

4 October 2024

Euro Area Macro Monitor

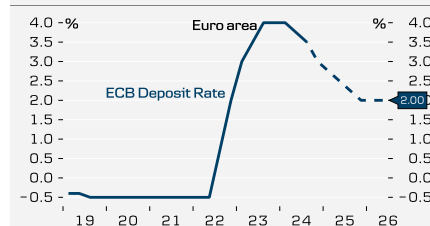
Inflation is back below the 2% target

- Growth momentum slowed in September, with the composite PMI falling to 49.6 from 51.0 in August.** The services PMI ticked lower to 51.4 from 52.9 mainly because of the Olympic games in August, which then dragged French PMIs significantly lower in September. Overall, the service sector remains in expansionary territory but it has weakened during the past quarter due to Germany and France while Spain experiences higher activity. The manufacturing sector continues to struggle, particularly in Germany due to both local problems and a global slowdown.
- The labour market has moderated recently, and the **PMI employment index dipped below 50 for second month in a row (49.7 in September)**. The employment situation has particularly moderated in Germany and France, whereas employment growth continues to be decent in Spain, Portugal and Greece. For details, see *Research euro area - Moderating labour market with downside risks*, 3 October.
- Inflation fell below 2% for the first time in three years to 1.8% y/y in September**, as expected. The decline was mainly due to energy inflation while core inflation was stickier at 2.7% y/y (prior: 2.8%) due to high services inflation at 4.0% y/y and low goods inflation at 0.4% y/y. Importantly, momentum in services inflation declined significantly as service prices rose only 0.14% m/m s.a., which was the lowest monthly rate this year. Headline inflation has averaged 2.17% in Q3, below the expectation of 2.3% in the latest ECB projections. Combined with easing services momentum this should make the ECB more confident of inflation returning persistently to target.
- As inflation has declined more than expected, the labour market is moderating, and the near-term growth outlook is weak, **we have adjusted our ECB profile, now expecting an October rate cut of 25bp, and a December 2025 rate cut.** Our new outlook consists of two cuts for the remainder of 2024, and four quarterly cuts next year, bringing the deposit rate to 2% in December 2025. For more details, please see *COTW: October rate cut is the baseline – Why wait?*, 27 September.
- In France, the new Prime Minister, Michel Barnier, has formed his government**, mainly from Macron's centrist alliance and his own conservatives, aiming for cross-party support in a fragmented parliament. Tackling France's strained finances is a top priority, but no easy task with the country facing an excessive deficit procedure by the EU. **To address this, Barnier's government has proposed a €60bn budget squeeze for 2025 to curb the deficit, which is expected to reach 6.1% of GDP this year.** The plan aims to reduce the deficit to 5% by year-end 2025 but only meet the EU's 3% target by 2029. Large budget deficits and likely confrontations with the EU has made investors demanding a premium for investing in French debt. In September, we saw **French 10-year government yields ticking higher than Spanish for the first time since 2007** – also driven by the much more upbeat growth story and public finances in Southern Europe. For details, see *Research euro area - Southern Europe to continue outperforming*, 23 September.

Key points

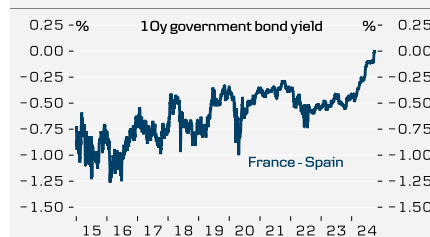
- Inflation close to target but services remain high
- Near-term growth has weakened
- We expect the ECB to cut its policy rate in October and December, followed by four 25bp cuts in 2025.

We have updated our ECB profile



Source: ECB, Danske Bank, Macrobond Financial

French yields surpassed Spanish yields for the first time since 2007



Source: Eurostat, Macrobond Financial

TEXT OVERFLOW

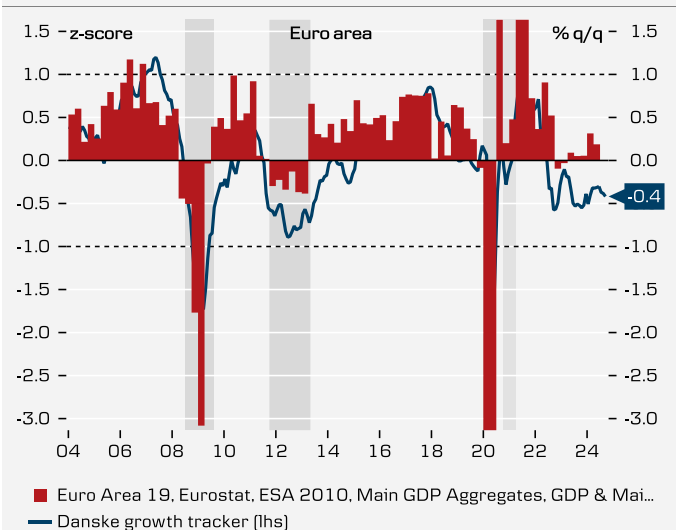
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The Danske euro area growth tracker

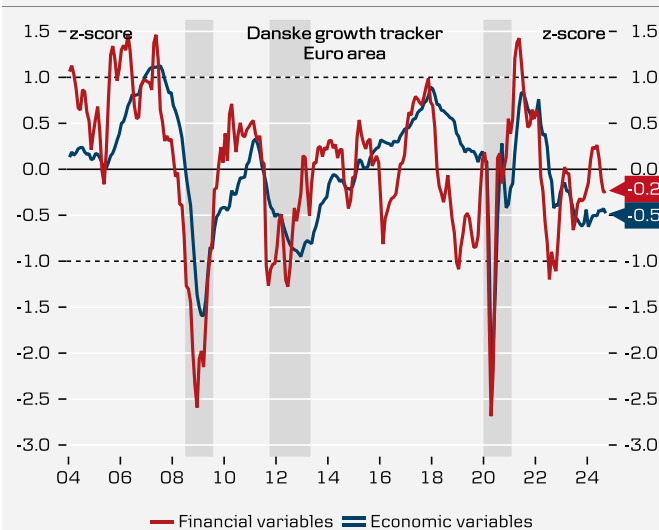
Our growth tracker stayed put at -0.4 in September. Financial variables weakened further, primarily attributing to Sentix and the euro surprise index edging lower while stocks gained. The economic variables were not changed at -0.5, but notably the composite PMI and the PMI order-inventory balance weakened while consumer confidence improved. The level of the indicators has not predicted GDP well lately, so we focus more on the changes rather than the level. The tracker suggests that the growth momentum in the first half of the year has weakened over the summer.

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

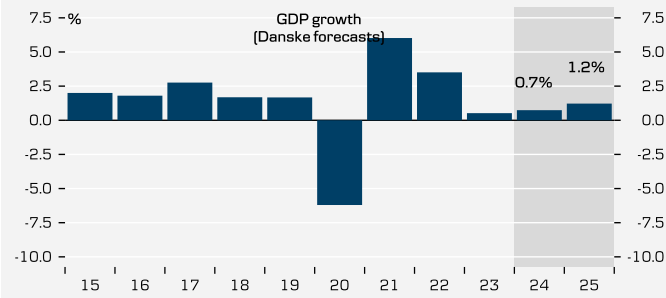
Danske growth tracker

	sep-24	aug-24	Monthly change
Economic variables	-0,5	-0,4	-0,05
OECD CLI	0,3	0,3	0,00
Profit growth	0,2	0,2	0,00
EuroCOIN	0,2	0,2	0,00
Unemployment	0,1	0,1	0,00
Consumer confidence	-0,1	-0,2	0,09
European sentiment indicator	-0,3	-0,3	-0,03
Capacity utilisation	-0,4	-0,4	0,00
Composite PMI	-0,5	-0,2	-0,27
ZEW	-0,7	-0,6	-0,03
Credit growth	-0,9	-0,8	-0,14
PMI order-inventory balance	-1,0	-0,7	-0,31
Real M1 growth	-2,6	-2,7	0,09
Financial variables	-0,2	-0,2	0,01
Eurostoxx50	0,7	0,4	0,22
Corporate vs. Gov. Bond yield	0,2	0,2	-0,01
Sentix	-0,9	-0,8	-0,08
Euro Surprise index	-0,9	-0,8	-0,09

Source: Macrobond Financial, Danske Bank

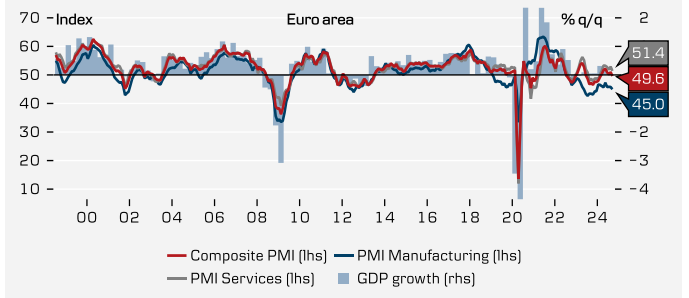
Euro area

GDP growth forecasts



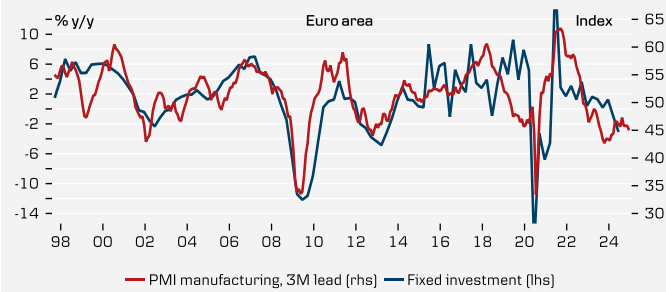
Source: Macrobond Financial, Danske Bank forecasts

PMI and GDP growth



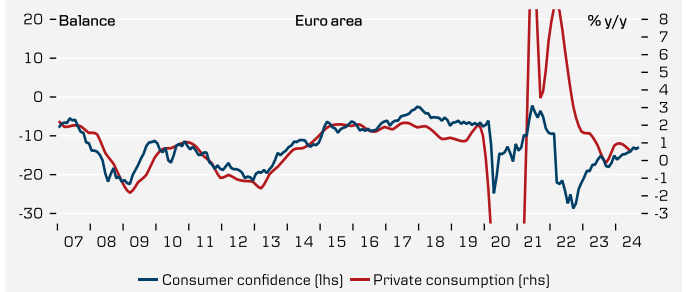
Source: Macrobond Financial, Danske Bank

Manufacturing sentiment and investments



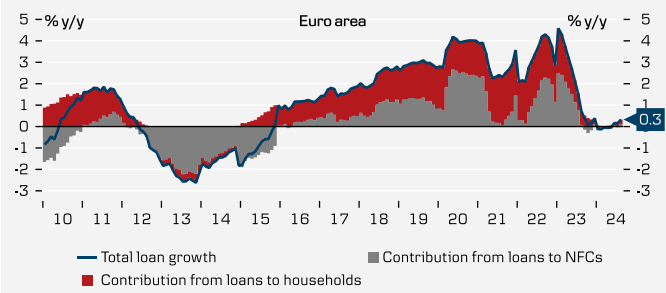
Source: Macrobond Financial, Danske Bank

Consumer confidence and private consumption



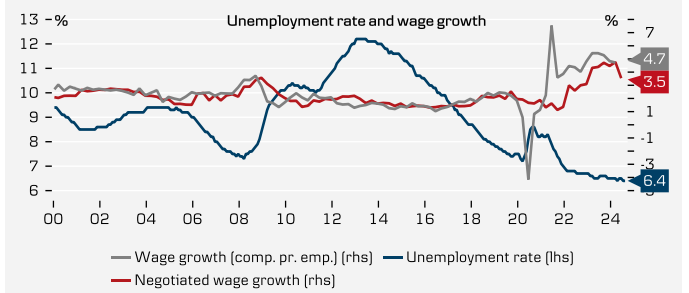
Source: Macrobond Financial, Danske Bank

Credit growth



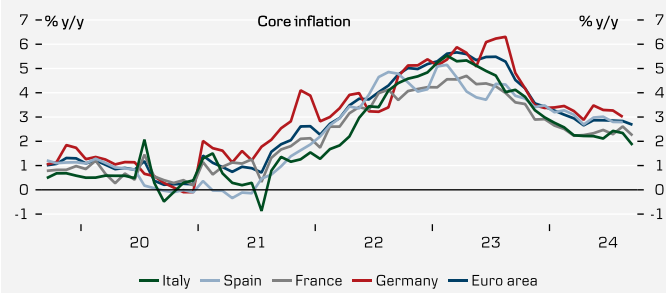
Source: Macrobond Financial, Danske Bank

Unemployment and wage growth



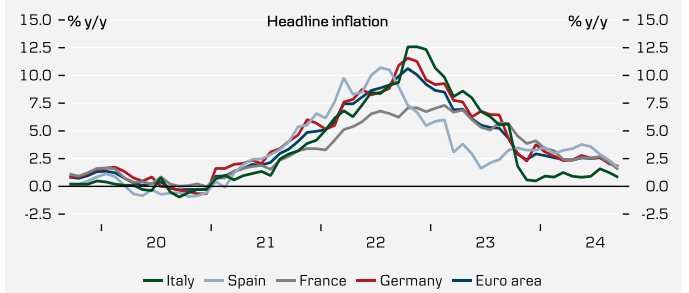
Source: Macrobond Financial, Danske Bank

Core inflation



Source: Macrobond Financial, Danske Bank

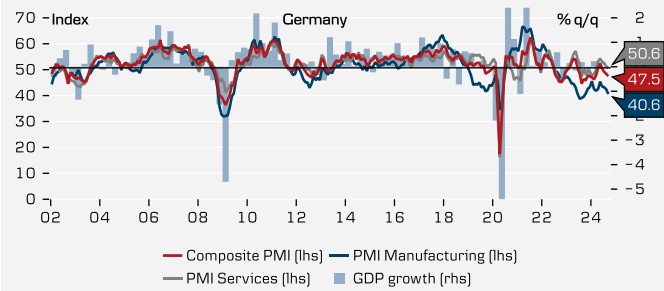
HICP inflation



Source: Macrobond Financial, Danske Bank

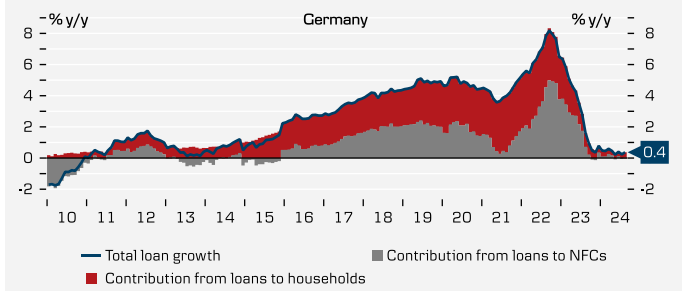
Germany

PMI and GDP growth



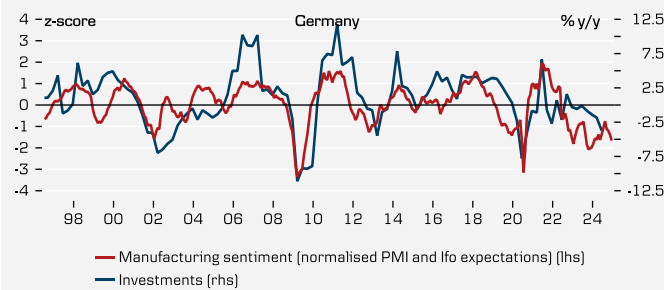
Source: Macrobond Financial, Danske Bank

Credit growth



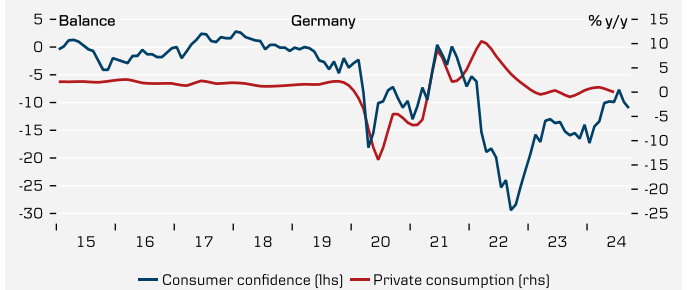
Source: Macrobond Financial, Danske Bank

Manufacturing sentiment and investments



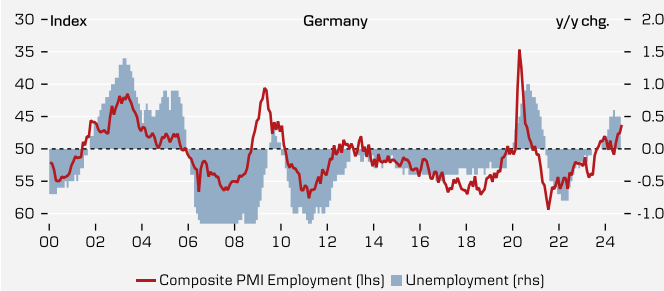
Source: Macrobond Financial, Danske Bank

Consumer confidence and private consumption



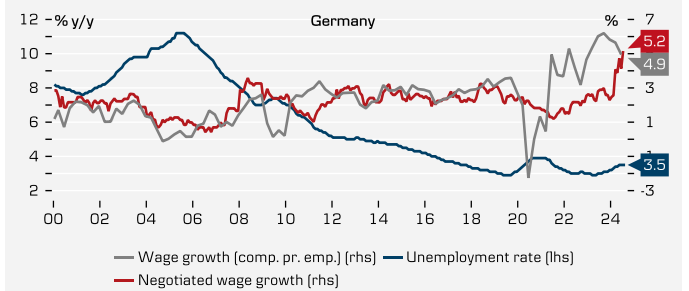
Source: Macrobond Financial, Danske Bank

Unemployment and PMI



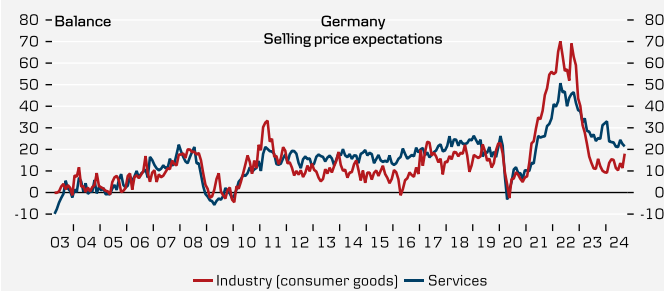
Source: Macrobond Financial, Danske Bank

Unemployment and wage growth



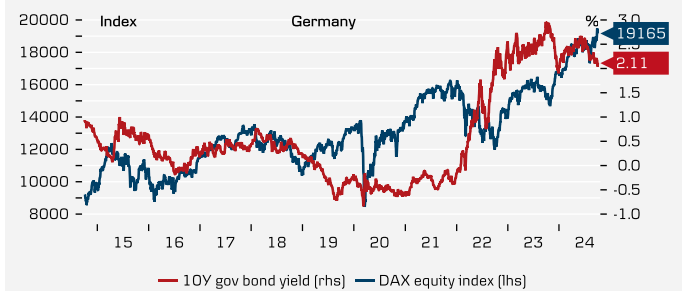
Source: Macrobond Financial, Danske Bank

Price expectations



Source: EU Commission, Macrobond Financial, Danske Bank

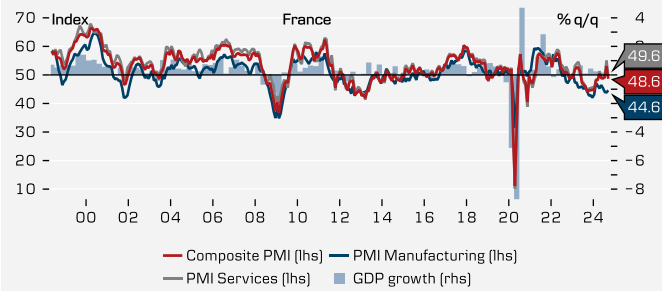
Financial markets



Source: Macrobond Financial, Danske Bank

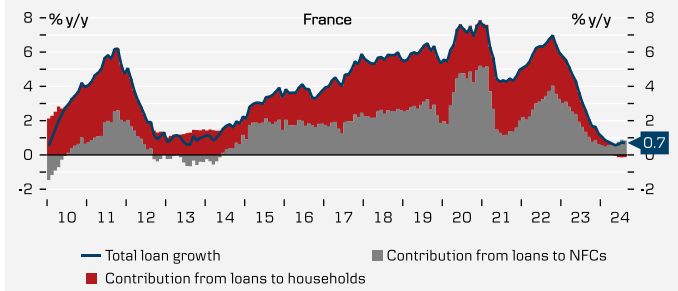
France

PMI and GDP growth



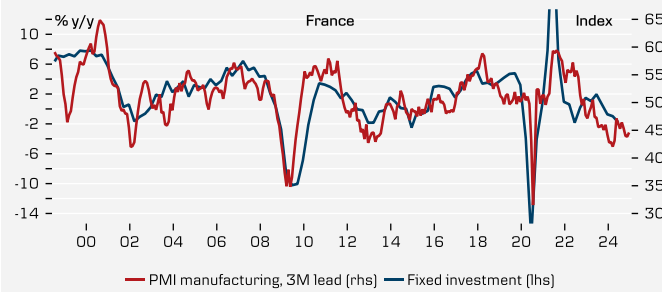
Source: Macrobond Financial, Danske Bank

Credit growth



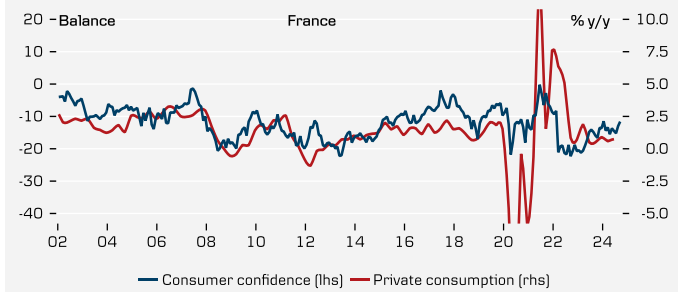
Source: Macrobond Financial, Danske Bank

Manufacturing sentiment and investments



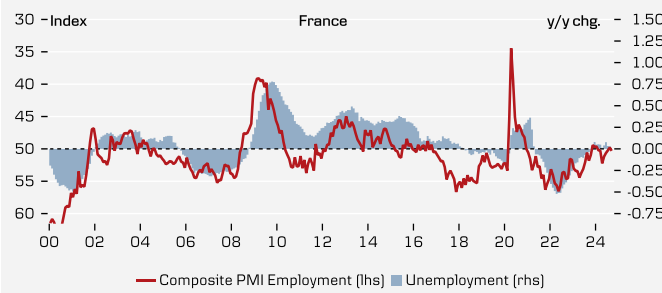
Source: Macrobond Financial, Danske Bank

Consumer confidence and private consumption



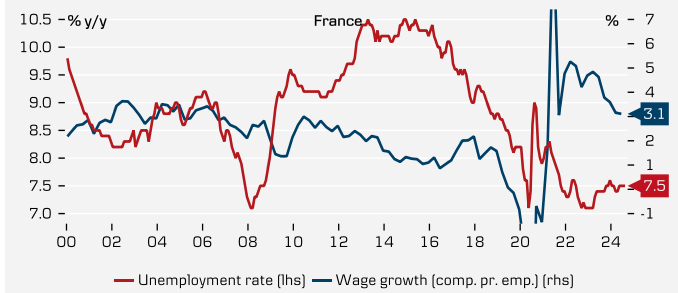
Source: Macrobond Financial, Danske Bank

Unemployment and PMI



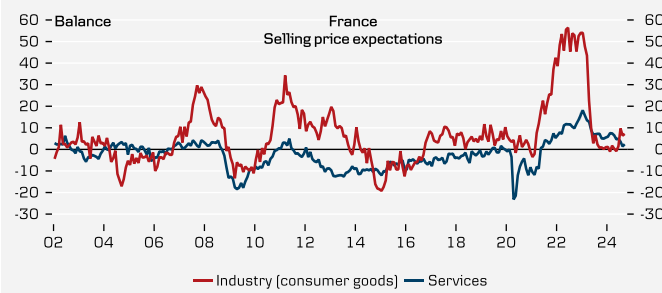
Source: Macrobond Financial, Danske Bank

Unemployment and wage growth



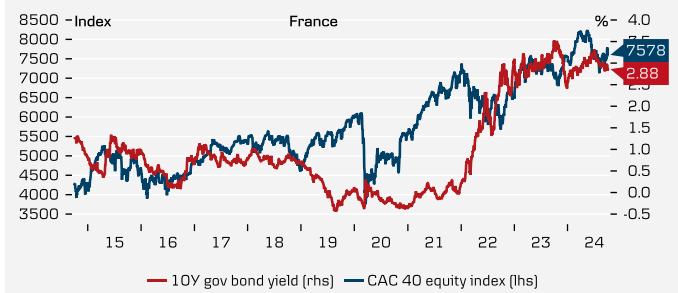
Source: Macrobond Financial, Danske Bank

Price expectations



Source: EU Commission, Macrobond Financial, Danske Bank

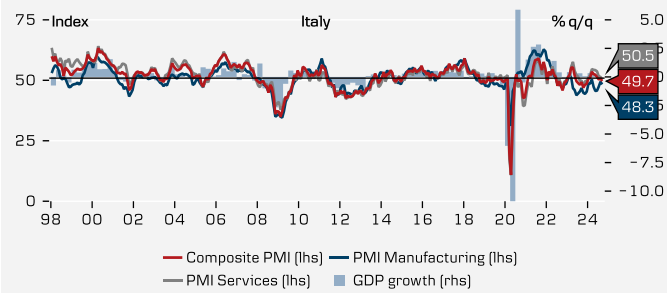
Financial markets



Source: Macrobond Financial, Danske Bank

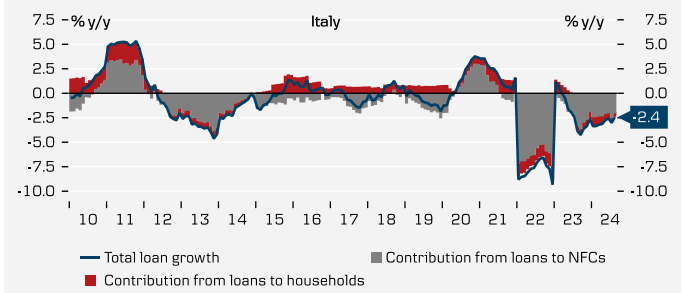
Italy

PMI and GDP growth



Source: Macrobond Financial, Danske Bank

Credit growth



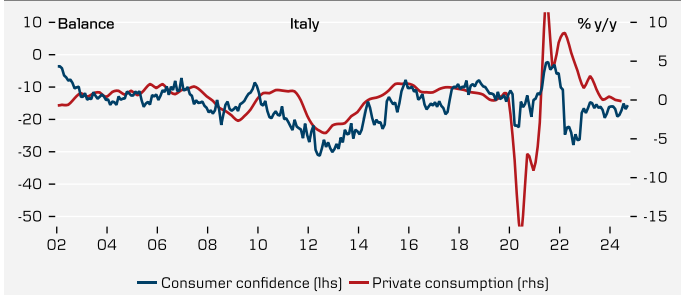
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Manufacturing sentiment and investments



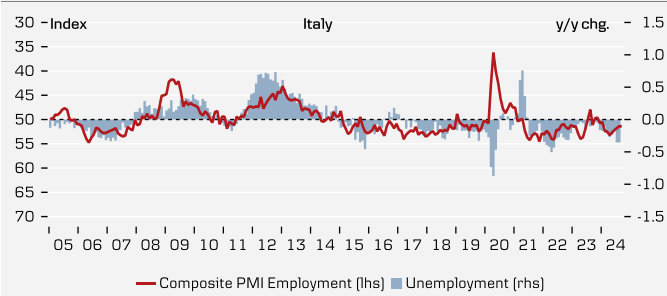
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Consumer confidence and private consumption



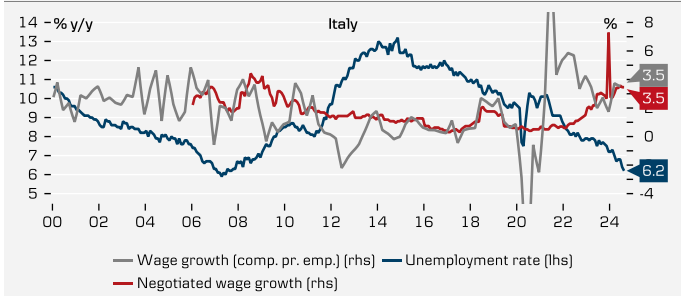
Source: Macrobond Financial, Danske Bank

Unemployment and PMI



Source: Macrobond Financial, Danske Bank

Unemployment and wage growth



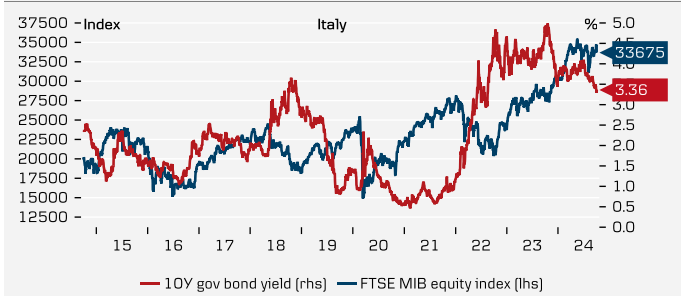
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Price expectations



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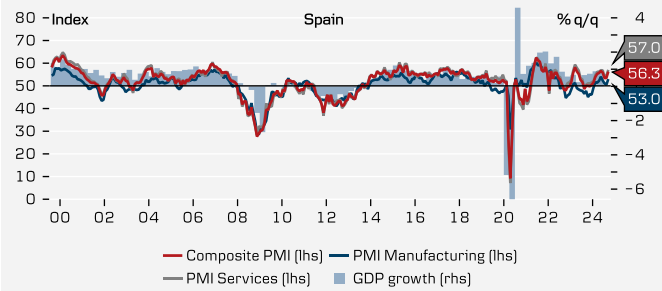
Financial markets



Source: Macrobond Financial, Danske Bank

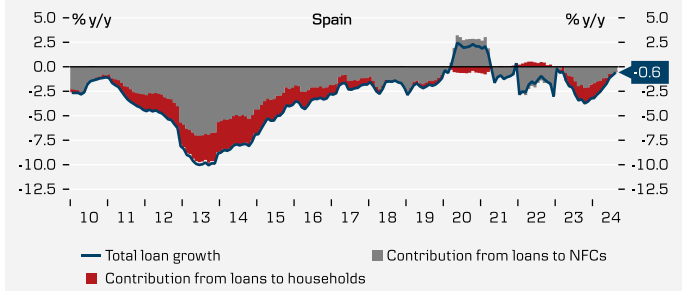
Spain

PMI and GDP growth



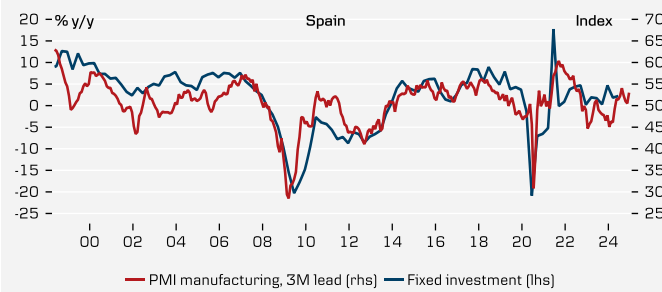
Source: Macrobond Financial, Danske Bank

Credit growth



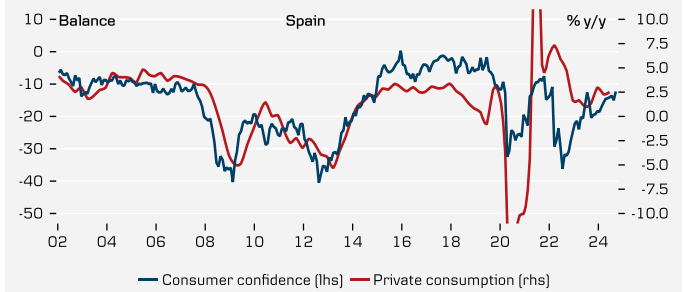
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Manufacturing sentiment and investments



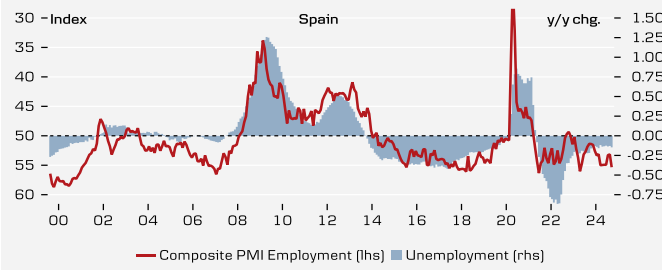
Source: Macrobond Financial, Danske Bank

Consumer confidence and private consumption



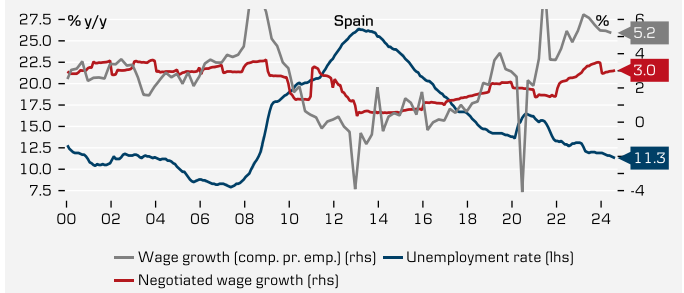
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Unemployment and PMI



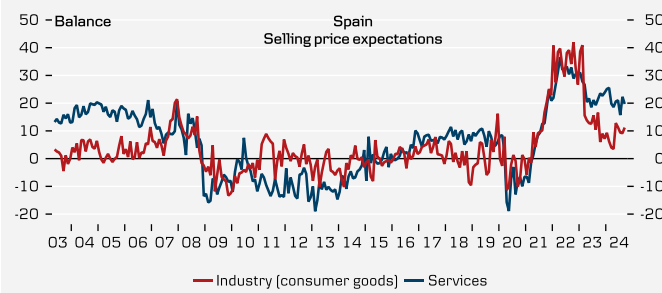
Source: Macrobond Financial, Danske Bank

Unemployment and wage growth



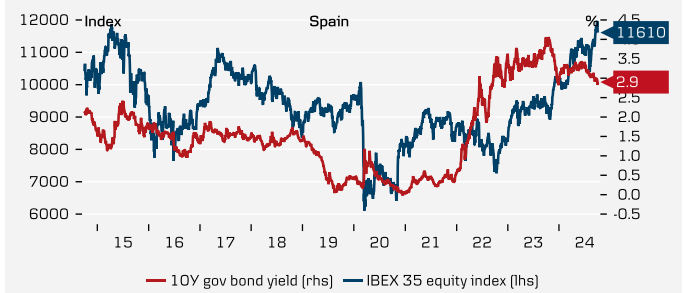
Source: Macrobond Financial, Danske Bank

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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