

6 October 2025

Euro Area Macro Monitor

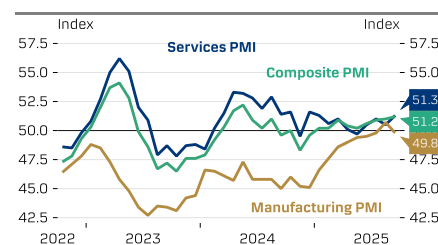
PMIs point to stronger Q3 growth

- Economic activity in the euro area continues to grow slowly, amid mixed signals from the manufacturing and services sector. The euro area September PMI data presented a mixed picture, with manufacturing declining to 49.8 from 50.6 while services rose to 51.3 from 50.5. **Manufacturing, which had been strong since early 2025, is now slowing, partly due to the reversal of front-loading effects to the US observed in the first half of the year.** However, the positive development in the service sector suggests that domestic demand remains resilient. Notably, Germany recorded a modest increase, while Spain and Italy also recording rising services PMIs in September, reflecting a broader support for the growth in services. **We forecast euro area GDP growth at 0.1% q/q in both Q3 and Q4, but the September PMIs suggest growth might even be a bit stronger in Q3.**
- Inflation in the euro area increased to 2.2% y/y in September, up from 2.0% y/y. **The increase was expected as base effects on energy prices drove up energy inflation in September, which is visible as core inflation held steady at 2.3% y/y.** Given the base effects on annual data, attention shifted to the monthly momentum in underlying inflation, where core inflation rose 0.2% m/m (s.a.), consistent with pace the past two months. This indicates a continuation of recent inflation developments and should thus not have changed the view of inflation in the ECB. **We expect euro area inflation to average 2.1% in Q4 before falling below target, averaging 1.8% y/y in 2026.**
- As expected, the ECB kept the policy rate unchanged at 2.00% at September's meeting. Focus was on the new staff projections, which lowered the 2027 core inflation forecast to 1.8% y/y (from 1.9%) and headline inflation to 1.9% y/y (from 2.0%), prompting an initially dovish market reaction. However, Lagarde downplayed these revisions as minor and attributed them to a stronger euro, adopting a hawkish tone at the press conference. Comments from other ECB members have also downplayed the undershooting of inflation. **Hence, the sentiment is still manifesting that the current rate is the appropriate and we would need to see a significant deterioration in the economic outlook at get an extra cut.** ECB focus on the growth outlook where private consumption is supported by rising real disposable incomes, lower inflation, and higher wages, along with improved household financials due to lower interest expenses. Especially the outlook for fiscal easing from Germany and rising defence spending continues to prompt a reluctance to further rate cuts.
- In September, the Draghi report on European Competitiveness celebrated its one year anniversary, but in our view, there is not much to celebrate. We published a deep dive in which we argue that only 20% of Draghi's investment target will be reached, see *Deep Dive Euro Area: European investments to rise by 1 percent of GDP*, 12 September. However, there are encouraging signs; **On 1 October, 28 of Europe's largest companies pledged to increase their investment levels in Europe by 50% by 2030. This commitment, however, is contingent on EU politicians delivering the necessary deregulations to boost Europe's competitiveness and innovation.** For further details, see *The Copenhagen Pledge*, 1 October.

Key views

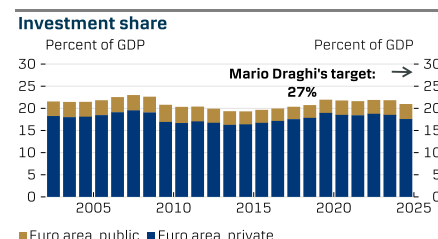
- Headline and core inflation to average close to 2% in 2025 and below in 2026
- Recovery to continue in the economy
- We expect no further rate cuts from the ECB in 2025 and 2026

We expect manufacturing to experience slowing growth in H2



Source: S&P Global, Macrobond

Private investments are the most important to raise



Source: Eurostat, OECD, Macrobond

Assistant Analyst

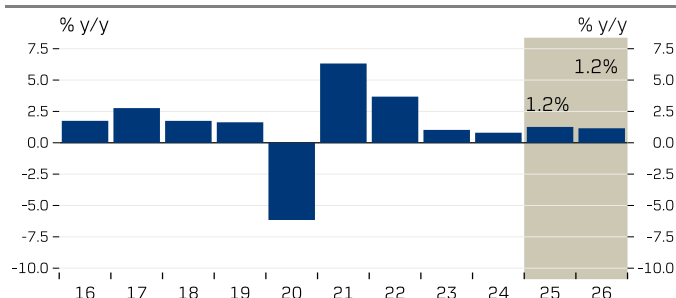
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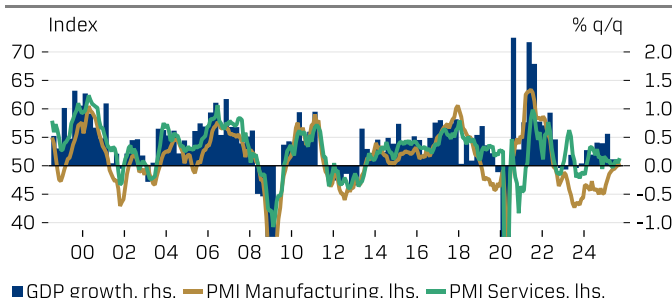
Euro area

GDP growth forecasts



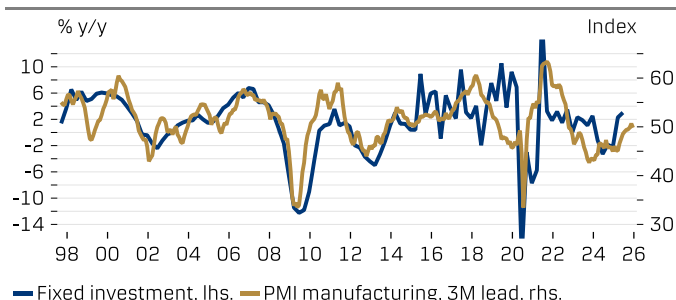
Source: Macrobond Financial, Danske Bank forecasts

PMI and GDP growth



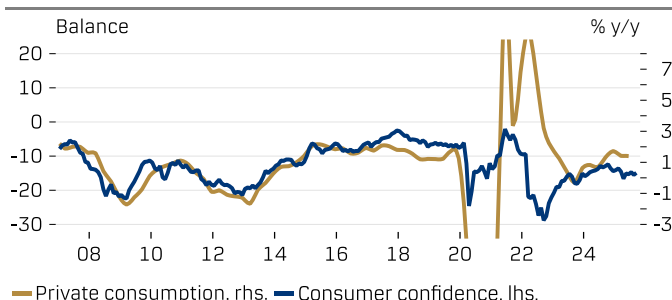
Source: Macrobond Financial, Danske Bank

Manufacturing sentiment and investments



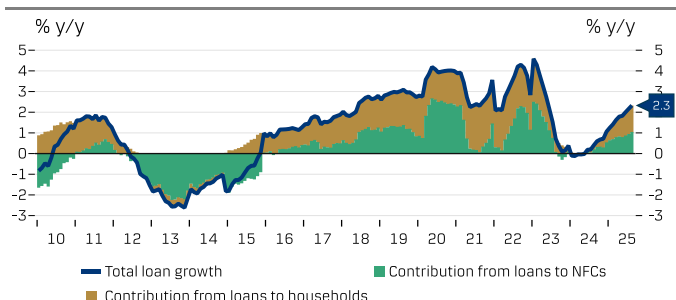
Source: S&P Global, Eurostat, Macrobond Financial

Consumer confidence and private consumption



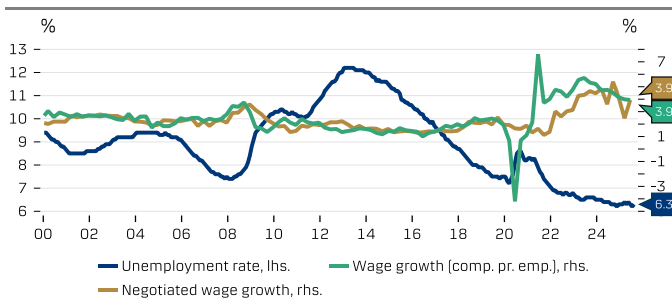
Source: Eurostat, European Commission, Macrobond Financial

Credit growth



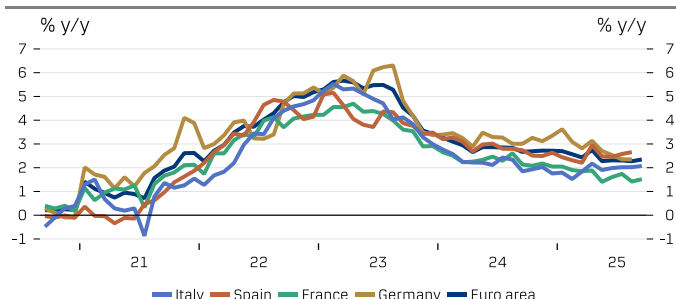
Source: ECB, Macrobond Financial, Danske Bank

Unemployment and wage growth



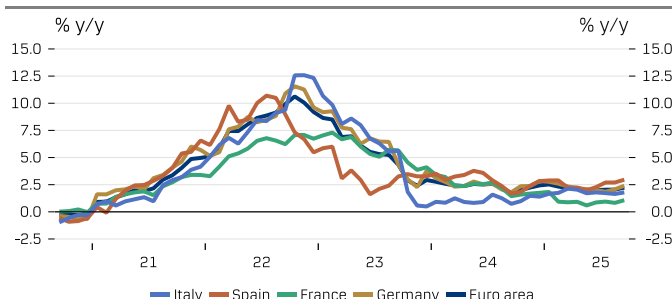
Source: ECB, Eurostat, Macrobond Financial

Core inflation



Source: Eurostat, Macrobond Financial

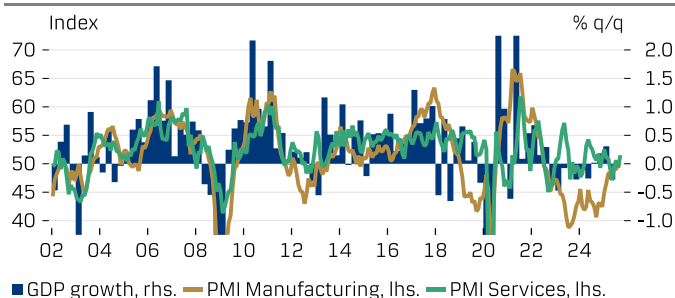
HICP inflation



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

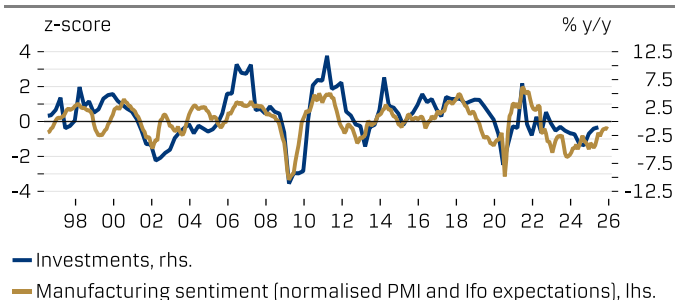
Germany

PMI and GDP growth



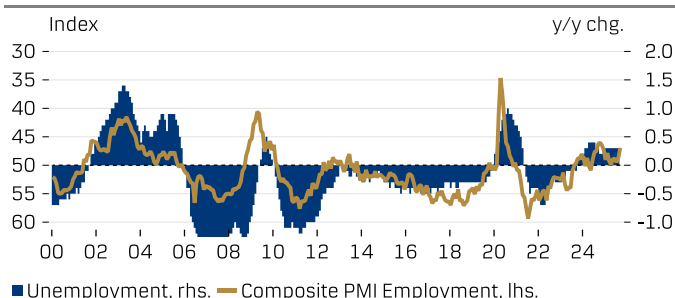
Source: S&P Global, Eurostat, Macrobond Financial

Manufacturing sentiment and investments



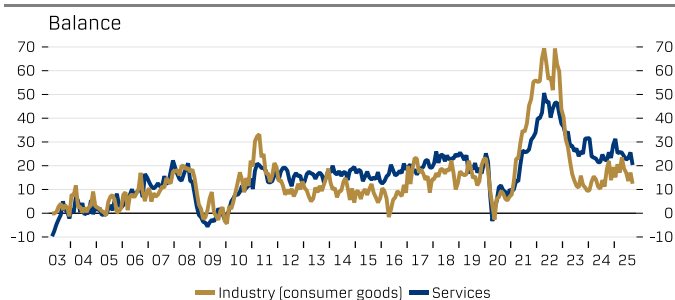
Source: S&P Global, Eurostat, Macrobond Financial

Unemployment and PMI



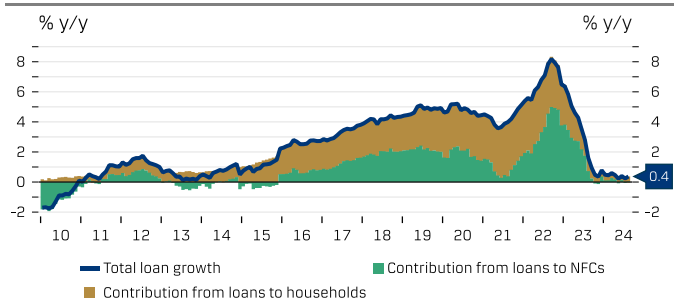
Source: S&P Global, Eurostat, Macrobond Financial

Selling price expectations



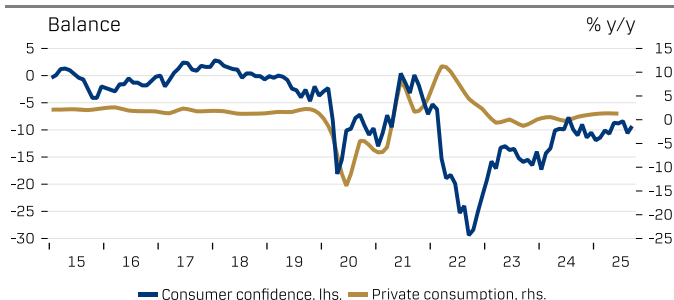
Source: EU Commission, Macrobond Financial, Danske Bank

Credit growth



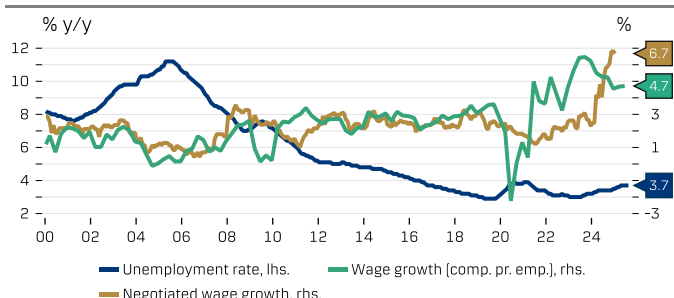
Source: Deutsche Bundesbank, Eurostat, Macrobond Financial, Danske Bank

Consumer confidence and private consumption



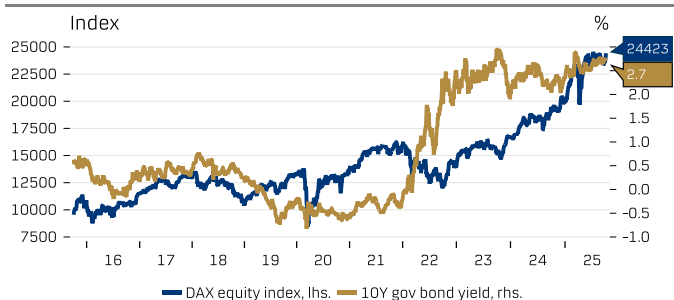
Source: European Commission, Eurostat, Macrobond Financial

Unemployment and wage growth



Source: ECB, Eurostat, Deutsche Bundesbank, Macrobond Financial

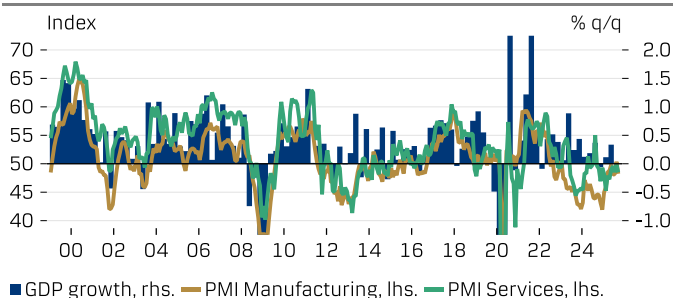
Financial markets



Source: Deutsche Boerse, Macrobond Financial, Danske Bank

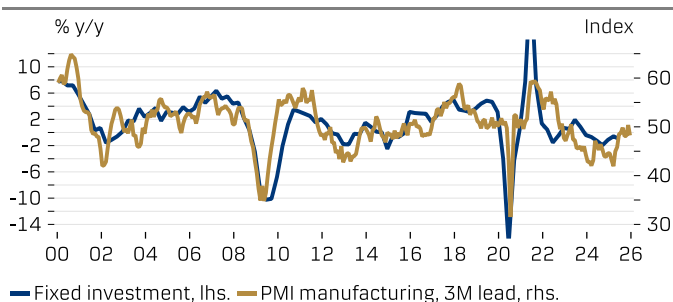
France

PMI and GDP growth



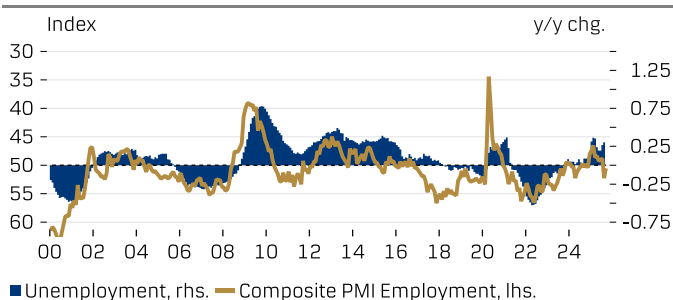
Source: S&P Global, Eurostat, Macrobond Financial

Manufacturing sentiment and investments



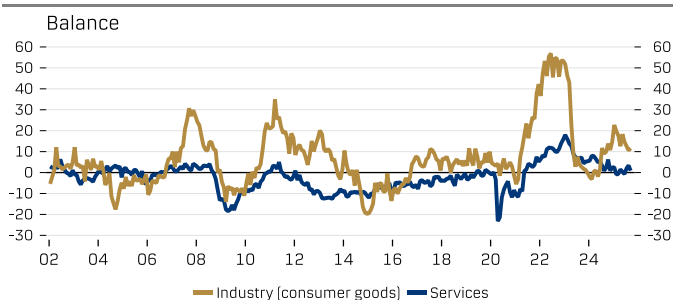
Source: S&P Global, Eurostat, Macrobond Financial

Unemployment and PMI



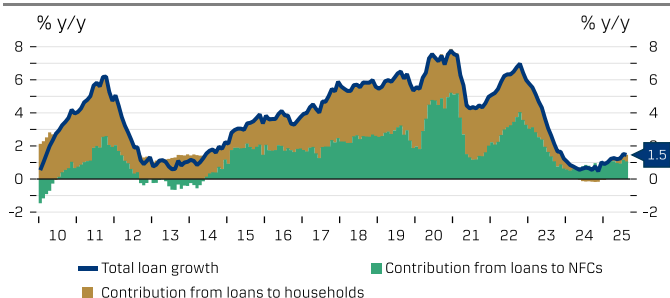
Source: S&P Global, Eurostat, Macrobond Financial

Selling price expectations



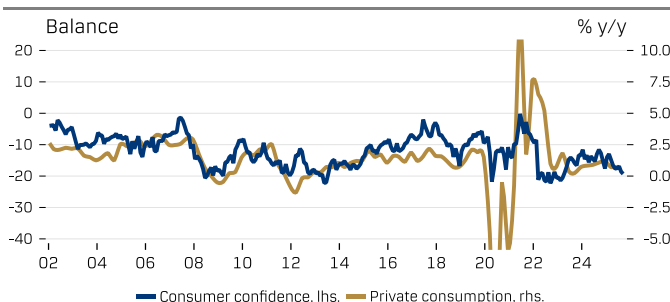
Source: EU Commission, Macrobond Financial, Danske Bank

Credit growth



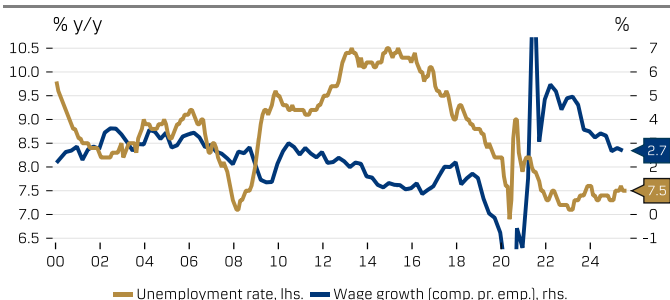
Source: ECB, Macrobond Financial, Danske Bank

Consumer confidence and private consumption



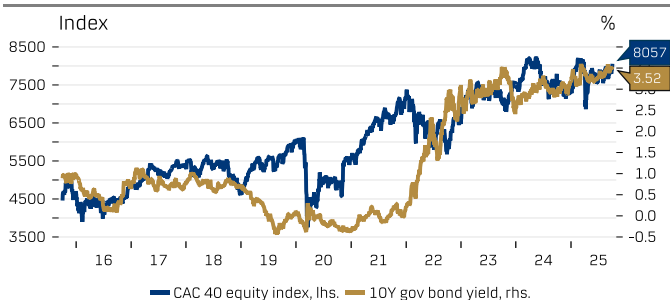
Source: European Commission, Eurostat, Macrobond Financial

Unemployment and wage growth



Source: ECB, Eurostat, Macrobond Financial, Danske Bank

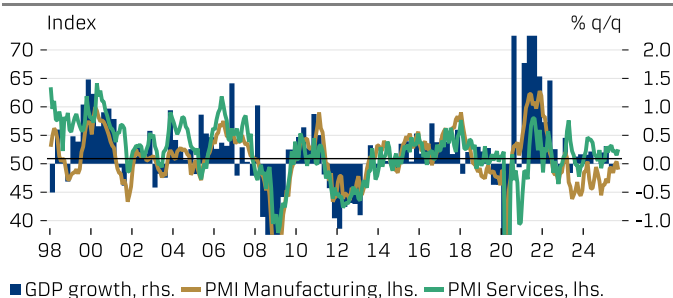
Financial markets



Source: Euronext, Macrobond Financial, Danske Bank

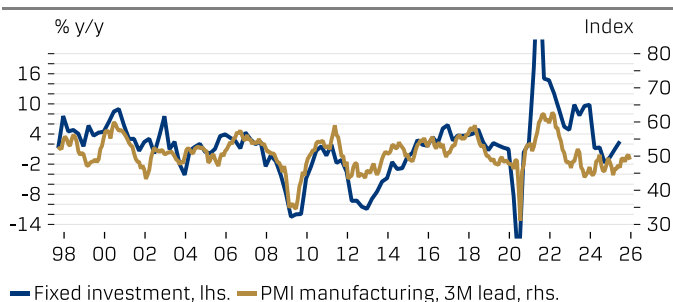
Italy

PMI and GDP growth



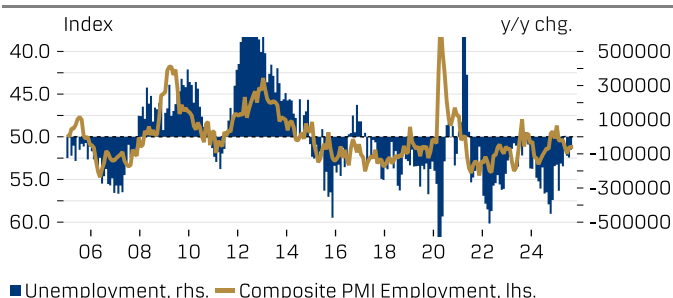
Source: S&P Global, Eurostat, Macrobond Financial

Manufacturing sentiment and investments



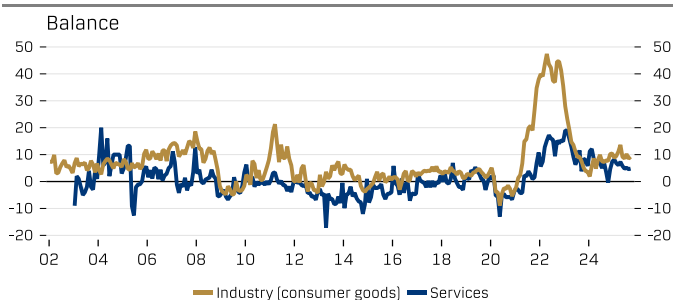
Source: S&P Global, Eurostat, Macrobond Financial

Unemployment and PMI



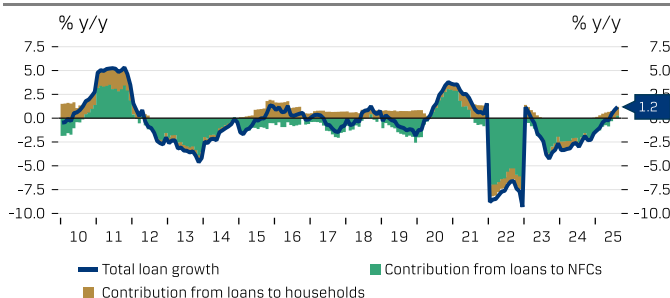
Source: S&P Global, Eurostat, Macrobond Financial

Price expectations



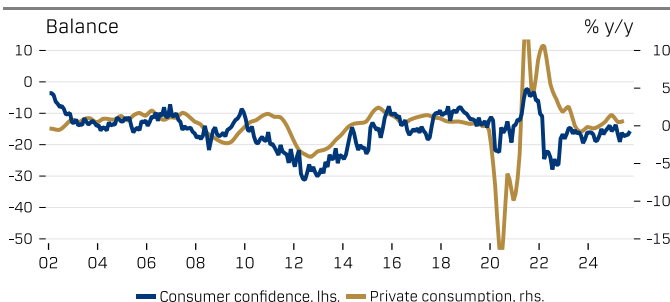
Source: EU Commission, Macrobond Financial, Danske Bank

Credit growth



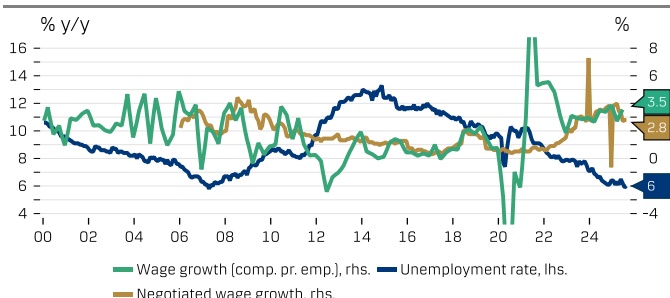
Source: ECB, Macrobond Financial, Danske Bank

Consumer confidence and private consumption



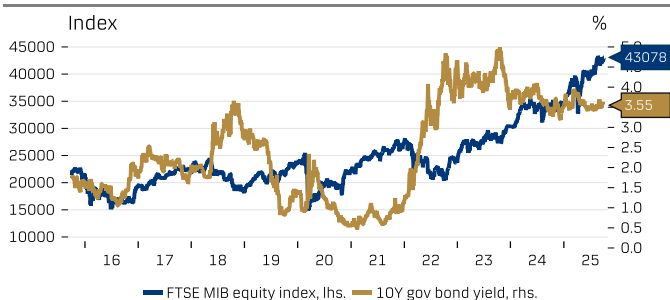
Source: European Commission, Eurostat, Macrobond Financial, Danske Bank

Unemployment and wage growth



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

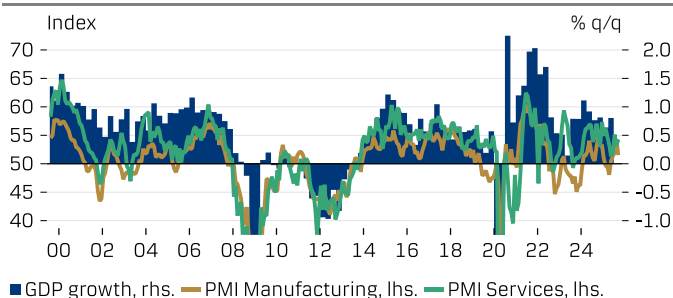
Financial markets



Source: FTSE, Macrobond Financial, Danske Bank

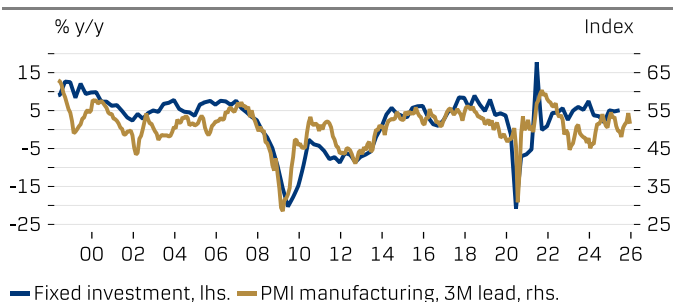
Spain

PMI and GDP growth



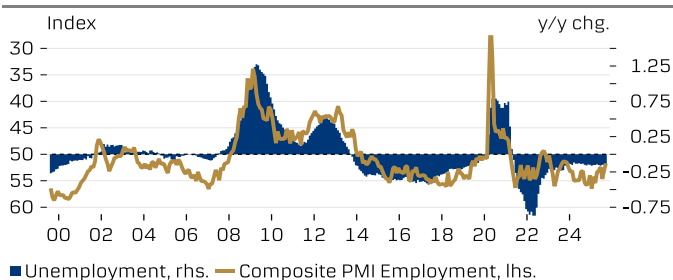
Source: S&P Global, Eurostat, Macrobond Financial

Manufacturing sentiment and investments



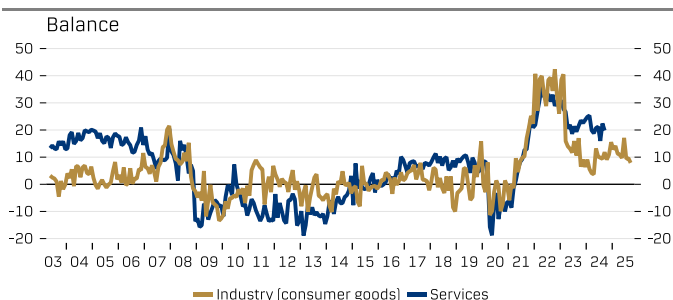
Source: S&P Global, Eurostat, Macrobond Financial

Unemployment and PMI



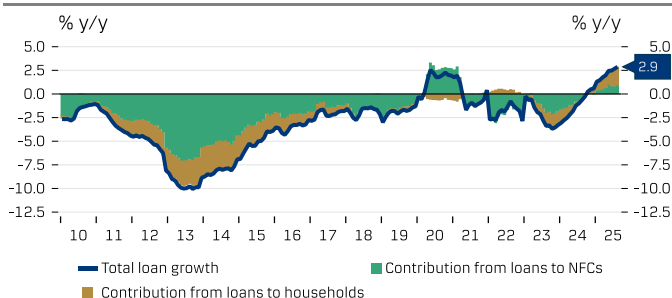
Source: S&P Global, Eurostat, Macrobond Financial

Price expectations



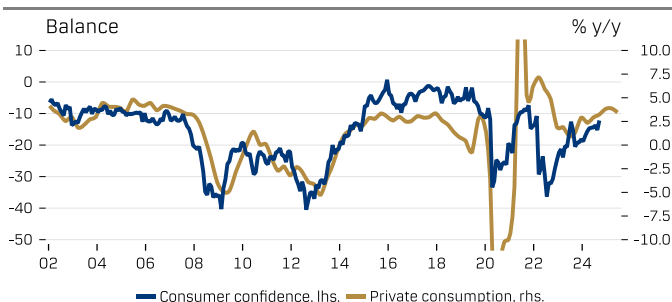
Source: EU Commission, Macrobond Financial, Danske Bank

Credit growth



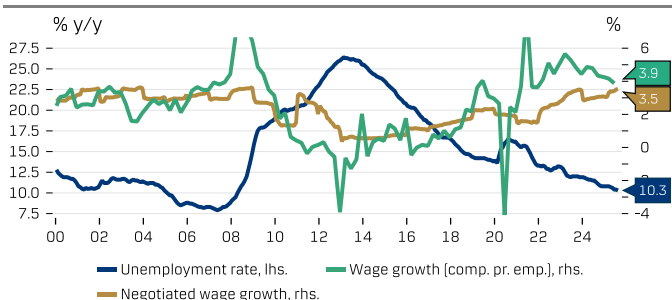
Source: ECB, Macrobond Financial, Danske Bank

Consumer confidence and private consumption



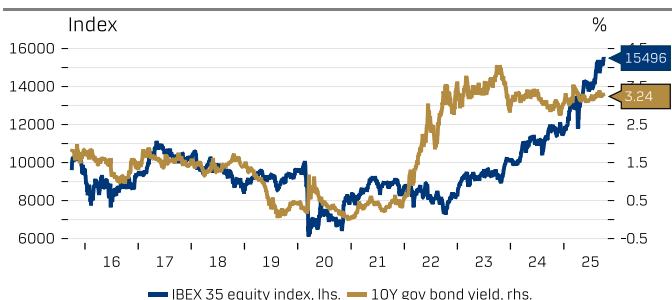
Source: European Commission, Eurostat, Macrobond Financial

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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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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Report completed: 3 October 2025, 14:45 CET

Report first disseminated: 6 October 2025, 06:00 CET