

# Euro Area Macro Monitor

## Recession angst is building

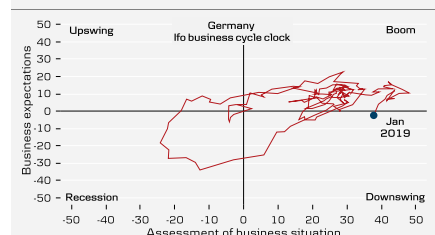
- Q4 18 GDP growth of 0.2% q/q confirmed a lacklustre finish to 2018 and **macro data continues to point to a tough start for the euro area economy in 2019**. PMIs eased further in January to the lowest level since 2014, but this masks somewhat diverging country trends: while German business expectations fell sharply across sectors (see *Research Germany: The epicentre of the euro area slowdown*) and Italy officially plunged into recession, we are seeing tentative signs of stabilisation in France and Spain. That said, so far leading indicators still point to a further decrease in the quarterly euro area growth pace to just 0.1% q/q in Q1 19.
- ECB finally acknowledged weaker incoming data** and persistent global uncertainties and changed its growth risk assessment to the downside. But as policymakers were in ‘assessing mode’ rather than ‘policy mode’, we will have to wait until the March meeting to hear what the continued growth disappointments imply for monetary policy-setting (see *ECB Review*). Although core inflation rose by 0.1pp to 1.1% in January, the coming months will tell whether this is finally the start of a gradual, persistent upward trend on the back of *Phillips curve dynamics*.
- Amid the dismal Eurozone cocktail, euro recession fears have grabbed markets while analysts continue to cut their 2019 growth estimates. **So are we heading for a euro area recession?** We still do not think so. Our Danske recession tracker (see below) has continuously edged down over the past year – in line with the slowdown in the growth momentum we have observed – but at -0.4 clearly remains outside of recessionary territory. So far it is primarily financial variables that have priced in recession anxieties, while economic variables such as high consumer optimism and a strong labour market still provide rays of light. That said, our quantitative business cycle model *MacroScope* predicts another few rocky months ahead for the Eurozone before activity is expected to stabilise from Q2 onwards, as a US-China trade deal removes some drag from the Chinese export sector and higher real wage growth paves the way for a recovery in private consumption.

### Weak Chinese activity points to more euro PMI downside near-term



Source: Markit, Macrobond Financial, Danske Bank

### Germany slipping into slowdown territory



Source: Ifo, Macrobond Financial, Danske Bank

### Analysts continue to lower their 2019 euro area growth expectations



Source: Bloomberg, Danske Bank

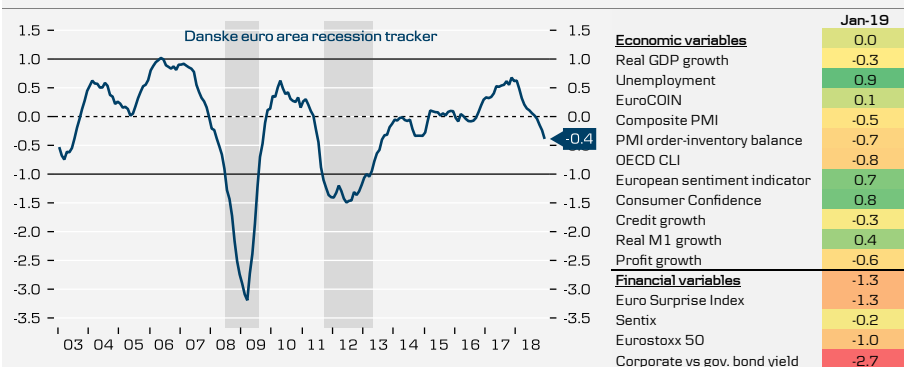
#### Analyst

Aila Mihr  
+45 45 12 85 35  
amih@danskebank.dk

#### Senior Analyst

Piet P. H. Christiansen  
+45 45 13 20 21  
phai@danskebank.dk

### Danske recession tracker not yet in recessionary territory



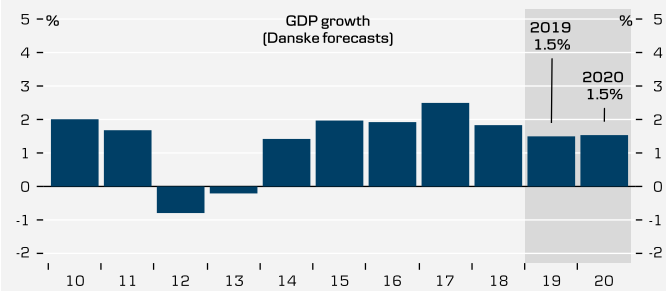
Source: Macrobond Financial, Eviews, Danske Bank

\*Shaded area indicates recessions.

The Danske euro area recession tracker is calculated as a weighted average of the standardised z-scores of 15 economic and financial variables, where values below -1 historically have indicated recessionary territory.

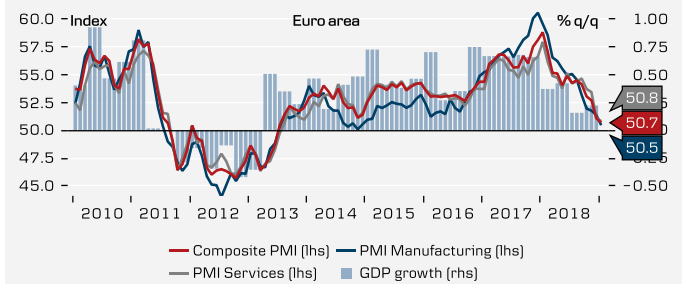
# Euro area

## GDP growth forecasts



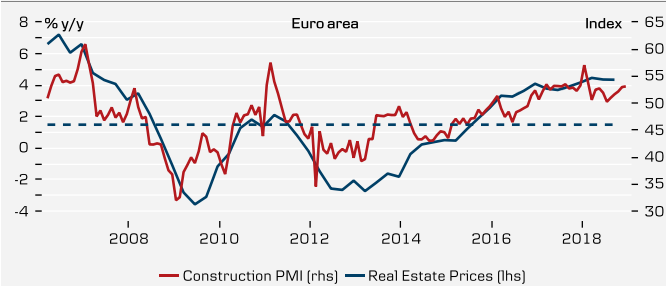
Source: Macrobond Financial, Danske Bank

## PMI and GDP growth



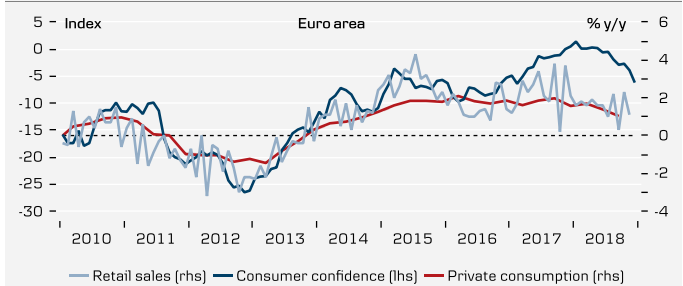
Source: Macrobond Financial, Danske Bank

## Housing prices and construction activity



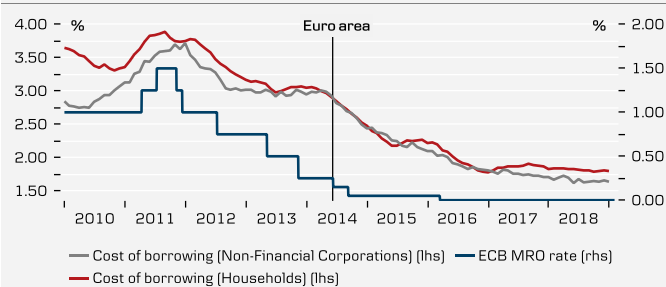
Source: Macrobond Financial, Danske Bank

## Consumer confidence and private consumption



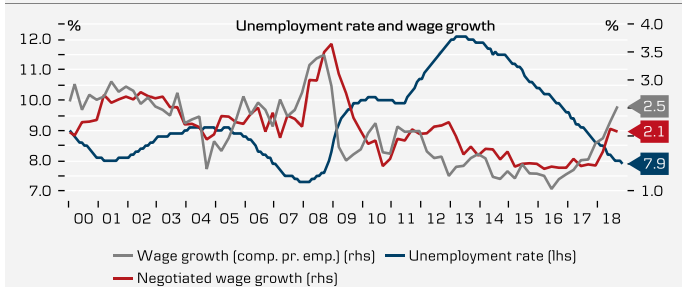
Source: Macrobond Financial, Danske Bank

## Borrowing costs



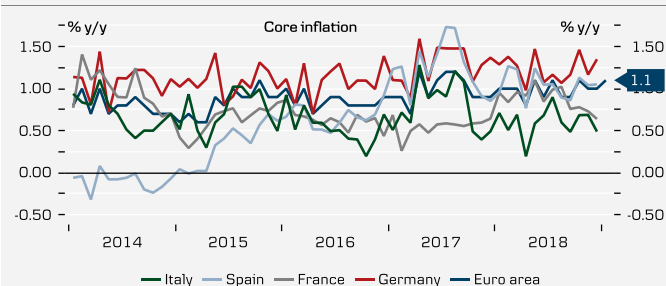
Source: Macrobond Financial, Danske Bank

## Unemployment and wage growth



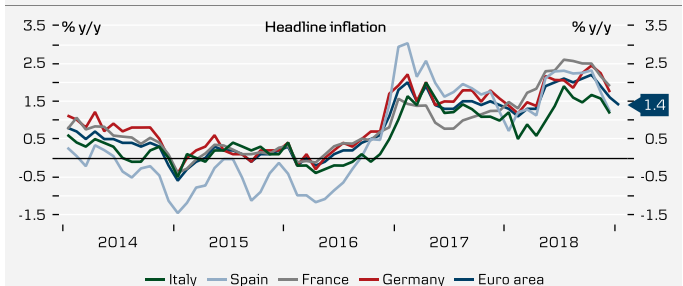
Source: Macrobond Financial, Danske Bank

## Core inflation



Source: Macrobond Financial, Danske Bank

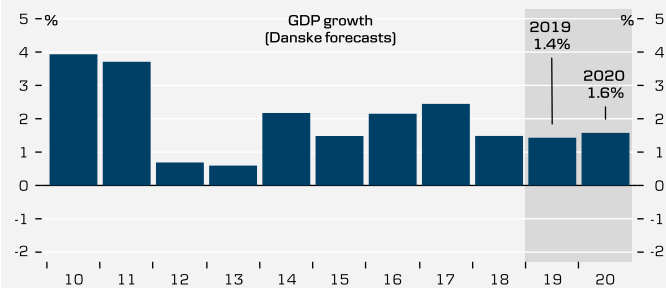
## Headline inflation



Source: Macrobond Financial, Danske Bank

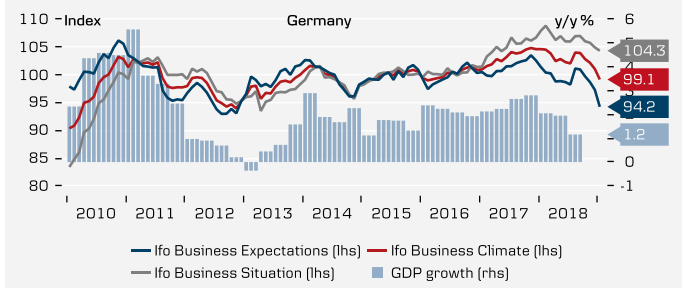
# Germany

## GDP growth forecasts



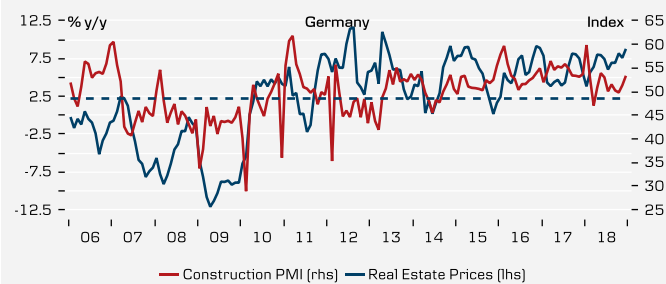
Source: Macrobond Financial, Danske Bank

## Ifo and GDP growth



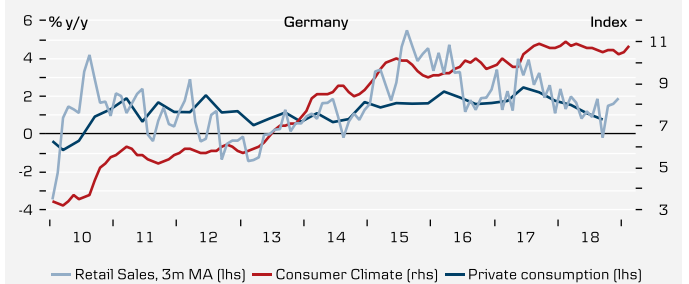
Source: Macrobond Financial, Danske Bank

## Housing prices and construction activity



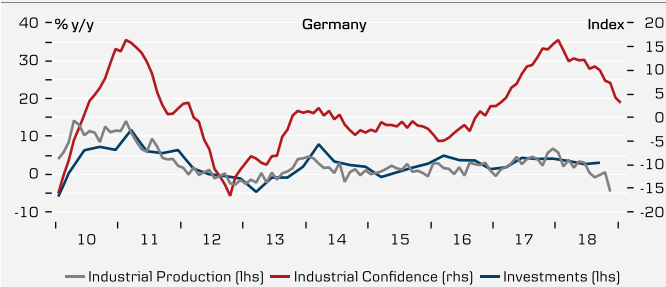
Source: Macrobond Financial, Danske Bank

## Consumer confidence and private consumption



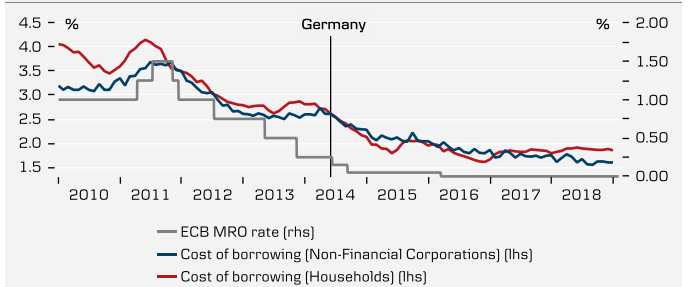
Source: Macrobond Financial, Danske Bank

## Industrial production and investments



Source: Macrobond Financial, Danske Bank

## Borrowing costs



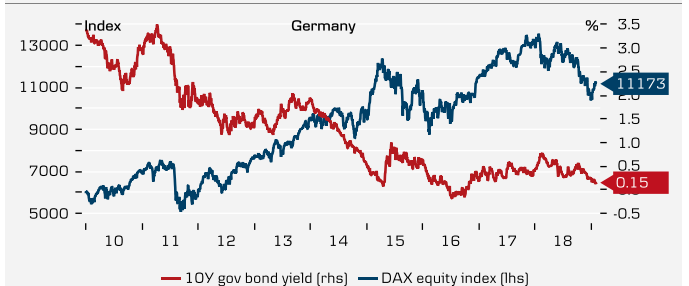
Source: Macrobond Financial, Danske Bank

## Unemployment and wage growth



Source: Macrobond Financial, Danske Bank

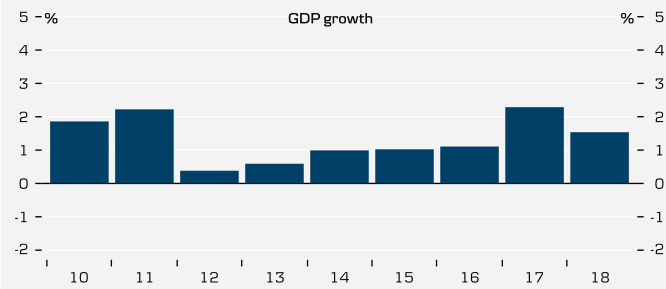
## Financial markets



Source: Macrobond Financial, Danske Bank

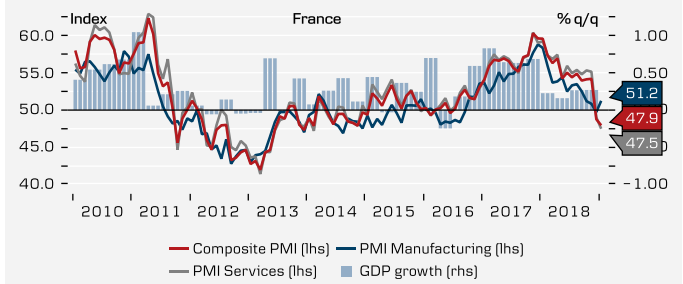
# France

## GDP growth



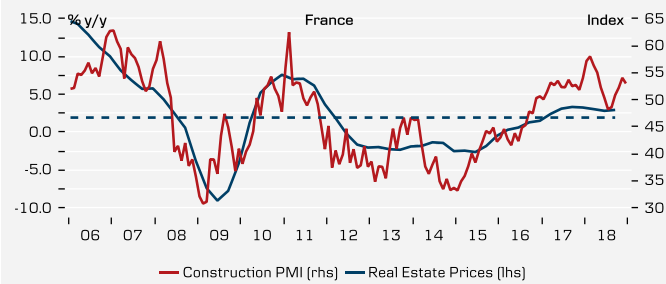
Source: Macrobond Financial, Danske Bank

## PMI and GDP growth



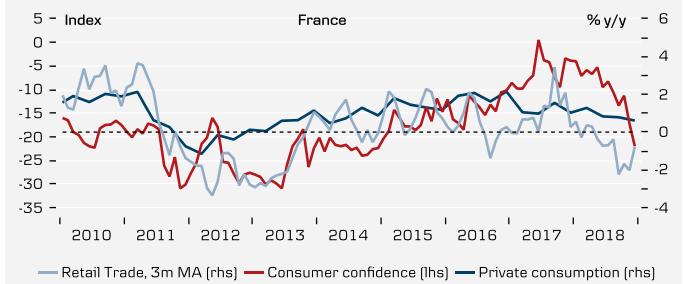
Source: Macrobond Financial, Danske Bank

## Housing prices and construction activity



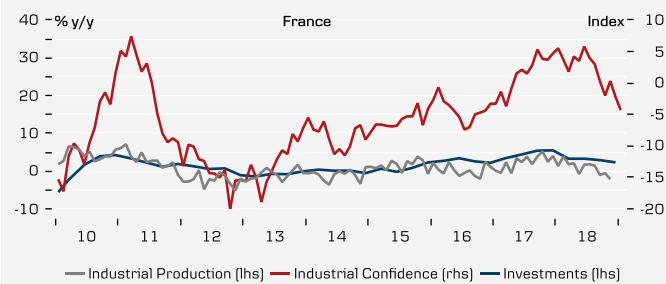
Source: Macrobond Financial, Danske Bank

## Consumer confidence and private consumption



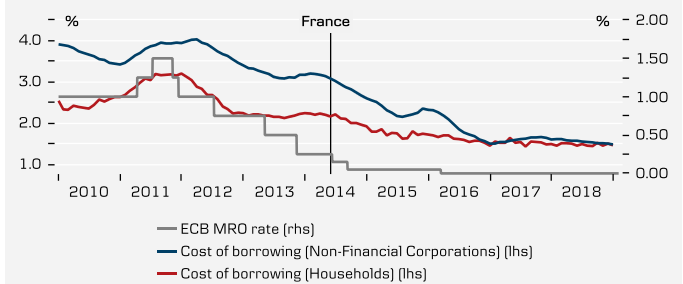
Source: Macrobond Financial, Danske Bank

## Industrial production and investments



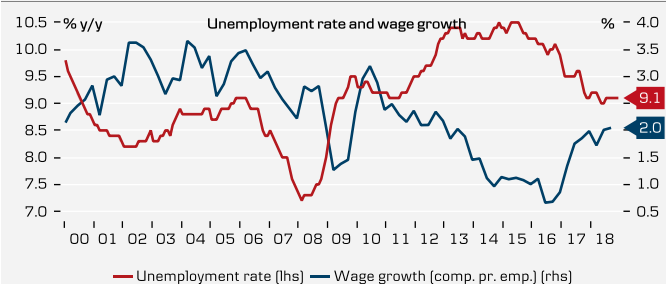
Source: Macrobond Financial, Danske Bank

## Borrowing costs



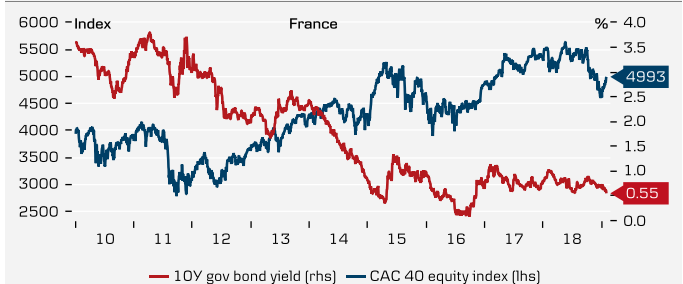
Source: Macrobond Financial, Danske Bank

## Unemployment and wage growth



Source: Macrobond Financial, Danske Bank

## Financial markets



Source: Macrobond Financial, Danske Bank

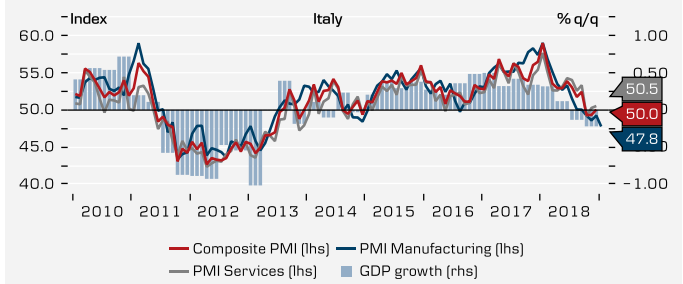
# Italy

## GDP growth



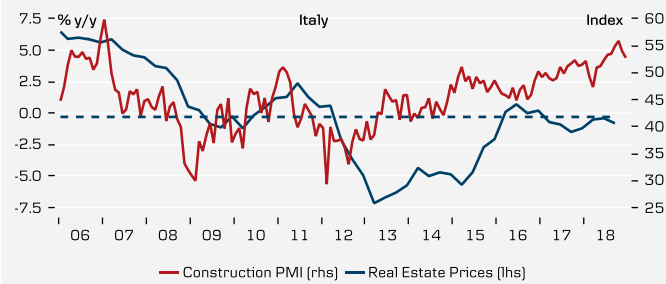
Source: Macrobond Financial, Danske Bank

## PMI and GDP growth



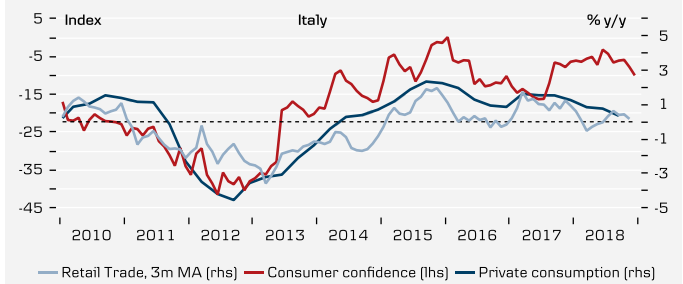
Source: Macrobond Financial, Danske Bank

## Housing prices and construction activity



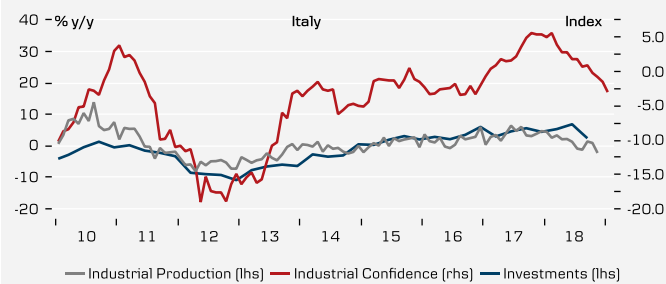
Source: Macrobond Financial, Danske Bank

## Consumer confidence and private consumption



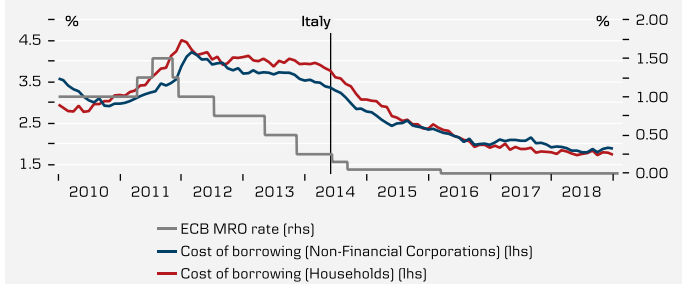
Source: Macrobond Financial, Danske Bank

## Industrial production and investments



Source: Macrobond Financial, Danske Bank

## Borrowing costs



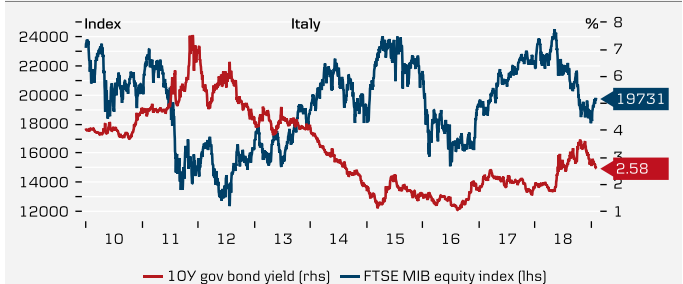
Source: Macrobond Financial, Danske Bank

## Unemployment and wage growth



Source: Macrobond Financial, Danske Bank

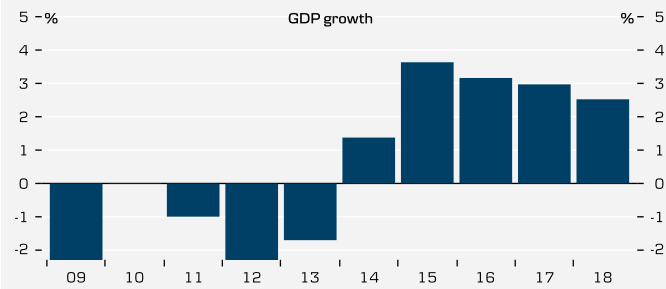
## Financial markets



Source: Macrobond Financial, Danske Bank

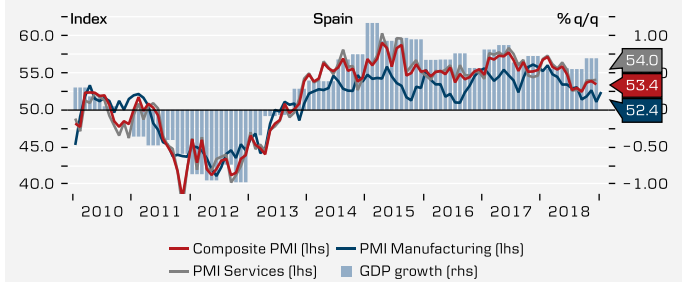
# Spain

## GDP growth



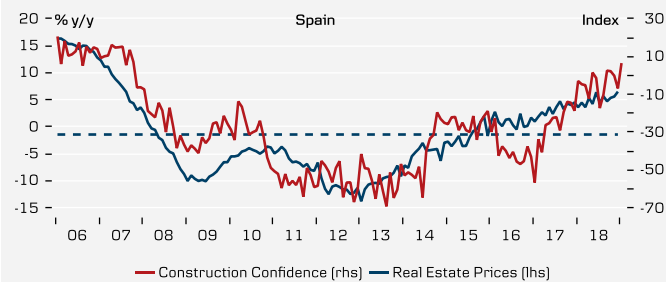
Source: Macrobond Financial, Danske Bank

## PMI and GDP growth



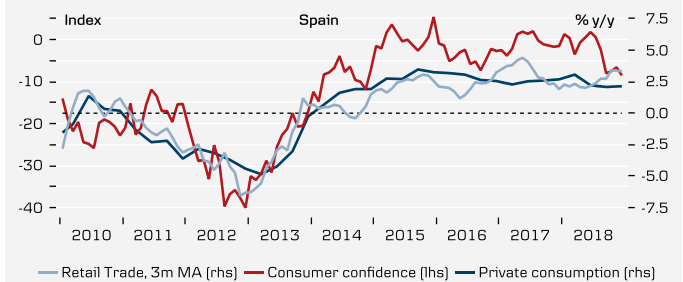
Source: Macrobond Financial, Danske Bank

## Housing prices and construction activity



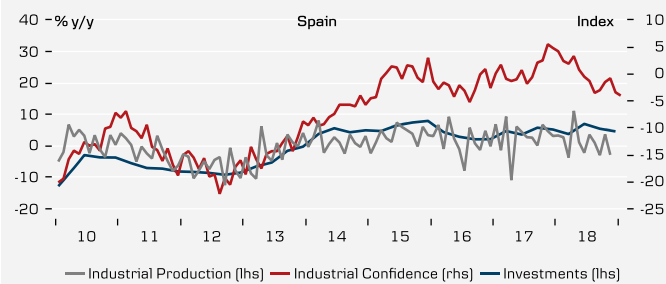
Source: Macrobond Financial, Danske Bank

## Consumer confidence and private consumption



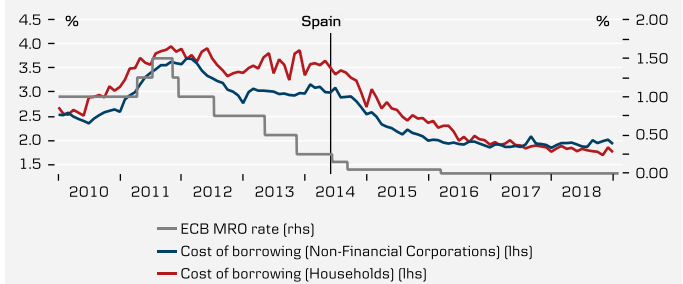
Source: Macrobond Financial, Danske Bank

## Industrial production and investments



Source: Macrobond Financial, Danske Bank

## Borrowing costs



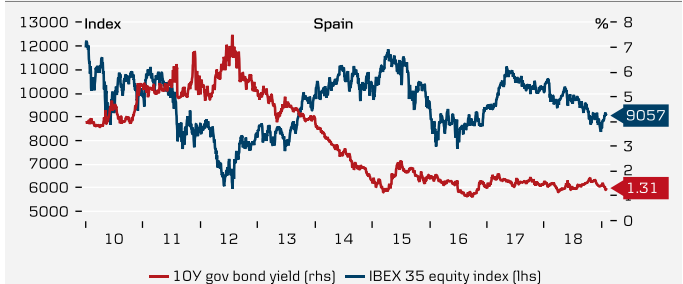
Source: Macrobond Financial, Danske Bank

## Unemployment and wage growth



Source: Macrobond Financial, Danske Bank

## Financial markets



Source: Macrobond Financial, Danske Bank

## Disclosures

This research report has been prepared by Danske Bank A/S ('Danske Bank'). The authors of this research report are Aila Mihr, Analyst, and Piet P. H. Christiansen, Senior Analyst.

### Analyst certification

Each research analyst responsible for the content of this research report certifies that the views expressed in the research report accurately reflect the research analyst's personal view about the financial instruments and issuers covered by the research report. Each responsible research analyst further certifies that no part of the compensation of the research analyst was, is or will be, directly or indirectly, related to the specific recommendations expressed in the research report.

### Regulation

Danske Bank is authorised and subject to regulation by the Danish Financial Supervisory Authority and is subject to the rules and regulation of the relevant regulators in all other jurisdictions where it conducts business. Danske Bank is subject to limited regulation by the Financial Conduct Authority and the Prudential Regulation Authority (UK). Details on the extent of the regulation by the Financial Conduct Authority and the Prudential Regulation Authority are available from Danske Bank on request.

Danske Bank's research reports are prepared in accordance with the recommendations of the Danish Securities Dealers Association.

### Conflicts of interest

Danske Bank has established procedures to prevent conflicts of interest and to ensure the provision of high-quality research based on research objectivity and independence. These procedures are documented in Danske Bank's research policies. Employees within Danske Bank's Research Departments have been instructed that any request that might impair the objectivity and independence of research shall be referred to Research Management and the Compliance Department. Danske Bank's Research Departments are organised independently from, and do not report to, other business areas within Danske Bank.

Research analysts are remunerated in part based on the overall profitability of Danske Bank, which includes investment banking revenues, but do not receive bonuses or other remuneration linked to specific corporate finance or debt capital transactions.

### Financial models and/or methodology used in this research report

Calculations and presentations in this research report are based on standard econometric tools and methodology as well as publicly available statistics for each individual security, issuer and/or country. Documentation can be obtained from the authors on request.

### Risk warning

Major risks connected with recommendations or opinions in this research report, including as sensitivity analysis of relevant assumptions, are stated throughout the text.

### Expected updates

Ad hoc.

### Date of first publication

See the front page of this research report for the date of first publication.

## General disclaimer

This research report has been prepared by Danske Bank (a division of Danske Bank A/S). It is provided for informational purposes only. It does not constitute or form part of, and shall under no circumstances be considered as, an offer to sell or a solicitation of an offer to purchase or sell any relevant financial instruments (i.e. financial instruments mentioned herein or other financial instruments of any issuer mentioned herein and/or options, warrants, rights or other interests with respect to any such financial instruments) ('Relevant Financial Instruments').

The research report has been prepared independently and solely on the basis of publicly available information that Danske Bank considers to be reliable. While reasonable care has been taken to ensure that its contents are not untrue or misleading, no representation is made as to its accuracy or completeness and Danske Bank, its affiliates and subsidiaries accept no liability whatsoever for any direct or consequential loss, including without limitation any loss of profits, arising from reliance on this research report.

The opinions expressed herein are the opinions of the research analysts responsible for the research report and reflect their judgement as of the date hereof. These opinions are subject to change and Danske Bank does not undertake to notify any recipient of this research report of any such change nor of any other changes related to the information provided herein.

This research report is not intended for, and may not be redistributed to, retail customers in the United Kingdom or the United States.

This research report is protected by copyright and is intended solely for the designated addressee. It may not be reproduced or distributed, in whole or in part, by any recipient for any purpose without Danske Bank's prior written consent.

## Disclaimer related to distribution in the United States

This research report was created by Danske Bank A/S and is distributed in the United States by Danske Markets Inc., a U.S. registered broker-dealer and subsidiary of Danske Bank A/A, pursuant to SEC Rule 15a-6 and related interpretations issued by the U.S. Securities and Exchange Commission. The research report is intended for distribution in the United States solely to 'U.S. institutional investors' as defined in SEC Rule 15a-6. Danske

Markets Inc. accepts responsibility for this research report in connection with distribution in the United States solely to 'U.S. institutional investors'.

Danske Bank is not subject to U.S. rules with regard to the preparation of research reports and the independence of research analysts. In addition, the research analysts of Danske Bank who have prepared this research report are not registered or qualified as research analysts with the NYSE or FINRA but satisfy the applicable requirements of a non-U.S. jurisdiction.

Any U.S. investor recipient of this research report who wishes to purchase or sell any Relevant Financial Instrument may do so only by contacting Danske Markets Inc. directly and should be aware that investing in non-U.S. financial instruments may entail certain risks. Financial instruments of non-U.S. issuers may not be registered with the U.S. Securities and Exchange Commission and may not be subject to the reporting and auditing standards of the U.S. Securities and Exchange Commission.

**Report completed:** 1 February 2019, 15:28 CET

**Report first disseminated:** 4 February 2019, 06:00 CET