

Euro Area Macro Monitor

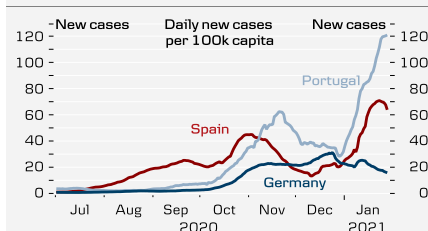
Cautiously optimistic

- **Over the past month we have seen improvements in the daily numbers of new COVID-19 cases across Europe** except for France, Spain and Portugal, where cases are still rising. We expect lockdowns well into March as well but with gradual easing during Q2 on the back of the improving weather conditions and roll-out of the vaccine. On the vaccine front the European Medical Agency approved the third vaccine, AstraZeneca, which is set to deliver 40 million doses to EU during Q1. However, the AstraZeneca shot are less effective at only 62% and especially for people aged 65+. Lastly, positive news from both Pfizer and Moderna on effectiveness against COVID-19 variants (both UK and South African) has decreased the probability of the tail risk scenario of a COVID-19 variation cycle in 2022, given reasons for still remaining our cautiously optimistic view on the Euro area, see *COVID-19 Update - Moderna and Pfizer vaccines also effective against new variants, 28 January*.
- **Italian politics has been subject to quite some turmoil (since the IV party led by Matteo Renzi pulled its ministers) after discussions about the usage of the EU recovery fund money lead to a government collapse.** After two failed attempts from current Prime Minister Giuseppe Conte to form a government the former ECB president Mario Draghi has been asked to try to form a government by President Mattarella.
- **The ECB meeting in January was largely a non-event after the recalibration in December** on the bond purchase programme and liquidity operations, keeping a very accommodative monetary policy stance while being attentive to financing conditions, see more in *Flash - ECB Review - keeping a steady course, 21 January*
- **In Germany Armin Laschet has been elected the new party leader of CDU (53%)** after he won against the conservative faction candidate Friedrich Merz (47%). Laschet succeeds Annegret Kramp-Karrenbauer who has struggled to unify the party's liberal and the conservative factions. Laschet is expected to continue Angela Merkels course.
- **GDP in the Euro Area contracted -0.7% qoq (-5.1% yoy).** This is much better than the -2.2% qoq in ECB's recent staff projections. However, we expect the 0.6% qoq in Q1 21 to be rather unrealistic given the continuation of the national lockdowns expected to last through most of the quarter. On a country level we see the two-speed economy reflected clearly in the GDP with countries such as France (-1.3%), Italy (-2%) and Austria (-4.3%) contracting the most. While the more manufacturing heavy country Germany was virtually unchanged (0.1%) and smaller countries such as Latvia (1.1%) performed significantly better. Portugal expanded 0.4%.
- As expected the January HICP headline jumped 1.1pp to 0.9%, driven primarily by a jump in core inflation from 0.2% to 1.4% (record high jump). The energy component continues to be a drag, albeit to a lesser extent (-4.1%, compared to -6.9% in December). The jump in core inflation is linked to the fall out of the temporary VAT cut in Germany. The German release indicated a full pass through, but also that CO2 pricing drove core inflation higher. We expect that high volatility in inflation will continue in coming months. The volatility mainly stems from the goods prices, which jumped to 1.4% (after hovering around -0.3% area in H2 20), but also from the services which jumped from 0.7% to 1.4% in January. All in all, it is too early to conclude the fundamental strength of the inflation prices, despite core inflation being at 5y high.

Key points

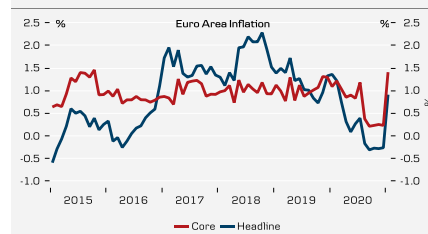
- Euro area still in lock down but still cautious optimistic
- GDP beat expectations with manufacturing heavy countries doing most of the lifting.
- Jump in inflation. Expect more volatility ahead.

Southern Europe struggling while the rest of Europe are starting to get the infection rate under control



Source: Macrobond, Bloomberg, Danske Bank

Record high inflation jump, but too soon to conclude change in fundamental strength



Source: Macrobond Financial, Danske Bank

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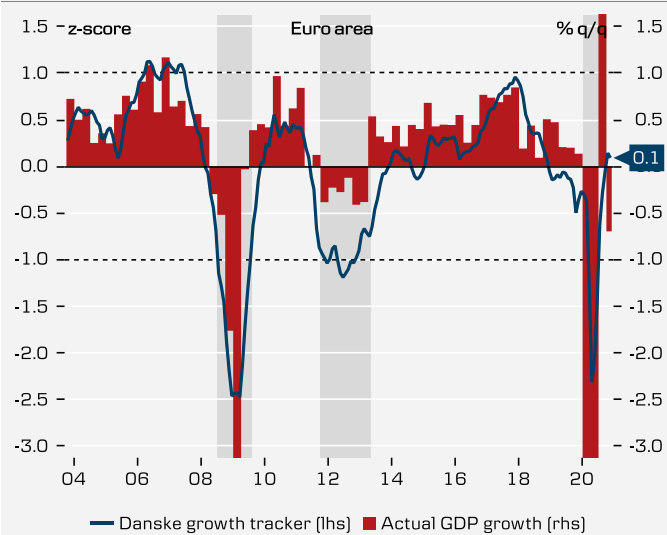
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The Danske euro area growth tracker

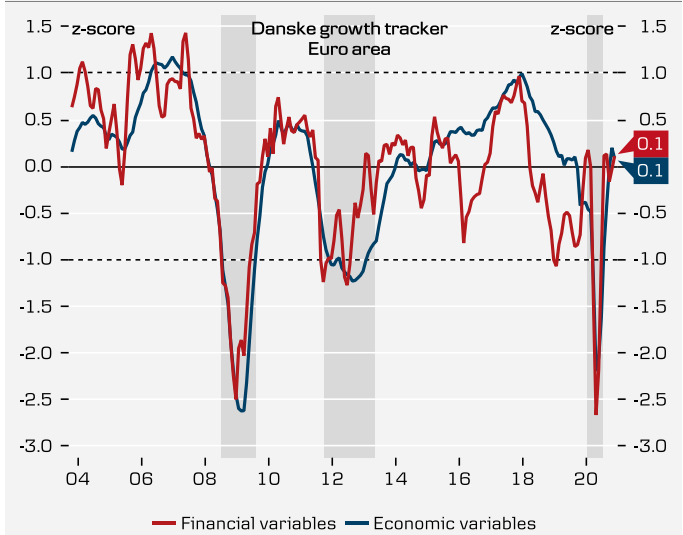
Our growth tracker decreased slightly in January to a value of 0.1 due to the continued lockdowns. While this may underline that rising Covid-19 cases and new lockdowns still point to pickup in activity, the uncertainty remains high, notably from the services sector. Financial markets in aggregate continue 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

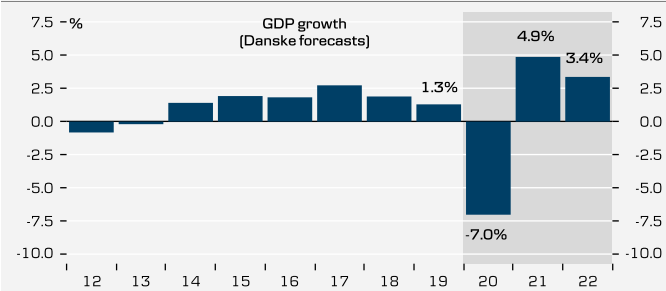
Growth tracker: financial and economic variables



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

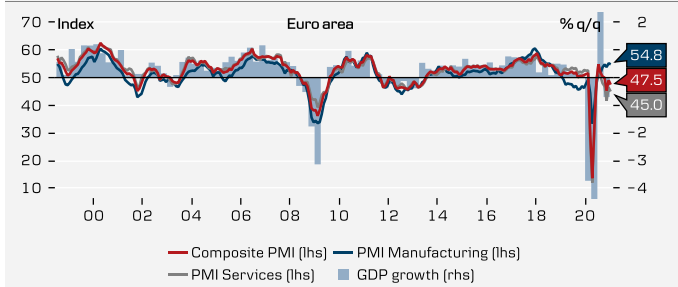
Euro area

GDP growth forecasts



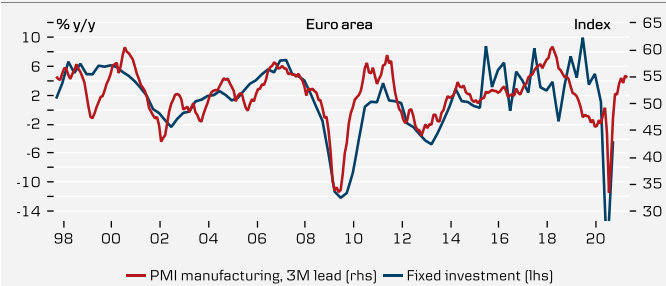
Source: Macrobond Financial, Danske Bank forecasts

PMI and GDP growth



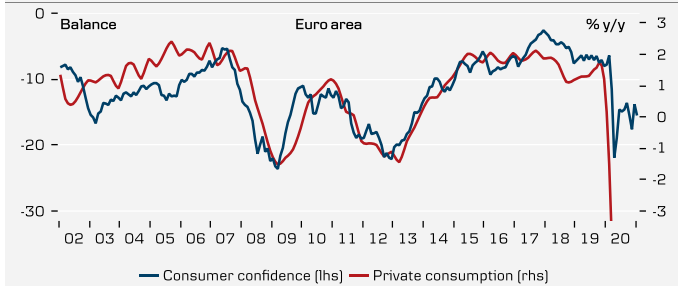
Source: Macrobond Financial, Danske Bank

Manufacturing sentiment and investments



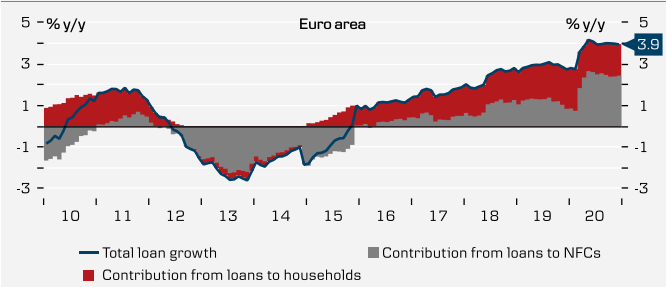
Source: Macrobond Financial, Danske Bank

Consumer confidence and private consumption



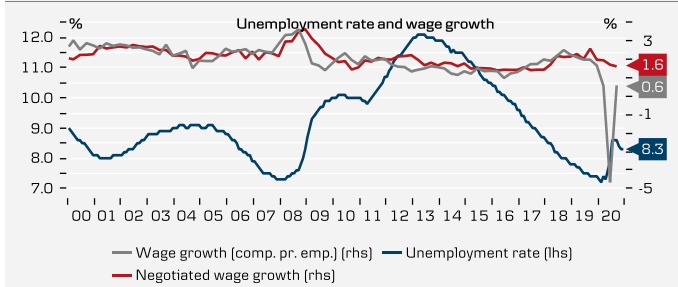
Source: Macrobond Financial, Danske Bank

Credit growth



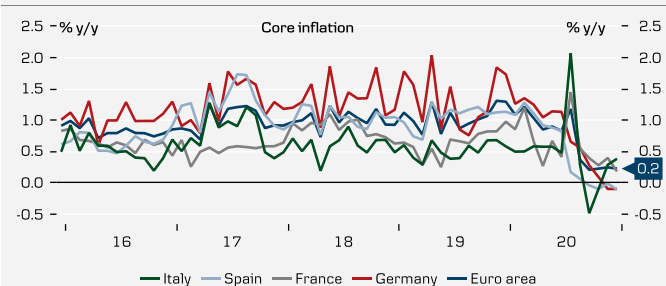
Source: Macrobond Financial, Danske Bank

Unemployment and wage growth



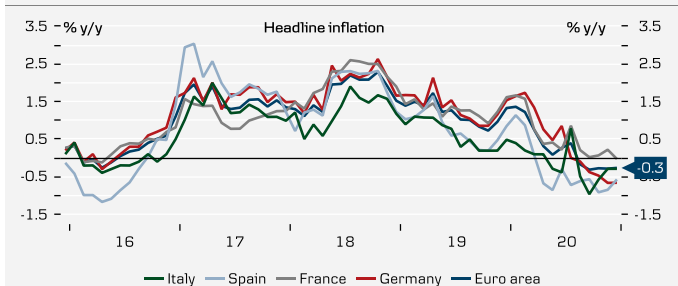
Source: Macrobond Financial, Danske Bank

Core inflation



Source: Macrobond Financial, Danske Bank

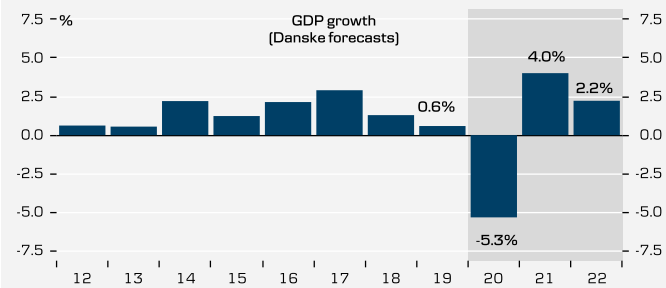
HICP inflation



Source: Macrobond Financial, Danske Bank

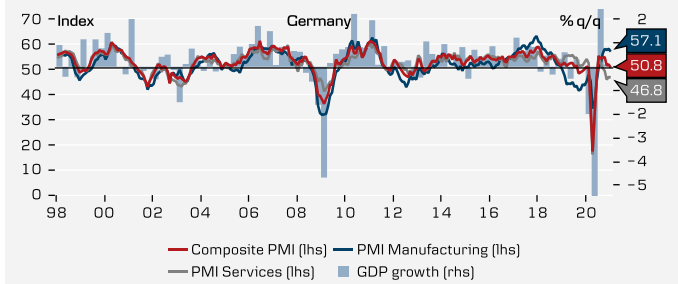
Germany

GDP growth forecasts



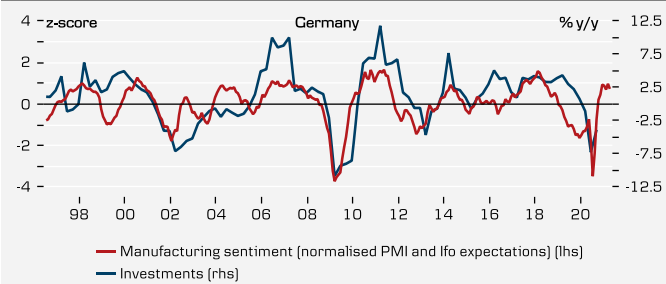
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PMI and GDP growth



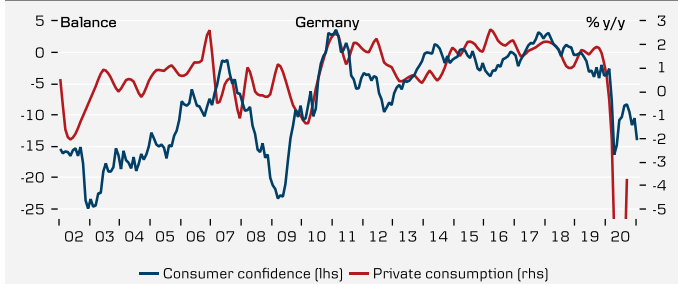
Source: Macrobond Financial, Danske Bank

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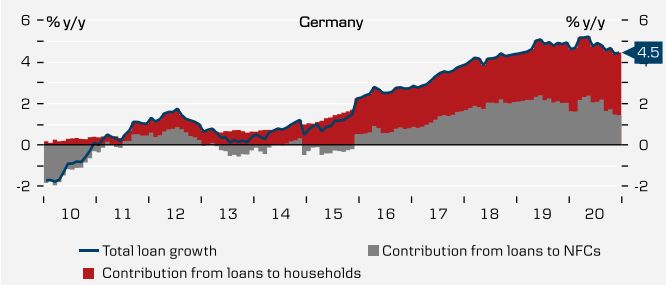
Source: Macrobond Financial, Danske Bank

Consumer confidence and private consumption



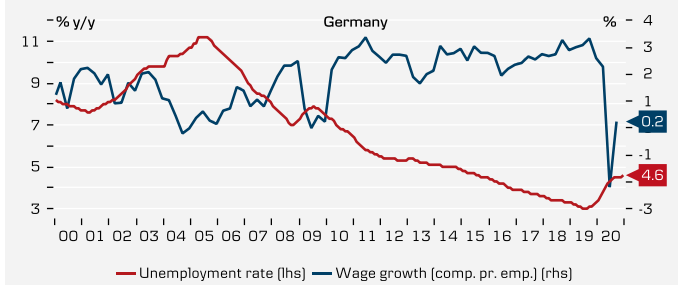
Source: Macrobond Financial, Danske Bank

Credit growth



Source: Macrobond Financial, Danske Bank

Unemployment and wage growth



Source: Macrobond Financial, Danske Bank

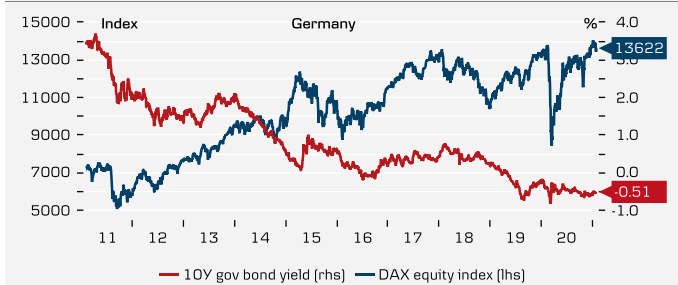
Google mobility trends in retail & recreation



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

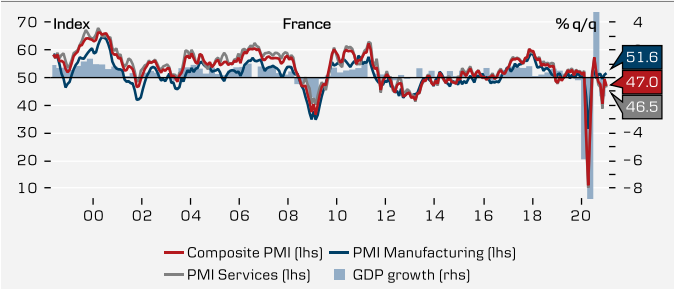
Financial markets



Source: Macrobond Financial, Danske Bank

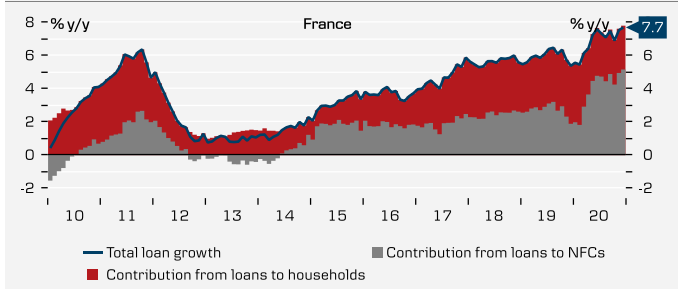
France

PMI and GDP growth



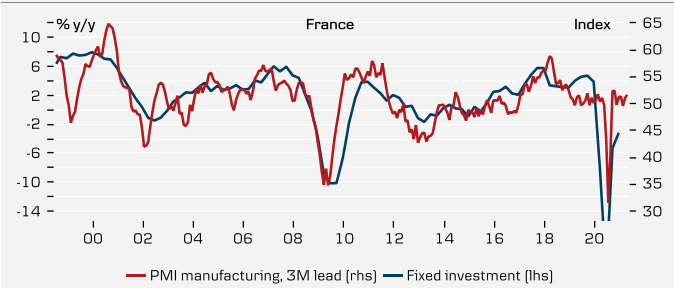
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Credit growth



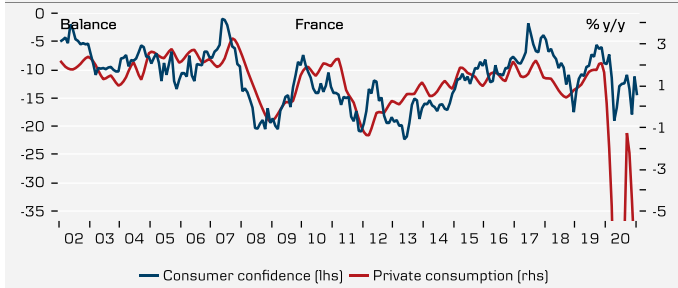
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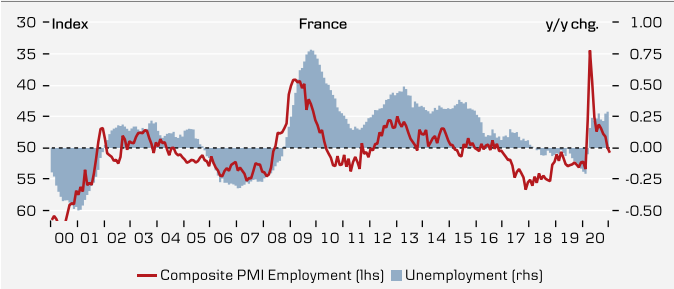
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Consumer confidence and private consumption



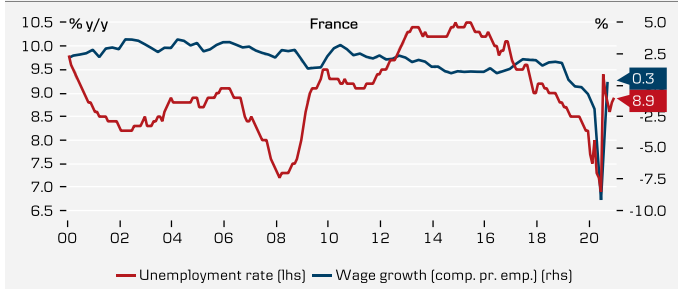
Source: Macrobond Financial, Danske Bank

Unemployment and PMI



Source: Macrobond Financial, Danske Bank

Unemployment and wage growth



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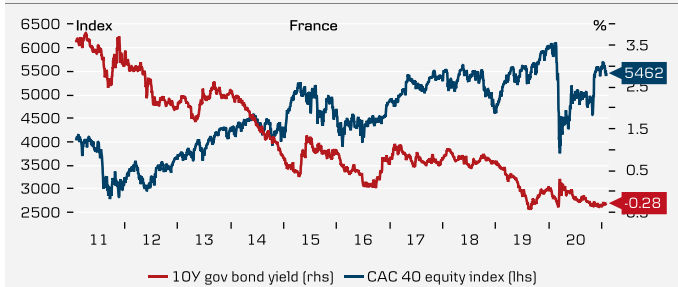
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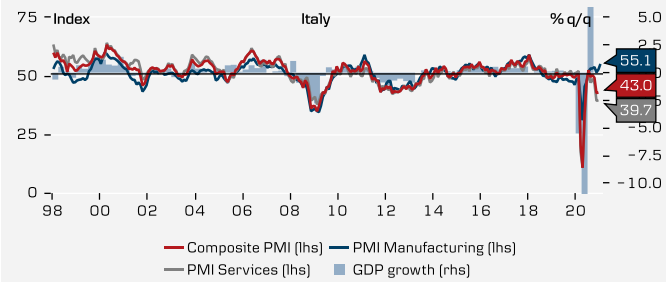
Financial markets



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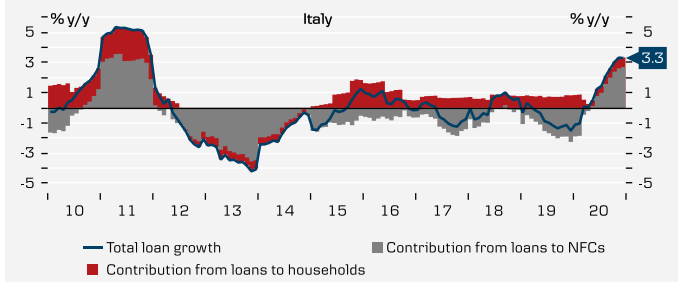
Italy

PMI and GDP growth



Source: Macrobond Financial, Danske Bank

Credit growth



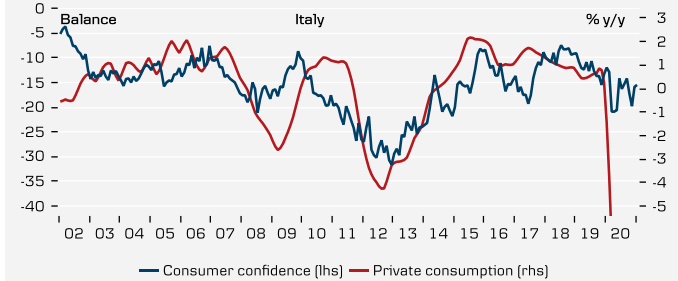
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Manufacturing sentiment and investments



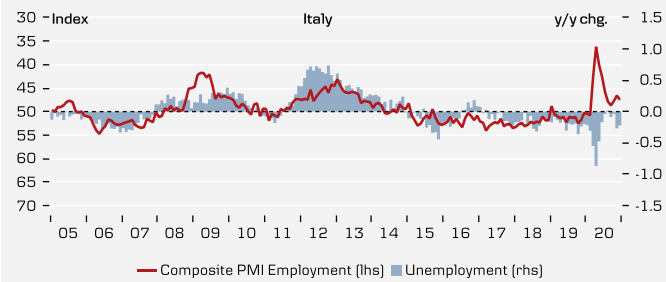
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Consumer confidence and private consumption



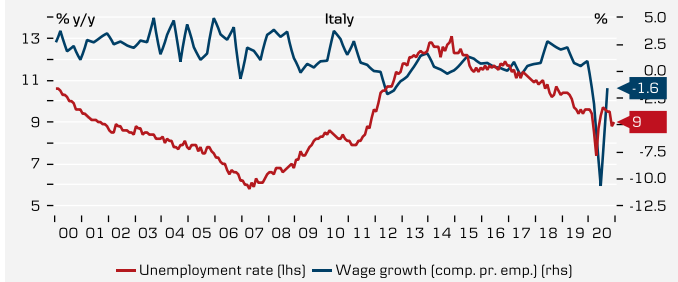
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Unemployment and PMI



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Unemployment and wage growth



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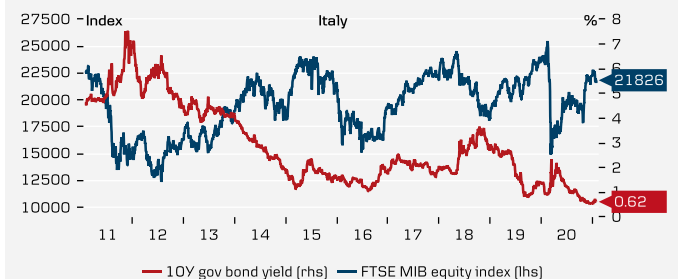
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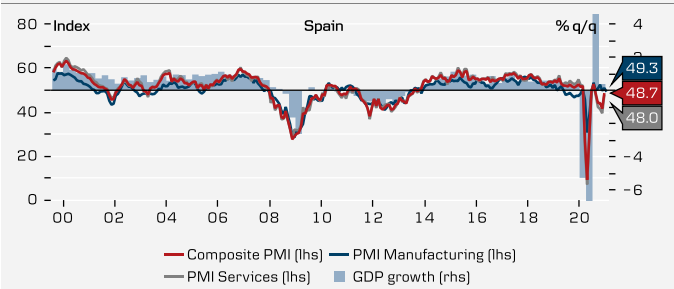
Financial markets



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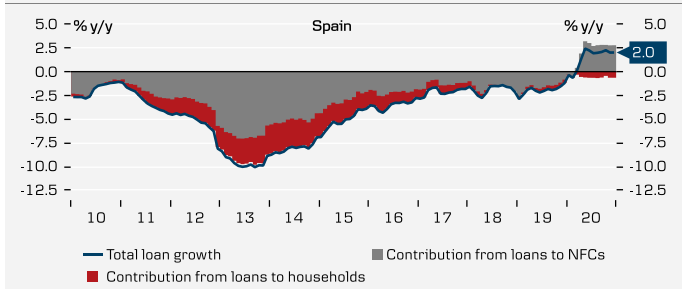
Spain

PMI and GDP growth



Source: Macrobond Financial, Danske Bank

Credit growth



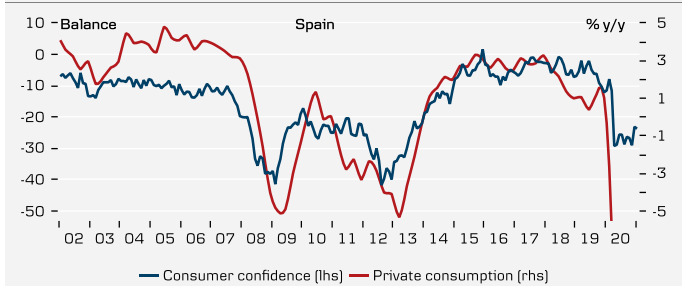
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Manufacturing sentiment and investments



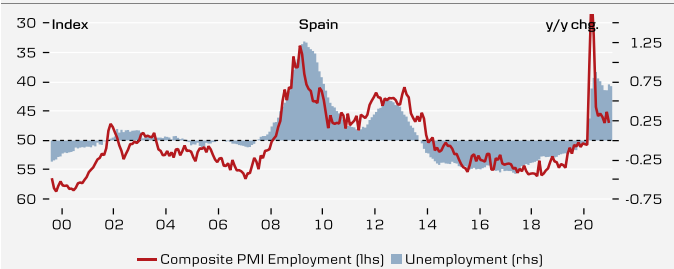
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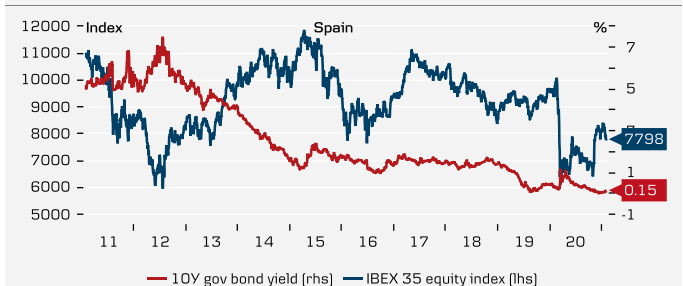
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Source: Macrobond Financial, Danske Bank

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None.

Date of first publication

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