

Euro Area Macro Monitor

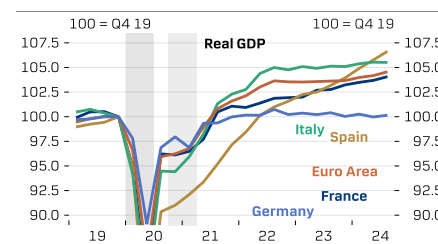
The ECB's easing path set to speed up

- **The third quarter of 2024 marked another chapter with positive growth, as euro area GDP beat expectations, rising 0.4% q/q, driven by Spain's strong service sector.** Growth was also supported by an Olympic boost in France, while Germany showed a modest rebound, albeit primarily due to a downward revision of Q2 data. Without the Olympics and revision of Q2, French and German activity would have stalled, underscoring how the two biggest economies struggle while Southern Europe flourish. For the final quarter, we **expect only modest growth of 0.1-0.2% q/q**, while the 2025 outlook rely on improvements in consumption and an industrial recovery.
- **October PMIs confirmed the fragility of growth, with the composite measure at 49.7.** Services slipped to 51.2 (prior: 51.4), though still holding up growth, while manufacturing rose more than expected to 45.9 (cons: 45.1). The main drag was France's weaker services sector, while both sectors improved in Germany. Alongside a more upbeat Ifo reading, this offers tentative hopes that German activity may have bottomed, **however caution is needed, as this reflects only one month of data, and Germany still faces significant challenges.**
- **Hard data on the labour market remains strong as the unemployment rate dropped to an all-time low of 6.3% in September** with the number of unemployed persons broadly unchanged. The hard data contrasts the weak signals from PMI employment that dropped to 49.1 in October in its fourth consecutive month below 50. Hence, the labour market remains strong, but we highlight the downside risks to the outlook especially due to Germany where we have seen a large rise in the use of short-term working schemes. The weak picture is exemplified by Volkswagen's recent *plans* to close three German factories and cut jobs, but so-far it has not shown up in hard data.
- **Euro area inflation increased to 2.0% y/y in October (cons: 1.9%, prior: 1.7%)** driven by energy and food inflation, while core inflation was unchanged at 2.7%. Core inflation was 0.20% m/m s.a. driven by still elevated service price increases of 0.30% m/m s.a. while goods prices remained unchanged at 0.0% m/m s.a. The October data thus showed that the very soft services inflation registered in September was a "blip" and inflation dynamics remain the same as we saw in the first months of Q3, namely with momentum in underlying inflation heading slowly in the right direction.
- While Q3 GDP growth was higher than the ECB's September staff projections of 0.2%, the growth outlook remains fragile, and with the risk of below potential growth continuing in 2025 and inflation hovering near the 2% target, we see need for the ECB to cut rates earlier than previous expected to support growth in 2025. **Hence, we have adjusted our ECB outlook, now expecting the ECB to cut rates by 25bp at each meeting until summer 2025, bringing the terminal rate to 1.5% in September 2025.** Key upside risks to our new profile include a global growth upswing and a higher consumption share, while the downside risk of a 50bp in December also cannot be ruled out. For more details, please see *Reading the Markets EUR - New ECB profile*, 31 October.

Key points

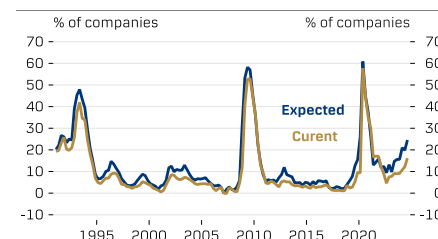
- Inflation close to target but services remain high
- Near-term growth has weakened
- We expect the ECB to cut its policy rate in December, followed by 6 25bp cuts in 2025

Spain spurs the European growth momentum



Source: INSEE, INE, Istat, Statistisches Bundesamt, Eurostat, Macrobond Financial

German short-time working has increased greatly



Source: Ifo, Macrobond Financial

Assistant Analyst

Oscar Christian Dahl Pedersen
oscp@danskebank.dk

Analyst, euro area economist

Rune Thyge Johansen
+45 40 26 04 37
rujo@danskebank.dk

Euro area data overview

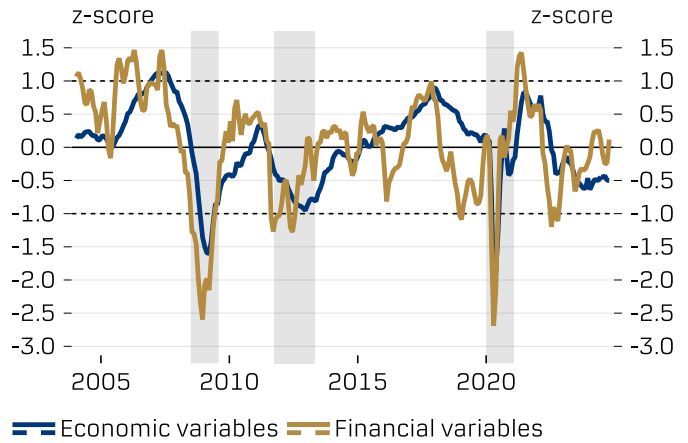
Financial variables turned north, improving to 0.1 from -0.2, mainly due to the euro surprise index ticking up coupled with Eurostoxx50 increasing. The economic variables stayed put at -0.5, but notably, and akin to last month, the PMI order-inventory balance weakened while consumer confidence improved.

Euro area data monitor

	October	September	August
PMI Composite	49,7	49,6	51,0
PMI Manufacturing	45,9	45,0	45,8
PMI Services	51,2	51,4	52,9
German Ifo	86,5	85,4	86,6
HICP	2,6	1,7	1,8
HICP core	3,3	2,4	2,6
HICP Services	4,8	3,9	5,0
Unemployment rate	n/a	6,3	6,3
Germany 10Y yield	2,2	2,2	2,2
Oil price	75,3	72,9	78,8

Note: n/a indicates data is to be released
Source: Macrobond Financial, Danske Bank

Data tracker: financial and economic variables



Note: Shaded area indicates historical recessions
Source: Macrobond Financial, Danske Bank

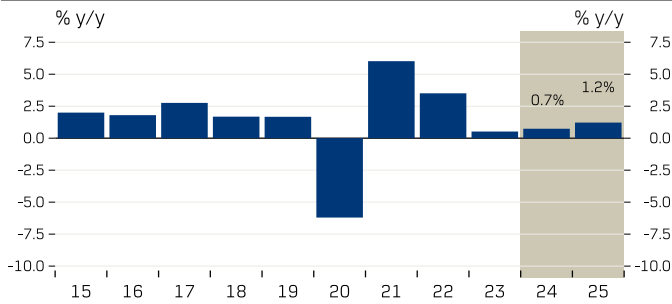
Monthly development in data tracker

	October 2024	September 2024	Monthly change
Economic variables	-0.5	-0.5	0.00
OECD CLI	0.4	0.4	0.00
Profit growth	0.2	0.2	0.00
Unemployment	0.1	0.1	0.00
Consumer confidence	0.0	-0.1	0.07
EuroCOIN	-0.1	-0.1	0.00
European sentiment indicator	-0.4	-0.3	-0.07
Capacity utilisation	-0.4	-0.4	-0.09
Composite PMI	-0.5	-0.5	0.01
ZEW	-0.5	-0.7	0.14
Credit growth	-0.9	-0.9	0.03
PMI order-inventory balance	-1.1	-1.0	-0.13
Real M1 growth	-2.6	-2.6	0.00
Financial variables	0.1	-0.2	0.36
Eurostoxx50	0.9	0.7	0.29
Corporate vs. Gov. Bond yield	0.4	0.2	0.13
Euro Surprise index	0.0	-0.9	0.91
Sentix	-0.8	-0.9	0.09

Source: Macrobond Financial, Danske Bank

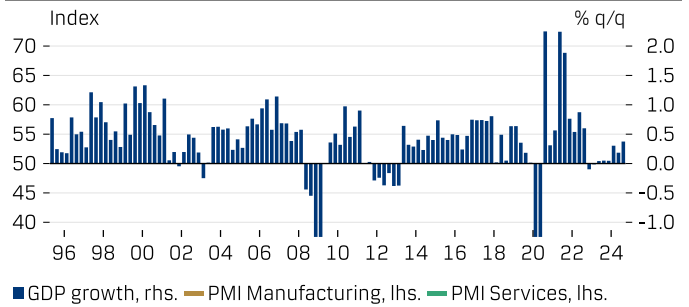
Euro area

GDP growth forecasts



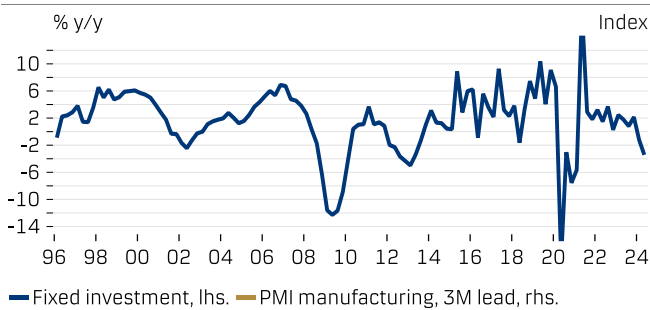
Source: Macrobond Financial, Danske Bank forecasts

PMI and GDP growth



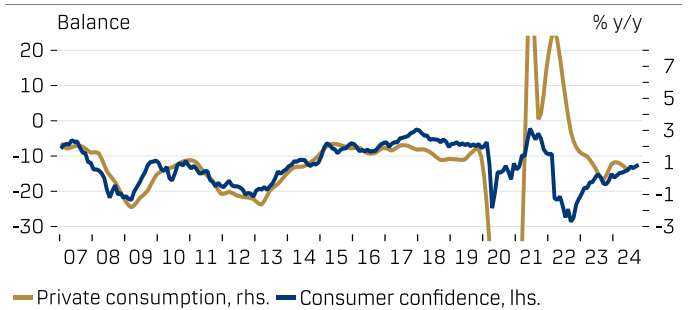
Source: Macrobond Financial, Danske Bank

Manufacturing sentiment and investments



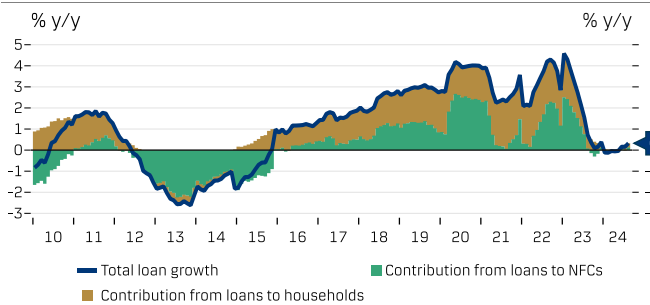
Source: S&P Global, Eurostat, Macrobond Financial

Consumer confidence and private consumption



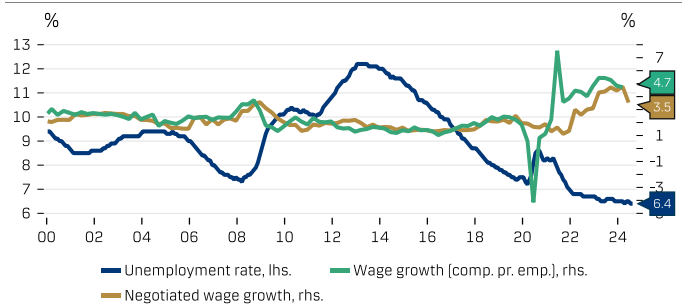
Source: Eurostat, European Commission, Macrobond Financial

Credit growth



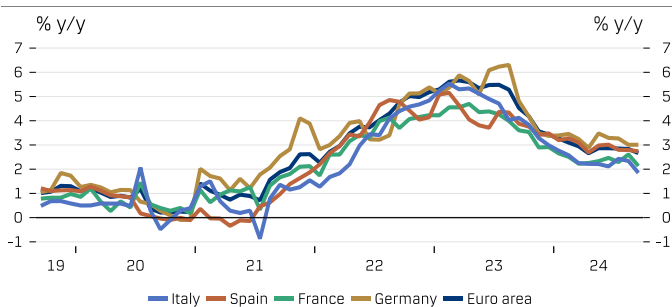
Source: ECB, Macrobond Financial, Danske Bank

Unemployment and wage growth



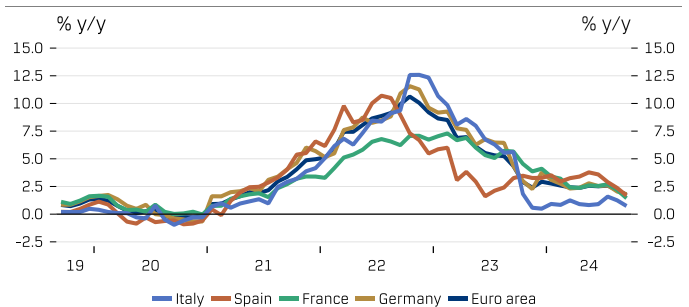
Source: ECB, Eurostat, Macrobond Financial

Core inflation



Source: Eurostat, Macrobond Financial

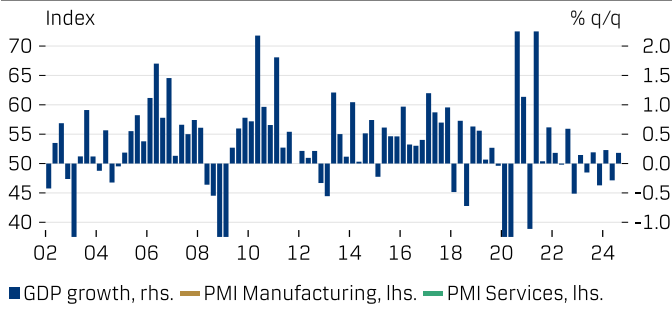
HICP inflation



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

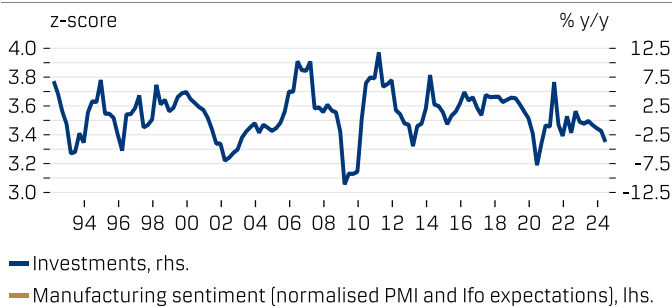
Germany

PMI and GDP growth



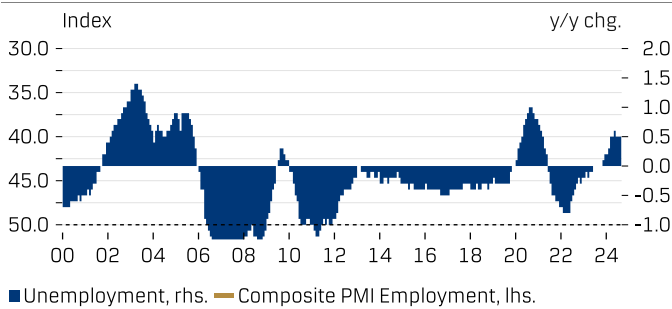
Source: S&P Global, Eurostat, Macrobond Financial

Manufacturing sentiment and investments



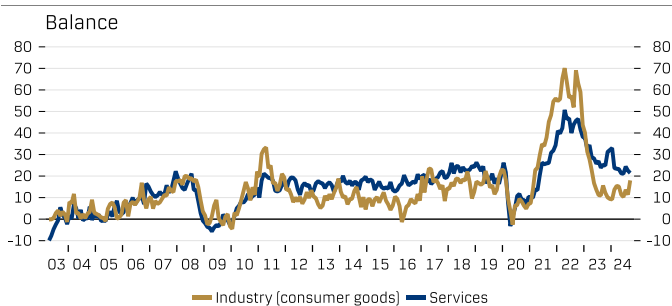
Source: S&P Global, Eurostat, Macrobond Financial

Unemployment and PMI



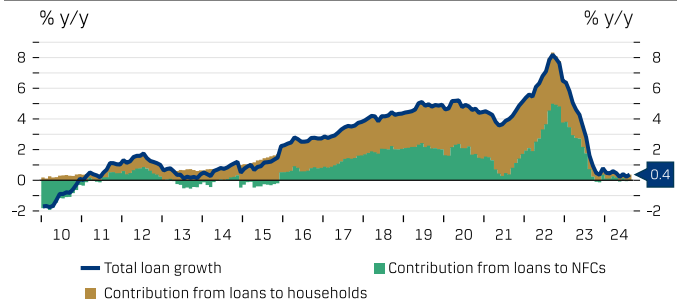
Source: S&P Global, Eurostat, Macrobond Financial

Selling price expectations



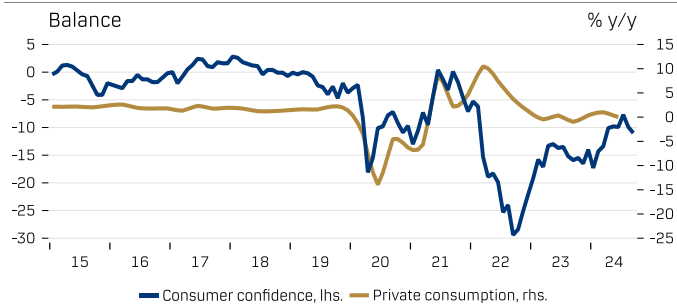
Source: EU Commission, Macrobond Financial, Danske Bank

Credit growth



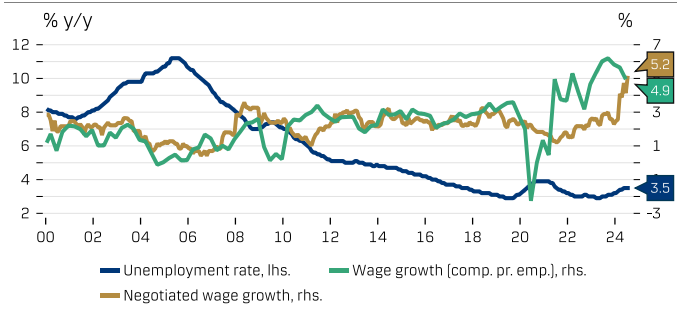
Source: Deutsche Bundesbank, Eurostat, Macrobond Financial, Danske Bank

Consumer confidence and private consumption



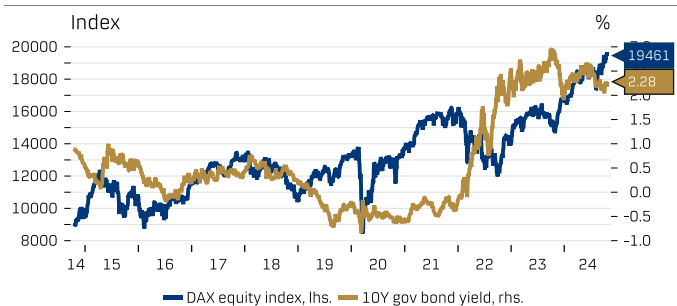
Source: European Commission, Eurostat, Macrobond Financial

Unemployment and wage growth



Source: ECB, Eurostat, Deutsche Bundesbank, Macrobond Financial

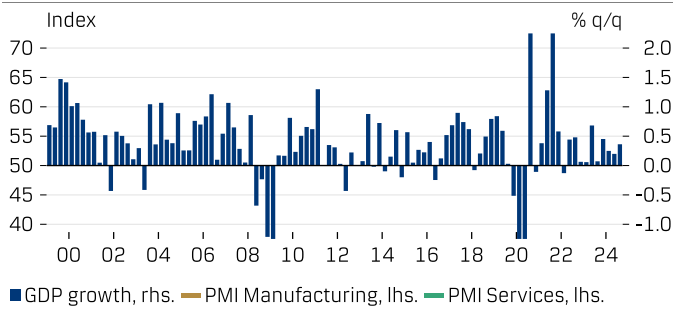
Financial markets



Source: Deutsche Boerse, Macrobond Financial, Danske Bank

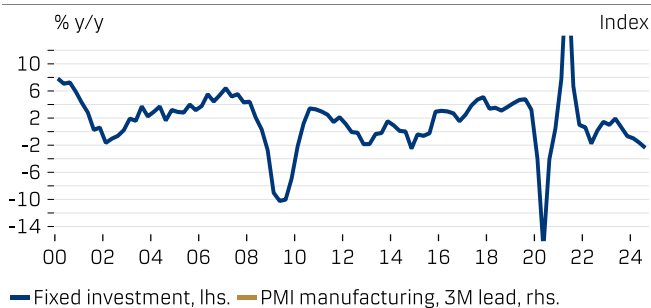
France

PMI and GDP growth



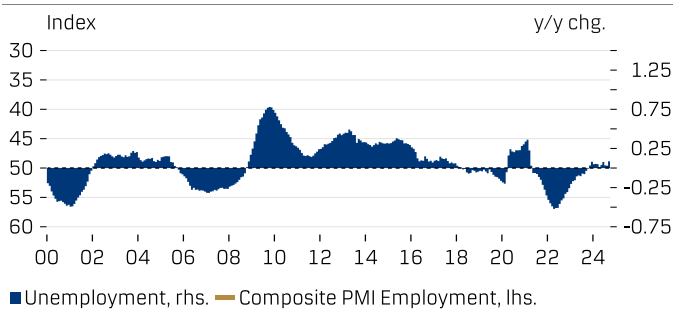
Source: S&P Global, Eurostat, Macrobond Financial

Manufacturing sentiment and investments



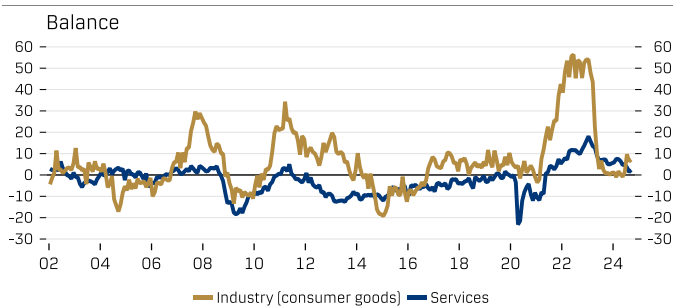
Source: S&P Global, Eurostat, Macrobond Financial

Unemployment and PMI



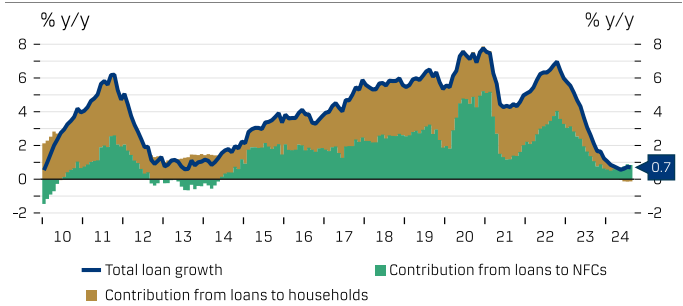
Source: S&P Global, Eurostat, Macrobond Financial

Selling price expectations



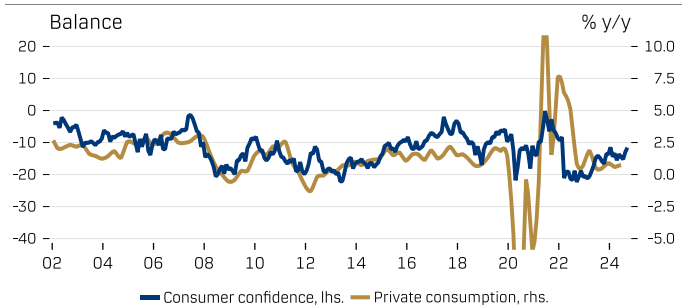
Source: EU Commission, Macrobond Financial, Danske Bank

Credit growth



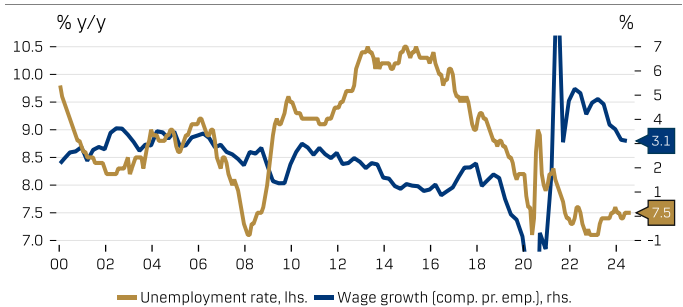
Source: ECB, Macrobond Financial, Danske Bank

Consumer confidence and private consumption



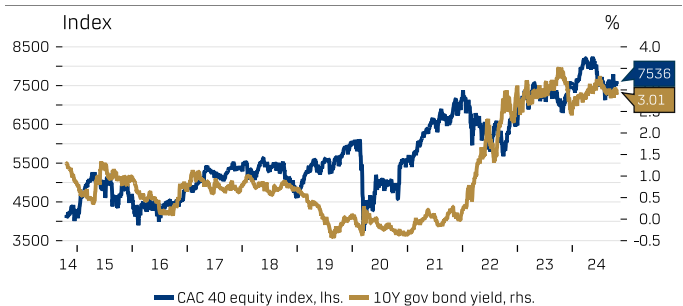
Source: European Commission, Eurostat, Macrobond Financial

Unemployment and wage growth



Source: ECB, Eurostat, Macrobond Financial, Danske Bank

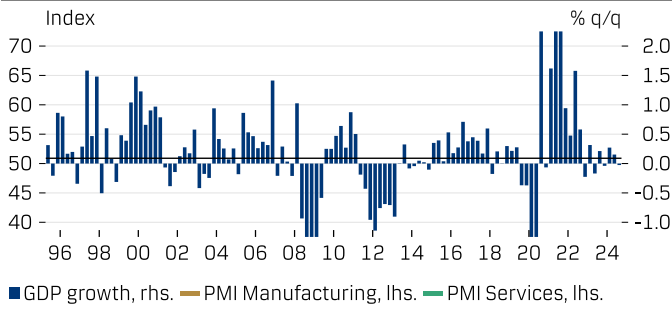
Financial markets



Source: Euronext, Macrobond Financial, Danske Bank

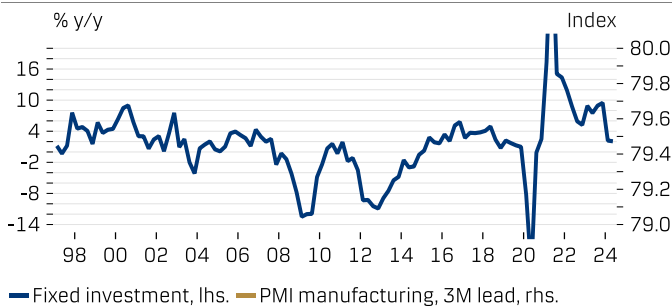
Italy

PMI and GDP growth



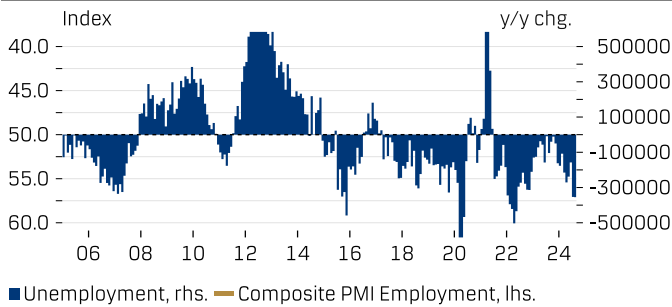
Source: S&P Global, Eurostat, Macrobond Financial

Manufacturing sentiment and investments



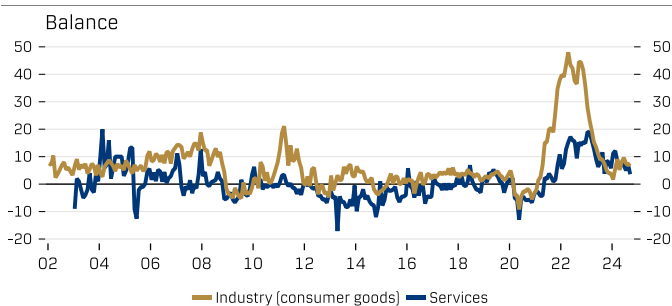
Source: S&P Global, Eurostat, Macrobond Financial

Unemployment and PMI



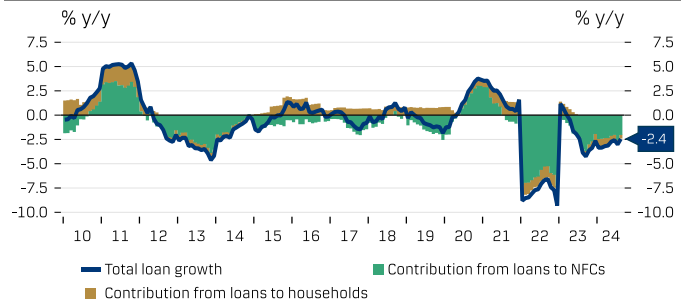
Source: S&P Global, Eurostat, Macrobond Financial

Price expectations



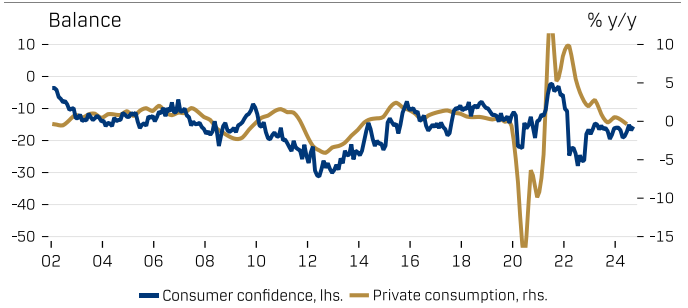
Source: EU Commission, Macrobond Financial, Danske Bank

Credit growth



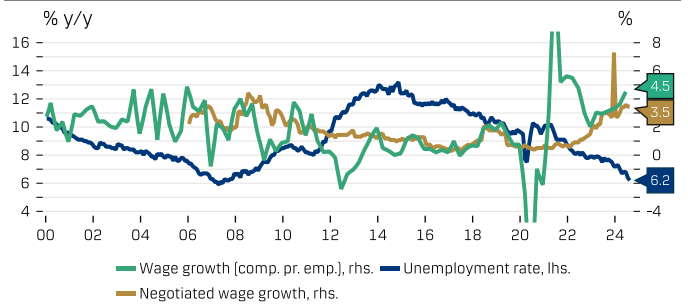
Source: ECB, Macrobond Financial, Danske Bank

Consumer confidence and private consumption



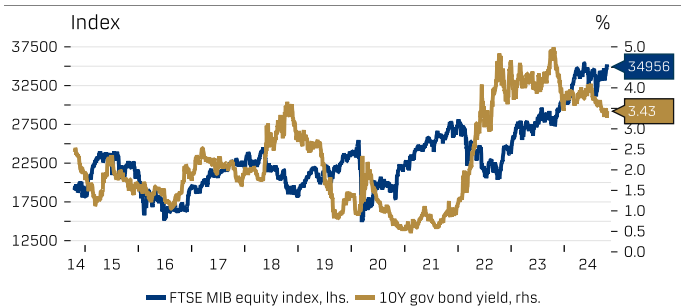
Source: European Commission, Eurostat, Macrobond Financial, Danske Bank

Unemployment and wage growth



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

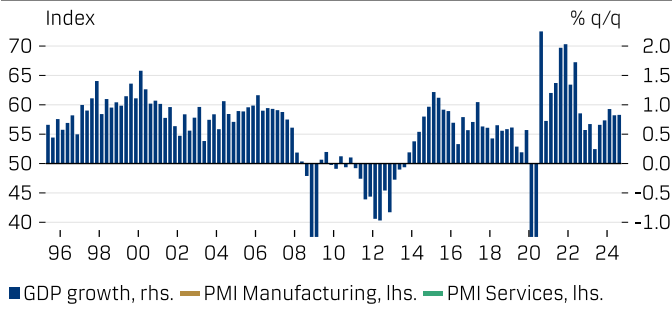
Financial markets



Source: FTSE, Macrobond Financial, Danske Bank

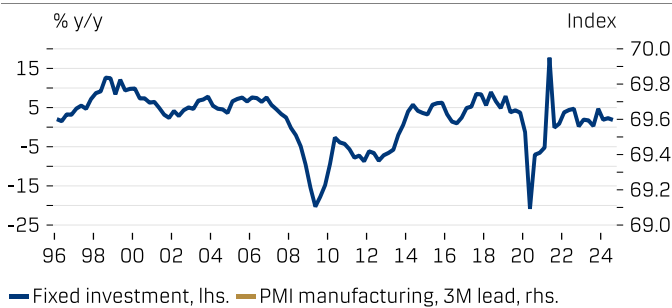
Spain

PMI and GDP growth



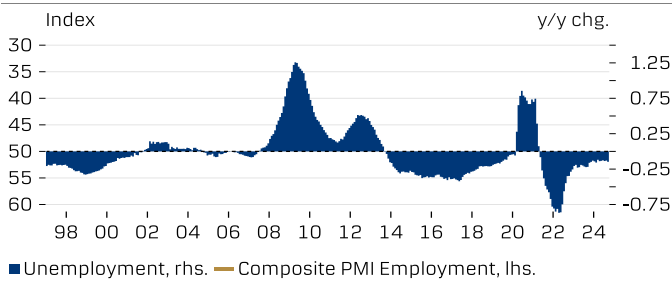
Source: S&P Global, Eurostat, Macrobond Financial

Manufacturing sentiment and investments



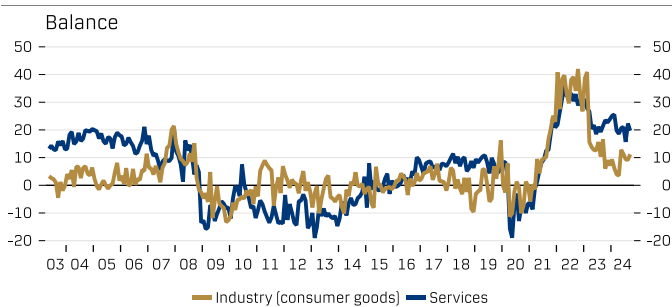
Source: S&P Global, Eurostat, Macrobond Financial

Unemployment and PMI



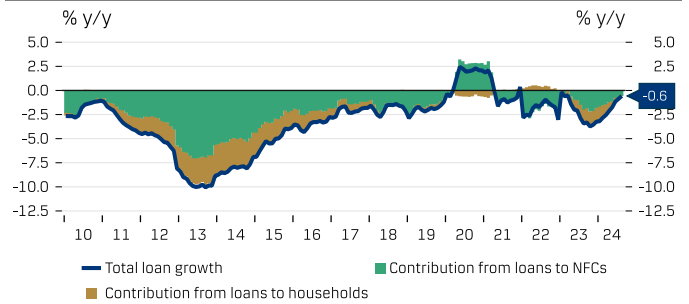
Source: S&P Global, Eurostat, Macrobond Financial

Price expectations



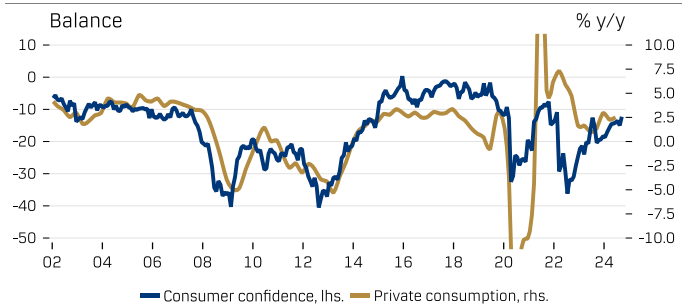
Source: EU Commission, Macrobond Financial, Danske Bank

Credit growth



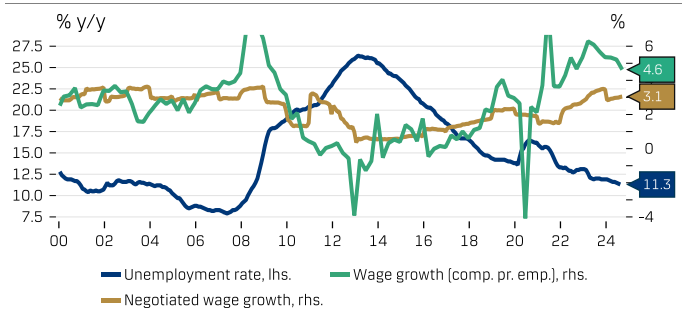
Source: ECB, Macrobond Financial, Danske Bank

Consumer confidence and private consumption



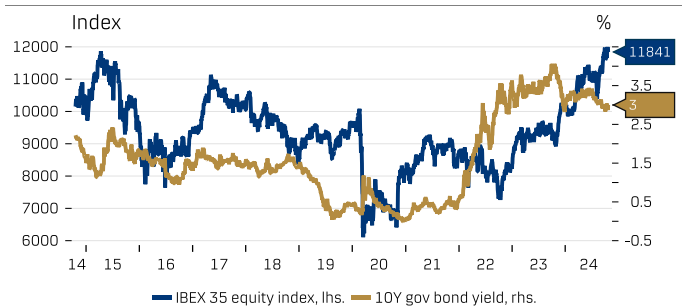
Source: European Commission, Eurostat, Macrobond Financial

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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Monthly

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