

Euro Area Macro Monitor

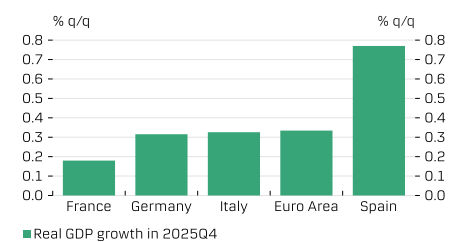
Strong growth, weak inflation

- **The final quarter of 2025 concluded on a strong note, with GDP growth at 0.3% q/q, exceeding ECB staff projections of 0.2%. The growth surprise was driven by stronger-than-expected performance in Germany, Spain, and Italy, while France grew as anticipated, albeit modestly. Private consumption played a key role in driving Q4 growth, which was broad-based across the eurozone. This supports the ECB's assessment that the economy is in a "good place."** However, as 2026 begins, more recent indicators suggest mixed signals for the economy. The composite PMI declined slightly to 51.3 in January from 51.5 thereby still signalling a modest expansion. While the PMIs surprised to the downside, recent months have seen significant volatility. Although, the composite PMI remains stable overall, the downward trend in the service sector warrants close monitoring.
- Headline inflation in January fell to 1.7% y/y, below the ECB 2%-target, from 2.0% in December. This was largely driven by energy inflation, which declined sharply to -4.1% y/y from -2.1%, reflecting a significant base effect. **Services inflation surprised to the downside, with very low monthly price increases of around 0.1% m/m s.a., This was a slightly dovish signal as elevated services inflation had been a focal point for the ECB.** Beyond energy base effects, January's inflation print is affected by country-specific policy measures, such as Germany's VAT cut on restaurants and the Netherlands' VAT hike on accommodation. These factors make it difficult to draw firm conclusions from the January inflation print, but we do read it as a weak print due to services.
- **For the fifth consecutive meeting, the ECB left its key policy rate unchanged at 2.00%, aligning with expectations.** During the press conference, President Lagarde highlighted positive factors such as low unemployment (6.2% in Dec), solid private balance sheets, and increased public spending, which contributed to strong Q4 growth. She downplayed concerns about inflation undershooting and the strengthened euro. Despite headline inflation falling below the ECB's 2% target, there is a clear bias towards holding the deposit rate steady in our view. For details, see [ECB Review: Accentuate the positive](#), 5 February.
- **The EU and India have finalised a trade agreement 20 years in the making. The deal will eliminate tariffs on over 90% of goods traded between the regions within seven years.** The current simple average tariff rate on EU imports is 15%. In November, India accounted for just 1.5% of total euro area exports, far behind the US at 14.2%. While short-term economic changes are unlikely due to limited current exports, the long-term potential is significant. India is one of the world's fastest-growing economies, with a projected growth rate in GDP of around 6.5% y/y until 2030, making it a key emerging G20 economy. A major opportunity lies in India's expanding middle class, and for European automakers. Tariffs on cars will gradually drop from 110% to as low as 10%, while tariffs on car parts will be fully eliminated within five to ten years.

Today's key points

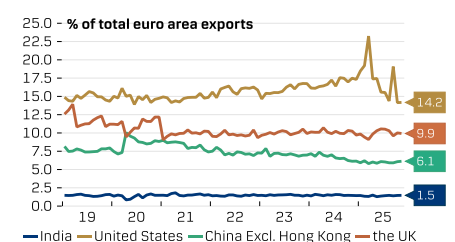
- Headline and core inflation to average below 2% in 2026 and 2027
- Decent growth to continue in 2026 and 2027
- ECB to keep the policy rate unchanged at 2.0% in 2026 and 2027

Broad-based growth in Q4



Source: Eurostat, Danske Bank, Macrobond

Euro area exports to its largest trading partners compared to India



Source: Eurostat, Danske Bank, Macrobond

Assistant Analyst

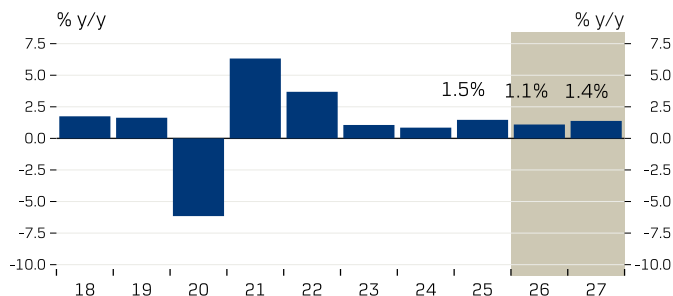
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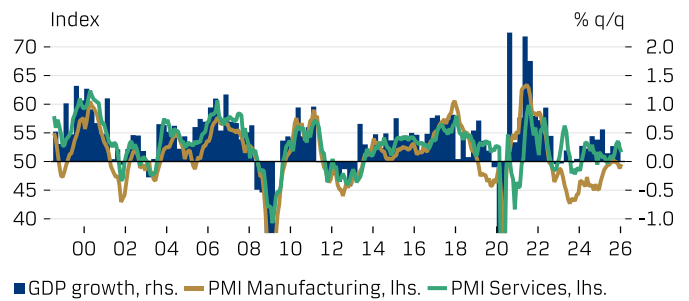
Euro area

Euro area: GDP growth forecast



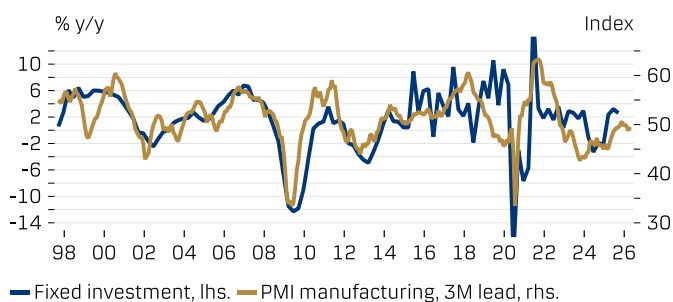
Source: Eurostat, Macrobond Financial, Danske Bank

Euro area: PMI and GDP growth



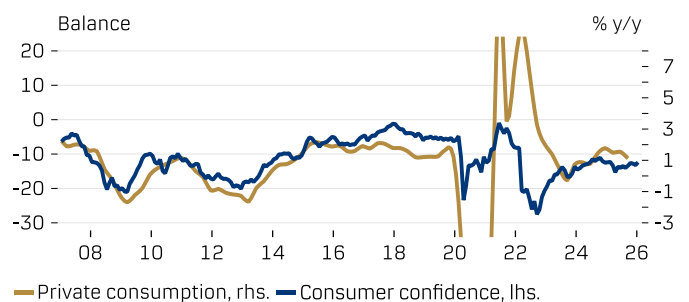
Source: Macrobond Financial, Danske Bank

Euro area: Manufacturing sentiment and investments



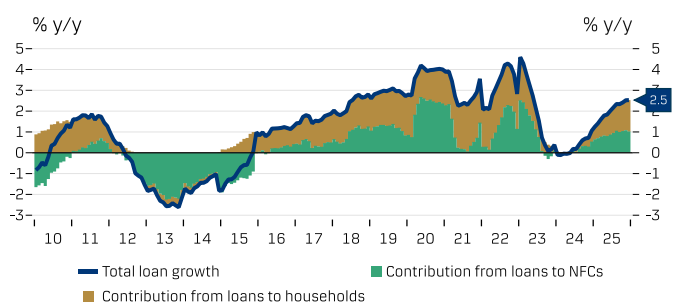
Source: S&P Global, Eurostat, Macrobond Financial

Euro area: Consumer confidence and private consumption



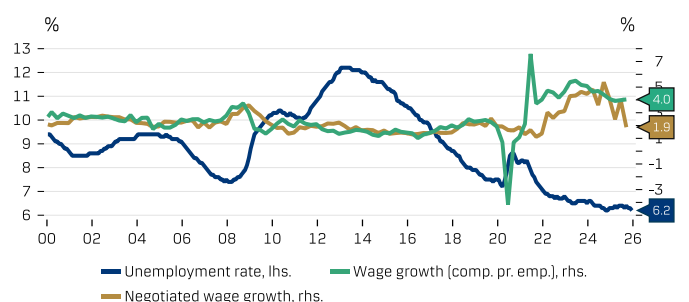
Source: Eurostat, European Commission, Macrobond Financial

Euro area: Credit growth



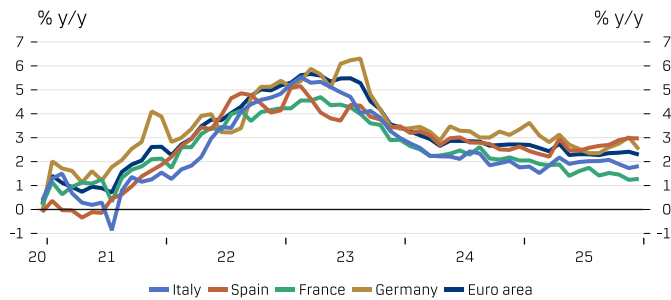
Source: ECB, Macrobond Financial, Danske Bank

Euro area: Unemployment and wage growth



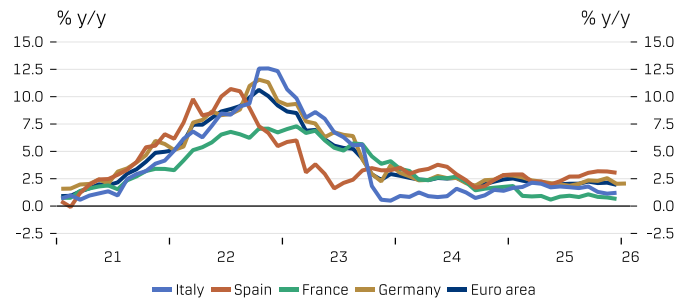
Source: ECB, Eurostat, Macrobond Financial

Euro area: Core inflation



Source: Eurostat, Macrobond Financial

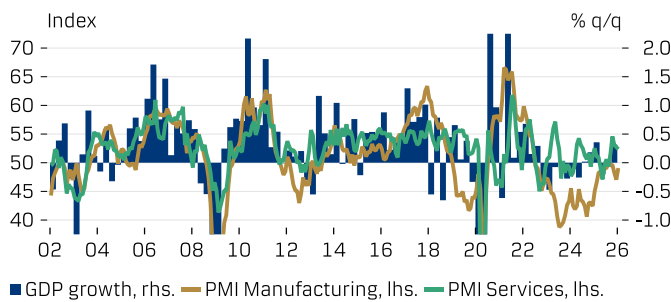
Euro area: HICP inflation



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

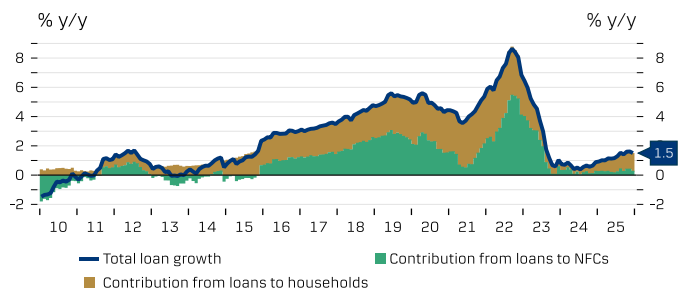
Germany

Germany: PMI and GDP growth



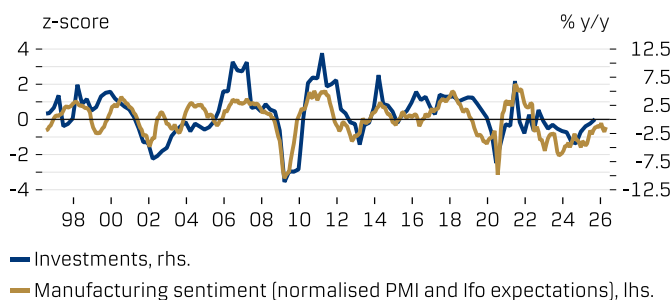
Source: S&P Global, Eurostat, Macrobond Financial

Germany: Credit growth



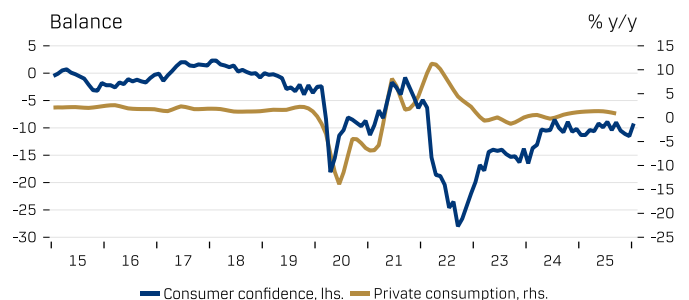
Source: Deutsche Bundesbank, Eurostat, Macrobond Financial, Danske Bank

Germany: Manufacturing sentiment and investments



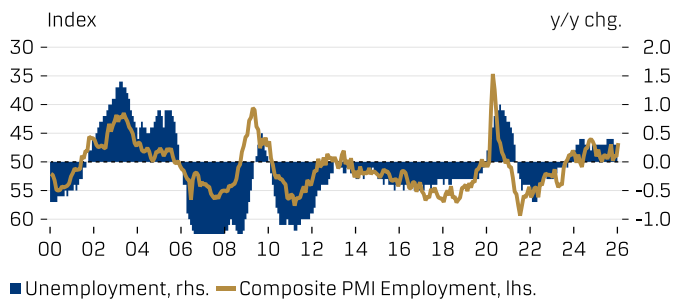
Source: S&P Global, Eurostat, Macrobond Financial

Germany: Consumer confidence and private consumption



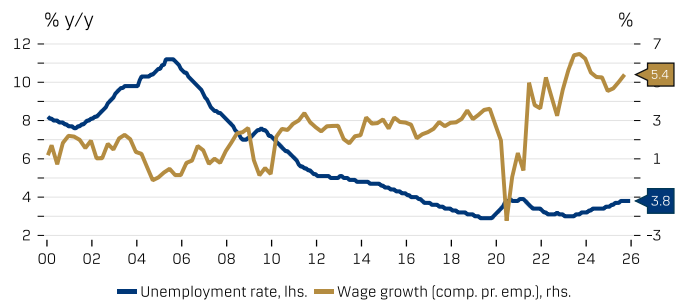
Source: European Commission, Eurostat, Macrobond Financial

Germany: Unemployment and PMI



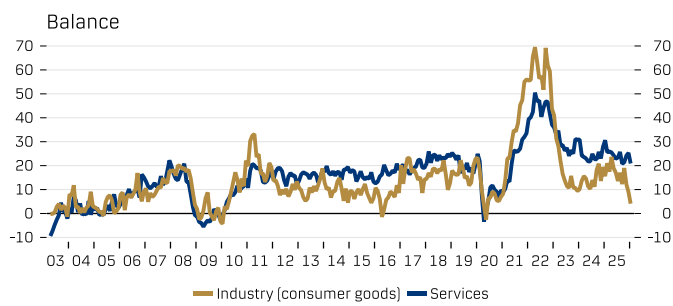
Source: S&P Global, Eurostat, Macrobond Financial

Germany: Unemployment and wage growth



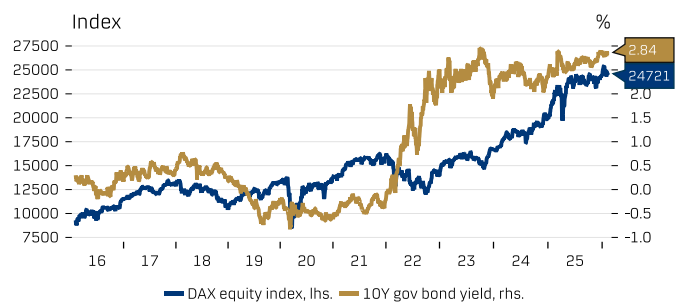
Source: ECB, Eurostat, Deutsche Bundesbank, Macrobond Financial

Germany: Selling price expectations



Source: EU Commission, Macrobond Financial, Danske Bank

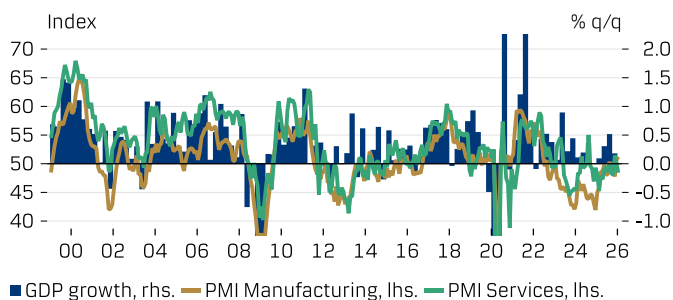
Germany: Financial markets



Source: Deutsche Boerse, Macrobond Financial, Danske Bank

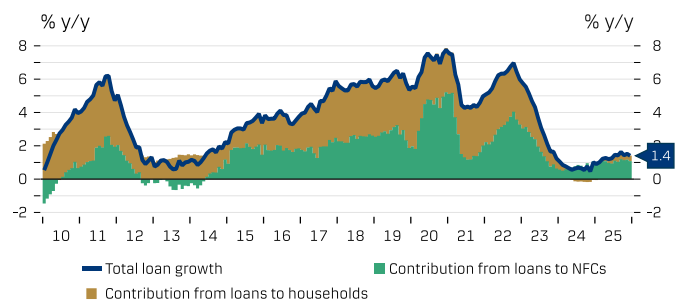
France

France: PMI and GDP growth



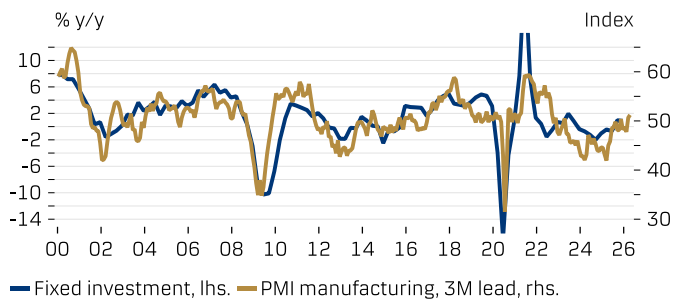
Source: S&P Global, Eurostat, Macrobond Financial

France: Credit growth



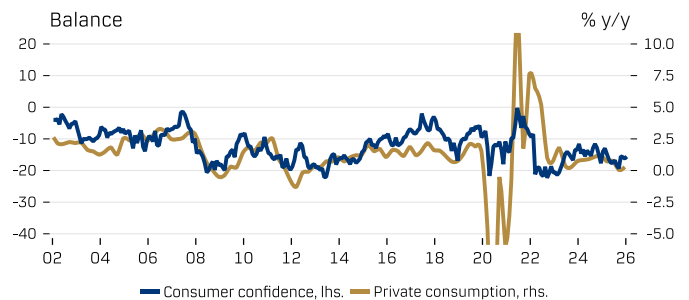
Source: ECB, Macrobond Financial, Danske Bank

France: Manufacturing sentiment and investments



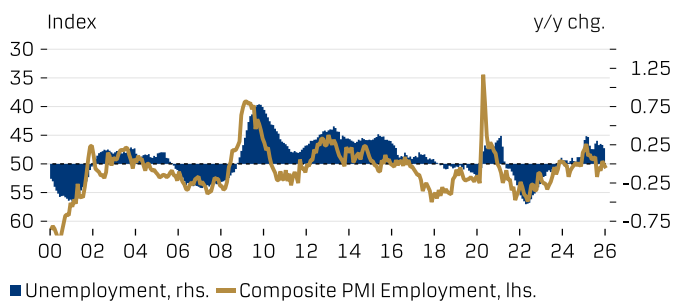
Source: S&P Global, Eurostat, Macrobond Financial

France: Consumer confidence and private consumption



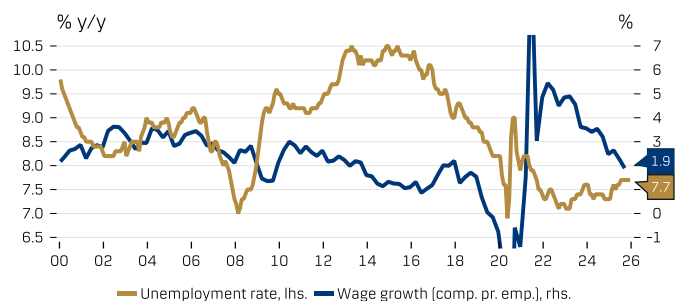
Source: European Commission, Eurostat, Macrobond Financial

France: Unemployment and PMI



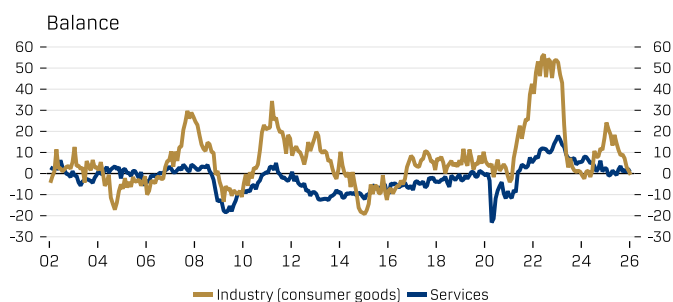
Source: S&P Global, Eurostat, Macrobond Financial

France: Unemployment and wage growth



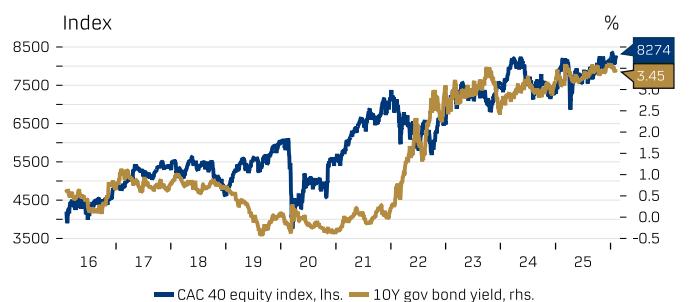
Source: ECB, Eurostat, Macrobond Financial, Danske Bank

France: Selling price expectations



Source: EU Commission, Macrobond Financial, Danske Bank

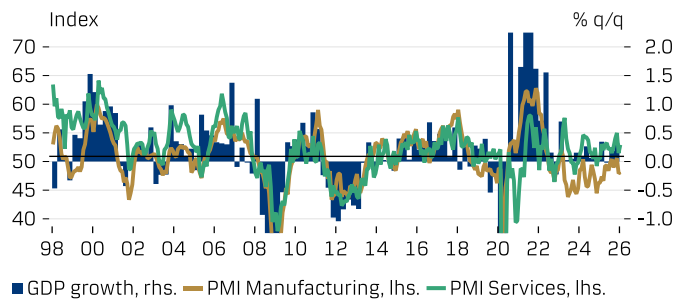
France: Financial markets



Source: Euronext, Macrobond Financial, Danske Bank

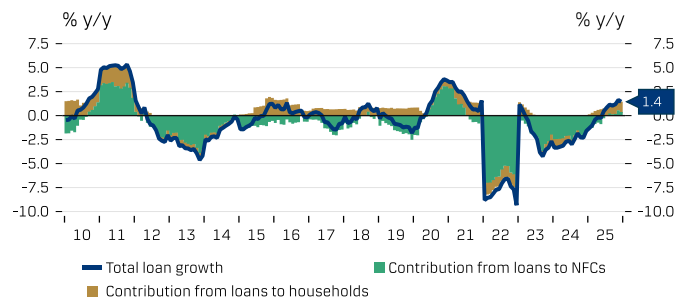
Italy

Italy: PMI and GDP growth



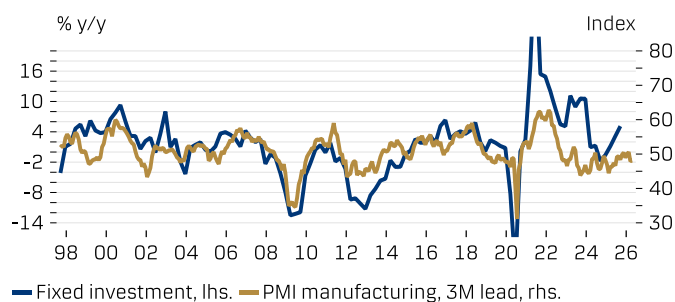
Source: S&P Global, Eurostat, Macrobond Financial

Italy: Credit growth



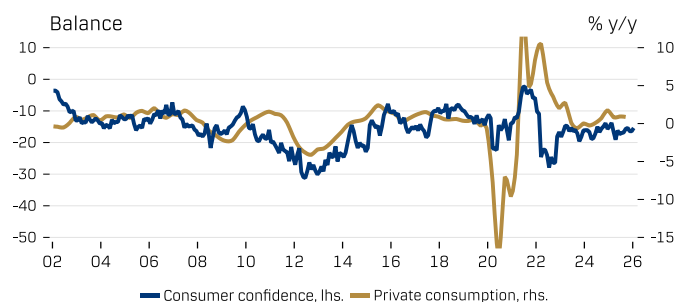
Source: ECB, Macrobond Financial, Danske Bank

Italy: Manufacturing sentiment and investments



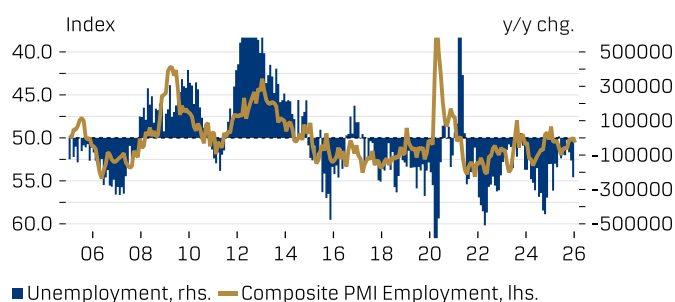
Source: S&P Global, Eurostat, Macrobond Financial

Italy: Consumer confidence and private consumption



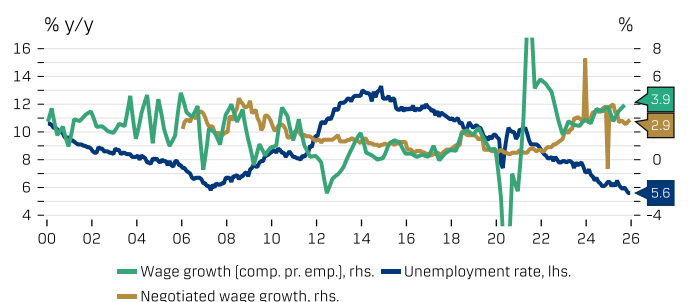
Source: European Commission, Eurostat, Macrobond Financial, Danske Bank

Italy: Unemployment and PMI



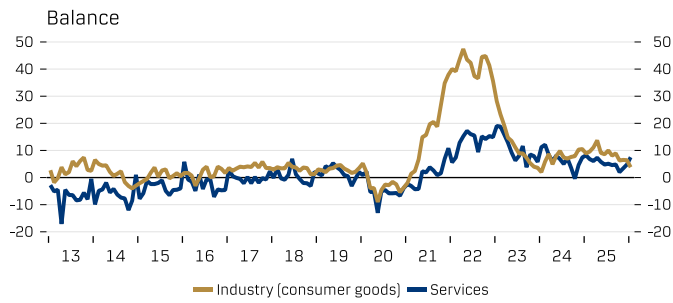
Source: S&P Global, Eurostat, Macrobond Financial

Italy: Unemployment and wage growth



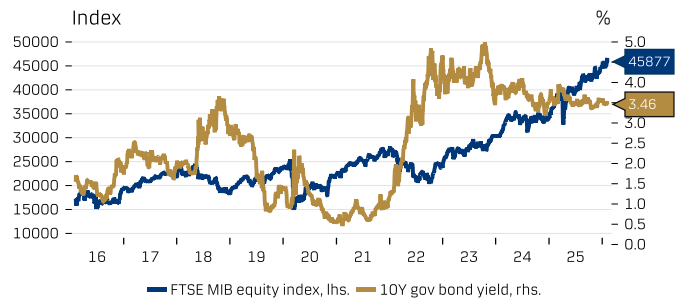
Source: ECB, Eurostat, Istat, Macrobond Financial, Danske Bank

Italy: Price expectations



Source: EU Commission, Macrobond Financial, Danske Bank

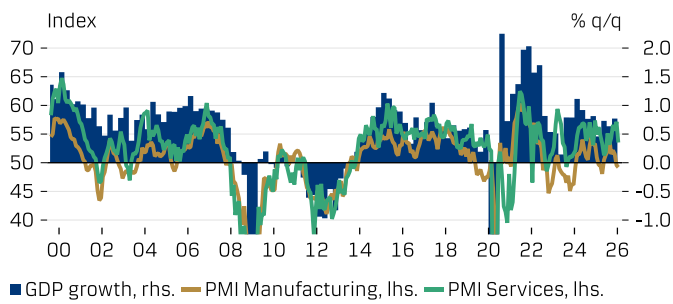
Italy: Financial markets



Source: FTSE, Macrobond Financial, Danske Bank

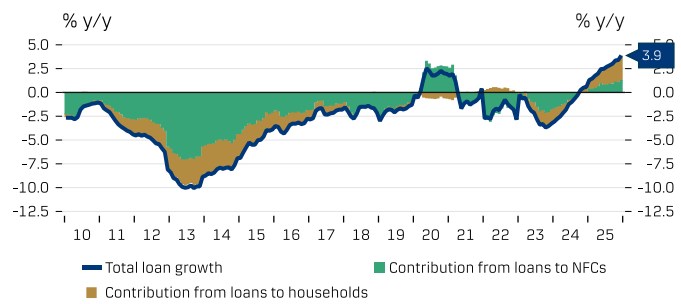
Spain

Spain: PMI and GDP growth



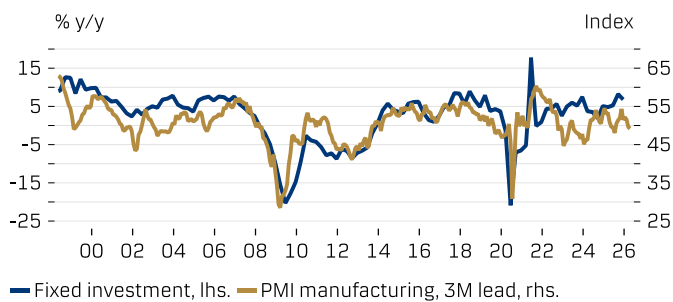
Source: S&P Global, Eurostat, Macrobond Financial

Spain: Credit growth



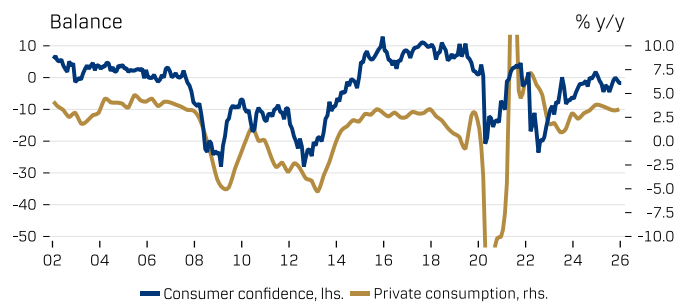
Source: ECB, Macrobond Financial, Danske Bank

Spain: Manufacturing sentiment and investments



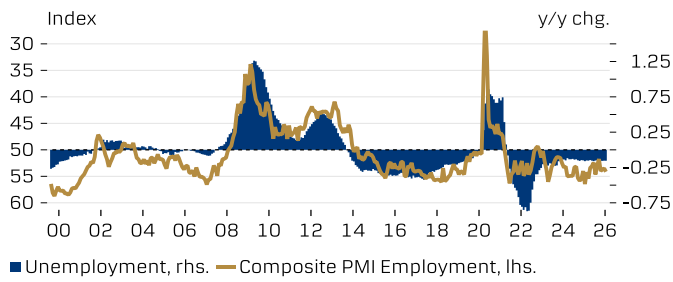
Source: S&P Global, Eurostat, Macrobond Financial

Spain: Consumer confidence and private consumption



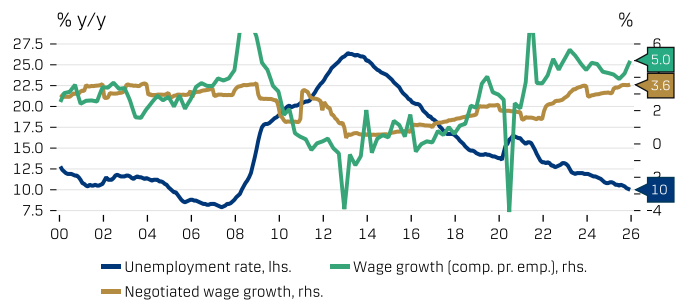
Source: European Commission, Eurostat, Macrobond Financial

Spain: Unemployment and PMI



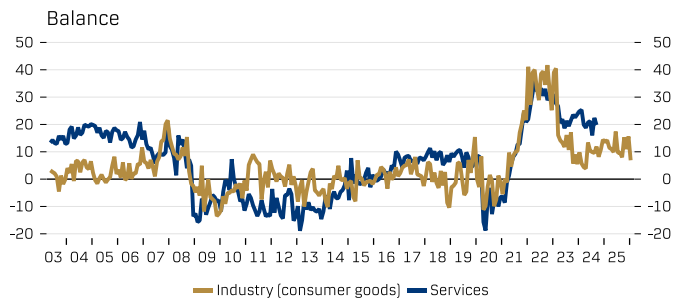
Source: S&P Global, Eurostat, Macrobond Financial

Spain: Unemployment and wage growth



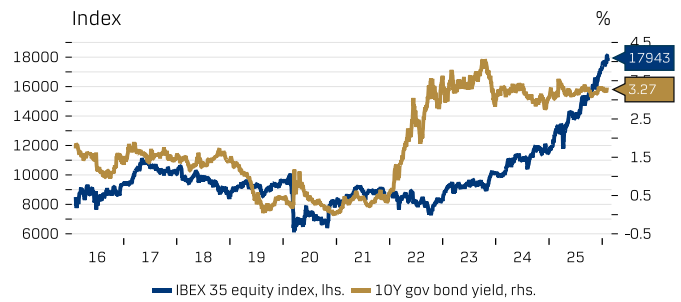
Source: ECB, Eurostat, Ministry of Labor and Social Economy, Macrobond Financial, Danske Bank

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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This research report has been prepared by Danske Bank A/S ('Danske Bank'). The authors of this research report Sofie Grundvad Pedersen, Assistant Analyst, and Rune Thyge Johansen, Analyst.

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Report completed: 09 Jan 2025 at 16:00 CET

Report disseminated: 10 Jan 2025 at 06:00 CET