Europe Economic Weekly

It will converge, eventually

Weekly View: A tale of two divergences

ECB pushback against timing and quantity of rate cuts currently priced is starting. We continue to think the market expects too much for 2024, but too little for 2025.

Euro area: Growth convergence – good and bad at once

We expect a lot of growth convergence in the Euro area, and persistent level differences. Composition differs: Spain should see growth gains from NGEU, but less from energy price normalisations. Italy is the reverse. France looks more balanced. Germany as weak spot works better for markets than the reverse. For the macro, it remains suboptimal.

UK: Energy prices to the rescue

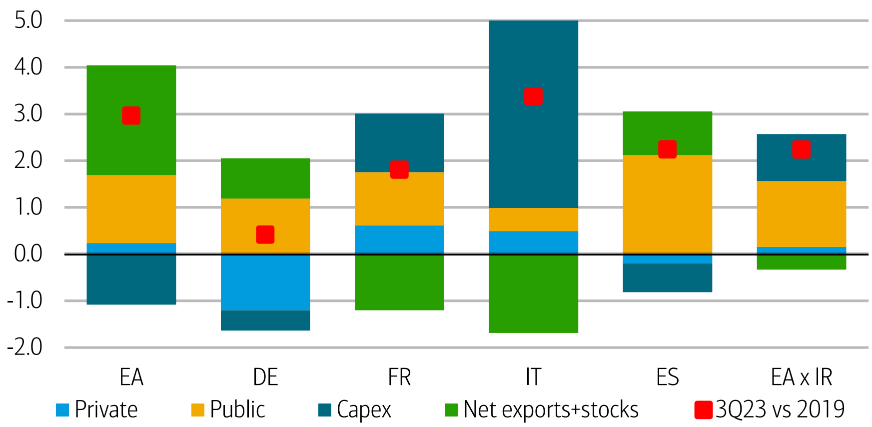
The likely drop in energy price caps shaves 60bp from 2024E CPI, with headline inflation (temporarily) back to target in the Spring. But underlying inflation (especially services) will remain persistent. Lower CPI will help consumption and growth dynamics.

Next week:

Data calendar will very UK-centric, with labour market data (Tue), CPI (Wed), 4Q GDP (Thu) and retail sales (Fri). For the Euro area, German ZEW for February (Tue), December IP and the second estimate of 4Q GDP (Wed) will be in focus. ECB speakers include Nagel, Cipollone, Panetta, De Cos, Lane, Vujcic, Guindos, Schnabel. And BoE's Bailey.

Please join us for our 15 minutes weekly recap: Europe conference call: TODAY: The weekly view 09 February 2024

Exhibit 1: Contributions to GDP growth since 4Q19
Growth hasn't been broad-based anywhere (except perhaps in France)



Source: BofA Global Research, Eurostat. IR stands for Ireland.

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Weekly view

A tale of two divergences

This week most of our conversations with clients circled around two topics. First, whether the growth divergence between the core and periphery in late 2023 is sustainable. In short, we don't think so. Second, with the market somewhat repricing the timing of the first cut from the ECB, focus is shifting towards the amount of easing priced for this year. We still think there is too much priced in. What we last heard from ECB speak is probably the beginning of an attempt to guide us towards a much slower cutting cycle than the market is contemplating, at least until the data forces them to accelerate. Those diverging views are likely to converge eventually, to probably half-way between what the ECB thinks today, and what the market prices.

The good, the bad, and the ugly of growth divergences

In 2H23, the periphery did relatively ok in terms of economic performance when compared with the core of Europe. Is this meant to last? That's not what's embedded in our forecasts. Growth differentials across members are still a story for 2024, with Germany's -0.2% and Spain's 1.3% (the two extremes across the big-4 Euro area forecasts). But in our base case, growth convergence continues. In 2025, all the big 4 are in a 0.9-1.3% growth range (although Germany will still take the lower bound of that).

That is good, since some of the weaker core economies (with Germany clearly in mind) will manage to reverse current underperformance on the back of an improved global economy, lower rates, and real income gains. The bad is that this means that GDP level gaps that have emerged over the past few years will become more persistent. Relatively speaking, that will put France, Italy and Spain in a more comfortable position than Germany.

The ugly? Growth composition is not the healthiest. There is still a chronic insufficiency of aggregate demand. Euro area GDP may be a little more than 2% above pre-pandemic levels (dark blue line in Exhibit 4), but the one component whose strength really stands out is public consumption – at 7% above pre-pandemic levels (yellow line). Meanwhile, household consumption has basically moved sideways at pre-pandemic levels for more than a year now. And capex, other than in Italy (thanks to NGEU) and, perhaps France, is nowhere to be seen, at least not in the scale needed to deal with long-term challenges.

Spain deserves particular caution. Its growth outperformance in 2023 has a lot to thank very dynamic public consumption for. Meanwhile, there are very few signs of NGEU in capex data. This has to be a result of slow implementation, public capex crowding out private, or likely both. With fiscal policy tightening in 2024, capex would need to replace some of the more moderate evolution of public consumption we would expect. It remains to be seen whether this will be the case.

The beginning of a slow pushback on speed

This week two things caught our attention when it comes to the ECB. First, the FT interview with Executive Board member Schnabel. On top of flagging all the risks that call for a patient and cautious ECB, she clearly opened the door to the neutral rate having moved higher in the Euro area. Second, right after the interview was published, the ECB released a paper from its staff suggesting exactly that – that neutral could be higher than in mid-2019 (30bp).

That the ECB's estimates across a range of models suggest neutral could be marginally higher is not too different from saying that. 1) Within the margins of uncertainty neutral is pretty much unchanged from where it was in 2019; and 2) as the paper recognizes, we haven't necessarily evaded the risk that the effective lower bound binds again in the future.

To us, this is probably the beginning of a pushback, not about the timing of the first cut, but about the speed of the cutting cycle. Expect more to come in the next weeks.

Almost 125bp of cuts are priced for this year, a lot less in 2025. With 75bp of cuts in 2024 in our case and 125bp in the first part of 2025, our call is probably half way between market pricing and what some at the ECB think today. We still expect the central bank to start cuts in June. And we expect them to start slowly, with one per quarter. But we think that the data will eventually push the ECB into accelerating the cutting cycle by a lot more than they probably think today; hence, our call for the ECB depo at 2% by mid-2025.

What do we need to see for the ECB to move fast? Either growth doing a lot worse or a strong conviction in a persistent inflation undershoot. We don't expect growth to deteriorate from here. We actually see a modest improvement from 2Q. And if today, with growth at 0, the ECB does not have a sense of urgency, we doubt they would have gained one by mid-2024 with growth accelerating and core inflation still far from target. The reason we have an acceleration in the cutting cycle is that we think the obvious undershoot of core to target by then will force their hand.

There is another path for a slightly earlier acceleration in the cutting cycle, in which the ECB forecasts with a strong degree of conviction that persistent inflation undershoot. We doubt this can happen in June with, again, growth accelerating, core still far from target, and the national central banks in charge of forecasts. But it could happen in September. Hence why we have been flagging that there is a risk of an earlier acceleration of the cutting cycle than we currently expect. But that implies at most 100bp of cuts in 2024. There is still some way for the market to come to that view, the same way that it will need to price, eventually, a lot more in 2025.

UK: a bit less inflation, a bit more growth, same underlying picture

In the UK, as we flagged a few days back, the likely drop in energy price caps shaves 60bp from 2024E CPI, with headline inflation (temporarily) back to target in the Spring. But underlying inflation (especially services) will remain persistent. We cut our CPI forecast to 2.4% in both 2024 and 2025 (-60bp, -20bp respectively). But core inflation will remain sticky – we keep our 2024 core forecast at 3.8%, with 2025 moving slightly lower (-20bp).

With the real income squeeze improving faster now, this will help consumption and growth dynamics. We upgrade our GDP projections to 0.3% in 2024 (+20bp) and 0.8% in 2025 (+20bp). The medium-term picture is still subdued, though, given all the challenges the economy still faces.

Next week:

The data calendar is very UK-centric, with labour market data (Tue), CPI (Wed), 4Q GDP (Thu) and retail sales (Fri). On CPI, we expect January inflation to accelerate to 4.1% (+10bp vs Dec), with core at 5.2%. In the Euro area, December industrial production (which should decline 0.4% mom) and the second estimate of 4Q GDP will be worth checking out (both Wed). At national levels, German ZEW for February (Tue) and final December inflation data for Spain (Thu) and France (Fri) will be in focus. The central bank speakers agenda is rich: Nagel and Cipollone (today), Panetta (Sat), De Cos, Lane, and Cipollone (Mon), Vujcic, Guindos and Nagel (Wed), Lane and Nagel again (Thu), Schnabel (Fri). Also BoE's Bailey (Mon), Greene and Mann (Thu) and Riksbank's Jansson (Tue). Finally, while not announced, we expect the European Commission to publish next week its Winter 2024 Economic forecasts.

Euro Area

Growth convergence: good and bad at once

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- We expect a lot of growth convergence across Euro area members, and hence persistent level differences.
- Growth composition matters. Spain should see growth gains from NGEU, but less from energy price normalisations. Italy is the reverse.
- France looks more balanced. That Germany is the weak spot works better for markets than the reverse. For the macro, it remains suboptimal.

When growth converges, level differences endure

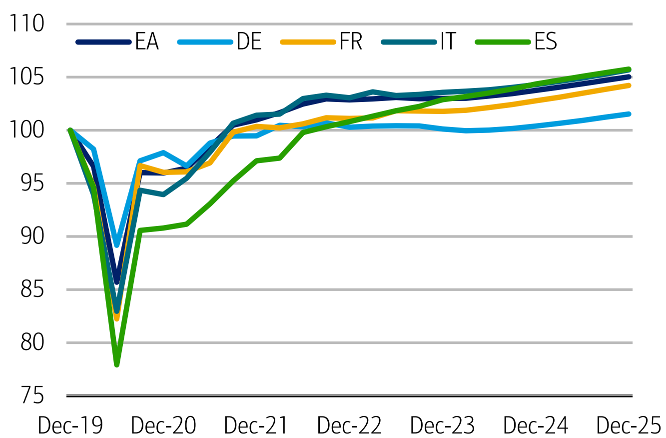
We expect Euro area growth at 0.4% this year and 1.1% in 2025. Growth differentials across members are still a story for 2024, with Germany's -0.2% and Spain's 1.3% the extremes across our big-4 Euro area forecasts. But in our base case, growth convergence, which has already come a long way since the start of the pandemic, continues. In 2025, all the big 4 are in a 0.9-1.3% growth range (although Germany will still take the lower bound of that).

We may be overestimating growth convergence a little in our forecast: implied standard deviations across the big 4 fall to the lowest level since the mid-90s (Exhibit 3). But we are already back to 2018/19 lows now, and think there are reasons to expect more to come. NGEU (Next Generation EU) driven capex will continue to support Italian growth, but has yet to properly raise Spain's. And purchasing power gains from energy prices should lift growth more broadly, perhaps with the exception of Spain. That is, of course, under the assumption of no additional growth shocks (be it exogenous or self-inflicted).

As growth continues to converge, GDP level gaps that have emerged over the past few years will become more persistent. Relatively speaking, that will put France, Italy and Spain in a more comfortable position than Germany (Exhibit 2).

That's not enough to cure old debt-sustainability vulnerabilities – nobody grows enough for that, and especially Germany could put a lid on pan-Euro area growth. But from a market perspective, it is perhaps the second best outcome underpinning our strategists

Exhibit 2: GDP levels 4Q19=100
When growth converges, level gaps will become persistent



Source: BofA Global Research, Eurostat

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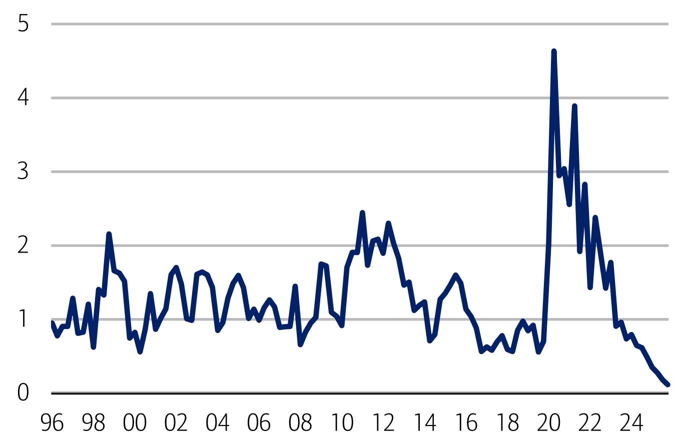
Exhibit 3: Standard deviation of big-4 % yoy GDP growth
We are back to 2017-19 already, and expect more to come



Source: BofA Global Research

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relatively benign view on Euro area sovereign spreads (see European Rates Viewpoint: EUR and UK rates: 24 charts in '24 12 January 2024)

Euro area: the growth mix is not suggesting self-sustained dynamics

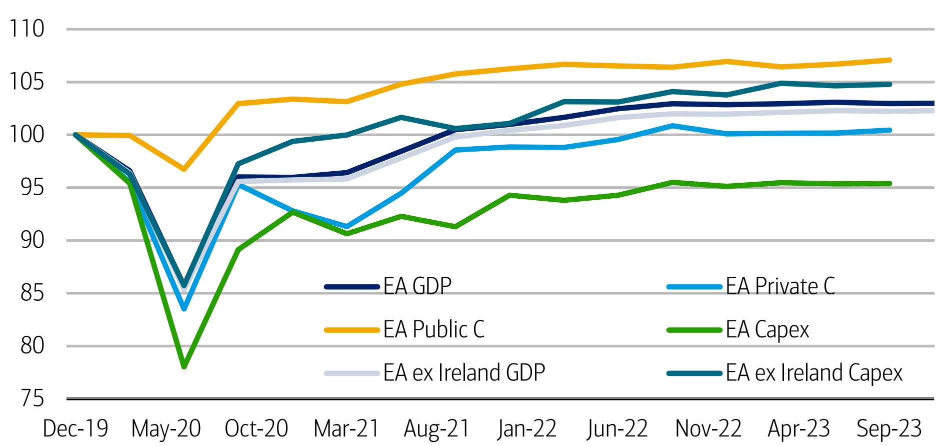
We tend to be growth bears (or just bears in general). So our Euro area forecasts remain below consensus, although less so these days. Macro factors matter a lot here: monetary policy is too tight, fiscal policy wasn't sufficiently supportive during the pandemic and the acute phase of the energy shock and is now far too tight in Germany, for instance. Exogenous supply shock driven inflation has probably permanently reduced real household incomes, weighing on consumption levels, even if growth rates should improve again. And amid tight policy, lacklustre domestic and foreign demand, capex cannot really thrive on its own.

Euro area GDP components reflect that story, too. Euro area GDP may be a little more than 2% above pre-pandemic levels (dark blue line in Exhibit 4), but the one component whose strength really stands out is public consumption at 7% above pre-pandemic levels (yellow line). Meanwhile, household consumption has basically moved sideways at pre-pandemic levels for more than a year now – perhaps not a surprise given various supply shocks to inflation have probably lowered real disposable income levels durably. That's not a mix that supports broad-based and self-sustained growth.

It may not be quite as bad as it looks though. At Euro area aggregate, capex seems to be down by 5% vs 4Q19. A lot of that is due to Ireland, where capex is down almost 75% (remember patent relocation into Ireland causes big capex swings, creating a very unusual and transitory 2019 base, typically offset by big net export contributions). Irish quarterly GDP swings can matter a lot for the very specific Euro area sequential growth trajectory, but less for GDP levels over time. But they do for capex. Excluding Ireland, capex in the Euro area is actually c 5% above pre-19 levels (dark green line in Exhibit 4). This is certainly good news but very country specific and clearly insufficient to deal with long-term challenges.

Exhibit 4: Euro area GDP components (4Q19=100)

Capex ex Ireland looks ok, courtesy of NGEU effects (in Italy in particular)



Source: BofA Global Research, Eurostat

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Every big-4 country has something special about it

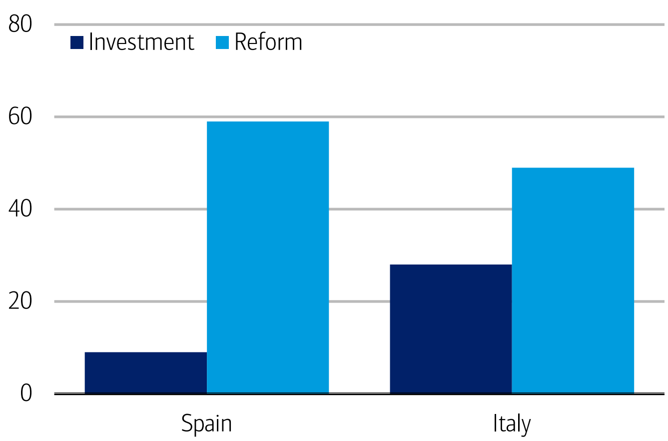
Growth composition is still very lopsided across member states, although in different ways. In Exhibit 1 we show aggregate GDP growth by component across the big 4 member states (and the Euro area including and excluding Ireland).

Italy's GDP growth has been very capex-driven, with NGEU and the superbonus at play. Perhaps that explains why consumers have weathered the energy price shock relatively well considering the consumer price shock went further than elsewhere (see Exhibit 6 for electricity prices). There is a small possibility that capex will trigger stronger, broader growth across the economy going forward. Normalisation in consumption growth, not more, is our base case, but an upside risk perhaps exists if consumer energy prices decline fast.

Spain has been lagging Italy, not in NGEU reform implementation but in capex deployment (Exhibit 5). That catch-up potential should transpire in better growth than elsewhere in our forecast horizon. This will be key into 2024 and beyond. Public consumption has been the main driver of growth while there are very little signs of NGEU in capex data. This has to be a result of slow implementation, public capex crowding out private one, or, likely, both. With fiscal policy tightening in 2024 capex would need to replace some of the more moderate evolution of public consumption we would expect. Similarly, wholesale market design for energy markets led to a faster pass-through of energy price moves. The squeeze arrived earlier. So did the relief and the recovery iin private consumption. Absent major surprises on wage developments the biggest impact from energy prices on private consumption should be behind us. It is still yet to come in the rest.

France is still among the recovery beauties, in our view. Some would argue debt ratios are too high. But it is fiscal policy's job to stabilise the economy. Getting the economy back on a relatively "normal" GDP composition path in spite of the pandemic and the energy price shock is, consequently, a job well done (perhaps not perfectly, but still). Upside risks from lower electricity prices on purchasing power may be delayed to 2025, given the way the government chose to smooth the energy shock over time with price caps. But given the starting point, and once past the peak effect of monetary policy tightening, we would assume growth to resume an unspectacular but steady path soon.

Exhibit 5: Share of NGEU milestones and targets fulfilled (in %)
Italy is more advanced on investment milestones than Spain. GDP reflects that, but leaves more room for more substantial Spanish GDP catchup



Source: BofA Global Research, European Commission

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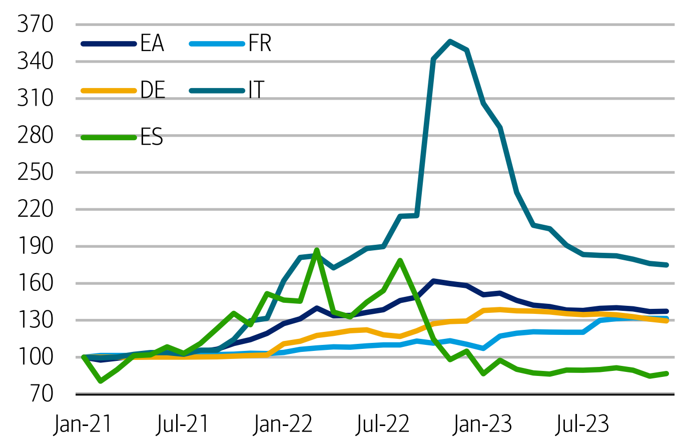
Exhibit 6: HICP electricity prices (Jan-21=100)
Very different electricity price profiles make for different timelines on consumer purchasing power gyrations



Source: BofA Global Research, Eurostat

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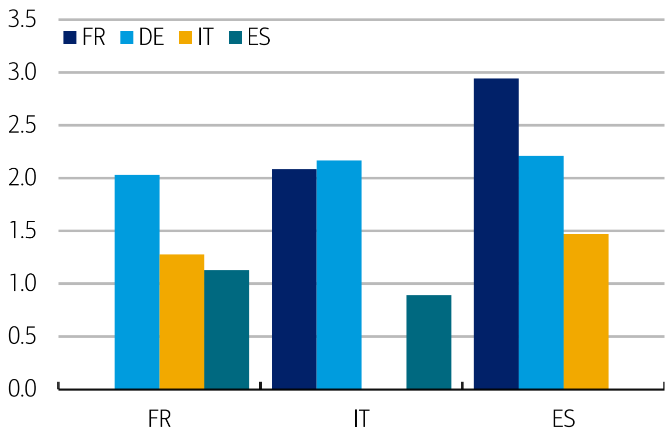
"It's just Germany" probably doesn't cut it, we're all in the same boat

We argued last week that Germany's growth performance is concerning. That view doesn't change today. NGEU is small for the economy, by design, and domestic fiscal policy has moved into severe self-prescribed tightening. Consumers are struggling with higher energy prices and persistent energy supply concerns. We expect German growth to move closer to the Euro area average in 2025 on the back of almost inevitable normalisation forces in the economy, but our conviction level is low.

It would be easy to argue that we can 'sort of' ignore German weakness from the Euro area perspective. From a market perspective, weakness in Germany is easier to digest than weakness in the periphery. But that might be a little too short-sighted. We argued in 2019, and reiterate today, that German domestic demand remains a large driver for other Euro area countries' exports, but so do German exports themselves given the integration of the inner-Euro area production chain (Euro Area Economic Watch: German exports: nor the quantum, nor the right composition of demand 04 February 2019) . As a consequence, if a big member state like Germany struggles with its own export growth and domestic demand, it will limit the upside elsewhere, too.

Exhibit 7: Share of domestic value added in domestic demand abroad
France, Italy and Spain have c 2% of their GDP linked to German domestic demand.....



Source: BofA Global Research, OECD TiVA 2019 data

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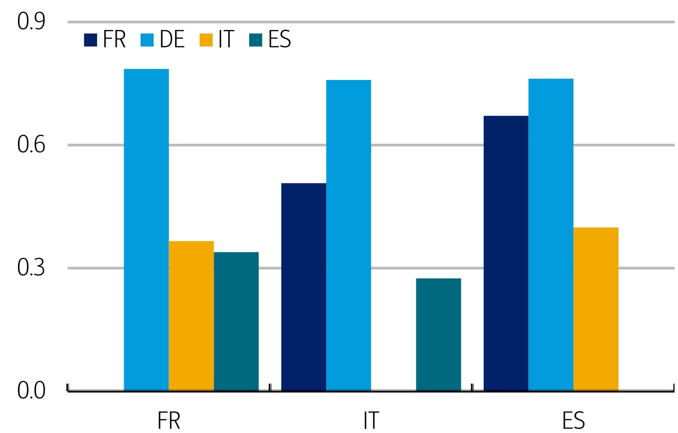
Exhibit 8: Share of domestic value added in exports of trade partners
... and c 0.8% again to German exports abroad



Source: BofA Global Research, OECD TiVA 2019 data

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UK

Energy prices to the rescue

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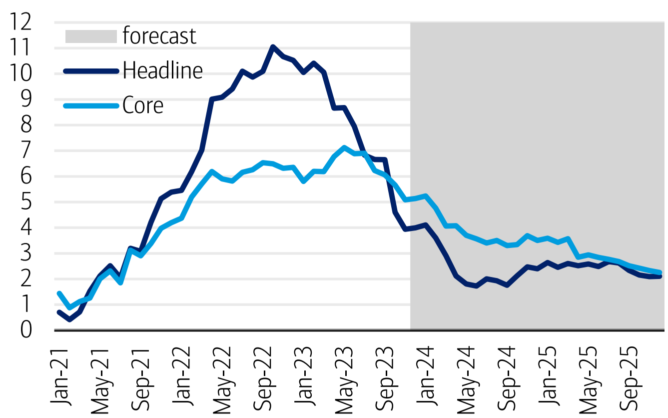
- The likely drop in energy price caps shaves 60bp from 2024E CPI, with headline inflation back to target in the Spring, but then reaccelerating.
- Underlying inflation (especially services) will remain persistent – we see core at 3.5% at end-2024, and still above target at end-2025.
- Lower CPI will help consumption dynamics – we now see growth at 0.3% in 2024 and 0.8% in 2025 (+20bp both years).

Headline falling (temporarily), core persisting

In our Europe Economic Weekly: A slow pivot all around, 26 January 2024, we flagged that the expected cut to Ofgem (Office of Gas and Electricity Markets) price caps in April could reduce headline inflation by 60bp this year, and bring UK inflation back to target fast. We now incorporate this scenario in our monthly inflation profiles (Exhibit 9). We cut our CPI forecast to 2.4% in both 2024 and 2025 (-60bp, -20bp respectively). But core inflation will remain sticky – we keep our 2024 core forecast at 3.8%, with 2025 moving slightly lower (-20bp).

In our new profiles, headline inflation drops close to target in April and even slightly below that in May, temporarily (Exhibit 9). Later in the year, with the energy effect fading and core still persistent, we see CPI accelerating back to around 2.5% yoy. We forecast both headline and core inflation to stay above target over 2025 (core still at 2.3% yoy in December 2025).

Exhibit 9: UK, BofA CPI forecast (yoy%)
Headline should come down fast, but core will stay sticky



Source: ONS, BofA Global Research

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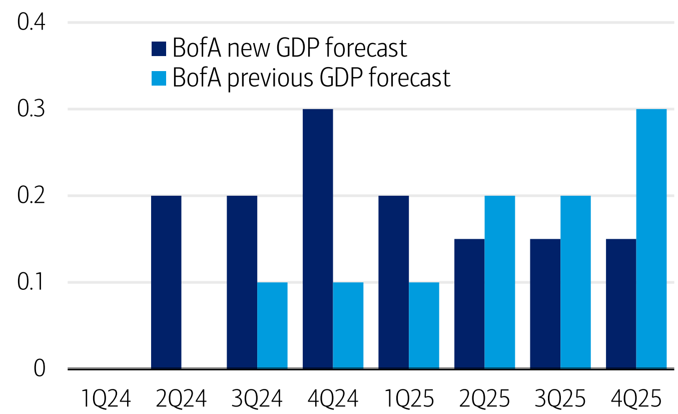
Exhibit 10: UK, BofA GDP forecast (qoq%)
Lower headline inflation will help consumption (and GDP) this year



Source: ONS, BofA Global Research

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In the UK, the bigger picture remains the persistent inflation problem. In our view, consensus and markets are too complacent on medium-term inflationary pressures, especially in services. We don't think the Bank of England will be able to cut rates before August and we expect just two cuts this year (see UK Watch: Bank of England review: message loud and clear, 1 February 2024).

Lower headline inflation will frontload the recovery

While we remain bearish on the growth prospects of the UK economy, lower inflation will certainly help consumer balances from 2Q24 onwards. This will likely frontload the economic recovery this year (Exhibit 10). In our base case, the UK goes back to positive growth in 2Q24 vs 3Q24 before. We upgrade our GDP projections to 0.3% in 2024 (+20bp) and 0.8% in 2025 (+20bp).

Exhibit 11: UK monthly inflation forecasts, yoy%
Headline falling fast in the near term

	CPI, yoy %	CPI core, yoy %
Jan-24	4.1	5.2
Feb-24	3.6	4.8
Mar-24	2.9	4.1
Apr-24	2.1	4.1
May-24	1.8	3.7
Jun-24	1.7	3.6
Jul-24	2.0	3.4
Aug-24	1.9	3.5
Sep-24	1.8	3.3
Oct-24	2.1	3.3
Nov-24	2.5	3.7
Dec-24	2.4	3.5

Source: BofA Global Research estimates

European forecasts

Exhibit 12: Euro area economic forecasts

We see the ECB stopping at a refi terminal of 4.50%.

		2022	2023	2024	2025	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25
GDP	% qoq					0.0	0.2	-0.1	0.0	0.0	0.2	0.2	0.3	0.3	0.3	0.3	0.3
	% qoq ann.					0.2	0.6	-0.4	0.1	0.0	0.8	0.9	1.2	1.2	1.2	1.3	1.2
	% yoy	3.4	**0.5**	**0.4**	**1.1**	1.2	0.5	0.1	0.1	0.1	0.1	0.5	0.7	1.0	1.1	1.2	1.2
Private Consumption	% qoq					0.2	0.0	0.3	0.1	0.1	0.2	0.2	0.3	0.3	0.3	0.3	0.3
	% yoy	**4.2**	**0.5**	**0.7**	**1.1**	1.3	0.4	-0.3	0.5	0.4	0.7	0.7	0.8	1.0	1.1	1.2	1.3
Government Consumption	% qoq					-0.6	0.4	0.5	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.2	0.2
	% yoy	**1.6**	**0.3**	**0.9**	**0.9**	-0.4	0.2	0.8	0.5	1.2	1.0	0.7	0.7	0.8	0.9	0.9	1.0
Investment	% qoq					0.4	0.1	0.1	0.0	-0.2	0.1	0.2	0.4	0.3	0.4	0.5	0.5
	% yoy	**2.8**	**1.1**	**0.1**	**1.4**	1.9	1.4	0.4	0.7	0.0	0.0	0.1	0.4	1.0	1.3	1.5	1.6
Final Domestic Demand[1]	% qoq					0.1	0.1	0.3	0.1	0.0	0.2	0.2	0.3	0.3	0.3	0.3	0.3
	% yoy	**3.1**	**0.5**	**0.6**	**1.1**	1.0	0.5	0.1	0.5	0.5	0.6	0.5	0.7	0.9	1.0	1.2	1.2
Net exports[1]	% qoq					0.5	-0.4	0.1	0.0	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0
	% yoy	**0.0**	**0.4**	**0.1**	**0.1**	0.6	0.0	0.7	0.2	-0.2	0.3	0.2	0.3	0.3	0.2	0.1	0.0
Stockbuilding[1]	% qoq					-0.5	0.5	-0.1	0.0	-0.1	0.0	-0.1	0.0	0.0	0.0	0.0	0.0
	% yoy	**0.3**	**-0.2**	**-0.1**	**-0.1**	-0.4	0.0	-0.2	-0.1	0.3	-0.2	-0.3	-0.3	-0.2	-0.1	0.0	0.0
Current Account Balance	EUR bn	**-90**	**209**	**209**	**219**	38	61	35	75	55	-6	85	75	55	-6	75	95
	% of GDP	**-0.7**	**1.5**	**1.4**	**1.5**	1.1	1.8	1.0	2.1	1.5	-0.2	2.4	2.1	1.5	-0.2	2.0	2.5
Industrial production	% qoq					-1.3	-1.1	-0.5	-0.4	0.3	0.5	0.7	0.7	0.6	0.6	0.7	0.6
	% yoy	**2.2**	**-2.1**	**0.4**	**2.6**	-0.1	-1.3	-3.8	-3.2	-1.6	-0.1	1.1	2.2	2.5	2.7	2.7	2.6
Unemployment rate [3]	%	**6.8**	**6.6**	**7.1**	**7.1**	6.6	6.5	6.6	6.6	7.0	7.1	7.1	7.1	7.0	7.0	6.9	6.9
CPI (harmonised)[4]	% qoq					0.4	1.6	0.6	0.2	0.4	1.2	0.1	0.3	0.1	1.0	-0.1	0.2
	% yoy	**8.4**	**5.5**	**2.3**	**1.4**	8.0	6.2	5.0	2.7	2.8	2.4	1.9	2.0	1.7	1.4	1.2	1.1
CPI (core)[4]	% qoq					0.6	2.4	0.5	0.2	0.2	1.6	0.1	0.3	0.0	1.4	0.0	0.3
	% yoy	**3.9**	**5.0**	**2.5**	**1.8**	5.5	5.5	5.1	3.7	3.3	2.5	2.1	2.2	2.0	1.8	1.7	1.8
General govt balance	% of GDP	**-3.6**	**-3.4**	**-3.1**	**-3.1**												
General govt debt	% of GDP	**91.0**	**91.0**	**90.3**	**90.1**												
Refinancing rate	%	**2.50**	**4.50**	**3.75**	**2.50**	3.50	4.00	4.50	4.50	4.50	4.25	4.00	3.75	3.25	2.75	2.50	2.50

Source: BofA Global Research, Notes: 1 Contribution to GDP growth 2 Excluding construction, sa, quarterly averages 3 Period averages 4 Period averages, quarterly change

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Exhibit 13: UK economic forecasts

Low growth, entrenched inflation

		2022	2023	2024	2025	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25
GDP	% qoq					0.3	0.0	-0.1	0.0	0.0	0.2	0.2	0.3	0.2	0.2	0.2	0.2
	% qoq ann.					1.0	0.2	-0.5	0.2	0.1	0.8	0.8	1.2	0.8	0.6	0.6	0.6
	% yoy	**4.3**	**0.3**	**0.3**	**0.8**	0.4	0.3	0.3	0.2	0.0	0.1	0.5	0.7	0.9	0.9	0.8	0.7
Private Consumption	% qoq					0.8	0.5	0.0	0.1	-0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.1
	% yoy	**5.0**	**0.8**	**0.4**	**0.7**	0.2	0.3	1.2	1.4	0.5	0.1	0.3	0.4	0.7	0.8	0.8	0.7
Government Consumption	% qoq					-1.1	2.6	0.9	0.4	0.1	0.3	0.3	0.3	0.3	0.5	0.5	0.5
	% yoy	**2.3**	**0.5**	**1.9**	**1.5**	-3.7	1.4	1.8	2.8	4.0	1.7	1.0	0.9	1.2	1.4	1.7	1.8
Investment	% qoq					2.4	-1.0	-1.3	-0.6	-0.5	-0.2	0.2	0.1	0.0	0.0	0.0	-0.2
	% yoy	**8.0**	**2.3**	**-1.8**	**0.1**	5.3	3.8	0.7	-0.5	-3.3	-2.6	-1.1	-0.4	0.1	0.3	0.1	-0.2
Final Domestic Demand[1]	% qoq					0.7	0.6	0.0	0.1	-0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.1
	% yoy	**5.0**	**1.0**	**0.3**	**0.8**	0.3	1.1	1.2	1.4	0.5	0.0	0.2	0.4	0.7	0.8	0.8	0.7
Net exports[1]	% qoq					-1.5	-0.8	0.0	0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0
	% yoy	**-1.7**	**0.3**	**-0.1**	**0.0**	3.8	2.0	-2.4	-2.3	-0.8	0.0	0.1	0.2	0.1	0.0	-0.1	-0.2
Stockbuilding[1]	% qoq					1.1	0.2	-0.1	0.0	0.2	0.1	-0.1	0.1	0.0	0.0	0.0	0.1
	% yoy	**1.1**	**-1.0**	**0.2**	**0.0**	-3.7	-2.9	1.4	1.1	0.3	0.2	0.1	0.2	0.1	0.2	0.1	0.0
Current Account Balance	% of GDP	**-3.1**	**-3.5**	**-3.7**	**-3.6**	-2.3	-3.9	-3.8	-3.8	-3.8	-3.7	-3.6	-3.6	-3.6	-3.6	-3.6	-3.7
Manufacturing output	% qoq					0.5	1.9	0.0	-0.3	0.1	0.3	0.5	0.6	0.6	0.6	0.6	0.6
	% yoy	**-3.3**	**1.1**	**1.0**	**-3.3**	-1.6	1.2	2.9	2.0	1.7	0.1	0.6	1.5	2.0	2.3	2.4	2.4
Unemployment rate [2]	%	**3.7**	**4.1**	**4.7**	**4.8**	3.9	4.2	4.2	4.4	4.5	4.6	4.8	4.8	4.8	4.8	4.8	4.7
CPI Inflation (harmonised)[2]	% yoy	**9.1**	**7.3**	**2.4**	**2.4**	10.2	8.4	6.7	4.2	3.5	1.9	1.9	2.3	2.6	2.5	2.5	2.2
CPI (core)[2]	% yoy	**5.9**	**6.2**	**3.8**	**2.8**	6.1	6.9	6.4	5.3	4.7	3.8	3.4	3.5	3.5	2.9	2.7	2.4
General govt balance [5]	% of GDP	**-5.0**	**-4.9**	**-4.3**	**-3.9**												
General govt debt [3,5]	% of GDP	**97.1**	**98.6**	**101.0**	**103.1**												
General govt debt	% of GDP	**101.0**	**100.5**	**102.7**	**104.7**												
Bank Rate [4]	%	**3.50**	**5.25**	**4.75**	**3.75**	4.25	5.00	5.25	5.25	5.25	5.25	5.00	4.75	4.50	4.25	4.00	3.75

Source: BofA Global Research. Notes: 1 Contribution to GDP growth 2 Period averages 3 Excludes Nationalised banks, and thus is not on Maastricht basis 4 End period, 5 Fiscal years

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Exhibit 14: Euro area, GDP and CPI profiles
Euro area member states profiles

	GDP						HICP					
	2020	**2021**	**2022**	**2023F**	**2024F**	**2025F**	**2020**	**2021**	**2022**	**2023F**	**2024F**	**2025F**
Euro area	-6.2	5.9	3.4	0.5	0.4	1.1	0.3	2.6	8.4	5.5	2.3	1.4
Austria	-6.7	4.4	4.8	-0.7	0.0	1.5	1.4	2.8	8.6	7.7	2.7	2.1
Belgium	-5.3	6.9	3.0	1.4	0.9	1.2	0.4	3.2	10.3	2.2	1.5	1.7
Finland	-2.4	2.8	1.6	-0.4	0.2	1.0	0.4	2.1	7.2	4.3	0.9	1.2
France	-7.7	6.4	2.5	0.8	0.7	1.3	0.5	2.1	5.9	5.8	3.1	1.9
Germany	-4.2	3.1	1.9	-0.1	-0.2	0.9	0.4	3.2	8.6	6.3	3.6	1.5
Greece	-9.0	8.1	5.7	2.0	1.1	1.7	-1.3	0.6	9.3	4.2	2.0	1.7
Ireland	5.8	14.8	9.5	-1.4	2.7	2.0	-0.5	2.4	8.1	5.8	2.9	1.6
Italy	-9.0	8.3	3.9	0.7	0.3	1.1	-0.1	1.9	8.7	6.0	1.7	1.4
Netherlands	-3.9	6.2	4.4	0.0	0.3	1.1	1.1	2.8	11.6	4.1	1.7	1.6
Portugal	-8.3	5.7	6.8	2.2	1.0	1.4	-0.1	0.9	8.1	5.4	2.5	1.1
Spain	-11.2	6.4	5.8	2.4	1.3	1.5	-0.3	3.0	8.3	3.4	2.6	0.9

Source: BofA Global Research, Eurostat

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Calendar for the week ahead

Exhibit 15: European Economic calendar

Key data for the next week

	GMT	Country	Data/Event	For	BofAe	Cons.†	Previous	Comments
Monday, 12 Feb								
			No major data releases					
Tuesday, 13 Feb								
✪✪✪	06:30	France	ILO Unemployment Rate	4Q	7.3%	--	7.4%	
✪✪✪	06:30	France	ILO Mainland Unemployment Rate	4Q	n.a.	--	7.2%	
✪✪✪	07:00	UK	ILO Unemployment Rate 3Mths	Dec	n.a.	--	4.2%	
✪✪✪	07:00	UK	Employment Change 3M/3M	Dec	n.a.	--	-66k	
✪✪✪	07:00	UK	Claimant Count Rate	Jan	n.a.	--	4.0%	
✪✪✪	07:00	UK	Jobless Claims Change	Jan	n.a.	--	12k	
✪✪✪	07:00	UK	Average Weekly Earnings 3M (yoy)	Dec	n.a.	--	6.5%	
✪✪✪	07:00	UK	Weekly Earnings ex Bonus 3M (yoy)	Dec	n.a.	--	6.6%	
✪✪✪	10:00	Germany	ZEW Survey Expectations	Feb	15.8	--	15.2	
✪✪✪	10:00	Germany	ZEW Survey Current Situation	Feb	-79.0	--	-77.3	
✪✪	10:00	Euro area	ZEW Survey Expectations	Feb	n.a.	--	22.7	
Wednesday, 14 Feb								
✪✪	07:00	Norway	GDP (qoq)	4Q	n.a.	--	-0.5%	
✪✪	07:00	Norway	GDP Mainland (qoq)	4Q	n.a.	--	0.1%	
✪✪	07:00	Norway	GDP (mom)	Dec	n.a.	--	1.2%	
✪✪	07:00	Norway	GDP Mainland (mom)	Dec	n.a.	--	-0.2%	
✪✪✪	07:00	UK	CPI (mom)	Jan	n.a.	--	0.4%	
✪✪✪	07:00	UK	CPI (yoy)	Jan	4.1%	--	4.0%	
✪✪✪	07:00	UK	CPI Core (yoy)	Jan	5.2%	--	5.1%	
✪✪✪	07:00	UK	Retail Price Index	Jan	n.a.	--	379.0	
✪✪✪	07:00	UK	RPI (mom)	Jan	n.a.	--	0.5%	
✪✪✪	07:00	UK	RPI (yoy)	Jan	n.a.	--	5.2%	
✪✪✪	07:00	UK	RPI Ex Mort Int.Payments (yoy)	Jan	n.a.	--	4.0%	
✪✪✪	09:30	UK	House Price Index (yoy)	Dec	n.a.	--	-2.1%	
✪✪✪	10:00	Euro area	GDP (sa, qoq, P)	4Q	0.0%	--	0.0%	
✪✪✪	10:00	Euro area	GDP (sa, yoy, P)	4Q	0.1%	--	0.1%	
✪✪✪	10:00	Euro area	Employment (qoq, P)	4Q	n.a.	--	0.2%	
✪✪✪	10:00	Euro area	Employment (yoy, P)	4Q	n.a.	--	1.3%	
✪✪✪	10:00	Euro area	Industrial Production (sa, mom)	Dec	-0.4%	--	-0.3%	
✪✪✪	10:00	Euro area	Industrial Production (wda, yoy)	Dec	n.a.	--	-6.8%	
Thursday, 15 Feb								
✪✪✪	07:00	UK	Monthly GDP (mom)	Dec	0.0%	--	0.3%	
✪✪✪	07:00	UK	Industrial Production (mom)	Dec	n.a.	--	0.3%	
✪✪✪	07:00	UK	Industrial Production (yoy)	Dec	n.a.	--	-0.1%	
✪✪✪	07:00	UK	Manufacturing Production (mom)	Dec	n.a.	--	0.4%	
✪✪✪	07:00	UK	Manufacturing Production (yoy)	Dec	n.a.	--	1.3%	
✪✪	07:00	UK	Index of Services (mom)	Dec	n.a.	--	0.4%	
✪✪	07:00	UK	Index of Services 3M/3M	Dec	n.a.	--	0.0%	
✪✪✪	07:00	UK	Construction Output (sa, mom)	Dec	n.a.	--	-0.2%	
✪✪✪	07:00	UK	Construction Output (sa, yoy)	Dec	n.a.	--	0.9%	
✪✪✪	07:00	UK	Visible Trade Balance GBP/Mn	Dec	n.a.	--	-14.2bn	
✪✪✪	07:00	UK	Trade Balance GBP/Mn	Dec	n.a.	--	-1.4bn	
✪✪✪	07:00	UK	GDP (qoq, P)	4Q	0.0%	--	-0.1%	
✪✪✪	07:00	UK	GDP (yoy, P)	4Q	n.a.	--	0.3%	
✪✪✪	07:00	UK	Private Consumption (qoq, P)	4Q	n.a.	--	-0.5%	
✪✪✪	07:00	UK	Government Spending (qoq, P)	4Q	n.a.	--	0.8%	
✪✪✪	07:00	UK	Gross Fixed Capital Formation (qoq, P)	4Q	n.a.	--	-1.6%	
✪✪✪	07:00	UK	Exports (qoq, P)	4Q	n.a.	--	-0.6%	
✪✪✪	07:00	UK	Imports (qoq, P)	4Q	n.a.	--	-1.0%	
✪✪✪	07:00	UK	Total Business Investment (qoq, P)	4Q	n.a.	--	-3.2%	
✪✪✪	07:00	UK	Total Business Investment (yoy, P)	4Q	n.a.	--	2.3%	
✪✪✪	08:00	Spain	CPI (mom, F)	Jan	0.1%	--	0.1%	
✪✪✪	08:00	Spain	CPI (yoy, F)	Jan	3.4%	--	3.4%	
✪✪✪	08:00	Spain	CPI EU Harmonised (mom, F)	Jan	-0.2%	--	-0.2%	
✪✪✪	08:00	Spain	CPI EU Harmonised (yoy, F)	Jan	3.5%	--	3.5%	
✪✪✪	08:00	Spain	CPI Core (yoy, F)	Jan	3.6%	--	3.6%	
✪✪✪	08:00	Spain	CPI Core (mom)	Jan	n.a.	--	0.2%	
✪✪	10:00	Euro area	Trade Balance (sa)	Dec	n.a.	--	14.8bn	
✪✪	10:00	Greece	CPI EU Harmonised (yoy)	Jan	n.a.	--	3.7%	

Exhibit 15: European Economic calendar
Key data for the next week

	GMT	Country	Data/Event	For	BofAe	Cons.†	Previous	Comments
✪✪	10:00	Greece	CPI (yoy)	Jan	n.a.	--	3.5%	
Friday, 16 Feb								
✪✪✪	07:00	UK	Retail Sales Inc Auto Fuel (mom)	Jan	n.a.	--	-3.2%	
✪✪✪	07:00	UK	Retail Sales Inc Auto Fuel (yoy)	Jan	n.a.	--	-2.4%	
✪✪✪	07:00	UK	Retail Sales Ex Auto Fuel (mom)	Jan	n.a.	--	-3.3%	
✪✪✪	07:00	UK	Retail Sales Ex Auto Fuel (yoy)	Jan	n.a.	--	-2.1%	
✪✪✪	07:45	France	CPI EU Harmonized (mom, F)	Jan	-0.2%	--	-0.2%	
✪✪✪	07:45	France	CPI EU Harmonized (yoy, F)	Jan	3.4%	--	3.4%	
✪✪✪	07:45	France	CPI (mom, F)	Jan	-0.2%	--	-0.2%	
✪✪✪	07:45	France	CPI (yoy, F)	Jan	3.1%	--	3.1%	
✪✪✪	07:45	France	CPI Ex-Tobacco Index	Jan	n.a.	--	117.5	

Source: BofA Global Research, Bloomberg, Reuters, Central banks. Notes: †Bloomberg consensus; μ = level of importance; A = advanced; F = final; P = preliminary; sa = seasonally adjusted; nsa = not seasonally adjusted; wda = working-day adjusted; n.a. = not available; mom = month-on-month; qoq = quarter-on-quarter; yoy = year-on-year. *Refers to previous period, not preliminary release. BofA GLOBAL RESEARCH

Acronyms and abbreviations

Exhibit 16: Common acronyms/abbreviations used in our reports
This list is subject to change

Acronym/Abbreviation	Definition	Acronym/Abbreviation	Definition
1H	First Half	IT	Italy
2H	Second Half	Jan	January
1Q	First Quarter	Jul	July
2Q	Second Quarter	Jun	June
3Q	Third Quarter	lhs	left-hand side
4Q	Fourth Quarter	m	month
ann	annualized	MA	Moving Average
APP	Asset Purchase Programme	Mar	March
Apr	April	Eonia	Euro overnight indexed average
AS	Austria	mom	month-on-month
Aug	August	Mon	Monday
BdF	Banque de France (Bank of France)	MPC	Monetary Policy Committee
BE	Belgium	MWh	Megawatt-hour
BEA	Bureau of Economic Analysis	NGEU	NextGenerationEU
BLS	Bank Lending Survey	NE	Netherlands
BoE	Bank of England	Nov	November
BofA	Bank of America	NADEF	Nota di Aggiornamento al Documento di Economia e Finanza
BoI	Banca d'Italia (Bank of Italy)	NSA	Non-seasonally Adjusted
BoJ	Bank of Japan	OAT	Obligations assimilables du Trésor
BoS	Banco de España (Bank of Spain)	OBR	Office for Budget Responsibility
bp	basis point	Oct	October
BTP	Buoni Poliennali del Tesoro	OECD	Organisation for Economic Co-operation and Development
Buba	Bundesbank	ONS	Office for National Statistics
c	circa	p	preliminary/flash print
CA	Current Account	PBoC	People's Bank of China
CPI	Consumer Price Index	PEPP	Pandemic Emergency Purchase Programme
CSPP	Corporate Sector Purchase Programme	PMI	Purchasing Managers' Index
d	day	PSPP	Public Sector Purchase Programme
GE	Germany	PT	Portugal
Dec	December	QE	Quantitative Easing
DS	Debt sustainability	qoq	quarter-on-quarter
EA	Euro area	QT	Quantitative Tightening
EC	European Commission	RBA	Reserve Bank of Australia
ECB	European Central Bank	RBNZ	Reserve Bank of New Zealand
ECJ	European Court of Justice	rhs	right-hand side
EFSF	European Financial Stability Facility	RPI	Retail Price Index
EGB	European Government Bond	RRF	Recovery and Resilience Facility
DM	Developed Markets	SA	Seasonally Adjusted
EMOT	Economic Mood Tracker	SAFE	Survey on the access to finance of enterprises
EP	European Parliament	Sat	Saturday
SP	Spain	Sep	September
ESI	Economic Sentiment Indicator	SMA	Survey of Monetary Analysts
ESM	European Stability Mechanism	SNB	Swiss National Bank
EU	European Union	SPF	Survey of Professional Forecasters
f	final print	Sun	Sunday
Feb	February	SURE	Support to mitigate Unemployment Risks in an Emergency
Fed	Federal Reserve	S&P	Standard & Poor's
FR	France	Thu	Thursday
Fri	Friday	TLTRO	Targeted Longer-term Refinancing Operations
GC	General collateral	TPI	Transmission Protection Instrument
GDP	Gross Domestic Product	TTF	Title Transfer Facility
GNI	Gross National Income	Tue	Tuesday
GR	Greece	UK	United Kingdom
HICP	Harmonised Index of Consumer Prices	US	United States
HMT	His Majesty's Treasury	WDA	Work-day Adjusted
IMF	International Monetary Fund	Wed	Wednesday

Source: BofA Global Research

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