

11 June 2025

Euro Area Macro Monitor

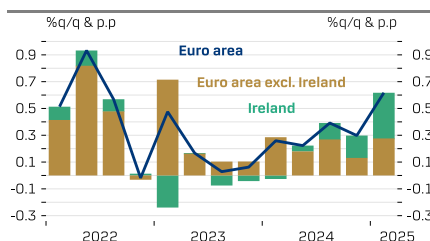
Inflation below target while services sector struggles

- **The euro area economy is expanding but skirting close to stagnation.** The manufacturing sector shows improvement, with the PMI rising to 49.4 in May from 49.0, supported by increased output and orders both domestically and abroad. This indicates that trade uncertainties have not significantly impacted the sector negatively – quite the opposite so far. The 2025Q1 euro area GDP growth was revised up to 0.6% q/q from 0.3% q/q, driven by Irish GDP increasing 10% q/q, due to the front-loading of medicine to the US and intangible asset investments by foreign firms. **Currently, the services sector is the main concern, as PMI dropped further to 49.7 in May** from 50.1, entering contraction territory for the first time since November 2024. Business activity in services contracted for the first time in six months, primarily due to sluggish domestic demand, compounded by weakening foreign demand. Despite this, companies are cautiously optimistic, although the expectations index remains below its long-term average.
- **The May inflation data suggests that the ECB is nearing success in its efforts to combat inflation.** Headline inflation has decreased to 1.9% y/y from 2.2%, now below ECB's medium-term target. This decline was mainly due to a reduction in services inflation, which fell from 4.0% y/y to 3.2% y/y, reflected by a monthly price decrease of 0.04% m/m. Most importantly, the May data shows that the strong increase in April was largely influenced by the timing of Easter, as average figures from the past two months confirm the disinflationary trend in the services inflation, with average price increase of 0.25% m/m s.a. **The decrease in service inflation is due to slowing wage growth**, indicated by compensation per employee that fell to 3.8% y/y in Q1 from 4.1% y/y in the previous quarter. The decline is expected to continue this year, with the ECB June staff projections expecting 3.2% wage growth this year and 2.8% in 2026 and 2027.
- **As expected, the ECB cut rates by 25bp at the June meeting;** however, signals from Lagarde were surprisingly hawkish, suggesting that the rate-cutting cycle could soon or already be over. The ECB staff projections revised the inflation forecast significantly down to 2.0% in 2025 (from: 2.3%) and 1.6% in 2026 (from: 1.9%), but Lagarde downplayed the importance of this since it was mainly due to temporary factors like energy prices. **We have thus removed a July cut from our forecast, now assuming a final 25bp cut in September to 1.75%, with risks tilted towards one additional cut in Q4**, for details see *ECB review - In a good position, close to or at the end*, 5 June.
- **In the Netherlands, far-right leader Wilders withdrew his party from the government coalition on 3 June, prompting PM Schoof's resignation and snap elections set for 29 October.** The right-wing coalition lasted 11 months before Wilders exited over contentious immigration plans. Wilders aims for the PM role, but his party's support has diminished since their shock victory in November 2023 and is now level with former liberal coalition partner VVD and the Labor-Green-Left opposition. This election date grants parties nearly five months to campaign amidst political uncertainty, as far-right parties gain traction across Europe.

Key views

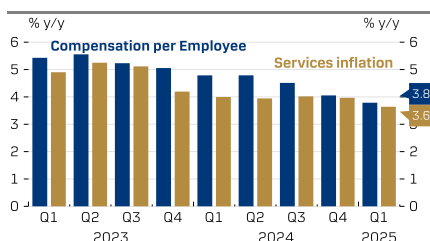
- Headline and core inflation to average close to 2% in 2025 and below in 2026
- Recovery to continue in the economy, amid trade uncertainty
- We expect one additional 25bp rate cut from the ECB in 2025

Irish GDP surge prompts upward revision in euro area growth



Source: Eurostat, Macrobond Financial

Declining wage growth aligns with drop in services inflation



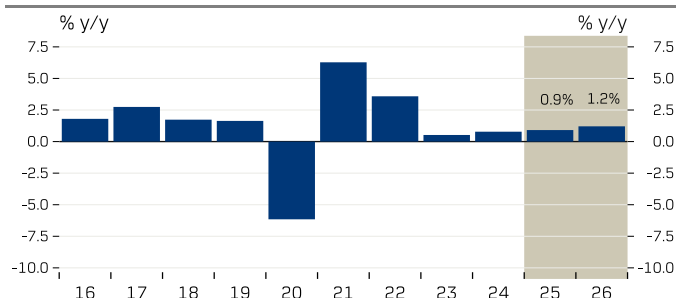
Source: ECB, Macrobond Financial

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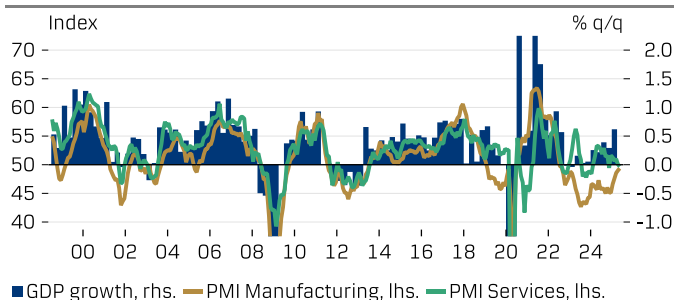
Euro area

GDP growth forecasts



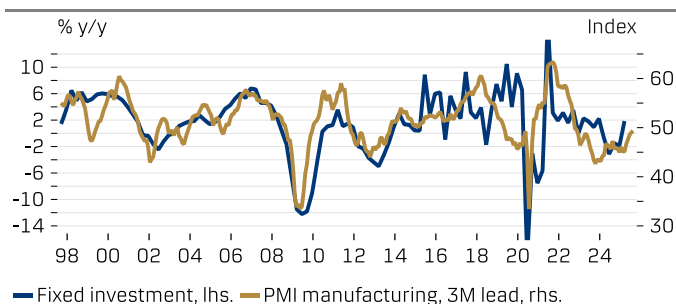
Source: Macrobond Financial, Danske Bank forecasts

PMI and GDP growth



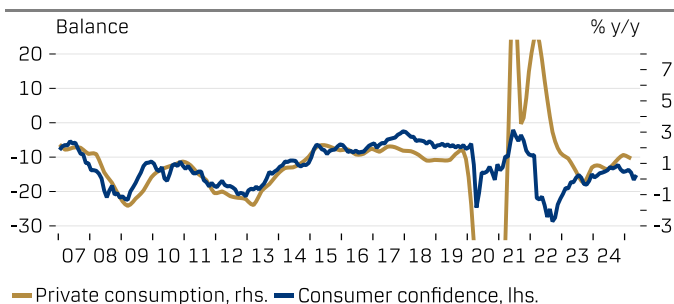
Source: Macrobond Financial, Danske Bank

Manufacturing sentiment and investments



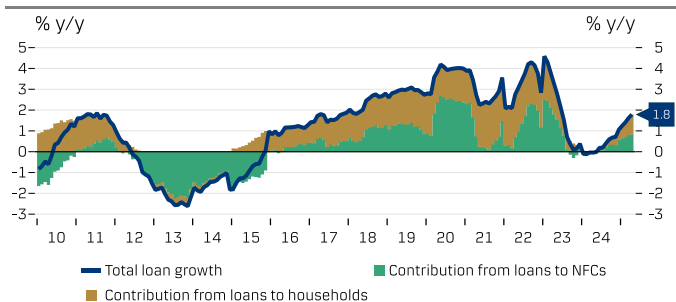
Source: S&P Global, Eurostat, Macrobond Financial

Consumer confidence and private consumption



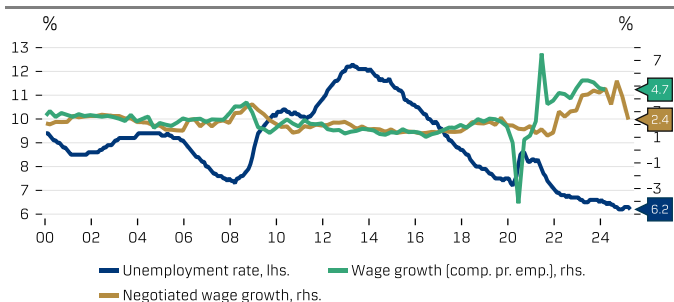
Source: Eurostat, European Commission, Macrobond Financial

Credit growth



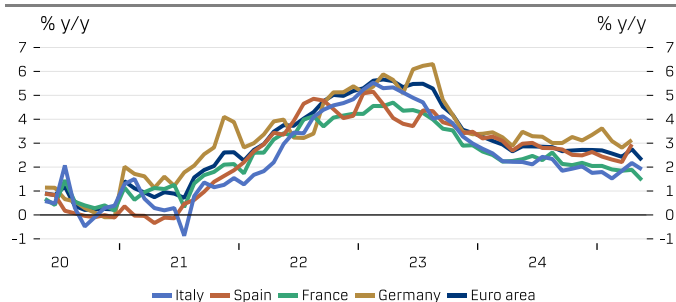
Source: ECB, Macrobond Financial, Danske Bank

Unemployment and wage growth



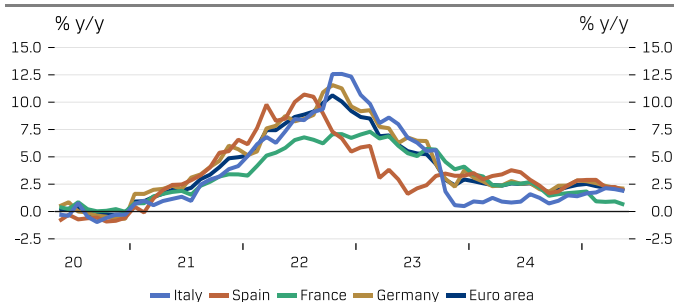
Source: ECB, Eurostat, Macrobond Financial

Core inflation



Source: Eurostat, Macrobond Financial

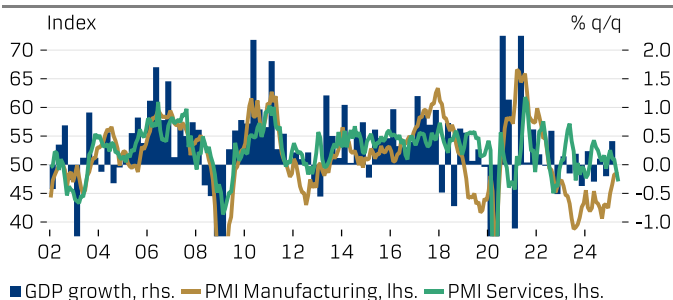
HICP inflation



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

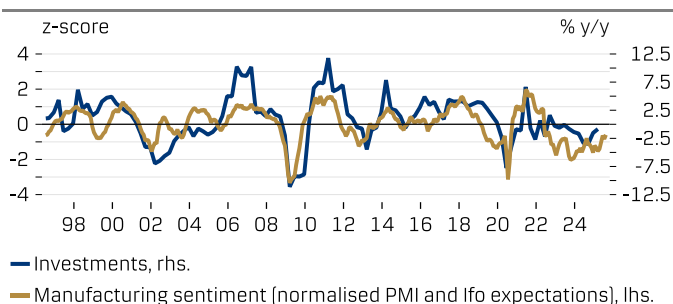
Germany

PMI and GDP growth



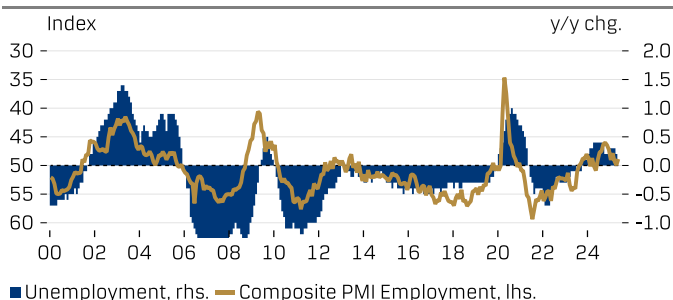
Source: S&P Global, Eurostat, Macrobond Financial

Manufacturing sentiment and investments



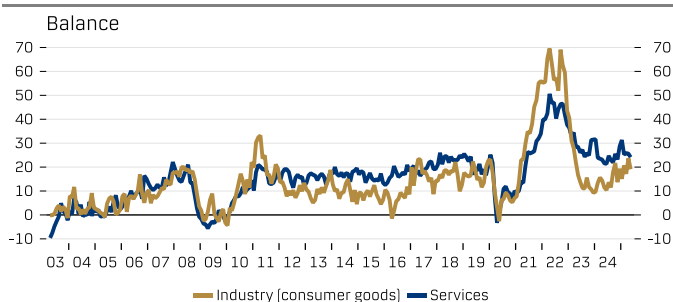
Source: S&P Global, Eurostat, Macrobond Financial

Unemployment and PMI



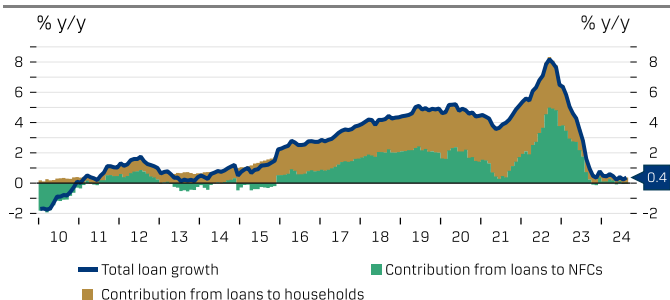
Source: S&P Global, Eurostat, Macrobond Financial

Selling price expectations



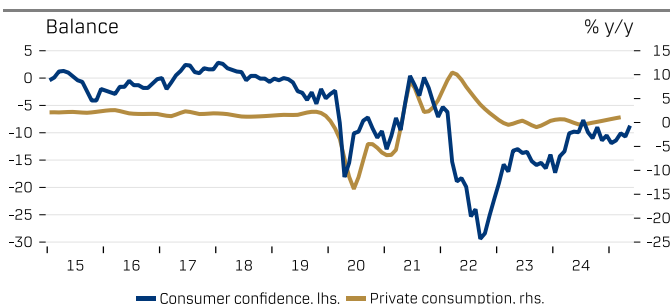
Source: EU Commission, Macrobond Financial, Danske Bank

Credit growth



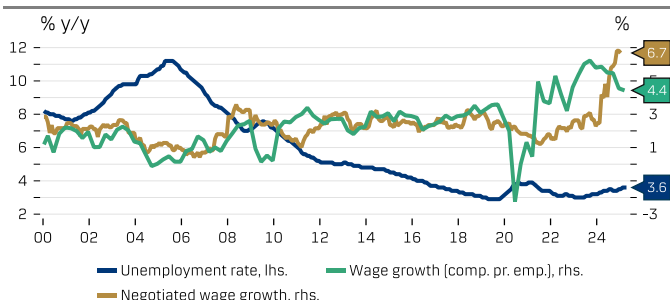
Source: Deutsche Bundesbank, Eurostat, Macrobond Financial, Danske Bank

Consumer confidence and private consumption



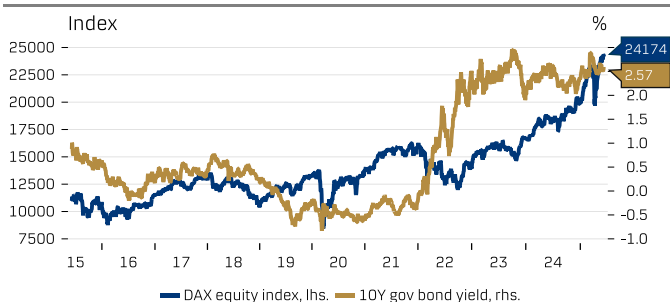
Source: European Commission, Eurostat, Macrobond Financial

Unemployment and wage growth



Source: ECB, Eurostat, Deutsche Bundesbank, Macrobond Financial

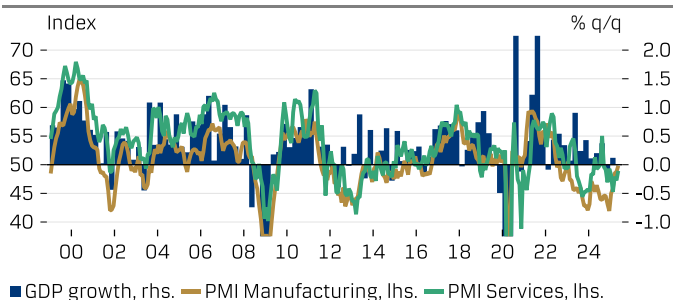
Financial markets



Source: Deutsche Boerse, Macrobond Financial, Danske Bank

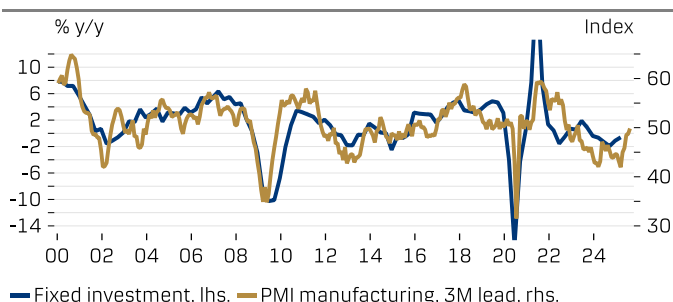
France

PMI and GDP growth



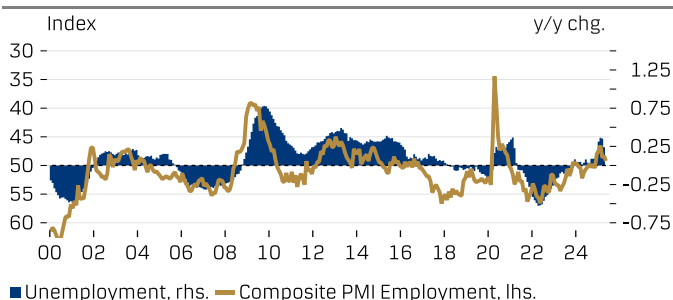
Source: S&P Global, Eurostat, Macrobond Financial

Manufacturing sentiment and investments



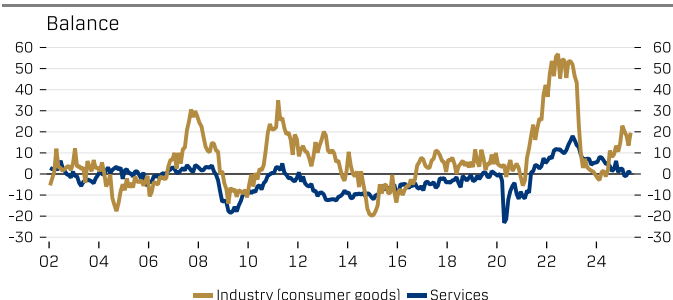
Source: S&P Global, Eurostat, Macrobond Financial

Unemployment and PMI



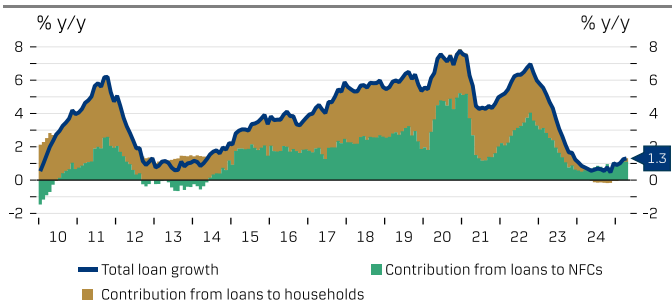
Source: S&P Global, Eurostat, Macrobond Financial

Selling price expectations



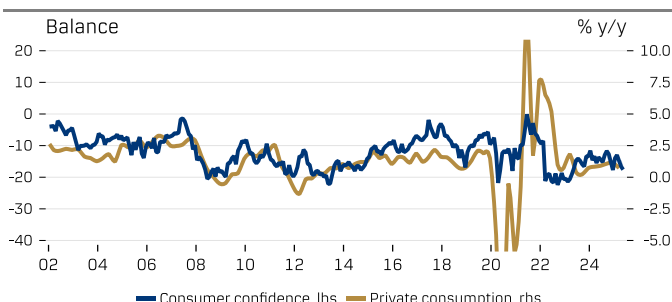
Source: EU Commission, Macrobond Financial, Danske Bank

Credit growth



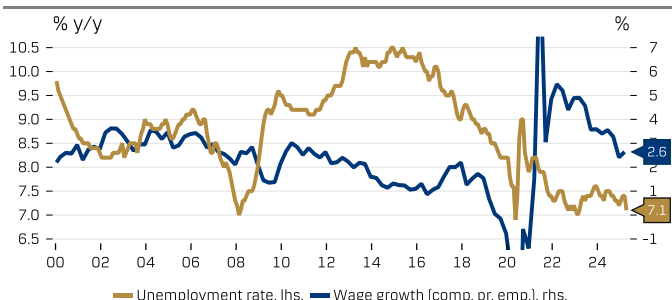
Source: ECB, Macrobond Financial, Danske Bank

Consumer confidence and private consumption



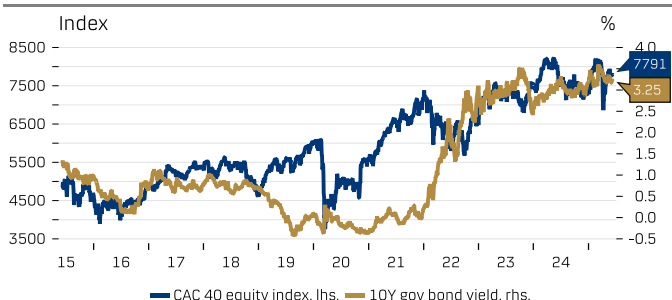
Source: European Commission, Eurostat, Macrobond Financial

Unemployment and wage growth



Source: ECB, Eurostat, Macrobond Financial, Danske Bank

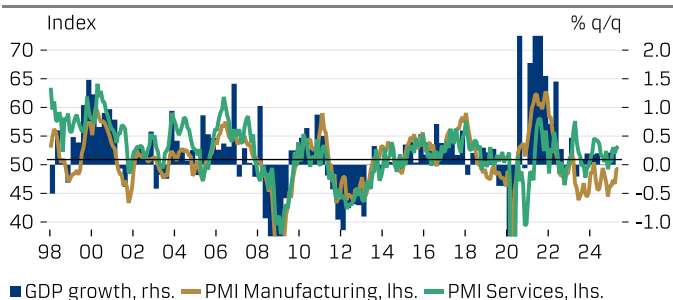
Financial markets



Source: Euronext, Macrobond Financial, Danske Bank

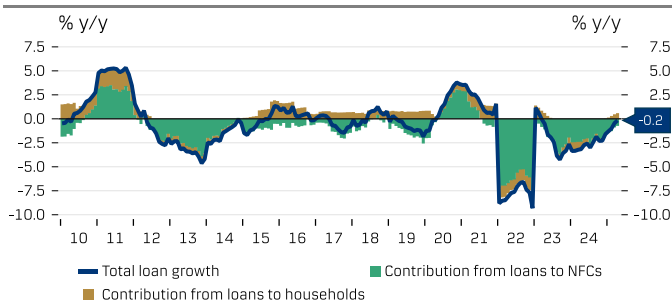
Italy

PMI and GDP growth



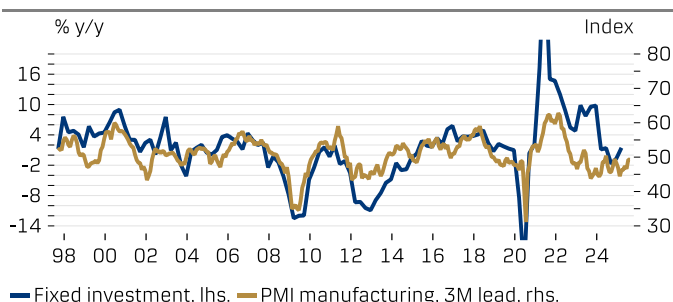
Source: S&P Global, Eurostat, Macrobond Financial

Credit growth



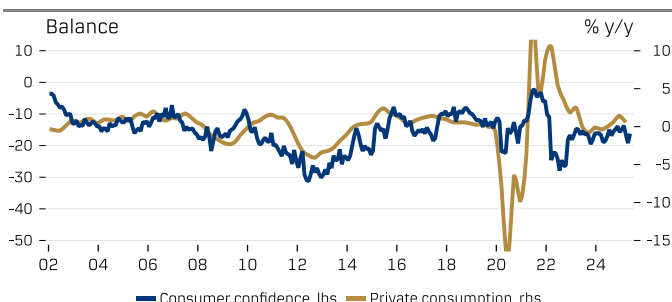
Source: ECB, Macrobond Financial, Danske Bank

Manufacturing sentiment and investments



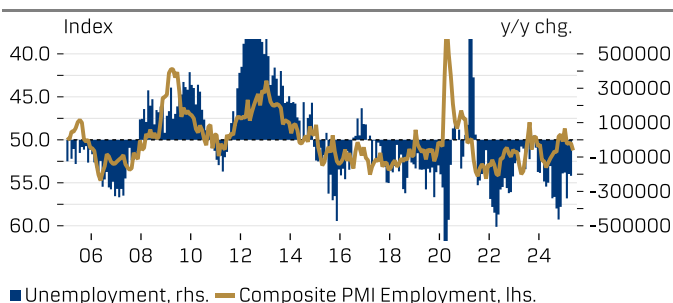
Source: S&P Global, Eurostat, Macrobond Financial

Consumer confidence and private consumption



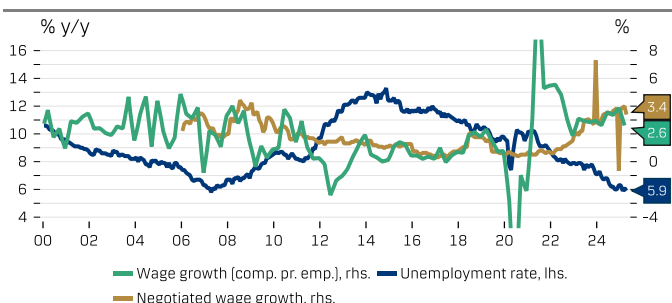
Source: European Commission, Eurostat, Macrobond Financial, Danske Bank

Unemployment and PMI



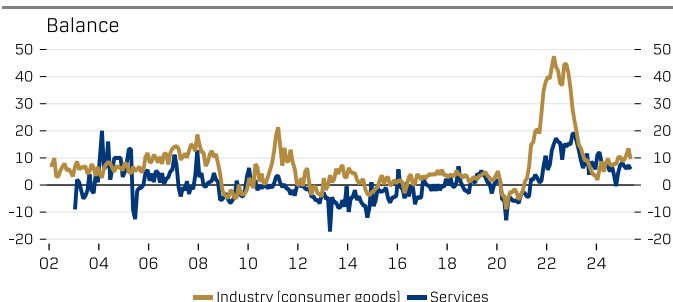
Source: S&P Global, Eurostat, Macrobond Financial

Unemployment and wage growth



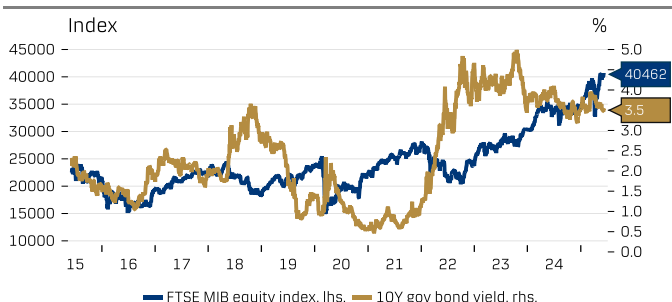
Source: ECB, Eurostat, Istat, Macrobond Financial, Danske Bank

Price expectations



Source: EU Commission, Macrobond Financial, Danske Bank

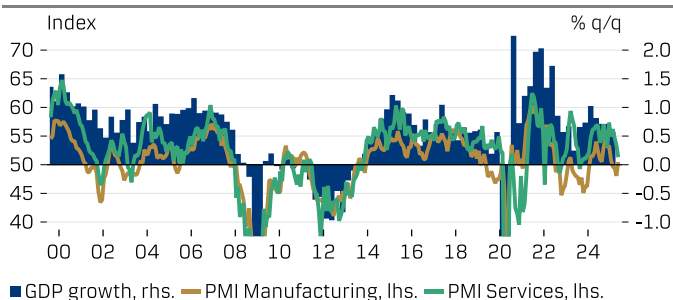
Financial markets



Source: FTSE, Macrobond Financial, Danske Bank

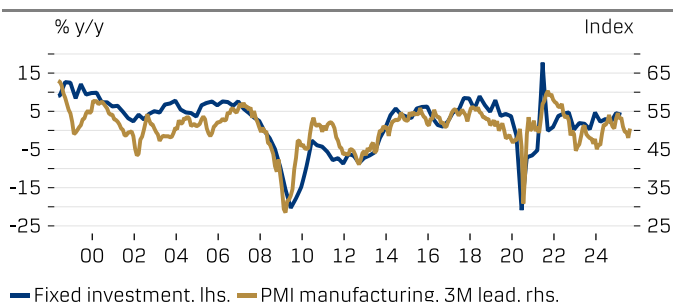
Spain

PMI and GDP growth



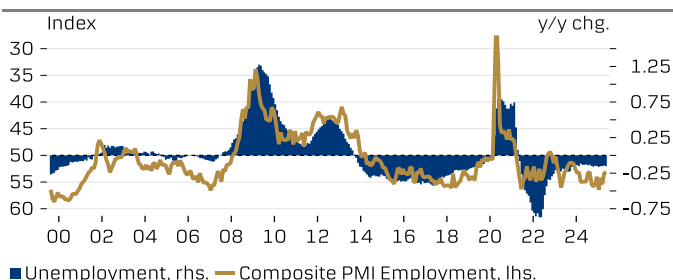
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Manufacturing sentiment and investments



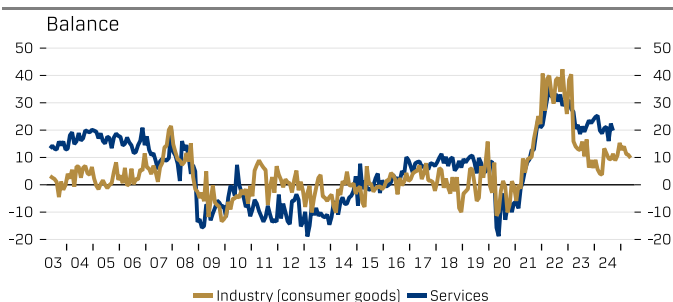
Source: S&P Global, Eurostat, Macrobond Financial

Unemployment and PMI



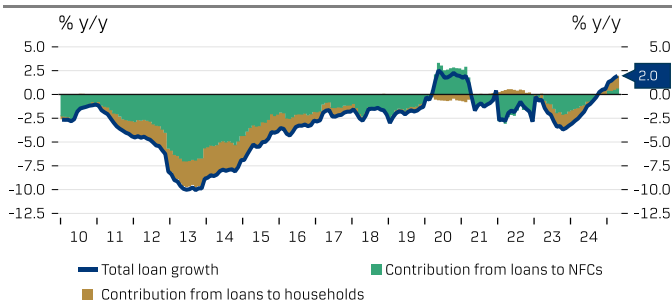
Source: S&P Global, Eurostat, Macrobond Financial

Price expectations



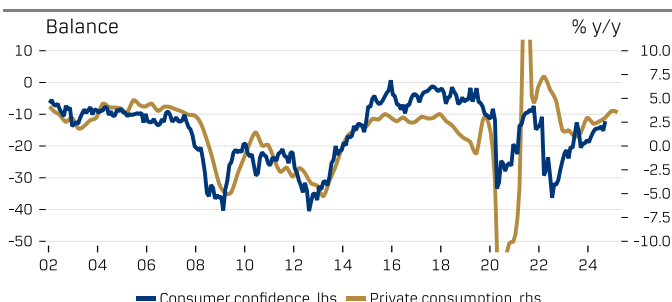
Source: EU Commission, Macrobond Financial, Danske Bank

Credit growth



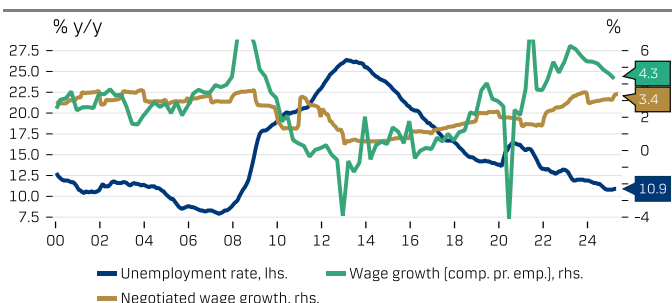
Source: ECB, Macrobond Financial, Danske Bank

Consumer confidence and private consumption



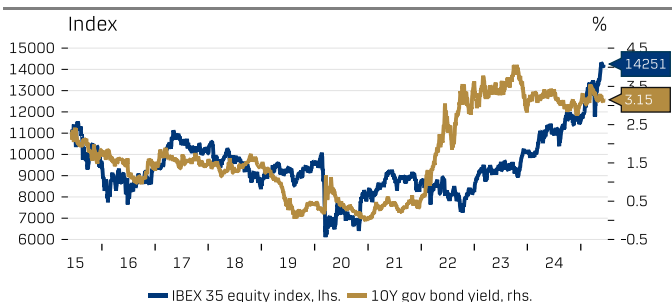
Source: European Commission, Eurostat, Macrobond Financial

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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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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