

7 March 2025

# Euro Area Macro Monitor

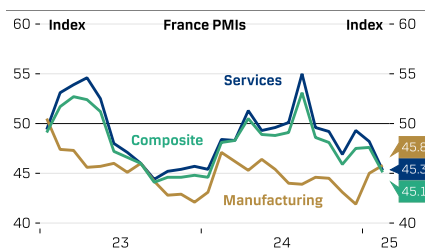
## Diverging signals as Germany proposes historic changes

- **Euro area PMIs came out slightly disappointing in February with composite PMI remaining constant at 50.2, contrary to the expected rise to 50.5.** The services PMI fell to 50.6 from 51.3, led by a sharp drop in France to 45.3 down from 48.3, marking the steepest fall in activity in nearly 18 months. This sends a negative signal for the French economy, which heavily relies on services, in combination with the decline in employment recorded in 2024Q4. However, outside of France the February PMIs were more positive, with the other large euro area countries remaining above the 50-mark, suggesting that the economy experienced marginal growth in Q1. **We expect the slow recovery to continue throughout the year due to lower monetary policy rates and rising real incomes.** See more in *Nordic Outlook – Normalising economies despite this noise*, 5 March.
- Meanwhile, inflation concerns in the euro area have continued to ease as disinflation progresses. In February, euro area inflation declined to 2.4% y/y (0.3% m/m s.a.), slightly below expectations, and down from 2.5% in January, attributed to lower energy and services inflation. **Core inflation decreased to 2.6% y/y from 2.7%, driven by a decline in services inflation, reflecting weaker momentum in recent months and base effects.** The monthly service price increases remained around 0.3% m/m s.a., indicating a persistent pressure, but as wage growth is also declining, we expect momentum to turn lower in coming months. **With falling wage growth, services inflation is expected to decline further, potentially pushing core inflation below the 2% target by summer.**
- **With core inflation expected bellow below 2% from summer we expect continued rate cuts from the ECB, but we are not as confident of the cut in April following the ECB meeting in March.** At the meeting, the ECB decided to cut the policy rates by 25bp, so that the deposit rate now yields 2.50%. The most important part of the decision was its assessment of the restrictiveness of its monetary policy stance. ECB now sees monetary policy is ‘becoming meaningfully less restrictive’, which means they assess the current rate level as closer to the terminal rate than previously. With the high uncertainty around the near-term risks, Lagarde refrained from committing to any policy decision in the upcoming meetings, in fact, it was not clear whether the ECB intends to cut or halt at the upcoming April meeting based on today’s info.
- The incoming German government, led by Merz, has proposed a significant easing of fiscal policy through increased public investment, increased defence spending, and a loosening of Germany’s “debt brake”. We expect these three proposals to be approved in parliament next week, with the support of the Greens. If adopted, these measures will **positively impact the German economy, although we do not expect to see the effect on GDP until next year at earliest, with most of the effects from 2027-2028.** Financial markets have reacted strongly, evidenced by increased interest rates on German government debt and by expanding the Bund-ASW. Notably, **the yield on the 10-year Bund surged by 40bp to 2.90%**, as investors brace for additional government borrowing and a boost to Germany’s economic growth.

### Key views

- Headline and core inflation to average close to 2% in 2025 and 2026
- Near-term growth outlook weak
- We expect six 25bp rate cuts from the ECB in 2025, but risks are skewed towards less

### France's services PMI sees steep decline



Source: Eurostat, Macrobond Financial

### Proposals sent yield on 10-year Bunds surging



Source: S&amp;P Global, Macrobond Financial

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# Euro area data overview

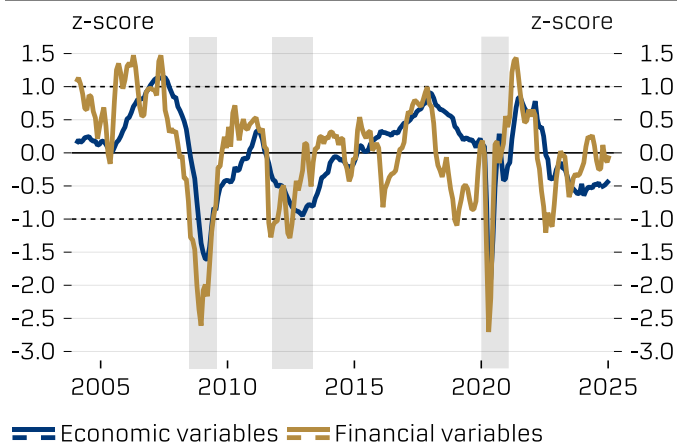
Financial variables increased by 0.2, primarily attributed Euro Surprise index and Sentix increasing. The economic variables stayed put at -0.4, with the PMI order-inventory balance and consumer confidence improving, while composite PMI declined.

## Euro area data monitor

	February	January	December
PMI Composite	50.2	50.2	49.6
PMI Manufacturing	47.6	46.6	45.1
PMI Services	50.6	51.3	51.6
German Ifo	85.2	85.2	84.7
HICP	1.6	1.9	2.8
HICP core	1.5	2.0	3.7
HICP Services	3.1	3.0	4.1
Unemployment rate	n/a	6.2	6.2
Germany 10Y yield	2.4	2.5	2.2
Oil price	74.8	77.8	73.1

Note: n/a indicates data is to be released  
Source: Macrobond Financial, Danske Bank

## Data tracker: financial and economic variables



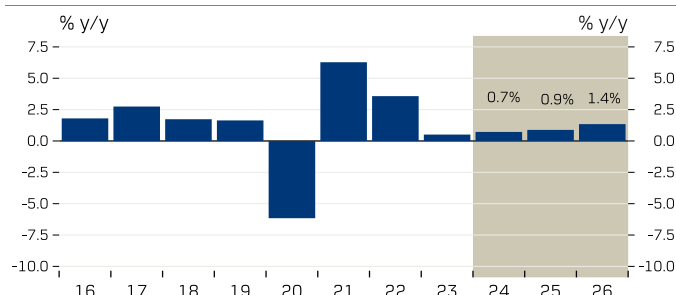
## Monthly development in data tracker

	February 2025	January 2024	Monthly change
<b>Economic variables</b>	-0.4	-0.4	0.06
EuroCOIN	0.4	0.4	0.07
OECD CLI	0.3	0.3	0.00
Unemployment	0.2	0.2	0.00
Profit growth	0.0	0.0	0.00
ZEW	-0.2	-0.2	0.09
Consumer confidence	-0.2	-0.3	0.11
European sentiment indicator	-0.3	-0.4	0.10
Composite PMI	-0.4	-0.4	-0.01
PMI order-inventory balance	-0.5	-0.7	0.16
Capacity utilisation	-0.8	-0.8	0.00
Credit growth	-0.8	-0.9	0.07
Real M1 growth	-2.0	-2.1	0.11
<b>Financial variables</b>	0.2	0.0	0.20
Corporate vs. Gov. Bond yield	0.6	0.4	0.13
Eurostoxx50	0.6	0.5	0.05
Euro Surprise index	0.2	-0.1	0.35
Sentix	-0.7	-1.0	0.27

Source: Macrobond Financial, Danske Bank

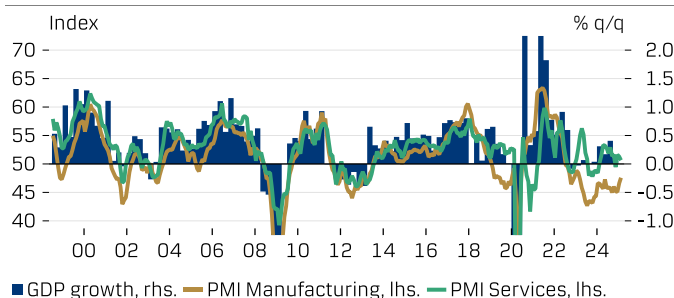
# Euro area

## GDP growth forecasts



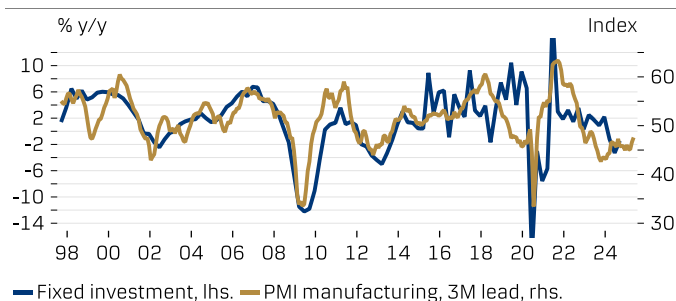
Source: Macrobond Financial, Danske Bank forecasts

## PMI and GDP growth



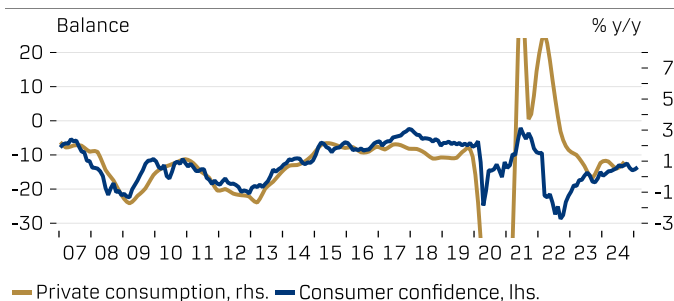
Source: Macrobond Financial, Danske Bank

## Manufacturing sentiment and investments



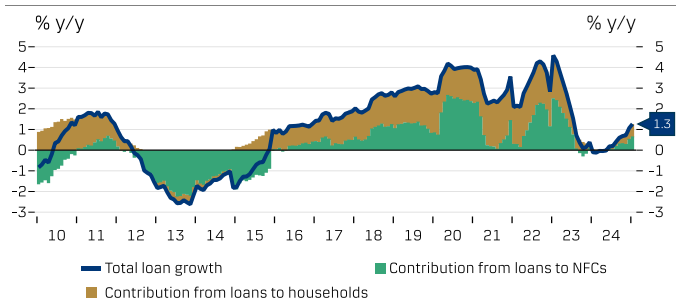
Source: S&P Global, Eurostat, Macrobond Financial

## Consumer confidence and private consumption



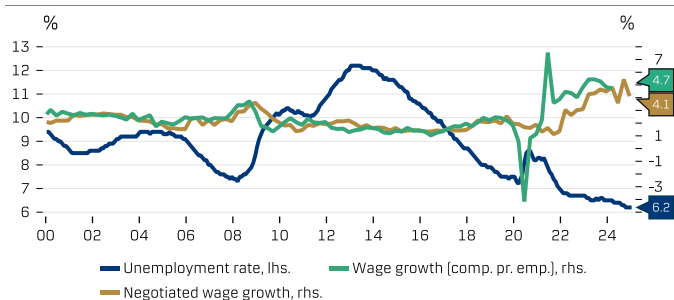
Source: Eurostat, European Commission, Macrobond Financial

## Credit growth



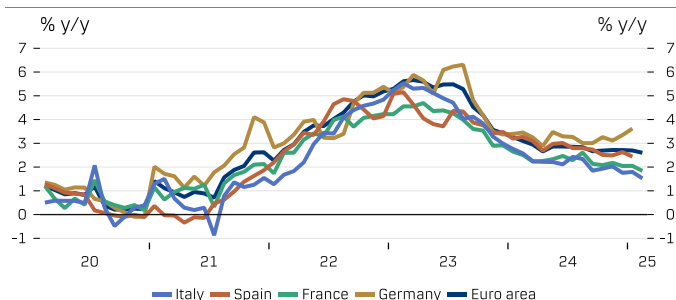
Source: ECB, Macrobond Financial, Danske Bank

## Unemployment and wage growth



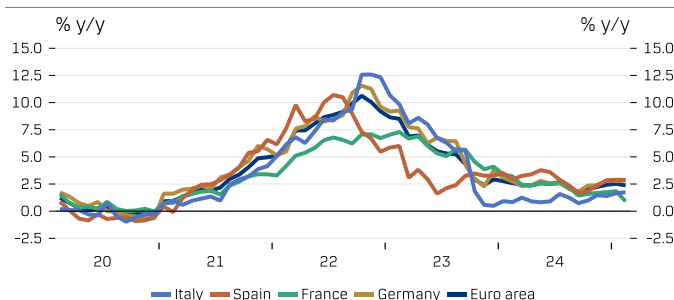
Source: ECB, Eurostat, Macrobond Financial

## Core inflation



Source: Eurostat, Macrobond Financial

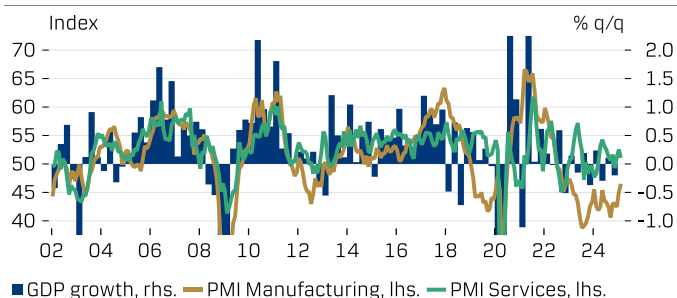
## HICP inflation



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

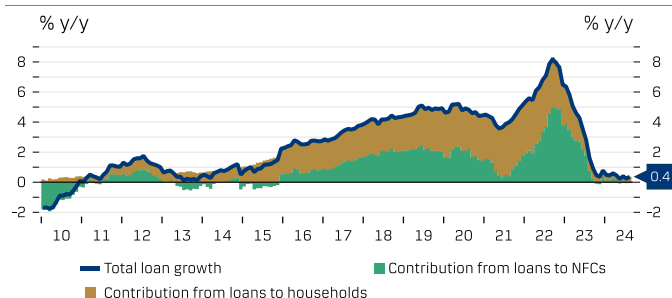
# Germany

## PMI and GDP growth



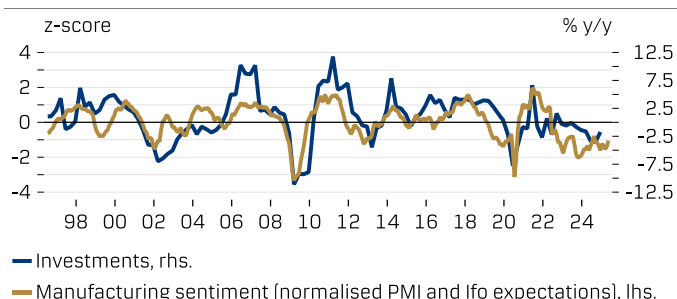
Source: S&P Global, Eurostat, Macrobond Financial

## Credit growth



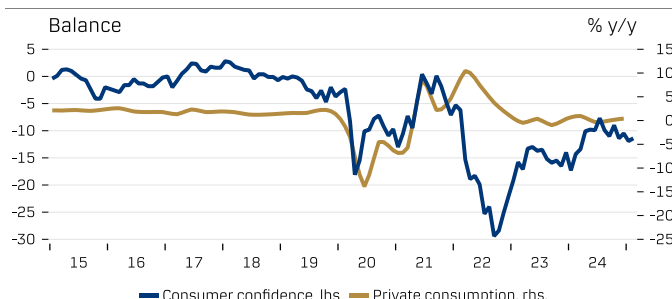
Source: Deutsche Bundesbank, Eurostat, Macrobond Financial, Danske Bank

## Manufacturing sentiment and investments



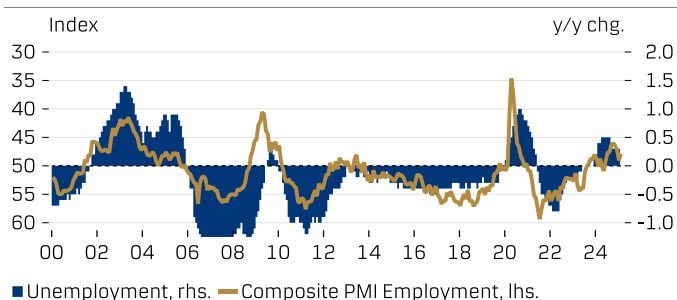
Source: S&P Global, Eurostat, Macrobond Financial

## Consumer confidence and private consumption



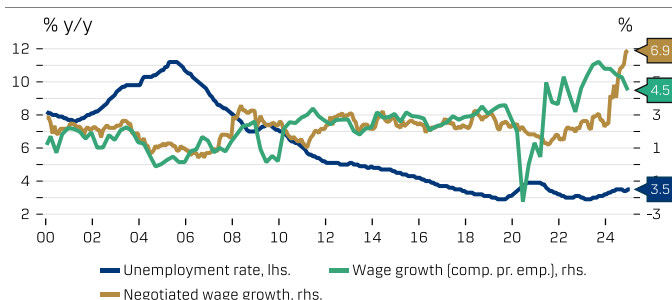
Source: European Commission, Eurostat, Macrobond Financial

## Unemployment and PMI



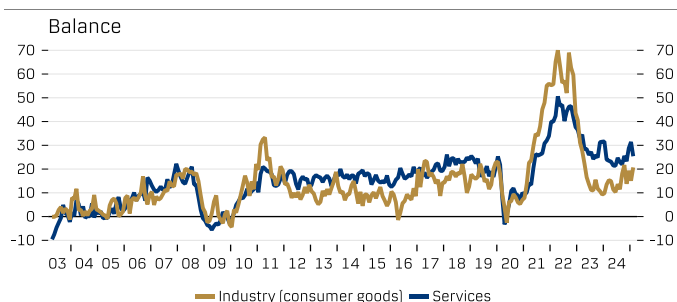
Source: S&P Global, Eurostat, Macrobond Financial

## Unemployment and wage growth



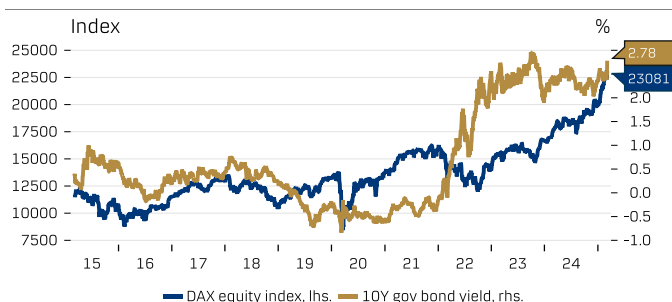
Source: ECB, Eurostat, Deutsche Bundesbank, Macrobond Financial

## Selling price expectations



Source: EU Commission, Macrobond Financial, Danske Bank

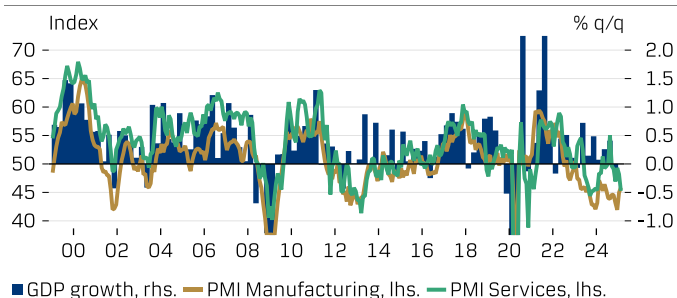
## Financial markets



Source: Deutsche Boerse, Macrobond Financial, Danske Bank

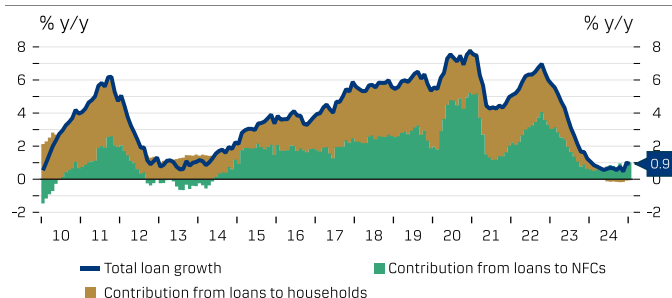
# France

## PMI and GDP growth



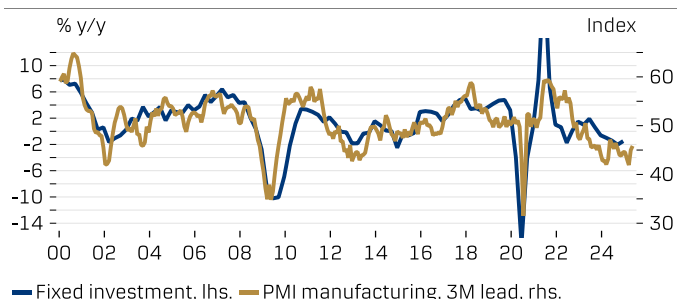
Source: S&P Global, Eurostat, Macrobond Financial

## Credit growth



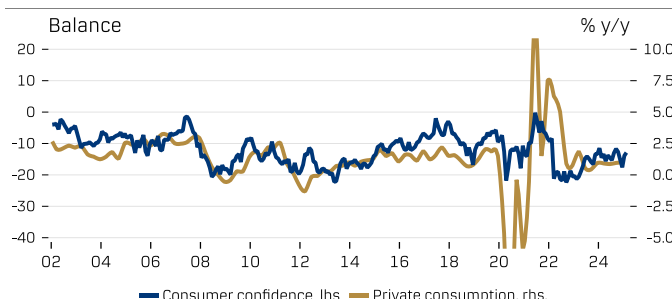
Source: ECB, Macrobond Financial, Danske Bank

## Manufacturing sentiment and investments



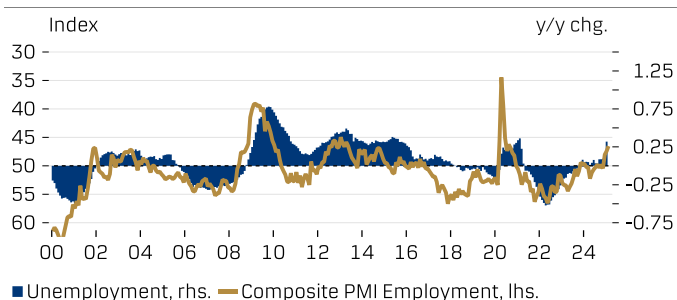
Source: S&P Global, Eurostat, Macrobond Financial

## Consumer confidence and private consumption



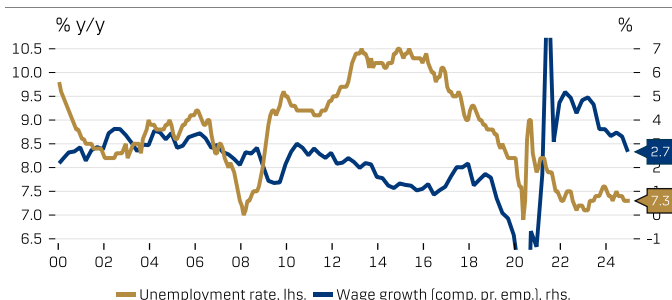
Source: European Commission, Eurostat, Macrobond Financial

## Unemployment and PMI



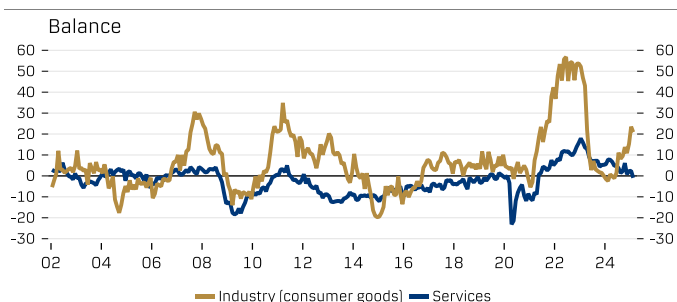
Source: S&P Global, Eurostat, Macrobond Financial

## Unemployment and wage growth



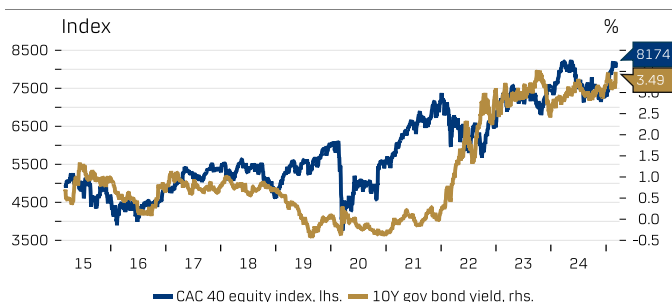
Source: ECB, Eurostat, Macrobond Financial, Danske Bank

## Selling price expectations



Source: EU Commission, Macrobond Financial, Danske Bank

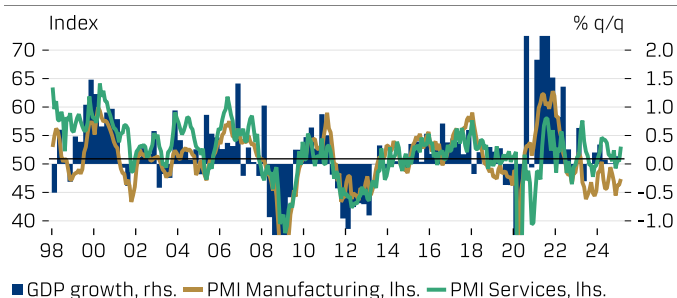
## Financial markets



Source: Euronext, Macrobond Financial, Danske Bank

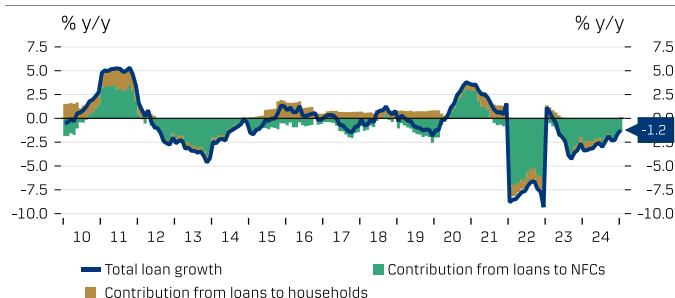
# Italy

## PMI and GDP growth



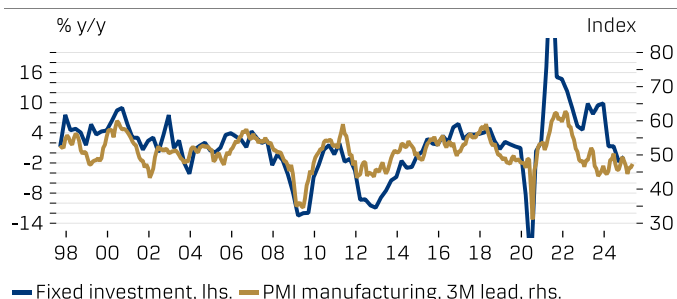
Source: S&P Global, Eurostat, Macrobond Financial

## Credit growth



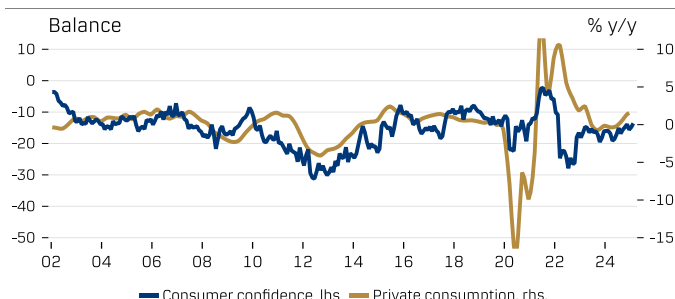
Source: ECB, Macrobond Financial, Danske Bank

## Manufacturing sentiment and investments



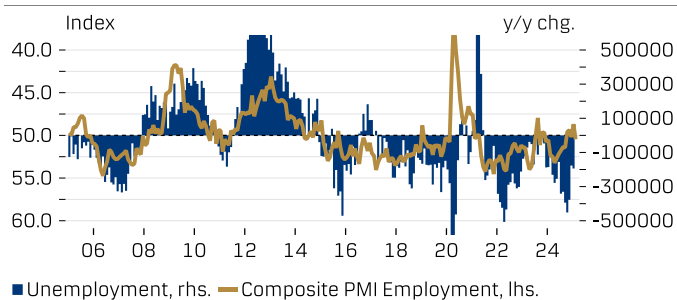
Source: S&P Global, Eurostat, Macrobond Financial

## Consumer confidence and private consumption



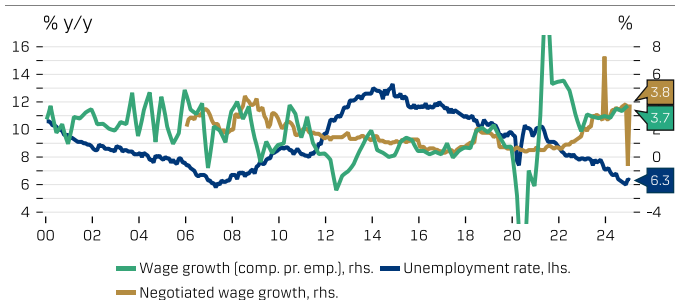
Source: European Commission, Eurostat, Macrobond Financial, Danske Bank

## Unemployment and PMI



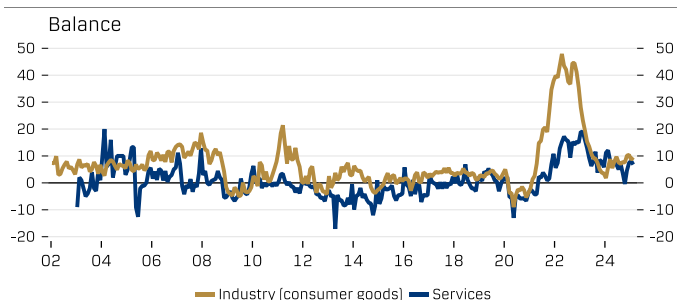
Source: S&P Global, Eurostat, Macrobond Financial

## Unemployment and wage growth



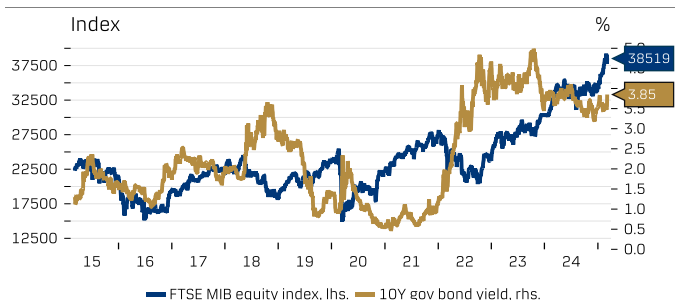
Source: ECB, Eurostat, Istat, Macrobond Financial, Danske Bank

## Price expectations



Source: EU Commission, Macrobond Financial, Danske Bank

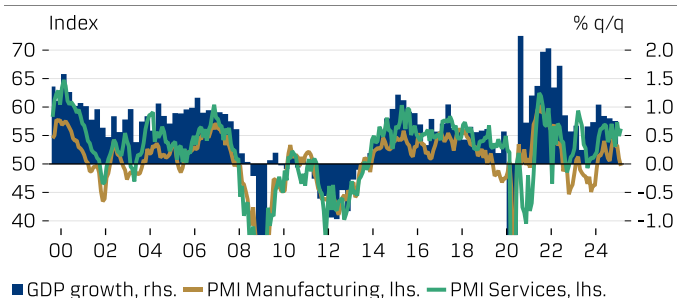
## Financial markets



Source: FTSE, Macrobond Financial, Danske Bank

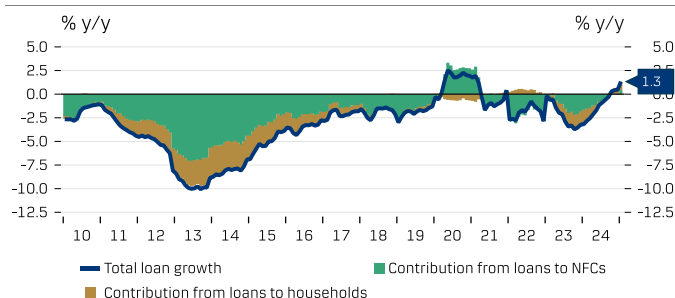
# Spain

## PMI and GDP growth



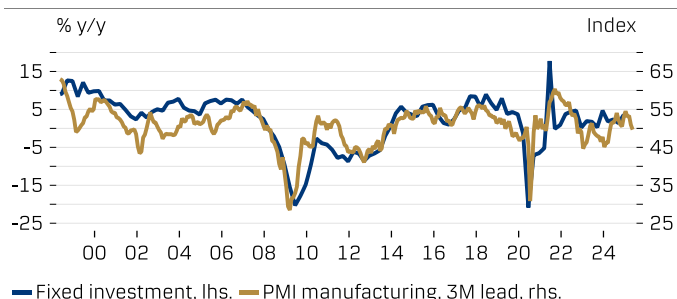
Source: S&P Global, Eurostat, Macrobond Financial

## Credit growth



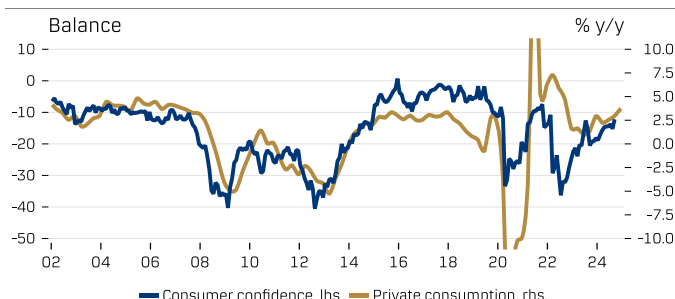
Source: ECB, Macrobond Financial, Danske Bank

## Manufacturing sentiment and investments



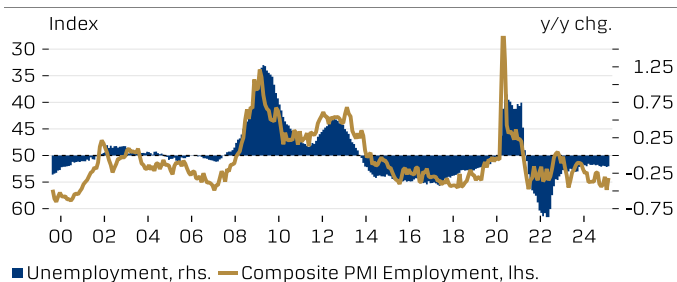
Source: S&P Global, Eurostat, Macrobond Financial

## Consumer confidence and private consumption



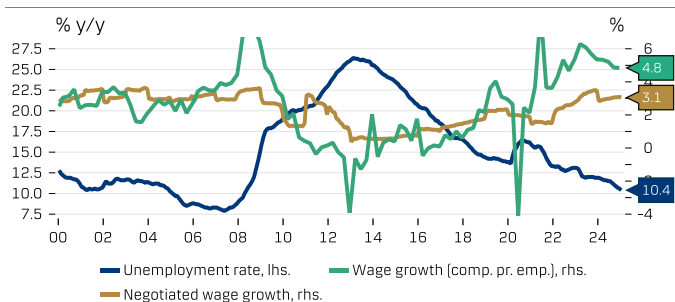
Source: European Commission, Eurostat, Macrobond Financial

## Unemployment and PMI



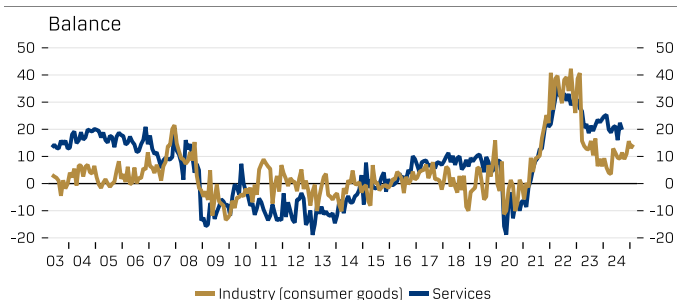
Source: S&P Global, Eurostat, Macrobond Financial

## Unemployment and wage growth



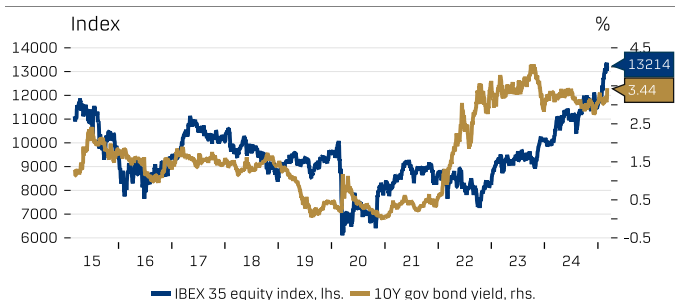
Source: ECB, Eurostat, Ministry of Labor and Social Economy, Macrobond Financial, Danske Bank

## Price expectations



Source: EU Commission, Macrobond Financial, Danske Bank

## Financial markets



Source: Madrid Stock Exchange, Macrobond Financial, Danske Bank



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