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.

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