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Eurozone retail sales: A Goldilocks economy no more

Annual growth in Eurozone retail sales dropped to 0.8% in September as higher inflation and deteriorating confidence have put an end to the Goldilocks economy



Shoppers in Berlin

The porridge has become a little hot in 2018 as inflation bumped up to 2.2% according to the latest data. Higher oil prices and a weakening euro are putting a significant dent in the recovery of real wage growth, curbing the potential of consumption growth in the Eurozone for the moment. This shows in the September retail sales data which saw a monthly decline in sales of non-food products of -0.5%. This was mainly due to a large drop in clothing sales and because of weaker sales in computer equipment.

While retail sales are a volatile indicator, the trend in sales is an important sign for consumption growth in the Eurozone. That trend has weakened significantly over recent months, indicating that the weaker growth in real wages thanks to higher inflation and lower levels of confidence are having an impact on consumption at the moment. This adds to a modest picture of GDP growth in the months ahead, with not much of a bounce back to be expected after the bleak reading of 0.2% in Q3.

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