

Euro wrap-up

Overview

- Bunds made gains as euro area industrial production contracted in Q3, while the ECB minutes of the October policy meeting highlighted some concerns of a potential inflation target undershoot in 2025.
- Gilts followed USTs higher at the short end, even as a UK survey signalled continued recovery in the housing market at the start of Q4.
- The main event tomorrow will be the first estimates for UK GDP in Q3 and monthly activity figures in September, while final French and Italian inflation data for October are also due.

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Daily bond market movements

Bond	Yield	Change
BKO 2 12/26	2.087	-0.051
OBL 2½ 10/29	2.148	-0.064
DBR 2.6 08/34	2.336	-0.048
UKT 4½ 01/27	4.409	-0.068
UKT 4½ 07/29	4.336	-0.071
UKT 4½ 07/34	4.477	-0.040

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

Source: Bloomberg

Euro area

Decline in industrial production in September led by Germany and Ireland

While euro area economic activity unexpectedly accelerated over the third quarter as a whole, today's monthly output figures confirmed that the industrial sector remained a drag in Q3. Indeed, euro area industrial production fell a steep 2.0%M/M in September – the most since January – to more than reverse the jump in August (downwardly revised to 1.5%M/M). This left output down for the fourth quarter out of the past five (-0.3%Q/Q), at its lowest level for four years and more than 3% below the pre-pandemic benchmark in February 2020. Production fell in September in roughly 80% of the region, but was led by Ireland (-10.7%M/M) - where the transfer pricing activities of multinational corporations often distort the data - and Germany (-2.8%M/M), with output in the largest member state a whopping 12½% below the pre-pandemic level and 16% below the peak in November 2017.

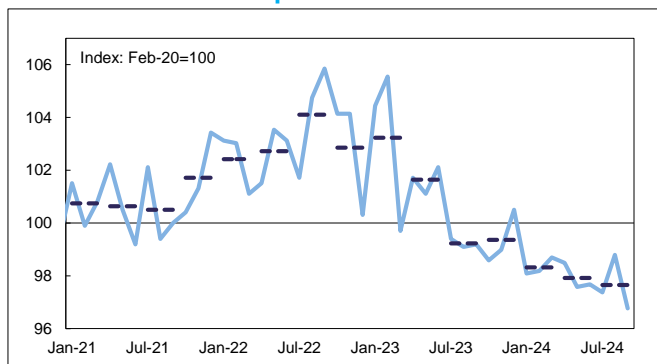
Manufacturing output contracts in Q3 for sixth quarter out of the past seven

Within the sectoral detail, manufacturing output fell (2.1%M/M) for a fourth month out of the past six, to leave it down a more striking 1.1%Q/Q in Q3, marking the sixth quarterly contraction out of the past seven. The weakness in September was in part driven by payback for the bumper growth in the autos sector in August, with production in that sector down more than 6½%M/M. Having risen in the previous three months, production of computer, electronic and optical goods also fell sharply (-6.5%M/M), offsetting a modest pickup in general and electrical machinery. Overall, capital goods production (-3.8%M/M) fell to its lowest for 2½ years. And consistent with the sharp decline in Germany, chemicals production fell for a third consecutive month (-1.8%M/M) to its lowest level since January. But while production of basic metals fell to its joint-lowest since July 2020, overall intermediate goods output moved sideways. And thanks to a notable jump in pharmaceuticals (6.5%M/M), production of consumer goods rose for fifth month out of the past six to an 18-month high.

Euro area GDP growth at 2-year high despite drag from manufacturing

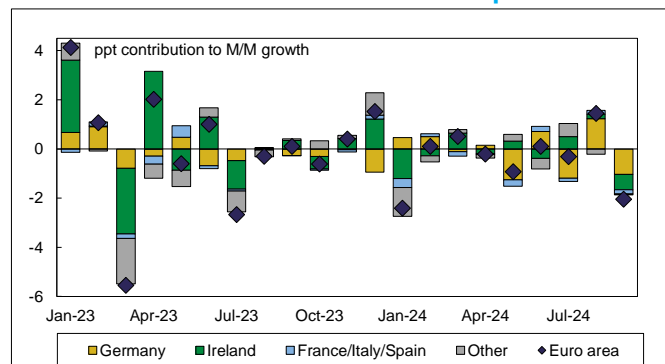
Despite the drag from manufacturing, today's updated national accounts figures confirmed the relatively strong recovery in overall economic output in the third quarter. Indeed, GDP growth was unrevised from the preliminary estimate at 0.4%Q/Q, the firmest pace of expansion for two years and double the ECB's projection. As in the preliminary data, today's release confirmed that Ireland (2.0%Q/Q) provided a significant boost to overall GDP in Q3. Today's data also reported another solid expansion in the Netherlands (0.8%Q/Q), despite a marked decline in manufacturing output in September to a more than three-year low. And Germany's surprising expansion (0.2%Q/Q) last quarter was also confirmed, with a boost to services and retail activity seemingly offsetting the non-negligible drags from manufacturing and construction. But while German retail

Euro area: Industrial production*



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

Euro area: Contributions to industrial production



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

sales accelerated 1.3%Q/Q in Q3, the latest monthly figures suggest that German services activity in August was trending just 0.3% above the Q2 average, suggesting a possible downwards revision to Q3 GDP in due course.

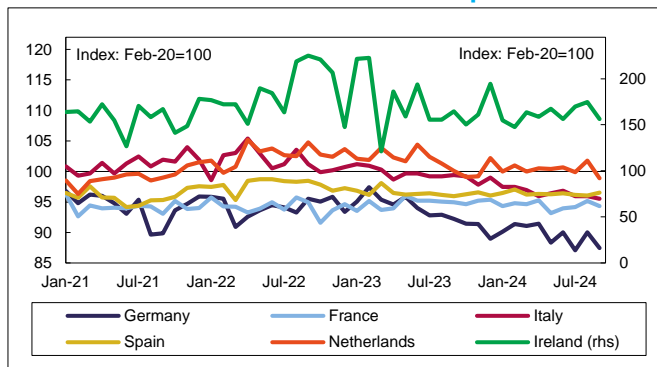
Employment rose for 14th quarter to maintain subdued productivity trend

While we will have to wait for the third release of euro area GDP on 6 December for the expenditure components, strong retail sales figures suggest that household consumption accelerated in Q3 supported by rising real disposable incomes and another quarter of positive employment growth (0.2%Q/Q). Indeed, today's figures showed that employment rose for a 14th consecutive quarter in Q3, by 306k to 170.9mn. That took the level of employment some 9.3mn and 5.7% above the pre-pandemic level, while GDP was up a more moderate 4.6% relative to that Q419 benchmark. But with GDP having outpaced employment growth in Q3 for a second quarter out of the past three, labour productivity per person recorded the first positive annual growth for almost two years, albeit a still extremely subdued 0.1%Y/Y. With payrolls having fallen in Germany for the first time since Q121, labour productivity rose by the most in two years. But this remained well below the pre-pandemic level, as did productivity in France, while productivity growth in Spain (1.6%Y/Y) was the firmest of the larger member states despite a further rise in employment last quarter. Recent surveys report that firms were again less inclined to recruit new staff at the start of Q4, implying a slower rate of jobs growth over coming quarters. And while euro area GDP growth will likely moderate in Q4 to reflect payback for certain one-off factors boosting growth in Q3, we anticipate a pick up again in 2025, which should also coincide with a further gradual improvement in productivity next year.

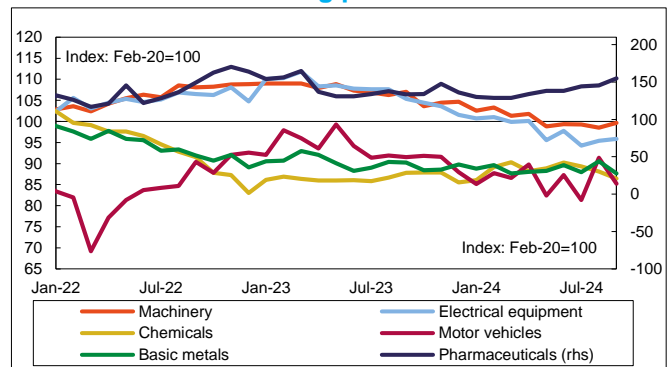
The day ahead in the euro area

On an otherwise quiet end to the week for euro area releases, tomorrow will bring final French and Italian inflation data for October. Like elsewhere in the euro area member states, the flash estimates of French and Italian HICP inflation ticked up in both countries in October, amid higher fresh food prices. But headline inflation rates remained comfortably below target in both France (1.5%Y/Y) and Italy (1.0%Y/Y) at the start of Q4. October's flash release showed that a softer pace of decline in French energy inflation added some modest upwards pressure, while energy disinflation was a larger drag in Italy. But contrasting Germany, services inflation eased slightly in both France and Italy last month. In addition, Italian trade data for September is also due ahead of next Monday's euro area release, while the European Commission will publish updated macroeconomic forecasts for the region.

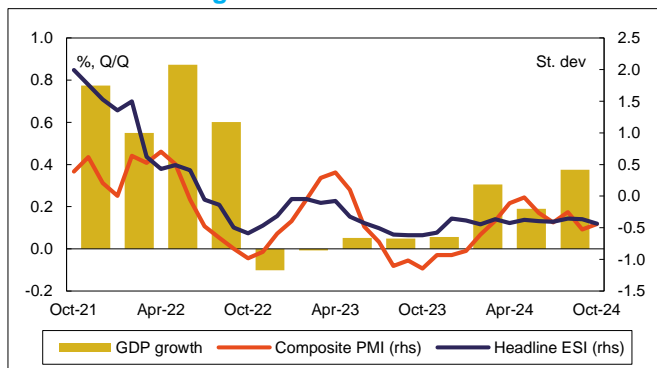
Euro area member states: Industrial production



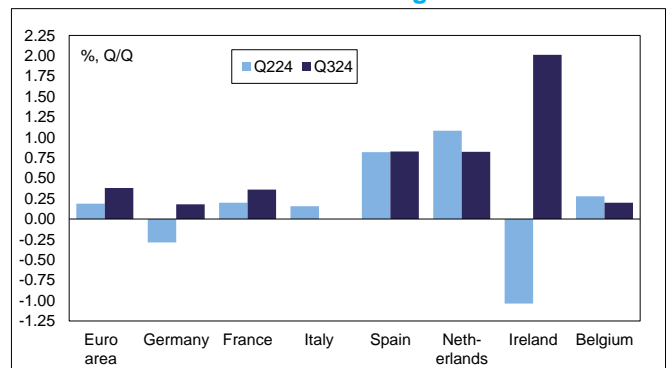
Euro area: Manufacturing production



Euro area: GDP growth & sentiment indices



Euro area member states: GDP growth



UK

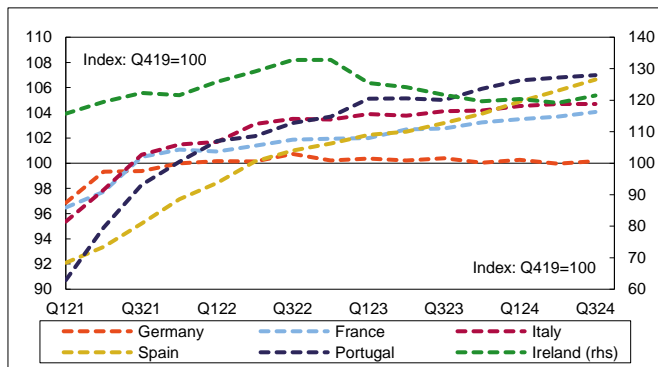
Surveyors signal ongoing pickup in housing market activity, despite budget uncertainties

In line with the recent improving trend in the RICS residential market survey, surveyors continued to paint a more upbeat picture of housing market conditions in October. Tallying with increases in the Nationwide (0.1%M/M, 2.4%Y/Y) and Halifax (0.2%M/M, 3.9%Y/Y) house price indices, the RICS headline house price net balance – up to +16.4%, up from +10.9% in September – marked a third consecutive monthly positive net balance and the highest since September 2022. Moreover, the prospect for further gradual easing in borrowing costs and a parallel pickup in buyer demand further strengthened the outlook for the start of the new year. Indeed, expectations for house prices in three months' time (+20.4%) were the strongest since March 2022. Admittedly, new buyers' enquiries were little changed and new instructions eased back relative to the previous month. But according to surveyor's comments, this likely reflected greater caution ahead of the last month's budget announcements. Nonetheless, newly agreed sales were reportedly higher for a third consecutive month, with the net balance of +8.9% the highest in almost 3½ years. And overall expectations remained upbeat about the recovery in 2025 as declining policy rates feed through into lower mortgage rates.

The day ahead in the UK

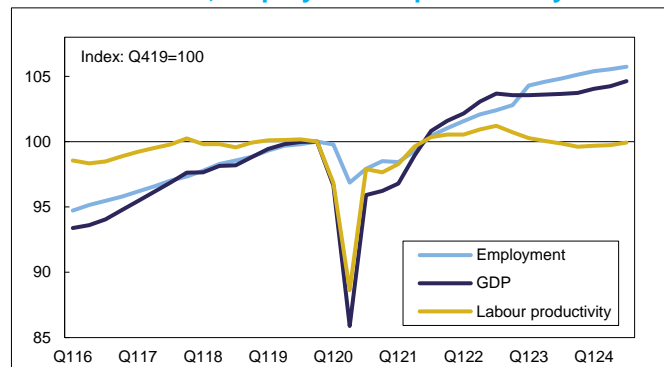
All eyes at end of the week in the UK will be on the first estimates of GDP in Q3 and September, which are widely expected to confirm that growth slowed in Q3. Following particularly strong growth in the first half of the year – at 0.7%Q/Q in Q1 and 0.5%Q/Q in Q2 – the BoE last week revised down its expectation for Q3 to just 0.2%Q/Q. We are somewhat less downbeat, with an expectation for growth of 0.3%Q/Q, but recognise that risks are skewed to the downside. Certainly, we are more upbeat about economic output in September – perhaps with growth of up to 0.4%M/M – supported not least by a strong improvement in the construction PMI in September, while solid retail sales growth throughout Q3 also raises the likelihood of stronger support from household consumption.

Euro area member states: GDP levels



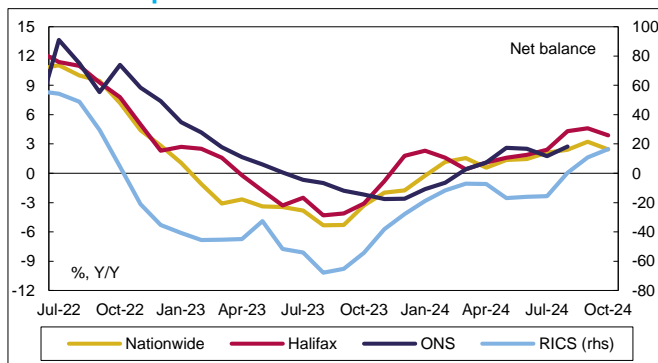
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: GDP, employment & productivity



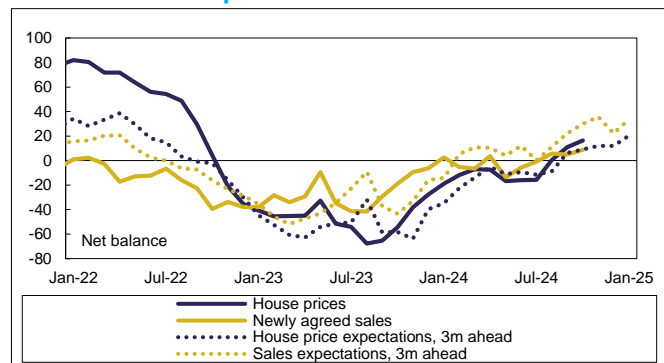
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: House price indicators



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: RICS house price & new sales indicators








Source: Macrobond 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	 GDP – second estimate Q/Q% (Y/Y%)	Oct	0.4 (0.9)	0.4 (0.9)	0.2 (0.6)	-
	 Industrial production M/M% (Y/Y%)	Sep	-2.0 (-2.8)	-1.4 (-2.0)	1.8 (0.1)	1.5 (-0.1)
	 Preliminary employment Q/Q% (Y/Y%)	Q3	0.2 (1.0)	-	0.2 (0.8)	0.1 (0.9)
Spain	 Final HICP (CPI) Y/Y%	Oct	1.8 (1.8)	1.8 (1.8)	1.7 (1.5)	-
UK	 RICS house price balance %	Oct	16	11	11	-

Auctions

Country	Auction
- Nothing to report -	







Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Wednesday's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
- Nothing to report -						










Auctions

Country	Auction
Germany	 sold €3.346bn of 2.6% 2034 bonds at an average yield of 2.38%
Italy	 sold €4bn of 2.7% 2027 bonds at an average yield of 2.73%
	 sold €1.5bn of 3.5% 2031 bonds at an average yield of 3.23%
	 sold €1.5bn of 2.5% 2032 bonds at an average yield of 3.37%
	 sold €1.25bn of 4.15% 2039 bonds at an average yield of 3.93%
UK	 sold £4bn of 4.375% 2028 bonds at an average yield of 4.499%


Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Friday's releases

Economic data

Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
France	 07.45	Final HICP (CPI) Y/Y%	Oct	1.5 (1.2)	1.4 (1.1)
Italy	 09.00	Final HICP (CPI) Y/Y%	Oct	1.0 (0.9)	0.7 (0.7)
	 10.00	Trade balance €bn	Sep	-	1.4
UK	 07.00	GDP – first estimate Q/Q% (Y/Y%)	Q3	<u>0.3 (1.1)</u>	0.5 (0.7)
	 07.00	Monthly GDP M/M% (3M/3M%)	Sep	<u>0.4 (0.3)</u>	0.2 (0.2)
	 07.00	Services output M/M% (3M/3M%)	Sep	0.2 (0.2)	0.1 (0.1)
	 07.00	Industrial output M/M% (Y/Y%)	Sep	0.1 (-1.1)	0.5 (-1.6)
	 07.00	Construction output M/M% (Y/Y%)	Sep	0.2 (-0.6)	0.4 (0.3)
	 07.00	Trade (goods trade) balance £bn	Sep	-1.2 (-15.8)	-1.0 (-15.0)

Auctions and events

Euro area	 10.00	EU Commission to publish Autumn 2024 economic forecasts
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Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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