

Dreadful eurozone retail sales but the labour market's holding up well

Eurozone retail sales contracted by -5.9% in January, much worse than expected. The unemployment rate was stable at 8.1% though, indicating that the strong labour market can still boost consumption after coronavirus restrictions get loosened



Few shops are open in Paris

Retail sales plummeted again in January

Clearly, the restrictive measures on retail in some of the larger eurozone economies continue to bite. The retail shutdown in Netherlands and Germany started mid-December and lasted for all of January, which caused another sharp decline in activity. In France, sales also contracted sharply, again related to the cancelled sales period and curfew put in place. Non-food products saw a decline of -12% in month-on-month sales, while online sales increased by 7.1%. The latter remains a smaller part of total sales and therefore does not nearly make up for the offline sales' losses.

This rough start to the first quarter for retail sales confirms our view of another quarter of contracting GDP. We expect the first quarter to see negative GDP growth again thanks to lockdown measures being in place for longer than in 4Q of 2020. After the first wave, retail was able to bounce back very strongly thanks to a substitution in consumption from services to goods and household incomes that had been stabilised by short-time work schemes. The latter will be very

important for another quick recovery after a reopening.

Unemployment has yet to increase in the second wave

The labour market has held up well during the second wave so far. The economic impact has been less severe than the first and, on top of that, short-term work schemes still play a key role in limiting job losses. In December, the unemployment rate remained stable at 8.1%. That means that unemployment has so far only come down in recent months, which is a positive sign for the resilience of the labour market to the second wave of the coronavirus.

We do expect that unemployment still has the potential to rise over the course of 2021 despite an upcoming economic recovery. With productivity still very weak, thanks to short-time work schemes, and bankruptcies expected to increase once government support wanes, subdued increases in unemployment remain on the cards. Still, with such a moderate increase in unemployment thus far, a swift consumption recovery once the economy reopens should be in the making.

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