Europe Economic Weekly

Loud and clear

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Europe

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Weekly View: In need of confidence

Central banks made it very clear that cuts are next, but not imminent. We still think the ECB moves in June, January inflation won't make them rush. Their focus is on wages, and hence ours, too. The Dec-23 jump in Italy captured attention. We checked the details. It's a one-off, and we expect a correction in January.

Euro area: Germany: it's not just a zero budget

We mark to market our Germany forecast to -0.2% for 2024 (-10bp) and 0.9% for 2025. We worry about an even shallower growth trajectory. Absent a fiscal rethink, inflation and wage growth should come in (much) lower.

UK: Bank of England review - message loud and clear

We were expecting the BoE to use votes, forecasts, guidance and the press conference to push back against market pricing of early and fast cuts. We got everything. We expect the BoE to be on hold until August, with a cutting cycle of 25bp per quarter from there.

Hot Topic: Riksbank review - goodbye November

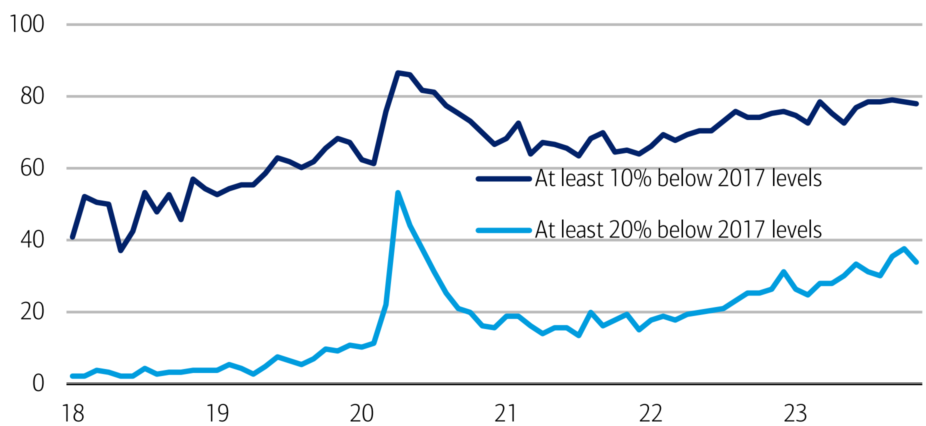
Clear Riksbank dovish turn, consistent with the economy. June remains our base case for first cut but May is now live.

Next week:

Final services PMIs (Mon), German factory orders and IP (Tue/Wed), ECB Consumer Expectations Survey and Euro area retail sales (Tue), Italian retail sales and IP (Wed/Fri). ECB/BoE speakers: Centeno and Pill (Fri/Sat), Vujcic (Sun), Wunsch, Lane and Breeden (Wed) and Mann (Thu).

Exhibit 1: German manufacturing diffusion indicators (% of sectors)

C 80% operate 10% below their 2017 levels, more than a third operate 20% below that reference value



Source: BofA Global Research, Destatis

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Weekly view

In need of confidence

Another not-so-good week for those hoping for particularly early central bank cuts (outside Sweden). The Fed and the BoE were on the relatively more hawkish side of expectations, making it very clear after their meetings this week that cuts are next, but not really imminent. As a consequence, our US colleagues have pushed back their call for the first Fed cut to June (US Watch: January FOMC: March is no longer the base case 31 January 2024). And we feel comfortable expecting a BoE cut in August. The ECB was less hawkish than that last week, and the Riksbank was almost an outright dove in comparison. We expect those two to cut in June.

BoE: perseverance amid persistence

The BoE was very clear. No change to interest rates, but a 1(cut)-6(unch)-2(hike) voting pattern and a set of forecasts where inflation moves too low on an unchanged policy assumption, but stays too high on market pricing. Disinflation makes them feel comfortable that they have hiked enough. But inflation persistence is still not being tackled, hence, they intend to stay on hold longer than the market prices today.

We are perhaps a little surprised at how meticulously the BoE has managed to deliver that message, but not about the content per se. We continue to expect the BoE to start with cuts in August, and proceed quarterly then, ie later and slower than peers.

ECB: they'll feel comfortable waiting when everyone else does

On a relative comparison, ECB communication this week was a bit less hawkish (but not dovish, to be clear). Lagarde had left the door open for an April cut in last week's press conference. And while the usual hawks would have liked to close it again, more centrist governing council members like Villeroy de Galhau argued that all options were on the table at all meetings. We view a cut as very unlikely in March, but there is a non-zero probability of a cut in April.

Our base case remains that the ECB will cut in June, however. The Fed and BoE are not decisive factors here, though their communication helps our call at the margin. But we still think the ECB is eager to see declining wage growth and blatant services disinflation. Zero GDP growth in 4Q wasn't a surprise to the ECB. And while 2.8% headline inflation in January sets the tone for another (small) surprise to the ECB's 1Q23 forecast of 2.9% on average, services inflation stuck at 4.0% yoy and no actionable news on wage growth will be reasons to wait for more data.

Riksbank: the dove in town

The Riksbank was the one that stood out. The economy looks weak. Inflation does, too, but it was similar in November. So the shift from very hawkish to borderline guiding to a May cut is stark. The central bank has a rather volatile track record on guidance by now. As a consequence, we stick to our base case that the Riksbank will cut in June, but the May meeting has been made very live this week.

Eye-catching Italian wage growth: more noise than signal

With wage growth so important to the ECB, the significant surge in Italian contractual wage growth was eye-catching. Negotiated wages (which cover ca 48% of employees in Italy) increased by 7.9% yoy in Dec-23 vs 2.7% in Nov-23 – a record high.

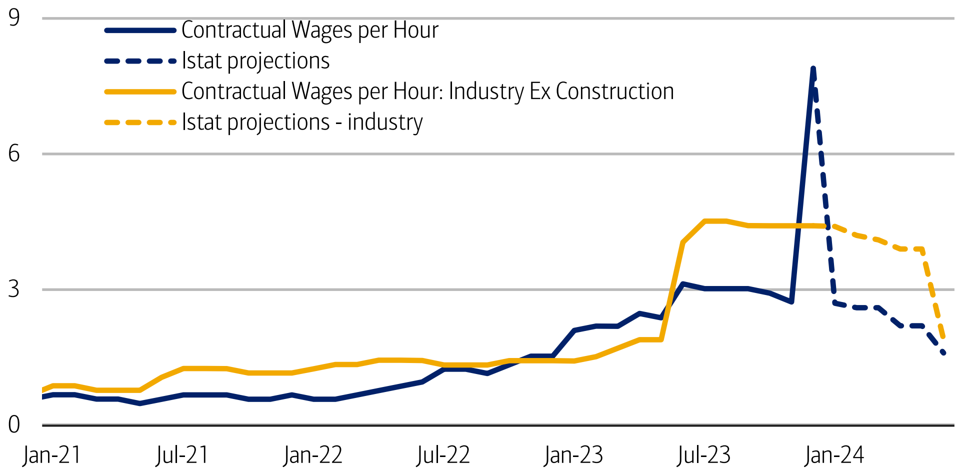
But as usual, the devil is in the details. The rise came on the back of a one-off payment. Wage growth will be back to "normal" as early as January, with a big negative base effect in the pipeline in a year's time. According to Istat projections (based on the contracts in force in December 2023), Italian contractual wages should not deviate from the expected moderation path versus last year. If anything, they may even be trending below what we expect negotiated wage growth for the Euro area aggregate to be this year (around 3/3.5% on average).

To be precise, the rise reflects the advance payment of the allowance related to the so-called "contractual holiday" (namely, the period between the end of a contract and its renewal) for state administration employees. That was paid as a one-off last December and refers to the salary adjustment for the years 2022-24. (Bear in mind that the renewal of contractual wages for the public sector has been on hold since December 2021.) This led to an increase in public administration contractual wages of 22.2% yoy (from 2.2% in November).

We don't think this is a sign of growing wage pressures, and/or of what's next in the private sector. Private sector contractual wage dynamics give a milder picture: growth edged a tad higher, to 3.3% yoy from 2.9% yoy. For industry – where workers are mainly covered by collective agreements – wages were up 4.4% yoy in December 2023.

Exhibit 2: Italian negotiated wages

The surge in Dec-23 relates to a one-off payment to public administration employees. Based on current collective contracts



Source: Istat, BofA Global Research

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Germany: zero budget, zero growth, zero confidence?

It's refreshing that the wage focus has been on Italy rather than Germany this week. Still, the chemical sector labour union's demand of 6-7% higher pay into the spring negotiation round is noteworthy. It is still a lot for a sector at the epicentre of the energy crisis. But it is also a "back to pre-pandemic norms" (they asked for 6% in 2018) when real wage levels have taken a significant hit and inflation is still well above normal.

We are worried about the German outlook – that's our main piece this week. In 4Q23, GDP was 0.1% above its 4Q19 level. Manufacturing has been in recession since 2018. The sector is operating at more than 10% below its 2017 level, or at least 20% below for almost 40% of 186 subsectors. Something will have to give, eventually. Either fiscal policy becomes proactive, or domestic demand and the labour market break, or wage growth will. We think it's the latter. If none of that happens, and inflation is high, we will have to conclude that Germany is at or above capacity, potential growth at or below zero, and our 2025 forecast far too optimistic.

Next week:

Final services and composite PMIs (Mon), and December activity data with German factory orders and industrial production (Tue/Wed), Euro area and Italian retail sales (Tue/Wed) and Italian industrial production (Fri), with only Italian data to show positive growth. Keep an eye also on the next ECB Consumer Expectations Survey (Tue).

On the ECB and BoE speaker agenda: Centeno and Pill (Fri/Sat), Vujcic (Sun), Wunsch, Lane and Breeden (Wed) and Mann (Thu).

Euro Area

Germany: it's not just a zero budget

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- We mark to market our Germany forecast to -0.2% for 2024 (-10bp) and 0.9% for 2025. We worry about an even shallower growth trajectory.
- The manufacturing sector has been struggling since 2018. Autos and China first, then the pandemic and the energy shock. Current weakness is different, though.
- Absent a fiscal rethink, inflation and wage growth should come in (much) lower. If they don't, we might need to conclude potential growth is at or below zero.

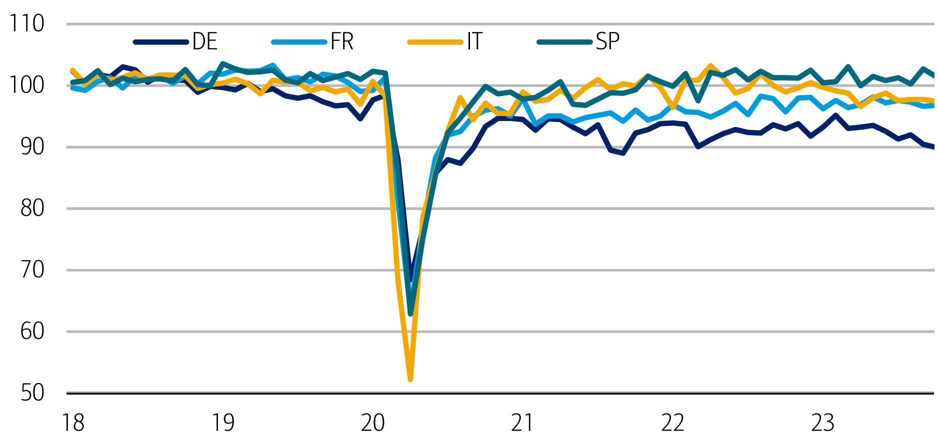
It's looking very uncomfortable

German economic data continues to surprise to the downside. The underperformance versus Euro area peers is becoming more pronounced again, in sentiment and hard data, including manufacturing (Exhibit 3). After 4Q23 GDP, we mark-to-market our forecast to -0.2% for 2024 (-10bp) and 0.9% for 2025, well below consensus of 0.3% and 1.2%, respectively. "Technical recession" has been avoided so far, but we think it will follow in 1Q24. The economy has grown only 0.1% since 4Q19, the manufacturing sector has been in recession quasi permanently since, and incoming data continues to weaken by more than thought. So far, domestic demand and the labour market have been relatively resilient, but that strikes us as a fragile equilibrium, so we would argue there are still a lot of downside risks here.

Manufacturing in focus: the drivers change, but weakness stays

The manufacturing sector is still the main swing factor for the German economy, and has been in almost perma-recession since 2018, hence our focus on it today. To be clear, the sector is not doing great elsewhere in the Euro area either. But German underperformance with a quasi-persistent recessionary environment since 2018 has stood out and started to intensify again in 2023.

Exhibit 3: Manufacturing output (2017=100)
German underperformance started in 2018 and is resuming now



Source: BofA Global Research, Eurostat

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In September, we were still hopeful that the high order backlogs accumulated during the pandemic supply disruptions would keep industry sector output closer to zero growth for longer, even if incoming orders weakened (Europe Economic Weekly: Tell me why I paused, why I really, really, paused 22 September 2023). Actual data flow since has poured cold water on that assumption, making us wonder if more weakness might yet unfold.

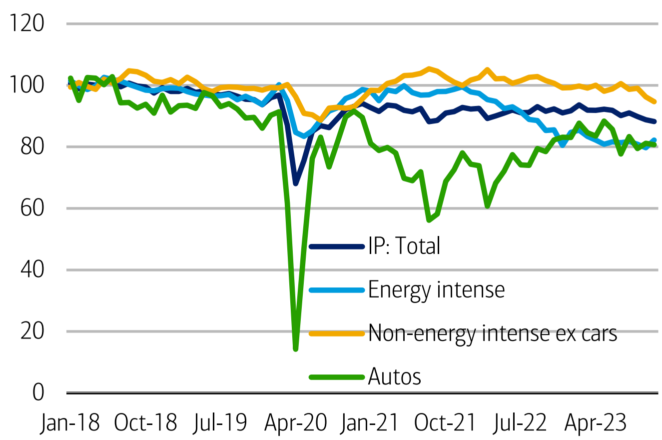
To get a clearer picture of how profound the weakness has really become, we go through 186 manufacturing sub-sectors and find 78% of them are currently operating at least 10% below their 2017 levels (dark blue line in Exhibit 1). Roughly 33% of sectors are operating 20% below 2017 levels (light blue line). Higher-frequency comparisons show not even 30% of sectors have posted positive %yoy growth in 2H23 (Jul-Nov), and only 34% are actually up on a 3m/3m comparison in November. The deterioration in the manufacturing sector runs deep.

The sequence: autos, pandemic, supply bottlenecks, energy. But now?
We have tried to find culprits and think the manufacturing story is coming in multiple acts. One way to show this is with activity levels across select sector aggregates in Exhibit 4: in 2018-19, the auto sector was at the centre of the weakness. The combination of the new WLTP (Worldwide Harmonised Light Vehicles Test Procedure) emission regulation effective in Sep-18 paired with the US-China trade war was probably the trigger then. Supply bottlenecks in the auto industry, in particular, were at play again in 2021. But as the auto sector recovered (from extremely low to still-low activity levels today), energy-intense sectors started an almost 20% decline in activity, before stabilising around mid-23. What happened since, however, is less clear-cut.

Another way to show the same thing is to compare sector-performance with sector exposure to China, US or Euro area end demand, integration in the auto production chain (based on Global Value Chain data) or energy intensity (in Terajoule per unit of real value added across sectors) using simple correlation coefficients. We do so in Exhibit 5. Exposure to China hasn't helped 2018/19 growth performance, but US and auto sector exposures arguably explained the weakness best. In 2022, growth performance was correlated to energy intensity and Euro area exposure (which includes Germany itself).

In 2023, the acute negative impact from the energy crisis faded. It may still explain low activity levels in certain sectors, but no longer the growth performance. US exposure seems to be a tentative common factor. But with US growth (even in goods demand) outperforming expectations, US exposure can arguably explain less – but not outright negative – German manufacturing growth. Or, put differently, we cannot really make sense of the 2023 developments.

Exhibit 4: German manufacturing rough breakdown (2017=100)
First it was mainly the auto sector, then energy-intense sectors, but the latest weakness is not easily explained



Source: BofA Global Research, Destatis

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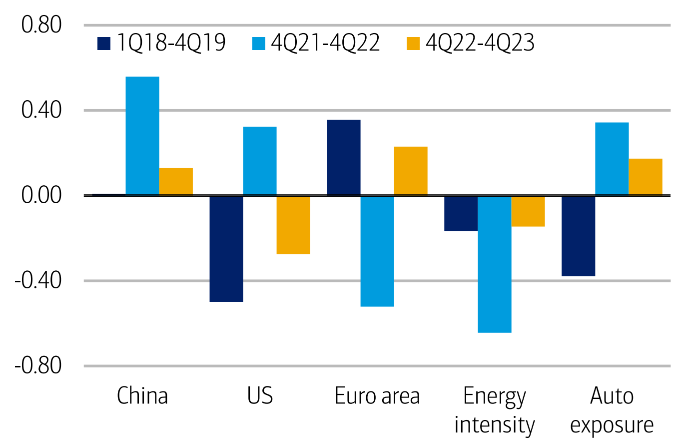
Exhibit 5: Correlation between sector growth and select end demand exposures, energy or auto intensity
Autos and US/China exposure didn't help in 2018/19. Energy didn't help in 2022, but last year, the story is really not very clear



Source: BofA Global Research

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Optimists would argue that creates potential for a correction. Bears, like us, would worry that we have engaged in a more sustained broad-based and perhaps endogenous downward trend in German manufacturing that could pull down the rest of the economy with it.

Something will have to give, eventually

Manufacturing continues to account for c 20% of German GDP. With domestic demand lacklustre at the best of times, we worry that we are overestimating its resilience amid persistent manufacturing weakness. It won't help that monetary policy is tight and fiscal policy has gone into self-prescribed extra-tightening.

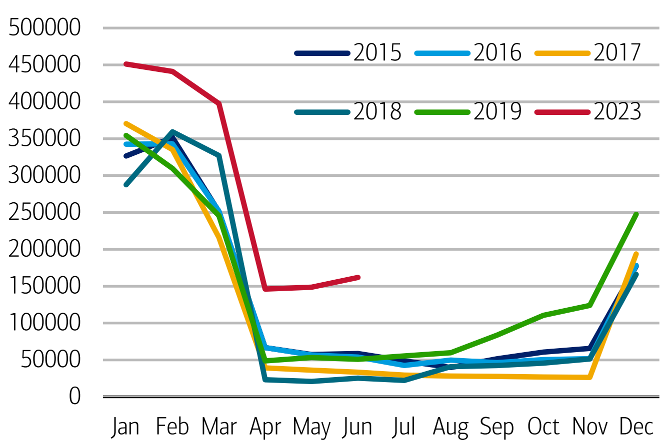
Many will argue that the labour market tightness tells a different story, ie one of great resilience. We are much less convinced. True, unemployment rates are low. Working hours per employed remain 3% below pre-crisis trend, however. That could be structural, ie a voluntary reduction in working time, but we struggle with that argument, given the sizeable real disposable income shock, very low consumer confidence and, most importantly, still more than three times as many short-time workers in the economy in 2023 than in the pre-pandemic "normal" during the summer months (Exhibit 6).

As a consequence, we would argue something has to give, eventually. The better change would be a fiscal policy rethink, either for 2024 or, better, even longer. Stimulating consumption could help to shield domestic demand from manufacturing spillovers. Stimulating capex could help the manufacturing sector itself, too. We don't think such an outcome is particularly likely, though, given the government has just tightened its 2024 budget meaningfully (see Europe Economic Weekly: Not lowering the guard 15 December 2023). So, as usual, we are stuck with a situation whereby fiscal policy responds to proper recession, rather than trying to avoid it in the first place.

A particularly severe outcome would be an abrupt deterioration in the labour market (which would then trigger fiscal policy). But that, too, strikes us currently as unlikely. With short-time work schemes still available, fiscal policy doesn't help get away from zero growth momentum, but avoids significantly worse outcomes.

Exhibit 6: German short-time workers

Data comes with lags, but short-time work was still more than three times above the pre-pandemic normal during the summer



Source: BofA Global Research, Federal Labour Agency

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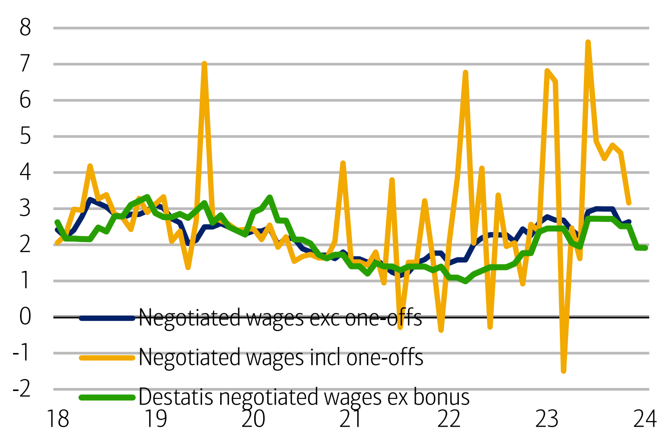
Exhibit 7: German negotiated wage growth (%yoy)

Wage deals focus on transitory one-off payments. Base pay growth had hardly recovered to pre-pandemic levels when it started to weaken again



Source: BofA Global Research, Destatis, Bundesbank

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That leaves wage growth as perhaps the more obvious variable to adjust, eventually. That is our base case, and signs of this are intensifying. Headlines on strike action abound, but actual negotiated wage data is starting to tell a different story. A lot of wage deals have been based on inflation compensation premia, ie a transitory wage growth response to transitory inflation, by design. This is reflected in the dichotomy between Bundesbank's negotiated wage growth incl and excl one-off payments (Exhibit 7), with both of them currently moving lower in tandem, again.

If this is inflationary, we have a very severe growth problem

What if we are wrong? What if manufacturing weakness is actually symptomatic of an economy that has its supply limits? What if wage growth accelerates and inflation gets stuck above target? If we are wrong on wage growth and inflation, we would argue we will be very wrong on growth, too.

In 4Q23, German GDP stood 0.1% above 4Q19 levels. For this to generate domestic inflation durably, we need to assume the output gap is at least zero, if not positive. That, in turn, would mean potential growth in the economy is at zero, at best, if not negative, with no improvement in sight. All of that would also mean that our (and even more so consensus) growth expectations for 2025 are way too optimistic. We hope we are right considering this is a tail risk at this stage.

UK

Bank of England review: message loud and clear

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- Votes, forecast, guidance and press conference rebutted market pricing of early and fast cuts. August first cut is still our base case.
- Rates: market chose to focus on the more dovish elements of the meeting; we see current pricing as a best-case scenario.
- FX: Hawkish BoE underpins tactical bullish GBP on enhanced carry

Pushing back strongly

We were expecting the Bank of England (BoE) to use votes, forecasts, guidance and the press conference to push back against market pricing of early and fast cuts. We got everything. Yes, good news on inflation allowed the BoE to remove the hiking bias in the statement, as we expected. But a vote with 2 members calling for hikes, 6 for a hold, and one for a cut was marginally more hawkish than the 1-7-1 we were expecting. The rest of the guidance on the need to be restrictive for sufficiently long stayed. And the communication from Governor Bailey during the press conference was flawless, with no room for more dovish interpretations.

More confidence in our call after today

We still expect the BoE to keep the Bank Rate on hold at 5.25% until August, with a cutting cycle of 25bp per quarter from there. The UK will be the last of the major central banks to start and is likely to move more slowly, at least compared with the ECB. The UK still has a bigger persistent inflation problem, despite recent improvements. The BoE this week reinforces our view.

The need to be more confident on beating persistence clearly flags a patient central bank. We doubt the minimum wage, wage settlements in the next few months, and the budget in the spring will allow for earlier cuts than August. Risks are biased towards even later.

Finding the middle ground

At market prices, inflation in two years is clearly above target. With constant rates it falls below target. The truth will be somewhere in the middle. But today's communication clearly shows a bias to be patient and put a bigger weight on the latter. As always, persistence will be measured by looking at services inflation, wages, and employment. We doubt we will see sufficient improvement in the next few months to be confident enough to start a cutting cycle in May.

BoE forecasts: pushing back against early cuts

We read the BoE's new forecasts as a decent pushback vs market pricing of early cuts. At the same time, recent good news and the near term cut allowed to remove the hiking bias. This set of forecasts was built assuming a c100bp cut to Bank Rate in 2024. Oil and especially gas price assumptions were much lower in this round. The BoE incorporated a fast drop in energy prices in the near term, dragging CPI back to target in 2024 2Q. But then it rebalanced that with a re-acceleration back above target in 3Q-4Q. On the fiscal side, these forecasts assume government measures would follow the Autumn Statement. We would highlight three key points:

1. The theme is inflation persistence, as we expected – the main figure to look at is the 2.3% mean CPI forecast in 2026 1Q. Despite some recent encouraging signs, the BoE is convinced that the market-implied path would not be consistent with reaching the inflation target in the medium term.

2. The gap between the market-rate forecasts and the constant-rate forecast is (unsurprisingly) widening, showing a clear undershoot to 1.4% in 2026 1Q (from 1.9% in the November forecast) if rates stayed at 5.25%. We could see this as an acknowledgement that cuts are coming. Just not as early as markets think.

3. The output gap projections imply subdued supply growth in the near term. The build-up of economic slack over the BoE forecast horizon must be driven mainly by weak demand dynamics – this implies a hawkish tilt in the near term.

Exhibit 8: Persistent inflation is the theme
BoE forecasts in February Monetary Policy Report

BofA forecast for Feb MPR (Nov MPR figures in parentheses)

	GDP % yoy	Inflation
2024 1Q	0.0 (0.2)	3.7 (4.4)
2025 1Q	0.5 (0.0)	3.0 (2.8)
2026 1Q	0.8 (0.6)	2.3 (2.2)
2027 1Q	1.5	1.9

Source: BofA Global Research, BoE

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Rates: market sees what it wants to see

We read BoE MPC votes, forecasts, and guidance as a strong pushback against market pricing of early and fast cuts, and communication from Governor Bailey during the press conference carefully consistent with that. But the rates market still chose to focus on the more dovish elements of the February's BoE MPC meeting, for example the removal of the hiking bias and Governor Bailey acknowledging that keeping rates unchanged would push inflation "significantly" below the target of 2%.

MPC-dated Sonia was barely changed after the meeting, with June 2024-dated Sonia settling 2bp higher than pre-BoE. Further out on the curve, moves were limited as well, with the 2s10s Gilt curve marginally flatter. For us, the message from the BoE is clear: risks of inflation persistence are high, and current levels (as well as past peaks) in services inflation are much higher than in US or EUR, supporting our base case for a later start of the cutting cycle, and making current market pricing a best-case scenario.

GBP: Measured Pivot

Today's decision was a consummate lesson in expectations management: a firm rebuttal of market pricing which ran through every strand of the decision. From the vote to the statement, to the forecasts and then finally on to the press conference, the BoE did not waiver in its communication. We have not often applauded the BoE on its communication strategy but in comparison to other central banks who have recently announced policy decisions, this was straight down the line consistency. The outcome was in line with our own priors and our key take-away is the inflation forecast for Q1 2026 at 2.3% under the assumption of current market rates. This is a clear riposte to current market pricing which is now hard coded into the Bank's forecasts. We had recommended tactical GBP longs into the BoE decision based on precisely what has been delivered today.

Notwithstanding the recent market turbulence caused by US regional banks, we continue to see the backdrop to GBP as conducive both from a rates and vol perspective. Furthermore, the BoE has sounded a slightly more optimistic tone on the growth outlook – a factor – which we had have flagged and though growth is likely to be anaemic this year, it will not be the catastrophe that was anticipated last year. These tailwinds should be sufficient to push GBP higher and our favoured tactical expressions remain versus CHF, EUR and JPY. The risks around the view are an extension of the risk-off tone following the Fed rate decision.

Hot Topic

Riksbank review: goodbye November

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- Clear Riksbank dovish turn, consistent with the economy. June remains our base case for first cut but May is now live.
- SEK - dovish Riksbank. Hawkish risks we were fearing did not materialize. Our near-term SEK bias turns (back) bearish.

Clear turn, consistent with the economy

Riksbank stayed on hold, as widely expected. But they also kept distance from the hawkish guidance they gave markets in November. As we remarked in our preview (European Watch: Riksbank preview: fragile path ahead 26 January 2024), Sweden's macro data doesn't support a long hold at high rates – the Riksbank board is starting to acknowledge that. CPIF ex-energy surprised them to the downside so far, the economy is weak, and the concerns about entrenched inflation in the medium-term look overblown. This week's communication turn was clearer than we expected, paving the way for cuts in 1H24. Even on SEK-related worries, the tone was more dovish. The announced QT acceleration was quite underwhelming too, which we take as additional evidence that the Riksbank is now more comfortable on currency dynamics.

First cut: May is live now, June still the base case

Today's communication makes the case for a May cut plausible. Especially after the indication that they could easily cut in non-forecast meetings (such as May). But we wouldn't get carried away just yet. The Riksbank's guidance can be volatile. We think the bar for them to move before the Fed and the ECB remains relatively high (and we don't see any of the two moving before June). The slowdown CPIF and CPIF ex-energy should comfort the board enough to start the cutting cycle in June.

SEK – dovish Riksbank, our near-term bias bearish again

The Riksbank was dovish in our view, and certainly more dovish than we were expecting. With this meeting now behind us, our tactical, near-term SEK bias is (again) bearish.

Into the Riksbank we saw several hawkish SEK risks and, to some extent we think, so did markets. In the end, SEK strengthened even more than we expected vs EUR and NOK for other reasons incl., on the domestic front, the much-improved Swedish sentiment data.

But the hawkish Riksbank risks we had "feared" did not materialise: First, in the press conference the Governor seemed open to the Riksbank moving ahead of the ECB and the Fed, and to acting at meetings without new forecasts—to us, this means May is live. Even in the monetary policy update, the Riksbank referred to the possibility of cuts in 1H rather than the summer.

Second, the additional government bond sales announced were probably not higher than the market was expecting.

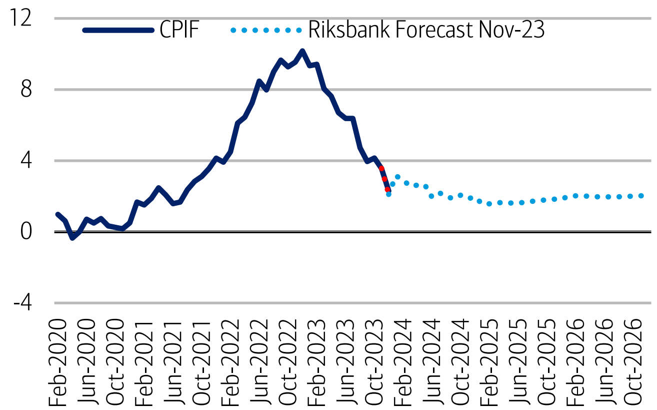
Third, the Riksbank language on FX was clearly softer. Among the hawkish risks the Riksbank highlighted, was "the krona weaken[ing] substantially once again". To us, "substantially" means the Riksbank would be fine with modest SEK weakness.

Fourth, the Governor said the Riksbank is not planning to extend its FX hedging programme, which *to us* was a surprise although probably much less so to markets.

In a nutshell, it was a dovish Riksbank meeting. It added to our conviction that markets could reprice the Riksbank at least slightly lower vs. both the ECB and Norges. This is partly why we expect SEK to weaken near-term vs G4 and vs NOK. On the latter, the likely lighter NOKSEK positioning makes us more confident in our 1.01-1.02 forecast. Beyond Q1, we are constructive on SEK vs USD and EUR (but still prefer NOK to SEK).

Exhibit 9: CPIF forecast

Headline inflation was close to Riksbank projections…



Source: Riksbank

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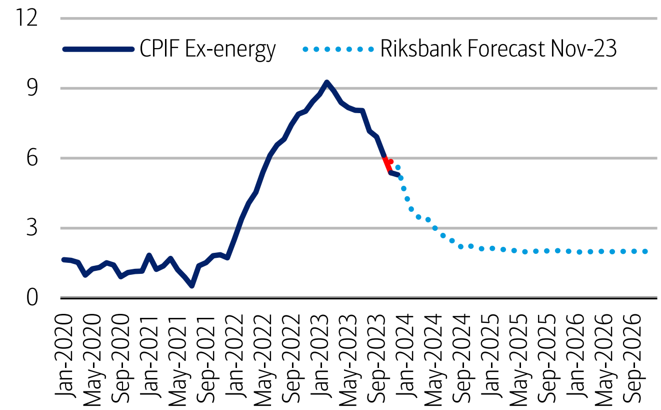
Exhibit 10: CPIF ex-energy forecast

…but the "core" print surprised them to the downside



Source: Riksbank

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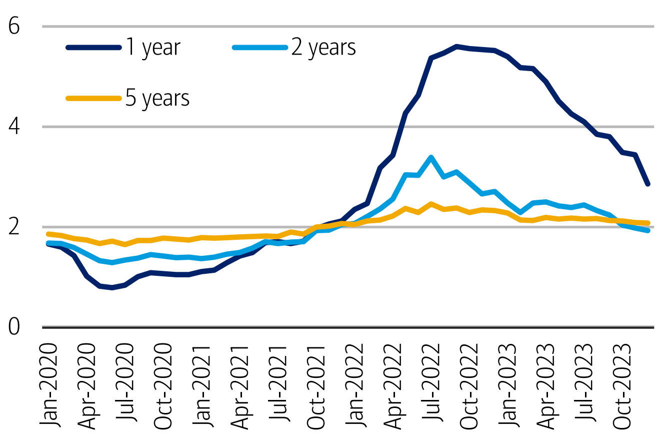
Exhibit 11: Prospera inflation expectations

Expectations are well-anchored, limiting the upside risks to inflation



Source: Riksbank

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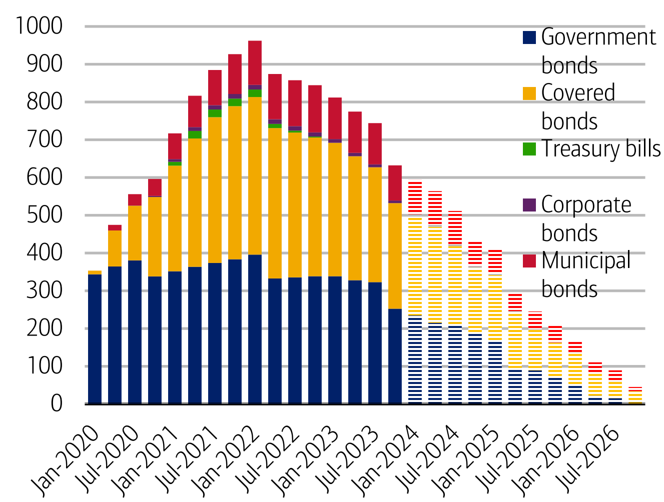
Exhibit 12: Balance sheet projections

Nominal amounts, SEK billion



Source: Riksbank

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European forecasts

Exhibit 13: 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 14: 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	0.0	0.1	0.1	0.1	0.2	0.2	0.3
	% qoq ann.					1.0	0.2	-0.5	0.2	0.1	0.0	0.4	0.4	0.4	0.8	0.8	1.2
	% yoy	4.3	0.3	0.1	0.6	0.4	0.3	0.3	0.2	0.0	-0.1	0.2	0.2	0.3	0.5	0.6	0.8
Private Consumption	% qoq					0.8	0.5	0.0	0.1	-0.1	-0.1	-0.1	0.0	0.2	0.2	0.2	0.2
	% yoy	5.0	0.8	0.0	0.4	0.2	0.3	1.2	1.4	0.5	-0.1	-0.2	-0.3	0.0	0.3	0.6	0.8
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	0.1	0.0	-0.1	0.0	0.0	-0.2
	% yoy	8.0	2.3	-1.9	-0.1	5.3	3.8	0.7	-0.5	-3.3	-2.6	-1.2	-0.5	-0.2	0.0	-0.1	-0.3
Final Domestic Demand[1]	% qoq					0.7	0.6	0.0	0.1	-0.1	0.0	0.0	0.1	0.2	0.2	0.2	0.2
	% yoy	5.0	1.0	0.0	0.6	0.3	1.1	1.2	1.4	0.5	-0.2	-0.1	-0.1	0.2	0.5	0.7	0.8
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	0.0	0.0	0.0	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	0.1	0.1	0.2	-0.1	0.1	0.0	0.1
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	4.9	3.9	4.2	4.2	4.4	4.5	4.7	4.8	4.9	4.9	4.9	4.9	4.8
RPI Inflation[2]	% yoy	11.6	9.8	4.6	3.6	13.6	11.1	9.0	5.8	5.2	4.3	4.5	4.6	4.2	3.6	3.5	3.4
CPI Inflation (harmonised)[2]	% yoy	9.1	7.3	3.0	2.6	10.2	8.4	6.7	4.1	3.6	2.5	2.9	3.2	3.1	2.5	2.4	2.4
CPI (core)[2]	% yoy	5.9	6.2	3.8	3.0	6.1	6.9	6.4	5.3	4.6	3.6	3.4	3.6	3.6	2.9	2.9	2.7
General govt balance [5]	% of GDP	-5.0	-4.9	-4.3	-3.9												
General govt debt [3,5]	% of GDP	97.1	98.7	101.2	103.0												
General govt debt	% of GDP	101.0	100.5	102.8	104.8												
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 15: 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 16: European Economic calendar
Key data for the next week

	GMT	Country	Data/Event	For	BofAe	Cons.†	Previous	Comments
Monday, 5 Feb								
✪✪✪	08:15	Spain	Services PMI	Jan	51.7	--	51.5	
✪✪✪	08:15	Spain	Composite PMI	Jan	51.2	--	50.4	
✪✪✪	08:45	Italy	Composite PMI	Jan	49.9	--	48.6	
✪✪✪	08:45	Italy	Services PMI	Jan	50.1	--	49.8	
✪✪✪	08:50	France	Services PMI (F)	Jan	45.0	--	45.0	
✪✪✪	08:50	France	Composite PMI (F)	Jan	44.2	--	44.2	
✪✪✪	08:55	Germany	Services PMI (F)	Jan	47.6	--	47.6	
✪✪✪	08:55	Germany	Composite PMI (F)	Jan	47.1	--	47.1	
✪✪✪	09:00	Euro area	Services PMI (F)	Jan	48.4	--	48.4	
✪✪✪	09:00	Euro area	Composite PMI (F)	Jan	47.9	--	47.9	
✪✪✪	09:30	UK	Official Reserves Changes	Jan	n.a.	--	1.7bn	
✪✪✪	09:30	UK	Services PMI (F)	Jan	53.8	--	53.8	
✪✪✪	09:30	UK	Composite PMI (F)	Jan	52.5	--	52.5	
✪✪✪	10:00	Euro area	PPI (mom)	Dec	n.a.	--	-0.3%	
✪✪✪	10:00	Euro area	PPI (yoy)	Dec	n.a.	--	-8.8%	
Tuesday, 6 Feb								
✪✪	00:01	UK	BRC Sales Like-For-Like (yoy)	Jan	n.a.	--	1.9%	
✪✪✪	07:00	Germany	Factory Orders (mom)	Dec	-0.5%	--	0.3%	
✪✪✪	07:00	Germany	Factory Orders (wda, yoy)	Dec	-6.5%	--	-4.4%	
✪✪	09:00	Italy	Consumer Confidence Index	Jan	107.0	--	106.7	
✪✪	09:00	Italy	Manufacturing Confidence	Jan	95.6	--	95.4	
✪✪	09:00	Italy	Economic Sentiment	Jan	107.5	--	107.2	
✪✪✪	09:30	UK	Construction PMI	Jan	n.a.	--	46.8	
✪✪✪	10:00	Euro area	Retail Sales (mom)	Dec	-0.8%	--	-0.3%	
✪✪✪	10:00	Euro area	Retail Sales (yoy)	Dec	n.a.	--	-1.1%	
Wednesday, 7 Feb								
✪✪✪	07:00	Germany	Industrial Production (sa, mom)	Dec	-0.2%	--	-0.7%	
✪✪✪	07:00	Germany	Industrial Production (wda, yoy)	Dec	-2.2%	--	-4.8%	
✪✪✪	08:00	Spain	Industrial Output (sa, yoy)	Dec	n.a.	--	0.8%	
✪✪✪	08:00	Spain	Industrial Production (mom)	Dec	n.a.	--	1.0%	
✪✪✪	09:00	Italy	Retail Sales (mom)	Dec	0.3%	--	0.4%	
✪✪✪	09:00	Italy	Retail Sales (yoy)	Dec	n.a.	--	1.5%	
✪✪✪	07:00	Germany	Industrial Production (sa, mom)	Dec	-0.2%	--	-0.7%	
✪✪✪	07:00	Germany	Industrial Production (wda, yoy)	Dec	-2.2%	--	-4.8%	
✪✪✪	08:00	Spain	Industrial Output (sa, yoy)	Dec	n.a.	--	0.8%	
✪✪✪	08:00	Spain	Industrial Production (mom)	Dec	n.a.	--	1.0%	
✪✪✪	09:00	Italy	Retail Sales (mom)	Dec	0.3%	--	0.4%	
✪✪✪	09:00	Italy	Retail Sales (yoy)	Dec	n.a.	--	1.5%	
Thursday, 8 Feb								
✪✪✪	00:01	UK	RICS House Price Balance	Jan	n.a.	--	-30.0%	
Friday, 9 Feb								
✪✪✪	07:00	Norway	CPI (mom)	Jan	n.a.	--	0.1%	
✪✪✪	07:00	Norway	CPI (yoy)	Jan	4.8%.	--	4.8%	
✪✪✪	07:00	Norway	CPI underlying (mom)	Jan	n.a.	--	0.2%	
✪✪✪	07:00	Norway	CPI underlying (yoy)	Jan	5.3%.	--	5.5%	
✪✪✪	07:00	Germany	CPI (yoy, F)	Jan	2.9%	--	2.9%	
✪✪✪	07:00	Germany	CPI (mom, F)	Jan	0.2%	--	0.2%	
✪✪✪	07:00	Germany	CPI EU Harmonized (mom, F)	Jan	-0.2%	--	-0.2%	
✪✪✪	07:00	Germany	CPI EU Harmonized (yoy, F)	Jan	3.1%	--	3.1%	
✪✪✪	09:00	Italy	Industrial Production (mom)	Dec	1.7%	--	-1.5%	
✪✪✪	09:00	Italy	Industrial Production (wda, yoy)	Dec	n.a.	--	-3.1%	

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 17: 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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Disclosures

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