

Snap | 5 February 2020

Eurozone services are holding up despite plummeting retail sales

The final services PMI in January were better than expected. This indicates that recent service sector activity has been decent, despite the sharp decline in retail sales in December



Source: istock

December retail sales fell by a whopping -1.6%, bringing it down to its lowest reading since February 2019. Be cautious to take these numbers at face value as they are impacted by the increased popularity of Black Friday retail sales across the continent. That makes them somewhat more difficult to interpret and as November data showed a 0.8% increase, earlier shopping in the year is probably part of the explanation here.

Still, not all of the variation is explained by Black Friday and even though sales are volatile and we'll probably need January data before anything sensible can be said about the trend, there are also concerns hindering the retail outlook. The slowing down of the labour market has a direct effect on the potential for sales growth and of course there is the big uncertainty around the coronavirus that we expect to have an impact on consumer spending.

On a more positive note, services PMI for January were revised up from their initial estimate of 52.2 to 52.5, which brings it much closer to the December reading of 52.8. That takes away some of the

concerns around negative spillovers from the manufacturing sector - a sector that seems to be bottoming out at the moment. This leads to a somewhat more positive picture of the eurozone economy at the start of Q1 and sets the decline of retail sales in a less concerning light.

Overall, expect moderate growth in services and retail in the months ahead, which can be expected to be more subdued due to the global spread of coronavirus.

Together with a bottoming out in manufacturing, this leads to a slightly more optimistic growth outlook, but given the uncertainty about the virus, chances of a more severe impact add downside risk to this already modest outlook.

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