

Euro Area Macro Monitor

Closing the gap of the 2-speed economy

- November brought further evidence that the worst of the **European manufacturing recession** is probably over. The euro area *manufacturing PMI* rose for a second consecutive month to 46.9 and the *German Ifo index* showed the economy edging further away from downswing territory. Furthermore, Donald Trump did not decide on whether or not to impose tariffs on imported EU cars before the deadline set this month. Whether or not he has missed the window of opportunity is now a legal question, but to us it seems as if the risk has decreased further after this month's twitter silence. Although it seems like the worst of the manufacturing malaise is over, activity continued to slow in the service sector, setting the scene for anaemic **growth** around 0.1% q/q in Q4, despite receding risk of recession (see Danske growth tracker below).
- Germany** (yet again) avoided slipping into technical recession in Q3, with GDP growth arriving at 0.08% q/q. Private and government consumption as well as a booming construction sector kept growth afloat, as consumers continue to benefit from rising real wages, expansionary fiscal policies and low borrowing costs. Still, the German economy is not yet out of the woods. Global uncertainty is increasingly leading to a wait-and-see attitude among companies when it comes to investment in machinery & transport equipment (of which Germany is a big exporter) and export figures also got an artificial boost from Brexit stockpiling, which we expect to turn into a headwind in Q4. In short, that means the economy continues to 'flirt' with *sub-zero growth in Q4*. **Our new macro forecasts for both the euro area and Germany can be found [here](#).**
- Private consumption is currently the 'lender of last resort' to euro area growth, and judging from the latest developments in negotiated **wages** – which recorded the *highest increase in 10 years in Q3* – this dynamic will not change for the foreseeable future. **Core inflation** surged to 1.3% in November, however we expect this to be temporary and doubt much acceleration lies ahead (see *Euro Area Research - Measuring the euro area inflation pulse*). Digitalisation has often been mentioned as a possible culprit for the unattainability of the ECB's inflation target. In *Euro Area Research - Inflation's race against the digital machine* we take a closer look at the evidence for this claim.
- To tackle the task of turning inflation around, Christine Lagarde took the corner office at **ECB** this month. So far communication from her is that mending the split between her Governing Council members will be her first order of business. Furthermore, she has stepped up the call for more fiscal stimulus from e.g. Germany and seems more committed than her predecessor of 'greening' monetary policy and the QE programme in the planned monetary strategy review (see *FT*).
- While the ECB's call for more **German fiscal easing** has so far fallen on deaf ears, a political storm is brewing in Berlin. In a blow to Germany's current grand coalition, Social Democrats (SPD) elected two left-wingers and notable 'Groko' critics as their leaders. With the new SPD leaders seeking a renegotiation of the coalition agreement, the risk of a government crisis and new elections in 2020 has increased, although a final decision over the future of the coalition is only expected after the SPD party convention on 6-8 December (for scenarios see [here](#)).

Key points

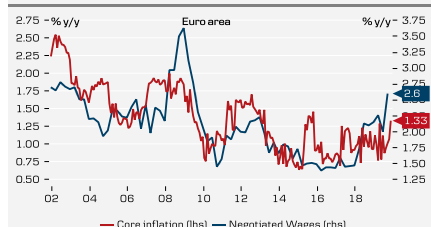
- Economy still struggles to escape the low growth curse
- ECB's Lagarde is stepping up the green agenda.
- Core inflation sees temporary lift
- Political risk returns to Germany

Better macro numbers have driven up the euro surprise index



Source: Markit, Macrobond Financial, Danske Bank

Has core inflation turned the corner? We still doubt it



Source: Eurostat, ECB, Macrobond Financial, Danske Bank

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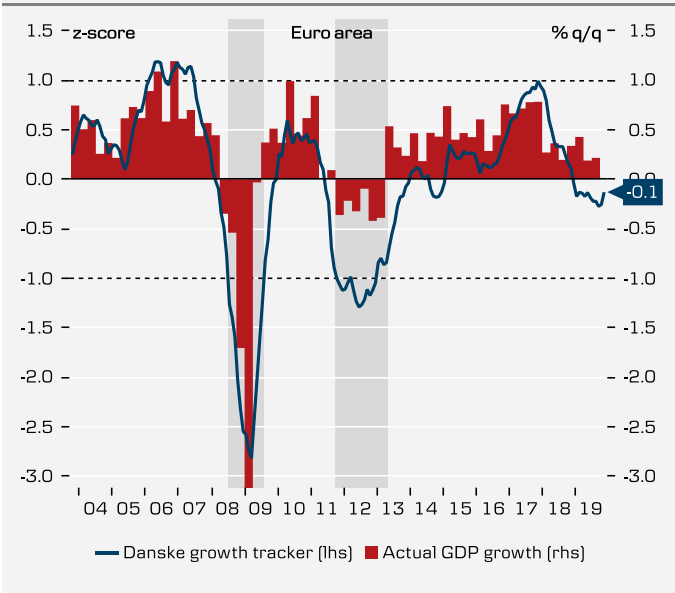
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Danske euro area growth tracker

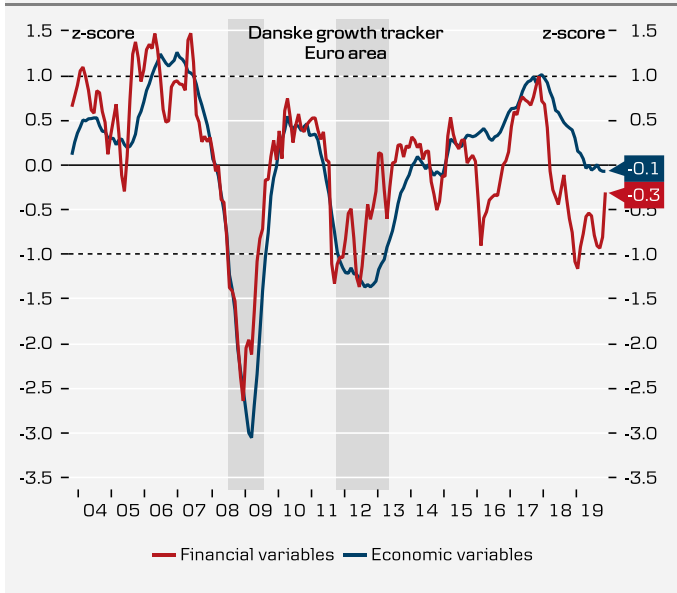
Our Danske growth tracker has been on a steady downtrend in recent months, but the score edged up to -0.1 in November. For a while it seemed that markets had been front-running the recession story and had been too gloomy compared with the signals from economic variables. This dichotomy now seems to have vanished as momentum has rebounded in light of positive surprises and equities and fixed income markets are pricing out recession risks.

Growth tracker and actual GDP growth



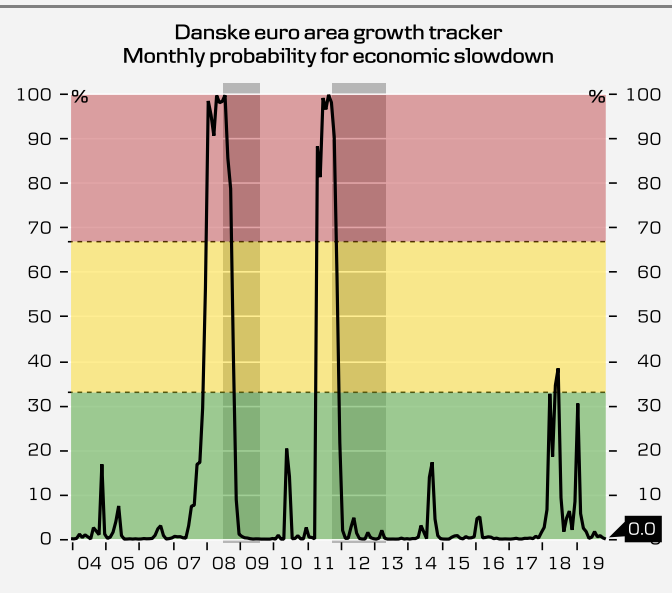
Note: Shaded area indicates historical recessions
Source: Macrobond Financial, Danske Bank

Growth tracker: financial and economic variables



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

Monthly probability for economic slowdown



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

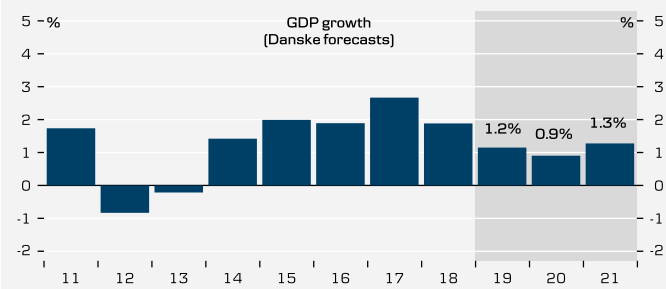
Danske growth tracker decomposition

	November 2019
Economic variables	
Consumer confidence	0.9
Unemployment	0.6
European sentiment indicator	0.2
Capacity utilisation	0.1
Credit growth	0.0
ZEW	0.0
Profit growth	-0.2
Real M1 growth	-0.2
OECD CLI	-0.3
EuroCOIN	-0.4
Composite PMI	-0.6
PMI-order-inventory balance	-1.1
Financial variables	
Eurostoxx50	0.7
Euro Surprise Index	-0.2
Sentix	-0.5
Corporate vs. Gov. Bond yield	-1.3

Source: Danske Bank

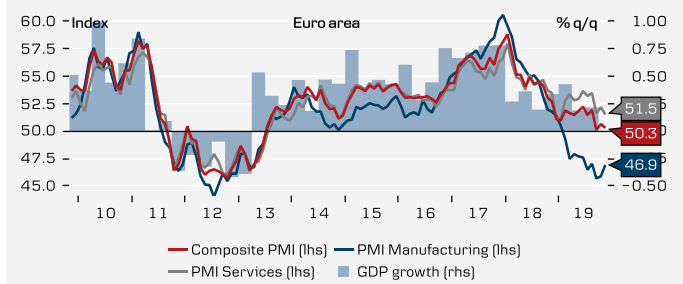
Euro area

GDP growth forecasts



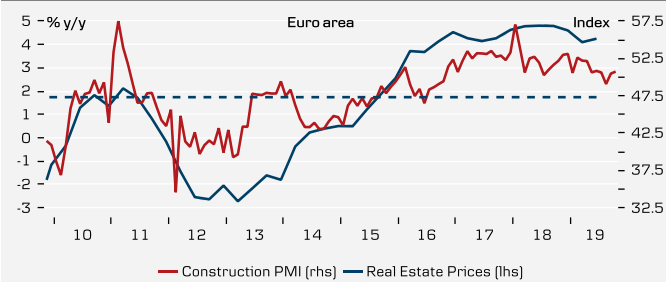
Source: Macrobond Financial, Danske Bank

PMI and GDP growth



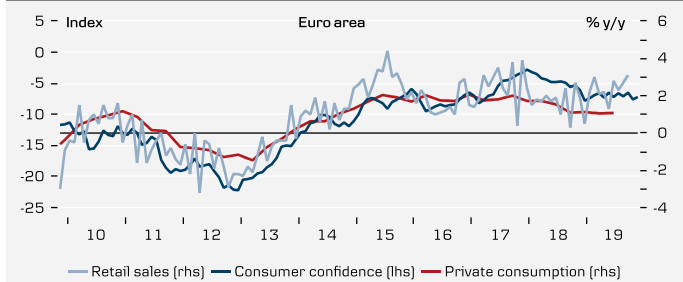
Source: Macrobond Financial, Danske Bank

Housing prices and construction activity



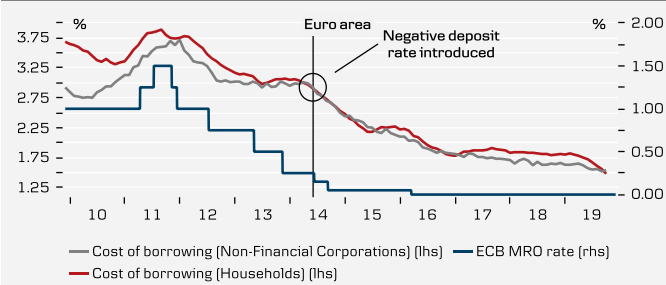
Source: Macrobond Financial, Danske Bank

Consumer confidence and private consumption



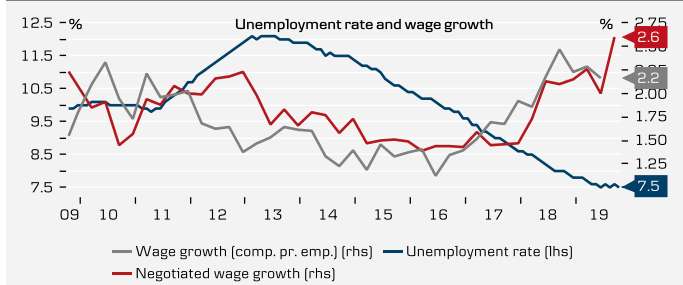
Source: Macrobond Financial, Danske Bank

Borrowing costs



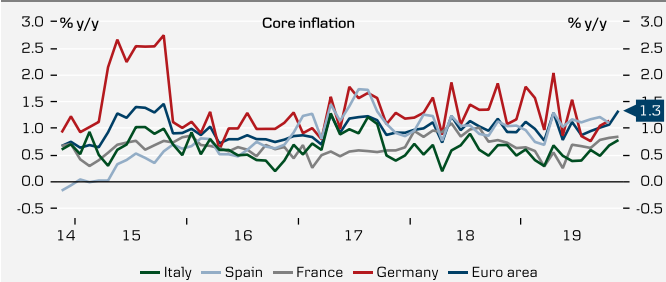
Source: Macrobond Financial, Danske Bank

Unemployment and wage growth



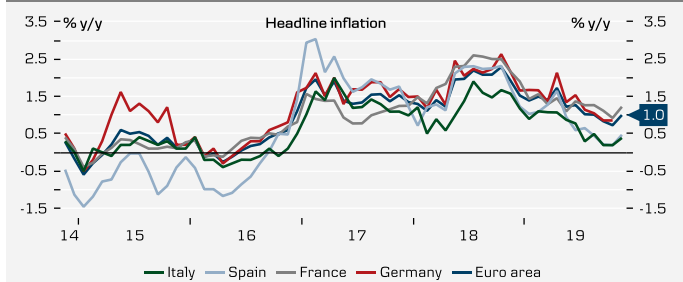
Source: Macrobond Financial, Danske Bank

Core inflation



Source: Macrobond Financial, Danske Bank

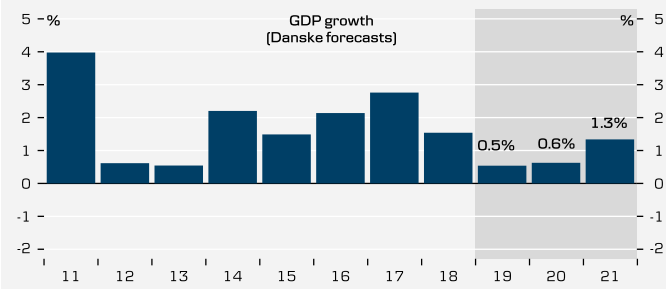
Headline inflation



Source: Macrobond Financial, Danske Bank

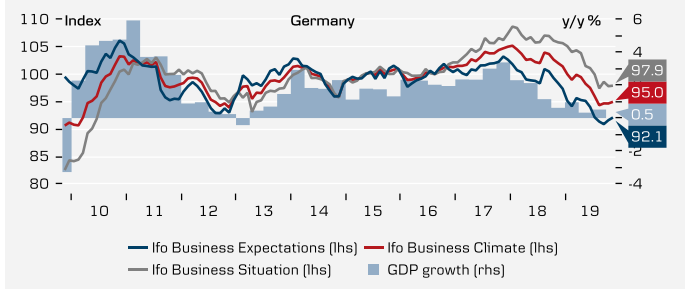
Germany

GDP growth forecasts



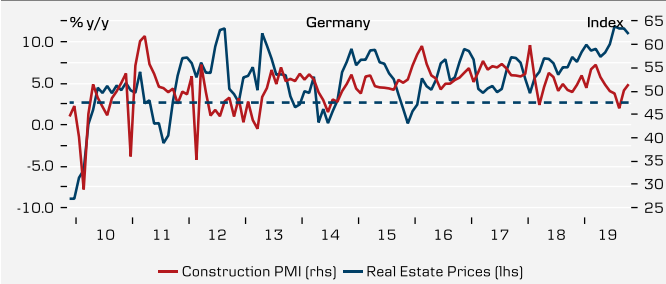
Source: Macrobond Financial, Danske Bank

Ifo and GDP growth



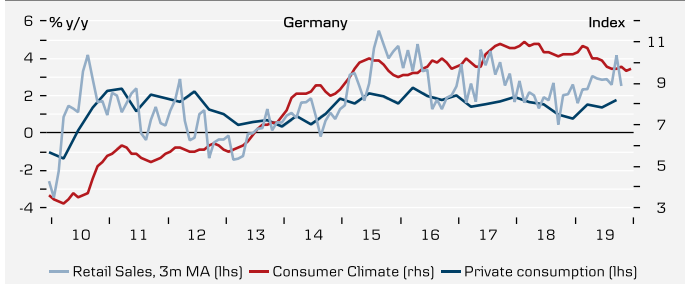
Source: Macrobond Financial, Danske Bank

Housing prices and construction activity



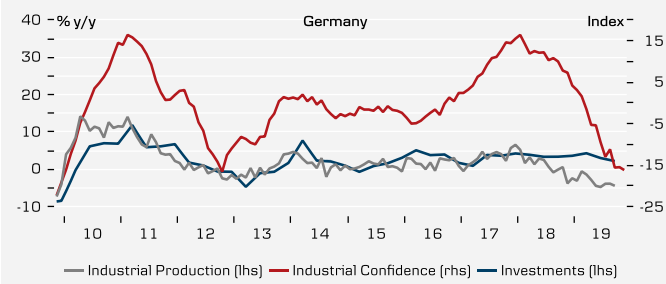
Source: Macrobond Financial, Danske Bank

Consumer confidence and private consumption



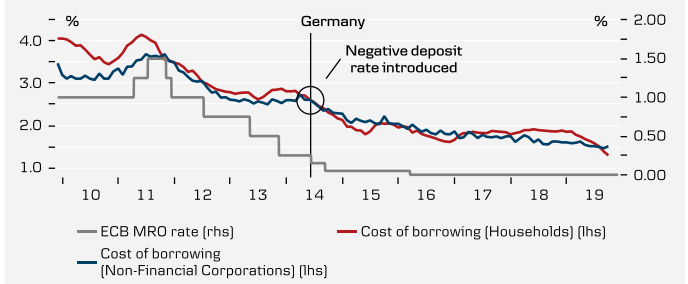
Source: Macrobond Financial, Danske Bank

Industrial production and investments



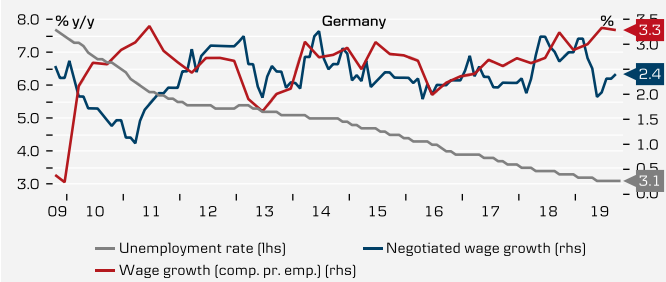
Source: Macrobond Financial, Danske Bank

Borrowing costs



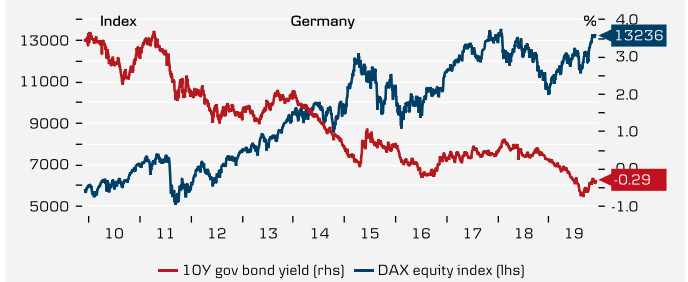
Source: Macrobond Financial, Danske Bank

Unemployment and wage growth



Source: Macrobond Financial, Danske Bank

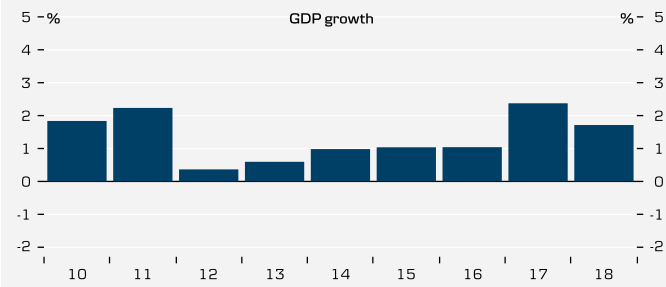
Financial markets



Source: Macrobond Financial, Danske Bank

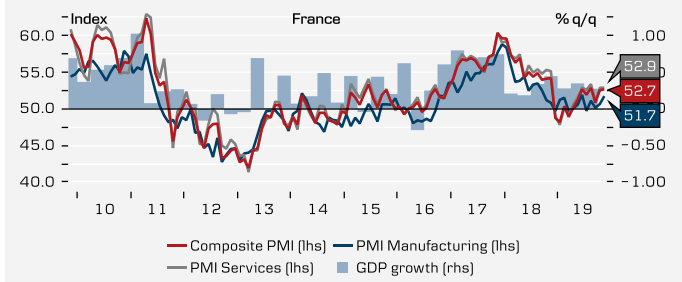
France

GDP growth forecasts



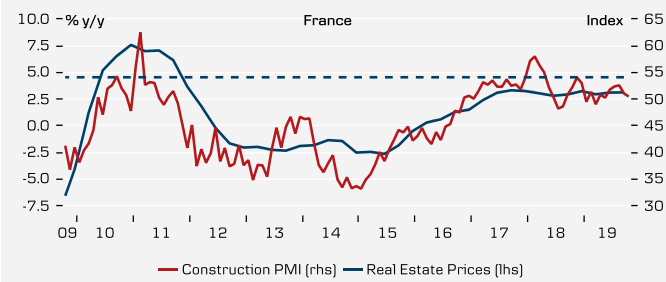
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PMI and GDP growth



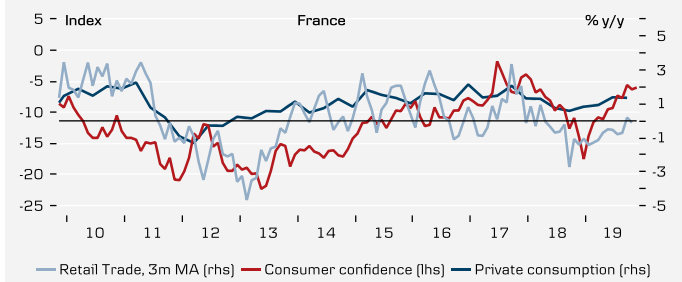
Source: Macrobond Financial, Danske Bank

Housing prices and construction activity



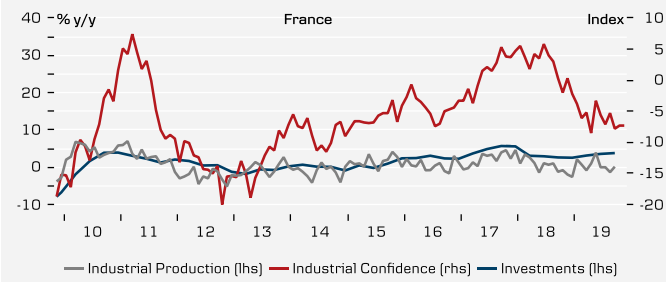
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Consumer confidence and private consumption



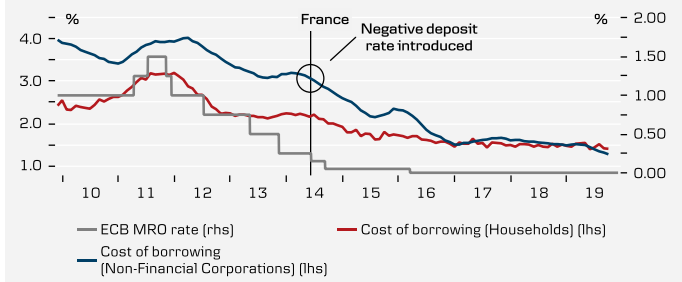
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Industrial production and investments



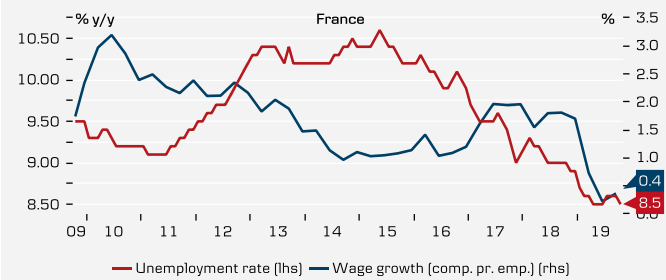
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Borrowing costs



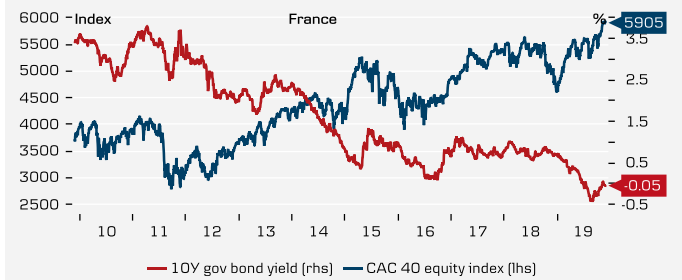
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Unemployment and wage growth



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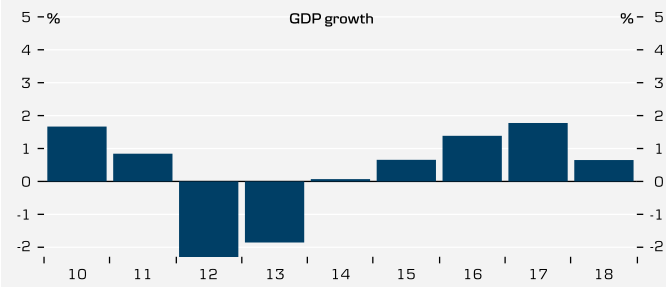
Financial markets



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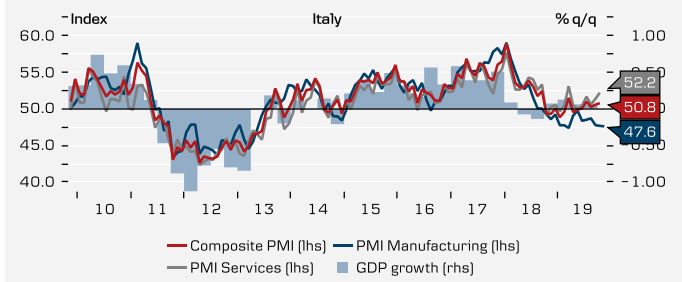
Italy

GDP growth forecasts



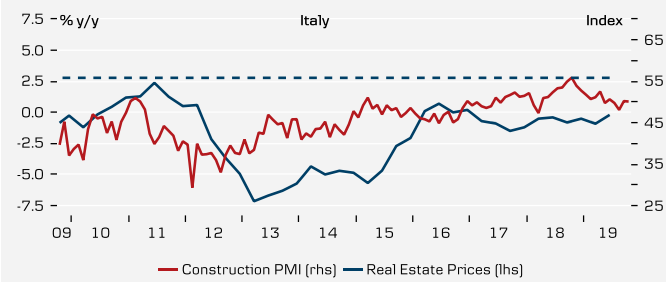
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PMI and GDP growth



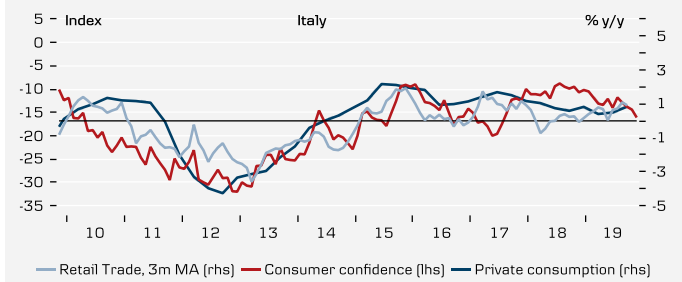
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Housing prices and construction activity



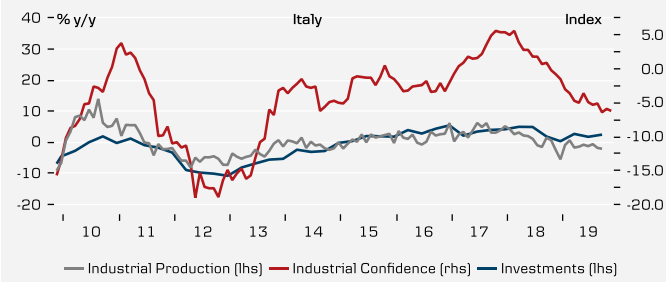
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Consumer confidence and private consumption



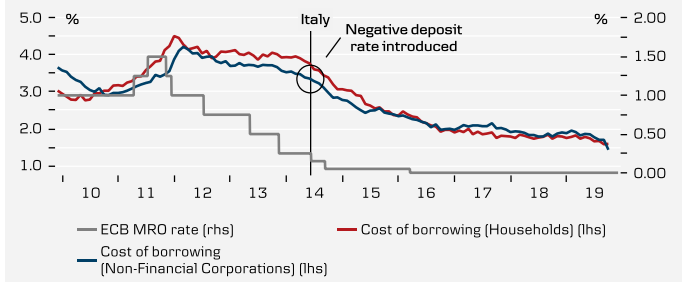
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Industrial production and investments



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Borrowing costs



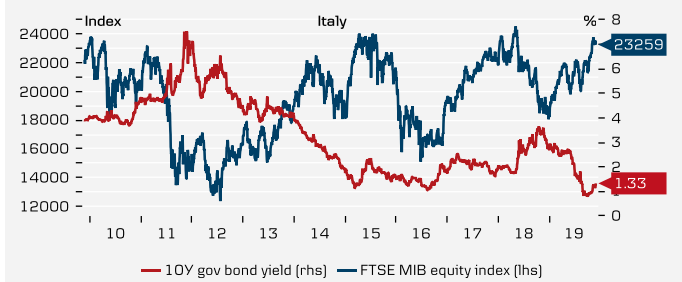
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Unemployment and wage growth



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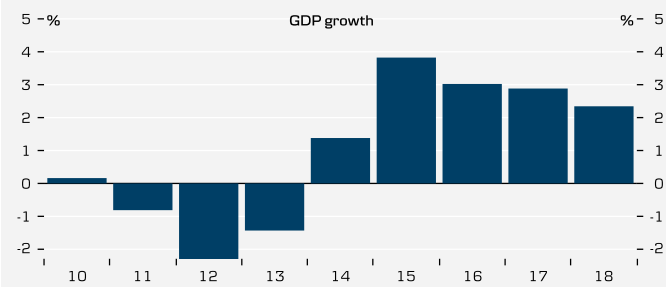
Financial markets



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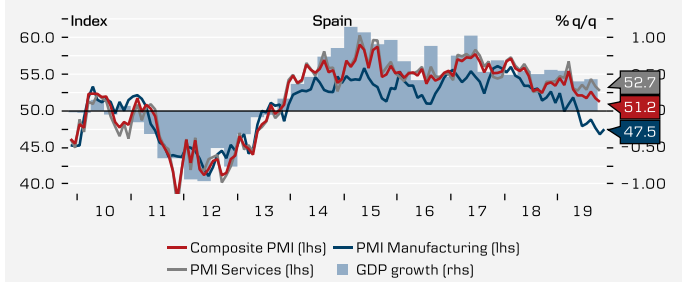
Spain

GDP growth forecasts



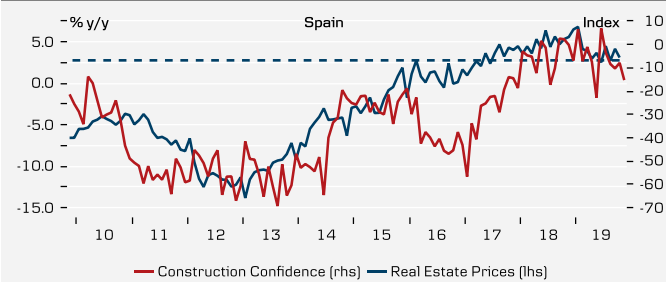
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PMI and GDP growth



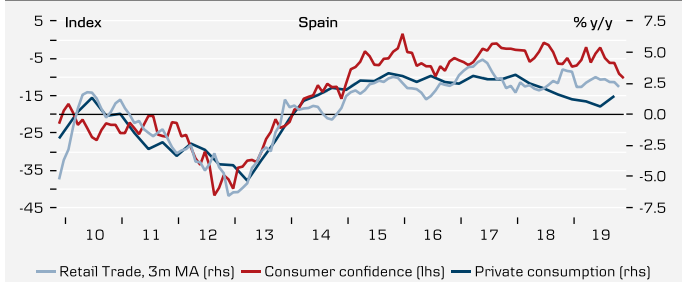
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Housing prices and construction activity



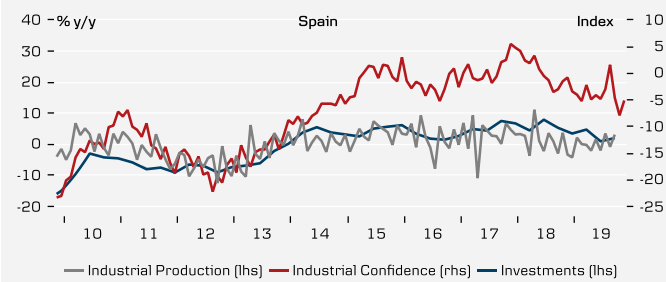
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Consumer confidence and private consumption



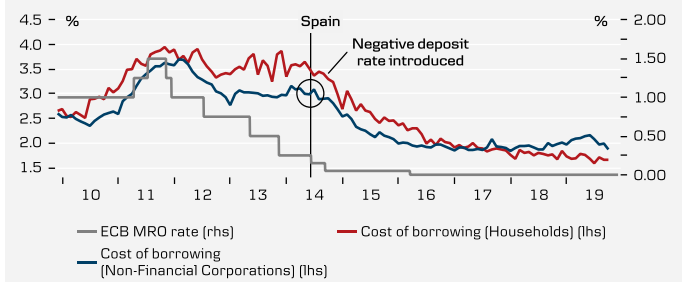
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Industrial production and investments



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Borrowing costs



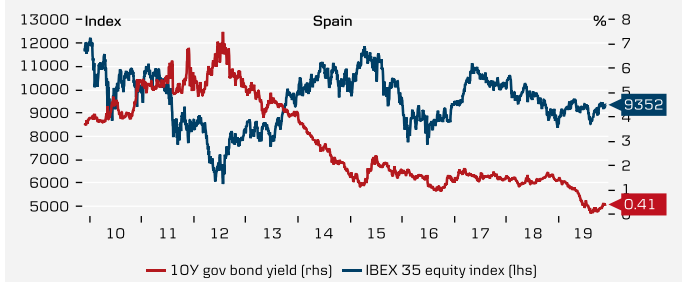
Source: Macrobond Financial, Danske Bank

Unemployment and wage growth



Source: 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 Rune Thyge Johansen (Assistant Analyst) and Aila Mihr (Senior Analyst).

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None.

Date of first publication

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Report completed: 2 December 2019, 14:01 CET

Report first disseminated: 2 December 2019, 16:10 CET