

Euro wrap-up

Overview

- Bunds made losses as euro area unemployment fell below 11mn for the first time.
- Gilts followed USTs lower on a quiet day for UK economic news.
- Thursday will bring euro area PPI data, a BoE survey of business inflation expectations and the final services PMIs for September.

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Daily bond market movements

Bond	Yield	Change
BKO 2.7 09/26	2.041	+0.029
OBL 2½ 10/29	1.926	+0.057
DBR 2.6 08/34	2.100	+0.067
UKT 4½ 01/27	4.022	+0.078
UKT 4½ 07/29	3.906	+0.094
UKT 4½ 07/34	4.036	+0.098

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

Source: Bloomberg

Euro area

Unemployment falls below 11 million for the first time

Over the past year, the ECB has taken comfort from the resilience of the euro area labour market with the unemployment rate low and stable despite lacklustre growth and a restrictive monetary policy stance. Today's data confirmed that there was no substantive deterioration in labour market conditions in August, with the unemployment rate remaining unchanged at the series low of 6.4%, 0.2ppt lower than a year earlier. Indeed, the number of workers registered unemployed and available for and actively seeking work fell for the third successive month and by 94k, the most since February 2023, to below 11 million for the first time on the series. Among the large member states, the equivalent rates on the ILO measure were also steady in Germany (3.5%) and France (7.5%). But they fell in Italy (6.2%) and Spain (11.3%) to the lowest levels since 2007 and 2008 respectively. Spanish data for September, also released today, reported a further decline in unemployment and increase in employment in the euro area's strongest-growing member state at the end of Q3.

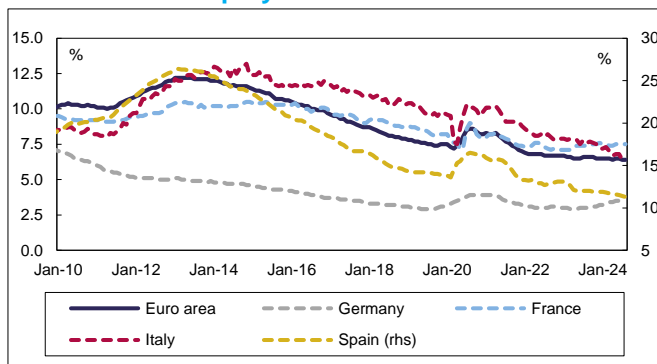
Labour market no obstacle to an accelerated pace of rate cuts

Certain other indicators suggest that the labour market remains historically tight. For example, broader labour market slack in the euro area, including underemployed part-time workers and those available but not seeking or seeking but not available for work, declined to a series low (12.1%) in Q2. And the Commission suggested that a relatively high share of firms, particularly in services and construction, still considered staff shortages to be a restraint on activity in Q3. However, the annual euro area employment growth rate slowed in Q2 to its softest in 13 quarters (0.9%Y/Y). And with the job vacancy rate moderating to a three-year low, the vacancy-to-unemployment ratio – an alternative measure of labour market tightness – fell to its lowest in 11 quarters. Moreover, particularly in the euro area's core member states and in the industrial and retail sectors, survey indicators suggest that firms are now looking to cut headcount. So, we certainly expect job growth to continue to slow. And while euro area labour cost growth moderated only slightly in Q2 to remain elevated at 4.7%Y/Y, and growth in German negotiated wages (excluding one-off payments) was high and steady in Q3 at 4.5%Y/Y, we continue to expect pay pressures to dissipate steadily over coming quarters. Indeed, with cost growth also to continue to be well-absorbed by margins given the persistent weakness of demand, developments in the labour market will be no obstacle to an accelerated pace of ECB rate cuts this quarter and next.

The day ahead in the euro area

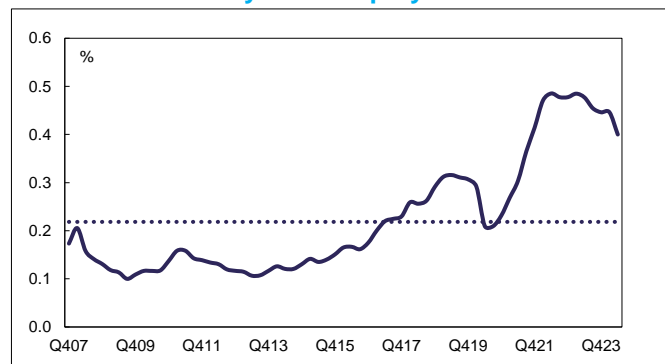
Thursday will bring euro area producer price data for August and the final services and composite PMIs for September. While oil prices were lower that month, industrial producer prices overall are expected to rise for a third successive month, albeit by

Euro area: Unemployment rates



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

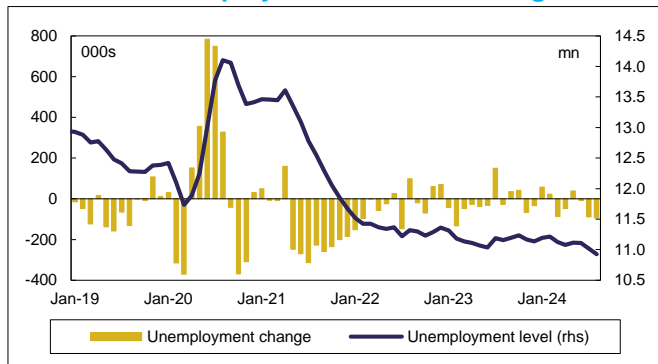
Euro area: Vacancy to unemployment ratio*



*Dotted line represents long-run average. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

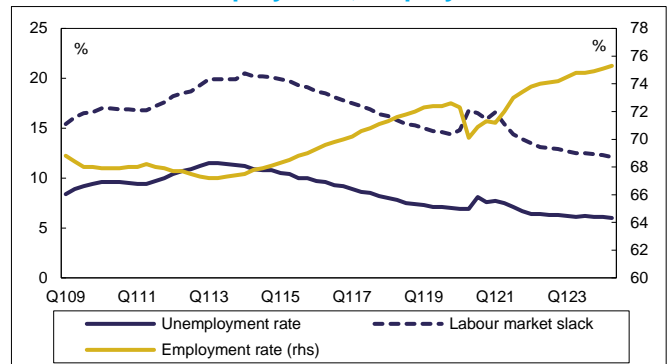
about half the 0.8%M/M rate in July. Given the seven successive declines in prices up to May, however, the annual PPI rate will remain firmly in negative territory. Indeed, given the favourable base effect, euro area PPI inflation is expected to fall by 0.3ppt to -2.4%Y/Y, consistent with the continued absence of consumer goods price pressures. Meanwhile, with the final euro area manufacturing output PMI having been revised up by 0.5pt to 44.9, the headline composite activity PMI might well also be nudged higher from the flash estimate of 48.9. That, however, will still likely remain at an eight-month low consistent with stagnation in economic output at the end of Q3. The flash euro area services activity PMI dropped almost 2½ppts from August to a seven-month low of 50.5 suggesting a significant loss of growth momentum from the summer months. However, the September services and composite PMIs for Spain, to be published for the first time, should remain consistent with relatively firm expansion, while the Italian survey should also be consistent with (admittedly modest) positive growth.

Euro area: Unemployment level and change



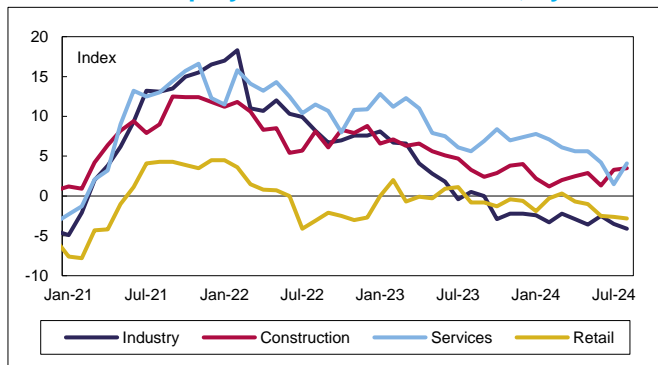
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Unemployment, employment & slack*



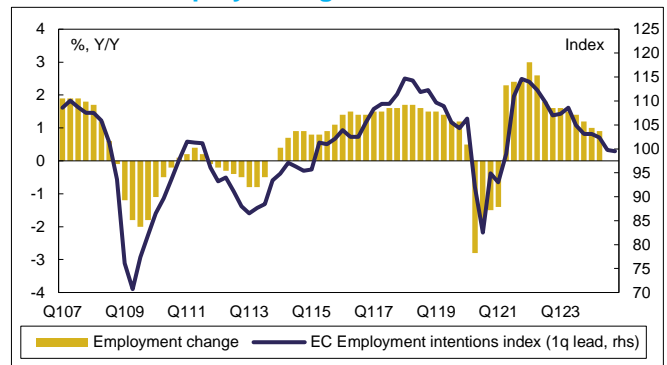
*As a share of labour force population aged 20-64 years. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Employment intentions index, by sector



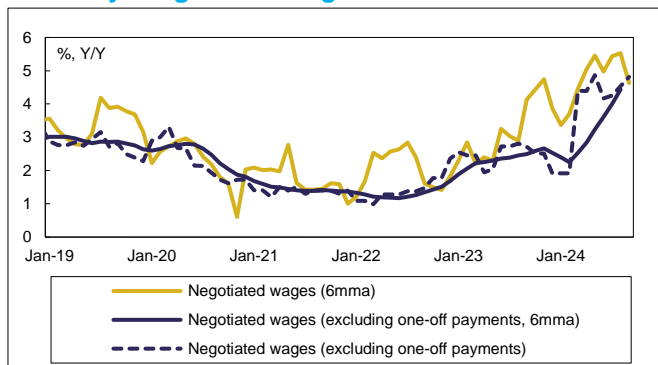
Source: EC, Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Employment growth & intentions index



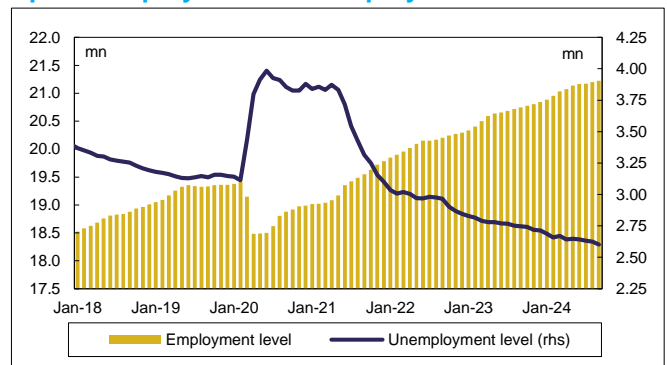
Source: EC, Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Negotiated wages



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Spain: Employment & unemployment








Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK











The day ahead in the UK

Tomorrow will bring the BoE's Decision Maker Panel survey (DMP), which will provide an update on firms' inflation and wage growth expectations. In the previous survey, the DMP reported that firms' expectations of CPI inflation in three years' time ticked marginally higher, by 0.2ppt to 2.7%Y/Y, still more than 2ppts below the peak in September 2022. But firms' output price expectations fell to the lowest level in three years. Meanwhile, wage growth expectations moved sideways at a 27-month low of 4.1%3M/Y. As in the euro area, the final services and composite PMIs for September are also due. According to the flash estimates, the composite output index fell 0.9pt to a two-month low of 52.9 with the services activity down 0.9pt to 52.8, with those figures consistent with a softening in GDP growth in Q3 to about 0.3%Q/Q from 0.5%Q/Q in Q2. In today's final manufacturing survey results, the output PMI was revised up just 0.1pt to 53.6, still representing a drop of 0.8pt from August and suggesting no need for a revision to the composite index for that reason alone.

European calendar

Today's results						
Economic data						
Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Euro area	 Unemployment rate %	Aug	6.4	6.4	6.4	-
France	 Budget balance YTD €bn	Aug	-171.9	-	-156.9	-
Spain	 Unemployment (employment) change 000s	Sep	3.2 (22.2)	12.0 (-)	21.9 (30.2)	-
Auctions						
Country	Auction					
Germany	 sold €3.7bn of 2.6% 2034 bonds at an average yield of 2.08%					
UK	 sold £4.0bn of 4.125% 2029 bonds at an average yield of 3.88%					

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	 09.00	Final composite (services) PMI	Sep	48.9 (50.5)	51.0 (52.9)	
	 10.00	PPI Y/Y%	Aug	-2.4	-2.1	
Germany	 08.55	Final composite (services) PMI	Sep	47.2 (50.6)	48.4 (51.2)	
France	 08.50	Final composite (services) PMI	Sep	47.4 (48.3)	53.1 (55.0)	
Italy	 08.45	Composite (services) PMI	Sep	50.2 (51.1)	50.8 (51.4)	
Spain	 08.15	Composite (services) PMI	Sep	52.8 (54.0)	53.5 (54.6)	
UK	 09.30	Final composite (services) PMI	Sep	52.9 (52.8)	53.8 (53.7)	
	 09.30	DMP 3M output price (1Y CPI) expectations Y/Y%	Sep	3.4 (2.7)	3.6 (2.6)	
Auctions and events						
France	 09.50	Auction: to sell up to €12bn of 1.25% 2034; 3% 2034; 3% 2049; and 3.25% 2055 bonds				
Spain	 09.30	Auction: to sell up to €5.0bn of 2.5% 2027; 1.45% 2029; 2.05% 2039; and 4.7% 2041 bonds				

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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