

Euro wrap-up

Overview

- Bunds made modest further losses at the long end of the curve as euro area unemployment continued to decline but German retail sales fell sharply at the start of Q3.
- Gilts made gains as a further strong increase in UK house prices contrasted with a subdued survey of high street prices.
- Thursday will bring data on euro area producer prices and Spain's labour market.

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Daily bond market movements

Bond	Yield	Change
BKO 0 09/23	-0.728	+0.003
OBL 0 10/26	-0.683	-0.001
DBR 0 08/31	-0.373	+0.013
UKT 0 ⁷ / ₈ 01/23	0.194	-0.019
UKT 0 ³ / ₈ 10/26	0.363	-0.016
UKT 0 ¹ / ₄ 07/31	0.691	-0.020

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

Euro area

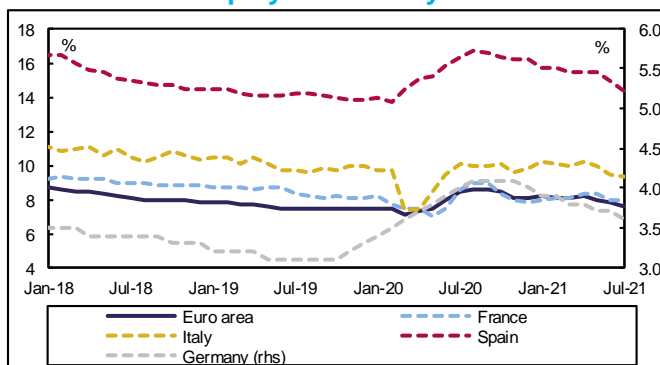
Euro area's unemployment maintains a downwards trend

Consistent with ongoing economic recovery at the start of Q3 as further easing of Covid restrictions gave a boost to the services sector, today's labour market data reported another sizeable drop in euro area unemployment in July. The number of people out of work fell 350k on the month, taking the cumulative decline since April to 987k. The fall was principally driven by a big drop (192k) in Spanish unemployment in July, pushing that country's jobless rate down 0.7ppt to 14.3%. The decline in unemployment in the three largest member states totalled 84k in July, pushing the unemployment rates down by 0.1ppt apiece in Germany (3.6%), France (7.9%) and Italy (9.3%). Overall, the euro area's unemployment rate fell 0.2ppt to 7.6%, a fourteen-month low, albeit still significantly higher than the pre-pandemic trough (7.0%) with still 864k more people out of work than in March 2020. Adding underemployed part-time workers, those available but not seeking work and people seeking but not available for work, total labour market slack was likely still close to 14% (the most recent data suggested it amounted to 14.8% in Q1). But, while surveys such as the PMIs suggest that ongoing economic recovery will extend the rebound in employment over the near term, government support schemes will in due course be tapered. And so, we expect significant excess capacity in the labour market to persist for the foreseeable future and continue to weigh on wage growth.

German retail sales fall sharply at start of Q3

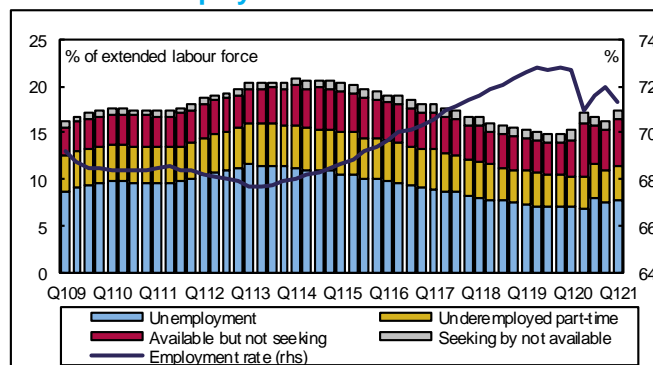
As expected, German retail sales (excluding cars) fell in July after two consecutive months of strong growth. However, the pace of decline was much steeper than expected, with sales dropping 5.1%MM in real terms to more than reverse the 4.5%MM gain of the prior month. That left the level of sales in July some 0.9% below the Q2 average albeit still 4.2% above the pre-pandemic level at the start of 2020. With prices rising, the decline in sales in nominal terms was not quite so marked at 4.5%MM, which failed to reverse fully the increase in June. Among the main components, having tripled over the prior two months, sales of clothing and textiles in nominal terms dropped a sharp 8.8%MM back below the pre-Covid level. The decline in sales of household furnishings was also relatively abrupt, at 5.2%MM, but left the level still more than 7% above the pre-Covid level. Sales of other items – from ICT equipment to cosmetics to food and drink – were also weaker. But with mobility indicators improved and the number of new coronavirus cases in Germany having remained relatively low that month, the drop in sales appears to reflect the much anticipated pivot in household expenditure from goods to services rather than a new reluctance to spend.

Euro area: Unemployment rate by member state



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Euro area: Employment rate and labour market slack



Source: Eurostat and Daiwa Capital Markets Europe Ltd.

New car registrations remain well below pre-Covid levels in August

Impacted by supply disruption, perhaps unsurprisingly today's first data for new car registrations in August were subdued and firmly below pre-pandemic levels. French new car registrations were down 15.4%Y/Y to be almost one third below the level for the same month two years ago. And while that left them up 12.6%YTD/Y over the first eight months of the year, they were down more than 23%YTD from the first eight months of 2019. In Italy, new car registrations fell 27.3%Y/Y in August to be down a similar rate from the same month in 2019. While that meant that Italian car sales in the first eight months of the year were up 30.8%YTD/Y, they were also down a little more than one fifth from the same period of 2019. And in Spain, registrations were down 28.9%Y/Y to be 36% lower than in August 2019. While that left them up 12.1%YTD/Y over the first eight months of the year, they were down by a third compared with the same period in 2019.

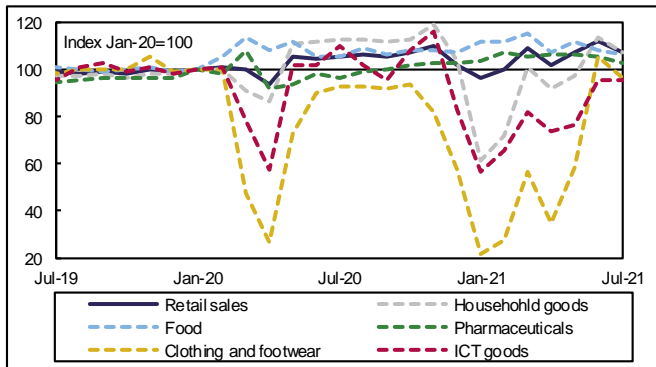
Final manufacturing PMIs suggest softer output growth, except in Southern Europe

Ongoing bottlenecks to supply were inevitably a key theme of the final August euro area manufacturing PMIs. Manufacturing output growth last month was assessed to be slightly softer than previously thought, with the respective index revised down slightly to a six-month low of 59.0. The pace of expansion was assessed to be softer among all main categories, albeit with production of investment goods continuing to outpace that of consumer and intermediate goods. More happily, however, manufacturing output reportedly accelerated in Italy, Spain and Greece, for which the August PMIs were published for the first time. Meanwhile, growth in new factory orders in the euro area was a little stronger than suggested by the flash estimate, with the respective PMI revised up to a healthy 61.5, albeit the lowest since February. So, the resulting shortfall of manufacturing production relative to orders reached a series high. According to the survey detail, firms continued to run down inventories of finished goods to meet demand. Supplier delivery times continued to lengthen albeit again at a slightly slower pace having reached a record in May. And the PMIs for input costs (87.0) and output prices (68.6) were still consistent with elevated price pressures, albeit moderating slightly for the first time in twelve and seven months respectively.

The day ahead in the euro area

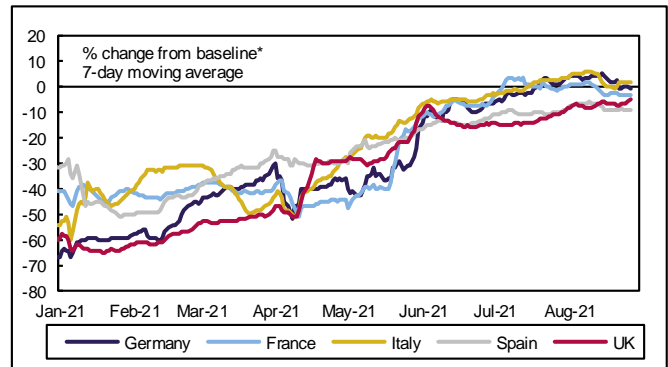
Looking ahead, tomorrow brings the release of euro area producer price inflation numbers for July. In June, producer prices rose a hefty 1.4%MM, the second-highest monthly increase in fifteen years and the sixth increase of 0.9%MM or above in the past seven months. And that saw the headline PPI inflation rate accelerate a further 0.6ppt to 10.2%Y/Y – the highest level since the early 1980s. Pressures, however, remained concentrated in prices of energy and intermediate goods. Also due to be published tomorrow are Spanish unemployment numbers for August.

Germany: Retail sales



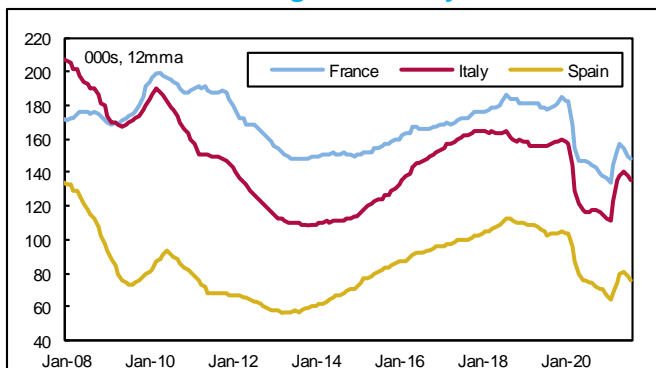
Source: Bundesbank, Bloomberg and Daiwa Capital Markets Europe Ltd.

Mobility trends in selected euro area economies



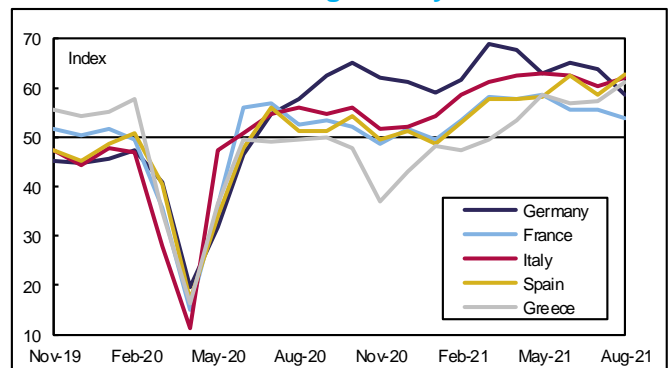
*The baseline is the median value, for the corresponding day of the week, during the five-week period 3 Jan – 6 Feb 2020. Source: Google Mobility Trends and Daiwa Capital Markets Europe Ltd.

Euro area: New car registrations by member state



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Euro area: Manufacturing PMIs by member state



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

UK

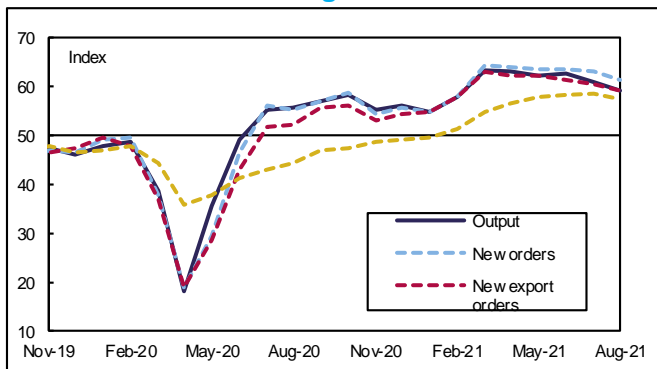
Manufacturing PMI continues to flag supply issues

There were no major surprises in today's final UK manufacturing PMI for August, which – as in the euro area – continued to flag ongoing difficulties in the sector due principally to supply constraints. There was a modest upwards revision to the headline index to 60.3, leaving it just 0.1pt below July's level and well above the long-run average, but nevertheless the lowest since February. But while unchanged from the flash release, the output component reported a more pronounced slowdown last month, down for a third consecutive month and by 3pts to 54.1. The weakness was reportedly driven by the intermediate goods sector – the relevant output PMI fell a substantial 9.8pts in August to 52.2 – while production of consumer and investment goods grew at a similar rate to that seen in July. And this reflected persistent supply difficulties, with supplier delays in the subsector the longest reported on the survey. Overall, demand remained relatively robust, with stronger orders for consumer and investment goods offsetting a notable moderation in new demand for intermediate goods. And so, manufacturers were more upbeat about conditions for the year ahead, with Markit reporting that roughly two-thirds of respondent firms expected output to rise over the coming twelve months. Against this backdrop, manufacturers signalled another month of strong jobs growth, although some predictably cited both labour and skills shortages. The persistent mismatch between supply and demand also continued to keep price pressures extremely high, with the output price PMI (71.6) at its third highest reading on the series despite falling 1.6pts on the month, while the input price PMI (86.4) was only just below the record high recorded in June.

Retail price inflation remains highly subdued, for now

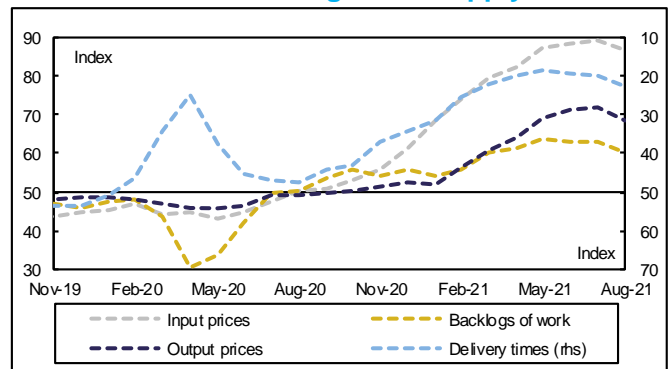
Despite significant cost pressures, however, the BRC Shop Price Index today reported that prices remain highly subdued on the high street. Indeed, despite a modest upwards move on the month, the survey's headline measure of retail price inflation remained firmly in negative territory in August (-0.8%Y/Y) for the 27th consecutive month. Retail food inflation remained modestly negative in August (up 0.2ppt to -0.2%Y/Y), while retail prices of non-food items were still down 1.2%Y/Y following a decline of 1.8%Y/Y in July. While some of the upwards drift will likely reflect base effects associated with the pandemic, the BRC also suggested that there were some modest indications that rising costs were starting to feed through, with certain non-food categories reporting sharp rises in inflation due to global supply shortages and shipping delays – for example, retail prices of electrical goods were reportedly up 0.8%Y/Y in August, the strongest annual increase since the series began in 2006, while prices of DIY and hardware items recorded the first positive year-on-year reading since October 2019. Taken together with the HGV driver shortage and additional Brexit-related red tape and checks to come, retail prices might well come under further upwards pressure over coming months.

Euro area: Manufacturing PMIs – demand side



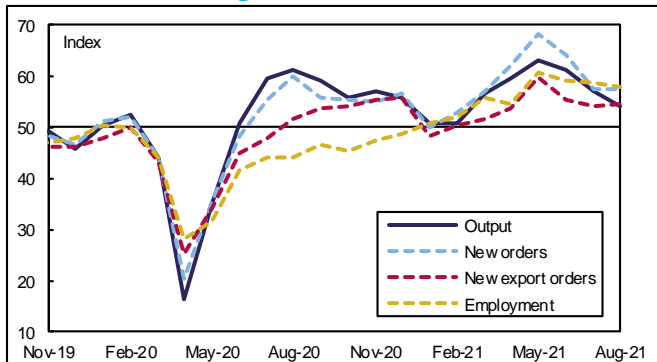
Source: Refinitiv, Markit and Daiwa Capital Markets Europe Ltd.

Euro area: Manufacturing PMIs – supply side



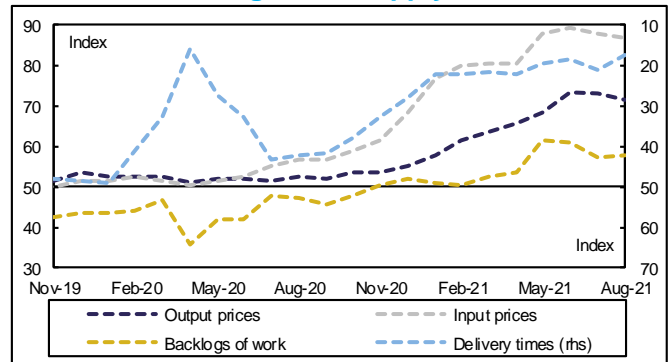
Source: Refinitiv, Markit and Daiwa Capital Markets Europe Ltd.

UK: Manufacturing PMIs – demand side



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

UK: Manufacturing PMIs – supply side



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

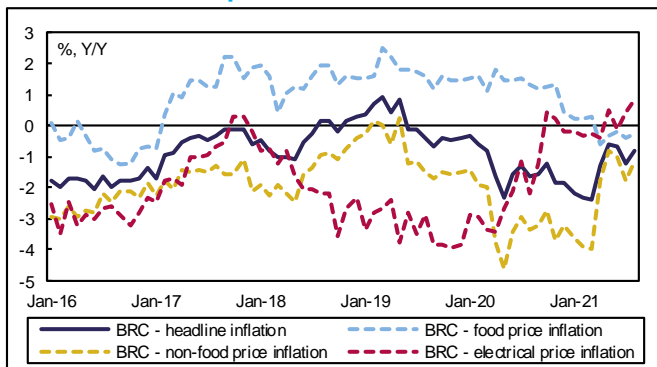
UK house prices surprisingly strong in August despite tapering of stamp duty holiday

After yesterday's [BoE lending](#) figures reported only the second net mortgage repayment in the past decade and a notable drop in the number of approved mortgages in July as the government's stamp duty cut began to taper, today's Nationwide house price index reported a surprising bounce in August. In particular, Nationwide estimate that UK house prices rose a sizeable 2.1%MM – the second-largest monthly gain in fifteen years – to leave prices up 11%YY in August (albeit below peak growth in June of 13.4%YY) and around 13% higher than at the start of the pandemic. The continued strength no doubt in part reflects persistent lack of supply on the market. But other surveys suggest that new enquiries have also dropped back, while Rightmove suggested that asking prices had fallen for the first month since January. And as the government support initiatives – including the tapered stamp duty holiday and Jobs Retention Scheme – wind down at the end of this month, we would expect to see some weakening in housing market activity and easing of house price inflation in the final quarter of the year

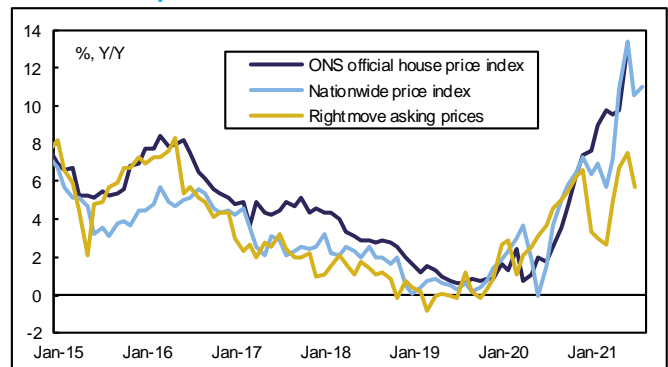
The day ahead in the UK

Tomorrow's UK economic data calendar is light with just the publication of the BoE's latest monthly Decision Maker Panel survey, which will provide further insight into firms' sales expectations and employment intentions.

UK: BRC's retail price inflation

















UK: House price indicators





European calendar

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Euro area	 Final manufacturing PMI	Aug	61.4	61.5	62.8	-
	 Unemployment rate %	Jul	7.6	7.6	7.7	7.8
Germany	 Retail sales M/M% (Y/Y%)	Jul	-5.1 (-0.3)	-1.0 (3.6)	4.2 (6.2)	4.5 (6.5)
	 Final manufacturing PMI	Aug	62.6	62.7	65.9	-
France	 Final manufacturing PMI	Aug	57.5	57.3	58.0	-
	 New car registrations Y/Y%	Aug	-15.4	-	-35	-
Italy	 Manufacturing PMI	Aug	60.9	60.1	60.3	-
	 Unemployment rate %	Jul	9.3	9.6	9.7	9.4
	 New car registrations Y/Y%	Aug	-27.3	-	-19.4	-
Spain	 Manufacturing PMI	Aug	59.5	59.0	59.0	-
	 New car registrations Y/Y%	Aug	-28.9	-	-28.9	-
UK	 BRC shop price index Y/Y%	Aug	-0.8	-	-1.2	-
	 Nationwide house price index M/M% (Y/Y%)	Aug	2.1 (11.0)	0.1 (8.6)	-0.5 (10.5)	-0.6 (-)
	 Final manufacturing PMI	Aug	60.3	60.1	60.4	-



Auctions

Country	Auction
Germany	 sold €3.3bn of 0% 2026 bonds at an average yield of -0.69%
UK	 sold £2.5bn of 0.5% 2029 bonds at an average yield of 0.575%









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 PPI Y/Y%	Jul	11.0	10.2
Spain		08.00 Unemployment change '000s	Aug	-	-197.8

Auctions and events

France		09.50 Auction: 0% 2031 bonds
		09.50 Auction: 0.5% 2044 bonds
		09.50 Auction: 1.5% 2050 bonds
Spain		09.30 Auction: 1.5% 2027 bonds
		09.30 Auction: 0% 2028 bonds
		09.30 Auction: 0.5% 2031 bonds
		09.30 Auction: 0.7% 2033 index-linked bonds
UK		09.30 BoE publishes Monthly Decision Maker Panel data – August 2021

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Access our research blog at:

<https://www.uk.daiwacm.com/ficc-research/recent-blogs>

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