

# Euro wrap-up

## Overview

- Bunds largely made modest losses as euro area Q4 GDP was revised up slightly but employment growth slowed to the softest in almost four years.
- Gilts were little changed on a day free of top-tier UK economic data.
- The coming week will bring the February flash PMIs as well as updates on consumer confidence in the euro area and the labour market, inflation, public finances and retail sales in the UK.

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### Daily bond market movements

Bond	Yield	Change
BKO 2.2 03/27	2.100	+0.021
OBL 2.4 04/30	2.215	+0.010
DBR 2½ 02/35	2.422	+0.006
UKT 4½ 01/27	4.180	+0.012
UKT 4½ 07/29	4.198	+0.008
UKT 4½ 07/34	4.489	+0.001

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

## Euro area

### Q4 GDP revised up to suggest minimal (rather than zero) growth

On a quiet end to the week data-wise, euro area GDP in Q4 was nevertheless unexpectedly revised up from the first estimate, albeit minimally. In particular, while the initial figure had suggested that euro area economic output failed to grow last quarter, today's update reported slight growth of 0.1%Q/Q, matching yesterday's better-than-expected UK figure. We caution, however, that the upwards revision to two decimals places was just 0.02ppt. Moreover, euro area growth was still 0.1ppt softer than the ECB had anticipated in its most recent projections published in December. No amendments were made to the member-state GDP data published first time around. Germany (-0.2%Q/Q) and France (-0.1%Q/Q) are both still thought to have contracted, Italy was again stagnant (0.0%Q/Q for a second successive quarter), and growth was thus highly reliant on Spain (0.8%Q/Q for a third successive quarter) and Portugal (1.5%Q/Q). But figures for the Netherlands, published for the first time, showed that the euro area's fifth largest member state also provided support to growth (0.4%Q/Q).

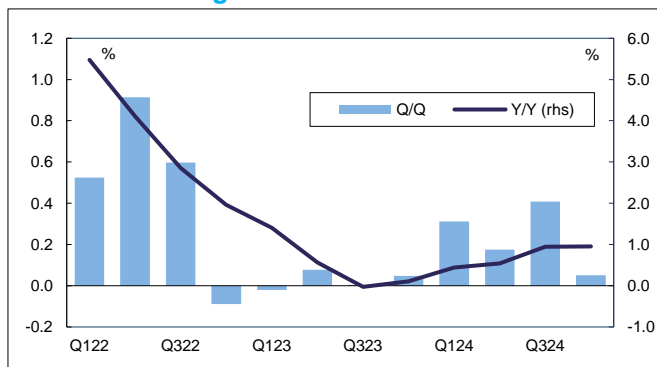
### Domestic demand likely picked up again in Q4 while net trade provided the main drag

With no revisions made to the GDP estimates for earlier quarters, the updated euro area figure for Q4 still marked a significant sequential slowdown from 0.4%Q/Q in Q3. Nevertheless, given base effects, the year-on-year GDP growth rate in Q4 was unchanged on the quarter and unrevised at 0.9%Y/Y, double the average rate in the first half of the year. While that is (probably) still sub-potential, and surveys have pointed to broad stagnation rather than growth in the New Year, it is sufficiently firm for the ECB to continue to argue that underlying economic recovery continues. Indeed, while the expenditure breakdown has yet to be published, that detail should be broadly encouraging. As in Q3, private consumption likely grew again at around ½%Q/Q. Fixed investment also likely made a positive contribution to GDP growth for a second successive quarter. So, with government consumption up too, net trade likely provided the main drag on growth as exports remained highly subdued.

### Job growth slows to softest rate in almost four years as labour market finally loses momentum

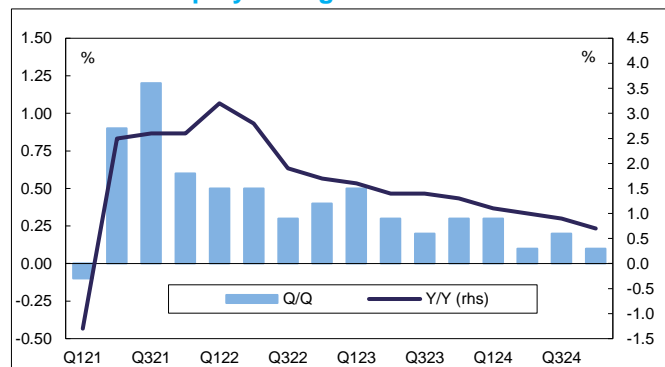
The likely further pickup in household consumption in Q4 in good part reflects solid growth of real disposable income, with strong pay rises accompanied by continued growth in employment over the past couple of years. However, momentum in the labour market – which until recently has remained remarkably resilient – softened towards the end of 2024. As euro area GDP growth slowed in Q4 so too did job growth. Employment rose in line with GDP, just 0.1%Q/Q, half the rate of Q3. As a result, the year-on-year rate of employment growth moderated 0.4ppt to 0.6%Y/Y, the softest in almost four years and below the equivalent rate of GDP growth for the first time in two years. The number of people in work rose just 186k, the smallest

### Euro area: GDP growth



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### Euro area: Employment growth



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

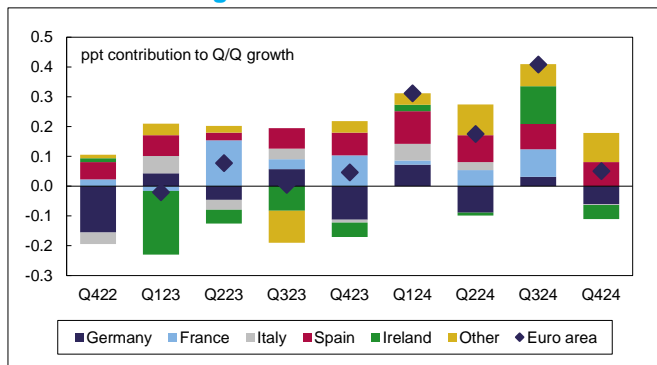
increase since Q121. And that was more than fully explained by Spain (up 207k), while employment moved broadly sideways in Germany and France and probably declined in Italy. Slower job creation was also sufficient merely for the euro area unemployment rate to track sideways in Q4 from the previous quarter at 6.3%. And we expect data for the job vacancy rate, due for release on Wednesday, to report a further decline toward year-end to below 2.5%, the lowest since Q121 and below levels recorded in 2019 ahead of the pandemic. With survey indicators such as the PMIs and Commission indices suggesting that demand for workers remained soft heading into the New Year, and wage trackers already pointing to a softer pay settlement growth, labour cost growth should moderate significantly over coming quarters, supporting the return of inflation back to target in the course of this year. In the absence of renewed optimism about the outlook, slower pay growth might represent a downside risk to the outlook for private consumption, particularly if, as we suspect, employment growth remains soft, the unemployment rate starts to creep higher and households continue to prefer to save than spend.

**The week ahead in the euro area**

The key data focus of the coming week in the euro area will be the February flash PMIs (on Friday). The survey for January suggested a modest turn for the better at the start of the year, with the headline euro area composite PMI up 0.6pt to an eight-month high of 50.2. That, nevertheless, was still merely consistent with stagnant output rather than growth. The detail suggested that the pace of deterioration in the manufacturing sector was starting to moderate, with the respective output index up to a nine-month high (47.1). But growth in services was reportedly a touch softer (51.3). While the composite input cost PMI rose to 58.3, the highest level since May 2023, the equivalent measure of output prices was better behaved (52.9), suggesting that firms are largely absorbing such pressures within their margins. We look for further modest improvement in the economic activity indices in February, and a slight easing of the input cost gauges thanks not least to lower oil prices.

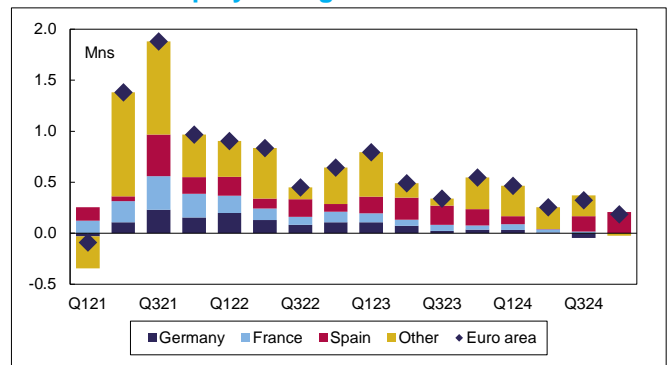
Along with the flash PMIs, other February sentiment indicators due in the coming week include the ZEW investor survey results (Tuesday) and the Commission’s flash estimate of consumer confidence (Thursday). Having dropped to an eight-month low in December, consumer confidence edged up only minimally in January (-14.2) to remain firmly below the long-run average. While political and fiscal risks in France have since eased somewhat after the Bayrou government survived no-confidence votes, and German households can look forward to effecting political change in the general election on 23 February, consumer confidence seems likely to be adversely impacted by Trump’s confrontational approach to policy, disdain for European allies and disregard for European interests. Beyond the sentiment surveys, updates on economic activity will include reports on euro area goods trade (Monday) and construction output (Thursday) in December and French retail sales (also Thursday) in January. Price-wise, final estimates of French (Tuesday) and Italian (Friday) consumer price inflation in January are due alongside German producer price inflation (Wednesday) for the same month.

**Euro area: GDP growth**



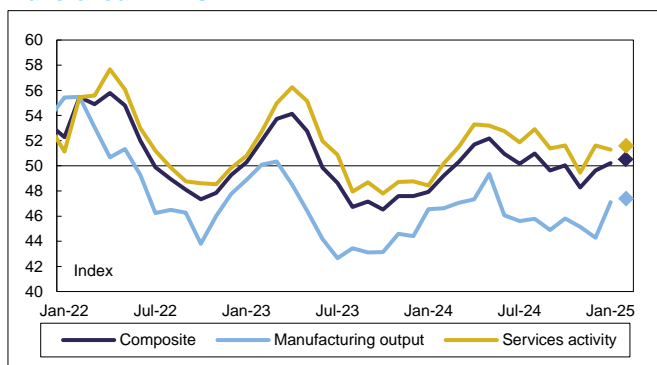
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

**Euro area: Employment growth**



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

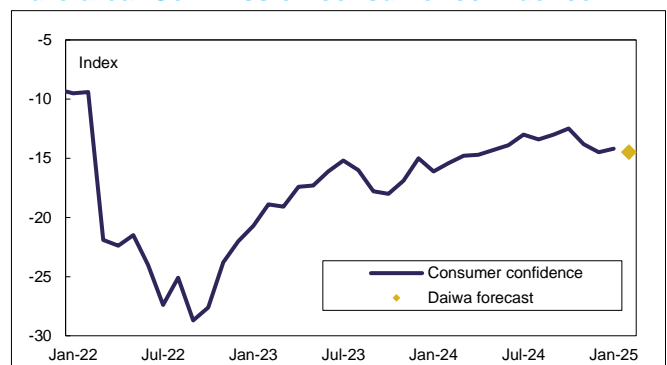
**Euro area: PMIs**



\*Diamonds show Daiwa forecast.

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

**Euro area: Commission consumer confidence**



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

**UK**

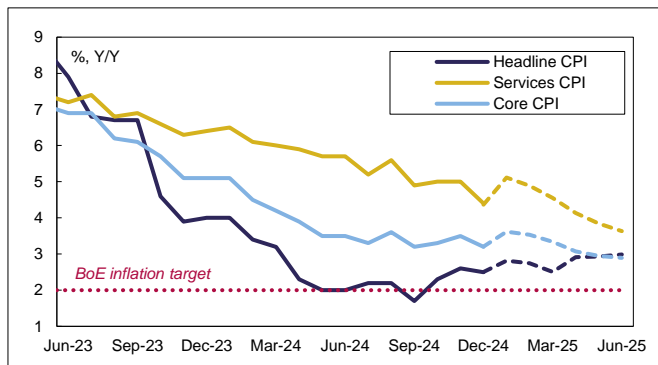
**The week ahead in the UK**

After yesterday's moderate upside surprise to [Q4 GDP](#), the coming week brings several further top-tier UK economic data of pertinence to the BoE's next monetary policy decision on 20 March. Most notable will be updates on the labour market (Tuesday) and inflation (Wednesday), as well as the flash PMIs and retail sales figures (Friday). Barring any major downside surprises in the figures for wage growth and services inflation, however, the figures are likely to reinforce the majority view of the MPC of the need to ease policy only gradually and carefully, underscoring the likelihood of no change to rates next month. Separately, public finances data for January (Friday) – a key month for tax revenues given the self-assessment payment deadline – will impact assessments as to whether corrective fiscal policy action will eventually be required to ensure consistency with the government's budgetary rules.

Most notably perhaps, after the headline CPI rate and services components both surprised on the downside in December, the January inflation data are likely to make uncomfortable reading. Like the consensus and the BoE, we expect CPI inflation to rebound 0.3ppt to a 10-month high of 2.8%Y/Y with the core rate up a steeper 0.4ppt to 3.6%Y/Y. In large part, that will reflect a significant rebound in the services component from 4.4%Y/Y in December back above 5.0%Y/Y. That will be in part as payback for the softness of certain components (e.g. airfares and accommodation) in the prior month, as well as firmer increases in indexed and regulated prices (including bus fares) which reset at the start of the year. In addition, food inflation also likely picked up. But despite higher petrol prices and the increase in the regulated household energy price cap from the start of the quarter, energy inflation will likely be more negative in the January data due to favourable base effects.

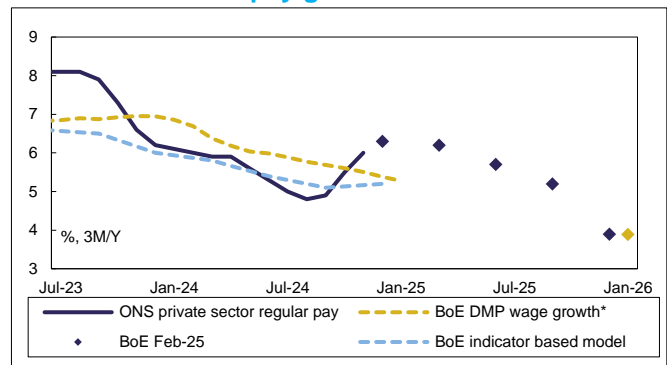
In terms of the other data, the labour market report will also likely reinforce the sense of caution at the BoE. Following a significant upside surprise in November, the BoE expects private sector regular pay to have accelerated to 6.3%3M/Y in December, more than 1ppt above its projection published three months ago. Signs of weakening in the labour market, however, are likely to include a further uptick in the unemployment rate to 4.5% in the three months to December, up 0.2ppt on the quarter and 0.6ppt from a year earlier. Data for payrolled employees and vacancies are also likely to continue to point to weaker labour demand. Meanwhile, having dropped for the third month in four in December, surveys reinforce our expectation that retail sales likely rose ½%M/M or more in January. But the February flash PMIs are likely again to be consistent with broad economic stagnation, with the composite PMI probably little changed from 50.6 in January, well down on the range of the first ten months of last year, with manufacturing output likely still in retreat and services growth modest.

**UK: CPI inflation rates**



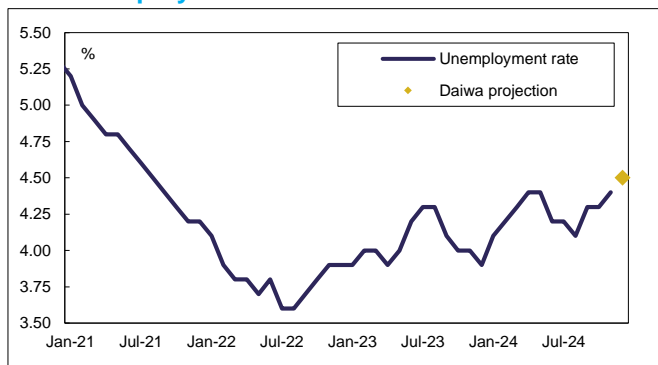
\*Dashed lines show Daiwa forecasts.  
Source: Macrobond and Daiwa Capital Markets Europe Ltd

**UK: Private sector pay growth**



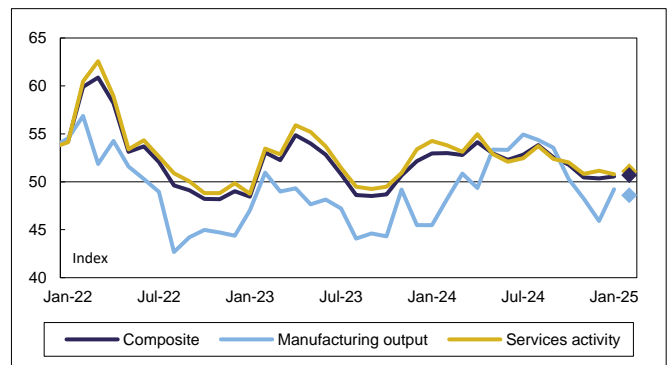
\*Including 1Y ahead expected wage growth  
Source: BoE, Macrobond and Daiwa Capital Markets Europe Ltd.

**UK: Unemployment rate**












Source: Macrobond and Daiwa Capital Markets Europe Ltd.

**UK: PMIs**






\*Diamonds show Daiwa forecast  
Source: S&P Global, Macrobond and Daiwa Capital Markets Europe Ltd.

## Daiwa economic forecasts

	2024		2025				2024	2025	2026
	Q3	Q4	Q1	Q2	Q3	Q4			
<b>GDP</b>	<b>%, Q/Q</b>						<b>%, Y/Y</b>		
Euro area 	0.4	0.1	0.1	0.2	0.2	0.3	0.7	0.8	1.2
UK 	0.0	0.1	0.2	0.1	0.2	0.3	0.9	0.7	1.1
<b>Inflation, %, Y/Y</b>									
Euro area									
Headline HICP 	2.2	2.2	2.4	2.1	2.1	2.5	2.4	2.3	1.9
Core HICP 	2.8	2.7	2.5	2.0	1.8	2.2	2.8	2.1	1.8
UK									
Headline CPI 	2.0	2.5	2.7	2.9	3.5	3.3	2.5	3.1	2.3
Core CPI 	3.3	3.3	3.5	3.0	3.1	3.1	3.7	3.2	2.2
<b>Monetary policy, %</b>									
ECB									
Deposit Rate 	3.50	3.00	2.50	2.25	2.00	2.00	3.00	2.00	2.00
Refi Rate 	3.65	3.15	2.65	2.40	2.15	2.15	3.15	2.15	2.15
BoE									
Bank Rate 	5.00	4.75	4.50	4.25	4.00	3.75	4.75	3.75	3.25

Source: Bloomberg, ECB, BoE 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 – second estimate Q/Q% (Y/Y%)	Q4	<b>0.1 (0.9)</b>	<u>0.0 (0.9)</u>	0.4 (0.9)	-	
	Preliminary employment Q/Q% (Y/Y%)	Q4	<b>0.1 (0.6)</b>	-	0.2 (1.0)	-	
Spain 	Final HICP (CPI) Y/Y%	Jan	<b>2.9 (2.9)</b>	<u>2.9 (3.0)</u>	2.8 (2.8)	-	
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	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
<b>Monday 17 February 2025</b>					
Euro area	10.00	Trade balance €bn	Dec	14.0	12.9
UK	00.01	Rightmove house prices M/M% (Y/Y%)	Feb	-	1.7 (1.8)
<b>Tuesday 18 February 2025</b>					
Germany	10.00	ZEW current situation (expectations) balance	Feb	-89.4 (20.0)	-90.4 (10.3)
France	07.45	Final HICP (CPI) Y/Y%	Jan	<u>1.8 (1.4)</u>	1.8 (1.3)
UK	07.00	Average wages (excluding bonuses) 3M/Y%	Dec	<u>5.9 (5.9)</u>	5.6 (5.6)
	07.00	Unemployment rate 3M%	Dec	<u>4.5</u>	4.4
	07.00	Employment 3M/3M change 000s	Dec	43	36
	07.00	Payrolled employees M/M change 000s	Jan	-25	-47
	07.00	Claimant count rate % (change 000s)	Jan	-	4.6 (0.7)
	09.30	Preliminary output per hour Y/Y%*	Q4	-	-1.8
<b>Wednesday 19 February 2025</b>					
Euro area	09.00	Current account balance €bn	Dec	-	27.0
	10.00	Preliminary labour costs Y/Y%	Q4	-	4.6
	10.00	Preliminary job vacancy rate %	Q4	-	2.5
UK	07.00	CPI (core CPI) Y/Y%	Jan	<u>2.8 (3.6)</u>	2.5 (3.2)
	07.00	PPI – output (input) prices Y/Y%	Jan	0.1 (-0.6)	0.1 (-1.5)
	09.30	House price index Y/Y%	Dec	-	3.3
<b>Thursday 20 February 2025</b>					
Euro area	10.00	Construction output M/M% (Y/Y%)	Dec	-	1.2 (1.4)
	15.00	Preliminary consumer confidence indicator	Feb	<u>-14.4</u>	-14.2
Germany	07.00	PPI Y/Y%	Jan	1.2	0.8
France	-	Retail sales Y/Y%	Jan	-	-0.8
UK	11.00	CBI industrial trends survey – total orders (selling prices) balance %	Feb	-30 (-)	-34 (27)
<b>Friday 21 February 2025</b>					
Euro area	09.00	Preliminary manufacturing (services) PMI	Feb	<u>46.8 (51.6)</u>	46.6 (51.3)
	09.00	Preliminary composite PMI	Feb	<u>50.5</u>	50.2
Germany	08.30	Preliminary manufacturing (services) PMI	Feb	45.5 (52.5)	45.0 (52.5)
	08.30	Preliminary composite PMI	Feb	51.0	50.5
France	07.45	INSEE business (manufacturing) confidence indicator	Feb	96 (96)	95 (95)
	08.15	Preliminary manufacturing (services) PMI	Feb	45.3 (49.0)	45.0 (48.2)
	08.15	Preliminary composite PMI	Feb	48.3	47.6
Italy	09.00	Final HICP (CPI) Y/Y%	Jan	<u>1.7 (1.5)</u>	1.4 (1.3)
UK	00.01	GfK consumer confidence indicator	Feb	-22	2.8 (2.8)
	07.00	Public sector net borrowing £bn	Jan	-19.6	17.8
	07.00	Retail sales – including auto fuel M/M% (Y/Y%)	Jan	0.3 (0.5)	-0.3 (3.6)
	07.00	Retail sales – excluding auto fuel M/M% (Y/Y%)	Jan	0.8 (0.5)	-0.6 (2.9)
	09.30	Preliminary manufacturing (services) PMI	Feb	<u>48.1 (51.1)</u>	48.3 (50.8)
	09.30	Preliminary composite PMI	Feb	<u>50.7</u>	50.6

\*Provisional release. Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

## The coming week's key events & auctions

Country	GMT	Event / Auction
<b>Monday 17 February 2025</b>		
- Nothing scheduled -		
<b>Tuesday 18 February 2025</b>		
Euro area	 14.00	ECB Executive Board Member Cipollone to speak on the ECB's balance sheet in MNI webcast
Germany	 10.30	Auction: to sell up to €4.5bn of 2.2% 2027 bonds
UK	 09.30	BoE Governor Bailey to speak on 'preserving and enhancing open financial markets' in fireside chat with Bruegel
	 10.00	Auction: to sell £1.75bn of 4% 2063 bonds
<b>Wednesday 19 February 2025</b>		
Germany	 10.30	Auction: to sell up to €4.5bn of 2.5% 2035 bonds
UK	 10.00	Auction: to sell £4.25bn of 4.375% 2028 bonds
<b>Thursday 20 February 2025</b>		
France	 09.50	Auction: to sell up to €13.5bn of 2.4% 2028, 0% 2029 and 2.75% 2030 bonds
	 10.50	Auction: to sell up to €2.25bn of 0.1% 2031, 0.1% 2032, 0.1% 2036 and 0.95% 2043 inflation-linked bonds
Spain	 09.30	Auction: to sell bonds*
<b>Friday 21 February 2025</b>		
Euro area	 14.30	ECB Chief Economist Lane to give lecture on Europe and the world economy at FIW-Research Conference, Vienna.

\*Details forthcoming. Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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