

# Euro wrap-up

## Overview

- As flash estimates of German and Spanish inflation were lower than expected and ECB Chief Economist Lane judged that wage growth will ease significantly next year, shorter-dated Bunds made gains.
- Gilts made modest losses on a quiet day for UK economic news.
- Friday will bring the flash euro area inflation estimates for August and figures for euro area unemployment and UK bank lending in July.

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### Daily bond market movements

Bond	Yield	Change
BKO 2.7 09/26	2.356	-0.020
OBL 2½ 10/29	2.161	+0.001
DBR 2.6 08/34	2.278	+0.022
UKT 4% 01/27	4.112	+0.003
UKT 4% 07/29	3.920	+0.011
UKT 4% 07/34	4.023	+0.024

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

Source: Bloomberg

## Euro area

### Downside surprise to German inflation thanks to lower prices of energy and core goods

Ahead of tomorrow's flash euro area inflation estimates for August, today's figures from several member states came in below expectations to support our view that the euro area headline HICP rate took a sizeable step down this month. In particular, German consumer prices on the EU-harmonised measure fell (-0.2%M/M) for the first month in seven in August, taking the annual HICP rate down 0.6ppt to 2.0%Y/Y, bang in line with the ECB's target for the first time since March 2021. The national headline CPI rate also fell to its softest in more than three years, down 0.4ppt to 1.9%Y/Y. As expected, the decline principally reflected lower energy costs, which fell for a third month out of the past four (-1.4%M/M) and by the most since December due to a sizeable drop petrol and heating oil prices. Augmented by base effects from a notable monthly increase this time last year, energy inflation dropped 3.4ppts to -5.1%Y/Y, the weakest since December 2020. While there was a further modest increase in food inflation (up 0.2ppt to 1.5%Y/Y), our estimate of core goods inflation fell to a three-year low of just 0.7%Y/Y in August, with regional data suggesting ongoing disinflation in a range of items including clothing and furnishings. In contrast, services inflation moved sideways at an elevated 3.9%Y/Y. The regional figures suggested that higher inflation in hospitality and education offset a moderation in insurance and communications. Overall, the German national core CPI rate (excluding food and energy) eased 0.1ppt to 2.8%Y/Y, the softest since January 2022.

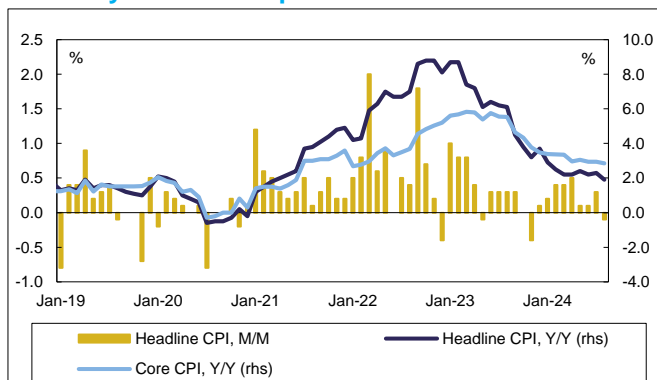
### Lower inflation in Spain, Belgium and Ireland supports call for a notable drop in the euro area

The flash inflation estimates from Spain, Belgium and Ireland also came in on the soft side this month. For example, Spain's HICP rate fell 0.5ppt to a 12-month low of 2.4%Y/Y. Equivalent rates in Belgium (-0.9ppt to 4.5%Y/Y) and Ireland (-0.4ppt to 1.1%Y/Y) were the lowest in five months and more than three years respectively. Like in Germany, the statistical offices attributed the moderation to lower energy prices. But the national measures of core inflation in Spain and Belgium (which in contrast to Germany exclude just fresh foods and energy) also declined to the lowest since the start of 2022. As such, notwithstanding a significant surprise to tomorrow's French and Italian figures, today's releases support our view that euro area headline inflation fell 0.4ppt to 2.2%Y/Y, which would be the lowest in three years. While today's figures suggest a moderation in underlying price pressures too, we suspect that the euro area core HICP rate merely moved sideways at 2.9%Y/Y, in part due to opportunistic behaviour in the French hospitality and transport sectors during the Paris Olympics.

### Consumer price expectations for year ahead remain well anchored

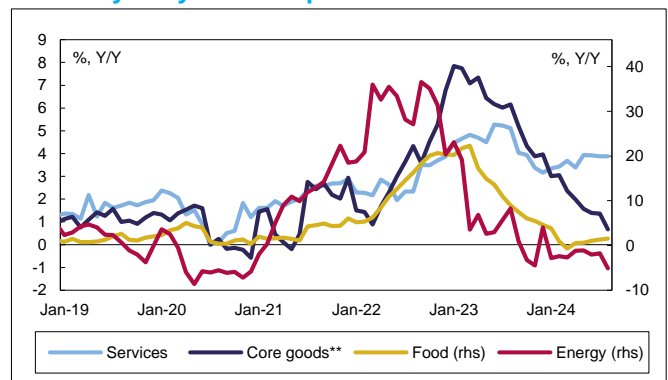
Looking at the inflation outlook, today's Commission survey results suggested that consumer price expectations for the coming twelve months remain well anchored and broadly consistent with the ECB's target. Indeed, having declined to a

#### Germany: Consumer price inflation\*



\*National measure. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### Germany: Key CPI components\*



\*National measure. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

seven-month low in July, the respective index moved sideways in August (11.3) at less than half the long-run average. Although German consumer price expectations rose to a six-month high this month, this was merely in line with the average in the five years before the pandemic. Meanwhile, expectations in France and Spain fell to the lowest levels in more than a year. While services firms' expectations for selling prices in three months' time ticked marginally higher in August (+0.1pt to 12.4) and remained above the long-run average, the index was still the second-lowest in more than three years and less than half the peak in October 2022. Moreover, the rise principally reflected a jump in Spain, while expectations moderated in the other large member states. Meanwhile, selling-price expectations fell sharply in the retail sector to the lowest since March 2021. They also moderated in the manufacturing and construction sectors remaining below the long-run average amid still-subdued demand.

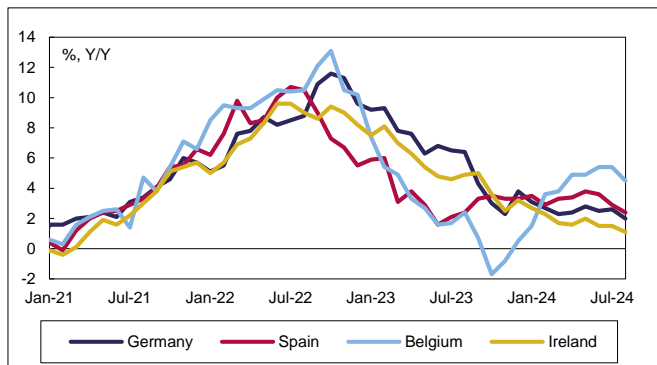
## Economic sentiment boosted by a jump in France, contrasting ongoing decline in Germany

After the unexpected uptick in the [flash August PMIs](#), today's Commission survey results similarly beat expectations to suggest a modest pickup in euro area growth momentum this month. In particular, the headline Economic Sentiment Indicator (ESI) rose 0.6pt to 96.6, the highest for fifteen months. However, this was still some 3½% below the long-run average. Moreover, like the PMIs, the improvement in the ESI was principally driven by a pickup in France, where the respective index jumped 4.3pts – the most in more than three years – to a five-month high, only in part due to the boost from the Paris Olympics. Spain's ESI also rose to its highest in 2½ years and signalled that its economy will continue to outperform the other larger member states. In contrast, the Italian ESI slipped below trend to a nine-month low, while Germany's index slumped to a five-month low to be some 9½% below the long-run average, to suggest that risks to growth in the largest member state remain skewed to the downside.

## Improvement in business sentiment appears to be led by one-off factors

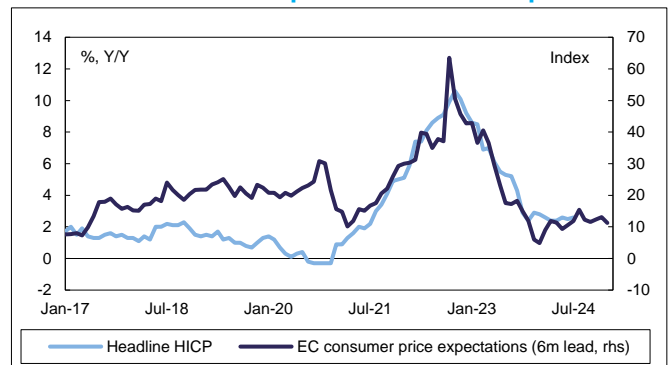
Unlike the PMIs, today's survey implied that the improvement was relatively broad-based across sectors. Admittedly, the monthly rise was strongest in services, but this merely reversed the drop in July as sentiment among travel agencies and accommodation services rebounded. And the improvement in industrial sentiment – to a five-month high – can largely be attributed to a surge in sentiment among firms in the often-volatile 'other transport equipment' subsector amid a jump in new orders. In contrast, conditions were judged to have worsened in a range of other subsectors including autos, chemicals, and computer, electronic and optical products. Overall, industrial order books were little improved from July, when they were considered to be the smallest since the first pandemic lockdown. Meanwhile, the improvement in retail confidence reflected an anticipated pickup in sales over the coming three months. In contrast, recent sales were considered to have been the

### Euro area member states: HICP inflation



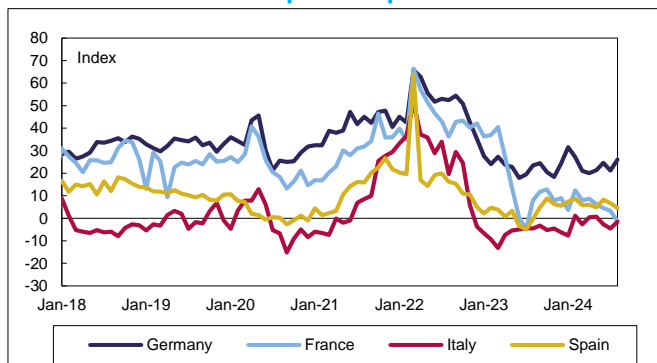
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### Euro area: Consumer price inflation & expectations\*



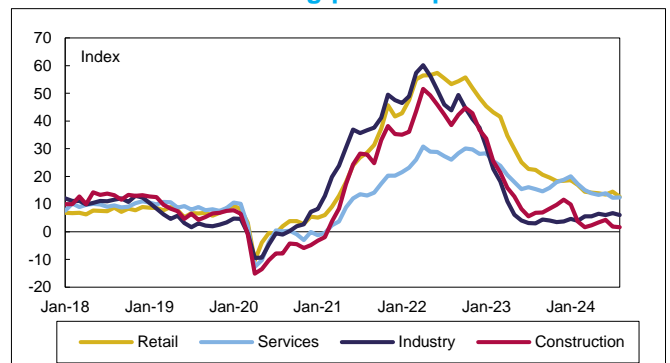
\*Twelve months ahead. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### Euro area: Consumer price expectations\*



\*Twelve months ahead. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### Euro area: Firms' selling-price expectations\*



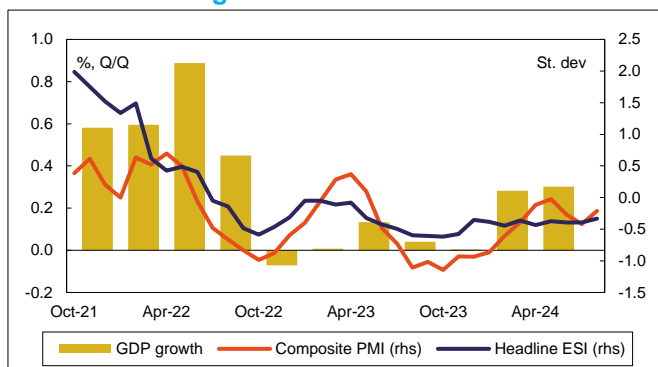
\*Three months ahead. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

weakest since early 2021. And the slight deterioration in consumer confidence and purchase intentions this month might see optimism about future sales moderate next month. Despite this backdrop, firms were somewhat less downbeat about their hiring plans, with Spanish companies signalling the strongest job growth since last November. Perhaps unsurprisingly, Germany was the exception, where employers signalled a desire to cut headcount by the greatest extent since the global financial crisis when excluding the initial pandemic period.

### The day ahead in the euro area

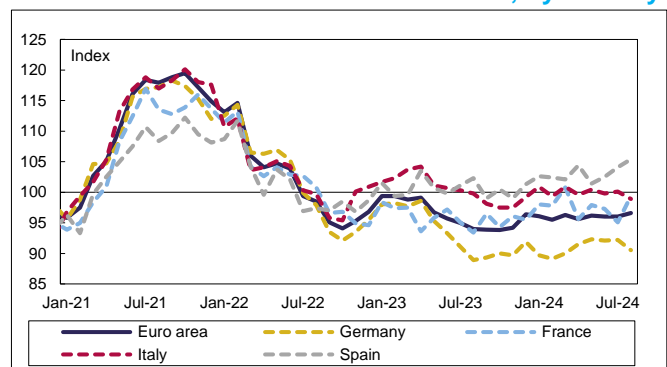
The main focus on Friday will be the aforementioned flash August estimates of euro area inflation. While headline inflation edged up 0.1ppt in July to 2.6%Y/Y, we expect it to fall this month, by 0.4ppt to 2.2%Y/Y, which would mark a three-year low. Admittedly, the drop this month will principally reflect the energy component amid notable declines in petrol and heating gas prices so far this month in contrast to the sharp increase a year ago. Non-energy industrial goods inflation will also remain extremely subdued, likely falling to less than ½%Y/Y. But with the disinflationary trend in food perhaps near its end, we expect inflation of that component to move sideways at 2.3%Y/Y. And there is a risk that services inflation ticked back above 4.0%Y/Y, albeit likely reflecting one-off factors in the more volatile categories such as airfares and package holidays. As such, we expect core HICP inflation to be unchanged at 2.9%Y/Y.

#### Euro area: GDP growth & sentiment indices



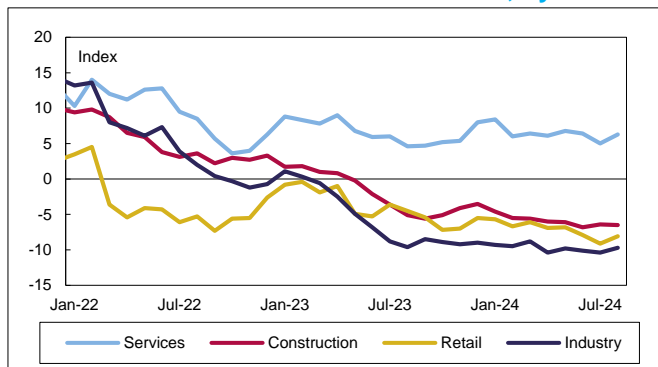
Source: Macrobond, EC, S&P Global and Daiwa Capital Markets Europe Ltd.

#### Euro area: Economic sentiment indices, by country



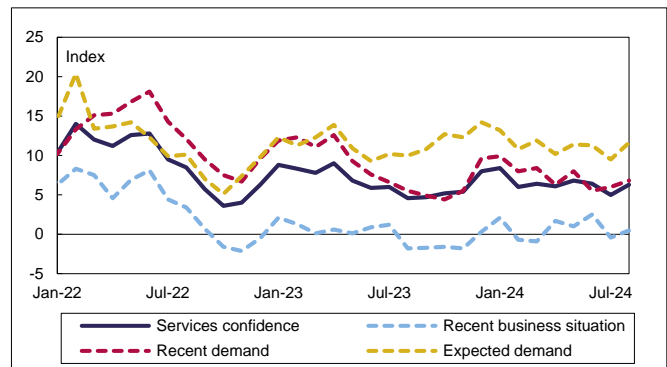
Source: Macrobond, EC and Daiwa Capital Markets Europe Ltd.

#### Euro area: Economic sentiment indices, by sector



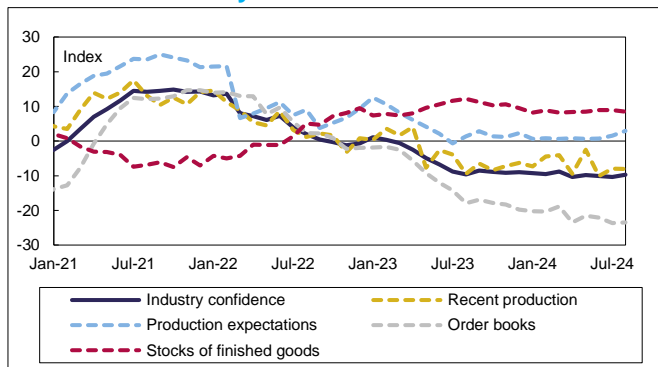
Source: Macrobond, EC and Daiwa Capital Markets Europe Ltd.

#### Euro area: Services sentiment indices



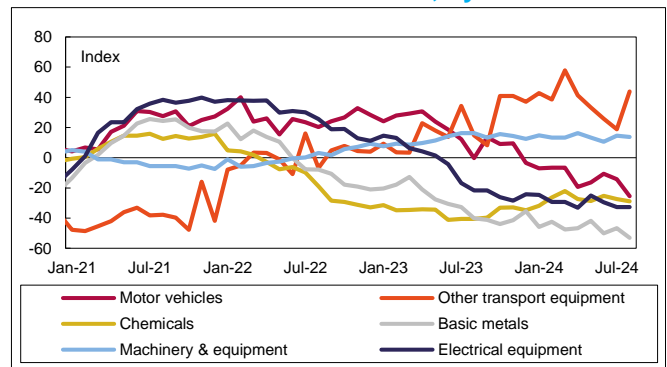
Source: Macrobond, EC and Daiwa Capital Markets Europe Ltd.

#### Euro area: Industry sentiment indices



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

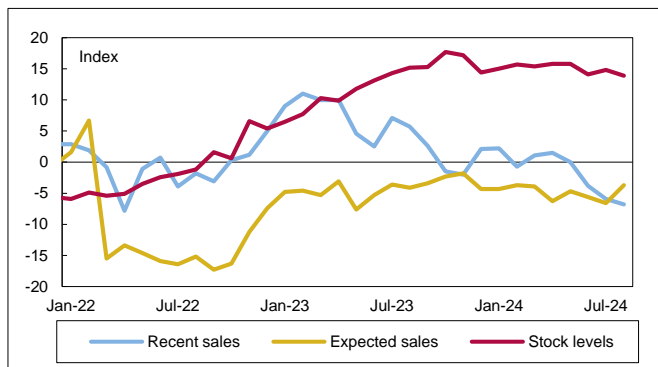
#### Euro area: Industrial order books, by sector



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

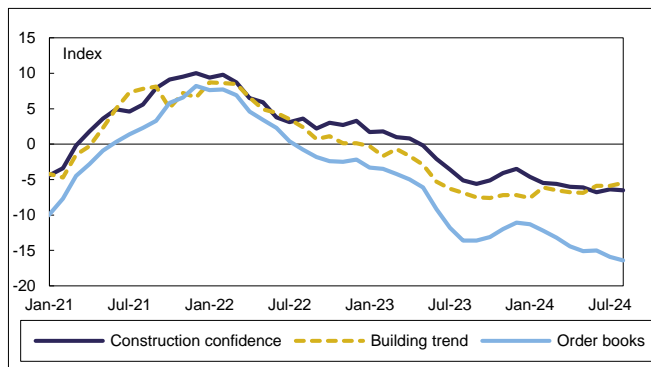
Tomorrow will also bring an update on the labour market at the start of Q3. In particular, the euro area unemployment rate is expected to have remained steady at 6.5% in July having ticked up from the series low (6.4%) in June. German figures will provide further insight in August, with jobless claims expected to have risen for the 20<sup>th</sup> consecutive month. This would leave the claimant count rate steady at 6.0%, some ½ ppt above the low in February 2023. In addition, tomorrow will bring updated national accounts figures from France, which are likely to confirm that GDP grew 0.3%Q/Q in Q2 boosted by net trade and government spending.

**Euro area: Retail confidence indices**



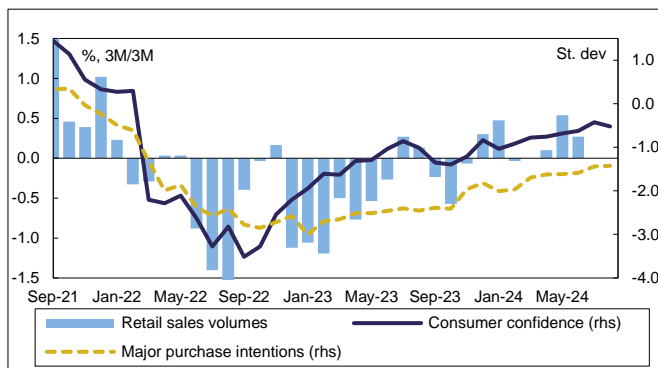
Source: Macrobond, EC and Daiwa Capital Markets Europe Ltd.

**Euro area: Construction confidence indices**



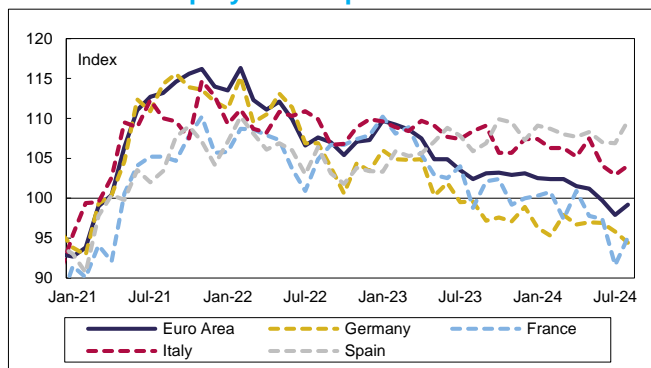
Source: Macrobond, EC and Daiwa Capital Markets Europe Ltd.

**Euro area: Retail sales & consumer confidence**



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

**Euro area: Employment expectations indices**



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

**UK**







**The day ahead in the UK**

After a quiet day for UK economic news, Friday will bring the release of the BoE’s monetary figures for July and Nationwide house price survey for August. Despite the cut in Bank Rate earlier this month, consumer credit growth will likely remain relatively subdued as borrowing costs remain relatively high. And with approvals having slipped to a six-month low in June, and house price growth still soft, we expect mortgage lending to also remain subdued.




## European calendar

### Today's results

#### Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Euro area	 Commission Economic Sentiment indicator	Aug	<b>96.6</b>	96.0	95.8	96.0
	 Commission industrial (services) confidence indicator	Aug	<b>-9.7 (6.3)</b>	-10.8 (5.2)	-10.5 (4.8)	-10.4 (5.0)
	 Final Commission consumer confidence indicator	Aug	<b>-13.5</b>	-13.4	-13.0	-
	 New car registrations Y/Y%	Jul	<b>-1.0</b>	-	2.8	-
Germany	 Preliminary HICP (CPI) Y/Y%	Aug	<b>2.0 (1.9)</b>	2.2 (2.1)	2.6 (2.3)	-
Spain	 Preliminary HICP (CPI) Y/Y%	Aug	<b>2.4 (2.2)</b>	2.5 (2.4)	2.9 (2.8)	-


















#### Auctions

Country	Auction
Italy	 sold €4.5bn of 3% 2029 bonds at an average yield of 3.08%
	 sold €1.5bn of 2032 floating bonds at an average yield of 4.94%
	 sold €3.25bn of 3.85% 2035 bonds at an average yield of 3.68%


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	Preliminary headline (core) HICP (Y/Y%)	Aug	<u>2.2 (2.9)</u>	2.6 (2.9)
	 10.00	Unemployment rate %	Jul	6.5	6.5
Germany	 07.00	Retail sales M/M% (Y/Y%)	May	0.1 (-0.7)	-0.2 (2.9)
	 08.55	Unemployment rate % (change 000's)	Aug	6.0 (16.0)	6.0 (18.0)
France	 06.30	Total payrolls (final private sector) Q/Q%	Q2	- (0.0)	0.3 (0.3)
	 07.45	Preliminary HICP (CPI) Y/Y%	Aug	2.1 (1.8)	2.7 (2.3)
	 07.45	GDP – final estimate Q/Q% (Y/Y%)	Q2	<u>0.3 (1.1)</u>	0.3 (1.5)
	 07.45	Consumer spending M/M% (Y/Y%)	Jul	0.3 (-0.9)	-0.5 (-1.0)
	 07.45	PPI Y/Y%	Jul	-	-6.0
Italy	 10.00	Preliminary HICP (CPI) Y/Y%	Aug	1.3 (1.2)	1.6 (1.3)
	 11.00	ISTAT consumer confidence indicator	Aug	99.0	98.9
	 11.00	ISTAT business (manufacturing) confidence indicator	Aug	- (87.0)	94.2 (87.6)
Spain	 08.00	Retail sales Y/Y%	Jul	0.3	0.3
UK	 00.01	Lloyds business barometer (own price expectations)	Aug	46 (-)	50 (57)
	 07.00	Nationwide house price index M/M% (Y/Y%)	Aug	0.2 (2.9)	0.3 (2.1)
	 09.30	Net consumer credit £bn (Y/Y%)	Jul	1.3 (-)	1.2 (8.0)
	 09.30	Net mortgage lending £bn (approvals 000s)	Jul	2.4 (60.5)	2.7 (60.0)

#### Auctions and events

Euro area	 08.05	ECB Executive Board's Schnabel to give lecture on euro area inflation, followed by panel discussion, at Bank of Estonia, Tallinn.
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Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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