

13 January 2024

Euro Area Macro Monitor

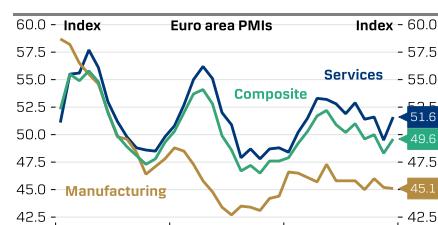
Rebounding service PMIs give some relief

- December PMI provided relief by partially rebounding from the significant decline in November. The composite PMI rose to 49.6 (prior: 48.3, cons: 48.4), driven by a larger-than-expected bounce back in services, which increased to 51.6 from 49.5, bringing services PMI back to the same level as in October. In contrast, the manufacturing PMI remained almost unchanged at 45.1 (prior: 45.2), highlighting that services continue to compensate for the declining activity in the industry. **The contraction implied by PMIs in December thus returned to be entirely manufacturing-led, with France and Germany performing the weakest.** German weakness was also visible in the Ifo index which fell to 84.7 in December from 85.7, a larger drop than anticipated, mainly driven by lower expectations for the economy, indicating a continuously deteriorating economic situation. Spain, however, continue to show strong PMIs with continued expansions in economic activity. **The December PMI rebound offers some relief for the growth outlook.** Still, with the average composite PMI lower than in Q3, the data supports our view of an economic contraction in Q4 with GDP growth at -0.1% q/q, pulled down by the industry.
- Headline inflation rose to 2.4% y/y (0.3% m/m s.a.) in December, as expected, up from 2.2% in November. This increase was mainly driven by energy base effects, while core inflation remained unchanged at 2.7% y/y. Core services showed monthly price increases on the high side with 0.3% m/m s.a., however, this comes after a very low print in November, so 3m/3m momentum continued lower in a positive sign for the ECB. Moreover, December's inflation figures resulted in Q4 average inflation 10bp lower than ECB staff predictions. Hence, December's data confirmed the narrative of weakening momentum in underlying inflation as momentum in services is coming lower while goods remain very low. **Following the uptick inflation in 2024, we expect headline inflation to decline in 2025 Q1, averaging 2.1% as base effects reverse.**
- The ECB concluded 2024 by cutting its policy rate by 25bp, aligning with market expectations. Most importantly, the ECB removed the pledge to keep monetary policy restrictive, now indicating that they will use the three-tiered reaction function inputs as key metrics (inflation outlook, underlying inflation and strength of monetary policy transmission) to set its policy rates – see *Flash: ECB review*, 12 December. **Looking ahead we still expect the ECB will cut its policy rate by 25 bp six times in 2025** as the disinflationary process remains on track.
- The ECB faces ongoing uncertainty regarding the labour market as survey indicators have significantly softened in previous months.** Unemployment expectations in the consumer survey jumped to a two-year high in December, and the indicator has previously led changes in the unemployment rate. However, hard data continues to show a solid labour market with rising employment in Q3 and the unemployment rate remaining at record-low of 6.3% in November. Hence, the labour market remains very strong but forward-looking soft indicators point to risks of a deterioration.

Key views

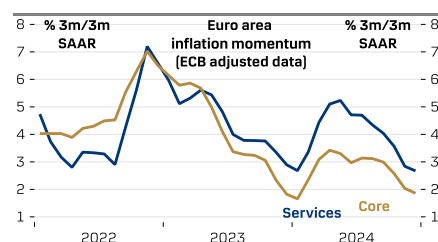
- Headline and core inflation to average 2% in 2025
- Near-term growth outlook weak
- We expect six 25bp rate cuts from the ECB in 2025

December PMI rebounds with strong services recovery



Source: S&P Global, Macrobond Financial

Inflation rose but underlying momentum continued to ease



Source: ECB, Macrobond Financial

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Euro area data overview

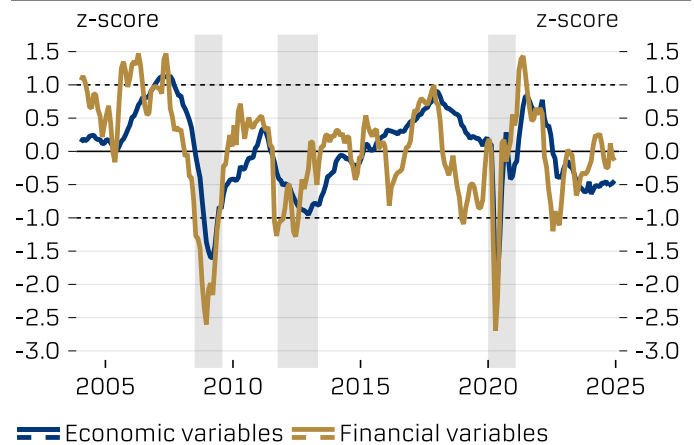
Financial variables were little changed at -0.1, attributing primarily to EuroStoxx50 and Sentix edging lower. The economic variables increased at bit to -0.4, with the PMI composite and EuroCOIN improving, while the European sentiment indicator and consumer confidence declined.

Euro area data monitor

	December	November	October
PMI Composite	49.6	48.3	50.0
PMI Manufacturing	45.1	45.2	46.0
PMI Services	51.6	49.5	51.6
German Ifo	84.7	85.6	86.5
HICP	2.8	2.1	2.6
HICP core	3.7	2.3	3.3
HICP Services	4.1	3.2	4.9
Unemployment rate	n/a	6.3	6.3
Germany 10Y yield	2.2	2.3	2.2
Oil price	73.1	73.1	75.3

Note: n/a indicates data is to be released
 Source: Macrobond Financial, Danske Bank

Data tracker: financial and economic variables



Note: Shaded area indicates historical recessions
 Source: Macrobond Financial, Danske Bank

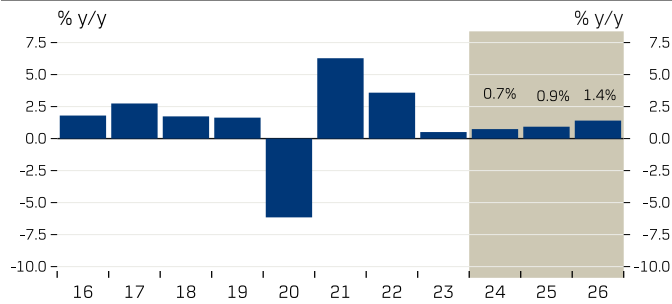
Monthly development in data tracker

	december 2024	november 2024	Monthly change
Economic variables	-0,4	-0,5	0,04
OECD CLI	0,4	0,4	0,00
EuroCOIN	0,3	0,1	0,18
Unemployment	0,1	0,1	0,00
Profit growth	0,0	0,0	0,00
ZEW	-0,3	-0,3	0,00
Consumer confidence	-0,4	-0,2	-0,13
Capacity utilisation	-0,4	-0,4	0,00
Composite PMI	-0,5	-0,7	0,27
European sentiment indicator	-0,6	-0,4	-0,20
Credit growth	-0,8	-0,9	0,12
PMI order-inventory balance	-0,8	-0,8	-0,01
Real M1 growth	-2,2	-2,4	0,19
Financial variables	-0,1	-0,1	-0,06
Corporate vs. Gov. Bond yield	0,4	0,4	0,04
Eurostoxx50	0,3	0,5	-0,18
Euro Surprise index	-0,3	-0,4	0,18
Sentix	-1,0	-0,7	-0,25

Source: Macrobond Financial, Danske Bank

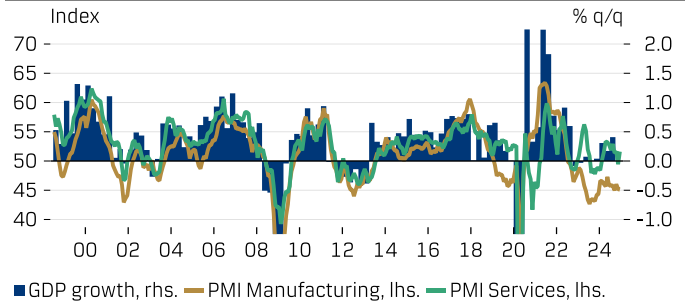
Euro area

GDP growth forecasts



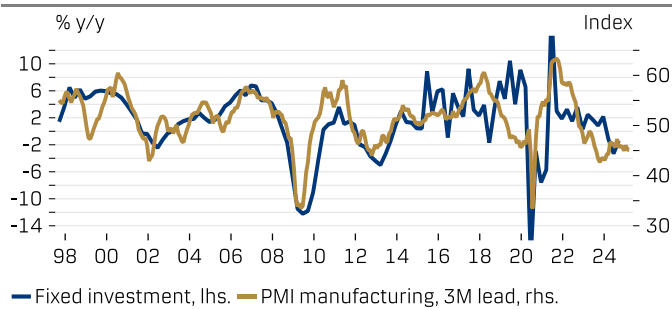
Source: Macrobond Finacial, Danske Bank forecasts

PMI and GDP growth



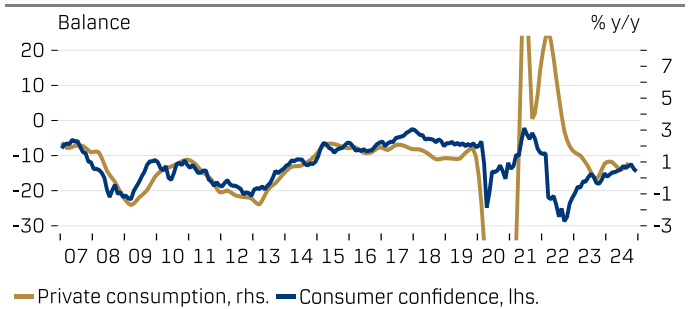
Source: Macrobond Finacial, Danske Bank

Manufacturing sentiment and investments



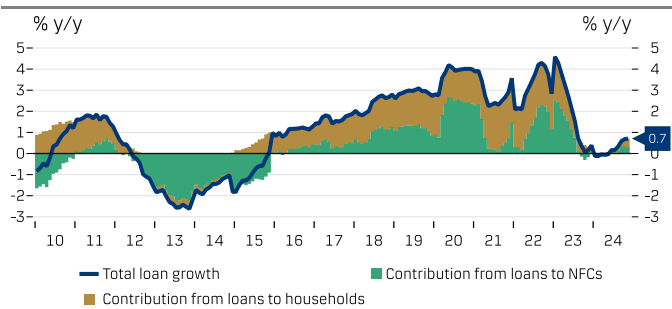
Source: S&P Global, Eurostat, Macrobond Finacial

Consumer confidence and private consumption



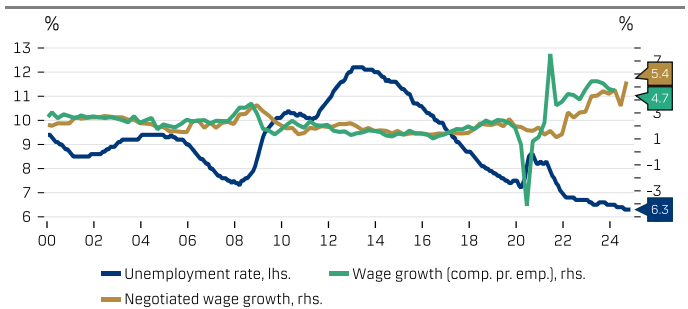
Source: Eurostat, European Commission, Macrobond Finacial

Credit growth



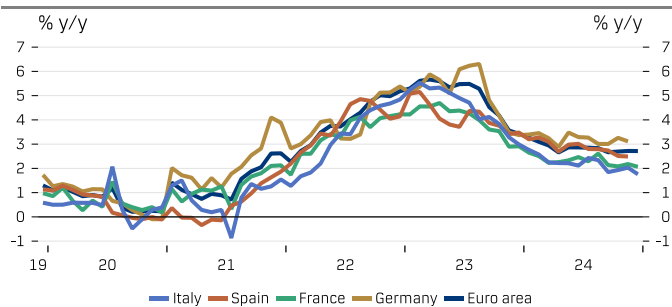
Source: ECB, Macrobond Finacial, Danske Bank

Unemployment and wage growth



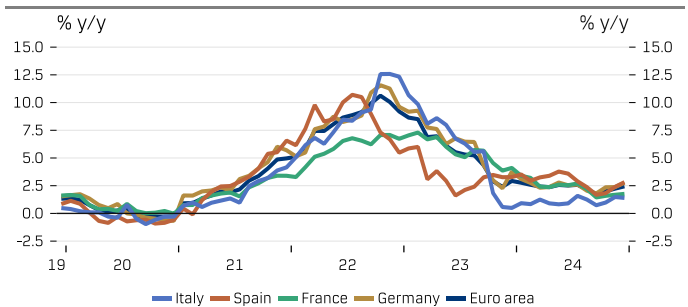
Source: ECB, Eurostat, Macrobond Finacial

Core inflation



Source: Eurostat, Macrobond Finacial

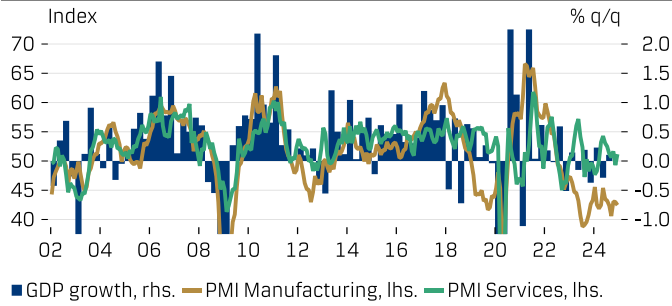
HICP inflation



Source: Eurostat, Statistisches Bundesamt, Macrobond Finacial, Danske Bank

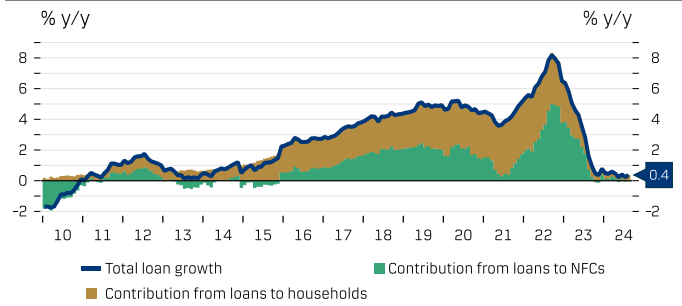
Germany

PMI and GDP growth



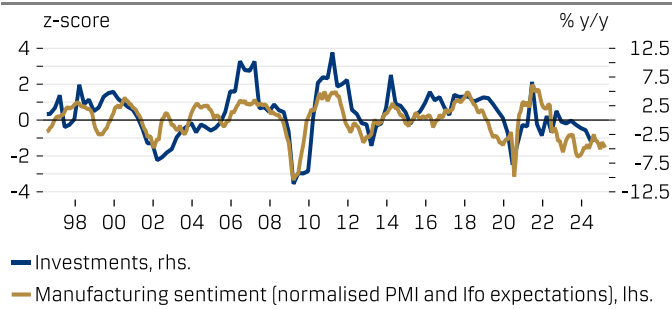
Source: S&P Global, Eurostat, Macrobond Financial

Credit growth



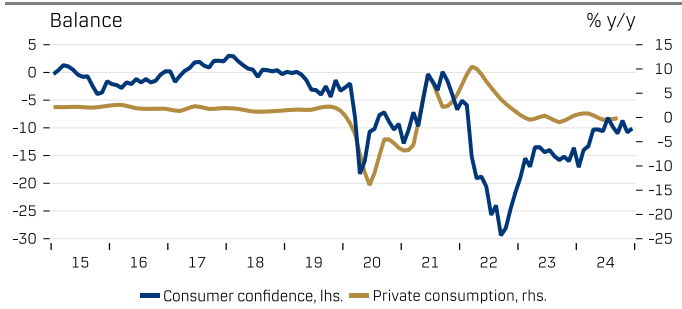
Source: Deutsche Bundesbank, Eurostat, Macrobond Financial, Danske Bank

Manufacturing sentiment and investments



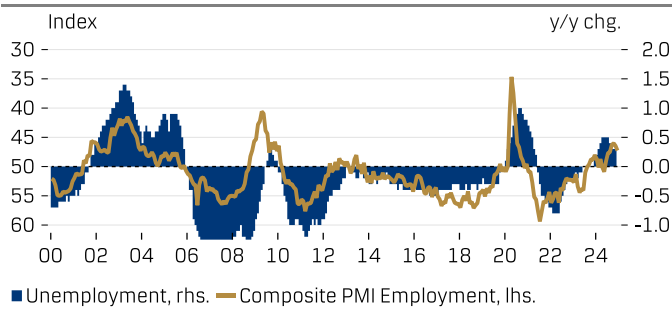
Source: S&P Global, Eurostat, Macrobond Financial

Consumer confidence and private consumption



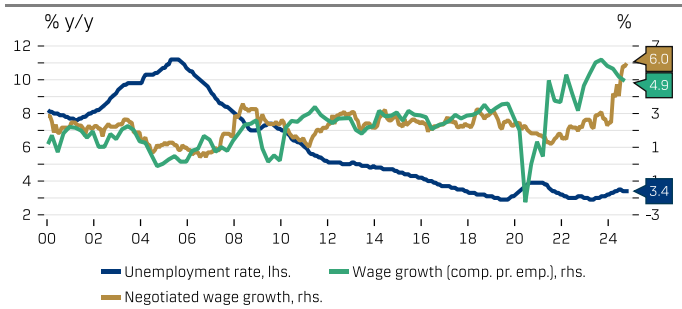
Source: European Commission, Eurostat, Macrobond Financial

Unemployment and PMI



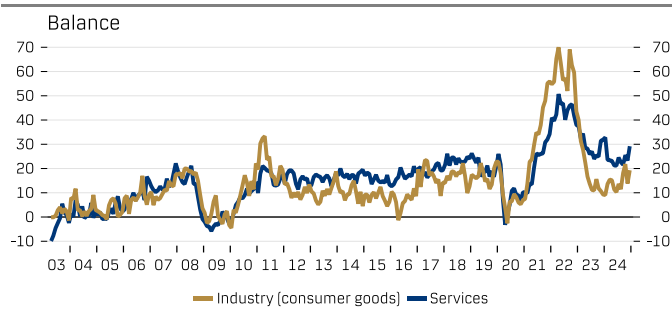
Source: S&P Global, Eurostat, Macrobond Financial

Unemployment and wage growth



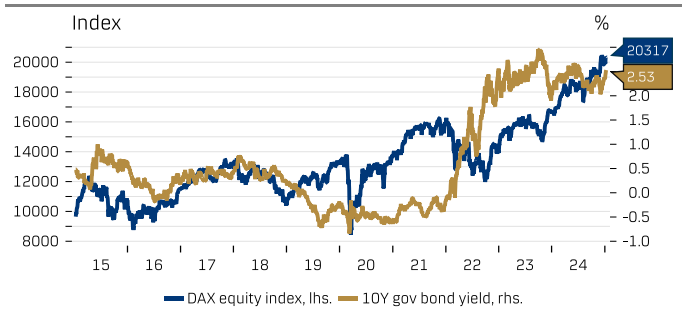
Source: ECB, Eurostat, Deutsche Bundesbank, Macrobond Financial

Selling price expectations



Source: EU Commission, Macrobond Financial, Danske Bank

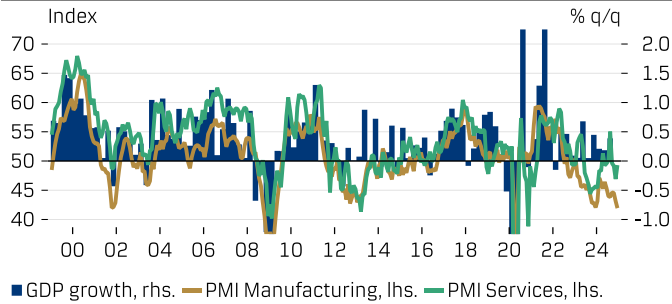
Financial markets



Source: Deutsche Boerse, Macrobond Financial, Danske Bank

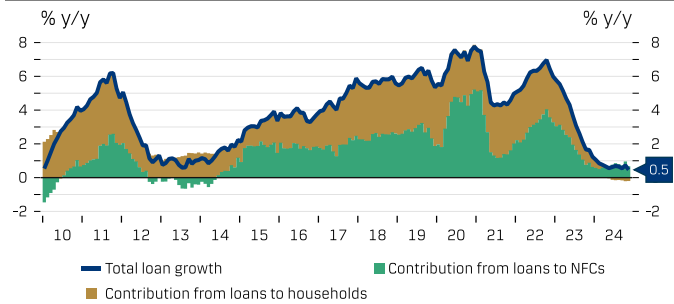
France

PMI and GDP growth



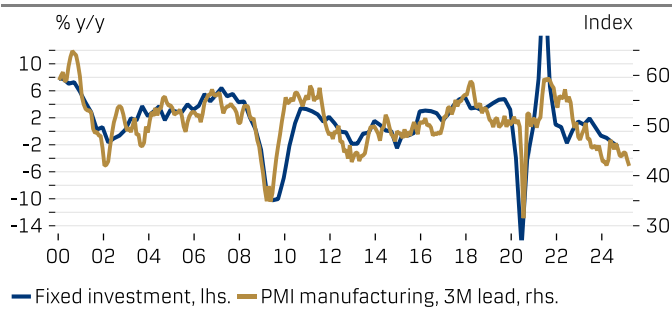
Source: S&P Global, Eurostat, Macrobond Financial

Credit growth



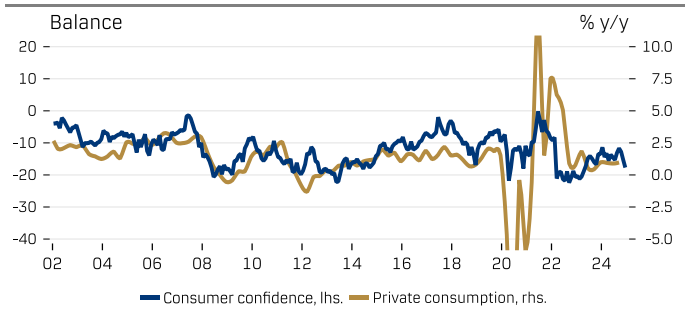
Source: ECB, Macrobond Financial, Danske Bank

Manufacturing sentiment and investments



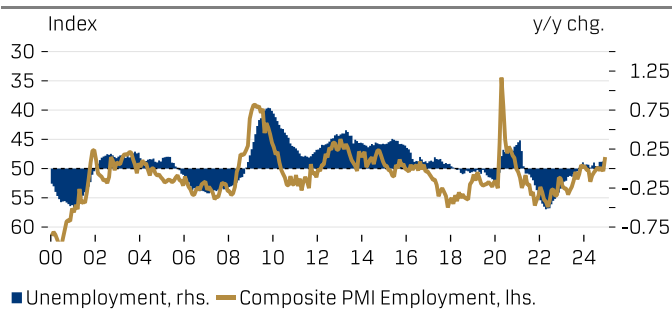
Source: S&P Global, Eurostat, Macrobond Financial

Consumer confidence and private consumption



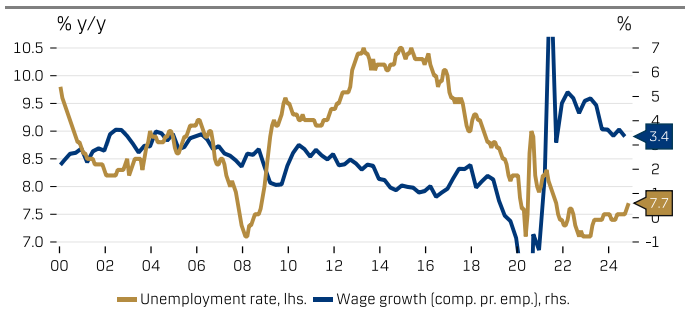
Source: European Commission, Eurostat, Macrobond Financial

Unemployment and PMI



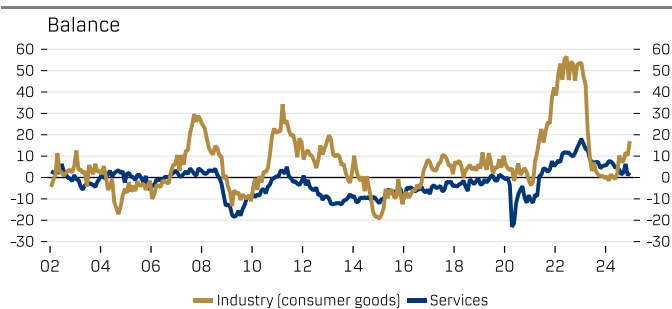
Source: S&P Global, Eurostat, Macrobond Financial

Unemployment and wage growth



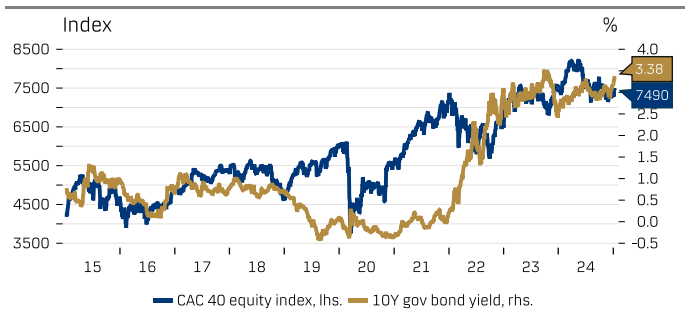
Source: ECB, Eurostat, Macrobond Financial, Danske Bank

Selling price expectations



Source: EU Commission, Macrobond Financial, Danske Bank

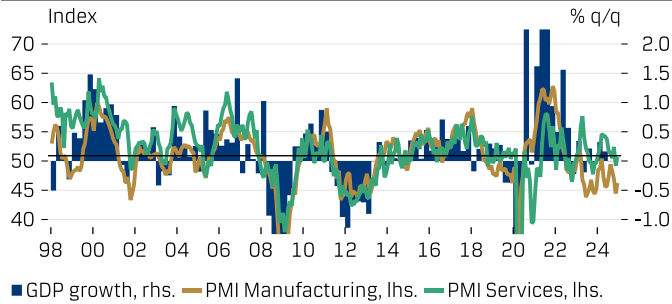
Financial markets



Source: Euronext, Macrobond Financial, Danske Bank

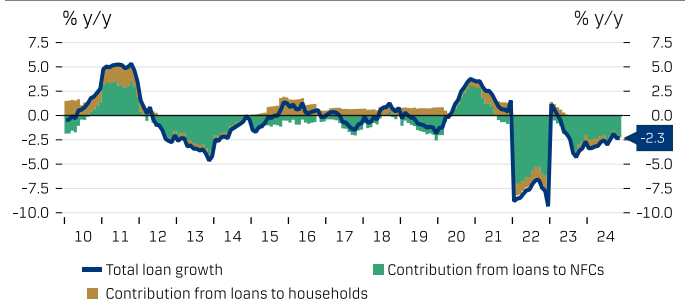
Italy

PMI and GDP growth



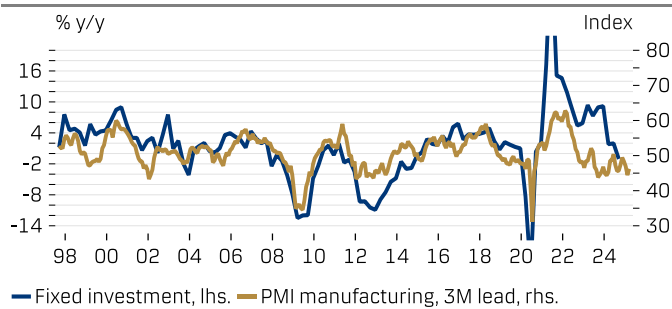
Source: S&P Global, Eurostat, Macrobond Financial

Credit growth



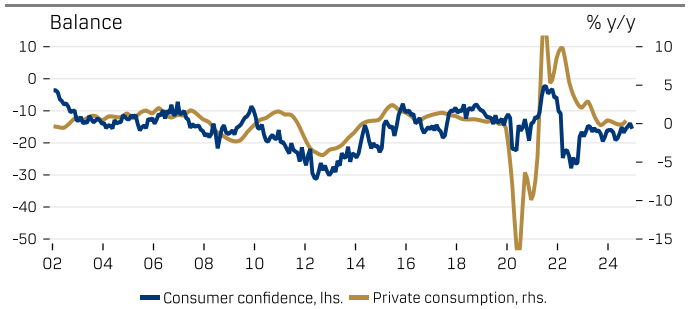
Source: ECB, Macrobond Financial, Danske Bank

Manufacturing sentiment and investments



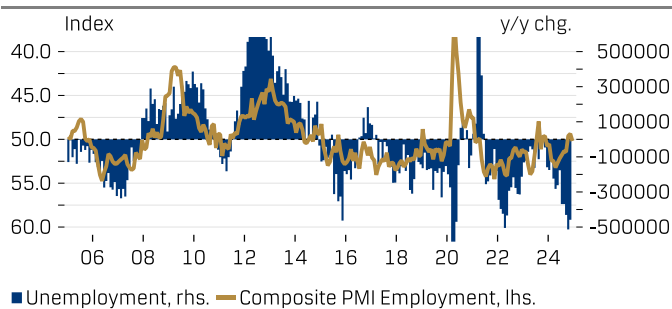
Source: S&P Global, Eurostat, Macrobond Financial

Consumer confidence and private consumption



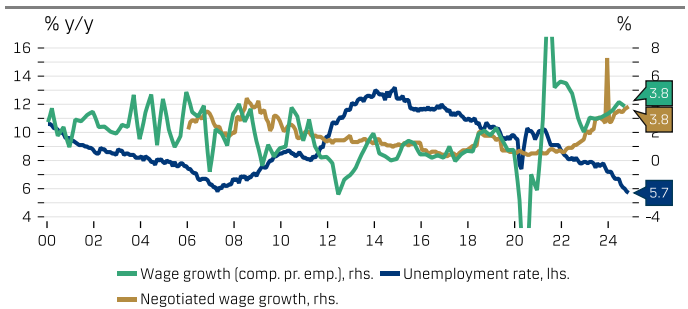
Source: European Commission, Eurostat, Macrobond Financial, Danske Bank

Unemployment and PMI



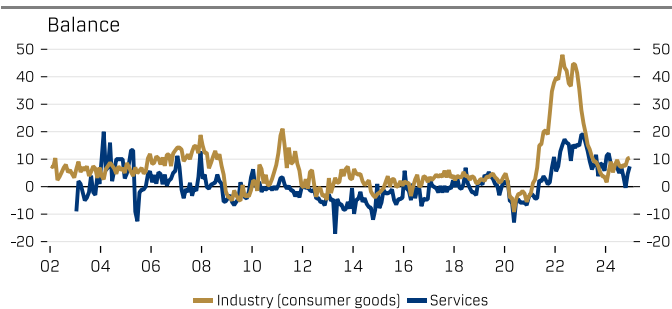
Source: S&P Global, Eurostat, Macrobond Financial

Unemployment and wage growth



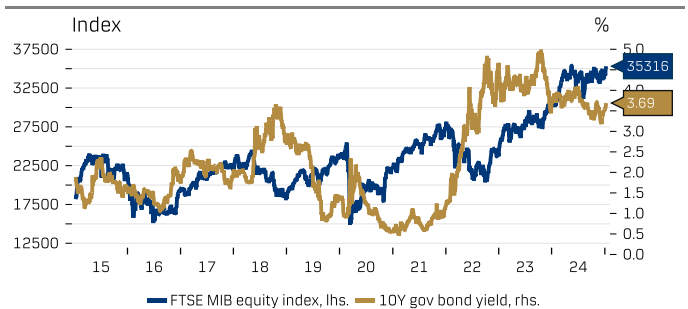
Source: ECB, Eurostat, Istat, Macrobond Financial, Danske Bank

Price expectations



Source: EU Commission, Macrobond Financial, Danske Bank

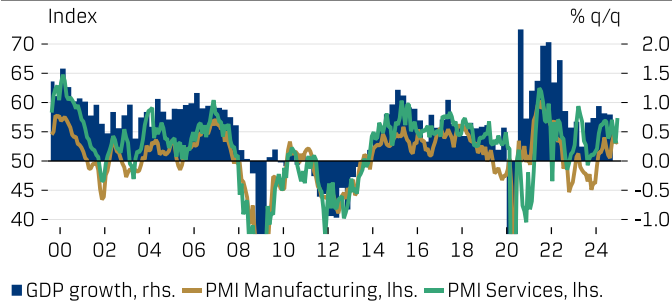
Financial markets



Source: FTSE, Macrobond Financial, Danske Bank

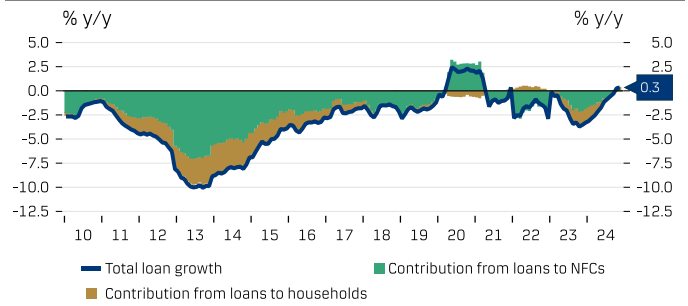
Spain

PMI and GDP growth



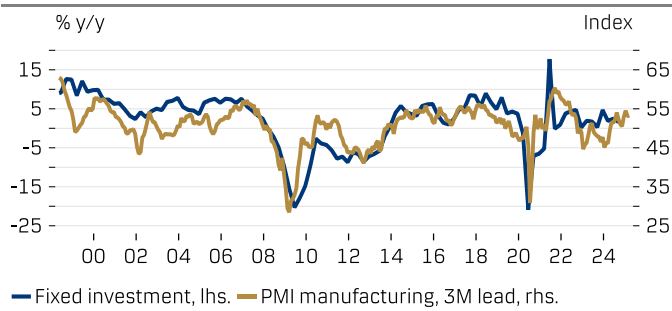
Source: S&P Global, Eurostat, Macrobond Financial

Credit growth



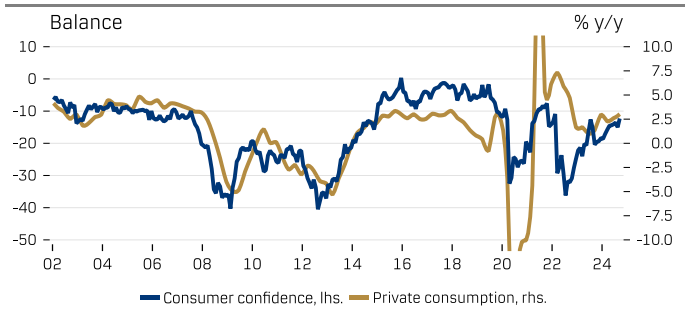
Source: ECB, Macrobond Financial, Danske Bank

Manufacturing sentiment and investments



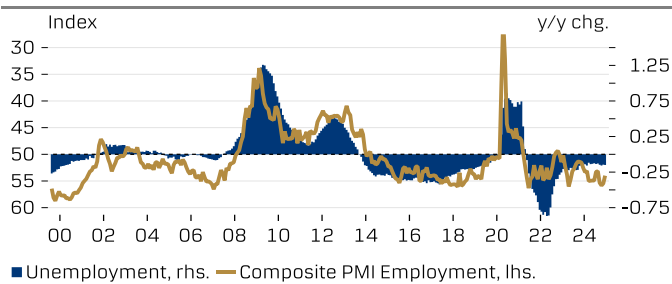
Source: S&P Global, Eurostat, Macrobond Financial

Consumer confidence and private consumption



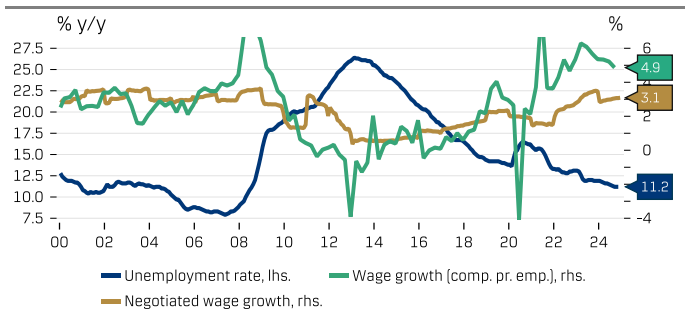
Source: European Commission, Eurostat, Macrobond Financial

Unemployment and PMI



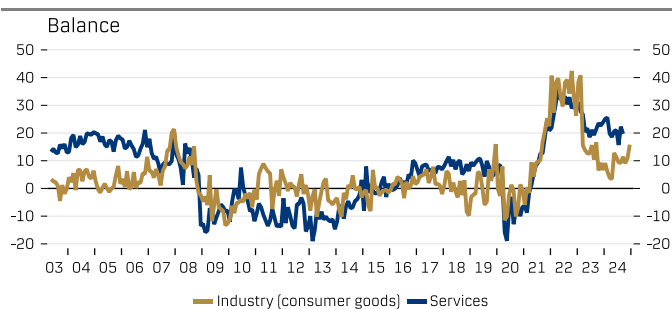
Source: S&P Global, Eurostat, Macrobond Financial

Unemployment and wage growth



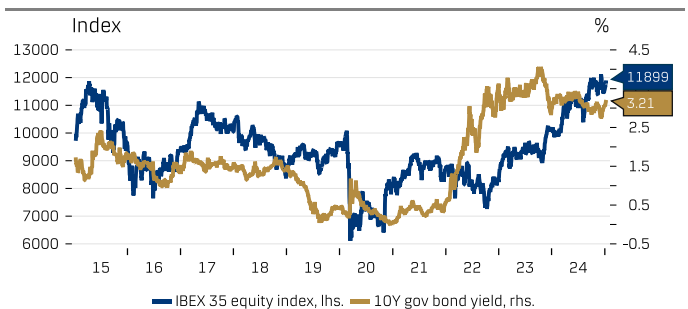
Source: ECB, Eurostat, Ministry of Labor and Social Economy, Macrobond Financial, Danske Bank

Price expectations



Source: EU Commission, Macrobond Financial, Danske Bank

Financial markets



Source: Madrid Stock Exchange, Macrobond Financial, Danske Bank

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This research report has been prepared by Danske Bank A/S ('Danske Bank'). The authors of this research report are Sofie Grundvad Pedersen, Assistant Analyst, and Rune Thyge Johansen, Analyst.

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