

Eurozone PMI even better than expected; retail sales disappoint

December retail sales dropped by -1.1%, rounding out a rather weak holiday shopping season. Optimism among Eurozone businesses remains sky-high though



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The Eurozone PMI for January was revised upward from 58.6 to 58.8 in January as the PMI for services came in 0.4 points higher at 58. The optimism reflects the strong economic upturn that the Eurozone is experiencing, which continues to be broad-based and is set to continue in the months ahead. Backlogs of work are increasing, job creation is historically very strong and new orders continue to pour in. This makes for a rosy growth outlook in the months ahead with a side note of increasing price pressures. Even though markets are currently rattled by higher inflation expectations, we expect Eurozone inflation to remain subdued throughout the year given the continued weak wage growth, the effects of the stronger euro on import prices and the lagged effect of survey indicators on selling prices on inflation.

Retail sales disappointed in December with a -1.1% MoM decline. Although the increased popularity of Black Friday may have shifted some sales from December to November, the overall holiday sales period seems rather weak. Over Q4 2017, the indicator increased by just 0.3%,

despite low inflation, declining unemployment and record high confidence among consumers. Shouldn't the Goldilocks economy cause more sales? Confidence among retailers has increased at a weaker pace than in other sectors. Confidence fell in January as retailers indicated a worsening of the business situation, although expectations for the months ahead remain positive. With continued expectations of strong hiring, it indeed seems that the outlook is brighter than current sales volumes would suggest.

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