

# Euro wrap-up

## Overview

- While the German claimant count rose the most in six years and job vacancies continued to fall, Bunds made losses as an ECB survey measure of consumer inflation expectations rose to a 14-month high.
- Gilts followed USTs lower on a quiet day for UK economic news.
- Thursday will bring the ISTAT surveys of Italian business and consumer confidence in May.

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### Daily bond market movements

Bond	Yield	Change
BKO 1.7 06/27	1.793	+0.013
OBL 2.4 04/30	2.105	+0.015
DBR 2½ 02/35	2.552	+0.023
UKT 3¾ 03/27	4.066	+0.056
UKT 4¾ 03/30	4.201	+0.053
UKT 4½ 03/35	4.725	+0.061

\*Change from close as at 5.00pm BST.  
Source: Bloomberg

## Euro area

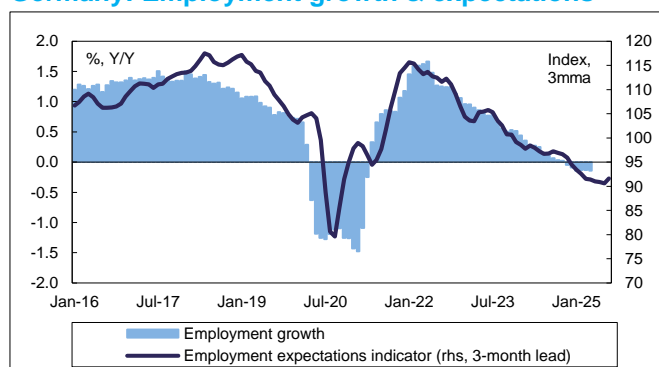
### German claimant count rises the most in six years as job vacancies continue to fall

With German economic activity likely to soften in Q2 after production and exports were frontloaded into Q1, and elevated uncertainty related to US tariffs continuing to deter near-term business investment and household purchase decisions, surveys have signalled greater willingness among firms to cut headcount. Employment intentions have been weakest in manufacturing where the number of people in work in Q1 had already fallen to the lowest level in 14 years. While strong growth in healthcare and education provided some offset last quarter, the number of people in employment fell to a two-year low of 45.8mn. More timely monthly labour market numbers suggest that German employment moved sideways on a seasonally-adjusted basis in April. But the number of people claiming unemployment benefits rose for a 29<sup>th</sup> consecutive month in May and by 34k, the most in six years when excluding the inclusion of Ukrainian immigrants for the first time in the data in mid-2022 and the start of the pandemic. Admittedly, this left the claimant count rate steady at 6.3% for a third consecutive month, albeit some 1.3ppts above the trough in spring 2022. But with job vacancies having fallen the most since December 2022 to the lowest level since the Covid-19 lockdowns in early 2021, we expect the German unemployment rate to edge higher in due course.

### Lacklustre recovery in French consumer spending in April amid subdued confidence

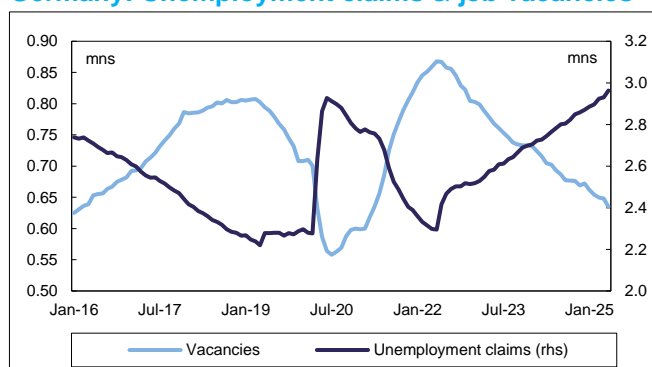
After the INSEE consumer survey reported an improvement in purchase intentions at the start of Q2, today's figures for French household consumption of goods reported the first monthly rise in four in April. But growth of 0.3%/M fell short of expectations to suggest that demand remained relatively muted at the start of Q2. The detail showed that the rebound was led by the strongest monthly rise in expenditure on food in 11 months, illustrating a potential Easter effect. Spending on clothing similarly rebounded last month, while purchases of new autos also contributed positively. Admittedly, a large share of the undershoot relative to expectations in April reflected a drop in consumption of energy (-3.6%/M) to the lowest level since December 2022 as mild temperatures saw a marked decline in demand for electricity and gas. Indeed, when excluding energy, goods consumption rose a more robust 1.1%/M in April. This notwithstanding, given the steady downtrend in the first three months of the year, expenditure on household goods (whether including or excluding energy) remained some 0.75% below the Q1 average, suggesting a persisting drag on French GDP growth at the start of Q2. And while spending on services provided some offset to the contraction in goods in Q1, according to the May INSEE survey, firms in that sector judged recent activity to have been the weakest since the start of 2021 and mid-2015 outside of the Covid-19 lockdown periods. Certainly, the deterioration in consumer confidence in May – to the joint-lowest level in 19 months – doesn't bode well for the near-term path of household consumption. In part reflecting the decline in private consumption, today's updated national accounts confirmed that GDP growth in France in Q1 (0.1%/Q) was the softest of the large member states. The

### Germany: Employment growth & expectations



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

### Germany: Unemployment claims & job vacancies



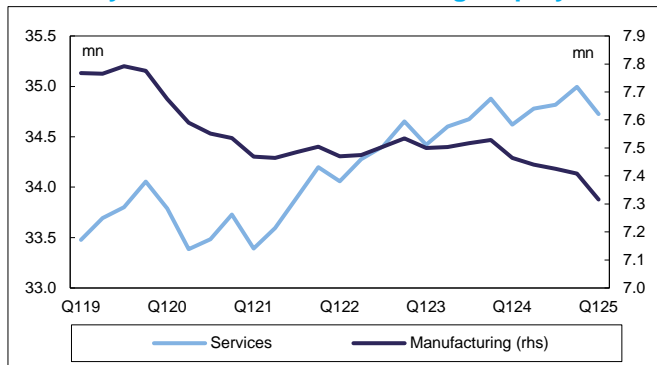
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

weakness in Q1 also related to an absence of front-loading of production by French manufacturers as exports fell the most in five years to knock 0.6ppt off GDP growth. While this might mean that net trade will offer some support to growth in Q2, we still expect French GDP to be little changed this quarter and remain lacklustre over coming quarters too. Certainly, today's ECB consumer survey signalled particularly weak expectations for French consumer spending over the coming twelve months, with the median anticipated growth rate of 1.0%Y/Y almost 1½ppts below the euro area aggregate.

### Consumer inflation expectations one year ahead rise to a 14-month high

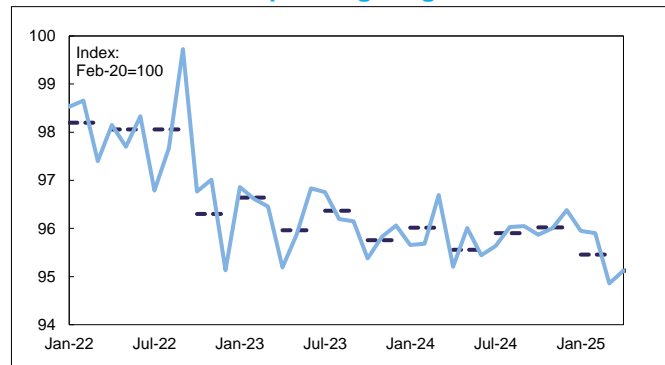
In terms of inflation, today's ECB consumer survey results surprised to the upside, with household expectations for euro area HICP inflation one year ahead ticking up for a second successive month in April, by 0.2ppt to 3.1%Y/Y, a 14-month high and 0.7ppt above September's trough. The pickup was broad-based across the member states but highest in Italy (up 1.1ppts to 4.2%Y/Y). While year-ahead expectations for German inflation (3.1%Y/Y) similarly rose to the highest since the start of 2024, they remained better behaved in France (2.1%Y/Y). While the uptick in the euro area figure might reflect the recent upwards trend in food prices, we suspect it was also partly influenced by the jump in core inflation in April as certain tourism-related components were distorted by the timing of Easter, an effect which should prove temporary. Certainly, yesterday's flash [French inflation estimates](#) saw headline inflation fall to the lowest level since end-2020, with services inflation the softest since the start of 2022. Today's PPI figures also suggested an ongoing absence in underlying goods price pressures. In particular, producer prices fell a striking 4.3%M/M in April, the most in a year and the second largest drop since the series

#### Germany: Services & manufacturing employment



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

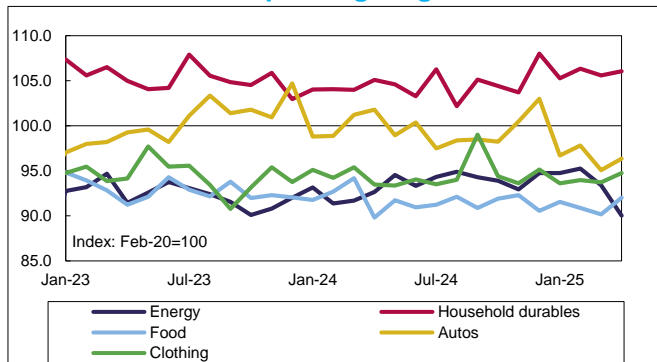
#### France: Consumer spending on goods\*



\*Dashed dark blue lines represent quarterly average.

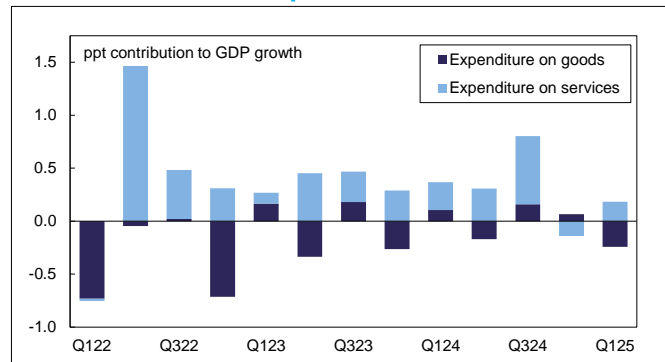
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### France: Consumer spending on goods



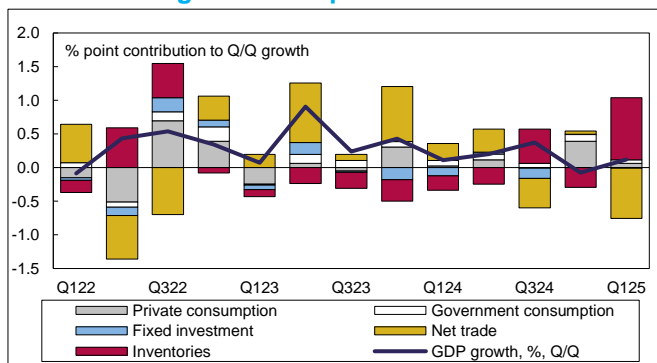
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### France: Household expenditure



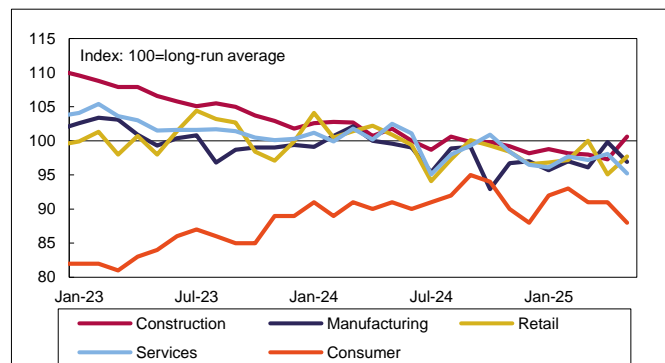
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### France: GDP growth & expenditure contributions



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### France: Business & consumer confidence



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

began in 1995. This took PPI inflation down 0.6ppt to -0.8%Y/Y. The decline largely reflected energy, with electricity prices down a striking 24.4%M/M due to lower distribution tariffs, falling wholesale prices thanks to higher wind and solar power generation and soft demand due to mild temperatures. When excluding energy, producer prices still fell 0.3%M/M, taking the core annual rate down 0.4ppt to 1.2%Y/Y.

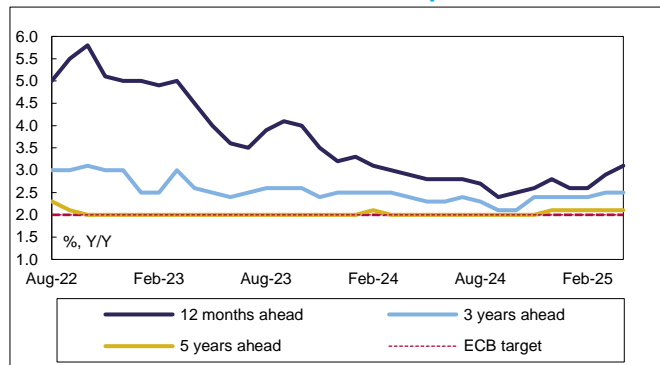
### The day ahead in the euro area

While their respective markets will remain open, Thursday's public holiday in Germany, France and Belgium will bring a pause to much of the euro area dataflow. So, ISTAT's survey of Italian consumer and business confidence in May will be tomorrow's highlight. The former measure was its most downbeat for 18-months in April (92.7pts), while business sentiment also deteriorated further to its lowest level since March 2021 (91.5pts). Although threats to Europe's trading relationship with the US have reignited over the past week, the US' more placative stance since April's shock reciprocal announcements, and evidence of progressing trade negotiations elsewhere, should see those indicators rebound somewhat. Certainly, [yesterday's Commission survey](#) showed Italian economic sentiment and consumer confidence recovering to surpass their readings prior to April's announcements, though still below their mark at the start of the year. Spanish retail sales figures in April are also due.

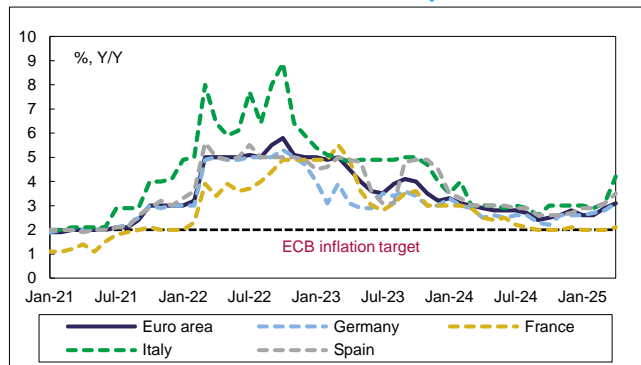
### The day ahead in the UK

With no headline data releases scheduled for Thursday, we expect another quiet day ahead for UK economic news.

#### Euro area: Consumer inflation expectations



#### Euro area: Consumer inflation expectations\*



# European calendar

## Today's results

### Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Euro area	ECB consumer expectations survey – 1Y (3Y) CPI Y/Y%	Apr	<b>3.1 (2.5)</b>	2.8 (2.5)	2.9 (2.5)	-
Germany	Unemployment claims rate % (change 000s)	May	<b>6.3 (34)</b>	6.3 (12)	6.3 (4)	- (6)
France	GDP – final estimate Q/Q% (Y/Y%)	Q1	<b>0.1 (0.6)</b>	<u>0.1 (0.8)</u>	-0.1 (0.6)	-
	Final private sector payrolls (total payrolls) Q/Q%	Q1	<b>-0.1 (-0.1)</b>	<u>0.0 (-)</u>	-0.3 (-0.3)	- (-0.4)
	Consumer spending M/M% (Y/Y%)	Apr	<b>0.3 (-0.1)</b>	-	-1.0 (-1.5)	-1.1 (-1.9)
	PPI Y/Y%	Apr	<b>-0.8</b>	-	-0.6	-0.2

### Auctions

Country	Auction
Germany	sold €1.398bn of 1% 2038 bonds at an average yield of 2.8%
	sold €490m of 4.75% 2040 bonds at an average yield of 2.85%
UK	sold £2.75bn of 0.875% 2033 green bonds at an average yield of 4.511%

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

## Tomorrow's releases

### Economic data

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Italy	09.00	ISTAT consumer confidence indicator	May	93.0	92.7
	09.00	ISTAT business (manufacturing) confidence indicator	May	- (86.2)	91.5 (85.7)
Spain	08.00	Retail sales Y/Y%	Apr	-	3.6

### Auctions and events

Euro area	-	Ascension Day: public holiday in Germany & France
Italy	10.00	Auction: to sell up to €3.25bn of 2.95% 2030 bonds
	10.00	Auction: to sell up to €3.5bn of 2034 floating bonds
	10.00	Auction: to sell up to €3.25bn of 3.6% 2035 bonds
UK	10.00	Auction: to sell £1.25bn of 0.125% 2031 inflation-linked bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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