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## Eurozone sinks into recession as cost of living crisis takes toll

GDP shrank 0.1% in first quarter of 2023 and final three months of 2022 after revisions to earlier estimates



Chamonix town centre. France recorded a GDP increase of only 0.2% in the first three months of 2023.  
Photograph: incamerastock/Alamy

**Richard Partington** *Economics correspondent*

The eurozone slipped into recession in the first three months of the year, after official figures were revised to show the bloc's economy shrank as the rising cost of living weighed on consumer spending.

Figures from **Eurostat**, the EU's statistical agency, showed gross domestic product (GDP) fell by 0.1% in the first quarter of 2023 and the final three months of 2022 after revisions to earlier estimates. A technical recession is generally defined as two consecutive quarters of negative growth.

Previous estimates suggested the single-currency bloc had narrowly avoided recession with zero growth in both quarters.

The updated figures showed the wider EU swerved a recession after GDP rose by 0.1% in the first three months of the year, after a contraction of 0.2% in the final quarter of 2022.

The UK avoided entering a recession at the start of the year, while growth in the US also remained positive. However, GDP volumes in the eurozone and the EU are more than 2% higher than the level recorded in the final quarter of 2019 before the Covid pandemic struck – unlike in the UK, where the **economy remains 0.5% smaller**.

Households across the eurozone have come under pressure from rising living costs after the Russian invasion of Ukraine triggered a sharp increase in gas prices, fuelling the highest rates of inflation since the foundation of the single-currency bloc.

With consumers under pressure from the higher energy and food prices, household final consumption dragged down GDP across the euro area by 0.1 percentage points, after a larger 1 percentage-point drop in the previous quarter.

Several eurozone economies were in recession or came close to recording two consecutive quarters of decline, including Germany, the EU's largest economy. France recorded close to zero growth, with flatlining growth in the fourth quarter and a modest increase of 0.2% in the first three months of 2023.

Growth across the 20-country single currency area was, however, also dragged down by Ireland, where GDP fell by 4.6% in the first quarter of this year. However, economists have questioned whether the country's GDP figures reflect the performance of the Irish economy.

Inflation across the eurozone has **fallen sharply in recent months**, with the annual rate cooling from a peak of 10.6% last autumn to reach 6.1% in May – fuelling speculation that the **European Central Bank** could be near the end of its cycle of interest rate increases to tame rapid growth in prices.

Diego Iscaró, the head of European economics at S&P Global Market Intelligence, said evidence of a technical recession was unlikely to dissuade the ECB from raising interest rates at its policy meeting next week.

“We see rates rising by 25 basis points. However, the figures reinforce our view that, while policy rates will rise further in the short term, they are nearing their peak,” he said. “With the effect of higher interest rates still to be fully felt, we project economic activity to remain sluggish during the rest of 2023.”