

Euro Area Macro Monitor

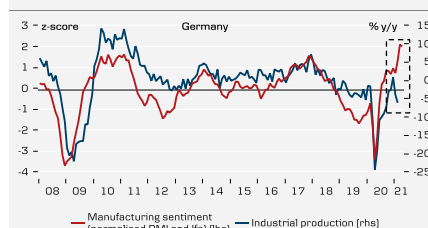
Double-dip recession, but spring is in the air

- Euro area GDP declined by 0.6% q/q in Q1 21** and corona-induced consumption weakness and less tailwind from exports were likely the primary drivers of the contraction. Notable country differences were visible, with the French economy expanding by 0.4% q/q due to a strong investment performance, while Germany posted a significant contraction of -1.7% q/q on the back of more pervasive service sector restrictions. Furthermore, German manufacturing activity and exports were hit by Brexit repercussions and – more importantly – bottlenecks in global supply chains that led to a shortage of inputs and production stops f. ex. in the important car industry.
- Although the Q1 GDP decline has plunged the euro area now formally back into technical recession, we expect it to be a short-lived one.** As virus numbers slowly decline and the vaccination pace picks up, we still think a gradual reopening of the services sector will be possible in Q2, allowing private consumption to play a bigger role as growth driver again. Further, the Q1 dichotomy between upbeat business expectations and strong order books on the one hand and weak ‘hard’ production data on the other hand leaves room for manufacturing and exports to surprise on the upside, once supply chain bottlenecks start to abate. Overall, we forecast euro area growth at 4.3% in 2021 and 4.1% in 2022.
- With the end of April deadline approaching, **more European countries submitted their recovery and resilience plans to the European Commission** to access funds from the ‘Next Generation EU’ instrument. Italian PM Draghi presented an ambitious overhaul plan of the Italian economy worth EUR 235bn (14% of GDP stretched over six years) that also foresees crucial structural reforms in the legal system and public administration. France and Germany’s recovery plans (EUR 41bn and EUR 28bn, respectively) focussed similarly on green investments and digitalisation, but structural reforms played a smaller role.
- The April ECB meeting brought no new policy signals, postponing most decisions for the June meeting.** ECB still saw the near-term growth outlook ‘tilted to the downside’. However, the medium-term growth risk are now seen as ‘broadly balanced’, which could pave the way for a lower PEPP purchase volume to be agreed at the June meeting in our view (see also *Flash: ECB Review - Not a ‘significant’ meeting, 22 April*). Headline inflation continued to increase to 1.6% in April, but with transitory and base effects still in the driving seat and weak underlying inflation pressures in the services sector, ECB continues to look through the near-term inflation spike.
- We have taken a deep dive into German politics ahead of the federal election on 26 September.** Most importantly, The Green Party is likely to be king-makers in any future governing coalition, opening up the potential for a more relaxed fiscal stance down the line. However, the debt brake will still limit expansionary fiscal policies and a European leadership vacuum leaves room for more political uncertainty on the European stage. For more details see *Research Germany: End of the “era Merkel” leaves German politics in uncharted territory, 27 April*.

Key points

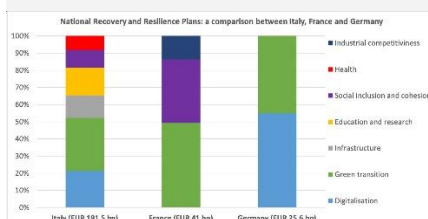
- Euro area falls back into technical recession in Q1 21, but it will be a short-lived one
- EU countries present their recovery plans to Brussels
- Angela Merkel’s succession race is heating up

Dichotomy between upbeat business surveys and weak production data



Source: Ifo, Markit, Destatis, Macrobond Financial, Danske Bank

EU recovery plans focus on digital and green investments



Source: Bruegel on national drafts presented between 25-27 April 2021

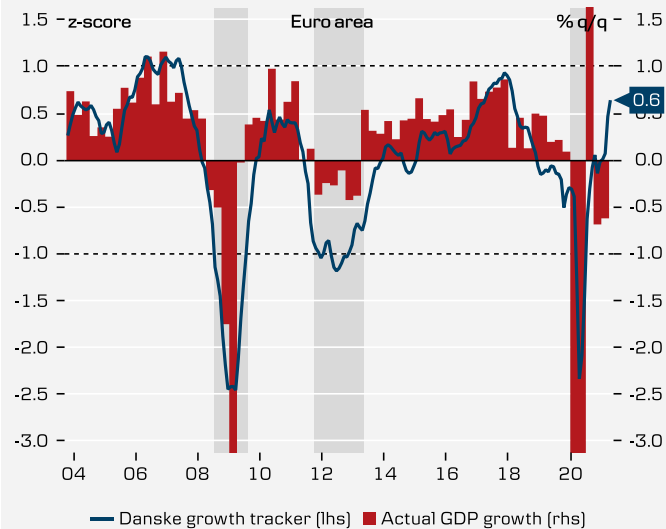
Note: Graph refers to Recovery and Resilience Facility (RRF) resources only

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The Danske euro area growth tracker

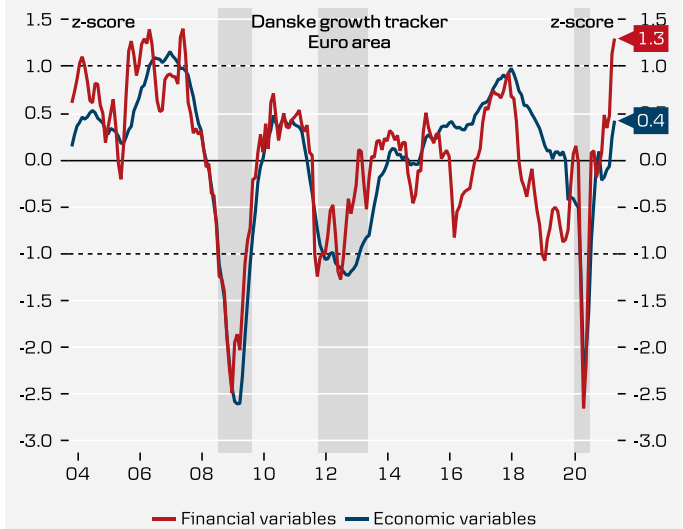
Our growth tracker rose further in March to a value of 0.6 (from 0.4 in March), helped by improvements both in the economic and financial variables. Very high surprise indices, equity markets and PMI order-inventory balances stand out among the variables (more than two standard deviations above their historical averages). This supports our view that hard data in Q1 21 have likely painted a too gloomy view of the underlying economic momentum and prospects should brighten in Q2.

Growth tracker and actual GDP growth



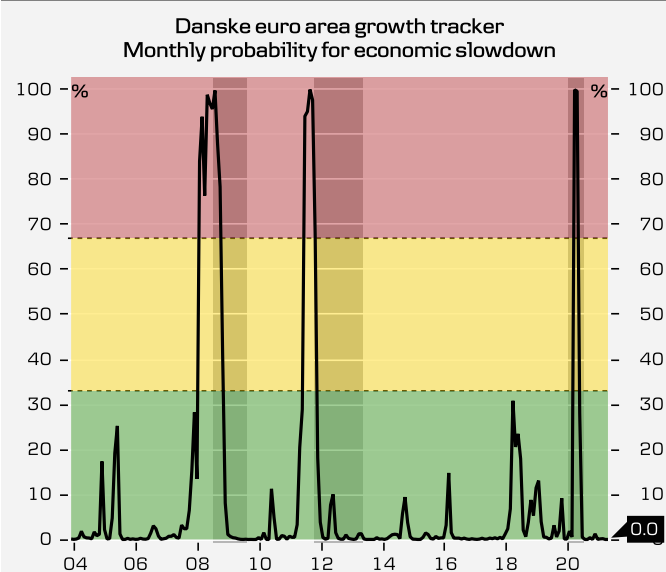
Note: Shaded area indicates historical recessions
Source: Macrobond Financial, Danske Bank

Growth tracker: financial and economic variables



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

Monthly probability of economic slowdown



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

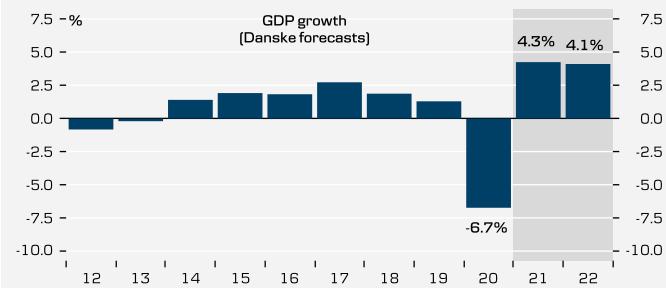
Danske growth tracker decomposition

	April 2021
Economic variables	0.4
PMI order-inventory balance	2.4
Real M1 growth	1.7
EuroCOIN	1.3
European sentiment indicator	1.1
Consumer confidence	0.8
Capacity utilisation	0.6
Composite PMI	0.3
Credit growth	-0.2
OECD CLI	-0.2
Profit growth	-0.4
ZEW	-0.9
Unemployment	-1.4
Financial variables	1.3
Euro surprise index	2.3
Eurostoxx50	2.1
Sentix	0.6
Corporate vs. gov. bond yield	0.3

Source: Danske Bank

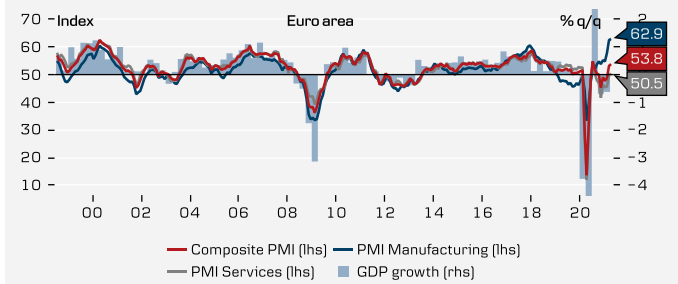
Euro area

GDP growth forecasts



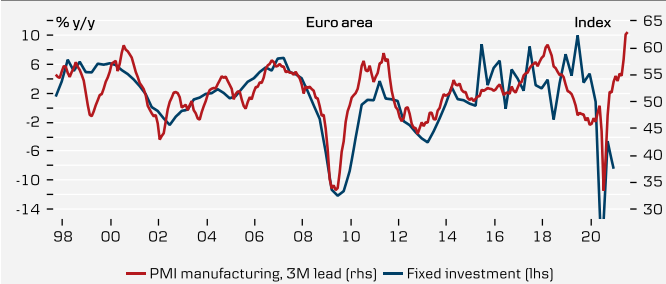
Source: Macrobond Financial, Danske Bank forecasts

PMI and GDP growth



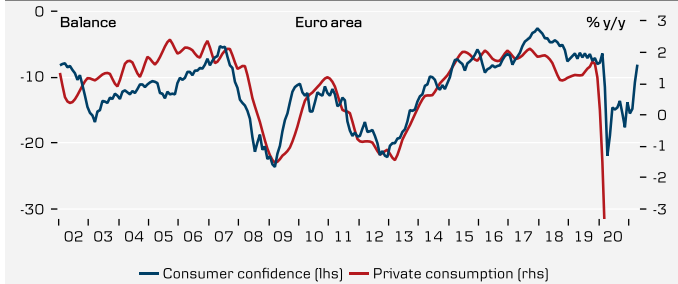
Source: Macrobond Financial, Danske Bank

Manufacturing sentiment and investments



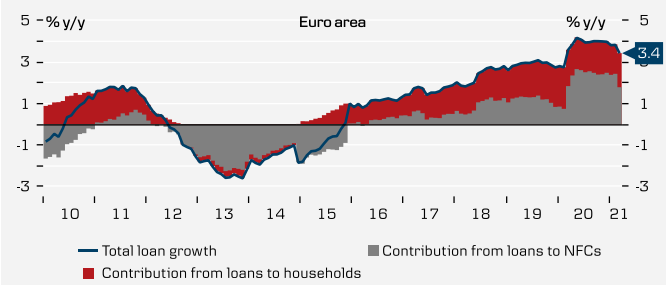
Source: Macrobond Financial, Danske Bank

Consumer confidence and private consumption



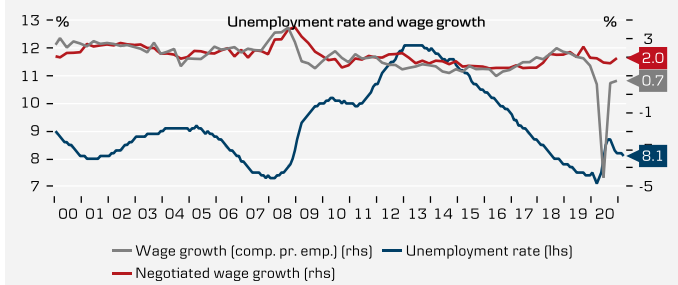
Source: Macrobond Financial, Danske Bank

Credit growth



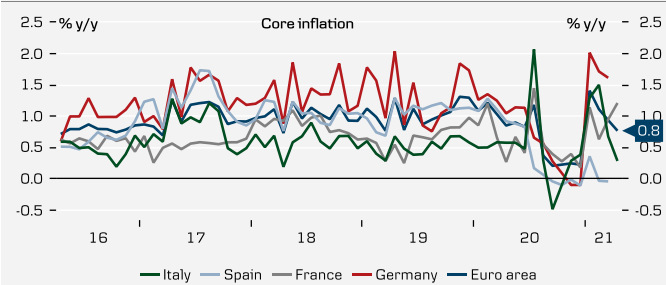
Source: Macrobond Financial, Danske Bank

Unemployment and wage growth



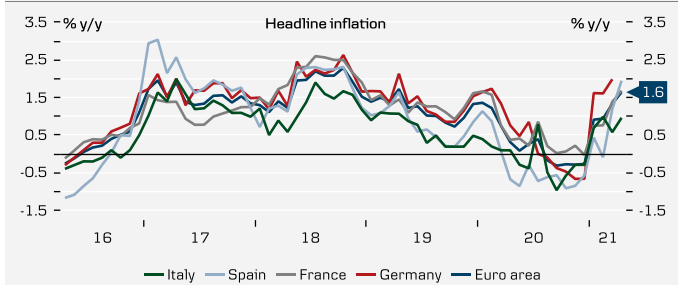
Source: Macrobond Financial, Danske Bank

Core inflation



Source: Macrobond Financial, Danske Bank

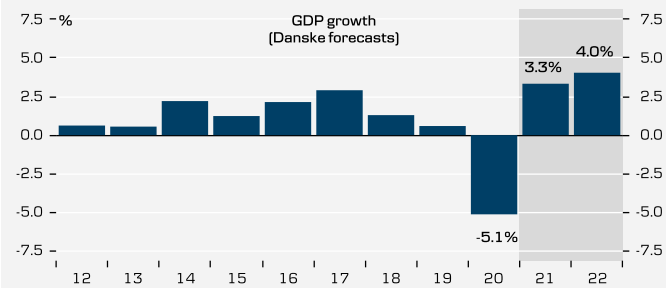
HICP inflation



Source: Macrobond Financial, Danske Bank

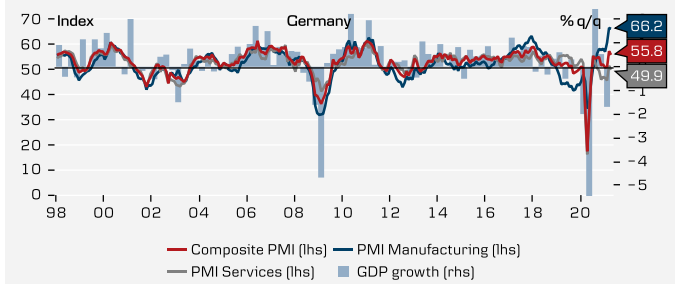
Germany

GDP growth forecasts



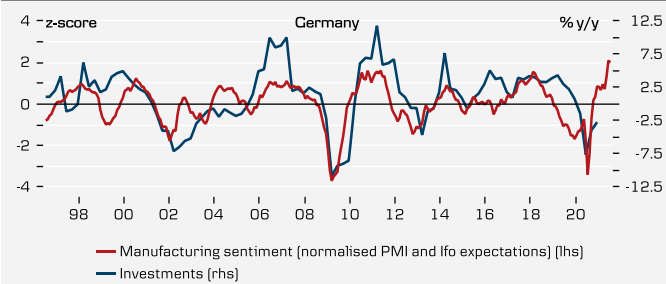
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PMI and GDP growth



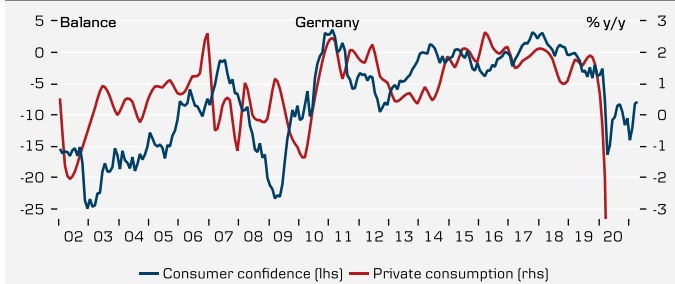
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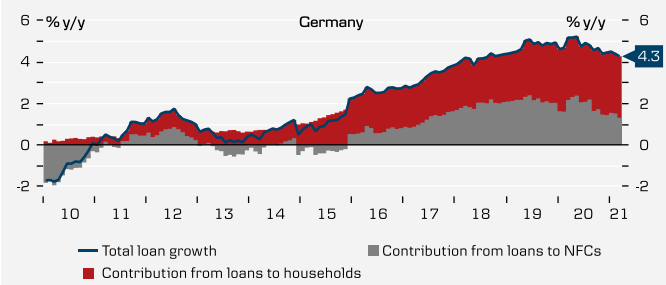
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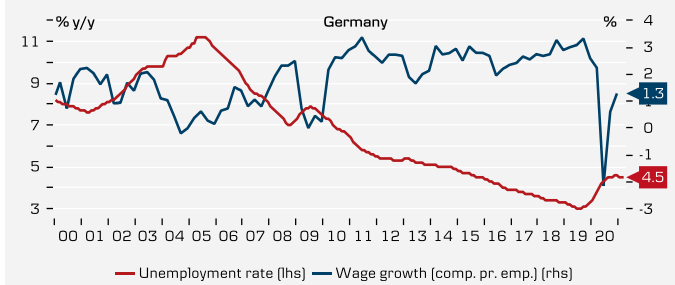
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Credit growth



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Unemployment and wage growth



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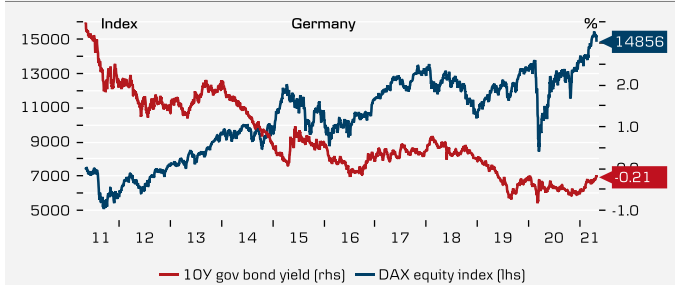
Google mobility trends in retail & recreation



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

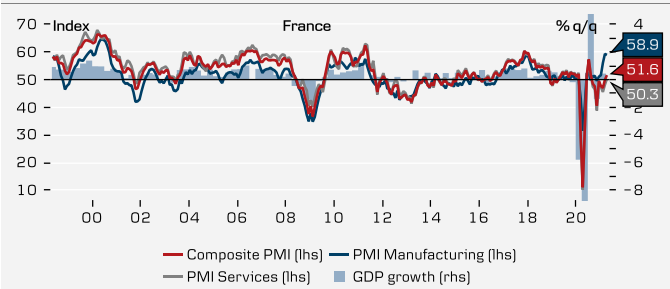
Financial markets



Source: Macrobond Financial, Danske Bank

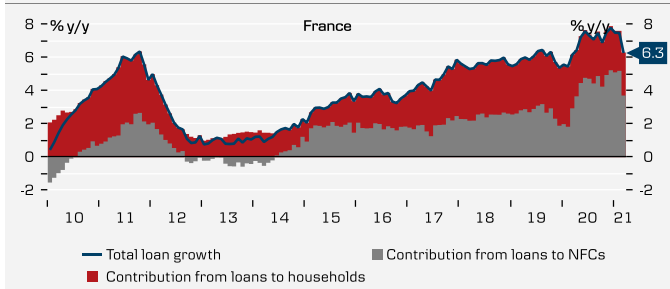
France

PMI and GDP growth



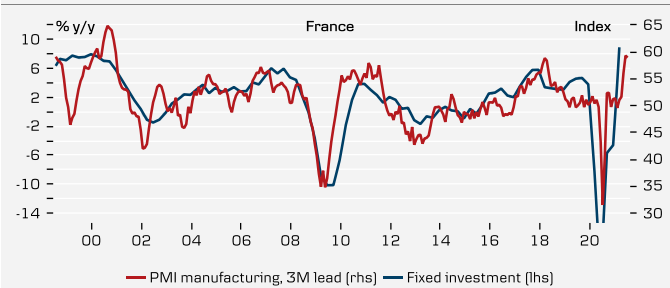
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Credit growth



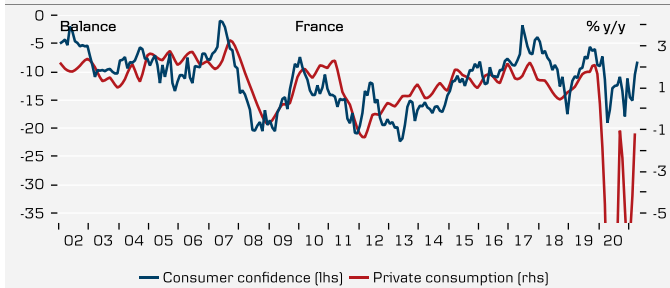
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Manufacturing sentiment and investments



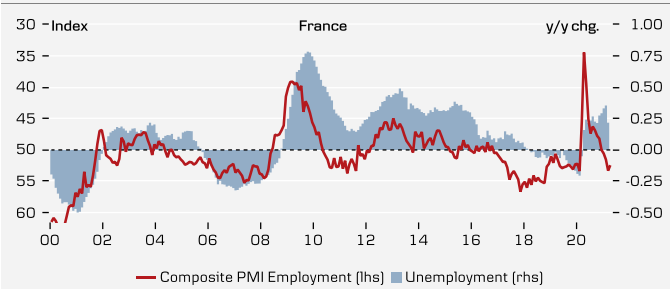
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Consumer confidence and private consumption



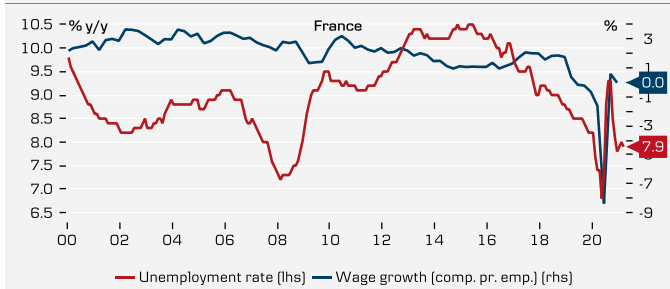
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Unemployment and PMI



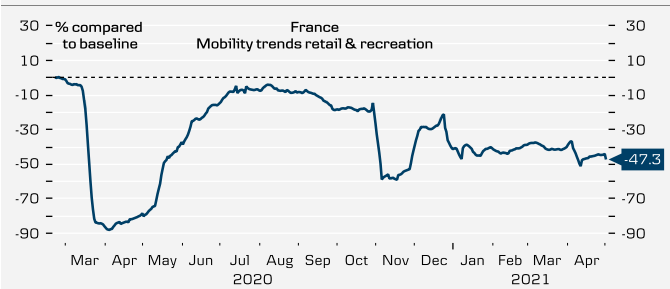
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Unemployment and wage growth



Source: Macrobond Financial, Danske Bank

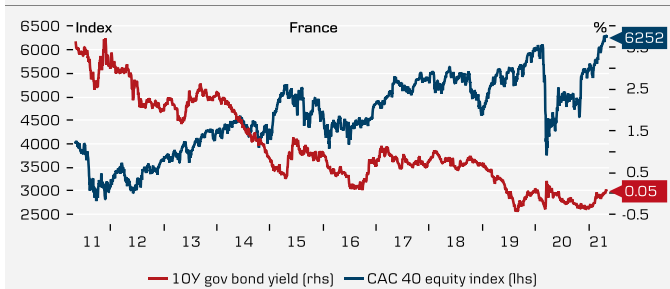
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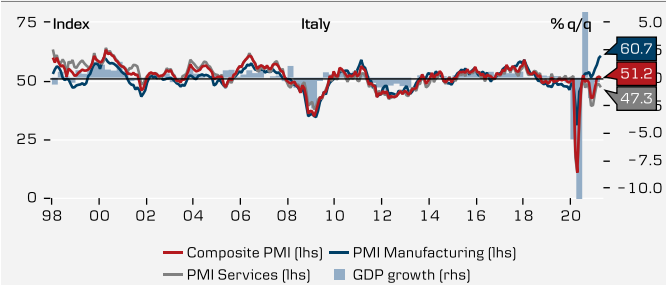
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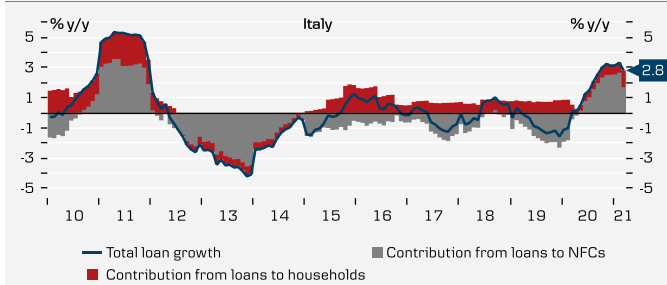
Italy

PMI and GDP growth



Source: Macrobond Financial, Danske Bank

Credit growth



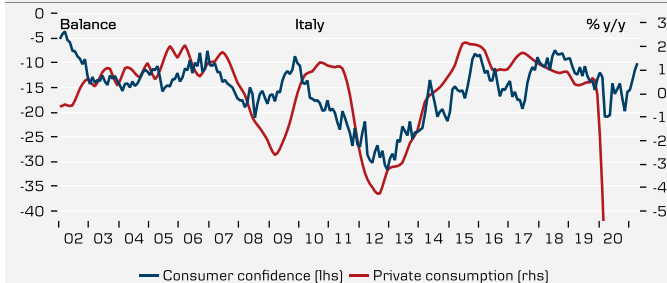
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Manufacturing sentiment and investments



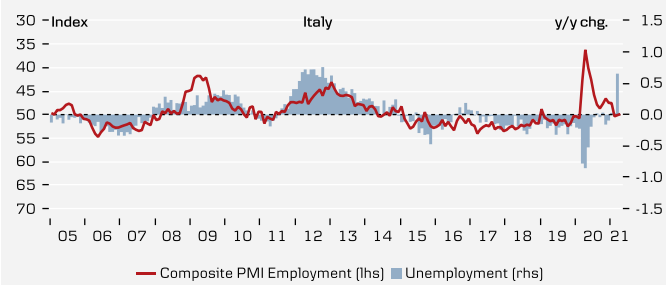
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Consumer confidence and private consumption



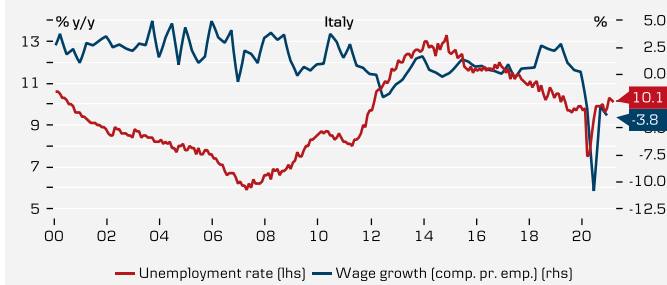
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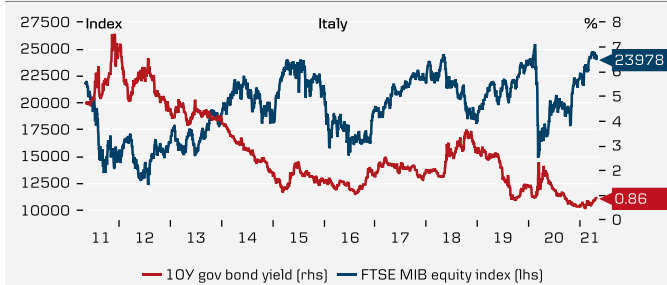
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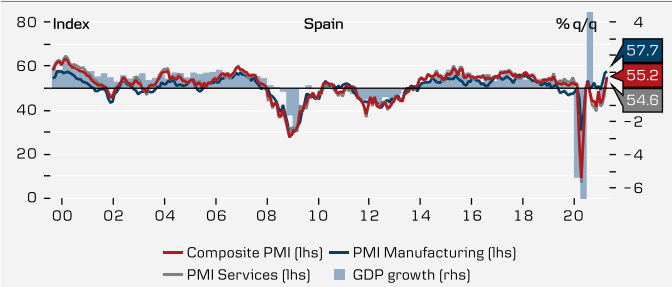
Financial markets



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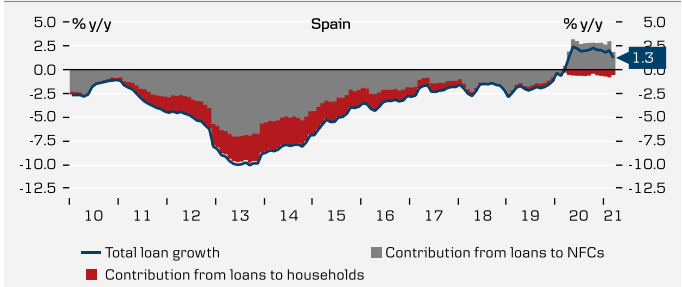
Spain

PMI and GDP growth



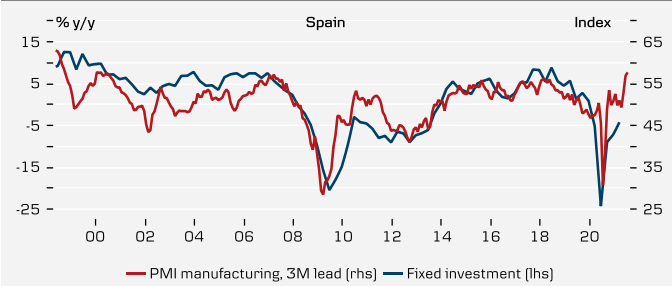
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Credit growth



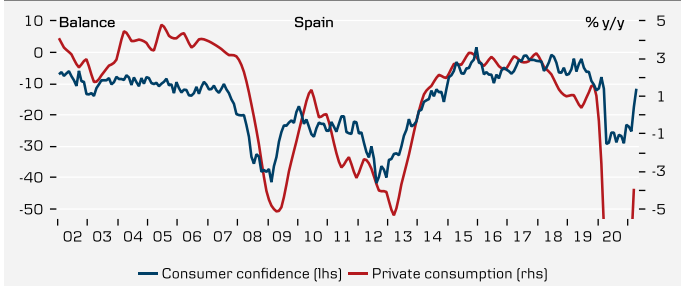
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Manufacturing sentiment and investments



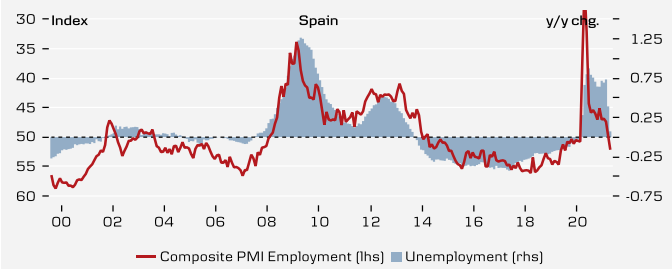
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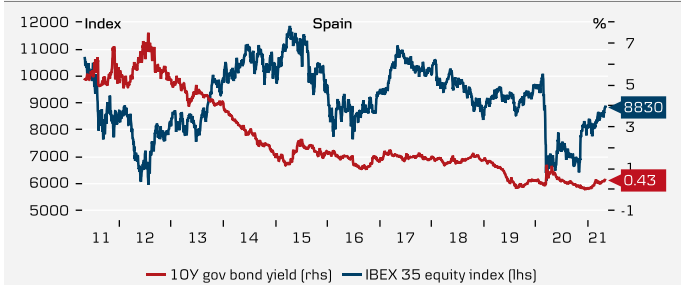
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Financial markets



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Date of first publication

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