

Euro wrap-up

Overview

- Bunds were little changed at the end of a week of significant losses, as the estimate of euro area GDP growth in Q4 was revised up but employee compensation growth moderated.
- Gilts followed USTs higher on a quiet day for UK economic data.
- The coming week brings data for UK GDP and euro area IP in January and the ECB's updated wage trackers.

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Daily bond market movements

Bond	Yield	Change
BKO 2.2 03/27	2.237	+0.003
OBL 2.4 04/30	2.512	-0.001
DBR 2½ 02/35	2.833	+0.003
UKT 4% 01/27	4.192	-0.018
UKT 4% 07/29	4.279	-0.030
UKT 4% 07/34	4.640	-0.022

*Change from close as at 5:00pm GMT.

Source: Bloomberg

Euro area

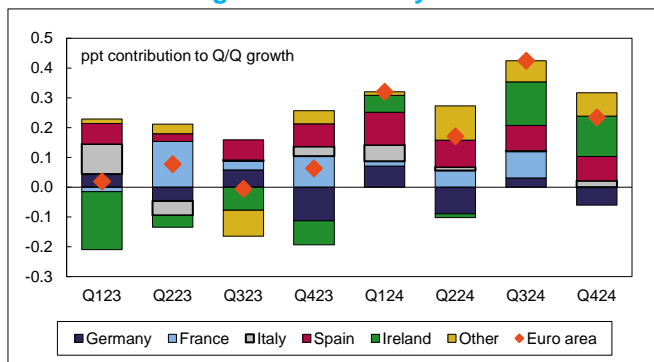
Euro area GDP growth revised up to 0.2%Q/Q supported by firm final domestic demand

As we expected, today's updated national accounts data for Q4 brought a further upwards revision to euro area GDP growth, by 0.1ppt to 0.2%Q/Q. And to two decimal places, growth was up a more pronounced 0.18ppt to 0.23%Q/Q, still just half the pace recorded in Q3 but nevertheless taking the annual rate up to 1.2%Y/Y, a seven-quarter high and arguably in line with potential. Admittedly, the revision almost entirely reflected an outsized adjustment to Irish GDP – up 4.9ppts from the initial release to growth of 3.6%Q/Q – while today's release confirmed ongoing outperformance in Spain and Portugal, with only modest growth in Italy and contraction in Germany and France. Within the euro area detail, private consumption rose for a fourth quarter out of the past five and in line with the ECB's projection (0.4%Q/Q), benefiting from ongoing strong growth in real disposable income. Government consumption increased for a ninth consecutive quarter (0.4%Q/Q), adding a further 0.1ppt to GDP growth. And fixed investment rose for a second successive quarter (0.6%Q/Q), reflecting the first rise in construction in almost two years amid the decline in borrowing rates and turnaround in the housing market. There was also a rebound in expenditure on transport and machinery equipment. In total, final domestic demand contributed a decent 0.45ppt to GDP growth in Q4. In contrast, private inventories subtracted 0.2ppt from growth. And net trade was broadly neutral. Indeed, a further decline in goods exports to a four-quarter low was partially offset by a rise in services exports, including a near-5%Q/Q jump in exports from Ireland.

Labour cost growth moderated more than expected, keeping door open to a further rate cut

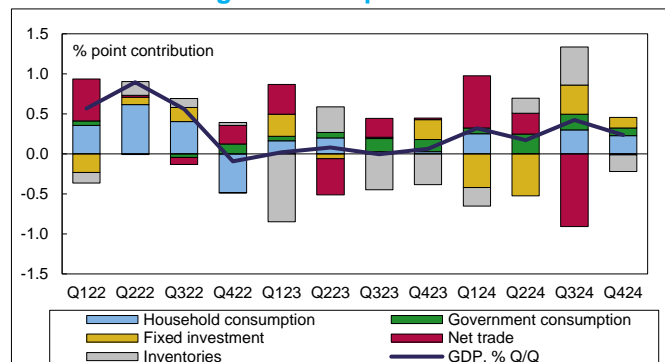
With GDP again outpacing employment growth in Q4 (0.1%Q/Q), labour productivity improved (marginally) further. Indeed, real labour productivity rose 0.4%Y/Y on a per worker basis, the most since Q322. But on a per hour worked basis, productivity growth weakened to 0.1%Y/Y, 0.3ppt softer than in Q3. And while productivity at the end of 2024 was softer than the ECB had expected in December, it was a touch firmer than assumed in yesterday's macroeconomic projection update. At the same time, the labour market continues to loosen, helping to curb pay pressures. Employee compensation growth slowed 0.4ppt to 4.1%Y/Y, a three-year low and 0.2ppt weaker than expected by the ECB. And unit labour cost growth moderated 0.6ppt to 3.6%Y/Y, the softest since Q322 and ½ppt below the ECB's expectation. The ECB projects growth in wages and unit labour costs to moderate further over coming quarters to end the year at 2.8%Y/Y and 2.1%Y/Y respectively, consistent with a return of inflation back to the 2.0%Y/Y target. Certainly, while the decline in unit profits in Q4 (-0.4%Y/Y) was smaller than the ECB expected, today's data nevertheless underscored that firms' margins remained squeezed by weak pricing powers, keeping a lid on inflationary pressures. So, in the round, today's national accounts figures kept the door open to further ECB monetary easing.

Euro area: GDP growth – country contributions



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: GDP growth – expenditure contributions



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

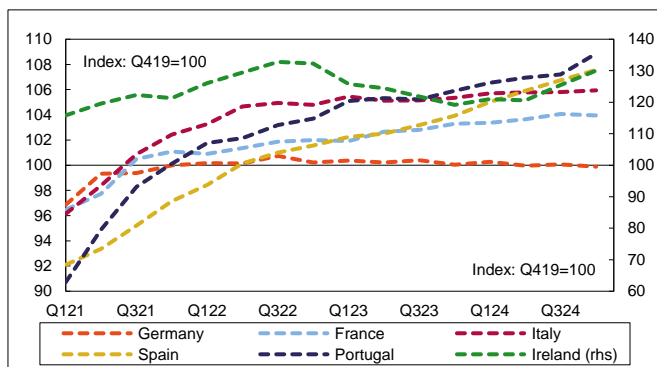
German factory orders fall sharply in January, underscoring weak underlying demand

While German economic growth should benefit from additional fiscal spending in due course, the underperformance of recent years looks to have continued into the start of 2025, with surveys – including the PMIs and ifo indices – pointing to ongoing stagnation in the first quarter. The persisting weakness in underlying demand was again illustrated in today's data for German factory orders, which fell a steeper-than-expected 7.0%M/M in January – the most in a year – to the lowest level since May. Admittedly, this in part reflected payback for the jump in 'other transport equipment' in December relating to a sizeable domestic ship order. But there was also a notable reversal in orders of ICT equipment, machinery and chemicals, while the rise in auto orders only partially offset the marked decline in December. So, when excluding major items, core factory orders fell a sizeable 2.7%M/M to a six-month low and almost 2% below the Q4 average. And the weakness was broad based, with core capital goods orders down to a ten-month low and intermediate and durable consumer goods orders the lowest in four and five months respectively. So, while the threat of US tariff hikes might bring some front-loading, today's release underscored our view that, against the backdrop of heightened economic uncertainties and increased competition from Chinese goods, underlying demand for German manufacturing will remain relatively subdued, at least until the new fiscal initiatives becoming operationalised. Certainly, today's manufacturing turnover data pointed to only modest growth at the start of the year (0.4%M/M). And while Monday's industrial production report might well see a larger bounce-back after the near-2½%M/M drop in December, this would still leave output at one of the lowest readings since 2010 outside of the initial Covid-19 lockdown.

The week ahead in the euro area

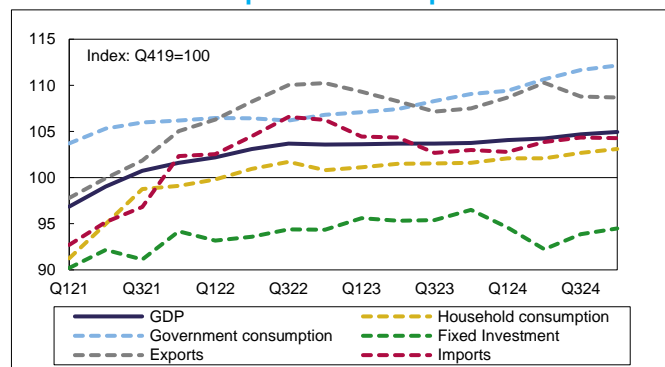
While the aforementioned German factory orders endured a sobering start to the year; industrial production data for January – due for release on Monday – should at least provide some respite after the marked decline in December. Indeed, German IP fell a sizeable 2.4%M/M that month to leave output down for a sixth quarter in seven and some 10% below its pre-pandemic level. Business surveys also signalled an improvement in production at the start of the year. Overall, a pickup in German output – the Bloomberg survey consensus is for a rise of a little more than 1½%M/M – would provide a welcome boost to euro area IP, for which January data are due Thursday, helping to offset declines announced thus far in France (-0.6%M/M) and Spain (-1.0%M/M). Irish data are also due (Tuesday). Meanwhile, despite a weak signal from today's factory orders, German goods trade data for January (Monday) will be watched for any signs of front-loading of shipments amid tariff fears. The prospects of greater public investment in Germany, and spending on European defence efforts more broadly, could provide a boost to the latest Sentix investor confidence indicator (Monday). In addition, final February inflation data,

Euro area member states: GDP levels



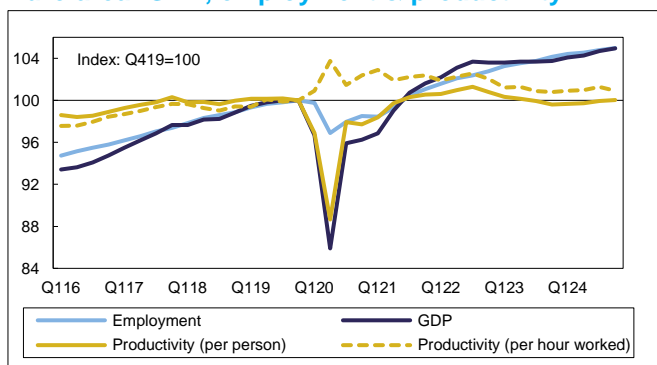
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: GDP expenditure components



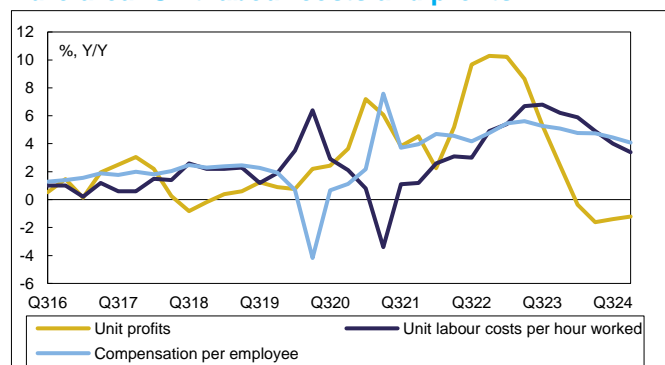
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: GDP, employment & productivity



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

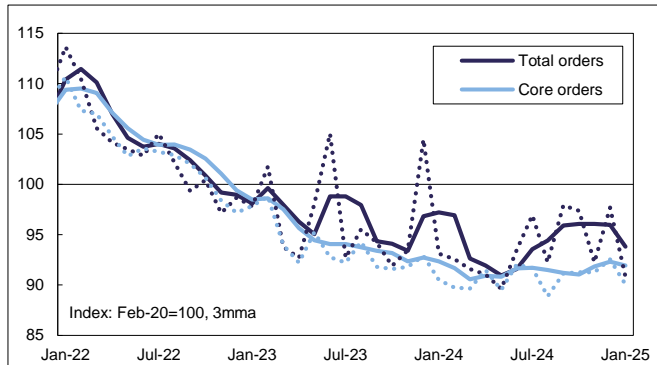
Euro area: Unit labour costs and profits



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

with the full component detail, will be published (Friday) from Germany, France and Spain. The preliminary releases saw the headline HICP rates hold steady in Germany (2.8%Y/Y) and Spain (2.9%Y/Y) but take a steep drop down in France, halving to 0.9%Y/Y, due to a cut (c.15%) in administered energy prices. Finally, data-wise, the ECB's updated wage trackers are also due (Wednesday). Beyond the numbers, President Lagarde will give the keynote speech at the start of the ECB Watchers Conference in Frankfurt (Wednesday), although this will certainly reiterate the ECB's non-committal stance with respect to future easing in the current uncertain economic environment. A number of other Governing Council members – including Nagel, Villeroy, and Escriva – as well as Chief Economist Lane, are also due to speak throughout the conference.

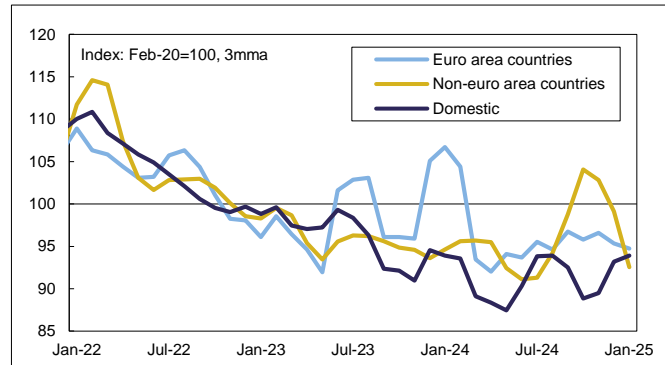
Germany: Factory orders*



*Dotted lines show single-month series.

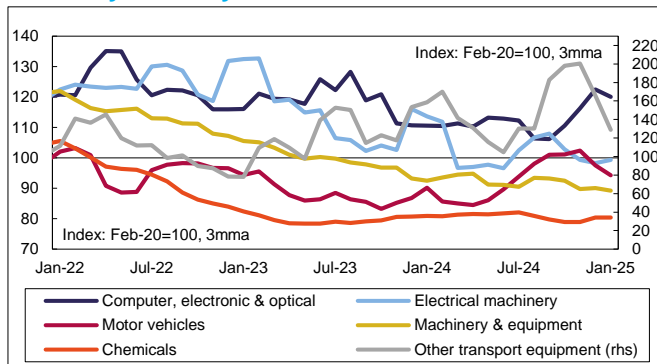
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Factory orders



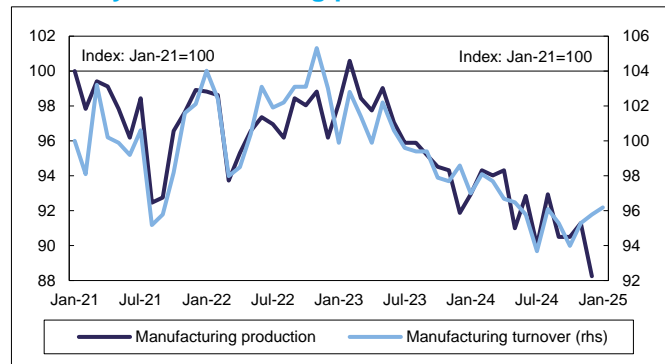
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Factory orders in selected sectors



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Manufacturing production & turnover












Source: Macrobond and Daiwa Capital Markets Europe Ltd.

The week ahead in the UK










It will also be a relatively thin schedule for UK data in the first half of the coming week. The January release of monthly GDP and production components (Friday) will provide the main event and a first formal signal for growth momentum at the start of the year. Given the upside surprise in December's GDP report (0.4%M/M), we would expect some payback at the start of the year. Subdued consumer and business confidence – including the PMIs – point to an absence of growth at the start of the year, but surprisingly strong retail sales will provide some support. Moreover, given the positive carryover from December, growth on a three-month basis might well pick up to its fastest rate in six months. Meanwhile, January's trade report may also report a slight narrowing in the deficit on the back of elevated gold exports. Otherwise, the week ahead will also bring a handful of surveys, including the REC/KPMG report on jobs (Monday) and BRC survey of retailers (Tuesday), which will provide a crosscheck to the CBI's gloomy February survey. Finally, Thursday's RICS housing market report might serve a mixed message as heightened uncertainty coincides with April's approaching Stamp Duty deadlines.

Daiwa economic forecasts

	2024		2025				2024	2025	2026
	Q3	Q4	Q1	Q2	Q3	Q4			
GDP	%, Q/Q						%, Y/Y		
Euro area 	0.4	0.2	0.1	0.2	0.2	0.3	0.8	0.9	1.2
UK 	0.0	0.1	0.2	0.1	0.2	0.3	0.9	0.7	1.1
Inflation, %, Y/Y									
Euro area									
Headline HICP 	2.2	2.2	2.5	2.3	2.3	2.6	2.4	2.4	1.9
Core HICP 	2.8	2.7	2.6	2.2	2.0	2.4	2.8	2.3	1.8
UK									
Headline CPI 	2.0	2.5	2.9	3.3	3.8	3.6	2.5	3.4	2.3
Core CPI 	3.3	3.3	3.6	3.1	3.2	3.2	3.7	3.3	2.2
Monetary policy, %									
ECB									
Deposit Rate 	3.50	3.00	2.50	2.25	2.00	2.00	3.00	2.00	2.00
Refi Rate 	3.65	3.15	2.65	2.40	2.15	2.15	3.15	2.15	2.15
BoE									
Bank Rate 	5.00	4.75	4.50	4.25	4.00	3.75	4.75	3.75	3.25

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

European calendar

Today's results							
Economic data							
Country	Release	Period	Actual	Market consensus/ Daiwa forecast	Previous	Revised	
Euro area 	GDP – final estimate Q/Q% (Y/Y%)	Q4	0.2 (1.2)	<u>0.1 (0.9)</u>	0.4 (0.9)	-	
	GDP – household consumption Q/Q% (Y/Y%)	Q4	0.4	<u>0.2</u>	0.7	0.6	
	GDP – government expenditure Q/Q% (Y/Y%)	Q4	0.4	<u>0.1</u>	0.6	0.9	
	GDP – fixed investment Q/Q% (Y/Y%)	Q4	0.6	<u>0.0</u>	2.0	1.8	
	Final employment Q/Q% (Y/Y%)	Q4	0.1 (0.7)	<u>0.1 (0.6)</u>	0.2 (1.0)	-	
Germany 	Factory orders M/M% (Y/Y%)	Jan	-7.0 (-2.6)	-2.5 (2.6)	6.9 (-6.3)	5.9 (-6.9)	
France 	Trade balance €bn	Jan	-6.5	-	-3.9	-3.5	
Spain 	Industrial production M/M% (Y/Y%)	Jan	-1.0 (-1.0)	-0.2 (1.3)	0.9 (2.1)	1.1 (2.0)	
	House price index Q/Q% (Y/Y%)	Q4	1.8 (11.3)	-	2.8 (8.1)	-	
Auctions							
Country	Auction						
- Nothing to report -							

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's data calendar

The coming week's key data releases

Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Monday 10 March 2025					
Euro area	09.30	Sentix investor confidence indicator	Mar	-9.5	-12.7
Germany	07.00	Industrial production M/M% (Y/Y%)	Jan	1.6 (-2.8)	-2.4 (-3.1)
	07.00	Trade balance €bn	Jan	20.0	20.7
Italy	09.00	PPI Y/Y%	Jan	-	46.3
Tuesday 11 March 2025					
UK	00.01	BRC retail sales monitor – like-for-like sales Y/Y%	Feb	2.0	2.5
Wednesday 12 March 2025					
Spain	08.00	Retail sales Y/Y%	Jan	3.8	4.0
Thursday 13 March 2025					
Euro area	10.00	Industrial production M/M% (Y/Y%)	Jan	0.7 (-0.8)	-1.1 (-2.0)
Italy	09.00	Unemployment rate %	Q4	-	6.1
UK	00.01	RICS house price balance %	Feb	20	22
Friday 14 March 2025					
Germany	07.00	Final HICP (CPI) Y/Y%	Feb	<u>2.8 (2.3)</u>	2.8 (2.3)
France	07.45	Final HICP (CPI) Y/Y%	Feb	<u>0.9 (0.8)</u>	1.8 (1.7)
Italy	09.00	Industrial production M/M% (Y/Y%)	Jan	1.1 (3.0)	-3.1 (-7.1)
Spain	08.00	Final HICP (CPI) Y/Y%	Feb	<u>2.9 (3.0)</u>	2.9 (2.9)
UK	07.00	Monthly GDP M/M% (3M/3M%)	Jan	0.1 (0.2)	0.4 (0.0)
	07.00	Services output M/M% (3M/3M%)	Jan	0.1 (0.3)	0.4 (0.2)
	07.00	Industrial output M/M% (Y/Y%)	Jan	-0.1 (-0.8)	0.5 (-1.9)
	07.00	Construction output M/M% (Y/Y%)	Jan	0.0 (0.4)	-0.2 (1.5)
	07.00	Trade (goods trade) balance £bn	Jan	-3.0 (-17.1)	-2.8 (-17.5)

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's key events & auctions

Country	GMT	Event / Auction
Monday 10 March 2025		
UK	00.01	REC, KPMG & S&P Global UK Report on Jobs for February
Tuesday 11 March 2025		
Germany	10.30	Auction: to sell up to €4.5bn of 2.2% 2027 bonds
Wednesday 12 March 2025		
Euro area	08.45	ECB President Lagarde to give keynote speech at opening of the ECB Watchers conference, Frankfurt.
	09.30	ECB wage tracker data to be published
Germany	10.30	Auction: to sell up to €4.5bn of 2.5% 2035 bonds
UK	10.00	Auction: to sell £4bn of 4.5% 2035 bonds
Thursday 13 March 2025		
Euro area	17.30	ECB Governing Council members Nagel & Villeroy join panel discussion on European growth, Paris.
Italy	10.00	Auction: to sell bonds*
Friday 14 March 2025		
- Nothing scheduled -		

*Details to be announced. Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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