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Western European Indicators and Insights

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EUROZONE - Consumer deteriorating more clearly

EU Commission business and consumer survey figures for December provided more subdued messages but mainly regarding the consumer. The 0.5 point M/M fall in overall sentiment was less marked than seen in previous months. However, the so-called economic sentiment indicator (ESI), which aggregates the sector surveys detailed below and is designed to track GDP growth, still decreased to 93.3, albeit still the lowest since November 2009.

In contrast to previous months, this more downbeat ESI reading reflected softer developments mainly in regard to consumer sentiment and, to a lesser extent, on the retailing side. Indeed, industry sentiment failed to fall for the first time in almost a year. Even so, the latest overall figure (by falling further below the 100-mark) implies more clearly that activity is very probably contracting, at least on a Eurozone-wide basis. Even so, they echo the tone of other alternatively-sourced survey numbers such as the PMIs, suggesting that while recession has almost certainly returned to the Eurozone (save for the notable and continued exception of Germany), no further major erosion has occurred of late (NB the ESI hit a low of less than 70 in the bottom of the 2008-09 slump).

Retail sales stumbles afresh.

Undershooting expectations, real retail sales dropped by 0.8% in M/M terms in November, more than unwinding the (downwardly revised) 0.1% rise seen in October. The break-down showed the fresh slide in November to be reflective of declines in both food and non-food sales. From the paucity of numbers available geographically, there were continued signs of deeper weakness in sales among the peripheral countries (save for Ireland). Regardless, an increasingly weak undertone even on a Eurozone basis is still very much evident, not least in the much more negative Y/Y reading (-2.5% in November), with the level of real sales actually the softest in almost seven years. Indeed, on the back of the latest numbers, Q4 sales may fall at the steepest since the recession-bound early-2009.

Unemployment continues to rise.

Matching most expectations, the unemployment rate was 10.3% in November, unchanged from the October reading but still up clearly from the 9.9% cycle-low set in April. Moreover, and underscoring signs of a continued rise in joblessness, the actual level of unemployment jumped by 45 000 in November (to a fresh 13-year high of 16.37 mln).

Consumer under clear(er) pressure

For all the more reassuring signs that business sentiment may have stabilized, the consumer readings of late are increasingly gloomy whether from official sales data or more downbeat confidence readings. Very clearly this can be understood from the perspective of the softer labor market. However, the question is the extent to which price pressures and relatively high inflation expectations may also be taking a toll. In this regard, the likes of the ECB will be all the more frustrated that headline HICP inflation has only belatedly started to fall.