

4 August 2025

Euro Area Macro Monitor

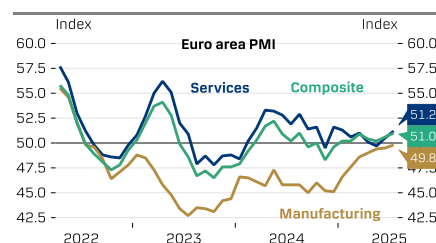
Service sector strengthening amid EU-US trade deal

- **The euro area economy showed signs of regaining momentum in July, with PMI data exceeding expectation.** The composite PMI rose to 51.0 from 50.6, surpassing expectations of 50.8 and reaching its highest level since August 2024. This improvement was primarily driven by a strong rebound in services, with PMI increasing to 51.2 from 50.5, marking a significant positive surprise. Growth in services was led by Southern Europe, while Germany and France saw more moderate gains. **The services sector is thus now at its strongest level this year, which is positive for the economic outlook, following the recent months of weakening.** At the same time, manufacturing continued its encouraging progress, with PMI improving from 49.5 to 49.8, the highest reading in three years and nearing the neutral 50 threshold. Hence, the economy is faring better than expected, with Q2 GDP growth also coming in at 0.1% q/q following a strong 0.6% q/q print in Q1.
- Euro area inflation remained steady at 2.0% y/y in July, slightly above expectations of a decline 1.9%. The primary driver was food price inflation, which rose to 3.3% y/y from 3.1% in June, while core inflation remained at 2.3% y/y as expected. Services inflation eased to 3.1% y/y, with monthly price increase in services at only 0.19% m/m. **This brought the 3m/3m momentum down to 3% for the first time since January, indicating an easing momentum in services.** The ECB's June staff projections estimated headline inflation for Q3 2025 to average 1.9%, and as we anticipate inflation to rise in August and September, it will likely exceed the ECB's expectations.
- **At its July meeting, the ECB unanimously decided to leave policy rates unchanged, as widely expected.** While growth risks remain tilted to the downside, Lagarde struck a positive tone in her economic assessment, highlighting stronger-than-expected services PMIs and resilient domestic demand in Q1. She continued to downplay inflation undershooting concerns and that the economic baseline projections from June broadly holds in the case of a 15% tariff to the US (which was later agreed, see next bullet). **We have revised our call ECB call following the recent string of events, and we now expect the ECB to keep its policy rates unchanged throughout 2025-26.** For details see *New ECB call: No further cuts in scope*, 1 August 2025.
- **On July 27, the EU and US agreed a trade deal setting a 15% tariff on most EU imports**, including cars and car parts, which were previously subject to tariffs of up to 27.5%. On the other hand, tariffs on pharmaceuticals will increase to 15% from 0%. As the EU exports a greater value of cars compared to pharmaceuticals, the combined impact of these changes is expected to result in lower average tariffs for the two sectors. **Overall, the trade agreement is close to status quo compared to the previous months and we expect it to be a drag on activity but not cause any severe problems for the economy.** A notable aspect of the agreement is the EU pledging to purchase \$750bn worth of US energy products, equating to \$250bn annually during Trump's presidency. While this could significantly boost US energy exports, the EU lacks control over member states' and companies' energy sourcing. With current imports below \$100bn, it is very difficult to see how this will be achieved.

Key views

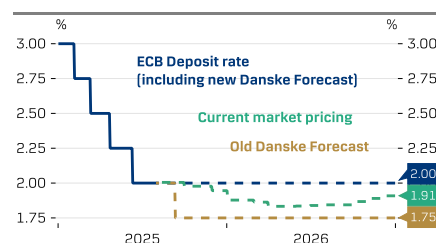
- Headline and core inflation to average close to 2% in 2025 and below in 2026
- Recovery to continue in the economy,
- We expect no further rate cuts from the ECB in 2025 and 2026

Euro area growth indicators improved in July



Source: S&P Global, Macrobond Financial

We expect no more cuts from the ECB



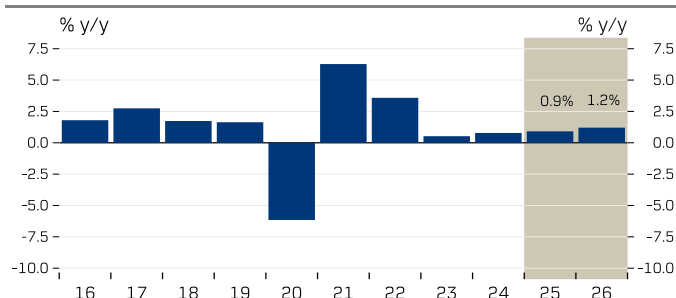
Source: ECB, Macrobond Financial

Assistant Analyst
Sofie Grundvad Pedersen
soped@danskebank.dk

Analyst, euro area economist
Rune Thyge Johansen
+45 40 26 04 37
rujo@danskebank.dk

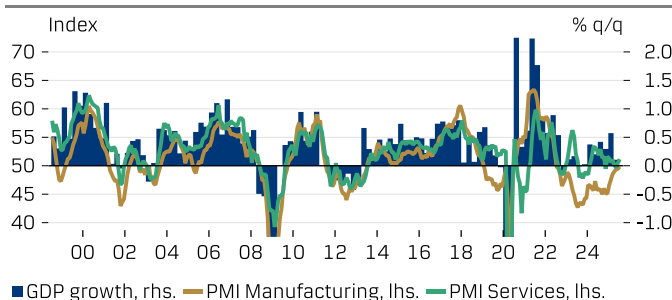
Euro area

GDP growth forecasts



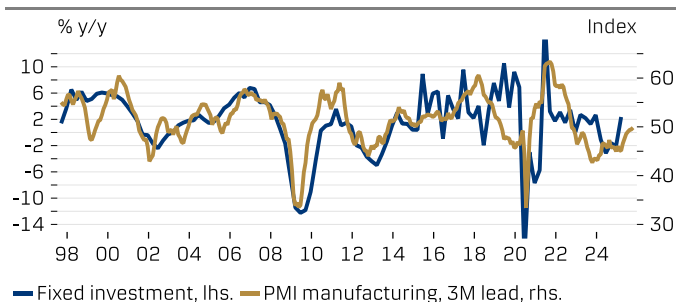
Source: Macrobond Financial, Danske Bank forecasts

PMI and GDP growth



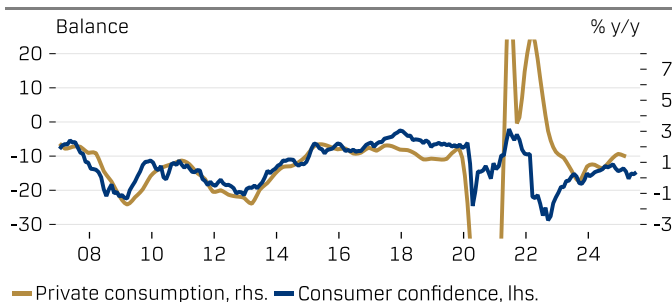
Source: Macrobond Financial, Danske Bank

Manufacturing sentiment and investments



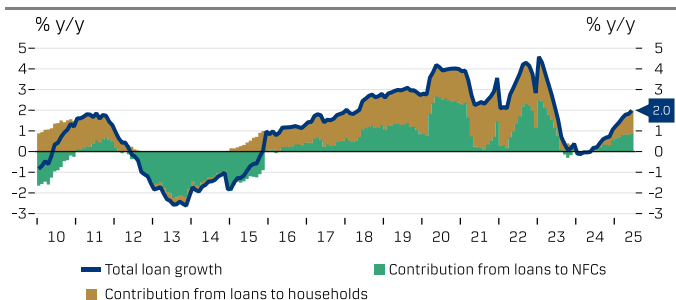
Source: S&P Global, Eurostat, Macrobond Financial

Consumer confidence and private consumption



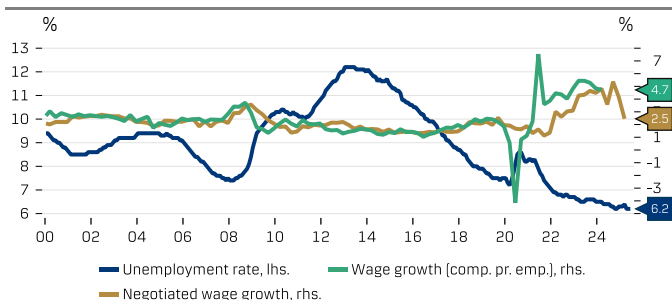
Source: Eurostat, European Commission, Macrobond Financial

Credit growth



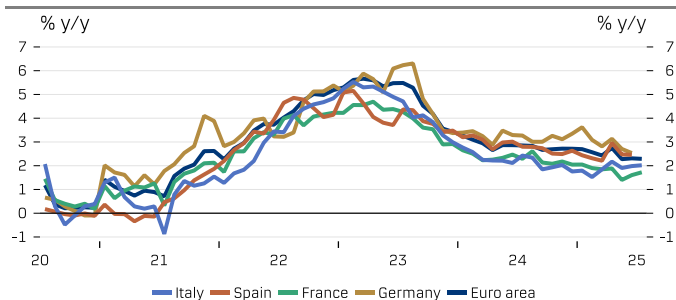
Source: ECB, Macrobond Financial, Danske Bank

Unemployment and wage growth



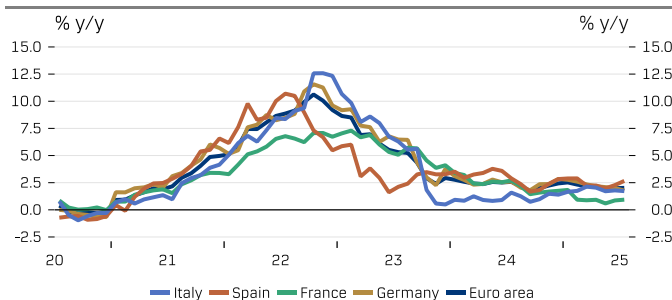
Source: ECB, Eurostat, Macrobond Financial

Core inflation



Source: Eurostat, Macrobond Financial

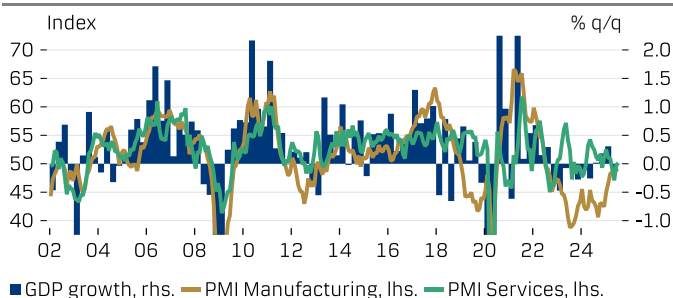
HICP inflation



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

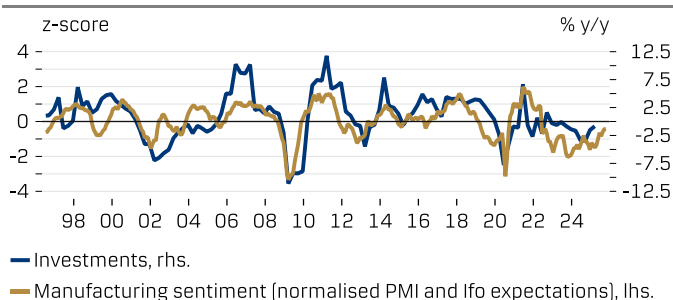
Germany

PMI and GDP growth



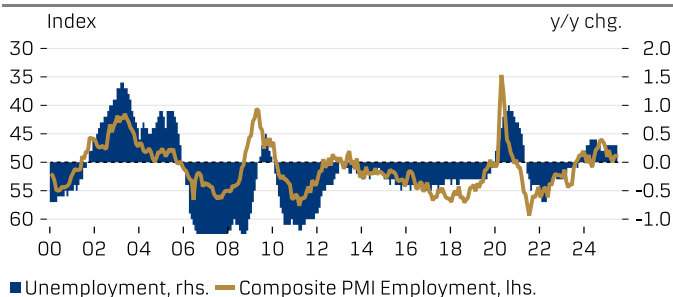
Source: S&P Global, Eurostat, Macrobond Financial

Manufacturing sentiment and investments



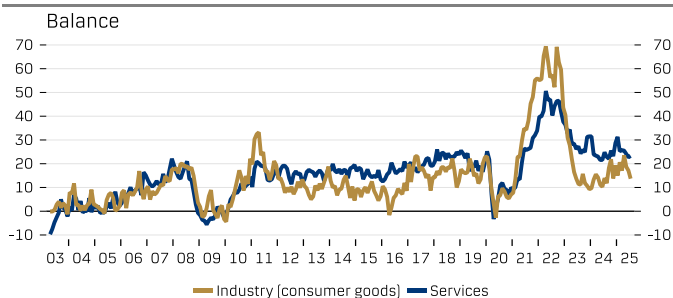
Source: S&P Global, Eurostat, Macrobond Financial

Unemployment and PMI



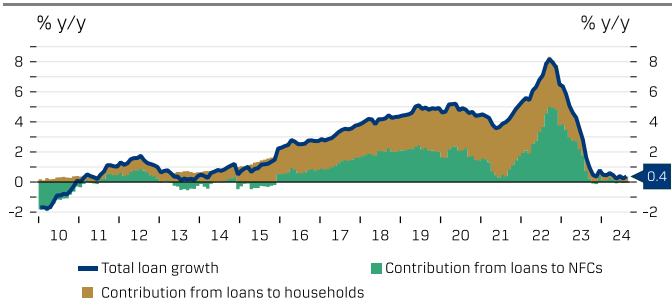
Source: S&P Global, Eurostat, Macrobond Financial

Selling price expectations



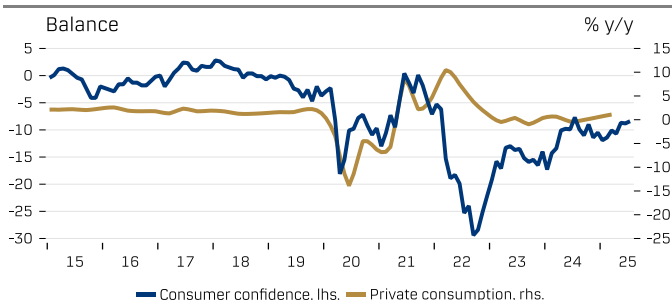
Source: EU Commission, Macrobond Financial, Danske Bank

Credit growth



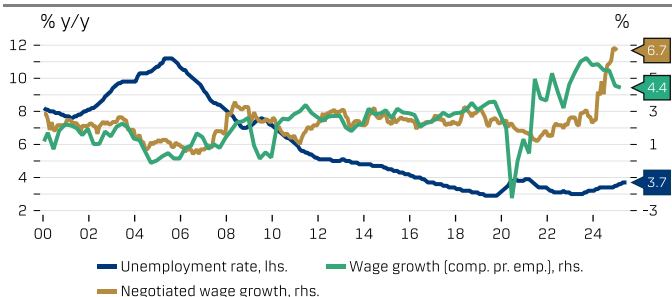
Source: Deutsche Bundesbank, Eurostat, Macrobond Financial, Danske Bank

Consumer confidence and private consumption



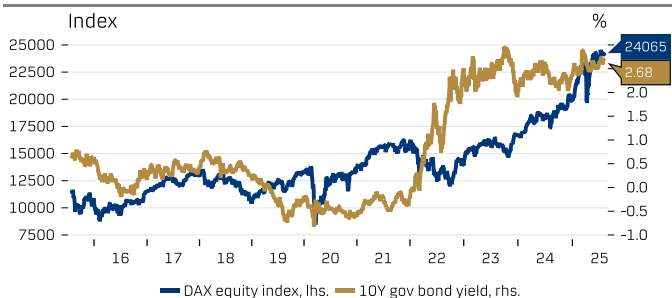
Source: European Commission, Eurostat, Macrobond Financial

Unemployment and wage growth



Source: ECB, Eurostat, Deutsche Bundesbank, Macrobond Financial

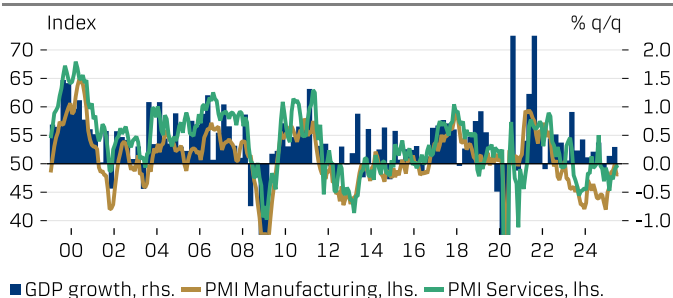
Financial markets



Source: Deutsche Boerse, Macrobond Financial, Danske Bank

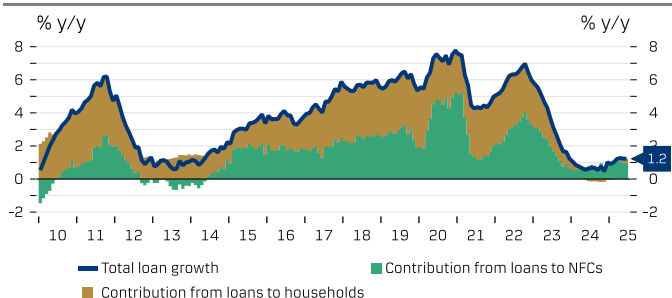
France

PMI and GDP growth



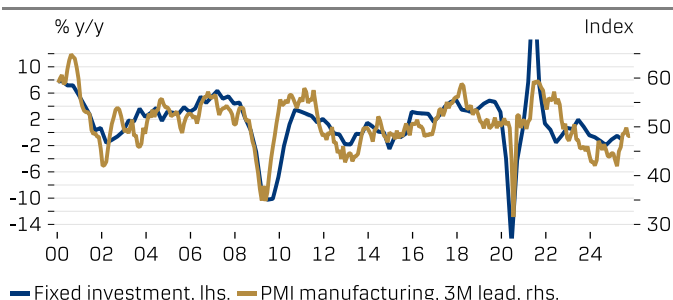
Source: S&P Global, Eurostat, Macrobond Financial

Credit growth



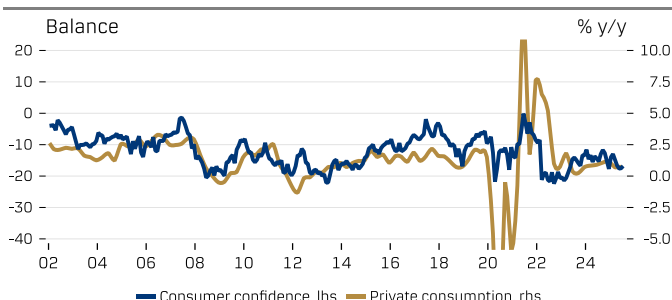
Source: ECB, Macrobond Financial, Danske Bank

Manufacturing sentiment and investments



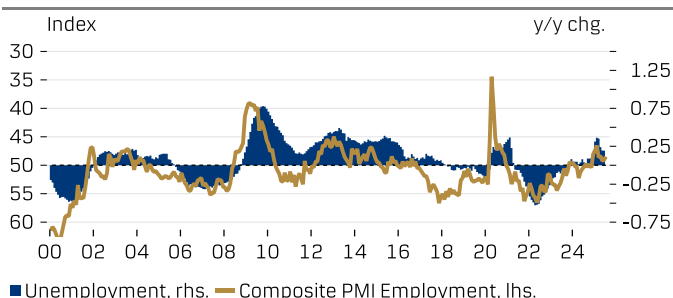
Source: S&P Global, Eurostat, Macrobond Financial

Consumer confidence and private consumption



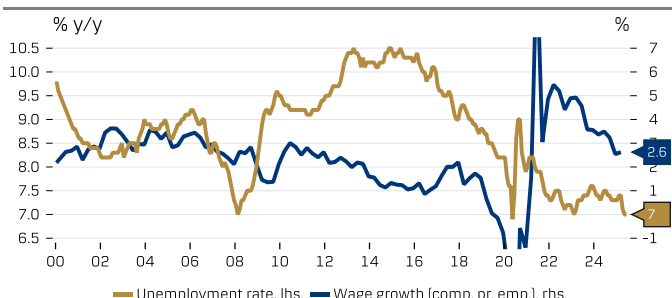
Source: European Commission, Eurostat, Macrobond Financial

Unemployment and PMI



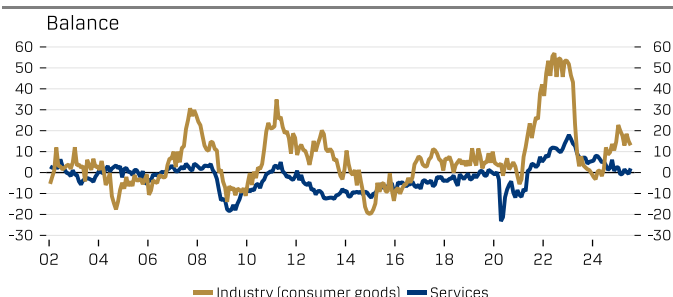
Source: S&P Global, Eurostat, Macrobond Financial

Unemployment and wage growth



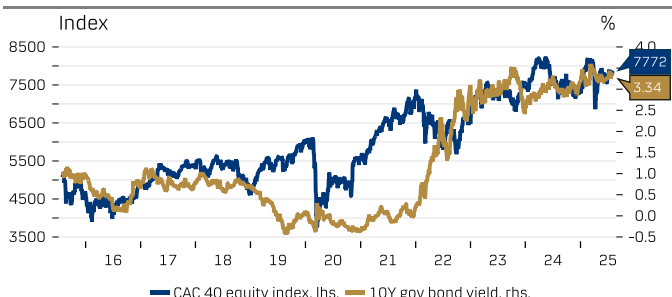
Source: ECB, Eurostat, Macrobond Financial, Danske Bank

Selling price expectations



Source: EU Commission, Macrobond Financial, Danske Bank

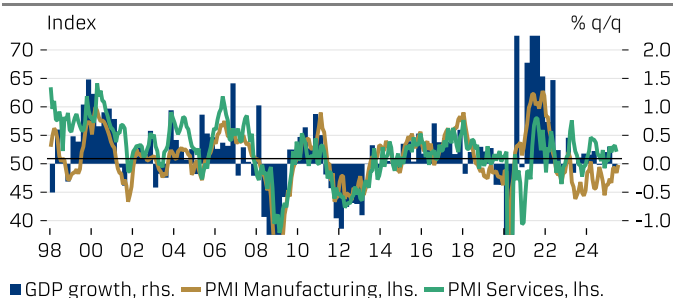
Financial markets



Source: Euronext, Macrobond Financial, Danske Bank

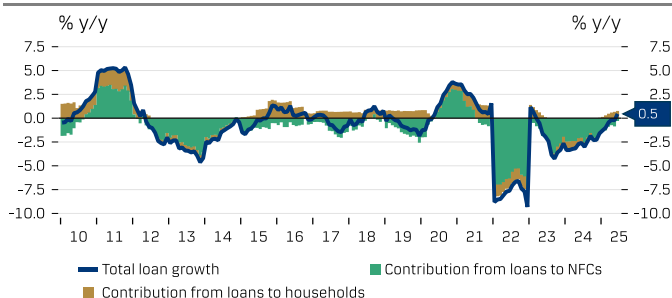
Italy

PMI and GDP growth



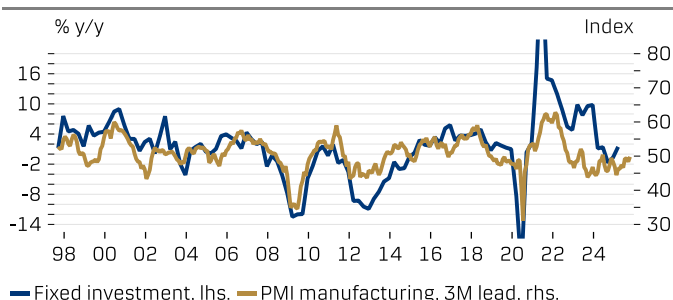
Source: S&P Global, Eurostat, Macrobond Financial

Credit growth



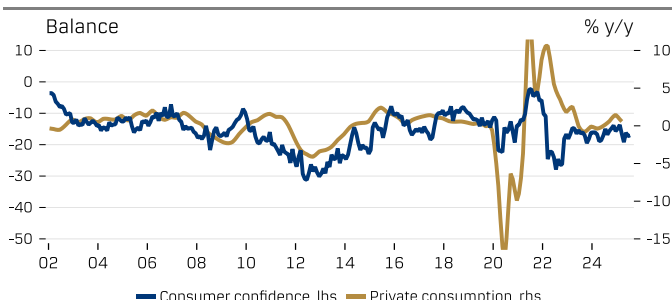
Source: ECB, Macrobond Financial, Danske Bank

Manufacturing sentiment and investments



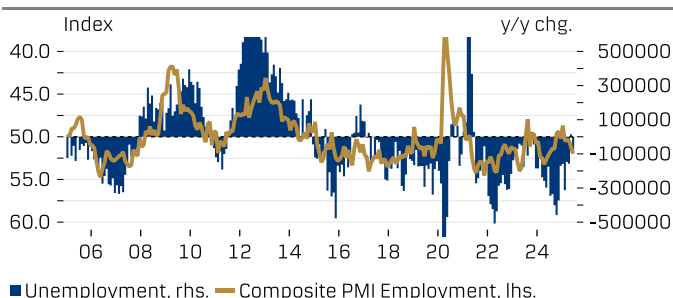
Source: S&P Global, Eurostat, Macrobond Financial

Consumer confidence and private consumption



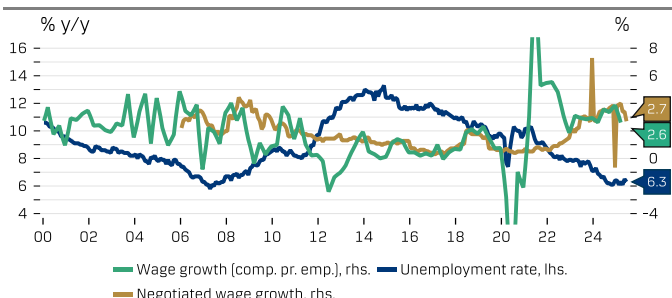
Source: European Commission, Eurostat, Macrobond Financial, Danske Bank

Unemployment and PMI



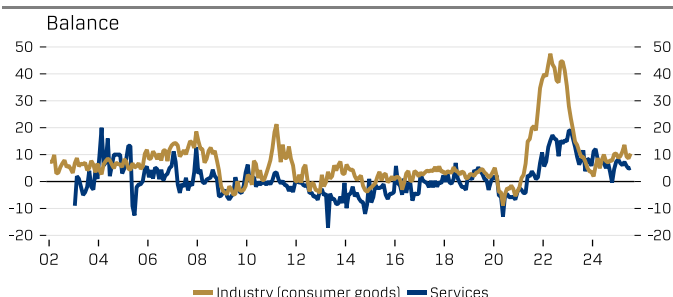
Source: S&P Global, Eurostat, Macrobond Financial

Unemployment and wage growth



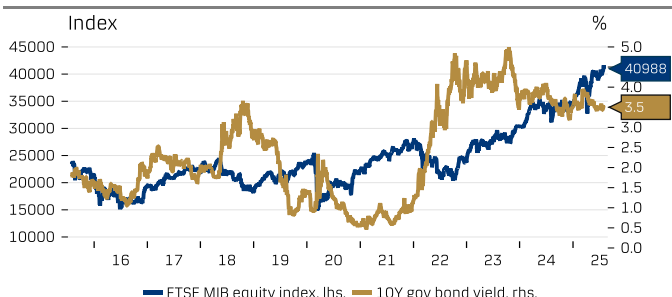
Source: ECB, Eurostat, Istat, Macrobond Financial, Danske Bank

Price expectations



Source: EU Commission, Macrobond Financial, Danske Bank

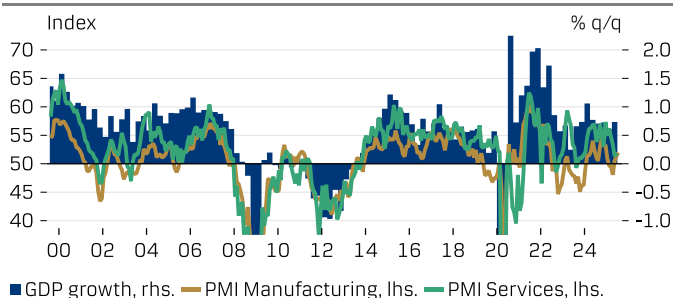
Financial markets



Source: FTSE, Macrobond Financial, Danske Bank

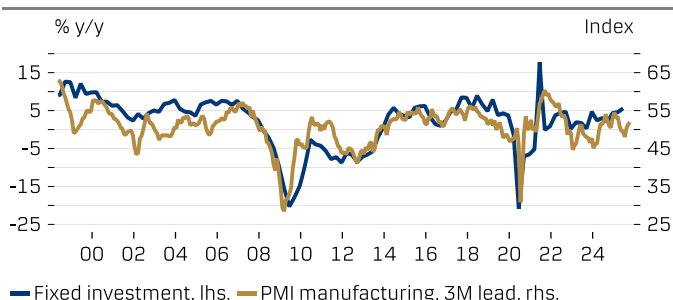
Spain

PMI and GDP growth



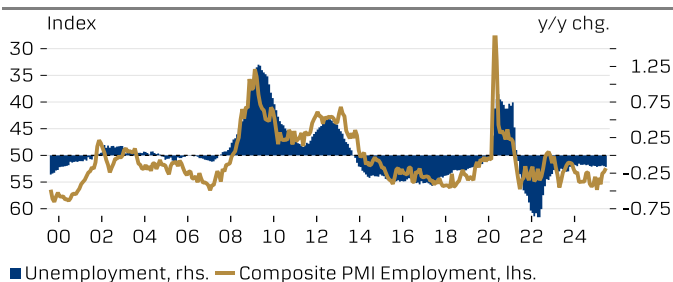
Source: S&P Global, Eurostat, Macrobond Financial

Manufacturing sentiment and investments



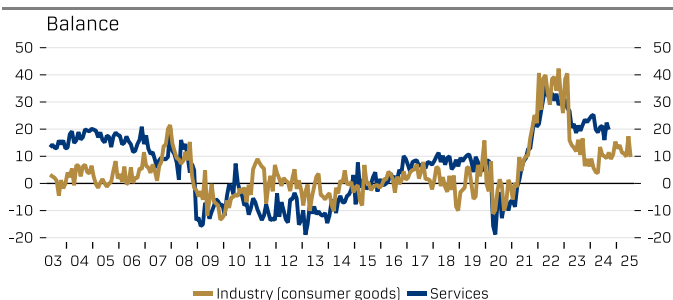
Source: S&P Global, Eurostat, Macrobond Financial

Unemployment and PMI



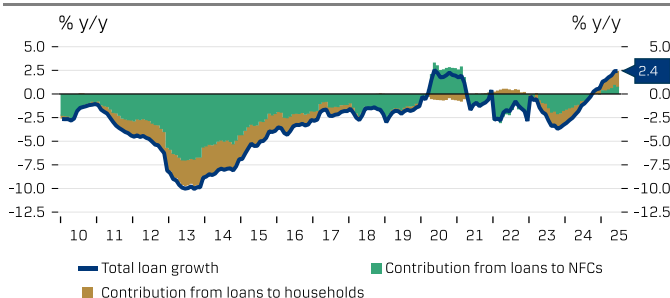
Source: S&P Global, Eurostat, Macrobond Financial

Price expectations



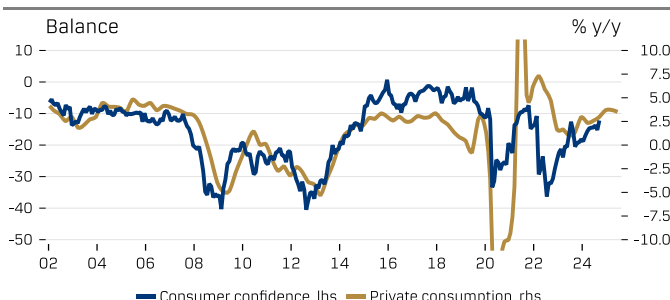
Source: EU Commission, Macrobond Financial, Danske Bank

Credit growth



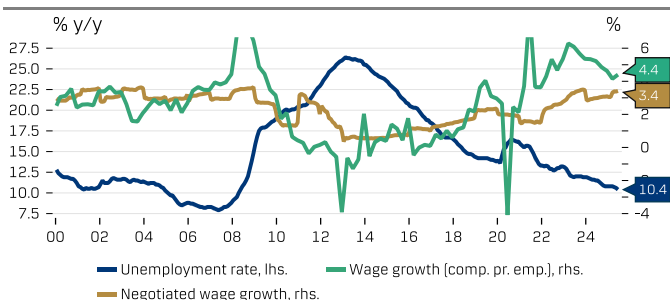
Source: ECB, Macrobond Financial, Danske Bank

Consumer confidence and private consumption



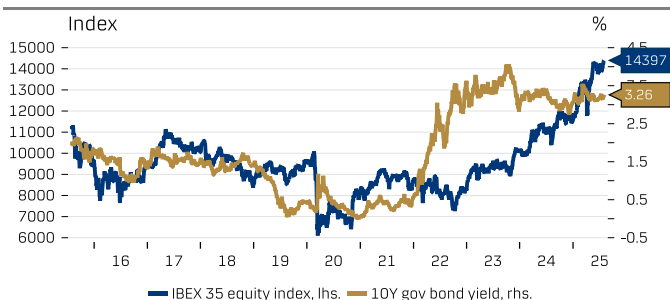
Source: European Commission, Eurostat, Macrobond Financial

Unemployment and wage growth



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

Financial markets



Source: Madrid Stock Exchange, Macrobond Financial, Danske Bank

Disclosures

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.

Analyst certification

Each research analyst responsible for the content of this research report certifies that the views expressed in the research report accurately reflect the research analyst's personal view about the financial instruments and issues covered by the research report. Each responsible research analyst further certifies that no part of the compensation of the research analyst was, is or will be, directly or indirectly, related to the specific recommendations expressed in the research report.

Regulation

Danske Bank is authorised and regulated by the Danish Financial Services Authority (Finanstilsynet). Danske Bank is authorised by the Prudential Regulation Authority in the UK. Subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request.

Danske Bank's research reports are prepared in accordance with the recommendations of Capital Market Denmark.

Conflicts of interest

Danske Bank has established procedures to prevent conflicts of interest and to ensure the provision of high-quality research based on research objectivity and independence. These procedures are documented in Danske Bank's research policies. Employees within Danske Bank's Research Departments have been instructed that any request that might impair the objectivity and independence of research shall be referred to Research Management and the Compliance Department. Danske Bank's Research Departments are organised independently from, and do not report to, other business areas within Danske Bank.

Research analysts are remunerated in part based on the overall profitability of Danske Bank, which includes investment banking revenues, but do not receive bonuses or other remuneration linked to specific corporate finance or debt capital transactions.

Financial models and/or methodology used in this research report

Calculations and presentations in this research report are based on standard econometric tools and methodology as well as publicly available statistics for each individual security, issuer and/or country. Documentation can be obtained from the authors on request.

Risk warning

Major risks connected with recommendations or opinions in this research report, including as sensitivity analysis of relevant assumptions, are stated throughout the text.

Expected updates

Monthly

Date of first publication

See the front page of this research report for the date of first publication.

General disclaimer

This research has been prepared by Danske Bank A/S. It is provided for informational purposes only and should not be considered investment, legal or tax advice. It does not constitute or form part of, and shall under no circumstances be considered as, an offer to sell or a solicitation of an offer to purchase or sell any relevant financial instruments (i.e. financial instruments mentioned herein or other financial instruments of any issuer mentioned herein and/or options, warrants, rights or other interests with respect to any such financial instruments) ('Relevant Financial Instruments').

This research report has been prepared independently and solely on the basis of publicly available information that Danske Bank A/S considers to be reliable but Danske Bank A/S has not independently verified the contents hereof. While reasonable care has been taken to ensure that its contents are not untrue or misleading, no representation or warranty, express or implied, is made as to, and no reliance should be placed on, the fairness, accuracy, completeness or reasonableness of the information, opinions and projections contained in this research report and Danske Bank A/S, its affiliates and subsidiaries accept no liability whatsoever for any direct or consequential loss, including without limitation any loss of profits, arising from reliance on this research report.

The opinions expressed herein are the opinions of the research analysts and reflect their opinion as of the date hereof. These opinions are subject to change and Danske Bank A/S does not undertake to notify any recipient of this research report of any such change nor of any other changes related to the information provided in this research report.

This research report is not intended for, and may not be redistributed to, retail customers in the United Kingdom (see separate disclaimer below) and retail customers in the European Economic Area as defined by Directive 2014/65/EU.

This research report is protected by copyright and is intended solely for the designated addressee. It may not be reproduced or distributed, in whole or in part, by any recipient for any purpose without Danske Bank A/S's prior written consent.

Disclaimer related to distribution in the United States

This research report was created by Danske Bank A/S and is distributed in the United States by Danske Markets Inc., a U.S. registered broker-dealer and subsidiary of Danske Bank A/S, pursuant to SEC Rule 15a-6 and related interpretations issued by the U.S. Securities and Exchange Commission. The research report is intended for distribution in the United States solely to 'U.S. institutional investors' as defined in SEC Rule 15a-6. Danske Markets Inc. accepts responsibility for this research report in connection with distribution in the United States solely to 'U.S. institutional investors'.

Danske Bank A/S is not subject to U.S. rules with regard to the preparation of research reports and the independence of research analysts. In addition, the research analysts of Danske Bank A/S who have prepared this research report are not registered or qualified as research analysts with the New York Stock Exchange or Financial Industry Regulatory Authority but satisfy the applicable requirements of a non-U.S. jurisdiction.

Any U.S. investor recipient of this research report who wishes to purchase or sell any Relevant Financial Instrument may do so only by contacting Danske Markets Inc. directly and should be aware that investing in non-U.S. financial instruments may entail certain risks. Financial instruments of non-U.S. issuers may not be registered with the U.S. Securities and Exchange Commission and may not be subject to the reporting and auditing standards of the U.S. Securities and Exchange Commission.

Disclaimer related to distribution in the United Kingdom

In the United Kingdom, this document is for distribution only to (I) persons who have professional experience in matters relating to investments falling within article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the 'Order'); (II) high net worth entities falling within article 49(2)(a) to (d) of the Order; or (III) persons who are an elective professional client or a per se professional client under Chapter 3 of the FCA Conduct of Business Sourcebook (all such persons together being referred to as 'Relevant Persons'). In the United Kingdom, this document is directed only at Relevant Persons, and other persons should not act or rely on this document or any of its contents.

Disclaimer related to distribution in the European Economic Area

This document is being distributed to and is directed only at persons in member states of the European Economic Area ('EEA') who are 'Qualified Investors' within the meaning of Article 2(e) of the Prospectus Regulation (Regulation (EU) 2017/1129) ('Qualified Investors'). Any person in the EEA who receives this document will be deemed to have represented and agreed that it is a Qualified Investor. Any such recipient will also be deemed to have represented and agreed that it has not received this document on behalf of persons in the EEA other than Qualified Investors or persons in the UK and member states (where equivalent legislation exists) for whom the investor has authority to make decisions on a wholly discretionary basis. Danske Bank A/S will rely on the truth and accuracy of the foregoing representations and agreements. Any person in the EEA who is not a Qualified Investor should not act or rely on this document or any of its contents.

Report completed: 1 August 2025, 16:00 CET

Report first disseminated: 4 August 2025, 06:00 CET