

# Euro wrap-up

## Overview

- Bunds made losses despite a larger-than-expected decline in euro area industrial output in March to the lowest level in eighteen months.
- Gilts also made losses on a quiet start to the week for UK economic data.
- Tuesday will bring updated euro area Q1 GDP data, Germany's ZEW investor survey and the UK's latest labour market report.

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### Daily bond market movements

Bond	Yield	Change
BKO 2.8 06/25	2.579	+0.006
OBL 2.2 04/28	2.242	+0.026
DBR 2.3 02/33	2.306	+0.034
UKT 0% 06/25	3.831	+0.032
UKT 1% 10/28	3.633	+0.034
UKT 3¼ 01/33	3.821	+0.044

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

Source: Bloomberg

## Euro area

### Euro area industrial production contracts sharply in March

While surveys have pointed to a steady easing of manufacturing supply bottlenecks over recent quarters, they continue to point to at-best lacklustre industrial production amid softer demand. But while the PMIs had hinted at some stabilisation at the end of Q1, with the output component rising to a ten-month high (50.4) to be broadly consistent with stagnation in the sector, today's euro area production numbers for March disappointed. Indeed, output fell by a much larger-than-expected 4.1%M/M that month, to the lowest level since October 2021. This left output down 2.1%Y/Y and down 0.2%Q/Q, the second successive quarterly decline. And the drop in manufacturing production was even steeper, by 5.9%M/M in March, the most since the onset of the Covid-19 pandemic, to be down some 0.7%Q/Q. The pace of contraction seems likely to have been steeper than Eurostat has assumed in the euro area's preliminary national accounts publication, therefore raising the possibility that GDP will be downwardly revised from the initial estimate of growth of 0.1%Q/Q.

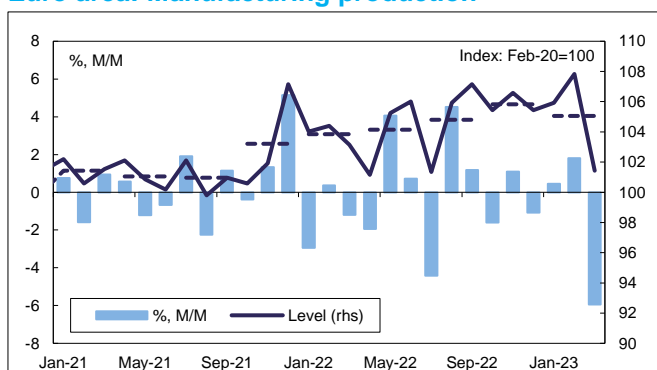
### Drop reflects a slump in Irish production, but weakness widespread

Admittedly, the weakness in March was principally driven by Ireland, for which output is often distorted by the activities of certain large multinational corporations and dropped a whopping 26.3%M/M that month. Indeed, not least reflecting developments in Ireland, aggregate euro area production of computer, electronic and optical products fell roughly 50%M/M to its lowest level since December 2014 and down some 15½%Q/Q. But production also fell in roughly two-thirds of the euro area's 20 member states, including the largest three: Germany (-3.1%M/M), France (-1.1%M/M) and Italy (-0.6%M/M). Among other key sub-sectors, production of autos also fell in March, reversing roughly half of the 6%M/M increase in February, while production of general machinery declined to its lowest level in eight months. Production from energy-intensive sectors also fell back, albeit by a smaller 1.2%M/M, as declines of almost 3%M/M in the glass and paper subsectors were partly offset by a third successive increase in production of basic metals to a seven-month high. Overall, energy intensive production was down just 0.4%Q/Q in Q1, compared with a contraction of almost 4½%Q/Q in Q4, suggesting that the worst of the adjustment by firms to last year's natural gas price shock should be over.

### Near-term manufacturing outlook clouded by lacklustre demand

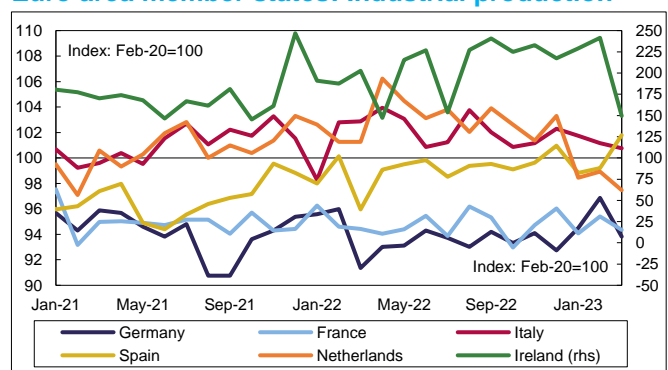
The near-term outlook for the manufacturing sector remains highly uncertain. Admittedly, April will highly likely see a bounce back in production recorded in Ireland. And a still high level of pandemic-related order backlogs should support production in various sectors, not least in the autos sector. However, surveys suggest that manufacturers' order books are on a downwards trend. And the share citing a lack of demand as a factor limiting production has risen steadily over recent

### Euro area: Manufacturing production\*



\*Dashed dark blue line is quarterly average of the level of production.  
Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

### Euro area member states: Industrial production



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

quarters. So, given ongoing uncertainties regarding domestic and external demand, as well as the negative carry-over from the low level of output in March, there is a non-negligible risk that manufacturing will again represent a drag on euro area GDP growth in Q2.

### The day ahead in the euro area

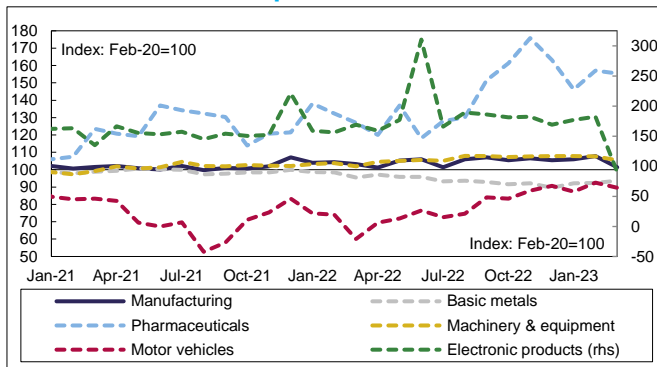
Tomorrow will bring updated Q1 GDP figures from the euro area. Given the larger-than-expected slump in industrial production at the end of Q1, there is a non-negligible risk that we will see the modest expansion in GDP (0.1%Q/Q) revised away. The latest goods trade figures for March (also due tomorrow) will offer some further insight into the contribution from net exports last quarter. Meanwhile, with economic activity subdued, the latest employment figures are also likely to report a moderation in growth in Q1 from 0.3%Q/Q in Q4. However, consistent with surveys, jobs growth will still remain in positive territory, underscoring the resilience of the labour market. Tomorrow will also bring the latest German ZEW investor survey, which might well tally with last week's Sentix survey reporting a further moderate deterioration in investor sentiment in May.

## UK

### The day ahead in the UK

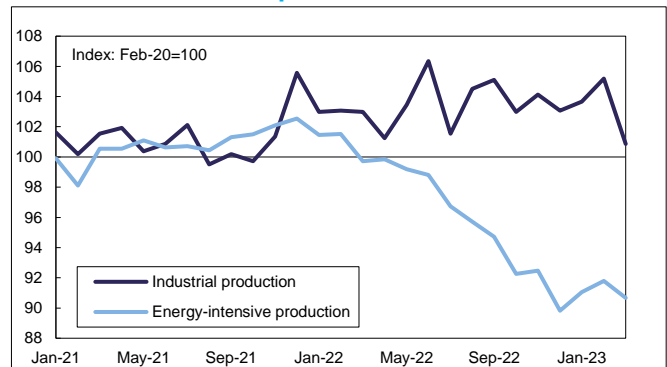
After a quiet start to the week for UK economic releases, tomorrow will bring the latest labour market report, which will be of note given the BoE's concerns about the persistence of high inflation and second-round effects on wages. Indeed, the tightness reported last month was likely a key factor in persuading some MPC members to vote for a further [rate hike](#) last week. Surveys suggest that permanent placements have started to fall back over recent months. But a recent pickup in part-time positions should support another solid increase in employment in the three months to March. 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.

#### Euro area: Industrial production



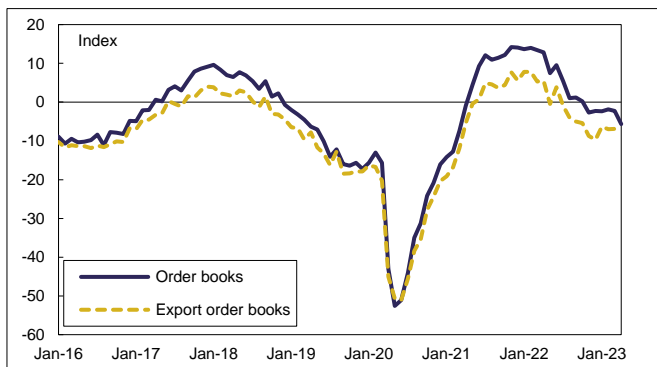
Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

#### Euro area: Industrial production



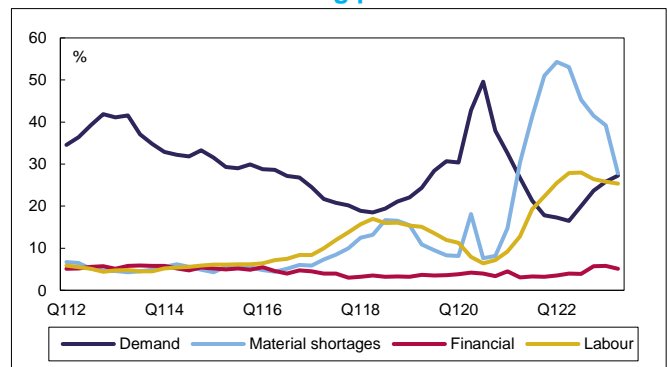
Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

#### Euro area: Order books



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

#### Euro area: Factors limiting production




Source: EC, 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	 Industrial production M/M% (Y/Y%)	Mar	-4.1 (-1.4%)	-3.1 (0.5)	1.5 (2.0)	-












#### 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		10.00 GDP – second estimate Q/Q% (Y/Y%)	Q1	0.1 (1.3)	-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	8.8 (8.3)	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

#### Auctions and events

- Nothing scheduled -

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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