

# Euro wrap-up

## Overview

- Bunds made losses as euro area unemployment numbers suggested ongoing resilience in the labour market, while German IP posted modest growth as energy-intensive output stabilised.
- Gilts underperformed as BoE Chief Economist Pill flagged his concerns about potential risks of persisting inflationary pressures.
- Tuesday will bring French and Spanish IP data, as well as UK surveys of retail sales and the labour market.

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### Daily bond market movements

Bond	Yield	Change
BKO 2.2 12/24	2.584	+0.020
OBL 1.3 10/27	2.259	+0.020
DBR 1.7 08/32	2.231	+0.026
UKT 1 04/24	3.448	+0.039
UKT 1½ 07/27	3.451	+0.015
UKT 4¼ 06/32	3.533	+0.061

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

## Euro area

### Euro area labour market remains resilient for now despite slower economic activity

Given the uptick in [core inflation](#) reported last Friday, and concerns on the ECB Governing Council about the risks of second-round effects related to the tight labour market, today's unemployment figures for November will have been watched by members of the Governing Council. Despite the soft economic backdrop, the data suggested ongoing resilience in the labour market. Indeed, the number of people unemployed fell for the eighteenth month out of the past nineteen in November, by 2k to a new low of 10.85mn. Admittedly, the monthly drop was the second lowest of this run. But it followed a larger than previously estimated drop in October of 152k, to leave unemployment down almost 850k compared with a year ago and the jobless rate unchanged at a record low 6.5%, more than 2½ppts below the pandemic peak. The loss of momentum largely reflected increases in unemployment in Austria and Portugal. In contrast, unemployment in the four largest member states fell a cumulative 70k in November, with declines in Germany (-7k), France (-24k), Italy (-16k) and Spain (-23k). While this left the German jobless rate unchanged at a series low of 3.0%, there was a drop of 0.1ppt a piece in the respective rates in France (7.0%), Italy (7.8%) and Spain (12.4%), with the latter falling to a fourteen-year low.

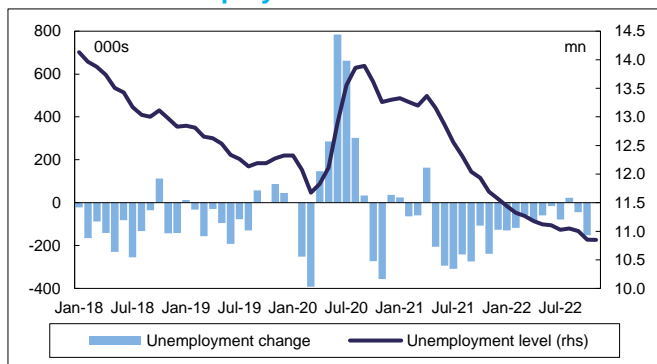
### Survey indicators provide mixed messages about the jobs outlook

National data from [Germany and Spain](#) suggest ongoing labour market resilience in December too. But amid increasing economic uncertainties, surveys have provided mixed messages about firms' future intentions for headcount. While the Commission's euro area employment expectations index was unchanged in December, and at above-average levels in the region and each of the larger member states, the respective euro area composite PMI indicated a slowing in jobs growth to one of the weakest rates since early 2021. And with business expectations still historically low for the year ahead, we expect the unemployment rate to tick higher over coming quarters, perhaps back to 7.0% or above by year-end. And while that might remain below past estimates of the equilibrium unemployment, and workers will unsurprisingly seek compensation for the past year's leap in inflation, overall wage growth should remain relatively moderate and inconsistent with substantive lasting second-round effects on inflation too.

### German industrial production ticks up in November as energy-intensive output stabilises

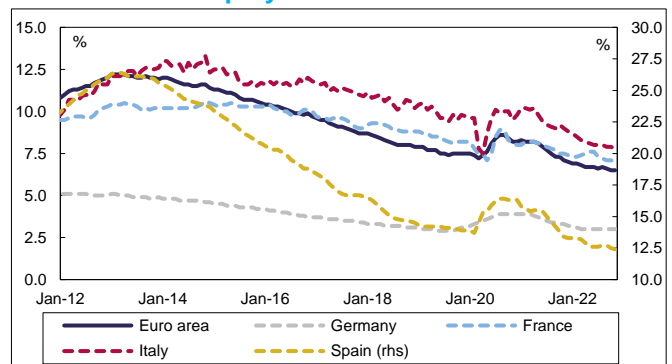
Broadly in line with expectations, German industrial production rose a modest 0.2%M/M in November. With the drop in output in October revised to a steeper 0.4%M/M, the sideways trend in place since the early summer was maintained, with production up 0.1%3M/3M. But the annual rate ticked down to -0.4%Y/Y. And compared to the pre-pandemic level of February 2020, German IP was still down more than 5½%. Total production in November was weighed by construction,

### Euro area: Unemployment



Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

### Euro area: Unemployment rates



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

which dropped 2.2%M/M following growth of 3.0%M/M the prior month to be down 1.5%Y/Y. In contrast, manufacturing and mining output rose 0.5%M/M buoyed by growth of 1.1%M/M in production of intermediate goods – the best in that component in 20 months. That in part reflected welcome long-overdue stability in energy-intensive production, including of items such as chemicals, metals, ceramics and paper, which rose 0.2%M/M after dropping 13.8% in the year to October. Firms seemingly took comfort from the decline in wholesale energy prices over the period. And with wholesale gas prices having taken another step down in the New Year as storage levels remained historically high thanks to unseasonably mild weather, hopes are that the worst adjustments in energy-intensive production might have passed.

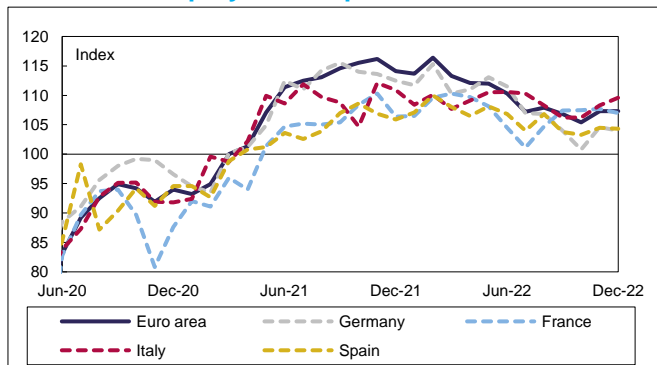
### Capital goods output up for fourth month driven by recovery in motor vehicles

Given the marked retrenchment in such activity over the summer and early autumn, energy-intensive production was still down 5.5%3M/3M and 12.9%Y/Y in November. Among other major components, however, capital goods output rose for the fourth successive month and by 0.7%M/M, to be up a healthy 3.8%3M/3M. That was driven by a rise of 5.6%M/M (and 8.3%3M/3M) in production of motor vehicles to the highest level in almost two years. And while output of consumer goods dropped 1.5%M/M, it was down just 0.3%3M/3M. Looking ahead, the aforementioned lower prices of energy and still ample backlogs should continue to provide some support to manufacturing production for a while yet. However, the marked drop in [new orders](#) in November to the lowest level since July 2020, amid other downbeat leading indicators, suggests that output might struggle to avoid a drop in December and do little better than maintain a broad sideways trend over the coming months.

### The day ahead in the euro area

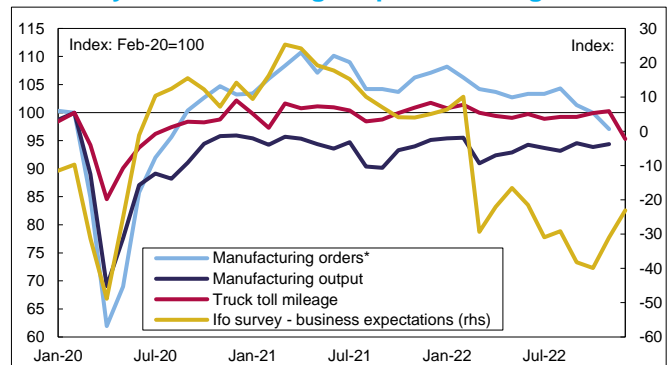
The data focus in the euro area tomorrow will remain on the manufacturing sector, with French and Spanish IP figures for November due for release. Like in Germany, French industrial production is expected to have increased, albeit by a firmer 0.8%M/M (-1.3%Y/Y), due not least to a rebound in the manufacture of coke and refined petroleum following strike-related disruption in October (-46.3%M/M). In Spain, however, industrial production is expected to have fallen 0.4%M/M (+0.1%Y/Y). November IP data are also due from the Netherlands, Austria, Greece and Finland. Separately, ECB Executive Board member Schnabel, BoE Governor Bailey and BoJ Governor Kuroda are due to speak on a panel discussion on Central Bank independence, while Fed Chair Powell participated in a panel discussion on central bank mandates.

#### Euro area: Employment expectations indices



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

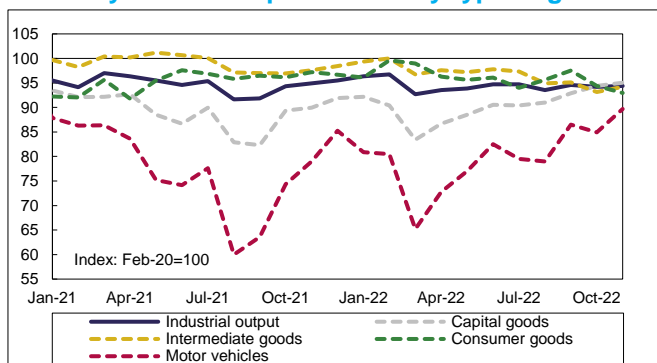
#### Germany: Manufacturing output & leading indices



\*New manufacturing orders excluding major items.

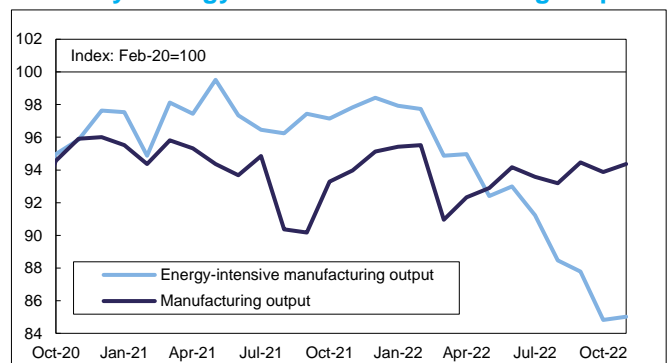
Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

#### Germany: Industrial production by type of good



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

#### Germany: Energy-intensive manufacturing output



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

## UK






### The day ahead in the UK

After a quiet start to the week with no key UK economic data releases to report today, tomorrow sees the release of the BRC retail sales monitor for December, which will provide an insight into consumer spending in the final month of Q4. Despite disruption from snow and rail strikes, the BRC suggest that footfall was around 15% higher than in December 2021 as the High Street benefitted from postal strikes, which likely hit internet shopping. This notwithstanding, the BRC measure of retail sales will be distorted by higher prices, with volumes still likely to have fallen at the end of last year. Amid slowing demand, tomorrow's release of the REC/KPMG report on jobs for December is likely to show that permanent placements continued to fall last month, while vacancies remained on a downtrend too. But given a lack of supply, this survey will also still be consistent with ongoing tightness in the labour market due to the post-Covid decline in labour force participation.


## European calendar

### Today's results

#### Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Euro area	 Sentix investor confidence	Jan	<b>-17.5</b>	-18.0	-21.0	-
	 Unemployment rate %	Nov	<b>6.5</b>	6.5	6.5	-
Germany	 Industrial production M/M% (Y/Y%)	Nov	<b>0.2 (-0.4)</b>	0.3 (0.1)	-0.1 (0.0)	<b>-0.4 (-0.2)</b>
France	 Trade balance €bn	Nov	<b>-13.8</b>	-	-12.2	<b>-11.6</b>
Italy	 Unemployment rate %	Nov	<b>7.8</b>	7.8	7.8	<b>7.9</b>





#### Auctions

Country	Auction
UK	 BoE sold £650mn of 2026 gilts






Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

### Tomorrow's releases

#### Economic data

Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
France	 07.45	Industrial production M/M% (Y/Y%)	Nov	0.8 (-1.0)	-2.6 (-2.7)
	 07.45	Manufacturing production M/M% (Y/Y%)	Nov	0.8 (1.0)	-2.0 (0.0)
Spain	 08.00	Industrial production M/M% (Y/Y%)	Nov	-0.4 (0.1)	-0.4 (2.5)
UK	 00.01	BRC retail sales monitor, like-for-like sales Y/Y%	Dec	-	4.1

#### Auctions and events

Euro area	 09.30	ECB's Schnabel, BoE Governor Bailey and BoJ Governor Kuroda scheduled to speak on Central Bank independence			
	 15.35	ECB's Knot and de Cos scheduled to speak on a panel on Central Bank independence			
Germany	 10.30	Auction: €500mn of 0.10% 2033 index-linked bonds			
UK	 00.01	REC/KPMG report on jobs			
	 10.00	Auction: £3bn of 3.25% 2033 bonds			

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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