

Euro wrap-up

Overview

- Bunds followed USTs higher, while figures suggested that euro area industrial production contracted in Q1 despite being boosted in March by strong growth in Ireland.
- Gilts also followed the global trend higher on a quiet day for UK economic data.
- The European data calendar over the remainder of the week will bring updated April inflation estimates from the euro area (Friday) and Italy (tomorrow).

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Daily bond market movements

Bond	Yield	Change
BKO 2.9 06/26	2.885	-0.094
OBL 2.1 04/29	2.451	-0.125
DBR 2.2 02/34	2.420	-0.126
UKT 0% 01/26	4.229	-0.068
UKT 0½ 01/29	3.947	-0.098
UKT 4% 01/34	4.066	-0.109

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

Source: Bloomberg

Euro area

Euro area IP in March boosted by strong growth in Ireland and Belgium

Consistent with the improvement in manufacturing sentiment towards the end of the first quarter, today's data suggested that industrial production in the euro area grew for a second successive month in March, by 0.6%M/M. This meant that the annual pace of decline eased markedly from -6.3%Y/Y to -1.0%Y/Y, implying that the bottom in the steady downtrend over the past eighteen months or so has now passed. Admittedly, the detail of today's release again suggested that exceptional factors in Ireland, where the transfer pricing activities of multinational corporations often distort the data, contributed to the month-to-month volatility in output. Indeed, the increase in euro area IP in March was more than fully accounted for by Ireland, where output jumped 12.8%M/M to add more than 1ppt to monthly growth in the region. Production in Belgium also recorded strong growth of 6.8%M/M – the most in eighteen months – amid a striking increase in the pharmaceutical subsector (29.2%M/M). In contrast, however, IP fell in March in Germany (-0.4%M/M), France (-0.3%M/M), Italy (-0.5%M/M), Spain (-1.0%M/M) and the Netherlands (-1.0%M/M).

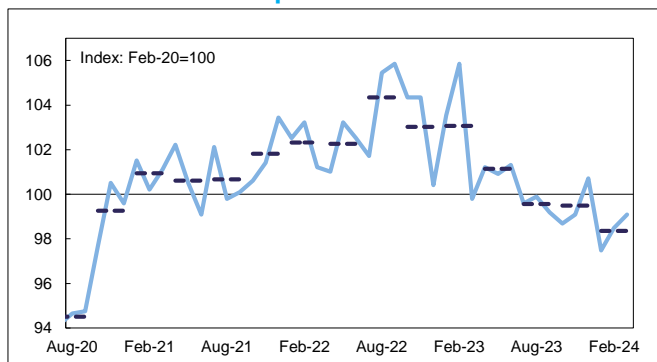
Manufacturing output supported by other transport, electronics and chemicals in March

Within the sectoral detail, manufacturing output rose 0.9%M/M for a second successive month, boosted by a partial recovery in capital goods production following the significant contraction at the start of the year. A rise in the other transport equipment category (1.0%M/M), which includes rail, aerospace and ships, offset a modest drop in motor vehicles (-0.4%M/M) and decline in general machinery (-2.4%M/M), which fell to its lowest level since June 2021. Production of computer, electronic and optical goods also increased (3.3%M/M) the most since January 2023. And, consistent with the pickup in [Germany](#), chemicals production rose for a third consecutive month (0.5%M/M) to a six-month high. But overall output of intermediate goods fell (-0.5%M/M) as basic metals production dropped to the lowest level since July 2020. And production of non-durable consumer goods declined (-2.7%M/M) the most in eleven months to its lowest level for two years. Reflecting warmer temperatures, energy production also fell for a second successive month to a six-month low.

IP was a drag on GDP growth in Q1, but offset by solid services and construction activity

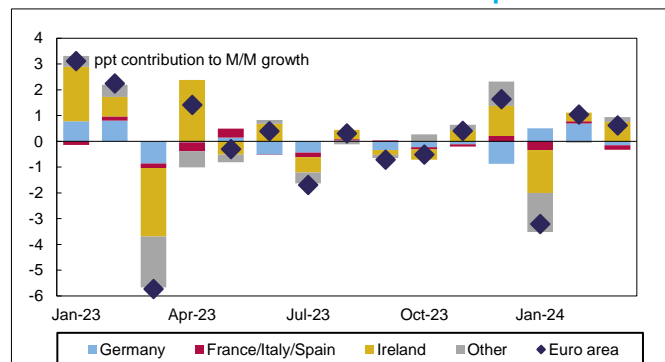
Despite steady growth in the euro area in February and March, the steep decline at the start of the year (-3.2%M/M) left overall euro area IP down 1.2%Q/Q in Q1. That marked the fifth quarterly contraction in industrial production of the past six, while manufacturing output was down a steeper 2.1%Q/Q. Of course, this contrasts with the surprisingly solid recovery in overall economic output in the first quarter, with data today confirming that GDP rose 0.3%Q/Q, the firmest pace of expansion for a year and 0.2ppt above the ECB's projection. Like in the preliminary data, today's release confirmed that

Euro area: Industrial production*



*Dashed dark blue lines represent quarterly averages. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Contributions to industrial production



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Ireland (1.1%Q/Q) provided a significant boost to overall GDP in Q1, despite a non-negligible drop in IP (-10.9%Q/Q) over the quarter as a whole. And with the exception of the Netherlands, for which data today reported a fourth contraction out of the past five (-0.1%Q/Q), the overall expansion in GDP in Q1 was broad based across the region. But while manufacturing and, in particular, a weather-assisted boost to construction provided significant support to Germany's expansion last quarter (0.2%Q/Q), services appears to have played a more prominent role in the other larger member states. Certainly, national data releases suggest that services activity accelerated 0.8%Q/Q in France and 2.6%Q/Q in Spain in Q1. The latest monthly figures for the region as a whole reported that euro area services output increased in February for a fifth successive month, by 1.0%M/M – the most in nine months – to be trending in the first two quarters of the year some 1.6% above the Q4 average.

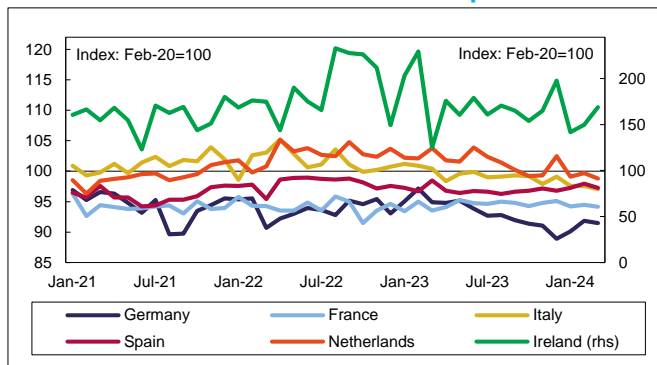
Employment rose for a 12th consecutive quarter to maintain subdued productivity trend

While we will have to wait for the third release of GDP for the expenditure components, household consumption appears to have returned to growth in Q1 supported by rising real disposable incomes and another quarter of solid employment growth (0.3%Q/Q). Indeed, today's figures showed that employment rose for a twelfth consecutive quarter in Q1, by 519k – the most in four quarters – to a new series high of 169.8mn. That took the level of employment some 8.4mn and 5.2% above the pre-pandemic level, while GDP was up a more moderate 3.4% relative to that Q419 benchmark. Of the member states to have published data, jobs growth in Q1 was again led by Spain, which accounted for around 40% of the total, while payrolls increased in Germany (38k), France (51k) and presumably strongly in Italy too. With employment growth matching economic output, labour productivity per person moved sideways in Q1 having declined in four out of the previous five quarters. So, while productivity was still down 0.6%Y/Y in Q1 and 0.7% below the pre-pandemic level, this marked the softest annual decline for a year. With the unemployment rate at a series low of 6.5% since November, the Commission survey reporting that firms were less inclined to recruit new staff at the start of Q2, and so the downtrend in job vacancies likely continuing, we expect to see jobs growth slow over coming quarters. And while the manufacturing outlook remains subdued and we expect some payback for the strength in German construction earlier in the year, the PMIs pointed to ongoing recovery momentum at the start of this quarter. So, while we expect euro area GDP growth to moderate slightly to 0.2%Q/Q in Q2 and Q3 before picking up again towards year-end, the continued expansion should coincide with a gradual pickup in productivity over coming quarters.

The coming two days in the euro area

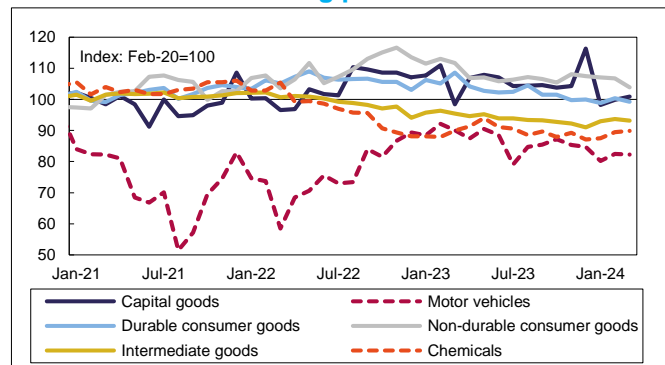
The data calendar over the coming two days brings updated estimates of April inflation, concluding with the euro area numbers on Friday. In the absence of a surprise to tomorrow's Italian figures, we expect euro area inflation to align with the

Euro area member states: Industrial production



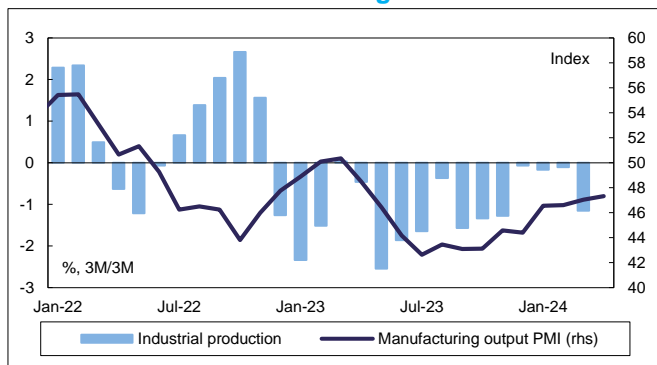
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Manufacturing production



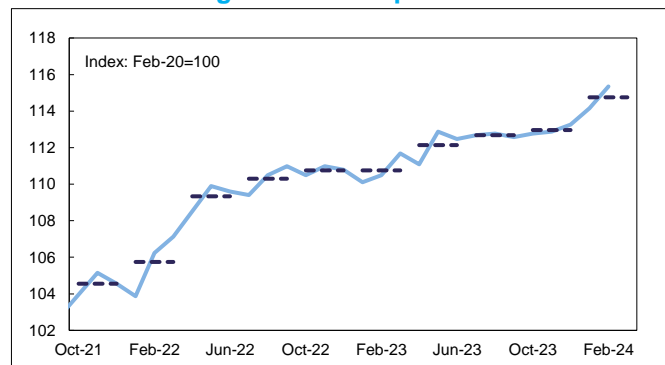
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: IP & manufacturing PMI



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

Euro area: GDP growth & composite PMI



*Excluding retail trade and financial activities. Dashed dark blue lines represent quarterly averages Source: Macrobond and Daiwa Capital Markets Europe Ltd.

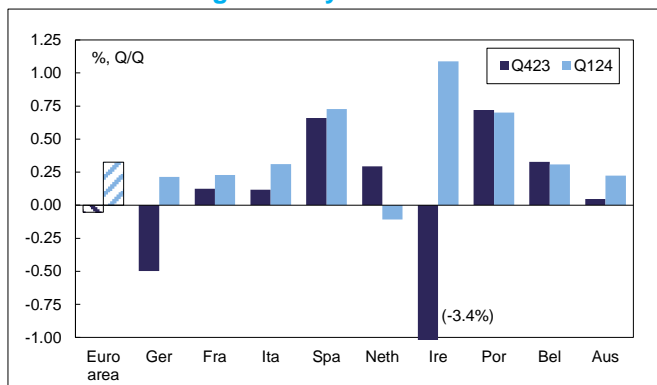
flash estimates, which saw the headline HICP rate move sideways at the start of Q2, at 2.4%Y/Y, nevertheless matching November's 28-month low. This partly reflected upward impulses from the energy component – up 1.2ppt to -0.6%Y/Y – which was the softest decline in twelve months reflecting the further rise in petrol prices and withdrawal of government support for household bills in countries such as Germany and Spain. Meanwhile, having reached a 2½-year low in March, inflation of food, alcohol and tobacco also rose (2.8%Y/Y). But the core components continued to decline in April, with non-energy industrial goods inflation at a near-three-year low of 0.9%Y/Y, while services inflation dropped 0.3ppt to 3.7%Y/Y, the lowest since August 2022. So, while the flash core HICP rate was a touch firmer than expectations, it declined for a ninth consecutive month to 2.7%Y/Y, the lowest since January 2022. The granular detail to be published with this release will likely suggest that the moderation in services inflation in part reflected base effects associated with the early timing of Easter this year, with the country detail published so far reporting a notable drop in airfares. Aside from the data, the ECB will publish its quarterly Financial Stability Review tomorrow.

UK

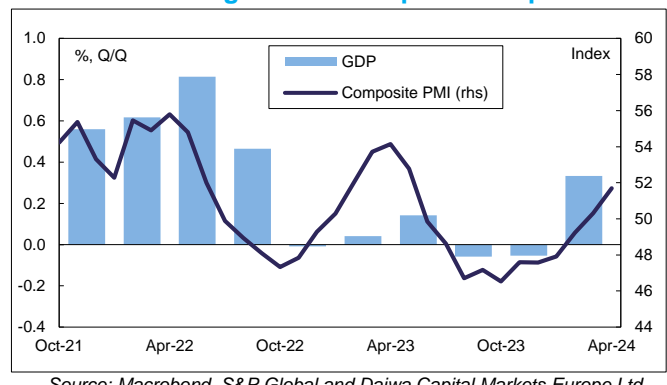
The coming two days in the UK

There are no top-tier UK economic data due for release over coming days, but external MPC members Megan Greene and (the uber-hawk) Catherine Mann will speak at separate events on Thursday and Friday respectively.

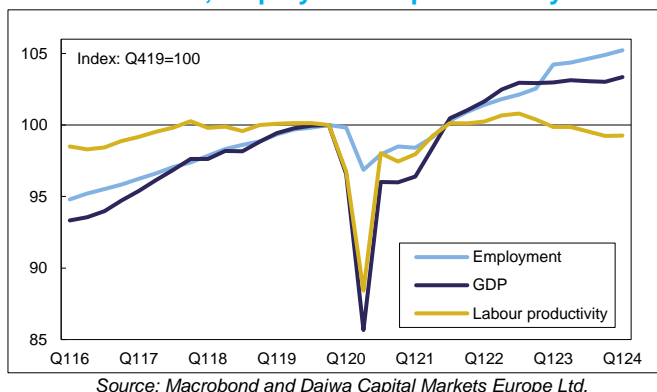
Euro area: GDP growth by member state



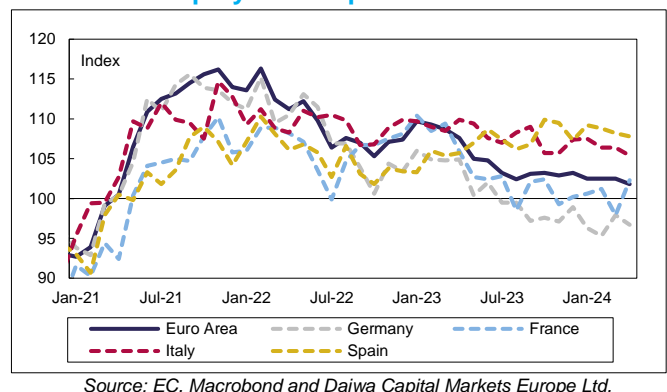
Euro area: GDP growth & composite output PMI



Euro area: GDP, employment & productivity



Euro area: Employment expectations indices







The next edition of the Euro wrap-up will be published on 17 May 2024




European calendar

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Euro area	 GDP – second estimate Q/Q% (Y/Y%)	Q1	0.3 (0.4)	<u>0.3 (0.4)</u>	-0.1 (0.1)	-
	 Employment – first estimate Q/Q% (Y/Y%)	Q1	0.3 (1.0)	-	0.3 (1.2)	-
	 Industrial production M/M% (Y/Y%)	Mar	0.6 (-1.0)	<u>0.6 (-1.1)</u>	0.8 (-6.4)	1.0 (-6.3)
France	 Final HICP (CPI) Y/Y%	Apr	2.4 (2.2)	<u>2.4 (2.2)</u>	2.4 (2.3)	-



Auctions

Country	Auction
Germany	 sold €819mn of 1.8% 2053 bonds at an average yield of 2.62%
	 sold €845mn of 2.5% 2054 bonds at an average yield of 2.62%
UK	 sold £3.0bn of 0.875% 2033 green bonds at an average yield of 4.072%











Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's releases

Economic data

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Italy	 10.00	Final HICP (CPI) Y/Y%	Apr	<u>1.0 (0.9)</u>	1.2 (1.2)
	 10.00	Trade balance €bn	Mar	-	6.0


Auctions and events

Euro area	 -	ECB to publish Financial Stability Review			
France	 09.50	Auction: 2.5% 2027 bonds			
	 09.50	Auction: 2.75% 2029 bonds			
	 09.50	Auction: 2.75% 2030 bonds			
	 09.50	Auction: 2.5% 2030 bonds			
	 10.50	Auction: 0.1% 2028 index-linked bonds			
	 10.50	Auction: 0.1% 2029 index-linked bonds			
	 10.50	Auction: 0.1% 2032 index-linked bonds			
	 10.50	Auction: 0.1% 2053 index-linked bonds			
UK	 12.00	BoE's Greene scheduled to give speech on 'the current state of Britain's labour market'			


Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Friday's releases

Economic data

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Euro area	 10.00	Final headline (core) HICP Y/Y%	Apr	<u>2.4 (2.7)</u>	2.4 (2.9)

Auctions and events

UK	 09.00	BoE's Mann scheduled to deliver keynote speech on 'cost of capital: measurement and implications for business investment'			
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Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Access our research blog at:

<https://www.uk.daiwacm.com/ficc-research/recent-blogs>

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