

Euro Area Macro Monitor

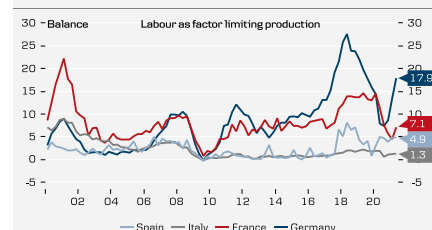
Preparing for take-off

- Business and consumer surveys signalled the euro area recovery picked up pace mid through Q2.** While manufacturing activity showed tentative signs of peaking during May, services activity accelerated with the easing of lockdown restrictions and re-opening taking place in most euro area countries. Whereas new order growth and business expectations remained strong, supply chain disruptions continued to be widespread and started to hamper production. Overall, with increasing signs for a loss of momentum in manufacturing activity ahead, the rebound in services activity comes at an opportune time and should allow the euro area economy to register a marked rebound compared to the lacklustre growth performance in Q1.
- In light of stronger demand and a brighter outlook, firms have also begun to take on extra staff,** particularly in manufacturing where capacity constraints are most acute. The euro area unemployment rate continues its gradual decline to 8.0% in April, down from 8.7% at the peak of the corona crisis (yet still well above the pre-crisis level of 7.1%). However, business surveys suggest the pace of job creation has slowed lately, due in part to difficulties in filling job vacancies in some sectors such as hospitality (see *FT article*). While short-term staff squeezes might prompt sporadic wage increases in some sectors, we do not expect to see a widespread labour shortage in the euro area. Including workers who are unemployed, discouraged or enrolled in short-time working schemes, unemployment is closer to 17%, more than double the headline unemployment rate.
- May also brought further evidence of increasing inflationary cost pressures.** With demand continuing to run ahead of supply for many goods and services, average prices charged rose at the fastest pace since 2002 according to the PMI survey. Prices charged for services rose more modestly than for goods, but still showed the biggest increase in two years. This evidence of rising input cost pressures combined with continued oil price increases has fuelled fears in markets about an inflation surge, notably in the US, but also in the euro area (see also *Global Research: Global manufacturing heading for a hot (inflation) summer*, 12 May, and *Global Research - The impact on inflation of a commodities super cycle*, 26 May). Market-based inflation expectations, as measured by the 5y5y euro inflation swap forward, have risen back to the highest levels since 2018. That said, realized inflation has so far given few signs that a sustained rise in underlying inflation is on the cards. While HICP inflation rose to 2.0% in May (highest since October 2018), core inflation remained subdued at 0.9%. ECB policymakers have also voiced doubts that supply bottlenecks in manufacturing and rising producer prices will materially change the underlying inflation dynamics, signalling a continued patient stance with regard to accommodative monetary policy.
- The 'Next Generation EU' (NGEU) post-coronavirus recovery fund plays a crucial role in alleviating the risk of an asymmetric recovery** and allows hard-hit countries in Southern Europe to support their economies while avoiding a significant rise in public debt levels. As more euro area countries have started to submit their recovery and resilience plans to Brussels to access NGEU funds, in *Research Euro Area - Decoding Europe's recovery plans*, 17 May, we took a closer look at the individual country plans submitted by Germany, France, Italy and Spain and assess the economic and fiscal implications.

Key points

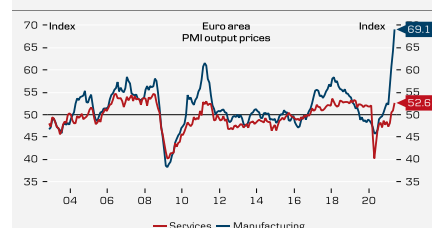
- Euro area headed for growth rebound in Q2, as services activity accelerates
- Manufacturing supply bottlenecks have started to impede production
- Rising input cost pressures, but few signs of sustained rise in inflation

Labour not yet a major limiting factor to production



Source: EU Commission, Macrobond Financial, Danske Bank

Cost-push inflation showing no signs of abating



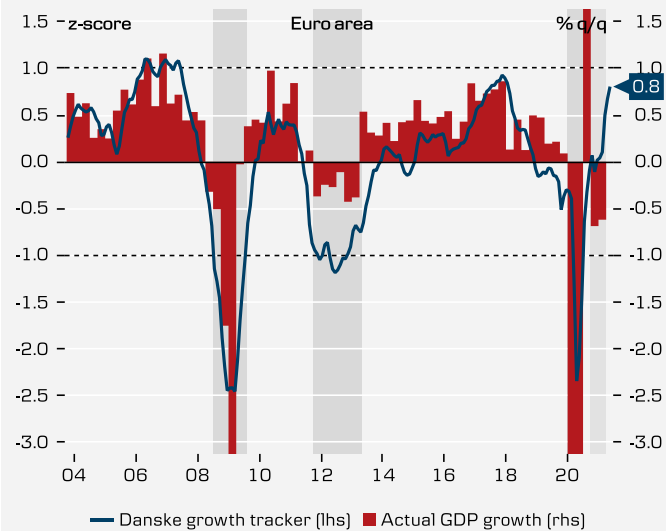
Source: Markit, Macrobond Financial, Danske Bank

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The Danske euro area growth tracker

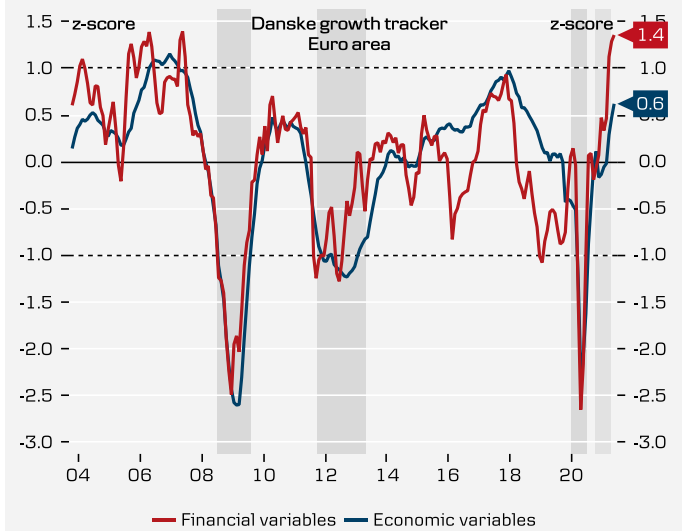
Our growth tracker rose further in May to a value of 0.8 (from 0.7 in April), helped by improvements both in the economic and financial variables. Noticeable improvements in consumer confidence, services activity and employment helped economic variables back to their highest level since June 2018, while investor sentiment continued to improve despite inflation fears capturing markets. This supports our view that the underlying economic momentum and prospects have brightened considerably in Q2.

Growth tracker and actual GDP growth



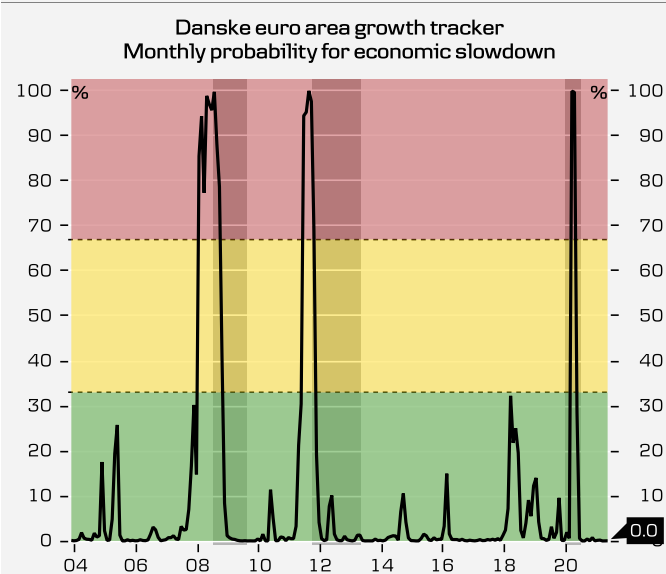
Note: Shaded area indicates historical recessions
Source: Macrobond Financial, Danske Bank

Growth tracker: financial and economic variables



Note: Shaded area indicates historical recessions
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Monthly probability of economic slowdown



Note: Shaded area indicates historical recessions
Source: EViews, Macrobond Financial, Danske Bank

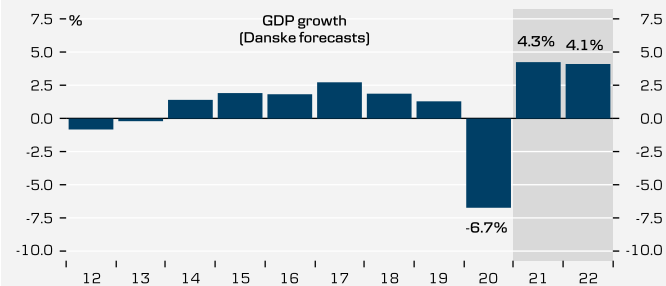
Danske growth tracker decomposition

	May 2021
Economic variables	
PMI order-inventory balance	2.3
Real M1 growth	1.8
European sentiment indicator	1.5
EuroCOIN	1.4
Consumer confidence	1.4
Composite PMI	0.9
Capacity utilisation	0.6
OECD CLI	-0.2
Credit growth	-0.3
Profit growth	-0.4
ZEW	-0.6
Unemployment	-1.0
Financial variables	
Euro surprise index	1.4
Eurostoxx50	2.1
Sentix	1.9
Corporate vs. gov. bond yield	0.4

Source: Danske Bank

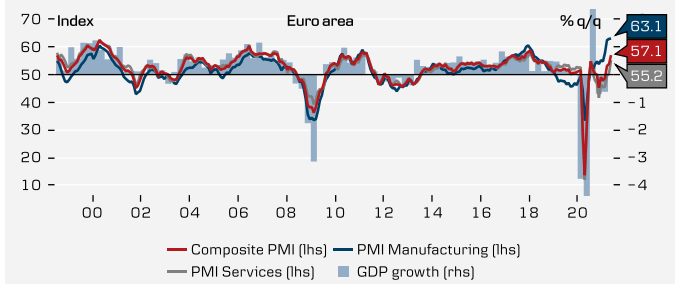
Euro area

GDP growth forecasts



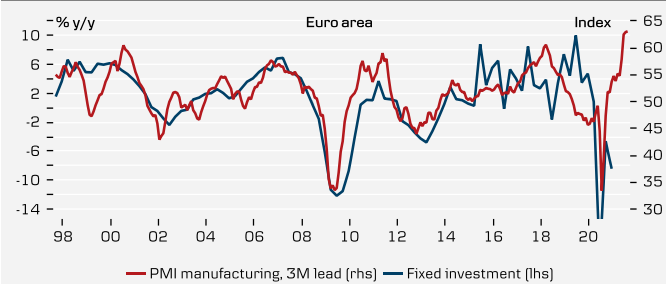
Source: Macrobond Financial, Danske Bank forecasts

PMI and GDP growth



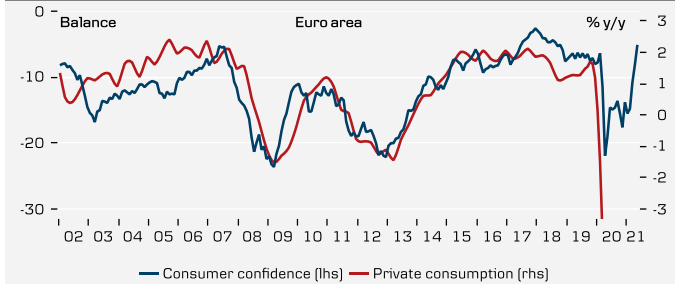
Source: Macrobond Financial, Danske Bank

Manufacturing sentiment and investments



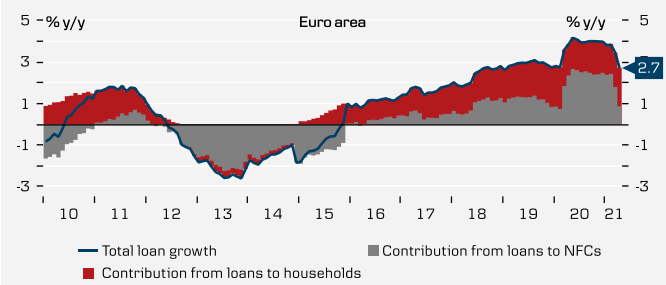
Source: Macrobond Financial, Danske Bank

Consumer confidence and private consumption



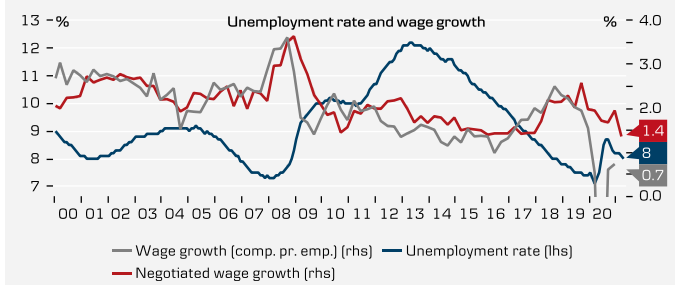
Source: Macrobond Financial, Danske Bank

Credit growth



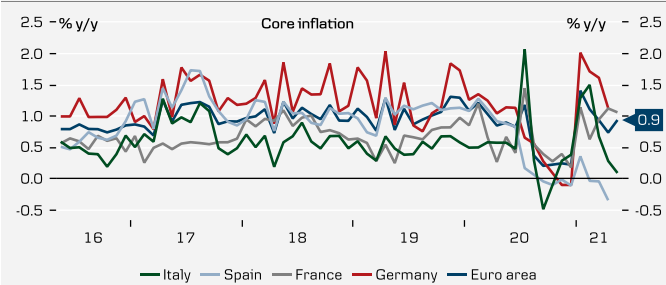
Source: Macrobond Financial, Danske Bank

Unemployment and wage growth



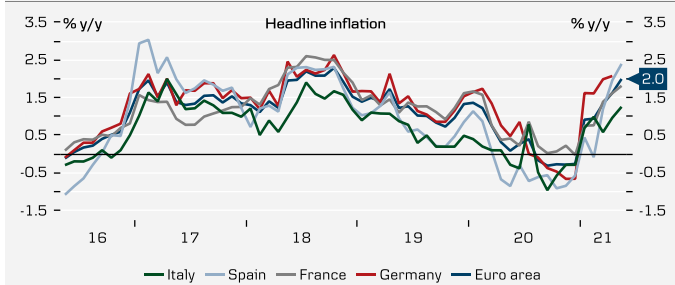
Source: Macrobond Financial, Danske Bank

Core inflation



Source: Macrobond Financial, Danske Bank

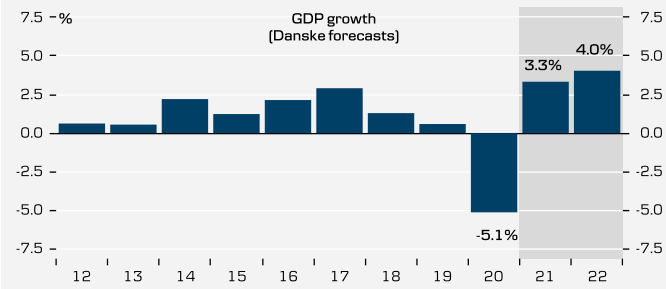
HICP inflation



Source: Macrobond Financial, Danske Bank

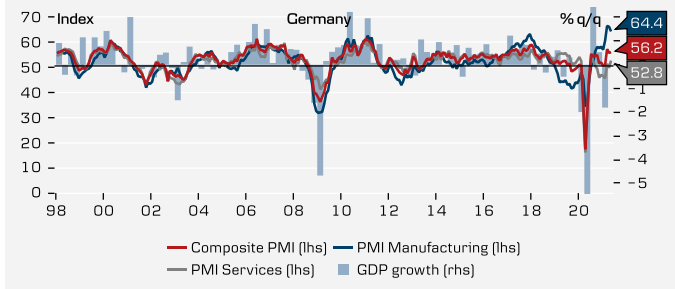
Germany

GDP growth forecasts



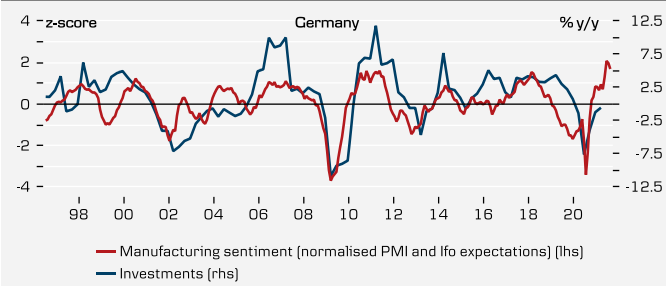
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PMI and GDP growth



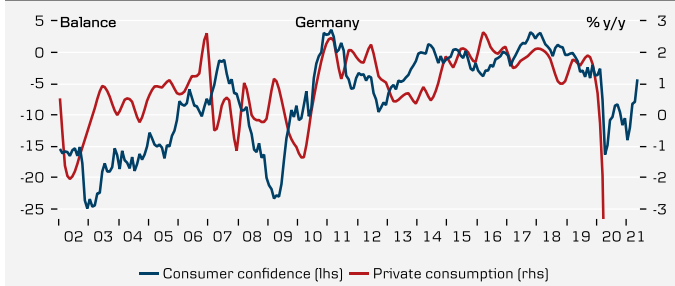
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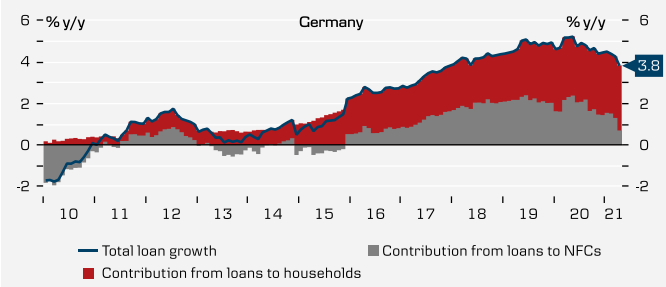
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Consumer confidence and private consumption



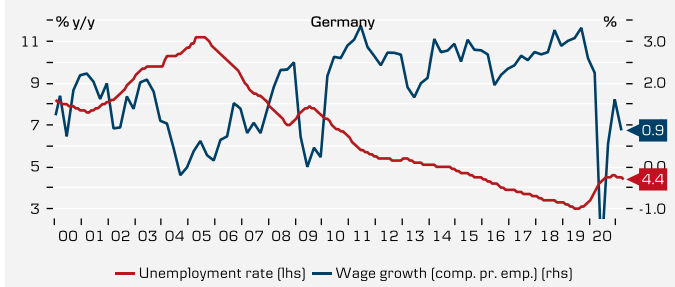
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Credit growth



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Unemployment and wage growth



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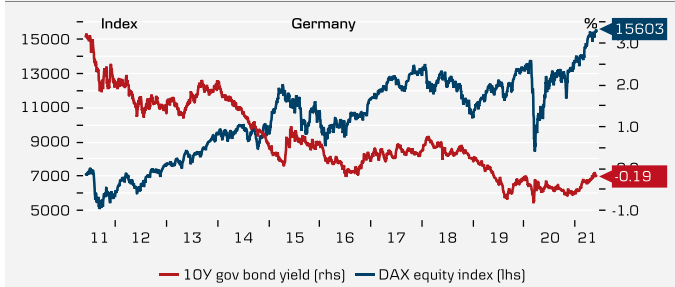
Google mobility trends in retail & recreation



Source: Google Mobility, Danske Bank

Note: The above shows mobility trends for places such as restaurants, cafes, shopping centres, theme parks, museums, libraries and cinemas

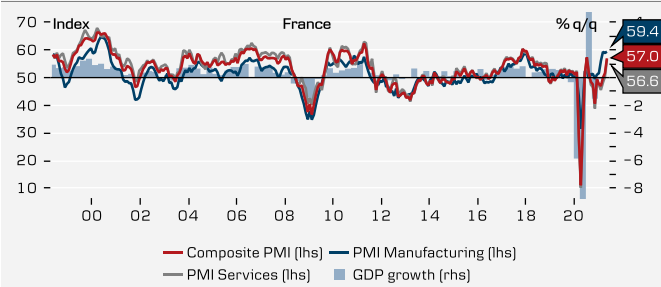
Financial markets



Source: Macrobond Financial, Danske Bank

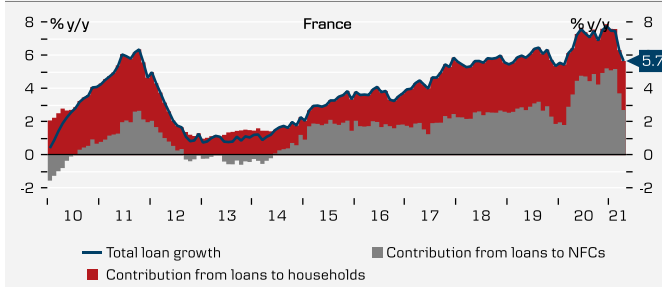
France

PMI and GDP growth



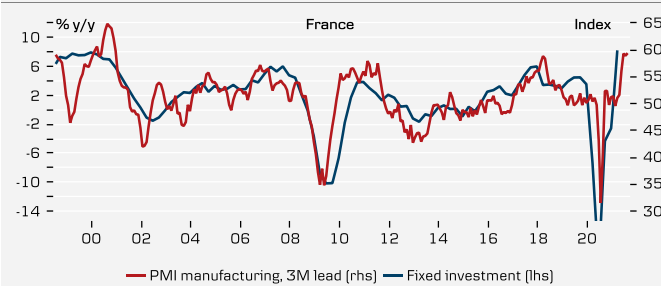
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Credit growth



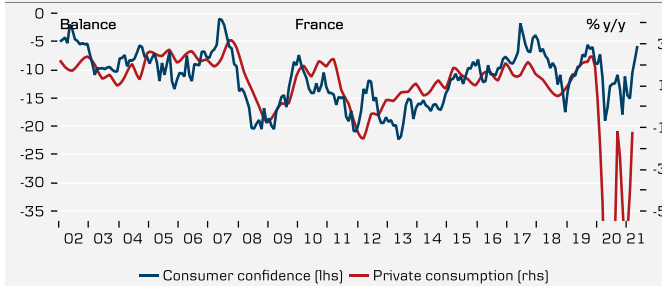
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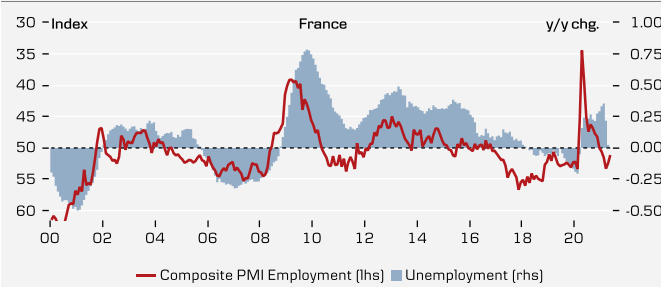
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Consumer confidence and private consumption



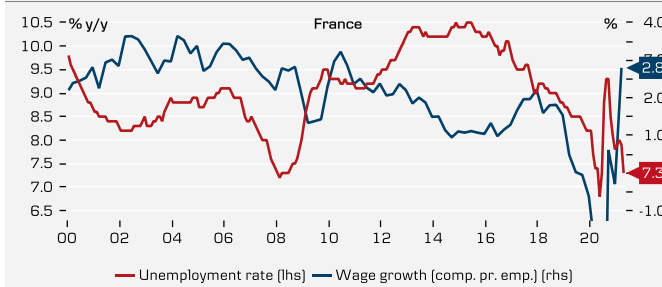
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Unemployment and PMI



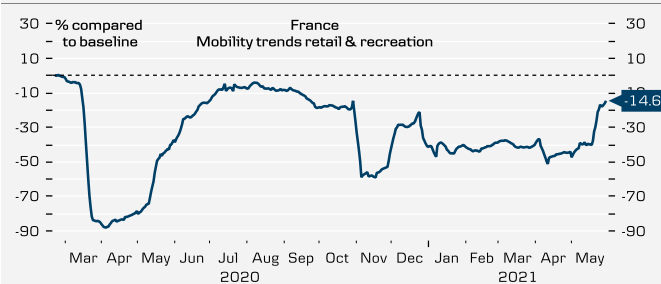
Source: Macrobond Financial, Danske Bank

Unemployment and wage growth



Source: Macrobond Financial, Danske Bank

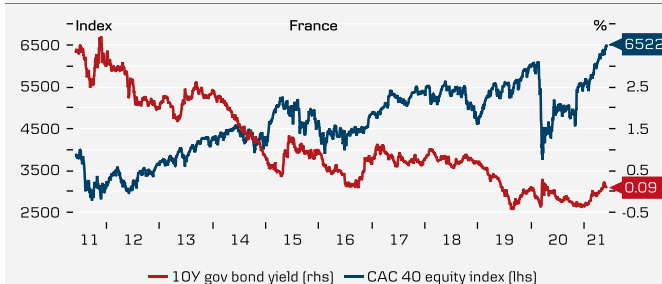
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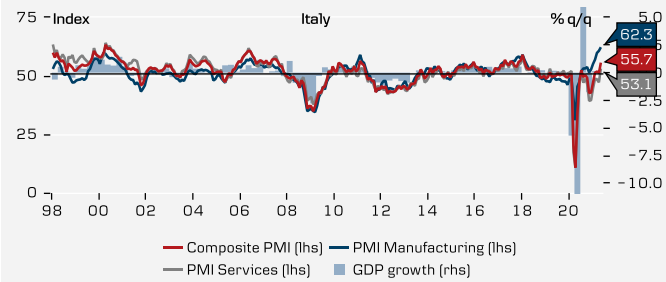
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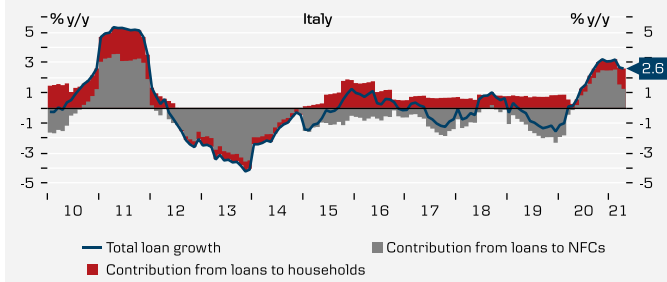
Italy

PMI and GDP growth



Source: Macrobond Financial, Danske Bank

Credit growth



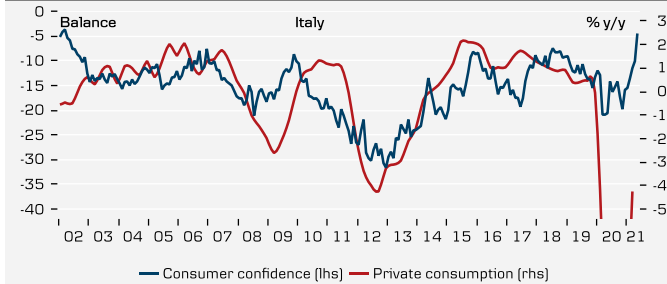
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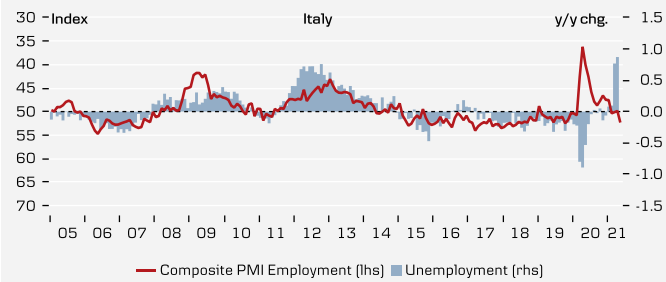
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Consumer confidence and private consumption



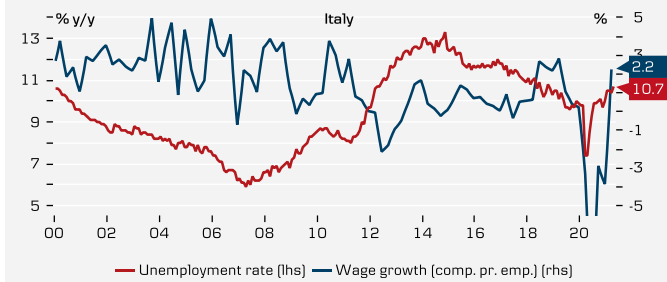
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Unemployment and wage growth



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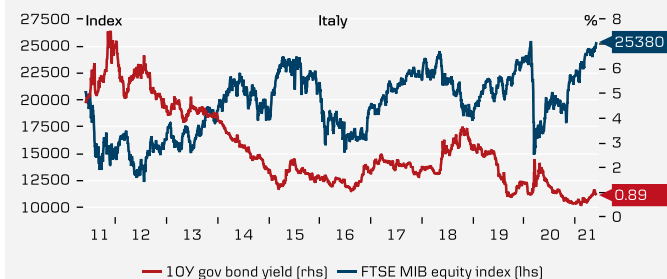
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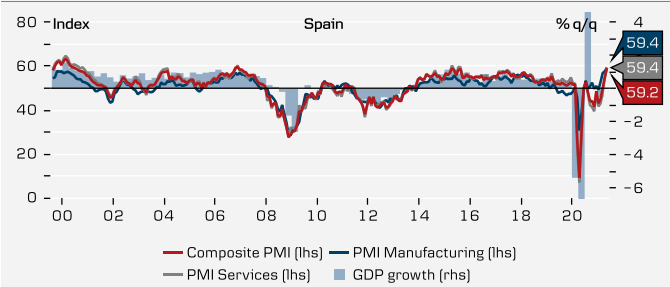
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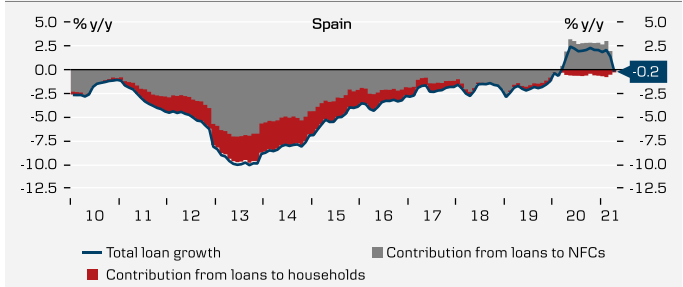
Spain

PMI and GDP growth



Source: Macrobond Financial, Danske Bank

Credit growth



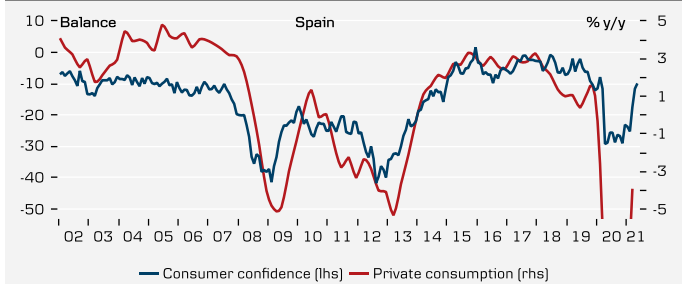
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Manufacturing sentiment and investments



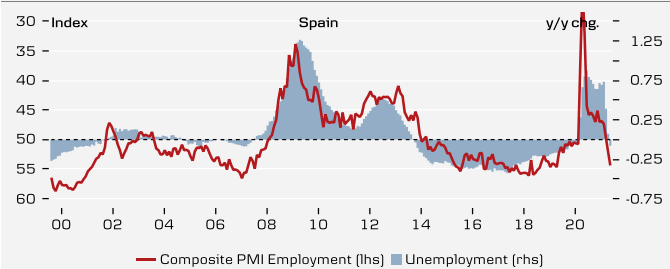
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Consumer confidence and private consumption



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Unemployment and PMI



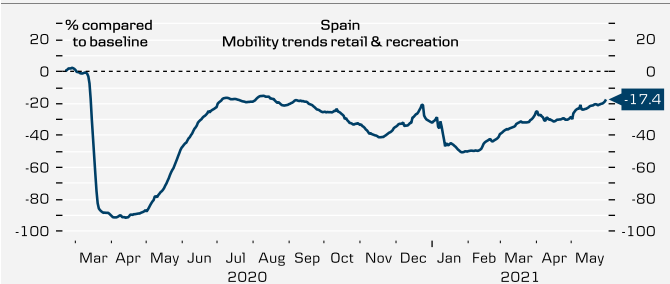
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Unemployment and wage growth



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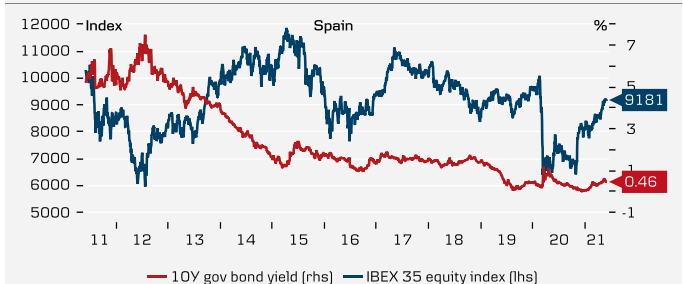
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Financial markets



Source: Macrobond Financial, Danske Bank

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Date of first publication

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