

## Eurozone: second wave effect on sales as inflation remains negative

December inflation remained negative but expect a reversal from here on. Sales, meanwhile, were distorted hugely by the second wave in November, though they are still showing resilience. Expect a rough start to 2021 as restrictions are extended and tightened



Shoppers in Lubeck, Germany

### Inflation rate stable in December

The last inflation data for 2020 was not all that surprising. Headline inflation has been stable at -0.3% since September and that didn't change in December. The same holds true for core inflation, which once again came in at 0.2%.

From here on, expect some downward pressure to reverse, which will push up inflation. The German VAT reduction ends, negative price effects from the oil price drop in early 2020 will fade out of the numbers, and services inflation later in the year is likely as social distancing becomes less of an issue.

In the medium term, higher unemployment and significant output gaps will keep a lid on inflation, which means that inflation expectations are unlikely to move much on the unwinding of previous downward inflationary pressures. This means that the European Central Bank shouldn't be too

concerned about higher price growth in the months ahead as underlying inflationary pressures remain weak for the medium term.

## Retail trade sees sharp drop in November due to lockdowns

Sales declined by -6.1% month-on-month in November in the eurozone, which was the sharpest decline since April. This was the result of France, Belgium and Austria closing non-essential retail, resulting in sales declining by -18, -15.9 and -9.9%, respectively. Other countries didn't see such large swings, as Germany and the Netherlands saw continued growth of 1.9% and 2.6%, causing a big underlying divergence between countries depending on the coronavirus situation.

The decline was predominantly caused by lower sales in textiles, clothing and footwear (-17%) while other categories saw more modest declines. The increase in online sales was small at just 1.8% in November, which indicates that online substitution for main street sales may be smaller than expected. December will be an interesting case as France and Belgium reopened, while Germany and Netherlands closed shops ahead of Christmas.

## Looking ahead

At the start of the year, the outlook for retail still seems difficult, with extensions of lockdowns and some countries even tightening restrictions again. The overall economic impact is still very fluid as announcements of new restrictions continue to be made, but it looks unlikely that 2021 will start with positive economic growth. While economic sentiment was still positive in December – the Economic Sentiment Indicator for the eurozone increased from 87.7 to 90.4 on vaccine hopes – the short-term outlook has been deteriorating since then. Before vaccinations really put a structural dent in hospitalisation numbers, it seems that the economy will not be able to shake the impact of Covid.

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