

# Euro wrap-up

## Overview

- While German GDP growth in Q1 was revised up to a 10-quarter high, Bunds rallied as President Trump threatened a 50% tariff on US imports from the EU and euro area negotiated wage growth slowed further than expected.
- Gilts also made gains despite a big upside surprise to UK retail sales in April and an improvement in consumer confidence in May.
- The coming week will bring flash May estimates of inflation in Germany and other large euro area member states.

**Chris Scicluna**  
+44 20 7597 8326

**Edward Maling**  
+44 20 7597 8030

### Daily bond market movements

Bond	Yield	Change
BKO 1.7 06/27	1.757	-0.065
OBL 2.4 04/30	2.101	-0.068
DBR 2½ 02/35	2.574	-0.067
UKT 3% 03/27	3.988	-0.034
UKT 4% 03/30	4.140	-0.054
UKT 4½ 03/35	4.693	-0.055

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

## Euro area

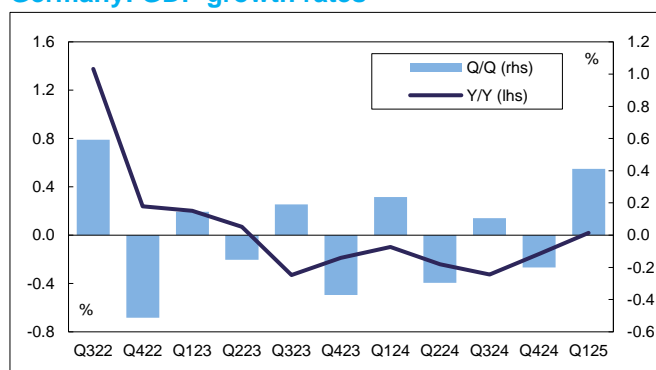
### German Q1 GDP revised higher thanks to US tariff front-running export boost

Although the flash estimates of German GDP in Q1 had pointed to a relatively modest rebound at the start of the year (0.2%Q/Q), the continued efforts by exporters to front-load production and shipments to the US in the face of tariff risks – evidenced by [March's IP and goods trade data](#) – resulted today in a substantive upwards revision to a 10-quarter high of 0.4%Q/Q. GDP on an annual basis flatlined (0.0%Y/Y) to mark the first non-negative rate since Q223. According to the detail, exports rose 3.2%Q/Q, the most since Q421 and, outside of the pandemic and financial crisis, Q406 before that. Destatis affirmed that the increase was driven by exports of pharmaceuticals and autos products, surely to the US. Granted, that still left the level of exports comfortably below their recent peak in Q224. But even with imports (0.4%Q/Q) subtracting from the contribution of net trade, that component added a chunky 0.9ppt to the quarterly GDP growth rate. Perhaps most encouraging, rising real incomes continued to add resilience to final private demand. Indeed, with employee compensation up 4.6%Y/Y in nominal terms and the savings ratio down a little more than ½ppt from Q1, real household consumption accelerated 0.5%Q/Q, adding a positive contribution to GDP growth for a fourth consecutive quarter. So, whilst government spending (-0.3%Q/Q) was interrupted by February's federal elections, total consumption added 0.2ppt. And likely supported by more accommodative monetary policy and the anticipation of looser fiscal spending in coming quarters, business investment also picked up (0.5%Q/Q), led by construction, a rebound in transport equipment and intellectual property. Inventories, meanwhile, provided significant offset, subtracting 0.9ppt.

### Euro area GDP growth in Q1 will be revised back to 0.4%Q/Q, but increased likelihood of Q2 dip

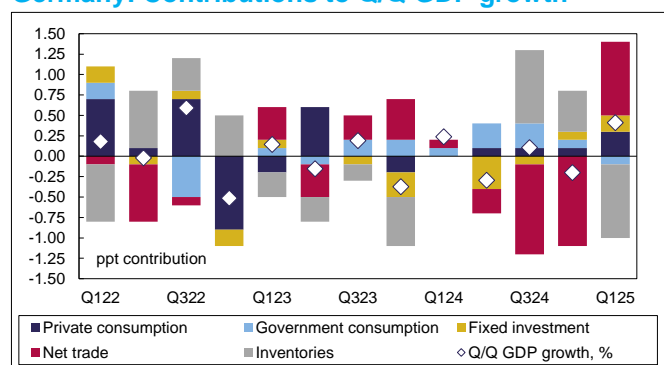
Today's German revision will contribute an additional 0.06ppt to euro area GDP growth in Q1. So, while that was recently revised down slightly to 0.33%Q/Q, barring revisions elsewhere, the final estimate should rise now back to 0.4%Q/Q when it is published in two weeks' time. Indeed, like in Germany, we note that the risks to Irish GDP growth in Q1, which was initially estimated at a whopping 3.2%Q/Q, are also skewed to the upside. But, particularly given the strength of growth drivers in Q1, we expect the exceptionally high uncertainty and imposition of tariffs in April – and today's threat from Trump of a 50% flat tariff rate on US goods imports from the EU from 1 June – to bite in this quarter. Indeed, whether his latest threat is substantiated or not, given the exceptional export growth in Q1, net trade would seem bound to subtract from GDP growth in Q2 as exports from Germany and Ireland normalise. A fifth-consecutive positive quarterly contribution to German GDP growth from private consumption might also seem less likely given the elevated uncertainty. May's [flash PMIs](#) similarly demonstrated the extent to which uncertainty is likely weighing on economic activity. So, even allowing for stronger government spending and continued growth in fixed investment, we expect Germany over the near term to maintain its

### Germany: GDP growth rates



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### Germany: Contributions to Q/Q GDP growth



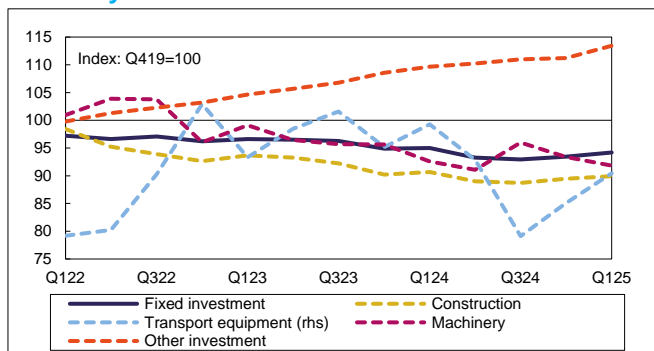
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

prevailing oscillating trend, whereby each quarter of positive growth since Q322 has been followed by a contraction in the next quarter. And in light of today's revision, we have also edged down our euro area GDP forecast to a modest contraction 0.1%Q/Q in Q2. However, we also note the relative resilience of some leading indicators of future output, such as the ifo expectations index. Yesterday's published account of the ECB's April policy meeting also flagged the more optimistic narrative surrounding the growth outlook for 2026 and 2027 amid promises of higher government spending on defence procurement, fiscal loosening in Germany, and the ongoing transmission of less restrictive monetary policy. So, while we expect euro area GDP to do nothing better than go sideways over Q2 and Q3, we ultimately see euro area GDP returning to a growth trend by Q425, and momentum steadily increasing to deliver potential growth or above by mid-26.

### Negotiated wage growth moderates markedly to suggest wage-price spiral risks are long gone

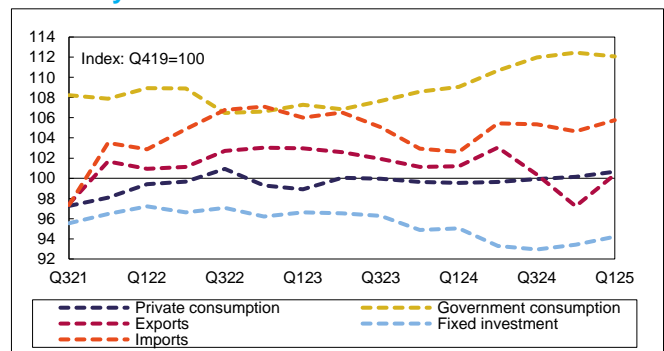
As well as expressing greater confidence in the medium-term growth outlook, Governing Council members also last month continued to judge that the disinflation trend was well-maintained, not least thanks to ongoing moderation in wage growth. Indeed, the account acknowledged that progress on that front had been 'slightly better than expected', as negotiated wage growth had softened by a more-than-expected 0.4ppt to 4.1%Y/Y at the end of last year. Policymakers also noted that expectations for wage growth over the coming twelve months had softened, in line with pared expectations for corporate

#### Germany: GDP levels



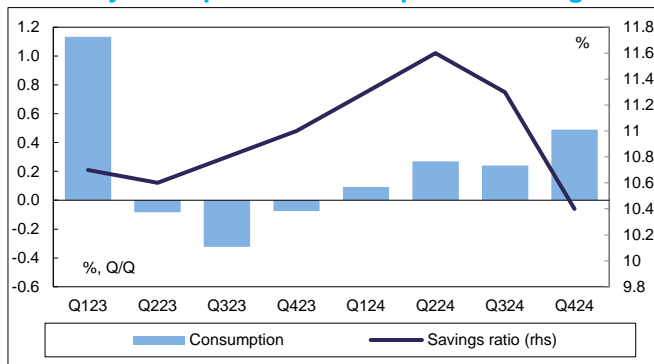
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### Germany: Fixed investment levels



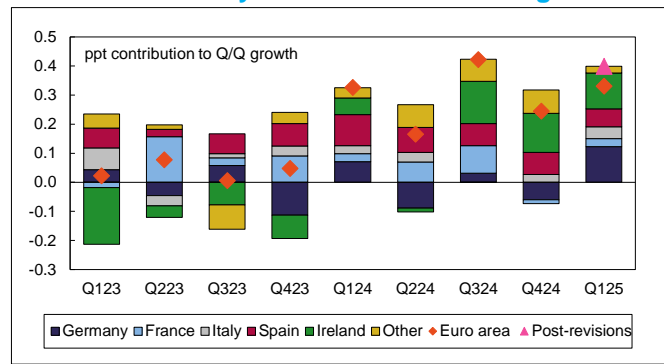
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### Germany: Real private consumption & savings ratio



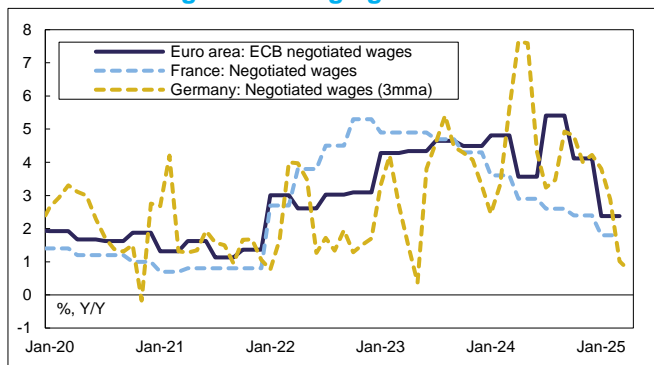
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### Euro area: Country contributions to GDP growth\*



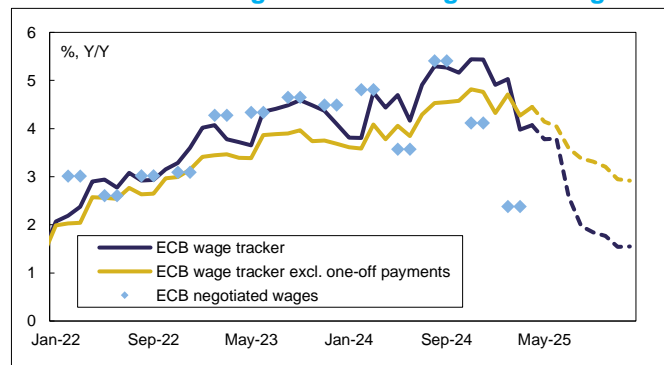
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### Euro area: Negotiated wage growth



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### Euro area: ECB wage tracker & negotiated wages



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

profits and the softening price outlook. Ongoing moderation in [labour cost](#) growth in Q1 will have offered some support to that assessment. And today's release of data for euro area negotiated wages in Q1 should lend further confidence to that view. Indeed, those figures showed that negotiated wage settlement growth was the softest since Q421, down 1.7ppts on last quarter to just 2.4%Y/Y, a rate that if sustained would be consistent with inflation at target or below over the medium term. Admittedly, that slowdown may have been flattered somewhat by one-off payments in Germany, to which the Bundesbank yesterday attributed a 4.9ppt decline in negotiated pay rates in Q1 to 0.9%Y/Y. Nonetheless, the euro area rate was 2ppts lower than the Q1 average in the ECB wage tracker tool, which has for some time already been informing the Governing Council as to the likelihood of a more marked slowdown in wage settlements by Q3. Certainly, the risks of a wage-price spiral in the euro area now seem a distant memory. And if economic activity weakens further over the summer, the ECB should have confidence to keep cutting rates into Q3 and perhaps beyond.

## The week ahead in the euro area

While the flash estimates of euro area inflation in May won't be published until the first week of June, the coming week's member state figures – led by France (Tuesday), and followed by Germany, Italy and Spain (Friday) releases – will provide a good guide. We expect those data to signal a resumption of the recent disinflationary trend, and to confirm that April's vacation-driven pickup in certain services components was merely temporary. Consequently, we expect the national measures of core inflation to reverse close to their levels in March. And with lower auto fuel and household energy prices continuing to add downward impetus to headline HICP rates, we suspect that headline inflation in Germany and Spain, both 2.2%Y/Y on the harmonised measure in April, will be target-consistent.

Among other data due in the coming week, the Commission's May Economic Sentiment Indices (Tuesday) will provide a crosscheck on this week's disappointing flash PMIs after the headline euro area ESI fell in April to an 18-month low. Meanwhile, the ECB's consumer expectations survey (Wednesday) will suggest that inflation remain relatively well behaved in April. Monetary data (Friday) will show whether, despite cumulative ECB easing, tighter financial conditions and tariff-related uncertainty took a toll on euro area bank loan growth in April. In addition, retail sales data from various member states, including Germany, will provide a guide to private consumption at the start of Q2. Beyond the economic data, ECB President Lagarde will speak publicly on Monday on "Europe's Role in a Fragmented World" and might be expected to comment on the impact of President Trump's threat today of a 50% tariff on all EU goods imports from the EU.

## UK

### Retail sales extend winning streak in April as sunshine negates consumer gloom

Retail sales maintained their winning streak in April, with volumes rising a much stronger-than-expected 1.2%M/M, the most in three months. Notably, this marked a fourth successive monthly rise in sales volumes for the first time in a decade and took them 3.3% above the level at the end of 2024, and back above the pre-pandemic level for the first time in almost three years. And while growth in March was revised down to just 0.1%M/M, sales were up 1.8%3M/3M, the strongest rate since the easing of Covid lockdowns in mid-2021. With the April level about 1½% above the Q1 average, the retail sector seems bound to contribute positively to GDP growth for a second successive quarter in Q2. Growth in April was broad-based but led by sales in food stores, up 3.9%M/M after two months of declines. Sales at department stores (2.8%M/M) and household goods stores (2.1%M/M) were also particularly strong. But growth in auto fuel sales was more moderate at 0.5%M/M while sales at clothing and textile stores fell from March (-1.8%M/M) but were still up sharply on a three-month basis (5.7%3M/3M). As in Q1, the strength in sales at the start of Q2 in part reflected the fine weather, as the impact of the sunniest and third warmest April on record in the UK more than offset a deterioration in consumer confidence to an 18-month low, which was likely in part due to the marked increases in household energy and water bills that month as well as uncertainty surrounding US tariffs.

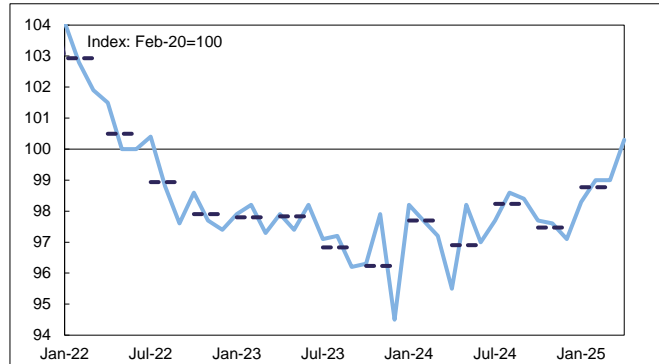
### Households more upbeat in May & household energy bills to be cut by 7% from July

Perhaps encouragingly, today's GfK survey results reported an uptick in household sentiment in May, with the headline index rising 3pts to -20, broadly in line with the averages in Q4 and Q1 albeit still some way below the long-run average. Consumers were reportedly somewhat less downbeat about the economic outlook and their personal finances, a development which likely in part reflected the tentative UK-US trade deal as well as the broader improvement in financial market sentiment. Moreover, conditions were judged the most favourable so far this year for making significant purchases. Looking ahead, sentiment might also be buoyed over coming months by today's decision by the regulator Ofgem to cut the household energy price cap by 7% in July, slightly more than reversing the rise in April. However, the cap will remain some 10% higher than in Q324. More generally, of course, as illustrated by today's retail sales data, sentiment indicators have not provided a particularly reliable guide to consumer spending over recent quarters. And we suspect that the weather will continue to have a non-negligible impact from month to month, with events in the labour market key in determining the consumption trend over coming quarters. For the time being, however, household spending looks to have remained stronger than the BoE anticipated. And given the upside surprise in inflation in April, a softening in growth in retail sales and spending on consumer services over the near term might be required to provide confidence to a majority MPC members to back another rate cut as soon as August.

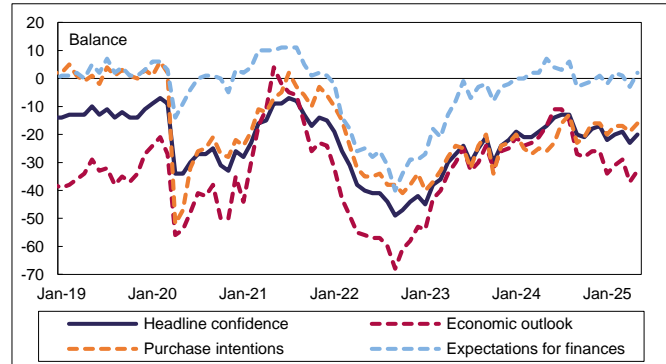
## The week ahead in the UK

The UK economic newsflow for the coming week should be relatively thin, with no major events scheduled and only a handful of second-tier surveys for May to contend with. After Monday's public holiday, the BRC shop price index (Tuesday) will provide an early account of price trends in May following April's steeper-than-expected [step-up in CPI inflation](#). Notably, the BRC survey highlighted in advance the further increase in food price pressures but continued absence of inflation in other goods prices subsequently confirmed in this week's CPI release. Meanwhile, following April's retail sales figures, the CBI's distributive trades survey (also Tuesday) will provide a first guide to May's retail performance. Lloyds' business survey (Friday) will also provide insights into UK business sentiment this month, including firms' price-setting and hiring intentions.

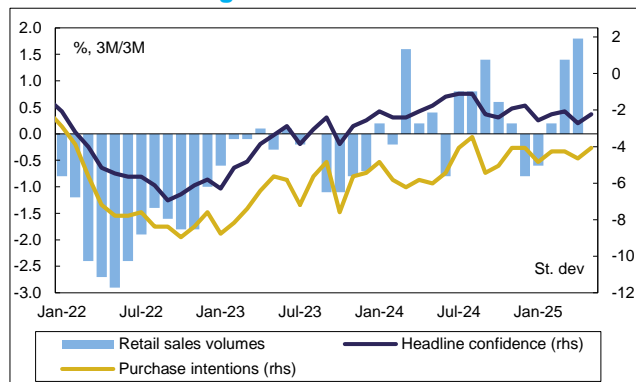
### UK: Retail sales\*



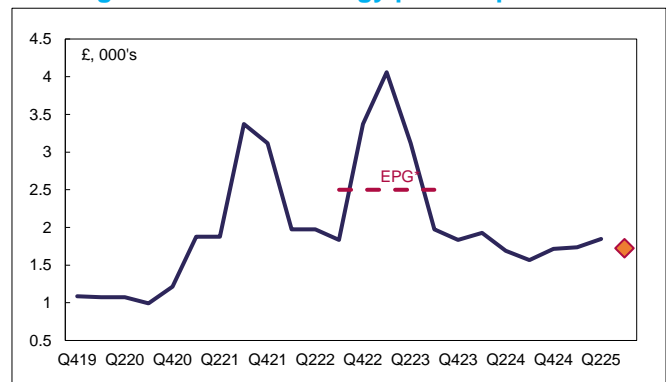
### UK: Consumer confidence












### UK: Retail sales growth\* & consumer confidence



### UK: Ofgem household energy price cap\*















## Daiwa economic forecast

		2025				2026		2025	2026	2027
		Q1	Q2	Q3	Q4	Q1	Q2			
GDP		%, Q/Q						%, Y/Y		
Euro area		0.4	-0.1	0.1	0.2	0.2	0.3	0.8	0.7	1.3
UK		0.7	-0.1	0.2	0.3	0.3	0.3	1.0	1.1	1.4
Inflation, %, Y/Y										
Euro area										
Headline HICP		2.3	2.0	1.8	1.9	1.7	1.7	2.0	1.8	1.8
Core HICP		2.6	2.4	2.2	2.1	1.9	1.4	2.2	1.7	1.6
UK										
Headline CPI		2.8	3.5	3.6	3.4	3.0	2.0	3.3	2.2	2.0
Core CPI		3.6	3.7	3.6	3.6	3.3	2.1	3.3	2.2	1.8
Monetary policy, %										
ECB										
Deposit Rate		2.50	2.00	1.75	1.75	1.75	1.75	1.75	1.75	1.75
Refi Rate		2.65	2.15	1.90	1.90	1.90	1.90	1.90	1.90	1.90
BoE										
Bank Rate		4.50	4.25	4.00	3.75	3.50	3.25	3.75	3.25	3.00



























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

## The coming week's data calendar

The coming week's key events & auctions			
Country		BST	Event / Auction
Monday 26 May 2025			
Euro area		15.30	ECB President Lagarde gives lecture on 'Europe's role in a fragmented world' at the Hertie School, Berlin
UK		-	Spring Bank Holiday in the UK
Tuesday 27 May 2025			
Germany		17.00	Bundesbank President Nagel speaks on monetary policy at the ZEW Institute, Mannheim
Italy		10.00	Auction: to sell up to €2.75bn of 2.55% 2027 bonds
		10.00	Auction: to sell up to €1bn of 1.25% 2032 inflation-linked bonds
		10.00	Auction: to sell up to €1bn of 1.8% 2036 inflation-linked bonds
Wednesday 28 May 2025			
Germany		10.30	Auction: to sell up to €1.5bn of 1% 2038 bonds
		10.30	Auction: to sell up to €500m of 4.75% 2040 bonds
UK		10.00	Auction: to sell £2.75bn of 0.875% 2033 green bonds
Thursday 29 May 2025			
Euro area		-	Ascension Day: public holiday in Germany & France
Italy		10.00	Auction: to sell bonds*
UK		10.00	Auction: to sell £1.25bn of 0.125% 2031 inflation-linked bonds
Friday 30 May 2025			
- Nothing scheduled -			

\*Details to be announced. Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

## The coming week's key data releases







Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
<b>Monday 26 May 2025</b>					
Spain		08.00 PPI Y/Y%	Apr	-	4.9
<b>Tuesday 27 May 2025</b>					
Euro area		05.00 New car registrations Y/Y%	Apr	-	-1.0
		10.00 Commission economic sentiment indicator	May	94.0	93.6
		10.00 Commission industry (services) confidence indicator	May	-10.5 (1.0)	-11.2 (1.4)
		10.00 Final Commission consumer confidence indicator	May	<u>-15.2</u>	-16.6
Germany		07.00 GfK consumer confidence indicator	Jun	-20.0	-20.6
France		07.45 Preliminary HICP (CPI) Y/Y%	May	0.9 (0.9)	0.9 (0.8)
UK		00.01 BRC shop price index Y/Y%	May	0.0	-0.1
		11.00 CBI distributive trades survey – reported retail sales balance %	May	-	-8
<b>Wednesday 28 May 2025</b>					
Euro area		09.00 ECB consumer expectations survey – 1Y (3Y) CPI Y/Y%	Apr	2.5 (2.8)	2.9 (2.5)
Germany		08.55 Unemployment claims rate % (change 000s)	May	13.5 (6.3)	6.3 (4)
France		07.45 GDP – final estimate Q/Q% (Y/Y%)	Q1	<u>0.1 (0.8)</u>	-0.1 (0.6)
		07.45 Final private sector payrolls (total payrolls) Q/Q%	Q1	<u>0.0 (-)</u>	-0.3 (-0.3)
		07.45 Consumer spending M/M% (Y/Y%)	Apr	-	-1.0 (-1.5)
		07.45 PPI Y/Y%	Apr	-	-0.6
<b>Thursday 29 May 2025</b>					
Italy		09.00 ISTAT consumer confidence indicator	May	93.0	92.7
		09.00 ISTAT business (manufacturing) confidence indicator	May	- (86.2)	91.5 (85.7)
Spain		08.00 Retail sales Y/Y%	Apr	-	3.6
<b>Friday 30 May 2025</b>					
Euro area		09.00 M3 money supply Y/Y%	Apr	3.7	3.6
Germany		13.00 Preliminary HICP (CPI) Y/Y%	May	2.0 (2.1)	2.2 (2.1)
		07.00 Retail sales* M/M% (Y/Y%)	Apr	-	0.4 (0.9)
Italy		09.00 GDP – final estimate Q/Q% (Y/Y%)	Q1	<u>0.3 (0.6)</u>	0.2 (0.6)
		10.00 Preliminary HICP (CPI) Y/Y%	May	1.9 (1.7)	2.0 (1.9)
		11.00 PPI Y/Y%	Apr	-	5.4
Spain		08.00 Preliminary HICP (CPI) Y/Y%	May	2.0 (2.0)	2.2 (2.2)
UK		00.01 Lloyds business barometer (own price expectations)	May	-	39 (68)

Source: Bloomberg 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	 Negotiated wages Y/Y%	Q1	<b>2.4</b>	-	4.1	-
Germany	 GDP – final estimate Q/Q% (Y/Y%)	Q1	<b>0.4 (0.0)</b>	<u>0.2 (-0.2)</u>	-0.2 (-0.2)	-
France	 INSEE consumer confidence indicator	May	<b>88</b>	93	92	91
UK	 Retail sales – incl. auto fuel M/M% (Y/Y%)	Apr	<b>1.2 (5.0)</b>	0.3 (4.5)	0.4 (2.6)	0.1 (1.9)
	 Retail sales – excl. auto fuel M/M% (Y/Y%)	Apr	<b>1.3 (5.3)</b>	0.1 (4.4)	0.5 (3.3)	0.2 (2.6)
	 GfK consumer confidence indicator	May	<b>-20</b>	-22	-23	-

**Auctions**

Country	Auction
- Nothing to report -	

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.



Access our research blog at:

<https://www.uk.daiwacm.com/ficc-research/recent-blogs>

This research report is produced by Daiwa Securities Co. Ltd., and/or its affiliates and is distributed by Daiwa Capital Markets Europe Limited ("DCME"). DCME is authorised and regulated by The Financial Conduct Authority and is a member of the London Stock Exchange. DCME and its affiliates may, from time to time, to the extent permitted by law, participate or invest in other financing transactions with the issuers of the securities referred to herein (the "Securities"), perform services for or solicit business from such issuers, and/or have a position or effect transactions in the Securities or derivatives or options thereof and/or may have acted as an underwriter during the past twelve months for the issuer of such securities. In addition, employees of DCME and its affiliates may have positions and effect transactions in such the Securities or derivatives or options thereof and may serve as Directors of such issuers. DCME may, to the extent permitted by applicable UK law and other applicable law or regulation, effect transactions in the Securities before this material is published to recipients.

This publication is intended only for investors who are professional clients as defined in MiFID II and should not be distributed to retail clients as defined in MiFID II. Should you enter into investment business with DCME's affiliates outside the United Kingdom, we are obliged to advise that the protection afforded by the United Kingdom regulatory system may not apply; in particular, the benefits of the Financial Services Compensation Scheme may not be available.

DCME has in place organisational arrangements for the prevention and avoidance of conflicts of interest. Our conflict management policy is available at <http://www.uk.daiwacm.com/about-us/corporate-governance-regulatory>. Regulatory disclosures of investment banking relationships are available at <https://daiwa3.bluematrix.com/sellside/Disclosures.action>.

**Explanatory Document of Unregistered Credit Ratings**

This report may use credit ratings assigned by rating agencies that are not registered with Japan's Financial Services Agency pursuant to Article 66, Paragraph 27 of the Financial Instruments and Exchange Act. Please review the relevant disclaimer regarding credit ratings issued by such agencies at:

[https://drp.daiwa.co.jp/rp-daiwa/direct/reportDisclaimer/credit\\_ratings.pdf](https://drp.daiwa.co.jp/rp-daiwa/direct/reportDisclaimer/credit_ratings.pdf). If you need more information on this matter, please contact the Research Production Department of Daiwa Securities.

**IMPORTANT**

This report is provided as a reference for making investment decisions and is not intended to be a solicitation for investment. Investment decisions should be made at your own discretion and risk. Content herein is based on information available at the time the report was prepared and may be amended or otherwise changed in the future without notice. We make no representations as to the accuracy or completeness. Daiwa Capital Markets Europe Limited retains all rights related to the content of this report, which may not be redistributed or otherwise transmitted without prior consent.