

6 May 2024

Euro Area Macro Monitor

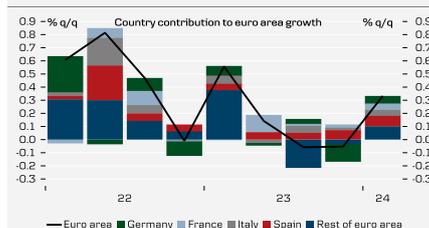
The euro area economy starts 2024 on a firm footing

- **The euro area economy has been off to a good start in 2024, with Q1 GDP exceeding expectations at 0.3% q/q (cons: 0.1% q/q, prior: -0.1% q/q).** The uptick was mostly buoyed by Spain where GDP rose 0.7% q/q while Germany saw activity rising 0.2% q/q. National GDP sources reveal that growth largely attributed to increasing foreign demand. **Coupled with the pessimistic consumer confidence and weak retail sales suggests that domestic demand continues to remain relatively muted.** That said, we foresee domestic demand to pick up during the year as rising real incomes and a strong labour market will support household consumption. This view was underscored by the continued low unemployment at 6.5% rate in March. The number of unemployed persons even declined by 0.85% compared to February.
- The narrative of a better-than-expected start in 2024 was further underscored by the April composite PMI surprising to the upside at 51.4 (cons: 50.7), remaining above 50 for the second consecutive month. **Decomposing the measure, signals that the economy continues to drive in two speeds.** The services PMI was higher-than-expected at 52.9, whereas the manufacturing counterpart edged down to 45.7. Subindices indicate that employment ticked higher, mainly within the services sector boding well for domestic demand, but at the same time increasing risks of even more sticky service inflation due to pressures on wage growth from the tight labour market.
- **Notably, Germany entered growth territory for the first time since June last year as the composite PMI climbed to 50.5.** The upward move was spurred by a strong services sector, while manufacturing was still struggling. Overall, we believe that the worst is over in manufacturing sector and it will gradually muddle through going forward – for more detail please see *Research Germany – Worst is over in German manufacturing sector*, 16 April.
- Headline inflation in April stood unchanged at 2.4% y/y, whereas the core measure surprised marginally to the upside, creeping up to 2.7% y/y (cons: 2.6%). **The release confirms the overall picture seen in recent months with especially the momentum in services inflation to the high side.** Services inflation came out at 0.3% m/m SA in April following a 0.50% m/m increase in March. In tandem with an increase in the PMI services price index the sticky services inflation poses a significant upside risk to the inflation and ECB policy rate outlook, especially with the economic slowly gaining speed again. The ECB essentially controls domestic demand, which ultimately drives service inflation and wage growth.
- **Despite recent data releases, in particular the sticky inflation momentum and sound start of growth in 2024, being non-supportive of a rate cut in June, we expect the ECB to deliver one of 25bp.** The ECB has basically outright guided for a June cut coupled with historical data corroborating that the ECB rarely has surprised markets by changing its stance. Additionally, the policy rate is at a historically restrictive level. However, we acknowledge that since early March the balance of risks has strongly pointed towards fewer than three cuts this year, see *COTW: the political rate cut*, 26 April 2024.

Key points

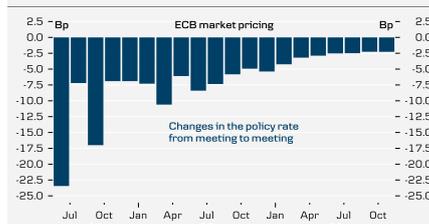
- Inflation to move lower but services will remain elevated.
- 2024 will be a year of transition with accelerating GDP growth.
- We expect the ECB to cut the deposit rate three times in 2024 by a cumulative 75bp.

The big four economies fuelling Q1 GDP growth



Source: Eurostat, Macrobond Financial

Markets expect the ECB to cut rates by 68bp in 2024



Source: Macrobond Financial, Danske Bank

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The Danske euro area growth tracker

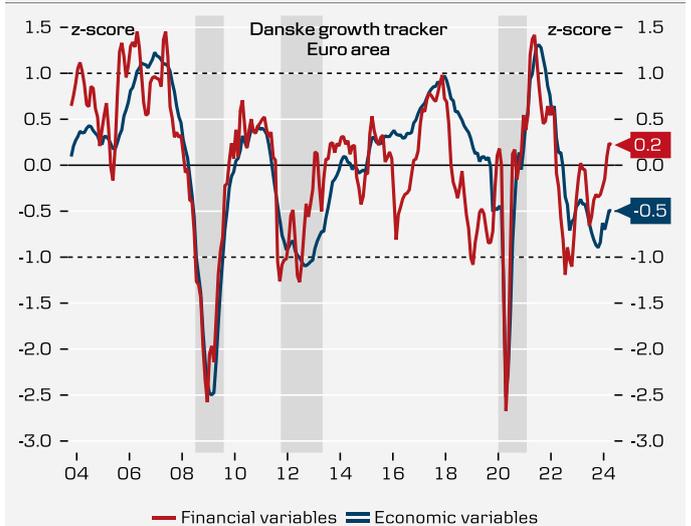
Our growth tracker stayed put at -0.3 in April, as both the economic and financial variables remained unchanged. However, the overarching theme remains the same pointing towards the fact that the worst of the slump is behind us. Across March and April, the most notable developments were the improvements in the composite PMI and the Sentix index, while Eurostoxx50 declined. To predict near-term growth, we put more emphasis on the economic variables and still expect a stagnating economy near-term, 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

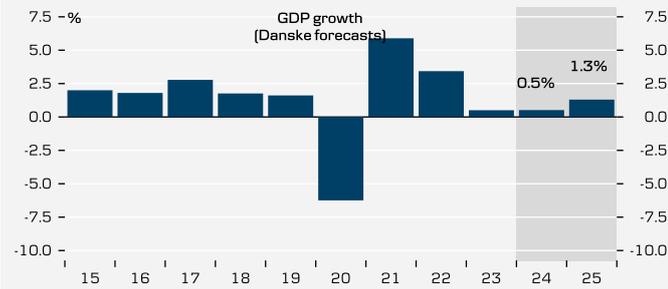
Danske growth tracker

| | April 2024 | March 2024 | Monthly change |
|-------------------------------|------------|------------|----------------|
| Economic variables | -0.5 | -0.5 | 0.00 |
| Profit growth | 0.6 | 0.6 | 0.00 |
| OECD CLI | 0.1 | 0.1 | 0.00 |
| Unemployment | 0.1 | 0.1 | 0.00 |
| EuroCOIN | -0.1 | -0.1 | 0.00 |
| Composite PMI | -0.1 | -0.3 | 0.21 |
| European sentiment indicator | -0.4 | -0.3 | -0.06 |
| Consumer confidence | -0.4 | -0.5 | 0.04 |
| Capacity utilisation | -0.5 | -0.5 | 0.00 |
| ZEW | -0.5 | -0.5 | 0.00 |
| PMI order-inventory balance | -0.7 | -0.6 | -0.09 |
| Credit growth | -0.8 | -0.8 | 0.00 |
| Real M1 growth | -3.2 | -3.1 | -0.15 |
| Financial variables | 0.2 | 0.2 | -0.05 |
| Eurostoxx50 | 0.6 | 0.9 | -0.24 |
| Euro Surprise index | 0.3 | 0.5 | -0.19 |
| Corporate vs. Gov. Bond yield | 0.2 | 0.2 | 0.00 |
| Sentix | -0.4 | -0.6 | 0.25 |

Source: Macrobond Financial, Danske Bank

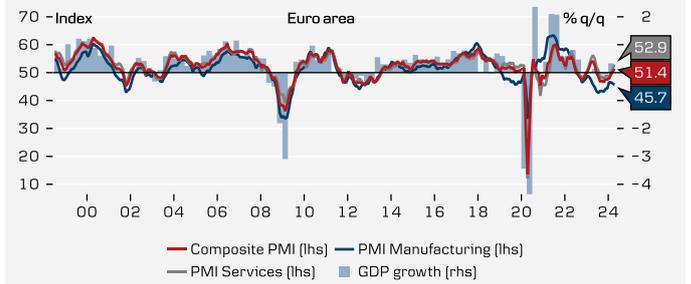
Euro area

GDP growth forecasts



Source: Macrobond Financial, Danske Bank forecasts

PMI and GDP growth



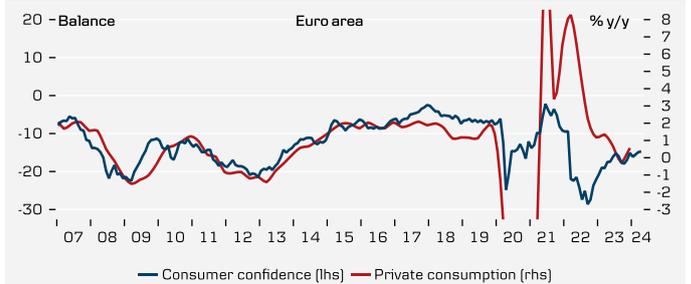
Source: Macrobond Financial, Danske Bank

Manufacturing sentiment and investments



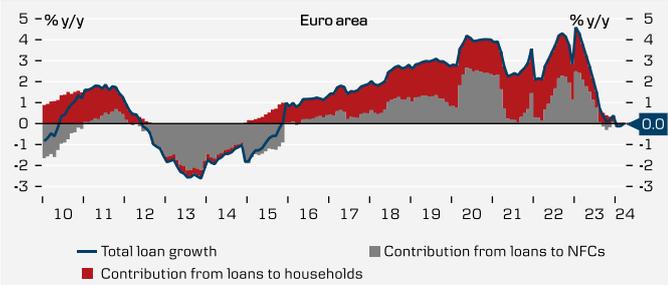
Source: Macrobond Financial, Danske Bank

Consumer confidence and private consumption



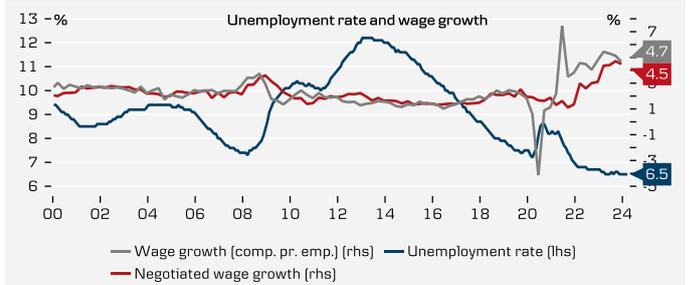
Source: Macrobond Financial, Danske Bank

Credit growth



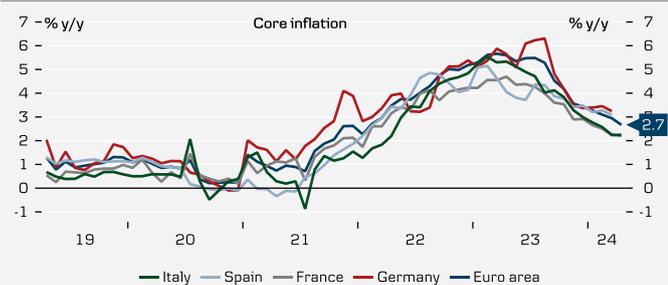
Source: Macrobond Financial, Danske Bank

Unemployment and wage growth



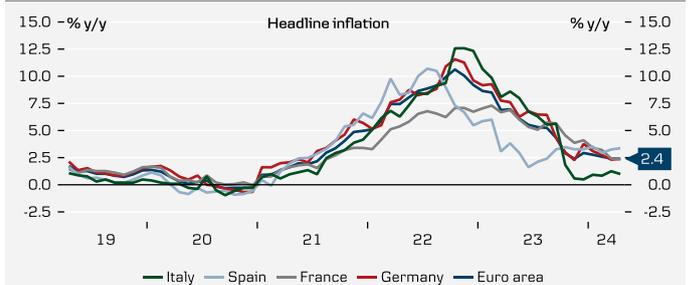
Source: Macrobond Financial, Danske Bank

Core inflation



Source: Macrobond Financial, Danske Bank

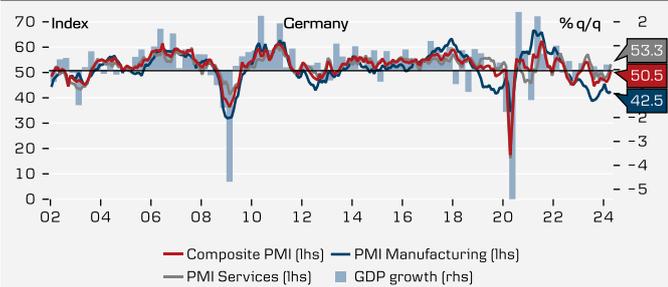
HICP inflation



Source: Macrobond Financial, Danske Bank

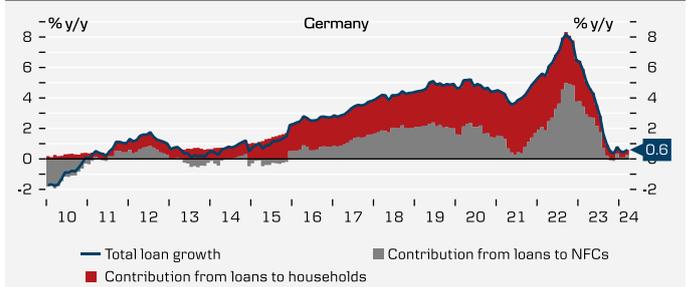
Germany

PMI and GDP growth



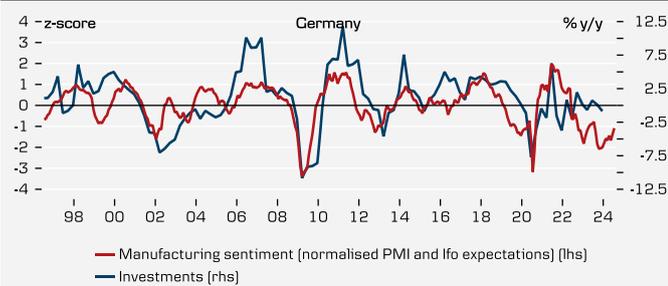
Source: Macrobond Financial, Danske Bank

Credit growth



Source: Macrobond Financial, Danske Bank

Manufacturing sentiment and investments



Source: Macrobond Financial, Danske Bank

Consumer confidence and private consumption



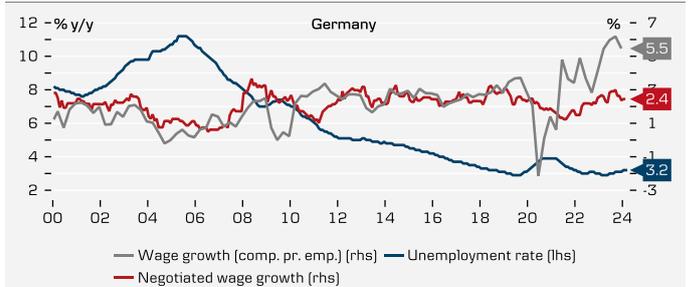
Source: Macrobond Financial, Danske Bank

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

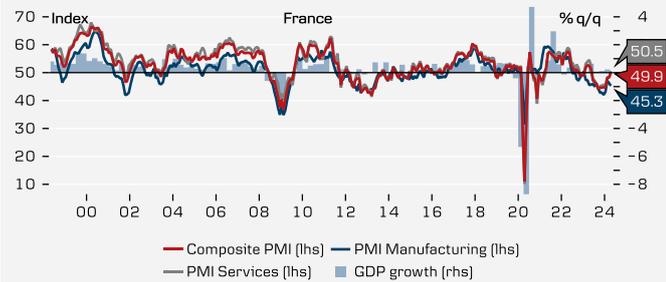
Financial markets



Source: Macrobond Financial, Danske Bank

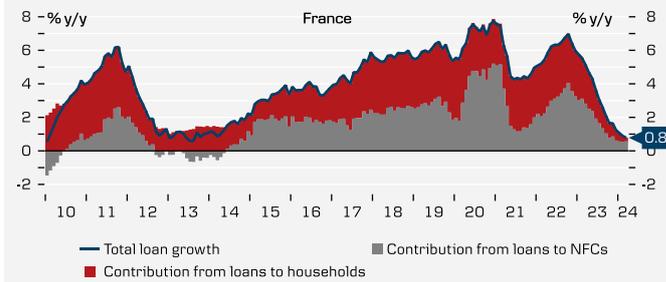
France

PMI and GDP growth



Source: Macrobond Financial, Danske Bank

Credit growth



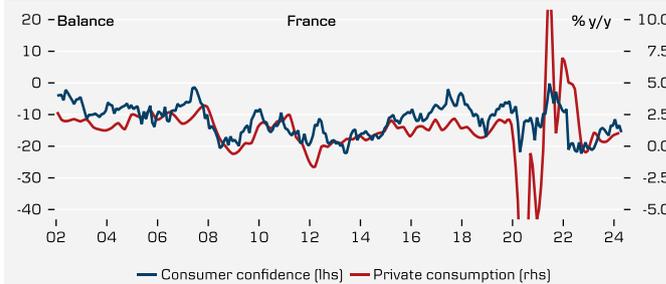
Source: Macrobond Financial, Danske Bank

Manufacturing sentiment and investments



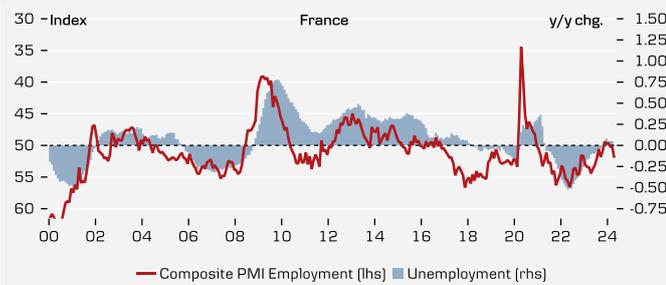
Source: Macrobond Financial, Danske Bank

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

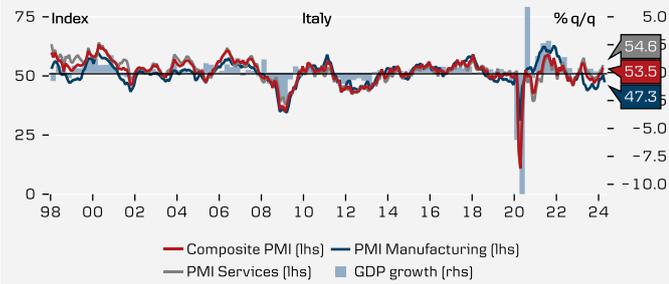
Financial markets



Source: Macrobond Financial, Danske Bank

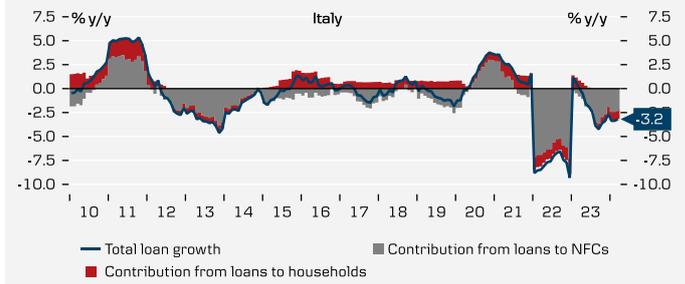
Italy

PMI and GDP growth



Source: Macrobond Financial, Danske Bank

Credit growth



Source: Macrobond Financial, Danske Bank

Manufacturing sentiment and investments



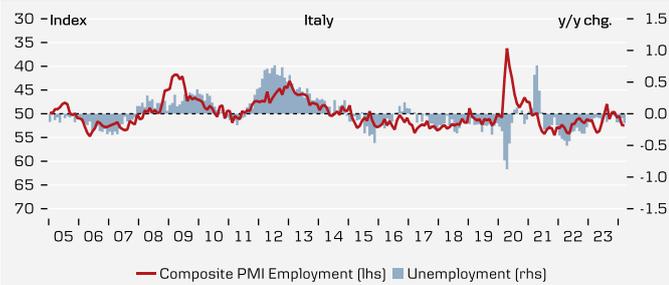
Source: Macrobond Financial, Danske Bank

Consumer confidence and private consumption



Source: Macrobond Financial, Danske Bank

Unemployment and PMI



Source: Macrobond Financial, Danske Bank

Unemployment and wage growth



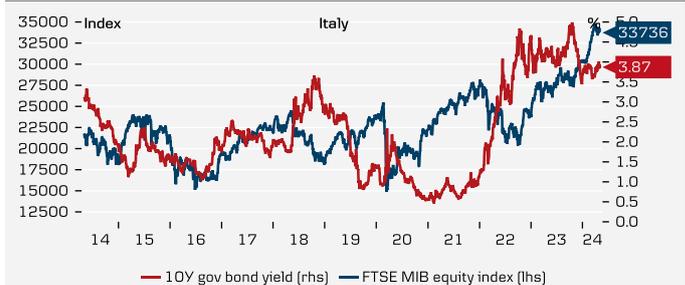
Source: Macrobond Financial, Danske Bank

Price expectations



Source: EU Commission, Macrobond Financial, Danske Bank

Financial markets



Source: Macrobond Financial, Danske Bank

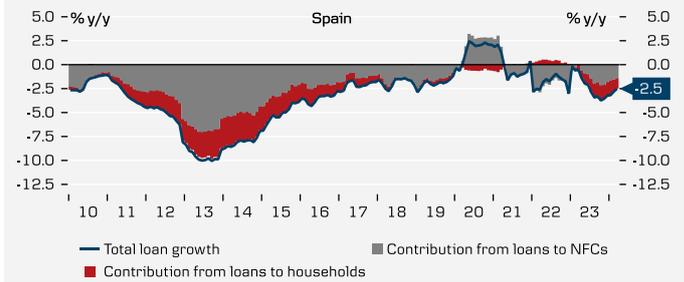
Spain

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

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This research report has been prepared by Danske Bank A/S ('Danske Bank'). The authors of this research report are Oscar Christian Dahl Pedersen, Assistant Analyst, and Rune Thyge Johansen, Analyst.

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Report completed: 3 May 2024, 15:00 CET

Report first disseminated: 6 May 2024, 06:00 CET