

# Euro wrap-up

## Overview

- Bunds made sizeable losses as euro area GDP was revised higher in Q1, and was accompanied by solid employment growth.
- Gilts also made large losses as the UK labour market tightened further and labour earnings accelerated despite weakening economic growth.
- Tomorrow brings euro area and UK inflation reports for April. While euro area HICP inflation may well be revised lower from the flash estimate, UK inflation looks set to rise above 9%Y/Y.

**Chris Scicluna**  
+44 20 7597 8326

**Emily Nicol**  
+44 20 7597 8331

### Daily bond market movements

Bond	Yield	Change
BKO 0.2 06/24	0.359	-
OBL 0 04/27	0.730	+0.131
DBR 0 02/32	1.046	+0.114
UKT 1 04/24	1.445	+0.211
UKT 1½ 07/27	1.563	+0.201
UKT 4¼ 06/32	1.881	+0.150

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

## Euro area

### Euro area GDP growth revised a touch higher to 0.3%Q/Q in Q1, solid employment growth too

Today's updated euro area GDP figures brought an upwards surprise, with Q1 growth revised marginally higher, by 0.1ppt from the preliminary release, to 0.3%Q/Q, unchanged from the pace in Q4 and a touch firmer than the ECB's forecast. That left GDP up 5.1%Y/Y and around ½ppt above the pre-pandemic level in Q419. The expansion was accompanied by a further quarter of solid job growth in Q122, with employment up 0.5%Q/Q (752k) and 2.7%Y/Y (4.29mn). Like GDP, the level of employment rose further above the pre-pandemic level, by 0.8% or 1.31mn workers, even as the share of workers covered by national job retention schemes fell (according to the ECB, from 1.6% of the workforce in December 2021 to 1.3% in February). With the recovery in employment also seemingly occurring without a decline in labour force participation, longer-term scarring of the euro area labour market from the pandemic might be more limited than in the UK (see below). For example, today's French figures published by INSEE suggest that the employment rate rose in Q1 by 0.2ppt to 68%, some 1.3ppts higher than a year ago and the highest since the series began in 1975, with the share of underemployment at its lowest since 1992 and the participation rate returning to the peak of 73.4%, also reached back in Q321.

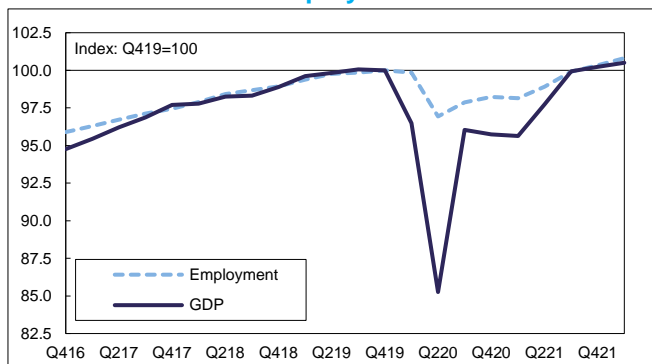
### Euro area trade deficit blows out to a new record on higher import prices and Russian sanctions

No additional detail was provided today on the composition of demand in the first quarter – the official expenditure breakdown is due 8 June. However, yesterday's euro area goods trade data offered some further guidance on net trade in Q1. Despite the war in Ukraine and a plunge of almost 55%M/M and 50%Y/Y in exports to Russia, these suggested that the overall value of exports rose in March for the third consecutive month (0.9%M/M), to leave them some 5½%Q/Q higher in Q1. Among the major export partners, export growth was strong in March to the US (7.2%M/M), Switzerland (7.5%M/M) and the UK (3.3%M/M). But not least due to higher prices of energy and commodities, the value of imports rose a larger 3.5%M/M in March, to be up a sizeable 8.5%Q/Q in Q1. So, the trade deficit blew out by a substantial €6.2bn in March to a new record high of €17.6bn. Of course, this was in large part due to higher prices. On an unadjusted basis, goods imports rose 35.4%Y/Y in March, far outpacing growth in exports (14.0%Y/Y), as producer import prices rose 29.2%Y/Y that month. While insufficient data has been published so far to be sure, net trade likely had a minimal impact on GDP growth in Q1.

### Italian headline inflation revised lower in April, but core inflation continues to edge higher

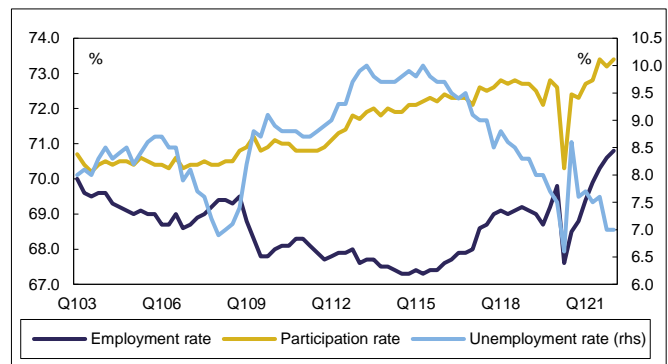
While last week's German, [French and Spanish](#) HICP inflation rates for April were confirmed at the flash estimates, today's equivalent Italian figures brought a notable downwards revision. Indeed, headline HICP inflation is now estimated to have eased by 0.5ppt to 6.3%Y/Y, compared with the drop of 0.2ppt to 6.6%Y/Y initially calculated. The cause of the decline was a

#### Euro area: GDP and employment levels



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

#### France: Labour market indicators



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

steeper drop in energy prices (-5.9%M/M) as electricity prices fell more than 4%M/M and petrol and heating oil prices were down almost 8%M/M. Admittedly, with energy prices still up a hefty 40%Y/Y (albeit down from 51.5%Y/Y previously), this component still accounted for more than 60% of headline inflation. But the Italian government's decision to extend its fuel duty cut through to 8 July, and its discount on gas and electricity bills for a further three months through Q322, should help to see energy inflation ease further over coming months. Nevertheless, like in Germany, France and Spain, food price inflation jumped in April (up 0.5ppt to 5.5%Y/Y), while there was further evidence of broadening price pressures. Indeed, non-energy industrial goods inflation increased 0.3ppt to 2.1%Y/Y, with services inflation up 0.4ppt to 2.4%Y/Y. And so, core inflation continued to edge higher, by 0.4ppt to 2.2%Y/Y, admittedly still well below rates in the other larger member states.

## The day ahead in the euro area

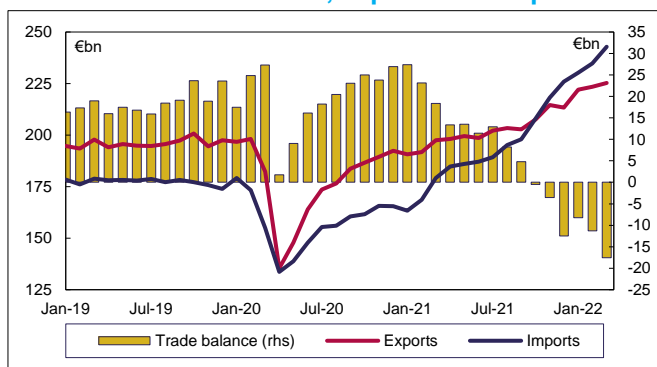
Tomorrow brings the aggregate euro area final inflation release for April. Headline HICP inflation is expected to confirm the flash estimate of 7.5%Y/Y, up 0.1ppt from March, although today's downwards revision to the Italian rate raises downside risks to the euro area figure. Nevertheless, tomorrow's data are still expected to confirm a broadening of price pressures, with core inflation set to be confirmed at 3.5%Y/Y, up 0.6ppt on the month and a new record high. This release will also provide the more granular detail, allowing for calculation of other estimates of underlying price pressures including trimmed means. Tomorrow will also bring euro area new car registrations numbers for April, which are likely to show that supply-side disruption combined with a weakening in consumer confidence weighed on auto sales last month.

## UK

### Labour market tightens further despite weakening growth

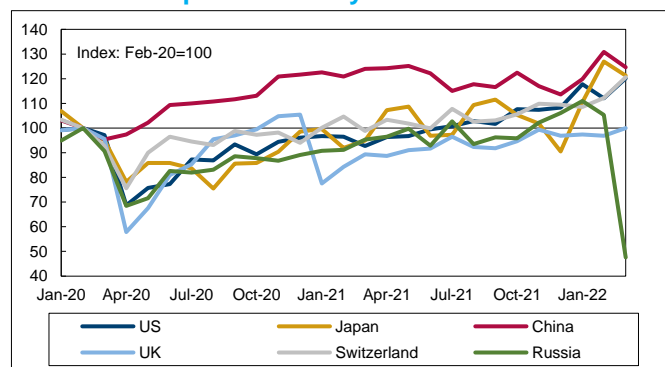
While UK GDP slowed as Q1 went on, there has been no let-up in the tightness of the labour market, which now appears to be generating second-round effects on inflation. Employment rose a further 83k on the quarter, pushing the respective rate up 0.1ppt to 75.7%. That's still more than 500k and 0.9ppt below the pre-pandemic levels. And while weekly hours worked also rose in Q1, they remained below pre-pandemic levels. However, the number of unemployed dropped 118k over the quarter, pushing the unemployment rate in the three months to March to 3.7%, down 0.1ppt on the month and 0.3ppt on the quarter, and the lowest on the series since 1974. Moreover, on a single-month basis, the unemployment rate fell 0.3ppt on the month in March to 3.6%. In part, that reflects another rise in economic inactivity, of 65k and 0.1ppt in Q1 to 21.4%, to be some 460k above the pre-pandemic level, with more than half of this increase accounted for by long-term sickness, making it clear that Covid continues to represent a highly adverse supply shock for the UK labour market. Importantly too, labour

### Euro area: Trade balance, exports and imports\*



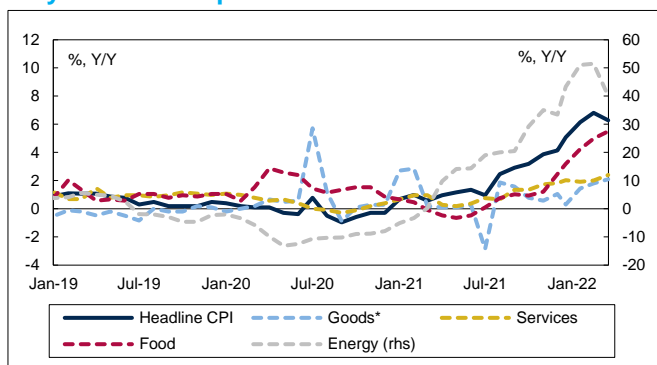
\*Values. Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

### Euro area: Export values by destination



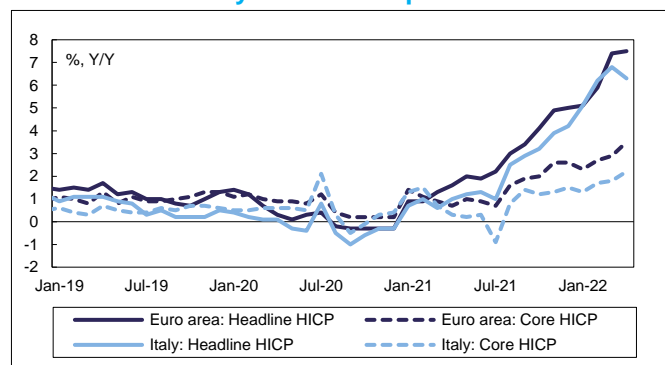
Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

### Italy: Consumer price inflation



\*Non-energy industrial goods. Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

### Euro area and Italy: Consumer price inflation



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

demand remains firm. The number of vacancies rose in the three months to April to a new record high of 1.295mn, above the number of unemployed workers (1.275mn in March) for the first time and thus pointing to a labour market of record tightness as measured by the Beveridge curve. And redundancies fell back to a historically low rate, below pre-pandemic level.

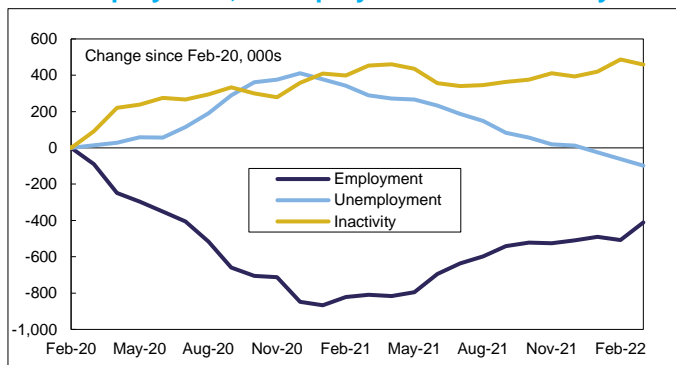
## Strong wage growth flags risks of 2<sup>nd</sup>-round effects, so MPC likely to raise rates again in June

Reflecting the tight jobs market, average weekly labour earnings growth in nominal terms surged in the three months to March, up 1.4ppts to 7.0%3M/Y, to be up 1.4%3M/Y in real terms. Average private sector pay was up 8.2%3M/Y, led by finance and business services (10.7%3M/Y). While that acceleration principally reflects very strong growth in special bonus payments (up 29.0%3M/Y), regular wage growth ticked up 0.1ppt in March to 4.2%3M/Y, representing a drop of 1.2%3M/Y in real terms. Nevertheless, as for the jobless data, on a single-month basis earnings growth was even stronger in March, particularly in the private sector where total pay was up a whopping 11.7%Y/Y and regular pay rose 4.8%Y/Y. And over Q1 as a whole, annualised private sector regular pay accelerated 1.2ppts to 6.0%, up from an average 2.3% in the decade ahead of the pandemic. The BoE recently upped its forecast of average weekly earnings growth this year by 2ppts to 5¾%Y/Y. And while HMRC payroll figures suggest a drop in median monthly pay in April, today's data will likely reinforce the MPC's judgement that underlying wage growth (which due to compositional effects is likely stronger than the headline rate) is now above levels consistent with the achievement of the inflation target over the medium term. Indeed, the BoE will believe that the labour market is magnifying the impact of the external price shocks on inflation. So, while April's CPI data are yet to come tomorrow, and the latest retail sales data on Friday are bound to be weak, today's figures are likely to persuade the majority on the MPC to vote for another 25bps rate hike next month.

## The day ahead in the UK

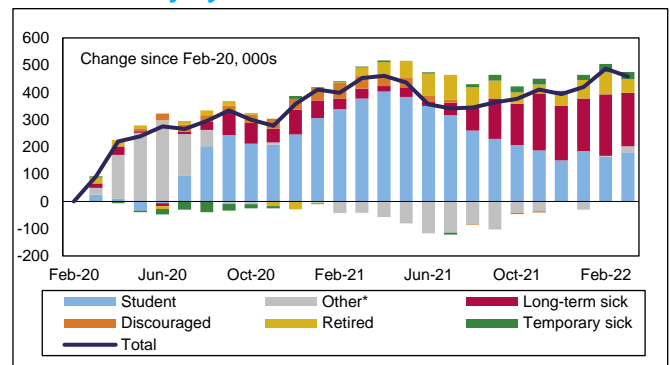
All eyes in the UK tomorrow will be on April's inflation report. Given the 54% hike in household energy bills last month, the headline CPI rate is expected to jump more than 2ppts to above 9%Y/Y for the first time since the series began in 1988. Of course, this will be driven by energy inflation, which we expect to have leapt 30ppts to above 55%Y/Y to account for roughly 40% of total inflation. Food inflation is likely to have risen to the highest in more than a decade. But with services and non-energy industrial goods inflation also set to rise further, not least due to persisting supply bottlenecks, we expect core inflation to rise an above-consensus 0.7ppt to 6.4%Y/Y. Tomorrow will also bring the latest ONS house price index for March, which is likely to show that growth slowed that month by 1ppt to a still hefty 9.9%Y/Y.

### UK: Employment, unemployment and inactivity



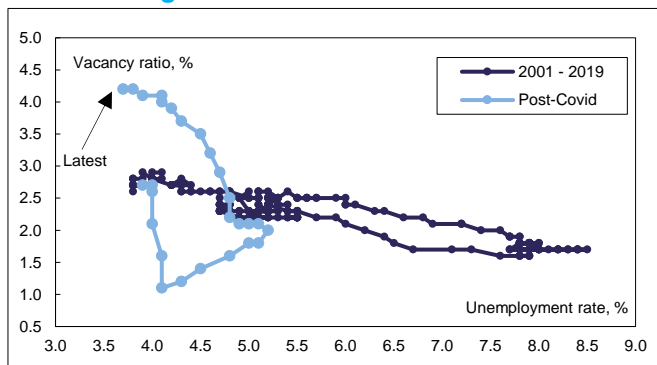
Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

### UK: Inactivity by reason



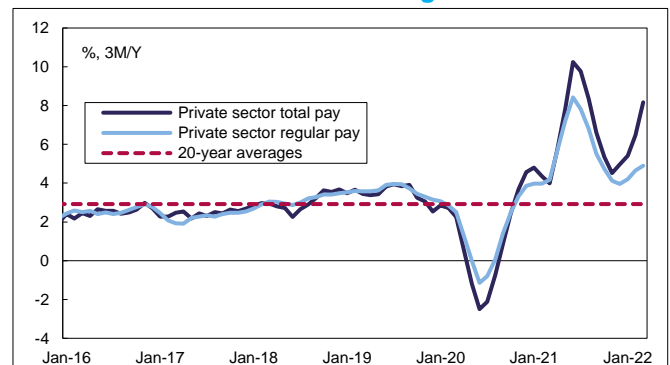
Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

### UK: Beveridge curve



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

### UK: Private sector labour earnings














Source: Refinitiv 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	 GDP – 2 <sup>nd</sup> estimate Q/Q% (Y/Y%)	Q1	<b>0.3 (5.1)</b>	0.2 (5.0)	0.3 (4.7)	-
	 Employment Q/Q% (Y/Y%)	Q1	<b>0.5 (2.6)</b>	-	0.5 (2.2)	<b>0.4 (2.1)</b>
France	 Unemployment rate %	Q1	<b>7.1</b>	7.2	7.2	-
UK	 ILO unemployment rate %	Mar	<b>3.7</b>	-	3.8	-
	 Average earnings including (excluding) bonuses 3M/Y%	Mar	<b>7.0 (4.2)</b>	5.4 (4.1)	5.4 (4.0)	<b>5.6 (4.1)</b>
	 Employment change '000s 3M/3M	Mar	<b>83</b>	-	10	-
	 Payrolled employees '000s	Apr	<b>121</b>	-	35	<b>59</b>
	 Unemployment claimant count rate % (change '000s)	Apr	<b>4.1 (-56.9)</b>	- (-)	4.3 (-46.9)	<b>4.2 (-81.6)</b>
Italy	 Trade balance €bn	Mar	<b>-0.08</b>	-	-1.6	-
	 Final CPI M/M% (Y/Y%)	Apr	<b>-0.1 (6.0)</b>	0.2 (6.2)	1.0 (6.5)	-
	 Final EU-harmonised CPI M/M% (Y/Y%)	Apr	<b>0.4 (6.3)</b>	0.6 (6.6)	2.4 (6.8)	-


#### Auctions

Germany	 sold €4.12bn of 2024 0% bonds at an average yield of 0.29%
UK	 sold £1.75bn of 1.25% 2051 bonds at an average yield of 2.04%

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	 Trade balance €bn	Mar	<b>-17.6</b>	-16.5	-9.4	<b>-11.3</b>









#### 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		07.00 EU27 new car registrations Y/Y%	Apr	-	-20.5
		10.00 Final CPI M/M% (Y/Y%)	Apr	<u>0.6 (7.5)</u>	2.4 (7.4)
		10.00 Final core CPI M/M% (Y/Y%)	Apr	<u>1.1 (3.5)</u>	1.2 (2.9)
UK		07.00 CPI M/M% (Y/Y%)	Apr	<u>3.1 (9.6)</u>	1.1 (7.0)
		07.00 Core CPI M/M% (Y/Y%)	Apr	<u>0.9 (6.4)</u>	0.9 (5.7)
		07.00 PPI output prices M/M% (Y/Y%)	Apr	1.5 (13.0)	2.0 (11.9)
		07.00 PPI input prices M/M% (Y/Y%)	Apr	1.6 (19.7)	5.2 (19.2)
		09.30 House price index Y/Y%	Mar	9.9	10.9

#### Auctions and events

Euro area		-	ECB President Lagarde attends 3-day meeting of G7 finance ministers and central bank governors
Germany		10.30	Auction: €1.5bn of 0% 2052 bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Access our research blog at:

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

This research report is produced by Daiwa Securities Co. Ltd., and/or its affiliates and is distributed by Daiwa Capital Markets Europe Limited. Daiwa Capital Markets Europe Limited is authorised and regulated by The Financial Conduct Authority and is a member of the London Stock Exchange and Eurex Exchange. Daiwa Capital Markets Europe Limited and its affiliates may, from time to time, to the extent permitted by law, participate or invest in other financing transactions with the issuers of the securities referred to herein (the "Securities"), perform services for or solicit business from such issuers, and/or have a position or effect transactions in the Securities or options thereof and/or may have acted as an underwriter during the past twelve months for the issuer of such securities. In addition, employees of Daiwa Capital Markets Europe Limited and its affiliates may have positions and effect transactions in such securities or options and may serve as Directors of such issuers. Daiwa Capital Markets Europe Limited may, to the extent permitted by applicable UK law and other applicable law or regulation, effect transactions in the Securities before this material is published to recipients.

This publication is intended for investors who are MiFID 2 Professional (or equivalent) Clients and should not therefore be distributed to such Retail Clients. Should you enter into investment business with Daiwa Capital Markets Europe's affiliates outside the United Kingdom, we are obliged to advise that the protection afforded by the United Kingdom regulatory system may not apply; in particular, the benefits of the Financial Services Compensation Scheme may not be available.

Daiwa Capital Markets Europe Limited has in place organisational arrangements for the prevention and avoidance of conflicts of interest. Our conflict management policy is available at <http://www.uk.daiwacm.com/about-us/corporate-governance-regulatory>. Regulatory disclosures of investment banking relationships are available at <https://daiwa3.bluematrix.com/sellside/Disclosures.action>.

#### **Explanatory Document of Unregistered Credit Ratings**

This report may use credit ratings assigned by rating agencies that are not registered with Japan's Financial Services Agency pursuant to Article 66, Paragraph 27 of the Financial Instruments and Exchange Act. Please review the relevant disclaimer regarding credit ratings issued by such agencies at: <https://lzone.daiwa.co.jp/l-zone/disclaimer/creditratings.pdf>

#### **IMPORTANT**

This report is provided as a reference for making investment decisions and is not intended to be a solicitation for investment. Investment decisions should be made at your own discretion and risk. Content herein is based on information available at the time the report was prepared and may be amended or otherwise changed in the future without notice. We make no representations as to the accuracy or completeness. Opinions [and/or estimates] reflect a judgment as at the date of publication and are subject to change without notice. Daiwa Capital Markets Europe Limited retains all rights related to the content of this report, which may not be redistributed or otherwise transmitted without prior consent.