

# Euro wrap-up

## Overview

- Bunds made modest gains as euro area construction activity rose to the highest level since July 2023, but building work in Germany and France fell to multi-year lows.
- Gilts were little changed on a quiet day for UK economic news.
- Tuesday will bring updates on the UK labour market and German investor sentiment.

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### Daily bond market movements

Bond	Yield	Change
BKO 2 12/26	2.214	-0.006
OBL 2½ 10/29	2.317	-0.017
DBR 2½ 02/35	2.515	-0.015
UKT 4½ 01/27	4.356	-0.003
UKT 4½ 07/29	4.377	-0.005
UKT 4½ 07/34	4.652	-0.005

\*Change from close as at 4:00pm GMT.  
Source: Bloomberg

## Euro area

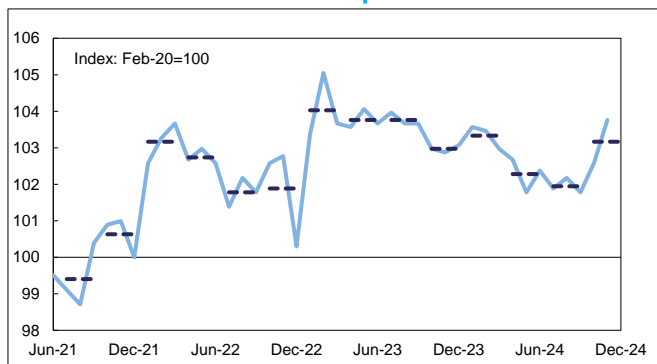
### Euro area construction activity rises to highest level since July 2023

Perhaps unsurprisingly, euro area construction has been hard-hit by the ECB's restrictive monetary policy. Activity in the sector fell by more than 3% between the peak in February 2023 and the trough in September 2024, contributing positively to euro area GDP growth in just one out of the six quarters up to Q324. And with average mortgage rates up by more than 200bps during the ECB's tightening period, the hit to house-building over the same period was larger still, down more than 6½% from the post-pandemic high to the recent trough. But with the ECB having cut its deposit rate by 100bps since last July, house prices having turned to better and risen 1.4%Q/Q to a series high in Q3, and mortgage borrowing costs gradually easing (down more than 50bps from the peak), today's construction output figures reported a third monthly increase out of four in November to suggest that the sector might have provided much-needed support to euro area GDP growth in Q4. Indeed, total construction activity rose a stronger-than-expected 1.2%M/M that month, taking the level to the highest since July 2023, trending so far in Q4 more than 1% above the Q3 average. The upturn was driven by civil engineering, which rose in November for a third consecutive month (0.5%M/M), to be trending some 2½% above the Q3 average and more than 7½% above the pre-pandemic benchmark in February 2020. Other specialised construction activity rose (1.2%M/M) the most in 21 months to be similarly almost 5% above the pre-pandemic level. But despite rising for a second successive month (0.3%M/M) to be on track for a second quarterly modest increase, house-building remained some 4½% below the pre-pandemic level.

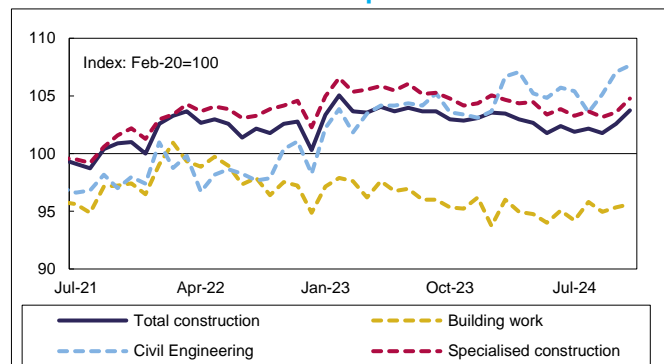
### German and French building work at multi-year lows, contrasting rebound in Italy

While German construction provided a non-negligible boost in November (2.1%M/M), building work (-1.1%M/M) in that country fell for a fourth month out of the past five to the lowest level since extreme weather disruption in February 2018. That component in France (-0.9%M/M) similarly fell to the lowest level since the initial post-Covid collapse, limiting growth in total French construction output in November (0.3%M/M). Subdued activity in Germany and France likely in part reflects the more gradual recovery in the housing market in those countries over recent quarters, with prices in Q3 still down 0.7%Y/Y and 3.5%Y/Y respectively to be more than 11½% and 5% below the respective post-pandemic peaks in mid-2022. In contrast, Italian construction stepped up in November (2.6%M/M) to a ten-month high to be trending almost 2% higher than in Q3. And other countries that reported substantial house price growth over recent quarters – including Spain, the Netherlands and Portugal – also reported firm growth in total construction so far in Q4. While further ECB rate cuts and NGEU funds should provide further support over coming quarters, surveys and other leading indicators such as building permits point to a subdued near-term outlook for activity in the sector, weighed in particular by Germany and France, which account for almost 50% of total euro area construction output.

#### Euro area: Construction output\*



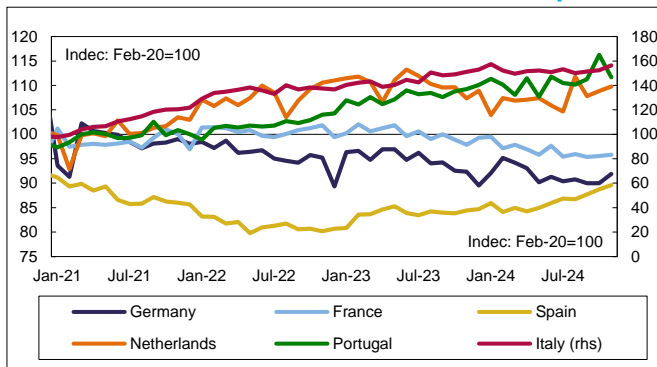
#### Euro area: Construction output



### German PPI inflation pushed higher by base effects, but core momentum down to a 12-month low

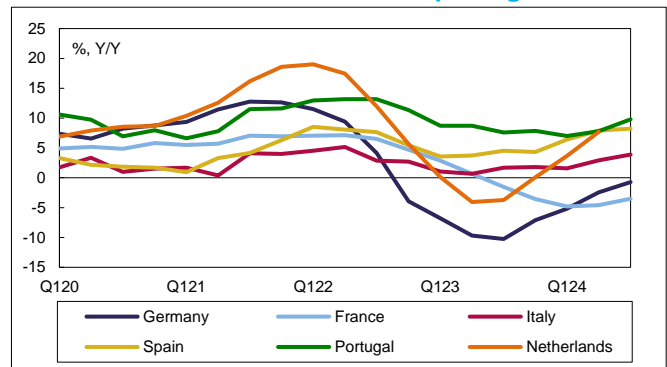
Like the euro area as a whole, German HICP inflation took a step up in December. While this principally reflected base effects in energy, core goods inflation rose to a seven-month high (1.3%Y/Y). But today's industrial producer price figures suggested that pipeline pressures in the goods sector remained subdued at the end of last year. Indeed, German industrial producer goods prices declined 0.1%M/M in December having been expected to post a third consecutive rise. After rising a cumulative 2.4% in the previous two months, producer energy prices fell 0.4%M/M thanks to lower electricity and gas prices. Admittedly, due to a more significant decline a year ago, this pushed the annual energy rate up 2.2ppts to -0.2%Y/Y, the highest since May 2023. The annual PPI rate for consumer goods also rose to the highest for a year (2.4%Y/Y), with momentum on this measure the strongest since May 2023 (2.5%3M/3M annualised). This in part reflected higher food prices in November. In contrast, better behaved price-setting for consumer goods left the respective monthly increase bang in line with the long-run average. Moreover, prices of capital goods were unchanged for a second successive month, with those of intermediate items falling for a fifth consecutive month. So, with core producer prices (excluding energy) unchanged, the annual core PPI rate moderated slightly for the first month in ten, by 0.1ppt to 1.2%Y/Y. Strikingly too, momentum on a three-month basis was the most negative (-0.5%3M/3M annualised) in a year.

#### Euro area member states: Construction output



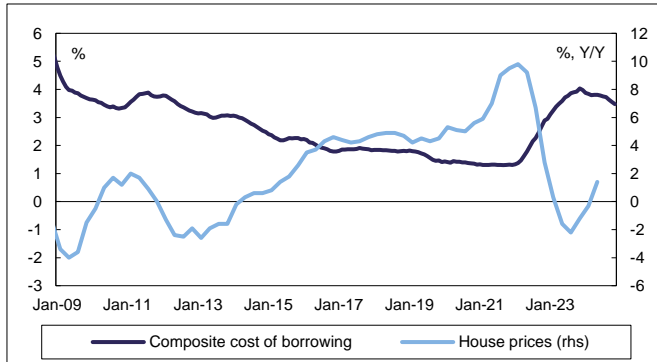
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### Euro area member states: House price growth



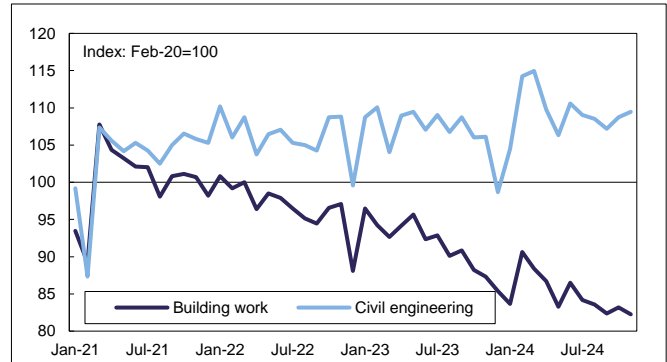
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### Euro area: House prices & mortgage lending rate



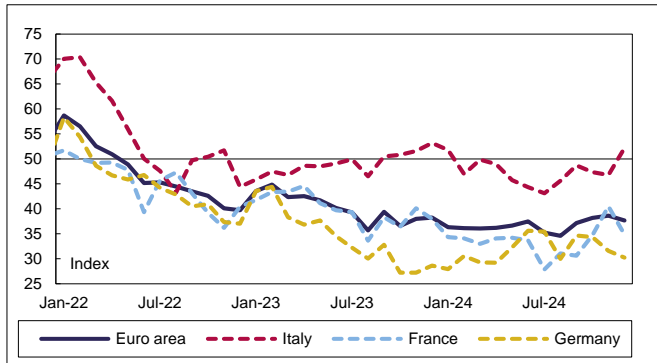
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### Euro area: Building permits



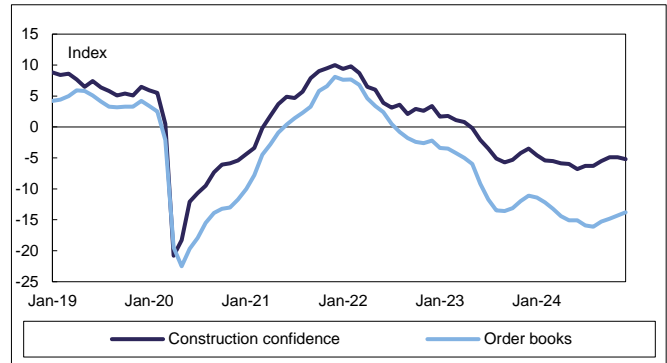
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### Euro area: House building PMIs



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

#### Euro area: Construction confidence & order books



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

### The day ahead in the euro area

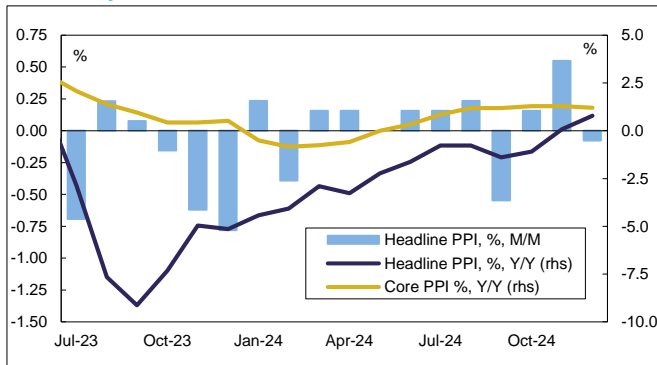
After December's ZEW survey suggested that investors considered economic conditions in Germany that month to be the worst since the depths of the pandemic and indeed no less favourable than any month during the global financial crisis, January's results (due tomorrow) are expected to remain highly downbeat. But a further decline in the assessment of current conditions might seem very difficult, with GDP likely having contracted in the final quarter last year and political uncertainties at home and in the US still at the forefront of considerations. Indeed, there might similarly seem to be little justification for a notable upturn in expectations of conditions over the coming six months, which improved in December to a four-month high but still remained below the long-run average. Meanwhile, new car registrations data will likely show that growth in new passenger vehicles was roughly flat on a calendar year basis in the euro area at the end of the year, consistent with national sources in Germany (-1%Y/Y) and France (-3.2%Y/Y) flagging modest declines over 2024 as a whole.

## UK

### The day ahead in the UK

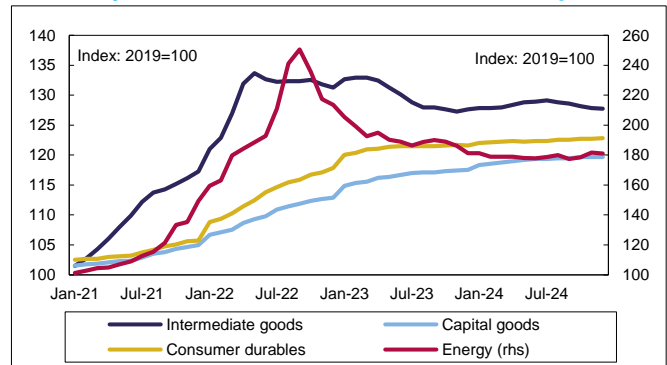
After a quiet start to the week for UK economic news, the focus tomorrow turns to the latest labour market report. With leading indicators – including the PMIs, DMP survey and REC report on jobs – having respectively flagged firms' intentions to revise down their hiring expectations in advance of April's increases to employer NICs and the National Living Wage, the risks to November's round of labour market data would appear firmly skewed to the downside. Certainly, at the margin, the Bloomberg consensus median forecasts for tomorrow's release currently expect an increase in the ILO unemployment rate to 4.4% (up 0.1ppt, to a six-month high), alongside a steeper slowdown in employment growth to the softest rate in seven months or more. The BoE will watch most closely the data on pay which serve as a key input into the MPC's assessment of the risks of persistence of services inflation. But, after growth in private sector regular wages accelerated to 5.4%3M/Y in October (from 4.9%3M/Y), a further pickup is expected in November, to add to the risks of an overshoot to the BoE's year-end projections (of 5.1%3M/Y). Indeed, an uptick in wage growth would tally with HMRC's PAYE median pay growth, which flagged a second consecutive monthly increase in November, if only by 0.1ppt, to 6.7%3M/Y.

#### Germany: Goods PPI inflation



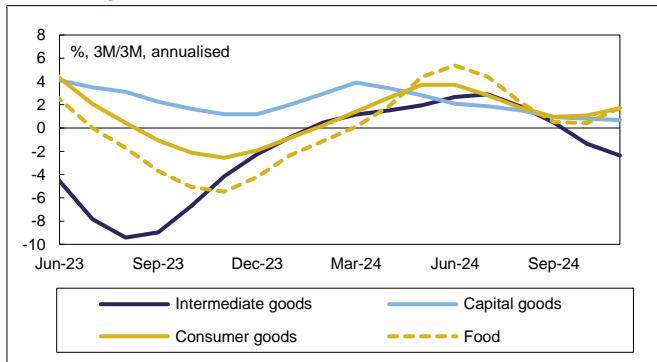
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### Germany: Goods PPI levels – selected components



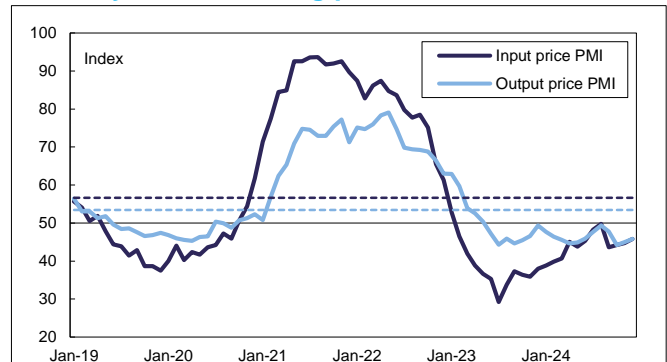
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### Germany: Goods PPI momentum



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### Germany: Manufacturing price PMIs\*






\*Dashed lines represent long-run average.  
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	 Construction output M/M% (Y/Y%)	Nov	<b>1.2 (1.4)</b>	-	1.0 (0.2)	0.8 (0.0)
Germany	 PPI Y/Y%	Dec	<b>0.8</b>	1.1	0.1	-
UK	 Rightmove house prices M/M% (Y/Y%)	Jan	<b>1.7 (1.8)</b>	-	-1.7 (1.4)	-





#### Auctions

Country	Auction
- Nothing to report -	



Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

### Tomorrow's releases

#### Economic data

Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous	
Euro area	 05.00	New car registrations Y/Y%	Dec	-	-3.4	
Germany	 10.00	ZEW investor survey – current situation (expectations) balance %	Jan	-93.1 (15.3)	-93.1 (15.7)	
France	 -	Retail sales Y/Y%	Dec	-	-0.1	
UK		07.00	Average wages (excluding bonuses) 3M/Y%	Nov	5.7 (5.5)	5.2 (5.2)
		07.00	Unemployment rate 3M%	Nov	4.4	4.3
		07.00	Employment 3M/3M change 000s	Nov	23	173
		07.00	Payrolled employees M/M change 000s	Dec	-15	-35
		07.00	Claimant count rate % (change 000s)	Dec	-	4.6 (0.3)

#### Auctions and events

Germany		10.30	Auction: to sell €1bn of 2.1% 2029 green bonds
Germany		10.30	Auction: to sell €1bn of 2.3% 2033 green bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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