

Strong German real retail sales stand out in May

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A member of MUFG, a global financial group

12 AUGUST 2020

(ORIGINAL JAPANESE VERSION RELEASED ON 31 JULY 2020)

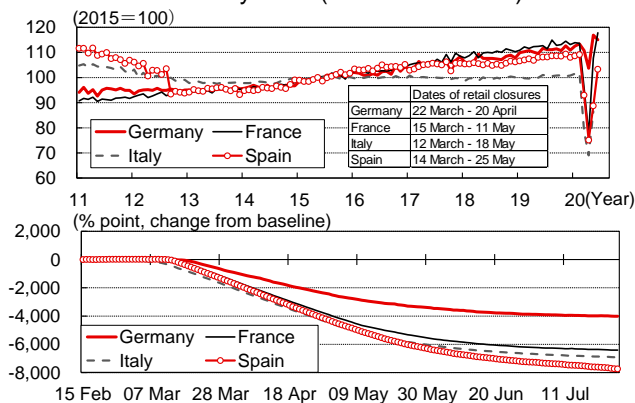
Strict public health measures were introduced since mid-March in European countries in order to contain the spread of COVID-19. These restrictions are now gradually being eased. Various economic indicators have bottomed out since economic activity restarted in May, but real retail sales have seen a particularly marked rebound in major European countries. Germany stands out from other countries for both the relatively small drop in its real retail sales and the magnitude of the rebound that followed the relaxation of restrictions (Chart 1 upper).

One cause for the large rebound in German real retail sales is the country's successful containment of the virus. Germany was quick to roll out its testing regime, and was able to successfully identify and quarantine coronavirus patients by implementing large scale testing. There are 601.5 hospital beds per 100,000 people in Germany (close to double that of other countries), preventing a collapse of healthcare systems. This meant that Germany was able ease restrictions quickly once the virus was contained. As a result, retailers were allowed to reopen comparatively early. This is clearly reflected in mobility data, which clearly shows a comparatively small drop in excursions to leisure facilities compared to other countries in the region (Chart 1 lower).

Policies to maintain employment and household incomes have also played a part in Germany's relative success. The real retail sales breakdown by component for May shows that in addition to increases in 'Food, beverages and tobacco' and 'Online/mail order' sales since February, there were also increases in sales for big ticket items such as 'Household goods and electronics' and 'Telecommunications equipment' (Chart 2). The German government has been subsidising wages via its Kurzarbeit scheme: in July it paid 67% of employee wages for companies where hours worked had fallen below 50%. The combination of wage subsidies and quick containment of the virus helped to alleviate households' concerns over their finances, driving increases in big ticket purchases.

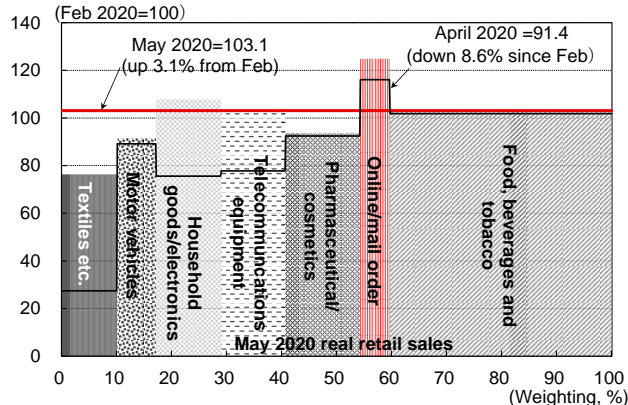
In order to maintain robust consumption in future, it will be essential not only to contain the virus, but to redesign policies initially made to deal with a short battle against COVID-19 for a conflict that looks likely to drag on into the long term. This means that the recovery is likely to be slow, and the key issue will be how to help sectors that are still reluctant to hire whilst remaining mindful of the potential for certain industries to affect the spread of COVID-19.

Chart 1: Major Eurozone Countries' Real Retail Sales and Mobility Data (Leisure Facilities)



Source: Eurostat, Google Mobility Data, MUFG Bank Economic Research Office

Chart 2: German Real Retail Sales Breakdown



Note1. Data is from May 2020, indexed to Feb 2020=100. The horizontal axis shows the weighting of each item in real retail sales. Source: Eurostat, MUFG Bank Economic Research Office

(Translation by Imogen Wright)

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