

Euro wrap-up

Overview

- Although euro area Q1 GDP growth beat expectations and member state data suggested that euro area core inflation rose in April, Bunds made gains.
- Gilts also made gains as UK house prices fell the most since August 2023 after changes to Stamp Duty took effect.
- Thursday will bring an update on UK bank lending while Friday will bring the flash estimates of euro area inflation in April and euro area unemployment data for March.

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Daily bond market movements

Bond	Yield	Change
BKO 2.2 03/27	1.677	-0.056
OBL 2.4 04/30	1.980	-0.063
DBR 2½ 02/35	2.437	-0.057
UKT 3% 03/27	3.784	-0.045
UKT 4% 03/30	3.906	-0.045
UKT 4½ 03/35	4.432	-0.045

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

Source: Bloomberg

Euro area

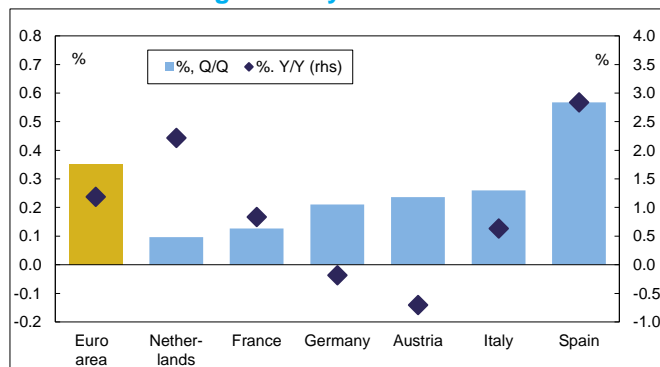
Q1 GDP growth double the consensus forecast with expansion across the member states

According to today's preliminary estimate, euro area GDP growth accelerated by 0.2ppt in Q1 to a two-quarter high of 0.4%Q/Q. That was double the consensus forecast and also double the ECB's projection of 0.2%Q/Q. The strength of the pickup was flattered by rounding, with growth to two decimal places up just 0.11ppt to 0.35%Q/Q. And the figures were boosted for a third successive quarter by extraordinary Irish growth of 3.2%Q/Q, which alone contributed 0.13ppt to the euro area figure. However, it took euro area GDP 5.3% above the pre-pandemic level. It also left the annual growth rate at 1.2%Y/Y, close to potential, matching the highest in two years. And the expansion was encouragingly widespread across the region with positive growth in all member states to report data so far. Notably too, Germany reversed its dip in Q4 with growth of 0.2%Q/Q. That, however, left German GDP just 0.1% above the pre-pandemic level in Q419 and down 0.2%Y/Y. France matched the weakest quarterly rate of the member states in Q1 with growth of 0.1%Q/Q, also merely sufficient to reverse its dip in Q4. But that left French GDP up 0.8%Y/Y and some 4.2% above the pre-pandemic level. Meanwhile, Italian GDP growth picked up 0.1ppt to an eight-quarter high of 0.3%Q/Q to be up 0.6%Y/Y. But Spain, which reported yesterday, continued to lead the way despite moderating 0.1ppt to 0.6%Q/Q, taking its annual rate of 2.8%Y/Y. Unfortunately, Portugal was unable to publish its data due to the disruption caused by this week's major Iberian power cuts.

GDP growth likely broad-based in Q1 despite country variations

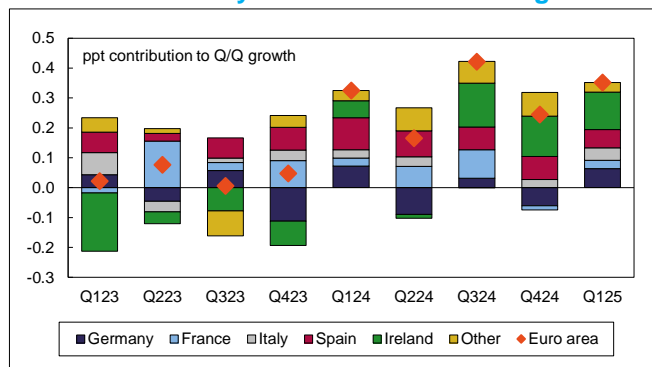
Not only was economic growth widespread across the euro area in Q1, it also appears to have been broad-based. Certainly, export data for the first two months of the year make clear that Irish GDP growth was driven by net trade as manufacturers significantly front-loaded exports to the US to dodge new Trump tariffs. Yesterday's data also made clear that all main components of final domestic demand and net trade contributed to the expansion in Spain. Today Destatis reported that fixed investment and household consumption – illustrated by growth of 0.2%Q/Q in real retail sales – led the pickup in German GDP last quarter. ISTAT also reported that Italian growth was driven by domestic demand, offsetting a (likely small) drag from net trade. So, the only downbeat note was struck by France, where the modest rise in GDP was related principally to a possibly unintentional accumulation of inventories, which added 0.5ppt. And although French government consumption also rose slightly despite the fiscal impasse that lasted into early February, household spending was merely flat while fixed investment and net trade subtracted from growth. Overall, however, we think that household consumption, government consumption, fixed investment and net trade all made positive contributions to euro area GDP growth in Q1.

Euro area: GDP growth by member state in Q125



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Country contributions to GDP growth



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

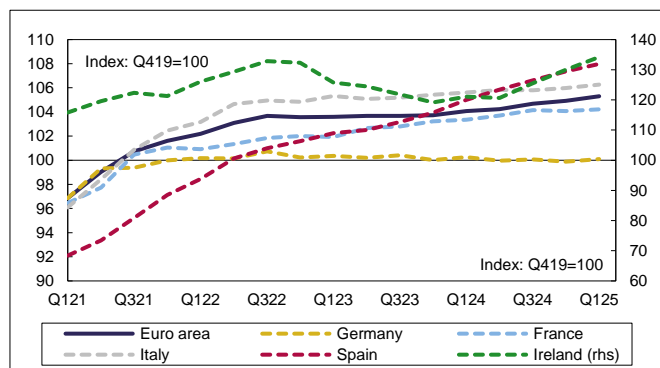
Marked slowdown in Q2 inevitable but near-term stagnation more likely than recession

Not least due to payback in Ireland, we strongly expect the contribution from net trade to turn negative in Q2. And elevated levels of uncertainty and somewhat tighter financial conditions will likely weigh heavily on business investment. However, despite a weakening of consumer confidence, we expect household spending to remain broadly supportive of economic activity for as long as the labour market remains resilient. Today's German claimant count and job vacancy figures suggest that is indeed the case in the euro area's largest member state, with labour markets in Southern Europe also likely remaining firm. Overall, while the outlook remains exceptionally difficult to predict with confidence given the ever-changing tariff landscape, we currently expect euro area GDP to be little worse than flat in Q2 and Q3 before a return to positive growth in Q4.

Data point to modest decline in headline euro area inflation in April, but a temporary pickup in core

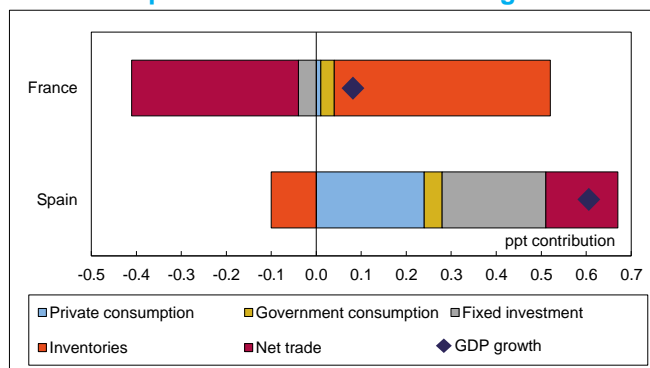
Today's flash April inflation figures from the larger member states were mixed, suggesting that the euro area data (due Friday) will report a further modest moderation in the headline rate but a pickup in the core due to the timing of Easter. Despite coming in a touch firmer than expected, headline HICP inflation eased in Germany and France by 0.1ppt to respectively a seven-month low of 2.2%Y/Y and a more than four-year low of 0.8%Y/Y. Meanwhile, like yesterday's Spanish numbers, Italian inflation avoided the expected rise, remaining unchanged at 2.1%Y/Y. Given lower petrol prices, energy weighed in all three member states with prices in that component down in Italy for the first month in six and by the most in three years. Food inflation also moderated in Germany and Italy, but rose to an 11-month high in France. There was an ongoing lack of meaningful price pressures in non-energy industrial goods across the member states. But the Germany services CPI component rose 0.3ppt to a three-month high (2.9%Y/Y) seemingly reflecting upwards pressures in package holidays and airfares. The equivalent Italian rate jumped 0.5ppt to an eight-month high (3.0%Y/Y), with a notable rise in restaurants and hotel prices. And although the French rate was steady (2.3%Y/Y), INSEE noted a particular increase in transport. Overall, while the French core CPI rate was likely unchanged on the month, it rose in Germany by 0.3ppt to a three-month high. And the Italian core HICP measure jumped by 0.6ppt to an eight-month high. As such, while the euro area headline HICP rate is likely to edge down 0.1ppt to 2.1%Y/Y, the core rate is likely to rise by 0.2ppt in April to 2.6%Y/Y, with risks skewed to the upside. This uptick in core inflation should, however, prove temporary and more than reverse in May amid favourable base effects. And so we expect the headline rate to drop below 2.0%Y/Y next month too.

Euro area: GDP level



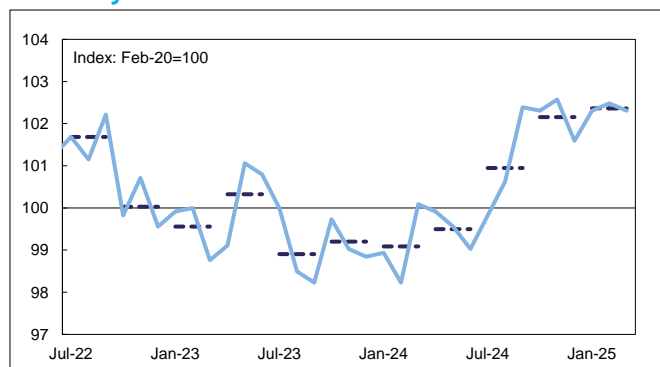
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

France & Spain: Contributions to GDP growth



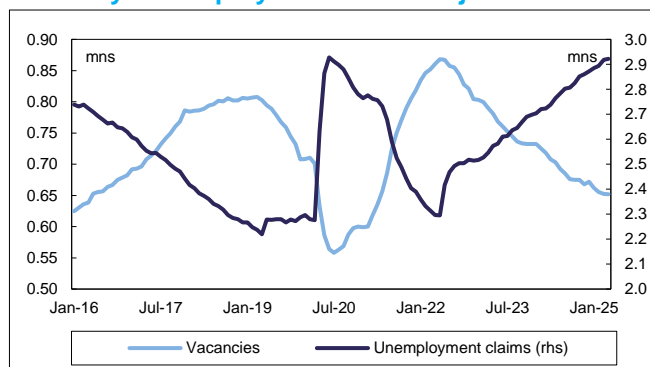
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Retail sales*



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

Germany: Unemployment claims & job vacancies



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

The coming two days in the euro area

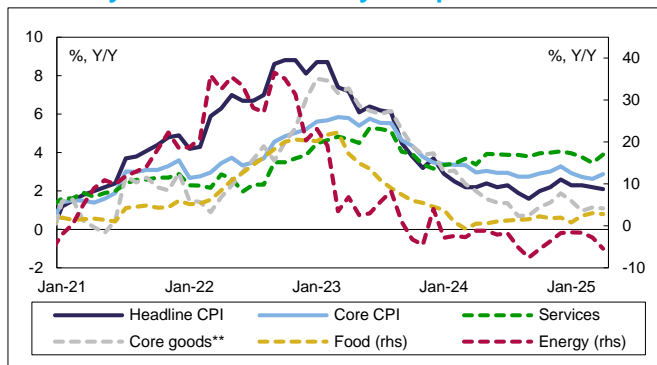
After the May Day holiday tomorrow, attention on Friday will be on the aforementioned flash estimates of euro area inflation in April. Based on figures published so far by the member states, we now expect only a marginal easing in the headline HICP rate this month, by 0.1ppt to 2.1%Y/Y, nevertheless a six-month low. The moderation will largely reflect the energy component due to a sharp drop in petrol and heating oil prices. Services inflation will likely be boosted by the impact of the late timing of Easter this year on certain holiday-related components. But in part due to base effects, non-energy industrial goods inflation will likely pick up, albeit remaining sub-1%Y/Y. As a result, the core HICP rate is likely to edge up slightly from March's near-three-year low to 2.6%Y/Y. Meanwhile, the latest labour market data are likely to show that the euro area unemployment rate remained in March at February's series low of 6.1%. Friday will also bring the final manufacturing PMIs for April. Despite the increased US trade barriers, the preliminary April manufacturing output PMI (51.2) signalled the strongest growth in the sector since May 2022, with the new export order index similarly the highest in three years.

UK

House prices decline the most since August 2023 as increase in Stamp Duty hits demand

According to today's Nationwide report, UK house prices fell sharply in April as the effect of the adjustments in the Stamp Duty thresholds and heightened economic uncertainties weighed on the housing market. Admittedly, the 0.6%M/M drop – the most since August 2023 – came on the back of a cumulative rise of 3.0% in the six months to February as sellers attempted to benefit from the more favourable property tax buckets. So, while the annual growth rate slowed for a second successive month, at 3.4%Y/Y it was still comfortably above the average in 2024 and in the five years before the pandemic (2.6%Y/Y). But on a three-month annualised basis, house price growth slowed to a 17-month low of 1.6%. With the RICS residential survey flagging a marked decline in newly agreed sales over recent months, the spike in residential transactions in March – to the highest since June 2021 – ahead of the increase in the stamp duty-free threshold seems bound to be more than reversed this month. RICS surveyors reported the lowest number of new instructions in eight months in March, while new buyer enquiries fell the most in 18 months, a drop which will likely weigh on house price growth over coming months. This notwithstanding, mortgage rates fell in March for the first month in five – indeed, the average rate on a 2Y fixed mortgage with a 75% LTV ratio was back to its level in November. And with the MPC set to cut Bank Rate by 25bps at its next policy-setting meeting on 8 May and gradually further into 2026, lower borrowing costs should help support a recovery in the housing market over the summer.

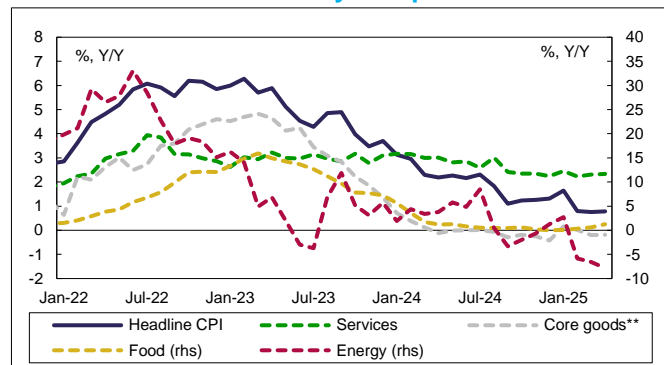
Germany: CPI inflation & key components*



*National measure. **Non-energy industrial goods.

Source: Macrobond and Daiwa Capital Markets Europe Ltd.

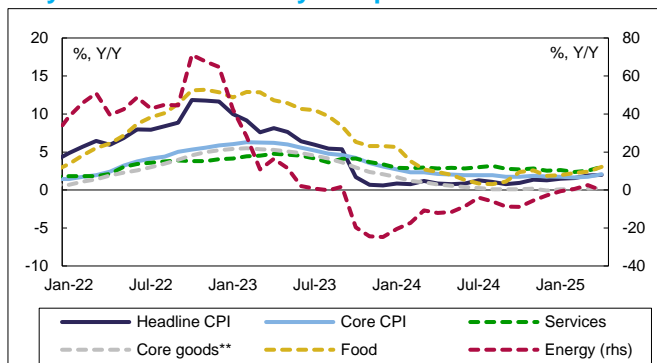
France: CPI inflation & key components*



*National measure. **Non-energy industrial goods.

Source: Macrobond and Daiwa Capital Markets Europe Ltd.

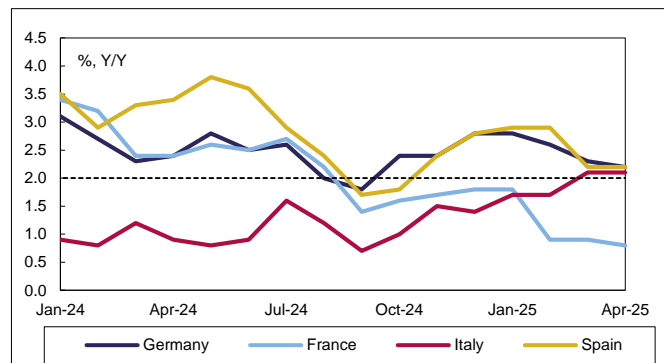
Italy: CPI inflation & key components*



*National measure. **Non-energy industrial goods.

Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: HICP inflation*



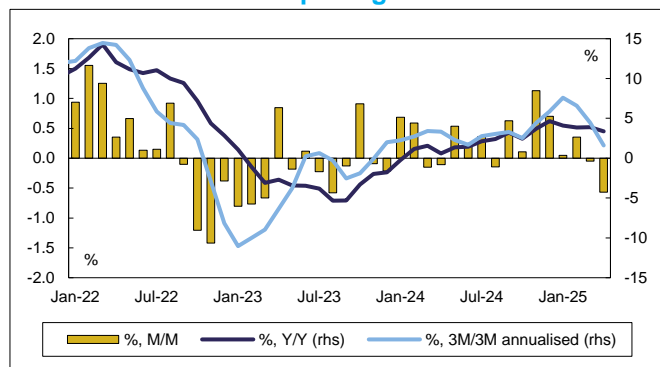
*EU harmonised measure.

Source: Macrobond and Daiwa Capital Markets Europe Ltd.

The coming two days in the UK

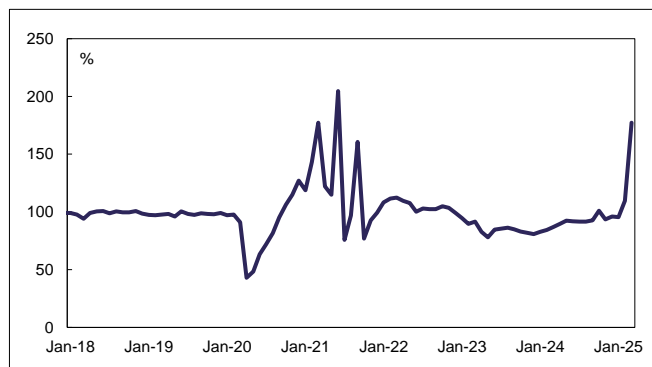
A relatively quiet end to the week will bring the release on Thursday of BoE monetary figures, which will likely report a further notable increase in new mortgage lending in March ahead of the increase in Stamp Duty thresholds at the start of this month. But given a near-three-month lag on completions and recent weakening in housing market indicators, new mortgage approvals are likely to have fallen back in March. And given heightened uncertainties, we wouldn't be surprised to see a softening in business loan growth too. Finally, the updated April manufacturing PMIs (also due Thursday) will likely confirm a notable deterioration in conditions, with the flash release implying the steepest drop in output in the sector for almost three years.

UK: Nationwide house price growth



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Residential transactions



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

The next edition of the Euro wrap-up will be published on 02 May 2025

European calendar

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ Daiwa forecast	Previous	Revised
Euro area	GDP – first estimate Q/Q% (Y/Y%)	Q1	0.4 (1.2)	<u>0.3 (1.1)</u>	0.2 (1.2)	-
Germany	Retail sales M/M% (Y/Y%)	Mar	-0.2 (0.3)	-0.5 (2.4)	0.8 (0.5)	0.2 (0.0)
	Unemployment claims rate % (change 000s)	Apr	6.3 (4)	6.3 (15)	6.3 (26)	6.2 (25)
	GDP – first estimate Q/Q% (Y/Y%)	Q1	0.2 (-0.2)	<u>0.2 (-0.2)</u>	-0.2 (-0.2)	-
	Preliminary HICP (CPI) Y/Y%	Apr	2.2 (2.1)	2.1 (2.0)	2.3 (2.2)	-
France	GDP – first estimate Q/Q% (Y/Y%)	Q1	0.1 (0.8)	<u>0.2 (0.8)</u>	-0.1 (0.6)	- (0.8)
	Consumer spending M/M% (Y/Y%)	Mar	-1.0 (-1.5)	0.0 (-0.4)	-0.1 (0.1)	-0.2 (0.2)
	Preliminary HICP (CPI) Y/Y%	Apr	0.8 (0.8)	0.7 (0.7)	0.9 (0.8)	-
Italy	GDP – first estimate Q/Q% (Y/Y%)	Q1	0.3 (0.6)	<u>0.2 (0.4)</u>	0.1 (0.6)	0.2 (0.5)
	Preliminary HICP (CPI) Y/Y%	Apr	2.1 (2.0)	2.3 (2.0)	2.1 (1.9)	-
UK	Lloyds business barometer (own price expectations)	Apr	39 (68)	-	49 (61)	-
	Nationwide house price index M/M% (Y/Y%)	Apr	-0.6 (3.4)	-	0.0 (3.9)	-




Auctions

Country	Auction
Germany	sold €1.14bn of 2.6% 2041 bonds at an average yield of 2.8%
	sold €452mn of 2.5% 2044 bonds at an average yield of 2.83%
UK	sold £4.5bn of 4.375% 2028 bonds at an average yield of 3.834%

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's releases

Economic data

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
UK		09.30 Net consumer credit £bn (Y/Y%)	Mar	1.2 (-)	1.4 (6.4)
		09.30 Net mortgage lending £bn (mortgage approvals 000s)	Mar	3.2 (64.8)	3.3 (65.5)
		09.30 Final manufacturing PMI	Apr	<u>44.0</u>	44.9








Auctions and events

Labour Day: public holiday in Europe


Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Friday's releases

Economic data

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Euro area		09.00 Final manufacturing PMI	Apr	<u>48.7</u>	48.6
		10.00 Preliminary headline (core) HICP Y/Y%	Apr	<u>2.1 (2.6)</u>	2.2 (2.4)
		10.00 Unemployment rate %	Mar	6.1	6.1
Germany		08.55 Final manufacturing PMI	Apr	<u>48.0</u>	48.3
France		08.50 Final manufacturing PMI	Apr	<u>48.2</u>	48.5
Italy		08.45 Manufacturing PMI	Apr	47.0	46.6
Spain		08.15 Manufacturing PMI	Apr	50.1	49.5

Auctions and events

Euro area  09.00 ECB to publish Economic Bulletin 3/2025

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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