# Eurozone retail sales drop but service sector remains strong

Despite the drop in retail sales in August, outlook for the service sector remains strong as PMI for services in September came in stronger than expected

The strong boost that retail sales have received from the labour market recovery over recent years has levelled off over the summer.

With unemployment rate stagnating at 9.1%, retail sales experienced less tailwind from people returning to work. This may slow down the growth in sales somewhat, but the outlook for retail in the Eurozone remains bright.

Consumer confidence is at the highest level since 2001, and real wage growth has improved recently as nominal wages have accelerated in the second quarter and inflation remains soft. Job growth is also likely to increase again as the slowdown in employment recovery seems of a temporary nature given corporate intentions to higher.

Meanwhile, the September PMI for services came in better than initially estimated. The increase from 54.7 to 55.8 is one of the strongest in six years.Increases in demand have been notably high, causing backlogs of work to increase, which will cause positive spillovers in terms of output for the fourth quarter.

> The PMI also confirmed the need for further hiring as the rate of job creation indicated by the survey was one of the highest in the past decade. This continues to paint a rosy picture about the Eurozone economy and points to further upside in GDP growth for the end of the year.

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