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Eurozone: plummeting services PMI and retail sales last hurrah

Retail sales increased by 1.5% in October but sales are bound to drop sharply in November with non-essential retail closed in a few key countries. The services PMI for November confirms this, falling from 46.9 to 41.7



Vasco da Gama shopping center in Lisbon, Portugal

Until October, retail was right in the sweet spot for consumer spending. With savings high thanks to the first lockdown and social distancing measures limiting spending on certain services, shopping for goods continued to be elevated. The October retail trade figures confirm that as sales were 3.1% higher than they were in February, before the pandemic hit the eurozone. This makes retail sales one of the few indicators that has experienced a true V-shaped recovery.

Of course this will not last. November will clearly show a large decline in sales as countries like France and Belgium have closed non-essential retail. Less restrictive measures in other countries will still hamper sales, making October the peak ahead of the second wave decline in retail trade. The services PMI confirmed today that the decline in services activity is substantial. The reading of 41.7 in November corresponds to a significant drop in output. For overall eurozone GDP, we expect a decline of -2.5% in the fourth quarter.

The second drop in retail sales will no doubt be smaller than in the first wave though, [as mobility data suggests](#) a smaller drop in activity for retail and recreation. Furthermore, if unemployment doesn't rise rapidly over the months of new limitations, it could well be that retail is once again well positioned to recover quickly. Before vaccinations are widespread, consumption of goods is likely to remain easier than some services, which favours the retail recovery.

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