5 October 2026

Euro Area Macro Monitor

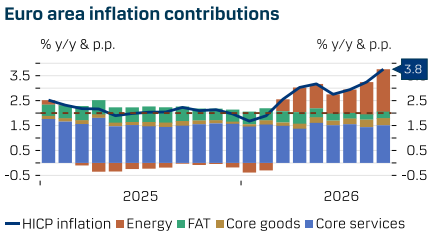
Growth broadens, ECB hikes

- **Economic activity gained further momentum in September, with the composite PMI rising to 53.1 from 52.0 in August,** well above expectations and the highest level in more than three years. The increase was driven by a surprisingly strong services sector, where the PMI rose to 53.0 from 51.6, while manufacturing remained solid at 52.7. Growth in Q2 was predominantly driven by manufacturing, but the September PMIs suggest that momentum is now spilling over to the services sector, which is also boosted by consumer spending. The detailed Q2 GDP breakdown showed a positive surprise in private consumption, which rose 0.3% q/q despite higher energy costs and falling confidence. However, the prolonged period of higher energy costs is a downside risk for private consumption in the near term, but growth looks increasingly broad-based heading into Q4.
- **Headline inflation increased to the highest level in three years at 3.8% y/y in September** from 3.2% y/y, which was marginally above expectations of 3.7% y/y. The uptick in HICP was driven mainly by energy and food inflation, while underlying inflation pressures remained more muted. Core inflation increased in line with expectations to 2.5% y/y (cons.: 2.5%, prior: 2.4%). We are seeing momentum in core goods picking up slightly due to indirect effects of the energy shock, but the spillovers from the shock to underlying inflation remain relatively small as the chart to the right also shows.
- **The ECB hiked policy rates by 25bp at the September meeting, with the deposit rate at 2.50%, as expected.** The communication, however, came as a hawkish surprise, with the ECB stating that "*inflation is set to remain well above target for an extended period*", while the new staff projections either kept all forecasts the same or revised up. Together with a focus on energy prices in its reaction function, this led us to revise our call in early September, to expect further tightening form the ECB, although a hike already in October now seems rather unlikely.
- **France's fiscal outlook has deteriorated further and come into focus again**, with public debt reaching an all-time high of 119% of GDP in Q2 and this year's deficit expected at 5.4% of GDP, well above the initial 5.0% target. Market concerns have increased, with the 10Y France-Germany government bond yield spread widening further to around 140bp. Next year's budget is unlikely to bring much improvement. PM Lecornu targets a deficit of 5.0% of GDP in 2027, but his minority government depends on the opposition, which has little incentive to support strong fiscal tightening ahead of the presidential election. We therefore expect the final budget to target a deficit closer to 5.4% (see *Reading the Markets EUR: The French budget battle begins; buy 2Y France vs Finland*, 23 September).

Today's key points

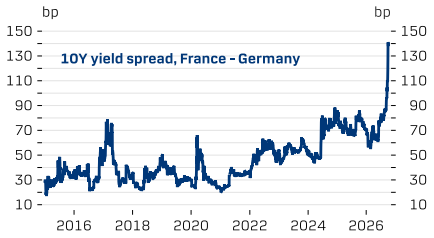
- Headline inflation to average 3.0% y/y in 2026 and 2.5% y/y in 2027.
- Growth expected at 0.8% y/y in 2026 and 1.4% y/y in 2027.
- ECB to hiker further.

Energy is still the main driver of higher inflation



Source: Eurostat, Danske Bank

Unstainable French public finances are in focus again



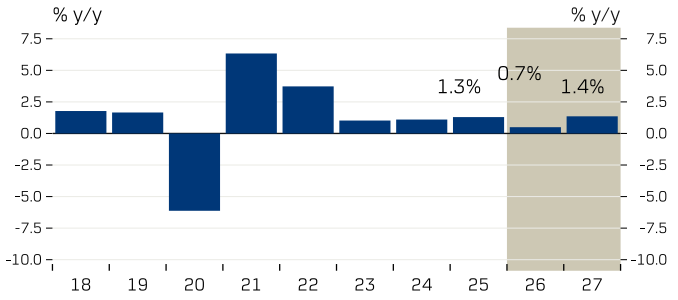
Source: Bloomberg, Danske Bank

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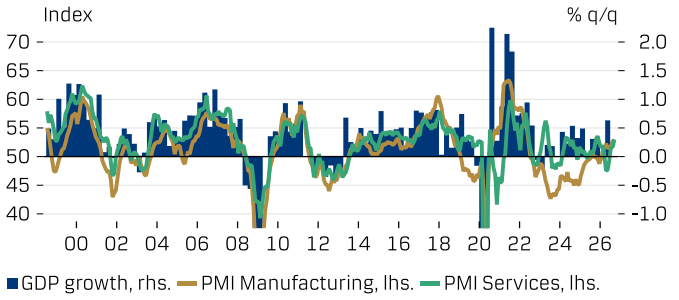
Euro area

Euro area: GDP growth forecast



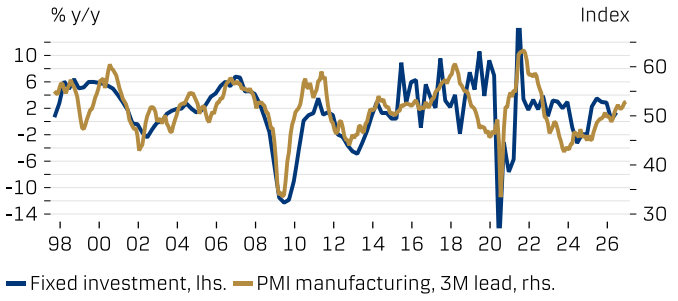
Source: Eurostat, Macrobond Financial, Danske Bank

Euro area: PMI and GDP growth



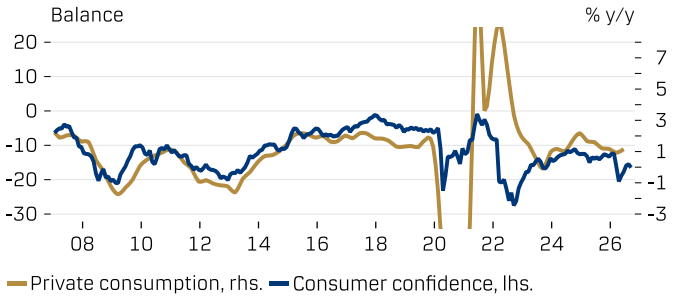
Source: Macrobond Financial, Danske Bank

Euro area: Manufacturing sentiment and investments



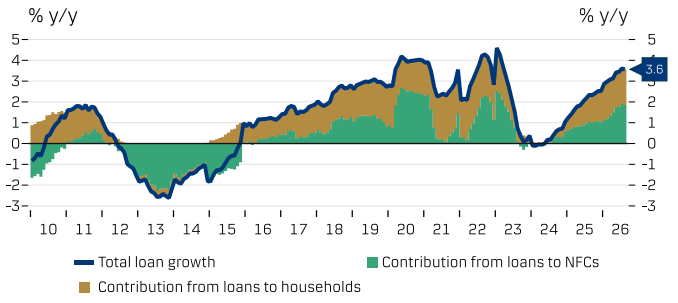
Source: S&P Global, Eurostat, Macrobond Financial

Euro area: Consumer confidence and private consumption



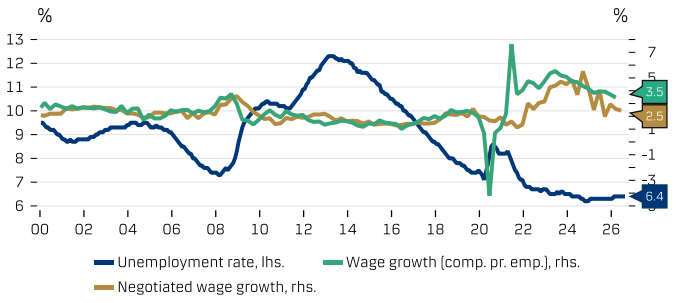
Source: Eurostat, European Commission, Macrobond Financial

Euro area: Credit growth



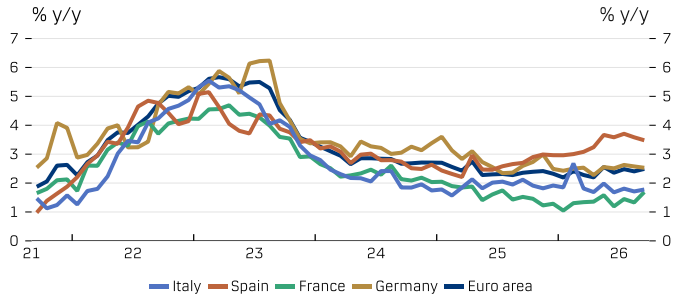
Source: ECB, Macrobond Financial, Danske Bank

Euro area: Unemployment and wage growth



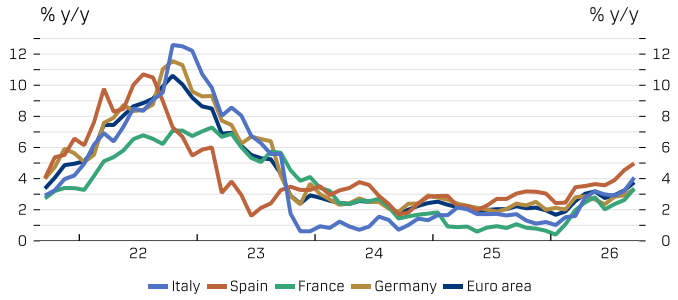
Source: ECB, Eurostat, Macrobond Financial

Euro area: Core inflation



Source: Eurostat, Macrobond Financial

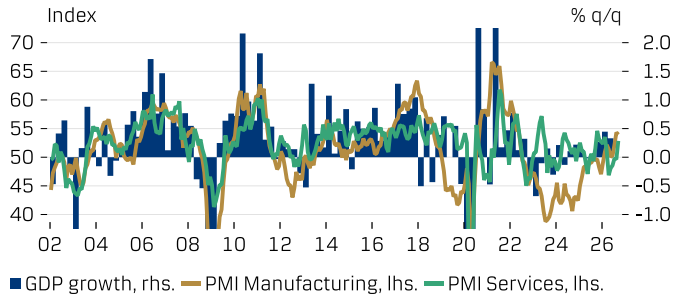
Euro area: HICP inflation



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

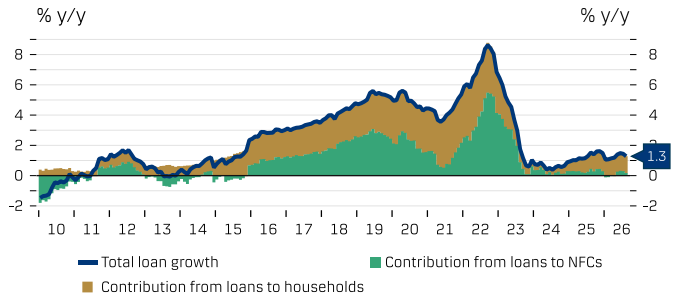
Germany

Germany: PMI and GDP growth



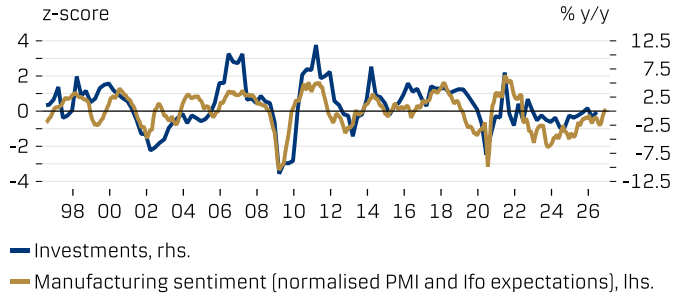
Source: S&P Global, Eurostat, Macrobond Financial

Germany: Credit growth



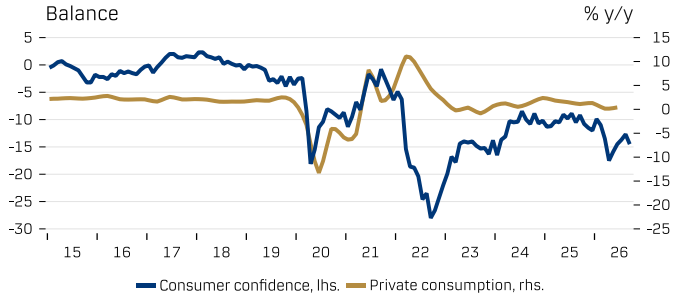
Source: Deutsche Bundesbank, Eurostat, Macrobond Financial, Danske Bank

Germany: Manufacturing sentiment and investments



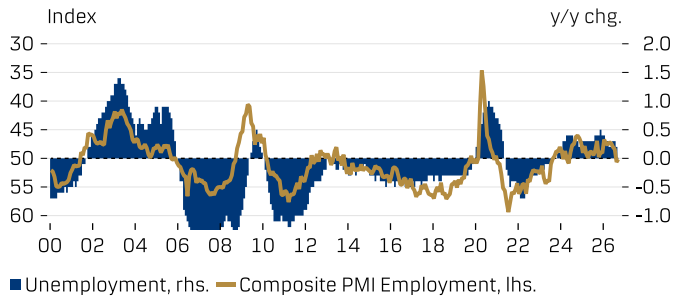
Source: S&P Global, Eurostat, Macrobond Financial

Germany: Consumer confidence and private consumption



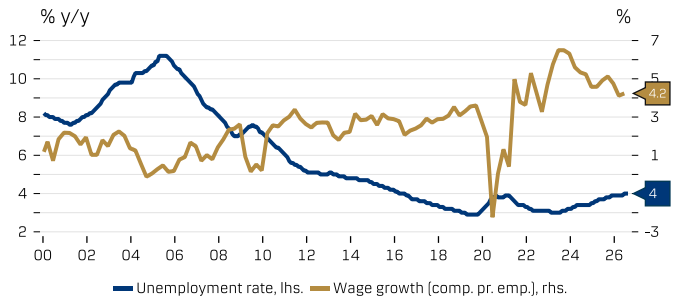
Source: European Commission, Eurostat, Macrobond Financial

Germany: Unemployment and PMI



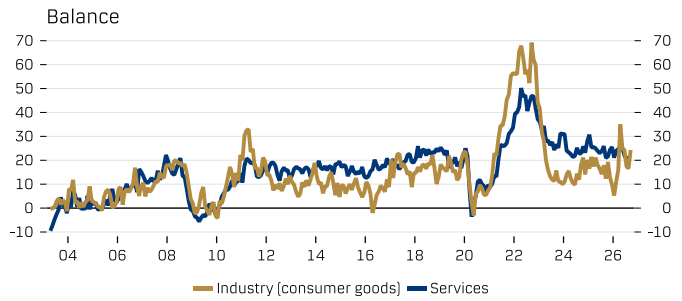
Source: S&P Global, Eurostat, Macrobond Financial

Germany: Unemployment and wage growth



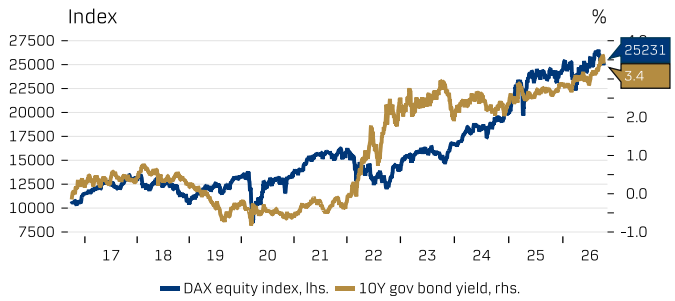
Source: ECB, Eurostat, Deutsche Bundesbank, Macrobond Financial

Germany: Selling price expectations



Source: EU Commission, Macrobond Financial, Danske Bank

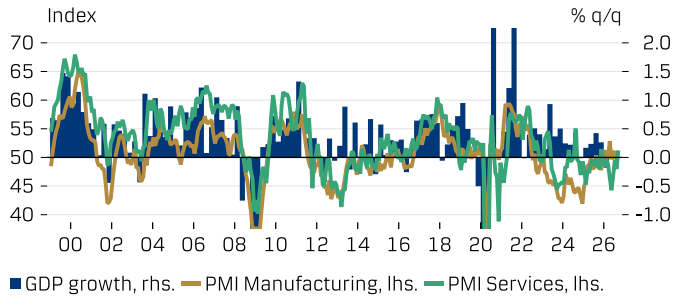
Germany: Financial markets



Source: Deutsche Boerse, Macrobond Financial, Danske Bank

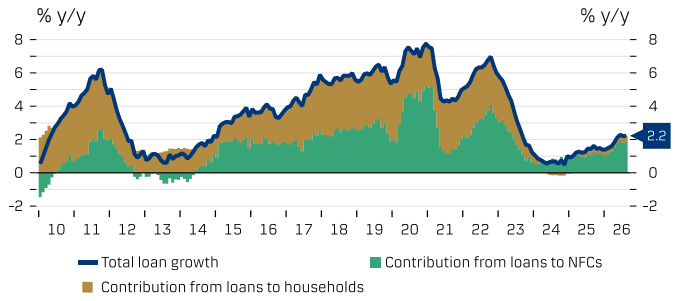
France

France: PMI and GDP growth



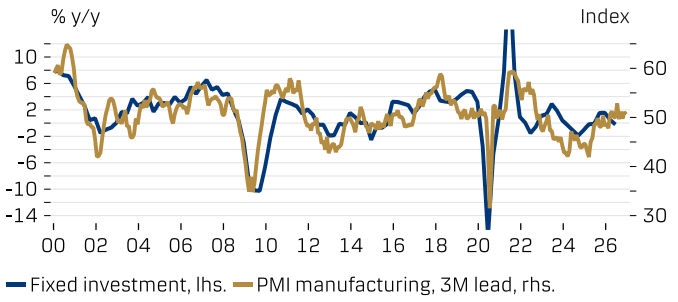
Source: S&P Global, Eurostat, Macrobond Financial

France: Credit growth



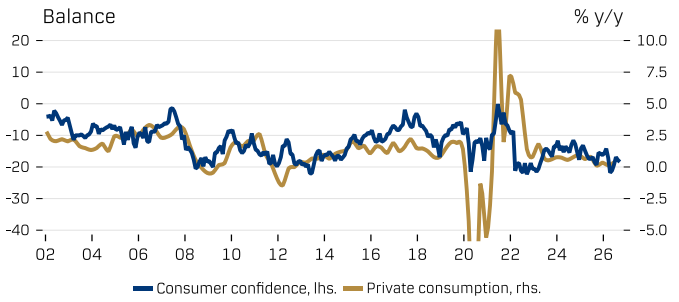
Source: ECB, Macrobond Financial, Danske Bank

France: Manufacturing sentiment and investments



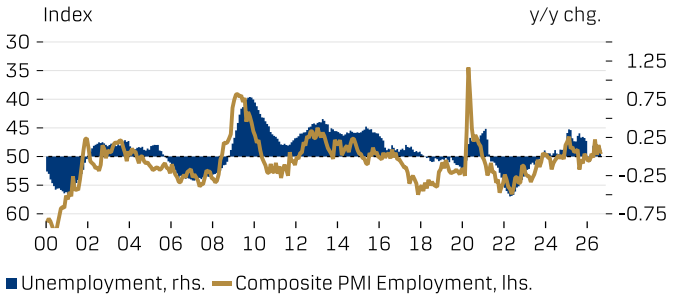
Source: S&P Global, Eurostat, Macrobond Financial

France: Consumer confidence and private consumption



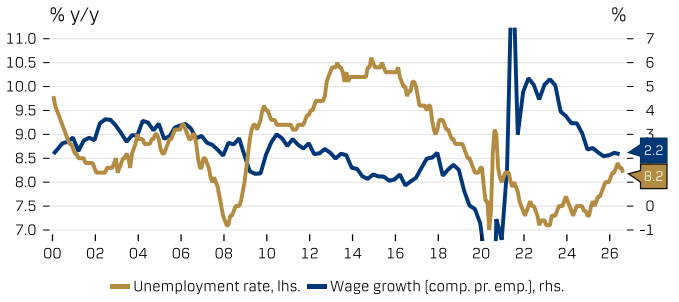
Source: European Commission, Eurostat, Macrobond Financial

France: Unemployment and PMI



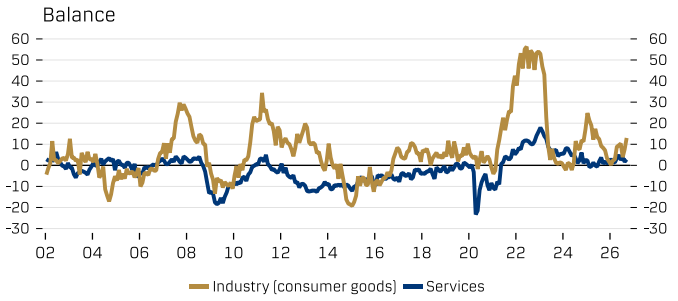
Source: S&P Global, Eurostat, Macrobond Financial

France: Unemployment and wage growth



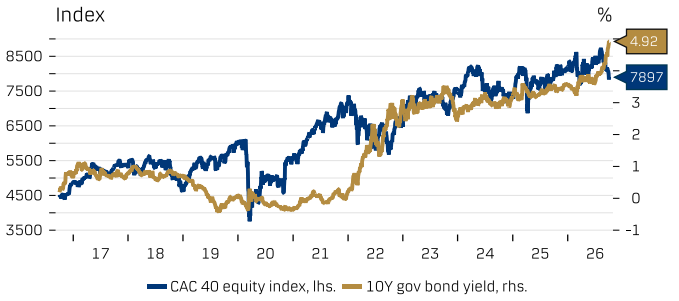
Source: ECB, Eurostat, Macrobond Financial, Danske Bank

France: Selling price expectations



Source: EU Commission, Macrobond Financial, Danske Bank

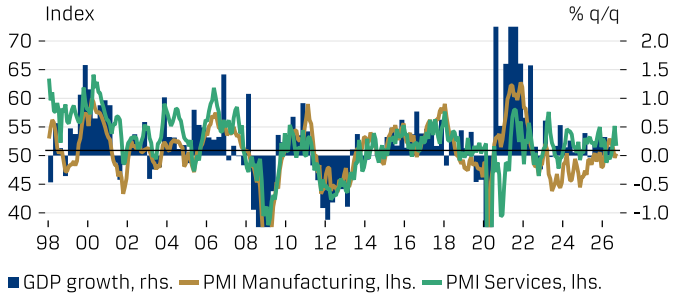
France: Financial markets



Source: Euronext, Macrobond Financial, Danske Bank

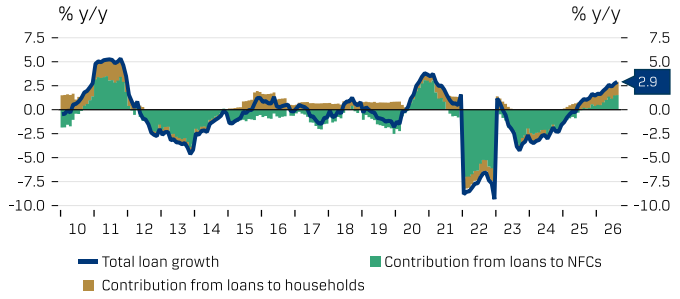
Italy

Italy: PMI and GDP growth



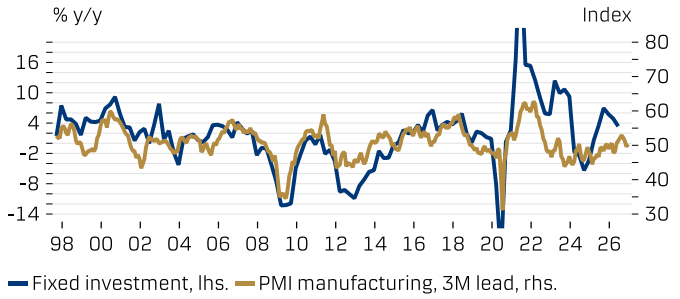
Source: S&P Global, Eurostat, Macrobond Financial

Italy: Credit growth



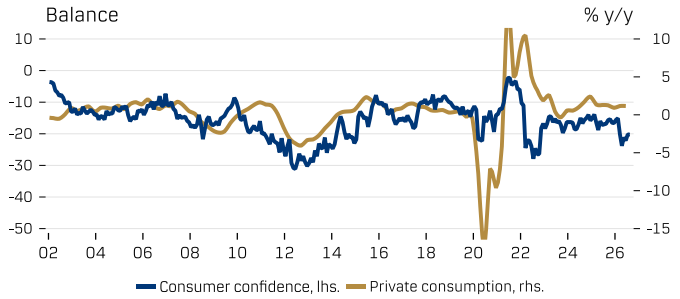
Source: ECB, Macrobond Financial, Danske Bank

Italy: Manufacturing sentiment and investments



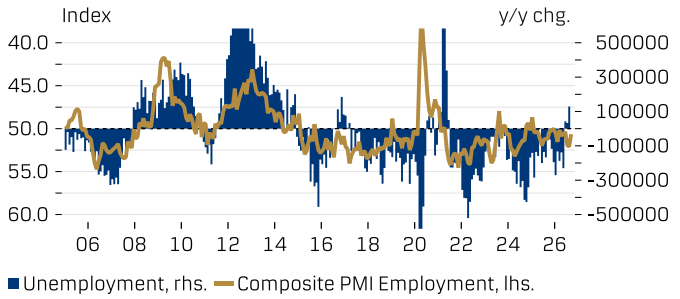
Source: S&P Global, Eurostat, Macrobond Financial

Italy: Consumer confidence and private consumption



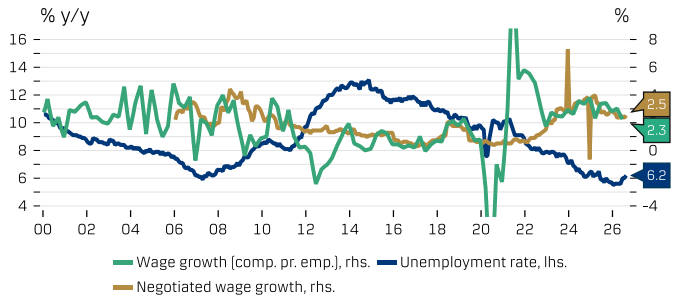
Source: European Commission, Eurostat, Macrobond Financial, Danske Bank

Italy: Unemployment and PMI



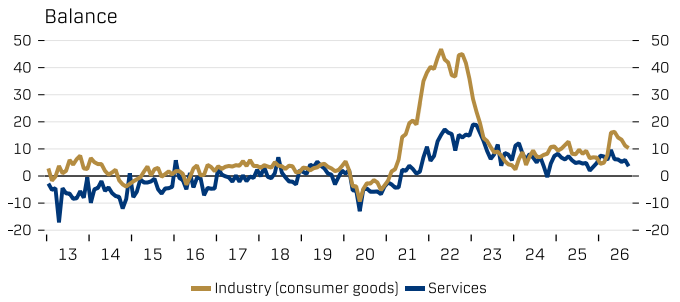
Source: S&P Global, Eurostat, Macrobond Financial

Italy: Unemployment and wage growth



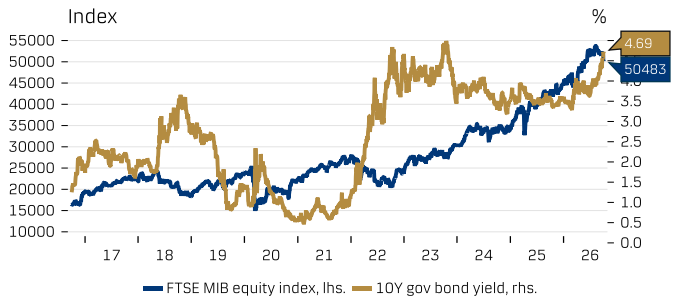
Source: ECB, Eurostat, Istat, Macrobond Financial, Danske Bank

Italy: Price expectations



Source: EU Commission, Macrobond Financial, Danske Bank

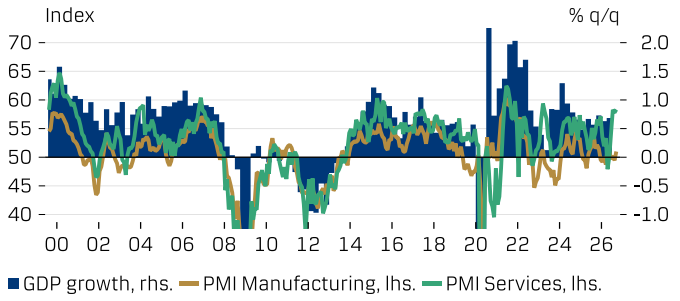
Italy: Financial markets



Source: FTSE, Macrobond Financial, Danske Bank

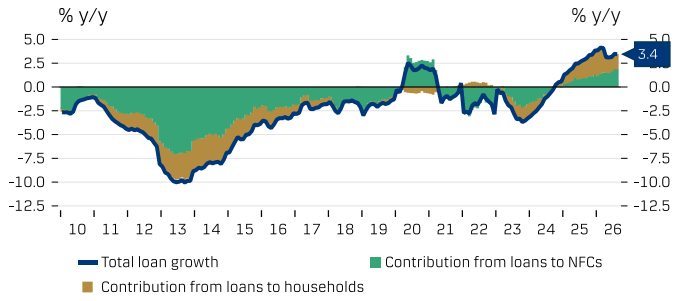
Spain

Spain: PMI and GDP growth



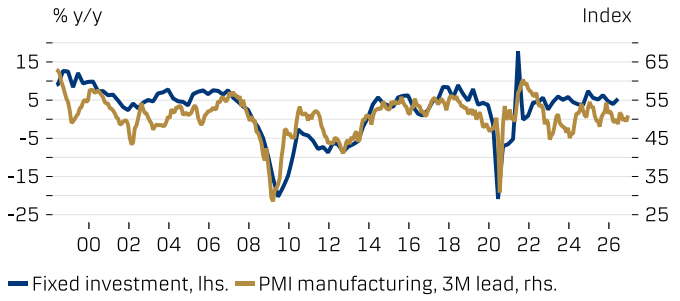
Source: S&P Global, Eurostat, Macrobond Financial

Spain: Credit growth



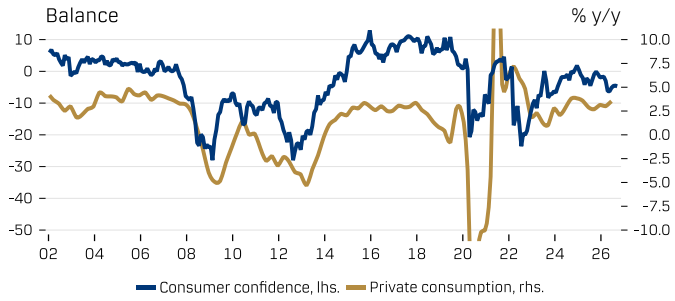
Source: ECB, Macrobond Financial, Danske Bank

Spain: Manufacturing sentiment and investments



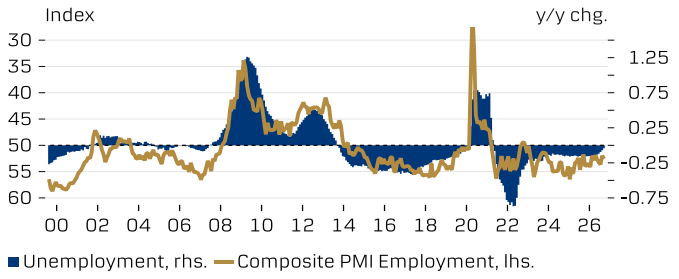
Source: S&P Global, Eurostat, Macrobond Financial

Spain: Consumer confidence and private consumption



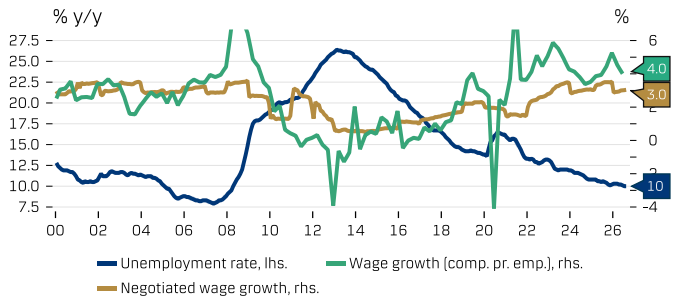
Source: European Commission, Eurostat, Macrobond Financial

Spain: Unemployment and PMI



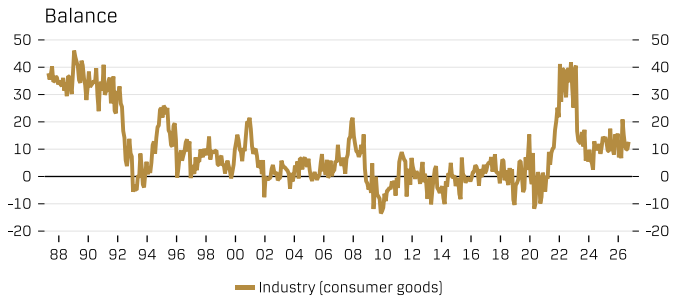
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Spain: Unemployment and wage growth



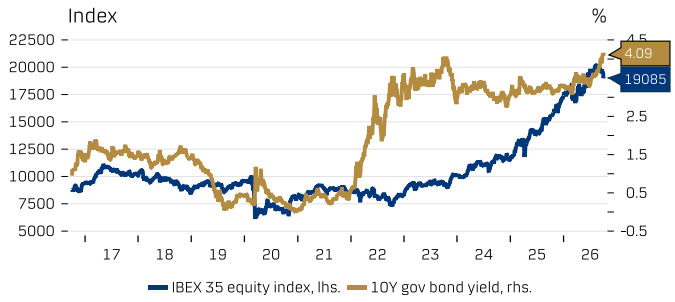
Source: ECB, Eurostat, Ministry of Labor and Social Economy, Macrobond Financial, Danske Bank

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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This research report has been prepared by Danske Bank A/S ('Danske Bank'). The authors of this research report are Ella Schlüntz, Assistant Analyst, and Rune Thyge Johansen, Senior Analyst.

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Date of first publication

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