

# Euro Area Macro Monitor

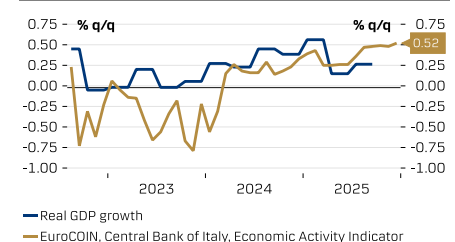
## 2025 ends with a solid growth momentum

- **The euro area economy grew faster than expected in 2025, little affected by US tariffs.** The composite PMI remained above 50 throughout 2025, driven by a stabilisation in manufacturing and a strong service sector. While growth slowed in December, Q4 performed strongly, with sustained service sector activity offsetting manufacturing's return to contraction. Manufacturing struggled, with its December PMI falling to 48.8 and production declining for the first time in 10 months, while the service sector maintained growth momentum, with a PMI of 52.4. However, **the Q4 composite PMI averaged 52.3, the highest since 2023, suggesting solid quarterly growth.** Supporting this outlook, the EuroCOIN indicator (produced by Bank of Italy) for December point to a 0.5% q/q real GDP growth in Q4, exceeding ECB staff projections of 0.2% q/q GDP growth (see chart). **Both PMI and EuroCOIN reinforce the ECB's "good place" assessment, though manufacturing recovery is vital for sustained growth in 2026.**
- **The ECB concluded 2025 by keeping its key policy rates unchanged at the December meeting, with the deposit facility rate at 2.00%, aligning with expectations.** 2025 began with the deposit rate at 3.00%, but a series of cuts brought it to 2.00% in June, where it has since remained. **December's meeting brought upgraded economic growth projections, delivering a hawkish surprise to markets.** The new staff projections showed upwards revised growth across the projection horizon, alongside higher inflation expectations for 2026. GDP forecast increased to 1.2% y/y in 2026 (from 1.0%) and 1.4% y/y in 2027 (from 1.3%). At the same time headline inflation was revised to 1.9% y/y (from 1.7%) in 2026 and core inflation to 2.2% y/y (from 1.9%). For more details see [ECB preview - In an even better place](#), 18 December. **We expect the ECB to keep the policy rate unchanged at 2.00% through 2026-2027, and risks remain balanced; weaker inflation may prompt easing, while stronger growth could lead to higher rates.**
- Headline and core inflation started 2025 at 2.5% y/y and 2.7% y/y, respectively, and steadily declined throughout the year, largely due to lower energy prices and declining underlying inflation pressures. However, elevated service inflation remains a key concern. **By December, headline inflation declined to 2.0% y/y down from 2.1% in November, aligning with expectations and matching the ECB's target.** Core inflation eased to 2.3% y/y from 2.4% y/y, driven by weaker-than-expected goods inflation. Service inflation declined slightly to 3.4% y/y but with momentum consistent to recent months, it remains sticky and a key argument for the hawk camp in the ECB. The recent decline in energy prices has lowered market expectations for Q1 2026 inflation to 1.6%, well below ECB projections of 1.9% (see chart). Combined with weaker December inflation, this has sent rates lower with markets now pricing 5bp worth of cuts from the ECB by July. **We expect inflation to fall below 2% in both 2026 and 2027, as wage growth eases and weak energy and food commodities prospects, combined with base effect, are expected suppress headline inflation in 2026.**

### Today's key points

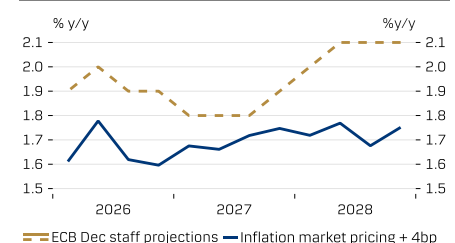
- Headline and core inflation to average below 2% in 2026 and 2027
- Decent growth to continue in 2026 and 2027
- ECB to keep the policy rate unchanged at 2.0% in 2026 and 2027

### EuroCOIN indicating strong growth in Q4 GDP



Source: Bank of Italy, Eurostat, Danske Bank, Macrobond

### Staff inflation projections are very high compared to market pricing



Source: ECB, Danske Bank, Macrobond

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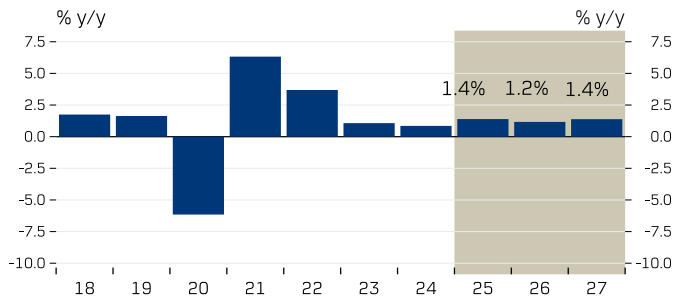
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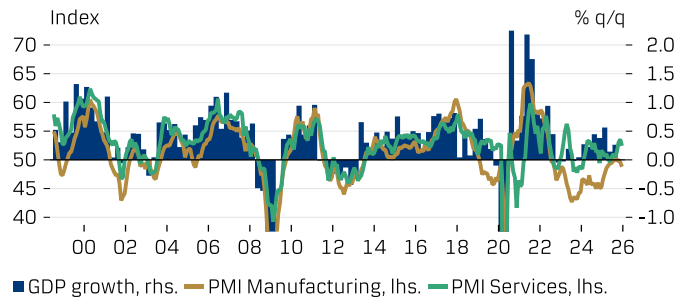
# Euro area

## Euro area: GDP growth forecast



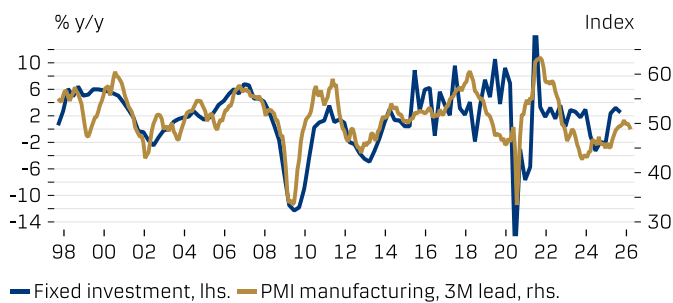
Source: Eurostat, Macrobond Financial, Danske Bank

## Euro area: PMI and GDP growth



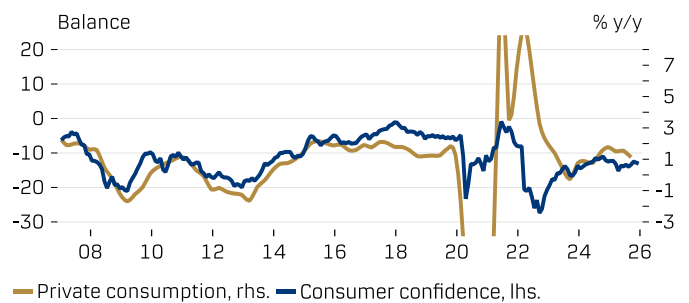
Source: Macrobond Financial, Danske Bank

## Euro area: Manufacturing sentiment and investments



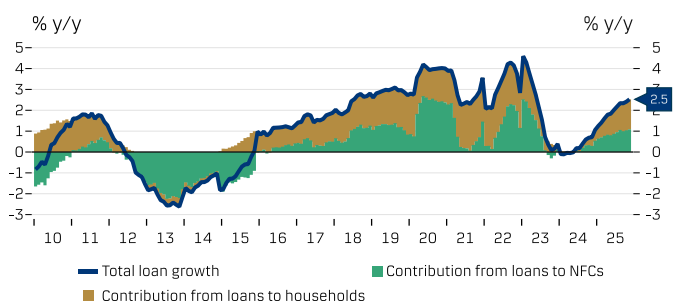
Source: S&P Global, Eurostat, Macrobond Financial

## Euro area: Consumer confidence and private consumption



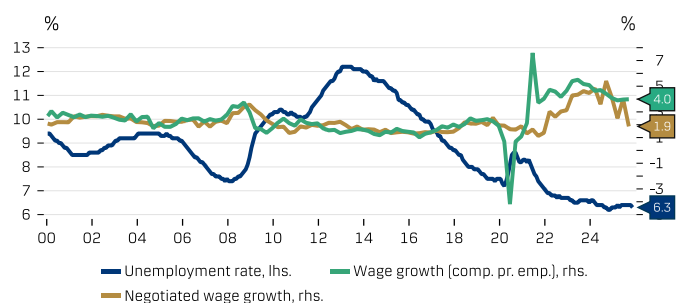
Source: Eurostat, European Commission, Macrobond Financial

## Euro area: Credit growth



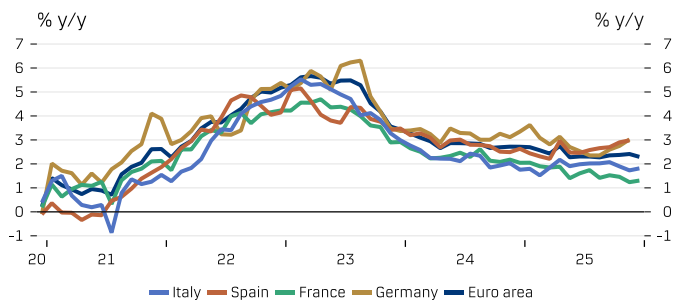
Source: ECB, Macrobond Financial, Danske Bank

## Euro area: Unemployment and wage growth



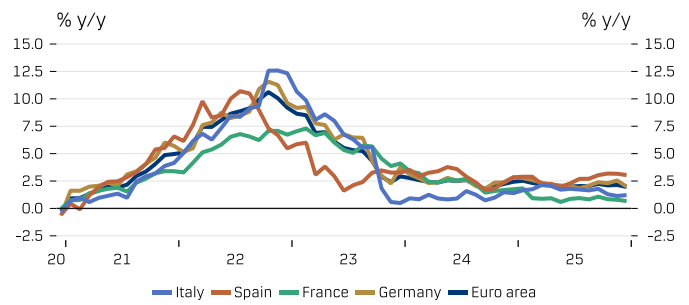
Source: ECB, Eurostat, Macrobond Financial

### Euro area: Core inflation



Source: Eurostat, Macrobond Financial

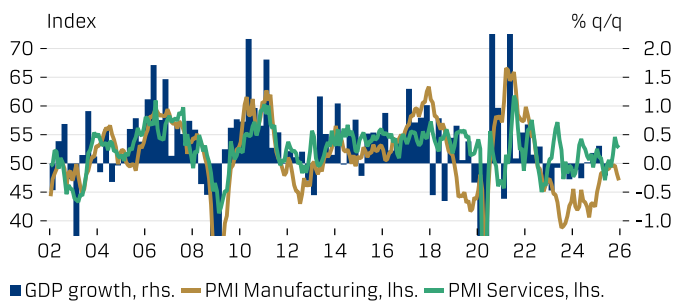
### Euro area: HICP inflation



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

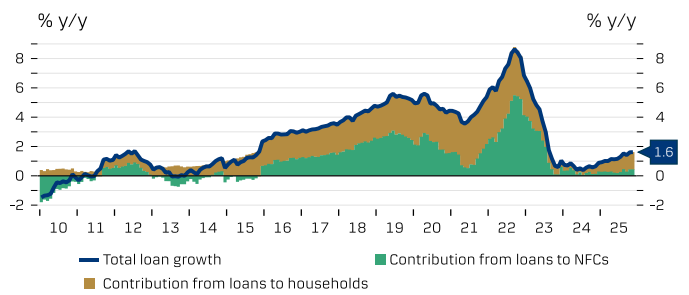
## Germany

### Germany: PMI and GDP growth



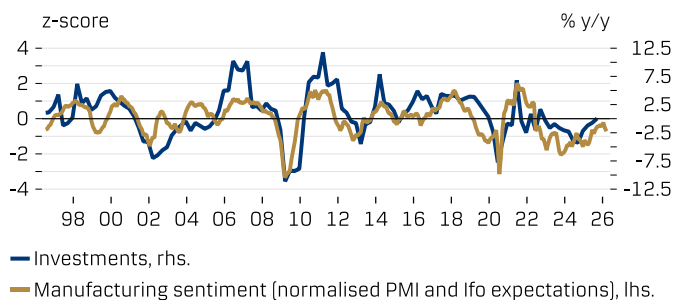
Source: S&P Global, Eurostat, Macrobond Financial

### Germany: Credit growth



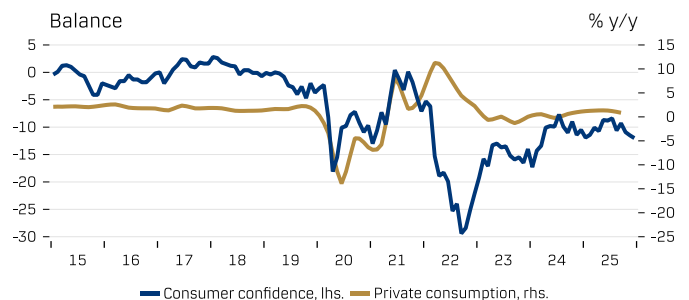
Source: Deutsche Bundesbank, Eurostat, Macrobond Financial, Danske Bank

### Germany: Manufacturing sentiment and investments



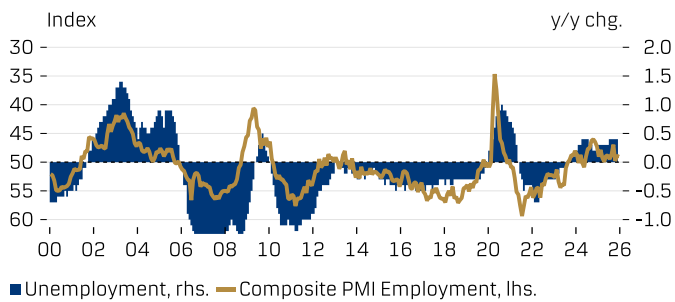
Source: S&P Global, Eurostat, Macrobond Financial

### Germany: Consumer confidence and private consumption



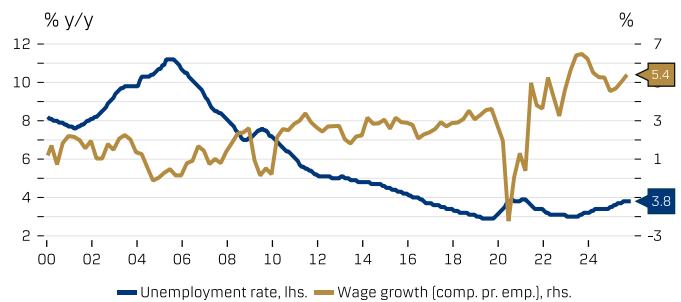
Source: European Commission, Eurostat, Macrobond Financial

## Germany: Unemployment and PMI



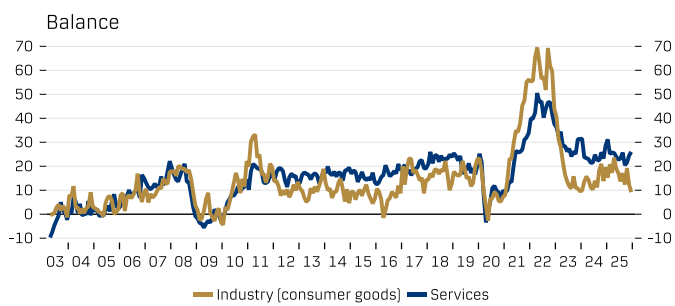
Source: S&P Global, Eurostat, Macrobond Financial

## Germany: Unemployment and wage growth



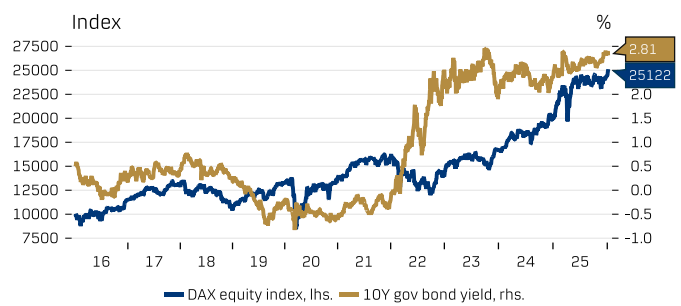
Source: ECB, Eurostat, Deutsche Bundesbank, Macrobond Financial

## Germany: Selling price expectations



Source: EU Commission, Macrobond Financial, Danske Bank

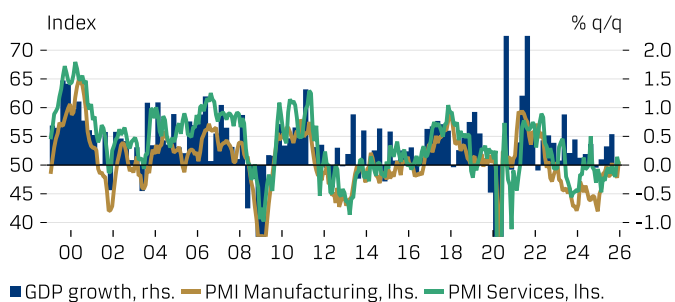
## Germany: Financial markets



Source: Deutsche Boerse, Macrobond Financial, Danske Bank

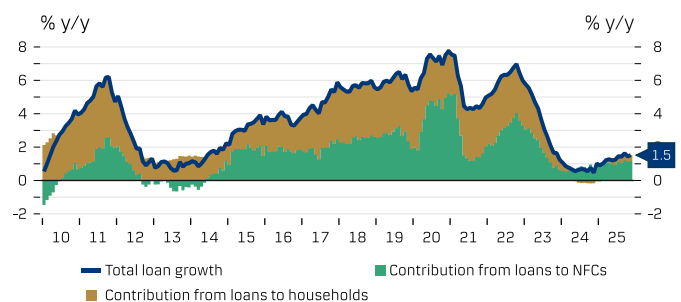
# France

## France: PMI and GDP growth



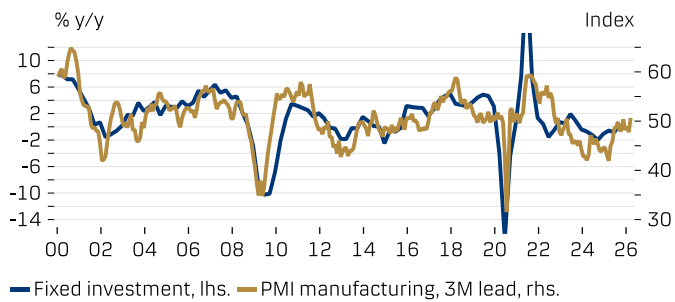
Source: S&P Global, Eurostat, Macrobond Financial

## France: Credit growth



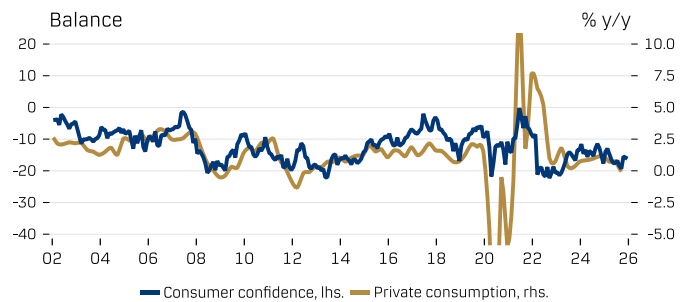
Source: ECB, Macrobond Financial, Danske Bank

### France: Manufacturing sentiment and investments



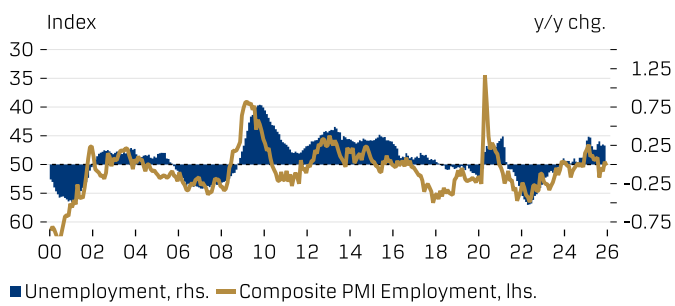
Source: S&P Global, Eurostat, Macrobond Financial

### France: Consumer confidence and private consumption



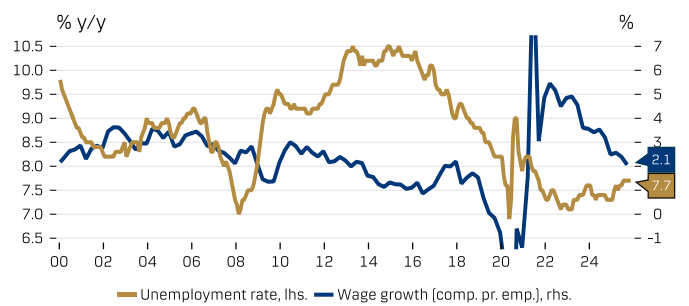
Source: European Commission, Eurostat, Macrobond Financial

### France: Unemployment and PMI



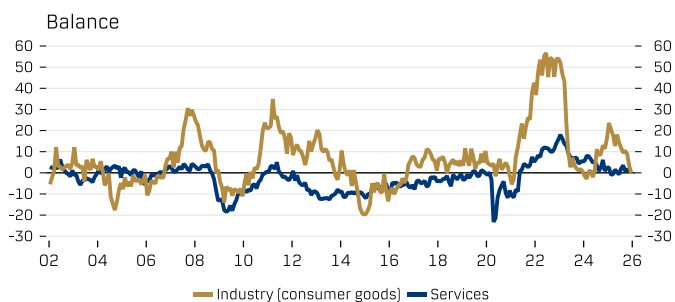
Source: S&P Global, Eurostat, Macrobond Financial

### France: Unemployment and wage growth



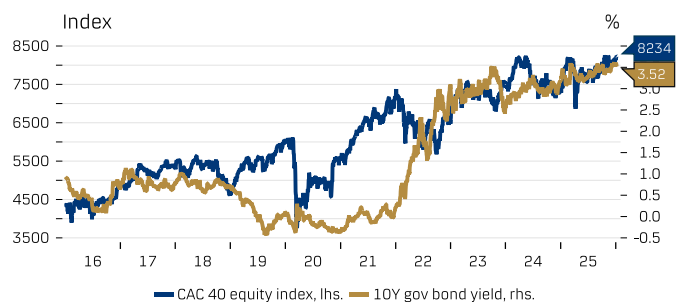
Source: ECB, Eurostat, Macrobond Financial, Danske Bank

### France: Selling price expectations



Source: EU Commission, Macrobond Financial, Danske Bank

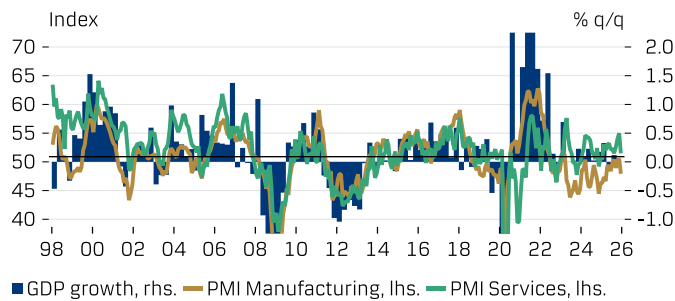
### France: Financial markets



Source: Euronext, Macrobond Financial, Danske Bank

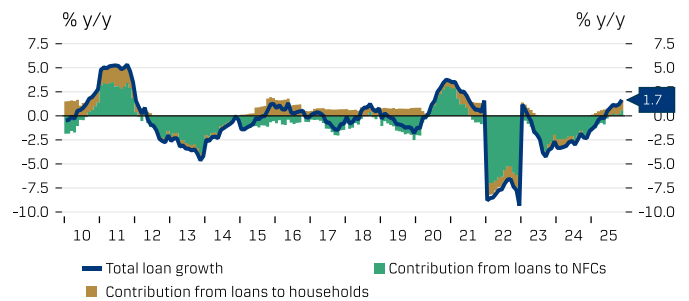
# Italy

## Italy: PMI and GDP growth



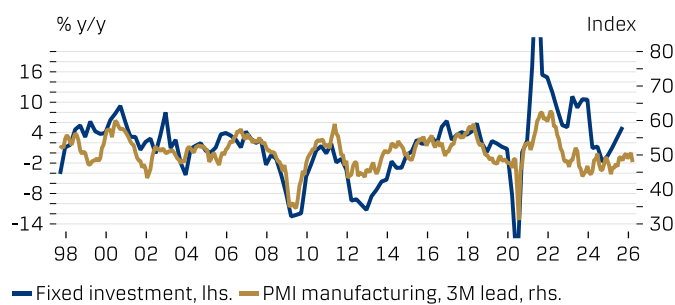
Source: S&P Global, Eurostat, Macrobond Financial

## Italy: Credit growth



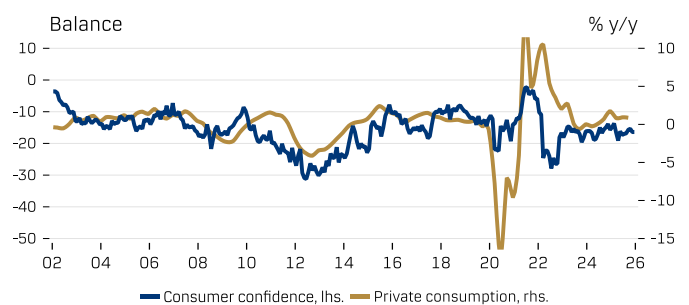
Source: ECB, Macrobond Financial, Danske Bank

## Italy: Manufacturing sentiment and investments



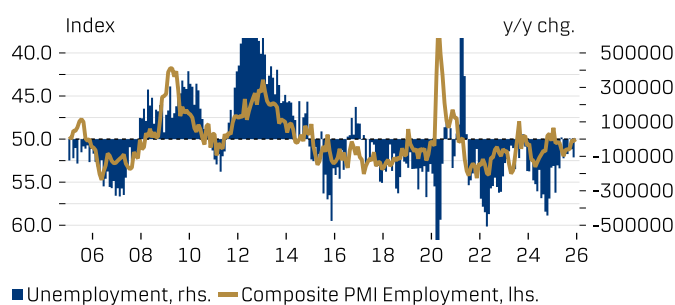
Source: S&P Global, Eurostat, Macrobond Financial

## Italy: Consumer confidence and private consumption



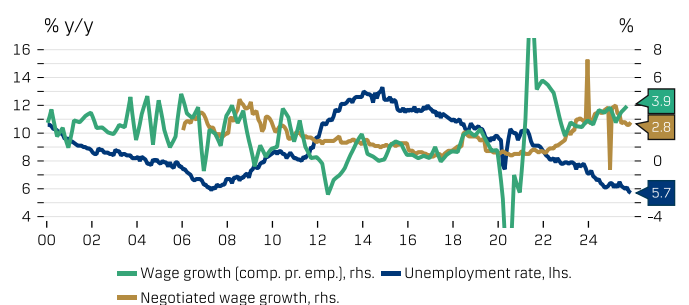
Source: European Commission, Eurostat, Macrobond Financial, Danske Bank

## Italy: Unemployment and PMI



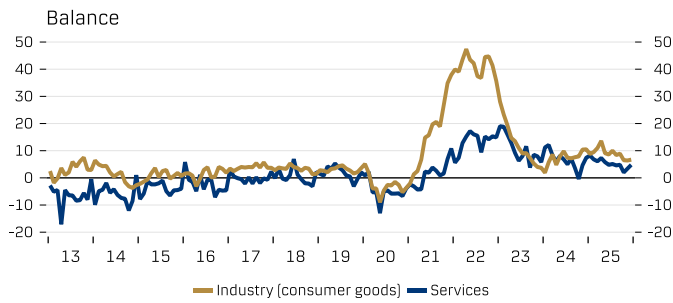
Source: S&P Global, Eurostat, Macrobond Financial

## Italy: Unemployment and wage growth



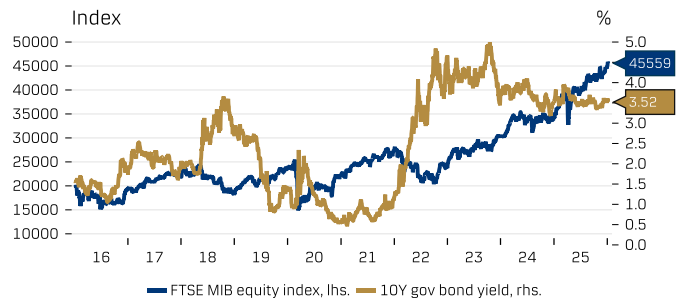
Source: ECB, Eurostat, Istat, Macrobond Financial, Danske Bank

### Italy: Price expectations



Source: EU Commission, Macrobond Financial, Danske Bank

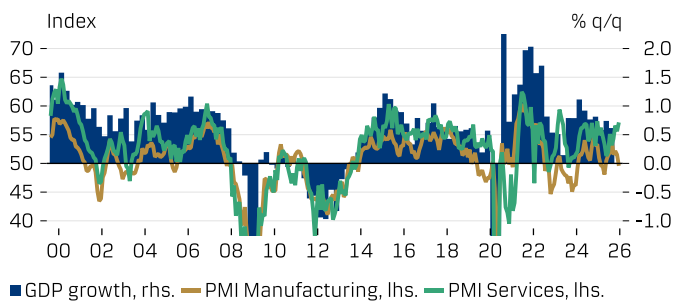
### Italy: Financial markets



Source: FTSE, Macrobond Financial, Danske Bank

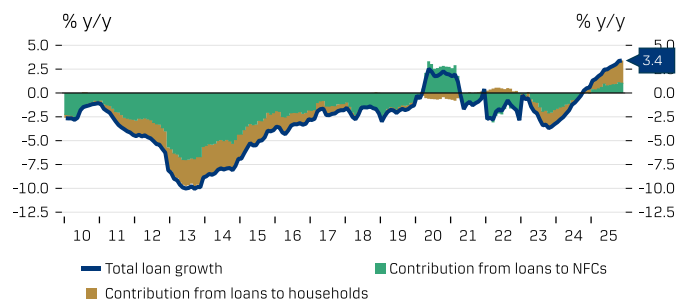
## Spain

### Spain: PMI and GDP growth



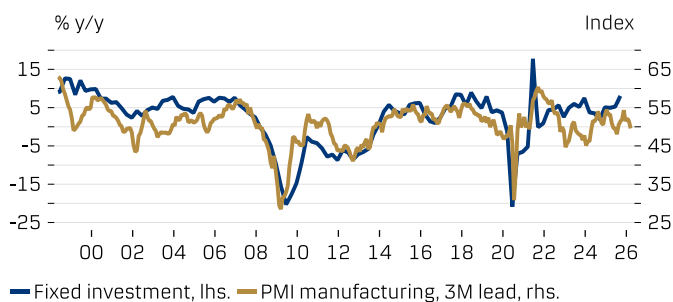
Source: S&P Global, Eurostat, Macrobond Financial

### Spain: Credit growth



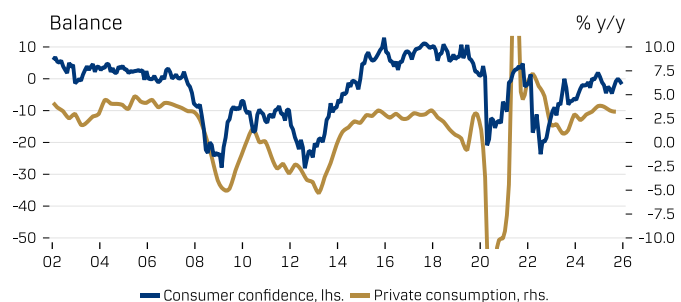
Source: ECB, Macrobond Financial, Danske Bank

### Spain: Manufacturing sentiment and investments



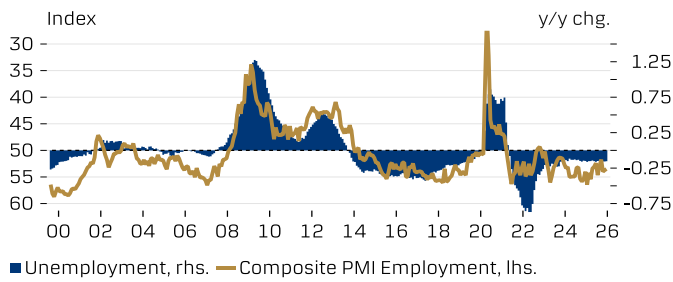
Source: S&P Global, Eurostat, Macrobond Financial

### Spain: Consumer confidence and private consumption



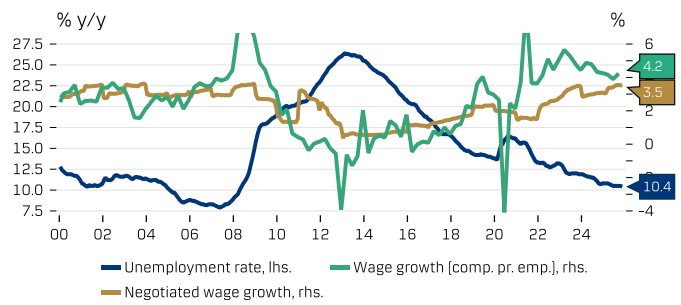
Source: European Commission, Eurostat, Macrobond Financial

### Spain: Unemployment and PMI



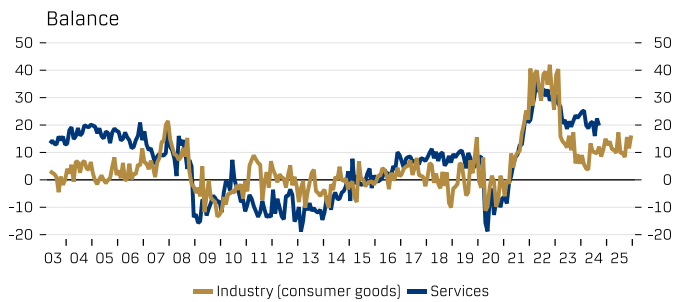
Source: S&P Global, Eurostat, Macrobond Financial

### Spain: Unemployment and wage growth



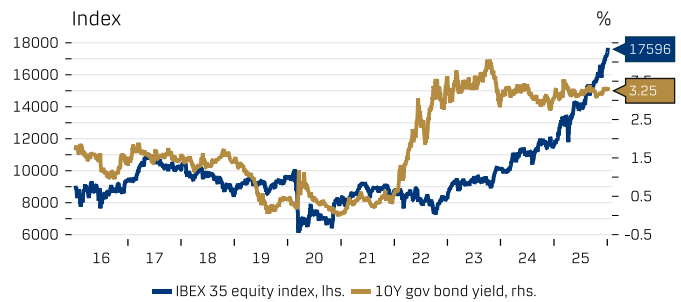
Source: ECB, Eurostat, Ministry of Labor and Social Economy, Macrobond Financial, Danske Bank

### Spain: Price expectations



Source: EU Commission, Macrobond Financial, Danske Bank

### Spain: Financial markets



Source: Madrid Stock Exchange, Macrobond Financial, Danske Bank



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