

Euro wrap-up

Overview

- Bunds were little changed as updated euro area GDP data for Q221 confirmed the initial estimate of growth of 2%Q/Q, while employment increased in Q2.
- Shorter-dated Gilts made modest losses, while longer-dated Gilts made modest gains as the UK labour market report pointed to ongoing solid recovery in July.
- Tomorrow will bring final July inflation figures from the euro area and UK.

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Daily bond market movements

Bond	Yield	Change
BKO 0 09/23	-0.748	+0.005
OBL 0 10/26	-0.730	-
DBR 0 08/31	-0.469	+0.001
UKT 0 ¹ / ₈ 01/23	0.145	+0.013
UKT 0 ¹ / ₈ 01/26	0.301	+0.003
UKT 4 ³ / ₄ 12/30	0.567	-0.010

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

Source: Bloomberg

Euro area

GDP growth confirmed at 2.0%Q/Q, as employment rises 0.5%Q/Q

Today's updated GDP data for Q221 left growth unchanged from the initial estimate at 2.0%Q/Q following the modest decline of 0.3%Q/Q in Q121. That left the level of economic output in the second quarter up 13.6%Y/Y (a touch softer than initially estimated), but still 3.0% below the pre-pandemic peak in Q419. The solid expansion in GDP in Q221 reflected the gradual lifting of restrictions across various member states, which in turn inevitably coincided with renewed growth in employment. Indeed, today's data reported net job creation of 0.5%Q/Q in Q2 – or some 764k from Q121 – to be up 1.8%Y/Y – or 2¹/₂mn from the level one year earlier. Of course, this still left employment more than 2¹/₂mn (1.6%) below the pre-pandemic level in Q419.

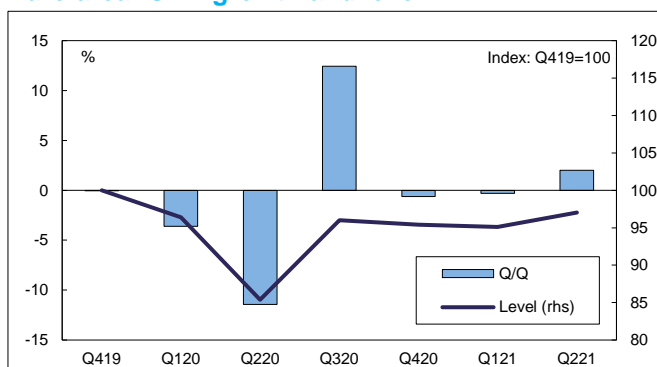
German employment edges higher in Q2, but still significantly lower than Q419

While there was no detail with today's reports, Germany's labour market data for Q2 – also published today – showed that employment rose 0.2%Q/Q (75k) in Q2, to be little changed from its level in Q220. And this meant that employment was still more than ½mn lower than the pre-pandemic level (of course the initial Covid-related decline in employment was limited by the government's short-term kurzarbeit scheme). With the restrictions having been reinstated at the start of the second quarter, employment in the hospitality, retail and transport sub-sector fell a further 54k in Q2, to leave it down some 467k from the pre-pandemic level. Employment in the manufacturing sector remained subdued to be more than 250k lower than Q419. In contrast, the construction sector saw net jobs creation of around 10k from Q121 to be among a select few to have returned above the pre-pandemic level. But it was perhaps inevitable that the public sector – and healthcare in particular – remained the largest source of jobs growth, up by almost 250k on a year earlier and some 289k above the Q419 level.

Employment growth to be maintained, but spare capacity to persist

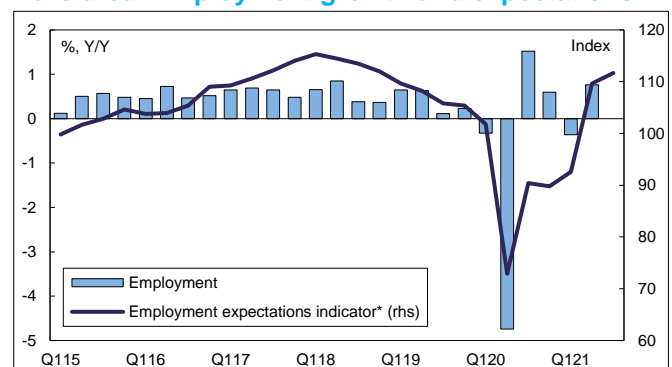
While the spread of the delta variant in certain member states raises downside risks to the near-term outlook, surveys continue to signal increased willingness of firms to add to headcount, e.g. the Commission's Employment Expectations Indicator moved sideways in July at the highest level since November 2018. Of course, as and when government support is gradually phased out, 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: GDP growth and level



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Euro area: Employment growth and expectations



*July survey outturn represents Q321 employment expectations indicator.
Source: Refinitiv, European Commission and Daiwa Capital Markets Europe Ltd.

The day ahead in the euro area

Tomorrow will bring revised July euro area inflation numbers. The preliminary release showed that, despite a jump in German inflation last month (up 1ppt to 3.8%Y/Y) due to base effects associated with the temporary tax cut in July 2020, the headline euro area CPI rate rose a more modest 0.3ppt to 2.2%Y/Y. This in part reflected different timings of summer discounting. And with energy inflation accounting for a sizeable contribution, core CPI actually moderated 0.2ppt to 0.7%Y/Y. Wednesday will also bring construction output figures for June.

UK

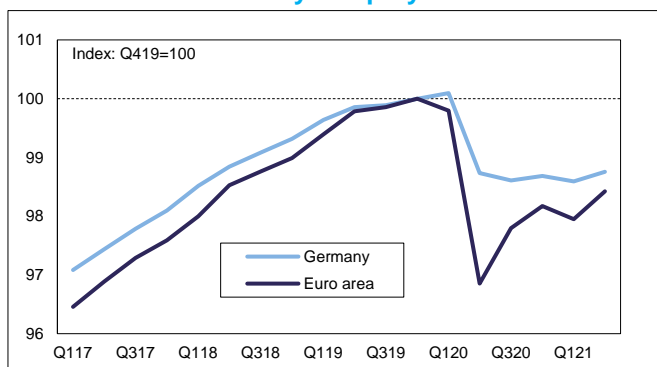
Labour market recovery continues at start of Q3

After the [BoE](#) recast its forward guidance earlier this month to focus largely on the medium-term inflation outlook, today's labour market figures were unsurprisingly closely watched. With final lockdown restrictions having been eased last month, the report predictably pointed to ongoing solid recovery. In particular, employment rose for the eighth consecutive month in July, with the number of payroll employees up 182k on the month to 28.9mn, an increase of 576k (2.0%) compared with July 2020 to leave them 201k (0.7%) below the pre-pandemic level. This in part reflected sizeable increases in the sectors that benefitted most from the final lifting of constraints – i.e. accommodation and food services (up 32k) and arts and entertainment (up 13k), although they remain considerably lower than the pre-pandemic level. There was another sizeable increase in job vacancies in July, which rose above 1mn for the first time. And while some surveys have flagged difficulties recruiting, due not least to skill shortages and Brexit, today's figures suggested a record inflow to paid jobs too. On the (somewhat lagging) ILO measures, the unemployment rate dropped 0.2ppt in the three months to June to 4.7%, while the employment rate edged up 0.3ppt to 75.1%. The (admittedly volatile) single-month unemployment rate fell a larger 0.4ppt to 4.4%, the lowest for a year. Of course, the near-term outlook remains clouded by the conclusion of the government's Jobs Retention Scheme in September – indeed, official data suggested that 2mn people remained on full or partial furlough at the end of June. But the further decline in the redundancy rate over the three months to June back to pre-pandemic levels might provide some cautious optimism that the post-furlough adjustment might be more limited than initially feared.

Wage growth boosted by compositional and base effects

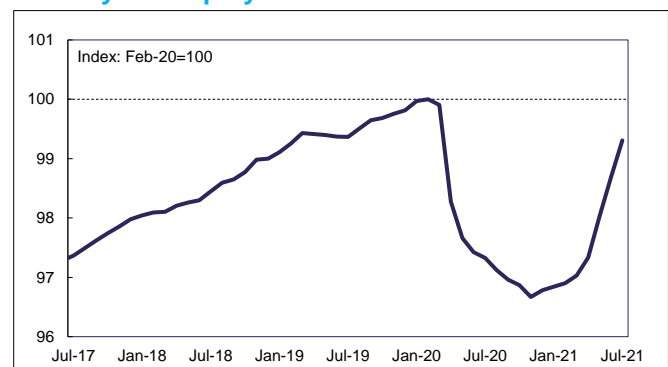
The headline rates of wage growth were again striking. Growth in average total pay (including bonuses) in the three months to June rose 1.4ppts compared to the three months to May to 8.8%Y/Y, with growth in regular earnings (excluding bonuses)

Euro area and Germany: Employment



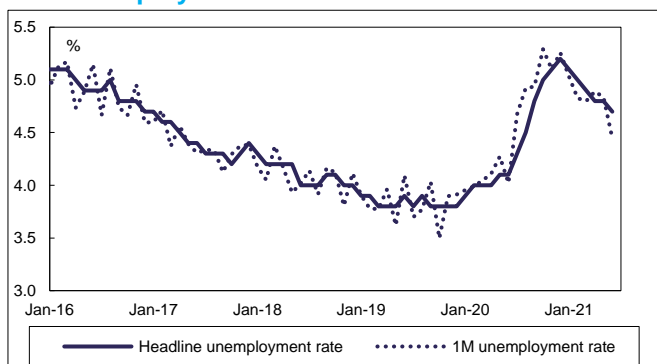
Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

UK: Payroll employees*



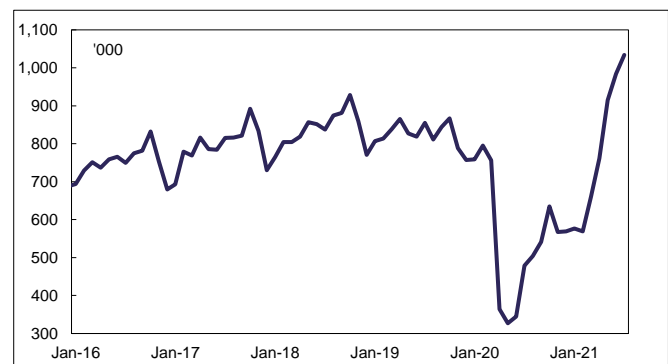
*July 2021 figure is preliminary estimate. Source: ONS and Daiwa Capital Markets Europe Ltd.

UK: Unemployment rate



Source: Refinitiv, ONS and Daiwa Capital Markets Europe Ltd.

UK: Vacancies*



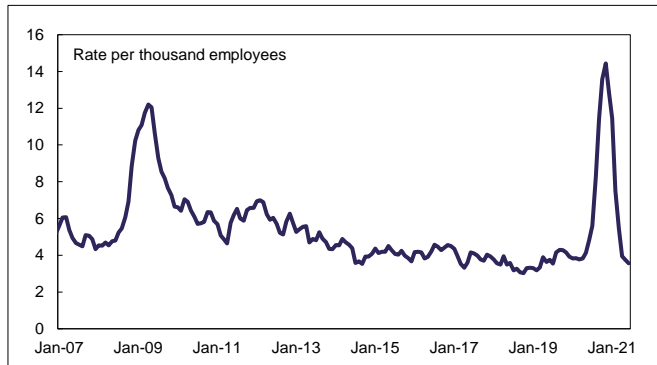
*Single-month. Source: ONS and Daiwa Capital Markets Europe Ltd.

up 0.8ppt to 7.4%Y/Y. However, these figures remain exaggerated by temporary factors, notably compositional and base effects, with median pay in April and May 2020 having declined sharply. Indeed, on the single-month measure, the ONS estimated that the equivalent growth in (median) total pay eased for the third consecutive month in July to 6.4%Y/Y (down from the peak of 9.7%Y/Y in April). Moreover, an alternative measure, the median of pay growth (which only measures those in continuous employment and is therefore not directly influenced by inflows and outflows) stood at just 3.4%Y/Y in July, down 1ppt from the peak in May and only marginally higher than the rate in February 2020. This broadly tallies with the assessment of BoE staff too. Bank staff do however expect underlying wage growth to strengthen over the third quarter as a whole, to above 4½%Y/Y.

The day ahead in the UK

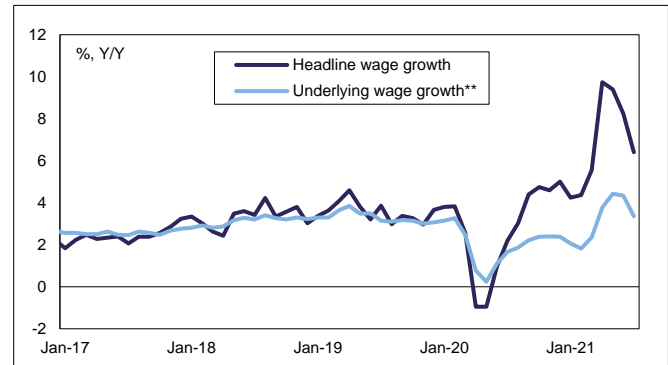
Like in the euro area, tomorrow will also bring July inflation figures. Having jumped to 2.5%Y/Y in June, we expect a temporary easing in the headline CPI rate last month driven by a modest easing in non-energy industrial goods inflation, in part reflecting a change in seasonal price patterns. For example, clothing inflation rose 2.2ppts to 0.0%Y/Y in July 2020 before falling by 1.6ppts the following month. As such, core inflation might also briefly return back below the BoE's 2% target. Wednesday will also bring the ONS' house price index for June, which is expected to show that house price inflation remained close to the 10%Y/Y reached in May ahead of tapering of the stamp duty holiday last month.

UK: Redundancy rate



Source: ONS and Daiwa Capital Markets Europe Ltd.

UK: Average wage growth*



*Single-month figures. **Underlying wage growth measured as median of pay growth. Source: ONS and Daiwa Capital Markets Europe Ltd.

European calendar

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ Daiwa forecast	Previous	Revised
Euro area	GDP – 2 nd release Q/Q% (Y/Y%)	Q2	2.0 (13.6)	2.0 (13.7)	-0.3 (-1.3)	-
	Employment Q/Q% (Y/Y%)	Q2	0.5 (1.8)	-	-0.3 (-1.8)	-
UK	Employment 3M/3M 000	Jun	95	100	25	-
	Unemployment rate 3M%	Jun	4.7	4.8	4.8	-
	Claimant count rate % (change 000)	Jul	5.7 (-7.8)	-	5.8 (-114.8)	5.7 (-136.1)
	Average weekly earnings (excluding bonuses) 3M/Y%	Jun	8.8 (7.4)	8.6 (7.3)	7.3 (6.6)	7.4 (-)
	Output per hour Y/Y%	Q2	3.1	-	0.9	1.8


Auctions

Country	Auction
Germany	sold €4.8bn of 2023 bonds at an average yield of -0.75%
UK	sold £2bn of 0% 2046 bonds at an average yield of 0.94%

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
UK	 Rightmove house price index M/M% (Y/Y%)	Aug	-0.3 (5.6)	-	0.7 (5.7)	-






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
Euro area		10.00 Final CPI (core CPI) Y/Y%	Jul	<u>2.2 (0.7)</u>	1.9 (0.9)
		10.00 Construction output M/M% (Y/Y%)	Jun	-	0.9 (13.6)
UK		07.00 CPI (core CPI) Y/Y%	Jul	<u>2.3 (2.0)</u>	2.5 (2.3)
		07.00 PPI output prices (input prices) Y/Y%	Jul	4.4 (9.1)	4.3 (9.1)
		09.30 House price index Y/Y%	Jun	-	10.0

Auctions and events

Germany		10.30 Auction: €1bn of 2050 bonds
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Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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