

4 March 2024

Euro Area Macro Monitor

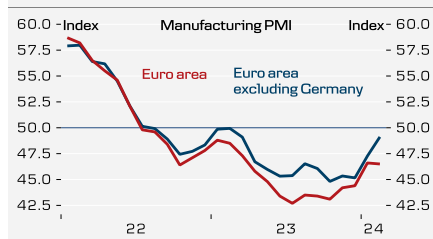
Return of the two-speed economy?

- The labour market continues on a strong footing while the economy stagnates.** The unemployment rate remained historically low at 6.4% in January, while employment growth even increased in 2023Q4. The service PMI printed 50, while manufacturing PMI took a hit and fell to 46.1 in February. This warrants a return to the two-speed economy observed in 2023H1 with the service sector growing, while the manufacturing counterpart struggles. **However, the decline in the manufacturing PMIs were due to Germany while PMIs outside of Germany improved greatly (see margin chart).** The German manufacturing PMI plunged to 42.5 from 45.5, and other indicators also underscored the notion of the bleak manufacturing sector. **Hence, for the euro area outside Germany we expect activity to grow closer to one-speed this year due to a likely rebound in the global manufacturing cycle** while the strong labour market and rising real income support service activity.
- The disinflationary trend continued in February amid core services reminding us about upside risks to the inflation outlook.** Headline inflation fell to 2.6% y/y from 2.8%, while core inflation was much stronger than expected at 3.1% (consensus: 2.9%). Monthly core inflation increased to 0.30% m/m s.a., driven by a strong uptick in service inflation to 0.39% m/m s.a. **Hence, inflation momentum measured as the 3m/3m s.a. annualized rate rose to 2.39% in core inflation from 1.52%, which pose a worry for the ECB.** The uptick was somewhat expected as we now compare the latest three months with the period from September to November where core inflation was very low (0.0% m/m s.a. in November). Despite being just one month with strong service momentum, the print reminded us about the key upside risk to our and ECBs inflation forecast from service inflation given the strong wage growth.
- The ECB is set to continue its policy normalisation process at the March meeting as new staff projections on growth and inflation are on the menu.** We expect 2024 projections to be revised lower, while forecasts for 2025/2026 will remain largely unchanged. While neither the revisions to staff projections nor Lagarde will close the door to a rate cut at a specific meeting, we continue to expect that the first rate cut will be in June. We do not believe that the incoming data since the January meeting has been sufficiently weak to make April the baseline see *ECB Preview*, 1 March.
- Following the two-year anniversary of Russia's invasion of Ukraine, discussions of how the EU can continue to support Ukraine has flared up. European Commission President Ursula von der Leyen has proposed to use windfall profits from Russian frozen assets (c. €300bn) to supply Ukraine with weapons, albeit *legal formalities* could complicate this plan. **French President Macron has refused to rule out deploying Western ground troops in Ukraine.** However, the suggestion to deploy ground troops, could risk exacerbating tensions between Russia and NATO, and Germany strongly contrasts Macron's idea. This comes on top of the fact that German officials also has accused France of not providing enough military aid to Ukraine. **Generally, the tone in the EU is that Ukraine still needs marked support especially as the US struggles to pass aid bills, although no consensus is reached amid internal disputes.**

Key points

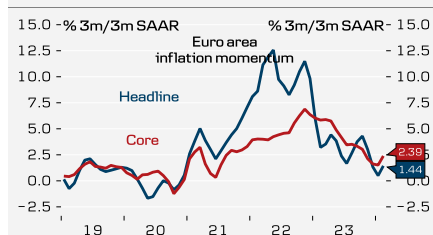
- The manufacturing sector continues to struggle in Germany
- 2024 will be a year of transition with benign GDP growth.
- We expect the ECB to cut the deposit rate three times in 2024 by a cumulative 75bp.

Manufacturing PMIs rise outside Germany



Source: Eurostat, S&P Global, Macrobond Financial, Danske Bank

February inflation came in hotter than expected posing a worry for the ECB



Source: ECB, Macrobond Financial, Danske Bank

Assistant Analyst

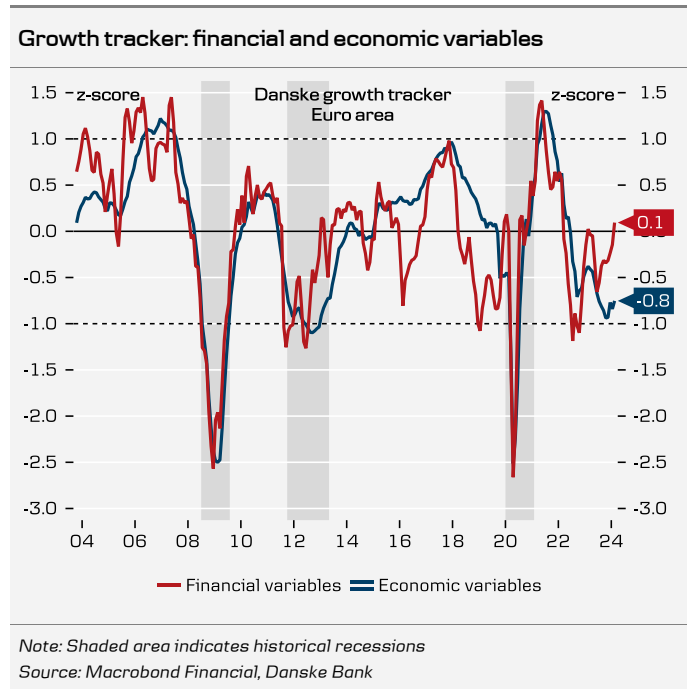
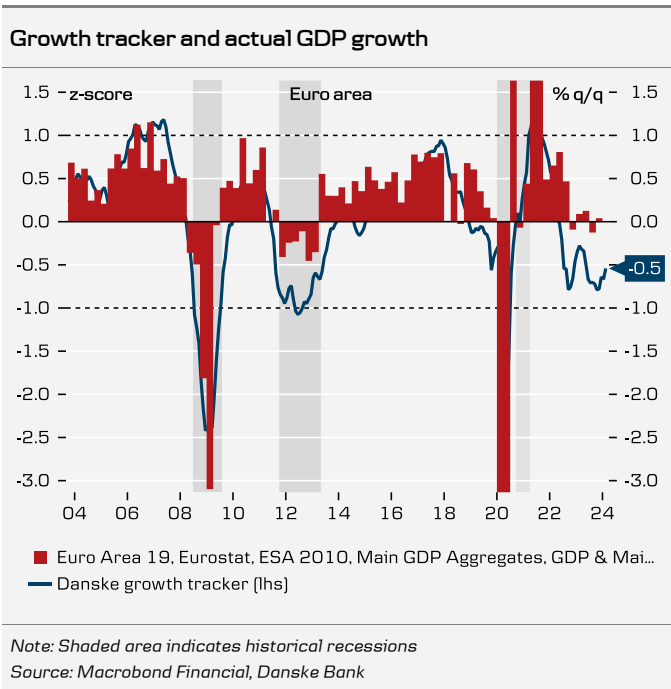
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The Danske euro area growth tracker

Our growth tracker improved in February to -0.5 from -0.7 in a sign that the worst of the slowdown is behind us. The February figure was driven by an increase in financial variables while economic variables remained at -0.8 suggesting that activity is still weak. To predict near-term growth, we put more emphasis on the economic variables and still expect a stagnating economy near-term, but the seemingly bottoming out in activity is positive for the growth outlook.



Danske growth tracker - February 2024

	February 2024
Economic variables	-0.8
Unemployment	0.2
OECD CLI	0.0
Capacity utilisation	-0.4
European sentiment indicator	-0.4
Consumer confidence	-0.6
Composite PMI	-0.6
ZEW	-0.7
PMI order-inventory balance	-0.7
EuroCOIN	-0.9
Credit growth	-0.9
Profit growth	-1.0
Real M11 growth	-3.1
Financial variables	0.1
Eurostoxx50	0.5
Euro Surprise index	0.4
Corporate vs. Gov. Bond yield	0.2
Sentix	-0.8

Source: Macrobond Financial, Danske Bank

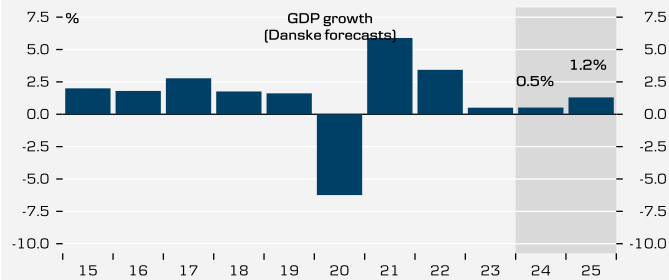
Danske growth tracker - January 2023

	January 2024
Economic variables	-0.8
Unemployment	0.2
OECD CLI	0.0
Capacity utilisation	-0.4
European sentiment indicator	-0.3
Consumer confidence	-0.7
Composite PMI	-0.8
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PMI order-inventory balance	-1.1
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Credit growth	-0.9
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Source: Macrobond Financial, Danske Bank

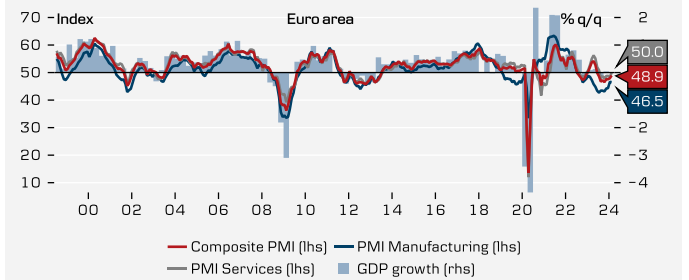
Euro area

GDP growth forecasts



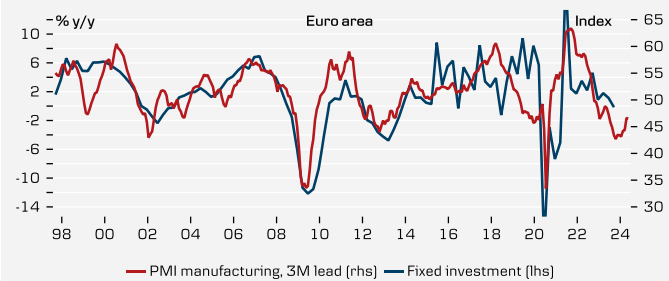
Source: Macrobond Financial, Danske Bank forecasts

PMI and GDP growth



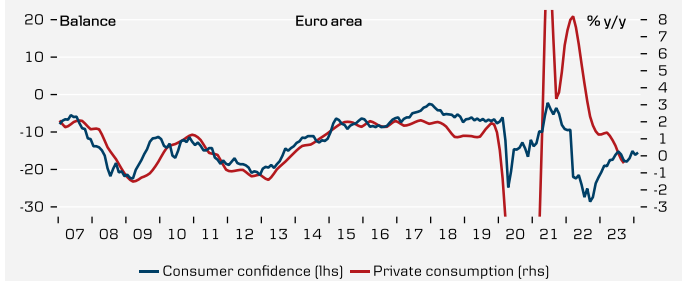
Source: Macrobond Financial, Danske Bank

Manufacturing sentiment and investments



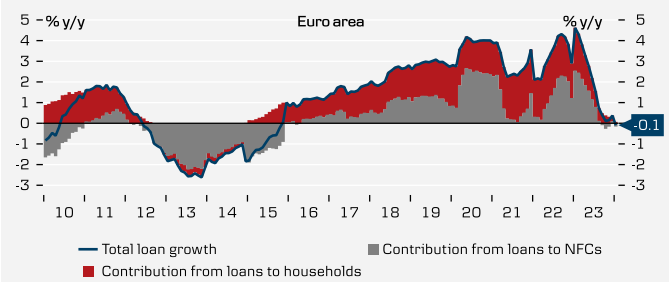
Source: Macrobond Financial, Danske Bank

Consumer confidence and private consumption



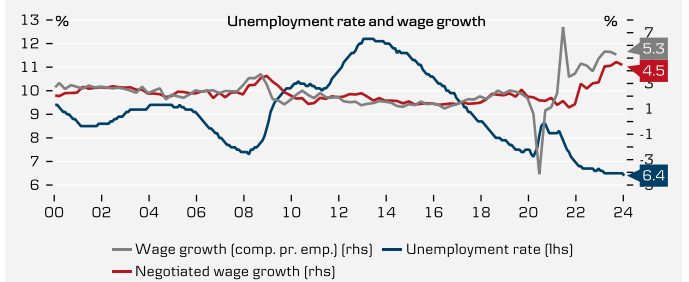
Source: Macrobond Financial, Danske Bank

Credit growth



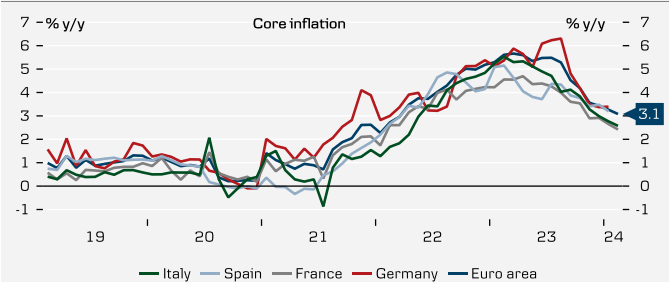
Source: Macrobond Financial, Danske Bank

Unemployment and wage growth



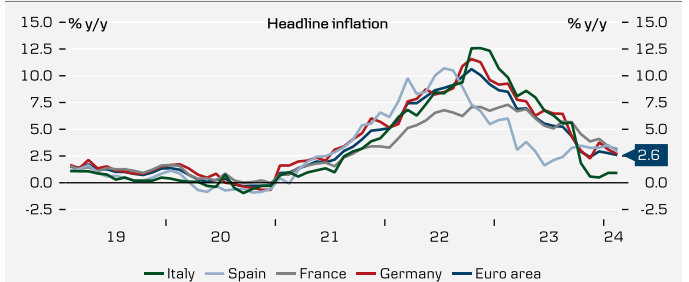
Source: Macrobond Financial, Danske Bank

Core inflation



Source: Macrobond Financial, Danske Bank

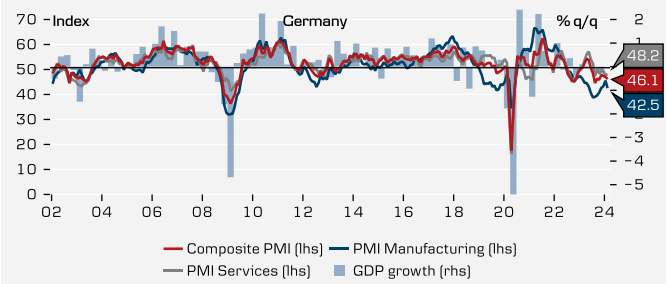
HICP inflation



Source: Macrobond Financial, Danske Bank

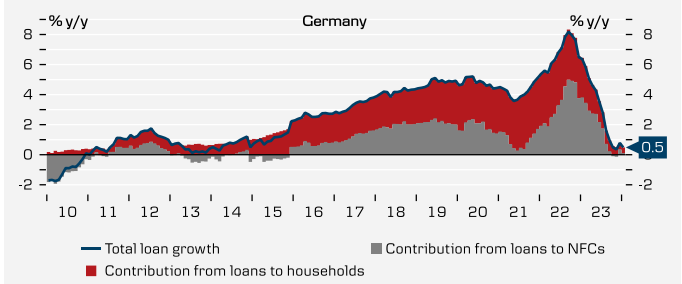
Germany

PMI and GDP growth



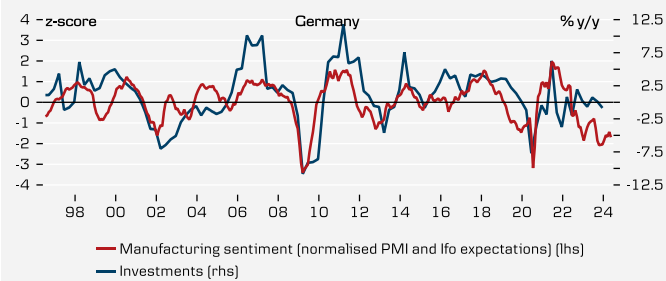
Source: Macrobond Financial, Danske Bank

Credit growth



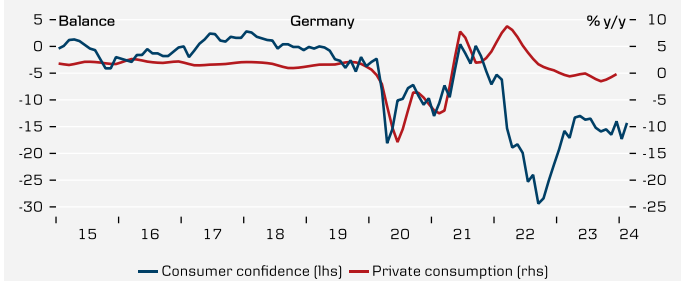
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Manufacturing sentiment and investments



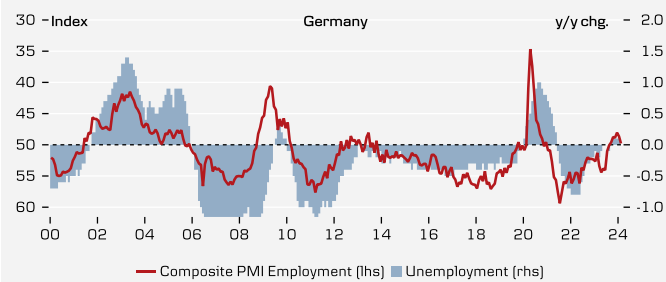
Source: Macrobond Financial, Danske Bank

Consumer confidence and private consumption



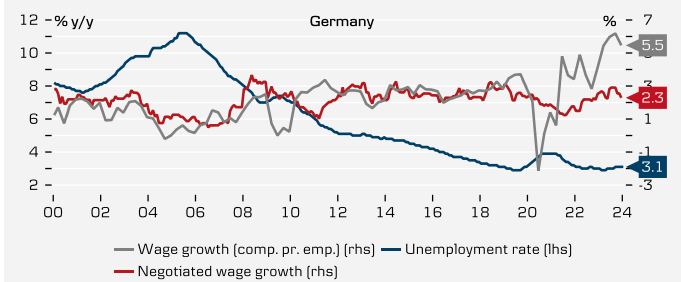
Source: Macrobond Financial, Danske Bank

Unemployment and PMI



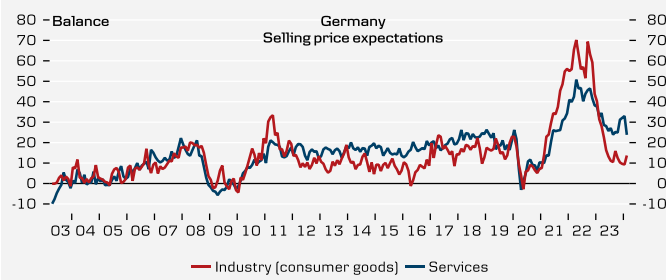
Source: Macrobond Financial, Danske Bank

Unemployment and wage growth



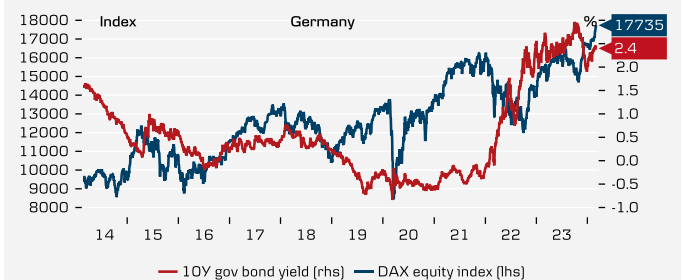
Source: Macrobond Financial, Danske Bank

Price expectations



Source: EU Commission, Macrobond Financial, Danske Bank

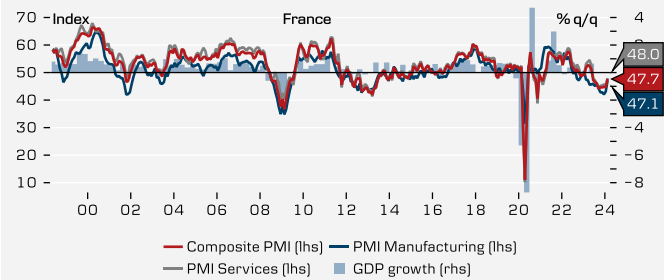
Financial markets



Source: Macrobond Financial, Danske Bank

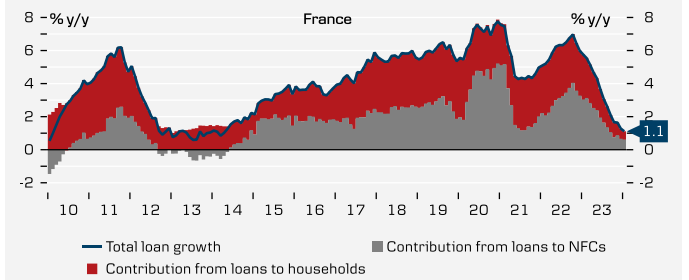
France

PMI and GDP growth



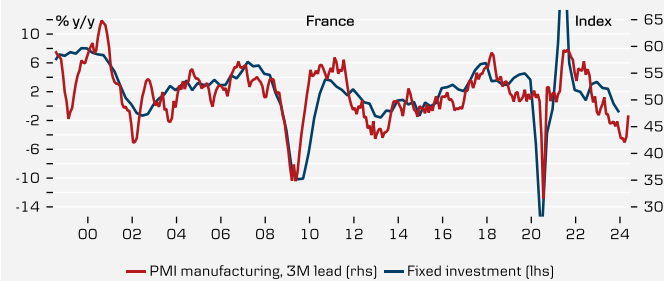
Source: Macrobond Financial, Danske Bank

Credit growth



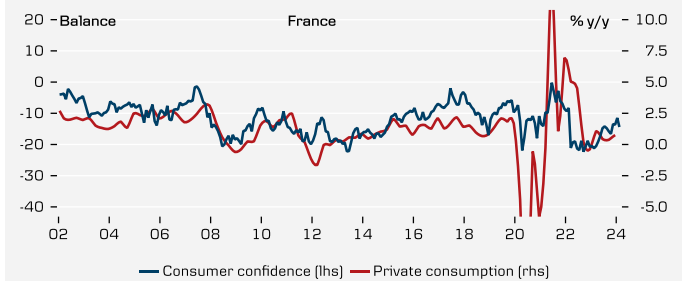
Source: Macrobond Financial, Danske Bank

Manufacturing sentiment and investments



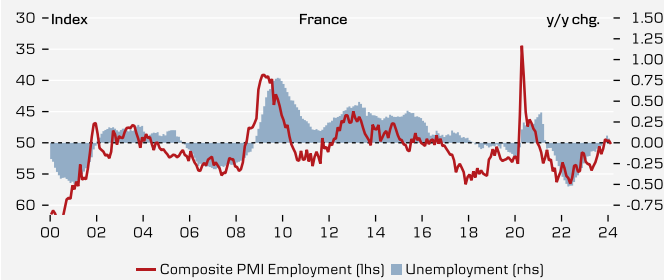
Source: Macrobond Financial, Danske Bank

Consumer confidence and private consumption



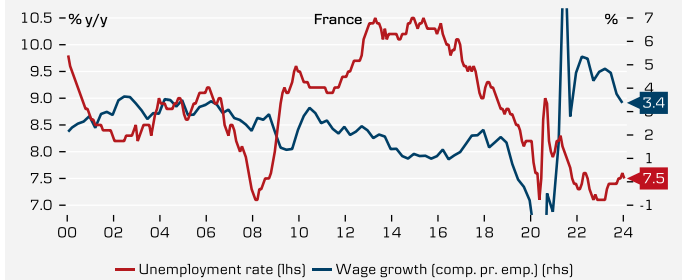
Source: Macrobond Financial, Danske Bank

Unemployment and PMI



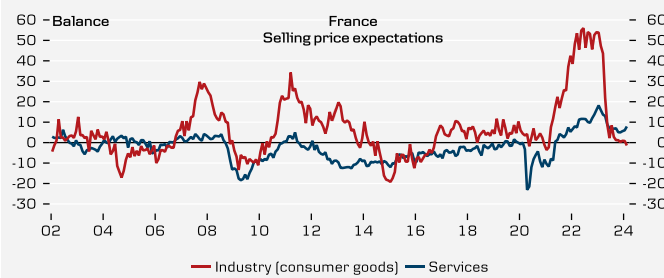
Source: Macrobond Financial, Danske Bank

Unemployment and wage growth



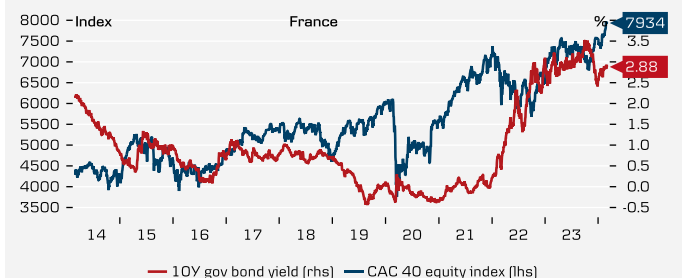
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Price expectations



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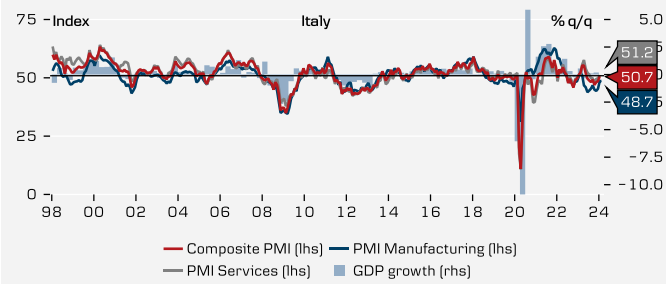
Financial markets



Source: Macrobond Financial, Danske Bank

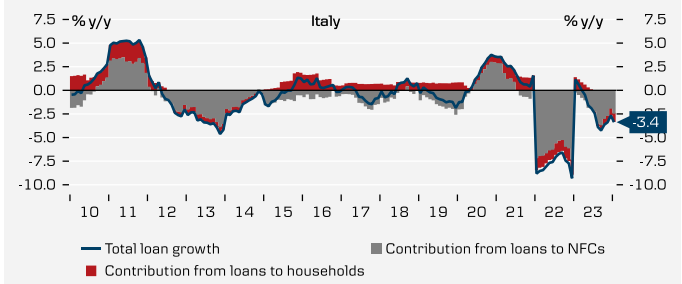
Italy

PMI and GDP growth



Source: Macrobond Financial, Danske Bank

Credit growth



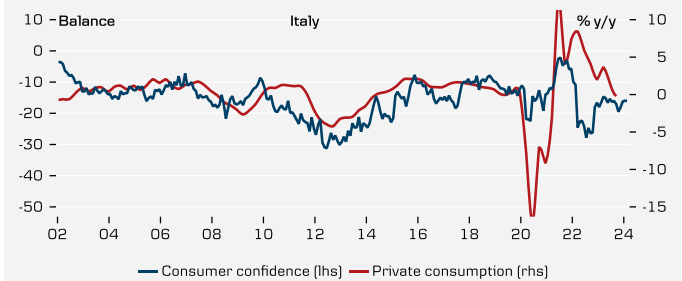
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Manufacturing sentiment and investments



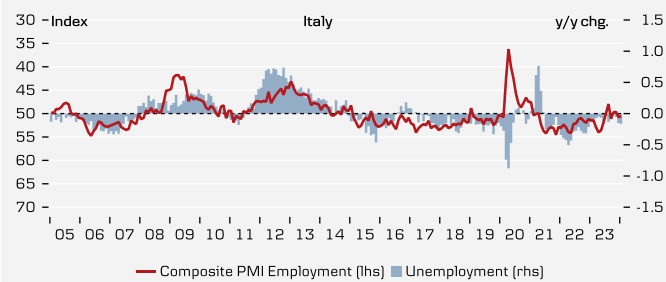
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Consumer confidence and private consumption



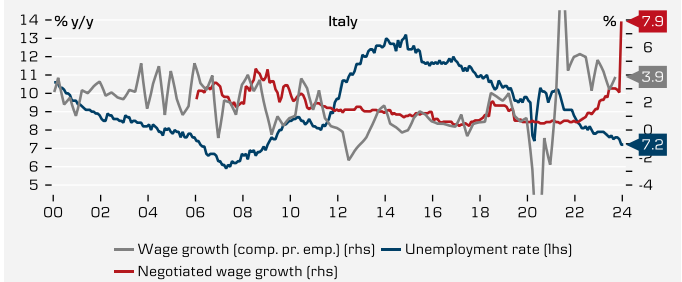
Source: Macrobond Financial, Danske Bank

Unemployment and PMI



Source: Macrobond Financial, Danske Bank

Unemployment and wage growth



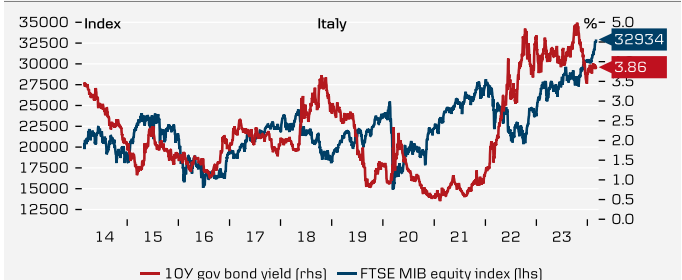
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Price expectations



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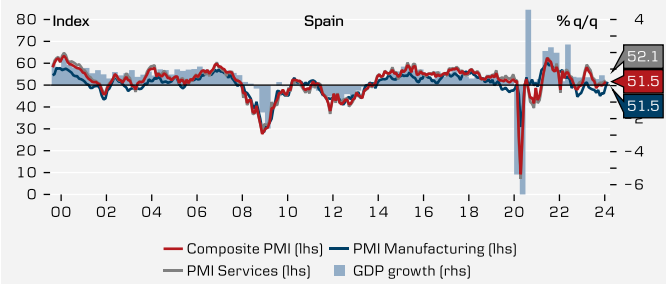
Financial markets



Source: Macrobond Financial, Danske Bank

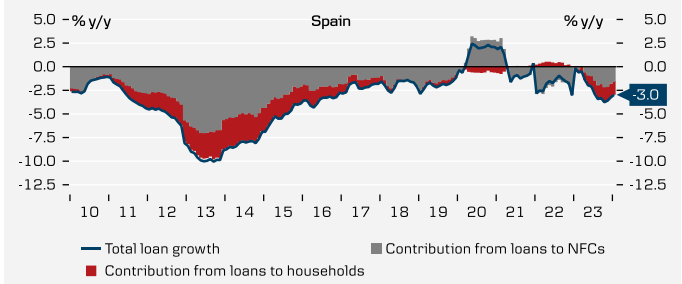
Spain

PMI and GDP growth



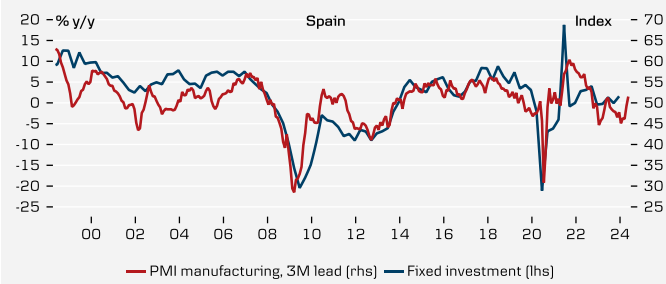
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Credit growth



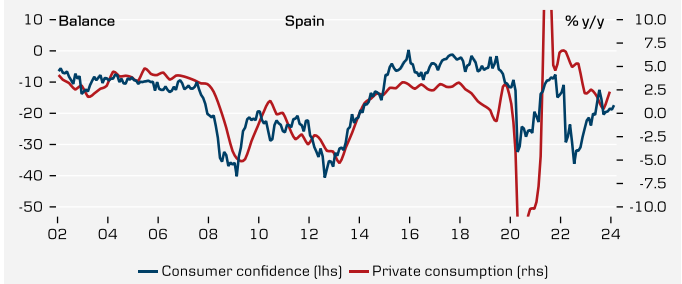
Source: Macrobond Financial, Danske Bank

Manufacturing sentiment and investments



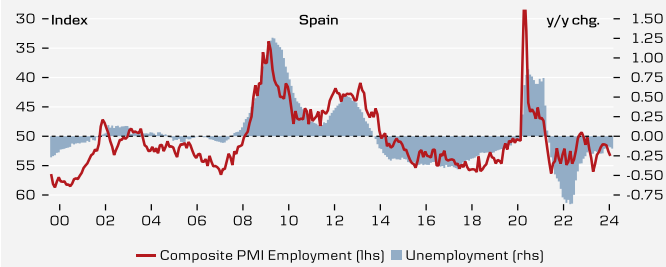
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Consumer confidence and private consumption



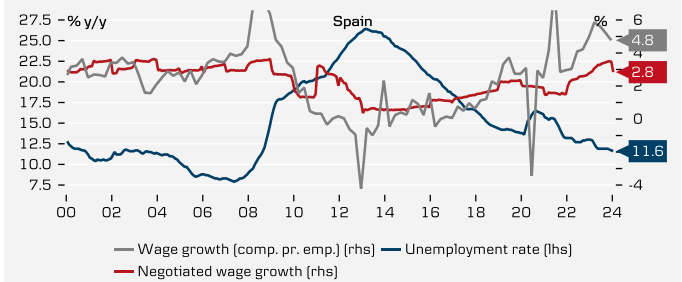
Source: Macrobond Financial, Danske Bank

Unemployment and PMI



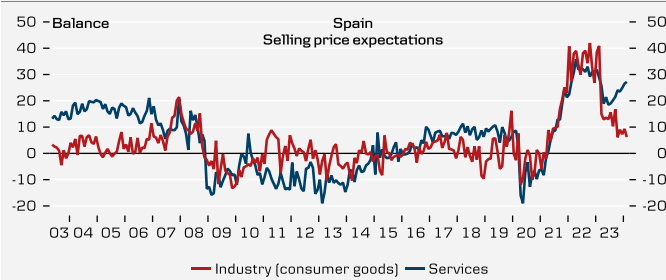
Source: Macrobond Financial, Danske Bank

Unemployment and wage growth



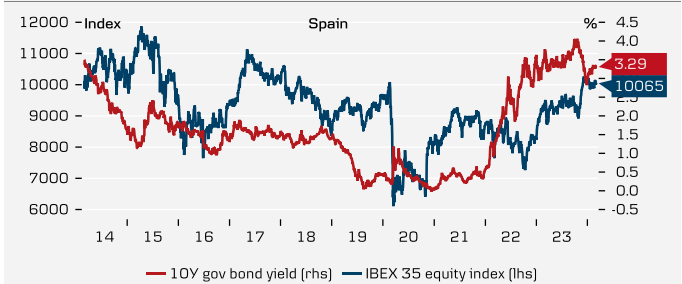
Source: Macrobond Financial, Danske Bank

Price expectations



Source: EU Commission, Macrobond Financial, Danske Bank

Financial markets



Source: Macrobond Financial, Danske Bank

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This research report has been prepared by Danske Bank A/S ('Danske Bank'). The authors of this research report are Oscar Christian Dahl Pedersen, Assistant Analyst, and Rune Thyge Johansen, Analyst.

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