

Bad start to 3Q for eurozone retail sales

Retail sales dropped by 2.3% in July. As the fundamentals for a continued recovery in domestic demand remain decent, this shouldn't be seen as a harbinger of economic weakness. Still, we do expect consumption growth to moderate in the second half as rebound effects weaken



Eurozone GDP was boosted by very strong Irish activity, which is known to be volatile

This marks the first hard data point of the quarter and it's not what analysts expected. The number was mainly driven by a sharp decline in July sales in Germany, but France and the Netherlands also saw lower sales. After profiting from catch-up demand after the reopening, it looks like some of that effect was reversed in July. Retail sales have been unusually volatile as economies reopened and that wild ride could continue for a few more months before settling into a smoother growth pace. Nevertheless, this can be seen as somewhat of a disappointing start to the quarter, which puts downside risk to our consumption growth expectations.

Growth momentum in the eurozone is fading according to recent surveys and nowcast indicators, but then who was expecting GDP growth to continue at an annualised pace of 8%? The big question is whether the recovery can carry on at a decent pace and quickly close the gap with pre-pandemic GDP. It looks like the consumer is set to contribute to that positively in the coming quarters as unemployment is decreasing rapidly and incomes are therefore boosted. Consumer confidence has come off recent highs, but remains historically elevated. This all bodes well for

retail sales growth in the coming quarters and subsequently for a fair pace of GDP growth.

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