

# Euro wrap-up

## Overview

- Bunds made gains even as euro area producer price inflation again exceeded expectations and the unemployment rate fell to a new series low.
- Gilts made losses while the final UK manufacturing PMIs suggested that production growth was stronger than previously thought at the start of Q2.
- Wednesday will bring new data on euro area retail sales, German goods trade and UK bank lending as well as final euro area services PMIs.

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### Daily bond market movements

Bond	Yield	Change
BKO 0 03/24	0.224	-0.009
OBL 0 04/27	0.667	-0.006
DBR 0 02/32	0.936	-0.026
UKT 1 04/24	1.613	+0.045
UKT 1½ 07/27	1.708	+0.050
UKT 4¼ 06/32	1.946	+0.043

\*Change from close as at 4:00pm BST.  
Source: Bloomberg

## Euro area

### Producer price inflation again beats expectations, several times stronger than in the US

Data released at the end of last week reported an unexpected rise in euro area [consumer price inflation](#) in April to a new high of 7.5%Y/Y, including a bigger-than-anticipated increase in the core component to a series record 3.5%Y/Y. Today's producer price inflation figures for March suggested that pipeline pressures mounted significantly further at the end of Q1, flagging upside risks to consumer prices over coming months. The annual headline rate of industrial PPI inflation rose a larger-than-expected 5.3ppts to a new high of 36.8%Y/Y, strikingly around 3½ times the equivalent figure in the US. On the month, euro area industrial producer prices rose 5.3%M/M, just 0.1ppt shy of the series high five months earlier. As for consumer price inflation in March, energy prices were a key driver of the further rise in the annual PPI rate that month, up almost 17ppts to above 100%Y/Y for the first time on the series. However, the pressures were more broad-based than ever. For example, producer inflation of intermediate items rose 1.7ppt to a new high of 22.6%Y/Y, accelerating not least due to a more-than-doubling of prices of fertilisers from a year earlier, with the components for metals, chemicals and textiles among others that were significantly higher too.

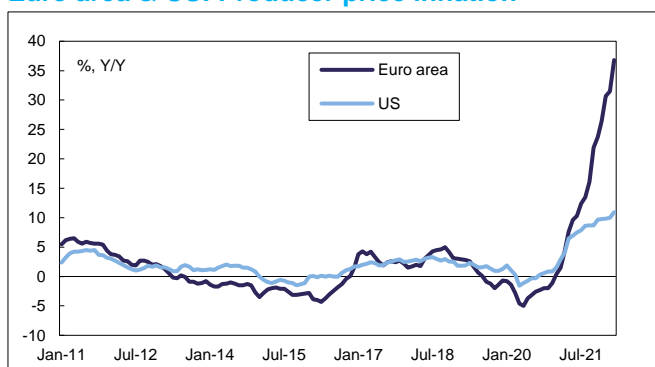
### Pipeline consumer price pressures intensifying, with selling price expectations rising

Most notably perhaps, producer prices of core (i.e. non-food, non-energy) consumer goods rose a further 0.8%M/M to be up a record 6.0%Y/Y – more than ten times the average rate of increase in the two decades ahead of the pandemic. While producer energy prices appear to have fallen back in April, other components are likely to have remained strong. And the ongoing war in Ukraine, political steps towards implementing a (phased-in) embargo of Russian energy, and the weaker euro – which Chief Economist Lane last week suggested would play an important role in the forthcoming revisions to the ECB's inflation projections – pose renewed upside risks over coming months. So, it was perhaps no surprise that yesterday's Commission economic sentiment survey suggested that selling price expectations for the coming three months rose to new highs in all surveyed business sectors last month. In contrast, however, perhaps reflecting ongoing efforts by governments to soften the impact of higher energy prices on households, including cuts in gasoline duty and price controls on electricity bills, consumers' price expectations for the coming twelve months dropped in April, albeit remaining close to March's series high.

### Wage growth remains subdued

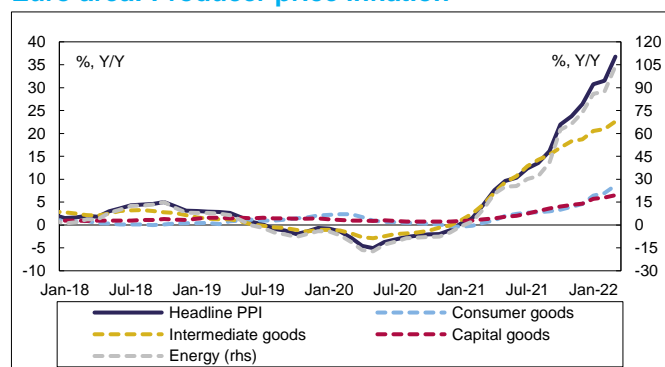
A further reason for the slight drop in consumer price expectations might be the continued absence of pay growth. Euro area negotiated wages rose just 1.6%Y/Y in Q421, with more timely monthly data reporting increases of just 1.2%Y/Y (or 1.5%Y/Y including bonuses) in Germany in April and 0.7%Y/Y in Italy in Q122. Admittedly, minimum wages are expected to increase

### Euro area & US: Producer price inflation\*



\*Excluding construction. Source: Refinitiv, Eurostat, BLS and Daiwa Capital Markets Europe Ltd.

### Euro area: Producer price inflation



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

in twelve member states this year, including a rise of some 25% in Germany from October. And some unions have made particularly aggressive opening bids in current negotiations (e.g. German basic-metal workers have called for a pay rise of more than 8%). However, those bids tend to reflect special factors, and in any case seem likely to result in settlements no more than half the rates demanded. And we certainly do not expect to see a marked acceleration in aggregate wage growth over the near term to the kind of rates (e.g. in excess of 3%Y/Y) that might provide further upwards pressure to inflation over the medium term. As a result, real household incomes will likely decline this year, compounding the weakness in consumer sentiment and weighing on demand.

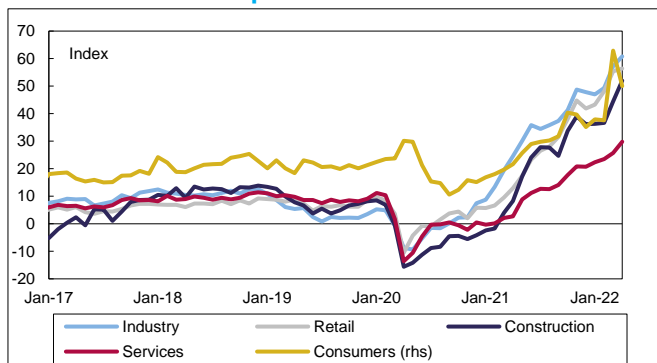
## Unemployment rate drops to new low but hints of a softening of labour market momentum

Some members of the ECB's Governing Council, however, fear that ongoing tightening in the labour market, coupled with current high inflation, will eventually generate meaningful second-round effects on wages. Indeed, in a speech early last month, key ECB Executive Board member Schnabel flagged the possibility that while "delayed and staggered", the eventual pick up in pay growth could be "longer-lasting... thereby putting persistent upward pressure on inflation". But over the near term conditions in the labour market might well weaken. Admittedly, the euro area unemployment rate dropped again in March to a new series low of 6.8% (11.274mn), down 1.4ppt (1.93mn) from a year earlier. Among the large member states, unemployment rates fell in Germany (down 0.1ppt to just 2.9%) and Italy (down 0.2ppt to 8.3%). But joblessness was unchanged in France (7.4%). And despite the revival in the tourism sectors, the unemployment rates ticked up in Spain (by 0.1ppt for a second successive month to 13.5%) and Portugal (5.7%). Meanwhile, although they fell again in April, the drop in German jobless claims of 13k was the smallest in twelve months. The Commission survey for April signalled a softening of firms' intentions to hire new staff in all main business sectors in the euro area while consumer fears of unemployment over the coming twelve months rose for a second consecutive month. And heightened uncertainty related to events in Ukraine – not least associated with Russian energy supply – seems likely to persuade many firms to put recruitment plans back on ice for a while yet.

## The day ahead in the euro area

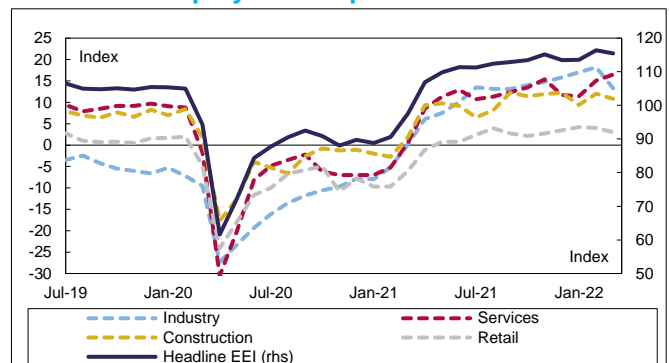
After Friday's [euro area Q1 GDP](#) estimate, tomorrow's retail sales numbers for March will offer some further guidance to consumer spending in the first quarter. Yesterday's German sales figures recorded a modest decline in March (-0.1%M/M) following downwardly revised growth in February (0.2%M/M) to leave them down more than 1%Q/Q. And despite some firmer French sales figures published by the Bank of France (1.4%M/M, 0.4%Q/Q), expectations are for euro area retail sales to have fallen slightly in March, by 0.2%M/M. This would leave them down around 0.8%Q/Q. Of course, some of this weakness will reflect increased opportunities to spend on services. And the final services PMIs for April, also due tomorrow,

### Euro area: Price-expectations indices



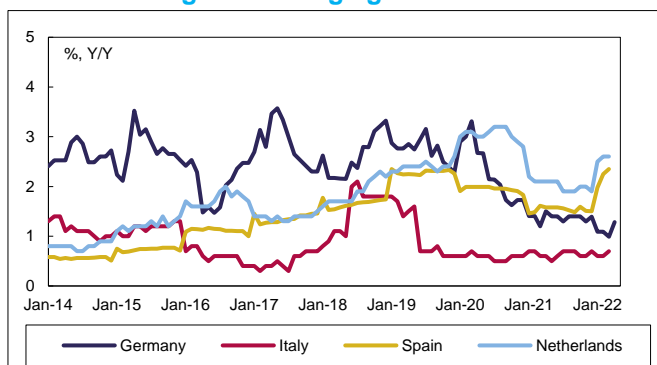
Source: European Commission, Refinitiv and Daiwa Capital Markets Europe Ltd.

### Euro area: Employment-expectations indices



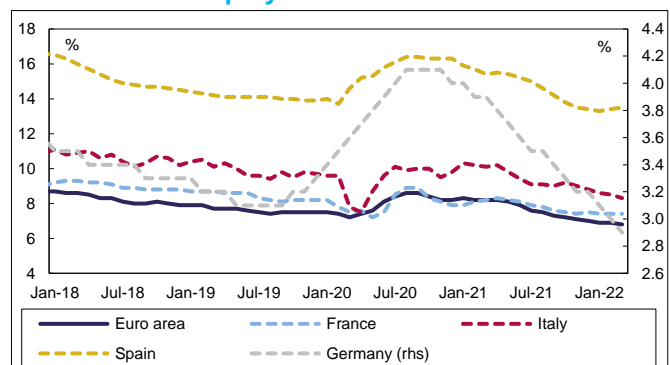
Source: European Commission, Refinitiv and Daiwa Capital Markets Europe Ltd.

### Euro area: Negotiated wage growth



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

### Euro area: Unemployment rates



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

are expected to imply ongoing solid expansion in the sector at the start of the second quarter – indeed, the flash activity index rose 1.9pts to 57.7, an eight-month high. Wednesday will also bring German goods trade numbers for March, as well Spanish labour market numbers for April.

## UK

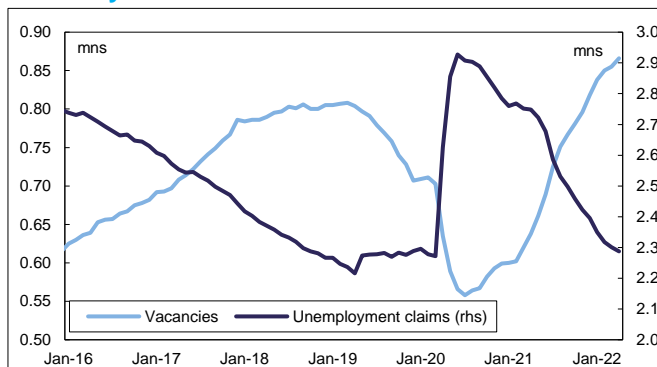
### Final manufacturing PMI revised a touch higher in April, but outlook remains clouded

There were no major surprises from today's final UK manufacturing PMIs, with the survey suggesting a solid pickup in production at the start of Q2, but pointing to more challenging times ahead for the sector. Admittedly, the output component was revised a touch higher from the flash estimate, by 0.4pt to 54.3, some 2.4pts higher than March, with a 6pt jump in the investment goods sector to a ten-month high (55.9). But while the survey also implied solid growth in output of intermediate goods (the respective PMI was up 2.4pts to 55.9), production of consumer goods remained very subdued (50.7). Despite being upwardly revised from the flash estimate, there was a further slowing in orders in April – the relevant PMI (51.7) was the lowest since the start of 2021 – amid the fastest contraction in overseas sales since July 2020. Cost burdens continued to mount too, with some 85% of manufacturers citing an increase this month and no firm reporting a decline for the first time during the survey's history. So, overall the input price PMI rose 4.2pts to 89.5, close to November's peak. And manufacturers' selling prices were also considerably stronger than in March, with the relevant index up 7.5pts to 78.8, a record high. While more than 50% of manufacturers expected output to rise over the coming year, business optimism for the year ahead was the lowest since December 2020.

### The day ahead in the UK

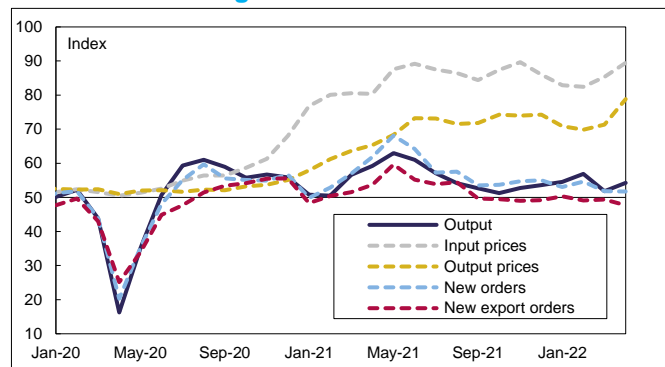
Ahead of the BoE's policy announcements on Thursday, tomorrow's data calendar brings the BRC's latest shop price index, which is expected to show that retailers have increasingly passed on higher costs to consumers on a range of goods, not least food, despite relatively subdued demand. Meanwhile, the BoE's latest bank lending numbers are expected to show that demand for consumer credit has risen further as households increasingly feel the squeeze.

#### Germany: Labour market indicators



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

#### UK: Manufacturing PMIs







Source: Refinitiv, S&P Global and Daiwa Capital Markets Europe Ltd.


## European calendar

### Today's results

#### Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Euro area	 PPI M/M% (Y/Y%)	Mar	<b>5.3 (36.8)</b>	4.5 (35.7)	1.1 (31.4)	<b>- (31.5)</b>
	 Unemployment rate %	Mar	<b>6.8</b>	6.7	6.8	<b>6.9</b>
Germany	 Unemployment change '000s (rate %)	Apr	<b>-13.0 (5.0)</b>	-15.0 (5.0)	-18.0 (5.0)	-
UK	 Final manufacturing PMI	Apr	<b>55.8</b>	55.3	55.2	-














#### Auctions

Country	Auction
Germany	 sold €560mn of 0.1% 2033 index-linked bonds at an average yield of -1.73%

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
Euro area	 Final manufacturing PMI	Apr	<b>55.5</b>	55.3	56.5	-
	 EC economic sentiment indicator	Apr	<b>105.0</b>	108.0	108.5	<b>106.7</b>
	 EC industrial (services) confidence	Apr	<b>7.9 (13.5)</b>	9.5 (13.5)	10.4 (14.4)	<b>9.0 (13.6)</b>
	 EC final consumer confidence	Apr	<b>-22.0</b>	-16.9	-18.7	<b>-21.6</b>
Germany	 Retail sales M/M% (Y/Y%)	Mar	<b>-0.1 (-5.4)</b>	0.2 (3.6)	0.2 (6.8)	<b>0.2 (6.8)</b>
	 Final manufacturing PMI	Apr	<b>54.6</b>	54.1	56.9	-
France	 Final manufacturing PMI	Apr	<b>55.7</b>	55.4	54.7	-
	 New car registrations* Y/Y%	Apr	<b>-22.6</b>	-	-19.5	-
Italy	 Manufacturing PMI	Apr	<b>54.5</b>	55.1	55.8	-
	 Unemployment rate %	Mar	<b>8.3</b>	8.4	8.5	-
	 New car registrations Y/Y%	Apr	<b>-33.0</b>	-	-29.7	-
Spain	 Manufacturing PMI	Apr	<b>53.3</b>	54.0	54.2	-
	 New car registrations* Y/Y%	Apr	<b>-12.1</b>	-	-30.2	-













#### 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		09.00	Final services (composite) PMI	Apr	57.7 (55.8)	55.6 (54.9)
		10.00	Retail sales M/M% (Y/Y%)	Mar	-0.2 (1.6)	0.3 (5.0)
Germany		07.00	Trade balance €bn	Mar	10.0	11.0
		08.55	Final services (composite) PMI	Apr	57.9 (54.5)	56.1 (55.1)
		-	New car registrations* Y/Y%	Apr	-	-17.5
France		08.50	Final services (composite) PMI	Apr	58.8 (57.5)	57.4 (56.3)
Italy		08.45	Services (composite) PMI	Apr	54.3 (53.7)	52.1 (52.1)
Spain		08.00	Unemployment change '000s	Apr	-	-2.9
		08.15	Services (composite) PMI	Apr	55.9 (-)	53.4 (53.1)
UK		00.01	BRC shop price index Y/Y%	Apr	-	2.1
		09.30	Net consumer credit £bn (Y/Y%)	Mar	1.4 (-)	1.9 (4.4)
		09.30	Net mortgage lending £bn (approvals '000s)	Mar	4.7 (70.0)	4.7 (71.0)

### Auctions and events

Germany		10.30	Auction: €1.5bn of 2031 bonds
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*\*Approximate date of release. Source: Bloomberg and Daiwa Capital Markets Europe Ltd.*

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