Europe Economic Outlook

The 2024 outlook: Is a turnaround within reach?

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Following a weak start to 2024, an economic revival could be on the horizon. Inflation in Europe has begun to ease and labour markets have remained resilient, but Europe is facing diverging performance across countries and sectors. Countries like the U.K. and Germany slipped into recessions while others like Spain performed better than the rest of the region. Central banks have become more cautious about the inflation outlook and financial markets are less sanguine about imminent rate cuts. Here are some factors we see driving the turnaround in the year ahead:

Consumer spending remains sluggish but should strengthen as real incomes continue to recover. According to Visa's regional Spending Momentum Index, consumer spending is expanding, except in Italy, where positive momentum at the start of the year has stalled somewhat (Figure 1). The surprisingly strong consumption growth in 2023 has moderated. However, with consumer confidence at a two-year high and inflation effects waning, consumer spending should continue to grow this year.

The disinflationary trend in the Eurozone is well under way, supporting expectations for a rate cut by the end of spring or summer. Unlike the U.S., and to some extent the U.K., Eurozone price pressures have been steadily decelerating, falling from a peak of 10.6 percent to 2.4 percent in March. In some countries (Italy, Ireland and Finland), headline inflation has already fallen below the 2 percent threshold targeted by the European Central Bank (ECB). Core inflation, which strips out more volatile food and petrol prices, has also been easing and is expected to be at 2 percent by year-end (Figure 2).

Key Points:

- Diverging economic performance in Europe
- Inflation expected to be at 2 percent by year-end
- Consumer spending will strengthen as real incomes recover

Fig. 1: Consumer resilience shows up in Visa SMI*

(SA, Index ≥100 = expansion, <100 = contraction)

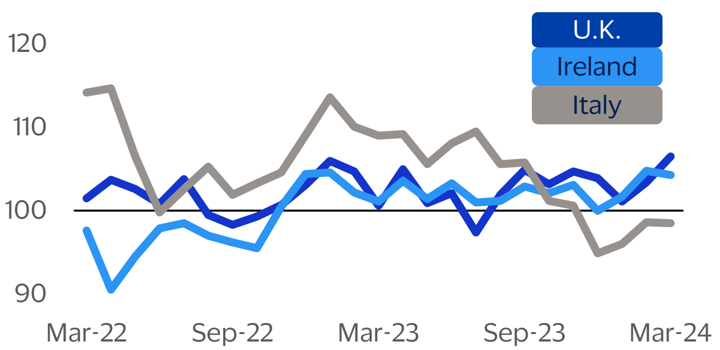
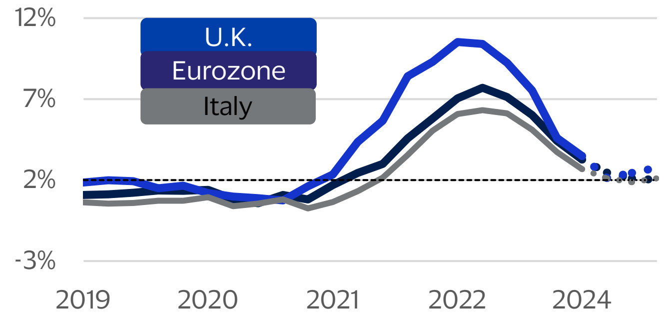


Fig. 2: Inflation on its way to getting back within target

(Core consumer prices, year-on-year percent change)



Sources: Haver Analytics, Oxford Economics. *Visa Spending Momentum Index (SMI); see page 3 for SMI methodology.

Europe: A two-speed economy

U.K. data is telling a slightly different story. Despite a mild recession in the second half of 2023, inflation is still stubbornly elevated, and the labour market remains resilient. U.K. wage growth was robust at 6-7 percent in February in contrast to the Eurozone, where salary growth has slowed below 4 percent. While the ECB can afford early rate cuts, the Bank of England (BoE) must remain vigilant for longer, so we don't expect U.K. rates to fall before the late summer/early autumn.

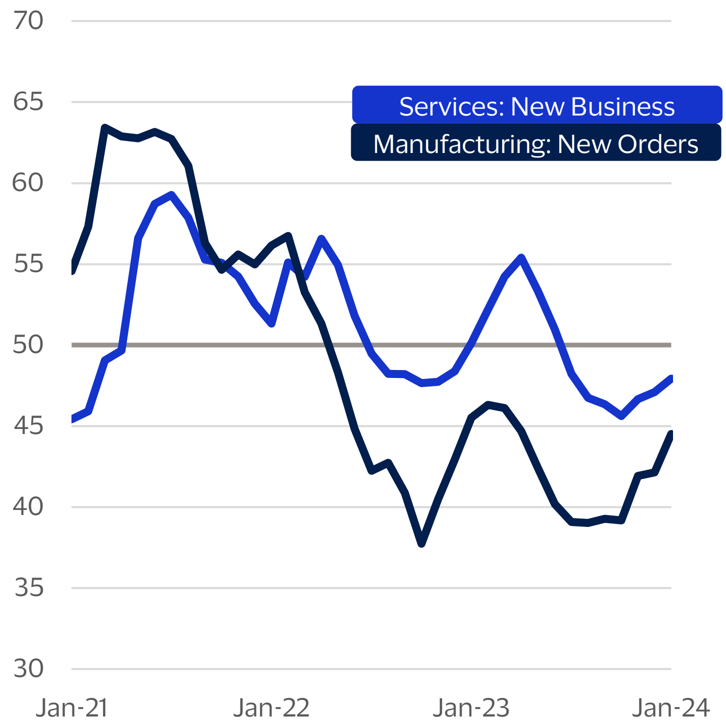
Business confidence in the Eurozone is turning positive as lower interest rates are coming into focus. In manufacturing—a critical sector for some major European economies—indicators have started to show signs of bottoming out. The latest evidence from the Purchasing Managers Index (PMI) surveys suggest that activity may be firming up. The forward-looking components of these surveys (new business in the service sectors and new orders in manufacturing) are paring down recent losses and appear to be on a trajectory for recovery (Figure 3). It might take a few months for the economy to return to growth, but it appears that activity has reached a turning point and further gradual improvement is ahead.

The currency front. If we are correct in expecting the ECB to reduce rates first, ahead of the Federal Reserve and BoE, then a weakening of the Euro relative to the dollar or British pound is likely by mid-2024.

The labour market remains resilient. Unemployment in most countries remains close to historical averages, if not historical lows. The economic weakness of the past year did not result in a faltering labour market. Wage growth is now outpacing the rate of inflation, boding well for the rebuilding of real income. Granted, it will take some time to fully recover but we are on the road to recovery.

Fig. 3: Leading measures of activity are at a turning point

Europe (ex. U.K.) Purchasing Managers' Indices: Manufacturing and services, new orders and business



Source: Haver Analytics

We believe the worst is over for the European economy. There are, of course, several uncertain factors that still linger: the ongoing conflict in Ukraine, tensions in the Middle East, and political uncertainties stemming from elections for both the European parliament in June and U.K. parliament later in the year. However, macroeconomic fundamentals are evolving in a more encouraging direction and a turnaround may be within reach.

Table: Macroeconomic Forecasts for 2024

(Percent change, annual average; data as of 24 April 2024)

	GDP			Consumer Prices			Personal Consumption (nominal)		
	2023	2024	2025	2023	2024	2025	2023	2024	2025
United States	2.5	2.6	2.4	4.1	2.8	1.6	6.0	4.7	4.1
United Kingdom	0.1	0.6	2.0	7.3	2.3	2.2	7.2	3.4	4.8
Eurozone	0.5	0.6	1.8	5.4	2.1	1.3	6.6	3.1	3.2
Germany	-0.1	0.1	1.3	5.9	1.4	0.6	5.7	2.5	3.6
France	0.9	0.5	2.0	4.9	2.5	1.2	7.0	3.1	2.6
Italy	1.0	0.7	1.1	5.6	1.1	1.6	6.5	1.7	2.5
Spain	2.5	2.2	1.7	3.5	3.3	2.0	6.1	4.8	4.0
Poland	0.1	2.9	3.8	11.4	3.7	4.3	9.7	8.5	8.7
Romania	2.1	2.8	3.9	10.4	5.8	4.0	13.2	8.0	7.2
Sweden	0.0	0.2	1.6	8.5	3.2	2.0	3.7	2.1	3.3

Source: Visa Business and Economic Insights

SMI Methodology

The Visa Spending Momentum Index (SMI) measures the breadth of year-over-year change in household spending within an economy, including the share of households with increased spending compared with those where spending was stable or declined. The index is generated using proprietary techniques that extract economic signals from business-related noise inherent in VisaNet transaction data, such as portfolio flips, routing changes, or evolving acceptance across geographies or merchant segments. Regional and national aggregates are population-weighted averages. The resulting sample data is then aggregated using a diffusion index framework in which index values are scored from 0 to 200. Values above 100 indicate broad-based net acceleration in economic momentum. Values below 100 indicate contraction on an annual basis.

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Accessibility notes

Figure 1: Line chart showing the year-over-year (YoY) growth in the Visa Spending Momentum Index (SMI) for the United Kingdom, Ireland and Italy beginning in March 2022. The U.K. SMI ranges from 101.5 in Mar-2022 to 104.7 in Feb-2023, a low of 97.4 in Jul-2023, and a high of 106.5 in Mar-2024, the last reading of the series. Ireland's SMI ranges from 97.6 in Mar-2022 to 104.3 in Mar-2024, a low of 90.5 in Apr-2022 and a high of 104.8 in Feb-2024. The Italian SMI ranges from 114.2 in Mar-2022 to 98.5 in Mar-2024, a low of 94.9 in Dec-2023, and a high of 114.7 in Apr-2022.

Figure 2: Line chart showing the U.K., Eurozone and Italy's year-over-year (YoY) core consumer price index. The U.K. series ranges from 1.9% in March 2019 to the last forecasted value of 2.8% in Dec-2024, a low of 0.8% in March 2021, and a high of 10.5% in Dec-2022. Eurozone core inflation ranges from 1.1% in Mar-2019 to the last forecast of 2.0% in Dec-2024, a low of 0.6% in Dec-2020, and a high of 7.7% in Mar-2023. The Italian series ranges from 0.6% in Mar-2019 to a forecast of 2.1% for Dec-2024, a low of 0.3% in Jun-2021, and a high of 6.3% in Mar-2023.

Figure 3: Figure 3: Line chart showing Europe's (excluding the U.K.) purchasing manufacturing indices for new business in the services sector and new orders in manufacturing. New business in services ranges from a series low of 45.4 in Jan-2021 to 47.9 in Jan-2024, with a high of 59.3 in Jul-2021. New orders in manufacturing ranges from 54.6 in Jan-2021 to 44.5 in Jan-2024, a low of 37.7 in Oct-2022, and a high of 63.4 in Mar-2021.

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