

# Euro wrap-up

## Overview

- Bunds followed USTs higher while euro area Q1 GDP growth was revised a touch lower despite a surge in manufacturing production ahead of US tariff hikes.
- Gilts made more modest gains as UK Q1 GDP beat expectations with the best growth in a year on sunny weather and tariff front-running.
- Friday's euro area goods trade data are expected to further illustrate the tariff-related surge in shipments to the US at the end of Q1.

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### Daily bond market movements

Bond	Yield	Change
BKO 2.2 03/27	1.874	-0.059
OBL 2.4 04/30	2.193	-0.074
DBR 2½ 02/35	2.624	-0.072
UKT 3% 03/27	3.982	-0.029
UKT 4% 03/30	4.142	-0.036
UKT 4½ 03/35	4.664	-0.046

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

## Euro area

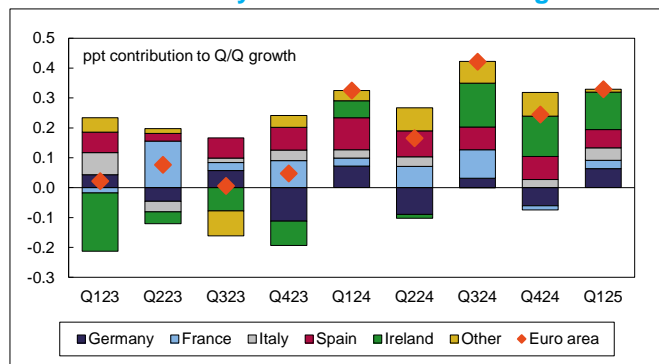
### Euro area GDP growth revised down a touch in Q1, but still above the ECB projection

While manufacturers in some sub-sectors boosted production in the first quarter to front-run higher US tariffs, today's updated Q1 GDP figure saw growth in the euro area revised down from the preliminary estimate by 0.1ppt to 0.33%Q/Q. But to two decimal places, the revision was negligible at 0.02ppt to 0.33%Q/Q. Indeed, the annual growth rate was unrevised at 1.2%Y/Y, close to potential and matching the highest for two years. The level of GDP was also an unrevised 5.3% above the pre-pandemic benchmark in Q419. And growth was still 0.1ppt stronger than the ECB projected in March. No amendments were made to the member-state GDP data published first time around. As in the preliminary release, 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. But growth was widespread across the larger member states, with Germany (0.2%Q/Q) and France (0.1%Q/Q) reversing their contractions in Q4, while Italy (0.3%Q/Q) recorded its strongest growth in two years. And although Spain's expansion was the smallest in seven quarters (0.6%Q/Q), it again outperformed. This contrasted markedly with its neighbour Portugal, which is so far the only member state to report a contraction (-0.7%Q/Q) following a surge in activity at the end of 2024 (1.5%Q/Q).

### Industrial production driven by front-running of US tariffs in Ireland and Germany

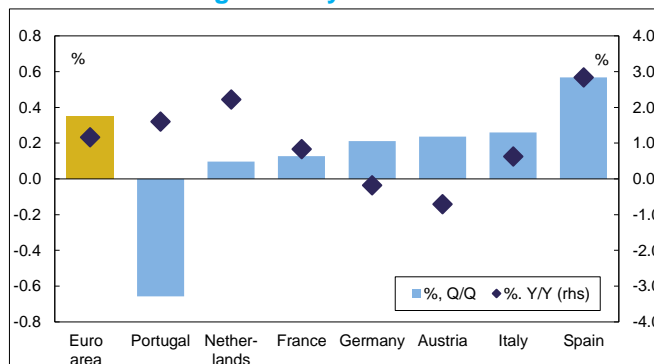
While there was no detail published with today's GDP release, the latest industrial output data illustrated the front-running of US tariffs in certain sub-sectors. Overall, euro area IP rose for a third consecutive month in March and by 2.6%M/M, the strongest in five years when excluding Covid-19-related distortions. This left output at its highest level since mid-2023 and up 2.2%Q/Q in Q1, the first quarter of positive growth in two years and the firmest since Q210 when excluding the initial pandemic period. Like with GDP, production in March was driven by those countries most exposed to US trade, including Ireland (14.6%M/M) and Germany (3.1%M/M). Within the subsectors, production was most striking in pharmaceuticals, which rose for the fourth month out of the past five to leave it up more than 8%Q/Q in Q1. Strong growth in the autos sector in March (6.5%M/M) also resulted in the first quarterly increase in six. And machinery output also rose the most since August 2022, to record its first quarter of positive (albeit modest) growth in two years. In contrast, production fell in Q1 in fabricated metals, ICT equipment and electrical machinery. And while surveys suggest that firms continued to increase production at the start of Q2, there will be payback for the strength in Q1, with manufacturing likely to be a drag on GDP growth this quarter and possibly next too.

### Euro area: Country contributions to GDP growth



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### Euro area: GDP growth by member state

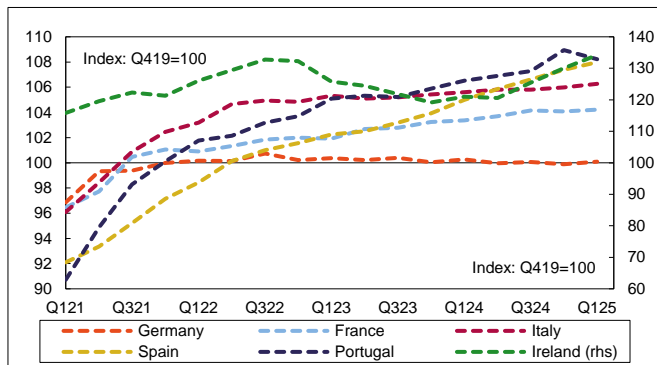


Source: Macrobond and Daiwa Capital Markets Europe Ltd.

## Employment accelerated in Q1, but surveys point to weaker job growth ahead

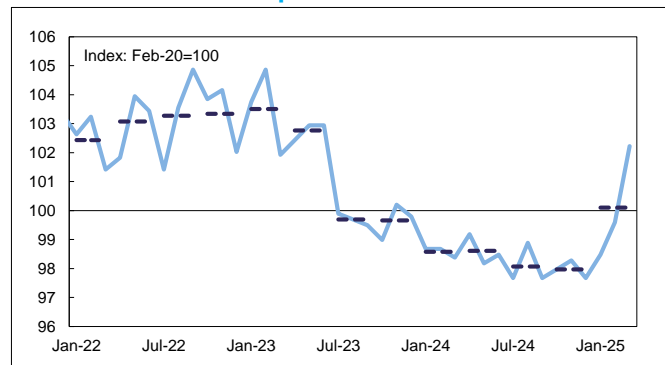
The acceleration in economic activity in Q1 was accompanied by ongoing growth in employment, which likely supported a further pickup in household consumption at the start of the year. Employment rose in line with GDP, by 0.3%Q/Q, up from 0.1%Q/Q in Q4 and the strongest growth in a year. Indeed, the number of people in work rose 525k in Q1, more than 200k more than in Q4. That was once again partly explained by Spain (up 185k), Italy and Ireland. But employment fell in Germany, France and the Netherlands. And compared with a year earlier, employment growth (0.8%Y/Y) was the second-slowest in four years. Survey indicators such as the PMIs and Commission indices suggest that demand for workers declined at the start of Q2. And with wage trackers already pointing to a softer pay settlement growth, labour cost growth should moderate significantly over coming quarters. Of course, softer pay and employment growth might represent a downside risk to the outlook for private consumption, particularly if household confidence continues to deteriorate and seek to boost precautionary savings instead of spending.

### Euro area: GDP levels in member states



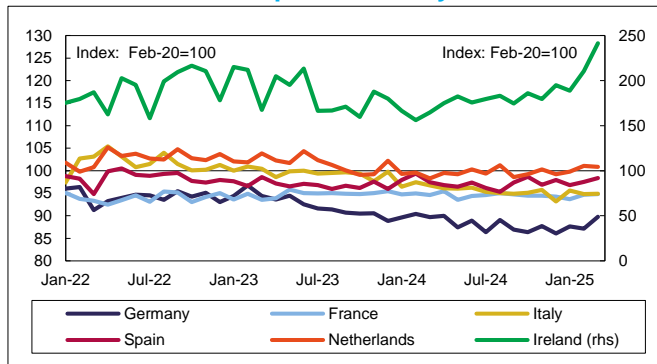
\*Dashed dark blue line represent quarterly averages.  
 Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### Euro area: Industrial production\*



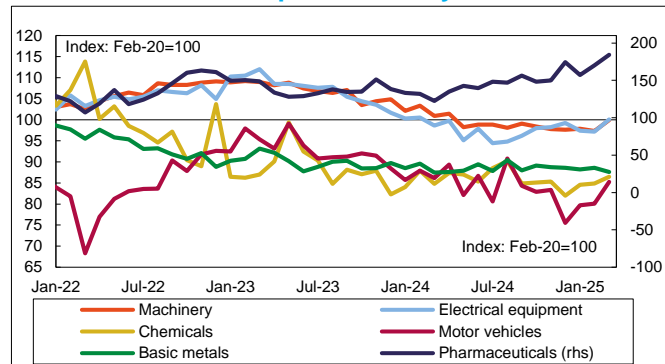
\*Dashed dark blue line represent quarterly averages.  
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### Euro area: Industrial production by member state



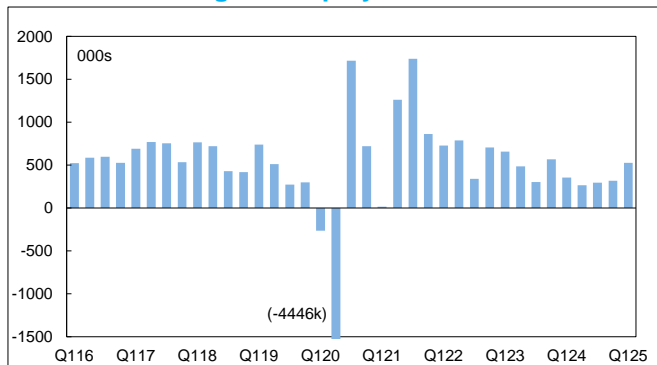
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### Euro area: Industrial production by sector



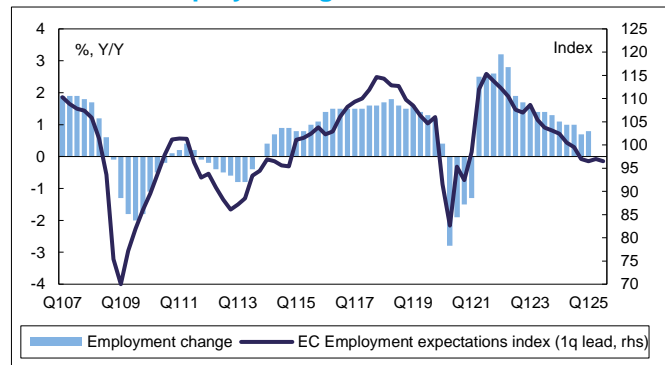
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### Euro area: Change in employment



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### Euro area: Employment growth & EEI



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

## The day ahead in the euro area

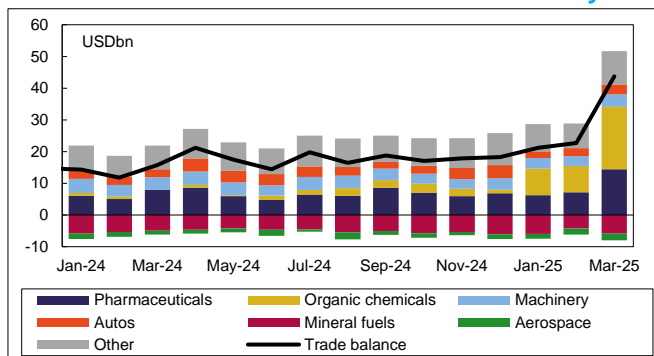
March's aggregate euro area trade data will provide Friday's main economic data focus with another strong month for exports inevitable. As flagged by last week's [German](#) figures, exporters in some sub-sectors continued to benefit from aggressive front-loading of demand from the US ahead of the imposition of new tariffs. Indeed today's Irish release provided further evidence of that trend, with an extraordinary near-35% M/M surge in export values driving Ireland's goods surplus to a record €23.4bn, up from February's already bumper €10.7bn. Data from both the US and Ireland confirmed that this uptrend continued to be led primarily by pharmaceutical exports, which in Q1 were three times higher than a year earlier. So, despite a slight narrowing in the German extra-eurozone surplus, and stronger Chinese imports, we expect tomorrow's release to flag a non-negligible widening of the euro area goods trade surplus. Elsewhere, April's final Italian inflation prints will be expected to align with flash estimates (2.1%Y/Y), firming up the euro area estimates in line with their respective preliminary figures ahead of Monday's detail.

## UK

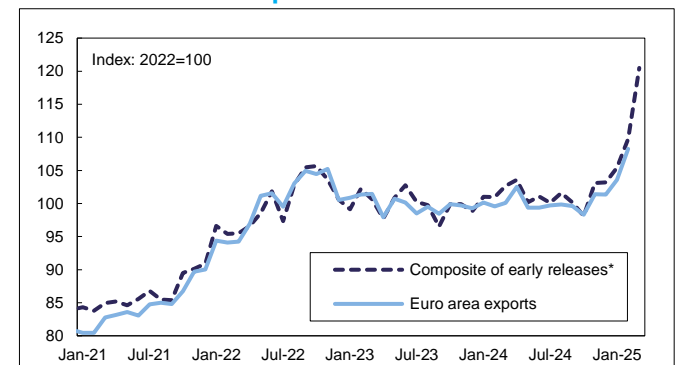
### GDP beats consensus with best growth in a year on sunny weather & tariff front-running

UK GDP in Q1 rose 0.7%Q/Q (2.9%Q/Q annualised), in line with our forecast but 0.1ppt above the Bloomberg consensus and the best in four quarters. That should prove to be the strongest rate of all G7 countries last quarter. But as economic output had done little better than flat-line over the prior two quarters, that left GDP up just 1.3%Y/Y and 4.1% above the pre-pandemic level in Q419. Adjusting for population growth, GDP per capita was up 0.5%Q/Q but just 0.3%Y/Y and still 0.4% below the pre-pandemic level. But labour productivity in terms of output per hour worked – a longstanding source of concern for monetary and fiscal policymakers – rose for a second successive quarter (0.2%Q/Q) to be 2.1% above the pre-pandemic level. Perhaps reassuringly too, the expansion in Q1 was broad-based, with gains in all major categories of private final demand, and in services and manufacturing alike. However, GDP growth was undoubtedly flattered by some temporary factors, including unseasonably fine weather and front-running of US tariffs, as well as positive payback for the excessive weakness through the second half of last year. The strength at the start of the year after weakness in the second of the previous year also follows the recent pattern, which suggests that shifts to seasonal spending patterns might also have contributed to the strong Q1 growth figure. And informed by survey indicators, the BoE judges that 'underlying' growth in Q1 was likely close to zero. We think that those surveys might have exaggerated the extent of the gloom and that the BoE's assessment is a little too negative. However, payback for some of the temporary factors boosting growth in Q1 is inevitable and GDP growth in Q2 might well slip into slight negative territory.

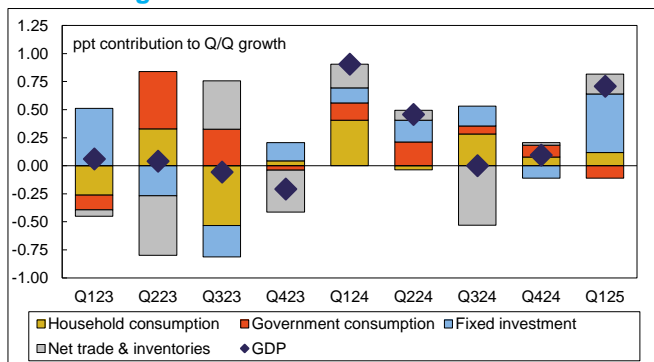
### Euro area: Goods trade balance with the US by item



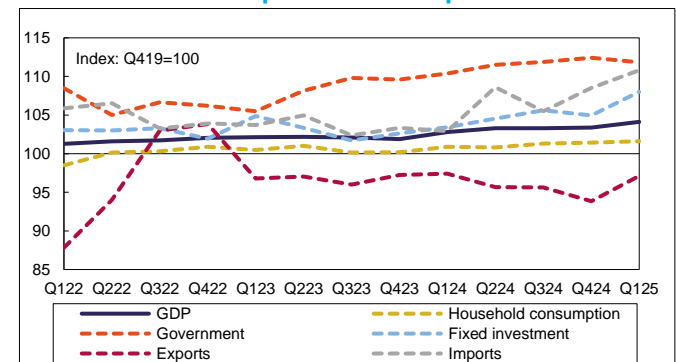
### Euro area: Goods exports



### UK: GDP growth & contributions



### UK: GDP level & expenditure components



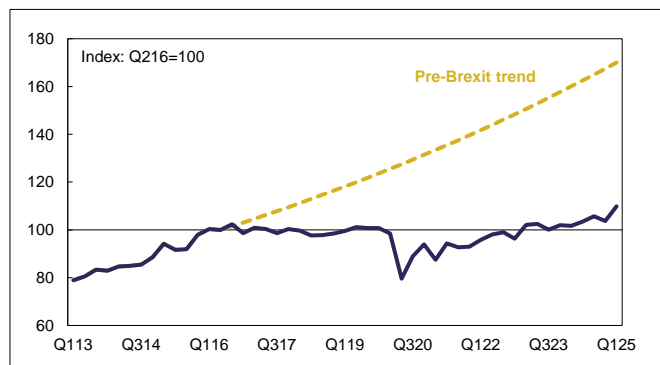
## A record rise in exports to the US while business capex jumps most in 2 years

On the expenditure side, private consumption in Q1 was given a boost by the weather, as the sunniest March on record encouraged buyers of outdoor-related items and provided support to sales in pubs and of food and drink. So, while consumer confidence remained well down on last year's peak, household domestic consumption rose a firm 0.4%Q/Q. Nevertheless, overall household consumer spending rose a softer 0.2%Q/Q, as net tourism subtracted from growth. Moreover, government consumption fell 0.5%Q/Q. Meanwhile, despite the pickup in trade-related uncertainty over the quarter, gross fixed investment rose 2.9%Q/Q, with business capex up a spritely 5.9%Q/Q – the most in two years – reflecting a pickup in spending on (imported) aircraft, ICT and other machinery and equipment, as well as buildings and structures. Concerns about US tariffs encouraged a surge in goods export volumes, which rose 5.6%Q/Q (whether including or excluding precious metals, which often distort the data), the most since Q322. That, however, left goods exports still some 25% below the pre-pandemic level in Q419. While they fell 2.4%M/M in March, goods export values to the US leapt a record 24%Q/Q due to a more than 12-fold increase in shipments of non-ferrous metals. In contrast, shipments to the US of cars, chemicals and pharmaceuticals fell back after strength in Q4 that had also probably been tariff-related. Less affected by tariff concerns, goods import volumes rose a more modest 0.6%Q/Q (and fell 0.5%Q/Q excluding precious metals). And services imports outpaced exports. Nevertheless, overall, net trade added 0.4ppt to growth, while inventories subtracted 0.2ppt.

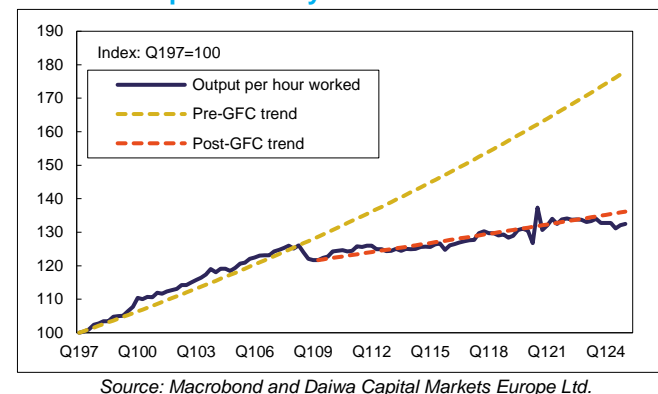
## Downside risks to growth in Q2 reduced by fine weather & US trade deal

The above-consensus GDP growth in Q1 reflected a stronger-than-expected outturn for March, when economic output rose for the fourth month in the past five and by 0.2%M/M. That occurred despite a pullback in manufacturing production at the end of the quarter (-0.8%M/M) after strength in the prior two months. But with factory output in February having enjoyed the strongest growth in 20 months (2.4%M/M), it rose in Q1 by 0.8%Q/Q – the most in four quarters – led by autos and machinery and equipment. Perhaps reassuringly, those subsectors did not display significant evidence of US tariff front-running in Q1 while metals output fell for a second successive quarter. Meanwhile, services remained a reliable source of growth in March (0.4%M/M) and Q1 (0.7%Q/Q). While the pickup in the sector in Q1 was broad-based, the largest contribution came from retail and wholesale activity (1.7%Q/Q), which had its best quarter since Q221. But despite rising for the second successive month in March and seeing decent growth in new work, construction output was flat in Q1, the first quarter with no growth in the sector in a year as repair and maintenance activity declined. Looking ahead, retail and wholesale activity appear to have remained firm in early Q2, buoyed by continued fine weather. And the increased certainty provided by the (admittedly limited) US-UK trade deal will lessen the near-term hit to manufacturing. So, while the composite output PMI fell in April to a contractionary 48.2, the lowest level in more than two years, underlying growth need not be significantly impaired this quarter even as the temporary factors that boost growth in Q1 eventually shift into reverse.

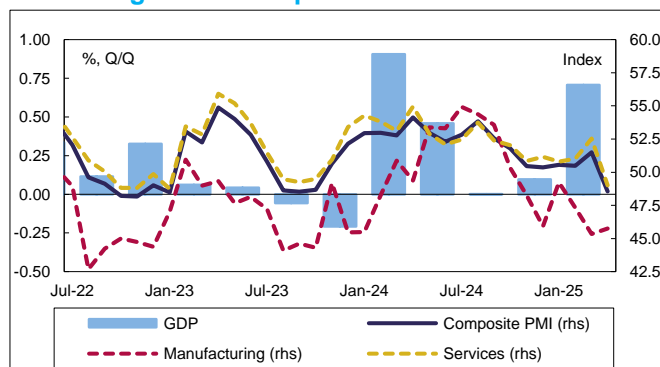
### UK: Business investment



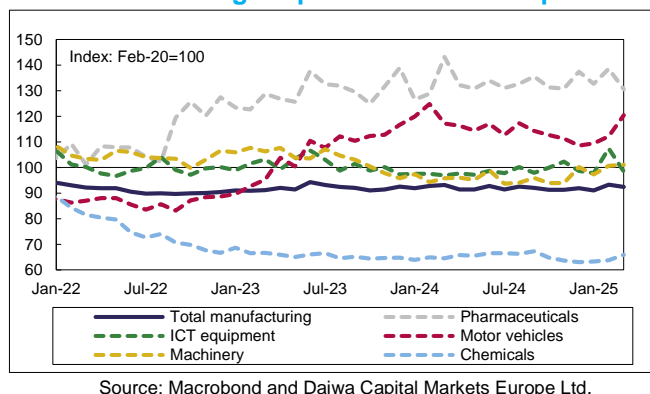
### UK: Labour productivity



### UK: GDP growth & output PMIs



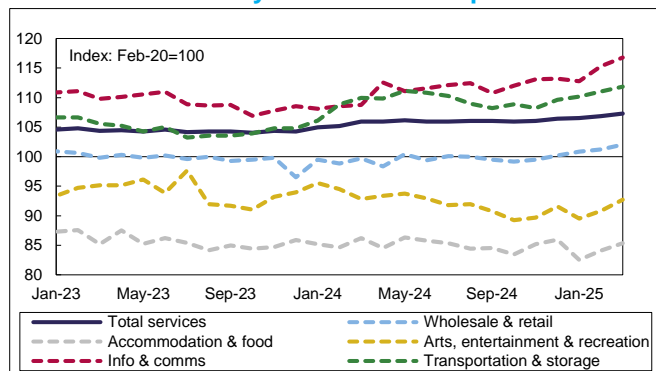
### UK: Manufacturing output & selected components



## The day ahead in the UK

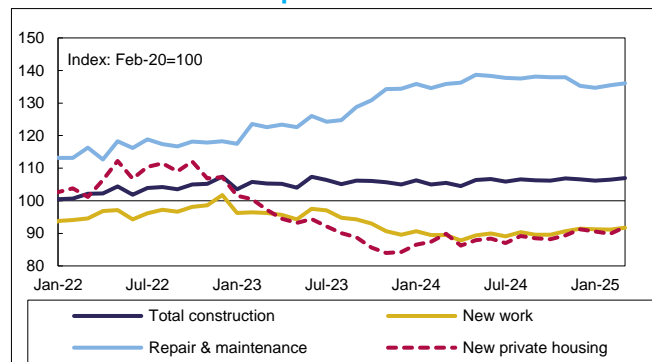
With no data releases scheduled, it should be a quiet end to the week for UK economic news. Nevertheless, BoE Deputy Governor Lombardelli will join ECB Chief Economist Lane on a panel discussing central bank communications and uncertainty at a research conference hosted by the Federal Reserve Board.

### UK: Services activity & selected components



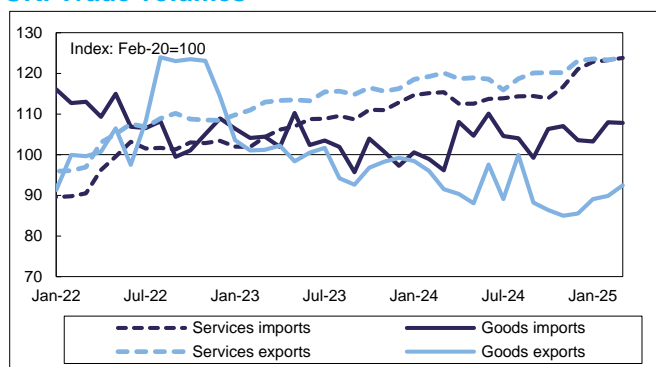
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### UK: Construction output



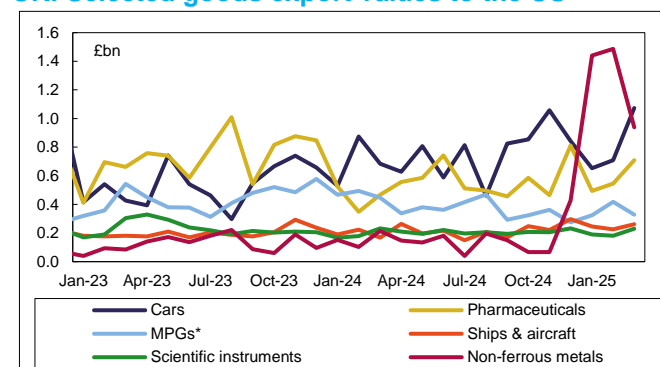
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### UK: Trade volumes



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### UK: Selected goods export values to the US



\*Mechanical power generators.

Source: Macrobond 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 – second estimate Q/Q% (Y/Y%)	Q1	<b>0.3 (1.2)</b>	<u>0.4 (1.2)</u>	0.2 (1.2)	-
	Employment – first estimate Q/Q% (Y/Y%)	Q1	<b>0.3 (0.8)</b>	-	0.1 (0.7)	- (0.8)
	Industrial production M/M% (Y/Y%)	Mar	<b>2.6 (3.6)</b>	<u>2.4 (2.9)</u>	1.1 (1.2)	- (1.0)
France	Final HICP (CPI) Y/Y%	Apr	<b>0.9 (0.8)</b>	<u>0.8 (0.8)</u>	0.9 (0.8)	-
UK	GDP – first estimate Q/Q% (Y/Y%)	Q1	<b>0.7 (1.3)</b>	<u>0.7 (1.2)</u>	0.1 (1.5)	-
	Monthly GDP M/M% (3M/3M%)	Mar	<b>0.2 (0.7)</b>	<u>0.1 (0.7)</u>	0.5 (0.6)	-
	Services output M/M% (3M/3M%)	Mar	<b>0.4 (0.7)</b>	0.1 (0.7)	0.3 (0.6)	-
	Industrial output M/M% (Y/Y%)	Mar	<b>-0.7 (-0.7)</b>	-0.5 (-0.8)	1.5 (0.1)	1.7 (0.4)
	Construction output M/M% (Y/Y%)	Mar	<b>0.5 (1.4)</b>	0.2 (1.3)	0.4 (1.6)	0.2 (1.4)
	Trade (goods trade) balance £bn	Mar	<b>-3.7 (-19.9)</b>	-2.0 (-19.0)	-2.0 (-20.8)	-4.9 (-21.0)
	Preliminary output per hour Y/Y%	Q1	<b>-0.2</b>	-	-0.8	-0.5

#### Auctions


Country	Auction
UK	sold £2bn of 0.125% 2028 bonds at an average yield of 3.768%

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	Trade balance €bn	Mar	-	21.0
France 	06.30	ILO unemployment rate (mainland) %	Q1	-	7.3 (7.1)
Italy 	09.00	Final HICP (CPI) Y/Y%	Apr	<u>2.1 (2.0)</u>	2.1 (2.0)

**Auctions and events**

Euro/UK 	16.00	ECB Chief Economist Lane and BoE Deputy Governor Lombardelli join panel at Fed research conference, Washington D.C.			
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Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Access our research blog at:

<https://www.uk.daiwacm.com/ficc-research/recent-blogs>

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