

## Stronger retail sales rebound signals resilient consumer demand

Retail sales increased by 0.3% in June, with the year-on-year growth pace accelerating from 1.9% to 3.1%. This suggests that household consumption is likely to underpin growth in the second half of the year



### Consumer spending picks up

Retail sales in the eurozone rebounded in June, rising by 0.3% after a 0.3% decline (revised upwards from -0.7%) in May. Year-on-year, there was an acceleration from 1.9% to 3.1% in June. With external headwinds such as tariffs and a stronger euro likely to weigh on exports, domestic demand is becoming increasingly vital for sustaining growth.

Fortunately, the labour market remains resilient. The unemployment rate fell to a historic low in June, and declining inflation is supporting real incomes. While this doesn't necessarily signal a consumer boom, the upward trend in consumer confidence since April suggests that household spending will continue to underpin economic growth in the second half of the year.

Moreover, the recent trade deal with the US has helped reduce uncertainty for businesses and consumers alike. With consumers in relatively good shape, the risk of negative growth in the second half of the year has largely dissipated.

This raises the question of whether further rate cuts by the European Central Bank are still necessary. While it remains a close call, we still anticipate a final 25bp cut. Inflation is expected to decline further, and although growth should remain positive, it is likely to stay subdued.

## Author

### Peter Vanden Houte

Chief Economist, Belgium, Luxembourg, Eurozone

[peter.vandenhoute@ing.com](mailto:peter.vandenhoute@ing.com)

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