

## Germany: Fourth quarter starts with a cold shower

October retail sales disappoint but November and December should make up for the weak start



Shoppers in Lubeck, Germany

Getting worse before it gets better. German retail sales dropped by 1.9% month-on-month in October, from 0% in September. On the year, retail sales were still up by 0.8%. While retail sales are often revised significantly in the second and third estimates, this reading is a cold shower for the German economy, giving a slightly different meaning to "Black Friday".

### Consumption will remain growth supportive but...

Despite today's drop, consumers have become an important growth driver for the German economy and it is an urban legend that consumers here keep their hands in their pockets. Private consumption has been growing constantly since the start of 2014, at a quarterly average of 0.4% quarter-on-quarter.

Looking ahead, consumer sentiment has remained relatively stable since the summer on the back of high income expectations and a high willingness to spend. Interestingly, in the last reading for November, consumers' economic expectations rose to their highest level in more than nine years. In the short run, retailers are expecting a strong pickup in sales in November and December, on the

back of low inflation, higher wages and the high willingness to spend. For today's Black Friday and Cyber Monday, the German retailer association expects an increase in sales of more than 20% year-on-year.

Even though today's retail sales were a bad start to the final quarter of the year, private consumption should continue supporting German growth in the near term. In the longer run, however, it is questionable how sustainable any upcoming spending sprees might be. We expect more discussions about the sense and nonsense of consumption-driven economic growth. There probably is no better illustration of this contradiction than on a day which celebrates both "Black Friday" and "Fridays for Future".

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