Euro wrap-up

Overview

Emily Nicol
+44 20 7597 8331

Edward Maling
+44 20 7597 8030

- Bunds followed USTs lower on a relatively quiet day for euro area economic news.
- Gilts made modest gains as UK GDP growth slowed more than expected in Q3 despite a solid contribution from final domestic demand.
- The coming week will bring the flash November PMIs, October inflation figures from the euro area and UK and initial estimates of euro area labour in Q3.

Daily bond market movements

Bond	Yield	Change
BKO 2 12/26	2.109	+0.019
OBL 2½ 10/29	2.172	+0.035
DBR 2.6 08/34	2.352	+0.015
UKT 4⅛ 01/27	4.390	-0.022
UKT 4⅛ 07/29	4.325	-0.014
UKT 4¼ 07/34	4.470	-0.011

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

UK

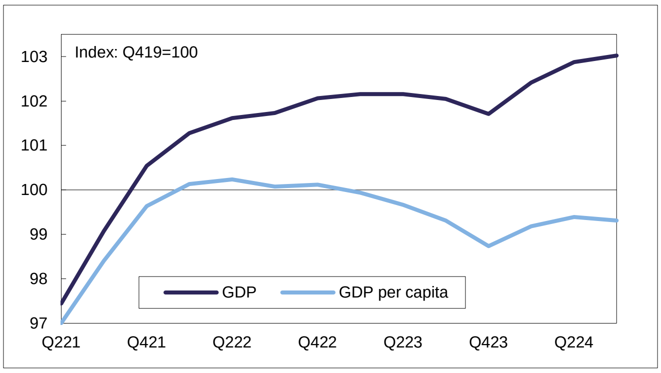
UK GDP growth slowed more than expected in Q3

Following the surprisingly strong rebound in the first half of the year, the first estimate of Q3 GDP suggested that the UK's economic momentum slowed sharply over the summer. Indeed, economic activity rose just 0.1%Q/Q, down from growth of 0.7%Q/Q in Q1 and 0.5%Q/Q in Q2, and marginally softer than the BoE's projection (0.2%Q/Q). So, despite being the firmest for seven quarters, the annual rate of growth was still underwhelming at 1.0%Y/Y, while the level of GDP was just 3.0% above the pre-pandemic benchmark in Q419 and still almost 6% below the pre-pandemic trend. As such, the UK's economic performance continues to lag well behind the equivalent recoveries in the US (11½%) and euro area (4½%) and is only better than Germany among the major economies. Furthermore, in GDP per capita terms, the recovery has been even more sluggish, with a modest decline in Q3 (-0.1%Q/Q) leaving the level still below where it was in Q419. And while labour market figures have provided mixed messages over the summer – and the labour force survey remains subject to reliability issues due to the low response rate – the ONS today suggested that labour productivity remained extremely weak in Q3, with output per hour worked down 1.8%Y/Y, the steepest such decline for three years.

Final domestic demand firmer than implied by headline GDP growth

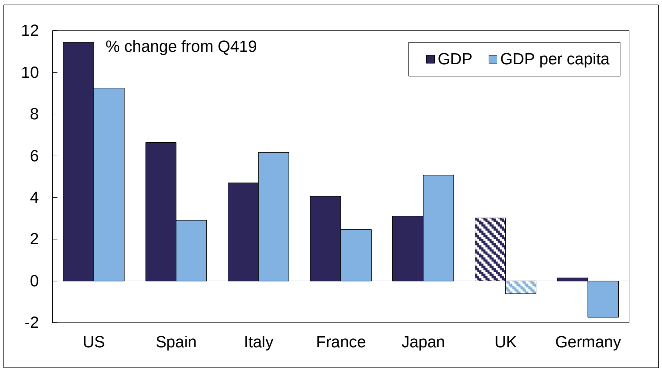
But while the headline GDP figures likely exaggerated the pace of underlying growth momentum in the first half of the year, today's release also suggested that the slowdown in headline GDP growth downplayed the strength in final domestic demand last quarter. Benefiting from rising real disposable incomes, elevated household savings and improving consumer confidence, household consumption rose for a third consecutive quarter in Q3, and by a firmer 0.5%Q/Q to contribute 0.3ppt to GDP growth. Government spending also increased for a fifth quarter out of the past six (0.6%Q/Q) to add 0.2ppt to growth. And perhaps taking comfort from a more stable domestic political backdrop, fixed investment rose for a fourth successive quarter (1.1%Q/Q), with growth in business investment similarly up for a fourth quarter (1.2%Q/Q) as higher investment in transport equipment, intellectual property and ICT equipment offset lower spending on private dwellings. While the level of fixed investment was almost 5% above the pre-pandemic level, business investment was up just 1½% against the same benchmark, a similar pace to household consumption. And both fixed and business investment remained well below the respective pre-Brexit trends. Nevertheless, in Q3, final domestic demand added a chunky 0.6ppt to GDP growth, matching the contribution in Q1, which was the firmest for two years.

UK: GDP & GDP per capita levels



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: GDP & GDP per capita – Q324 vs Q419



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

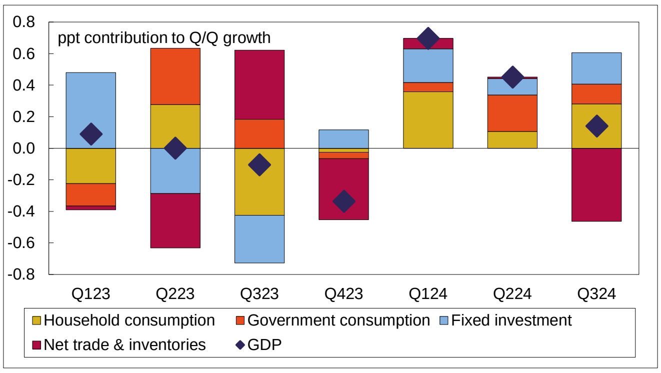
Net trade boosted by drop in imports, but outlook for exports remains uncertain

So, the weakness in Q3 stemmed from a substantial drag from private inventories (-0.9ppt), which was only partially offset by net trade (0.5ppt), with both components exaggerated by transactions in non-monetary gold. The positive contribution from net trade in part reflected a decline in import volumes following the spike in imports in Q2. (When excluding precious metals, import volumes rose 1½%Q/Q in Q3, which would have represented a non-negligible drag.) Meanwhile, the steady downtrend in export volumes was maintained in Q3, leaving them more than 7% below the Q419 level. And the drop in Q3 was led by the first quarterly decline in services exports (-1.0%Q/Q) in a year, albeit leaving them still up 1.9%Y/Y. But while goods exports rose over the past quarter (0.8%Q/Q), this marked just the second increase in two years, to leave them a whopping 24% below the pre-pandemic benchmark, reflecting not least reduced trading opportunities in the wake of Brexit. Admittedly, the EU still accounts from almost 50% of the UK's goods shipments. But with the US also importing around 16% of UK shipments, manufacturers will remain concerned about potential higher tariffs when Trump takes office in January. And with the monthly trade figures in September – exports volumes were down to the EU (-11%M/M) and non-EU countries (-12%M/M) – suggesting a substantial negative carry-over into Q4, an extended period of uncertainty ahead of trade negotiations might also weigh on investment plans over the near-term too.

GDP declined for first month in five in September, but surveys point to ongoing modest expansion

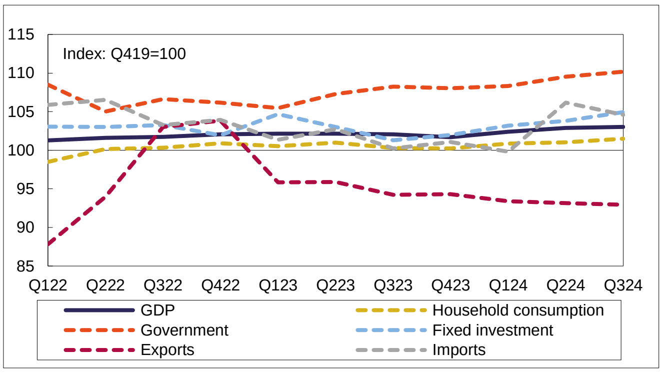
Looking at the recent monthly profile, the downside surprise to Q3 GDP in part reflected the decline in economic output in September. Indeed, contrary to expectations of a modest increase, GDP fell in September, by 0.2%M/M, reversing the increase in August to maintain the broadly sideways trend since May. The weakness in September was driven by a second monthly drop in three in manufacturing production (1.0%M/M), reflecting a notable decline in basic metals and autos. This left total industrial output down 0.2%Q/Q in Q3 at its lowest level since May 2020. Despite positive contributions from professional, scientific and technical activities, as well as retail and motor vehicle repairs, services output registered no growth in September following only modest increases in July and August (0.1%M/M). As such, services growth slowed sharply in Q3 to just 0.1%Q/Q, down from 0.9%Q/Q in Q1 and 0.6%Q/Q in Q2. And while construction recorded the first quarterly expansion (0.8%Q/Q) in a year, activity moved broadly sideways in September as new house building fell back. Looking ahead, surveys suggest that economic output remained subdued in October, due not least to heightened uncertainty ahead of the Budget announcements. On the whole, they still remain consistent with modest expansion. Certainly, consumer spending is expected to be supported by continued growth in real disposable incomes and a waning drag from higher interest rates. And so, on balance, we would expect to see GDP growth tick higher again in Q4, to be broadly in line with the BoE's expectation for H224.

UK: Contributions to GDP growth



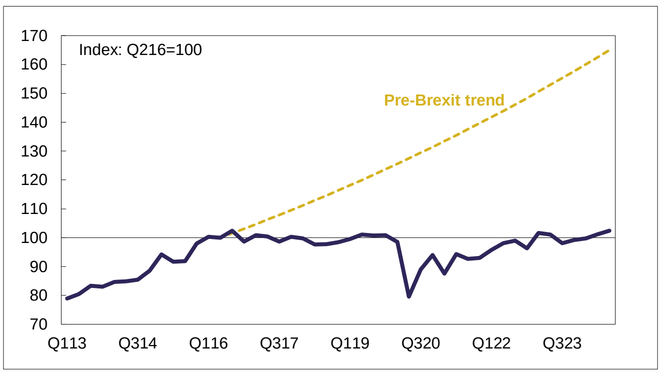
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: GDP expenditure components



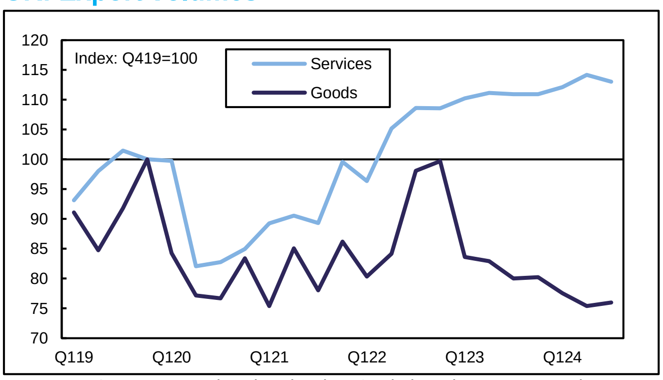
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Business investment



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Export volumes



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

The week ahead in the UK

The coming week will be another busy one for top-tier UK data releases, kicking off with October's CPI print on Wednesday. After headline inflation registered a first sub-target reading for 3½ years in September (1.7%Y/Y), we expect the headline CPI rate to have bounced back in October to 2.2%Y/Y, bang in line with the BoE's own projections. This bounce back will reflect predominantly the impact of the 9.5% increase in the Ofgem energy price cap, which stands to reduce the drag from energy disinflation by around 6ppts to -10%Y/Y. In contrast, core inflation is expected to remain unchanged at 3.2%Y/Y, with non-energy industrial goods inflation set to remain largely absent, while the all-important services inflation is likely to tick only marginally higher (0.1ppt) to 5.0%Y/Y, also in line with the Bank's forecast. Meanwhile, energy base effects will likely continue to weigh on producer price inflation, suggesting an ongoing lack of upwards pressure on consumer goods prices over the near term too. More broadly, ongoing disinflation supported a recovery in retail spending over recent months. But after a notable rise in Q3, retail sales figures for October (Friday) are expected to have declined for the first month in four – indeed, last week's BRC monitor hinted at a slowdown in consumer spending in the lead up to the budget consistent with the drop in consumer confidence that month.

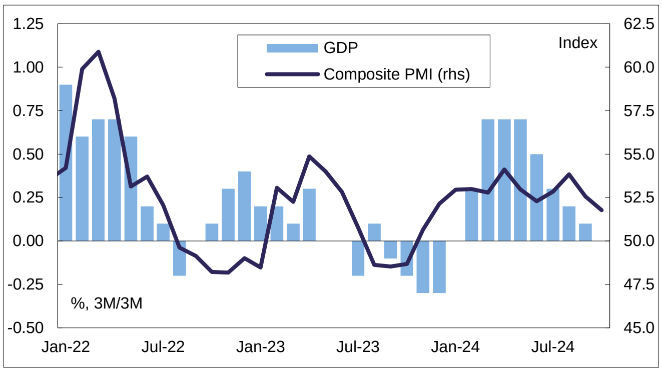
The effects of budget uncertainty on firms were seemingly also evident in last month's PMIs which saw the composite index fall to an eleven-month low in October (51.8), albeit still remaining consistent with a broad expansion across subsectors. November's flash PMI release (also due Friday) might see little improvement, not least due to heightened uncertainty after the US election result, while it remains to be seen how firms will respond to the burden of higher employer NICs contributions. Ahead of the PMIs, Thursday's CBI industrial trends survey will provide a slightly earlier account of manufacturing conditions in November. Meanwhile, the GfK consumer confidence survey (Friday) might be expected to report an improvement in sentiment following the Budget-related deterioration in October. Finally, in line with leading indicators, the ONS house price index (Wednesday) will should point to ongoing recovery in house prices in September.

Euro area

French and Italian final inflation points to ongoing disinflation in services

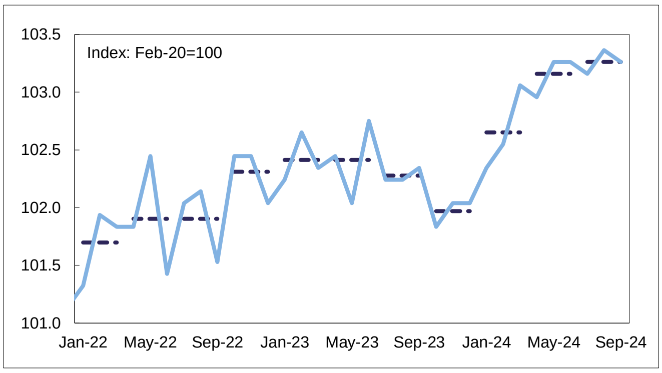
There were no major surprises in today's final releases for French and Italian inflation in October, which, on the whole, confirmed that the disinflationary trend in underlying price pressures stayed the course at the start of Q4. Admittedly, headline inflation rates were marginally higher in both countries last month, with harmonised rates rising to 1.6%Y/Y in France (revised up from 1.5%Y/Y in the flash release) and 1.0%Y/Y in Italy. But this was still comfortably below target. And October's rise was driven particularly by a rise in fresh food prices. Energy disinflation continued to weigh on the headline

UK: GDP growth & composite PMI



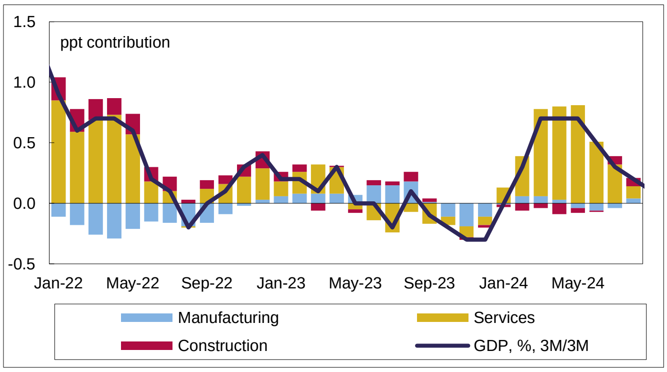
Source: S&P Global, Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Monthly GDP*



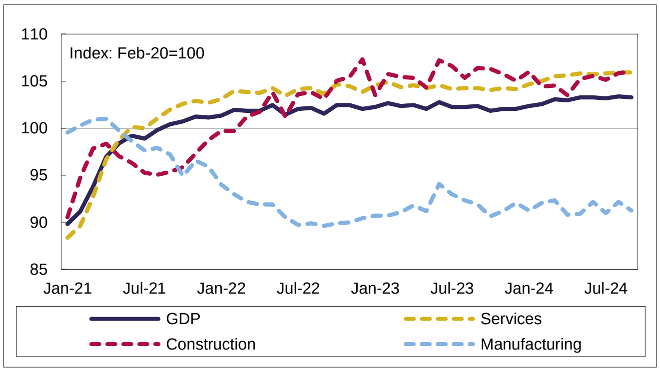
**Dashed dark blue lines represent quarterly average.*
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Contributions to GDP growth



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: GDP levels by sector



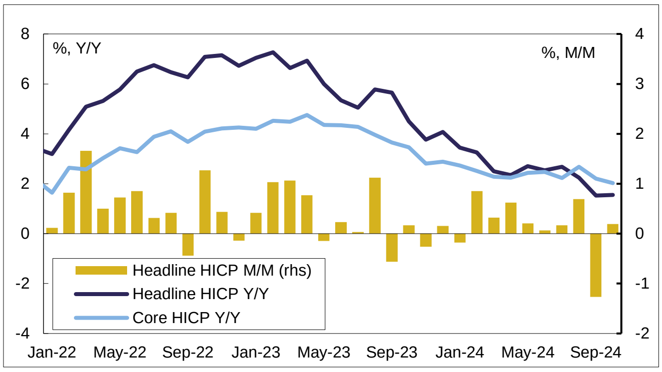
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

rate, though to a lesser extent in France than had been the case in September, whilst in Italy these added to the already negative contribution in previous months. However, ECB officials will take greater comfort from the observation that services measures continued to point towards ongoing gradual disinflation in October. Indeed, French core HICP inflation fell 0.1ppt to 2.0%Y/Y, while services inflation eased (0.2ppt) to 2.8%Y/Y, marking their softest pace since January and March 2022 respectively. And although Italian core inflation ticked up slightly (up 0.1ppt to 1.9%Y/Y), services inflation eased for a second month to 3.0%Y/Y, from 3.1%Y/Y in September, also its lowest since April 2022.

The week ahead in the euro area

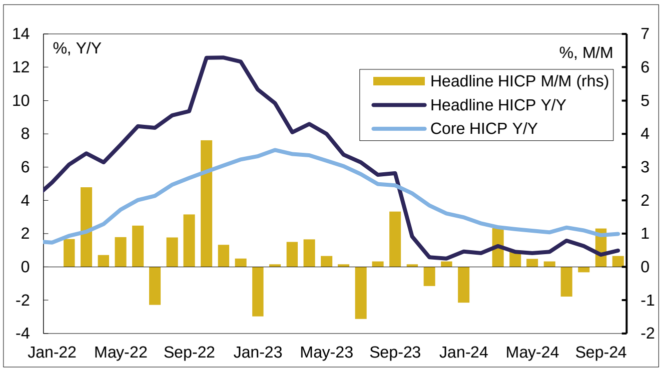
The coming week will bring a number of top-tier euro area releases which will be of consequence for near-term monetary policy, starting off with October's final euro area inflation figures (Tuesday). The flash release reported that the headline HICP rate rose slightly in October, by 0.3ppt to 2.0%Y/Y, owing primarily to upward impulses in non-core components, including food inflation up to a nine-month high. But the core components were better behaved, with prices of non-energy industrial goods and services up in line with their monthly norms in the decade before the financial crisis. The coming week's release will bring the granular detail, which will be watched for insights into recent developments in underlying price pressures (i.e. excluding the typically volatile components such as airfares and package holidays). In terms of risks to services inflation persistence, policymakers will watch closely the release of the latest wage data, including preliminary

France: Headline & core HICP inflation



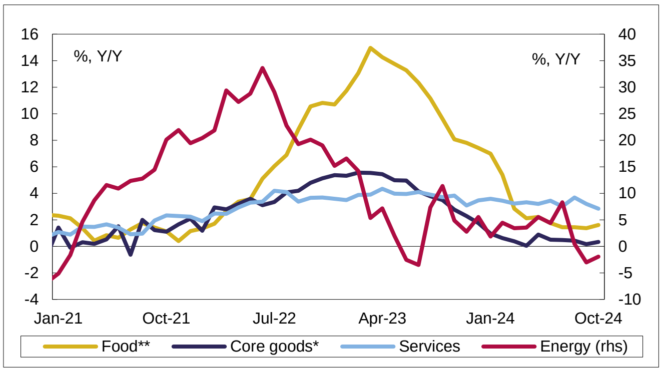
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Italy: Headline & core HICP inflation



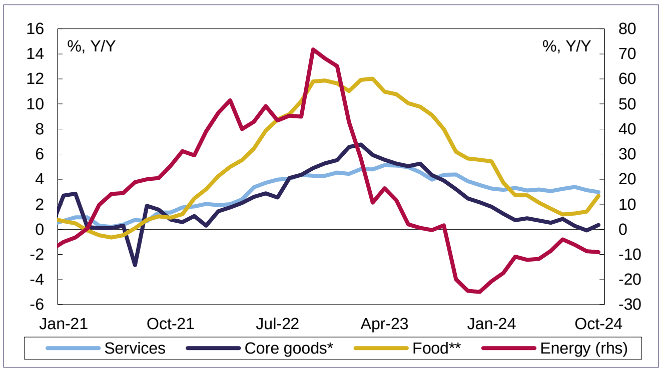
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

France: HICP inflation components



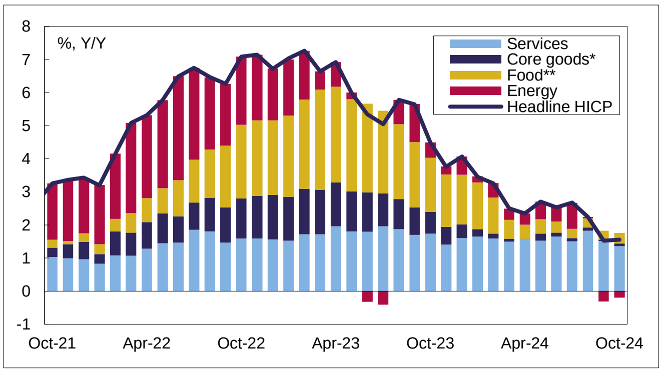
**NEIG; **Inc. alcohol & tobacco.*
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Italy: HICP inflation components



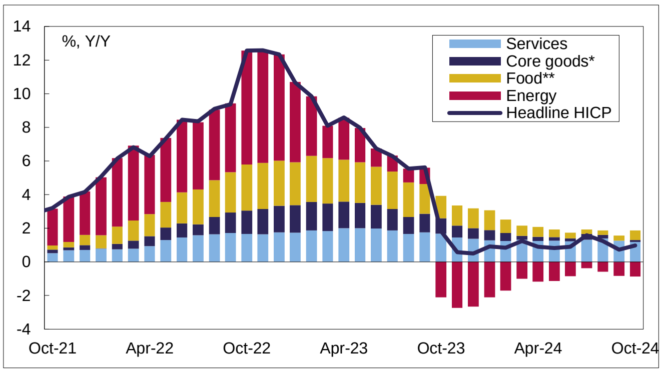
**NEIG; **Inc. alcohol & tobacco.*
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

France: Contributions to HICP inflation



**NEIG; **Inc. alcohol & tobacco.*
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Italy: Contributions to HICP inflation



**NEIG; **Inc. alcohol & tobacco.*
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

labour costs (Tuesday) and negotiated wage estimates for Q3 (Wednesday). While base effects will likely see labour costs growth slow in the past quarter, euro area negotiated wage growth might tick marginally higher, not least owing to subtle increases in Germany and Italy.

With the ECB having acknowledged that economic activity had recently surprised to the downside and President Lagarde flagging the broad-based deterioration in the PMIs, the coming week's sentiment indicators will arguably now be of greater importance for the future pathway for monetary policy. Indeed, after last month's composite PMIs pointed towards ongoing stagnation in the euro area (50.0) at the start of Q4 and ongoing contraction in Germany (48.6) and France (48.1), we expect November's flash releases (Friday) to signal continued weakness, related not least to increased economic uncertainties in the wake of the re-election of US President Trump and the collapse of Germany's ruling coalition. The French INSEE business survey (Thursday) – often a more reliable guide to the PMIs – will be watched for developments in manufacturing sentiment after last month reported the steepest monthly drop in since the global financial crisis. In contrast, policymakers might be hopeful that their more proactive easing and lower inflation will have provided a further boost to consumer sentiment – the Commission's flash consumer confidence indicator for November is due Thursday.

The end of the week will also see the release of the second estimate of German GDP (Friday), which will bring a more detailed expenditure breakdown that supported an unexpected return to positive growth in Q3 (0.2%Q/Q). The press release previously reported that government and household consumption increased in the third quarter, with the subsequent release of strong retail sales volumes (1.3%3M/3M) supporting this assumption. Industrial production, however, served as a headwind to GDP once again, having declined for a fifth quarter in six over Q3 (-1.9%3M/3M), while construction activity also contracted (-1.4%3M/3M). Elsewhere, for the euro area, the coming week will also bring September's goods trade (Monday) and construction output data (Wednesday), for which the latter will likely mirror the declining output in reported in Germany and France.

Daiwa economic forecasts

	2024			2025					
	Q2	Q3	Q4	Q1	Q2	Q3	2023	2024	2025
GDP			**%, Q/Q**					**%, Y/Y**	
Euro area	0.2	0.4	0.1	0.3	0.3	0.3	0.5	0.8	1.0
UK	0.5	0.1	0.3	0.4	0.4	0.4	0.3	0.9	1.5
Inflation, %, Y/Y									
Euro area									
Headline HICP	2.5	2.2	2.3	2.1	1.8	1.8	5.4	2.4	2.0
Core HICP	2.8	2.8	2.8	2.5	1.9	1.8	4.9	2.9	2.1
UK									
Headline CPI	2.1	2.0	2.4	2.3	2.1	2.3	7.3	2.5	2.2
Core CPI	3.6	3.3	3.3	3.3	2.3	2.0	6.2	3.7	2.3
Monetary policy, %									
ECB									
Deposit Rate	3.75	3.50	3.00	2.50	2.25	2.25	4.00	3.00	2.25
Refi Rate	4.25	3.65	3.15	2.65	2.40	2.40	4.50	3.15	2.40
BoE									
Bank Rate	5.25	5.00	4.75	4.50	4.25	4.00	5.25	4.75	3.75

Source: Bloomberg, ECB, BoE and Daiwa Capital Markets Europe Ltd.

Daiwa Capital Markets

The coming week's data calendar

The coming week's key data releases

Country		GMT	Release	Period	Market consensus/ _Daiwa forecast/_	Previous
			Monday 18 November 2024			
Euro area		10.00	Trade balance €bn	Sep	7.7	11.0
UK		00.01	Rightmove house prices M/M% (Y/Y%)	Nov	-	0.3 (1.0)
			Tuesday 19 November 2024			
Euro area		09.00	Current account balance €bn	Sep	-	31.5
		10.00	Final headline (core) HICP Y/Y%	Oct	_2.0 (2.7)_	1.8 (2.7)
		10.00	Preliminary labour costs Y/Y%	Q3	-	4.7
		10.00	Preliminary job vacancy rate %	Q3	-	2.6
			Wednesday 20 November 2024			
Euro area		10.00	Construction output M/M% (Y/Y%)	Sep	-	0.1 (-2.5)
		10.00	Negotiated wages Y/Y%	Q3	-	3.6
Germany		07.00	PPI Y/Y%	Oct	-1.0	-1.4
UK		07.00	CPI (core CPI) Y/Y%	Oct	_2.2 (3.2)_	1.7 (3.2)
		07.00	PPI – output (input) prices Y/Y%	Oct	-1.1 (-2.9)	-0.7 (-2.3)
		09.30	House price index Y/Y%	Sep	-	2.8
			Thursday 21 November 2024			
Euro area		05.00	New car registrations Y/Y%	Oct	-	-7.1
		15.00	Preliminary Commission consumer confidence indicator	Nov	-12.4	-12.5
France		07.45	INSEE business (manufacturing) confidence indicator	Nov	97 (94)	97 (92)
UK		07.00	Public sector net borrowing £bn	Oct	13.3	16.6
		11.00	CBI industrial trends survey – total orders (selling prices) balance %	Nov	-25 (5)	-27 (0)
			Friday 22 November 2024			
Euro area		09.00	Preliminary manufacturing (services) PMI	Nov	46.0 (51.6)	46.0 (51.6)
		09.00	Preliminary composite PMI	Nov	50.0	50.0
Germany		07.00	GDP – final estimate Q/Q% (Y/Y%)	Q3	0.2 (-0.2)	-0.3 (-0.1)
		08.30	Preliminary manufacturing (services) PMI	Nov	43.0 (51.8)	43.0 (51.6)
		08.30	Preliminary composite PMI	Nov	48.7	48.6
France		08.15	Preliminary manufacturing (services) PMI	Nov	44.7 (49.0)	44.5 (49.2)
		08.15	Preliminary composite PMI	Nov	48.5	48.1
UK		00.01	GfK consumer confidence indicator	Nov	-22	-21
		07.00	Retail sales – including auto fuel M/M% (Y/Y%)	Oct	-0.3 (3.4)	0.3 (3.9)
		07.00	Retail sales – excluding auto fuel M/M% (Y/Y%)	Oct	-0.4 (3.3)	0.3 (4.0)
		09.30	Preliminary manufacturing (services) PMI	Nov	50.0 (52.0)	49.9 (52.0)
		09.30	Preliminary composite PMI	Nov	51.8	51.8

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's key events & auctions		
Country	**GMT**	**Event / Auction**
		Monday 18 November 2024
Euro area	13.00	ECB Chief Economist & Executive Board Member Lane delivers lecture to SUERF-Banca d'Italia conference
		Tuesday 19 November 2024
UK	10.00	Auction: to sell £3.25bn of 3.75% 2038 bonds
	10.00	BoE Governor Bailey, DG Lombardelli, and External Members Mann & Taylor to speak to the Treasury Select Committee
		Wednesday 20 November 2024
Euro area	09.00	ECB to publish Financial Stability Review
Germany	10.30	Auction: to sell €1bn of 1.8% 2053 bonds
		Thursday 21 November 2024
France	09.50	Auction: to sell up to €11bn 2.5% 2027, 0.75% 2028, 0% 2030 & 2.75% 2030 bonds
	10.50	Auction: to sell up to €2.25bn 3.15% 2032, 0.6% 2034, 0.1% 2036 & 1.8% 2040 inflation-linked bonds
Spain	09.30	Auction: to sell 3.1% 2031, 4.2% 2037 & 1% 2042 bonds
		Friday 22 November 2024
Euro area	08.30	ECB President Lagarde to deliver keynote speech at the Frankfurt European Banking Congress (EBC)
	13.00	Bundesbank President Nagel & Banque de France Governor Villeroy deliver speeches at the Frankfurt EBC

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

European calendar

Today's results

Economic data

Country	Release	Period	**Actual**	Market consensus/ *Daiwa forecast*	Previous	Revised
France	Final HICP (CPI) Y/Y%	Oct	**1.6 (1.2)**	1.5 (1.2)	1.4 (1.1)	-
Italy	Final HICP (CPI) Y/Y%	Oct	**1.0 (0.9)**	1.0 (0.9)	0.7 (0.7)	-
	Trade balance €bn	Sep	**2.5**	-	1.4	1.3
UK	GDP – first estimate Q/Q% (Y/Y%)	Q3	**0.1 (1.0)**	*0.3 (1.1)*	0.5 (0.7)	-
	Monthly GDP M/M% (3M/3M%)	Sep	**-0.1 (0.1)**	*0.4 (0.3)*	0.2 (0.2)	-
	Services output M/M% (3M/3M%)	Sep	**0.0 (0.1)**	0.2 (0.2)	0.1 (0.1)	-
	Industrial output M/M% (Y/Y%)	Sep	**-0.5 (-1.8)**	0.1 (-1.1)	0.5 (-1.6)	- (-1.7)
	Construction output M/M% (Y/Y%)	Sep	**0.1 (-0.4)**	0.2 (-0.6)	0.4 (0.3)	0.6 (0.5)
	Trade (goods trade) balance £bn	Sep	**-3.5 (-16.3)**	-1.2 (-15.8)	-1.0 (-15.0)	-2.0 (-15.2)

Auctions

Country	Auction
- Nothing to report -	

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Access our research blog at:
https://www.uk.daiwacm.com/ficc-research/recent-blogs