

# Euro Area Macro Monitor

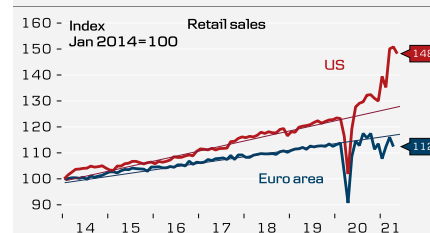
## We have lift-off

- **The euro area recovery picked up pace at the end of Q2 according to June PMIs**, helped by ongoing strong manufacturing activity and a service sector that is increasingly taking over as a more important growth driver again with the gradual re-opening of economies. Business activity grew at the fastest rate in 15 years and thanks to pent-up demand we expect this strong momentum to carry over into Q3. **That said, after a 'hot' summer we believe the global manufacturing cycle is set to peak during Q3** as some of the strong tailwinds behind the boom are about to fade (see also *Research Global - Manufacturing cycle to peak in Q3*, 21 June). We see scope for Europe's manufacturing boom to extend into H2 21, with the turn of the cycle slightly lagging China and the US, but we do not think that Europe's manufacturing cycle can escape abating global momentum for long, as waning external demand from key exports markets will eventually leave their mark on order books and production levels (see *Research Euro Area - Tide is slowly turning for European manufacturing*, 22 June).
- **Supply shortages remain widespread and inflationary cost pressures continued to build in both manufacturing and services**, with both input costs and output prices rising at faster rates. First signs of rising inflationary pressures for goods were also visible in the June HICP figures, with non-energy industrial goods (NEIG) inflation taking a leap from 0.7% in May to 1.2% in June. That said, overall core inflation declined back to 0.9%, as service price inflation eased and with ample slack still in the labour market and a muted outlook for wage growth, we remain sceptic that core inflation is about to return to the highs preceding the Global Financial Crisis on a sustained basis (read more in *Research Euro Area - Mind the inflation gap*, 8 June).
- **Despite significant upgrades to its growth and inflation outlook, ECB continued to maintain its accommodative policy stance at the June meeting**, with PEPP purchases still to be conducted at a 'significantly higher pace' in Q3 compared to the first months of the year (see *Flash: ECB Research - ECB turning risk manager*, 10 June). **Discussions on the strategic review are also gathering pace in the ECB Governing Council**. While policymakers remain somewhat divided on a new inflation strategy (especially on how to deal with inflation overshoots), it seems consensus is building to include climate and owner-occupied housing in monetary policy decisions. The hope is for a deal to be reached before September, when a decision on the future of the PEPP programme is on the agenda. As we argued in *ECB Research Strategy Review: 'leaving no stone unturned'*, 18 June, we expect a rather muted market reaction to the strategic review outcomes.
- **French regional elections brought a first setback in Marine Le Pen's bid for the French presidency next year**. Her far-right RN party performed worse than expected, and failed to secure its first regional government. Instead, it was a strong showing by incumbent candidates from the centre-right Republicans. However, with voter turnout at a record low 32% and still some 10 months until the presidential election, one should be cautious to completely write-off the risk of a Le Pen presidency. Successfully kick-starting the French economy after the pandemic will be crucial for President Macron's re-election chances.

### Key points

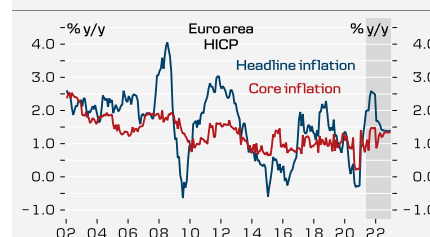
- Business activity grows at fastest rate in 15 years
- ECB errs on the side of caution and keeps accommodative stance
- Setback for Marine Le Pen's bid for the French presidency

### More room for pent-up demand to boost goods consumption in Europe



Source: Eurostat, U.S. Census Bureau, Macrobond Financial, Danske Bank

### Euro core inflation not to return to pre-Global Financial Crisis highs



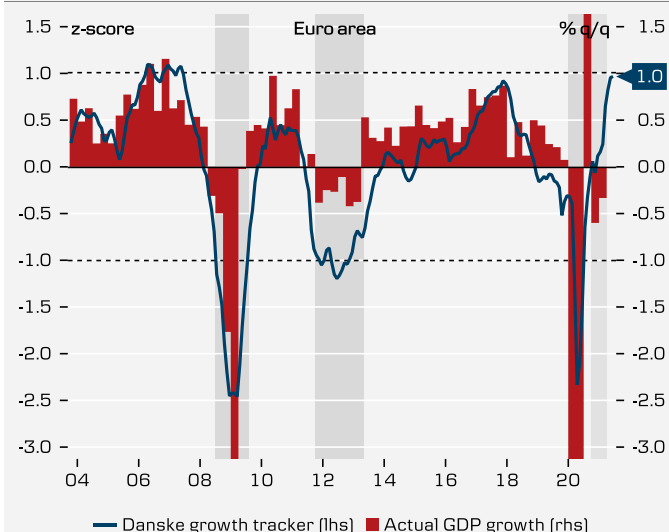
Source: Eurostat, Macrobond Financial, Danske Bank

Senior Analyst  
Aila Mihr  
+45 45 12 85 35  
amih@danskebank.dk

# The Danske euro area growth tracker

Our growth tracker rose further in June to a value of 1.0 (from 0.8 in May), supporting the narrative of an accelerating euro area recovery. Financial variables showed a small setback driven by falling surprise indices and abating equities momentum. However, economic variables continued their rise and further improvements in consumer confidence, services activity and employment helped economic variables back to their highest level since December 2017.

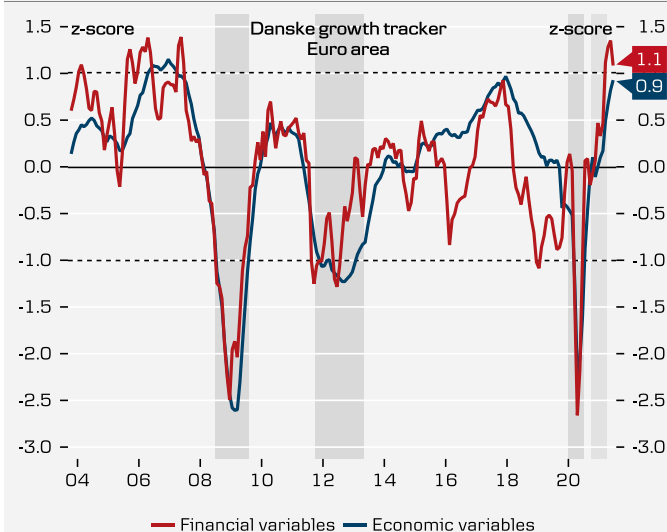
Growth tracker and actual GDP growth



Note: Shaded area indicates historical recessions

Source: Macrobond Financial, Danske Bank

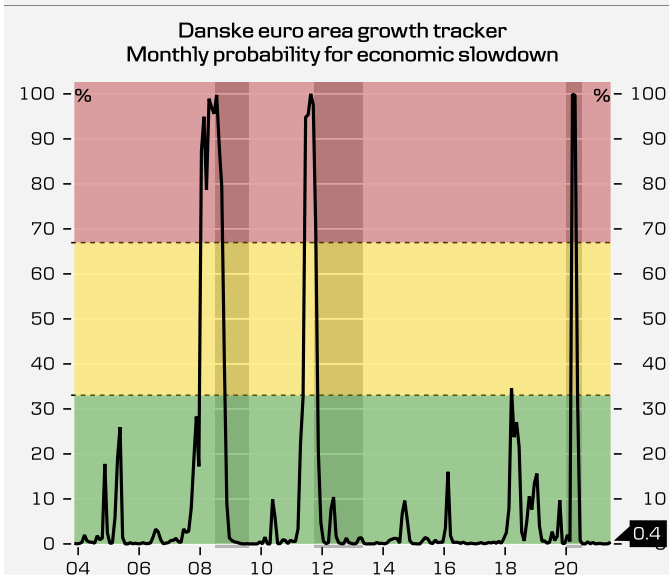
Growth tracker: financial and economic variables



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

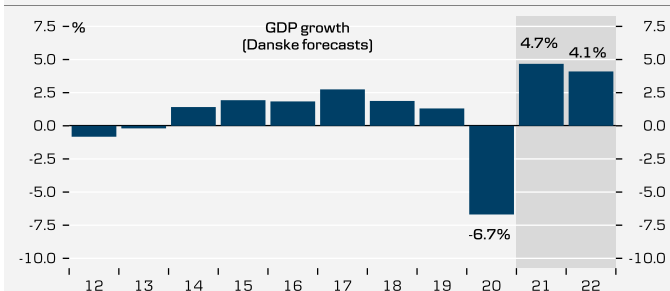
Danske growth tracker decomposition

	June 2021
<b>Economic variables</b>	0.9
PMI order-inventory balance	2.3
Real M1 growth	2.0
European sentiment indicator	1.9
Consumer confidence	1.7
Composite PMI	1.4
EuroCOIN	1.3
Profit growth	0.8
Capacity utilisation	0.6
OECD CLI	0.1
ZEW	0.0
Credit growth	-0.5
Unemployment	-0.5
<b>Financial variables</b>	1.1
Euro surprise index	1.4
Sentix	1.4
Eurostoxx50	1.3
Corporate vs. gov. bond yield	0.3

Source: Danske Bank

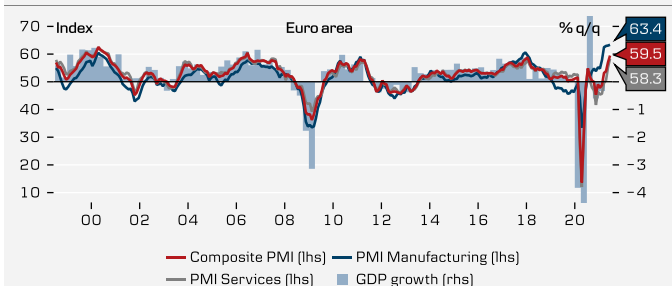
# Euro area

## GDP growth forecasts



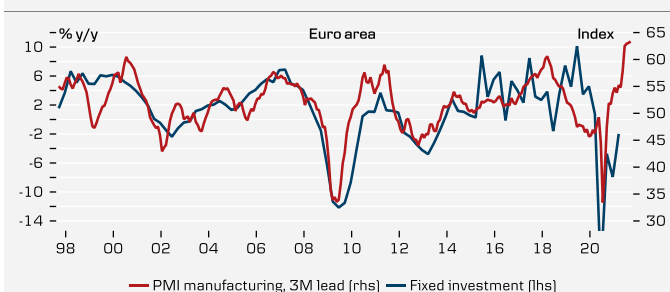
Source: Macrobond Financial, Danske Bank forecasts

## PMI and GDP growth



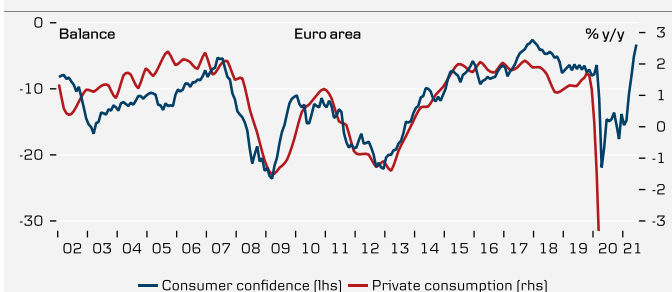
Source: Macrobond Financial, Danske Bank

## Manufacturing sentiment and investments



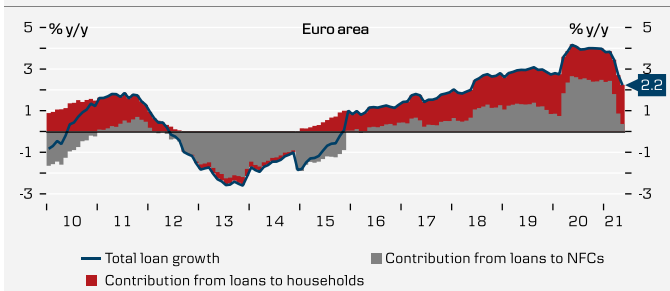
Source: Macrobond Financial, Danske Bank

## Consumer confidence and private consumption



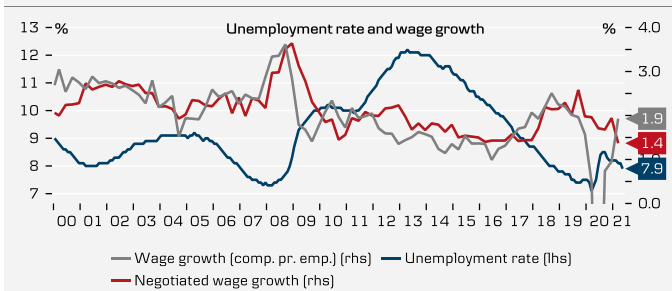
Source: Macrobond Financial, Danske Bank

## Credit growth



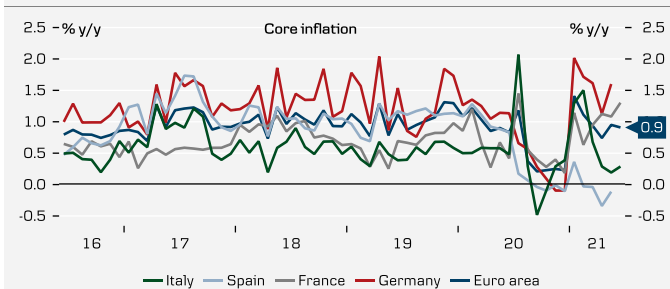
Source: Macrobond Financial, Danske Bank

## Unemployment and wage growth



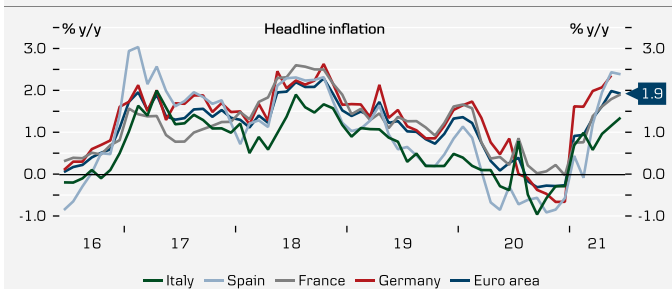
Source: Macrobond Financial, Danske Bank

## Core inflation



Source: Macrobond Financial, Danske Bank

## HICP inflation



Source: Macrobond Financial, Danske Bank

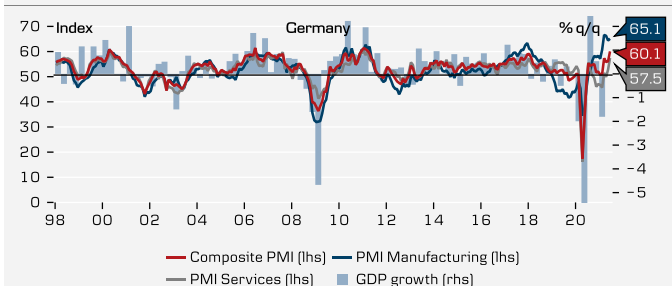
# Germany

## GDP growth forecasts



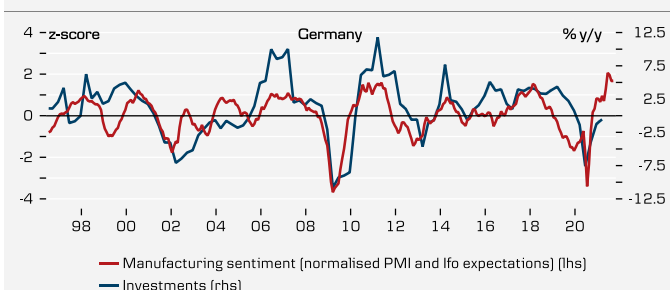
Source: Macrobond Financial, Danske Bank forecasts

## PMI and GDP growth



Source: Macrobond Financial, Danske Bank

## Manufacturing sentiment and investments



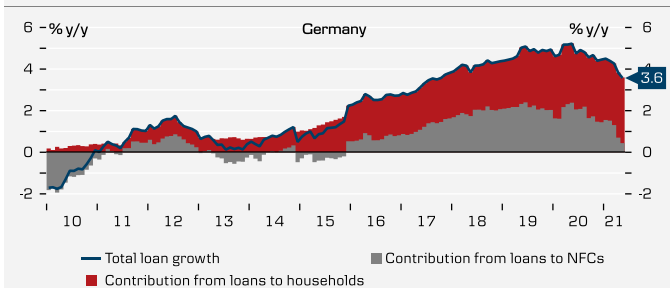
Source: Macrobond Financial, Danske Bank

## 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

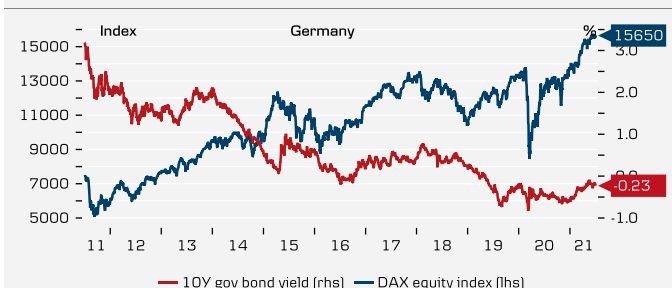
## Google mobility trends in retail & recreation



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

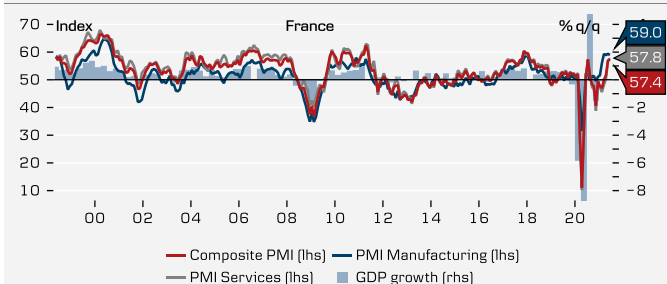
## Financial markets



Source: Macrobond Financial, Danske Bank

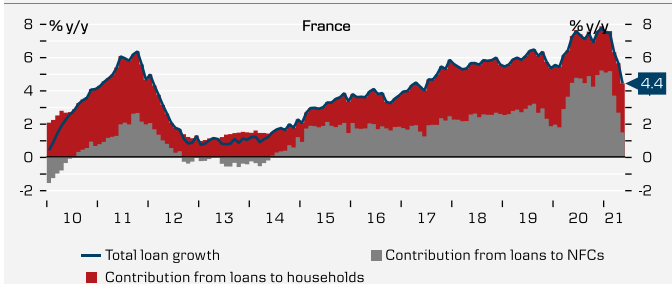
# France

## PMI and GDP growth



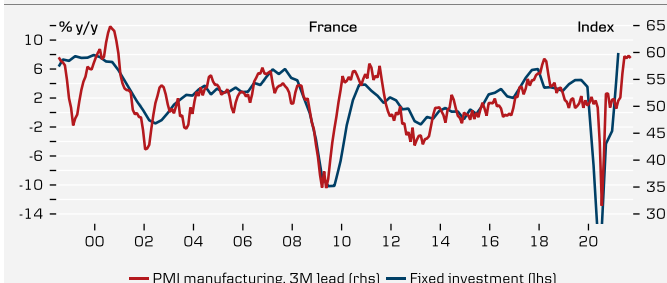
Source: Macrobond Financial, Danske Bank

## Credit growth



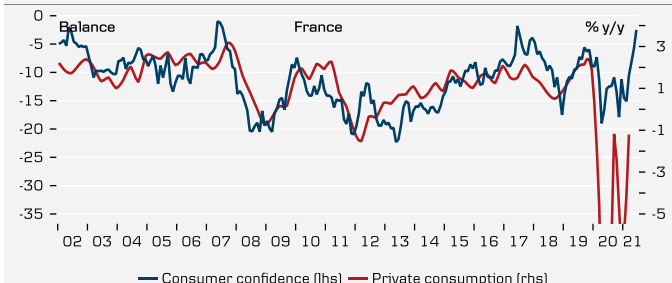
Source: Macrobond Financial, Danske Bank

## Manufacturing sentiment and investments



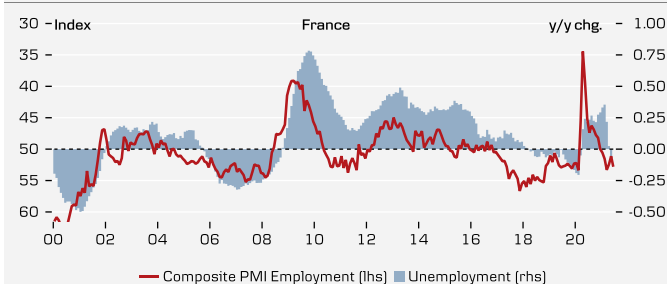
Source: Macrobond Financial, Danske Bank

## Consumer confidence and private consumption



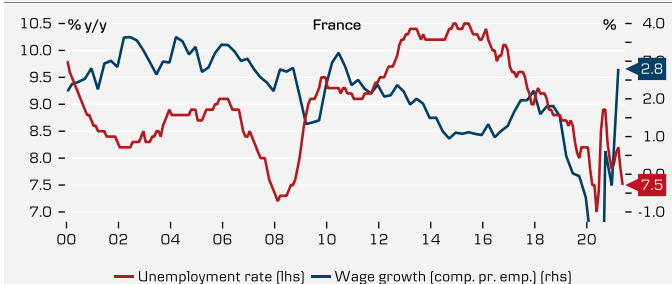
Source: Macrobond Financial, Danske Bank

## Unemployment and PMI



Source: Macrobond Financial, Danske Bank

## Unemployment and wage growth



Source: Macrobond Financial, Danske Bank

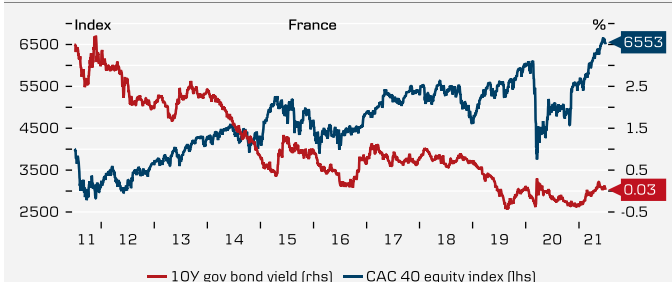
## Google mobility trends in retail & recreation



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

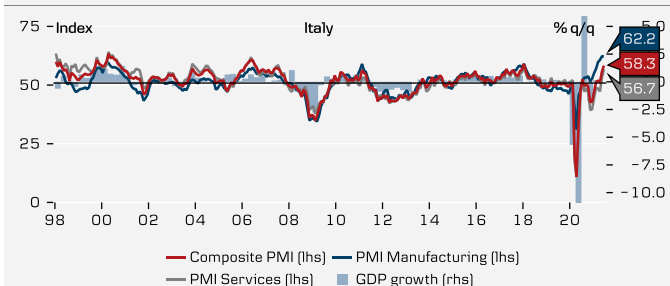
## Financial markets



Source: Macrobond Financial, Danske Bank

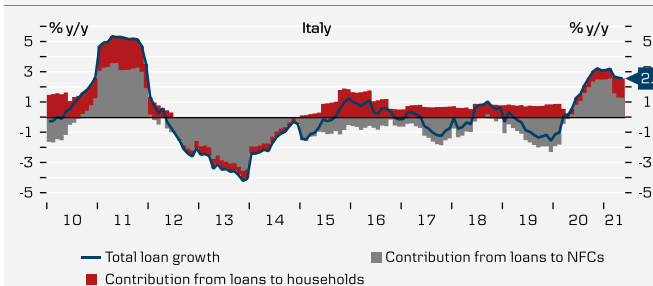
# Italy

## PMI and GDP growth



Source: Macrobond Financial, Danske Bank

## Credit growth



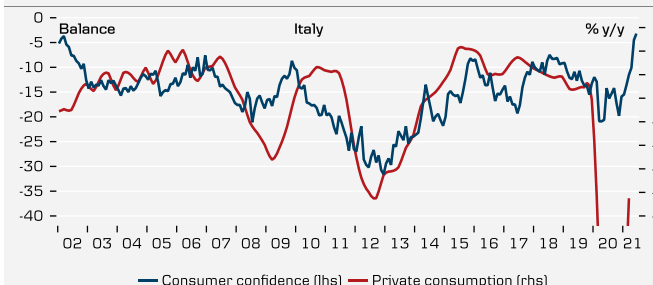
Source: Macrobond Financial, Danske Bank

## Manufacturing sentiment and investments



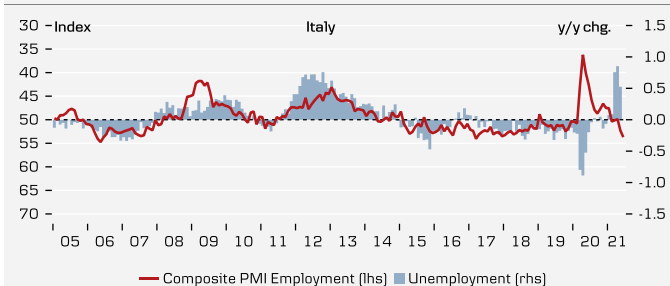
Source: Macrobond Financial, Danske Bank

## Consumer confidence and private consumption



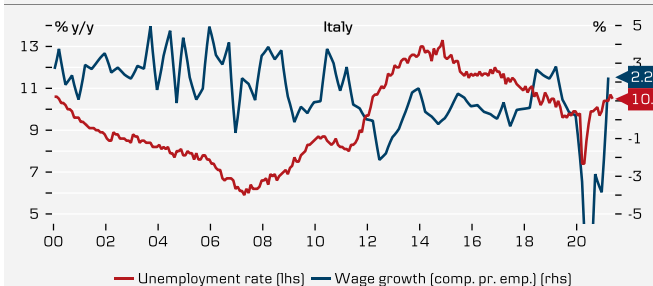
Source: Macrobond Financial, Danske Bank

## Unemployment and PMI



Source: Macrobond Financial, Danske Bank

## Unemployment and wage growth



Source: Macrobond Financial, Danske Bank

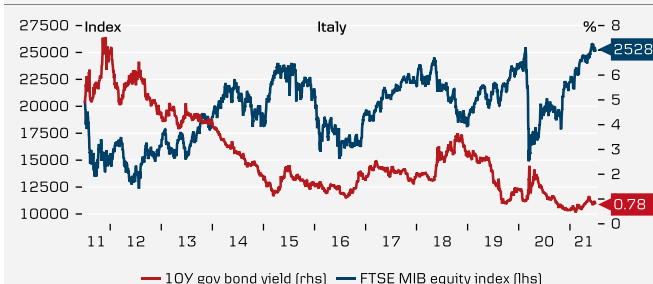
## Google mobility trends in retail & recreation



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

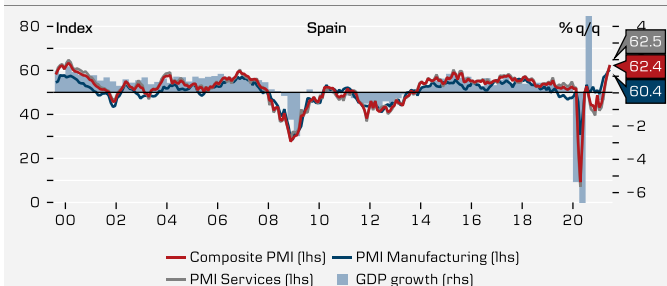
## Financial markets



Source: Macrobond Financial, Danske Bank

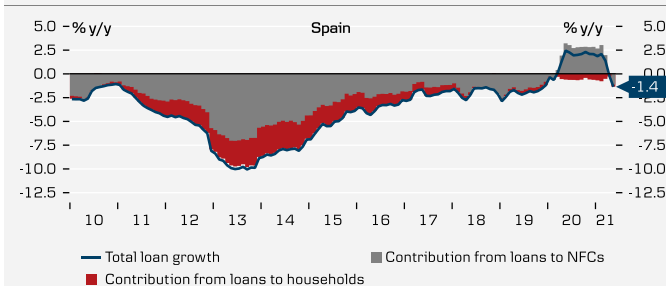
# Spain

## PMI and GDP growth



Source: Macrobond Financial, Danske Bank

## Credit growth



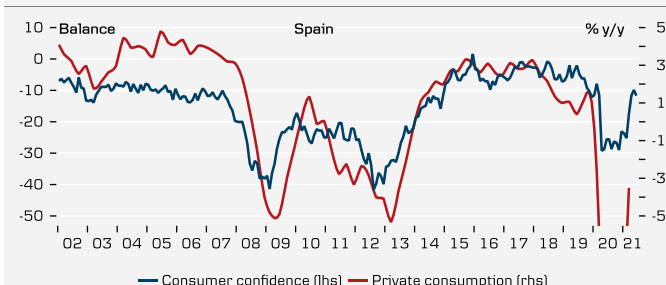
Source: Macrobond Financial, Danske Bank

## Manufacturing sentiment and investments



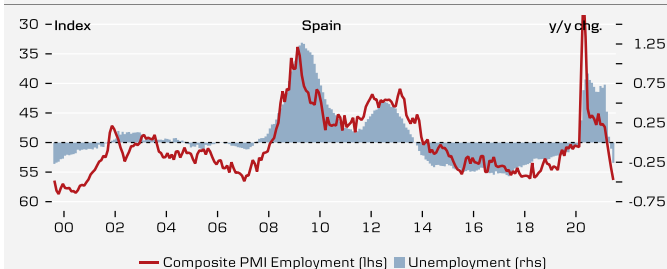
Source: Macrobond Financial, Danske Bank

## Consumer confidence and private consumption



Source: Macrobond Financial, Danske Bank

## Unemployment and PMI



Source: Macrobond Financial, Danske Bank

## Unemployment and wage growth



Source: Macrobond Financial, Danske Bank

## 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

## Disclosures

This research report has been prepared by Danske Bank A/S ('Danske Bank'). The author of this research report is Aila Mihr, Senior Analyst.

### Analyst certification

Each research analyst responsible for the content of this research report certifies that the views expressed in the research report accurately reflect the research analyst's personal view about the financial instruments and issuers covered by the research report. Each responsible research analyst further certifies that no part of the compensation of the research analyst was, is or will be, directly or indirectly, related to the specific recommendations expressed in the research report.

### Regulation

Danske Bank is authorised and subject to regulation by the Danish Financial Supervisory Authority and is subject to the rules and regulation of the relevant regulators in all other jurisdictions where it conducts business. Danske Bank is subject to limited regulation by the Financial Conduct Authority and the Prudential Regulation Authority (UK). Details on the extent of the regulation by the Financial Conduct Authority and the Prudential Regulation Authority are available from Danske Bank on request.

Danske Bank's research reports are prepared in accordance with the recommendations of the Danish Securities Dealers Association.

### Conflicts of interest

Danske Bank has established procedures to prevent conflicts of interest and to ensure the provision of high-quality research based on research objectivity and independence. These procedures are documented in Danske Bank's research policies. Employees within Danske Bank's Research Departments have been instructed that any request that might impair the objectivity and independence of research shall be referred to Research Management and the Compliance Department. Danske Bank's Research Departments are organised independently from, and do not report to, other business areas within Danske Bank.

Research analysts are remunerated in part based on the overall profitability of Danske Bank, which includes investment banking revenues, but do not receive bonuses or other remuneration linked to specific corporate finance or debt capital transactions.

### Financial models and/or methodology used in this research report

Calculations and presentations in this research report are based on standard econometric tools and methodology as well as publicly available statistics for each individual security, issuer and/or country. Documentation can be obtained from the authors on request.

### Risk warning

Major risks connected with recommendations or opinions in this research report, including as sensitivity analysis of relevant assumptions, are stated throughout the text.

### Expected updates

Monthly.

### Date of first publication

See the front page of this research report for the date of first publication.

## General disclaimer

This research has been prepared by Danske Bank A/S. It is provided for informational purposes only and should not be considered investment, legal or tax advice. It does not constitute or form part of, and shall under no circumstances be considered as, an offer to sell or a solicitation of an offer to purchase or sell any relevant financial instruments (i.e. financial instruments mentioned herein or other financial instruments of any issuer mentioned herein and/or options, warrants, rights or other interests with respect to any such financial instruments) [('Relevant Financial Instruments').]

This research report has been prepared independently and solely on the basis of publicly available information that Danske Bank A/S considers to be reliable but Danske Bank A/S has not independently verified the contents hereof. While reasonable care has been taken to ensure that its contents are not untrue or misleading, no representation or warranty, express or implied, is made as to, and no reliance should be placed on, the fairness, accuracy, completeness or reasonableness of the information, opinions and projections contained in this research report and Danske Bank A/S, its affiliates and subsidiaries accept no liability whatsoever for any direct or consequential loss, including without limitation any loss of profits, arising from reliance on this research report.

The opinions expressed herein are the opinions of the research analysts and reflect their opinion as of the date hereof. These opinions are subject to change and Danske Bank A/S does not undertake to notify any recipient of this research report of any such change nor of any other changes related to the information provided in this research report.

This research report is not intended for, and may not be redistributed to, retail customers in the United Kingdom (see separate disclaimer below) and retail customers in the European Economic Area as defined by Directive 2014/65/EU.

This research report is protected by copyright and is intended solely for the designated addressee. It may not be reproduced or distributed, in whole or in part, by any recipient for any purpose without Danske Bank A/S's prior written consent.

## Disclaimer related to distribution in the United States

This research report was created by Danske Bank A/S and is distributed in the United States by Danske Markets Inc., a U.S. registered broker-dealer and subsidiary of Danske Bank A/S, pursuant to SEC Rule 15a-6 and related interpretations issued by the U.S. Securities and Exchange Commission. The research report is intended for distribution in the United States solely to 'U.S. institutional investors' as defined in SEC Rule 15a-6. Danske Markets Inc. accepts responsibility for this research report in connection with distribution in the United States solely to 'U.S. institutional investors'.

Danske Bank A/S is not subject to U.S. rules with regard to the preparation of research reports and the independence of research analysts. In addition, the research analysts of Danske Bank A/S who have prepared this research report are not registered or qualified as research analysts with the New York Stock Exchange or Financial Industry Regulatory Authority but satisfy the applicable requirements of a non-U.S. jurisdiction.

Any U.S. investor recipient of this research report who wishes to purchase or sell any Relevant Financial Instrument may do so only by contacting Danske Markets Inc. directly and should be aware that investing in non-U.S. financial instruments may entail certain risks. Financial instruments of non-U.S. issuers may not be registered with the U.S. Securities and Exchange Commission and may not be subject to the reporting and auditing standards of the U.S. Securities and Exchange Commission.

## Disclaimer related to distribution in the United Kingdom

In the United Kingdom, this document is for distribution only to (I) persons who have professional experience in matters relating to investments falling within article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the 'Order'); (II) high net worth entities falling within article 49(2)(a) to (d) of the Order; or (III) persons who are an elective professional client or a per se professional client under Chapter 3 of the FCA Conduct of Business Sourcebook (all such persons together being referred to as 'Relevant Persons'). In the United Kingdom, this document is directed only at Relevant Persons, and other persons should not act or rely on this document or any of its contents.

## Disclaimer related to distribution in the European Economic Area

This document is being distributed to and is directed only at persons in member states of the European Economic Area ('EEA') who are 'Qualified Investors' within the meaning of Article 2(e) of the Prospectus Regulation (Regulation (EU) 2017/1129) ('Qualified Investors'). Any person in the EEA who receives this document will be deemed to have represented and agreed that it is a Qualified Investor. Any such recipient will also be deemed to have represented and agreed that it has not received this document on behalf of persons in the EEA other than Qualified Investors or persons in the UK and member states (where equivalent legislation exists) for whom the investor has authority to make decisions on a wholly discretionary basis. Danske Bank A/S will rely on the truth and accuracy of the foregoing representations and agreements. Any person in the EEA who is not a Qualified Investor should not act or rely on this document or any of its contents.

**Report completed:** 5 July 2021, 10:45 CET

**Report first disseminated:** 5 July 2021, 12:30 CET