

06 February 2024

Euro Area Macro Monitor

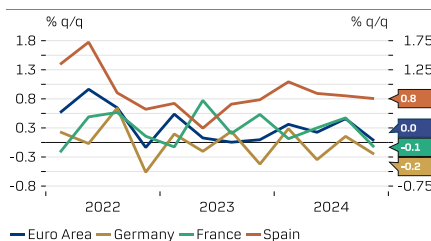
PMI rebounds amid trade uncertainty

- **The final quarter of 2024 concluded on a bleak note for the euro area, with GDP growth at 0.0% q/q, which resulted in full-year growth of 0.7% y/y.** The final quarter reflects the recurring pattern of 2024: Germany performed poorly experiencing a 0.2% q/q contraction both in Q4 and for the full-year growth. France also contracted in Q4 by 0.1% q/q, but this was partly due to the backlash from the Olympics, which had boosted growth in Q3. In contrast, Spain continued to shine with a 0.8% q/q increase in Q4, achieving an overall GDP growth of 3.2% in 2024.
- While the final quarter of last year was bleak, this year started more positively with **the euro area's composite PMI surprising on the upside, rising to 50.2 due to a larger-than-expected increase in manufacturing.** The surprise was due to Germany's manufacturing PMI which rose to 45.0 from 42.5, still negative but suggesting slight improvement despite ongoing struggles. This pushed German composite PMI back in growth territory at 50.5, as **firms expressed optimism about the outlook, hoping for a post-election economic boost and benefits from lower interest rates.** The positive start of the year supports our expectation for a pickup in growth to 0.9% y/y in 2025 due to rising real incomes and falling interest rates.
- **Euro area inflation rose to 2.5% y/y (0.3% m/m s.a.) in January**, slightly above expectations, and up from 2.4% in December, driven by sharply higher energy costs. Core inflation remained stable at 2.7%, with services inflation persistently high at 3.9% y/y. The monthly price increase in services inflation was around 0.30% m/m s.a., so slightly to the high side. However, as many services prices are only adjusted in January, January's data offers modest relief to the ECB, as the ongoing softer momentum in underlying inflation continued. The figures align with ECB President Lagarde's view that inflation may fluctuate due to energy prices while slowing toward the 2% target as underlying inflation continues to ease.
- Speaking of Lagarde, **the ECB meeting in January was exactly as expected with a 25 bp rate cut and no new policy signals.** See *Flash: ECB Review - A 25bp rate cut - looking towards the spring*, 30 January. We expect another rate cut in March and a total of six this year, bringing the terminal rate to 1.50%, as concerns about sluggish economic growth outweigh worries about persistent inflation.
- **Trade policy from the US administration has attracted significant attention also in Europe**, as Trump has stated he "absolutely" wants to impose tariffs on the EU. However, since Trump quickly paused the announced tariffs on Canada and Mexico, the outcome for Europe remains uncertain. The euro has depreciated significantly against the dollar in recent months, and the US needs imports with or without tariffs since its economy is operating at potential. Therefore, we anticipate a limited short-term growth impact in the euro area on the back of US tariffs on European goods. Yet, the risks are clearly tilted toward a more negative effect as tensions could escalate. The EU Commission has declared its readiness to respond swiftly if Trump imposes tariffs on the EU. We expect that EU counter-tariffs would have a relatively small impact on prices in Europe, estimating that a 10-percentage point increase in US goods tariffs would lead to a one-off inflation increase of 0.2 percentage points.

Key views

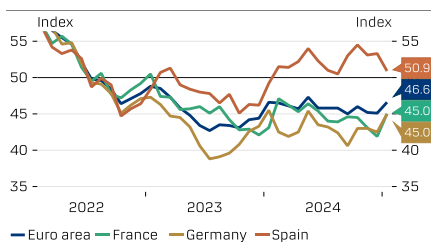
- Headline and core inflation to average 2% in 2025
- Near-term growth outlook weak
- We expect six 25bp rate cuts from the ECB in 2025

Euro area growth halts as Germany contracts further



Source: Eurostat, Macrobond Financial

Manufacturing PMI shows signs of improvement



Source: S&P Global, Macrobond Financial

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Euro area data overview

Financial variables were little changed at a 0.1 increase, primarily attributed to EuroStoxx50 and the Euro Surprise index increasing. The economic variables stayed put at -0.4, with the European sentiment indicator and unemployment improving, while capacity utilisation and consumer credit growth declined.

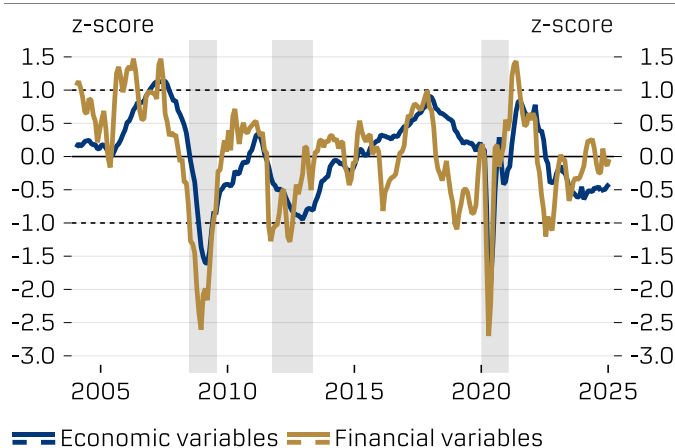
Euro area data monitor

	January	December	November
PMI Composite	50.2	49.6	48.3
PMI Manufacturing	46.6	45.1	45.2
PMI Services	51.3	51.6	49.5
German Ifo	85.1	84.7	85.6
HICP	1.9	2.8	2.1
HICP core	2.0	3.7	2.3
HICP Services	3.0	4.1	3.2
Unemployment rate	n/a	6.3	6.2
Germany 10Y yield	2.5	2.2	2.3
Oil price	77.8	73.1	73.1

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

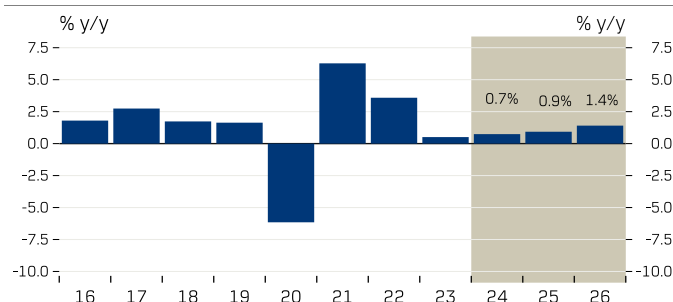
Monthly development in data tracker

	January 2025	January 2024	Monthly change
Economic variables	-0,4	-0,4	0,02
OECD CLI	0,3	0,3	0,00
EuroCOIN	0,3	0,3	0,00
Unemployment	0,2	0,1	0,16
Profit growth	0,0	0,0	0,00
ZEW	-0,2	-0,3	0,06
Consumer confidence	-0,3	-0,4	0,06
Composite PMI	-0,4	-0,5	0,12
European sentiment indicator	-0,4	-0,6	0,15
PMI order-inventory balance	-0,7	-0,8	0,13
Capacity utilisation	-0,8	-0,4	-0,36
Credit growth	-0,9	-0,8	-0,16
Real M1 growth	-2,1	-2,2	0,14
Financial variables	0,0	-0,1	0,10
Eurostoxx50	0,5	0,3	0,23
Corporate vs. Gov. Bond yield	0,4	0,4	0,01
Euro Surprise index	-0,1	-0,3	0,17
Sentix	-1,0	-1,0	-0,01

Source: Macrobond Financial, Danske Bank

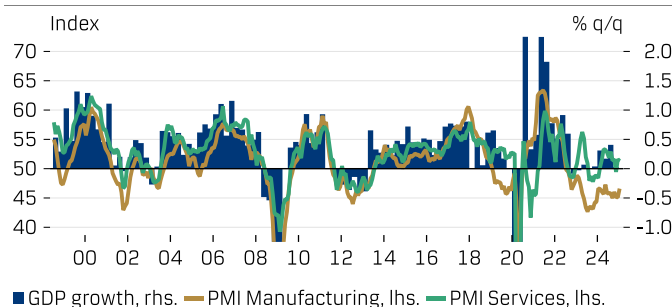
Euro area

GDP growth forecasts



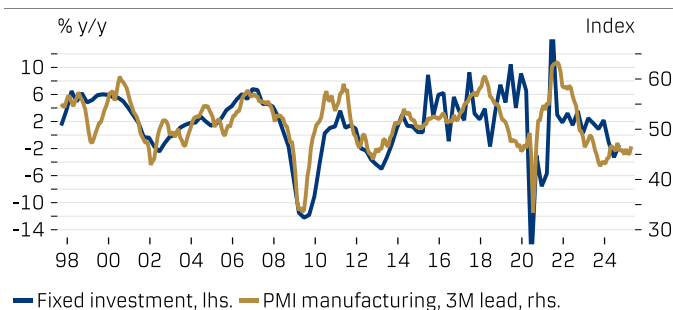
Source: Macrobond Financial, Danske Bank forecasts

PMI and GDP growth



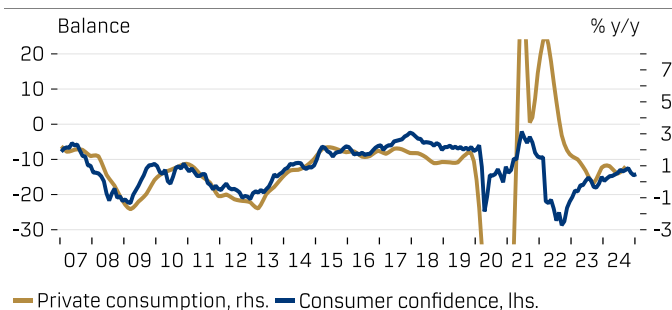
Source: Macrobond Financial, Danske Bank

Manufacturing sentiment and investments



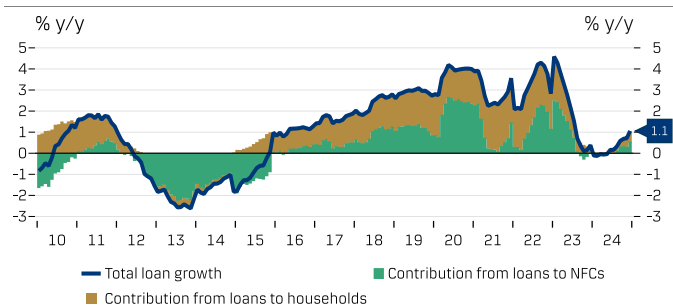
Source: S&P Global, Eurostat, Macrobond Financial

Consumer confidence and private consumption



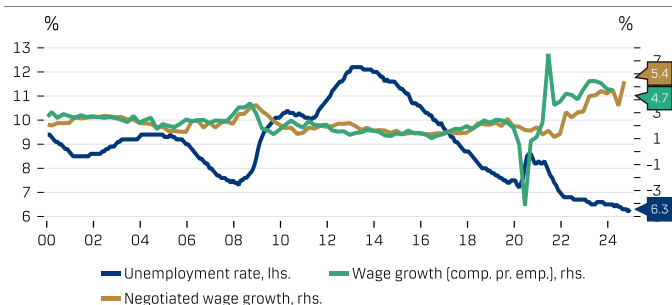
Source: Eurostat, European Commission, Macrobond Financial

Credit growth



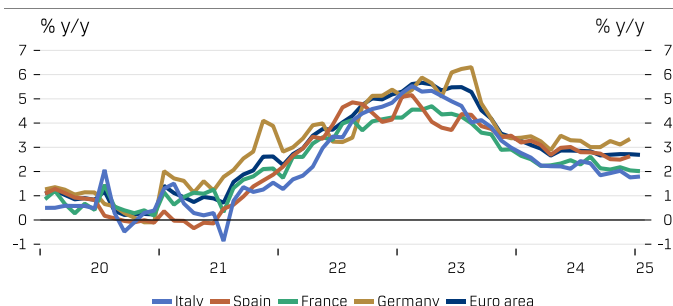
Source: ECB, Macrobond Financial, Danske Bank

Unemployment and wage growth



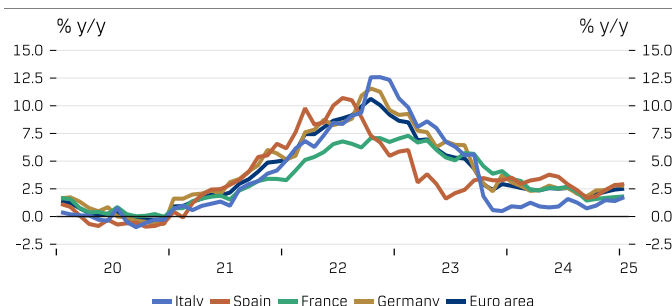
Source: ECB, Eurostat, Macrobond Financial

Core inflation



Source: Eurostat, Macrobond Financial

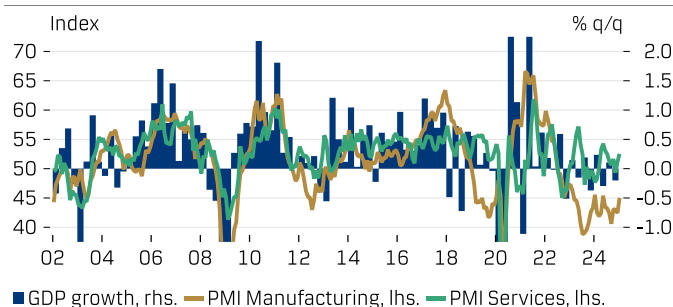
HICP inflation



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

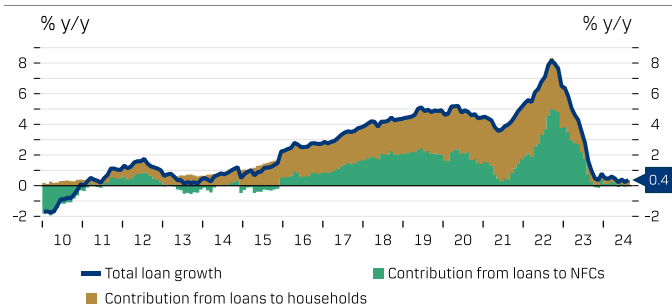
Germany

PMI and GDP growth



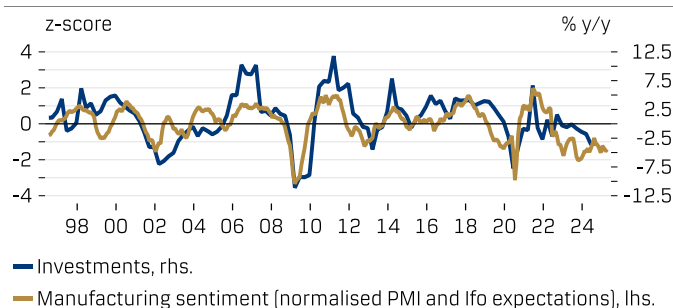
Source: S&P Global, Eurostat, Macrobond Financial

Credit growth



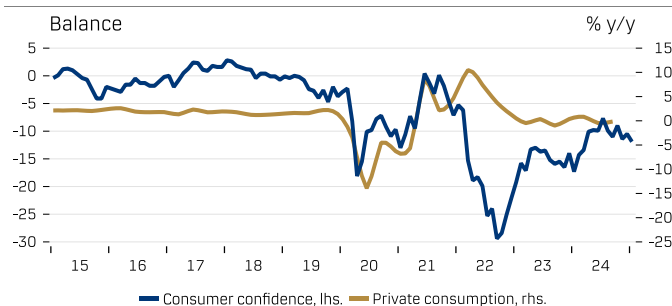
Source: Deutsche Bundesbank, Eurostat, Macrobond Financial, Danske Bank

Manufacturing sentiment and investments



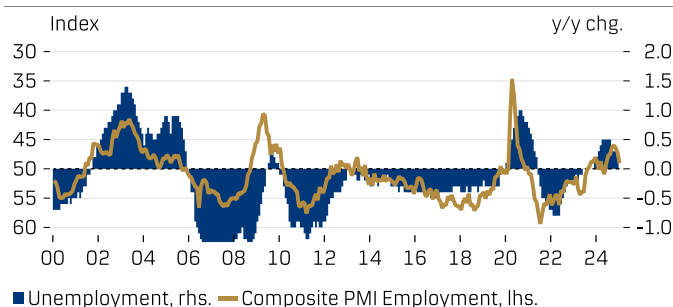
Source: S&P Global, Eurostat, Macrobond Financial

Consumer confidence and private consumption



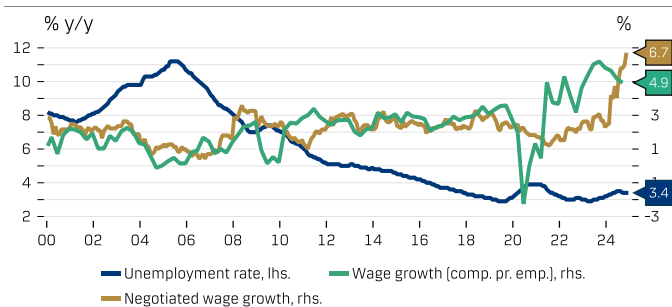
Source: European Commission, Eurostat, Macrobond Financial

Unemployment and PMI



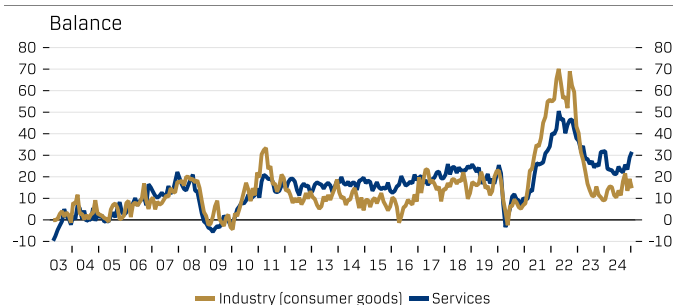
Source: S&P Global, Eurostat, Macrobond Financial

Unemployment and wage growth



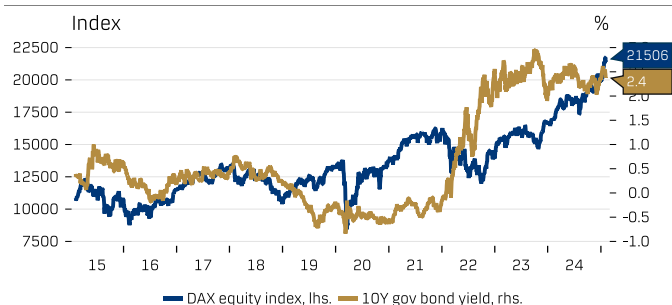
Source: ECB, Eurostat, Deutsche Bundesbank, Macrobond Financial

Selling price expectations



Source: EU Commission, Macrobond Financial, Danske Bank

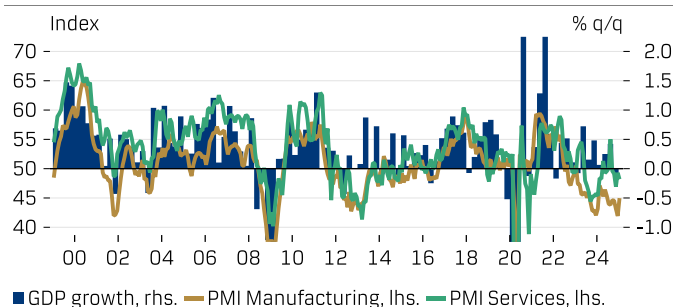
Financial markets



Source: Deutsche Boerse, Macrobond Financial, Danske Bank

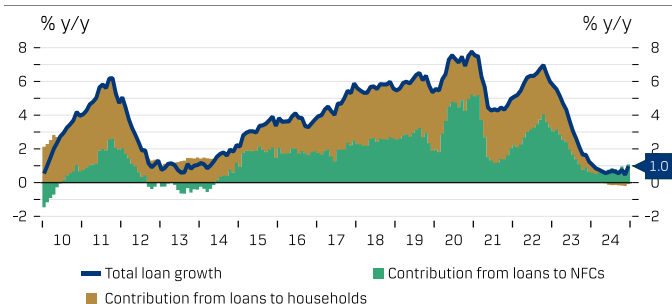
France

PMI and GDP growth



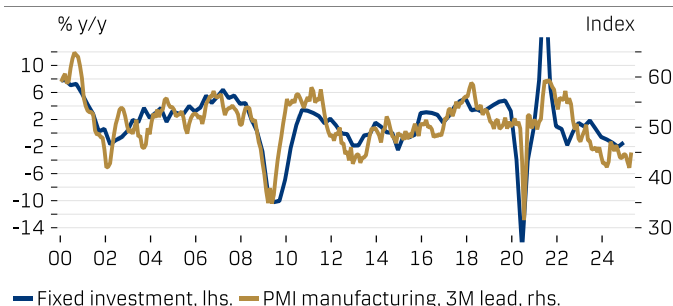
Source: S&P Global, Eurostat, Macrobond Financial

Credit growth



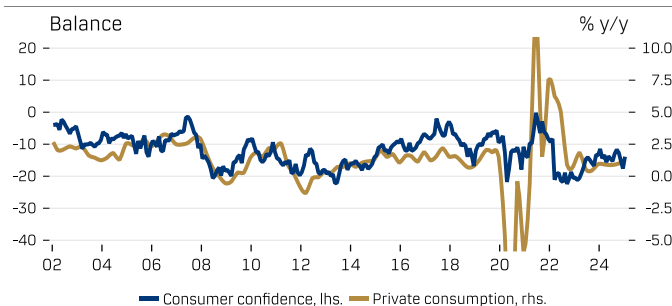
Source: ECB, Macrobond Financial, Danske Bank

Manufacturing sentiment and investments



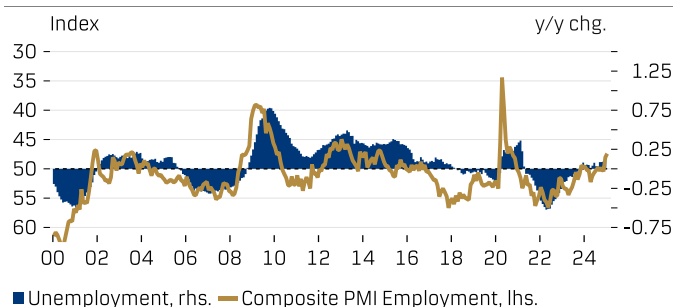
Source: S&P Global, Eurostat, Macrobond Financial

Consumer confidence and private consumption



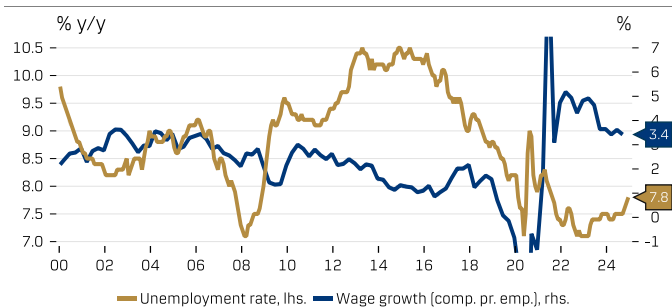
Source: European Commission, Eurostat, Macrobond Financial

Unemployment and PMI



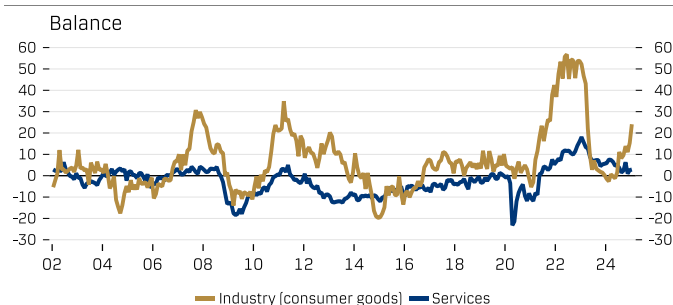
Source: S&P Global, Eurostat, Macrobond Financial

Unemployment and wage growth



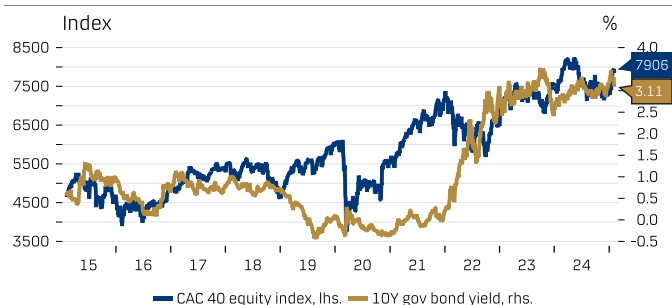
Source: ECB, Eurostat, Macrobond Financial, Danske Bank

Selling price expectations



Source: EU Commission, Macrobond Financial, Danske Bank

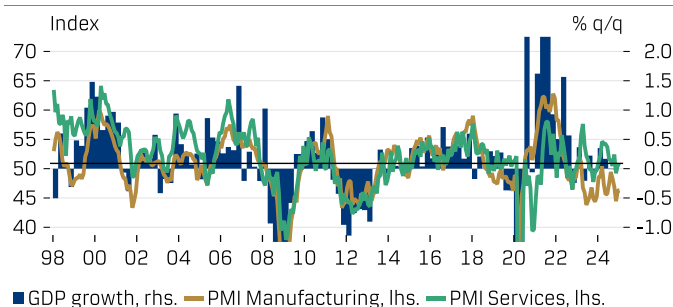
Financial markets



Source: Euronext, Macrobond Financial, Danske Bank

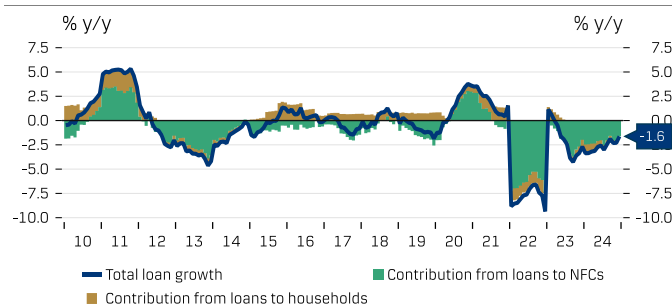
Italy

PMI and GDP growth



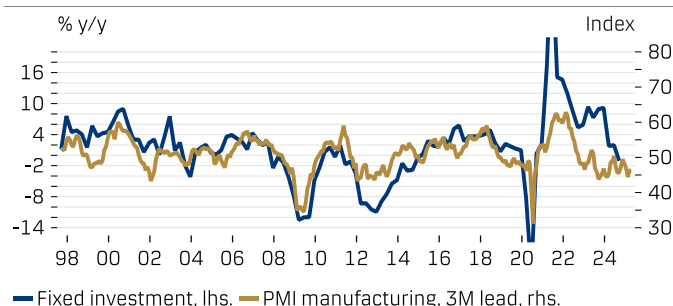
Source: S&P Global, Eurostat, Macrobond Financial

Credit growth



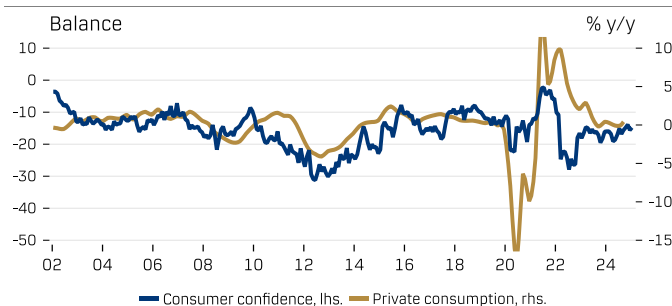
Source: ECB, Macrobond Financial, Danske Bank

Manufacturing sentiment and investments



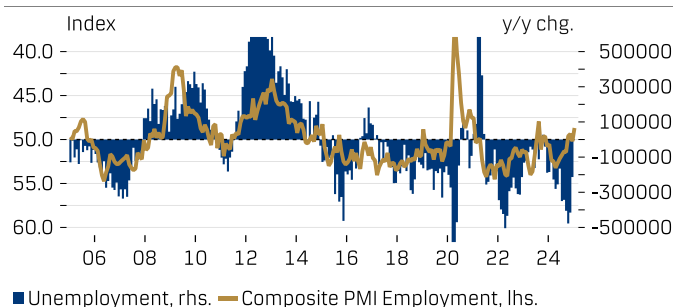
Source: S&P Global, Eurostat, Macrobond Financial

Consumer confidence and private consumption



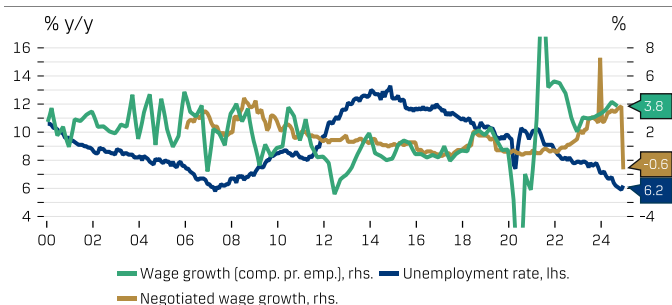
Source: European Commission, Eurostat, Macrobond Financial, Danske Bank

Unemployment and PMI



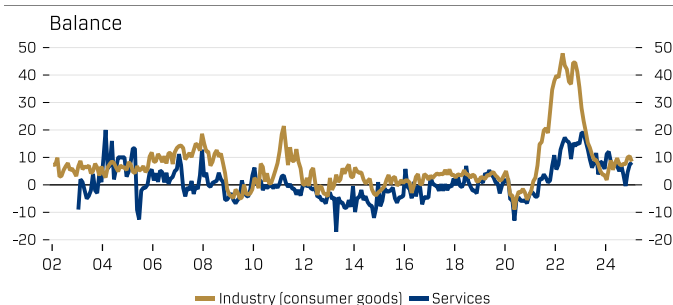
Source: S&P Global, Eurostat, Macrobond Financial

Unemployment and wage growth



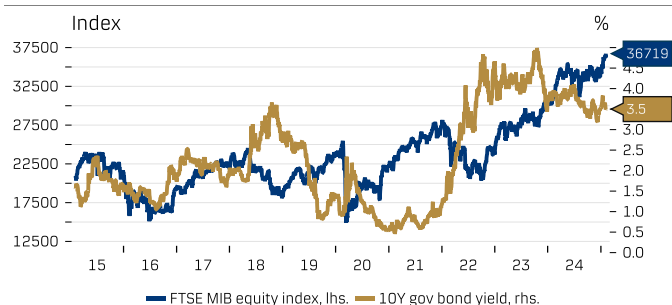
Source: ECB, Eurostat, Istat, Macrobond Financial, Danske Bank

Price expectations



Source: EU Commission, Macrobond Financial, Danske Bank

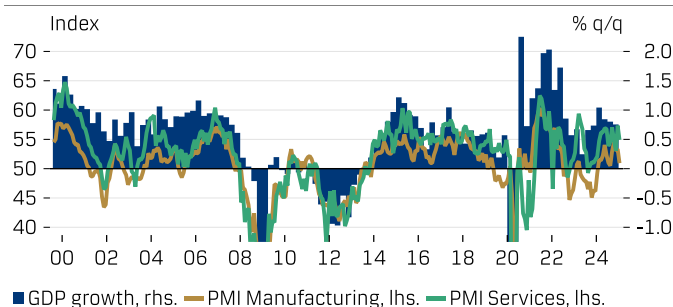
Financial markets



Source: FTSE, Macrobond Financial, Danske Bank

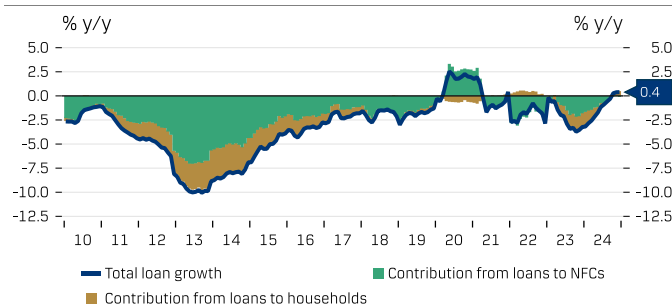
Spain

PMI and GDP growth



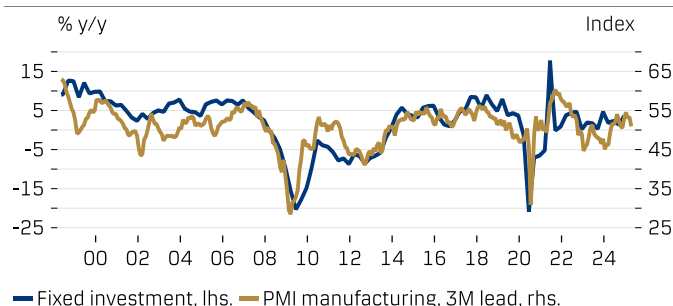
Source: S&P Global, Eurostat, Macrobond Financial

Credit growth



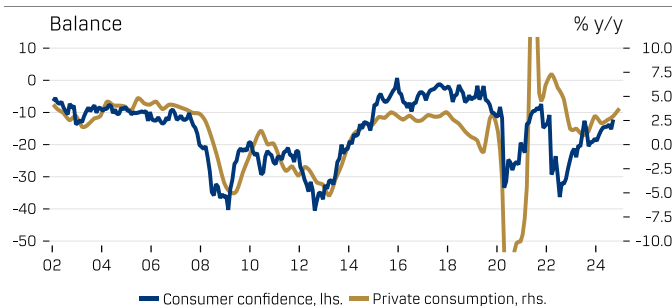
Source: ECB, Macrobond Financial, Danske Bank

Manufacturing sentiment and investments



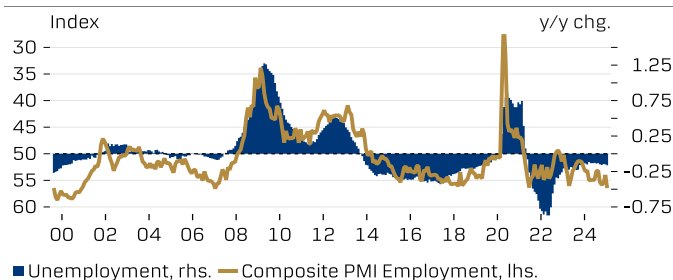
Source: S&P Global, Eurostat, Macrobond Financial

Consumer confidence and private consumption



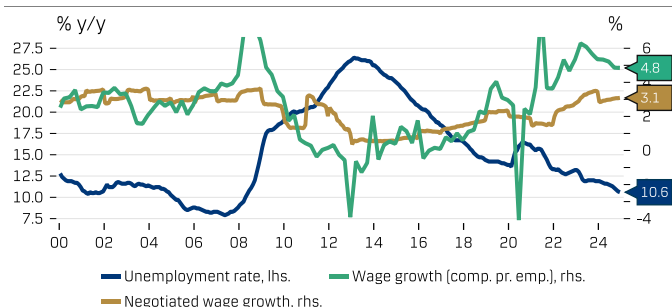
Source: European Commission, Eurostat, Macrobond Financial

Unemployment and PMI



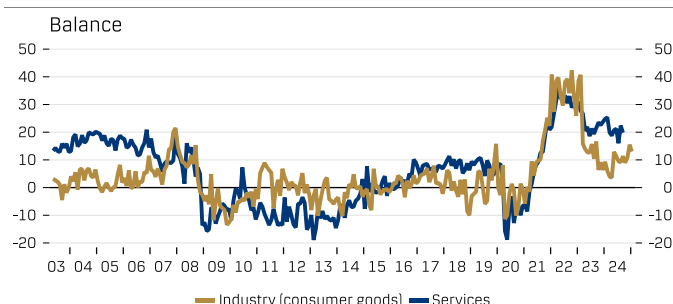
Source: S&P Global, Eurostat, Macrobond Financial

Unemployment and wage growth



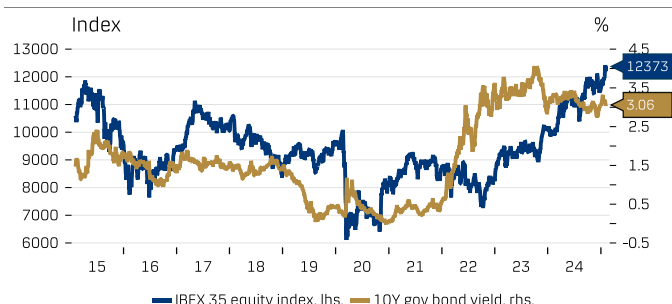
Source: ECB, Eurostat, Ministry of Labor and Social Economy, Macrobond Financial, Danske Bank

Price expectations



Source: EU Commission, 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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