Cracks in UK retail likely to resurface as sunny weather disappears

Warmer temperatures gave the high street another welcome boost in July, but as the weather effect begins to fade, we suspect the challenges facing the retail sector will return

We don't believe a strong first half of the year is likely to change the course of Bank of England rate cuts in 2024

With the sun shining, UK retailers had another decent month in July. Retail sales, excluding fuel, rebounded by 0.9% on the month as warm temperatures boosted sales of food and clothing. Admittedly, the fairly large magnitude of this latest increase possibly says more about the volatility of the retail sales series than anything else, but the underlying details do tally with what Visa and the British Retail Consortium have said about recent trends.

But now that the wind and rain are back with us, we suspect the cracks in the high street are likely to become more visible once again.

Disposable incomes remain pressured by the noticeable rise in petrol prices through the second quarter, despite some better news on wage growth this year. Partly for this reason, consumer confidence is subdued –, particularly when compared to similar surveys in the US and Europe, which are still flirting with decade-plus highs.

But the big wildcard for retail is the threat of a "no deal" Brexit. A key reason why spending hasn't collapsed completely since the referendum is that people have generally kept their jobs – employment has actually increased by roughly 2% since the vote. And importantly, this has kept unemployment expectations pretty low by historical standards.

However as the UK government prepares to outline its contingency plans for 'no deal', it's not clear how consumers will react. As we noted last week, we doubt the risk of 'no deal' is on many consumer radars at this stage. But if talks remain in deadlock as March 2019 draws nearer, a few dramatic headlines warning of shortages and other potential risks could feasibly see consumers take a more cautious stance – particularly if people perceive their jobs to be at greater risk.

Whether any of this comes to pass is of course very uncertain, but with risks mounting, we suspect the Bank of England will remain on the sidelines until the UK leaves the EU next March. We don't expect another rate hike before May 2019 at the earliest.

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