

8 December 2025

Euro Area Macro Monitor

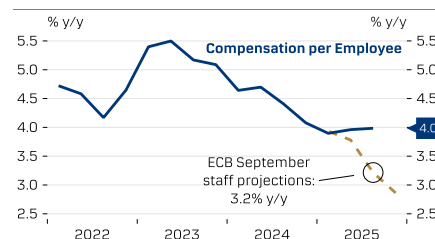
Southern Europe outshines in growth and public finances

- The euro area economy remains on a steady growth path, showing resilience in domestic demand despite geopolitical uncertainty and US tariffs. Growth has surprised positively, although performance across member states is mixed. **The composite euro area PMI rose slightly to 52.8 from 52.5 in October, driven by surprisingly robust services sector growth, which expanded at its fastest pace in 1.5 years at 53.6.** France's services sector offered a large positive surprise, recovering to 51.4 from 48.0, thereby exiting contraction for the first time in 2025, though its economy remains close to stagnation after months of weak PMIs. The German economy might finally show some growth as PMIs in Q4 are higher than in Q3 where the economy stagnated once again. However, final Q3 GDP data revealed a 0.3% drop in household consumption, the first since late 2023, signalling cautious sentiment among consumers which should limit growth in the economy before fiscal easing kicks in next year. Overall, the euro area economy has growth faster than expected this year due to strong growth in Southern Europe while Germany has disappointed. **In our new Nordic Outlook, we have revised up our 2025 GDP forecast to 1.4% y/y from 1.2% y/y and see activity rising 1.2% y/y in 2026 and 1.4% y/y in 2027.** See *Research Euro Area - Growth engine running on more cylinders*, 4 December.
- Headline inflation in the euro area rose slightly to 2.2% y/y in November, up from 2.1% in October, close to expectations and the ECB's 2% target.** Core inflation was stable at 2.4% y/y due to lower goods inflation amid services inflation rising to 3.5% y/y, driven by base effects rather than stronger momentum, adding a mildly dovish tone to the inflation print. Yet, we do not think the inflation print changed the ECB outlook as momentum was very similar to recent months. **However, wage growth in Q3 was a hawkish surprise for the ECB** with compensation per employee rising to 4.0% y/y from 3.8% y/y in Q2 against an expected decline to 3.2% y/y. High growth should keep services inflation and thus core elevated amid energy prices pulling headline down.
- The European Commission has assessed EU countries' compliance with fiscal rules based on their 2026 budgets and fiscal projections. **Finland now faces an excessive deficit procedure (EDP) for breaching the 3% GDP deficit limit, with a projected 4.5% deficit in 2025 and 4.0% in 2026, despite revised rules allowing extra defence spending.** Germany avoided an EDP despite a forecasted deficit of 3.1% of GDP in 2025 and 4.0% in 2026, justified by rising defence spending and a temporary nature of fiscal easing. France, under EDP since 2023, continues to struggle with mounting fiscal challenges, including a projected 5.4% deficit for 2025. It looks likely that France will not be able to pass a 2026 budget before the Christmas holiday, meaning that it will have to roll over the 2025 budget and rely on stopgap measures, as last year, before voting on a budget in the start of next year. This raises political uncertainty, but there is not going to be "shutdown" like in the US. In sharp contrast to France and Germany, Southern Europe are recording lower deficits. Italy is on track to exit EDP with a projected 2.6% deficit in 2026, which Moody's acknowledged by giving the first credit rating upgrade in 23 years. **As a part of both Italy's and Spain's fiscal improvements, their budget deficits are set to be lower than Germany both this year and the coming two, marking a notable turnaround in the economic performance in the euro area compared to the situation after the GFC.**

Key views

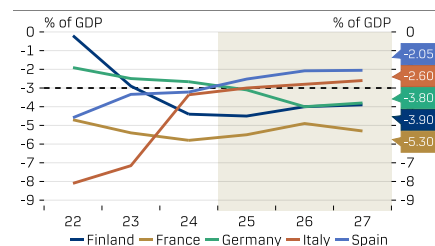
- Headline and core inflation to average close to 2% in 2025, below 2% in 2026 and 2027
- Decent growth to continue in 2026 and 2027
- ECB to keep the policy rate unchanged at 2.0% in 2026 and 2027

Upside surprise to wage growth in Q3



Source: ECB, Macrobond

Italy and Spain to have lower budget deficits than Germany



Source: European Commission, Macrobond

Assistant Analyst

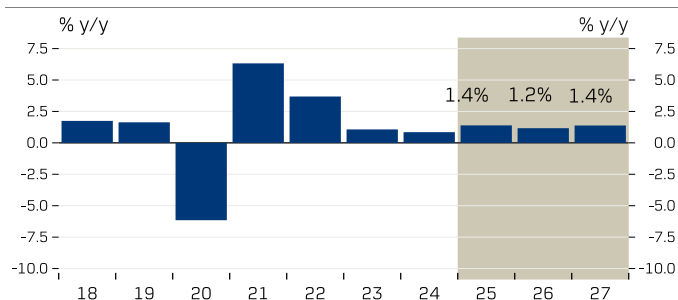
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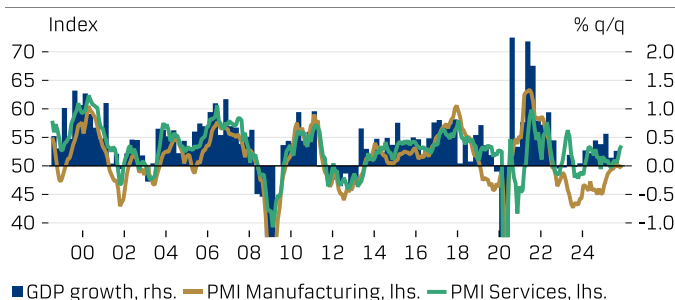
Euro area

GDP growth forecast



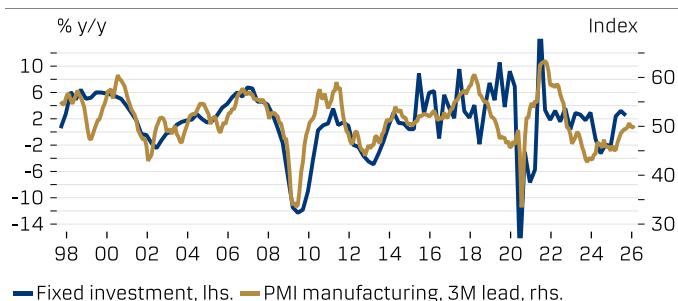
Source: Macrobond Financial, Danske Bank forecasts

PMI and GDP growth



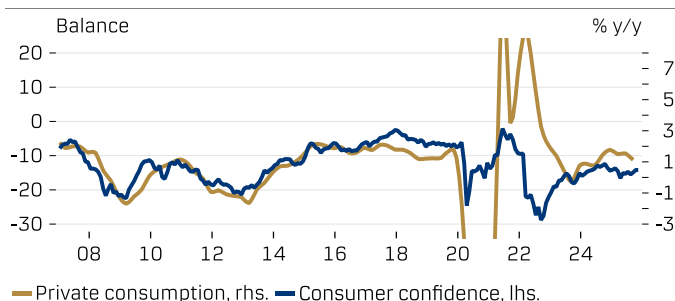
Source: Macrobond Financial, Danske Bank

Manufacturing sentiment and investments



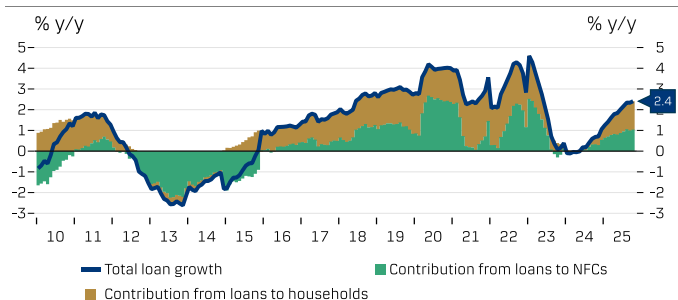
Source: S&P Global, Eurostat, Macrobond Financial

Consumer confidence and private consumption



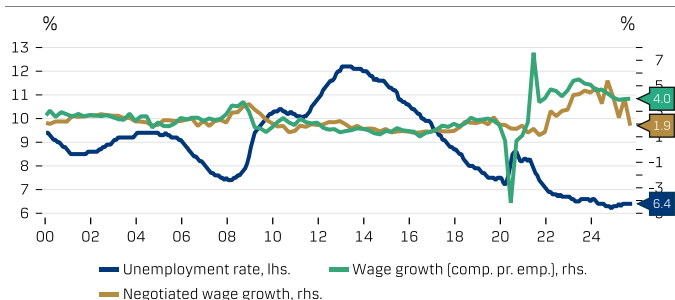
Source: Eurostat, European Commission, Macrobond Financial

Credit growth



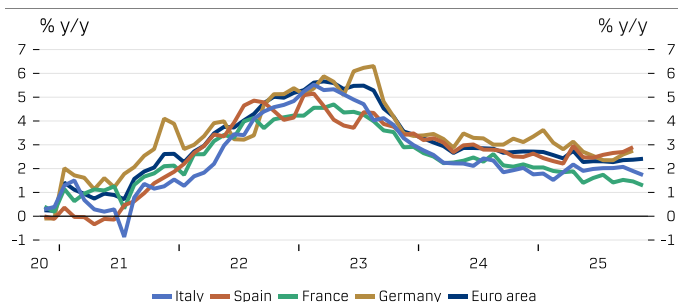
Source: ECB, Macrobond Financial, Danske Bank

Unemployment and wage growth



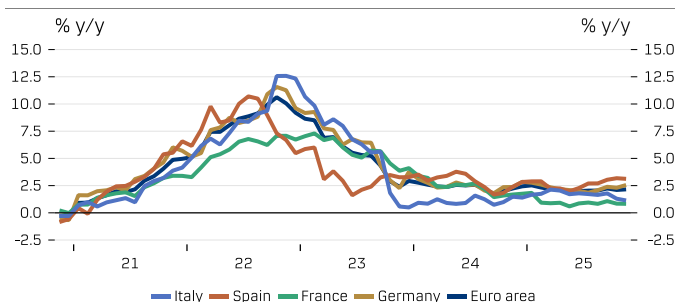
Source: ECB, Eurostat, Macrobond Financial

Core inflation



Source: Eurostat, Macrobond Financial

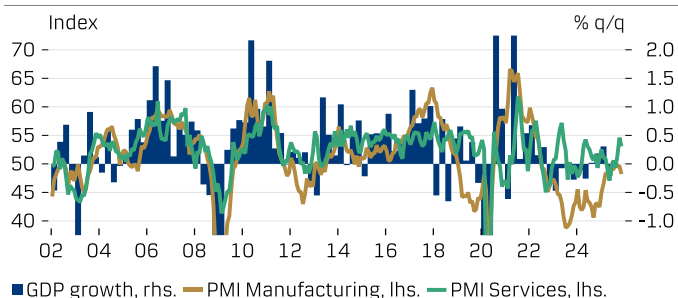
HICP inflation



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

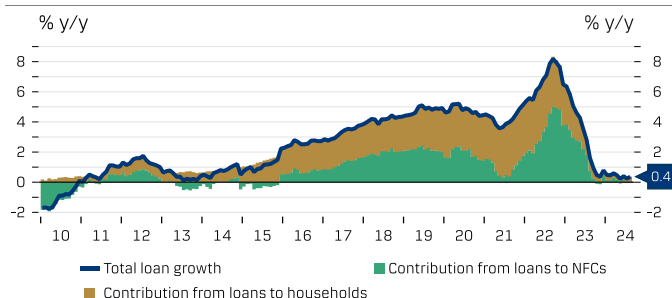
Germany

PMI and GDP growth



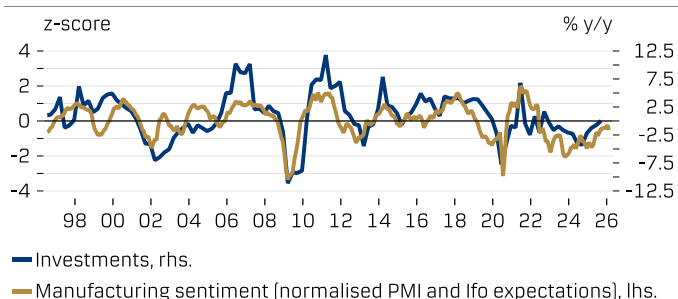
Source: S&P Global, Eurostat, Macrobond Financial

Credit growth



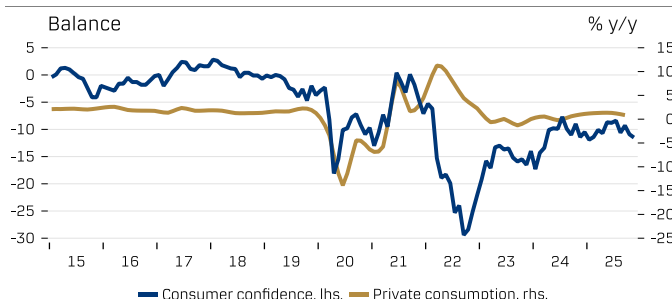
Source: Deutsche Bundesbank, Eurostat, Macrobond Financial, Danske Bank

Manufacturing sentiment and investments



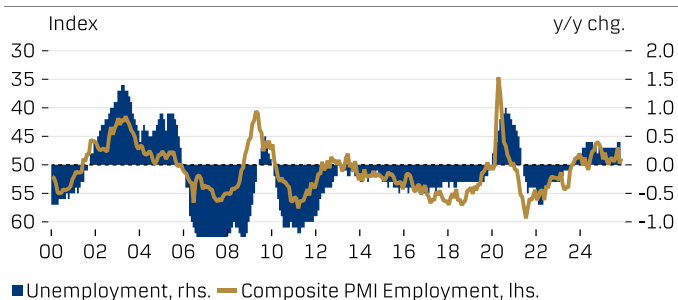
Source: S&P Global, Eurostat, Macrobond Financial

Consumer confidence and private consumption



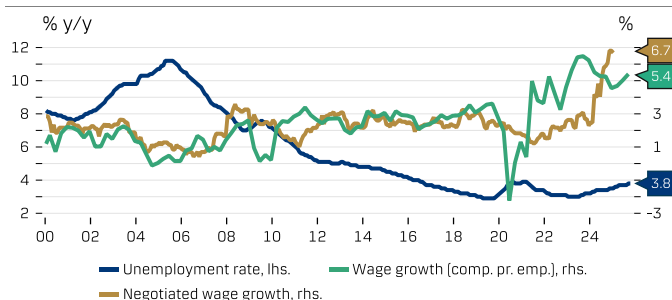
Source: European Commission, Eurostat, Macrobond Financial

Unemployment and PMI



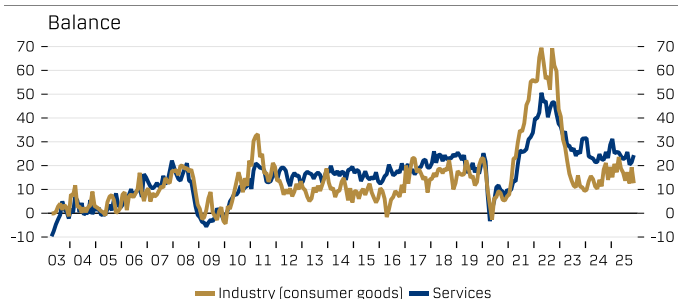
Source: S&P Global, Eurostat, Macrobond Financial

Unemployment and wage growth



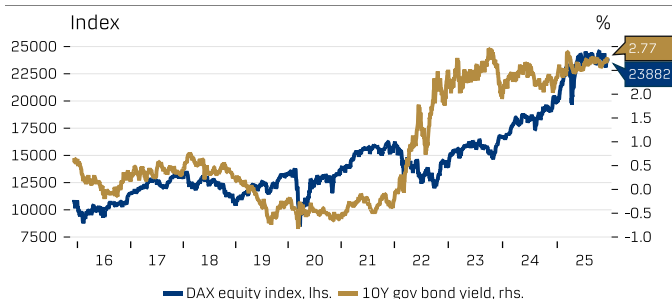
Source: ECB, Eurostat, Deutsche Bundesbank, Macrobond Financial

Selling price expectations



Source: EU Commission, Macrobond Financial, Danske Bank

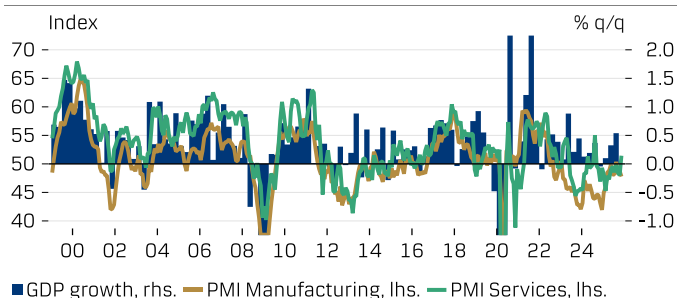
Financial markets



Source: Deutsche Boerse, Macrobond Financial, Danske Bank

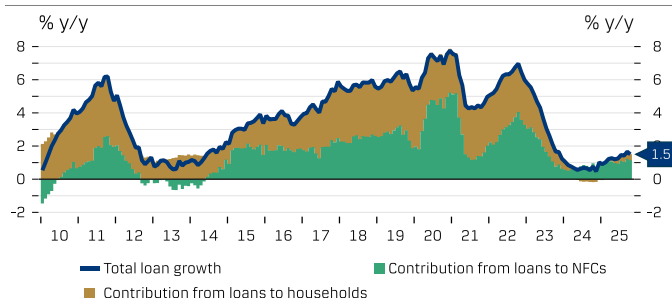
France

PMI and GDP growth



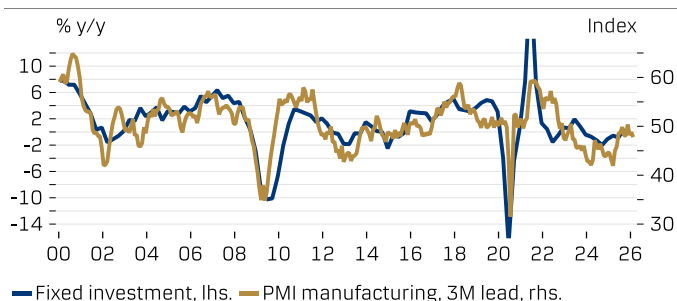
Source: S&P Global, Eurostat, Macrobond Financial

Credit growth



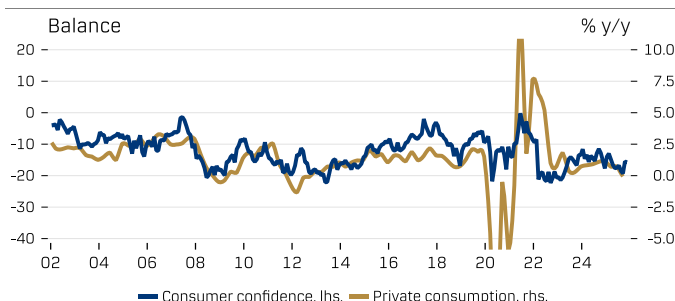
Source: ECB, Macrobond Financial, Danske Bank

Manufacturing sentiment and investments



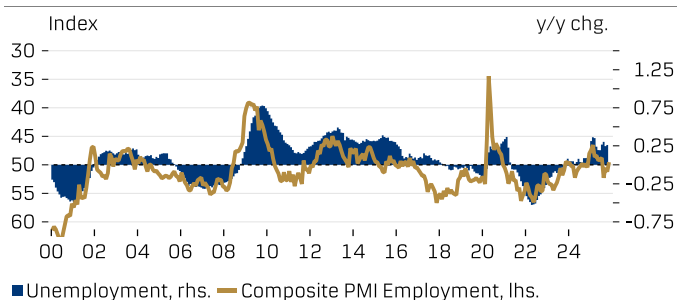
Source: S&P Global, Eurostat, Macrobond Financial

Consumer confidence and private consumption



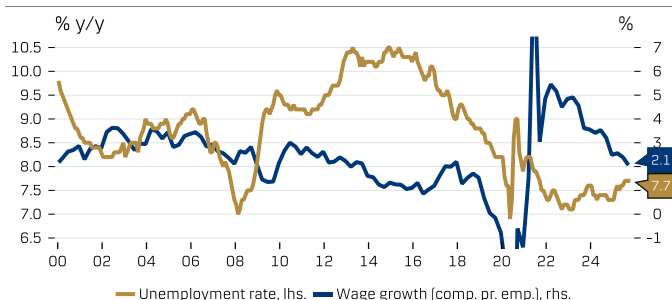
Source: European Commission, Eurostat, Macrobond Financial

Unemployment and PMI



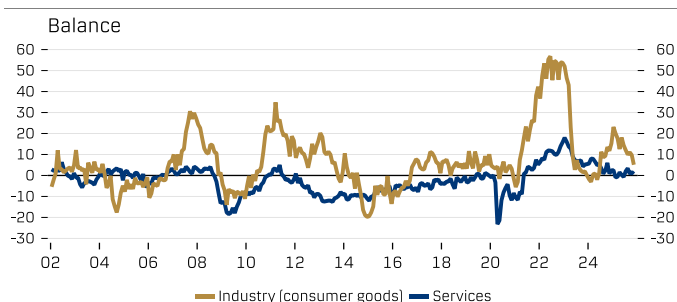
Source: S&P Global, Eurostat, Macrobond Financial

Unemployment and wage growth



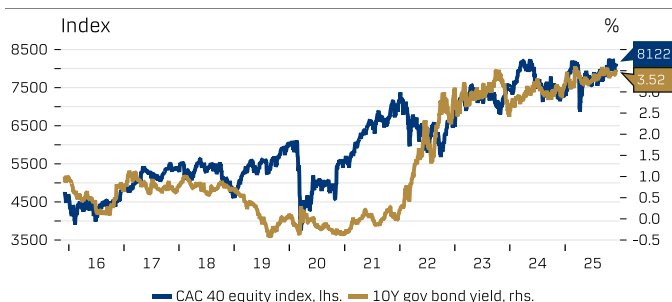
Source: ECB, Eurostat, Macrobond Financial, Danske Bank

Selling price expectations



Source: EU Commission, Macrobond Financial, Danske Bank

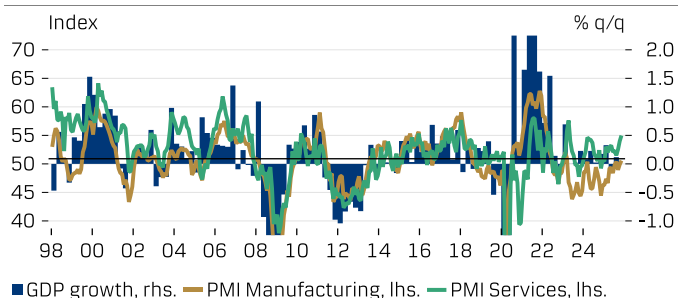
Financial markets



Source: Euronext, Macrobond Financial, Danske Bank

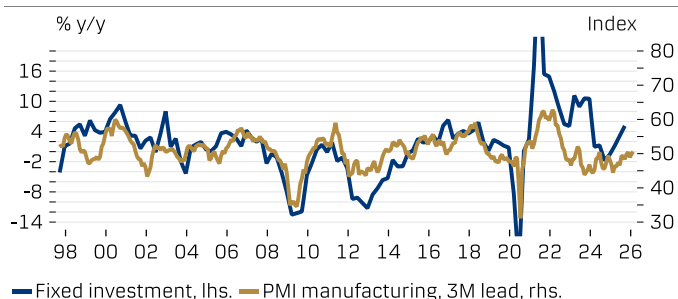
Italy

PMI and GDP growth



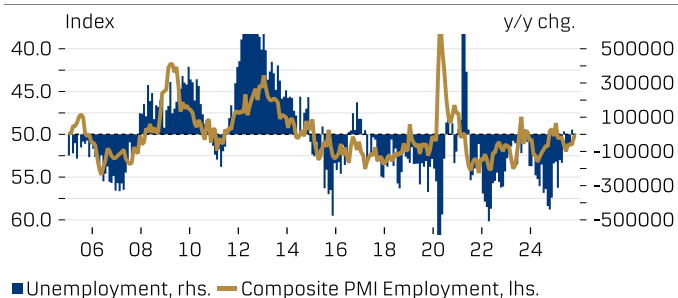
Source: S&P Global, Eurostat, Macrobond Financial

Manufacturing sentiment and investments



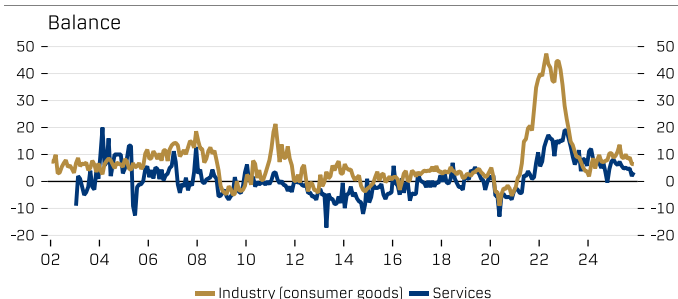
Source: S&P Global, Eurostat, Macrobond Financial

Unemployment and PMI



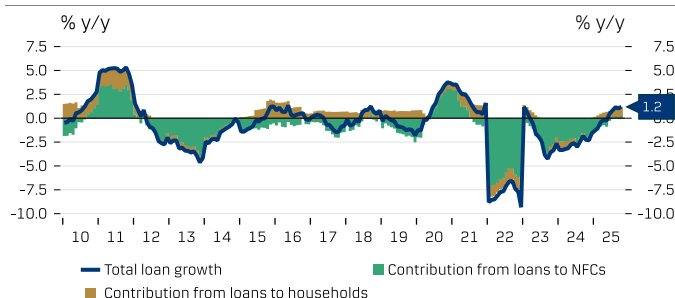
Source: S&P Global, Eurostat, Macrobond Financial

Price expectations



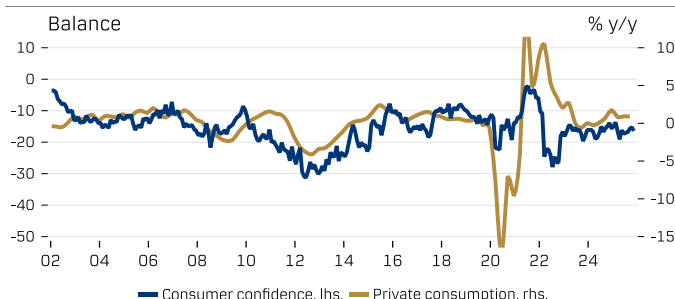
Source: EU Commission, Macrobond Financial, Danske Bank

Credit growth



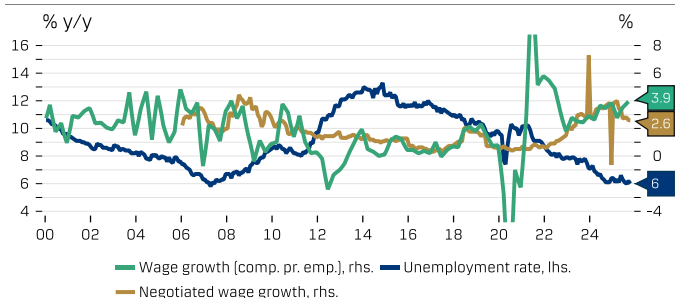
Source: ECB, Macrobond Financial, Danske Bank

Consumer confidence and private consumption



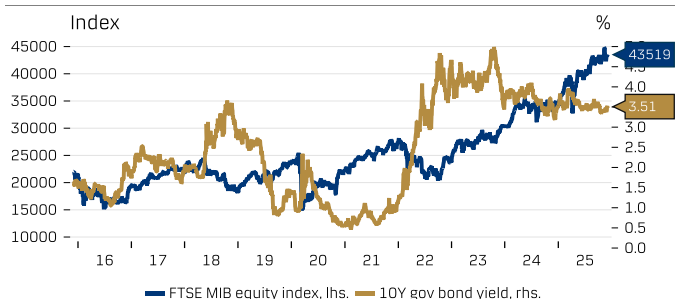
Source: European Commission, Eurostat, Macrobond Financial, Danske Bank

Unemployment and wage growth



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

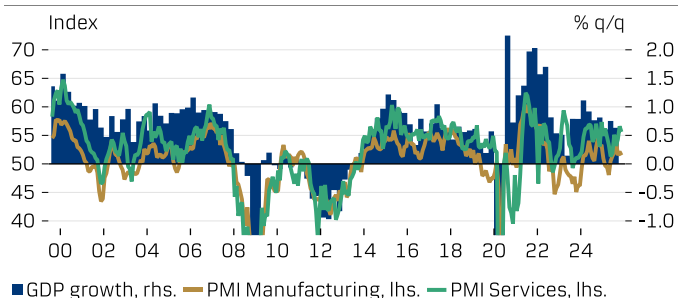
Financial markets



Source: FTSE, Macrobond Financial, Danske Bank

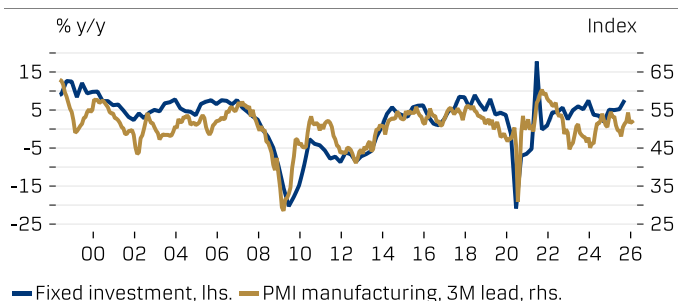
Spain

PMI and GDP growth



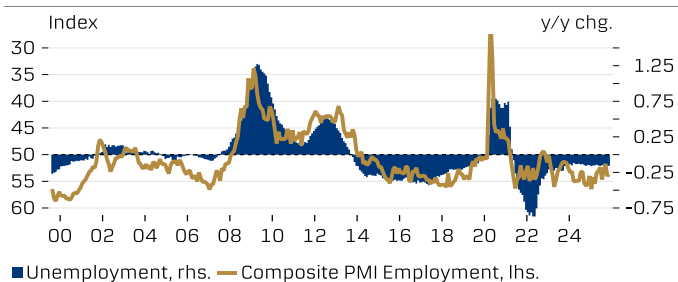
Source: S&P Global, Eurostat, Macrobond Financial

Manufacturing sentiment and investments



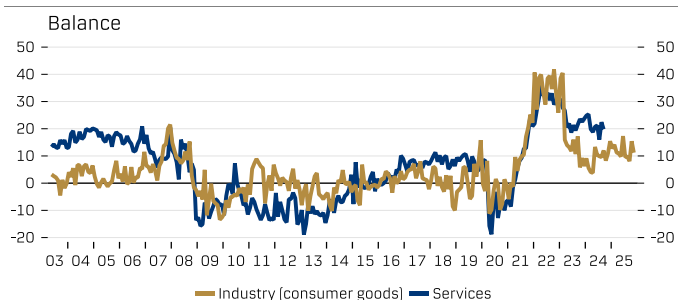
Source: S&P Global, Eurostat, Macrobond Financial

Unemployment and PMI



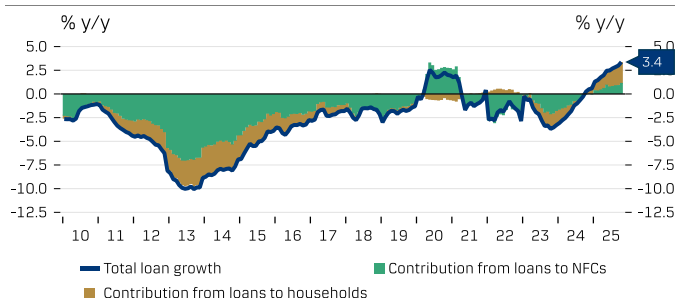
Source: S&P Global, Eurostat, Macrobond Financial

Price expectations



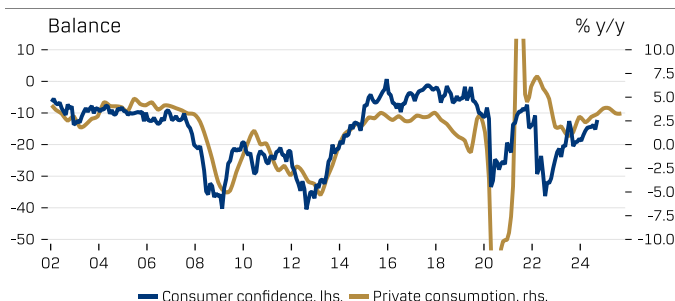
Source: EU Commission, Macrobond Financial, Danske Bank

Credit growth



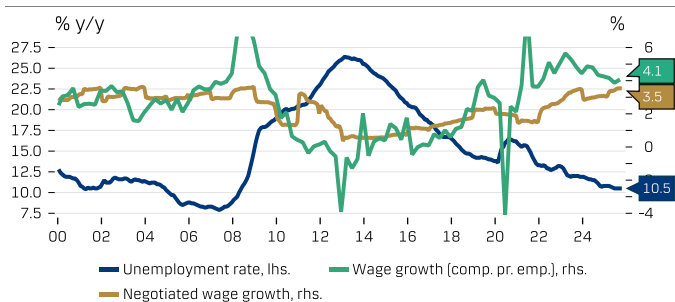
Source: ECB, Macrobond Financial, Danske Bank

Consumer confidence and private consumption



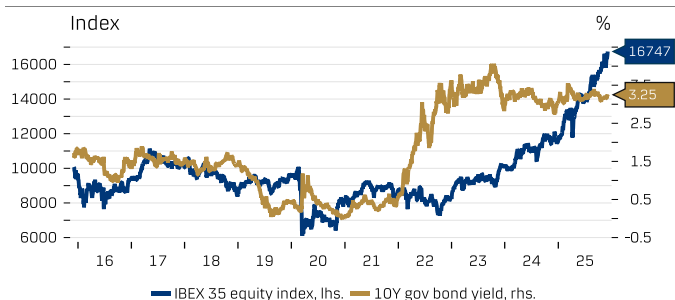
Source: European Commission, Eurostat, Macrobond Financial

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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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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