

Euro wrap-up

Overview

- Bunds were little changed while new data reported a drop in euro area exports in March and a fall in euro area employment in Q1.
- Gilts were also little changed despite evidence of a firming labour market in the latest UK data.
- Wednesday will bring April inflation from the UK and euro area.

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Daily bond market movements

Bond	Yield	Change
BKO 0 06/23	-0.666	-
OBL 0 04/26	-0.512	+0.002
DBR 0 02/31	-0.111	+0.006
UKT 0 ¹ / ₈ 01/23	0.080	-0.002
UKT 0 ¹ / ₈ 01/26	0.379	-0.006
UKT 4 ³ / ₄ 12/30	0.859	-0.006

*Change from close as at 4:30pm BST.

Source: Bloomberg

Euro area

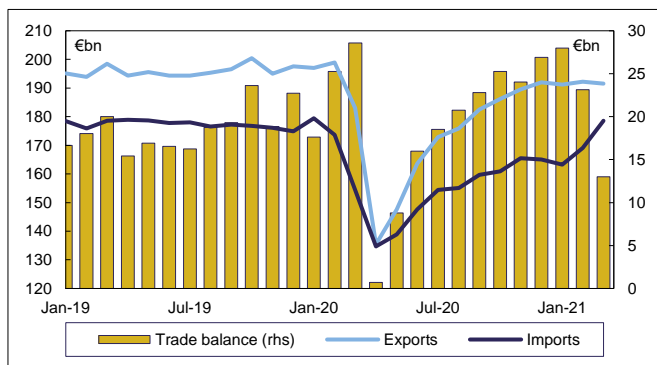
Imports surge while exports slip back at the end of Q1

Today's goods trade data confirmed that the value of merchandise exports beyond the euro area ended the first quarter on a soft note, dropping 0.3%M/M in seasonally adjusted terms in March to leave it up just 1.3%Q/Q in Q1. In contrast, imports from outside of the euro area leapt 5.6%M/M on the same basis – the most in nine months – to the highest level since January 2020 and to be up 3.9%Q/Q. As such, the euro area's goods trade surplus on an adjusted basis dropped more than €10.0bn to a ten-month low of €13.0bn. And with the cumulative goods trade surplus in the first quarter dropping almost 16%Q/Q, and services unlikely to have offered any significant offset, net trade looks to have subtracted significantly from euro area GDP growth in Q1. While they fell in March, euro area goods exports to China (up 1.8%Q/Q), Japan (3.0%Q/Q), Russia (3.8%Q/Q) and Switzerland (1.8%Q/Q) grew over the first quarter a whole. And shipments to the US dropped just 0.7%Q/Q. In contrast, while they edged up in March, merchandise exports to the UK in March were down almost 15% from the pre-pandemic level of February 2020 and fell a sharp 21.0%Q/Q in Q1. And while shipments from other major trading partners were up from the pre-pandemic level in March, the euro area's goods imports from the UK were still down more than one quarter to be down more than 35%Q/Q in Q1, again illustrating the hit to supply chains from the new trade barriers imposed at the end of the Brexit transition period.

Employment dropped in Q1 as GDP contracted

Today's updated GDP data for Q121 left growth unchanged from the initial estimate at -0.6%Q/Q following the decline of 0.7%Q/Q in Q420. That left the level of economic output in the first quarter still down 1.8%Y/Y and 5.5% below the pre-pandemic peak in Q419. The drop in GDP in Q420 coincided with continued growth in employment (up 0.4%Q/Q following the rise of 1.0%Q/Q in Q3). In contrast, however, today's data reported that the contraction in GDP in Q1 almost fully reversed the prior quarter's net job creation, with employment falling back 0.3%Q/Q (or 531k from Q420) to be down 2.1%Y/Y (or 2.82mn from the level one year earlier and almost 3.6mn below the pre-pandemic level in Q419). More happily, the level of employment was still 1.0% (some 1.56mn) above the trough in Q220. With economies being gradually reopened this quarter, surveys signal a significantly increased willingness of firms to add to headcount, e.g. the Commission's Employment Expectations Indicator rose last month to the highest level since June 2019. And with government support programmes still largely in place, the level of employment is likely to rebound in the current quarter. But as government support is gradually phased out over coming quarters, redundancies will likely pick up too, leaving a persistent large amount of spare capacity in the labour market weighing on wage growth – and underlying inflation – for several quarters to come.

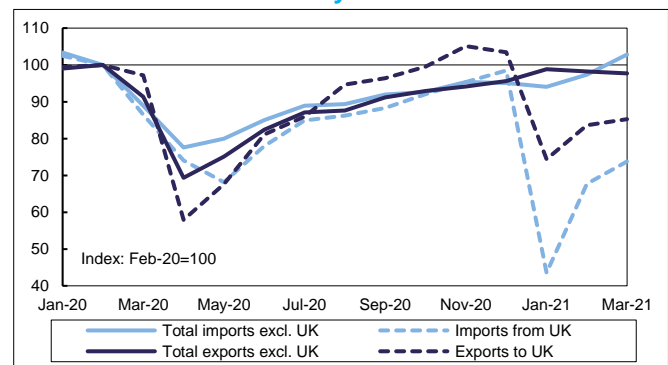
Euro area: Goods trade*



*Seasonally adjusted nominal basis.

Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Euro area: Goods trade by destination*



*Seasonally adjusted nominal basis.

Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

The day ahead in the euro area

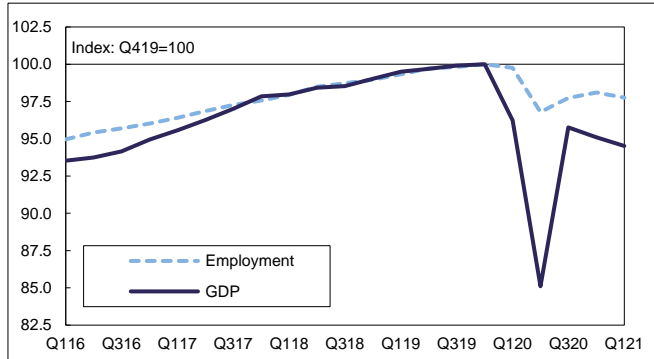
Tomorrow brings final euro area inflation data for April. The flash estimates suggested that inflation rose 0.3ppt to 1.6%Y/Y, the highest since April 2019. The rise was driven principally by energy inflation, which – largely due to base effects – accelerated to the highest since October 2018. In contrast, food inflation fell to the lowest since November 2016. Prices of non-energy industrial goods rose 0.5%Y/Y, up from March but still a subdued rate to suggest that supply-side pressures were largely absorbed by margins. And as services inflation fell to a four-month low of 0.9%Y/Y, core inflation moderated to 0.8%Y/Y. We expect the flash estimates to be confirmed – while French HICP inflation was revised down by 0.1ppt from the flash estimate to 1.6%Y/Y, the Spanish figures revised up the equivalent rate by 0.1ppt to 2.0%Y/Y to even things out, and the German and Italian final data confirmed the respective preliminary readings. Also to be published tomorrow are EU-27 new car registrations data for April, which will report extremely strong annual growth due both to a pickup on the month as well as the collapse in sales a year earlier (-76.3%Y/Y). Additionally, the ECB will publish its latest Financial Stability Review while Chief Economist Lane and highly dovish Executive Board Member Panetta will speak publicly at separate events.

UK

Labour market firms somewhat as economy reopens

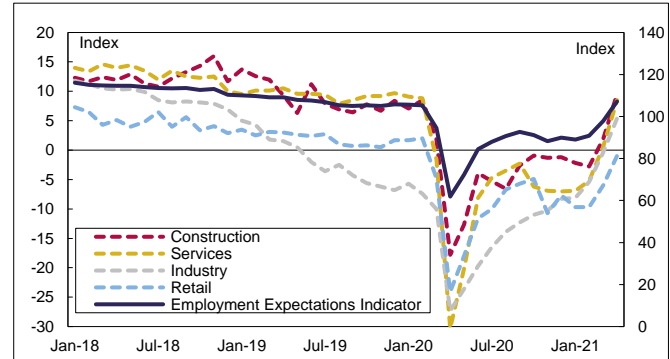
With the government's Job Retention Scheme still in operation and supporting 4.2 million jobs at the end of Q1, but GDP having grown a firm 2.1%M/M in March and set to accelerate in Q2 as pandemic restrictions lift, the UK's labour market has firmed somewhat. On the ILO measure, employment rose in the three months to March (up 84k) marking the first positive reading on that basis in a year. And the unemployment rate over the same period dropped 0.1ppt for the third successive month to 4.8%, the lowest since the three months to September, assisted also by a drop in labour force participation. Moreover, the number of payrolled employees rose for the fifth consecutive month in April, up 97k to be 190k above the trough, albeit still down a sizeable 772k from the pre-pandemic level in February 2020 and 257k below the level a year earlier. And as firms looked forward to full reopening of the economy by the summer, the number of vacancies rose in the three months to April to 657k the highest level since Q120, with most sectors – and most notably hospitality and entertainment – reporting increases.

Euro area: GDP and employment



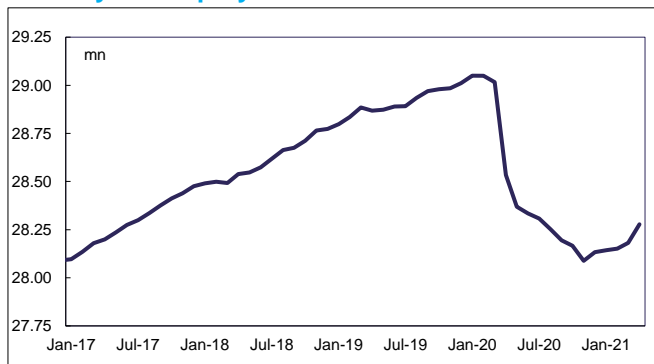
Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Euro area: Employment Expectations Indicator



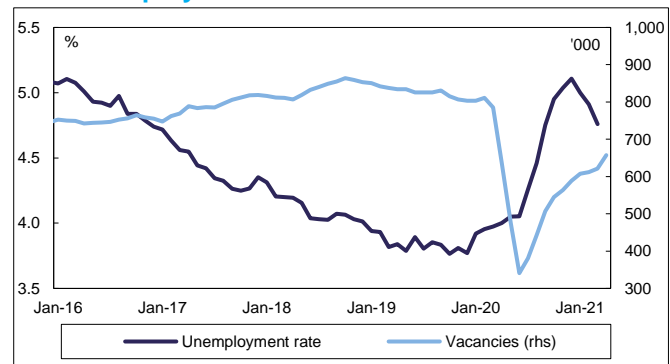
Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

UK: Payroll employment



Source: ONS and Daiwa Capital Markets Europe Ltd.

UK: Unemployment and vacancies



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

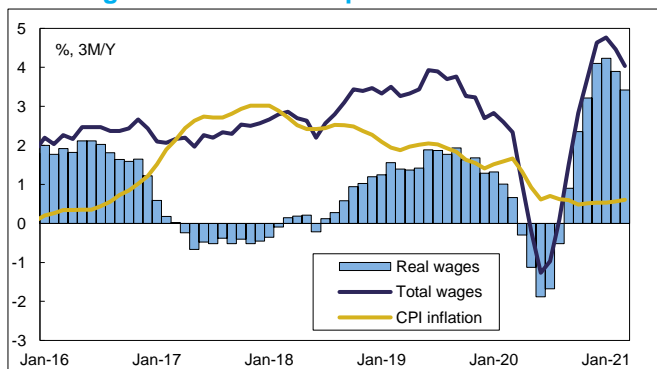
Regular pay growth up to highest since 2007, and set to rise further

In terms of pay, growth in total earnings moderated 0.5ppt to 4.0%3M/Y in March, to be up 3.1%3M/Y in real terms. But that slowdown reflected lower bonus payments, excluding which regular pay growth edged up 0.2ppt to 4.6%3M/Y, the highest since 2007, to be up 3.6%3M/Y in real terms. Compositional effects (specifically the drop in the number of lower-earning workers) are estimated by the ONS to have boosted average pay by about 1.7%. So, it judged underlying wage growth to be about 2.5%Y/Y for total pay and around 3.0%Y/Y for regular pay. Given base effects related to the falls at the onset of the pandemic, annual growth in wages will accelerate over the near term. The return to employment of lower-paid workers, particularly in hospitality, leisure and entertainment will likely restrain that impact somewhat. However, a mismatch between supply and demand, including skill shortages associated with Brexit, furlough and tighter regulation on the use of contractors, could add additional upwards pressure. Indeed, the KPMG/REC report on jobs suggested that a particularly vigorous rebound in new labour demand last month – at the strongest rate on the 23-year survey – was met with a sharp fall in candidate availability resulting in increases in starting salaries and temp pay to the highest rates since before the pandemic.

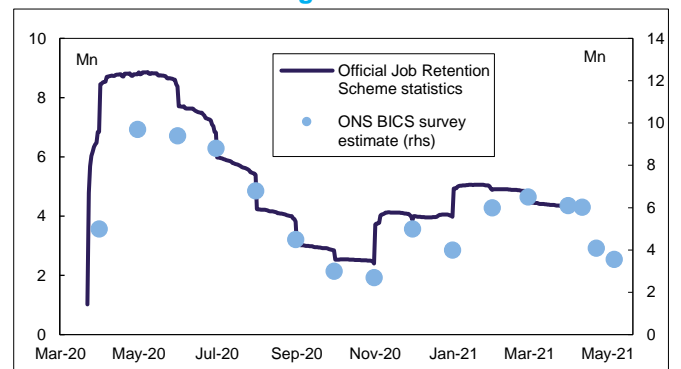
The day ahead in the UK

Like in the euro area, the focus in the UK tomorrow will be inflation. We expect to see a leap of 0.9ppt in the headline CPI rate to a fourteen-month high of 1.6%Y/Y in April, thanks in particular to further upward pressure from energy prices, including higher domestic fuel bills. However, we also expect a pick-up in inflation of clothing and footwear as well as certain services to be reflected in an increase in the core CPI measure to 1.5%Y/Y, which would be the highest since July 2020.

UK: Wages and consumer prices










UK: Workers on furlough





European calendar

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
EMU	 GDP Q/Q% (Y/Y%)	Q1	-0.6 (-1.8)	-0.6 (-1.8)	-0.7 (-4.9)	-
	 Preliminary employment Q/Q% (Y/Y%)	Q1	-0.3 (-2.1)	-	0.3 (-1.9)	0.4 (-)
	 Trade balance €bn	Mar	13.0	19.1	18.4	23.4
UK	 Unemployment claimant count rate % (change '000s)	Apr	7.2 (-15.1)	-	7.3 (10.1)	7.2 (-19.4)
	 Average earnings including bonuses (excluding bonuses)	Mar	4.0 (4.6)	4.5 (4.6)	4.5 (4.4)	-
	 ILO unemployment rate % 3M	Mar	4.8	4.9	4.9	-
	 Employment change 3M/3M, '000s	Mar	84	48	-73	-



Auctions

Country	Auction
UK	 sold £3.25bn of 0.125% 2024 bonds at an average yield of 0.189%
	 sold £2.25bn of 1.25% 2041 bonds at an average yield of 1.392%

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Yesterday's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Italy	 Final CPI (EU-harmonised CPI) Y/Y%	Apr	1.1 (1.0)	1.1 (1.0)	0.8 (0.6)	-
UK	 Rightmove house price index M/M%	May	1.8	-	2.1	-






Auctions

Country	Auction
- Nothing to report -	






Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's releases

Economic data

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
EMU		07.00 EU27 new car registrations Y/Y%	Apr	-	87.3
		10.00 Final CPI (core CPI) Y/Y%	Apr	1.6 (0.8)	1.3 (0.9)
UK		07.00 CPI (core CPI) Y/Y%	Apr	<u>1.6 (1.5)</u>	0.7 (1.1)
		07.00 PPI input prices (output prices) Y/Y%	Apr	8.5 (3.4)	5.9 (1.9)
		09.30 House price index Y/Y%	Mar	7.7	8.6

Auctions and events

EMU		08.20 ECB's Panetta gives pre-recorded speech at the Finnish Payments Forum
		09.00 ECB publishes its Financial Stability Review – May 2021
		16.50 ECB Chief Economist Lane participates in the Dublin Climate Dialogues
Germany		10.30 Auction: €4bn of 2031 bonds
UK		10.00 Auction: £2.5bn of 0.625% 2035 bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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