

# Euro wrap-up

## Overview

- While the euro area unemployment rate dropped to a new series low, Bunds rallied hard as German retail sales slumped.
- Gilts also made gains as a BoE survey reported a moderation in inflation expectations and UK house prices fell by more than expected.
- Friday will bring new data on euro area producer price inflation, German goods trade and French industrial production.

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### Daily bond market movements

Bond	Yield	Change
BKO 2.2 12/24	1.999	-0.096
OBL 1.3 10/27	1.793	-0.129
DBR 1.7 08/32	1.812	-0.111
UKT 1 04/24	3.280	-0.042
UKT 1¼ 07/27	3.210	-0.055
UKT 4¼ 06/32	3.104	-0.052

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

## Euro area

### Unemployment rate drops to new series low in October

Despite the downturn in demand, widespread pessimism about the economic outlook, and significant cost pressures, the euro area labour market remains resilient. Indeed, the unemployment rate unexpectedly fell 0.1ppt in October to a new series low of 6.5%, down 0.8ppt from a year earlier and 2.1ppts below the pandemic high. And the number of workers unemployed in the euro area fell 142k to below 11.0mn for the first time. Once again, Southern Europe led the improvement, with Spain (where the rate fell 0.2ppt to 12.5%) and Greece (down 0.4ppt to 11.6%) accounting together for more than half of the decline in the number of jobless workers, seemingly as services continued to normalize from the pandemic. Surveys suggest that firms intend to hoard workers into the economic downturn, with the Commission's employment expectations index up further above the long-run average to a three-month high in November. Improvements were reported in each of the four largest member states, led by the manufacturing sector, perhaps as concerns about energy supply over the winter diminished. The equivalent German ifo employment barometer indices also reported improvement in willingness to recruit and retain staff in services and construction last month.

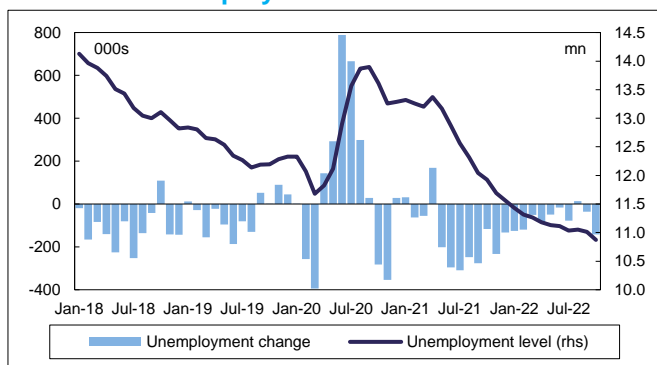
### Wages accelerating for new hires but pay settlements suggest moderation in pay in 2024

With staff and skill shortages also cited as a restraint on growth in some sectors, the continued tightness of the labour market will remain a cause of concern for many ECB Governing Council members, not least due to the potential for second-round effects on inflation via wages. However, at 2.9%Y/Y in Q3, euro area negotiated wage growth was only moderately above the long-run average and hardly signalled a major new inflationary impulse. Admittedly, certain other indicators, including the Central Bank of Ireland's wage growth tracker based on Indeed job postings, point to recent increased momentum in pay. But such wages offered to new hires seem bound to outpace settlements for existing workers, and so should not necessarily be interpreted as a reliable guide to future growth in overall labour costs. Moreover, recent multi-year pay deals – such as that struck last month by Germany's IG Metall for its workers in the autos, metals and electrical sectors – remain consistent with negative growth in real wages over the coming year, and also point to an eventual slowdown in wage growth in 2024. Indeed, evidence continues to suggest that non-labour costs, not least those related to energy, food and other intermediate inputs, still represent by far the largest share of pressures on core goods and services prices, suggesting that core inflation should steadily decline in 2023 as supply-side challenges steadily ease.

### German retail sales slump at the start of Q4 as higher prices continue to erode purchasing power

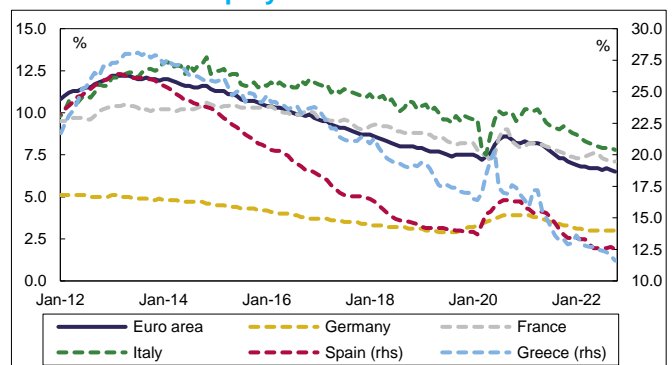
While household consumption was a key driver of the economic expansion in the largest member state over the summer, today's German retail sales figures suggested the exact opposite at the start of Q4. In particular, the volume of sales

#### Euro area: Unemployment



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

#### Euro area: Unemployment rates



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

slumped a much steeper-than-expected 2.8%M/M in October, the most since last December, to leave sales down 5%Y/Y and by more than 7% from the peak in November 2021. Destatis reported a marked decline in non-food store sales, by 4.5%M/M, with spending on clothing down a steep 5.7%M/M to a six-month low and furniture down 2.3%M/M to its lowest level in ten months. Food sales reversed some of the jump in September to be down 1.2%M/M, while spending at petrol stations stagnated. The value of sales was also down in October, albeit by a smaller 1.7%M/M to leave them still up more than 6%Y/Y, again illustrating the erosion of real-terms purchasing power by high inflation. And so, with consumer confidence still close to historical lows and some 10pts below the Q3 average, spending on big-ticket items and goods more generally looks set to have weakened considerably in Q4, with spending on services unlikely to provide much if any support too.

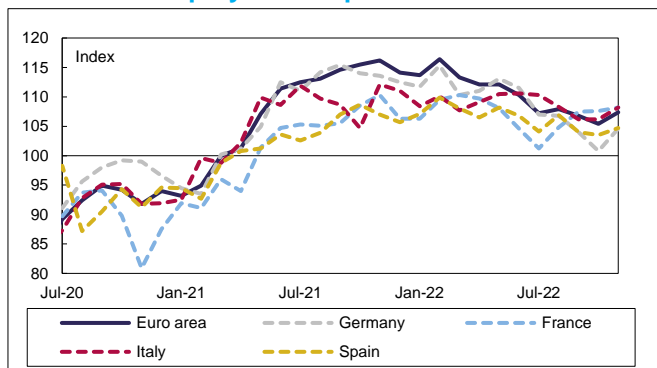
## Manufacturing PMIs tentatively point to some stabilization as supply constraints ease

There were no major surprises from today's final manufacturing PMIs for November, which despite a modest upwards revision from the flash release and increase from October still implied ongoing marked contraction in the euro area's factory sector. For example, the output PMI (46.0) remained below the key-50 mark for the sixth consecutive month and, aside from the initial onset of the pandemic, was the second-weakest since the euro crisis in 2012. And while the pace of decline moderated slightly in Germany (46.6), France (45.6), Italy (47.1) and Spain (43.5), there was a steeper pace of contraction elsewhere, with the Netherlands (43.2) reporting the worst outturn last month. The weakness was driven by a lack of demand, with firms' order books continuing to shrink at a rapid pace. So, while manufacturers' input purchases were cut at the sharpest rate in 2½ years, and by the most since 2012 outside of lockdown periods, their stock of finished goods rose at a slightly faster pace. The drop in demand has at least helped to improve supply-chain delays to the shortest in more than two years, a feature that was particularly striking in Germany, and tallied with an ifo survey earlier this week that suggested the lowest share of manufacturers reporting a shortage of intermediate products since April 2021. Admittedly, the share was still striking at almost 60%, and significantly more acute in the autos sector (83%), but nevertheless down more than 20ppts (and 7ppts in autos) from the peak in March. So, combined with the recent decline in commodity prices, today's survey indicated a notable easing in cost burdens with the input price PMI declining by the most since mid-2011 to 64.5, marking a cumulative drop of 11.9ppts since September and the lowest level for almost two years.

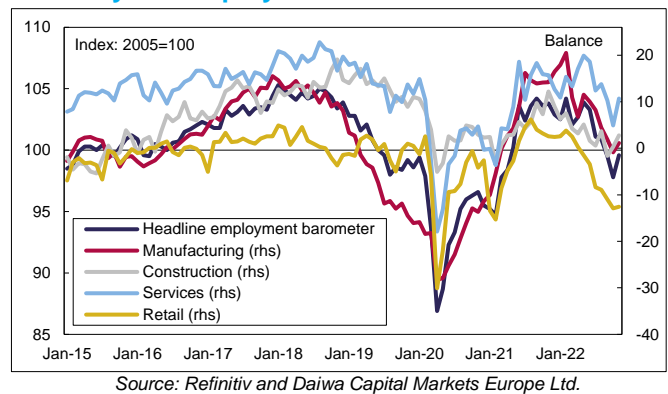
## The day ahead in the euro area

Looking ahead, tomorrow's euro area PPI figures are likely to report a notable drop in producer price inflation in October, in line with the downside surprise in [Germany](#), further suggesting that pipeline price pressures are moderating. The Bloomberg consensus is for a decline of 2.0%M/M – the first drop since May 2020 – taking the annual growth rate down to an eight-

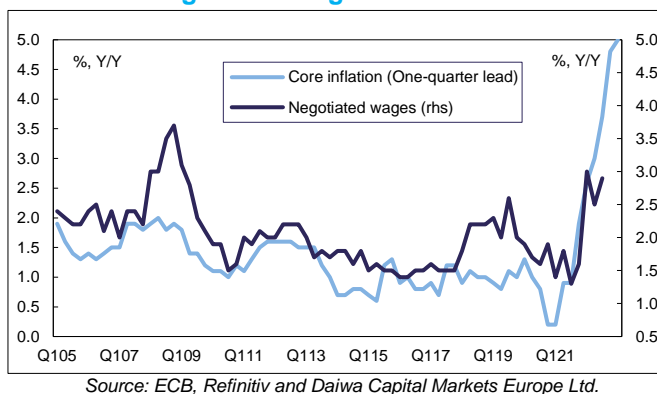
### Euro area: Employment expectations indicator



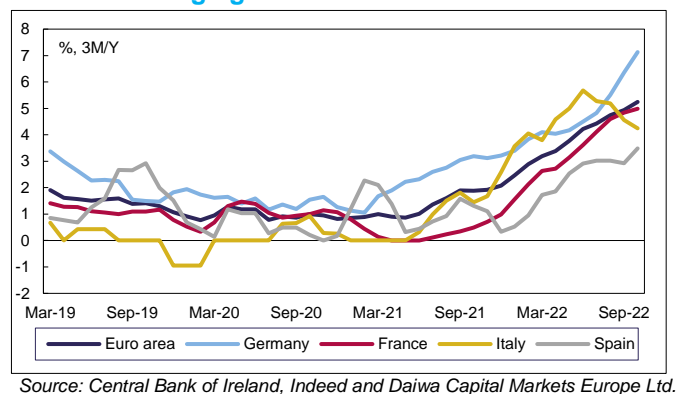
### Germany: ifo employment barometer



### Euro area: Negotiated wages and core inflation



### Euro area: Wage growth tracker



month low of 31.8%Y/Y. Also due to be published tomorrow are German trade figures for October, which are expected to reveal a widening in the trade surplus to €5.2bn, from €2.9bn previously, alongside French IP data for the same month.

## UK

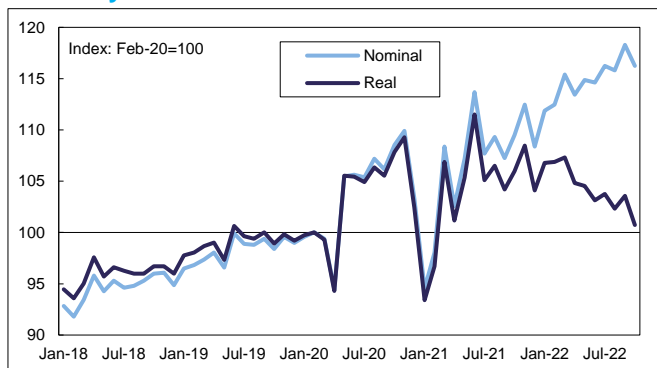
### BoE survey results suggests a modest easing in inflation expectations

With UK inflation having jumped in October to a new 40-year high, risks to the BoE's most recent inflation forecast skewed to the upside, and a tight labour market continuing to put upwards pressure on wages, the MPC seems bound to raise rates again when it meets later this month. But the case for another jumbo 75bps hike seems to be diminishing. Certainly, today's results from the November BoE Decision Maker Panel survey hinted at a modest improvement in firms' inflation expectations since the MPC met at the start of last month. Admittedly, realised output price growth was still extremely elevated at 7.5%Y/Y in the three months to November, but this was nevertheless the softest reading for five months. And consistent with a notable improvement in the manufacturing input price PMI last month, which fell 4pts to 69.7, the second-lowest reading since December 2020, the DMP survey measure of expectations for output prices over the year ahead fell a further 0.2ppt to 6.2%3M/Y, with the single-month rate down to a nine-month low of 5.7%Y/Y. In terms of CPI inflation, firms' one-year ahead expectations fell 0.4ppt to 7.2%Y/Y, more than 2ppts below September's peak and the lowest since May. Admittedly, expectations for three years ahead slipped only very slightly by 0.1ppt to 3.9%, still almost double the BoE's inflation target. And with firms still forecasting average wage growth of almost 6%Y/Y over the next twelve months, we might well see the more hawkish MPC members still favour a larger (75bps) hike, not least as the government's fiscal austerity effort is not set to kick in until after the end of the monetary policy horizon. However, with the economy having already slipped into recession and given the lagged effects of previous monetary tightening, we continue to expect the majority on the Committee to support a smaller hike, of 50bps (at most) on 15 December.

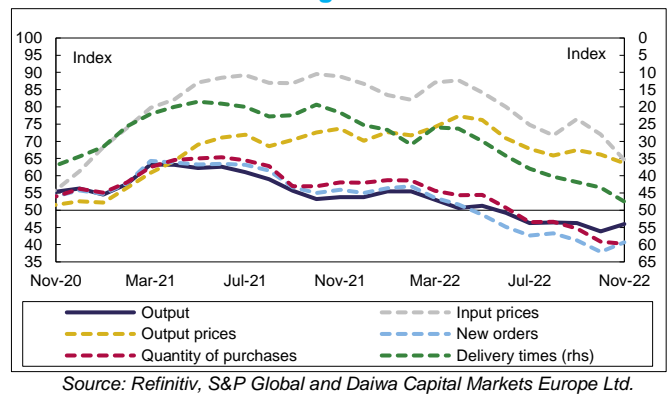
### House prices drop by most since June 2020; manufacturing output PMI revised even lower

The deterioration in the economic backdrop was again flagged by today's data. According to the Nationwide Building Society, UK house prices fell in November for the second successive month and by a sizeable 1.4%M/M, the most since the start of the pandemic. Indeed, this left the annual rate of increase moderating by almost 3ppts to 4.4%Y/Y, the softest since August 2020. And with mortgage interest rates still elevated, new buyer enquiries reportedly the weakest since 2008 aside from the onset of the pandemic, household disposable income declining sharply and the economic outlook highly uncertain, we would expect the downtrend in house price growth to be maintained over coming months, further diminishing households purchasing power. Separately, the final manufacturing PMI survey signalled a steeper pace of contraction in November than

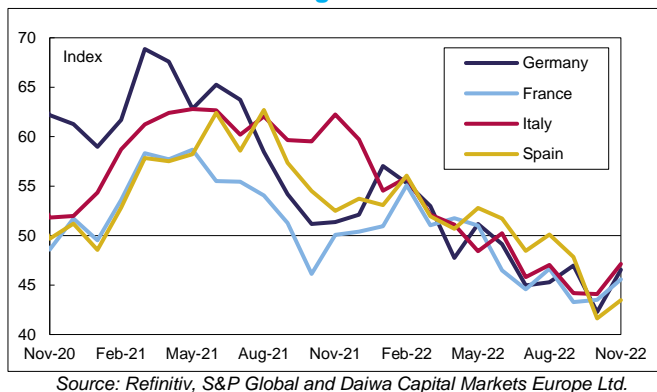
#### Germany: Retail sales



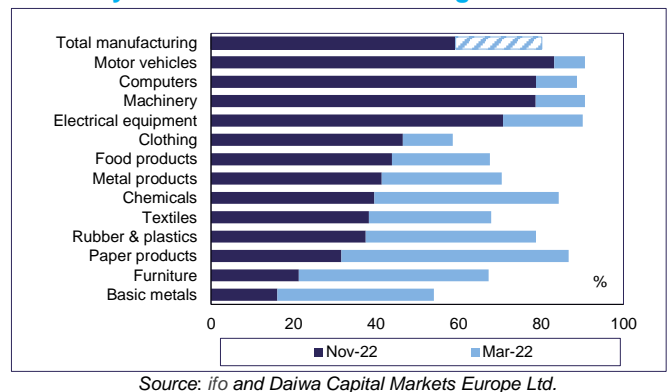
#### Euro area: Manufacturing PMIs



#### Euro area: Manufacturing PMIs



#### Germany: ifo firms' material shortages

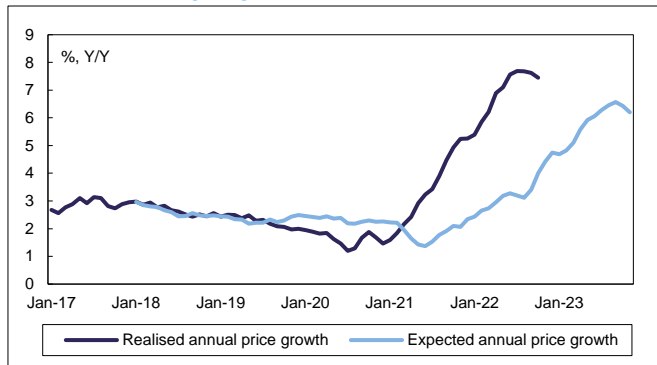


initially estimated, with the output index revised lower by 0.6pt to 44.7. And while the decline in new orders was a touch softer than in October, overseas demand was the weakest since the onset of the pandemic, and before that the height of the global financial crisis. As such, the survey also suggested that manufacturers scaled back their workforces for the second successive month and by the most for two years.

### The day ahead in the UK

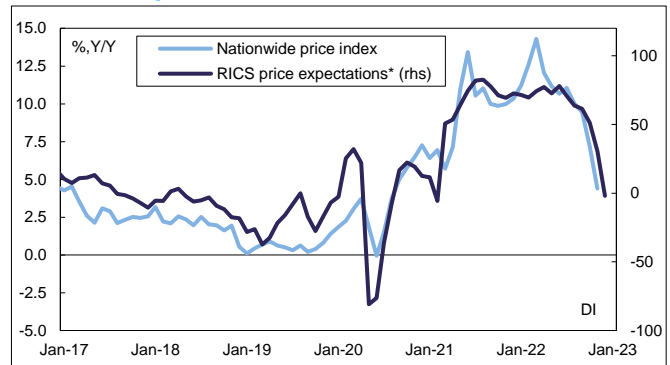
The week will end quietly on the UK economic data front with no top-tier data releases scheduled.

#### UK: Firms' output price inflation



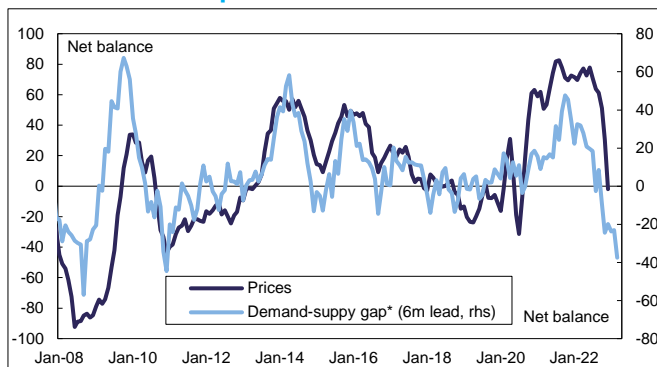
Source: BoE DMP survey and Daiwa Capital Markets Europe Ltd.

#### UK: House price indicators



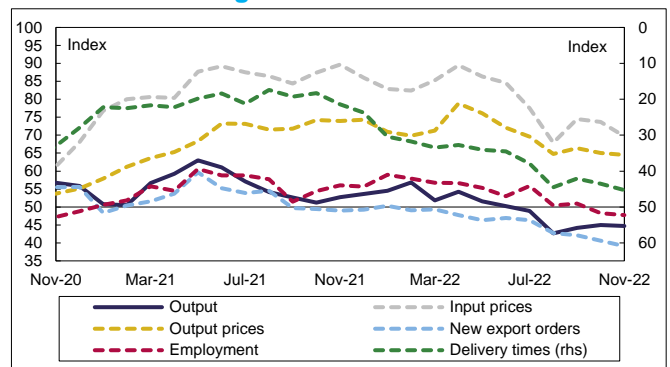
\*Two-month lead. Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

#### UK: RICS house price 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	 Final manufacturing PMI	Nov	<b>47.1</b>	47.3	46.4	-
	 Unemployment rate %	Oct	<b>6.5</b>	6.6	6.6	-
Germany	 Retail sales M/M% (Y/Y%)	Oct	<b>-2.8 (-6.6)</b>	-0.6 (-2.9)	1.0 (-0.6)	<b>1.2 (-0.3)</b>
	 Final manufacturing PMI	Nov	<b>46.2</b>	46.7	45.1	-
France	 Final manufacturing PMI	Nov	<b>48.3</b>	49.1	47.2	-
Italy	 Manufacturing PMI	Nov	<b>48.4</b>	47.0	46.5	-
Spain	 Manufacturing PMI	Nov	<b>45.7</b>	-	44.7	-
UK	 Nationwide house price index M/M% (Y/Y%)	Nov	<b>-1.4 (4.4)</b>	-0.4 (5.8)	-0.9 (7.2)	-





#### Auctions

Country	Auction
France	 sold €2.84bn of 0.00% 2031 bonds at an average yield of 2.19%
	 sold €1.06bn of 0.50% 2040 bonds at an average yield of 2.55%
	 sold €855mn of 3.25% 2045 bonds at an average yield of 2.56%
	 sold €1.24bn of 0.75% 2052 bonds at an average yield of 2.45%
Spain	 sold €1.06bn of 1.45% 2027 bonds at an average yield of 2.396%
	 sold €1.07bn of 0.10% 2031 bonds at an average yield of 2.660%
	 sold €1.37bn of 0.85% 2037 bonds at an average yield of 3.132%
UK	 sold £2.25bn of 1.25% 2051 bonds at an average yield of 3.411%




Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

### Tomorrow's releases

#### Economic data

Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Euro area	10.00	 PPI M/M% (Y/Y%)	Oct	-2.0 (31.8)	1.6 (41.9)
Germany	07.00	 Trade balance €bn	Oct	5.2	2.9
France	07.45	 Industrial production M/M% (Y/Y%)	Oct	-	-0.8 (1.8)
Spain	08.00	 Unemployment change '000s	Nov	-	-27.0

#### Auctions and events

Euro area	02.40	 ECB President Lagarde to chair roundtable discussion in Thailand on 'The global dimensions of policy normalisation'
	12.00	 ECB's de Guindos scheduled to speak
UK	15.00	 BoE to sell Gilts in 'financial stability portfolio' purchased during 28 September – 14 October

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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