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Western European Indicators and Insights

March 30, 2012

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EUROZONE: Mixed consumer readings.

According to Federal Statistics Office data, German real retail sales (excluding auto and petrol sales) dropped 1.1% in M/M terms in February, a much softer-than-expected outcome even after the upwardly revised January reading (now showing a fall of 1.2%, ie half that previously estimated). Regardless, the data remains highly volatile and prone to revision, albeit with very little sign of any uptrend. Indeed, a downtrend may be emerging, the latter underscored by the softer Y/Y rate of growth (which moved back to the negative at -1.6%).

All of which implies that the better labor market is still not boosting German consumer spending, at least at the retail level, with it likely that the still high level of inflation is acting to temper spending power, even in relatively resilient economies such as Germany. Regardless, the question is the extent to which the relatively fragile German consumer acts as a restraint on the whole economy or adds to the disinflationary pressures that are now re-emerging in Germany and the Eurozone generally. Even so, there were brighter signs elsewhere in the Eurozone as far a the consumer is concerned

Indeed, and surprising convincingly to the upside, French household spending on goods in February surged 3.0% in M/M terms, thereby more than unwinding the 0.4% drops in both preceding months. The fresh rise was fairly broad-based but led by a jump in energy and, to a lesser extent, clothing. Regardless, Y/Y household consumption growth moved back to the positive at 0.5%.

Even so, cold weather may have been behind the February strength rather than anything more durable.