

## Eurozone: weak retail sales growth in line with expectations for weak 1Q GDP

The growth of 0.1% is no break from the downward trend in sales, which started in late 2021. This adds to expectations of sluggish consumption growth in the first quarter. This also means that goods prices are not a concern for the European Central Bank as it can fully focus on rising services inflation



We're not convinced that we'll see many signs of improvement for eurozone retail sales before the second half of 2024

The first hard data point for the eurozone economy in the first quarter did not provide reason for much optimism. Retail sales may have increased slightly after a sharp drop in December retail volumes but they are still well below the November level. This means that the January data point is still in line with the broad declining trend seen since late 2021.

For the months ahead, things don't look much better as the European Commission's monthly survey of retail trade shows that expected business is broadly unchanged for the months ahead and that inventories are not yet being built down. For inflation, this means that goods prices are set to remain very modest at best. Fewer retailers expect to increase prices in February compared to the months before. For the ECB, this means that goods inflation remains the poster child for disinflation while services inflation is an increasing worry.

The weak demand for consumer goods has broader implications though, as it also extends the weakness of the eurozone manufacturing sector. With inventories still high for both retailers and industrial corporates, there is no imminent pickup in the making when it comes to consumer goods production. So while the immediate impact on GDP of this January retail sales figure is relatively small, it is an indication of continued broad sluggishness in the economy at the start of the year.

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