

## Large drop in eurozone retail sales in August does not bode well for 3Q GDP

Retail sales fell by 1.2% month-on-month in August, which makes a negative contribution to third-quarter GDP very likely. Headwinds for retail remain as real wage growth is still negative and consumers are currently still favouring services



After a few months of stagnation, it looked like the downward trend in retail sales had stopped. August data put an end to that hope, as the 1.2% month-on-month drop has put us back on track with the previous declining trend. The decline was broad-based, with both food- and non-food products seeing considerable declines of 1.2 and 0.9%.

While real wage growth is improving, it remained firmly negative in the second quarter – for which the latest data is available. The recent decline in real wage growth is causing household consumption to remain below its third-quarter 2022 peak for the moment. The positive news is that the job market remains strong right now, providing additional support to disposable incomes.

Then again, the consumption mix is working at the disadvantage of retail sales. Consumers are currently outspending on services over goods as a post-pandemic effect. This seems to be fading, but is not over so far. We are looking for a turnaround in goods consumption, but judging from the

August data, we're not there yet.

After two months of sales data for the third quarter, things are not looking good for the contribution to GDP growth. If retail sales were stable in September, quarterly growth in retail trade would be -0.8%. With eurozone data continuing to surprise to the downside, a downturn in economic activity remains a real risk for the short-term.

## Author

### Bert Colijn

Chief Economist, Netherlands

[bert.colijn@ing.com](mailto:bert.colijn@ing.com)

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