

Eurozone retail sales drop in July

After two months of very strong recovery, retail sales declined by 1.3% in July. This is a small drop compared to the gain of the last few months and it's therefore too early to worry about a double dip for retail



If you're looking for worrying signals on the economy, today's services PMI provides more reason for concern than retail sales - despite a decline in July.

The services PMI declined from 54.7 to 50.5 in August - a significant drop, which could spark fears of a possible double dip. While we still think the economy will continue to recover, we do expect the recovery to slow somewhat over the summer months as reopening effects fade.

As for retail sales, they likely overshot somewhat in May and June, as pent-up demand was fulfilled to some degree in the first months of reopening. The July decline was small compared to the recovery in the months before, meaning that sales were still roughly at pre-virus levels. In that light, July numbers are actually still strong and this means that retail probably maintains the lead in the eurozone recovery. As such, this should not be read as a sign that retail sales are heading for a double dip. A more significant drop in August would be worrying though.

In the months ahead, the retail sales recovery will increasingly be curbed by increasing unemployment and fulfilled pent-up demand from the lockdown period. While short-time work

schemes have limited the damage massively, unemployment is creeping up slowly, which usually signals weakening sales. This could be offset by the large savings accumulated over the lockdown months and possible substitution from other spending categories more hindered by the virus, like holidays or other leisure spending. An uncertain outlook, which could have been much worse if it hadn't been for income support.

Author

Bert Colijn

Chief Economist, Netherlands

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>.