

# Euro wrap-up

## Overview

- Euro area govies made gains, while German industrial production fell sharply as autos production went into reverse and a construction survey suggested a steeper pace of contraction in house building.
- Gilts also made gains as a UK retail survey signalled a further decline in retail sales volumes at the start of Q4.
- Wednesday will bring euro area retail sales and German inflation figures, as well as results from the latest ECB consumer expectations and UK jobs market surveys.

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### Daily bond market movements

Bond	Yield	Change
BKO 3.1 12/25	2.984	-0.004
OBL 2.4 10/28	2.582	-0.036
DBR 2.6 08/33	2.665	-0.070
UKT 3½ 10/25	4.639	-0.074
UKT 4½ 06/28	4.255	-0.065
UKT 3¼ 01/33	4.282	-0.095

\*Change from close as at 4:00pm GMT.

Source: Bloomberg

## Euro area

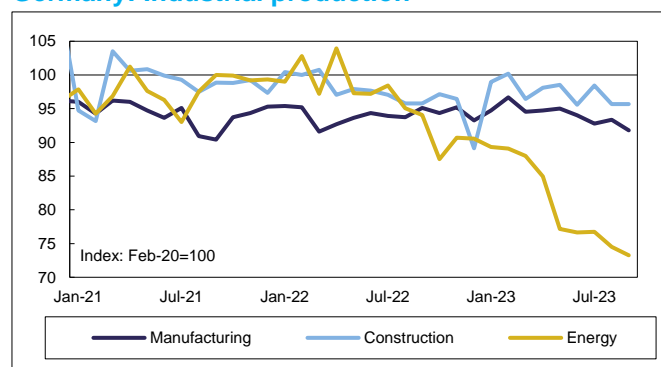
### German IP declines for a fourth consecutive month to be a notable drag on GDP in Q3

Consistent with yesterday's downbeat manufacturing turnover data, today's German industrial production figures reported a notable decline in activity in September, illustrating the ongoing economic challenges facing the euro area's largest member state. In particular, overall output fell for a fourth consecutive month, by 1.4% M/M, to leave it down 3.7% Y/Y and some 8½% below the pre-pandemic benchmark. Furthermore, this left industrial production down 2.1% Q/Q in Q3, the third quarterly decline out of the past four and the steepest for two years. The weakness in part reflected a further drop in energy production (-1.7% M/M), which marked the ninth fall out of the past ten months to be down 6% Q/Q and 22% Y/Y, and at the lowest level since reunification. While construction activity moved sideways in September, this left output from this sub-sector down for a second successive quarter, by 0.8% Q/Q. Moreover, today's manufacturing figures suggested that the modest recovery in August (0.6% M/M) was a non-starter, with output from the factory sector declining in September by 1.7% M/M, the most for six months. This left output at its lowest level since Russia's invasion of Ukraine in March 2022 and down 2.1% Q/Q in Q3, similarly the most since Q321 and providing a non-negligible drag on GDP growth last quarter. Indeed, the extent of the weakness in today's figures raises the significant possibility of a downwards revision to the 0.1% Q/Q contraction in GDP initially reported.

### Broad-based decline in manufacturing in September, with autos a sizeable drag

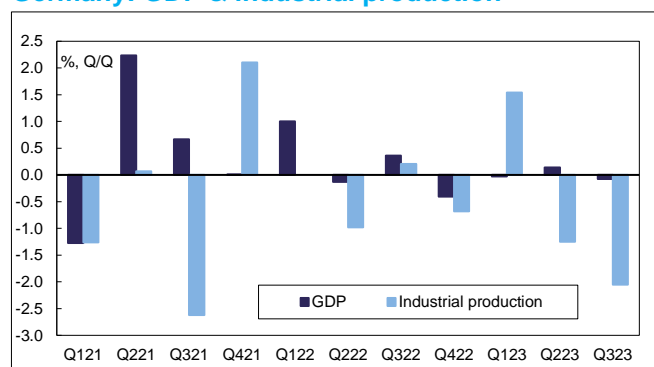
Within the manufacturing detail, the decline was driven by the autos sector, where production fell 5.0% to be down almost 7% Q/Q in Q3 and still some 19% below the pre-pandemic level. In contrast, production of machinery and equipment rose for the first month in four (4.1% M/M), which helped to limit the monthly drop in overall capital goods output to 0.2% M/M, albeit still leaving it down around 3.0% Q/Q. Production of intermediate goods also fell by the most in six months (-1.9% M/M), while consumer goods output slumped (-4.9% M/M) to its lowest level since May 2020. But while production in the energy-intensive sector fell slightly in September (-0.4% M/M), this maintained a broadly sideways trend over Q3, with a pickup in production of coke, petroleum and chemicals offsetting renewed weakness in basic metals and the ongoing downtrend in glassware. With business gas usage in September still more than 20% below the average for the month between 2018 and 2021, energy-intensive production was similarly still 19% below the pre-pandemic level. And while industry gas usage in October was a touch higher than the same month last year, it still remained some 24% below the 2018-2021 average. Manufacturing surveys – including the PMIs and ifo institute business climate indices – suggest that significant challenges across the sector more generally persisted in October. Admittedly, the latest VDA car production figures suggested a bounce in October (22.6% Y/Y) following the drop in September (-6.6% Y/Y). But the ifo's survey suggested that carmakers' expectations with

### Germany: Industrial production



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### Germany: GDP & industrial production



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

respect to production over the coming three months were the most pessimistic since the start of 2021. And with the marked decline in output in September providing a considerable negative carry over into Q4, we expect manufacturing output to remain a drag on GDP in Q4 (and possibly into the New Year).

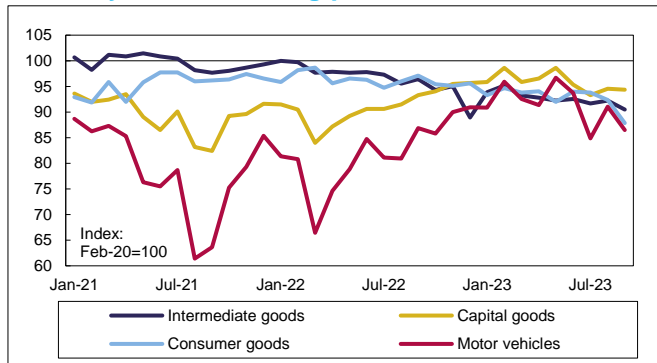
### Construction PMIs point to steeper contraction as demand for house building slumps

In line with the findings from the recent ifo business survey, today's PMIs reported a further deterioration in the business climate in Germany's construction sector at the start of Q4. Indeed, the headline activity index fell for a fourth month out of the past five in October, by 1pt to 38.3, signalling the steepest pace of contraction since the initial lockdown slump in April 2020 and the euro crisis before that. With higher interest rates, falling house prices and low consumer confidence continuing to sap demand, the deterioration in Germany's survey was most acute in housebuilding, for which the respective index fell more than 5½pts to 27.2, the lowest since February 2010. The French construction PMI also signalled a more pronounced decline in October, with the activity index down 2.7pts to a ten-month low of 41.0. More encouragingly, the Italian index rose to an eleven-month high in October (51.8), with the respective indices for housing, commercial building and civil engineering implying modest expansion. This notwithstanding, the aggregate euro area PMI fell to its lowest in ten months (42.7). While the new orders component edged slightly higher (40.1) it still implied a substantial decline. So, perhaps unsurprisingly, firms again signalled a desire to cut headcount.

### Euro area factory price pressures continue to fall

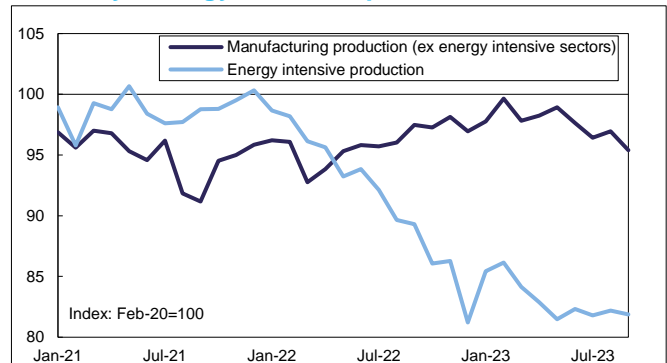
In terms of price pressures, October's PMIs provided mixed messages. While the services input costs index slipped back, at 62.2 it remained consistent with an above-average rate of increase. And although the survey implied the softest rise in prices charged in the sector for more than two years, the respective index remained above the long-run average. But reflecting softer demand and improved supply constraints, price pressures have moderated significantly in the construction and manufacturing sectors. And while the final manufacturing price PMIs are off the lows recorded over the summer, they continue to report declining input costs (42.2) and output prices (46.1), suggestive of a further moderation in industrial PPI inflation last month. Indeed, while today's data reported a second successive increase in producer prices in September (0.5%M/M), this compared favourably to the 1.6%M/M increase this time last year and so the headline annual inflation rate fell to a record low -12.4%Y/Y. While this reflected a notable drag from energy, underlying producer price pressures continued to ease further, with core PPI inflation (excluding energy) down to a near-three-year low of 0.5%Y/Y, some 15½ppts below last year's peak. And given subdued demand, this should feed through to lower consumer goods price inflation over coming quarters.

#### Germany: Manufacturing production



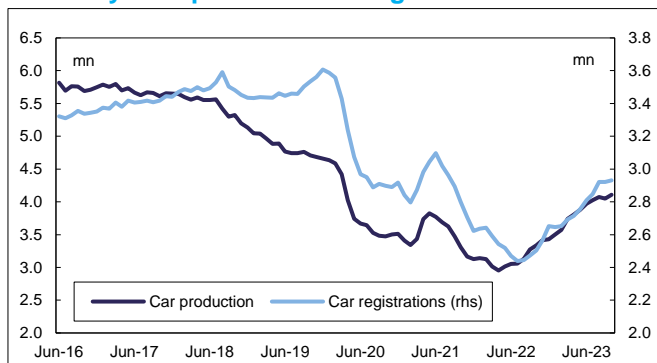
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### Germany: Energy-intensive production



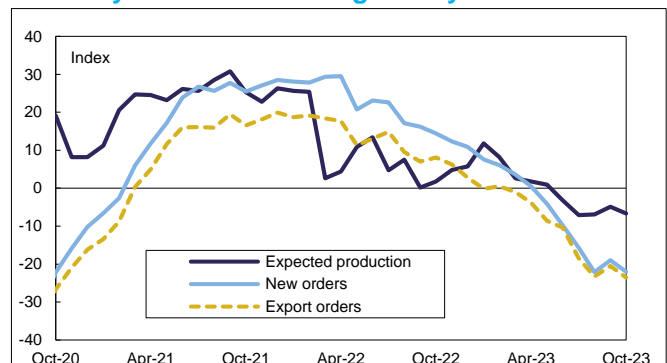
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### Germany: Car production & registrations



Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

#### Germany: ifo manufacturing survey indices



Source: Refinitiv Datastream and Daiwa Capital Markets Europe Ltd.

## The day ahead in the euro area

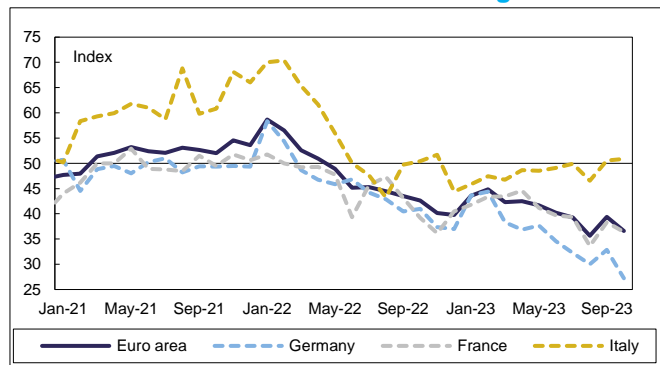
While last week's flash estimate of [euro area Q3 GDP](#) was published with just the headline growth figures, tomorrow's retail sales release for September will offer some insight into the strength of consumer spending at the end of the summer. Figures published by Germany (-0.8%M/M) and France (+1.1%M/M) provided mixed messages, suggesting that aggregate sales might well be broadly flat in September. But having failed to grow in the previous three months, that would leave them down 0.6%3M/3M and around 3%Y/Y. Meanwhile, Germany's services activity figures for August will also be published. Wednesday will also bring updated German consumer inflation figures for October. These are expected to align with the flash estimates that showed the headline HICP rate decline a steeper-than-expected 1.3ppts to a 29-month low of 3.0%Y/Y, as well as provide the more granular breakdown. The ECB's latest monthly consumer expectations survey results for September will also be of interest. In August, the median expectation for inflation twelve months ahead rose to a three-month high of 3.5%Y/Y while the median forecast for three-years ahead also ticked slightly higher to 2.5%Y/Y. Separately, ECB Chief Economist Philip Lane is due to give a keynote speech at conference organised by the Latvian National Bank.

## UK

### BRC retail monitor points to still falling sales volumes in October

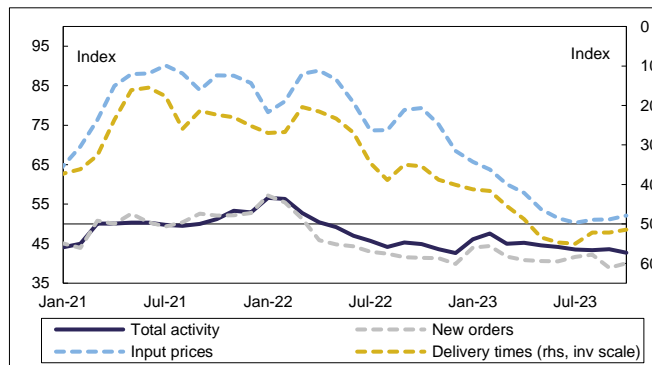
Today's BRC retail sales monitor offered little to suggest that there was a significant boost to consumer spending last month, despite the improvement in households' disposable income as energy bills took a notable step down that month. In particular, today's results showed that the value of retail sales growth slowed 0.2ppt to 2.5%Y/Y, the second-softest reading for a year, with like-for-like sales down 0.2ppt to 2.6%Y/Y. The moderation last month, however, likely reflected the easing in price pressures. Of course, given the still-elevated rate of shop price inflation, the BRC's survey still suggests a decline in retail sales volumes compared with a year ago, albeit at a slightly softer pace of -2.7%Y/Y in October, from -3.6%Y/Y in September and the smallest annual drop this year. The BRC suggested that clothing sales, particularly outdoor wear, received a boost from the fall in temperature towards the end of the month. But on the whole spending remained subdued, echoing the message from the CBI distributive trades survey. And while retailers will be hopeful that Black Friday discounting this month might help to loosen purse strings in the run up to Christmas, pessimism about the economic outlook related not least to higher borrowing costs, falling labour demand and downturn in the housing market will continue to curb consumption on goods for some time to come.

### Euro area: Construction house building PMIs



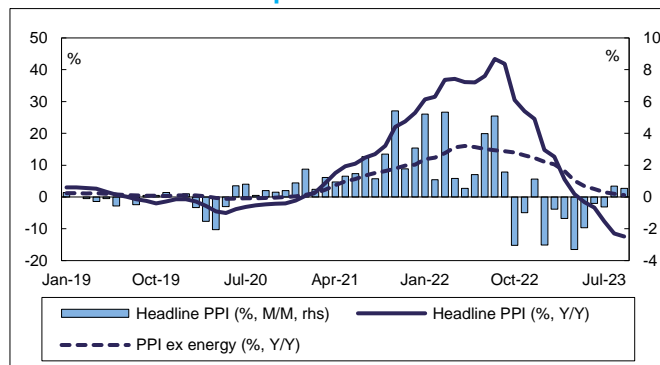
Source: Refinitiv Datastream, S&P Global and Daiwa Capital Markets Europe Ltd.

### Euro area: Construction PMIs



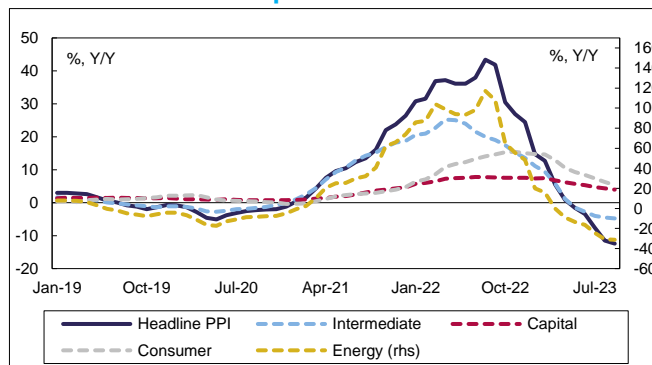
Source: Refinitiv Datastream, S&P Global and Daiwa Capital Markets Europe Ltd.

### Euro area: Producer price inflation



Source: Refinitiv Datastream and Daiwa Capital Markets Europe Ltd.

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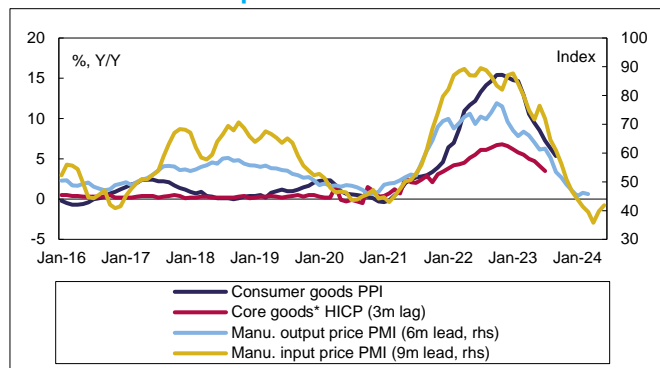


Source: Refinitiv Datastream and Daiwa Capital Markets Europe Ltd.

## The day ahead in the UK

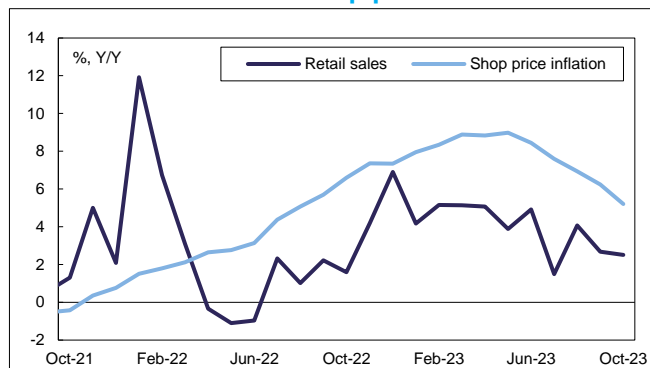
The main UK economic release tomorrow will be the REC/KPMG report on jobs for October. Against the backdrop of the slowdown in economic activity, this survey is likely to confirm a further increase in the balance between labour supply and demand, and therefore a further easing in pressures on starting salaries. Indeed, the September results reported a twelfth successive monthly decline in permanent staff placements as well as the first drop in permanent job vacancies since February 2021, while starting salaries fell for a fifth successive month to be firmly below the average in the five years before the pandemic.

### Euro area: Goods price inflation indices



\*Non-energy industrial goods. Source: Refinitiv Datastream, S&P Global and Daiwa Capital Markets Europe Ltd.

### UK: BRC retail sales & shop price inflation











Source: Macrobond 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	Oct	42.7	-	43.6	-
	 PPI M/M% (Y/Y%)	Sep	0.5 (-12.4)	0.3 (-12.9)	0.6 (-11.5)	0.7 (-)
Germany	 Industrial production M/M% (Y/Y%)	Sep	-1.4 (-3.7)	-0.5 (-3.0)	-0.2 (-2.0)	-0.1 ()
	 Construction PMI	Oct	38.3	-	39.3	-
France	 Construction PMI	Oct	41.0	-	43.7	-
Italy	 Construction PMI	Oct	51.8	-	49.8	-
Spain	 Industrial production M/M% (Y/Y%)	Sep	1.1 (-1.4)	0.3 (-2.4)	-0.8 (-3.4)	-0.7 (-3.3)
UK	 BRC retail sales monitor, like-for-like sales Y/Y%	Oct	2.6	-	2.8	-






#### Auctions

Country	Auction
UK	 sold £3.75bn of 4.625% 2034 bonds at an average yield of 4.405%








Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

### Tomorrow's releases

#### Economic data

Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Euro area	 09.00	ECB 1 (3) year inflation expectations Y/Y%	Sep	-	3.5 (2.5)
	 10.00	Retail sales M/M% (Y/Y%)	Sep	-0.2 (-2.9)	-1.2 (-2.1)
Germany	 07.00	Final HICP (CPI) Y/Y%	Oct	3.0 (3.8)	4.3 (4.5)
France	 07.45	Trade balance €bn	Sep	-	-8.2
Italy	 09.00	Retail sales M/M% (Y/Y%)	Sep	-	-0.4 (2.4)

#### Auctions and events

Euro area	 08.45	ECB Chief Economist Lane scheduled to give keynote speech at Central Bank of Latvia conference
	 09.00	ECB to publish monthly expectations survey
	 12.30	ECB's De Cos scheduled to speak
Germany	 10.30	Auction: €4bn of 2.6% 2033 bonds
UK	 00.01	REC/KPMG report on jobs
	 09.30	BoE Governor Bailey scheduled to give keynote speech at Central Bank of Ireland conference
	 10.00	Auction: £900mn of 0.125% 2051 index-linked bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Access our research blog at:

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