

# Euro Area Macro Monitor

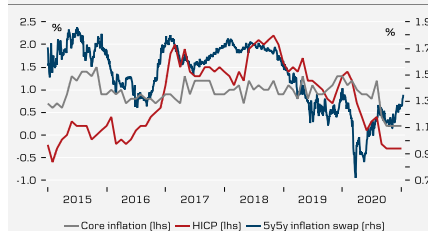
## Getting worse, before getting better

- The spreading of COVID-19 and subsequent euro area wide lockdowns have put the euro area economy in a weak position.** We expect activity to be worse in January and February, before an improvement across the continent as the rollout of vaccines spreads and weather conditions improve, with the improvement set to accelerate further after Easter. Unsurprisingly, the euro area economy lost further momentum in December, with services activities continuing to be the main drag on the economy. Country-level PMIs, notably in Italy and the rest of the southern Europe, show the economy is currently a two-speed economy. Manufacturing momentum is keeping industry-heavy economies in expansionary territory but overall this is not enough to keep the entire eurozone growing. We expect lockdowns well into February/March. The European Medical Agency has approved two vaccines for emergency use (and plans to discuss a third from AstraZeneca in late January) but the vaccination process has got off to a slow start in some euro area countries, such as the Netherlands and France (see *COVID-19 Update – EU gets more vaccine ammunition with approval of Moderna after slow start*, 7 January). We believe this will take its toll on those jurisdictions. However, in our view, the euro area outlook on the vaccine rollout and the improvement in the weather conditions from spring should allow for a gradual rollback of some of the lockdowns. Most recently, German Chancellor Angela Merkel indicated another 10 weeks of lockdown (from mid-January) might be in scope.
- Looking ahead, economic survey indicators on the economic outlook are becoming more optimistic,** with services at pre-COVID-19 pandemic levels and manufacturing expectations at a multi-year high (see chart on the right).
- The EU's flagship response to the COVID-19 crisis, namely the Recovery and Resilience facility, was approved at the December 2020 EU Council summit and has now entered the implementation phase.** After hitting an obstacle in the final phase, with Hungary and Poland threatening to veto the package, we expect the fiscal stimulus to be very sizeable, to the tune of 6.4% of GDP (budget deficit).
- At the ECB meeting in December, the ECB decided to recalibrate its monetary policy instruments but not ease its current stance. The two main measures were (1) an extending/expanding of the pandemic emergency purchase programme (PEPP) by another EUR500bn to a total package of EUR1,850bn until March 2022 and (2) another three liquidity operations (TLTRO) with an extension of the 50bp TLTRO rate discount until June 2022, subject to lending performance (so that liquidity can be taken at -1%) (see *ECB Research – Balanced, conservative, compromise recalibration*, 10 December).
- December's Euro area flash inflation saw the headline figure stuck at -0.3% (fifth consecutive reading in negative territory). Energy continues to remain a drag and core inflation printed at only 0.2%. The core inflation print masks heterogeneous dynamics between goods and services prices. Despite the lockdown, service price inflation rebounded slightly to 0.7% (from 0.6% in November). The market-based inflation expectation in the euro area has risen to 1.35%, driven by a spillover effect from the US. However, in our view, we need realised data-driven confirmation before we expect inflation expectations to take another leg higher.

### Key points

- Euro area economy continues to lose momentum but light at the end of the tunnel.
- EU recovery and Resilience facility approved. Longer but not stronger ECB stimuli.
- Low inflation persists for now.

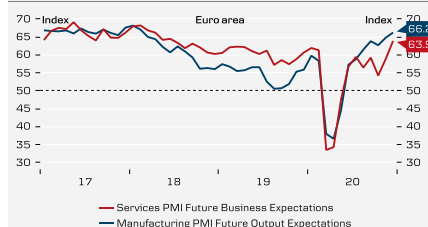
### Inflation expectations have risen but realised inflation prints are still subdued



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

Source: Macrobond Financial, Bloomberg, Danske Bank

### Positive vaccine news has boosted firms' business outlook for 2021



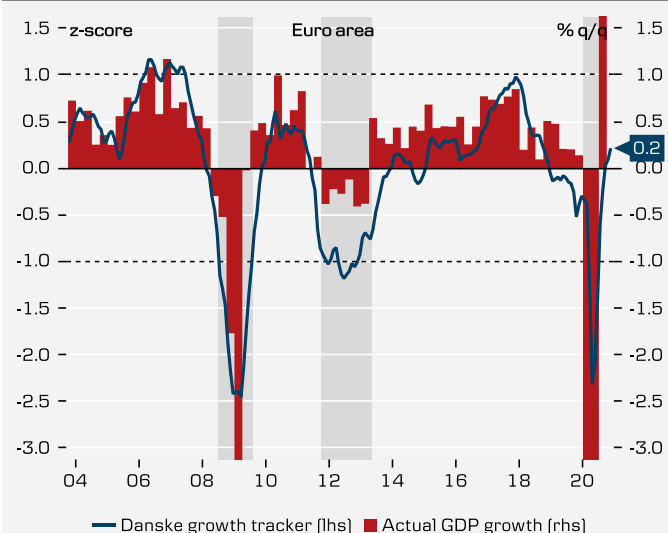
Source: Markit, Macrobond Financial, Danske Bank

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# Danske euro area growth tracker

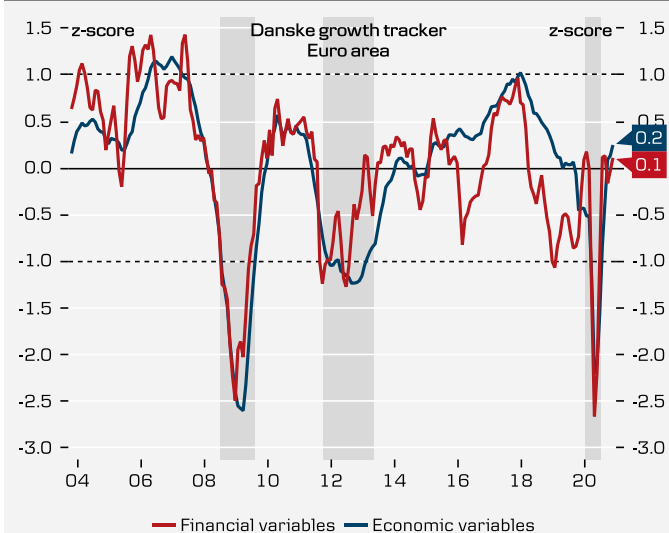
Our growth tracker continued its recovery in December to a value of 0.2, helped by improvements in both financial and economic variables. While this may underline that the rising number of COVID-19 cases and new lockdowns still point to pickup in activity, the uncertainty remains high, notably from the services sector. 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

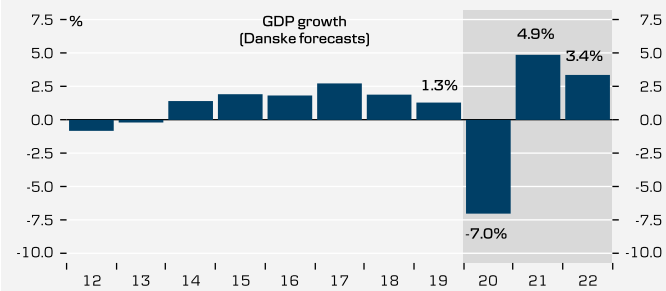
Growth tracker: financial and economic variables



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

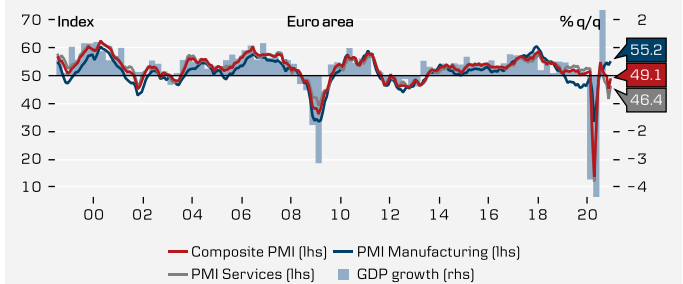
# Euro area

## GDP growth forecasts



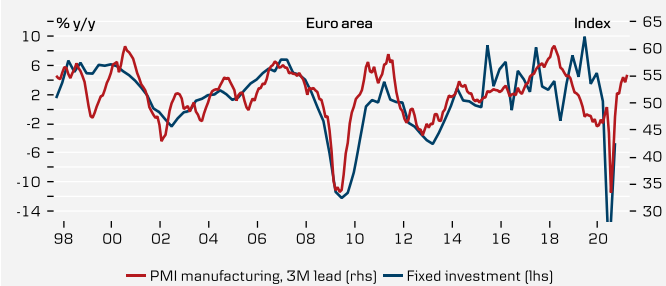
Source: Macrobond Financial, Danske Bank forecasts

## PMI and GDP growth



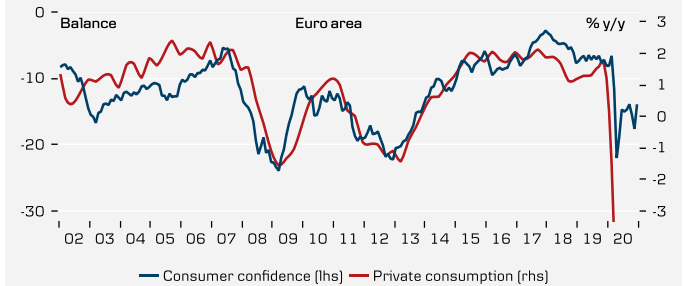
Source: Macrobond Financial, Danske Bank

## Manufacturing sentiment and investments



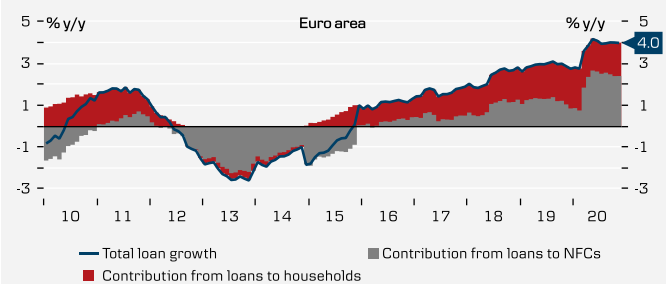
Source: Macrobond Financial, Danske Bank

## Consumer confidence and private consumption



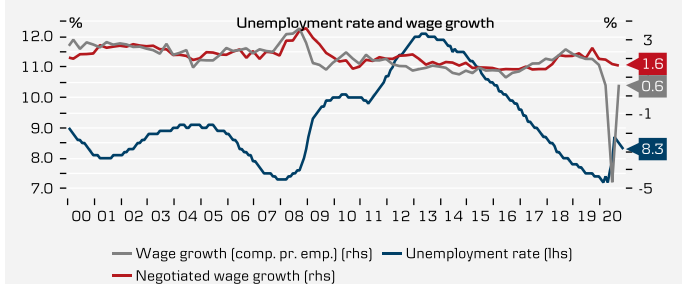
Source: Macrobond Financial, Danske Bank

## Credit growth



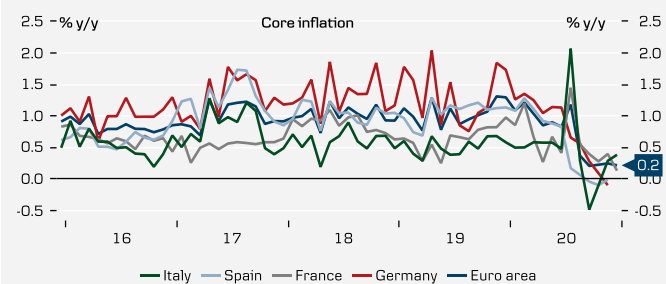
Source: Macrobond Financial, Danske Bank

## Unemployment and wage growth



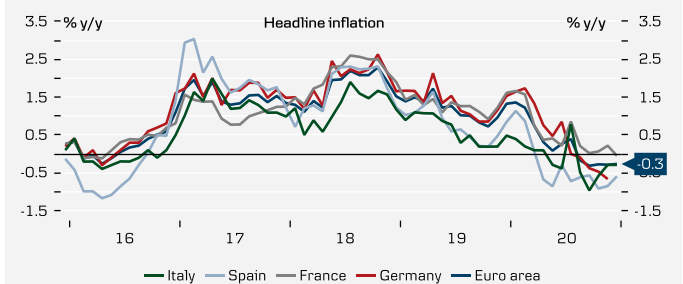
Source: Macrobond Financial, Danske Bank

## Core inflation



Source: Macrobond Financial, Danske Bank

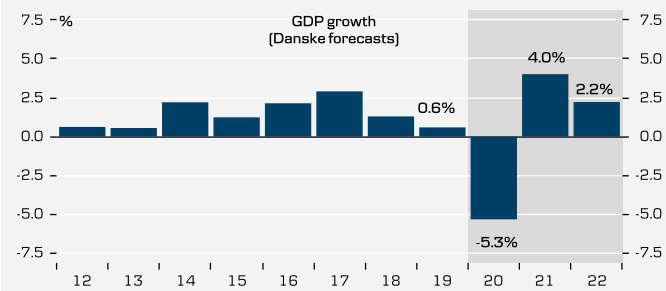
## HICP inflation



Source: Macrobond Financial, Danske Bank

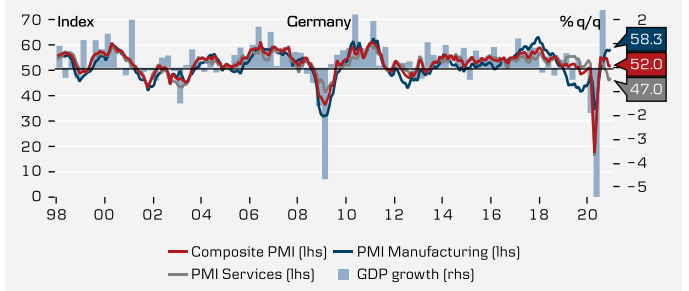
# Germany

## GDP growth forecasts



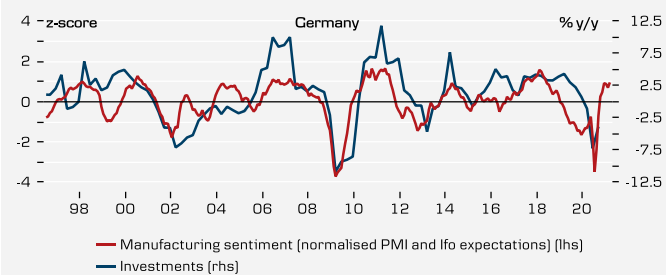
Source: Macrobond Financial, Danske Bank forecasts

## PMI and GDP growth



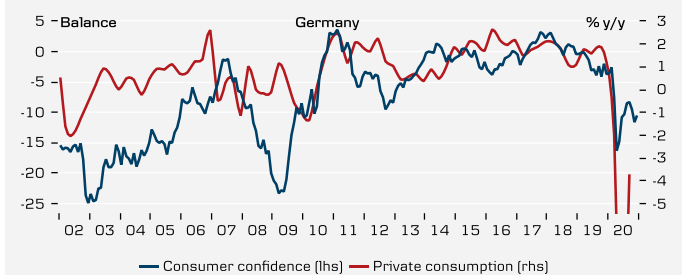
Source: Macrobond Financial, Danske Bank

## Manufacturing sentiment and investments



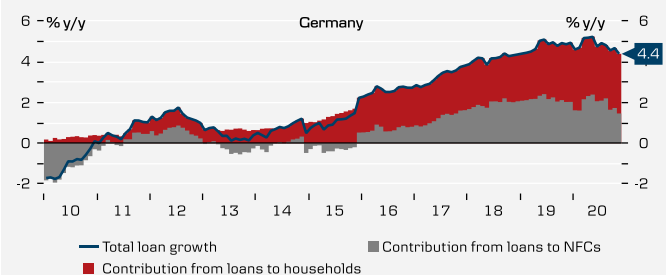
Source: Macrobond Financial, Danske Bank

## Consumer confidence and private consumption



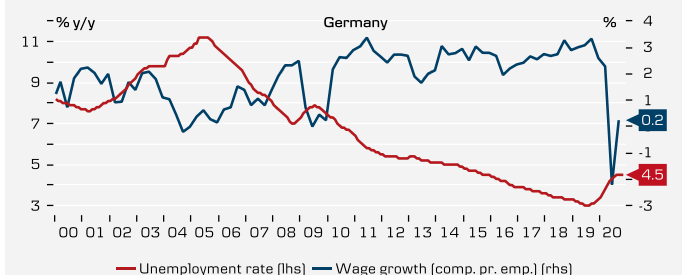
Source: Macrobond Financial, Danske Bank

## Credit growth



Source: Macrobond Financial, Danske Bank

## Unemployment and wage growth



Source: Macrobond Financial, Danske Bank

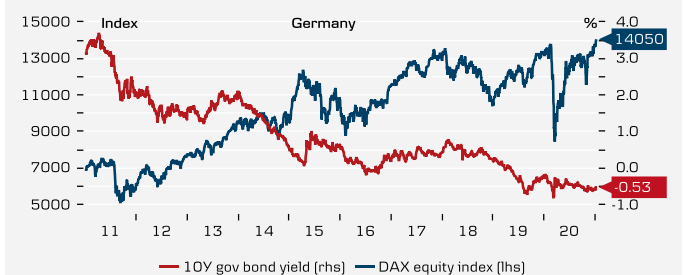
## Google mobility trends in retail & recreation



Note: The above shows mobility trends for places such as restaurants, cafés, shopping centres, theme parks, museums, libraries and cinemas

Source: Google Mobility, Danske Bank

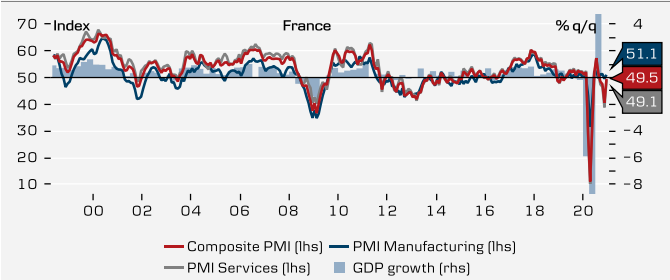
## Financial markets



Source: Macrobond Financial, Danske Bank

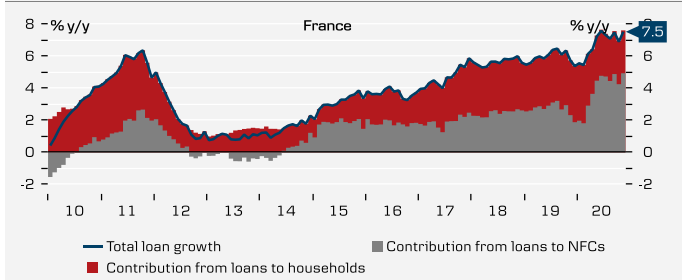
# France

## PMI and GDP growth



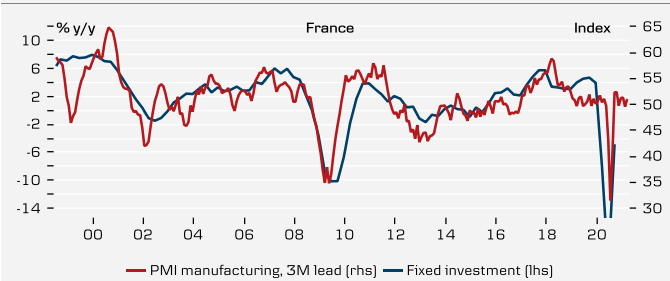
Source: Macrobond Financial, Danske Bank

## Credit growth



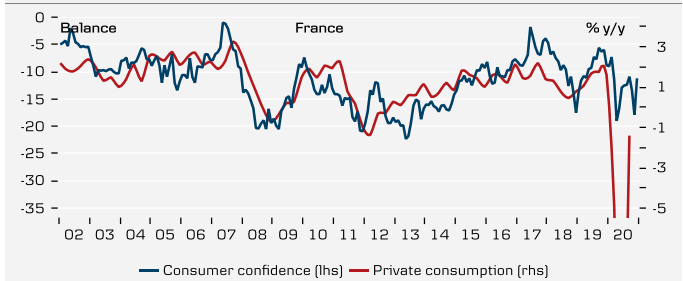
Source: Macrobond Financial, Danske Bank

## Manufacturing sentiment and investments



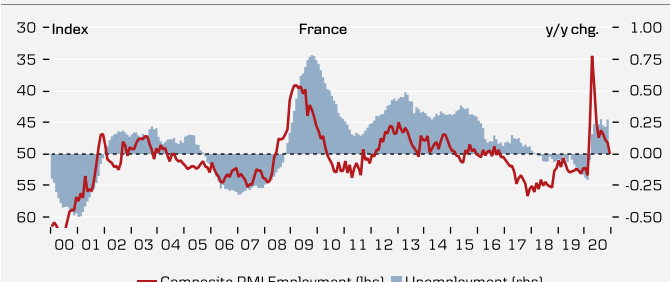
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## Consumer confidence and private consumption



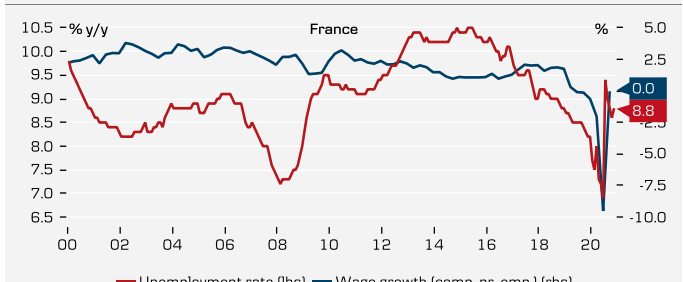
Source: Macrobond Financial, Danske Bank

## Unemployment and PMI



Source: Macrobond Financial, Danske Bank

## Unemployment and wage growth



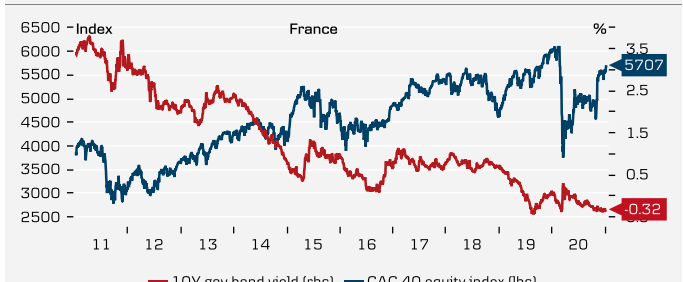
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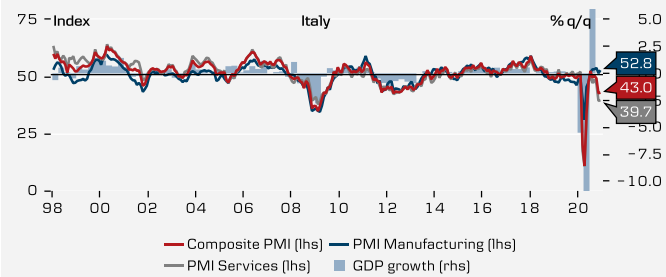
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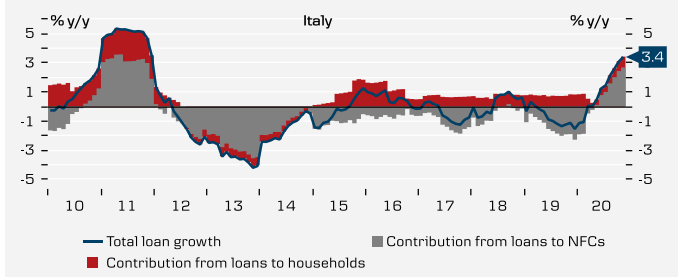
# Italy

## PMI and GDP growth



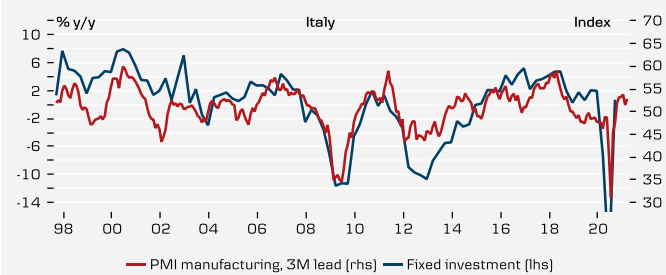
Source: Macrobond Financial, Danske Bank

## Credit growth



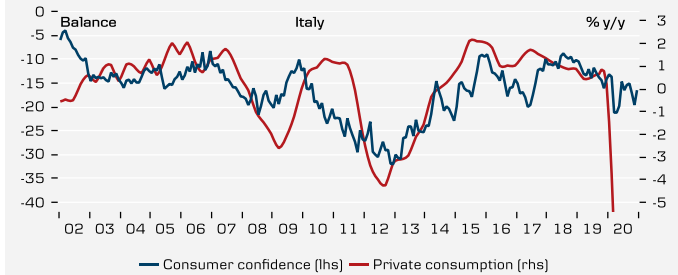
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## Manufacturing sentiment and investments



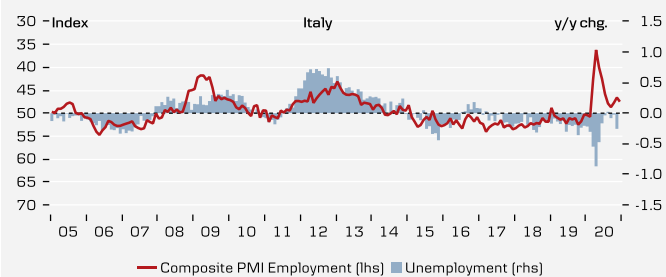
Source: Macrobond Financial, Danske Bank

## Consumer confidence and private consumption



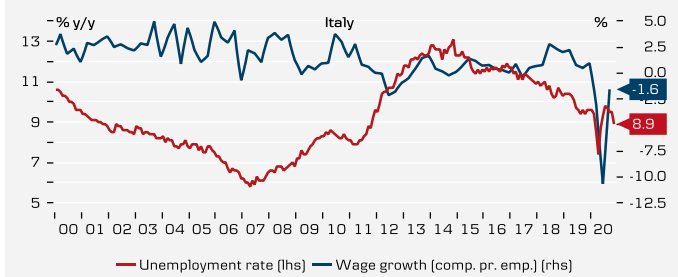
Source: Macrobond Financial, Danske Bank

## Unemployment and PMI



Source: Macrobond Financial, Danske Bank

## Unemployment and wage growth



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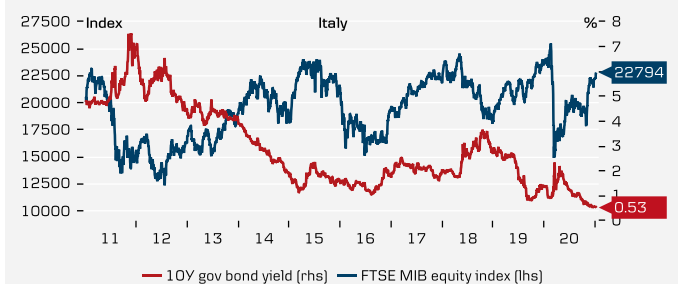
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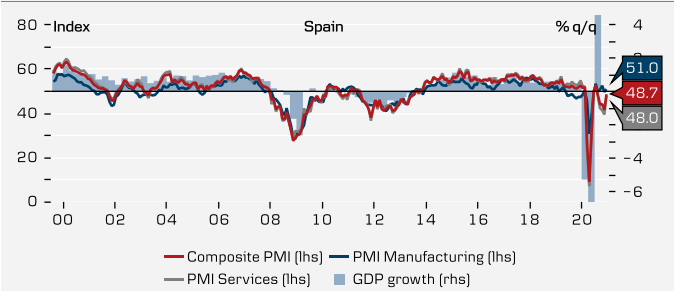
## Financial markets



Source: Macrobond Financial, Danske Bank

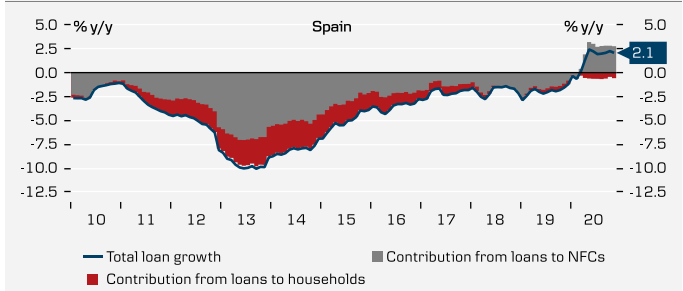
# Spain

## PMI and GDP growth



Source: Macrobond Financial, Danske Bank

## Credit growth



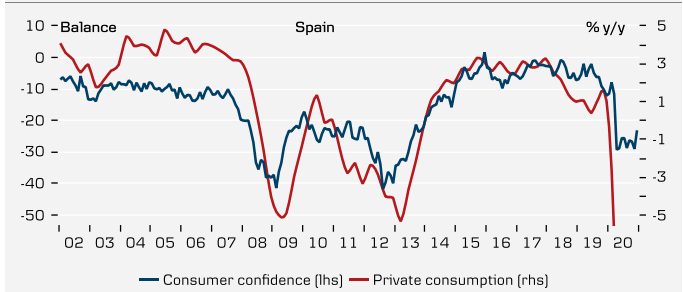
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## Manufacturing sentiment and investments



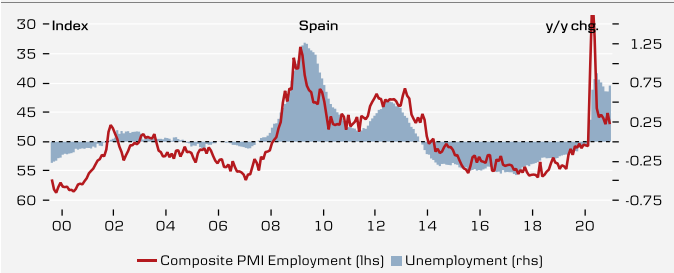
Source: Macrobond Financial, Danske Bank

## Consumer confidence and private consumption



Source: Macrobond Financial, Danske Bank

## Unemployment and PMI



Source: Macrobond Financial, Danske Bank

## Unemployment and wage growth



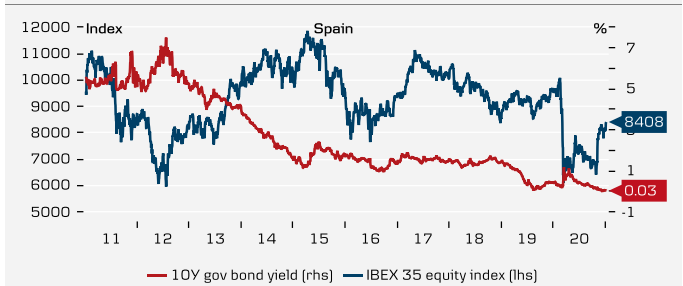
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## Financial markets



Source: Macrobond Financial, Danske Bank

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