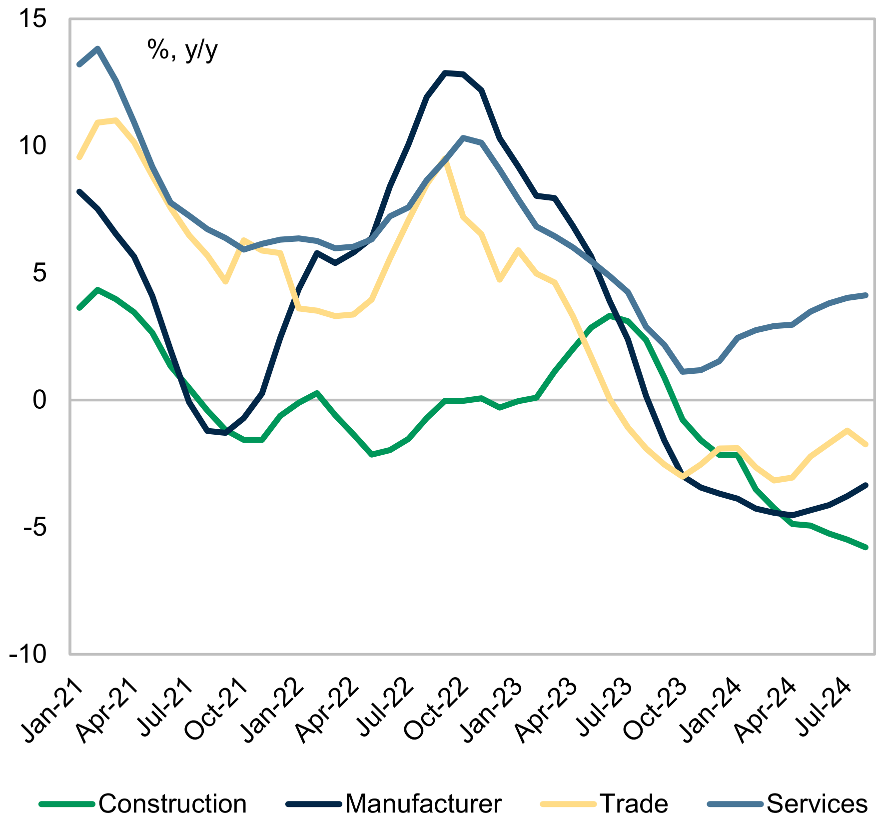


Sources: ECB, Crédit Agricole S.A./ECO

BUSINESS INVESTMENT

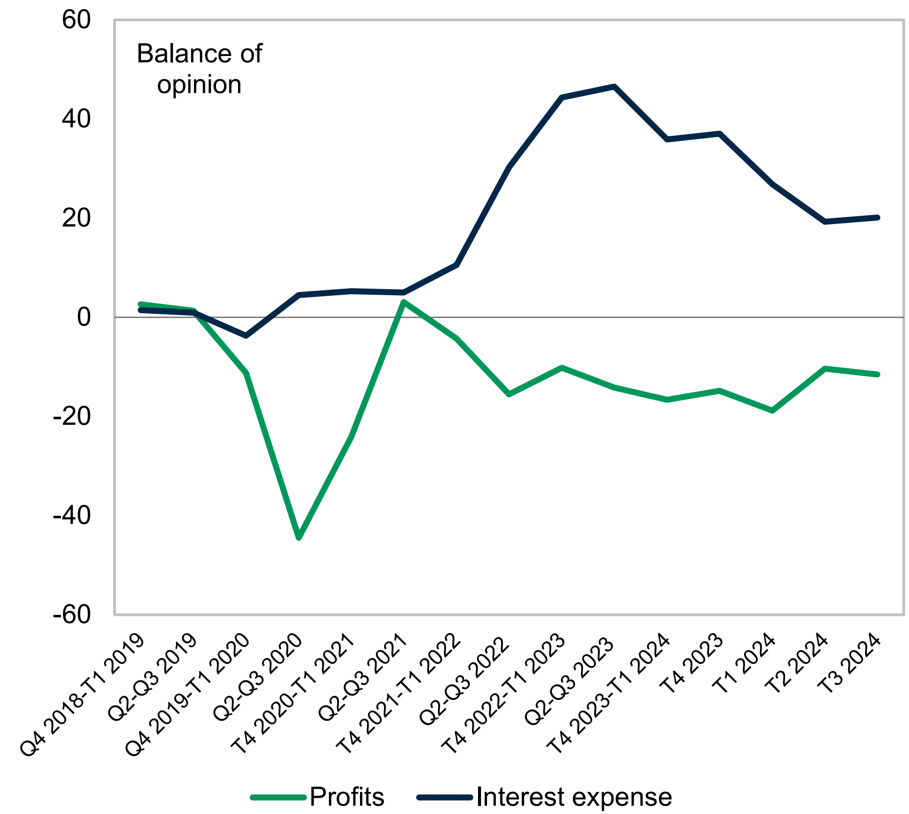
CREDIT DEMAND AT HALF MAST

Business credit: flows down in all sectors all sectors except services



Sources:ECB, Crédit Agricole S.A./ECO

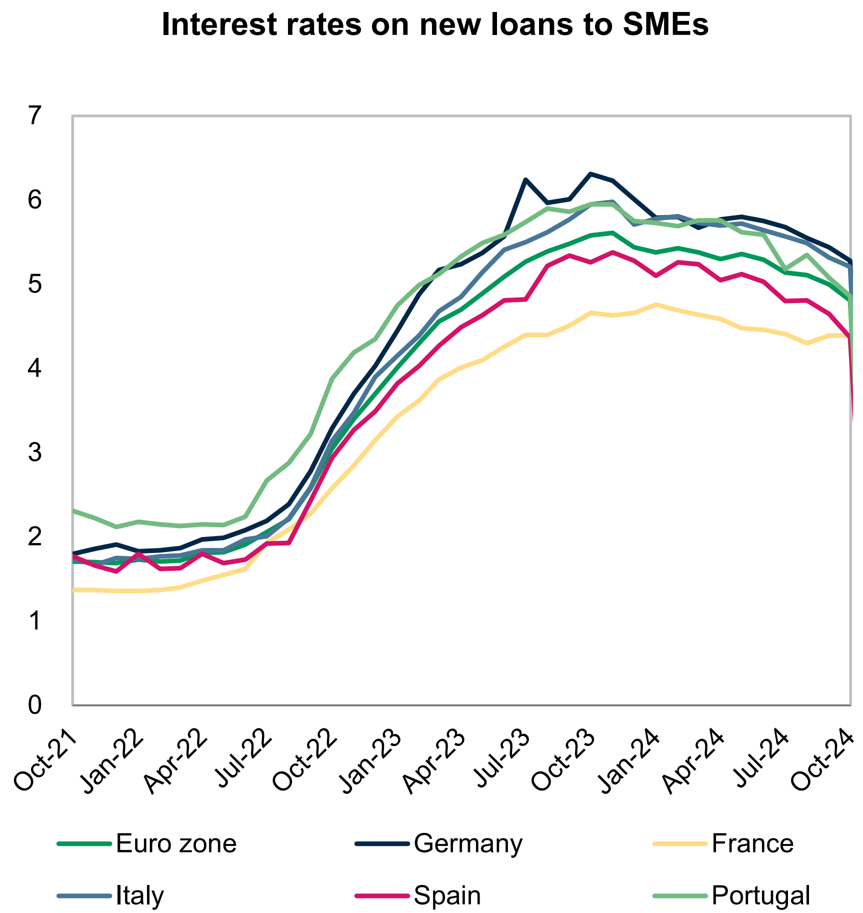
Firms' survey : economic and financial situation



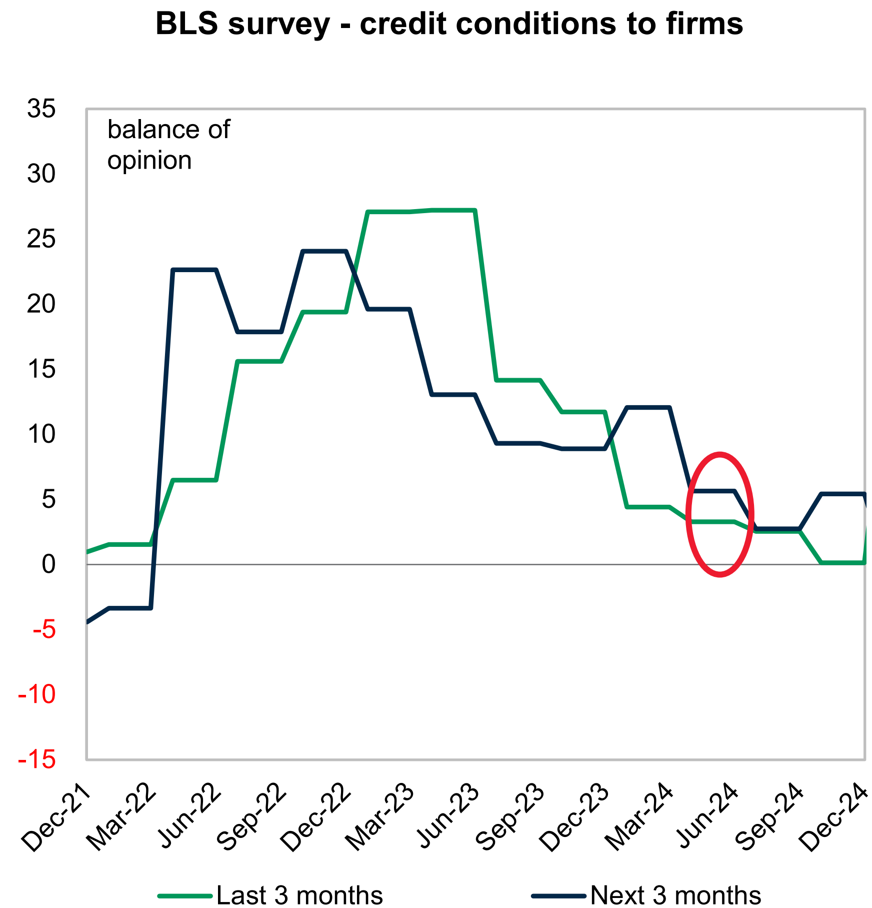
Sources: Eurostat, Crédit Agricole S.A./ECO

INTEREST RATE CUTS ONLY PARTIALLY PASSED ON

TOUGHER CONDITIONS FOR GRANTING LOANS



Sources: ECB, Crédit Agricole S.A./ECO



Sources: ECB, Crédit Agricole S.A./ECO

ECONOMIC POLICY

PASSING THE BATON FROM FISCAL TO MONETARY POLICY

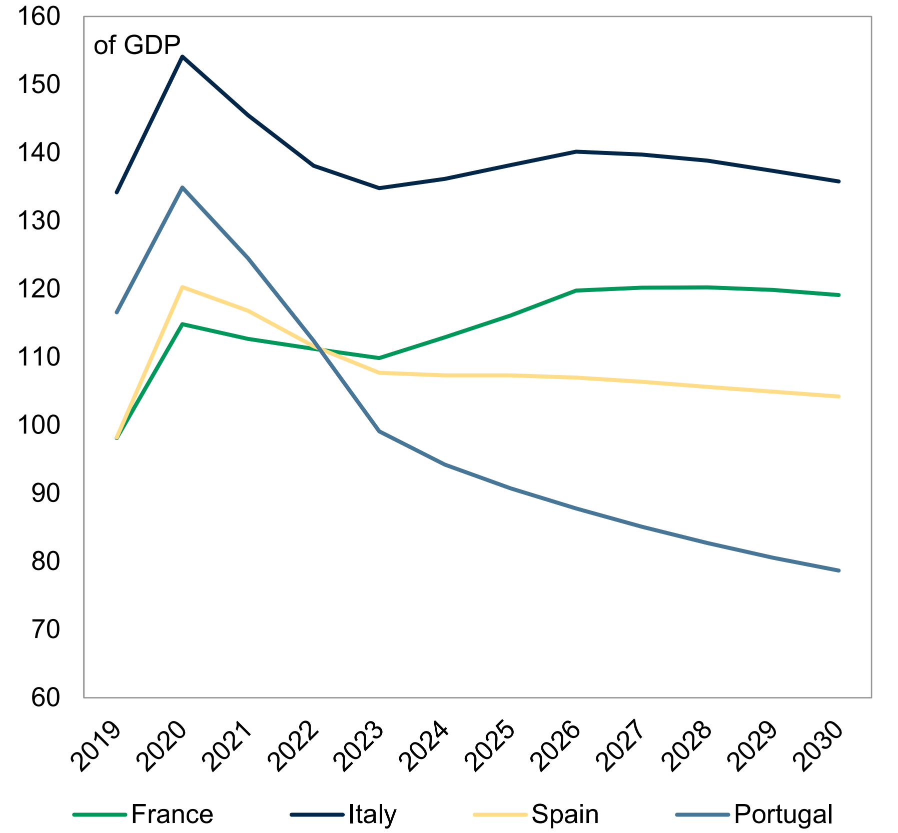
In spite of the new shock from US policies, the policy mix remains unfavourable to growth in the Eurozone.

Monetary policy remains restrictive until mid-2025 **After its four cuts of 25 basis points (bps) in 2024, the ECB should continue its cycle of monetary easing over the course of 2025 so as to converge gradually towards its neutral rate, or even slightly beyond.**
We expect the ECB to cut rates by 25 bps at the January, March and April meetings, and then to keep its deposit rate at 2.25%. This rate of 2.25% is slightly below our estimate of the neutral rate (2.5%), which means that the ECB would then be in accommodative territory.

The reduction in the ECB's balance sheet continues to be restrictive. The ECB will stop all reinvestments from January 2025, slightly accelerating its quantitative tightening.
The lack of strong demand for safe assets and the ECB's easing cycle have steepened the Bund curve relative to the swap curve. This trend is set to continue. Our scenario includes a spread of the rise in US bond yields to their European equivalents: such contagion is expected at the end of 2025 and in 2026. In 2925, the peripheral markets should continue to benefit from the same support as in 2024.

On the fiscal side, **an additional negative fiscal impulse is included in the national budgets, but this is partially offset by the peak in NGEU payments in 2025.** It would not be enough to halt the rise in the debt-to-GDP ratio.

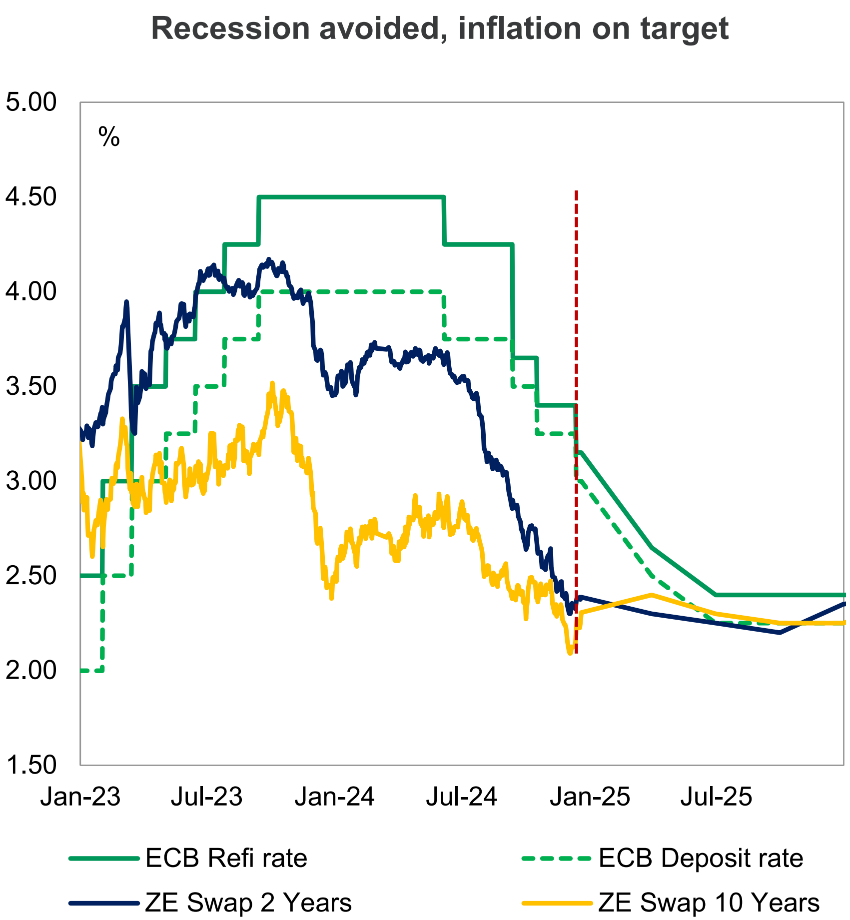
Public debt: easier for some than for others

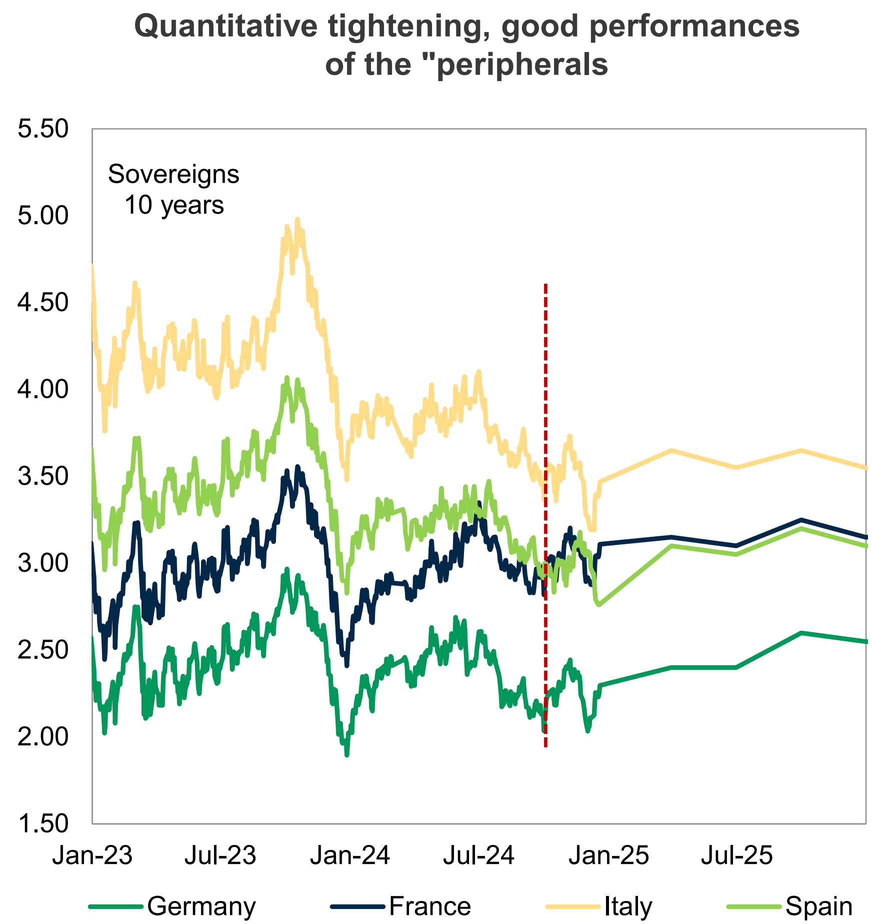


Sources: Eurostat, Crédit Agricole S.A./ECO

MONETARY POLICY AND INTEREST RATES

EUROZONE - INTEREST RATES UNDER PRESSURE



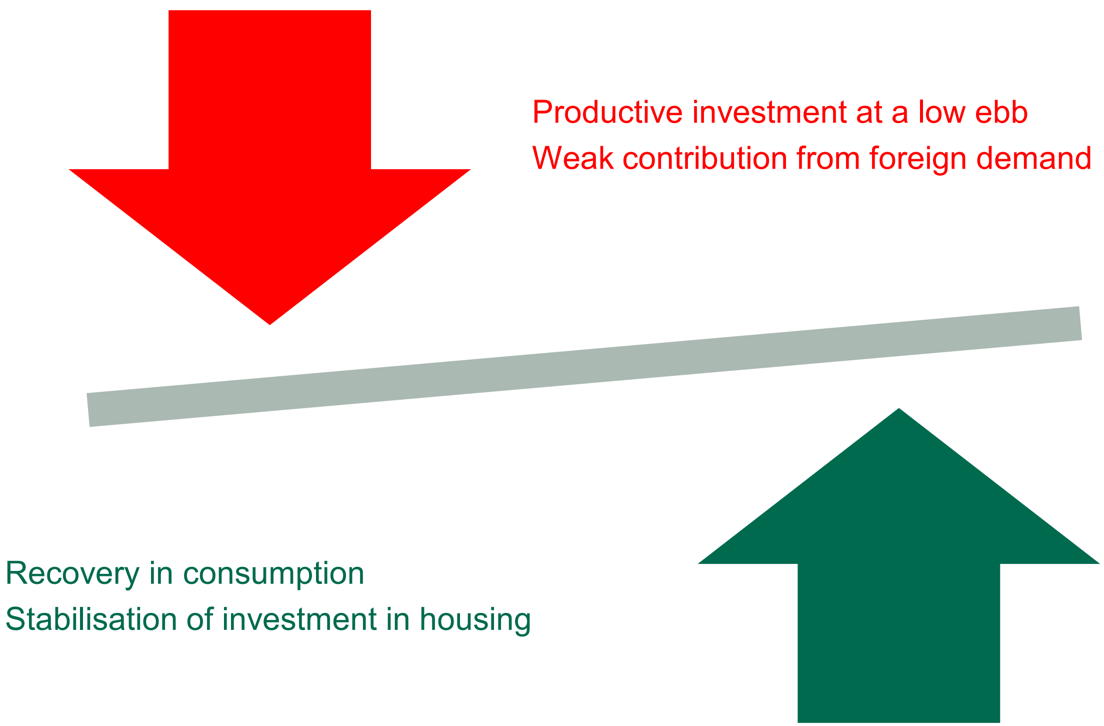


Sources: Bloomberg, CACIB, Crédit Agricole S.A./ECO

RISKS: RECALIBRATION OF THE BALANCE

DOWNSIDE RISK TO GROWTH OUTWEIGHING UPSIDE RISK TO INFLATION

Recovery below potential



THE SCENARIO IN FIGURES

OUR FORECAST IN DETAIL

Eurozone scenario - December 2024
A sluggish recovery at a slower pace than potential

	2023	2024	2025	2026	2023				2024				2025				2026			
					T1	T2	T3	T4	T1	T2	T3	T4	T1	T2	T3	T4	T1	T2	T3	T4
GDP (y/y, q/q, %)	0,5	0,7	1,0	1,2	0,0	0,1	0,0	0,0	0,3	0,2	0,4	0,0	0,3	0,3	0,3	0,3	0,3	0,3	0,3	0,3
Domestic demand (contribution to GDP, pps)	1,1	0,5	1,2	1,2	0,4	0,3	0,3	0,4	-0,3	-0,3	0,9	0,2	0,2	0,3	0,3	0,3	0,3	0,3	0,3	0,3
Private consumption (y/y, q/q, %)	0,7	0,9	1,1	1,2	0,2	0,5	0,3	0,0	0,3	0,0	0,7	0,1	0,2	0,3	0,3	0,3	0,3	0,3	0,3	0,3
Public consumption (y/y, q/q, %)	1,5	2,2	1,2	0,8	0,3	0,4	0,8	0,7	0,1	1,2	0,5	0,1	0,2	0,2	0,2	0,2	0,2	0,2	0,2	0,2
Investment (y/y, q/q, %)	1,8	-2,1	1,5	2,0	1,0	-0,3	0,1	1,4	-2,3	-2,4	2,0	0,3	0,3	0,4	0,4	0,5	0,5	0,6	0,5	0,5
Stockbuilding (contribution to GDP, pps)	-0,8	-0,3	0,2	0,0	-0,8	0,3	-0,5	-0,5	0,0	0,1	0,4	-0,1	0,0	0,0	0,0	0,0	-0,1	0,0	0,0	0,0
Net exports (contribution to GDP, pps)	0,3	0,5	-0,4	0,0	0,4	-0,5	0,2	0,1	0,7	0,3	-0,9	0,0	0,1	0,0	0,0	0,0	0,1	0,0	0,0	-0,1
Exports (y/y, q/q, %)	-0,5	1,0	1,4	2,6	-0,7	-1,0	-1,0	0,3	1,1	1,5	-1,5	0,2	0,7	0,6	0,5	0,6	0,9	0,6	0,6	0,5
Imports (y/y, q/q, %)	-1,1	0,0	2,3	2,8	-1,5	-0,1	-1,6	0,2	-0,3	1,1	0,2	0,3	0,7	0,7	0,6	0,7	0,7	0,7	0,7	0,7
Inflation (y/y, %)	5,4	2,4	2,0	1,7	8,0	6,2	5,0	2,7	2,6	2,5	2,2	2,2	2,2	2,0	1,9	1,8	1,7	1,7	1,7	1,8
Core inflation (y/y, %)	4,9	2,8	2,2	1,9	5,5	5,5	5,1	3,7	3,1	2,8	2,8	2,7	2,5	2,3	2,1	2,1	2,0	2,0	1,9	1,9
Unemployment rate (%)	6,6	6,4	6,4	6,3	6,6	6,5	6,6	6,5	6,5	6,4	6,3	6,4	6,5	6,4	6,4	6,4	6,4	6,3	6,3	6,3
Current account balance (% of GDP)	1,7	2,5	2,5	2,5	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fiscal balance (% of GDP)	-3,6	-3,1	-3,0	-2,8	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Public debt (% of GDP)	87,5	88,3	89,5	90,8	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

THE SCENARIO IN FIGURES

OUR FORECAST BY COUNTRY

	2023	2024	2025	2026	2024				2025				2026			
					T1	T2	T3	T4	T1	T2	T3	T4	T1	T2	T3	T4
Eurozone	0,5	0,7	1,0	1,2	0,3	0,2	0,4	0,0	0,3	0,3	0,3	0,3	0,3	0,3	0,3	0,3
Germany	-0,1	-0,2	0,2	0,8	0,2	-0,3	0,1	-0,1	0,1	0,1	0,1	0,2	0,2	0,2	0,2	0,2
France	1,1	1,1	0,8	1,1	0,2	0,2	0,4	0,0	0,2	0,2	0,2	0,3	0,3	0,3	0,3	0,3
Italy	0,8	0,5	0,6	0,9	0,3	0,2	0,0	0,1	0,1	0,3	0,2	0,3	0,2	0,2	0,2	0,2
Spain	2,7	3,1	2,4	1,8	0,9	0,8	0,8	0,6	0,5	0,5	0,5	0,4	0,4	0,5	0,4	0,4
Netherlands	0,1	0,9	1,6	1,5	-0,3	1,1	0,8	0,0	0,4	0,4	0,4	0,4	0,4	0,4	0,4	0,4
Belgium	1,3	1,0	1,3	1,5	0,3	0,3	0,3	0,3	0,4	0,4	0,4	0,4	0,4	0,4	0,4	0,4
Ireland	-5,7	-0,6	2,6	2,3	0,6	-0,3	3,5	-1,2	0,7	0,7	0,7	0,7	0,5	0,5	0,5	0,5
Portugal	2,5	1,5	2,1	2,2	0,6	0,2	0,2	0,2	0,5	0,9	0,9	0,8	0,3	0,4	0,3	0,4
Greece	2,3	2,2	2,3	2,0	0,1	1,2	0,3	0,1	0,6	0,8	0,7	0,6	0,5	0,4	0,4	0,2
Finland	-1,2	-0,3	1,3	1,3	0,4	0,1	0,3	0,2	0,4	0,4	0,4	0,4	0,3	0,3	0,3	0,3
Luxembourg	-1,1	0,7	2,2	2,2	0,3	0,6	0,5	0,6	0,5	0,5	0,6	0,6	0,5	0,5	0,5	0,5
Austria	-0,8	-0,9	0,9	1,2	0,2	-0,2	-0,1	0,2	0,3	0,4	0,3	0,3	0,3	0,3	0,2	0,2
Slovenia	2,4	1,1	1,8	2,7	-0,2	0,1	0,3	0,4	0,3	0,6	0,7	0,6	0,7	0,7	0,6	0,6
Malta	7,0	5,9	4,3	3,1	3,0	0,8	0,6	0,8	1,4	1,4	1,0	0,7	0,7	0,7	0,7	0,7

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