Still breathing

- **The narrative on the euro area economy has changed from risks of too high inflation to risks of too low growth. The recent growth momentum has slowed, and we have revised down expectations for the first half of 2025 due to the continued struggle in the manufacturing sector combined with cautious consumers and a weak German economy.**

- **While the near-term growth outlook is weaker and more uncertain than in our latest projection, growth is expected to improve slowly during 2025, supported by rising real incomes and significantly lower monetary policy rates.**

- **The disinflationary process remains well on track, and we expect headline inflation to average 2% in both 2025 and 2026 as commodity futures suggest stable energy and food prices. Core inflation is expected to remain above the 2% target until next summer.**

- **We expect the ECB to lower the deposit rate at each consecutive meeting until it reaches 1.50% around next summer. We see the need for ECB to lower the rate to "insurance territory" as growth is expected below potential in 2025 and inflation at target.**

4 December 2024
Important disclosures and certifications are contained from page 3 of this report.

	2023	Forecast 2024	2025	2026
GDP Growth	0.5%	0.7% (0.7%)	0.9% (1.2%)	1.4%
Inflation	5.4%	2.4% (2.4%)	2.0% (2.1%)	2.0%
Unem-ployment	6.5%	6.4% (6.5%)	6.7% (6.6%)	6.6%
Policy rate*	4.00%	3.00% (3.25%)	1.50% (2.50%)	1.50%

Paranthesis are the old projections (From September 2024)
**End of period*
Source: Danske Bank, Eurostat, ECB

The narrative on the euro area economy has changed from risks of too high inflation to risks of too low growth. The recent growth momentum has slowed, and we have revised down expectations for the first half of 2025 due to the continued struggle in the manufacturing sector combined with cautious consumers and a weak German economy. While the near-term growth outlook is weaker and more uncertain than in our latest projection, growth is expected to improve slowly during 2025, supported by rising real incomes and significantly lower monetary policy rates. Private consumption is expected to pick up during next year and be the main driver of growth. Consumption will benefit from rising real incomes, a historically strong labour market, and increased consumer confidence. We expect investments to stay low in the near term and highlight the risk of political uncertainty regarding trade policies having a negative effect. However, investments are projected to increase in late 2025 and 2026 due to improved financial conditions and increased public investments on EU priorities. Foreign demand is projected to gradually increase, bolstered by rising global activity and fiscal stimulus in 2026 from

> *The narrative on the euro area economy has changed from risks of too high inflation to risks of too low growth*
>
> *Rune Thyge Johansen, Analyst*

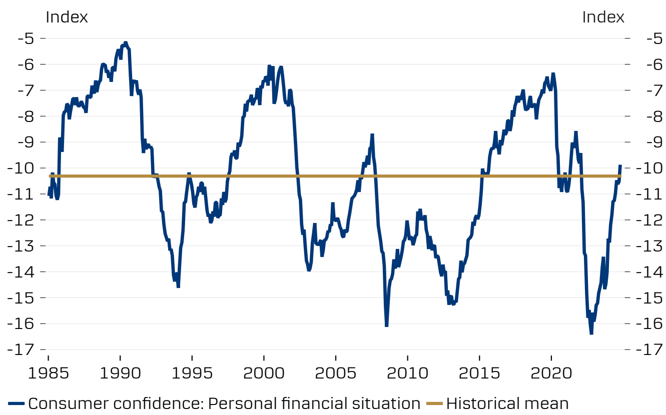
both the US and China. Additionally, we predict that potential US import tariffs will have a limited short-term impact on exports due to a lower EUR/USD. Overall, the risks to the growth outlook are viewed as balanced since a higher consumption share could increase growth more than expected while a weaker labour market due to spillovers from the industry could lower growth.

Inflation has become less of a concern in the euro area as the disinflationary process remains well on track. Underlying inflation is easing thanks to virtually no price increases on goods while headline inflation is coming lower due to energy and food inflation. We expect headline inflation to average 2% in both 2025 and 2026 as commodity futures suggest stable energy and food prices. Core inflation is expected to stand above the 2% target until next summer as services inflation will stay high due to elevated wage growth, while goods inflation is set to remain low due to the weak manufacturing sector combined with overcapacity in China. As inflation has come down, we expect significantly lower wage agreements for the coming years, which will lower services inflation. Risks to the inflation outlook are viewed as balanced as geopolitical tensions could increase commodity prices more than expected while weaker demand could lower inflation.

Turning to the ECB, we expect the deposit rate to be lowered at each consecutive meeting until it reaches 1.50% around next summer. We see the need for ECB to lower the rate to “insurance territory” as growth is expected below potential in 2025 and inflation at target. Recent communication by the ECB has clearly shifted focus towards risks of weaker growth and inflation undershooting the 2% target over the medium-term. We see the risks to our profile as broadly balanced as higher than expected wage growth could mean fewer rate cuts while weaker than expected activity could result in more.

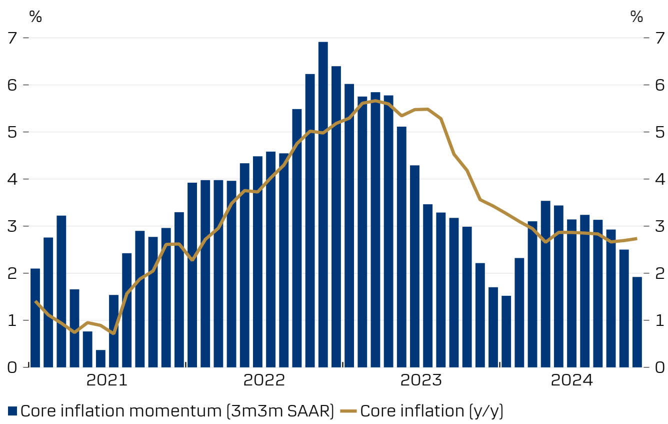
The German economy continues on a weak footing due to both cyclical and structural problems, particularly in the industry. The labour market has previously remained solid, but employment declined in the third quarter for the first time since COVID. We expect the cyclical headwinds to fade from the second half of next year, but until then the economy is not expected to grow, and employment is set to decline further in contrast to the rest of the euro area.

Rising consumer confidence to support consumption in the coming year



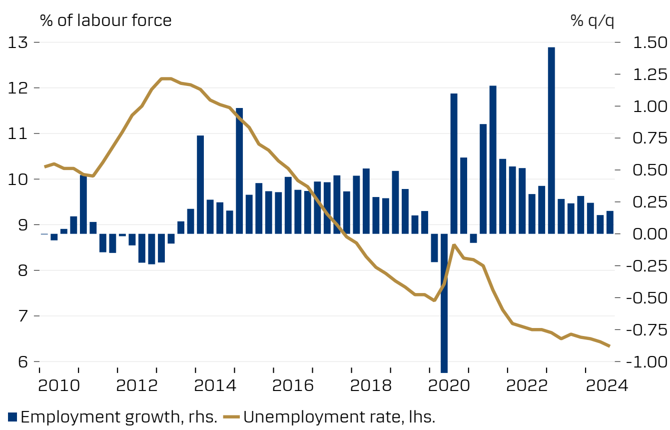
Source: Eurostat, Macrobond Financial

Underlying inflation is closing in on the 2% target



Source: Eurostat, ECB, Macrobond Financial

Employment growth continued in Q3



Source: Eurostat, Macrobond Financial

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