A resilient economy

- **The euro area economy has proved more resilient than expected despite higher energy prices and unusually high uncertainty.**
- **We revise up our growth forecast for 2026 and 2027, supported by stronger manufacturing, AI-related demand and more fiscal stimulus.**
- **Inflation is still mainly driven by energy, while broader price pressures remain absent as wage growth slows and consumers stay cautious, limiting passthrough.**
- **We expect the ECB to hike policy rates once more in September and keep the deposit rate at 2.50% through 2027, with risks viewed as balanced.**

	2025	Forecast 2026	2027
GDP Growth	1.3%	0.8% (0.7%)	1.4% (1.2%)
Inflation	2.1%	3.0% (3.0%)	2.5% (2.3%)
Unemployment	6.3%	6.4% (6.4%)	6.4% (6.4%)
Policy rate*	2.00%	2.50% (2.50%)	2.50% (2.00%)

Parentheses are the old projections (from June 2026)
**End of period*
Source: Danske Bank, Eurostat, ECB

The euro area economy has performed better than expected despite the sharp rise in energy prices. The conflict in Iran has raised costs for companies and pushed up consumer prices, but growth has remained close to potential. So far, inflation has mainly been energy-driven rather than spreading broadly to other goods and services. We are therefore slightly more positive on the outlook than before and now expect ECB policy rates to stay higher in 2027. However, uncertainty is unusually high, especially as the outlook depends heavily on energy prices. Our forecast assumes that energy prices broadly follow current futures markets.

We expect euro area GDP to grow by 0.8% in 2026, up from 0.7% in our previous forecast, and by 1.4% in 2027, up from 1.2%. Manufacturing is recovering more strongly than expected, with higher new orders supporting production. One driver is the rapid increase in global investments in artificial intelligence. European companies are not directly leading these investments, but many firms indirectly supply equipment, components and infrastructure

3 September 2026
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>
> *Rune Thyge Johansen, Senior Analyst*

needed for e.g. data centres and power systems. Fiscal policy is also providing more support, especially as German public spending has increased markedly, and France is tightening less than expected. These parts of the economy are less interest-rate sensitive, making growth more resilient despite higher ECB policy rates next year.

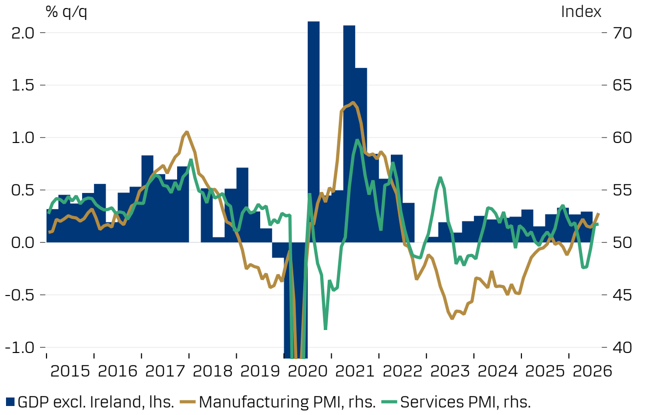
For households, the picture is less bright. We expect private consumption to grow only slowly, as higher energy bills and weak real wage growth limit purchasing power. Yet, consumption should become a more important growth driver in 2027 as real wage growth increases. Investment remains subdued, partly because higher interest rates weigh on expansion decisions. Overall, risks to growth look balanced: consumers could spend more if they reduce high savings, but growth could disappoint if rates and energy prices weigh more heavily than expected.

We forecast inflation to average 3.0% in 2026, unchanged from our June forecast, and 2.5% in 2027, up from 2.3%. Headline inflation has moved above 3% and is likely to stay close to 3.5% for the rest of this year, mainly because of energy. So far, we do not see signs of the energy shock spreading outside of energy products to other goods and services, including food. Slower wage growth should help keep core inflation averaging 2.4% in 2026 and 2.3% in 2026, while moving towards 2% by end-2027.

The labour market helps explain why inflation pressures remain contained. Unemployment is low, but companies show limited demand for new labour, and cautious consumers make it harder to pass on higher costs. We expect this balance to continue with a broadly unchanged unemployment rate. The main uncertainty for the inflation outlook is energy. Low gas inventories ahead of winter raise the risk of higher prices in the near term. A resolution of the Iran war could lower energy prices and bring inflation down faster. Overall, inflation risks are broadly balanced.

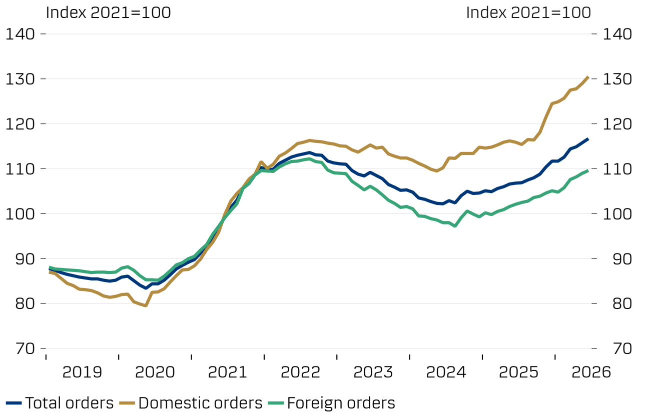
The stronger economy, supported by AI-related demand and more expansionary fiscal policy, has changed our view on the ECB. We still expect one final 25bp rate hike in September, taking the deposit rate to 2.50%, but no longer expect two cuts in 2027. Instead, we expect the rate to stay at 2.50% throughout 2027. In the longer run, we think the ECB will cut the deposit rate to around 2.0%, but for 2027 keep rates somewhat higher to reduce the risk of inflation de-anchoring. Risks to our call go both ways. Slower wage growth and contained underlying inflation could still lead to cuts before end-2027, while high energy prices and low gas inventories mean another hike late this year cannot be ruled out.

Growth in the euro area has continued around potential



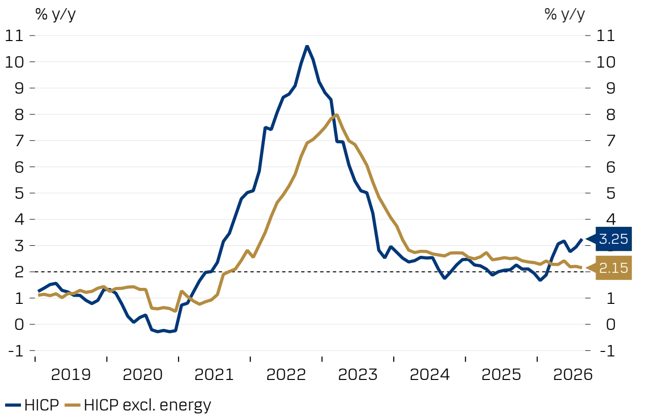
Source: Eurostat, Danske Bank, S&P Global, Macrobond

Markedly higher orders in German manufacturing sector



Source: Statistisches Bundesamt, Macrobond

No inflationary effects outside of energy products



Source: Eurostat, Macrobond

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