Daiwa Capital Markets

Euro wrap-up

Overview

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- Longer-dated Bunds made modest losses as the German ZEW survey suggested that investors were more upbeat about the outlook.
- Gilts made losses across the curve as UK data suggested a tight labour market, despite a fall in employment and wage growth in November.
- Tomorrow will bring German and UK inflation numbers as well as euro area construction activity data.

Daily bond market movements

Bond	Yield	Change
BKO 0 12/23	-0.585	-0.005
OBL 0 10/26	-0.350	-0.002
DBR 0 02/32	-0.021	+0.008
UKT 0 $^{1}/_{8}$ 01/24	0.849	+0.028
UKT 0 $^{3}/_{8}$ 10/26	1.012	+0.025
UKT 0¼ 07/31	1.211	+0.028

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

Euro area

ZEW survey flags improved outlook for growth and profits but falling inflation expectations

While the German economy appears to have contracted in the final quarter of 2021, and looks set to be subdued by the pandemic for a while yet, today's ZEW investor survey for January suggested a notable improvement in investor sentiment with respect to the outlook for the coming six months. Admittedly, the survey's index of current conditions fell for the fourth successive month and by almost 3pts to an eight-month low of -10.2. However, providing a far more positive take than last week's euro area Sentix sentiment survey results, the ZEW survey's expectations index leapt more than 20pts to a six-month high of 51.7, well above the long-run average. Perhaps unsurprisingly, the improvement in the outlook reflected expectations that the spread of the coronavirus will fade by early summer, with benefits for both demand and supply. Notably, expectations that German inflation has peaked are now widespread, with the survey's balance of inflation expectations falling further into negative territory (-42.7) to the lowest since the onset of the pandemic in March 2020. Nevertheless, long-term interest rates are expected to continue to pick up, with the associated balance (69.9) rising to the highest since 2018. That is judged to benefit the profit outlook for banks, for which the respective survey index rose to the highest since 2009. And the improved outlook for supply chains gave a boost to profit expectations in several other sectors including autos, machinery and steel.

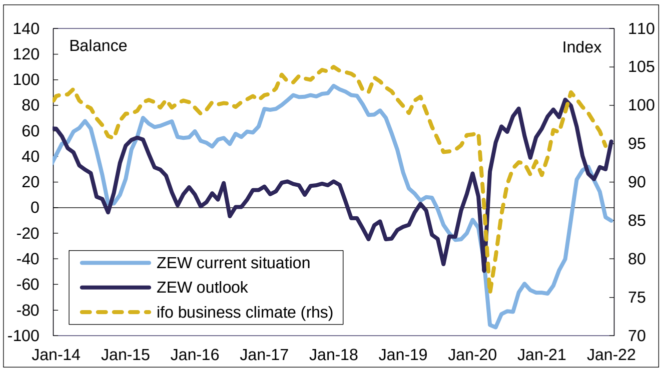
French retail survey points to growth in December but drop in Q4

In France, meanwhile, a central bank retail survey today brought further insight into household spending at the end of last year. In particular, the Bank of France suggested that spending on goods rose a solid 2.2%M/M in December, driven by increases of more than 10½%M/M in expenditure on autos and almost 7%M/M in perfume and hygiene-related products. But coming on the back of two consecutive monthly declines in excess of 1%M/M, French retail sales were down over the fourth quarter as a whole, by 0.9%Q/Q, following strong growth of 4.5%Q/Q in Q3. Nevertheless, and notwithstanding the likelihood of a drop in demand for consumer-facing services, the Bank of France's business conditions surveys last week still pointed to GDP growth of about 0.6%Q/Q in Q4 as production and construction benefited from an easing of supply bottlenecks.

Euro area new car registrations down again in Q4

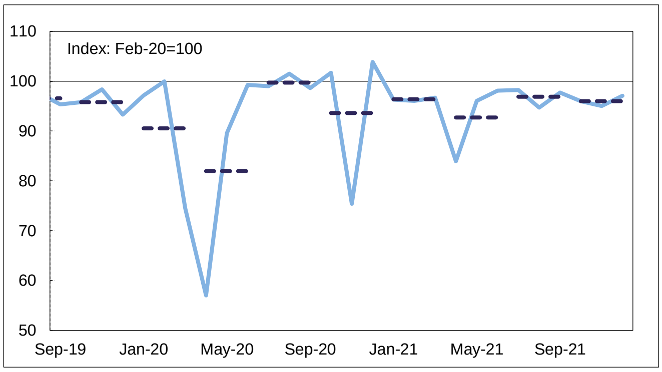
Consistent with the national figures released earlier this month, today's ACEA euro area new car registrations data confirmed a second successive monthly increase in December, albeit with the level remaining subdued by historical standards. On an unadjusted basis, the number of units registered rose to 673k, the highest since June. That, however, was still the lowest December reading since 2013 and down 22.6%Y/Y. On a seasonally adjusted basis, registrations accelerated 2.3ppts to 2.8%M/M, the fastest pace in a year. However, given the drop in October, on the same basis, euro area new car registrations

Germany: ZEW survey indicators



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

France: Retail sales*



**Dashed lines represent quarterly average.*
Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

dropped for the fourth successive quarter in Q4, albeit with the decline of 0.7%Q/Q representing the softest of the sequence. Over 2021 as a whole, registrations were down 2.4%Y/Y from the record low base of 2020. Among the large member states, German new car registrations jumped almost 10%M/M in December but were up just 0.6%Q/Q in Q4 and fell 10.1%Y/Y over 2021 as a whole. Spanish sales were also much improved at the end of the year, rising 16%M/M and more than 15%Q/Q. However, new registrations in France and Italy both fell, dropping 3.9%Q/Q and 3.0%Q/Q respectively in Q4.

The day ahead in the euro area

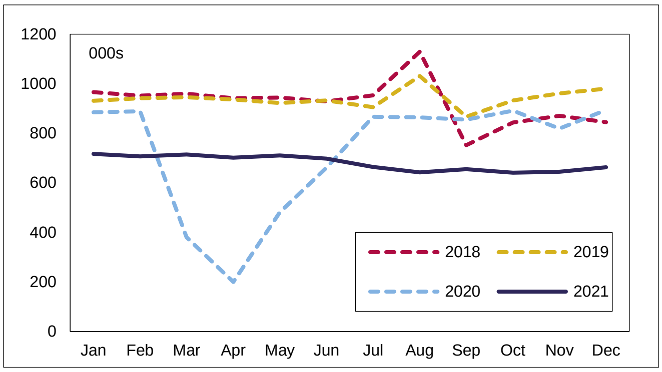
Tomorrow sees the release of euro area construction output numbers for November. Contrasting with the pickup reported in manufacturing that month, activity in the sector is likely to have dropped, weighed by declines in Germany and France. Meanwhile, ahead of the final euro area inflation numbers on Friday, final German CPI figures are expected to align with the flash data that showed the headline rate on the EU-harmonised measure falling in December by 0.3ppt to 5.7%Y/Y, suggesting that German inflation has now passed its peak. Admittedly, the drop in HICP inflation contrasted slightly with the national measure, which saw the headline rate rise 0.1ppt to 5.3%Y/Y.

UK

Labour market tight, but employment slipped back in November

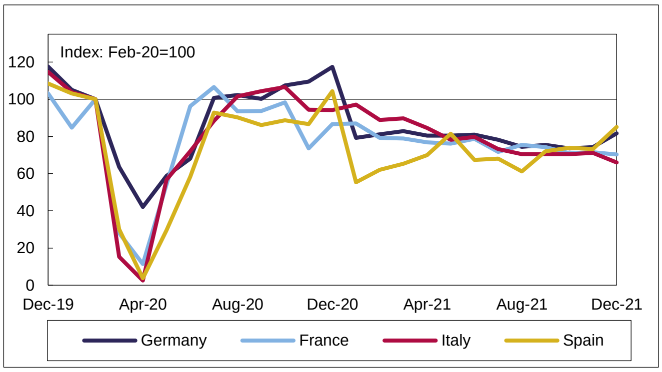
While the headline figures suggested again that the labour market is tight, the detail in today's UK data provided signs of a loss of momentum in the final quarter of last year. Admittedly, according to the timeliest figures, there appeared to be limited evidence so far of an adverse effect from the spread of the Omicron variant, with the number of payrolled employees in December rising a further 184k on the month to be 409k (1.4%) above the pre-pandemic level and 1.3mn above its level a year ago. But over recent quarters these figures have been flattered by shifts from self-employment to employee status. And there were sizeable downwards revisions to the payroll data for the previous six months raising further questions about their quality. More importantly, the labour force survey suggested that total employment rose in the three months to November by just 59k, compared with the average increase of a little more than 200k in the previous four months. That rise was only thanks to an increase in the number of part-time workers (109k). Moreover, single-month estimates showed that employment fell in November for the second successive month (-88k) to be on track in Q4 for the first quarterly drop in a year. Overall, largely given the decline in the number of workers self-employed, total employment remained 598k below the pre-pandemic level. The number of hours worked also slipped back in November, to be still 33.2mn below the pre-pandemic level.

Euro area: New car registrations



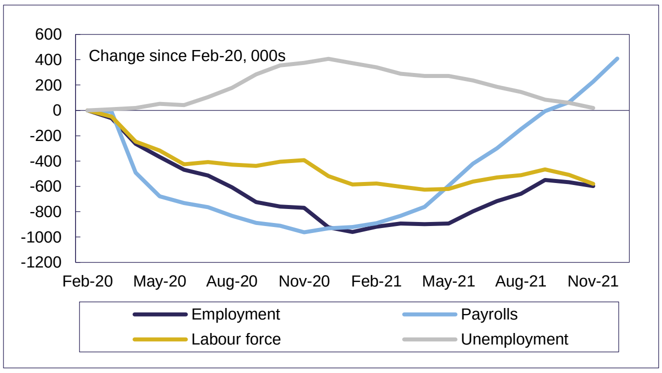
Source: ECB and Daiwa Capital Markets Europe Ltd.

Euro area: New car registrations by member state



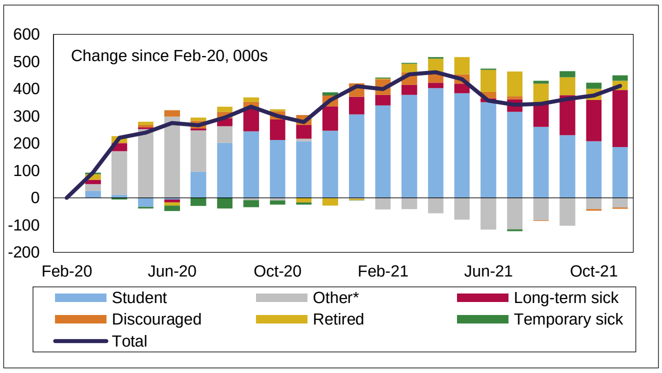
Source: ECB and Daiwa Capital Markets Europe Ltd.

UK: Unemployment, employment and labour force



Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

UK: Inactivity by reason



**Includes looking after family/home.*
Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Unemployment down, but inactivity still rising

Overall, the level of unemployment fell 41k in the three months to November to leave the unemployment rate down 0.4ppt on the quarter to 4.1%, just 0.1ppt higher than the pre-pandemic level. But this reflected a further increase in the inactivity rate, by 0.2ppt over the quarter to 21.3%, to leave the number of those economically inactive roughly 411k (4.7%) higher than before than pandemic. While this in part reflects a pickup in early retirement, a sharp rise in those inactive due to long-term sickness accounts for roughly half of the cumulative rise, raising concerns about lasting negative effects from the pandemic. Meanwhile, a large share of the younger labour force has returned to education. Furthermore, the share of those inactive that wanted a job in November fell to a new series low (19.3%). So, with job vacancies still close to record highs in most sectors in December, and the number of unemployed workers per vacancy at a record low, the tightness in the labour market appears to be as much a function of reduced participation as improved employment opportunities.

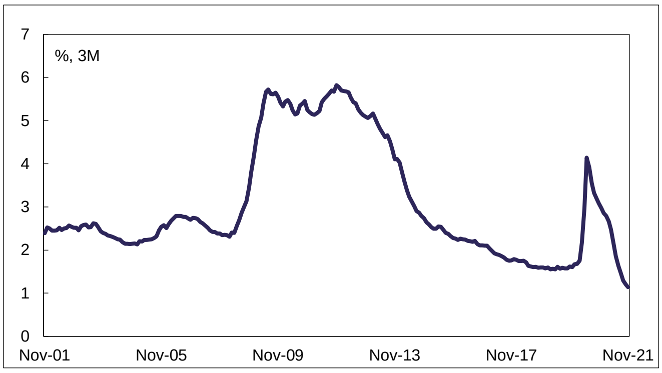
Wage growth moderating, real wage growth back in negative territory

Wage growth also continued to moderate in the three months to November in part reflecting the fading of compositional and base effects. In particular, average total pay (including bonuses) was down 0.7ppt to 4.2%3M/Y and regular pay (excluding bonuses) slowed 0.5ppt to 3.8%3M/Y. Admittedly, underlying wage growth on a three-month basis – which better reflects the current trend in light of base effects – edged slightly higher in the three months to November, by 0.5ppt to 4.2%3M/3M annualized, to be slightly above the top of the pre-pandemic range. Nevertheless, given rising inflation, real wage growth weakened significantly. Indeed, real average labour earnings fell in November, and by a steep 0.9%Y/Y, for the first time since July 2020. With tax, national insurance and household energy bills set to rise in April, real disposable incomes look set to continue to decline this year to weigh on household consumption.

The day ahead in the UK

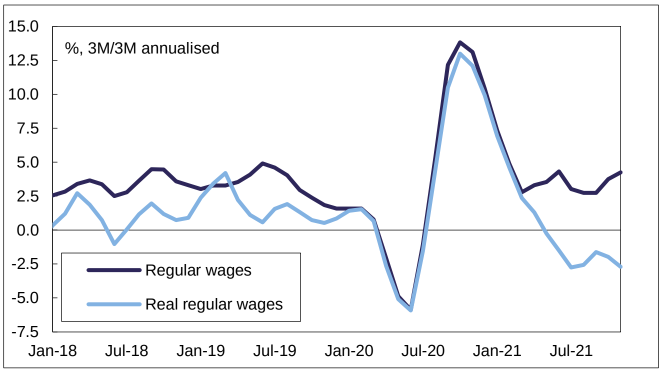
The data focus in the UK tomorrow turns to inflation with December CPI and PPI numbers due for release. We expect the headline CPI rate to have risen further, by 0.3ppt to 5.4%Y/Y, in part reflecting higher food price inflation. Meanwhile, core inflation is forecast to move sideways at 4.0%Y/Y. And the latest producer prices data are expected to highlight persisting price pressures at the factory gate, with the PPI output price measure expected to rise 0.3ppt, to 9.4%Y/Y, the highest annual rate in over thirteen years. Aside from the data, tomorrow sees BoE Governor Bailey and other Committee members testify to the Treasury Select Committee, principally on the latest Financial Stability report.

UK: Unemployment to job vacancies



Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

UK: Wage growth



Source: Refinitiv 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		EU27 new car registrations Y/Y%	Dec	**-22.8**	-	-20.5	-
Germany		ZEW survey current situations (expectations) balance	Jan	**-10.2 (49.4)**	-10.5 (33.0)	-7.4 (29.9)	-
Italy		Trade balance €bn	Nov	**4.2**	-	3.9	-
UK		Claimant count rate % (change 000s)	Dec	**4.7 (-43.3)**	-	4.9 (-49.8)	**4.8 (-95.1)**
		Payrolled employees monthly change 000s	Dec	**184**	-	257	**162**
		ILO unemployment rate 3M% (employment change 3M 000s)	Nov	**4.1 (60)**	4.2 (129)	4.2 (149)	-
		Average weekly earnings (excluding bonuses) 3M/Y%	Nov	**4.2 (3.8)**	4.2 (3.7)	4.9 (4.3)	-

Auctions

Country		Auction
Germany		sold €3.22bn of 0% 2027 bonds at an average yield of -0.29%
UK		sold £2.5bn of 0.5% 2029 bonds at an average yield of 1.105%

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Yesterday's results

Economic data

Country		Release	Period	Actual	Market consensus/ *Daiwa forecast*	Previous	Revised
Italy		Final CPI (EU harmonised CPI) Y/Y%	Dec	**3.9 (4.2)**	3.9 (4.2)	3.7 (3.9)	-
UK		Rightmove house price index M/M% (Y/Y%)	Jan	**0.3 (7.6)**	0.3 (7.6)	-0.7 (6.3)	-

Auctions

Country	Auction
	- Nothing to report -

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's releases

Economic data

Country		GMT	Release	Period	Market consensus/ *Daiwa forecast*	Previous
Euro area		10.00	Construction output M/M% (Y/Y%)	Nov	-	1.6 (4.4)
Germany		07.00	Final CPI (EU harmonised CPI) Y/Y%	Dec	*5.3 (5.7)*	5.2 (6.0)
UK		07.00	CPI (core CPI) Y/Y%	Dec	*5.4 (4.0)*	5.1 (4.0)
		07.00	PPI input prices (output prices) Y/Y%	Dec	13.7 (9.4)	14.3 (9.1)
		09.30	House price index Y/Y%	Nov	10.0	10.2

Auctions and events

Country		GMT	Event
Germany		10.30	Auction: €1.5bn of 0% 2036 bonds
UK		14.15	BoE officials to appear before the Treasury Select Committee to discuss the Financial Stability Report

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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