

5 February 2024

Euro Area Macro Monitor

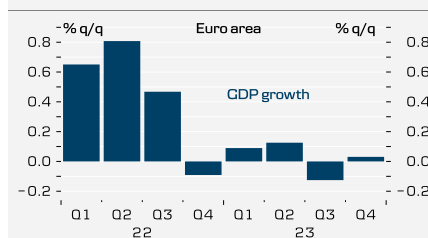
Cooling economy buys the ECB more time

- 2023 Q4 GDP growth was flat at 0.0% q/q s.a., while the yearly GDP growth rate landed at 0.5%. **Hence the economy was weak but far from collapsing despite the monetary policy tightening.** This is positive news for the ECB as it yields more time to assess inflation momentum and wage growth before the first rate cut. **The labour market remained historically strong in Dember, with the unemployment rate staying put at record-low 6.4%.** This leaves upside risks for wages and service inflation while at the same time supports private consumption in 2024 as real wages turn positive. **One weak country not to neglect though is Germany.** The manufacturing-intensive economy concluded 2023 on a bleak note with Q4 GDP growth of -0.3% q/q after a challenging year. Similarly, 2024 has started off on a weak footing, with high frequent indicators such as Ifo and PMI signalling that we are likely in for another weak quarter or two – backed by declining German consumer confidence.
- **The narrative that the worst of the manufacturing slump is behind us was further underscored in January,** with manufacturing PMI printing higher than expected at 46.6 (cons: 44.7). While the figure remains in contractionary territory, the uptick was particularly driven by increasing output and new orders, bringing some rays of light. In addition to this, somewhat positive credit data from the January *bank lending survey* (more banks reporting unchanged credit standards and fewer reporting tightening credit standards), upbeat export data out of Asia, and the order-inventory balance increasing, corroborate the likely turn in the manufacturing cycle. **However, the manufacturing sector is not yet out of the woods.** Banks still project credit standards to remain tight, and we expect manufacturing PMI above 50 only from June.
- **Both headline and core inflation decreased in January but printed somewhat higher than consensus at 2.8% y/y and 3.3% y/y, respectively.** The prints were affected by many one-offs due to different government measures ending coupled with the fact that companies tend to adjust prices in January. Thus, monthly inflation momentum nudged slightly higher, as core inflation came in at 0.3% m/m s.a. This was attributed to strong service price inflation at 0.3% m/m s.a. partly due to an increase in German VAT. Yet, it is not that worrying for the ECB as it is a one-off, and the ECB will likely have to revise down its Q1 2024 inflation forecast of 2.9% y/y, with January headline inflation at 2.8%. A downward revision to staff inflation projections is a necessary condition for the ECB to deliver its first rate cut. **We continue to expect the ECB to embark on the first rate cut at the June meeting,** as we are not yet convinced that incoming data such as inflation and wage growth will confirm an inflation path to 2%. However, we acknowledge that risks are skewed for a cut in April– see *ECB review*, 25 January.
- **A new chapter has been added to EU-China trade tensions, as China in early January initiated an anti-dumping investigation into French brandy imports – reportedly driven by complaints from domestic manufacturers.** This is likely China's retaliation against the anti-subsidy investigation into electric vehicles from China that the EU launched in September 2023. There is a high probability that the EU will increase the tariff on Chinese electric cars, but there are also good arguments why that might not lead to a large-scale trade war.

Key points

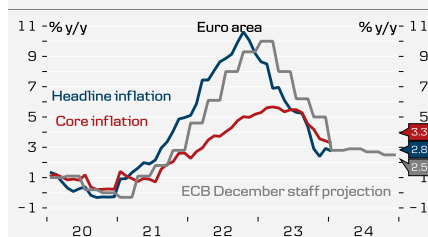
- The month-on-month change in inflation shows encouraging signs.
- 2024 will be a year of transition with benign GDP growth.
- We expect the ECB to cut the deposit rate three times in 2024 by a cumulative 75bp.

The economy stagnated in the second half of 2023



Source: Eurostat, Macrobond Financial,

With headline inflation at 2.8% the ECB is likely to revise down projections



Source: Eurostat, ECB, Macrobond Financial, Danske Bank

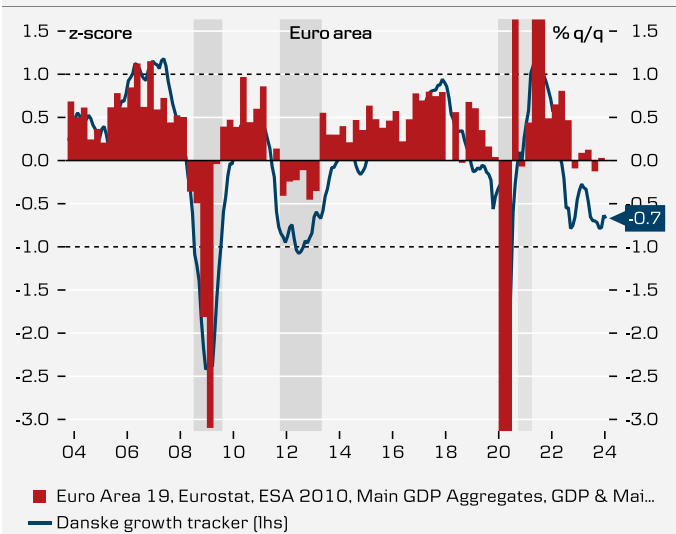
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The Danske euro area growth tracker

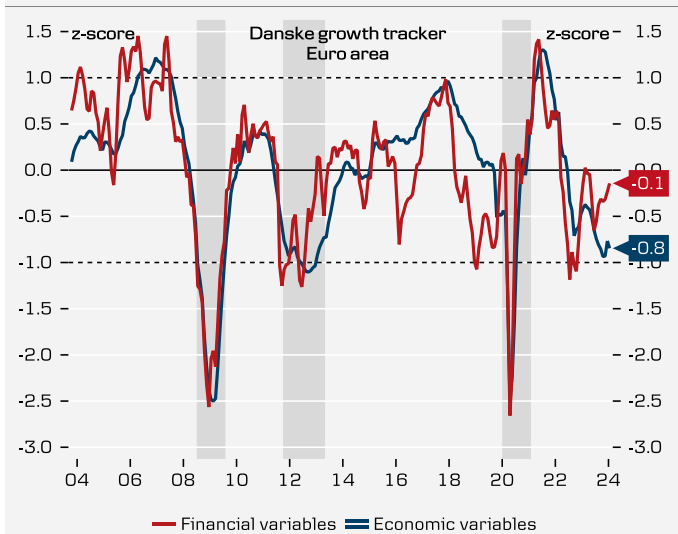
Our growth tracker remained in negative territory at -0.7 in a sign of activity only slowly bottoming out. The January figure was driven by a decrease in economic variables and an increase financial variables. The rise in the economic variables were driven by lower consumer confidence and real M1 growth. Financial variables have moved up due to the recent downside surprises in inflation recently and lower interest rate expectations. To predict the near-term growth, we put more emphasis on the economic variables and still expect weak activity, but the seemingly bottoming out in activity is positive for the growth outlook.

Growth tracker and actual GDP growth



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

Growth tracker: financial and economic variables



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

Danske growth tracker - January 2024

	January 2024
Economic variables	-0,8
Unemployment	0,4
OECD CLI	-0,2
European sentiment indicator	-0,3
ZEW	-0,4
Consumer confidence	-0,7
Capacity utilisation	-0,8
Credit growth	-0,8
Composite PMI	-0,8
Profit growth	-1,0
PMI order-inventory balance	-1,1
EuroCOIN	-1,4
Real M1 growth	-3,1
Financial variables	-0,1
Eurostoxx50	0,4
Corporate vs. gov. bond yield	0,1
Euro surprise index	-0,1
Sentix	-0,9

Source: Macrobond Financial, Danske Bank

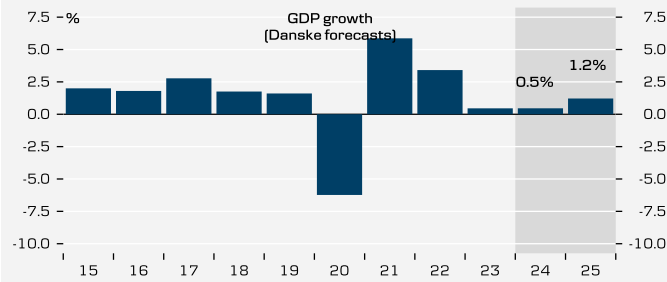
Danske growth tracker - December 2023

	December 2023
Economic variables	-0,8
Unemployment	0,4
OECD CLI	-0,2
European sentiment indicator	-0,3
Capacity utilisation	-0,8
Consumer confidence	-0,5
EuroCOIN	-0,7
ZEW	-0,4
Composite PMI	-0,9
Credit growth	-0,8
Profit growth	-1,0
PMI order-inventory balance	-1,1
Real M1 growth	-2,9
Financial variables	-0,2
Eurostoxx50	0,7
Corporate vs. gov. bond yield	0,0
Euro surprise index	-0,7
Sentix	-1,0

Source: Macrobond Financial, Danske Bank

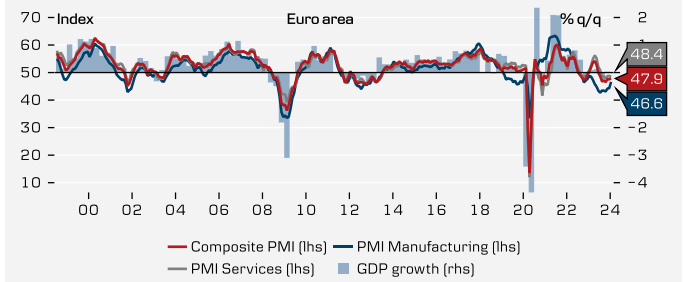
Euro area

GDP growth forecasts



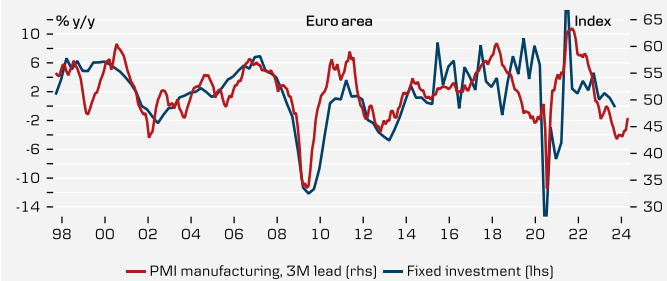
Source: Macrobond Financial, Danske Bank forecasts

PMI and GDP growth



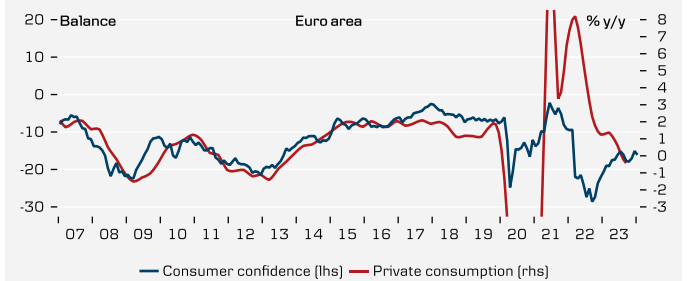
Source: Macrobond Financial, Danske Bank

Manufacturing sentiment and investments



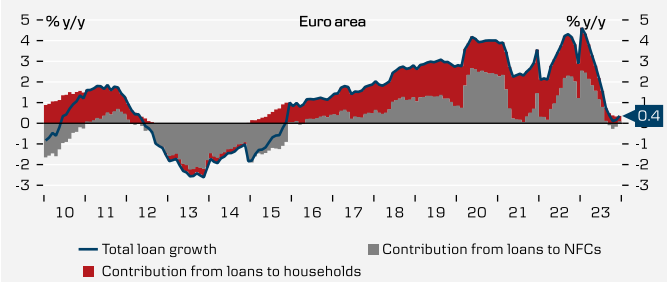
Source: Macrobond Financial, Danske Bank

Consumer confidence and private consumption



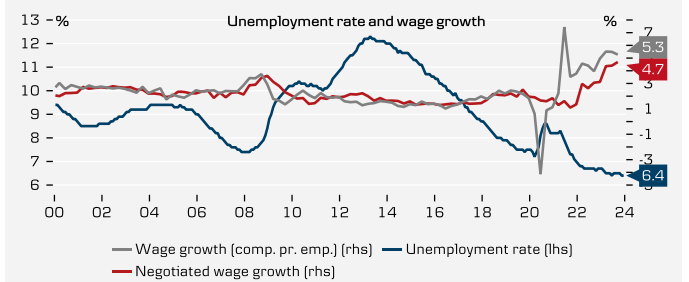
Source: Macrobond Financial, Danske Bank

Credit growth



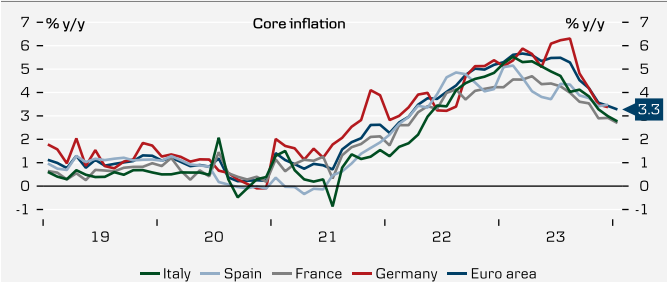
Source: Macrobond Financial, Danske Bank

Unemployment and wage growth



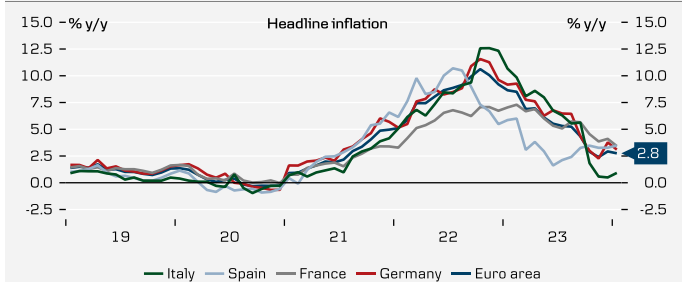
Source: Macrobond Financial, Danske Bank

Core inflation



Source: Macrobond Financial, Danske Bank

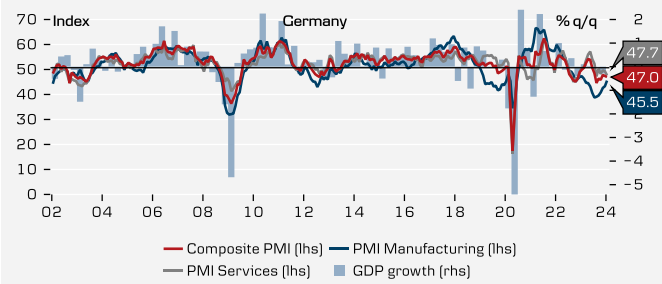
HICP inflation



Source: Macrobond Financial, Danske Bank

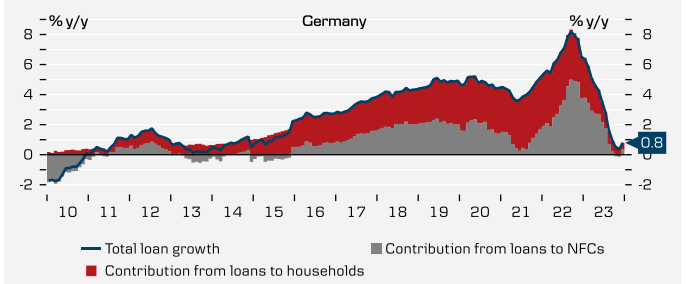
Germany

PMI and GDP growth



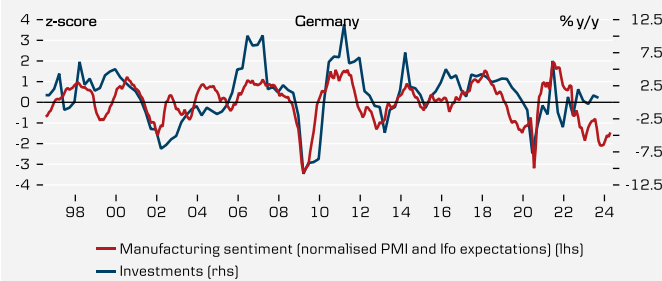
Source: Macrobond Financial, Danske Bank

Credit growth



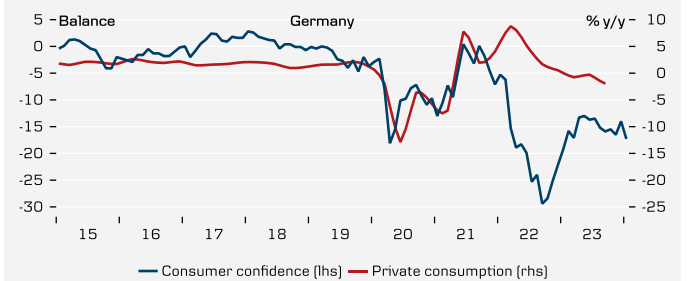
Source: Macrobond Financial, Danske Bank

Manufacturing sentiment and investments



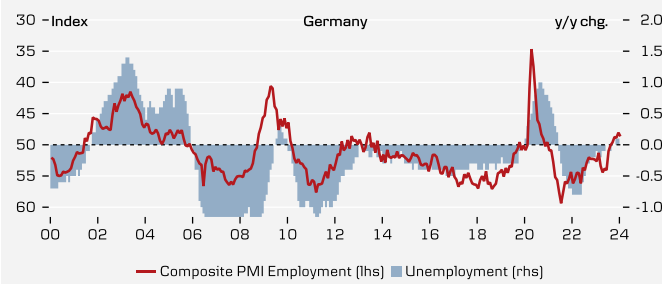
Source: Macrobond Financial, Danske Bank

Consumer confidence and private consumption



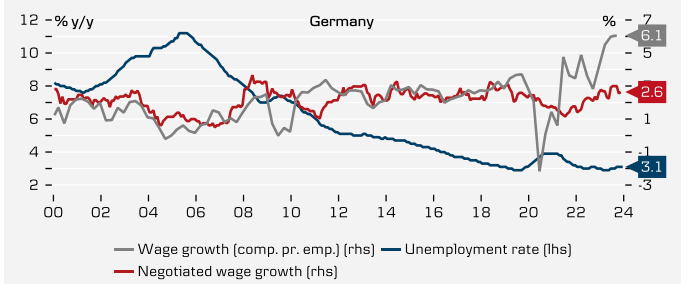
Source: Macrobond Financial, Danske Bank

Unemployment and PMI



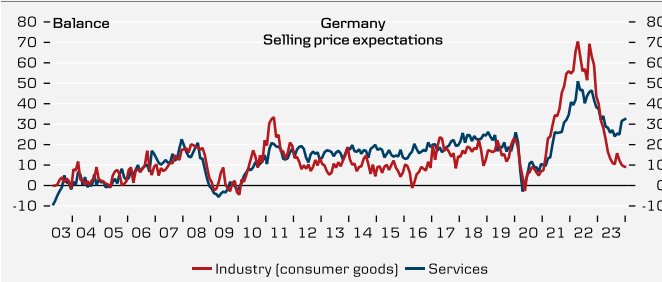
Source: Macrobond Financial, Danske Bank

Unemployment and wage growth



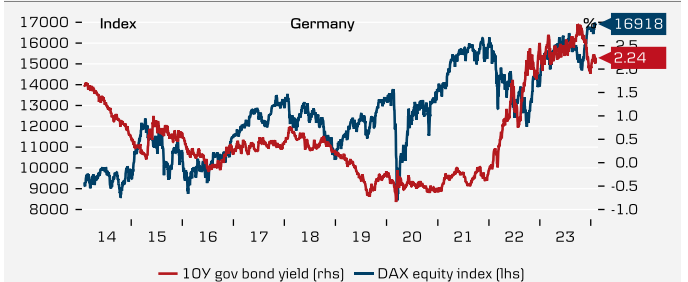
Source: Macrobond Financial, Danske Bank

Price expectations



Source: EU Commission, Macrobond Financial, Danske Bank

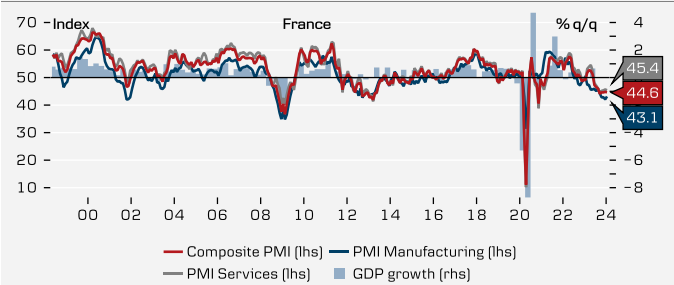
Financial markets



Source: Macrobond Financial, Danske Bank

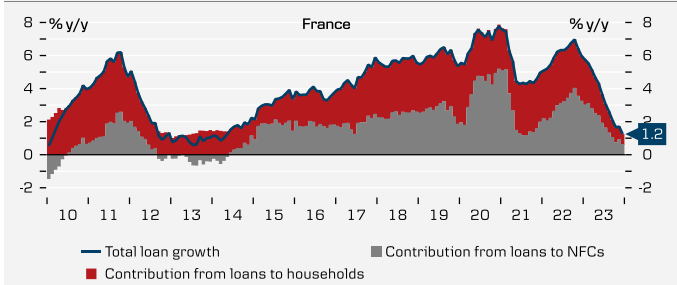
France

PMI and GDP growth



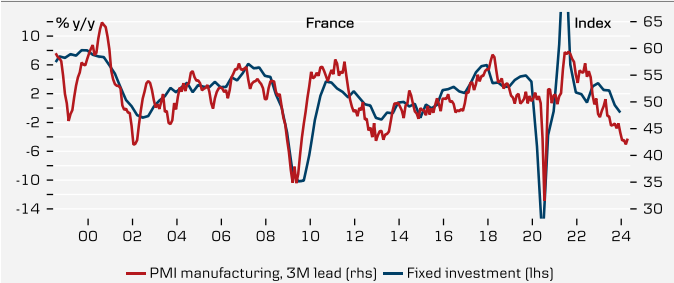
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Credit growth



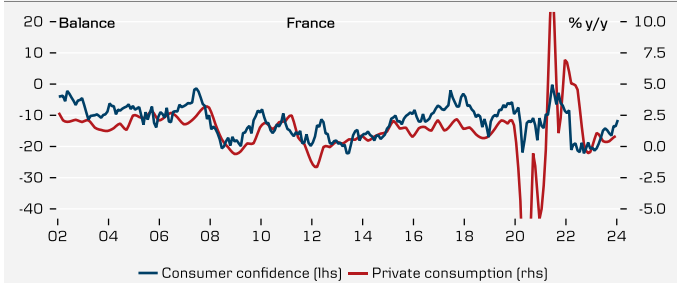
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Manufacturing sentiment and investments



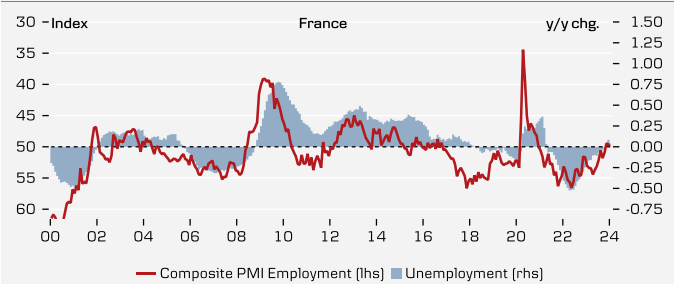
Source: Macrobond Financial, Danske Bank

Consumer confidence and private consumption



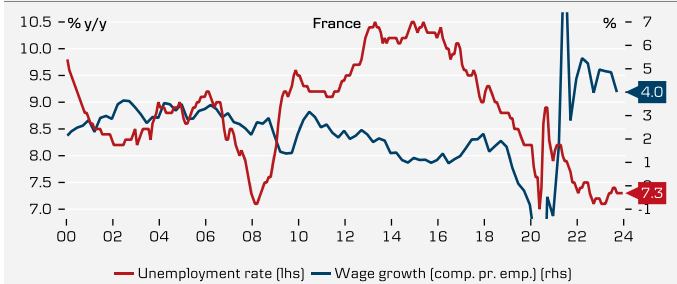
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Unemployment and PMI



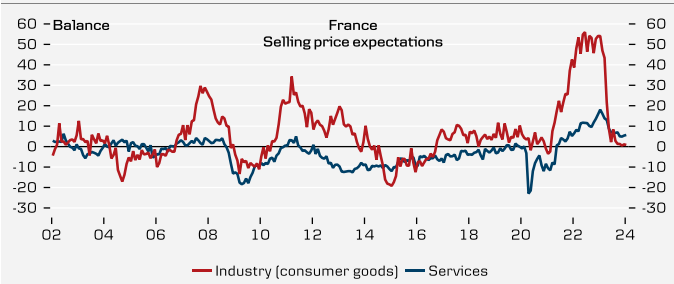
Source: Macrobond Financial, Danske Bank

Unemployment and wage growth



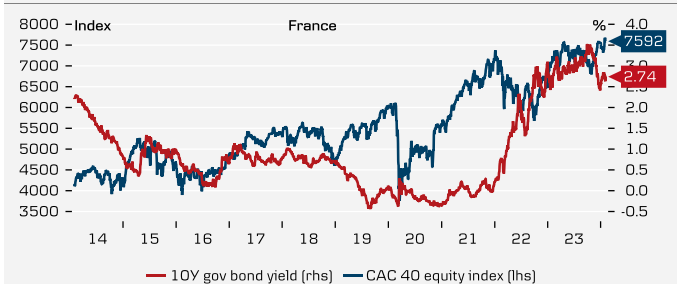
Source: Macrobond Financial, Danske Bank

Price expectations



Source: EU Commission, Macrobond Financial, Danske Bank

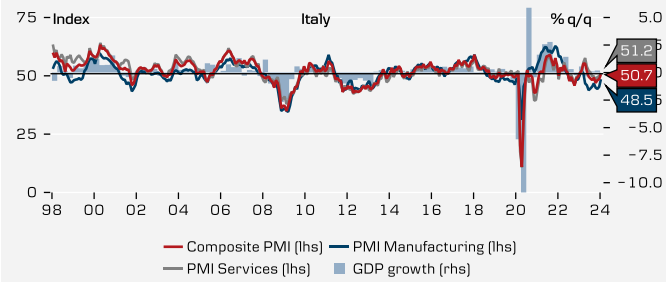
Financial markets



Source: Macrobond Financial, Danske Bank

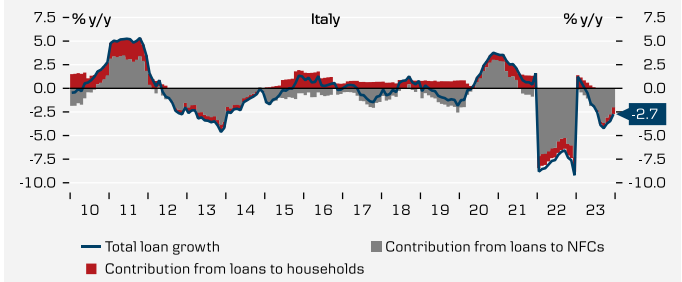
Italy

PMI and GDP growth



Source: Macrobond Financial, Danske Bank

Credit growth



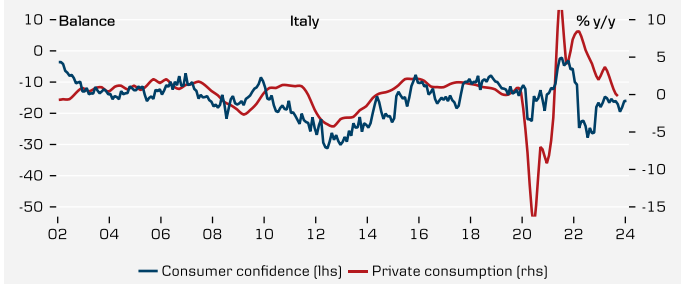
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Manufacturing sentiment and investments



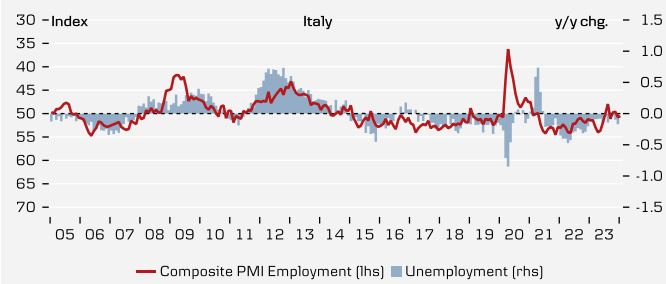
Source: Macrobond Financial, Danske Bank

Consumer confidence and private consumption



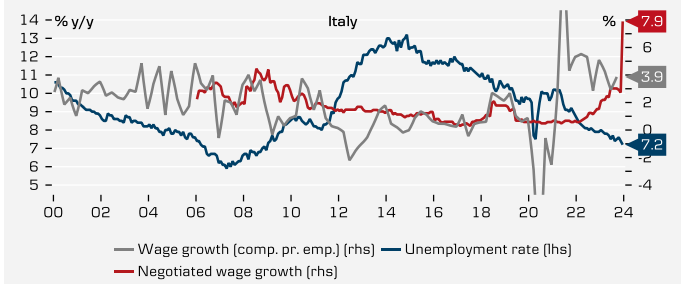
Source: Macrobond Financial, Danske Bank

Unemployment and PMI



Source: Macrobond Financial, Danske Bank

Unemployment and wage growth



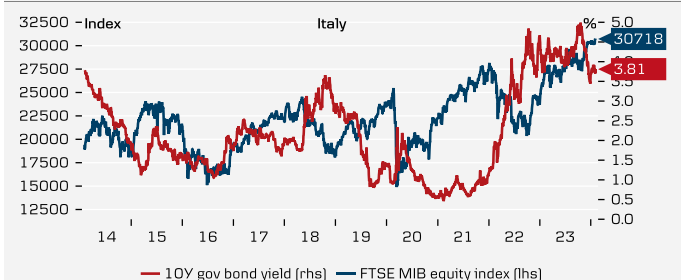
Source: Macrobond Financial, Danske Bank

Price expectations



Source: EU Commission, Macrobond Financial, Danske Bank

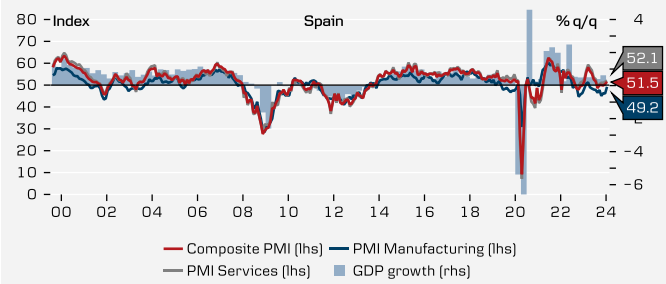
Financial markets



Source: Macrobond Financial, Danske Bank

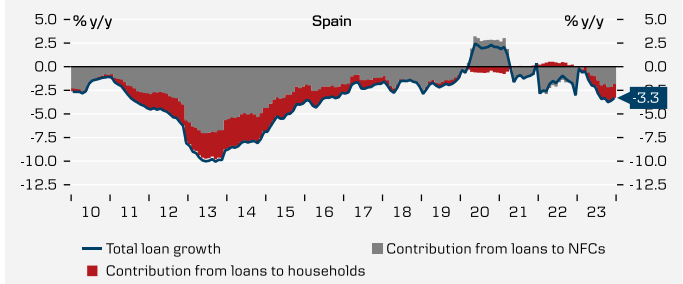
Spain

PMI and GDP growth



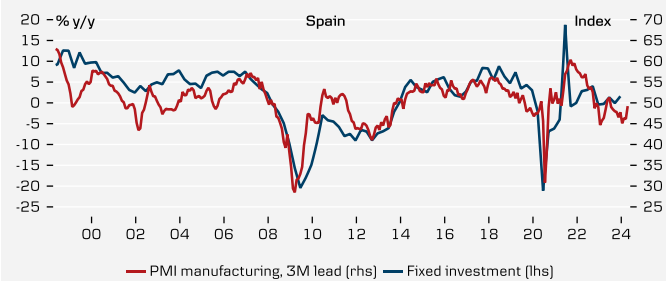
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Credit growth



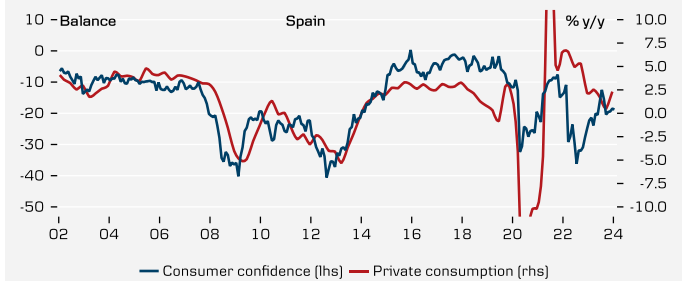
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Manufacturing sentiment and investments



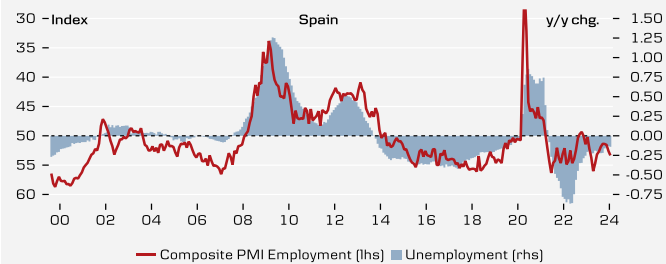
Source: Macrobond Financial, Danske Bank

Consumer confidence and private consumption



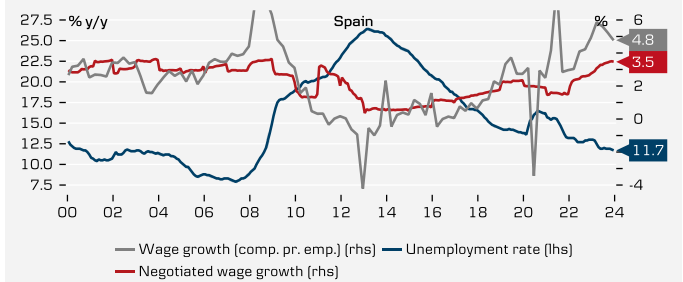
Source: Macrobond Financial, Danske Bank

Unemployment and PMI



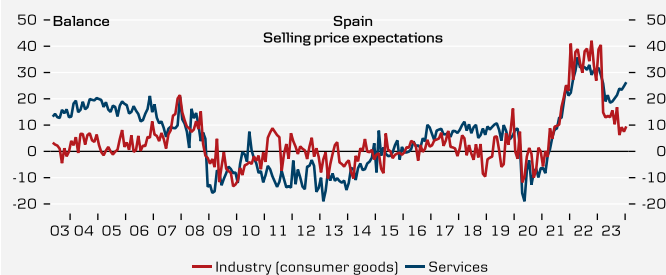
Source: Macrobond Financial, Danske Bank

Unemployment and wage growth



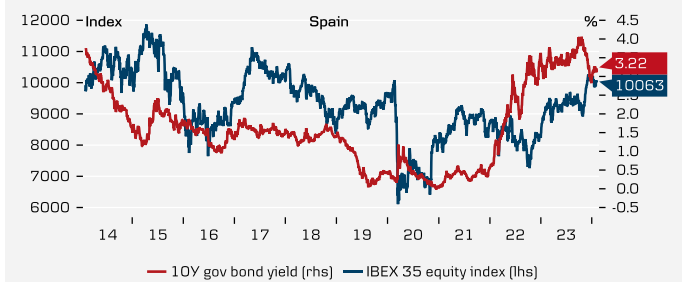
Source: Macrobond Financial, Danske Bank

Price expectations



Source: EU Commission, Macrobond Financial, Danske Bank

Financial markets



Source: Macrobond Financial, Danske Bank

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