

4 September 2025

# Euro Area Macro Monitor

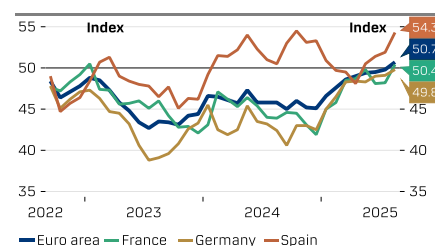
## Manufacturing rebounds, ending three-year contraction

- Economic activity in the euro area continues to show improvement in both manufacturing and services.** Manufacturing crossed the expansion threshold for the first time since mid-2022, with the PMI rising to 50.7 in August from 49.8. **Companies have increased production, supported by lower interest rates and energy prices, a trend we expect to persist throughout the year.** Growth was led by France and Spain, but German manufacturing is also almost in growth territory. While the German economy is still stagnating, expectations for future growth are clearly rising, with the Ifo expectations now at the highest level since 2021. Front-loading to the US has provided a temporary boost for European manufacturing, and this effect is expected to reverse, which limits further strong improvements keeping the PMIs near current levels for the rest of the years in our view. In contrast, the services PMI dipped to 50.5 from 51.0 in a sign of weaker domestic demand. Consumer confidence remains low, and we see cautious consumers as the main downside risk to the growth outlook. Yet, services employment continued to rise in August, and the unemployment rate remains record-low, supporting households. **Overall, businesses across the euro area have been coping well over the summer, despite tariff uncertainty, and we perceive the downside risks to growth smaller now as the EU and US have reached a trade deal.**
- Inflation in the euro area increased to 2.1% y/y in August, up from 2.0% y/y in July as expected. The recent trend remains consistent, with services inflation remaining elevated at 3.1% y/y in August, while energy prices continued to decline. **Food prices emerged as the primary driver, rising at 3.2% y/y, which seems to weigh on consumer confidence, that declined further in August.** Service and food price inflation present an upside risk to near-term inflation, though falling commodity and energy prices measured in euro suggests easing input prices. **We expect euro area inflation to average 2.1% in Q4 before falling below target, averaging 1.8% y/y in 2026.** Read more in our latest *Nordic Outlook - Caution, not crisis*, 3 September.
- With inflation consistently hitting the ECB's 2% target for four consecutive months, its market impact has diminished as the ECB shifts focus to growth and the fiscal outlook.** The ECB is widely expected to leave policy rates unchanged at its next meeting on 11 September. Better-than-expected growth data, a trade deal reducing downside risks, and Germany's proactive fiscal measures have led us to conclude that the ECB's easing cycle has ended. We continue to forecast an unchanged deposit rate of 2% throughout 2025 and 2026.
- Political tensions in France have resurfaced, reflected in a widening German-French yield spread. Bayrou, France's third prime minister within a year, has called for a vote of confidence on 8 September to secure parliamentary approval for his fiscal policy. **At the centre of the crisis is Bayrou's €44bn budget reduction plant, aimed at lowering France's public debt and reducing the budget deficit from 5.8% of GDP in 2024 to below 3% by 2029.** Key measures include scrapping two public holidays and freezing welfare spending and tax brackets. **Opposition from both the left and right-wing parties casts doubt on Bayrou's ability to pass his policies, so it seems most likely he will be ousted.** Regardless of the outcome after his ousting, political gridlock in France is likely to persist and complicate efforts to implement fiscal reforms.

### Key views

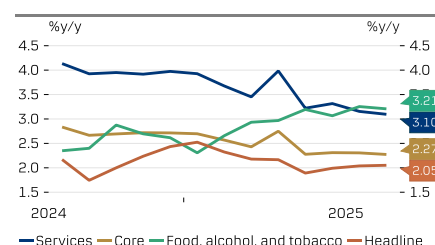
- Headline and core inflation to average close to 2% in 2025 and below in 2026
- Recovery to continue in the economy
- We expect no further rate cuts from the ECB in 2025 and 2026

### Manufacturing rises across euro area



Source: S&amp;P Global, Macrobond

### Steady inflation with upside risks from food and services



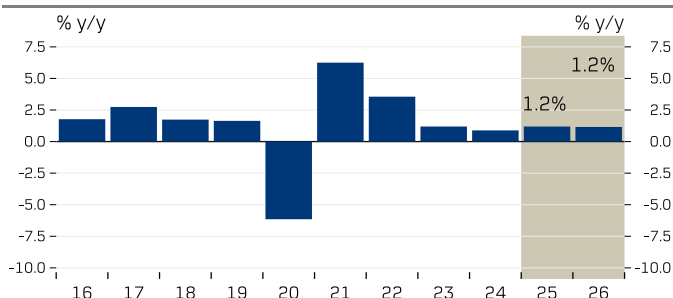
Source: Eurostat, Macrobond

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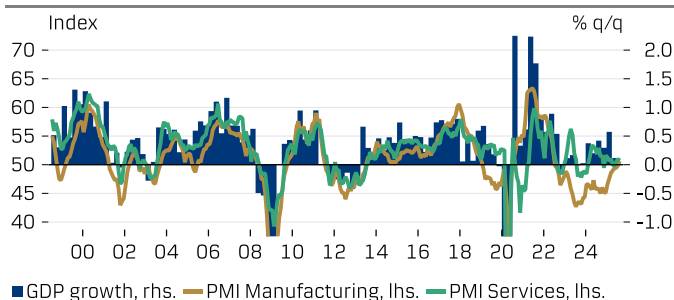
# Euro area

## GDP growth forecasts



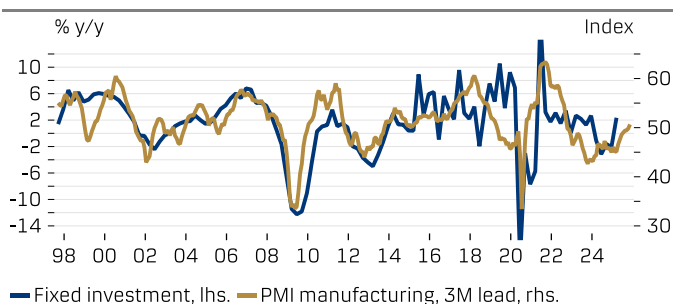
Source: Macrobond Financial, Danske Bank forecasts

## PMI and GDP growth



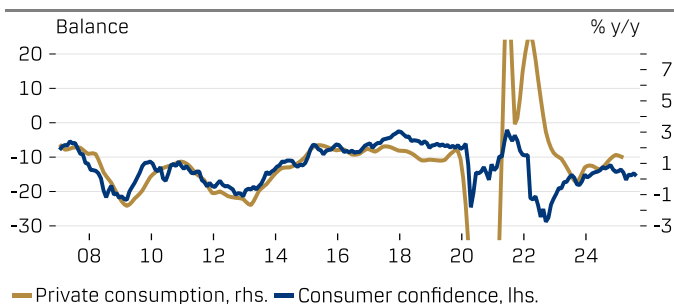
Source: Macrobond Financial, Danske Bank

## Manufacturing sentiment and investments



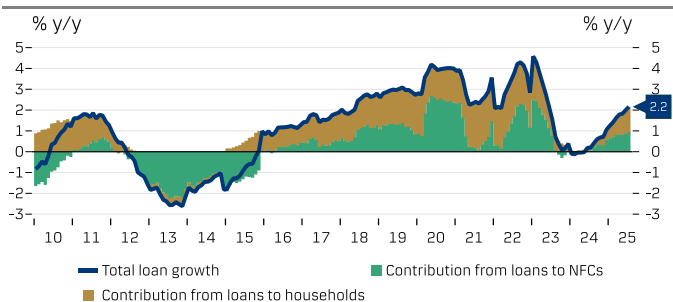
Source: S&P Global, Eurostat, Macrobond Financial

## Consumer confidence and private consumption



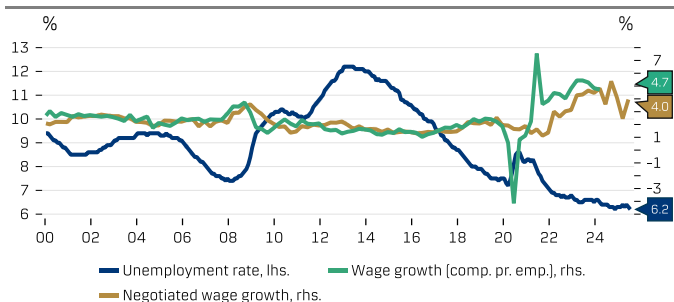
Source: Eurostat, European Commission, Macrobond Financial

## Credit growth



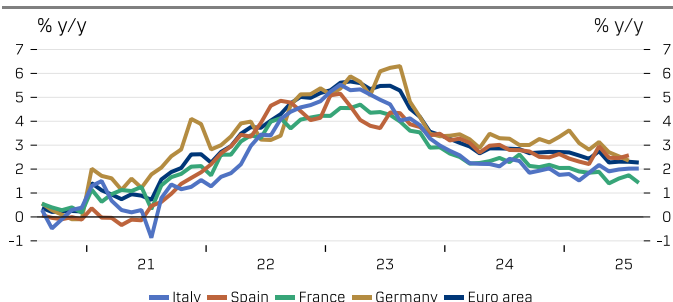
Source: ECB, Macrobond Financial, Danske Bank

## Unemployment and wage growth



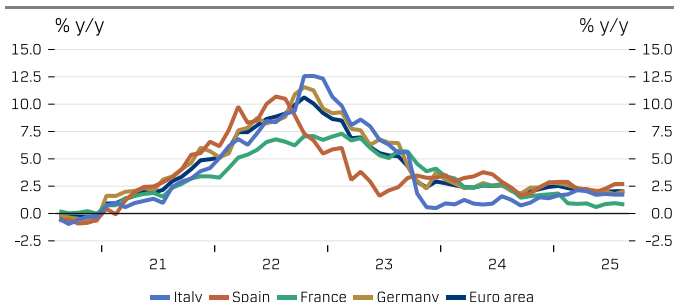
Source: ECB, Eurostat, Macrobond Financial

## Core inflation



Source: Eurostat, Macrobond Financial

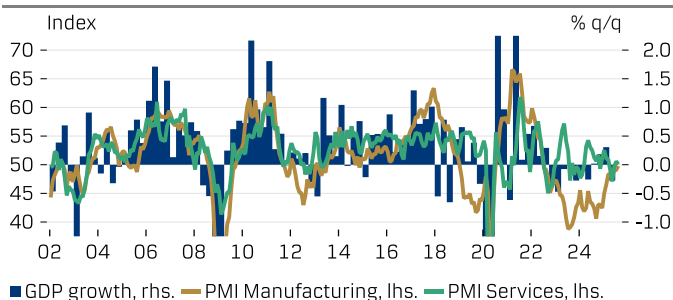
## HICP inflation



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

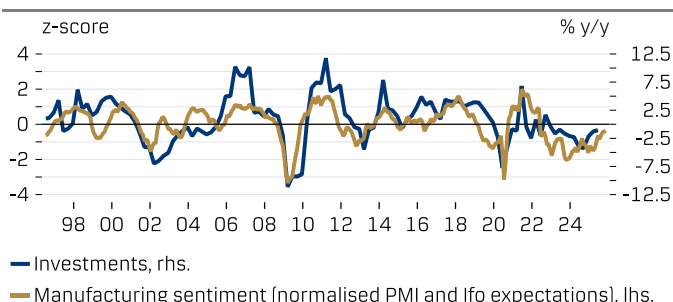
# Germany

## PMI and GDP growth



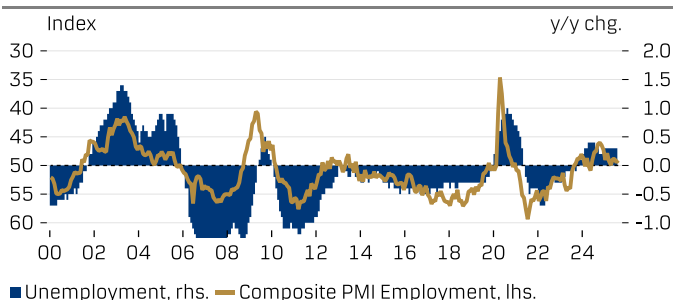
Source: S&P Global, Eurostat, Macrobond Financial

## Manufacturing sentiment and investments



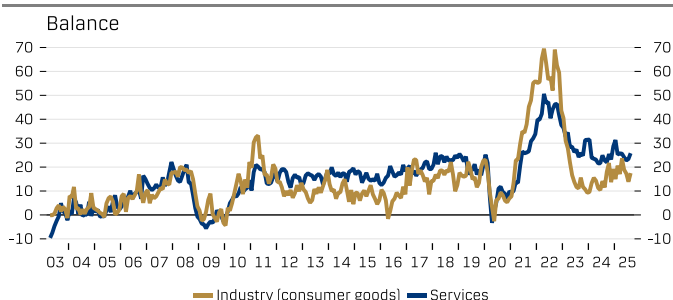
Source: S&P Global, Eurostat, Macrobond Financial

## Unemployment and PMI



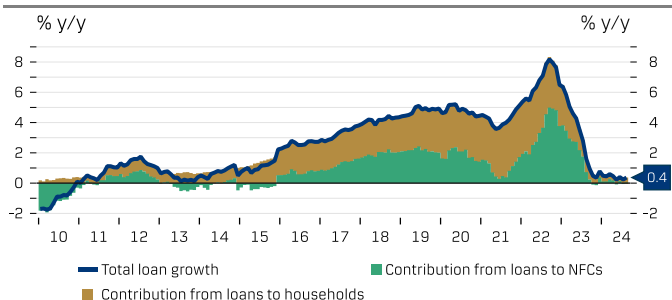
Source: S&P Global, Eurostat, Macrobond Financial

## Selling price expectations



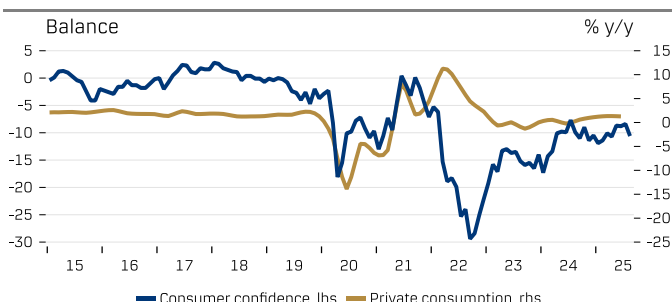
Source: EU Commission, Macrobond Financial, Danske Bank

## Credit growth



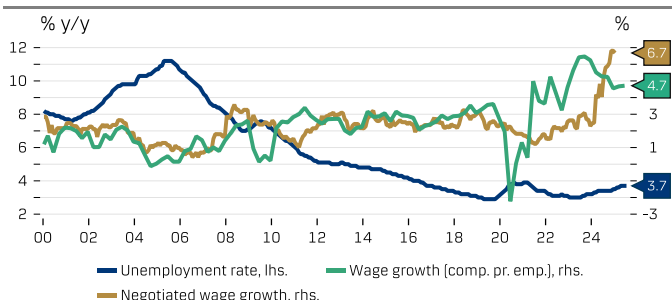
Source: Deutsche Bundesbank, Eurostat, Macrobond Financial, Danske Bank

## Consumer confidence and private consumption



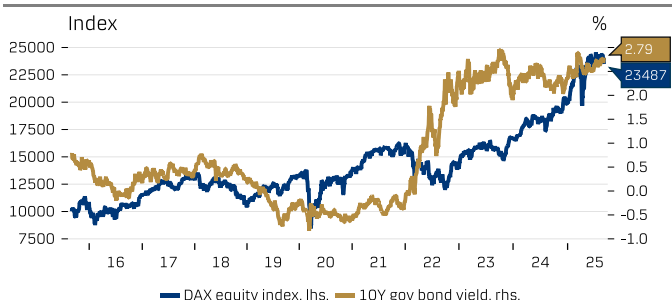
Source: European Commission, Eurostat, Macrobond Financial

## Unemployment and wage growth



Source: ECB, Eurostat, Deutsche Bundesbank, Macrobond Financial

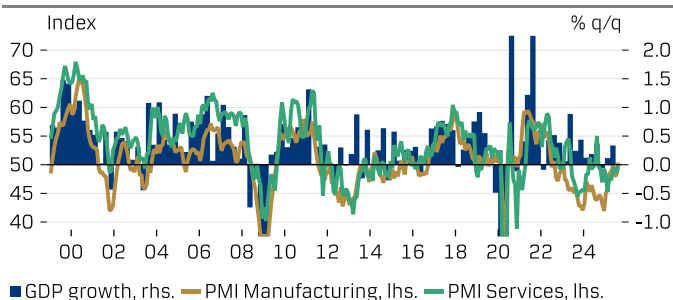
## Financial markets



Source: Deutsche Boerse, Macrobond Financial, Danske Bank

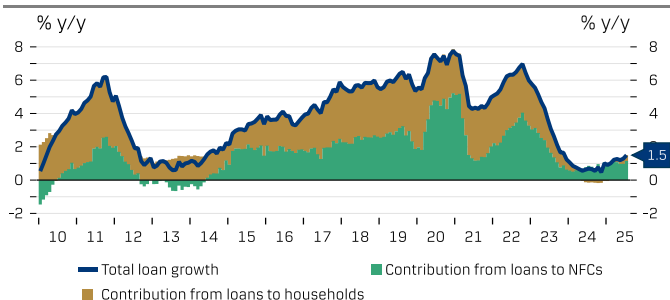
# France

## PMI and GDP growth



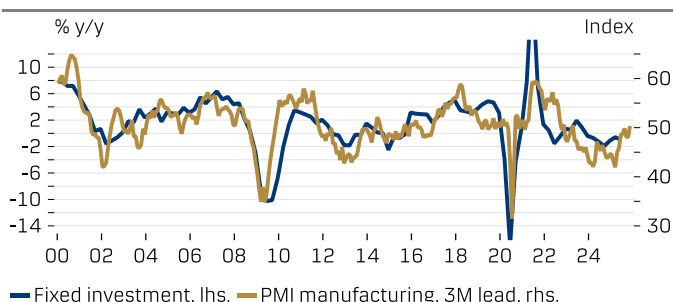
Source: S&P Global, Eurostat, Macrobond Financial

## Credit growth



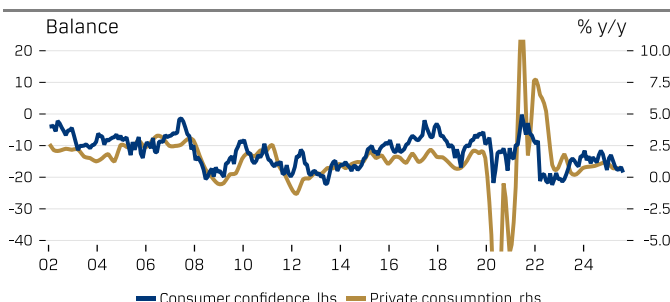
Source: ECB, Macrobond Financial, Danske Bank

## Manufacturing sentiment and investments



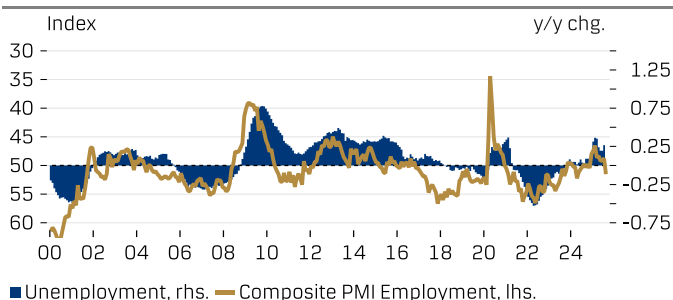
Source: S&P Global, Eurostat, Macrobond Financial

## Consumer confidence and private consumption



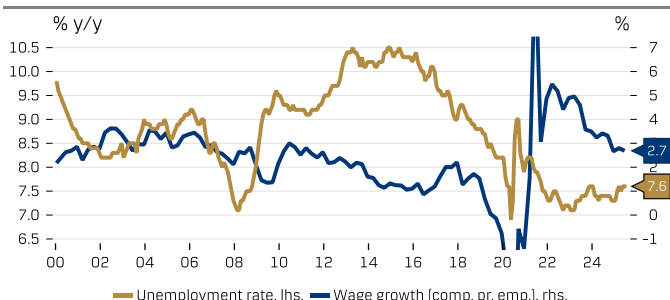
Source: European Commission, Eurostat, Macrobond Financial

## Unemployment and PMI



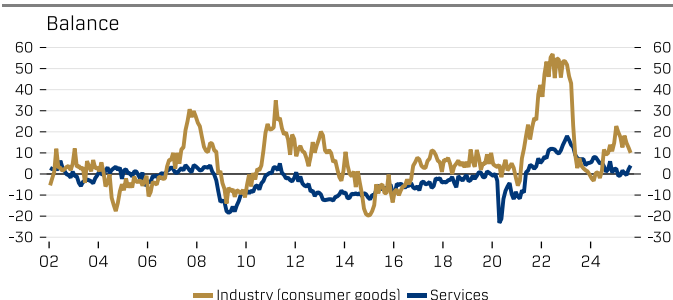
Source: S&P Global, Eurostat, Macrobond Financial

## Unemployment and wage growth



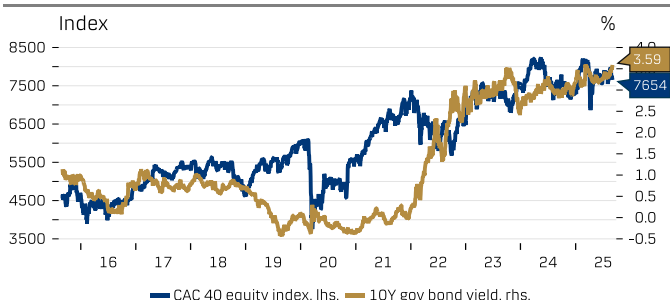
Source: ECB, Eurostat, Macrobond Financial, Danske Bank

## Selling price expectations



Source: EU Commission, Macrobond Financial, Danske Bank

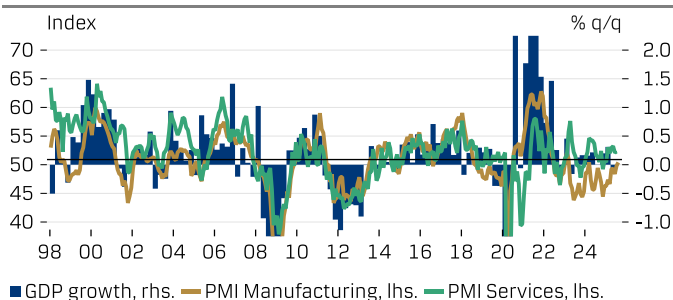
## Financial markets



Source: Euronext, Macrobond Financial, Danske Bank

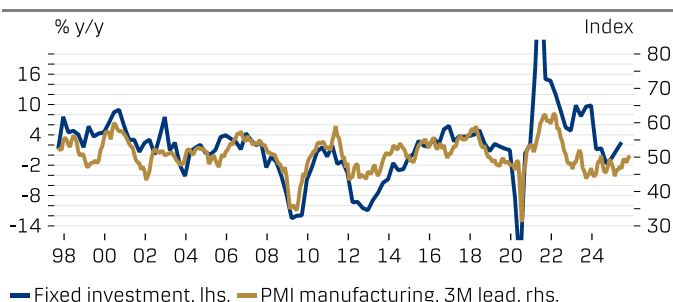
# Italy

## PMI and GDP growth



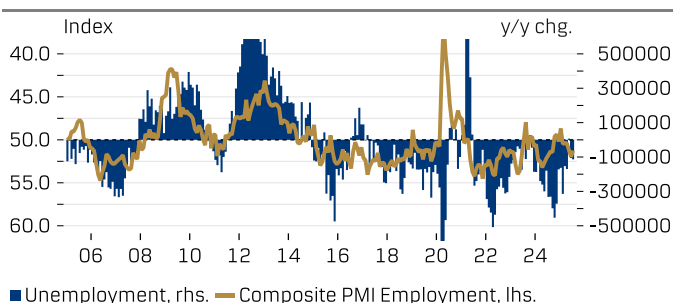
Source: S&P Global, Eurostat, Macrobond Financial

## Manufacturing sentiment and investments



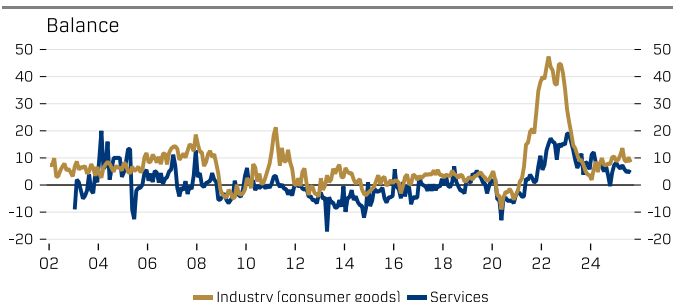
Source: S&P Global, Eurostat, Macrobond Financial

## Unemployment and PMI



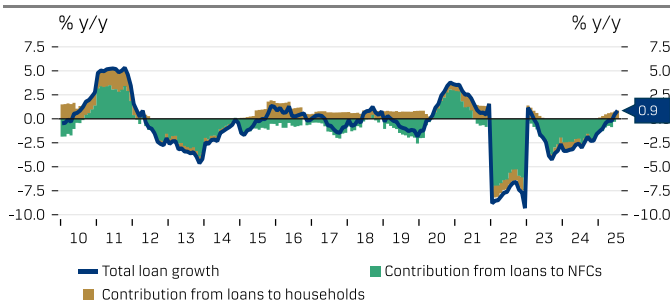
Source: S&P Global, Eurostat, Macrobond Financial

## Price expectations



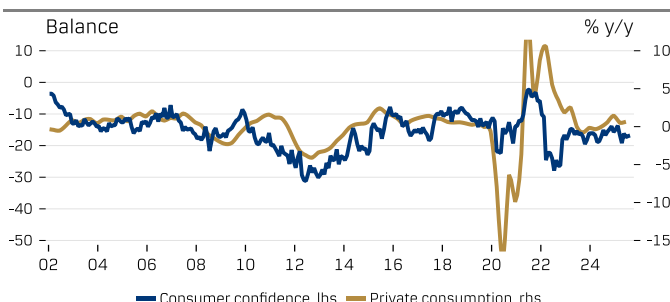
Source: EU Commission, Macrobond Financial, Danske Bank

## Credit growth



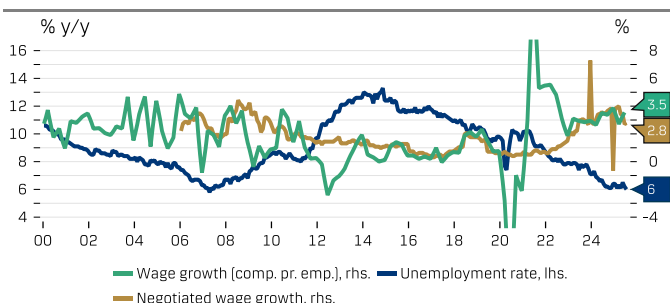
Source: ECB, Macrobond Financial, Danske Bank

## Consumer confidence and private consumption



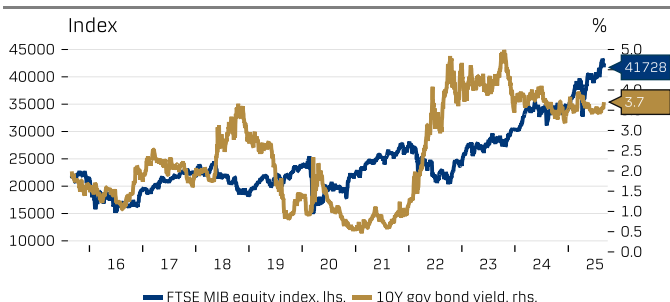
Source: European Commission, Eurostat, Macrobond Financial, Danske Bank

## Unemployment and wage growth



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

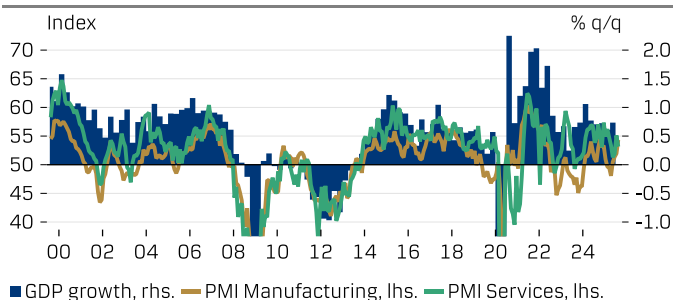
## Financial markets



Source: FTSE, Macrobond Financial, Danske Bank

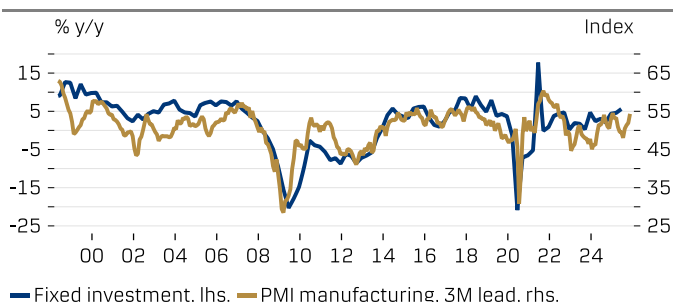
# Spain

## PMI and GDP growth



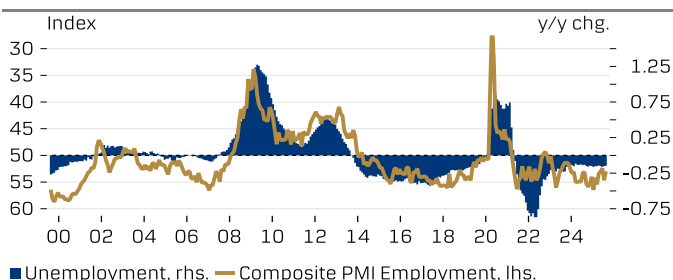
Source: S&P Global, Eurostat, Macrobond Financial

## Manufacturing sentiment and investments



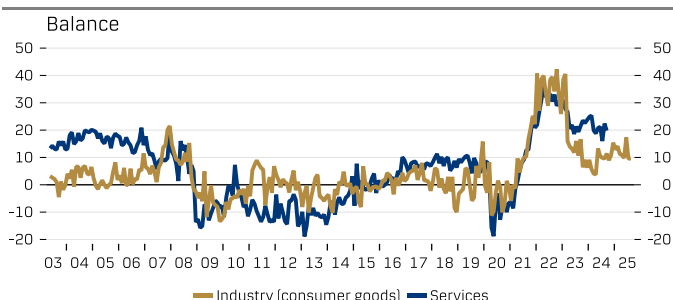
Source: S&P Global, Eurostat, Macrobond Financial

## Unemployment and PMI



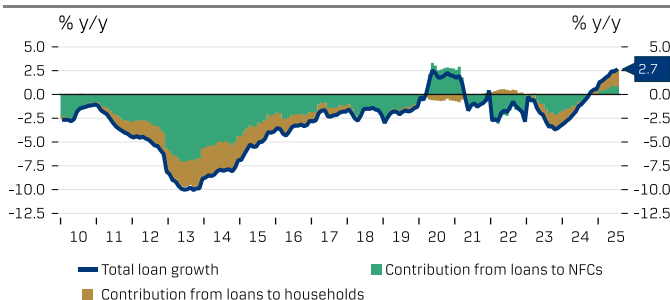
Source: S&P Global, Eurostat, Macrobond Financial

## Price expectations



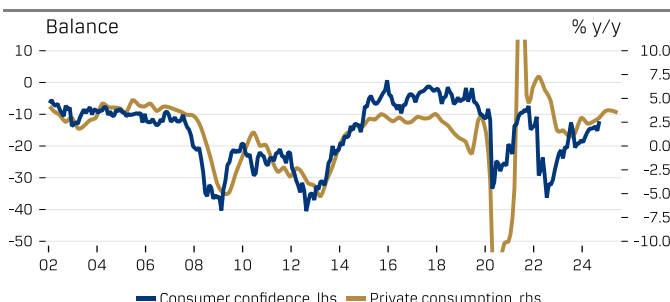
Source: EU Commission, Macrobond Financial, Danske Bank

## Credit growth



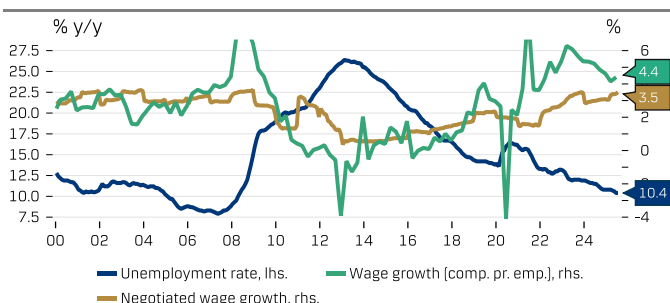
Source: ECB, Macrobond Financial, Danske Bank

## Consumer confidence and private consumption



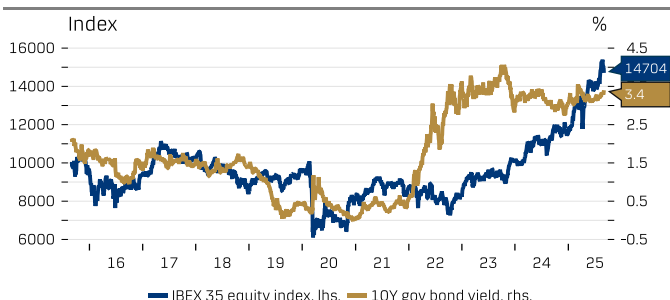
Source: European Commission, Eurostat, Macrobond Financial

## 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

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**Report completed: 3 September 2025, 16:00 CET**

**Report first disseminated: 4 September 2025, 06:30 CET**