Europe | Economic Research | 07 May 2026

Daiwa Capital Markets

Euro wrap-up

Overview

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- Bunds ended the day little changed while German factory orders beat expectations but euro area retail sales volumes softened and the construction PMIs flagged downside risks to near-term growth.
- As markets await the outcome of today's local elections in England and national parliament elections in Scotland and Wales, Gilts also made very modest gains as the UK construction PMIs pointed to a slump in activity.
- Friday will bring German industrial production and goods trade data for March.

Daily bond market movements

Bond	Yield	Change
BKO 2½ 06/28	2.565	+0.005
OBL 2½ 04/31	2.690	-0.002
DBR 2.9 02/36	2.995	-0.003
UKT 4⅜ 03/28	4.366	-0.011
UKT 4⅛ 03/31	4.466	-0.008
UKT 4¾ 10/35	4.932	-0.006

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

Euro area

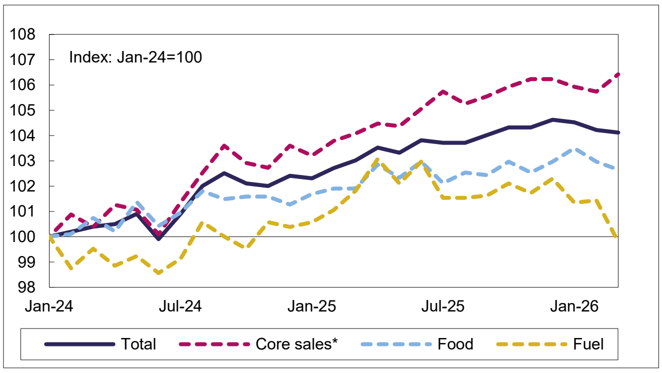
Retail sales fell in Q1 for the first time since Q323 as higher fuel prices deter driving

After underwhelming earlier in the year, today's data confirmed that euro area retail sales volumes were again soft in March, falling for a third successive month, the longest run of monthly declines since the euro crisis in 2012. This pushed the annual rate down to 1.2%Y/Y, the softest since August 2024, while quarterly growth slipped into negative territory (-0.1%Q/Q) for the first time since Q323. The weakness in March was driven by a sharp pullback in Germany (-2.1%M/M), which was offset by broadly stable sales volumes in France and Italy and solid gains in Spain, the Netherlands and Belgium. Within the euro area detail, sales of auto fuel fell a striking 1.6%M/M – the most in more than 2½ years – contrasting markedly with sales in the UK where consumers rushed to fill up fuel tanks to beat price rises at the pump. And euro area retailers also seemingly failed to benefit from the earlier timing of Easter, with sales of food, drinks and tobacco down for a second successive month. But despite the marked decline in consumer confidence and spending intentions following the outbreak of the Iran War, sales of core items (i.e. excluding food and fuel) rose for the first month in four and by the most (0.6%M/M) since July 2025. Of course, with sentiment having fallen further at the start of Q2, higher energy prices having continued to erode growth in real incomes and economic uncertainty and associated precautionary savings likely rising further, we suspect that spending on core items, fuel and food will fall further this quarter too.

German factory orders beat expectations at end-Q1, but likely flattered by temporary frontloading

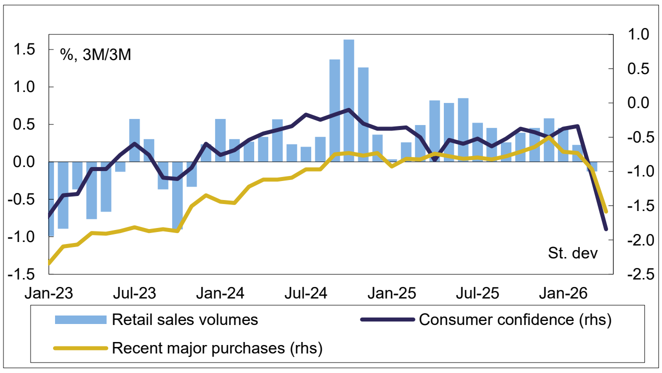
Surveys suggest that manufacturers responded to the outbreak of war in the Middle East by ramping up production and stockpiling inventories of inputs and finished goods in anticipation of possible supply disruption ahead. Such precautionary activity appears to have been reflected in today's German factory orders data for March. New orders significantly beat expectations, rising 5.0%M/M overall and slightly more than that when large-scale orders, which are particularly volatile, are excluded. Total orders were still below the level in December, which was flattered by large-scale orders, particularly those related to defence spending. And so, they fell 4.1%Q/Q in Q1. But excluding large-scale items, core orders rose in March to the highest level since February 2023 and for a second successive quarter, by 1.6%Q/Q in Q1. Core orders of all major categories of goods rose in March. But those of durable consumer goods were particularly strong, rising 19.0%M/M on the back of strong demand for electrical equipment, computers and electronics. Core orders of intermediate goods were up 9.2%M/M with those of capital goods up 2.1%M/M thanks to growth in machinery, equipment and autos. While domestic orders rose 4.0%M/M, those from abroad were up 5.6%M/M, with particularly strong demand from within the euro area (10.1%M/M).

Euro area: Retail sales volumes



*Non-food & fuel. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Retail sales & consumer confidence



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Meanwhile, today's data also revealed an increase in manufacturing turnover of 0.7%M/M in March, which points to decent growth in factory production that month, also likely in part due to front-loading activity. However, given weakness over the prior months, manufacturing output still probably fell in Q1, contrasting the surprisingly strong growth of 0.3%Q/Q in GDP. And while increased orders and frontloading activity might well have provided a further boost to output in April, rising costs, diminishing confidence and heightened uncertainty are likely to weigh on production, not least of energy-intensive goods, in Q2.

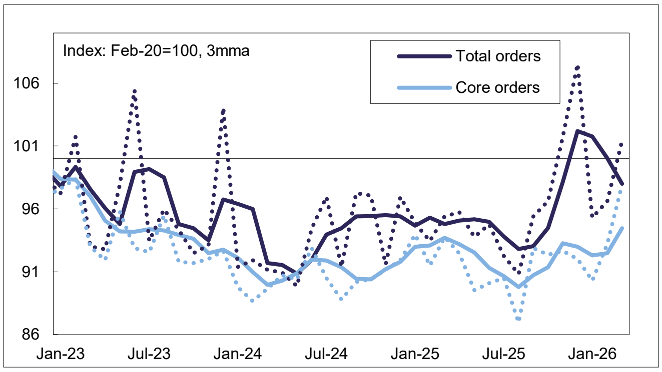
Construction challenges intensify as demand weakens and costs surge

Contrasting the stronger German factory orders data, today's construction PMIs flagged significant downside risks to the near-term growth outlook as weak demand and more intense cost pressures started to bite in the sector. In particular, the euro area headline activity index fell in April for a third month in four and by a striking 2.9pts – the most since March 2022 – to 41.7, a near-two-year low. The deterioration was widespread across sub-sectors and member states as the prospects of higher borrowing costs and prolonged economic uncertainty weighed significantly on housebuilding (40.7) and commercial projects (40.6), with the latter implying the steepest contraction since August 2020. The downturn in civil engineering was somewhat less pronounced, supported in part by German government infrastructure and defence spending. But the slump in the new orders index to the lowest in 17 months and a lengthening of supplier delivery times to the greatest extent in more than three years suggest that total construction output will remain on the back foot for the time being. Combining weaker demand with a substantial acceleration in the rate of input cost inflation to the highest level in 3½ years, firms reportedly also again scaled back their purchasing activity and cut headcount by the most in six months. Overall, construction firms were the most downbeat about prospects for growth over the coming 12 months since late-2024, with pessimism greatest among German and French firms.

The day ahead in the euro area

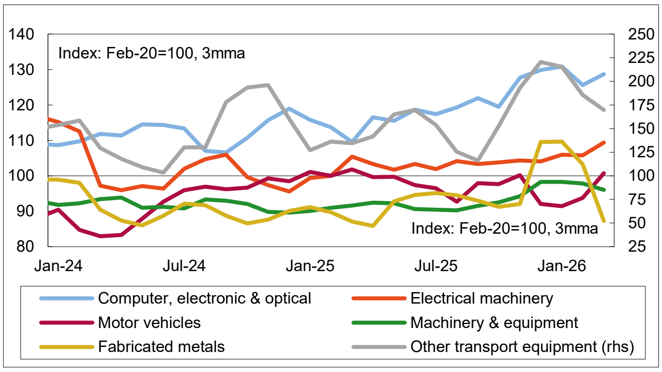
Friday will bring German industrial output and goods trade data for March, which should similarly illustrate efforts by firms to front-load production and shipments to try to avoid future supply disruption caused by the conflict in the Middle East. As suggested by various business surveys and today's turnover numbers, we see upside risks to the Bloomberg survey consensus of a rise of 0.3%M/M in total industrial production. Admittedly, production from energy-intensive subsectors, such as chemicals, metals and paper seems likely to have been weighed by higher wholesale oil and gas prices. And survey indicators suggest that construction activity also remained weak. While German goods exports might also be flattered by some frontloading, demand from the Middle East will have fallen sharply and the deterioration in the terms of trade will be reflected in more expensive imports of mineral fuels and a smaller trade surplus.

Germany: New factory orders*



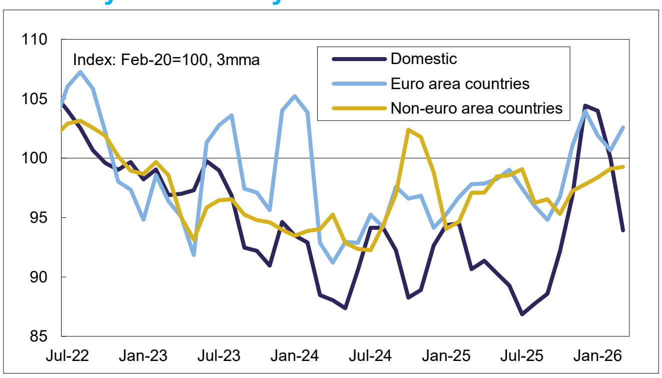
Dotted lines represent unsmoothed data. Core orders exclude large-scale items. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: New factory orders, by sector



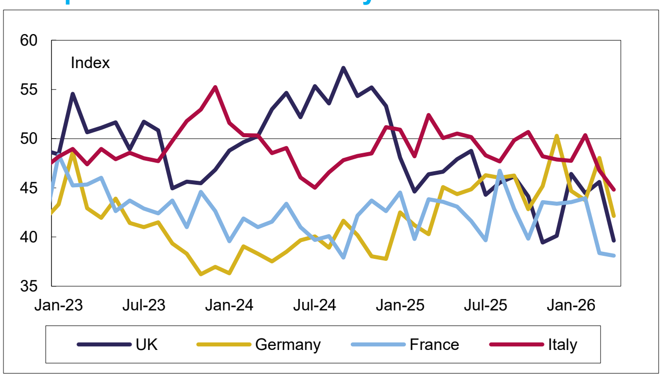
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: New factory orders



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Europe: Construction activity PMIs



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

UK

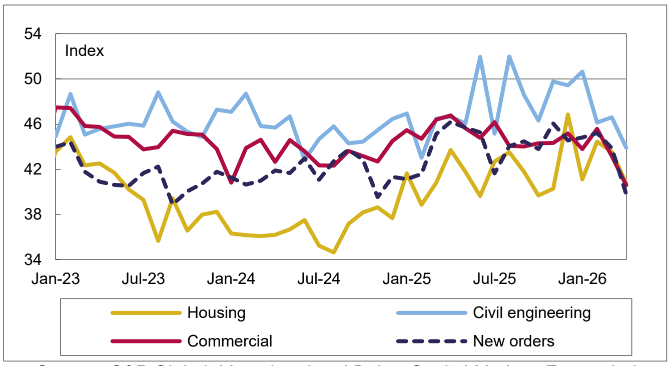
Construction PMI falls close to November's 5½-year low amid weak demand and higher input costs

Contrasting the improvement in the April services and manufacturing PMIs, today's equivalent construction survey was overwhelmingly downbeat. In particular, the headline activity index fell a whopping 6pts – the most since June 2021 when conditions were distorted by the government's Covid-related stamp duty holiday – to 39.7, just marginally above November's 5½-year low. The deterioration was led by civil engineering (-9.5pts to 35.3) amid a lack of new business to replace previously completed projects. Commercial activity also fell sharply (42.7), while housebuilding (38.7) remained in decline. Ongoing uncertainties surrounding the conflict in the Middle East, higher borrowing costs and reduced appetite for investment resulted in a lack of new business last month. As such, there was also a sustained decline in staffing levels in April. Meanwhile, international shipping delays saw vendor delivery times lengthen the most since end-2022, which combined with fuel surcharges saw cost burdens rise significantly further in April and at the fastest rate since June 2022. So, while some firms brought forward purchasing of raw materials due to concerns about escalating costs and potential supply disruptions, overall purchasing activity was down in April. While some firms took comfort from longer-term infrastructure projects and hopes of a rebound in demand if/when the conflict in the Middle East recedes, on balance firms recognized significant headwinds to growth and so were unsurprisingly more pessimistic about the outlook for the year ahead.

The day ahead in the UK

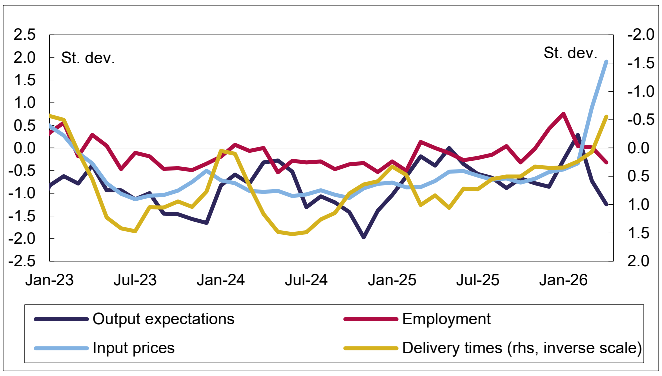
On a quiet day for UK economic data, all eyes on Friday will be on the outcomes from today's local elections in England and parliamentary elections in Scotland and Wales. Substantial losses are expected for the Labour Party and are likely to raise expectations that Prime Minister Starmer will face a challenge to his leadership over coming months.

Euro area: Construction activity PMIs



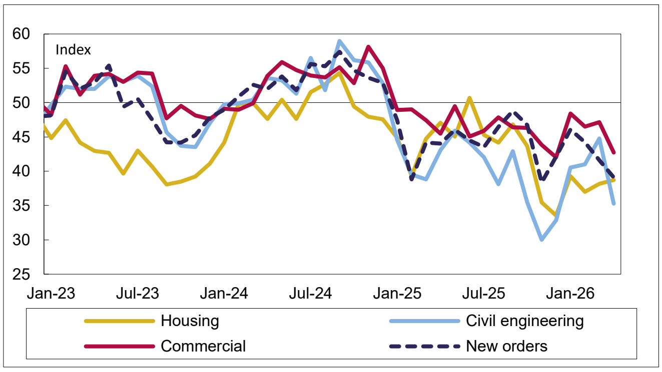
Source: S&P Global, Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Selected construction PMIs



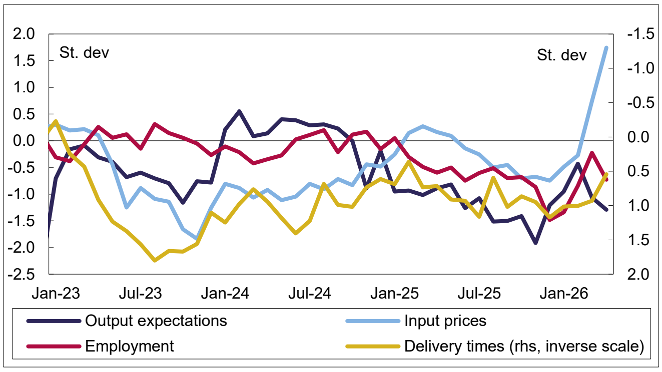
Source: S&P Global, Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Construction activity PMIs



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

UK: Selected construction PMIs



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

European calendar

Today's results

Economic data

Country		Release	Period	**Actual**	Market consensus/ *Daiwa forecast*	Previous	Revised
Euro area		Construction PMI	Apr	**41.7**	-	44.6	-
		Retail sales M/M% (Y/Y%)	Mar	**-0.1 (1.2)**	*-0.3 (0.8)*	-0.2 (1.7)	-0.3 (1.3)
Germany		Factory orders M/M% (Y/Y%)	Mar	**5.0 (6.3)**	0.9 (1.6)	0.9 (3.5)	1.4 (-)
		Construction PMI	Apr	**42.1**	-	48.0	-
France		Trade balance €bn	Mar	**-6.9**	-	-5.8	-5.5
		Preliminary wages Q/Q%	Q1	**0.7**	-	0.2	-
		Construction PMI	Apr	**38.1**	-	38.4	-
Italy		Construction PMI	Apr	**44.8**	-	46.8	-
UK		Construction PMI	Apr	**39.7**	-	45.6	-

Auctions

Country		Auction
France		sold €7.21bn of 3.5% 2035 bonds at an average yield of 3.61%
		sold €2.51bn of 3.6% 2042 bonds at an average yield of 4.09%
		sold €1.87bn of 4.1% 2046 bonds at an average yield of 4.22%
		sold €1.91bn of 4.4% 2057 bonds at an average yield of 4.48%
Spain		sold €2.10bn of 2.35% 2029 bonds at an average yield of 2.675%
		sold €2.32bn of 3.3% 2036 bonds at an average yield of 3.392%
		sold €1.07bn of 5.15% 2044 bonds at an average yield of 3.863%
		sold €702.91mn of 2.05% 2039 index-linked bonds at an average yield of 1.492%

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's releases

Economic data

Country		BST	Release	Period	Market consensus/ *Daiwa forecast*	Previous
Germany		07.00	Industrial production M/M% (Y/Y%)	Mar	0.3 (-1.8)	-0.3 (0.0)
		07.00	Trade balance €bn	Mar	17.8	19.7
Spain		08.00	Industrial production M/M% (Y/Y%)	Mar	-	-0.1 (-1.1)

Auctions and events

UK		13.20	BoE Governor Bailey participates in fireside chat on global imbalances. London

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.