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Eurozone: weak retail sales no cause for alarm

The service sector continues to be the last bastion of growth for the Eurozone economy, even though retail sales slipped in July. The services PMI was revised upwards for August as the consumption outlook remains decent



Shoppers in Berlin

Eurozone retail sales had a weak start to the quarter as July sales dropped by -0.6% compared to June. This was to be expected though, as sales are a volatile indicator and the reading is by no means cause for alarm. The upward trend in sales is maintained with the start to Q3 and year-on-year numbers being even slightly better than expected at 2.2% growth. The annual growth is broad-based across sales categories, with especially strong readings in electrical goods, furniture and computer equipment. This indicates that even though global risks have affected consumer confidence, durable consumption goods continue to be sold.

As the Eurozone industrial recession makes the headlines at the moment, it's important to keep an eye on service sector performance. The latest data is no cause for alarm as sales maintained a solid trend in July and the August services PMI ticked up again. Today's final reading was slightly better than the preliminary one, causing a small uptick from 53.2 in July to 53.5 in August. While small, it at least indicates that second round effects from the industrial slump are not yet

impacting services that much. While the outlook remains clouded by uncertainty, the current take on the service sector remains decent thanks to modest consumption growth.

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