

# Euro Area Macro Monitor

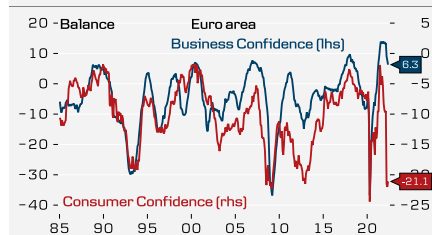
## ECB joining the party

- **The euro area economy maintained its growth momentum mid-way through Q2, but at an abating pace.** While services activity remains strong amid pent-up demand for tourism and recreation, the manufacturing sector is still constrained by supply bottlenecks and higher prices are increasingly weighing on consumer and business confidence. Especially German consumers seem to have scaled back on spending due to high prices, with a sharp drop in retail sales during April (-5.4% m/m). Together with shrinking industrial activity and falling new orders, it supports our view of a German Q2 GDP decline, although consumer relief measures such as petrol price cuts, energy grants and subsidized public transport tickets might give some support from June.
- We updated our global macro outlook in the *Big Picture: A (mild) recession in western economies seems unavoidable*, 3 June, and now expect the **US economy to fall into a mild recession during Q2 2023 amid aggressive Fed tightening, which will also spell trouble for the euro area.** While economic activity remains supported by an improving labour market, easing supply chain disruptions and accelerated investment spending on defence and the green transition, we expect rising external headwinds to weigh significantly on the growth momentum and see an **elevated euro area recession risk for H2 23.** Consequently, following an expansion of 2.5% in 2022, we revise our euro area GDP forecast down to 1.8% in 2023 (2.8% previously).
- In a *blog post*, President Lagarde made it clear that the **ECB intends to hike policy rates both in July and September**, but also that policymakers may be forced to hike more or faster. Headline inflation rose to yet a new record high of 8.1%, driven by a further surge in food, energy and goods prices. The continued building of underlying inflation pressures leaves little room for complacency for ECB, especially as producer prices have yet to see a peak, inflation expectations still stand above the 2% goal and negotiated wage growth picked up to 2.8% in Q1 (from 1.6% in Q4 21, although partly due to one-off payments in Germany). Consequently, markets are increasingly speculating about the possibility of a 50bp hike. **We expect ECB to end QE net purchases on 1 July and thereafter hike policy rates by 25bp at each meeting until March 2023**, bringing the deposit rate to 1.0%. However, with more inflation upside surprises looming, we think **risks are skewed for a 50bp rate hike in H2 this year** (July or September most likely).
- After difficult negotiations, **the EU passed a sixth Russian sanctions package.** The new measures seek to ban the purchase of Russian oil delivered by sea in six months and refined petroleum products in eight months. Pipeline crude would be temporarily excluded in concession to Hungary and other landlocked countries, which rely on Russian supplies through the Druzhba pipeline. The sanctions will also see Russia's biggest bank Sberbank cut off from SWIFT and include a ban on insurance related to shipping oil to third countries. To accelerate the green transition and increase Europe's energy independence, the Commission's new *REPowerEU plan* calls for EUR 300bn of investments into energy efficiency, diversification of energy supplies and accelerated rollout of renewable energy by 2030. However, **ending Europe's reliance on Russian energy will not come without short-term pain** (read more in our *ESG special*, 3 June).

### Key points

- US to fall into a mild recession during Q2 23, with euro area following suit in H2 23
- Further inflation surprises raise risk for 50bp ECB hike in H2 22
- Ending Europe's reliance on Russian energy will not come without short-term pain

### High costs are weighing on consumer and business confidence



Source: EU Commission, Macrobond Financial, Danske Bank

### Markets are increasingly betting on a 50bp ECB hike



Note: Past performance is not a reliable indicator of current or future results.

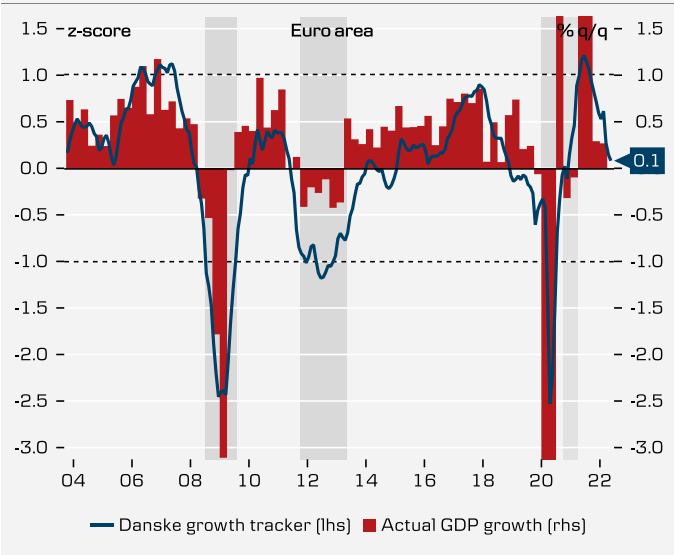
Source: Bloomberg, Macrobond Financial, Danske Bank

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# The Danske euro area growth tracker

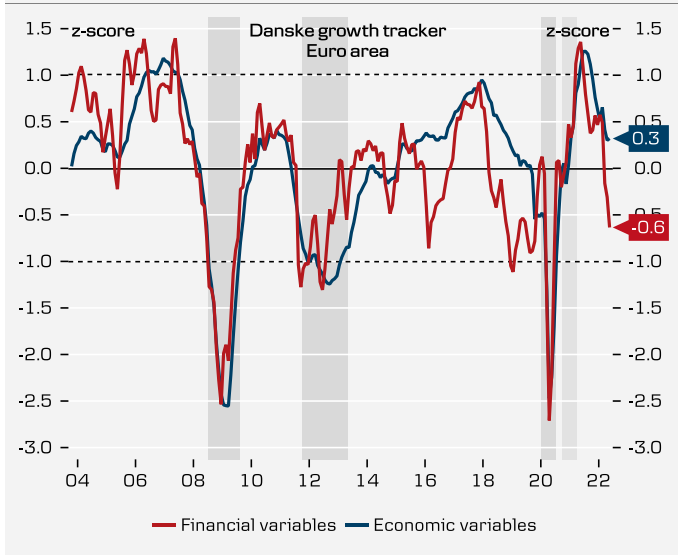
Our growth tracker eased to a value of 0.1 in May. But the decline was solely driven by financial variables, while economic variables held up at a value of 0.3. Our growth tracker thereby confirms that the euro area has not yet entered recession territory, although financial markets increasingly price such a scenario and our traffic light also remains 'red', signalling that there is still an elevated recession risk.

**Growth tracker and actual GDP growth**



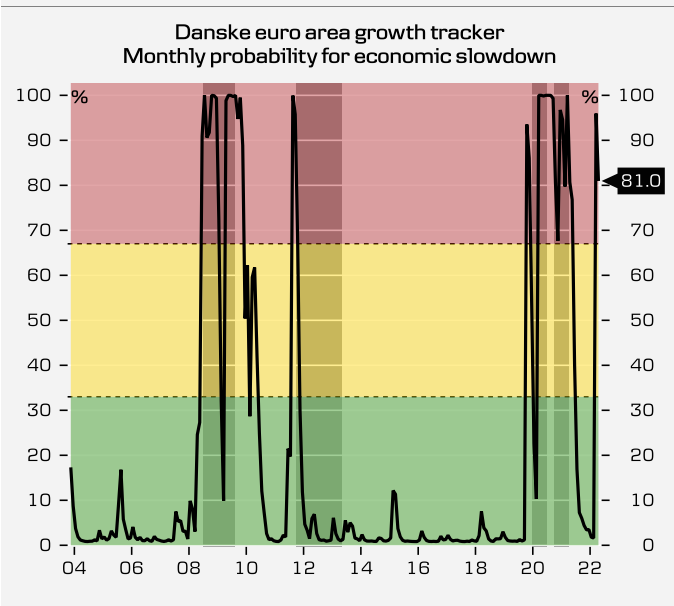
Note: Shaded area indicates historical recessions  
Source: Macrobond Financial, Danske Bank

**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

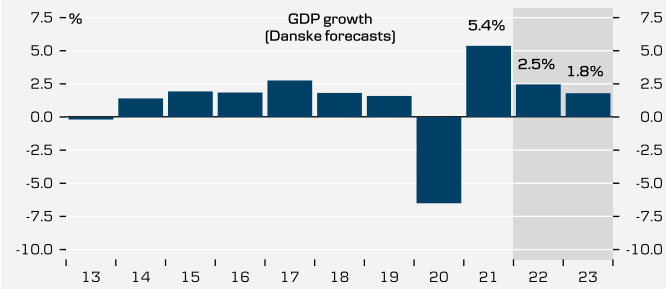
**Danske growth tracker decomposition**

	May 2022
<b>Economic variables</b>	<b>0.3</b>
Unemployment	1.7
EuroCOIN	1.3
Capacity utilisation	0.6
European sentiment indicator	0.5
Profit growth	0.5
Credit growth	0.5
Composite PMI	0.5
Real M1 growth	0.4
OECD CLI	0.1
PMI order-inventory balance	-0.1
ZEW	-0.3
Consumer confidence	-1.9
<b>Financial variables</b>	<b>-0.6</b>
Euro surprise index	0.2
Eurostoxx50	-0.6
Corporate vs. gov. bond yield	-0.7
Sentix	-1.4

Source: Danske Bank

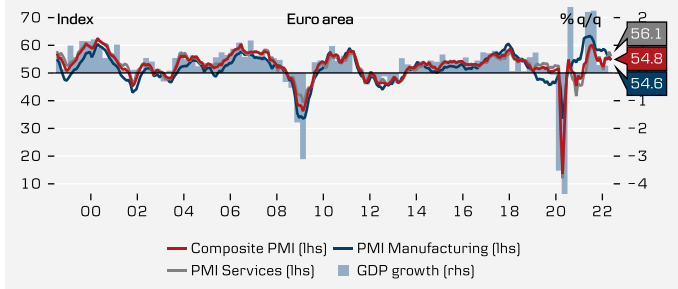
# Euro area

## GDP growth forecasts



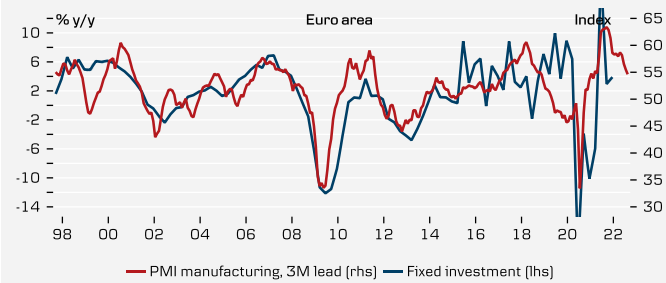
Source: Macrobond Financial, Danske Bank forecasts

## PMI and GDP growth



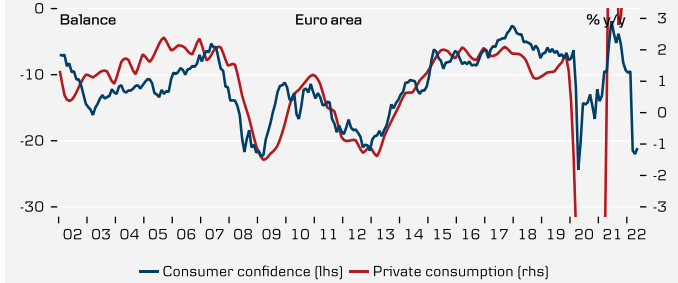
Source: Macrobond Financial, Danske Bank

## Manufacturing sentiment and investments



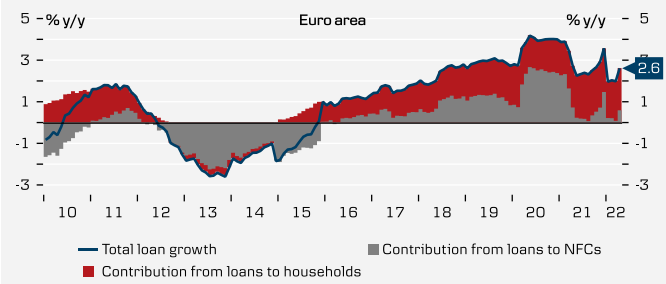
Source: Macrobond Financial, Danske Bank

## Consumer confidence and private consumption



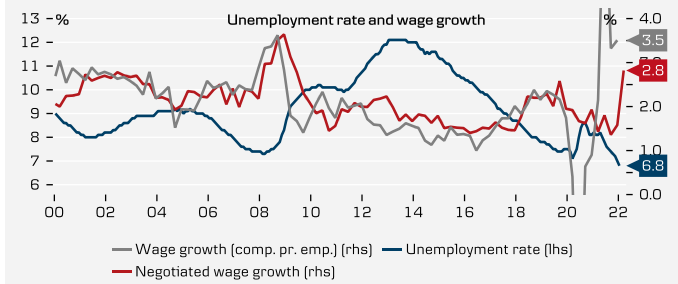
Source: Macrobond Financial, Danske Bank

## Credit growth



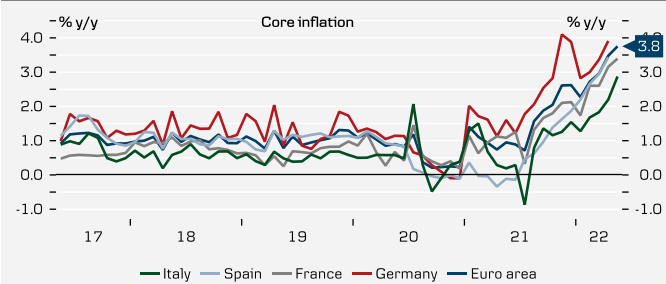
Source: Macrobond Financial, Danske Bank

## Unemployment and wage growth



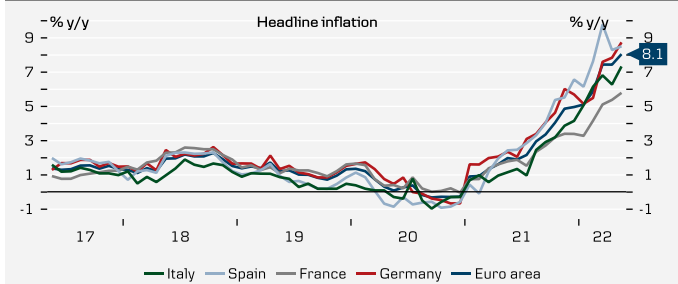
Source: Macrobond Financial, Danske Bank

## Core inflation



Source: Macrobond Financial, Danske Bank

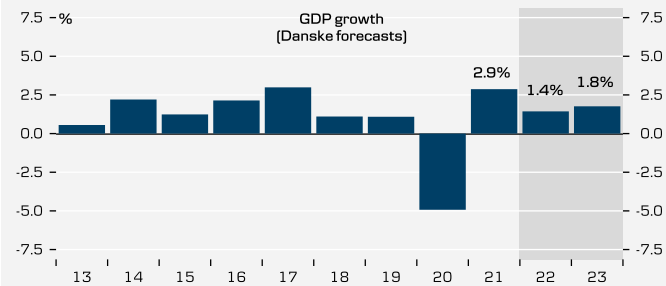
## HICP inflation



Source: Macrobond Financial, Danske Bank

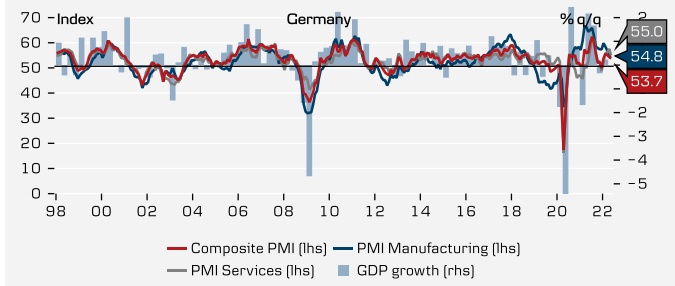
# Germany

## GDP growth forecasts



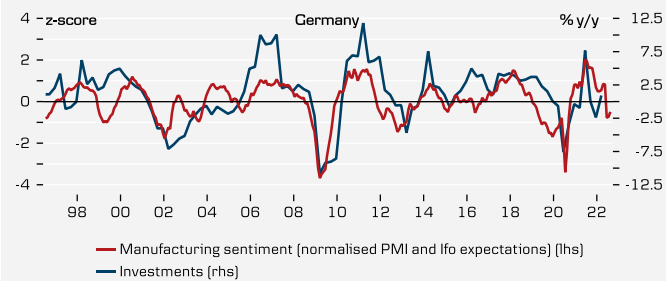
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## PMI and GDP growth



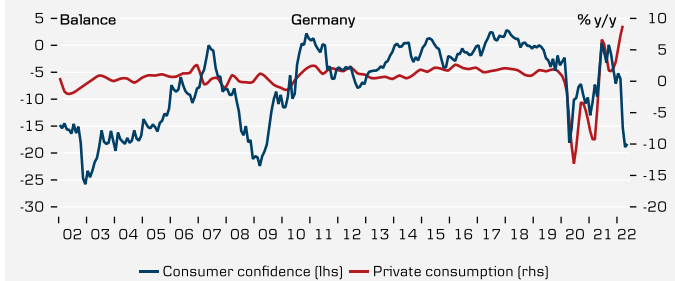
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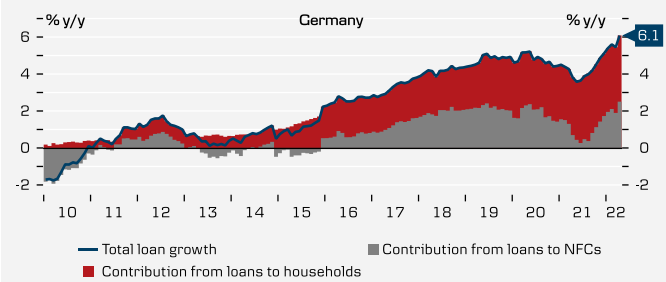
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## Consumer confidence and private consumption



Source: Macrobond Financial, Danske Bank

## Credit growth



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## Unemployment and wage growth



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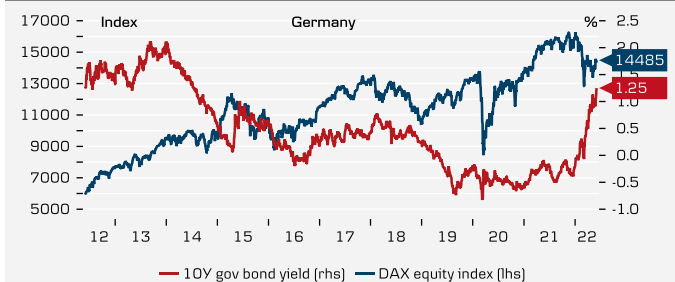
## Google mobility trends in retail & recreation



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

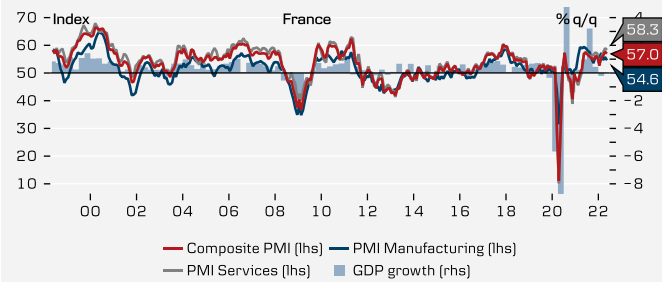
## Financial markets



Source: Macrobond Financial, Danske Bank

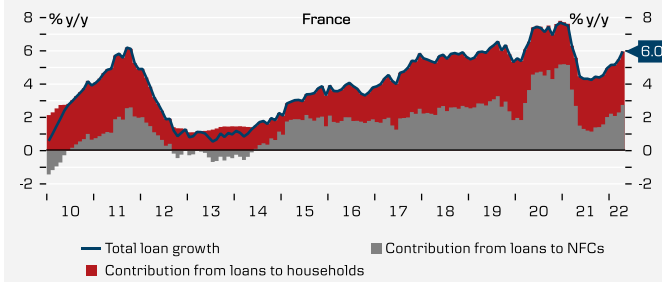
# France

## PMI and GDP growth



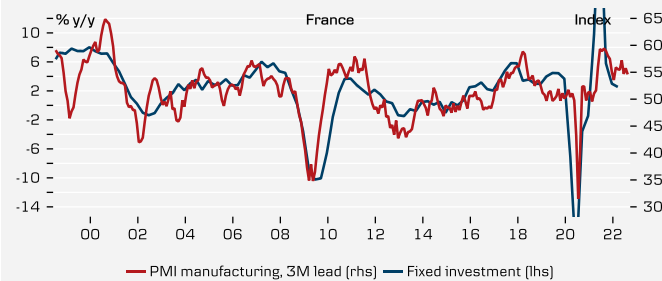
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## Credit growth



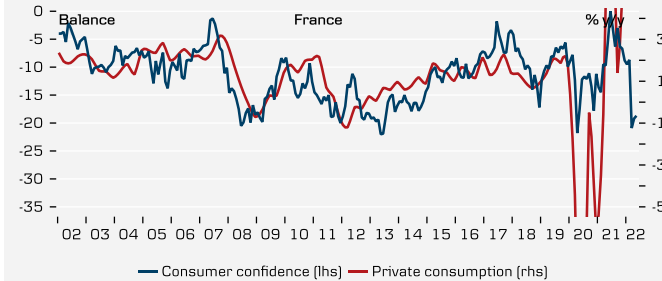
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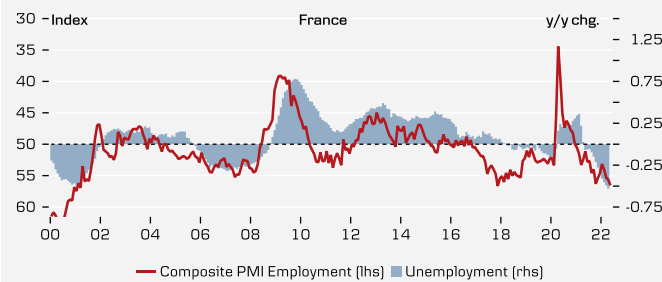
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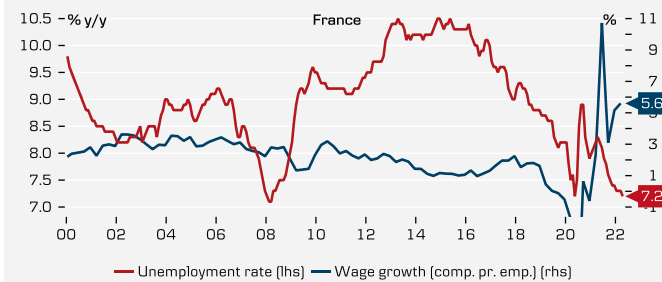
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## Unemployment and PMI



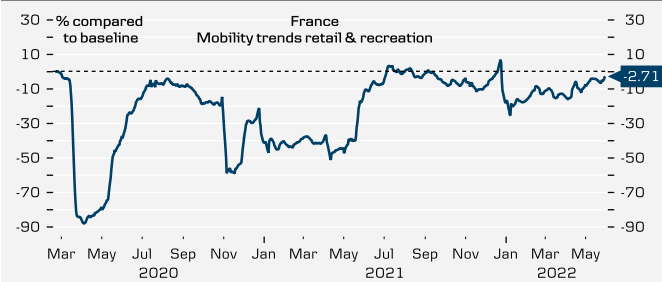
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## Unemployment and wage growth



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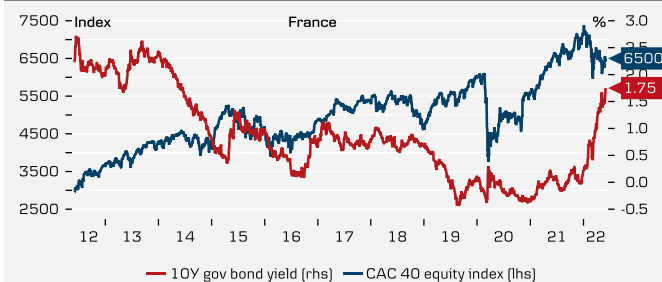
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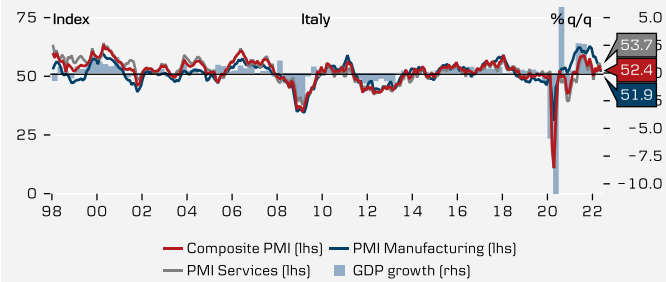
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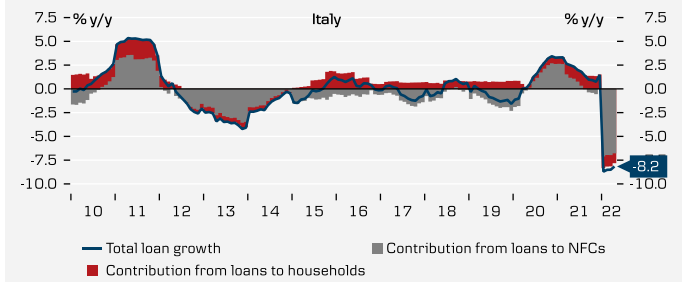
# Italy

## PMI and GDP growth



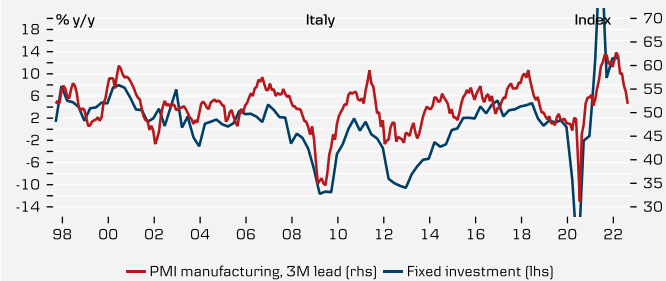
Source: Macrobond Financial, Danske Bank

## Credit growth



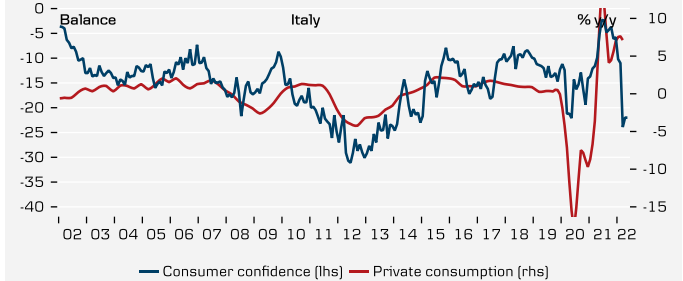
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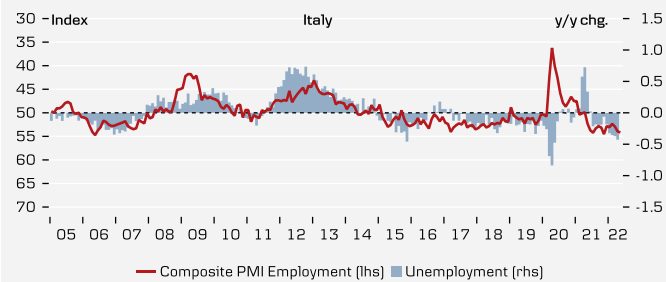
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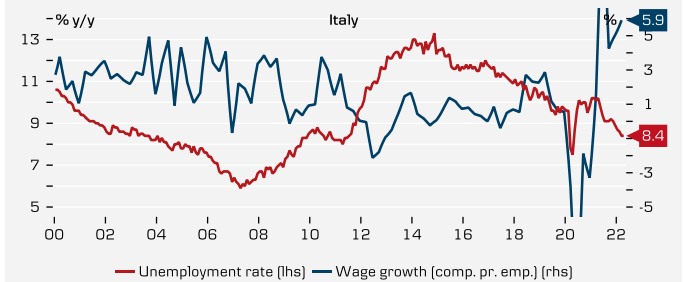
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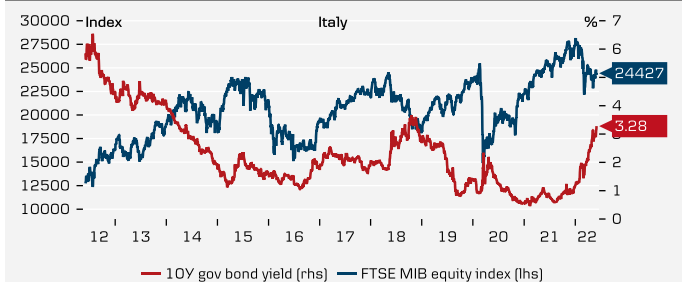
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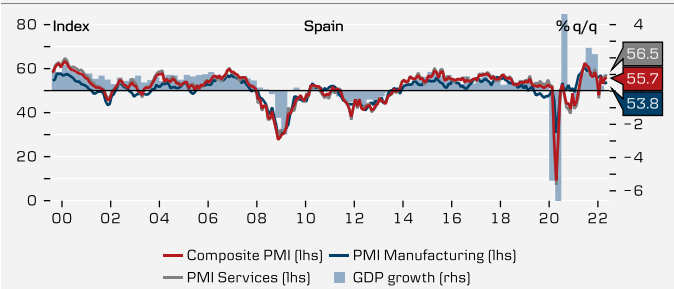
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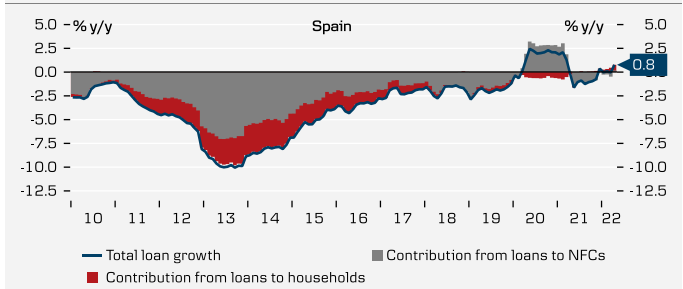
# Spain

## PMI and GDP growth



Source: Macrobond Financial, Danske Bank

## Credit growth



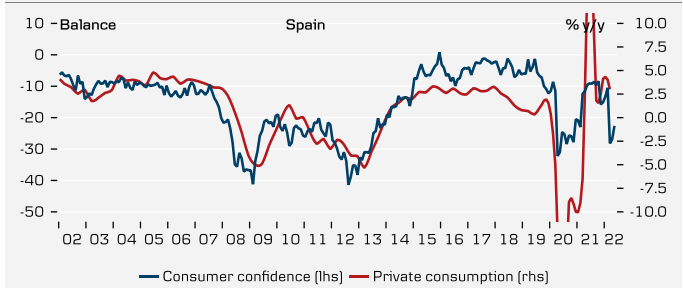
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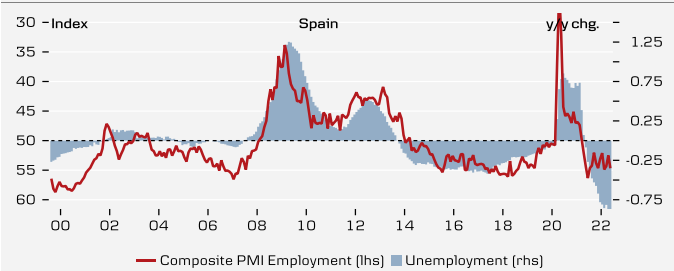
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## Consumer confidence and private consumption



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## Unemployment and PMI



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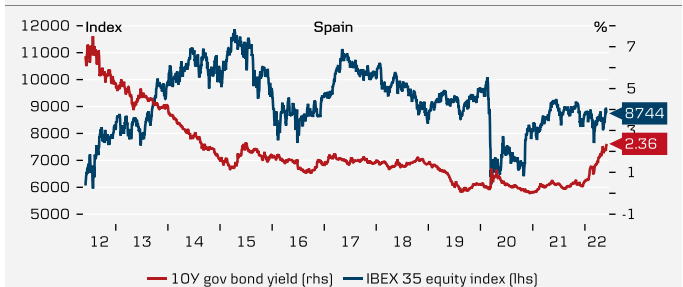
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## Financial markets



Source: Macrobond Financial, Danske Bank

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### Date of first publication

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