

Euro wrap-up

Overview

- While euro area retail sales figures reported the strongest growth in 18 months, Bunds followed the global trend higher as German factory orders disappointed at the end of Q1.
- Despite an upside surprise to the UK construction PMIs, Gilts also made gains as a retail survey suggested that sales growth momentum slowed sharply in April.
- Tomorrow will bring German industrial production figures for March.

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Daily bond market movements

Bond	Yield	Change
BKO 2.9 06/26	2.892	-0.014
OBL 2.1 04/29	2.455	-0.035
DBR 2.2 02/34	2.418	-0.049
UKT 0½ 01/26	4.287	-0.054
UKT 0½ 01/29	4.013	-0.081
UKT 4½ 01/34	4.122	-0.099

*Change from close as at 5.00pm BST.

Source: Bloomberg

Euro area

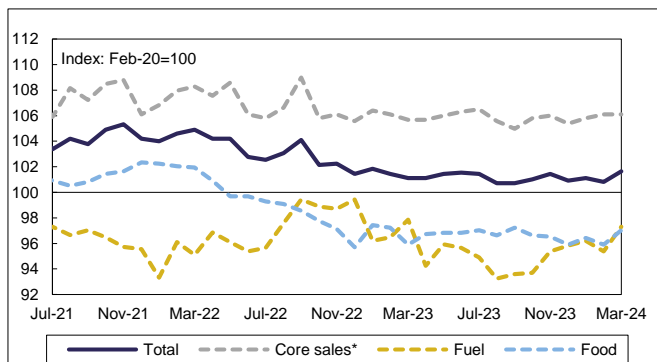
Euro area retail sales growth the strongest in 18 months in March

Tallying with the recent improvement in consumer confidence amid a recovery in household real disposable incomes, today's euro area retail sales figures reported a pickup in demand for goods at the end of the first quarter. In particular, total sales rose 0.8%M/M in March – the most in 18 months – while the decline in February was smaller than initially reported and the sideways reading in January revised to modest growth (0.2%M/M). As such, retail sales recorded the first year-on-year increase (0.7%Y/Y) since September 2022, albeit still leaving sales 3½% below the peak in November 2021 and up just 0.1%3M/3M in Q1. Among the larger member states to publish data, sales rose sharply in Germany (1.8%M/M) and France (1.1%M/M), but fell in Spain (-0.6%M/M). By category of good, with prices having fallen further, sales at food stores rose for a second month in six and by 1.2%M/M, the most since January 2023. And while petrol prices rose further, sales of auto fuel rose (2.0%M/M) the most since August 2022, with both likely boosted by the Easter holiday period. But sales of core (non-food and non-fuel) items merely moved sideways in March, to be up just 0.2%3M/3M. Admittedly, persisting weakness in underlying demand for retail sales might well coincide with renewed momentum in demand for services. Certainly, the final services PMIs, published yesterday, saw the headline activity index upwardly revised to 53.3 in April, up 1.8pts from March and the highest since May 2023, with the new business component jumping to an eleven-month high of 52.9.

German factory orders disappoint at end-Q1, illustrating uncertain production outlook

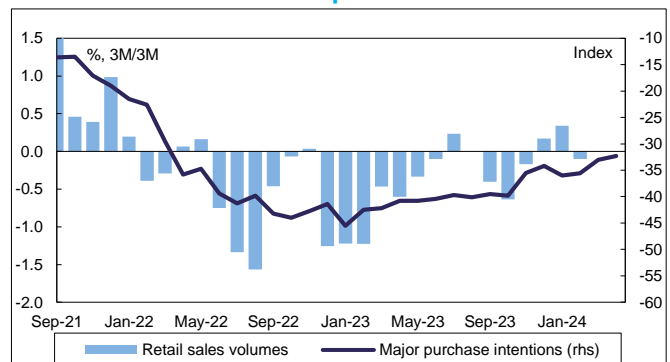
While [German GDP](#) surprised to the upside in Q1 and various surveys have signalled accelerated recovery momentum at the start of the second quarter, today's German factory orders data provided a reminder that the near-term industrial outlook remains relatively subdued. In particular, manufacturing orders fell for a third consecutive month in March, by 0.4%M/M, to leave them down 4.2%3M/3M and almost 22% below the pandemic peak in July 2021. The weakness that month was led by domestic orders (-3.6%M/M), while foreign orders (+2.0%M/M) were driven by a 10½% rise in orders placed by other euro area member states. When excluding major items, core orders rose in March for the first month in three, albeit by just 0.1%M/M. As such, core orders were down 2.3%3M/3M – the most in nine months – and more than 20% below the pre-pandemic level, illustrating the weakness in underlying demand. Developments within subsectors were mixed, with the decline partly due to payback in the shipbuilding subsector (-89.5%M/M) when orders were boosted in February by large one-off items. But orders in the fabricated metals subsector (-4.5%M/M) were down for a third successive month to the lowest since the first Covid-19 lockdown. In contrast, new orders of cars (5.1%M/M) partly reversed the double-digit decline in February, while electrical machinery orders (5.9%M/M) increased for the first month in three. Overall, however, the decline in new orders suggests that production is likely to remain subdued for the time being. Certainly, today's factory turnover numbers implied that manufacturing output ended the first quarter on the backfoot, with turnover declining 0.7%M/M

Euro area: Retail sales



*Non-food and non-fuel. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Retail sales & purchase intentions



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

following downwardly revised growth in February (from 2.2%M/M to 1.1%M/M). So, although turnover provided a poor guide to output at the start of the year, it suggests that, when the March IP figures are published tomorrow, German manufacturing production fell back in March.

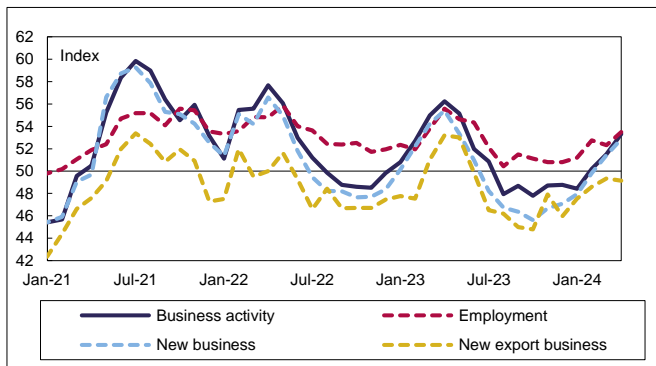
Construction PMIs point to persisting challenges at the start of Q2

While the construction sector appears to have given a non-negligible boost to Germany's economic recovery in Q1 thanks to a weather-assisted surge in February, today's construction PMIs continued to point to persisting contraction in the sector at the start of Q2 as elevated borrowing costs and declining property prices continue to dampen demand. In particular, having jumped to a five-month high in February, Germany's headline activity index fell for a second-successive month in April, to 37.5, to be 0.4pt below the Q1 average. In contrast, the French activity PMI (41.5) rose slightly in April to be some 0.7pt above the Q1 average. But while the equivalent Italian index remained notably higher (48.5) it nevertheless fell to its lowest since August and was more than 2pts below the Q1 average. So overall, the euro area construction activity PMI declined 0.5pt to 41.9, the second-lowest reading since the initial pandemic slump and the euro crisis before that. The drop last month was led by commercial activity, where the PMI fell for the first month in three, by 2.0pts to 42.7, while the civil engineering index also slipped back slightly for a second successive month (-0.1pt to 45.7). But while the housing index edged up for the first month in four, at 36.2 it signalled a persisting downtrend in house building. And, perhaps unsurprisingly given the more acute adjustment in house prices over the past year, the implied contraction in the housebuilding PMIs was steepest in Germany (29.2) and France (34.1), while the respective Italian index (48.9) fell to the second-lowest in eight months. Nevertheless, amid the prospects of the first interest rate cut next month, firms in the sector were the least downbeat about the outlook for the coming twelve months for more than two years.

The day ahead in the euro area

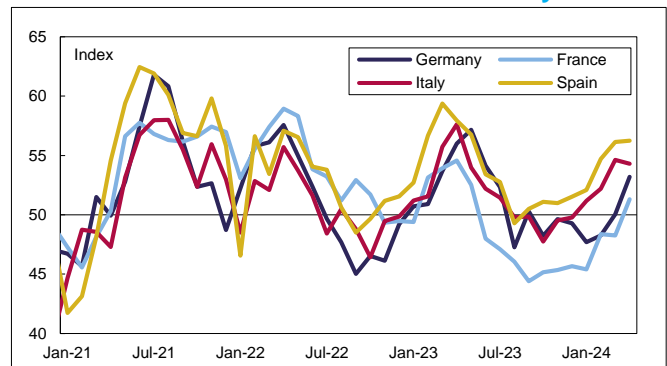
The main focus tomorrow will be the release of the aforementioned German industrial production figures for March. Expectations are for a drop of a little more than ½%M/M due not least to some payback in construction activity following the surge in February (+7.9%M/M). But today's turnover figures also suggest a moderation in manufacturing output. Nevertheless, given the strength in the first two months of the year, this would still leave industrial production up around 1.0%3M/3M in Q1. Spanish industrial production and Italian retail sales figures, both for March, are also due.

Euro area: Services PMIs



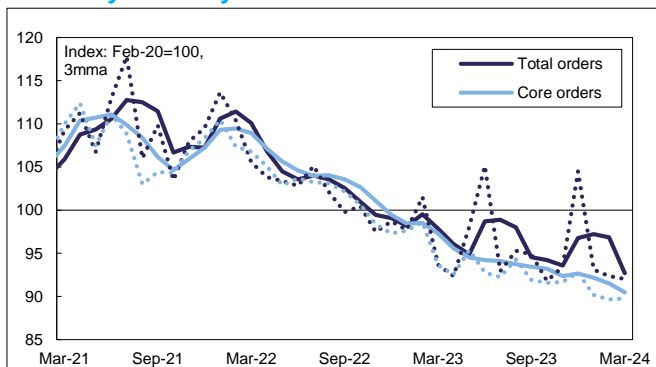
Source: Macrobond, S&P Global and Daiwa Capital Markets Europe Ltd.

Euro area member states: Services activity PMIs



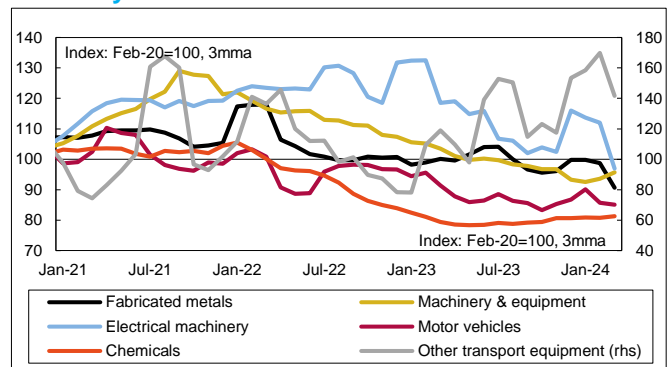
Source: Macrobond, S&P Global and Daiwa Capital Markets Europe Ltd.

Germany: Factory orders*



*Core orders exclude major items. Dotted lines represent unsmoothed data. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Orders in selected subsectors



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK

Slump in BRC retail sales growth reflects timing of Easter, but underlying trend remains subdued

While retail sales made a sizeable contribution to UK economic output in the first quarter of the year, this principally reflected a rebound in January followed by broadly sideways growth in February and March. Moreover, the latest surveys – at face value at least – point to renewed weakness at the start of Q2. Certainly, today’s BRC retail monitor suggested that the value of total sales fell a striking 4.0%Y/Y in April, with like-for-like sales down 4.4%Y/Y, with the latter the steepest decline since the series low in November 2019. But the drop in April evidently reflects base effects with the earlier timing of Easter this year. Indeed, when combined with the bounce in March, the BRC suggested that sales growth was broadly stable at 0.2%Y/Y. Nevertheless, on a three-month basis, like-for-like sales growth slowed 1.8ppts to just 0.2%3M/Y, the softest rate since August 2022, with food sales growth slowing 2.6ppts to a 20-month low of 3.8%3M/Y, while the decline in non-food sales (-3.8%3M/Y) was the largest since June 2022. And when adjusting for the BRC’s measure of shop price inflation, like-for-like sales were still down 1.3%3M/Y. Of course, like in the euro area, some of the weakness in spending on goods will reflect a pickup in demand for services, for which the respective activity and new business PMI components jumped to eleven-month highs of 55.0 and 54.4 in April. This notwithstanding, reflecting firmer real income growth, we still expect retail sales to trend gradually higher over coming months.

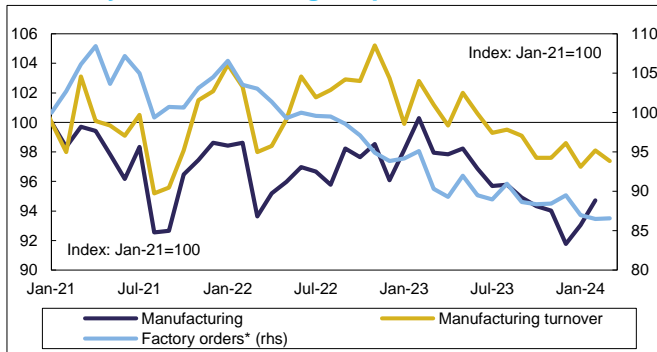
Construction PMI jumps to 14-month high despite deterioration in housebuilding

Like the services PMIs, today’s equivalent construction sector survey was also notably more upbeat about economic conditions at the start of Q2. In particular, the headline activity index jumped 2.8ppts – the most for 14 months – to 53.0, similarly the highest since February 2023. Today’s survey suggested that commercial activity (53.9) outperformed, rising for the first time since last August, in part driven by refurbishment projects. Civil engineering (53.6) output was also the strongest since last July. In contrast, house building continued to weigh on activity, with the respective PMI slipping to a three-month low (47.6), albeit remaining well above the average in Q4 (44.7). While last week’s Nationwide house price survey suggested that the housing market recovery had recently stalled, the pickup in mortgage approvals at the end of Q1 suggests renewed demand ahead. And today’s PMIs suggest that overall construction new orders rose for the third consecutive month in April as consumer expectations improved amid hopes of interest rate cuts in the latter half of 2024.

The day ahead in the UK

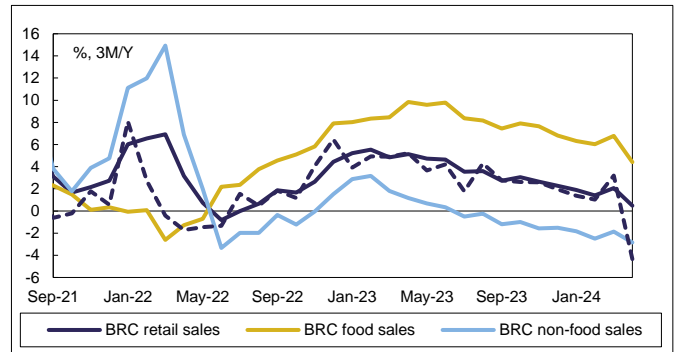
As the BoE’s MPC meets tomorrow ahead of the policy announcement on Thursday, it should be a relatively quiet day for economic news from the UK.

Germany: Manufacturing output, orders & turnover



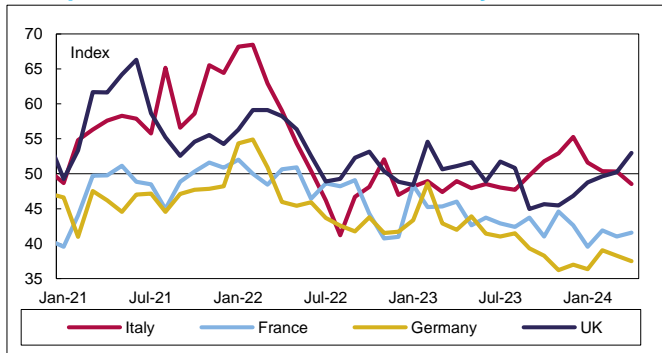
*Core orders excluding major items. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: BRC retail monitor – like-for-like sales*



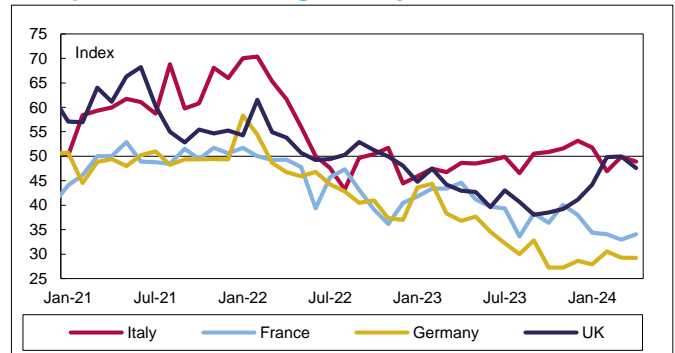
*Dashed dark blue line represent unsmoothed data. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Europe: Headline construction activity PMIs



Source: Macrobond, S&P Global and Daiwa Capital Markets Europe Ltd.













Europe: House building activity PMIs



Source: Macrobond, S&P Global and Daiwa Capital Markets Europe Ltd.









European calendar

Today's results

Economic data						
Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Euro area	 Construction PMI	Apr	41.9	-	42.4	-
	 Retail sales M/M% (Y/Y%)	Mar	0.8 (0.7)	0.7 (-0.2)	-0.5 (-0.7)	-0.3 (-0.5)
Germany	 Factory orders M/M% (Y/Y%)	Mar	-0.4 (-1.9)	0.4 (-0.7)	0.2 (-10.6)	-0.8 (-8.8)
	 Trade balance €bn	Mar	22.3	22.4	21.4	-
France	 Construction PMI	Apr	37.5	-	38.3	-
	 Trade balance €bn	Mar	-5.5	-	-5.2	-5.6
	 Wages (payrolls) Q/Q%	Q1	1.3 (0.2)	-	0.4 (-0.1)	-
Italy	 Construction PMI	Apr	41.6	-	41.0	-
	 Construction PMI	Apr	48.5	-	50.3	-
UK	 BRC retail monitor – like-for-like sales Y/Y%	Apr	-4.4	-	3.2	-
	 New car registrations Y/Y%	Apr	1.0	-	10.4	-
	 Construction PMI	Apr	53.0	50.5	50.2	-
Auctions						
Country	Auction					
- Nothing to report -						





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
Euro area	 Final services (composite) PMI	Apr	53.3 (51.7)	52.9 (51.4)	51.5 (50.3)	-
	 PPI Y/Y%	Mar	-7.8	-7.7	-8.3	-8.5
	 Sentix investor confidence index	May	-3.6	-5.2	-5.9	-
Germany	 Final services (composite) PMI	Apr	53.2 (50.6)	53.3 (47.7)	50.1 (50.5)	-
France	 Final services (composite) PMI	Apr	51.3 (50.5)	50.5 (49.9)	48.3 (48.3)	-
Italy	 Services (composite) PMI	Apr	54.3 (52.6)	54.6 (53.3)	54.6 (53.5)	-
Spain	 Unemployment change 000s	Apr	-60.5	-	-33.4	-
	 Services (composite) PMI	Apr	56.2 (55.7)	56.0 (55.1)	56.1 (55.3)	-
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	
Germany		07.00 Industrial production M/M% (Y/Y%)	Mar	-0.6 (-3.3)	2.1 (-4.9)	
Italy		09.00 Retail sales M/M% (Y/Y%)	Mar	-	0.1 (2.4)	
Spain		08.00 Industrial production M/M% (Y/Y%)	Mar	-	0.7 (1.5)	
Auctions and events						
UK		10.00 Auction: £2.5bn of 1.5% 2053 green bonds				

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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