2 September 2026

Euro Area Macro Monitor

Growth resilience takes rate cuts off the table in 2027

- **Economic activity has proved more resilient than expected over the summer** despite negative supply shocks from higher energy prices linked to the war in Iran and unusually warm weather. Euro area GDP rose by 0.4% q/q in Q2, up from flat growth in Q1 and well above expectations. The August PMIs suggest that solid growth momentum continued into Q3, with the composite PMI edging up to 52.1 from 52.0 in July, surprising to the upside. The improvement is still mainly driven by manufacturing, with the PMI rising to 52.7 from 51.9, supported by higher output and new orders. Indirect AI-related investment demand seems to be supporting, as firms in the euro area supply equipment and infrastructure for data centres and power systems. Fiscal policy is also turning more supportive, particularly through higher German public spending and less tightening in France than we expected. The services PMI was unchanged at 51.7 but still came in above expectations, with weakness in Germany and France offset by firmer activity in Southern Europe. **Overall, the August PMIs point to rather solid Q3 growth around potential despite the recent shocks.**

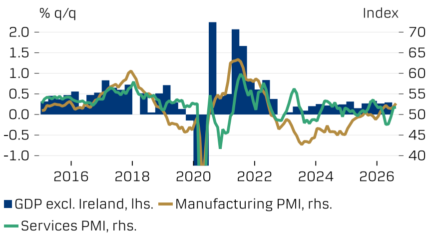
- Euro area HICP inflation rose as expected in August to 3.3% y/y, from 2.9% y/y in July, while core inflation declined to 2.4% y/y, below expectations of 2.5%. **The rise in headline inflation was entirely driven by energy prices, with food inflation unchanged and core inflation lower. Momentum in core inflation remains low, with few signs of energy prices spilling over to underlying inflation.** Core inflation rose around 0.17% m/m s.a., taking the 3m/3m SAAR (which measures current annualised momentum) down to 2.6% from 2.7%. The loss of momentum was due to services momentum fading to just 0.1% m/m s.a., while goods momentum is slowly ticking higher from a very low starting point. Broader non-energy inflation momentum is also running close to 2%, pointing to contained underlying inflation.

- The combination of growth around potential and contained underlying inflation has led us to revise our ECB call (see *Research Euro Area: New ECB call – No cuts in 2027*, 27 August). **We continue to expect a final 25bp hike in September, taking the deposit rate to 2.50%, but now see the ECB keeping it there throughout 2027 rather than cut it back to 2.00%. The more resilient growth backdrop removes the need for cuts next year, while contained underlying inflation limits the need for more than one additional hike.** With the deposit rate at 2.50% from September and onwards, policy will be at the upper end of the ECB's estimated neutral range. Further hikes would take policy into restrictive territory, which we do not think the inflation data justifies given the absence of energy-related spillovers to underlying inflation. Risks to our call are balanced, with stronger spillovers or low gas inventories posing upside risks, while slower wage growth or a weakening labour market could still lead to cuts before the end of 2027.

Today's key points

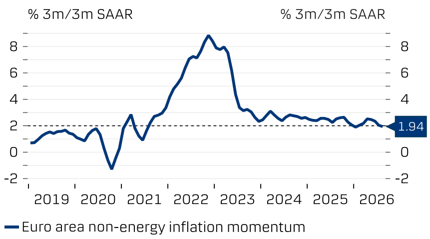
- Headline inflation to average 3.0% y/y in 2026 and 2.3% y/y in 2027.
- Growth expected at 0.7% y/y in 2026 and 1.2% y/y in 2027.
- ECB to hike by 25bp in September and keep the deposit rate at 2.50% in 2027

Growth is holding up better than expected



Source: Eurostat, Danske Bank, S&P Global, Macrobond

Very low non-energy inflation momentum



Source: ECB, Macrobond

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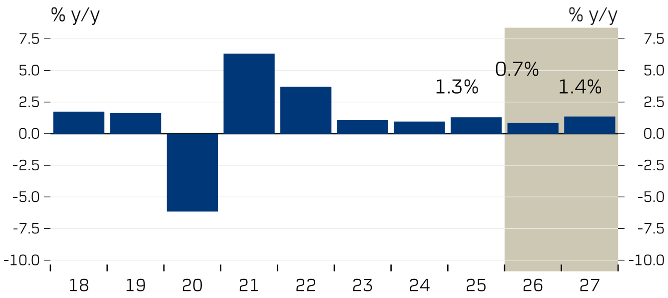
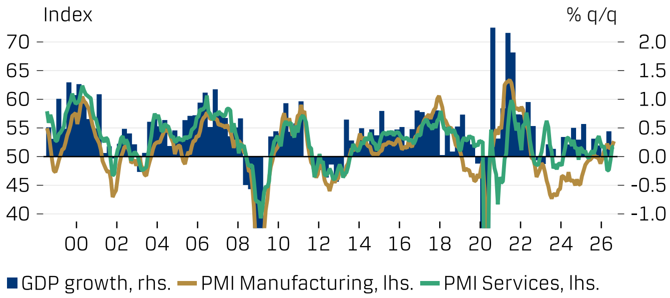
Euro area

Euro area: GDP growth forecast



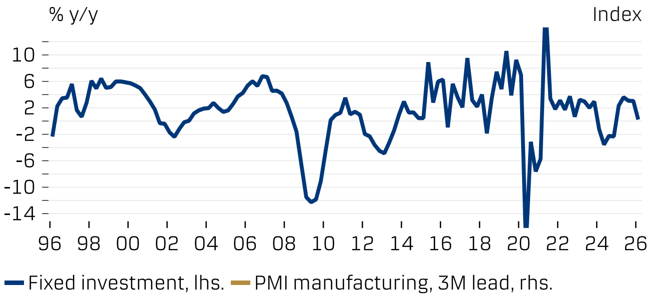
Source: Eurostat, Macrobond Financial, Danske Bank

Euro area: PMI and GDP growth



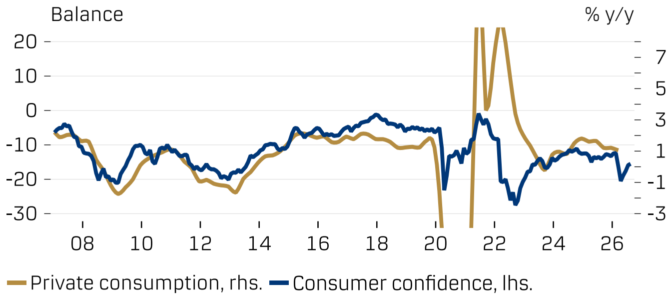
Source: Macrobond Financial, Danske Bank

Euro area: Manufacturing sentiment and investments



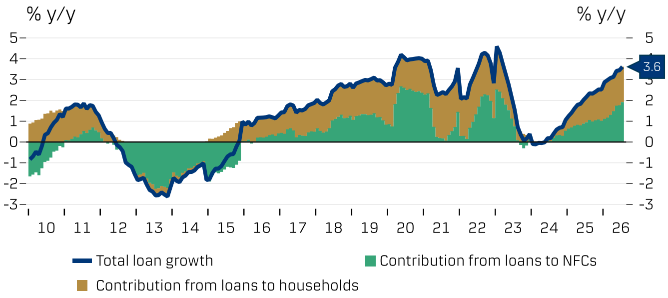
Source: S&P Global, Eurostat, Macrobond Financial

Euro area: Consumer confidence and private consumption



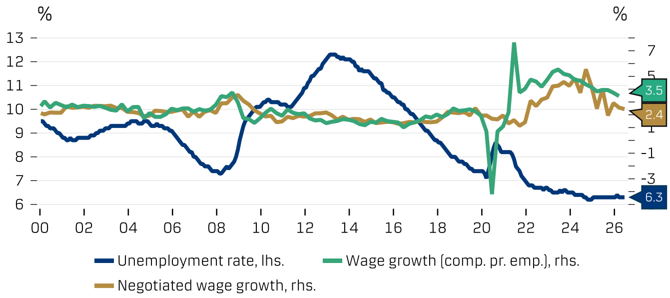
Source: Eurostat, European Commission, Macrobond Financial

Euro area: Credit growth



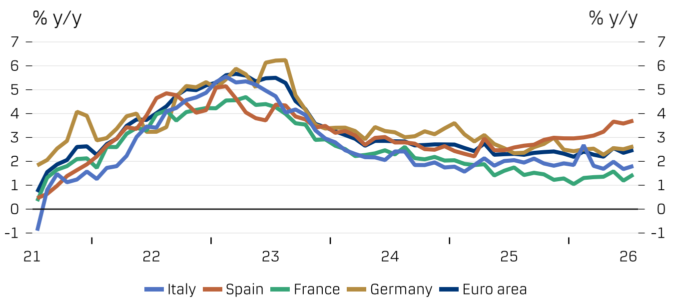
Source: ECB, Macrobond Financial, Danske Bank

Euro area: Unemployment and wage growth



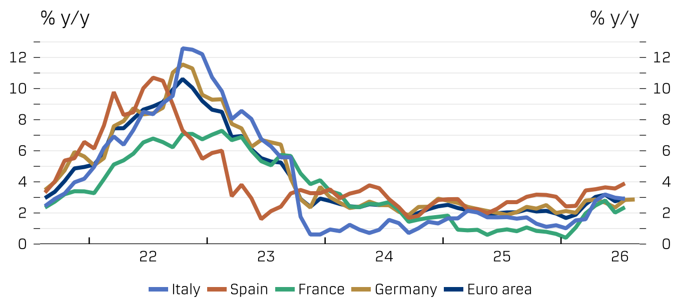
Source: ECB, Eurostat, Macrobond Financial

Euro area: Core inflation



Source: Eurostat, Macrobond Financial

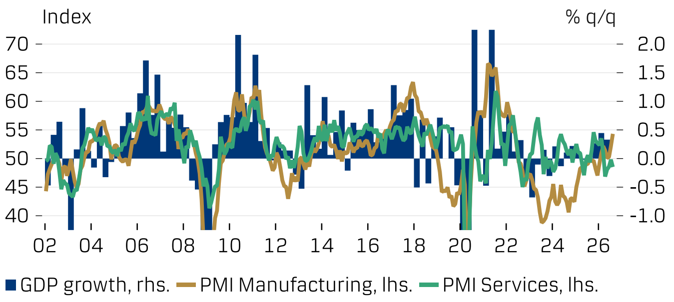
Euro area: HICP inflation



Source: Eurostat, Statistisches Bundesamt, Macrobond Financial, Danske Bank

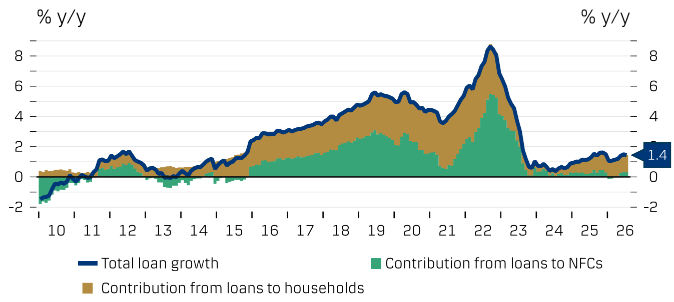
Germany

Germany: PMI and GDP growth



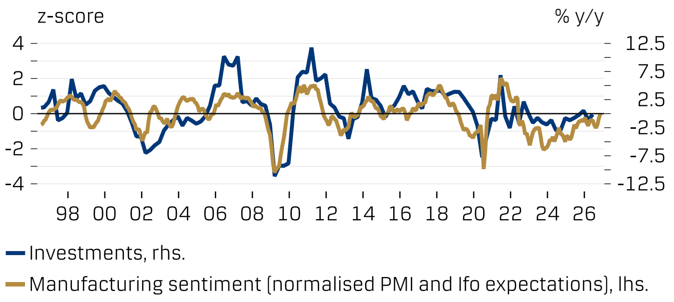
Source: S&P Global, Eurostat, Macrobond Financial

Germany: Credit growth



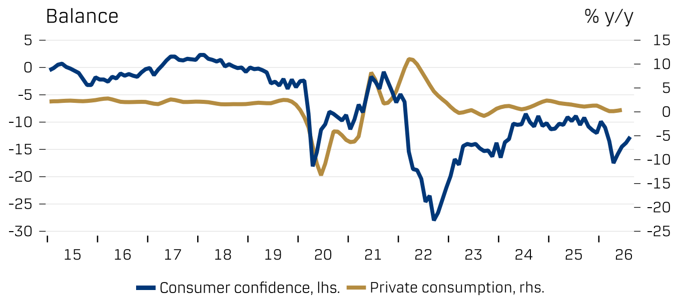
Source: Deutsche Bundesbank, Eurostat, Macrobond Financial, Danske Bank

Germany: Manufacturing sentiment and investments



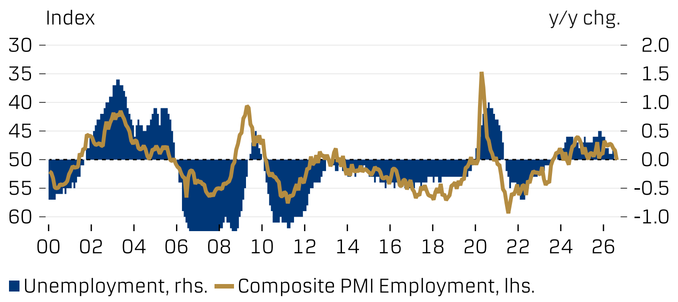
Source: S&P Global, Eurostat, Macrobond Financial

Germany: Consumer confidence and private consumption



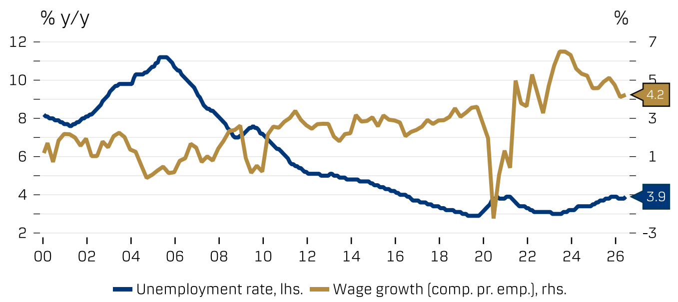
Source: European Commission, Eurostat, Macrobond Financial

Germany: Unemployment and PMI



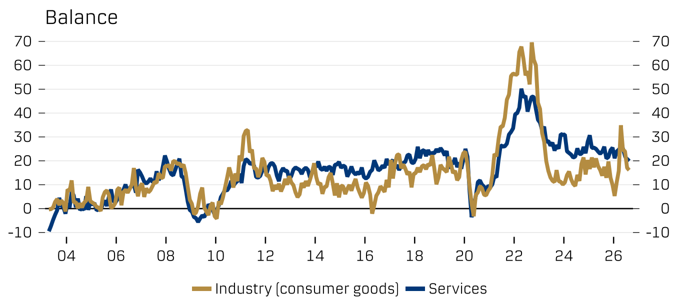
Source: S&P Global, Eurostat, Macrobond Financial

Germany: Unemployment and wage growth



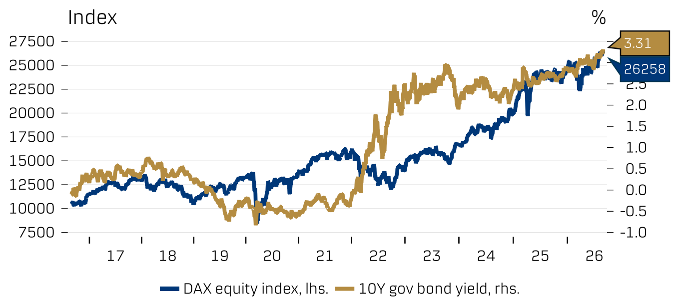
Source: ECB, Eurostat, Deutsche Bundesbank, Macrobond Financial

Germany: Selling price expectations



Source: EU Commission, Macrobond Financial, Danske Bank

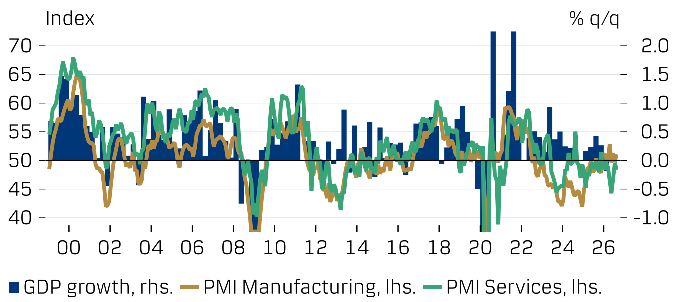
Germany: Financial markets



Source: Deutsche Boerse, Macrobond Financial, Danske Bank

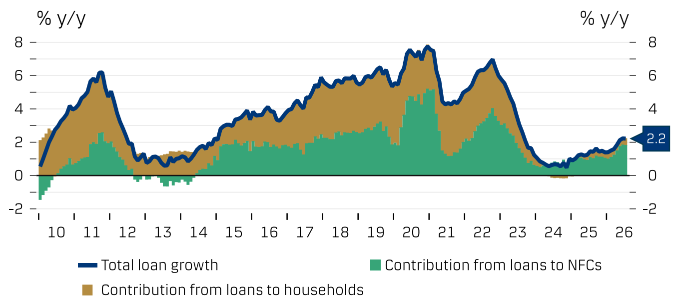
France

France: PMI and GDP growth



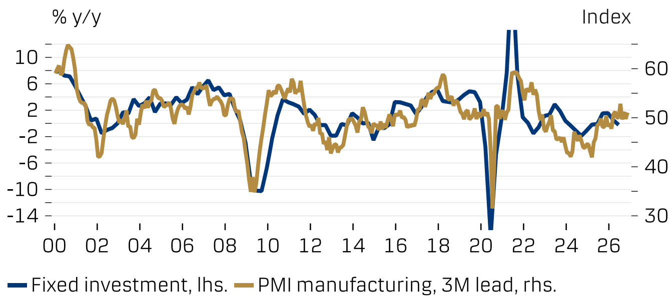
Source: S&P Global, Eurostat, Macrobond Financial

France: Credit growth



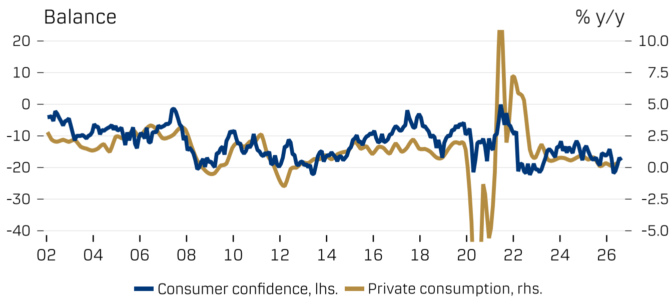
Source: ECB, Macrobond Financial, Danske Bank

France: Manufacturing sentiment and investments



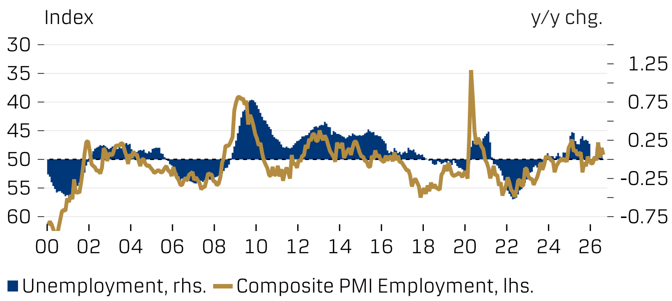
Source: S&P Global, Eurostat, Macrobond Financial

France: Consumer confidence and private consumption



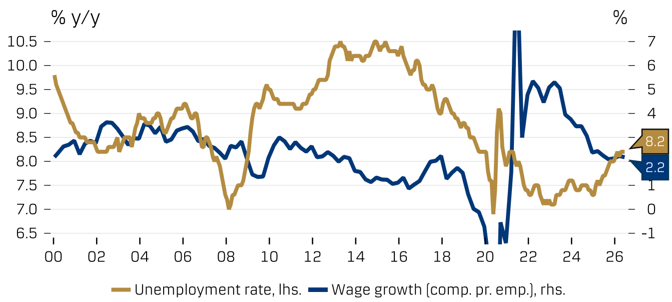
Source: European Commission, Eurostat, Macrobond Financial

France: Unemployment and PMI



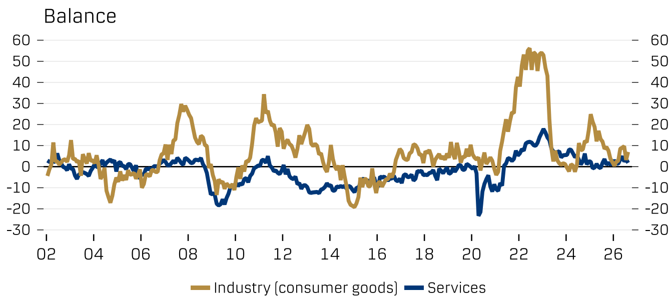
Source: S&P Global, Eurostat, Macrobond Financial

France: Unemployment and wage growth



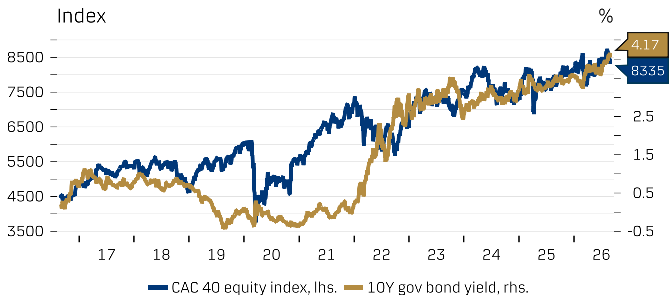
Source: ECB, Eurostat, Macrobond Financial, Danske Bank

France: Selling price expectations



Source: EU Commission, Macrobond Financial, Danske Bank

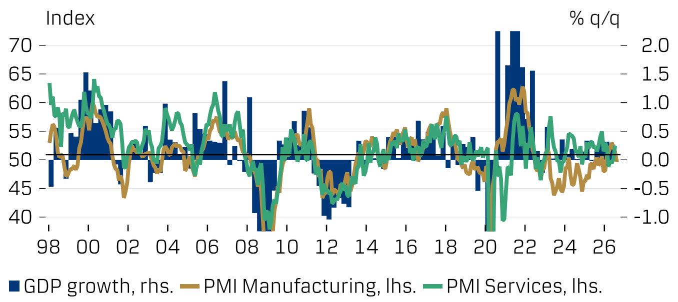
France: Financial markets



Source: Euronext, Macrobond Financial, Danske Bank

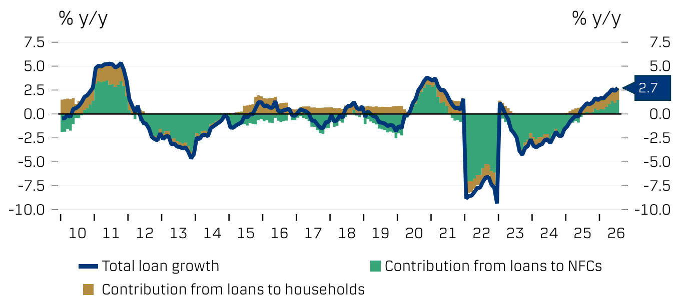
Italy

Italy: PMI and GDP growth



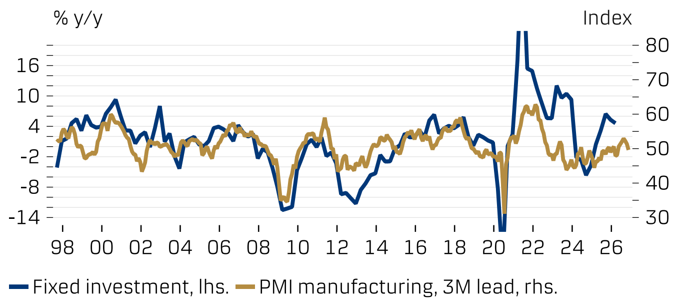
Source: S&P Global, Eurostat, Macrobond Financial

Italy: Credit growth



Source: ECB, Macrobond Financial, Danske Bank

Italy: Manufacturing sentiment and investments



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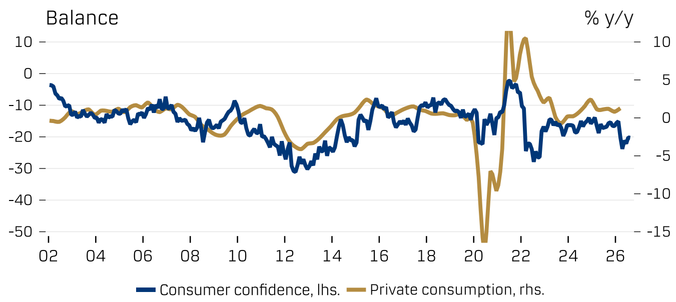
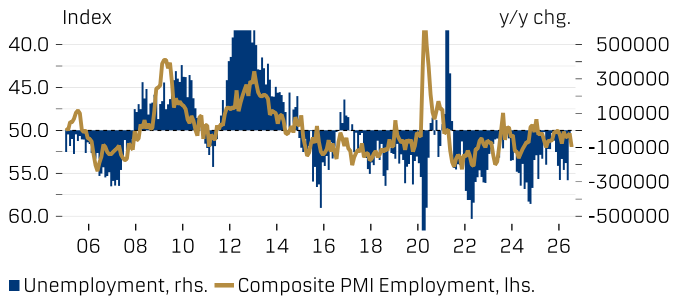
Italy: Consumer confidence and private consumption



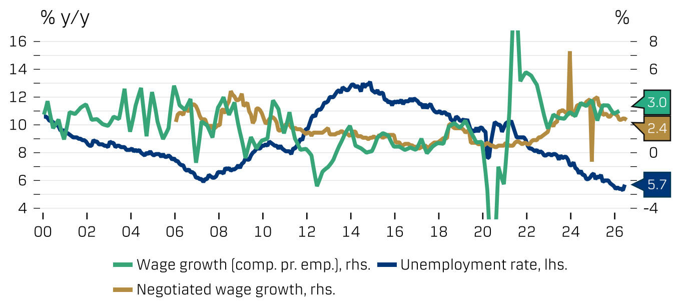
Source: European Commission, Eurostat, Macrobond Financial, Danske Bank

Italy: Unemployment and PMI



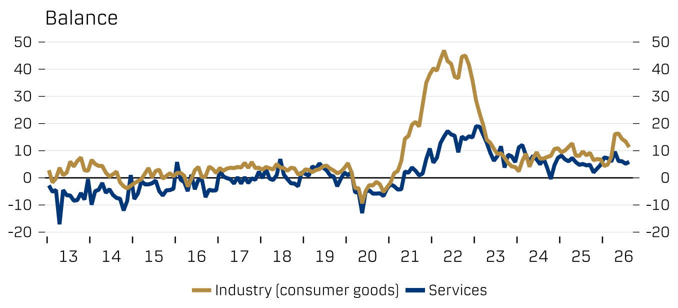
Source: S&P Global, Eurostat, Macrobond Financial

Italy: Unemployment and wage growth



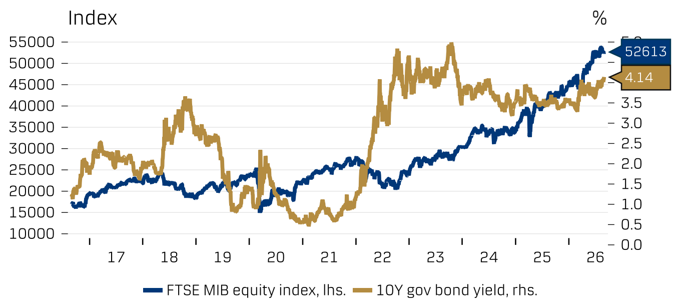
Source: ECB, Eurostat, Istat, Macrobond Financial, Danske Bank

Italy: Price expectations



Source: EU Commission, Macrobond Financial, Danske Bank

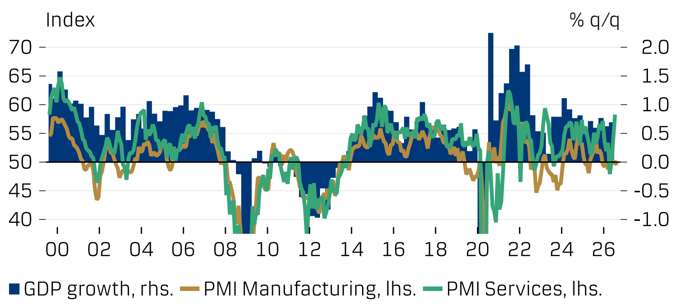
Italy: Financial markets



Source: FTSE, Macrobond Financial, Danske Bank

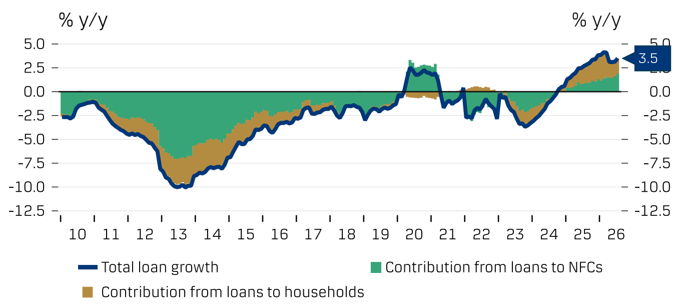
Spain

Spain: PMI and GDP growth



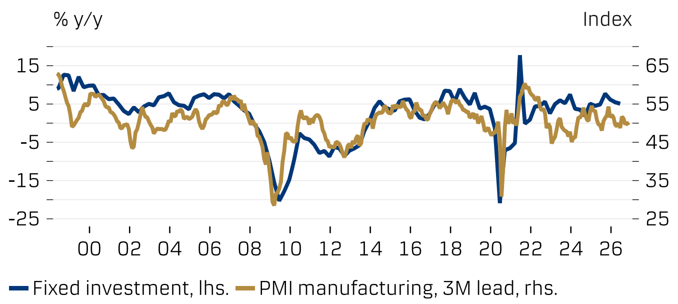
Source: S&P Global, Eurostat, Macrobond Financial

Spain: Credit growth



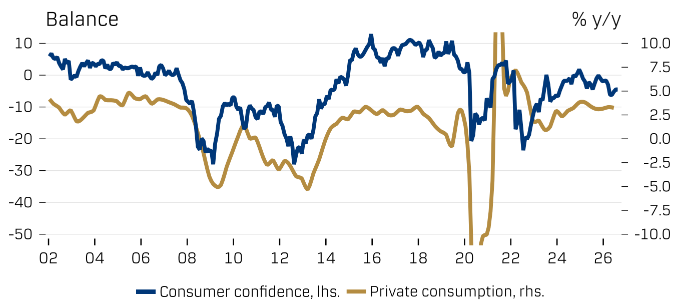
Source: ECB, Macrobond Financial, Danske Bank

Spain: Manufacturing sentiment and investments



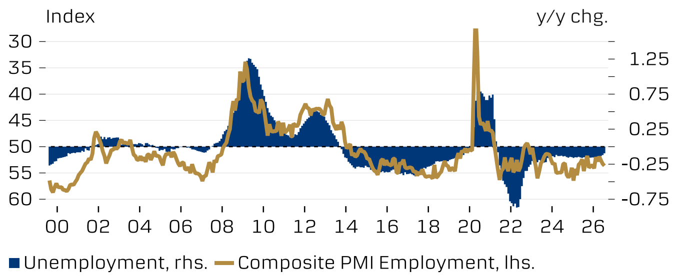
Source: S&P Global, Eurostat, Macrobond Financial

Spain: Consumer confidence and private consumption



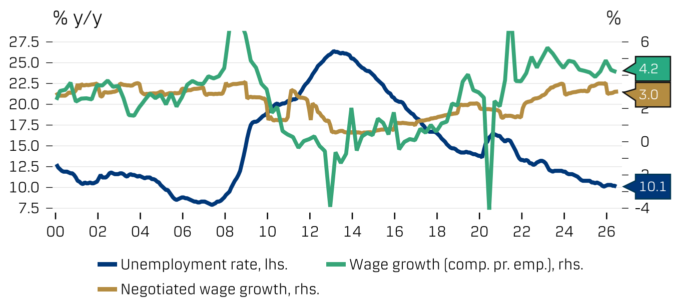
Source: European Commission, Eurostat, Macrobond Financial

Spain: Unemployment and PMI



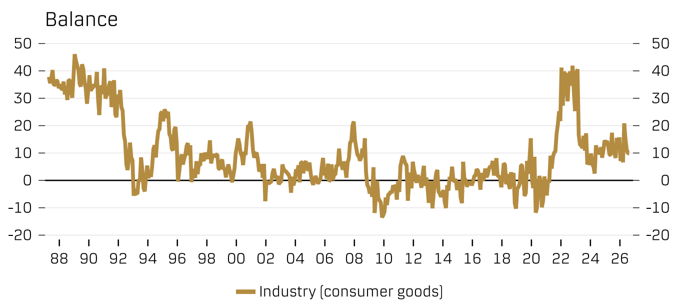
Source: S&P Global, Eurostat, Macrobond Financial

Spain: Unemployment and wage growth



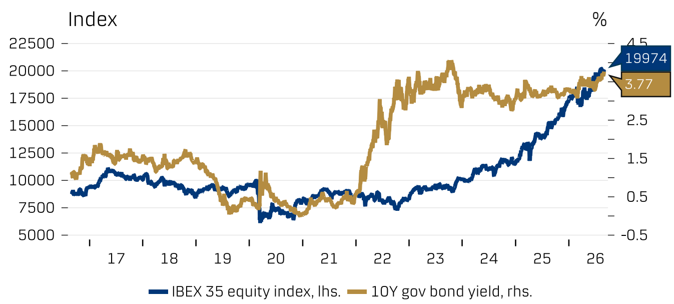
Source: ECB, Eurostat, Ministry of Labor and Social Economy, Macrobond Financial, Danske Bank

Spain: Price expectations



Source: EU Commission, Macrobond Financial, Danske Bank

Spain: Financial markets



Source: Madrid Stock Exchange, Macrobond Financial, Danske Bank

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