

# Euro wrap-up

## Overview

- Bunds ended the day little changed as euro area Q1 GDP growth was revised up and various retail sales, IP and trade data suggested resilience in April.
- Gilts followed USTs lower on a quiet day for UK economic news.
- The coming week will bring April IP and goods trade data from the euro area, as well as the latest UK labour market and GDP reports.

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### Daily bond market movements

Bond	Yield	Change
BKO 1.7 06/27	1.869	+0.005
OBL 2.4 04/30	2.167	-
DBR 2½ 02/35	2.564	-0.012
UKT 3% 03/27	4.000	+0.001
UKT 4% 03/30	4.146	+0.023
UKT 4½ 03/35	4.638	+0.023

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

Source: Bloomberg

## Euro area

### Moderate pull-back in German IP in April after Q1 surge points to resilience to Trump tariffs

A key reason for President Lagarde's assessment yesterday that the ECB's rate-cut cycle is approaching its conclusion is the increasing evidence of the resilience of the euro area economy to Trump's tariff shock. Some of that resilience was evident today in the first production and trade data for April from the large member states. Inevitably given the strength in Q1 when German manufacturing output rose for the first quarter in a year (0.8%Q/Q) as firms in some sub-sectors front-ran US tariffs, there was payback at the start of Q2. But the drop in factory output of 1.8%M/M reversed only part of the (revised) growth of 2.7%M/M in March, leaving it broadly in line with the Q1 average. And yesterday's data showing a second successive month of growth in [factory orders](#) in April suggest that production over the second quarter as a whole should similarly be little changed from Q1. Given the surge in pharmaceuticals production in March (19.3%M/M), there was inevitably a sharp pull-back in this category in April (-17.7%M/M). The output declines in April in Germany's dominant autos (-0.6%M/M) and machinery (-2.4%M/M) sectors were far more moderate leaving the level of capital goods output also little changed from the Q1 average. Meanwhile, although output of intermediate goods was trending below the Q1 average due not least to softness in basic metals and chemicals, output of consumer durables was on track for growth this quarter.

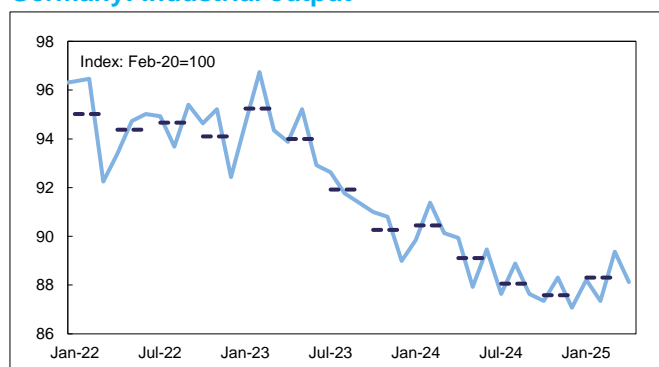
### German exports to the rest of EU encouragingly firm, construction on track for further growth in Q2

As for manufacturing production, German goods exports inevitably pulled back in April, falling in value terms for the first time since October (-1.7%M/M). But that left them just 0.3% below the Q1 average. Shipments to other EU countries were reassuringly firm, up for a fifth successive month to be trending more than 3% above the Q1 average. But given payback in exports to the US – down more than 15%M/M according to yesterday's Census Bureau figures – shipments to non-EU countries fell almost 5%M/M to be trending more than 4% below the Q1 level. Beyond the manufacturing sector, a second successive month of growth in German construction output (1.4%M/M) more than offset a weather-related drop in energy output. As a result, the fall in overall industrial production in April (-1.4%M/M) was somewhat softer than for manufacturing output. And the construction sector appears on track for a second successive quarter of expansion in Q2.

### French factory output still above Q1 average in April despite drop in export shipments

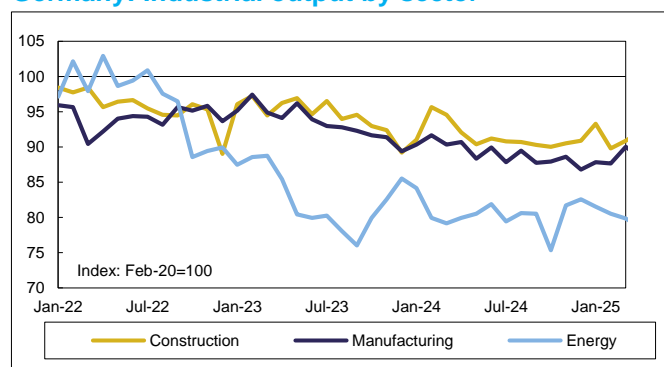
Today's French economic data also suggested relative resilience in the manufacturing sector at the start of Q2. Admittedly, total industrial production fell a steeper-than-expected 1.4%M/M in April, the most in 11 months. But this in large part reflected a slump in energy production (-6.2%M/M) for the fourth consecutive month amid unseasonably mild temperatures – indeed, this April was the fifth warmest for that month since 1900. Meanwhile, the decline in manufacturing production

#### Germany: Industrial output\*



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### Germany: Industrial output by sector



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

(-0.6%M/M) merely offset the rise in March to leave output still slightly above the Q1 average (0.2%). This in part reflected another double-digit rise in output of basic pharmaceutical products, for which the level was roughly one-third above the Q1 average. Production in several other subsectors also increased above the Q1 average, including food and beverages, basic metals, chemical and autos. In contrast, output from the aerospace sector fell back. And consumer electronics and electrical equipment fell for a second successive month. This related in part to a pullback in goods exports in April (-5.9%M/M), with declines in mechanical, electrical and transport accounting for roughly 85% of that drop. Given the front-running of tariffs in March, the value of exports was down a more moderate 2.8% compared with the Q1 average. And while we expect it to be a drag on GDP growth in Q2, a recovery in exports of services after two consecutive quarterly contractions should provide some offset. Today's construction activity data were also more encouraging, with the level in April almost 1% above the Q1 average, suggesting that the ongoing easing in borrowing costs should also support a return to positive growth in this sector this quarter.

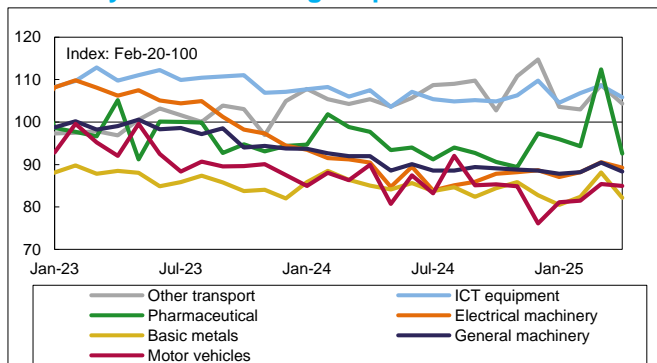
## Broad-based euro area GDP growth in Q1, revised sharply upwards on Irish & German front-running

Notwithstanding encouraging signs of resilience, euro area GDP growth is bound to see some payback in Q2 not least due to the extreme front-running of US tariffs in Q1 in Ireland. Indeed, principally reflecting the substantial revisions to Irish and German GDP as more information about the strength of production and exports in March became available, today's updated national accounts doubled the estimate of euro area GDP growth in Q1 to 0.6%Q/Q, the strongest for ten quarters, pushing up the annual rate at an above-potential 1.5%Y/Y. Among the member states, Ireland (9.7%Q/Q) accounted for two-thirds of the euro area's expansion in Q1, with Germany (0.4%Q/Q) adding a further 0.1ppt to growth and Italy (0.3%Q/Q) and Spain (0.6%Q/Q) largely accounting for the remainder. The expenditure breakdown, published for the first time today, similarly illustrated the tariff-related boost at the start of the year. In particular, export growth jumped to a three-quarter high of 1.9%Q/Q, with goods shipments (2.1%Q/Q) the strongest in four years. So, despite solid growth in imports (1.4%Q/Q), net trade contributed 0.3ppt to GDP growth. Fixed investment was also reassuringly strong, with growth (1.8%Q/Q) matching the near-three-year high recorded in Q3 thanks to a surge in spending on intellectual property. And while household expenditure slowed in Q1 (0.2%Q/Q), it contributed positively to GDP growth for a fifth straight quarter.

## Retail sales tracking above Q1 average at start of Q2

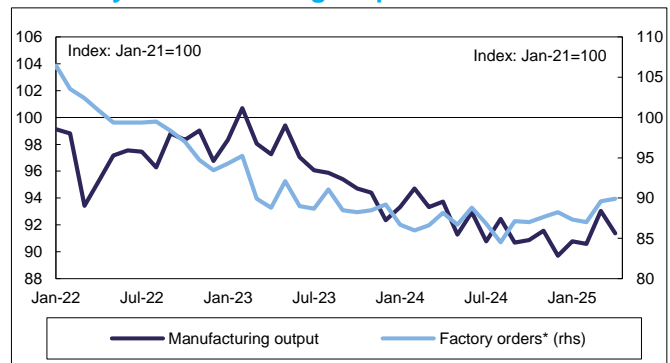
Today's euro area retail sales numbers for April suggest that we should see ongoing support to GDP growth from the household sector in the current quarter too. Sales volumes rose for a third consecutive month, albeit by just 0.1%M/M. The growth reflected an acceleration in sales of food (0.5%M/M) and auto fuel (1.3%M/M), perhaps benefiting from the Easter period. And while core (i.e. non-food and non-fuel) sales fell in April, they were still a touch firmer than the Q1 average, and

### Germany: Manufacturing output in selected sectors



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

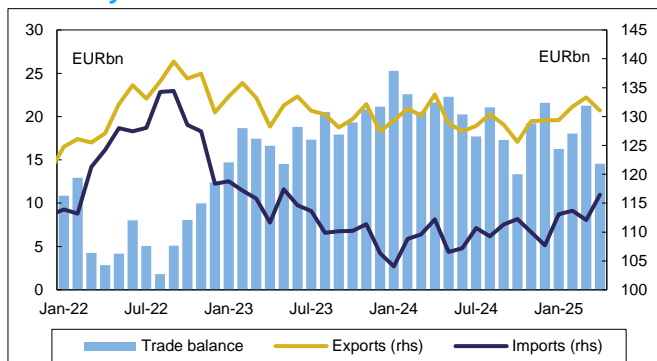
### Germany: Manufacturing output & orders



\*Excluding major orders.

Source: Macrobond and Daiwa Capital Markets Europe Ltd.

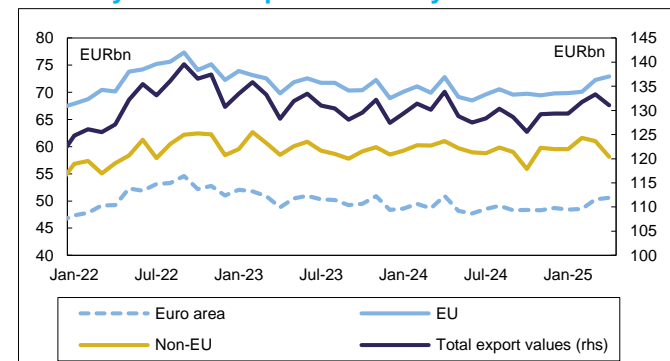
### Germany: Goods trade balance\*



\*Seasonally adjusted values.

Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### Germany: Goods export values by destination



Source: Macrobond, US Census Bureau and Daiwa Capital Markets Europe Ltd.

total sales were ½% higher on the same basis. As such, we expect household consumption to provide some offset to the expected negative contribution from net trade and possible pause in fixed investment this quarter. And while the extent of the slowdown in Q2 will be driven by the magnitude of the retrenchment in Ireland – from which US goods imports in April were a whopping 45% below the Q1 average – we currently expect only a modest contraction in euro area GDP (-0.1%Q/Q).

## The week ahead in the euro area

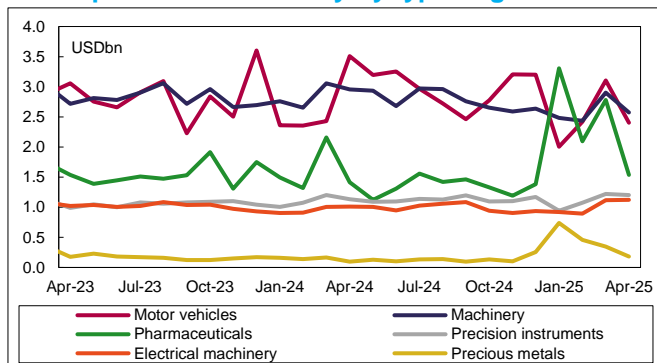
The bulk of euro area economic data releases in the coming week will arrive on Friday, with April's aggregate euro area industrial production and trade figures, and final May inflation estimates from several member states all due. Euro area IP will predictably show some payback after efforts to meet US demand ahead of tariff hikes boosted output in Q1. After today's reported declines out of Germany and France, the Bloomberg survey consensus is for a fall of 1.7%M/M, not fully reversing March's increase (2.6%M/M). Irish (Monday) and Italian (Tuesday) figures will further inform our expectations. Likewise, with the same forces having driven the euro area trade surplus to a new peak in March (€27.9bn), US import data unsurprisingly point to a normalisation in euro exports in April. Meanwhile, growing hopes for a lull in trade tensions, the growing attractiveness of Europe to global capital flows and the further [cut in the deposit rate](#) this month may collectively support a further improvement in investor sentiment in the June Sentix survey (Tuesday). In terms of inflation, in line with their preliminary releases, updated estimates should confirm a broad moderation in the headline inflation in Germany (2.1%Y/Y), France (0.6%Y/Y) and Spain (1.9%Y/Y). We expect the accompanying detail to attribute the softening to a reversal of the Easter-related distortions to certain services components such as package holidays and airfares. The detail may also note marginally greater pressure from food and core goods components, though lower household energy and auto fuel prices will have provided some offset. The periodical update to the ECB's wage tracker (Wednesday) should also point towards a continued moderation in domestic price pressures later this year as wage growth normalises further.

## UK

### The week ahead in the UK

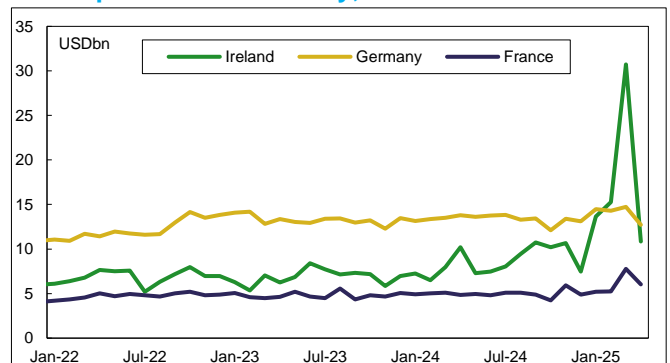
After a relatively quiet past week on the data front, the coming week will bring a couple of top-tier releases, including April's monthly GDP report (Thursday) and updated labour market statistics (Tuesday). With private sector pay growth (5.6%3M/Y) having already undershot the BoE's forecast for March (by 0.16ppt), we expect to see signs of further moderation in April's wage data. Median pay was reportedly slightly firmer, potentially influenced by the National Living Wage rises that month. But a slowdown would be consistent with the softness in the DMP survey following the rise in employers' National Insurance Contributions. Anticipation of those changes will have been in part responsible for the recent signs of labour market

#### US: Imports from Germany by type of good



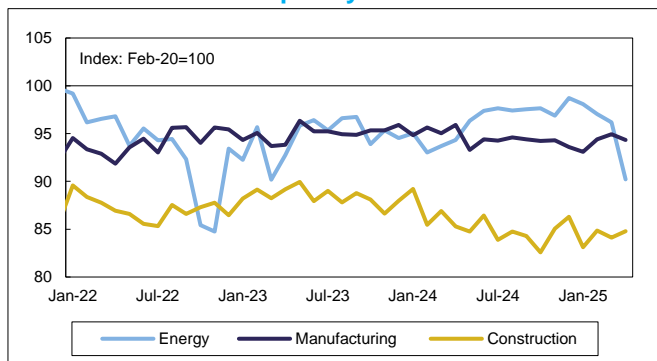
Source: Macrobond, US Census Bureau and Daiwa Capital Markets Europe Ltd.

#### US: Imports from Germany, France & Ireland



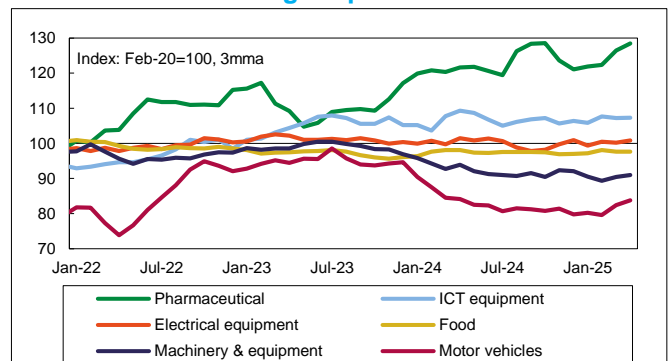
Source: Macrobond, US Census Bureau and Daiwa Capital Markets Europe Ltd.

#### France: Industrial output by sector



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### France: Manufacturing output in selected sectors

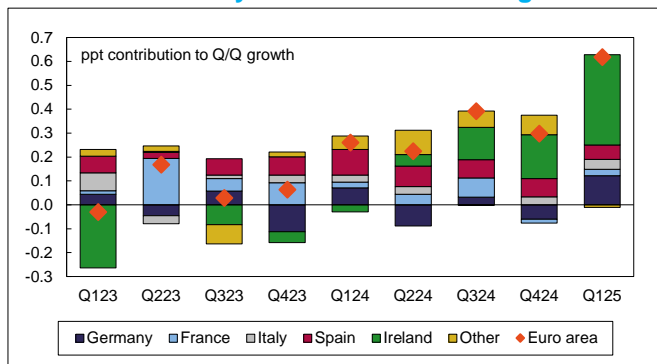


Source: Macrobond and Daiwa Capital Markets Europe Ltd.

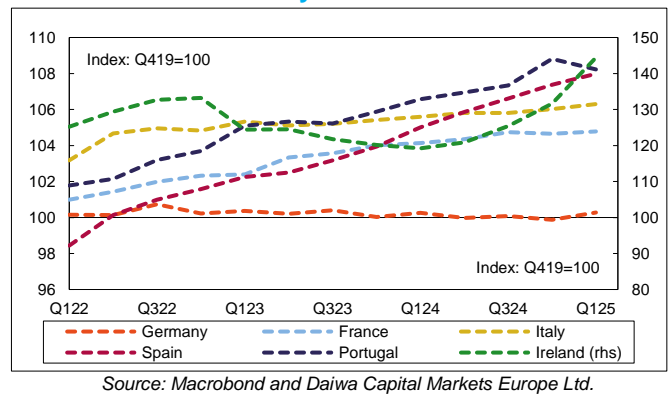
loosening, reflected recently by the weakness of payroll employment numbers – shrinking a cumulative 100k over the past three months – and mark up in the unemployment rate. So, despite still elevated wage growth, and although some of the drop in payrolls may have been accompanied by an increase in the number of self-employed or cash-in-hand workers – we expect the more dovish MPC voters to remain particularly cognizant of their development.

The other key focus in the coming week will be April's monthly GDP series. Though the favourable weather which provided a boost to consumer-facing services in March extended into April, we see the likelihood of another monthly increase in GDP in April as diminished by Q1's strength. Indeed, the likelihood of some payback to manufacturing production for tariff front-running in Q1, as well as the broader hit to sentiment reported by leading surveys that month, points to a drop in overall economic output. Admittedly, consumer spending may have proved somewhat resilient, with the timing of Easter holidays having helped retail sales volumes to rise 1.2%M/M in April. Still, we expect total services growth to have been broadly flat. Nevertheless, even if GDP falls in April, the strength of carry-over from Q1 will likely keep growth on a three-monthly basis at a surprisingly strong 0.7%3M/3M. Looking further ahead, the BRC's retail sales monitor (Tuesday) will provide an earlier view of consumer spending in May. The BoE's quarterly inflation attitudes survey (Friday) will also be watched.

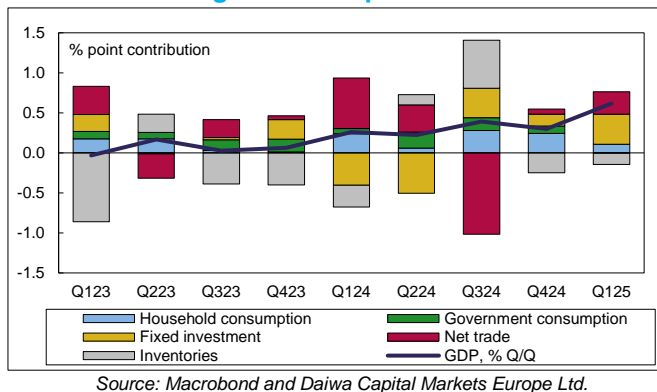
### Euro area: Country contribution to GDP growth



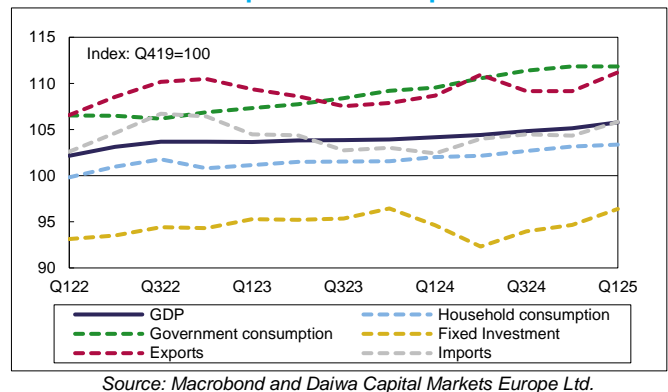
### Euro area: GDP level by member states



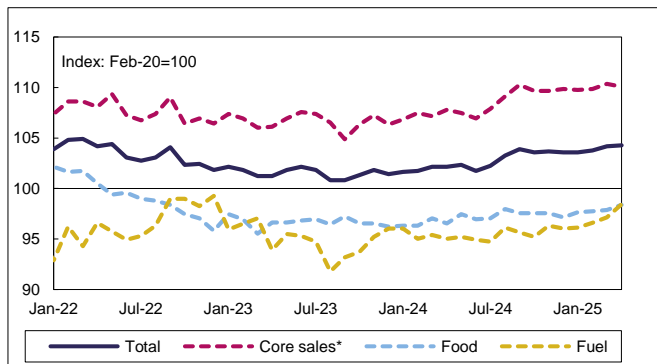
### Euro area: GDP growth & expenditure contributions



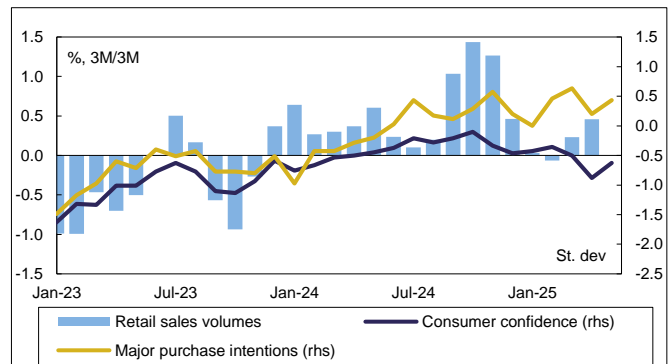
### Euro area: GDP expenditure components












### Euro area: Retail sales



### Euro area: Retail sales & consumer confidence














## Daiwa economic forecast

		2025				2026		2025	2026	2027
		Q1	Q2	Q3	Q4	Q1	Q2			
GDP		%, Q/Q						%, Y/Y		
Euro area		0.6	-0.1	0.1	0.2	0.2	0.3	1.1	0.8	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	2.1	2.0	1.9	1.4	2.2	1.6	1.6
UK										
Headline CPI		2.8	3.4	3.5	3.3	2.8	1.9	3.3	2.2	2.0
Core CPI		3.6	3.6	3.4	3.4	3.1	2.0	3.5	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.

## European calendar























Today's results						
Economic data						
Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Euro Area	 GDP – final estimate Q/Q% (Y/Y%)	Q1	<b>0.6 (1.5)</b>	<u>0.4 (1.2)</u>	0.2 (1.2)	-
	 GDP – household consumption Q/Q%	Q1	<b>0.2</b>	-	0.4	0.5
	 GDP – government expenditure Q/Q%	Q1	<b>0.0</b>	-	0.4	0.5
	 GDP – fixed investment Q/Q%	Q1	<b>1.8</b>	-	0.6	0.7
	 Employment – final estimate Q/Q% (Y/Y%)	Q1	<b>0.2 (0.7)</b>	<u>0.3 (0.8)</u>	0.1 (0.7)	-
	 Retail sales M/M% (Y/Y%)	Apr	<b>0.1 (2.3)</b>	0.2 (1.5)	-0.1 (1.5)	0.4 (1.9)
Germany	 Industrial production M/M% (Y/Y%)	Apr	<b>-1.4 (-1.8)</b>	-1.0 (-1.0)	3.0 (-0.2)	2.3 (-0.7)
	 Trade balance €bn	Apr	<b>14.6</b>	19.1	21.1	21.3
France	 Industrial production M/M% (Y/Y%)	Apr	<b>-1.4 (-2.1)</b>	0.0 (-0.3)	0.2 (0.2)	0.1 (0.1)
	 Trade balance €bn	Apr	<b>-8.0</b>	-	-6.2	-6.3
Spain	 House price index Q/Q% (Y/Y%)	Q1	<b>3.5 (12.2)</b>	-	1.8 (11.3)	-
Auctions						
Country	Auction					
- Nothing to report -						

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The next edition of the Euro wrap-up will be published on 10 June 2025









# The coming week's data calendar

## The coming week's key data releases

Country		BST	Release		Period	Market consensus/ <i>Daiwa</i> <u>forecast/actual</u>	Previous
Monday 9 June 2025							
- Nothing scheduled -							
Tuesday 10 June 2025							
Euro Area		09.30	Sentix investor confidence indicator		Jun	-6.0	-8.1
Italy		09.00	Industrial production M/M% (Y/Y%)		Apr	-	0.1 (-1.8)
UK		00.01	BRC retail monitor – like-for-like sales Y/Y%		May	-	6.8
		07.00	Average wages (excluding bonuses) 3M/Y%		Apr	5.5 (5.4)	5.5 (5.6)
		07.00	Private sector regular wages 3M/Y%		Apr	5.4	5.6
		07.00	Unemployment rate 3M%		Apr	4.6	4.5
		07.00	Employment 3M/3M change 000s		Apr	57	112
		07.00	Payrolled employees M/M change 000s		May	-	-33
		07.00	Claimant count rate % (change 000s)		May	-	4.5 (5.2)
Wednesday 11 June 2025							
- Nothing scheduled -							
Thursday 12 June 2025							
Italy		09.00	Unemployment rate %		Q1	<u>6.0</u>	6.1
UK		00.01	RICS house price balance %		May	-	-3
		07.00	Monthly GDP M/M% (3M/3M%)		Apr	-0.1 (0.7)	0.2 (0.7)
		07.00	Services output M/M% (3M/3M%)		Apr	-0.2 (0.7)	0.4 (0.7)
		07.00	Industrial output M/M% (Y/Y%)		Apr	-0.5 (-0.2)	-0.7 (-0.7)
		07.00	Construction output M/M% (Y/Y%)		Apr	0.1 (2.5)	0.5 (1.4)
		07.00	Trade (goods trade) balance £bn		Apr	-	-3.7 (-19.9)
Friday 13 June 2025							
Euro Area		10.00	Industrial production M/M% (Y/Y%)		Apr	-1.7 (-1.2)	2.6 (3.6)
		10.00	Trade balance €bn		Apr	-	27.9
Germany		07.00	Final HICP (CPI) Y/Y%		May	<u>2.1 (2.1)</u>	2.2 (2.1)
France		07.45	Final HICP (CPI) Y/Y%		May	<u>0.6 (0.7)</u>	0.9 (0.8)
Spain		08.00	Final HICP (CPI) Y/Y%		May	<u>1.9 (1.9)</u>	2.2 (2.2)
UK		09.30	BoE/Ipsos inflation attitudes survey – 1Y ahead CPI Y/Y%		Q2	-	3.4

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

## The coming week's key events & auctions

Country	BST	Event / Auction
<b>Monday 9 June 2025</b>		
- Nothing scheduled -		
<b>Tuesday 10 June 2025</b>		
Germany		10.30 Auction: to sell up to €4bn of 2.4% 2030 bonds
<b>Wednesday 11 June 2025</b>		
Euro Area		09.00 ECB to publish updated wage tracker indicators
		10.30 ECB Chief Economist Lane to give presentation at 2025 Government Borrowers Forum, Dublin.
Germany		10.30 Auction: to sell up to €3bn of 2.5% 2035 bonds
UK		10.00 Auction: to sell £4.25bn of 4.5% 2035 bonds
<b>Thursday 12 June 2025</b>		
Euro Area		10.00 ECB Executive Board Member Schnabel to give presentation at House of the Euro, Brussels
Italy		10.00 Auction: to sell bonds
<b>Friday 13 June 2025</b>		
UK		00.01 REC, KPMG & S&P Global UK Report on Jobs for May

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.



Access our research blog at:

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