

# Euro Area Macro Monitor

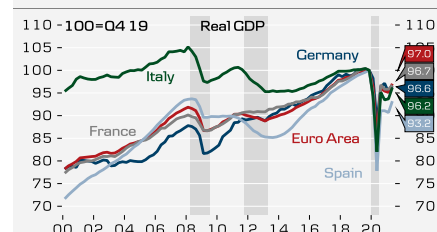
## Back in the fast lane

- **After a contraction of -0.3% q/q in the first quarter, euro area GDP expanded by a strong 2.0% q/q in Q2 21, confirming that the economy has now firmly arrived on the road to recovery.** That said, in contrast to the US and China, euro area GDP remains still some 3% below its pre-pandemic level. Business and consumers surveys still paint an upbeat picture during July, with the euro area services recovery seemingly accelerating during Q3 and unemployment has fallen back below 7.7% in June (from a peak of 8.6% last year). However, bumps on the road could still create setbacks: supply chain bottlenecks remain widespread in the manufacturing sector and have started to weigh on production levels despite full order books. The continued spreading of the delta variant also poses a headwind that could hit the tourism, travel and hospitality sectors (although we do not expect renewed lockdowns). A key question will be how the economic expansion continues in 2022 when government's emergency measures are gradually scaled back and higher inflation (see below) is starting to weigh on consumers real disposable incomes.
- **As part of its strategic review, the ECB introduced a new monetary framework, with a symmetric 2% inflation target.** ECB will aim for inflation to fluctuate around the 2% target, but the implementation will be more flexible compared to Fed's Average Inflation Targeting (AIT), which explicitly requires making up for any past inflation misses (read more in *ECB Research - Strategic Review: Striving for symmetry*, 8 July). ECB's first meeting since the new strategy took effect was mostly about aligning its forward guidance on rates to the review outcome. Policy rates are now expected to remain at their present or lower levels until ECB sees inflation reaching 2% well ahead of the end of its projection horizon and durably for the rest of the projection horizon, and that this is also confirmed by underlying inflation. Essentially, ECB wants to observe realised inflation printing closer to/at the target earlier in the forecast horizon (currently until 2023) compared to the previous medium-term orientation. In our view it is more of a change in wording rather than substance, as the ECB failed to also back up its new inflation ambitions with new monetary policy tools (see also *ECB Research: Stepping up on inflation ambitions, but not on tools*, 22 July).
- **Inflation surprised on the upside in July, with German inflation surging above 3% (highest since 2008) and also euro area HICP inflation printing at 2.2%, formally above the ECB's new target.** Energy prices remain an important driver, but technical base effects related to Germany's temporary VAT cut in H2 20 were the main culprit behind the observed inflation surge. We expect to see some high core inflation rates of 1.3-1.4% over the next 6 months due to the VAT effects, giving the hawks in the ECB Governing Council some ammunition to push for an end to crisis fighting tools (read PEPP) sooner rather than later. However, with the turn of the year, we expect inflation pressures to subside again (read more in *Research Euro Area - Mind the inflation gap*, 8 June). This should ensure a continued accommodative monetary policy stance from ECB, especially as the criteria for interest rate increases have been raised with the new framework.

### Key points

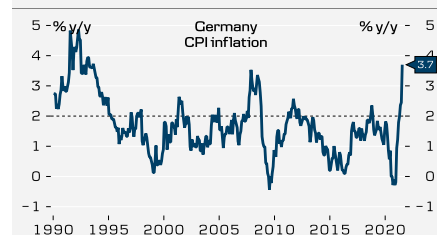
- Services recovery accelerates, with business activity growing at fastest rate in 21 years in July
- ECB is stepping up on inflation ambitions, but not on tools
- German inflation surges, but for the wrong reasons

### Euro area GDP still 3% below pre-pandemic levels



Source: Eurostat, Macrobond Financial, Danske Bank

### German inflation surges, but for the wrong reasons



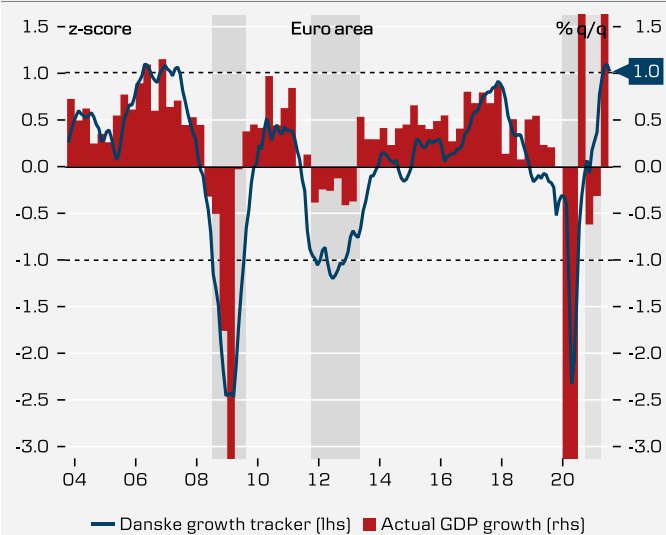
Source: Destatis, Macrobond Financial, Danske Bank

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# The Danske euro area growth tracker

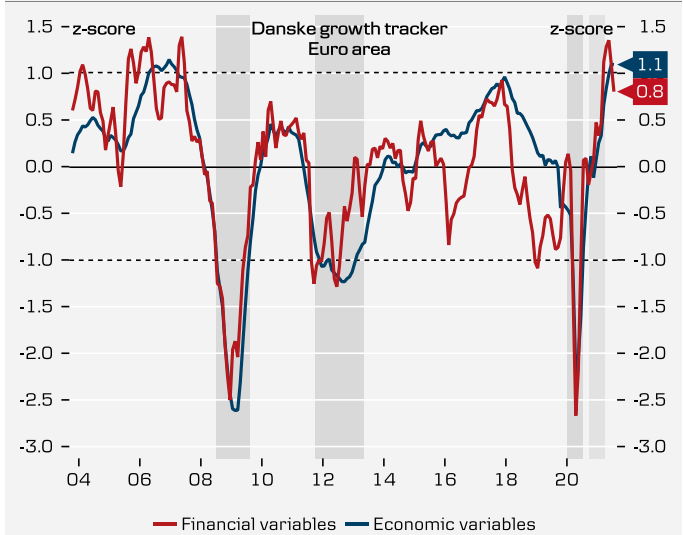
Our growth tracker remained at a high value of 1.0 in July, well in expansion territory but with signs of peaking growth momentum. Financial variables showed a small setback driven by falling surprise indices and abating equities momentum. However, economic variables remained elevated thanks to further improvements in employment, taking the index back to its highest level since 2007.

**Growth tracker and actual GDP growth**



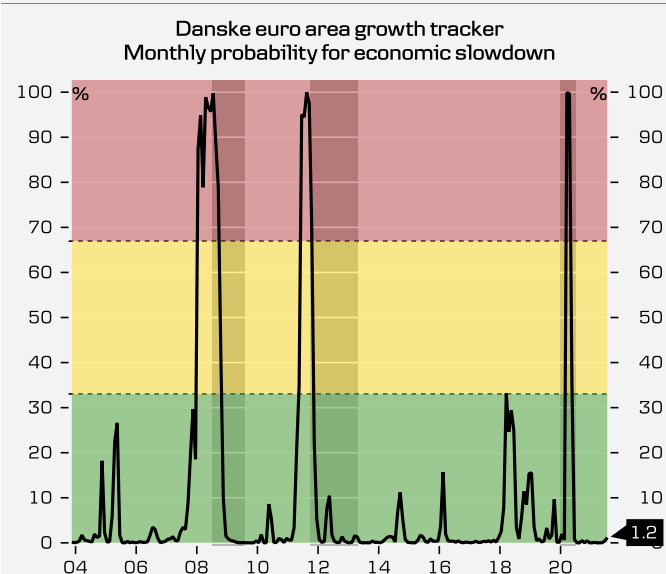
Note: Shaded area indicates historical recessions  
Source: Macrobond Financial, Danske Bank

**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

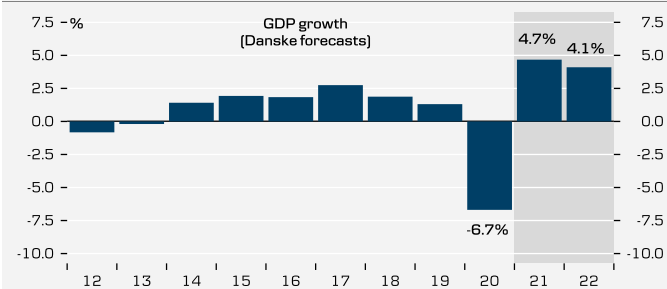
**Danske growth tracker decomposition**

	July 2021
<b>Economic variables</b>	
PMI order-inventory balance	2.4
Real M1 growth	2.0
European sentiment indicator	2.0
Consumer confidence	1.5
Composite PMI	1.5
EuroCOIN	1.2
Profit growth	1.0
Capacity utilisation	0.7
ZEW	0.7
Unemployment	0.4
OECD CLI	0.1
Credit growth	-0.3
<b>Financial variables</b>	
Sentix	1.5
Eurostoxx50	1.1
Euro surprise index	0.5
Corporate vs. gov. bond yield	0.2

Source: Danske Bank

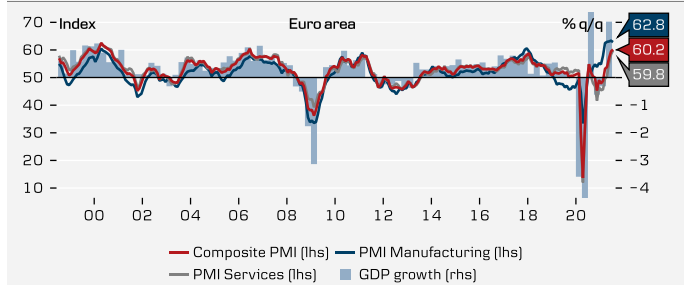
# Euro area

## GDP growth forecasts



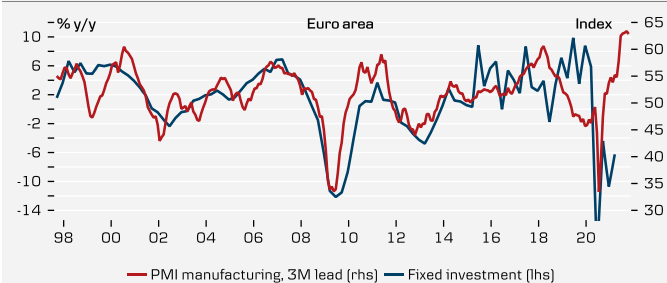
Source: Macrobond Financial, Danske Bank forecasts

## PMI and GDP growth



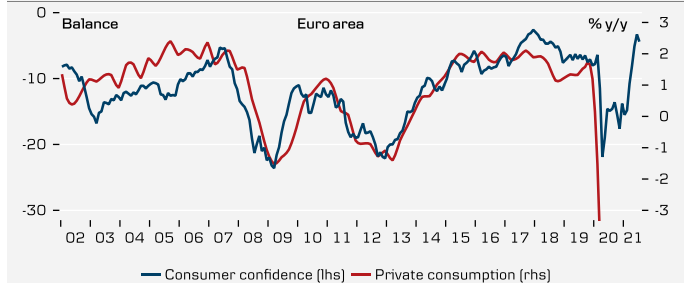
Source: Macrobond Financial, Danske Bank

## Manufacturing sentiment and investments



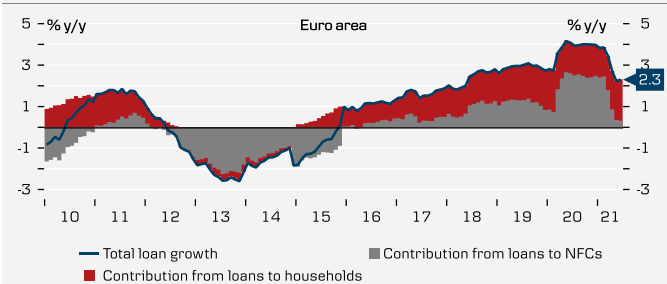
Source: Macrobond Financial, Danske Bank

## Consumer confidence and private consumption



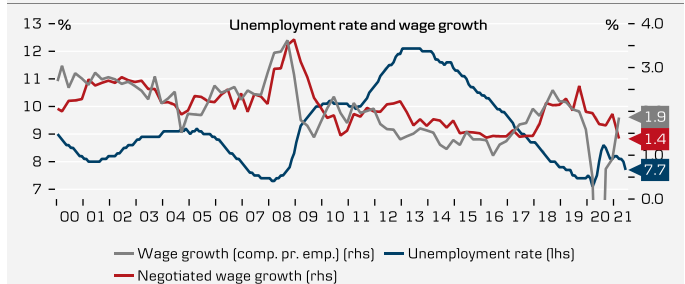
Source: Macrobond Financial, Danske Bank

## Credit growth



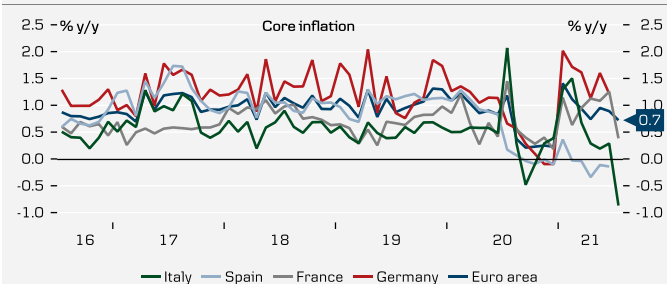
Source: Macrobond Financial, Danske Bank

## Unemployment and wage growth



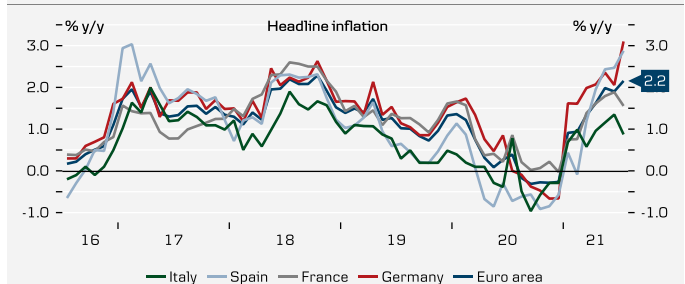
Source: Macrobond Financial, Danske Bank

## Core inflation



Source: Macrobond Financial, Danske Bank

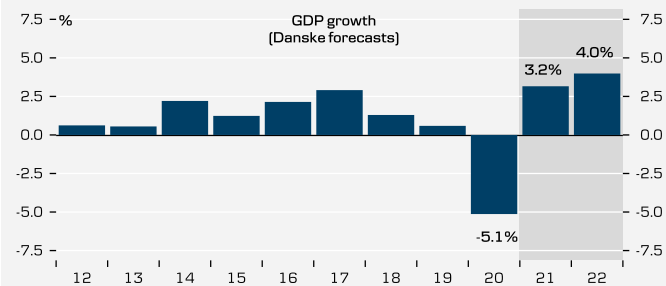
## HICP inflation



Source: Macrobond Financial, Danske Bank

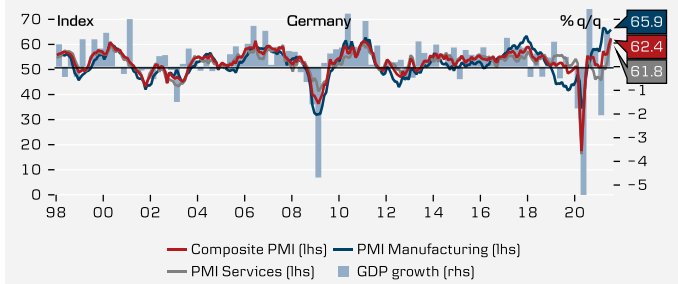
# Germany

## GDP growth forecasts



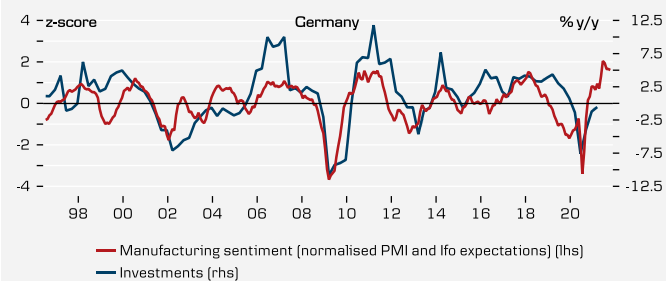
Source: Macrobond Financial, Danske Bank forecasts

## PMI and GDP growth



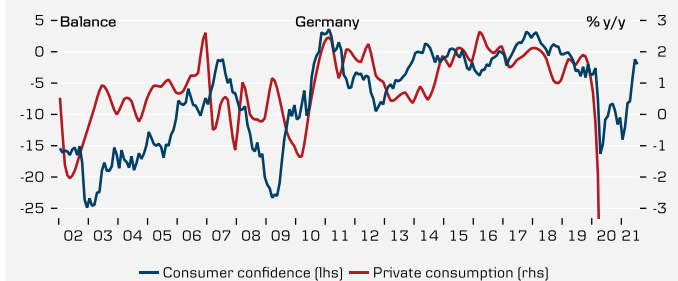
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## Manufacturing sentiment and investments



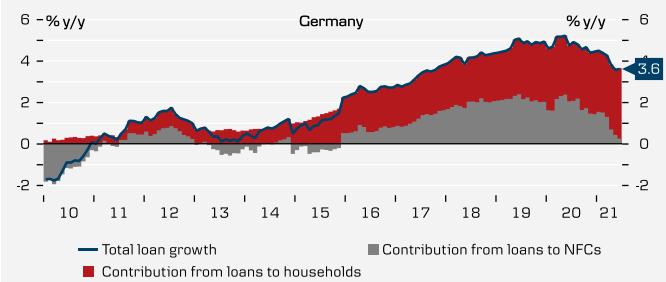
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## Consumer confidence and private consumption



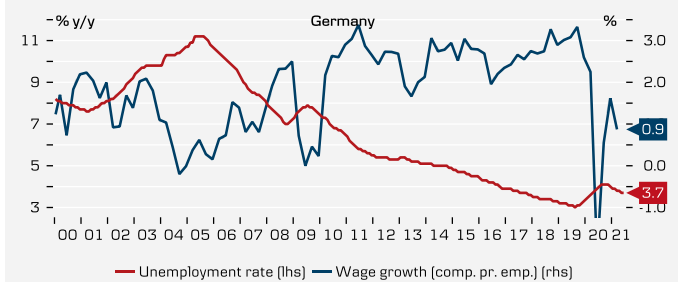
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## Credit growth



Source: Macrobond Financial, Danske Bank

## Unemployment and wage growth



Source: Macrobond Financial, Danske Bank

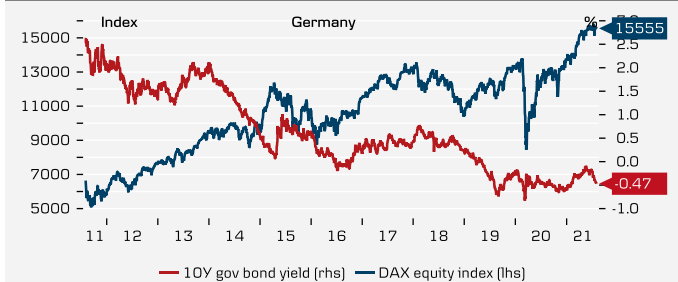
## Google mobility trends in retail & recreation



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

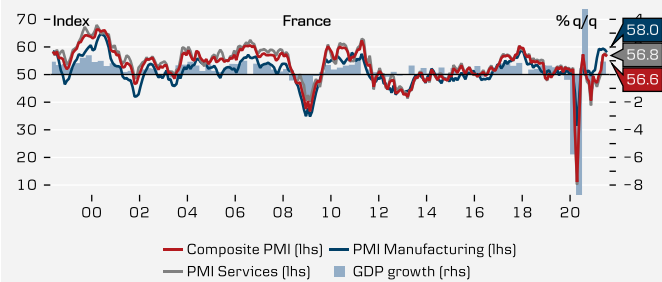
## Financial markets



Source: Macrobond Financial, Danske Bank

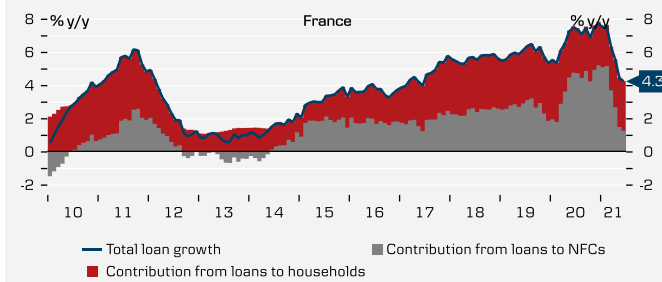
# France

## PMI and GDP growth



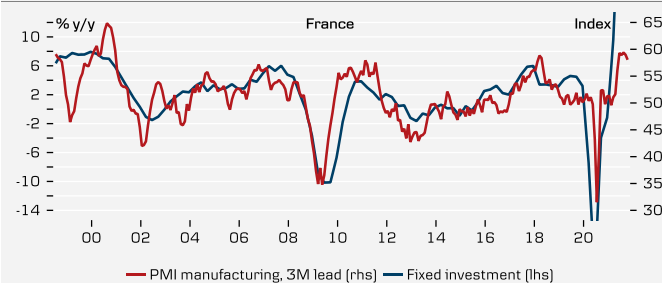
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## Credit growth



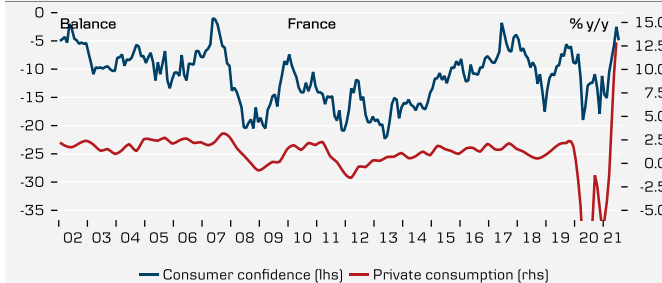
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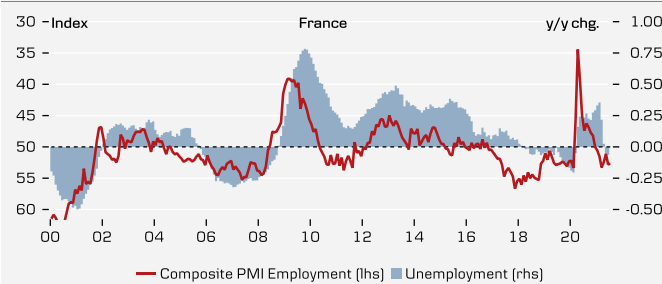
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## Consumer confidence and private consumption



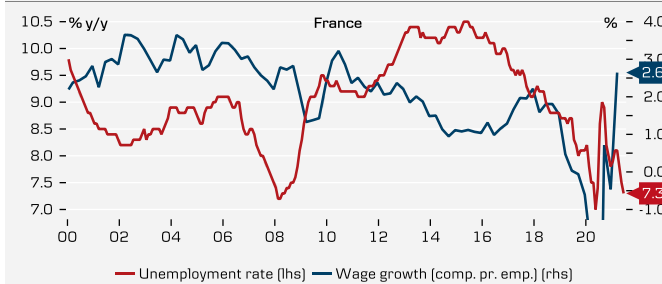
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## Unemployment and PMI



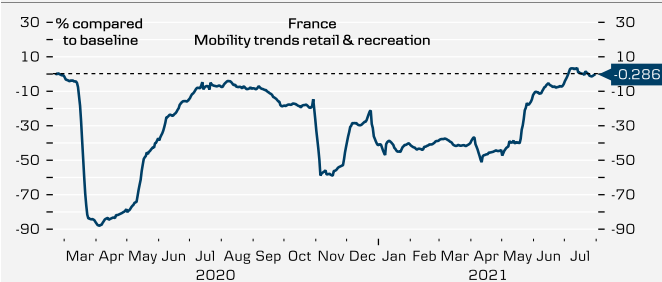
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## Unemployment and wage growth



Source: Macrobond Financial, Danske Bank

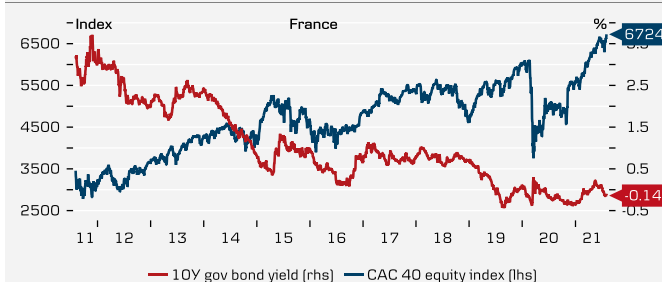
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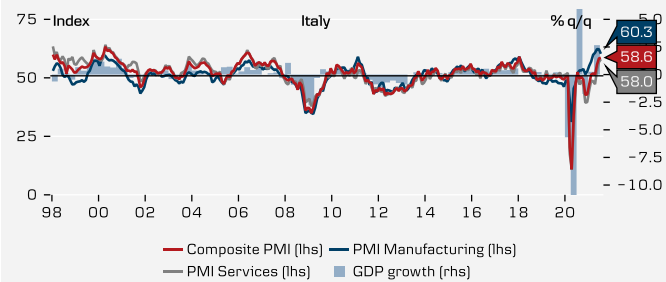
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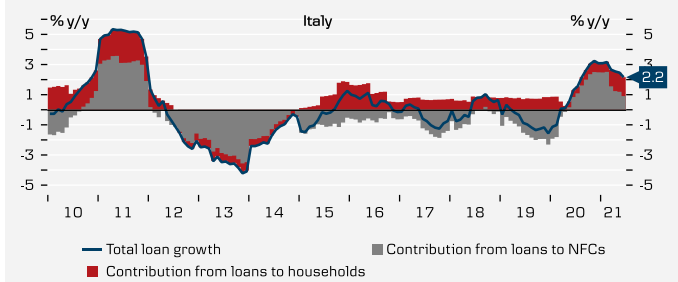
# Italy

## PMI and GDP growth



Source: Macrobond Financial, Danske Bank

## Credit growth



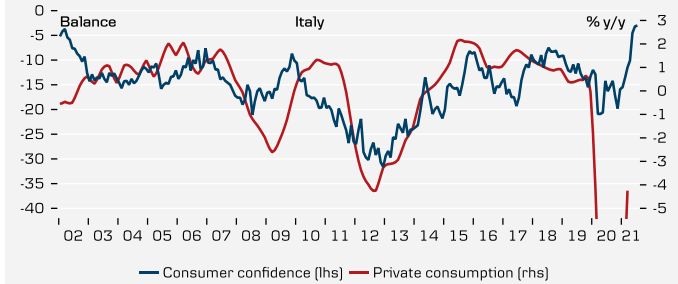
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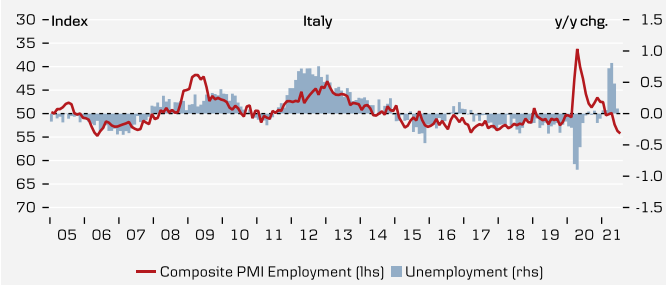
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## Consumer confidence and private consumption



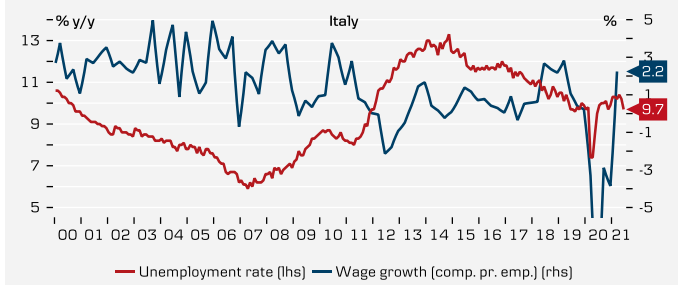
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## Unemployment and PMI



Source: Macrobond Financial, Danske Bank

## Unemployment and wage growth



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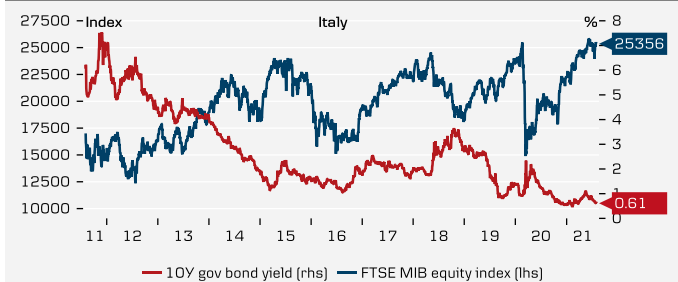
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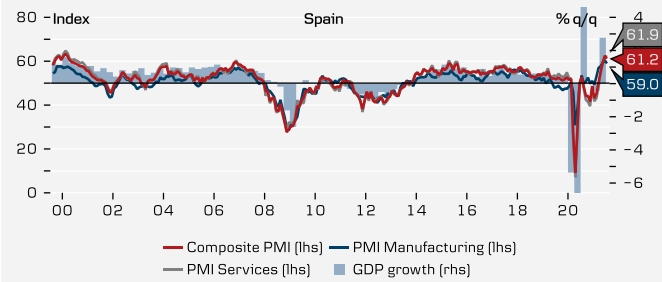
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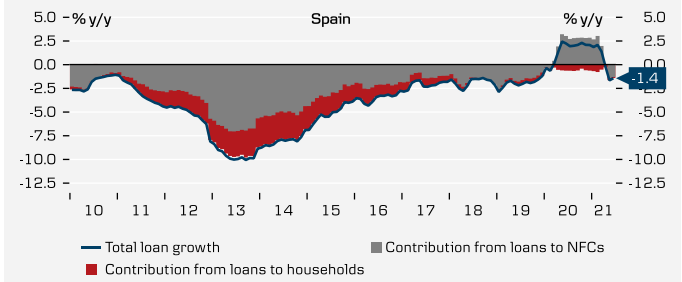
# Spain

## PMI and GDP growth



Source: Macrobond Financial, Danske Bank

## Credit growth



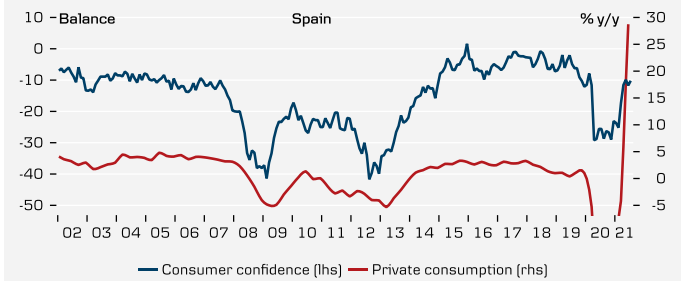
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## Manufacturing sentiment and investments



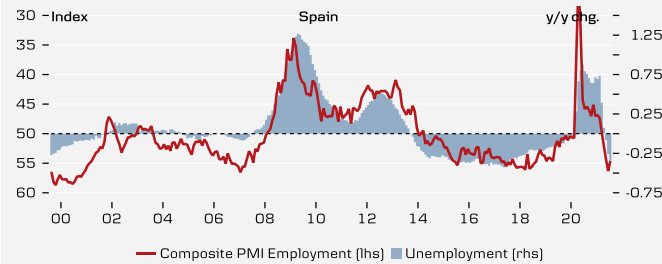
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## Consumer confidence and private consumption



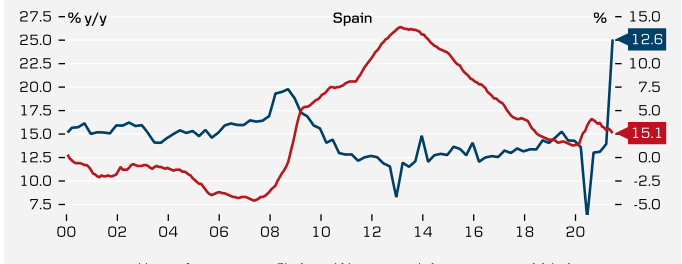
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## Unemployment and PMI



Source: Macrobond Financial, Danske Bank

## Unemployment and wage growth



Source: Macrobond Financial, Danske Bank

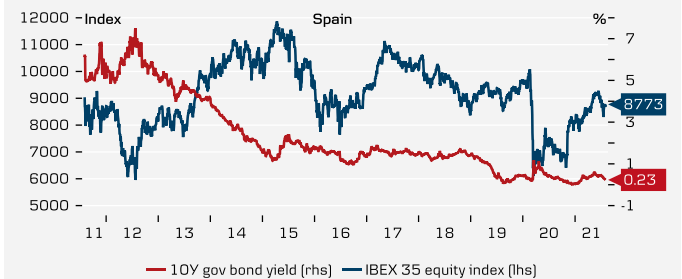
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## Financial markets



Source: Macrobond Financial, Danske Bank

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