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Eurozone: Retail sales drop again, pushing ECB closer to more stimulus

Retail sales declined by 0.3% month-on-month in May, casting doubt on the strength of the service sector. That's not enough for the European Central Bank to go on, but it may push the bank closer to quick action



Source: Shutterstock

These are confusing times for the eurozone. With divergences between GDP and survey data and an ECB on the brink of taking action, it is all the more important to look at hard data coming in. May's retail sales will therefore be taken as an important indication that consumption growth has slowed significantly in the second quarter.

As the industrial slump in the eurozone continues, it's the service sector that's keeping GDP from contracting at the moment. Survey data from the service sector has remained moderately upbeat, driven by labour market strength. It therefore seems too early to call a turning point for service sector growth, it is more likely that modest growth in the sector will continue as long as employment growth maintains a solid pace.

Nevertheless, the ECB will be paying close attention. With so much dovishness in recent speeches,

it is clear that the ECB is ready to act if necessary. With 2Q weakness in the retail sector, the importance of industrial performance only rises. Next week will see May's industrial production figures for the eurozone. If very disappointing, that could sway the central bank to go early.

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