

# Euro Area Macro Monitor

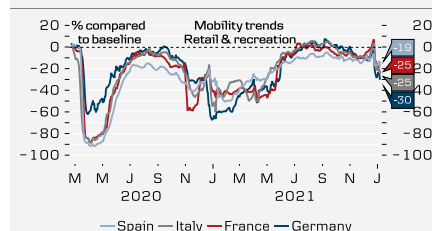
## Triple headwinds

- December brought a noticeable weakening in the macro momentum**, as the euro area economy is battling with the triple headwinds of new COVID-19 restrictions, ongoing supply bottlenecks and real household income erosion. With Omicron becoming the dominant variant, many European countries have introduced new restrictions, especially on non-vaccinated citizens, but have so far largely refrained from strict measures such as full-scale lockdowns. While new hospital admissions are increasing again, they remain below levels seen in previous waves (for details see also *COVID-19 Update*, 4 January). Still, services activity took a noticeable hit from the tighter Omicron containment measures hitting tourism and recreation. Consumer confidence also cooled and fell back below pre-pandemic levels. Rays of light still come from the manufacturing side with tentative signs of easing bottlenecks and shortening delivery times. But overall business surveys suggest economic activity broadly stagnated at the end of Q4 and uncertainty remains high in light of Omicron risks and its impact on supply chains and consumer spending.
- Europe's energy crisis showed signs of calming**, after natural gas prices have come down some 50% since the late December peak, **but it is too early to call it over in our view** (see also *Euro inflation notes - Energy crisis not over yet, but light at the end of the tunnel*, 7 January). Euro area HICP inflation reached another record high of 5.0% in December, as particularly food prices added further to the huge energy contribution and core inflation remained elevated at 2.6%. We forecast headline inflation at 3.2% this year and 1.5% in 2023. Business surveys also point to an easing of cost-push pressures ahead. However, upside risks still stem from the reversal of discretionary fiscal measures, Omicron disruptions, Russia tensions and ongoing green transition efforts. In order to ease green transition challenges, the EU Commission *proposed* to give the green label now also to nuclear energy and natural gas in its long-awaited taxonomy for sustainable finance, which has received fierce criticism from some EU member states such as Germany, Austria and Luxembourg.
- In light of continued inflation upside surprises, ECB initiated the first cautious steps towards policy normalisation at the December meeting.** In line with the global tightening trend, ECB decided to phase out its PEPP programme in March and continue its normal QE programme at a slightly higher purchase pace during Q2 and Q3 22, while also leaving the door open for a rate hike in 2023 (for details see also *ECB Review - Data dependent means flexibility and optionality*, 16 December 2021). This will crucially depend on how wages are developing. Although the inflation outlook was significantly revised up for 2022 and 2023, ECB still foresees HICP inflation moderating to 1.8% at the end of the forecast horizon. This seems still too low for ECB to be comfortable with initiating first rate hike discussions at the current stage, but President Lagarde stressed that ECB will remain data dependent and adapt its outlook and policy guidance if upside risks to inflation appear. Should the envisioned pick up in wage growth materialize, we could see a rate hike coming in late 2023, but overall we continue to expect a much more cautious policy normalisation approach from ECB than e.g. the Fed.

### Key points

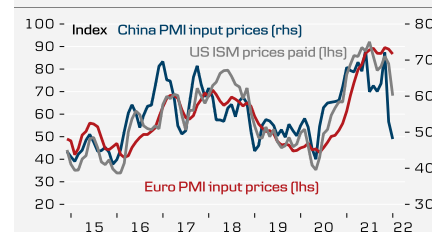
- Services activity hit by new COVID-19 restrictions
- European energy crisis not over yet, but light at the end of the tunnel
- ECB takes first cautious steps towards policy normalisation

### Services activity has taken a hit from new COVID-19 restrictions



Source: Google Mobility, Macrobond Financial, Danske Bank

### Business surveys point to easing input price inflation ahead



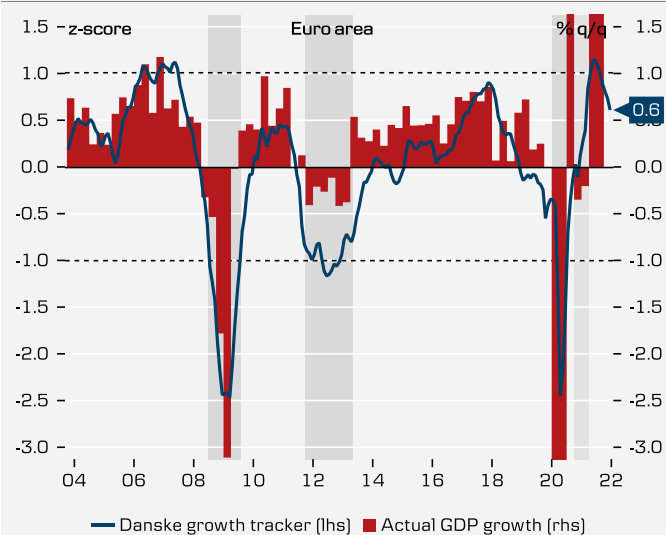
Source: Markit, ISM, Macrobond Financial, Danske Bank

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# The Danske euro area growth tracker

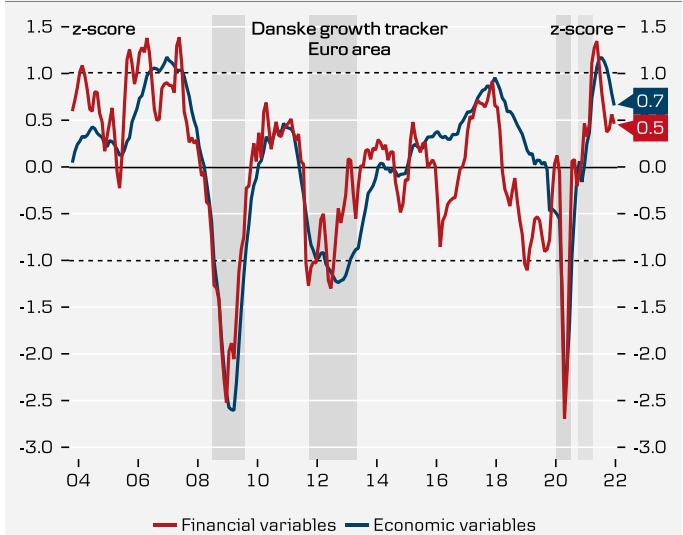
Our growth tracker continued its gradual downtrend to 0.6 in December. Still in expansion territory, but with signs of abating growth momentum visible across both economic and financial variables. Amid the headwinds described above, weaker macro momentum probably still lies ahead, but overall the probability for an economic slowdown remains low according to our traffic light indicator.

**Growth tracker and actual GDP growth**



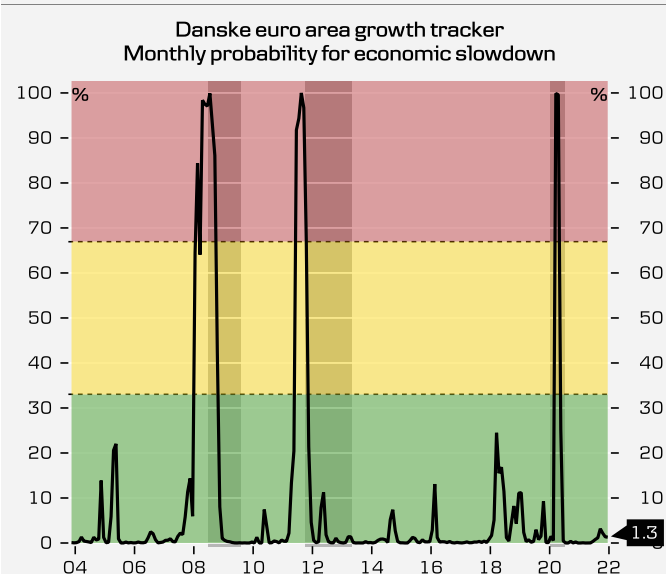
Note: Shaded area indicates historical recessions  
Source: Macrobond Financial, Danske Bank

**Growth tracker: financial and economic variables**



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

**Monthly probability of economic slowdown**



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

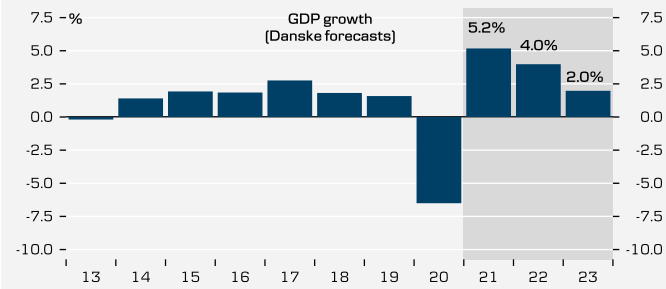
**Danske growth tracker decomposition**

	December 2021
<b>Economic variables</b>	
European sentiment indicator	1.7
Real M1 growth	1.5
Unemployment	1.3
Profit growth	0.8
Consumer confidence	0.7
OECD CLI	0.6
ZEW	0.5
Capacity utilisation	0.5
PMI order-inventory balance	0.4
Composite PMI	0.2
EuroCOIN	0.0
Credit growth	0.0
<b>Financial variables</b>	
Eurostoxx50	0.9
Sentix	0.6
Euro surprise index	0.3
Corporate vs. gov. bond yield	0.1

Source: Danske Bank

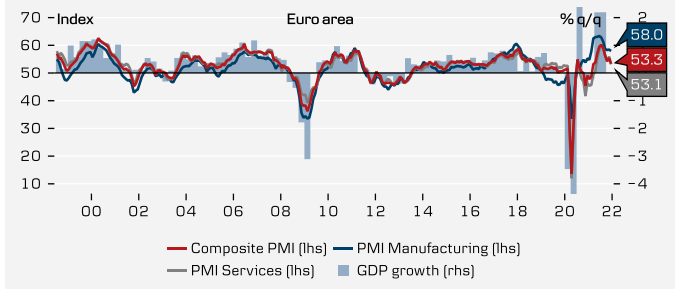
# Euro area

## GDP growth forecasts



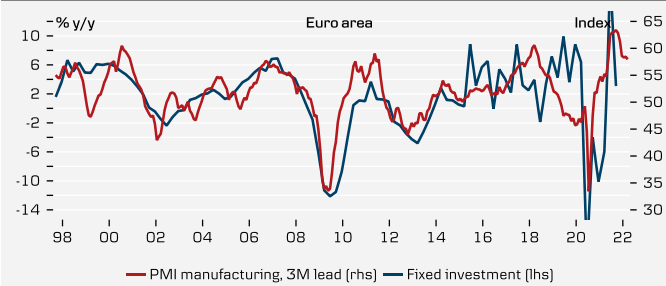
Source: Macrobond Financial, Danske Bank forecasts

## PMI and GDP growth



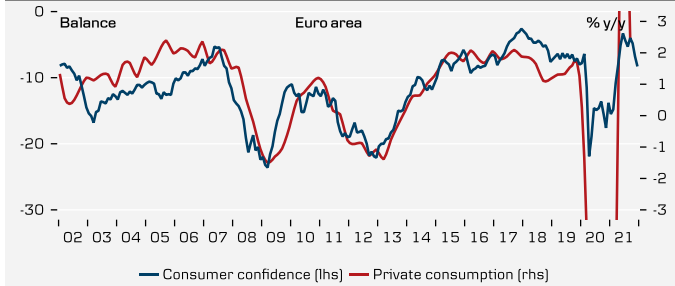
Source: Macrobond Financial, Danske Bank

## Manufacturing sentiment and investments



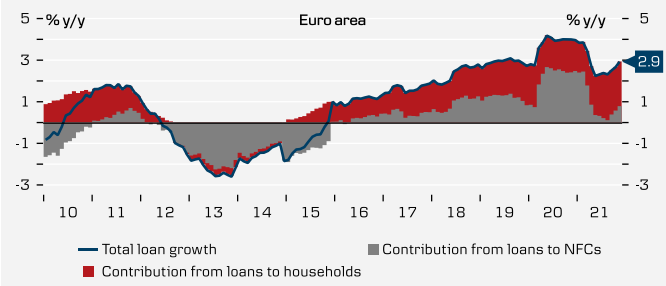
Source: Macrobond Financial, Danske Bank

## Consumer confidence and private consumption



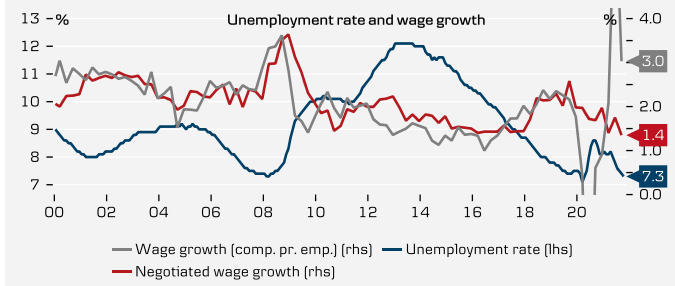
Source: Macrobond Financial, Danske Bank

## Credit growth



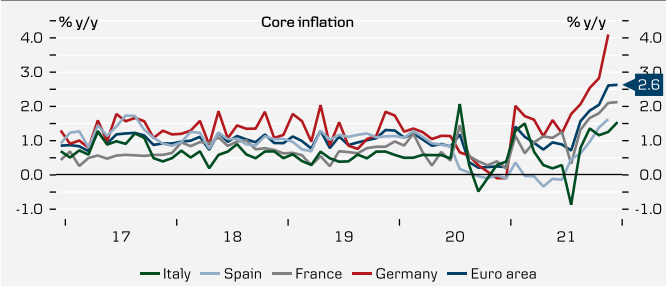
Source: Macrobond Financial, Danske Bank

## Unemployment and wage growth



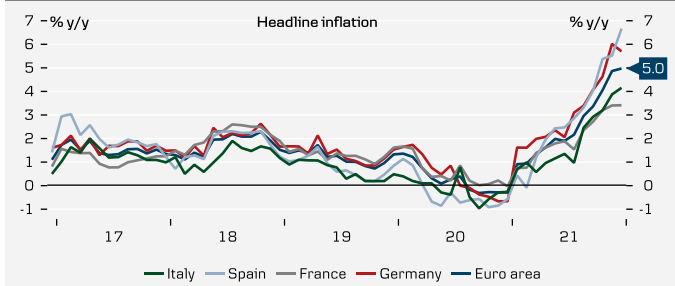
Source: Macrobond Financial, Danske Bank

## Core inflation



Source: Macrobond Financial, Danske Bank

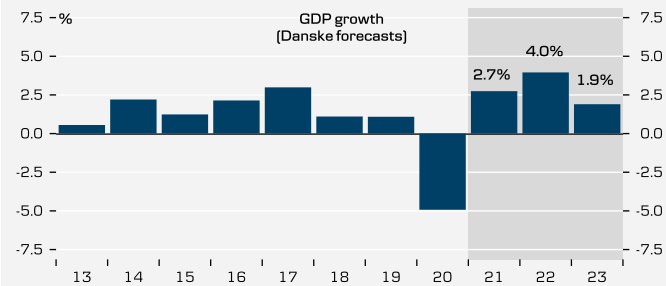
## HICP inflation



Source: Macrobond Financial, Danske Bank

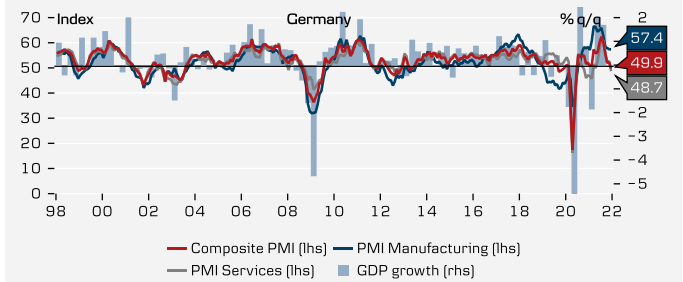
# Germany

## GDP growth forecasts



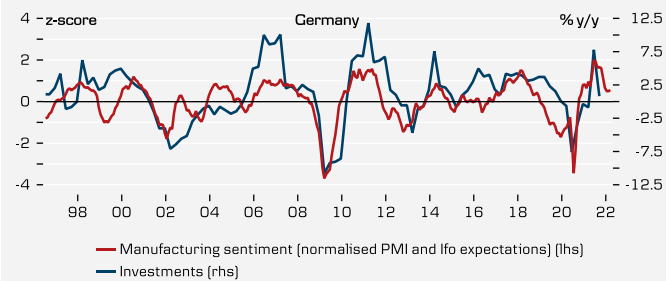
Source: Macrobond Financial, Danske Bank forecasts

## PMI and GDP growth



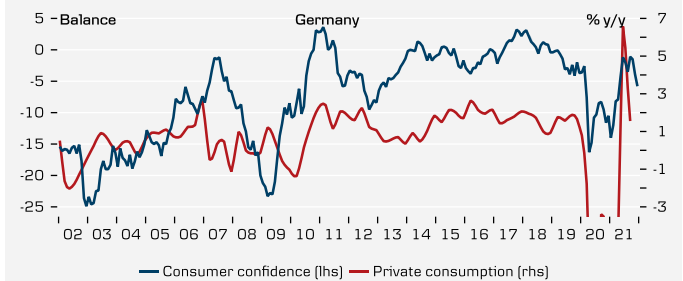
Source: Macrobond Financial, Danske Bank

## Manufacturing sentiment and investments



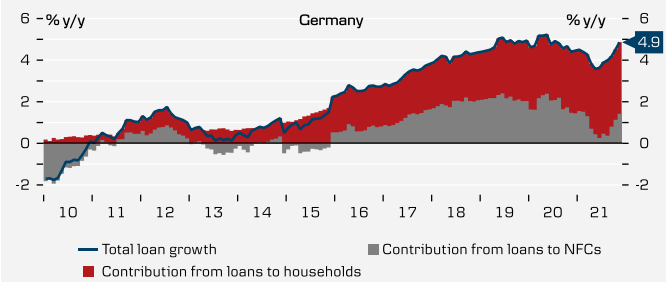
Source: Macrobond Financial, Danske Bank

## Consumer confidence and private consumption



Source: Macrobond Financial, Danske Bank

## Credit growth



Source: Macrobond Financial, Danske Bank

## Unemployment and wage growth



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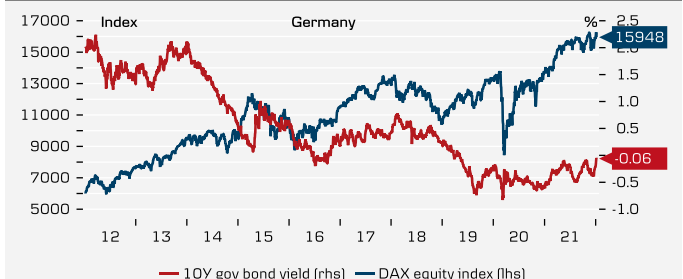
## Google mobility trends in retail & recreation



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

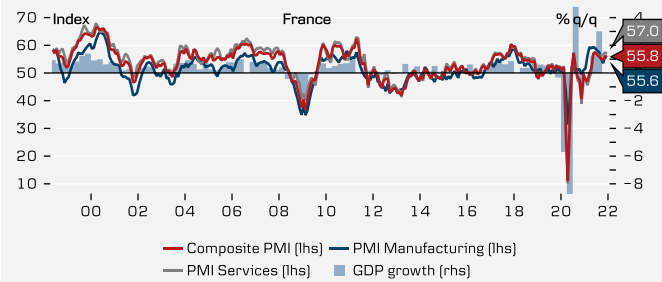
## Financial markets



Source: Macrobond Financial, Danske Bank

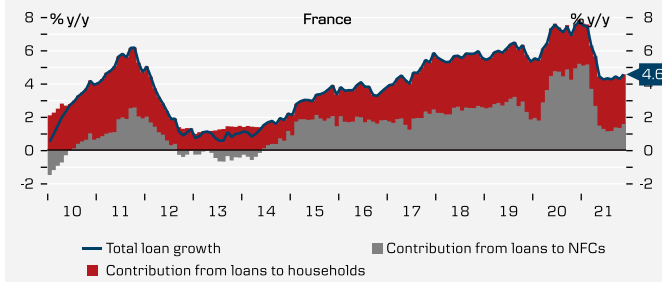
# France

## PMI and GDP growth



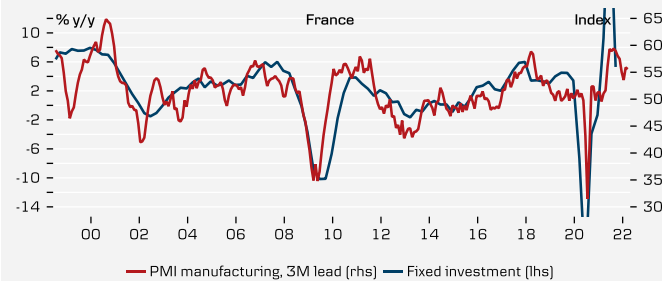
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## Credit growth



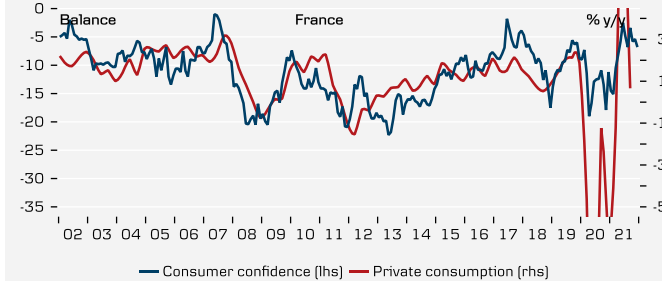
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## Manufacturing sentiment and investments



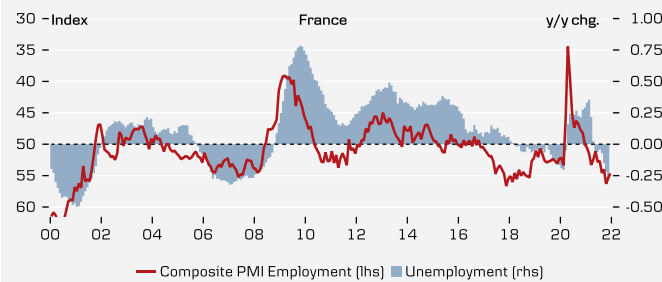
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## Consumer confidence and private consumption



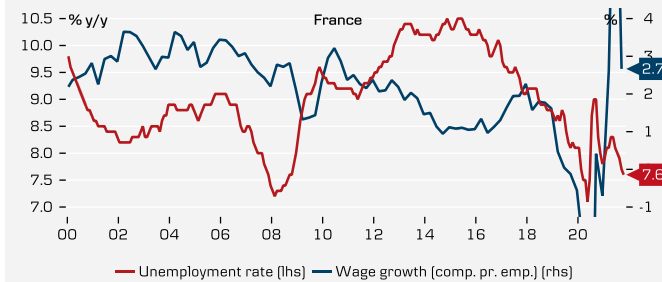
Source: Macrobond Financial, Danske Bank

## Unemployment and PMI



Source: Macrobond Financial, Danske Bank

## Unemployment and wage growth



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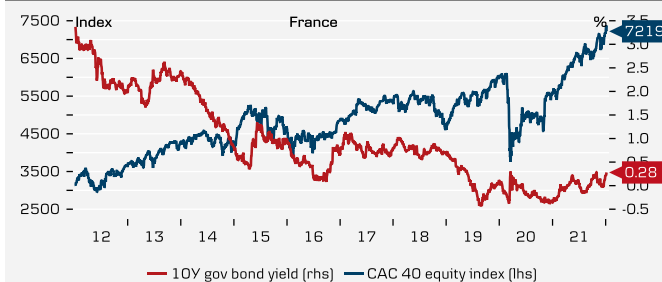
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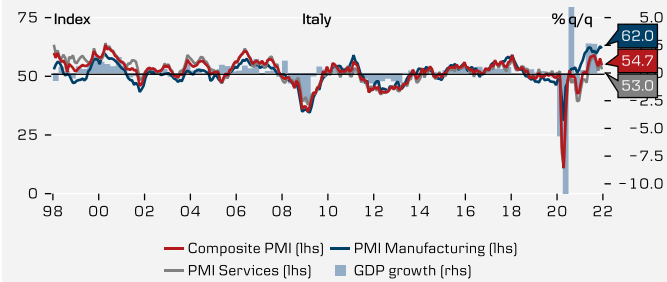
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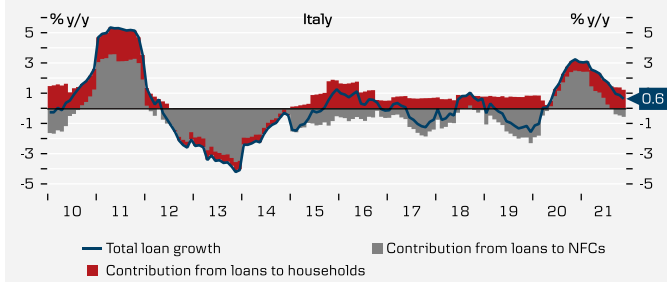
# Italy

## PMI and GDP growth



Source: Macrobond Financial, Danske Bank

## Credit growth



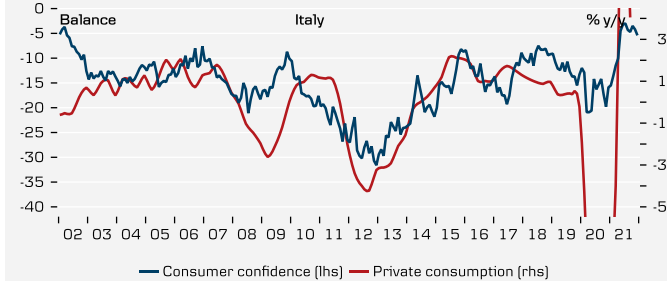
Source: Macrobond Financial, Danske Bank

## Manufacturing sentiment and investments



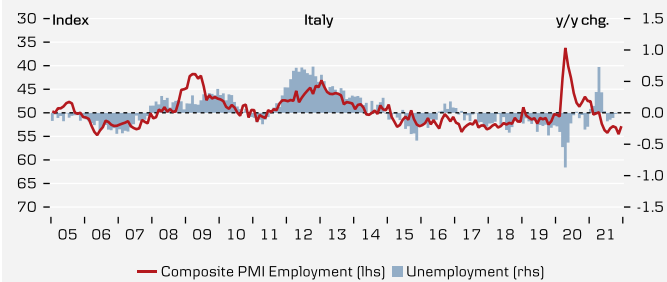
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## Consumer confidence and private consumption



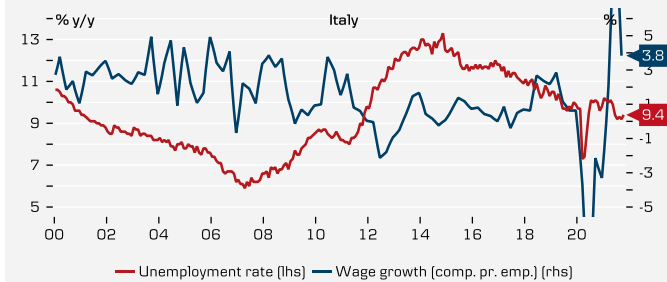
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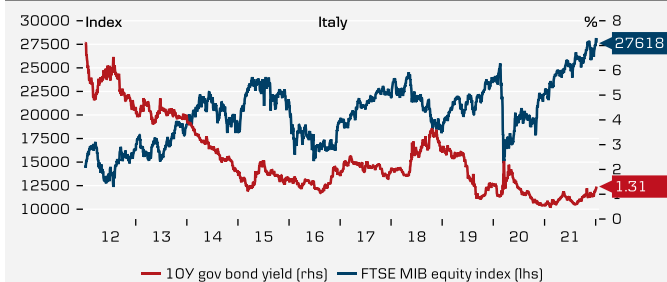
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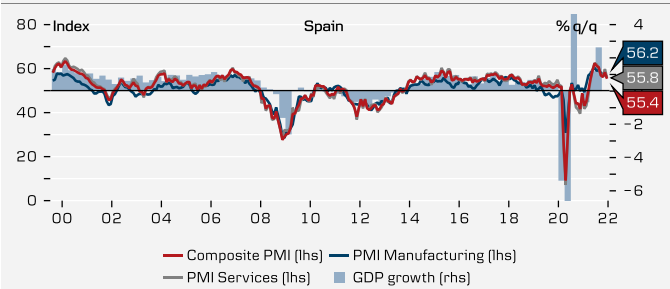
## Financial markets



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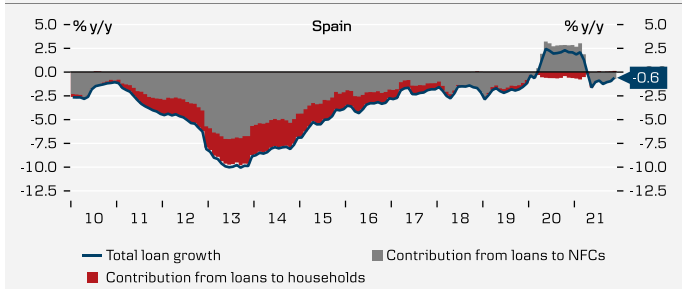
# Spain

## PMI and GDP growth



Source: Macrobond Financial, Danske Bank

## Credit growth



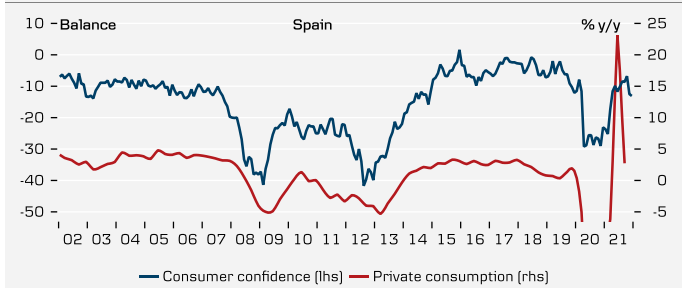
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## Manufacturing sentiment and investments



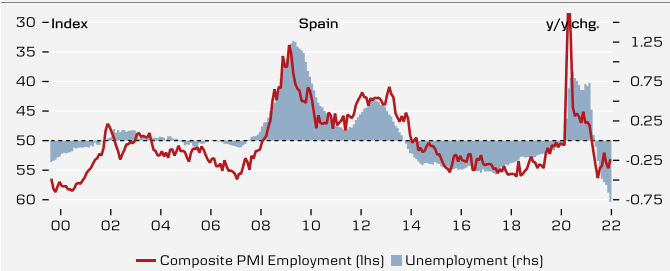
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## Consumer confidence and private consumption



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## Unemployment and PMI



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## Unemployment and wage growth



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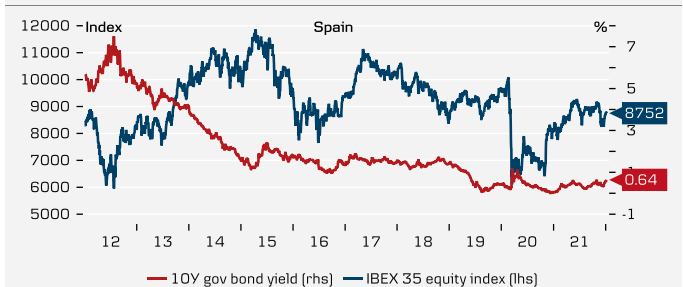
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## Financial markets



Source: Macrobond Financial, Danske Bank

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