

# Euro wrap-up

## Overview

- Bunds followed USTs higher even as euro area consumer confidence rose to a four-month high in February and construction output provided modest support to Q4 GDP growth.
- Shorter-dated Gilts also made modest gains as a UK manufacturing survey signalled ongoing contraction in the three months to February.
- The data focus on Friday will be the flash February PMIs, while UK consumer confidence, retail sales and public finance figures are also due.

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### Daily bond market movements

Bond	Yield	Change
BKO 2.2 03/27	2.140	-0.028
OBL 2.4 04/30	2.298	-0.026
DBR 2½ 02/35	2.533	-0.022
UKT 4½ 01/27	4.258	-0.010
UKT 4½ 07/29	4.292	-0.008
UKT 4½ 07/34	4.607	-0.002

\*Change from close as at 4:45pm GMT.  
Source: Bloomberg

## Euro area

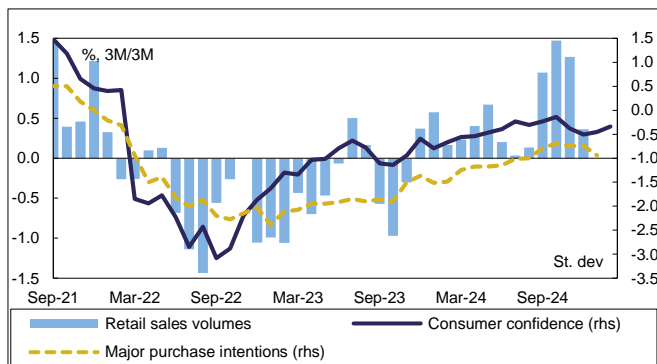
### Euro area consumer confidence rises to a four-month high

Surveys signalled a marked deterioration in household sentiment at the end of last year amid heightened economic and political uncertainty related not least to the collapse of the German coalition, difficulties with the passing of the French budget and the re-election of US President Trump. But with the French budget having recently been adopted – admittedly under a new Premier – this weekend’s German federal election likely eventually to bring a change in government, and borrowing costs continuing to decline, consumers were less downbeat in February. In particular, the Commission’s flash confidence estimate rose for a second successive month to -13.6, a four-month high and some ½pt above the average in 2024. And, while it remained below the long-run norm, it was also bang in line with the Q4 average, suggesting that household spending continues to provide modest support to GDP growth. Among the few member states to publish equivalent surveys, improved optimism among households in Belgium was led by a notable easing in unemployment fears, as well as renewed confidence about the economic outlook for the year ahead. But households also revised up their savings intentions, which will likely continue to restrain spending growth over the near term despite strong growth in real incomes.

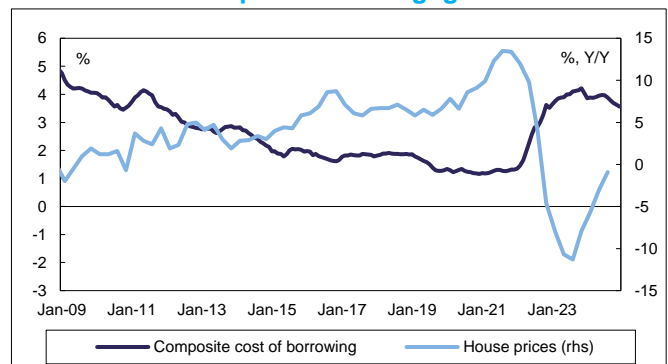
### Euro area construction provided modest support to Q4 GDP despite a pause in December

Despite the deterioration in consumer confidence in the final quarter of 2024, the euro area’s construction sector showed signs of gradual recovery, benefitting from moderating borrowing rates and signs of a turnaround in the housing market. Admittedly, today’s data suggested that construction activity paused in December, while growth in November (0.6%M/M) was just half that initially reported. But this still left output in the sector up 0.6%Q/Q in Q4, just the second quarterly expansion since Q223. The strength in Q4 principally reflected a large increase in civil engineering (1.7%Q/Q) amid strong growth in Spain, the Netherlands and Portugal. But, despite a modest drop in December, building work also rose for a second successive quarter (0.4%Q/Q). Among the large member states, building work was strongest in Spain (4.1%Q/Q), where it rose to the highest level since May 2021. While this might in part relate to reconstruction after the devastating floods in Valencia at the end of October, it also likely reflected the steady recovery in house prices in that country (up 8.3%Y/Y in Q3), home sales (up almost 40%Y/Y in December), and a notable easing in new mortgage rates (down more than 100bps since the peak in October 2023). Overall, construction output in Spain in December rose for an eighth consecutive month to a new post-pandemic high, albeit still some 7% below the February 2020 level and well below levels seen during the property boom some two decades ago. With the ratio of house prices to real disposable income still much closer to the trough than the peak, the fundamentals for Spain’s housing market appear positive, helping Spanish construction to continue to provide non-negligible support to GDP growth for a while yet.

### Euro area: Retail sales & consumer confidence



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



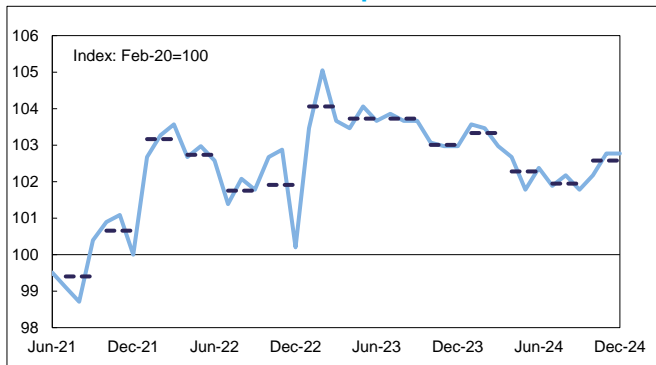
## German and French construction still lagging, but conditions starting to turn for the better

Despite a drop in December, construction output also rose sharply in Italy in Q4 (1.5%Q/Q) to be more than 50% above the pre-pandemic benchmark. While German output moved sideways in Q4 and offered no support to GDP growth, this was improved from the sizeable drag that it provided in the previous two quarters. And although French construction contracted for a seventh successive quarter in Q4 (-1%Q/Q), a second successive month of growth in December suggests a positive carryover into 2025. The recent rise in French building permits to their highest level in 14 months also provides more encouragement with respect to the near-term outlook for housing activity, while German residential permits were also the highest since November 2023. The PMIs also suggest that conditions in the construction sector are gradually turning for the better, with the respective German index in January the firmest for 20 months and the French index the best in 16 months. The Commission survey also reported that order books at the start of the year were a touch better than the average in the five years before the pandemic, albeit still well below the long-run average.

## The day ahead in the euro area

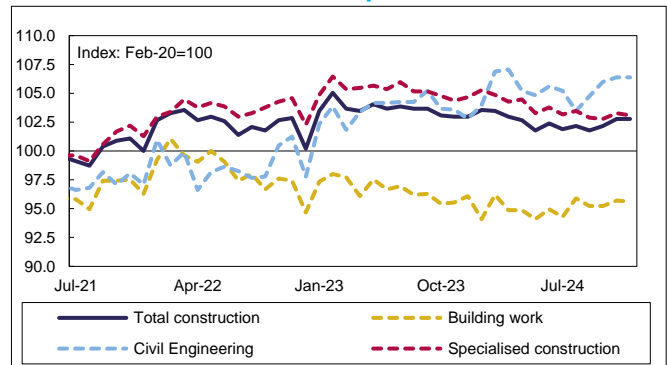
February's flash PMIs will provide the focus at the end of the week in the euro area. A further modest improvement should be expected after January's activity indices showed signs of an upturn, with the headline euro area composite PMI up 0.6pt to an eight-month high of 50.2. Admittedly, this was still merely consistent with stagnant output rather than expansion, while growth in services was reportedly a touch softer (51.3). But the detail for the beleaguered manufacturing sector hinted that the pace of deterioration had at least starting to moderate, with the respective output index up to a nine-month high (47.1). The composite input cost PMI also rose to 58.3, the highest level since May 2023. But lower oil prices should help keep a lid on input cost gauges this month, while the comparably sanguine output prices indices (52.9) continue to suggest that firms are largely absorbing such pressures within their margins. Elsewhere, INSEE's business sentiment surveys, which can often provide a more accurate signposting for French economic activity, are also due. Ahead of Monday's release of final euro area inflation estimates for January, the equivalent Italian inflation figures are also due tomorrow. The flash release showed the headline Italian HICP rate rising 0.3ppt to 1.7%Y/Y, a 15-month high, primarily due to an increase in regulated energy prices.

### Euro area: Construction output\*



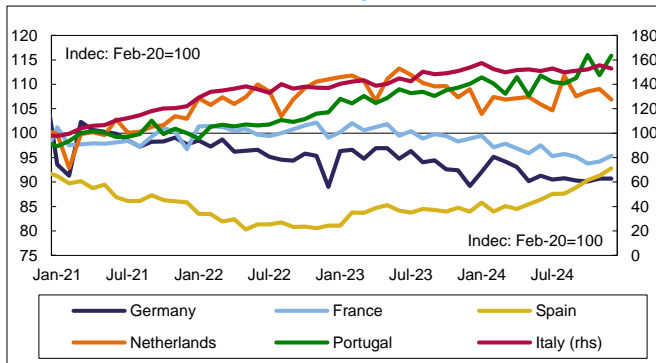
\*Dark blue dashed line represents quarterly average.  
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### Euro area: Construction output



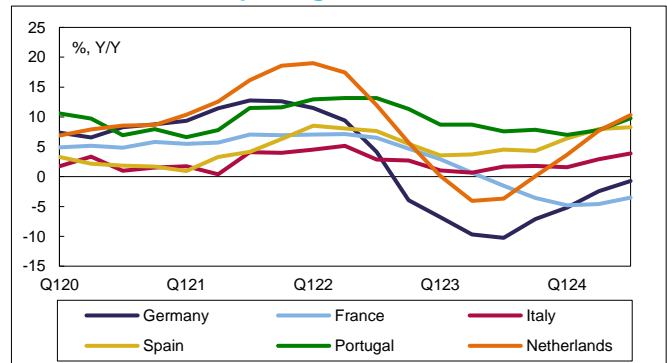
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### Euro area: Construction output



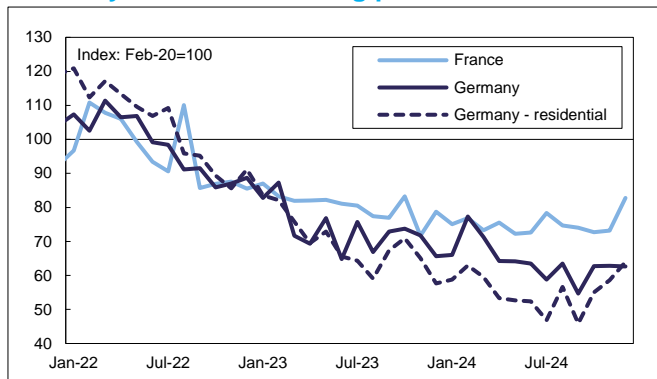
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### Euro area: House price growth



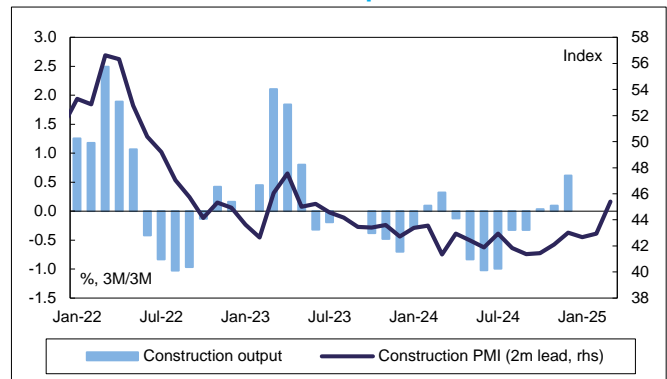
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

**Germany & France: Building permits**



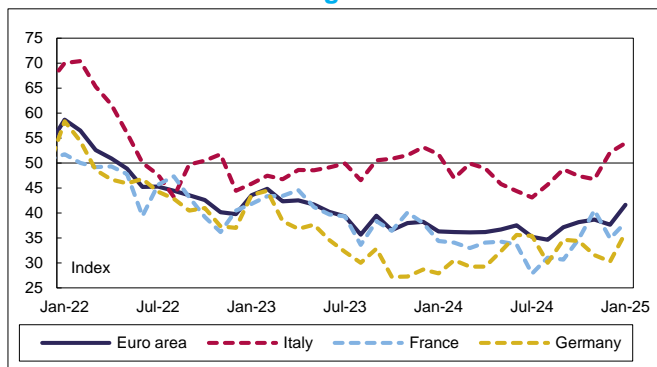
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

**Euro area: Construction output & PMI**



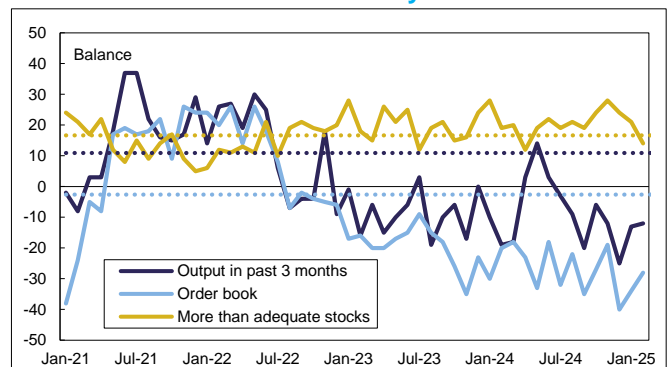
Source: Macrobond, S&P Global and Daiwa Capital Markets Europe Ltd.

**Euro area: House building PMIs**



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

**UK: CBI industrial trends survey indices\***



\*Dotted lines represent pre-pandemic five-year average.  
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

**UK**






**The day ahead in the UK**

Having slipped back in three out of the four months up to December, retail sales are expected to report a rebound at the start of the year. Indeed, while the CBI distributive trades survey proved underwhelming in January, a separate survey from the BRC flagged a more marked improvement, with expectations for sales growth of ½%M/M or more. But Friday's GfK consumer sentiment survey is likely to point to a subdued outlook for consumer spending – indeed, a separate BRC today suggested that consumer expectations for the coming three months worsened in February for a fifth consecutive month. But arguably of greatest importance tomorrow will be February's flash PMIs, which are likely again to be consistent with broad stagnation. The composite PMI should be little changed from 50.6 in January, with contraction in manufacturing output only offset by modest services growth. Indeed, today's CBI industrial trends survey suggested that production fell in the three months to February at a similar pace to January and in 16 out of 17 subsectors. And while a notable decline in stock adequacy might point to a pickup in production ahead, order books remained well below average. Finally, tomorrow's public finance data will also be of particular interest, owing to January's self-assessment deadlines. So, tax revenues will have a bearing on whether corrective fiscal measures will eventually be required to ensure consistency with the Government's fiscal rules.











## European calendar

### Today's results

#### Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Euro area	 Preliminary consumer confidence indicator	Feb	<b>-13.6</b>	-14.0	-14.2	-
	 Construction output M/M% (Y/Y%)	Dec	<b>0.0 (-0.1)</b>	-	1.2 (1.4)	0.6 (0.3)
Germany	 PPI Y/Y%	Jan	<b>0.5</b>	1.2	0.8	-
France	 Retail sales Y/Y%	Jan	<b>-0.7</b>	-	-0.8	-
UK	 CBI industrial trends survey – total orders (selling prices) balance %	Feb	<b>-28 (19)</b>	-30 (30)	-34 (27)	-















#### Auctions

Country	Auction
France	 sold €4.195bn of 2.4% 2028 bonds at an average yield of 2.57%
	 sold €1.796bn of 0% 2029 bonds at an average yield of 2.7%
	 sold €7.498bn of 2.75% 2030 bonds at an average yield of 2.75%
	 sold €524m of 0.1% 2031 inflation-linked bonds at an average yield of 0.83%
	 sold €926m of 0.1% 2032 inflation-linked bonds at an average yield of 1.15%
	 sold €316m of 0.1% 2036 inflation-linked bonds at an average yield of 1.2%
Spain	 sold €465m of 0.95% 2043 inflation-linked bonds at an average yield of 1.41%
	 sold €1.825bn of 2.4% 2028 bonds at an average yield of 2.487%
	 sold €2.182bn of 2.7% 2030 bonds at an average yield of 2.682%
	 sold €1.476bn of 3.55% 2033 bonds at an average yield of 3.062%


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	 09.00	Preliminary manufacturing (services) PMI	Feb	<b>46.8 (51.6)</b>	46.6 (51.3)
	 09.00	Preliminary composite PMI	Feb	<b>50.5</b>	50.2
Germany	 08.30	Preliminary manufacturing (services) PMI	Feb	45.5 (52.5)	45.0 (52.5)
	 08.30	Preliminary composite PMI	Feb	50.8	50.5
France	 07.45	INSEE business (manufacturing) confidence indicator	Feb	96 (96)	95 (95)
	 08.15	Preliminary manufacturing (services) PMI	Feb	45.3 (48.9)	45.0 (48.2)
	 08.15	Preliminary composite PMI	Feb	48.0	47.6
Italy	 09.00	Final HICP (CPI) Y/Y%	Jan	<b>1.7 (1.5)</b>	1.4 (1.3)
UK	 00.01	GfK consumer confidence indicator	Feb	-22	-22
	 07.00	Public sector net borrowing £bn	Jan	-20.3	17.8
	 07.00	Retail sales – including auto fuel M/M% (Y/Y%)	Jan	0.5 (0.7)	-0.3 (3.6)
	 07.00	Retail sales – excluding auto fuel M/M% (Y/Y%)	Jan	0.9 (0.6)	-0.6 (2.9)
	 09.30	Preliminary manufacturing (services) PMI	Feb	<b>48.1 (51.1)</b>	48.3 (50.8)
	 09.30	Preliminary composite PMI	Feb	<b>50.7</b>	50.6

#### Auctions and events

Euro area	 14.30	ECB Chief Economist Lane scheduled to give a keynote lecture on Europe and the world economy
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Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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