

Euro wrap-up

Overview

- Bunds followed USTs lower while euro area consumer confidence partially recovered this month but job vacancies and labour costs growth declined in Q1.
- Gilts made more sizeable losses after BoE Chief Economist Pill suggested that one Bank Rate cut per quarter was possibly too fast given the pace of pay growth.
- Wednesday's release of UK inflation data for in April is bound to report a significant jump in the headline rate back above 3%Y/Y for the first time in 14 months.

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Daily bond market movements

Bond	Yield	Change
BKO 1.7 06/27	1.835	+0.000
OBL 2.4 04/30	2.148	+0.002
DBR 2½ 02/35	2.603	+0.018
UKT 3¾ 03/27	4.033	+0.035
UKT 4% 03/30	4.191	+0.039
UKT 4½ 03/35	4.700	+0.039

*Change from close as at 5.00pm BST.
Source: Bloomberg

Euro area

Consumer confidence partially recovers in May, but remains well below average

After declining sharply in March and April to a 17-month low, consumer confidence in the euro area partially recovered in May likely buoyed in part by a less hardline approach from the US in its trade negotiations and the associated bounce in stockmarkets. Indeed, according to the Commission's flash survey results, the headline sentiment index rose a larger-than-expected 1.5pts this month to -15.2. But this still represented the second-lowest reading in over a year, with the index a little more than ½ standard deviation below the long-run average. While today's release provided no additional detail, some national surveys provided some clues. For example, the improvement in consumer confidence in Belgium was led by a somewhat more favourable assessment of the economic outlook and household finances. But the share of consumers in the Netherlands assessing it a good time to make major purchases was the lowest since early 2024. As such, we expect the detailed Commission survey results (to be published a week today) to signal an ongoing preference among consumers to save rather than spend. And in contrast to Q1, we suspect that private consumption will provide little to no support to GDP growth this quarter.

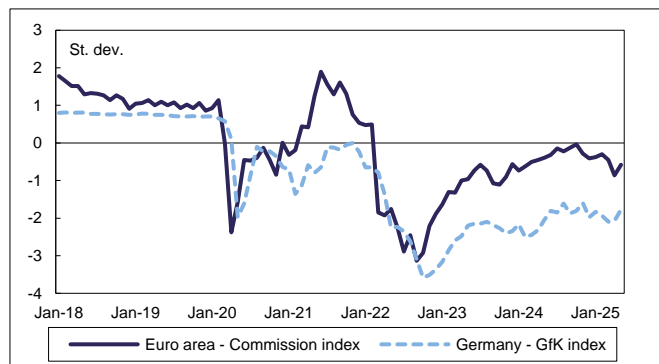
Job vacancy ratio declines to the lowest in 3½ years

While the unemployment rate fell to a series low in Q1, some of the recent deterioration in household sentiment over recent months related to concerns about the labour market outlook. Today's figures confirmed a further decline in the ratio of job vacancies to the labour force of 0.1ppt in Q1 to 2.4%, the lowest for 3½ years and 0.9ppt below the peak in Q222. The downtrend in job vacancies was broad-based across sectors, but was more striking in industry and construction, where the ratio fell to a four-year low (2.0%). Among the larger member states, the decline was more pronounced in Germany – down 0.2ppt to a more than four-year low of 2.8% and 1.7ppts below the peak – as the economy continued to flat-line at the pre-pandemic level despite the boost to GDP growth that quarter from the front-running of US tariff hikes. Vacancy ratios also fell in France and Italy. Perhaps inevitably given persisting uncertainties surrounding US tariffs, the Commission survey signalled an ongoing desire among firms to reduce headcount at the start of Q2, with the largest cuts in industry.

Labour costs continue to moderate despite an uptick in services

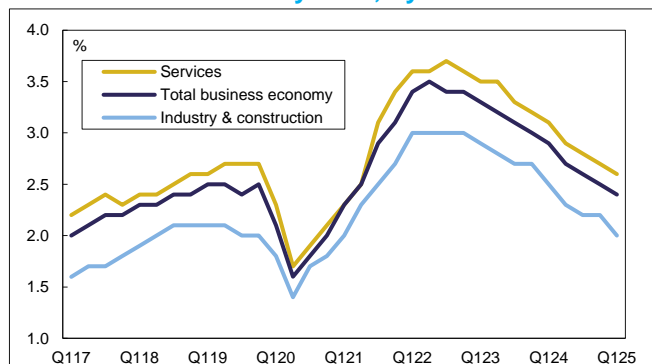
So, while the vacancy-to-unemployment ratio (0.39) remained above the long-run average in Q1, we expect it to fall further over coming quarters to allow wage growth to moderate back to levels consistent with the ECB's 2% inflation target. Indeed, today's flash data showed that labour cost growth eased in Q1 by ½ppt to 3.2%Y/Y, the softest since Q222. This in part related to a notable slowdown in industry, with labour costs in the sector slowing almost 2ppts to 2.4%Y/Y. Admittedly, a

Euro area: Consumer confidence



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Job vacancy ratio, by sector



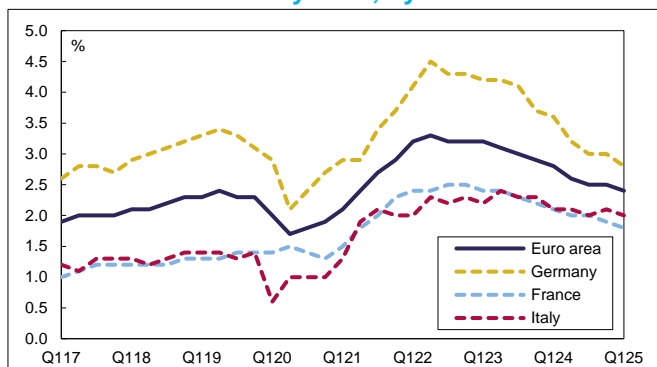
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

pickup in labour cost growth in services (by 0.6ppt to 4.4%Y/Y) might cause some concern among the more hawkish Governing Council members about inflation persistence in the sector. But this was the second softest rate in the past five quarters and still more than ½ppt below the average in the past three years. Furthermore, subdued economic growth and declining labour demand should reinforce a further moderation in pay growth over coming quarters, giving the ECB scope to cut interest rates in June and again in Q3.

German PPI inflation falls to the lowest in 14 months on declining energy prices

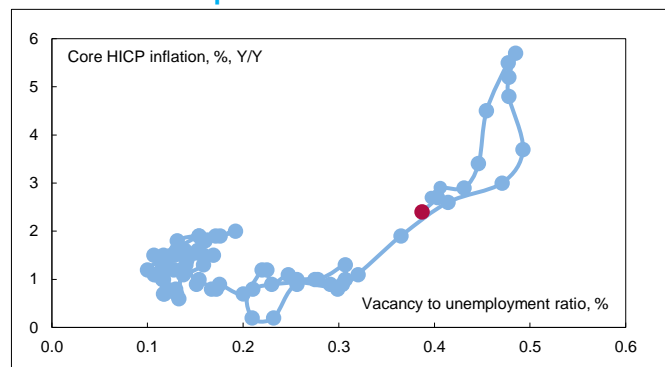
Certainly the uptick in [services inflation](#) in April was principally related to the timing of Easter this year and should prove temporary. And today's German PPI data suggest that underlying goods price pressures remain subdued too. In particular, producer prices fell for a fifth successive month in April, by 0.6%M/M. This took the cumulative decline since November to 1.6% and left the annual inflation rate (-0.9%Y/Y) at its most negative level since February 2024. The downtrend has been more than fully accounted for by the energy component, for which prices fell a chunky 6.4%M/M and 16.9%3M/3M annualised. But while this left energy prices almost one third below the September-2022 peak they were still roughly two-thirds higher than the pre-pandemic average in 2019. When excluding energy, core industrial prices rose for a fourth consecutive month and by the most in two years. As such, core PPI inflation rose to 1.5%Y/Y, the firmest since July 2023. This in part reflected the strongest increase in food prices in more than two years. In contrast, the monthly increase in

Euro area: Job vacancy ratio, by member state



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

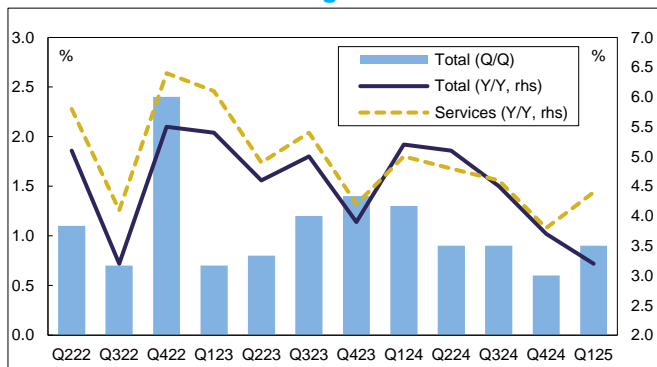
Euro area: Phillips curve*



*Red dot represents latest figures for Q1 2025.

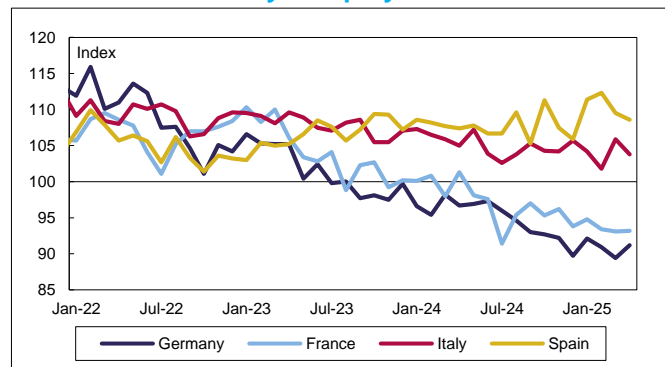
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Labour costs growth



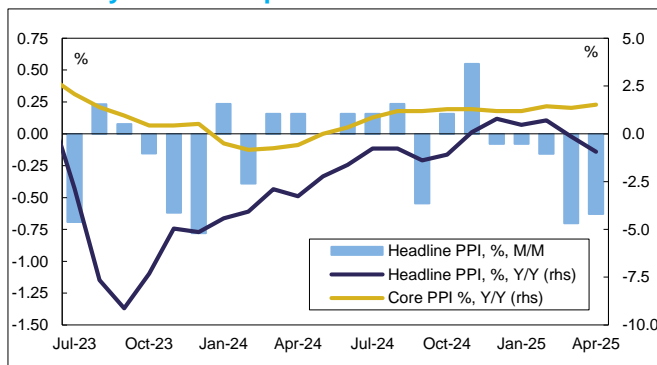
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: EC survey - employment intentions



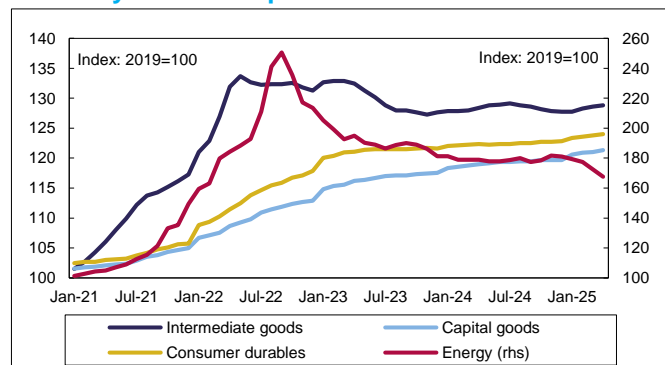
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Producer price inflation



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Producer price levels



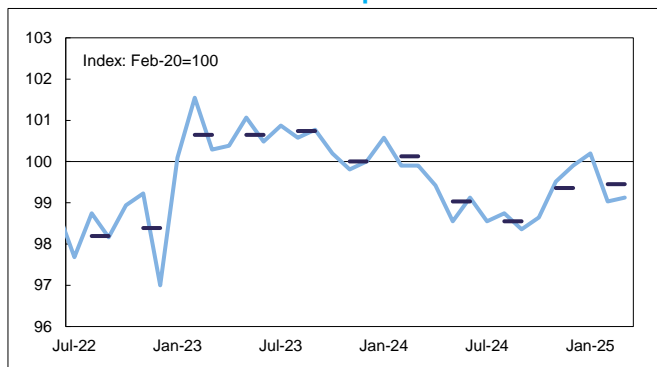
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

intermediate, capital and consumer durable goods was more modest (0.2%M/M). And with the PMIs suggesting that manufacturers' pricing powers remain limited by subdued demand, we expect core goods inflation to remain largely absent over coming quarters.

Construction activity underwhelmed in Q1, but leading indicators signal brighter outlook

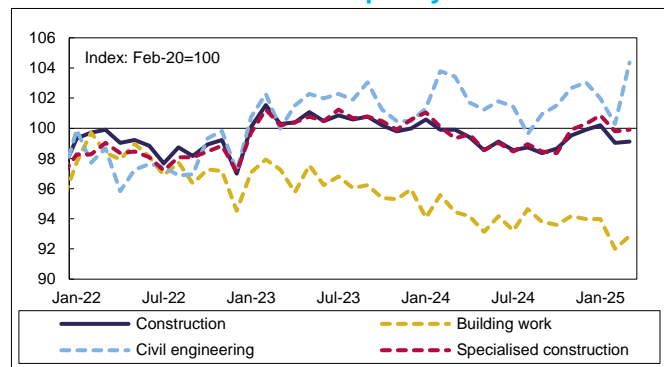
Euro area construction output expanded in Q1 for a second consecutive quarter, although the pace of growth was notably softer than expected. Indeed, a modest rise in March (0.1%M/M) was accompanied by a sharp downward revision to construction growth in February, led by Italy, by 0.7ppt to -1.2%M/M. That left growth in the sector in Q1 at just 0.1%3M/3M. Despite the revisions, Italy (2.6%3M/3M), and to a lesser extent Germany (0.6%3M/3M), still led that advance among the larger member states, countering contractions in France (-1.2%3M/3M), Spain (-2.3%3M/3M) and the Netherlands (-1.2%3M/3M). Austria, helped by an irregular spike in civil engineering activity in March (31.6%M/M) also rose over the quarter (2.1%3M/3M). But despite a corresponding increase in that subsector in Germany (8.3%M/M), civil engineering output over the quarter as a whole was slightly lower (-0.2%3M/3M). House-building activity also contracted in Q1 (-1%3M/3M), leaving specialised construction activities as the only subsector to rise in the first three months of the year (0.7%3M/3M). Still, despite the increased likelihood of a slowdown in economic growth in Q2, a more accommodative ECB stance and increased infrastructure spending in Germany should continue to support the outlook for the construction sector. Certainly, despite the aforementioned signals from the PMIs and Commission ESIs of plans among construction firms to scale back headcount, both surveys continued to point towards a gradual uptrend in building activity at the beginning of Q2, with the former also noting that order books were the best since March 2022 (46.2), just 0.2pts shy of its long-run average.

Euro area: Construction output*



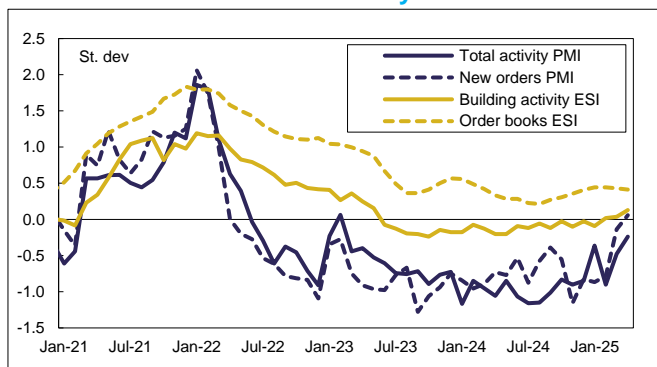
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Construction output by sector



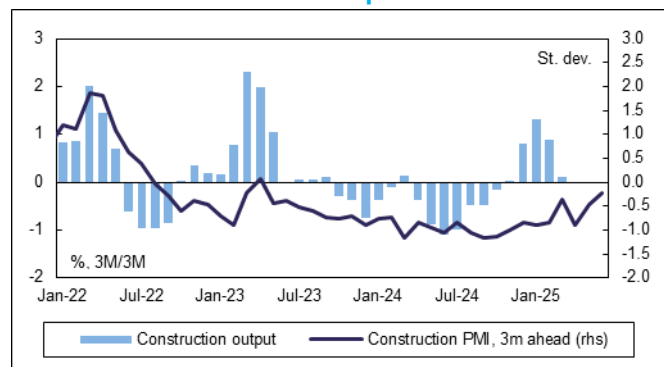
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Construction survey indices



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

Euro area: Construction output & PMI



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

The day ahead in the euro area









A pause in the data flow on Wednesday means that it should be a relatively quiet day ahead for euro area economic news. Otherwise, the publication of the ECB's biannual Financial Stability Report, and a separate speech by Chief Economist Lane on the subject of negative interest rates, may be of interest.

The day ahead in the UK







Following a quiet start to the week, tomorrow's CPI inflation data are bound to report a significant step-up. Indeed, a number of one-off price increases – including those to household energy and water bills, and other indexed payments – entered into force at the beginning of April. Simultaneously, the implementation of higher employer National Insurance Contributions and

uplift to National Living Wage bands are also expected to have added to inflationary pressures, leading to significantly greater uncertainty surrounding this release compared to recent months. Cumulatively, the BoE projects that those changes could have contributed an additional 0.8ppt to CPI in April, taking the headline rate to a 14-month high of 3.4%Y/Y. Our forecast, by comparison, is marginally softer. Indeed, we expect CPI to pickup to by 0.7ppt to 3.3%Y/Y, in line with market consensus. Our projection for services inflation (+0.1ppt to 4.8%Y/Y) too is a touch softer than the BoE's latest estimates (5.0%Y/Y). And while that aligns with consensus estimates, our core inflation estimate (+0.1ppt to 3.5%Y/Y) is 0.1ppt lower.

European calendar

Today's results							
Economic data							
Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised	
Euro area	 Preliminary Commission consumer confidence indicator	May	-15.2	-16.0	-16.7	-16.6	
	 Preliminary labour costs Y/Y%	Q1	3.2	-	3.7	-	
	 Preliminary job vacancy rate %	Q1	2.4	-	2.5	-	
	 Construction output M/M% (Y/Y%)	Mar	0.1 (-1.1)	-	-0.5 (0.2)	-1.2 (-0.6)	
	 Current account balance €bn	Mar	50.9	-	34.3	40.6	
Germany	 PPI Y/Y%	Apr	-0.9	-0.6	-0.2	-	
Auctions							
Country	Auction						
Germany		sold €996m of 0% 2030 green bonds at an average yield of 2.13%					
		sold €921m of 1.8% 2053 green bonds at an average yield of 3.01%					

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's releases							
Economic data							
Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous		
UK		07.00	Headline (core) CPI Y/Y%	Apr	<u>3.3 (3.5)</u>	2.6 (3.4)	
		09.30	House price index Y/Y%	Mar	-	5.4	
Auctions and events							
Euro area		09.00	ECB Vice-President de Guindos to present ECB Financial Stability Review				
		17.00	ECB Chief Economist Lane gives speech on "negative interest rates and the impact of monetary policy", Madrid				
Germany		10.30	Auction: to sell up to €4bn of 2.5% 2035 bonds				
UK		10.00	Auction: to sell £4.25bn of 4% 2031 bonds				

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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