

## Eurozone retail sales ticked up in July but downward trend remains

The small increase in retail sales at the start of the third quarter brings little optimism about the outlook. Increased food and fuel spending masked a decline in sales for all other items. Expect consumption to decline from here on due to the purchasing power squeeze that the eurozone is going through



Retail sales increased by 0.3% in July, which is small enough for this uptick to be in line with the downward trend seen in recent months. The peak in retail sales was in November and sales in July were about 2.5% below that level. Food and fuel caused the small increase in July as all other items saw a decline of -0.4% in terms of sales volumes. A strong increase in Germany and the Netherlands masked declines in the other large eurozone markets.

Don't expect this to be the start of a sustained upturn in sales. The outlook remains rather bleak for the months ahead as real incomes go through an unprecedented squeeze due to high inflation and lagging wages. We expect consumption to contract for the coming quarters on the back of this.

For the European Central Bank though, it is definitely no smoking gun for the start of a contraction. With the September meeting coming up and October of course not long after, the doves are looking for clear evidence that the economy is moving into contraction territory. Today's data will, in that sense, not be of much help. Still, evidence of a recessionary environment is likely to become more apparent as new data comes in.

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