

# Euro wrap-up

## Overview

- While the first member state data for Q1 GDP suggested firm growth, Bunds made gains as Spanish inflation was steady and the Commission survey flagged a broad-based softening in euro area economic sentiment in April.
- Although a retail survey provided mixed messages on UK inflation, Gilts also made gains.
- Wednesday will bring the first estimate of Q1 GDP in the euro area and largest member states, as well as flash April inflation data from Germany and France.

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### Daily bond market movements

Bond	Yield	Change
BKO 2.2 03/27	1.725	-0.010
OBL 2.4 04/30	2.037	-0.019
DBR 2½ 02/35	2.491	-0.026
UKT 3% 03/27	3.836	-0.016
UKT 4% 03/30	3.957	-0.020
UKT 4% 03/35	4.484	-0.023

\*Change from close as at 4:30pm BST.  
Source: Bloomberg

## Euro area

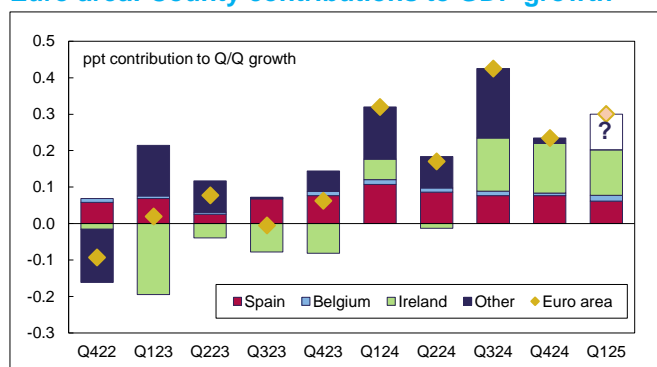
### First GDP estimates suggest above-consensus euro area growth in Q1

Judging from today's first estimates of Q1 GDP from Spain, Ireland and Belgium, euro area economic growth at the start of the year was firmer than the ECB's and consensus projections of 0.2%Q/Q. Indeed, those three countries – which have very different economic structures – will together contribute 0.2ppt to the regional figure. And so, we maintain our own forecast that euro area GDP rose 0.3%Q/Q, with upside risks to that estimate too. Admittedly, Spanish GDP growth was a touch softer than anticipated, moderating 0.1ppt to a seven-quarter low of 0.6%Q/Q. But after such strong growth over past quarters the slight slowdown was arguably consistent with a more sustainable outlook. And Spanish growth was still broad-based. Private consumption growth was again supported by strong growth in employment and pay. All major subcomponents of fixed investment grew. And net trade also made a positive contribution as exports outpaced imports. As a result, Spanish GDP rose 2.8%Y/Y – still above potential – and 8.0% above the pre-pandemic level in Q419. Meanwhile, Irish GDP growth remained exceptionally vigorous at 3.2%Q/Q – to add more than 0.1ppt to the euro area figure – and an extreme 13.3%Y/Y as multinational manufacturers significantly front-loaded production and exports to the US. Finally, while its industrial production was stagnant, Belgian GDP growth accelerated 0.2ppt to a four-quarter high of 0.4%Q/Q thanks to growth in services and construction.

### Commission ESI deteriorates more than expected but also offers hints of resilience to tariff shock

While somewhat flattered by front-loading of goods exports to the US, today's growth data suggest that the euro area economy was relatively resilient to new shocks at the start of the year. Like last week's [flash PMIs](#), however, today's Commission survey results pointed to an understandable deterioration in sentiment at the start of Q2 as households and businesses tried to make sense of Trump's tariffs. Manufacturing confidence was inevitably dented in April. But the drop in the relevant survey index was modest at just 0.5pt, merely pushing it down to a three-month low still above the Q1 average. And while firms revised down their production outlook, export orders were unchanged at the best since August and total order books were the best in nine months. Admittedly, services sentiment weakened to a four-year low, while retailers and constructors were slightly more downbeat too. And the more marked deterioration in the flash consumer confidence index to the lowest since November 2023 was also confirmed. But while households significantly downgraded their expectations for incomes and the economic outlook, they were no less inclined to make major purchases this month. And their willingness to spend over the coming twelve months was revised down merely to a three-month low. Overall, the headline euro area Economic Sentiment Index fell more than expected – by almost 1½pts – to a four-month low (93.6). But like the flash composite PMI, it was more suggestive of a sideways move in GDP than recession. Additionally, the survey's Employment Expectations Index (EEI) suggested that hiring intentions remained stable. And notably perhaps, the German ESI rose to a

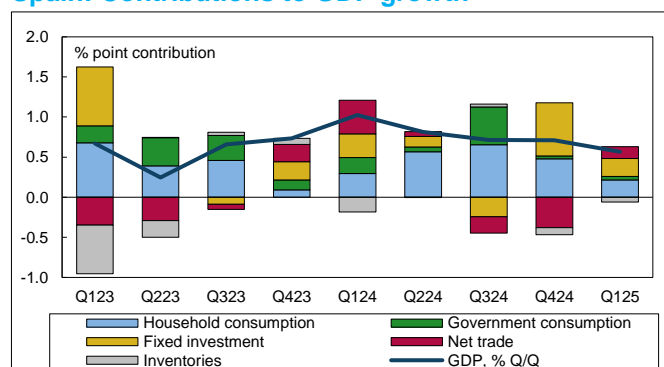
### Euro area: County contributions to GDP growth\*



\*Euro area figure for Q125 is Daiwa's forecast.

Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### Spain: Contributions to GDP growth



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

five-month high – with welcome improvements in industry, services and among consumers – to suggest welcome resilience in the euro area's largest member state.

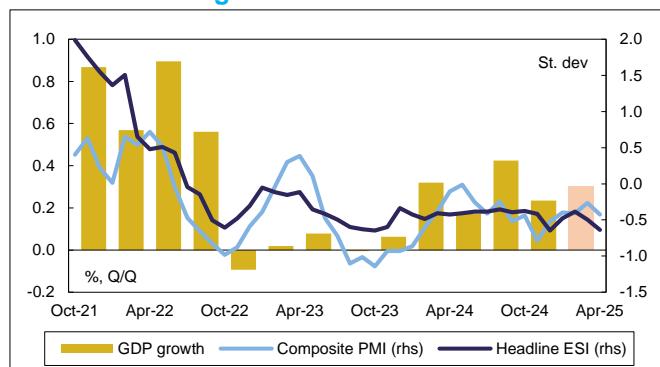
### Spanish and Belgium core inflation boosted by base effects related to timing of Easter

Ahead of the euro area's flash inflation estimate on Friday, the first of the member state releases for April provided mixed messages. Contrasting an anticipated fall back to target, Spanish headline HICP inflation remained steady at 2.2%Y/Y, while the national CPI rate moderated just 0.1ppt to 2.2%Y/Y. Moreover, the national core CPI measure – excluding unprocessed food and energy – jumped 0.4ppt from March's near-3½-year low of 2.0%Y/Y. Admittedly, the headline and core rates were still some 0.5-0.7ppt below the respective 2024 averages. And the limited detail provided in the press release suggested that the later timing of Easter this year played a role in the stickiness in April, with a pickup in the leisure and culture category likely relating to higher prices of recreation-related components compared with a year earlier. This was also evident in the Belgian numbers, for which the core CPI rate rose 0.1ppt to 2.8%Y/Y, with the most significant price increases in airfares and hotel rooms. Due to lower energy prices, the HICP and CPI rates in Belgium fell around ½ppt to a 15-month low of 3.1%Y/Y and more than 3½-year low of 2.6%Y/Y respectively.

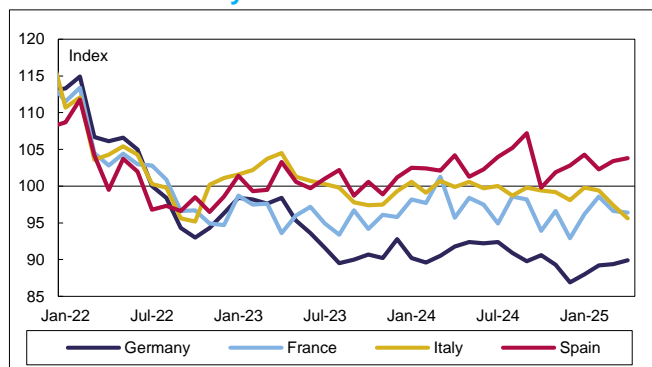
### Consumer inflation expectations rise the most in a year, but long-term expectations well anchored

While we expect services inflation to take step down in May as price-setting normalises, some of the more hawkish Governing Council members might be wary about the recent uptick in inflation expectations, which contrasts the expectations of many policymakers that the Trump tariff shocks will be disinflationary for Europe. According to the results of the ECB's latest consumer survey, the median inflation expectations for both the next 12 months and three years ahead increased in March, by 0.3ppt to 2.9%Y/Y and 0.1ppt to 2.5%Y/Y respectively, both the highest in around a year. This tallied with a pickup in the Commission survey's measure of consumer price expectations one year ahead, which rose in April by the most in three years and to the highest level since October 2022 to be one standard deviation above the long-run average. Like the ECB survey, the upward shift in the Commission's price expectations indices was largest in Italy where energy prices have continued to rise and smallest in France where that component of inflation is most negative. But while the recent rise might reflect increased concerns about higher goods prices if multinationals seek to spread the burden of higher US tariffs onto consumers in other regions, the Commission survey suggested that services selling inflation expectations remain comfortably below the 2024 average and well below the peak in 2022. And while retailers' selling price expectations also rose to a three-month high in April, we suspect that discerning consumers and the risk of softer demand will limit the eventual pass-through. Overall, the ECB's survey suggested that longer-term inflation expectations – for which its series was published for the first time today – remain well anchored at 2.1%Y/Y.

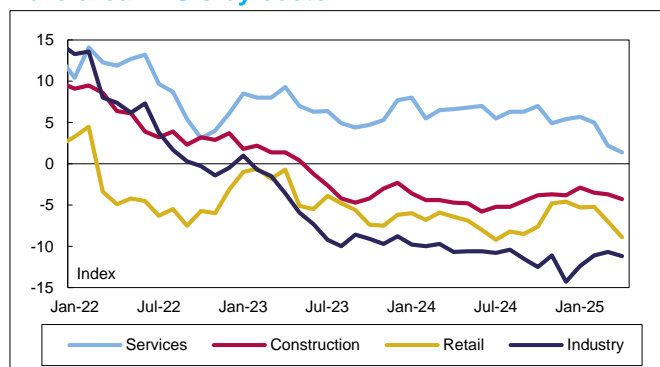
#### Euro area: GDP growth\* & sentiment indices



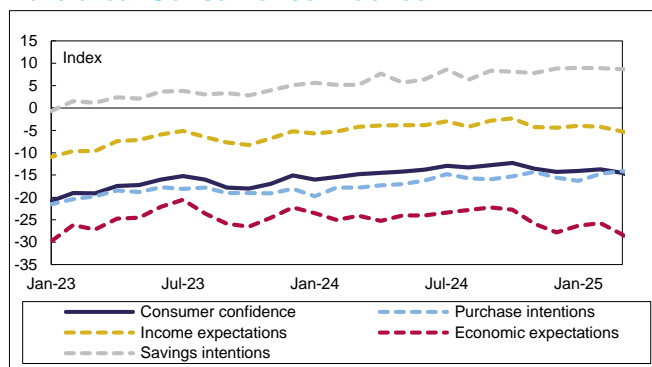
#### Euro area: ESIs by member state



#### Euro area: ESIs by sector



#### Euro area: Consumer confidence



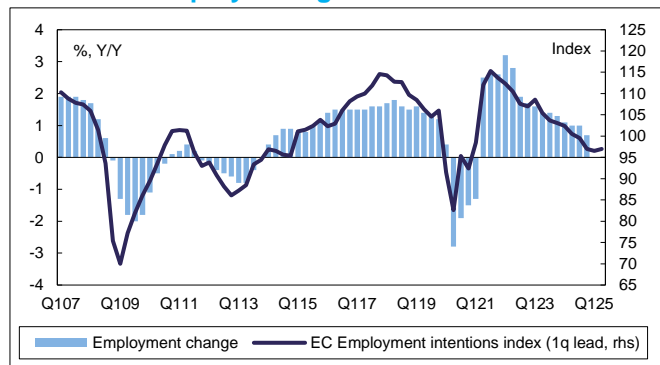
## Bank lending growth picks up further at end-Q1 but credit outlook has undoubtedly clouded

With the ECB's rate cuts having fed through in the middle of Q1 to the lowest borrowing costs for businesses in two years, today's monetary data reported a further pick up in bank lending growth at the end of Q1, supporting the resilience of economic activity. On an adjusted basis, the monthly net flow of loans to non-financial corporations (NFCs) more than doubled to a three-month high of €18bn, largely accounted for by loans with a maturity of greater than one year, which are typically more closely correlated with business fixed investments. As a result, the annual growth in such loans rose for an eighth successive month to 2.3%Y/Y, the strongest since July 2023. Despite the ECB's rate cuts, the composite cost of borrowing for house purchases edged up in February for the first time in ten months, as banks in Germany and Italy increased mortgage rates seemingly to reflect the riskier outlook. But the monthly adjusted net flow of household loans of €19bn in March was still the strongest since November 2022 when the ECB started its aggressive rate-hike cycle. This principally reflected a further pickup in mortgage lending, to leave annual growth in that component at 1.7%Y/Y, the highest since July 2023. And growth in consumer credit remained firm at 4.1%Y/Y, matching the highest since the onset of the pandemic in February 2020. Of course, the ECB's recent Bank Lending Survey suggested that banks expected to tighten credit standards further this quarter. And with Trump's tariffs having been more severe than anticipated and subsequent volatility led to a tightening of financial conditions, it remains to be seen whether the uptrend in growth in loans to firms and households will be sustained this quarter.

## The day ahead in the euro area

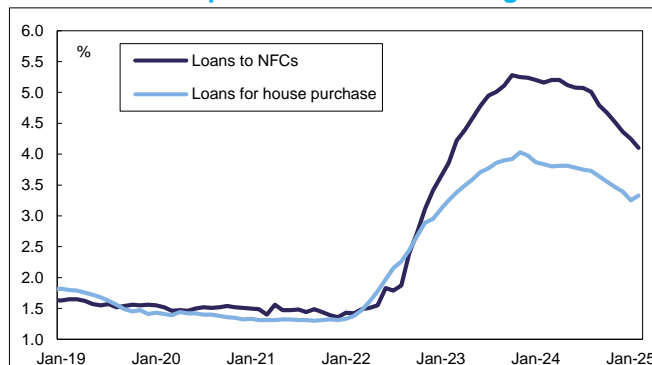
A key focus tomorrow will be the first estimate of euro area Q1 GDP. Overall, as suggested by today's GDP figures, we expect euro area GDP growth to have accelerated slightly at the start of the year to an above-consensus 0.3%Q/Q. On balance, the risks to that estimate currently look skewed slightly to the upside. We also forecast positive growth across the largest member states. In particular, German economic output likely reversed the 0.2%Q/Q decline in Q4, albeit this would leave the level of output no stronger than the pre-pandemic level. French GDP is also expected to return to positive growth of 0.2%Q/Q, with a similar pace of expansion anticipated in Italy. The French release will provide an official expenditure breakdown, while German retail sales figures for March will provide insight into household consumption in Q1. In terms of prices, ahead of the aggregate euro area figures on Friday, flash April inflation estimates are due from Germany, France and Italy. The headline HICP rates in Germany and France are expected to moderate amid a sharp decline in petrol and heating oil prices. But, as evidenced in today's Spanish figures, upwards pressure on certain services components relating to the later timing of Easter this year and unfavourable base effects in non-energy industrial goods might see the core HICP rates

### Euro area: Employment growth & EEI



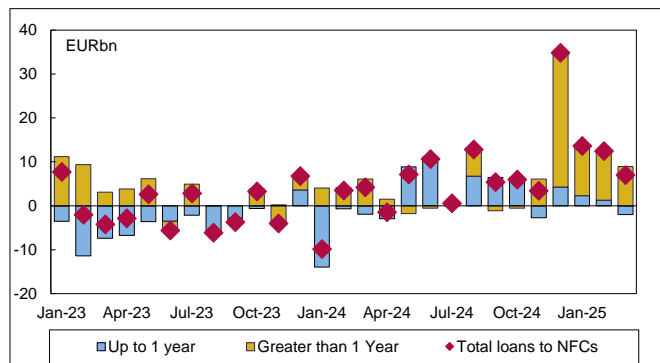
Source: EC, Macrobond and Daiwa Capital Markets Europe Ltd.

### Euro area: Composite cost of borrowing



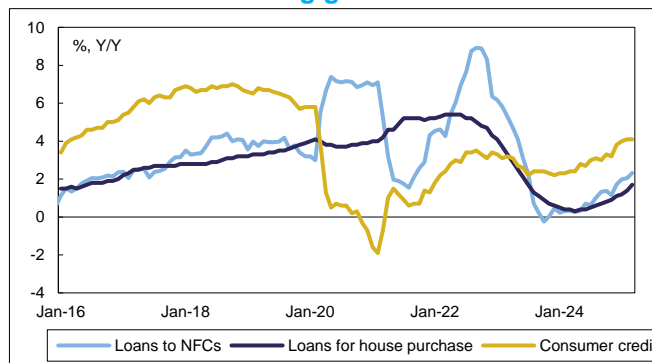
Source: ECB, Macrobond and Daiwa Capital Markets Europe Ltd.

### Euro area: Loans to NFCs



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

### Euro area: Bank lending growth



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

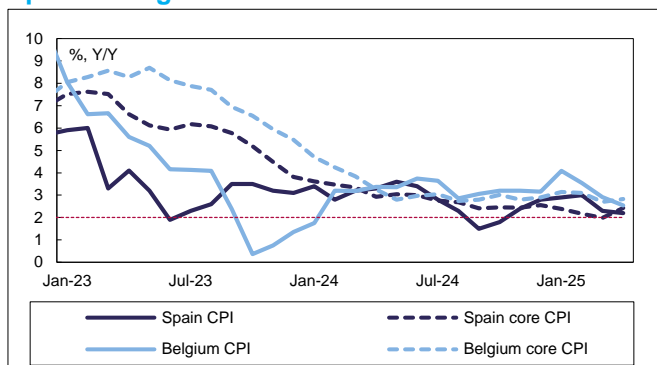
shift slightly higher. In addition, German labour market data are likely to report a 28<sup>th</sup> consecutive monthly increase in unemployment in April, albeit still leaving the claimant count rate steady at 6.3%.

## UK

### BRC measure of food price inflation up to 11-month high, but non-food prices continue to fall

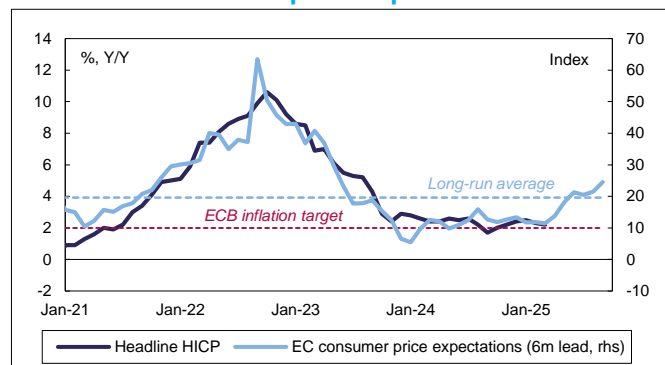
While UK inflation fell to a three-month low in March (2.8%Y/Y) and aligned with the BoE's projection in Q1, food price inflation came in above expectations rising to 3.7%Y/Y in Q1, 1.1ppts above the Bank's forecast. Today's BRC shop price monitor also flagged further upwards pressures in April. In particular, the survey's measure of food prices rose the most since January 2024 (0.74%M/M) to leave the annual rate up 0.2ppt to 2.6%Y/Y the highest in 11 months, with inflation of ambient food more than a percentage point higher. The BRC also noted that prices of everyday essentials such as bread, meat and fish also rose on the month, with overall fresh food prices up the most in over two years. And we continue to expect food price inflation to rise further over coming months, in part reflecting the rise in the plastic packaging tax at the start of this month. Admittedly, total shop prices were merely flat on the month as non-food prices fell for a fourth month out of the past five. As such, shop price inflation was still marginally negative at -0.1%Y/Y, albeit the softest pace of decline since last July.

#### Spain & Belgium: Headline & core inflation\*



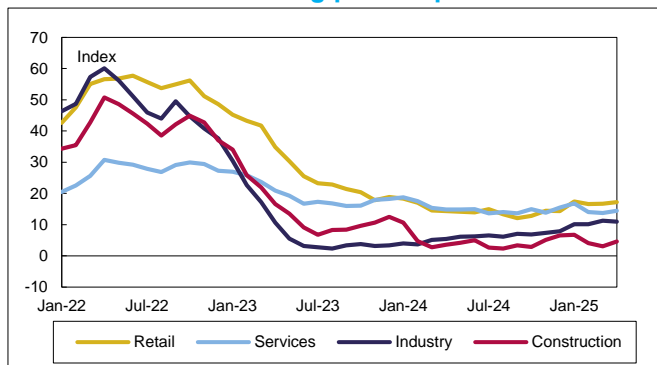
\*National measures. Core inflation excludes unprocessed foods and energy.  
 Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### Euro area: Consumer price expectations



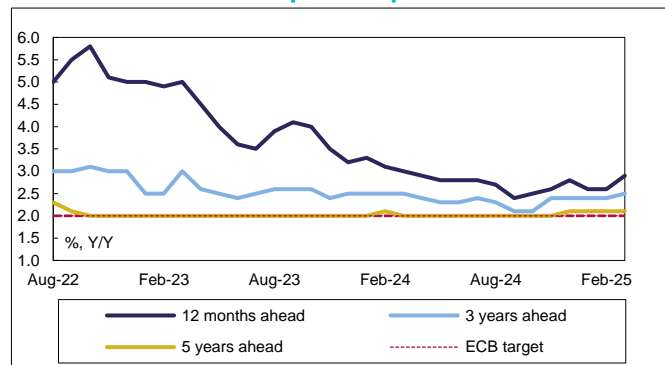
Source: EC, Macrobond and Daiwa Capital Markets Europe Ltd.

#### Euro area: Firms' selling price expectations



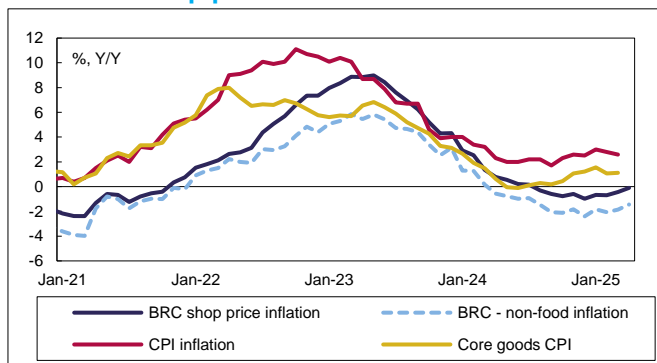
Source: EC, Macrobond and Daiwa Capital Markets Europe Ltd.

#### Euro area: Consumer price expectations



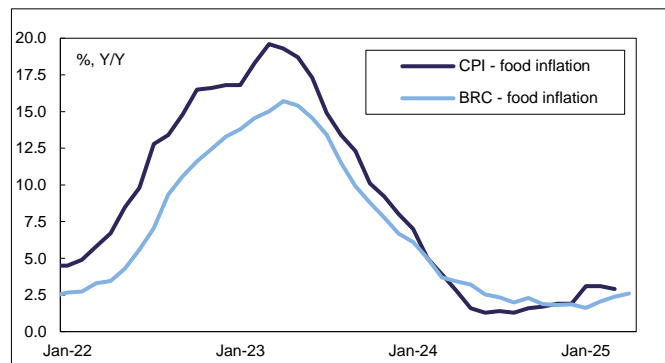
Source: ECB, Macrobond and Daiwa Capital Markets Europe Ltd.

#### UK: CPI & shop price inflation



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### UK: Food inflation



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Not least reflecting higher National Insurance Contributions, we would expect to see retailers trying to raise prices more widely over coming months. But with yesterday's CBI distributive trades survey flagging that sales in April were weak for the time of the year and expected to decline at a faster pace in May, we suspect that core goods inflation will remain relatively subdued for the time being, averaging only a little more than 1%Y/Y over the remainder of the year.













## The day ahead in the UK

Another quiet day ahead for UK releases will include the Nationwide house price report for April. Consistent with signals from the latest RICS residential survey of a slowdown in housing market activity, we expect the annual rate of house price growth to have slowed at the start of Q2, coinciding with the increase in the Stamp Duty Thresholds.





## European calendar

### Today's results

#### Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Euro area	 M3 money supply Y/Y%	Mar	<b>3.6</b>	4.0	4.0	3.9
	 ECB consumer expectations survey – 1Y CPI (3Y CPI) Y/Y%	Mar	<b>2.9 (2.5)</b>	2.5 (2.3)	2.6 (2.4)	-
	 Commission economic sentiment indicator	Apr	<b>93.6</b>	94.5	95.2	95.0
	 Commission industrial (services) confidence indicator	Apr	<b>-11.2 (1.4)</b>	-10.4 (2.0)	-10.6 (2.4)	-10.7 (2.2)
	 Final Commission consumer confidence indicator	Apr	<b>-16.7</b>	-16.7	-14.5	-
Germany	 GfK consumer confidence indicator	May	<b>-20.6</b>	-25.8	-24.5	-
Italy	 ISTAT consumer confidence indicator	Apr	<b>92.7</b>	94.1	95.0	-
	 ISTAT business (manufacturing) confidence indicator	Apr	<b>91.5 (85.7)</b>	- (85.9)	93.3 (86.0)	93.2 (-)
	 Hourly wages M/M% (Y/Y%)	Mar	<b>0.4 (4.0)</b>	-	0.1 (-0.6)	-
Spain	 GDP – first estimate Q/Q% (Y/Y%)	Q1	<b>0.6 (2.8)</b>	<u>0.7 (3.1)</u>	0.8 (3.4)	0.7 (3.3)
	 Preliminary HICP (CPI) Y/Y%	Apr	<b>2.2 (2.2)</b>	2.0 (2.0)	2.2 (2.3)	-
UK	 BRC shop price index Y/Y%	Apr	<b>-0.1</b>	-0.2	-0.4	-





#### Auctions

Country	Auction
Italy	 sold €3.5bn of 2.95% 2030 bonds at an average yield of 2.74%
	 sold €2.0bn of 2033 floating-rate bonds at an average yield of 3.27%
	 sold €4.0bn of 3.6% 2035 bonds at an average yield of 3.62%
UK	 sold £900mn of 1.25% 2054 inflation-linked bonds at an average yield of 2.175%

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

### Yesterday's results

#### Economic data
















Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
France	 Total jobseekers mn	Q1	<b>3.19</b>	-	2.93	2.92
Spain	 Retail sales Y/Y%	Mar	<b>3.6</b>	-	3.6	-
	 Unemployment rate %	Q1	<b>11.4</b>	10.7	10.6	-
UK	 CBI distributive trades survey – reported retail sales balance %	Apr	<b>-8</b>	-20	-41	-

#### Auctions

Country	Auction
- Nothing to report -	

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

**Tomorrow's releases**
**Economic data**

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Euro area		10.00 GDP – first estimate Q/Q% (Y/Y%)	Q1	<u>0.3 (1.1)</u>	0.2 (1.2)
Germany		07.00 Retail sales M/M% (Y/Y%)	Mar	-0.5 (2.4)	0.3 (0.1)
		08.55 Unemployment claims rate % (change 000s)	Apr	6.3 (15)	6.3 (26)
		09.00 GDP – first estimate Q/Q% (Y/Y%)	Q1	<u>0.2 (-0.2)</u>	-0.2 (-0.2)
		13.00 Preliminary HICP (CPI) Y/Y%	Apr	2.1 (2.0)	2.3 (2.2)
France		06.30 GDP – first estimate Q/Q% (Y/Y%)	Q1	<u>0.2 (0.8)</u>	-0.1 (0.6)
		06.30 Consumer spending M/M% (Y/Y%)	Mar	0.0 (-0.4)	-0.1 (0.1)
		07.45 Preliminary HICP (CPI) Y/Y%	Apr	0.7 (0.7)	0.9 (0.8)
Italy		09.00 GDP – first estimate Q/Q% (Y/Y%)	Q1	<u>0.2 (0.4)</u>	0.1 (0.6)
		10.00 Preliminary HICP (CPI) Y/Y%	Apr	2.0 (2.3)	2.1 (2.0)
UK		00.01 Lloyds business barometer (own price expectations)	Apr	-	49 (61)
		07.00 Nationwide house price index M/M% (Y/Y%)	Apr	-	0.0 (3.9)
<b>Auctions and events</b>					
Germany		10.30 Auction: to sell up to €1.5bn of 2.6% 2041 bonds			
		10.30 Auction: to sell up to €500mn of 2.5% 2044 bonds			
UK		10.00 Auction: to sell up to £4.5bn of 4.375% 2028 bonds			

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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