

Euro wrap-up

Overview

- Gilts made losses as UK GDP edged slightly higher in Q1 despite falling back in March as services activity was hit by subdued spending and public sector strikes.
- Bunds also made losses on a quiet day for euro area economic news.
- The coming week will bring updated euro area Q1 GDP figures and April HICP figures, as well as the latest UK labour market data.

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Daily bond market movements

Bond	Yield	Change
BKO 2.8 06/25	2.555	+0.040
OBL 2.2 04/28	2.204	+0.040
DBR 2.3 02/33	2.264	+0.042
UKT 0% 06/25	3.787	+0.053
UKT 1% 10/28	3.587	+0.051
UKT 3% 01/33	3.764	+0.054

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

Source: Bloomberg

UK

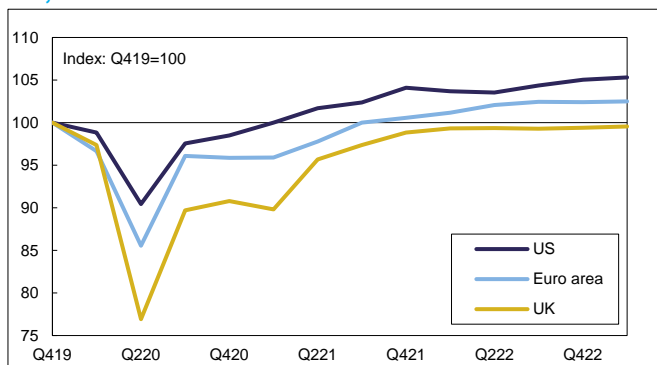
UK GDP edges up in Q1, albeit remaining below the pre-pandemic level

The first estimate of UK GDP broadly aligned with expectations, with growth of 0.1%Q/Q unchanged from the lacklustre pace of expansion in Q4. While this was marginally firmer than the zero growth assumed in the [BoE's](#) updated forecasts, it left output up just 0.2%Y/Y and still ½% below the pre-pandemic level in Q419. So, the UK's recovery from the pandemic continues to lag well behind those in the US and euro area, where the respective levels of GDP are some 5.3% and 2.5% above the same benchmark. Despite the ongoing strength in jobs growth since the start of the year, higher prices have continued to erode purchasing power. Indeed, household consumption moved merely sideways in the first quarter, to leave it still more than 2% below the Q419 level, with spending on hospitality, transport and alcohol a drag in Q1. In part due to strike action in education and healthcare, Government consumption also declined (-2.5%Q/Q) by the most since the onset of the pandemic, albeit leaving it still more than 2½% higher than the pre-pandemic level. But this was in part offset by a third consecutive increase in fixed investment, which contributed 0.2ppt to GDP growth. And within this category, business investment rose (0.7%Q/Q) for the fourth quarter out of the past five, although this still left it more than 1% below the level at the time of the Brexit referendum in Q216. But with net trade having subtracted from growth for a second successive quarter (-0.2ppt), it was only thanks to a sizeable contribution from inventories (0.6ppts) that GDP didn't contract in Q1.

GDP drops in March as services activity hit by subdued spending and public sector strikes

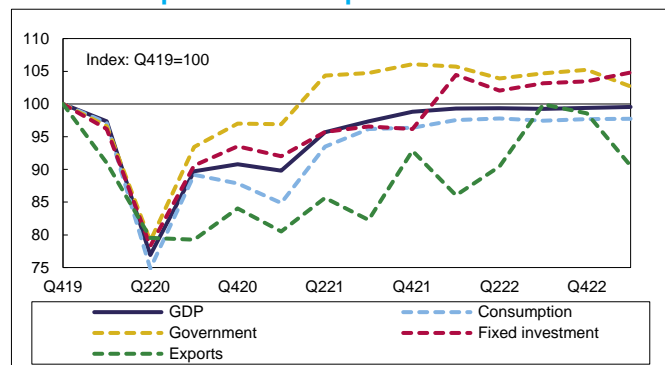
The subdued performance in the first quarter of the year principally reflected a decline in output in March, when GDP contracted 0.3%M/M following no growth in February. So, the positive growth in Q1 was thanks to the solid expansion in January, which was revised up to 0.5%M/M. The contraction in March reflected a drop in services (-0.5%M/M) as subdued consumer spending and the latest public-sector strikes hit activity. Indeed, output in consumer-facing services fell a steep 0.8%M/M to leave it still more than 9½% below the February-2020 level. In contrast, with supply bottlenecks continuing to ease, industrial production grew 0.7%M/M, the strongest monthly growth since May 2021, with manufacturing also rising 0.7%M/M, to leave it more than 1% above the pre-pandemic level. And this left production marginally higher in Q1 for the first quarter in seven. Construction activity also posted modest growth in March (0.2%M/M) following the strongest rise for almost two years in February, to leave it up 0.7%Q/Q and more than 7% above the pre-pandemic level. This reflected a rise in repair and maintenance work. In contrast, new building work fell for the first quarter in six, while new housing (-4.5%Q/Q) fell at the steepest pace since the first wave of Covid-19 in Q220.

US, euro area & UK: GDP level



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

UK: GDP expenditure components



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

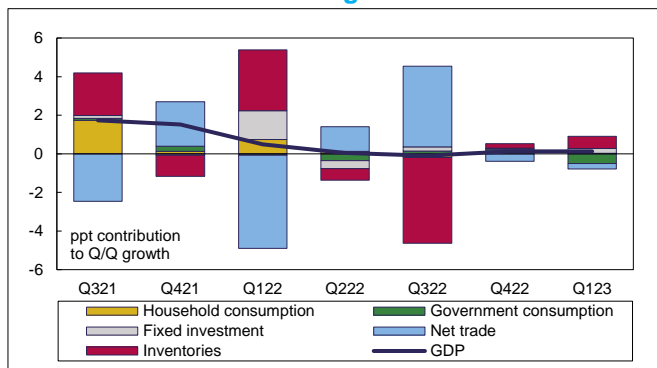
Exports and imports fall sharply in Q1

The monthly trade data disappointed in March too, illustrating the ongoing downwards trend in the UK's exports. In particular, the value of exports fell for the sixth consecutive month, to be almost 12½% below the September peak. Admittedly, when excluding the notoriously volatile precious metals subsector, the cumulative drop was somewhat less severe (-6%), with services exports helping to offset a more notable decline in goods. More happily, given the significant decline in wholesale gas prices, last year's extreme terms of trade shock continued to reverse. Indeed, the value of imported goods was down for the third successive month in March, to be some 15½% below last year's peak. And excluding previous metals, the total goods and services deficit narrowed by more than £10bn in Q1 to £15.1bn. Notably, the drop in the value of fuel imports from outside the EU since August reached more than 50%, even as the volume of fuel imports from outside the EU fell little more than 10% over the same period. Nevertheless, when also excluding price effects, overall import volumes fell for a third successive month to be down 7.2%Q/Q. Moreover, despite a pickup in services exports amid a recovery in tourism, export volumes fell for a sixth successive month in March and by a whopping 8.1%Q/Q in Q1.

UK growth outlook set to remain relatively anemic over coming quarters

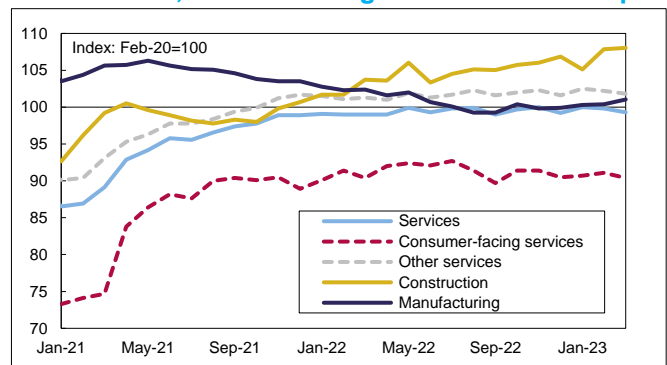
The improvement in the terms of trade, together with a firmer-than-expected global economic backdrop, more supportive fiscal policy, and stronger-than-expected labour demand and supply, saw the BoE yesterday revise up its UK GDP growth projection by a record cumulative amount of more than 2ppts by the end of the horizon. But this merely brought it broadly in line with our own expectation for near-term growth, which remains anemic by historical standards. Admittedly, the April PMIs suggest that there was a solid bounce back in services at the start of the second quarter, which should have supported a return to overall GDP growth that month – probably fully reversing the fall in March. But while the drop in real household disposable income has probably now come to an end, the lagged effects of the BoE's monetary tightening since late 2021 will weigh increasingly on consumption over coming quarters, not least as a large share of borrowers will have to re-fix their mortgages at higher rates. Indeed, BoE staff judge that the negative impact of higher mortgage payments on consumption will rise from almost 0.3% in Q123 to about 0.5% by Q424 and further still in 2025. The adjustments in the housing and commercial real estate markets are likely to be a drag on new construction projects over the near term too, with today's data reporting a substantial drop in new construction orders, by 12.4%Q/Q, to the lowest level since Q420. And while business fixed investment should benefit from the government's temporary capital allowances, capex will continue to fall short of the pre-pandemic trend. Overall, like the BoE, we expect GDP to have moved little better than sideways in H123, with growth then set to average 0.2%Q/Q a piece in Q3 and Q4 and the quarterly level of GDP finally to surpass the pre-pandemic level at the start of 2024.

UK: Contributions to GDP growth



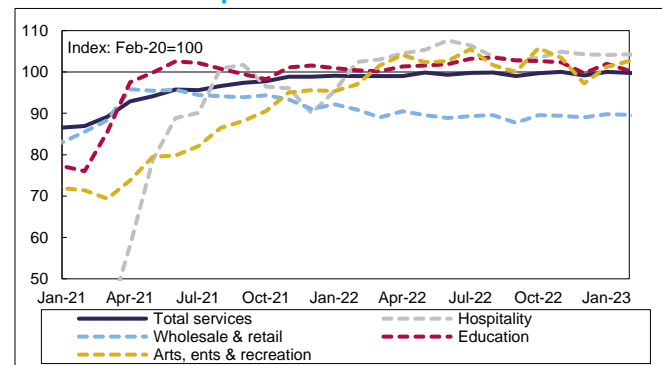
Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

UK: Services, manufacturing & construction output



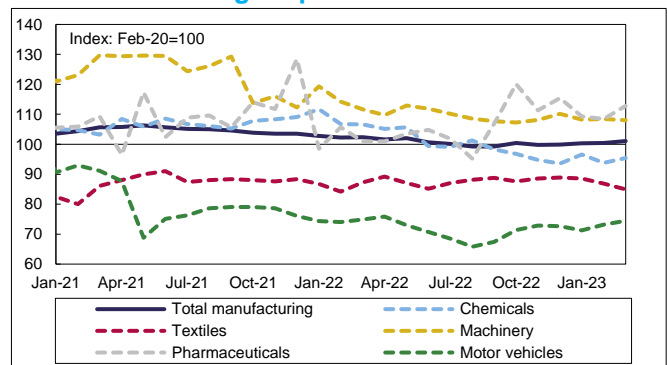
Source: ONS, Refinitiv and Daiwa Capital Markets Europe Ltd.

UK: Services output – selected subsectors



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

UK: Manufacturing output – selected subsectors



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

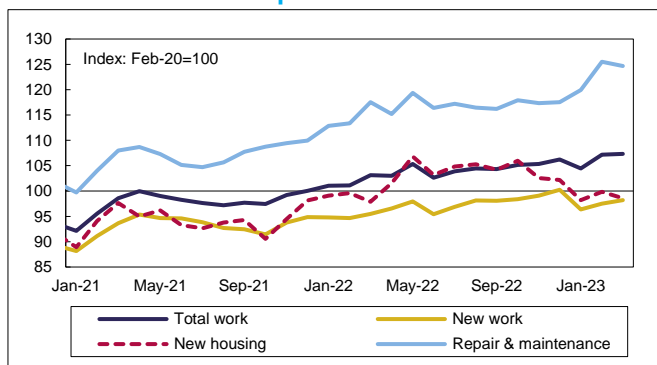
The week ahead in the UK

Given the BoE's concerns about the persistence of high inflation and of second-round effects on wages, the coming week's labour market report, to be published on Tuesday, will be of most interest. Indeed, the tightness reported last month was likely a key factor in persuading some MPC members to vote for a further rate hike yesterday. Surveys, including the past week's REC jobs report, suggest that permanent placements have started to fall back over recent months. As such, we might well see a further fall in full-time employment in the three months to March. But a recent pickup in part-time positions should support another solid increase in employment. And so, the unemployment rate is forecast to have moved sideways at 3.8%. And while the number of vacancies probably fell again, the data will remain consistent with a still very tight (and hence surprisingly resilient) labour market. Against this backdrop, average weekly earnings growth is likely to remain close to the 5.9%3M/Y increase recorded in February, well above rates consistent with the BoE's 2% target. Meanwhile, the end of the week will bring the latest GfK consumer confidence survey for May, which might well see a further modest improvement in headline sentiment, albeit remaining low by historical standards. Separately, BoE Governor Bailey will give a keynote speech at the British Chambers of Commerce annual conference on Wednesday.

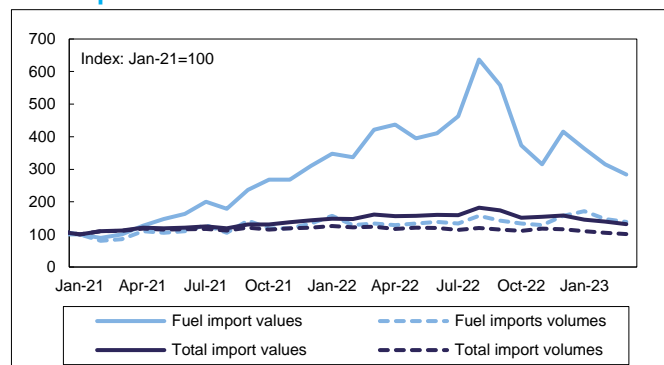
The week ahead in the euro area

After a quiet end to the week for euro area economic releases, the coming week will bring updated euro area national accounts figures for Q1 on Tuesday. Given the anticipated slump in industrial production at the end of the first quarter – aggregate euro area numbers for March due Monday are likely to report a drop of around 3%M/M – we might well see Q1 GDP downwardly revised from the initial estimate of growth of 0.1%Q/Q. The latest goods trade figures for March (also due Tuesday) will offer some further insight into the contribution from net trade last quarter. Employment figures are likely to report a slowdown in growth in Q1 from 0.3%Q/Q in Q4. Tuesday will also bring the latest German ZEW investor survey, which might well tally with this week's Sentix survey reporting a further moderate deterioration in investor sentiment in May. In terms of inflation, Wednesday will bring revised euro area consumer price figures for April. The flash estimate saw headline inflation unexpectedly tick higher, by 0.1ppt to 7.0%Y/Y, while the core rate edged slightly lower, by 0.1ppt to 7.5%Y/Y. Final figures from Germany (down 0.2ppt on the month to 7.6%Y/Y), France (up 0.2ppt to 6.9%Y/Y) and Spain (up 0.7ppt to 3.8%Y/Y) were unrevised from the flash estimates. This release will provide the more granular detail, as well various measures of underlying price pressures closely followed by the Governing Council, including the Persistent and Common Component of Inflation (PCCI) and trimmed mean HICP rates. Meanwhile, Friday will bring the German producer price data for April, which should include updated estimates for the first three months of the year to reflect the government's price brake on electricity and natural gas.

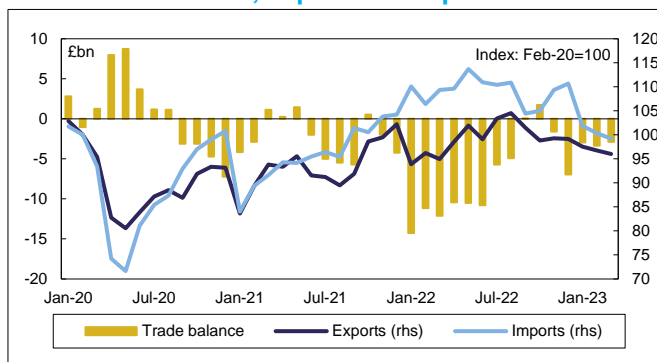
UK: Construction output



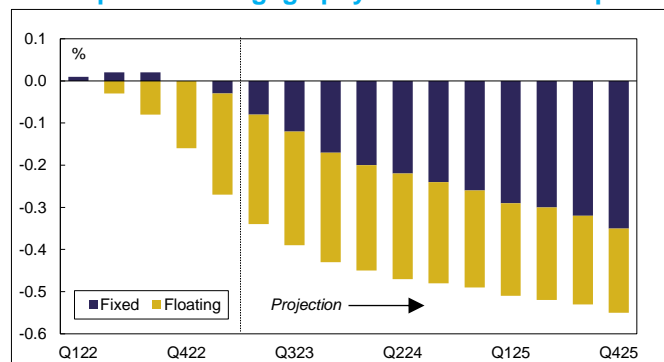
UK: Imports from non-EU countries












UK: Trade balance*, export and import volumes



UK: Impact of mortgage payments on consumption*



Daiwa economic forecasts




	2022	2023				2024	2023	2024	2025	
		Q4	Q1	Q2	Q3					Q4
GDP		%, Q/Q					%, Y/Y			
Euro area 	0.0	0.1	0.2	0.2	0.2	0.2	0.8	1.1	1.7	
UK 	0.1	0.1	0.0	0.2	0.2	0.2	0.3	0.7	0.9	
Inflation, %, Y/Y										
Euro area										
Headline HICP 	10.0	8.0	6.2	4.5	2.8	2.7	5.3	2.3	1.7	
Core HICP 	5.1	5.5	5.4	4.7	4.0	3.2	4.9	2.5	1.8	
UK										
Headline CPI 	10.7	10.2	7.6	6.1	3.7	3.3	6.8	2.2	1.5	
Core CPI 	6.4	6.1	5.9	5.1	4.3	3.9	5.3	2.8	1.8	
Monetary policy, %										
ECB										
Refi Rate 	2.50	3.50	4.00	4.25	4.25	4.25	4.25	3.25	3.00	
Deposit Rate 	2.00	3.00	3.50	3.75	3.75	3.75	3.75	2.75	2.50	
BoE										
Bank Rate 	3.50	4.25	4.75	4.75	4.75	4.50	4.75	3.75	3.00	

Source: Bloomberg, ECB, BoE and Daiwa Capital Markets Europe Ltd.

European calendar

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ Daiwa forecast	Previous	Revised
UK 	Preliminary GDP Q/Q% (Y/Y%)	Q1	0.1 (0.2)	<u>0.0 (0.1)</u>	0.1 (0.6)	-
	GDP M/M%	Mar	-0.3	<u>-0.4</u>	0.0	-
	Industrial production M/M% (Y/Y%)	Mar	0.7 (-2.0)	0.1 (-2.9)	-0.2 (-3.1)	-0.1 (-2.7)
	Manufacturing production M/M% (Y/Y%)	Mar	0.7 (-1.3)	0.0 (-2.5)	0.0 (-2.4)	0.1 (-1.9)
	Index of services M/M% (3M/3M%)	Mar	-0.5 (0.1)	-0.5 (0.1)	-0.1 (0.1)	-
	Construction output M/M% (Y/Y%)	Mar	0.2 (4.1)	-0.3 (3.5)	2.4 (5.7)	2.6 (6.0)
	Goods trade balance £bn	Mar	-16.4	-17.5	-17.5	-16.6
France 	Final HICP (CPI) Y/Y%	Apr	6.9 (5.9)	<u>6.9 (5.9)</u>	6.7 (5.7)	-
Spain 	Final HICP (CPI) Y/Y%	Apr	3.8 (4.1)	<u>3.8 (4.1)</u>	3.1 (3.3)	-




















Auctions

Country	Auction
- Nothing to report -	

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.














The coming week's data calendar

The coming week's key data releases

Country	BST	Release	Period	Market consensus/ <i>Daiwa</i> <i>forecast/actual</i>	Previous
Monday 15 May 2023					
Euro area		10.00 Industrial production M/M% (Y/Y%)	Mar	<u>-3.1 (0.5)</u>	1.5 (2.0)
Tuesday 16 May 2023					
Euro area		10.00 GDP – second estimate Q/Q% (Y/Y%)	Q1	<u>0.1 (1.3)</u>	-0.1 (1.8)
		10.00 Trade balance €bn	Mar	-	-0.1
		10.00 Employment Q/Q% (Y/Y%)	Q1	-	0.3 (1.5)
Germany		10.00 ZEW current assessment (expectations) balance	May	-38.0 (-6.0)	-32.5 (4.1)
Italy		10.00 Final HICP (CPI) Y/Y%	Apr	<u>8.8 (8.3)</u>	8.1 (7.6)
UK		07.00 Payrolled employees, monthly change '000s	Apr	25	31
		07.00 Unemployment claimant count rate % (change '000s)	Apr	-	3.9 (28.2)
		07.00 Average weekly earnings (excluding bonuses) 3M/Y%	Mar	5.8 (6.8)	5.9 (6.6)
		07.00 ILO unemployment rate %	Mar	3.8	3.8
		07.00 Employment change Q/Q, '000s	Mar	160	169
		07.00 Preliminary output per hour Y/Y%	Q1	-	0.0
Wednesday 17 May 2023					
Euro area		07.00 EU27 new car registrations Y/Y%	Apr	-	28.8
		10.00 Final HICP (core HICP) Y/Y%	Apr	<u>7.0 (5.6)</u>	6.9 (5.7)
France		06.30 ILO unemployment rate %	Q1	7.0	7.0
Italy		09.00 Trade balance €bn	Mar	-	2.1
Thursday 18 May 2023					
Spain		09.00 Trade balance €bn	Mar	-	-2.5
Friday 19 May 2023					
Germany		07.00 PPI Y/Y%	Apr	4.8	7.5
UK		00.01 GfK consumer confidence	May	-27	-30

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's key events & auctions

Country	BST	Event / Auction
Monday 15 May 2023		
Euro area	 10.00	European Commission publishes economic forecasts
	 13.10	Bundesbank President Nagel scheduled to give speech on monetary policy
UK	 17.00	BoE Chief Economist Pill participates in virtual Q&A on the rising costs of living and current economic conditions
Tuesday 16 May 2023		
- Nothing scheduled -		
Wednesday 17 May 2023		
Euro area	 16.50	ECB's de Guindos scheduled to give speech on 'Navigating the wave of inflation'
Germany	 10.30	Auction: €4bn of 2.30% 2033 bonds
France	 09.50	Auction: 2.5% 2026 bonds
	 09.50	Auction: 1% 2027 bonds
	 09.50	Auction: 2.75% 2029 bonds
	 10.50	Auction: 0.1% 2029 index-linked bonds
	 10.50	Auction: 0.1% 2036 index-linked bonds
	 10.50	Auction: 0.1% 2053 index-linked bonds
UK	 10.00	Auction: £3.75bn of 4.125% 2027 bonds
	 10.50	BoE Governor Bailey to give keynote speech at the British Chambers of Commerce global annual conference
Thursday 18 May 2023		
Euro area	 09.00	ECB publishes its latest Economic Bulletin
Spain	 09.30	Auction: 0% 2025 bonds
	 09.30	Auction: 0% 2027 bonds
	 09.30	Auction: 1.4% 2028 bonds
	 09.30	Auction: 3.45% 2043 bonds
Friday 19 May 2023		
Euro area	 14.55	ECB's Schnabel scheduled to give speech on 'Financial stability and monetary policy'
UK	 10.45	BoE's Haskel scheduled to give speech on measuring productivity

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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