

Eurozone retail sales continue to slide as inflation bites

The drop in retail sales in June confirms worries around household consumption in the eurozone. With reopening effects on consumer services about to end, consumption is set to slump in the coming quarters



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

Sales fell by -1.2% month-on-month in June, rounding out a serious contraction for the quarter. Declines were seen across sales categories but were largest in non-food products. All large eurozone economies saw contracting sales, with the sharpest declines seen in Germany and the Netherlands. As 2Q GDP growth surprised on the upside, it is expected that tourism and other consumer services performed very strongly, marking a sharp contrast with slumping sales on the high street.

Retail sales have been declining steadily since November and have slid well below the pre-pandemic trend of sales growth. Clearly, the large squeeze in real incomes that eurozone consumers are experiencing is starting to bite. The rebalancing of consumption away from goods to services now that services are widely accessible again following the pandemic, has also played a role in the weakening of retail trade.

But with PMIs indicating that services consumption is now also weakening in the eurozone as reopening effects are fading, and a surge in tourism is about to end, it is likely that consumption will contract in the coming quarters. That would result in a mild recession in the eurozone. For the European Central Bank, these indicators pointing to an economy that is sliding towards recession should dampen expectations of a lengthier hiking cycle, despite inflation remaining persistently high.

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