

8 April 2024

Euro Area Macro Monitor

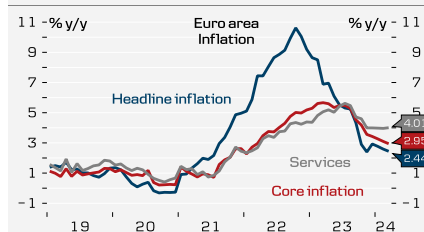
The economy waves goodbye to contraction

- **For the first time since May 2023, the final composite PMI climbed into expansionary territory, as the index increased to 50.3 in March. The increase was driven by higher new orders, future output, and backlog of works.** Labour markets continue to prove very strong, with the unemployment rate staying put at 6.5% in February. Coupled with the recovering purchasing power this should set the scene for higher private consumption. However, we are still yet to see a pronounced increase in private consumption as retail sales declined again in February. The reason is likely the still very low consumer confidence. **Generally, recent data point to a stagnant economy that is gradually improving. This attributes to rising services activity while the manufacturing sector continues to struggle, partly due to the very weak German economy.** However, with the global manufacturing cycle likely to recover, as indicated by higher metal prices lately, 2024 should bring more benign activity. We got the first indication of this as German industrial production increased 2.1% m/m in February, which was the second consecutive month with growth.
- **Both headline and core inflation came in lower than expected in March, printing 2.4% y/y (prior: 2.6%) and 2.9% y/y (prior: 3.1%), respectively.** Food inflation has been elevated in recent months due to base effects but finally edged down to 2.7% (prior: 3.9%). Together with the downtick in core inflation, this mainly drove the lower headline figure. **The March print should not have altered the ECB's view on inflation as it was as expected by the staff projections.** Services inflation continued to remain sticky around 4% for the fifth consecutive month, and with high current wage growth, the fight against domestic inflation is not over. On top of this, the timing of Easter seems to have affected inflation less than expected in March, and since Easter also spans April, some effects could materialise in the April print.
- **Euro area productivity fell 1.0% y/y in 2023, resulting in an average growth rate since 1995 that was just half of what was observed in the US.** Our projections suggest that this trend of slower productivity growth in the euro area compared to the US is likely to persist, implying a structurally lower EUR/USD and lower policy rates from the ECB. For more details see *Research euro area – Euro area productivity will keep falling behind*, 3 April.
- **We foresee that the ECB will provide a clear commitment of a June rate cut at the April meeting.** However, we do not expect the ECB to deliver any guidance on the pace of rate cuts beyond the June meeting due to sticky underlying inflation – for more details please see *ECB Preview – An intention to cut*, 5 April.
- After a decade of positive growth, European house prices declined 1.1% in 2023. Not surprisingly, the slump reflects the lagged effects of monetary policy amid the ECB's hiking cycle the past years. Notably, though, is the divergence between the major European economies. House prices in Spain and Italy increased by 4.3% and 1.8%, respectively, while German and French house prices declined 7.2% and 3.6%, respectively. **This contrasts the fact that mortgage rates have increased the most in Italy for instance. Instead, country-specific factors such as supply of new dwellings and fiscal support measures weighted on the figures.**

Key points

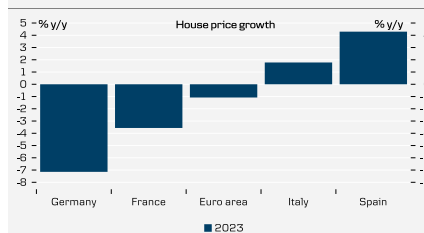
- The manufacturing sector continues to struggle strongly due to Germany.
- 2024 will be a year of transition with benign GDP growth.
- We expect the ECB to cut the deposit rate three times in 2024 by a cumulative 75bp.

Services inflation remains too high for comfort



Source: Eurostat, Macrobond Financial

House prices in major European economies diverging



Source: Eurostat, Macrobond Financial, Danske Bank

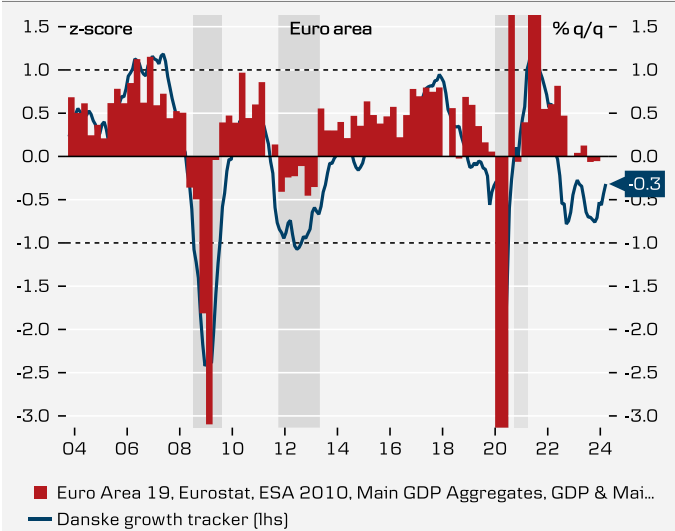
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The Danske euro area growth tracker

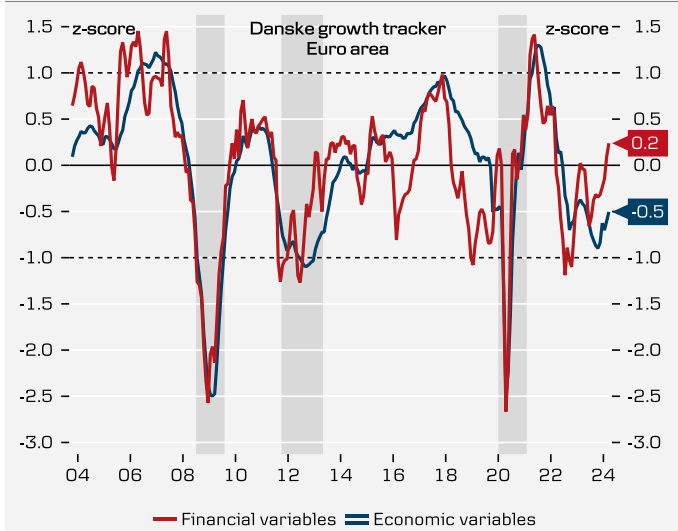
Our growth tracker improved in March to -0.3 from -0.5, continuing to corroborate that the worst of the slowdown is behind us. The March figure was driven by an increase in both economic and financial variables. Banca d'Italia's now cast model, EuroCOIN, rose significantly, which together with the composite PMI turning north, mainly drove the uptick in economic variables. In light of financial variables, the increase can primarily be attributed to the Eurostoxx50. 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

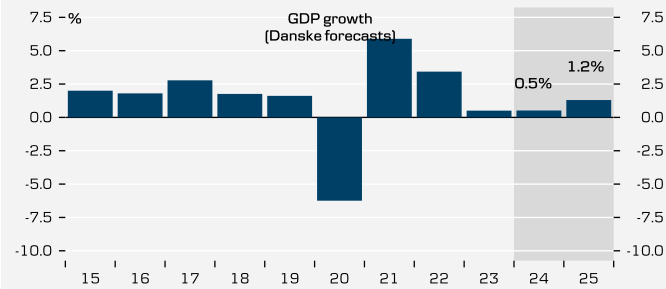
Danske growth tracker

	March 2024	February 2024	Monthly change
Economic variables	-0.5	-0.6	0.10
Profit growth	0.7	0.7	0.00
Unemployment	0.1	0.1	0.00
OECD CLI	0.0	0.0	0.00
EuroCOIN	-0.1	-0.9	0.83
European sentiment indicator	-0.3	-0.4	0.08
Composite PMI	-0.3	-0.6	0.21
Capacity utilisation	-0.4	-0.4	0.00
Consumer confidence	-0.5	-0.6	0.11
PMI order-inventory balance	-0.6	-0.7	0.04
ZEW	-0.7	-0.7	0.00
Credit growth	-0.8	-0.8	0.00
Real M1 growth	-3.1	-3.1	-0.08
Financial variables	0.2	0.1	0.15
Eurostoxx50	0.9	0.5	0.37
Euro Surprise index	0.5	0.4	0.08
Corporate vs. Gov. Bond yield	0.2	0.2	0.00
Sentix	-0.6	-0.8	0.13

Source: Macrobond Financial, Danske Bank

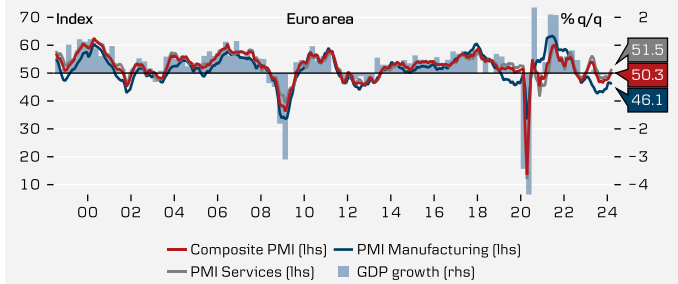
Euro area

GDP growth forecasts



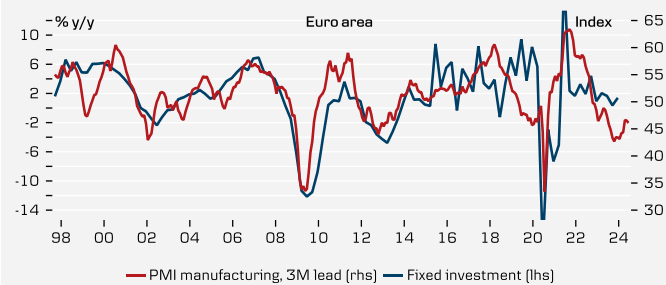
Source: Macrobond Financial, Danske Bank forecasts

PMI and GDP growth



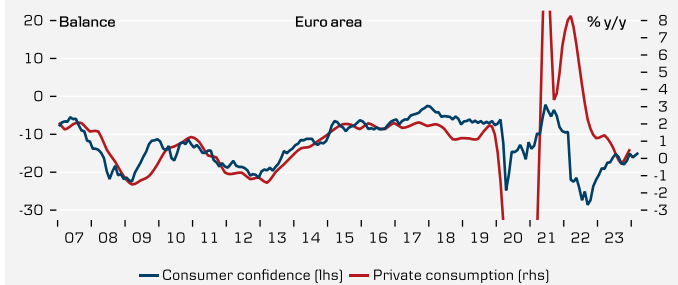
Source: Macrobond Financial, Danske Bank

Manufacturing sentiment and investments



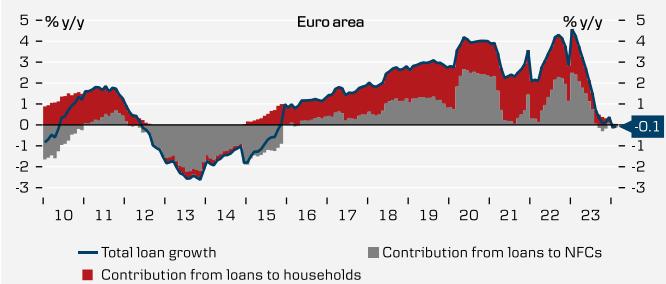
Source: Macrobond Financial, Danske Bank

Consumer confidence and private consumption



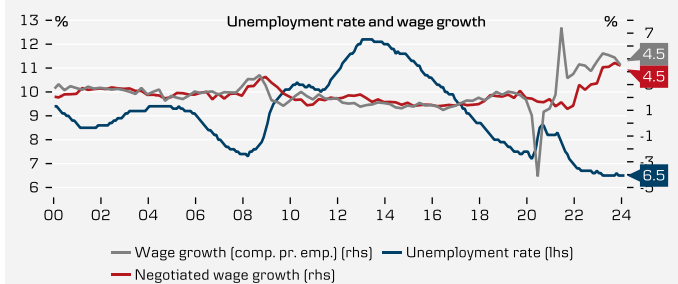
Source: Macrobond Financial, Danske Bank

Credit growth



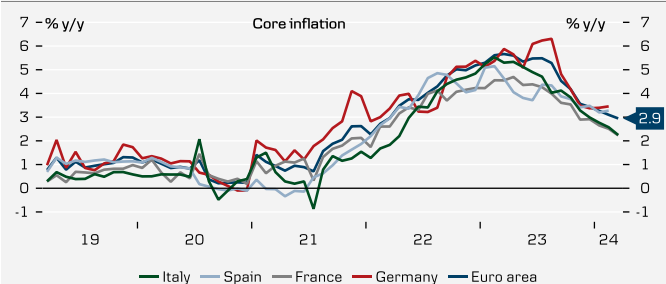
Source: Macrobond Financial, Danske Bank

Unemployment and wage growth



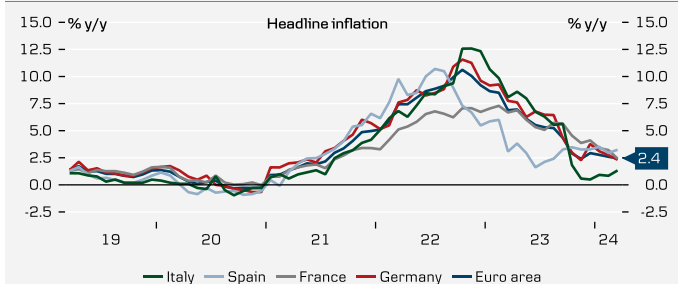
Source: Macrobond Financial, Danske Bank

Core inflation



Source: Macrobond Financial, Danske Bank

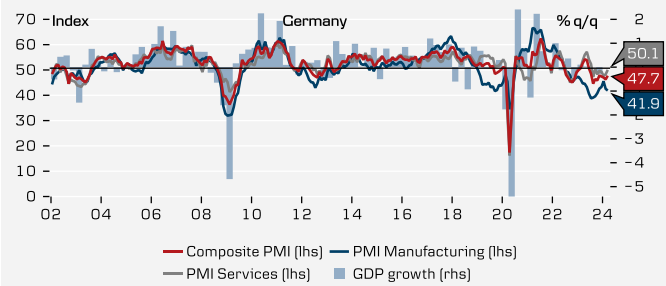
HICP inflation



Source: Macrobond Financial, Danske Bank

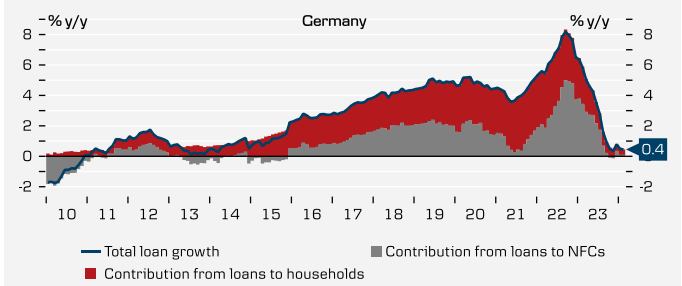
Germany

PMI and GDP growth



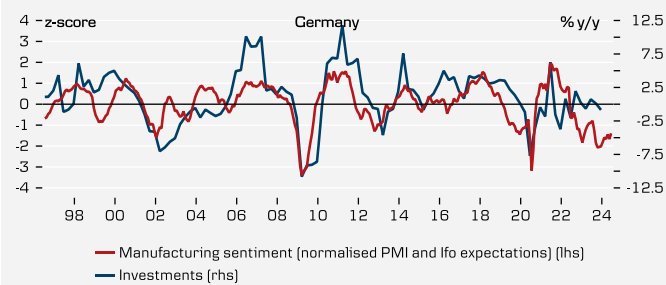
Source: Macrobond Financial, Danske Bank

Credit growth



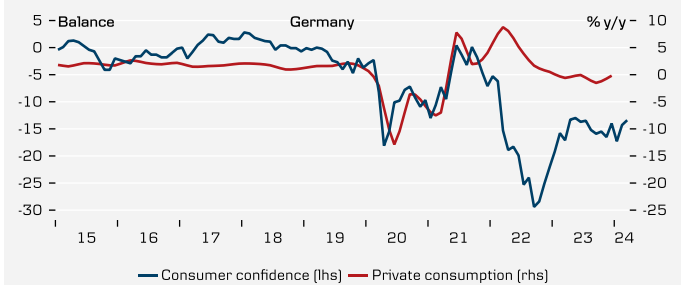
Source: Macrobond Financial, Danske Bank

Manufacturing sentiment and investments



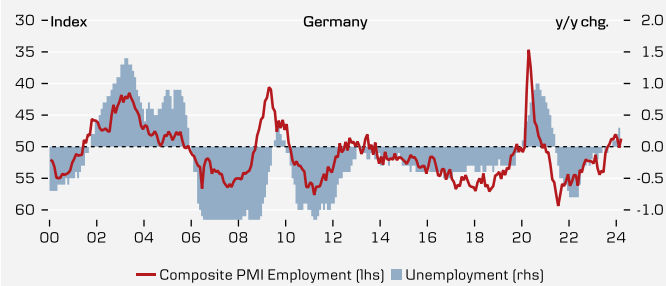
Source: Macrobond Financial, Danske Bank

Consumer confidence and private consumption



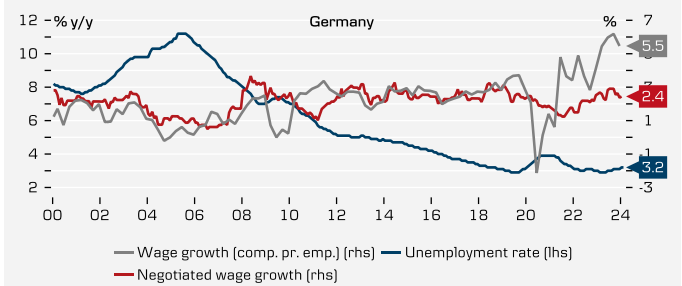
Source: Macrobond Financial, Danske Bank

Unemployment and PMI



Source: Macrobond Financial, Danske Bank

Unemployment and wage growth



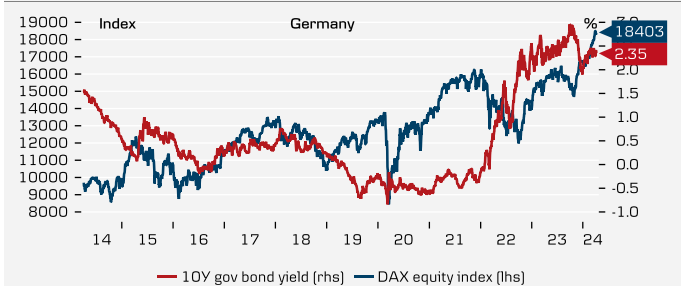
Source: Macrobond Financial, Danske Bank

Price expectations



Source: EU Commission, Macrobond Financial, Danske Bank

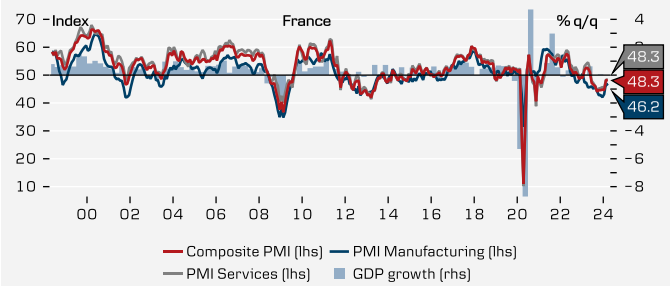
Financial markets



Source: Macrobond Financial, Danske Bank

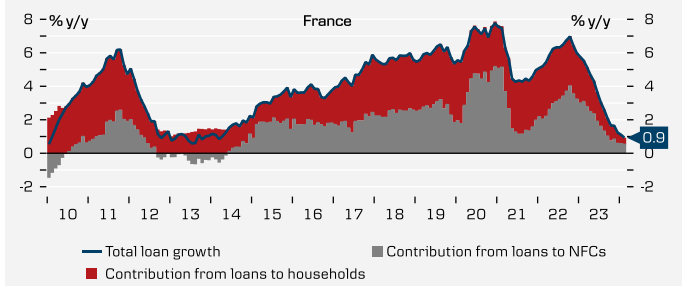
France

PMI and GDP growth



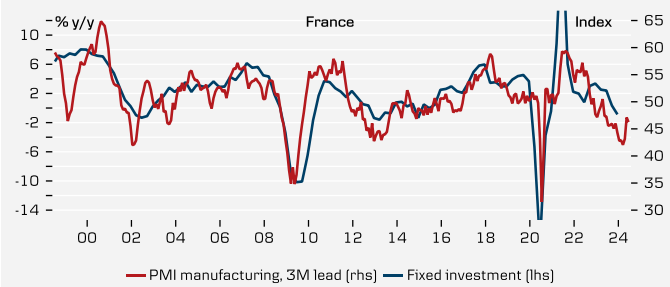
Source: Macrobond Financial, Danske Bank

Credit growth



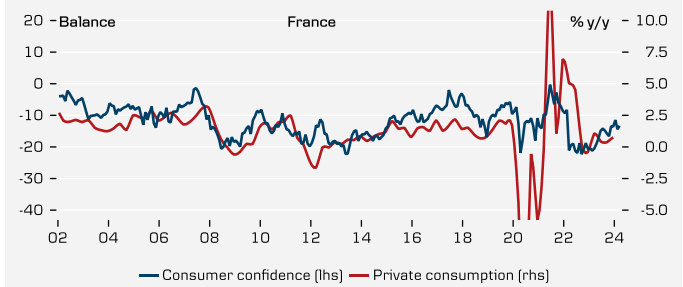
Source: Macrobond Financial, Danske Bank

Manufacturing sentiment and investments



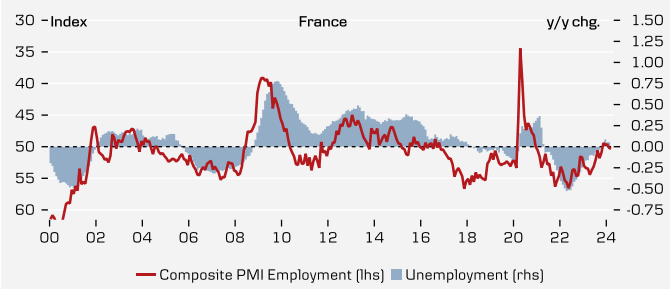
Source: Macrobond Financial, Danske Bank

Consumer confidence and private consumption



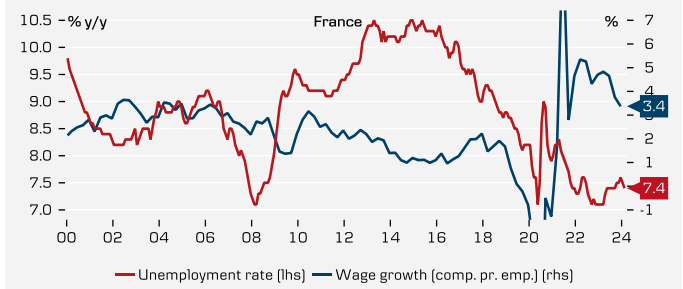
Source: Macrobond Financial, Danske Bank

Unemployment and PMI



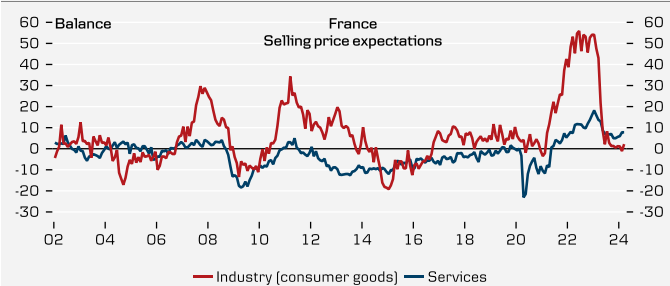
Source: Macrobond Financial, Danske Bank

Unemployment and wage growth



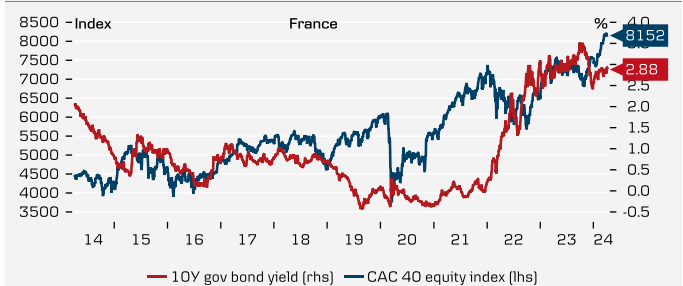
Source: Macrobond Financial, Danske Bank

Price expectations



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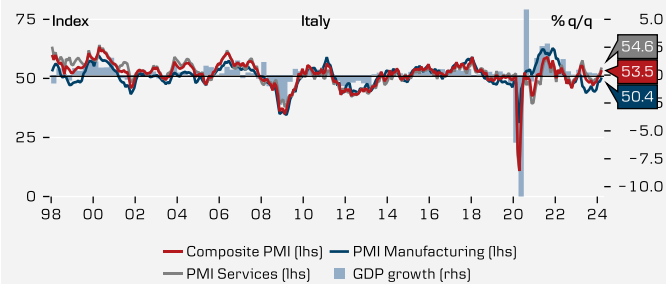
Financial markets



Source: Macrobond Financial, Danske Bank

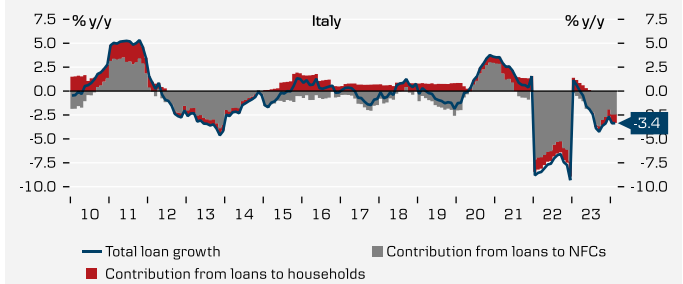
Italy

PMI and GDP growth



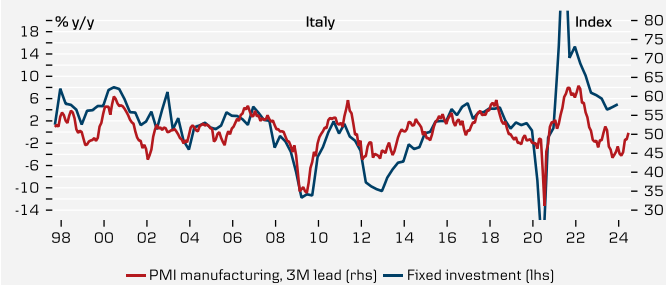
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Credit growth



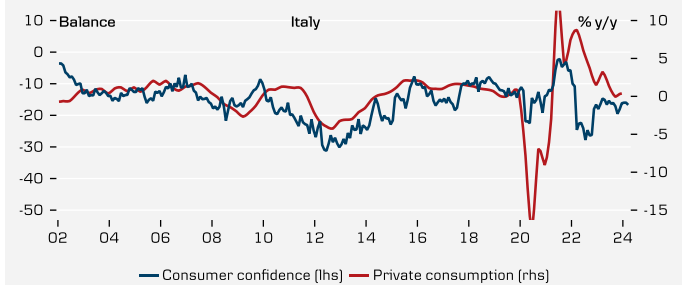
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Manufacturing sentiment and investments



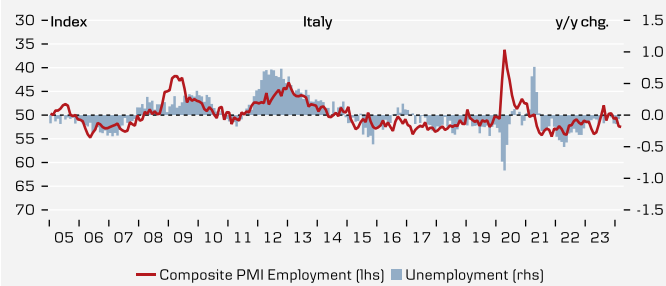
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Consumer confidence and private consumption



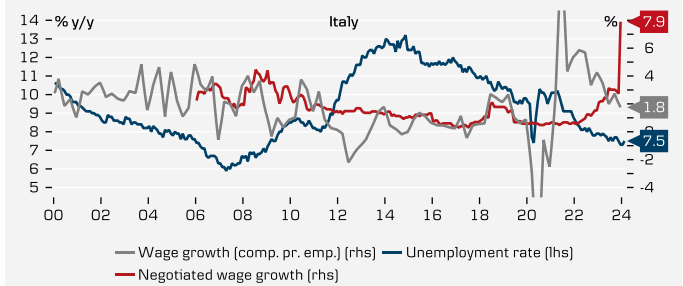
Source: Macrobond Financial, Danske Bank

Unemployment and PMI



Source: Macrobond Financial, Danske Bank

Unemployment and wage growth



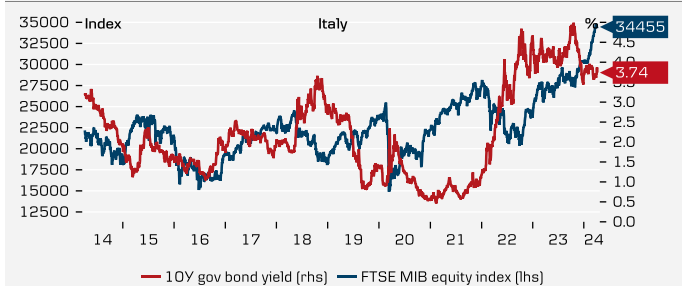
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Price expectations



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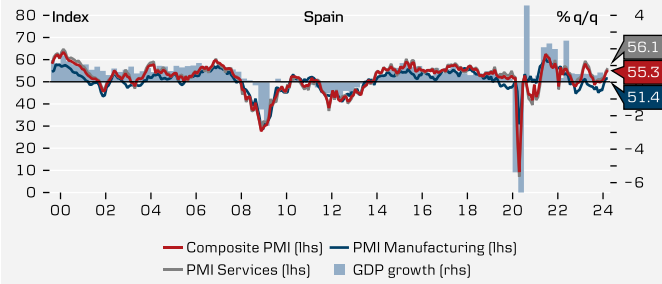
Financial markets



Source: Macrobond Financial, Danske Bank

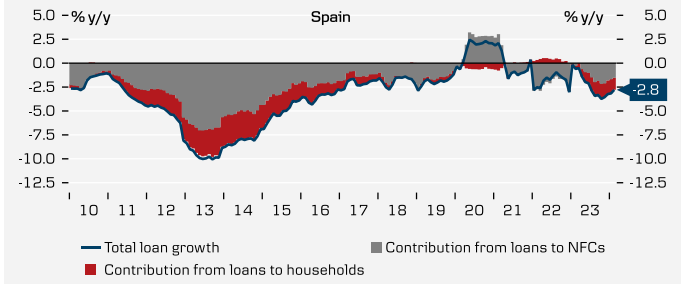
Spain

PMI and GDP growth



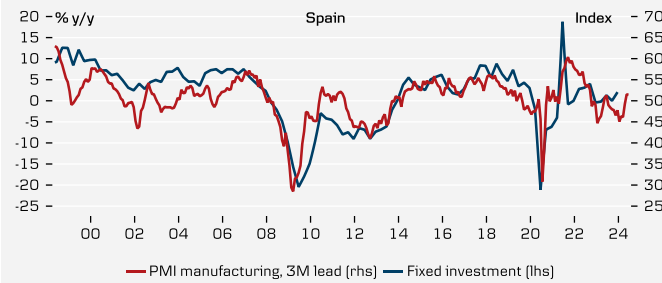
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Credit growth



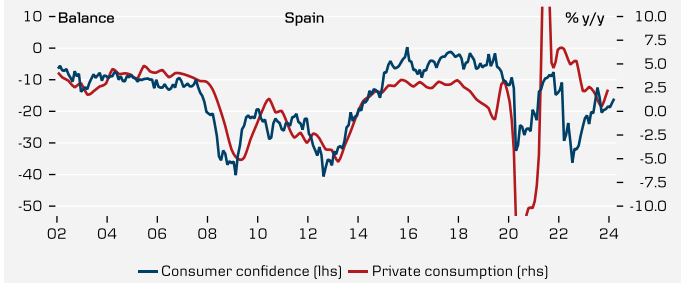
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Manufacturing sentiment and investments



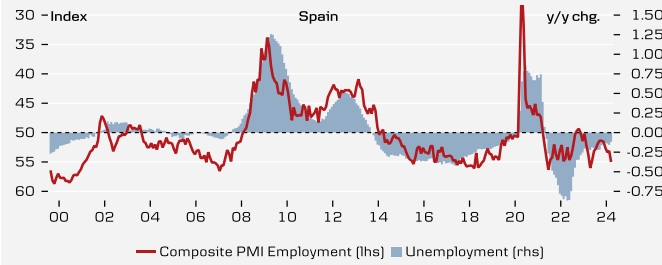
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Consumer confidence and private consumption



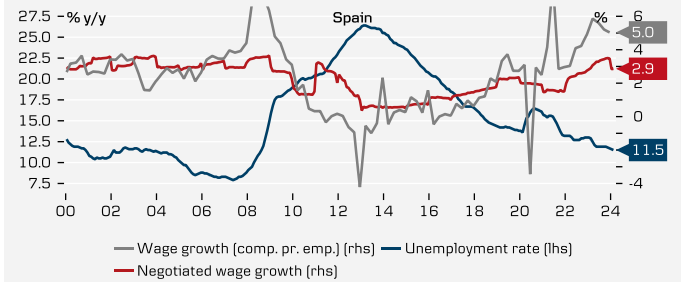
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Unemployment and PMI



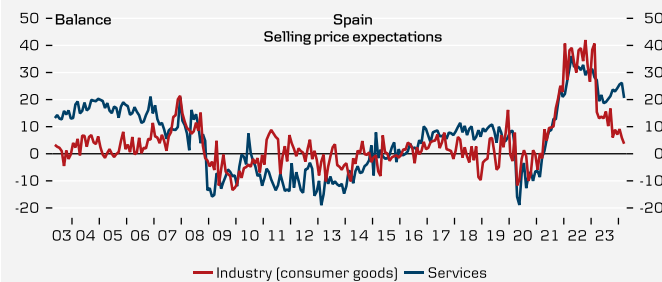
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Unemployment and wage growth



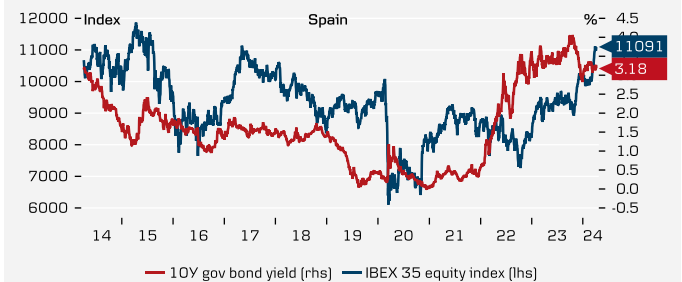
Source: Macrobond Financial, Danske Bank

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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