

# Euro wrap-up

## Overview

- Gilts made gains as UK GDP declined in April for the first month in five and by the most since October 2023, while exports to the US fell the most on record.
- Bunds followed the global trend higher on a quiet day for euro area economic news.
- Friday will bring euro area goods trade and industrial production data for April, along with UK household inflation expectations and labour market surveys.

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### Daily bond market movements

Bond	Yield	Change
BKO 1.7 06/27	1.804	-0.033
OBL 2.4 04/30	2.077	-0.047
DBR 2½ 02/35	2.477	-0.056
UKT 3% 03/27	3.860	-0.041
UKT 4% 03/30	3.985	-0.051
UKT 4½ 03/35	4.480	-0.070

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

## UK

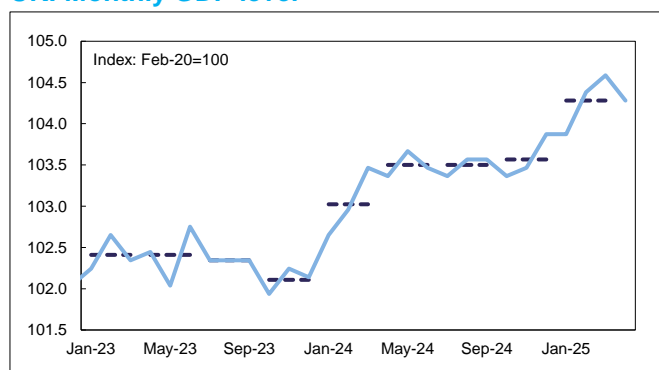
### Economy appears broadly resilient to higher US tariffs despite drop in GDP in April

Tallying with softer business and consumer surveys, and after accelerating in Q1 (0.7%Q/Q) as many firms front-ran higher US tariffs, households rushed to complete house purchases ahead of stamp duty changes, and consumer spending was boosted by unseasonably warm weather, UK GDP fell back at the start of Q2. In particular, GDP fell 0.3%M/M in April, a touch more than the Bloomberg survey consensus (-0.1%M/M) and the most since October 2023. But this merely marked the first drop since October and followed a cumulative rise of 1.2% between October and March. As such, economic output was still up 0.9%Y/Y, 0.7%3M/3M and bang in line with the Q1 average, suggesting broad resilience at the start of Q2. Like the BoE, we currently forecast a modest contraction this quarter (-0.1%Q/Q), in part due to weaker exports. But while the PMIs provided a poor guide to GDP growth in Q1, they showed some welcome signs of recovery in May, not least in services and construction. So, we also wouldn't be surprised to see economic activity tracking sideways in Q2 before returning to growth in the second half of the year.

### Drop in services activity largely reflects temporary factors, while construction maintains uptrend

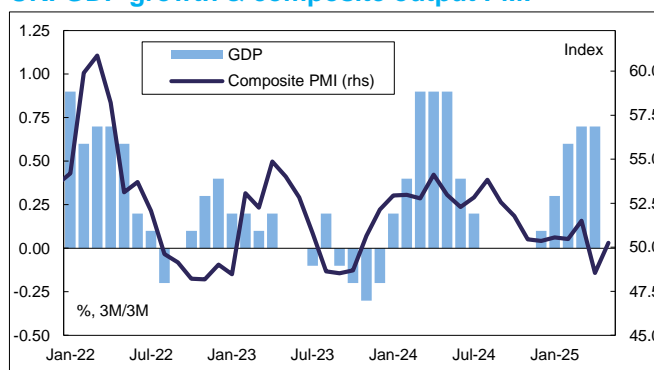
The contraction in April was led by the dominant services sector, where activity fell in 9 out of 14 subsectors to be down 0.4%M/M and fully accounted for the monthly drop in GDP. But this followed five straight monthly increases, which was the longest consecutive run of growth in the sector since 2017 when excluding the post-Covid lockdown periods. As such, services growth on a three-month basis slowed only slightly (0.6%3M/3M) to leave output bang in line with the Q1 level. Furthermore, the weakness was exaggerated by temporary factors. Most notably, the largest negative contribution came from professional, scientific and technical activities as legal services (-10.2%M/M) declined the most since January 2004. That reflected the slump in residential market transactions (-63.5%M/M) after a surge in Q1 as stamp duty thresholds were increased at the start of April. Meanwhile, contrasting solid retail sales growth, wholesale trade fell more than 3%M/M. There was also a sizeable drop in motion picture, video and TV programme production, which is often volatile. While retail surveys point to a weakening in sales in May, the negative factors should at least in part retreat over coming months. Today's release also showed a continued uptrend in construction activity, which rose for a third consecutive month and by 0.9%M/M. The firmest growth in new building work in eight months and ongoing modest growth in repair work suggest that the sector will provide welcome support to GDP growth over the quarter as a whole.

### UK: Monthly GDP level\*



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### UK: GDP growth & composite output PMI

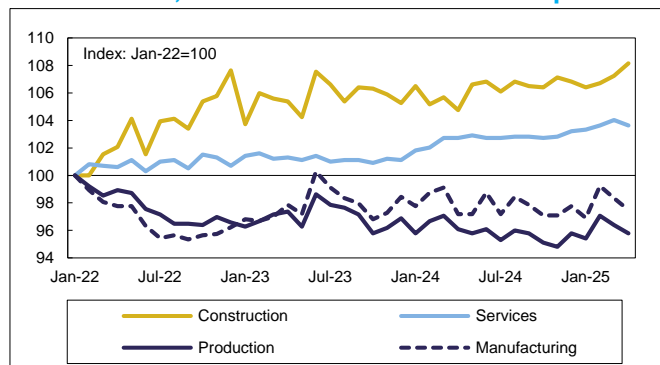


Source: Macrobond, S&P Global and Daiwa Capital Markets Europe Ltd.

## Manufacturing production inevitably drops in April after tariff front-running in Q1

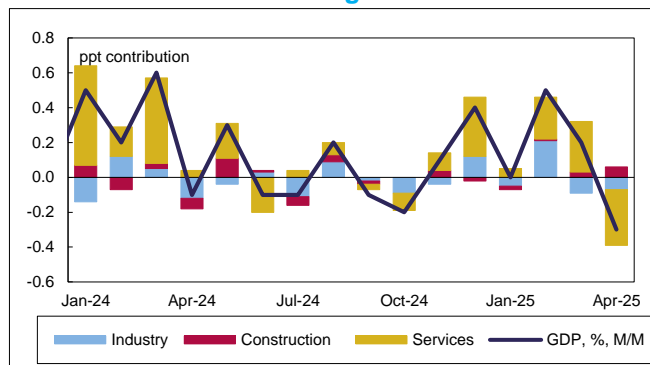
After strength in Q1 (1.1%Q/Q), industrial production was predictably soft in April, falling for a second successive month (-0.6%M/M) to knock 0.1ppt off monthly GDP growth. A steeper drop in manufacturing output (-0.9%M/M) left it some 0.7% below the Q1 average suggesting, perhaps inevitably, that it will provide a drag on GDP this quarter. While three-month growth in the sector (1.2%3M/3M) reached a 20-month high, that reflected the activity of firms in certain subsectors – including autos, ICT equipment and machinery – to front-run US tariffs in February and March. Indeed, today's figures inevitably reported a pullback in those industries, with autos production down 9½%M/M – the most in almost four years – to be some 4½% below the Q1 average and more than 12½% below the peak in February 2024. Declines in iron and steel, ICT equipment and machinery in April left output roughly 7%, 4% and 1% below the Q1 average. More positively, however, production of pharmaceutical products largely reversed the drop in March to be trending some 2½% higher on the same basis.

### UK: Services, industrial & construction output



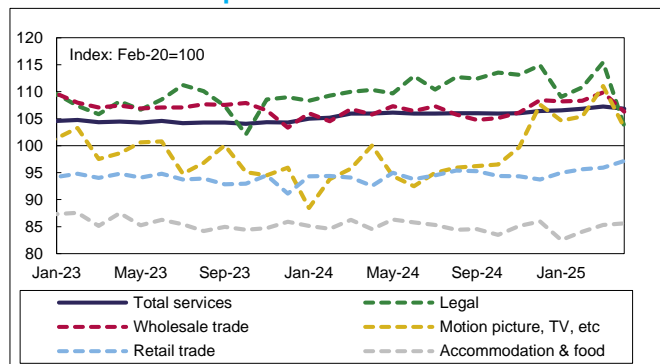
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### UK: Contributions to GDP growth



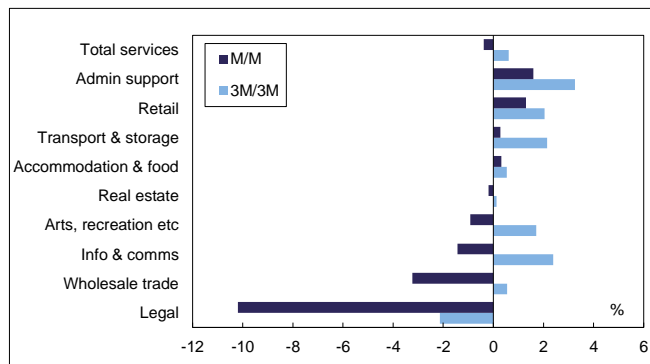
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### UK: Services output in selected subsectors



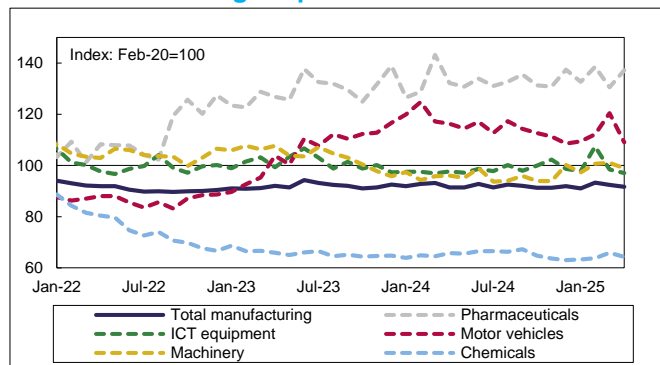
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### UK: Growth in selected services sectors\*



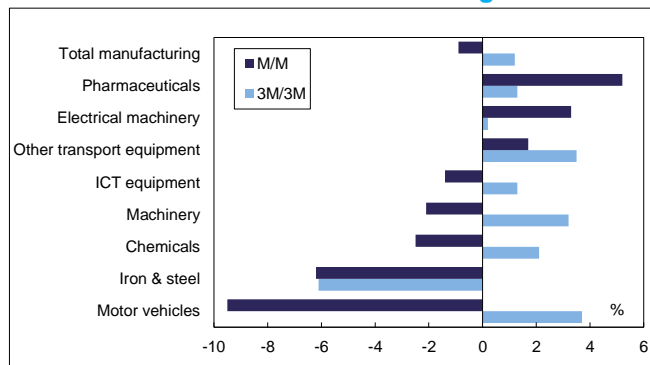
\*Data for April 2025. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### UK: Manufacturing output in selected subsectors



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### UK: Growth in selected manufacturing sectors\*

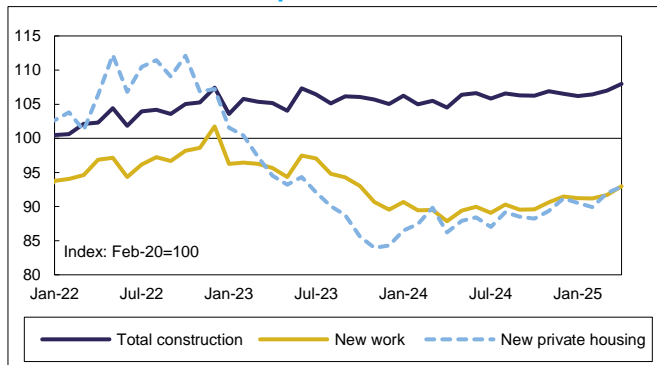


\*Data for April 2025. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

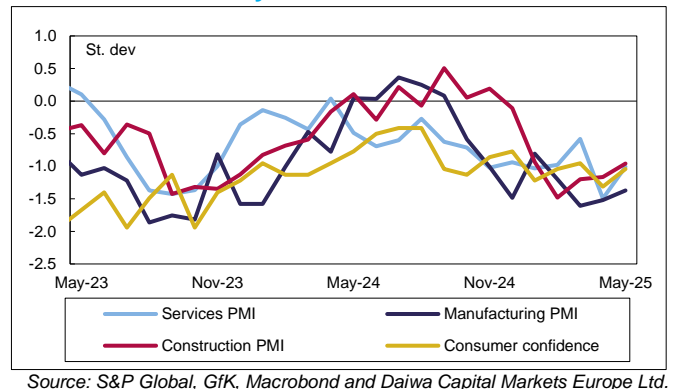
## Exports to the US plunge the most on record on lower shipments of cars & metals

The impact on economic activity of Trump's tariffs was evident from the April trade data. The value of goods shipments to the US fell a record £1.8bn (31%M/M) on a seasonally adjusted basis to the lowest level since the pandemic in November 2021, and also almost one third below the Q1 average level. As Jaguar Land Rover paused shipments early that month, it was no surprise that cars accounted for some of that decline. And given the particularly sharp front-loading of shipments to the US of non-ferrous metals in Q1, that component also fell precipitously in April. With shipments to the EU also down (-4.3%M/M), total goods exports fell £2.7bn (-8.8%M/M) to the lowest level since January 2022 and similarly more than 8% below the Q1 average. And with the value of imports up 1.2%M/M, the goods trade deficit widened by more than £3bn to £23.2bn, the biggest in more than two years. Meanwhile, as services imports grew a touch faster than exports, the overall trade deficit widened more than £3bn to £7.0bn, the largest in almost three years. So, having added 0.4ppt to GDP growth in Q1, net trade seems bound to subtract very significantly in Q2 whether or not the Trump-Starmer trade deal – which offered the UK a reduced 10% US tariff quota on cars and a zero percent steel tariff in return to greater access to US beef and ethanol shipments – is finally signed into law.

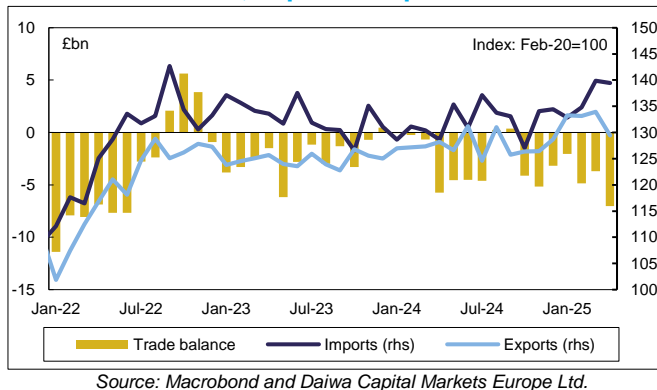
### UK: Construction output



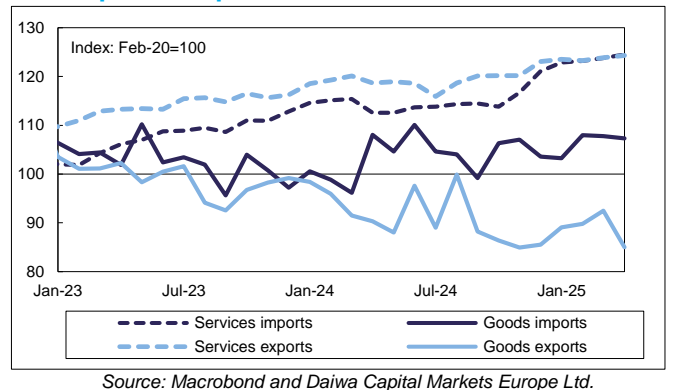
### UK: Selected survey indices



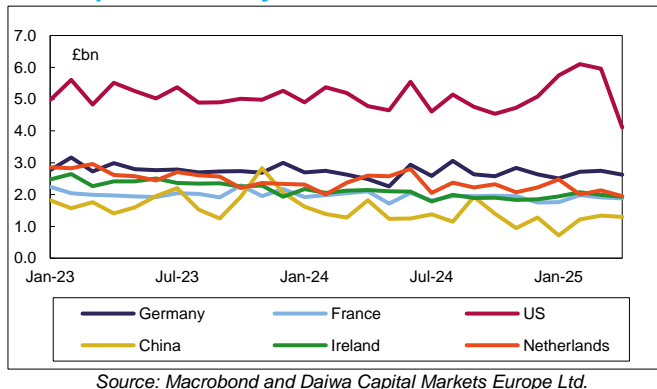
### UK: Trade balance, export & import values



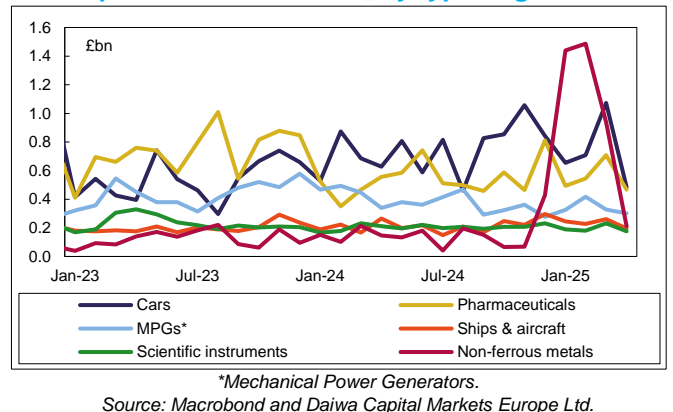
### UK: Export & import volumes



### UK: Export values by destination



### UK: Export values to the US, by type of good













## The day ahead in the UK

With next week's MPC meeting fast approaching, Friday's highlights will include the release of the BoE's quarterly household inflation attitudes survey, as well as the May REC/KPMG report on jobs. The most recent inflation survey in February showed that household CPI expectations for the year ahead picked up to 3.4%Y/Y, the highest in six quarters and up a cumulative 0.7ppt since Q324. More notably, with respect to the longer run, expectations for two and five years ahead were also their highest for 9 and 21 quarters respectively. The true value of those indices has rightly been questioned by some MPC members (most recently, external member Taylor). But the more hawkish rate-setters have expressed their concerns about risks of a further pickup in household expectations, particularly in response to the most recent CPI data, with potential implications for second-order effects on wages and prices. Meanwhile, after yesterday's soft labour market report, the REC report on jobs will be watched for further signals of waning job demand and slowing pay growth.

## The day ahead in the euro area

As in the UK, tomorrow's aggregate euro area industrial production and goods trade figures will register declines at the start of Q2, reflecting payback for exceptional front-running of US tariff hikes in Q1. Indeed, after March's production boost (2.6%M/M) was led by Germany (2.5%M/M) and Ireland (14.4%M/M), April national figures from those member states suggested normalisation, down 1.9%M/M and 15.2%M/M respectively. So, notwithstanding ongoing growth in Italian IP (1%M/M) that month, we expect euro area output to fall by roughly 2½%M/M, almost fully reversing the increase in March. In the same vein, US trade data unsurprisingly flagged a steep decline in imports from the euro area in April (-36.7%M/M), with close to 85% of April's change attributed to stabilising imports in pharmaceuticals and chemicals products. The euro area's goods trade surplus is thus expected to narrow substantially from March's record surplus (€27.9bn). Elsewhere, final May inflation prints from Germany, France and Spain will provide insights ahead of next week's euro area detail. These are expected to align with the preliminary estimates, which showed broad moderation in headline HICP inflation, down 0.1ppt in Germany (2.1%Y/Y) and 0.3ppt apiece in France (0.6%Y/Y) and Spain (1.9%Y/Y). We expect the granular detail to confirm that the softer prints last month reflected in part the reversal of temporary timing distortions associated with the timing of Easter, which boosted a handful of holiday-sensitive services components in April. 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.

# European calendar

Today's results						
Economic data						
Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Italy	 Unemployment rate %	Q1	6.1	6.1	6.1	-
UK	 Monthly GDP M/M% (3M/3M%)	Apr	-0.3 (0.7)	-0.2 (0.7)	0.2 (0.7)	-
	 Services output M/M% (3M/3M%)	Apr	-0.4 (0.6)	-0.1 (0.7)	0.4 (0.7)	-
	 Industrial output M/M% (Y/Y%)	Apr	-0.6 (-0.3)	-0.5 (-0.2)	-0.7 (-0.7)	-
	 Construction output M/M% (Y/Y%)	Apr	0.9 (3.3)	0.2 (2.5)	0.5 (1.4)	-
	 Trade (goods trade) balance £bn	Apr	-7.0 (-23.2)	-4.5 (-20.7)	-3.7 (-19.9)	-
	 RICS house price balance %	May	-8	-3	-3	-
Auctions						
Country	Auction					
Italy	 sold €2.5bn of 2.65% 2028 bonds at an average yield of 2.24%					
	 sold €3bn of 3.25% 2032 bonds at an average yield of 3.02%					
	 sold €1.25bn of 4.3% 2054 bonds at an average yield of 4.26%					



Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

## Wednesday's results

### Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
- Nothing to report -						







### Auctions

Country	Auction
Germany 	sold £2.336bn of 2.5% 2035 bonds at an average yield of 2.54%
UK 	sold £4.25bn of 4.5% 2035 bonds at an average yield of 4.588%


Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

## Tomorrow's releases

### Economic data

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Euro Area 	10.00	Industrial production M/M% (Y/Y%)	Apr	<u>-2.4 (0.6)</u>	2.6 (3.6)
	10.00	Trade balance €bn	Apr	18.3	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

### Auctions and events

UK 	00.01	REC, KPMG & S&P Global UK Report on Jobs for May
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Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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