

Euro Area Macro Monitor

Economic resilience despite third wave

- **A third Covid-19 wave has engulfed the euro area during March** (see also *COVID-19 Update*). But although lockdowns have been prolonged or re-introduced in a range of countries, business and consumer surveys suggest the euro area economy remains fairly resilient in light of the new headwinds. Manufacturing activity picked-up pace at the end of Q1, with German manufacturing PMI reaching a new all-time high of 66.6. The restrictions on the services sector continue to be a drag on growth, but the euro area composite PMI rose back into expansion territory at 53.2 for the first time since September, suggesting that a tentative recovery took shape in the euro area at the end of Q1. Upbeat business expectations in both the manufacturing and services sector, improving consumer confidence and a resilient labour market provide a solid backdrop for the recovery to accelerate in Q2, once vaccinations pick up pace and restrictions can be eased. However, we expect that the manufacturing sector will lose some of its growth momentum in the coming months, as the Chinese slowdown in business activity is slowly feeding through. Overall, we now expect euro area GDP to expand by 4.4% in 2021 and 4.1% in 2022, see also *Big Picture forecast update - Divergent fortunes*.
- **The surge in demand for manufactured goods is still stretching global supply chains** to an unprecedented extent, pushing up input costs for manufacturers at the fastest rate in a decade according to PMIs. So far the rise in output costs is not yet matching the increase in input costs, but the longer bottlenecks and elevated production costs persist, the greater the risk of pass-through to consumer prices. Euro area headline inflation rose further to 1.3% in March, on the back of rising energy and food prices. Core inflation dropped back to 0.9%, weighed down by seasonal effects from lower clothing and footwear prices. We expect euro inflation to accelerate further in coming months, but moderate in 2022, see also *Euro Area Research - Euro inflation jump is a fleeting interlude*.
- **The ECB shares our concerns of the durability of the euro inflation uptick** and has reiterated its pledge to look through the temporary inflation jump due to base effects and idiosyncratic factors this year. However, in light of rising European yields and to prevent an undue tightening of financing conditions, the ECB pledged to 'significantly increase' its pace of PEPP purchases during this quarter (see also *Flash: ECB Research Using the flexibility already within the PEPP*).
- **The third Covid-19 wave seems to have particularly grave (political) consequences for Germany**, which is gearing up for the general elections in September. A slow vaccination roll-out and a soft lockdown, that has lasted since November, has led to growing resentment in the public about the lack of strategy, and a range of scandals involving MPs increasingly spell trouble for Merkel's ruling CDU/CSU party, with poll ratings tumbling. Two important German state elections already brought a crushing defeat for the CDU party in March and it is a particular blow to the new CDU leader Armin Laschet, whose chances to become Merkel's successor are shrinking. In line with the flagging CDU/CSU poll ratings, discussions about a 'traffic light coalition' between Social Democrats (SPD), the Greens and the Liberals (FDP) taking over after the September elections have gathered pace in recent weeks.

Key points

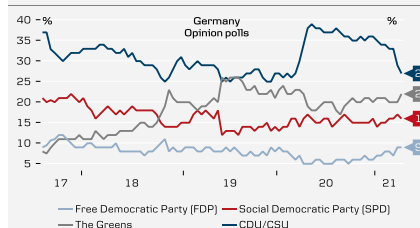
- Europe struggles with third Covid-19 wave, but economy has picked up momentum
- Inflation still elevated... for now
- Poor crisis management spells trouble for Germany's CDU party

Germany's manufacturing sector is in full steam



Source: Markit, Macrobond Financial, Danske Bank

CDU/CSU poll ratings tumble amid poor Covid-19 crisis management



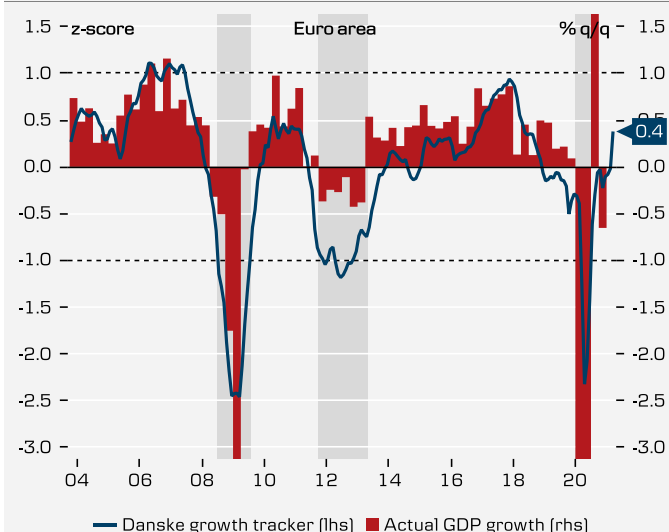
Source: Infratest Dimap, Macrobond Financial, Danske Bank

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The Danske euro area growth tracker

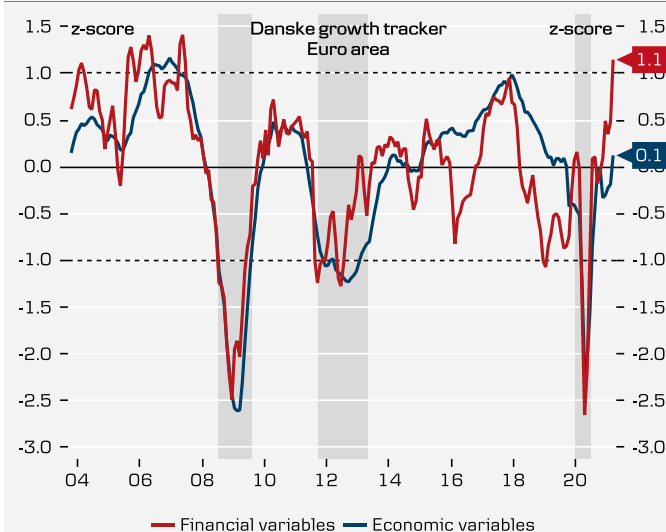
Our growth tracker took a jump in March to a value of 0.4 (from 0.1 in February), helped by improvements particularly in the financial variables. But also economic variables have seen further improvement during March and edged into positive territory for the first time since October last year. This underlines that despite rising Covid-19 cases and new lockdowns, the underlying economic momentum continues to be resilient and financial markets in aggregate continue to shrug off the virus risks and focus on the outlook for 2021.

Growth tracker and actual GDP growth



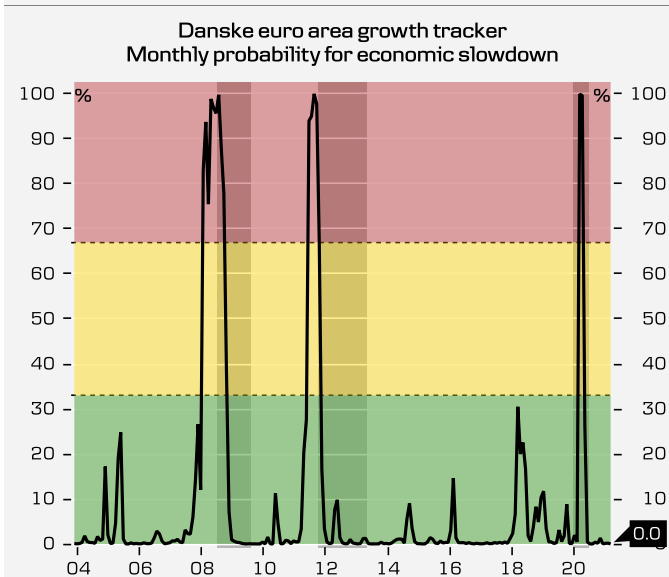
Note: Shaded area indicates historical recessions
Source: Macrobond Financial, Danske Bank

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

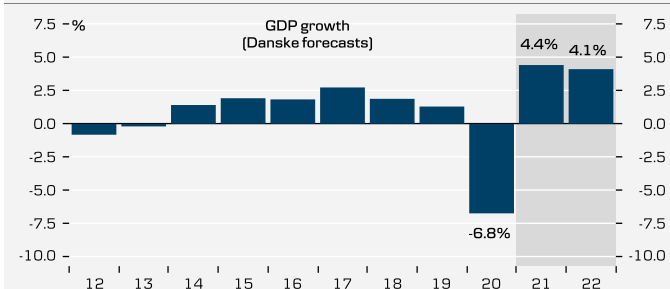
Danske growth tracker decomposition

	March 2021
Economic variables	0.1
EuroCOIN	2.1
Real M1 growth	1.6
PMI order-inventory balance	1.3
Consumer confidence	0.2
European sentiment indicator	0.2
Composite PMI	0.2
Credit growth	0.0
OECD CLI	-0.2
Profit growth	-0.7
Capacity utilisation	-0.8
ZEW	-1.0
Unemployment	-1.4
Financial variables	1.1
Euro surprise index	2.4
Eurostoxx50	1.8
Corporate vs. gov. bond yield	0.2
Sentix	0.1

Source: Danske Bank

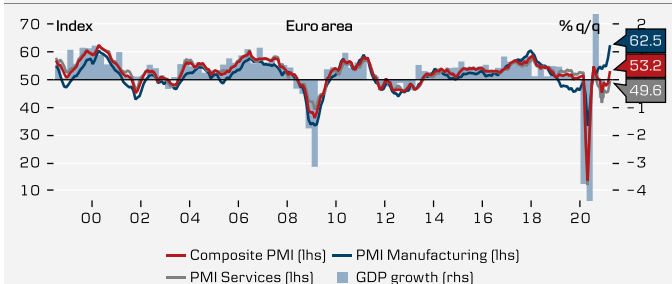
Euro area

GDP growth forecasts



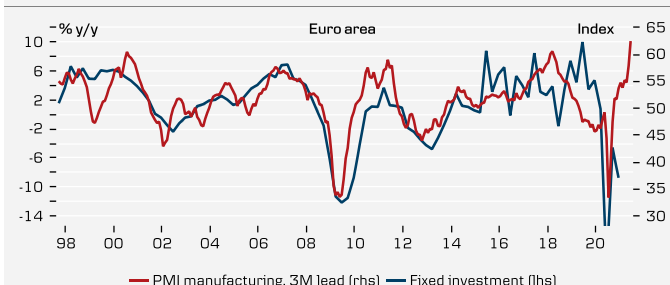
Source: Macrobond Financial, Danske Bank forecasts

PMI and GDP growth



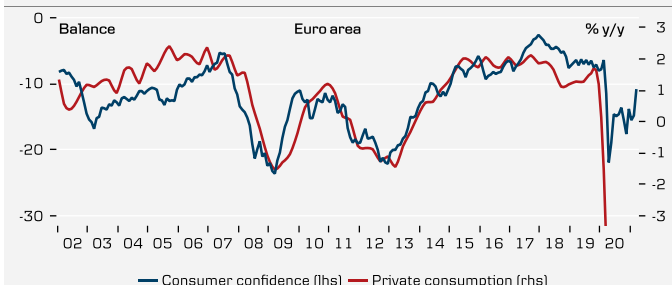
Source: Macrobond Financial, Danske Bank

Manufacturing sentiment and investments



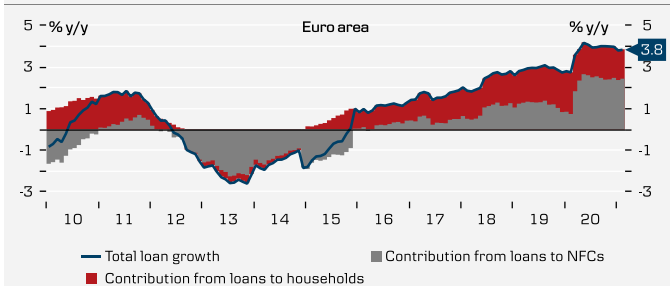
Source: Macrobond Financial, Danske Bank

Consumer confidence and private consumption



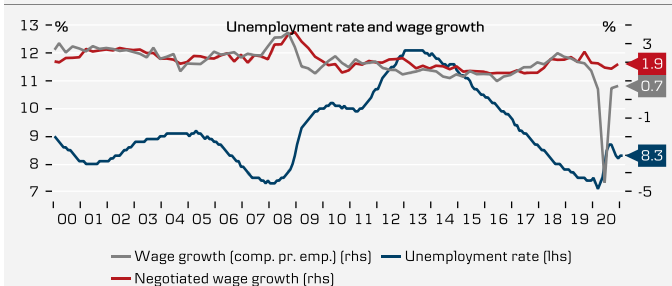
Source: Macrobond Financial, Danske Bank

Credit growth



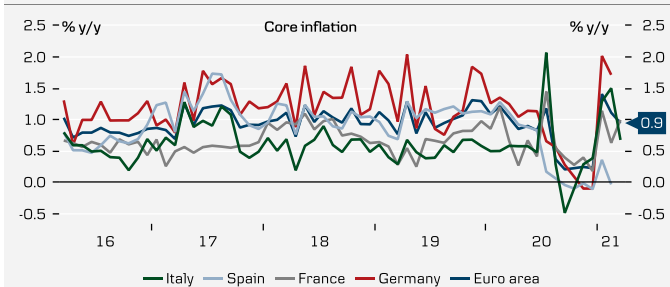
Source: Macrobond Financial, Danske Bank

Unemployment and wage growth



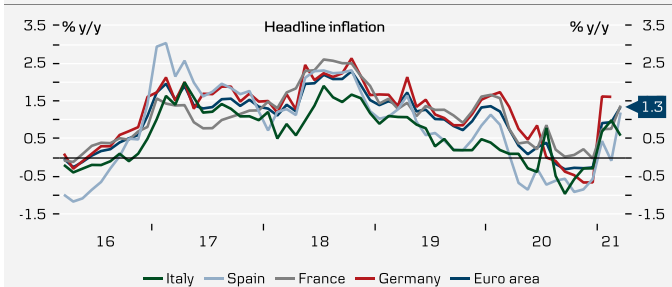
Source: Macrobond Financial, Danske Bank

Core inflation



Source: Macrobond Financial, Danske Bank

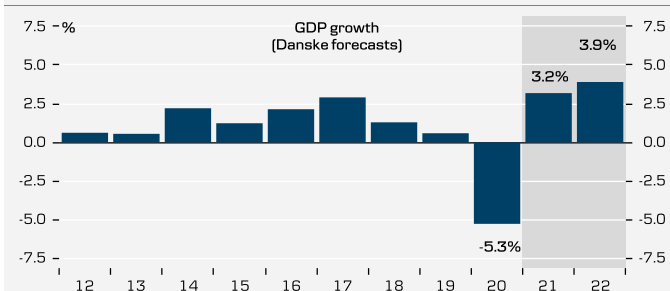
HICP inflation



Source: Macrobond Financial, Danske Bank

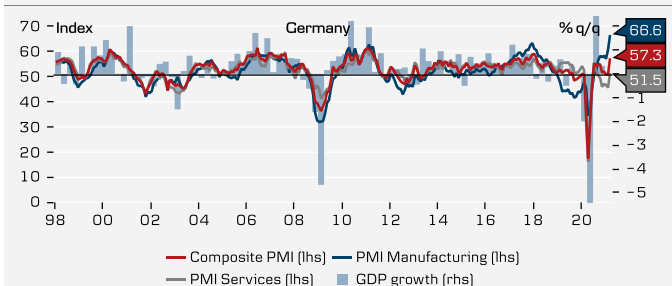
Germany

GDP growth forecasts



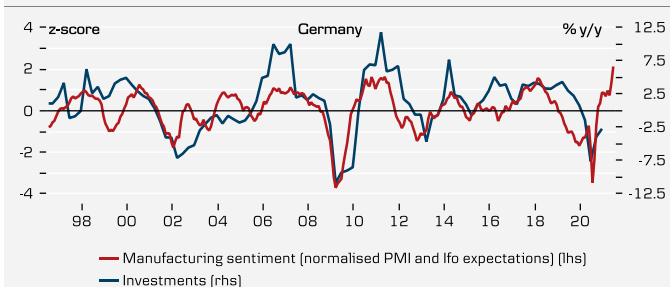
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PMI and GDP growth



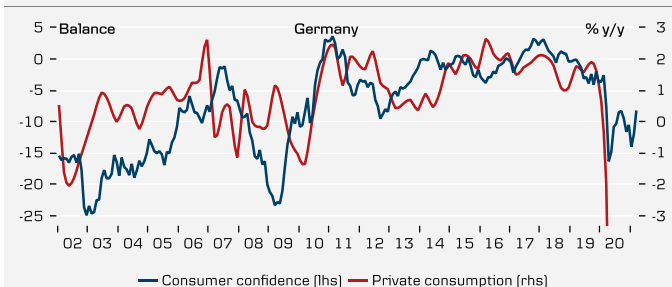
Source: Macrobond Financial, Danske Bank

Manufacturing sentiment and investments



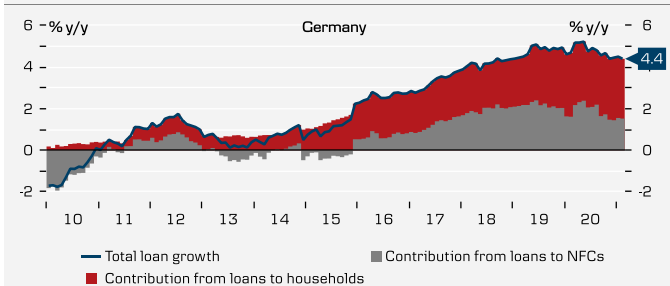
Source: Macrobond Financial, Danske Bank

Consumer confidence and private consumption



Source: Macrobond Financial, Danske Bank

Credit growth



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Unemployment and wage growth



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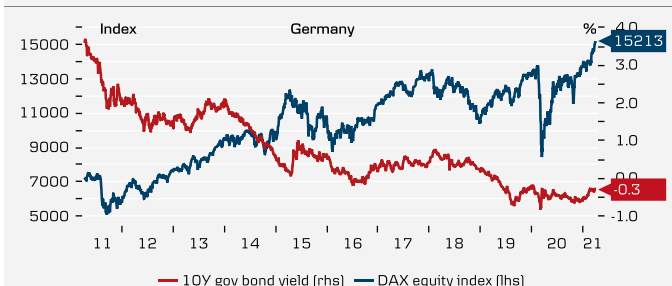
Google mobility trends in retail & recreation



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

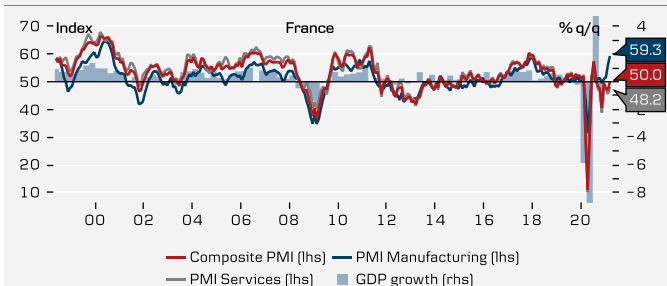
Financial markets



Source: Macrobond Financial, Danske Bank

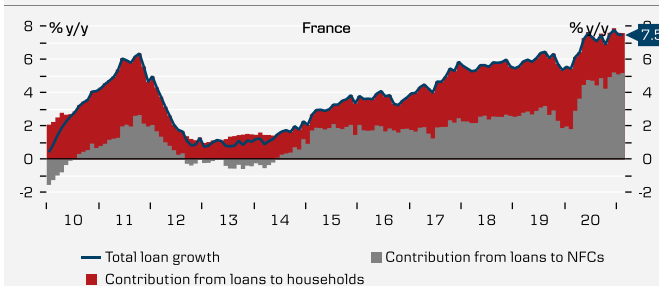
France

PMI and GDP growth



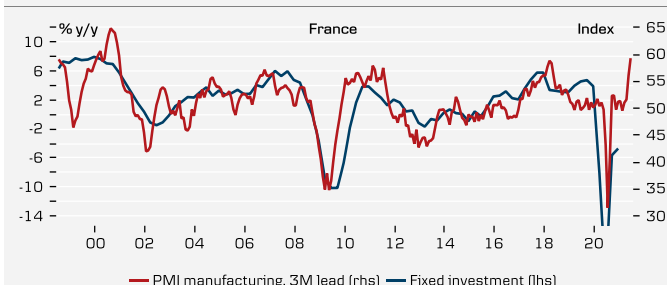
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Credit growth



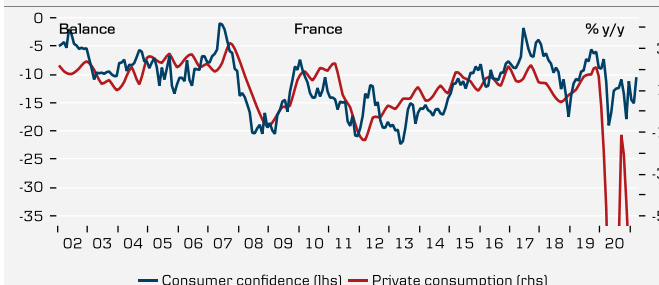
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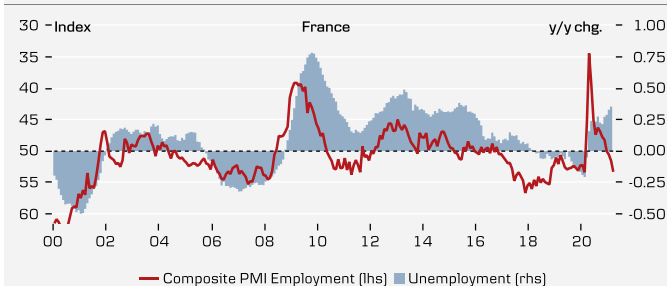
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Consumer confidence and private consumption



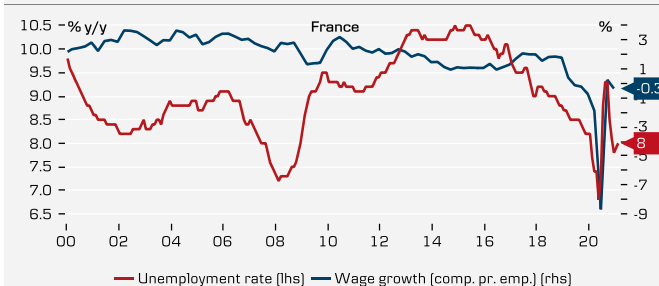
Source: Macrobond Financial, Danske Bank

Unemployment and PMI



Source: Macrobond Financial, Danske Bank

Unemployment and wage growth



Source: Macrobond Financial, Danske Bank

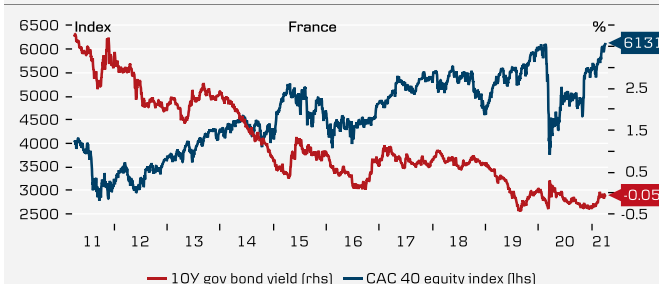
Google mobility trends in retail & recreation



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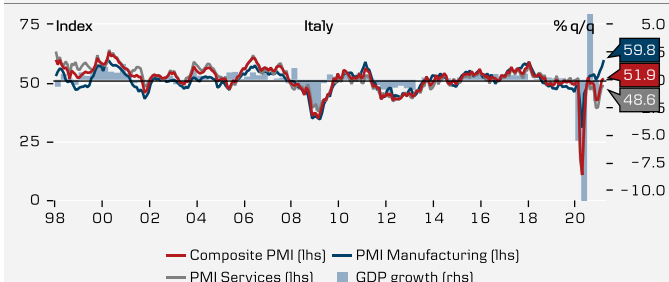
Financial markets



Source: Macrobond Financial, Danske Bank

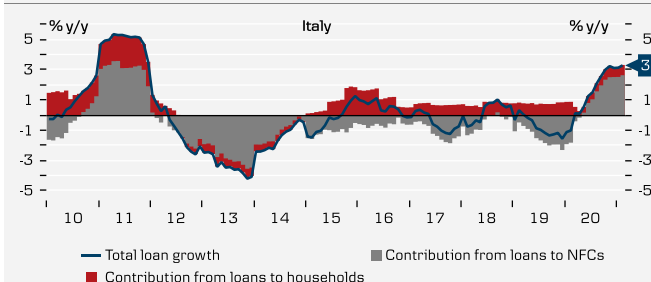
Italy

PMI and GDP growth



Source: Macrobond Financial, Danske Bank

Credit growth



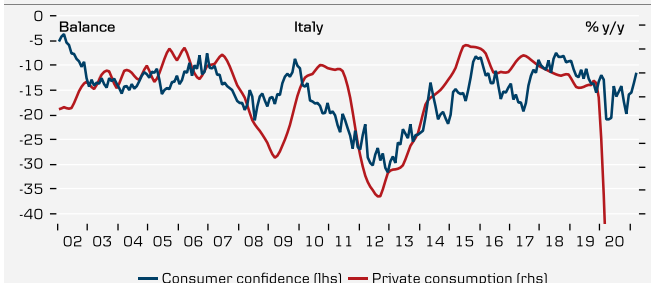
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Manufacturing sentiment and investments



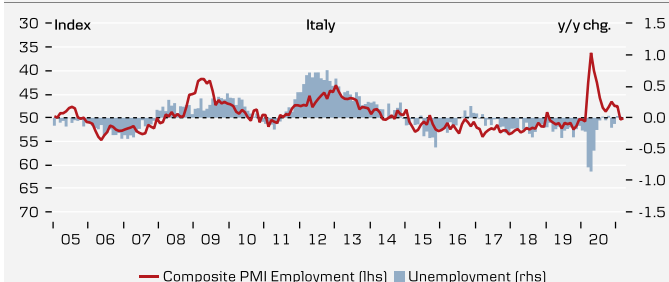
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Consumer confidence and private consumption



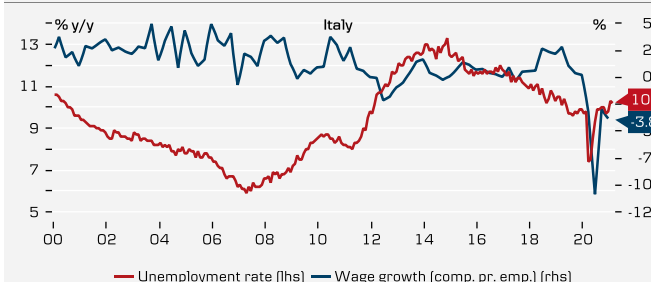
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Unemployment and PMI



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Unemployment and wage growth



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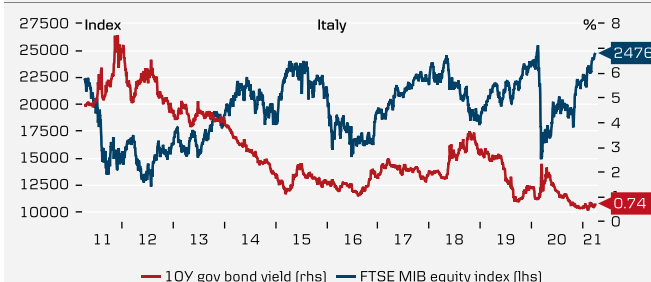
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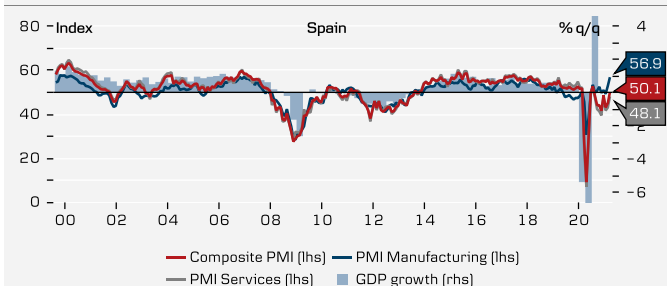
Financial markets



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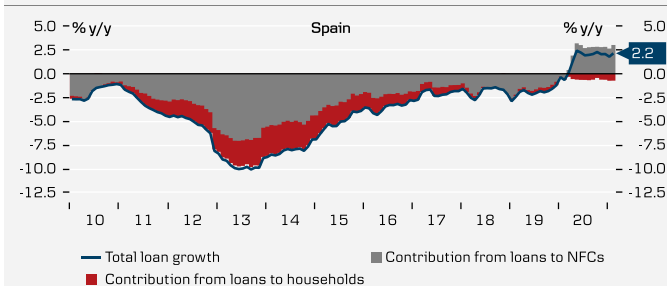
Spain

PMI and GDP growth



Source: Macrobond Financial, Danske Bank

Credit growth



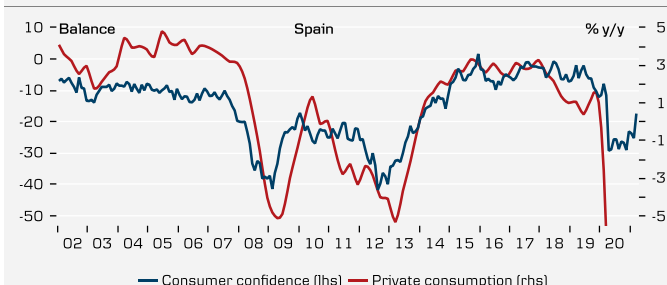
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Manufacturing sentiment and investments



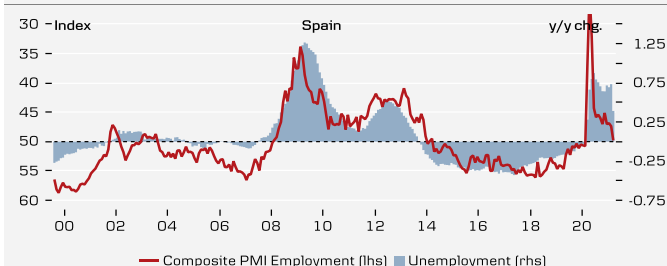
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Unemployment and PMI



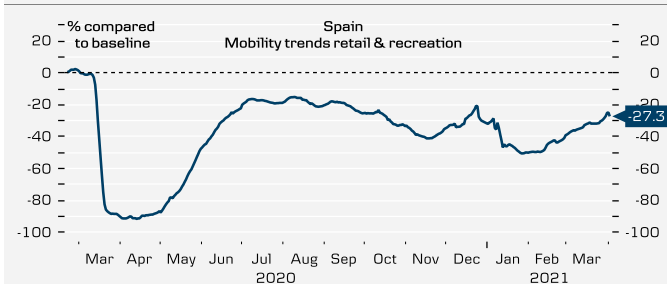
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Source: Macrobond Financial, Danske Bank

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None.

Date of first publication

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