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Drop in eurozone unemployment boosts service sector outlook

The unemployment rate provides some relief to the short-term outlook for the eurozone economy as the rate drops to 7.4%



Source: Shutterstock

As one of the main drivers of service sector growth, the labour market has taken centre stage in predictions about a looming recession. If unemployment continues to come down at a decent pace, this will boost household incomes and in turn fuel domestic demand. In July, the drop of just 24 thousand unemployed people was worrying but in August, the number of unemployed fell by 115 thousand which was the sharpest decline since March. This comes as a relief and gives time to the service sector to continue to grow even though the decline in manufacturing production is worsening.

Even though the first few accounts of layoffs in manufacturing have been noted, the eurozone labour market continues to see quite significant pressures, despite the material slowdown in GDP growth over the past quarters. Vacancy rates have plateaued, but remain at the highest levels since the start of the series in 2009 and while fewer businesses are reporting that labour is hindering production in comparison to last year, the amount of businesses reporting this is still at historically high levels. This has resulted in modest upward pressure on wages, helping the consumer spending outlook.

Even though clouds above the labour market outlook are mounting as GDP growth slows, unemployment in August shows that the labour market story is by no means alarming yet.

This provides a much-needed breather for the economy, but the question remains how long this can go on as uncertainty spreads across sectors.

Author

Bert Colijn

Chief Economist, Netherlands

bert.colijn@ing.com

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