

Eurozone retail sales disappoint in February

The 0.3% increase from January was weaker than expected, slashing hopes of a strong first quarter for consumption on reopening effects. From here on, sales are going to hit severe weather as consumer confidence has plummeted and inflation has jumped



Retail sales increased by just 0.3% month-on-month in February

0.3% Month-on-month increase in retail sales

Economic data preceding a major event always feel like a blast from the distant past. Still, this disappointing retail sales recovery in February is relevant because it dampens first quarter GDP growth expectations. Sure, the bulk of the easing of restrictions happened in March, but some stronger sales figures had been expected. The first quarter, therefore, remains a quarter with a lot of uncertainty because of production disruption and reopening effects in March, and mixed hard data through February with strong industrial data from Germany and these weak retail sales numbers.

Retail sales increased by just 0.3% month-on-month, with food expenditure declining and most

other categories increasing. The increase comes on the back of a large drop in December and mild improvements in January, which means the first quarter retail sales figure will be weak on base effects. The Netherlands – which had seen a reopening in February – did enjoy stronger sales growth than most countries, which means that France and Germany – which reopened in March – should profit more from reopening effects in the March release, although the war's impact on prices and confidence could dampen that effect.

The weak figures for February do increase expectations a bit for March, but sales are expected to come under severe pressure thereafter. With real incomes dropping dramatically as inflation is 7.5% and nominal wage growth is just 1.5% in the eurozone, purchasing power is being squeezed. While we don't know the consumer response to the income squeeze, plummeting consumer confidence in March is a bleak hint at what is to come for household consumption in the months ahead. The big unknown is how reopening effects will affect spending. We have seen a strong positive effect in February still, but the question is how long this will continue to provide a tailwind for consumption. Still, with the type of negative real wage developments, we do expect a strong decline in household consumption in the second quarter.

Author

Bert Colijn

Senior Economist, Eurozone

bert.colijn@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.