

# Euro wrap-up

## Overview

- Bunds followed USTs lower as the flash euro area PMIs for May indicated the strongest growth momentum in a year while negotiated wage growth in the region accelerated in Q1.
- Gilts also made losses even as the UK flash PMIs reported a moderation of growth momentum and easing price pressures.
- Friday will bring updates on UK retail sales and consumer confidence, German GDP and French business sentiment.

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### Daily bond market movements

Bond	Yield	Change
BKO 2.9 06/26	3.074	+0.071
OBL 2.1 04/29	2.656	+0.074
DBR 2.2 02/34	2.595	+0.061
UKT 0½ 01/26	4.483	+0.053
UKT 0½ 01/29	4.167	+0.037
UKT 4½ 01/34	4.258	+0.027

\*Change from close as at 5.00pm BST.  
Source: Bloomberg

## Euro area

### Flash PMIs signal strongest recovery momentum in a year

The flash euro area PMIs for May were broadly encouraging, pointing to continued economic recovery momentum as well as a further easing of price pressures in Q2. Most notably, the headline euro area composite index rose a little further than expected, up 0.6pt to a 12-month high of 52.3. That was just 0.5pt below the pre-pandemic long-run average and consistent with the ECB's projection of a second successive quarter of GDP growth of 0.3%Q/Q in Q2. Perhaps inevitably, the detail suggested that growth is still being led by services, for which the headline index remained at 53.3, the best since last May. But the manufacturing output PMI rose to a 14-month high of 49.6, pointing to a stabilisation of production. And the new factory orders index was the best in two years, albeit remaining sub-50 due to weakness in external demand while work backlogs and inventories fell further. While employment reportedly fell back in manufacturing again, it picked up to its strongest in eleven months in services.

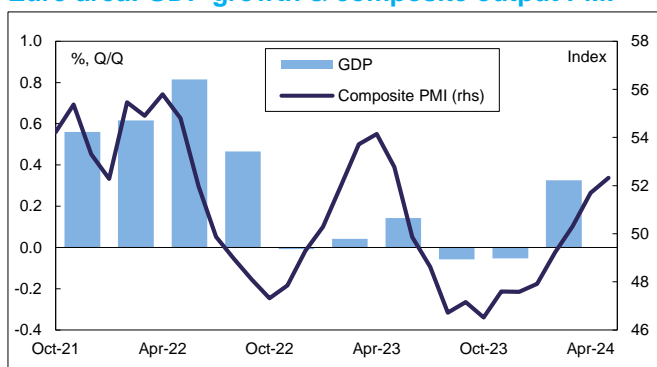
### Further positive signals from Germany ahead of Euro 2024 championships

Among the member states, the PMIs pointed to significant improvement in private sector activity in Germany, for which the composite PMI also rose to a 12-month high (52.2, just 0.3pt below the long-run average), similarly pointing to GDP growth of 0.3%Q/Q in Q2. The improvement reflected both an acceleration in services while manufacturing output fell the least in 13 months. With reports of improved external demand, including related to tourism, preparations for the Euro 2024 football championships, to be held in Germany from 14 June to 14 July, are likely to have provided a boost. And only the French PMIs were weak, with the composite PMI down below 50, with both services and manufacturing reporting a drop in activity. We note, however, that the French PMIs typically provide a less reliable guide to growth than other major French survey indicators (such as the INSEE business climate indices) and the other European PMIs. And we certainly do not expect French GDP to contract this quarter. Meanwhile, S&P Global reported that the expansion was strongest beyond the two largest member states, with the respective PMI up to a 13-month high.

### Easing of output price pressures signalled despite pickup in negotiated wage growth

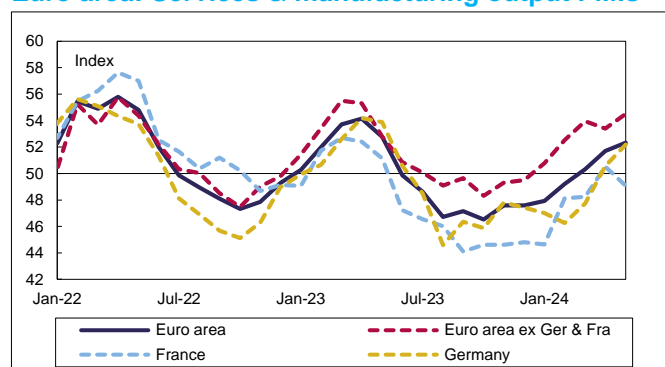
Perhaps just as important as their signals regarding economic growth, the flash PMIs suggested that both input costs and output price pressures softened in May. While still very high, growth in services input costs was reportedly the lowest in three years while manufacturing input costs rose the least in 15 months. Output price inflation was the softest since November, with a moderation in services coinciding with a further fall in factory selling prices. With the spread between the composite input (57.6) and output price (52.5) PMIs the largest since December 2022, firms appear increasingly willing to absorb cost

### Euro area: GDP growth & composite output PMI



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

### Euro area: Services & manufacturing output PMIs



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

pressures, which should continue to ease concerns on the Governing Council about the strength of wage growth. In that context, today's ECB data reported a rise in euro area negotiated wage growth to 4.69%Y/Y in Q1, up from 4.45% in Q4, to be just 1bp shy of Q3's series high. The acceleration in Q1 reflects one-off payments, especially in Germany, so that the ECB will assess that these data are fully consistent with its current projections. Indeed, judging from other recent pay indicators, such as the various wage trackers, it continues to expect wage pressures to moderate this year. And despite the pickup in the headline negotiated wage figure in Q1, influential ECB hawk Schnabel today acknowledged that wage growth is "gradually slowing down". Certainly, the strength of negotiated wage growth in Q1 won't be an obstacle to a rate cut in June. But it will probably be one reason why the Governing Council's hawks won't back a second rate cut until September.

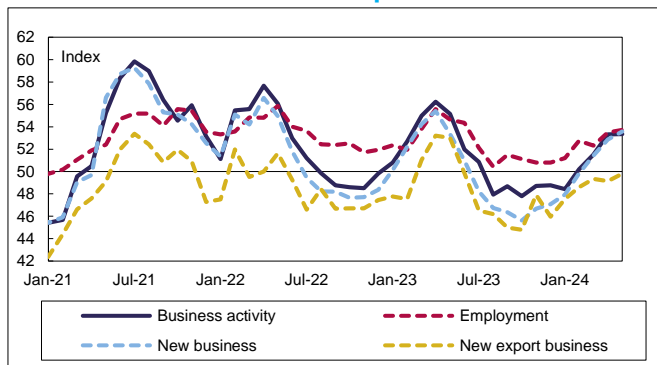
### Consumer confidence maintains gradual recovery in May

With strong wage growth and declining inflation giving a boost to household real disposable incomes, consumer confidence across the euro area continues gradually to recover. Indeed, according to the Commission's preliminary consumer survey, the headline sentiment index rose for a sixth month out of the past seven in May, by 0.4pt to -14.3, the highest since February 2022. And this left it trending some 1pt above the Q1 average, which itself had been a little more than 1pt higher than Q4. We will have to wait for the final survey results next week for a detailed breakdown, but today's indices from the Netherlands offered some insight. Admittedly, headline confidence in that country slipped back slightly in May reflecting a more downbeat assessment of recent economic conditions. Nevertheless, Dutch households were again more upbeat about the outlook for their personal finances, perhaps boosted by a further pickup improvement in house prices, which rose 7.5%Y/Y in April, the most for 18 months. And they were the least reluctant to make major purchase intentions for more than two years. While we suspect that euro area consumers more widely are willing to make major purchases, the latest euro area car registrations figures suggested a weak start to Q2, recording a second successive monthly drop in April (-0.3%M/M) to leave them some 0.7% below the Q1 average. And over the near term, spending on goods is likely to continue to lag consumption of services.

### The day ahead in the euro area

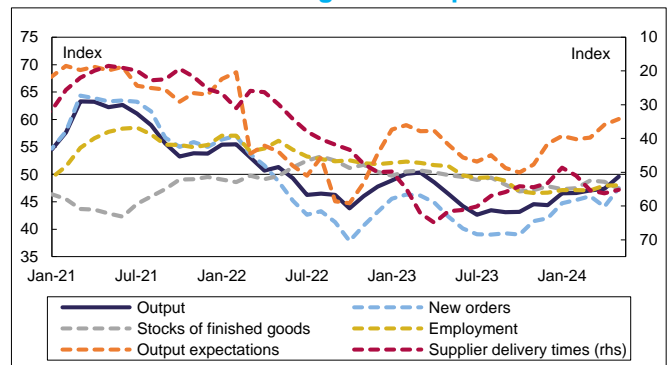
Friday will bring updated German GDP figures for Q1, which are expected to confirm the findings of the previous release that suggested a return to positive growth at the start of the year (0.2%Q/Q). The expenditure breakdown will likely show that growth was supported by construction investment and exports, but that household consumption declined. Tomorrow will also bring the French INSEE business survey for May, which will provide further insight into recent recovery momentum in the euro area's second largest member state, with updates on construction and retail sector conditions also included. Having

#### Euro area: Services PMI components



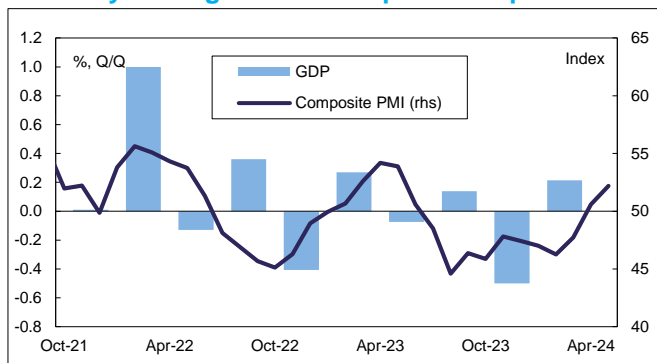
Source: Macrobond, S&P Global and Daiwa Capital Markets Europe Ltd.

#### Euro area: Manufacturing PMI components



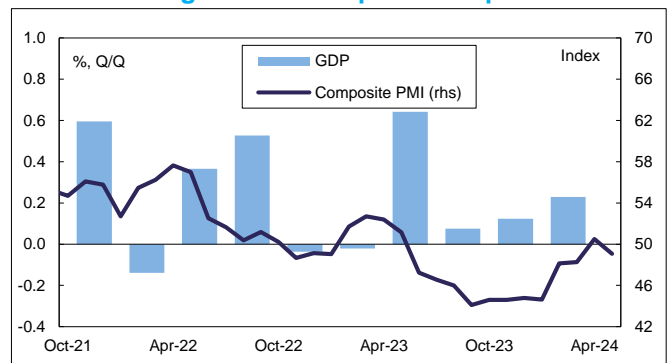
Source: Macrobond, S&P Global and Daiwa Capital Markets Europe Ltd.

#### Germany: GDP growth & composite output PMI



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

#### France: GDP growth & composite output PMI



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

slipped back at the start of the second quarter, the headline business composite is expected to rise back to the long-run average (100) in May.

## UK

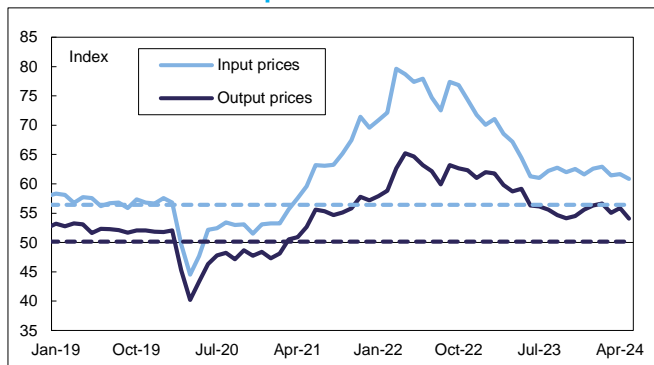
### Services PMI softens to a six-month low, but manufacturing conditions best in two years

Contrasting the flash euro area PMIs, the UK survey pointed to a slight softening of momentum in May, with the composite output PMI declining a steeper-than-expected 1.3pts to 52.8. But having risen to the long-run average in April (54.1), the index was still trending some 0.6pt above the Q1 average and a rate that is consistent with GDP growth of 0.3%Q/Q, 0.1ppt above the BoE's most recent projection but nevertheless still below the Bank's estimate of potential growth. The decline this month reflected a softer pace of growth in the services sector, with the activity index down 2.1pts to a six-month low of 52.9 as some firms cited restrained spending amid a rise in economic uncertainties. Indeed, while still implying moderate growth, the respective new business component (51.8) similarly dropped 2.6pts to a six-month low. The slowdown in services was, however, partly countered by a marked improvement in manufacturing conditions. Indeed, having implied contraction for much of the past two years, the output index jumped 3.3pts in May to 52.7, the highest since April 2022. And contrasting with the CBI's industrial trends survey earlier in the week, the PMIs reported a pickup in new orders, reflecting improved domestic and overseas demand, pointing to an improved production outlook ahead. Indeed, manufacturers were the most upbeat for more than two years with respect to expected output over the coming twelve months. And while optimism among services firms faded slightly, they too remained upbeat about growth prospects ahead. This notwithstanding, firms reported that jobs growth remained subdued.

### PMIs point to fading price pressures

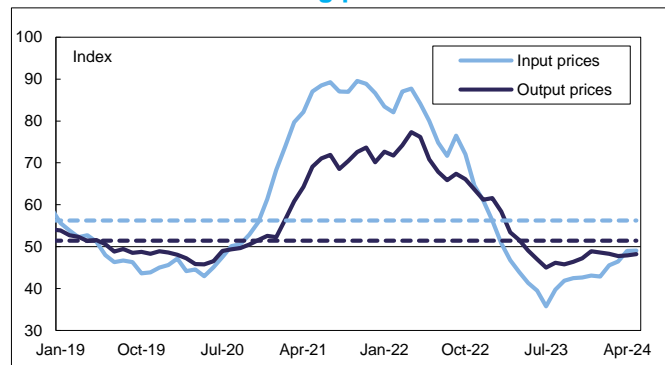
While [services inflation](#) surprised to the upside in April, today's PMIs were more encouraging with respect to the near-term inflation outlook, suggesting a notable easing in price pressures in the sector in May. Certainly, the services input price PMI fell sharply in May, by 5.5pts to 61.6, the lowest for more than three years and only marginally higher than the pre-pandemic five-year average (59.7). Manufacturing cost burdens also moderated – the respective PMI fell 2.6pts to 52.8 – implying that the impact of the near-10% hike in the National Living Wage in April has already started to fade. But more importantly for BoE policymakers, and tallying with the message from the Bank's decision maker panel survey, today's PMIs suggested that firms had limited scope to pass on the higher input costs to consumers amid tight competition for new business. Indeed, the services selling price PMI fell 0.9pt in May to 55.8, a three-year low. And while the manufacturing output price index ticked up to a twelve-month high, at 53.3 it remained below the long-run average, to leave the composite prices charged PMI down

#### Euro area: Services price PMIs\*



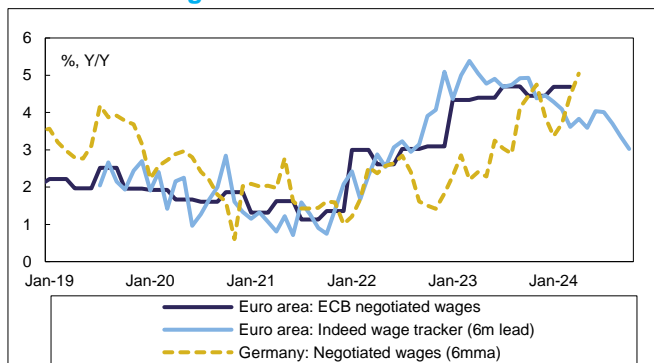
\*Dashed lines represent pre-pandemic averages. Source: Macrobond, S&P Global and Daiwa Capital Markets Europe Ltd.

#### Euro area: Manufacturing price PMIs\*



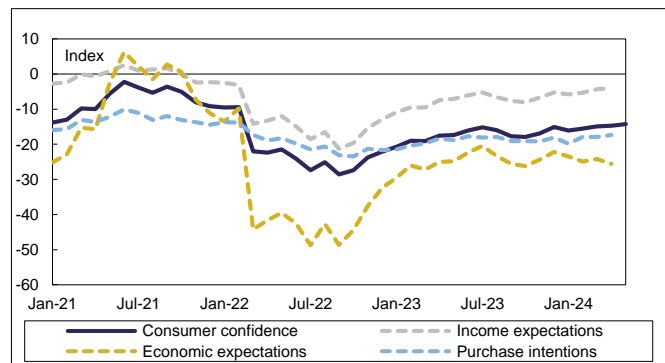
\*Dashed lines represent pre-pandemic averages. Source: Macrobond, S&P Global and Daiwa Capital Markets Europe Ltd.

#### Euro area: Wage indicators



Source: ECB, Indeed, Macrobond and Daiwa Capital Markets Europe Ltd.

#### Euro area: Consumer confidence



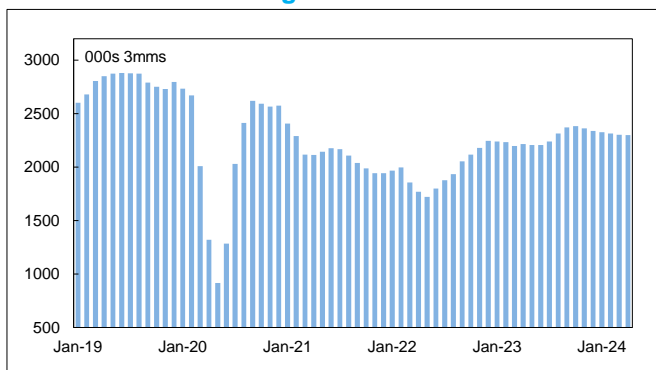
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

0.8pt to 55.4, the lowest since February 2021 and 14pts below the peak in April 2022. While today's survey certainly won't be a game-changer for the BoE, policymakers will be reassured to see that price pressures appear to be waning in the services sector.

**The day ahead in the UK**

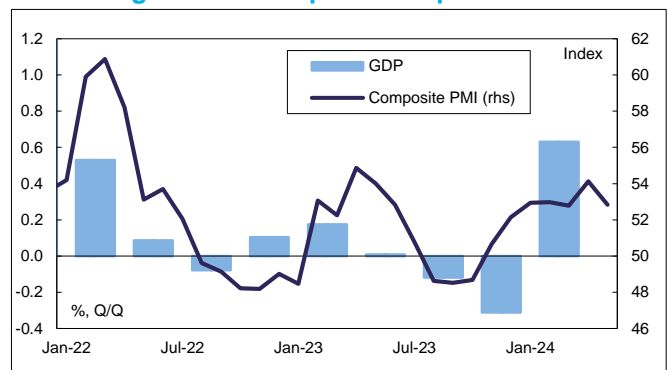
Friday's data focus will turn to retail sales in April and the GfK consumer confidence survey for May. Tallying with recent retail surveys, however, sales are expected to have started the second quarter on the backfoot as demand on the High Street was dampened by heavy rainfall that month. Nevertheless, consumer confidence is expected to have risen gradually further to its highest since 2021 amid improving household disposable incomes. Separately, the energy regulator Ofgem is expected to announce its July household tariff cap, with recent wholesale price movements suggesting a further cut of around 6½% following the 12% cut in April.

**Euro area: New car registrations**



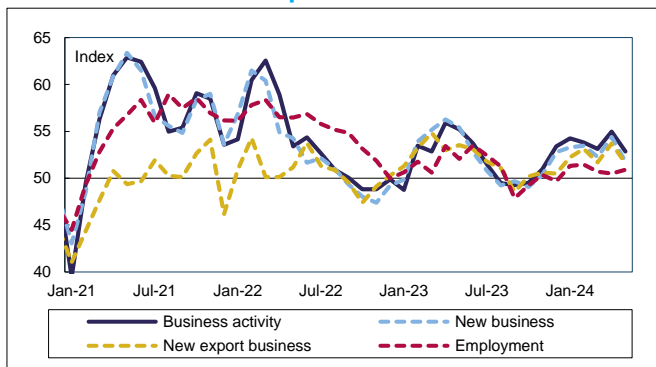
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

**UK: GDP growth & composite output PMIs**



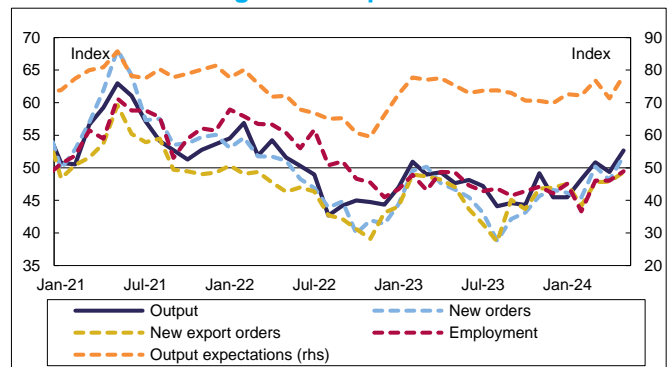
Source: Macrobond, S&P Global and Daiwa Capital Markets Europe Ltd.

**UK: Services PMI components**



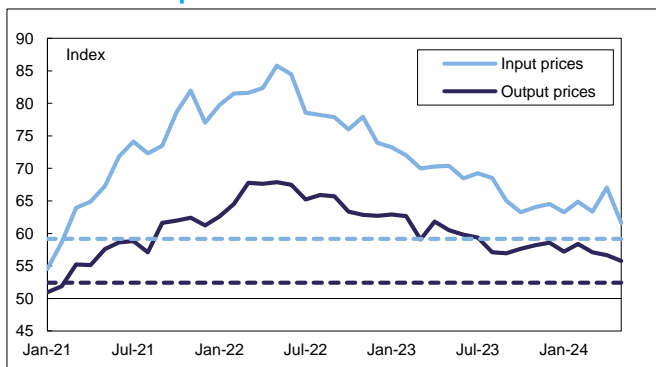
Source: Macrobond, S&P Global and Daiwa Capital Markets Europe Ltd.

**UK: Manufacturing PMI components**



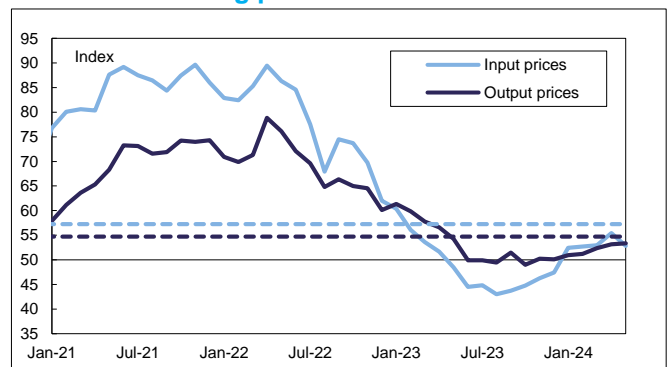
Source: Macrobond, S&P Global and Daiwa Capital Markets Europe Ltd.

**UK: Services price PMIs\***



\*Dashed lines represent pre-pandemic averages. Source: Macrobond, S&P Global and Daiwa Capital Markets Europe Ltd.

**UK: Manufacturing price PMIs**







\*Dashed lines represent pre-pandemic averages. Source: Macrobond, 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 	Preliminary manufacturing (services) PMI	May	<b>47.4 (53.3)</b>	46.1 (53.6)	45.7 (53.3)	-
	Preliminary composite PMI	May	<b>52.3</b>	52.0	51.7	-
	Negotiated wages Y/Y%	Q1	<b>4.7</b>	-	4.5	-
	Preliminary Commission consumer confidence indicator	May	<b>-14.3</b>	-14.3	-14.7	-
Germany 	Preliminary manufacturing (services) PMI	May	<b>45.4 (53.9)</b>	43.3 (53.5)	42.5 (53.2)	-
	Preliminary composite PMI	May	<b>52.2</b>	51.0	50.6	-
France 	Preliminary manufacturing (services) PMI	May	<b>46.7 (49.4)</b>	45.8 (51.7)	45.3 (51.3)	-
	Preliminary composite PMI	May	<b>49.1</b>	51.1	50.5	-
UK 	Preliminary manufacturing (services) PMI	May	<b>51.3 (52.9)</b>	49.5 (54.7)	49.1 (55.0)	-
	Preliminary composite PMI	May	<b>52.8</b>	54.0	54.1	-




#### Auctions

Country	Auction
- Nothing to report -	



Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

### Tomorrow's releases

#### Economic data

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Germany 	07.00	GDP – second estimate Q/Q% (Y/Y%)	Q1	0.2 (-0.2)	-0.5 (-0.2)
France 	07.45	INSEE business (manufacturing) sentiment indicator	May	100 (100)	99 (100)
UK 	00.01	GfK consumer confidence indicator	May	-18	-19
	07.00	Retail sales, including auto fuel sales M/M% (Y/Y%)	Apr	-0.6 (-0.3)	0.0 (0.8)
	07.00	Retail sales, excluding auto fuel sales M/M% (Y/Y%)	Apr	-0.8 (-1.2)	-0.3 (0.4)

#### Auctions and events

Euro area 	08.00	ECB's Schnabel scheduled to give keynote speech on "the state contingency of monetary policy transmission"			
UK 	-	Ofgem to announce energy price cap for July-September 2024			

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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