

## 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.

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