

# Euro wrap-up

## Overview

- Bunds followed US10s lower, even as the European Commission's economic survey implied a more muted economic recovery than the PMIs had done and the price expectations moderated further.
- Gilts also made losses on a quiet day for UK economic data.
- Friday will bring flash estimates of Q1 GDP from the euro area and larger member states, and April inflation from Germany, France and Spain.

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### Daily bond market movements

Bond	Yield	Change
BKO 2.8 06/25	2.788	+0.056
OBL 2.2 04/28	2.448	+0.059
DBR 2.3 02/33	2.453	+0.062
UKT 0% 06/25	3.814	+0.065
UKT 1% 10/28	3.662	+0.072
UKT 3¼ 01/33	3.791	+0.062

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

## Euro area

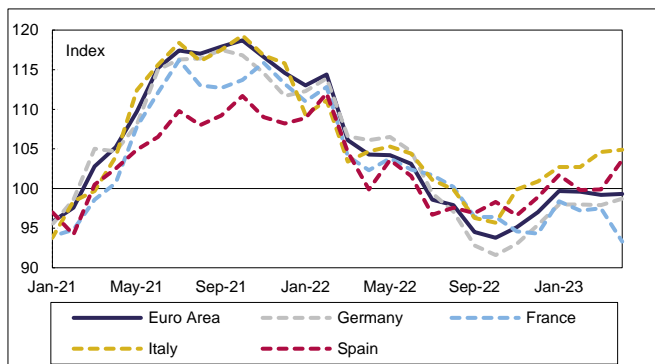
### Commission survey flags more muted recovery than PMIs due to slump in France

While last week's flash PMIs implied accelerating growth momentum at the start of Q2, today's European Commission survey – arguably the best guide to euro area economic activity – offered a more muted assessment. Having fallen in March, the headline economic sentiment index (ESI) rose just 0.1pt in April to 99.3. Admittedly, the weakness was largely due to a striking hit to sentiment in France, where the respective ESI fell more than 4pts to a 29-month low of 93.3 in April, as industrial action and broader unease related to Macron's pension reform appeared to take its toll. In contrast, the ESIs from the other larger member states maintained an upwards trend, with the German index rising to the highest in nine months (98.7), while the Italian (104.9) and Spanish indices (103.6) rose to their highest since last May. Like the PMIs, today's survey suggests that growth at the start of the second quarter was again led by Southern Europe, which continues to benefit from pent-up demand for tourism and hospitality. But reflecting not least the slump in France, overall, the aggregate euro area ESI merely moved sideways from the Q1 average. Moreover, the survey's employment intentions index fared a little worse, falling for a third consecutive month to be some 1.9pts below the Q1 average, again due principally to a drop in France, for which the respective index fell to a nine-month low.

### Manufacturing and services sector conditions continue to diverge

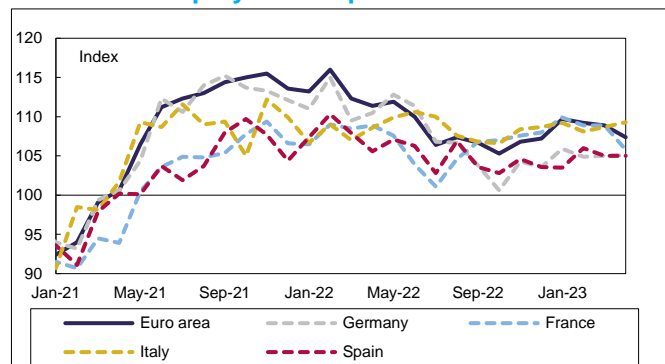
Like the PMIs, today's surveys illustrated increasingly divergent conditions between the services and manufacturing sectors. Admittedly, there was welcome evidence of a further significant easing in supply-side constraints – for example, the share of firms reporting material shortages as a limiting factor on production fell sharply over the past three months to just 27%, the lowest since the start of 2021 and down from almost 40% at the start of the year. Nevertheless, manufacturers were the most pessimistic about current conditions since January 2021. This reflected a further deterioration in production expectations over the coming three months as orders fell to the lowest level in more than two years amid weakening domestic and overseas demand. Moreover, inventories of finished goods remained elevated, with the respective index above the pre-pandemic average for the seventh consecutive month. And so, employment expectations in the sector fell to the lowest level in two years. In marked contrast, services firms again suggested that labour shortages were the most binding constraint on activity over the past quarter. In addition, with past and expected demand having risen to multi-month highs, the headline services sentiment indicator matched the best in ten months. Retailers were a touch less upbeat in April, tallying with a further improvement in consumer confidence and household purchase intentions, which rose to the highest in eleven months. Meanwhile, the construction sentiment indicator moved sideways at a two-year low, with labour shortages and insufficient demand reportedly both weighing on building activity.

### Euro area: Economic sentiment indices



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

### Euro area: Employment expectations indices



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

## Price expectations maintain downtrend, but moderation in services only gradual

Amid easing supply bottlenecks and relatively subdued demand, today's survey results also suggested a further marked easing in price pressures at the start of the second quarter, perhaps bolstering the case of those Governing Council members favouring a reduction in the pace of rate hike in May to 25bps. Indeed, despite the upside surprise to euro area core inflation in March, the survey's measure of consumer price expectations for the year ahead fell back in April, to the lowest level since late-2020. Furthermore, today's survey reported a further significant downwards adjustment in firms' price-setting expectations for the coming three months across all of the major sectors. Admittedly, the cumulative drop from the peak in the services sector has been less marked than elsewhere, emphasising the relative stickiness of price pressures in the sector, in part related to the larger share of costs accounted by wages as well as the strengthening of demand in the sector. Indeed, given the substantial drop in input costs and softening of demand in the sectors, the manufacturing and construction selling-price indices are now much closer to the respective pre-pandemic averages than the peaks last year and the lowest for at least two years.

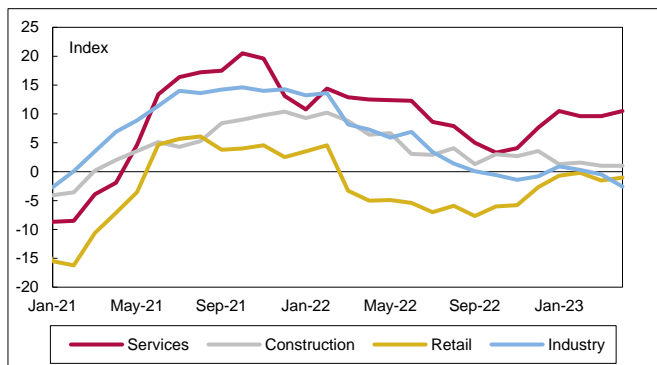
## Irish GDP subtracted significantly from euro area GDP in Q1

Ahead of tomorrow's first estimates of Q1 GDP from the euro area and its largest member states, today brought figures from two of the medium-sized countries, Ireland and Belgium, which together account for more than 8% of the region's economic output. Given the extreme volatility in its data related to the activities of multinational corporations based there not least for tax purposes, Ireland's figures in particular can often have a bearing on overall growth in the region. Indeed, on average, they make a non-negligible positive contribution to growth. According to today's first estimate, once again in Q1, Irish GDP moved sharply. But, this time around, it declined, falling 2.7%Q/Q to subtract more than 10bps from euro area economic growth. Given the strong expansion over prior quarters, however, Irish GDP was still up a steep 6.4%Y/Y in Q1. No further detail was published. Consistent with the monthly production figures for the first two months of the quarter, the statistical office nevertheless commented that the contraction related to a decline in the industrial sector. We caution, however, that Irish GDP estimates are often subject to huge revisions. Indeed, growth in Q4 was previously revised down from 3.5%Q/Q to just 0.3%Q/Q.

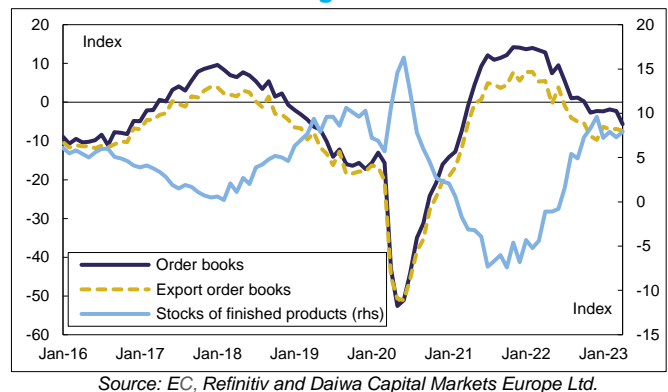
## Belgium's growth picks up while its core inflation appears to fall back

In contrast to Ireland, economic output in Belgium, which often moves closely in line with that in the euro area, accelerated in Q1. Following growth of 0.1%Q/Q in Q4, GDP rose 0.4%Q/Q in Q1 to be up 1.3%Y/Y and suggest positive growth in the region as a whole. As in Ireland, industrial production contracted, but construction output grew in line with GDP, and services

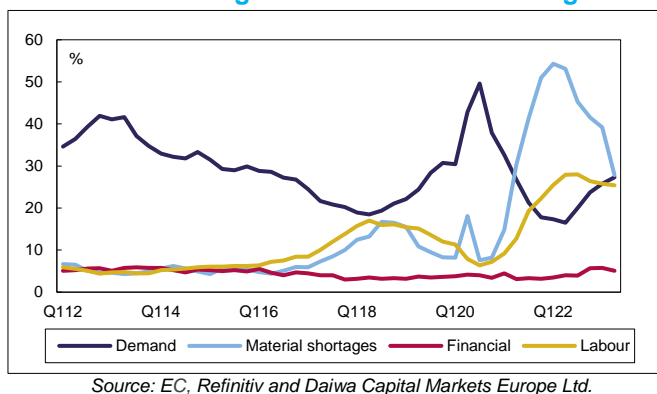
### Euro area: Economic sentiment indices



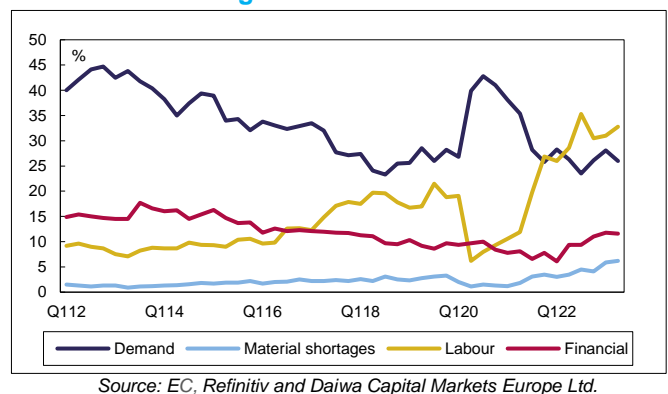
### Euro area: Manufacturing orders & inventories



### Euro area: Limiting factors on manufacturing



### Euro area: Limiting factors on services



activity expanded 0.7%Q/Q. Ahead of tomorrow's flash inflation estimates from some of the largest member states, today Belgium also published its preliminary CPI data for April. And these appeared relatively encouraging, reporting a drop of 1.1ppts on the national measure to 5.60%Y/Y, the lowest since November 2021. Unsurprisingly, the decline was again led by the energy component, which fell 7.0ppts to -17.1%Y/Y. Food inflation also moderated slightly at last, falling 0.4ppt to 16.6%Y/Y. And reflecting a softening in the transport, healthcare and communications components, services inflation slowed almost 0.3ppt to 6.8%Y/Y. As a result, the Belgian measure of core CPI inflation, which excludes energy and fresh (but not processed) food, fell 0.29ppt in April to 8.28%Y/Y. Unfortunately, in part given the different timing of pass-through of wholesale prices and government support related to energy prices, tomorrow's figures from Germany, France and Spain are expected to report little if any improvement in headline or core inflation in April.

## The day ahead in the euro area

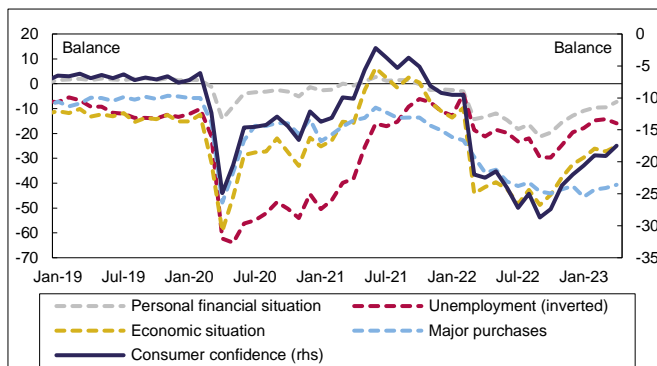
It will be a busy end to the week for top-tier economic data, with the aforementioned preliminary estimates of Q1 GDP for the euro area and its large member states, as well as the flash April inflation estimates from Germany, France and Spain. Despite some mixed messages in March – when the PMIs pointed to an accelerated recovery but the Commission's indices signalled a slight loss of momentum – surveys on the whole suggest that the euro area's economy returned to modest growth in Q1. We forecast GDP growth of 0.1%Q/Q to leave output up 1.3%Y/Y and 2.5% above the pre-pandemic level in Q419. Among the larger member states, we expect Germany and Italy similarly to post modest growth (0.1%Q/Q) to avoid a technical recession at the turn of the year, while growth will likely be marginally firmer than that in France (0.2%Q/Q) and Spain (0.3%Q/Q). In terms of inflation, having fallen sharply in March thanks not least to energy price base effects associated with the Russian invasion of Ukraine, the headline HICP rates in Germany (7.8%Y/Y) and France (6.7%Y/Y) are expected to be little changed this month. But Spanish inflation is expected to have risen from the 20-month low of 3.1%Y/Y last month.

## UK

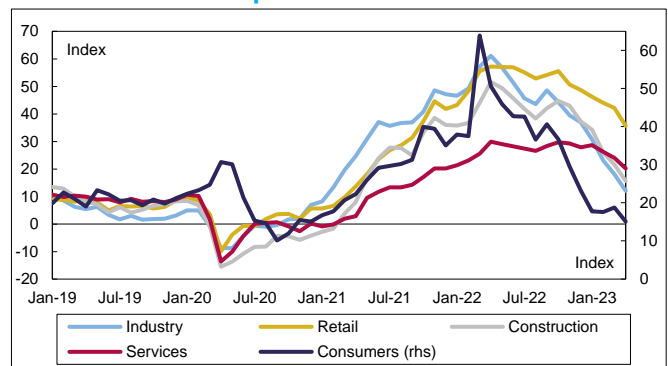
### The day ahead in the UK

The week ends on a quiet note in the UK, with only the Lloyds business barometer for April scheduled for release.

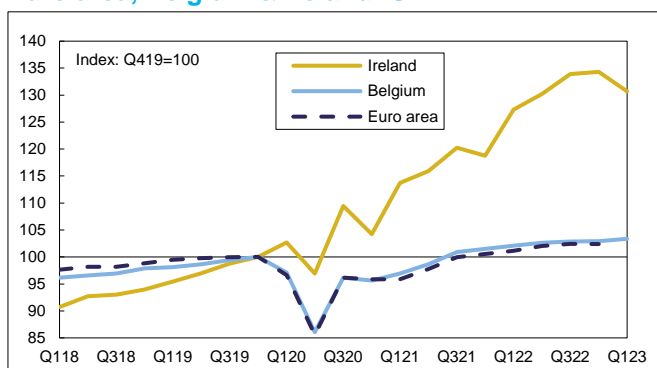
### Euro area: Consumer confidence indices



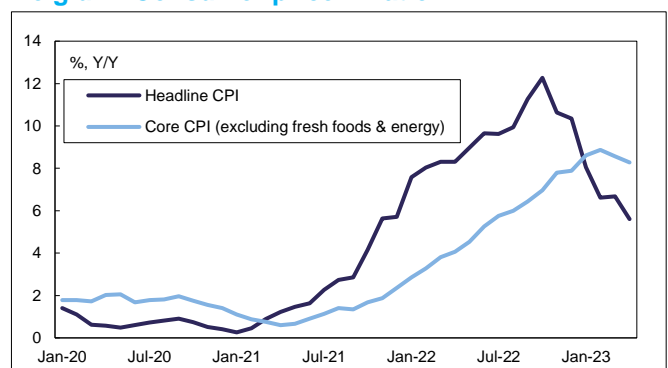
### Euro area: Price expectations\*



### Euro area, Belgium & Ireland: GDP










### Belgium: Consumer price inflation






## European calendar

### Today's results

#### Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Euro area	 European Commission Economic Sentiment Indicator	Apr	<b>99.3</b>	99.9	99.3	99.2
	 European Commission industrial (services) confidence	Apr	<b>-2.6 (10.5)</b>	0.0 (9.5)	-0.2 (9.4)	-0.5 (9.6)
	 European Commission final consumer confidence	Apr	<b>-17.5</b>	<u>-17.5</u>	-19.2	-
Italy	 ISTAT consumer confidence	Apr	<b>105.5</b>	105.0	105.1	-
	 ISTAT business (manufacturing) confidence	Apr	<b>110.5 (103.0)</b>	-(104.0)	110.2 (104.2)	110.1 (104.1)
Spain	 Retail sales Y/Y%	Mar	<b>9.5</b>	3.5	4.0	<b>4.1</b>
	 Unemployment rate %	Q1	<b>13.3</b>	13.0	12.9	-













#### Auctions

Country	Auction
Italy	 sold €2.5bn of 3.40% 2028 bonds at an average yield of 3.77%
	 sold €5.0bn of 4.35% 2033 bonds at an average yield of 4.42%
	 sold €1.5bn of 2028 floating-rate bonds at an average yield of 4.45%


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	 10.00	GDP – first estimate Q/Q% (Y/Y%)	Q1	<u>0.1 (1.3)</u>	0.0 (1.8)
Germany	 08.55	Unemployment claims' 000s (rate %)	Apr	8 (5.6)	16 (5.6)
	 09.00	GDP – first estimate Q/Q% (Y/Y%)	Q1	<u>0.1 (0.3)</u>	-0.4 (0.9)
	 13.00	Preliminary HICP (CPI) Y/Y%	Apr	7.7 (7.3)	7.8 (7.4)
France	 06.30	GDP – first estimate Q/Q% (Y/Y%)	Q1	<u>0.2 (0.8)</u>	0.1 (0.5)
	 07.45	Preliminary HICP (CPI) Y/Y%	Apr	6.7 (5.8)	6.7 (5.7)
	 07.45	Consumer spending M/M% (Y/Y%)	Mar	0.5 (-2.6)	-0.8 (-4.1)
	 07.45	PPI Y/Y%	Mar	-	15.7
Italy	 09.00	GDP – first estimate Q/Q% (Y/Y%)	Q1	<u>0.1 (1.5)</u>	-0.1 (1.4)
Spain	 08.00	GDP – first estimate Q/Q% (Y/Y%)	Q1	<u>0.3 (2.8)</u>	0.0 (2.7)
	 08.00	Preliminary HICP (CPI) Y/Y%%	Apr	4.0 (4.0)	3.1 (3.3)
UK	 00.01	Lloyds business barometer	Apr	-	32

#### Auctions and events

Euro area	 -	ECB President Lagarde participates in press conference following informal meeting of euro area finance ministers
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Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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