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PRESS RELEASE

The distributive trade sector and its impact on euro area prices

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Our analysis highlights the current situation in Belgium through a comparison with the past and with the situation in the three principal neighbouring countries (Germany, France and the Netherlands), as well as in the euro area overall. It draws largely on the 2011 Structural Issues Report (SIR), entitled "Structural features of distributive trades and their impact on prices in the euro area", and prepared by a task force of the Eurosystem, in which NBB participated.

At a time of a consolidation and an increasing internationalisation of the distributive trade sector, three major phenomena have been simultaneously altering the structure of euro area trade for several years now: the success of hard discounters, the emergence of private label products, and the growth in online shopping. All three tend to exert downward pressure on price levels. Whereas the first two factors are particularly pronounced in Belgium, online shopping is less of a factor. Furthermore, these trends are not neutral with respect to inflation measurement, because the basket of consumption used for the calculation of the price index needs to reflect the extent of the three phenomena.

There have been no significant competition anomalies uncovered in the sector in Belgium. In fact, Belgium has a high number of points of sale relative to its population. This is partly a reflection of the important role that small-scale grocers and specialised shops continue to play in the grocery sector in Belgium. These observations are confirmed by concentration measurements at both the local and the national level. And yet, despite improvements in recent years, Belgian regulation of store locations, prices and business hours remains very invasive and could discourage the opening of new points of sale.

Given the impact of the distributive trade sector's structural characteristics on price-setting behaviour, as shown by the SIR, and the differences in price levels within each country and between euro area countries, structural reforms are needed to enhance competition and take better advantage of the common market. For Belgium, a simplification/clarification of the multitude of regulations would already be a big step forward, given that what is restricting the development of trade in Belgium is not so much the constraints imposed by the regulations as their complexity.

While the transition to more competitive markets may result in lower prices, it may also reduce price rigidity and thereby enhance the transmission of cost fluctuations to prices (making them more volatile). Such a change is also likely to lead to more symmetrical price formation. Even though harmonising regulations and eliminating implicit barriers should help lessen differences within the euro area, some differences are unavoidable due to consumer preferences and cultural differences from one country to the next, and even regionally. For example, the success in Belgium of soft discounters and private label products has not been won solely at the expense of specialised shops, suggesting that Belgian consumers still value the services provided by small retailers, even though their prices are higher. Similarly, the spread of discount brands has not caused name brands to disappear, even though price formation appears to be less competitive in this market segment.