

# Euro wrap-up

## Overview

- While German IP data beat expectations, Bunds followed USTs higher as euro area Q4 GDP growth was revised down, German retail sales continued to decline, and an ECB dove restated the need for policy to be data-dependant and determined on a meeting-by-meeting basis.
- Gilts also made gains as a survey pointed to a further moderation in UK jobs growth.
- Ahead of UK January GDP and final German February inflation data on Friday, Thursday will bring only a UK residential property survey.

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### Daily bond market movements

Bond	Yield	Change
BKO 2½ 03/25	3.306	+0.022
OBL 2.2 04/28	2.808	-0.026
DBR 2.3 02/33	2.622	-0.062
UKT 0% 06/25	3.739	-0.032
UKT 1% 10/28	3.631	-0.059
UKT 3¼ 01/33	3.733	-0.084

\*Change from close as at 4:15pm GMT.

Source: Bloomberg

## Euro area

### German IP in January beats expectations as construction and manufacturing output rebounds

German industrial production in January significantly exceeded expectations, with growth of 3.5%M/M more than 2.0ppts above the consensus forecast. Moreover, the drop in IP in December (-2.4%M/M) was not as steep as previously estimated. Given the weakness over prior months, however, IP was merely unchanged on a 3M/3M basis, still down 1.2%Y/Y and about 5% below the pre-pandemic level. Growth in January was flattered by an extreme jump of 12.6%M/M in construction, which more than reversed the drop of 7.5%M/M in December. While that took the level of construction output to a ten-month high, the trend in the category was still weak at -1.3%3M/3M. More encouragingly perhaps, manufacturing and mining output also beat expectations, rising 1.9%M/M to more than reverse the drop in December, reach an eleven-month high and be up 0.4%3M/3M. Energy output also made a contribution to growth in January, fully reversing the decline of 0.4%M/M at the end of last year albeit still down 2.0%3M/3M.

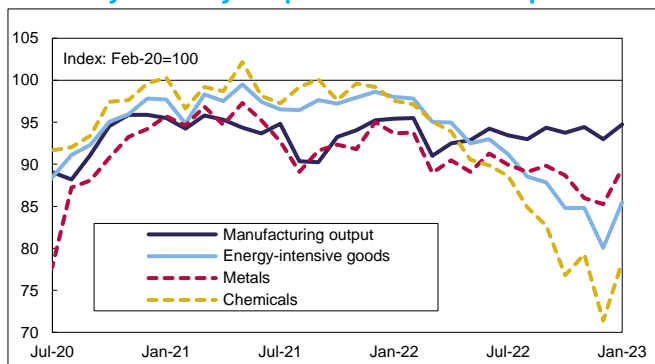
### Energy-intensive production up to a four-month high but consumer goods maintain downtrend

Following the sharp retrenchment over prior months, growth in factory production in January was led by the energy-intensive subsectors, where output rose 6.8%M/M to a four-month high. However, within that category, the rise in production of chemical products of 9.8%M/M failed fully to reverse the drop in December. In contrast, growth in other energy-intensive production categories (metals, glassware, ceramics and paper, etc.) was in the range 5.0-6.0%M/M but took the respective levels to multi-month highs. Overall, energy-intensive production was still down a steep 13.2%Y/Y illustrating the marked impact of attempts to cope with the severe shock to gas prices. Indeed, industrial gas consumption in January was down 22.3% from the average monthly level in 2018-21. Within the other detail of the manufacturing production report, output of electronic equipment also started the year on the front foot, rising 7.1%M/M, and intermediate goods overall rose 6.9%M/M, similarly to a four-month high. But output of motor vehicles reversed 5.2%M/M to fall to a three-month low, contributing to a drop of 0.6%M/M in capital goods despite a pickup in the machinery category. And production of pharmaceuticals almost fully reversed the extreme leap in December, falling 12.9%M/M, while consumer items overall fell 1.8%M/M to match the lowest level since April 2021.

### German retail sales maintain downtrend

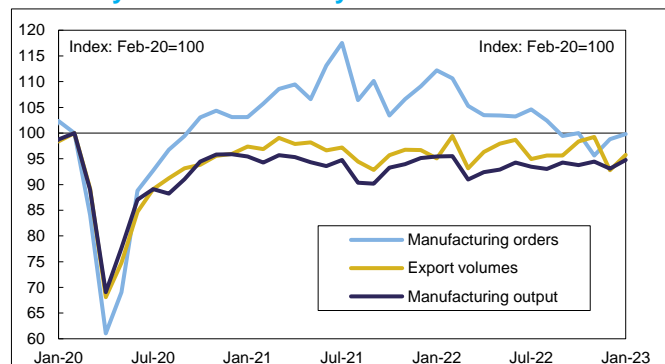
The steady downtrend in German production of consumer goods tallies with that of retail sales volumes, which continued to fall at the start of the year. Admittedly, there was a marked upwards revision to the December figure, which meant that real retail sales dropped 'just' 1.7%M/M at the end of last year compared to the initial estimate of 5.7%M/M. However, contrary to

#### Germany: Factory output & selected components



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

#### Germany: Selected factory sector indicators



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

the expected rise, retail sales volumes still edged down 0.3%M/M in January to be down 6.9%Y/Y and 1.7%3M/3M, and on track for a fourth successive quarterly drop. Indeed, the retreat at the start of the year also left retail sales volumes at the lowest level in almost two years, more than 10% below the pandemic-era peak in June 2021 and also 0.6% below the pre-pandemic level at the start of 2020. With prices having dropped at the start of the year, sales in nominal terms fell a steeper 0.7%M/M but were still up 2.8%Y/Y.

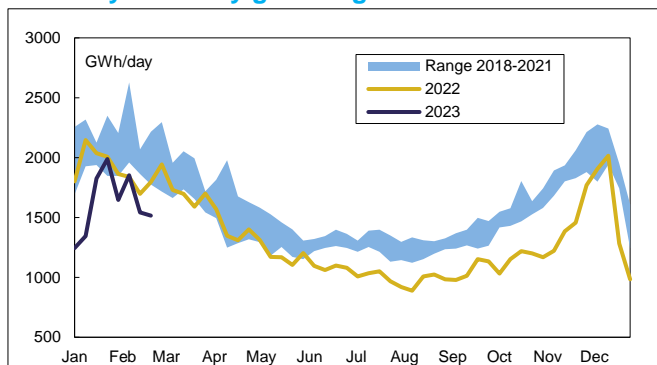
### Broad sideways trend in German factory output likely to be extended for a while yet

Looking ahead, we expect German retail sales to remain pressured in Q1 as real incomes are eroded by high inflation and consumer confidence remains weak by historical standards. New orders rose for a second successive month (up 1.0%M/M) in January, and some survey and leading indicators such as the manufacturing output PMI (50.6) point to an increase in production in February supported by further easing of supply bottlenecks. However, other survey indicators, such as certain ifo indicators, suggest a loss of momentum in the sector, with new orders and production expectations weaker, not least due to concerns about the outlook for external demand. Overall, therefore, we expect the broad sideways trend in German manufacturing output to be maintained in Q1, with a clear recovery in production momentum unlikely to be underway before the second half of the year.

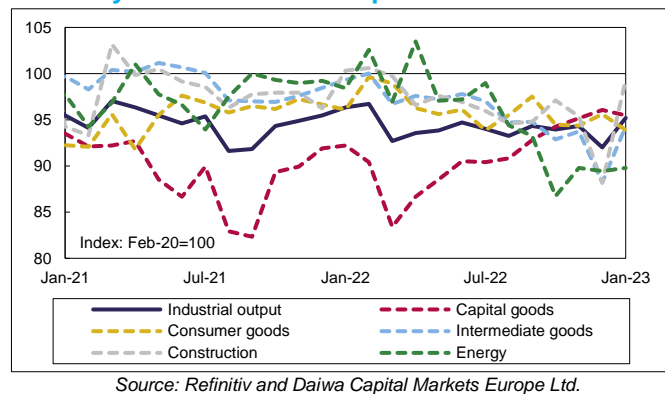
### Euro area GDP growth in Q4 revised away

As expected, today's euro area national accounts figures revised away the initial estimate of GDP growth of 0.1%Q/Q to zero (-0.03%Q/Q to two decimal places). The adjustment was expected following downwards revisions of 0.2ppts in Germany (to -0.4%Q/Q) and more than 3ppts in Ireland (to just 0.3%Q/Q). However, growth in Q3 was revised up by 0.1ppt to 0.4%Q/Q and so both the level and growth rate of euro area GDP at the end of last year were above the respective indicators forecast by the ECB in its most recent projections. The major expenditure components in Q4 were also broadly as expected, with private final domestic demand very weak and a sharp contraction in GDP avoided only by a big contribution from net trade (1.0ppt) – related to a sharp drop in imports – as well as a third successive positive contribution from inventories (0.1ppt). In particular, private consumption (-0.9%Q/Q) fell for the first time since the lockdowns of Q121. Weighed by all major components, including machinery and equipment, construction, R&D and intellectual property, fixed investment (-3.6%Q/Q) fell the most since the first wave of Covid-19 in Q220. Import volumes (-1.9%Q/Q) did likewise, while growth in export volumes (0.1%Q/Q) was also the softest since Q220. We currently forecast GDP again to move sideways in the current quarter before edging up again from Q2 onwards.

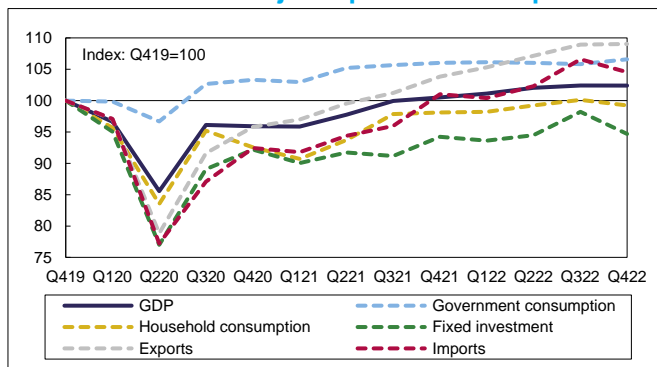
#### Germany: Industry gas usage



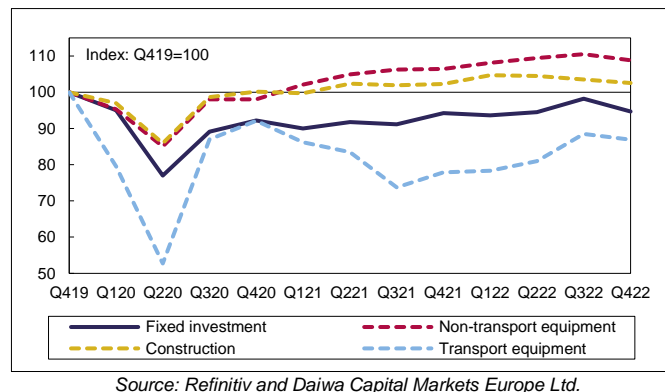
#### Germany: IP & selected components



#### Euro area: GDP & major expenditure components



#### Euro area: Fixed investment



## The coming two days in the euro area

The week will end relatively quietly for euro area economic data, with no key releases scheduled tomorrow and just the release of final German consumer price inflation figures for February on Friday. The flash estimates saw the headline harmonised HICP rate edge slightly higher, by 0.1ppt to 9.3%Y/Y, with the national CPI rate unchanged at 8.7%Y/Y. Given the acceleration in services inflation, this release is likely to confirm an uptick in the core CPI rate. Friday will also bring French trade numbers and Spanish retail sales data for January.

## UK

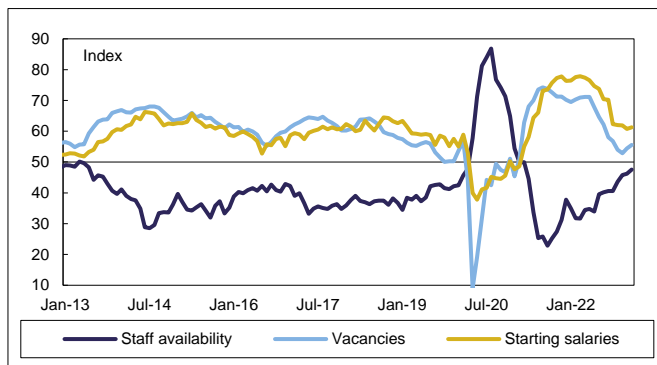
### UK survey suggests a further moderating in jobs growth, but still strong wage pressures

Given the BoE's concerns about notable recent strength in wage growth, today's REC/KPMG report on jobs offered mixed messages about UK labour market conditions in February. Overall, the responses of recruitment consultancies suggested a further loosening in the jobs market. In particular, they reported a fifth consecutive drop in new permanent hires last month, led by lower placements in London, with only modest growth in temporary staff too, as firms remained cautious amid ongoing economic uncertainty. And while there was a pickup in the number of permanent vacancies, with the strongest demand in the healthcare sector, this remained softer than the historical average. Staff availability for permanent roles again improved slightly last month, with some recruiters attributing this to a recent increase in redundancies. However, with workers reluctant to move positions in the current uncertain economic climate, and a lack of appropriately skilled staff, candidate shortages persisted. And while the survey indicator for growth in starting salaries for new permanent staff recorded the second-lowest reading for almost two years, it remained well above the long-run average. With firms having to raise wages to retain staff, next week's official numbers are likely to report another strong rate of growth in regular wages following the acceleration to 6.7%3M/Y in December, and therefore remaining well above levels consistent with achieving the BoE's 2% inflation target. So, while external MPC member Swati Dhingra today took a typically dovish stance, suggesting that Bank Rate should be left on hold given risks of overtightening in an already weakened UK economy, the majority on the MPC is likely to consider potential second-round effects from strong wage growth to be of a more pressing concern and therefore will tighten policy again this month.

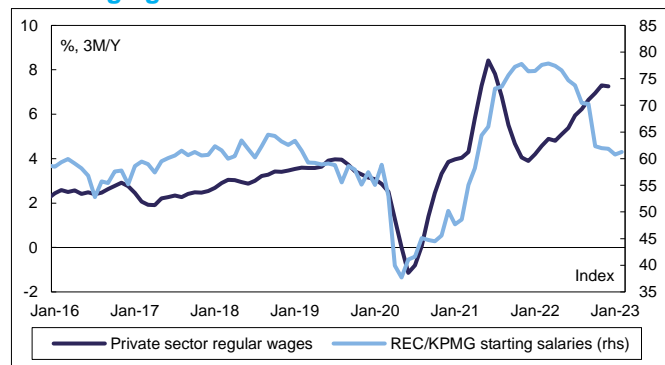
### The coming two days in the UK

The back end of the week will bring UK GDP data for January on Friday. Having contracted sharply at the end of last year, and following a firmer outturn for retail sales at the start of this year, GDP growth might well have registered positive growth that month. However, broadly in line with our own expectations, the Bloomberg survey consensus estimate is for an increase of just 0.1%M/M. And having fallen to its lowest level in fourteen months in December, this would leave GDP still firmly on a downwards trend and below the pre-pandemic benchmark. Ahead of that release, tomorrow will bring the RICS Residential survey, which is likely to highlight the ongoing adjustment in the housing market amid weak demand, higher borrowing costs and declining disposable incomes. Indeed, the headline house price balance is forecast to fall further in February to its lowest level since the global financial crisis.

#### UK: Labour market indicators



#### UK: Wage growth






The next edition of the Euro wrap-up will be published on 10 March 2023



## European calendar

### Today's results

#### Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Euro area 	Final GDP Q/Q% (Y/Y%)	Q4	<b>0.0 (1.8)</b>	<u>-0.1 (1.7)</u>	0.3 (2.4)	-
	Final employment Q/Q% (Y/Y%)	Q4	<b>0.3 (1.5)</b>	<u>0.4 (1.5)</u>	0.3 (1.8)	-
Germany 	Retail sales M/M% (Y/Y%)	Jan	<b>-0.3 (-4.6)</b>	2.3 (-5.0)	-5.3 (-6.6)	-1.7 (-5.7)
	Industrial production M/M% (Y/Y%)	Jan	<b>3.5 (-1.6)</b>	1.4 (-3.7)	-3.1 (-3.9)	-2.4 (-3.3)
Italy 	Retail sales M/M% (Y/Y%)	Jan	<b>1.7 (6.2)</b>	-	-0.2 (3.4)	-(3.6)




#### Auctions

Country	Auction
Germany 	sold €3.18bn of 2.1% 2029 bonds at an average yield of 2.79%
	sold £2.0bn of 0.5% 2061 bonds at an average yield of 3.821%



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
Germany 	Factory orders M/M% (Y/Y%)	Jan	<b>1.0 (-10.9)</b>	-0.7 (-12.5)	3.2 (-10.1)	3.4 (-9.9)
Spain 	Industrial production M/M% (Y/Y%)	Jan	<b>-0.9 (-0.4)</b>	0.2 (0.8)	0.8 (0.6)	-(0.7)
UK 	BRC retail sales monitor, like-for-like Y/Y%	Feb	<b>4.9</b>	-	3.9	-


#### Auctions

Country	Auction
Germany 	sold €395mn of 0.1% 2033 index-linked bonds at an average yield of 0.13%
UK 	sold £4.5bn of 3.5% 2025 bonds at an average yield of 4.151%

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

### Tomorrow's releases

#### Economic data

Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
UK 	00.01	RICS house price balance %	Feb	-49	-47











#### Auctions and events

- Nothing scheduled -

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

## Friday's releases

## Economic data

Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Germany 	07.00	Final HICP (CPI) Y/Y%	Feb	<u>9.3 (8.7)</u>	9.2 (8.7)
France 	07.45	Trade balance €bn	Jan	-	-14.9
Italy 	09.00	PPI Y/Y%	Jan	-	39.2
Spain 	08.00	Retail sales Y/Y%	Jan	-	4.0
UK 	07.00	GDP M/M% (3M/3M%)	Jan	0.1 (0.0)	-0.5 (-0.3)
	07.00	Industrial production M/M% (Y/Y%)	Jan	0.0 (-4.1)	0.3 (-4.0)
	07.00	Manufacturing production M/M% (Y/Y%)	Jan	0.1 (-5.0)	0.0 (-5.7)
	07.00	Index of services M/M% (3M/3M%)	Jan	0.3 (-0.1)	-0.8 (0.0)
	07.00	Construction output M/M% (Y/Y%)	Jan	0.0 (2.5)	0.0 (3.7)
	07.00	Goods trade balance (excl. precious metals) £bn	Jan	-17.5 (-)	-19.3 (23.6)

## Auctions and events

- Nothing scheduled -

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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